



Financial Results for Q3 FY06/24

(July 1 to March 31, 2024)
[Non-Consolidated]

Intelligent Wave Inc.
Announced on May 10, 2024

Financial Results for Q3 FY06/24

Forecast for FY06/24

Key initiatives in FY06/24

Reference

Overview

Sales rose due to growth in system development, cloud services and security, and profits grew significantly, even following the large-scale hardware sales for the renewal of the FEP system* in the same period of the previous year. Orders received grew on an increase in security and system development orders, while cloud services orders declined on a long-term multi-year contract in the previous year. Orders on hand increased significantly.

	Cumulative Q3 FY06/23		Cumulative Q3 FY06/24		Change (YoY)	
	Results	Sales composition ratio	Results	Sales composition ratio		
Net sales	9,896	-	10,751	-	+ 855	+ 8.6%
Gross profit	3,120	31.5%	3,478	32.4%	+ 358	+ 11.5%
SG&A expenses	1,984	20.0%	1,982	18.4%	(2)	(0.1%)
Operating income	1,136	11.5%	1,496	13.9%	+ 360	+ 31.7%
Ordinary income	1,157	11.7%	1,503	14.0%	+ 346	+ 29.9%
Net income	780	7.9%	1,027	9.6%	+ 247	+ 31.7%
Amount of orders	11,881	-	13,773	-	+ 1,892	+ 15.9%
Orders on hand	11,548	-	13,995	-	+ 2,447	+ 21.2%

Million yen

* Front-end processor (FEP) system: Hardware and software with network connectivity, card usage authentication, and other functions required for credit card payment processing

Sales by Category

Sales in system development, cloud services, and security grew. Third-party products and services decreased YoY due to large-scale hardware sales for FEP* system renewal in the previous fiscal year.

Million yen

	Cumulative Q3 FY06/23	Cumulative Q3 FY06/24	Change(YoY)	
Net sales	9,896	10,751	+ 855	+ 8.6%
Payment and finance	7,743	7,745	+2	+0.0%
System development	4,314	5,114	+ 800	+18.5%
Maintenance	1,230	1,210	(20)	(1.6%)
In-house products and services	315	229	(86)	(27.3%)
Third-party products and services (hardware, etc.)	1,882	1,191	(691)	(36.7%)
Cloud services	1,351	1,799	+ 448	+ 33.2%
Security	801	1,207	+ 406	+ 50.7%

* Front-end processor (FEP) system: Hardware and software with network connectivity, card usage authentication, and other functions required for credit card payment processing

Sales by Business Domain

Payment systems, etc., an area of expansion in the payment business domain, grew due to a large-scale project for credit card company. FEP and fraud detection as well as Finance and others declined due to large-scale hardware sales in the previous year. Cloud services grew due to an expanded user base of our fraud detection cloud service. Security grew in the current financial year due to contributions from sales of key management solutions (HSM) and ID management solutions.

Million yen

	Cumulative Q3 FY06/23	Cumulative Q3 FY06/24	Change(YoY)	
Net sales	9,896	10,751	+ 855	+ 8.6%
Payment and finance	7,743	7,745	+2	+0.0%
FEP and fraud detection	5,118	4,227	(891)	(17.4%)
Payment systems, etc.	1,952	2,934	+ 982	+ 50.3%
Finance and others	672	583	(89)	(13.2%)
Cloud services	1,351	1,799	+ 448	+ 33.2%
Security	801	1,207	+ 406	+ 50.7%

* Front-end processor (FEP) system: Hardware and software with network connectivity, card usage authentication, and other functions required for credit card payment processing

Top Three Clients by Sales

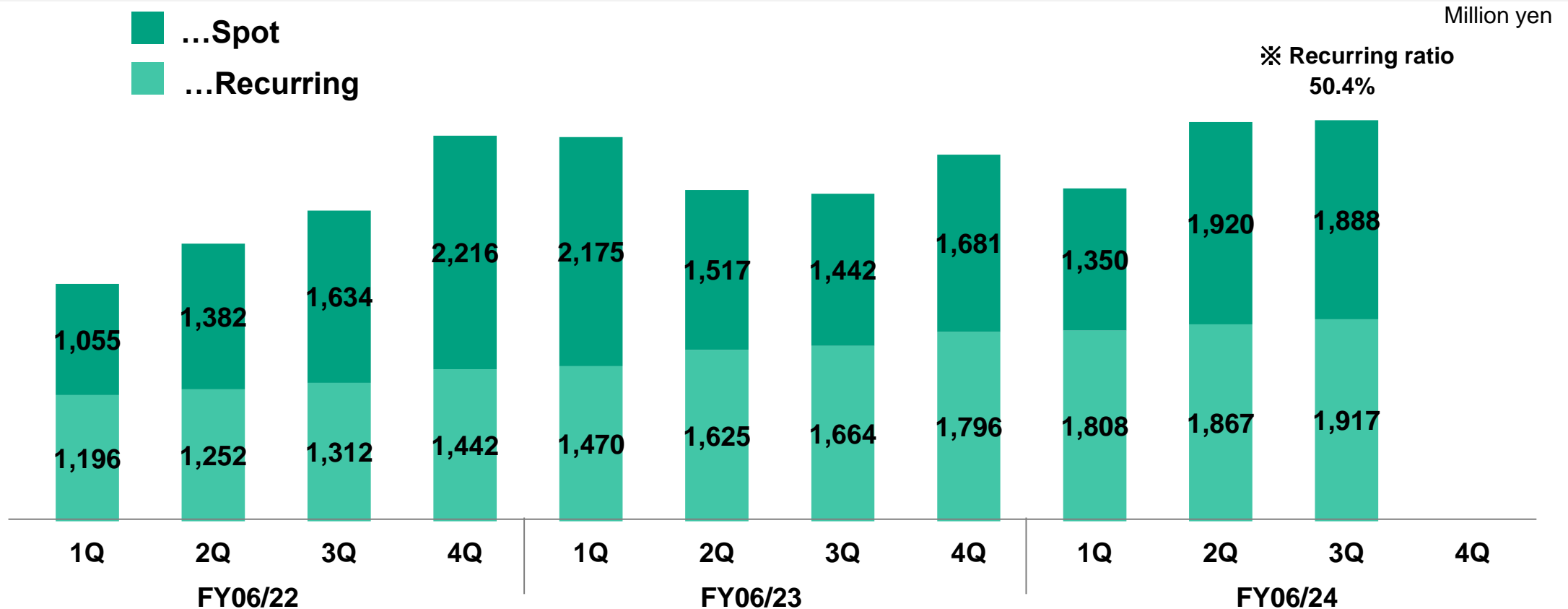
As for DNP, sales increased, particularly for security products. System Integrator increased YoY due to large-scale project for credit card company. Credit card company increased YoY due to an expanded scale of system development in multiple areas.

Million yen

		Cumulative Q3 FY06/23	Cumulative Q3 FY06/24	Change (YoY)	Main projects
1.	D N P	1,248	1,332	+84	TSP development (smartphone payment) System operation (24/365) Key management system
2.	System Integrator	824	1,205	+ 380	System development for credit card company
3.	Credit card company	449	741	+ 291	System development in multiple areas (FEP, fraud detection, Digital transformation of payments)

Sales by Type (Recurring and Spot)

Recurring revenue is increasing steadily due to higher sales of cloud services. In the future, the company aims to expand the scale of its business in combination with the growth of flow sales such as system development.

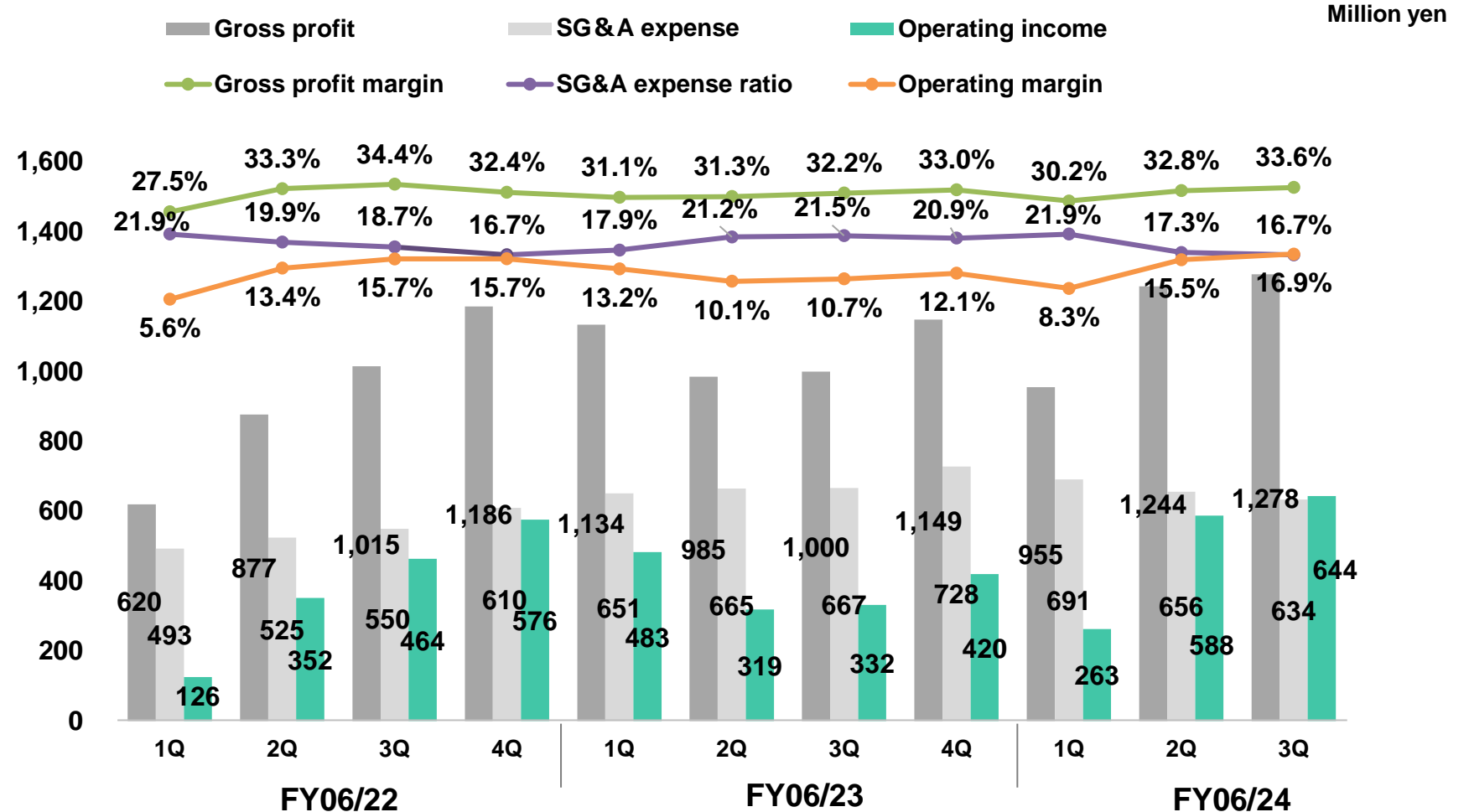
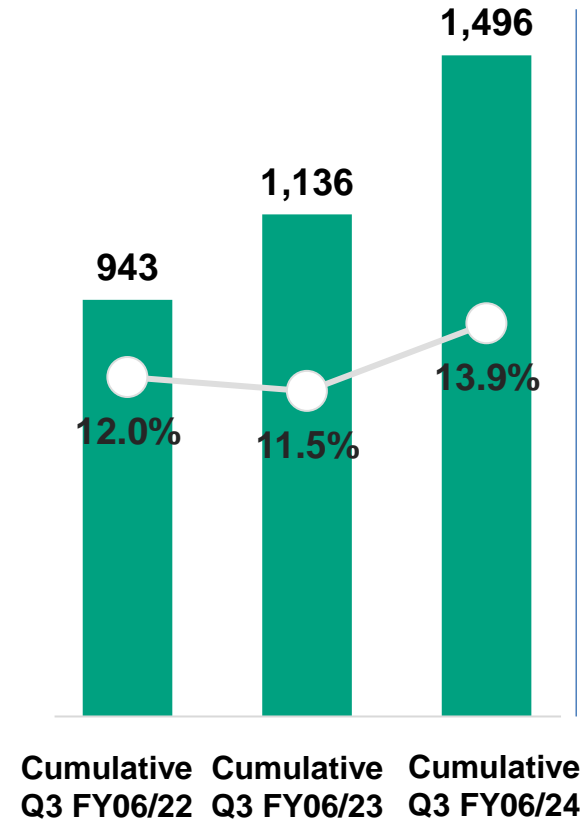


Recurring: Categories with contracts that allow us to record sales of a fixed amount on a regular basis
 Spot: Categories with contracts that are not fixed in terms of amount or timing

Operating income

Gross profit increased due to higher sales and improved gross margins in system development and cloud services. Selling, general and administrative (SG&A) expenses remained at the same level as in the previous year, thanks to cost optimization, and are progressing well against the full-year plan.

■ ... Operating income
● ... Operating margin



Cloud Service Business

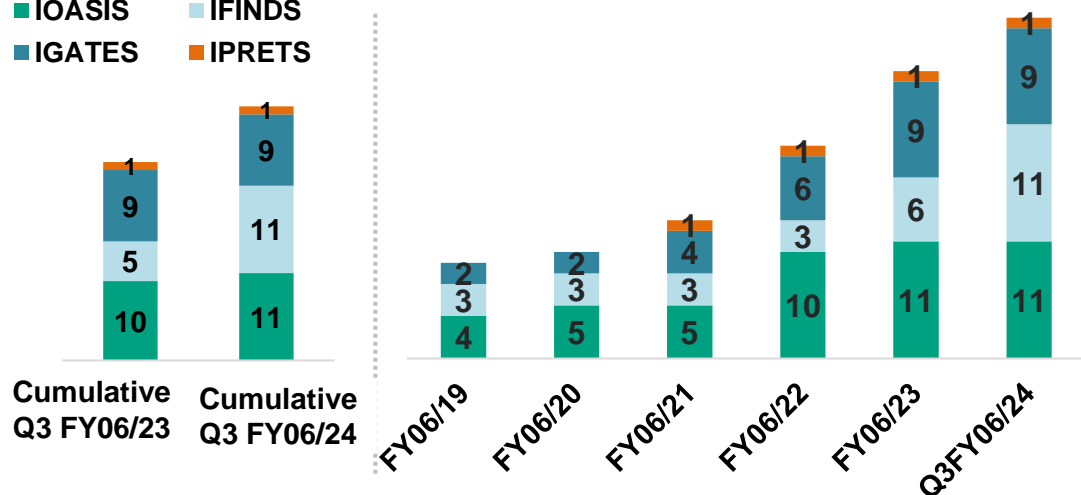
Net sales increased YoY due to an expanded user base (seven companies in total), mainly due to the fraud detection service IFINDS. Profits increased YoY due to changes in the service composition ratio. Orders received fell YoY, but orders on hand rose due to a long-term multi-year contract in the previous year.

Million yen

	FY06/23				FY06/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Amount of orders	507	822	2,794	297	614	969	890	
Net sales	434	447	469	515	592	587	618	
Orders on hand	4,214	4,589	6,913	6,695	6,717	7,098	7,371	
Gross profit	(4)	29	44	71	96	84	94	

Number of customers

■ IOASIS ■ IFINDS
■ IGATES ■ IPRETS

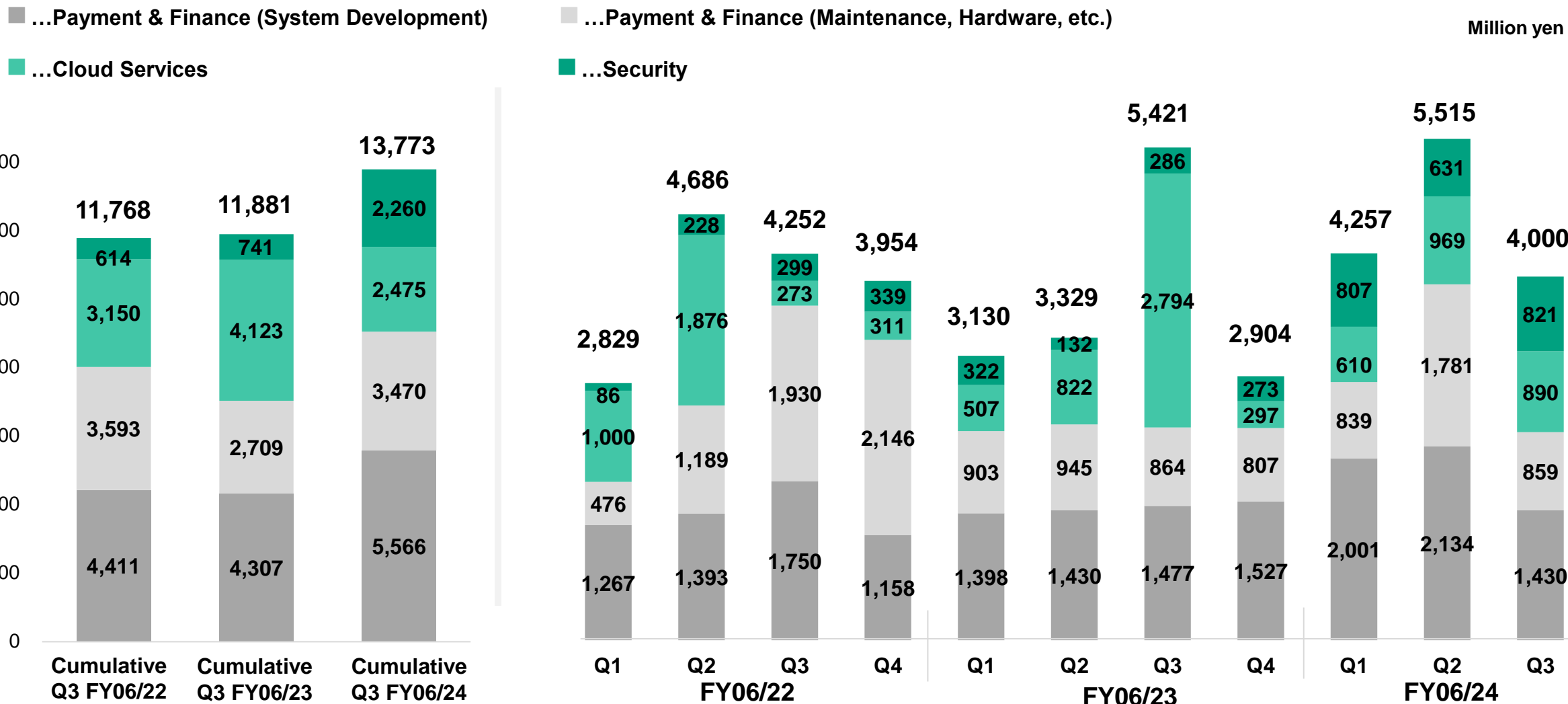


Overview

Service	Overview
■ IOASIS	Demand from existing customers for additional functionality and expansion in response to increased transaction volumes increased.
■ IFINDS	The number of companies introducing “FARIS Shared Scoring Service Powered by PKSHA Security”, which prevents fraud by fraud-data-sharing among issuers, increased. New services are launched progressively in our next-generation fraud prevention project, “FARIS.”
■ IGATES	We received a large-scale project for the development of a multi-user platform. (The platform is scheduled to begin operating in autumn 2024.)

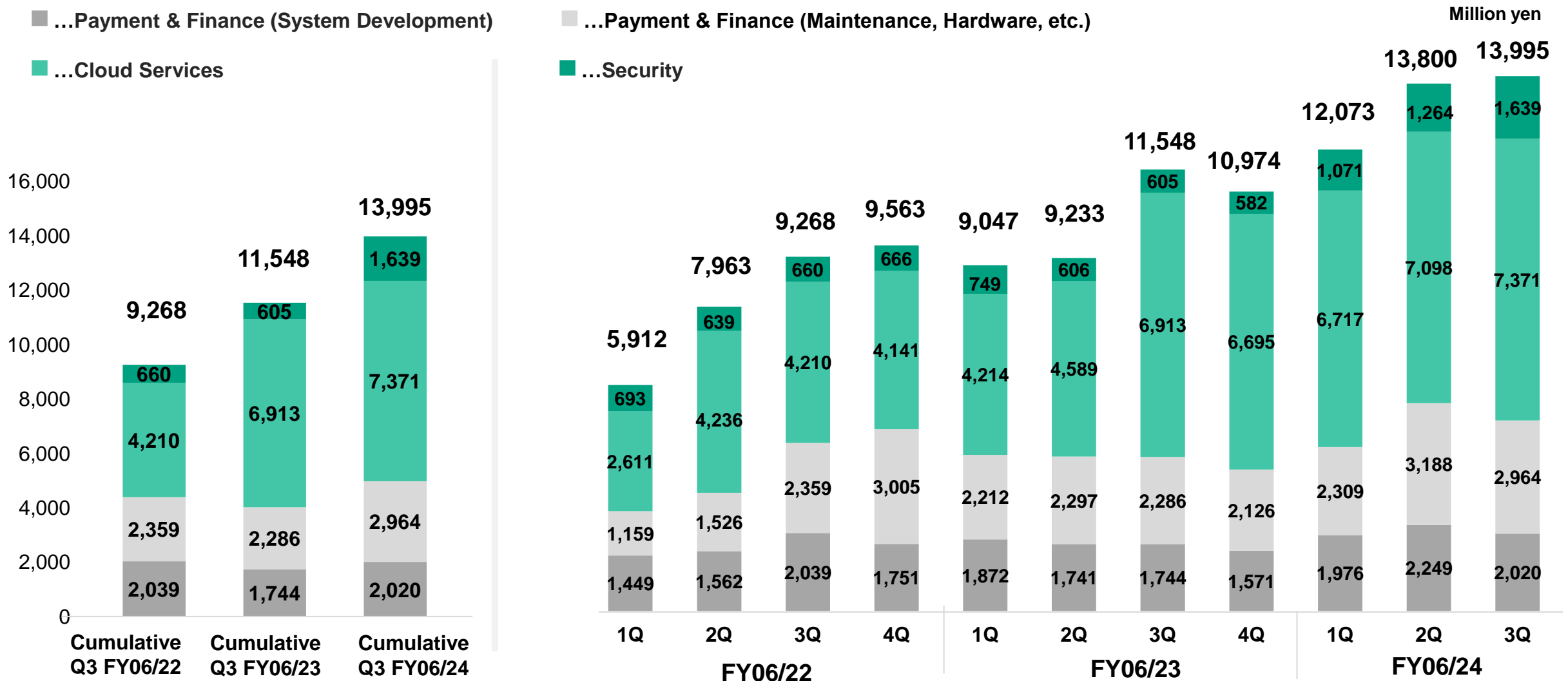
Amount of orders

The amount of orders rose in Payment and finance due to a large-scale project for a credit card company as well as a large-scale infrastructure construction and operation project. In Security, orders grew in existing security products along with key management solutions (HSM) and ID management solutions.



Orders on Hand

Orders on hand increased significantly due to projects in multi-year contracts for infrastructure construction and operation, cloud services and security, in addition to a large-scale project for credit card company.



Financial Results for Q3 FY06/24

Forecast for FY06/24

Key initiatives in FY06/24

Reference

FY06/24 Full-year Forecasts

Million yen

	FY06/23 Actual			FY06/24 forecast			Change (full year)
	1 H	2 H	Full year	1 H	2 H	Full year	YoY
Net sales	6,789	6,585	13,374	7,000	8,000	15,000	+ 12.2%
Payment & Finance	5,393	5,015	10,408	5,160	5,840	11,000	+ 5.7%
Cloud Services	881	985	1,867	1,190	1,310	2,500	+ 33.9%
Security	514	583	1,098	650	850	1,500	+ 36.6%
Operating income [OM]	803 [11.8%]	753 [11.4%]	1,556 [11.6%]	850 [12.1%]	1,400 [17.5%]	2,250 [15.0%]	+ 44.6%
Ordinary income [OM]	824 [12.1%]	778 [11.8%]	1,603 [12.0%]	870 [12.4%]	1,420 [17.8%]	2,290 [15.3%]	+ 42.9%
Net income [NM]	558 [8.2%]	607 [9.2%]	1,165 [8.7%]	600 [8.6%]	990 [12.4%]	1,590 [10.6%]	+ 36.5%

FY06/24 Forecasts

Million yen

	FY 06/23 actual			FY06/24 forecast			YoY (full-year)
	Cumulative Q1–Q3	Q4	Full year	Cumulative Q1–Q3 (actual)	Q4 (Full year- Q1–Q3 actual)	Full year	
Net sales	9,896	3,478	13,374	10,751	4,249	15,000	+ 12.2%
Payment & Finance	7,743	2,665	10,408	7,745	3,255	11,000	+ 5.7%
System Development	4,314	1,700	6,015	5,114	2,236	7,350	+ 22.2%
Maintenance	1,230	408	1,638	1,210	580	1,790	+ 9.3%
In-house Products & Services	315	189	505	229	271	500	(1.0%)
Third-party products & Services (Hardware, etc.)	1,882	367	2,249	1,191	169	1,360	(39.5%)
Cloud Services	1,351	515	1,867	1,799	701	2,500	+ 33.9%
Security	801	296	1,098	1,207	293	1,500	+ 36.6%
Operating income [OM]	1,136 [11.5%]	420 [12.1%]	1,556 [11.6%]	1,496 [13.9%]	754 [17.7%]	2,250 [15.0%]	+ 44.6%

Financial Results for Q3 FY06/24

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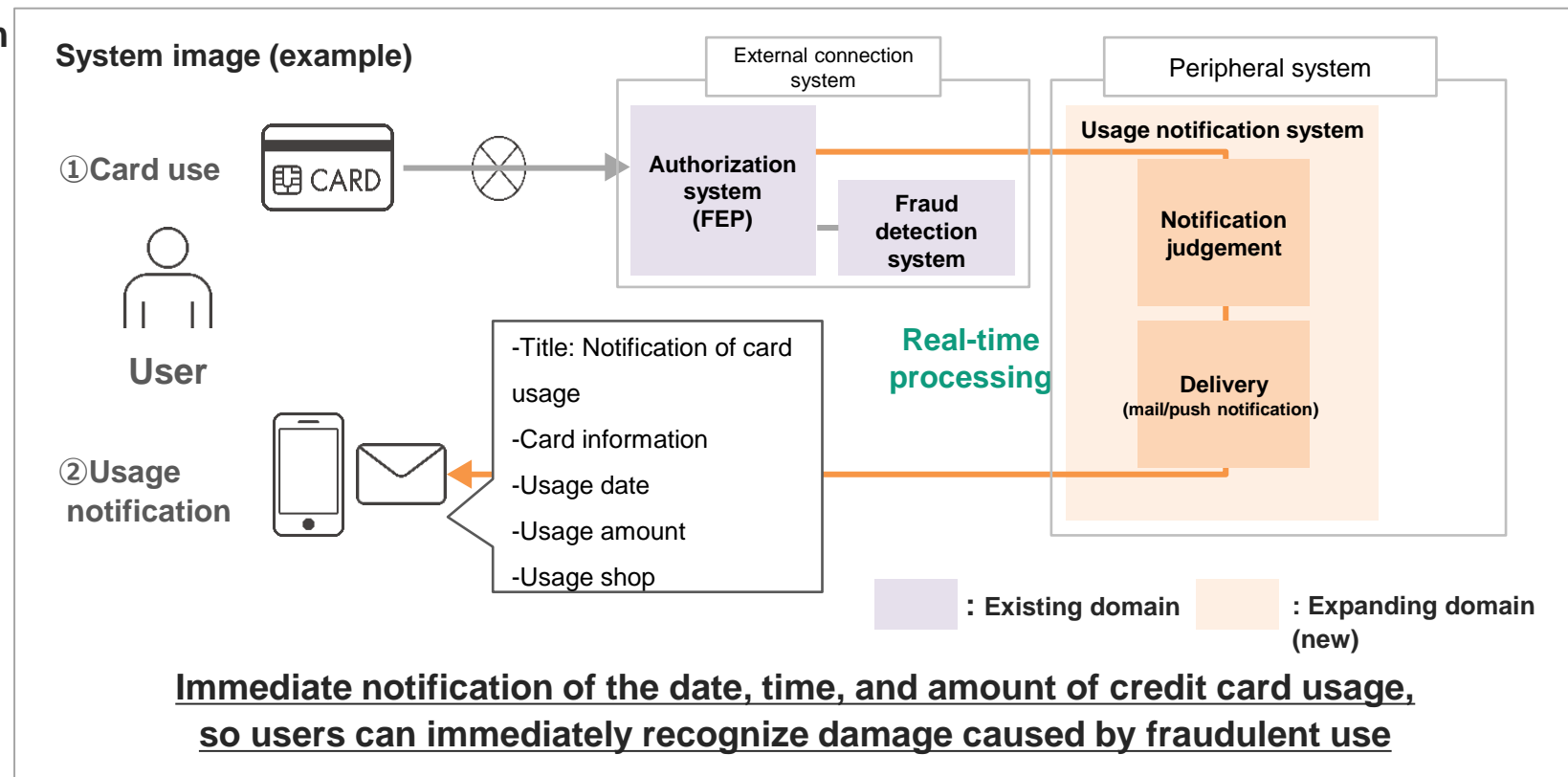
Expansion in the Payment Business

Developed a “Card Usage Notification System” that notifies users immediately after they use a card, a new packaged product that utilizes real-time processing technology for FEP and fraud detection. The system has already been introduced by one major credit card company. In addition to the use of the system to prevent fraudulent card use, we aim to expand into new areas such as marketing by linking it with other systems in the future.

■ Overview of Card Usage Notification System

We developed this system based on the “ACEPlus” technology, our in-house card fraud detection system. Utilizing real-time processing technology for FEP and fraud detection, the system enables immediate notifications.

In the future, by adjusting the timing and content of notifications and combining them with other systems, we aim to expand into areas such as effective campaign information delivery and other marketing applications.

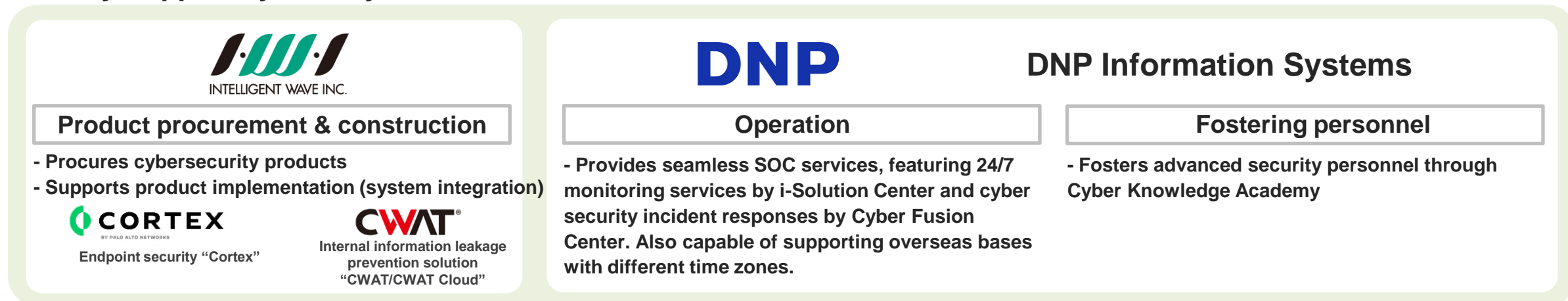


Expansion in the Security Business – DNP synergy

IWI and DNP established a system to provide consistent cyber security solutions. IWI is in charge of procuring and implementing security products and DNP Information Systems, capable of providing 24/7 cyber security operation services, is responsible for the operation after implementation.

By collaboration with DNP Information Systems, we accelerate proposals to companies with overseas bases.

■ Security Support System by IWI & DNP



The DNP group as a whole has established a consistent system capable of supporting introduction and construction, and operation, as well as the fostering of personnel.

■ Case of implementation for DNP's overseas bases

Under this system, we completed the implementation of security products for approximately 1,000 terminals at DNP's overseas bases within two months. Leveraging the know-how gained from this implementation and operation, we are advancing the deployment to global companies.

IP Flow Monitoring Solution for broadcasting industry “EoM”

There has been an increase in inquiries for the IP flow monitoring solution “EoM” for the broadcasting industry. The IP conversion of broadcasting systems is particularly advancing overseas, and demand there for PoC and similar initiatives is increasing ahead of Japan. We are further focusing on promotions, such as exhibiting at events in the United States, to strengthen our overseas expansion.

Our recent activities

- Participating in “Live-IP Sandbox program” conducted by EBU (European Broadcasting Union)

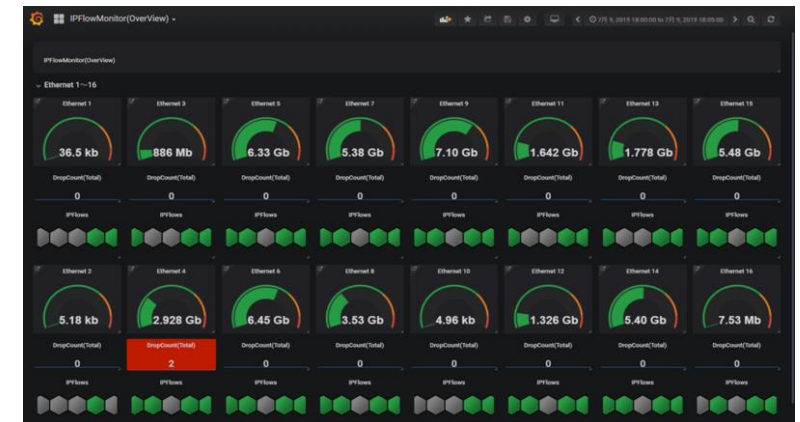
The program aims to improve knowledge and expertise on live IP technology among EBU members, which consist of approximately 100 broadcasters from Europe, North Africa, and other regions. They use actual IP broadcasting systems and carry out practical training. "EoM" is also incorporated into the system for this training, highlighting the importance of IP flow monitoring.

- Conducting PoC at several companies in Europe
- Exhibiting at the international broadcasting system exhibition “NAB Show” in Las Vegas, increasing inquiries such as PoC requests

What is the IP Flow Monitoring Solution “EoM”?

EoM is a tool to monitor the communication status of IP flow in real-time for maintaining the quality of IP transmission.

It was developed in collaboration with NHK in 2019 for which a domestic patent in Japan was obtained in September 2023. A similar patent had already been obtained in the United States in 2022.



EoM dashboard, visualizing the status of various data flows

Initiatives for new business creation

To accelerate the creation of new businesses, we launched “IWI Startup Acceleration Program (ISAP),” which is responsible for business creation and business development, and “Build with ISAP (BWI),” which fosters human resources for business creation. We have expanded the Business Idea Contest that has been held since 2019 to strengthen the system for launching new businesses.

Business Idea Contest (2019–2023)

Foster human resources & cultivate a culture

- Conducts competition as an annual event for all employees
- Provides incentive to award recipients



Business Idea Contest
 Employees who pass the document review conduct a presentation for the final review. Judges determine winning projects through evaluation and voting.

Conducts the activity as a company-wide event.
 Sets the number of submissions as a KPI.
 (Purpose: to foster human resources and cultivate a culture aimed at creating new businesses)

Two teams established to accelerate new business creation

ISAP
 IWI Startup Acceleration Program

Business creation & Business development

- Plans and operates business idea solicitation and reviews the applied ideas
- Supports commercialization for ideas that pass the review in terms of connections and funding

BWI
 Build with ISAP

Foster human resources & Supports for idea planning

- Conducts seminars for idea creation and development by external executives, entrepreneurs, etc.
- Provides information on idea planning and design
- Supports idea development

Reviews and gives feedback on ideas



Supports refining of business planning

Strengthens the system from business planning to commercialization
 (Purpose: to create new businesses and establish another business foundation)

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Cost of manufacturing

Million yen

	FY06/23				FY06/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Materials cost	21	6	13	9	10	7	9	
Labor cost	731	737	696	721	745	744	737	
Expenses	486	517	512	519	569	667	661	
Subcontracting cost	892	911	929	1,047	1,085	1,124	1,163	
Total manufacturing cost	2,132	2,173	2,152	2,298	2,411	2,544	2,571	
Work in progress (beginning of period)	257	317	262	276	216	269	227	
Work in progress (end of period)	317	262	276	216	269	227	275	
Transfer to other accounts	337	382	380	378	434	532	539	
Cost of sales	1,734	1,846	1,758	1,979	1,923	2,054	1,984	

SG&A expenses

Million yen

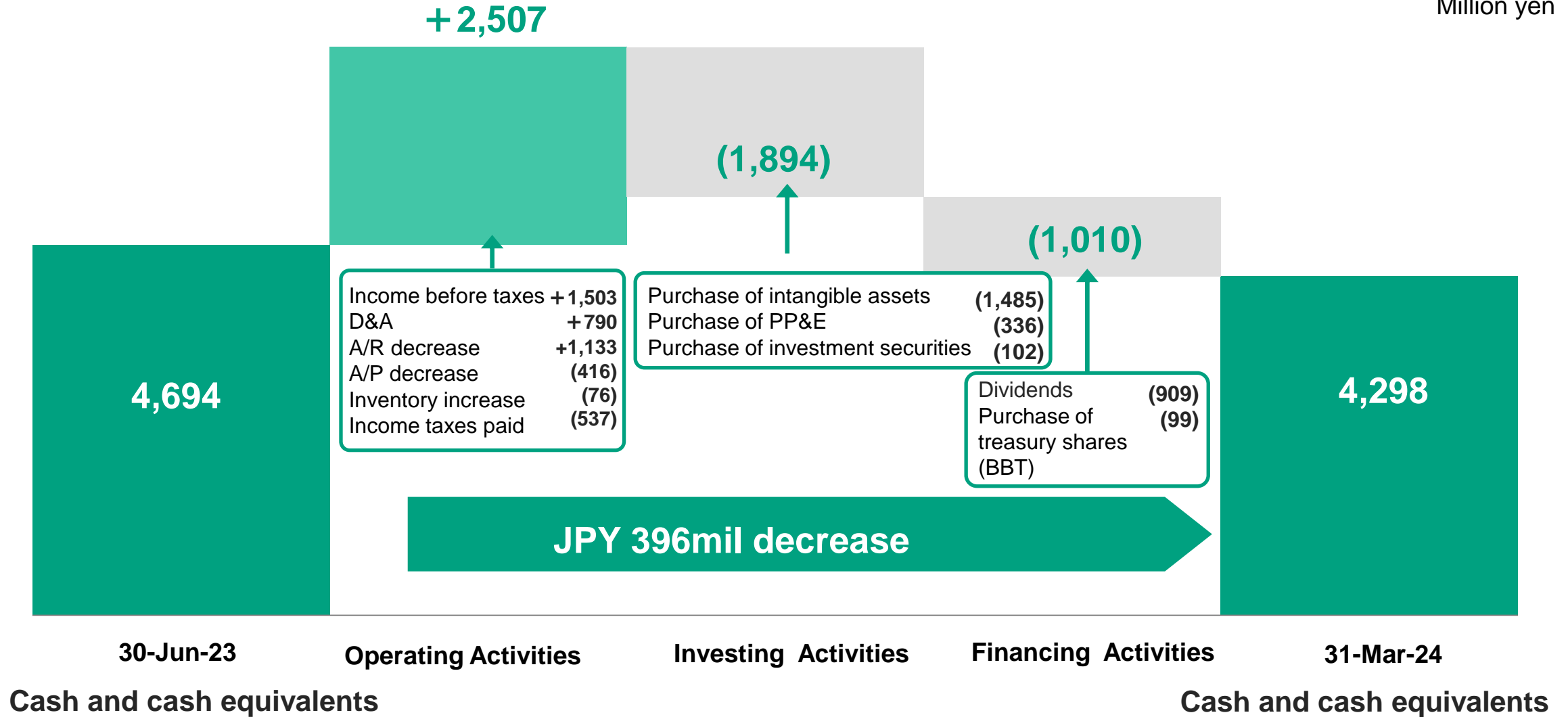
	FY06/23				FY06/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Salaries	384	388	372	417	387	382	381	
Training and recruiting	14	22	18	23	24	12	9	
Equipment and maintenance, etc.	120	118	125	133	127	108	113	
Advertising	9	13	20	17	14	17	16	
Others	124	124	132	138	139	137	115	
Total	651	665	667	728	691	656	634	

	Cumulative Q3 FY06/23	Cumulative Q3 FY06/24	Change
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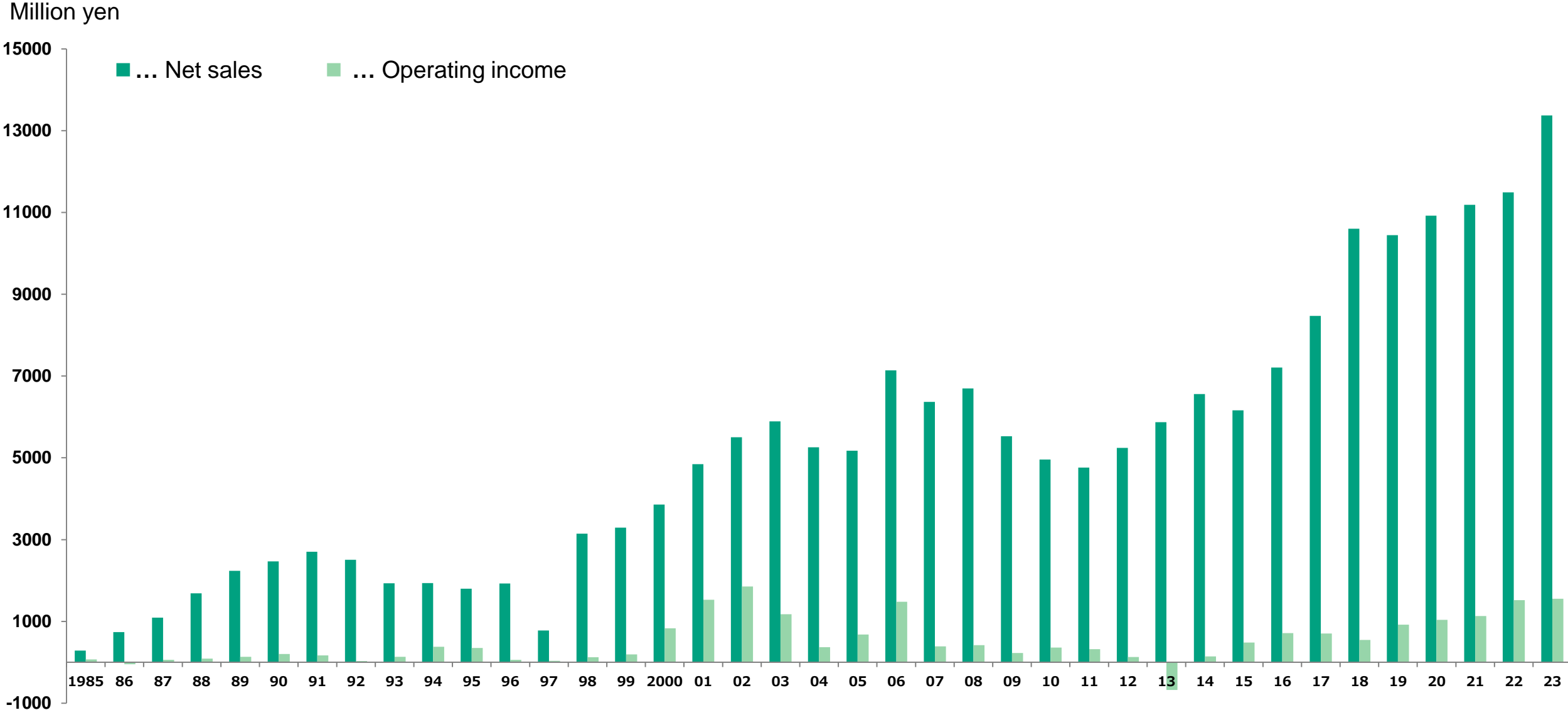
SG&A	1,984	1,982	(2)
		Salaries	+4
		Training and recruiting	(10)
		Equipment and maintenance, etc.	(15)
		Advertising	+4
		Others	+15

Cash Flows

Million yen



Historical performance



Note: Consolidated results are shown through FY06/15.

Note: The results for 1997 are for six months due to a change in the fiscal year.

Company overview



As of December 31,2023

Established	December 27, 1984		
Location	Kayabacho Tower, 1-21-2 Shinkawa, Chuo-ku, Tokyo		
Employees	475		
Parent company	Dai Nippon Printing Co., Ltd. (50.73%)		
Capital stock	JPY843.75k		
Shares outstanding	26,340,000	Shareholders	9,808

	Ownership (%)		% of shareholders
Individuals, others	34.56%	Individuals, others	98.07%
Japanese financial institutions	5.73%	Japanese financial institutions	0.13%
Other Japanese corporations	51.10%	Other Japanese corporations	0.54%
Foreign corporations	5.65%	Foreign corporations	0.99%
Japanese securities firms	2.73%	Japanese securities firms	0.25%
Treasury stock	0.23%	Treasury stock	0.01%



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