INTELLIGENT WAVE INC. (Code:4847)

Summary of Non-consolidated Financial Results

for the first quarter of Fiscal Year Ending June 2025 (Japanese GAAP)

November 6, 2024

1. Financial results for this term (July 1, 2024 to September 30, 2024)

(Percentage represents year-on-year change)

(Rounded down to the nearest million yen)

(1) Results of operations (cumulative)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1st quarter, June 2025	3,542	12.2	304	15.3	304	17.1	208	18.8
1st quarter, June 2024	3,158	(13.4)	263	(45.5)	259	(45.9)	175	(46.0)

	EPS	Fully diluted EPS
	Yen	Yen
1st quarter, June 2025	7.96	—
1st quarter, June 2024	6.68	—

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
1st quarter, June 2025	15,902	8,727	54.9
FY ended June 2024	16,847	9,222	54.7

(Reference) Shareholders' equity: As of 1st quarter, June 2025, ¥8,727 million. As of June 2024, ¥9,222 million.

2. Dividends

	Dividend per share				
	Q1-end	Q2-end	Q3-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended June 30, 2024	—	15.00	—	25.00	40.00
Year ending June 30, 2025	—				
Year ending June 30, 2025 (Forecast)		15.00	—	20.00	35.00

(Note) Revision of forecasts on the dividends: No

3. Forecast of financial results for the fiscal year ending June 30, 2025 (July 1, 2024 to June 30, 2025)

	Net sales		Operating income		Ordinary income		Net income		EPS
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	7,500	8.0	860	0.9	880	2.3	610	4.3	23.21
Full year	16,000	10.2	2,250	10.8	2,290	10.5	1,590	11.9	60.50

(Note) Revision of forecasts on the financial results: No

Notes

(1) Adaption of unique accounting method for quarterly financial statements: No

(2) Changes in Accounting Policies and Accounting Estimates / Restatements
(i) Changes in accounting policies due to revisions of accounting standards, etc.: No
(ii) Changes in accounting policies other than (i) above: Yes
(iii) Changes in accounting estimates: No
(iv) Restatements: No

(3) Number of shares issued

(i) Number of shares issued as of the period-end (including treasury stock)	As of September 30, 2024	26,340,000	As of June 30, 2024	26,340,000
(ii) Number of shares of treasury stock as of the period-end	As of September 30, 2024	158,338	As of June 30, 2024	158,286
(iii) Average number of shares during the period	As of September 30, 2024	26,181,674	As of September 30, 2023	26,279,931

Note: The company has implemented a stock compensation system called the "Board Benefit Trust (BBT)." The number of treasury shares at the end of the period includes the shares of the company held by the trust (98,200 shares in the first quarter of the fiscal year ending June 2025, 98,200 shares in the fiscal year ended June 2024). Furthermore, the shares of the company held by the trust are included in the treasury shares deducted in the calculation of the average number of shares during the period (98,200 shares in the first quarter of the fiscal year ending June 2025, -- shares in the first quarter of the fiscal year ended June 2024).

Note: Summary of financial results are not subject to audit by a certified public accountant or audit corporations.

Note: Explanation on the proper use of financial forecasts
Forward-looking statements contained in these materials are based on currently available information and include uncertainties. Actual results may differ from forecast figures due to changes in business conditions. Please refer to " 1. Overview of Operating Results (3) Statement for the Future Forecast such as Business Forecast" on page 6 of the accompanying materials for the assumptions underlying the performance and notes to the use of earnings forecasts.
The company intends to hold a financial results briefing for institutional investors and securities analysts on November 8, 2024. The materials for this presentation will be uploaded to the company’s website soon after the event.

Contents

1. Overview of Operating Results

(1) Report of Operating Results

In the first quarter of FY06/2025, the domestic economy recovered moderately, although some sluggishness remained. Consumer spending rebounded, and capital investment, particularly in software, grew, with overall business performance generally improving. In the credit card industry, our main area of business, the volume of transactions of credit card companies also rose year on year. The Ministry of Economy, Trade and Industry (METI) has set a goal of raising the cashless payment ratio to around 40% by 2025, and this ratio is expected to increase steadily.

In the credit card industry, financial institutions, including credit card companies, have been considering system modernization, open systems initiatives, and migration to cloud services in recent years, in line with the increasing use of cashless payments. In addition, demand for fraud detection has surged due to increasing losses caused by fraudulent card use. There is also a growing appetite for IT investment in security across all industries.

In this business environment, we have formulated a new three-year medium-term management plan covering the period from the fiscal year ending June 30, 2025 to the fiscal year ending June 30, 2027. In this plan, we have set the theme of "Transformation for the Future," focusing on business diversification and building a foundation for sustainable growth with a view to the 2030s.

In formulating the medium-term management plan, we have reorganized our business domains into three by the functions we provide, based on our business diversification policy. In the core payment domain, we will expand our business scope by leveraging our advantageous position in the payment industry, unique products, and technological strengths. We will contribute to the industry's digital transformation and lead the development of a cross-industry fraudulent use countermeasure scheme. In the security domain, we will strengthen sales, focusing on our highly profitable proprietary products, and collaborate with other companies to provide end-to-end security solutions, from development to operation. In this way, we will grow this domain into a second business pillar following the payment domain. In the data communication and analytical infrastructure domain, we will pursue new business opportunities by expanding into growth markets using our core "high-speed, large-capacity, and analysis" technologies.

To achieve these goals, we will focus on three key areas of transformation: "business," "technology," and "human resources." Additionally, we will strengthen our competitiveness by further enhancing cooperation with the DNP Group, leveraging our respective customer bases. We have positioned this three-year period as a time to fortify our earnings base to support business diversification, and we will implement various initiatives to achieve stable growth over the medium to long term.

In the first quarter of the fiscal year under review, we recorded increases in sales and profits on firm growth in the mainstay areas of FEP* and fraud detection in the payment domain and the introduction of products to major customer in the security domain. Regarding orders received, there was a substantial increase in multi-year contract orders for cloud services in the payment domain and for the security domain.

Sales in the FEP area in the payment domain increased mainly due to hardware sales related to the renewal of FEP systems for existing customers, a trend that has continued from the previous fiscal year. In the fraud detection area, the number of companies using the cloud service grew. In fraud detection, as part of the Security Consortium jointly promoted by IWI and JCB to promote industry-wide fraudulent use countermeasures, we are advancing the development of functional enhancements to MATTE, JCB's web-based information-sharing service for fraud prevention. In the acquiring area, higher transaction volumes and demand for performance enhancements among cloud service users also contributed to increased sales.

In terms of profit, gross margins in system development and maintenance in the payment domain remained steady, but infrastructure costs increased in cloud services due to delays in the infrastructure migration. We will continue to improve gross margins by enhancing productivity in system development and maintenance and adjusting prices to better reflect the value provided. Selling, general and administrative (SG&A) expenses remained at the same level as in the previous year as a result of cost optimization.

As a result, net sales were ¥3,542 million (up 12.2% year on year), operating income was ¥304 million (up 15.3% year on year), ordinary income was ¥304 million (up 17.1% year on year), and quarterly net income was ¥208 million (up 18.8% year on year). Orders received amounted to ¥5,594 million (up 31.4% year on year), and the order backlog was ¥18,636 million (up 54.4% year on year).
For cloud services in the payment domain, net sales were ¥718 million (up 21.2% year on year) and gross profit was -¥20 million (compared to a loss of ¥117 million in the same period of the previous year). With regard to profit, infrastructure costs have increased due to delays in the infrastructure migration for cloud services. While the business is expected to turn profitable from the first half onward, we will work on improving operational efficiency and adjusting service prices to better reflect the value provided, and will continue to improve gross margins. As for orders, cloud services primarily consist of multi-year contract orders, with an order backlog of ¥10,326 million as of the end of September.

(Reference) Sales by business domain (millions of yen)

	Previous term (from July 1, 2023 to September 30, 2023)	Current term (from July 1, 2024 to September 30, 2024)	Year on year
Payment	2,678	2,930	9.4%
Cloud services	592	718	21.2%
Security	319	407	27.4%
Data communication and analysis infrastructure	160	204	27.8%
Total	3,158	3,542	12.2%

In the payment business domain, we primarily develop front-end processing (FEP) systems* and fraud detection systems for credit card companies. The core systems consist of in-house products, such as “NET+1” and “‘ACEPlus.” In the development of FEP systems, sales are recorded separately for in-house products, customized system development to meet customers' functional requirements, and hardware equipped with the developed software.
In the security business domain, we are developing and selling “CWAT,” an in-house product designed to prevent internal information leaks for corporate organizations, as well as third-party products for cybersecurity protection.

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

(2) Report of Financial Position
(Assets)
As of September 30, 2024, total assets were ¥15,902 million, a decrease of ¥944 million from the end of the previous fiscal year. Current assets amounted to ¥8,214 million, down ¥1,065 million from the end of the previous fiscal year. This was mainly due to decreases in notes and accounts receivable - trade and contract assets of ¥748 million, as well as a ¥316 million decrease in cash and deposits.

Non-current assets totaled ¥7,688 million, up ¥120 million from the end of the previous fiscal year. This was mainly due to an increase of ¥133 million in intangible assets.

(Liabilities)
As of September 30, 2024, total liabilities amounted to ¥7,174 million, a decrease of ¥449 million from the end of the previous fiscal year. This was mainly due to a ¥401 million reduction in income taxes payable.

(Net Assets)
Net assets amounted to ¥8,727 million as of September 30, 2024, down ¥495 million from the end of the previous fiscal year. This was mainly because retained earnings fell by ¥656 million due to dividend payouts

through appropriation of surplus, while the recognition of quarterly net income led to an increase of ¥208 million.

(3) Statement for the Future Forecast such as Business Forecast

There is no revision to the business forecast announced on August 7, 2024, “Summary of Non-consolidated Financial Results for the Fiscal Year Ended June 2024”.

2. Financial Statements

(1) Balance Sheet

Thousands of yen

	Previous term end (as of June 30,2024)	Current term end (as of September 30,2024)
Assets		
Current assets		
Cash and deposits	4,820,601	4,503,669
Notes and accounts receivable - trade, and contract assets	2,453,677	1,705,155
Inventories	366,153	395,733
Other	1,639,328	1,609,558
Total current assets	9,279,761	8,214,117
Non-current assets		
Property, plant and equipment	1,297,691	1,276,076
Intangible assets		
Software	3,119,998	2,981,902
Other	876,099	1,148,165
Total intangible assets	3,996,098	4,130,068
Investments and other assets		
Investment securities	1,314,398	1,248,532
Other	959,554	1,033,711
Total investments and other assets	2,273,952	2,282,243
Total non-current assets	7,567,742	7,688,388
Total assets	16,847,503	15,902,506
Liabilities		
Current liabilities		
Notes and accounts payable - trade	632,961	462,224
Income taxes payable	539,228	138,216
Advances received	4,517,696	4,478,303
Provision for bonuses	307,703	557,375
Provision for bonuses for directors	28,870	8,837
Other	780,087	725,575
Total current liabilities	6,806,548	6,370,532
Non-current liabilities		
Provision for retirement benefits	626,850	611,482
Provision for share awards	4,193	5,591
Provision for share awards for directors	8,920	11,893
Asset retirement obligations	97,192	97,227
Other	80,960	78,115
Total non-current liabilities	818,116	804,310
Total liabilities	7,624,665	7,174,843
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	7,419,262	6,970,761
Treasury shares	(126,570)	(126,630)
Total shareholders' equity	8,709,542	8,260,981
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	513,296	466,681
Total valuation and translation adjustments	513,296	466,681
Total net assets	9,222,838	8,727,662
Total liabilities and net assets	16,847,503	15,902,506

(2) Income Statement

	Previous term (from July 1,2023 to September 30,2023)	Current term (from July 1,2024 to September 30,2024)
		Thousands of yen
Net sales	3,158,664	3,542,593
Cost of sales	2,203,380	2,563,272
Gross profit	955,284	979,321
Selling, general and administrative expenses	691,545	675,171
Operating income	263,738	304,150
Non-operating income		
Interest income	667	1,060
Dividend income	1,155	1,169
Other	364	941
Total non-operating income	2,187	3,171
Non-operating expenses		
Commitment fees	1,693	1,323
Foreign exchange losses	2,164	1,730
Loss on cancellation of insurance policies	1,866	—
Other	290	0
Total non-operating expenses	6,014	3,053
Ordinary income	259,910	304,268
income before income taxes	259,910	304,268
Income taxes - current	162,988	123,568
Income taxes - deferred	(78,595)	(27,796)
Total income taxes	84,392	95,771
Net income	175,518	208,496

(3) Notes

(Notes on the Going Concern Assumption)

Not applicable.

(Significant Changes in the Amount of Shareholders' Equity)

For the first quarter of the current fiscal year (July 1, 2024, to September 30, 2024),

Not applicable.

(Adaption of unique accounting method for quarterly financial statements)

For the first quarter of the current fiscal year (July 1, 2024, to September 30, 2024),

Not applicable.

(Changes in Accounting Policies Indistinguishable from Changes in Accounting Estimates)

Effective from the first quarter of the fiscal year under review, we have changed the depreciation method for property, plant, and equipment to the straight-line method. Previously, we mainly applied the declining balance method but had applied the straight-line method to buildings (excluding building fixtures) acquired on or after April 1, 1988, and to building fixtures and structures acquired on or after April 1, 2016.

We are expanding our recurring revenue business through the growth of cloud services. As our cloud services business has grown, the importance of tangible fixed assets related to this business has increased, prompting a review of the overall use of our tangible assets.

As our tangible fixed assets are expected to operate stably over their useful life, allocating costs evenly over their service life will better reflect actual asset usage. As a result, we determined that allocating costs evenly over the useful life of each asset using the straight-line method would better reflect their actual usage patterns and, from the perspective of matching revenues with expenses, would more appropriately reflect our business performance. Therefore, we have decided to change our depreciation method for tangible fixed assets from the declining balance method to the straight-line method starting from the first quarter of this fiscal year.

As a result of this change, operating income, ordinary income, and income before income taxes each increased by ¥15,024 thousand compared with the previous method.

(Business Segment)

Business segment information is omitted because the company has a single reportable segment.

(Cash Flow Statement)

We do not prepare quarterly statements of cash flows for the first quarter of a fiscal year.

Depreciation and amortization expenses for the first quarter were as follows.

Thousands of yen

	1st quarter of FY06/24 (cumulative) (from July 1, 2023 to September 30, 2023)	1st quarter of FY06/25 (cumulative) (from July 1, 2024 to September 30, 2024)
Depreciation	243,500	300,825