

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

February 5, 2025

Non-consolidated Financial Results for the Six Months Ended December 31, 2024 (Under Japanese GAAP)

Company name: INTELLIGENT WAVE INC.
 Listing: Tokyo Stock Exchange, Prime Market
 Securities code: 4847
 URL: <https://www.iwi.co.jp/en/>
 Representative: Koji Kawakami, Chief Executive Officer, Representative Director
 Inquiries: Nobuhiro Kato, General Manager of Business Administration Division
 Telephone: +81-3-6222-7015
 Scheduled date to file semi-annual securities report: February 7, 2025
 Scheduled date to commence dividend payments: March 17, 2025
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for institutional investors and analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Non-consolidated financial results for the six months ended December 31, 2024 (from July 1, 2024 to December 31, 2024)

(1) Non-consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
December 31, 2024	7,540	8.6	857	0.6	887	3.2	610	4.4
December 31, 2023	6,946	2.3	852	6.1	859	4.3	584	4.8

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
December 31, 2024	23.33	—
December 31, 2023	22.28	—

(2) Non-consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
December 31, 2024	16,870	9,116	54.0
June 30, 2024	16,847	9,222	54.7

Reference: Equity

As of December 31, 2024: ¥9,116 million
 As of June 30, 2024: ¥9,222 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2024	—	15.00	—	25.00	40.00
Fiscal year ending June 30, 2025	—	15.00			
Fiscal year ending June 30, 2025 (Forecast)			—	20.00	35.00

Note: Revisions to the forecast of cash dividends most recently announced: None

Note: Breakdown of dividends for the fiscal year ended June 2024:

Ordinary dividend: 15.00 yen

Commemorative dividend: 10.00 yen

3. Forecast for the Fiscal Year Ending June 30, 2025 (July 1, 2024 to June 30, 2025)

	Net sales		Operating profit		Ordinary profit		Profit		EPS
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	16,000	10.2	2,250	10.8	2,290	10.5	1,590	11.9	60.50

Note: Revisions to the most recently announced forecast: None

*** Notes**

- (1) Adoption of accounting treatment specific to the preparation of semi-annual non-consolidated financial statements: None
- (2) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: Yes
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None

(3) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2024	26,340,000 shares
As of June 30, 2024	26,340,000 shares

- (ii) Number of treasury shares at the end of the period

As of December 31, 2024	158,338 shares
As of June 30, 2024	158,286 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended December 31, 2024	26,181,668 shares
Six months ended December 31, 2023	26,256,773 shares

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 as of December 31, 2024, 98,200 shares as of June 30, 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 as of December 31, 2024, 23,149 shares as of December 31, 2023).

* Semi-annual financial results reports are exempt from review conducted by certified public accountants or an audit firm.

* Proper use of earnings forecasts, and other special matters

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 7 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 February 7, 2025. The materials for this presentation will be uploaded to the company's website soon after the event.

Contents

1. Overview of Operating Results	5
(1) Report of Operating Results	5
(2) Report of Financial Position	6
(3) Statement for the Future Forecast such as Business Forecast	7
2. Semi-Annual Financial Statements	8
(1) Semi-Annual Balance Sheet	8
(2) Semi-Annual Income Statement	9
(3) Semi-Annual Cash Flow Statement	10
(4) Notes on the Semi-Annual Financial Statements	11
(Notes on the Going Concern Assumption)	11
(Significant Changes in the Amount of Shareholders' Equity)	11
(Adaption of unique accounting method for the Semi-Annual financial statements)	11
(Changes in Accounting Policies Indistinguishable from Changes in Accounting Estimates)	11
(Business Segment)	11

1. Overview of Operating Results

(1) Report of Operating Results

In the first six months (first half) 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 improving moderately. 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 six months 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 a major customer in the security domain. Regarding orders received, there was a substantial increase for large-scale projects for infrastructure operation services for financial institutions, in multi-year contract orders for cloud services in the payment domain and for the security domain.

As a result, net sales were ¥7,540 million (up 8.6% year on year), operating profit was ¥857 million (up 0.6% year on year), ordinary profit was ¥887 million (up 3.2% year on year), and profit was ¥610 million (up 4.4% year on year). Orders received amounted to ¥12,751 million (up 30.5% year on year), and the order backlog was ¥21,795 million (up 57.9% year on year).

In the payment domain, sales in the FEP and fraud detection areas increased due to system upgrades by existing customers, and the number of companies using cloud services rose. In the acquiring area, sales remained flat due to a decrease in system development for a major credit card company, resulting from the transition to the development phase. In the security domain, sales increased. due to mainly introduction of products to a major customer. In the data communication and analysis infrastructure domain, sales increased due to system development for securities companies.

In terms of profit, gross margins in system development and maintenance in the payment domain remained steady, but gross profit margins declined as gross margins in cloud services declined.

We will continue to improve gross margins by enhancing productivity in system development and maintenance and adjusting prices to better reflect the value provided. In terms of general and administrative (SG&A) expenses, personnel expenses increased mainly, but the SG&A expense ratio decreased.

For cloud services in the payment domain, net sales were ¥1,527 million (up 29.4% year on year) and gross

profit was ¥107 million (down 40.3% year on year). In terms of profit, cloud services business turned profitable from the second quarter due to mainly sales increase. Infrastructure costs have increased due to delays in the infrastructure migration for cloud services. 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 ¥11,449 million as of December 31, 2024.

(Reference) Sales by business domain

(millions of yen)

	Previous term (from July 1, 2023 to December 31, 2023)	Current term (from July 1, 2024 to December 31, 2024)	Year on year
Payment	5,784	6,166	106.6%
Cloud services	1,180	1,527	129.4%
Security	757	923	122.0%
Data communication and analysis infrastructure	403	449	111.4%
Total	6,946	7,540	108.6%

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 December 31, 2024, total assets were ¥16,870 million, up ¥22 million from the end of the previous fiscal year. Current assets amounted to ¥8,986 million, down ¥292 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 ¥333 million.

Non-current assets totaled ¥7,883 million, up ¥315 million from the end of the previous fiscal year. This was mainly due to an increase of ¥296 million in intangible assets.

(Liabilities)

As of December 31, 2024, total liabilities amounted to ¥7,754 million, an increase of ¥129 million from the end of the previous fiscal year. This was mainly due to a decrease of ¥162 million in notes and accounts payable–trade and a decrease of ¥151 million in income taxes payable, while there were increases of ¥268 million in advances received, ¥97 million in consumption taxes payable and ¥52 million in accounts payable–other.

(Net Assets)

Net assets amounted to ¥9,116 million as of December 31, 2024, down ¥106 million from the end of the previous fiscal year. This was mainly a decrease in the valuation difference on available-for-sale securities of ¥60 million and a decrease of retained earnings of ¥46 million.

(Report of Cash Flows)

As of December 31, 2024, cash and cash equivalents amounted to ¥4,661 million (compared to ¥3,619 million at the end of the same period in the previous year). The status of each cash flow and the factors affecting them are as follows:

(Cash Flows from Operating Activities)

Net cash provided by operating activities in the first six months (first half) of the current fiscal year amounted to ¥1,480 million (compared to ¥764 million for the same period of the previous fiscal year). This was mainly due to the recording of income before taxes of ¥887 million and depreciation expenses of ¥611 million, a decrease in notes and accounts receivable–trade and contract assets of ¥601 million, a decrease in inventories of ¥103 million, a decrease in notes and accounts payable–trade of ¥539 million, and income taxes paid of ¥499 million.

(Cash Flows from Investing Activities)

Net cash from investing activities in the first six months (first half) of the current fiscal year was an expenditure of ¥974 million (compared to ¥1,213 million for the same period of the previous fiscal year). This was mainly due to an expenditure of ¥798 million for the purchase of intangible fixed assets for the development of software for sales purposes and internal use.

(Cash Flows from Financing Activities)

Net cash from financing activities in the first six months (first half) of the current fiscal year was an expenditure of ¥657 million (compared to ¥624 million for the same period of the previous fiscal year). This was mainly due to cash dividends paid of ¥656 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. Semi-Annual Financial Statements

(1) Semi-Annual Balance Sheet

	Thousands of yen	
	Previous term end (as of June 30,2024)	Current term end (as of December 31,2024)
Assets		
Current assets		
Cash and deposits	4,820,601	4,670,968
Notes and accounts receivable - trade, and contract assets	2,453,677	2,120,147
Inventories	366,153	262,577
Other	1,639,328	1,933,105
Total current assets	<u>9,279,761</u>	<u>8,986,798</u>
Non-current assets		
Property, plant and equipment	1,297,691	1,285,882
Intangible assets		
Software	3,119,998	3,410,791
Other	876,099	882,295
Total intangible assets	<u>3,996,098</u>	<u>4,293,086</u>
Investments and other assets		
Investment securities	1,314,398	1,229,824
Other	959,554	1,074,766
Total investments and other assets	<u>2,273,952</u>	<u>2,304,590</u>
Total non-current assets	<u>7,567,742</u>	<u>7,883,560</u>
Total assets	<u>16,847,503</u>	<u>16,870,358</u>
Liabilities		
Current liabilities		
Notes and accounts payable - trade	632,961	470,131
Income taxes payable	539,228	387,752
Advances received	4,517,696	4,785,855
Provision for bonuses	307,703	318,064
Provision for bonuses for directors	28,870	23,728
Other	780,087	951,448
Total current liabilities	<u>6,806,548</u>	<u>6,936,981</u>
Non-current liabilities		
Provision for retirement benefits	626,850	618,828
Provision for share awards	4,193	7,115
Provision for share awards for directors	8,920	16,086
Asset retirement obligations	97,192	97,263
Other	80,960	77,813
Total non-current liabilities	<u>818,116</u>	<u>817,108</u>
Total liabilities	<u>7,624,665</u>	<u>7,754,089</u>
Net assets		
Shareholders' equity		
Share capital	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	7,419,262	7,373,110
Treasury shares	(126,570)	(126,630)
Total shareholders' equity	<u>8,709,542</u>	<u>8,663,330</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	513,296	452,938
Total valuation and translation adjustments	<u>513,296</u>	<u>452,938</u>
Total net assets	<u>9,222,838</u>	<u>9,116,268</u>
Total liabilities and net assets	<u>16,847,503</u>	<u>16,870,358</u>

(2) Semi-Annual Income Statement

	Thousands of yen	
	Previous term (from July 1,2023 to December 31,2023)	Current term (from July 1,2024 to December 31,2024)
Net sales	6,946,167	7,540,320
Cost of sales	4,745,888	5,308,757
Gross profit	2,200,279	2,231,563
Selling, general and administrative expenses	1,348,108	1,374,326
Operating profit	852,170	857,236
Non-operating income		
Interest income	1,580	1,973
Dividend income	24,603	24,578
Foreign exchange gains	—	3,549
Insurance claim income	22,772	—
Other	4,712	9,422
Total non-operating income	53,668	39,525
Non-operating expenses		
Interest expenses	—	17
Commitment fees	3,016	2,646
Foreign exchange losses	3,968	—
Compensation expenses	36,504	5,340
Other	2,351	1,131
Total non-operating expenses	45,841	9,135
Ordinary profit	859,997	887,625
Profit before income taxes	859,997	887,625
Income taxes - current	288,474	353,264
Income taxes - deferred	(13,420)	(76,485)
Total income taxes	275,053	276,779
Profit	584,943	610,846

(3) Semi-Annual Cash Flow Statement

Thousands of yen

	Previous term (from July 1,2023 to December 31,2023)	Current term (from July 1,2024 to December 31,2024)
Cash flows from operating activities		
Profit before income taxes	859,997	887,625
Depreciation	512,462	611,554
Increase (decrease) in provision for bonuses	(3,066)	10,361
Increase (decrease) in provision for bonuses for directors (and other officers)	(25,073)	(5,142)
Increase (decrease) in provision for retirement benefits	15,134	(8,021)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(12,975)	—
Increase (decrease) in provision for share awards	1,397	2,922
Increase (decrease) in provision for share awards for directors (and other officers)	2,973	7,166
Insurance claim income	(22,772)	—
Interest and dividend income	(26,183)	(26,552)
Commitment fee	3,016	2,646
Compensation expenses	36,504	5,340
Decrease (increase) in trade receivables	(57,430)	601,688
Decrease (increase) in inventories	(74,474)	103,576
Increase (decrease) in trade payables	31,390	(539,209)
Other, net	(214,383)	301,395
Subtotal	1,026,518	1,955,352
Interest and dividends received	25,794	26,532
Commitment fee paid	(2,378)	(2,391)
Compensation expenses paid	(3,144)	—
Income taxes paid	(282,405)	(499,292)
Net cash provided by (used in) operating activities	764,383	1,480,200
Cash flows from investing activities		
Purchase of property, plant and equipment	(220,611)	(172,878)
Purchase of intangible assets	(915,208)	(798,610)
Purchase of investment securities	(102,203)	(2,421)
Proceeds from cancellation of insurance funds	22,884	—
Other, net	1,143	(211)
Net cash provided by (used in) investing activities	(1,213,994)	(974,122)
Cash flows from financing activities		
Dividends paid	(524,110)	(656,904)
Repayments of lease liabilities	(603)	(603)
Purchase of treasury shares	(99,857)	(60)
Net cash provided by (used in) financing activities	(624,571)	(657,568)
Effect of exchange rate change on cash and cash equivalents	(741)	(597)
Net increase (decrease) in cash and cash equivalents	(1,074,924)	(152,087)
Cash and cash equivalents at beginning of period	4,694,621	4,813,894
Cash and cash equivalents at end of period	3,619,697	4,661,806

(4) Notes on the Semi-Annual Financial Statements

(Notes on the Going Concern Assumption)

Not applicable.

(Significant Changes in the Amount of Shareholders' Equity)

For the first six months (first half) of the current fiscal year (July 1, 2024 to December 31, 2024),

Not applicable.

(Adaption of unique accounting method for Semi-Annual financial statements)

For the first six months (first half) of the current fiscal year (July 1, 2024 to December 31, 2024),

Not applicable.

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

Effective from the first six months (first half) 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 six months (first half) of this fiscal year.

As a result of this change, operating profit, ordinary profit, and profit before income taxes each increased by ¥31,439 thousand compared with the previous method.

(Business Segment)

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