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On **August 7, 2019**, Intelligent Wave Inc. (IWI) announced earnings results for full-year FY06/19, a surplus dividend (dividend increase), and a new medium-term management plan.

Quarterly performance (JPYmn)	FY06/17 (parent)				FY06/18 (parent)				FY06/19 (parent)					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	1,654	2,140	2,263	2,413	2,322	2,371	3,136	2,775	2,337	2,702	2,650	2,754		
YoY	24.2%	28.5%	19.7%	4.0%	40.4%	10.8%	38.6%	15.0%	0.7%	14.0%	-15.5%	-0.8%		
Gross profit	342	572	656	563	551	472	564	636	526	672	884	725		
YoY	3.1%	19.8%	18.0%	-10.5%	61.1%	-17.4%	-14.0%	13.0%	-4.6%	42.3%	56.9%	14.0%		
GPM	21%	26.7%	29.0%	23.3%	23.7%	19.9%	18.0%	22.9%	22.5%	24.9%	33.4%	26.3%		
SG&A expenses	304	362	381	383	422	411	387	455	455	474	478	479		
YoY	2.3%	17.1%	15.8%	11.3%	38.8%	13.5%	1.7%	18.8%	7.8%	15.3%	23.4%	5.2%		
SG&A ratio	18.4%	16.9%	16.8%	15.9%	18.2%	17.3%	12.3%	16.4%	19.5%	17.5%	18.0%	17.4%		
Operating profit	38	210	275	180	129	61	177	181	71	198	406	246		
YoY	9.9%	24.8%	21.0%	-36.8%	239.6%	-70.7%	-35.7%	0.5%	-45.1%	222.8%	130.1%	36.0%		
OPM	2.3%	9.8%	12.1%	7.5%	5.5%	2.6%	5.6%	6.5%	3.0%	7.3%	15.3%	8.9%		
Recurring profit	37	237	289	203	128	69	176	201	79	203	407	265		
YoY	-7.9%	35.5%	25.5%	-28.8%	243.1%	-71.0%	-39.1%	-1.0%	-38.7%	195.2%	130.9%	32.3%		
RPM	2.3%	11.1%	12.8%	8.4%	5.5%	2.9%	5.6%	7.2%	3.4%	7.5%	15.3%	9.6%		
Net income	20	171	215	141	83	46	109	139	48	157	262	217		
YoY	-40.1%	53.2%	52.0%	-26.7%	313.8%	-73.2%	-49.2%	-1.2%	-42.3%	240.7%	140.1%	56.1%		
Net margin	1.2%	8.0%	9.5%	5.8%	3.6%	1.9%	3.5%	5.0%	2.1%	5.8%	9.9%	7.9%		
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	1,654	3,793	6,057	8,470	2,322	4,693	7,829	10,604	2,337	5,039	7,689	10,443	97.6%	10,700
YoY	24.2%	26.6%	23.9%	17.5%	40.4%	23.7%	29.3%	25.2%	0.7%	7.4%	-1.8%	-1.5%		0.9%
Gross profit	342	914	1,570	2,132	551	1,023	1,587	2,223	526	1,198	2,082	2,807		
YoY	3.1%	13.0%	15.0%	7.0%	61.1%	12.0%	1.1%	4.2%	-4.6%	17.1%	31.2%	26.3%		
GPM	20.7%	24.1%	25.9%	25.2%	23.7%	21.8%	20.3%	21.0%	22.5%	23.8%	27.1%	26.9%		
SG&A expenses	304	666	1,047	1,430	422	833	1,220	1,675	455	929	1,407	1,885		
YoY	2.3%	9.9%	12.0%	11.8%	38.8%	25.0%	16.5%	17.1%	7.8%	11.5%	15.3%	12.5%		
SG&A ratio	18.4%	17.6%	17.3%	16.9%	18.2%	17.8%	15.6%	15.8%	19.5%	18.4%	18.3%	18.1%		
Operating profit	38	248	523	703	129	190	367	548	71	269	676	922	104.7%	880
YoY	9.9%	22.3%	21.6%	-1.6%	239.6%	-23.3%	-29.8%	-22.0%	-45.1%	41.5%	84.2%	68.3%		60.7%
OPM	2.3%	6.5%	8.6%	8.3%	5.5%	4.1%	4.7%	5.2%	3.0%	5.3%	8.8%	8.8%		8.2%
Recurring profit	37	275	564	766	128	197	373	574	79	282	688	954	106.0%	900
YoY	-7.9%	27.3%	26.4%	4.9%	243.1%	-28.3%	-33.8%	-25.1%	-38.7%	43.0%	84.5%	66.2%		56.9%
RPM	2.3%	7.2%	9.3%	9.0%	5.5%	4.2%	4.8%	5.4%	3.4%	5.6%	9.0%	9.1%		8.4%
Net income	20	192	406	547	83	129	238	377	48	205	467	684	110.3%	620
YoY	-40.1%	31.7%	41.7%	14.3%	313.8%	-32.5%	-41.3%	-31.0%	-42.3%	58.4%	95.8%	81.2%		64.3%
Net margin	1.2%	5.1%	6.7%	6.5%	3.6%	2.8%	3.0%	3.6%	2.1%	4.1%	6.1%	6.5%		5.8%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Company estimates based on most recent figures

Note: The company switched to non-consolidated reporting starting in Q1 FY06/17. YoY comparisons are made with consolidated results for Q1 FY06/16 since differences between consolidated and parent earnings for that period were negligible.

Results by segment

Quarterly (JPYmn)	(New segments *)												FY06/19 (parent)	
	FY06/17 (parent)				FY06/18 (parent)				FY06/19 (parent)					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	1,654	2,140	2,263	2,413	2,322	2,371	3,136	2,775	2,337	2,702	2,650	2,754		
Financial Systems Solutions	1,460	1,852	2,029	2,107	2,146	1,931	2,929	2,326	2,140	2,475	2,454	2,269		
Product Solutions	194	288	234	307	177	439	207	449	197	227	196	485		
Operating profit	38	210	275	180	129	61	177	181	71	198	406	246		
Financial Systems Solutions	53	164	304	131	164	107	225	103	105	213	431	142		
Product Solutions	-15	46	-29	49	-36	-46	-48	78	-34	-14	-25	104		
OPM	2.3%	9.8%	12.1%	7.5%	5.5%	2.6%	5.6%	6.5%	3.0%	7.3%	15.3%	8.9%		
Financial Systems Solutions	3.6%	8.8%	15.0%	6.2%	7.7%	5.6%	7.7%	4.4%	4.9%	8.6%	17.6%	6.3%		
Product Solutions	-	16.1%	-	16.0%	-	-	-	17.4%	-	-	-	21.4%		
Sales breakdown														
Financial Systems Solutions	1,460	1,852	2,029	2,107	2,146	1,931	2,929	2,326	2,140	2,475	2,454	2,269		
Software development	1,036	1,119	1,216	1,464	1,487	1,208	2,328	1,416	1,311	1,480	1,354			
Maintenance	218	224	239	238	239	264	276	262	268	273	288			
Hardware	87	364	384	139	324	226	129	244	265	485	239			
In-house packaged software	78	93	122	148	84	191	132	221	229	196	517			
(Cloud services)	0	43	68	67	81	95	101	109	126	159	174			
Third-party packaged software	39	51	70	117	8	43	66	182	64	41	56			
Product Solutions	194	288	234	307	177	439	207	449	197	227	196	485		
Software development	21	17	17	7	10	11	46	22	15	14	9			
Maintenance	26	40	48	139	23	28	31	130	23	25	84			
Hardware	3	0	43	0	5	248	30	82	1	1	0			
In-house packaged software	20	67	23	12	40	3	2	13	42	71	2			
Third-party packaged software	122	162	104	149	97	149	97	202	115	115	103			
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	1,654	3,793	6,057	8,470	2,322	4,693	7,829	10,604	2,337	5,039	7,689	10,443	97.6%	10,700
Financial Systems Solutions	1,460	3,312	5,341	7,448	2,146	4,077	7,006	9,332	2,140	4,615	7,068	9,337	100.4%	9,300
Product Solutions	194	481	715	1,022	177	616	823	1,272	197	425	621	1,106	79.0%	1,400
Operating profit	38	248	523	703	129	190	367	548	71	269	676	922	104.7%	880
Financial Systems Solutions	53	216	520	651	164	272	496	599	105	317	748	890	106.0%	840
Product Solutions	-15	31	2	51	-36	-81	-129	-51	-34	-48	-73	31	77.8%	40
OPM	2.3%	6.5%	8.6%	8.3%	5.5%	4.0%	4.7%	5.2%	3.0%	5.3%	8.8%	8.8%	-	8.2%
Financial Systems Solutions	3.6%	6.5%	9.7%	8.7%	7.7%	6.7%	7.1%	6.4%	4.9%	6.9%	10.6%	9.5%	-	9.0%
Product Solutions	-	6.5%	0.3%	5.0%	-	-	-	-	-	-	-	2.8%	-	2.9%
Sales breakdown														
Financial Systems Solutions	1,460	3,312	5,341	7,448	2,146	4,077	7,006	9,332	2,140	4,615	7,068	9,337	100.4%	9,300
Software development	1,036	2,155	3,371	4,835	1,487	2,695	5,023	6,439	1,311	2,791	4,145			6,000
Maintenance	218	442	681	919	239	503	779	1,041	268	541	829			1,080
Hardware	87	451	835	974	324	550	679	923	265	750	989			1,020
In-house packaged software	78	171	293	441	84	275	407	628	229	425	942			850
(Cloud services)	0	43	111	178	81	176	277	386	126	285	459			650
Third-party packaged software	39	90	160	277	8	51	117	299	64	105	161			350
Product Solutions	194	481	715	1,022	177	616	823	1,272	197	425	621	1,106	79.0%	1,400
Software development	21	38	55	62	10	21	67	89	15	29	38			45
Maintenance	26	66	114	253	23	51	82	212	23	48	132			260
Hardware	3	3	46	46	5	253	283	365	1	2	2			55
In-house packaged software	20	87	110	122	40	43	45	58	42	113	115			145
Third-party packaged software	122	284	388	537	97	246	343	545	115	230	333			895

Source: Shared Research based on company data

Note: New segments from Q1 FY06/16. Sales and costs of Face Concierge were transferred from the Product Solutions segment to the Financial Systems Solutions segment.

Note: Figures may differ from company materials due to differences in rounding methods.

Full-year FY06/19 results

- ▷ For FY06/19, IWI reported parent sales of JPY10.4bn (-1.5% YoY), operating profit of JPY922mn (+68.3% YoY), recurring profit of JPY954mn (+66.2% YoY), and net income of JPY684mn (+81.2% YoY)
- ▷ Sales achieved 97.6% of the full-year FY06/19 target, operating profit 104.7%, recurring profit 106.0%, and net income attributable to parent company shareholders 110.3%. Although sales marginally underperformed, all profit categories exceeded their respective targets.
- ▷ Sales were down 1.5% YoY. In Financial Systems Solutions, sales were flat with FY06/18 (achieving 100.4% of the full-year target), with the absence of JPY1.9bn received in sales in FY06/18 from large-scale FEP (Front End Processing) systems development projects for specific clients being offset by sales to other clients and the cloud service business. Product Solutions sales fell 13.0% YoY (underperforming the target by JPY294mn) on declining hardware sales
- ▷ Operating profit up 68.3% YoY. Financial Systems Solutions profit posted a sharp 48.7% YoY increase on higher sales of the company's in-house developed package software used in FEP systems development. In Product Solutions, robust sales of in-house developed package software resulted in operating profit of JPY31mn (compared with a loss of JPY51mn in FY06/18). The GPM improved by 5.9pp YoY to 26.9%, the SG&A ratio rose 2.3pp to 18.1%, and the OPM rose by 3.6pp to 8.8%
- ▷ Dividend increase: The company raised the annual dividend to JPY9 per share (from JPY7 in FY06/18). This is the sum of an JPY8 year-end dividend, and a JPY1 dividend commemorating the company's listing on the First Section of the Tokyo Stock Exchange.

In the financial and credit card industries, IWI's main business areas, negotiations for capex projects have remained robust in light of promotion of a cashless society and diversification in payment methods. To the company, this means the business environment remains favorable.

Financial Systems Solutions segment

- ▷ In full-year FY06/19 results, this segment reported sales of JPY9.3bn (+0.0% YoY) and operating profit of JPY890mn (+48.7% YoY).
- ▷ Sales reached 100.4% and operating profit 106.0% of the company's FY06/19 forecasts.

Sales and operating profit of Financial Systems Solutions segment

(JPYmn)	FY06/18	FY06/19	YoY change	YoY	FY06/19 FY Est.	% of FY Est.
Sales	9,332	9,337	5	0.0%	9,300	100.4%
Operating profit	599	890	292	48.7%	840	106.0%
OPM	6.4%	9.5%	-	-	5.5%	-

Source: Shared Research based on company data

- ▷ The segment primarily develops FEP (Front End Processing) systems with network connectivity, card usage authentication and other functions necessary to complete the processing of credit card payments.
- ▷ The absence of JPY1.9bn received in sales in FY06/18 from large-scale FEP (Front End Processing) systems development projects for specific clients was offset by package software sales and hardware sales relating to the development of FEP systems for other clients and the cloud service business.
- ▷ In this segment, the company booked sales from existing clients for development projects for multiple FEP system updates and additions. Operating profit increased on a sharp rise in sales of NET+1, in-house package software used in the development of FEP systems.
- ▷ Note that there were no unprofitable development projects.

▷ The cloud service business, which supplies acquiring services systems and credit card fraud detection systems to regional banks and credit card companies, grew sales and reduced losses in-line with company forecasts.

Fluctuation in profit margin

- ▷ In the Financial Systems Solutions segment, the order scale varies from one development project to another. Moreover, costs may come out higher than expected in each separate process of the project, and gross profit margin varies from project to project. All these factors contribute to fluctuation in profits of the segment as a whole.
- ▷ Furthermore, as the company sells servers and other equipment when clients order new systems or upgrade their existing systems, hardware sales vary depending on the project. Fluctuation in profits from hardware sales also contributes to fluctuation in profit margin of the entire segment.

Product Solutions segment

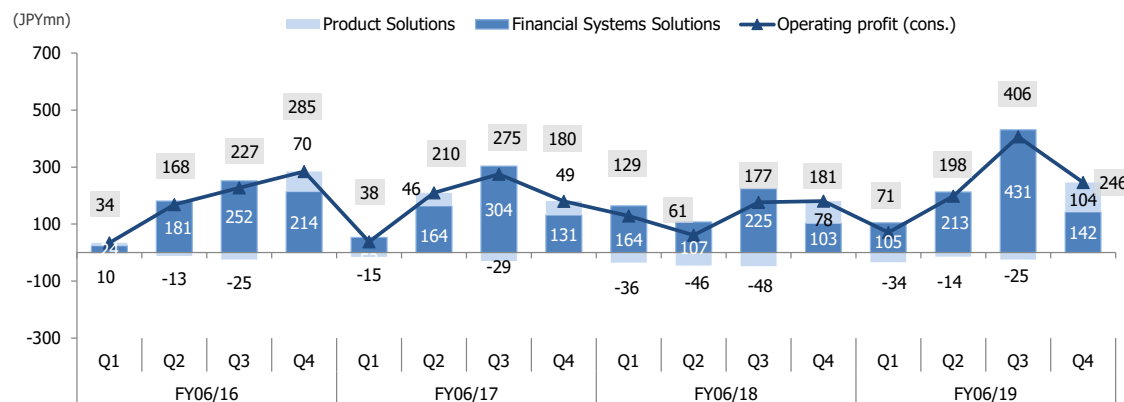
- ▷ The segment reported sales of JPY1.1bn (-13.0% YoY) and operating profit of JPY31mn (operating loss of JPY51mn in FY06/18).
- ▷ Sales achieved 79.0% and operating profit 77.8% of the company's FY06/19 forecast.
- ▷ The company recorded sales generated from the proprietary CWAT system, which prevents internal data leaks for companies, and from selling third-party products such as Traps, a program for preventing targeted cyberattacks caused by malware.
- ▷ Hardware sales increased temporarily in FY06/18 due to specific projects, but decreased in FY06/19. Sales of third-party products fell short of the target due to the difficulty of acquiring new clients. On the other hand, sales of in-house products trended in-line with the company forecast and increased YoY.
- ▷ Operating profit largely achieved the initial forecast thanks to a fall in sales of hardware with a relatively low profit margin, and an increase in sales of in-house products with a relatively high profit margin.

Sales and operating profit of Product Solutions segment

(JPYmn)	FY06/18	FY06/19	YoY change	YoY	FY06/19 FY Est.	% of FY Est.
Sales	1,272	1,106	-165	-13.0%	1,400	79.0%
Operating profit	-51	31	82	-	40	77.8%
OPM	-	2.8%	-	-	2.9%	-

Source: Shared Research based on company data

Operating profit by segment



Source: Shared Research based on company data

Full-year company forecasts

(JPYmn)	FY06/18 (parent)			FY06/19 (parent)			FY06/20 (parent)		
	1H	2H	FY	1H Act.	2H Est.	FY Est.	1H Act.	2H Est.	FY Est.
Sales	4,693	5,911	10,604	5,039	5,404	10,443	5,000	5,600	10,600
YoY	23.7%	26.4%	25.2%	7.4%	-8.6%	-1.5%	-0.8%	3.6%	1.5%
Cost of sales	3,670	4,712	8,381	3,842	2,351	6,193			
Gross profit	1,023	1,200	2,223	1,198	1,609	2,807			
YoY	12.0%	-1.6%	4.2%	17.1%	34.1%	26.3%			
GPM	21.8%	20.3%	21.0%	23.8%	29.8%	26.9%			
SG&A expenses	833	842	1,675	929	956	1,885			
SG&A ratio	17.8%	14.2%	15.8%	18.4%	17.7%	18.1%			
Operating profit	190	358	548	269	653	922	340	660	1,000
YoY	-23.3%	-21.4%	-22.0%	41.5%	82.5%	68.3%	26.4%	1.1%	8.5%
OPM	4.1%	6.0%	5.2%	5.3%	12.1%	8.8%	6.8%	11.8%	9.4%
Recurring profit	197	377	574	282	672	954	360	680	1,040
YoY	-28.3%	-23.4%	-25.1%	43.0%	78.4%	66.2%	27.8%	1.2%	9.1%
RPM	4.2%	6.4%	5.4%	5.6%	12.4%	9.1%	7.2%	12.1%	9.8%
Net income	129	248	377	205	479	684	250	470	720
YoY	-32.5%	-30.2%	-31.0%	58.4%	93.0%	81.2%	22.1%	-1.9%	5.3%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Company estimates based on most recent figures

Note: On June 28, 2016, the company finished liquidating consolidated subsidiary Intelligent Wave Korea Inc. FY06/17 estimates apply only to the parent company and are not consolidated (YoY growth rate figures for FY06/17 are for reference).

FY06/20 company forecasts

Overview

- ▷ Operating profit in FY06/19 surpassed the full-year target and came close to achieving the FY06/20 target of JPY930mn given in the previous medium-term business plan. As such, at the same time as announcing full-year FY06/19 results, IWI revealed a new medium-term business plan. The new plan assumes no major changes to the current business environment and updates targets for FY06/20 from those given in the previous plan.
- ▷ For FY06/20, IWI forecasts sales of JPY10.6bn (+1.5% YoY), operating profit of JPY1.0bn (+8.5% YoY), recurring profit of JPY1.0bn (+4.9% YoY), and net income of JPY720mn (+5.3% YoY). The company aims to achieve operating profit of JPY1.0bn one year earlier than given in the previous medium-term management plan.
- ▷ In the Financial Systems Solutions segment, the company targets sales of JPY9.4bn (+0.7% YoY). In the Product Solutions segment, it targets sales of JPY1.2bn (+8.5% YoY).
- ▷ The new plan forecasts medium-term growth of the cloud services business, next-generation NET+1 software, and new products for large-scale development projects, such as new products for the broadcasting industry, to contribute to sales growth in the medium-term, but as the degree of contribution is uncertain, definitive figures are not factored into targets. However, the company says it is working on initiatives so that actual results exceed targets in each financial year.
 - In the cloud service business, the company is aiming for sales of JPY1.4bn in the medium-term (sales were JPY637mn in FY06/19) as an important measure for driving company growth overall.
 - The company is currently developing a next-generation version of its NET+1 software product. The development of next-generation NET+1 and the preparation of new products featuring credit card fraud detection functions are progressing steadily.
 - The marketing of new products for the broadcasting industry is due to get fully underway from FY06/20.

Management strategy and long-term outlook

- ▷ As operating profit in FY06/19 exceeded the full-year target and came close to achieving the FY06/20 target of JPY930mn, the company revealed a new medium-term business plan at the same time as announcing full-year FY06/19 results on August 7, 2019. The new plan assumes no major changes to the current business environment.
- ▷ In the final year of the medium-term business plan, FY06/22, the company targets sales of JPY12.0bn (+14.9% versus FY06/19), operating profit of JPY1.2bn (+30.2% versus FY06/19), and an OPM of 10.0%.
- ▷ The new plan forecasts medium-term growth of the cloud services business, next-generation NET+1 software, and new products for large-scale development projects, such as new products for the broadcasting industry, to contribute to sales growth in the medium-term, but as the degree of contribution is uncertain, definitive figures are not factored into targets. However, the company says it is working on initiatives so that actual results exceed targets in each financial year.
 - In the cloud service business, the company is aiming for sales of JPY1.4bn in the medium-term (sales were JPY637mn in FY06/19) as an important measure for driving company growth overall.
 - The company is currently developing a next-generation version of its NET+1 software product. The development of next-generation NET+1 and the preparation of new products featuring credit card fraud detection functions are progressing steadily.
 - The marketing of new products for the broadcasting industry is due to get fully underway from FY06/20

New medium-term business plan and previous medium-term business plan

(New plan)

(JPYmn)	FY06/19	FY06/20	FY06/21	FY06/22	CAGR
	Act.	Est.	MTP	MTP	
Sales	10,443	10,600	11,200	12,000	4.7%
Financial Systems Solutions	9,337	9,400	9,900	10,600	4.3%
Product Solutions	1,106	1,200	1,300	1,400	8.2%
Operating profit	922	1,000	1,080	1,200	9.2%
OPM	8.8%	9.4%	9.6%	10.0%	-

his note is the most recent addition to the [full report](#).

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