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On May 6, 2021, Intelligent Wave Inc. (IWI) announced earnings results for Q3 FY06/21.

Quarterly performance (JPYmn)	FY06/19 (parent)				FY06/20 (parent)				FY06/21 (parent)				FY06/21 (parent)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	2,337	2,702	2,650	2,754	2,417	2,550	2,838	3,115	2,299	2,949	2,819			
YoY	0.7%	14.0%	-15.5%	-0.8%	3.4%	-5.6%	7.1%	13.1%	-4.9%	15.7%	-0.7%			
Gross profit	526	672	884	725	622	712	689	958	589	801	766			
YoY	-4.6%	42.3%	56.9%	14.0%	18.3%	6.0%	-22.1%	32.2%	-5.2%	12.4%	11.2%			
Gross profit margin	22.5%	24.9%	33.4%	26.3%	25.7%	27.9%	24.3%	30.7%	25.6%	27.1%	27.2%			
SG&A expenses	455	474	478	479	480	485	472	507	455	529	493			
YoY	7.8%	15.3%	23.4%	5.2%	5.6%	2.4%	-1.3%	6.0%	-5.3%	9.2%	4.4%			
SG&A ratio	19.5%	17.5%	18.0%	17.4%	19.9%	19.0%	16.6%	16.3%	19.8%	18.0%	17.5%			
Operating profit	71	198	406	246	141	228	217	451	134	271	273			
YoY	-45.1%	222.8%	130.1%	36.0%	100.1%	14.6%	-46.6%	83.1%	-4.8%	19.2%	25.9%			
Operating profit margin	3.0%	7.3%	15.3%	8.9%	5.8%	8.9%	7.6%	14.5%	5.8%	9.2%	9.7%			
Recurring profit	79	203	407	265	141	219	241	474	129	293	275			
YoY	-38.7%	195.2%	130.9%	32.3%	79.3%	7.9%	-40.7%	78.6%	-8.8%	33.5%	14.3%			
Recurring profit margin	3.4%	7.5%	15.3%	9.6%	5.8%	8.6%	8.5%	15.2%	5.6%	9.9%	9.8%			
Net income	48	157	262	217	91	146	161	364	84	202	185			
YoY	-42.3%	240.7%	140.1%	56.1%	89.6%	-6.9%	-38.4%	67.5%	-8.3%	38.4%	14.7%			
Net margin	2.1%	5.8%	9.9%	7.9%	3.8%	5.7%	5.7%	11.7%	3.6%	6.9%	6.6%			
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	2,337	5,039	7,689	10,443	2,417	4,967	7,805	10,921	2,299	5,248	8,067		73.3%	11,000
YoY	0.7%	7.4%	-1.8%	-1.5%	3.4%	-1.4%	1.5%	4.6%	-4.9%	5.7%	3.4%			0.7%
Gross profit	526	1,198	2,082	2,807	622	1,334	2,023	2,981	589	1,390	2,156			
YoY	-4.6%	17.1%	31.2%	26.3%	18.3%	11.4%	-2.9%	6.2%	-5.2%	4.2%	6.6%			
Gross profit margin	22.5%	23.8%	27.1%	26.9%	25.7%	26.9%	25.9%	27.3%	25.6%	26.5%	26.7%			
SG&A expenses	455	929	1,407	1,885	480	965	1,437	1,944	455	984	1,477			
YoY	7.8%	11.5%	15.3%	12.5%	5.6%	3.9%	2.2%	3.1%	-5.3%	2.0%	2.8%			
SG&A ratio	19.5%	18.4%	18.3%	18.1%	19.9%	19.4%	18.4%	17.8%	19.8%	18.8%	18.3%			
Operating profit	71	269	676	922	141	369	586	1,036	134	406	679		59.0%	1,150
YoY	-45.1%	41.5%	84.2%	68.3%	100.1%	37.1%	-13.3%	12.5%	-4.8%	10.0%	15.9%			11.0%
Operating profit margin	3.0%	5.3%	8.8%	8.8%	5.8%	7.4%	7.5%	9.5%	5.8%	7.7%	8.4%			10.5%
Recurring profit	79	282	688	954	141	360	601	1,075	129	421	696		58.5%	1,190
YoY	-38.7%	43.0%	84.5%	66.2%	79.3%	27.8%	-12.7%	12.7%	-8.8%	17.0%	15.9%			10.7%
Recurring profit margin	3.4%	5.6%	9.0%	9.1%	5.8%	7.2%	7.7%	9.8%	5.6%	8.0%	8.6%			10.8%
Net income	48	205	467	684	91	237	398	762	84	286	471		57.4%	820
YoY	-42.3%	58.4%	95.8%	81.2%	89.6%	15.8%	-14.7%	11.4%	-8.3%	20.5%	18.1%			7.6%
Net margin	2.1%	4.1%	6.1%	6.5%	3.8%	4.8%	5.1%	7.0%	3.6%	5.4%	5.8%			7.5%

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

Results by category

Quarterly (JPYmn)	FY06/19 (parent)				FY06/20 (parent)				FY06/21 (parent)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	2,337	2,702	2,650	2,754	2,417	2,550	2,838	3,115	2,299	2,949	2,819	
System development	-	-	-	-	1,251	1,323	1,808	1,409	1,113	1,324	1,273	
Maintenance	-	-	-	-	301	305	320	320	315	332	345	
In-house packaged products	-	-	-	-	97	82	28	37	144	65	58	
Cloud services	-	-	-	-	178	212	219	219	224	246	232	
Hardware	-	-	-	-	353	327	189	657	208	664	467	
Third party packaged products	-	-	-	-	61	34	53	72	110	130	191	
Security measure products	-	-	-	-	173	267	221	402	181	188	253	
One-time revenue	-	-	-	-	1,935	2,033	2,299	2,577	1,756	2,371	2,242	
Recurring revenue	-	-	-	-	479	517	539	539	539	578	577	
YoY	0.7%	14.0%	-15.5%	-0.8%	3.4%	-5.6%	7.1%	13.1%	-4.9%	15.7%	-0.7%	
System development	-	-	-	-	-	-	-	-	-11.0%	0.1%	-29.6%	
Maintenance	-	-	-	-	-	-	-	-	4.7%	8.9%	7.8%	
In-house packaged products	-	-	-	-	-	-	-	-	48.5%	-20.7%	107.1%	
Cloud services	-	-	-	-	-	-	-	-	25.8%	16.0%	5.9%	
Hardware	-	-	-	-	-	-	-	-	-41.1%	103.1%	147.1%	
Third party packaged products	-	-	-	-	-	-	-	-	80.3%	282.4%	260.4%	
Security measure products	-	-	-	-	-	-	-	-	4.6%	-29.6%	14.5%	
One-time revenue	-	-	-	-	-	-	-	-	-9.3%	16.6%	-2.5%	
Recurring revenue	-	-	-	-	-	-	-	-	12.5%	11.8%	7.1%	
% of sales	-	-	-	-	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
System development	-	-	-	-	51.7%	51.9%	63.7%	45.2%	48.4%	44.9%	45.2%	
Maintenance	-	-	-	-	12.5%	12.0%	11.3%	10.3%	13.7%	11.3%	12.2%	
In-house packaged products	-	-	-	-	4.0%	3.2%	1.0%	1.2%	6.3%	2.2%	2.1%	
Cloud services	-	-	-	-	7.4%	8.3%	7.7%	7.0%	9.7%	8.3%	8.2%	
Hardware	-	-	-	-	14.6%	12.8%	6.7%	21.1%	9.0%	22.5%	16.6%	
Third party packaged products	-	-	-	-	2.5%	1.3%	1.9%	2.3%	4.8%	4.4%	6.8%	
Security measure products	-	-	-	-	7.2%	10.5%	7.8%	12.9%	7.9%	6.4%	9.0%	
One-time revenue	-	-	-	-	80.0%	79.7%	81.0%	82.7%	76.4%	80.4%	79.5%	
Recurring revenue	-	-	-	-	19.8%	20.3%	19.0%	17.3%	23.4%	19.6%	20.5%	
Old categories												
Sales	2,337	2,702	2,650	2,754	2,417	2,550	2,838	3,115	-	-	-	
Financial Systems Solutions	2,140	2,475	2,454	2,269	2,243	2,284	2,617	2,713	-	-	-	
Product Solutions	197	227	196	485	174	266	221	402	-	-	-	
Operating profit	71	198	406	246	141	228	217	451	-	-	-	
Financial Systems Solutions	105	213	431	142	208	286	239	391	-	-	-	
Product Solutions	-34	-14	-25	104	-66	-59	-22	59	-	-	-	
Operating profit margin	3.0%	7.3%	15.3%	8.9%	5.8%	8.9%	7.6%	14.5%	-	-	-	
Financial Systems Solutions	4.9%	8.6%	17.6%	6.3%	9.3%	12.5%	9.1%	14.4%	-	-	-	
Product Solutions	-	-	-	21.4%	-	-	-	14.8%	-	-	-	
Sales breakdown												
Financial Systems Solutions	2,140	2,475	2,454	2,269	2,243	2,284	2,617	2,713	-	-	-	
Software development	1,311	1,480	1,354	1,523	1,251	1,323	1,808	1,409	-	-	-	
Maintenance	268	273	288	295	301	305	320	320	-	-	-	
Hardware	265	485	239	151	353	327	189	657	-	-	-	
In-house packaged software	103	37	343	7	98	81	28	37	-	-	-	
Cloud services	126	159	174	178	178	212	219	219	-	-	-	
Third-party packaged software	64	41	56	93	61	34	53	72	-	-	-	
Product Solutions	197	227	196	485	174	266	221	402	-	-	-	
Software development	15	14	9	34	5	23	18	7	-	-	-	
Maintenance	23	25	84	150	17	27	80	152	-	-	-	
Hardware	1	1	0	80	1	0	0	43	-	-	-	
In-house packaged software	42	71	2	18	49	13	7	20	-	-	-	
Third-party packaged software	115	115	103	201	100	202	117	181	-	-	-	

Source: Shared Research based on company data

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

Note: From FY06/21, IWI has combined its old reporting segments, Financial Systems Solutions and Product Solutions, into a single segment.

Note: The company records sales from categories under which agreements regularly generate sales on a measurable scale as "recurring revenue." In contrast, it records sales obtained through categories under which agreements have unfixed sales values or timing (categories not labeled with "recurring" in the table above) as "one-time revenue."

Quarterly (JPYmn)	FY06/19 (parent)				FY06/20 (parent)				FY06/21 (parent)				FY06/21 (parent)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	2,337	5,039	7,689	10,443	2,417	4,967	7,805	10,921	2,299	5,248	8,067		73.3%	11,000
System development	-	-	-	-	1,251	2,574	4,382	5,791	1,113	2,437	3,710		69.2%	5,362
Maintenance	-	-	-	-	301	606	926	1,246	315	647	992		77.3%	1,284
In-house packaged products	-	-	-	-	97	179	207	244	144	209	267		67.3%	397
Cloud services	-	-	-	-	178	390	609	828	224	470	702		74.7%	940
Hardware	-	-	-	-	353	680	869	1,526	208	872	1,339		89.6%	1,494
Third party packaged products	-	-	-	-	61	95	148	220	110	240	431		101.9%	423
Security measure products	-	-	-	-	173	440	661	1,063	181	369	622		56.5%	1,100
One-time revenue	-	-	-	8,658	1,935	3,968	6,267	8,844	1,756	4,127	6,369		72.6%	8,776
Recurring revenue	-	-	-	1,761	479	996	1,535	2,074	539	1,117	1,694		76.2%	2,224
YoY	0.7%	7.4%	-1.8%	-1.5%	3.4%	-1.4%	1.5%	4.6%	-4.9%	5.7%	3.4%		-	0.7%
System development	-	-	-	-	-	-	-	-	-11.0%	-5.3%	-15.3%		-	-7.4%
Maintenance	-	-	-	-	-	-	-	-	4.7%	6.8%	7.1%		-	3.0%
In-house packaged products	-	-	-	-	-	-	-	-	48.5%	16.8%	29.0%		-	62.7%
Cloud services	-	-	-	-	-	-	-	-	25.8%	20.5%	15.3%		-	13.5%
Hardware	-	-	-	-	-	-	-	-	-41.1%	28.2%	54.1%		-	-2.1%
Third party packaged products	-	-	-	-	-	-	-	-	80.3%	152.6%	191.2%		-	92.3%
Security measure products	-	-	-	-	-	-	-	-	4.6%	-16.1%	-5.9%		-	3.5%
One-time revenue	-	-	-	-5.4%	-	-	-	2.1%	-9.3%	4.0%	1.6%		-	-0.8%
Recurring revenue	-	-	-	23.4%	-	-	-	17.8%	12.5%	12.1%	10.4%		-	7.2%
% of sales	-	-	-	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		-	100.0%
System development	-	-	-	-	51.7%	51.8%	56.1%	53.0%	48.4%	46.4%	46.0%		-	48.7%
Maintenance	-	-	-	-	12.5%	12.2%	11.9%	11.4%	13.7%	12.3%	12.3%		-	11.7%
In-house packaged products	-	-	-	-	4.0%	3.6%	2.7%	2.2%	6.3%	4.0%	3.3%		-	3.6%
Cloud services	-	-	-	-	7.4%	7.9%	7.8%	7.6%	9.7%	9.0%	8.7%		-	8.5%
Hardware	-	-	-	-	14.6%	13.7%	11.1%	14.0%	9.0%	16.6%	16.6%		-	13.6%
Third party packaged products	-	-	-	-	2.5%	1.9%	1.9%	2.0%	4.8%	4.6%	5.3%		-	3.8%
Security measure products	-	-	-	-	7.2%	8.9%	8.5%	9.7%	7.9%	7.0%	7.7%		-	10.0%
One-time revenue	-	-	-	82.9%	80.0%	79.9%	80.3%	81.0%	76.4%	78.6%	79.0%		-	79.8%
Recurring revenue	-	-	-	16.9%	19.8%	20.1%	19.7%	19.0%	23.4%	21.3%	21.0%		-	20.2%
Old categories														
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	2,337	5,039	7,689	10,443	2,417	4,967	7,805	10,921	-	-	-	-		
Financial Systems Solutions	2,140	4,615	7,068	9,337	2,243	4,527	7,144	9,858	-	-	-	-		
Product Solutions	197	425	621	1,106	174	440	661	1,063	-	-	-	-		
Operating profit	71	269	676	922	141	369	586	1,036	-	-	-	-		
Financial Systems Solutions	105	317	748	890	208	494	733	1,124	-	-	-	-		
Product Solutions	-34	-48	-73	31	-66	-125	-147	-88	-	-	-	-		
Operating profit margin	3.0%	5.3%	8.8%	8.8%	5.8%	7.4%	7.5%	9.5%	-	-	-	-		
Financial Systems Solutions	4.9%	6.9%	10.6%	9.5%	9.3%	10.9%	10.3%	11.4%	-	-	-	-		
Product Solutions	-	-	-	2.8%	-	-	-	-	-	-	-	-		
Sales breakdown														
Financial Systems Solutions	2,140	4,615	7,068	9,337	2,243	4,527	7,144	9,858	-	-	-	-		
Software development	1,311	2,791	4,145	5,668	1,251	2,574	4,382	5,791	-	-	-	-		
Maintenance	268	541	829	1,124	301	606	926	1,246	-	-	-	-		
Hardware	265	750	989	1,140	353	680	869	1,526	-	-	-	-		
In-house packaged software	103	140	483	490	98	179	207	244	-	-	-	-		
Cloud services	126	285	459	637	178	390	609	828	-	-	-	-		
Third-party packaged software	64	105	161	254	61	95	148	220	-	-	-	-		
Product Solutions	197	425	621	1,106	174	440	661	1,063	-	-	-	-		
Software development	15	29	38	72	5	28	46	53	-	-	-	-		
Maintenance	23	48	132	282	17	44	124	276	-	-	-	-		
Hardware	1	2	2	82	1	1	1	44	-	-	-	-		
In-house packaged software	42	113	115	133	49	62	69	89	-	-	-	-		
Third-party packaged software	115	230	333	534	100	302	419	600	-	-	-	-		

Source: Shared Research based on company data

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

Note: From FY06/21, IWI has combined its old reporting segments, Financial Systems Solutions and Product Solutions, into a single segment.

Note: The company records sales from categories under which agreements regularly generate sales on a measurable scale as "recurring revenue." In contrast, it records sales obtained through categories under which agreements have unfixed sales values or timing (categories not labeled with "recurring" in the table above) as "one-time revenue."

Q3 FY06/21 results (out May 6, 2021)

Summary

- ▷ In cumulative Q3 FY06/21, the company reported sales of JPY8.1bn (+3.4% YoY), operating profit of JPY679mn (+15.9% YoY), recurring profit of JPY696mn (+15.9% YoY), and net income of JPY471mn (+18.1% YoY).
- ▷ Progress versus plan: The cumulative Q3 results gave the company 73.3% of its full-year target for sales (versus 71.5% of full-year FY06/20 results in cumulative Q3 FY06/20), 59.0% for operating profit (56.5%), 58.5% for recurring profit (55.9%), and 57.4% for net income (52.3%).
- ▷ Full-year company forecast: The company made no changes to its forecast. In Q4, there is a possibility IWI will have to book some sales later than expected due to client circumstances in light of the COVID-19 pandemic, but it does not expect this to have a substantial impact on its full-year results.
- ▷ Sales rose 3.4% YoY: Sales were JPY3.7bn (-15.3% YoY) for system development, JPY992mn (+7.1% YoY) for maintenance, JPY267mn (+29.0%) YoY for in-house packaged products, JPY702mn (+15.3% YoY) for cloud services, JPY1.3bn (+54.1% YoY) for hardware, JPY431mn (+191.2% YoY) for third-party packaged products, and JPY622mn (-5.9% YoY) for security measure products.
- ▷ The company conducted system development work to update FEP and fraud detection systems for major credit card companies and system vendors and add features to existing systems. It also sold hardware, with sales up YoY due to sales of servers and other equipment used in system development projects and the replacement of certain types of servers. Sales of third-party packaged products used in development projects for new customers also rose YoY. The cloud services business reported higher sales YoY as planned. Although system development sales declined YoY, this was offset by sales growth of hardware and other products. In the data security business, sales of third-party packaged products were weak, resulting in a YoY drop in sales.
- ▷ Operating profit rose 15.9% YoY: Sales in the financial industry business were JPY7.4bn (+4.2% YoY). Sales of hardware and third-party packaged products increased YoY, but system development sales declined. As a result, operating profit for the business was JPY740mn (broadly flat at +1.1% YoY). Sales in the data security business declined YoY, but expenses fell, so the profit position of the business improved. As a result of these developments, overall operating profit grew YoY. The gross profit margin improved 0.8pp YoY to 26.7% and the SG&A ratio fell 0.1pp YoY to 18.3%. The operating profit margin rose 0.9pp YoY to 8.4%.
- ▷ Order backlog: The order backlog for the cloud services business declined YoY as the company received fewer orders. The order backlog for the data security business also fell below the level of the previous year. On the other hand, the order backlogs for hardware sales, third-party packaged products sales, and system development in the financial industry business increased. As a result, the overall order backlog rose YoY.

Segment consolidation

From FY06/21, IWI has combined its two reporting segments, Financial Systems Solutions and Product Solutions, into a single segment.

The aim is to facilitate further growth by strengthening the base to drive marketing and product development in the two businesses. Customer information that was previously managed separately will be shared to improve marketing activities. The company will also improve systems for developing security technology and work to develop new products and services. It changed its organizational structure as of July 1, 2020, and the reporting segment changes came into effect on that date accompanying changes to the business management structure.

Business activities

IWI primarily develops front end processing (FEP) systems that provide network connection, card usage authentication, and other functions necessary to complete credit card payment processing for its customers, mainly credit card companies. When it develops a new FEP system, the company may, for example, receive sales revenue under the in-house packaged products category from selling its proprietary product NET+1, which is the core of the system; system development sales as the company's engineers customize the package to suit the customer's requirements; hardware sales from selling the servers which have the software the company has developed installed; and sales from maintenance of the systems, which comprise software and hardware. The company also sells products to prevent internal data leaks for companies (in-house packaged products) and third-party cybersecurity products (third-party packaged products).

External operating environment

The Japanese economic situation in Q3 remained difficult due to COVID-19. The company says although the economy as a whole appears to be improving, the pace of recovery is sluggish and the outlook for corporate and consumer growth prospects remains uncertain. According to the company, private demand for face-to-face services continues to decline. The volume of credit card shopping transactions for major credit card companies has remained below year-earlier levels since January 2021.

There has been no significant impact on the company's performance as of end-Q3, but if circumstances in the credit card industry, which is primarily where IWI operates, start to affect the capex plans of individual credit card companies, there might be an impact on the company's FY06/21 forecast and medium-term plan.

The company is responsible for the development and operation of systems that provide indispensable card-payment functions. It understands its societal duty, and runs its business with the appropriate and necessary equipment and systems in place to maintain operations. To prevent the spread of COVID-19, the company is closely watching the health of its employees, has work-from-home and staggered work hour arrangements, and has limited domestic and international business trips.

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

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