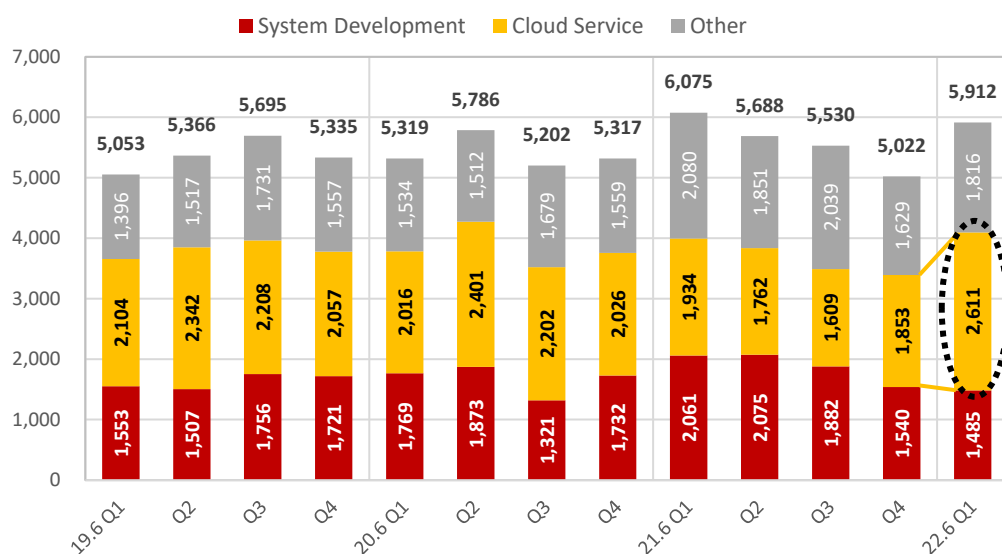


Cloud services business is taking off Enterprise customers are driving strong order growth

SUMMARY

- IWI announced 22.6 Q1 financial results at 15:30 on Thursday 11/04, and it held an in-person results briefing at 09:00 on Monday 11/08 for the first time in a year. Q1 headline numbers were net sales -2.0% YoY, OP -5.7% YoY and OPM down slightly from 5.8% → 5.6%. 1Q progress ratios were slightly behind 5Y averages. The sales decline was mainly due to hardware sales, and OP decline due to higher SG&A from increased advertising expenses. However, these headline numbers distract from huge progress made in cloud services business.
- 22.6 1Q cloud services orders of ¥1,000mn rose 7.5x YoY and 2.1x QoQ, boosting cloud services backlogs to ¥2,611mn (+40.9% QoQ). This already gives visibility on 23.6 FY cloud services net sales of ¥1.6bn versus MTP target ¥2.0bn. While regional banks remain important future prospective clients, it is enterprise customers who are rolling out new credit card business. Two orders for IOASIS proprietary solution for merchant acquiring in Q1 were from a major telecom carrier and financing subsidiary of a major global manufacturer. Strong orders are continuing in the 2Q, with potential to post another record quarter.
- The ratio of foreign shareholders dropped 55% from 4.84% at the end of June 2020 to 2.19% at the end of June 2021 likely due to concerns over not meeting Prime Market listing maintenance criteria for tradable market cap (free float) > ¥10bn. Confusion over listing on the Prime Market and the subsequent collapse of volume has put valuations at extremely compelling levels just as profits are beginning to take off. The P/E is now on a 34% discount to its historical average, and EV/EBITDA is at a 40% discount. The dividend yield is now 52% above its historical average.

1Q cloud services backlogs rose +40.9% QoQ, posting a record quarterly high



Source: compiled by Sessa Partners from company IR results briefing materials.

1Q Follow-up



INTELLIGENT WAVE INC.

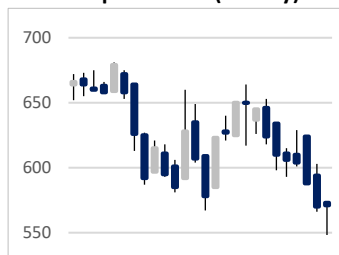
Focus Points:

Systems integrator boasting an overwhelming share with credit card companies in FEP systems development for nonstop secure datacenter connection packages.

Key Indicators

Share price (11/16)	567
YH (21/2/3)	752
YL (21/11/11)	538
10YH (18/10/24)	1,180
10YL (12/11/9)	163.8
Shrs out. (mn shrs)	26.34
Mkt cap (¥ bn)	15.04
EV (¥ bn)	10.73
Shr equity ratio	67.7%
22.6 P/E (CE)	16.0x
22.6 EV/EBITDA (CE)	5.2x
21.6 P/B (act)	2.10x
21.6 ROE (act)	11.6%
22.6 DY (CE)	2.45%

6M price chart (weekly)



Source: SPEEDA

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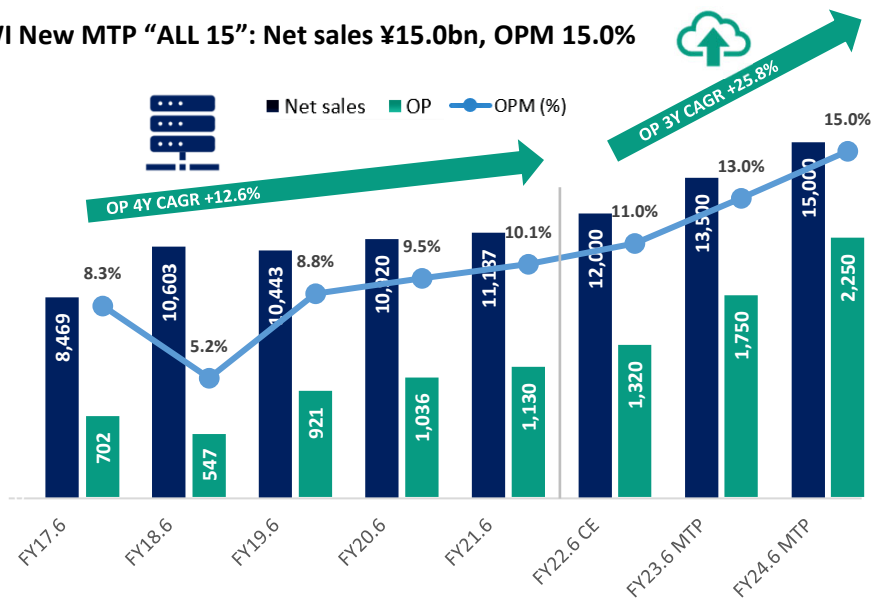
This report was prepared by Sessa Partners on behalf of INTELLIGENT WAVE INC. Please refer to the legal disclaimer at the end for details.



Taking off

OP 3Y CAGR +25.8%
OPM 10.1% → 15.0%

IWI New MTP "ALL 15": Net sales ¥15.0bn, OPM 15.0%

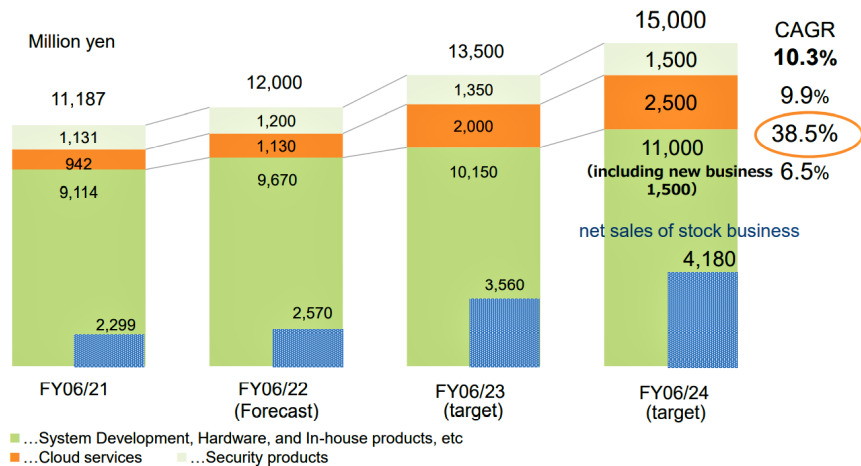


Source: compiled by Sessa Partners from TANSHIN financial statements and company IR results briefing materials.



Shift to hybrid model of FEP + ASP cloud services stock recurring revenues

Cloud services growth is driving the rapid improvement in IWI's profitability

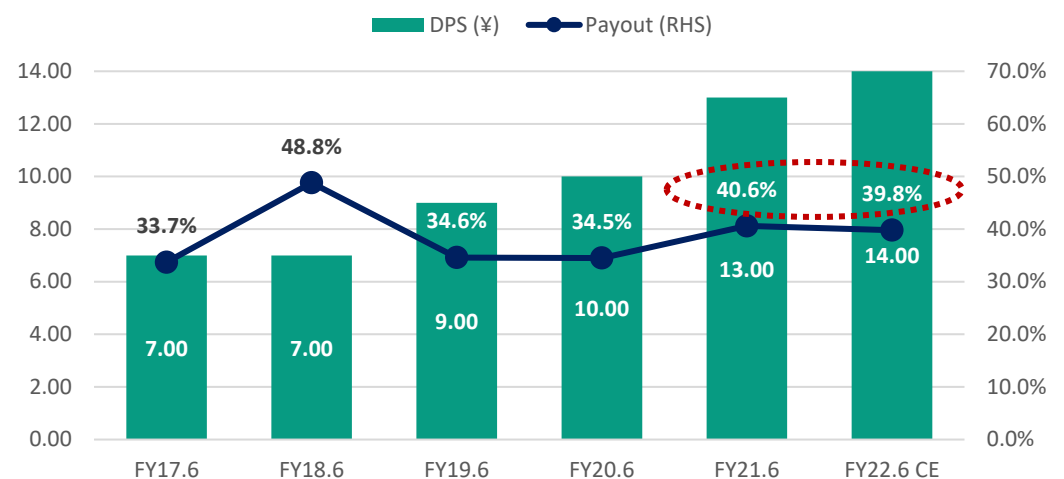


Source: excerpted from 1Q FY6/22 IR results briefing materials.



★ Hiking target dividend payout from 30% → 40%

Trend of IWI Annual Dividends and Payout Ratio



Source: compiled by Sessa Partners from TANSHIN financial statements.

1Q Review:

Content over headline nos.

At first glance, net sales of -2.0% YoY and OP -5.7% YoY appear weak, as do their respective progress ratios relative to full-term guidance below 5Y averages (see table on the right).

However, that overlooks the strong progress actually achieved. First and foremost, the company had flagged at the 4Q results briefing the likelihood of weak 1Q headline figures, and **actual results were spot inline with budget**. Second, 5Y averages show 1Q progress ratios for net sales of 21.4% and OP 11.8%, which indicates **1Q does not make a significant impact on full-term performance**.

Net sales decreased by ¥47mn (-2.0%) and OP decreased by ¥8mn (-5.7%). As a result, OPM declined slightly from 5.8% → 5.6%.

Positive factors were system development sales increased by ¥57mn (+5.1%) and the GP loss for cloud services shrunk by ¥19mn (-51.4%). Negative factors were hardware sales decreased by ¥129mn (-62.0%) and SG&A increased by ¥39mn (+8.5%) due to an increase in advertising expenses.

★ **Noteworthy achievement was 22.6 1Q cloud services orders of ¥1,000mn rose 7.5x YoY and 2.1x QoQ, boosting cloud services backlogs to ¥2,611mn (+40.9% QoQ). This already gives visibility on 23.6 cloud services net sales of ¥1.6bn versus MTP target ¥2.0bn.**

IWI Summary of 22.6 Q1 Non-consolidated Results

JPY mn, %	Net sales	YoY	Oper inc.	YoY	Ord. inc.	YoY	Net inc.	YoY
18.6 FY	10,604	25.2	548	(22.0)	574	(25.1)	377	(31.0)
19.6 FY	10,443	(1.5)	922	68.3	954	66.2	684	81.2
20.6 FY	10,921	4.6	1,036	12.5	1,075	12.7	762	11.4
21.6 FY	11,188	2.4	1,131	9.1	1,171	9.0	841	10.4
22.6 FYe	12,000	7.3	1,320	16.8	1,360	16.1	940	11.8
18.6 Q1	2,322	40.4	129	239.6	128	243.1	83	313.8
18.6 Q2	2,371	10.8	61	(70.7)	69	(71.0)	46	(73.2)
18.6 Q3	3,136	38.6	177	(35.7)	176	(39.1)	109	(49.2)
18.6 Q4	2,775	15.0	181	0.5	201	(1.0)	139	(1.2)
19.6 Q1	2,337	0.7	71	(45.1)	79	(38.7)	48	(42.3)
19.6 Q2	2,702	14.0	198	222.8	203	195.2	157	240.7
19.6 Q3	2,650	(15.5)	406	130.1	407	130.9	262	140.1
19.6 Q4	2,754	(0.8)	246	36.0	265	32.3	217	56.1
20.6 Q1	2,417	3.4	141	100.1	141	79.3	91	89.6
20.6 Q2	2,550	(5.6)	228	14.6	219	7.9	146	(6.9)
20.6 Q3	2,838	7.1	217	(46.6)	241	(40.7)	161	(38.4)
20.6 Q4	3,115	13.1	451	83.1	474	78.6	364	67.5
21.6 Q1	2,299	(4.9)	134	(4.8)	129	(8.8)	84	(8.3)
21.6 Q2	2,949	15.7	271	19.2	293	33.5	202	38.4
21.6 Q3	2,819	(0.7)	273	25.9	275	14.3	185	14.7
21.6 Q4	3,121	0.2	452	0.3	475	0.2	370	1.8
22.6 Q1	2,252	(2.0)	127	(5.7)	125	(2.8)	83	(0.9)
22.6 Q2e	2,748	(6.8)	283	4.5	305	4.3	217	7.5

progress ratios

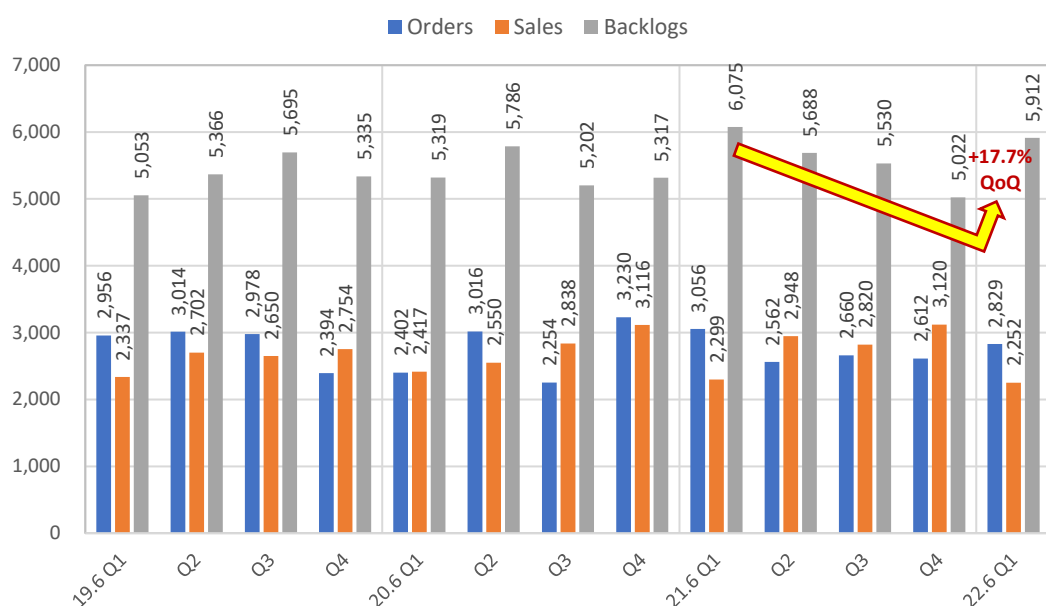
Q1 5Y AVG	21.4%	11.8%	11.3%	10.2%
22.6 Q1	18.8%	9.6%	9.2%	8.8%

profit margins

Q1 5Y AVG	—	4.6%	4.7%	3.0%
22.6 Q1	—	5.6%	5.5%	3.7%

Source: compiled by Sessa Partners from TANSHIN financial statements.

Backlogs rebound sharply after 3 consecutive quarters of declines



Source: compiled by Sessa Partners from IR quarterly results briefing materials.

IWI Sales by Product/Service Category

JPY mn, %	Flow/ stock	21.6 Q1 act	CHG AMT	21.6 Q2 act	CHG AMT	21.6 Q3 act	CHG AMT	21.6 Q4 act	CHG AMT	22.6 Q1 act	CHG AMT
Net sales		2,298	(119)	2,949	399	2,820	(18)	3,120	5	2,251	(47)
• System software development	flow	1,113	(138)	1,324	1	1,273	(535)	1,562	153	1,170	57
• Software maintenance	stock	315	14	332	27	345	25	365	45	360	45
• In-house package software	flow	144	47	65	(17)	58	30	68	31	131	(13)
• Cloud service	stock	224	46	246	34	232	13	240	21	243	19
• Hardware	flow	208	(145)	664	337	467	278	299	(358)	79	(129)
• Third party package software	flow	110	49	130	96	191	138	78	6	69	(41)
• Security products	flow	181	8	188	(79)	253	32	509	107	198	17

Source: compiled by Sessa Partners from IR results briefing materials.

Sales by Top 3 Customers

JPY mn	21.6 Q1	22.6 Q1	CHG	Main projects
① DNP	423	346	(77)	TSP system (smartphone payment), system operations (24/365), payment platform
② System dev. co. (SI)	297	309	12	Disaster recovery system for FEP and fraud detection
③ Credit card issuer	181	110	(71)	Development and hardware sales for FEP replacement

Source: compiled by Sessa Partners from IR results briefing materials.

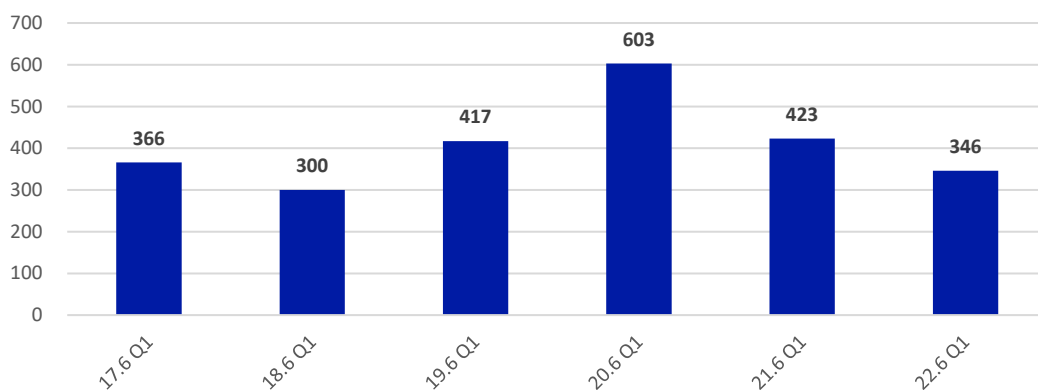
DNP

Sales declined mainly due to hardware

According to the Company, hardware for mainstay FEP on-premise systems is replaced on average every 5 years. 20.6 4Q hardware sales of ¥657mn, followed by 21.6 2Q ¥664mn, were boosted by replacement demand.

Another point weighing on sales is the lack of major projects at parent DNP after completion of a major smartphone payment platform. DNP is currently contributing to helping new business using IWI OT technology for smart factories started up (see P7 for details).

Trend of DNP Q1 Sales (JPY mn)



Source: compiled by Sessa Partners from IR results briefing materials.

IWI Quarterly Trend of Orders, Sales and Backlogs

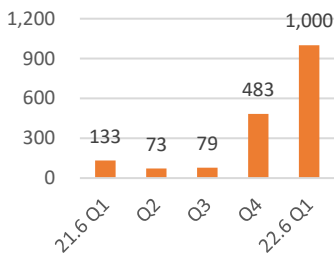
JPY mn, %	Orders	YoY	Sales	YoY	Backlogs	QoQ
20.6 Q1	2,402	(18.7)	2,417	3.4	5,319	(0.3)
Q2	3,016	0.1	2,550	(5.6)	5,786	8.8
Q3	2,254	(24.3)	2,838	7.1	5,202	(10.1)
Q4	3,230	34.9	3,116	13.1	5,317	2.2
21.6 Q1	3,056	27.2	2,299	(4.9)	6,075	14.3
Q2	2,562	(15.1)	2,948	15.6	5,688	(6.4)
Q3	2,660	18.0	2,820	(0.6)	5,530	(2.8)
Q4	2,612	(19.1)	3,120	0.1	5,022	(9.2)
22.6 Q1	2,829	(7.4)	2,252	(2.0)	5,912	17.7

Source: compiled by Sessa Partners from IR results briefing materials.

Enterprise customers are driving high growth

According to the Japanese Bankers Association (JBA), as of December 2019, there are 64 regional banks, and 39 type-2 regional banks, for a total of 103. Given the smaller scale relative to the megabanks, the initial investment burden for installing their own FEP switching system is a potential barrier, offering an attractive target group. HOWEVER, regional bank projects to issue credit cards have been pushed out. It is enterprise clients who are coming forward, attracted to IOASIS cloud service for merchant acquiring, which is the only one of its kind available. **Two orders for IOASIS in Q1 were from a major telecom carrier and financing subsidiary of a major global manufacturer.**

Trend of cloud services orders



Strong orders are continuing in the 2Q, with potential to post another record quarter

Orders this term will begin sales from the 4Q onward (slightly lower profit due to related depreciation).



Cloud Functionality Service

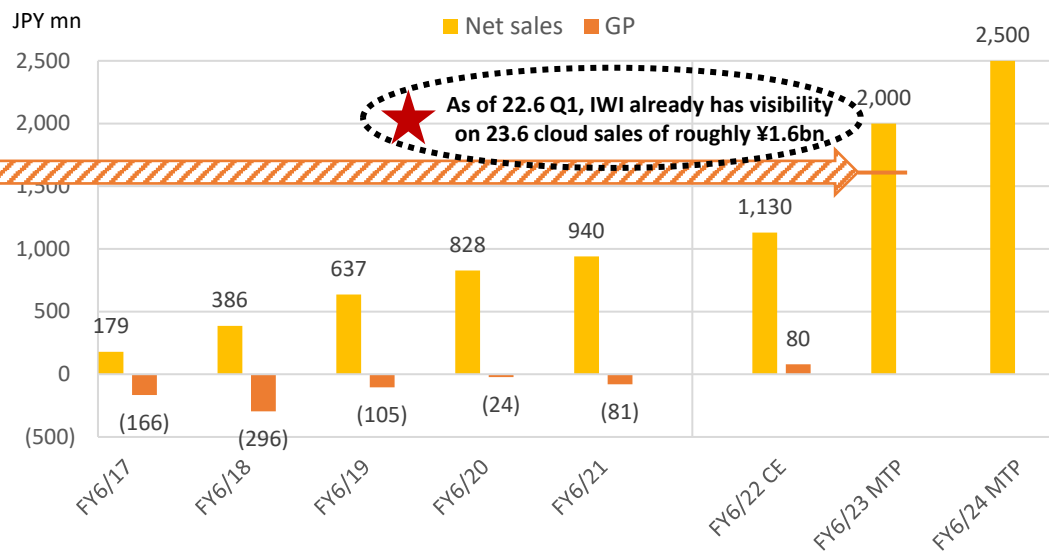
- IPRETS:** Point rebate system
- IGATES:** Switching, gateway
- IFINDS:** Card fraud detection
- IOASIS:** Merchant acquiring

IWI Quarterly Trend of Backlogs by Category

JPY mn, %	System Devpt.	QoQ	Cloud Service	QoQ	Other	QoQ
20.6 Q1	1,769	2.8	2,016	(2.0)	1,534	(1.5)
Q2	1,873	5.9	2,401	19.1	1,512	(1.4)
Q3	1,321	(29.5)	2,202	(8.3)	1,679	11.0
Q4	1,732	31.1	2,026	(8.0)	1,559	(7.1)
21.6 Q1	2,061	19.0	1,934	(4.5)	2,080	33.4
Q2	2,075	0.7	1,762	(8.9)	1,851	(11.0)
Q3	1,882	(9.3)	1,609	(8.7)	2,039	10.2
Q4	1,540	(18.2)	1,853	15.2	1,629	(20.1)
22.6 Q1	1,485	(3.6)	2,611	40.9	1,816	11.5

Source: compiled by Sessa Partners from IR results briefing materials.

Focus initiative: shifting to a hybrid FEP + cloud services recurring stock revenue model



Source: compiled by Sessa Partners from IR results briefing materials

FY6/21: Higher costs from upfront investment. FY6/22: expecting 5 new clients

JPY mn	FY6/17	FY6/18	FY6/19	FY6/20	FY6/21	FY6/22 CE
Net sales	179	386	637	828	942	1,130
GP (loss)	(166)	(296)	(105)	(24)	(81)	80

No. clients	FY6/17	FY6/18	FY6/19	FY6/20	FY6/21	FY6/22 CE
IPRETS	0	0	0	0	1	1
IGATES	0	1	2	2	4	5
IFINDS	0	1	3	3	3	3
IOASIS	3	4	4	5	5	9

by quarter		1Q	2Q	3Q	4Q	FY	
FY6/21 A	Net sales	224	246	232	239	942	
FY6/21 A	GP (loss)	1Q a (37)	(12)	(28)	(3)	(81)	
FY6/22 CE	Net sales	243	240	248	343	1,130	
FY6/22 CE	GP (loss)	(19)	(18)	18	46	33	80

Source: compiled by Sessa Partners from IR results briefing materials.



IGATES: Gateway/Switching

ASP cloud service that inherits payment network connectivity/switching function of flagship NET+1 (for online authorization, clearing, switching to destination networks). 24/7 operation that facilitates central management of secure connection support to multiple payment networks such as Visa (EAS), Mastercard (MIP), CAFIS, JCN, as well as ATM network, direct connection with issuers and internet connection for smartphone payment. Benefits of introduction relative to a separate on-premise FEP system include:

- Reduction of initial costs
- Reduction of client systems operation load for monitoring
- Peace of mind for maintaining operations w/o holding assets

IFINDS: Card Fraud Detection

ASP cloud service that inherits fraud detection function for unauthorized card use of flagship ACE Plus. Real-time checking of domestic and overseas credit requests based on pre-set rules and scoring functions (please refer to the diagram on P14 for features overview). Same benefits of introduction as IGATES.

IOASIS: Merchant Acquiring

ASP cloud service that provides core systems for rapid startup of acquiring operations such as external connection with international brands and cashless payment companies, authorization, and management of payment at affiliate merchant stores. Compatible with both Visa and Mastercard, it is PCI-DSS compliant, built in a robust datacenter and supports 24/7 operation. Benefits of introduction relative to a separate on-premise FEP system include:

- Reduction of initial costs
- Shorter time period until launching service
- Peace of mind for maintaining operations w/o holding assets

Priority initiative on porting flagship FEP applications to ASP cloud services

One of the unavoidable characteristics of system integrator business is a certain amount of order volatility due to macroeconomic impacts on client capex. A focus initiative is switching to a recurring (stock) revenue model for cloud services. As startup costs disappear and revenue gains critical mass, this business is set to turn profitable. Descriptions of the three main cloud service applications are shown on the left, with **IOASIS for merchant acquiring being the only one of its kind available**. The exhibits on the following page highlight that this business is now moving to a new stage after achieving critical mass, forecasting gross profit to turn profitable in the 2Q, with new clients for IGATES (+1) and IOASIS (+4) expected this term.

Flagship on-premise FEP infrastructure solutions for credit card authorization



Recurring fee-based ASP cloud solutions for credit card-related business



Source: IWI website – SERVICE/PRODUCTS. Photos licensed from Adobe Stock.



New MTP “15 ALL”



Yleisradio Oy, Finnish Broadcasting Company

★ Developing a solution to monitor and control a network in a whole broadcasting master system, “SmartOrchestrator (tentative name).”

Scheduled to be unveiled at a trade show in November.

New 3-year Rolling MTP “15 ALL” Key Initiatives

The new rolling MTP announced together with 21.6 Q4 financial results is targeting 3-year net sales CAGR of +10.3%, and 3-year OP CAGR of +25.8%. “15 ALL” refers to FY6/24 target net sales ¥15.0bn and OPM 15.0%.

① Hybrid IT infrastructure in mainstay payment business market

The benefit to prospective cloud service clients is an affordable scheme to lease the service, fixing the running costs including maintenance, with much shorter installation times and without the burden of adding to fixed assets. (please see P6: hybrid = on-premise flagship FEP + ASP cloud services).

② Expansion of business domain

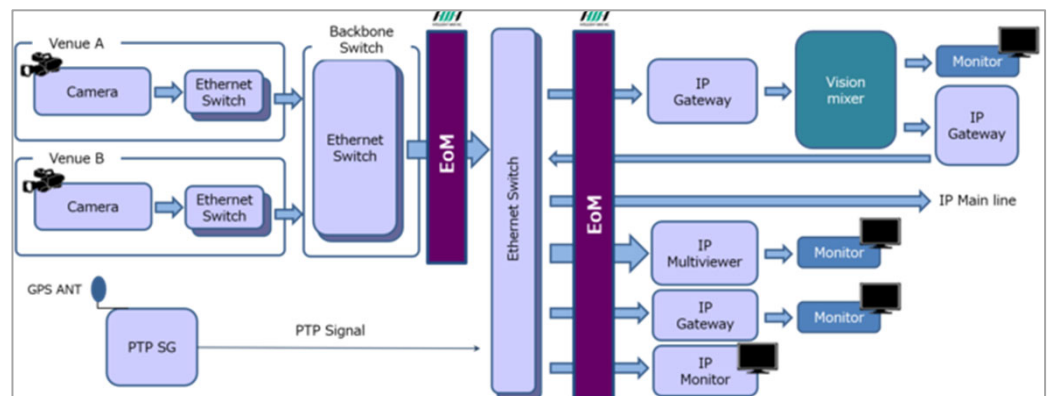
Promotion of DX (digital transformation) leads many industries worldwide to requiring real-time and high-speed bulk data processing. IWI is expanding domestic EoM users (see explanation below) such as TV Asahi, JDS, QVC Japan, and the company won an order from Finland’s public broadcaster Yle, confirming business viability overseas. New business R&D is also examining potential solutions for connected cars and medical IoT devices, etc.

③ DNP Group Synergies

Operational Technology (OT) is hardware and software that detects or causes a change through the direct monitoring and/or control of physical devices, processes and events in the enterprise. Promote business synergy for DNP’s assets and IWI’s technology, starting with OT security for “smart factories” (DNP’s own plants, then client facilities).

EoM IP Flow Monitoring Solution for Broadcasting

In addition to cloud services, another promising new business area for the company is leveraging its experience and know-how in FPGA’s (Field Programmable Gate Arrays) to develop an EoM hardware/software solution for **broadcasting**. A big shift towards IP transmission is taking place as transferred data gets bigger with the spread of 4K/8K broadcasting. EoM monitors latency, jitter and packet drop rate to preserve broadcast data quality. This uses a low latency L1 switch with FPGA made by Arista Networks. **EoM visualizes and monitors the communication status of IP flows between bases in real time.** It achieves high-speed processing of large amounts of data by utilizing hardware with FPGAs, drawing on IWI’s strengths in network communications technology.



Source: IR results briefing materials

INTELLIGENT WAVE INC. Earnings Highlights at a Glance

[J-GAAP] JPY mn, %	FY6/15 Consol act	FY6/16 Consol act	FY6/17 NC act	FY6/18 NC act	FY6/19 NC act	FY6/20 NC act	FY6/21 NC act	FY6/22 NC init CE
Net sales	6,160	7,206						
Net sales (non-consol)	6,160	7,205	8,469	10,603	10,443	10,920	11,187	12,000
YoY	(6.1)	17.0	17.5	25.2	(1.5)	4.6	2.4	7.3
by product/service category								
Financial Systems Solutions	5,555	6,386	7,447	9,332	9,336	9,857		
• Software development	3,252	4,016	4,835	6,439	5,668	5,791		
• Software maintenance	835	824	919	1,041	1,124	1,246		
• Hardware	949	793	974	923	1,140	1,526		
• In-house package software	247	308	262	242	512	244		
• Cloud service	—	—	179	386	637	828		
• Third party package software	270	443	277	299	254	220		
Product Solutions	604	820	1,022	1,271	1,106	1,063		
• Software development	47	52	62	89	72	53		
• Software maintenance	255	236	253	212	282	276		
• Hardware	13	9	46	365	82	44		
• In-house package software	74	136	122	58	133	89		
• Third party package software	214	385	537	545	534	600		
Net sales (non-consol)*						10,920	11,187	12,000
• Software development						5,791	5,272	5,850
• Software maintenance						1,246	1,357	1,440
• Hardware						1,526	1,638	1,730
• In-house package software						244	335	400
• Cloud service						828	942	1,130
• Third party package software						220	509	250
• Security products						1,063	1,131	1,200
Gross profit	1,779	1,993	2,132	2,223	2,807	2,981	3,157	—
GPM	28.9%	27.7%	25.2%	21.0%	26.9%	27.3%	28.2%	—
SG&A expenses	1,295	1,279	1,430	1,675	1,885	1,944	2,026	—
Ratio to sales	21.0%	17.7%	16.9%	15.8%	18.1%	17.8%	18.1%	—
Depreciation	255	213	337	485	707	605	751	750
EBITDA	739	927	1,039	1,032	1,628	1,641	1,881	2,070
EBITDA margin	12.0%	12.9%	12.3%	9.7%	15.6%	15.0%	16.8%	17.3%
Operating profit	484	714						
Operating profit (non-consol)	488	731	702	547	921	1,036	1,130	1,320
OPM	7.9%	9.9%	8.3%	5.2%	8.8%	9.5%	10.1%	11.0%
YoY	232.8	47.5	(4.0)	(22.0)	68.3	12.5	9.1	16.8
by reporting segment								
Financial Systems Solutions	632	670	651	598	890	1,123		
OPM	11.4%	10.5%	8.7%	6.4%	9.5%	11.4%		
YoY	—	6.0	(2.8)	(8.1)	48.8	26.2		
Product Solutions	(148)	43	51	(51)	31	(87)		
OPM	-24.5%	5.2%	5.0%	-4.0%	2.8%	-8.2%		
YoY	—	TB	18.6	TR	TB	TR		
Ordinary profit	490	730						
Ordinary profit (non-consol)	492	750	766	574	954	1,074	1,171	1,360
Profit ATOP	471	478						
Net income (non-consol)	399	513	547	377	684	762	840	940
Ratio to sales	7.6%	6.6%	6.5%	3.6%	6.5%	7.0%	7.5%	7.8%
YoY	443.2	1.6	6.6	(31.0)	81.2	11.4	10.4	11.8
EPS (¥)	17.89	18.18	20.78	14.36	25.99	29.00	31.98	35.76
DPS (¥)	5.00	6.00	7.00	7.00	9.00	10.00	13.00	14.00
BPS (¥)	183.55	192.21	214.51	217.18	242.23	265.55	287.85	—

Source: compiled by Sessa Partners from TANSBIN financial statements and company results briefing slides

Note: IWV liquidated its Korea subsidiary in June 2016, with accounts becoming non-consolidated from FY6/17.

*Change of reporting segments in FY6/21 to only one segment.

INTELLIGENT WAVE INC. Other Key Financial indicators

JPY mn, %	FY6/15 Consol act	FY6/16 Consol act	FY6/17 NC act	FY6/18 NC act	FY6/19 NC act	FY6/20 NC act	FY6/21 NC act	6.22 Q1 NC act
Cash and deposits	2,957	2,852	2,578	2,839	3,254	3,641	4,307	4,099
Interest bearing debt	0	0	0	0	0	0	0	0
Net cash (net debt)	2,957	2,852	2,578	2,839	3,254	3,641	4,307	4,099
Total shareholders' equity	4,563	4,910	5,222	5,408	5,908	6,433	7,011	6,617
Accumulated other comp. inc.	271	152	—	—	—	—	—	—
Valuation & translation adj.	—	—	425	306	464	549	556	526
Total net assets	4,834	5,062	5,647	5,715	6,372	6,983	7,567	7,143
Total assets	6,481	7,026	8,508	8,837	10,032	10,552	11,140	10,548
Equity ratio (%)	74.6	72.1	66.4	64.7	63.5	66.2	67.9	67.7
ROE (%)	10.1	9.7	10.3	6.6	11.3	11.4	11.6	—
Amount dividends paid	131	158	184	184	236	262	341	—
Payout ratio (%)	28.0	33.0	33.7	48.8	34.6	34.5	40.6	—
DOE (%)	2.8	3.2	3.5	3.2	3.9	3.9	4.7	—

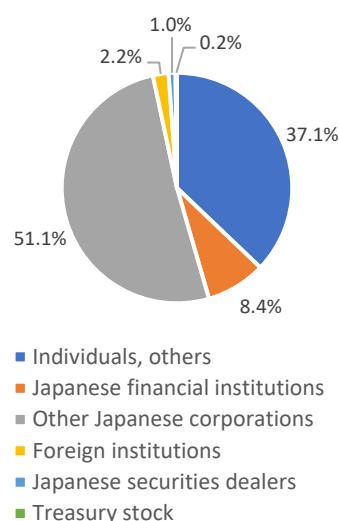
Source: compiled by Sessa Partners from TANSHIN financial statements.

Well-balanced Growth in Shareholders' Equity and Amount Dividends Paid

JPY mn, %	FY6/15 Consol act	FY6/16 Consol act	FY6/17 NC act	FY6/18 NC act	FY6/19 NC act	FY6/20 NC act	FY6/21 NC act	5YR CAGR (avg)
DPS (¥)	5.00	6.00	7.00	7.00	9.00	10.00	13.00	
Payout ratio (%)	28.0	33.0	33.7	48.8	34.6	34.5	40.6	
Total shareholders' equity	4,563	4,910	5,222	5,408	5,908	6,433	7,011	7.4%
YoY	8.1	7.6	6.4	3.6	9.2	8.9	9.0	
Amount dividends paid	131	158	184	184	236	262	341	16.6%
YoY	0.0	20.6	16.5	0.0	28.3	11.0	30.2	
ROE (%)	10.1	9.7	10.3	6.6	11.3	11.4	11.6	10.2
DOE (%)	2.8	3.2	3.5	3.2	3.9	3.9	4.7	3.8
• difference	7.3	6.5	6.8	3.4	7.4	7.5	6.9	6.4

Source: compiled by Sessa Partners from TANSHIN financial statements.

Breakdown by investor type



Shareholder Information (as of June 30, 2021)

Major Shareholders (top 10)	No. of shares	% owned*
Dai Nippon Printing Co., Ltd.	13,330,700	50.71
Kazuhiko Adachi	2,382,900	9.06
The Master Trust Bank of Japan Ltd. (Trust Account)	733,900	2.79
Custody Bank of Japan, Ltd. (Trust Account)	559,500	2.13
INTELLIGENT WAVE Employee Shareholders Assoc.	535,000	2.03
BNYM AS AGT/CLTS 10 PERCENT	308,505	1.17
Momoko Mizota	307,200	1.17
Hideki Nishino	209,000	0.79
MUFG Bank, Ltd.	200,000	0.76
Hirotsugu Kobayashi	191,600	0.73
Top 10	18,758,305	71.34
Total no. of shares issued and outstanding	26,340,000	—
Total number of shareholders	9,889	—

*Note: ownership percentages calculated after excluding 50,051 treasury shares.

Source: compiled by Sessa Partners from YUHO financial statements.

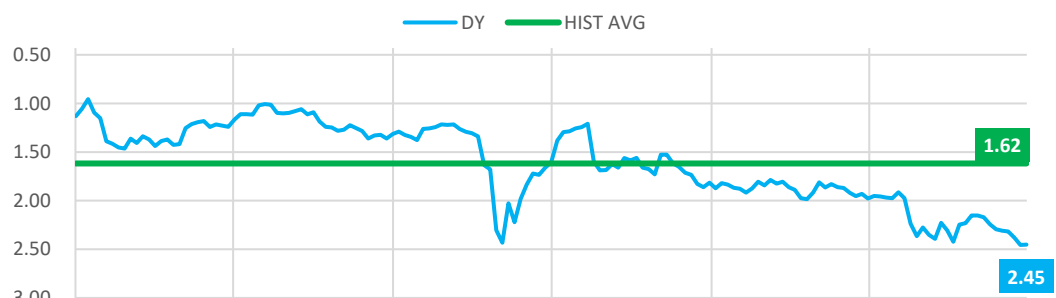
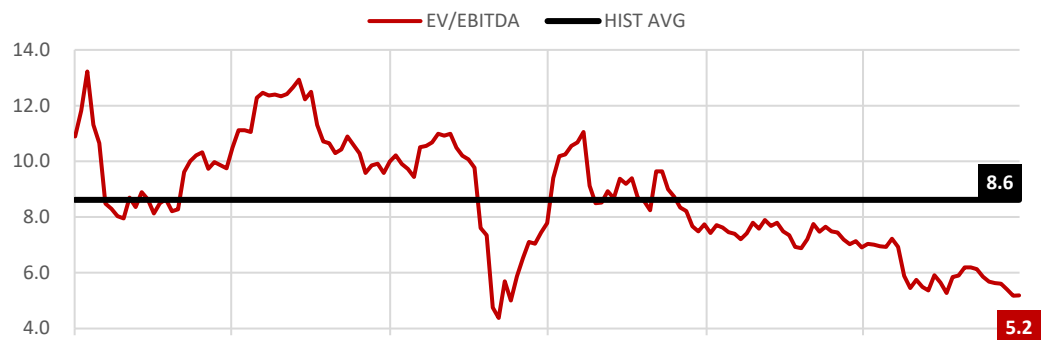
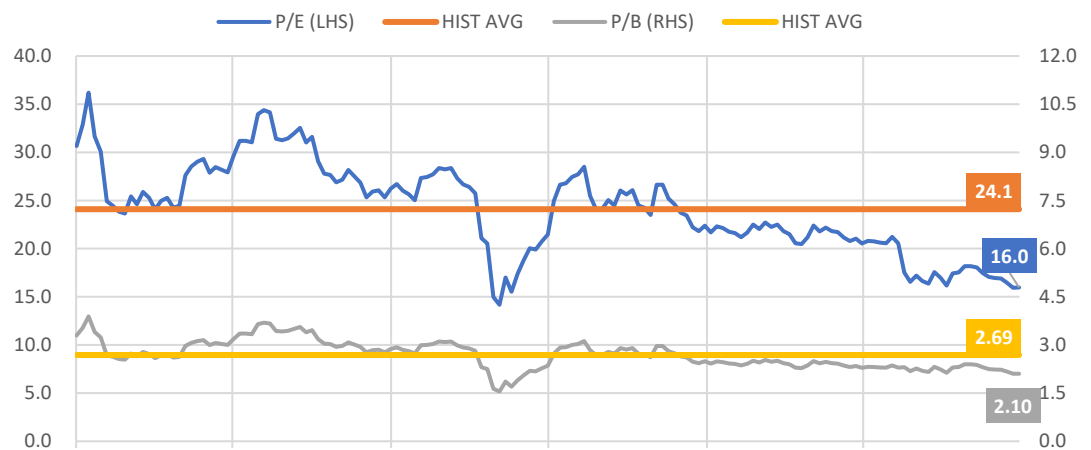


**Performance and Valuations:
SESSA Smart Charts**

- ✓ Volume has contracted sharply over the last 12 months, which we believe this was likely due to lack of participation by foreigners on concerns about not meeting TSE1 listing criteria for tradable market cap (free float) over ¥10bn.
- ✓ However, as explained on P12, there is no ambiguity about IW1 listing on the Prime Market next April, due to the TSE's phased weighting reduction measures for TOPIX constituents.
- ✓ The P/E is now on a 34% discount to its historical average, and P/B on a 22% discount. EV/EBITDA is 40% below its historical average.
- ✓ The dividend yield is now 52% above its historical average.

+3.56%	▲	120.34
+12.3%	▲	543.23
+5.34%	▲	254.23
-7.89%	▼	321.55
+5.97%	▲	100.08
+2.13%	▲	564.23
+6.43%	▲	765.90
-11.6%	▼	120.34
+23.1%	▲	893.23
+5.56%	▲	128.96
-3.67%	▼	432.1
11.3%	▲	765.2
2.54%	▲	432.1

SESSA Smart Charts: 3-Year Weekly Share Price and Valuations Trend



Source: compiled by Sessa Partners from SPEEDA historical earnings and price data. Valuations calculated based on CE.



Analyst's view

Structural profitability improvement is the key share price driver

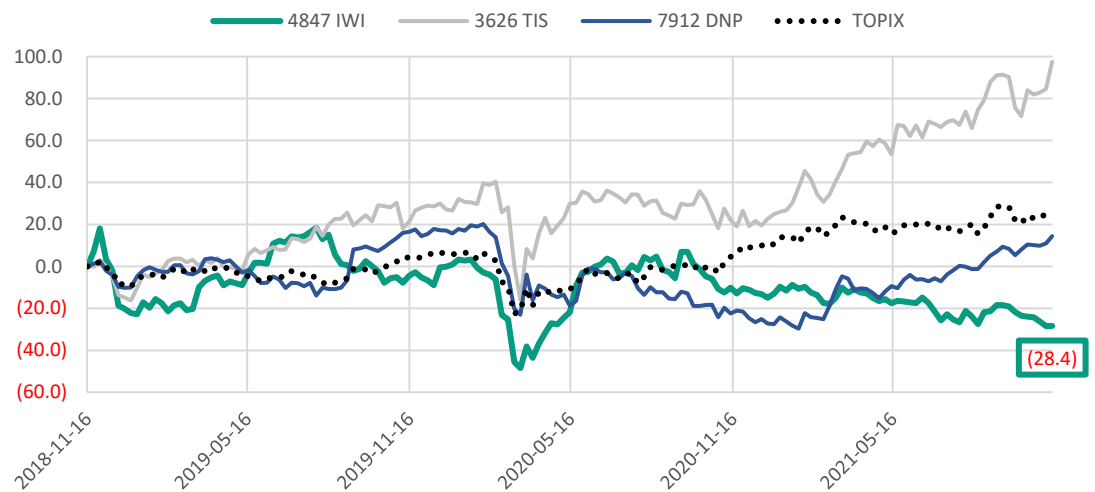
- ✓ A focus initiative is switching to a recurring (stock) revenue model for cloud services. As startup costs disappear and revenue gains critical mass, it is set to turn profitable.
- ✓ As can be seen in the left-hand table on P5, 22.6 Q1 cloud services orders rose 7.5x YoY and 2.1x QoQ to ¥1.0bn, with potential for another record in Q2. Cloud services backlogs rose +40.9% QoQ to ¥2.6bn.
- ✓ As can be seen in the table on the bottom of P14, the ratio of foreign shareholders dropped 55% from 4.84% at the end of June 2020 to 2.19% at the end of June 2021. The subsequent collapse of volume has put valuations at extremely compelling levels just as profits are beginning to take off.



CEO Kunimitsu Sato (61)



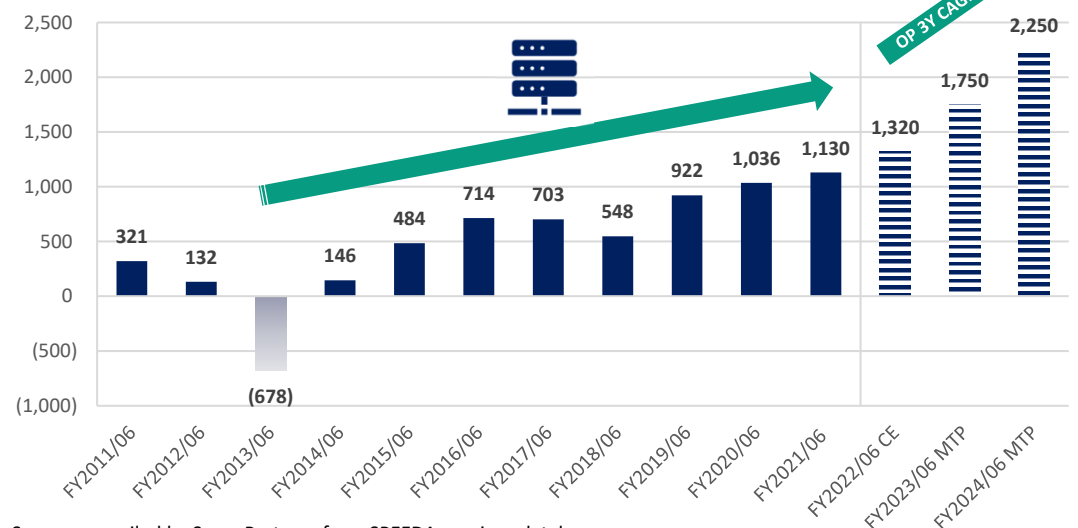
3-Year Weekly Relative Performance: only IWI is underwater due to confusion over the TSE Prime Market listing, just as profits are beginning to take off



Long-Term Trend of IWI's Share Price (monthly)



Long-Term Trend of IWI Operating Income (JPY mn)



Source: compiled by Sessa Partners from SPEEDA earnings database.



There is no ambiguity: IWI will list on the TSE Prime Market from April 2022

In a press release on July 28, 2021, "Notice Regarding the Judge on the Adaptation for the Listing Requirements on New Market Segments, TSE and Policy of the Company," the Company announced that it had received notice from Tokyo Stock Exchange, Inc. on July 9 that the Company's tradable share market cap did not meet the TSE's listing requirement (although other requirements are in compliance — see below).

In response, along with steady execution of its business plans and raising corporate governance, management determined that enhancing shareholder rebates is another effective method to increase corporate value, revising the target payout ratio from the previous 30% → 40%, and indicating it will make an application for Prime Market listing in the Oct-Dec quarter.

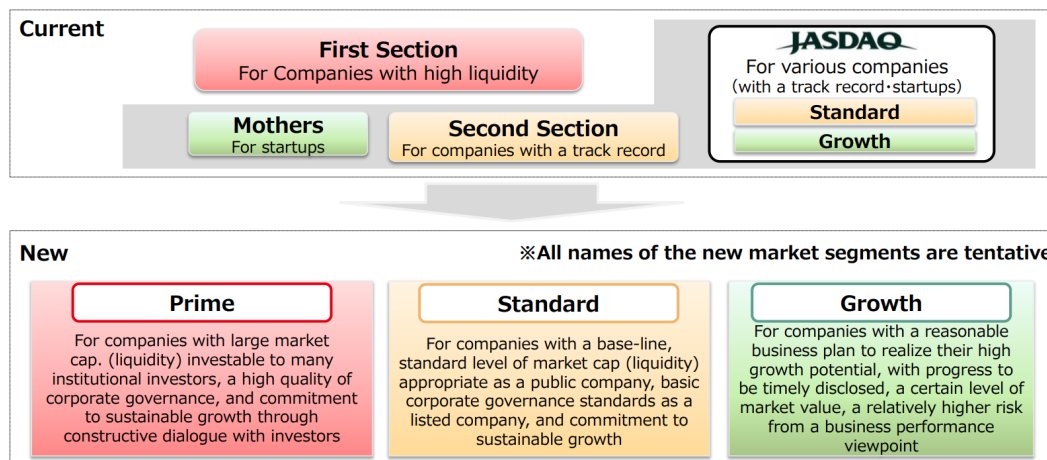
TSE transitional measure (relaxed listing maintenance standards)
If the listed company does not meet the listing maintenance criteria of the selected market category, submit a plan for conforming to the standards and its progress, and make efforts for improvement. For the time being, relaxed listing maintenance standards will apply as a transitional measure (TSE website).

TSE July 9, 2021 notice

Listing criteria	IWI	TSE
Tradable share units	124,495	20,000
Tradable mkt cap bn	8.3	10.0
Tradable share ratio	47.2%	35.0%
Trading value mn	47	20

Source: IR results briefing materials.
Note: tradable = free float.

TSE's transition to new market segments on April 4, 2022



Source: "Review of TSE Cash Equity Market Structure," JAPAN EXCHANGE GROUP (JPX) <https://www.jpj.co.jp/english/equities/improvements/market-structure/index.html>

Implementation Schedule (as of July 2021)

- February 21, 2020: outline of Market Structure Review (new market segments)
- December 25, 2020: outline of 2nd revision (listing criteria, transition process)
- April 7, 2021: outline of 3rd revision (revised corporate governance code etc.)
- June 30, 2021: ref. date for First Decision (whether cos. meet revised listing criteria)
- July 9, 2021: individual notifications from TSE of First Decision
- SEP – DEC 2021: cos. apply to choose mkt segment based on listing criteria, CG code
- January 11, 2022: new market segments for listed cos. published on JPX website
- April 4, 2022: transition to new market segments
- Oct. 2022: Second Decision (for cos whose tradable shares mkt cap was < ¥10bn)
- Oct. 2023: Re-evaluation (if constituent phased weighting reduction to be cont.)

Designation and re-evaluation of phased weighting reduction constituents

Timing	Details
First decision July 2021	TSE will confirm <u>whether each company's tradable share market capitalization is JPY 10 billion or above</u> (Figures used will be from the "Notice on whether the company is meeting the continued listing criteria for the new market segments" which has a base date of June 30, 2021.).
Second decision October 2022	For companies whose tradable share market capitalization was under JPY 10 billion as of the first decision, TSE will confirm <u>whether the situation had improved</u> as of the next reporting period. If their tradable share market capitalization is found to have still been under JPY 10 billion at this point, the company will be designated as a "phased weighting reduction constituent". <u>Their TOPIX weighting will be gradually reduced in ten (10) stages starting October 2022.</u>
Re-evaluation October 2023	For each phased weighting reduction constituent, TSE will confirm: 1) <u>whether their tradable share market capitalization for the reporting period following the second decision was JPY 10 billion or over</u> , and 2) <u>whether their annual traded value ratio was 0.2 or above.</u> - If a company meets both criteria 1) and 2), its weighting will be <u>returned to its pre-reduction level.</u> - If a company meets only 1), its weighting <u>reduction will be halted.</u> - If a company meets neither 1) nor 2), its weighting <u>reduction will be continued.</u>

Source: "Summary of TOPIX Calculation Rule Revisions," JAPAN EXCHANGE GROUP (JPX) https://www.jpj.co.jp/english/news/1044/b5b4pj000003u7qp-att/e_data1.pdf

SUPPLEMENT:
Trend of credit card transaction volume



Growth Outlook:
The primary driver of FEP orders is credit card capex

Source: IR handout material
Note: growth ests. added by Sessa Partners

Structural Drivers:
For a detailed explanation of structural growth drivers for Japan's credit card industry, please refer to our updated Full Report on 4847 IWI dated August 30, 2021.
<https://en.sessapartners.co.jp/iwi-en>



★ Most of these top credit card issuers are IWI clients

★ **The credit card industry is a structural growth industry**

The key takeaway from the data below is that Japan's credit card industry, IWI's core customer base, is enjoying robust structural growth, which is driving steady growth in credit card capex. Total transaction volume 20-year CAGR through FY3/20 is +8.1%, and even factoring in the negative impact from COVID-19 on travel, hotels and restaurants. etc., 21-year CAGR through FY3/21 is 7.5%.

Credit Card Service Industry: Transaction Volume (JPY bn)

JPY bn	Transaction volume	YoY	Banks	YoY	Consumer Finance	YoY	Commerce	YoY	Others	YoY
FY3/96	15,120	9.4	6,932	9.3	3,365	10.2	3,497	10.4	1,326	5.8
FY3/97	16,924	11.9	7,651	10.4	3,704	10.1	4,065	16.2	1,505	13.5
FY3/98	18,308	8.2	8,164	6.7	3,972	7.2	4,570	12.4	1,603	6.5
FY3/99	19,145	4.6	8,388	2.8	4,122	3.8	4,940	8.1	1,695	5.8
FY3/00	20,420	6.5	8,830	5.3	4,446	8.8	5,337	7.1	1,806	4.9
FY3/01	21,906	6.8	9,402	6.5	4,645	7.2	5,896	7.8	1,964	3.6
FY3/02	22,938	3.6	9,713	2.1	4,950	6.6	6,243	4.7	2,032	0.9
FY3/03	24,405	3.1	10,408	3.4	4,982	0.6	6,853	5.8	2,163	(1.6)
FY3/04	25,579	4.8	10,941	5.1	5,246	5.3	7,134	4.1	2,257	4.4
FY3/05	27,641	8.1	11,891	8.7	5,640	7.5	7,540	5.7	2,571	13.9
FY3/06	30,647	10.9	14,286	20.1	5,012	(11.1)	8,432	11.8	2,917	13.5
FY3/07	33,330	8.8	15,821	10.7	4,318	(13.9)	10,030	18.9	3,162	8.4
FY3/08	34,056	7.5	15,243	7.4	4,551	5.4	10,837	8.0	3,425	8.3
FY3/09	34,960	2.7	15,470	1.5	4,643	2.0	11,222	3.6	3,624	5.8
FY3/10	34,109	(2.6)	14,744	(4.7)	3,868	(16.7)	11,882	5.2	3,616	(0.2)
FY3/11	34,142	0.6	14,743	0.0	3,958	2.3	12,192	2.6	3,248	(5.3)
FY3/12	35,358	3.7	15,169	2.9	4,349	9.9	12,652	3.8	3,188	0.0
FY3/13	37,671	6.5	15,837	4.4	4,965	14.2	13,437	6.2	3,432	7.6
FY3/14	41,615	10.5	17,148	8.3	6,095	22.8	14,615	8.8	3,757	9.5
FY3/15	44,614	7.2	18,294	6.7	7,027	15.3	15,284	4.6	4,009	6.7
FY3/16	47,439	6.3	19,182	4.9	8,176	16.4	15,957	4.4	4,123	2.9
FY3/17	50,679	6.9	20,171	5.2	9,644	18.0	16,585	4.0	4,279	3.8
FY3/18	55,158	8.9	21,844	8.3	11,388	18.1	17,340	4.8	4,585	7.2
FY3/19	60,151	9.1	23,750	8.7	13,513	18.7	17,998	3.8	4,890	6.7
FY3/20	66,146	10.0	25,604	7.8	16,654	23.2	18,813	4.5	5,076	3.8
FY3/21	62,802	(5.1)	23,023	(10.1)	18,669	12.1	16,972	(9.8)	4,137	(18.5)

Source: Survey on Trends in Specified Service Industries, Ministry of Economy, Trade and Industry (METI)

Representative Credit Card Issuers in Japan by Sector

Banks	Mitsubishi UFJ NICOS Co.,Ltd. Sumitomo Mitsui Card Co., Ltd.
Retail	Credit Saison Co., Ltd. AEON Credit Service Co, Ltd. MICARD Co., LTD (Mitsukoshi Isetan) Rakuten Card Co., Ltd. YJ Card Corporation (Yahoo! Japan) Pocket Card Co., Ltd. Seven Card Service Co., Ltd
Consumer Finance	Orient Corporation APLUS FINANCIAL CO., LTD Life Card Co., Ltd. JACCS CO., LTD.
Commerce	Toyota Finance d Card (NTT DoCoMo) JALCARD Viewcard Co., Ltd. (JR East)

Source: compiled by Sessa Partners



Quarterly and monthly trend

Credit Card Service Industry: Transaction Volume (JPY bn)

JPY bn	Transaction volume	YoY	Banks	YoY	Consumer Finance	YoY	Commerce	YoY	Others	YoY
2019 Q1	15,262	9.3	5,987	8.7	3,581	20.0	4,463	3.4	1,231	6.0
Q2	15,857	10.1	6,223	8.8	3,813	22.1	4,566	4.7	1,255	5.2
Q3	16,468	12.1	6,381	9.2	4,031	25.0	4,797	8.7	1,260	4.4
Q4	17,354	9.8	6,723	8.5	4,442	24.0	4,879	2.4	1,310	4.0
2020 Q1	16,466	7.9	6,277	4.8	4,367	21.9	4,571	2.4	1,251	1.6
Q2	13,828	(12.8)	5,011	(19.5)	4,043	6.0	3,836	(16.0)	939	(25.2)
Q3	15,560	(5.5)	5,747	(9.9)	4,548	12.8	4,223	(12.0)	1,042	(17.3)
Q4	17,344	(0.1)	6,388	(5.0)	5,161	16.2	4,674	(4.2)	1,122	(14.4)
2021 Q1	16,070	(2.4)	5,878	(6.4)	4,917	12.6	4,240	(7.2)	1,035	(17.3)
Q2	16,735	21.0	6,133	22.4	5,276	30.5	4,272	11.4	1,054	12.3
2019 Jan	5,238	8.5	2,062	8.1	1,208	19.4	1,528	2.3	439	6.2
Feb	4,712	9.9	1,851	9.2	1,102	20.4	1,358	4.7	401	6.1
Mar	5,312	9.4	2,074	8.9	1,271	20.2	1,576	3.4	390	5.8
Apr	5,259	9.5	2,072	8.3	1,246	21.1	1,513	4.2	428	5.6
May	5,380	10.7	2,104	8.8	1,306	22.9	1,552	5.8	417	5.6
Jun	5,217	10.2	2,046	9.3	1,261	22.3	1,501	4.2	410	4.5
Jul	5,359	7.6	2,100	6.4	1,301	20.7	1,542	1.2	416	3.1
Aug	5,377	10.0	2,101	7.3	1,314	22.4	1,541	6.5	421	2.8
Sep	5,731	19.0	2,180	14.1	1,415	31.9	1,714	18.9	422	7.4
Oct	5,406	8.2	2,123	7.2	1,381	24.0	1,477	(1.5)	425	5.7
Nov	5,679	10.0	2,191	8.6	1,432	23.3	1,629	4.0	427	2.5
Dec	6,270	11.0	2,410	9.6	1,628	24.5	1,774	4.3	458	3.8
2020 Jan	5,903	12.7	2,280	10.6	1,526	26.3	1,623	6.2	474	7.8
Feb	5,324	13.0	2,047	10.6	1,392	26.3	1,470	8.2	415	3.3
Mar	5,239	(1.4)	1,949	(6.0)	1,449	14.0	1,478	(6.2)	363	(7.1)
Apr	4,401	(16.3)	1,597	(22.9)	1,299	4.3	1,174	(22.4)	330	(22.8)
May	4,431	(17.6)	1,577	(25.1)	1,349	3.3	1,227	(21.0)	278	(33.3)
Jun	4,997	(4.2)	1,836	(10.2)	1,395	10.6	1,435	(4.4)	330	(19.3)
Jul	5,180	(3.4)	1,907	(9.2)	1,517	16.6	1,407	(8.7)	349	(16.1)
Aug	5,192	(3.4)	1,929	(8.2)	1,495	13.8	1,418	(8.0)	349	(17.1)
Sep	5,188	(9.5)	1,912	(12.3)	1,536	8.5	1,398	(18.4)	343	(18.7)
Oct	5,500	1.7	2,054	(3.3)	1,614	16.8	1,475	(0.1)	358	(15.8)
Nov	5,709	0.5	2,109	(3.7)	1,683	17.5	1,544	(5.2)	374	(12.6)
Dec	6,135	(2.2)	2,224	(7.7)	1,864	14.5	1,655	(6.7)	390	(14.7)
2021 Jan	5,370	(9.0)	1,968	(13.7)	1,622	6.3	1,405	(13.4)	375	(20.8)
Feb	4,937	(7.3)	1,809	(11.7)	1,496	7.5	1,308	(11.0)	324	(21.9)
Mar	5,764	10.0	2,101	7.8	1,799	24.1	1,527	3.3	336	(7.4)
Apr	5,712	29.8	2,103	31.7	1,800	38.6	1,437	22.4	372	12.5
May	5,491	23.9	2,011	27.5	1,726	28.0	1,410	15.0	343	23.3
Jun	5,533	10.7	2,019	9.9	1,750	25.4	1,425	(0.7)	340	2.8
Jul	5,753	11.1	2,109	10.6	1,813	19.5	1,476	4.9	354	1.4
Aug	5,520	6.3	2,054	6.5	1,725	15.3	1,393	(1.8)	349	(0.1)

Source: Survey on Trends in Specified Service Industries, Ministry of Economy, Trade and Industry (METI)



Continued from P11, potential selling pressure over confusion about the Prime listing appears to have already happened.

Shareholder Breakdown by investor Type

Investor type (ownership %)	as of 2020-06-30	as of 2021-06-30	AMT CHG	PCT CHG
Individuals, others	36.61%	37.13%	0.52%	1.4
Japanese financial institutions	6.61%	8.40%	1.79%	27.1
Other Japanese corporations	51.07%	51.11%	0.04%	0.1
Foreign institutions	4.84%	2.19%	-2.65%	(54.8)
Japanese securities dealers	0.71%	0.98%	0.27%	38.0
Treasury stock	0.16%	0.19%	0.03%	18.8
TOTAL	100.00%	100.00%	—	—

Source: compiled by Sessa Partners from company YUHO financial statements..

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