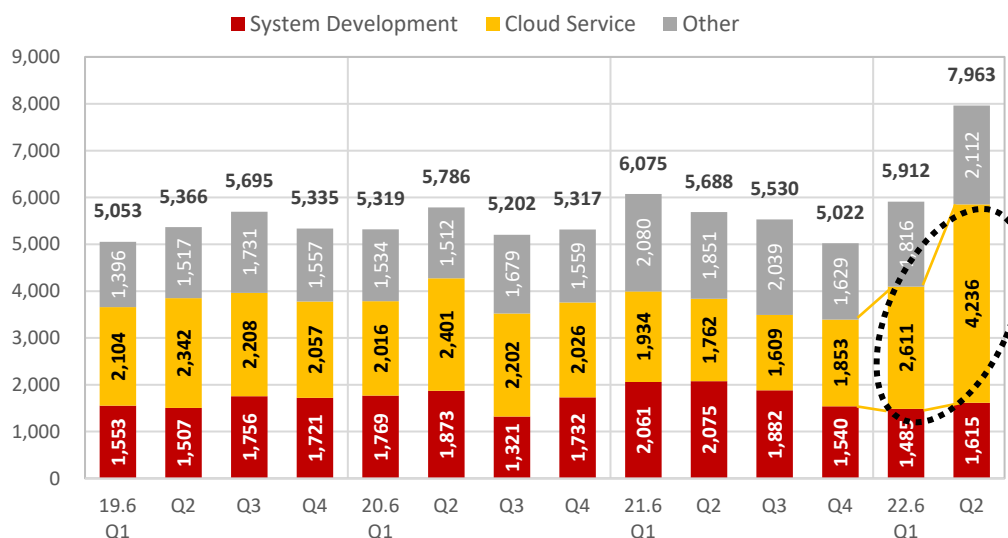


## Cloud services near cruising altitude 'Only one' IOASIS acquiring service driving robust orders

### SUMMARY

- IWI announced FY6/22 Q2 financial results at 15:30 on Wed 2/02, and it held a results briefing on Friday 11/04. Relative to 1H guidance for net sales ¥5.0bn (-4.7%) and OP ¥410mn (+1.1%), actual 1H results were net sales ¥4.89bn (-6.9%) and OP ¥478mn (+18.0%), with 1H OPM rising from 7.7% → 9.8%. 2Q-only OP increased +29.8% YoY, with OPM of 13.4%. The main factor for the decline in sales was a reactionary decline of hardware sales relative to a high base the previous term. The main factor driving strong profit growth was cloud services business turning profitable. Despite the overshoot, the company left full-term guidance unchanged.
- After gaining critical mass, cloud services business has taken off, and is rapidly climbing toward cruising altitude with a decline in fixed costs and improved operating efficiency. Orders rose from 4Q ¥483mn → 1Q ¥1,000mn → 2Q ¥1,876mn, with visibility on another roughly ¥1.0bn in the 2H. The graph below shows that related backlogs rose +41% QoQ in the 1Q and +62% in the 2Q to ¥4.2bn. Considering MTP targets of FY6/23 sales of ¥2.0bn and FY6/24 sales of ¥2.5bn, current momentum is running ahead of plan, driven by strong enterprise demand for merchant acquiring IOASIS service, the only one of its kind, against the backdrop of government policy to raise the cashless payment ratio to address the chronic labor shortage, help SME productivity and to reinvigorate regional economies.
- Confusion over listing on the TSE 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 and EV/EBITDA are on 30%+ discounts, and the dividend yield is over 40% above its historical average. Note that targeted dividend payout was hiked from 30% → 40% last summer.

### 2Q cloud services backlogs rose +62% QoQ and +140% YoY, posting a new high



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

### 2Q Follow-up



INTELLIGENT WAVE INC.

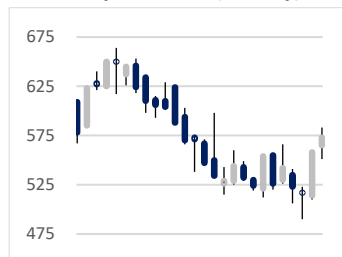
#### Focus Points:

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

#### Key Indicators

Share price (2/10)	573
YH (21/2/3)	752
YL (22/1/27)	490
10YH (18/10/24)	1,180
10YL (13/1/4)	173.0
Shrs out. (mn shrs)	26.34
Mkt cap (¥ bn)	15.09
EV (¥ bn)	11.48
Shr equity ratio	70.4%
22.6 P/E (CE)	16.0x
22.6 EV/EBITDA (CE)	5.4x
21.6 P/B (act)	2.05x
21.6 ROE (act)	11.6%
22.6 DY (CE)	2.44%

#### 6M price chart (weekly)



Source: SPEEDA price data

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Company Specialist  
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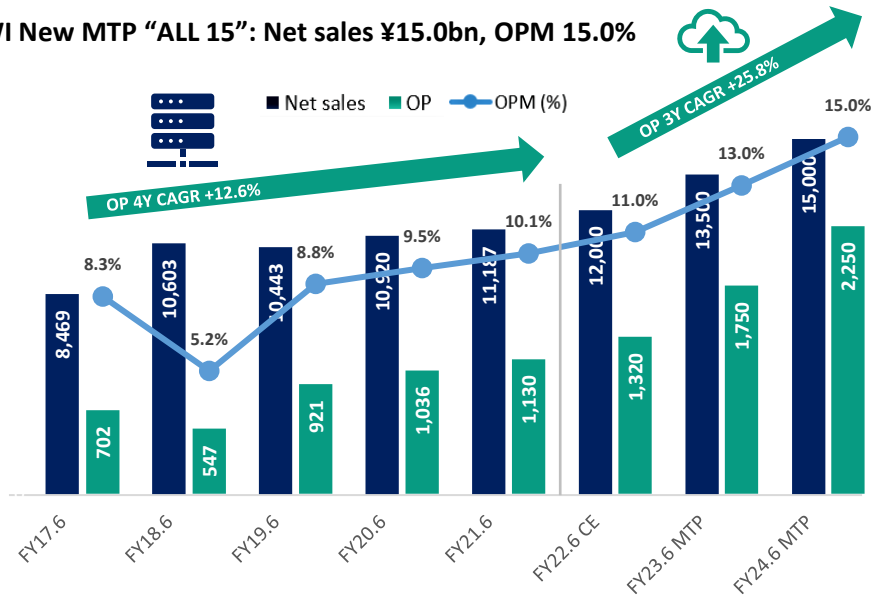
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**Taking off**

OP 3Y CAGR +25.8%  
OPM 10.1% → 15.0%

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

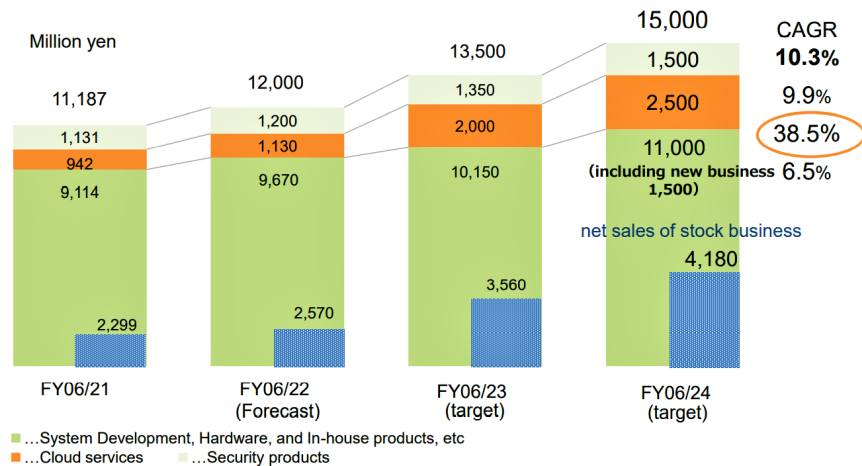


Source: compiled by Sessa Partners from TANSBIN financial statements and company IR results briefing materials.



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

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

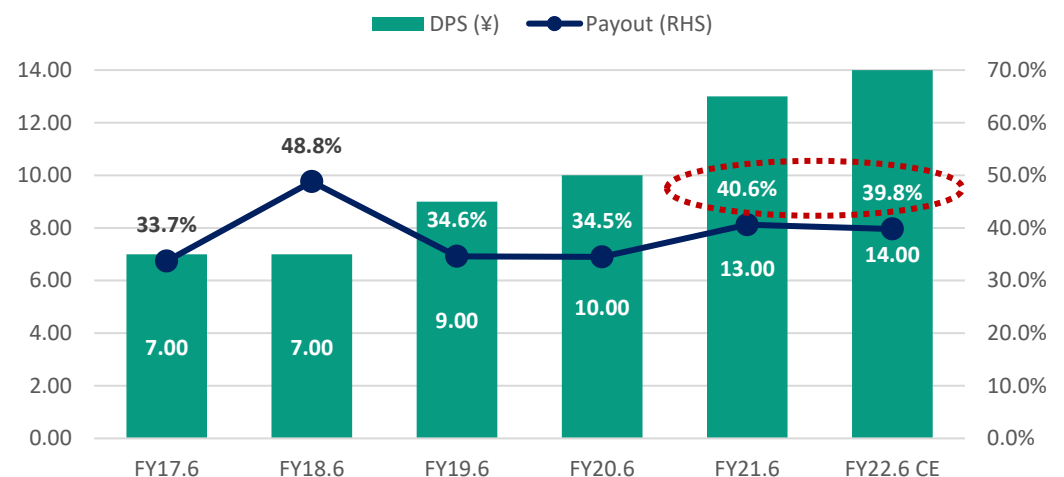


Source: excerpted from 1Q FY6/22 IR results briefing materials.



★ Hiking target dividend payout from 30% → 40%

**Trend of IWI Annual Dividends and Payout Ratio**



Source: compiled by Sessa Partners from TANSBIN financial statements.

**1H Review:**

**Transformation of the earnings structure is well underway**

As can be seen from the table on the top of the next page, the ¥360mn YoY decline in 1H net sales was mainly due to the ¥600mn reactionary decline in hardware sales from the high base the previous year.

At the same time, relative to 5-year average OPM of 6.2%, 1H FY6/22 OPM rose to 9.8%. The middle graph on the next page shows the trend of 1H OP and OPM. The transformation of the earnings structure is well underway, as cloud services business turned profitable.

★The lower right-hand graph on this page shows the noteworthy achievement in Q2 was both new orders and order backlogs moving up to new levels. New orders had been in a range of ¥2.5bn to ¥3.2bn, and backlogs had been in a range from ¥5.0bn to ¥6.0bn

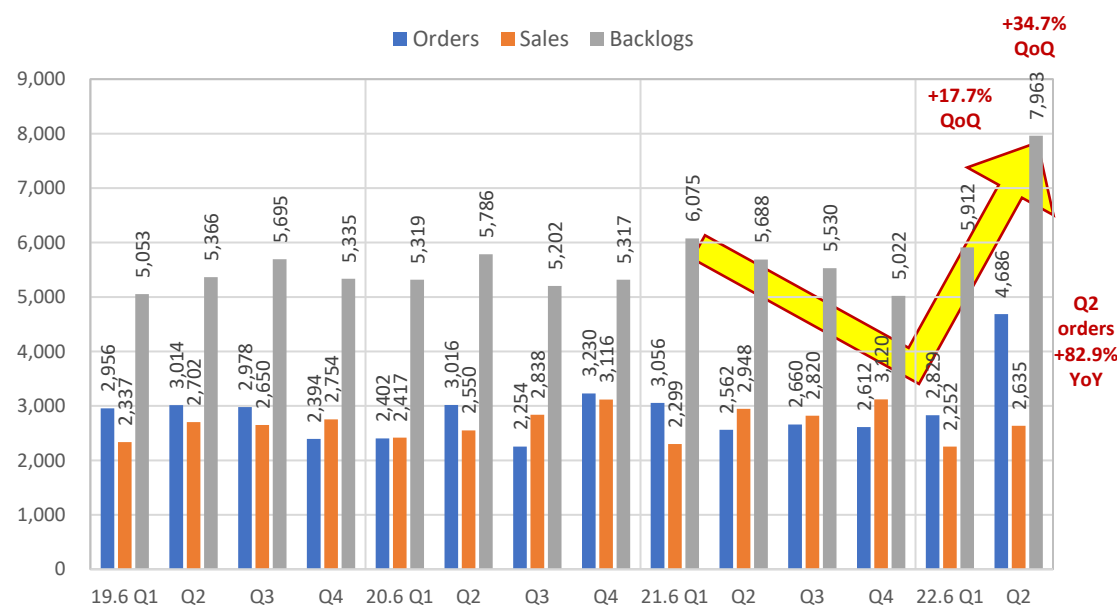
The left-hand graph on P5 provides the details of the main driver: **cloud services new orders**.

**IWI Summary of Non-consolidated Financial 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 Q2	2,635	(10.6)	352	29.8	375	28.1	255	26.3
<i>progress ratios</i>								
1H 5Y AVG	46.0%		34.1%		33.8%		32.6%	
22.6 H1	40.7%		36.3%		36.7%		35.9%	
<i>profit margins</i>								
1H 5Y AVG	—		6.2%		6.5%		4.4%	
22.6 H1	—		9.8%		10.2%		6.9%	

Source: compiled by Sessa Partners from TANSHIN financial statements

**Orders and Backlogs Move Up to New Levels (JPY mn)**



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

IWI Sales by Product/Service Category: Results

JPY mn, %	Flow/ stock	21.6 Q1 act	CHG AMT	21.6 Q2 act	CHG AMT	22.6 Q1 act	CHG AMT	22.6 Q2 act	CHG AMT	22.6 H1 act	CHG AMT
<b>Net sales</b>		<b>2,298</b>	<b>(119)</b>	<b>2,949</b>	<b>399</b>	<b>2,251</b>	<b>(47)</b>	<b>2,636</b>	<b>(313)</b>	<b>4,887</b>	<b>(360)</b>
• System software development	flow	1,113	(138)	1,324	1	1,170	57	1,349	25	2,519	82
• Software maintenance	stock	315	14	332	27	360	45	368	36	728	81
• In-house package software	flow	144	47	65	(17)	131	(13)	137	72	268	59
• Cloud service	stock	224	46	246	34	243	19	250	4	493	23
• Hardware	flow	208	(145)	664	337	79	(129)	193	(471)	<b>272</b>	<b>(600)</b>
• Third party package software	flow	110	49	130	96	69	(41)	99	(31)	168	(72)
• Security products	flow	181	8	188	(79)	198	17	240	52	438	69

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).

The company also announced newly decided collaboration with parent DNP on marketing and planning for Security Solutions business.

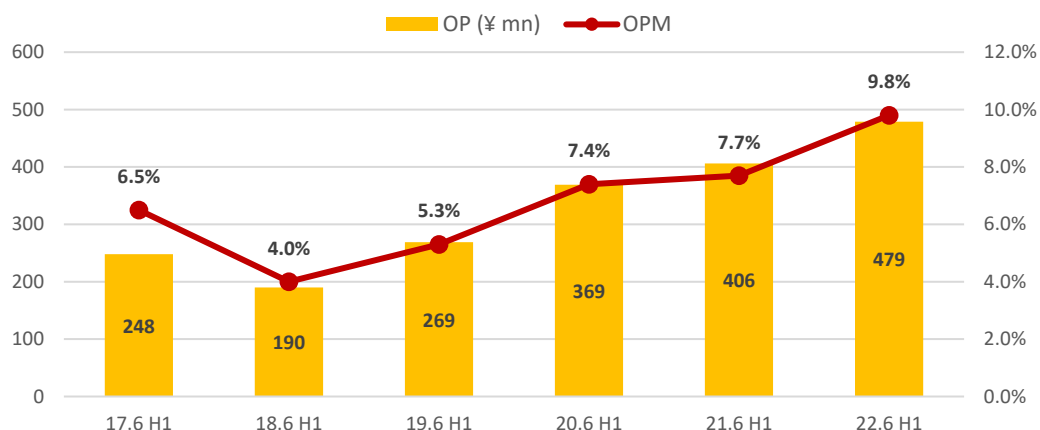
Sales by Top 3 Customers

JPY mn	21.6 H1	22.6 H1	CHG	Main projects
① DNP	867	691	(176)	Tokenization Service System (for smartphone payment transactions) , System Operations (24/7), Payment Platform*
② System dev. co. (SI)	550	497	(53)	Disaster recovery system for FEP and fraud detection
③ System dev. co. (SI)	110	261	151	Initial development for the introduction of IOASIS and license fee

\*Payment Platform: system services operated by DNP, which enables customers to launch cashless PMT business.

Source: IR results briefing materials.

Trend of 1H OP and OPM: Earnings Structure Transformation is Well Underway



IWI Quarterly Trend of Orders, Sales and Backlogs

JPY mn, %	Orders	YoY	Sales	YoY	Backlogs	QoQ
19.6 Q1	2,956	6.7	2,337	0.6	5,053	14.0
Q2	3,014	28.5	2,702	14.0	5,366	6.2
Q3	2,978	21.6	2,650	(15.5)	5,695	6.1
Q4	2,394	(8.1)	2,754	(0.8)	5,335	(6.3)
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
Q2	<b>4,686</b>	<b>82.9</b>	2,635	(10.6)	<b>7,963</b>	<b>34.7</b>

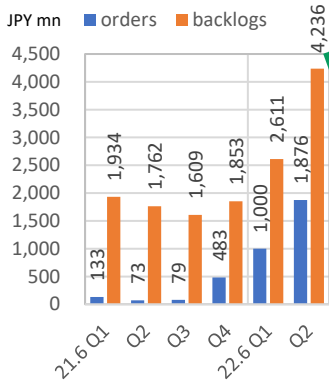
Source: middle graph and table compiled by Sessa Partners from IR results briefing materials.

**Enterprise customers are driving high growth**

Two orders for IOASIS in Q1 were from a major telecom carrier and financing subsidiary of a major global manufacturer.

Three orders for IOASIS in Q2 included a major credit card company and a retailer. The company also won a large-scale project from an international credit card company for IGATES, as well as an order for IFINDS fraud detection from a credit card company. The company says it has visibility on 2H orders for another roughly ¥1.0bn.

**Trend of cloud services orders**

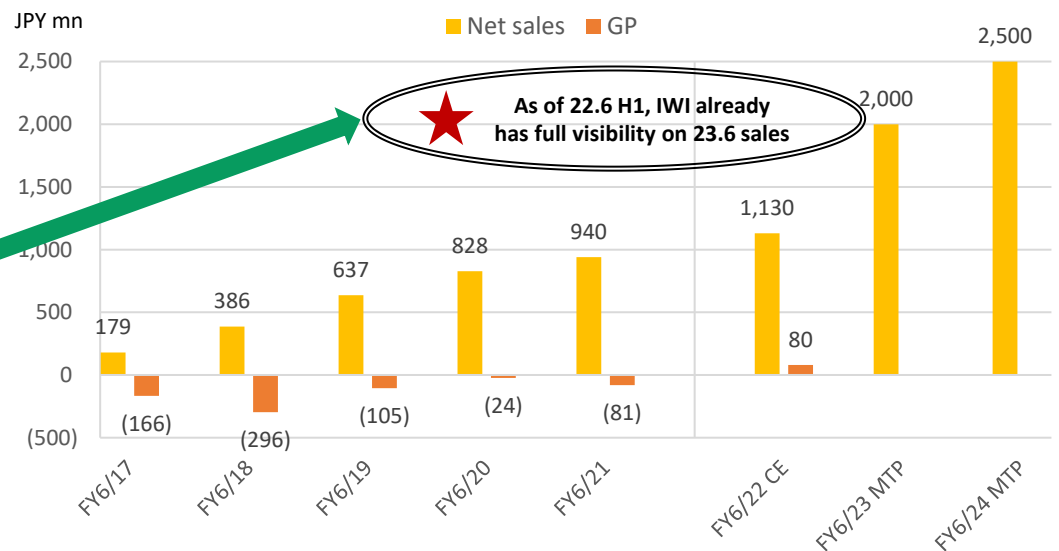


**IWI Quarterly Trend of Backlogs by Category**

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
Q2	1,615	8.8	4,236	62.2	2,112	16.3

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	1H a orders 1
IGATES	0	1	2	2	4	+1 5
IFINDS	0	1	3	3	3	+1 3
IOASIS	3	4	4	5	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)	2Q a (12)	(28)	(3)	(81)		
FY6/22 CE	Net sales	243	240	250	248	296	343	1,130
FY6/22 CE	GP (loss)	(19)	(18)	(31)	18	46	33	80

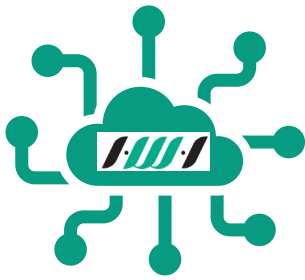
Source: compiled by Sessa Partners from IR results briefing materials.



**Cloud Functionality Service**

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

★ GP came in well above the forecast for ¥18mn → **¥31mn**, leaving room for an overshoot on 2H profits due to declining fixed costs and improved operational efficiency.



**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 previous page highlight that this business is now moving to a new stage after achieving critical mass, with Q2 gross profit coming in ahead of forecast, and leaving room for an overshoot on 2H profits on declining fixed costs and higher efficiency.

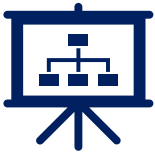
**Flagship on-premise FEP infrastructure solutions for credit card authorization**



**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).”

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.

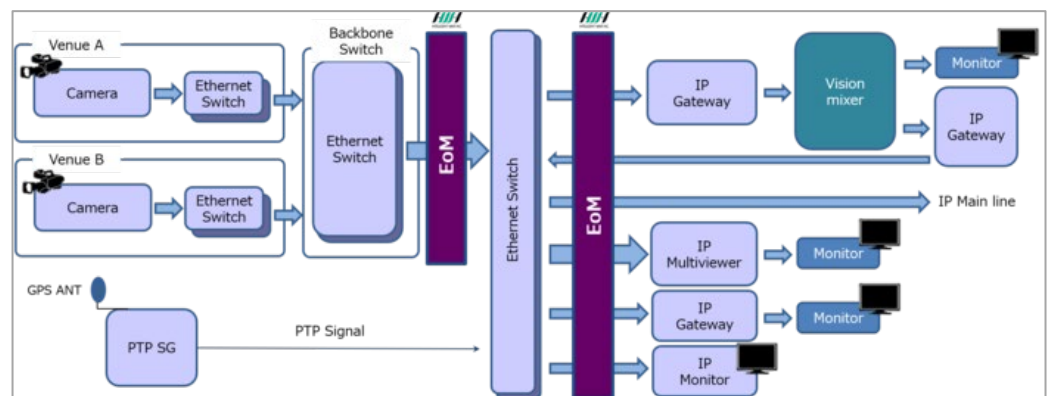
**③ DNP Group Synergies**

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
<b>by product/service category</b>								
<b>Financial Systems Solutions</b>	<b>5,555</b>	<b>6,386</b>	<b>7,447</b>	<b>9,332</b>	<b>9,336</b>	<b>9,857</b>		
• 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		
<b>Product Solutions</b>	<b>604</b>	<b>820</b>	<b>1,022</b>	<b>1,271</b>	<b>1,106</b>	<b>1,063</b>		
• 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		
<b>Net sales (non-consol)*</b>						<b>10,920</b>	<b>11,187</b>	<b>12,000</b>
• 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	795
EBITDA	739	927	1,039	1,032	1,628	1,641	1,881	2,115
EBITDA margin	12.0%	12.9%	12.3%	9.7%	15.6%	15.0%	16.8%	17.6%
<b>Operating profit</b>	<b>484</b>	<b>714</b>						
<b>Operating profit (non-consol)</b>	<b>488</b>	<b>731</b>	<b>702</b>	<b>547</b>	<b>921</b>	<b>1,036</b>	<b>1,130</b>	<b>1,320</b>
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
<b>by reporting segment</b>								
<b>Financial Systems Solutions</b>	<b>632</b>	<b>670</b>	<b>651</b>	<b>598</b>	<b>890</b>	<b>1,123</b>		
OPM	11.4%	10.5%	8.7%	6.4%	9.5%	11.4%		
YoY	—	6.0	(2.8)	(8.1)	48.8	26.2		
<b>Product Solutions</b>	<b>(148)</b>	<b>43</b>	<b>51</b>	<b>(51)</b>	<b>31</b>	<b>(87)</b>		
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
<b>Profit ATOP</b>	<b>471</b>	<b>478</b>						
<b>Net income (non-consol)</b>	<b>399</b>	<b>513</b>	<b>547</b>	<b>377</b>	<b>684</b>	<b>762</b>	<b>840</b>	<b>940</b>
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 Q2 NC act
Cash and deposits	2,957	2,852	2,578	2,839	3,254	3,641	4,307	3,611
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	3,611
Total shareholders' equity	4,563	4,910	5,222	5,408	5,908	6,433	7,011	6,872
Accumulated other comp. inc.	271	152	—	—	—	—	—	—
Valuation & translation adj.	—	—	425	306	464	549	556	482
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	10,451
Equity ratio (%)	74.6	72.1	66.4	64.7	63.5	66.2	67.9	70.4
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	—

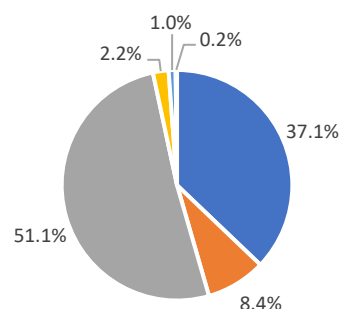
Source: compiled by Sessa Partners from TANSHIN financial statements.

**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**  
(as of June 30, 2021)



- Individuals, others
- Japanese financial institutions
- Other Japanese corporations
- Foreign institutions
- Japanese securities dealers
- Treasury stock

**Shareholder Information (as of December 31, 2021)**

Major Shareholders (top 10)	No. of shares	% owned*
<b>Dai Nippon Printing Co., Ltd.</b>	<b>13,330,700</b>	<b>50.71</b>
Kazuhiko Adachi	2,382,900	9.06
The Master Trust Bank of Japan Ltd. (Trust Account)	1,366,000	5.20
INTELLIGENT WAVE Employee Shareholders Assoc.	581,400	2.21
Custody Bank of Japan, Ltd. (Trust Account)	343,100	1.31
Momoko Mizota	307,200	1.17
BNYM AS AGT/CLTS 10 PERCENT	256,609	0.98
Hideki Nishino	209,000	0.80
MUFG Bank, Ltd.	200,000	0.76
Hirotsugu Kobayashi	191,600	0.73
<b>Top 10</b>	<b>19,168,509</b>	<b>72.92</b>
Total no. of shares issued and outstanding	26,340,000	—
Total number of shareholders (as of June 30, 2021)	9,889	—

\*Note: ownership percentages calculated after excluding 50,851 treasury shares.

Source: compiled by Sessa Partners from YUHO financial statements.

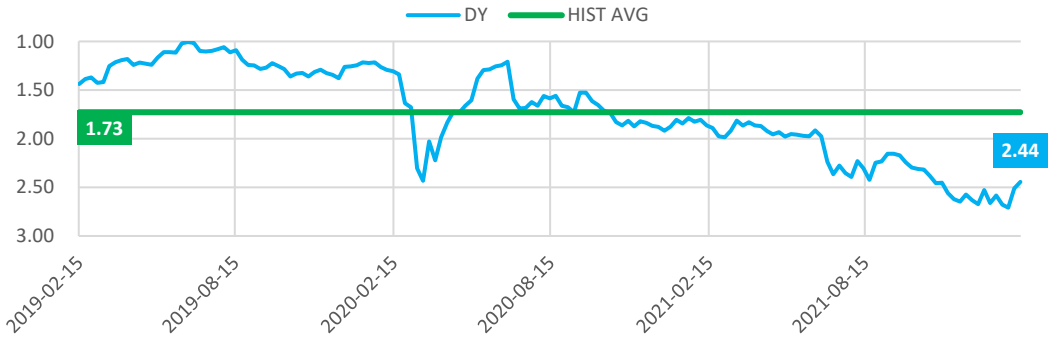
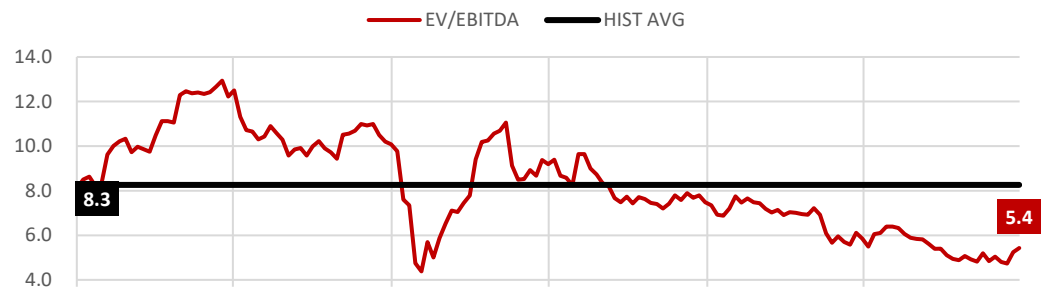
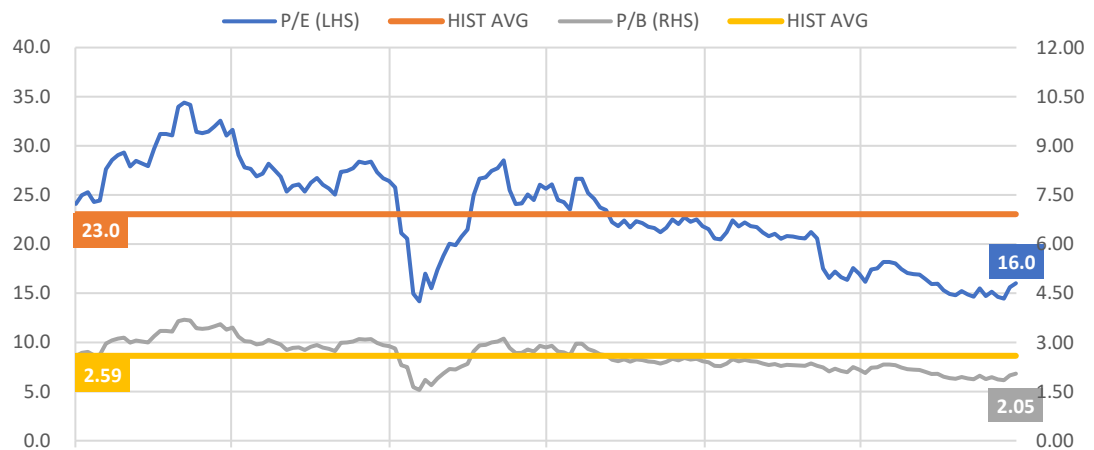
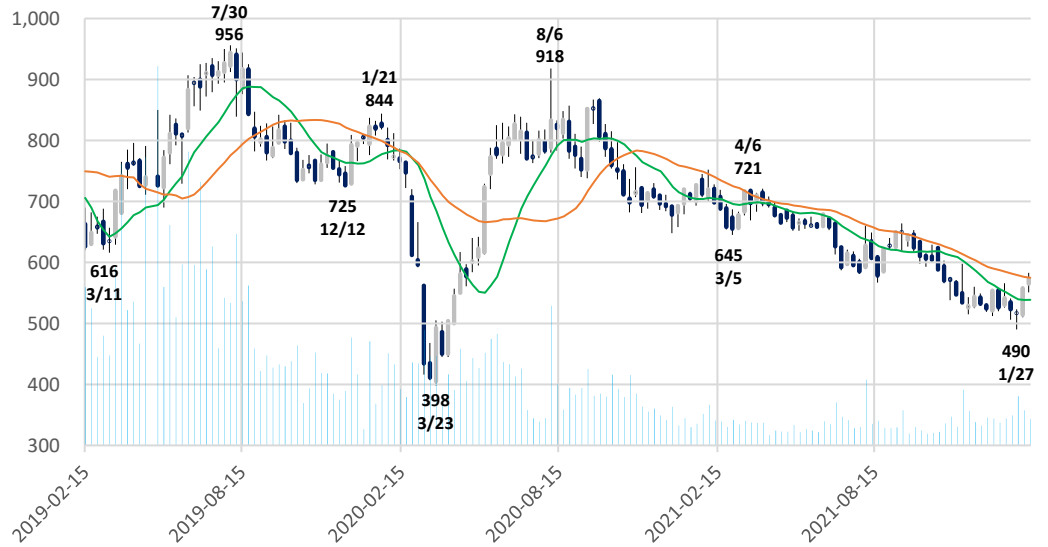


**Performance and Valuations:  
SESSA Smart Charts**

- ✓ Volume has contracted sharply over the last 12 months, which we believe 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, there is no ambiguity about IW1 listing on the Prime Market in April, and the TSE has phased weighting reduction measures for TOPIX constituents.
- ✓ The P/E is now on a 31% discount to its historical average, and P/B on a 21% discount. EV/EBITDA is 34% below its historical average.
- ✓ The dividend yield of 2.44% is now 41% 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%	▲	765.96
-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 driver**

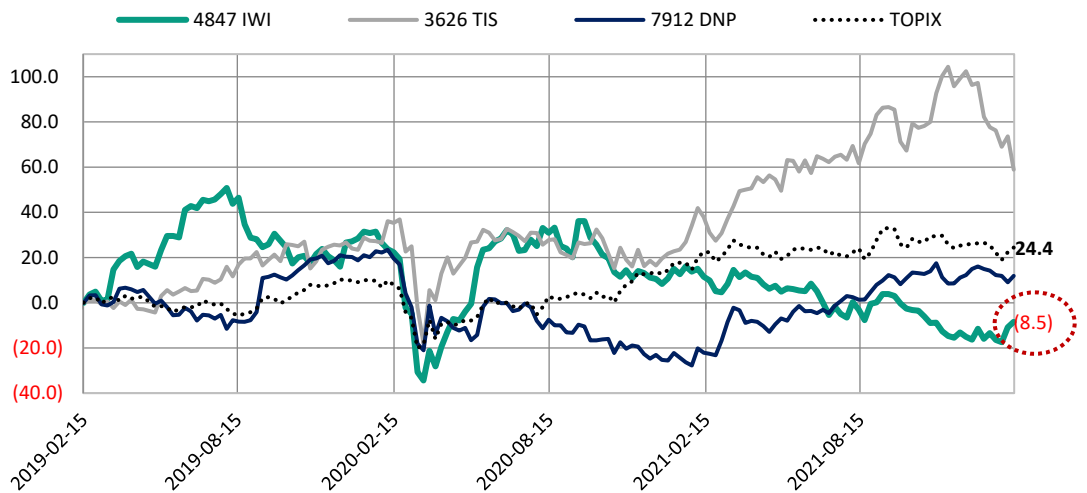
- ✓ A focus initiative is switching to a recurring (stock) revenue model for cloud services. As startup costs disappear and revenue gains critical mass, cloud services business has turned profitable.
- ✓ As can be seen in the right-hand monthly stock price chart, the share price appears to have put in a double bottom just below 500 in Mar-2018 and in Jan-2022, and risk appears balanced on the upside considering high profit growth expected going forward..
- ✓ 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.



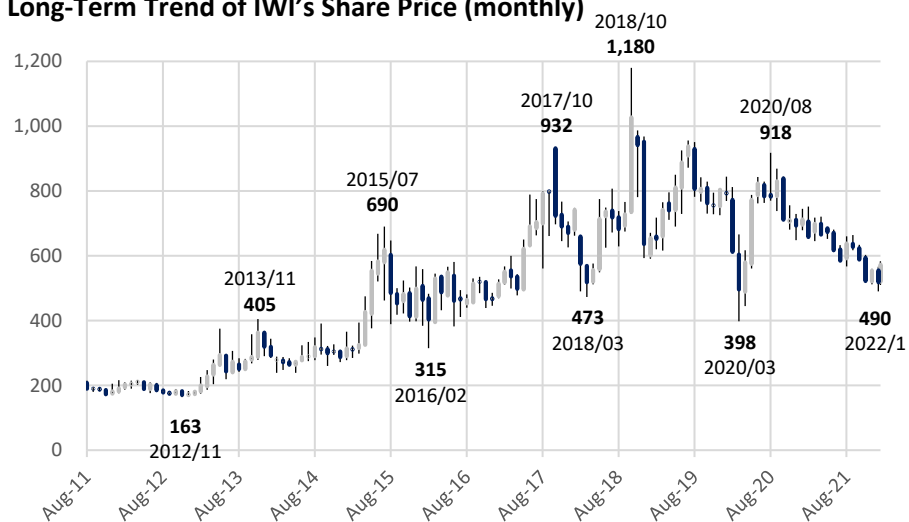
CEO Kunimitsu Sato (61)



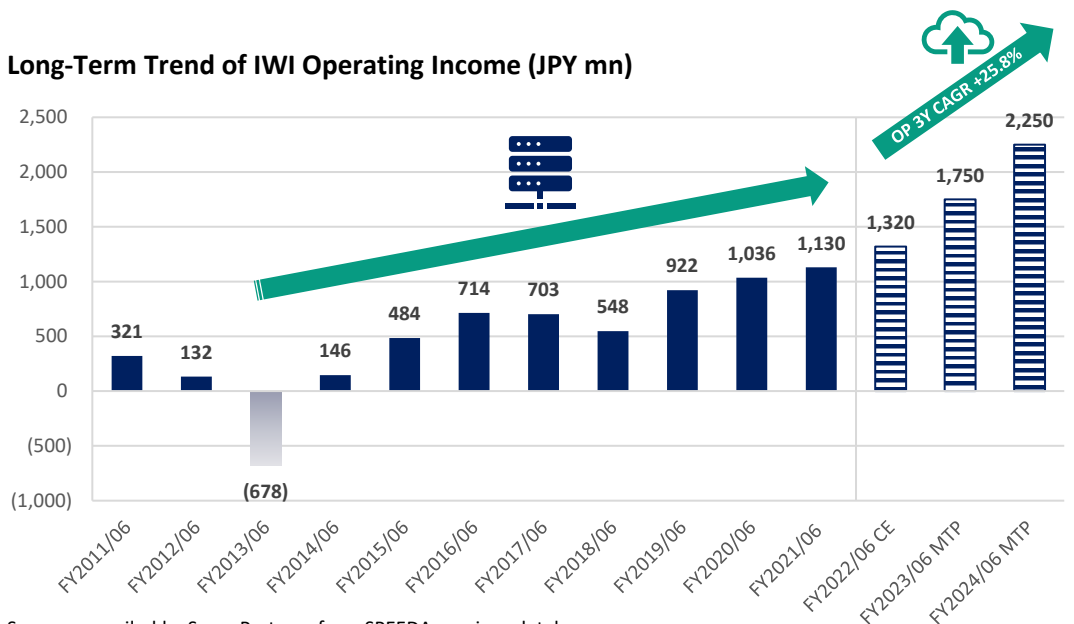
**3-Year Weekly Relative Performance: only IWI is underwater due to confusion over the TSE Prime Market listing, just as profits are taking off**



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



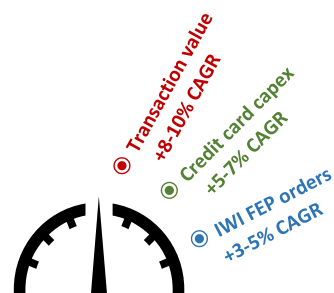
**Long-Term Trend of IWI Operating Income (JPY mn)**



Source: compiled by Sessa Partners from SPEEDA earnings database.

**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**

<b>Banks</b>	Mitsubishi UFJ NICOS Co.,Ltd. Sumitomo Mitsui Card Co., Ltd.
<b>Retail</b>	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
<b>Consumer Finance</b>	Orient Corporation APLUS FINANCIAL CO., LTD Life Card Co., Ltd. JACCS CO., LTD.
<b>Commerce</b>	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
<b>2019 Q1</b>	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
<b>2020 Q1</b>	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)
<b>2021 Q1</b>	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
Q3	16,819	8.1	6,185	7.6	5,332	17.2	4,266	1.0	1,036	(0.6)
Q4	19,512	12.5	7,252	13.5	6,179	19.7	4,911	5.1	1,170	4.3
<b>2019 Jan</b>	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
<b>2020 Jan</b>	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)
<b>2021 Jan</b>	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)
Sep	5,546	6.9	2,022	5.8	1,794	16.8	1,396	(0.1)	333	(3.1)
Oct	5,965	8.5	2,238	9.0	1,858	15.1	1,512	2.6	357	0.0
Nov	6,430	12.6	2,378	12.7	2,030	20.6	1,631	5.7	391	4.8
Dec	7,116	16.0	2,636	18.5	2,292	22.9	1,767	6.8	421	7.9

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

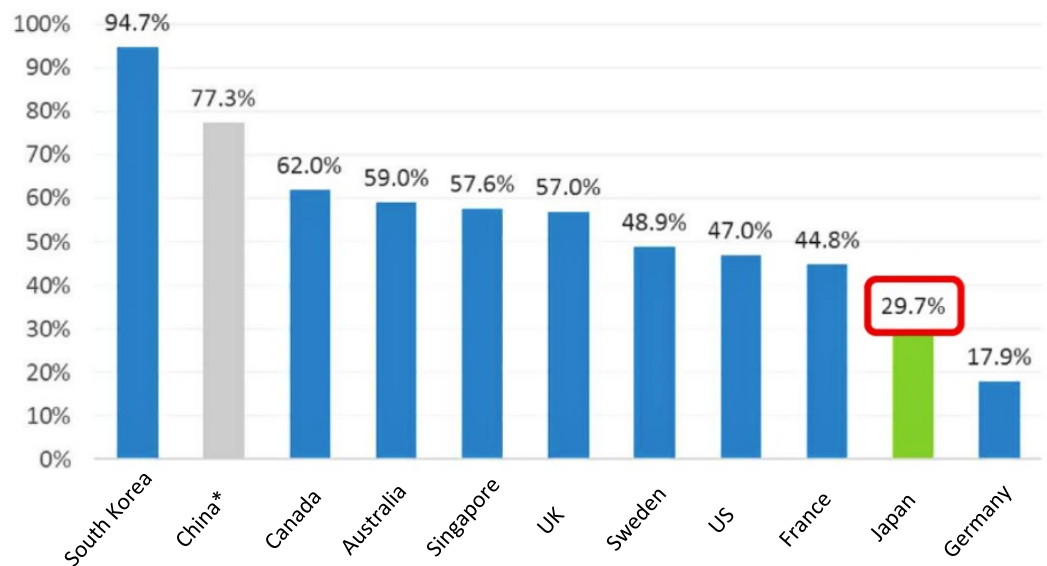


Source: BOJ

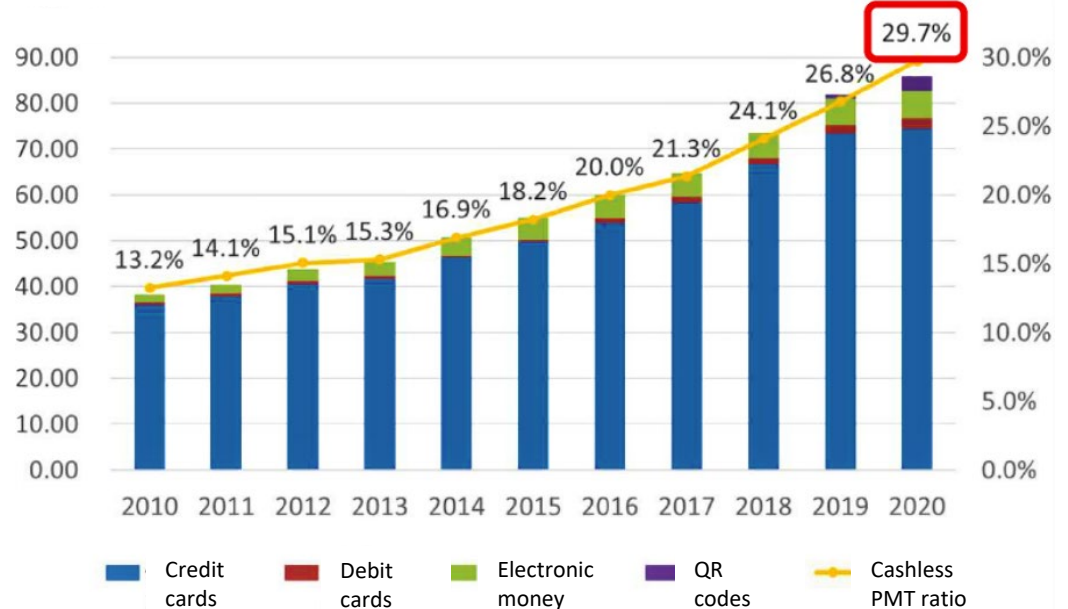
**Current Status of Cashless Payments in Japan: Targeting 40% by 2025**

The Cabinet Secretariat announced “Future Investment Strategy 2017” in June-2017, and the Ministry of Economy, Trade and Industry announced “Cashless Vision” in April-2018. Cashless Vision set a goal of raising the cashless payment ratio to 40% by 2025 when the Japan International Expo (Osaka – Kansai Expo) will be held, and in the future target 80%. **Promotion of cashless payment not only raises convenience for consumers, but it also address issues like the chronic labor shortage from the declining birthrate and aging society, improves productivity of SMEs, and helps to revitalize rural areas.** While Japan has a well-developed credit card industry which is enjoying structural growth drivers including government policy targeting a higher cashless ratio, South Korea and China are leading Asia in adopting cashless payments through aggressive adoption of new cashless technologies.

**Cashless payments as a pct of household final consumption expenditure 2018**



**Trend of cashless payments and the cashless PMT ratio in Japan (JPY tril.)**



Source: [https://www.meti.go.jp/shingikai/mono\\_info\\_service/cashless\\_payment/pdf/2021\\_001\\_04\\_00.pdf](https://www.meti.go.jp/shingikai/mono_info_service/cashless_payment/pdf/2021_001_04_00.pdf)

Note: \*China is a reference value from Euromonitor International. Japan figure is for 2020.

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