

4847 INTELLIGENT WAVE INC.

Sponsored Research
August 4, 2021

 Sessa Investment Research

Hiking target dividend payout from 30% → 40% New rolling MTP targets announced (3-year OP CAGR +25.8%)

SUMMARY

- At 15:30 on July 28, 2021, the Company announced that the Board of Directors resolved to increase the annual dividend to shareholders of record at the end of June from the previous indication for ¥10.00 → ¥13.00, subject to approval at the Ordinary General Meeting of Shareholders on September 29, 2021. In a separate press release disclosed at the same time, "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). In response, along with unwavering 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 coming months.
- As can be seen in the 4Q FY6/21 Non-Consolidated Financial Results Summary table below, other than the positive surprise of the sharp dividend hike announced one week ago, results were basically in line with guidance. However, the steady improvement in operating profit margin (see graph on the following page) is noteworthy, as unwavering execution of the business plan is yielding concrete results, and structural profitability improvement is likely the key driver of the share price going forward (please see P4). The new rolling MTP (please see P3) announced together with financial results today is targeting 3-year net sales CAGR of +10.3%, and 3-year OP CAGR of +25.8%. Current temporary weakness in the share price until the listing issue is resolved is highlighting growing undervaluation in light of the significantly improved medium-term earnings outlook, in our opinion.

IWI 4Q FY6/21 Non-Consolidated Financial Results Summary

[J-GAAP]	Net	YoY	Oper.	YoY	Ord.	YoY	Net	YoY	EPS	DPS	BPS
¥ mn, %	Sales		Inc.		Inc.		Inc.		(¥)	(¥)	(¥)
FY17.6	8,470	17.5	703	(4.0)	766	2.1	547	6.6	20.78	7.00	214.51
FY18.6	10,604	25.2	548	(22.0)	574	(25.1)	377	(31.0)	14.36	7.00	217.18
FY19.6	10,443	(1.5)	922	68.3	954	66.2	684	81.2	25.99	9.00	242.23
FY20.6	10,921	4.6	1,036	12.5	1,075	12.7	762	11.4	29.00	10.00	265.55
FY21.6 CE	11,000	0.7	1,150	11.0	1,190	10.7	820	7.6	31.18	10.00	—
FY21.6 A	11,187	2.4	1,130	9.0	1,171	8.9	840	10.2	31.98	13.00	287.85
FY22.6 ICE	12,000	7.3	1,320	16.8	1,360	16.1	940	11.9	35.76	14.00	—
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 CE	2,933	(5.9)	471	4.6	494	4.2	349	(3.9)			
21.6 Q4 A	3,120	0.1	451	0.1	475	0.2	369	1.5			

Source: compiled from TANSHIN financial statements. Note: CE = as of 3Q results, A = 4Q actual.

4Q FLASH



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 (8/4)	601
YH (21/2/3)	752
YL (21/7/28)	581
10YH (18/10/24)	1,180
10YL (12/11/9)	163.8
Shrs out. (mn shrs)	26.34
Mkt cap (¥ bn)	15.83
EV (¥ bn)	11.52
Shr equity ratio	67.9%
22.6 P/E (CE)	16.8x
22.6 EV/EBITDA (CE)	5.6x
21.6 P/B (act)	2.09x
21.6 ROE (act)	11.6%
22.6 DY (CE)	2.33%

6M price chart (weekly)



Source: SPEEDA

Chris Schreiber CFA

Company Specialist

research@sessapartners.co.jp



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



Sales breakdown

IWI Sales by Product/Service Category

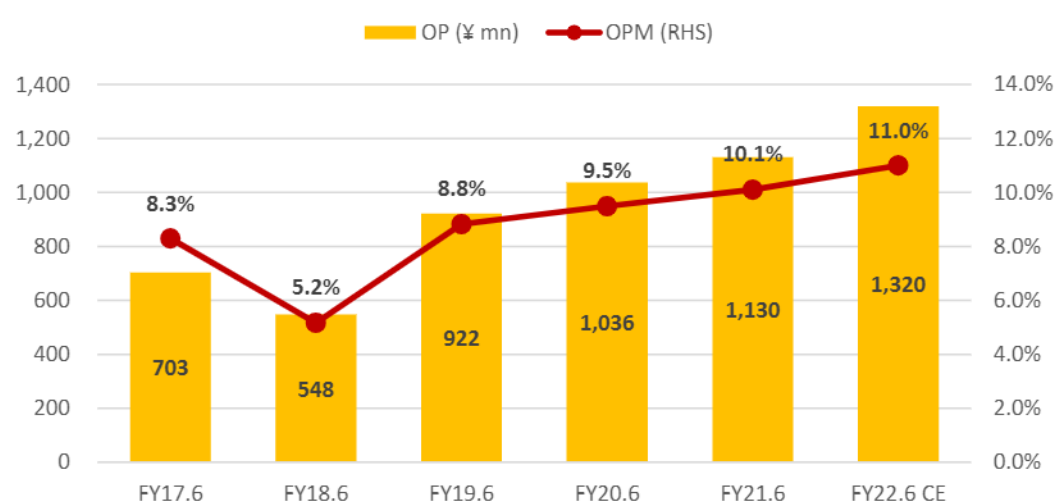
JPY mn, %	Flow/ stock	FY6/20 act	FY6/21 init CE	CHG AMT	FY6/21 act	CHG AMT	FY6/22 init CE	CHG AMT
Net sales	—	10,920	11,000	80	11,187	267	12,000	813
• System software development	flow	5,791	5,362	(429)	5,272	(519)	5,850	578
• Software maintenance	stock	1,246	1,284	38	1,357	111	1,440	83
• In-house package software	flow	244	397	153	335	91	400	65
• Cloud service	stock	828	940	112	942	114	1,130	188
• Hardware	flow	1,526	1,494	(32)	1,638	112	1,730	92
• Third party package software	flow	220	423	203	509	289	250	(259)
• Security products	flow	1,063	1,100	37	1,131	68	1,200	69

Source: compiled by Sessa Partners from TANSHIN financial statements.



OP/OPM trend

Trend of IWI Operating Profit (JPY mn) and OPM

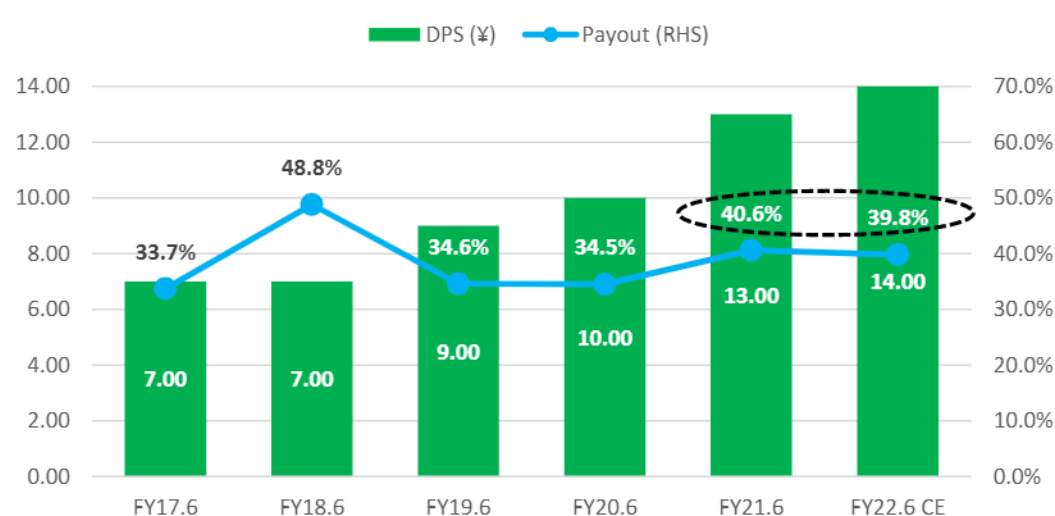


Source: compiled by Sessa Partners from TANSHIN financial statements.



Trend of dividends and the payout ratio

Trend of IWI Annual Dividends and Payout Ratio



Source: compiled by Sessa Partners from TANSHIN financial statements.



Rolling MTP

IWI Rolling 3-Year Medium-Term Management Plan (MTP)

2017.08.02	FY6/17	FY6/18	FY6/19	FY6/20	3Y
JPY mn, %	act	init CE	MTP	MTP	CAGR
Net sales	8,469	9,000	10,000	10,500	7.4
YoY	17.5	6.3	11.1	5.0	
Financial Systems Solutions	7,447	7,700	8,550	8,900	6.1
Product Solutions	1,022	1,300	1,450	1,600	16.1
Operating profit	702	850	950	1,000	12.5
OPM	8.3%	9.4%	9.5%	9.5%	



2018.08.01	FY6/18	FY6/19	FY6/20	FY6/21	3Y
JPY mn, %	act	init CE	MTP	MTP	CAGR
Net sales	10,603	10,700	11,000	11,200	1.8
YoY	25.2	0.9	2.8	1.8	
Financial Systems Solutions	9,332	9,300	9,500	9,600	1.0
Product Solutions	1,271	1,400	1,500	1,600	8.0
Operating profit	547	880	930	1,000	22.3
OPM	5.2%	8.2%	8.5%	8.9%	

2019.08.07	FY6/19	FY6/20	FY6/21	FY6/22	3Y
JPY mn, %	act	init CE	MTP	MTP	CAGR
Net sales	10,443	10,600	11,200	12,000	4.7
YoY	(1.5)	1.5	5.7	7.1	
Financial Systems Solutions	9,336	9,400	9,900	10,600	4.3
Product Solutions	1,106	1,200	1,300	1,400	8.2
Operating profit	921	1,000	1,080	1,200	9.2
OPM	8.8%	9.4%	9.6%	10.0%	

2020.08.05	FY6/20	FY6/21	FY6/22	FY6/23	3Y
JPY mn, %	act	init CE	MTP	MTP	CAGR
Net sales*	10,920	11,000	12,000	13,500	7.3
YoY	4.6	0.7	9.1	12.5	
Operating profit	1,036	1,150	1,250	1,500	13.1
OPM	9.5%	10.5%	10.4%	11.1%	

2021.08.04	FY6/21	FY6/22	FY6/23	FY6/24	3Y
JPY mn, %	act	init CE	MTP	MTP	CAGR
Net sales	11,187	12,000	13,500	15,000	10.3
YoY	2.4	7.3	12.5	11.1	
Operating profit	1,130	1,320	1,750	2,250	25.8
OPM	10.1%	11.0%	13.0%	15.0%	

Source: compiled by Sessa Partners from respective press releases. *Note: reporting segments changed to one single segment from FY6/21.

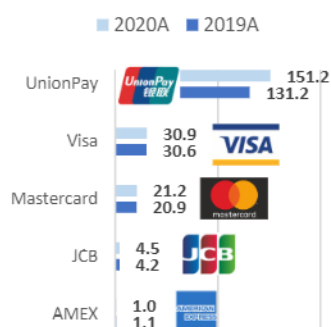


Analyst's view

Structural profitability improvement is the key share price driver

- 1) 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, it is set to turn profitable.
- 2) Eliminating losses associated with security business will be another key driver. Low margins have been partly a function of heavy upfront costs in educating clients. Management is exploring potential tie-up partners, as well as managed services.

Asia-Pac credit card purchase transactions (bn) by global brand

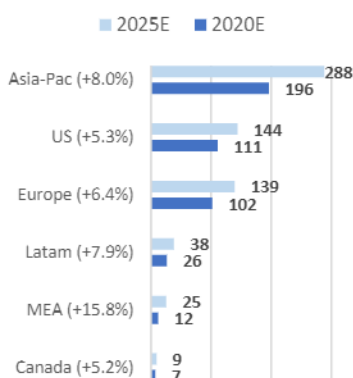


Source: The Nilson Report, July 2021.

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

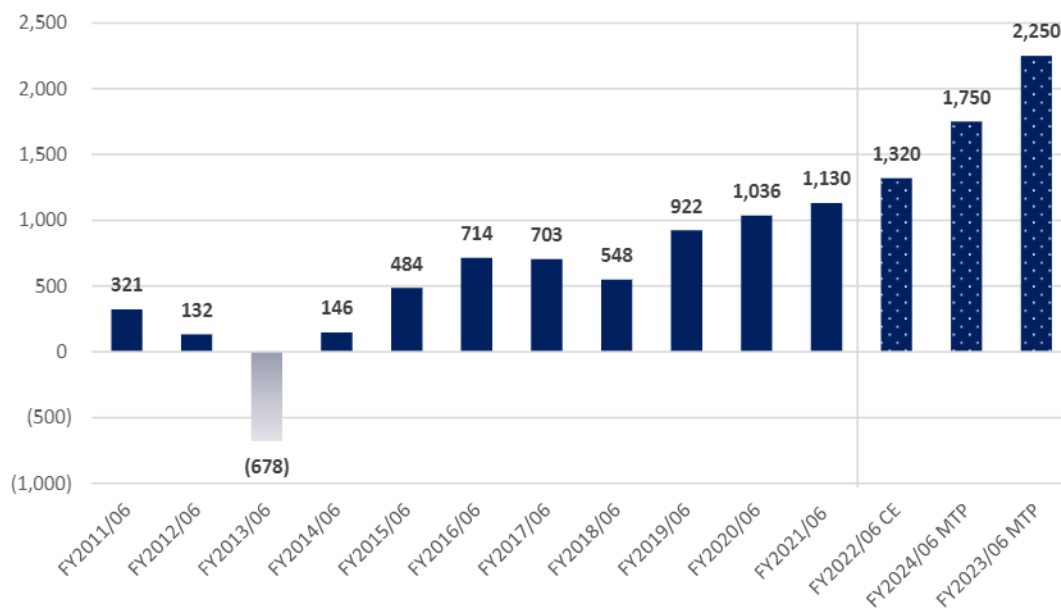


Worldwide credit card purchase transactions (bn, +7.2% CAGR)



Source: The Nilson Report, January 2021.
Note: CAGR by regions in parentheses.

Long-term Trend of IWI Operating Profit (JPY mn)



Source: compiled by Sessa Partners from SPEEDA earnings database.
Note: CE and MTP forecasts from company press release.

LEGAL DISCLAIMER

This report is intended to provide information about the subject company, and it is not intended to solicit or recommend investment. Although the data and information contained in this report have been determined to be reliable, we do not guarantee their authenticity or accuracy.

This report has been prepared by Sessa Partners on behalf of the concerned company for which it has received compensation. Officers and employees of Sessa Partners may be engaged in transactions such as trading in securities issued by the company, or they may have the possibility of doing so in the future. For this reason, the forecasts and information contained in this report may lack objectivity. Sessa Partners assumes no liability for any commercial loss based on use of this report. The copyright of this report belongs to Sessa Partners. Modification, manipulation, distribution or transmission of this report constitutes copyright infringement and is strictly prohibited.



Sessa Partners Inc.

5-3-18 Hiroo, Shibuya-ku, Tokyo
info@sessapartners.co.jp