

Unwavering execution of the business plan

DNP recovering, and card issuer capex concerns did not materialize

SUMMARY

- The company announced 9M cumulative 3Q results at 15:30 after the close on 5/6, and held a virtual results briefing on 5/10, hosted by CEO Sato and Business Planning Dept. GM Fujisawa. 9M cumulative 3Q FY6/21 results are summarized in the table below. Following the roughly 5% decline in 1Q sales and profits, 1H actual results topped guidance, with both sales and OP beating initial guidance by 5%+. This strong momentum continued in the 3Q, with 9M cumulative progress ratios of 73.3% relative to full-term sales guidance ahead of both FY6/20 and the 5-year historical average, and 59.0% relative to full-term OP guidance ahead of FY6/20.
- 4Q implied company estimates point to achieving full-term guidance. Given the concerns about potential negative impact on card issuer capex in the 2H, this is quite a positive confirmation, and highlights the growing undervaluation as a result of lagging relative performance. 3Q orders rose +18.0% YoY and +3.8% sequentially QoQ. High-margin system development backlogs remained at a high level, and there is visibility on large-scale projects in the 4Q.
- Recent weakness of credit card transactions might appear to suggest a tougher earnings environment for card issuers than in the wake of the financial crisis 10 years ago, raising concerns about capex delays, however that was due to an overlap of the timing for the Revised Money Lending Business Act which was passed in Dec-2006, going into effect in Jun-2010 after a grace period, with tightened restrictions leading to a sharp drop in card loans, as well as provisions for interest repayment loss reserves for overpaid interest. The current environment is materially different than during the financial crisis, and the temporary slowdown in card transaction growth has not affected capex plans, nor did difficult 1H earnings for DNP. The P/E is now trading on a 22% discount to its 3-year historical average, and P/B on a 17% discount.

IWI 9M Cumulative 3Q FY6/21 Financial Results Summary

[J-GAAP]	1Q 6/21	2Q 6/21	3Q 6/21	9M 6/21	4Q 6/21	FY6/21
JPY million	act	act	act	act	implied	init CE
Net sales	2,299	2,949	2,819	8,067	2,933	11,000
Operating income	134	271	273	679	471	1,150
Ordinary income	129	293	275	696	494	1,190
Net income	84	202	185	471	349	820
% YoY	1Q 6/21	2Q 6/21	3Q 6/21	9M 6/21	4Q 6/21	FY6/21
Net sales	(4.9)	15.7	(0.7)	3.4	(5.9)	0.7
Operating income	(4.8)	19.2	25.9	15.9	4.6	11.0
Ordinary income	(8.8)	33.5	14.3	15.9	4.2	10.7
Net income	(8.3)	38.4	14.7	18.1	(3.9)	7.6

Source: compiled by Sessa Partners from TANSBIN financial statements.

3Q Follow-up



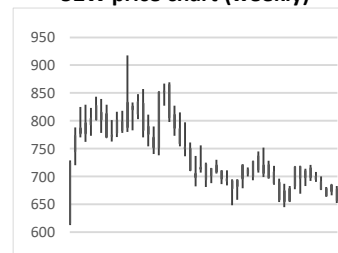
Focus Points:

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

Key Indicators

Share price (5/14)	657
YH (21/2/3)	752
YL (21/3/5)	645
10YH (18/10/24)	1,180
10YL (12/11/9)	163.8
Shrs out. (mn shrs)	26.340
Mkt cap (¥ bn)	17.31
EV (¥ bn)	13.13
Shr equity ratio	67.6%
21.6 P/E (CE)	21.1x
21.6 EV/EBITDA (CE)	7.0x
21.6 9M P/B (act)	2.39x
20.6 ROE (act)	11.4%
21.6 DY (CE)	1.52%

52W price chart (weekly)



Source: SPEEDA

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IWI Sales by Product/Service Category

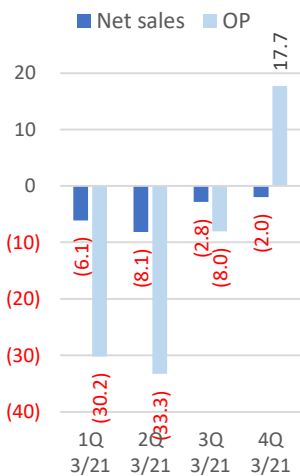
JPY mn, %	Flow/ stock	21.6 Q1 act	CHG AMT	21.6 Q2 act	CHG AMT	21.6 Q3 act	CHG AMT	21.6 9M act	CHG AMT	FY6/21 CE	CHG AMT
Net sales		2,298	(119)	2,949	399	2,820	(18)	8,067	262	11,000	80
• System software development	flow	1,113	(138)	1,324	1	1,273	(535)	3,710	(672)	5,362	(429)
• Software maintenance	stock	315	14	332	27	345	25	992	66	1,284	38
• In-house package software	flow	144	47	65	(17)	58	30	267	60	397	153
• Cloud service	stock	224	46	246	34	232	13	702	93	940	112
• Hardware	flow	208	(145)	664	337	467	278	1,339	470	1,494	(32)
• Third party package software	flow	110	49	130	96	191	138	431	283	423	203
• Security products	flow	181	8	188	(79)	253	32	622	(39)	1,100	37
YoY		21.6 Q1		21.6 Q2		21.6 Q3		21.6 9M		FY6/21	
Net sales		(4.9)	—	15.6	—	(0.6)	—	3.4	—	0.7	—
• System software development	flow	(11.0)	—	0.1	—	(29.6)	—	(15.3)	—	(7.4)	—
• Software maintenance	stock	4.7	—	8.9	—	7.8	—	7.1	—	3.0	—
• In-house package software	flow	48.5	—	(20.7)	—	107.1	—	29.0	—	62.7	—
• Cloud service	stock	25.8	—	16.0	—	5.9	—	15.3	—	13.5	—
• Hardware	flow	(41.1)	—	103.1	—	147.1	—	54.1	—	(2.1)	—
• Third party package software	flow	80.3	—	282.4	—	260.4	—	191.2	—	92.3	—
• Security products	flow	4.6	—	(29.6)	—	14.5	—	(5.9)	—	3.5	—

Source: compiled by Sessa Partners from company IR materials

While sales declined for DNP, that was as expected on completion of a large-scale development project, and the decline was factored into initial guidance. More importantly, this was offset by an FEP system upgrade project including profitable replacement hardware sales for a credit card issuer, as well as FEP system and fraud detection for a new entry card issuer. The graph on the bottom of P3 shows system development backlogs remain at a high level, with visibility on 4Q new orders.

DNP

Dai Nippon Printing FY3/21 Quarterly YoY Earning Trend



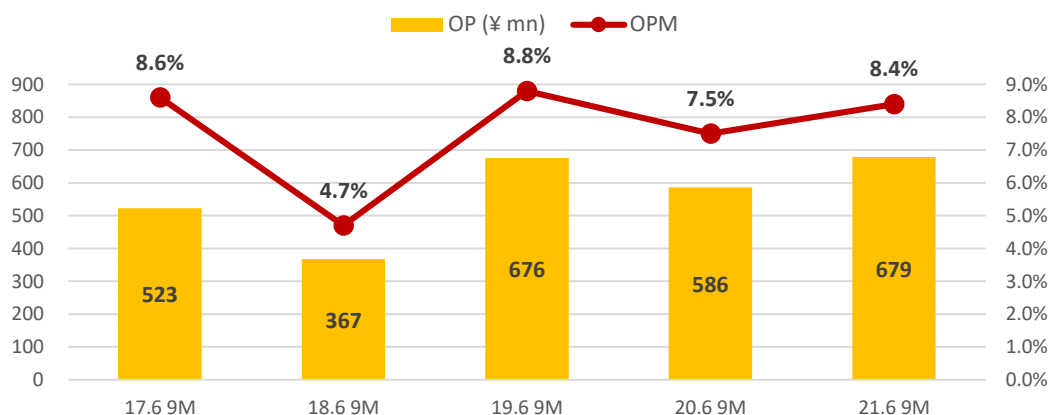
Source: compiled by Sessa Partners from TANSBIN financial statements

IWI 9M Cumul 3Q Sales by Top 3 Customers

JPY mn	20.6 9M	21.6 9M	CHG	Main projects
1) DNP	1,590	1,217	(373)	TSP system (smartphone payment), system operations (24/365), payment platform
2) System dev. co.	200	992	792	FEP system and fraud detection for card issuer new entry
3) Credit card issuer	338	836	498	Development and hardware sales for FEP replacement

Source: compiled by Sessa Partners from company IR materials

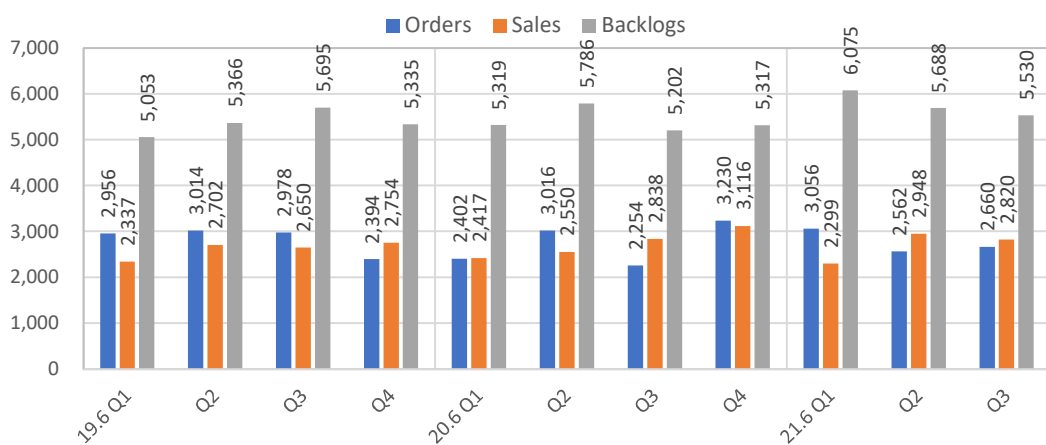
IWI 5-Year Trend of 9M Cumulative 3Q Operating Profit and OPM



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)

Source: compiled by Sessa Partners from company IR materials



3Q orders rose +18.0% YoY and +3.8% sequentially QoQ. The ¥3.2bn in 4Q last term included ¥0.7bn for hardware, so steadily booking quarterly orders of ¥2.2-2.3bn before hardware is a healthy level.

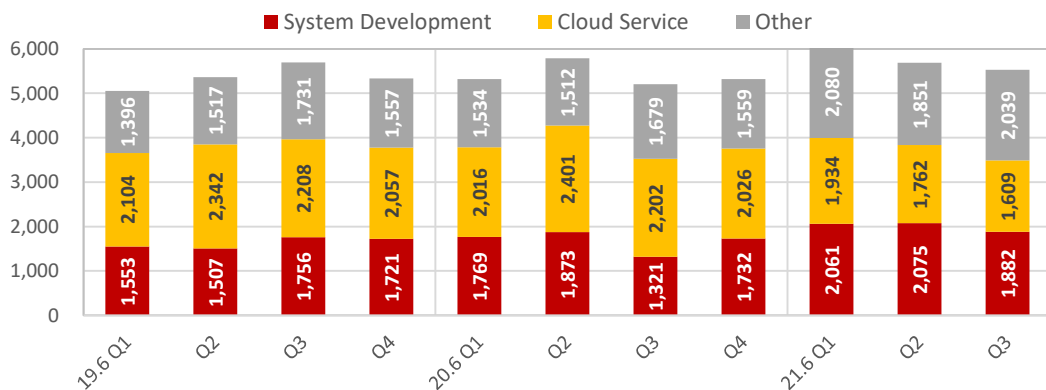


IWI Quarterly Trend of Backlogs by Category

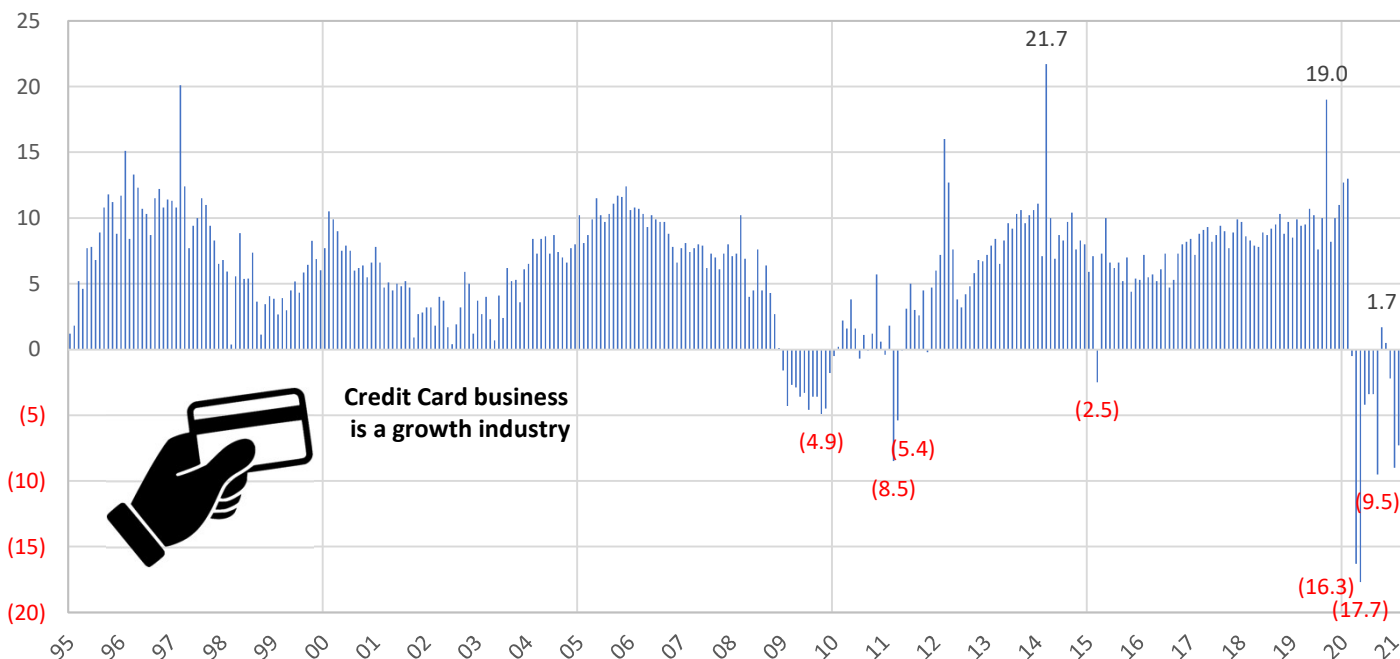
JPY mn, %	System Devpt.	QoQ	Cloud Service	QoQ	Other	QoQ
19.6 Q1	1,553	0.3	2,104	30.3	1,396	9.8
Q2	1,507	(3.0)	2,342	11.3	1,517	8.7
Q3	1,756	16.5	2,208	(5.7)	1,731	14.1
Q4	1,721	(2.0)	2,057	(6.8)	1,557	(10.1)
20.6 Q1	1,769	2.8	2,016	(2.0)	1,534	(1.5)
Q2	1,873	5.9	2,401	19.1	1,512	(1.4)
Q3	1,321	(29.5)	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

Source: compiled by Sessa Partners from company IR materials

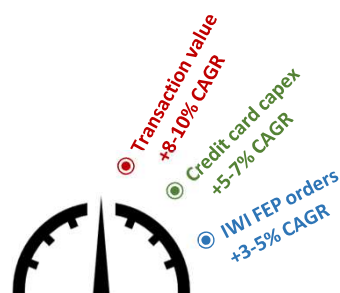
While high-margin system development backlogs pulled back sequentially, the level remains high, and the company expects to book some large-scale projects in the 4Q.



METI Current Survey of Selected Service Industries: Monthly YoY Trend of Total Credit Card Transactions



Source: Ministry of Economy, Trade and Industry monthly data from Jan-1995 — Feb-2021. Note: average monthly YoY growth over the period is +6.1% YoY.



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

FEP (front-end processing):
Credit card on-premise infrastructure for authorization center connection packages



8253 Credit Saison Payment Segment

[IFRS] JPY mn, %	Net revenue	Business profit
FY3/19	228,518	16,915
FY3/20	232,441	6,297
YoY	1.7	(62.8)
FY3/21	209,130	17,968
YoY	(10.0)	85.3
vs FY3/19	(8.5)	6.2

At first glance, recent weakness of credit card transactions might appear to suggest a tougher earnings environment for card issuers than in the wake of the financial crisis 10 years ago, raising concerns about capex delays, however that would be an incorrect conclusion. Capex by card issuers WAS adversely impacted a decade ago, but that was due to an overlap of the timing for the Revised Money Lending Business Act which was passed in Dec-2006, going into effect in Jun-2010 after a grace period, again cutting the maximum annual lending rate from 29% to 15-20%, and limiting credit extension to 1/3 of annual salaries etc., resulting in a precipitous drop in card loans, as well as the start of a system for borrowers to demand repayment of past overpaid interest, affecting not only Acom, Takefuji, Promise and Aiful, but also card loans for major credit card companies, resulting in provisions for interest repayment loss reserves.

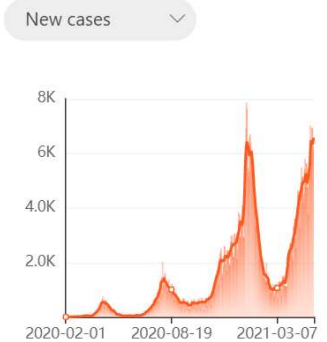
8253 Credit Saison reported FY3/21 results on 5/14. According to the IR results briefing materials, net revenue for its Payment Segment (main credit card and ancillary business) declined -10.0%, largely due to closure/reduced business hours of client partners (dept. stores, restaurants etc.). However, business profit rebounded sharply by +85.3% due to one-off expenses the previous FY for increasing provisions for interest repayment loss reserves and frontloaded IC card renewal costs (left table). However, business profit still increased +6.2% versus 2 years earlier. **The point is the current environment is materially different than during the financial crisis**, and according to IWI, the temporary slowdown in card transaction growth has not affected capex plans, with visibility on several large-scale projects in the 4Q.

IWI's parent, 7912 Dai Nippon Printing (50.6% stake), is also the largest customer, accounting for annual sales of roughly ¥2bn out of ¥10-11bn total sales. DNP reported FY3/21 results on 5/13. After a challenging 1H due to high gearing to general economic activity/events etc., **full-term OP came in 23.8% ahead of initial full-term guidance with a sharp recovery in the 4Q** (left graph P2).



SESSA Smart Charts

Japan COVID-19 data as of May 15

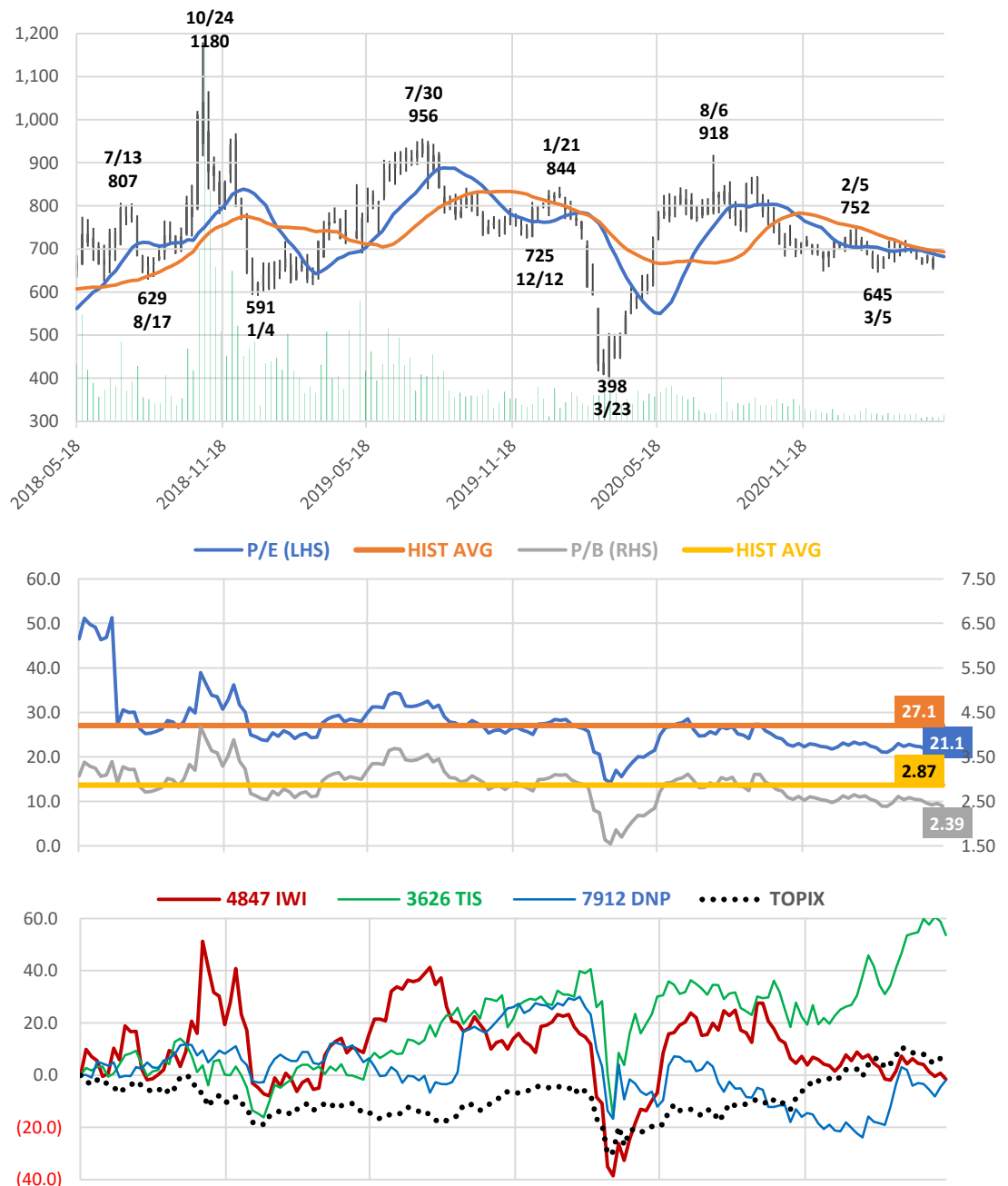


Source: MSN COVID-19 Tracker

Share price trend, valuations and relative performance

- 1) Japan issued a second declaration of a state of emergency in January, and a third declaration of a state of emergency in May. The left graph shows both waves of new cases of COVID-19 surging to over 6,000 per day. This may be causing persistent concerns over potential impact on credit card capex, or earnings of parent DNP, but as explained on P4, neither of these are affecting IWI business.
- 2) Since the company has been able to achieve unwavering execution on its business plan, the relative underperformance of the share price shown in the graph at the bottom has made undervaluation shown in the graph in the middle more pronounced. The P/E is trading on a 22% discount to its 3-year historical average, and P/B on a 17% discount.

3-Year Weekly Share Price, Historical P/E and P/B, and Relative Performance



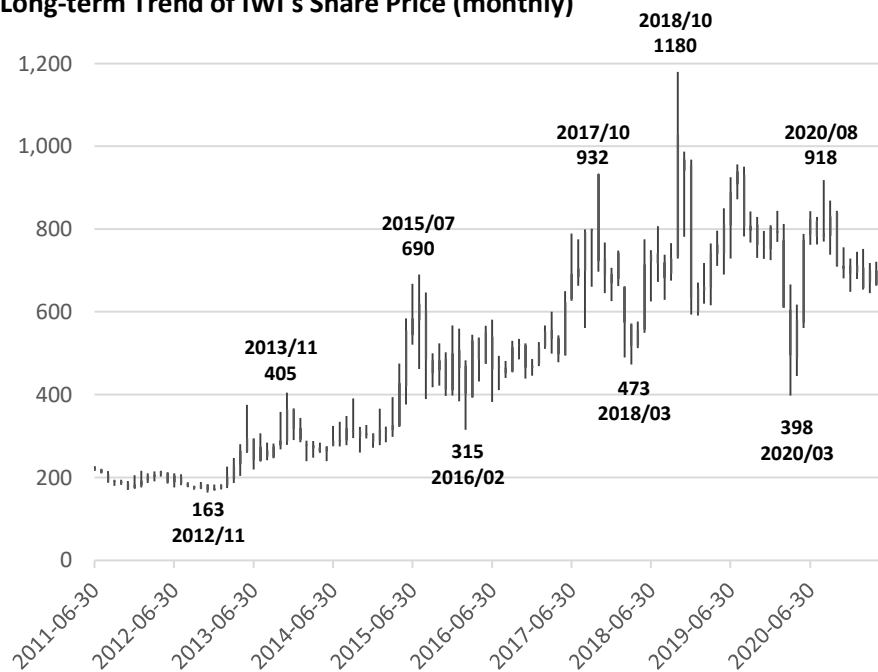


Analyst's view

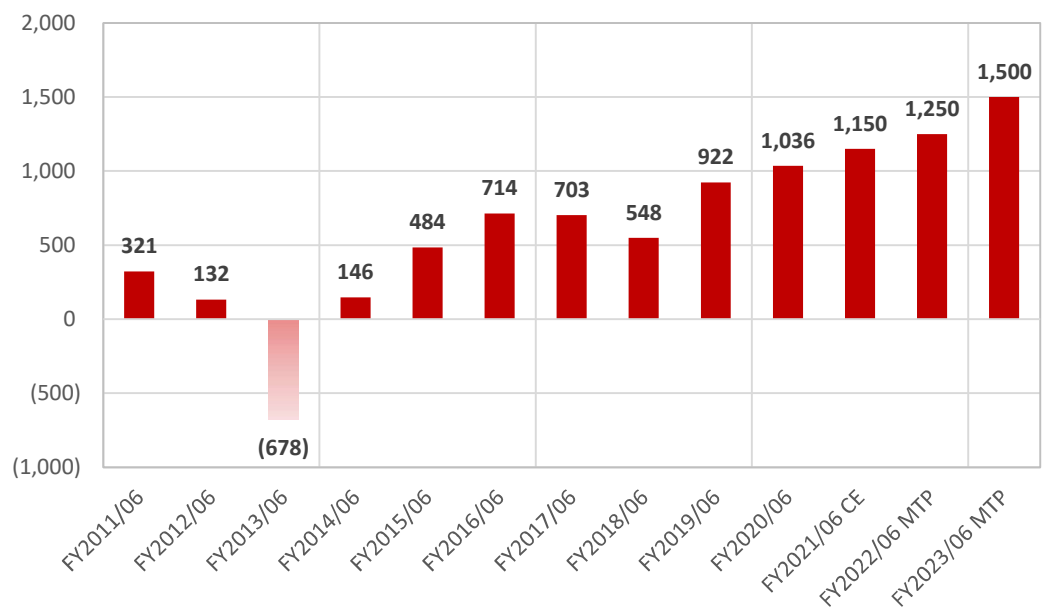
Structural profitability improvement is the key share price driver

- 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.

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



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



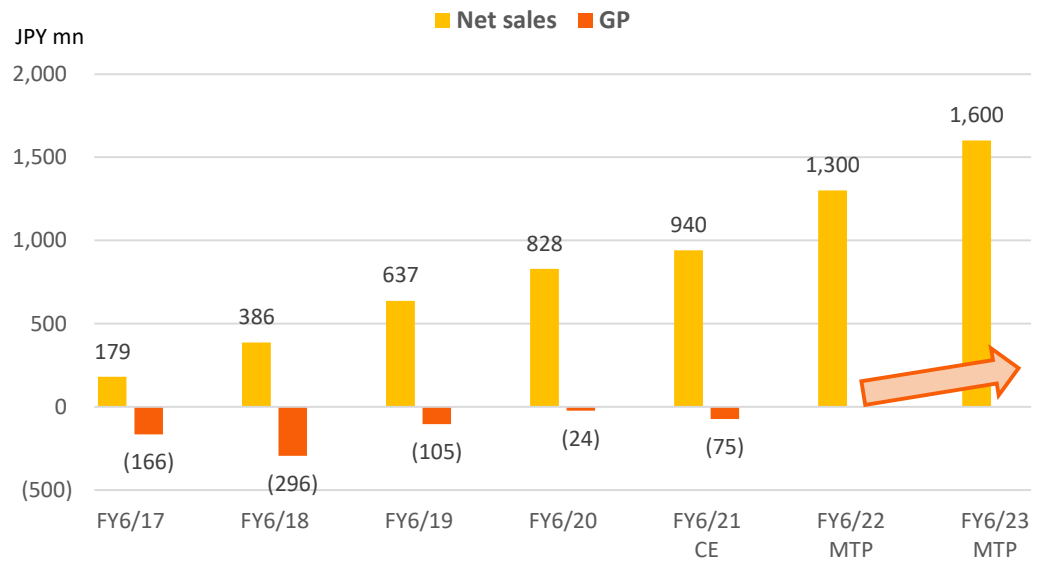
Source: compiled by Sessa Partners from SPEEDA earnings database.
 Note: MTP forecasts from company IR materials

Cloud Services

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. IWI identified a major business opportunity here, targeting regional banks considering to become credit card issuers. IWI's IOASIS cloud service to support acquiring merchants is the only one of its kind available.

Given the smaller scale relative to the megabanks, the initial investment burden for installing their own FEP switching system is a potential barrier. By porting IWI's proprietary Net+1 and AcePlus into cloud service solutions, the benefit to the regional bank client is an affordable scheme to lease the service, fixing the running costs including maintenance. **In return, IWI gets a recurring revenue stream that is scalable.**

Focus initiative: shifting to a recurring (stock) revenue model based on cloud services



Source: compiled by Sessa Partners from IR results briefing materials



Cloud Functionality Service

IOASIS: Merchant acquiring

IFINDS: Fraud detection

IGATES: Switching, gateway

IPRETS: Point rebate system

FY6/21: Upfront investment results in higher costs, expecting 3 new clients

	FY06/17 actual	FY06/18 actual	FY06/19 actual	FY06/20 actual	FY06/21 forecast
Net sales	179	386	637	828	940
Gross profit (loss)	(166)	(296)	(105)	(24)	(75)
Services and customers					
■ IPRETS	0	0	0	0	1
■ IGATES	0	1	2	2	4
■ IFINDS	0	1	3	3	3
■ IOASIS	3	4	4	5	5



Regional Banks (approx. 100)

	FY17	FY18	FY19	FY20	FY06/21
1 st Customer for IPRETS					Sales contribution from Q2
4 th customer for IGATES					Sales contribution From 2H
3 rd customer for IGATES					
2 customers for IGATES					
3 customers for IFINDS					
5 customers for IOASIS				Started in Q2→	Full-year contribution to sales

IPRETS (Point system): Started in October

Source: IR results briefing materials

INTELLIGENT WAVE INC. Earnings Seasonality Analysis

[J-GAAP] JPY million	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1H	2H	FY	1H	2H	FY	
PCT	Earnings				Progress ratio				Earnings			Progress ratio			
FY6/16	Net sales	1,331	1,665	1,891	2,320	18.5%	23.1%	26.2%	32.2%	2,996	4,211	7,207	41.6%	58.4%	100.0%
Consol	Oper. profit	34	169	227	284	4.8%	23.7%	31.8%	39.8%	203	511	714	28.4%	71.6%	100.0%
	Ord. profit	41	175	230	285	5.6%	23.9%	31.5%	39.0%	216	515	731	29.5%	70.5%	100.0%
	Profit ATOP	34	112	141	192	7.1%	23.4%	29.4%	40.1%	146	333	479	30.5%	69.5%	100.0%
FY6/17	Net sales	1,654	2,139	2,264	2,413	19.5%	25.3%	26.7%	28.5%	3,793	4,677	8,470	44.8%	55.2%	100.0%
Non-Con	Oper. inc.	38	210	275	180	5.4%	29.9%	39.1%	25.6%	248	455	703	35.3%	64.7%	100.0%
	Ord. inc.	37	238	289	202	4.8%	31.1%	37.7%	26.4%	275	491	766	35.9%	64.1%	100.0%
	Net inc.	20	172	214	141	3.7%	31.4%	39.1%	25.8%	192	355	547	35.1%	64.9%	100.0%
FY6/18	Net sales	2,322	2,371	3,136	2,775	21.9%	22.4%	29.6%	26.2%	4,693	5,911	10,604	44.3%	55.7%	100.0%
Non-Con	Oper. inc.	129	61	177	181	23.5%	11.1%	32.3%	33.0%	190	358	548	34.7%	65.3%	100.0%
	Ord. inc.	128	69	176	201	22.3%	12.0%	30.7%	35.0%	197	377	574	34.3%	65.7%	100.0%
	Net inc.	83	46	109	139	22.0%	12.2%	28.9%	36.9%	129	248	377	34.2%	65.8%	100.0%
FY6/19	Net sales	2,337	2,702	2,650	2,754	22.4%	25.9%	25.4%	26.4%	5,039	5,404	10,443	48.3%	51.7%	100.0%
Non-Con	Oper. inc.	71	198	407	246	7.7%	21.5%	44.1%	26.7%	269	653	922	29.2%	70.8%	100.0%
	Ord. inc.	79	203	406	266	8.3%	21.3%	42.6%	27.9%	282	672	954	29.6%	70.4%	100.0%
	Net inc.	48	157	262	217	7.0%	23.0%	38.3%	31.7%	205	479	684	30.0%	70.0%	100.0%
FY6/20	Net sales	2,417	2,550	2,838	3,116	22.1%	23.3%	26.0%	28.5%	4,967	5,954	10,921	45.5%	54.5%	100.0%
Non-Con	Oper. inc.	141	228	217	450	13.6%	22.0%	20.9%	43.4%	369	667	1,036	35.6%	64.4%	100.0%
	Ord. inc.	141	219	241	474	13.1%	20.4%	22.4%	44.1%	360	715	1,075	33.5%	66.5%	100.0%
	Net inc.	91	146	161	364	11.9%	19.2%	21.1%	47.8%	237	525	762	31.1%	68.9%	100.0%
5Y AVG	Net sales	2,012	2,285	2,556	2,676	21.1%	24.0%	26.8%	28.1%	4,298	5,231	9,529	45.1%	54.9%	100.0%
	Oper. inc.	83	173	261	268	10.5%	22.1%	33.2%	34.2%	256	529	785	32.6%	67.4%	100.0%
	Ord. inc.	85	181	268	286	10.4%	22.0%	32.7%	34.8%	266	554	820	32.4%	67.6%	100.0%
	Net inc.	55	127	177	211	9.7%	22.2%	31.1%	37.0%	182	388	570	31.9%	68.1%	100.0%
											CE	CE		CE	CE
FY6/21	Net sales	2,299	2,949	2,819	—	20.9%	26.8%	25.6%	—	5,248	5,752	11,000	47.7%	52.3%	100.0%
Non-Con	Oper. inc.	134	272	273	—	11.7%	23.7%	23.7%	—	406	744	1,150	35.3%	64.7%	100.0%
	Ord. inc.	129	292	275	—	10.8%	24.5%	23.1%	—	421	769	1,190	35.4%	64.6%	100.0%
	Net inc.	84	202	185	—	10.2%	24.6%	22.6%	—	286	534	820	34.9%	65.1%	100.0%

Source: compiled by Sessa Partners from SPEEDA earnings database.

5-Year Basic Earnings Analysis to Gauge Current Performance

- ◆ **Seasonality (progress ratios above)**
 - 9M cumulative progress of 73.3% relative to full-term sales guidance is ahead both FY6/20 and the 5-year historical average
 - 9M cumulative progress of 59.0% relative to full-term OP guidance is nicely ahead of FY6/20
- ◆ **YoY Trend (top of following page)**
 - Despite 1Q sales and profits declining due to delays in a development project, this was made up in the 2Q, and solid momentum continued in the 3Q, with visibility on 4Q new projects
- ◆ **Margins (bottom of following page)**
 - 3Q GPM of 27.2% is ahead both FY6/20 and the 5-year historical average
 - 3Q OPM of 9.7% is nicely ahead of FY6/20

9M cumulative 3Q 6/21 conclusion and takeaways:

—The company is on course to achieve initial guidance. Given the concerns about potential negative impact on card issuer capex in the 2H, this is quite a positive development, and highlights the growing undervaluation as a result of lagging relative performance

INTELLIGENT WAVE INC. Earnings YoY Trend Analysis

[J-GAAP]	JPY million	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1H	2H	FY	1H	2H	FY
	% YoY	Earnings				YoY trend				Earnings			YoY trend		
FY6/16	Net sales	1,331	1,665	1,891	2,320	(6.7)	17.3	29.8	24.9	2,996	4,211	7,207	5.3	27.0	17.0
Consol	Oper. profit	34	169	227	284	(64.2)	89.9	129.3	41.3	203	511	714	10.3	70.3	47.5
	Ord. profit	41	175	230	285	(55.4)	90.2	109.1	45.4	216	515	731	17.4	68.3	49.2
	Profit ATOP	34	112	141	192	(44.3)	(39.1)	220.5	5.5	146	333	479	(40.4)	47.3	1.7
FY6/17	Net sales	1,654	2,139	2,264	2,413	24.3	28.5	19.7	4.0	3,793	4,677	8,470	26.6	11.1	17.5
Non-Con	Oper. inc.	38	210	275	180	11.8	24.3	21.1	(36.6)	248	455	703	22.2	(11.0)	(1.5)
	Ord. inc.	37	238	289	202	(9.8)	36.0	25.7	(29.1)	275	491	766	27.3	(4.7)	4.8
	Net inc.	20	172	214	141	(41.2)	53.6	51.8	(26.6)	192	355	547	31.5	6.6	14.2
FY6/18	Net sales	2,322	2,371	3,136	2,775	40.4	10.8	38.5	15.0	4,693	5,911	10,604	23.7	26.4	25.2
Non-Con	Oper. inc.	129	61	177	181	239.5	(71.0)	(35.6)	0.6	190	358	548	(23.4)	(21.3)	(22.0)
	Ord. inc.	128	69	176	201	245.9	(71.0)	(39.1)	(0.5)	197	377	574	(28.4)	(23.2)	(25.1)
	Net inc.	83	46	109	139	315.0	(73.3)	(49.1)	(1.4)	129	248	377	(32.8)	(30.1)	(31.1)
FY6/19	Net sales	2,337	2,702	2,650	2,754	0.6	14.0	(15.5)	(0.8)	5,039	5,404	10,443	7.4	(8.6)	(1.5)
Non-Con	Oper. inc.	71	198	407	246	(45.0)	224.6	129.9	35.9	269	653	922	41.6	82.4	68.2
	Ord. inc.	79	203	406	266	(38.3)	194.2	130.7	32.3	282	672	954	43.1	78.2	66.2
	Net inc.	48	157	262	217	(42.2)	241.3	140.4	56.1	205	479	684	58.9	93.1	81.4
FY6/20	Net sales	2,417	2,550	2,838	3,116	3.4	(5.6)	7.1	13.1	4,967	5,954	10,921	(1.4)	10.2	4.6
Non-Con	Oper. inc.	141	228	217	450	98.6	15.2	(46.7)	82.9	369	667	1,036	37.2	2.1	12.4
	Ord. inc.	141	219	241	474	78.5	7.9	(40.6)	78.2	360	715	1,075	27.7	6.4	12.7
	Net inc.	91	146	161	364	89.6	(7.0)	(38.5)	67.7	237	525	762	15.6	9.6	11.4
FY6/21	Net sales	2,299	2,949	2,819	—	(4.9)	15.6	(0.7)	—	5,248	5,752	11,000	5.7	(3.4)	0.7
Non-Con	Oper. inc.	134	272	273	—	(5.0)	19.3	25.8	—	406	744	1,150	10.0	11.5	11.0
	Ord. inc.	129	292	275	—	(8.5)	33.3	14.1	—	421	769	1,190	16.9	7.6	10.7
	Net inc.	84	202	185	—	(7.7)	38.4	14.9	—	286	534	820	20.7	1.7	7.6

Source: compiled by Sessa Partners from SPEEDA earnings database.

INTELLIGENT WAVE INC. Earnings Margins Analysis

[J-GAAP]	JPY million	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1H	2H	FY	1H	2H	FY
	PCT	Earnings				Margins				Earnings			Margins		
FY6/16	GP	332	477	556	628	24.9%	28.6%	29.4%	27.1%	809	1,184	1,993	27.0%	28.1%	27.7%
Consol	SG&A	297	309	329	344	22.3%	18.6%	17.4%	14.8%	606	673	1,279	20.2%	16.0%	17.7%
	EBITDA	84	212	280	352	6.3%	12.7%	14.8%	15.2%	296	632	928	9.9%	15.0%	12.9%
	OP	34	169	227	284	2.6%	10.2%	12.0%	12.2%	203	511	714	6.8%	12.1%	9.9%
FY6/17	GP	342	572	656	562	20.7%	26.7%	29.0%	23.3%	914	1,218	2,132	24.1%	26.0%	25.2%
Non-Con	SG&A	304	362	381	383	18.4%	16.9%	16.8%	15.9%	666	764	1,430	17.6%	16.3%	16.9%
	EBITDA	93	295	372	280	5.6%	13.8%	16.4%	11.6%	388	652	1,040	10.2%	13.9%	12.3%
	OP	38	210	275	180	2.3%	9.8%	12.1%	7.5%	248	455	703	6.5%	9.7%	8.3%
FY6/18	GP	551	472	564	636	23.7%	19.9%	18.0%	22.9%	1,023	1,200	2,223	21.8%	20.3%	21.0%
Non-Con	SG&A	422	411	387	455	18.2%	17.3%	12.3%	16.4%	833	842	1,675	17.7%	14.2%	15.8%
	EBITDA	238	177	296	322	10.2%	7.5%	9.4%	11.6%	415	618	1,033	8.8%	10.5%	9.7%
	OP	129	61	177	181	5.6%	2.6%	5.6%	6.5%	190	358	548	4.0%	6.1%	5.2%
FY6/19	GP	526	672	884	725	22.5%	24.9%	33.4%	26.3%	1,198	1,609	2,807	23.8%	29.8%	26.9%
Non-Con	SG&A	455	474	478	478	19.5%	17.5%	18.0%	17.4%	929	956	1,885	18.4%	17.7%	18.1%
	EBITDA	196	347	642	445	8.4%	12.8%	24.2%	16.2%	543	1,087	1,630	10.8%	20.1%	15.6%
	OP	71	198	407	246	3.0%	7.3%	15.4%	8.9%	269	653	922	5.3%	12.1%	8.8%
FY6/20	GP	622	712	689	958	25.7%	27.9%	24.3%	30.7%	1,334	1,647	2,981	26.9%	27.7%	27.3%
Non-Con	SG&A	480	485	472	507	19.9%	19.0%	16.6%	16.3%	965	979	1,944	19.4%	16.4%	17.8%
	EBITDA	286	375	364	617	11.8%	14.7%	12.8%	19.8%	661	981	1,642	13.3%	16.5%	15.0%
	OP	141	228	217	450	5.8%	8.9%	7.6%	14.4%	369	667	1,036	7.4%	11.2%	9.5%
5Y AVG	GP	475	581	670	702	23.6%	25.4%	26.2%	26.2%	1,056	1,372	2,427	24.6%	26.2%	25.5%
	SG&A	392	408	409	433	19.5%	17.9%	16.0%	16.2%	800	843	1,643	18.6%	16.1%	17.2%
	EBITDA	179	281	391	403	8.9%	12.3%	15.3%	15.1%	461	794	1,255	10.7%	15.2%	13.2%
	OP	83	173	261	268	4.1%	7.6%	10.2%	10.0%	256	529	785	6.0%	10.1%	8.2%
FY6/21	GP	589	801	766	—	25.6%	27.2%	27.2%	—	1,390	—	—	26.5%	—	—
Non-Con	SG&A	455	529	493	—	19.8%	17.9%	17.5%	—	984	—	—	22.9%	—	—
	EBITDA	316	448	462	—	13.7%	15.2%	16.4%	—	764	—	—	14.6%	—	—
	OP	134	272	273	—	5.8%	9.2%	9.7%	—	406	744	1,150	7.7%	12.9%	10.5%

Source: compiled by Sessa Partners from SPEEDA earnings database.

Non-consolidated Balance Sheets

	Previous term end (as of June 30, 2020)	Thousands of yen Current term end (as of March 31, 2021)
Assets		
Current assets		
Cash and deposits	3,641,864	4,175,031
Notes and accounts receivable	1,720,318	1,338,380
Inventories	413,482	553,004
Other	605,574	607,105
Total current assets	<u>6,381,239</u>	<u>6,673,522</u>
Non-current assets		
Property, plant and equipment	537,972	524,054
Intangible assets		
Software	1,262,416	1,177,008
Other	202,895	141,031
Total intangible assets	<u>1,465,312</u>	<u>1,318,039</u>
Investments and other assets		
Investment securities	1,359,193	1,398,685
Other	808,293	759,067
Total investments and other assets	<u>2,167,487</u>	<u>2,157,752</u>
Total non-current assets	<u>4,170,771</u>	<u>3,999,846</u>
Total assets	<u>10,552,011</u>	<u>10,673,369</u>
Liabilities		
Current liabilities		
Notes and accounts payable	627,020	569,597
Income taxes payable	61,971	131,408
Advances received	1,381,890	1,158,179
Provision for bonuses	295,182	473,879
Provision for bonuses for directors	42,682	28,735
Other	541,881	451,337
Total current liabilities	<u>2,950,627</u>	<u>2,813,138</u>
Non-current liabilities		
Provision for retirement benefits	490,430	530,024
Provision for retirement benefits for directors	30,052	21,411
Asset retirement obligations	87,421	87,471
Other	10,010	3,575
Total non-current liabilities	<u>617,914</u>	<u>642,482</u>
Total liabilities	<u>3,568,542</u>	<u>3,455,620</u>
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	5,043,372	5,251,019
Treasury stock	(26,712)	(26,712)
Total shareholders' equity	<u>6,433,508</u>	<u>6,641,156</u>
Valuation and translation adjustments		
Valuation difference on avail-for-sale securities	549,960	576,592
Total valuation and translation adjustments	<u>549,960</u>	<u>576,592</u>
Total net assets	<u>6,983,469</u>	<u>7,217,748</u>
Total liabilities and net assets	<u>10,552,011</u>	<u>10,673,369</u>

Source: TANSHIN financial statements.

Non-consolidated Statements of Income

	Previous term (from July 1, 2019 to March 31, 2020)	Thousands of yen Current term (from July 1, 2020 to March 31, 2021)
Net sales	7,805,470	8,067,013
Cost of sales	5,782,816	5,911,349
Gross profit	2,022,654	2,155,664
Selling, general and administrative expenses	1,436,913	1,477,002
Operating income	585,740	678,661
Non-operating income		
Interest income	487	514
Dividend income	20,735	20,887
Insurance claim income	28,028	—
Other	3,196	5,097
Total non-operating income	52,448	26,499
Non-operating expenses		
Interest expenses	76	25
Commitment fees	3,048	3,991
Compensation expenses	33,679	3,613
Other	373	1,095
Total non-operating expenses	37,178	8,726
Ordinary income	601,010	696,434
Extraordinary income	—	—
Extraordinary losses		
Loss on retirement of non-current assets	—	4,713
Total extraordinary losses	—	4,713
Profit before income taxes	601,010	691,721
Income taxes - current	191,563	234,526
Income taxes - deferred	11,027	(13,437)
Total income taxes	202,591	221,089
Net income	398,418	470,631

Source: TANSHIN financial statements.

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