

Slight shortfall to 1H OP guidance Growing pains that are treatable

SUMMARY

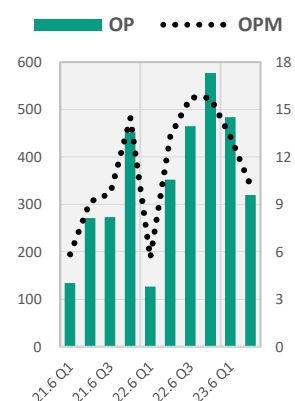
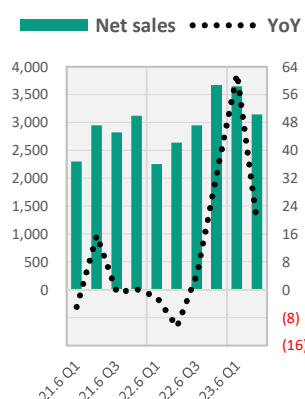
- IWI announced FY23/6 1H financial results at 15:30 on Wed. 2/01. 1H headline numbers were net sales ¥6,790mn (+39% YoY) and OP ¥803mn (+68% YoY), with OPM improving from 9.8% → 11.8%. However, relative to 1H initial guidance for net sales ¥6,800mn (+39% YoY) and OP ¥900mn (+88% YoY, OPM 13.2%), while net sales effectively achieved guidance, OP posted a slight shortfall. Actual 1H and 2Q-only results are shown in the table below. Despite 1Q net sales +62% YoY and OP +282% YoY (OPM 13.3%), 2Q net sales were +19% YoY and OP declined -9% YoY (OPM dipped to 10.2%).
- According to the financial results summary (TANSHIN), high growth in 1Q net sales was driven by the sharp increase in hardware sales due to FEP system upgrades for existing customers (included in third-party products below), an increase in the number of users of cloud services (included in own services), and large projects of system development for credit card companies (software development). Hardware sales during the 2Q returned to a more normalized level, and large projects of system development for credit card companies (software development) made the largest contribution to sales growth (top 3 in light green). Cloud services recorded 1H net sales of ¥881mn (+79% YoY) on the surge of orders last term, and 1H GP of ¥25mn (+108% YoY), but GP posted a shortfall to initial 1H guidance for ¥100mn due to increased investment to strengthen operational systems in line with the increased number of users for certain services. The Company is committed to turning this around through a fundamental review of the operational structure.
- The Company left initial FY23/6 full-term forecasts unchanged. Based on actual 1H results, implied 2H forecasts are net sales ¥6,710mn (+2% YoY) and OP ¥997mn (-4% YoY), with OPM of 14.9% (FY22/6 2H actual 15.8%). Growing pains in cloud services as the number of users ramps up is a manageable issue in SIR's view.

IWI FY23/6 1H and 2Q-only Non-consolidated Financial Results Summary

JPY mn, %	FY22/6	FY23/6	CHG	PCT	FY22/6	FY23/6	CHG	PCT
[J-GAAP]	1H act	1H act	AMT	YOY	2Q act	2Q act	AMT	YOY
Net sales	4,887	6,790	1,903	38.9	2,635	3,144	508	19.3
• Software development	1,979	2,347	368	18.6	1,090	1,300	210	19.3
• In-house products	285	111	(175)	(61.2)	157	27	(130)	(83.0)
• System service	16	15	(1)	(5.5)	8	8	0	4.3
• Third-party products	157	1,221	1,063	7.8x	128	183	55	43.1
FLOW total	2,438	3,693	1,255	51.5	1,382	1,518	135	9.8
• Maintenance	1,278	1,497	219	17.1	653	793	140	21.4
• Maintenance of 3P products	307	352	44	14.4	165	195	30	18.1
• Own services	625	998	373	59.7	316	506	190	60.2
• Other services	239	250	11	4.7	119	132	13	11.0
STOCK total	2,449	3,097	647	26.4	1,253	1,626	373	29.8
Gross Profit	1,497	2,121	623	41.6	877	986	109	12.4
GPM (%)	30.6%	31.2%			33.3%	31.4%		
Operating income	479	803	325	67.8	352	320	(32)	(9.1)
OPM (%)	9.8%	11.8%			13.4%	10.2%		
Ordinary income	500	824	324	64.9	375	344	(31)	(8.3)
Net income	338	558	220	65.1	255	233	(22)	(8.6)

Source: compiled by SIR from TANSHIN financial statements.

2Q Flash



Source: compiled by SIR from TANSHIN financial statements. Units: JPY million, %

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.

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.

#5a i-o Azabu, 2-8-14
Azabujyuban, Minato-ku, Tokyo
info@sessapartners.co.jp