

Brisk 1Q results amid favorable environment 2022 METI credit card transaction volume Jan-Aug +17.3%

SUMMARY

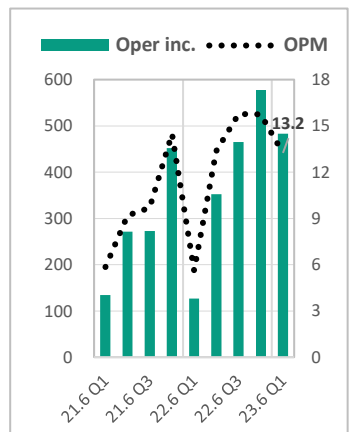
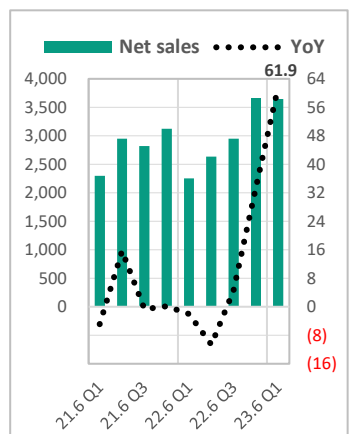
- IWI announced FY23/6 1Q financial results at 15:30 on Wed. 11/02. 1Q headline numbers were net sales ¥3,646mn (+62% YoY) and operating income ¥483mn (up 3.8x), with OPM improving from 5.6% → 13.3%. Relative to 1H initial guidance shown in the table below, the 1Q progress ratio for net sales was 53.6%, versus the 5-year AVG of 46.8%, and **the 1Q progress ratio for operating income was 53.7%, versus the 5-year AVG of 35.1%**. Also, since the Company left initial guidance unchanged, implied 2Q net sales are ¥3,154mn (-13.5% QoQ) and implied 2Q operating income is ¥417mn (-13.9% QoQ). However, according to the Company, 1Q seasonality this time was affected by the sharp increase in hardware sales below.
- As previewed in our 4Q Follow-up Report, an important implication for FY23/6 from the record level of backlogs is that 1Q results in November and 1H results next February are set to post high double-digit growth in net sales, providing a pipeline of positive catalysts going forward. Initial guidance for FY23/6 cloud service is for sales to increase 70.5% YoY, and gross profit to increase 2.5x.
- According to the financial results summary (TANSHIN), high growth in 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 the cloud services (included in own services), and large projects of system development for credit card companies (software development). While cloud services recorded net sales of ¥434mn (+79% YoY) on the surge of orders last term, GP posted a loss of ¥4mn due to costs to reinforce system infrastructure and OS in response to the increase in the number of users. IWI expects profit growth to resume from the 2Q. **The current P/E of 16.7x and DY of 2.45% are attractive.**

IWI FY23/6 1Q Non-consolidated Financial Results Summary and Initial Forecasts

JPY mn, %	FY22/6	FY23/6	CHG	PCT	FY23/6	PCT	FY23/6	PCT
	1Q act	1Q act	AMT	YOY	1H CE	YOY	FY CE	YOY
Net sales	2,252	3,646	1,394	61.9	6,800	39.1	13,500	17.5
• Software development	888	1,046	158	17.8				
• In-house products	128	84	(44)	(34.6)				
• System service	9	8	(1)	(13.8)				
• Third-party products	30	1,038	1,008	34.8x				
FLOW total	1,055	2,176	1,120	106.1				
• Maintenance	625	704	79	12.6				
• Maintenance of 3P products	143	157	14	10.1				
• Own services	309	492	183	59.2				
• Other services	120	118	(2)	(1.5)				
STOCK total	1,196	1,471	274	22.9				
Gross Profit	620	1,135	515	83.0				
GPM (%)	27.5%	31.1%						
Operating income	127	483	357	281.6	900	88.0	1,800	18.4
OPM (%)	5.6%	13.3%			13.2%		13.3%	
Ordinary income	125	480	356	284.7	920	84.1	1,840	18.2
Net income	83	325	242	292.0	640	89.4	1,280	21.2

Source: compiled by SIR from TANSHIN financial statements.
Note: figures reported in thousand yen rounded to nearest million.

1Q 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.

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