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## **Ai Holdings Corporation**

**TSE 1st  
Section**

### *A Summary of FY6/10 Business Results Meeting and Follow-Up Interview*

On August 31, 2010, the FY6/10 Business Results Meeting was held by Ai Holdings Corporation, hereinafter Ai Holdings or the Company. The following is a summary of both the presentation delivered by Hideyoshi Sasaki, Chairman of the Company, and the follow-up interview to Takeshi Kobayashi, Public Relations, General Manager at Ai Holdings.

### **FY6/10 Summary of Consolidated Business Results**

Consolidated business results for FY6/10 are as follows: Net sales increased by 10.9% to ¥25,855 million on a year-on-year basis, while operating income rose by 49.3% to ¥2,312 million. Ordinary income also increased by 40.4% to ¥2,915 million on a y-o-y basis, and net income for the term soared by 120.7% to ¥2,132 million. The following is the summary of business results by segment.

Two factors contributed greatly to the Company's performance. First, management of core affiliate GRAPHTEC Corporation (hereinafter GT) was integrated into Ai Holdings' management in April 2007, enabling the Company's computer peripheral segment to return to profitability. Second, Shiomi Sekkei Corporation—which merged with the Ai Holdings Group in 2009 and has since been renamed AI SEKKEI Corporation as a consolidated business—has seen steady growth in its earthquake-proofing architectural design business. Net income for the current term staged a major recovery due to a total tax decrease of ¥449 million, achieved in part from a ¥229 million decrease from sales of investment securities and from a ¥139 million adjustment of deferred tax assets.

GT returned to profitability for the first time in 14 terms, which predates its merger with the Ai Holdings Group. Following its integration, GT changed the term of its fiscal year, combining two fiscal years as one 15-month year. Its return to profitability was achieved after adopting a series of reforms, from revitalizing the culture by employing young workers to shifting the corporate mindset from an emphasis on sales to profits—practices that are standard for any company. Meanwhile, Ai Engineering—which is responsible for product development for the entire Group—has accelerated its effort to develop new computer peripheral and measurement instruments from this fiscal year.

Moreover, Ai Holdings will be stepping up investment to establish new sales hubs in China (Guangzhou, Beijing and Shanghai) after setting a hub in Singapore, moves which are intended to further strengthen its marketing network in the region. The Company is placing special emphasis on

foreign markets, having become willing to invest in facilities in growth markets since 2009, which stands in stark contrast to the trend to close offices over the past several years. It has also added measurement instruments to its computer peripheral lineup of plotters and cutting machines in a bid to develop new marketing channels. As a result, Ai Holdings will be reinforcing its sales force as well.

● Business Results by Segment (※Primary Operator)					
(¥ million)		FY6/09	FY6/10	YoY	
		Actual	Actual	Chg.	Ratio
Security System	Net sales	6,008	6,056	48	0.8%
※DODWELL B・M・S LTD.	Operating income	826	581	-245	-29.7%
(DODWELL B・M・S)	Operating margin	13.7%	9.6%	-	-
Card Issuing System	Net sales	4,040	2,988	-1,052	-26.0%
& Other Office Equipment	Operating income	243	395	152	62.6%
※DODWELL B・M・S	Operating margin	6.0%	13.2%	-	-
Computer Peripheral Equipment	Net sales	5,998	6,167	169	2.8%
※GRAPHTEC Corporation (GT)	Operating income	-217	466	683	-314.7%
	Operating margin	-3.6%	7.6%	-	-
Maintenance Service	Net sales	2,872	2,553	-319	-11.1%
※DODWELL B・M・S、GT	Operating income	72	-29	-101	-140.3%
	Operating margin	2.5%	-1.1%	-	-
Architectural Design	Net sales	1,866	4,296	2,430	130.2%
※AI SEKKEI Corporation	Operating income	244	434	190	77.9%
	Operating margin	13.1%	10.1%	-	-
Measurement Instrument	Net sales	1,410	1,359	-51	-3.6%
※GT	Operating income	184	242	58	31.5%
	Operating margin	13.0%	17.8%	-	-
Lease & Installment Business	Net sales	670	2,171	1,501	224.0%
※DODWELL B・M・S	Operating income	160	68	-92	-57.5%
	Operating margin	23.9%	3.1%	-	-
Other Business	Net sales	686	519	-167	-24.3%
※GT	Operating income	-144	-11	133	-92.4%
	Operating margin	-21.0%	-2.1%	-	-
Elimination	Net sales	-246	-258	-12	4.9%
	Operating income	178	163	-15	-8.4%
Grand Total	Net sales	23,308	25,855	2,547	10.9%
	Operating income	1,548	2,312	764	49.4%
	Operating margin	6.6%	8.9%	-	-

Source: Prepared by Trias Corp. with the Company's data

At the same time, DODWELL B・M・S LTD. (hereinafter DODWELL B・M・S), which oversees the Company's security system, has seen the number of condominiums that have become customers rise from 1,953 last year to 2,083. Gross profit also rose from ¥1,648 million last year to ¥1,659 million. However, gross profit from corporate sales fell from ¥1,214 million last year to ¥1,006 million.

DODWELL B・M・S also engages in the card issuing system. Sales of card issuing systems used in hospitals and credit card issuing machines bound for the European market—two principal sales drivers—performed pretty much as expected. But sales growth to domestic financial institutions and distribution firms fell below expectations. Operating income improved significantly because office equipment programs with low profitability were terminated, while Ai Holdings strove to reduce such costs as SG&A expenses.

## Core Business Initiatives

At the heart of Ai Holdings' business, the keys lie not only with the Company finding niche areas in mature markets and that it enjoy the merits of being a product frontrunner, but that it also takes on the challenge of sustaining these efforts. For example, the security system market represents a major revenue source for the Company, but the market itself is too large to be considered a niche area. However, the market for existing condos without security systems that Ai Holdings is targeting its products is very much a niche area. The Company's business model consists of guaranteeing clients maintenance service at the end of their service lease for a six-year period (or 72 months' worth), meaning it requires human intervention—thereby ensuring stable business growth over a mid- to long-term period. In order to successfully develop a business model based on the providing of maintenance services, it is imperative to establish close cooperation with partner companies, particularly agencies with nationwide networks—which is precisely what DODWELL B・M・S has been doing over the past eight years. In the meantime, it has been stepping up its effort to develop new corporate clients, a business which has been underperforming, with a marketing base consisting of 32 sales offices nationwide, moving into new security fields and focusing on major corporations. DODWELL B・M・S is also keen on developing another niche area—security camera systems for shopping arcades. It also rolled out a new system, Multi-Eye, which uses a Canadian camera with a special lenses with viewing angle of 360 degrees (and thus no blind spots), and combining it with a megapixel digital camera. Introduced since September, sales aimed at banking institutions and convenience stores have begun.

In the card issuing system, DODWELL B・M・S is the only maker left in the mature market for onsite card issuing systems. As the sole remaining survivor, the key to growth will be how deeply it can mine prospects. Take the GL Series Data Logger, which GT produces as part of its measurement instruments lineup, for another mature market, for instance. The data logger is a device which records temperature changes as digital data, and has been available in the market for over 20 years. Cumulative sales of the GL Series reached 37,500 units as of the previous fiscal year, and the goal for this year is to sell 10,000 units. In the world of measurement instruments, most products are sold by the dozen per month, whereas the GL Series sells by the hundreds or more. There are several

reasons for its sustained success: GT has been constantly searching out and identifying customer needs and incorporated functions that meet them; it has also offered GL units at easy-to-replace prices. This ongoing effort in an existing market has paid off. Such niche markets as GL Series measurement instruments may ripen, but they rarely die out; there are always replacement needs based on usability. By defining such needs through constant communication with the client, growth can be secured on a mid- to long-term basis. Similar opportunities exist for the magnetic/smart card business as well.

## Summary of FY6/11 Financial Forecasts

Ai Holdings' consolidated financial forecasts for FY6/11 is as follows: Net sales will rise by 0.6% to ¥26 billion on a y-o-y basis, while operating income is expected to decline by 4.9% y-o-y, to ¥2.2 billion. Ordinary income will also fall by 7.4% to ¥2.7 billion y-o-y, and net income for the term is projected to contract by 25% to ¥1.6 billion. Because the 2nd half is expected to be sluggish, the Ai Holdings forecast is at best conservative. This is particularly true for AI SEKKEI, which joined the Group last year and performed quite well towards the end of March last year, posting significant growth in Q3. The fact that the company's order trend remains obscure for this fiscal year has thus been reflected in the forecast. As for net income for the current term, it should be noted that the corporate tax return of ¥460 million from the previous fiscal year will not be available, and a one-time loss of some ¥200 million resulting from DODWELL B · M · S' s transition to a defined contribution pension plan has also been posted. The effective tax rate will thus be flattened from this term.

## Q&A Session (includes content from follow-up interview)

**Q1: FY6/10 saw an increase in inventory (primarily commercial goods and manufactured products) and accounts payable. Does that mean some kind of active investment was made?**

A1: The increase in inventory came mainly from DODWELL B · M · S products for lease, which have already been contracted out. As for accounts payable, it rose by some ¥900 million due to products for leases. It also includes some ¥540 million in a payable bill and account payable related to investment for dies required by GT to develop new products, an area that GT is reinforcing. Incidentally, GT is planning to double investment in new product development for this fiscal year versus that allocated in the previous fiscal year.

**Q2: What are the future prospects for your lease & installment business?**

A2: Our lease operation falls under our condominium-related security equipment business. We are working with Mitsubishi UFJ Lease & Finance Co., Ltd. through loans associated with our lease &

lease service (which bridges the lease owner and third party). While the profit margin is modest, it places a greater priority on risk reduction. We do not intend to increase our lease balance, believing that the present level is within acceptable limits.

**Q3: What is the outlook on capital investment and depreciation?**

A3: As a general rule, capital investment is set within the parameters of depreciation. Capital investment prior to FY6/10 was ¥310 million, while depreciation was ¥378 million. Because we are planning to increase investment in Ai Engineering this term, capital investment will reach ¥500 million, while depreciation should exceed ¥400 million.■

**Key Stock Indicators and Financial Data (Consolidated)**

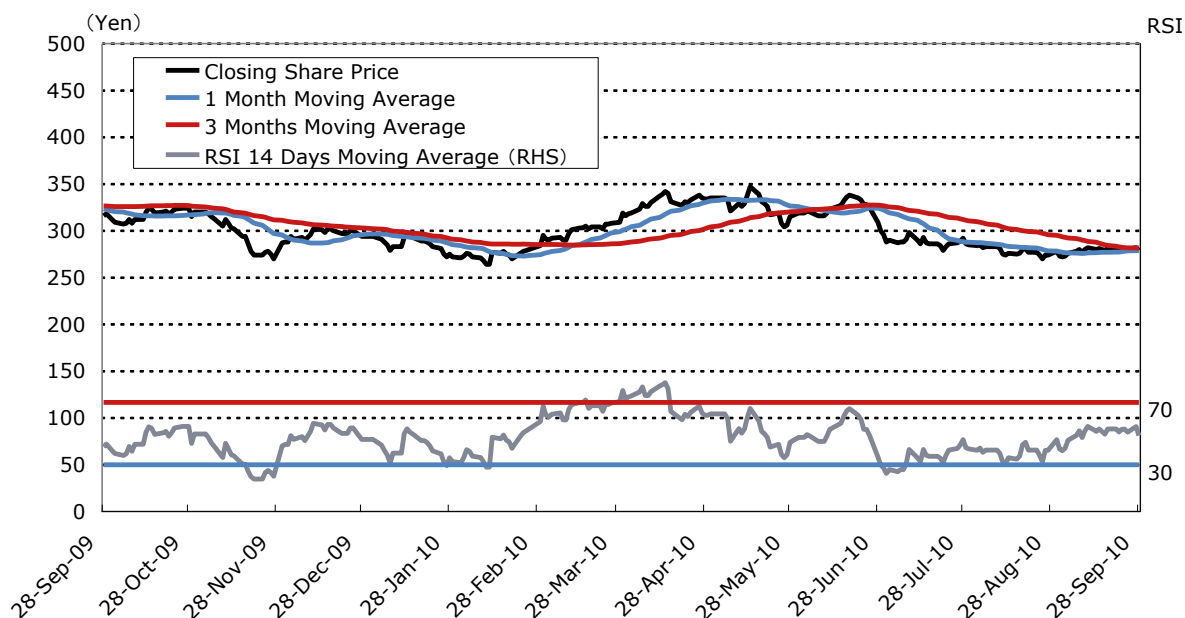
Key Stock Indicators			Key Financial Data		
No. of Shares Issued	June. 09	56,590,410	Total Assets (¥million)	June. 09	29,846
No. of Treasury Stock	June. 09	1,695,568	Shareholders' Equity (¥million)	June. 09	21,186
Market Value (¥million)	Apr.12, 2010	15,958	Interest-Bearing Debt (¥million)	June. 09	0
BPS (¥)	June. 09	386.0	Equity Ratio (%)	June. 09	72.4
ROE (%) ※1	June. 09	10.3	Ratio of Interest-Bearing Debt (%) ※5	June. 09	0
ROA (%) ※2	June. 09	7.4	Free Cash Flows (¥million) ※6	June. 09	3,728
PER (times)	FY6/10 est.	9.7	※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end		
PCFR(times) ※3	June. 09	6.4	※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end		
PBR (times)	June. 09	0.7	※3 PCFR=Market Value÷(Current Net Income+Depreciation)		
Share Price (¥)	Apr.12, 2010	282	※4 Average Daily Volume=Average Daily Volume for previous 12months		
Unit Share (shares)	Apr.12, 2010	100	※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity		
Average Daily Volume (shares) ※4	Apr.12, 2010	100,097	※6 Free Cash Flows=Operating CF+Investment CF		

**Financial Results (Consolidated)**

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
FY6/07	7,588	-1,175	-988	996	18.1	8.00
FY6/08	23,674	1,797	1,934	609	11.1	20.00
FY6/09	23,308	1,548	2,076	966	17.6	20.00
FY6/10 Interim fcst.	11,700	950	1,200	700	12.8	8.00
FY6/10 fcst.	26,000	2,200	2,700	1,600	29.2	8.00

Note: FY6/10 forecasts announced on Feb. 12, 2010.

**Share Price Charts and RSI**



Source: Prepared by Trias Corp. with Bloomberg data.

Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices.

In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.

RSI=averaged share price appreciation for N days÷(averaged share price appreciation for N days + averaged share price decline for N days)×100