

**3076**
**TSE 1st**

## Ai Holdings Corporation

### Business Results Summary for the First Quarter of Fiscal Year Ending June 30, 2012

The following is a summary of a Trias Corporation interview with Ai Holdings Corporation (hereinafter Ai HD or the Company) following its earnings briefing for Q1 FY6/12 business results.

#### Summary of Q1 FY6/12 Consolidated Business Results

As seen in Table 1, the Company's consolidated business results in terms of net sales and income increased on a year-on-year basis. While sales and income of Imaging Equipment Business operated by Graphtec Corporation (hereinafter GT) fell versus the same quarter last year as a result of the inventory adjustment of OEM products and declining overseas sales due to the strong yen, DODWELL B.M.S. LTD. (hereinafter DW BMS) saw robust sales of its card issuing systems to Toppan Printing Co., Ltd. Sales of high-margin security systems to condominium management associations and corporate clients also great.

Sales of condo security systems have been driven in large part by replacement demand. Traditionally, it takes considerable marketing effort to persuade management associations to install these systems in existing condos, but DW BMS has adopted a unique business model in which its products are leased rather than sold, to third-party condo management agencies by partnering with major lease providers. Under DW BMS's service contract, individual tenants only pay several hundred yen for maintenance as part of their monthly management fee; in addition, additional costs as tubing, wiring and installation are factored in the lease, thereby greatly alleviate the expense and risks involved for the leaser should the condo association choose to terminate the contract.

● **Table 1: Q1 FY6/12 Consolidated Business Results**

Consolidated (¥million)	Q1 FY6/11		Q1 FY6/12		Y/Y Change	
	Actual	Ratio to Net Sales	Actual	Ratio to Net Sales	Amount	Ratio
Net Sales	6,785	100.0%	7,291	100.0%	506	7.5%
Operating Income	718	10.6%	883	12.1%	165	23.0%
Ordinary Income	833	12.3%	1,007	13.8%	174	20.9%
Net Income	515	7.6%	589	8.1%	74	14.4%

Note: All tables prepared by Trias Corp. with the data disclosed by Ai Holdings Corporation.

Given Ai HD management's emphasis on improving its balance sheets, the Company remained debt-free while maintaining a high equity ratio of 68.2% at the end of Q1 FY6/12. In P/L terms, it booked ¥93 million in valuation losses on investment securities and ¥98 million in extraordinary losses. Ai HD plans to eliminate the impact of appraisal losses on its net income as quickly as possible because it is currently working to minimize its holdings of investment securities, which are susceptible to market volatility.

## Q1 FY6/12 Business Results by Segment

Table 2 shows Ai Holdings' business results by segment, with trends of the respective segments as follows:

### ● Security Systems (Year-on-Year Change: 0.3% Decline in Net Sales; 26.0% Increase in Operating Income)

Security system sales to condo associations and corporate clients fared well, leading to a double-digit increase in income. Replacement demand expected from the current fiscal year and beyond is projected to take off from the second half of the year. The segment's y/y decrease in net sales was attributed to the Company no longer supplying large-scale security systems to the Ministry of Defense. Still, given that these defense contracts yielded relatively low margins, their termination actually contributed to the Ai Holdings' y/y income growth. With regard to corporate clients, Fuji Xerox Co., Ltd. began selling the Company's security systems from January 2011 and the results are gradually becoming manifest. Sales to financial institutions and securities brokerages only logged a modest increase due to the ongoing economic uncertainty, despite the launch of its "Multi-Eye" System.

### ● IC Card Issuing Systems and Other Office Equipment (Y/Y Change: 41.8% Increase in Net Sales; 89.4% Increase in Operating Income)

Sales of IC card issuing systems to medical institutions remained brisk. Having secured a large sales contract to a financial institution that was brokered by Toppan Printing, sales of card systems, excluding that generated from office equipment, reached ¥643 million, climbing 57.1% y/y, while operating income jumped 120.1% to ¥146 million.

### ● Imaging Equipment (Y/Y Change: 13.8% Decline in Net Sales; 19.9% Decline in Operating Income)

Hurt by the strong yen, sales of the segment's core cutting plotters and PC scanner products in Europe and Asia declined. Domestic sales also fell due to the inventory adjustment of OEM scanners. At GT, imaging equipment sales decreased 18.1% to ¥1,194 million, with domestic sales

falling 20.4% to ¥638 million and foreign sales also falling 15.3% to ¥556 million. Meanwhile, Silhouette AMERICA Inc., a GT subsidiary, is expected to contribute to consolidated income through its web-based business from the second half of the fiscal year.

● **Measurement Instruments and Environmental Testing Systems (Y/Y Change: 18.7% Decline in Net Sales; 49.9% Decline in Operating Income)**

Although sales of the segment's core data logger products (which can measure and store a broad array of data, including voltage, temperature, humidity and logic) remained strong, its net sales and income declined due to slumping sales of optical measurement instruments and environmental testing systems. At GT, measurement instrument sales decreased 8.1% y/y, with domestic sales of ¥256 million (down 5.1%) and overseas sales of ¥91 million (down 15.6%).

● **Architectural Design (Y/Y Change: 14.7% Increase in Net Sales; 530.7% Increase in Operating Income)**

Ai HD posted a significant sales increase in this segment, buoyed chiefly by seismic resistance diagnostic testing and seismic structural integrity design services, a trend that has carried over from the previous fiscal year. Compared to seismic structural integrity design services, seismic resistance diagnostic testing services requires less effort and resources, allowing the segment's business model to achieve a satisfactory level of productivity.

**● Table 2: Q1 FY6/12 Business Results by Segment**

(¥ million)		Q1 FY6/11	Q1 FY6/12		Y/Y Change	
		Actual	Actual	Component Ratio	Amount	Ratio
Security Systems ※DODWELL B·M·S LTD. (DODWELL B·M·S)	Net Sales	1,359	1,355	18.6%	-4	-0.3%
	Operating Income	202	254	28.8%	52	26.0%
	Operating Mgn	14.9%	18.7%	n.a.	-	-
Card Issuing Systems & Other Office Equipment ※DODWELL B·M·S	Net Sales	573	812	11.1%	239	41.8%
	Operating Income	94	179	20.3%	85	89.4%
	Operating Mgn	16.4%	22.0%	n.a.	-	-
Maintenance Services ※DODWELL B·M·S	Net Sales	489	454	6.2%	-35	-7.2%
	Operating Income	66	68	7.7%	2	3.0%
	Operating Mgn	13.5%	15.0%	n.a.	-	-
Imaging Equipment ※GRAPHTEC Corporation (GT)	Net Sales	1,766	1,510	20.7%	-256	-14.8%
	Operating Income	147	117	13.3%	-30	-19.9%
	Operating Mgn	8.3%	7.7%	n.a.	-	-
Measurement Instruments & Environmental Testing Systems ※GT	Net Sales	668	543	7.4%	-125	-18.7%
	Operating Income	123	61	6.9%	-62	-49.9%
	Operating Mgn	18.4%	11.2%	n.a.	-	-
Architectural Design Services ※AI SEKKEI Corporation	Net Sales	816	936	12.8%	120	14.7%
	Operating Income	21	133	15.1%	112	530.7%
	Operating Mgn	2.6%	14.2%	n.a.	-	-
Leasing & Installment Services ※DODWELL B·M·S	Net Sales	1,013	1,549	21.2%	536	52.9%
	Operating Income	32	39	4.4%	7	21.9%
	Operating Mgn	3.2%	2.5%	n.a.	-	-
Other Business	Net Sales	123	139	1.9%	16	13.0%
	Operating Income	-3	3	0.3%	6	n.a.
	Operating Mgn	-2.4%	2.2%	n.a.	-	-
Elimination	Net Sales	-67	-31	-0.4%	36	-53.7%
	Operating Income	32	24	2.7%	-8	-25.0%
Grand Total	Net Sales	6,785	7,291	100.0%	506	7.5%
	Operating Income	718	883	100.0%	165	23.0%
	Operating Mgn	10.6%	12.1%	n.a.	-	-

Note: Net sales by segment include internal sales or sales transfer.

### Summary of FY6/12 Consolidated Financial Forecast

As Table 3 shows, Ai HD aims to increase both net sales and income. Business performance trends should become more apparent following Q3 with the end of negative goodwill beyond the quarter.

The Company expects the following business segments to contribute to earnings in 2H FY6/12: First, it projects that condo security system sales in the security system segment will pick up from 2H onward, spurred by demand for replacement systems. Similarly, demand for the segment's "Multi-Eye" System, which provides 360-degree coverage with mega-pixel clarity, has begun taking shape and the Company is projecting sales will increase in the near future.

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility.

Secondly, in the imaging equipment segment, Ai HD anticipates that Silhouette AMERICA Inc., a GT subsidiary, will be contributing to earnings shortly. The Company expects to generate sales not only through hardware (cutting plotters), but also through the Silhouette website, which markets downloadable design content. There are two major advantages of design content—the costs associated with it are minimal, and it yields a high profit margin. Silhouette is already generating more than ¥10 million in design content income every month.

● **Table 3: FY6/12 Consolidated Financial Forecast**

Consolidated (¥million)	FY6/11 Actual			FY6/12 Fcst.			Y/Y Change	
	1H	Full Year	Ratio	1H	Full Year	Ratio	Amount	Ratio
Net Sales	12,847	26,006	100.0%	13,700	27,700	100.0%	1,694	6.5%
Operating Income	1,311	2,980	11.5%	1,350	3,100	11.2%	120	4.0%
Ordinary Income	1,548	3,462	13.3%	1,550	3,500	12.6%	38	1.1%
Net Income	1,015	2,254	8.7%	1,000	2,200	7.9%	-54	-2.4%

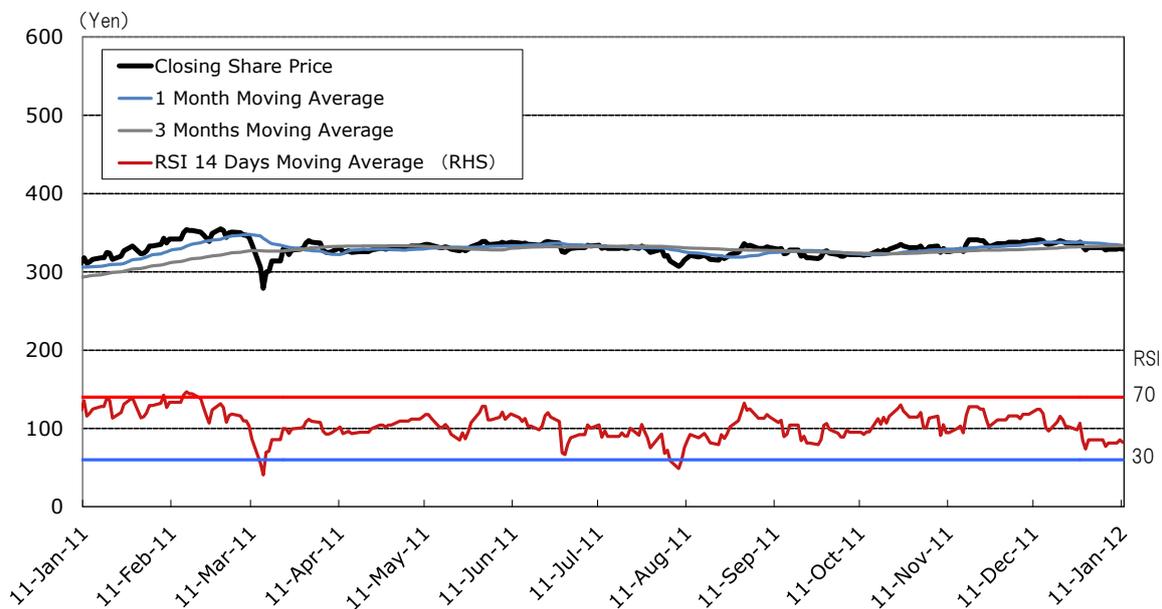


**Reference**
**● Key Financial Data and Business Results (Consolidated)**

No. of Shares Issued	Sep 2011	#####	Total Assets (¥mn)	Jun 2011	31,814
No. of Treasury Stock	Sep 2011	1,871,312	Shareholders' Equity (¥mn)	Jun 2011	22,760
Market Value (¥mn)	11-Jan-12	18,618	Interest-Bearing Debt (¥mn)	Jun 2011	0
BPS (¥)	Jun 2011	415.93	Equity Ratio (%)	Jun 2011	68.2
ROE (%)	Jun 2011	9.9	Ratio of Interest-Bearing Debt (%Jun 2011)	Jun 2011	0
ROA (%)	Jun 2011	7.1	Free Cash Flows (¥mn)	Jun 2011	4,157
PER (X)	Jun 2012 fcst	8.2	ROE=Current Net Income÷Shareholders' Equity		
PCFR(X)	Jun 2011	7.2	ROA=Current Net Income÷Total Assets		
PBR (X)	Jun 2011	0.8	PCFR=Market Value÷(Current Net Income+Depreciation)		
Share Price (¥)	11-Jan-12	329	Ave. Daily Vol. =Ave. Daily Vol. for previous 12m/s		
Unit Share (shs)	Sep 2011	100	Interest-Bearing Debts Ratio=I.B.D.÷Shareholders' Equity		
Average Daily Volume (shs)	11-Jan-12	91,017	Free Cash Flows=Operating CF+Investment CF		

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
FY6/07	7,588	-1,175	-988	996	18	8.00
FY6/08	23,674	1,797	1,934	609	11.10	20.00
FY6/09	23,308	1,548	2,076	966	17.60	20.00
FY6/10	25,855	2,312	2,915	2,132	38.85	16.00
FY6/11	26,006	2,980	3,462	2,254	41.16	16.00
1H FY6/12 fcst.	13,700	1,350	1,550	1,000	18.28	8.00
FY6/12 fcst.	27,700	3,100	3,500	2,200	40.21	16.00

Note: FY6/12 forecasts announced on August 19, 2011.

**● Stock 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.  

$$RSI = \frac{\text{averaged share price appreciation for N days}}{\text{averaged share price appreciation for N days} + \text{averaged share price decline for N days}} \times 100$$

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility.