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**TSE 1**
**Ai Holdings Corporation**
**A Summary of the FY6/11 Business Results**

On August 31, 2011, Ai Holdings Corporation (hereinafter Ai HD or the Company) held its FY6/11 Business Results Meeting. The following is a summary of both the presentation delivered by Ai HD Chairman Hideyoshi Sasaki and the interview with him.

**Summary of FY6/11 Consolidated Business Results**

As seen in Table 1, the Company's consolidated business results in terms of net sales and incomes increased on a year-on-year basis. Every business segment posted record-high net sales and incomes. While Ai HD's operating income rose by 28.9% y/y, net sales rose by just 0.6% y/y. This was due to the fact that the Company was not saddled with large, low-margin projects as it had in the previous fiscal year.

**● 【Table1】Consolidated Business Results**

Consolidated (¥million)	FY6/10		FY6/11			Y/Y		Comp. to Fcst.
	Actual	Ratio	Fcst.	Actual	Ratio	Change	Ratio	
Net Sales	25,855	100.0%	26,800	26,006	100.0%	151	0.6%	-794
Operating Income	2,312	8.9%	2,600	2,980	11.5%	668	28.9%	380
Ordinary Income	2,915	11.3%	3,000	3,462	13.3%	547	18.8%	462
Net Income	2,132	8.2%	1,800	2,254	8.7%	122	5.7%	454

In terms of consolidated balance sheets, Ai HD's cash reserves grew by ¥3.15 billion—the result of management's emphasis on improving its balance sheets. Moreover, its equity ratio improved by 0.5% y/y to 71.5%. Annual dividends, meanwhile, remained at 16.00 yen. Total dividend payout was ¥880 million and with cash reserves growing by ¥3.1 billion, total cash on hand reached ¥9.89 billion, reaffirming the overall financial strength of the Company. Management plans to exploit this cash to drive business growth in the future.

The March 11 calamity resulted in a ¥15 million extraordinary loss, primarily from damaged goods at such branches as Ai HD's Mito, Sendai and Morioka branches. It should also be noted that the patent dispute between subsidiary GRAPHTEC (hereinafter GT) and MIMAKI ENGINEERING CO., LTD. was formally settled on August 30, 2011.

## FY6/11 Business Results by Segment

Table 2 shows the Company's business results by segment, with the trends of the respective segments provided below.

### **Security Systems (Composition Ratio: Net Sales—20.7%; Operating Income—24.8%)**

Sales to condominium and corporate clients continued to perform well, resulting in double-digit income growth. Sales to condo clients comprised 44% of total sales and served as a income driver. For the segment's corporate clients, Fuji Xerox began selling the Company's security systems from January 2011 and the results are gradually becoming manifest. Meanwhile, sales to financial institutions and security brokerages now accounts for 15% of total sales, driven by the launch of the new "Multi-Eye" System.

In addition, with the Company no longer supplying the Ministry of Defense under a low-margin contract worth ¥900 million in security systems, operating income rose by 27.1% y/y even though sales declined by 11.3%.

### **IC Card Issuing Systems and Other Office Equipment (Composition Ratio: Net Sales—9.3%; Operating Income—13.1%)**

Sales of IC Card Issuing Systems continued to perform well, growing by 5.5% y/y on the backs of strong sales to hospitals and other medical facilities. However, overall sales of this segment declined by 2.9% y/y due to contracting investment in office equipment by businesses. Operating income, meanwhile, increased by 1.5% y/y, thanks to strong growth in hospital-related demand. In addition, Ai HD expects IC card systems sold to the financial industry will contribute to added profitability in the future.

### **Maintenance Services (Composition Ratio: Net Sales—7.3%; Operating Income—7.2%)**

Until last fiscal year, sales of maintenance services generated by both DODWELL BMS (hereinafter DW BMS) and GT were included in this segment's sales. As per management regulations, however, only DODWELL's sales have been included from this fiscal year; meanwhile, GT's maintenance services sales are now posted under sales of the Company's Imaging Equipment segment. Furthermore, with client-companies adopting cost reduction initiatives, demand for spot repair and factory inspection services has contracted. As a result, sales declined by 8.6% y/y. At the same time, however, operating profit grew dramatically y/y with the decrease in SG&A expenses resulting from a major relocation in personnel.

**Imaging Equipment (Composition Ratio: Net Sales—26.3%; Operating Income—16.8%)**

Sales of such core products as cutting plotters and PC scanners were sluggish in Japan. On the other hand, foreign sales grew, driven by growth in Asian markets, particularly China. As a result, segment sales posted an overall increase of 5.9% y/y, while operating income grew by 26.1% over the same period.

**Measurement Instruments and Environmental Testing Systems (Composition Ratio: Net Sales—8.3%; Operating Income—11.2%)**

Spurred by the introduction of new products, sales of this segment's core product—data loggers (which can measure and store a broad array of data, including voltage, temperature, humidity and logic)—performed well both at home and abroad, with unit sales in Japan increasing by 41% and foreign unit sales increasing by 51% y/y. Ai HD has analyzed that the reason for the sales surge lay with superior pricing and utility versus competing products. As a result, net sales by the segment rose by 15.1% and operating income was up by 44.6% y/y.

**Architectural Design Services (Composition Ratio: Net Sales—15.0%; Operating Income—15.1%)**

Driven by demand for seismic resistance diagnostic testing and seismic structural integrity design services, sales of this segment performed well. Compared to seismic structural integrity design services, seismic resistance diagnostic testing services requires less effort and resources, and the segment's business model has achieved a satisfactory level of efficiency. As a result of changes instituted to the segment's sales structure, net sales fell by 9.3% y/y, but operating income grew by a modest but stable 3.8% over the same period.

**Leasing and Installment Services (Composition Ratio: Net Sales—9.4%; Operating Income—4.4%)**

Net sales of this segment rose by 13.3%, while operating Income grew by 91.2% y/y.

**● Table 2: FY6/11 Sales by Segment**

(¥ million)		FY6/10	FY6/11		Y/Y	
		Actual	Actual	Component Ratio	Change	Ratio
Security Systems	Net sales	6,056	5,371	20.7%	-685	-11.3%
※DODWELL B・M・S LTD. (DODWELL B・M・S)	Operating income	581	738	24.8%	157	27.1%
	Operating Margin	9.6%	13.8%	n.a.	-	-
Card Issuing Systems & Other Office Equipment	Net sales	2,478	2,405	9.3%	-73	-2.9%
※DODWELL B・M・S	Operating income	385	390	13.1%	5	1.5%
	Operating Margin	15.5%	16.3%	n.a.	-	-
Maintenance Services	Net sales	2,082	1,903	7.3%	-179	-8.6%
※DODWELL B・M・S	Operating income	18	214	7.2%	196	1140.0%
	Operating Margin	0.9%	11.2%	n.a.	-	-
Imaging Equipment	Net sales	6,582	6,848	26.3%	266	4.0%
※GRAPHTEC Corporation (GT)	Operating income	396	499	16.8%	103	26.1%
	Operating Margin	6.0%	7.3%	n.a.	-	-
Measurement Instruments & Environmental Testing Systems	Net sales	1,878	2,161	8.3%	283	15.0%
※GT	Operating income	230	333	11.2%	103	44.6%
	Operating Margin	12.3%	15.4%	n.a.	-	-
Architectural Design Services	Net sales	4,296	3,896	15.0%	-400	-9.3%
※AI SEKKEI Corporation	Operating income	434	451	15.1%	17	3.8%
	Operating Margin	10.1%	11.6%	n.a.	-	-
Leasing & Installment Services	Net sales	2,171	2,460	9.4%	289	13.3%
※DODWELL B・M・S	Operating income	68	130	4.4%	62	88.6%
	Operating Margin	3.2%	5.3%	n.a.	-	-
Other Business	Net sales	566	1,105	4.2%	539	95.1%
	Operating income	32	48	1.6%	16	46.5%
	Operating Margin	5.7%	4.3%	n.a.	-	-
Elimination	Net sales	-258	-148		110	-57.2%
	Operating income	163	173	n.a.	10	6.1%
Grand Total	Net sales	25,855	26,006	100.0%	151	0.6%
	Operating income	2,312	2,980	100.0%	668	28.8%
	Operating Margin	8.9%	11.5%	n.a.	-	-

**Summary of FY6/12 Financial Forecast**

As Table 3 shows, Ai HD's sales and operating profit forecast for FY6/12 is ¥27.7 billion for the former, a y/y increase of 6.6%, and ¥3.1 billion for the latter, a y/y increase of 4.0%.

Consolidated (¥million)	FY6/11 Actual			FY6/12 Fcst.			Y/Y	
	Interim	Full Year	Ratio	Interim	Full Year	Ratio	Change	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%

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The Company intends to focus on the following three business segments:

### **Security Systems**

Ai HD began selling security systems to condominiums from 2002 and sales have since accounted for 44% of total turnover in this segment. The number of newly contracted condo complexes that were added in the previous fiscal year was 2,146, raising the total to 10,590—exceeding the target of 10,000 which was set at the time of this segment’s launch nine years ago. In addition, it means that the Company has captured a replacement market worth ¥20 billion based on the average security system replacement of ¥2 million per condo complex. Ai HD aims to secure service contracts with 2,250 new complexes this year and, given that the potential market stands at some 140,000 complexes in Japan, the Company has revised its target upward to 20,000 complexes. Moreover, replacement demand for the systems installed in the first two to three years of segment service has emerged from 2H of FY6/11 and is expected to grow stronger over the next several years. The Company projects that it will be replacing systems at 500 complexes in FY6/12, 1,100 complexes in FY6/13 and 1,200 complexes in FY6/14.

#### ● **Table4: Security Systems Installed**

(Complexes)	FY										
	6/02	6/03	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12(est.)
Installation (New)	21	88	234	468	594	1,353	1,650	1,953	2,083	2,146	2,250
Installation(Accumulated)		109	343	811	1,405	2,758	4,408	6,361	8,444	10,590	n.a.

The segment is less susceptible to the vagaries of macroeconomic trends in that its products meet strong and sustained consumer demand for security. However, the condo management market is quite large and competitive, requiring considerable marketing muscle to persuade condo management associations to install security systems in existing complexes. In order to break through this situation, DW BMS created a unique business model in which its products are leased, rather than sold, to condo management associations in partnership with major lease companies. Under this service contract, individual tenants only pay several hundred yen more as part of their monthly management fee, reducing the cost burden of and primary opposition to installation. Better still, such additional expenses as tubing, wiring and installation are all factored in the lease, thereby greatly alleviating the cost and risks associated should the condo choose to terminate the service contract. By exploiting this business model to the fullest, the Company aims to make DW BMS synonymous with security systems in Japan.

### **New “Multi-Eye” System**

Adoption of the new security system is growing among financial regulatory agencies and the Bank of Japan, as well as such commercial institutions as regional banks and credit unions. Multi-Eye

provides 360-degree coverage with mega-pixel clarity and can concurrently display images of objects at both near and far distances, virtually eliminating blind spots in any office environment. The Company will be marketing the system on its own as well as in collaboration with Fuji Xerox, on a nationwide basis and expects further sales growth in FY6/12 as well.

### **IC Card Issuing Systems**

The Company expects to remain the predominant supplier of IC card issuing systems to hospitals and projects that strong demand will continue throughout the current fiscal year. At the same time, it will be focusing on sales of onsite cash card issuing systems to the financial industry this year. In the past, banks had to mail cash cards to customers, but with a new system developed jointly by Ai HD and Toppan Printing, branches can now issue cards onsite as soon as a customer opens an account. The Bank of Fukuoka Group has ordered some 350 units, which will be installed at its branches from August to October 2011. The Company is positioning these machines as a new line of business from this fiscal year.

## **Medium-Term Forecast for FY6/12 – FY6/14**

### **About GRAPHTEC (GT)**

Four years have passed since Ai HD merged with GT. The Company projects GT to post an operating income of ¥900 million in FY6/12 and ¥1.6 billion in FY6/14, a projection based on the business growth expected from Silhouette AMERICA, Inc., GT's U.S. subsidiary that became a member of Ai HD's consolidated group in October 2009. The subsidiary makes and markets the Silhouette, an electronic cutting tool that allows users to cut fonts and images from a variety of materials to create scrapbooks, cards, stencils and other home or business projects. The market for the machine in America is estimated to be some 3 million users.

GT itself also produces and sells cutting plotters similar to the Silhouette and it expects hardware sales to double over the course of the medium-term forecast. While a Chinese manufacturer supplies cutting plotters as well, GT is the only maker in Japan to do so and its machines boasts finer, more accurate cutting tolerances, making them superior to the competition's machines. Moreover, a limited number of stencils and other design elements are packaged with the Chinese cutting plotter, while the Silhouette sells a far broader range of design contents online—a business that is performing well and is expected to continue growth.

Until recently, Silhouette AMERICA only sold 8-inch machines, but because the majority of demand is for 12-inch units, the subsidiary is planning to introduce a 12-inch machine from November 2011. Silhouette has already received 7,000 orders for the new unit, exceeding initial projections, and will

be aggressively marketing the 12-inch machines from now.

#### **About AI SEKKEI**

With 220 qualified experts and professionals on staff, AI SEKKEI is the largest architectural design firm in Japan specializing in seismic resistance diagnostic testing services and seismic structural integrity design services. In April 2011, the Tokyo metropolitan government mandated seismic resistance testing to be conducted on some 5,000 commercial buildings located on specially designated emergency roadways in the nation's capital, tests that will be fully subsidized by the Tokyo government. Demand for diagnostic testing is expected to expand over the next three years and should prove a boon for AI SEKKEI's competitors as well. And, as noted earlier, seismic resistance diagnostic tests can be carried out on a more efficient basis and boasts higher profit than seismic structural integrity design services, meaning the latest developments in Tokyo will significantly boost income margins.

**Q&A Session**

**Q1: While I understand that foreign sales of Ai HD's imaging equipment and measurement instruments have been growing, especially in China, what is the situation for foreign sales of your security systems?**

A1: Our security systems business model is based on importing the best product from around the world on a timely basis. For example, a Canadian manufacturer supplied the lens we chose for our Multi-Eye System. As such, this business model is not conducive to establishing major inroads to overseas markets. You should be aware that our primary competitor for security systems designed for condos is Panasonic.

**Q2: How is the accumulated total for newly installed security systems for condos calculated? There must be cases in which a customer chooses to install a security system supplied by another vendor rather than renew a lease service contract with your firm, for example.**

A2: At present, our contract renewal rate stands at some 95%, with the standard lease duration running for six years. One of the key factors that drive this high renewal rate is the fact that our service leases include the cost of maintenance and installation, including tubing and wiring. We own the usage rights of these installed elements and it therefore dissuades customers from switching to a competitor at the time the lease must be renewed. As a result, almost all of our clients prefer to stay with us instead.

**Q3: I understand that AI SEKKEI has already begun accepting orders for seismic resistance diagnostic testing under the Tokyo government program. If you were to excluded the fully subsidized cases, what is the average cost of these tests?**

A3: Between ¥4 to 5 million per test. The Tokyo government provides a maximum subsidy of ¥3.5 million.

**Q4: You reported that the Bank of Fukuoka Group is prepared to install your IC cash card issuing machines at 350 branches. How large is the potential market for these machines? Moreover, can credit card issuing units also be seen as a major potential market as well?**

A4: We believe every branch for every banking institution in Japan represents a potential market for our cash card issuing machines. As for our onsite credit card issuing units, there is much greater demand from the retail industry than the financial industry. Such department store giants as Takashimaya and Mitsukoshi, for instance, are able to issue their house credit cards within 30

minutes of applying. While it is possible for financial firms to issue credit cards onsite as well, we do not believe that it represents a major need for them at this time.

**Q5: Who are your primary competitors in the IC cash card issuing machine market? And what is the average price per unit?**

A5: We are the only company that supplies IC cash card issuing machines capable of embossed lettering. Our primary competitor for non-embossed card units is NIDEC SANYO CORPORATION (previously known as Sankyo Seiki). Because the Bank of Fukuoka order was for non-embossed machines, there were competing bids for the contract. Unit price is dependent on the number of units ordered. The unit price for the Bank of Fukuoka contract was 900,000 yen, the standard pre-tax price set by Toppan Printing, and it involved two units to be installed at every major branch, one for other branches, and five held in reserve.

**Q6: I understand that the operating profit trend as projected in GRAPHTEC's medium-term management plan is ¥835 million for FY6/11, ¥900 million for FY6/12, ¥1.2 billion for FY6/13 and ¥1.6 billion for FY6/14. Is there a specific reason why the growth rate for FY6/12 is smaller than that posted in other years?**

A6: Development costs will be a major factor in squeezing operating profit in FY6/12 to ¥900 million.

**Q7: You said sales growth for data loggers in the measurement equipment segment was a 41% increase for the domestic market and a 51% increase for overseas markets. However, you also reported that net sales for GT itself rose by 22.4% in Japan and 38.2% abroad. What is the reason for the asymmetry? Have data logger prices been marked down?**

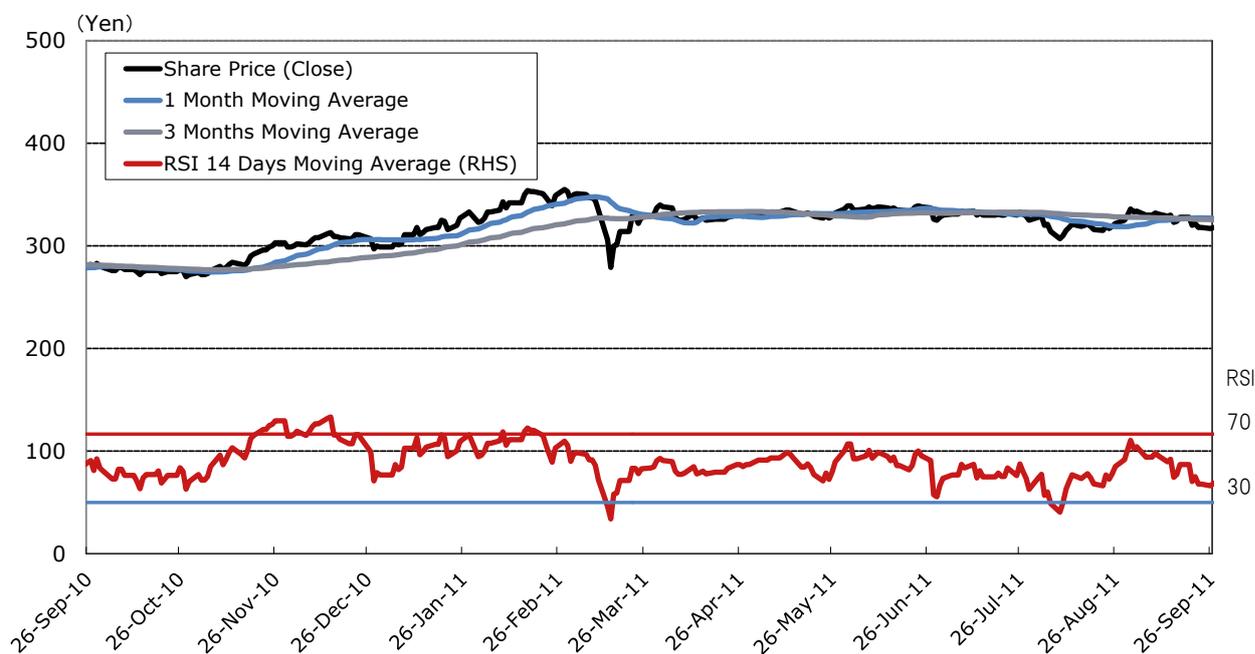
A7: We have not resorted to any price reductions in marketing our data loggers. The reason for the asymmetry between GT sales growth and data logger sales is because the measurement equipment segment, which includes the data logger sales, also includes poorly performing FA business. 

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

No. of Shares Issued	June 2011	56,590,410	Total Assets (¥mn)	June 2011	31,814
No. of Treasury Stock	June 2011	1,871,312	Shareholders' Equity (¥mn)	June 2011	22,760
Market Value (¥mn)	Sep-26-2011	17,939	Interest-Bearing Debt (¥mn)	June 2011	0
BPS (¥)	June 2011	415.9	Equity Ratio (%)	June 2011	71.5
ROE (%)	June 2011	9.9	Ratio of Interest-Bearing Debt (%)	June 2011	0
ROA (%)	June 2011	2254.0	Free Cash Flows (¥mn)	June 2011	4,157
PER (X)	Sep-26-2011	7.7	ROE=Current Net Income÷Shareholders' Equity		
PCFR(X)	June 2011	4.3	ROA=Current Net Income÷Total Assets		
PBR (X)	June 2011	0.8	PCFR=Market Value÷(Current Net Income+Depreciation)		
Share Price (¥)	2011.9.26	317	Ave. Daily Vol. =Ave. Daily Vol. for previous 12m/s		
Unit Share (shs)	June 2011	100	Interest-Bearing Debts Ratio=I.B.D.÷Shareholders' Equity		
Average Daily Volume (shs)	Sep-26-2011	101,271	Free Cash Flows=Operating CF+Investment CF		

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
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
FY6/12 Interim 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 Aug.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.

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

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