Trias Company Memo 2009-05-11

IK CO., LTD. (Securities Code: 3377 TSE 2nd Section)

Summary of Business Results Meeting for the 1st Half of Fiscal Year ending August 31, 2009

On April 13, 2009, IK CO., LTD. (hereinafter "the Company") held a results meeting for the 1st half of fiscal year ending August 31, 2009. The following is the summary of the meeting.

Attendees of the results meeting:

Akihiko Ishikawa, Chairman
Yoshihiro Kato, President & CEO
Maki Otani, Senior Vice President
Takashi Yamagata, Director
Atsushi Sawa, General Manager, Integrated Management Department.
Kazuya Takeuchi, Manager, Financial Section, Accounting and Financial Div.
Hirotada Nishimoto, Manager, Budget and Management Div, Integrated Management Department.

【Business Results for the 1st Half of FY8/09】

The Company's business results for the 1st half of FY8/09 had to be revised downward from our recent forecast. The primary reason for this was due to the dramatic decline in the pre-owned motorcycle auction market. The Company responded to the auction price decline by driving down its purchase prices in order to secure pretax profit, which consequently squeezed performance even further as our purchase agreement closure ratio underwent a temporary decline. The Company improved its advertisement expenditure to sales ratio by reinforcing area marketing and through the optimization of ad expenditures based on careful media mix analyses. As a result, while ad expenditures rose by 9.3% year-on-year, purchase volume increased by 13.7% yoy.

The pre-owned motorcycle auction market recorded a sharp decline in prices, falling by 23% over the previous four months. In comparison, the worst market decline in the past, which occurred in 2004, was some 8% over a six-month period. Because the downward fluctuation was unprecedented, the Company's short-term responses were limited in their efficacy. The auction market for pre-owned bikes will continue to grow in volume over the mid- and long-term, however, with the purchase agreement closure ratio reaching 88% despite the price decline in recent months. Following the auction market's sharp short-term drop in prices, the Company recorded a year-on-year loss in gross profit. Nevertheless, the Company continues to complete sale transactions through the auction market, which suggests that the growth trend of the market itself remains viable.

【Auction-Based Transactions of Pre-Owned Vehicles】

While the volume of customer orders via information centers reached the Company forecast, purchase prices had to be lowered in order to control cost of sales. The purchase agreement closure ratio thus fell temporarily, but has since recovered from March. As to the factors resulting in the Company posting a gross profit decline, 69.2% of that was due to the decreased average gross profit per vehicle and 19.2% was due to a decline in purchase agreement closure ratio.

【Retail Sales】

Although large engine displacement motorcycles sold well and the average price per vehicle slightly exceeded Company projections, we could not meet our sales target due to the economic recession. The Company basically met its operating income target, which it achieved through strict controls over SG&A expenses, including outlet openings and relocations.

【Park-Oh】

The Company could not achieve its net sales goal due to the closure of large-lot parking site. Because subsidy income is accounted as non-operating income and not included in gross profit, it appears as though the Company fell short of its gross profit target. The Company, however, basically achieved its ordinary income forecast.

【Revised Earnings Forecast for FY8/09】

Although the downward price trend of the pre-owned motorcycle auction market has bottomed out since January, the Company has revised its full-year earnings forecast based on the assumption that a recovery will not transpire in that period. It has thus revised downward management indices accordingly. The Company expects its share of motorcycle sales volume for FY8/08 to be similar to that of FY8/07, or 44:56, given that our business model of purchasing pre-owned vehicles and selling them at auction markets tend to be more active in the 2nd half.

【Q&A】

Q1. Upon review of this interim business result report, the impression one gets is that net sales did not grow as expected and that decreased sales could not be offset through the cost control of SG&A expenses, particularly advertisement expenditures. If the Company's net sales does not recover in the 2nd half, can we expect another downward revision of earnings?

A1. The auction market is growing on a transaction volume basis. However, if the average gross profit per vehicle continues to hover at around ¥70,000 in the 2nd half, there is a possibility that, despite our efforts to contain SG&A costs, the Company's profit margin will remain as low as it was in the 1st half. Still, the Company believes its updated forecast is prudent and viable given that it does not take into consideration the possibility of a gross profit recovery in the 2nd half despite the fact such a recovery has already begun.

Q2. Your vehicle sales volume grew by 21.4% year-on-year in March. Is this an indication that bike exporters are returning to the auction market?

A2. The Company does not believe auction market growth is attributed solely to the return of exporters, but rather that the market itself has been growing on a volume basis for some time. The reason why the Company posted a low sales figure of -7.4% yoy in February was due to a decline in purchases of vehicles for sale.

Q3. What is the current situation with bike exporters? And how much of the auction market do these exporters represent?

A3. While exporter activity had generally been somewhat subdued until recently, they do seem to be staging a gradual comeback. It should be noted that the Company has not factored in the possibility of their return when we developed our forecast. As for their market share, while no official figures are available, we believe it to be approximately 30%.

Q4. What is the rationale behind your forecast that the average sales price per vehicle will decline in the 2nd half?

A4. The average sales price appeared high in the 1st half because it reflected the higher average prices recorded during such months as September and October. The Company's forecast for the 2nd half reflects the pricing trend of recent months, which has been on a downward curve. As for our gross profit projection, the Company factored in the purchase agreement closure ratio recorded for February and March—which improved compared to the earlier temporary trend of declining ratios due to the cost of sales controls that were instituted—when developing our 2nd half forecast.

Q5. Assuming that the auction market transaction prices do not stage a significant recovery, should we expect to see deficit earnings in the 1st half of FY8/10 and a recovery in the 2nd half? Considering the unclear status today, what business strategies will management adopt for mid-term growth over the next two to three years?

A5. The Company does not expect that price pressures will remain as adverse in the next fiscal year as it was this term. We therefore project that our pre-owned vehicle purchase business will not post a deficit, even in the 1st half. If vehicle prices do not recover, we will increase our purchase volume by improving our Cost Per Response (CPR). In addition, the Company will improve its income margins by curtailing SG&A expenses resulting from higher transaction volume per outlet rather than increasing the number of new outlets. We do not foresee Park-Oh posting a deficit, either, and expect to return to profitability on a consolidated basis.

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Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)		
No. of Shares Issued	Aug. 08	152,856
No. of Treasury Stock	Aug. 08	0
Market Value (millions of yen	May 08, 2009	4,259
BPS (yen)	Aug. 08	29,823.8
ROE (%) ※1	Aug. 08	20.2
ROA (%) ※2	Aug. 08	14.2
PER (times)	FY8/09 est.	6.78
PBR (times)	Aug. 08	0.93
Share Price (yen)	May 08, 2009	27,860

Key Financial Data (Consolidated)		
Total Assets (millions of yen)	Aug. 08	6,364
Shareholders' Equity (millions of yen)	Aug. 08	4,558
Interest-Bearing Debt (millions of yen)	Aug. 08	244
Equity Ratio (%)	Aug. 08	71.6
Ratio of Interest-Bearing Debt (%) ※3	Aug. 08	5.4

※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end

※2 ROA=Cureent Net Income÷Averaged Total Assets of beginning of term and term end

※3 Ratio=Interest-Bearing Debts÷Shareholders' Equity

Consolidated (millions of yen)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (yen)	Dividend per Share (yen)
FY8/05	12,084	724	750	414	3,188	0
FY8/06	16,709	1,182	1,265	616	4,182	200
FY8/07	20,379	1,574	1,604	740	4,859	300
FY8/08	24,588	1,864	1,904	847	5,555	800
FY8/09 est.	24,158	1,198	1,243	628	4,108	1,200

Note: FY8/09 est. is the Company's forecast announced on April 9, 2009.