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TSE2
IK CO., LTD.
A Summary of FY11/11 Q2 Business Results Meeting

On July 11, 2011, IK CO LTD. (hereinafter IKCO or the Company) held its FY11/11 Q2 Business Results Meeting, the summary of which is provided below.

Summary of FY12/10 Q2 Consolidated Business Results

At the outset of the meeting, IKCO provided an explanation of the revisions made to the Board of Directors' area of control and corporate reorganization instituted on March 1, 2011. It was then explained that the Company's IR directorship has now been assumed by Chairman Akihiko Ishikawa, who also served as the primary presenter of the meeting, so that Yoshihiro Kato, the President and CEO, could focus further on operational priorities.

As seen in Table 1, consolidated business results reported for FY11/11 Q2 cumulative (=1H) showed year-on-year declines in net sales and incomes. While net sales almost reached what was projected in the forecast announced on January 13, 2011, the consolidated operating, ordinary and net income figures all exceeded their targets. This was primarily due to the fact that SG&A expenses were reined in to the level of that projected in the forecast, a curtailment that was achieved from both the effect of a general cost reduction program and cutbacks in advertisement costs.

● 【Table 1】 Summary of 1H FY11/1 Consolidated Business Results

| (¥ million) | FY10/11 | FY11/11 | | | | | |
|------------------|--------------|----------------|---------------------|------------|----------------|-----------------------|--------|
| | 1H Actual | 1H Forecast | 1H Actual | YoY Chg | vs Fcst Chg | Full Year Forecast | YoY |
| Net Sales | 12,326 | 11,867 | 11,726 | -600 | -141 | 23,760 | -0.4% |
| Gross Profit | 6,783 | 6,537 | 6,504 | -279 | -33 | 13,081 | 2.1% |
| SG&A Expenses | 6,091 | 6,274 | 5,992 | -99 | -282 | 12,610 | 3.9% |
| Operating Income | 692 | 263 | 511 | -181 | 248 | 471 | -30.4% |
| Ordinary Income | 723 | 291 | 556 | -167 | 265 | 498 | -29.4% |
| Net Income | 405 | 146 | 303 | -102 | 157 | 247 | 0.7% |

Note: Forecast announced on January 13, 2011

While the March 11 disaster led to a shutdown of operations for four of IKCO's purchasing outlets and one retail outlet in the Tohoku region, the damage was minor and all outlets resumed operations by May 11. In the first few days of the calamity, the number of inquiries fielded by the Company's motorcycle buyback business fell on a nationwide basis. However, the impact was short-lived:

the figures for the month of March not only exceeded that posted in March 2010, they also surpassed IKCO's forecast.

The Tohoku region's share of sales in the Company's Auction-Based Pre-Owned Motorcycles Transaction Business is minute—a mere 4% or so, and auction prices during March and April, the months immediately after the disaster, exhibited some instability. However, it returned to its normal seasonal trend from May onward and IKCO believes the affect on its overall business performance will be minor.

Summary of FY11/11 Q2 Business Results by Business Segment

First-half results of the Auction-Based Pre-Owned Motorcycles Transaction Business fell short of projections, but the number of purchase inquiries proceeded as projected. Due to IKCO initiatives to improve business performance, which is the primary focus of this term and which has delivered dividends on a sustained basis, the rate of appointment-making and purchase agreement closure have improved. As a result, the number of vehicles purchased and sold proceeded according to projections. Because the auction market in March and April was unsteady, both the average price per unit and average gross profit per unit fell slightly short of the forecasted figures. But net sales and gross profits were virtually in line with the forecast. Also, as mentioned above, SG&A expenses fell short of projections due to the Company's cost-cutting initiatives and curtailment of advertising costs, which led to an improvement of incomes. In addition, IKCO—as part of an initiative to enhance ad efficacy—has begun upgrading its Bike-Oh website to reverse the site's opt-out rate.

● 【Table 2】 Summary of 1H FY11/11 Business Results by Segment

| (¥ million) | FY10/11 | FY11/11 | | FY11/11 | | Full Year Forecast | YoY |
|--------------------------------------------------------|-----------|-------------|---------------|---------|-------------|--------------------|--------|
| | 1H Actual | 1H Forecast | 1H Actual | YoY Chg | vs Fcst Chg | | |
| Auction-Based Pre-Owned Motorcycles Transaction | | | | | | | |
| Net Sales | 11,267 | 10,611 | 10,563 | -704 | -48 | 21,224 | -1.7% |
| Gross Profit | 6,251 | 5,968 | 5,939 | -312 | -29 | 11,839 | 0.7% |
| SG&A Expenses | 5,559 | 5,704 | 5,460 | -99 | -244 | 11,481 | 3.4% |
| Operating Income | 692 | 264 | 479 | -213 | 215 | 357 | -44.7% |
| Motorcycle Retail Sales | | | | | | | |
| Net Sales | 1,366 | 1,523 | 1,703 | 337 | 180 | 3,330 | 13.5% |
| Gross Profit | 501 | 529 | 569 | 68 | 40 | 1,141 | 12.4% |
| SG&A Expenses | 494 | 533 | 510 | 16 | -23 | 1,053 | 8.9% |
| Operating Income | 7 | -4 | 59 | 52 | 63 | 88 | 82.0% |
| Motorcycle Parking | | | | | | | |
| Net Sales | 242 | 323 | 300 | 58 | -23 | 709 | 41.7% |
| Gross Profit | 27 | 44 | 11 | -16 | -33 | 108 | 111.2% |
| SG&A Expenses | 37 | 42 | 39 | 2 | -3 | 87 | 18.3% |
| Operating Income | -9 | 1 | -28 | -19 | -29 | 21 | - |

Note: Forecast announced on January 13, 2011

● **【Table 3】 Key Indicators of Auction-Based Pre-Owned Motorcycles Transaction Business**

| | FY11/10 | 1H | | FY11/11 | | Full Year Forecast | YoY Chg |
|-------------------------------------|-----------|----------|----------------|---------|---------|--------------------|---------|
| | 1H Actual | Forecast | Actual | YoY Chg | YoY Chg | | |
| Advertising Cost (¥ million) | 1,804 | 1,873 | 1,719 | -4.7% | -8.2% | 3,864 | 3.6% |
| Purchase Agreement Closure Rate (%) | 84.3% | 86.5% | 87.2% | 3.4% | 0.8% | 86.1% | 1.4% |
| Number of Vehicles Sold (Unit) | 87,113 | 83,400 | 86,057 | -1.2% | 3.2% | 167,400 | 0.6% |
| Average Sales Price Per Unit (¥) | 128,002 | 126,200 | 121,166 | -5.3% | -4.0% | 125,800 | -2.2% |
| Average Gross Profit Per Unit (¥) | 71,178 | 70,400 | 67,808 | -4.7% | -3.7% | 69,700 | -0.6% |

Note: Forecast announced on January 13, 2011

IKCO's Motorcycle Retail Sales Business outperformed that posted in 1H FY11/10 and the forecast figure, buoyed by solid sales from both existing and new outlets. The Company closed two outlets and opened another in Q1, bringing the total number of outlets to nine nationwide. However, the closed outlets had modest floor space, while the new outlets which are being evaluated under IKCO's outlet standardization program, are far larger, which has led to an overall expansion of floor space. The number of vehicles sold exceeded both the 1H results of last year and this year's 1H forecast.

● **【Table4】 Key Indicators of Motorcycle Retail Sales Business**

| | FY11/10 | 1H | | FY11/11 | | Full Year Forecast | YoY Chg |
|-----------------------------------|-----------|----------|----------------|---------|---------|--------------------|---------|
| | 1H Actual | Forecast | Actual | YoY Chg | YoY Chg | | |
| Number of Vehicles Sold (Unit) | 3,269 | 3,557 | 3,603 | 10.2% | 1.3% | 7,687 | 18.5% |
| Average Sales Price Per Unit (¥) | 354,303 | 367,830 | 395,795 | 11.7% | 7.6% | 374,300 | -1.8% |
| Average Gross Profit Per Unit (¥) | 98,380 | 98,767 | 105,746 | 7.5% | 7.1% | 100,100 | -3.0% |

Note 1: Forecast announced on January 13, 2011

Note 2: Average gross profit per unit refers to nominal auction prices for vehicles purchased and in-house procurement

In the Motorcycle Parking Business, net sales and incomes fell below the Company's forecast, due mainly to the delay in parking facility expansion plans.

One of the topics discussed when the 1H results was reported on April 7, 2011 was IKCO's agreement with USS Co., Ltd. (4732 TSE 1st Section; hereinafter USS)—the nation's largest auction service of four-wheeled vehicles—and Japan Bike Auction (hereinafter JBA) to enter into a capital and business partnership. The alliance aims to inject more activity in the motorcycle auction market and boost the Company's credibility in terms of its reliability and safety record through its association with USS. IKCO's primary purpose, however, is the logistical costs of the vehicle

procurement-to-auction sales process.

Specifically, USS leases auction sites and facilities in Yokohama and Kobe to JBA, a motorcycle auction company, providing the latter with the state-of-the-art motorcycle auction capability. IKCO will lease out the two USS vehicle stockyards in order to consolidate its logistical centers with the aim of improving product distribution and reducing costs of its logistical operations. IKCO expects to slash logistical costs by some 30% over the next few years.

With regards to the Company's consolidated financial status, with its partnership with USS and JBA, IKCO obtained ¥268 million in JBA shares, leading to an increase in its investment and other assets. The Company also bought back 8,000 shares of its own shares worth ¥184 million from October 2010 to January 2011. As a result, the treasury stock held by IKCO reached 15,000 shares, with its outstanding balance at the 1H' end (or end of May 2011) was ¥395 million.

It should be noted that the Company, as it reported on July 1, made no revision to its full-year earnings forecast at the announcement of its 1H results. Nor are there any changes in the projected business indicators for each segment.

Q&A Session

Q1: You explained that IKCO was able to curtail more of its SG&A expenses—mainly in ad costs—in 1H than originally projected. Is the reduction temporary or will it be continued throughout the full year?

A1: There are several major reasons behind the curtailment of SG&A expenses: First, there was a delay in the planned launch of a new Bike-Oh Direct Shop; the second was the company-wide cost reduction effort; and third, ad costs were reined in. While we cannot state for certain at this time whether the money saved from the ad cost savings in the first half will be used in the second half, we believe that because IKCO will be concentrating on high efficacy advertising in the 2H, it is unlikely that the ad budget for the latter half will be expended completely. While the delay in the new outlet opening will not be lead directly to a reduction in SG&A expenses, we believe that continued effort to cut outlet operating costs, including supplies and overhead, will result in a certain level of reduced costs in the 2H.

Q2: You project that 2H sales will surpass 1H sales, but that 2H operating income is expected to fall short of the 1H figure. What is the reason for this?

A2: We do not expect to make any revision to the original forecasts for the 2H and full year. There are two reasons for this: First, it takes into account the fact that the auction market will remain uncertain; and second, the effect of advertising declined from April to May. While the initiatives

we put into play to improve business performance has led to better rates in appointment-making and purchase agreement closure in the 1H, we remain unable to ascertain whether this trend can be sustained throughout the 2H. That's why we have yet to revise our original forecasts at this time.


Q3: What is happening with the auction market at this time?

A3: As far as the auction market is concerned, IKCO is seeing its selling prices in May and April this year have exceeded the level recorded at the same period last year. Moreover, market prices up until the end of the 1H this year were in line with that posted in the previous year.

Q4: I understand that the performance of large outlets in your Motorcycle Retail Sales Business is being evaluated at this time. How long will it take for IKCO to building a major outlet network?

A4: The evaluation of the standard outlet program for our Bike-Oh Direct Shop is a major issue for this fiscal year. We plan to proceed with the evaluation process throughout this year and decide whether to start building a major outlet network from fiscal 2012 onward.

Q5: Does your Motorcycle Retail Sales Business have outlet network plans for the future? And are there other products besides motorcycles that such outlets will be selling?

A5: We intend to develop an outlet network plan after the two net outlets launched this year have been evaluated. Over 10,000 major bike retail outlets are believed to be operating in Japan today—a market in which we hope to grab a sizeable share, although a double-digit share may be difficult for now. We aim to make our retail sales operation the second pillar following our pre-owned bike buyback business. As for the possibility of retailing products other than motorcycles at our outlets, we are currently examining whether to sell goods related to motorcycling, which is consistent with our goal to become a one-stop motorcycling product provider. We are not, however, planning to retail any product beyond this domain. 

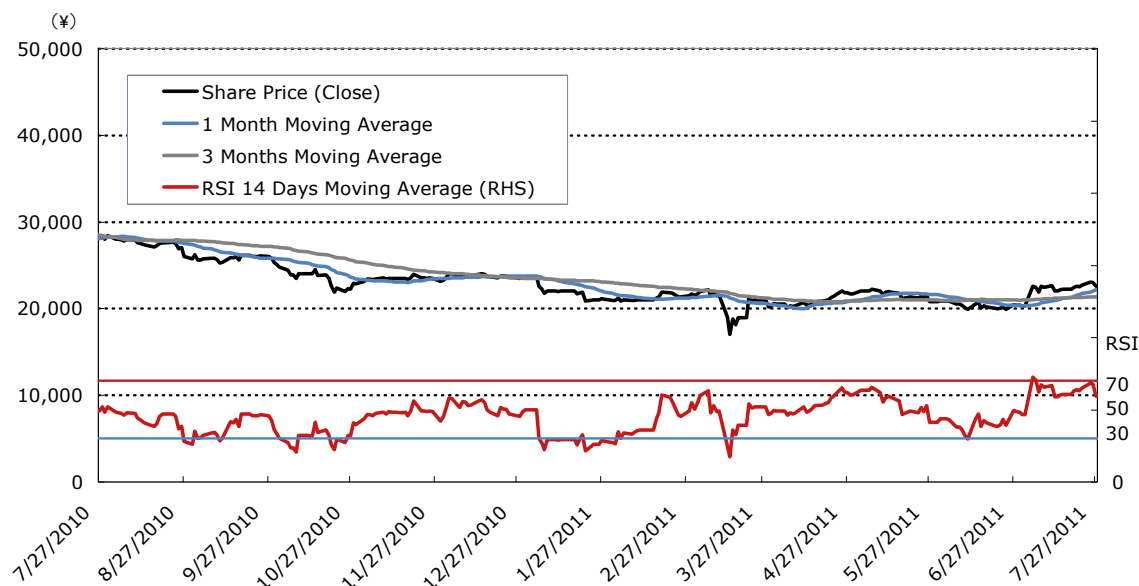
Reference
● Key Indicators and Business Results (Consolidated)

| Key Stock Indicators | | | Key Financial Data | | |
|-------------------------------|--------------|-----------|-------------------------------------------------------------|----------|-------|
| No. of Shares Issued | May 2011 | 152,856 | Total Assets (¥million) | May 2011 | 5,932 |
| No. of Treasury Stock | May 2011 | 15,000 | Shareholders' Equity (¥million) | May 2011 | 4,325 |
| Market Value (¥million) | Jul 27, 2011 | 3,447 | Interest-Bearing Debt (¥million) | May 2011 | 238 |
| BPS (¥) | May 2011 | 31,379.82 | Equity Ratio (%) | May 2011 | 69.6 |
| ROE (%) | May 2011 | 7.0 | Ratio of Interest-Bearing Debt (%) | May 2011 | 5.5 |
| ROA (%) | May 2011 | 4.9 | Free Cash Flows (¥million) | May 2011 | 328 |
| PER (times) | Nov.11 Fcst | 12.6 | Note ROE=Current Net Income÷Shareholders' Equity | | |
| PCFR (times) | May 2011 | 8.1 | ROA=Current Net Income÷Total Assets | | |
| PBR (times) | May 2011 | 0.7 | PCFR=Market Value÷(Current Net Income+Depreciation) | | |
| Share Price (¥) | Jul 27, 2011 | 22,550 | Average Daily Volume=Ave. Daily Vol. for the last 12 months | | |
| Unit Share (shares) | Jul 27, 2011 | -- | Interest-Bearing Debts Ratio=L.B.D.÷Shareholders' Equity | | |
| Average Daily Volume (shares) | Jul 27, 2011 | 182 | Free Cash Flows=Operating CF+Investment CF | | |

| (¥ million) | Net Sales | Operating Income | Ordinary Income | Net Income | EPS(¥) | DPS (¥) |
|---------------|-----------|------------------|-----------------|------------|--------|---------|
| FY8/08 | 24,588 | 1,864 | 1,904 | 847 | 5,555 | 800 |
| FY8/03 | 23,502 | 646 | 671 | 251 | 1,644 | 1,200 |
| FY8/10 | 24,176 | 708 | 732 | 312 | 2,123 | 1,200 |
| FY11/10 | 5,412 | -299 | -297 | -244 | -1,687 | 300 |
| 1H FY11/11 | 11,726 | 511 | 556 | 303 | 2,189 | 600 |
| FY11/11 Fcst. | 23,760 | 471 | 498 | 247 | 1,791 | 1,200 |

Note 1: Forecast announced on January 13, 2011

Note 2: Irregular term runs for 3 months (9/10-11/10), which is shown as FY11/10 result.

● 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.

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

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