

Trias Company Memo
23-Apr-2010

IK CO., LTD. (3377 / TSE 2nd Section)
Summary of Business Results Meeting
for the Second Quarter of Fiscal Year ending August 31, 2010

On April 12, 2010, IK CO., LTD. (hereinafter IKCO or the Company) held a Business Results Meeting for Q2 FY8/10. The following is a summary of the meeting.

The following IKCO executives attended the Meeting: Chairman Akihiko Ishikawa; President & CEO Yoshihiro Kato, Senior Vice President Maki Otani, and Director Takashi Yamagata.

The following is a summarized presentation by President & CEO Kato:

[Consolidated Business Results for Q2 FY8/10]

Consolidated net sales for the 1st half of FY8/10 (Sept.2009-Feb.2010) were ¥11.3 billion, up 5.2% year-on-year, while the Company posted a deficit of ¥157 million in operating income. Although the 1st half cumulative results fell below that which were targeted, an operating income of ¥110 million was achieved in Q2, a significant turnaround from the ¥268 million deficit posted in Q1.

<Auction-Based Transactions of Pre-Owned Motorcycles>

Hit by the global recession and appreciating yen, bike exporters have held off purchases from the pre-owned motorcycle auction market, the Company's primary point of sales, since October 2008, leading to a serious decline in prices. However, in January and February 2010, prices have rebounded beyond those posted in 2009 and this, along with other indicators, points to an upturn as the market moves towards the peak demand season. In CY2009, while the number of vehicles available for bidding on the motorcycle auction market was virtually identical to CY2008, the number of concluded bids posted a slight decline. Yet the latter number has been on recovery trend in January and February 2010, up 15.8% y/y.

The number of vehicles the Company sold rose to 79,244 units in the first half, up 17% y/y. IKCO believes that the increase was a result of adding Maomi Yuuki, a popular female entertainer, to its television commercial lineup that has featured another comedy duo, *Ameagari Kesshitai*, enabling the Company to reach out to a broader customer segment. IKCO's advertisement strategy was also upgraded in this fiscal year, including changes made to purchases made through the media, which have led to steady growth in purchase inquiries. The average sales price per unit and gross profit per unit fell

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below the Company's forecast for H1, but its key business indices have been improving from Q2.

While the number of vehicles sold in Q2 declined versus Q1 due to seasonal factors, it still improved by 19.7% y/y. The purchase agreement closure ratio rose from 81.3% in Q1 to 82.9% in Q2, while the average sales price per unit increased from ¥126,208 in Q1 to ¥131,730 in Q2 as the auction market recovered. The average gross profit margin also improved from ¥62,790 in Q1 to ¥71,232 in Q2, an improvement due to initiatives to secure higher gross profit.

As a result, the gross profit margin (number of vehicles sold multiplied by average profit per unit) in Q2 increased ¥173 million over Q1, leading to an operating income surplus. It should also be noted here that the number of retail outlets remained at 100, as no new "Bike-Oh" outlet was added in this period. IKCO plans to respond to sales volume increases in the future by improving the productivity per outlet.

**【Table1】
Auction-Based Transactions of Pre-Owned Motorcycles
Quarterly Business Performances**

(¥Million)	FY8/09	FY8/09	
	Q1 Actual	Q2 Actual	y/y change
Net Sales	5,255	5,159	15.1%
Gross Profit	2,618	2,818	18.7%
Operating Income	△ 252	167	--
Ordinary Income	△ 248	199	--

<Retail Sales>

While the Company's unit number of vehicles sold to motorcycle users increased on a y/y basis after it integrated its retail operations under the "Bike-Oh" brand channel, the figure was still below the targeted goal. At the same time, however, two key indices—actual average sales price per unit and gross profit margin—were within the Company's projected parameters. Moreover, IKCO's business performance was also in line with its forecast targets, primarily as a result of successfully reining in SG&A expenses.

<Park-Oh>

Park-Oh, the Company's parking-lot operation, continued to focus on profitability and development of potential parking-lot sites. The operation performed as projected, posting a net surplus in ordinary income in the first half.

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【Table2】
Q2 Accumulated Business Results and FY8/10 Earnings Forecast

(¥Million)	FY8/09 Q1-2 Actual	FY8/10 Q1-2 Actual	y/y	FY8/10 Full-Year Fcst.	y/y
Auction-based Transactions					
Net Sales	10,188	10,415	2.2%	22,642	2.5%
Gross Profit	5,264	5,436	3.3%	--	
Operating Income	51	△	-- 84	1,026	23.1%
Ordinary Income	51	△	-- 49	1,021	21.7%
Retail Sales					
Net Sales	889	1,145	28.8%	3,017	30.9%
Gross Profit	270	365	35.2%	--	
Operating Income	△	△ 143	--	79	Decreased deficit
Ordinary Income	△	△	--	6810	Turned to positive
Park-Oh					
Net Sales	163	259	58.0%	591	50.1%
Gross Profit	8	40	370.4%	--	
Operating Income	△	4	-- 28	32	Turned to positive
Ordinary Income	△	11	--	22	Turned to positive
Consolidated Total					
Net Sales	10,756	11,313	5.2%	24,587	4.6%
Gross Profit	5,543	5,844	5.4%	--	
Operating Income	△	△	--	1,016	1575.3%
Ordinary Income	△	△	--	1,043	1355.3%
Current Term Net Income	△	△	--	536	1109.5%

Note: FY8/10 forecasts announced in October 2009

【FY8/10 Earnings Forecast】

The Company does not believe it necessary to modify its original earnings forecast, issued in October 2009, for each of its business operations (see Table 2). It plans to increase the unit number of vehicles sold through a more effective ad campaign in the 2nd half. The projected average sales price per unit factors in seasonal fluctuations of the current auction market. Steps will also be taken to hold down procurement prices and ensure gross profit margins.

IK CO plans to pay out ¥1,200/share for its annual dividend, the same amount paid out last year. It bought back 7,000 shares in December 2009, or 4.6% of the total number of shares issued. Financially, the Company remains on firm footing with an equity ratio of 74.2% as of the end of February 2010.

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[Q&A]

Q1: Why has the average sales price per unit been decreasing even into Q2 despite the turnaround in the motorcycle auction market?

A1: While there is no definitive explanation for the discrepancy, the engine displacement composition is different from vehicles sold at the motorcycle auction and that sold by the Company, with the latter selling more 50-cc bikes than the former. IKCO is looking to control the composition ratio of small bikes at the point of accepting purchase inquiries.

Q2: The FY8/10 earnings forecast projects a recovery from your FY8/09 business performance, which suffered significantly compared to that posted in previous years. Where does IKCO stand today in terms of performance, in a big-picture assessment? Will you ever recover to the superior levels achieved in the past?

A2: The Company believes the projected average gross profit margin of some ¥70,000 is appropriate, given the current unit price level and customer satisfaction into account. However, to achieve ¥80,000—or the level achieved in the past—the average sales price per unit must recover to previous levels as well. If the point of the question is whether IKCO will ever earn ¥1.8 billion in operating income, which was the peak posted in FY8/08, then the answer is that it is possible if the increase in the unit number of motorcycles sold continues at the current pace.

Q3: How can the average sales price per unit recover to past levels?

A3: The average sales price per unit depends largely on the auction market, which seems to have bottomed out after experiencing the largest price decline in several decades. Today, the market environment is taking a turn for the better, and the Company plans to upgrade its repair work and maintenance framework, as well as its logistical network, to improve further value. In addition, IKCO has two major types of customers—those who sell their motorcycles and those who buy bikes to replace that which they own now. The Company will be focusing on the latter, stimulating demand through ads and other incentives and directing them to its Bike-Oh retail outlets, to enhance its sales price per unit.

Q4: How do you assess the effectiveness of your ad campaign?

A4: Ads are important in increasing the number of telephone inquiries, which are the gateway to actual purchases. In order to increase the number of such inquiries, the Company has been building up a fairly extensive knowledge base by experimenting with new advertising media. In the 1st half, the purchasing agreement closure ratio decreased, while the number of motorcycles sold increased. This is due to the increase in telephone inquiries, which represent the first point of customer contact.

(This concludes the Trias Company Memo)

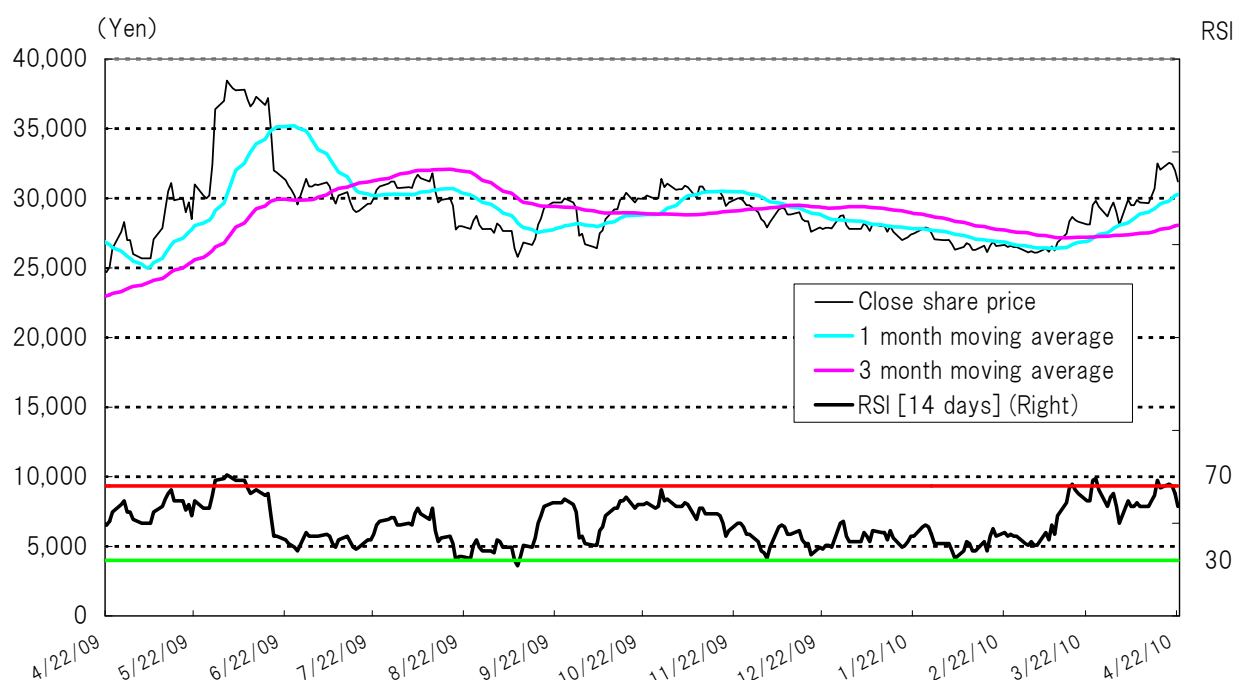
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【Reference】 IK CO., LTD. (Securities Code: 3377)
Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)			Key Financial Data (Consolidated)		
No. of Shares Issued	Feb.10	152,856	Total Assets (¥million)	Aug.09	6,350
No. of Treasury Stock	Feb.10	7,000	Shareholders' Equity (¥million)	Aug.09	4,656
Market Value (¥million)	Apr..21, 09	4,968	Interest-Bearing Debt (¥million)	Aug.09	238
BPS (¥)	Aug.09	30,460.5	Equity Ratio (%)	FY8/10 est.	73.3
ROE (%) ※1	Aug.09	5.4	Ratio of Interest-Bearing Debt (%) ※5	Aug.09	5.1
ROA (%) ※2	Aug.09	3.9	Free Cash Flows (¥million) ※6	Aug.09	△ 81
PER (times)	FY8/10 est.	8.9	※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end ※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end ※3 PCFR=Maket Value÷(Current Net Income+Depreciation) ※4 Average Daily Volume=Average Daily Volume for the last 12 months ※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity ※6 Free Cash Flows=Operating CF+Investment CF		
PCFR (times) ※3	Aug.09	8.1			
PBR (times)	Aug.09	1.1			
Share Price (¥)	Apr..21, 09	32,500			
Unit Share (shares)	Apr..21, 09	1			
Average Daily Volume (shares) ※4	Apr..21, 09	218			

Consolidated (¥Million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share
FY8/06	16,709	1,182	1,265	616	4,182.00	600.00
FY8/07	20,379	1,574	1,604	740	4,859.27	300.00
FY8/08	24,588	1,864	1,904	847	5,555.13	800.00
FY8/09	23,502	646	671	251	1,643.75	1,200.00
FY8/10 Q2	11,313	△ 157	△ 103	△ 109	△ 738.09	600.00
FY8/10 fcst.	24,587	1,016	1,043	536	3,644.12	1,200.00

Note: FY8/10 forecasts announced on Oct.14, 2009.

Share Price Charts and RSI


Source: Prepared by Trias Corp. with Bloomberg L.P. 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) x100

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