

Trias Company Memo
29-Oct-2010

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

On October 15, 2010, IK CO., LTD. (hereinafter IK CO or the Company) held a Business Results Meeting for FY8/10. The following IK CO executives and managers attended the Meeting: Chairman Akihiko Ishikawa; President & CEO Yoshihiro Kato; Senior Vice President Maki Otani; Director Takashi Yamagata; Kazuya Takeuchi, Manager of the Financial Section, Accounting and Financial Div.; and Hirotsada Nishimoto, Manager of the Budget and Management, Integrated Management Dept.

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

[Consolidated Business Results for FY8/10]

Consolidated net sales for FY8/10 (September 2009-August 2010) was ¥24.1 billion, an increase of 2.9% on a year-on-year basis, while the Company posted ¥708 million in operating income, up 9.6% y-o-y. While sales and income grew, operating income was 30.3% less than the Company's forecast as a result of higher cost of sales.

<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. Prices rebounded from December 2009 to February 2010, which indicated that a recovery may be on the way, but then slumped again, with sales in July and August falling below figures posted in fiscal 2009. While the number of vehicles available for bidding and the number of concluded bids had been solid until 2008, the number of vehicles in 2009 available for bidding was roughly the same as the previous year, the number of concluded bids showed a slight decline.

Because sales in the pre-owned motorcycle auction market in July and August were below that posted last year, the Company's average sales price per unit was not as high as the target price projected for Q4 (June-August 2010). Also, failure to reach the average sales price per unit target impacted the average gross profit margin—which had improved slightly due to IK CO's measures to secure as high a margin as possible—fell below the projected figure. As for vehicles sold, the number fell slightly below the Company's forecast. A key factor for the failure to reach the targeted goal was that in Q4 purchase inquiry fell short of the forecast as web-based advertising effectiveness declined from Q3 (March-May 2010), although inquiries were steady during the first half (September 2009-February 2010).

As a result, the number of vehicles sold for the full year rose 9.1% y-o-y, which was in line with the forecast. The average sales price per unit fell 8.4% y-o-y to ¥127,857, while the average gross profit margin also fell 8.0% to ¥68,739 y-o-y. Meanwhile, the purchase agreement closure ratio for the full year was 83.9%, which fell short of that posted last year, but the ratio has shown a slight recovery on a quarterly basis. In accordance with its plan, IK CO did not launch a new Bike-Oh retail outlet, maintaining its 100-outlet structure. Its decision was based on the Company's aim to keep outlet productivity high by boosting the number of vehicles sold per outlet.

<Retail Sales Segment>

As a result of reinforced sales campaign activities, the number of vehicles sold to motorcycle owners increased on a y-o-y basis, but fell short of the Company's forecast. The average sales price per unit and average gross profit margin were basically in line with their projected targets.

<Parking Services Segment: Park-Oh>

The closing of a major parking lot adversely impacted net sales and gross profit in Q2 and Q3, leading to lower-than-projected figures. Lower sales also hurt operating income, which failed to perform up to the projected target, despite moves to minimize SG&A expenses to secure earnings. Moreover, in applying for a government subsidy, IK CO had to post the entire cost of sales at once, resulting in a decline of ¥6 million in operating income, while ordinary income rose by ¥7 million. Consequently, the Company achieved a net surplus in this segment for the first time, although ordinary income did not reach its forecasted target.

[Earnings Forecast for the September 2010-August 2011 Term]

To mitigate the negative impact from seasonal fluctuations in the motorcycle auction market on its second-half performance, IK CO has decided to change the end of its fiscal year from August to November. The next fiscal year will only be a three-month period, from September to November 2010, then. The Company also announces the 12-month period forecast beginning from September 2010, in addition to the irregular fiscal term one.

In addition to the altered fiscal year period, IK CO has readjusted its business segmentation. Sales of parts and components, which had previously been under Auction-Based Transactions of Pre-Owned Motorcycles segment, will be moved to the Company's Retail Sales segment. The following forecast of business performance for the next 12 months (September 2010-August 2011) reflects the change:

【Table 1】 Consolidated Results and Forecasts for Sep.2010 - Aug.2011

(¥ Million)	FY8/10 Full-Year Actual	12-month Forecast (Until 8/11)	YoY Change
Auction-Based Transactions			
Net Sales	21,968	21,411	-2.5%
Gross Profit	11,765	11,916	1.3%
Operating Income	661	349	-47.1%
Ordinary Income	647	347	-46.3%
Retail sales			
Net Sales	2,852	3,125	9.6%
Gross Profit	1,026	1,094	6.6%
Operating Income	45	57	26.6%
Ordinary Income	70	83	18.6%
Parking			
Net Sales	497	648	30.2%
Gross Profit	70	90	29.3%
Operating Income	△ 2	6	—
Ordinary Income	14	11	-19.4%
Consolidated			
Net Sales	24,176	23,857	-1.3%
Gross Profit	12,862	13,101	1.9%
Operating Income	708	418	-41.0%
Ordinary Income	732	442	-39.5%
Net Income	312	142	-54.5%

Note:

- 1) 9/10-8/11 forecast announced on 10/13/10
- 2) Irregular term runs for 3 months (9/10-11/10); 9-month forecast from 12/10-08/11 also announced
- 3) Business segmentation change reflected in FY8/10 actual results

【Table 2】 Business Indicators for Auction-Based Transactions Business

	FY8/10 Actual		12-Month Forecast (Until 8/11)	
	Full-Year	YoY Change	Full-Year	YoY Change
Advertisement expenses (¥ Million)	3,668	-	3,867	5.4%
Purchase agreement closure ratio (%)	83.9%	-1.3%	86.0%	2.5%
Number of vehicles sold	170,130	9.1%	170,200	0.0%
Average sales price per unit (¥)	127,857	-8.4%	124,800	-2.4%
Average gross profit per unit (¥)	68,739	-8.0%	69,100	0.5%

Note:

- 1) 9/10-8/11 forecast announced on 10/13/10
- 2) Irregular term runs for 3 months (9/10-11/10); 9-month forecast from 12/10-08/11 also announced
- 3) FY8/10 actual results of new business segmentation only includes advertisement cost.

IK CO is forecasting a decline in net sales and earnings for its core Auction-Based Transaction segment in the September 2010-August 2011 term because it expects the trend in average sales price per unit to be weaker than that posted last year due to the uncertainties of the auction market. It also projects that the number of vehicles sold will remain flat y-o-y based on the recent trend of purchase inquiries. While moves to curtail the cost of delivery will continue, the Company expects personnel

expenses and advertisement costs will continue to increase.

As for dividends, the Company expects to pay out ¥300 per share for the September-November 2010 term, or the three-month equivalent of the ¥1,200 it originally announced for the full year of FY8/10. It also plans to initiate a stock buyback of 8,000 shares, or 5.48% of total shares issued, during the period of October 14, 2010 to February 21, 2011.

[Q&A Session]

Q1: Why are you forecasting the number of vehicles sold to remain flat? Is it due to market changes or due to an internal dynamic, such as a slowdown in growth potential?

A1: While the number of new vehicles sold is declining, that hardly impacts our performance because we do not market new bikes. With fewer newer bikes being sold, that may affect prices but that does not axiomatically mean the pre-owned motorcycle distribution market will contract. There is a possibility that the traditional approach we have taken may be reaching its limit and, for this reason, we will be adopting new initiatives, including a rethinking of our advertisement strategy, to expand our business.

Q2: How do you see the decline in average sales price per unit in the months of July and August, a period when prices traditionally tend to be higher? Will this trend be limited only to this year?

A2: With the recent appreciation of the yen, foreign buyers have refrained from purchases in the auction market. We do not expect any near-term exchange rate correct and believe unit prices will remain low for the foreseeable future. And while new bike sales are underperforming in general, that has not led to a contraction in ownership of bikes with 125cc engines or larger. We believe that people are thus shifting from new to pre-owned vehicles. We know that dealers of new bikes are discounting prices to survive. Considering these factors, we do not expect the unit price trend to improve any time soon.

Q3: What are some of the specific steps you are taking to boost ad performance?

A3: The efficacy of print advertisement continues to slip. We are now giving pre-paid cards to the customers who saw our newspaper ads. As for our website, we analyze the location and preference of viewers, and track the things they are interested in. We are also upgrading our SEO capabilities because many viewers access our website through their web search for "Bike-Oh."

Q4: Is your business slowing down simply because demand itself has reached a limit? Will the domestic market expand in the future? Most of the auction players now are buyback operators. How do you see the market developing, including end-user trends?

A4: The number of motorcycle operators has not decreased. When looking at the market by engine displacement, while the number of domestic units owned with engines smaller than 50cc has contracted, ownership of bikes with engines larger than 51cc is growing. Sales of 50cc-and-smaller vehicles account for less than 10% of IK CO's total sales. We estimate our target market of bikes with engines larger than 125 cc at some 700,000 units—with more than 500,000 in Japan alone. Given that we purchase some 100,000 units a year, we are confident that we have a significant opportunity to gain a larger share of the market. Our customers can be classified as either buyers or sellers of pre-owned bikes, with 90% of our transactions falling in the latter category. As such, we are currently examining initiatives that will enable us to expand our presence in the former category. Seen from a broader perspective, we believe the domestic market has plenty room to grow. Although prices of new bikes have increased as a result of stricter emissions regulations and other factors, Japanese makers are working to lower prices by switching from high-cost, high-quality components procured domestically to less expensive parts built overseas. They are also broadening their product lineup. Meanwhile, rider segmentation is also broadening to include senior citizens and women. 

[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	Aug.10	152,856	Total Assets (¥million)	Aug.10 6,402
No. of Treasury Stock	Aug.10	7,000	Shareholders' Equity (¥million)	Aug.10 4,647
Market Value (¥million)	Oct.28, 10	3,507	Interest-Bearing Debt (¥million)	Aug.10 238
BPS (¥)	Aug.10	31,386.0	Equity Ratio (%)	Aug.10 71.5
ROE (%) ※1	Aug.10	5.4	Ratio of Interest-Bearing Debt (%) ※5	Aug.10 5.1
ROA (%) ※2	Aug.10	4.0	Free Cash Flows (¥million) ※6	Aug.10 366
PER (times)	FY8/11 est.	-	※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end	
PCFR (times) ※3	Aug.10	5.8	※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end	
PBR (times)	Aug.10	0.7	※3 PCFR=Market Value÷(Current Net Income+Depreciation)	
Share Price (¥)	Oct.28, 10	22,940	※4 Average Daily Volume=Average Daily Volume for the last 12 months	
Unit Share (shares)	Oct.28, 10	1	※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity	
Average Daily Volume (shares) ※4	Oct.28, 10	130	※6 Free Cash Flows=Operating CF+Investment CF	

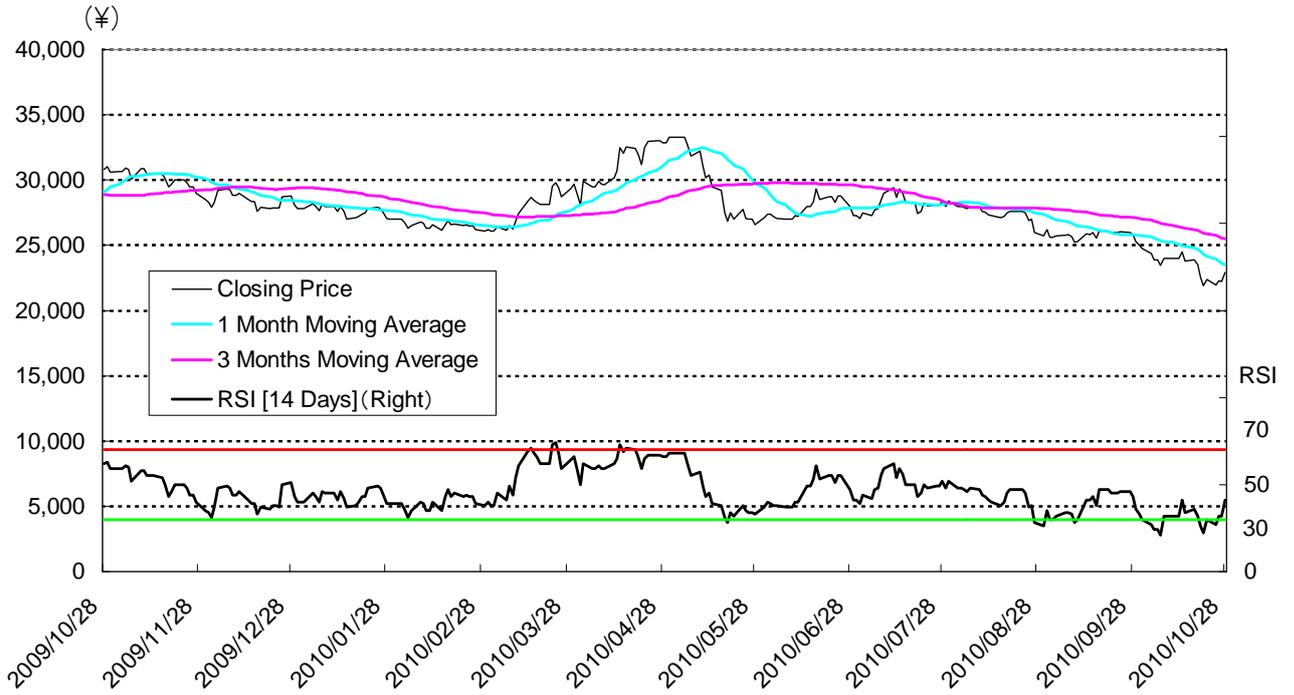
Consolidated (¥Million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
FY8/07	20,379	1,574	1,604	740	4,859.27	300.00
FY8/08	24,588	1,864	1,904	847	5,555.13	800.00
FY8/09	23,502	646	671	251	1,643.75	1,200.00
FY8/10	24,176	708	732	312	2,123.24	1,200.00
Sep.10-Aug.11 Fcst.	23,857	418	442	142	-	1,200.00

Note: 1) 9/10-8/11 forecast announced on 10/13/10

2) Irregular term runs for 3 months (9/10-11/10); 9-month forecast from 12/10-08/11 also announced

3) Dividend per share for FY11/10 forecasted at ¥300, or 3-month equivalent of ¥1,200 originally announced for FY10/10

Share 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.

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