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## M&A strategy supplements growth of existing businesses

Ai Holdings Corp. is a holding company for 16 operational companies, the two main ones being Dodwell BMS Ltd. and Graphtec Corp. Under the astute leadership of CEO Sasaki, these companies have achieved growth in seven businesses.

In the fiscal year through June 2013, i.e., in FY6/13, Ai Holdings recorded consolidated sales of ¥32,389mn, up 15.0% year-on-year (y-o-y), consolidated operating profit of ¥4,974mn, up 40.4% y-o-y, consolidated recurring profit of ¥5,080mn, up 28.0%, and consolidated net profit of ¥2,974mn, up 23.6%. For FY6/14, Ai Holdings forecasts consolidated sales of ¥35,250mn, up 8.8% y-o-y, consolidated operating profit of ¥5,500mn, up 10.6% y-o-y, consolidated recurring profit of ¥5,530mn, up 8.9%, and consolidated net profit of ¥3,400mn, up 14.3%.

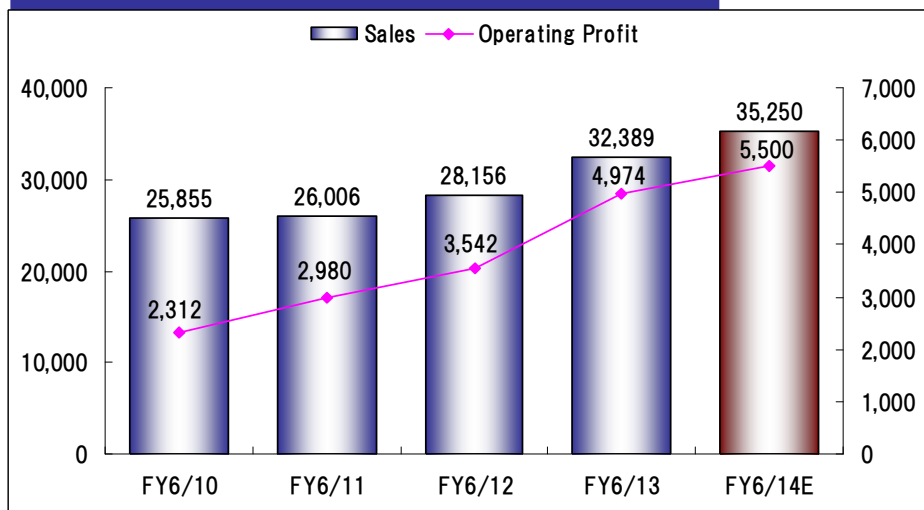
Ai Holdings has grown through mergers and acquisitions, and this remains an important strategy.

The company aims to maintain a dividend payout ratio of 35%. Given the profit growth the company projects for FY6/14, it may increase its dividend for the year.

## Check Points

- A clear policy and rapid decision-making for M&A are major strengths
- Strong business in the first two months of FY6/14 indicate the company may exceed its forecasts for the fiscal year
- Continuous growth achieved through cycle of acquiring and nurturing new businesses

Consolidated Sales and Operating Profit (¥mn), FY6/10-FY6/14E



## ■ Company Outline

### Rejuvenated and expanded by putting priority on profits instead of sales

#### Company History

Established in 2007, Ai Holdings Corp. encompasses 16 operational companies, of which, 14 are consolidated subsidiaries, 1 is a non-consolidated subsidiary, and 1 is an affiliate accounted for by the equity-in-earnings method. The two main consolidated subsidiaries are Dodwell BMS Ltd. and Graphtec Corp., described below.

Established in 1950 as Typewriter Service Co., Ltd., Dodwell subsequently reorganized as a public stock company and renamed itself as Dodwell BMS Ltd. In the early 1990's, Dodwell BMS primarily sold and serviced typewriters, franking machines and personal computers, but its profitability languished. In 1994, Mr. Hideyoshi Sasaki, the current Chairman of Ai Holdings, took a 51% stake in the company and became its president. Mr. Sasaki established a policy of putting profits ahead of sales, and by 1999, the company's profits had recovered enough to register its shares on the over-the-counter market.

#### History of Dodwell BMS

1950	Established as Typewriter Service Co., Ltd.
1963	Reorganized as Dodwell Business Machines Service Co., Ltd.
1978	Renamed Dodwell BMS Ltd.
1994	Mr. Hideyoshi Sasaki took a 51% stake in the company and became its president
1999	Registered shares on the over-the-counter market
2000	Took a majority stake in Pro-Mech Corp., making it a subsidiary
2001	Took an equity stake in Takamisawa Cybernetics Co., Ltd.
2002	Listed shares on the Second Section of the Tokyo Stock Exchange
2003	Listed shares on the First Section of the Tokyo Stock Exchange
2005	Entered a business agreement with Graphtec Corp.
2007	Merged with Graphtec Corp. to form Ai Holdings Corp.

In 1949, a Mr. Watanabe, a former employee of Yokogawa Electric Corp. (6841), set up Watanabe Laboratories. In 1961, this company developed Japan's first X-Y plotter for the automatic production of graphs. Subsequently, the company entered the business of producing pen plotters for computer-aided design, a product that became a global success. In the early 1990's, however, Hewlett-Packard Inc., of the US, introduced ink-jet printers, and consequently, the demand for pen plotters dried up rapidly. Graphtec was forced to restructure, curtailing its operations throughout Japan, and finally, it sought assistance from Dodwell BMS through a formal agreement.

### History of Graphtec

1961	Developed Japan's first X-Y plotter
1977	Name changed to Watanabe Measurement Equipment
1983	Name changed to Graphtec Corp.
1985	Shares listed on the Second Section of the Tokyo Stock Exchange
1987	Shares listed on the First Section of the Tokyo Stock Exchange
1995	Established a subsidiary in California, USA, now called Graphtec America Inc.
2005	Established business agreement with Dodwell BMS
2007	Merged with Dodwell BMS to form Ai Holdings Corp.

Soon after its establishment in 2007, Ai Holdings listed its shares on the First Section of the Tokyo Stock Exchange. Since then, the company has grown rapidly by acquiring and setting up new subsidiaries.

### History of Ai Holdings

Apr-07	Established through the merger of Dodwell BMS and Graphtec. Listed on the First Section of the Tokyo Stock Exchange.
Jul-08	Purchased Neuron Co., making it a subsidiary.
Jan-09	Purchased Shiomi Sekkei Co., making it a subsidiary.
Jul-09	Established subsidiary Ai Engineering Co., Ltd.
Sep-09	Established Silhouette America Inc.
Jul-10	Shiomi Sekkei Co. changed its name to Ai Sekkei Co.

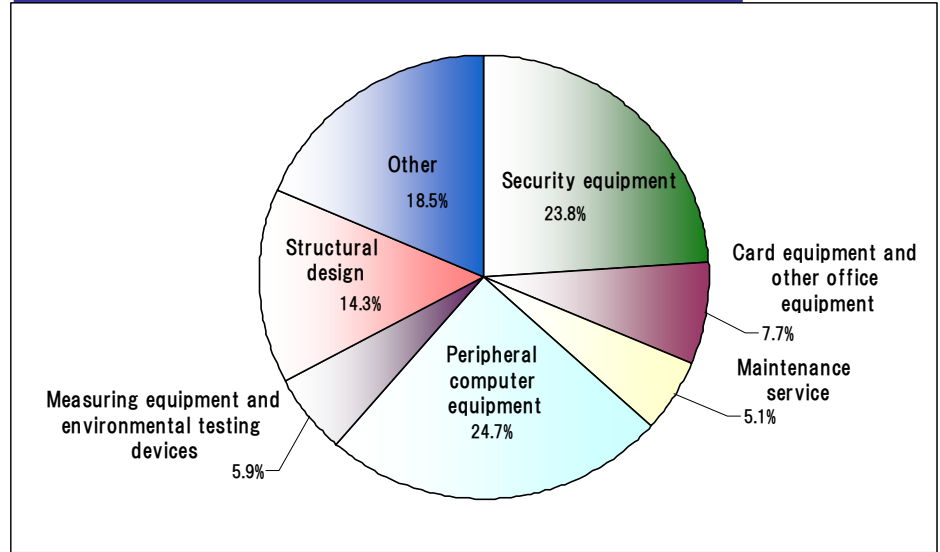
## 16 group companies engage in seven businesses

### Description of Businesses

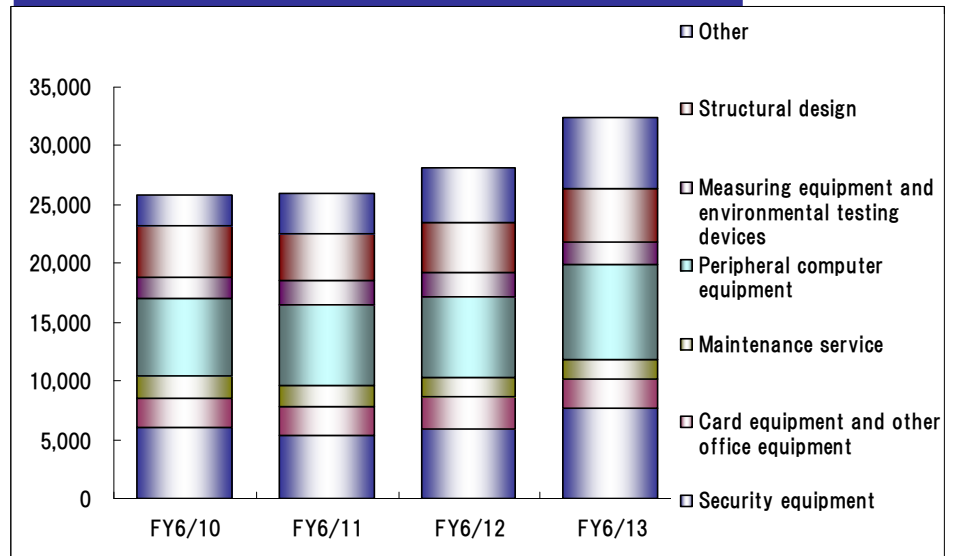
As mentioned above, Ai Holdings is a holding company encompassing 16 operational companies, of which, 14 are consolidated subsidiaries, 1 is an unconsolidated subsidiary, and 1 is an affiliate accounted for by the equity-in-earnings method. These operational companies engage in seven businesses. In FY6/13, the sales and sales contributions of each business were as follows: security equipment ¥7,713mn (23.8%), card equipment and other office equipment ¥2,487mn (7.7%), maintenance service ¥1,655mn (5.1%), peripheral computer equipment ¥8,005mn (24.7%), measuring equipment and environmental testing devices ¥1,904mn (5.9%), design ¥4,618mn (14.3%), and other businesses ¥6,002mn (18.5%). Sales generated by each business over the past four fiscal years are summarized in the bar chart below.

■ Company Outline

Sales Contributions by Seven Businesses in FY6/13



Sales (¥mn) by Seven Businesses, FY6/10-FY6/13



The three main subsidiaries of Ai Holdings and the businesses they engage in are summarized in the figure below.

Dodwell BMS	Graphtec	Ai Sekkei
Security equipment	Peripheral computer equipment	Structural design, measurement of resistance to earthquakes
Card equipment and other office equipment	Measuring equipment and environmental testing devices	
Maintenance service		
Leasing, installment sales, other businesses		



### **Security Equipment**

This business consists of the development, manufacture and sale of security system equipment, such as security cameras and recorders. Most of this equipment is imported from South Korea, but Ai Holdings is deeply involved in its development. This equipment derived from South Korean military technology, so it provides higher cost performance than similar equipment made by Japanese competitors.

Ai Holdings also provides comprehensive services for its security equipment, including maintenance service. The equipment is sold to a wide range of customer industries, including megabanks, government agencies, commercial areas, and retail store chains. In recent years, sales to existing condominium buildings have grown especially rapidly. In the past, most sales were made by agencies, but in recent years, the company has expanded its direct sales, particularly to existing condominium buildings, as detailed in a later section.

### **Card Equipment and Other Office Equipment**

This business consists of the development, manufacture and sale of machines for issuing patient registration cards for medical institutions, machines for the automatic recording of return visits by patients to medical institutions, equipment for immediately issuing and handling IC cards for financial institutions, and other equipment. Sales to hospitals are not growing rapidly, but the company foresees steady demand from hospitals. Sales of equipment for immediately issuing IC cards for financial institutions have been minor, but recently, some regional banks have started to buy them, and megabanks may follow suit.

This business also sells equipment for the computer-aided design of steel structures. The market for this equipment is a niche market, so it is not expected to grow rapidly, but the company anticipates steadily renewed demand for it.

### **Maintenance Service**

This business comprises the maintenance of security equipment and card equipment. In the past, this business also maintained equipment produced by other companies to maintain the efficiency of its workforce, but in recent years, it has concentrated on maintaining company equipment, so the sales weighting of maintenance service for other companies has been dropping.

The maintenance service business supplies only about 5% of Ai Holdings' total sales, but its sales and profits are steady over the long term because it is required at regular time intervals. Furthermore, it supports the sales of security equipment and card equipment.

### **Peripheral Computer Equipment**

This business consists of the development, manufacture, sale and maintenance of peripheral computer equipment, such as cutting machines and scanners. The company's cutting machines were developed based on Graphtec's original technology for plotters and also concentrate on large displays between size A3 and size A0. This peripheral computer equipment is sold mainly to companies that make outdoor advertisements and signs.

## Measuring Equipment and Environmental Testing Devices

This business consists of the development, manufacture and sale of measuring equipment, mainly data loggers, which electronically record the results of measurements by environmental testing device sensors, and of environmental testing devices. The measuring equipment measures a wide range of variables, including electric voltage, temperature, humidity, and electric pulse. The environmental testing devices check the performance of electronic components, printed circuit boards, etc. under various conditions, such as high or low temperature. At the request of customers, the company customizes its environmental testing devices.

Measuring equipment and environmental testing devices are inspection equipment, for which the demand is not growing rapidly, but this equipment affords steady profits.

## Design

This business consists of the design of buildings, mainly structural design, and the appraisal of earthquake resistance. It is conducted by Ai Sekkei Co., Chuo Sekkei Co., and Tanabe Sekkei Co. These three consolidated subsidiaries employ more than 200 engineers with expertise in structural design. These companies also provide comprehensive consulting service in the area of construction, especially in structural design and the design of equipment and devices requiring advanced technological knowledge. The design business is also a source of steady profits.

## Other Businesses

This segment comprises primarily the leasing and installment sales of the company's security equipment and card equipment. When necessary, this business also leases and sells on installments equipment produced by other companies.

Each of these businesses possesses distinctive characteristics and strengths, but the two main strengths of Ai Holdings are its management and its sales.

## A clear policy and rapid decision-making for M&A are major strengths

### Management

The greatest strengths of Ai Holdings are the leadership and management capability of Chairman and CEO Sasaki. As stated earlier, Mr. Sasaki acquired a controlling interest in Dodwell BML in 1994, and since then, he has built up Ai Holdings through a series of mergers and acquisitions. Today, many Japanese companies attempt to grow through M&A, but few have more than 20 years of experience in M&A, as Mr. Sasaki has. Mr. Sasaki has amassed a history of successful M&A transactions by adhering to strict principles for such transactions. For example, he does not try to acquire a business that yields a small gross profit. He also avoids businesses engaged in large markets that can easily be entered by large companies.

## ■ Company Outline

As M&A targets, Mr. Sasaki seeks businesses that are not large or growing fast but provide sound profits. A business that earns ¥200mn of profit a year supplies ¥2bn of cash over 10 years. Five such businesses supply ¥10bn over 10 years. This slow but steady approach underlies the growth of Ai Holdings.

Finally, Mr. Sasaki makes a decision on an acquisition or business alliance rapidly and takes action rapidly. If an acquisition or alliance fails to deliver the desired result, he quickly sells the business or terminates the alliance and seeks more promising opportunities.

## In-house training underlies sales strength

### Sales

Ai Holdings is strong in the sale of security equipment. Originally, the company relied mainly on salesmen to sell this equipment to corporations through cold calls, but this approach was not very effective. In recent years, the company has hired more women for sales, prepared persuasive sales presentations, and switched its sales targets from financial institutions, schools, public facilities, and commercial complexes to existing condominium buildings. Decisions about improvements of or installations in condominium buildings are usually made by associations of condominium owners. The company therefore cultivated business ties with leading condominium building management companies, which understood the security requirements of the buildings they managed and had influence over the associations of condominium owners. Through these ties, Ai Holdings was able to sell its equipment to condominium buildings.

In recent years, Mr. Sasaki has personally intervened in the hiring of new university graduates for the sales department of the security equipment business to promote the hiring of young people with unique personalities. These young people are then trained in the company's sales approach, which encourages sales people to use both their intelligence and a positive, empathetic attitude. The growth of sales of security equipment to existing condominium buildings in recent years has been supported as much by this approach as it has been by the quality and price of the equipment. This successful sales approach may support the growth of new businesses in the future.

## ■ Business Trends

### Operating profit exceeded upwardly revised company forecast

#### FY6/13 Results

In FY6/13, Ai Holdings' consolidated sales rose 15.0% y-o-y to ¥32,389mn, operating profit grew 40.4% y-o-y to ¥4,974mn, recurring profit advanced 28.0% y-o-y to ¥5,080mn, and net profit increased 23.6% y-o-y to ¥2,974mn. The company originally forecast an operating profit of ¥4,200mn for FY6/13. It then raised its forecast to ¥4,850mn. Operating profit exceeded the revised forecast, largely because of strong sales of security equipment to existing condominium buildings and similarly strong sales by Silhouette America of compact cutting machines to general consumers for paper craft and other hobbies



## ■ Business Trends

## Summary Income Statement (¥mn), FY6/12-FY6/13

	FY6/12		FY6/13		y-o-y Change	
	Amount	Ratio	Amount	Ratio	Amount	Rate
Sales	28,156	100.0%	32,389	100.0%	4,233	15.0%
Gross profit	10,753	38.2%	13,043	38.2%	2,290	21.3%
SGA cost	7,211	25.6%	8,069	25.6%	858	11.9%
Operating profit	3,542	12.6%	4,974	12.6%	1,432	40.4%
Recurring profit	3,970	14.1%	5,080	14.1%	1,110	28.0%
Net profit	2,406	8.5%	2,974	8.5%	568	23.6%

Breakdown of Operating Profit (¥mn) by Business,  
FY6/12-FY6/13

	FY6/12		FY6/13		y-o-y Change	
	Amount	Ratio	Amount	Ratio	Amount	Rate
Security equipment	5,887	20.9%	7,713	20.9%	1,826	31.0%
Card equipment / other office equipment	2,717	9.7%	2,487	9.7%	-230	-8.5%
Maintenance service	1,698	6.0%	1,655	6.0%	-43	-2.5%
Peripheral computer equipment	6,916	24.6%	8,005	24.6%	1,089	15.7%
Measuring equipment / environmental testing devices	1,984	7.0%	1,904	7.0%	-80	-4.0%
Design	4,315	15.3%	4,618	15.3%	303	7.0%
Other businesses	4,636	16.5%	6,002	16.5%	1,366	29.5%

A more detailed description of results in FY6/13 by each main business follows.

**Security Equipment**

Sales in the security equipment business grew 31.0% y-o-y in FY6/13 to ¥7,713mn, while operating profit surged 138.2% to ¥2,291mn. Direct sales of security equipment to existing condominium buildings rose substantially. The business garnered 3,500 contracts, which was 454 contracts, or 37.4% more contracts than it won in FY6/12. Both new contracts and contract renewals increased. Sales of security equipment to corporations by business partners, or sales agents, also grew firmly, led by sales by Fuji Xerox Co.

**Card Equipment and Other Office Equipment**

In FY6/12, operating profit from this business declined by 3.2% y-o-y to ¥570mn because operating profit from card equipment dropped substantially. In FY6/12, this business delivered many IC card issuing machines to a regional bank, earning a large operating profit from that customer. In FY6/13, the card equipment business did not deliver many machines, so its operating profit declined. However, operating profit from other office equipment grew notably in FY6/13, mainly because the company expanded its line of machines for the automatic recording of return visits by patients to medical institutions and for the automatic payment of bills to medical institutions, thereby supporting their sales. Furthermore, a new program for the computer-aided design of steel structures sold well. The fall in overall operating profit in this segment was probably foreseen by the company, given the temporary nature of the demand surge in FY6/12.



## ■ Business Trends

**Peripheral Computer Equipment**

In FY6/13, operating profit in the peripheral computer equipment business increased by 16.2% y-o-y to ¥809mn. This growth was mainly attributable to Silhouette America. As mentioned previously, Silhouette America organizes the buyers of its compact cutting machines into customer associations, to which it sells content for these machines, such as patterns. The machines account for the bulk of Silhouette America's sales, but content provides significant profit. In other words, the business model for the compact cutting machine business is similar to the business model for makers of game machines, whereby an increase in the sales of games leads to an increase in the number of associated customers, which supports greater sales of software, which increases profits.

**Examples of Craft and Hobby Activity**

Source: Company

**Design**

In the design business, operating profit grew 8.9% y-o-y in FY6/13 to ¥715mn. Orders received for evaluating the earthquake-resistance of buildings were strong. In fact, the business turned down some orders because it lacked enough engineers to handle them.

**Company plans to use treasury stock for future M&A****Financial Condition**

In FY6/13, the company's cash and deposits increased by ¥3,553mn, its sales and promissory notes receivable declined by ¥495mn, its lease assets grew by ¥117mn, its marketable securities dropped by ¥888mn, its inventories expanded by ¥615mn, its short-term borrowings, part of other current assets, grew by ¥302mn, its goodwill, part of intangible fixed assets, fell by ¥151mn, and investments, etc. increased by ¥255mn. As a result of these changes, the company's total assets increased by ¥3,260mn to ¥33,032mn.

## ■ Business Trends

Total liabilities increased by ¥552mn in FY6/13 to ¥9,560mn. Among current liabilities, trade accounts and promissory notes payable grew by ¥809mn, taxes due rose by ¥132mn, and advance payments received dropped by ¥905mn. Among fixed liabilities, lease liabilities increased by ¥141mn.

Total equity increased by ¥2,709mn in FY6/13 to ¥23,472mn. Net profit of ¥2,974mn minus dividend payments of ¥852mn reverted to retained earnings. In the other comprehensive cumulative profit account, valuation gains on securities holdings increased by ¥342mn. The company's equity ratio at the end of FY6/13 stood at 71.1%. Company management commented that it planned to use its ¥4,688mn of treasury stock at the end of FY6/13 for M&A in the future.

## Summary Balance Sheet (¥mn) at 6/12 and 6/13

	FY6/12	FY6/13	y-o-y change
Cash & deposits	9,012	12,565	3,553
Sales and promissory notes receivable	5,201	4,706	▲ 495
Lease assets	584	701	117
Marketable securities	988	100	▲ 888
Inventories	2,614	3,229	615
Deferred tax assets	490	438	▲ 52
Other current assets	1,705	2,029	324
<b>Current assets</b>	<b>20,594</b>	<b>23,768</b>	<b>3,174</b>
Tangible fixed assets	6,232	6,156	▲ 76
Intangible fixed assets	866	768	▲ 98
Investments, etc.	2,079	2,339	260
<b>Fixed assets</b>	<b>9,117</b>	<b>9,263</b>	<b>146</b>
<b>Total assets</b>	<b>29,772</b>	<b>33,032</b>	<b>3,260</b>
Trade accounts and promissory notes payable	2,849	3,658	809
Taxes due	844	976	132
Advance payments received	1,224	319	▲ 905
Other current liabilities	1,687	1,879	192
<b>Current liabilities</b>	<b>6,604</b>	<b>6,832</b>	<b>228</b>
<b>Fixed liabilities</b>	<b>2,403</b>	<b>2,727</b>	<b>324</b>
<b>Total liabilities</b>	<b>9,008</b>	<b>9,560</b>	<b>552</b>
<b>Shareholders' equity</b>	<b>21,504</b>	<b>23,625</b>	<b>2,121</b>
Treasury stock	▲ 4,688	▲ 4,688	0
Other comprehensive cumulative profit	▲ 740	▲ 153	587
<b>Total equity</b>	<b>20,763</b>	<b>23,472</b>	<b>2,709</b>
<b>Total liabilities and equity</b>	<b>29,772</b>	<b>33,032</b>	<b>3,260</b>

## Cash flow

In FY6/13, the company's cash and deposits increased by ¥3,553mn, its sales and promissory notes receivable declined by ¥495mn, its lease assets grew by ¥117mn, its marketable securities dropped by ¥888mn, its inventories expanded by ¥615mn, its short-term borrowings, part of other current assets, grew by ¥302mn, its goodwill, part of intangible fixed assets, fell by ¥151mn, and investments, etc. increased by ¥255mn. As a result of these changes, the company's total assets increased by ¥3,260mn to ¥33,032mn.

## Summary Cash Flow Statement (¥mn) for FY6/12 and FY6/13

	FY12/6	FY6/13
Cash flow from operations	3,803	3,937
Cash flow from investments	▲ 425	570
Cash flow from financing	▲ 4,458	▲ 920
Change in cash & cash equivalents	▲ 1,089	3,755
Year-end balance of cash & cash equivalents	8,784	12,540



## Strong business in the first two months of FY6/14 indicate the company may exceed its forecasts for the fiscal year

### Company Forecasts for FY6/14

In FY6/13, the company's cash and deposits increased by ¥3,553mn, its sales and promissory notes receivable declined by ¥495mn, its lease assets grew by ¥117mn, its marketable securities dropped by ¥888mn, its inventories expanded by ¥615mn, its short-term borrowings, part of other current assets, grew by ¥302mn, its goodwill, part of intangible fixed assets, fell by ¥151mn, and investments, etc. increased by ¥255mn. As a result of these changes, the company's total assets increased by ¥3,260mn to ¥33,032mn.

### Company Results (¥mn) in FY6/13 and Forecasts for FY6/14

	FY6/13		FY6/14E		y-o-y Change	
	Amount	Ratio	Amount	Ratio	Amount	Rate
Sales	32,389	100.0%	35,250	100.0%	2,861	8.8%
Operating profit	4,974	15.4%	5,500	15.4%	526	10.6%
Recurring profit	5,080	15.7%	5,530	15.7%	450	8.9%
Net profit	2,974	9.2%	3,400	9.2%	426	14.3%

The company's forecasts for its main businesses in FY6/14 are explained below.

#### Security Equipment

The company projects that operating profit from the security equipment business should grow by 16.8% y-o-y in FY6/14 to ¥2,675mn, as sales to existing condominium buildings remain strong. The company foresees obtaining 3,800 contracts for this equipment in FY6/14, 300 more than the number of contracts won in FY6/13. New contracts are seen roughly matching the number of new contracts in FY6/13. The number of contract renewals is quite certain, so if the number of new contracts surpasses the company's forecast, sales and profits from this business should also exceed its forecasts.

#### Card Equipment and Other Office Equipment

The company forecasts a ¥50mn or 8.8% y-o-y rise in operating profit from this business in FY6/14 to ¥620mn. The business has already obtained large orders for instant cash card issuing machines from a leading regional bank and a major credit card company, so it is likely to grow.

#### Peripheral Computer Equipment

For Silhouette America, the company foresees sales and operating profit growth of more than 50% y-o-y for FY6/14. The number of customers participating in Silhouette America's association is increasing rapidly, and sales of supplies and content for Silhouette America's compact cutting machines are growing accompanying increased sales of the machines. Therefore, the company's forecasts for Silhouette America appear achievable.

## ■ Business Trends

However, the company foresees an operating profit rise of only ¥92mn, or 9.1% y-o-y, to ¥1,100mn for Graphtec Corp. This profit would result from sales of commercial cutting machines and scanners, as well as from sales of measuring equipment and environmental testing devices. Profit growth is expected to be limited because Graphtec Corp. plans to invest ¥700mn in R&D in FY6/14, ¥250mn more than it invested in FY6/13. The modest rate of profit growth at Graphtec Corp. is likely to slow profit growth for the entire peripheral computer equipment business.

**Design**

The company projects a 7.0% y-o-y increase in operating profit in the design business for FY6/14. Accompanying legal changes, the company foresees an increase in the demand for the evaluation of the earthquake-resistance of large buildings in the private sector in FY6/14, whereas national government facilities have been the main source of demand previously. However, growth in this business will continue to be limited by size of the workforce.

We believe that the company's forecasts for each of its businesses are conservative and will follow its quarterly results for probable forecast upgrades.

**■ Growth Prospects over the Medium-to-long Term****Steady growth businesses may become growth driver businesses**

For development over the medium-to-long term, Ai Holdings classifies its businesses as stable growth businesses, growth driver businesses, and new businesses acquired through M&A.

**Stable growth businesses**

As their name implies, stable growth businesses earn moderate profits each year with no large fluctuation. The company's card equipment, maintenance service, measuring equipment and design businesses are now stable growth businesses. However, stable growth businesses can change into growth driver businesses with a change in operating environment. The card business is a case in point. If megabanks start placing large orders for card issuance machines, this business could become a growth driver business.

**Security equipment business and Silhouette America's business have great growth potential****Growth driver businesses**

Growth driver businesses contribute an increasing amount of profit. Currently, the security equipment business and Silhouette America's compact cutting machine business are growth driver businesses.

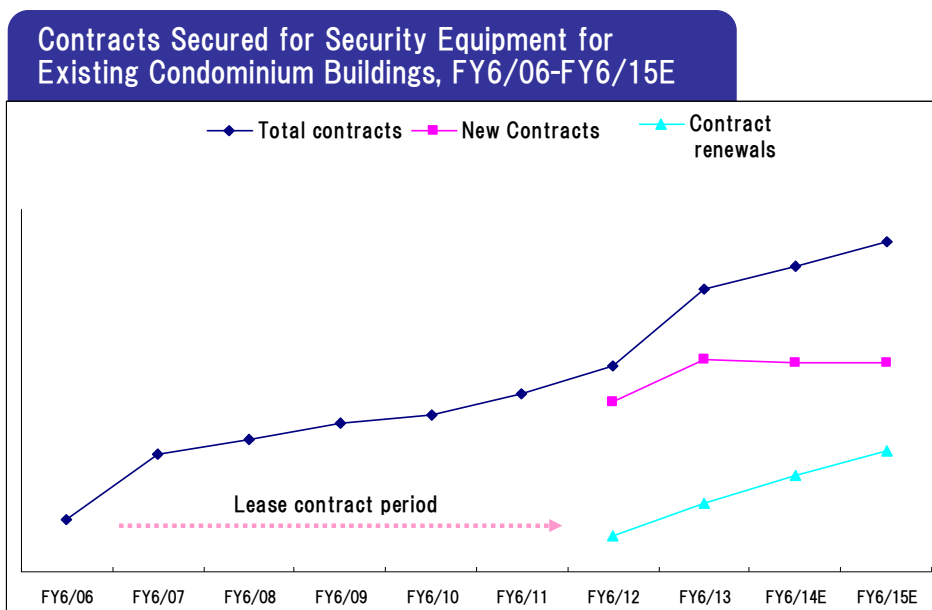


■ Growth Prospects over the Medium-to-long Term

### Security Equipment

Ai Holdings holds a small share of the Japanese market for security equipment for existing condominium buildings. The company estimates that there are about 140,000 existing condominium buildings in Japan. To date, the company has installed security equipment in about 16,000 existing condominium buildings, and its near-term target is 20,000 buildings. The company has entered into business agreements with several leading building management companies, enabling it to win more new contracts, but it has installed only about 10-20% of the equipment in buildings managed by 14 companies that handle more than half of all condominium buildings in Japan. Thus, it should be able to expand this business notably.

Ai Holdings also expects to renew its contracts with most of its current customers. It leases its security equipment for a period of six years. Most customers opt to renew their contracts at the end of a lease period, and the company projects that most of its existing customers will extend their contracts in the future. As the number of new contracts increases, the number of contract renewals should also grow. As shown in the graph below, the company forecasts that it will acquire more than 4,000 total contracts in FY6/15.



### Silhouette America

According to the US Craft & Hobby Association, the North American market for paper and memory crafts and the market for artistic crafts combined was about ¥600bn in 2011. Silhouette America targets these two markets for its small cutting machines. The Japanese market for paper crafts is probably not this large, but scrapbooking is a popular pastime among housewives in the US and Europe. Many of these housewives still cut out articles and photographs with scissors and paste them into scrapbooks manually, but a growing number are using personal computers and the cutting machines and designs provided by Silhouette America to produce scrapbooks of higher quality than traditional ones.



Silhouette America manufactures its small cutting machines cheaply in China and Vietnam, so they can be sold at low prices, yet profitably. It plans to expand machine sales rapidly in the approximately ¥600bn North American market. It also organizes its customers into associations and offers them supplies for the machines and more than 40,000 designs for cut materials. When a user purchases a design, he or she is charged each time he or she downloads it.

As Silhouette America has just entered the market for small cutting machines, it is difficult to project whether the company can maintain its current rapid rate of growth. However, since the company started selling machine content over the Internet, the number of its associated customers who regularly purchase content has increased. As sales of machines grow, supplies and content are supplying increasing profit to the company.

Until recently, Silhouette America had made most of its sales through a leading teleshopping company, but it has recently expanded its sales channel to include hobby store chains. This expansion should contribute to sales growth.

## Company plans to continue aggressive M&A according to strict principles

### New Businesses

As explained previously, Ai Holdings has grown through a series of successful M&A transactions adhering to strict principles. It does not try to acquire a business that yields a small gross profit, it avoids businesses engaged in large markets that can easily be entered by large companies, and it does not consider acquiring companies in the real estate, construction or food industries. It targets businesses that provide sound profits, even if they are not growing rapidly, businesses that benefit society, even if they are not large, and some unprofitable businesses with the potential to turn profitable. The company intends to continue to pursue new businesses through M&A based on these principles.

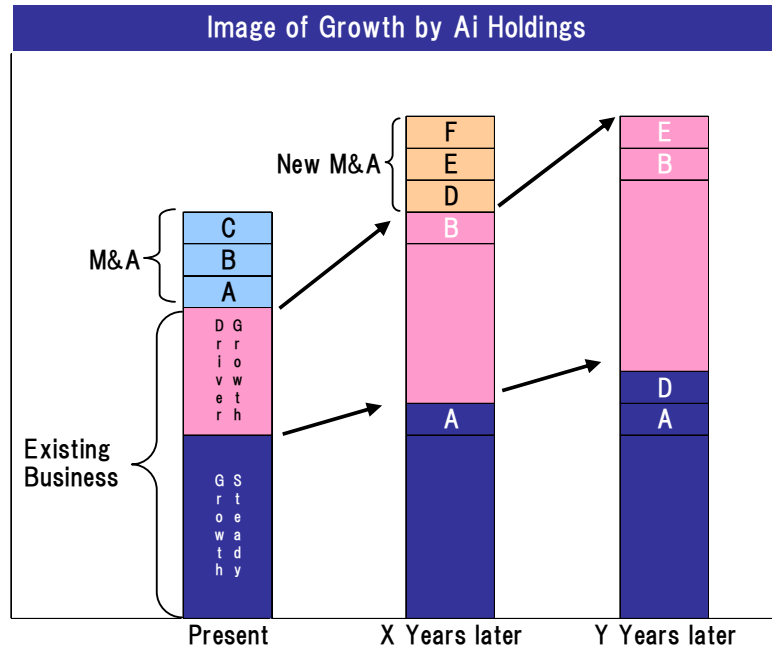
It is not possible to project the profitability of new businesses that Ai Holdings acquires through M&A, but they are unlikely to detract from its profits.

## Continuous growth achieved through cycle of acquiring and nurturing new businesses

### Growth Image

Ai Holdings' growth concept is depicted in the diagram below. Of its current new businesses (M&A), one or more should become a steady growth business in the future, one or more should become a growth driver business, and some will be abandoned. At the same time in the future, the company will have acquired other new businesses which should support the same cycle of development at a later point in the future.

■ Growth Prospects over the Medium-to-long Term



Source: Fisco

## ■ Shareholder Return Policy

**To keep a 35% dividend payout ratio, company may raise its dividend more than currently planned if profits surpass its forecasts**

Ai Holdings has announced that it will maintain a dividend payout ratio of at least 35%. Based on this principle, it paid a dividend of ¥20 per share for FY6/13, up from ¥16 for FY6/12, and it plans to pay a dividend of ¥24 per share for FY6/14. If its profits grow more than it forecasts for FY6/14, it may pay a dividend of more than ¥24 per share.

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