

## Ai Holdings

3076 Tokyo Stock Exchange First Section

28-Oct.-15

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## ■ Card equipment business and label printers becoming new growth drivers

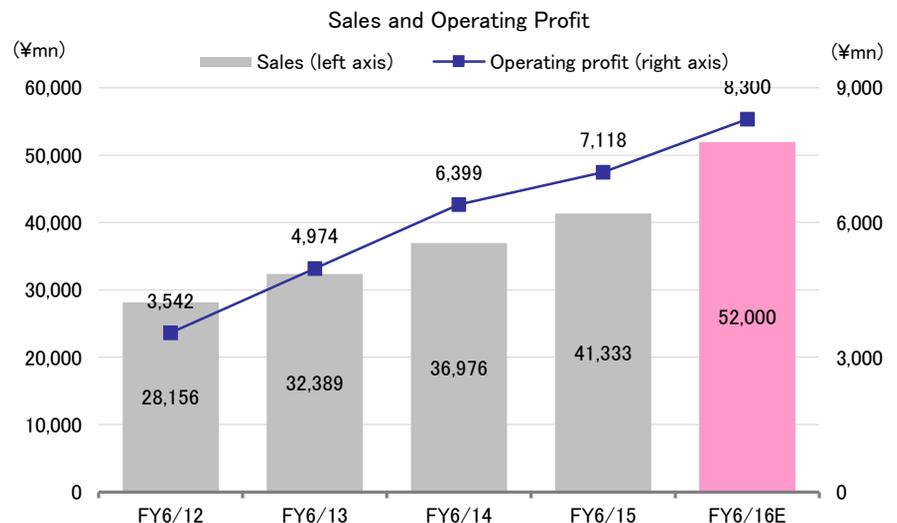
Ai Holdings <3076> is a pure holding company for 25 operational companies, including Dodwell BMS Ltd. and Graphtec Corp. These companies engage in seven businesses. The security equipment business and the peripheral computer equipment business in the US have been the main profit growth drivers. From FY6/16 onwards, the company expects other profit drivers to be its card equipment business, which it has reinforced through an acquisition, and its label printer business.

In FY6/15, Ai Holdings recorded consolidated sales of ¥41,333mn, up 11.8% year-on-year (y-o-y), consolidated operating profit of ¥7,118mn, up 11.2% y-o-y, consolidated recurring profit of ¥8,422mn, up 28.5%, and consolidated net profit of ¥5,566mn, up 37.7%. For FY6/16, Ai Holdings forecasts further gains, partly owing to the contributions of newly consolidated companies. Management looks for consolidated sales of ¥52,000mn, up 25.8% y-o-y, consolidated operating profit of ¥8,300mn, up 16.6% y-o-y, consolidated recurring profit of ¥8,600mn, up 2.1%, and consolidated net profit of ¥5,700mn, up 2.4%. Based on the current state of the company's businesses, its forecasts for FY6/16 appear conservative and may be revised upwards.

All the company's businesses are profitable, but the key growth engines have been the security equipment business and the sale of cutting machines for retail customers in the US. From FY6/16, the company anticipates full-fledged performance contributions from the card equipment business, which it has strengthened through an acquisition, and from the new label printer production business. These four businesses are thus likely to propel profit growth for several years, complementing stable existing businesses. The company aims to maintain a dividend payout ratio of 30%. Given the promising prospects for profit growth, it will probably increase its dividend in coming years.

## ■ Check Point

- Double-digit sales and profit growth in FY6/15 was led by the security equipment and peripheral computer equipment businesses
- The company projects sales and profit growth for FY6/16, but we expect it to exceed its projections
- From FY6/16, growth is likely to be led by three businesses: security equipment, Silhouette America Inc., and the new label printing business



## ■ Company Outline

### Rebuilding and expanding company through reforms that prioritize profits over revenues

#### (1) Company History

Ai Holdings Corp. was established as a holding company in 2007 as a result of the merger of Dodwell BMS Ltd. and Graphtec Corp. It comprised 25 operational companies at the end of June 2015, of which 20 are consolidated subsidiaries, 3 are non-consolidated subsidiaries, and 2 are equity method affiliates. From FY6/16, NBS Technologies Inc., acquired last year, and its 5 subsidiaries, are contributing fully to performance as consolidated subsidiaries. Given that Dodwell BMS Ltd. and Graphtec Corp. are the main operational companies, the history of these two subsidiaries is outlined below.

Established in 1950 as Typewriter Service Co., Ltd., this company subsequently reorganized as a public stock company and renamed itself 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 top executive. 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.

The other main operational company is Graphtec 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 CAD (computer-aided design) and operated globally. In the early 1990's, however, as a consequence of Hewlett-Packard Inc., of the US, introducing ink-jet printers, the demand for pen plotters rapidly declined and corporate performance continued to deteriorate. Despite reducing offices nationwide and managing to survive, restructuring led to a deterioration of customer service. The company hoped for a recovery from a business alliance with Dodwell BMS.

#### History of Graphtec

1949	Established as Watanabe Laboratories
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 Corp. 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**

April 2007	Established through the merger of Dodwell BMS and Graphtec. Listed shares on the First Section of the Tokyo Stock Exchange.
July 2008	Purchased Neuron Co., making it a subsidiary.
January 2009	Purchased Shiomi Sekkei Co., making it a subsidiary.
July 2009	Established subsidiary Ai Engineering Co., Ltd.
September 2009	Established Silhouette America Inc.
July 2010	Shiomi Sekkei Co. changed its name to Ai Sekkei Co.
October 2014	Established Graphtec Digital Solutions, Inc.
March 2015	Purchased NBS Technologies Inc., making it a subsidiary.
May 2015	Pro-Mech Corp. changed its name to NBS Card Corporation

**Ai Holdings**

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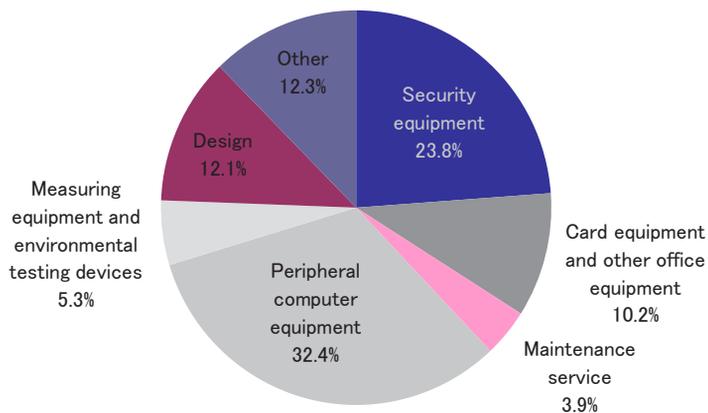
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**25 group companies engage in 7 businesses**

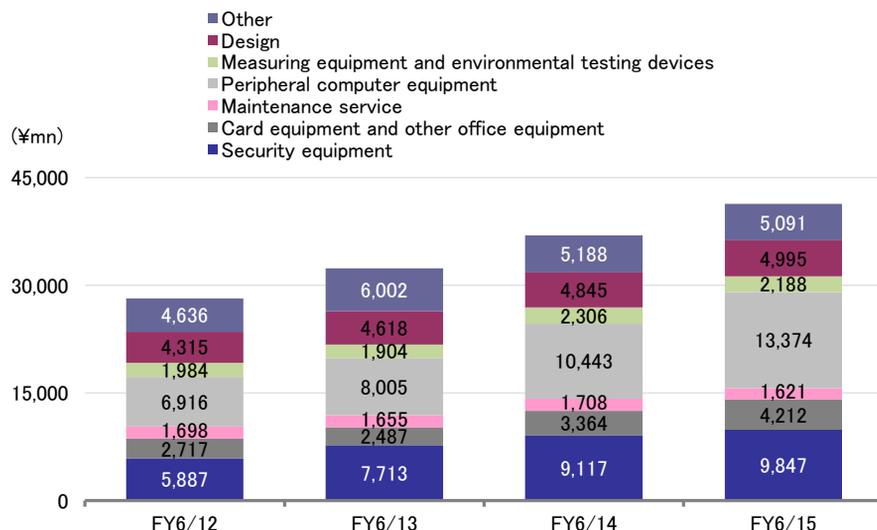
**(2) Description of Businesses**

As mentioned above, Ai Holdings is a pure holding company encompassing 25 operational companies, of which 20 are consolidated subsidiaries, 3 are non-consolidated subsidiaries, and 2 are equity method affiliates. These operational companies engage mainly in the following seven businesses. In FY6/15, the sales and sales contributions of each business were as follows: security equipment ¥9,847mn (23.8% of the total), card equipment and other office equipment ¥4,212mn (10.2%), maintenance service ¥1,621mn (3.9%), peripheral computer equipment ¥13,374mn (32.4%), measuring equipment and environmental testing devices ¥2,188mn (5.3%), design ¥4,995mn (12.1%), and other businesses ¥5,091mn (12.3%).

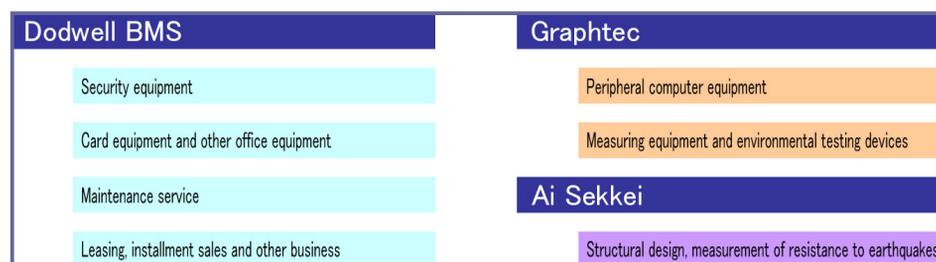
Sales Contributions by Seven Businesses in FY6/15  
(Total FY6/15 Sales ¥41,333mn)



Sales by Seven Businesses



Ai Holdings has 20 consolidated subsidiaries. The three main ones are Dodwell BMS, Graphtec, and Ai Sekkei. The businesses they engage in are summarized in the figure below. From FY6/16, the peripheral computer equipment business of Graphtec will produce label printers on a full scale.



**(a) Security Equipment**

Security equipment includes security cameras and recorders. Most of these products are imported from South Korea, but Ai Holdings is deeply involved in determining the specifications for the purchased products. This equipment derived from South Korean military technology, so it incorporates advanced functions, relative to its price, and 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 condominium buildings, banks, securities companies, and other financial institutions, government agencies, commercial areas, and retail store chains. In recent years, direct sales to existing condominium buildings have grown especially rapidly. Sales made by agencies to general corporations and to leased condominium buildings are increasing.

**(b) Card Equipment and Other Office Equipment**

To date, card equipment has included 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 distributors, and other equipment. Sales to hospitals are not growing rapidly, but the company foresees steady demand from hospitals. Many regional banks have begun using the company's equipment for immediately issuing IC cards and some megabanks are using them. This trend bears observation, as detailed below. On top of that, in March 2015 made NBS Technologies Inc. a subsidiary. That Canadian company makes large card issuing machines for financial institutions. This move positioned Ai Holdings to enter the market for such equipment, as detailed below.

The main product in other office equipment is 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 steady replacement demand for the equipment.

**(c) Maintenance Service**

This business maintains security equipment, card equipment, and other equipment. In the past, it also maintained equipment produced by other companies to sustain the efficiency of its workforce, but in recent years, it has concentrated on maintaining equipment produced or sold by Ai Holdings, so the sales weighting of maintenance service for other companies has been declining.

The maintenance service business supplies a small proportion of Ai Holdings' total sales, but it is an important business. Most of the security equipment and card equipment sold by Ai Holdings is leased, rather than purchased outright, and requires periodic maintenance. Other companies selling this kind of equipment usually require two lease contracts, one for the equipment and the other for maintenance. However, Ai Holdings concludes a single lease contract called the Anshin Security System Pack for both the equipment and maintenance service. Therefore, the sales and profits of the maintenance service business are linked to the sales of the equipment. Sales and profits in the maintenance business are steady over the long term because maintenance is required at regular time intervals. Furthermore, this business supports the sales of security equipment and card equipment because customers can rest assured of proper after-sale service. Thus, the maintenance service business is a hidden source of sales and profits.

**(d) Peripheral Computer Equipment**

Peripheral computer equipment includes cutting machines and scanners handled by Graphtec. The company's cutting machines were developed based on Graphtec's original technology for plotters. These machines cut displays at widths from size A4 to 1,600 mm and are sold mainly to companies that make outdoor advertisements and signs.

In recent years, sales of small cutting machines to consumers in the United States and Europe for use in hobbies, mainly paper craft, have been growing rapidly. These machines are made in China and Vietnam and sell for ¥10,000-20,000 each. The company also organizes buyers of these small cutting machines into an association and sells them computer content, mainly patterns, and supplies. This business is conducted primarily by Silhouette America Inc., as detailed in a later section. The company's scanners for commercial use scan documents of up to A0 in size. Some of these scanners are manufactured on an OEM basis for large makers of precision equipment.

Ai Holdings announced plans to newly start label printer production business. This business will be conducted by Graphtec and will be part of the peripheral equipment division, as detailed below.

**(e) Measuring Equipment and Environmental Testing Devices**

Measuring equipment electronically records a wide range of variables, including electric voltage, temperature, humidity, and electric pulse. 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.

**(f) Design**

Ai Sekkei Co., called Shiomi Sekkei Co., when it was purchased by Ai Holdings, Chuo Sekkei Co., and Tanabe Sekkei Co. engage in design. These three consolidated subsidiaries employ more than 200 engineers with expertise in structural design. They mainly appraise the earthquake resistance of buildings and design earthquake-resistant buildings. They 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.

**(g) 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.

## Key strengths are clear M&A policies and quick management decision-making

### (3) Distinctive Traits and Strengths

Each of the company's products and services possesses distinctive characteristics and strengths, but the main strengths of Ai Holdings are those discussed below.

#### (a) Strong Leadership

The greatest strength of Ai Holdings is 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. Mr. Sasaki has amassed a history of successful M&A transactions by adhering to strict principles for such transactions for the past 30 years. For example, he does not try to enter a business that yields a small gross profit. He also avoids businesses engaged in large markets that can easily be entered by large companies. This unwavering approach to business has driven profit growth.

#### (b) Rapid Decision-making

Mr. Sasaki makes management decisions and takes action rapidly. For example, he rapidly assessed business prospects in the US and purchased Silhouette America Inc. when the overall US economy was weak during the financial crisis following the collapse of Lehman Brothers. 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. It is worth noting that there are only four people on the board of directors of Ai Holdings, which is likely another factor in the company's rapid decision-making.

#### (c) Strong Marketing Capability

Ai Holdings has a strong marketing capability, particularly in the sale of security equipment. In recent years, the company has hired more women for sales of security equipment, prepared persuasive sales presentations, and switched its sales targets from financial institutions, schools, public facilities, and commercial complexes to existing condominium buildings, where the merits of the company's security equipment are apparent.

To prosper in this operating environment, the company has put more effort into recruiting and training employees. 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 functions and price of the equipment. This successful sales approach should support the growth of new businesses in the future.

#### (d) Reliable After-sale Support

Ai Holdings retains an in-house capability to offer maintenance and other after-sale support services. This has been an important factor in promoting the sale of office equipment and cutting machines to professional users. American consumers who have purchased the company's small cutting machines have also appreciated the after-sale services provided by Silhouette America Inc. The ability to directly offer maintenance service is a strength that has supported the sale of security equipment and card equipment. Most likely, the company will offer similar support services for the label printer business, where it will make a full scale entry from this fiscal year.

#### (e) A Balanced Business Portfolio

As mentioned earlier, while Ai Holdings' businesses engage in numerous areas, a fundamental feature of the company is that it maintains balanced distributions in those businesses based on the same stance. Outsiders tend to view Ai Holdings company as a growth enterprise because its operating profit has grown solidly over the past few years. In reality, however, its basic stance has been one of maintaining stable businesses. In other words, management seeks to maintain businesses that generate steady profits even if growth rates are not particularly high.

Still, management realized that it cannot expand earnings overall solely on the strength of businesses that are stable but do not deliver high growth rates. It therefore pursues strategies and policies that draw on new businesses secured through M&As to raise overall growth rates. One can say that the company's business approach is that the expansion rates of new growth businesses will eventually slow down, with these businesses thereafter delivering stable performances. In other words, the company's business lineup tends not to include operations that double or triple sales and earnings over several years, examples being semiconductor manufacturing equipment or machine tools, with growth rapidly falling after that. Ai Holdings' businesses do not experience rapid slowdowns or declines because they not only sell products but also enjoy ongoing demand for maintenance and consumables. The company's M&As target businesses that are conducive to such an approach.

Operations that deliver slow growth rates but stable earnings underpin the company's current business portfolio. Augmenting its operations are growth businesses, current examples being its condominium security business and cutting machine business in the United States. Added to that are new growth businesses, such as label printers, that become stable operations after several years, at which point new growth businesses drive expansion. One can therefore say that a key strength of the company is that it engages in an ongoing cycle of increasing overall earnings levels while maintaining high growth rates.

## ■ Business Trends

### Large revenue and earnings gains basically in line with forecasts

#### (1) FY6/15 Results

##### (a) Sales and profits

In FY6/15, Ai Holdings' consolidated sales rose 11.8% y-o-y to ¥41,333mn, operating profit grew 11.2% y-o-y to ¥7,118mn, recurring profit advanced 28.5% y-o-y to ¥8,422mn, and net profit increased 37.7% to ¥5,566mn.

#### Summary Income Statement, FY6/14-FY6/15

(Unit: ¥mn)

	FY6/14		FY6/15		y-o-y change	
	Amt.	Ratio	Amt.	Ratio	Amt.	Rate
Sales	36,976	100.0%	41,333	100.0%	4,357	11.8%
Gross profit	15,796	42.7%	17,622	42.6%	1,826	11.6%
SGA cost	9,396	25.4%	10,503	25.4%	1,107	11.8%
Operating profit	6,399	17.3%	7,118	17.2%	719	11.2%
Recurring profit	6,553	17.7%	8,422	20.4%	1,869	28.5%
Net profit	4,043	10.9%	5,566	13.5%	1,523	37.7%

The company slightly lowered its revenue forecasts for Silhouette America Inc., particularly during the Christmas season, owing to the impact of harbor strikes on the West Coast of the United States. While this resulted in operating profit being a little below its projections when announcing H1 results. The growth rate for recurring profit is higher than that for operating profit because the company posted ¥1,284mn in equity in earnings of affiliates as part of non-operating income due to the inclusion of Nihon Denki co., ltd. as an equity-method affiliate after the company purchased more of its shares. Around ¥900mn of equity in earnings of affiliates was posted to earnings from negative goodwill, and is not being posted from the current fiscal year.

Segment operating profit and the situations for key segments were as follows.

#### Breakdown of Sales by Business, FY6/14-FY6/15

(Unit: ¥mn)

	FY6/14		FY6/15		y-o-y change	
	Amt.	Ratio	Amt.	Ratio	Amt.	Rate
Security equipment	9,117	24.7%	9,847	23.8%	730	8.0%
Card equipment / other office equipment	3,364	9.1%	4,212	10.2%	848	25.2%
Maintenance service	1,708	4.6%	1,621	3.9%	-87	-5.1%
Peripheral computer equipment	10,443	28.2%	13,374	32.4%	2,931	28.1%
Measuring equipment / environmental testing devices	2,306	6.2%	2,188	5.3%	-118	-5.1%
Design	4,845	13.1%	4,995	12.1%	150	3.1%
Other businesses	5,188	14.0%	5,091	12.3%	-97	-1.9%

## Breakdown of Operating Profit by Business, FY6/14-FY6/15

	FY6/14		FY6/15		y-o-y change	
	Amt.	Ratio	Amt.	Ratio	Amt.	Rate
Security equipment	2,727	43.8%	2,983	43.6%	256	9.4%
Card equipment / other office equipment	946	15.2%	974	14.2%	28	3.0%
Maintenance service	173	2.8%	170	2.5%	-3	-1.7%
Peripheral computer equipment	1,091	17.5%	1,663	24.3%	572	52.4%
Measuring equipment / environmental testing devices	315	5.1%	172	2.5%	-143	-45.4%
Design	771	12.4%	718	10.5%	-53	-6.9%
Other businesses	207	3.3%	157	2.3%	-50	-24.2%

(Unit: ¥mn)

Note: Operating profit shown above is before the elimination of corporate costs and other adjustments

#### ●Security Equipment

Sales in this business grew 8.0% y-o-y in FY6/15 to ¥9,847mn, while operating profit rose 9.4% to ¥2,983mn. The number of contracts increased 7.9% to 7,549, of which 65.5% were for condominiums and the other 34.5% were for corporations and public facilities.

Before internal eliminations, sales for condominiums increased 3.7% to ¥6,345mn, with the end of a fallback in demand for condominium buildings that had followed a surge in the previous year ahead of a consumption tax hike and a new focus on rental condominiums that started to steadily bear fruit. The number of contracts for condominiums rose 10.8% to 4,641. Both new contracts and contract renewals were favorable, accounting for 70% and 30%, respectively, of total contracts.

Sales of security equipment to corporations and institutions increased 16.6% y-o-y to ¥3,571mn. The company believes that corporate demand may have been stimulated by well-publicized incidents, such as toxins being found at the plant of the leading food manufacturer and a leading educational services company experiencing a customer information leak. While the number of contracts was up overall, there is also an increasing trend toward existing customers installing more cameras. Similarly, schools are installing more security cameras along routes traveled by the students, as well as in the schools themselves, also contributing to demand. Another revenue growth factor was that from March 2015 a Ricoh <7752> sales company began selling its equipment as a major sales agent, augmenting the existing revenues from a sales company of Fujifilm Holdings <4901>.

#### ●Card Equipment and Other Office Equipment

In FY6/15, sales of this segment increased 25.2% to ¥4,212mn, with operating profit increasing 3.0% to ¥974mn. the main contributor to operating profit was sales of card equipment, which were unchanged, at ¥444mn. Although there were some major sales of equipment for immediately issuing IC cards to megabanks, overall revenues were flat because of lackluster demand from hospitals and other customers.

Sales of other office equipment increased 5.6% to ¥530mn. earnings rose on contributions from sales of a software program for the computer-aided design of steel structures that the company launched several years earlier.

#### ●Peripheral Computer Equipment

Sales of this segment rose 28.1% y-o-y to ¥13,374mn, with operating profit climbing 52.4% to ¥1,663mn. Demand remained solid for Silhouette America's consumer cutting machines, causing operating profit to rise 26.6% to ¥1,394mn, before internal eliminations, at that company's parent company, Graphtec America. Graphtec Japan posted ¥160mn in operating profit, compared with an operating loss of ¥54mn a year earlier.

Silhouette America's sales jumped 23.5% y-o-y to US\$61.83mn in FY6/15. Although that company contributed greatly to rises in segment sales and operating profit, its results were lower than initially forecast owing to the impact of a prolonged harbor strike on the West Coast of the United States as well as because of such factors as new product development expenditure. That said, Silhouette America has added more large store chains handling its offerings, increasing sales through those channels and reducing a heavy reliance to date on sales through Amazon. Exports outside the United States are also increasing steadily.

#### ●Design

Sales of this business increased 3.1% y-o-y to ¥4,995mn, although operating profit declined 6.9% to ¥718mn. Although private sector orders were sluggish in H1, there was a recovery from H2 in private sector orders for evaluating the earthquake resistance of buildings. So, while revenues increased, operating profit was down slightly because of the impact of H1 delays. This business should continue to deliver stable results because while it is unlikely to generate particularly high growth it is equally unlikely to experience dramatic downturns.

**(b) Financial Condition**

In FY6/15, the company's cash and deposits decreased by ¥24mn, its sales and promissory notes receivable grew by ¥1,347mn, its inventories expanded by ¥1,853mn, and its intangible fixed assets increased by ¥1,096mn, mainly because its goodwill rose by ¥1,106mn, and its long-term investments and other long-term assets increased by ¥1,779mn, mainly reflecting a ¥2,525mn increase for equities of affiliates. As a result of these changes, the company's total assets increased by ¥7,057mn to ¥44,678mn.

Total liabilities increased by ¥2,265mn in FY6/15 to ¥13,280mn. Among current liabilities, trade accounts and promissory notes payable grew by ¥1,336mn, while fixed liabilities increased by ¥264mn.

Total net assets increased by ¥4,793mn in FY6/15 to ¥31,398mn. Retained earnings increased by ¥4,303mn, reflecting the addition of most of the company's net profit earned during the year. The company also posted a valuation loss of ¥146mn on its securities holdings. The company's equity ratio at the end of FY6/15 stood at 70.3%. Company management commented that it planned to use its ¥4,693mn of treasury stock (9,228,252 shares) at the end of FY6/15 for M&A in the future.

**Summary Balance Sheet at 6/14 and 6/15**

	(Unit: ¥mn)		
	FY6/14	FY6/15	y-o-y change
Cash & deposits	15,200	15,176	-24
Sales and promissory notes receivable	5,621	6,968	1,347
Lease assets	785	834	49
Inventories	3,962	5,815	1,853
Other current assets	2,403	2,888	485
Current assets	27,971	31,681	3,710
Tangible fixed assets	6,247	6,719	472
Intangible fixed assets	605	1,701	1,096
Investments, etc.	2,797	4,576	1,779
Fixed assets	9,649	12,997	3,348
Total assets	37,621	44,678	7,057
Trade accounts and promissory notes payable	4,479	5,816	1,337
Taxes due	1,173	957	-216
Other current liabilities	2,088	2,967	879
Current liabilities	7,740	9,740	2,000
Fixed liabilities	3,275	3,539	264
Total liabilities	11,015	13,280	2,265
Shareholders' equity	26,626	30,925	4,299
Treasury stock	-4,690	-4,693	-3
Other comprehensive cumulative profit	-20	472	492
Total net assets	26,605	31,398	4,793
Total liabilities and net assets	37,621	44,678	7,057

**(c) Cash Flow**

As shown in the table below, the company's operations provided ¥4,530mn of cash in FY6/15, while its investment activity used ¥3,493mn and its financing activity used ¥1,376mn. As a result, the balance of cash and cash equivalents decreased by ¥126mn to ¥15,039mn.

**Summary Cash Flow Statement for FY6/14 and FY6/15**

	(Unit: ¥mn)	
	FY6/14	FY6/15
Cash flow from operations	4,154	4,503
Cash flow from investments	-430	-3,493
Cash flow from financing	-1,116	-1,376
Change in cash & cash equivalents	2,625	-126
Year-end balance of cash & cash equivalents	15,166	15,039

## Management well on track to reaching targets and could revise forecasts upward

### (2) Company Forecasts for FY6/16

For FY6/16, the management of Ai Holdings projects a 25.8% y-o-y increase in consolidated net sales to ¥52,000mn, a 16.6% rise in operating profit to ¥8,300mn, a 2.1% increase in recurring profit to ¥8,600mn, and a 2.4% gain in net profit to ¥5,700mn. The company consistently announces conservative forecasts, and given the current strength of the company's businesses, it will probably attain these forecasts. It may well raise its forecasts if the new label printer business does well. The projected the rates of increases for recurring profit and other earnings line items are lower than for operating profit because the forecast for equity in earnings of affiliates within non-operating profit should be around ¥300mn, compared with the ¥1,284mn posted in FY6/15. As mentioned, the main factor in that decline would be the absence of the approximately ¥900mn of negative goodwill posted in the previous term.

### Company Results in FY6/15 and Forecasts for FY6/16

	FY6/15		FY6/16		y-o-y change	
	Amt.	Ratio	Amt.	Ratio	Amt.	Rate
Sales	41,333	100.0%	52,000	100.0%	10,667	25.8%
Operating profit	7,118	17.2%	8,300	16.0%	1,182	16.6%
Recurring profit	8,422	20.4%	8,600	16.5%	178	2.1%
Net profit	5,566	13.5%	5,700	11.0%	134	2.4%

(Unit: ¥mn)

The company's forecasts for its main businesses in FY6/16 are explained below.

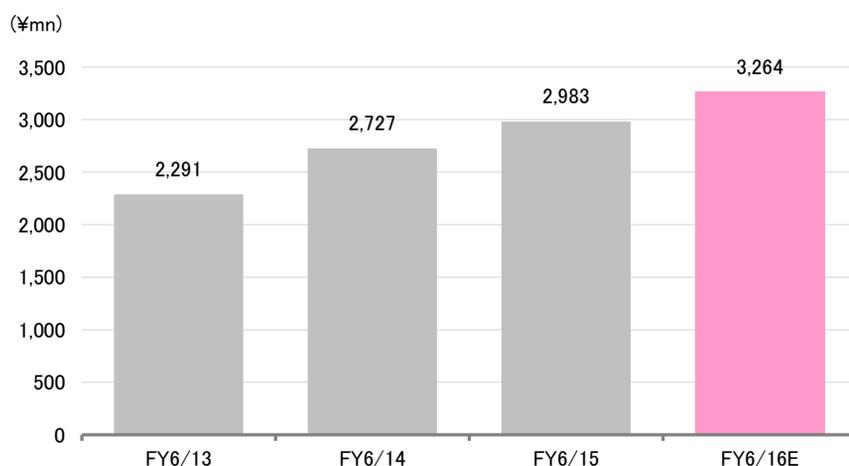
#### ●Security Equipment

Given favorable demand for security equipment for condominiums, the company expects to obtain 5,000 contracts for this equipment from such buildings in FY6/16. The total would include 3,500 new contracts and 1,500 contract renewals. On top of condominium buildings, traditionally a key focus, from last fiscal year the company also concentrated on rental condominiums, as part of which it concluded an alliance with Sekiwa Real Estate, LTD. For that reason, the company is gradually generating results from rental condominium contracts. While rental condominiums accounted for 11.1% of the number of new contracts in FY6/14, the percentage jumped to 25.0% in FY6/15. That said, the numbers of cameras at rental condominiums are smaller than for condominium buildings. Average overall system prices are therefore lower for rental condominiums, so sales growth rates are lower than the rates for contract number expansions.

A growing number of companies is installing security cameras, reflecting the impact of the previously mentioned incidents of toxins being introduced into the plant of a leading food processing company and of a large private educational services company leaking information about its customers. Furthermore, financial institutions and companies that have already installed security equipment are increasing the number of cameras installed, so sales are rising steadily. On top of that, March 2015 a Ricoh sales company began selling the company's equipment as a major sales agent, augmenting existing revenues from a sales company of Fujifilm Holdings, which should accelerate growth.

Based on the number of new contracts with condominium buildings that the company projects for FY6/16 and corporate trends, it appears that operating profit in the security equipment business could surpass the company's forecast of a 9.4% rise in segment operating profit to ¥3,264mn.

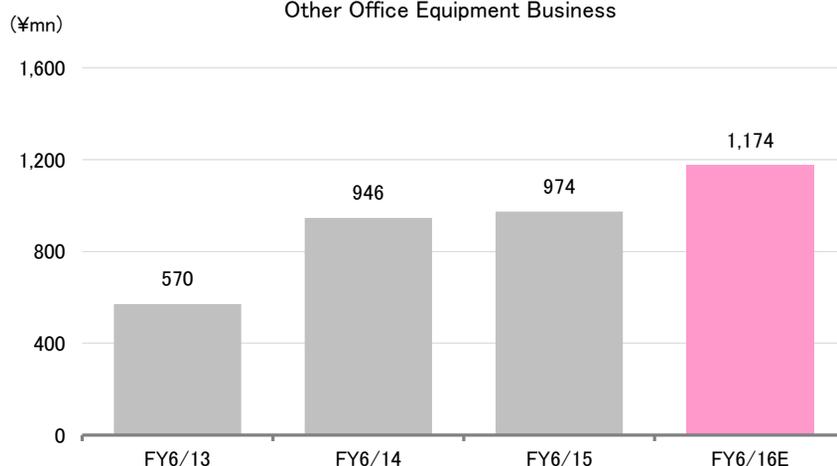
Operating profit in the Security Equipment Business



●Card Equipment and Other Office Equipment

Almost 90% of the sales of card machines to date have been to hospitals, for such purposes as issuing patient registration cards. Therefore, a large increase in sales of these machines used to be unlikely, notwithstanding steady growth. In recent years, however, sales of card machines to financial institutions have grown because regional banks and large city banks have begun to install machines for the immediate issuance of cash cards. This factor and the prospective contributions of consolidated subsidiary NBS Technologies, which the company acquired in Q4 of FY6/15, there are solid prospects for sales of large card issuing machines for financial institutions. Management projects that NBS Technologies will generate net sales of ¥4,000mn and operating profit of ¥300mn (before goodwill amortization) for the current fiscal year. Given that contribution, therefore, the segment forecast is for a 20.5% increase in operating profit to ¥1,174mn.

Operating Profit in the Card Equipment and Other Office Equipment Business



●Peripheral Computer Equipment

The company expects growth in this business to continue to be led by Silhouette America's cutting machines for the consumer market. It looks for an increase in the number of customers participating as members in Silhouette America's association and unit sales growth on the strength of new products (see below) introduced in the previous and current fiscal years or projected for deployment, as well as consumables and software. Given these factors, the company projects that Silhouette America will raise its sales by 61.7% y-o-y in FY6/16 to US\$101mn.

This fiscal year, the new business of producing label printers will be added to the peripheral computer equipment division. Sales are formally set to start in August 2015, beginning with the United States. The sales target for the initial year is 1,000 units. Although the sales target for that year is ¥1,860mn, there will be apparently almost no contributions to operating profit. In light of these factors, the company forecasts a 45.1% y-o-y increase in segment operating profit to ¥2,413mn, with Silhouette America remaining the main driver.

●**Design**

The company projects an operating profit of ¥718mn for the design business in FY6/16, unchanged from the operating profit earned in FY6/15. Accompanying legal changes, the company foresees a continued increase in the demand for the evaluation of the earthquake-resistance of large buildings in the private sector in FY6/16, whereas national government facilities have been the main source of demand previously. However, growth in this business will continue to be limited by the size of the workforce.

We believe that the company's forecasts for each of its businesses are conservative. The company routinely announces conservative forecasts, so there is a good chance that it will again surpass its current forecasts. However, FY6/16 results will depend on many factors, especially the development of the new label printer business.

■ **Growth Prospects over the Medium-to-long-Term**

**Scope for expansion of condominium market and leased condominium building business increases**

Ai Holdings lifted its consolidated operating profit from ¥2,980mn in FY6/11 to ¥7,118mn in FY6/15, and it will probably increase its operating profit more than this over the next three fiscal years. Key factors are that the two main drivers of profit growth in the past three years, the security business and Silhouette America, should expand their profits. On top of that, their contributions will be supplemented by profit from the label printer business, for which full-fledged sales began this fiscal year, and by new Canadian subsidiary NBS Technologies Inc.

**(1) Security Equipment**

●**Condominium building market: new contracts alone provide significant growth potential**

The security equipment business is concentrating on serving the condominium building market because, as explained below, the growth prospects in this market are promising and because it is more efficient to concentrate its management resources on a single market than to pursue many markets, since the business has limited resources compared to larger sellers of security equipment.

There is ample room for Ai Holdings to increase its sales of security equipment to existing condominium buildings. The company estimates that there are about 120,000 existing condominium buildings in Japan, and it has already installed its security equipment in about 20,000 of these buildings. Even so, its market share will be only around 20%. The company aims to take share away from competitors and ultimately serve 60,000 existing condominium buildings. There also seems to be scope for expansion with leased condominium buildings, an area on which the company has not previously focused much. The alliance with Sekiwa Real Estate should be a major driver, so there is tremendous potential for growth with leased condominium buildings.

●**Contract renewals driving growth**

Most of the security camera systems that Ai Holdings sells to condominium buildings are leased for a period of six years. This creates renewal demand in six years' time for most cases. The company claims that about 90% of its customers (building management organizations) opt to renew their contracts at the end of a lease period. As a result, by increasing the cumulative number of contracts, the renewal demand every six years drives an overall increase in the number of contracts for condominiums.

●**Sales to corporations and institutions also growing**

Although the security equipment business specializes in serving condominium buildings, its sales to corporations and institutions have also been growing, as detailed below, and are likely to increase hereafter. With a sales subsidiary of major information equipment manufacturer Ricoh now serving as a sales agent, sales are likely to continue growing.

### ▲Public facilities

Many crimes, such as robberies and random violence, are solved by analyzing the images captured by surveillance cameras. Therefore, public facilities, such as train and bus stations, airports, and event halls, will probably install more cameras in the future. For the same reason, semi-public facilities, such as commercial zones, downtown areas, parking lots, and condominium buildings, are likely to install more cameras.

### ▲Corporate facilities

Until recently, most of the companies that have installed security equipment have been small retailers, such as supermarkets and convenience stores. Recently, however, more companies in other industries have been installing surveillance cameras in their offices and plants following incidents of fraud at financial institutions, the intentional introduction of toxins into a food processing plant, and the stealing of personal information. There is also a growing trend toward companies that have surveillance systems increasing the number of surveillance cameras.

In the past, many organizations and companies were reluctant to install surveillance cameras because of privacy concerns, but in recent years, these concerns have been subordinated to a concern about preventing crime. The security equipment business is benefiting from this shift of attitude.

## Introducing new products to attract new customers while cultivating replacement demand among existing customers

### (2) Silhouette America (US peripheral computer equipment business)

#### ●Company outline and business model

Silhouette America's main products are small cutting machines (priced at about ¥10,000–20,000 each) for crafts, supplies for these machines, such as blades, mats, and pens, and digital content, mainly designs, for the machines. The company is the largest supplier of digital content for crafts. Its primary markets are the craft market, educational institutions, retailers, and other markets.

Silhouette America manufactures its small cutting machines cheaply in China and Vietnam, so they can be sold at low prices, yet profitably. It organizes its customers into associations and offers them supplies for the machines and more than 70,000 designs for cut materials. When a user purchases a design online, he or she is charged each time he or she downloads it.

According to Silhouette America, digital content is its most profitable product and supplies for its cutting machines are also more profitable than the machines. The format of online data for cutting machines is not compatible with all cutting machines. Therefore, purchasers of Silhouette America's cutting machines benefit by buying online data from the company.

#### ●Market size and prospects

According to the US Craft & Hobby Association, the North American market for all crafts and hobbies amounted to US\$30.3bn (about ¥3,636bn) in 2011, while the combined markets for paper and memory crafts and for artistic crafts, which Silhouette America serves, was about US\$6.5bn (¥780bn). The Japanese market for paper crafts is probably not this large, but scrapbooking is a popular pastime among housewives in the US, and crafts are one of the three largest hobbies in the US, along with travel and sports.

Many US 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 has made most of its sales through leading teleshopping companies, mainly Amazon, but since December 2013, it has been selling on a full scale to hobby store chains with 1,000 or more stores in the US. Sales through hobby store chains should grow.

In a US\$6.5bn market, it is difficult to predict how many more housewives will switch from manual scrapbooking to machines and content offered by Silhouette America. However, Silhouette America's competitors have amassed annual sales of more than ¥20bn, and consumers who have purchased Silhouette America's products through Amazon evaluate the products highly on a daily basis. Therefore, it appears to have great growth potential.

**●Aiming to increase market share with a new cutting machine**

In FY6/15, Silhouette America launched the New CAMEO in an effort to boost market share. That offering provides a much improved user interface, employing an LCD touch panel, a USB memory (previous models used SD cards), and a cross cutter. Augmenting the New CAMEO and portrait from FY6/16, the company plans to introduce such products as the curio, which incorporates cutter and embossing capabilities, and mint, for stamping.

The company intends to attract more new customers with these machines and to replace previous models with it. Consequently, Ai Holdings projects sales of US\$101mn (about ¥12.0bn) for Silhouette America in FY6/16. This appears to be a reasonable target. The company estimates that Silhouette America may be able to achieve annual sales of ¥20bn ultimately.

**Entering label printer business this term****(3) New label printer business**

As mentioned, Ai Holdings has fully entered the business of producing printers of full color industrial labels. It has developed a printer based on the combined technologies of full color printing using electro photography and cutting, acquired over many years as the world's top maker of cutting plotters. This is the world's first, full-scale printer of full color labels. The printers will be produced by Graphtec and will be considered part of the peripheral computer equipment business.

**●Product outline**

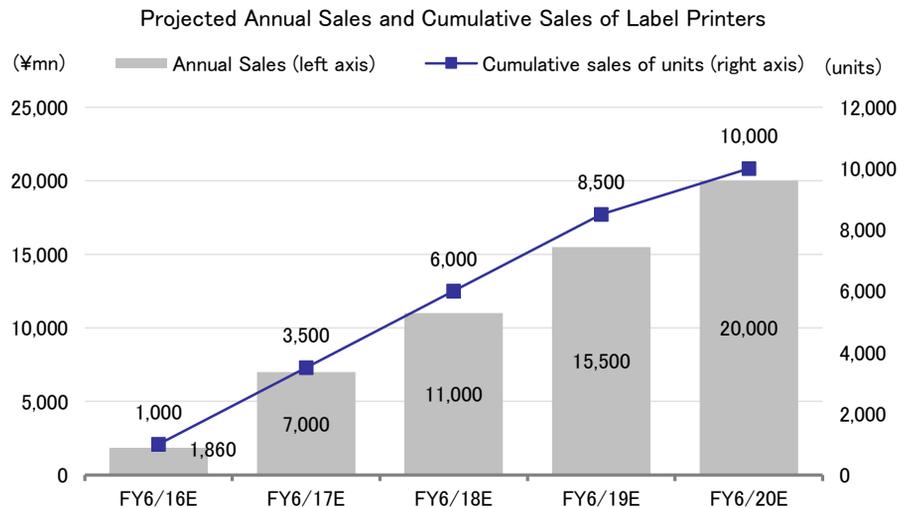
The printers are all-in-one systems for producing labels. They design the label data, print labels rapidly, laminate them, cut and finish them, and rewind them. They are priced at about ¥4mn each and possess the following characteristics.

- Rapid delivery time: Since the printers integrate all production steps from label data design to final processing, they produce labels quickly.
- Unmatched label durability: Because color toner is used to print the labels, the labels remain legible despite exposure to water and chemicals more than labels produced by other methods. This is particularly true of GHS labels (see below).
- Low cost: The new printers are much cheaper than comparable printers now on the market
- Full after-sale support: The company will provide a complete line of support for the printers it produces.

**●Target market and sales goals**

The new printers can be used to print any kind of industrial label, but the company is mainly targeting labels that conform to the Globally Harmonized System (GHS) of Classification and Labeling of Chemicals. This system requires that all chemicals be clearly labeled with the amounts and danger of each component. Japan has already adopted this system and the US and EU plan to implement it fully in 2015.

GHS labels have to remain legible despite exposure to water and chemicals, so the new printers are ideal for producing them. Graphtec targets its printers primarily at the Japanese and U.S. GHS markets, and started selling them first in the United States in August 2015. It projects annual sales of ¥20bn within five years, when it foresees cumulative sales of 10,000 units.



## Acquiring a business that supplies large card issuing machines to financial institutions

### (4) Expanding card equipment business

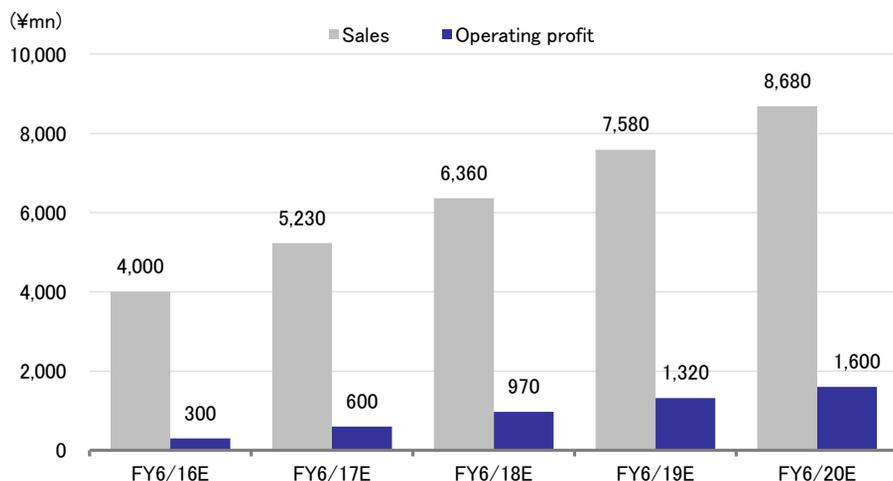
The company is expected to expand its existing card equipment business. Almost 90% of sales of have been to hospitals, for such purposes as issuing patient registration cards. So, while large increases in sales of such machines were unlikely, growth was expected to be steady. In the past few years, however, sales of card machines to financial institutions have grown steadily because regional banks and large city banks have begun to install machines for the immediate issuance of cash cards. Complementing existing offerings, new Canadian subsidiary NBS Technologies should also contribute to results.

The principal business of NBS Technologies Inc. is supplying large card machines to financial institutions. Datacard Japan (a joint venture between Entrust Datacard Corporation of the United States and Toppan Forms Co., Ltd.) accounts for more than 90% of the Japanese market for such machines. Ai Holdings had imported NBS Technologies' machines in an effort to cultivate the Japanese market, but it did not do as well as expected. With NBS Technologies under its umbrella, the company now aims to fully enter the domestic market for card machines.

One other point worth noting is that NBS Technologies (US) Inc., an NBS Technologies subsidiary that also became part of Ai Holdings as part of its acquisition move, has IC card software technologies. In Japan, Dai Nippon Printing Co., Ltd. <7912>, and Toppan Printing Co., Ltd. <7911>, and Datacard Japan have oligopolized the market for such technologies to date. Ai Holdings could attract great attention if it decides to deploy the IC card technologies that it acquired in Japan.

NBS Technologies targets revenues of ¥8,680mn and operating profit of ¥1,600mn within the next five years.

Five-year plan of NBS Technologies



Note: Operating profit figures are before goodwill amortization of acquired subsidiary

## Operating profit of ¥10bn in sights

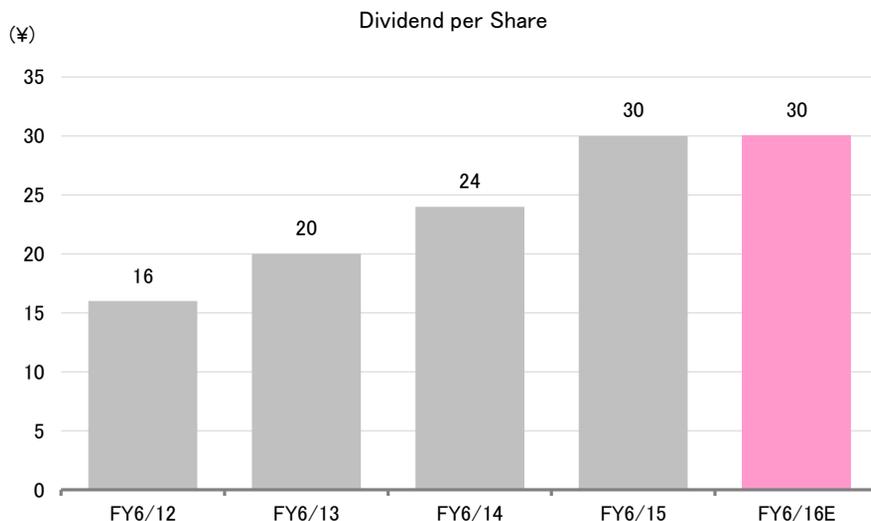
### (5) Medium-term Profit Target

The company has never before set quantitative targets for its medium-term plans, but CEO Sasaki has stated that the company could achieve an operating profit of ¥10bn in FY6/17. This projection seems credible for several reasons. None of the company's current businesses are declining. In fact, the security equipment business and Silhouette America remain growth drivers. Also, the label printer business has been growing as planned since starting this fiscal year, while new subsidiary NBS Technologies is positioned to reach its performance targets.

## ■ Shareholder Return Policy

### To keep a 30% dividend payout ratio, the company is likely to raise its dividend as its profits grow

Ai Holdings basically plans to maintain a dividend payout ratio of at least 30%. Based on this principle, it paid a dividend of ¥30 per share for FY6/15, up from ¥24 per share for FY6/14, ¥20 for FY6/13 and ¥16 for FY6/12, and it plans to maintain its dividend at ¥30 per share for FY6/16.



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