

# **PALTEK**

**(JASDAQ:7587)**

## **Fiscal Year 2009 First Quarter Explanatory Meeting**

**(English translation of original presentation)**

**May 14, 2009**

 **Agenda**

- 1 Results of FY2009Q1**
- 2 Guidance of FY2009**
- 3 Merger Updates**



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Results of FY2009Q1



Results of FY2009Q1: Income (Summary)

(Million yen)	08Q1	09Q1	Change (M Yen)	Change (%)	Main reasons for change
Sales	5,288	3,269	(2,019)	(38.2%)	All product areas were impacted by economic downturn
Gross Margin	773	599	(174)	(22.5%)	Dramatic drop in production-stage projects contributed to higher GM %.
Gross Margin (%)	14.6%	18.3%	3.7%	-	
SGA	740	728	11	1.6%	Continued tight expense control
Operating Income	33	(129)	(162)	-	
Operating Income (%)	0.6%	(4.0%)	(4.6%)	-	
Ordinary Income	145	(90)	(236)	-	Exchange rate loss: 37 million yen. Gain of 76 million yen from terminating insurance contract
Net Income	68	(123)	(192)	-	Merger related expense 42 million. Devaluation of securities for 39 million yen



## Results of FY2009Q1: Balance Sheet

(Million yen)		08Q4	09Q1	Change	Main reason for change
Assets	Cash and Equivalent	2,594	3,537	942	Collection of account receivable
	Account Receivable	4,175	2,860	(1,315)	Decrease of sales
	Inventory	1,970	1,989	18	
	Other Current Assets	845	404	(441)	Increase of deferred sales tax
	Fixed Assets	734	673	(60)	
Asset Total		10,321	9,465	(856)	
Liabilities & Equity	Account Payable	809	894	85	
	Short-term Loans	550	0	(550)	Returned loans due to increase in cash
	Other Current Liabilities	501	452	(48)	
	Fixed Liabilities	322	205	(117)	
	Net Equity	8,137	7,912	(225)	Decreased for dividend payouts and net loss in FY09Q1
Liabilities & Equity Total		10,321	9,465	(856)	

FY2009 Q1 Results Reporting

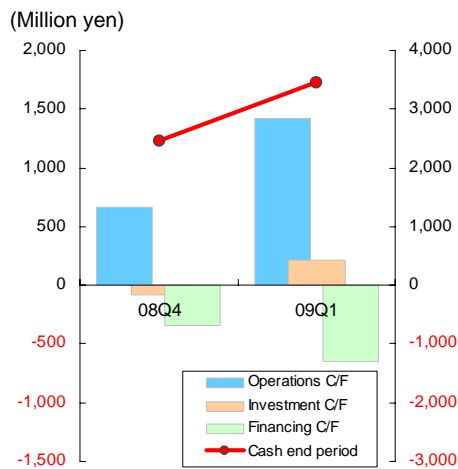
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## Results of FY2009Q1: Cash Flow

### Cash flow comparison



(Million yen)	08Q4	09Q1
Operations C/F	664	1,421
Investment C/F	(82)	(650)
Financing C/F	(346)	(650)
Cash end period	2,466	3,457

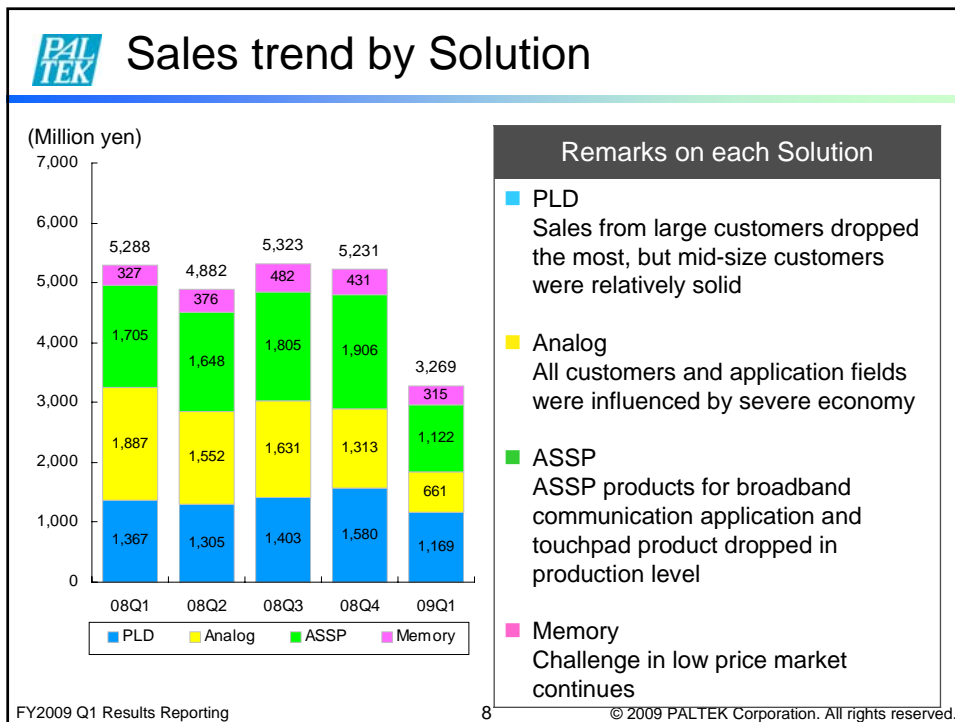
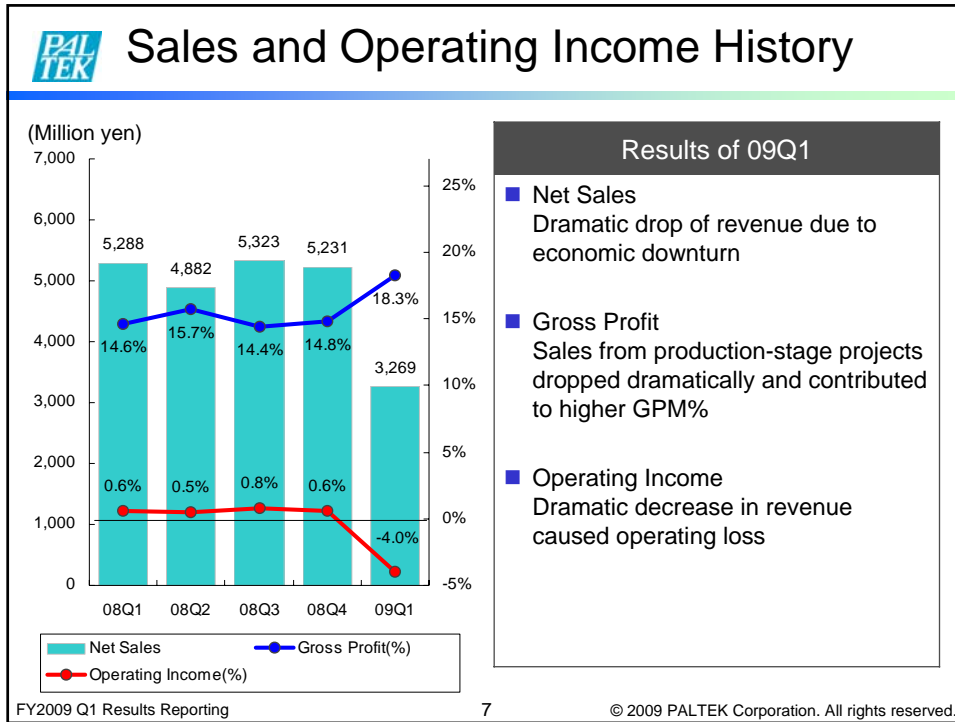
### Movement of the cash flow

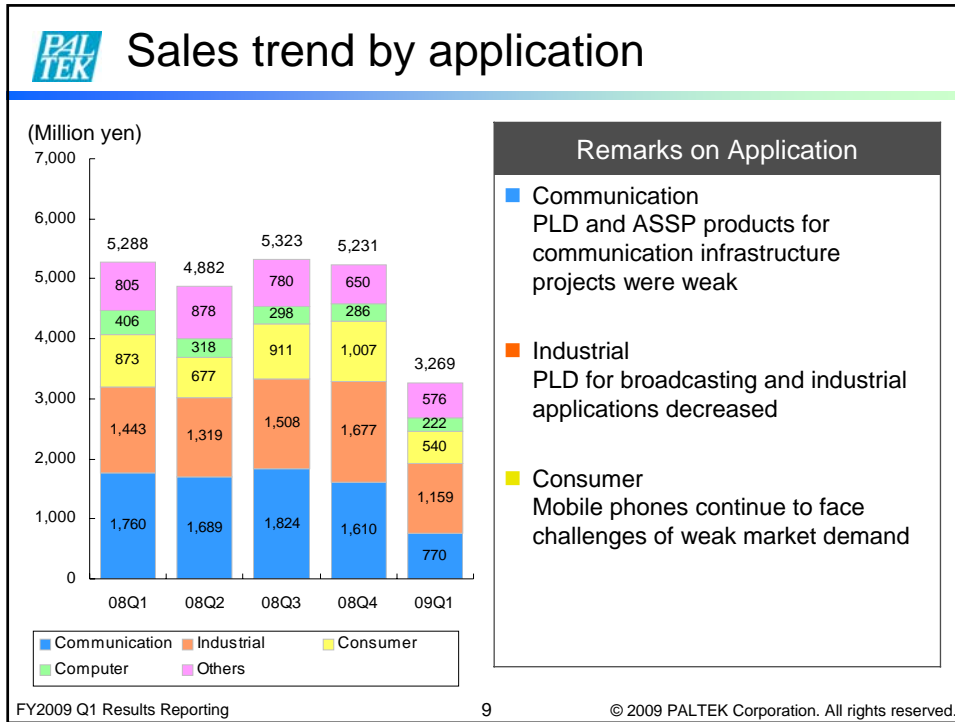
- C/F from Operations :  
Surplus due to decrease of A/R
- C/F from Investment :  
Surplus due to terminating insurance policy
- C/F from Financing :  
Decrease from returning loans and payouts of dividends

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Guidance of FY2009

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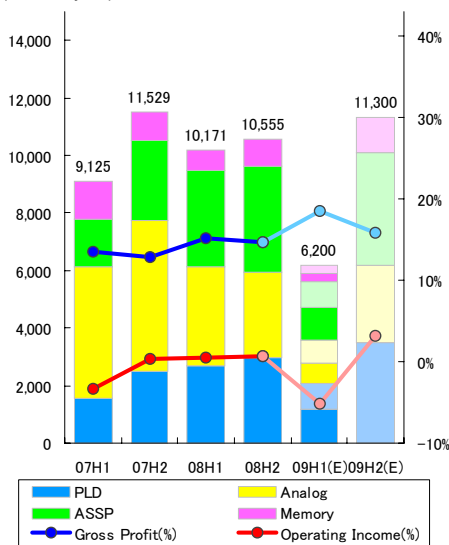
**PALTEK** Assumptions for guidance

Market bottomed out in CY09Q1 and started slow recovery

- Started to see slight light of recovery in Q2 however, 2H is still unclear.
- Business Outlook
  - Signs of inventory collection is progressing and started to recover.
  - Expectation of recovery in 2H
    - Communication market
    - Security market

**PALTEK** Sales guidance by application

(Million yen)



Outlook on full year

- PLD  
Expects recovery in H2 due to communication infrastructure projects as well as prototyping business
- Analog  
Cell phone and PC projects will remain weak. Power management IC projects start production in H2
- ASSP  
H2 has multiple communication projects
- Memory  
Expects market condition to improve in H2 due to consolidation of players

**PALTEK** FY2009 Guidance

No change for guidance

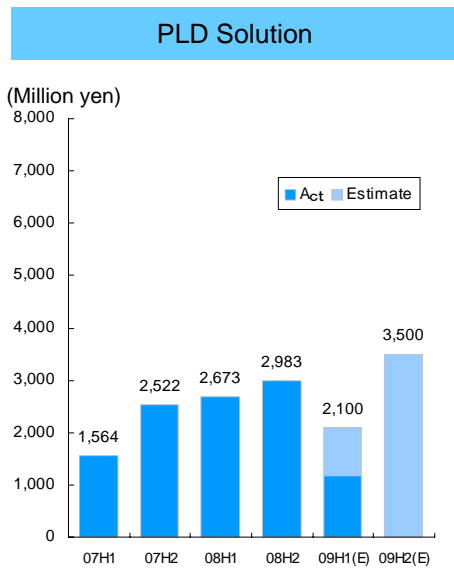
(Million yen)	2008			2009		
	H1	H2	Total	H1	H2	Total
Net Sales	10,171	10,555	20,726	6,200	11,300	17,500
Gross profit	1,539	1,543	3,083	1,145	1,805	2,950
SGA	1,481	1,470	2,952	1,470	1,430	2,900
Operating Income	58	73	131	(325)	375	50
Operating Income(%)	0.6%	0.7%	0.6%	(5.2%)	3.3%	0.3%
Ordinal Income	139	147	286	(335)	365	30
Net Income	56	3	59	(215)	216	1

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**PALTEK** Business Strategy: PLD Solution



**Outlook of Business: FY2009**

- Dramatic drop in volume for major projects caused sharp fall in sales
- Expects some communication infrastructure projects and security related projects to start production.

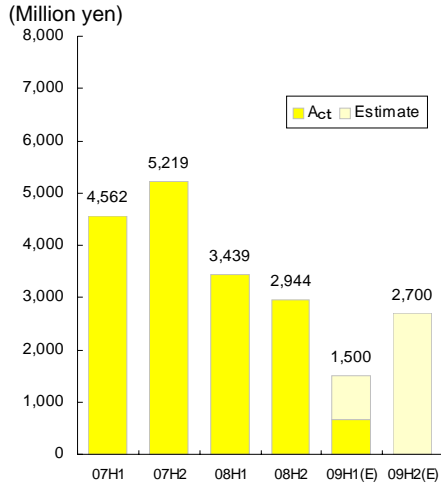
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**PALTEK** Business Strategy: Analog Solution

Analog Solution



Outlook of Business: FY2009

- Demand from cell phone and consumer projects remain low as expected.
- Production of power management projects is scheduled to start in H2.

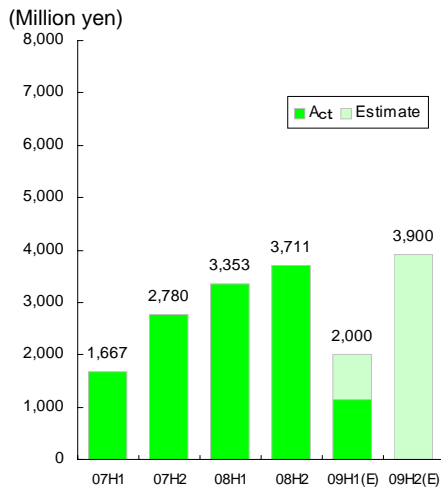
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**PALTEK** Business Strategy: ASSP Solution

ASSP Solution



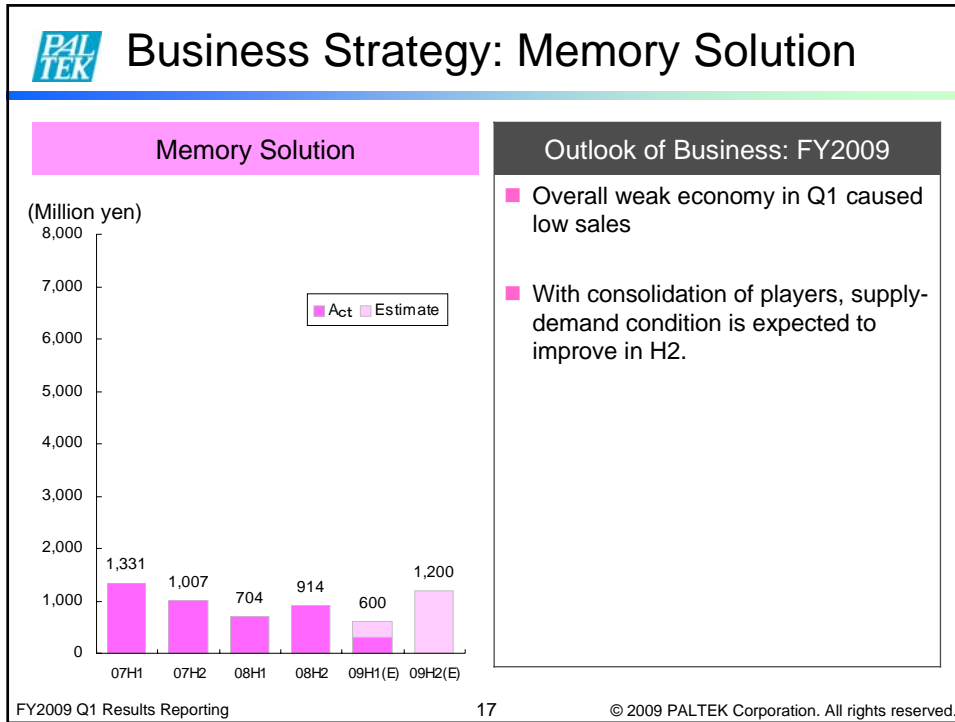
Outlook of Business: FY2009

- Dramatic decrease in H1 sales for ASSP products for broadband and touchpad panel and ASIC products, but interface related products were solid
- With recovery of economy in H2, sales is expected to recover. Expect a few communication projects to start production in H2

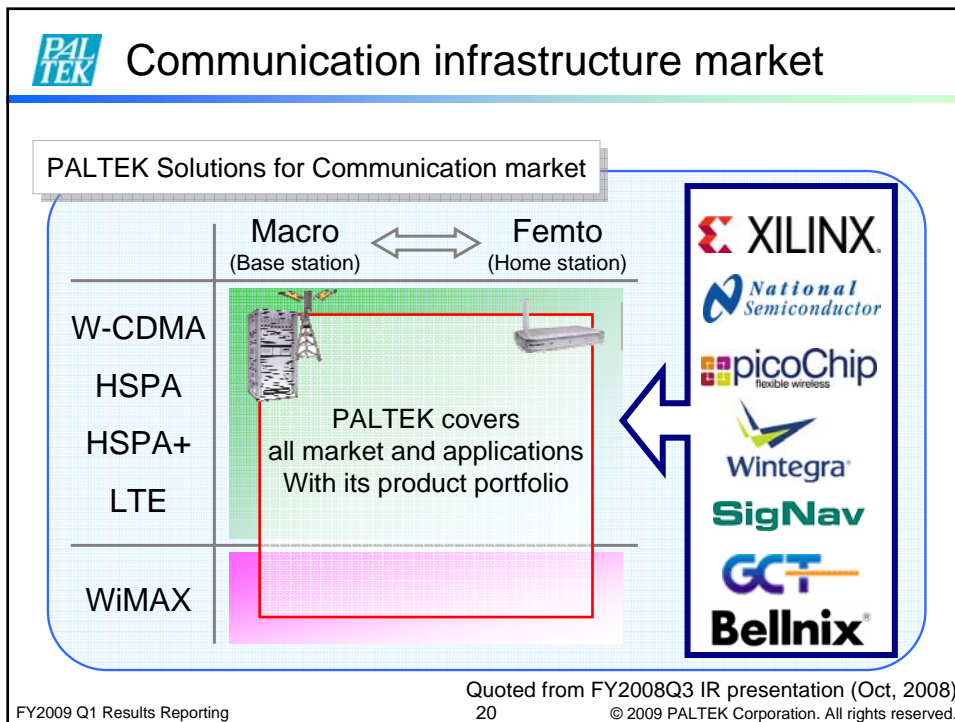
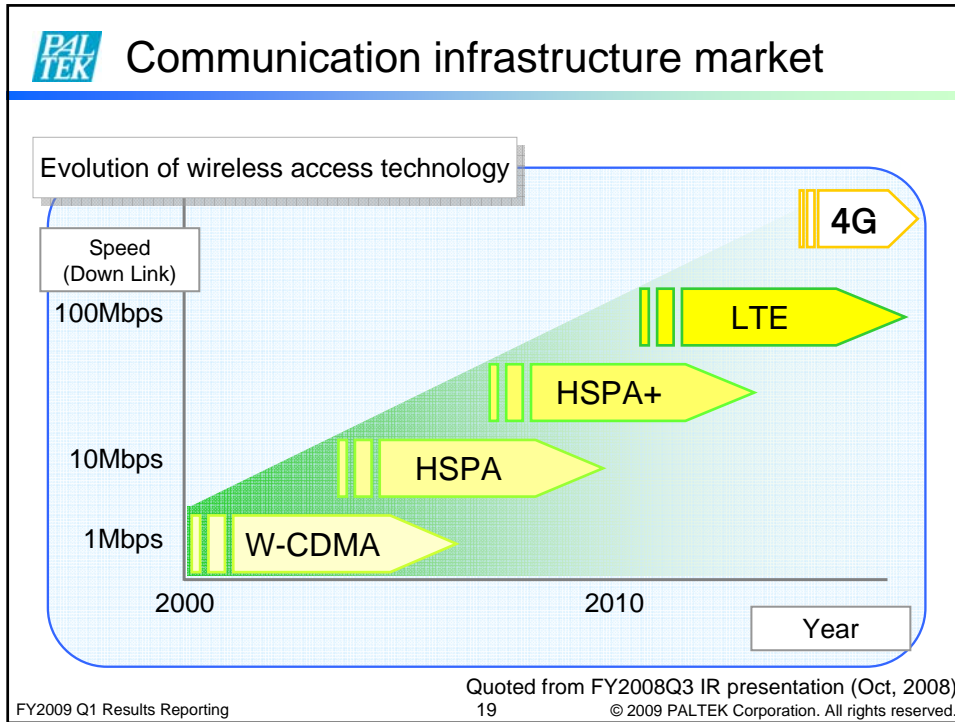
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- ### PALTEK Area of recovery expectations in H2
- #### Recovery expectations
- **Communication infrastructure market**
    - Base stations for WiMAX service deployment in summer
    - Base stations for HSPA
    - LTE(3.9G) development projects
    - Femtocell-related projects
  - **Security related market**
    - Surveillance camera
  - **Energy related market**
    - Power management for battery and charger
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## Progress of mergers of subsidiaries

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## Consolidations of subsidiaries to PALTEK

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### Completed mergers

- Completed consolidations of 2 subsidiaries (Alpha Electronics and NSM) to PALTEK effective April 1, 2009, and became one company (Spinnaker remained as a separate entity due to different business model)
- Business transitions with customers and suppliers completed smoothly

### Actions Taken

- Installment of new management team
- Consolidations of office locations
- Consolidations of operations and logistics
- Consolidations of sales and engineering organizations

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Defense

and

Offence

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## New Management Team

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Reformed management team

- Reductions of board members and officers
  - President: 4 => 2 (PALTEK, Spinnaker systems)
  - Board members and corporate auditors: 12 => 7
- New management team
  - New management team was elected and confirmed at Shareholders' meeting on March 28, 2009
  - Board members 5, Corporate auditors 3 (2 are outsiders)
  - Takahashi remains as president, but others are all new to the board. These new members used to head each business unit and know day-to-day operation well.
- [Reasons of management reform]
  - By choosing younger and experienced officers of current operations, it is aimed to increase speed in business and management

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## Consolidations of locations

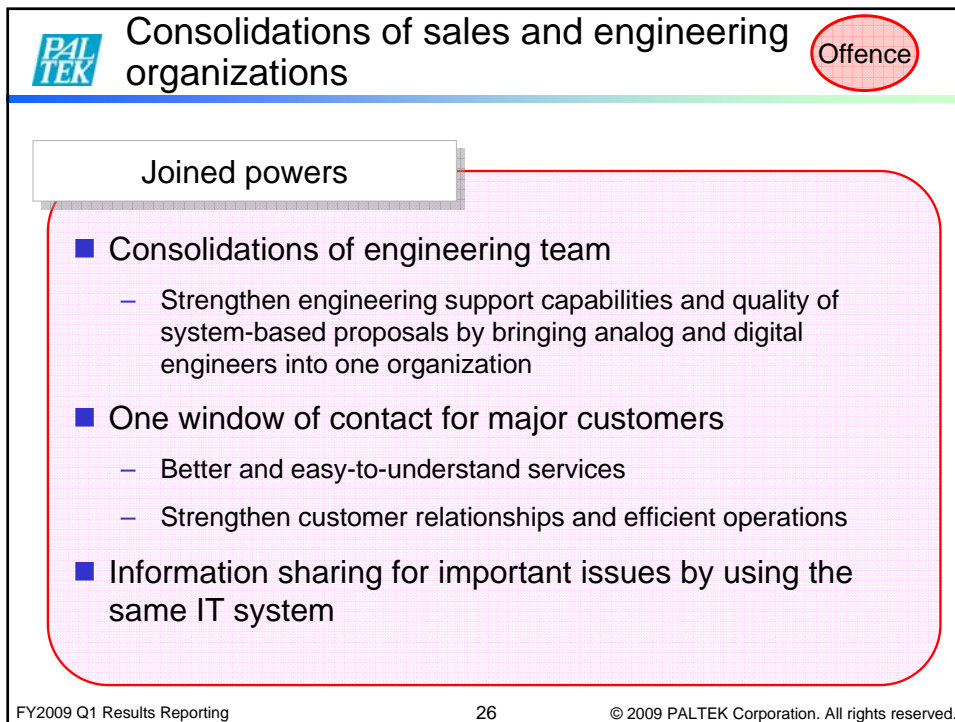
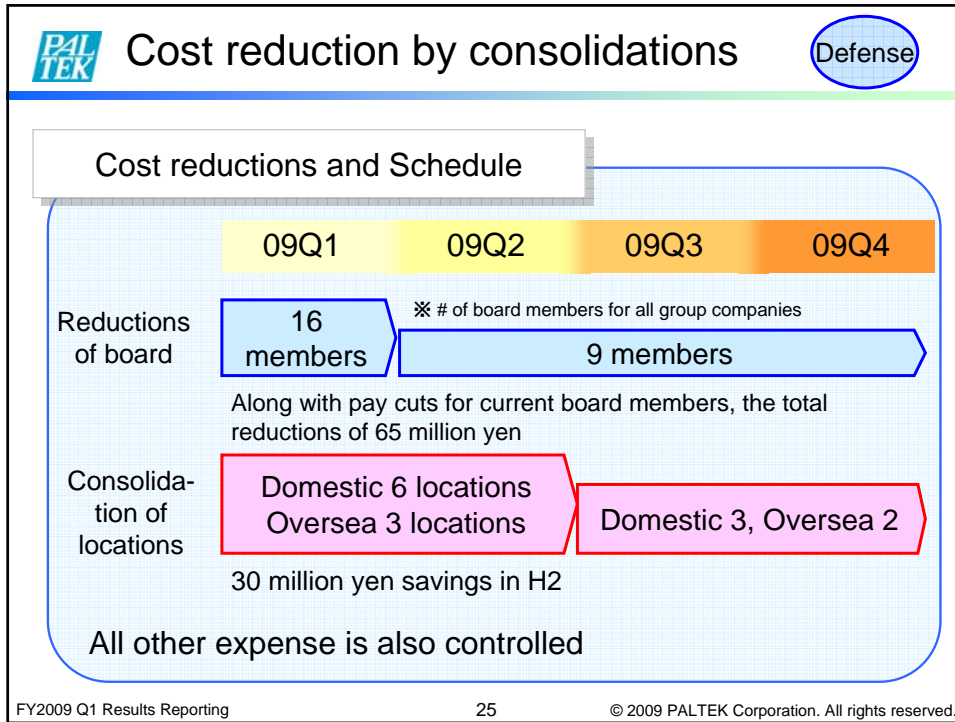
Defense

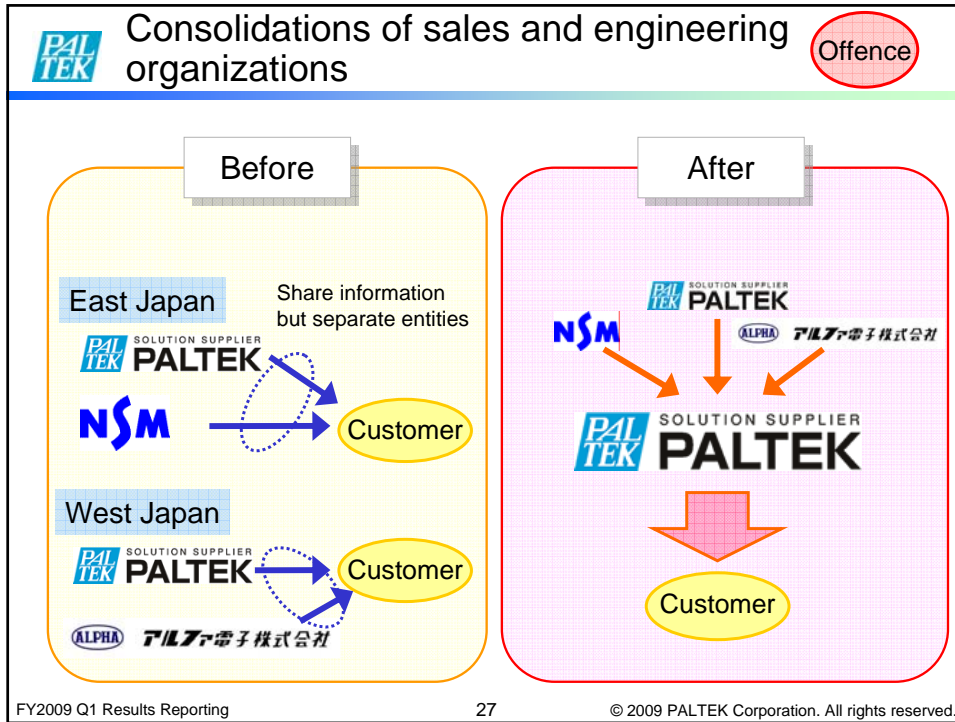
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Consolidations of office and logistics

- Reduced domestic locations from 6 to 3 and overseas locations 3 to 2 respectively
- Office space: decreased by 25%
- Office rent: annual savings of about 60 million yen (impact of 30 million yen for this year in H2)
- Warehouse: Consolidated to PALTEK warehouse
  - One warehouse system manages all inventory and increase in quality and traceability
  - Strengthen buying power for packing materials and forwarding cost
- Consolidations of operation IT system by stage
  - ERP system: will consolidated to PALTEK's system by stage
  - CRM systems of PALTEK to be expanded to all business units
  - Saving of IT investment cost

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## Reference

**PAL** **TEK** FY2009 Sales Guidance by Solution

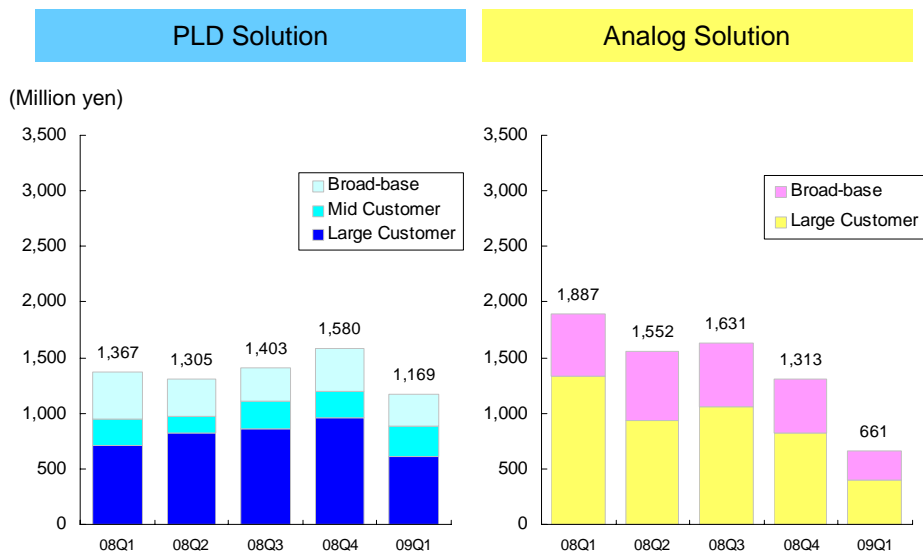
(Million yen)	2008			2009		
	H1	H2	Total	H1	H2	Total
PLD	2,673	2,984	5,657	2,100	3,500	5,600
Analog	3,439	2,945	6,385	1,500	2,700	4,200
ASSP	3,353	3,712	7,127	2,000	3,900	6,600
Memory	704	915	1,620	600	1,200	1,800
Sales Total	10,171	10,555	20,726	6,200	11,300	17,500
Operating Income	56	3	59	(325)	375	50

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**PAL** **TEK** Quarterly Sales trend by Solutions



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