

# **PALTEK**

**(JASDAQ:7587)**

## **Fiscal Year 2008 Explanatory Meeting**

**(English translation of original presentation)**

**February 12, 2009**

 **Agenda**

- 1 Results of FY2008**
- 2 Guidance of FY2009**
- 3 Future Plans**

**PAL**  
**TEK**

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Results of FY2008

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**PAL** For the future growth  
**TEK**

	2006	2007	2008
Goals	Maintenance of competitive edges and reconstruction for recovery	Recovery of business scale and investment for the future	Transformation to profitable growth
Actions	<ul style="list-style-type: none"> <li>Retain capable people</li> <li>Return all Altera inventory</li> <li>Reconstruction of PLD business</li> <li>Strengthen other business</li> </ul>	<ul style="list-style-type: none"> <li>Evolution of solutions</li> <li>Expansion of customer base</li> <li>Strengthen group management</li> </ul>	

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## Review of 3-year plans of 2006 - 2008

### Accomplishments

#### Produced profits and achieved the goal of “transformation to profitable growth in FY2008”

##### ■ Evolution of solutions

Start of design service business: raised more than 300 million yen in revenue and produced profits

Reconstruction of PLD business: still on a half-way, but sales has recovered to be more than 5 billion yen

Expansion of ASSP business: has grown to be the third pillar of business

##### ■ Expansion of customer base

Revenue from large customers grew

##### ■ Strengthen group management

Announced to consolidate 2 subsidiaries to PALTEK effective April 1, 2009



## 2008 Results: P/L

(Million yen)	2007	2008	Change (M Yen)	Change (%)	Main reasons for change
Sales	20,655	20,726	71	0.3%	
Gross Margin	2,716	3,083	366	13.5%	Growth of PLD and ASSP businesses contributed to higher GM %. Additionally, stronger yen raised GM% as well.
Gross Margin (%)	13.2%	14.9%	1.7%	-	
SGA	3,017	2,952	(65)	(2.2%)	Continued tight expense control
Operating Income	(300)	131	431	-	
Operating Income (%)	(1.5%)	0.6%	2.1%	-	
Ordinary Income	(222)	286	508	-	Exchange rate gain worth 159 million yen
Net Income	(258)	59	317	-	26M yen for a dispute settlement and deferred tax asset was removed for a subsidiary

**2008 Results: Balance Sheet**

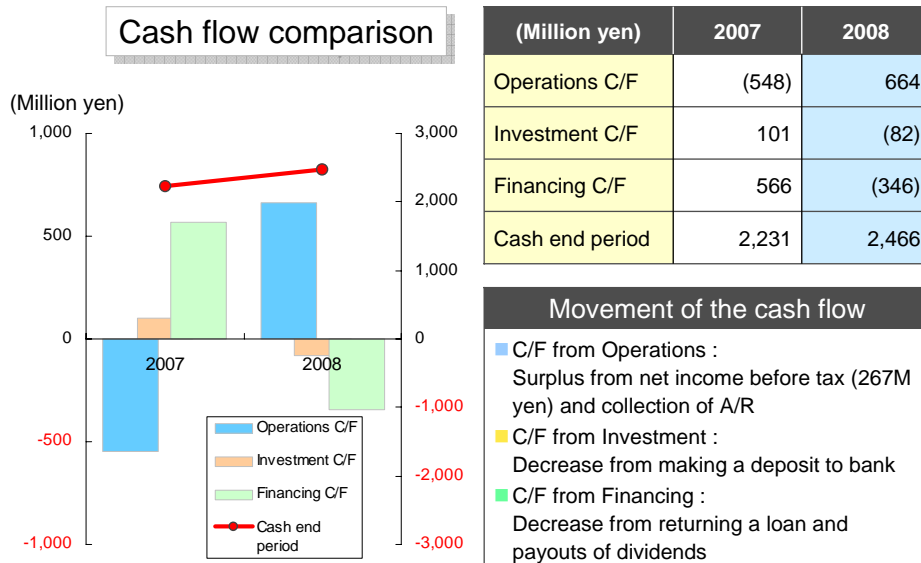
		(Million yen)	2007	2008	Change	Main reason for change
Assets	Cash and Equivalent		2,295	2,594	298	
	Account Receivable		5,070	4,175	(894)	Collection of account receivable
	Inventory		1,992	1,970	(21)	
	Other Current Assets		540	845	304	Increase of deferred sales tax
	Fixed Assets		1,114	734	(379)	Deferred tax asset was removed for a subsidiary
Asset Total			11,013	10,321	(691)	
Liabilities & Equity	Account Payable		1,280	809	(470)	
	Short-term Loans		780	550	(230)	Returned loans due to increase in cash
	Other Current Liabilities		399	501	101	
	Fixed Liabilities		341	322	(18)	
	Net Equity		8,211	8,137	(74)	
Liabilities & Equity Total			11,013	10,321	(691)	

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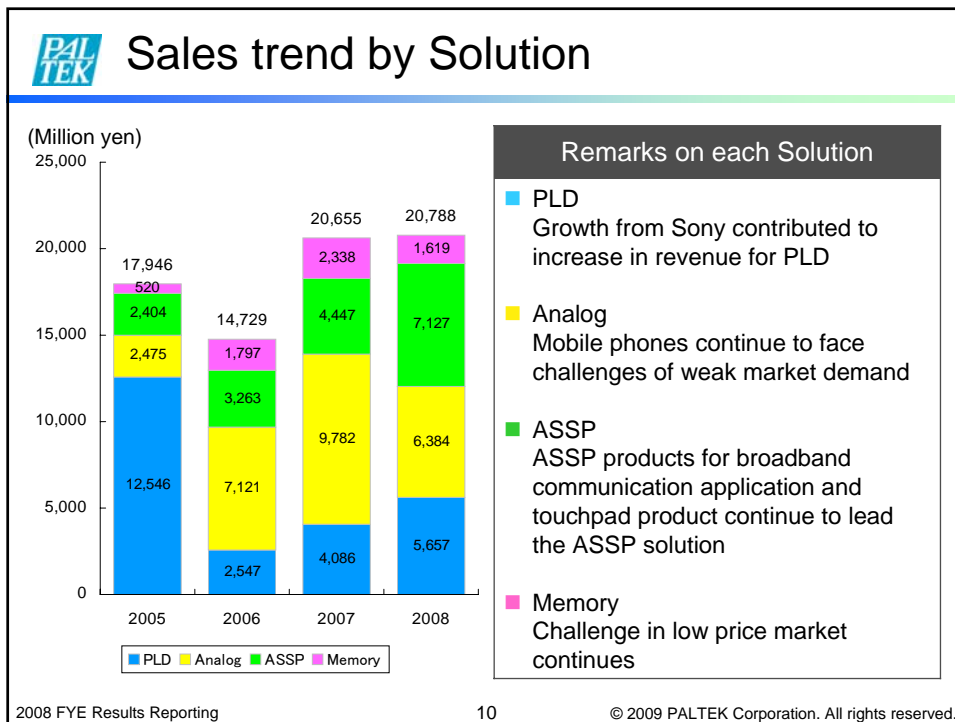
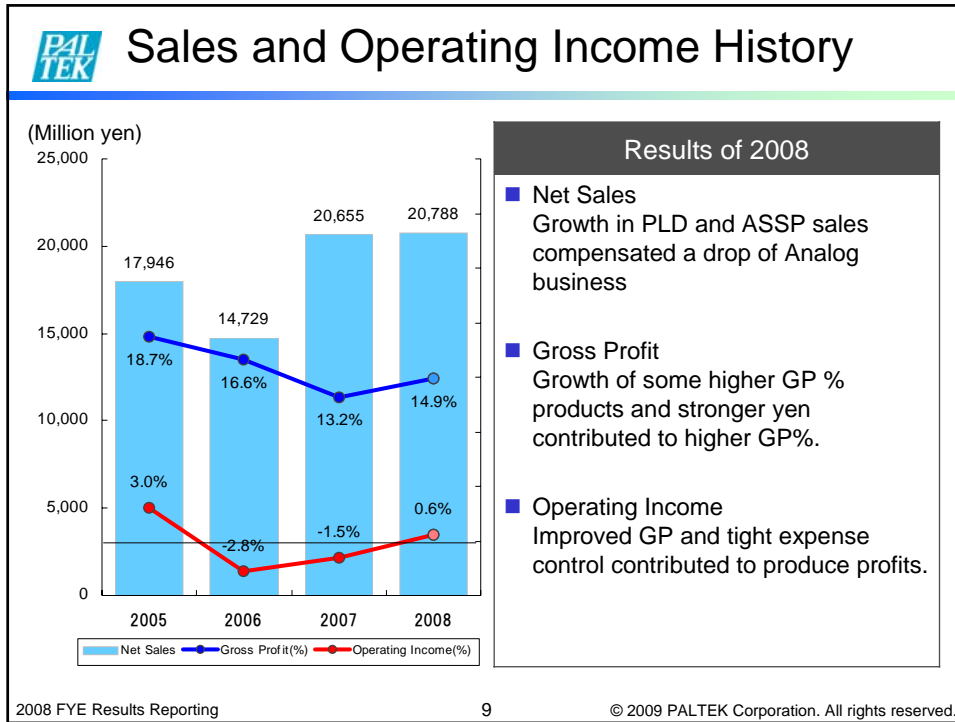
**2008 Results: Cash Flow**

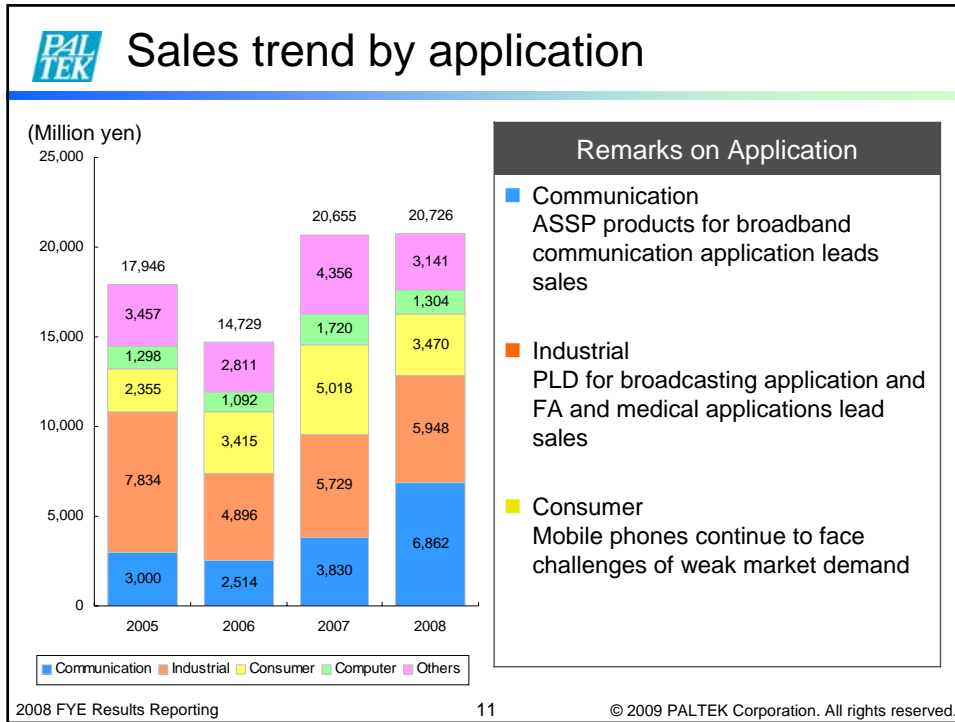


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Guidance of FY2009

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## Assumption on business environment

### Unclear market condition

- How market changed in last 6 months around electronics business?

#### 6 months ago

It was largely considered that effects of "Rehman shock" were limited to financial and real property industries

#### 3 months ago

Automobile industry was seriously affected by current recession and it became clear the overall economy is now affected

#### Recently

Most of electronics companies lowered guidance sharply reciting serious decrease in demand in global market

#### FY2009

Very unclear and uncertain market condition



## Assumptions for guidance

### Market remains weak in H1, but will start to recover in H2

- The first half
  - Dramatic drop in booking from customers in Q1 and inventory collection will impact toward the fiscal year end of March
  - Low demand will continue in Q2
- The second half
  - Still unclear that market will recover in H2, but quick and dramatic actions have been taken to manage any surplus in supply chain. Therefore, once economy starts to move forward, recovery will be quick.
  - Focus market for growth
    - Communication infrastructure
    - Security applications



## Strategies to be profitable in tough market

Defense: dramatic improvement in break-even point  
Offense: Focus on growth markets

- Consolidations of subsidiaries to PALTEK
  - Two subsidiaries will be merged to PALTEK effective April 1, 2009 (details in later pages)
  - Impacts from consolidation will be realized in H2
- Exhaustive cost reduction actions
  - Reduction of compensation for top management
  - Consolidations of offices and warehouses
  - Tight cost control on all expenses
- Focus on growth markets and utilize engineering capabilities



## FY2009 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

**PALTEK** Assumptions on guidance

**Sales**

- 15.6% down from 2008. Dramatic decrease in H1 due to recession, but expects market recovery in 2H.
- PLD : Communication applications and prototyping in H2
- Analog : Power management related projects in H2
- ASSP : Production level recovers in H2
- Memory : Supply-demand balance improves in H2

**Gross margin**

- Gross margin % improves due to decreasing impacts of large volume projects and product mix

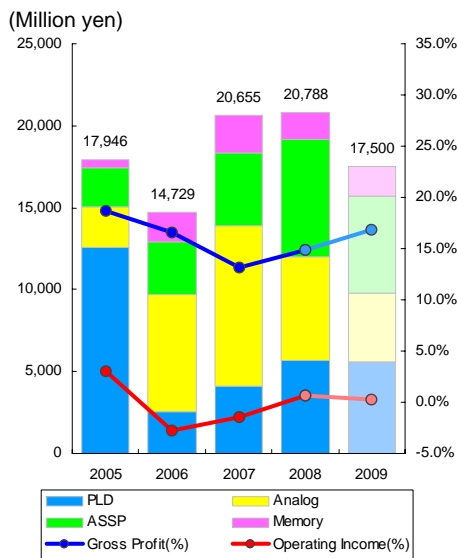
**Expense**

- Consolidation of subsidiaries contribute to reduce operation expense in H2. Estimated reduction is about 100 million yen

**Operating Income**

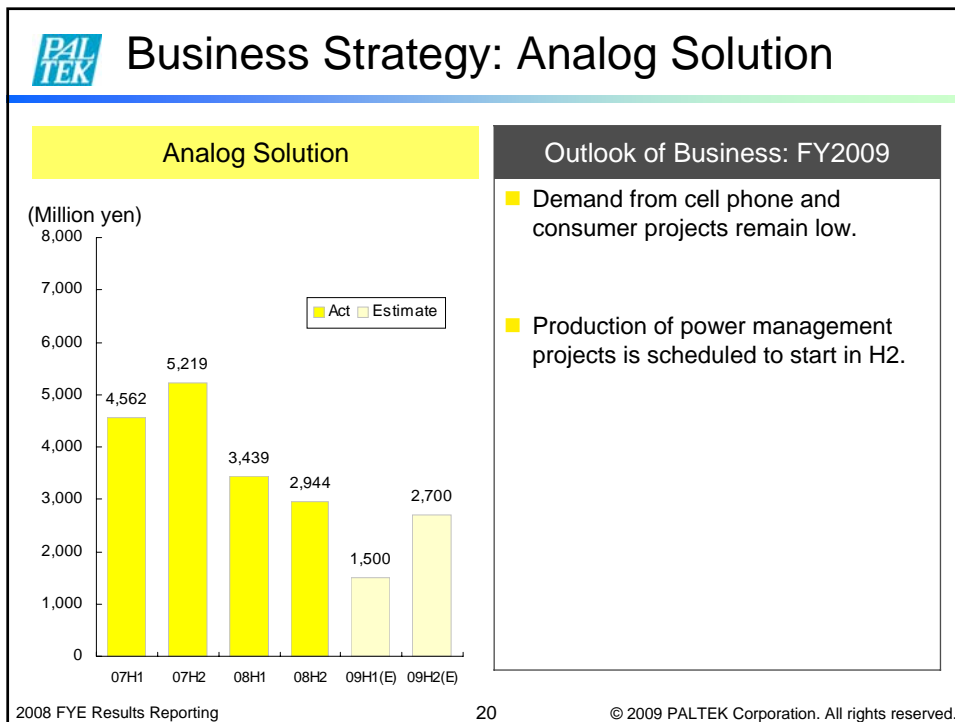
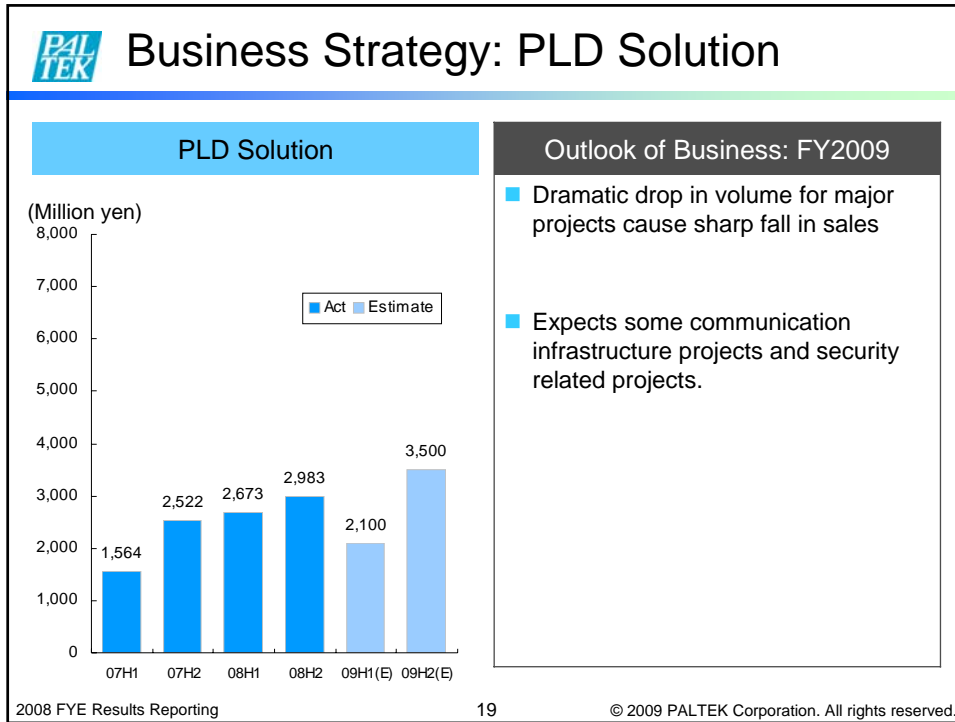
- Although H1 will be in red, we intend to bring the entire year above break-even point with prompt recovery in H2.

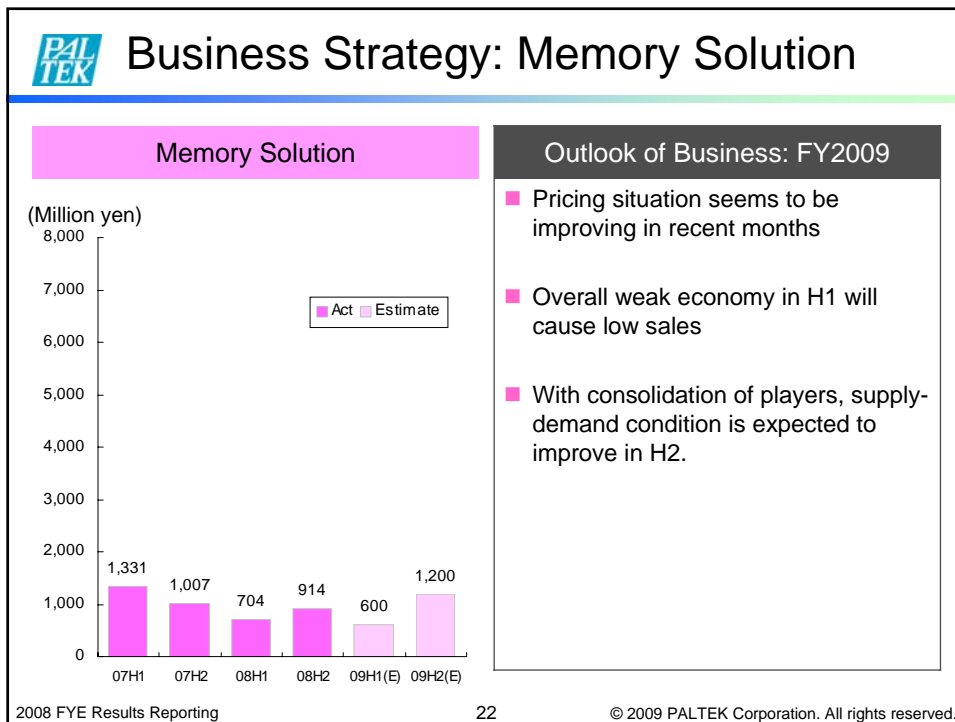
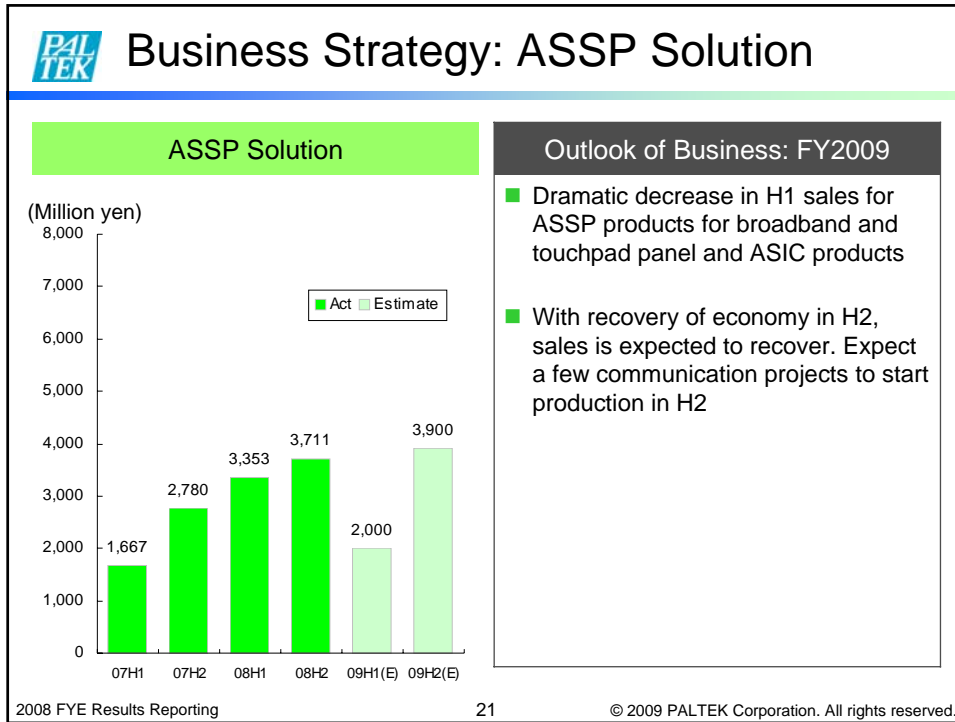
**PALTEK** Sales guidance by application



**Outlook on full year**

- PLD  
Expects dramatic 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 Communication projects
- Memory  
Expects market condition to improve in H2 due to consolidation of players







## Policy on dividends

### Policy on dividends

- Continue to make stable payouts that are appropriate in light of its needs to build a strong operating foundation and to finance future business initiatives

### Dividends for FY2009

- Although overall business environment is expected to be difficult, the company expects to make profits in FY2009 by consolidating subsidiaries and focusing on growth business
- A year-end dividend is planned to be 5 yen per share



## Future Plans



## Consolidations of subsidiaries

### Mergers of subsidiaries

2 wholly-owned subsidiaries (Alpha Electronics and NS Microelectronics) will be merged to PALTEK effective April 1, 2009

- Merger of NSM is pending an approval at the general assembly of shareholders scheduled on March 28, 2009

### Goals for consolidations

- Defense** Dramatic improvement in break-even point
- Offense** More collaboration between engineering and sales



## Consolidations of subsidiaries

### Defensive Strategies

- Dramatic improvement of break-even point
  - Consolidations of offices and warehouses
  - Reduction in inventory
  - Rationalize back office functions
  - All operation expenses are scrutinized
- Various one-time cost from consolidations is expected to be offset by payouts from dissolution of insurance contracts and other payouts.

## PALTEK Consolidations of subsidiaries

### Defensive/Offensive Strategies

- **Consolidations of offices and warehouses**
  - Office locations are consolidated to 2 from 5
  - Logistic functions to be consolidated into PALTEK logistic center

Consolidated to Machida

Consolidated to Shin-Yokohama

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## PALTEK Consolidations of subsidiaries

### Offensive Strategy

- **More collaboration between engineering and sales**
  - PALTEK and National Semiconductor Japan signed distribution agreement

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## Focus markets

### Growth markets to focus

- **Communication**
  - Base stations for planned WiMAX service-in in July
  - LTE(3.9G) related projects
  - Femtocell related projects
- **Security**
  - Surveillance camera
- **Energy**
  - Power management projects like battery chargers



## Value Proposition of PALTEK

### : Engineering capabilities

#### Semiconductor makers

- Worsening profit model
- More selections and focus in choosing business domains
- Pushing new and strategic products to target market

#### PALTEK

- Taking advantage of engineering capabilities, strengthen system-based proposal
- Strengthen design service business

#### Electronics makers

- Re-alignment and shuffling in industry
- Selection and Focus
- Selective and strategic investment
- Product development for focused fields
- Need to develop unique and value-added products

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We wish to caution you that such statements are just predictions and that actual events or results may differ materially due to changes in the market and/or other business conditions.

## Reference

**PAL** **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

