

# **PALTEK**

**(JASDAQ:7587)**

## **Fiscal Year 2011Q1 Supplements**

**(English translation of original presentation)**

**May 11, 2011**



# Agenda

- 1 Results of FY2011Q1
- 2 Guidance of FY2011



## Results of FY2011Q1



## FY2011Q1 Results: Income statement

(Million Yen)	FY2010 Q1	FY2011 Q1	Change	Change (%)	Main reasons for change
Sales	3,785	3,945	159	4.2%	
Gross Margin	651	702	51	7.9%	
Gross Margin(%)	17.2%	17.8%	0.6%	-	
SGA	620	641	21	3.4%	Include 22M yen of allowance for bad debts due to bankruptcy of 2 customers
Operating Income	31	61	30	97.9%	
Operating Income (%)	0.8%	1.6%	0.8%	-	
Ordinary Income	30	28	(2)	(6.8%)	29M yen of exchange rate loss
Net Income	8	(19)	(28)	-	Appropriated 34M yen for asset retirement obligations

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### [Sales]

Focused on such PLD and ASSP business like next generation communication infrastructure, data center and industrial applications, which are now in mass production phase. After March 11 earthquake, deliveries to some customers in Tohoku area were suspended, mostly impacted in PLD solution. Sales from industrial applications in PLD solutions were strong in early Q1, and sales increased to 3,985 million yen (4.2% increase from Q1 of FY2010).

### [Operating income]

Customer's bankruptcy (Hagiwara Syscom and other) required to add bad debt allowance of 22M yen in this quarter. Overall gross margin improved due to strong yen and high growth of industrial application business, and resulted in operating income of 61 million yen (97.9% increase from Q1 of FY2010)

### [Ordinary Income]

Exchange rate loss of 29 million yen was recorded due to weakening yen toward the end of March. Ordinary income was 28 million yen (6.8% decrease from Q1 of FY2010)

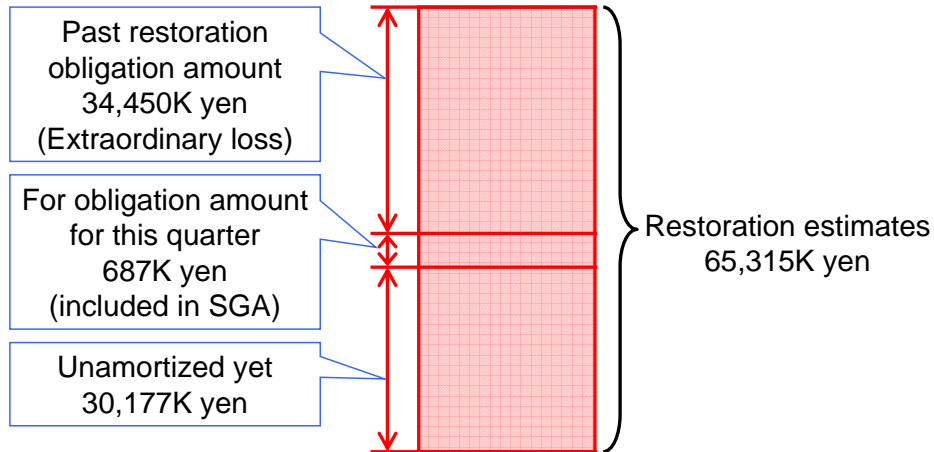
### [Net income]

34 million yen was appropriated as extraordinary loss by adopting new accounting standards of asset retirement obligations. Net loss of 19 million yen was recorded. (Net income was 8 million yen in Q1 of FY2010)



## Impacts of the new “asset retirement obligations” accounting standard

By the introduction of new accounting standards, PALTEK appropriated the estimates of asset retirement obligations for the cost of restoration of the rented properties based on each rental period



New accounting standards of “asset retirement obligations” are applied to PALTEK from this fiscal year.

At PALTEK, this new standard is applied to restoration cost to rented properties when moving, and, therefore, cannot collect deposits for those rented properties.

In this quarter, the total of 34 million yen was appropriated as the total past asset restoration obligation and recorded as extraordinary loss. For this fiscal year, the total amount of 2,784 thousand yen will be appropriated to cover this year’s asset retirement obligations.



## FY2011Q1 Results: Balance Sheet

	(Million yen)	2010 End	2011 Q1	Change	Main reasons for changes
Assets	Cash and Equivalent	2,026	2,129	103	
	Account Receivable	3,485	3,437	(48)	
	Inventory	1,635	4,568	2,933	Unable to deliver to some customers after earthquake
	Other Current Assets	2,160	1,492	(667)	Sales tax return
	Fixed Assets	467	425	(42)	
Asset Total		9,774	12,052	2,278	
Liabilities & Equity	Account Payable	566	2,903	2,336	Increase of inventory. Credit will be awarded after shipments of products from supplier for special pricing
	Short-term Loans	-	-	-	
	Other Current Liabilities	888	924	35	
	Fixed Liabilities	234	240	5	
	Net Equity	8,084	7,984	(99)	Dividend payouts and extraordinary loss
Liabilities & Equity Total		9,774	12,052	2,278	

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### [Assets]

Total assets for this quarter was 12,052M yen, an increase of 2,278M yen.

This increase is due to increase of inventory caused by suspension of deliveries to earthquake-impacted areas. The deliveries have been resumed in early April and all affected delivery issues have been resolved and inventory level returned to the normal level.

Decrease of other current assets is due to return of sales tax.

### [Liabilities]

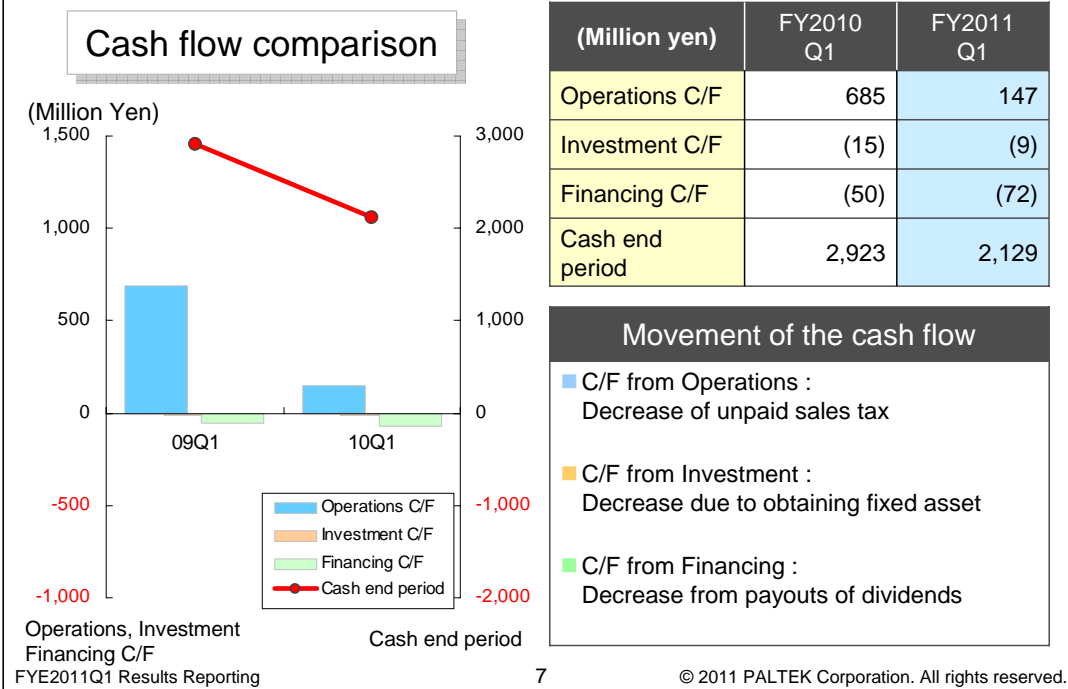
Total liabilities for this quarter was 4,067 million yen, an increase of 2,377 million yen. This is due to increase of inventory, therefore, account payable to suppliers. Much of increase is caused by products which have discounted price agreements with suppliers and customers and credit will be applied from suppliers once these products are shipped to customers based on agreements. Therefore, these account payables will have no impact to cash flow.

### [Net Equity]

The net equity for this quarter was 7984 million yen, decrease of 99 million yen. This is due to payouts of dividends and net loss.



## FY2011Q1 Results: Cash flow



### [Cash flow from Operations]

Surplus: 6 million yen of pre-tax loss for this term and increase of inventory

Outflow: decrease of unpaid sales tax and increase of account payable

Total: surplus of 147 million yen (Q1 of FY2010: surplus of 685 million yen)

### [Cash flow from Investment]

Outflow: 9 million yen due to obtaining fixed asset

(Q1 of FY2010: outflow of 15 million yen)

### [Cash flow from Financing]

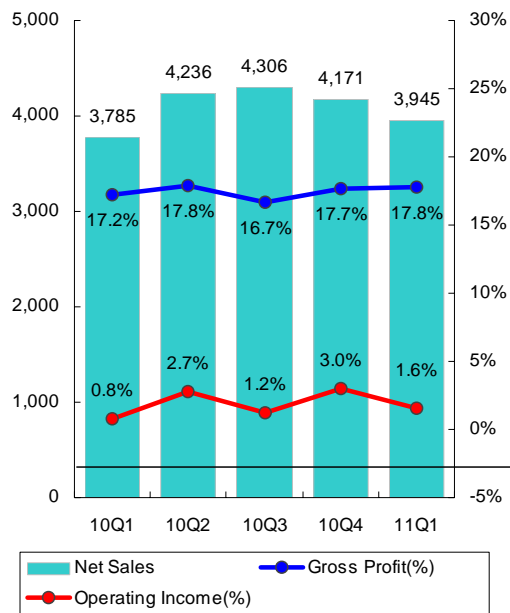
Outflow of 72 million yen by dividend payouts

(Q1 of FY2010: Outflow of 50 million yen)



## Sales and Operating Income History

(Million yen)



### Results of FY2011Q1

- Sales from analog products and PLD for communication decreased from the last quarter
- Gross margin remained high due to reduced sales from large-size customers who have relatively low gross margin
- Operating income decreased due to decreased sales and allowance for bad debts

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### [Sales]

Compared to the previous quarter (FY10Q1), PLD for mobile infrastructure and analog semiconductor by National Semiconductor decreased.

### [Gross margin]

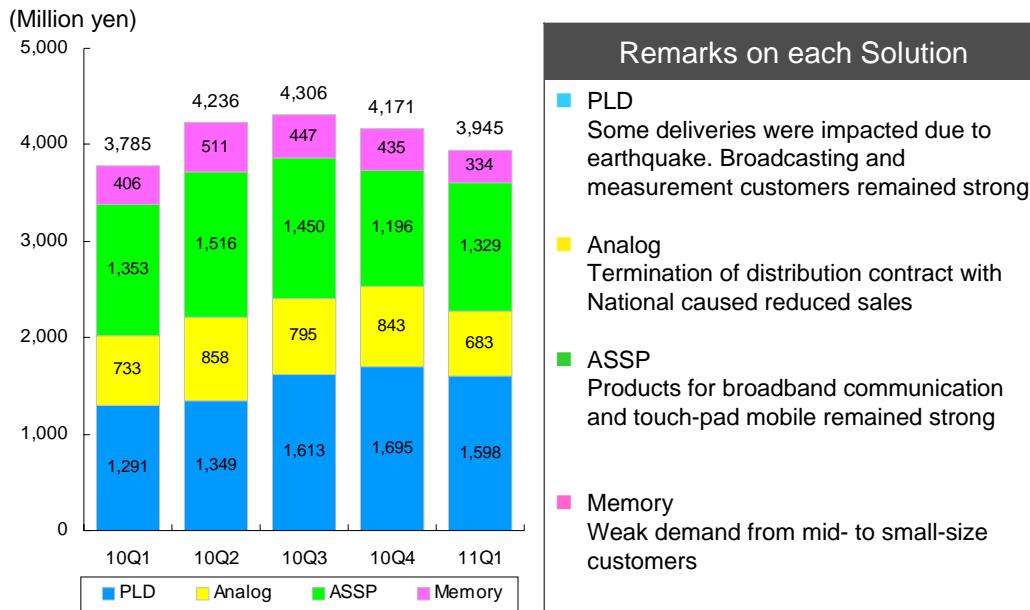
Maintained high gross margin point due to decrease of mass-production phase business among large customers

### [Operating income]

Operating income decreased due to decreased sales from FY10Q1 and appropriating bad debt allowance (22 million yen) in the event of customer bankruptcy (Hagiwara Syscom and other)



## Sales trend by Solution



Please see the analysis of each solution below.

### [PLD Solution]

Broadcasting and measurement businesses remained strong, but after the earthquake, deliveries to some customers in impacted area were suspended, and mobile infrastructure was weak. All in all, sales was decreased from the previous quarter (FY10Q4).

### [Analog Solution]

As previously announced, distribution contract with National Semiconductor was terminated effective March 31, 2011. We completed customer transfer and returned inventory. Sales was decreased by the termination of the contract.

### [ASSP Solution]

Business for broadband project and touch-pad panel remained strong.

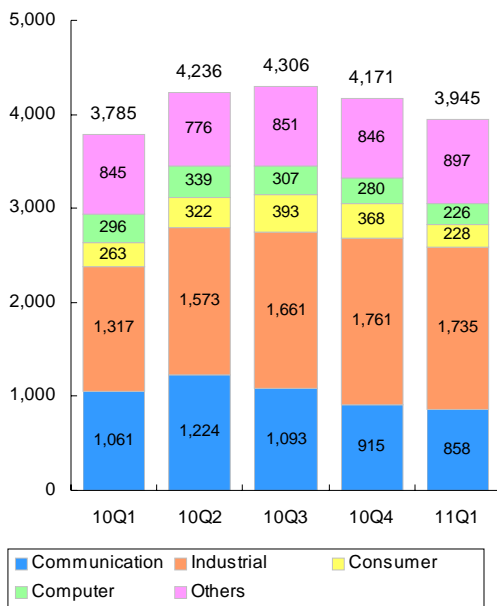
### [Memory Solution]

Decreased for mid- to small-size customers.



## Sales trend by application

(Million yen)



### Remarks on Application

- Communication  
PLD for communication infrastructure was weak
- Industrial  
Sales for broadcasting and measurement remained strong

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Please see the status of each application field below.

[Communication]

Decreased for mobile infrastructure for PLD solution

[Industrial Applications]

Remained strong for broadcasting and measurement for PLD solution



## Future Business Strategies

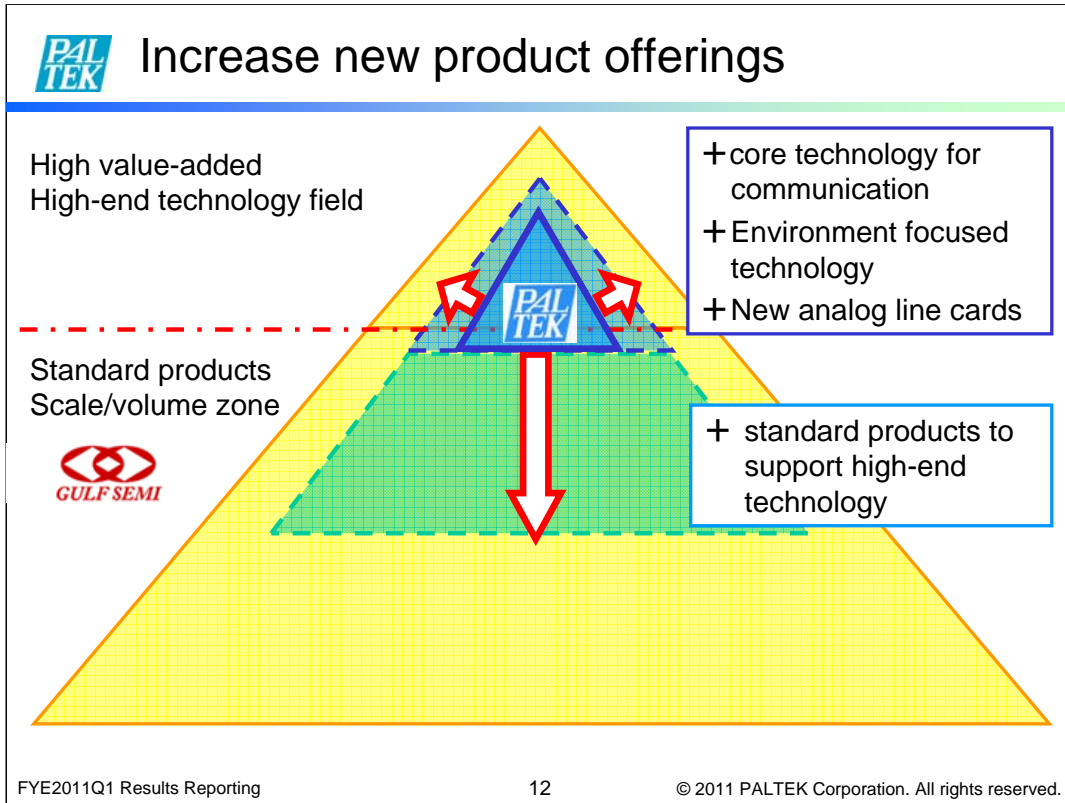
- Expand the existing business
- Increase new product offerings
- Deployment of smart grid business
- Strength design service business

PALTEK focuses on following 4 points for future growth.

- Expand the existing business
- Increase new product offerings
- Deployment of smart grid business
- Strength design service business

In this quarter, we update the following 2 points:

- New product offering
- Deployment of smart grid business



The above figure tries to depict a model of semiconductor market.  
The large triangle (highlighted in yellow) depicts the total semiconductor market.

PALTEK traditionally focused mainly on high value-added and cutting edge technology segment.

(Triangle highlighted in blue, marked by PALTEK logo)

PALTEK will continue to focus on 1) core technology in communication, 2) technology to enable low stress on environment, and 3) analog technology.

(widening triangle, highlighted in blue around the triangle marked with PALTEK logo)

In addition, PALTEK will expand handling of more standard and peripheral products to expand market coverage and to support high-value and core technology products.

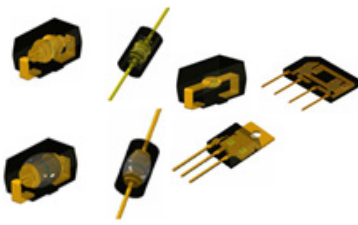
(Triangle, highlighted in green)

In this quarter, PALTEK announced the distribution of Gulf Semiconductor, which is categorized as standard products which cover most of markets and applications.

## Gulf Semiconductor



- Gulf Semiconductor is a global manufacturer of discrete power rectifiers (headquartered in Jinan City, China)
- Complete in-house production provides cost competitive, stable and high quality products
- High growth company: sales in CY2010 was US\$40, 40% y/y growth. Aiming at US\$80M within 3 years
- Servicing wide variety of consumer and industrial applications such as air conditioner, appliances, monitor, and lighting



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Gulf Semiconductor provides discrete power rectifiers, bridge diode, and others. Its wide product portfolio can cover from high-end industrial applications to cost – competitive consumer applications.

Based in Jinan city, China, its complete production process can provide cost-competitive and stable product quality. The company and the products have already passed many qualification certificates of Japanese, Korean, and American customers.

Gulf Semiconductor is a rapidly growing company. In 2010, its revenue was US\$40 million, 40% growth y/y, and it is aiming to double the revenue within 3 years.

With the partnership with Gulf Semiconductor, PALTEK aims to provide solutions to such applications as air conditioner, home appliances, monitor, lighting, and power module.

### 【Reference】

Please refer to press release on PALTEK homepage from the below URL.  
<http://www.paltek.co.jp/corporate/ir/shiryo/newsrelease/2011/c110421.htm>



## Progress of Smart Grid Business (1)

### Participated in international smart grid EXPO

- Date: March 2 ~ 4, 2011
- Place: TOKYO Big Sight
- Exhibited
  - Solar Power real-time power controller
  - Fukuoka Smart House consortium
  - Smart Meters by Itron (US), Iberdrola (Spain), EDP (Portugal)
  - Hybrid energy control system
  - PLC Solution certified by PRIME alliance
  - Next Generation FEMS using wireless sensor network
- Number of visitors to PALTEK booth: 3,042  
(Total EXPO visitors: 90,011)

国際スマートグリッド EXPO



Crowded PALTEK booth

PALTEK created Smart Grid Business Unit in 2010 to capture growing smart energy market.

In June 2010, PALTEK participated in “Smart Grid Show 2010” and exhibited our proposals and solutions.

Continuing these efforts, PALTEK again participated “International Smart Grid EXPO” in March of 2011.

PALTEK exhibited the above mentioned solutions and more than 3,000 people visited PALTEK booth. From this tradeshow, we have identified actual business and pursuing these opportunities.

#### 【Reference】

Please see more reports about “International Smart Grid EXPO” on PALTEK website by accessing the below URL.

<http://www.paltek.co.jp/solution/technology/smartgrid/expo01/index.htm>



## Progress of Smart Grid Business (2)

### PALTEK developed and sells solar power real-time power controller

- Utilizing findings from demonstration tests at Fukuoka Smart House Consortium, PALTEK developed simulation models for solar power generation
  - Applied from development methods already standardized in automobile and airplane industries, PALTEK created simulation models of voltage/current outputs depending on various weather conditions in solar power generation
  - By eliminating the needs to place actual solar power generation equipment, this simulation system enables to reduce cost and time for development
- Will promote to developers of inverter/converter used in power conditioner and batteries



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PALTEK has developed “Real-time power controller,” which aims to enable to simulate output of electricity by solar battery. It can be purchased now.

Utilizing findings from demonstration tests at Fukuoka Smart House Consortium, PALTEK developed simulation models for solar power generation in cooperation with Smart Energy Laboratory, dSPACE Japan, and Energy Electronics Laboratory of Sojo University.

It is considered that development of energy conversion units will become even more complex given the future infrastructure investment to prepare for EV, energy flow of solar generated power, and reusable energy.

This “Real-time power controller” aims to reduce cost and development time by offering simulation models and by illuminating the needs of setting up actual experimental solar power generation facilities.

#### 【Reference】

Please see more information on “Real-time power controller” by accessing the below URL on PALTEK website.

<http://www.paltek.co.jp/solution/technology/smartgrid/rtc.htm>

Press release can be seen by the below URL.

<http://www.paltek.co.jp/corporate/ir/shiryu/newsrelease/2011/c110301.htm>



## Changes in management team

- Another director to have representative title
  - By having 2 representative directors, management team aims to strength agility and management quality
  - 2<sup>nd</sup> representative director: Naohide Yabuki
  
- Appointment of 3 corporate auditors: all are outside
  - 4-year-term for previous corporate auditors concluded in March
  - Outside corporate auditor (full-time) Satoshi Sekimoto
    - Previously, ITC QA manager of SONY,
  - Outside corporate auditor Makoto Fukui
    - Previously, Executive Director of Kyocera Communication System,
  - Outside corporate auditor Koichi Hasegawa
    - Previously, Director of NEC
    - Previously, Managing Director of NEC Tianjin

Following decisions regarding management team were made at the 29<sup>th</sup> general assembly of shareholders, held on March 26, 2011, and the following board meeting.

[Adding another representative director]

By having 2 representative directors, management team aims to strength agility and management quality. Naohide Yabuki was named as the additional representative director of the Company.

[3 New Corporate Auditors were named]

Upon the completion of 4-year-term by 3 previous corporate auditors, 3 new corporate auditors have been selected. They are all outside corporate auditors. Please refer to the above presentation for detailed information of each corporate auditor.



## Guidance of FY2011

### Unchanged: many unclear situations at the moment

- Customer situation from earthquake in eastern Japan
  - Most customers in impact areas resumed operations, but not fully
  - Supply chain situations of semiconductors and components may have impact on their future operations
- Impact to supply chain by earthquake
  - Some key suppliers of wafer and material were located in impacted areas. Extent of impact to semiconductor and component supply chain is still unclear
- Impact of electricity shortage
  - Many manufacturing companies are impacted by power shortage
  - Needs of smart grid solution and energy saving solution are increasing rapidly

The Company will maintain the current guidance at this point.

Large earthquake on March 11, 2011, gave significant damages to the Tohoku area, supply chains and overall economy in Japan. Some of PALTEK customers in the area had significant damages on their production facilities, but all customers resumed operations, although some are still partial. It is possible that these damages will impact overall financial situations.

In semiconductor industry, some key suppliers of silicon wafer and materials are located in the area and it is expected to impact the overall supply chain.

Yet another issue for manufacturing industry is limited electricity supply and this will cause some arrangement for overall manufacturing industry.

Above mentioned situations may impact our business, but the extent of impact is still unclear. Therefore, we will not change our guidance at this point.

In efforts to reconstruct the impacted area and to cope with limited energy supply, significant investment in infrastructure and energy control/monitoring systems is expected. PALTEK will renew its efforts in these markets to support reconstruction efforts and to cope with energy situation.



## FY2011 Guidance: unchanged

(Million yen)	FY2010 Results			FY2011 Guidance		
	H1	H2	Full Year	H1	H2	Full Year
Net Sales	8,021	8,478	16,499	8,000	10,000	18,000
Gross profit	1,406	1,457	2,864	1,375	1,640	3,015
Gross profit(%)	17.5%	17.2%	17.4%	17.2%	16.4%	16.8%
SGA	1,259	1,282	2,541	1,335	1,350	2,685
Operating Income	147	175	322	40	290	330
Operating Income(%)	1.8%	2.1%	2.0%	0.5%	2.9%	1.8%
Ordinal Income	186	262	448	30	270	300
Net Income	95	142	238	18	162	180

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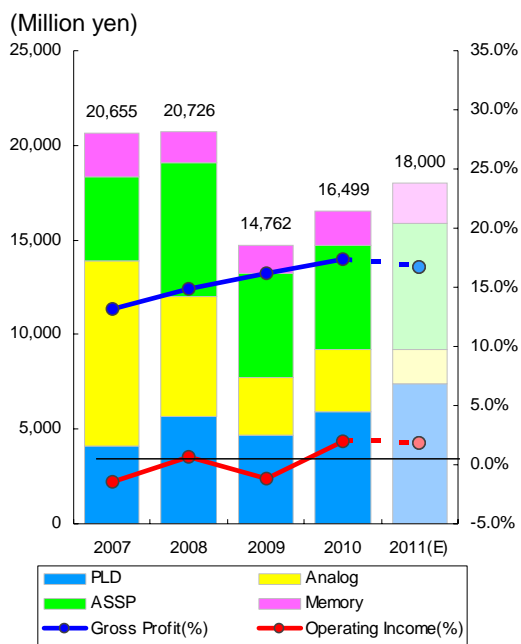
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No change is made in the current guidance.



## Sales guidance by application



### Outlook for FY2011 (Unchanged)

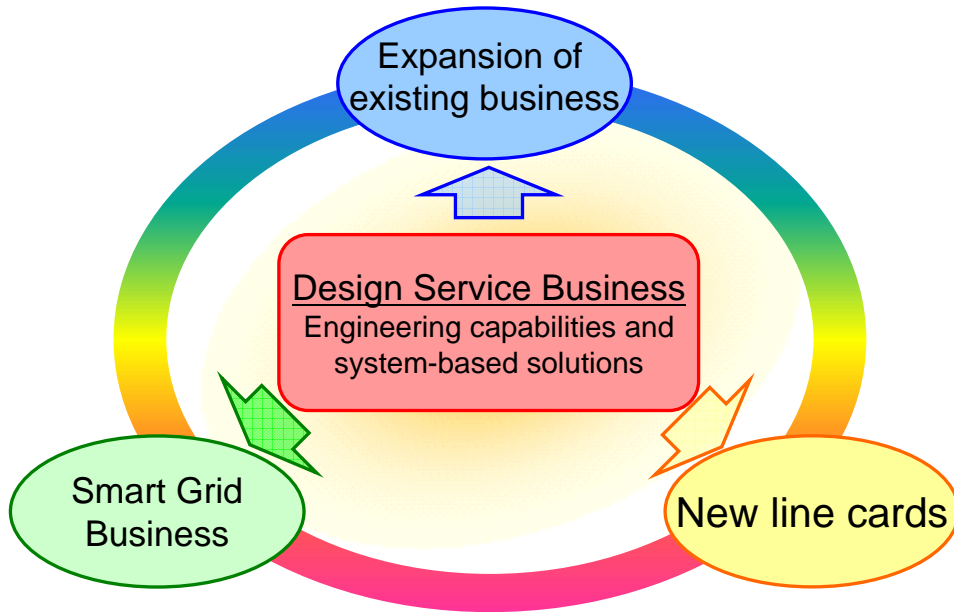
- **Sales**  
Analog business will decrease due to termination of National business. PLD and ASSP businesses expect to grow steadily
- **Gross Margin**  
Lower gross margin expected in the second half due to the start of production for several large projects
- **Operating income**  
Slight decrease is expected due to increase in sales force and slightly lower gross margin point

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No change is made in the current guidance.



PALTEK focuses on following 4 points by taking advantage of its strong engineering capabilities and system-based solution strategy.

- Strength design service business
- Expand the existing business
- Increase new product offering
- Deployment of smart grid business



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# Reference



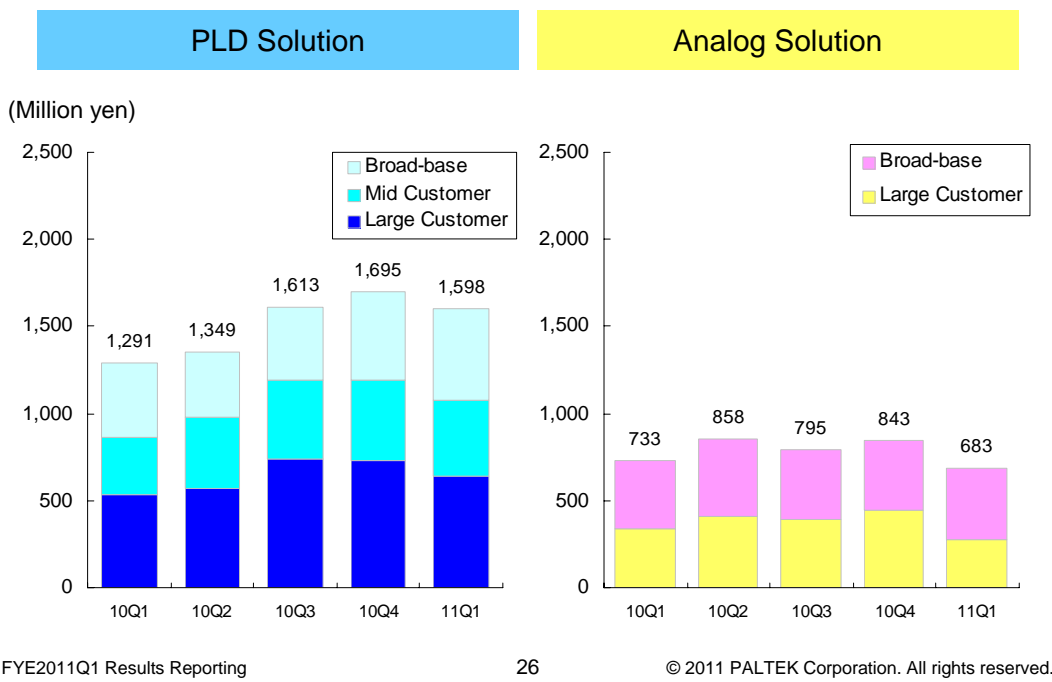
## FY2011 Sales Guidance by Solution

### Sales Guidance (Unchanged)

(Million yen)	FY2010 Results			FY2011 Guidance		
	H1	H2	Full Year	H1	H2	Full Year
PLD	2,640	3,309	5,950	3,400	4,000	7,400
Analog	1,592	1,638	3,231	800	1,050	1,850
ASSP	2,870	2,647	5,518	2,950	3,700	6,650
Memory	918	882	1,800	850	1,250	2,100
Sales Total	8,021	8,478	16,499	8,000	10,000	18,000
Operating Income	147	175	322	40	290	330



## Quarterly Sales trend by Solutions





## Quarterly Sales trend by Solutions

