

# Companies Worth Looking At

## Series one

- INTELLIGENT WAVE INC.
- INDEX CORPORATION
- TOKKI CORPORATION

Prepared by IRI, Inc.



### **High Growth from Specialization in Credit Card Business Aiming for Explosive Growth by Entering Security Business**

**Intelligent Wave has achieved both high growth and earnings through specialization in system development related to credit cards. Presently it is boldly entering new fields including security by applying the profits and accumulated technologies of its existing divisions to a mission for achieving explosive growth.**



Kazuhiko Adachi,  
Chairman & President

#### **Intelligent Wave enjoys a market share of 70% in its flagship card business.**

The distinctive characteristic of Intelligent Wave is its specialization in consumer finance systems, securities trading and dealing systems, and other finance related markets centering on credit card authorization and settlement systems. President Kazuhiko Adachi states, "The software industry primarily takes a horizontal approach to business by applying general use software to a variety of markets and operations, but we are different. We have a vertical business model that is clearly our strength."

Intelligent Wave was founded in 1984 by President Adachi, who had previously served as the president of foreign-owned firms like Tandem Computers Japan. He reflects, "This is the seventh company in which I have been involved in the formation and management of. At the time, the primary services provided by the software industry were the dispatching of personnel and subcontracting. This convinced me of the need for a software development firm with a distinct specialty. My experience at Tandem taught me about the growth potential related to credit cards and I focused on this market."

Despite the prolonged recession being experienced by the Japanese economy, Intelligent Wave has continued to post both high growth and high earnings in recent years. An analysis of performance over the past five years reveals continuous growth in sales from 3,147 million yen in the year ended in June 1998 to 5,891 million yen for the year ended in June 2003. Ordinary profit has rapidly expanded over the same period of time from 104 million yen to 1,846 million yen. Although there was intense pressure on profits in the year ended in June 2003 as a result of a suspended major development project and increase in research and development costs, Intelligent Wave was still able to secure an ordinary profit of 1,161 million yen. Furthermore, an ordinary profit to sales rate on the 30% level was achieved in both the years ended in June 2001 and June 2002.

These past steps have been the fruit of our vertical business model. In fact, the front office operations of the credit card business is a solid pillar of earnings and, in the year ended in June 2003, accounts for 41% of all sales and 64% of gross profit to sales. Intelligent Wave boasts a top share of about 70% in this market and firmly believes that this area will be a steady source of income over the

medium to long-term, due to anticipated income from updating and maintenance.

### **Business development in new fields based on profits from the credit card business**

Intelligent Wave is embarking upon new challenges toward its next round of explosive growth. President Adachi emphasizes, "We have posted high growth over the past few years, but we must develop new business areas based on the profits generated from our front office services in the credit card business if we are to sustain our growth in the long term. Due to this perspective, we have focused on research and development over the past two years in particular." In fact, the research and development expenses of Intelligent Wave have rapidly increased from 54 million yen in the year ended in June 2002 to 172 million yen for the year ended in June 2003.

The fruit of this research and development investment is the internal information leakage prevention system "CWAT," a new product we are introducing in the market in November 2003. This security system prevents confidential information from being taken out by internal parties of companies or government offices. The system monitors the use conditions of the system by company employees and other internal parties, and cuts off the connection when it detects abnormal behavior such as the outputting of important data. This new product features a concentration of technology and know-how accumulated by Intelligent Wave in its illegal use prevention system for credit cards.

President Adachi brims with confidence, "We have positioned this system as a product to allow us to launch into the horizontal business model market where we are dealing with each and every segment of industry as opposed to the vertical business model. We can sell this product globally as none of the competing products worldwide are equipped with as many comprehensive functions as CWAT."

Intelligent Wave believes there to be broad needs centering on ordinary companies and self-governing bodies and is aiming for sales of 10 bil-

lion yen in three years beginning from the fiscal year ending in June 2005.

Intelligent Wave also anticipates great rewards from another new business. This is Business Process Outsourcing (BPO) involving the outsourcing of software rather than a one-time sale of software. President Adachi points out, "As a whole package, our software suites are expensive; we want to utilize this new approach to make it easier for small and medium-sized companies to use our products and thus expand our customer base. In addition, this is an adjustment to our traditional vertical business model." The firm has significant expectations for the first product in this area, a personal authentication system used in Internet settlements that is being marketed to credit card companies.

Thus Intelligent Wave is striving to make the security business via software suites a new engine of growth.

### **Full-on devotion to research and development in this second creation period**

Intelligent Wave has presently positioned itself as being in the "second creation period" and is carrying out full-on research and development to fulfill this mission. President Adachi emphatically declares, "We will resolutely carry out our investment in the future by applying our own funds amounting to nearly 2 billion yen." He continues, "Our medium to long-term goal is to develop software that will lead to white collar productivity improvements. For example, automation of compliance related work via computer systems. We would like to further develop CWAT into an internal information management system for companies in the future."

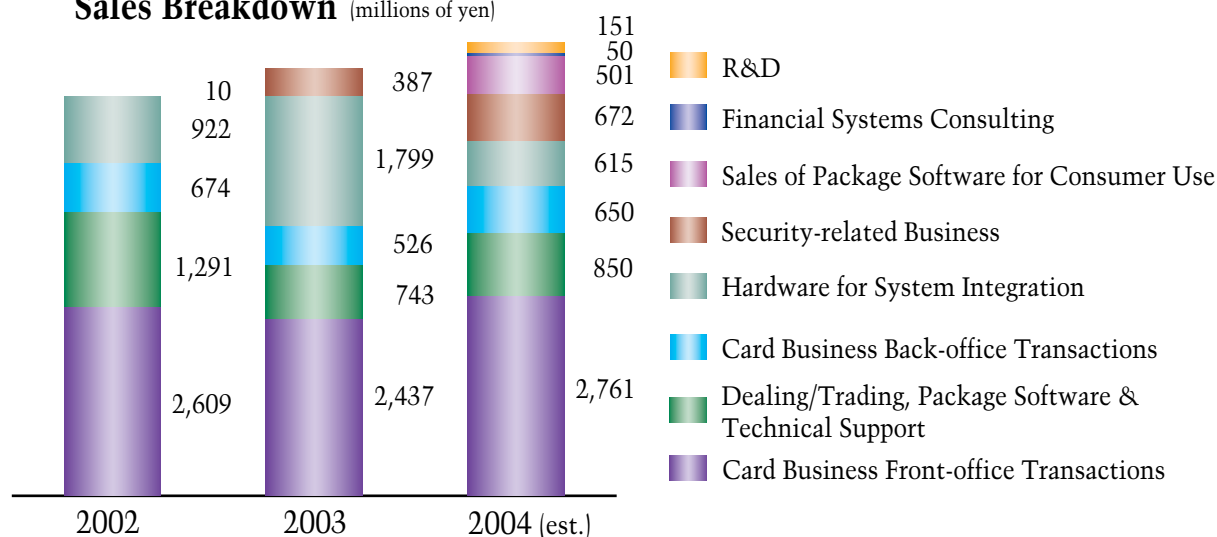
Intelligent Wave has established as its goals the administrative mileposts of a continued achievement of 15% annual growth in sales and 30% ordinary profit to sales rate. President Adachi comments, "We need at least three years to achieve our important administrative policies. We are confident that the business model reforms we are presently tackling will blossom into growth in the medium to long-term."

## Profit and Loss (Non-consolidated)

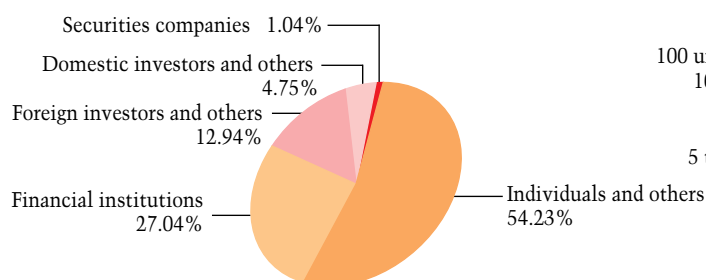
Years ended June 30, 2000 through 2004

	Millions of Yen				
	2000	2001	2002	2003	2004 (est.)
<b>For the Year:</b>					
Net sales	¥3,859	¥4,845	¥5,506	¥5,891	¥6,250
Operating income	834	1,529	1,855	1,178	—
Net income	1,158	823	1,003	540	858
<b>At Year-end:</b>					
Total assets	4,146	4,533	5,754	5,045	—
Shareholders' equity	2,060	3,443	4,475	4,485	—

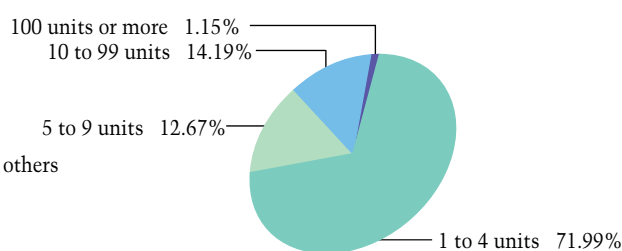
### Sales Breakdown (millions of yen)



### Composition of Shareholders



### Units Held Per Shareholder



## Corporate Profile

Intelligent Wave, founded in December 1984, is a software company focused on the development of software suites and customized system integration software, consulting and the sale of computer equipment. Intelligent Wave is involved in many businesses including front office operations for the credit card business, dealing and trading operations, back office operations for consumer finance companies, sale of hardware and other products through the receipt of system integration project orders and security system operations. The pillar of Intelligent Wave's business is the building of systems for the financial industry where, in particular, it enjoys a market share of about 70% for front operations of the credit card business, which are a steady source of earnings for the firm. Intelligent Wave's customers are primarily comprised of major credit card companies such as VISA and Master Card in Japan, consumer finance companies, securities firms and other major companies.

## Board of Directors and Auditors

### Chairman & President

Kazuhiko Adachi

### Managing Director

Yoshiyuki Yamamoto

### Directors

Chiharu Tsuchida

Shigeru Kawada

Osamu Aoki

Masaharu Shirasugi

### Full-time Auditor

Issei Ariyoshi

### Auditors

Motoichi Mizota

Yasuaki Suzuki

Seikichi Igarashi

## Corporate Data

### Head office

Kiba Green Park Bldg.  
5-12-8, Kiba, Koto-ku  
Tokyo 135-0042, Japan  
Phone: +81-3-5620-1081/1061  
Fax: +81-3-5620-1082  
URL: www.iwi.co.jp

### Incorporated

December 27, 1984

### Paid-in capital

¥843,750,000

### Number of employees

246 (as of June 30, 2003)

### Branch

Shibata City, Niigata Prefecture, Japan

### Stock listing

JASDAQ (code 4847)

### Number of shareholders

8,111 (as of June 30, 2003)

### Outstanding stocks

131,700

### Trading unit

1 share

### Financial year

July 1 to June 30

### Annual shareholders' meeting

September

### Transfer agent

Mizuho Trust & Banking Co., Ltd.

### Auditor

ChuoAoyama Audit Corporation



### **Astonishing Growth through Development of New Businesses Based on Application of Mobile Telephones**

Since being founded in 1997, Index has developed its businesses based on applications of mobile telephones and accomplished astonishing growth through this strategy. Index will continue its dedicated pursuit of growth with its solution business — through a reinforcement of alliances and overseas businesses strategically focused on the Chinese market — as the platform for soaring into the future.



Yoshimi Ogawa,  
President and COO

### **Remarkable Growth through Market Expansion of the Mobile Content Business**

Index has created history through its involvement in the new Internet access service business in mobile communications since its inception. Index entered the mobile content field in 1997, making its start with content distribution to pagers.

The commencement of the i-mode service by NTT DoCoMo in 1999 provided the opportunity for Index's dramatic growth and its businesses. Index interpreted the new ability of mobile telephones to connect to the Internet as a perfect business opportunity and released "The God of Love," a dating fortunetelling service for i-mode. This product was a huge hit and became a significant factor in subsequent mobile telephone related operations.

In step with the spread of mobile telephones with the ability to connect to the Internet, the mobile content business posted steep growth and Index was successfully listed on the JASDAQ market in March 2001. The growth posted by Index over the past three years is simply remarkable. In the year ended in August 2000, consoli-

dated sales totaled 1,216 million yen. This figure increased 16.8 times to 20,487 million yen in the year ended in August 2003. Over the same period, Index has also increased consolidated ordinary profit 13.5 times from 181 million yen to 2,442 million yen.

President Yoshimi Ogawa summarizes the factors for this, "One significant factor is that we had the merit of a huge expansion in the mobile content market, in which we now boast about 9.8 million subscribers to Index related services after starting from scratch. The other factor is that the service solutions that use various mobile telephone functions have recently posted a rapid transformation into revenue generating services."

### **Sudden Emergence of Service Solutions Provided through an Alliance Strategy**

The theme of Index businesses is applications of mobile telephones, which are broken down into the following four businesses in Japan: content, service solutions, commerce and publishing. An analysis of Index's performance in the year ended in August 2003 reveals that content generated

50.2% and service solutions generated 47.7% of its operating profit. These two businesses are thus the source of Index's earnings.

The content business of Index is comprised of the delivering of fee-generating information for mobile telephones. The number of subscribers, including free service users, has increased by 3.85 million over the past year. Index will be able to secure a high level of steady profits in this business as long as the content can maintain a certain level of popularity.

President Ogawa comments on the future strategy of the content business, "We will focus on providing the delivery of motion images and other enriched content in correlation with the spread of third generation mobile telephones. Since the charges for communications drops off when there is a switch in the phone generations, the critical factor for success of carriers becomes their content. Consequently, we would like to develop new content in collaboration with carriers and terminal makers."

The service solutions business launched in the year ended in August 2001 has posted rapid growth from the year ended in August 2003. The operating profit of this division has posted steep growth of nearly 2.9 times of what it was two years ago and now amounts to about 1,500 million yen. This performance has been achieved as a result of various factors including the hit product "Bow-Lingual" (a unit that translates dog cries), which was a joint project with toy giant Takara, and the success of Index's video on-demand service for apartment developers.

Index is dedicated to an alliance strategy in which it jointly pursues businesses in collaboration with other companies. Through an increase in paid-in capital through third party allocations, Index has secured blue chip companies as shareholders. These shareholders include Mitsubishi Corporation, Fuji TV, TV Asahi, Dentsu, Panasonic Mobile and NEC.

President Ogawa points out, "Success in the Internet related field requires speed more than any-

thing else. Collaboration with other companies allows us to make gains on time and thus is indispensable. Our strategy for service solutions consists of building a business model for terrestrial digital broadcasting in tie-ups with television stations and a focus on solutions directed to individual fields such as education and finance. Further, I am confident that we will expand greatly into the video on-demand business that was started in the first half of the fiscal year."

### **Index Commences Content Business in the Strategic Market of China**

The use of mobile telephones in Japan is very advanced and Index is in a position of being able to lead the world in the mobile business. Globally, the mobile telephone competition is on the cusp of switching from the preparation of infrastructure and spread of handsets to a battle in services. Index has analyzed these developments and took the initiative to open six overseas bases ahead of its competitors to prepare for the content and solutions business in Asia, America and Europe.

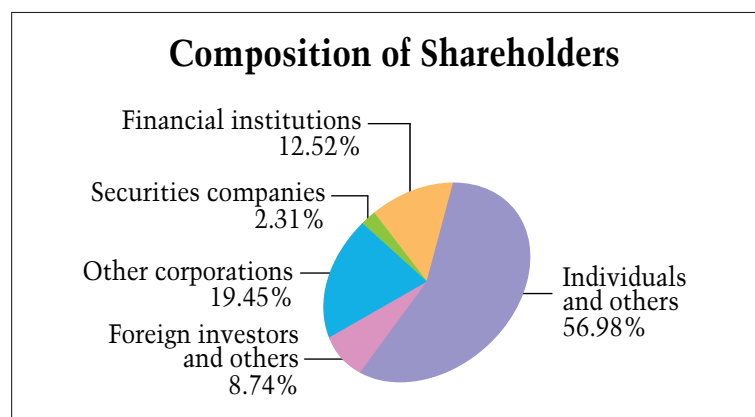
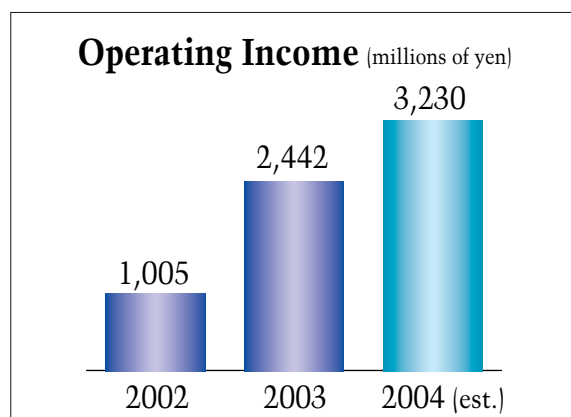
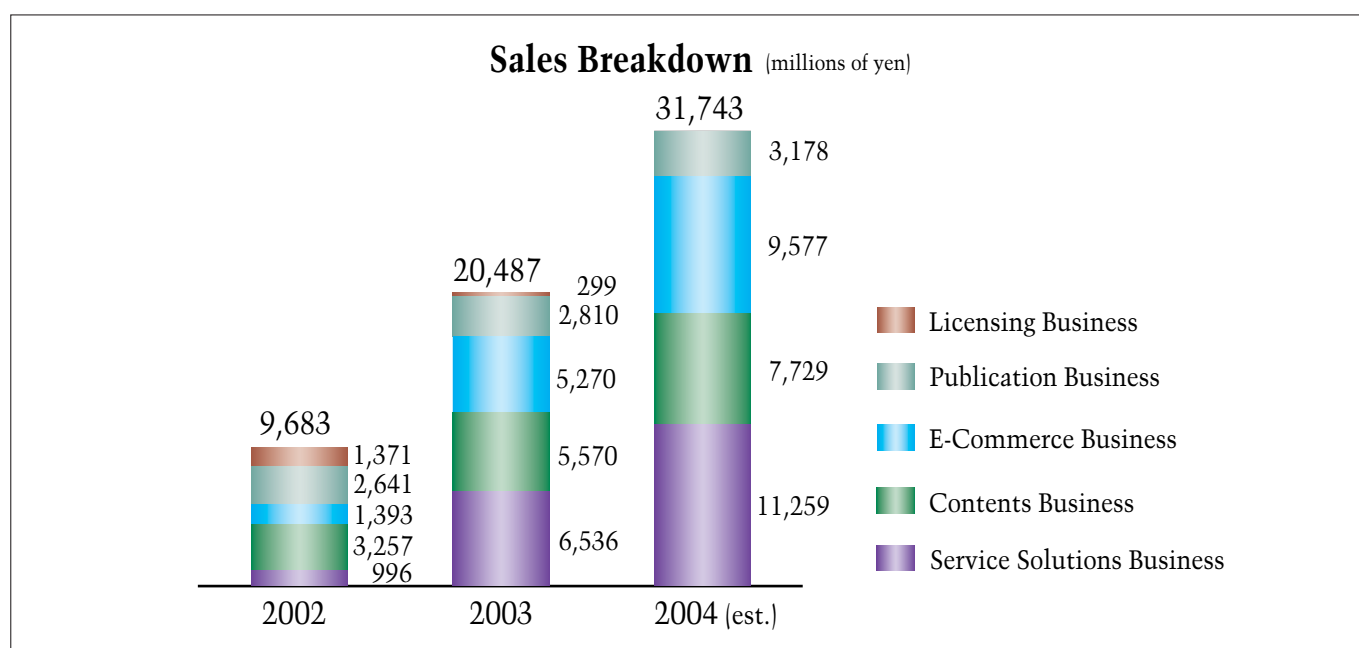
In particular, Index has prepared a business base in China by establishing a content development company in 2001 to service a market with rapid economic growth. In March 2003, Index obtained a business license to deliver content and will begin offering services between now and the beginning of 2004. President Ogawa declares, "China is a very attractive market both in terms of the penetration rate of mobile telephones and also the market size. We will develop our business there as a market in which we are particularly focused upon."

President Ogawa demonstrates her enthusiasm in stating, "The market of mobile telephone applications, the pivot of our business, is on the verge of a dramatic metamorphosis and thus is overflowing with dreams. We would like investors throughout the world to enjoy the allure of this market through Index."

## Profit and Loss (Consolidated)

Years ended August 31, 2000 through 2004

	Millions of Yen				
	2000	2001	2002	2003	2004 (est.)
<b>For the Year:</b>					
Net sales	¥1,216	¥3,885	¥9,683	<b>¥20,487</b>	¥31,743
Operating income	181	427	1,005	<b>2,442</b>	3,230
Net income	98	208	556	<b>1,289</b>	1,615
<b>At Year-end:</b>					
Total assets	1,798	4,590	7,179	<b>12,819</b>	—
Shareholders' equity	1,353	3,118	4,738	<b>9,185</b>	—



## Corporate Profile

Index, along with carriers, has played the role of a pioneer since the inception of its businesses utilizing mobile communications. Index provides the whole range of mobile telephone content business services from planning to system development, server and network operation, and user support. In addition, Index also provides a service solutions business that supports businesses through application of the various mobile telephone functions. The e-commerce business of Index, realized through alliances with multiple media, has created revolutionary businesses in merchandising and logistics. Index will apply the comprehensive strength it has cultivated in Japan, the global trailblazer in mobile telephone use, to fully develop its global operations with a strategic focus on China.

## Board of Directors and Auditors

<b>Chairman and CEO</b>	Masami Ochiai
<b>President and COO</b>	Yoshimi Ogawa
<b>Senior Managing Director</b>	Kazutoshi Watanabe
<b>Managing Director</b>	Toshimi Katsushima
<b>Directors</b>	Kiyoshi Takeuchi Noriaki Aomatsu Yorihiko Kojima Tokizo Tsuchiya Tetsuzo Hori Ryuichi Mori
<b>Full-time Auditor</b>	Jiro Fujii
<b>Auditors</b>	Seiro Watanabe Akitsune Kato Kunihiro Yabe

## Corporate Data

### Head office

Carrot Tower 13th Floor  
4-1-1 Taishido, Setagaya-ku  
Tokyo 154-0004, Japan  
Tel: +81-3-5779-5050  
Fax: +81-3-5779-5061  
URL: [www.indexweb.co.jp](http://www.indexweb.co.jp)

### Incorporated

September 1995

### Paid-in capital

¥3,373 million

### Number of employees

130

### Stock listing

JASDAQ (code 4835)

### Number of shareholders

5,277

### Outstanding stocks

95,423

### Trading unit

1 share

### Financial year

September 1 to August 31

### Annual shareholders' meeting

November

### Transfer agent

UFJ Trust Bank Limited

### Auditor

Meiwa Company, certified public accountants

### Principal subsidiaries

Connect Technologies  
Index Solutions Corporation  
Index Magazines Corporation  
U.S.A. Index Corporation  
F\*mode Ltd.

*(as of August 31, 2003)*



### TOKKI CORPORATION

#### The Leader in OLED Manufacturing Devices Profits Growing with Take-Off in Demand

Tokki Corporation is the leading maker of manufacturing equipment for organic light emitting diode (OLED) displays, which are regarded as next generation flat panel displays, and boasts an overwhelming share in the global mass production equipment market. Tokki is convinced that its performance in the latter half of 2004 will soar further with the take-off in demand in the OLED related market.



Kenichi Tsugami,  
President

#### Dominant Market Share in Mass Production Equipment for OLED Displays

The mainstay of Tokki's product lineup is manufacturing equipment for OLED displays, which are drawing much attention as the next generation flat panel displays (FPD). The company enjoyed orders of 8,851 million yen for OLED related products in the year ended June 2003, to comprise 78% of the total orders of 11,394 million yen.

Unlike traditional liquid crystal displays that create images with a backlight in the background, OLEDs emit light on their own. Since an independent light source is unnecessary and OLEDs are very quick to respond, it is possible to make very thin displays with a wide viewing angle and no residual image. On the other hand, the organic light emitting materials are weak in their resistance to water and have the shortcoming that defects occur due to mere contact with humidity in the air. Therefore, the key technology to commercializing OLED displays has been a device that can complete all processes from thin film formation to encapsulation.

Tokki entered the OLED related product market in August 1993 with the release of film formation and coating test equipment for OLEDs. In January 1999, it became the first in the world to develop a fully automated OLED film formation

and coating system. This was followed by the introduction of mass production equipment for OLED displays.

President Kenichi Tsugami points out, "Our customers highly evaluate the reliability of our products and we enjoy more than an 80% share of the global market for devices to mass produce OLED displays. Our strategic focus of research and development investment on OLED related areas has borne fruit."

#### Establishing Competitiveness through Fusion of Vacuum and Factory Automation Technologies

President Tsugami established Tsugami Specialty Machine Co., Ltd., the forerunner of Tokki Corporation in 1967. It began by selling machine tools for processing special equipment. Later, in 1972, President Tsugami established Nagaoka Precision Co., Ltd. and began manufacturing machines for automation and heightening efficiency. In 1982, he formed Tsugami Robotics Co., Ltd. and began conducting business in the field of industrial robot engineering. In 1983, he invested in and secured the business rights to UPR Co., Ltd., a vacuum film manufacturing device manufacturer that had fallen on hard times. In January 1986, President

Tsugami integrated the businesses of the four companies to establish today's Tokki.

In January 1991, Tokki successfully listed on the over-the-counter market, but later was directly hit by slumping capital investment caused by the collapse of the bubble. As a result, Tokki was forced to register deficits in fiscal 1993 to 1995. After overcoming this, Tokki implemented a medium-term business plan in July 1998 with the aim of reformation of the company. It was in this plan that Tokki demonstrated the firm's fundamental strategy of fusing vacuum and factory automation (FA) technologies. The fruit of this decision is the solid establishment of competitiveness as a manufacturer of OLED panel manufacturing equipment. President Tsugami emphasizes, "The OLED panel manufacturing device wasn't born overnight. It is a consummation of technologies cultivated from our foundation that includes vacuum evaporation, precision alignment, highly advanced coating and our FA system using robots."

## **Preparing for Market Expansion from 2004 with Construction of a New Plant**

Since the beginning of 2003, there have been increasing signs of the commercialization of OLED displays. In March 2003, Chi Mei Optoelectronics of Taiwan announced development of the world's largest 20-inch OLED display for television use. Furthermore, three companies – Sanyo Electric, Eastman Kodak and their joint venture – have begun shipping full-color 2.2-inch OLED displays for Kodak's digital cameras. There is even growing use of OLED displays for the back panels of mobile telephones.

President Tsugami projects, "The OLED related market will soar in earnest between 2004 and 2006." According to a study by an American market research firm, the OLED display market globally was about 100 million dollars in 2002 but is expected to rapidly expand from now on to 300 million dollars in 2003, just under 800 million dollars in 2004, and 1.6 billion dollars in 2005. President Tsugami comments, "We interviewed about fifty leading OLED panel makers worldwide who are our clients last year about their future production plans. The results were similar to the results

from the study by the American research firm."

Tokki has not been idle and simply watched these developments. The company has taken the initiative to handle this launch of OLED related products by building a new plant for OLED panel manufacturing devices in April 2003. The plant, built at an investment of 3.3 billion yen, is located in Mitsuke City, Niigata Prefecture. The plant has four 25-meter class assembly lines and has tripled the production capacity of Tokki.

In addition, Tokki also completed a research and development center at an investment of about 500 million yen in November 2003 on a site neighboring the plant. In the area of technological development, Tokki has concluded a mass production technology agreement with England's Cambridge Display Technologies, the holder of the basic patent for light emitting materials for polymer OLED displays, and is conducting joint development with it. Tokki is also developing a thin film encapsulation system with America's Vitex Systems.

## **Anticipation of Dramatic Growth in Income and Profit Next Fiscal Year and After**

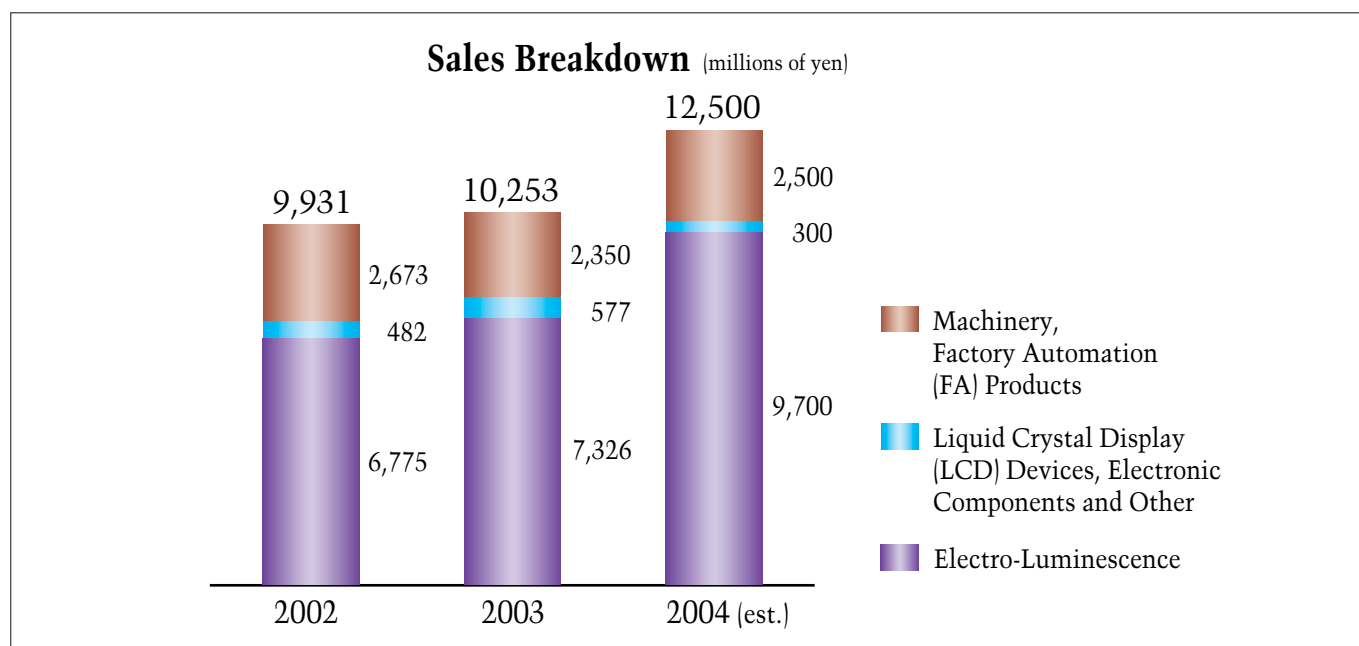
Tokki is spinning off its trading company division that handles machine tools, a line of business since the company's inception, and its FA systems sales division in January 2004 to form "TOKKI Industries" as a separate entity. The objective of this spin off is to establish Tokki as a dedicated manufacturer of OLED panel manufacturing devices.

President Tsugami discusses future performance as follows, "Our profit will not grow much this fiscal year due to the heavy weight of our advance investment, but we foresee dramatic growth in income and profit from next fiscal year and after as the demand for OLED displays comes fully online." Since recommencing payment of dividends in the year ended June 2000 with the payment of a five yen per share dividend, Tokki has successfully increased dividends each fiscal year to the point of paying a dividend of fifteen yen per share in the year ended in June 2003. President Tsugami states, "We would like to provide shareholder benefits that match our profits hereafter, as well."

## Profit and Loss (Non-consolidated)

Years ended June 30, 2000 through 2004

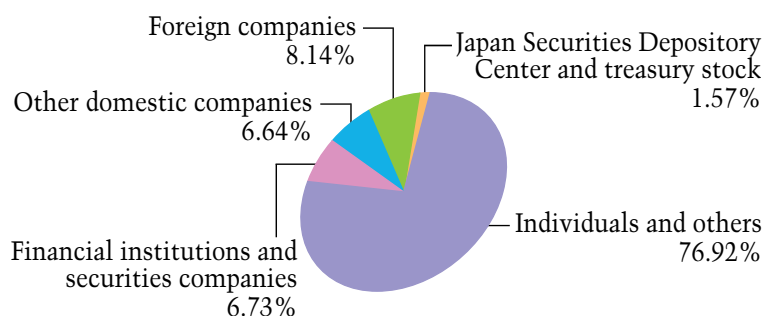
	Millions of Yen				
	2000	2001	2002	2003	2004 (est.)
<b>For the Year:</b>					
Net sales	¥6,142	¥9,288	¥9,931	<b>¥10,254</b>	¥12,500
Operating income	127	590	167	<b>304</b>	370
Net income	58	309	75	<b>167</b>	180
<b>At Year-end:</b>					
Total assets	4,604	7,249	7,111	<b>10,644</b>	—
Shareholders' equity	1,404	1,707	1,726	<b>3,337</b>	—



### Note:

In December 2003, Tokki issued new stocks (800,000 stocks) in order to raise funds for capital investment for the research and development center newly built on the site of the Mitsuke Plant and for other facilities. Furthermore, the firm plans to increase its dividends to 17.50 yen per stock for the year ending June 2004. However, stocks will be halved in February 2004. Accordingly, the scheduled dividend per stock at the end of the period will be 8.75 yen.

### Composition of Shareholders



## Corporate Profile

Tokki Corporation roots started with the establishment of Tsugami Specialty Machine Co., Ltd., its forerunner, in July 1967. Following this establishment, President Kenichi Tsugami established three subsidiaries in the fields of automation equipment, industrial robots and other factory automation (FA) equipment, and vacuum film manufacturing equipment. In January 1986, the various businesses were integrated to establish Tokki Corporation. Through a fusion of its vacuum and FA technologies, Tokki started manufacturing vacuum technology related products. In January 1999, Tokki developed the automated film formation and coating system for OLED displays, the world's first OLED manufacturing device. In preparation for the expected rapid expansion in demand for OLED displays from 2004, Tokki built a new plant for OLED panel manufacturing devices in April 2003, and a research and development center on a site neighboring the plant in November 2003.



*The new plant located in Mitsuke City, Niigata Prefecture*

## Board of Directors and Auditors

### President

Kenichi Tsugami

### Directors

Mikio Asada  
Seiji Torii  
Zenju Kazama  
Hiroshi Kusano

### Full-time Auditor

Hidetada Hirai

### Auditors

Shigeru Takeda  
Yasushi Matsumoto

## Corporate Data

### Head office

Kyobashi K-1 Bldg. 3F  
2-7-12 Yaesu, Chuo-ku  
Tokyo 104-0028, Japan  
Tel: +81-3-5205-2901  
Fax: +81-3-5205-2909  
URL: www.tokki.co.jp

### Incorporated

July 29, 1967

### Paid-in capital

¥2,042,000,000

### Number of employees

193

### Factories (Niigata Prefecture, Japan)

Mitsuke Factory  
Nagaoka Factory  
Niigata Factory

### Stock listing

JASDAQ (code 9813)

### Number of shareholders

4,937

### Outstanding stocks

6,650,612 (as of June 30, 2003)

### Planned outstanding shares following increase in capital and share split

14,901,224

### Trading unit

100 shares

### Financial year

July 1 to June 30

### Annual shareholders' meeting

September

### Transfer agent

The Chuo Mitsui Trust Banking Company, Limited

### Auditor

Asahi & Co.

### Principal subsidiaries

TOKKI Industries Co., Ltd.  
Kyodo Bldg.  
7-15-5 Ginza, Chuo-ku,  
Tokyo 104-0061, Japan