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KAWANISHI HOLDINGS (2689)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY06/2016		101,460	543	556	305	54.5	30.0	818.8
FY06/2017		105,778	1,044	1,112	690	123.1	30.0	942.8
FY06/2018CoE		106,377	1,100	1,109	714	127.3	30.0	-
FY06/2017	YoY	4.3%	92.2%	99.8%	125.9%	-	-	-
FY06/2018CoE	YoY	0.6%	5.3%	(0.3%)	3.4%	-	-	-
Consolidated Q1 to Q3 (Million Yen)		**Sales**	**Operating Profit**	**Recurring Profit**	**Profit Attributable to Owners of Parent**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 to Q3 FY06/2017		81,105	960	1,026	661	-	-	-
Q1 to Q3 FY06/2018		82,610	1,142	1,143	981	-	-	-
Q1 to Q3 FY06/2017	YoY	4.5%	79.6%	91.6%	121.7%	-	-	-
Q1 to Q3 FY06/2018	YoY	1.9%	18.9%	11.4%	48.4%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (5 June 2018)

A New Scheme

KAWANISHI HOLDINGS, selling medical consumables and equipment to medical institutions represented by major base hospitals heavily involved with acute care, is seeing steady sales increases of medical consumables to play the role of underlying growth driver, while increasing involvement of business based on a new scheme is to accelerate its long-term growth. In Q1 to Q3 FY06/2018, sales of equipment came down as a large-scale project on special procurements did not appear two years in a row, but this was more than compensated for by steady sales increases of consumables, having resulted in ongoing earnings increases as a whole for the Company. More importantly, the Company has started booking sales based on a new scheme in Q3, i.e., having sold medical simulator robot to university hospitals, etc. as the general distributor in Japan. As far as the existing business is concerned, the Company purchases diverse medical consumables and equipment to sell from the general distributors in Japan, while the Company itself is the general distributor in regards to this, being more involved with distribution channels and thus added value created and gross profit margin higher. As an integrated medial trader with competitive capability of sales, the Company has been keen on so-called "(medical-equipment-distributor-participated) medical-engineering collaboration" for some time, trying to obtain innovative merchandises to sell, developed by venture corporations with limited capability of sales. Now the Company has just seen the first one launched, which is above-mentioned medical simulation robot, while other innovative merchandises are to follow suit based a new scheme like this. On top of this, the Company is currently in the process of research for demonstration, including biopsy and diagnostic imaging, for system and kit to detect breast cancer at early stage based on analysis of exhalation, calling for launch in CY2020.

In Q1 to Q3 FY06/2018, sales came in at ¥82,610m (up 1.9% YoY), operating profit ¥1,142m (up 18.9%) and operating profit margin 1.38% (up 0.20% points). By business segment, Medical Consumables and Equipment to sell medical consumables and equipment saw sales of ¥68,948m (up 1.0%), operating profit of ¥1,194m (up 23.8%) and operating profit margin of 1.73% (up 0.32% points), having accounted for 83.5% of sales as a whole for the Company and 91.9% of operating profit (before elimination). Thus, business performance as a whole for the Company hinges on that of this business segment to a large extent. In regards to consumables estimated to account for more than 80% of total, sales increased by 5.2% over the same period in the previous year, while equipment accounting for the rest decreased by 7.1%. The Company has been seen steady sales increases in regards to the mainstay consumables across the board, comprising those of surgical-related, orthopedics, circulatory organ, etc. by domain. For example, the Company suggests that sales of catheter ablation (to cauterize myocardial tissue causing tachycardia to make the heart pulse fast by means of high frequency), belonging to circulatory organ by domain, were firm in particular, driven by launch of expensive new merchandise of frozen balloon. Meanwhile, the Company has failed to see sales increases in regards to equipment to have had seen increases by 13.8% due to a large-scale project on special procurements during the same period in the previous year. It did not reappear.

FY06/2018 initial Company forecasts have remained unchanged, going for prospective sales of ¥106,377m (up 0.6% YoY), operating profit of ¥1,100m (up 5.3%) and operating profit margin of 1.03% (up 0.05% points). Meanwhile, the Company saw progress rate of 77.7% for sales and 103.8% for operating profit in Q1 to Q3 versus 76.7% and 91.9%, respectively, in Q1 to Q3 in FY06/2017 results. Sales of equipment in Q4 are to adjust every year due to a seasonal factor, but for operating profit does the Company see progress rate higher by 11.9% points than the previous year's results. According to the Company, spending of some expenses delayed towards the end of Q3, which may appear in Q4, while it is too early to exactly estimate impacts stemming from NHI price revision made in April 2018. As far as we could see, thus, the Company now hesitates to make changes for Company forecasts.

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2.0 Company Profile

One of the largest Integrated Medical Traders

Company Name	KAWANISHI HOLDINGS, INC. Website IR Information Share Price (Japanese)
Established	2 October 1967 (inaugurated on 1 May 1921)
Listing	21 December 2000: Tokyo Stock Exchange 2nd section (ticker: 2689)
Capital	¥ 607 m (As of the end of March 2018)
No. of Shares	6,250,000 shares, including 639,347 treasury shares (as of the end of March 2018)
Main Features	● Set up by mergers among three wholesale distributors of medical equipment and medical materials based in Chugoku and Shikoku regions ● Expectations for new mergers preceded by Sansei Medical Materials Co., Ltd. ● Trying to beef up gross profit margin with business based on a new scheme
Business Segments	Ⅰ. Medical Consumables and Equipment Ⅱ. SPD Ⅲ. Care Supplies Ⅳ. Imports and Sales
Top Management	President COO: Yohei Maeshima
Shareholders	MASP Inc. 15.1%, Treasury shares 10.2%, ESOP 6.1% (as of the end of Dec. 2017)
Headquarters	Kita-ku, Okayama-city, Okayama-prefecture, JAPAN
No. of Employees	Consolidated: 1,140, Unconsolidated: 31 (as of the end of March 2018)

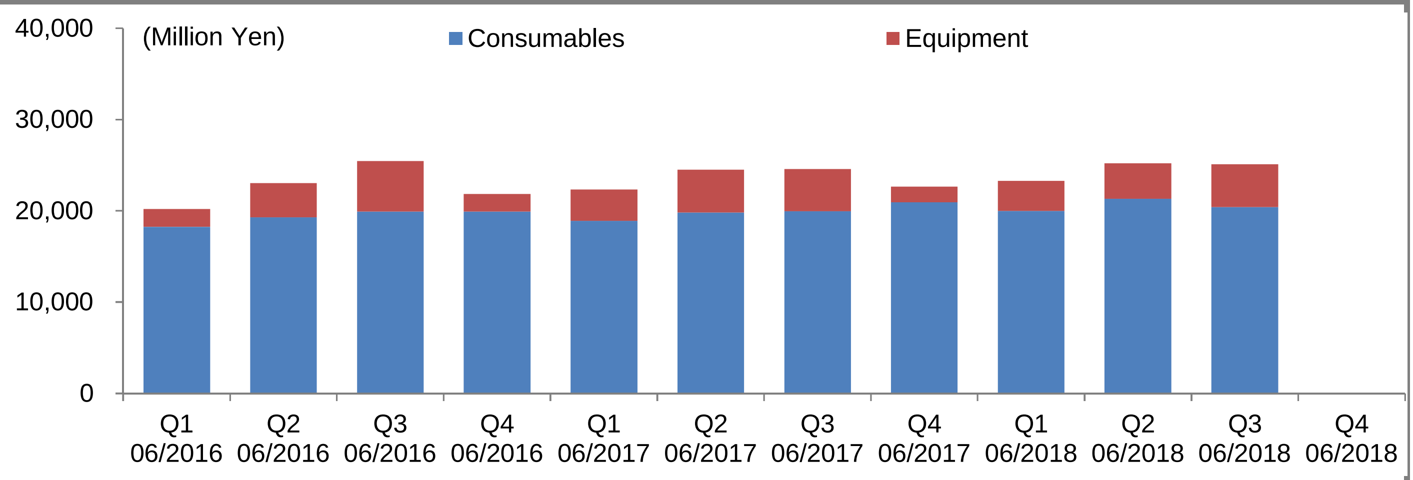
Source: Company Data

3.0 Recent Trading and Prospects

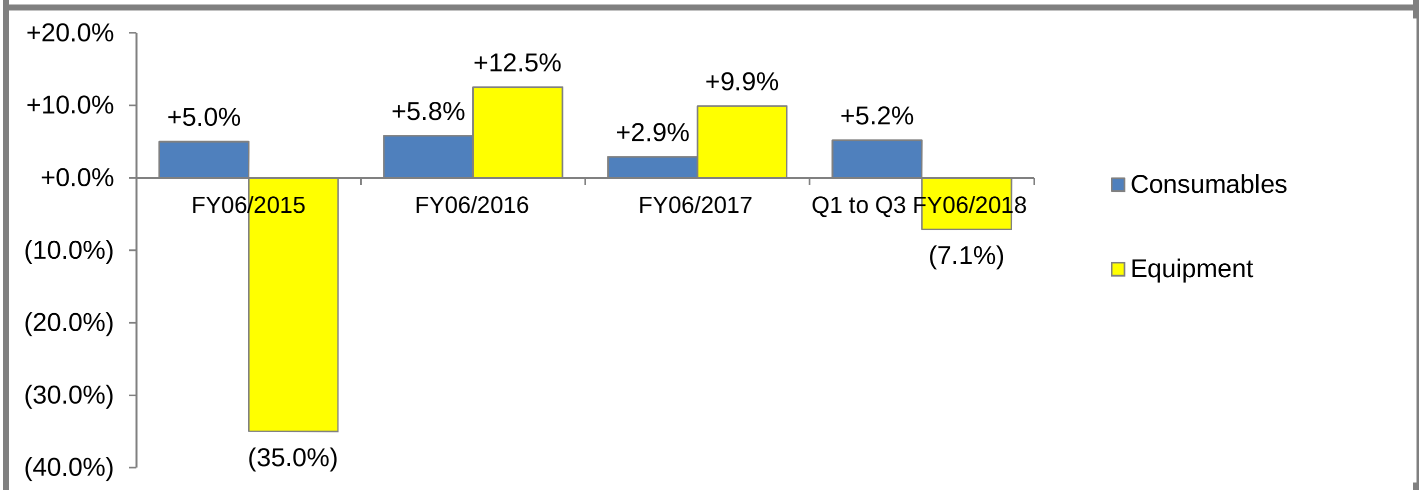
Q1 to Q3 FY06/2018 Results

In Q1 to Q3 FY06/2018, sales came in at ¥82,610m (up 1.9% YoY), operating profit ¥1,142m (up 18.9%), recurring profit ¥1,143m (up 11.4%) and profit attributable to owners of parent ¥981m (up 48.4%), while operating profit margin 1.38% (up 0.20% points).

Sales of Medical Consumables and Equipment



Medical Consumables and Equipment : Changes of Sales for Consumables and Equipment



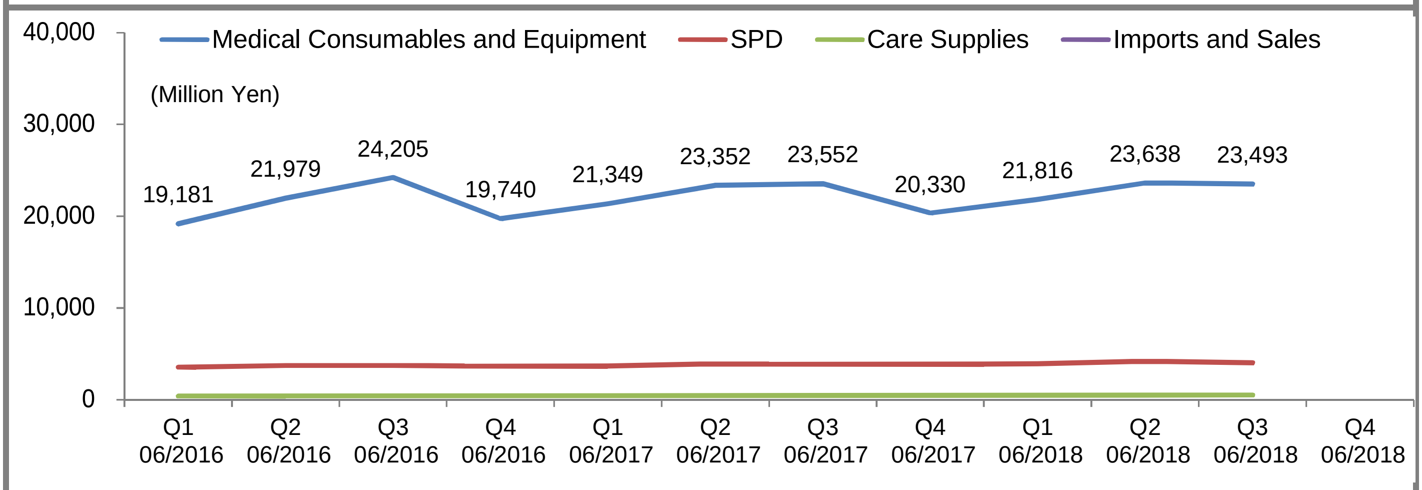
Source: Company Data, WRJ Calculation

In Medical Consumables and Equipment to overwhelmingly drive sales and earnings as a whole for the Company, it runs operations to sell medical consumables and equipment to medical institutions represented by major base hospitals heavily involved with acute care.

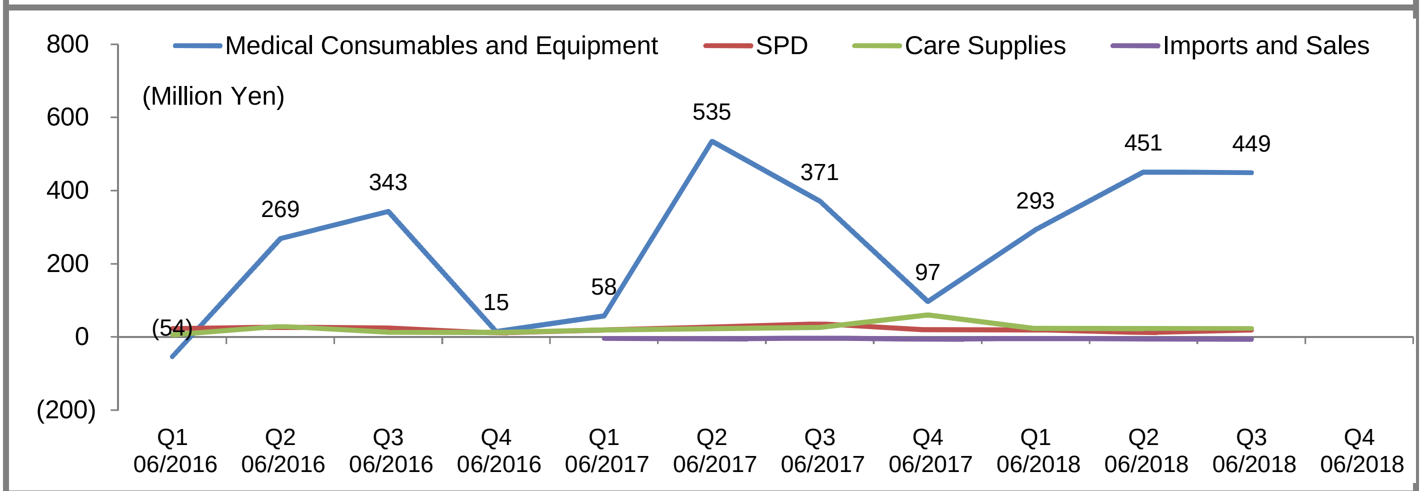
So diverse are the mainstay consumables, comprising those of surgical-related, orthopedics, circulatory organ, etc. by domain. Meanwhile, they are consumed regularly in line with everyday medical care, e.g., surgery, etc. and sales with the Company have a tendency to increase with a stability short-term and thus long-term. In FY06/2017, sales increased by no more than 2.9% over the previous year, but by 5.2% over the same period in the previous year in Q1 to Q3 FY06/2018, suggesting that the rate of increases is now recovering to the levels in the past.

In sales by domain, those of surgical-related saw increases by 6.4% over the same period in the previous year in Q1 to Q3, orthopedics by 8.8% and circulatory organ by 3.8%, having increased steadily across the board. In regards to circulatory organ, sales were driven by launch of new merchandises, but pricing pressure on those of cardiac angioplasty persisted at the same time, having resulted in sales increases rather small.

Sales



Operating Profit



Source: Company Data, WRJ Calculation

On top of sales increases with stability, it appears that the Company sees stability for gross profit margin in regards to the mainstay consumables. Nevertheless, sales on a quarterly basis as a whole for Medical Equipment and Consumables are rather volatile and even more for operating profit. This is due to high volatility associated with the other constituent, i.e., equipment, whose sales per project are substantial enough to drive short-term sales as a whole for this segment, while gross profit margin heavily depending on projects.

Both consumables and equipment have customers in common, being sold to medical institutions represented by major base hospitals heavily involved with acute care as mentioned earlier, but demand for equipment, comprising MRI, cineangiography, CT, ultrasonic diagnostic equipment and operating room equipment such as artificial respirator by merchandises to deal in, is determined by something totally different from that of consumables, i.e., capital expenditures to put up new building, to renew existing building and to expand or replace facilities. Meanwhile, in a short-term view, sales are apt to concentrate in Q3 and to adjust sharply in Q4 to follow because of seasonal factor that Q3 (January to March) includes March when the customers execute their budgets, eventually resulting in adjustments in Q4 to follow.

On top of this, short-term sales hinge on whether the Company sees sales associated with large-scale projects or not in a period. As far as we could gather, sales of equipment are some ¥15,000m pa, while the Company intermittently sees sales of equipment worth ¥1,000m or more per project. At the same time, the Company is sometimes involved with pure trading of above-mentioned equipment, while sometimes being heavily involved with installation of equipment, etc. with internal own qualified architect of the first class. Thus, added value created and gross profit margin depend not insignificantly.

In Q2 FY06/2017, the Company saw operating profit of no less than ¥535m in Medical Consumables and Equipment. As far as we could gather, this had a lot to do with sales booking of large-scale project on special procurements associated with disaster recovery in Tohoku region. This project saw sales fairly large and gross profit margin fairy high due to heavy involvement with operations to install equipment, etc.

In Q1 to Q3 FY06/2018, sales of equipment came down by 7.1% over the same period in the previous year as sales associated with above-mentioned large-scale project on special procurements did not reappear. In Q3, the Company has started up selling medical simulator robot based on a new scheme for the Company to play the role of the general distributor in Japan, but the impacts were limited at this very first stage as far as we could gather.

Meanwhile, the Company as a whole saw gross profit of ¥8,408m (up 1.6%) and SG&A expenses of ¥7,226m (down 0.6%), respectively, 10.18% (down 0.02% points) and 8.80% (down 0.22% points) in terms of ratio to sales. Thus, operating profit margin of 1.38% (up 0.20% points) was driven by lowering ratio of SG&A expenses to sales with gross profit margin almost unchanged.

Given above-mentioned large-scale project on special procurements carrying high gross profit margin did not reappear, it should be the case that the Company effectively sees gross profit margin rather edging up. Meanwhile, the Company spots that SG&A expenses marginally came down due to termination of goodwill write-off on past merger and acquisition and to improving efficiency of operations in line with changes of organizational framework. The Company also mentions that spending of some expenses has been delayed as another reason.

Income Statement (Cumulative, Quarterly)

Income Statement (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q1 to Q2 06/2017	Cons.Act Q1 to Q3 06/2017	Cons.Act Q1 to Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q1 to Q2 06/2018	Cons.Act Q1 to Q3 06/2018	Cons.Act Q1 to Q4 06/2018	YoY Net Chg.
Sales	**25,459**	**53,184**	**81,105**	**105,778**	**26,227**	**54,563**	**82,610**	**-**	**+1,504**
Cost of Sales	22,953	47,727	72,832	94,879	23,538	49,041	74,201	-	+1,369
Gross Profit	2,506	5,456	8,273	10,898	2,689	5,522	8,408	-	+135
SG&A	2,464	4,885	7,313	9,854	2,419	4,817	7,266	-	(46)
Operating Profit	**41**	**571**	**960**	**1,044**	**269**	**704**	**1,142**	**-**	**+181**
Non Operating Balance	11	19	66	68	0	1	1	-	(64)
Recurring Profit	**52**	**590**	**1,026**	**1,112**	**270**	**706**	**1,143**	**-**	**+117**
Extraordinary Balance	5	14	17	1	31	24	146	-	+129
Profit before Income Taxes	57	604	1,044	1,114	301	731	1,290	-	+246
Income Taxes	38	231	388	432	98	139	314	-	(73)
NP Belonging to Non-Controlling SHs	(1)	(4)	(5)	(8)	(1)	(3)	(5)	-	0
Profit Attributable to Owners of Parent	**20**	**377**	**661**	**690**	**204**	**595**	**981**	**-**	**+320**
Sales YoY	+10.2%	+8.0%	+4.5%	+4.3%	+3.0%	+2.6%	+1.9%	-	-
Operating Profit YoY	-	+193.3%	+79.6%	+92.2%	+557.3%	+23.4%	+18.9%	-	-
Recurring Profit YoY	-	+205.2%	+91.6%	+99.8%	+413.4%	+19.6%	+11.4%	-	-
Profit Attributable to Owners of Parent YoY	-	+312.9%	+121.7%	+125.9%	+880.2%	+57.6%	+48.4%	-	-
Gross Profit Margin	9.84%	10.26%	10.20%	10.30%	10.25%	10.12%	10.18%	-	(0.02%)
(SG&A / Sales)	9.68%	9.19%	9.02%	9.32%	9.23%	8.83%	8.80%	-	(0.22%)
Operating Profit Margin	0.16%	1.07%	1.18%	0.99%	1.03%	1.29%	1.38%	-	+0.20%
Recurring Profit Margin	0.21%	1.11%	1.27%	1.05%	1.03%	1.29%	1.38%	-	+0.12%
Profit Attributable to Owners of Parent Margin	0.08%	0.71%	0.82%	0.65%	0.78%	1.09%	1.19%	-	+0.37%
Total Income Taxes / Profit before Income Taxes	67.0%	38.3%	37.2%	38.8%	32.7%	19.1%	24.4%	-	(12.8%)

Income Statement (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q2 06/2017	Cons.Act Q3 06/2017	Cons.Act Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q2 06/2018	Cons.Act Q3 06/2018	Cons.Act Q4 06/2018	YoY Net Chg.
Sales	**25,459**	**27,725**	**27,920**	**24,673**	**26,227**	**28,336**	**28,046**	**-**	**+125**
Cost of Sales	22,953	24,774	25,104	22,047	23,538	25,503	25,160	-	+55
Gross Profit	2,506	2,950	2,816	2,625	2,689	2,832	2,886	-	+70
SG&A	2,464	2,420	2,427	2,541	2,419	2,397	2,449	-	+21
Operating Profit	**41**	**530**	**388**	**84**	**269**	**435**	**437**	**-**	**+48**
Non Operating Balance	11	7	46	2	0	1	0	-	(46)
Recurring Profit	**52**	**537**	**435**	**86**	**270**	**436**	**437**	**-**	**+1**
Extraordinary Balance	5	9	3	(16)	31	(6)	122	-	+118
Profit before Income Taxes	57	547	439	70	301	429	559	-	+120
Income Taxes	38	192	156	44	98	41	174	-	+17
NP Belonging to Non-Controlling SHs	(1)	(2)	(1)	(2)	(1)	(1)	(1)	-	0
Profit Attributable to Owners of Parent	**20**	**356**	**283**	**29**	**204**	**390**	**386**	**-**	**+102**
Sales YoY	+10.2%	+6.1%	(1.7%)	+3.6%	+3.0%	+2.2%	+0.5%	-	-
Operating Profit YoY	-	+98.1%	+14.5%	+843.1%	+557.3%	(17.9%)	+12.4%	-	-
Recurring Profit YoY	-	+103.7%	+27.3%	+309.7%	+413.4%	(18.9%)	+0.4%	-	-
Profit Attributable to Owners of Parent YoY	-	+117.4%	+37.2%	+299.9%	+880.2%	+9.4%	+36.2%	-	-
Gross Profit Margin	9.84%	10.64%	10.09%	10.64%	10.25%	10.00%	10.29%	-	+0.21%
(SG&A / Sales)	9.68%	8.73%	8.69%	10.30%	9.23%	8.46%	8.73%	-	+0.04%
Operating Profit Margin	0.16%	1.91%	1.39%	0.34%	1.03%	1.54%	1.56%	-	+0.17%
Recurring Profit Margin	0.21%	1.94%	1.56%	0.35%	1.03%	1.54%	1.56%	-	(0.00%)
Profit Attributable to Owners of Parent Margin	0.08%	1.29%	1.02%	0.12%	0.78%	1.38%	1.38%	-	+0.36%
Total Income Taxes / Profit before Income Taxes	67.0%	35.2%	35.7%	62.7%	32.7%	9.6%	31.2%	-	(4.5%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q1 to Q2 06/2017	Cons.Act Q1 to Q3 06/2017	Cons.Act Q1 to Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q1 to Q2 06/2018	Cons.Act Q1 to Q3 06/2018	Cons.Act Q1 to Q4 06/2018	YoY Net Chg.
Medical Consumables and Equipment	21,349	44,702	68,254	88,584	21,816	45,454	68,948	-	+693
SPD	3,666	7,583	11,452	15,316	3,915	8,111	12,158	-	+705
Care Supplies	442	899	1,397	1,877	496	997	1,503	-	+105
Imports and Sales	0	0	0	0	0	0	0	-	-
Sales	**25,459**	**53,184**	**81,105**	**105,778**	**26,227**	**54,563**	**82,610**	**-**	**+1,504**
Medical Consumables and Equipment	+11.3%	+8.6%	+4.4%	+4.1%	+2.2%	+1.7%	+1.0%	-	-
SPD	+3.6%	+4.1%	+3.5%	+4.2%	+6.8%	+7.0%	+6.2%	-	-
Care Supplies	+15.8%	+13.5%	+15.0%	+13.9%	+12.0%	+11.0%	+7.6%	-	-
Imports and Sales	-	-	-	-	-	-	-	-	-
Sales (YoY)	**+10.2%**	**+8.0%**	**+4.5%**	**+4.3%**	**+3.0%**	**+2.6%**	**+1.9%**	**-**	**-**
Medical Consumables and Equipment	58	593	965	1,062	293	744	1,194	-	+229
SPD	19	47	84	103	20	33	52	-	(31)
Care Supplies	19	41	67	128	22	45	68	-	+1
Imports and Sales	(4)	(9)	(13)	(20)	(4)	(9)	(16)	-	(2)
Segment Profit	**92**	**672**	**1,103**	**1,274**	**331**	**814**	**1,300**	**-**	**+196**
Elimination	(51)	(101)	(143)	(230)	(61)	(109)	(157)	-	(14)
Operating Profit	**41**	**571**	**960**	**1,044**	**269**	**704**	**1,142**	**-**	**+181**
Medical Consumables and Equipment	0.27%	1.33%	1.41%	1.20%	1.34%	1.64%	1.73%	-	+0.32%
SPD	0.53%	0.62%	0.74%	0.67%	0.52%	0.41%	0.43%	-	(0.30%)
Care Supplies	4.30%	4.60%	4.84%	6.85%	4.43%	4.58%	4.58%	-	(0.26%)
Imports and Sales	-	-	-	-	-	-	-	-	-
Operating Profit Margin	**0.16%**	**1.07%**	**1.18%**	**0.99%**	**1.03%**	**1.29%**	**1.38%**	**-**	**+0.20%**

Segmented Information (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q2 06/2017	Cons.Act Q3 06/2017	Cons.Act Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q2 06/2018	Cons.Act Q3 06/2018	Cons.Act Q4 06/2018	YoY Net Chg.
Medical Consumables and Equipment	21,349	23,352	23,552	20,330	21,816	23,638	23,493	-	(59)
SPD	3,666	3,917	3,869	3,863	3,915	4,195	4,047	-	+178
Care Supplies	442	456	498	479	496	501	505	-	+7
Imports and Sales	0	0	0	0	0	0	0	-	-
Sales	**25,459**	**27,725**	**27,920**	**24,673**	**26,227**	**28,336**	**28,046**	**-**	**+125**
Medical Consumables and Equipment	+11.3%	+6.2%	(2.7%)	+3.0%	+2.2%	+1.2%	(0.3%)	-	-
SPD	+3.6%	+4.6%	+2.3%	+6.2%	+6.8%	+7.1%	+4.6%	-	-
Care Supplies	+15.8%	+11.4%	+17.9%	+10.7%	+12.0%	+10.0%	+1.4%	-	-
Imports and Sales	-	-	-	-	-	-	-	-	-
Sales (YoY)	**+10.2%**	**+6.1%**	**(1.7%)**	**+3.6%**	**+3.0%**	**+2.2%**	**+0.5%**	**-**	**-**
Medical Consumables and Equipment	58	535	371	97	293	451	449	-	+78
SPD	19	27	36	19	20	12	19	-	(17)
Care Supplies	19	22	26	60	22	23	23	-	(3)
Imports and Sales	(4)	(5)	(3)	(6)	(4)	(5)	(6)	-	(2)
Segment Profit	**92**	**580**	**430**	**170**	**331**	**482**	**485**	**-**	**+55**
Elimination	(51)	(50)	(41)	(86)	(61)	(47)	(48)	-	(6)
Operating Profit	**41**	**530**	**388**	**84**	**269**	**435**	**437**	**-**	**+48**
Medical Consumables and Equipment	0.27%	2.29%	1.58%	0.48%	1.34%	1.91%	1.91%	-	+0.34%
SPD	0.53%	0.71%	0.95%	0.49%	0.52%	0.30%	0.48%	-	(0.47%)
Care Supplies	4.30%	4.89%	5.28%	12.70%	4.43%	4.72%	4.59%	-	(0.70%)
Imports and Sales	-	-	-	-	-	-	-	-	-
Operating Profit Margin	**0.16%**	**1.91%**	**1.39%**	**0.34%**	**1.03%**	**1.54%**	**1.56%**	**-**	**+0.17%**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q2 06/2017	Cons.Act Q3 06/2017	Cons.Act Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q2 06/2018	Cons.Act Q3 06/2018	Cons.Act Q4 06/2018	YoY Net Chg.
Cash and Deposit	2,435	3,063	2,775	2,220	2,791	2,223	2,789	-	+13
Accounts Receivables	19,328	21,412	21,688	18,726	20,899	22,939	21,610	-	(77)
Inventory	4,576	4,792	4,581	4,331	4,539	4,808	4,741	-	+160
Other	900	745	738	937	941	874	899	-	+160
Current Assets	**27,240**	**30,013**	**29,784**	**26,215**	**29,171**	**30,845**	**30,041**	**-**	**+256**
Tangible Assets	3,741	3,714	3,671	3,668	3,709	3,772	3,744	-	+73
Intangible Assets	215	184	178	212	243	270	259	-	+80
Investments and Other Assets	1,443	1,479	1,430	1,678	1,566	1,669	1,977	-	+547
Fixed Assets	**5,401**	**5,377**	**5,280**	**5,558**	**5,519**	**5,712**	**5,981**	**-**	**+701**
Total Assets	**32,641**	**35,391**	**35,064**	**31,774**	**34,690**	**36,557**	**36,022**	**-**	**+958**
Accounts Payables	21,174	23,627	23,807	21,089	21,723	24,543	24,163	-	+355
Short Term Debt	3,554	3,414	2,574	1,535	4,110	2,985	2,060	-	(514)
Other	1,318	1,372	1,510	1,815	1,506	1,254	1,478	-	(32)
Current Liabilities	**26,048**	**28,415**	**27,892**	**24,440**	**27,339**	**28,783**	**27,701**	**-**	**(191)**
Long Term Debt	797	729	630	546	502	444	385	-	(245)
Other	1,242	1,278	1,284	1,362	1,405	1,459	1,582	-	+297
Fixed Liabilities	**2,040**	**2,008**	**1,915**	**1,908**	**1,908**	**1,903**	**1,967**	**-**	**+52**
Total Liabilities	**28,089**	**30,423**	**29,807**	**26,349**	**29,248**	**30,686**	**29,669**	**-**	**(138)**
Shareholders' Equity	**4,467**	**4,827**	**5,111**	**5,140**	**5,177**	**5,567**	**5,954**	**-**	**+842**
Other	84	140	145	285	265	303	399	-	+253
Net Assets	**4,552**	**4,968**	**5,256**	**5,425**	**5,442**	**5,870**	**6,353**	**-**	**+1,096**
Total Liabilities and Net Assets	**32,641**	**35,391**	**35,064**	**31,774**	**34,690**	**36,557**	**36,022**	**-**	**+958**
Equity Capital	4,435	4,827	5,117	5,289	5,308	5,738	6,222	-	+1,105
Interest Bearing Debt	4,352	4,143	3,205	2,081	4,612	3,429	2,445	-	(759)
Net Debt	1,917	1,080	429	(138)	1,821	1,206	(343)	-	(773)
Equity Capital Ratio	13.6%	13.6%	14.6%	16.6%	15.3%	15.7%	17.3%	-	+2.7%
Net Debt Equity Ratio	43.2%	22.4%	8.4%	(2.6%)	34.3%	21.0%	(5.5%)	-	(13.9%)
ROE (12 months)	9.0%	12.5%	13.4%	14.0%	18.0%	17.2%	17.8%	-	+4.4%
ROA (12 months)	2.1%	2.8%	2.9%	3.5%	4.0%	3.4%	3.5%	-	+0.5%
Days for Inventory Turnover	18	18	17	18	18	17	17	-	-
Quick Ratio	84%	86%	88%	86%	87%	87%	88%	-	-
Current Ratio	105%	106%	107%	107%	107%	107%	108%	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

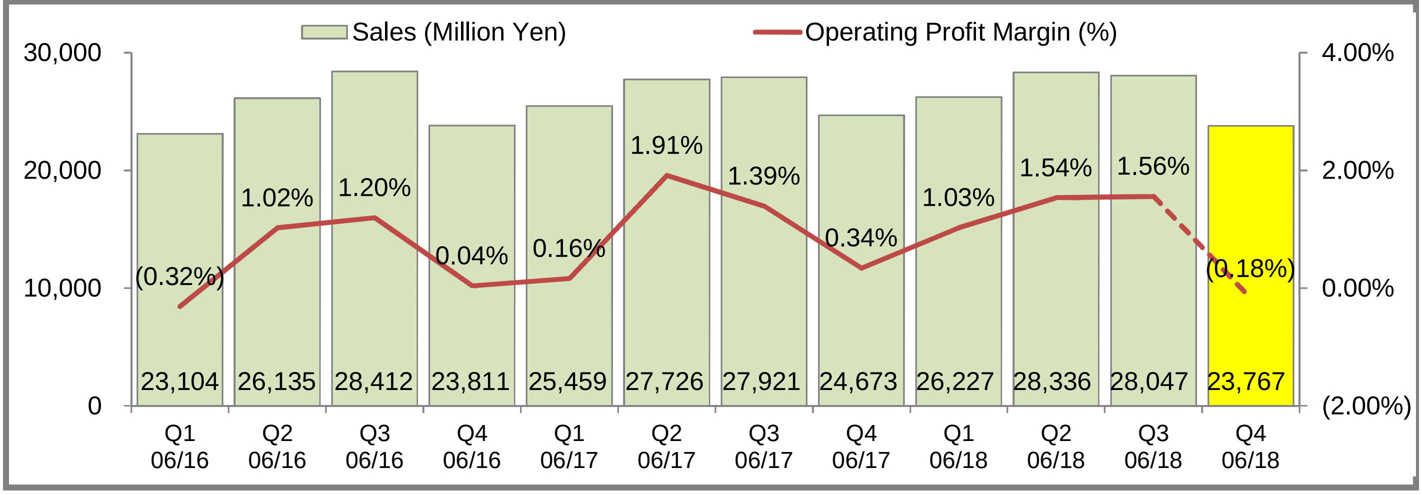
Cash Flow Statement (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q1 to Q2 06/2017	Cons.Act Q1 to Q3 06/2017	Cons.Act Q1 to Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q1 to Q2 06/2018	Cons.Act Q1 to Q3 06/2018	Cons.Act Q1 to Q4 06/2018	YoY Net Chg.
Operating Cash Flow	-	(423)	-	871	-	(1,038)	-	-	-
Investing Cash Flow	-	(39)	-	(99)	-	(124)	-	-	-
Operating CF & Investing CF	**-**	**(463)**	**-**	**771**	**-**	**(1,162)**	**-**	**-**	**-**
Financing Cash Flow	-	1,337	-	(741)	-	1,165	-	-	-

Source: Company Data, WRJ Calculation

FY06/2018 Company Forecasts

FY06/2018 initial Company forecasts have remained unchanged, going for prospective sales of ¥106,377m (up 0.6% YoY), operating profit of ¥1,100m (up 5.3%), recurring profit of ¥1,109m (down 0.3%) and profit attributable to owners of parent of ¥714m (up 3.4%), while operating profit margin of 1.03% (up 0.05% points). Prospective annual dividend has also remained unchanged at ¥30.0 per share implying payout ratio of 23.6%.

Sales and Operating Profit Margin



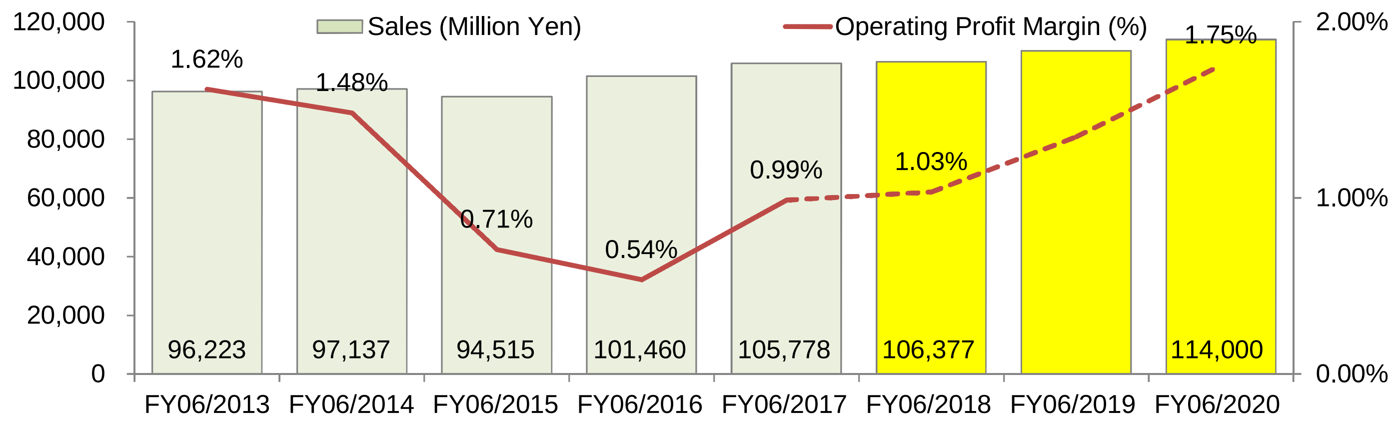
Source: Company Data, WRJ Calculation

The Company, advocating stability for its dividend, paid annual dividend of ¥30.0 per share implying payout ratio of 55.1% in FY06/2016, which was followed by ¥30.0 per share implying payout ratio of 24.4% in FY06/2017, while again going for ¥30.0 per share implying payout ratio of 23.6% in FY06/2018 with initial Company forecasts. Still, the Company also advocates target payout ratio of 30% at the same time, suggesting that increases of dividend should be considered when payout ratio less than 30% persists. Thus, it could be the case eventually that dividend being raised over the previous year in FY06/2018.

Long-Term Prospects

At the release of FY06/2017 results on 9 August 2017, the Company also released midterm management plan (FY06/2018 to FY06/2020), which was followed by disclosure of details in results meeting to have been held on 25 August 2017. As prospective business performance target, midterm management plan is calling for sales of ¥114,000m, operating profit of ¥2,000m and operating profit margin of 1.75% in FY06/2020, i.e., the last year of the plan, implying CAGR of 2.5% for sales and 24.2% for operating profit during the three-year period after FY06/2017 results, while operating profit margin improving by 0.77%.

Midterm Management Plan



Source: Company Data, WRJ Calculation

As the key themes of midterm management plan, the Company mentions "acquisition of new earnings pillars", "rationalization and efficiency" and "work style reform". As far as we could see, the Company is looking to "acquisition of new earnings pillars" in particular as the driver to achieve above-mentioned prospective business performance target. The Company sets up a new scheme involved with distribution channels more deeply than before, trying to beef up sales with gross profit margin higher than before.

As an integrated medial trader with competitive capability of sales, the Company has been keen on so-called "(medical-equipment-distributor-participated) medical-engineering collaboration" for some time, trying to obtain innovative merchandises to sell, developed by venture corporations with limited capability of sales. Specifically speaking, the Company has been holding sales support conferences and now having just started exclusive selling of medical simulation robot as the general distributor in Japan in Q3 FY06/2018.

On 18 August 2017, it was disclosed through the release that MICOTO Technology Inc., based in Yonago-city of Tottori-prefecture, and EXSOLA MEDICAL Inc. or one of the operating companies under management reached basic agreement to conclude the general distributor contract in regards to medical simulation robot 'mikoto'. Based on this basic agreement, the Company is starting operations to exclusively sell said merchandise across Japan as well as providing solutions for introduction and for maintenance services, etc.

Since a few years ago, it has been increasingly important in doctors' training to practically take part in medical treatment rather than just watching in order to further facilitate acquisition of clinical skills and to understand medical safety. Thus, there has been changeover of the contents of the training so that practical knowledge should be enhanced more than before. One of the tools for this is practice-oriented and/or simulation-oriented education to take advantage of simulators, favorably driving the market for medical simulation equipment. In order to cope with increasing needs here, MICOTO Technology Inc. has developed 'mikoto'. i.e., medical simulator robot being equipped with features of quasi-real appearance, structure and response having never been materialized before, making an impression as if it were real human being, while planning to propel sales promotions through the general distributor contract with the Company.

Medical Simulator Robot 'mikoto': You can feel "life" with the Robot 'mikoto'

Source: Company Data

Meanwhile, out of the pipeline at the moment, the Company mentions endoscope with innovated technology as the most promising one in the foreseeable future. In regards to laparoscopic-surgery-use scope of the world's first 8K endoscope developed by KAIROS CO., LTD., based in Chiyoda-ku of Tokyo, the Company has already concluded contract to sell in 9 prefectures of Chugoku and Shikoku regions and in 6 prefectures of Tohoku region as the exclusive distributor. According to the Company, the key feature is highly appreciated that it reduces risk to damage organs by means of preventing interference among surgical instruments, achievable with capability to assure large surgical space supported by function to switch to extensive large area display by handle control with hardware of endoscope absolutely static. On top of this, together with super high resolution equating to vision of 4.3 as well as with high safety, it enables blood vessels that cannot be recognized with the naked eye get recognized or border line between tumor tissue and normal tissue keeping the latter.

Meanwhile, in FY06/2020, sales of system and kit to detect breast cancer at early stage by means of analyzing exhalation are to take off on a full-fledged basis. On 16 February 2016, the Company concluded exclusive distributor agreement in Japan on all those merchandises with a medical equipment start-up based in Israel, while having been making progress of research for demonstration, including biopsy and diagnostic imaging, at medical institutions as well as booking expenses stemming from here at the SG&A level to date. At the end of the day, the Company is planning to launch them in Japan in CY2020 after clinical trial and approval.

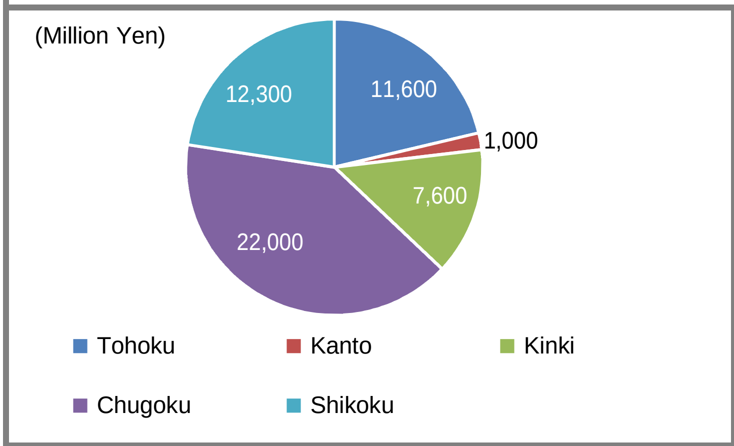
At the moment, mammography and ultrasonic diagnostic equipment are used as the key devices to detect breast cancer. The 2014 survey by Ministry of Health and Welfare estimates 5.6m medical examinees pa seeing doctor for detection based on mammography, implying the penetration rate of 20% out of the potential market of 28.2m (the number of Japanese females in their forties, fifties and sixties). Meanwhile, the Company is going for detection by said merchandises to reach collective 1.0m in terms of the number of medical examinees within the first 3 to 5 years. Seeing doctor in the existing way unavoidably incurs some invasive pains, etc. for medical examinees, while just analyzing exhalation does not do so at all. Thus, the latter is expected to get increasingly adopted as preliminary process prior to the former.

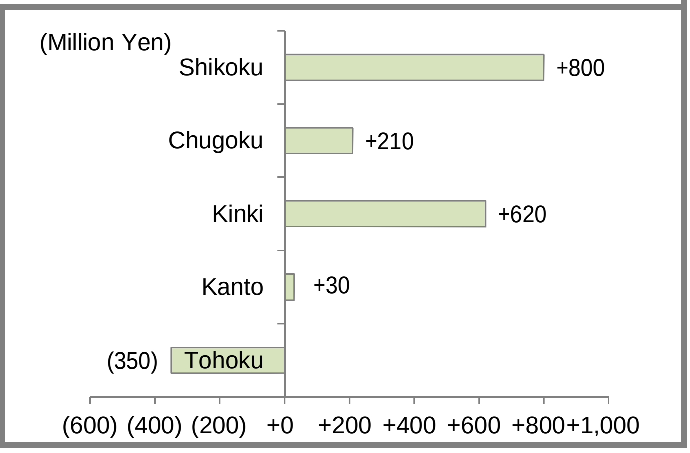
4.0 Business Model

Medical Consumables and Equipment

In the mainstay Medical Consumables and Equipment, the Company sells medical consumables and equipment to medical institutions represented by major base hospitals heavily involved with acute care. Just roughly speaking, this business domain in Japan has market size of ¥2.8 trillion pa and CAGR of 5% going forward. Meanwhile, the number of players in the market stands at more than 1,000, implying a large room remaining for consolidation in the foreseeable future.

Sales by Region and Net Changes over the Same Period in the Previous Year (Q1 to Q2 FY06/2018 Results)





Source: Company Data, WRJ Calculation

In terms of sales by region, the Company, based in Okayama-city, has the largest exposure to Chugoku region where Okayama-city is included as a part. Meanwhile, the Company merged and acquired Sansei Medical Materials Co., Ltd., having made it operating company under management since Q3 FY06/2012. Driven by this, exposure of the Company to Tohoku region surged, while that of Kanto region having newly started up. Thus, the Company made remarkable progress of sales enhancement in geographical territory having had remained uncultivated, while beefing up own market share at the same time together with merger and acquisition of peer. Meanwhile, sales by region (based on Q1 to Q2 FY06/2018 results disclosed most recently) suggest that there are good opportunities for the Company to implement merger and acquisition in Kanto region in particular.

On top of Medical Consumables and Equipment, the Company is also involved with Imports and Sales, SPD and Care Supplies by business segment. Still, each of them has remained insignificant in terms of impacts to earnings as a whole for the Company and thus earnings hinging on Medical Consumables and Equipment to a large extent.

Imports and Sales refers to operations of aforementioned EXSOLA MEDICAL Inc. or one of operating companies under management. To date, no sales have been booked but operating loss equating to SG&A expenses here.

SPD (Supply Processing and Distribution) is run by business model that is effectively the same as that of Medical Consumables and Equipment but for the key difference that it also collects commissions from medical institutions to be supplied by the Company through being in charge of management of inventory, information and purchasing on behalf of them on top of selling merchandises to them. In terms of gross profit, it appears that some 80% comes from said commissions.

Merchandises of Medical Consumables and Equipment (Image Pictures)

Source: Company Data

Care Supplies refers to operations of sales and rental services of nursing-care beds and supplies. The mainstay operations here are those of rental services of nursing-care beds, accounting for some 80% of sales here and carrying gross profit margin of some 50%. In all the business segments but for Care Supplies, the Company is exclusively exposed to medical institutions as own customers, while Care Supplies to local elderly people and their families, which is the distinguished feature for this business segment.

5.0 Our Reports on the Company in the Past

Fiscal Year	Results Update	Company Report
Q4 FY06/2018	-	-
Q3 FY06/2018	-	-
Q2 FY06/2018	Steady Consumables	Launching New Merchandises
Q1 FY06/2018	-	Head Start
Q4 FY06/2017	Pursuing Profitability	Coping with Commoditization
Q3 FY06/2017	-	Driven by Equipment
Q2 FY06/2017	Surging Earnings	Changing Trend of Earnings
Q1 FY06/2017	-	Decreases to Increases
Q4 FY06/2016	Recovery to Follow	Recovery & Growth
Q3 FY06/2016	-	Strengths of Equipment
Q2 FY06/2016	Earnings Revision	New Business Model
Q1 FY06/2016	-	One-off Operating Loss
Q4 FY06/2015	"Management Target to Aim for"	Earnings Recovery & New Management
Q3 FY06/2015	Prospective Recovery of Equipment	Adjustments to Recovery
Q2 FY06/2015	Delay & Recovery of Capex	Adjustments of Medical Equipment
Q1 FY06/2015	Solid Consumables	Short-Term Adjustments
Q4 FY06/2014	Steady Growth & Alliance	Growth & Adjustments
Q3 FY06/2014	-	Consolidation
Q2 FY06/2014	-	Persistent Organic Growth
Q1 FY06/2014	-	Organic & Alliance
Q4 FY06/2013	-	Demand for Equipment to Adjust
Q3 FY06/2013	-	Organic Growth
Q2 FY06/2013	-	Existing & New Regions
Q1 FY06/2013	-	Head Start
Q4 FY06/2012	-	Pursuing Benefits from Alliances
Q3 FY06/2012	-	-
Q2 FY06/2012	-	-
Q1 FY06/2012	-	-

Disclaimer

Information here is a summary of "IR Information" of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. "IR Information" of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage, etc.

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