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KAWANISHI HOLDINGS (2689)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY06/2013		96,223	1,556	1,534	943	168.1	20.0	578.4
FY06/2014		97,137	1,440	1,519	816	145.5	25.0	699.8
FY06/2015CoE		95,307	671	663	343	61.2	30.0	-
FY06/2014	YoY	1.0%	(7.4%)	(1.0%)	(13.4%)	-	-	-
FY06/2015CoE	YoY	(1.9%)	(53.4%)	(56.3%)	(58.0%)	-	-	-
Consolidated Half Year (Million Yen)		**Sales**	**OP**	**RP**	**NP**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 to Q2 FY06/2014		47,957	764	770	380	-	-	-
Q3 to Q4 FY06/2014		49,180	675	748	435	-	-	-
Q1 to Q2 FY06/2015		45,645	234	230	115	-	-	-
Q3 to Q4 FY06/2015CoE		49,661	437	432	227	-	-	-
Q1 to Q2 FY06/2015	YoY	(4.8%)	(69.4%)	(70.1%)	(69.7%)	-	-	-
Q3 to Q4 FY06/2015CoE	YoY	1.0%	(35.3%)	(42.2%)	(47.7%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (9 March 2015)

Adjustments of Medical Equipment

KAWANISHI HOLDINGS, distributing medical consumables & equipment mainly for major base hospitals heavily involved with acute care, currently suffers from short-term earnings corrections. As far as consumables, supposed to see stable growth of demand, are concerned, the Company continues to see steady growth in sales, while sales of equipment, inevitably driven by customers' capital expenditures, are seeing major adjustments. The Company estimates trends for customers' capital expenditures are to hit the bottom in FY06/2015, while calling for recovery in FY06/2016 and onward. At the moment, the Company is in the middle of setting up midterm management plan, i.e., earnings projections for FY06/2018, based on the prospects mentioned in here, which will be disclosed in the foreseeable future. At the same time, the Company is working hard to come up with new issues of alliance strategy (merger with competitors), preceded by Sansei Medical Materials Co., Ltd. to have been consolidated since Q3 FY06/2012.

In Q1 to Q2 FY06/2015, sales came in at ¥45,645m (down 4.8% YoY) and operating profit ¥234m (down 69.4%) , while operating profit margin 0.51% (down 1.08% points). Meanwhile, gross profit margin came in at 10.48% (down 0.02% points) and SG&A expenses ¥4,547m (up 6.5%). Thus, although gross profit margin generated by the Company's operations to trade diverse merchandises remained almost stable, operating profit margin came down due to increasing SG&A expenses in spite of decreasing sales. In regards to Medical Consumables & Equipment Business (distribution of medical consumables and equipment), accounting for the bulk of earnings of the Company, sales came in at ¥37,214m (down 7.0%), operating profit ¥256m (down 66.9%) and operating profit margin 0.69% (down 1.25% points). In here, sales of consumables, comprising surgical-related supplies, orthopedic consumables, circulatory organ consumables, etc., increased some 4% over the year and accounted for 90% of sales in this business segment, roughly speaking. On the other hand, sales of equipment, comprising diverse medical equipment, etc., came down some 47% over the year and accounted for the remaining 10% of sales in this business segment. As far as we could gather, demand for the former mainly hinges on the number of surgeries to be carried out, trends of daily medical practices, etc., among customers, while the latter on replacement cycle of medical equipment, etc.

FY06/2015 Company forecasts are going for prospective sales ¥95,307m (down 1.9% YoY), operating profit ¥671m (down 53.4%) and operating profit margin 0.70% (down 0.78% points). All those numbers are after revision made at the release of Q2 results. Compared with initial Company forecasts, prospective sales have been downgraded ¥5,784m (5.7%) and prospective operating profit ¥865m (56.3%). However, prospective divided per share has remained unchanged at ¥30.0, implying payout ratio 49.1%, up ¥5.0 from ¥25.0 in FY06/2014, implying payout ratio 17.2%. Meanwhile, prospective operating profit has been downgraded in line with sales downgraded for Medical Consumable & Equipment Business to a large extent, i.e., some ¥3,600m on the equipment side and some ¥2,000m on the consumables side. Thus, as a result, prospective sales of equipment are to come down some 43% over the year, while up some 7% for sales of consumables.

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2.0 Company Profile

Integrated Medical Trader, Implementing Alliance Strategy

Company Name	KAWANISHI HOLDINGS, INC. Website IR Information Share Price
Established	2 October 1967 (Inaugurated, 1 May 1921)
Listing	21 December 2000: Tokyo Stock Exchange 2nd Section (Ticker: 2689)
Capital	¥ 607 m (As of the end of December 2014)
No. of Shares	6,250,000 shares, including 639,238 treasury shares (As of the end of Dec. 2014)
Main Features	● Initially set up by mergers among three wholesale distributors of medical equipment & materials based in Chugoku and Shikoku by region ● Expectations for new alliances, preceded by Sansei Medical Materials Co., Ltd. ● Rental services of nursing care products to be a new earnings pillar
Business Segments	Ⅰ. Medical Consumables & Equipment Business Ⅱ. SPD Business Ⅲ. Life Science Business Ⅳ. Nursing Care Products Business
Top Management	President: Taira Takai
Shareholders	MASP Inc. 15.1%, Treasury Shares 10.2%, ESOP 5.7% (As of the end of Dec. 2014)
Headquarters	Kita-ku, Okayama-city, Okayama-prefecture, JAPAN
No. of Employees	Consolidated:1,087, Unconsolidated:33 (As of the end of December 2014)

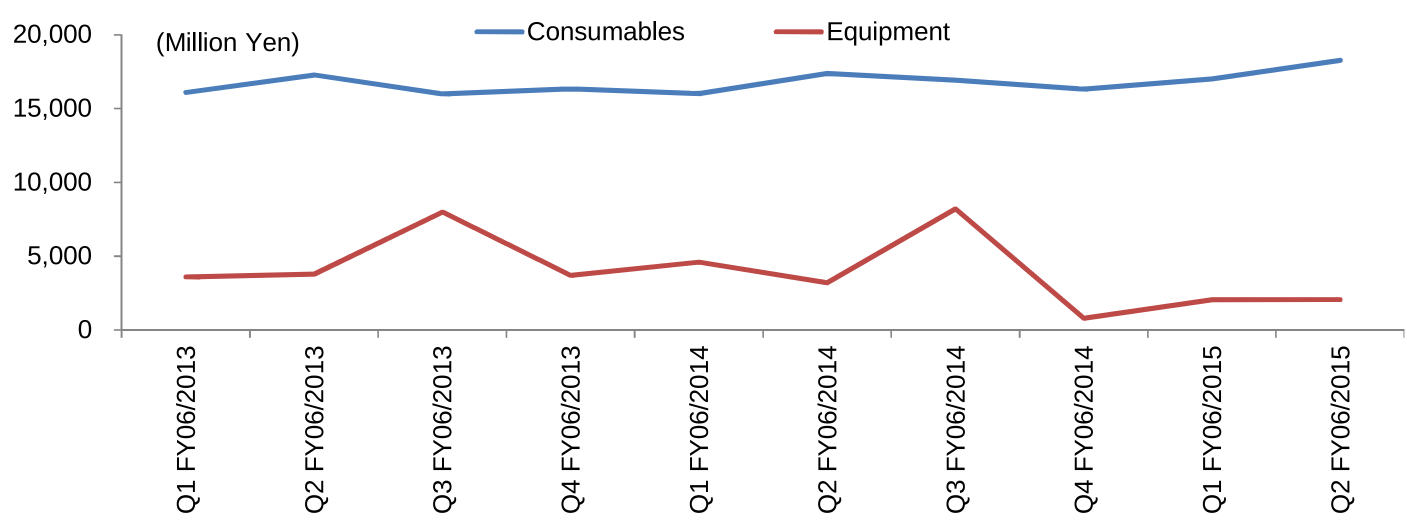
Source: Company Data

3.0 Recent Trading & Prospects

Q1 to Q2 FY06/2015 Results

In Q1 to Q2 FY06/2015, sales came in at ¥45,645m (down 4.8% YoY), operating profit ¥234m (down 69.4%), recurring profit ¥230m (down 70.1%) and net profit ¥115m (down 69.7%), while operating profit margin 0.51% (down 1.08% points). Compared with initial Company forecasts, sales fell short ¥2,544m (5.3%) and operating profit ¥272m (53.8%).

Sales of Medical Consumables & Equipment Business: Consumables and Equipment



Source: Company Data, WRJ Calculation

In the mainstay Medical Consumables & Equipment Business, sales fell short some ¥2,300m, which was the key negative factor for shortfall of operating profit for the Company as a whole. The shortfall of sales comprised some ¥1,300m on the equipment side and some ¥1,000m on the consumables side. In regards to the former, the Company mentions two main factors, i.e., a) “Demand came in at far lower level than initially expected” and b) “There was revision for capital expenditure plan due to extension of timing for consumption tax to hike again”. Meanwhile, in regards to the latter, the Company mentions ”Intensification of pricing pressure from medical institutions” as the main factor.

As a while for the Company, operating profit came down ¥530m over the year to ¥234m and/or ¥310m (down ¥523m) before elimination negative ¥75m. This is basically in line with the performance of the mainstay Medical Consumables & Equipment, by business segment, where operating profit came in at ¥256m (down ¥519m).

Income Statement (Cumulative, Quarterly)

Income Statement (Million Yen)	Cons.Act Q1 06/2014	Cons.Act Q1 to Q2 06/2014	Cons.Act Q1 to Q3 06/2014	Cons.Act Q1 to Q4 06/2014	Cons.Act Q1 06/2015	Cons.Act Q1 to Q2 06/2015	Cons.Act Q1 to Q3 06/2015	Cons.Act Q1 to Q4 06/2015	YoY Net Chg.
Sales	**23,906**	**47,957**	**77,035**	**97,137**	**22,468**	**45,645**	**-**	**-**	**(2,311)**
Cost of Sales	21,395	42,923	69,047	87,016	20,144	40,863	-	-	(2,060)
Gross Profit	2,510	5,033	7,988	10,121	2,324	4,782	-	-	(251)
SG&A	2,133	4,268	6,462	8,680	2,274	4,547	-	-	+279
Operating Profit	**376**	**764**	**1,525**	**1,440**	**49**	**234**	**-**	**-**	**(530)**
Non Operating Balance	3	5	60	78	(2)	(3)	-	-	(9)
Recurring Profit	**380**	**770**	**1,586**	**1,519**	**46**	**230**	**-**	**-**	**(540)**
Extraordinary Balance	8	(44)	(50)	(52)	0	11	-	-	+55
Pretax Profit	388	726	1,535	1,466	47	241	-	-	(484)
Tax Charges, etc.	171	345	669	650	34	126	-	-	(219)
Net Profit	**217**	**380**	**866**	**816**	**13**	**115**	**-**	**-**	**(265)**
Sales YoY	+6.8%	+3.3%	+5.1%	+1.0%	(6.0%)	(4.8%)	-	-	-
Operating Profit YoY	+72.0%	+7.5%	(0.3%)	(7.4%)	(86.9%)	(69.4%)	-	-	-
Recurring Profit YoY	+81.1%	+9.2%	+4.5%	(1.0%)	(87.7%)	(70.1%)	-	-	-
Net Profit YoY	+113.4%	(19.0%)	(6.4%)	(13.4%)	(94.0%)	(69.7%)	-	-	-
Gross Profit Margin	10.50%	10.50%	10.37%	10.42%	10.35%	10.48%	-	-	(0.02%)
(SG&A / Sales)	8.92%	8.90%	8.39%	8.94%	10.12%	9.96%	-	-	+1.06%
Operating Profit Margin	1.58%	1.60%	1.98%	1.48%	0.22%	0.51%	-	-	(1.08%)
Recurring Profit Margin	1.59%	1.61%	2.06%	1.56%	0.21%	0.51%	-	-	(1.10%)
Net Profit Margin	0.91%	0.79%	1.12%	0.84%	0.06%	0.25%	-	-	(0.54%)
Tax Charges, etc. / Pretax Profit	44.01%	47.57%	43.58%	44.33%	72.72%	52.29%	-	-	+4.72%

Income Statement (Million Yen)	Cons.Act Q1 06/2014	Cons.Act Q2 06/2014	Cons.Act Q3 06/2014	Cons.Act Q4 06/2014	Cons.Act Q1 06/2015	Cons.Act Q2 06/2015	Cons.Act Q3 06/2015	Cons.Act Q4 06/2015	YoY Net Chg.
Sales	**23,906**	**24,051**	**29,077**	**20,102**	**22,468**	**23,177**	**-**	**-**	**(873)**
Cost of Sales	21,395	21,527	26,123	17,969	20,144	20,719	-	-	(808)
Gross Profit	2,510	2,523	2,954	2,132	2,324	2,457	-	-	(65)
SG&A	2,133	2,135	2,193	2,217	2,274	2,273	-	-	+137
Operating Profit	**376**	**388**	**760**	**(84)**	**49**	**184**	**-**	**-**	**(203)**
Non Operating Balance	3	2	54	17	(2)	(1)	-	-	(3)
Recurring Profit	**380**	**390**	**815**	**(67)**	**46**	**183**	**-**	**-**	**(207)**
Extraordinary Balance	8	(53)	(6)	(1)	0	10	-	-	+63
Pretax Profit	388	337	809	(69)	47	193	-	-	(143)
Tax Charges, etc.	171	174	323	(19)	34	91	-	-	(82)
Net Profit	**217**	**163**	**485**	**(49)**	**13**	**102**	**-**	**-**	**(60)**
Sales YoY	+6.8%	+0.0%	+8.1%	(12.2%)	(6.0%)	(3.6%)	-	-	-
Operating Profit YoY	+72.0%	(21.2%)	(7.1%)	-	(86.9%)	(52.4%)	-	-	-
Recurring Profit YoY	+81.1%	(21.2%)	+0.3%	-	(87.7%)	(53.0%)	-	-	-
Net Profit YoY	+113.4%	(55.7%)	+6.6%	-	(94.0%)	(37.3%)	-	-	-
Gross Profit Margin	10.50%	10.49%	10.16%	10.61%	10.35%	10.60%	-	-	+0.11%
(SG&A / Sales)	8.92%	8.88%	7.54%	11.03%	10.12%	9.81%	-	-	+0.93%
Operating Profit Margin	1.58%	1.61%	2.62%	(0.42%)	0.22%	0.80%	-	-	(0.82%)
Recurring Profit Margin	1.59%	1.62%	2.81%	(0.33%)	0.21%	0.79%	-	-	(0.83%)
Net Profit Margin	0.91%	0.68%	1.67%	(0.25%)	0.06%	0.44%	-	-	(0.24%)
Tax Charges, etc. / Pretax Profit	44.01%	51.68%	39.99%	-	72.72%	47.24%	-	-	(4.43%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act Q1 06/2014	Cons.Act Q1 to Q2 06/2014	Cons.Act Q1 to Q3 06/2014	Cons.Act Q1 to Q4 06/2014	Cons.Act Q1 06/2015	Cons.Act Q1 to Q2 06/2015	Cons.Act Q1 to Q3 06/2015	Cons.Act Q1 to Q4 06/2015	YoY Net Chg.
Medical Consumables & Equipment	20,227	40,015	64,897	81,132	18,445	37,214	-	-	(2,800)
SPD	2,576	5,386	8,090	10,819	2,817	5,931	-	-	+545
Life Science	806	1,950	3,136	3,960	874	1,814	-	-	(136)
Nursing Care Products	295	605	910	1,225	331	685	-	-	+79
Sales	**23,906**	**47,957**	**77,035**	**97,137**	**22,468**	**45,645**	**-**	**-**	**(2,311)**
Medical Consumables & Equipment	404	776	1,480	1,410	71	256	-	-	(519)
SPD	18	42	87	94	19	34	-	-	(7)
Life Science	(19)	(12)	19	11	(6)	(5)	-	-	+7
Nursing Care Products	10	28	39	41	6	23	-	-	(4)
Operating Profit (Before Elimination)	**414**	**833**	**1,627**	**1,557**	**91**	**310**	**-**	**-**	**(523)**
Elimination	(37)	(68)	(101)	(116)	(41)	(75)	-	-	(7)
Operating Profit	**376**	**764**	**1,525**	**1,440**	**49**	**234**	**-**	**-**	**(530)**
Medical Consumables & Equipment	2.00%	1.94%	2.28%	1.74%	0.39%	0.69%	-	-	(1.25%)
SPD	0.72%	0.78%	1.09%	0.87%	0.71%	0.59%	-	-	(0.20%)
Life Science	(2.38%)	(0.64%)	0.62%	0.29%	(0.76%)	(0.29%)	-	-	+0.35%
Nursing Care Products	3.67%	4.64%	4.34%	3.37%	2.04%	3.49%	-	-	(1.15%)
Operating Profit Margin	**1.58%**	**1.60%**	**1.98%**	**1.48%**	**0.22%**	**0.51%**	**-**	**-**	**(1.08%)**

Segmented Information (Million Yen)	Cons.Act Q1 06/2014	Cons.Act Q2 06/2014	Cons.Act Q3 06/2014	Cons.Act Q4 06/2014	Cons.Act Q1 06/2015	Cons.Act Q2 06/2015	Cons.Act Q3 06/2015	Cons.Act Q4 06/2015	YoY Net Chg.
Medical Consumables & Equipment	20,227	19,787	24,882	16,235	18,445	18,768	-	-	(1,019)
SPD	2,576	2,809	2,704	2,728	2,817	3,114	-	-	+304
Life Science	806	1,144	1,185	823	874	940	-	-	(203)
Nursing Care Products	295	309	305	315	331	354	-	-	+44
Sales	**23,906**	**24,051**	**29,077**	**20,102**	**22,468**	**23,177**	**-**	**-**	**(873)**
Medical Consumables & Equipment	404	371	704	(70)	71	185	-	-	(185)
SPD	18	23	45	6	19	14	-	-	(8)
Life Science	(19)	6	31	(7)	(6)	1	-	-	(5)
Nursing Care Products	10	17	11	1	6	17	-	-	0
Operating Profit (Before Elimination)	**414**	**419**	**793**	**(70)**	**91**	**218**	**-**	**-**	**(200)**
Elimination	(37)	(30)	(33)	(14)	(41)	(34)	-	-	(3)
Operating Profit	**376**	**388**	**760**	**(84)**	**49**	**184**	**-**	**-**	**(203)**
Medical Consumables & Equipment	+60.9%	(27.0%)	(13.9%)	-	(82.4%)	(50.0%)	-	-	-
SPD	+90.6%	+4.6%	+141.6%	-	+7.4%	(37.6%)	-	-	-
Life Science	-	-	-	-	-	(79.8%)	-	-	-
Nursing Care Products	+27.3%	+71.4%	+22.8%	-	(37.7%)	(0.5%)	-	-	-
Operating Profit (YoY)	**+72.0%**	**(21.2%)**	**(7.1%)**	**-**	**(86.9%)**	**(52.4%)**	**-**	**-**	**-**
Medical Consumables & Equipment	97.5%	88.7%	88.8%	-	78.0%	84.8%	-	-	-
SPD	4.5%	5.6%	5.7%	-	21.9%	6.7%	-	-	-
Life Science	(4.6%)	1.6%	4.0%	-	(7.3%)	0.6%	-	-	-
Nursing Care Products	2.6%	4.1%	1.4%	-	7.4%	7.8%	-	-	-
Operating Profit (Composition)	**100.0%**	**100.0%**	**100.0%**	**-**	**100.0%**	**100.0%**	**-**	**-**	**-**
Medical Consumables & Equipment	2.00%	1.88%	2.83%	(0.43%)	0.39%	0.99%	-	-	(0.89%)
SPD	0.72%	0.84%	1.69%	0.22%	0.71%	0.47%	-	-	(0.37%)
Life Science	(2.38%)	0.58%	2.69%	(0.97%)	(0.76%)	0.14%	-	-	(0.43%)
Nursing Care Products	3.67%	5.56%	3.73%	0.58%	2.04%	4.84%	-	-	(0.72%)
Operating Profit Margin	**1.58%**	**1.61%**	**2.62%**	**(0.42%)**	**0.22%**	**0.80%**	**-**	**-**	**(0.82%)**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act Q1 06/2014	Cons.Act Q2 06/2014	Cons.Act Q3 06/2014	Cons.Act Q4 06/2014	Cons.Act Q1 06/2015	Cons.Act Q2 06/2015	Cons.Act Q3 06/2015	Cons.Act Q4 06/2015	YoY Net Chg.
Cash & Deposit	6,484	3,707	5,396	4,323	2,908	2,831	-	-	(875)
Accounts Receivables	15,780	17,485	22,450	15,483	16,755	17,838	-	-	+352
Inventory	3,660	3,779	3,730	3,608	3,926	4,435	-	-	+656
Other	762	728	882	918	948	796	-	-	+68
Current Assets	**26,688**	**25,700**	**32,459**	**24,334**	**24,539**	**25,901**	**-**	**-**	**+201**
Tangible Assets	2,863	3,054	3,194	3,133	3,265	3,434	-	-	+379
Intangible Assets	551	530	538	491	463	421	-	-	(109)
Investments & Other Assets	1,144	1,099	1,013	999	1,576	1,571	-	-	+471
Fixed Assets	**4,559**	**4,684**	**4,746**	**4,624**	**5,305**	**5,426**	**-**	**-**	**+742**
Total Assets	**31,247**	**30,384**	**37,206**	**28,958**	**29,844**	**31,328**	**-**	**-**	**+943**
Accounts Payables	20,396	21,031	25,462	20,528	18,843	20,764	-	-	(267)
Short Term Debt	4,251	2,830	4,251	1,087	3,765	3,346	-	-	+515
Other	1,155	992	1,567	1,584	1,085	1,008	-	-	+15
Current Liabilities	**25,804**	**24,854**	**31,281**	**23,199**	**23,693**	**25,119**	**-**	**-**	**+264**
Debentures	30	20	20	10	10	-	-	-	(20)
Long Term Debt	1,088	986	892	791	704	624	-	-	(362)
Other	967	996	1,008	1,031	1,262	1,295	-	-	+299
Fixed Liabilities	**2,086**	**2,002**	**1,921**	**1,832**	**1,977**	**1,919**	**-**	**-**	**(82)**
Total Liabilities	**27,891**	**26,857**	**33,202**	**25,032**	**25,671**	**27,038**	**-**	**-**	**+181**
Shareholders' Equity	**3,268**	**3,431**	**3,917**	**3,867**	**4,088**	**4,190**	**-**	**-**	**+759**
Other	88	96	85	58	84	98	-	-	+2
Net Assets	**3,356**	**3,527**	**4,003**	**3,926**	**4,173**	**4,289**	**-**	**-**	**+761**
Total Liabilities & Net Assets	**31,247**	**30,384**	**37,206**	**28,958**	**29,844**	**31,328**	**-**	**-**	**+943**
Equity Capital	3,356	3,527	4,003	3,926	4,173	4,289	-	-	+761
Interest Bearing Debt	5,370	3,836	5,163	1,888	4,479	3,970	-	-	+133
Net Debt	(1,113)	129	(232)	(2,435)	1,571	1,138	-	-	+1,009
Equity Capital Ratio	10.7%	11.6%	10.8%	13.6%	14.0%	13.7%	-	-	+2.1%
Net Debt Equity Ratio	(33.2%)	3.7%	(5.8%)	(62.0%)	37.6%	26.5%	-	-	+22.8%
ROE (12 months)	37.2%	27.4%	24.6%	22.8%	16.3%	14.1%	-	-	(13.3%)
ROA (12 months)	5.6%	5.0%	4.3%	5.0%	3.9%	3.2%	-	-	(1.8%)
Days for Inventory Turnover	16	16	13	18	18	20	-	-	-
Quick Ratio	86%	85%	89%	85%	83%	82%	-	-	-
Current Ratio	103%	103%	104%	105%	104%	103%	-	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act Q1 06/2014	Cons.Act Q1 to Q2 06/2014	Cons.Act Q1 to Q3 06/2014	Cons.Act Q1 to Q4 06/2014	Cons.Act Q1 06/2015	Cons.Act Q1 to Q2 06/2015	Cons.Act Q1 to Q3 06/2015	Cons.Act Q1 to Q4 06/2015	YoY Net Chg.
Operating Cash Flow	na	(1,937)	na	926	na	(3,069)	-	-	(1,131)
Investing Cash Flow	na	(201)	na	(401)	na	(251)	-	-	(49)
Operating CF & Investing CF	**na**	**(2,138)**	**na**	**524**	**na**	**(3,320)**	**-**	**-**	**(1,181)**
Financing Cash Flow	na	(916)	na	(2,885)	na	1,920	-	-	+2,837

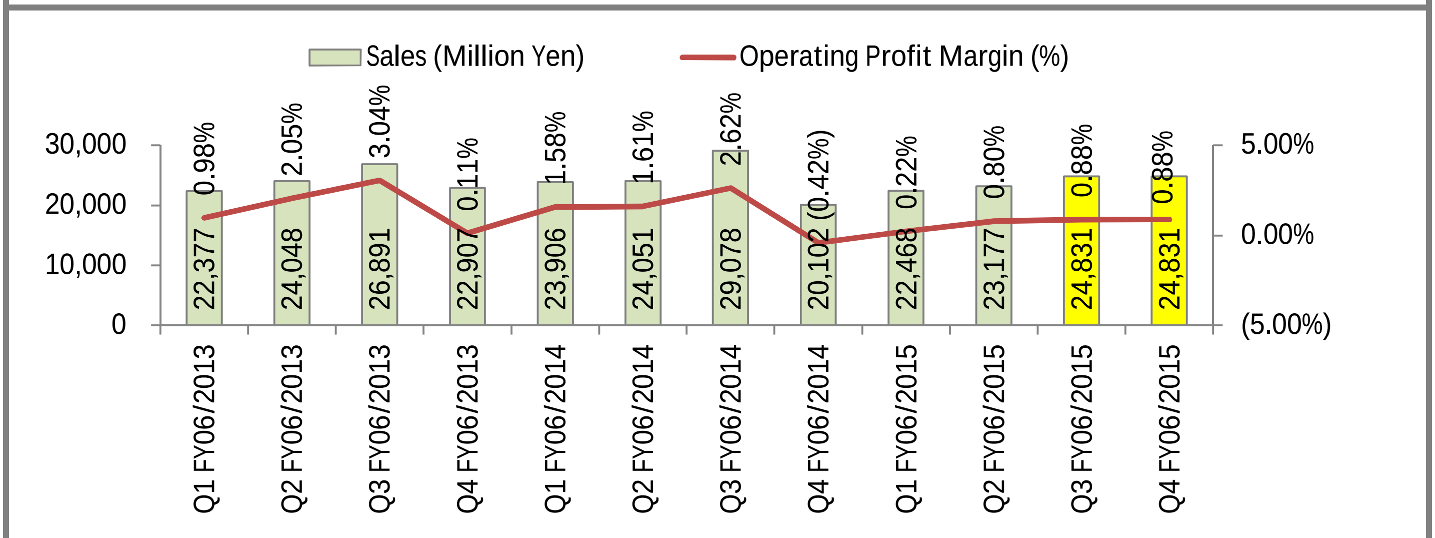
Source: Company Data, WRJ Calculation

FY06/2015 Company Forecasts

FY06/2015 Company forecasts are going for prospective sales ¥95,307m (down 1.9% YoY), operating profit ¥671m (down 53.4%), recurring profit ¥663m (down 56.3%) and net profit ¥343m (down 58.0%), while operating profit margin 0.70% (down 0.78% points).

All those numbers are after revision made at the release of Q2 results. Compared with initial Company forecasts, prospective sales have been downgraded ¥5,784m (5.7%) and operating profit ¥865m (56.3%). However, prospective divided per share has remained unchanged at ¥30.0, implying payout ratio 49.1%, up ¥5.0 from ¥25.0 in FY06/2014, implying payout ratio 17.2%,.

Quarterly Sales & Operating Profit Margin



Source: Company Data, WRJ Calculation (Q3 and Q4 FY06/2015 forecasts: half-year Company forecasts pro rata)

Operating profit was worse than initially expected due almost exclusively to sales worse than expected, basically stemming from those of Medical Consumables & Equipment. In here, the Company is involved with sales of medical consumables and equipment mainly for major base hospitals heavily involved with acute care. In Q1 to Q2 FY06/2015, the former accounted for 90% of sales in this business segment and the latter for remaining 10%, roughly speaking.

The current Company forecasts are going for prospective sales of Medical Consumables & Equipment Business down some 5% over the year, up some 7% on the consumables side and down some 43% on the equipment side. Results in Q1 to Q2 were, respectively, up some 4% and down some 47%. That is to say, sales of consumables are to chronologically accelerate in H2, while collapsing sales of equipment are to persist.

In regards to consumables, initial Company forecasts were going for even better sales, but “Intensification of pricing pressure from medical institutions” turned out to be more drastic than expected, having resulted in shortfall in sales some ¥1,000m in Q1 to Q2. Meanwhile, prospective sales in H2 have been downgraded some ¥1,000m.

Meanwhile, in regards to equipment, sales fell short some ¥1,300m in Q1 to Q2, because the prospects were consequently too optimistic, while prospective sales in H2 have been downgraded some ¥2,300m

Sales: FY06/2015 Company Forecasts

(Million Yen)	Initial CoE	Results	Current CoE	Gap	Consumables	Equipment	Residuals
H1 (Q1 to Q2)	48,189	45,645	-	(2,544)	(1,000)	(1,300)	(244)
H2 (Q3 to Q4)	52,902	-	49,661	(3,241)	(1,000)	(2,300)	59
Fiscal year	101,091	-	95,307	(5,784)	(2,000)	(3,600)	(184)

Source: Company Data, WRJ Calculation

As discussed, FY06/2015 Company forecasts have been downgraded, effectively all attributable to disappointments on sales of medical consumables and equipment.

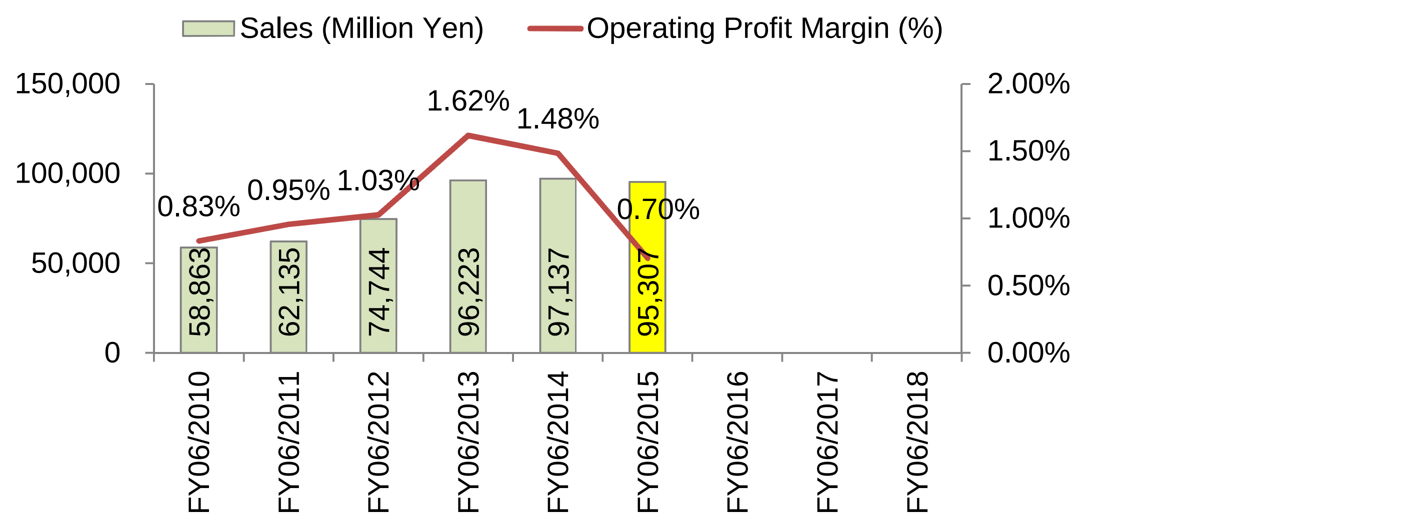
The Company suggests the market for all those consumables and equipment to which the Company is exposed is to grow some 3% in terms of CAGR (Compounded Annual Growth Rate), going forward, after price erosion stemming from NHI price revision to take place every two years. When compared with this market growth potential, it should be noted that sales of consumables are doing relatively well, even after the downgrade. As far as we could gather, the Company is steadily increasing own market shares on this side, as one of the largest players (ranked No 4) in the market.

Meanwhile, in regards to equipment, we have an impression that some anomalies have come out for replacement cycle of medical equipment, etc. among customers. It could be the case that they have had frontloaded their capital expenditures to a meaningful extent, while it has been negatively affected to recent trading of the Company to date. Thus, the Company is currently in the middle of reviewing its midterm management plan.

Long-Term Prospects

On 20 February 2015, the Company held results meeting for Q1 to Q2 FY06/2015 for institutional investors and disclosed that the Company was currently in the process of setting up midterm management plan to call for prospective earnings in FY06/2018. The Company suggested that capital expenditures by customers are to bottom out in FY06/2015, while starting to pick up in FY06/2016 and onward. Thus, it was suggested that sales of medical equipment were to turn around in trends, i.e., increasing in a midterm view, although the Company hesitated to disclose figures for prospective earnings at this point.

Long-Term Projections



Source: Company Data, WRJ Calculation

Prior to above-mentioned results meeting, the Company used to suggest prospective sales ¥120,000m, operating profit ¥2,000m and operating profit margin 1.67% in FY06/2017, assuming no positive effects from new alliance strategy. Meanwhile, as far as we could see, the Company now has to reconsider the targets, given major adjustments of equipment in recent trading.

As a long-term management policy, meanwhile, the Company mentions that it makes corporate efforts to further improve its safe and secured services, based on the key strengths of the Company, i.e., specialty knowhow associated with medical consumables and equipment as well as surgical procedures, while improving capability to cope with customer needs to lower shipment prices by means of beefing up procurement functions.

In regards to diverse consumables and equipment to be distributed through the Company to the Company's mainstay customers, i.e., major base hospitals, etc., safe and secured services are essential, including those of logistics. All those merchandises for the Company to deal in incorporate high specialty, while it is not always the case that each end user has sufficient knowledge and/or knowhow to cope with such specialty. Thus, customers seek for supports from the Company very often. For example, the Company has introduced "digital catalog" and/or "original instructions" to propel the supports. In regards to enhancement of procurement functions, meanwhile, the Company refers to the pursuit of lower prices for merchandises through volume discounts by means of increasing purchasing volume for each.

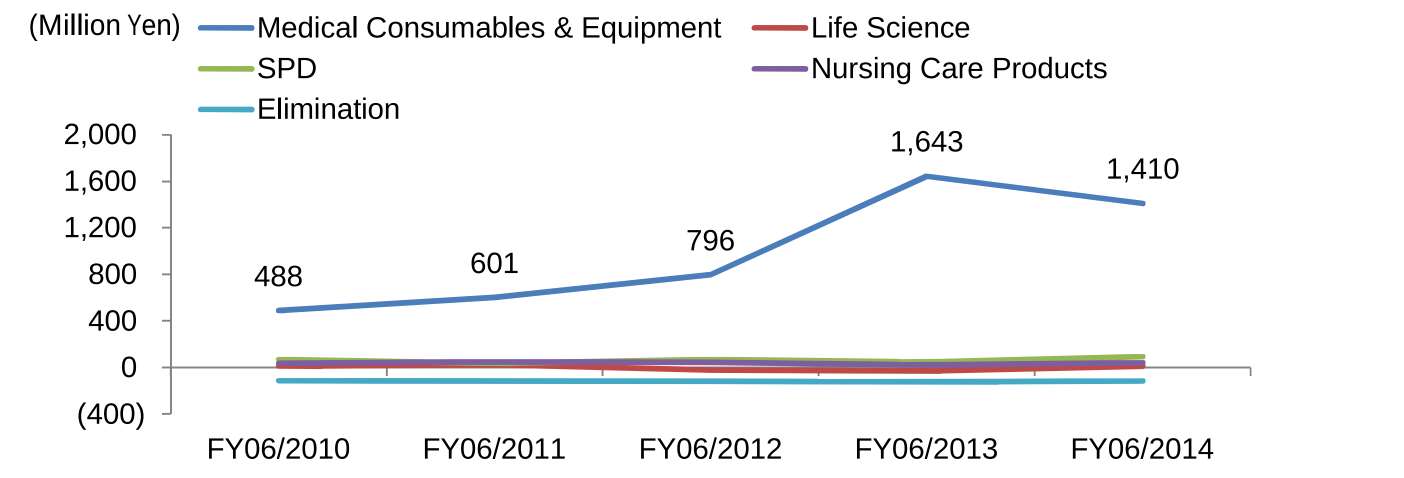
The Company believes successful progresses in all those issues should be favorable drivers to persistently improve reliability on the Company from customers and thus to persistently improve market shares for the Company at the end of the day. Meanwhile, the Company adopts alliance strategy (merger with competitors) to implement such operations in geographical territories where the Company has not covered by its own sales network yet. In the processes of propelling the alliance strategy, the Company is eager to pursue synergy, together with efforts to develop new services and to make progresses with joint procurements.

4.0 Business Model

Medical Consumables & Equipment Business

Medical Consumables & Equipment Business is almost everything for the Company. In FY06/2014, sales of the Company came in at ¥97,137m (up 1.0% YoY) and operating profit ¥1,440m (down 7.4%), while sales in this business segment ¥81,132m (down 0.4%) and operating profit ¥1,410m (down 14.2%), having accounted for 83.5% of sales of the Company and 90.6% of operating profit ¥1,557m (before elimination negative ¥116m) of the Company.

Operating Profit by Business Segment



Source: Company Data, WRJ Calculation

Medical Consumables & Equipment Business represents sales of diverse medical consumables and equipment. The main constituents of equipment are MRI (Magnetic Resonance Imaging), Cineangio cardiography, CT (Computed Tomography), ultrasonography and operating room equipment such as ventilators. The Company procures all those merchandises from some 1,000 suppliers, comprising those based in Japan and overseas, while supplying them with some 2,000 customers. Imported merchandises account for some 80% of sales in here. However, the Company is not directly involved with imports and thus it is the case that the Company's earnings are effectively immune to changes of forex rates.

The Company is also involved with Life Science Business, SPD Business and Nursing Care Products Business. As mentioned above, Medical Consumables & Equipment Business accounts for 90.6% of operating profit (before elimination) of the Company and thus nothing but the remaining 9.4% accounted for, collectively, by all those three business segments. In Q1 to Q2 FY06/2015, the Company saw reducing loss over the year in Life Science Business, while this was offset by earnings corrections in SPD Business. Meanwhile, the Company has been seeing earnings below the levels over the year in Nursing Care Products Business, for some time, due to increasing expenses associated with frontloaded investments.

Life Science Business represents sales of reagents & test drugs, laboratory equipment and analyzers. Thus, business model in here is fundamentally the same as that of Medical Consumables & Equipment Business but for the domains of merchandises to deal in. SPD (Supply Processing and Distribution) Business is run by business model that could be also similar to that of Medical Consumables & Equipment Business, while the key difference relates to a factor that the Company also collects commissions from medical institutions on top of seeing profit margin by distributing merchandises by being involved with merchandises & information management and with purchasing management. Involvements with SPD Business are positioned as important operations to beef up operations of the mainstay Medical Consumables & Equipment Business, providing the Company with opportunities to learn about customer needs.

Examples of Merchandises to Deal in (Image Pictures)

Source: Company Data

Meanwhile, Nursing Care Products Business represents operations by Life Care Co., Ltd., a 100% consolidated subsidiary of the Company, which is in charge of sales & rental services for nursing-care- use beds and supplies. The mainstay operations are rental services for nursing-care-use beds, accounting for some 80% of sales in here, while carrying gross profit margin some 50%.

Apart from Nursing Care Products Business, the Company is exclusively exposed to medical institutions as customer base, while Nursing Care Products Business to local elderly people and their families, which is the distinguished feature in this business segment. Meanwhile, this business segment carries gross profit margin far higher than that of the Company as a whole (10.42% to 10.63% over the past 5 years), because the business model in here is totally different from the rest of the businesses. The bulk of gross profit of the Company comes from added value generated by operations as a distributor of merchandises, while the Company is basically involved with rental services in here, generating added value by rental services.

The Company believes the market to which Nursing Care Products Business is exposed has a high growth potential over the long-term and had been aggressively increasing the number of business bases for some time. As of the end of FY06/2010, the operations were carried out with 3 business bases in Okayama, Fukuyama and Tatsuno, while the Company increased the number of business bases up to 9 as of the end of FY06/2013 or in three years. The Company set up new business bases in Kurashiki and Hiroshima in FY06/2011, followed by Tsuyama and Kakogawa in FY06/2012. In FY06/2013, another business base in Kobe was set up while one more in Matsuyama towards the end of the fiscal year.

Ongoing increases in the number of business bases had been steadily contributing to sales in this business segment, but short-term earnings had been negatively affected by increasing expenses stemming from frontloaded investments to set up all those new business bases. Given this, the Company decided to suspend setting up new business bases for the time being at the beginning of FY06/2014. With no further frontloaded investments, short-term earnings had once been improving.

In the course of FY06/2014, for example, the Company consolidated two sales bases in Hyogo prefecture, i.e., those of Tatsuno and Kakogawa and set up an integrated new base in Himeji in the pursuit of efficiency, which also looks contributing to the improvements of earnings in here. However, most recently, the Company resumed a measure to set up new sales bases, having set up a new one in Koriyama in June 2014 and thus the number of sales bases stood at 9 as of the end of FY06/2014, unchanged from the end of FY06/2013. At the end of the day, earnings of this business segment in Q1 to Q2 FY06/2015 came down over the year, due mainly to add-on expenses associated with new base in Koriyama.

Disclaimer

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