Walden Research Japan

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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 Q1 to Q3 (Million Yen)** | | **Sales** | **OP** | **RP** | **NP** | **EPS (Yen)** | **DPS (Yen)** | **BPS (Yen)** |
| Q1 to Q3 FY06/2014 | | 77,035 | 1,525 | 1,586 | 866 | - | - | - |
| Q1 to Q3 FY06/2015 | | 70,987 | 486 | 486 | 262 | - | - | - |
| Q1 to Q3 FY06/2015 | YoY | (7.9%) | (68.1%) | (69.4%) | (69.7%) | - | - | - |

Source: Company Data, WRJ Calculation

## 1.0 Executive Summary (27 May 2015)

**Adjustments to Recovery**

KAWANISHI HOLDINGS, distributing medical consumables & equipment mainly for major base hospitals heavily involved with acute care, is on the verge of seeing changeover adjustments to recovery for its earnings. As far as consumables, which are the key drivers for the growth of the Company, i.e., surgical-related supplies, orthopedic consumables, circulatory-organ consumables, etc., are concerned, steady sales growth persists as a whole, in spite of some negative impacts from price erosions due to NHI price revision. At the same time, however, off-crop period of equipment, i.e., MRI, cineangiocardiography, CT, ultrasonography, operating room equipment such as ventilators, etc., also persists, currently being a negative factor to more than offset the positives on the consumables side. Nevertheless, it appears that the Company is likely seeing changeover adjustments to recovery in demand for equipment in FY06/2016. The Company is now in the process of coming up with new midterm management plan (FY06/2016 to FY06/2018) to be released after confirming the results of FY06/2015.

In Q1 to Q3 FY06/2015, sales came in at ¥70,987m (down 7.9% YoY and/or down ¥6,047m), operating profit ¥486m (down 68.1% and/or down ¥1,039m) and operating profit margin 0.68% (down 1.30% points). Basically being involved with trading of diverse medical merchandises, the Company saw almost stable gross profit margin, but SG&A expenses increased over the year due mainly to increasing personnel expenses, despite decreasing sales. Thus, operating profit margin adjusted a lot. By business segment, Medical Consumables & Equipment Business saw sales ¥57,924m (down 10.7% and/or down ¥6,973m) and segment profit ¥509m (down 65.6% and/or down ¥971m), implying that this business segment accounted for the bulk of adjustments as a whole for the Company in terms of sales and earnings. Sales of consumables rose 4.1% over the year, while sales of equipment halved, having ended up with sales decreasing over the year as a whole for this business segment. As far as we could gather, the current levels of capital expenditures by major base hospitals, i.e., the Company's customers, are lower than those of lower end of regular cycle. The levels remained so high over the past two years in a row, i.e., in FY06/2013 and FY06/2014, while the most recent levels suffer from adjustments from the past irregularities. More importantly, however, cyclical recovery should start up in the foreseeable future.

FY06/2015 Company forecasts have remained unchanged, 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%). Meanwhile, prospective divided per share has also remained unchanged. The Company calls for ¥30.0 per share (implying payout ratio 49.1%), up ¥5.0 from ¥25.0 (implying payout ratio 17.2%) in FY06/2014. In regards to Medical Consumables & Equipment Business, the key driver for overall earnings of the Company, prospective sales of consumables are to rise some 7% over the year, while down some 43% for equipment. The Company suggests trading in Q1 to Q3 was almost in line with all those assumptions. Nevertheless, an uncertainty in Q4 is also suggested for equipment in that the Company could see delayed sales booking of large-sized projects while it could see unexpected ones vice versa. In terms of longer-term view, however, capital expenditures are to recover, as discussed earlier. On top of this, the Company may implement new alliance strategy, in the near future, to acquire new sales territory region-wise by means of merging with competitors, preceded by that of Sansei Medical Materials Co., Ltd. (consolidated as a subsidiary since Q3 FY06/2012) to have expanded business for the Company.

IR representative: Director, Nobuharu Murata (+81 86 236 1115 murata2@kawanishi-md.co.jp)

# 2.0 Company Profile

**Integrated Medical Trader, Implementing Alliance Strategy**

| | |
|---|---|
| **Company Name** | KAWANISHI HOLDINGS, INC.<br>Website<br>IR Information<br>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 March 2015) |
| **No. of Shares** | 6,250,000 shares, including 639,238 treasury shares (as of the end of March 2015) |
| **Main Features** | ● Set up by mergers among three wholesale distributors of medical consumables and equipment, based in Chugoku and Shikoku regions<br>● Expectations for new alliances, preceded by Sansei Medical Materials Co., Ltd.<br>● Rental services of nursing care products to be a new earnings pillar |
| **Business Segments** | Ⅰ. Medical Consumables & Equipment Business<br>Ⅱ. SPD Business<br>Ⅲ. Life Science Business<br>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 1,102, Unconsolidated: 32 (as of the end of March 2015) |

Source: Company Data

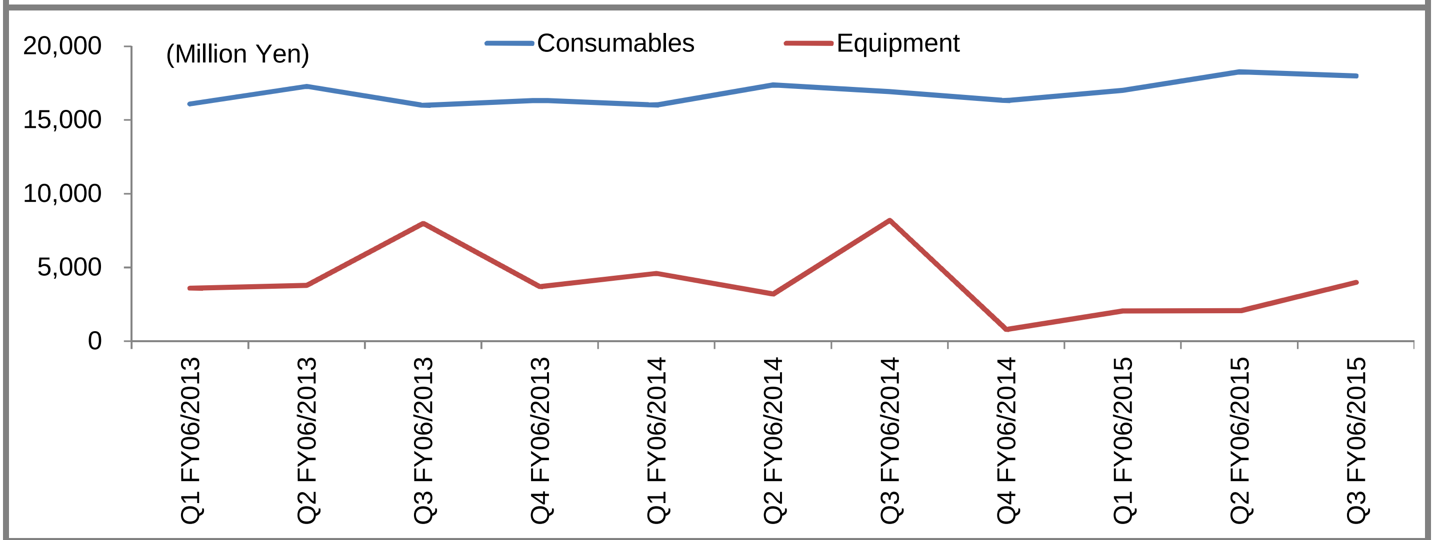
# 3.0 Recent Trading & Prospects

**Q1 to Q3 FY06/2015 Results**

In Q1 to Q3 FY06/2015, sales came in at ¥70,987m (down 7.9% YoY and/or down ¥6,047m), operating profit ¥486m (down 68.1% and/or down ¥1,039m), recurring profit ¥486m (down 69.4%) and net profit ¥262m (down 69.7%). Out of full-year prospective sales, the Company has achieved 74.5%, while operating profit 72.5%, suggesting marginal weakness on the earnings side.

Meanwhile, operating profit margin came in at 0.68% (down 1.30% points). In spite of sales coming down, gross profit margin came in at 10.35% (down 0.01% point), remaining almost flat, but SG&A expenses ¥6,864m (up 6.2%), having resulted in major adjustments of operating profit margin. The Company, aiming at future sales enhancement, is currently increasing sales headcounts and thus SG&A expenses are on the rise due mainly to this, according to the Company.

**Sales of Medical Consumables & Equipment Business: Consumables and Equipment**




Source: Company Data, WRJ Calculation

By business segment, Medical Consumables & Equipment Business saw sales ¥57,924m (down 10.7% and/or down ¥6,973m) and segment profit ¥509m (down 65.6% and/or down ¥971m), implying that this business segment accounted for the bulk of adjustments as a whole for the Company in terms of sales and earnings. Sales of consumables rose 4.1% over the year while sales of equipment halved.

As the bulk of major base hospitals, for which the Company mainly distributes merchandises, ends their fiscal year as of the end of March, execution of budget concentrates in March as far as equipment often very expensive are concerned. Thus, the Company sees concentration of sales in Q3 (January to March) every year for equipment. In fact, this was the case in Q3 FY06/2015, but it was unavoidable for the Company to substantially suffer from non-reappearance of exceptionally large-sized projects, etc. to have booked sales over the year.

## 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** | **70,987** | **-** | **(6,047)** |
| Cost of Sales | 21,395 | 42,923 | 69,047 | 87,016 | 20,144 | 40,863 | 63,636 | - | (5,410) |
| Gross Profit | 2,510 | 5,033 | 7,988 | 10,121 | 2,324 | 4,782 | 7,350 | - | (637) |
| SG&A | 2,133 | 4,268 | 6,462 | 8,680 | 2,274 | 4,547 | 6,864 | - | +402 |
| **Operating Profit** | **376** | **764** | **1,525** | **1,440** | **49** | **234** | **486** | **-** | **(1,039)** |
| Non Operating Balance | 3 | 5 | 60 | 78 | (2) | (3) | 0 | - | (60) |
| **Recurring Profit** | **380** | **770** | **1,586** | **1,519** | **46** | **230** | **486** | **-** | **(1,100)** |
| Extraordinary Balance | 8 | (44) | (50) | (52) | 0 | 11 | 15 | - | +66 |
| Pretax Profit | 388 | 726 | 1,535 | 1,466 | 47 | 241 | 501 | - | (1,033) |
| Tax Charges, etc. | 171 | 345 | 669 | 650 | 34 | 126 | 239 | - | (429) |
| **Net Profit** | **217** | **380** | **866** | **816** | **13** | **115** | **262** | **-** | **(604)** |
| Sales YoY | +6.8% | +3.3% | +5.1% | +1.0% | (6.0%) | (4.8%) | (7.9%) | - | - |
| Operating Profit YoY | +72.0% | +7.5% | (0.3%) | (7.4%) | (86.9%) | (69.4%) | (68.1%) | - | - |
| Recurring Profit YoY | +81.1% | +9.2% | +4.5% | (1.0%) | (87.7%) | (70.1%) | (69.4%) | - | - |
| Net Profit YoY | +113.4% | (19.0%) | (6.4%) | (13.4%) | (94.0%) | (69.7%) | (69.7%) | - | - |
| Gross Profit Margin | 10.50% | 10.50% | 10.37% | 10.42% | 10.35% | 10.48% | 10.35% | - | (0.01%) |
| (SG&A / Sales) | 8.92% | 8.90% | 8.39% | 8.94% | 10.12% | 9.96% | 9.67% | - | +1.28% |
| Operating Profit Margin | 1.58% | 1.60% | 1.98% | 1.48% | 0.22% | 0.51% | 0.68% | - | (1.30%) |
| Recurring Profit Margin | 1.59% | 1.61% | 2.06% | 1.56% | 0.21% | 0.51% | 0.68% | - | (1.37%) |
| Net Profit Margin | 0.91% | 0.79% | 1.12% | 0.84% | 0.06% | 0.25% | 0.37% | - | (0.76%) |
| Tax Charges, etc. / Pretax Profit | 44.01% | 47.57% | 43.58% | 44.33% | 72.72% | 52.29% | 47.70% | - | +4.12% |

| 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** | **25,341** | **-** | **(3,736)** |
| Cost of Sales | 21,395 | 21,527 | 26,123 | 17,969 | 20,144 | 20,719 | 22,773 | - | (3,350) |
| Gross Profit | 2,510 | 2,523 | 2,954 | 2,132 | 2,324 | 2,457 | 2,568 | - | (385) |
| SG&A | 2,133 | 2,135 | 2,193 | 2,217 | 2,274 | 2,273 | 2,316 | - | +122 |
| **Operating Profit** | **376** | **388** | **760** | **(84)** | **49** | **184** | **251** | **-** | **(508)** |
| Non Operating Balance | 3 | 2 | 54 | 17 | (2) | (1) | 3 | - | (51) |
| **Recurring Profit** | **380** | **390** | **815** | **(67)** | **46** | **183** | **255** | **-** | **(560)** |
| Extraordinary Balance | 8 | (53) | (6) | (1) | 0 | 10 | 4 | - | +10 |
| Pretax Profit | 388 | 337 | 809 | (69) | 47 | 193 | 260 | - | (549) |
| Tax Charges, etc. | 171 | 174 | 323 | (19) | 34 | 91 | 113 | - | (210) |
| **Net Profit** | **217** | **163** | **485** | **(49)** | **13** | **102** | **147** | **-** | **(338)** |
| Sales YoY | +6.8% | +0.0% | +8.1% | (12.2%) | (6.0%) | (3.6%) | (12.8%) | - | - |
| Operating Profit YoY | +72.0% | (21.2%) | (7.1%) | - | (86.9%) | (52.4%) | (66.9%) | - | - |
| Recurring Profit YoY | +81.1% | (21.2%) | +0.3% | - | (87.7%) | (53.0%) | (68.7%) | - | - |
| Net Profit YoY | +113.4% | (55.7%) | +6.6% | - | (94.0%) | (37.3%) | (69.7%) | - | - |
| Gross Profit Margin | 10.50% | 10.49% | 10.16% | 10.61% | 10.35% | 10.60% | 10.14% | - | (0.02%) |
| (SG&A / Sales) | 8.92% | 8.88% | 7.54% | 11.03% | 10.12% | 9.81% | 9.14% | - | +1.60% |
| Operating Profit Margin | 1.58% | 1.61% | 2.62% | (0.42%) | 0.22% | 0.80% | 0.99% | - | (1.62%) |
| Recurring Profit Margin | 1.59% | 1.62% | 2.81% | (0.33%) | 0.21% | 0.79% | 1.01% | - | (1.80%) |
| Net Profit Margin | 0.91% | 0.68% | 1.67% | (0.25%) | 0.06% | 0.44% | 0.58% | - | (1.09%) |
| Tax Charges, etc. / Pretax Profit | 44.01% | 51.68% | 39.99% | - | 72.72% | 47.24% | 43.44% | - | +3.44% |

Source: Company Data, WRJ Calculation

## Segmented Information (Cumulative, Quarterly)

| Segmented Information | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | |
|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q1 to Q2 | Q1 to Q3 | Q1 to Q4 | Q1 | Q1 to Q2 | Q1 to Q3 | Q1 to Q4 | YoY |
| (Million Yen) | 06/2014 | 06/2014 | 06/2014 | 06/2014 | 06/2015 | 06/2015 | 06/2015 | 06/2015 | Net Chg. |
| Medical Consumables & Equipment | 20,227 | 40,015 | 64,897 | 81,132 | 18,445 | 37,214 | 57,924 | - | (6,973) |
| SPD | 2,576 | 5,386 | 8,090 | 10,819 | 2,817 | 5,931 | 9,318 | - | +1,227 |
| Life Science | 806 | 1,950 | 3,136 | 3,960 | 874 | 1,814 | 2,713 | - | (423) |
| Nursing Care Products | 295 | 605 | 910 | 1,225 | 331 | 685 | 1,032 | - | +121 |
| **Sales** | **23,906** | **47,957** | **77,035** | **97,137** | **22,468** | **45,645** | **70,987** | **-** | **(6,047)** |
| Medical Consumables & Equipment | 404 | 776 | 1,480 | 1,410 | 71 | 256 | 509 | - | (971) |
| SPD | 18 | 42 | 87 | 94 | 19 | 34 | 50 | - | (37) |
| Life Science | (19) | (12) | 19 | 11 | (6) | (5) | (8) | - | (28) |
| Nursing Care Products | 10 | 28 | 39 | 41 | 6 | 23 | 40 | - | +1 |
| **Segment Profit** | **414** | **833** | **1,627** | **1,557** | **91** | **310** | **591** | **-** | **(1,035)** |
| Elimination | (37) | (68) | (101) | (116) | (41) | (75) | (105) | - | (3) |
| **Operating Profit** | **376** | **764** | **1,525** | **1,440** | **49** | **234** | **486** | **-** | **(1,039)** |
| Medical Consumables & Equipment | 2.00% | 1.94% | 2.28% | 1.74% | 0.39% | 0.69% | 0.88% | - | (1.40%) |
| SPD | 0.72% | 0.78% | 1.09% | 0.87% | 0.71% | 0.59% | 0.54% | - | (0.54%) |
| Life Science | (2.38%) | (0.64%) | 0.62% | 0.29% | (0.76%) | (0.29%) | (0.32%) | - | (0.94%) |
| Nursing Care Products | 3.67% | 4.64% | 4.34% | 3.37% | 2.04% | 3.49% | 3.93% | - | (0.41%) |
| **Operating Profit Margin** | **1.58%** | **1.60%** | **1.98%** | **1.48%** | **0.22%** | **0.51%** | **0.68%** | **-** | **(1.30%)** |

| Segmented Information | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | |
|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | YoY |
| (Million Yen) | 06/2014 | 06/2014 | 06/2014 | 06/2014 | 06/2015 | 06/2015 | 06/2015 | 06/2015 | Net Chg. |
| Medical Consumables & Equipment | 20,227 | 19,787 | 24,882 | 16,235 | 18,445 | 18,768 | 20,710 | - | (4,172) |
| SPD | 2,576 | 2,809 | 2,704 | 2,728 | 2,817 | 3,114 | 3,386 | - | +681 |
| Life Science | 806 | 1,144 | 1,185 | 823 | 874 | 940 | 898 | - | (287) |
| Nursing Care Products | 295 | 309 | 305 | 315 | 331 | 354 | 346 | - | +41 |
| **Sales** | **23,906** | **24,051** | **29,077** | **20,102** | **22,468** | **23,177** | **25,341** | **-** | **(3,736)** |
| Medical Consumables & Equipment | 404 | 371 | 704 | (70) | 71 | 185 | 252 | - | (452) |
| SPD | 18 | 23 | 45 | 6 | 19 | 14 | 16 | - | (29) |
| Life Science | (19) | 6 | 31 | (7) | (6) | 1 | (3) | - | (35) |
| Nursing Care Products | 10 | 17 | 11 | 1 | 6 | 17 | 16 | - | +5 |
| **Segment Profit** | **414** | **419** | **793** | **(70)** | **91** | **218** | **281** | **-** | **(512)** |
| Elimination | (37) | (30) | (33) | (14) | (41) | (34) | (29) | - | +3 |
| **Operating Profit** | **376** | **388** | **760** | **(84)** | **49** | **184** | **251** | **-** | **(508)** |
| Medical Consumables & Equipment | 2.00% | 1.88% | 2.83% | (0.43%) | 0.39% | 0.99% | 1.22% | - | (1.61%) |
| SPD | 0.72% | 0.84% | 1.69% | 0.22% | 0.71% | 0.47% | 0.47% | - | (1.21%) |
| Life Science | (2.38%) | 0.58% | 2.69% | (0.97%) | (0.76%) | 0.14% | (0.38%) | - | (3.07%) |
| Nursing Care Products | 3.67% | 5.56% | 3.73% | 0.58% | 2.04% | 4.84% | 4.81% | - | +1.07% |
| **Operating Profit Margin** | **1.58%** | **1.61%** | **2.62%** | **(0.42%)** | **0.22%** | **0.80%** | **0.99%** | **-** | **(1.62%)** |

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 | 2,835 | - | (2,560) |
| Accounts Receivables | 15,780 | 17,485 | 22,450 | 15,483 | 16,755 | 17,838 | 19,420 | - | (3,030) |
| Inventory | 3,660 | 3,779 | 3,730 | 3,608 | 3,926 | 4,435 | 4,137 | - | +407 |
| Other | 762 | 728 | 882 | 918 | 948 | 796 | 774 | - | (107) |
| **Current Assets** | **26,688** | **25,700** | **32,459** | **24,334** | **24,539** | **25,901** | **27,168** | **-** | **(5,290)** |
| Tangible Assets | 2,863 | 3,054 | 3,194 | 3,133 | 3,265 | 3,434 | 3,454 | - | +259 |
| Intangible Assets | 551 | 530 | 538 | 491 | 463 | 421 | 391 | - | (146) |
| Investments & Other Assets | 1,144 | 1,099 | 1,013 | 999 | 1,576 | 1,571 | 1,627 | - | +613 |
| **Fixed Assets** | **4,559** | **4,684** | **4,746** | **4,624** | **5,305** | **5,426** | **5,473** | **-** | **+726** |
| **Total Assets** | **31,247** | **30,384** | **37,206** | **28,958** | **29,844** | **31,328** | **32,641** | **-** | **(4,564)** |
| Accounts Payables | 20,396 | 21,031 | 25,462 | 20,528 | 18,843 | 20,764 | 21,634 | - | (3,828) |
| Short Term Debt | 4,251 | 2,830 | 4,251 | 1,087 | 3,765 | 3,346 | 3,429 | - | (821) |
| Other | 1,155 | 992 | 1,567 | 1,584 | 1,085 | 1,008 | 1,253 | - | (314) |
| **Current Liabilities** | **25,804** | **24,854** | **31,281** | **23,199** | **23,693** | **25,119** | **26,317** | **-** | **(4,964)** |
| Corporate Bond | 30 | 20 | 20 | 10 | 10 | - | - | - | (20) |
| Long Term Debt | 1,088 | 986 | 892 | 791 | 704 | 624 | 550 | - | (342) |
| Other | 967 | 996 | 1,008 | 1,031 | 1,262 | 1,295 | 1,308 | - | +300 |
| **Fixed Liabilities** | **2,086** | **2,002** | **1,921** | **1,832** | **1,977** | **1,919** | **1,859** | **-** | **(61)** |
| **Total Liabilities** | **27,891** | **26,857** | **33,202** | **25,032** | **25,671** | **27,038** | **28,176** | **-** | **(5,026)** |
| **Shareholders' Equity** | **3,268** | **3,431** | **3,917** | **3,867** | **4,088** | **4,190** | **4,337** | **-** | **+420** |
| Other | 88 | 96 | 85 | 58 | 84 | 98 | 127 | - | +41 |
| **Net Assets** | **3,356** | **3,527** | **4,003** | **3,926** | **4,173** | **4,289** | **4,465** | **-** | **+461** |
| **Total Liabilities & Net Assets** | **31,247** | **30,384** | **37,206** | **28,958** | **29,844** | **31,328** | **32,641** | **-** | **(4,564)** |
| Equity Capital | 3,356 | 3,527 | 4,003 | 3,926 | 4,173 | 4,289 | 4,465 | - | +462 |
| Interest Bearing Debt | 5,370 | 3,836 | 5,163 | 1,888 | 4,479 | 3,970 | 3,979 | - | (1,183) |
| Net Debt | (1,113) | 129 | (232) | (2,435) | 1,571 | 1,138 | 1,144 | - | +1,377 |
| Equity Capital Ratio | 10.7% | 11.6% | 10.8% | 13.6% | 14.0% | 13.7% | 13.7% | - | +2.9% |
| Net Debt Equity Ratio | (33.2%) | 3.7% | (5.8%) | (62.0%) | 37.6% | 26.5% | 25.6% | - | +31.4% |
| ROE (12 months) | 37.2% | 27.4% | 24.6% | 22.8% | 16.3% | 14.1% | 5.0% | - | (19.5%) |
| ROA (12 months) | 5.6% | 5.0% | 4.3% | 5.0% | 3.9% | 3.2% | 1.2% | - | (3.1%) |
| Days for Inventory Turnover | 16 | 16 | 13 | 18 | 18 | 20 | 17 | - | - |
| Quick Ratio | 86% | 85% | 89% | 85% | 83% | 82% | 85% | - | - |
| Current Ratio | 103% | 103% | 104% | 105% | 104% | 103% | 103% | - | - |

Source: Company Data, WRJ Calculation

## Cash Flow Statement (Cumulative)

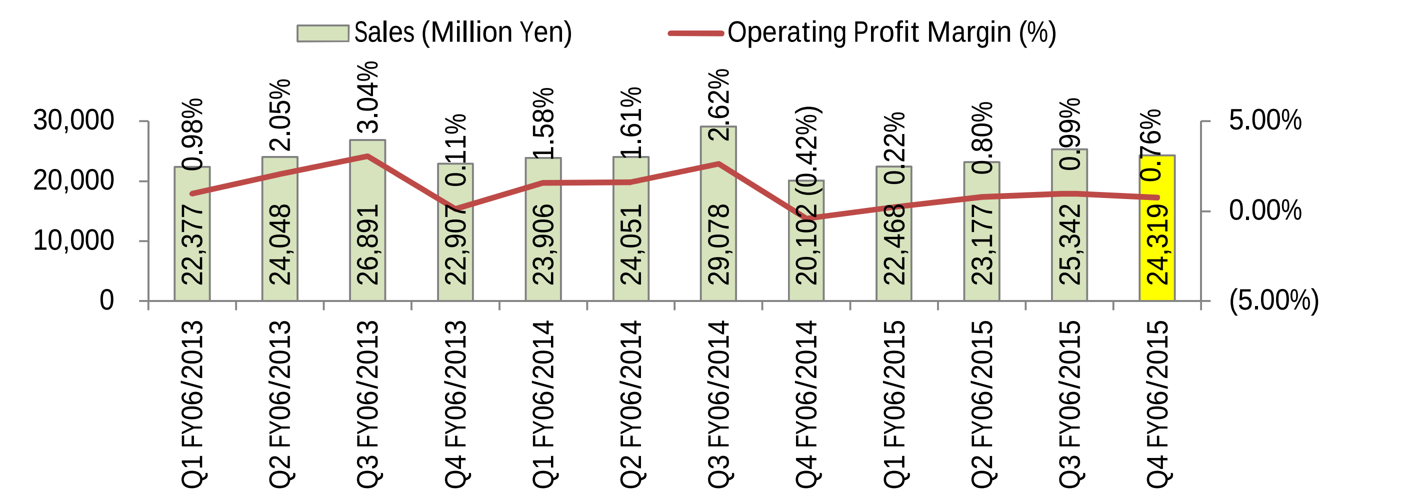
| Cash Flow Statement (Million Yen) | Cons.Act Q1 06/2014 | Cons.Act Q1 to Q2 06/2014 | Cons.Act Q1 to Q3 06/2014 | Cons.Act Q1 to Q4 06/2014 | Cons.Act Q1 06/2015 | Cons.Act Q1 to Q2 06/2015 | Cons.Act Q1 to Q3 06/2015 | Cons.Act Q1 to Q4 06/2015 | YoY Net Chg. |
|---|---|---|---|---|---|---|---|---|---|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

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).

**Sales & Operating Profit Margin**




Source: Company Data, WRJ Calculation

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%).

Prospective operating profit has been downgraded, given sales worse than initially expected. This is almost exclusively in line with those on the Medical Consumables & Equipment side. 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 Q3 FY06/2015, the former accounted for 87% of sales in this business segment and the latter for the remaining 13%.

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 Q3 were up 4.1% and down 47.9%, respectively. Thus, sales of consumables are supposed to chronologically accelerate in Q4, while collapsing sales of equipment to persist.

In regards to consumables, initial Company forecasts were going for sales even better, 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 and prospective sales in H2 downgraded some ¥1,000m.

Meanwhile, in regards to equipment, sales fell short some ¥1,300m in Q1 to Q2, because the initial 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 erosions 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 better, 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 this business domain.

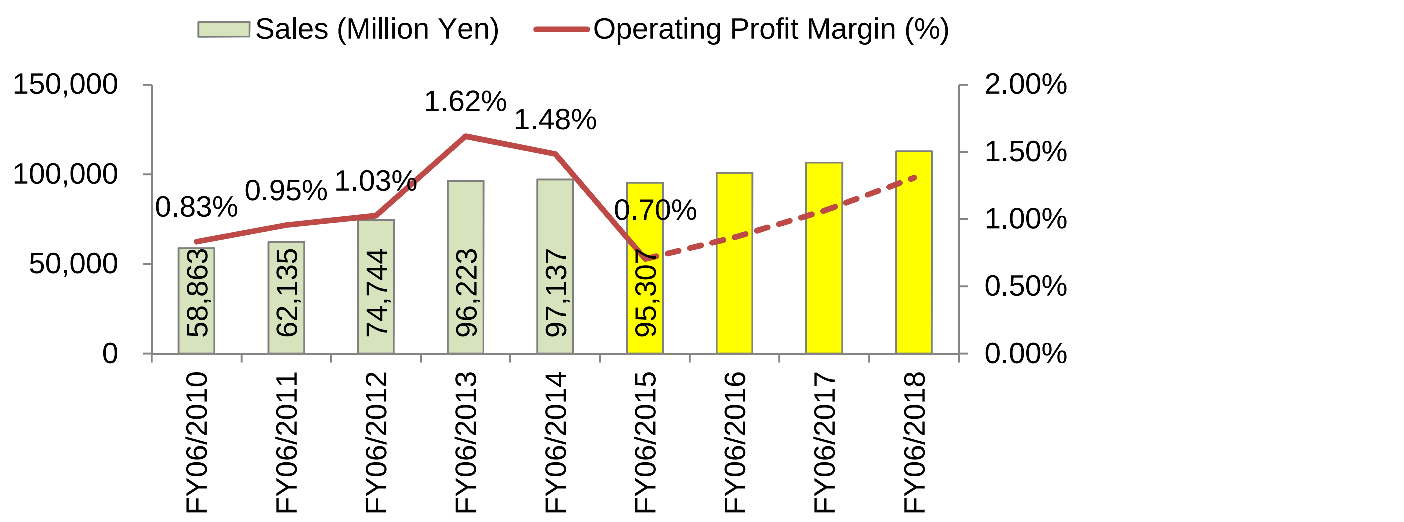


Meanwhile, in regards to equipment, we have an impression that some abnormal changes have come out for the cycle of capital expenditures (and/or replacement) in medical equipment, etc. among customers. It appears to be the case that they have had frontloaded their capital expenditures to a large extent, most recently resulting in demand lower than the levels of lower end on a regular basis. Given this, the Company is currently in the process of revising its midterm management plan.

## Long-Term Prospects

On 20 February 2015, the Company held its Q1 to Q2 FY06/2015 results meeting for institutional investors and disclosed that the Company was currently in the process of setting up new midterm management plan to call for prospective earnings in FY06/2018. The Company suggested that capital expenditures by customers were to bottom out in FY06/2015, while starting to pick up in FY06/2016 and after. Thus, it was suggested that sales of equipment were to increase as a trend in a midterm view and thus sales and earnings for the Company at the same time.

**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 purchasing 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 "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.

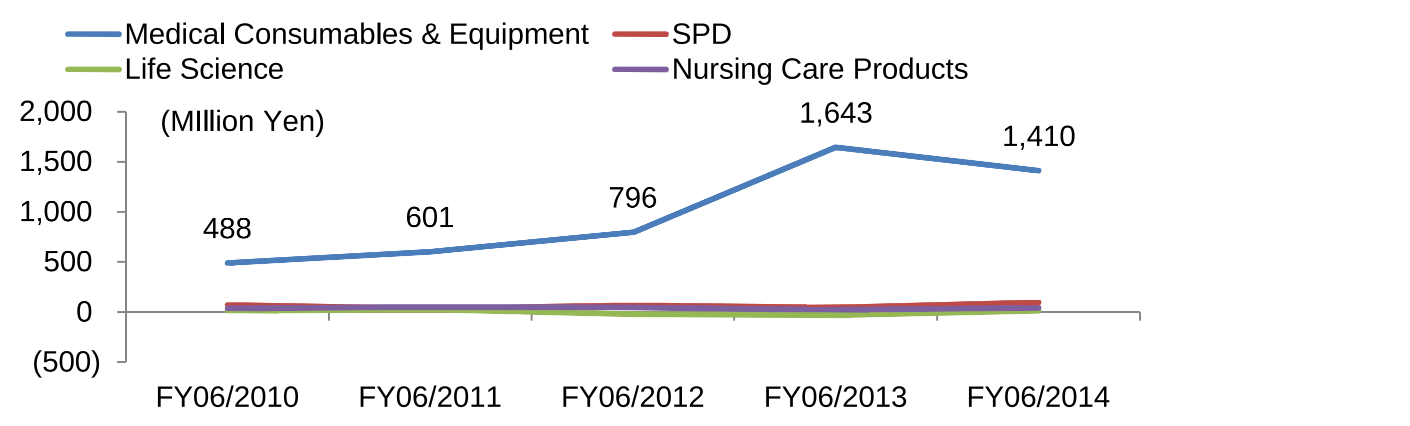
The Company believes successful progresses in all those issues should be favorable drivers to persistently improve reliability on the Company from customers and thus to persistently improve market shares for the Company at the end of the day. Meanwhile, the Company adopts alliance strategy (acquisition of new sales territory region-wise by means of merging with competitors) to implement such issues in regions 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 segment profit ¥1,557m (down 7.3%), while sales in this business segment ¥81,132m (down 0.4%) and segment profit ¥1,410m (down 14.2%), having accounted for 83.5% of sales of the Company and 90.6% of segment profit.

**Segment Profit**




Source: Company Data, WRJ Calculation

Medical Consumables & Equipment Business represents sales of medical consumables and equipment. The former includes surgical-related supplies, orthopedic consumables, circulatory-organ consumables, etc., while the latter MRI (Magnetic Resonance Imaging), cineangiocardiography, CT (Computed Tomography), ultrasonography, operating room equipment such as ventilators, etc. 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 total 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 SPD Business, Life Science Business and Nursing Care Products Business. Nevertheless, as Medical Consumables & Equipment Business accounts for almost all the collective segment profit, they have limited impacts to overall earnings of the Company even when they all are put together.

In Q1 to Q3 FY06/2015, the Company saw deteriorating earnings in SPD Business and Life Science Business. Meanwhile, sales and earnings increased in Nursing Care Products Business, although the impacts from here were limited to overall earnings of the Company.

SPD (Supply Processing and Distribution) Business is run by business model that could be almost the same as that of Medical Consumables & Equipment Business, while the key differences relate 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. 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.

**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 of 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 own customers, 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.

In Q1 to Q3 in FY06/2015, sales came in at ¥1,032m (up 13.3%) and segment profit ¥40m (up 2.8%). Operations of Nursing Care Products Business are carried out in collective 9 bases in Okayama (where Life Care Co., Ltd. is based) and its surrounding prefectures. In regards to existing bases, sales are increasing some 10% over the year, while earnings steadily improving. On top of this, sales from a new base in Koriyama are contributing as well. At the same time, however, setup costs from here are negatively affecting to short-term earnings in this business segment at the moment.





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