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KAWANISHI HOLDINGS (2689)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY06/2012		74,744	766	749	346	61.7	10.0	407.2
FY06/2013		96,223	1,556	1,534	943	168.1	20.0	578.4
FY06/2014CoE		96,842	1,450	1,491	787	140.3	20.0	-
FY06/2013	YoY	28.7%	102.9%	104.7%	172.6%	-	-	-
FY06/2014CoE	YoY	0.6%	(6.8%)	(2.8%)	(16.6%)	-	-	-
Consolidated Q1 to Q3 (Million Yen)		**Sales**	**OP**	**RP**	**NP**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 to Q3 FY06/2012		55,184	766	745	334	-	-	-
Q1 to Q3 FY06/2013		73,316	1,530	1,518	925	-	-	-
Q1 to Q3 FY06/2014		77,035	1,525	1,586	866	-	-	-
Q1 to Q3 FY06/2014	YoY	5.1%	(0.3%)	4.5%	(6.4%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (27 May 2014)

Consolidation

KAWANISHI HOLDINGS, a wholesale distributor of medical consumables & equipment mainly for large-scale hospitals heavily involved with acute care, is likely to enjoy steady long-term earnings growth. In the market for wholesale distribution of medical consumables & equipment, the Company finds a potential to grow no more than some 3% pa, going forward, even in a long-term view, while suggesting a high probability for the market to get consolidated because of this limited growth in the future. At present, some 1,200 market participants of varying size compete each other in the market. Meanwhile, the Company, commanding 30% to 50% shares in supplying university hospitals in the mainstay sales territory of Setouchi Four Prefectures (Okayama, Hiroshima, Ehime and Kagawa), is planning to horizontally apply the expertise earned over here. For example, this will make progress in Sansei Medical Materials Co., Ltd. that was merged with the Company in Q3 in FY06/2012. Subsequently, is the Company to implement alliance strategy (mergers with peers) in order to beef up own long-term growth potentials.

Surging sales and earnings in FY06/2013 were largely attributable to full-year consolidation of Sansei for the first time. Meanwhile, in the following FY06/2014, this impact is just not reappearing in the changes of sales and earnings over the year. In Q1 to Q3 FY06/2014, sales came in at ¥77,035m (up 5.1% YoY), operating profit ¥1,525m (down 0.3%) and operating profit margin 1.98% (down 0.11% points), while gross profit margin 10.37% (down 0.21% points) and the ratio of SG&A expenses to sales 8.39% (down 0.10% points). By business segment, the mainstay Medical Consumables & Equipment Business, having accounted for the bulk of overall earnings with the Company, sales came in at ¥64,897m (up 4.1%), operating profit ¥1,480m (down 6.2%) and operating profit margin 2.28% (down 0.25% points). Sales of merchandises over here were increased across the board, comprising surgical-related supplies, orthopedic consumables, circulatory organ consumables, facilities & equipment (devices, e.g., MRIs), etc. Nevertheless, gross profit margin in this business segment was under pressure by increased exposure to low-gross-profit-margin merchandises on the facilities & equipment side. On top of Medical Consumables & Equipment Business, the Company is also involved with Life Science Business, SPD Business and Nursing Care Products Business. For all those three business segments, the Company saw improving earnings, but this was not enough to fully compensate for adjusting earnings of the mainstay Medical Consumables & Equipment Business, having accounted for 91.0% of operating profit (before elimination) with the Company.

FY06/2014 Company forecasts are going for prospective sales ¥96,842m (up 0.6% YoY), operating profit ¥1,450m (down 6.8%) and operating profit margin 1.50% (down 0.12% points). These figures refer to the most recent Company forecasts, revised up in line with the release of Q3 results on 30 April 2014. Compared with initial Company forecasts, sales have been revised up 4.3% or ¥4,021m and operating profit 41.8% or ¥428m. Overshoots of sales have a direct impact to those of gross profit margin, while SG&A expenses stay lower than initially expected. As a result, prospective operating profit has been revised upward to a large extent. In regards to overshoots of sales, surgical-related supplies (automatic stapler to be used in surgery, arthroscopic surgical handpiece, endotracheal tubes, etc.) and facilities & equipment are major contributors. Meanwhile, in regards to shortfall of SG&A expenses, the Company mentions progresses of productivity improvement measures (pursuit of rationalization and efficiency in own business processes) to have been engaged by the group companies for some time as the key factor.

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2.0 Company Profile

Implementing Alliance Strategy in Wholesale Distribution of Medical Consumables & Equipment

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 Second Section (Ticker: 2689)
Capital	¥ 607 m (As of the end of March 2014)
No. of Shares	6,250,000 shares, including 639,205 treasury shares (As of the end of March 2014)
Main Features	● Set up by mergers among three wholesale distributors in Chugoku and Shikoku regions ● Expectations for new alliance strategy after Sansei Medical Materials Co., Ltd. ● Rental services for nursing care products to be a new earnings pillar
Business Segments	Ⅰ. Medical Consumables & Equipment Business Ⅱ. Life Science Business Ⅲ. SPD Business Ⅳ. Nursing Care Products Business
Top Management	President: Taira Takai
Shareholders	MASP Inc. 15.1%, Treasury Shares 10.2%, ESOP 5.6% (As of the end of December 2013)
Headquarters	Kita-ku, Okayama-city, Okayama-prefecture, JAPAN
No. of Employees	Consolidated:1,032, Unconsolidated:31 (As of the end of March 2014)

Source: Company Data

3.0 Recent Trading & Prospects

Q1 to Q3 FY06/2014 Results

In Q1 to Q3 FY06/2014, sales came in at ¥77,035m (up 5.1% YoY), operating profit ¥1,525m (down 0.3%), recurring profit ¥1,586m (up 4.5%) and net profit ¥866m (down 6.4%). At the non-operating level, the Company saw insurance income ¥76m, up ¥68m from ¥8m during the same period over the year, having been a positive factor to drive recurring profit with the Company, although this was one-off. On the other hand, at the extraordinary level, compensation income ¥136m booked during the same period over the year did not reappear, having been a negative factor to net profit. This was represented by proceeds from Tokyo Electric Power Company, Inc. to Sansei Medical Materials Co., Ltd. (100%-owned consolidated subsidiary) to compensate for probable damages given from the former to the latter, stemming from Great East Japan Earthquake.

In Medical Consumables & Equipment Business that accounted for 84.2% of sales and 91.0% of operating profit (before elimination) with the Company, the Company is involved with wholesale distribution of surgical-related supplies (some 31% of sales in this business segment), orthopedic consumables (some 22%), circulatory organ consumables (some 16%), facilities & equipment (some 24%) and other (some 7%).

The Company, based in Okayama city, develops own businesses, mainly in Okayama Prefecture and its surrounding prefectures, i.e., the Setouchi Four Prefectures (Okayama, Hiroshima, Ehime and Kagawa). Sales over here increased some 10% from the same period over the year and accounted for some 60% of sales with the Company, as far as we could gather. The Company is highly competitive in Setouchi Four Prefectures, supplying as much as 30% to 50% of medical consumables and equipment with local university hospitals.

On the other hand, in new sales territory, defined by the Company as all the sales territory other than Setouchi Four Prefectures, sales came down some 2% and accounted for the remaining 40% of sales with the Company, as far as we could gather. More than half of sales in new sales territory are accounted for by those of Sansei Medical Materials Co., Ltd. in charge of sales in Fukushima and Tokyo. Adjustments of sales over here were the key negative factor for sales in new sales territory. Sansei is heavily involved with sales of facilities and equipment whose sales per project are decently large and thus short-term sales are inevitably volatile. In fact, there was a substantial upward swing of demand during the same period over the year, while this did not reappear two years in a row. As a result, sales with Sansei came down over the year, as far as we could gather.

Operating profit margin with the Company came in at 1.98% (down 0.11% points), having accounted for by gross profit margin 10.37% (down 0.21% points) and the ratio of SG&A expenses to sales 8.39% (down 0.10% points). Over the past five years, gross profit margin with the Company ranged between lower end 10.47% and higher end 10.88% while simple average 10.61%, suggesting stability to a reasonable extent. The recent level, i.e., 10.37%, was below the lower end in the history, but this had a lot to do with one-off factors. For example, the Company spots that it was exposed to low-gross-profit-margin projects to supply facilities & equipment to a larger extent than usual, as far as recent trading in Q1 to Q3 was concerned.

As opposed to gross profit margin that has been stable to a reasonable extent, the ratio of SG&A expenses to sales has come down over the past five years, to 8.85% in FY06/2013 from 10.29% in FY06/2009. Meanwhile, the ratio in Q1 to Q3 came in at 8.39%, even below the lower end in the history. Persistent increases of sales and progressing productivity improvement measures (pursuit of rationalization and efficiency in own business processes) were the main reasons, while consolidation of Sansei since Q3 FY06/2012 turned out to be very impactful in a respect that it had relatively lower ratio of SG&A expenses to sales than the Company prior to the consolidation.

In fact, the ratio of SG&A expenses to sales in FY06/2013, when this consolidated subsidiary was included in the Company's consolidated accounts on a full-year basis for the first time, came in at 8.85%, down as much as 0.69% points from 9.54% in FY06/2012. Compared with the most recent operating profit margin 1.98% (down 0.11% points), it is self-explanatory that the positive impacts from here were so significant.

Income Statement (Cumulative, Quarterly)

Income Statement	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)	06/2013	06/2013	06/2013	06/2013	06/2014	06/2014	06/2014	06/2014	Net Chg.
Sales	**22,376**	**46,425**	**73,316**	**96,223**	**23,906**	**47,957**	**77,035**	**-**	**+3,719**
Cost of Sales	20,126	41,610	65,560	86,146	21,395	42,923	69,047	-	+3,486
Gross Profit	2,250	4,814	7,755	10,076	2,510	5,033	7,988	-	+232
SG&A	2,030	4,103	6,224	8,519	2,133	4,268	6,462	-	+237
Operating Profit	**219**	**711**	**1,530**	**1,556**	**376**	**764**	**1,525**	**-**	**(4)**
Non Operating Balance	(9)	(5)	(11)	(21)	3	5	60	-	+72
Recurring Profit	**209**	**705**	**1,518**	**1,534**	**380**	**770**	**1,586**	**-**	**+67**
Extraordinary Balance	(7)	130	96	62	8	(44)	(50)	-	(146)
Pretax Profit	202	836	1,615	1,597	388	726	1,535	-	(79)
Tax Charges etc.	100	366	689	653	171	345	669	-	(20)
Net Profit	**102**	**470**	**925**	**943**	**217**	**380**	**866**	**-**	**(59)**
Sales YoY	+43.5%	+44.1%	+32.9%	+28.7%	+6.8%	+3.3%	+5.1%	-	-
Operating Profit YoY	+302.2%	+158.2%	+99.7%	+102.9%	+72.0%	+7.5%	(0.3%)	-	-
Recurring Profit YoY	+288.4%	+160.4%	+103.7%	+104.7%	+81.1%	+9.2%	+4.5%	-	-
Net Profit YoY	+646.4%	+338.1%	+176.5%	+172.6%	+113.4%	(19.0%)	(6.4%)	-	-
Gross Profit Margin	10.06%	10.37%	10.58%	10.47%	10.50%	10.50%	10.37%	-	(0.21%)
(SG&A / Sales)	9.08%	8.84%	8.49%	8.85%	8.92%	8.90%	8.39%	-	(0.10%)
Operating Profit Margin	0.98%	1.53%	2.09%	1.62%	1.58%	1.60%	1.98%	-	(0.11%)
Recurring Profit Margin	0.94%	1.52%	2.07%	1.59%	1.59%	1.61%	2.06%	-	(0.01%)
Net Profit Margin	0.46%	1.01%	1.26%	0.98%	0.91%	0.79%	1.12%	-	(0.14%)
Tax Charges etc. / Pretax Profit	49.63%	43.79%	42.68%	40.94%	44.01%	47.57%	43.58%	-	+0.89%

Income Statement	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)	06/2013	06/2013	06/2013	06/2013	06/2014	06/2014	06/2014	06/2014	Net Chg.
Sales	**22,376**	**24,048**	**26,890**	**22,906**	**23,906**	**24,051**	**29,077**	**-**	**+2,187**
Cost of Sales	20,126	21,483	23,950	20,586	21,395	21,527	26,123	-	+2,173
Gross Profit	2,250	2,564	2,940	2,320	2,510	2,523	2,954	-	+13
SG&A	2,030	2,072	2,121	2,295	2,133	2,135	2,193	-	+71
Operating Profit	**219**	**492**	**818**	**25**	**376**	**388**	**760**	**-**	**(58)**
Non Operating Balance	(9)	3	(5)	(10)	3	2	54	-	+60
Recurring Profit	**209**	**496**	**812**	**15**	**380**	**390**	**815**	**-**	**+2**
Extraordinary Balance	(7)	137	(34)	(33)	8	(53)	(6)	-	+27
Pretax Profit	202	633	778	(17)	388	337	809	-	+30
Tax Charges etc.	100	265	323	(35)	171	174	323	-	+0
Net Profit	**102**	**367**	**455**	**17**	**217**	**163**	**485**	**-**	**+30**
Sales YoY	+43.5%	+44.7%	+17.0%	+17.1%	+6.8%	+0.0%	+8.1%	-	-
Operating Profit YoY	+302.2%	+122.7%	+66.9%	-	+72.0%	(21.2%)	(7.1%)	-	-
Recurring Profit YoY	+288.4%	+128.6%	+71.3%	+277.5%	+81.1%	(21.2%)	+0.3%	-	-
Net Profit YoY	+646.4%	+293.1%	+100.3%	+56.4%	+113.4%	(55.7%)	+6.6%	-	-
Gross Profit Margin	10.06%	10.66%	10.94%	10.13%	10.50%	10.49%	10.16%	-	(0.78%)
(SG&A / Sales)	9.08%	8.62%	7.89%	10.02%	8.92%	8.88%	7.54%	-	(0.35%)
Operating Profit Margin	0.98%	2.05%	3.04%	0.11%	1.58%	1.61%	2.62%	-	(0.43%)
Recurring Profit Margin	0.94%	2.06%	3.02%	0.07%	1.59%	1.62%	2.81%	-	(0.22%)
Net Profit Margin	0.46%	1.53%	1.69%	0.08%	0.91%	0.68%	1.67%	-	(0.02%)
Tax Charges etc. / Pretax Profit	49.63%	41.93%	41.49%	-	44.01%	51.68%	39.99%	-	(1.50%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act Q1 06/2013	Cons.Act Q1 to Q2 06/2013	Cons.Act Q1 to Q3 06/2013	Cons.Act Q1 to Q4 06/2013	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	YoY Net Chg.
Medical Consumables & Equipment	18,924	39,124	62,324	81,430	20,227	40,015	64,897	-	+2,572
Life Science	986	2,121	3,287	4,298	806	1,950	3,136	-	(150)
SPD	2,231	4,697	6,968	9,481	2,576	5,386	8,090	-	+1,122
Nursing Care Products	234	482	735	1,012	295	605	910	-	+175
Sales	**22,376**	**46,425**	**73,316**	**96,223**	**23,906**	**47,957**	**77,035**	**-**	**+3,719**
Medical Consumables & Equipment	251	760	1,578	1,643	404	776	1,480	-	(97)
Life Science	(20)	(32)	(30)	(31)	(19)	(12)	19	-	+50
SPD	9	32	51	45	18	42	87	-	+36
Nursing Care Products	8	18	27	21	10	28	39	-	+11
Elimination	(30)	(67)	(96)	(123)	(37)	(68)	(101)	-	(5)
Operating Profit	**219**	**711**	**1,530**	**1,556**	**376**	**764**	**1,525**	**-**	**(4)**
Medical Consumables & Equipment	1.33%	1.94%	2.53%	2.02%	2.00%	1.94%	2.28%	-	(0.25%)
Life Science	(2.07%)	(1.51%)	(0.94%)	(0.73%)	(2.38%)	(0.64%)	0.62%	-	+1.56%
SPD	0.44%	0.69%	0.74%	0.48%	0.72%	0.78%	1.09%	-	+0.35%
Nursing Care Products	3.64%	3.85%	3.79%	2.13%	3.67%	4.64%	4.34%	-	+0.55%
Operating Profit Margin	**0.98%**	**1.53%**	**2.09%**	**1.62%**	**1.58%**	**1.60%**	**1.98%**	**-**	**(0.11%)**

Segmented Information (Million Yen)	Cons.Act Q1 06/2013	Cons.Act Q2 06/2013	Cons.Act Q3 06/2013	Cons.Act Q4 06/2013	Cons.Act Q1 06/2014	Cons.Act Q2 06/2014	Cons.Act Q3 06/2014	Cons.Act Q4 06/2014	YoY Net Chg.
Medical Consumables & Equipment	18,924	20,199	23,200	19,105	20,227	19,787	24,882	-	+1,681
Life Science	986	1,135	1,165	1,010	806	1,144	1,185	-	+20
SPD	2,231	2,465	2,271	2,513	2,576	2,809	2,704	-	+433
Nursing Care Products	234	248	253	277	295	309	305	-	+51
Sales	**22,376**	**24,048**	**26,890**	**22,906**	**23,906**	**24,051**	**29,077**	**-**	**+2,187**
Medical Consumables & Equipment	251	508	818	65	404	371	704	-	(113)
Life Science	(20)	(11)	1	(0)	(19)	6	31	-	+30
SPD	9	22	18	(5)	18	23	45	-	+26
Nursing Care Products	8	10	9	(6)	10	17	11	-	+2
Elimination	(30)	(37)	(28)	(27)	(37)	(30)	(33)	-	(4)
Operating Profit	**219**	**492**	**818**	**25**	**376**	**388**	**760**	**-**	**(58)**
Medical Consumables & Equipment	1.33%	2.52%	3.53%	0.34%	2.00%	1.88%	2.83%	-	(0.69%)
Life Science	(2.07%)	(1.03%)	0.10%	(0.02%)	(2.38%)	0.58%	2.69%	-	+2.59%
SPD	0.44%	0.92%	0.83%	(0.22%)	0.72%	0.84%	1.69%	-	+0.86%
Nursing Care Products	3.64%	4.05%	3.66%	(2.28%)	3.67%	5.56%	3.73%	-	+0.07%
Operating Profit Margin	**0.98%**	**2.05%**	**3.04%**	**0.11%**	**1.58%**	**1.61%**	**2.62%**	**-**	**(0.43%)**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet	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)	06/2013	06/2013	06/2013	06/2013	06/2014	06/2014	06/2014	06/2014	Net Chg.
Cash & Deposit	4,651	6,415	8,629	6,915	6,484	3,707	5,396	-	(3,233)
Accounts Receivables	16,541	18,581	19,484	16,179	15,780	17,485	22,450	-	+2,966
Inventory	3,311	3,812	4,091	3,258	3,660	3,779	3,730	-	(361)
Other	707	604	656	678	762	728	882	-	+226
Current Assets	**25,211**	**29,413**	**32,861**	**27,032**	**26,688**	**25,700**	**32,459**	**-**	**(402)**
Tangible Assets	2,858	2,871	2,823	2,899	2,863	3,054	3,194	-	+370
Intangible Assets	595	572	572	560	551	530	538	-	(34)
LT Investment Securities etc.	1,001	1,008	1,067	1,170	1,144	1,099	1,013	-	(53)
Fixed Assets	**4,455**	**4,452**	**4,464**	**4,630**	**4,559**	**4,684**	**4,746**	**-**	**+282**
Total Assets	**29,666**	**33,865**	**37,325**	**31,663**	**31,247**	**30,384**	**37,206**	**-**	**(119)**
Accounts Payable	19,749	22,866	24,752	20,785	20,396	21,031	25,462	-	+710
Short Term Debt	4,393	5,226	5,733	3,795	4,251	2,830	4,251	-	(1,482)
Other	1,029	978	1,618	1,912	1,155	992	1,567	-	(50)
Current Liabilities	**25,172**	**29,071**	**32,104**	**26,493**	**25,804**	**24,854**	**31,281**	**-**	**(822)**
debentures	50	40	40	30	30	20	20	-	(20)
Long Term Debt	1,041	958	875	794	1,088	986	892	-	+16
Other	1,066	1,080	1,107	1,100	967	996	1,008	-	(98)
Fixed Liabilities	**2,158**	**2,079**	**2,023**	**1,924**	**2,086**	**2,002**	**1,921**	**-**	**(101)**
Total Liabilities	**27,330**	**31,150**	**34,127**	**28,417**	**27,891**	**26,857**	**33,202**	**-**	**(924)**
Shareholders' Equity	**2,321**	**2,689**	**3,145**	**3,162**	**3,268**	**3,431**	**3,917**	**-**	**+771**
Other	14	25	52	82	88	96	85	-	+33
Net Assets	**2,336**	**2,714**	**3,198**	**3,245**	**3,356**	**3,527**	**4,003**	**-**	**+804**
Total Liabilities & Net Assets	**29,666**	**33,865**	**37,325**	**31,663**	**31,247**	**30,384**	**37,206**	**-**	**(119)**
Equity Capital	2,336	2,714	3,198	3,245	3,356	3,527	4,003	-	+805
Interest Bearing Debt	5,484	6,225	6,649	4,619	5,370	3,836	5,163	-	(1,486)
Net Debt	833	(190)	(1,980)	(2,296)	(1,113)	129	(232)	-	+1,747
Equity Capital Ratio	7.9%	8.0%	8.6%	10.3%	10.7%	11.6%	10.8%	-	+2.2%
Net Debt Equity Ratio	35.7%	(7.0%)	(61.9%)	(70.8%)	(33.2%)	3.7%	(5.8%)	-	+56.1%
ROE (Net Profit / Equity)	17.7%	37.6%	45.0%	34.1%	26.4%	22.5%	31.9%	-	(13.1%)
ROA (Net Profit / Total Assets)	2.9%	4.5%	6.2%	5.1%	4.8%	5.0%	6.1%	-	(0.0%)
Days for Inventory Turnover	15	16	16	14	16	16	13	-	-
Quick Ratio	84%	86%	88%	87%	86%	85%	89%	-	-
Current Ratio	100%	101%	102%	102%	103%	103%	104%	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

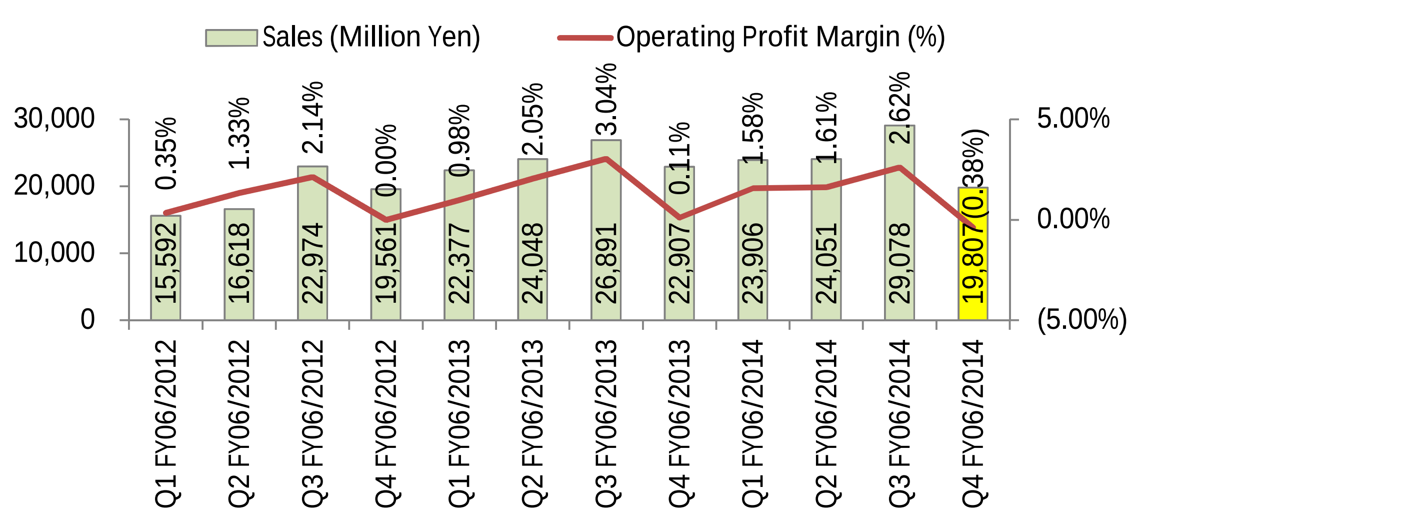
Cash Flow Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY
(Million Yen)	06/2013	06/2013	06/2013	06/2013	06/2014	06/2014	06/2014	06/2014	Net Chg.
Operating Cash Flow	na	(307)	na	2,060	na	(1,937)	na	-	-
Investing Cash Flow	na	(138)	na	(448)	na	(201)	na	-	-
Operating CF + Investing CF	**na**	**(446)**	**na**	**1,611**	**na**	**(2,138)**	**na**	**-**	**-**
Financing Cash Flow	na	1,086	na	(545)	na	(916)	na	-	-

Source: Company Data, WRJ Calculation

FY06/2014 Company Forecasts

At the release of Q1 to Q3 results (30 April 2014), the Company revised up its FY06/2014 Company forecasts, The Company currently goes for prospective sales ¥96,842m (up 0.6% YoY), operating profit ¥1,450m (down 6.8%), recurring profit ¥1,491m (down 2.8%) and net profit ¥787m (down 16.6%). Compared with existing Company forecasts, sales were revised up 4.3%, operating profit 41.8%, recurring profit 52.1% and net profit 52.5%. Meanwhile, prospective dividend per has remained unchanged at ¥20.0, implying payout ratio 14.3%.

Quarterly Sales & Operating Profit Margin



Source: Company Data, WRJ Calculation

In spite of adjustments of net profit, dividend per share is expected to remain unchanged over the year, leading to increasing payout ratio up to 14.3% from 11.9% in the previous year. Meanwhile, it appears that the Company can afford increasing dividend to pay, in line with improving stability of financial backgrounds, as implied by equity capital ratio 10.8% (up 2.2% points YoY) as of the end of Q3 FY06/2014. The Company, being a holding company to manage 8 group companies, newly adopted a system to integrate the whole group on the financial side, having steadily contributed to streamlining of balance sheets so far. Towards the end of FY06/2014, the Company is to make more progresses over here and thus equity capital ratio is to further improve.

In the Company's investor meeting on 14 February 2014, it was spotted that future impacts from NHI (National Health Insurance) price revision for drugs and materials to be effective in April 2014 and consumption tax hike to be effective at the same time would be uncertainties for the Company's business performance. In regards to figures on the materials side of NHI price revision to directly give impacts to earnings with the Company, negative impacts ¥60,000m and/or down 0.14%, on a gross basis, in terms of national health expenditure as a whole, as well as negative impacts ¥20,000m and/or down 0.05%, on a net basis, after deducting consumption tax compensation ¥40,000m were suggested. Nevertheless, these figures are based on the contents of announcement by Department of Health Medical Division of Ministry of Health, Labor and Welfare on 12 February 2014 and thus the eventual reimbursement prices of each merchandise was not fixed at this stage. Even now, the Company suggests the impacts are too early to estimate.

Nevertheless, we have an impression that NHI price revision for drugs and materials is unlikely to make substantial impacts this time around too, as this has never done so in the past as far as we could gather. In regards to consumption tax hike, sales of facilities and equipment in Q1 to Q3 results were enhance by hurried demand prior to the hike, while Company forecasts assume an inevitable reaction to this in Q4.

Income Statement

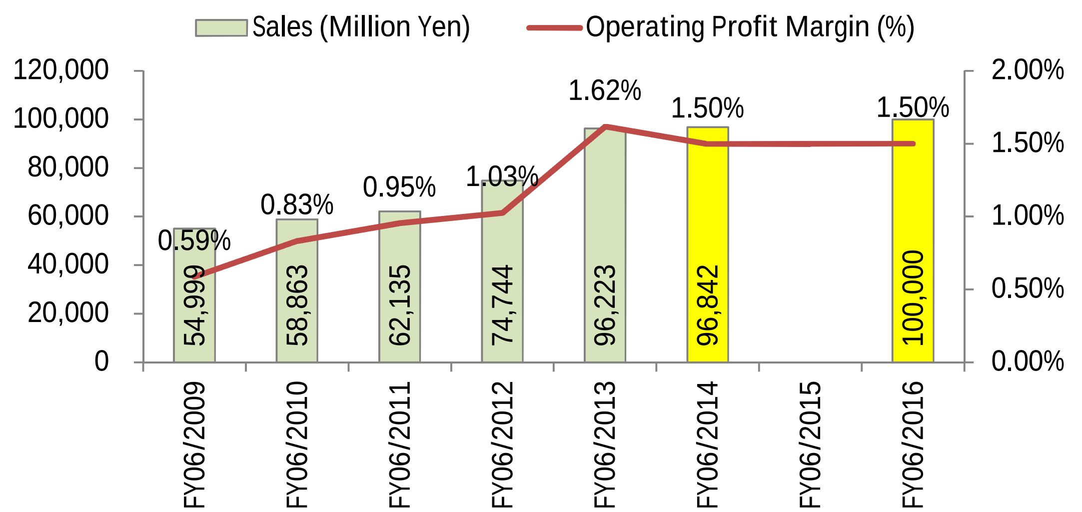
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
(Million Yen)	06/2009	06/2010	06/2011	06/2012	06/2013	06/2014	Net Chg.
Sales	**54,999**	**58,863**	**62,135**	**74,744**	**96,223**	**96,842**	**+618**
Cost of Sales	49,016	52,674	55,530	66,848	86,146	-	-
Gross Profit	5,983	6,189	6,605	7,895	10,076	-	-
SG&A	5,660	5,698	6,012	7,129	8,519	-	-
Operating Profit	**322**	**490**	**593**	**766**	**1,556**	**1,450**	**(106)**
Non Operating Balance	(72)	(28)	(18)	(16)	(21)	41	+62
Recurring Profit	**250**	**461**	**574**	**749**	**1,534**	**1,491**	**(43)**
Extraordinary Balance	(884)	0	22	(22)	62	-	-
Pretax Profit	(634)	462	597	727	1,597	-	-
Tax Charges etc.	145	238	284	381	653	-	-
Net Profit	**(780)**	**223**	**312**	**346**	**943**	**787**	**(156)**
Sales YoY	+1.1%	+7.0%	+5.6%	+20.3%	+28.7%	+0.6%	-
Operating Profit YoY	(23.0%)	+51.8%	+21.0%	+29.3%	+102.9%	(6.8%)	-
Recurring Profit YoY	(33.8%)	+84.7%	+24.4%	+30.5%	+104.7%	(2.8%)	-
Net Profit YoY	-	-	+39.4%	+10.8%	+172.6%	(16.6%)	-
Gross Profit Margin	10.88%	10.51%	10.63%	10.56%	10.47%	-	-
(SG&A / Sales)	10.29%	9.68%	9.68%	9.54%	8.85%	-	-
Operating Profit Margin	0.59%	0.83%	0.95%	1.03%	1.62%	1.50%	(0.12%)
Recurring Profit Margin	0.45%	0.78%	0.92%	1.00%	1.59%	1.54%	(0.06%)
Net Profit Margin	(1.42%)	0.38%	0.50%	0.46%	0.98%	0.81%	(0.17%)
Tax Charges etc. / Pretax Profit	-	51.60%	47.71%	52.44%	40.94%	-	-

Source: Company Data, WRJ Calculation

Long-Term Prospects

The Company mentions that it has a target to achieve sales ¥100,000m in FY06/2016 (midterm management plan). In regards to operating profit margin, the Company suggests a target to achieve level close to 1.62% in FY06/2013, that is to say, some 1.50%, while all those figures do not include any impacts from prospective alliance strategy (mergers with peers). Meanwhile, 96.8% of the target in FY06/2016 will be achievable in terms of sales and that of operating profit margin just achievable in FY06/2014, when assuming that the most FY06/2014 Company forecasts are to be met.

Long-Term Projections



Source: Company Data, WRJ Calculation

As a long-term management policy, the Company mentions that it makes corporate efforts to further improve its safe and secured services, based on the key strengths with 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 medical consumables and facilities & equipment to be distributed to the Company's mainstay customers, i.e., large-scale hospitals, 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 is sufficiently familiar with knowledge and/or knowhow to cope with such specialty. Thus, customers need supports from the Company very often. In regards to enhancement for procurement functions, meanwhile, the Company refers to lower prices for merchandises through the pursuit of volume discounts by means of increasing purchasing amounts for each.

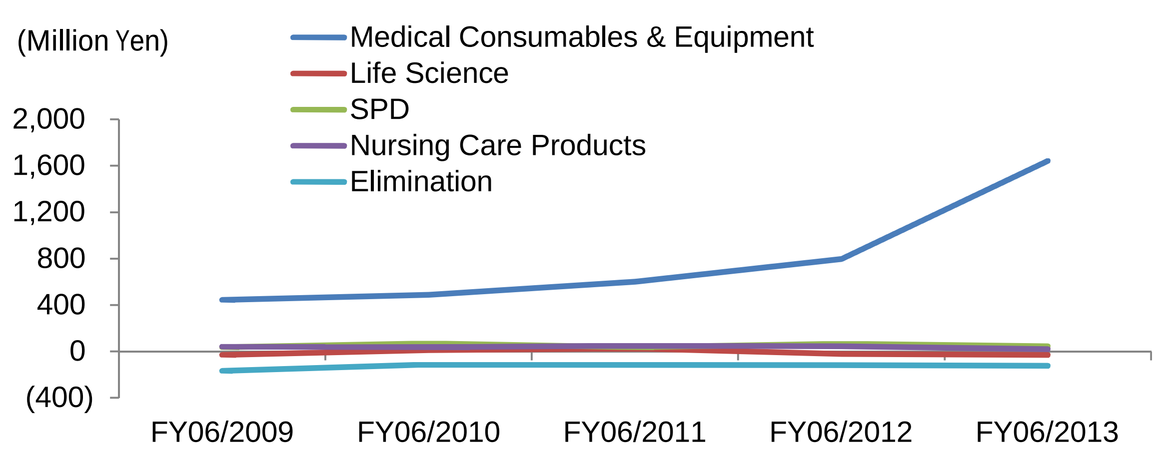
The Company believes successful progresses in all those issues should be favorable drivers to persistently improve reliability on the Company by customers and thus to persistently improve sales with the Company at the end of the day. Meanwhile, the Company adopts alliance strategy (merger with peers) to develop such operations in sales 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 the mainstay business segment within the Company. In FY06/2013, sales with the Company came in at ¥96,223m (up 28.7% YoY) and operating profit ¥1,556m (up 102.9%), while Medical Consumables & Equipment Business sales ¥81,430m (84.6% of total) and operating profit ¥1,643m (97.9%, before elimination). Growth of overall operating profit over the past five years, including substantial growth in FY06/2013, was effectively all attributable to that of Medical Consumables & Equipment Business.

Operating Profit by Business Segment



Source: Company Data, WRJ Calculation

Medical Consumables & Equipment Business is represented by wholesale distribution of medical consumables and equipment, comprising diverse consumables and facilities & equipment. Major constituents of facilities & equipment include 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, including domestic and overseas ones, while supplying them with some 2,000 institutions and/or customers. Imported merchandises account for some 80% of sales over here, but the Company is not directly involved with imports and thus it is the case that the Company's earnings are almost immune to changes of forex rates.

The Company is also involved with Life Science Business, SPD Business and Nursing Care Products Business. As mentioned earlier, Medical Consumables & Equipment Business accounts for 97.9% of operating profit with the Company and thus the remaining 2.1% only is accounted for, collectively, by those three business segments. In FY06/2013, Life Science Business made some operating losses, while SPD Business and Nursing Care Business operating profit, albeit not much.

Life Science Business is represented by sales of reagents & test drugs, laboratory equipment and analyzers, while SPD Business administrative operations for goods and information as well as procurement on behalf of medical institutions, etc. Involvements with SPD Business are positioned as important operations to develop those in Medical Consumables & Equipment Business, providing the Company with opportunities to learn about customer needs. So far, in FY06/2014, the Company has been successfully improving earnings in the both of the business segments due to diverse measures to do so, but the positive impacts have remained insignificant for the Company as a whole.

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

Aside from Nursing Care Products Business, the Company is exclusively exposed to medical institutions in terms of customers while Nursing Care Products Business to local elderly people and their families, which is the distinguished feature of this business segment. Meanwhile, this business segment carries far higher gross profit margin than that of the Company (10.47% to 10.88% over the past 5 years), as the business model is totally different. The bulk of gross profit with the Company comes from added value generated by operations as a wholesale distributor, while the Company is basically involved with rental services over here, generating added value by the 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. 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 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 new business bases. Given this, the Company has decided to suspend setting up new business bases for the time being and thus short-term earnings are currently improving with no further frontloaded investments. Most recently, the Company made a consolidation of business bases by newly setting up a sales base in Himeji through integrating operations in Tatsuno and Kakogawa, which is expected to further improve efficiency of the operations.

In Q1 to Q3 FY06/2014, sales of this business segment came in at ¥910m (up 23.8% YoY), operating profit ¥39m (up 41.7%) and operating profit margin 4.34% (up 0.55% points), suggesting high growth in sales and earnings. Sales of existing business bases rose some 21% from the same period over the year, due to successful cultivations of new customers in existing business bases.

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Examples for Merchandises to Deal in (Image Pictures)

Source: Company Data

Disclaimer

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