

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	436	432	227	-	-	-
Q1 to Q2 FY06/2015		YoY	(4.8%)	(69.4%)	(70.1%)	(69.7%)	-	-
Q3 to Q4 FY06/2015CoE		YoY	1.0%	(35.4%)	(42.2%)	(47.7%)	-	-

Source: Company Data, WRJ Calculation

1.0 Results Update (29 January 2015)

Delay & Recovery of Capex

On 29 January 2015, KAWANISHI HOLDINGS, distributing medical consumables & equipment mainly for major base hospitals heavily involved with acute care, released its Q1 to Q2 FY06/2015 results. It has been revealed that earnings are falling short of initial expectations, negatively affected by delayed capital expenditures by major base hospitals, the mainstay customers, etc.

In regards to medical consumables, positioned as the key driver for prospective sales for the Company as a group, sales have continued rising steadily over the year, but this is not enough to fully compensate for downward swing in sales of medical equipment whose sales are inclined to be volatile in line with customers' capital expenditure trends. According to the Company, short-term prospects in H2 FY06/2015 remain uncertain for capital expenditures by medical institutions. More importantly, however, the Company suggests that prospects are favorable in and after FY06/2016.

We are to attend the Company's results meeting to be held on 20 February as well as interviewing with management afterwards, so that we should be able to update our [Q1 FY06/2015 "Company Report" \(28 November 2014\)](#) and to release anew.

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%). 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 comprised some ¥1,300m on the medical equipment side and some ¥1,000m on the medical 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”.

Thus, in Medical Consumables & Equipment Business, 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). This business segment accounted for 81.5% of sales for the Company and 82.8% of operating profit (before elimination), having being a main factor for earnings correction as a whole for the Company, as mentioned above. Sales of medical consumables came in at up 4.3% over the year, while down 47.2% for medical equipment. As far as we could gather, the former accounted for some 90% of sales in this business segment, while remaining some 10% for the latter.

FY06/2015 Company Forecasts

FY06/2015 Company forecasts, revised down at the release of Q1 to Q2 results, 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). On the other hand, prospective dividend 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%.


Compared with initial Company forecasts, prospective sales have been revised down ¥5,784m (5.7%) and operating profit ¥865m (56.3%). As in Q1 to Q2 results, shortfall of sales is to directly result in that of operating profit. In regards to shortfall of sales by business segment, Medical Consumable & Equipment Business accounts for the bulk, i.e., some ¥3,600m on the medical equipment side and some ¥2,000m on the medical consumables side.

Although downgrade has been made as mentioned above, current Company forecasts assume increases some 7% over the year for sales of medical 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	<ul style="list-style-type: none"> ● Initially set up by mergers among three wholesale distributors of medical equipment and medical materials in Chugoku and Shikoku regions ● Expectations for new alliances, preceded by Sansei Medical Materials Co., Ltd. ● Rental services for nursing care products to be a new earnings pillar 	
Business Segments	<ul style="list-style-type: none"> . Medical Consumables & Equipment Business . SPD Business . Life Science Business . 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 Financial Statements

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	06/2014	06/2014	06/2014	06/2014	06/2015	06/2015	06/2015	06/2015		
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	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	06/2014	06/2014	06/2014	06/2014	06/2015	06/2015	06/2015	06/2015		
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	Cons.Act		Cons.Act		Cons.Act		Cons.Act		YoY
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	
(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	-	-	(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	Cons.Act		Cons.Act		Cons.Act		Cons.Act		YoY
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
(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	-	-	(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	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	Cons.Act	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.	
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 Payable	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	-	-	+762	
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%	26.6%	-	-	+22.9%	
ROE (Net Profit / Equity)	26.4%	22.5%	31.9%	22.8%	1.3%	5.6%	-	-	(16.9%)	
ROA (Net Profit / Total Assets)	4.8%	5.0%	6.1%	5.0%	0.6%	1.5%	-	-	(3.4%)	
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	Cons.Act	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.	
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	19,920	-	-	+20,837	

Source: Company Data, WRJ Calculation

Disclaimer

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

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