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KAWANISHI HOLDINGS (2689)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY06/2014		97,137	1,440	1,519	816	145.5	25.0	699.8
FY06/2015		94,515	668	662	405	72.2	30.0	839.6
FY06/2016CoE		103,020	700	688	369	65.9	30.0	-
FY06/2015	YoY	(2.7%)	(53.6%)	(56.4%)	(50.4%)	-	-	-
FY06/2016CoE	YoY	9.0%	4.8%	3.9%	(8.8%)	-	-	-
Consolidated Half Year (Million Yen)		**Sales**	**OP**	**RP**	**NP**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 to Q2 FY06/2015		45,645	234	230	115	-	-	-
Q3 to Q4 FY06/2015		48,869	433	432	289	-	-	-
Q1 to Q2 FY06/2016CoE		50,317	287	280	141	-	-	-
Q3 to Q4 FY06/2016CoE		52,703	412	407	227	-	-	-
Q1 to Q2 FY06/2016CoE	YoY	10.2%	22.7%	21.6%	22.8%	-	-	-
Q3 to Q4 FY06/2016CoE	YoY	7.8%	(4.9%)	(5.6%)	(21.4%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (9 September 2015)

Earnings Recovery & New Management

KAWANISHI HOLDINGS, distributing medical consumables and equipment mainly for major base hospitals heavily involved with acute care, is to see earnings to recover. In regards to the mainstay merchandises, i.e., consumables (surgical-related supplies, orthopedic consumables, circulatory-organ consumables, etc.), steady sales growth persists, while sales of equipment (MRI, cineangiocardiography, CT, ultrasonography, operating room equipment such as ventilators, etc.) came down sharply over the year, in FY06/2015, after sales booking of plural large-sized projects over the past two years. Meanwhile, more importantly, the Company argues that the strengths of the former will further persist in FY06/2016 and there will be a changeover to period of recovery from that of adjustments for the latter. On top of this, “Management Target to Aim for” to have been newly formulated and disclosed suggests ongoing growth in sales and earnings in a midterm view. The Company is going for prospective sales ¥126,000m and operating profit ¥1,500m in FY06/2018, implying sales to grow 10.1% and operating profit 30.9%, in terms of CAGR, over the next three years, when based on FY06/2015 results. The other thing is, Mr. Yohei Maeshima is to be newly appointed as representative director, on 17 September 2015, and he is expected to implement new management strategy based on his career as medical doctor.

In FY06/2015, sales came in at ¥94,515m (down 2.7% YoY), operating profit ¥668m (down 53.6%) and operating profit margin 0.71% (down 0.78% points). Meanwhile, gross profit margin came in at 10.32% (down 0.09% points), suggesting that profit margin generated by the mainstay operations to trade merchandises remains effectively stable in the Company where the business mainly relates to distribution of medical consumables and equipment. Meanwhile, in spite of adjusting sales short-term, the Company was eager to expand own sales forces for future sales growth, having resulted in SG&A expenses ¥9,090m (up 4.7%). As a result, the Company inevitably suffered from major adjustments of earnings. The Company, based in Okayama-city, is eager to beef up sales in the existing sales territories, as well as trying to get at cultivating new sales territories around the existing ones, etc. By business segment, Medical Consumables & Equipment Business, representing trading of all those merchandises, saw sales ¥76,917m (down 5.2%), segment profit ¥689m (down 51.1%) and segment profit margin 0.90% (down 0.84% points). Sales of consumables increased 5.0% over the year, while sales of equipment came down 35.0%. Given that this business segment accounted for 81.4% of sales and 86.0% of segment profit, out of the Company as a whole, it should be concluded that the Company's business performance heavily hinges on trading of medical consumables and equipment.

FY06/2016 Company forecasts are going for prospective sales ¥103,020m (up 9.0% YoY), operating profit ¥700m (up 4.8%) and operating profit margin 0.68% (down 0.03% points). As far as we could gather, increasing sales and operating profit are in line with those of Medical Consumables & Equipment Business. In regards to medical consumables, steady sales growth is expected to persist, while sales of equipment are expected to recover. Meanwhile, the Company is to further enhance own sales forces in order to achieve "Management Target to Aim for" in FY06/2018, which is one of the factors for marginally lowering operating profit margin, as far as we could gather. The other thing is, in order to promote sales in uncultivated territories, the Company is always looking to opportunities to implement new alliance strategy (merger with competitor to obtain geographically new sales territories), preceded by that of Sansei Medical Materials Co., Ltd., having been consolidated as subsidiary since Q3 FY06/2012.

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. 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 June 2015)
No. of Shares	6,250,000 shares, including 639,238 treasury shares (As of the end of June 2015)
Main Features	● Set up by mergers among three wholesale distributors of medical consumables and equipment, based in Chugoku and Shikoku regions ● 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	Representative director: Taira Takai
Shareholders	MASP Inc. 15.1%, Treasury shares 10.2%, ESOP 5.6% (As of the end of June 2015)
Headquarters	Kita-ku, Okayama-city, Okayama-prefecture, JAPAN
No. of Employees	Consolidated 1,141, Parent: 29 (As of the end of June 2015)

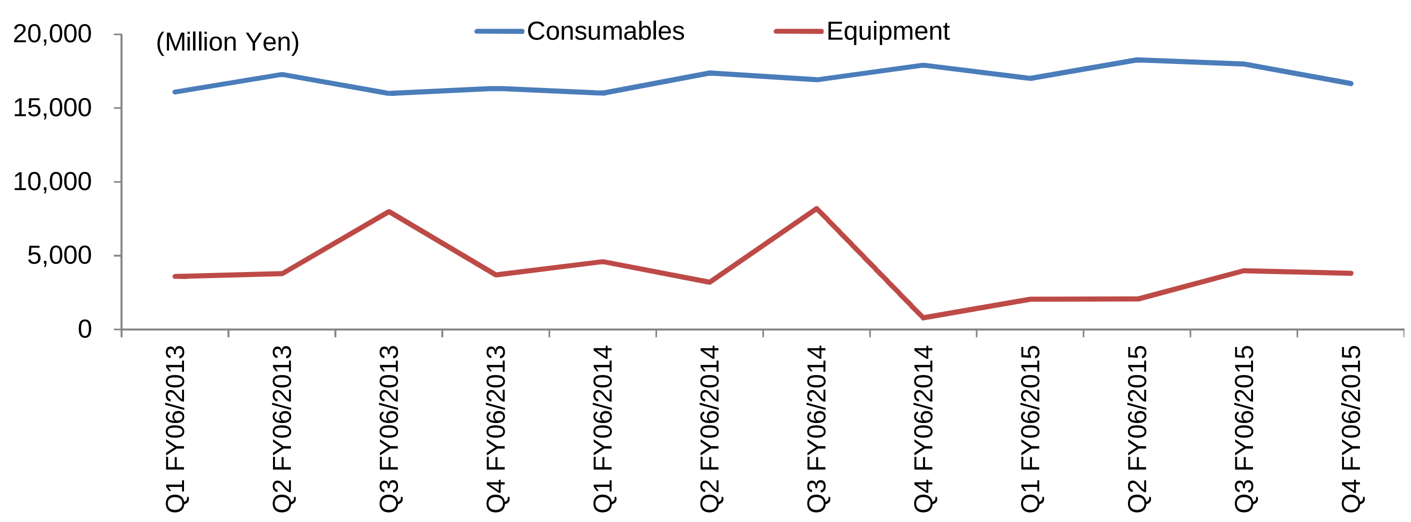
Source: Company Data

3.0 Recent Trading & Prospects

FY06/2015 Results

In FY06/2015, sales came in at ¥94,515m (down 2.7% YoY), operating profit ¥668m (down 53.6%), recurring profit ¥662m (down 56.4%) and net profit ¥405m (down 50.4%), while operating profit margin 0.71% (down 0.78% points). Compared with the most recent Company forecasts (released on 29 January 2015), sales were worse ¥792m (0.8%), operating profit ¥3m (0.4%) and recurring profit ¥1m (0.2%), while net profit better ¥62m (18.1%).

Sales of Medical Consumables & Equipment Business



Source: Company Data

Basically, the results were in line with Company forecasts, revised at the release of Q2 results, while the Company saw some unexpected one-off factors at the net level. In details, the Company saw compensation proceeds ¥16m (associated with occurrence of Great East Japan Earthquake), paid from Tokyo Electric Power Company, Inc. to the Company's subsidiary Sansei Medical Materials Co., Ltd., booked as extraordinary profit, while corporate tax was reduced in line with revision on probability for deferred tax assets recovery.

The Company, based in Okayama-city, saw 44% of sales in Chugoku region, including Okayama-city, while 20% in Shikoku region adjacent to this and 22% in Hokkaido & Tohoku region where the bulk of sales in Sansei Medical Materials Co., Ltd., having been consolidated as subsidiary since Q3 FY06/2012, is included. Elsewhere, the Company saw 12% of sales in Kinki region and 3% in Kanto region.

By trading item, the mainstay consumables (surgical-related supplies, orthopedic consumables, circulatory-organ consumables, etc.) saw sales up 5.0% over the year. Sales of all those merchandises increased over the year, across the board, in the above-mentioned regions. The Company spots sales of consumables increased almost 50% over the year, in Kanto region, where remains ample room to cultivate, going forward. Meanwhile, sales of consumables, as a whole, have been stably edging up over the year almost every quarter, while the Company is eager to beef up sales in the existing sales territories, as well as trying to get at cultivating new sales territories around the existing ones, etc.

On the other hand, sales of equipment (MRI, cineangiocardiography, CT, ultrasonography, operating room equipment such as ventilators, etc.) are highly volatile on a quarterly basis. Over the past 12 quarters, quarterly sales ranged between the lower end ¥800m and upper end ¥8,200m, just roughly speaking, as far as we could gather. In regards to equipment, sales per project could be no less than ¥3,000m in the largest and thus, whether booking of sales for all those large projects is included or not, is just crucial for sales on a quarterly basis and those on an annual basis, at the same time.

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 are concerned. Thus, the Company sees concentration of sales in Q3 (January to March) every year for equipment. In Q3 FY06/2014, sales of large-sized projects for equipment were concentrated to the highest level ever, while this did not reappear at all in Q3 FY06/2015. As a result, sales of equipment came down 35.0% over the year, in FY06/2015.

By region, non-reappearances of large-sized projects in Chugoku region and Shikoku region, where the Company holds strengths in local sales forces, generated crucially negative impacts. According to data, disclosed by the Company in its results meeting (held on 21 August 2015), sales of equipment came down ¥2,440m over the year in Chugoku region, while down ¥3,200m in Shikoku region. Elsewhere, sales in Hokkaido & Tohoku region were down ¥910m, while up ¥310m in Kanto region. Scale of sales has remained insignificant so far, but there remains ample room to cultivate, going forward, in Kanto region. Meanwhile, sales of equipment in Kinki region were not mentioned.

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**	**94,515**	**(2,622)**
Cost of Sales	21,395	42,923	69,047	87,016	20,144	40,863	63,636	84,756	(2,260)
Gross Profit	2,510	5,033	7,988	10,121	2,324	4,782	7,350	9,758	(362)
SG&A	2,133	4,268	6,462	8,680	2,274	4,547	6,864	9,090	+410
Operating Profit	**376**	**764**	**1,525**	**1,440**	**49**	**234**	**486**	**668**	**(772)**
Non Operating Balance	3	5	60	78	(2)	(3)	0	(5)	(84)
Recurring Profit	**380**	**770**	**1,586**	**1,519**	**46**	**230**	**486**	**662**	**(856)**
Extraordinary Balance	8	(44)	(50)	(52)	0	11	15	15	+67
Pretax Profit	388	726	1,535	1,466	47	241	501	677	(789)
Tax Charges, etc.	171	345	669	650	34	126	239	272	(377)
Net Profit	**217**	**380**	**866**	**816**	**13**	**115**	**262**	**405**	**(411)**
Sales YoY	+6.8%	+3.3%	+5.1%	+1.0%	(6.0%)	(4.8%)	(7.9%)	(2.7%)	-
Operating Profit YoY	+72.0%	+7.5%	(0.3%)	(7.4%)	(86.9%)	(69.4%)	(68.1%)	(53.6%)	-
Recurring Profit YoY	+81.1%	+9.2%	+4.5%	(1.0%)	(87.7%)	(70.1%)	(69.4%)	(56.4%)	-
Net Profit YoY	+113.4%	(19.0%)	(6.4%)	(13.4%)	(94.0%)	(69.7%)	(69.7%)	(50.4%)	-
Gross Profit Margin	10.50%	10.50%	10.37%	10.42%	10.35%	10.48%	10.35%	10.32%	(0.09%)
(SG&A / Sales)	8.92%	8.90%	8.39%	8.94%	10.12%	9.96%	9.67%	9.62%	+0.68%
Operating Profit Margin	1.58%	1.60%	1.98%	1.48%	0.22%	0.51%	0.68%	0.71%	(0.78%)
Recurring Profit Margin	1.59%	1.61%	2.06%	1.56%	0.21%	0.51%	0.68%	0.70%	(0.86%)
Net Profit Margin	0.91%	0.79%	1.12%	0.84%	0.06%	0.25%	0.37%	0.43%	(0.41%)
Tax Charges, etc. / Pretax Profit	44.0%	47.6%	43.6%	44.3%	72.7%	52.3%	47.7%	40.2%	(4.1%)

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**	**23,527**	**+3,424**
Cost of Sales	21,395	21,527	26,123	17,969	20,144	20,719	22,773	21,119	+3,150
Gross Profit	2,510	2,523	2,954	2,132	2,324	2,457	2,568	2,407	+274
SG&A	2,133	2,135	2,193	2,217	2,274	2,273	2,316	2,225	+7
Operating Profit	**376**	**388**	**760**	**(84)**	**49**	**184**	**251**	**182**	**+266**
Non Operating Balance	3	2	54	17	(2)	(1)	3	(5)	(23)
Recurring Profit	**380**	**390**	**815**	**(67)**	**46**	**183**	**255**	**176**	**+243**
Extraordinary Balance	8	(53)	(6)	(1)	0	10	4	0	+1
Pretax Profit	388	337	809	(69)	47	193	260	175	+244
Tax Charges, etc.	171	174	323	(19)	34	91	113	33	+52
Net Profit	**217**	**163**	**485**	**(49)**	**13**	**102**	**147**	**142**	**+192**
Sales YoY	+6.8%	+0.0%	+8.1%	(12.2%)	(6.0%)	(3.6%)	(12.8%)	+17.0%	-
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%	10.23%	(0.38%)
(SG&A / Sales)	8.92%	8.88%	7.54%	11.03%	10.12%	9.81%	9.14%	9.46%	(1.57%)
Operating Profit Margin	1.58%	1.61%	2.62%	(0.42%)	0.22%	0.80%	0.99%	0.77%	+1.20%
Recurring Profit Margin	1.59%	1.62%	2.81%	(0.33%)	0.21%	0.79%	1.01%	0.75%	+1.08%
Net Profit Margin	0.91%	0.68%	1.67%	(0.25%)	0.06%	0.44%	0.58%	0.61%	+0.86%
Tax Charges, etc. / Pretax Profit	44.0%	51.7%	40.0%	-	72.7%	47.2%	43.4%	18.8%	-

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	57,924	76,917	(4,215)
SPD	2,576	5,386	8,090	10,819	2,817	5,931	9,318	12,675	+1,856
Life Science	806	1,950	3,136	3,960	874	1,814	2,713	3,507	(452)
Nursing Care Products	295	605	910	1,225	331	685	1,032	1,414	+188
Sales	**23,906**	**47,957**	**77,035**	**97,137**	**22,468**	**45,645**	**70,987**	**94,515**	**(2,622)**
Medical Consumables & Equipment	404	776	1,480	1,410	71	256	509	689	(721)
SPD	18	42	87	94	19	34	50	65	(28)
Life Science	(19)	(12)	19	11	(6)	(5)	(8)	(9)	(21)
Nursing Care Products	10	28	39	41	6	23	40	57	+15
Segment Profit	**414**	**833**	**1,627**	**1,557**	**91**	**310**	**591**	**802**	**(755)**
Elimination	(37)	(68)	(101)	(116)	(41)	(75)	(105)	(134)	(17)
Operating Profit	**376**	**764**	**1,525**	**1,440**	**49**	**234**	**486**	**668**	**(772)**
Medical Consumables & Equipment	2.00%	1.94%	2.28%	1.74%	0.39%	0.69%	0.88%	0.90%	(0.84%)
SPD	0.72%	0.78%	1.09%	0.87%	0.71%	0.59%	0.54%	0.52%	(0.35%)
Life Science	(2.38%)	(0.64%)	0.62%	0.29%	(0.76%)	(0.29%)	(0.32%)	(0.28%)	(0.57%)
Nursing Care Products	3.67%	4.64%	4.34%	3.37%	2.04%	3.49%	3.93%	4.03%	+0.66%
Operating Profit Margin	**1.58%**	**1.60%**	**1.98%**	**1.48%**	**0.22%**	**0.51%**	**0.68%**	**0.71%**	**(0.78%)**

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	20,710	18,993	+2,758
SPD	2,576	2,809	2,704	2,728	2,817	3,114	3,386	3,357	+629
Life Science	806	1,144	1,185	823	874	940	898	794	(29)
Nursing Care Products	295	309	305	315	331	354	346	381	+66
Sales	**23,906**	**24,051**	**29,077**	**20,102**	**22,468**	**23,177**	**25,341**	**23,527**	**+3,424**
Medical Consumables & Equipment	404	371	704	(70)	71	185	252	180	+250
SPD	18	23	45	6	19	14	16	14	+8
Life Science	(19)	6	31	(7)	(6)	1	(3)	(1)	+6
Nursing Care Products	10	17	11	1	6	17	16	16	+14
Segment Profit	**414**	**419**	**793**	**(70)**	**91**	**218**	**281**	**210**	**+280**
Elimination	(37)	(30)	(33)	(14)	(41)	(34)	(29)	(28)	(13)
Operating Profit	**376**	**388**	**760**	**(84)**	**49**	**184**	**251**	**182**	**+266**
Medical Consumables & Equipment	2.00%	1.88%	2.83%	(0.43%)	0.39%	0.99%	1.22%	0.95%	+1.38%
SPD	0.72%	0.84%	1.69%	0.22%	0.71%	0.47%	0.47%	0.43%	+0.21%
Life Science	(2.38%)	0.58%	2.69%	(0.97%)	(0.76%)	0.14%	(0.38%)	(0.14%)	+0.83%
Nursing Care Products	3.67%	5.56%	3.73%	0.58%	2.04%	4.84%	4.81%	4.31%	+3.74%
Operating Profit Margin	**1.58%**	**1.61%**	**2.62%**	**(0.42%)**	**0.22%**	**0.80%**	**0.99%**	**0.77%**	**+1.20%**

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	2,352	(1,971)
Accounts Receivables	15,780	17,485	22,450	15,483	16,755	17,838	19,420	18,030	+2,547
Inventory	3,660	3,779	3,730	3,608	3,926	4,435	4,137	3,964	+356
Other	762	728	882	918	948	796	774	845	(72)
Current Assets	**26,688**	**25,700**	**32,459**	**24,334**	**24,539**	**25,901**	**27,168**	**25,193**	**+859**
Tangible Assets	2,863	3,054	3,194	3,133	3,265	3,434	3,454	3,420	+287
Intangible Assets	551	530	538	491	463	421	391	359	(131)
Investments & Other Assets	1,144	1,099	1,013	999	1,576	1,571	1,627	1,764	+764
Fixed Assets	**4,559**	**4,684**	**4,746**	**4,624**	**5,305**	**5,426**	**5,473**	**5,544**	**+920**
Total Assets	**31,247**	**30,384**	**37,206**	**28,958**	**29,844**	**31,328**	**32,641**	**30,738**	**+1,779**
Accounts Payables	20,396	21,031	25,462	20,528	18,843	20,764	21,634	20,607	+79
Short Term Debt	4,251	2,830	4,251	1,087	3,765	3,346	3,429	2,214	+1,127
Other	1,155	992	1,567	1,584	1,085	1,008	1,253	1,429	(154)
Current Liabilities	**25,804**	**24,854**	**31,281**	**23,199**	**23,693**	**25,119**	**26,317**	**24,251**	**+1,052**
Corporate Bond	30	20	20	10	10	-	-	-	(10)
Long Term Debt	1,088	986	892	791	704	624	550	476	(314)
Other	967	996	1,008	1,031	1,262	1,295	1,308	1,299	+267
Fixed Liabilities	**2,086**	**2,002**	**1,921**	**1,832**	**1,977**	**1,919**	**1,859**	**1,775**	**(57)**
Total Liabilities	**27,891**	**26,857**	**33,202**	**25,032**	**25,671**	**27,038**	**28,176**	**26,027**	**+994**
Shareholders' Equity	**3,268**	**3,431**	**3,917**	**3,867**	**4,088**	**4,190**	**4,337**	**4,480**	**+613**
Other	88	96	85	58	84	98	127	230	+171
Net Assets	**3,356**	**3,527**	**4,003**	**3,926**	**4,173**	**4,289**	**4,465**	**4,710**	**+784**
Total Liabilities & Net Assets	**31,247**	**30,384**	**37,206**	**28,958**	**29,844**	**31,328**	**32,641**	**30,738**	**+1,779**
Equity Capital	3,356	3,527	4,003	3,926	4,173	4,289	4,465	4,710	+784
Interest Bearing Debt	5,370	3,836	5,163	1,888	4,479	3,970	3,979	2,691	+802
Net Debt	(1,113)	129	(232)	(2,435)	1,571	1,138	1,144	338	+2,774
Equity Capital Ratio	10.7%	11.6%	10.8%	13.6%	14.0%	13.7%	13.7%	15.3%	+1.8%
Net Debt Equity Ratio	(33.2%)	3.7%	(5.8%)	(62.0%)	37.6%	26.5%	25.6%	7.2%	+69.2%
ROE (12 months)	37.2%	27.4%	24.6%	22.8%	16.3%	14.1%	5.0%	9.4%	(13.4%)
ROA (12 months)	5.6%	5.0%	4.3%	5.0%	3.9%	3.2%	1.2%	2.2%	(2.8%)
Days for Inventory Turnover	16	16	13	18	18	20	17	17	-
Quick Ratio	86%	85%	89%	85%	83%	82%	85%	84%	-
Current Ratio	103%	103%	104%	105%	104%	103%	103%	104%	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

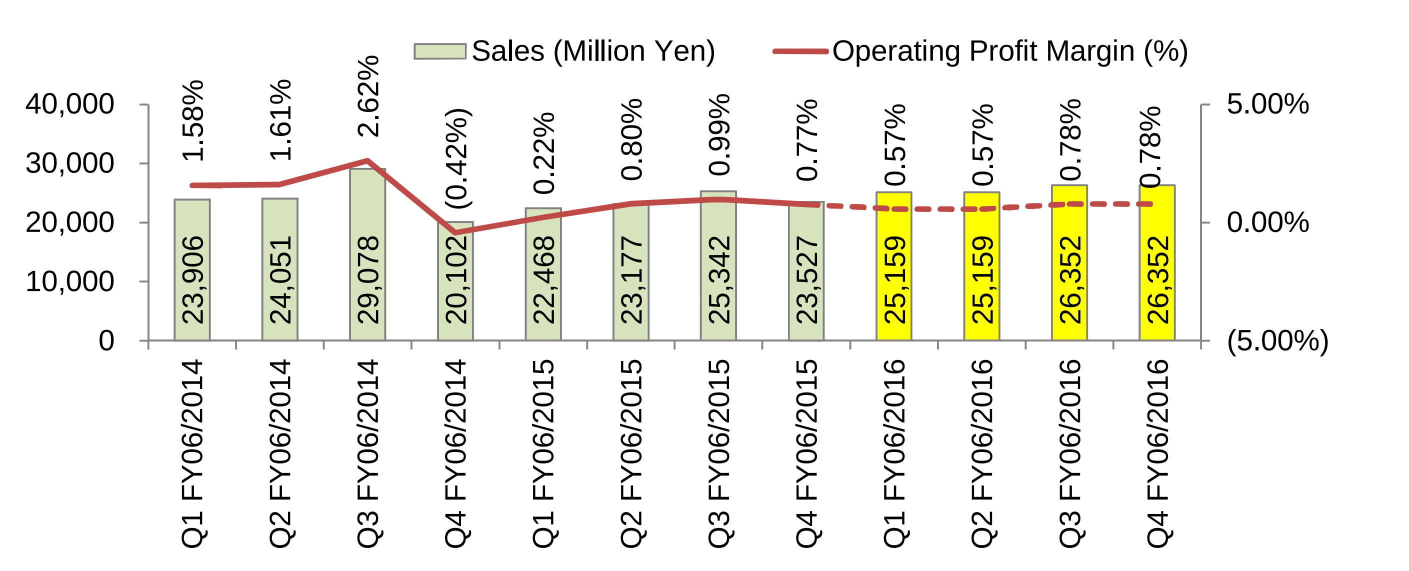
Cash Flow Statement (Million Yen)	Cons.Act Q1 06/2014	Cons.Act Q1 to Q2 06/2014	Cons.Act Q1 to Q3 06/2014	Cons.Act Q1 to Q4 06/2014	Cons.Act Q1 06/2015	Cons.Act Q1 to Q2 06/2015	Cons.Act Q1 to Q3 06/2015	Cons.Act Q1 to Q4 06/2015	YoY Net Chg.
Operating Cash Flow	-	(1,937)	-	926	-	(3,069)	-	(2,113)	(3,040)
Investing Cash Flow	-	(201)	-	(401)	-	(251)	-	(388)	+13
Operating CF & Investing CF	**-**	**(2,138)**	**-**	**524**	**-**	**(3,320)**	**-**	**(2,502)**	**(3,027)**
Financing Cash Flow	-	(916)	-	(2,885)	-	1,920	-	626	+3,512

Source: Company Data, WRJ Calculation

FY06/2016 Company Forecasts

FY06/2016 Company forecasts are going for prospective sales ¥103,020m (up 9.0% YoY), operating profit ¥700m (up 4.8%), recurring profit ¥688m (up 3.9%) and net profit ¥369m (down 8.8%), while operating profit margin 0.68% (down 0.03% points). Net profit is expected to come down over the year, as aforementioned unexpected one-off factors in FY06/2015 are not to reappear. Meanwhile, prospective divided per share is ¥30.0, implying payout ratio 45.6%.

Sales & Operating Profit Margin



Source: Company Data, WRJ Calculation (quarterly forecasts in FY06/2016: half-year Company forecasts, pro rata)

As far as we could gather, increasing sales and operating profit are in line with those of Medical Consumables & Equipment Business. In regards to medical consumables, steady sales growth is expected to persist, while sales of equipment are expected to recover. However, Company forecasts, on the equipment side, do not assume sales of large-sized projects that could be comparable to ones in FY06/2013 and FY06/2014. Thus, prospective sales growth rate in here is not estimated to be so substantial.

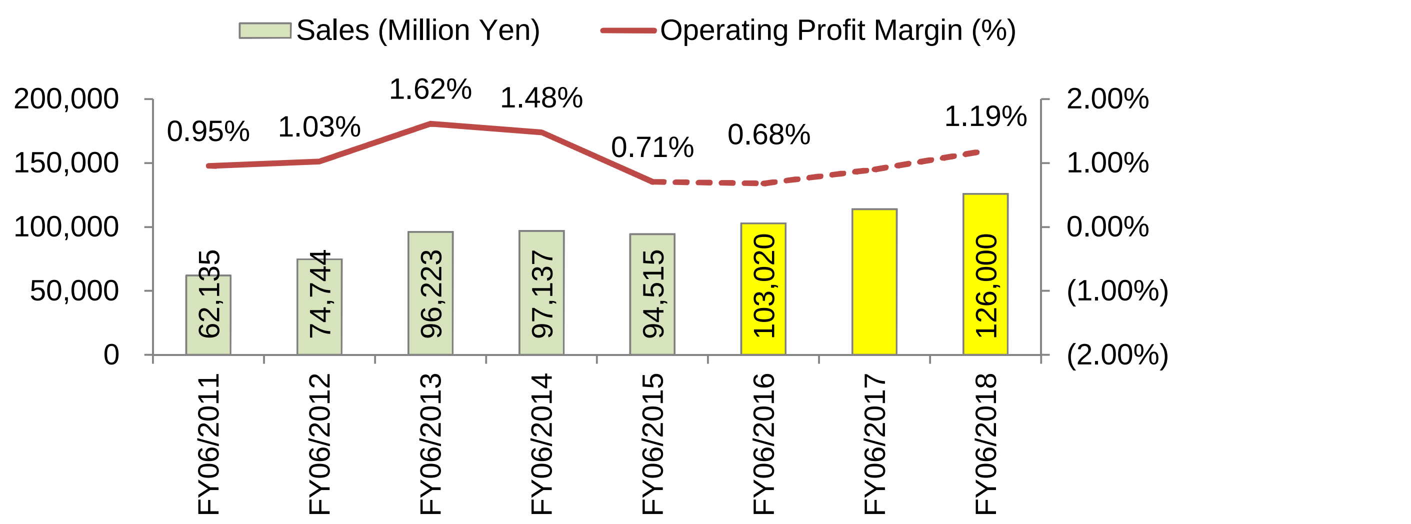
Meanwhile, the Company is to further enhance own sales forces in order to achieve "Management Target to Aim for" in FY06/2018, which is one of the factors for marginally lowering operating profit margin, as far as we could gather.

The other thing is, in order to promote sales in uncultivated territories, the Company is always looking to opportunities to implement new alliance strategy (merger with competitor to obtain geographically new sales territories), preceded by that of Sansei Medical Materials Co., Ltd., having been consolidated as subsidiary since Q3 FY06/2012. However, FY06/2016 Company forecasts do not assume anything associated with new alliance strategy, while this is also the case for "Management Target to Aim for" in FY06/2018. As a result, if anything on this side takes place in reality, it will generate some net add-ons on top of the prospective business performances.

Long-Term Prospects

On 10 August 2015, the Company disclosed that it has formulated “Management Target to Aim for” in FY06/2018, at the release of FY06/2015 results. In here, the Company is going for prospective sales ¥126,000m, operating profit ¥1,500m and operating profit margin 1.19% in FY06/2018. Based on FY06/2015 results, sales are to rise 10.1% and operating profit 30.9%, in term of CAGR, over the next three years, while operating profit margin up 0.48% points during the same period.

"Management Target to Aim for"



Source: Company Data, WRJ Calculation

In regards to improving operating profit margin over the next three years, persistently increasing sales are to be beneficial, while another positive impact will come from termination of goodwill write-offs associated with alliance strategies implemented so far. The Company is to see goodwill write-offs ¥103m (0.10% of sales) in FY06/2016, ¥35m (0.03% of sales) in FY06/2017 and nothing in FY06/2018. Still, the Company is not going for prospective operating profit margin as high as the levels in FY06/2013 and FY06/2014, when the Company substantially benefited from surging sales due to large-sized projects on the equipment side.

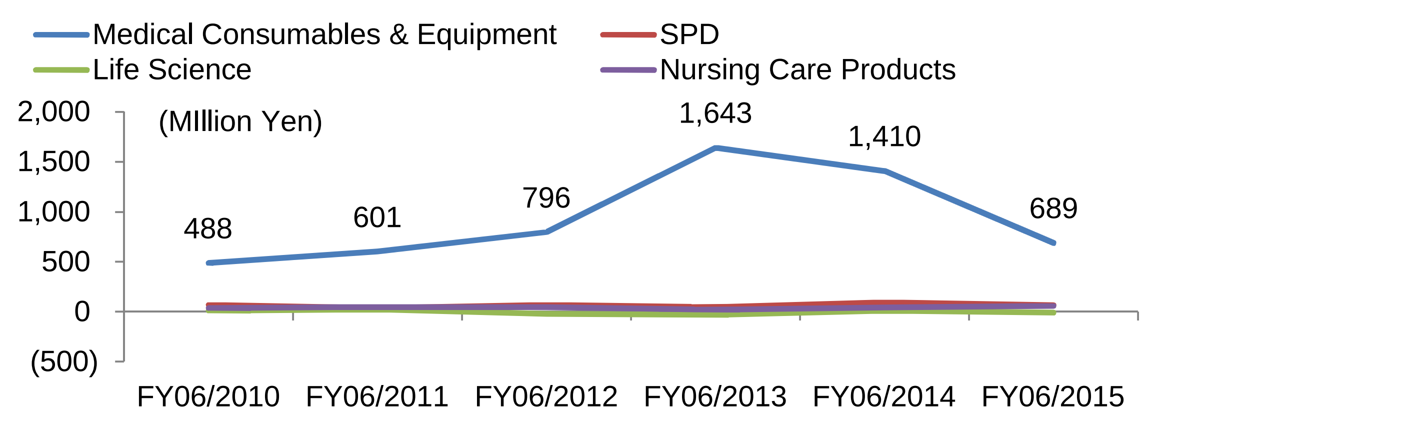
As a long-term management policy, meanwhile, the Company used to mention that it makes corporate efforts to further improve its safe and secured services, based on the key strengths of the Company, i.e., specialty knowhow associated with medical consumables and equipment as well as with surgical procedures, while improving capability to cope with customer needs to lower purchasing prices by means of beefing up procurement functions. Now, Mr. Yohei Maeshima is to be appointed as representative director (on 17 September 2015) and the Company, while basically succeeding the existing ones, is expected to come up with new management strategies paying more attention to views from customers than before, based on his career as medical doctor.

4.0 Business Model

Medical Consumables & Equipment Business

The Company is distributing medical consumables and equipment, mainly for major base hospitals heavily involved with acute care. This business domain in Japan has market size ¥2.6 trillion and CAGR 3%, just roughly speaking, where remains high potentials to get consolidated in the foreseeable future, given no less than 1,200 participants in the market. Meanwhile, it appears that the Company is seeing steadily increasing market shares, every year, as one of the largest players (the 5th largest). On the equipment side, the Company saw sales of large-sized projects in FY06/2013 and FY06/2014, although this did not continue into FY06/2015. As a result, the Company inevitably suffered from major adjustments of earnings, short-term. Meanwhile, all those operations have been conducted in Medical Consumables & Equipment by business segment.

Segment Profit



Source: Company Data

Consumables in Medical Consumables & Equipment Business represent merchandises to see stable demand, i.e., surgical-related supplies, orthopedic consumables, circulatory-organ consumables, etc., while equipment those associated with capital expenditures by customers, i.e., 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 or medical institutions. 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 90% of the collective segment profit, they have limited impacts to overall earnings of the Company even when they all are put together. In 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 difference relates to a factor that the Company also collects commissions from customers or medical institutions by being in charge of management of inventory, information and purchasing for them. Involvements with SPD Business are positioned as important issues 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 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%. In in FY06/2015, sales came in at ¥1,414m (up 15.4%), segment profit ¥57m (up 38.1%) and segment profit margin 4.03% (up 0.66% points) in this business segment.

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 (10.32% to 10.63% over the past 5 years), because the business model in here is totally different from that of the rest. The bulk of gross profit of the Company comes from added value generated by operations as distributor of merchandises, while the Company is basically involved with rental services in here, generating added value literally by rental services.

In FY06/2015, the number of users came in at 10,000 and the number of operation bases 9 as of the end of the year, while the former 19,000 and the latter 14, expected in "Management Target to Aim for" in FY06/2018. The Company is currently running own operation bases in Okayama-prefecture and the adjacent regions, steadily incorporating local demand in there, while planning to set up new one in Sendai (in November 2015) in FY06/2016 and another one in Fukushima by the end of FY06/2018, implying the Company's intention to newly penetrate into Tohoku region. Meanwhile, the Company is also planning to set up new ones in Nishi-Hiroshima, Nishinomiya and Takamatsu, by the end of FY06/2018, so that it should be able to beef up markets shares in existing territories.

Disclaimer

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