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KAWANISHI HOLDINGS (2689)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY06/2017		105,778	1,044	1,112	690	123.1	30.0	942.8
FY06/2018		107,663	1,230	1,235	1,054	187.9	40.0	1,121.3
FY06/2019CoE		110,881	1,324	1,336	861	153.5	40.0	-
FY06/2018	YoY	1.8%	17.9%	11.1%	52.6%	-	-	-
FY06/2019CoE	YoY	3.0%	7.6%	8.1%	(18.3%)	-	-	-
Consolidated Half Year (Million Yen)		**Sales**	**Operating Profit**	**Recurring Profit**	**Profit Attributable to Owners of Parent**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 to Q2 FY06/2018		54,563	704	706	595	-	-	-
Q3 to Q4 FY06/2018		53,099	526	529	459	-	-	-
Q1 to Q2 FY06/2019CoE		55,812	579	585	365	-	-	-
Q3 to Q4 FY06/2019CoE		55,069	745	751	496	-	-	-
Q1 to Q2 FY06/2019CoE	YoY	2.3%	(17.7%)	(17.1%)	(38.6%)	-	-	-
Q3 to Q4 FY06/2019CoE	YoY	3.7%	41.6%	41.9%	8.1%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (5 October 2018)

Record High Sales

KAWANISHI HOLDINGS, selling medical consumables and equipment to medical institutions represented by major base hospitals heavily involved with acute care, is to see favorable business performance. Consumables, accounting for the bulk of sales as a whole for the Company and being the key driver for growth, are expected to continue renewing record high sales going forward, while improving efficiency of operations due to changes of organization framework is to persist. In a midterm view, the Company is to see increasing sales as the general sales agent involved with distribution channels of merchandises to deal in deeper than now to pursue gross profit margin higher than now, beefing up operating profit margin. For example, the Company has started up selling medical simulator robot, belonging to equipment, to university hospitals, etc., albeit not much in sales proceeds to date. The Company, as the fourth largest integrated medical trader with competitive capability of sales, has been propelling so-called “medical-engineering collaboration (medical equipment distributor participated)”, while having mentioned that it was to exclusively procure innovated new merchandises developed by venture companies lacking in sales capability. Then, the above-mentioned medical simulator robot came up as the first one for this. As far as the existing business model is concerned, the Company operates as one of the multiple suppliers, while here does it operate as the general sales agent to exclusively deal in merchandise in the upstream of distribution channel. Thus, here does the Company plan to sell to peers as well. Meanwhile, the Company is going for launch of system to detect breast cancer by exhalation in Japan as the general sales agent in H2 FY06/2020 and midterm management plan assuming this is calling for prospective sales of ¥114,000m, operating profit of ¥2,000m and operating profit margin of 1.75% in FY06/2020, suggesting increases of sales by 2.8% and increases of operating profit by 50.9% over the previous year when FY06/2019 Company forecasts are to be met, while operating profit margin up 0.56% points.

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

2.0 Company Profile

One of the largest Integrated Medical Traders

Company Name	KAWANISHI HOLDINGS, INC. Website IR Information Share Price (Japanese)
Established	2 October 1967 (inaugurated on 1 May 1921)
Listing	21 December 2000: Tokyo Stock Exchange 2nd section (ticker: 2689)
Capital	¥ 607m (as of the end of June 2018)
No. of Shares	6,250,000 shares, including 639,347 treasury shares (as of the end of June 2018)
Main Features	● Set up by merger among three wholesale distributors of medical equipment and medical materials based in Chugoku and Shikoku regions ● Expectations for new acquisitions preceded by Sansei Medical Materials ● Trying to beef up sales as the general sales agent
Business Segments	Ⅰ. Medical Consumables and Equipment Ⅱ. SPD Ⅲ. Care Supplies Ⅳ. Imports and Sales
Top Management	President COO: Yohei Maeshima
Shareholders	MASP Inc. 15.1%, Treasury shares 10.2%, ESOP 5.6% (as of the end of June 2018)
Headquarters	Kita-ku, Okayama-city, Okayama-prefecture, JAPAN
No. of Employees	Consolidated: 1,163, Unconsolidated: 33 (as of the end of June 2018)

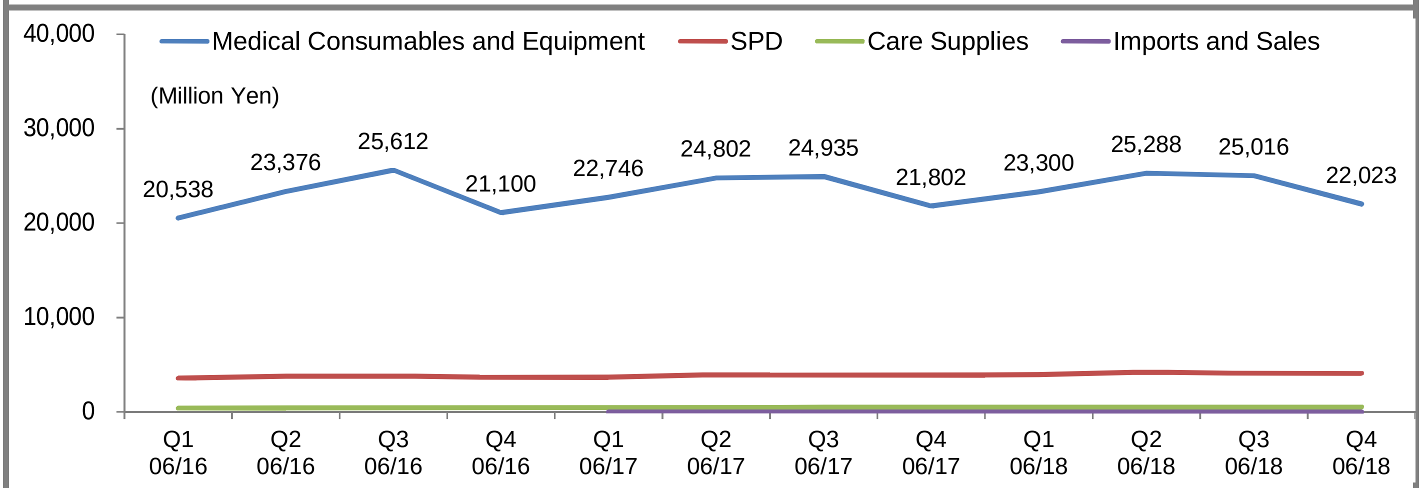
Source: Company Data

3.0 Recent Trading and Prospects

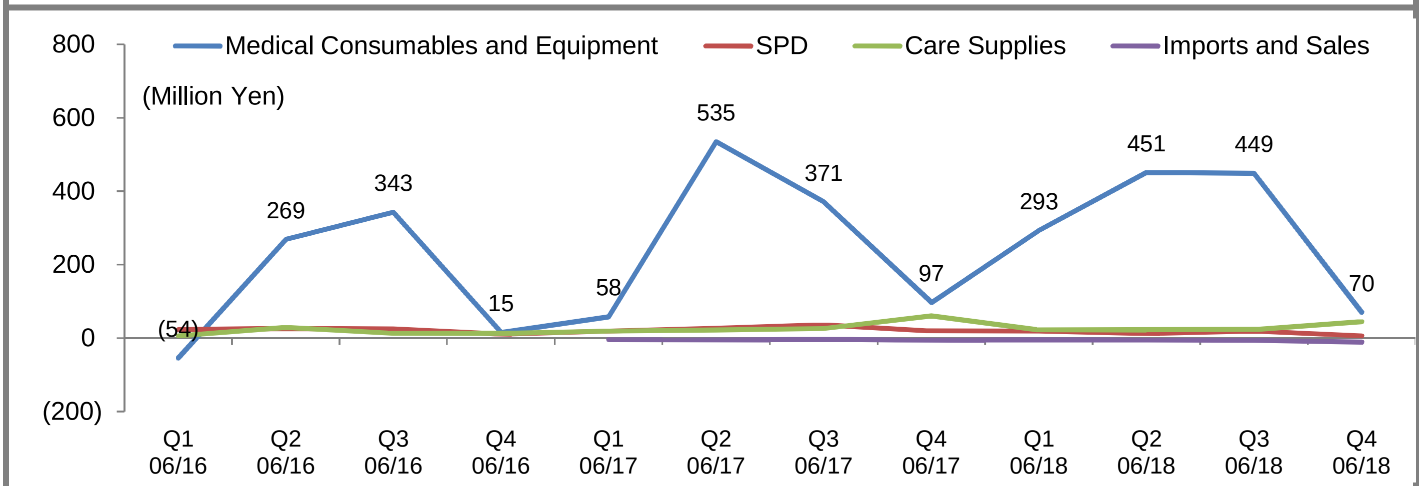
FY06/2018 Results

In FY06/2018, sales came in at ¥107,663m (up 1.8% YoY), operating profit ¥1,230m (up 17.9%), recurring profit ¥1,235m (up 11.1%) and profit attributable to owners of parent ¥1,054m (up 52.6%), while operating profit margin 1.14% (up 0.16% points). As has been disclosed beforehand on 13 July 2018, the Company saw sales and operating profit marginally better than expected due to booking of unexpected sales associated with equipment on the mainstay Medical Consumables and Equipment side. Operating profit better than expected is also attributable to delayed timing of spending expenses on R&D for system to detect breast cancer at early stage by means of analyzing exhalation, but the Company argues that demonstration experiment is currently making steady progress in university hospitals.

Sales



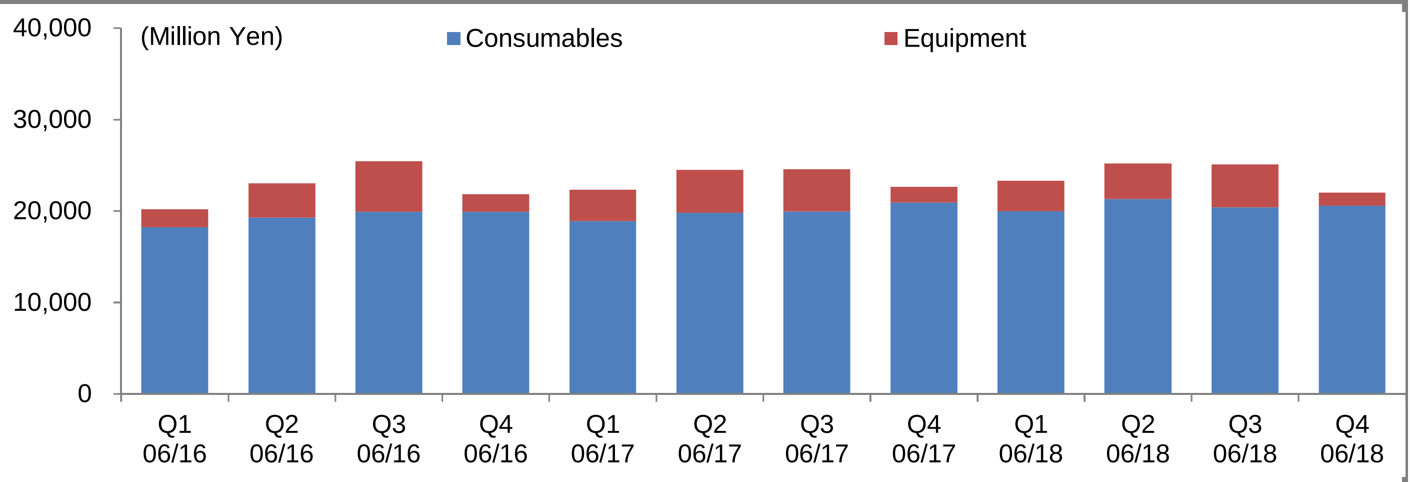
Operating Profit



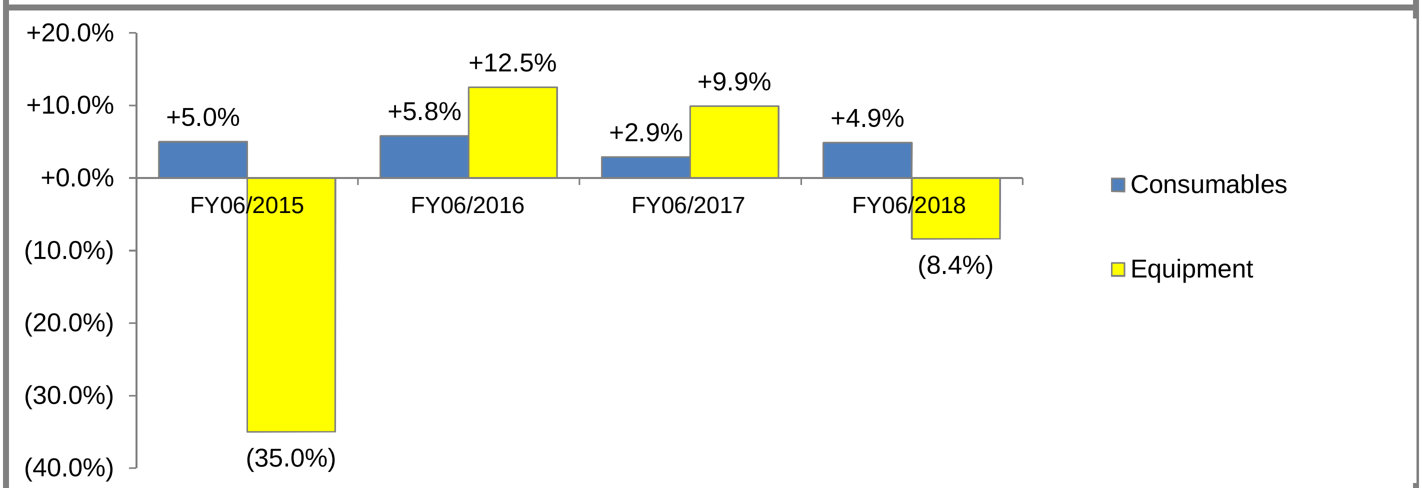
Source: Company Data, WRJ Calculation

Meanwhile, the Company saw gross profit of ¥11,023m (up 1.1%) and SG&A expenses of ¥9,792m (down 0.6%) or gross profit margin of 10.24% (down 0.06% points) and the ratio of SG&A expenses to sales of 9.10% (down 0.22% points). On the mainstay Medial Consumables and Equipment side, the Company suffered from ongoing pricing pressure to some parts of consumables, but it was almost compensated for by rationalization of procurement, having resulted in almost stable gross profit margin. Meanwhile, SG&A expenses marginally came down over the previous year due to improving efficiency of operations due to changes of organization framework as well as due to completion of goodwill write-off associated with acquisition in the past.

Sales of Medical Consumables and Equipment: Consumables and Equipment



Changes of Sales for Consumables and Equipment



Source: Company Data, WRJ Calculation

By business segment, the mainstay Medical Consumables and Equipment to sell medical consumables and equipment to medical institutions represented by major base hospitals heavily involved with acute care, saw sales of ¥95,629m (up 1.4%), operating profit of ¥1,264m (up 19.0%) and operating profit margin of 1.32% (up 0.20% points). Having accounted for 83.9% of sales as a whole for the Company and 89.6% of operating profit, this business segment is the key driver for business performance as a whole for the Company.

On the Medical Consumables and Equipment side, the Company roughly suggests that sales of consumables came in at ¥82,300m (up 4.9%) and equipment ¥13,300m (down 8.4%). In regards to consumables used in domains like surgical-operation-related, plastic surgery, circulatory system, etc., the Company deals in variety of merchandises, while they have a tendency to get stably consumed in line with everyday medical activities like surgical operations, leading to steady increases of sales with stability for the Company both short-term and long-term. More importantly, the Company, efficiently taking advantage of existing capability of sales while keen on launch of new merchandises as well as on entrance into new domains at the same time, appears seeing increases of own market shares. Compared with the market growth rate of 2.4% in terms of CAGR, suggested by the Company, sales of consumables saw increases by 4.9% over the previous year in FY06/2018 as above-mentioned.

Meanwhile, equipment are also sold to the same customer base, i.e., medical institutions represented by major base hospitals heavily involved with acute care, but demand hinges on something totally different. Equipment comprise MRI, cineangiocardiography, CT, ultrasonic diagnostic equipment as well as theater-related equipment like respiratory apparatus, etc. and demand here hinges on capital expenditures in line with construction of new building and renewal/extension of existing building by the customers. Short-term, sales are concentrated in Q3 (January to March) including March when the customers execute their budgets and sales are apt to adjust a lot in Q4 to directly follow. This drives sales as a whole for Medical Consumables and Equipment in the same way and even more for operating profit. Given that business performance as a whole for the Company hinges on that of Medical Consumables and Equipment, it is unavoidable that equipment drives short-term business performance as a whole for the Company at the end of the day.

Longer-term, we may expect marginally increasing demand for equipment, while it still remains true that the Company sees volatility of sales for equipment in a midterm view due to some reasons. For example, sales in FY06/2015 came down by no less than 35.0% over the previous year due to a reaction to booming capital expenditures by the customers in the previous year. Meanwhile, in Q2 FY06/2017, the Company saw sales on large-scale project on special procurements associated with disaster recovery in Tohoku region. This project saw sales fairly large as well as gross profit margin fairy high and the latter was due to heavy involvement with operations to install equipment, etc. by own qualified architect of the first class. Eventually, in the said quarter, the Company saw the highest operating profit (¥535m) on the Medical Consumables and Equipment side out of all the quarters over the past three years. Then, on a full-year basis, in FY06/2018, the Company suffered from decreases of sales on equipment over the previous years, given this issue as one of the key factors, having resulted in a major negative factor for earnings at the same time as far as we could see. Still, it appears increasing sales and earnings from consumables more than compensated for this.

Thus, as a result, the Company saw increasing sales and earnings as a whole. Meanwhile, recurring profit came in at ¥1,235m (up 11.1%) versus ¥1,054m (up 52.6%) for profit attributable to owners of parent. This is due to that the Company saw net increases by ¥144m at the extraordinary level over the previous year to ¥145m from ¥1 and net decreases by ¥93m for income taxes to ¥338m from ¥432m. The former was basically in line with booking of gains on completion of retirement benefit scheme as much as ¥106m as extraordinary profit, driven by changes of retirement benefit scheme. The latter basically came from decreases of tax charges stemming from revision on probability to retrieve deferred tax assets. As both of them are one-off issues not to reappear, the Company will inevitably suffer from fall of profit attributable to owners of parent in FY06/2019 to the same extent over FY06/2018.

Income Statement (Cumulative, Quarterly)

Income Statement (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q1 to Q2 06/2017	Cons.Act Q1 to Q3 06/2017	Cons.Act Q1 to Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q1 to Q2 06/2018	Cons.Act Q1 to Q3 06/2018	Cons.Act Q1 to Q4 06/2018	YoY Net Chg.
Sales	**25,459**	**53,184**	**81,105**	**105,778**	**26,227**	**54,563**	**82,610**	**107,663**	**+1,884**
Cost of Sales	22,953	47,727	72,832	94,879	23,538	49,041	74,201	96,640	+1,760
Gross Profit	2,506	5,456	8,273	10,898	2,689	5,522	8,408	11,023	+124
SG&A Expenses	2,464	4,885	7,313	9,854	2,419	4,817	7,266	9,792	(62)
Operating Profit	**41**	**571**	**960**	**1,044**	**269**	**704**	**1,142**	**1,230**	**+186**
Non Operating Balance	11	19	66	68	0	1	1	5	(63)
Recurring Profit	**52**	**590**	**1,026**	**1,112**	**270**	**706**	**1,143**	**1,235**	**+123**
Extraordinary Balance	5	14	17	1	31	24	146	145	+144
Profit before Income Taxes	57	604	1,044	1,114	301	731	1,290	1,381	+267
Income Taxes	38	231	388	432	98	139	314	338	(93)
NP Belonging to Non-Controlling SHs	(1)	(4)	(5)	(8)	(1)	(3)	(5)	(10)	(2)
Profit Attributable to Owners of Parent	**20**	**377**	**661**	**690**	**204**	**595**	**981**	**1,054**	**+363**
Sales YoY	+10.2%	+8.0%	+4.5%	+4.3%	+3.0%	+2.6%	+1.9%	+1.8%	-
Operating Profit YoY	-	+193.3%	+79.6%	+92.2%	+557.3%	+23.4%	+18.9%	+17.9%	-
Recurring Profit YoY	-	+205.2%	+91.6%	+99.8%	+413.4%	+19.6%	+11.4%	+11.1%	-
Profit Attributable to Owners of Parent YoY	-	+312.9%	+121.7%	+125.9%	+880.2%	+57.6%	+48.4%	+52.6%	-
Gross Profit Margin	9.84%	10.26%	10.20%	10.30%	10.25%	10.12%	10.18%	10.24%	(0.06%)
(SG&A / Sales)	9.68%	9.19%	9.02%	9.32%	9.23%	8.83%	8.80%	9.10%	(0.22%)
Operating Profit Margin	0.16%	1.07%	1.18%	0.99%	1.03%	1.29%	1.38%	1.14%	+0.16%
Recurring Profit Margin	0.21%	1.11%	1.27%	1.05%	1.03%	1.29%	1.38%	1.15%	+0.10%
Profit Attributable to Owners of Parent Margin	0.08%	0.71%	0.82%	0.65%	0.78%	1.09%	1.19%	0.98%	+0.33%
Total Income Taxes / Profit before Income Taxes	67.0%	38.3%	37.2%	38.8%	32.7%	19.1%	24.4%	24.5%	(14.3%)

Income Statement (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q2 06/2017	Cons.Act Q3 06/2017	Cons.Act Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q2 06/2018	Cons.Act Q3 06/2018	Cons.Act Q4 06/2018	YoY Net Chg.
Sales	**25,459**	**27,725**	**27,920**	**24,673**	**26,227**	**28,336**	**28,046**	**25,053**	**+380**
Cost of Sales	22,953	24,774	25,104	22,047	23,538	25,503	25,160	22,438	+390
Gross Profit	2,506	2,950	2,816	2,625	2,689	2,832	2,886	2,614	(10)
SG&A Expenses	2,464	2,420	2,427	2,541	2,419	2,397	2,449	2,526	(15)
Operating Profit	**41**	**530**	**388**	**84**	**269**	**435**	**437**	**88**	**+4**
Non Operating Balance	11	7	46	2	0	1	0	3	+1
Recurring Profit	**52**	**537**	**435**	**86**	**270**	**436**	**437**	**92**	**+5**
Extraordinary Balance	5	9	3	(16)	31	(6)	122	0	+15
Profit before Income Taxes	57	547	439	70	301	429	559	91	+20
Income Taxes	38	192	156	44	98	41	174	24	(19)
NP Belonging to Non-Controlling SHs	(1)	(2)	(1)	(2)	(1)	(1)	(1)	(5)	(2)
Profit Attributable to Owners of Parent	**20**	**356**	**283**	**29**	**204**	**390**	**386**	**72**	**+43**
Sales YoY	+10.2%	+6.1%	(1.7%)	+3.6%	+3.0%	+2.2%	+0.5%	+1.5%	-
Operating Profit YoY	-	+98.1%	+14.5%	+843.1%	+557.3%	(17.9%)	+12.4%	+5.5%	-
Recurring Profit YoY	-	+103.7%	+27.3%	+309.7%	+413.4%	(18.9%)	+0.4%	+6.5%	-
Profit Attributable to Owners of Parent YoY	-	+117.4%	+37.2%	+299.9%	+880.2%	+9.4%	+36.2%	+147.5%	-
Gross Profit Margin	9.84%	10.64%	10.09%	10.64%	10.25%	10.00%	10.29%	10.44%	(0.20%)
(SG&A / Sales)	9.68%	8.73%	8.69%	10.30%	9.23%	8.46%	8.73%	10.08%	(0.22%)
Operating Profit Margin	0.16%	1.91%	1.39%	0.34%	1.03%	1.54%	1.56%	0.35%	+0.01%
Recurring Profit Margin	0.21%	1.94%	1.56%	0.35%	1.03%	1.54%	1.56%	0.37%	+0.02%
Profit Attributable to Owners of Parent Margin	0.08%	1.29%	1.02%	0.12%	0.78%	1.38%	1.38%	0.29%	+0.17%
Total Income Taxes / Profit before Income Taxes	67.0%	35.2%	35.7%	62.7%	32.7%	9.6%	31.2%	26.5%	(36.2%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q1 to Q2 06/2017	Cons.Act Q1 to Q3 06/2017	Cons.Act Q1 to Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q1 to Q2 06/2018	Cons.Act Q1 to Q3 06/2018	Cons.Act Q1 to Q4 06/2018	YoY Net Chg.
Medical Consumables and Equipment	22,746	47,548	72,484	94,286	23,300	48,589	73,605	95,629	+1,343
SPD	3,697	7,645	11,547	15,442	3,946	8,173	12,252	16,348	+906
Care Supplies	443	901	1,400	1,918	496	998	1,504	2,034	+115
Imports and Sales	0	0	0	0	0	0	0	0	-
Elimination	(1,427)	(2,910)	(4,327)	(5,869)	(1,516)	(3,197)	(4,752)	(6,349)	(480)
Sales	**25,459**	**53,184**	**81,105**	**105,778**	**26,227**	**54,563**	**82,610**	**107,663**	**+1,884**
Medical Consumables and Equipment	+10.7%	+8.3%	+4.3%	+4.0%	+2.4%	+2.2%	+1.5%	+1.4%	-
SPD	+3.6%	+4.1%	+3.4%	+4.1%	+6.7%	+6.9%	+6.1%	+5.9%	-
Care Supplies	+14.6%	+10.9%	+13.3%	+14.8%	+11.9%	+10.8%	+7.4%	+6.0%	-
Imports and Sales	-	-	-	-	-	-	-	-	-
Sales (YoY)	**+10.2%**	**+8.0%**	**+4.5%**	**+4.3%**	**+3.0%**	**+2.6%**	**+1.9%**	**+1.8%**	**-**
Medical Consumables and Equipment	58	593	965	1,062	293	744	1,194	1,264	+202
SPD	19	47	84	103	20	33	52	59	(43)
Care Supplies	19	41	67	128	22	45	68	114	(14)
Imports and Sales	(4)	(9)	(13)	(20)	(4)	(9)	(16)	(27)	(6)
Segment Profit	**92**	**672**	**1,103**	**1,274**	**331**	**814**	**1,300**	**1,412**	**+137**
Elimination	(51)	(101)	(143)	(230)	(61)	(109)	(157)	(181)	+48
Operating Profit	**41**	**571**	**960**	**1,044**	**269**	**704**	**1,142**	**1,230**	**+186**
Medical Consumables and Equipment	0.26%	1.25%	1.33%	1.13%	1.26%	1.53%	1.62%	1.32%	+0.20%
SPD	0.53%	0.62%	0.73%	0.67%	0.52%	0.41%	0.43%	0.37%	(0.30%)
Care Supplies	4.29%	4.59%	4.83%	6.70%	4.43%	4.57%	4.58%	5.63%	(1.07%)
Imports and Sales	-	-	-	-	-	-	-	-	-
Operating Profit Margin	**0.16%**	**1.07%**	**1.18%**	**0.99%**	**1.03%**	**1.29%**	**1.38%**	**1.14%**	**+0.16%**

Segmented Information (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q2 06/2017	Cons.Act Q3 06/2017	Cons.Act Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q2 06/2018	Cons.Act Q3 06/2018	Cons.Act Q4 06/2018	YoY Net Chg.
Medical Consumables and Equipment	22,746	24,802	24,935	21,802	23,300	25,288	25,016	22,023	+221
SPD	3,697	3,948	3,902	3,894	3,946	4,227	4,079	4,096	+201
Care Supplies	443	457	499	518	496	501	505	530	+11
Imports and Sales	0	0	0	0	0	0	0	0	-
Elimination	(1,427)	(1,482)	(1,416)	(1,542)	(1,516)	(1,680)	(1,555)	(1,596)	(54)
Sales	**25,459**	**27,725**	**27,920**	**24,673**	**26,227**	**28,336**	**28,046**	**25,053**	**+380**
Medical Consumables and Equipment	+10.7%	+6.1%	(2.6%)	+3.3%	+2.4%	+2.0%	+0.3%	+1.0%	-
SPD	+3.6%	+4.5%	+2.2%	+6.2%	+6.7%	+7.1%	+4.5%	+5.2%	-
Care Supplies	+14.6%	+7.7%	+17.9%	+18.8%	+11.9%	+9.6%	+1.4%	+2.3%	-
Imports and Sales	-	-	-	-	-	-	-	-	-
Sales (YoY)	**+10.2%**	**+6.1%**	**(1.7%)**	**+3.6%**	**+3.0%**	**+2.2%**	**+0.5%**	**+1.5%**	**-**
Medical Consumables and Equipment	58	535	371	97	293	451	449	70	(27)
SPD	19	27	36	19	20	12	19	6	(12)
Care Supplies	19	22	26	60	22	23	23	45	(15)
Imports and Sales	(4)	(5)	(3)	(6)	(4)	(5)	(6)	(11)	(4)
Segment Profit	**92**	**580**	**430**	**170**	**331**	**482**	**485**	**111**	**(58)**
Elimination	(51)	(50)	(41)	(86)	(61)	(47)	(48)	(23)	+63
Operating Profit	**41**	**530**	**388**	**84**	**269**	**435**	**437**	**88**	**+4**
Medical Consumables and Equipment	0.26%	2.16%	1.49%	0.45%	1.26%	1.79%	1.80%	0.32%	(0.13%)
SPD	0.53%	0.70%	0.94%	0.49%	0.52%	0.30%	0.48%	0.17%	(0.32%)
Care Supplies	4.29%	4.88%	5.28%	11.75%	4.43%	4.72%	4.58%	8.61%	(3.13%)
Imports and Sales	-	-	-	-	-	-	-	-	-
Operating Profit Margin	**0.16%**	**1.91%**	**1.39%**	**0.34%**	**1.03%**	**1.54%**	**1.56%**	**0.35%**	**+0.01%**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q2 06/2017	Cons.Act Q3 06/2017	Cons.Act Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q2 06/2018	Cons.Act Q3 06/2018	Cons.Act Q4 06/2018	YoY Net Chg.
Cash and Deposit	2,435	3,063	2,775	2,220	2,791	2,223	2,789	1,415	(804)
Accounts Receivables	19,328	21,412	21,688	18,726	20,899	22,939	21,610	20,389	+1,662
Inventory	4,576	4,792	4,581	4,331	4,539	4,808	4,741	4,594	+262
Other	900	745	738	937	941	874	899	1,236	+298
Current Assets	**27,240**	**30,013**	**29,784**	**26,215**	**29,171**	**30,845**	**30,041**	**27,636**	**+1,420**
Tangible Assets	3,741	3,714	3,671	3,668	3,709	3,772	3,744	3,753	+85
Intangible Assets	215	184	178	212	243	270	259	242	+29
Investments and Other Assets	1,443	1,479	1,430	1,678	1,566	1,669	1,977	1,986	+308
Fixed Assets	**5,401**	**5,377**	**5,280**	**5,558**	**5,519**	**5,712**	**5,981**	**5,981**	**+422**
Total Assets	**32,641**	**35,391**	**35,064**	**31,774**	**34,690**	**36,557**	**36,022**	**33,617**	**+1,842**
Accounts Payables	21,174	23,627	23,807	21,089	21,723	24,543	24,163	21,712	+622
Short Term Debt	3,554	3,414	2,574	1,535	4,110	2,985	2,060	1,735	+200
Other	1,318	1,372	1,510	1,815	1,506	1,254	1,478	1,779	(36)
Current Liabilities	**26,048**	**28,415**	**27,892**	**24,440**	**27,339**	**28,783**	**27,701**	**25,226**	**+786**
Long Term Debt	797	729	630	546	502	444	385	326	(220)
Other	1,242	1,278	1,284	1,362	1,405	1,459	1,582	1,647	+285
Fixed Liabilities	**2,040**	**2,008**	**1,915**	**1,908**	**1,908**	**1,903**	**1,967**	**1,973**	**+65**
Total Liabilities	**28,089**	**30,423**	**29,807**	**26,349**	**29,248**	**30,686**	**29,669**	**27,200**	**+851**
Shareholders' Equity	**4,467**	**4,827**	**5,111**	**5,140**	**5,177**	**5,567**	**5,954**	**6,026**	**+885**
Other	84	140	145	285	265	303	399	390	+105
Net Assets	**4,552**	**4,968**	**5,256**	**5,425**	**5,442**	**5,870**	**6,353**	**6,416**	**+990**
Total Liabilities and Net Assets	**32,641**	**35,391**	**35,064**	**31,774**	**34,690**	**36,557**	**36,022**	**33,617**	**+1,842**
Equity Capital	4,435	4,827	5,117	5,289	5,308	5,738	6,222	6,291	+1,002
Interest Bearing Debt	4,352	4,143	3,205	2,081	4,612	3,429	2,445	2,061	(20)
Net Debt	1,917	1,080	429	(138)	1,821	1,206	(343)	645	+784
Equity Capital Ratio	13.6%	13.6%	14.6%	16.6%	15.3%	15.7%	17.3%	18.7%	+2.1%
Net Debt Equity Ratio	43.2%	22.4%	8.4%	(2.6%)	34.3%	21.0%	(5.5%)	10.3%	+12.9%
ROE (12 months)	9.0%	12.5%	13.4%	14.0%	18.0%	17.2%	17.8%	18.2%	+4.2%
ROA (12 months)	2.1%	2.8%	2.9%	3.5%	4.0%	3.4%	3.5%	3.8%	+0.2%
Days for Inventory Turnover	18	18	17	18	18	17	17	19	-
Quick Ratio	84%	86%	88%	86%	87%	87%	88%	86%	-
Current Ratio	105%	106%	107%	107%	107%	107%	108%	110%	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

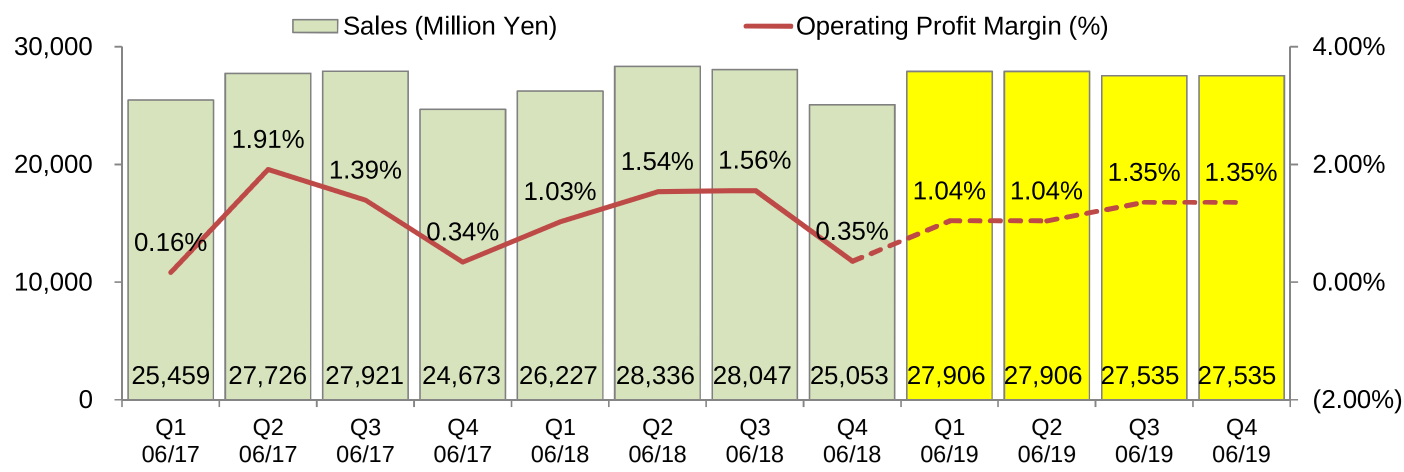
Cash Flow Statement (Million Yen)	Cons.Act Q1 06/2017	Cons.Act Q1 to Q2 06/2017	Cons.Act Q1 to Q3 06/2017	Cons.Act Q1 to Q4 06/2017	Cons.Act Q1 06/2018	Cons.Act Q1 to Q2 06/2018	Cons.Act Q1 to Q3 06/2018	Cons.Act Q1 to Q4 06/2018	YoY Net Chg.
Operating Cash Flow	-	(423)	-	871	-	(1,038)	-	(314)	(1,185)
Investing Cash Flow	-	(39)	-	(99)	-	(124)	-	(269)	(169)
Operating CF & Investing CF	**-**	**(463)**	**-**	**771**	**-**	**(1,162)**	**-**	**(583)**	**(1,355)**
Financing Cash Flow	-	1,337	-	(741)	-	1,165	-	(227)	+513

Source: Company Data, WRJ Calculation

FY06/2019 Company Forecasts

FY06/2019 Company forecasts are going for prospective sales of ¥110,881m (up 3.0% YoY), operating profit of ¥1,324m (up 7.6%), recurring profit of ¥1,336m (up 8.1%) and profit attributable to owners of parent of ¥861m (down 18.3%), while operating profit margin of 1.19% (up 0.05% points).

Sales and Operating Profit Margin



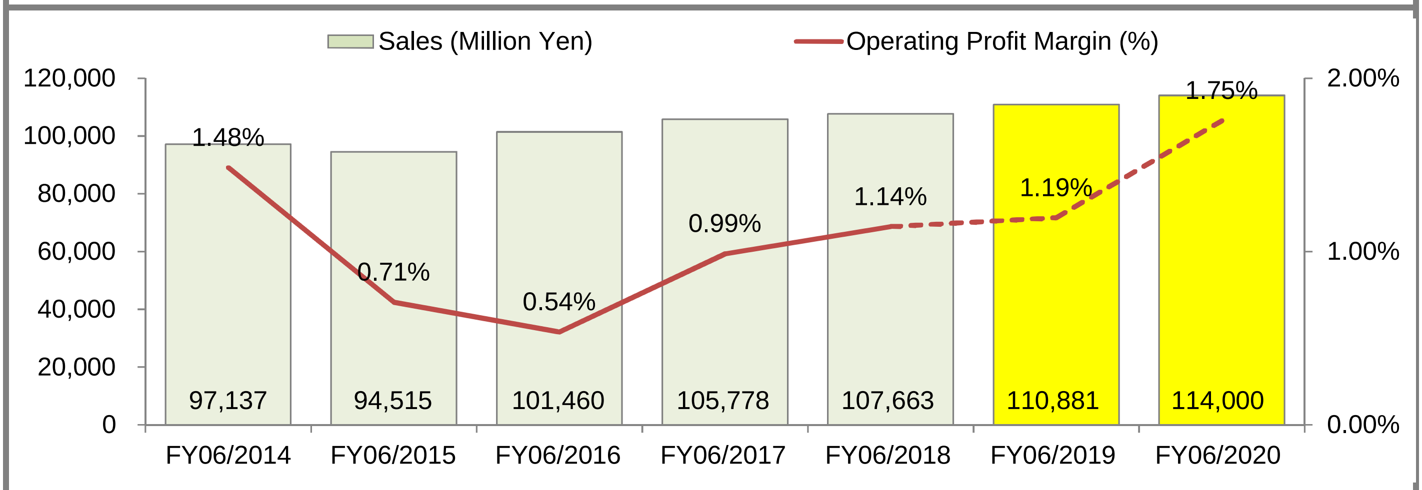
Source: Company Data, WRJ Calculation (quarters of FY06/2019: Q1 to Q2 and H2 Company forecasts, pro rata)

The Company is going for consistency and stability for dividend as the primary basic policy, while retaining earnings to flexibly invest in future growth as the secondary basic policy. Based on the primary basic policy, the Company used to go for yearend dividend of ¥30.0 per share for four years in a row for FY06/2018, but it announced to raise it up to ¥40.0 (payout ratio of 21.3%) per share at the release of FY06/2018 results (9 August 2018). Meanwhile, although the Company is to suffer from decreases of profit attributable to owners of parent due to aforementioned negative factors, yearend dividend of ¥40.0 (payout ratio of 26.1%) is to persist in FY06/2019, according to the Company. Given favorable prospects for business performance in FY06/2019, but for one-off factors, it appears that the Company has decided to share earnings with shareholders more than before.

Long-Term Prospects

At the release of FY06/2017 results on 9 August 2017, the Company also released midterm management plan (FY06/2018 to FY06/2020). As prospective business performance target, midterm management plan is calling for sales of ¥114,000m, operating profit of ¥2,000m and operating profit margin of 1.75% in FY06/2020, i.e., the last year of the plan, implying CAGR of 2.5% for sales and 24.2% for operating profit during the three-year period after FY06/2017 results, while operating profit margin improving by 0.77% points. Compared with assumptions here, the results in the first year or FY06/2018 were marginally better and FY06/2019 Company forecasts, mentioned earlier, are going for rather better figures, according to the Company.

Midterm Management Plan



Source: Company Data, WRJ Calculation

As the key themes of midterm management plan, the Company mentions “acquisition of new earnings pillars”, “pursuit of rationalization and efficiency” and “work style reform”. As far as we could see, the Company is looking to “acquisition of new earnings pillars” in particular as the driver to achieve above-mentioned prospective business performance target. The Company reveals its intention to beef up sales by means of being involved with distribution channels of merchandises to deal in deeper than now as the general sales agent to be able to pursue gross profit margin higher than now.

The Company, as integrated medical trader with competitive capability of sales, has been propelling so-called “medical-engineering collaboration (medical equipment distributor participated)”, while having mentioned that it was to exclusively procure innovated new merchandises developed by venture companies lacking in sales capability. Specifically speaking, the Company has been consistently holding sales-support conferences with venture companies, while having started to exclusively sell medical simulator robot in Q3 FY06/2018 as the general sales agent.

On 18 August 2017, it was disclosed in the release that MICOTO Technology Inc., based in Yonago-city of Tottori-prefecture, and EXSOLA MEDICAL Inc. or one of the operating companies under management reached basic agreement to conclude the general sales agent contract in regards to medical simulation robot 'mikoto'. Based on the said basic agreement, the Company has started up operations to exclusively sell the merchandise across Japan as well as providing solutions after introduction, including support services and maintenance services.

Medical Simulator Robot 'mikoto': You can feel "life" with the Robot 'mikoto'

Source: Company Data

Since a few years ago, it has been increasingly important in doctors' training to practically take part in medical treatment rather than just watching in order to further facilitate acquisition of clinical skills and to understand medical safety. Thus, there has been changeover of the contents of the training so that practical knowledge should be enhanced more than before. One of the tools for this is practice-oriented and/or simulation-oriented education to take advantage of simulators, favorably driving the market for medical simulation equipment. In order to cope with increasing needs here, MICOTO Technology Inc. has developed 'mikoto'. i.e., medical simulator robot being equipped with features of quasi-real appearance, structure and response having never been materialized before, making a situation as if it were real human being, while planning to propel sales promotions through the general sales agent contract with the Company.

On top of this, although no sales have been booked to date, the Company has also launched endoscope with innovated technology. This is based on contact concluded with KAIROS CO., LTD., based in Chiyoda-ku of Tokyo, to exclusively sell its proprietary merchandise or the world's first 8K endoscope for laparoscopic surgery in 9 prefectures of Chugoku and Shikoku regions and in 6 prefectures of Tohoku region as the general sales agent. According to the Company, the key feature is highly appreciated that it reduces risk to damage organs by means of preventing interference among surgical instruments, achievable with capability to assure large surgical space supported by function to switch to extensive large area display by handle control with hardware of endoscope absolutely static. To add to this, together with super high resolution equating to vision of 4.3 as well as with high safety, it enables blood vessels that cannot be recognized with the naked eye get recognized or border line between tumor tissue and normal tissue in order to keep the latter.

Meanwhile, in H2 FY06/2020, the Company is going for launch of system to detect breast cancer at early stage by means of analyzing exhalation. On 16 February 2016, the Company concluded the general sales agent contract in Japan on the said merchandise with a medical equipment venture company based in Israel, while having been making progress of demonstration experiment in medical institutions to date, while having seen expenses from here with SG&A expenses. Then, after clinical trial and approval, the Company is to launch the said merchandises.

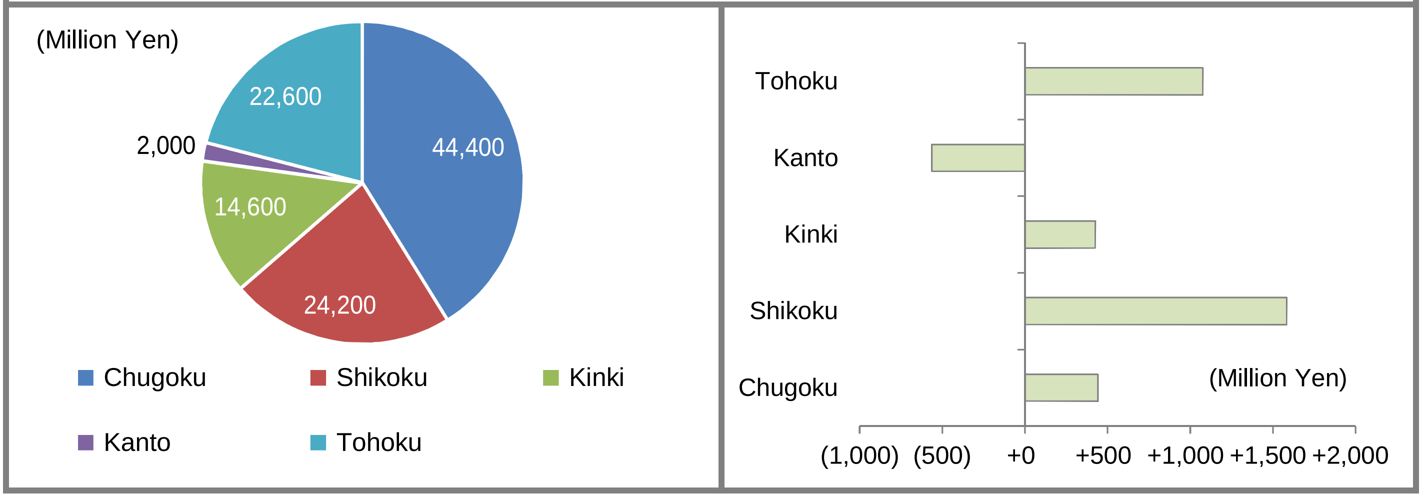
At the moment, mammography and ultrasonic diagnostic equipment are used as the key devices to detect breast cancer. The 2014 survey by Ministry of Health and Welfare estimates 5.6m medical examinees per annum seeing doctor for detection based on mammography, implying the penetration rate of 20% out of the potential market of 28.2m (the number of Japanese females in their forties, fifties and sixties). Seeing doctor in the existing way unavoidably incurs some invasive pains, etc. for medical examinees, while just analyzing exhalation does not do so at all. Thus, the latter is expected to get increasingly adopted as preliminary process prior to the former, according to the Company.

4.0 Business Model

Medical Consumables and Equipment

In the mainstay Medical Consumables and Equipment, the Company sells medical consumables and equipment to medical institutions represented by major base hospitals heavily involved with acute care. Just roughly speaking, this business domain in Japan has market size of ¥2.8 trillion per annum and CAGR of 2.4% going forward, according to the Company. Meanwhile, the number of players in the market stands at more than 1,000, implying a large room remaining for consolidation in the foreseeable future.

Sales by Region and Net Changes over the Same Period in the Previous Year (FY06/2018 Results)

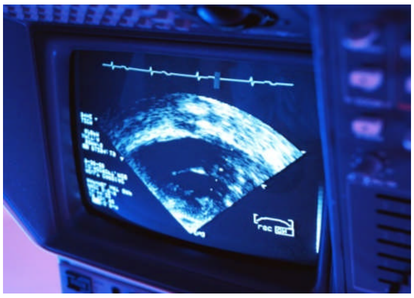


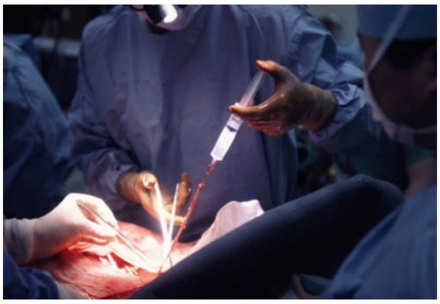
Source: Company Data, WRJ Calculation

In terms of sales by region, the Company, based in Okayama-city, has the largest exposure to Chugoku region where Okayama-city is included. Meanwhile, the Company acquired Sansei Medical Materials Co., Ltd., having made it operating company under management since Q3 FY06/2012. Driven by this, exposure of the Company to Tohoku region surged, while that of Kanto region newly started up. Thus, the Company made remarkable progress of sales enhancement in geographical territory having had remained uncultivated, while beefing up own market shares at the same time, together with the acquisition of peer. Meanwhile, sales by region in FY06/2018 suggest that there are good opportunities for the Company to implement acquisition in Kanto region in particular.

On top of Medical Consumables and Equipment, the Company also runs SPD and Care Supplies as well as Imports and Sales. Still, each business segment has remained insignificant in terms of impacts to earnings as a whole for the Company, which thus hinges on Medical Consumables and Equipment to a large extent.

Merchandises of Medical Consumables and Equipment (Image Pictures)





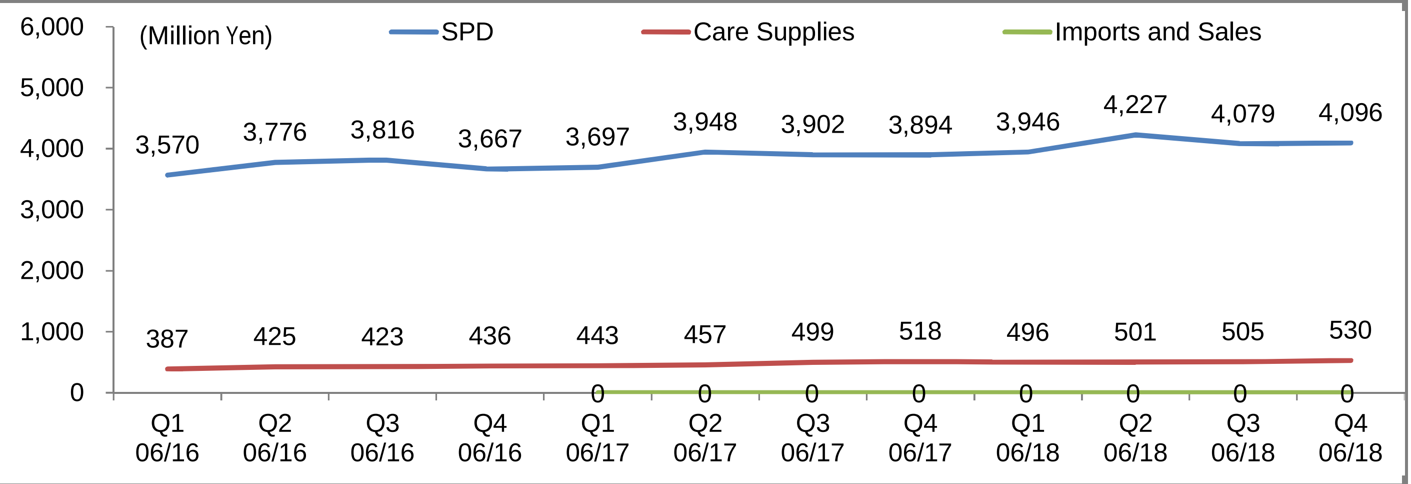
Source: Company Data

SPD (Supply Processing and Distribution) is run by business model based on that of Medical Consumables and Equipment, while the key difference is that earnings come from commissions paid by the customers for consigned administrative operations to manage merchandises and information. In other words, sales of merchandises with which the Company is involved by the said operations are booked, but the Company creates almost no added value as integrated medical trader in charge of distribution, resulting in booking of cost of sales almost as large as sales and eventually in very high ratio of cost of sales against sales when simply calculated, according to the Company. Thus, this business segment saw operating profit margin of 0.37% in FY06/2018.

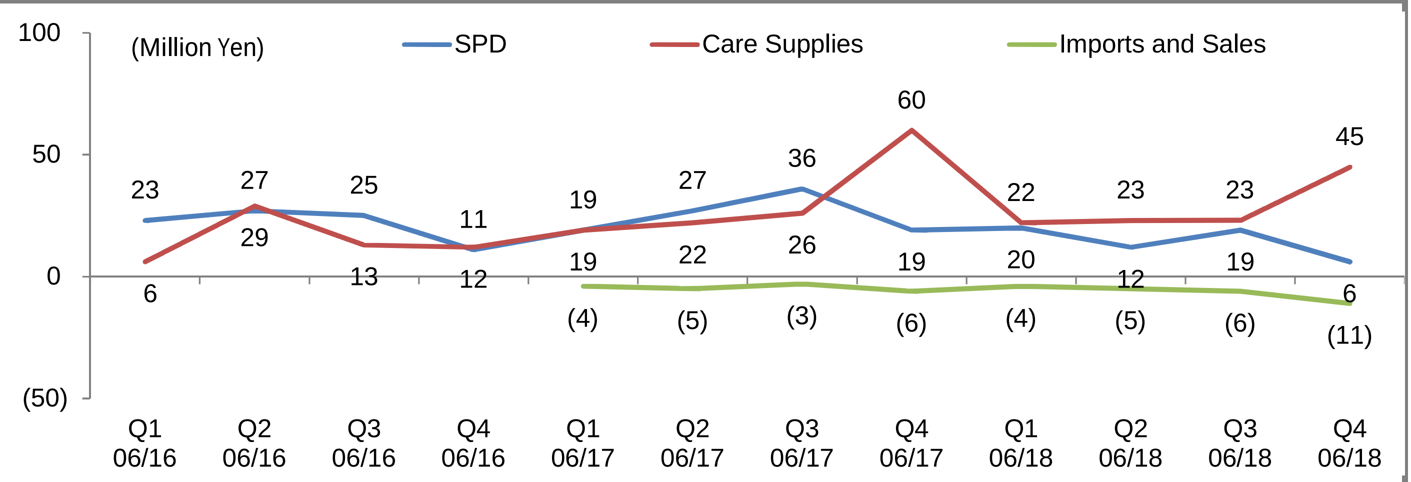
Care Supplies refers to operations of sales and rental services of nursing-care beds and supplies. The mainstay operations here are those of rental services of nursing-care beds, accounting for some 80% of sales here and carrying gross profit margin of some 50%. In all the business segments but for Care Supplies, the Company is exclusively exposed to medical institutions as own customers, while Care Supplies to local elderly people and their families, which is the distinguished feature for this business segment. On top of this, given nature of business model totally different, this business segment saw operating profit margin of 5.63%, far higher than the rest of the business. Still, sales have remained insignificant as a constituent of overall business operations and thus earnings at the same time.

Meanwhile, the Company set up Imports and Sales as business segment to run operations of system to detect breast cancer by exhalation and no sales have been booked to date, while personnel expenses, etc. allocated here booked as operating loss.

Sales



Operating Profit



Source: Company Data, WRJ Calculation

5.0 Our Reports on the Company in the Past

Fiscal Year	Results Update	Company Report
Q4 FY06/2018	Increases of Earnings and Dividend	-
Q3 FY06/2018	-	A New Scheme
Q2 FY06/2018	Steady Consumables	Launching New Merchandises
Q1 FY06/2018	-	Head Start
Q4 FY06/2017	Pursuing Profitability	Coping with Commoditization
Q3 FY06/2017	-	Driven by Equipment
Q2 FY06/2017	Surging Earnings	Changing Trend of Earnings
Q1 FY06/2017	-	Decreases to Increases
Q4 FY06/2016	Recovery to Follow	Recovery & Growth
Q3 FY06/2016	-	Strengths of Equipment
Q2 FY06/2016	Earnings Revision	New Business Model
Q1 FY06/2016	-	One-off Operating Loss
Q4 FY06/2015	"Management Target to Aim for"	Earnings Recovery & New Mgt
Q3 FY06/2015	Prospective Recovery of Equipment	Adjustments to Recovery
Q2 FY06/2015	Delay & Recovery of Capex	Adjustments of Medical Equipment
Q1 FY06/2015	Solid Consumables	Short-Term Adjustments
Q4 FY06/2014	Steady Growth & Alliance	Growth & Adjustments
Q3 FY06/2014	-	Consolidation
Q2 FY06/2014	-	Persistent Organic Growth
Q1 FY06/2014	-	Organic & Alliance
Q4 FY06/2013	-	Demand for Equipment to Adjust
Q3 FY06/2013	-	Organic Growth
Q2 FY06/2013	-	Existing & New Regions
Q1 FY06/2013	-	Head Start
Q4 FY06/2012	-	Pursuing Benefits from Alliances
Q3 FY06/2012	-	-
Q2 FY06/2012	-	-
Q1 FY06/2012	-	-

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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