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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 Quarters (Million Yen)		**Sales**	**Operating Profit**	**Recurring Profit**	**Profit Attributable to Owners of Parent**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 FY06/2018		26,227	269	270	204	-	-	-
Q2 FY06/2018		28,336	435	436	390	-	-	-
Q3 FY06/2018		28,046	437	437	386	-	-	-
Q4 FY06/2018		25,053	88	92	72	-	-	-
Q1 FY06/2019		24,772	81	82	(7)	-	-	-
Q1 FY06/2019	YoY	(5.5%)	(69.9%)	(69.3%)	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (13 December 2018)

Adjustment and Recovery

KAWANISHI HOLDINGS, selling medical consumables and equipment to customers represented by major base hospitals heavily involved with acute care, is currently seeing a phase of earnings recovery after that of short-term adjustment. On top of negative impacts stemming from redemption price revision in April 2018, the Company suffered from one-off adjustment of sales in regards to consumables or the key growth driver in Q1 FY06/2019, while also from downturn of sales over the same period in the previous year in regards to equipment whose sales on a quarterly basis are so volatile in the first place. Still, it appears that the Company starts to see a trend of recovery in sales of the mainstay consumables so far in Q2. The market for medical consumables and equipment in Japan to which the Company is exposed has growth rate of 2.4% on a CAGR basis, while sales as a whole for the Company are likely increasing at least with this rate over the long term. Meanwhile, the Company has successfully implemented management measures to enhance the growth potential by means of entering operations as general sales agent involved with distribution of merchandises more deeply and thus creating added value higher. With this scheme, the Company has already launched medical-education-use simulator robot, while getting ready for launch of breast cancer detection system based on exhalation in Imports and Sales. With respect to the latter, the Company suggests a high potential to drive sales and earnings as a whole for the Company to a large extent, going for launch by the end of FY06/2020 with an assumption that clinical trial, as well as other issues, makes steady progress as expected going forward.

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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 September 2018)
No. of Shares	6,250,000 shares, including 639,347 treasury shares (as of the end of Sep. 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 acquisition preceded by Sansei Medical Materials Co., Ltd. ● Trying to beef up sales as 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: 1,159, Unconsolidated: 33 (as of the end of September 2018)

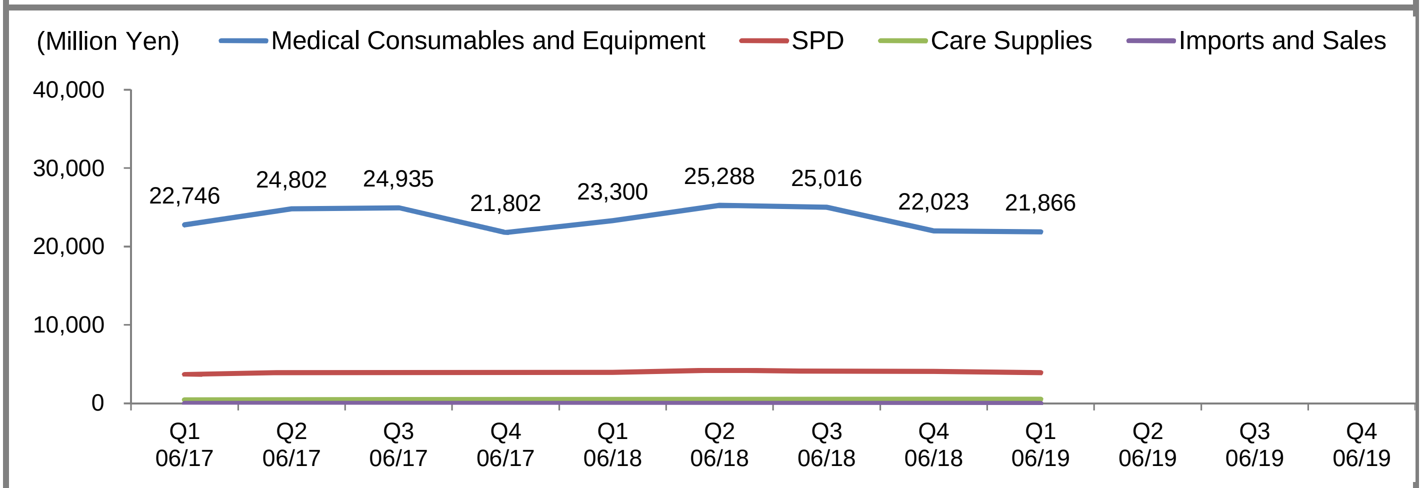
Source: Company Data

3.0 Recent Trading and Prospects

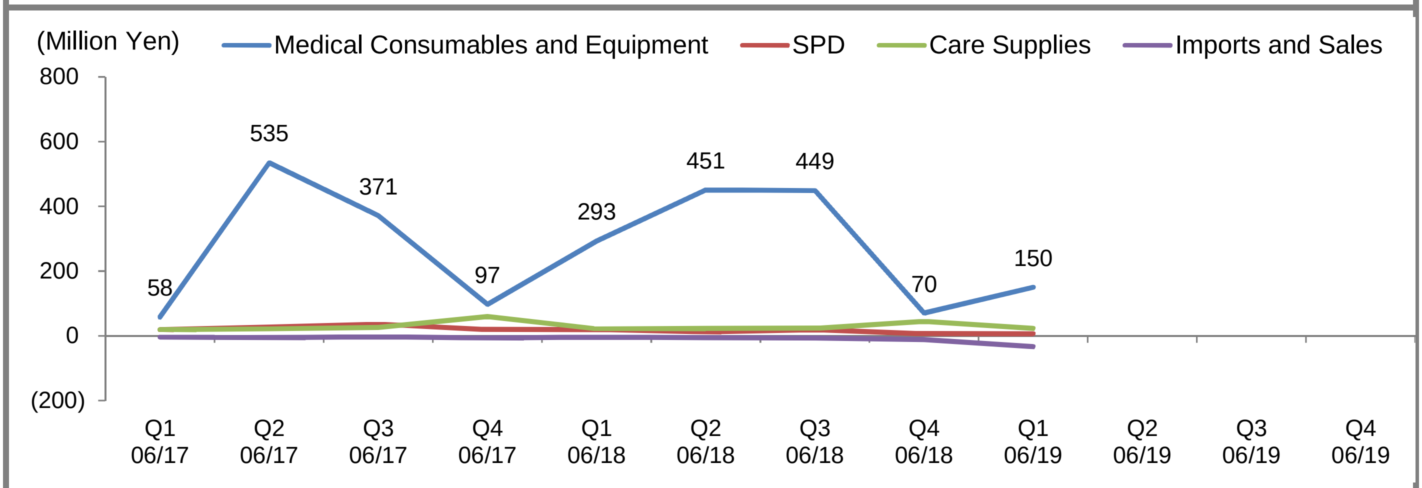
Q1 FY06/2019 Results

In Q1 FY06/2019, sales came in at ¥24,772m (down 5.5% YoY), operating profit ¥81m (down 69.9%), recurring profit ¥82m (down 69.3%) and profit attributable to owners of parent negative ¥7m (versus ¥204m during the same period in the previous year), while operating profit margin 0.33% (down 0.70% points). Due to booking of retirement bonus for director as much as ¥114m as extraordinary loss, the Company saw profit attributable to owners of parent of negative ¥7m versus recurring profit of ¥82m.

Sales



Operating Profit



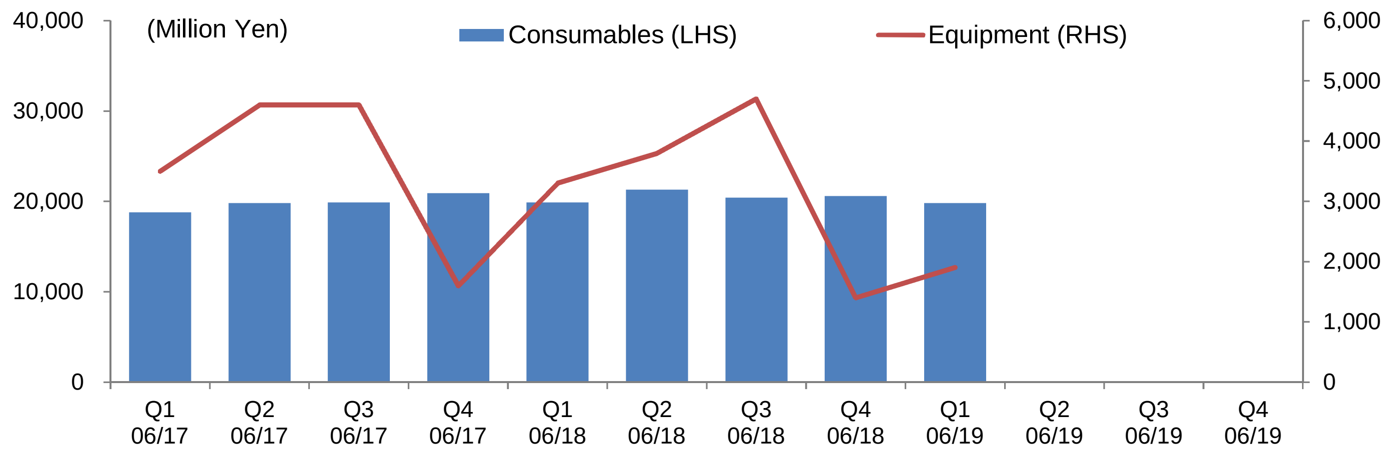
Source: Company Data, WRJ Calculation

By business segment, the mainstay Medical Consumables and Equipment to sell medical consumables and equipment to customers represented by major base hospitals heavily involved with acute care, saw sales of ¥21,866m (down 6.2%), operating profit of ¥150m (down 48.6%) and operating profit margin of 0.69% (down 0.57% points). Having accounted for 83.2% of sales as a whole for the Company and 101.3% of operating profit, this business segment is the key driver for business performance as a whole for the Company.

Meanwhile, gross profit came in at ¥2,577m (down 4.2%) as a whole for the Company and gross profit margin 10.40% (up 0.15% points). Given decreases of sales by 6.2% for the mainstay Medial Consumables and Equipment, it appears that gross profit inevitably came down over the same period in the previous year. Still, gross profit margin remained rather stable. Redemption price revision in April 2018 has cut back selling prices of medical consumables for the Company to stock and sell, which is the main reason why sales of Medical Consumables and Equipment have failed to increase over the same period in the previous year. Still, the Company has cut back procurement prices at the same time through negotiations with suppliers or manufacturers of all those merchandises, having resulted in stability of gross profit margin with the Company.

In spite of this, operating profit margin came in at 0.33% (down 0.70% points), as a result of SG&A expenses having come in at ¥2,496m (up 3.2%) and the ratio of SG&A expenses to sales 10.08% (up 0.85% points). In FY06/2018, sales increased by 1.8% over the previous year and SG&A expenses decreased by 0.6%, due to fixed cost reductions by changes of organization to have improved efficiency of operations as a whole for the Company. Nevertheless, in Q1 FY06/2019, it was inevitable for the Company to see marginal increases of SG&A expenses over the same period in the previous year due mainly to frontloaded investment associated with breast cancer detection system based on exhalation. Currently, the Company is in the process of implementing empirical research on breast cancer detection system based on exhalation at university hospital, which generates increasing expenses for the Company.

Sales of Medical Consumables and Equipment: Consumables and Equipment



Source: Company Data, WRJ Calculation

In our rough estimates, sales of Medical Consumables and Equipment comprised those of ¥19,800m (down 0.4%) on the consumables side and ¥1,900m (down 41.1%) on the equipment side. As discussed above, it was too hard not to suffer from redemption price revision in April 2018, while sales of both were negatively affected by one-off factor as far as we could see. On the consumables side, the Company spots that the number of surgical cases came down as a trend in the market and thus it did not fail to maintain market share. In fact, the Company also suggests that recent trading in Q2 suggests a recovery here. On the equipment side, sales are not substantial as a constituent of this business segment, but are so volatile on a quarterly basis in the first place. In Q1, sales came down sharply due to delayed timing for a project to book sales to Q2 from Q1.

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 diagnostic treatment, resulting in stable increases of sales both short term and long term, while it is rare that the Company suffers from one-off decreases of the number of surgical cases as above mentioned. For example, sales of consumables increased by 2.9% over the previous year in FY06/2017 and by 4.9% in FY06/2018, having exceeded market-average rate of increases by 2.4%. The Company is keen on aggressively utilizing own sales resources, while on launch of new merchandises and development of new domains at the same time, implying that prospective sales are likely increasing faster than the market average in a long-term view as in the past two years.

Meanwhile, equipment are also sold to customers represented by major base hospitals heavily involved with acute care as on the consumables side, but demand hinges on something totally different. On the equipment side, the Company's merchandises comprise MRI, cineangiocardiography, CT, ultrasonic diagnostic equipment, respiratory apparatus, etc., whose demand hinges on capital expenditure in line with construction of new building and renewal as well as floor extension, etc. by the customers. On a quarterly basis, 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. As a result, sales of Medical Consumables and Equipment as a whole are inclined to perform in the same way and operating profit goes up and down with more volatility. Given that business performance as a whole for the Company hinges on that of Medical Consumables and Equipment, it is unavoidable that equipment drive business performance as a whole for the Company at the end of the day. Indeed, it was typically the case in Q1 FY06/2019 as far as we could see.

Income Statement (Cumulative, Quarterly)

Income Statement (Million Yen)	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	Cons.Act Q1 06/2019	Cons.Act Q1 to Q2 06/2019	Cons.Act Q1 to Q3 06/2019	Cons.Act Q1 to Q4 06/2019	YoY Net Chg.
Sales	**26,227**	**54,563**	**82,610**	**107,663**	**24,772**	**-**	**-**	**-**	**(1,454)**
Cost of Sales	23,538	49,041	74,201	96,640	22,195	-	-	-	(1,343)
Gross Profit	2,689	5,522	8,408	11,023	2,577	-	-	-	(111)
SG&A Expenses	2,419	4,817	7,266	9,792	2,496	-	-	-	+76
Operating Profit	**269**	**704**	**1,142**	**1,230**	**81**	**-**	**-**	**-**	**(188)**
Non Operating Balance	0	1	1	5	1	-	-	-	+1
Recurring Profit	**270**	**706**	**1,143**	**1,235**	**82**	**-**	**-**	**-**	**(187)**
Extraordinary Balance	31	24	146	145	(114)	-	-	-	(145)
Profit before Income Taxes	301	731	1,290	1,381	(31)	-	-	-	(332)
Income Taxes	98	139	314	338	(8)	-	-	-	(107)
NP Belonging to Non-Controlling SHs	(1)	(3)	(5)	(10)	(14)	-	-	-	(12)
Profit Attributable to Owners of Parent	**204**	**595**	**981**	**1,054**	**(7)**	**-**	**-**	**-**	**(212)**
Sales YoY	+3.0%	+2.6%	+1.9%	+1.8%	(5.5%)	-	-	-	-
Operating Profit YoY	+557.3%	+23.4%	+18.9%	+17.9%	(69.9%)	-	-	-	-
Recurring Profit YoY	+413.4%	+19.6%	+11.4%	+11.1%	(69.3%)	-	-	-	-
Profit Attributable to Owners of Parent YoY	+880.2%	+57.6%	+48.4%	+52.6%	-	-	-	-	-
Gross Profit Margin	10.25%	10.12%	10.18%	10.24%	10.40%	-	-	-	+0.15%
(SG&A / Sales)	9.23%	8.83%	8.80%	9.10%	10.08%	-	-	-	+0.85%
Operating Profit Margin	1.03%	1.29%	1.38%	1.14%	0.33%	-	-	-	(0.70%)
Recurring Profit Margin	1.03%	1.29%	1.38%	1.15%	0.33%	-	-	-	(0.70%)
Profit Attributable to Owners of Parent Margin	0.78%	1.09%	1.19%	0.98%	(0.03%)	-	-	-	(0.81%)
Total Income Taxes / Profit before Income Taxes	32.7%	19.1%	24.4%	24.5%	-	-	-	-	-

Income Statement (Million Yen)	Cons.Act Q1 06/2018	Cons.Act Q2 06/2018	Cons.Act Q3 06/2018	Cons.Act Q4 06/2018	Cons.Act Q1 06/2019	Cons.Act Q2 06/2019	Cons.Act Q3 06/2019	Cons.Act Q4 06/2019	YoY Net Chg.
Sales	**26,227**	**28,336**	**28,046**	**25,053**	**24,772**	**-**	**-**	**-**	**(1,454)**
Cost of Sales	23,538	25,503	25,160	22,438	22,195	-	-	-	(1,343)
Gross Profit	2,689	2,832	2,886	2,614	2,577	-	-	-	(111)
SG&A Expenses	2,419	2,397	2,449	2,526	2,496	-	-	-	+76
Operating Profit	**269**	**435**	**437**	**88**	**81**	**-**	**-**	**-**	**(188)**
Non Operating Balance	0	1	0	3	1	-	-	-	+1
Recurring Profit	**270**	**436**	**437**	**92**	**82**	**-**	**-**	**-**	**(187)**
Extraordinary Balance	31	(6)	122	0	(114)	-	-	-	(145)
Profit before Income Taxes	301	429	559	91	(31)	-	-	-	(332)
Income Taxes	98	41	174	24	(8)	-	-	-	(107)
NP Belonging to Non-Controlling SHs	(1)	(1)	(1)	(5)	(14)	-	-	-	(12)
Profit Attributable to Owners of Parent	**204**	**390**	**386**	**72**	**(7)**	**-**	**-**	**-**	**(212)**
Sales YoY	+3.0%	+2.2%	+0.5%	+1.5%	(5.5%)	-	-	-	-
Operating Profit YoY	+557.3%	(17.9%)	+12.4%	+5.5%	(69.9%)	-	-	-	-
Recurring Profit YoY	+413.4%	(18.9%)	+0.4%	+6.5%	(69.3%)	-	-	-	-
Profit Attributable to Owners of Parent YoY	+880.2%	+9.4%	+36.2%	+147.5%	-	-	-	-	-
Gross Profit Margin	10.25%	10.00%	10.29%	10.44%	10.40%	-	-	-	+0.15%
(SG&A / Sales)	9.23%	8.46%	8.73%	10.08%	10.08%	-	-	-	+0.85%
Operating Profit Margin	1.03%	1.54%	1.56%	0.35%	0.33%	-	-	-	(0.70%)
Recurring Profit Margin	1.03%	1.54%	1.56%	0.37%	0.33%	-	-	-	(0.70%)
Profit Attributable to Owners of Parent Margin	0.78%	1.38%	1.38%	0.29%	(0.03%)	-	-	-	(0.81%)
Total Income Taxes / Profit before Income Taxes	32.7%	9.6%	31.2%	26.5%	-	-	-	-	-

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	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	Cons.Act Q1 06/2019	Cons.Act Q1 to Q2 06/2019	Cons.Act Q1 to Q3 06/2019	Cons.Act Q1 to Q4 06/2019	YoY Net Chg.
Medical Consumables and Equipment	23,300	48,589	73,605	95,629	21,866	-	-	-	(1,434)
SPD	3,946	8,173	12,252	16,348	3,900	-	-	-	(45)
Care Supplies	496	998	1,504	2,034	516	-	-	-	+19
Imports and Sales	0	0	0	0	0	-	-	-	-
Elimination	(1,516)	(3,197)	(4,752)	(6,349)	(1,510)	-	-	-	+5
Sales	**26,227**	**54,563**	**82,610**	**107,663**	**24,772**	**-**	**-**	**-**	**(1,454)**
Medical Consumables and Equipment	+2.4%	+2.2%	+1.5%	+1.4%	(6.2%)	-	-	-	-
SPD	+6.7%	+6.9%	+6.1%	+5.9%	(1.2%)	-	-	-	-
Care Supplies	+11.9%	+10.8%	+7.4%	+6.0%	+4.0%	-	-	-	-
Imports and Sales	-	-	-	-	-	-	-	-	-
Sales (YoY)	**+3.0%**	**+2.6%**	**+1.9%**	**+1.8%**	**(5.5%)**	**-**	**-**	**-**	**-**
Medical Consumables and Equipment	293	744	1,194	1,264	150	-	-	-	(142)
SPD	20	33	52	59	7	-	-	-	(12)
Care Supplies	22	45	68	114	23	-	-	-	+1
Imports and Sales	(4)	(9)	(16)	(27)	(33)	-	-	-	(29)
Segment Profit	**331**	**814**	**1,300**	**1,412**	**148**	**-**	**-**	**-**	**(182)**
Elimination	(61)	(109)	(157)	(181)	(67)	-	-	-	(5)
Operating Profit	**269**	**704**	**1,142**	**1,230**	**81**	**-**	**-**	**-**	**(188)**
Medical Consumables and Equipment	1.26%	1.53%	1.62%	1.32%	0.69%	-	-	-	(0.57%)
SPD	0.52%	0.41%	0.43%	0.37%	0.20%	-	-	-	(0.32%)
Care Supplies	4.43%	4.57%	4.58%	5.63%	4.64%	-	-	-	+0.21%
Imports and Sales	-	-	-	-	-	-	-	-	-
Operating Profit Margin	**1.03%**	**1.29%**	**1.38%**	**1.14%**	**0.33%**	**-**	**-**	**-**	**(0.70%)**

Segmented Information (Million Yen)	Cons.Act Q1 06/2018	Cons.Act Q2 06/2018	Cons.Act Q3 06/2018	Cons.Act Q4 06/2018	Cons.Act Q1 06/2019	Cons.Act Q2 06/2019	Cons.Act Q3 06/2019	Cons.Act Q4 06/2019	YoY Net Chg.
Medical Consumables and Equipment	23,300	25,288	25,016	22,023	21,866	-	-	-	(1,434)
SPD	3,946	4,227	4,079	4,096	3,900	-	-	-	(45)
Care Supplies	496	501	505	530	516	-	-	-	+19
Imports and Sales	0	0	0	0	0	-	-	-	-
Elimination	(1,516)	(1,680)	(1,555)	(1,596)	(1,510)	-	-	-	+5
Sales	**26,227**	**28,336**	**28,046**	**25,053**	**24,772**	**-**	**-**	**-**	**(1,454)**
Medical Consumables and Equipment	+2.4%	+2.0%	+0.3%	+1.0%	(6.2%)	-	-	-	-
SPD	+6.7%	+7.1%	+4.5%	+5.2%	(1.2%)	-	-	-	-
Care Supplies	+11.9%	+9.6%	+1.4%	+2.3%	+4.0%	-	-	-	-
Imports and Sales	-	-	-	-	-	-	-	-	-
Sales (YoY)	**+3.0%**	**+2.2%**	**+0.5%**	**+1.5%**	**(5.5%)**	**-**	**-**	**-**	**-**
Medical Consumables and Equipment	293	451	449	70	150	-	-	-	(142)
SPD	20	12	19	6	7	-	-	-	(12)
Care Supplies	22	23	23	45	23	-	-	-	+1
Imports and Sales	(4)	(5)	(6)	(11)	(33)	-	-	-	(29)
Segment Profit	**331**	**482**	**485**	**111**	**148**	**-**	**-**	**-**	**(182)**
Elimination	(61)	(47)	(48)	(23)	(67)	-	-	-	(5)
Operating Profit	**269**	**435**	**437**	**88**	**81**	**-**	**-**	**-**	**(188)**
Medical Consumables and Equipment	1.26%	1.79%	1.80%	0.32%	0.69%	-	-	-	(0.57%)
SPD	0.52%	0.30%	0.48%	0.17%	0.20%	-	-	-	(0.32%)
Care Supplies	4.43%	4.72%	4.58%	8.61%	4.64%	-	-	-	+0.21%
Imports and Sales	-	-	-	-	-	-	-	-	-
Operating Profit Margin	**1.03%**	**1.54%**	**1.56%**	**0.35%**	**0.33%**	**-**	**-**	**-**	**(0.70%)**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act Q1 06/2018	Cons.Act Q2 06/2018	Cons.Act Q3 06/2018	Cons.Act Q4 06/2018	Cons.Act Q1 06/2019	Cons.Act Q2 06/2019	Cons.Act Q3 06/2019	Cons.Act Q4 06/2019	YoY Net Chg.
Cash and Deposit	2,791	2,223	2,789	1,415	2,068	-	-	-	(722)
Accounts Receivables	20,899	22,939	21,610	20,389	19,287	-	-	-	(1,611)
Inventory	4,539	4,808	4,741	4,594	4,735	-	-	-	+196
Other	941	874	899	1,236	830	-	-	-	(110)
Current Assets	**29,171**	**30,845**	**30,041**	**27,636**	**26,922**	**-**	**-**	**-**	**(2,248)**
Tangible Assets	3,709	3,772	3,744	3,753	3,846	-	-	-	+136
Intangible Assets	243	270	259	242	354	-	-	-	+111
Investments and Other Assets	1,566	1,669	1,977	1,986	2,184	-	-	-	+618
Fixed Assets	**5,519**	**5,712**	**5,981**	**5,981**	**6,385**	**-**	**-**	**-**	**+866**
Total Assets	**34,690**	**36,557**	**36,022**	**33,617**	**33,308**	**-**	**-**	**-**	**(1,382)**
Accounts Payables	21,723	24,543	24,163	21,712	20,268	-	-	-	(1,454)
Short Term Debt	4,110	2,985	2,060	1,735	3,550	-	-	-	(560)
Other	1,506	1,254	1,478	1,779	1,952	-	-	-	+445
Current Liabilities	**27,339**	**28,783**	**27,701**	**25,226**	**25,770**	**-**	**-**	**-**	**(1,568)**
Corporate Bond	-	-	-	-	-	-	-	-	-
Long Term Debt	502	444	385	326	252	-	-	-	(250)
Other	1,405	1,459	1,582	1,647	1,097	-	-	-	(308)
Fixed Liabilities	**1,908**	**1,903**	**1,967**	**1,973**	**1,349**	**-**	**-**	**-**	**(558)**
Total Liabilities	**29,248**	**30,686**	**29,669**	**27,200**	**27,120**	**-**	**-**	**-**	**(2,127)**
Shareholders' Equity	**5,177**	**5,567**	**5,954**	**6,026**	**5,794**	**-**	**-**	**-**	**+616**
Other	265	303	399	390	393	-	-	-	+127
Net Assets	**5,442**	**5,870**	**6,353**	**6,416**	**6,187**	**-**	**-**	**-**	**+744**
Total Liabilities and Net Assets	**34,690**	**36,557**	**36,022**	**33,617**	**33,308**	**-**	**-**	**-**	**(1,382)**
Equity Capital	5,308	5,738	6,222	6,291	6,076	-	-	-	+768
Interest Bearing Debt	4,612	3,429	2,445	2,061	3,802	-	-	-	(810)
Net Debt	1,821	1,206	(343)	645	1,734	-	-	-	(87)
Equity Capital Ratio	15.3%	15.7%	17.3%	18.7%	18.2%	-	-	-	+2.9%
Net Debt Equity Ratio	34.3%	21.0%	(5.5%)	10.3%	28.5%	-	-	-	(5.8%)
ROE (12 months)	18.0%	17.2%	17.8%	18.2%	14.8%	-	-	-	(3.2%)
ROA (12 months)	4.0%	3.4%	3.5%	3.8%	3.1%	-	-	-	(0.9%)
Days for Inventory Turnover	18	17	17	19	19	-	-	-	-
Quick Ratio	87%	87%	88%	86%	83%	-	-	-	-
Current Ratio	107%	107%	108%	110%	104%	-	-	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

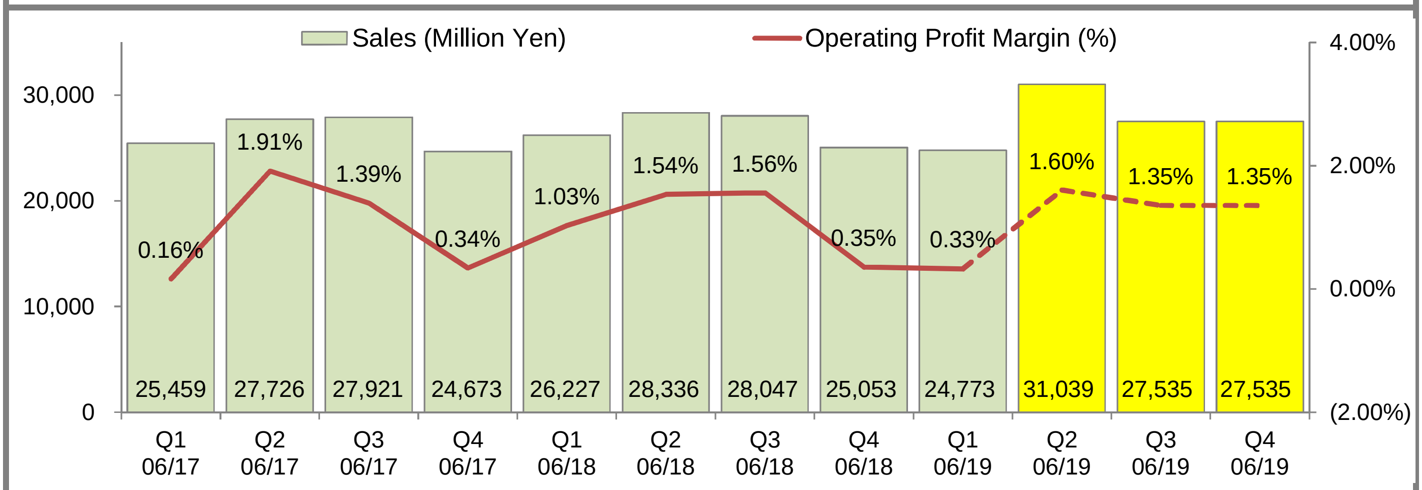
Cash Flow Statement (Million Yen)	Cons.Act Q1 06/2018	Cons.Act Q1 to Q2 06/2018	Cons.Act Q1 to Q3 06/2018	Cons.Act Q1 to Q4 06/2018	Cons.Act Q1 06/2019	Cons.Act Q1 to Q2 06/2019	Cons.Act Q1 to Q3 06/2019	Cons.Act Q1 to Q4 06/2019	YoY Net Chg.
Operating Cash Flow	-	(1,038)	-	(314)	-	-	-	-	-
Investing Cash Flow	-	(124)	-	(269)	-	-	-	-	-
Operating CF & Investing CF	**-**	**(1,162)**	**-**	**(583)**	**-**	**-**	**-**	**-**	**-**
Financing Cash Flow	-	1,165	-	(227)	-	-	-	-	-

Source: Company Data, WRJ Calculation

FY06/2019 Company Forecasts

FY06/2019 initial Company forecasts have remained unchanged, 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). Company forecasts assume one-off factors to have driven profit attributable to owners of parent in FY06/2018 are not to reappear, which explains a gap between recurring profit of ¥1,336m (up 8.1%) and profit attributable to owners of parent of ¥861m (down 18.3%). Specifically speaking, the Company saw gain on termination of retirement benefit plan as much as ¥106m booked as extraordinary profit in FY06/2018, while having benefited from reductions of tax charges stemming from review on probability to retrieve deferred tax assets at the same time. Both of them are not to reappear.

Sales and Operating Profit Margin



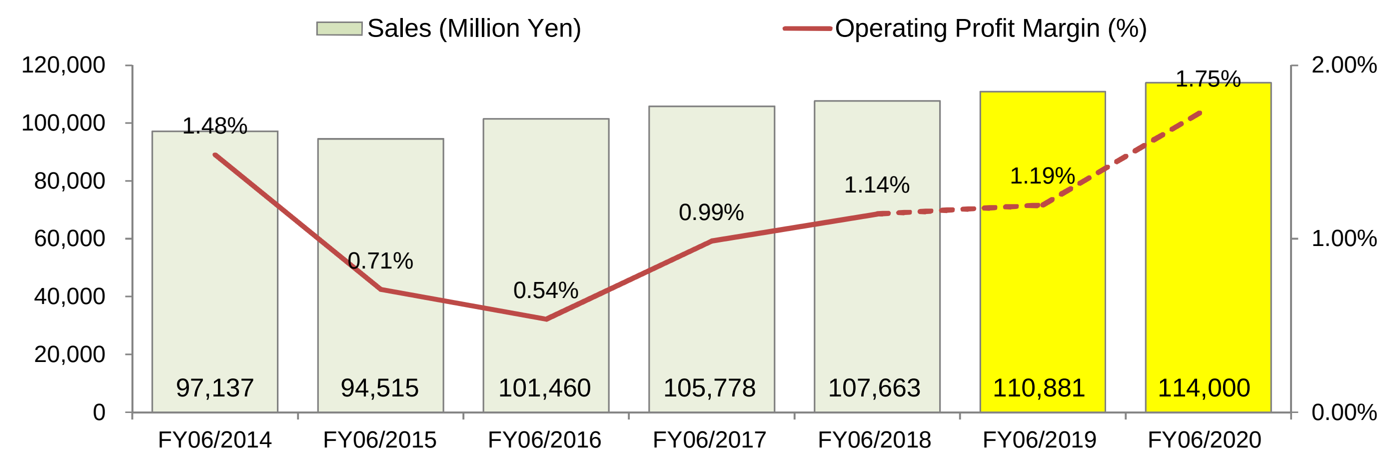
Source: Company Data, WRJ Calculation (Q3 and Q4 FY06/2019: H2 Company forecasts, pro rata)

As the primary basic policy, the Company is going for consistency and stability for dividend, while retaining earnings to flexibly invest in future growth as the secondary basic policy. Based on the primary basic policy, the Company was going for yearend dividend of ¥30.0 per share for four years in a row in 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) as have been implemented to date. Meanwhile, although the Company is to suffer from decreases of profit attributable to owners of parent, yearend dividend of ¥40.0 (payout ratio of 26.1%) is to persist in FY06/2019. 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 also 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 of merchandises to deal in more deeply than now as general sales agent to be able to pursue gross profit margin higher than now.

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. In details, the Company has been consistently holding sales-support conferences with venture companies, while having started to exclusively sell medical-education-use simulator robot in Q3 FY06/2018 as general sales agent. In fact, this business carries gross profit margin higher than before, according to the Company.

On 18 August 2017, it was disclosed in the release that MICOTO Technology Inc., based in Yonago-city, 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-education-use 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-Education-Use 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-education-use simulation equipment. In order to cope with increasing needs here, MICOTO Technology Inc. has developed "mikoto". i.e., medical-education-use 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 promote sales through the general sales agent contract with the Company. To date, the Company has launched new model with high added value, which is highly appreciated in the market. The Company suggests that sales volume will be favorable in FY06/2019.

Meanwhile, the Company is looking to seeing sales on endoscope with innovated technology to take off by the end of FY06/2019. This is based on contact concluded with KAIROS CO., LTD., based in Chiyoda-ku, Tokyo, to exclusively sell its proprietary world's first 8K endoscope for laparoscopic surgery in 9 prefectures of Chugoku and Shikoku regions and in 6 prefectures of Tohoku region as 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.

On top of this, the Company is going for launch of system to detect breast cancer at early stage by means of analyzing exhalation in CY2020. 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 in empirical research in university hospital, seeing expenses from here at the SG&A level. Then, after clinical trial and approval, the Company is to launch the said merchandises in Japan.

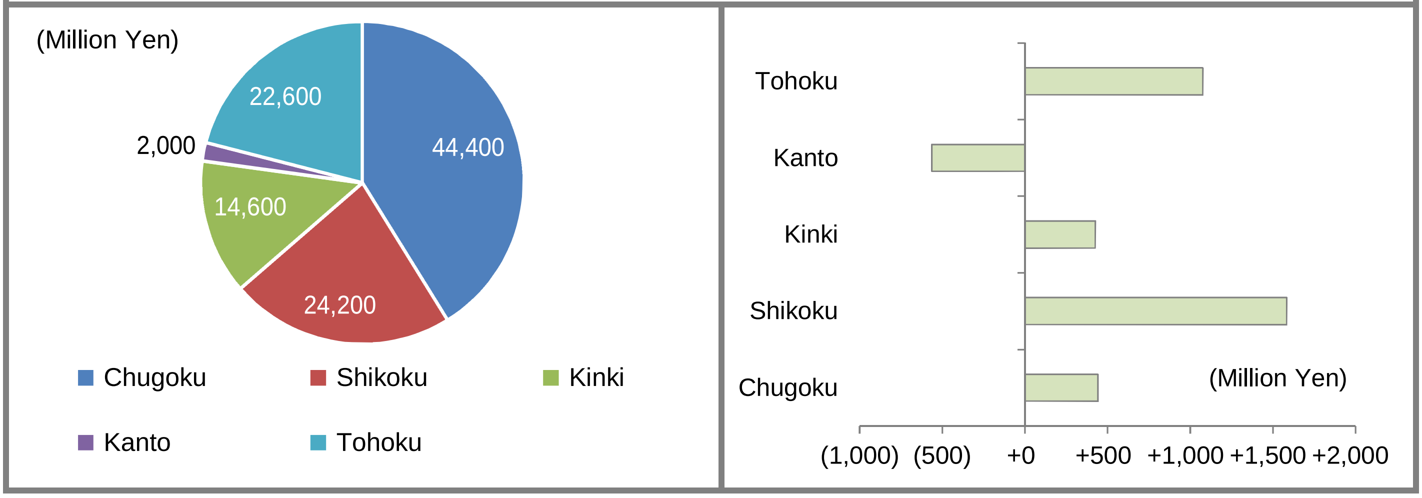
At the moment, mammography and ultrasonic diagnostic equipment are used as the key devices to detect breast cancer. The 2014 survey by Ministry of Health and Welfare estimates 5.6m medical examinees per annum seeing doctor for detection based on mammography, implying a huge market potential for the said new merchandise with the Company. 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 said new merchandise with the Company is expected to create a new process prior to the existing ways of the detection as well as arousing new demand at the same time, 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 customers 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 (in CY2016 results) and CAGR of 2.4%, 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 market going forward.

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 merged with 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 started up. Thus, the Company made remarkable progress of sales enhancement in geographical territory having had remained uncultivated, while beefing up own market share at the same time together with the merger with peer.

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

Merchandises of Medical Consumables and Equipment (Image Pictures)

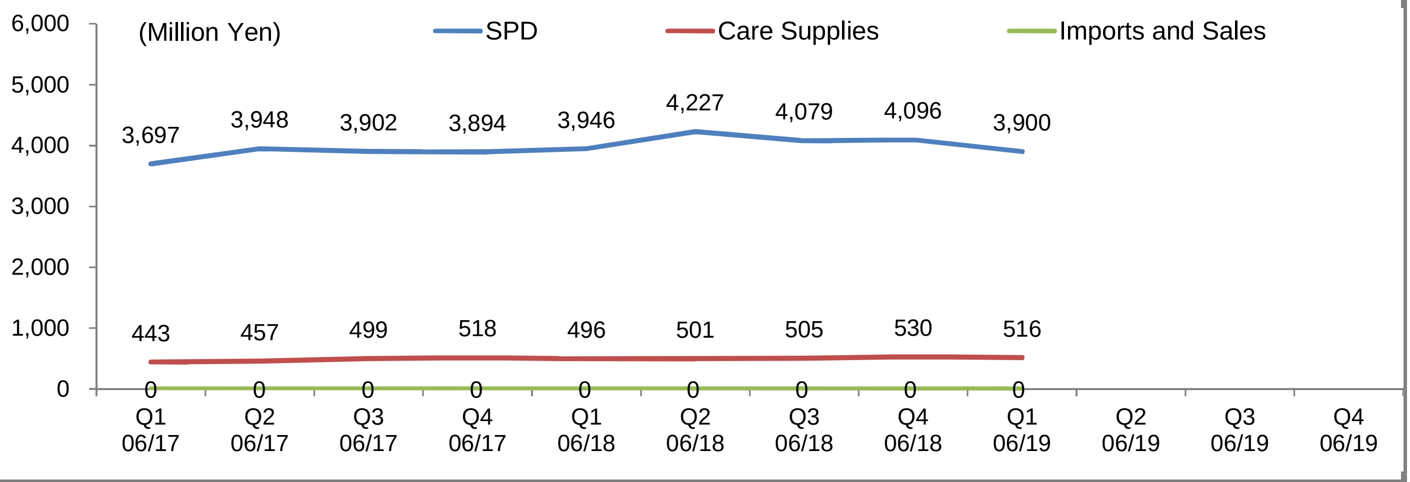
Source: Company Data

SPD (Supply Processing and Distribution) is run by business model based on that of Medical Consumables and Equipment in some respects, while the key difference is that earnings come from commissions paid by the customers for consigned administrative operations to manage merchandises and information, i.e., not from stocking and selling of merchandises. 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 on a simple calculation basis, according to the Company. Thus, this business segment saw operating profit margin of 0.20% (down 0.32% points YoY) in Q1 FY06/2019.

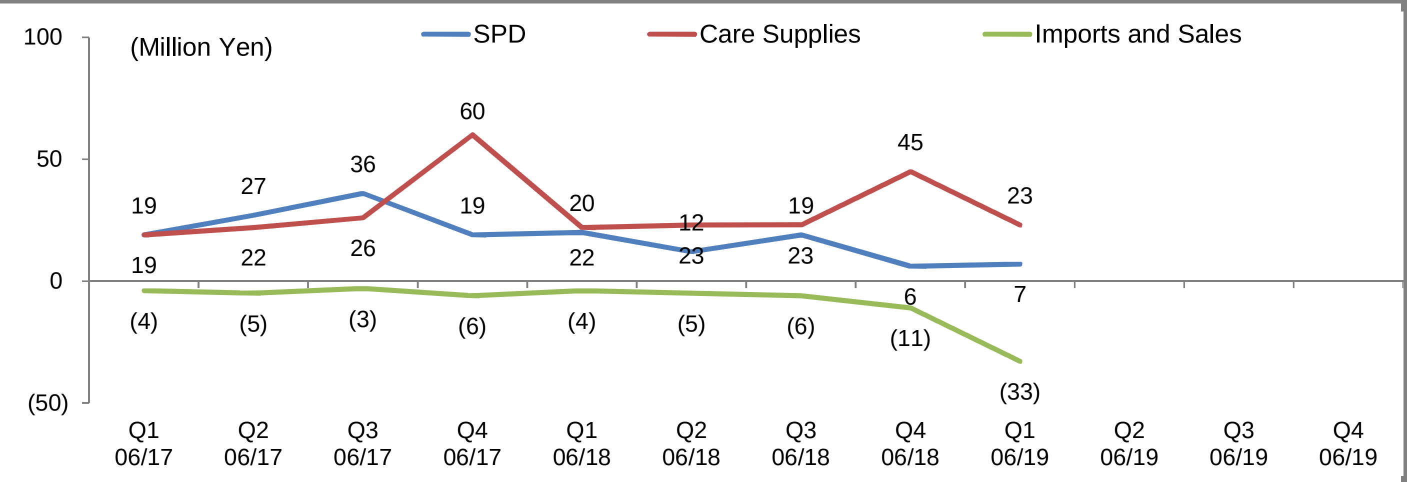
Care Supplies refers to operations of sales and rental services of nursing-care-use beds and supplies. The mainstay operations here are those of rental services of nursing-care-use beds, accounting for some 80% of sales here and carrying gross profit margin of some 50%. In all the business segments but for Care Supplies, the Company is exposed to operations associated with stocking and selling of merchandises for customers represented by major base hospitals heavily involved with acute care, while Care Supplies to local elderly people and their families, which is the distinguished feature for this business segment. Thus, given nature of business model totally different, this business segment saw operating profit margin of 4.64% (down 0.21% points) in Q1 FY06/2019, far higher than the rest of the business segments. Still, sales have remained insignificant as a constituent of overall business operations and thus earnings too.

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

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	Record High Sales
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 Management
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

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