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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 FY06/2019		54,381	579	583	371	-	-	-
Q3 to Q4 FY06/2019CoE		56,499	744	752	489	-	-	-
Q1 to Q2 FY06/2019	YoY	(0.3%)	(17.8%)	(17.4%)	(37.5%)	-	-	-
Q3 to Q4 FY06/2019CoE	YoY	6.4%	41.6%	42.2%	6.6%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (20 March 2019)

Beyond Cruising Speed

Kawanishi Holdings, selling medical consumables and equipment to customers represented by major base hospitals heavily involved with acute care, is likely to see steady increases of sales and earnings over the long term. The Company suggests that Japan's market for medical consumables and equipment to which it is exposed is to see CAGR of 2.4% going forward, while the Company or the fourth-largest player in the market is expected to see sales increasing by this rate as cruising speed. In Q1 to Q2 FY06/2019, sales came down marginally over the same period in the previous year, which was attributable to one-off adjustment. In Q2 to follow, sales came in at ¥29,608m (up 4.5% YoY), operating profit ¥497m (up 14.4%) and operating profit margin 1.68% (up 0.15% points), having seen sales growth rate beyond cruising speed. In a midterm view, the Company is to benefit from add-ons from new operations as general sales agent to involve with distribution of merchandises more deeply than now and thus to pursue gross profit margin higher. To date, the Company has already sold four units of simulator robot for medical education, i.e., merchandises to have acquired through medical-engineering collaboration, which is expected to be followed by ultrahigh-resolution endoscope, etc. Meanwhile, system to detect breast cancer by exhalation currently approaching the final stage of verification test is expected to launch in CY2021 after clinical trial, examination and approval. The Company is now formulating new midterm management plan taking this into account, while planning to release the contents at around the announcement of FY06/2019 full-year results, as far as we could see.

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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 (originally set up on 1 May 1921)
Listing	21 December 2000: Tokyo Stock Exchange 2nd section (ticker: 2689)
Capital	¥ 607m (as of the end of December 2018)
No. of Shares	6,250,000 shares, including 639,416 treasury shares (as of the end of Dec. 2018)
Main Features	● Established by merger among three wholesale distributors of medical equipment and medical materials based in Chugoku region and Shikoku region ● Expectations for new mergers preceded by Sansei Medical Materials ● 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 8.4%, ESOP 5.8% (as of the end of Dec. 2018)
Headquarters	Kita-ku, Okayama-city, Okayama-prefecture, JAPAN
No. of Employees	Consolidated: 1,172, Parent: 34 (as of the end of December 2018)

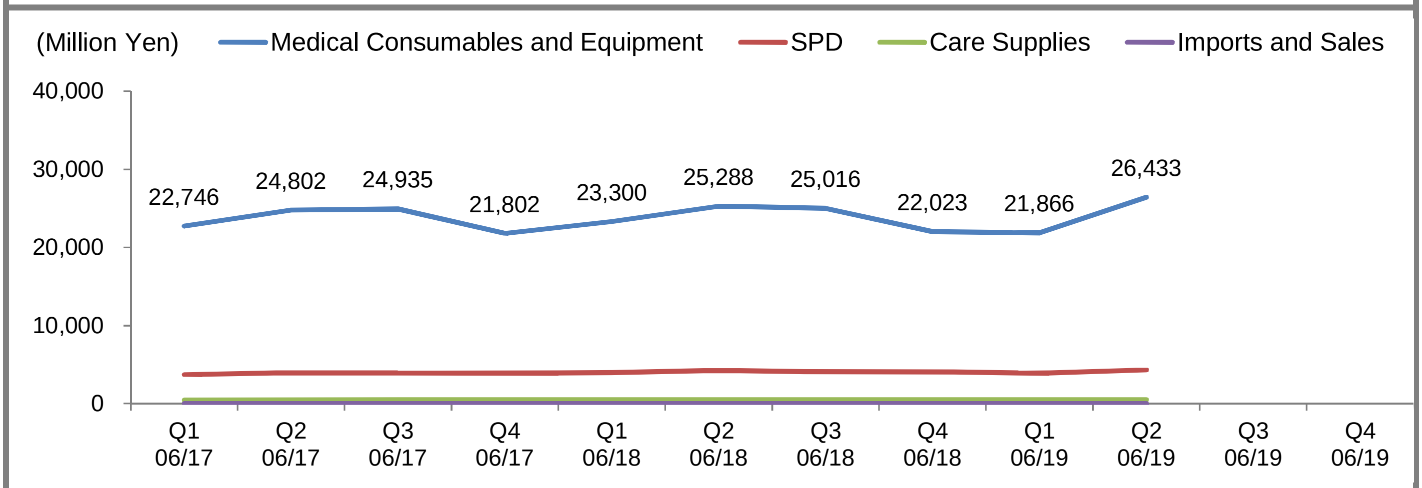
Source: Company Data

3.0 Recent Trading and Prospects

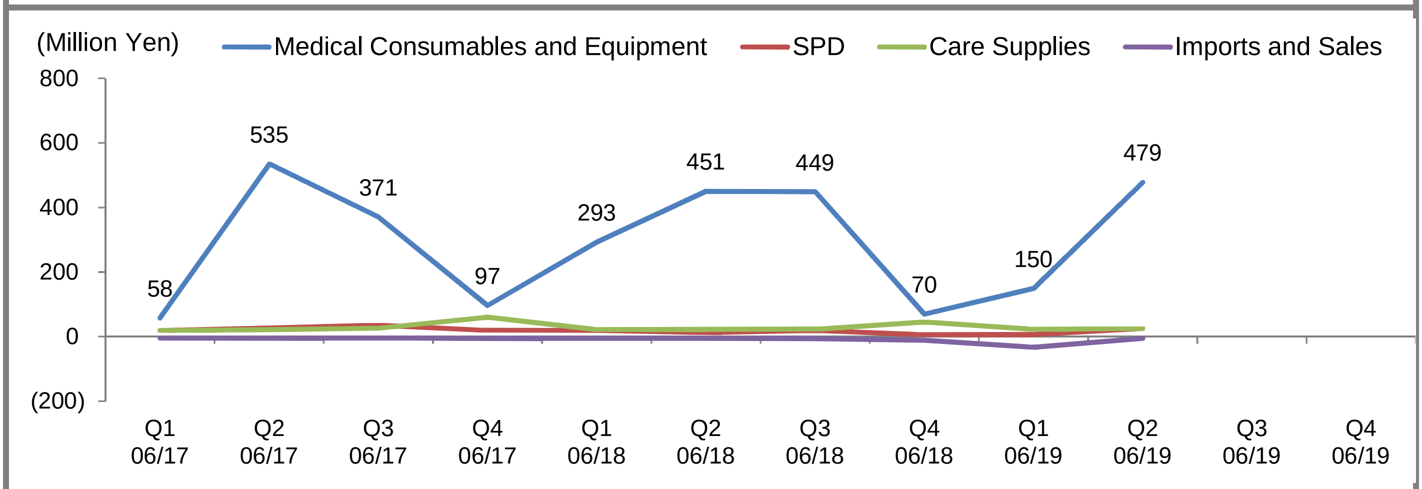
Q1 to Q2 FY06/2019 Results

In Q1 to Q2 FY06/2019, sales came in at ¥54,381m (down 0.3% YoY), operating profit ¥579m (down 17.8%), recurring profit ¥583m (down 17.4%) and profit attributable to owners of parent ¥371m (down 37.5%), while operating profit margin 1.06% (down 0.23% points). The Company suggests that the results were in line with assumptions of initial Company forecasts, generally speaking. The Company saw extraordinary loss of ¥114m on director's retirement benefits as well as extraordinary gain of ¥69m on sales of investment securities at the same time. Still, both of them are as assumed in the first place.

Sales



Operating Profit



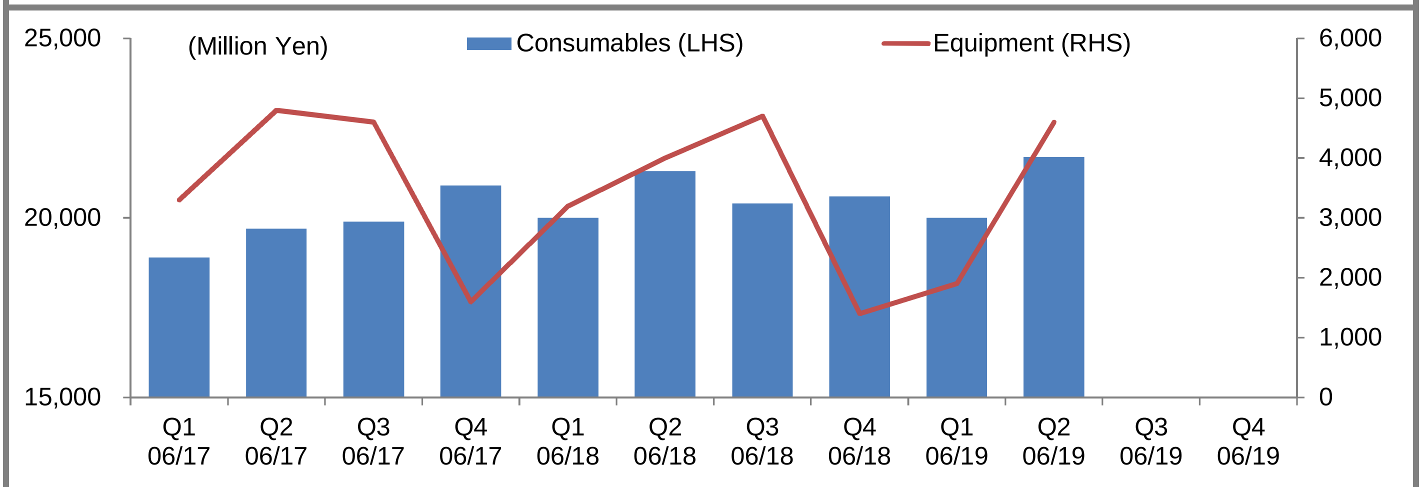
Source: Company Data, WRJ Calculation

By business segment, Medical Consumables and Equipment saw sales of ¥48,299m (down 0.6%), operating profit of ¥630m (down 15.4%) and operating profit margin of 1.31% (down 0.23% points). On top of this, SPD saw sales of ¥8,210m (up 0.5%), operating profit of ¥33m (down 0.2%) and operating profit margin of 0.40% (down 0.01% point), Care Supplies sales of ¥1,040m (up 4.2%), operating profit of ¥49m (up 8.0%) and operating profit margin of 4.74% (up 0.17% points) as well as Imports and Sales in charge of starting up operations for system to detect breast cancer by exhalation no sales and operating profit of negative ¥38m (versus negative ¥9m during the same period in the previous year) due to expenses from frontloaded investment.

Medical Consumables and Equipment to sell medical consumables and equipment to customers represented by major base hospitals heavily involved with acute care accounted for 83.9% of sales as a whole for the Company and 93.5% of operating profit (before elimination). Thus, sales and earnings as a whole for the Company hinge on those of this business segment. Meanwhile, the Company's presentation document on Q1 to Q2 FY06/2019 results suggests that sales of consumables came in at ¥41,700m (up 1.3%) and sales of equipment came in at ¥6,500m (down 7.6%).

Due to seasonal and/or one-off factors, this business segment sees business performance highly volatile on a quarterly basis and thus those as a whole for the Company at the same time. In Q1 FY06/2019, sales of consumables were unfavorable as well as for equipment due mainly to one-off factors. Sales of consumables came down by 0.4% over the same period in the previous year and by 41.4% for equipment, suggesting that the latter plummeted. In the first place, sales of equipment are extremely volatile on a quarterly basis and inclined to determine business performance on this business segment and thus as a whole for the Company. For example, over the past 10 quarters, trends of sales of equipment are roughly in line with those of operating profit for this business segment. Sales are not significant as a constituent of this business segment, but extremely high volatility of sales gives substantial impacts to the extent of recovery of fixed costs as far as we could see and this is true of the trends in a midterm view.

Sales of Medical Consumables and Equipment: Consumables and Equipment



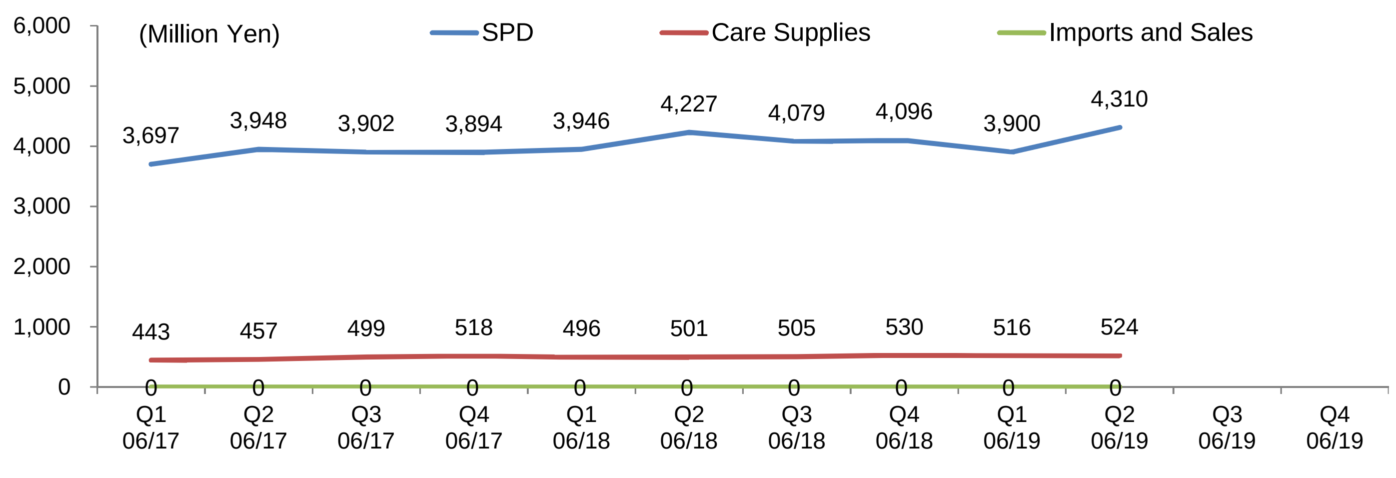
Source: WRJ estimates

Consumables for the Company to stock and sell comprise diverse merchandises belonging to the domains of surgical operation, plastic surgery, circulatory system, etc. In particular, the Company is highly competitive with the domain of plastic surgery, seeing sales the largest amongst the peers. Sales of consumables increased by 5.0% over the previous year in FY06/2015, by 5.8% in FY06/2016, by 2.9% in FY06/2017 and by 4.9% in FY06/2018, suggesting a stability of growth although it depends a little. Given the fact that sales are substantial for the Company as a whole on top of this, consumables are positioned as the key growth driver for the Company. In FY06/2019, sales of consumables in Q1 were forced to come down, albeit not much, while this has already turned out to be one off as early as in Q2 to have directly followed as mentioned earlier. If we reiterate, sales of consumables in Q1 came down by 0.4% over the same period in the previous year and went up by 1.3% in Q1 to Q2.

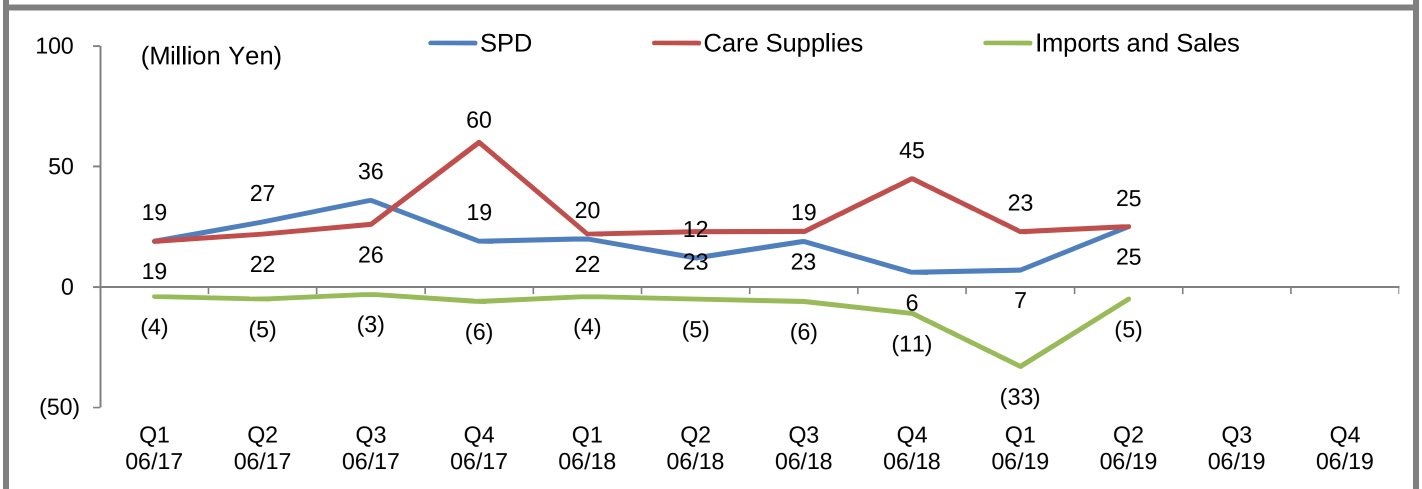
In the first place, consumables are literally consumed with a stability in line with everyday diagnostic treatment. Meanwhile, the Company, having built a stable trust relationship with customers, e.g., major base hospitals heavily involved with acute care as well as having built a solid cooperative relationship with suppliers of merchandises or manufacturers, is supposed to see stable increases of sales over the long term, which does materialize in fact. It must have been a real exception that sales rather adjusted in Q1 FY06/2019.

On the other hand, equipment for the Company to stock and sell are also sold to customers represented by major base hospitals heavily involved with acute care, but demand hinges on something wholly different from that of consumables. Demand for equipment represented by all those merchandises comprising MRI, cineangiocardiography, CT, ultrasonic diagnostic equipment, respiratory apparatus, etc. 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. On a full-year basis, sales hinge on whether those of large-scale projects and/or special-procurement projects are included or not. Sales of equipment decreased by 12.0% over the previous year in FY06/2014, decreased by 35.0% in FY06/2015, increased by 12.5% in FY06/2016, increased by 9.9% in FY06/2017, deceased by 8.4% in FY06/2018. It appears that sales peaked in FY06/2017 most recently due to concentration of sales on large-scales projects and/or special-procurement projects, while adjustment stemming from here has been continuing to date, as far as we could see.

Sales of Business Segments other than Medical Consumables and Equipment



Operating Profit of Business Segments other than Medical Consumables and Equipment



Source: Company Data, WRJ Calculation

Besides Medical Consumables and Equipment, the Company is also involved with SPD, Care Supplies and Imports and Sales by business segment. Still, each of business segment here has remained insignificant in terms of earnings to date and thus earnings as a whole for the Company hinge on those of Medical Consumables and Equipment as mentioned earlier.

SPD (Supply Processing and Distribution) sees sales more than a certain extent but with razor-thin operating profit margin, accounting for limited proportion of operating profit as a whole for the Company. In Q1 to Q2, this business segment accounted for 14.3% of sales as a whole for the Company with operating profit margin of 0.40% and accounted for 4.9% of operating profit (before elimination). In this business segment, the Company pursues creation of added value by means of running consigned operations to manage merchandises and information based on needs from customers not by means of stocking and selling of merchandises as the Company just does not do it here. Still, sales of this business segment include cost of sales on merchandises for the Company to manage on top of cost of sales on above-mentioned consigned operations, resulting in very high cost rate superficially as far as we could see.

Care Supplies represent operations of sales and rental services for nursing-care-use bed and supplies. The mainstay is of rental services for nursing-care-use bed, 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 a distinguished feature for this business segment. Thus, given nature of business model fundamentally different, this business segment saw operating profit margin of 4.74% (up 0.17% points) in Q1 to Q2 FY06/2019 as mentioned earlier, extraneously higher than the rest of the business segments. Still, sales have remained insignificant as a constituent of sales as a whole for the Company and thus earnings too.

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**	**54,381**	**-**	**-**	**(181)**
Cost of Sales	23,538	49,041	74,201	96,640	22,195	48,874	-	-	(167)
Gross Profit	2,689	5,522	8,408	11,023	2,577	5,507	-	-	(14)
SG&A Expenses	2,419	4,817	7,266	9,792	2,496	4,928	-	-	+110
Operating Profit	**269**	**704**	**1,142**	**1,230**	**81**	**579**	**-**	**-**	**(125)**
Non Operating Balance	0	1	1	5	1	4	-	-	+2
Recurring Profit	**270**	**706**	**1,143**	**1,235**	**82**	**583**	**-**	**-**	**(123)**
Extraordinary Balance	31	24	146	145	(114)	(45)	-	-	(70)
Profit before Income Taxes	301	731	1,290	1,381	(31)	537	-	-	(193)
Income Taxes	98	139	314	338	(8)	183	-	-	+43
NP Belonging to Non-Controlling SHs	(1)	(3)	(5)	(10)	(14)	(17)	-	-	(13)
Profit Attributable to Owners of Parent	**204**	**595**	**981**	**1,054**	**(7)**	**371**	**-**	**-**	**(223)**
Sales YoY	+3.0%	+2.6%	+1.9%	+1.8%	(5.5%)	(0.3%)	-	-	-
Operating Profit YoY	+557.3%	+23.4%	+18.9%	+17.9%	(69.9%)	(17.8%)	-	-	-
Recurring Profit YoY	+413.4%	+19.6%	+11.4%	+11.1%	(69.3%)	(17.4%)	-	-	-
Profit Attributable to Owners of Parent YoY	+880.2%	+57.6%	+48.4%	+52.6%	-	(37.5%)	-	-	-
Gross Profit Margin	10.25%	10.12%	10.18%	10.24%	10.40%	10.13%	-	-	+0.01%
(SG&A / Sales)	9.23%	8.83%	8.80%	9.10%	10.08%	9.06%	-	-	+0.23%
Operating Profit Margin	1.03%	1.29%	1.38%	1.14%	0.33%	1.06%	-	-	(0.23%)
Recurring Profit Margin	1.03%	1.29%	1.38%	1.15%	0.33%	1.07%	-	-	(0.22%)
Profit Attributable to Owners of Parent Margin	0.78%	1.09%	1.19%	0.98%	(0.03%)	0.68%	-	-	(0.41%)
Total Income Taxes / Profit before Income Taxes	32.7%	19.1%	24.4%	24.5%	-	34.1%	-	-	+15.0%
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**	**29,608**	**-**	**-**	**+1,272**
Cost of Sales	23,538	25,503	25,160	22,438	22,195	26,679	-	-	+1,175
Gross Profit	2,689	2,832	2,886	2,614	2,577	2,929	-	-	+96
SG&A Expenses	2,419	2,397	2,449	2,526	2,496	2,431	-	-	+34
Operating Profit	**269**	**435**	**437**	**88**	**81**	**497**	**-**	**-**	**+62**
Non Operating Balance	0	1	0	3	1	2	-	-	+1
Recurring Profit	**270**	**436**	**437**	**92**	**82**	**500**	**-**	**-**	**+64**
Extraordinary Balance	31	(6)	122	0	(114)	68	-	-	+75
Profit before Income Taxes	301	429	559	91	(31)	569	-	-	+139
Income Taxes	98	41	174	24	(8)	192	-	-	+150
NP Belonging to Non-Controlling SHs	(1)	(1)	(1)	(5)	(14)	(2)	-	-	(1)
Profit Attributable to Owners of Parent	**204**	**390**	**386**	**72**	**(7)**	**379**	**-**	**-**	**(10)**
Sales YoY	+3.0%	+2.2%	+0.5%	+1.5%	(5.5%)	+4.5%	-	-	-
Operating Profit YoY	+557.3%	(17.9%)	+12.4%	+5.5%	(69.9%)	+14.4%	-	-	-
Recurring Profit YoY	+413.4%	(18.9%)	+0.4%	+6.5%	(69.3%)	+14.7%	-	-	-
Profit Attributable to Owners of Parent YoY	+880.2%	+9.4%	+36.2%	+147.5%	-	(2.7%)	-	-	-
Gross Profit Margin	10.25%	10.00%	10.29%	10.44%	10.40%	9.89%	-	-	(0.10%)
(SG&A / Sales)	9.23%	8.46%	8.73%	10.08%	10.08%	8.21%	-	-	(0.25%)
Operating Profit Margin	1.03%	1.54%	1.56%	0.35%	0.33%	1.68%	-	-	+0.15%
Recurring Profit Margin	1.03%	1.54%	1.56%	0.37%	0.33%	1.69%	-	-	+0.15%
Profit Attributable to Owners of Parent Margin	0.78%	1.38%	1.38%	0.29%	(0.03%)	1.28%	-	-	(0.10%)
Total Income Taxes / Profit before Income Taxes	32.7%	9.6%	31.2%	26.5%	-	33.8%	-	-	+24.2%

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	48,299	-	-	(289)
SPD	3,946	8,173	12,252	16,348	3,900	8,210	-	-	+37
Care Supplies	496	998	1,504	2,034	516	1,040	-	-	+42
Imports and Sales	0	0	0	0	0	0	-	-	-
Elimination	(1,516)	(3,197)	(4,752)	(6,349)	(1,510)	(3,169)	-	-	+27
Sales	**26,227**	**54,563**	**82,610**	**107,663**	**24,772**	**54,381**	**-**	**-**	**(181)**
Medical Consumables and Equipment	+2.4%	+2.2%	+1.5%	+1.4%	(6.2%)	(0.6%)	-	-	-
SPD	+6.7%	+6.9%	+6.1%	+5.9%	(1.2%)	+0.5%	-	-	-
Care Supplies	+11.9%	+10.8%	+7.4%	+6.0%	+4.0%	+4.2%	-	-	-
Imports and Sales	-	-	-	-	-	-	-	-	-
Sales (YoY)	**+3.0%**	**+2.6%**	**+1.9%**	**+1.8%**	**(5.5%)**	**(0.3%)**	**-**	**-**	**-**
Medical Consumables and Equipment	293	744	1,194	1,264	150	630	-	-	(114)
SPD	20	33	52	59	7	33	-	-	0
Care Supplies	22	45	68	114	23	49	-	-	+3
Imports and Sales	(4)	(9)	(16)	(27)	(33)	(38)	-	-	(29)
Segment Profit	**331**	**814**	**1,300**	**1,412**	**148**	**674**	**-**	**-**	**(139)**
Elimination	(61)	(109)	(157)	(181)	(67)	(95)	-	-	+14
Operating Profit	**269**	**704**	**1,142**	**1,230**	**81**	**579**	**-**	**-**	**(125)**
Medical Consumables and Equipment	1.26%	1.53%	1.62%	1.32%	0.69%	1.31%	-	-	(0.23%)
SPD	0.52%	0.41%	0.43%	0.37%	0.20%	0.40%	-	-	(0.00%)
Care Supplies	4.43%	4.57%	4.58%	5.63%	4.64%	4.74%	-	-	+0.17%
Imports and Sales	-	-	-	-	-	-	-	-	-
Operating Profit Margin	**1.03%**	**1.29%**	**1.38%**	**1.14%**	**0.33%**	**1.06%**	**-**	**-**	**(0.23%)**

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	26,433	-	-	+1,144
SPD	3,946	4,227	4,079	4,096	3,900	4,310	-	-	+83
Care Supplies	496	501	505	530	516	524	-	-	+22
Imports and Sales	0	0	0	0	0	0	-	-	-
Elimination	(1,516)	(1,680)	(1,555)	(1,596)	(1,510)	(1,658)	-	-	+22
Sales	**26,227**	**28,336**	**28,046**	**25,053**	**24,772**	**29,608**	**-**	**-**	**+1,272**
Medical Consumables and Equipment	+2.4%	+2.0%	+0.3%	+1.0%	(6.2%)	+4.5%	-	-	-
SPD	+6.7%	+7.1%	+4.5%	+5.2%	(1.2%)	+2.0%	-	-	-
Care Supplies	+11.9%	+9.6%	+1.4%	+2.3%	+4.0%	+4.5%	-	-	-
Imports and Sales	-	-	-	-	-	-	-	-	-
Sales (YoY)	**+3.0%**	**+2.2%**	**+0.5%**	**+1.5%**	**(5.5%)**	**+4.5%**	**-**	**-**	**-**
Medical Consumables and Equipment	293	451	449	70	150	479	-	-	+28
SPD	20	12	19	6	7	25	-	-	+12
Care Supplies	22	23	23	45	23	25	-	-	+1
Imports and Sales	(4)	(5)	(6)	(11)	(33)	(5)	-	-	0
Segment Profit	**331**	**482**	**485**	**111**	**148**	**525**	**-**	**-**	**+42**
Elimination	(61)	(47)	(48)	(23)	(67)	(27)	-	-	+19
Operating Profit	**269**	**435**	**437**	**88**	**81**	**497**	**-**	**-**	**+62**
Medical Consumables and Equipment	1.26%	1.79%	1.80%	0.32%	0.69%	1.82%	-	-	+0.03%
SPD	0.52%	0.30%	0.48%	0.17%	0.20%	0.59%	-	-	+0.29%
Care Supplies	4.43%	4.72%	4.58%	8.61%	4.64%	4.84%	-	-	+0.12%
Imports and Sales	-	-	-	-	-	-	-	-	-
Operating Profit Margin	**1.03%**	**1.54%**	**1.56%**	**0.35%**	**0.33%**	**1.68%**	**-**	**-**	**+0.15%**

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	3,032	-	-	+809
Accounts Receivables	20,899	22,939	21,610	20,389	19,287	22,584	-	-	(355)
Inventory	4,539	4,808	4,741	4,594	4,735	4,898	-	-	+89
Other	941	874	899	1,236	830	781	-	-	(92)
Current Assets	**29,171**	**30,845**	**30,041**	**27,636**	**26,922**	**31,296**	**-**	**-**	**+451**
Tangible Assets	3,709	3,772	3,744	3,753	3,846	3,839	-	-	+67
Intangible Assets	243	270	259	242	354	349	-	-	+79
Investments and Other Assets	1,566	1,669	1,977	1,986	2,184	1,901	-	-	+231
Fixed Assets	**5,519**	**5,712**	**5,981**	**5,981**	**6,385**	**6,090**	**-**	**-**	**+378**
Total Assets	**34,690**	**36,557**	**36,022**	**33,617**	**33,308**	**37,387**	**-**	**-**	**+829**
Accounts Payables	21,723	24,543	24,163	21,712	20,268	24,376	-	-	(167)
Short Term Debt	4,110	2,985	2,060	1,735	3,550	3,164	-	-	+179
Other	1,506	1,254	1,478	1,779	1,952	1,200	-	-	(53)
Current Liabilities	**27,339**	**28,783**	**27,701**	**25,226**	**25,770**	**28,741**	**-**	**-**	**(42)**
Corporate Bond	-	-	-	-	-	-	-	-	-
Long Term Debt	502	444	385	326	252	1,025	-	-	+580
Other	1,405	1,459	1,582	1,647	1,097	1,156	-	-	(302)
Fixed Liabilities	**1,908**	**1,903**	**1,967**	**1,973**	**1,349**	**2,181**	**-**	**-**	**+277**
Total Liabilities	**29,248**	**30,686**	**29,669**	**27,200**	**27,120**	**30,922**	**-**	**-**	**+235**
Shareholders' Equity	**5,177**	**5,567**	**5,954**	**6,026**	**5,794**	**6,173**	**-**	**-**	**+606**
Other	265	303	399	390	393	290	-	-	(12)
Net Assets	**5,442**	**5,870**	**6,353**	**6,416**	**6,187**	**6,464**	**-**	**-**	**+593**
Total Liabilities and Net Assets	**34,690**	**36,557**	**36,022**	**33,617**	**33,308**	**37,387**	**-**	**-**	**+829**
Equity Capital	5,308	5,738	6,222	6,291	6,076	6,356	-	-	+618
Interest Bearing Debt	4,612	3,429	2,445	2,061	3,802	4,189	-	-	+759
Net Debt	1,821	1,206	(343)	645	1,734	1,156	-	-	(49)
Equity Capital Ratio	15.3%	15.7%	17.3%	18.7%	18.2%	17.0%	-	-	+1.3%
Net Debt Equity Ratio	34.3%	21.0%	(5.5%)	10.3%	28.5%	18.2%	-	-	(2.8%)
ROE (12 months)	18.0%	17.2%	17.8%	18.2%	14.8%	13.7%	-	-	(3.5%)
ROA (12 months)	4.0%	3.4%	3.5%	3.8%	3.1%	3.0%	-	-	(0.4%)
Days for Inventory Turnover	18	17	17	19	19	17	-	-	-
Quick Ratio	87%	87%	88%	86%	83%	89%	-	-	-
Current Ratio	107%	107%	108%	110%	104%	109%	-	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

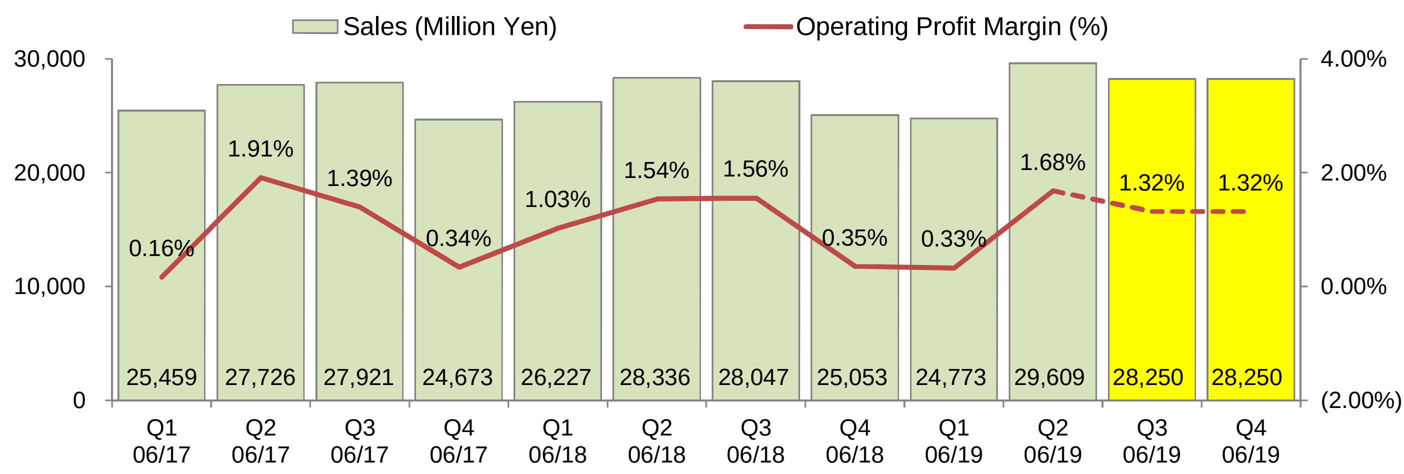
Cash Flow Statement (Million Yen)	Cons.Act Q1 06/2018	Cons.Act Q1 to Q2 06/2018	Cons.Act Q1 to Q3 06/2018	Cons.Act Q1 to Q4 06/2018	Cons.Act Q1 06/2019	Cons.Act Q1 to Q2 06/2019	Cons.Act Q1 to Q3 06/2019	Cons.Act Q1 to Q4 06/2019	YoY Net Chg.
Operating Cash Flow	-	(1,038)	-	(314)	-	(13)	-	-	+1,024
Investing Cash Flow	-	(124)	-	(269)	-	(237)	-	-	(113)
Operating CF & Investing CF	**-**	**(1,162)**	**-**	**(583)**	**-**	**(250)**	**-**	**-**	**+911**
Financing Cash Flow	-	1,165	-	(227)	-	1,875	-	-	+710

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). Profit attributable to owners of parent of ¥861m (down 18.3%) versus recurring profit of ¥1,336m (up 8.1%) is accounted for mainly by two reasons, i.e., that the Company suffered from extraordinary loss of ¥114m on director's retirement benefits in Q1 to Q2 as mentioned earlier and that one-off factors to have increased profit attributable to owners of parent in FY06/2018 do not reappear. In regards to the latter, the Company saw extraordinary gain of ¥106m on termination of retirement benefit plan, while having benefited from reductions of tax charges stemming from review on probability to retrieve deferred tax assets at the same time.

Sales and Operating Profit Margin



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

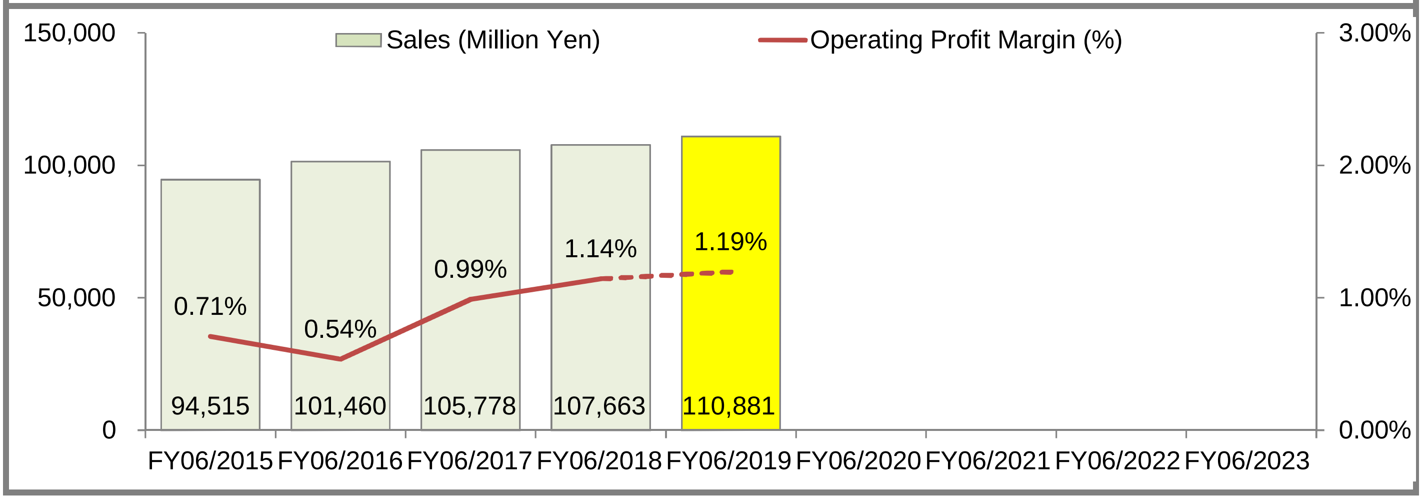
When based on Q1 to Q2 results, Company forecasts assume prospective sales of ¥56,499m (up 6.4% YoY), operating profit of ¥744m (up 41.6%) and operating profit margin of 1.32% (up 0.33% points) in H2. According to the Company, sales and earnings in FY06/2018 were concentrated in H1 (Q1 to Q2), while they are to concentrate in H2 in FY06/2019, resulting in high growth rate in H2 over the same period in the previous year. In H2, the Company says that it strategically focuses on measures to beef up sales of consumables as well as trying to lower cost of sales by means of aggressively speaking to suppliers of merchandises or manufacturers. On the equipment side, the Company is now keen on order intake for small-scale projects as well as for that of large-scale projects.

As the primary basic dividend policy, the Company is going for consistency and stability, while retaining earnings to flexibly invest in future growth as the secondary. Based on the primary, 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: 21.3%) per share at the release of FY06/2018 results (9 August 2018) as has been done so. Meanwhile, although the Company is to suffer from decreases of profit attributable to owners of parent, yearend dividend of ¥40.0 (payout ratio: 26.1%) is to persist in FY06/2019. Given favorable prospects for business performance in FY06/2019, but for above-mentioned one-off factors, it appears that the Company has decided to share earnings with shareholders more than before.

Long-Term Prospects

The Japan's market for medical consumables or the key growth driver as a whole for the Company is expected see CAGR of 2.4% through CY2017 to CY2022, while the Company ranked as the fourth-largest market participant is supposed to see sales growth rate at least in line with this. In regards to equipment, sales are volatile even on an annual basis, depending on whether those of large-scale projects and/or special-procurement projects are included or not, but the Company suggests that the market growth potential effectively equates to that of consumables in a long-term view. Meanwhile, the Company is to launch system to detect breast cancer by exhalation in CY2021. This is to bring full-year contribution in FY06/2023 at the latest, providing the Company with add-on sales to a meaningful extent. More importantly, this operation is of general sales agent to involve with distribution of merchandises more deeply than now and thus carrying gross profit margin higher. So, the impacts to earnings could be substantial and the Company is currently formulating new midterm management plan taking this into account, while planning to release the contents at around the announcement of FY06/2019 full-year results as far as we could see.

Sales and Operating Profit Margin



Source: Company Data, WRJ Calculation

On 16 February 2016, the Company concluded the general sales agent contract for sales in Japan on system to detect breast cancer by exhalation with a medical equipment venture company based in Israel. Having made progress in verification test at university hospital so far, the Company is now in the process of final stage for this. After this is done, the Company is to move on to clinical trial, examination and approval, calling for launch in CY2021 as above-mentioned. According to survey by Ministry of Health, Labour and Welfare (CY2014), the number of examinees on mammography for detecting breast cancer stands at no less than 5.6m per annum, implying a potential that the Company's system to detect breast cancer by exhalation could see demand as high as this.

In Japan, breast cancer develops for 90,000 people per annum, while 13,000 dying because of this. Mainly, women in their forties (sixties in the West) get breast cancer in Japan and they often get highly-concentrated one, resulting in detection rate of no more than 71% (improved up to 91%, when used in conjunction with ultrasonic testing), while checkup rate has remained low, e.g., 41% collectively for their fifties and sixties. With this checkup, medical examinees' breast is required to get compressed excessively, while they inevitably suffer from radiation exposure more than a certain extent, etc.

On the other hand, the Company's system to detect breast cancer by exhalation to launch in CY2021 operates to detect whether organic compounds specific to breast cancer exist or not in examinees' exhalation through the use of analyzer. Compared with mammography, it only detects whether existing or not, but it does not incur any radiation exposure, etc. at all, which is highly appreciated. As found in its etymology, mammography is device to X-ray photograph breast, providing information on size, location, etc. on breast cancer, which are all not available with system to detect breast cancer by exhalation. At the end of the day, it appears that the Company has an idea that it should introduce system to detect cancer by exhalation in marketing as a scheme to detect whether breast cancer existing or not prior to checkup by mammography.

Yohei Maeshima appointed as President COO in September 2015 (as director in September 2014) advocates "contribution to development of medical science and medical treatment through business" as the Company's principle on a group basis. Maeshima, trained as medical doctor with Okayama University and Harvard University, took up a post of professor at Graduate School of Medicine, Dentistry and Pharmaceutical Science with Okayama University in November 2011 and further developed his career as medical doctor.

Meanwhile, based on above-mentioned principle, the Company is going for "acquisition of new earnings pillar", "rationalization and streamlining" and "work style reform" as the main themes of management in a midterm view. In terms of impacts to business, i.e., sales and earnings, it appears that the Company is looking to "acquisition of new earnings pillar" in particular. Specifically speaking, the Company is planning to beef up operations as general sales agent, as mentioned earlier, involving with distribution of merchandises more deeply than now and thus seeing gross profit margin higher, pursuing add-on sales and earnings stemming from here. At the end of the day, the Company is looking to above-mentioned system to detect breast cancer by exhalation as explosive to make progress with this, while having started to gradually make progress so far.

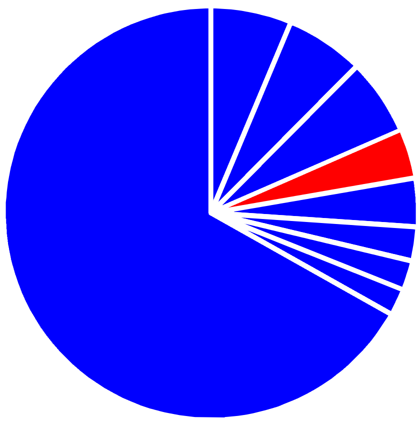
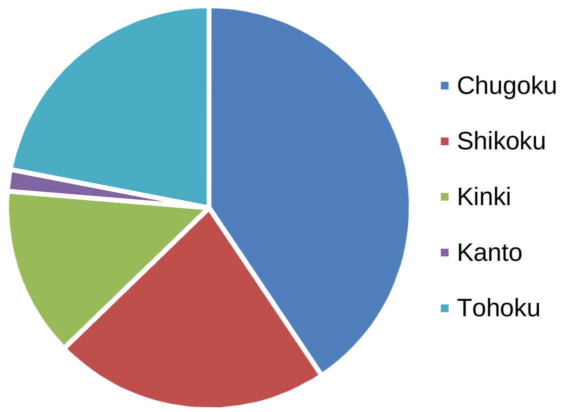
As the fourth-largest integrated medical trader in Japan, the Company has been focusing on medical-engineering collaboration for some time on the side of so-called "medical equipment distributor participation", planning to exclusively stock and sell epoch-making new merchandises developed by venture companies with limited capability of sales promotions. For example, the Company has been consistently holding consultation meetings with venture companies, having seen some results to date. As general sales agent, the Company has started up exclusively selling simulator robot for medical education. So far, the Company has sold four units and did see gross profit margin higher than the rest of operations of stocking and selling.

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 by the Company reached basic agreement to conclude the general sales agent contract in regards to "mikoto" or simulator robot for medical education. Based on the said basic agreement, the Company has started up operations to exclusively sell the said merchandise across Japan as well as providing solutions after introduction, including support services and maintenance services. According to the Company, this is to be followed by ultrahigh-resolution endoscope, etc.

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 of Japan has market size of ¥2.8 trillion (CY2016 results), according to the Company. Meanwhile, the number of players in the market stands at some 1,000, implying a large room remaining for consolidation in the market going forward, while the Company is the fourth-largest player in the market.

Japan's Market and the Company	Sales by Region (Q1 to Q2 FY06/2019 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, having made it one of operating companies 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 together with the merger with peer, while beefing up own market share at the same time. Thus, if the Company could see new deals like this in the future, it will drive growth potential with the Company a lot. For example, the Company is hardly exposed to Kato region, which is said to be the largest out of all the regions, implying a good opportunity for new deals in particular.

Merchandises of Medical Consumables and Equipment (Image Pictures)

Source: Company Data

5.0 Our Reports on the Company in the Past

Fiscal Year	Results Update	Company Report
Q4 FY06/2019	-	-
Q3 FY06/2019	-	-
Q2 FY06/2019	QoQ Recovery	-
Q1 FY06/2019	-	Adjustment and Recovery
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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