Walden Research Japan

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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 Q1 to Q3 (Million Yen) | | Sales | Operating Profit | Recurring Profit | Profit Attributable to Owners of Parent | EPS (Yen) | DPS (Yen) | BPS (Yen) |
| Q1 to Q3 FY06/2018 | | 82,610 | 1,142 | 1,143 | 981 | - | - | - |
| Q1 to Q3 FY06/2019 | | 81,237 | 935 | 940 | 606 | - | - | - |
| Q1 to Q3 FY06/2019 | YoY | (1.7%) | (18.1%) | (17.8%) | (38.2%) | - | - | - |

Source: Company Data, WRJ Calculation

## 1.0 Executive Summary (4 June 2019)

### Passing Factors

Kawanishi Holdings, selling medical consumables and equipment mainly to major base hospitals heavily involved with acute care, currently suffers from sales and earnings coming down. This is due mainly to slowing sales on the mainstay Medical Consumables and Equipment side. While the Company sees decelerating growth rate of sales for medical consumables, sales of equipment have been coming down for some time. Gross profit margin being secured and increases of SG&A expenses limited, but operating profit margin is rather under pressure due to decreased sales as a whole. Still, more importantly, the Company claims that sales are slowing due to passing factors and not because of structural factors. On top of this, the Company reveals its strategy to pursue improved gross profit margin in a midterm view by means of being increasingly involved with distribution of merchandises more deeply than now with operations as general sales agent. So far, the Company has already started selling simulator robot for medical education, which are merchandises to have acquired through medical-engineering collaboration, as general sales agent. This is expected to be followed by ultrahigh-resolution endoscopes, etc. Elsewhere, System to detect breast cancer by exhalation currently approaches the final stage of verification test. Assuming clinical trial, examination and approval on top of verification test are to make progress as expected, the Company suggests launch of this system in CY2021. Meanwhile, the Company is now formulating new midterm management plan to be disclosed in line with the release of FY06/2019 results.

IR representative: Nobuharu Murata, managing director (+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.<br>Website<br>IR Information<br>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 March 2019) |
| **No. of Shares** | 6,250,000 shares, including 639,416 treasury shares (as of the end of March 2019) |
| **Main Features** | ● Established by merger among three wholesale distributors of medical equipment and medical materials based in Chugoku/Shikoku regions<br>● Expectations for new mergers preceded by Sansei Medical Materials<br>● Trying to beef up sales as general sales agent |
| **Business Segments** | Ⅰ. Medical Consumables and Equipment<br>Ⅱ. SPD<br>Ⅲ. Care Supplies<br>Ⅳ. Imports/Sales |
| **Top Management** | President COO: Yohei Maeshima |
| **Shareholders** | MASP Inc. 15.0%, Treasury shares 8.3%, ESOP 5.7% (as of the end of Dec. 2018) |
| **Headquarters** | Kita-ku, Okayama-city, Okayama-prefecture, JAPAN |
| **No. of Employees** | Consolidated: 1,175, Parent: 34 (as of the end of March 2019) |

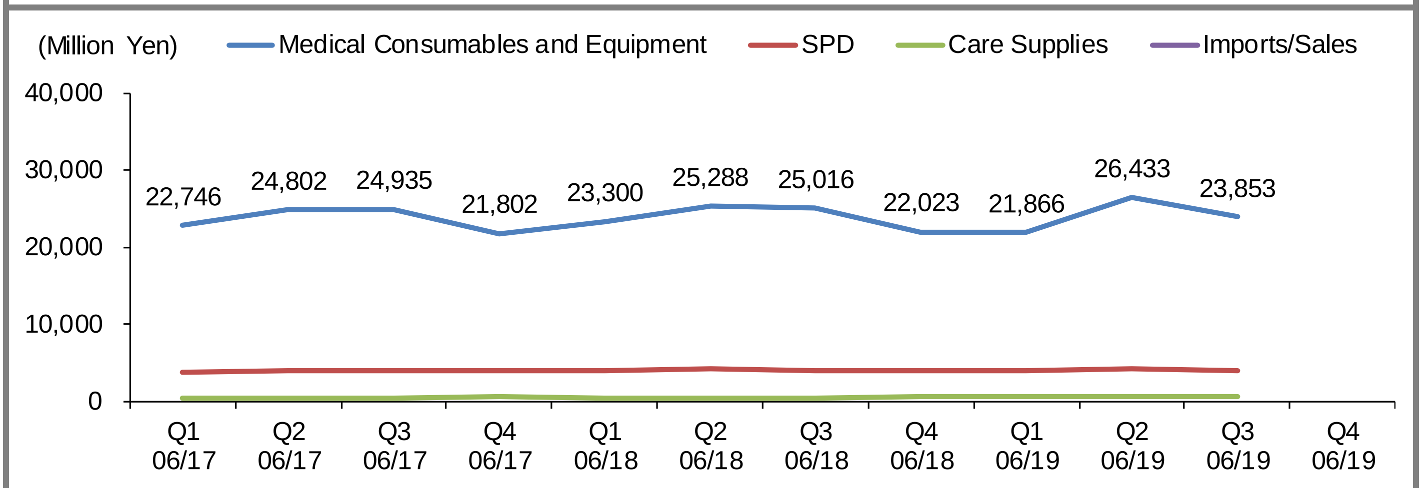
Source: Company Data

# 3.0 Recent Trading and Prospects

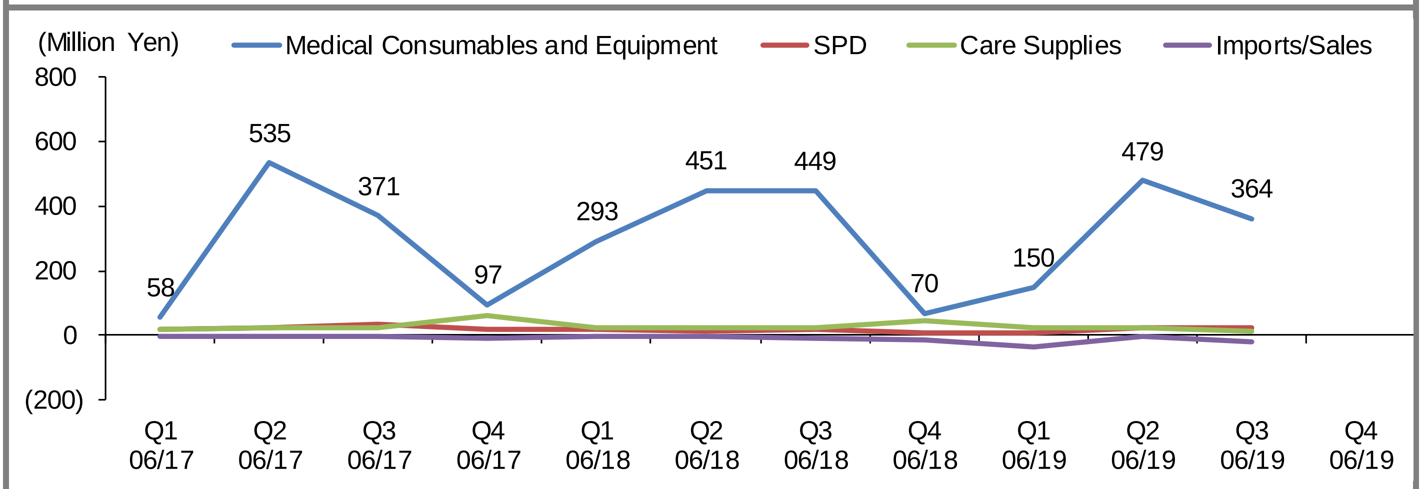
**Q1 to Q3 FY06/2019 Results**

In Q1 to Q3 FY06/2019, sales came in at ¥81,237m (down 1.7% YoY), operating profit ¥935m (down 18.1%), recurring profit ¥940m (down 17.8%) and profit attributable to owners of parent ¥606m (down 38.2%), while operating profit margin 1.15% (down 0.23% points). Due mainly to net deceases by ¥195m at the extraordinary level (¥146m to negative ¥48m), profit attributable to owners of parent came down in particular. During the same period in the previous year, the Company saw gain of ¥106m on termination of retirement benefits scheme, while loss of ¥114m on retirement bonuses for directors in Q1 to Q3 FY06/2019.

**Sales**




**Operating Profit**



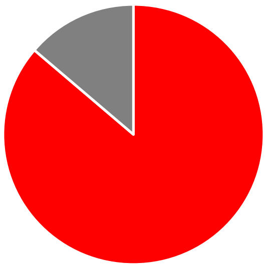

Source: Company Data, WRJ Calculation

Meanwhile. gross profit came in at ¥8,314m (down 1.1%) and SG&A expenses ¥7,379m (up 1.6%), suggesting gross profit margin of 10.24% (up 0.06% points) and the ratio of SG&A expenses to sales of 9.08% (up 0.29% points). Gross profit marginally came down, but gross profit margin was rather secured. Meanwhile, SG&A expenses hardly increased, but the ratio to sales increased in line with decreased sales, having resulted in operating profit margin under pressure as above-mentioned.

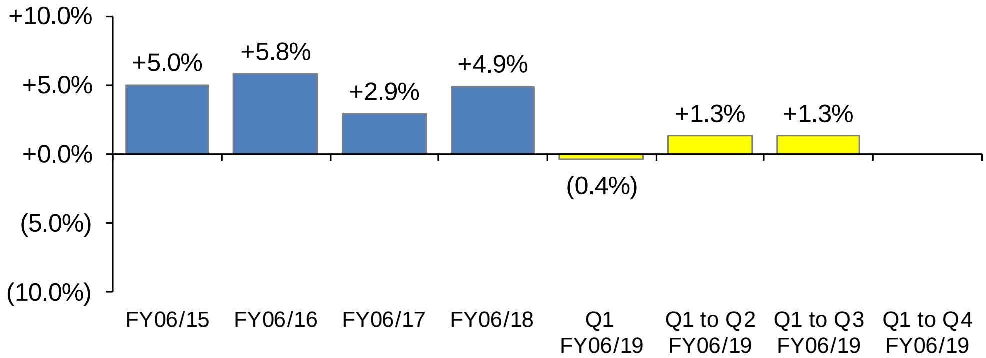
By business segment, Medical Consumables and Equipment, selling medical consumables and equipment mainly to major base hospitals heavily involved with acute care, saw sales of ¥72,153m (down 2.0%), operating profit of ¥995m (down 16.7%) and operating profit margin of 1.38% (down 0.24% points). Having accounted for 84.0% of sales as a whole for the Company and 94.1% of operating profit (before elimination), this business segment is crucially important for business performance as a whole for the Company.

**Medical Consumables and Equipment: Consumables**

**Sales Composition Ratio**

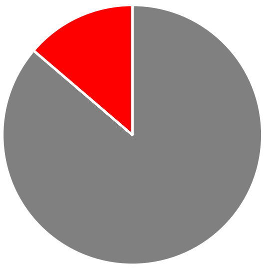


**Changes of Sales (year-on-year)**

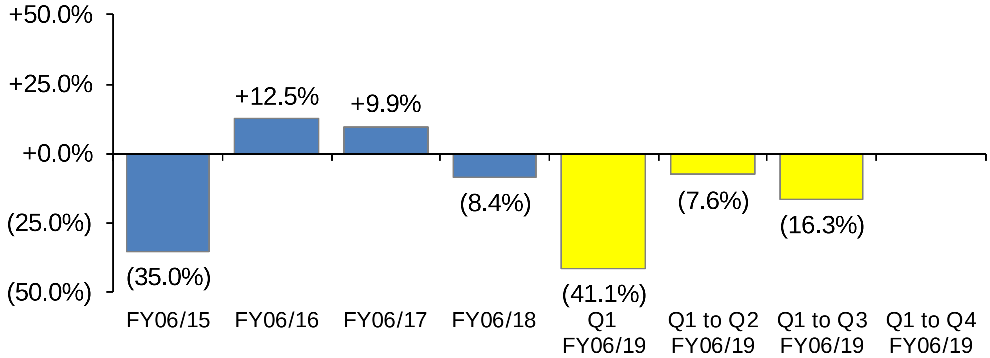



**Medical Consumables and Equipment: Equipment**

**Sales Composition Ratio**



**Changes of Sales (year-on-year)**




Source: Company Data, WRJ Calculation

As far as medical consumables, presumably accounting for 85% of sales on the Medical Consumables and Equipment side, are concerned, sales in Q1 decreased by 0.4% over the same period in the previous year, sales in Q1 to Q2 increased by 1.3% and sales in Q1 to Q3 increased by 1.3%. Sales have slowed down, when compared with the results over the past few years. This could be attributable to structural factors, e.g., that the market growth rate is coming down or that the Company is losing market share, but the Company claims that this is due to passing factors and not because of structural factors.

In the first place, medical consumables for the Company to stock and sell comprise diverse merchandises belonging to the domains of surgical operation, plastic surgery, circulatory system, etc., while sales with the Company here is the fourth largest in the market of Japan. As far as the plastic surgery domain is concerned, the Company is the largest as far as we could gather. All those medical consumables tend to be consistently consumed in line with everyday diagnostic treatment, while the Company has established solid relations of trust with customers represented by major base hospitals heavily involved with acute care and cooperative relations with manufacturers or suppliers of merchandises. Thus, sales used to increase steadily with a stability. Over the past four years, the Company saw upper end of 5.8% for year-on-year increases of sales and lower end of 2.9%. Given high exposure out of the Company as a whole on top of this, medical consumables used to be positioned as “the key growth driver” for the Company as a whole.

Meanwhile, as far as medical consumables, presumably accounting for remaining 15% of sales on the Medical Consumables and Equipment side, are concerned, sales in Q1 decreased by 41.1% over the same period in the previous year, sales in Q1 to Q2 decreased by 7.6% and sales in Q1 to Q3 decreased by 16.3%. Given that sales decreased by 8.4% in FY06/2018, the Company suffers from decreased sales two years in a row. It appears this has a lot to do with a factor that sales of equipment hinge on whether those of large-scale projects, special procurement, etc. to cyclically occur are included or not. As far as we could see, sales of large-scale projects and of special procurement concentrated in FY06/2016 and FY06/2017, having had driven sales here a lot. Compared with levels in those days, sales here have been getting smaller to date as a reaction to the said concentration.

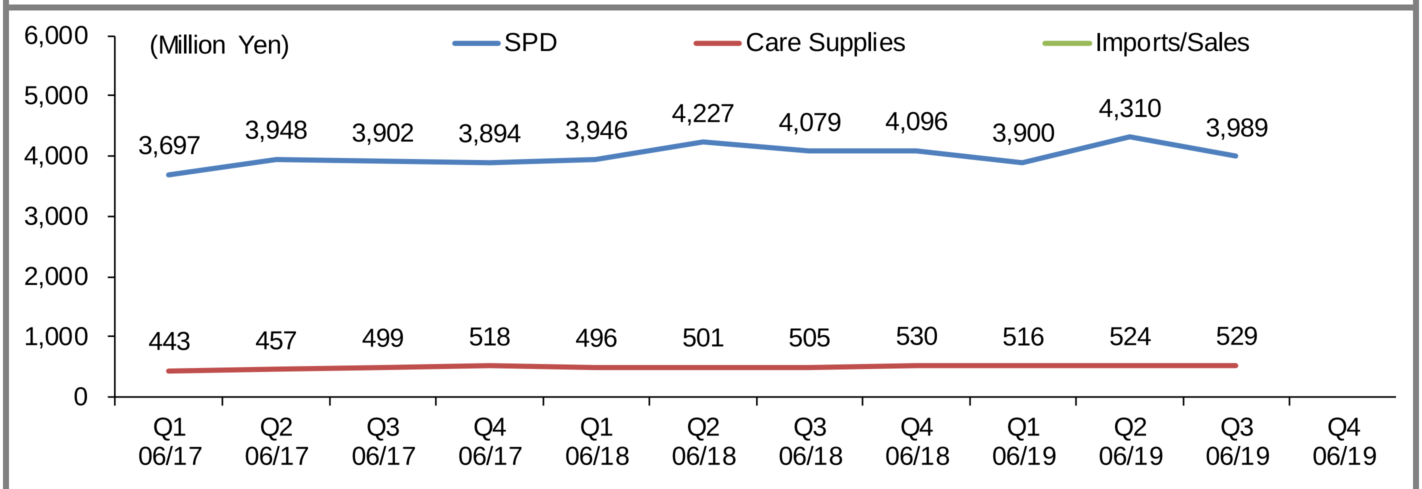
Equipment for the Company to stock and sell are also sold to customers represented by major base hospitals heavily involved with acute care, but demand hinges on something totally different from medical consumables. Demand for equipment represented by all those merchandises comprising MRI, cineangiocardiography, CT, ultrasonic diagnostic equipment, respiratory apparatus, etc. hinges on capital expenditures in line with construction of new buildings and renewals as well as floor extensions, etc. by the customers. On a quarterly basis, sales are concentrated in Q3 (January to March) including March when the bulk of customers executes their budgets and sales are apt to come down a lot in Q4 to directly follow as basic trends. Sales here are far too smaller when compared with those of medical consumables, but short-term sales are highly volatile with this seasonal factor, generating impacts not negligible to sales on the Medical Consumables and Equipment side as a whole and even more for operating profit.



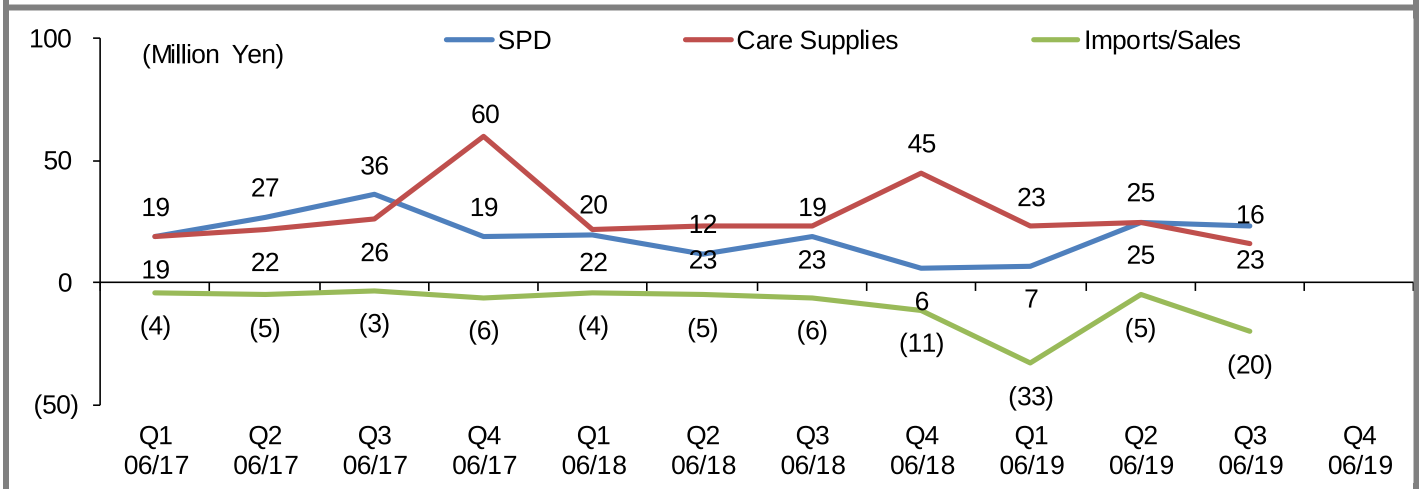
In addition to Medical Consumables and Equipment, the Company is also involved with SPD, Care Supplies and Imports/Sales by business segment. Still, each of business segment here has remained insignificant in terms of earnings to date and thus earnings as a whole for the Company hinge on those of Medical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

In Q1 to Q3 FY06/2019, SPD (Supply Processing and Distribution) saw sales of ¥12,199m (down 0.4%), operating profit of ¥56m (up 7.3%) and operating profit margin of 0.46% (up 0.03% points). Here, the Company pursues creation of added value by means of offering operations to manage merchandises and information as consigned by customers and not by stocking and selling of merchandises. Still, the Company occasionally books sales and cost of sales to the same extent for merchandises which are objects of the operations here. As a result, operating profit margin is so thin, while this segment accounted for 5.4% of operating profit (before elimination) out of the Company as a whole.

**Sales: SPD, Care Supplies and Imports/Sales**




**Operating Profit: SPD, Care Supplies and Imports/Sales**




Source: Company Data, WRJ Calculation

Meanwhile, Care Supplies saw sales of ¥1,569m (up 4.3%), operating profit of ¥65m (down 4.9%) and operating profit margin of 4.17% (down 0.41% points). The key operations here are of rental services for nursing-care-use beds and supplies through own sales branches, accounting for some 80% of sales and carrying gross profit margin of some 50%. While the Company is involved with stocking and selling of merchandises on the mainstay Medical Consumables and Equipment side mainly for base hospitals heavily involved with acute care and with operations related to this on the SPD side, Care Supplies is of rental services with local elderly people and their families as customers, which is a distinguished feature for this business segment. At the same time, the Company reveals its plan to set up new sales branches in FY06/2020, suggesting accelerating sales near term. Still, this business segment accounted for no more than 6.2% of operating profit (before elimination) out of the Company as a whole.

Imports/Sales set up to start operations of system to detect breast cancer by exhalation has seen no sales to date, while having seen operating profit of negative ¥59m (versus negative ¥16m during the same period in the previous year) due to consistent generation of expenses from frontloaded investments.

### 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** | **81,237** | **-** | **(1,373)** |
| Cost of Sales | 23,538 | 49,041 | 74,201 | 96,640 | 22,195 | 48,874 | 72,922 | - | (1,279) |
| Gross Profit | 2,689 | 5,522 | 8,408 | 11,023 | 2,577 | 5,507 | 8,314 | - | (93) |
| SG&A Expenses | 2,419 | 4,817 | 7,266 | 9,792 | 2,496 | 4,928 | 7,379 | - | +112 |
| **Operating Profit** | **269** | **704** | **1,142** | **1,230** | **81** | **579** | **935** | **-** | **(206)** |
| Non Operating Balance | 0 | 1 | 1 | 5 | 1 | 4 | 5 | - | +3 |
| **Recurring Profit** | **270** | **706** | **1,143** | **1,235** | **82** | **583** | **940** | **-** | **(203)** |
| Extraordinary Balance | 31 | 24 | 146 | 145 | (114) | (45) | (48) | - | (195) |
| Profit before Income Taxes | 301 | 731 | 1,290 | 1,381 | (31) | 537 | 892 | - | (398) |
| Income Taxes | 98 | 139 | 314 | 338 | (8) | 183 | 311 | - | (3) |
| NP Belonging to Non-Controlling SHs | (1) | (3) | (5) | (10) | (14) | (17) | (25) | - | (19) |
| **Profit Attributable to Owners of Parent** | **204** | **595** | **981** | **1,054** | **(7)** | **371** | **606** | **-** | **(375)** |
| Sales YoY | +3.0% | +2.6% | +1.9% | +1.8% | (5.5%) | (0.3%) | (1.7%) | - | - |
| Operating Profit YoY | +557.3% | +23.4% | +18.9% | +17.9% | (69.9%) | (17.8%) | (18.1%) | - | - |
| Recurring Profit YoY | +413.4% | +19.6% | +11.4% | +11.1% | (69.3%) | (17.4%) | (17.8%) | - | - |
| Profit Attributable to Owners of Parent YoY | +880.2% | +57.6% | +48.4% | +52.6% | - | (37.5%) | (38.2%) | - | - |
| Gross Profit Margin | 10.25% | 10.12% | 10.18% | 10.24% | 10.40% | 10.13% | 10.24% | - | +0.06% |
| (SG&A / Sales) | 9.23% | 8.83% | 8.80% | 9.10% | 10.08% | 9.06% | 9.08% | - | +0.29% |
| Operating Profit Margin | 1.03% | 1.29% | 1.38% | 1.14% | 0.33% | 1.06% | 1.15% | - | (0.23%) |
| Recurring Profit Margin | 1.03% | 1.29% | 1.38% | 1.15% | 0.33% | 1.07% | 1.16% | - | (0.23%) |
| Profit Attributable to Owners of Parent Margin | 0.78% | 1.09% | 1.19% | 0.98% | (0.03%) | 0.68% | 0.75% | - | (0.44%) |
| Total Income Taxes / Profit before Income Taxes | 32.7% | 19.1% | 24.4% | 24.5% | - | 34.1% | 34.9% | - | +10.5% |

| 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** | **29,608** | **26,855** | **-** | **(1,191)** |
| Cost of Sales | 23,538 | 25,503 | 25,160 | 22,438 | 22,195 | 26,679 | 24,048 | - | (1,112) |
| Gross Profit | 2,689 | 2,832 | 2,886 | 2,614 | 2,577 | 2,929 | 2,807 | - | (78) |
| SG&A Expenses | 2,419 | 2,397 | 2,449 | 2,526 | 2,496 | 2,431 | 2,451 | - | +1 |
| **Operating Profit** | **269** | **435** | **437** | **88** | **81** | **497** | **356** | **-** | **(80)** |
| Non Operating Balance | 0 | 1 | 0 | 3 | 1 | 2 | 0 | - | 0 |
| **Recurring Profit** | **270** | **436** | **437** | **92** | **82** | **500** | **357** | **-** | **(80)** |
| Extraordinary Balance | 31 | (6) | 122 | 0 | (114) | 68 | (2) | - | (124) |
| Profit before Income Taxes | 301 | 429 | 559 | 91 | (31) | 569 | 354 | - | (205) |
| Income Taxes | 98 | 41 | 174 | 24 | (8) | 192 | 127 | - | (47) |
| NP Belonging to Non-Controlling SHs | (1) | (1) | (1) | (5) | (14) | (2) | (7) | - | (5) |
| **Profit Attributable to Owners of Parent** | **204** | **390** | **386** | **72** | **(7)** | **379** | **234** | **-** | **(152)** |
| Sales YoY | +3.0% | +2.2% | +0.5% | +1.5% | (5.5%) | +4.5% | (4.2%) | - | - |
| Operating Profit YoY | +557.3% | (17.9%) | +12.4% | +5.5% | (69.9%) | +14.4% | (18.5%) | - | - |
| Recurring Profit YoY | +413.4% | (18.9%) | +0.4% | +6.5% | (69.3%) | +14.7% | (18.3%) | - | - |
| Profit Attributable to Owners of Parent YoY | +880.2% | +9.4% | +36.2% | +147.5% | - | (2.7%) | (39.3%) | - | - |
| Gross Profit Margin | 10.25% | 10.00% | 10.29% | 10.44% | 10.40% | 9.89% | 10.45% | - | +0.16% |
| (SG&A / Sales) | 9.23% | 8.46% | 8.73% | 10.08% | 10.08% | 8.21% | 9.13% | - | +0.39% |
| Operating Profit Margin | 1.03% | 1.54% | 1.56% | 0.35% | 0.33% | 1.68% | 1.33% | - | (0.23%) |
| Recurring Profit Margin | 1.03% | 1.54% | 1.56% | 0.37% | 0.33% | 1.69% | 1.33% | - | (0.23%) |
| Profit Attributable to Owners of Parent Margin | 0.78% | 1.38% | 1.38% | 0.29% | (0.03%) | 1.28% | 0.87% | - | (0.50%) |
| Total Income Taxes / Profit before Income Taxes | 32.7% | 9.6% | 31.2% | 26.5% | - | 33.8% | 36.0% | - | +4.8% |

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 | 72,153 | - | (1,452) |
| SPD | 3,946 | 8,173 | 12,252 | 16,348 | 3,900 | 8,210 | 12,199 | - | (52) |
| Care Supplies | 496 | 998 | 1,504 | 2,034 | 516 | 1,040 | 1,569 | - | +65 |
| Imports/Sales | - | - | - | - | - | - | - | - | - |
| Elimination | (1,516) | (3,197) | (4,752) | (6,349) | (1,510) | (3,169) | (4,686) | - | +66 |
| **Sales** | **26,227** | **54,563** | **82,610** | **107,663** | **24,772** | **54,381** | **81,237** | **-** | **(1,373)** |
| Medical Consumables and Equipment | +2.4% | +2.2% | +1.5% | +1.4% | (6.2%) | (0.6%) | (2.0%) | - | - |
| SPD | +6.7% | +6.9% | +6.1% | +5.9% | (1.2%) | +0.5% | (0.4%) | - | - |
| Care Supplies | +11.9% | +10.8% | +7.4% | +6.0% | +4.0% | +4.2% | +4.3% | - | - |
| Imports/Sales | - | - | - | - | - | - | - | - | - |
| **Sales (YoY)** | **+3.0%** | **+2.6%** | **+1.9%** | **+1.8%** | **(5.5%)** | **(0.3%)** | **(1.7%)** | **-** | **-** |
| Medical Consumables and Equipment | 293 | 744 | 1,194 | 1,264 | 150 | 630 | 995 | - | (199) |
| SPD | 20 | 33 | 52 | 59 | 7 | 33 | 56 | - | +3 |
| Care Supplies | 22 | 45 | 68 | 114 | 23 | 49 | 65 | - | (3) |
| Imports/Sales | (4) | (9) | (16) | (27) | (33) | (38) | (59) | - | (43) |
| **Segment Profit** | **331** | **814** | **1,300** | **1,412** | **148** | **674** | **1,057** | **-** | **(242)** |
| Elimination | (61) | (109) | (157) | (181) | (67) | (95) | (122) | - | +35 |
| **Operating Profit** | **269** | **704** | **1,142** | **1,230** | **81** | **579** | **935** | **-** | **(206)** |
| Medical Consumables and Equipment | 1.26% | 1.53% | 1.62% | 1.32% | 0.69% | 1.31% | 1.38% | - | (0.24%) |
| SPD | 0.52% | 0.41% | 0.43% | 0.37% | 0.20% | 0.40% | 0.46% | - | +0.03% |
| Care Supplies | 4.43% | 4.57% | 4.58% | 5.63% | 4.64% | 4.74% | 4.17% | - | (0.41%) |
| Imports/Sales | - | - | - | - | - | - | - | - | - |
| **Operating Profit Margin** | **1.03%** | **1.29%** | **1.38%** | **1.14%** | **0.33%** | **1.06%** | **1.15%** | **-** | **(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 | 23,853 | - | (1,162) |
| SPD | 3,946 | 4,227 | 4,079 | 4,096 | 3,900 | 4,310 | 3,989 | - | (90) |
| Care Supplies | 496 | 501 | 505 | 530 | 516 | 524 | 529 | - | +23 |
| Imports/Sales | - | - | - | - | - | - | - | - | - |
| Elimination | (1,516) | (1,680) | (1,555) | (1,596) | (1,510) | (1,658) | (1,516) | - | +38 |
| **Sales** | **26,227** | **28,336** | **28,046** | **25,053** | **24,772** | **29,608** | **26,855** | **-** | **(1,191)** |
| Medical Consumables and Equipment | +2.4% | +2.0% | +0.3% | +1.0% | (6.2%) | +4.5% | (4.6%) | - | - |
| SPD | +6.7% | +7.1% | +4.5% | +5.2% | (1.2%) | +2.0% | (2.2%) | - | - |
| Care Supplies | +11.9% | +9.6% | +1.4% | +2.3% | +4.0% | +4.5% | +4.6% | - | - |
| Imports/Sales | - | - | - | - | - | - | - | - | - |
| **Sales (YoY)** | **+3.0%** | **+2.2%** | **+0.5%** | **+1.5%** | **(5.5%)** | **+4.5%** | **(4.2%)** | **-** | **-** |
| Medical Consumables and Equipment | 293 | 451 | 449 | 70 | 150 | 479 | 364 | - | (84) |
| SPD | 20 | 12 | 19 | 6 | 7 | 25 | 23 | - | +3 |
| Care Supplies | 22 | 23 | 23 | 45 | 23 | 25 | 16 | - | (7) |
| Imports/Sales | (4) | (5) | (6) | (11) | (33) | (5) | (20) | - | (14) |
| **Segment Profit** | **331** | **482** | **485** | **111** | **148** | **525** | **383** | **-** | **(102)** |
| Elimination | (61) | (47) | (48) | (23) | (67) | (27) | (27) | - | +21 |
| **Operating Profit** | **269** | **435** | **437** | **88** | **81** | **497** | **356** | **-** | **(80)** |
| Medical Consumables and Equipment | 1.26% | 1.79% | 1.80% | 0.32% | 0.69% | 1.82% | 1.53% | - | (0.27%) |
| SPD | 0.52% | 0.30% | 0.48% | 0.17% | 0.20% | 0.59% | 0.59% | - | +0.11% |
| Care Supplies | 4.43% | 4.72% | 4.58% | 8.61% | 4.64% | 4.84% | 3.05% | - | (1.53%) |
| Imports/Sales | - | - | - | - | - | - | - | - | - |
| **Operating Profit Margin** | **1.03%** | **1.54%** | **1.56%** | **0.35%** | **0.33%** | **1.68%** | **1.33%** | **-** | **(0.23%)** |

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 | 2,654 | - | (134) |
| Accounts Receivables | 20,899 | 22,939 | 21,610 | 20,382 | 19,287 | 22,584 | 21,851 | - | +241 |
| Inventory | 4,539 | 4,808 | 4,741 | 4,594 | 4,735 | 4,898 | 4,944 | - | +202 |
| Other | 941 | 874 | 899 | 966 | 830 | 781 | 581 | - | (318) |
| **Current Assets** | **29,171** | **30,845** | **30,041** | **27,358** | **26,922** | **31,296** | **30,032** | **-** | **(8)** |
| Tangible Assets | 3,709 | 3,772 | 3,744 | 3,753 | 3,846 | 3,839 | 3,894 | - | +150 |
| Intangible Assets | 243 | 270 | 259 | 242 | 354 | 349 | 421 | - | +162 |
| Investments and Other Assets | 1,566 | 1,669 | 1,977 | 2,079 | 2,184 | 1,901 | 1,988 | - | +10 |
| **Fixed Assets** | **5,519** | **5,712** | **5,981** | **6,074** | **6,385** | **6,090** | **6,304** | **-** | **+323** |
| **Total Assets** | **34,690** | **36,557** | **36,022** | **33,433** | **33,308** | **37,387** | **36,337** | **-** | **+314** |
| Accounts Payables | 21,723 | 24,543 | 24,163 | 21,712 | 20,268 | 24,376 | 22,840 | - | (1,323) |
| Short Term Debt | 4,110 | 2,985 | 2,060 | 1,735 | 3,550 | 3,164 | 3,155 | - | +1,095 |
| Other | 1,506 | 1,254 | 1,478 | 1,779 | 1,952 | 1,200 | 1,482 | - | +4 |
| **Current Liabilities** | **27,339** | **28,783** | **27,701** | **25,226** | **25,770** | **28,741** | **27,478** | **-** | **(223)** |
| Long Term Debt | 502 | 444 | 385 | 326 | 252 | 1,025 | 920 | - | +534 |
| Other | 1,405 | 1,459 | 1,582 | 1,463 | 1,097 | 1,156 | 1,233 | - | (348) |
| **Fixed Liabilities** | **1,908** | **1,903** | **1,967** | **1,790** | **1,349** | **2,181** | **2,153** | **-** | **+186** |
| **Total Liabilities** | **29,248** | **30,686** | **29,669** | **27,016** | **27,120** | **30,922** | **29,632** | **-** | **(37)** |
| **Shareholders' Equity** | **5,177** | **5,567** | **5,954** | **6,026** | **5,794** | **6,173** | **6,408** | **-** | **+454** |
| Other | 265 | 303 | 399 | 390 | 393 | 290 | 296 | - | (102) |
| **Net Assets** | **5,442** | **5,870** | **6,353** | **6,416** | **6,187** | **6,464** | **6,705** | **-** | **+351** |
| **Total Liabilities and Net Assets** | **34,690** | **36,557** | **36,022** | **33,433** | **33,308** | **37,387** | **36,337** | **-** | **+314** |
| Equity Capital | 5,308 | 5,738 | 6,222 | 6,291 | 6,076 | 6,356 | 6,605 | - | +383 |
| Interest Bearing Debt | 4,612 | 3,429 | 2,445 | 2,061 | 3,802 | 4,189 | 4,075 | - | +1,629 |
| Net Debt | 1,821 | 1,206 | (343) | 645 | 1,734 | 1,156 | 1,421 | - | +1,764 |
| Equity Capital Ratio | 15.3% | 15.7% | 17.3% | 18.8% | 18.2% | 17.0% | 18.2% | - | +0.9% |
| Net Debt Equity Ratio | 34.3% | 21.0% | (5.5%) | 10.3% | 28.5% | 18.2% | 21.5% | - | +27.0% |
| ROE (12 months) | 18.0% | 17.2% | 17.8% | 18.2% | 14.8% | 13.7% | 10.6% | - | (7.2%) |
| ROA (12 months) | 4.0% | 3.4% | 3.5% | 3.8% | 3.1% | 3.0% | 2.9% | - | (0.6%) |
| Days for Inventory Turnover | 18 | 17 | 17 | 19 | 19 | 17 | 19 | - | - |
| Quick Ratio | 87% | 87% | 88% | 86% | 83% | 89% | 89% | - | - |
| Current Ratio | 107% | 107% | 108% | 108% | 104% | 109% | 109% | - | - |

Source: Company Data, WRJ Calculation



## Cash Flow Statement (Cumulative)

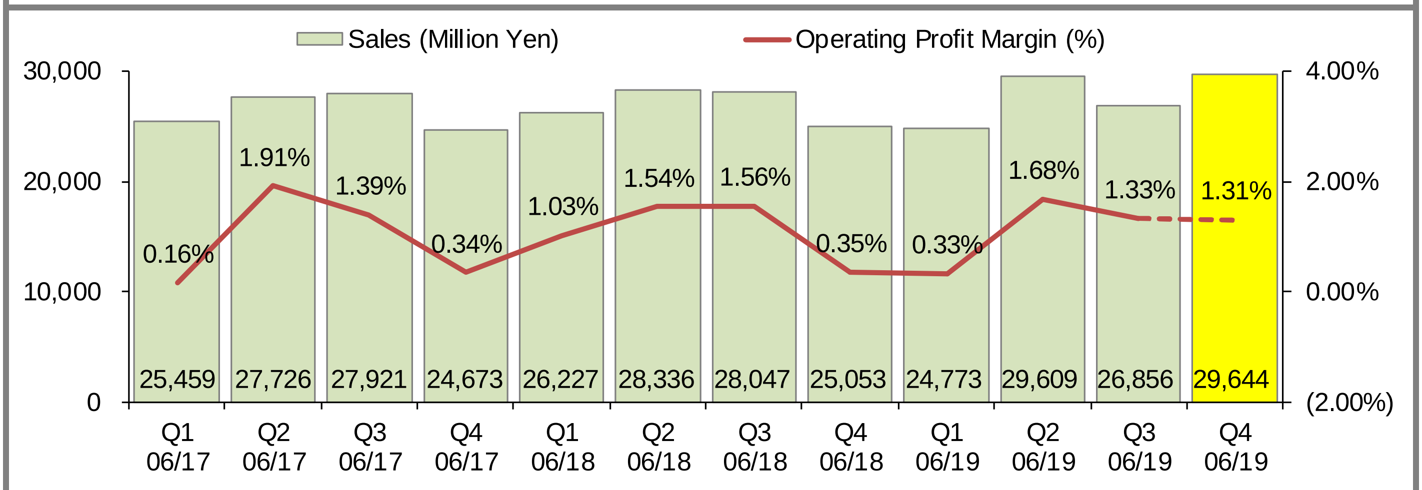
| Cash Flow Statement (Million Yen) | Cons.Act Q1 06/2018 | Cons.Act Q1 to Q2 06/2018 | Cons.Act Q1 to Q3 06/2018 | Cons.Act Q1 to Q4 06/2018 | Cons.Act Q1 06/2019 | Cons.Act Q1 to Q2 06/2019 | Cons.Act Q1 to Q3 06/2019 | Cons.Act Q1 to Q4 06/2019 | YoY Net Chg. |
|---|---|---|---|---|---|---|---|---|---|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

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 have also remained unchanged for prospective annual dividend, i.e., ¥40.0 per share, implying payout ratio of 26.1%. In FY06/2018, the Company benefited from reductions of tax charges stemming from review on probability to retrieve deferred tax assets. While this is not to reappear, the Company sees aforementioned situations at the extraordinary level in in Q1 to Q3, resulting in decreases of profit attributable to owners of parent.

**Sales and Operating Profit Margin**




Source: Company Data, WRJ Calculation



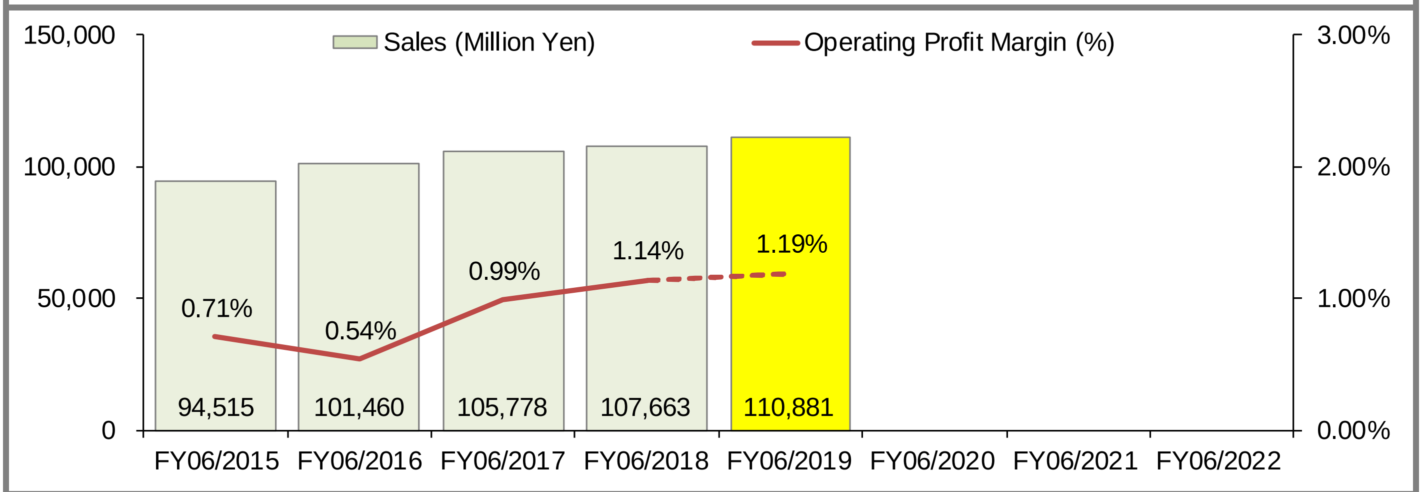
The Company sees weak progress rate in Q1 to Q3 results against full-year Company forecasts, i.e., 73.3% for sales and 70.7% for operating profit. Compared with 76.7% and 92.8%, respectively, for Q1 to Q3 results against full-year results in FY06/2018, the Company sees progress rate lower by 3.5% points for sales and by 22.1% points for operating profit. Due mainly to seasonal factors, earnings have adjusted a lot in Q4 over the past years, while progress rate has been very high at the stage of Q1 to Q3 results so far for earnings in particular.

Meanwhile, as the primary policy, the Company is going for consistency and stability on dividend, while retaining earnings to flexibly invest in future growth as the secondary. Based on the primary policy, the Company was going for yearend dividend of ¥30.0 per share for four years in a row in FY06/2018, but the Company announced to raise it up to ¥40.0 per share, implying payout ratio of 21.3%, at the release of FY06/2018 results (9 August 2018) and this has been done. Now, although the Company is to suffer from decreases of profit attributable to owners of parent, yearend dividend of ¥40.0, implying payout ratio of 26.1%, is to persist in FY06/2019.

**Long-Term Prospects**

The market of Japan 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 are included or not, but the Company suggests that the market growth potential effectively equates to that of medical consumables in a long-term view. Meanwhile, the Company is going for launch of system to detect breast cancer by exhalation in CY2021, suggesting full-year contribution from here in FY06/2023. The Company is currently in the process of formulating new midterm management plan, which is to be disclosed at the release of FY06/2019 results.

**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 as expected, 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, Labor 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% by mammography (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’ breasts are 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 not incurring any radiation exposure, etc. at all, which is highly appreciated. As implied by its etymology, mammography is device to X-ray photograph breasts, 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 as a scheme to simply detect whether breast cancer exists 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 had 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 initiatives of management in a midterm view. In terms of impacts to sales and earnings, it appears that the Company is looking to "acquisition of new earnings pillar" in particular. Specifically, 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. Now, 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 elsewhere so far.



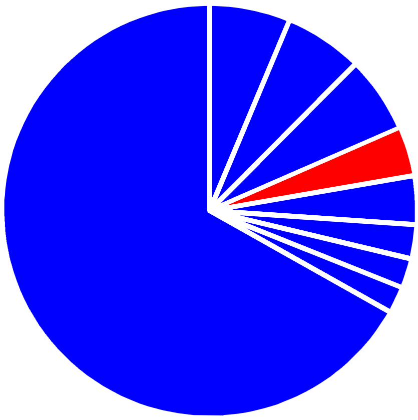
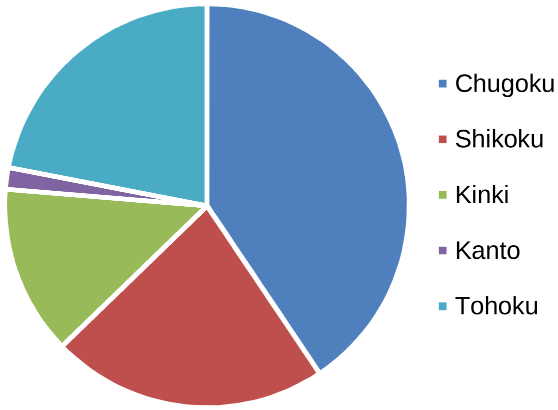
As the fourth-largest integrated medical trader in Japan, the Company has been focusing on medical-engineering collaboration for some time on the side of so-called "medical equipment distributor participation", planning to exclusively stock and sell epoch-making new merchandises developed by venture 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. In Q1 to Q2 FY06/2019, the Company sold four units and did see gross profit margin higher than the rest of operations of stocking and selling, while this business has continued into Q3, 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 by the Company reached basic agreement to conclude the general sales agent contract in regards to "mikoto" or simulator robot for medical education. Having had concluded the agreement afterwards, the Company has started up operations to exclusively sell the said merchandises across Japan as well as providing solutions after introductions, including support services and maintenance services.

# 4.0 Business Model

**Medical Consumables and Equipment**

On the mainstay Medical Consumables and Equipment side, the Company sells medical consumables and equipment mainly to major base hospitals heavily involved with acute care. Just roughly speaking, this business domain of Japan has market size of ¥2.8 trillion (in 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 participant in the market.

| Japan's Market and the Company's Sales | 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 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 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 Kanto region, which is said to be the largest out of all the regions, implying a good opportunity for new deals here with the Company.

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 | Beyond Cruising Speed |
| 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**

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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