Kawanishi Holdings / 2689

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Business overview

- Kawanishi Holdings, Inc. ("Kawanishi HD") sells medical devices and consumables to hospitals as its core business. About 80% of its sales are derived from controlled medical devices and specially controlled medical devices, two categories of equipment for which registration as a medical devices vendor is required. The company sources some 400,000 products from roughly 1,000 domestic and overseas manufacturers and distributors and supplies these to about 2,000 hospitals and clinics. It has developed a strong presence in the Chugoku/Shikoku (65% of sales), Tohoku (19%), and Kinki (13%) areas, due to a business model that focuses on regional areas, while it only generates 2% of its sales in the much larger Kanto market. Kawanishi HD collaborates closely with hospitals and doctors, and therefore requires human resources with the expertise to gather data on surgery schedules and procedures, make informed proposals on medical devices and consumables necessary for surgery or treatment, and deliver products in bulk.
- The company's four segments are: Medical Devices and Consumables (82% of FY06/20 sales), SPD (Supply, Processing, and Distribution; 16%), Nursing Care Products (2%), and Import and Sales (0%). The core Medical Devices and Consumables segment supplies consumables required for surgery, such as automatic staplers, surgical sutures, syringes, stents, and catheters (above 80% of segment sales), and equipment such as computed tomography (CT) scanners, Magnetic Resonance Imaging (MRI) scanners, ultrasonic diagnostic equipment, and surgical monitors (nearly 20% of segment sales). The SPD segment provides supply, processing, and distribution services, which include support to enhance operational efficiency at hospitals; inter-hospital transportation of pharmaceuticals, medical devices, and consumables; appropriate management of hospital inventories; and verification of hospital procurement prices. Product sales generate some 90% of segment sales, with management service fees contributing the remaining 10%. This segment is closely linked with the Medical Devices and Consumables segment. The Nursing Care Products segment mainly leases nursing beds. In FY06/20, the Medical Devices and Consumables, SPD, and Nursing Care Products segments reported OPM of 1.3%, 0.5%, and 5.5%, respectively. The Import and Sales segment is still in the start-up stage, and therefore operates at a loss.
- The Japanese market for medical devices is generally expected to grow at a CAGR of 2–3%, driven by advances in medical technology and growth in the number of patients as Japan's population ages. Kawanishi HD targets annual sales growth of at least 3–4%, mainly by increasing its share in regional markets. The market for nursing beds is also projected to grow as rises in the late-elderly population and expansion of in-home care push up demand. The company looks for annual sales growth of 5% or more in its nursing bed leasing business.

Earnings trends

- For FY06/20, the company reported sales of JPY107.9bn (+0.4% YoY), operating profit of JPY927mn (-28.8% YoY), and net income of JPY326mn (-57.9% YoY). Progress was solid in cumulative Q3, with sales at 76.0% of the full-year forecast (JPY110.5bn), but the business stalled in Q4 due to the COVID-19 pandemic. Sales in the company's Medical Devices and Consumables business declined as medical institutions curtailed orthopedic surgery and some catheter procedures in order to secure beds for patients infected with COVID-19. The company plans to pay an annual dividend of JPY45 per share (including commemorative dividend of JPY5 per share).
- For FY06/21, Kawanishi HD is forecasting sales of JPY114.1bn (+5.8% YoY), operating profit of JPY1.4bn (+55.3% YoY), net income of JPY931mn (2.9x YoY), EPS of JPY153.11, and an annual dividend of JPY45 per share. The company assumed a gradual easing of the impact of the pandemic when putting together its forecast. Its main initiatives include increasing market share in areas where it currently operates and cultivating customers in neighboring prefectures to expand its sales base; identifying fields expected to grow along with advances in medical technology, upgrading professional expertise, and making best use of medical device rentals and leases; and strengthening indirect departments to expand the areas covered per individual salesperson, thus boosting productivity. The company plans to change its name to Olba Healthcare Holdings, Inc. on January 1, 2021.

Strengths and weaknesses

Kawanishi HD's strengths are 1) its relationships of trust with customers, developed through a focus on regional areas, 2) its training system for human resources that underpins stable growth, and 3) the unique background and extensive personal network of President Yohei Maeshima that contributes to new business opportunities (including in the field of medical-engineering collaboration). Shared Research believes the company's weaknesses are 1) difficulties in selling products and services at prices that reflect value added, 2) the lack of a business foundation that targets clinics, and 3) a sales presence that is limited to specific regions (in other words, its low market share in the Kanto region). (For details, see the "Strengths and Weaknesses" section.)

Key financial data

Income statement (JPYmn)	FY06/12 Cons.	FY06/13 Cons.	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.	FY06/21 Cons.
Sales	**74,745**	**96,223**	**97,138**	**94,515**	**101,461**	**105,779**	**107,664**	**107,428**	**107,897**	**114,114**
YoY	20.3%	28.7%	1.0%	-2.7%	7.3%	4.3%	1.8%	-0.2%	0.4%	5.8%
Gross profit	**7,896**	**10,076**	**10,121**	**9,758**	**10,136**	**10,899**	**11,023**	**11,137**	**11,068**	**11,672**
YoY	19.5%	27.6%	0.4%	-3.6%	3.9%	7.5%	1.1%	1.0%	-0.6%	5.5%
Gross profit margin	10.6%	10.5%	10.4%	10.3%	10.0%	10.3%	10.2%	10.4%	10.3%	10.2%
SG&A expenses	**7,129**	**8,520**	**8,680**	**9,090**	**9,592**	**9,855**	**9,793**	**9,836**	**10,141**	**10,232**
YoY	18.6%	19.5%	1.9%	4.7%	5.5%	2.7%	-0.6%	0.4%	3.1%	0.9%
SG&A ratio	9.5%	8.9%	8.9%	9.6%	9.5%	9.3%	9.1%	9.2%	9.4%	9.0%
Operating profit	**767**	**1,556**	**1,441**	**668**	**543**	**1,044**	**1,231**	**1,301**	**927**	**1,440**
YoY	29.3%	102.9%	-7.4%	-53.6%	-18.7%	92.2%	17.9%	5.7%	-28.8%	55.3%
Operating profit margin	1.0%	1.6%	1.5%	0.7%	0.5%	1.0%	1.1%	1.2%	0.9%	1.3%
Recurring profit	**750**	**1,535**	**1,519**	**663**	**557**	**1,113**	**1,236**	**1,310**	**906**	**1,441**
YoY	30.5%	104.7%	-1.0%	-56.4%	-16.0%	99.8%	11.1%	6.0%	-30.9%	59.1%
Recurring profit margin	1.0%	1.6%	1.6%	0.7%	0.5%	1.1%	1.1%	1.2%	0.8%	1.3%
Net income	**346**	**943**	**817**	**405**	**306**	**691**	**1,054**	**776**	**326**	**931**
YoY	10.8%	172.6%	-13.4%	-50.4%	-24.6%	125.9%	52.6%	-26.4%	-57.9%	185.2%
Net margin	0.5%	1.0%	0.8%	0.4%	0.3%	0.7%	1.0%	0.7%	0.3%	0.8%
Per-share data (split-adjusted; JPY)										
Shares outstanding (ex. treasury shares; year-end, mn)	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	6.1	-
EPS	61.7	168.1	145.5	72.2	54.5	123.1	187.9	138.2	56.8	153.1
EPS (fully diluted)	-	-	-	-	-	-	-	-	-	-
Dividend per share	10.0	20.0	25.0	30.0	30.0	30.0	40.0	40.0	45.0	45.0
Book value per share	407	578	700	840	819	943	1,121	1,192	1,197	-
Balance sheet (JPYmn)										
Cash and cash equivalent	5,752	6,916	4,324	2,352	2,143	2,220	1,416	1,120	1,926	
Total current assets	**23,790**	**27,032**	**24,335**	**25,194**	**25,455**	**26,216**	**27,636**	**27,731**	**26,725**	
Tangible fixed assets	2,878	2,899	3,133	3,421	3,746	3,668	3,753	3,809	4,582	
Investments and other assets	1,002	1,170	1,000	1,764	1,602	1,678	1,986	1,803	1,871	
Intangible fixed assets	628	561	491	360	247	213	242	429	504	
Total assets	**28,299**	**31,663**	**28,959**	**30,738**	**31,050**	**31,775**	**33,617**	**33,772**	**33,683**	
Short-term debt	3,419	3,836	1,126	2,235	1,816	760	1,794	1,539	2,282	
Current liabilities	**23,254**	**26,493**	**23,200**	**24,252**	**24,345**	**24,440**	**25,227**	**25,065**	**23,797**	
Long-term debt	1,767	874	835	505	927	600	513	1,090	1,630	
Fixed liabilities	**2,760**	**1,924**	**1,833**	**1,776**	**2,111**	**1,909**	**1,974**	**1,936**	**2,605**	
Total liabilities	**26,014**	**28,418**	**25,033**	**26,027**	**26,456**	**26,349**	**27,201**	**27,001**	**26,402**	
Shareholders' equity	2,285	3,245	3,926	4,711	4,594	5,290	6,291	6,686	7,282	
Total net assets	**2,285**	**3,245**	**3,926**	**4,711**	**4,594**	**5,426**	**6,417**	**6,771**	**7,282**	
Total interest-bearing debt	5,186	4,710	1,962	2,740	2,743	1,360	2,307	2,629	3,913	
Cash flow statement (JPYmn)										
Cash flows from operating activities	1,932	2,061	926	-2,114	710	872	-314	137	863	
Cash flows from investing activities	-605	-449	-401	-388	-705	-100	-269	-362	-496	
Cash flows from financing activities	1,207	-545	-2,886	627	-209	-741	-228	-63	440	
Financial ratio										
ROA (RP-based)	3.1%	5.1%	5.0%	2.2%	1.8%	3.5%	3.8%	3.9%	2.7%	
ROE	16.0%	34.1%	22.8%	9.4%	6.6%	14.0%	18.2%	12.0%	4.7%	
Equity ratio	8.1%	10.3%	13.6%	15.3%	14.8%	16.6%	18.7%	19.8%	21.6%	

Source: Shared Research based on company data

Recent updates

Highlights

On **September 14, 2020**, Shared Research updated the report following interviews with Kawanishi Holdings, Inc.

On **August 11, 2020**, the company announced earnings results for full-year FY06/20; see the results section for details.

For previous releases and developments, please refer to the "News and topics" section.

Trends and outlook

Quarterly trends and results

Cumulative	FY06/18				FY06/19				FY06/20				FY06/21
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY Est.
Sales	26,227	54,564	82,610	107,664	24,773	54,382	81,237	107,428	28,355	55,548	83,940	107,897	114,114
YoY	3.0%	2.6%	1.9%	1.8%	-5.5%	-0.3%	-1.7%	-0.2%	14.5%	2.1%	3.3%	0.4%	5.8%
Gross profit	2,689	5,522	8,408	11,023	2,578	5,507	8,315	11,137	2,868	5,601	8,520	11,068	11,672
YoY	7.3%	1.2%	1.6%	1.1%	-4.2%	-0.3%	-1.1%	1.0%	11.3%	1.7%	2.5%	-0.6%	5.5%
GPM	10.3%	10.1%	10.2%	10.2%	10.4%	10.1%	10.2%	10.4%	10.1%	10.1%	10.2%	10.3%	10.2%
SG&A expenses	2,420	4,817	7,266	9,793	2,496	4,928	7,379	9,836	2,495	5,266	7,721	10,141	10,232
YoY	-1.8%	-1.4%	-0.6%	-0.6%	3.2%	2.3%	1.6%	0.4%	-0.1%	6.9%	4.6%	3.1%	0.9%
SG&A ratio	9.2%	8.8%	8.8%	9.1%	10.1%	9.1%	9.1%	9.2%	8.8%	9.5%	9.2%	9.4%	9.0%
Operating profit	270	705	1,142	1,231	81	579	936	1,301	373	335	799	927	1,440
YoY	557.3%	23.4%	18.9%	17.9%	-69.9%	-17.8%	-18.1%	5.7%	359.1%	-42.1%	-14.5%	-28.8%	55.3%
OPM	1.0%	1.3%	1.4%	1.1%	0.3%	1.1%	1.2%	1.2%	1.3%	0.6%	1.0%	0.9%	1.3%
Recurring profit	270	706	1,144	1,236	83	583	941	1,310	374	330	782	906	1,441
YoY	413.4%	19.6%	11.4%	11.1%	-69.3%	-17.4%	-17.8%	6.0%	351.9%	-43.5%	-16.8%	-30.9%	59.1%
RPM	1.0%	1.3%	1.4%	1.1%	0.3%	1.1%	1.2%	1.2%	1.3%	0.6%	0.9%	0.8%	1.3%
Net income	205	378	982	1,054	-8	372	606	776	244	169	460	326	931
YoY	880.2%	0.0%	48.4%	52.6%	-	-1.5%	-38.2%	-26.4%	-	-54.4%	-24.2%	-57.9%	185.2%
Net margin	0.8%	0.7%	1.2%	1.0%	0.0%	0.7%	0.7%	0.7%	0.9%	0.3%	0.5%	0.3%	0.8%
Quarterly	FY06/18				FY06/19				FY06/20				
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Sales	26,227	28,336	28,047	25,053	24,773	29,609	26,856	26,191	28,355	27,193	28,392	23,956	
YoY	3.0%	2.2%	0.5%	1.5%	-5.5%	4.5%	-4.2%	4.5%	14.5%	-8.2%	5.7%	-8.5%	
Gross profit	2,689	2,833	2,886	2,615	2,578	2,930	2,808	2,822	2,868	2,734	2,919	2,548	
YoY	7.3%	-4.0%	2.5%	-0.4%	-4.2%	3.4%	-2.7%	7.9%	11.3%	-6.7%	4.0%	-9.7%	
GPM	10.3%	10.0%	10.3%	10.4%	10.4%	9.9%	10.5%	10.8%	10.1%	10.1%	10.3%	10.6%	
SG&A expenses	2,420	2,398	2,449	2,526	2,496	2,432	2,451	2,456	2,495	2,771	2,455	2,420	
YoY	-1.8%	-1.0%	0.9%	-0.6%	3.2%	1.4%	0.1%	-2.8%	-0.1%	14.0%	0.1%	-1.5%	
SG&A ratio	9.2%	8.5%	8.7%	10.1%	10.1%	8.2%	9.1%	9.4%	8.8%	10.2%	8.6%	10.1%	
Operating profit	270	435	437	89	81	498	356	366	373	-38	464	128	
YoY	557.3%	-17.9%	12.4%	5.5%	-69.9%	14.4%	-18.5%	312.2%	359.1%	-	30.3%	-65.1%	
OPM	1.0%	1.5%	1.6%	0.4%	0.3%	1.7%	1.3%	1.4%	1.3%	-0.1%	1.6%	0.5%	
Recurring profit	270	436	437	92	83	501	357	369	374	-44	453	123	
YoY	413.4%	-18.9%	0.4%	6.5%	-69.3%	14.7%	-18.3%	301.2%	351.9%	-	26.7%	-66.6%	
RPM	1.0%	1.5%	1.6%	0.4%	0.3%	1.7%	1.3%	1.4%	1.3%	-0.2%	1.6%	0.5%	
Net income	205	173	604	72	-8	380	235	169	244	-74	290	-133	
YoY	880.2%	-51.6%	112.8%	147.5%	-	119.7%	-61.2%	133.9%	-	-	23.6%	-	
Net margin	0.8%	0.6%	2.2%	0.3%	0.0%	1.3%	0.9%	0.6%	0.9%	-0.3%	1.0%	-0.6%	

Segments	FY06/18				FY06/19				FY06/20				FY06/21
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY Est.
Total sales	26,227	28,336	28,047	25,053	24,773	29,609	26,856	26,191	28,355	27,193	28,392	23,956	114,114
YoY	3.0%	2.2%	0.5%	1.5%	-5.5%	4.5%	-4.2%	4.5%	14.5%	-8.2%	5.7%	-8.5%	5.8%
Medical Devices and Consumables	23,301	25,288	25,017	22,023	21,867	26,433	23,854	22,888	24,969	23,694	24,945	20,580	98,900
YoY	2.4%	2.0%	0.3%	1.0%	-6.2%	4.5%	-4.6%	3.9%	14.2%	-10.4%	4.6%	-10.1%	5.0%
% of total sales	84.0%	84.2%	84.5%	82.6%	83.2%	84.5%	84.1%	82.4%	83.4%	81.9%	83.3%	80.7%	82.0%
Supply Processing and Distribution	3,946	4,227	4,079	4,097	3,900	4,310	3,989	4,357	4,405	4,708	4,465	4,366	19,500
YoY	6.7%	7.1%	4.5%	5.2%	-1.2%	2.0%	-2.2%	6.4%	13.0%	9.2%	11.9%	0.2%	8.7%
% of total sales	14.2%	14.1%	13.8%	15.4%	14.8%	13.8%	14.1%	15.7%	14.7%	16.3%	14.9%	17.1%	16.2%
Nursing Care Products	497	502	506	530	516	524	529	527	565	540	536	543	2,200
YoY	11.9%	9.6%	1.4%	2.3%	4.0%	4.5%	4.6%	-0.5%	9.4%	2.9%	1.3%	3.0%	0.7%
% of total sales	1.8%	1.7%	1.7%	2.0%	2.0%	1.7%	1.9%	1.9%	1.9%	1.9%	1.8%	2.1%	1.8%
Import and Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-	-	-	-
% of total sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments	-1,516	-1,681	-1,555	-1,597	-1,511	-1,659	-1,517	-1,582	-1,585	-1,748	-1,554	-1,532	-6,486
Operating profit	270	435	437	89	81	498	356	366	373	-38	464	128	1,440
YoY	557.3%	-17.9%	12.4%	5.5%	-69.9%	14.4%	-18.5%	312.2%	359.1%	-	30.3%	-65.1%	55.3%
OPM	1.0%	1.5%	1.6%	0.4%	0.3%	1.7%	1.3%	1.4%	1.3%	-0.1%	1.6%	0.5%	1.3%
Medical Devices and Consumables	293	452	450	70	151	480	365	371	392	206	442	213	1,400
YoY	405.2%	-15.7%	21.0%	-27.9%	-48.6%	6.3%	-18.9%	427.0%	160.0%	-57.0%	21.2%	-42.6%	11.7%
Profit margin	1.3%	1.8%	1.8%	0.3%	0.7%	1.8%	1.5%	1.6%	1.6%	0.9%	1.8%	1.0%	1.4%
% of total operating profit	88.5%	93.6%	92.5%	63.0%	101.3%	91.3%	95.1%	95.9%	94.1%	-3309.7%	89.9%	132.1%	85.9%
Import and Sales	21	13	20	7	8	25	23	21	18	23	29	17	100
YoY	5.3%	-54.2%	-46.9%	-63.9%	-62.0%	99.7%	20.0%	197.0%	126.7%	-10.3%	23.0%	-17.6%	15.9%
Profit margin	0.5%	0.3%	0.5%	0.2%	0.2%	0.6%	0.6%	0.5%	0.4%	0.5%	0.6%	0.4%	0.5%
% of total operating profit	6.2%	2.6%	4.0%	6.2%	5.2%	4.8%	6.1%	5.3%	4.2%	-366.1%	5.9%	10.5%	6.1%
Nursing Care Products	22	24	23	46	24	25	16	27	22	32	33	32	130
YoY	15.4%	6.1%	-11.9%	-25.0%	8.9%	7.3%	-30.4%	-40.2%	-7.4%	25.6%	104.6%	18.5%	8.9%
Profit margin	4.4%	4.7%	4.6%	8.6%	4.6%	4.8%	3.1%	5.2%	3.9%	5.9%	6.2%	6.0%	5.9%
% of total operating profit	6.6%	4.9%	4.8%	40.8%	16.1%	4.8%	4.2%	7.1%	5.3%	-511.2%	6.7%	20.0%	8.0%
Import and Sales	-4	-5	-6	-11	-34	-5	-21	-32	-15	-267	-12	-101	-
YoY	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit margin	-	-	-	-	-	-	-	-	-	-	-	-	-
% of total operating profit	-1.4%	-1.1%	-1.3%	-9.9%	-22.7%	-1.0%	-5.4%	-8.3%	-3.7%	4,287.0%	-2.5%	-62.6%	-
Adjustments	-62	-47	-49	-23	-68	-28	-27	-21	-44	-31	-27	-34	-190

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Full-year FY06/20 results (out August 11, 2020)

Summary

- For FY06/20, the company reported sales of JPY107.9bn (+0.4% YoY), operating profit of JPY927mn (-28.8% YoY), and net income of JPY326mn (-57.9% YoY). Progress was solid in cumulative Q3, with sales at 76.0% of the full-year forecast (JPY110.5bn), but the business stalled in Q4 due to the COVID-19 pandemic. Sales in the company's Medical Devices and Consumables business declined as medical institutions curtailed surgery and some catheter procedures in order to secure beds for patients infected with COVID-19. The company had been laying the groundwork to sell a breast cancer screening system that relies on breath testing in the domestic market, but screening performance fell short of expectations, and the company decided it would be difficult to introduce to Japan, and booked JPY353mn (JPY257mn in Q2, JPY96mn in Q4) in provision of allowance for doubtful accounts under SG&A expenses. The company also booked an extraordinary impairment loss of JPY191mn on asset holdings accompanying a branch relocation. Profit thus fell sharply. In Q4, sales were JPY24.0bn (-8.5% YoY), operating profit JPY128mn (-65.1% YoY), and net loss JPY133mn (net income of JPY169mn in Q4 FY06/19). The company plans to pay an annual dividend of JPY45 per share. It had originally planned to pay JPY40 per share (flat YoY), in line with FY06/19, but added a commemorative dividend of JPY5 to mark the transfer of its listing to the TSE First Section.
- Full-year forecast: For FY06/21, Kawanishi HD is forecasting sales of JPY114.1bn (+5.8% YoY), operating profit of JPY1.4bn (+55.3% YoY), net income of JPY931mn (2.9x YoY), EPS of JPY153.11, and an annual dividend of JPY45 per share. The company assumed a gradual easing of the impact of the pandemic when putting together its forecast. Its main initiatives include increasing market share in areas where it currently operates and cultivating customers in neighboring prefectures to expand its sales base; identifying fields expected to grow along with advances in medical technology, upgrading professional expertise, and making best use of medical device rentals and leases; and strengthening indirect departments to expand the areas covered per individual salesperson, thus boosting productivity. The company will celebrate the 100th year anniversary since its founding in 2021 and plans to change its name to Olba Healthcare Holdings, Inc. on January 1, 2021.
- Medium-term management plan: The company issued a new medium-term management plan targeting FY06/23 sales of JPY120bn and operating profit of JPY1.9bn. Versus the previous medium-term plan forecast (FY06/22 sales of JPY120bn and operating profit of JPY2.0bn), the new plan reflects (1) the difficulty in launching the breast cancer screening system based on breath testing that had been planned for Japan and (2) higher-than-anticipated reimbursement price revisions in October 2019.

Segments

Medical Devices and Consumables

FY06/20 sales were JPY94.2bn (-0.9% YoY) and operating profit JPY1.3bn (-8.3% YoY). Sales of consumables (based on simple sum) were JPY83.5bn (+1.0% YoY) while sales of equipment (simple sum) totaled JPY10.8bn (-12.6% YoY).

Sales of surgery-related consumables, accounting for more than 50% of consumables, were firm, rising 2.5% YoY while sales of diabetes-related products, a priority area for Kawanishi HD, increased 10.3% YoY. Gastroenterological endoscopy-related products increased 7.9% YoY accompanying the transition to less-invasive endoscopic surgery. Also driving sales growth were ophthalmology-related products, which were up 6.8% YoY supported by an increase in the number of cataract surgeries, and sterilization-related products including personal protection equipment (PPE) for COVID-19, which were up 5.3% YoY.

Sales of orthopedic surgery-related consumables, which account for nearly 30% of consumables, were down 1.0% YoY. Sales had been up 3.4% YoY through Q3 on sales contributions from customer medical institutions newly acquired in FY06/19 and a rise in cases in the Kanto region. However, in Q4 there was an increase in medical institutions that postponed some orthopedic surgical procedures considered non-essential to secure hospital beds for COVID-19 patients.

Sales of cardiovascular-related consumables, which account for about 20% of consumables, declined 0.2% YoY. Consumables related to transcatheter aortic value implantation (TAVI) and catheter ablation (treatment to cauterize or coagulate myocardial tissue that causes tachycardia) continued to expand. That said, sales declined slightly YoY owing to a substantial negative impact from the cut in reimbursement prices in October 2019 and the fall in cases in Q4 due to COVID-19.

Sales of equipment (simple sum) were JPY10.8bn (-12.6% YoY). Although there were some large hospital reconstruction and relocation orders in FY06/19, there were few such orders in FY06/20.

Q4 Medical Devices and Consumables sales were JPY20.6bn (-10.1% YoY) with consumable sales down 9.1% and equipment sales down 23.2% YoY. In particular, sales of orthopedic surgery-related consumables fell sharply in Q4 (-14.0% YoY) as medical institutions postponed joint replacement and other surgery due to COVID-19. Sales of cardiovascular-related consumables fell 15% YoY in Q4 as some procedures involving catheters were curtailed. In contrast, surgery-related consumables saw a much more modest decline of only 3.9%. Operating profit at JPY213mn suffered a significant 42.6% YoY drop in Q4 as measures such as curbing SG&A expenses were not enough to absorb the sales decline.

SPD

FY06/20 sales were JPY17.9bn (+8.4% YoY) and operating profit was JPY86mn (+11.7% YoY). Contributions from new facilities under contract from FY06/19 drove the sales growth. Profit margins improved somewhat as the company revised its goods management service fees with the aim of bringing them up to a level commensurate to the services provided and costs incurred.

Q4 sales were JPY4.4bn (+0.2% YoY) and operating profit was JPY17mn (-17.6% YoY).

Nursing Care Products

FY06/20 sales were JPY2.2bn (+4.1% YoY) and operating profit was JPY119mn (+28.7% YoY). A steady 6.4% gain in sales from mainstay nursing care equipment rentals contributed. The company is strengthening operations mainly in the Chugoku/Shikoku region and establishment of the Nishi Hiroshima branch in July 2019 contributed to earnings growth. Equipment sales to long-term care and medical treatment facilities are also expanding briskly.

Q4 sales were JPY543mn (+3.0% YoY) and operating profit was JPY32mn (+18.5% YoY).

Import and Sales

Kawanishi HD had partnered with Israeli company VOCs Medical Ltd. to market a breast cancer screening system based on breath testing in Japan, but verification testing failed to confirm the screening ability initially expected. Accordingly, the company booked a JPY353mn provision for doubtful accounts under SG&A expenses (JPY257mn in Q2, JPY96mn in Q4). This led to a segment operating loss of JPY396mn (loss of JPY92mn in FY06/19). Management thinks it will be difficult to continue business activities and thus plans to drastically downsize the segment in the future.

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

Full-year company forecasts

	FY06/19			FY06/20			FY06/21		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Est.	2H Est.	FY Est.
Sales	**54,382**	**53,047**	**107,428**	**55,548**	**52,349**	**107,897**	**56,069**	**58,045**	**114,114**
YoY	-0.3%	-0.1%	-0.2%	2.1%	-1.3%	0.4%	0.9%	10.9%	5.8%
Cost of sales	48,874	47,417	96,292	49,947	46,882	96,829			102,442
Gross profit	**5,507**	**5,630**	**11,137**	**5,601**	**5,467**	**11,068**			**11,672**
YoY	-0.3%	2.3%	1.0%	1.7%	-2.9%	-0.6%			5.5%
GPM	10.1%	10.6%	10.4%	10.1%	10.4%	10.3%			10.2%
SG&A expenses	4,928	4,907	9,836	5,266	4,875	10,141			10,232
YoY	2.3%	-1.4%	0.4%	6.9%	-0.7%	3.1%			0.9%
SG&A ratio	9.1%	9.3%	9.2%	9.5%	9.3%	9.4%			9.0%
Operating profit	**579**	**722**	**1,301**	**335**	**592**	**927**	**528**	**912**	**1,440**
YoY	-17.8%	37.3%	5.7%	-42.1%	-18.0%	-28.8%	57.5%	54.1%	55.3%
OPM	1.1%	1.4%	1.2%	0.6%	1.1%	0.9%	0.9%	1.6%	1.3%
Recurring profit	**583**	**727**	**1,310**	**330**	**576**	**906**	**528**	**913**	**1,441**
YoY	-17.4%	37.2%	6.0%	-43.5%	-20.7%	-30.9%	60.1%	58.6%	59.1%
RPM	1.1%	1.4%	1.2%	0.6%	1.1%	0.8%	0.9%	1.6%	1.3%
Net income	**372**	**404**	**776**	**169**	**157**	**326**	**332**	**599**	**931**
YoY	-1.5%	-40.3%	-26.4%	-54.4%	-61.1%	-57.9%	95.9%	281.6%	185.2%
Net margin	0.7%	0.8%	0.7%	0.3%	0.3%	0.3%	0.6%	1.0%	0.8%

Source: Shared Research based on company data

The company forecasts FY06/21 sales of JPY114.1bn (+5.8% YoY), operating profit of JPY1.4bn (+55.3% YoY), net income of JPY931mn (2.9-fold increase), and EPS of JPY153.11. The annual dividend is projected at JPY45 per share (in FY06/20, a regular dividend of JPY40 per share + a JPY5 per share commemorative dividend), representing a payout ratio of 29.4% relative to company forecasts. Kawanishi HD assumes an increase in the operating profit margin due to the absence of provisions for doubtful accounts (JPY353mn related to the breast cancer testing system) booked as SG&A expenses in FY06/20. Excluding this factor from FY06/20 results, the FY06/21 operating profit forecast would represent a 12.5% YoY increase.

The forecasts are based on the assumption that the fallout from COVID-19 would gradually diminish. In Q4 FY06/20, acute care hospitals curtailed some orthopedic surgical procedures and cardiovascular catheter treatments to secure hospital beds for COVID-19 patients. In addition, patients put off clinic visits to avoid COVID-19 infection, resulting in fewer referrals from clinics of surgical patients to acute care hospitals. Kawanishi HD estimates the adverse effect from COVID-19 depressed Q4 sales by about JPY1.9bn and assumes the negative impact will gradually diminish in Q1 and Q2 FY06/21. Accordingly, the company forecasts 1H sales will increase only 0.9% YoY to JPY56.1bn, but 2H sales will expand 10.9% YoY to JPY58.0bn.

The company forecasts Medical Devices and Consumables sales will increase 5.0% YoY to JPY98.9bn in FY06/21 while operating profit rises 11.7% YoY to JPY1.4bn. It looks for the number of curtailed surgeries to diminish, thereby driving sales growth. The drop in cardiovascular-related and orthopedic surgical procedures had a major dampening effect on FY06/20 earnings, but Kawanishi HD anticipates cardiovascular surgeries will lead the recovery followed later by a resumption in orthopedic surgeries. We note that the pandemic may affect the timing of any recovery and if it becomes protracted the recovery could take longer than anticipated.

The company outlined the following six initiatives as key points for the Medical Devices and Consumables business in FY06/21.

1) Increase market share in current operating markets while cultivating customers in neighboring prefectures to further expand the sales base.
2) Identify fields expected to grow along with advances in medical technology, upgrade relevant expertise, and optimize use of medical device rentals and leases to support customers and contribute to development of medical care.
3) Strengthen indirect departments to expand areas covered per salesperson, thus boosting productivity.
4) Meet challenges in the medical field through medical-engineering collaboration and thus improve customer satisfaction and create new business opportunities.
5) Enhance productivity of business activities by developing systems that utilize IT and radio frequency identification (RFID) to streamline various operational flows.

6) Strengthen the business for clinics in the Chugoku region and expand the subscription-based business (leverage equity-method affiliate Kawanishi BarcMed Co., Ltd).

Segments (JPYmn)	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.	FY06/21 Est.
Total sales	97,138	94,515	101,461	105,779	107,664	107,428	107,897	114,114
YoY	1.0%	-2.7%	7.3%	4.3%	1.8%	-0.2%	0.4%	5.8%
Medical Devices and Consumables	84,788	81,635	87,035	94,286	95,629	95,042	94,187	98,900
YoY	0.1%	-3.7%	6.6%	8.3%	1.4%	-0.6%	-0.9%	5.0%
Supply Processing and Distribution	10,942	12,799	14,831	15,443	16,349	16,557	17,944	19,500
YoY	13.9%	17.0%	15.9%	4.1%	5.9%	1.3%	8.4%	8.7%
Nursing Care Products	1,227	1,414	1,672	1,919	2,035	2,097	2,184	2,200
YoY	21.0%	15.3%	18.2%	14.8%	6.0%	3.1%	4.1%	0.7%
Import and Sales	-	-	-	-	-	-	-	-
YoY	-	-	-	-	-	-	-	-
Life Science	4,003	3,575	3,628	-	-	-	-	-
YoY	-8.2%	-10.7%	1.5%	-	-	-	-	-
Adjustments	-3,823	-4,908	-5,706	-5,869	-6,349	-6,268	-6,419	-6,486
Operating profit	1,441	668	543	1,044	1,231	1,301	927	1,440
YoY	-7.4%	-53.6%	-18.7%	92.2%	17.9%	5.7%	-28.8%	55.3%
Operating profit margin	1.5%	0.7%	0.5%	1.0%	1.1%	1.2%	0.9%	1.3%
Medical Devices and Consumables	1,411	690	591	1,063	1,265	1,367	1,254	1,400
YoY	-14.2%	-51.1%	-14.3%	79.9%	19.0%	8.0%	-8.3%	11.7%
Profit margin	1.7%	0.8%	0.7%	1.1%	1.3%	1.4%	1.3%	1.4%
Supply Processing and Distribution	94	65	88	103	60	77	86	100
YoY	105.7%	-30.5%	34.2%	17.9%	-42.2%	29.2%	11.7%	15.9%
Profit margin	0.9%	0.5%	0.6%	0.7%	0.4%	0.5%	0.5%	0.5%
Nursing Care Products	41	57	63	129	115	93	119	130
YoY	91.7%	38.1%	11.0%	103.2%	-11.0%	-19.0%	28.7%	8.9%
Profit margin	3.4%	4.0%	3.8%	6.7%	5.6%	4.4%	5.5%	5.9%
Import and Sales	-	-	-	-20	-27	-92	-396	-
YoY	-	-	-	-	-	-	-	-
Profit margin	-	-	-	-	-	-	-	-
Life Science	11	-10	-18	-	-	-	-	-
YoY	-	-	-	-	-	-	-	-
Profit margin	0.3%	-0.3%	-0.5%	-	-	-	-	-
Adjustments	-117	-134	-181	-230	-181	-144	-136	-190

Source: Shared Research based on company data

The company forecasts SPD sales will increase 8.7% YoY to JPY19.5bn and operating profit will increase 15.9% YoY to JPY100mn in FY06/21. The number of facilities under contract at end-06/20 stood at 63 (excluding 13 FC) up two from 61 (13 FC) at end-06/19. The company expects segment sales and profits to increase YoY supported by an increase in the number of facilities under contract and revision of goods management service fees to a level commensurate to the services provided and costs incurred.

The key initiatives in the SPD business in FY06/21 are as follows.

1) Make proposals to support hospital administration such as reducing procurement prices and checking for medical insurance billing omissions as auxiliary services to the SPD function.
2) Improve productivity and customer satisfaction by continuously reviewing the service delivery process to increase value added and maximize operational efficiency.
3) Launch systems that support efficient management of medical devices and consumables for small and medium-sized medical institutions.

The company forecasts Nursing Care Products sales will increase 0.7% YoY to JPY2.2bn and operating profit will rise 8.9% YoY to JPY130mn in FY06/21. While strengthening cooperation with medical institutions, the company aims to expand its physical network centered on the Chugoku region and increase contracts for the mainstay nursing bed rental business. The company looks to aggressively launch new products through tie-ups with manufacturers and will also aggressively pursue customers from companies that have withdrawn from the nursing bed rental business. Equipment sales to long-term and medical care facilities are currently hampered by the COVID-19 outbreak that restricts aggressive marketing activities, the company plans to offset this by increasing nursing bed rentals.

The key initiatives in the Nursing Care Products business in FY06/21 are as follows.

1) Increase market share in sales areas through rapid and thorough marketing activities.
2) Further expand the customer base and product lineup by strengthening cooperation with medical institutions and establish a system to smoothly supply nursing care products from hospitals to homes.
3) Further expand the customer base and product lineup by strengthening the in-house construction and long-term care housing reform businesses.

Kawanishi HD will celebrate the 100th anniversary since its founding in 2021 and plans to mark this milestone by changing the corporate name to Olba Healthcare Holdings from January 1, 2021. The word Olba is derived from Oval and Orbit and comes from the idea that the company aims for a future where people and technology within the community healthcare space are connected in a circle that underscores the trajectory of the group. The company aims for sustainable growth as a global healthcare company that creates new value while playing a role in community healthcare.

Change in corporate name to Olba Healthcare Holdings

OLBA HEALTHCARE

O: One (Cooperation)
Unite as a group toward a goal to support healthcare
Deepen cooperation with customers and business partners within and outside the company
Support regional healthcare so people can enjoy long and healthy lives
L: Learn (Growth)
Continue learning to contribute to medicine, healthcare, and long-term care
By each and everyone of us humbly learning and growing
we can become an organization that contributes to the development of medicine, healthcare, and long-term care
B: Benefit (Trust)
Consistently fulfill expectations and build trust
Quickly deliver leading-edge information, innovative functions, and technologies
to provide services that meets everyone's expectations
A: Action (Explore)
Explore the global frontier without fear of challenge
Aggressively interact with various people and explore the frontier from a global perspective
Strive to be ethical, honest, and fair to sustain growth

Source: Shared Research based on company data

Initial forecasts and results

Results vs. Initial Est. (JPYmn)	FY06/12 Cons.	FY06/13 Cons.	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
Sales (Initial Est.)	65,035	88,470	92,821	101,091	103,020	105,069	106,377	110,881	110,520
Sales (Results)	74,745	96,223	97,138	94,515	101,461	105,779	107,664	107,428	107,897
Results vs. Initial Est.	**14.9%**	**8.8%**	**4.7%**	**-6.5%**	**-1.5%**	**0.7%**	**1.2%**	**-3.1%**	**-2.4%**
Operating profit (Initial Est.)	639	1,077	1,022	1,537	700	816	1,100	1,324	1,254
Operating profit (Results)	767	1,556	1,441	668	543	1,044	1,231	1,301	927
Results vs. Initial Est.	**20.0%**	**44.5%**	**41.0%**	**-56.5%**	**-22.4%**	**28.0%**	**11.9%**	**-1.7%**	**-26.1%**
Recurring profit (Initial Est.)	606	1,016	980	1,521	688	808	1,109	1,336	1,265
Recurring profit (Results)	750	1,535	1,519	663	557	1,113	1,236	1,310	906
Results vs. Initial Est.	**23.7%**	**51.0%**	**55.0%**	**-56.4%**	**-19.1%**	**37.7%**	**11.4%**	**-2.0%**	**-28.4%**
Net income (Initial Est.)	294	559	516	889	369	492	714	861	837
Net income (Results)	346	943	817	405	306	691	1,054	776	326
Results vs. Initial Est.	**17.7%**	**68.7%**	**58.2%**	**-54.4%**	**-17.2%**	**40.4%**	**47.6%**	**-9.9%**	**-61.0%**

Source: Shared Research based on company data

Medium-term management plan

The medium-term management plan spanning from FY06/21 to FY06/23, which was released in August 2020, calls for FY06/23 sales of JPY120.0bn (three-year CAGR of 3.6%) and operating profit of JPY1.9bn (27.0%). FY06/20 SG&A expenses include a one-off expense of JPY353mn (provisions for doubtful accounts) that if excluded would result in an underlying 3-year operating profit average annual growth rate of 14.1%.

Key objectives of the plan are 1) restructure business processes for the orthopedic surgery business, for which Kawanishi HD has a high market share, in a way that the customers, suppliers, and Kawanishi HD can all benefit, 2) streamline and optimize efficiency of internal operations through adoption of robotic process automation (RPA) and quality control measures to improve operations, 3) strengthen buying clout for the Medical Devices and Consumables business, 4) maximize value provided to customers through digital transformation of marketing activities using ICT (i.e., restructuring the business model through digitalization), 5) build a system that can continually address various healthcare needs by diversifying revenue sources through new business development, 6) develop products that contribute to solving healthcare problems through medical-engineering collaboration with manufacturing companies, 7) adopt telework as a part of workstyle reform while also promoting health management, and 8) boost organizational strength by emphasizing the group's corporate philosophy as incorporated in the Employee Charter.

Medium-term management plan

(JPYmn)	FY06/20 FY	FY06/21 Est.	FY06/23 MTP	Three-year CAGR
Sales	**107,897**	**114,114**	**120,000**	**3.6%**
YoY	0.4%	5.8%		
Operating profit	**927**	**1,440**	**1,900**	**27.0%**
YoY	-28.8%	55.3%		
OPM	0.9%	1.3%	1.6%	

Source: Shared Research based on company data

Previous medium-term plan: The previous medium-term plan (FY06/20 to FY06/22) targeted FY06/22 sales of JPY120.0bn (three-year CAGR of JPY3.8%) and operating profit of JPY2.0bn (15.4%). Key themes were 1) secure new revenue sources (expand sales in the Import and Sales segment, establish business geared toward clinics, and develop subscription businesses), 2) increase labor productivity in core businesses (e.g., enhance service quality, optimize prices and personnel deployment, promote IT adoption, increase business efficiency, streamline distribution, and improve procurement/control prices), and 3) reform work styles and train human resources (e.g., revise personnel systems, train managers, provide health management, reduce overtime, ensure employees take paid holidays, set up a 100th anniversary project). However, problems commercializing the breast cancer screening system based on breath testing in Japan, which had been an Import and Sales project, coupled with the adverse effect of the October 2019 reimbursement price revision made the medium-term management plan earnings targets difficult to achieve so a new plan was issued in August 2020.

Restructure orthopedic surgery business processes, for which Kawanishi HD has a high market share, in a way that the customers, suppliers, and the company can all benefit.

The Ministry of Health, Labor and Welfare (MHLW) is advocating for a new healthcare delivery system that fits within the community medical care concept by 2025, when the baby boomer generation will be over 75. It envisions consolidation of medical institutions providing acute care, and although COVID-19 will likely slow this process, Kawanishi HD still thinks consolidation of acute care hospitals is inevitable. Within acute medical care, the company has a strong presence in the orthopedic surgery and cardiovascular (cardiology, cardiovascular) fields. Kawanishi HD looks to improve services for medical staff, mainly in orthopedics and cardiovascular medicine, by leveraging digital tools and providing leading-edge technology and academic information as quickly as possible to build closer relationships with healthcare providers. The company also intends to strengthen collaboration with medical device manufacturers to build a system that can produce excellent products at competitive prices.

Streamline internal operations through introduction of RPA and quality control measures

Administrative departments can leverage digital technology to promote operational streamlining and enhancement of efficiency. In January 2021, the company plans to introduce a new integrated logistics system LiFlo that strengthens inventory management by adopting package management and streamlining movement within the warehouse. LiFlo also provides quality control such as expiration date management and sample product management. It will be possible to record usage sales on handy terminals and boost efficiency of lending operations.

The company believes it has been too slow in digitalizing internal operations and will actively utilize robotic process automation (RPA) and optical character recognition (OCR) to simplify operations and reduce paper documents while speeding up payments.

Bolster buying power across the Medical Devices and Consumables business

Group procurement volumes of medical devices and consumables are comparable to that of a major company, but since procurement is divided among three separate companies—Kawanishi Co., Ltd, Sansei Medical Materials Co., Ltd, and Nikko Medical Materials Co., Ltd., economy-of-scale benefits are limited. The current medium-term management plan envisions consolidating procurement of the three companies to boost economy-of-scale merits. Medical device manufacturers comply with BCP and have established a stable supply system, so they tend to be amenable to strengthening ties with medical device trading companies that contribute to improving overall operational efficiencies. The company aims to acquire broad trading areas through implementation of logistics policies (e.g., alleviating inventory burden) to expand its role as the primary wholesaler in the region. The company looks to increase incentives (sales incentives) from manufacturers by JPY120mn over FY/6/20 levels.

Maximize value provided to customers through digital transformation of sales activities through ICT

To date, Kawanishi HD has prepared and uses an in-house electronic catalog for its employees that lists 450,000 of the total 800,000 medical devices and consumables, covering most products normally distributed. Various searches can be used on the electronic catalog thanks to enhancements such as application of in-house tagging, creating a system that can quickly and reliably find information sought by customers. The company is considering making the electronic catalog available to some medical institutions.

Build system that can address various healthcare problems by diversifying income sources through new business development

The company looks to continue diversifying income and formed joint venture Kawanishi BarcMed (equity-method affiliate) with EPARK in July 2019. EPARK has a proven track record in reservation systems for restaurants, hospitals, pharmacies, and mobile phone shops. The joint venture will develop a reservation system aimed primarily at clinics in the Chugoku region to establish a foothold in the clinics market. In the longer term, the company looks to leverage online medical care support to expand business into clinics, a market it has yet to crack.

The company also looks to build up the subscription business. Products that have been launched on a monthly subscription basis include rental ventilators, amenity sets for inpatients, and HeartFlow FFRCT Analysis (non-invasive diagnostic tool that evaluates the functional significance of coronary lesions; it uses data from a standard CT scan to create a 3D model of the coronary arteries and analyzes the impact lesions have on blood flow; covered by health insurance since December 2018) sold by HeartFlow Japan G.K. The plan is to boost convenience for medical institutions and catch demand by offering a flat-rate charge.

Develop products that help solve healthcare issues through medical-engineering collaboration with manufacturing companies

Kawanishi HD has been a proponent of medical-engineering collaboration. It is the sole distributor in Japan for the medical training simulation robot mikoto (training robot for procedures such as nasotracheal intubation and oropharyngeal intubation) developed by MICOTO Technology, and has also helped commercialize Gagless Mouthpiece (reduces the gag reflex and aspiration during endoscopic procedures) jointly developed by the Tottori University Hospital and Inaba Rubber Co., Ltd.

Amid the current COVID-19 pandemic, the company has provided small and medium-sized businesses with proposals for specifications and advice on the development of personal protection equipment (PPE) while also cooperating to develop sales channels. Product differentiation is not easy among medical devices and consumables but strengthening ties with upstream manufacturers through medical-engineering collaboration can lead to product differentiation that can lift sales values and cultivate new sales channels. Strengthening medical-engineering collaboration is again a theme included in the new medium-term management plan.

Introduce telework as part of work style reform while promoting health management

Kawanishi HD looks to promote health management such as being certified by METI as an "Excellent Corporation for Health Management 2020." In consideration of COVID-19, the company plans to increasingly utilize web lectures and improved e-learning for human resource development of employees in 2020.

Boost organizational strength by emphasizing the group's corporate philosophy as incorporated in the Employee Charter

The company revised the Kawanishi Group Employee Charter in October 2019. The company aims to foster unity among employees and further improve organizational strength by sharing the employee charter.

<Kawanishi Group Employee Charter>

Business

- Contribute to development of medicine, health care, and long-term care through business, thus contributing to peoples' health and longevity
- Quickly and appropriately provide benefits of innovative new functions and technologies to patients and medical institutions
- Pursue sustainable management by providing value to stakeholders (customers, business partners, employees, local communities, shareholders) in a sincere and consistent manner
- Actively interact within and outside the industry, foster creativity, and explore the frontiers from a global perspective

Organization

- Respect human resource development and emphasize management (doing things through people)
- Emphasize diversity and recognize various opinions, values, and work styles
- Always maintain fairness in competition and in transactions
- Outcomes from competition will be reinvested to create new value
- Create an environment where members are physically and mentally healthy and willing to contribute

Members

- Maintain a willing and independent desire for growth
- Do not become complacent with past achievements, continue to learn humbly
- Do not benefit solely from others' efforts but strive to make your own contributions
- Respect internal and outside business partners and carry out work with high ethical standards and pride

Business

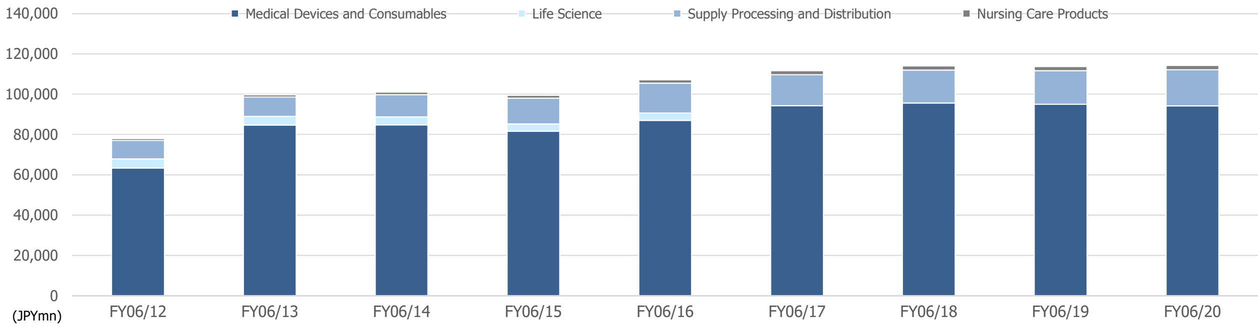
Business description

Kawanishi HD sells medical devices and consumables to hospitals and clinics as its core business. It sources its products from roughly 1,000 domestic and overseas manufacturers and distributors, and supplies these to about 2,000 medical institutions, which are its customers.

In FY06/20, the company reported sales of JPY107.9bn, with the Medical Devices and Consumables segment (core business) contributing 82%, the SPD segment (contracted distribution and procurement for hospitals) 16%, and the Nursing Care Products segment (leasing of nursing beds and other products) 2%.

Sales grew at a CAGR of 2.7% in the five years from FY06/15 to FY06/20, and 0.7% in the three years from FY06/16. Although sales fluctuate due to changes in equipment sales caused by hospital reconstruction and other factors, the company has achieved stable growth driven by advances in medical technology and growth in the elderly population.

Sales by segment

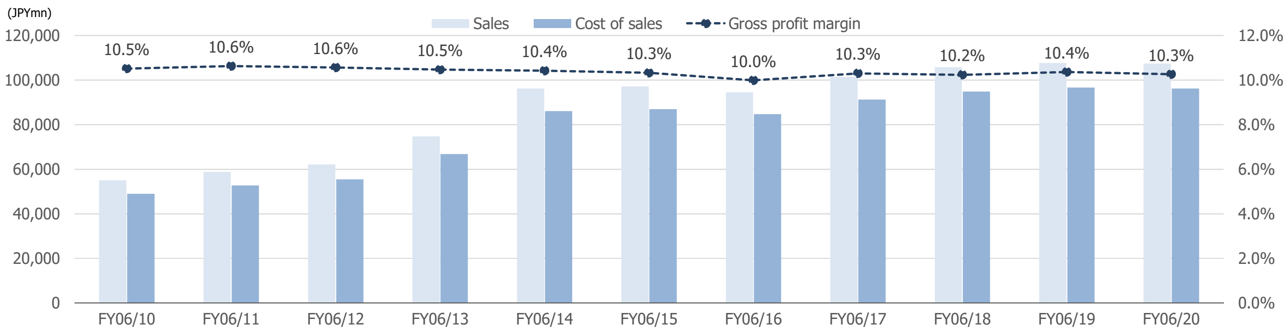


Source: Shared Research based on company data
Note: From FY06/17, figures for its Life Science business are included in the Medical Devices and Consumables segment.

In FY06/20, GPM came to 10.3%. Its CoGS mostly consist of procurement expenses for devices and consumables (procurement-related transportation costs are also included in CoGS, but amount to only about 0.2% of sales, according to the company). Since FY06/10, GPM has reached a high of 10.6% in FY06/11 and a low of 10.0% in FY06/16. The difference was only 0.6pp, suggesting the company's operations are relatively immune to major swings in GPM.

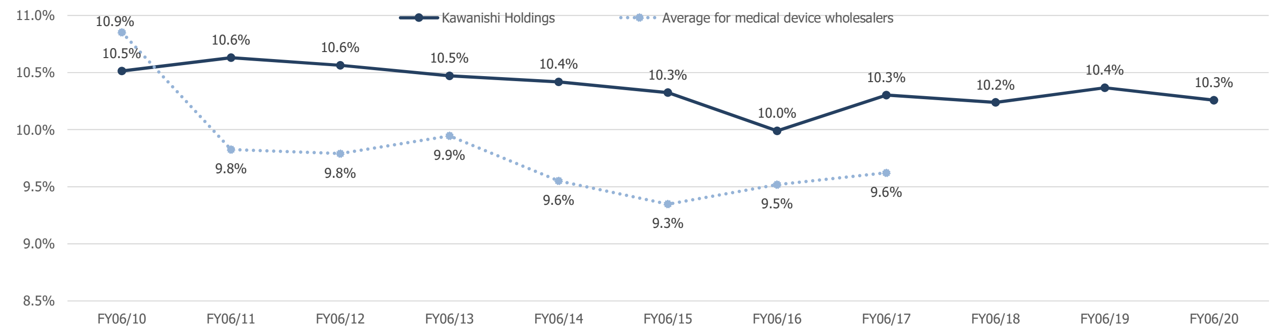
The Japanese Ministry of Health, Labour and Welfare (MHLW) estimates GPM in the medical devices sales industry came to 9.6% in 2017, and also averaged 9.6% in the five preceding years. In other words, Kawanishi HD's GPM is trending above the industry average. This is mainly because 1) the company has earned deep trust through sales activities centered on customers such as hospitals and doctors (proposing necessary devices and consumables inferred from limited data on surgery schedules, medical cases, surgery procedures, surgeons, and other categories), 2) it supplies some 400,000 products and has established mechanisms to ensure precise deliveries of necessary products in adequate quantities and at the right time (removing the need for hospitals to hold high-value and excess inventory), and 3) it can leverage its large scale of operations (Shared Research estimates the company is ranked fifth in the medical devices sales industry) to gain advantages in procurement.

Sales, CoGS, and GPM



Source: Shared Research based on company data

GPM



Source: Shared Research based on company and MHLW data
Note: FY06/17 shows GPM in the medical devices wholesale industry in 2017.

In FY06/19, the SG&A-to-sales ratio was 9.2%. Employee salaries, allowances, and bonuses were the major cost items, totaling JPY5.4bn and accounting for 5.1% of sales (1,189 employees at end-FY06/19).

Since FY06/10, the SG&A-to-sales ratio has hit a low of 8.9% in FY06/13 and a high of 9.7% in FY06/11. The company's SG&A expenses mainly consist of fixed-costs, and therefore, the SG&A-to-sales ratio tends to drop in years of sharp sales growth.

Although the company's GPM does not fluctuate much, its SG&A-to-sales ratio is affected by changes in sales. As a result, OPM improves sharply in years of strong sales expansion. Since FY06/10, OPM has peaked at 1.6% in FY06/13 and bottomed at 0.5% in FY06/16.

SG&A expenses

SG&A expenses (JPYmn)	FY06/10 Cons.	FY06/11 Cons.	FY06/12 Cons.	FY06/13 Cons.	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.
SG&A expenses	5,699	6,012	7,129	8,520	8,680	9,090	9,592	9,855	9,793	9,836
YoY	-	5.5%	18.6%	19.5%	1.9%	4.7%	5.5%	2.7%	-0.6%	0.4%
SG&A ratio	9.7%	9.7%	9.5%	8.9%	8.9%	9.6%	9.5%	9.3%	9.1%	9.2%
Salaries, allowances, and bonuses	2,959	3,144	3,722	4,450	4,599	4,808	5,208	5,383	5,373	5,445
YoY	-	6.3%	18.4%	19.5%	3.4%	4.5%	8.3%	3.4%	-0.2%	1.3%
% of sales	5.0%	5.1%	5.0%	4.6%	4.7%	5.1%	5.1%	5.1%	5.0%	5.1%
Provision for directors' compensation and retirement benefits	401	399	448	483	482	509	530	523	512	390
YoY	-	-0.6%	12.2%	7.8%	-0.2%	5.7%	4.1%	-1.2%	-2.2%	-23.8%
% of sales	0.7%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%
Retirement benefit expenses	129	143	176	213	194	216	212	256	260	185
YoY	-	10.8%	23.2%	20.9%	-8.9%	11.2%	-1.6%	20.5%	1.4%	-28.6%
% of sales	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Other	2,209	2,326	2,783	3,374	3,405	3,557	3,643	3,693	3,649	3,816
YoY	-	5.3%	19.6%	21.2%	0.9%	4.5%	2.4%	1.4%	-1.2%	4.6%
% of sales	3.8%	3.7%	3.7%	3.5%	3.5%	3.8%	3.6%	3.5%	3.4%	3.6%

Source: Shared Research based on company data

Sales trends by region

The medical devices sales industry has a strong regional characteristic, mainly because companies require approval from prefectural governors to sell advanced medical devices and need to develop relationships of trust with customers (hospitals). Kawanishi HD has a strong presence in the Chugoku/Shikoku (65% of sales), Tohoku (19%), and Kinki (13%) areas, where it has captured relatively high market shares.

Kawanishi Holdings, Inc.'s predecessor, Kawanishi Co., Ltd., established its business foundations over many years in the Chugoku/Shikoku areas, which today account for 65% of sales. The company's subsidiary, Sansei Medical Materials Co., Ltd. (added to the group in January 2012), operates mainly out of the Tohoku area, which currently makes up 19% of sales. Meanwhile, the Kinki area generates 13% of sales thanks to contributions from Nikko Medical Materials Co., Ltd. (based in Kinki, turned into a subsidiary in June 2005), Inoue Medical Equipment Co., Ltd. (based in Kobe City, acquired in 2004, and absorbed in 2011), and the supply of products and services from the new company, Kawanishi, Co., Ltd. (sales department spun off from the preceding Kawanishi Co., Ltd. in 2004), to neighboring Hyogo Prefecture.

On the other hand, the major Kanto market, with its large population, only accounts for 2% of the company's sales.

The company says it is extremely difficult to cultivate new customers of hospitals in prefectures where it has no sales track record and gives two main reasons for this: First, hospitals have multiple decision-makers who determine orders for medical devices and consumables (such as doctors, directors, nurses, and persons in charge of SPD areas) and the company needs to establish personal relations with each of them to win orders (it must demonstrate its ability to make informed and optimally timed proposals about devices and consumables that precisely match individual hospital needs). Second, while the company can set up delivery centers near new customers to ensure prompt deliveries, it still needs approval from prefectural governors to sell advanced medical equipment (which in turn requires the appointment of resident managers and leads to upfront fixed costs). In other words, the regional characteristics of the medical devices sales industry are the main cause behind the variation in the company's market shares by region.

Sales by region

Regions (JPYbn)	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
Total sales	97.1	94.5	101.5	105.8	107.7	107.4	107.9
YoY	1.0%	-2.7%	7.3%	4.3%	1.8%	-0.2%	0.4%
Chugoku	42.3	41.3	43.4	43.9	44.4	44.3	46.6
YoY	-	-2.4%	5.1%	1.2%	1.1%	-0.2%	5.2%
% of total sales	43.5%	43.7%	42.8%	41.5%	41.2%	41.2%	43.2%
Shikoku	21.5	18.7	21.5	22.6	24.2	24.0	23.9
YoY	-	-13.0%	15.0%	5.1%	7.1%	-0.8%	-0.4%
% of total sales	22.1%	19.8%	21.2%	21.4%	22.5%	22.3%	22.2%
Kinki	11.0	11.6	13.0	14.0	14.6	14.7	14.3
YoY	-	5.5%	12.1%	7.7%	4.3%	0.7%	-2.7%
% of total sales	11.3%	12.3%	12.8%	13.2%	13.6%	13.7%	13.3%
Kanto	1.2	2.4	3.4	2.5	2.0	2.1	2.3
YoY	-	100.0%	41.7%	-26.5%	-20.0%	5.0%	9.5%
% of total sales	1.2%	2.5%	3.4%	2.4%	1.9%	2.0%	2.1%
Tohoku	21.2	20.4	20.1	22.6	22.6	22.3	20.8
YoY	-	-3.8%	-1.5%	12.4%	0.0%	-1.3%	-6.7%
% of total sales	21.8%	21.6%	19.8%	21.4%	21.0%	20.8%	19.3%

Source: Shared Research based on company data

By segment

Segments (JPYmn)	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
Total sales	97,138	94,515	101,461	105,779	107,664	107,428	107,897
YoY	1.0%	-2.7%	7.3%	4.3%	1.8%	-0.2%	0.4%
Medical Devices and Consumables	84,788	81,635	87,035	94,286	95,629	95,042	94,187
YoY	0.1%	-3.7%	6.6%	8.3%	1.4%	-0.6%	-0.9%
Supply Processing and Distribution	10,942	12,799	14,831	15,443	16,349	16,557	17,944
YoY	13.9%	17.0%	15.9%	4.1%	5.9%	1.3%	8.4%
Nursing Care Products	1,227	1,414	1,672	1,919	2,035	2,097	2,184
YoY	21.0%	15.3%	18.2%	14.8%	6.0%	3.1%	4.1%
Import and Sales	-	-	-	-	-	-	-
YoY	-	-	-	-	-	-	-
Life Science	4,003	3,575	3,628	-	-	-	-
YoY	-8.2%	-10.7%	1.5%	-	-	-	-
Adjustments	-3,823	-4,908	-5,706	-5,869	-6,349	-6,268	-6,419
Operating profit	1,441	668	543	1,044	1,231	1,301	927
YoY	-7.4%	-53.6%	-18.7%	92.2%	17.9%	5.7%	-28.8%
Operating profit margin	1.5%	0.7%	0.5%	1.0%	1.1%	1.2%	0.9%
Medical Devices and Consumables	1,411	690	591	1,063	1,265	1,367	1,254
YoY	-14.2%	-51.1%	-14.3%	79.9%	19.0%	8.0%	-8.3%
Profit margin	1.7%	0.8%	0.7%	1.1%	1.3%	1.4%	1.3%
Supply Processing and Distribution	94	65	88	103	60	77	86
YoY	105.7%	-30.5%	34.2%	17.9%	-42.2%	29.2%	11.7%
Profit margin	0.9%	0.5%	0.6%	0.7%	0.4%	0.5%	0.5%
Nursing Care Products	41	57	63	129	115	93	119
YoY	91.7%	38.1%	11.0%	103.2%	-11.0%	-19.0%	28.7%
Profit margin	3.4%	4.0%	3.8%	6.7%	5.6%	4.4%	5.5%
Import and Sales	-	-	-	-20	-27	-92	-396
YoY	-	-	-	-	-	-	-
Profit margin	-	-	-	-	-	-	-
Life Science	11	-10	-18	-	-	-	-
YoY	-	-	-	-	-	-	-
Profit margin	0.3%	-0.3%	-0.5%	-	-	-	-
Adjustments	-117	-134	-181	-230	-181	-144	-136

Source: Shared Research based on company data
Notes: From FY06/17, the company included figures for its Life Science business in the Medical Devices and Consumables segment. The Life Science business was operated by consolidated subsidiary Takatsuka Life Science Co., Ltd., which mainly sells reagents, test drugs, physical and chemical appliances, and analysis devices. Takatsuka Life Science Co., Ltd. was absorbed by Kawanishi, Inc. in January 2017, and figures for the Life Science business have been subsequently included in the Medical Devices and Consumables segment.

Medical Devices and Consumables

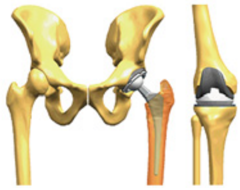
The Medical Devices and Consumables segment is the company's core business, accounting for 82% of sales in FY06/20. It procures medical devices and consumables from domestic and overseas manufacturers and distributors and sells these to medical institutions. By product, consumables make up 89% of segment sales, with the remaining 11% going to equipment. The company sources some 400,000 products from roughly 1,000 companies, and supplies these to about 2,000 medical institutions.

Main product lineup

Automatic stapler (surgery)

Surgical drapes (surgery)

Artificial joints (orthopedics)



Osteosynthesis plates (orthopedics)

Stents (cardiovascular)

Catheters (cardiovascular)

Vascular grafts (cardiovascular)

Artificial heart valves (cardiovascular)

Intraocular lenses (ophthalmology)

Continuous glucose monitor (growth field)

Insulin pumps (growth field)

Patient monitoring systems (equipment)

Infusion pumps (equipment)

Source: Data obtained from several companies

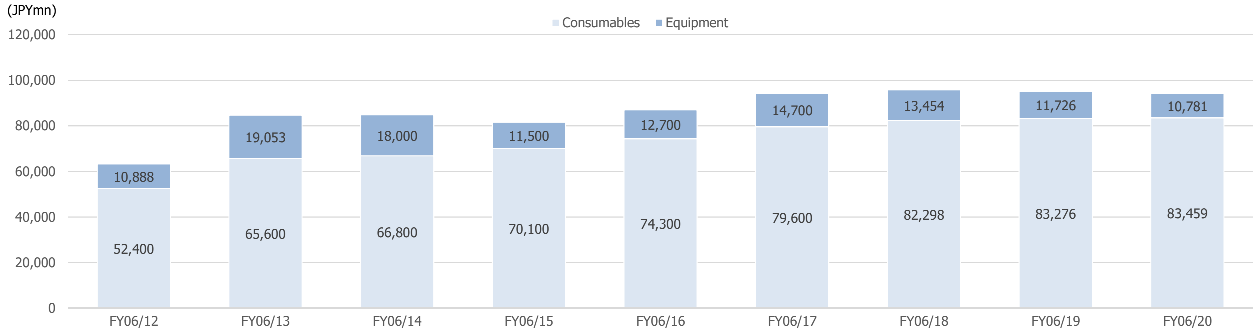
Consumables sold by the company include automatic staplers for surgery (surgical devices used to automatically close tissue using consistent staple lines after ailing body parts have been removed in a gastrointestinal surgery), surgical sutures, surgical drapes, syringes, gauze, scalpels, patient return electrodes for electrical scalpels, surgical drains, artificial joints, orthopedic plates and screws to join fractures, spinal prosthetics, pacemakers, vascular and other indwelling stents (reticular tubes), vascular catheters (tubes inserted from blood vessels in the neck or groin to enable passage to the heart or brain via blood vessels), vascular grafts, artificial heart valves, intraocular lenses, and devices used to inject insulin. In other words, the company supplies a vast and diverse range of products to medical care departments.

Equipment supplied by the company include Computed Tomography (CT) scanners, Magnetic Resonance Imaging (MRI) scanners, ultrasonic diagnostic equipment, patient monitoring devices (such as surgical monitors), infusion pumps, and mechanical ventilators.

Consumables, the driving force behind stable growth

Consumables are the main product category contributing to stable growth of the company. Sales of consumables have grown at a CAGR of about 3.6% in the last five years and 1.6% in the last three years.

Sales of consumables and equipment



Source: Shared Research based on company data

Kawanishi HD is enjoying stable growth driven not only by fundamental factors, such as an increasing need for medical care due to growth in Japan's elderly population and a rise in treatment costs per patient, but also by innovation in the medical devices field, such as advances in medical technology that allow doctors to save more lives, the growing adoption of less invasive medical treatments (e.g., the shift from thoracotomy procedures to surgical procedures that rely on catheters and stents), and the development of medical equipment that enhances the quality of patients' lives (e.g., the shift from using syringes to inject insulin necessary to control blood sugar to using portable insulin pumps).

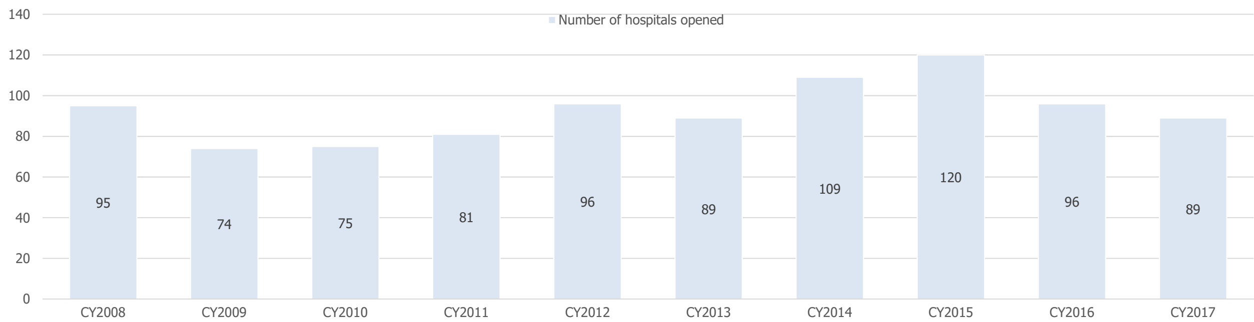
Portable insulin pump

Source: Diabetes Network

Fluctuations in equipment sales reflecting capital investment trends at hospitals

The company's equipment sales fluctuate more than its consumable sales mainly because it supplies high-value equipment in bulk when new hospitals are constructed or when existing hospitals undergo reconstruction to upgrade earthquake resistance. As a result, equipment sales surge whenever a new hospital is established in its operating regions. That said, its equipment sales are not entirely dependent on new construction or reconstruction of hospitals. The company also enjoys steady demand from periodic equipment replacement and the installation of new equipment. In this respect, it benefits from the fact that hospital operators are encouraged to introduce new equipment to attract doctors.

The number of hospital openings (nationwide)



Source: Shared Research based on MHLW data

> The Great East Japan Earthquake, which occurred in March 2011, reaffirmed the importance of seismic reinforcement of hospitals. Government subsidies are also encouraging such reinforcement work. Kawanishi HD's equipment sales expanded in FY06/13 and FY06/14, and its operating profit reached a record high in FY06/13.

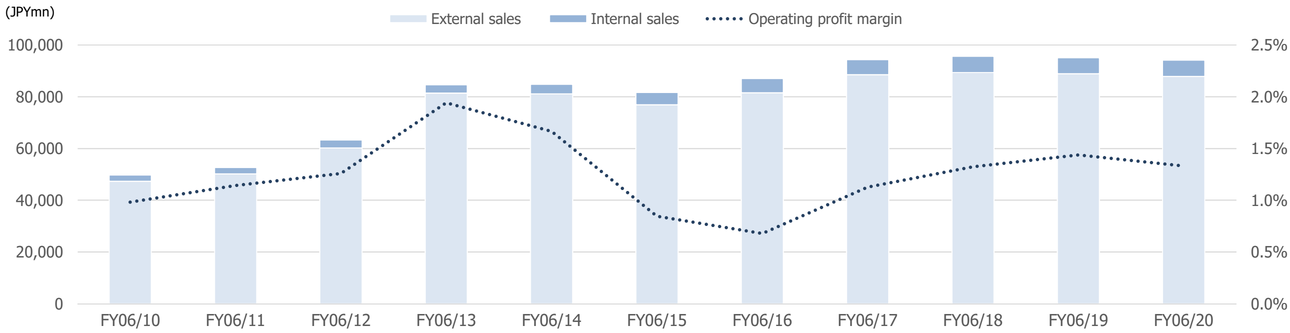
According to the company, none of the customers in the Medical Devices and Consumables account for more than 10% of total sales, suggesting the company has a diversified customer base.

Profitability in the Medical Devices and Consumables segment

This segment also records sales to the SPD segment (which make up roughly 6% of segment sales) as inter-segment sales. In FY06/20, OPM (operating profit divided by segment sales, including inter-segment sales) came to 1.3%. Since FY06/10, OPM has reached a high of 1.9% in FY06/13 and a low of 0.7% in FY06/16.

Sales and gross profit increase in years when the company records bulk orders of equipment (but GPM does not change much). When sales increase in any given year, SG&A expenses tend to grow, the SG&A-to-sales ratio (particularly, personnel costs) tends to decline, and OPM tends to rise. By contrast, in years when bulk orders for equipment (which are transient in nature) dissipate, the reverse occurs.

Sales and OPM in the Medical Consumables and Equipment segment



Source: Shared Research based on company data
Note: Internal sales are included in the calculation of OPM.

SPD

The SPD segment, which handles hospital distribution, generated 16% of (external) sales in FY06/20. It offers both on-premise (warehouses on hospital premises) and off-premise (warehouses located on nearby off-site locations) SPD services, including 1) support to enhance operational efficiency at medical institutions, 2) inter-hospital transportation of goods and appropriate inventory management, 3) verification of hospital procurement prices, 4) streamlining of operating room support, and 5) management of medical fees. As of end-June 2020, the company managed 63 SPD projects for medical institutions through its subsidiary HOSNET・Japan, Inc. Although earnings contributions from the business are small, the company also franchises out the SPD-related systems it has developed to third parties (13 projects).

SPD stands for supply, processing, and distribution. This refers to contracted inventory management, quality control, and distribution management in hospitals for medical equipment, pharmaceuticals, reagents, and daily necessities used by hospitals. These services allow nurses and other medical practitioners to dedicate more time to patient care and treatment assistance. SPD is a commonly used term in the Japanese medical industry, but it is not used much overseas, according to the company.

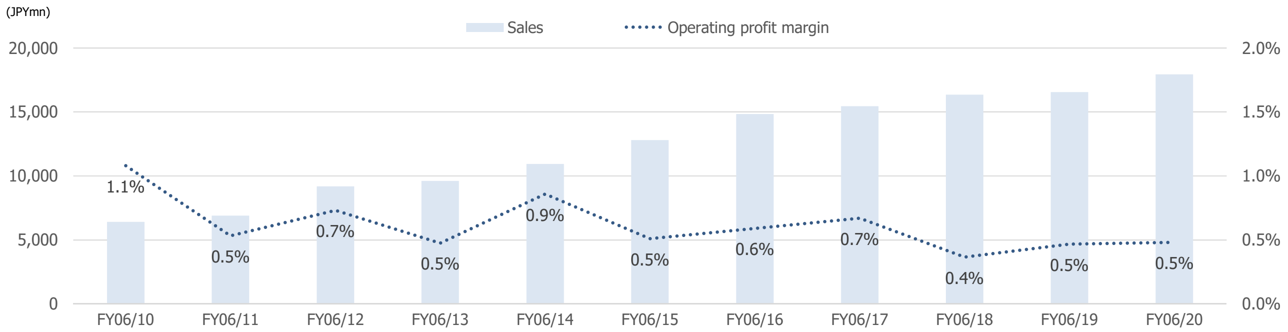
Sales in the SPD segment are broadly divided into product and management fees. Product fees mainly reflect procurement fees related to alternative procurement for medical devices, materials, pharmaceuticals, reagents, and other products required by hospitals, which account for over 90% of segment sales. Management fees are service fees that include personnel and other costs (estimated at roughly 6–7% of sales). The company enters pharmaceutical and medical device procurement contracts through which hospitals specify vendors, as well as contracts through which the company selects suppliers. Both contract types are expected to contribute to sound hospital management (through cost reductions, prevention of product shortages, and elimination of excess inventories).

When Kawanishi HD is required to buy products from only vendors specified by hospitals, it must make purchases from a narrow range of vendors. This limits the value added it can offer, resulting in an extremely low gross margin (low management fees). When it is able to select suppliers independently, the company can have multiple vendors compete for an order, thereby increasing value added. It can also source products from its main business company, Kawanishi Co., Ltd., thus generating group synergies (leveraging of procurement capabilities within the group). In fact, JPY6.3bn, or nearly 40% of the JPY17.9bn in sales generated by the segment in FY06/20, was procured from the Medical Devices and Consumables segment (booked as inter-segment sales in the Medical Devices and Consumables segment).

Since FY06/10, profit in the SPD segment has bottomed at JPY36mn in FY06/11 and peaked at JPY103mn in FY06/17. Although the segment has not posted a loss in the last 10 years, its profit contributions have been limited.

The SPD segment has little room to generate value added, and Shared Research thinks the company's basic stance is to consider new SPD projects if they are expected to generate synergies with the Medical Devices and Consumables segment.

Sales and OPM in the SPD segment



Source: Shared Research based on company data

Nursing Care Products

The Nursing Care Products segment made up 1.9% of sales in FY06/20. It mainly leases and sells nursing care and welfare equipment (such as nursing beds, wheelchairs, and handrails), and remodels homes to support caregiving through a subsidiary, Life Care Co., Ltd. Segment sales have expanded at a relatively high CAGR of 9.1% over the last five years and 5.2% over the last three years. OPM was 5.5% in FY06/20, the highest among the company's segments.

The business supplies products to about 13,000 care recipients and it leases just over 7,000 nursing beds (the core product). Demand for nursing rental beds is expanding amid an uptrend in the number of people needing long-term care caused by the rise in the elderly population. Over the last three years, the cancellation rate for rental beds has ranged from 4% to 12%. According to the company, the main cancellation reasons are care recipients' deaths and hospital readmission, and switchovers to competitors are very rare.

> Rental beds can be leased under nursing care insurance plans, in which case users only bear 10–30% of the cost (actual percentage determined based on users' income), with the remainder covered by the insurance. This reduces the financial burden on care recipients.

Kawanishi HD procures its rental beds from welfare equipment rental wholesalers, and subleases them to care recipients.
It generates a gross profit margin of 45–50% on this business. Personnel costs (sales and delivery representatives) represent the largest cost item in SG&A expenses. Care managers, who set up care plans and serve as counsellors to the users of rental nursing beds, often advise users and their families on which equipment (and, by extension, supplier) is suitable for them. Accordingly, the company's sales representatives also target care managers as part of their sales activities.

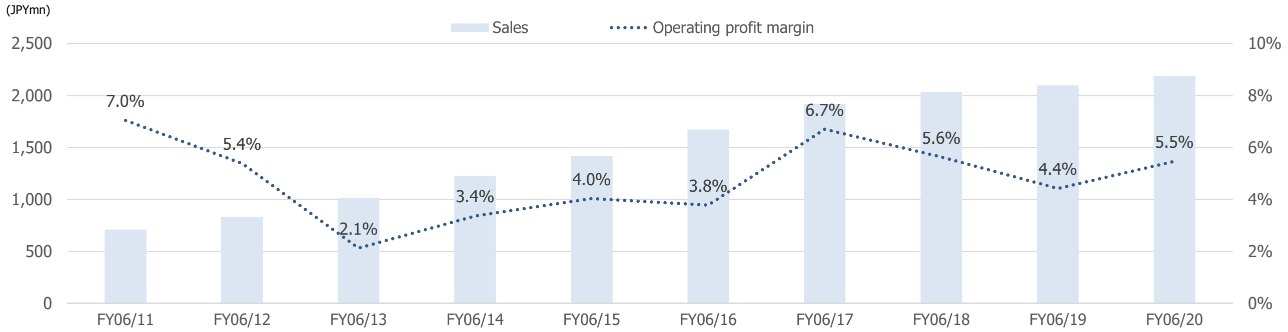
> Long-term care support specialists are defined as "people who provide consultation to a person requiring long-term care or support, and communicate and coordinate with municipalities or service providers to ensure the person requiring long-term care or support can utilize appropriate services according to his or her mental and physical conditions. They possess the professional knowledge and skills necessary to help people requiring long-term care or support conduct independent daily lives, and have obtained Long-Term Care Support Specialist Certificates." They must pass a Long-Term Care Support Specialist Examination administered by individual prefectures, complete Long-Term Care Support Specialist Training, and register in the Long-Term Care Support Specialist Registry.

The market for rental nursing care equipment is projected to expand on growing needs for in-home care due to increases in the elderly and late-elderly population. Under these conditions, Kawanishi HD appears to be targeting annual sales growth of just over 5%.

However, low barriers to entry and susceptibility to regulatory changes are two areas of concern for the business. From April

2018, care manages who provide advice regarding care equipment for care recipients have been required to propose several products across multiple function and price categories. Also, the cost percentage to be shouldered by care recipients with incomes equivalent to the current working generation has been raised from 20% to 30%. In addition, the government has imposed price restrictions on rental services for long-term care equipment covered by public aid from October 2018, and care managers are now required to not only explain product features and pricing to care recipients but also share nationwide average prices for applicable products.

Sales and OPM in the Nursing Care Products segment



Source: Shared Research based on company data

Medium- to long-term growth initiatives

In addition to strengthening its existing businesses, the company is pushing ahead with the following initiatives to drive medium- to long-term growth: 1) reinforce ties with upstream industries through medical-engineering collaboration projects, 2) support Japanese adoption of technology developed overseas, and 3) introduce Japanese medical technology overseas.

Stronger ties with upstream industries through medical-engineering collaboration projects

Medical-engineering collaboration refers to the development of new medical devices through collaboration between the medical and engineering fields. In the past, the needs encountered in medical settings were relayed to manufacturing companies or engineering colleges, which developed corresponding solutions that were subsequently manufactured either in-house or by subcontractors. However, this approach was problematic in that manufacturing solutions for ad-hoc hospital needs was costly. The involvement of intermediary sales companies that have access to both medical settings and medical device manufacturers is expected to pave the way for new product development that accounts for pricing and marketability.

Worth noting in this context is that the company’s subsidiary, Exsola Medical Inc., has been the general distributor for the nursing care training simulator robot mikoto since 2017. Manufactured by MICOTO Technology Inc., mikoto is a medical treatment simulator robot that enables training of medical procedures, such as intubation, endoscopy, and sputum aspiration. Students, doctors, nurses, and other medical practitioners can use the robot to learn of precise medical procedures in addition to classroom study, thus shortening the learning process.

The mikoto robot was commercialized through joint development by the Faculty of Medicine of Tottori University, the Tottori University Hospital, and MICOTO Technology Inc. However, the partners lacked a sales channel to bring their product to market, and selected Kawanishi HD as their general distributor in recognition of its extensive connections with medical institutions. Although the scope of mikoto’s applications is limited to medical training, having the robot in its portfolio has enabled the company to approach medical institutions with which it had no prior transactions, thereby expanding the company’s sales channels.

Kawanishi HD realizes it is difficult to differentiate its products from rivals through sales alone and therefore seeks to achieve differentiation by deepening its collaboration with manufacturers in upstream industries. While the scale of such collaborative efforts remains small, the company’s initiatives to increase profitability in this space over the medium to long term and the prospects of initiating transactions with medical institutions in new regions warrant close attention.

Support for Japanese adoption of technology developed overseas

Kawanishi HD actively collects information on overseas medical devices and materials, distributes this information within the company and provides it to customers, including through the publication of its monthly magazine Medical Globe, which compiles information on medical devices and materials used overseas. In this way, the company aims to support the rapid adoption of overseas technologies that are expected to become popular in Japan.

Introduction of Japanese medical technology overseas

Kawanishi HD looks to introduce Japanese medical technology overseas, and is considering supplying medical devices and materials to other countries (particularly in Asia) over the medium to long term. For example, President Maeshima has been appointed as joint project manager for the Medical Takumi Japan project promoted by the Ministry of Economy, Trade, and Industry's (METI) Kanto Bureau of Economy, Trade and Industry (in recognition of his experience as a doctor, overseas research achievements, and expertise related to the distribution of medical devices he accumulated as president of Kawanishi HD).

Japanese doctors have a strong reputation overseas for their cutting-edge skills and innovative approaches, and, accordingly, the medical devices and consumables they use are also garnering attention, according to the company. Medical Takumi Japan has established a website that compiles information on techniques and corresponding medical devices used by Japanese doctors through a wide network that includes Japanese doctors, experts in overseas laws and regulations, and medical device manufacturers. It also conducts related promotions and exhibits at events such as international conferences in an effort to expand the market share of Japanese medical equipment overseas.

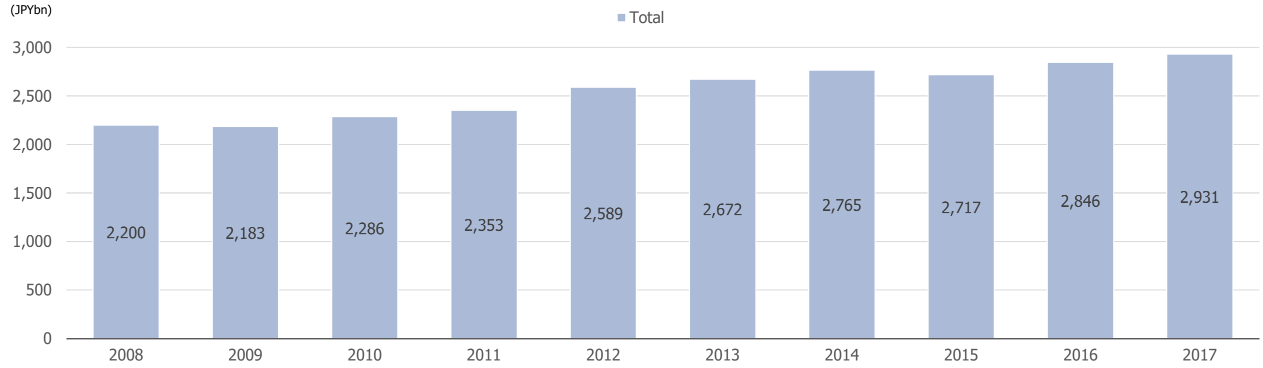
Kawanishi HD aims to expand its business overseas in step with Medical Takumi Japan's initiatives. However, as of end-FY06/20, the company had yet to set up an overseas subsidiary, and therefore needs to map out a medium- to long-term strategy.

Market and value chain

Medical devices market

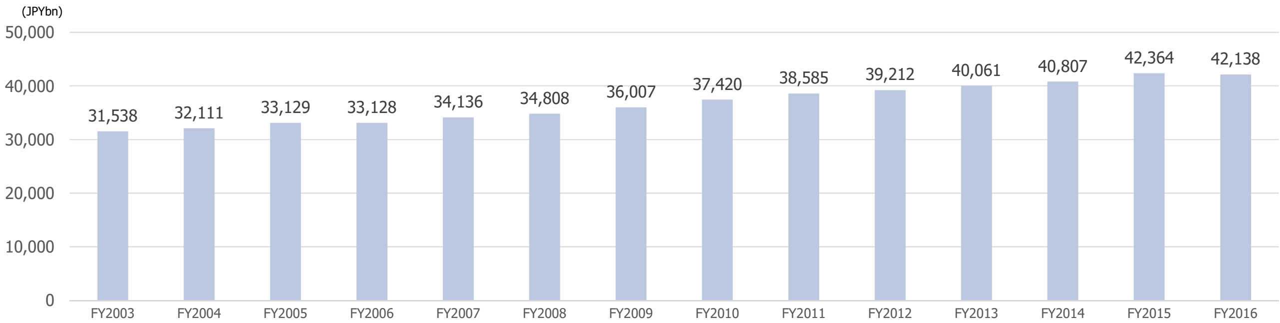
The Ministry of Health, Labour and Welfare (MHLW) estimates the Japanese market for medical devices is worth about JPY3.0tn (based on manufacturer shipments). After factoring in distribution (vendor) margins, the market has an estimated value of about JPY3.3tn. In 2016, Japan's national medical expenditure stood at roughly JPY42tn, with medical devices accounting for roughly 8% of total medical spending. The market for medical devices has expanded at a CAGR of 3.9% in the five years through 2016, outpacing growth in national medical expenditure (1.8%), mainly thanks to advances in medical technology.

Sales of medical devices



Source: Shared Research based on Annual Report on Statistics of Production by Pharmaceutical Industry published by MHLW

National medical expenditure

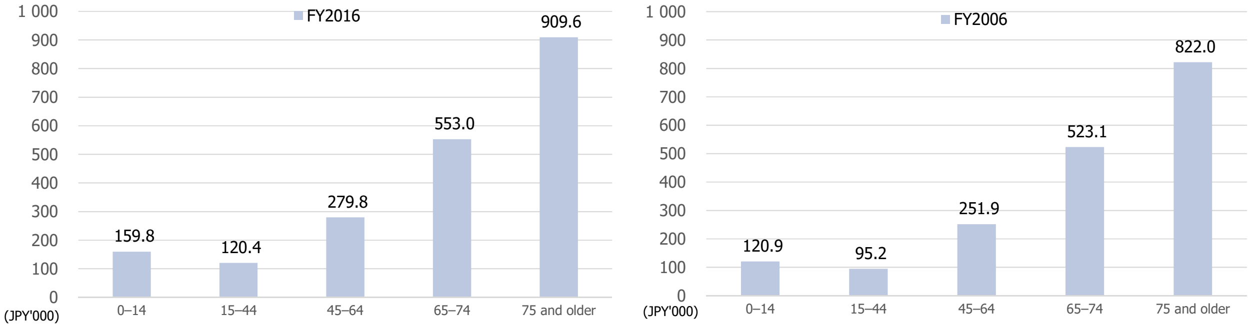


Source: Shared Research based on national medical expenditure data published by MHLW

National medical expenditure continues to trend upward driven by growth in the elderly population and medical advances. Looking at per capita national medical expenditure by age demographic in 2016, medical spending was JPY120,000 for people aged 15–44 and JPY280,000 for people aged 45–64. However, it was a much higher JPY727,000 for people aged 65 and above (elderly population), an even larger JPY910,000 for people 75 and above (late elderly population). Basically, changes in Japan's demographic structure (particularly, its graying society) are pushing the national medical expenditure upward.

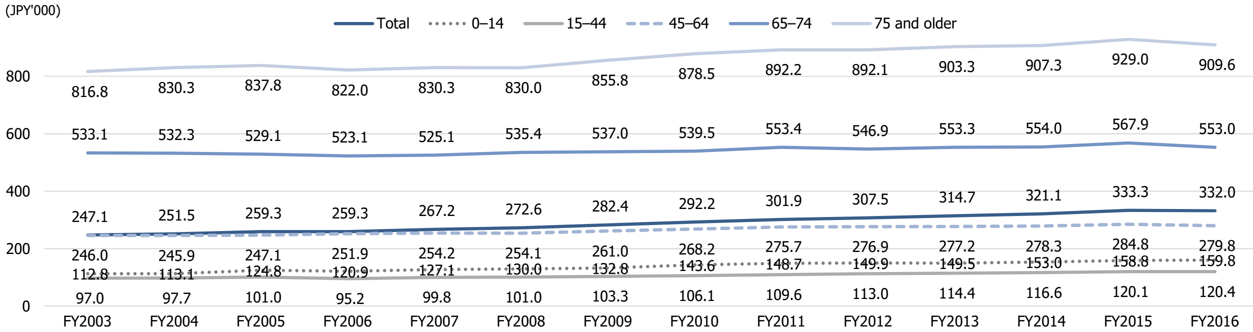
In addition, a comparison of national medical expenditure per capita by age demographic in 2011 and 2016 reveals that national medical expenditure per capita has increased in nearly each group, suggesting that advances in medical technology are helping to save more lives.

National medical expenditure per capita by age demographic (left: 2016, right: 2006)



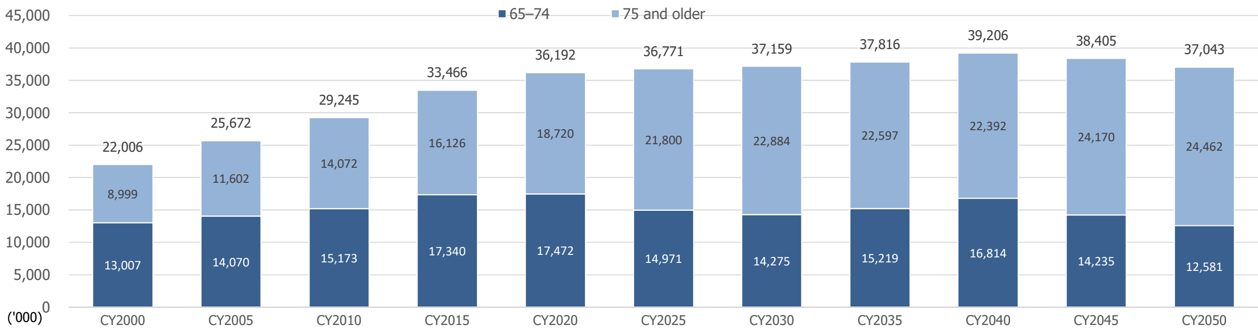
Source: Shared Research based on national medical expenditure data published by MHLW

National medical expenditure per capita by age demographic



Source: Shared Research based on national medical expenditure data published by MHLW

Elderly population

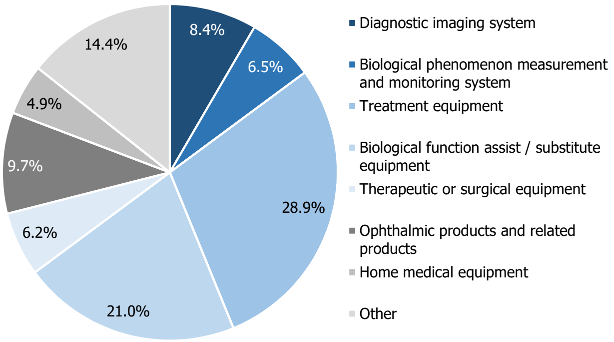


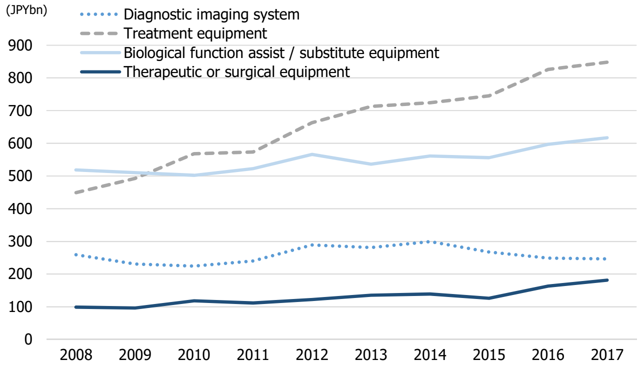
Source: Shared Research based on "Population Estimates: Median Birth Rate and Median Mortality Rate" published by the National Institute of Population and Social Security Research

Among medical devices, operating equipment and supplies (such as catheters, syringes, surgical suturing devices: JPY848.1bn, 29% of sales), biofunction auxiliary and substitute devices (such as artificial joints, pacemakers, and dialyzers: JPY617.0bn, 21% of sales), and diagnostic imaging systems (such as x-rays, CT scanners, and MRI scanners: JPY246.7bn, 8% of sales) post particularly large sales volumes. The market for ophthalmic supplies is also big (estimated at JPY284.7bn), but the main product in this market is contact lenses, which are sold through different channels.

Markets that have exhibited strong growth over the past five years include treatment and surgical devices (such as radiation, particle beam, and phototherapy devices: JPY181.4bn, CAGR of 8.3%), and operating equipment and supplies (CAGR of 5.1%).

Medical devices market by product





Source: Shared Research based on Annual Report on Statistics of Production by Pharmaceutical Industry published by MHLW

Medical devices sales industry

The sale of medical devices and pharmaceuticals is regulated by the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices. Devices such as pacemakers, stents, and dialyzers, which can have a major impact on physical health in the event of a malfunction, are regarded as specially controlled medical devices (Class III and IV), and suppliers of such devices must obtain a marketing license for each of their business locations from prefectural governors. Additionally, suppliers need to appoint sales managers for specially controlled medical devices at each business location, and undergo continued training on a yearly basis. Kawanishi HD has obtained marketing licenses for specially controlled medical devices for each of its business locations.

Categorization of medical devices

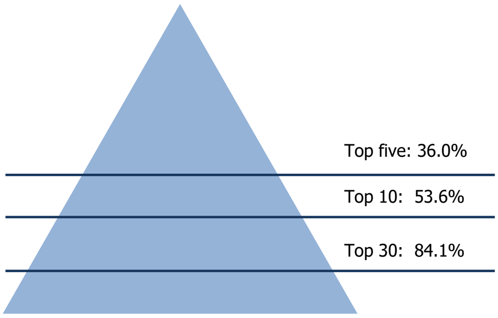
Class	Category in Pharmaceuticals and Medical Device Act	Type of medical devices	Examples
Class I	General Medical Devices	Medical devices that are deemed to pose minimal risk to physical health in the event of a malfunction. Among analysis devices, those other than Class II and III devices. * However, medical devices that cross into new examination categories, new measurement principles, or new self-check functions, and dedicated analysis devices with major built-in reaction systems that measure new examination categories require approval from the MHLW Minister, and their class is determined at the time of approval.	In-vitro diagnostic devices, steel instruments, dental technician equipment, X-ray film, stethoscopes, mercury-type sphygmomanometers, etc.
Class II	Controlled Medical Devices	Medical devices that are deemed to pose low risk to human life and low risk of significant functional disorders in the event of a malfunction. These devices are divided into two types. (1) Self-check diagnosis devices that measure examination categories other than categories for which erroneous diagnostic results pose a risk of major impact on human life or health (including devices whose diagnostic results do not determine major medical conditions, or devices that provide provisional diagnostic results and need appropriate follow-up through further medical examination) (2) Among dedicated analysis devices with major in-built reaction systems, those for which no standard products are available (excluding Class III devices)	Diagnostic imaging equipment, contrast medium injection devices, digital thermometers, digital sphygmomanometers, digital endoscopes, dental alloys, etc.
Class III	Specially-controlled Medical Devices	Medical devices that have a significant impact on physical health in the event of a malfunction. These devices are divided into two types. (1) Self-check diagnosis devices that measure examination categories for which erroneous diagnostic results pose a risk of a major impact on human life and health (2) Among dedicated analysis devices with major in-built reaction systems, those that measure examination categories that require approval for in-vitro diagnostic agents	Dialysis equipment, artificial bones and joints, radiation therapy equipment, vascular stents, biliary stents, extracorporeal shock wave lithotripsy equipment, general-purpose infusion pumps, etc.
Class IV	Specially Controlled Medical Devices	Medical devices deemed to be highly invasive to patients and pose life-threatening risk in the event of a malfunction.	Pacemakers, coronary stents, absorbable surgical sutures, artificial breasts, video-guided flexible angioscopes, central venous catheters, etc.

Source: Shared Research based on various materials

Medical devices that are unlikely to endanger lives or cause major functional disorders, but for which erroneous diagnostic results or analyses may have an impact on people's lives or health, are categorized as controlled medical devices (Class II), and suppliers of such equipment must inform individual prefectures concerning their business activities (however, this is not required if they have already obtained a marketing license for specially controlled medical devices).

A total of 330,000 facilities have registered as medical device vendors in Japan, roughly 2,000 of which are companies. This means the company has many competitors. According to MHLW's Annual Report on Statistics of Production by Pharmaceutical Industry, 109 survey respondents (companies) had combined medical devices sales of JPY1.5tn in 2017, with the top five companies generating sales of JPY528.3bn (36.0% of combined total), the top 10 JPY786.2bn (53.6%), and the top 30 JPY1.2tn (84.1%). The market for medical devices has an estimated value of JPY3.3tn, and it is contested by a large number of companies.

Aggregated market shares by major companies in the medical devices sales industry (among 109 companies, in 2017)

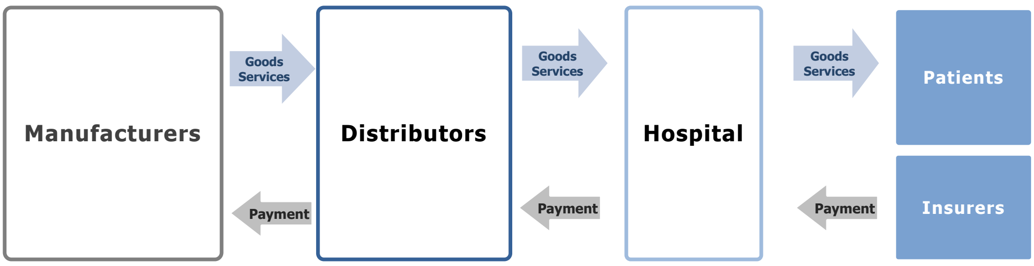


Source: Shared Research based on the Annual Report on Statistics of Production by Pharmaceutical Industry published by MHLW

Medical devices distribution and transaction prices

Sales companies generally scrape together the demand from hospitals and clinics, and place orders with numerous manufacturers. Hospitals procure a range of medical devices from a large number of manufacturers (Kawanishi HD sources about 400,000 products from 1,000 trading partners). It is not efficient for hospitals to place orders with each manufacturer and check delivered products from manufacturers, so this is where sales companies add value to the process (because they can place bundled orders that meet demand from several hospitals, enhancing efficiency). The procurement price for hospitals is decided through negotiation with the sales company based on a price list prepared by the sales company. Prices on such lists generally reflect the wholesale price of manufacturers plus a distribution margin (equivalent to distributor gross margin).

Medical devices distribution: Flow from manufacturers to sales companies, hospitals, and patients/insurers



Source: Shared Research

Pricing for medical devices

Under Japan's universal health coverage program, hospitals can recover the cost of medical devices in accordance with three major reimbursement assessment categories. The first category comprises products assessed as "comprehensive" (A1: products that are comprehensively covered by existing medical fee categories) and as "specifically comprehensive" (A2: products that are comprehensively covered by existing, specific medical fee categories). Usage of such products cannot be reimbursed separately. Examples of A1 products are syringes used for venous blood collection, tubes, and surgical sutures, which are relatively inexpensive and widely used in medical practice. These are categorized as "comprehensive" and are covered by existing technical fees. Typical examples of A2 products include ultrasonic testing equipment and intraocular lenses. These are categorized as "specifically comprehensive" and are covered by existing, specific technical fees.

The second category covers products that do not introduce new functions or technologies but can be reimbursed separately from technical fees (B1). Products whose costs exceed net technical fees substantially, or that have large market scales fall into this category. These products are referred to as special treatment medical devices (i.e., reimbursable medical devices).

The third category includes "new-function products" that need a new function classification and have already been assessed for technical fees (C1), and "new-function/technology products" that need a new function classification but have not yet been assessed for technical fees (C2). Reimbursement prices for such products are determined through deliberation by an expert body on special treatment medical devices following the submission of a Request for Insurance Coverage by the manufacturer.

Medical devices reimbursement assessment categories

A1	(Comprehensive)	Products comprehensively covered by one of the existing medical fee categories
A2	(Specifically comprehensive)	Products comprehensively covered by existing, specific medical fee categories
B	(Individually assessed)	Products for which costs are set based on functional classifications, and that are reimbursed separately from technical fees (special treatment medical devices)
C1	(New function)	Products that need a new function classification, and for which related technologies have already been assessed (represented in the medical fee points table)
C2	(New function and technology)	Products that need a new function classification, and for which related technologies have not yet been assessed

Source: Shared Research based on MHLW

The market for special treatment medical devices, which includes some 200,000 products, is valued high, at approximately JPY1tn. Special treatment medical devices have an official reimbursement price. Hospitals can charge patients and insurers separately from technical fees to recover the cost of such devices based on the official reimbursement price. A uniform reimbursement price is adopted for products that perform the same function, so reimbursement prices do not vary by manufacturer. Hospitals generally purchase such products through sales companies, and procurement prices are determined through negotiation by both parties. This means they can be set higher or lower than official reimbursement prices.

In the past, reimbursement prices for special treatment medical devices were set at the same level as procurement prices for medical institutions (based on procurement price claims). However, this approach provided little incentive for medical institutions to seek lower prices (reduce medical expenses), resulting in persistently high procurement prices. The Central Social Insurance Medical Council (CSIMC) examined a set of general rules to set pricing for medical materials in 1993, and introduced reimbursement prices for a portion of medical materials (seven items, including artificial joints) from 1994.

Manufacturers can often reduce selling prices over time through updated production processes and mass production. In these cases, manufacturers can aim to expand market shares by lowering shipping prices. This allows hospitals to buy products at procurement prices that are below reimbursement prices, resulting in a temporary reimbursement gain.

At the same time, the MHLW enlists the help of medical devices vendors and other parties to survey procurement prices and ultimately reduce medical spending. Once it finds that procurement prices have declined below reimbursement prices, it lowers reimbursement prices through standard revisions that, in principle, occur once every two years (the price surveys by the MHLW also examine market prices in the US, UK, Germany, France, and Australia, and reimbursement prices are also lowered if they are found to exceed overseas prices by a wide margin).

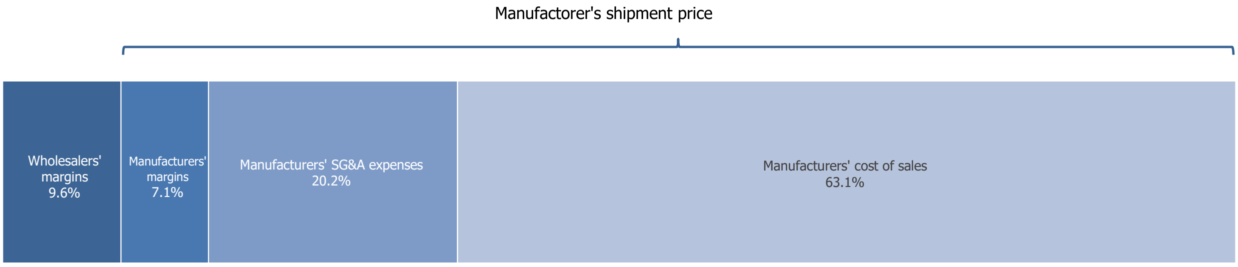
Although reductions in reimbursement prices are negative for hospitals that benefit from reimbursement gains in the sense that they strip away excess returns, Shared Research believes they have no major impact on the earnings of special treatment medical devices vendors. This is because 1) reimbursement prices are only adjusted if they are higher than market prices, and therefore have no direct impact on selling prices of vendors (unless vendors decide to reduce prices further to maintain or expand their market share), and 2) declines in market prices are often driven by manufacturers' promotional activities, and typically have no major impact on vendor (gross) margins.

Medical devices resemble pharmaceuticals in the sense that prices for the latter are also reduced through drug price revisions. However, while the same pharmaceuticals are sold for a long time, medical devices have short update cycles. If manufacturers can objectively demonstrate that new models provide the following improvements relative to existing products (improvement of 1–20% must be confirmed), the reimbursement prices may be revised upward: 1) provides high level of safety for healthcare professionals (such as a reduction in workplace infections), 2) allows for more environmentally friendly disposal after usage, 3) facilitates safer and more effective patient treatment (e.g., minimal degree of invasiveness, reduction in complications), 4) expands applications to infants and children due to advances in size (smaller), weight (lighter), or design, 5) enables safe and easy procedures due to structural or other changes, or 6) allows for safe and easy treatment for patients at home due to improvements in operability and other factors. In other words, vendors can maintain and improve their selling prices by providing new value added through innovation.

According to medical industry sources, reimbursement for special treatment medical devices is not claimed in all cases. When conducting surgery that is eligible for comprehensive coverage, some doctors may decide to use medical equipment that qualifies as special treatment medical devices to prioritize the safety and comfort of the patient. While this is beneficial for the patient, it pushes up the cost of the surgery and therefore has a detrimental effect on profitability from a hospital management standpoint.

The basic materials price (reimbursement price) is often determined in comparison to medical devices with similar functions. However, if there is no existing product category with similar functions, the price is calculated using the cost method, which also factors in a margin of nearly 10% (9.6% in FY2019) as a distribution margin (distribution expenses divided by price before tax). It is interesting to note that the reimbursement price system is designed in such a way as to ensure a certain gross margin for vendors.

Cost calculation of basic materials price for special treatment medical devices (selling price of vendors calculated at 100%, FY2019)



Source: Shared Research based on data published by the Central Social Insurance Medical Council

Regional characteristics

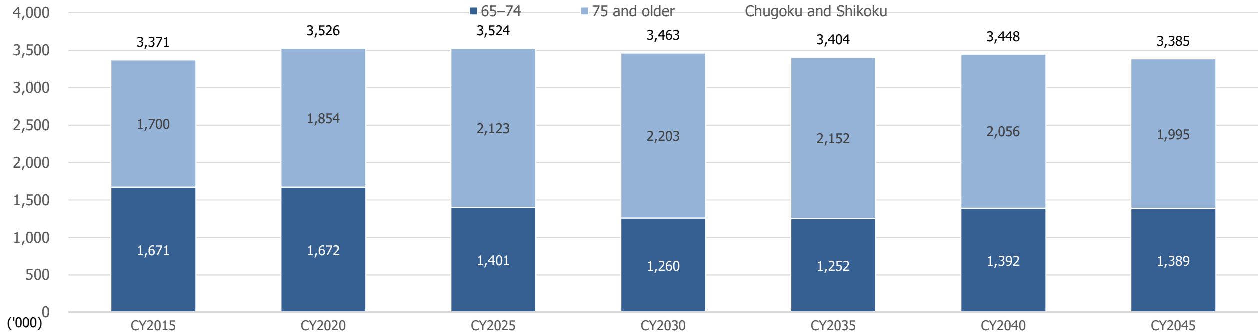
Kawanishi HD's sales are skewed toward the Chugoku/Shikoku (65% of sales), Tohoku (19%), and Kinki (13%) areas. Conversely, its sales in the Kanto area, which has a large population that continues to grow, only account for 2% of the total. In other words, the company's sales portfolio differs from the national average, and it is important to note that demographic structures differ by region.

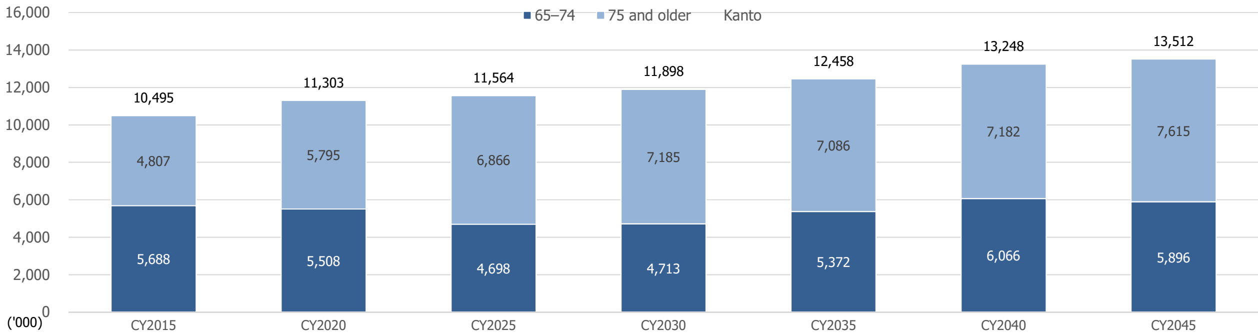
The National Institute of Population and Social Research projects population aged 65 and over in the Chugoku/Shikoku region will peak around 2020 and the population aged 75 and above around 2030. Such a decline in the elderly population—people with high national medical expenditure per capita—is a negative factor for the medical devices market.

On the other hand, the elderly population aged 65 and above in Kanto, where the company has a limited sales presence, is expected to continue growing, which will likely drive expansion in the medical devices market for this region.

If the company maintains its current sales ratio by region, it will likely face a declining market and intensifying competition in Chugoku/Shikoku—its main target markets—and be unable to reap the benefits of market expansion in the Kanto area.

Elderly population: Chugoku/Shikoku (top) and Kanto (bottom)





Source: Shared research based on data published by the National Institute of Population and Social Security Research

Barriers to entry

Barrier 1: Prefectural approval

Selling specially controlled medical devices (Class III to IV) requires approval for each business location from a prefectural government. In addition, sales companies need to appoint managers for each business location (which entails fixed costs), and distribution centers without a resident manager are not permitted. This complicates sales activities that exceed prefectural borders, and thus creates a barrier to entry. However, this barrier has also allowed about 2,000 medical devices vendors to remain in business within the industry.

Classification of medical devices

Class	Category in Pharmaceuticals and Medical Device Act	Type of medical devices	Examples
Class I	General Medical Devices	Medical devices that are deemed to pose minimal risk to physical health in the event of a malfunction. Among analysis devices, those other than Class II and III devices. * However, medical devices that cross into new examination categories, new measurement principles, or new self-check functions, and dedicated analysis devices with major built-in reaction systems that measure new examination categories require approval from the MHLW Minister, and their class is determined at the time of approval.	In-vitro diagnostic devices, steel instruments, dental technician equipment, X-ray film, stethoscopes, mercury-type sphygmomanometers, etc.
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Source: Shared Research based on data of various companies

Barrier 2: Education and training systems

Medical devices vendors at times are expected to be at least equally and preferably more knowledgeable about the medical devices they sell than the doctors who use their products (to be able to address their queries). Systematic education and training processes are therefore essential if the company is to maintain and improve its skilled human resources, which help strengthen relationships of trust with customers (specifically, hospitals and doctors) and are the source of the company's competitiveness.

All new employees go through the elementary education program of the Kawanishi Business School. The program covers the history and other aspects of the company, and goes beyond conventional training for new employees, venturing into a wide range of fields such as medical systems; medical legislation; the latest trends related to medical devices in the fields of general surgery, orthopedics, cardiovascular health, and life science; and managerial accounting business (training held over eight months from April to November, includes on-the-job training). New employees also participate in role-playing exercises to learn appropriate communication with doctors and other medical practitioners. After the initial training, the company provides a range of follow-up learning opportunities, such as an on-the-job leader training system, reference literature system, manufacturer workshops, participation in academic conferences, and the intermediary education program of the Kawanishi Business School.

Kawanishi HD is strongly committed to education and training of its employees, and this is reflected in its Employee Charter, which includes principles such as "Our organization essentially assumes responsibility for the training of our members, but it expects each member to independently and actively exhibit a desire for growth," "Our stance is that a refusal to pursue development is nothing less than an abdication of life," and "Employees as a rule have the right to elect the platform through which they seek growth, and the organization has an obligation to provide such platforms." The majority of the company's new employees are graduates from humanities courses, so the company needs to train them to achieve sufficient communication abilities to approach hospitals and doctors.

Kawanishi HD also excels in collecting information on overseas medical devices. It publishes the monthly magazine Medical Globe (annual subscription fee: JPY46,800), which compiles information on medical devices used overseas. The magazine contains curated information—written in easy-to-understand Japanese—selected from a broader range of information collected on overseas market trends, medical technology, new products, clinical trial approvals, M&A, hospital management, quality control, and risk management related to medical lawsuits. The magazine not only provides an opportunity for employees to acquaint themselves with the latest trends in medical devices overseas, but also functions as a tool for reaching out to medical professionals.

Monthly magazine Medical Globe provides information on overseas medical devices

Source: Company data

Competitors

Ticker	Company	Latest full-year results (JPYmn) Sales	Operating profit	Sales CAGR, 3-year	Description
2689	Kawanishi Holdings	107,897	927	0.7%	Formed out of the merger of three wholesalers of medical devices and consumables operating in the Chugoku and Shikoku areas. Is also strengthening reagent, nursing care
3154	Medius Holdings	210,388	1,100	9.0%	Medical devices wholesaler that supplies products ranging from advanced equipment to consumables. Also provides comprehensive contracted distribution and management of medical materials. Has developed business foundations in the Chubu and Kanto area
3183	Win Partners	64,537	2,649	3.8%	Main strengths are medical devices sales and cardiac catheters. Formed out of the merger of Win International and Tohoku-centric Tesco
3360	Ship Healthcare Holdings	484,395	18,259	5.8%	Specializes in bulk sales of medical devices and equipment. Also, supplies medical treatment and examination materials, and operates dispensing pharmacies and paid nursing care facilities
9265	Yamashita Health Care Holdings	64,658	560	-	A leader in medical devices sales in Kyushu. Established in December 2017 via share transfer from Yamashita Medical Instruments

Source: Shared Research based on data of various companies

Strengths and weaknesses

Strengths

- **Relationships of trust with customers based on its regional focus:** Kawanishi HD's sales are skewed toward the Chugoku/Shikoku, Tohoku, and Kinki areas. The company and its customers (regional medical institutions) share a perception that they have contributed to the advancement of regional medical services. The company is well-regarded among hospitals and doctors mainly due to its extensive product lineup, ability to propose necessary medical equipment (based on data collected on surgery schedules, patient conditions, surgical procedures, and surgeons), precise deliveries, and after-sales support, and this reputation has led to repeat orders. The company's strong focus on regional areas is its fundamental competitive strength in such areas.
- **Training systems underpinning its stable growth:** Medical devices vendors at times need to be more knowledgeable about medical devices than the doctors who purchase their products. Many of Kawanishi HD's new employees have a humanities background and are therefore lacking in medical knowledge. The company has established a comprehensive training program (new employees go through a training program from April to November, a period during which they study the company's products in their own areas of specialty and participate in role-playing exercises to learn appropriate communication skills), and created mechanisms for cultivating human resources who are capable of communicating appropriately with doctors and other medical practitioners. Although its main target markets are also populated by small and medium-sized vendors distinguished by narrow expertise or a focus on personal networks, Kawanishi HD believes that mechanisms for cultivating human resources with sufficient industry knowledge are essential for survival in this industry.
- **Unique background and extensive personal network of president contributing to new businesses such as medical-engineering collaboration projects:** President Yohei Maeshima is a licensed doctor, and has conducted medical research (in nephrology) at Harvard University. His research paper was published in Science, an American academic journal. After his return from the US, he became a professor at Okayama University's Graduate School of Medicine, Dentistry, and Pharmaceutical Sciences. He thus brings a unique background to his role as the manager of a medical devices vendor. In recognition of his credentials and connections, Mr. Maeshima was appointed joint project manager for the medical-engineering collaboration project Medical Takumi Japan (a government-led project that conducts overseas promotion of the procedures, techniques, and medical devices used by Japanese doctors), and this has brought further medical-engineering collaboration opportunities to the company.

Weaknesses

- **Hurdles to reflecting value added through product prices:** Kawanishi HD possesses employees with deep industry knowledge and the capabilities to precisely deliver a diverse range of products, but it operates in a space with many competitors and is restricted by industry regulations and practices (such as reimbursement prices). For this reason, it is unable to sell its products and services at prices to reflect value added, which means its profit growth is determined by demand trends for medical devices and consumables in the regions it operates.
- **Small share of business geared toward small clinics:** The company has established a firm position as a bulk supplier of many products to hospitals, but its sales volume to smaller clinics is much lower. As many small clinics also use testing equipment and instruments, expanding this customer segment would allow the company to leverage its scale in procurement. Another benefit of conducting business transactions with small clinics would be higher profitability for the company because smaller clinics have less room to negotiate for discounts. However, its limited management resources and other factors have hampered transactions with smaller clinics, and the company is unable to take advantage of economies of scale under its current business model.
- **Presence limited to certain regions:** The company has a strong presence in specific regional areas, but no major sales track record in the massive Kanto market. From a demographic standpoint, demand for medical devices in regional areas is positioned to hold back growth in the Kanto area and other urban regions. The company's weak presence in the Kanto area is therefore undermining its growth expectations.

Historical performance and financial statements

Income statement

Income statement (JPYmn)	FY06/12 Cons.	FY06/13 Cons.	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
Sales	**74,745**	**96,223**	**97,138**	**94,515**	**101,461**	**105,779**	**107,664**	**107,428**	**107,897**
YoY	20.3%	28.7%	1.0%	-2.7%	7.3%	4.3%	1.8%	-0.2%	0.4%
Cost of sales	66,849	86,147	87,017	84,757	91,325	94,880	96,640	96,292	96,829
Gross profit	**7,896**	**10,076**	**10,121**	**9,758**	**10,136**	**10,899**	**11,023**	**11,137**	**11,068**
GPM	10.6%	10.5%	10.4%	10.3%	10.0%	10.3%	10.2%	10.4%	10.3%
SG&A expenses	7,129	8,520	8,680	9,090	9,592	9,855	9,793	9,836	10,141
SG&A ratio	9.5%	8.9%	8.9%	9.6%	9.5%	9.3%	9.1%	9.2%	9.4%
Operating profit	**767**	**1,556**	**1,441**	**668**	**543**	**1,044**	**1,231**	**1,301**	**927**
YoY	29.3%	102.9%	-7.4%	-53.6%	-18.7%	92.2%	17.9%	5.7%	-28.8%
OPM	1.0%	1.6%	1.5%	0.7%	0.5%	1.0%	1.1%	1.2%	0.9%
Non-operating income	41	52	140	49	63	113	47	45	59
Non-operating expenses	-58	-74	-62	-55	-49	-45	-42	-36	-80
Interest income	3	2	2	2	1	1	0	1	0
Dividend income	2	2	4	4	4	5	4	2	2
Interest expenses	-54	-60	-43	-33	-30	-22	-19	-21	-26
Equity in earnings of affiliates	1	-	-	-	-	-	-	-	-22
Gains on foreign exchange	-	-	-	-	-	-	-	-	-
Recurring profit	**750**	**1,535**	**1,519**	**663**	**557**	**1,113**	**1,236**	**1,310**	**906**
YoY	30.5%	104.7%	-1.0%	-56.4%	-16.0%	99.8%	11.1%	6.0%	-30.9%
RPM	1.0%	1.6%	1.6%	0.7%	0.5%	1.1%	1.1%	1.2%	0.8%
Extraordinary gains	41	140	36	18	28	22	158	77	32
Gain on sale of fixed assets	1	3	10	1	2	1	5	-	3
Other	40	137	26	17	26	21	153	77	29
Extraordinary losses	63	77	88	3	14	21	12	205	216
Loss on disposal of fixed assets	0	3	2	1	0	-	9	-	-
Loss on retirement of fixed assets	8	6	13	1	9	6	3	5	3
Impairment losses	-	64	74	-	-	14	-	86	191
Loss on valuation of securities	8	-	-	-	4	-	-	-	-
Other	55	5	0	0	4	-	-0	114	21
Income taxes	381	654	650	272	266	433	339	446	482
Implied tax rate	52.4%	40.9%	44.3%	40.2%	46.5%	38.8%	24.5%	37.7%	66.7%
Net income attributable to non-controlling interests	-	-	-	-	-	-9	-11	-40	-86
Net income attributable to owners of the parent	**346**	**943**	**817**	**405**	**306**	**691**	**1,054**	**776**	**326**
YoY	10.8%	172.6%	-13.4%	-50.4%	-24.6%	125.9%	52.6%	-26.4%	-57.9%
Net margin	0.5%	1.0%	0.8%	0.4%	0.3%	0.7%	1.0%	0.7%	0.3%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Balance sheet

Balance sheet (JPYmn)	FY06/12 Cons.	FY06/13 Cons.	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
ASSETS									
Cash and deposits	5,752	6,916	4,324	2,352	2,143	2,220	1,416	1,120	1,926
Notes and accounts receivable	14,090	16,180	15,484	18,031	18,236	18,726	20,389	21,292	19,046
Inventories	3,180	3,258	3,609	3,965	4,147	4,331	4,594	4,656	5,418
Deferred tax assets	288	318	289	231	262	292	277	-	-
Other	479	361	629	614	667	646	960	663	336
Total current assets	**23,790**	**27,032**	**24,335**	**25,194**	**25,455**	**26,216**	**27,636**	**27,731**	**26,725**
Buildings and structures	970	866	1,258	1,395	1,374	1,318	1,262	1,266	1,404
Land	1,626	1,606	1,647	1,647	2,035	2,035	1,990	1,904	1,727
Other	283	428	229	379	338	316	501	639	1,452
Total tangible fixed assets	**2,878**	**2,899**	**3,133**	**3,421**	**3,746**	**3,668**	**3,753**	**3,809**	**4,582**
Goodwill	475	360	245	138	35	-	-	-	-
Other	153	201	246	222	212	213	242	429	504
Total intangible assets	**628**	**561**	**491**	**360**	**247**	**213**	**242**	**429**	**504**
Investment securities	164	285	298	367	494	373	408	202	264
Deferred tax assets	102	148	146	90	105	103	196	259	229
Other	737	738	556	1,308	1,004	1,203	1,382	1,342	1,378
Investments and other assets	**1,002**	**1,170**	**1,000**	**1,764**	**1,602**	**1,678**	**1,986**	**1,803**	**1,871**
Total fixed assets	**4,509**	**4,631**	**4,624**	**5,545**	**5,594**	**5,559**	**5,981**	**6,041**	**6,958**
Total assets	**28,299**	**31,663**	**28,959**	**30,738**	**31,050**	**31,775**	**33,617**	**33,772**	**33,683**
LIABILITIES									
Accounts and notes payable	18,507	20,786	20,528	20,607	20,989	21,089	21,712	21,800	19,936
Short-term debt	3,419	3,836	1,126	2,235	1,816	760	1,794	1,539	2,282
Other	1,328	1,871	1,545	1,409	1,539	2,591	1,721	1,726	1,579
Total current liabilities	**23,254**	**26,493**	**23,200**	**24,252**	**24,345**	**24,440**	**25,227**	**25,065**	**23,797**
Long-term debt	1,767	874	835	505	927	600	513	1,090	1,630
Other	961	1,013	947	1,015	989	1,042	1,145	733	811
Total fixed liabilities	**2,760**	**1,924**	**1,833**	**1,776**	**2,111**	**1,909**	**1,974**	**1,936**	**2,605**
Total liabilities	**26,014**	**28,418**	**25,033**	**26,027**	**26,456**	**26,349**	**27,201**	**27,001**	**26,402**
NET ASSETS									
Shareholder's equity	2,276	3,163	3,867	4,481	4,618	5,141	6,026	6,577	7,142
Accumulated other comprehensive income	9	83	59	230	-24	149	265	108	140
Subscription rights to shares	-	-	-	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	136	125	86	-
Total net assets	**2,285**	**3,245**	**3,926**	**4,711**	**4,594**	**5,426**	**6,417**	**6,771**	**7,282**
Working capital	-1,236	-1,348	-1,436	1,388	1,394	1,968	3,271	4,148	4,528
Total interest-bearing debt	5,186	4,710	1,962	2,740	2,743	1,360	2,307	2,629	3,913
Net debt	-566	-2,206	-2,362	388	601	-861	891	1,509	1,987

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cash flow statement

Cash flow statement (JPYmn)	FY06/12 Cons.	FY06/13 Cons.	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
Cash flows from operating activities (1)	1,932	2,061	926	-2,114	710	872	-314	137	863
Pre-tax profit	728	1,597	1,467	678	571	1,114	1,382	1,182	722
Depreciation	252	250	246	289	294	278	316	362	410
Impairment losses	-	64	74	-	-	14	-	86	191
Amortization of goodwill	81	115	115	107	103	35	-	-	-
Gains on negative goodwill	-	-	-	-	-	-	-	-	-
Change in working capital	926	111	88	-2,824	114	-787	-1,209	-877	-380
Increase (decrease) in accounts receivable	-180	-2,089	696	-2,547	-86	-703	-1,569	-903	2,246
Increase (decrease) in inventories	336	-78	-351	-356	-183	-184	-263	-62	-761
Decrease (increase) in accounts payable	770	2,279	-257	79	382	100	623	88	-1,865
Income taxes	-339	-454	-796	-543	-179	-263	-709	-206	-384
Other	286	377	-267	179	-193	481	-93	-410	302
Cash flows from investing activities (2)	-605	-449	-401	-388	-705	-100	-269	-362	-496
Purchase of tangible/intangible fixed assets	-201	-366	-706	-540	-575	-167	-350	-544	-455
Proceeds from sale of tangible/intangible fixed assets	12	22	52	46	5	5	61	-	8
Other	-416	-105	252	106	-134	62	20	182	-49
Free cash flow (1+2)	1,327	1,612	525	-2,502	5	772	-583	-225	367
Cash flows from financing activities	1,207	-545	-2,886	627	-209	-741	-228	-63	440
Net increase in short-term borrowings	752	7	-2,252	1,200	-600	-100	300	-500	800
Net increase in long-term borrowings	570	-423	-459	-387	585	-495	-320	700	-447
Proceeds from issuance of, and redemption of, bonds	-10	-20	-20	-10	-	-	-	-	-
Dividends paid	-56	-56	-112	-140	-168	-168	-168	-224	-229
Other	-50	-54	-43	-36	-26	22	-40	-39	315
Other	-	-	-	-	-	47	-	-	-
Change in cash and cash equivalents	2,534	1,066	-2,361	-1,876	-204	78	-811	-288	806
Depreciation and amortization (A)	252	250	246	289	294	278	316	362	410
Capital expenditures (B)	-189	-344	-654	-494	-571	-162	-289	-544	-447
Change in working capital (C)	926	111	88	-2,824	114	-787	-1,209	-877	-380
Simple FCF (NI + A + B + C)	1,716	1,615	1,146	-2,351	408	442	199	123	306

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Profitability analysis

Profit margins (JPYmn)	FY06/12 Cons.	FY06/13 Cons.	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
Gross profit	7,896	10,076	10,121	9,758	10,136	10,899	11,023	11,137	11,068
GPM	10.6%	10.5%	10.4%	10.3%	10.0%	10.3%	10.2%	10.4%	10.3%
Operating profit	767	1,556	1,441	668	543	1,044	1,231	1,301	927
OPM	1.0%	1.6%	1.5%	0.7%	0.5%	1.0%	1.1%	1.2%	0.9%
EBITDA	1,018	1,806	1,686	957	837	1,322	1,546	1,663	1,338
EBITDA margin	1.4%	1.9%	1.7%	1.0%	0.8%	1.2%	1.4%	1.5%	1.2%
Net margin	0.5%	1.0%	0.8%	0.4%	0.3%	0.7%	1.0%	0.7%	0.3%
Financial ratios									
ROA (RP-based)	3.1%	5.1%	5.0%	2.2%	1.8%	3.5%	3.8%	3.9%	2.7%
ROE	16.0%	34.1%	22.8%	9.4%	6.6%	14.0%	18.2%	12.0%	4.7%
Total asset turnover	307.0%	320.9%	320.5%	316.6%	328.4%	336.7%	329.3%	318.8%	319.9%
Working capital	-1,236	-1,348	-1,436	1,388	1,394	1,968	3,271	4,148	4,528
Current ratio	102.3%	102.0%	104.9%	103.9%	104.6%	107.3%	109.6%	110.6%	112.3%
Quick ratio	85.3%	87.2%	85.4%	84.0%	83.7%	85.7%	86.4%	89.4%	88.1%
OCF / Current liabilities	9.6%	8.3%	3.7%	-8.9%	2.9%	3.6%	-1.3%	0.5%	3.5%
OCF / Total liabilities	7.4%	7.3%	3.7%	-8.1%	2.7%	3.3%	-1.2%	0.5%	3.3%
Cash conversion cycle (days)	-12.43	-12.19	-12.76	-7.55	-1.68	-0.86	2.33	5.87	8.55
Change in working capital	-516	-111	-88	2,824	6	574	1,303	877	380

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Historical performance

Q3 FY06/20 results (out April 30, 2020)

Summary

- Cumulative Q3 FY06/20 sales were JPY83.9bn (+3.3% YoY). Operating profit was JPY799mn (-14.5% YoY) and net income attributable to owners of the parent was JPY460mn (-24.2% YoY). Overall sales rose YoY as robust sales in the Medical Devices and Consumables (primarily consumables), SPD, and Nursing Care Products segments absorbed lower YoY sales of equipment in the Medical Devices and Consumables segment. GPM was unchanged from cumulative Q3 FY06/19 at 10.2%. Operating profit and net income fell YoY as the company booked JPY257mn in provisions for doubtful accounts related to the Import and Sales segment as SG&A expenses in Q2.
- In Q3, sales were JPY28.4bn (+5.7% YoY), operating profit was JPY464mn (+30.3% YoY), and net income was JPY290mn (+23.6% YoY). Gross profit was JPY2.9bn (+4.0% YoY), and GPM was 10.3%, slightly below the level of Q3 FY06/19 (10.5%). SG&A expenses were JPY2.5bn (+0.1% YoY), and the SG&A-to-sales ratio fell to 9.1% from 8.6% in Q3 FY06/19.
- Full-year forecast: For full-year FY06/20, the company forecasts sales of JPY110.5bn (+2.9% YoY), operating profit of JPY900mn (-30.8% YoY), and net income attributable to owners of the parent of JPY303mn (-60.9% YoY). This forecast (announced on January 24) has remained unchanged. The progress against the full-year forecast is 76.0% for sales (75.6% in Q3 FY06/19), 88.8% for operating profit (71.9%) and 151.7% for net income (78.2%). The company said it will "monitor future trends" regarding the impact of the coronavirus outbreak on its business. Some medical institutions, which are the company's customers, have postponed some non-urgent surgeries. Meanwhile, there has been a trend toward increasing procurement of sterilization-related products. Overall, the company's business performance through April has not been significantly affected.

Medical Devices and Consumables

- Cumulative Q3 sales were JPY73.6bn (+2.0% YoY) and operating profit JPY1.04bn (+4.5% YoY). Sales of consumables (based on simple sum) were JPY64.6bn (+4.3% YoY), and sales of equipment (based on simple sum) were JPY9.1bn (-10.4% YoY). Although there were some large orders for equipment related to hospital renovation and relocation in cumulative Q3 FY06/19, the company acquired few large orders of this type in cumulative Q3 FY06/20.
- Sales of surgery-related consumables, which account for more than 50% of consumables, were up 4.7% YoY. Driving sales growth were ophthalmology-related products (+17.5% YoY), gastroenterological endoscopy-related products (+ 9.2% YoY), and sterilization-related products (+6.6% YoY). Diabetes-related products, which the company positions as an important field, also continued along a growth trend, expanding 10.9% YoY.
- In ophthalmology, sales growth seems to have been supported by an increase in the number of cataract surgeries. Cataract surgery utilizing multifocal intraocular lens implants is not covered under public health insurance (but those utilizing monofocal intraocular lenses are covered). However, these multifocal lens surgeries were considered "advanced medical care" through March 2020 by the Minister of Health, Labor and Welfare (MHLW), and it was thus common for them to be covered by private insurance if the individual had an advanced medical treatment special contract as part of their private insurance (e.g. life insurance) package. Therefore, it appears the number of people undergoing cataract surgery utilizing multifocal intraocular lenses had increased by end-March 2020. From April 2020, MHLW excluded these surgeries from "advanced medical care" categorization and demand will possibly decline as a result.
- Gastroenterological endoscopy-related products have continued along an uptrend since the start of FY06/20. The company has ample experience in delivering products related to laparoscopic surgery and had offered an extensive lineup including consumables. However, the company's gastroenterological endoscopy-related products was relatively limited. That said, the

company says that recently sales of gastroenterological endoscopy-related products have been growing, grounded by its extensive lineup of consumables, which includes imported products.

▷ Sterilization-related products appear to have been affected by the novel coronavirus outbreak; the company says sales of medical masks, personal protection equipment (PPE), and wipes used to clean equipment and devices are increasing. In addition to directly delivering these products to medical institutions, the company says it is increasing deliveries to local government organizations (which subsequently distribute them to medical institutions).

▷ Sales of orthopedic surgery-related products (accounting for over 30% of consumables) were up 3.4% YoY. Sales of orthopedic surgery-related consumables saw contributions from steady increases in newly contracted facilities and cases in the Kanto region. However, since some orthopedic surgeries are non-urgent (i.e. there is a small risk of symptoms worsening in the short term even if surgery is delayed), there is the possibility that sales will stagnate in the short term due to the impact of the novel coronavirus outbreak.

▷ Sales of cardiovascular-related consumables (accounting for about 20% of consumables) grew 4.9% YoY. Sales related to catheter ablation (treatment in which heart tissue that causes tachycardia is cauterized or solidified) were strong.

▷ In Q3 alone, sales of medical devices and consumables were JPY25.0bn (+4.6% YoY) and operating profit was JPY442mn (+21.2% YoY).

SPD

▷ Cumulative Q3 sales were JPY13.6bn (+11.3% YoY) and operating profit was JPY69mn (+22.3% YoY). Not only were new facilities under contract from FY06/19 operating smoothly, but revision of goods management service fees also contributed. Q3 sales were JPY4.5 bn (+11.9% YoY) and operating profit was JPY29.0mn (+23.0% YoY).

Nursing Care Products

▷ Cumulative Q3 sales were JPY1.6bn (+4.5% YoY) and operating profit was JPY87mn (+33.0% YoY). Revenue from mainstay nursing care equipment rentals rose steadily (+6.2% YoY), centered on nursing beds. The novel coronavirus outbreak presented a temporary obstacle to the provision of home remodeling, although sales normalized by April. Q3 sales were JPY536mn (+ 1.3% YoY) and operating profit was JPY33mn (2.0x).

Import/Sales

▷ The segment posted an operating loss of JPY295mn for cumulative Q3 (loss of JPY60mn in cumulative Q3 FY06/19) as it continued to book upfront expenses associated with the startup of operations. The booking of bad debt expenses in Q2 was the main reason behind the widening loss. The operating loss in Q3 was a small loss of JPY12mn (loss of JPY21mn in Q3 FY06/19).

▷ In the first half of 2020, Israeli company VOCs Medical Ltd. completed AI analysis and identification of volatile organic compounds for its breast cancer screening system that relies on breath tests (for which Kawanishi HD subsidiary Exsola Medical owns exclusive distributor rights for Japan), and will complete clinical trials in the first half of 2021. After undergoing subsequent review and approval, VOCs Medical hopes to launch the product in 2022. The novel coronavirus outbreak may affect clinical trials, and it will be necessary to pay close attention to future developments.

Use of funds for disposal of treasury stock

▷ On February 21, the company announced the disposal of treasury stock. The company disposed of 471,900 shares, including over-allotments, thereby raising JPY458mn. The capital raised will be used for 1) capital investment in an integrated logistics system for the purpose of improving internal efficiency (JPY186mn), 2) capital investment related to the transfer of the Nara sales office of subsidiary Nikko Medical Materials Co., Ltd. (JPY171mn), and 3) repayment of short-term loans. The company's previous logistics system was paper-based, but the new system will be digitized to include such features as barcode readers for automatic recognition of items.

1H FY06/20 results

Summary

1H FY06/20 sales were JPY55.5bn (+2.1% YoY), operating profit JPY335mn (-42.1% YoY), and net income attributable to owners of the parent JPY169mn (-54.4% YoY). Overall sales rose YoY as robust sales in the Medical Devices and Consumables (primarily consumables), SPD, and Nursing Care Products segments absorbed lower YoY sales of equipment in the Medical Devices and Consumables segment. Gross profit was JPY5.6bn (+1.7% YoY) and the GPM was little changed from a year earlier at 10.1%. Operating profit fell YoY as the company booked as SG&A expenses JPY257mn in provision for doubtful accounts related to the Import and Sales segment in Q2. Excluding the provision for doubtful accounts, SG&A expenses rose 1.6% YoY. These results were in line with the company's revised earnings forecast, which was announced on January 24.

Full-year FY06/20 forecast

Full-year forecast: For full-year FY06/20, the company forecasts sales of JPY110.5bn (+2.9% YoY), operating profit of JPY900mn (-30.8% YoY), and net income attributable to owners of the parent of JPY303mn (-60.9% YoY). This represents a downward revision (as of January 24) of the initial forecast (sales of JPY110.5bn, operating profit of JPY1.3bn, and net income attributable to owners of the parent of JPY837mn). The main reason for the revision was to reflect the impact of booking a provision for doubtful accounts in Q2. In addition, adjustments to official list prices (reimbursement prices) for medical devices introduced on October 1, 2019, were somewhat larger than the company had anticipated, leading to an increased likelihood the company would book an extraordinary loss (impairment declaration of about JPY200mn related to idle property resulting from a branch relocation).

Medical Devices and Consumables segment

1H sales were JPY48.7bn (+0.8% YoY) and operating profit JPY598mn (-5.1% YoY). Sales were up a sharp 14.2% YoY in Q1 (especially for equipment) in anticipation of the consumption tax hike but fell 10.4% YoY in Q2, resulting in a 0.8% YoY increase in 1H. Sales of consumables (based on simple sum) were JPY43.3bn (+4.4% YoY). Sales of surgery-related consumables, which account for more than 50% of consumables, were +4.7% YoY (surgical products +4.9% YoY, anesthesia products +4.0% YoY), orthopedic surgery-related consumables, which account for nearly 30% of consumables, were +4.1% YoY, and cardiovascular-related consumables, which account for about 20% of consumables, were +4.1% YoY.

In surgery-related consumables, an increase in the number of surgical cases and sales volume of consumables with a high unit price such as surgical robot supplies contributed to sales growth. Sales of diabetes-related products (a priority for the company) also grew 10.3% YoY. Sales of orthopedic surgery-related consumables saw contributions from a steady increase in surgical cases at new facilities under contract, and were also solid even excluding this factor. In cardiovascular-related consumables, sales related to catheter ablation (treatment in which heart tissue that causes tachycardia is cauterized or solidified) remained at a high level, while new treatment devices for heart disease such as Transcatheter Aortic Valve Implantation (TAVI) drove sales on increases in uptake by hospitals and the number of cases. The downward adjustments to official list prices (reimbursement prices) for medical devices was greater than expected for products related to Percutaneous Coronary Intervention (PCI).

Sales of equipment (based on simple sum) were JPY5.4bn (-20.1% YoY). In Q1 the company captured demand ahead of the consumption tax hike, but there was a reactionary falloff in Q2, and large orders related to rebuilding or relocation did not reach the same level as they did in FY06/19.

SPD segment

1H sales were JPY9.1bn (+11.0% YoY) and operating profit JPY41mn (+21.9% YoY). Not only were new facilities under contract from FY06/19 operating smoothly, but revision to goods management service fees also contributed. We are focusing on whether the revision to service fees spreads going forward.

Nursing Care Products segment

1H sales were JPY1.1bn (+6.2% YoY) and operating profit JPY54mn (+9.6% YoY). Price pressure has been intensifying in the mainstay nursing care equipment rental business after maximum price limits were set in October 2018, but the company maintained sales growth by increasing the number of users through outlet expansion and offering rentals of peripheral products as well as beds.

Import and Sales segment

The segment posted an operating loss of JPY283mn in 1H (loss of JPY39mn in 1H FY06/19) as it continued to book upfront expenses associated with the startup of operations. The company has been preparing to sell a breast cancer screening system that relies on breath testing in the domestic market, but confirmation work was running behind schedule, so the company now expects the system's launch to be delayed until around 2022 (introduction was originally slated for 2021). In light of this change, the company booked JPY257mn in provision for doubtful accounts as it expects the recovery of financial assets in the Import and Sales segment will be delayed due to the delay in sale of the breast cancer screening system. However, the company commented that it may recover these if sales begin on schedule under its revised plan.

Q1 FY06/20 results

Summary

Q1 FY06/20 sales were JPY28.4bn (+14.5% YoY), operating profit was JPY373mn (up 4.6x YoY), and net income attributable to owners of the parent JPY244mn (loss of JPY8mn in Q1 FY06/19). In the mainstay Medical Devices and Consumables segment, sales of consumables rose on an increase in the number of surgical cases, and there was sharp growth in sales of equipment ahead of the consumption tax hike. GPM declined to 10.1% from 10.4% in Q1 FY06/19, but gross profit increased 11.3% YoY in large part due to sales growth. SG&A expenses were constrained at JPY2.5bn (-0.1% YoY), driving a large rise in operating profit. The company said that Q1 results were largely as expected and maintained its full-year forecasts (sales of JPY110.5bn operating profit of JPY1.3bn, and net income of JPY837mn). Progress versus full-year forecasts was sales 25.7% (23.1% in Q1 FY06/19), operating profit 29.7% (6.2%), and net income 29.1%, with profit progress notably strong.

Medical Devices and Consumables

Sales were JPY25.0bn (+14.2% YoY) and operating profit JPY392mn (up 2.6x YoY). Sales of consumables (based on simple sum) posted relatively strong growth of 7.5% YoY to JPY21.2bn. Sales declined a sharp 6.2% YoY in Q1 FY06/19, when the business was adversely affected by revisions to reimbursement prices and lost orders at some facilities, but expanded YoY in Q1 FY06/20 thanks to an increase in the number of surgical cases.

Sales of surgery-related consumables (which account for just over 50% of total consumables sales) were up 8.7% YoY, orthopedic surgery-related consumables (just under 30%) were up 7.6%, and cardiovascular-related consumables (roughly 20%) were up 4.8%, reflecting growth across the board. In surgery-related consumables, the main sales drivers were surgical products (+7.8% YoY) and anesthesia products (+11.0% YoY), while diabetes-related products—positioned as a priority area by the company—also grew 16.3% YoY. Sales of orthopedic surgery-related consumables saw contributions from a rise in the overall number of surgical cases and from a steady number of surgical cases at new facilities under contract from FY06/19. In cardiovascular-related consumables, the number of Percutaneous Coronary Intervention (PCI) cases peaked out, but this was offset by contributions from a higher number of Transcatheter Aortic Valve Implantation (TAVI) and MitraClip (percutaneous mitral valve repair) cases.

Frontloaded demand for consumables ahead of the consumption tax hike was minimal. Reimbursement prices were revised up in tandem with the increase in the consumption tax in October 2019. The company says its products were more affected by downward revisions to reflect market prices than by upward revisions related to the consumption tax increase. Shared Research expects the latest revisions to reimbursement prices to result in downward pressure on the company's earnings, but believes the impact should be minor.

Sales of equipment (based on simple sum) were JPY3.7bn (+84.9%), reflecting sharp growth. The company attributes the rise to orders accompanying strategic adoption of equipment by hospitals, including deliveries of da Vinci surgical systems, and to overall rush demand (frontloaded purchases of equipment) ahead of the consumption tax hike. We should therefore consider the possibility of a pullback in sales from Q2 FY06/20. Equipment has lower GPM than consumables, and growth in equipment sales accordingly depressed overall GPM in Q1.

SPD

Sales were JPY4.4bn (+13.0% YoY) and operating profit JPY18mn (up 2.3x YoY). Segment sales and profit benefited from smooth operations of four new facilities under contract from FY06/19. As of end Q1, the company managed SPD projects at 59 facilities. It worked to optimize (effectively raise) prices in the SPD business, and a review of management fees also contributed to an improvement in margins.

Nursing Care Products

Sales were JPY565mn (+9.4% YoY) and operating profit JPY22mn (-7.4% YoY). Sales were solid, primarily in nursing care equipment rentals. Order prices for rental beds are falling gradually, but that decline is being outweighed by an increase in the number of users. The decline in profit was mainly attributable to upfront expenses due to the opening of the west Hiroshima sales office.

Import/Sales

The segment posted an operating loss of JPY15mn in Q1 (loss of JPY33mn in Q1 FY06/19) as it continued to book upfront expenses associated with the startup of operations. As for the development of the breast cancer screening system that relies on breath testing, we understand data obtained from clinical trials are currently being analyzed.

Progress with major initiatives in FY06/20

Kawanishi HD is working on several major initiatives in FY06/20, and has made headway with 1) expansion of business foundations, 2) leveraging medical device rentals, and 3) strengthening medical-engineering collaboration.

Expansion of business foundations

Kawanishi HD says it has increased its share in certain parts of Chugoku/Shikoku, its main target markets. In Q1, it expanded its shares in Tokushima Prefecture and Hiroshima Prefecture. Sales of consumables rose 8.0% YoY in the Chugoku area and 7.7% YoY in the Shikoku area in Q1, exceeding the 7.5% YoY increase in overall sales of consumables.

The company also made headway in the Kanto area, which accounts for only a small share of total sales, by starting business with a new facility in Tochigi Prefecture. Sales of consumables in the Kanto region came to JPY540mn in Q1, which—albeit still small in absolute terms—reflected sharp YoY growth of 29.1%.

Leveraging medical device rentals

Kawanishi HD says it started leasing respiratory medical equipment to hospitals in Q1. While purchases of new equipment require hospitals to first secure a certain budget for such acquisitions, equipment rentals allow hospitals to expand their equipment while keeping annual outlays in check. According to the company, deliveries of rental equipment generate higher margins than supply of regular equipment. Growth in rental equipment transactions is therefore an area that warrants monitoring going forward.

Medical-engineering collaboration

In Q1, Kawanishi HD sold four units of the medical training simulator robot mikoto (enables training of medical procedures such as nasotracheal intubation; Kawanishi HD is the general distributor for Japan) developed by MICOTO Technology Inc. Deliveries of mikoto to new customers—medical institutions with which the company had no prior business transactions—have enabled the company to establish contact with them, and hence the company has positioned the robot as a strategic product to approach customers. We intend to closely monitor if sales of mikoto can serve as a springboard for new business, including the start of consumables transactions.

FY06/19 results

Summary

FY06/19 sales were JPY107.4bn (-0.2% YoY), operating profit was JPY1.3bn (+5.7% YoY), recurring profit JPY1.3bn (+6.0% YoY), and net income attributable to owners of the parent JPY776mn (-26.4% YoY).

Gross profit totaled JPY11.1bn (+1.0% YoY), and GPM rose 0.2pp to 10.4% from 10.2% in FY06/18. The company curbed unnecessary discounts offered to hospitals and managed to expand procurement benefits by adopting a sales strategy that was partially aligned with the promotional efforts of some manufacturers. These measures appear to have contributed to the improvement in GPM. A drop in reimbursement prices for devices and consumables related to angina pectoris weighed down sales, but had little effect on GPM.

SG&A expenses came to JPY9.8bn (+0.4% YoY). Salaries and other costs increased, but directors' compensation and retirement benefit expenses fell. The SG&A-to-sales ratio was 9.2%, a modest increase from 9.1% in FY06/18. The company booked a net extraordinary loss of JPY128mn (versus profit of JPY146mn in FY06/18), as JPY77mn in extraordinary profit from gains on sales of investment securities was outweighed by JPY205mn in extraordinary losses that mainly comprised JPY114mn in directors' retirement benefits and JPY86mn in impairment losses.

Sales fell short of the company's initial plan (sales of JPY110.9bn and operating profit of JPY1.3bn) as reimbursement price revisions had a slightly larger impact than anticipated and the company was unable to capture the expected demand for equipment. However, GPM slightly exceeded plan due to efforts to curb excessive discounts, and operating profit finished largely in line with plan thanks to below-budget SG&A expenses.

Segment trends

Medical Devices and Consumables: Sales were JPY95.0bn (-0.6% YoY) and operating profit JPY1.4bn (+8.0% YoY). Sales of consumables (which account for 88% of total sales) rose 1.2% YoY, but sales of equipment (12%) fell 12.8% YoY. The sales expansion for consumables was driven by growth in surgery-related consumables (+2.8% YoY) and orthopedic surgery-related consumables (+1.0% YoY), which compensated for a drop in cardiovascular-related consumables (-2.3% YoY). Sales of surgery-related consumables saw contributions from growth in diabetes-related products. By region, sales expanded considerably in Tottori Prefecture—which the company views as a new region for customer development—and in Miyagi Prefecture. Sales of orthopedic surgery-related consumables suffered from revisions to reimbursement prices and an impact from lost orders in the Chugoku region, but this was offset by the addition of new customers in Hyogo Prefecture and Hiroshima Prefecture and by effects of an increase in patients requiring orthopedic surgery in Fukushima Prefecture. Sales of cardiovascular-related consumables were adversely affected by a drop in prices of products related to Percutaneous Coronary Intervention (PCI; non-surgical procedure to treat angina pectoris) that was caused by revisions to reimbursement prices. However, sales increases for products for catheter ablation (procedure that cauterizes the heart tissue that causes tachycardia [abnormally rapid heart rate] using high-frequency radio waves) and Transcatheter Aortic Valve Implantation (TAVI) provided overall sales support. Sales of equipment benefited from replacement demand for large diagnostic imaging systems (such as CT scanners, MRI scanners, and ultrasonic testing equipment) at customer facilities and from orders from new facilities, but nonetheless fell short of the previous year's level.

SPD: Sales were JPY16.6bn (+1.3% YoY) and operating profit was JPY77mn (+29.2% YoY). Several major contracts came to an end, but the start of operations at three new facilities drove sales growth. As of end-FY06/19, the company managed 60 SPD projects. Operating profit increased on contributions from cost reductions achieved by efforts to optimize staff deployment and distribution operations.

Nursing Care Products: Sales were JPY2.1bn (+3.1% YoY) and operating profit was JPY93mn (-19.0% YoY). The core home nursing care equipment rentals increased 5.2% YoY and sales of home nursing care equipment also increased, offsetting lower sales for home remodeling and products for nursing care facilities. However, operating profit fell as upfront personnel expenses rose in tandem with business expansion.

Import/Sales: The segment posted an operating loss of JPY92mn (versus JPY27mn loss in FY06/18) as it continued to book upfront expenses associated with the startup of operations. In May 2017, a Japanese medical institution began testing a breast cancer screening system that detects cancer through the breath of screening subjects. The system was developed by an Israeli company and Kawanishi HD's subsidiary Exsola Medical holds the exclusive distributor rights in Japan. The segment continues to book upfront spending related to the new business, including clinical trials at a university hospital. The company hopes to complete clinical trials in 2020 and to bring the product to market in 2021, following regulatory screening and approval.

FY06/20 forecasts

The company's initial forecasts for FY06/20 call for sales of JPY110.5bn (+2.9% YoY), operating profit of JPY1.3bn (-3.6% YoY), recurring profit of JPY1.3bn (-3.4% YoY), and net income of JPY837mn (+7.9% YoY). The company looks for sales and profit growth in the Medical Devices and Consumables, SPD, and Nursing Care Products segments. In the Import/Sales segment, it expects operating and recurring profit to decline on upfront spending ahead of commercial product launches.

Dividend policy

The company paid an annual dividend of JPY40 per share in FY06/19 (unchanged YoY; payout ratio of 28.9% YoY). It plans to keep the FY06/20 dividend at JPY40 per share (estimated payout ratio of 26.8%). It has made no changes to its basic policy on profit distribution, which calls for 1) maintaining stable dividends, and 2) securing retained earnings to allow for flexible investment in growth and development.

Medium-term management plan (FY06/20 to FY06/22)

Along with the announcement of FY06/19 results on August 9, 2019, the company unveiled a medium-term management plan that targets FY06/22 sales of JPY120.0bn (three-year CAGR of 3.8%) and operating profit of JPY2.0bn (15.4%).

Other information

History

Date		
Oct	1967	Established Kawanishi Medical Equipment Co., Ltd. in Okayama City, Okayama Prefecture to sell medical and scientific devices
Oct	1985	Established Life Care Co., Ltd. to sell and lease medical devices and household goods
Jul	1996	Established Hosnet Japan Inc. to strengthen SPD business
May	1997	Established Uvic Co., Ltd. to strengthen sales capabilities in the Shikoku area
Jan	1999	Absorbed Kagawa Seiki Co., Ltd. and Shikoku Medical Abilities Co., Ltd. to strengthen sales capabilities and financial condition
Jan		Changed company name to Kawanishi Co., Ltd.
Jun		Absorbed Uvic Co., Ltd.
Dec	2002	Listed on the Second Section of the Tokyo Stock Exchange
Mar	2003	Acquired all shares in Medtechnica Co., Ltd. (Nagoya City) to expand market foundations (absorbed by Kawanishi Co., Ltd. in November 2011)
Jan	2004	Spun off sales division into new Kawanishi Co., Ltd. and changed company name to Kawanishi Holdings, Inc.
Mar		Acquired 100% stake in Inoue Medical Instruments Co., Ltd. (Kobe City) to expand market foundations (absorbed by Kawanishi Holdings Inc. in November 2005)
Jun	2005	Acquired all shares in Nikko Medical Materials Co., Ltd. (Yao City)
Jan	2006	Acquired all shares in NEOS Medical Co., Ltd. (Kashihara City) (absorbed by Nikko Medical Instruments Co., Ltd. in April 2006)
Jul		Acquired all shares in Takatsuka Pharmaceutical Co., Ltd. (Okayama City) (absorbed by Kawanishi Holdings Inc. in January 2017)
Sep	2009	Acquired all shares in Ohta Medical Co., Ltd. (liquidated in March 2018)
Jan	2012	Acquired all shares in Sansei Medical Materials Co., Ltd. (Koriyama City)
Jan	2016	Established EXOLA MEDICAL Inc. to conduct import and sales of medical devices

Source: Shared Research based on company data

News and topics

March 2020

On **March 3, 2020**, the company announced that it resolved on the sale price for the disposal of treasury shares as well as the offering price for a secondary share offering.

Regarding the disposal of treasury shares along with a secondary share offering announced on February 21, the company disclosed the sale price for the disposal of treasury shares by way of public offering and the offering price for the secondary offering. The sale price is JPY1,062 per share, 4.58% discounted price versus the closing price of March 3 (JPY1,113). The sale price of treasury shares offered through third-party overallotment is JPY989.65 per share (11.08% discounted price). Net proceeds from the sale is expected to be up to JPY486mn. No change has been made to the plans for the main use of proceeds announced on February 21.

February 2020

On **February 21, 2020**, the company announced the plans for the disposal of treasury shares along with a secondary offering of shares.

The company announced it plans to sell 402,200 of shares it currently holds as treasury stock through a public offering. It will also offer 250,000 shares through a secondary offering, with an over-allotment option of up to 97,800 shares (to be drawn from treasury stock). The offering price for the shares is to be determined during the period between March 3 and March 6, 2020, with the offering price to be set between a multiple of 0.9 and 1.0 times the closing price on the day the offering price is determined. As of the end of December 2019, the company had a total of 5,610,495 shares outstanding (excluding treasury stock). The secondary offering will be made on behalf of MASP Co., Ltd., the company's largest shareholder.

The net proceeds from the sale of treasury shares is expected to come to roughly JPY574mn. Plans call for using JPY213mn of this to make additional investments in an integrated distribution system that will help the company improve its operational efficiency, and JPY171mn will go to fund capital investments made in connection with the relocation of one of the sales offices of subsidiary Nikko Medical Materials. The company also plans to use some of the proceeds to repay short-term loans.

The proceeds from the disposal of treasury shares are to be used to help strengthen the company's financial position and make investments that will support growth and increase profitability over the medium term. Together with the disposal of treasury shares, the secondary offering of shares is aimed at expanding the company's shareholder base and improving the stock's liquidity.

Note: The above is a summary of the company's own press release and is not intended to solicit investments. For further details, see the company's press release.

January 2020

On **January 24, 2020**, the company announced the booking of provision for doubtful accounts and revisions to its forecast for consolidated results.

Booking of provision for doubtful accounts

In the Import and Sales business, the process to sell a breast cancer screening system that relies on breath testing in the domestic market is running behind schedule, forcing the company to revise the expected start date for domestic sales from 2021 to 2022. The company added JPY257mn to provision for doubtful accounts in the Import and Sales business, which in turn increased provision for doubtful accounts booked under SG&A expenses by an equal amount.

Revised forecast for consolidated results for 1H FY06/20

- ▷ Sales: JPY55.5bn (versus previous forecast of JPY55.1bn)
- ▷ Operating profit: JPY335mn (versus JPY533mn)
- ▷ Recurring profit: JPY329mn (versus JPY539mn)
- ▷ Net income*: JPY169mn (versus JPY353mn)
- ▷ EPS: JPY30.20 (versus JPY57.41)

*Net income attributable to owners of the parent

Revised forecast for full-year consolidated results for FY06/20

- ▷ Sales: JPY110.5bn (versus previous forecast of JPY110.5bn)
- ▷ Operating profit: JPY900mn (versus JPY1.3bn)
- ▷ Recurring profit: JPY911mn (versus JPY1.3bn)
- ▷ Net income*: JPY303mn (versus JPY837mn)
- ▷ EPS: JPY54.15 (versus JPY149.12)

*Net income attributable to owners of the parent

Reasons for forecast revision

A number of factors were behind the company's decision to lower its 1H and full-year results forecasts. In the Medical Devices and Consumables business, special adjustments to official list prices (reimbursement prices) for medical devices in the wake of the consumption tax hike were larger than anticipated, which is expected to squeeze margins especially on cardiovascular-related products. In the Import and Sales business, additional provision for doubtful accounts (booked in Q2) is expected to add JPY257mn to SG&A expenses. The company also said it considering relocating a branch office of an existing subsidiary and, if it makes a decision in this regard by the end of FY06/20, an existing branch office will be left as a non-operating property, which could lead to asset impairment charges and an extraordinary loss of roughly JPY200mn to reflect the write-down in the value of the real estate assets.

Corporate governance and top management

Top management

President and COO: Yohei Maeshima (born February 5, 1967)

Mr. Maeshima graduated from the Medical School of Okayama University in March 1991, obtained his medical license in May of the same year, and subsequently interned at the Internal Medicine Department of Okayama University Hospital. He obtained a Doctor of Medicine degree from Okayama University in 1997. In 1998, he worked as a research fellow at the Harvard Medical School and became an assistant professor at Okayama University Hospital in 2001. He became a lecturer at the hospital attached to the Dental School of Okayama University in 2008, and worked as a professor at the Graduate School of Medicine, Dentistry, and Pharmaceutical Sciences of Okayama University. Later, he served as a joint research fellow at the Institute of Development, Aging, and Cancer of Tohoku University in 2011. He became a director of Kawanishi HD in 2014, and President and COO in 2015 (current position).

Corporate governance

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Board
Controlling shareholder	None
Directors and Audit & Supervisory Board members	
Number of directors under Articles of Incorporation	12
Number of directors	9
Directors' terms under Articles of Incorporation	1
Chairman of the Board of Directors	President
Number of outside directors	3
Number of independent outside directors	3
Number of members of Audit & Supervisory Board under Articles of Incorporation	7
Number of members of Audit & Supervisory Board	3
Number of outside members of Audit & Supervisory Board	3
Number of independent outside members of Audit & Supervisory Board	2
Other	
Participation in electronic voting platform	None
Providing convocation notice in English	None
Implementation of measures regarding director incentives	Other
Eligible for stock option	None
Disclosure of individual director's compensation	Individual disclosure for some
Policy on determining amount of compensation and calculation methodology	In place
Corporate takeover defenses	None

Source: Shared Research based on company data (as of November 2019)

Dividend policy

The company's basic policy on profit distribution is to 1) maintain stable dividends, and 2) secure retained earnings to allow for flexible investment in growth and development. In FY06/20, Kawanishi HD paid a regular annual dividend of JPY40.0 per share plus a JPY5.0 commemorative dividend for TSE1 designation (payout ratio of 79.3%). It plans to offer the same dividend of JPY45.0 per share in FY06/21 (based on estimated payout ratio of 29.4%).

Per share data (JPY)	FY06/12 Cons.	FY06/13 Cons.	FY06/14 Cons.	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.	FY06/21 Cons.
Shares outstanding (ex. treasury shares; year-end, mn)	**5.6**	**5.6**	**5.6**	**5.6**	**5.6**	**5.6**	**5.6**	**5.6**	**6.1**	**-**
EPS	61.67	168.1	145.5	72.2	54.5	123.1	187.9	138.2	56.8	153.1
EPS (fully diluted)	-	-	-	-	-	-	-	-	-	-
Dividend per share	10.0	20.0	25.0	30.0	30.0	30.0	40.0	40.0	45.0	45.0
Payout ratio	16.2%	11.9%	17.2%	41.5%	55.1%	24.4%	21.3%	28.9%	79.3%	29.4%
Book value per share	407.2	578.4	699.8	839.6	818.8	942.8	1,121.3	1,191.6	1,197.2	-

Source: Shared Research based on company data (as of June 2020)

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
MASP Co., Ltd.	691	11.1%
Kawanishi Employees Shareholding Association	376	6.1%
Youhei Maeshima	305	4.9%
The San-in Godo Bank, Ltd.	278	4.5%
Chugoku Bank, Ltd.	277	4.5%
Tatsuya Maeshima	259	4.2%
Sumitomo Mitsui Trust Bank, Limited	200	3.2%
Tomomasa Maeshima	186	3.0%
The Iyo Bank, Ltd.	165	2.7%
TM Teraoka Limited	152	2.5%
SUM	2,889	46.6%

Source: Shared Research based on company data (as of June 2020)

Employees

Number of employees	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18	FY06/19	FY06/20
Consolidated (excl. temporary workers)	951	1,034	1,082	1,141	1,203	1,179	1,163	1,189	1,222
Medical Devices and Consumables	700	740	783	826	860	875	860	868	892
Supply Processing and Distribution	124	143	146	152	167	166	155	163	171
Nursing Care Products	49	75	79	94	102	107	113	122	120
Import and Sales	-	-	-	-	-	2	2	2	2
Company-wide	20	27	33	29	33	29	33	34	37
Temporary workers (average)	114	137	158	188	197	194	216	216	221

Source: Shared Research based on company data

Profile

Company Name	Head Office
Kawanishi Holdings, Inc.	1-1-3 Shimoishii, Kita-ku, Okayama 700-0907, Japan
Phone	**Listed On**
+81-86-236-1112	The First Section of the Tokyo Stock Exchange
Established	**Exchange Listing**
October, 1967	December, 2000
Website	**Fiscal Year-End**
https://www.kawanishi-md.co.jp/english/index.php	June
IR Contact	**IR Web**
info@kawanishi-md.co.jp	https://www.kawanishi-md.co.jp/english/financial.php

About Shared Research Inc.

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at https://sharedresearch.jp.

Current Client Coverage of Shared Research Inc.

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AI inside Inc.
AirTrip Corp.
and factory, inc.
ANEST IWATA Corporation
AnGes Inc.
Anicom Holdings, Inc.
Anritsu Corporation
Apaman Co., Ltd.
ARATA CORPORATION
Artspark Holdings Inc.
AS ONE CORPORATION
Ateam Inc.
Aucfan Co., Ltd.
AVANT CORPORATION
Axell Corporation
Azbil Corporation
AZIA CO., LTD.
AZoom, Co., Ltd.
Base Co., Ltd
BEENOS Inc.
Bell-Park Co., Ltd.
Benefit One Inc.
B-lot Co.,Ltd.
Broadleaf Co., Ltd.
CanBas Co., Ltd.
Canon Marketing Japan Inc.
Career Design Center Co., Ltd.
Carna Biosciences, Inc.
CARTA HOLDINGS, INC
CERES INC.
Chiyoda Co., Ltd.
Chori Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
COTA CO.,LTD.
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.
Daiseki Co., Ltd.
Demae-Can CO., LTD
DIC Corporation
Digital Arts Inc.
Digital Garage Inc.
DIP Corporation
Doshisha Corporation
Dream Incubator Inc.
Earth Corporation
Edion Corporation
Elecom Co., Ltd.
en-Japan Inc.
euglena Co., Ltd.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
First Brothers Col, Ltd.
FreeBit Co., Ltd.
Fujita Kanko Inc.
Gamecard-Joyco Holdings, Inc.
GameWith, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HENNGE K.K.
HOUSEDO Co., Ltd.
H2O Retailing Corporation
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
Itochu Enex Co., Ltd.
JAFCO Co.,Ltd.
JMDC Inc.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co.,LTD
Kawanishi Holdings, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
Locondo, Inc.
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Media Do Co., Ltd.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
Mortgage Service Japan Limited.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net Marketing Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
Pan Pacific International Holdings Corporation
PARIS MIKI HOLDINGS Inc.
PIGEON CORPORATION
QB Net Holdings Co., Ltd.
RACCOON HOLDINGS, Inc.
Raysum Co., Ltd.
RESORTTRUST, INC.
ROUND ONE Corporation
RYOHIN KEIKAKU CO., LTD.
SanBio Company Limited
SANIX INCORPORATED
Sanrio Company, Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
Seikagaku Corporation
Seria Co.,Ltd.
Serverworks Co.,Ltd.
SHIFT Inc.
Shikigaku Co., Ltd
SHIP HEALTHCARE HOLDINGS, INC.
SIGMAXYZ Inc.
SMS Co., Ltd.
Snow Peak, Inc.
Solasia Pharma K.K.
SOURCENEXT Corporation
Star Mica Holdings Co., Ltd.
Strike Co., Ltd.
SymBio Pharmaceuticals Limited
Synchro Food Co., Ltd.
TAIYO HOLDINGS CO., LTD.
Takashimaya Company, Limited
Take and Give Needs Co., Ltd.
Takihyo Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
3-D Matrix, Ltd.
TKC Corporation
TKP Corporation
Tsuzuki Denki Co., Ltd.
TOCALO Co., Ltd.
TOKAI Holdings Corporation
Tokyu Construction Co., Ltd.
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
WirelessGate, Inc.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS CO., LTD.
ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

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