DVx Inc.
3079 Tokyo Stock Exchange First Section

16-Jan.-15

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FISCO Ltd. Analyst
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Reaches New Record High in Q2 FY 3/15, Increasing Market Share by Strong Technical Sales Support

DVx Inc. <3079> (hereafter, "DVx" or "the Company"), a sales company for medical devices mainly focused in the area of cardiovascular diseases, rests on two pillars: its arrhythmia business (sales agent) and its ischemia business (mainly sole import agent). With the top market share for its arrhythmia business accounting for 40% in the Kanto region and 19% nationally in Japan, it is expanding market share by taking full advantage of its technical sales support capabilities. The ischemia business sells products to medical facilities and distributors by finding non-competing highly advanced medical devices overseas and then becoming the sole importer with exclusive sales rights. The Company's stock was moved to the first section of the TSE in September 2014.

The Company achieved a 12.0% increase in net sales y-o-y and a 6.3% increase in operating income y-o-y for the cumulative second quarter of the fiscal year ending March 2015 - reaching record highs, respectively. Sales of products including ICDs (Implantable Cardioverter Defibrillators) and electrode catheters steadily increased in the arrhythmia business, and, in the ischemia business, sales of excimer laser angioplasty system-related products which do not have competing products in Japan, and balloon catheters were strong. Although there was a slight decline in profit margin due to the weaker JPY and the Company's change in product mix, it was offset by a revenue increase.

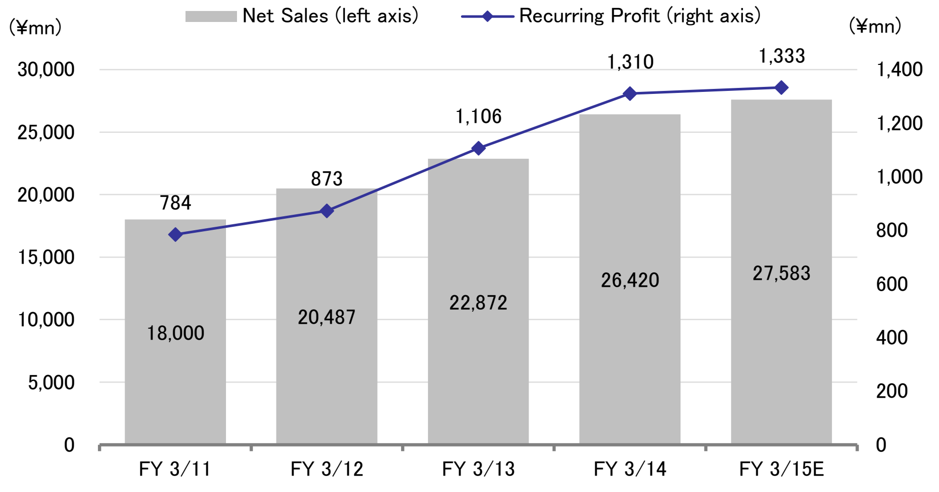
The Company has maintained its original forecast of a 4.4% increase in net sales y-o-y and a 2.9% increase in operating income y-o-y in FY3/15. However, as the achievement rate of net sales and operating income for the cumulative Q2 were 51.5% and 53.7%, respectively, which were both higher than the average of the most recent three years (net sales: 48%, operating income: 50%), a slight gain is expected. While the JPY continues to weaken, with forward exchange contracts purchased in the amount of one third for the second half of the current fiscal year (October 2014 to March 2015), losses will be offset by a revenue increase. The negative currency impact amounts to ¥14mn of operating income a year for a one-yen change against the US dollar.

As its medium term strategy, the Company has set a policy to further expand its market share in the area of arrhythmia as well as to advance into other areas, including sales agency business, and to acquire exclusive sales rights for medical devices manufactured overseas and will accelerate future growth and expansion. In the medical device sales industry, where most companies are unlisted, the Company has leveraged the brand of a TSE listed corporation providing management transparency and aggressively recruited those professional personnel who have personal connections with regional core hospitals; as a result, it has already started to show a revenue increase in this Q2. It is projected that the domestic market in which the Company operates will be expanded and the number of patients particularly with cardiovascular disease will continue to increase, as the aging of populations in the market is progressing. Against the backdrop of this aging society, the Company will continue to remain on an expansionary track with double-digit growth, taking advantages including technical sales support capabilities and exclusive sales rights of niche-top products.

Check Point

- With support capabilities, the Company has received a high number of orders from medical facilities with large numbers of medical cases.
- As a result of the strong sales of its principal products, the Company reached a record high in Q2 FY 3/15.
- Exploring potential for diversification in the medical device sector, the Company aggressively expands its growth.

Operating Results



Company Profile

DVx has achieved steady increase in its sales, income and real dividends since its listing as a trading company specializing in medical devices

Established in 1986 as a trading company specializing in medical devices, DVx has achieved steady increase in its sales, income and real dividends since it was listed on JASDAQ (currently Tokyo Stock Exchange JASDAQ Standard) in 2007. The Company's operations are classified into three business segments: arrhythmia business, ischemia business and others. When looking at the net sales rate in the cumulative second quarter of FY3/15, "arrhythmia business" and "ischemia business" account for 80.9% and 15.2%, respectively, totaling over 96%, and this trend has remained consistent for several years.

When looking at the segment income rate, the "ischemia business" accounts for 29.7%, which is slightly higher compared to the net sales rate. The reason behind this could be that, as it mainly sells medical devices to domestic trading companies as a sole import agent with exclusive sales rights, the "ischemia business" has strong control over pricing, though the Company covers marketing costs and regulatory application fees. On the other hand, the "arrhythmia business" is based on a model that the Company sources related products from manufactures or trading companies and sells them to medical facilities and thus is in an environment where price competition is likely because of competing companies dealing the same products. These environmental differences reflect their differences in income rate.

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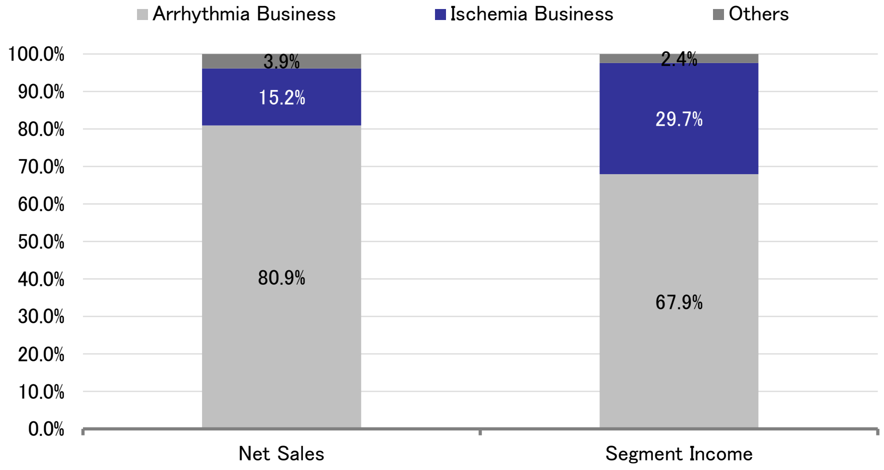
Rate by Business Segment (Cumulative Q2 of FY3/15)



Note: Segment Income=Gross Profit

With support capabilities, the Company has received a high number of orders from medical facilities with large numbers of medical cases

(1) "Arrhythmia Business"

Principal products in the arrhythmia business include pacemakers, ICDs (Implantable Cardioverter Defibrillators), CRT-Ds (Cardiac Resynchronization Therapy Defibrillators), electrode catheters for examination and ablation (myocardial ablation) catheters.

As the Company's products not only require technical knowledge and skills but also support capabilities, a trusting relationship between the doctors who actually use the devices and the sales representatives in business is of paramount importance. The key strengths of the Company are that there are quite a few trading companies that specialize in arrhythmia-related products, and the Company has received a high number of orders from medical facilities with large numbers of medical cases with many well-experienced veteran sales representatives. Moreover, its long-term good performance is also due to the direction that Japan's medical affairs administration is taking to improve efficiency of medical care by centralizing the advanced medical care into the regional core hospitals.

With the top market share accounting for 40% in the Kanto region and 19% nationally, the business expands its market share year by year while exploring new customers (e.g., its domestic market share was 13% in FY2008). In the most cases, opportunities to explore new customers (medical facilities) lie where doctors (customers) are transferred. There are many doctors who wish to continue the business relationship, and the new medical facilities that they are transferred to are likely to become new customers. For this reason, if the Company does not have a sales office in the region where they are transferred to, it determines to establish a local branch office or sales office to accommodate its customers in consideration of profitability. The Company currently hold 11 offices located mainly in major cities as sales offices for its arrhythmia business and is considering the possibility of creating a new office.

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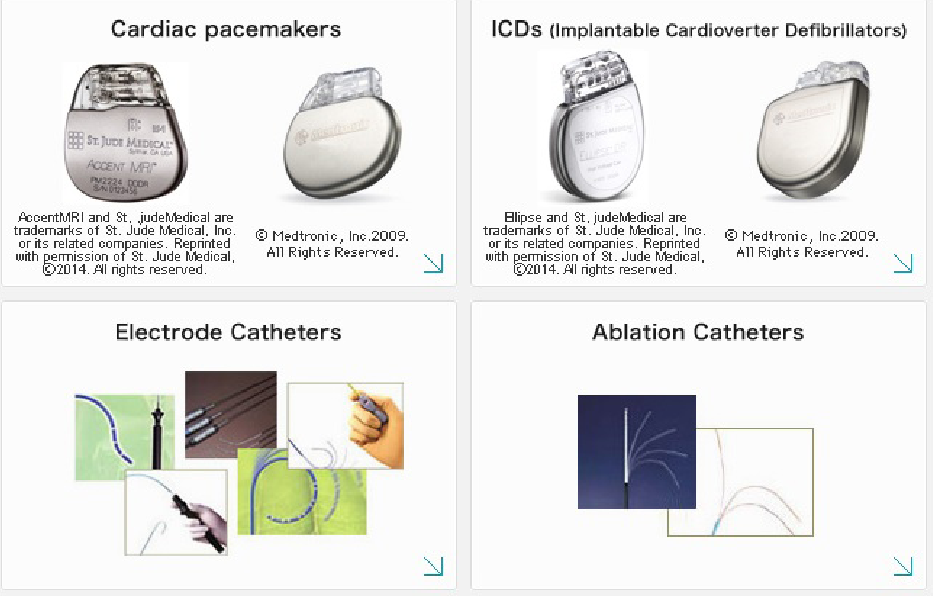
Domestic Market Scale of Arrhythmia-Related Products

Year	2009	2010	2011	2012	2013	2014E	Average Growth Rate (2009 – 2014)
Electrode Catheters (for examination)	14,620	15,960	15,127	15,085	17,792	18,155	4.4%
Ablation Catheters	6,191	7,703	9,654	11,267	12,455	13,210	16.4%
Pacemakers	43,690	40,645	40,881	37,080	37,960	38,990	−2.3%
ICDs/CDT-Ds	20,850	23,479	26,346	28,825	30,079	31,346	8.5%
Leads	13,296	13,310	13,918	13,190	13,644	14,185	1.3%
Total	98,647	101,097	105,926	105,447	111,930	115,886	3.3%
Net Sales of DVx's Arrhythmia Business (yearly)	13,581	14,688	16,580	18,830	21,607	22,510	10.6%
Market Share	13.8%	14.5%	15.7%	17.9%	19.3%	19.4%	

Source: R & D Medical Device and Supply Yearbook 2014, No. 1

Arrhythmia-Related Products



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Product Overview

Product Name	Product Overview
Pacemakers	Devices for treating bradycardia, an arrhythmia with a slow heart rate. Pacemakers are devices that take over the cardiac function and stimulate the heart when the heart rate is slow by constantly monitoring the heart. They are so designed that the heart rate needs to be above the set rate to be activated.
ICDs (Implantable Cardioverter Defibrillators)	Used mainly for treating severe cases of fast pulse, known as "ventricular tachycardia" or "ventricular fibrillation". Ventricular tachycardia is a faster-than-normal heart rate that may cause dizziness or syncope due to inability of heart to send blood into body when the heart beats at a very fast rate of 180 – 220 beats per minute (bpm) (normal rate is 60 – 100 bpm). Ventricular fibrillation is a condition where ventricles contract in a rapid way and, if left untreated, may cause death due to unconsciousness caused by the almost complete inability of heart to send blood into body. ICDs are designed to stop arrhythmia using electrical shock pulse when fast pulses occur.
CRT-Ds (Cardiac Resynchronization Therapy Defibrillators)	ICD enabled devices with Cardiac Resynchronization Therapy (CRT), a type of treatment of heart failure. Cardiac Resynchronization Therapy is a treatment that uses a device, such as a pacemaker, to restore pump function of the heart by correcting interventricular contraction delay. Leads will be placed in coronary vein as well as in right atrium and ventricle in order to perform pacing to correct interventricular contraction delay. Since these devices were approved for coverage under National Health Insurance (NHI) in Japan in August 2006, partially due to their more flexible use when compared to ICDs, their market is growing faster than the ICDs'.
Electrode Catheters	Electrode catheters have electrodes at the tips and are used for testing to determine the adaptation of pacemakers or ICDs; they will be inserted into the heart chamber to examine the cause and location of occurrence of arrhythmia as well as to evaluate the severity.
Ablation (myocardial ablation) Catheters	A kind of electrode catheters used for a procedure called ablation that uses heat to destroy an area of cardiac muscle tissue that is causing rapid heartbeats. The procedure is a treatment that ablates an area causing arrhythmia and destroy the tissue by applying high-frequency electrical energy to the catheter placed in the heart chamber from the outside. As the range of applicable use, including WPW syndrome, atrioventricular nodal reentrant tachycardia, atrial flutter, ventricular tachycardia and atrial fibrillation, expands year by year, they continue to grow strongly.

Products (main devises and consumables combined) with exclusive sales rights account for over 50% market share

(2) "Ischemia Business"

Principal products in the ischemia business include automatic contrast injection system (product name: ACIST), excimer laser system and PTA balloon catheters. The Company sells these products to medical facilities across the country as a sole importer through its distributors. Partly because of being the sole importer, it covers the whole country with 6 sales offices in major cities.

With its market share accounting for 50%, as well as with the market share of its consumables accounting for over 60%, the automatic contrast injection system, whose import/sales started in 2000, is a highly competitive product, and it is also helping to maintain the high profit margin of the segment. The system has sold over 500 units in its life-to-date, and its sales cycle has come full circle; the current sales mainly comes from the replacement demand of main devices and sales of consumables.

The excimer laser system started being used widely after the coronary catheter (for treatment of coronary artery) was approved for coverage under NHI in July 2012, and a total of 67 has been introduced in major hospitals throughout the country as of the end of September 2014. The range of its applicable use under the insurance, including treatment of lower peripheral artery, is expected to further expand. As for the PTA balloon catheters, the Company outsources them to FILMECC CO., LTD., a wholly-owned subsidiary of ASAHI INTECC CO., LTD. <7747>.

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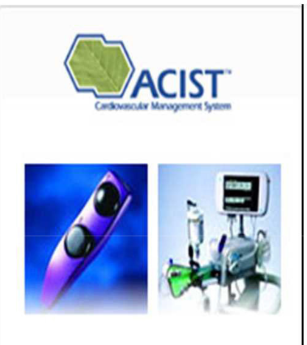
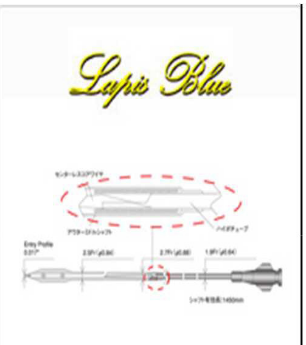
Ischemia-Related Products



Artomatic Contrast Delivery System ACIST



PTA Balloon Catheters Lapis Blue

Excimer Laser angioplasty System Spectranetics

Product Overview

Product Name	Product Overview	Manufacturer
Automatic Contrast Injection System "ACIST"	"ACIST" is an injector system that variably controls the flow rate and velocity of contrast injection for angiography of heart coronary artery. Its features include: (a) You can use both in the left ventricle and coronary artery; (b) The special hand controller enables subtle ejection control; (c) The system automatically injects either contrast or saline fluids.	ACIST Medical Systems, US
PTA Balloon Catheters "CAST", "Tip Top"	Medical devices used for PCI (Percutaneous Coronary Intervention), a procedure to percutaneously treat ischemic heart disease such as heart attack and angina. The catheter, equipped with a balloon at the tip, is inflated in a blood vessel that has been narrowed by the accumulation of cholesterol or such, to enlarge the blocked area.	FILMECC (subsidiary of ASAHI INTECC)
Excimer Laser angioplasty System "CVX-300"	A treatment device to remove plaque (cholesterol) that has become calcified or fibrous in the coronary artery with vaporization induced by laser irradiation. The device with a wavelength in UV range will generate less heat. With a limited reach range of 0.005 mm, the device provides less complications and excellent results. Other than coronary artery, "CVX-300" can also be used for treatment of peripheral blood vessel and cardiac lead removal with pacemakers or ICDs.	Spectranetics, US

(3) Others

The "Others" segment includes businesses not included in other two main business segments, arrhythmia and ischemia businesses, such as neurosurgery-related and gastrointestinal system-related products, radiation protection goods and books.

Business Trends

Reaches record high in FY3/15 Q2 with steady sales of principal products

(1) Results for the Second-Quarter Cumulative of the FY3/15

The Company achieved ¥14,204mn in net sales, a 12.0% increase y-o-y, ¥716mn in operating income, a 6.3% increase y-o-y, ¥726mn in recurring profit, a 7.2% increase y-o-y, ¥462mn in quarterly net income, an 8.5% increase y-o-y, for the second quarter cumulative period of FY3/15, showing growth in overall sales and income. The net sales and income were both higher than originally forecasted and achieved record highs on a half-year basis, respectively.

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Results for the Second-Quarter Cumulative of FY3/15

(¥ million)

	Cumulative Q2 FY 3/14		Cumulative Q2 FY 3/15				
	Result	/Sales Ratio	Forecast	Result	/Sales Ratio	Year-on-Year Ratio	Forecast Ratio
Net Sales	12,685	-	13,497	14,204	-	12.0%	5.2%
Sales Cost	10,472	82.6%	-	11,803	83.1%	12.7%	-
Expenses	1,538	12.1%	-	1,684	11.9%	9.5%	-
Operating Income	673	5.3%	613	716	5.0%	6.3%	16.8%
Recurring Profit	677	5.3%	612	726	5.1%	7.2%	18.7%
Quarterly Net Income	425	3.4%	385	462	3.3%	8.5%	20.1%

In addition to the steady increase in sales of its principal products in the arrhythmia segment, sales of consumables for the excimer laser system (such as coronary catheters) and neurosurgery-related products steadily increased in the ischemia and others segments respectively, achieving a 3 digit increase in net sales.

Operating profit margin declined by 0.3 point y-o-y to 5.0%, and this was due to a raise of 0.5 point in cost of sales ratio. A raise in cost to sales ratio is due to an increase in purchasing cost of import products caused by the JPY weaken to ¥103 against the US dollar, resulting a y-o-y depreciation of approximately ¥8, in addition to the change in product mix. Despite a y-o-y increase of 9.5% in expenses due to an increase in labor expenses, clinical trial expenses of ¥28mn for a new product (laser catheter for treatment of lower peripheral artery), expenses/ sales ratio fell by 0.3 point to 11.9% due to the revenue increase.

In addition to the steady increase in the number of sales of principal products, an increase in sales of neurosurgery-related products and one-shot sales of large-sized medical devices were largely the reason that sales exceeded the original forecast. As for profit, in addition to the revenue increase, the clinical trial expenses were slightly less than originally forecasted. This is due to a small number of patients subjected to the clinical trial. The projected clinical trial schedule has been delayed for approximately three months, however the Company expects no change to its original forecast that is expected to complete the trial within the current period, and has a product launch during FY2016. Thus the Company forecasts for ¥160mn clinical trial expenses for the current period. Here is an overview of the business results by segment.

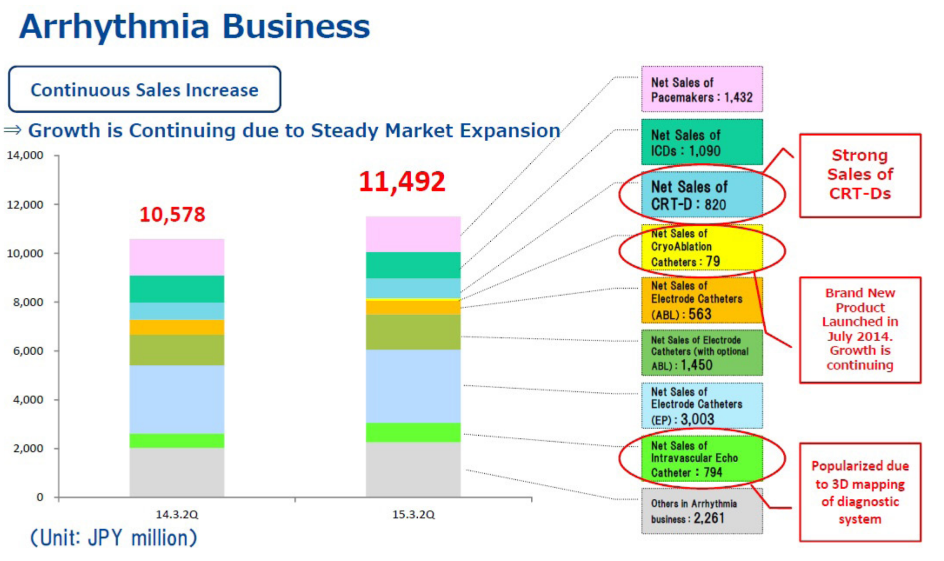
○ Arrhythmia Business

The arrhythmia business achieved ¥11,492mn in net sales, an 8.6% increase y-o-y, ¥1,630mn in segment income, a 7.0% increase y-o-y. As the number of patients with cardiovascular diseases increases with the increasing aging population, the business maintained steady growth, notably with electrode catheters. In particular, CRT-Ds and Diagnostic Ultrasound Catheters*1 achieved ¥820mn, a 16% increase y-o-y, and ¥794mn, a 37% increase y-o-y, showing 2-digit growth, respectively. In addition to these, a new product, Freezor Cardiac CryoAblation Catheter*2 (launched in July 2014), which is expected to shorten an operating time with its innovative features, has started to contribute to the sales albeit only small amount.

*1 Diagnostic Ultrasound Catheters (manufactured by J&J) - Am intravascular catheters, approved by FDA as an examination system for arrhythmia in 2010, used for 3D mapping system. In Japan, the device was approved by the medical affairs administration in 2011 and started to move toward the popularization and growth from previous year.

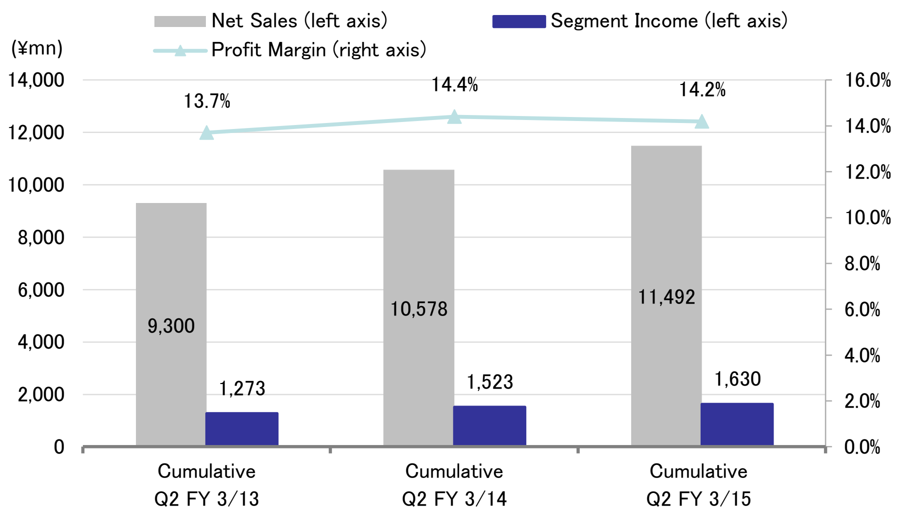
*2 Freezor Cardiac CryoAblation Catheter (manufactured by Medtronics) - A catheter used for "catheter cryoablation", approved for coverage under NHI in July 2014. This device is capable of shortening an operating time by two third compared to the existing high frequency ablation, thus this makes effective treatment of atrial fibrillation possible. This is effective for paroxysmal atrial fibrillation (P-af).

Initiatives for Current Fiscal Year



The segment's profit margin declined by 0.2 point y-o-y to 14.2%. This was due to reduction of insurance reimbursement prices of the segment's principal products caused by the revision of medical treatment fee conducted in April 2014. However, despite this, the profit margin maintained at the same level due to a decrease in purchasing costs.

Operating Results in Arrhythmia Business



○ Ischemia Business

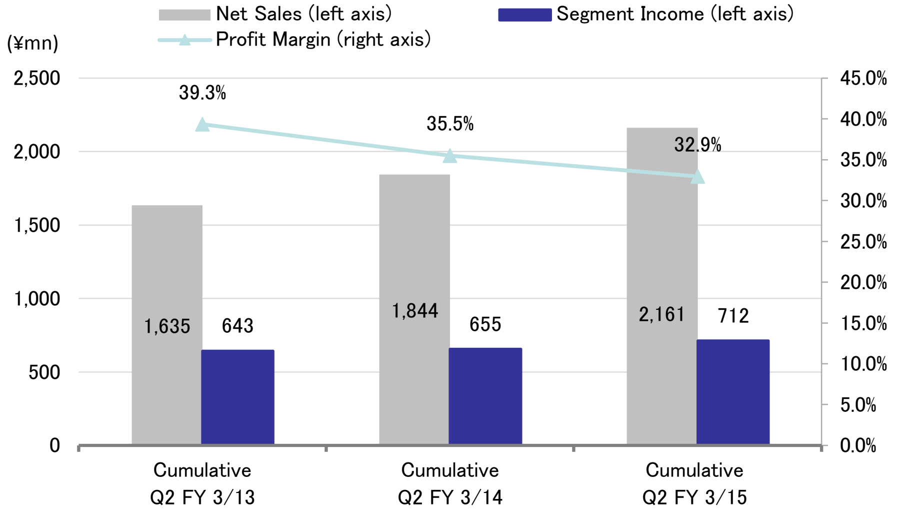
The ischemia business achieved ¥2,161mn in net sales, a 17.2% increase y-o-y, and ¥712mn in segment income, an 8.7% increase y-o-y. Consumables for Automatic Contrast Injection System "ACIST" continued to remain solid, achieving a 3% increase y-o-y, while sales of distributor items such as coronary artery stents showed a sharp increase, achieving a 37% increase y-o-y. Sales distribution ratio remained at the level of approximately 35%, respectively. The main reason for this sales increase in sales distributor business in the area of ischemia is that the Company has leveraged the brand of a TSE listed corporation providing management transparency in the medical device sales industry, where most companies are unlisted, and aggressively recruited those professional personnel who have personal connections with doctors.

To add, despite the small sales distribution ratio of approximately 7%, coronary catheters (for treatment of coronary artery) achieved a rapid increase of 118% y-o-y. As the excimer laser system was approved for coverage under NHI in July 2012, more medical facilities in the country implemented the device, and the 0.9 mm version was also newly approved for the NHI coverage in June; this led to the increase in sales.

The segment's profit margin declined by 2.6 points y-o-y to 32.9%. As mentioned above, this was due to the change in product mix and weakening of JPY. The large increase in sales of distributor items such as coronary artery stents significantly impacted the product mix. The principal products in the ischemia segment are high in profit margin as the Company sells them as the sole importer, while items such as coronary artery stents are equivalent to those general distributor items, whose profit margins are almost of the same level as the arrhythmia segment.

As for exchange rates, the average currency exchange rate over this Q2 was ¥103/dollar, a y-o-y depreciation of approximately ¥8. A one-yen change against the US dollar leads to a yearly cost increase of ¥14mn, and thus the cost increase for the current cumulative Q2 is estimated to be approximately ¥50mn, as a simple calculation would show. However, as the fund is partly hedged through forward exchange contracts, the actual impact is considered to be slightly less than the above amount.

Operating Results in Ischemia Business



○ Others

The "others" segment posted substantially higher sales and profits, achieving ¥549mn in net sales, a 109.9% increase y-o-y, and ¥58mn in segment income, a 75.3% increase y-o-y. This was due to a spot sales of an angiography (cardiovascular X-ray photography system), a large-sized medical device, as well as an increase in sales of neurosurgery-related products including stents and catheters. Hiring professional personnel also made a positive impact in the "others" segment, resulting a great increase in sales of such neurosurgery-related products, particularly at the Hamamatsu (Shizuoka Prefecture) and Fukuyama (Hiroshima Prefecture) branches.

Segment profit margin declined by 2.1% to 10.6% y-o-y due to the relatively low sales of neurosurgery-related products in addition to low profit margin is sales of large-sized medical devices. The Company, however, plans to focus more on sales of neurosurgery-related products over the medium term and raise profit margin by expanding the products and increasing the scale of sales.

Assets increased due to sales increase; debt-equity ratio remained at low level

(2) Financial Status and Management Index

The following table shows the Company's financial status as of the end of September 2014. Total assets amounted to ¥12,269mn, an increase of ¥944mn y-o-y. Major variable factors are an increase of ¥524mn in accounts receivable and an increase of ¥366mn in inventory as a result of an increase in sales up to the end of September.

On the other hand, total liabilities amounted to ¥7,766mn, an increase of ¥642mn y-o-y. Main factor is an increase of ¥543mn in trade payables as a result of an increase in purchases. Net assets amounted to ¥4,503mn, an increase of ¥301mn y-o-y as a result of an increase in retained earnings.

In terms of management index, while equity ratio, which indicates safety, accounting for 36.7% slightly declined y-o-y due to an increase in assets as a result of an increase in sales, trends over the last few years show a clear uptrend. As debt-equity ratio accounted for 1.3%, remaining at low level, the Company's financial health is sound. In terms of profitability index, operating profit margin accounted for approximately 5.0%, remaining stable. ROE and ROA also steadily maintain at high levels. It is noteworthy that ROE, an important screening index for institutional investors, maintains at 20%, which is considered good.

Non-Consolidated Balance Sheet

(¥ million)

	FY3/11	FY3/12	FY3/13	FY3/14	FY9/14	Increase/ Decrease
Current Assets	7,165	8,287	9,326	10,572	11,470	898
Cash and Deposits	2,083	2,231	3,188	3,186	3,126	-60
Inventory	601	531	470	550	917	366
Fixed Assets	554	637	670	752	799	46
Total Assets	7,719	8,924	9,996	11,325	12,269	944
Current Liabilities	4,926	5,609	6,179	6,840	7,427	587
Fixed Liabilities	270	373	275	283	338	55
(Interest-bearing debt)	397	366	192	148	165	18
Total Liabilities	5,197	5,983	6,455	7,123	7,766	642
Net Assets	2,521	2,941	3,541	4,201	4,503	301
MANAGEMENT INDEX						
(Safety)						
Equity Ratio	32.7%	33.0%	35.4%	37.1%	36.7%	
Debt-Equity Ratio	15.8%	12.4%	5.4%	3.5%	3.7%	
(Profitability)						
ROE	15.1%	17.4%	21.1%	20.4%	-	-
ROA	10.1%	10.5%	11.7%	12.3%	-	-
Operating Profit Margin	4.3%	4.4%	4.9%	4.9%	5.0%	

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Net sales to increase in 28 consecutive periods; operating income expected to reach record high

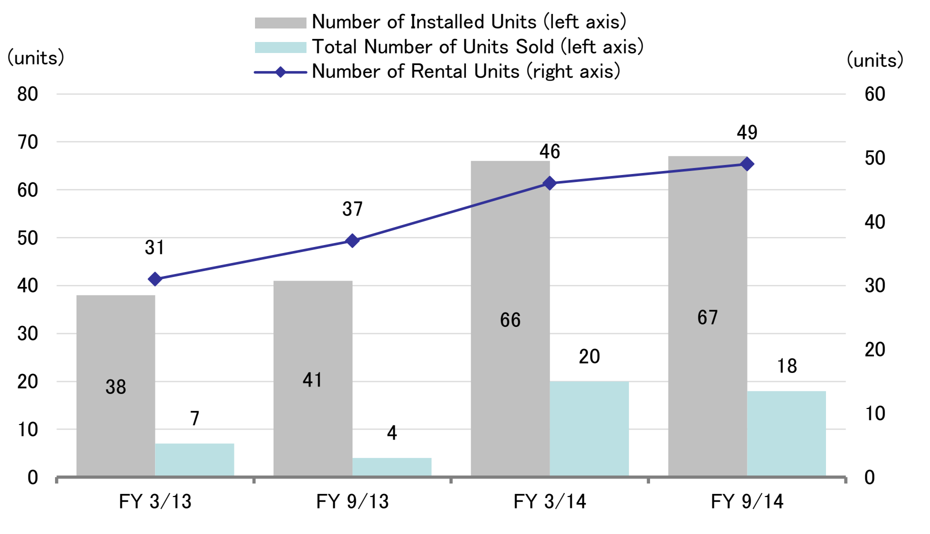
(3) Achievement Forecast for FY3/15

Net sales is expected to be ¥27,583mn, an increase of 4.4% y-o-y; operating income is expected to be ¥1,334mn, an increase of 2.9% y-o-y; recurring profit is expected to be ¥1,333mn, an increase of 1.7%; net income is expected to be ¥838mn, an increase of 6.4%, for FY3/15. The net sales is expected to increase in 28 consecutive periods, and the operating income is expected to reach a record high. While achievement rate up to Q2 accounted for 51.5% in net sales and 53.7% in operating income, exceeding the average over the most recent three years (net sales, 48%; operating income, 50%) respectively, the Company has maintained its original forecast due to an increase of ¥100mn from the first half period in clinical trial expenses as well as remaining currency exchange fluctuation risk in the second half period. However, the Company's current sales remains steadily strong, and, if the exchange rates remained in the range of ¥115/dollar, while losses could be offset by increased revenue, the original forecast could more or less be exceeded.

As for net sales forecast by segment, arrhythmia business is expected to be ¥22,510mn, an increase of 4.2% y-o-y; ischemia business is expected to be ¥4,311mn, an increase of 3.4% y-o-y; and "others" segment is expected to be ¥761mn, an increase of18.3% y-o-y. In the arrhythmia business, an increase in sales of its principal products is expected due to continuously increasing target patients and its enhanced sales force. In normal years, the net sales increases slightly more in the second half period. If the trend continues, it is likely that the original forecast will be exceeded.

In the ischemia business, a steady increase in demand for coronary catheters is expected, and growth in sales of other products including coronary artery stents is expected to continue. A total of 67 units of excimer laser angioplasty system are currently introduced to medical facilities nationwide. As there are 350 target medical facilities available across the country with no competing manufactures, its future trend should be observed. The main device is highly priced and has a great deal of impact sales. However, the downside is that there is an overwhelming shortage of doctors who know how to use the device. The Company is looking to steadily increase the sales of the device while providing workshops to increase the number of doctors with skills to operate the device. The increased adoption of the device will lead to an increase in sales of its related-catheters.

Number of Excimer Laser Units Sold



The laser catheter for treatment of lower peripheral artery, whose clinical trial was initiated in April 2014, is a treatment mainly targeted to obstructive arteriosclerosis; the number of patients with obstructive arteriosclerosis has been increasing steadily over the last few years. As mentioned above, in the first half period, the trial was delayed for 3 months because of shortage of subject patients. The trial is scheduled to complete within the second half period, and, if progressed smoothly, the Company will obtain approval for manufacturing and marketing and launch the product by 2016. The device is currently being used for cardiac lead removal*1 and coronary artery angioplasty*2. If approved for NHI coverage for the treatment of lower peripheral artery, it is expected that demand of the medical facilities for the excimer laser system will increase.

Wider adoption of coronary artery angioplasty by the excimer laser system is expected, as the interest of the device is heightened in the therapy of acute myocardial infarction of whom over 43,000 people die yearly, and also in recurrence therapy for narrowing and embolism after stent placement. There is a risk of amputation in patients with obstructive arteriosclerosis if the condition is worsened, and patients with diabetes are more prone to the disease. For this reason, in the US, the treatment of lower peripheral artery is the most common treatment of all three. It is highly probable that the number of patients with obstructive arteriosclerosis will also increase in Japan, and thus demand for the treatment of lower peripheral artery is expected to increase.

*1 Cardiac lead removal – If devices such as pacemakers and ICDs get infected by germs, there is a risk of spreading infection in the entire body through a lead that connects a device to the heart. To prevent this, the lead needs to be removed from the body, however it was once difficult to perform this task due to adhesion of the heart tissues after long indwelling period. The Company's product enables the lead removal by excimer laser irradiation.

*2 Coronary artery angioplasty – A procedure to decompose a blood clot to a molecule level and improve blood circulation in the case when a coronary artery, which sends blood to the heart, narrows or becomes embolus by the hardened artery or blood clot.

Earnings by Business Segment

(¥ million)

	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15E	Growth Rate
Net Sales						
Arrhythmia Business	14,688	16,580	18,830	21,607	22,510	4.2%
Ischemia Business	2,918	3,210	3,477	4,169	4,311	3.4%
Others	393	695	564	643	761	18.3%
Total	18,000	20,487	22,872	26,420	27,583	4.4%
Segment Income						
Arrhythmia Business	2,237	2,443	2,642	3,172		
Ischemia Business	1,151	1,215	1,369	1,405		
Others	36	68	77	83		
Common Costs	-2,645	-2,834	-2,964	-3,364		
Gross Profit	3,425	3,727	4,089	4,661		
Segment Profit Rate						
Arrhythmia Business	15.2%	14.7%	14.0%	14.7%		
Ischemia Business	39.5%	37.9%	39.4%	33.7%		
Others	9.2%	9.8%	13.7%	13.0%		
Gross Profit Rate	19.0%	18.2%	17.9%	17.6%		

*The total of segment income is equal to the gross profit on the statement of income.

■ Medium/Long Term Strategy

Promoting to Develop Nationwide Distributorship and Explore New Products

(1) Medium Term Strategy

The Company released a medium/long term management strategy in May. First, on a medium term strategy based on a period of roughly 3 years, it will divide its business into two categories, "distributor business" (arrhythmia business and other business) and "importer business" (ischemia business), and focus its efforts to strengthen each business portfolio.

○ Distributor Business

The Company will focus on establishing a nationwide network of distributorship and expand the area of operation. The strategy to expand its sales area starts when a doctor who is its client gets transferred and relocates. The Company will open its new sales office near the location where the doctor relocates to and continues its business at a new location. In rural areas, there is no competitor who has more sales skills, product knowledge and technical information on medical devices or support capabilities than them, and this is how the Company expands its sales area while it develops new customers. Although potential new areas include Southern Kyushu, Shikoku and Japan Sea coastal area north of Fukui Prefecture as well as Chiba Prefecture in metropolitan area, the development will be carefully considered to suit its customers' needs.

As for market area, other than the arrhythmia area, the Company will focus on "ischemia and neurosurgery" area. There is a neurosurgery-related department which the Company acquired through M&A of medical trade house located in Shizuoka in 2010 but the scale of sales is not large. However, as mentioned above, sales of ischemia and neurosurgery-related products has started show growth from this period, and its efforts including enhancement of its sales personnel are leading to results. The Company's objectives include building a solid earnings base as well as power to survive the revision of medical treatment fee every 2 years by expanding the market area and accelerating earnings growth by expanding market share in new sales area.

In addition, it is significant to focus on personnel training to further strengthen the Company's technical sales capabilities, which is its forte. Since Mr. Shigeru Chiba, formerly a director of an international medical device manufacturer, was appointed as a vice president of the Company in April 2013, he has led the Company's training programs that are now more focused on practical role playing, and they are already showing the results on the sales front.

○Import Exclusive Agency Business

For the import exclusive agency business, the Company further continues to explore new products in order to expand the product pipeline in a more aggressive manner. Vice president has directly organized and led a team. By skillfully leveraging his overseas network he has built over the years of working at an international medical device manufacturer, he explores new products while accommodating the needs of the Company's sales personnel on the site. Targets must be domestically marketable, have no competition or have potential for high market share upon launching and not compete with the products of the Company's existing suppliers.

Aggressively expands growth, pursuing possibilities to diversify in medical device sector

(2) Long Term Vision

The Company aims to become the No. 1 medical device dealer in sales, by pursuing possibilities to further diversify in the next decade. Its perspective also includes entering the sector of "medical device manufacturer". Subject area must create great synergy with its existing businesses and be where its strengths can be put to use even as a new comer. When entering a new area, it will take a form of acquiring an existing manufacture through M&A, and the location of the target company will not be limited to Japan.

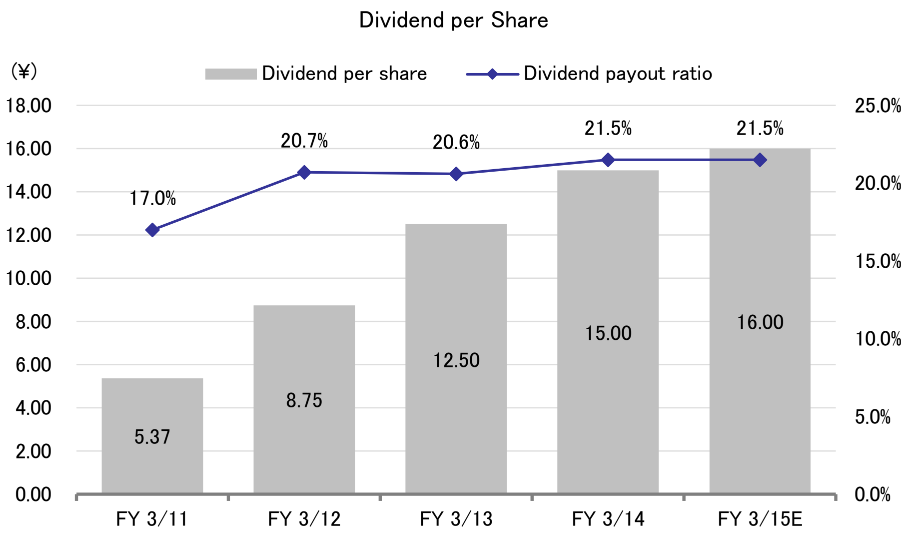
While the Company has no specific goals in connection with management index, based on above medium/long term strategy, it is certain that the Company will evolve from a company that aims for steady growth into a company that will aggressively challenge to grow and expand. The Company is planning to invest more management resources into its import exclusive agency or importer business. Thus attention must be paid to its future activities.

Shareholder Return Policy

Maintains stable payout with substantial increase, based on dividend payout ratio of 20%

The Company's dividend policy emphasizes stable dividends based on dividend payout ratio of 20%. Over the last few years, the Company has performed stock split, consecutive payout and enhancement of shareholder benefit, aiming to be listed on TSE first section. The Company's management has actively made efforts to return earnings to shareholders. As a result, the number of shareholders has expanded ten-fold. Since it was listed in 2007, the Company has continued to substantially increase the payout as its operational performance grew. In this FY3/15, the Company plans to pay an ordinary dividend of ¥15, an increase of ¥1 y-o-y, adding a commemorative dividend of ¥1 for listing on TSE first section, totaling a ¥16. For the ordinary dividend, dividend payout ratio accounts for 20.2%, and thus if the original forecast is exceeded, it is likely that there will be an increase in payout.

As part of shareholder benefit, the Company awards Quo cards (prepaid gift card) to its shareholders, as of the end of March (a card that is equivalent to ¥1,000 will be awarded to those with at least 100 shares but less than 200 shares; a card that is equivalent to ¥2,000 will be awarded to those with 200 shares or more.) A total return, including shareholder benefit, on investment accounted for 2%.



* The Company implemented 2 for 1 stock splits on October 1, 2011, October 1, 2012 and April 1, 2014. Per share data have been adjusted for these stock splits retroactively.

■ Shareholder Return Policy

Non-Consolidated Income Statement

(¥ million, %)

	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15
Net Sales	18,000	20,487	22,872	26,420	27,583
(Y-o-y)	14.0	13.8	11.6	15.5	4.4
Cost of Sales	14,575	16,759	18,782	21,759	
(Cost-of-sale ratio)	81.0	81.8	82.1	82.4	
Expenses	2,645	2,834	2,964	3,364	
(Expenses/cost ratio)	14.7	13.8	13.0	12.7	
Operating Income	779	892	1,124	1,297	1,334
(Y-o-y)	17.9	14.5	26.0	15.3	2.9
Margin	4.3	4.4	4.9	4.9	4.8
Recurring Profit	784	873	1,106	1,310	1,333
(Y-o-y)	17.3	11.3	26.7	18.5	1.7
(Cost-of-sale ratio)	4.4	4.3	4.8	5.0	4.8
Profit before tax	611	867	1,104	1,307	
(Y-o-y)	-0.1	41.9	27.3	18.4	
(Cost-of-sale ratio)	3.4	4.2	4.8	4.9	
Income taxes	254	391	421	519	
(Effective tax rate)	41.6	45.1	38.2	39.7	
Net Income	357	476	682	788	838
(Y-o-y)	9.9	33.3	43.4	15.5	6.4
(Cost-of-sale ratio)	2.0	2.3	3.0	3.0	3.0
[Main Index]					
Total number of the issued shares (1,000 shares)	11,280	11,280	11,277	11,277	11,277
Earnings per share (¥)	31.66	42.21	60.54	69.92	74.37
Dividend per share (¥)	5.38	8.75	12.50	15.00	16.00
Net assets per share (¥)	223.61	260.83	314.05	372.55	-
Dividend payout ratio (%)	17.0	20.7	20.6	21.5	21.5
ROE (%)	15.1	17.4	21.1	20.4	-

Disclaimer