

TRUSCO Nakayama (9830)

Parent Fiscal Year (Million Yen)	Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2010	99,201	3,745	3,665	1,607	48.8	20.0	2,230
FY03/2011	115,477	5,479	5,378	2,874	87.2	22.0	2,296
FY03/2012CoE	130,000	8,400	8,300	3,640	110.4	32.5	-
FY03/2011	YoY	(3.4%)	46.3%	46.7%	78.7%	-	-
FY03/2012CoE	YoY	12.6%	53.3%	54.3%	26.6%	-	-
Parent Q1 to Q3 (Million Yen)	Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY03/2011	83,524	3,689	3,632	2,033	-	-	-
Q1 to Q3 FY03/2012	94,152	5,642	5,617	2,478	-	-	-
Q1 to Q3 FY03/2012	YoY	12.7%	52.9%	54.7%	21.9%	-	-
Parent Quarter (Million Yen)	Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY03/2012	29,750	1,587	1,581	887	-	-	-
Q2 FY03/2012	31,126	1,886	1,882	1,050	-	-	-
Q3 FY03/2012	33,276	2,169	2,154	541	-	-	-
Q4 FY03/2012CoE	35,848	2,758	2,683	1,162	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (4 April 2012)

Supporting Disaster Recovery

Prospective earnings with TRUSCO Nakayama are to be firm, due to its distinguished conveniences offered to its customers. The Company supplies Japan's manufacturers etc. with diversified items, as a wholesaler, dealing in registered items as many as 972,000, mainly comprising tools, consumables, machineries, etc. to be used in factories and outdoor work. These items are always delivered to customers so quickly through the Company's own efficient delivery systems, across the nation, and this contributes to production activities by Japan's manufacturing industry to a large extent.

In Q1 to Q3 FY03/2012, sales came in at ¥94.3bn (up 12.7% YoY) and operating profit ¥5.6bn (up 52.9%). Driven by steady increases in sales, the Company nicely saw volume effects. Major contributors to sales increases were recovery of demand associated with auto industry and increases of demand for disaster recovery (associated with East Japan Earthquake). Recent trading suggests the strengths have been persisting, in a respect that aggregated sales by February rose 12.9% YoY, and growth like this was persisting in March, while likely persisting in FY03/2013.

The most recent management plan calls for prospective sales ¥135.0bn (up 3.8% YoY) and operating profit ¥9.6bn (up 14.3%) in FY03/2013, in which increasing demand associated with disaster recovery appears not to have been fully incorporated. Thus, prospective earnings here are likely exceeded in reality. In the history, the Company used to see sales in line with the trends of Industrial Production in Japan, but recent trading

suggests that the Company has been doing better than the trends. It appears that the Company's original and unique strengths on "inventory", "catalogue" and "distribution" are all well utilized in efficiently coping with disaster-recovery-related demand, which is now increasing faster than the previous assumptions.

2.0 Company Profile

Infrastructure Company to Support Manufacturers

Company Name	TRUSCO NAKAYAMA CORPORATION Company Website IR Information (Japanese) Share Price	
Established	2 March 1964	
Listing	22 March 1989 (Tokyo Stock Exchange 1 st Section: Ticker 9830)	
Capital	¥5,022m (as of the end of December 2011)	
No. of Shares	33,004,372 shares, including 23,847 treasury (as of the end of December 2011)	
Main Features	<ul style="list-style-type: none"> ● Wholesaling tools, consumables, machineries etc. to be used in factories and outdoor work (which are collectively referred to as PRO TOOL by the Company) ● Supplying them also with home centers, while enhancing PB-brand items 	
Businesses	I . Factory Division II . Home Center Division III . Other	
Top Management	President: Tetsuya Nakayama	
Shareholders	Nakayama Kosan Ltd.11.0%, Daido Shoji 8.2% (as of the end of September 2011)	
Headquarters	Nishi-ku, Osaka, JAPAN	
No. of Employees	Parent: 1,189 (as of the end of December 2011)	

Source: Company Data

3.0 Recent Trading & Prospects

Q1 to Q3 FY03/2012 Results

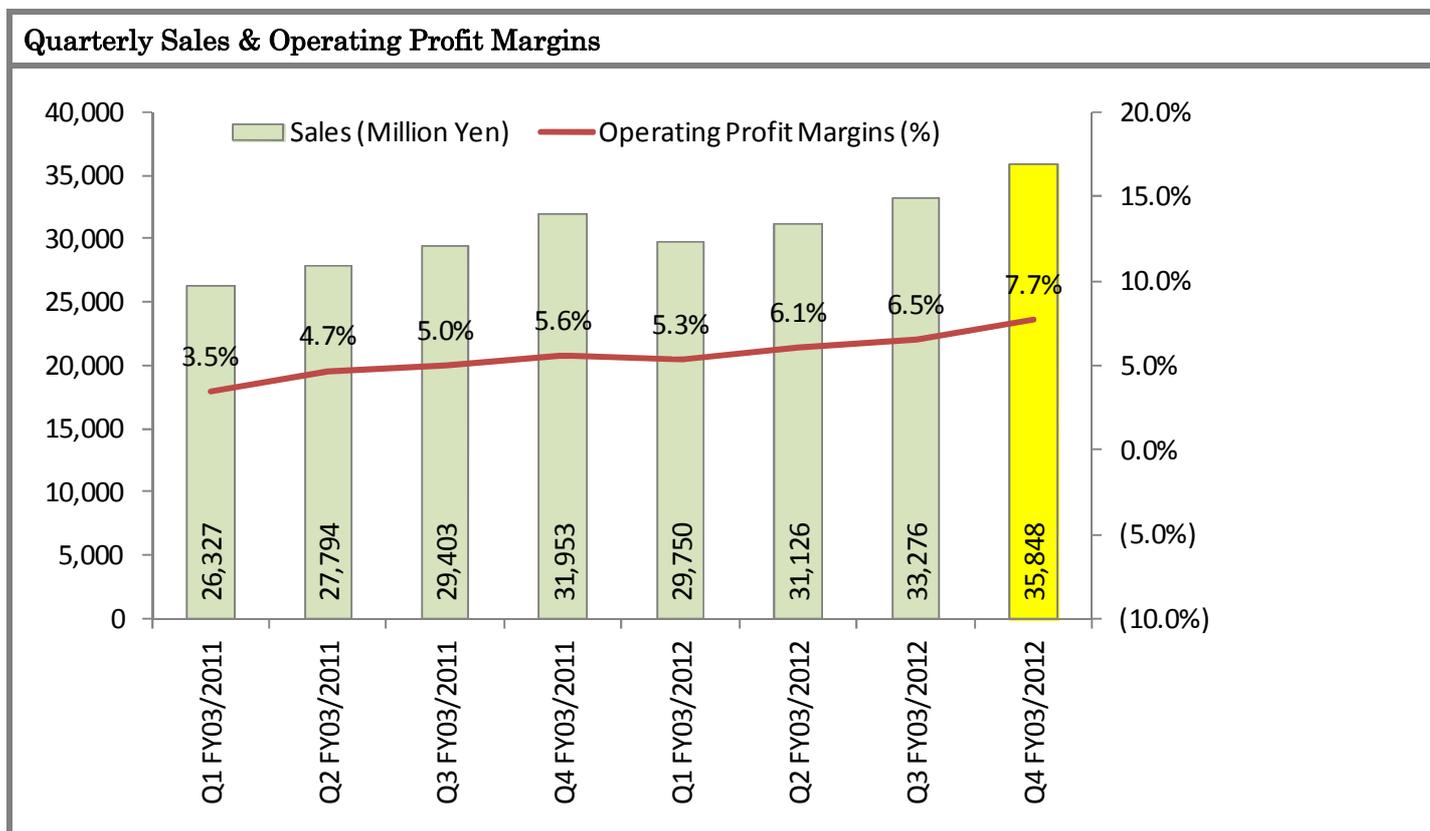
In Q1 to Q3 FY03/2012, sales came in at ¥94.2bn (up 12.7% YoY), operating profit ¥5.6bn (up 52.9%), recurring profit ¥5.6bn (up 54.7%) and net profit ¥2.5bn (up 21.9%). Sales were driven mainly by recovery of domestic production activities, those of auto industry in particular, and by increasing demand from industries associated with disaster recovery. Another driver was increasing penetration of the Company's e-commerce systems among customers. Order placement by WEB TRUSCO, combined with other systems on the web, increased to ¥38.6bn (up 22.5% YoY), having accounted for 41.0% of total. Gross profit margins remained unchanged from the previous year at 20.4%, while SG&A expenses rose only 1.6% YoY, having led to favorable expansion of earnings at the operating levels, given steady sales increases. Still, earnings at the net levels were negatively affected by generation of extraordinary costs ¥0.6bn for writing down value of existing building on the site where Nagoya branch is to be built

As of the end of Q3 FY03/2012, total assets stood at ¥92.2bn, net assets ¥77.3bn, shareholders' equity ratio

83.8%, net cash ¥12.6bn (no debts), and thus the Company held rich excess cash. The Company has a basic policy to carry out investments to the extent that should be smaller than operating cash inflow, implying further increases in cash in the future. In Q1 to Q3, the Company saw net outflow ¥0.9bn in free cash flow, but this is due mainly to seasonal factors, while the Company is expected to see some net inflow on a full-year basis.

FY03/2012 Company Forecasts

In FY03/2012, Company Forecasts are going for sales ¥130.0bn (up 12.6% YoY), operating profit ¥8.4bn (up 53.3%), recurring profit ¥8.3bn (up 54.3%), net profit ¥3.6bn (up 26.6%) and earnings per share ¥110.4, while dividend per share is expected to be ¥32.5, implying payout ratio 29.4%. When EPS is beyond ¥80.0, the Company is to pay out 25% of EPS as its policy, while dividend is fixed at ¥20.0 per share when EPS do not reach ¥80.0. As for FY03/2012, payout ratio is expected to be meaningfully higher than the policy rates, based on an idea that the aforementioned extraordinary costs should be deleted in setting DPS as it is literally extraordinary. Meanwhile, monthly sales came in at ¥9.9bn (up 10.9% YoY) in January and ¥11.7bn (up 15.9%) in February, implying the strengths in sales are persisting in Q4.



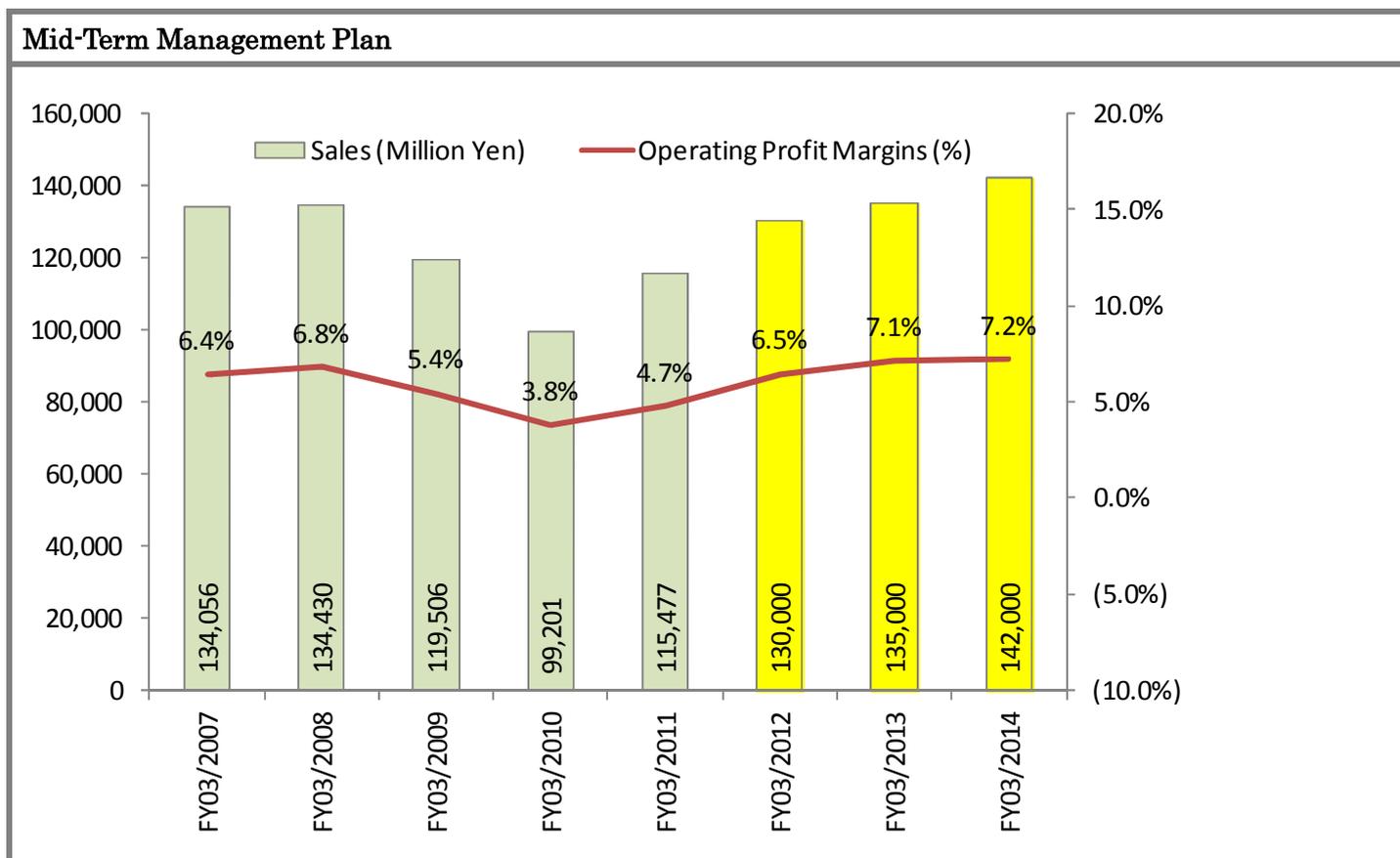
Source: Company Data, WRJ Calculation

Long-Term Prospects

According to the Company's Mid-Term Plan (updated on 31 January 2012, FY03/2012 to FY03/2014), the Company is to achieve sales ¥142.0bn, operating profit ¥10.2bn and operating profit margins 7.2%, compared with ¥115.5bn, ¥5.5bn and 4.7%, respectively, in FY03/2011. When the plan was originally set up, sales ¥128.0bn, operating profit ¥8.0bn and operating profit margins 6.3% were expected in FY03/2012, but they have been upgraded to date: ¥130.0bn, ¥8.4bn and 6.5%, respectively. Prospects for FY03/2013 and FY03/2014 have remained unchanged so far, but recent trading suggests that the existing prospects in

FY03/2013 are likely exceeded in reality.

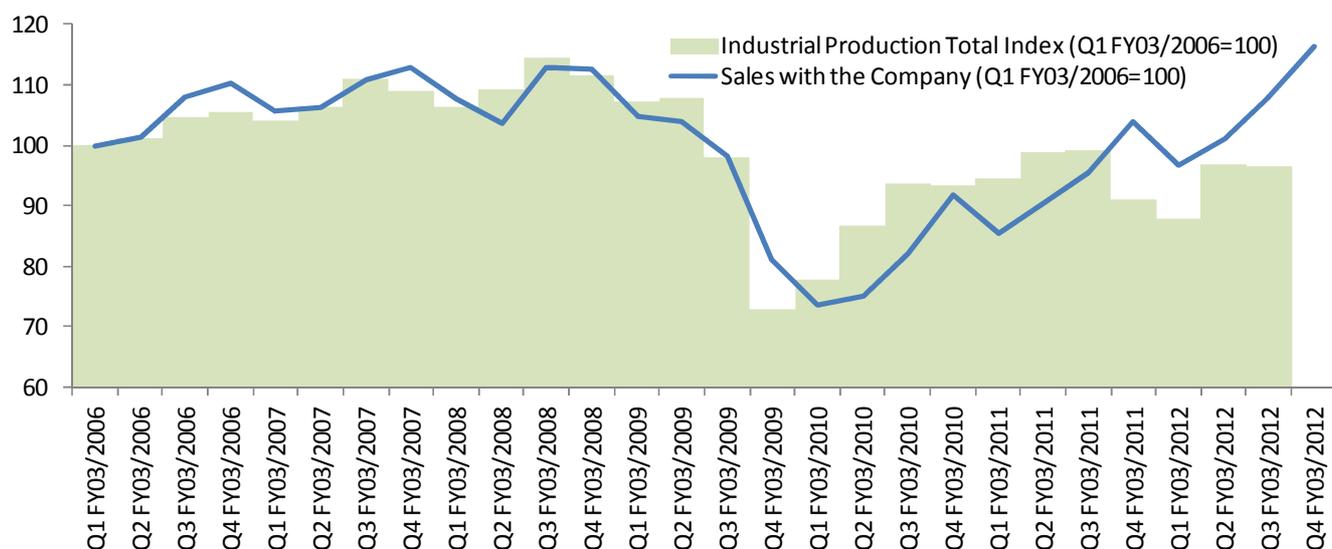
As for FY03/2012, prospective sales were upgraded by ¥2.0bn and thus the levels of prospective earnings to this extent. It is presumed that the key factor for sales upgrade was that scale of demand associated with disaster-recovery-related industries turned out to be larger than assumptions (¥3.0bn to ¥4.0bn pa). This trend is likely continuing into FY03/2013, but this has not been fully incorporated in the existing prospective numbers in FY03/2013.



Source: Company Data, WRJ Calculation

The Company's main operations relate to supply diversified PRO TOOL (tools, consumables, machineries etc.) with Japan's manufacturers etc. as an "infrastructure company to support manufacturers". In the history, this used to result in trends of sales with the Company were roughly in line with those of Industrial Production in Japan. Over the past four quarters in a row, however, the trends have changed in that sales with the Company have continued outperformed Industrial Production in Japan and this is likely accelerating in Q4 FY03/2012. It appears that the changes are associated with the Company's capability to efficiently and quickly cope with increasing disaster-recovery-related demand.

Industrial Production in Japan and the Company's Sales (Q4 FY03/2012 by Company Forecasts)



Source: Ministry of Economy Trade and Industry Statics, Company Data, WRJ Calculation

4.0 Business Model

PRO TOOL Company

The Company is in charge of wholesaling tools, consumables, machineries etc. to be used in factories and outdoor work. Diversified products like these, indispensable at the sites of Monodzukuri are collectively referred to as “materials for factories etc.” or “PRO TOOL” by the Company. Together with corporate mottos, “as soon as possible”, “exactly what is demanded”, “exactly as many as demanded”, the Company procures 972,000 items (in terms of the number of registrations) from 1,921 suppliers, while holding 166,100 items as inventory in own 15 distribution centers, across the nation, as well as in some branches. On top of this, the Company issues “The Orange Book”, which is paper-medium catalogue that incorporates 178,000 items with inventory items as the core constituents. The Company’s private-brand products, collectively 26,700 items, are all listed here in “The Orange Book”. In each category, the number of items has been increasing year by year and will continue do so in the foreseeable future, so that the levels of conveniences for own customers should be more pursued, according to the Company’s plan.

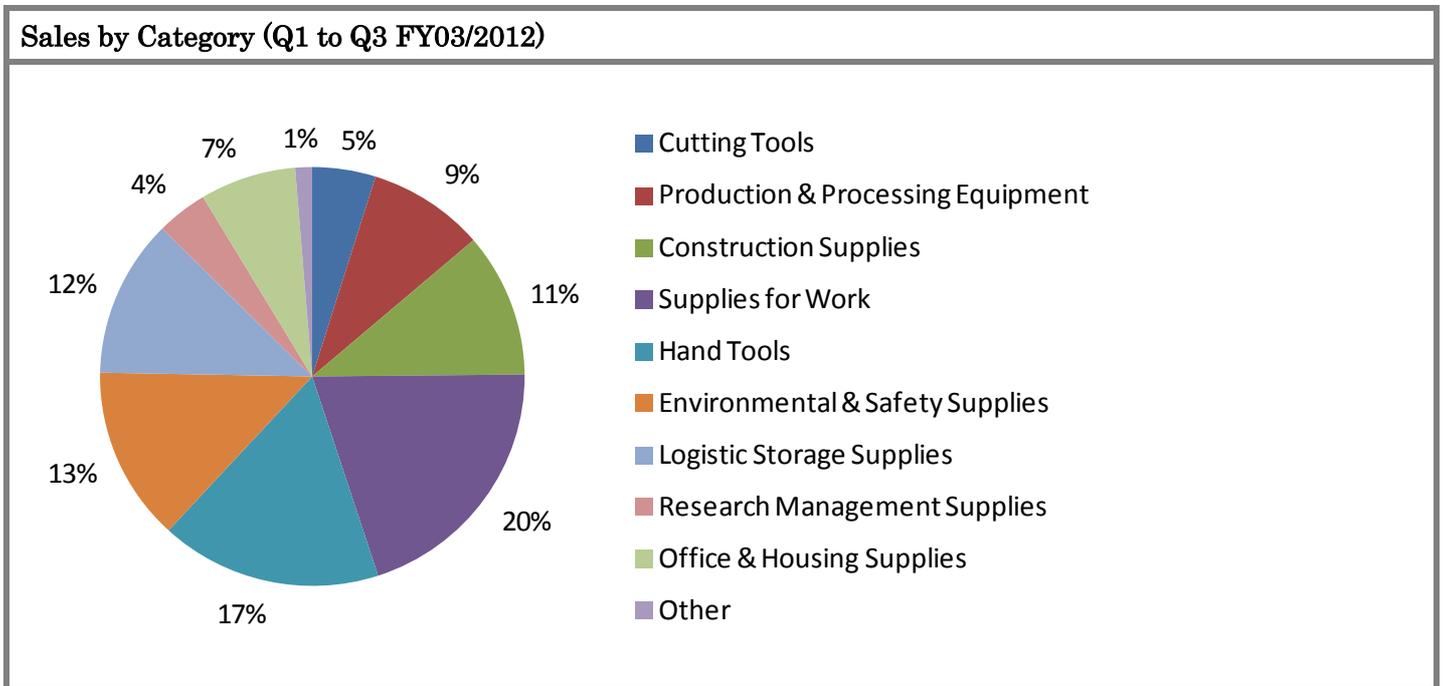
Segmented Information

(Million Yen)	FY03/2011 Q1 to Q3	FY03/2012 Q1 to Q3
Factory Division	75,568	85,387
Home Center Division	7,842	8,486
Other	114	278
Sales	83,524	94,152
Factory Division	3,827	5,525
Home Center Division	(146)	21
Other	(48)	32
Adjustments	-	38
Operating Profit	3,632	5,617

Source: Company Data, WRJ Calculation

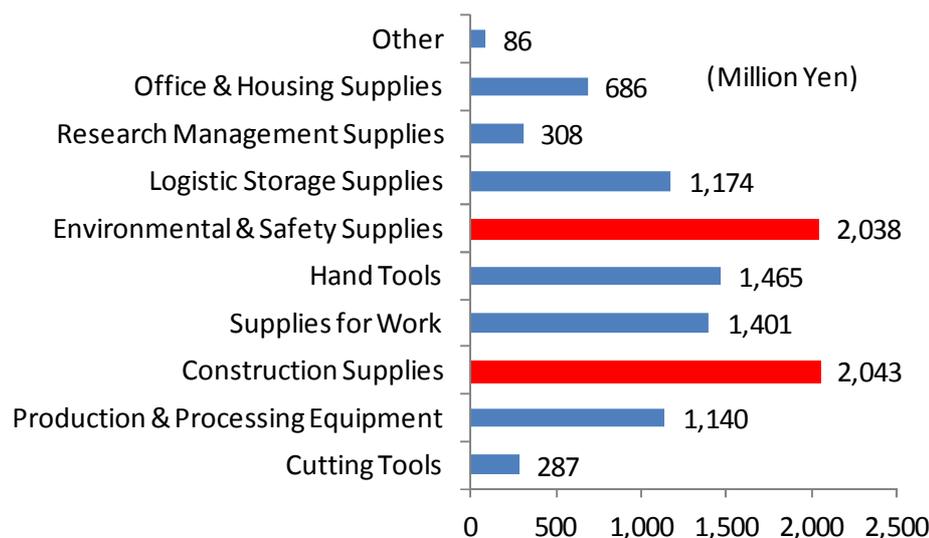
Meanwhile, the main customers with the Company are retailers of PRO TOOL as many as 5,186, comprising sales agents for manufacturers (3,498) and those for outdoor-work-related operators (1,688). In the segmented information, the businesses here are referred to as Factory Division. In terms of Q1 to Q3 FY03/2012 results, this division or segment accounted for the bulk of overall operating profit with the Company. The Company is also involved with wholesaling to home centers and this business is included in Home Center Division.

Standing on a viewpoint that they are involved with wholesaling of the same kinds of products as the Company, Yuasa Trading (8074) and Yamazen (8051) may be mentioned as competitors with the Company, and they see roughly tripled sales compared with the Company. Still, the Company is estimated to hold the best capability to pursue conveniences among customers, based on the corporate mottos, having improved efficiency and capacity for own distribution systems as well as having enhanced quick delivery functionalities for so many years.



Source: Company Data, WRJ Calculation

Net Increases in Sales by Category (Q1 to Q3 FY03/2012, Year-on-Year)



Source: Company Data, WRJ Calculation

With regards to recent trading, “Environmental & Safety Supplies” and “Construction Supplies”, by category, are contributing most significantly to net sales increases with the Company. Both categories include many products associated with disaster-recovery-related demand, and thus sales trends here confirm that one of the key factors for overall sales increase is that disaster-recovery-related demand is picking up. The Company copes with picking up demand like this so efficiently, together with own expertise that has been discussed so far, and will continue doing so in the foreseeable future.

7

The Company’s IR contact

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Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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