COMPANY RESEARCH AND ANALYSIS REPORT

TOKAI Corp.

9729

Tokyo Stock Exchange Prime Market

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Summary

A comprehensive healthcare company that continues to grow in the fields of medical care and nursing care while also contributing to the environment through rental and other businesses

The three main segments of TOKAI Corp. <9729> (hereafter "TOKAI" or "the Company") are Healthcare Services, Pharmacy Services, and Environmental Services. TOKAI aims to progress continuously as a comprehensive health-care company catering to a super-aging society, utilizing its strengths in both the medical care and nursing care business fields.

1. Overview of FY3/22 results

In FY3/22 consolidated results, sales increased 4.6% year on year (YoY) to ¥123,484mn, and operating profit increased 13.1% to ¥8,252mn, which were record highs for the first time in two years. Sales and profits increased in all segments. In Healthcare Services, bedding and linen supply services for lodging facilities and the cleaning equipment manufacturing business fell short of projections as the impact of COVID-19 was more prolonged than anticipated at the start of the term, but this was offset by growth in hospitalization sets and elderly care equipment. In Pharmacy Services, sales and profits increased owing to the number of prescriptions increasing as a result of new pharmacy openings and to an increase in technical fee unit prices. Environmental Services also performed well thanks in part to hospital cleaning services earning contracts to clean hospital beds reserved for COVID-19 patients.

2. Forecasts of FY3/23

For its FY3/23 consolidated results, the Company is forecasting net sales to increase 5.5% YoY to ¥130,307mn and operating profit to decrease 5.7% to ¥7,782mn. It expects net sales to continue to increase as a result of cleaning- and health-related needs increasing in the current environment, which continues to be marked by COVID-19, and linen supply and bedding rental services for hotels and Leasekin continuing to recover. On the other hand, on the profit side, the Company is projecting a decline due to increased expenses from rising energy costs as well as to increased depreciation costs (up ¥634mn YoY) associated with active investment for medium-term growth. The impact of changes in dispensing fees in FY3/22 on the Company's results was negligible, and the Company is expecting sales and profits in Pharmacy Services to continue to increase.

3. The medium-term management plan

The Company's four-year medium-term management plan, "Challenge for the New Stage!," which started in FY3/22, sets numerical management targets for FY3/25 of net sales of ¥140bn and operating profit of ¥9.5bn. It plans to increase sales by expanding market share in existing businesses and increasing sales of strategic products, among other initiatives, and the Company also intends to raise its operating margin from 6.2% in FY3/21 to 6.8% by promoting digital transformation (hereafter, "DX") to improve work efficiency and productivity. The Company plans to make capital investments of ¥25bn, including new plant construction, over four years, and build a business foundation for medium- to long-term growth. There is a need in society today to build Community-based Integrated Care Systems for the super-aging society, and, for the Company, which develops business in the fields of medical care and nursing care, this is an opportunity for further business expansion.

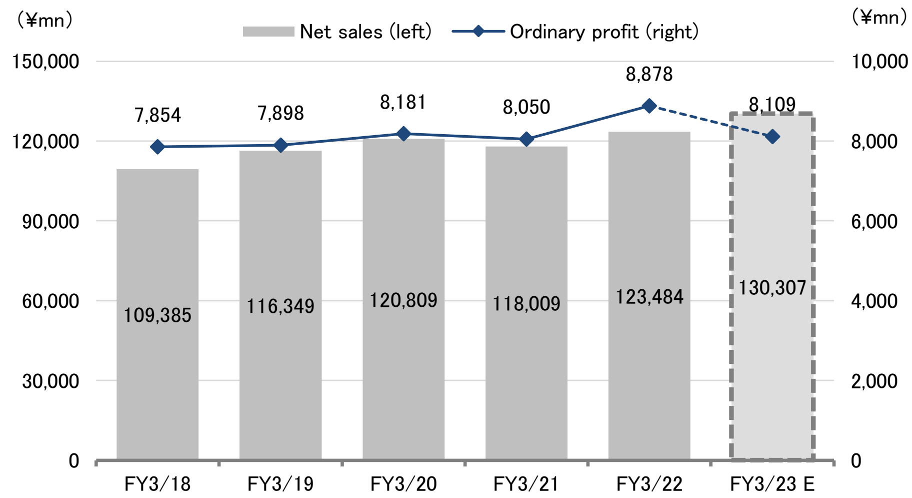
4. Shareholder return policy

For its shareholder return policy, from FY3/22, the Company targets a dividend payout ratio of 25%. In FY3/22, it increases the dividend per share by ¥12.0 YoY to ¥42.0 (dividend payout ratio, 25.5%), and plans to increase the dividend per share by ¥1.0 YoY to ¥43.0 (dividend payout ratio, 25.3%) in FY3/23. The Company will also flexibly and appropriately consider share buybacks depending on the level of its stock price.

Key Points

- In FY3/22 results, sales and profits increased in all businesses, and net sales, operating profit, and ordinary profit set record highs
- In FY3/23, the Company will make upfront investment to build a foundation for sustained growth
- Since its founding, the Company has contributed to the SDGs through its rental businesses, which are helping reduce waste and realize a recycling-based society

Trends in consolidated results



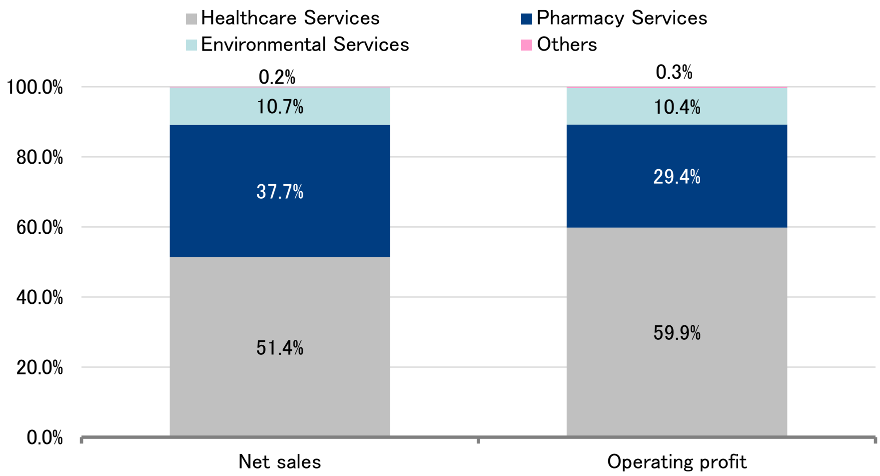
Source: Prepared by FISCO from the Company's financial results

Business overview

TOKAI's earnings pillar is the healthcare business that combines Healthcare Services and Pharmacy Services

The Company, whose headquarters is in Gifu Prefecture, conducts businesses on the axis of three business segments: Healthcare Services, Pharmacy Services, and Environmental Services. In percentages of results by segment, the healthcare business, which is the combination of Healthcare Services and Pharmacy Services, provides just under 90% of net sales and operating profit.

Percentage of results by business segment (FY3/22)



Note: Operating profit is presented prior to elimination of internal transactions
Source: Prepared by FISCO from the Company's financial results

1. Healthcare Services

Healthcare Services include Hospital Services (medical-related consignment services such as linen supply, nursing assistance, and distribution management for medical institutions and nursing care facilities), bedding and linen supply services (linen supply and bedding rental services for hotels and other lodging facilities), Elderly Care Equipment Business(rental and sales of elderly care equipment), Food Supply Services (for medical institutions and nursing care facilities), cleaning equipment manufacturing, and sub-franchising business for Aqua Clara, which delivers water to homes.

In this segment, Hospital Services and bedding and linen supply services provide 50% to 60% of sales. Linen supply services to hospitals, nursing facilities, and lodging facilities are provided in the Tohoku, Kanto, Chubu, Kansai, Chugoku, and Shikoku areas of Japan. The Company is the second largest provider of these services to hospitals and nursing care facilities in Japan, after industry-leader Watakyu Seimoa Corporation. A key strength of the Company's Hospital Services is the ability to provide a one-stop source of medical-related services, including linen supplies, nursing assistance, and distribution management within hospitals.

The Elderly Care Equipment Business, which contribute more than 30% of this segment's sales, involves the rental and sales of elderly care equipment, such as electric beds and wheelchairs, based on the Long-Term Care Insurance System. For direct rental business, it can be seen competing with industry leaders such as FRANCE BED HOLDINGS Co., Ltd. <7840> and Panasonic AGE-FREE Co., Ltd. (a subsidiary of Panasonic Holdings Corporation <6752>). At the end of May 2022, Elderly Care Equipment Business were provided from Tohoku to Kyushu, covering metropolitan areas where the population of the elderly is expected to grow, with a sales network included 73 branches or offices, 7 maintenance centers (including consolidated subsidiaries' bases). TOKAI's market share in this business varies by region. In Shikoku, it is relatively high, around 30%. In the three metropolitan areas of Greater Tokyo, Greater Osaka and Greater Nagoya, it is about 5 to 10%, leaving room to expand its presence. The Company works closely with care managers in each region to provide highly tailored services. In addition, it has aimed to utilize its relationships with medical institutions and has been building a route to receive patients discharged from them, thereby increasing user numbers. Through this strategy, it continues to grow at a rate higher than the market as a whole. By working to increase share in regions utilizing M&A and other measures, it is aiming to establish a position as the "Japan's No. 1 provider of elderly care equipment rentals."

Looking at the FY3/22 results, the majority of sales and profits were provided by three businesses; Hospital Services, bedding and linen supply services, and Elderly Care Equipment Business. Of these, the profitability of the Elderly Care Equipment Business is the highest.

2. Pharmacy Services

In the Pharmacy Services segment, consolidated subsidiary Tanpopo Pharmacy Co, Ltd., operates dispensing pharmacies in Tokai, Hokuriku, Kansai, and Shikoku areas. It was operating 145 pharmacies at the end of March 2022. Expanding the number of stores through organic growth in principle and specializing in opening stores in front of large hospitals. Therefore, it is maintaining a profit margin at the highest level in the industry. In recent years, in the Japanese government's Vision for Patient-centered Pharmacies, dispensing pharmacies are being required more than ever before to function as local communities' family pharmacies. So, the Company's policy is to diversify the formats of the pharmacies that it opens and to improve their functions as local communities' family pharmacies, and also to contribute to medical care in local communities by training highly specialized pharmacists.

3. Environmental Services

The Environmental Services segment mainly consists of Leasekin business and cleaning business. It handles the Leasekin service of franchising the sale and rental of mops, mats, and other environment beautification products mainly to offices, stores, and homes under the Leasekin brand. The Leasekin service has about 1,000 franchisees nationwide, including regional head offices and agencies. In this service, TOKAI ranks second in Japan, after DUSKIN CO., LTD. <4665>. It is currently focusing on products peripheral to toilets in order to differentiate itself. In cleaning business, it provides cleaning and management services on a consignment basis to buildings, and in recent years, it has focused on provision of advanced cleaning services to prevent infections within medical institutions. Cleaning at medical institutions and nursing care facilities already generates a majority of sales. This segment also engages in electricity sales business through solar power generation.

4. Other Services

Other Services include the provision of management information by the consolidated subsidiary Japan Intelligence Mart.

Results Trends

In FY3/22 results, sales and profits increased in all businesses, and net sales, operating profit, and ordinary profit set record highs

1. Overview of FY3/22 results

In FY3/22 consolidated results, sales and profits both increased, with net sales increasing 4.6% YoY to ¥123,484mn, operating profit increasing 13.1% to ¥8,252mn, ordinary profit increasing 10.3% YoY to ¥8,878mn, and net profit attributable to owners of parent increasing 5.9% YoY to ¥5,806mn. Net sales, operating profit and ordinary profit achieved record highs for the first time in two years.

With COVID-19 becoming more protracted than initially expected, bedding and linen supply services for lodging facilities and the cleaning equipment manufacturing business experienced only limited recoveries. On the other hand, with demand increasing for at-home nursing care, Elderly Care Equipment Business performed well, and there was also sales growth in hospitalization sets*1 and NEXSURG*2, and cleaning service contracts were earned for hospital beds reserved for COVID-19 patients, and these factors resulted in increased sales and profits in all business segments.

*1 Hospitalization set: A set of commodities rented at a fixed daily charge when people are hospitalized, including towels, day wear, sleepwear (pajamas), underwear, toothbrush, and body soap.
*2 NEXSURG: A surgical linen reuse system that TOKAI pioneered and commercialized. The key advantages of this system are that it offers lower medical waste disposal costs and environmental impact than those of regular disposable offerings.

In addition, owing to the contribution to earnings of products and services for which demand increased due to COVID-19, both sales and profits wound up above the Company's projections. In the Company's business segments, profits were generally in line with projections in Pharmacy Services and above projections in Healthcare Services and Environmental Services.

FY3/22 consolidated results

(¥mn)

	FY3/21		FY3/22				
	Results	Vs. sales	Forecasts	Results	Vs. sales	YoY	Vs. forecasts
Net sales	118,009	-	123,160	123,484	-	4.6%	0.3%
Cost of sales	88,628	75.1%	-	92,503	74.9%	4.4%	-
SG&A costs	22,086	18.7%	-	22,729	18.4%	2.9%	-
Operating profit	7,294	6.2%	7,732	8,252	6.7%	13.1%	6.7%
Ordinary profit	8,050	6.8%	8,067	8,878	7.2%	10.3%	10.1%
Extraordinary loss	-107	-	-	-230	-	-	-
Net profit attributable to owners of parent	5,481	4.6%	5,315	5,806	4.7%	5.9%	9.2%

Source: Prepared by FISCO from the Company's financial results

Results by segment

(¥mn)

		FY3/21 Results	FY3/22			
			Forecasts	Results	YoY	Vs. forecasts
Healthcare	Net sales	60,631	63,571	63,517	4.8%	-0.1%
	Operating profit	5,403	6,042	6,312	16.8%	4.5%
Pharmacy	Net sales	44,098	46,183	46,561	5.6%	0.8%
	Operating profit	3,006	3,116	3,097	3.0%	-0.6%
Environmental	Net sales	13,072	13,219	13,194	0.9%	-0.2%
	Operating profit	944	896	1,101	16.6%	22.8%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

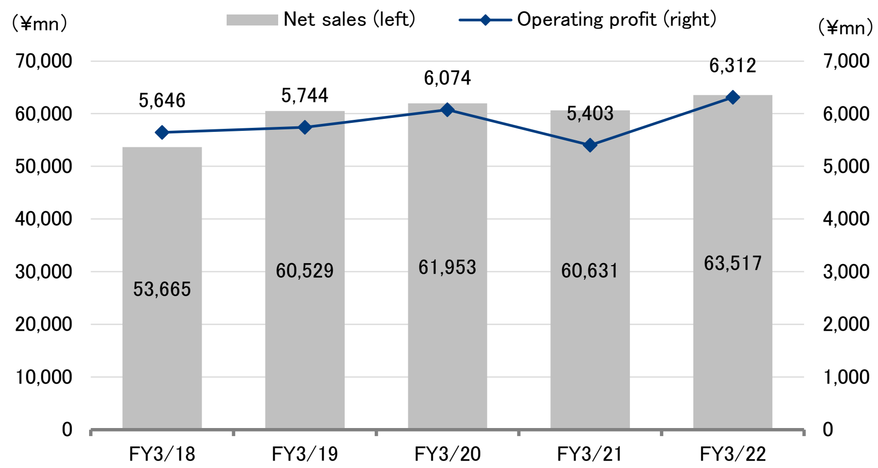
Sales and profits increased in all business segments; record high sales in Healthcare Services and Pharmacy Services

2. Result trends by segment

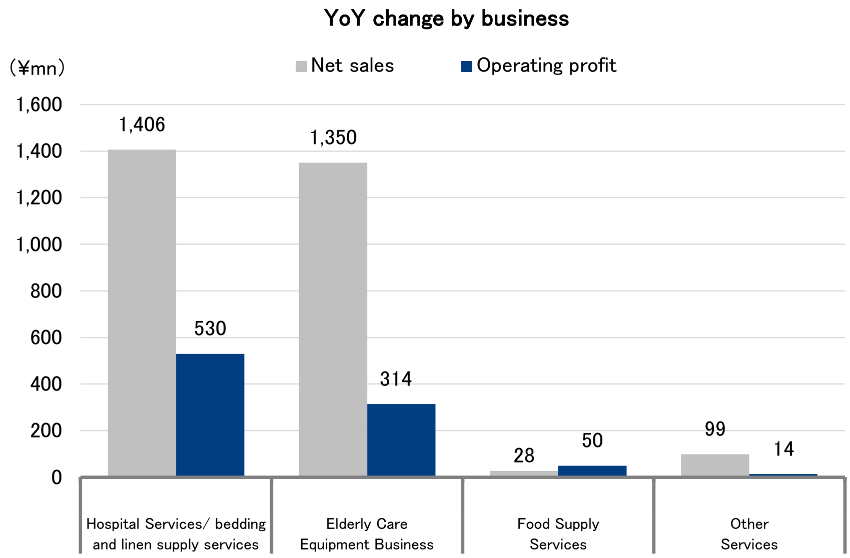
(1) Healthcare Services

In Healthcare Services, net sales increased 4.8% YoY to ¥63,517mn and operating profit increased 16.8% to ¥6,312mn, both record highs for the first time in two terms. Due to COVID-19 becoming protracted, occupancy rates at hotels and lodging facilities were slower to recover than anticipated, so results in bedding and linen supply services and the cleaning equipment manufacturing business were lower than projected, but this was more than offset by growth in Hospital Services and Elderly Care Equipment Business.

Healthcare Services



Source: Prepared by FISCO from the Company's financial results



Source: Prepared by FISCO from the Company's results briefing materials

a) Hospital Services, bedding and linen supply services

In Hospital Services and bedding and linen supply services, net sales increased ¥1,406mn YoY and operating profit increased ¥530mn, both setting record highs for the first time in two terms. Out of the approximately ¥1.4bn increase in sales, over ¥300mn belonged to bedding and linen supply services, and the combined sales of hospitalization sets (up 17.3% YoY) and NEXSURG (up 5.6%), which are strategic products of Hospital Services, were around ¥770mn, accounting for over half of the total. For hospitalization sets, the number of contracting facilities increased and there continued to be restrictions on patient visits, which was also a factor increasing demand. NEXSURG's growth rate slowed compared to FY3/21, when growth was 10.2% owing to competing disposable-type products being in short supply, but the product continues to be adopted from an SDGs standpoint, so sales were steady.

In linen supply services for hospitals and nursing care facilities, the number of contracted beds increased by 2.6% YoY to 208,000. Along with new service contracts from nursing facilities and temporary medical facilities, the number of hospital beds in use recovered, prompting a turnaround in linen supply services for hospitals, which increased by 0.5%, the first increase in three terms. On the other hand, sales from bedding and linen supply services for lodging facilities increased by over 8% YoY, which was also a turnaround, but this was still only around 70% of the level in FY3/20.

b) Elderly Care Equipment Business

In the Elderly Care Equipment Business, net sales increased ¥1,350mn YoY and operating profit increased ¥314mn, both of which were consecutive record highs. Against the backdrop of increasing demand for at-home nursing care services, sales from direct rentals of elderly care equipment performed well, increasing by 8.4%. The growth rate also continues to increase each year, rising from 5.1% in FY3/20 and 7.3% in FY3/21. The number of new users grew steadily, increasing 8.2%, and the number acquired through hospital discharge counters in particular, which is a strength of the Company, rose by 10.2%. Users acquired through hospital discharge counters accounted for 24.3% of all new users acquired, which is up from 23.9% in the previous year. On the profit side, increased rental materials costs—from increased demand for elderly care equipment—and personnel costs were more than offset by the increase in sales, so the profit margin rose by around 0.5 percentage points compared to the previous year.

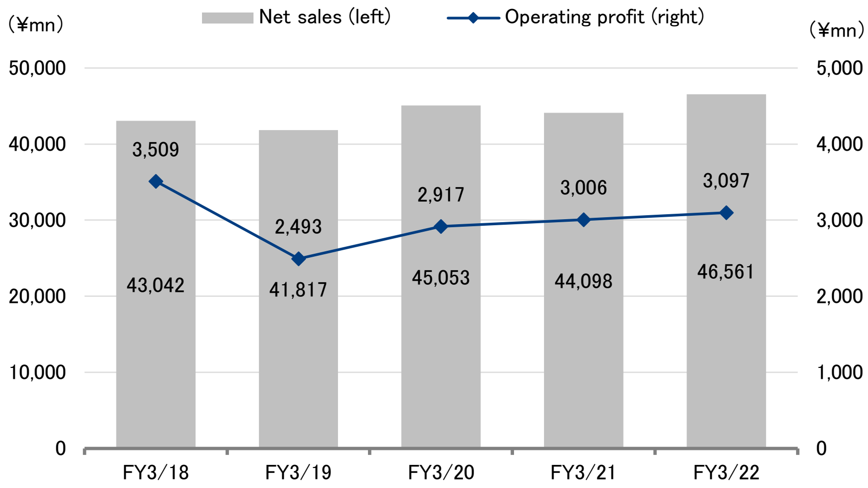
c) Food Supply and Other Services

In Food Supply Services, net sales increased by ¥28mn YoY, the first increase in seven terms. Operating profit also increased, by ¥50mn, which was its first increase in two terms. The increase in sales was attributable to an increase in the number of contracts, while on the profit side, the increase was caused by efforts to raise productivity through process improvements. In other businesses, which center on the cleaning equipment manufacturing business, net sales increased ¥99mn YoY and operating profit improved by ¥14mn. In cleaning equipment manufacturing, sales returned to positive growth year on year, but they are still only just north of 50% of FY3/20, unable to recover up to 70% of FY3/20, which was the Company's initial forecast.

(2) Pharmacy Services

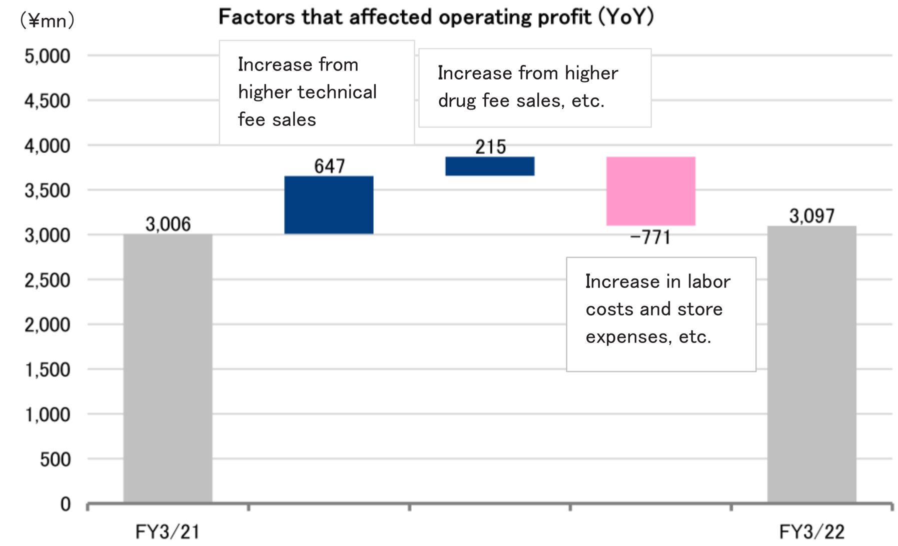
In Pharmacy Services, net sales increased 5.6% YoY to ¥46,561mn and operating profit increased 3.0% to ¥3,097mn, with sales setting a record high for the first time in two years. Prescription unit prices declined by 1.4%, but thanks to new pharmacy openings (11 new openings, nine of which were on-site pharmacies), the number of prescriptions increased by 7.1% and sales increased. There were 145 pharmacies as of the end of FY3/22, an increase of seven compared to the end of the previous fiscal year.

Pharmacy Services



Source: Prepared by FISCO from the Company's financial results

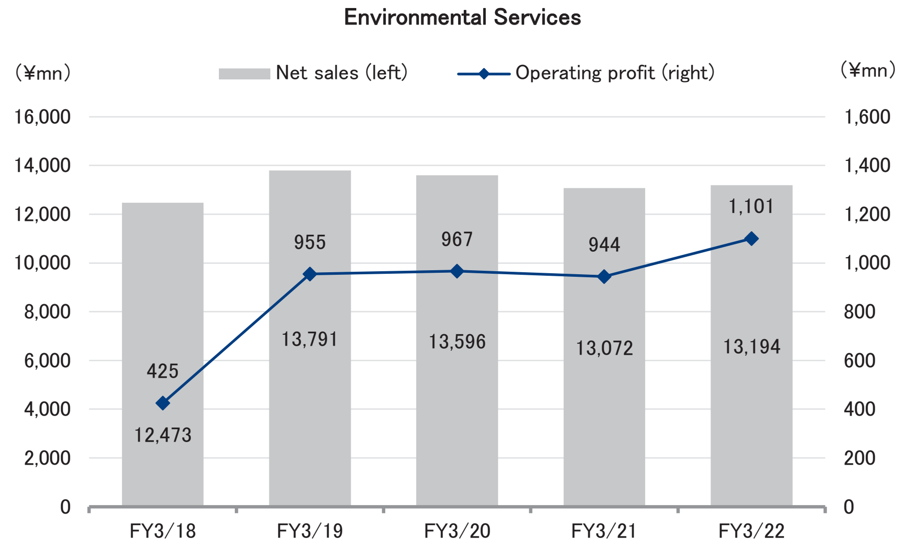
Breaking down prescription unit prices, drug fee unit prices were lower due to a slightly shorter prescription period compared to the previous fiscal year, when periods tended to be longer because of COVID-19, and to the impact of lower drug prices. Technical fee unit prices, however, increased by 2.8% as a result of efforts to strengthen the functions of family pharmacies with close ties to local communities, including home dispensing. Looking at the factors impacting operating profit, increases in labor costs and store expenses in connection with major pharmacy openings negatively affected profit by ¥771mn, but this was more than offset by an increase in technology fee sales of ¥647mn and an increase in drug fee sales and other areas of ¥215mn.



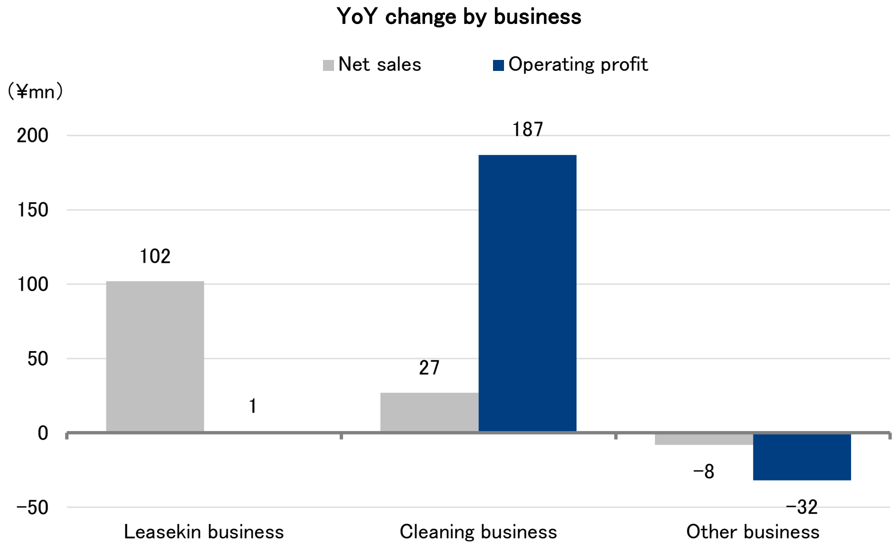
Source: Prepared by FISCO from the Company's results briefing materials

(3) Environmental Services

In Environmental Services, net sales edged up by 0.9% YoY to ¥13,194mn, increasing for the first time in three terms, and operating profit increased by 16.6% to ¥1,101mn, a record high for the first time in two terms.



Source: Prepared by FISCO from the Company's financial results



Source: Prepared by FISCO from the Company's results briefing materials

In the Leasekin business, business conditions continued to deteriorate for restaurants and other clients due to COVID-19, but with increasing demand related to sanitation management, toilet-peripheral products rose 7.9% from the previous fiscal year. In addition, the partial recovery in demand bolstered demand for materials by affiliated stores, which led net sales to increase by 102mn YoY. Operating profit increased by ¥1mn as the increase in sales more than offset an increase in material purchase costs.

In the cleaning business, sales of cleaning services for general facilities declined, but thanks in part to accommodating hospital beds reserved for COVID-19 patients and to an increase in installations of Halofogger®, a dedicated system for environmental surface sterilization, net sales increased by ¥27mn from the previous fiscal year. Operating profit also increased, by ¥187mn, as the profit margin improved on an increase in cleaning jobs with a high degree of difficulty, such as services for COVID-19 hospital beds.

* Halofogger® is a system that automatically disperses a mist of chemicals with a strong disinfectant effect and effectively disinfects rooms in the remotest corners that cannot be reached by people. At medical facilities, where in-facility cluster infections were confirmed, all areas within the facilities were disinfected with Halofogger, which contributed to the early resumption of outpatient consultations.

The financial condition remains healthy

3. Financial condition and management indicators

The Company's financial condition as of the end of FY3/22 was as follows. Total assets increased ¥3,719mn from the end of the previous fiscal year to ¥105,900mn. The main reasons for the changes are, in current assets, attributable to a decrease in inventories of ¥1,010mn being offset by increases in cash and deposits of ¥646mn, securities of ¥268mn, and notes and accounts receivable – trade of ¥1,059mn. In non-current assets, leased assets increased ¥432mn, and there were also increases in construction in progress of ¥340mn, investment securities of ¥849mn and guarantee deposits of ¥615mn.

Total liabilities increased by ¥78mn from the end of the previous fiscal year to ¥28,381mn. This is primarily attributable to decreases in interest-bearing debt of ¥478mn and deferred tax liabilities of ¥201mn being offset by increases in income taxes payable of ¥394mn and accounts payable of ¥304mn. Total net assets increased by ¥3,640mn to ¥77,519mn. Factors decreasing total net assets were dividend payments of ¥1,203mn, acquisition of treasury shares of ¥824mn, and valuation difference on available-for-sale securities of ¥222mn, while net profit attributable to owners of parent of ¥5,806mn was the main factor behind the increase.

Looking at management indicators, the equity ratio rose by 0.9 percentage points, from 71.8% the previous fiscal year-end to 72.7%, and the interest-bearing debt ratio declined by 0.9 percentage points. Net cash (the sum of cash and deposits and securities less interest-bearing debt) increased ¥1,392mn to ¥32,757mn, a record high, as the Company's financial foundation becomes stronger each year. Regarding profitability, the operating profit margin and ROA both rose 0.4 percentage points YoY, as they continue to trend at stable levels. The Company's business model is one of its strengths, due to the rental business being its core business.

Consolidated balance sheet

(¥mn)

	End-FY3/20	End-FY3/21	End-FY3/22	Change amount
Current assets	55,657	58,769	59,748	979
(Cash and deposits)	32,202	35,148	35,794	646
(Inventories)	5,360	5,646	4,635	-1,010
Non-current assets	41,374	43,411	46,151	2,740
Total assets	97,031	102,180	105,900	3,719
Current liabilities	22,859	22,689	23,194	505
Non-current liabilities	5,350	5,612	5,186	-426
Total liabilities	28,210	28,302	28,381	78
(Interest-bearing debt)	4,176	3,876	3,398	-478
Total net assets	68,821	73,878	77,519	3,640
(Stability)				
Equity ratio	70.5%	71.8%	72.7%	0.9pt
Interest-bearing debt ratio	6.1%	5.3%	4.4%	-0.9pt
(Profitability)				
ROA	8.5%	8.1%	8.5%	0.4pt
ROE	7.8%	7.7%	7.7%	0.0pt
Operating profit margin	6.5%	6.2%	6.7%	0.5pt

Source: Prepared by FISCO from the Company's financial results and securities report

Business Outlook

Upfront investment in FY3/23 to build a foundation for sustained growth

1. Outlook for FY3/23

For the FY3/23 consolidated results, the Company forecasts for an increase in net sales by 5.5% YoY to ¥130,307mn, a decrease in operating profit by 5.7% to ¥7,782mn, a decrease in ordinary profit by 8.7% to ¥8,109mn, and an increase in net profit attributable to owners of parent by 3.3% to ¥5,998mn.

Amid business conditions affected by COVID-19, the Company expects cleaning- and health-related needs to continue to expand. It is projecting sales growth as both bedding and linen supply services for lodging facilities and the cleaning equipment manufacturing business, which have been affected by COVID-19, continue to recover. On the other hand, operating profit is expected to decline due to higher resource prices due to geopolitical risk, and increasing energy costs and material prices due to the yen's depreciation. More active investment for sustained growth, including DX and new plant construction, is also expected to be a factor. Overall, however, this seems conservative, and if external conditions do not deteriorate further, FISCO believes profit could perform better than expected. Regarding net profit attributable to owners of parent, the Company intends to ensure profit by recording gains on the sale of real estate at subsidiaries.

Consolidated outlook for FY3/23

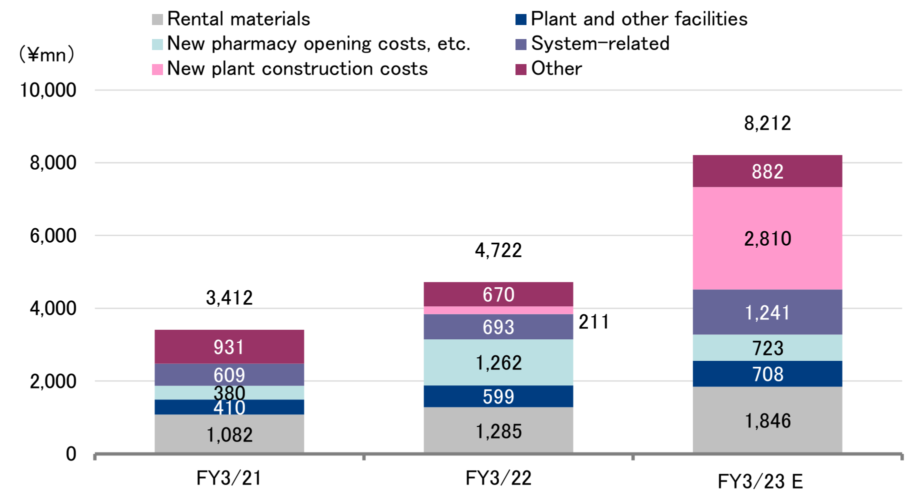
(¥mn)

	FY3/22		FY3/23		
	Results	Vs. sales	Forecasts	Vs. sales	YoY
Net sales	123,484	-	130,307		5.5%
Operating profit	8,252	6.7%	7,782	6.0%	-5.7%
Ordinary profit	8,878	7.2%	8,109	6.2%	-8.7%
Net profit attributable to owners of parent	5,806	4.7%	5,998	4.6%	3.3%
EPS (¥)	164.42		170.27		

Source: Prepared by FISCO from the Company's financial results

The Company intends to increase capital investment in FY3/23 by ¥3,489mn to ¥8,212mn and expects depreciation costs to increase ¥634mn to ¥4,498mn. The major investments the Company is planning include ¥2,810mn in new plant construction costs. The Company will build a new plant for hospital linens and a maintenance center for elderly care equipment in Moroyama, Saitama Prefecture. Construction is beginning in the summer of 2022, and operations are expected to launch in the fall of 2023. For hospital linens, functions will be transferred from the Yokohama Plant, and the plant itself will be a core, environmentally conscious facility with high energy efficiency and is intended to further expand the business in the Kanto area.

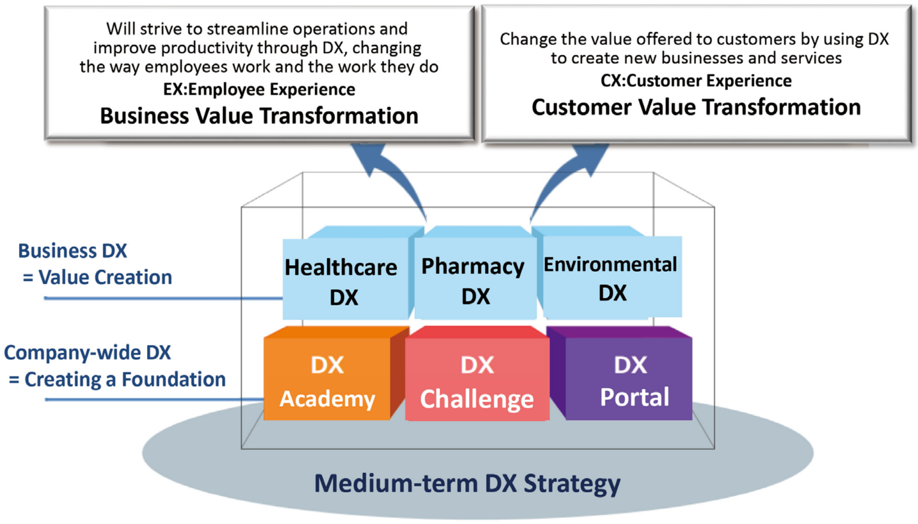
Trend in capital investment



Source: Prepared by FISCO from the Company's results briefing materials

The Company also plans to make system-related investments of ¥1,241mn, an increase of ¥548mn from the previous fiscal year. It has begun to build a company-wide DX platform for sustained growth, and to achieve Business Value Transformation (use of DX to improve process efficiency and raise productivity) and Customer Value Transformation (use of DX to create new businesses and services), the Company is planning DX investment totaling ¥3.5bn over the four years from FY3/22 to FY3/25. To build DX infrastructure, internally, the Company will train DX personnel (180 DX promoters over three years) and work to create a corporate culture and maintain an environment for the proactive utilization of DX.

The Group's medium-term DX strategy



Source: The Company's results briefing materials

As for DX measures on the business side, in Elderly Care Equipment Business, the Company is working to propose optimal welfare equipment services utilizing IT and AI (creation of service plans using AI). In Pharmacy Services, it plans to improve convenience for patients through smartphone app utilization and online medication guidance and raise productivity of pharmacy operations by introducing automation equipment, including dispensing robots. In the Leasekin business, the Company intends to develop a dedicated app that provides video introductions of products handled by the Company and also allows estimates to be created and will deploy it for the entire Leasekin chain in order to raise sales productivity and enhance service capability. In the production division, the Company will introduce a traceability system to expedite the response when defects occur as well as other measures to promote visualization, resource efficiency, and energy efficiency at plants not only to raise productivity but also to improve customer satisfaction.

Forecasting continued sales growth in all businesses and continued operating profit growth in Pharmacy Services

2. Outlook by business

Results by business

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23(E)	YoY
Net sales by business					
Healthcare Services	61,953	60,631	63,517	67,430	6.2%
Pharmacy Services	45,053	44,098	46,561	49,138	5.5%
Environmental Services	13,596	13,072	13,194	13,560	2.8%
Other Services	206	206	211	178	-15.8%
Total	120,809	118,009	123,484	130,307	5.5%

	FY3/20	FY3/21	FY3/22	FY3/23(E)	YoY
Operating profit by business					
Healthcare Services	6,074	5,403	6,312	6,220	-1.5%
Pharmacy Services	2,917	3,006	3,097	3,263	5.4%
Environmental Services	967	944	1,101	961	-12.6%
Other Services	29	31	34	-28	-
Elimination of internal transactions	-2,081	-2,091	-2,294	-2,635	-
Total	7,908	7,294	8,252	7,782	-5.7%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

(1) Healthcare Services

In Healthcare Services, the Company is forecasting net sales to increase 6.2% YoY to ¥67,430mn and operating profit to decline 1.5% to ¥6,220mn. In Hospital Services and bedding and linen supply services, net sales are expected to increase ¥1,823mn and operating profit to decrease ¥204mn. Of the increase in sales, approximately ¥800mn is expected from the increase in bedding and linen supply services for lodging facilities. Recently*, COVID-19 has quieted down somewhat, and immigration restrictions on foreign travelers are moving toward gradually being lifted, so occupancy rates at lodging facilities are expected to go up. Sales are 83% of the level in FY3/20, and if immigration restrictions are fully lifted going forward, occupancy rates should also recover to pre-pandemic levels. At the same time, in Hospital Services, the Company expects hospitalization sets and NEXSURG to continue to drive the business. Despite sales growth, the Company is forecasting a decrease in profit because it is projecting energy costs to increase by ¥380mn YoY, which includes the impact of fuel prices and increases in electricity and gas rates, materials costs to increase by ¥280mn (including ¥100mn in renewal of white coats and other items for large contracts), and an increase in depreciation costs associated with upgrades to core systems.

* This is an English translation of a report issued on July 1, 2022.

In Elderly Care Equipment Business, the Company is forecasting sales to increase ¥1,436mn YoY and operating profit to increase ¥23mn on the same basis. It intends to take advantage of increasing demand for at-home nursing care to strengthen sales and will include a subsidiary acquired in 2019 within the scope of consolidation, which will add around ¥300mn. On the profit front, the Company is projecting profit to increase as cost increases from active material purchases, system investment and new openings of Elderly Care Equipment Business offices are expected to be absorbed by increased sales. Regarding the new office openings, two offices are planned for the 23 wards of Tokyo in an effort to expand share in the Tokyo metropolitan area. In addition, in Kyushu area, products had been distributed from a maintenance center in Kagawa, but in July 2021 NISSHO Co., Ltd., which has the top share in Nagasaki Prefecture, was made a part of the Group (non-consolidated, annual sales of ¥400mn), so the Company is planning to build a new maintenance center in Kyushu in FY3/24. Through this, the Company will work to reduce logistics costs and shorten delivery lead times.

Aiming to be Japan's No. 1 provider of elderly care equipment rentals, the Company plans to work to increase its share while also utilizing M&A. In August 2022, it will be the surviving company in a company split and take over the welfare equipment rental and sales business of Mominoki Co., Ltd., which is based in Toyokawa, Aichi Prefecture (acquisition price of ¥150mn; FY3/21 net sales of transferred business of ¥272mn).

In Food Supply Services, the Company is projecting net sales to increase ¥52mn YoY and operating profit to increase ¥4mn. It plans to work to increase sales by acquiring new customers and expanding contracted services for existing customers. Costs are increasing for some foodstuffs, but the Company plans to achieve profit growth by absorbing them with higher sales. In other businesses, with orders recovering in the cleaning equipment manufacturing business, the Company is forecasting net sales to increase ¥600mn YoY and operating profit to improve ¥83mn. In the cleaning equipment manufacturing business, the Company is expecting sales to recover to 75% of pre-pandemic levels.

Regarding iAide2, a wristband-type wearable device being developed as a new business, delays arose due to COVID-19, but clinical research on detecting asymptomatic atrial fibrillation* began in January 2022, a joint project with Tokyo Medical and Dental University Hospital, Shizuoka City, the Shizuoka City Shimizu Medical Association and TDK <6762>. If the utility of the device is verified through this study, the Company plans to promote it as a device for helping to extend healthy life expectancy.

* Asymptomatic atrial fibrillation has no subjective symptoms and is said to increase the risk of developing cardiogenic cerebral infarction if left untreated. Around one million people in Japan are estimated to have this condition. The early detection of asymptomatic atrial fibrillation through using iAide2 to collect pulse-wave data and a program that utilizes AI is expected to lead to the prevention of cerebral infarctions.

Testing is also being conducted with a national university hospital on use of the device in cardiac rehabilitation. The goal is to use iAide2 to collect and visualize pulse rate, steps, activity level, and other data for the patient while at home during the late convalescence and maintenance periods and utilize this in maintaining patient motivation to continue rehabbing and in guidance from medical professionals on the rehab process. Developments going forward will be watched.

(2) Pharmacy Services

In Pharmacy Services, the Company is forecasting continued increases in sales and profit, with net sales expected to increase 5.5% YoY to ¥49,138mn and operating profit to increase 5.4% to ¥3,263mn. Due to revisions for both technical fees and drug fees for FY22, prescription unit prices are expected to decline slightly, along with technology fees and drug fees, but in FY3/22 2H, large pharmacy openings continued, so the Company is projecting major growth in the number of prescriptions.

The Company is planning to open seven new pharmacies in diverse formats that include fronting hospital, on-site, medical mall, and fronting clinic. The goal is to have the pharmacies contribute to local medicine as local communities' family pharmacies, and going forward the Company plans to have them all certified as Specialized Medical Facility Cooperating Pharmacies or Community Cooperating Pharmacies. Looking at the factors affecting operating profit, an increase in technical fee sales is expected to provide a gain of ¥461mn and an increase in drug fee sales, a gain of ¥589mn, which will be capable of absorbing an increase in labor costs and store expenses of ¥885mn. Looking at the situation in April compared to the Company's projection, the number of prescriptions was down slightly due to COVID-19, but technical fees and drug fees appear to be above expected levels.

Key points of revisions to dispensing fees and their impact on the Company's results

	Key points	Impact on results
Basic dispensing fees	Special basic dispensing fees lowered and the number of pharmacies in the same group (300 or more) added to the facility criteria	Base dispensing fees at on-site pharmacies (Special basic dispensing fees) will decline slightly, but this will not have a major impact on the Company. However, going forward, there will no longer be advantages to opening on-site pharmacies, so it is expected that fewer pharmacies will be opened in this format
Addition for Community Support Structures	Calculation categories are revised depending on the calculation of basic dispensing fee, the development of systems and actual performance involving contribution to community healthcare	Certain results standards were raised, but the number of pharmacies used in calculations was increased as a result of requirement categories being subdivided, which is a plus
Addition for Generic Drug Dispensing Systems	Standard for generic drug dispensing ratio raised and evaluation (points) revised	The standard was raised, but points will go up as well, so the sales decrease due to the revision is expected to be recovered by the end of the fiscal year
Online Medication Guidance	Calculation requirements relaxed and available patient number increased	Systems have been established at all pharmacies for accommodating online medication guidelines, and the Company is proactively stepping up initiatives to increase user numbers
Refill Prescriptions	System introduced in April 2022 that allows patients with stable symptoms to repeatedly use prescriptions from their physicians within a specific period	Operating procedures will be established to promote refill prescriptions with highest priority on convenience for patients, but the understanding of physicians will also be necessary, so there is expected to be almost no impact

Source: Prepared by FISCO from the Company's results briefing materials

(3) Environmental Services

In Environmental Services, the forecasts are for increased sales and decreased profit, with net sales to increase 2.8% YoY to ¥13,560mn and operating profit to fall 12.6% to ¥961mn.

In the Leasekin business, the Company is projecting an increase in net sales of ¥449mn and a decrease in operating profit of ¥58mn. Regarding net sales, with demand recovering from COVID-19, the Company expects increases in product sales from FC headquarters to franchise stores and in user rental sales. The factors for the decline on the profit side are increased FC headquarters costs, which had not been incurred due to COVID-19, along with increased investment costs for strengthening the profitability of RENTEX, which became a subsidiary in October 2021 (non-consolidated)*. The investment in RENTEX is expected to include consolidating product delivery functions and switching handled products to the Company's products. Business efficiency will also be improved by sharing infrastructure on a Group basis.

* In October 2021, the Company acquired a 90% stake in RENTEX Co., Ltd., which was established by Hakuyosha <9731> after splitting off the business in July 2021, and made it a subsidiary. It has sales of around ¥1.7bn and many large customers, including major hotels and factories.

In the cleaning business, the Company is forecasting net sales to decrease by ¥72mn YoY and operating profit to decrease by ¥45mn. The factors behind these expected declines are continued lower sales from general cleaning and an expected reduction in hospital beds reserved for COVID-19 patients that were contracted in the previous term.

Medium-term management plan

Targeting net sales of ¥140bn and operating profit of ¥9.5bn for FY3/25

1. Overview of the medium-term management plan

The Company has started “Challenge for the New Stage!” its four-year medium-term management plan from FY3/22 to FY3/25. Lifestyles are changing greatly due to COVID-19, but even in this situation, it continues to aim for growth as a corporate group that solves societal problems in the “medical care,” “nursing care,” and “environment” business areas and that contributes to the realization of a sustainable society.

Also, the Company has set “To enter a new stage in which sustainable growth can be realized, implement measures for “Continuing,” “Changing,” and “Creating”” as the concept for the current medium-term management plan. Its basic policy is to implement measures based on these three viewpoints that will lead to sustainable growth. The basic policies are as follows.

(1) Basic policies

a) “Continue” to meet the needs of society and of customers

- Rental business model that contributes to a recycling-based society
- Stably provide services that support the societal infrastructure of medical care and nursing care (Hospital Services, Food Supply Services, Elderly Care Equipment Business, Pharmacy business, and cleaning business)
- Strengthen the existing core businesses and improve share in regions (Hospital Services, Elderly Care Equipment Business, Pharmacy business, and Leasekin business)
- Provide services from the customers’ perspective and pursue even higher levels of specialism
- Strengthen “human capital” that is essential for differentiation

b) “Change” to respond to changes in the business environment and that will lead to further growth

- Establish new workstyles for individuals and organizations in the new normal era
- Promote DX to improve work efficiency and productivity
- Establish and maintain corporate governance suitable for the Prime Market
- Train management-level human resources and proactively promote the young generation
- Conduct management that prioritizes diversity

c) “Create” to generate new value that will lead to next-generation businesses

- Develop new businesses and services in the healthcare business (including for the at-home services market for which demand is expected to grow)
- Promote DX to create a new business model (including creating services based on the data accumulated in the Elderly Care Equipment Business and Pharmacy business)
- Create new business value by organically combining the Group’s management resources (implement coordination between businesses that leads to sales increases)
- Discover investment fields that will contribute to growth and flexibly conduct investment
- A corporate culture in which employees can continue to work with motivation and pride

(2) Business strategies

Based on the basic polices, the Company is aiming to realize sustainable growth in each business segment by progressing the following business strategies.

a) Healthcare Services

In Healthcare Services, in order to further deepen relations of trust with medical institutions and nursing care facilities, which are the foundation of this business. For Hospital Services, the Company will strengthen the structure that can provide existing services stably and at high levels of quality, centered on linen supply. It is also aiming to differentiate from the products of competitors with strategic products, hospitalization sets and NEXSURG, including by creating high added value and adding new items. In addition, it is working on measures including creating new core items for medical institutions and improving work efficiency through digitalization.

In Elderly Care Equipment Business, with the goal of Japan's No. 1 provider of elderly care equipment rentals, the Company will continue to proactively invest management resources. Along with working to improve service provision and speed through logistics reforms and promoting DX, the Company will strive to differentiate itself from competitors by training skilled, highly specialized personnel capable of proposing elderly care equipment needed by nursing care recipients. In addition, the Company intends to enhance business sites and work to expand its share of local markets while actively utilizing M&A, primarily in urban areas where the elderly population is expected to increase going forward.

In addition to the above, in the healthcare business, the Company continues to focus on developing and commercializing new at-home services that will help to solve societal problems (iAide2, etc.).

b) Pharmacy Services

In Pharmacy Services, the aim is to become "the pharmacy of choice in the community," being highly specialized and contributing to medical care in local communities. Specifically, the Company is working to pursue the roles and functions required at the work sites that provide home medical care, including multidisciplinary cooperation. It is also aiming to establish a good balance in terms of pharmacy formats, including fronting clinic pharmacies, pharmacies within medical care malls, and pharmacies specializing in at-home services, etc. In addition, it can leverage the expertise in advanced pharmacy management that it has accumulated by responding to prescriptions at core hospitals up to the present time to support and promote health among the residents of local communities. Moreover, it is working on reforming work through DX and developing services that will contribute to improving convenience for patients.

c) Environmental Services

In Environmental Services, the Company is further bolstering its strength of being a "sanitation management professional" and working on changing to a business structure that can sustain growth. In the Leasekin business, it is focusing on increasing sales of and developing products that meet sanitation management needs, centered on toilet-peripheral products, and increasing the percentage of sales provided by these products.

For the cleaning business, the Company is aiming to differentiate itself from other companies by developing proprietary services that can meet the needs of medical institutions, including by proposing the new environmental surface sterilization system in addition to operating room preparation operations and more*. It intends to improve profitability by increasing the ratio of sales for hospitals to total sales (the current ratio is around 70%).

* Trained and educated staff provide pre- and post-operative cleaning and surgical equipment setup instead of hospital staff, which helps increase operating room utilization rates.

(3) Numerical management targets

The numerical management targets for FY3/25, the plan's final fiscal year, are net sales of ¥140bn and operating profit of ¥9.5bn. With FY3/21 as the first year, the four-year CAGR targets are 4.4% for net sales and 6.8% for operating profit. The numerical targets are basically to be achieved through organic growth and do not incorporate the effects of M&A.

Numerical management targets

(¥mn)

	FY3/21	FY3/22	FY3/23 (E)	FY3/25 targets	CAGR*
Net sales	118,009	123,484	130,307	140,000	4.4%
Healthcare Services	60,631	63,517	67,430	71,000	4.0%
Pharmacy Services	44,098	46,561	49,138	54,000	5.2%
Environmental Services	13,072	13,194	13,560	14,800	3.2%
Other Services	206	211	178	200	-0.7%
Operating profit	7,294	8,252	7,782	9,500	6.8%
Operating profit margin	6.2%	6.7%	6.0%	6.8%	

* Four-year CAGR with FY3/21 as the first year
Source: Prepared by FISCO from the Company's results briefing materials

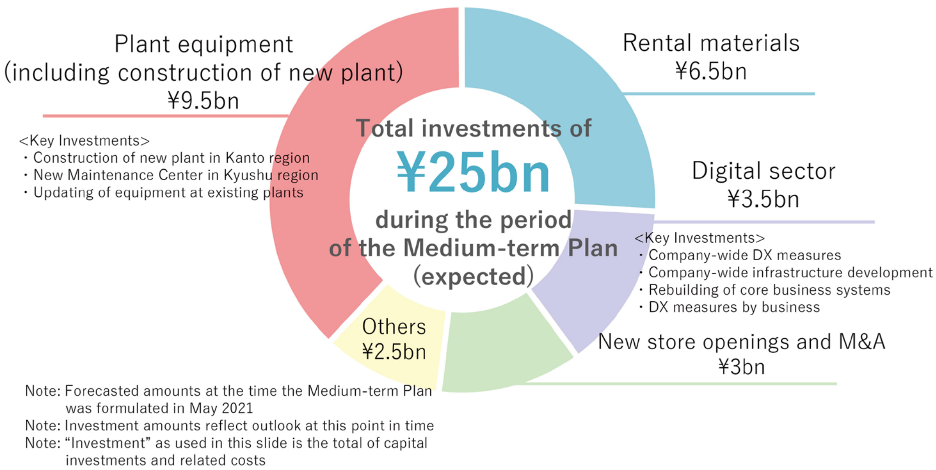
Looking at average annual sales growth rates by segment, Pharmacy Services is the highest at 5.2%, followed by Healthcare Services and Environmental Services. In Pharmacy Services, the contribution of multiple large-scale pharmacies having opened on-site in hospitals since FY3/22 3Q is one of the reasons why a high growth rate can be expected. However, on-site pharmacies are less profitable than fronting hospital pharmacies, and changes to dispensing fees for FY2022 negatively affect them, so the Company will be circumspect in opening on-site pharmacies going forward. The Company projects the operating profit margin to increase from 6.2% in FY3/21 to 6.8% in FY3/25. In Pharmacy Services, it is difficult to foresee the impact of dispensing fee revisions, so the assumption is that the profit margin will decline compared to FY3/21. On the other hand, in Healthcare Services and Environmental Services, profit margins are expected to rise on growth in products and services with high added value.

Results in the first year of the Company's medium-term management plan were slightly above projections, so it was a smooth start, but there were unanticipated changes in external conditions, specifically the surge in energy prices, so the Company is expecting profits to recede temporarily in FY3/23. If energy prices settle down, ¥9,500mn in operating profit for FY3/25 will likely be within range.

(4) Capital investment plan

The Company is planning to make a total of ¥25bn in capital investments during the period of its medium-term management plan. Of this amount, ¥9.5bn is slated for plant facilities, including new plant construction, ¥6.5bn for rental materials purchases, ¥3.5bn for digital investment, and ¥3.0bn for new pharmacy openings and M&A. Through FY3/23, the Company is planning, or has made, investments of ¥12.9bn, so progress has been steady.

Investment plan details



Source: The Company's results briefing materials

Contributing to the SDGs since its founding through rental businesses that help reduce waste and realize a recycling-based society

2. Sustainability management and ESG initiatives

(1) Initiatives for sustainability management

In order to further promote sustainability management, the Company created the Basic Sustainability Policy in May 2022 and also established the Sustainability Committee.

The Basic Sustainability Policy redefines the "Three Declarations" the Company established in 2020. The Company will 1) Contribute to reducing waste and realizing a recycling-based society through rental businesses, which are its core businesses since its founding, 2) Contribute to the sound development of medical care and nursing care in the super-aging society, and 3) Aim to be a company where all Group employees smile and are surrounded by much gratitude.

The Company established the Sustainability Committee for the purpose of systematically implementing corporate activities in line with the basic policy across the Group and sharing sustainability issues, considering various measures, discussing the design and operation of implementation items, and promoting ESG strategy.

Its initiatives going forward are to build a sustainability website by 1H FY3/23 as a venue for disclosure of non-financial information and establish an Environmental Committee under the Sustainability Committee and also start considering initiatives for identifying, calculating, and reducing supply chain emissions.

In February 2022, the Company published the Sustainability Communication Book to concisely introduce the relationship between the Group and the SDGs, including how the Group contributes to reducing waste through rentals.

(2) Initiatives for ESG

The Company, whose original business was bedding rentals, has placed its business focus on rental businesses that contribute to reduction of waste and a recycling-based society from its establishment up to the present time. Therefore, many of the businesses it is currently focusing on are in line with the approach for SDGs, so growing its business will also lead to contributions to the SDGs.

Regarding its initiatives to help reduce environmental impact in particular, the Company has set a quantitative target for FY3/25. For waste reduction, it calculates the effects of waste reduction from switching from disposable-type products to the Company's reusable products, and is aiming for a 23% increase by FY3/25 compared to FY3/21. In addition, regarding CO_2 emissions reductions, the Company will contribute by increasing the energy efficiency of its laundry plant and increase solar power generation installations at Group sites. Further, for effective use of water resources, the Company has set a target of raising the wastewater recycling rate at its laundry plant from 10.2% in FY3/21 to 20% by FY3/25 and 40% by 2030. Its new plant in Saitama Prefecture, which is slated to launch in autumn 2023, will be a cutting-edge facility for achieving this goal and is expected to significantly raise the Company's energy efficiency and wastewater recycling rate.

In addition, on the theme of lengthening healthy life expectancy, the Company will contribute by expanding services, centering on Elderly Care Equipment Business and Pharmacy business, and plans to engage in diversity management through such initiatives enhancing childcare support and raising the percentage of women managers. Also, with the Tokyo Stock Exchange restructuring its markets in April 2022, the Company has switched to the Prime Market and is currently strengthening its corporate governance. After being approved by its annual general meeting of shareholders on June 29, 2022, the Company now has a system in which four out of its 11 directors are outside directors, and the Board of Directors, on the same day as the meeting, decided on establishment the Nomination and Compensation Committee, a discretionary committee.

Initiatives for SDGs and targets for FY3/25

		Description of initiatives	Quantitative targets
E	Waste reduction	Reduce waste through increasing sales of rental products	Waste reduction effect*1 7,500 tons (+23.0% compared to FY20)
	Reduce CO_2 emissions	Reduce CO_2 emissions by improving the energy consumption rate at the laundry plant, and create clean energy through solar power generation	Fuel consumption rate*2 137.5 liters / ton (-12.1% compared to FY13) Solar power generation*3 11,125,000 kWh (+5.7% compared to FY20)
	Effective use of water resources	Reduce the amount of water resources consumed at the laundry plant by recycling laundry waste water	Waste water recycling rate*4 20% (+9.8pt compared to FY20) →Reduce water consumed by approx. 239,000 tons
S	Extending people's health lives	Support the independence of the elderly through rentals of elderly care equipment, which will lead to the extension of their healthy lives Work to provide medical care that is tailored to various circumstances, including through providing drugs and medication guidance to home-based patients and residents of facilities, and online medication guidance.	
	Promote diversity management	Strive to create workplaces in which everyone can flourish by responding to diverse workstyles, particularly to support childcare Increase the percentage of women in managerial positions, which will lead to the creation of an organization that utilizes diversity Create workplaces in which people with disabilities can easily work and secure employment opportunities for them	
G	Strengthening corporate governance	System of four of 11 directors being outside directors approved by the general shareholder meeting in June 2022	

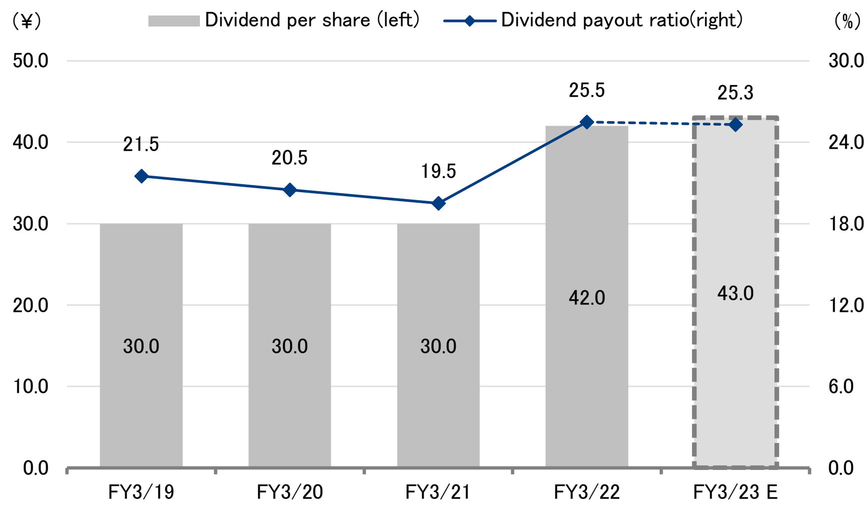
*1 For products that are mainly disposable products, the estimates were calculated on considering the contribution to reducing waste through increasing the sales of the Company's reusable products.
*2 The amount of fuel (gas, heavy oil, etc.) needed to produce 1 ton of laundry was converted to crude oil
*3 The total power generated through power generation facilities on the roofs of plants, etc., and at Group companies
*4 Waste water recycling rate = amount of waste water recycled ÷ total amount of waste water ×100
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Stably and continuously pays dividends, targeting a dividend payout ratio of 25%

Regarding its policy on shareholder returns, the Company changed its base indicator as of FY3/22 and resolved to continue to pay a stable, performance-linked dividend, aiming for a payout ratio of 25%. In line with this policy, the dividend per share for FY3/22 was increased by ¥12.0 YoY to ¥42.0 (payout ratio of 25.5%), the first increase in four fiscal years. In FY3/23, the Company is planning to increase the dividend by ¥1.0 to ¥43.0 (payout ratio of 25.3%), and, going forward, if the payout ratio would otherwise fall under 25% due to profit growth, further dividend increases can be expected. The Company will also flexibly and appropriately consider share buybacks depending on the level of its stock price. In FY3/22, as a result of buying back shares from February to October 2021, the total payout ratio was 39.7%.

Dividend per share and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results and results briefing materials

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