# COMPANY RESEARCH AND ANALYSIS REPORT

# TOKAI Corp.

## 9729

Tokyo Stock Exchange Prime Market

28-Aug.-2023

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# Summary

## Accelerating fortification of foundation for sustained growth as comprehensive healthcare company by investing aggressively for growth

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 FY3/23 results

In the FY3/23 consolidated results, the Company posted higher sales and lower profit, with net sales up 5.4% year on year (YoY) to ¥130,184mn, and operating profit down 4.8% to ¥7,855mn. Net sales reached a record high. All of the Company's business segments increased net sales, with strong core rental sales and effect of new stores boosting net sales of the Pharmacy Services segment. However, operating profit turned down for the first time in two fiscal years, mainly due to rising costs of energy, materials, and drug procurement. Profit attributable to owners of parent increased for the fourth consecutive fiscal year, because the Company booked roughly ¥1.0bn extraordinary income from the sale of real estate holdings.

### 2. Forecasts of FY3/24

For its FY3/24 consolidated results, the Company forecasts higher sales and lower profit – a 4.2% YoY increase in net sales to ¥135,609mn and 5.3% decline in net profit to ¥7,437mn. The Company expects net sales to continue growing in all business segments due to expanding rental sales and other factors, but sees factors such as increased depreciation expenses for the new Saitama Plant (scheduled to begin operation in fall 2023), core systems renewal and aggressive investment in rental materials weighing on operating profit. The Company plans to absorb the rise in expenses associated with higher energy costs by raising prices. The new Saitama Plant (total investment: ¥8.4bn) will combine functions of a laundry plant for hospital linens and a maintenance center for elderly care equipment. Productivity of the hospital linen laundry plant is forecast to improve by around 40%, because the new, environmentally conscious plant will have the latest equipment with superior productivity and reduced environmental impact. For the Elderly Care Equipment business, the new plant is also expected to help expand rental sales in the Kanto area, thereby contributing to medium- to long-term earnings growth from FY3/25 onward.

### 3. Progress on the medium-term management plan

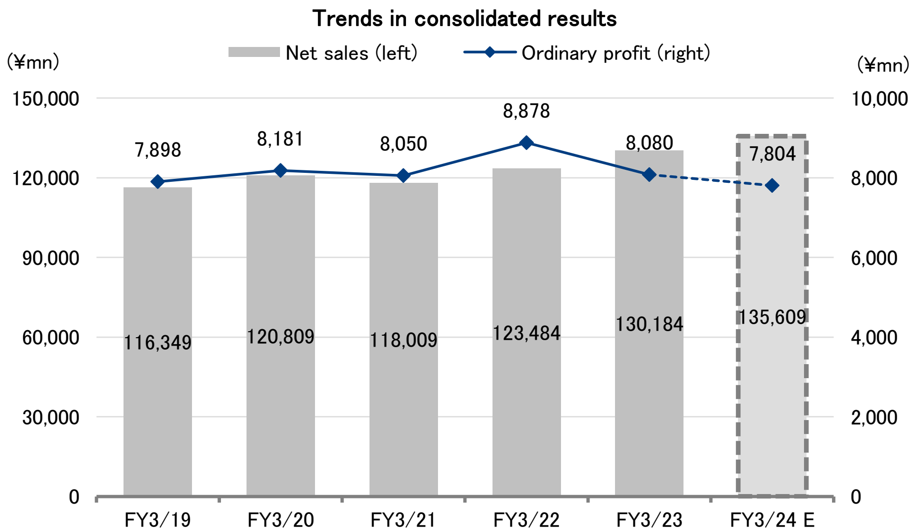
The Company's four-year medium-term management plan, "Challenge for the New Stage!," which started in FY3/22, sets numerical management targets for FY3/25 of net sales of ¥140.0bn and operating profit of ¥9.5bn. Although factors contributing to cost increases such as higher energy costs, tight supply of pharmaceutical products, and higher personnel expenses have worsened since the plan was formulated, the Company has continued to invest for growth, maintaining or increasing amounts invested to build a foundation for growth. Consequently, the operating profit target presents a somewhat high hurdle, although the Company expects steady net sales growth by increasing its market share and sales of strategic products in existing businesses, etc. We expect stable earnings growth to continue in the longer term, because the Company has a solid earnings structure based on rental sales in healthcare and elderly care, where demand is likely to grow in an aging society. As well, improvement in work efficiency and productivity as a result of digital transformation (DX) initiatives is progressing well in all businesses.

4. Shareholder return policy

For its shareholder return policy, starting in FY3/23, the Company raised its consolidated dividend payout ratio, which is a guideline for shareholder returns, to 35% from 25% to strengthen shareholder returns further. As a result, dividend per share for FY3/23 was ¥60.0 (dividend payout ratio of 34.6%), up ¥18 from FY3/22. The Company forecasts dividend per share of ¥51.0 (dividend payout ratio of 35.1%) in FY3/24, a decrease of ¥9.0 from FY3/22 because it expects a decline in profit attributable to owners of parent due to the dropout of extraordinary income recorded in FY3/23. However, a dividend increase can be expected if the dividend payout ratio were to drop below 35% going forward. The Company will also flexibly and appropriately consider share buybacks depending on the level of its stock price.

### Key Points

- All three segments increased sales for record high consolidated net sales in FY3/23
- Looks for lower operating profit on higher net sales in FY3/24 due to expense increase associated with new plant starting operation
- Growth strategies progress well in Healthcare Services, Pharmacy Services, and Environmental Services segments; greater potential for growth due to aggressive investment (including new plant starting operation)




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

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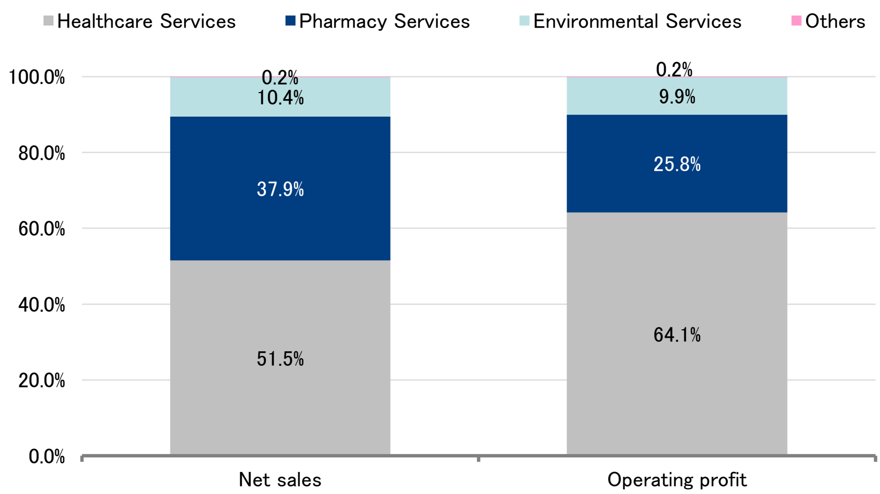
# Business overview

## 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 about 90% of net sales and operating profit.

Percentage of results by business segment (FY3/23)




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 (bedding and linen supply services for lodging facilities such as hotels), 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 net 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.

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The Elderly Care Equipment Business, which contributes more than 30% of this segment's net sales, involves the rental and sales of elderly care equipment, such as electric beds and wheelchairs, based on the Long-Term Care Insurance System. At the end of March 2023, 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 74 branches or offices, and 7 maintenance centers (including consolidated subsidiaries' bases). TOKAI's market share in this business varies by region. In Shikoku, it is relatively high at around 30%. In the three metropolitan areas of Greater Tokyo, Greater Osaka and Greater Nagoya, it is about 5-10%, leaving room to expand its presence. Although competitors include FRANCE BED HOLDINGS CO., LTD. <7840> and a subsidiary of Panasonic Holdings Corporation <6752> (Panasonic AGE-FREE Co., Ltd.), the Company is seen as being the top in direct rental sales. The Company works closely with care managers in each region to provide highly tailored services, apart from other actions such as aiming to utilize its relationships with medical institutions and building a route to receive patients discharged from them, thereby increasing user numbers. Through this sales strategy, it continues to grow at a rate higher than the market as a whole. Moreover, by working to increase its share in regions utilizing M&A and other measures, it is aiming to establish a position as having the No. 1 market share in each region.

Looking at the FY3/23 results, the majority of net 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 149 pharmacies at the end of March 2023. Expanding the number of stores through organic growth in principle and specializing in opening stores in front of large hospitals, it has promoted a strategy of raising management efficiency and maintaining high earnings. 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 the 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>. Over the past few years, it has focused on products peripheral to toilets in order to differentiate itself. In the 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 medical institutions with the intent to prevent infections. Cleaning at medical institutions and nursing care facilities already generates about 80% of sales. This segment also engages in the 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

## Increased sales in all segments for record high consolidated net sales in FY3/23

### 1. Overview of FY3/23 results

In FY3/23 consolidated results, net sales increased 5.4% YoY to ¥130,184mn, operating profit decreased 4.8% YoY to ¥7,855mn, ordinary profit decreased 9.0% YoY to ¥8,080mn and profit attributable to owners of parent increased 5.2% YoY to ¥6,106mn, more or less in line with the Company forecast.

**FY3/23 consolidated results**

(¥mn)

| | FY3/22 | | FY3/23 | | | | |
|---|---|---|---|---|---|---|---|
| | Results | Vs. sales | Forecasts | Results | Vs. sales | YoY | Vs. forecasts |
| Net sales | 123,484 | - | 130,307 | 130,184 | - | 5.4% | -0.1% |
| Cost of sales | 92,503 | 74.9% | - | 98,266 | 75.5% | 6.2% | - |
| SG&A expenses | 22,729 | 18.4% | - | 24,063 | 18.5% | 5.9% | - |
| Operating profit | 8,252 | 6.7% | 7,782 | 7,855 | 6.0% | -4.8% | 0.9% |
| Ordinary profit | 8,878 | 7.2% | 8,109 | 8,080 | 6.2% | -9.0% | -0.4% |
| Extraordinary loss | -230 | - | - | 859 | - | - | - |
| Profit attributable to owners of parent | 5,806 | 4.7% | 5,998 | 6,106 | 4.7% | 5.2% | 1.8% |

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

**Results by business segment**

(¥mn)

| | | FY3/22 Results | FY3/23 Forecasts | FY3/23 Results | YoY | Vs. forecasts |
|---|---|---|---|---|---|---|
| Healthcare Services | Net sales | 63,517 | 67,430 | 67,088 | 5.6% | -0.5% |
| | Operating profit | 6,312 | 6,220 | 6,663 | 5.6% | 7.1% |
| Pharmacy Services | Net sales | 46,561 | 49,138 | 49,334 | 6.0% | 0.4% |
| | Operating profit | 3,097 | 3,263 | 2,680 | -13.5% | -17.9% |
| Environmental Services | Net sales | 13,194 | 13,560 | 13,559 | 2.8% | -0.0% |
| | Operating profit | 1,101 | 961 | 1,032 | -6.2% | 7.4% |

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

The Company posted record-high net sales again as all three business segments increased sales. Rental sales were brisk, including linen supply services and elderly care equipment rental, and new stores boosted net sales of the Pharmacy Services segment. However, operating profit turned down for the first time in two fiscal years mainly due to rising costs of energy, materials, and drug procurement. That being said, operating profit was slightly higher than the Company forecast due to price hikes in businesses including bedding and linen supply services for lodging facilities, and progress with improvements in the productivity of its plants and work efficiency of indirect divisions.

Non-operating income and expenses worsened by ¥400mn YoY. The main reason was the absence of the ¥179mn gain on sale of investment securities that had been booked in the previous fiscal year and incurring bad debt expenses of ¥170mn. Meanwhile, the Company secured increased profit attributable to owners of parent through the recording of extraordinary income from ¥1,079mn in gain on sale of non-current assets.

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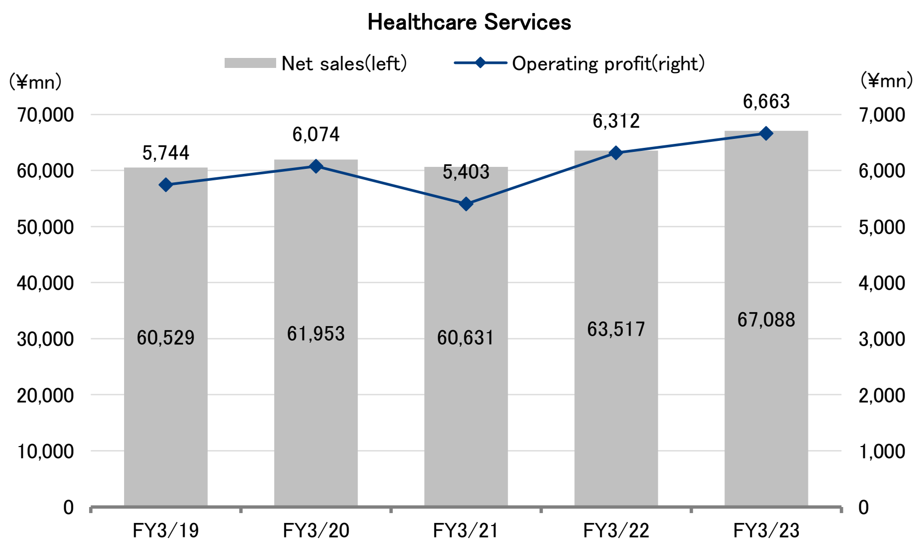
## Maintain strong performance in key services of Healthcare Services and major recovery of bedding and linen supply services for lodging facilities

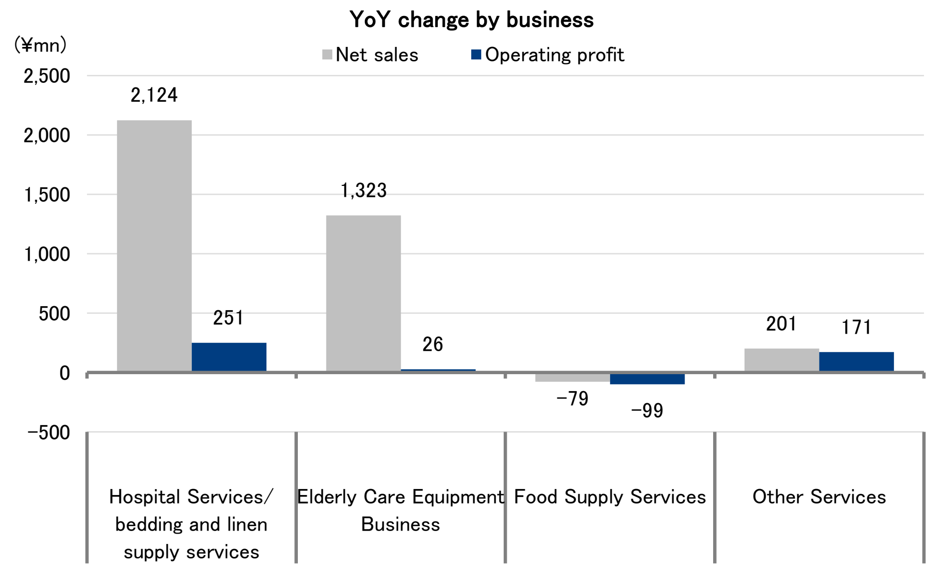
### 2. Result trends by business segment

#### (1) Healthcare Services

In Healthcare Services, net sales increased 5.6% YoY to ¥67,088mn and operating profit rose 5.6% YoY to ¥6,663mn, posting sales and profit growth for two fiscal years in a row and marking record highs. The mainstay Hospital Services and Elderly Care Equipment Business performed strongly, while bedding and linen supply services, which had been negatively impacted by the COVID-19 pandemic, recovered sharply. Earnings of the cleaning equipment manufacturing business also improved.




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

Net sales and operating profit of Hospital Services and the bedding and linen supply services increased ¥2,124mn YoY and ¥251mn YoY, respectively. The linen supply business for hospitals and nursing care facilities attracted new users such as private nursing care facilities and serviced apartments for senior citizens, with the number of contracted beds increasing 0.8% YoY. Sales of strategic products were brisk. Sales of hospitalization/residency sets*1 increased a brisk 11.2% as a result of stepping up sales activities targeting nursing care facilities, while sales of NEXSURG*2 grew a solid 5.4% YoY despite a reduced number of surgeries amid the pandemic, because demand for reuse systems increased amid heightened environmental awareness. Net sales increased 27.6% YoY in bedding and linen supply services for lodging facilities, rising for the second consecutive fiscal year, helped by rising hotel occupancy rates and the effect of price hikes to absorb rising energy costs. Net sales have recovered close to 90% of pre-pandemic levels.

*1 Hospitalization/residency set: A set of commodities rented at a fixed daily charge when people are hospitalized or enter a nursing care facility, 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.

Profit wise, growth of bedding and linen supply services for lodging facilities and sales growth effect of strategic products absorbed cost increases (including fuel costs) and the profit margin improved slightly.

**b) Elderly Care Equipment Business**

In the Elderly Care Equipment Business, net sales increased ¥1,323mn YoY and operating profit increased ¥26mn, 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 7.6%. Including subsidiary Youel Co., Ltd. in the scope of consolidation*1 added almost ¥300mn to net sales, and the acquisition of one business site by M&A*2 in August 2022 also contributed to sales growth. Direct rental sales adjusted for the effect of making Youel a consolidated subsidiary was up 6.1% YoY. Profit also increased, because the sales growth effect absorbed increases in the cost of rental materials and personnel expenses.

*1 In June 2018, the Company made Youel (based in Osaka Prefecture) a consolidated subsidiary.
*2 Assumed this business from Mominoki in August 2022 through a simplified absorption-type company split and opened a site of this business as the Toyokawa Office (Aichi Prefecture). Annual turnover is approx. ¥270mn.

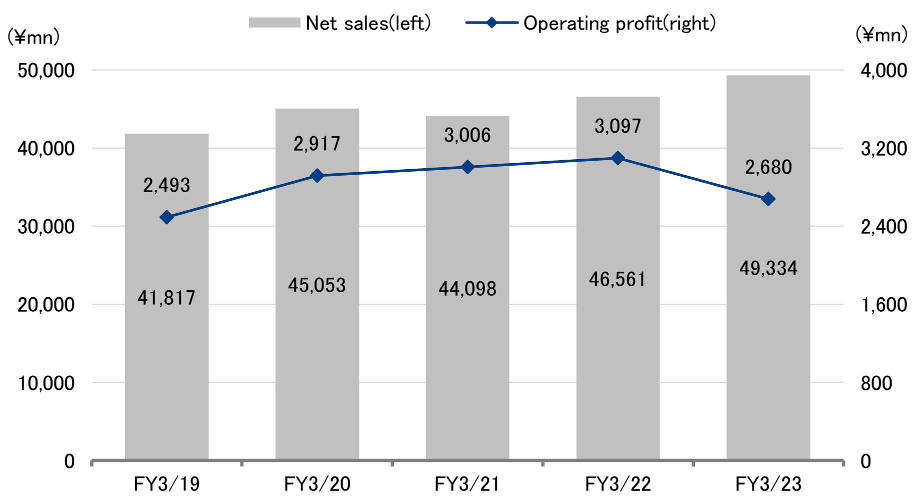
**c) Food Supply and Other Services**

In Food Supply Services, net sales decreased by ¥79mn and operating profit was down by ¥99mn. The main reason for lower net sales was a downturn in the number of nursing care facility residents and users of day care services amid the pandemic. On the profit side, in addition to the decrease in net sales, the decrease in profit was caused by skyrocketing foodstuff costs and a rising labor cost rate. In other businesses, which center on the cleaning equipment manufacturing business, net sales increased ¥201mn YoY and operating profit grew by ¥171mn. Both the cleaning equipment manufacturing business and Aqua Clara business experienced sales increases, which helped to improve profit as well.

**(2) Pharmacy Services**

In Pharmacy Services, net sales increased 6.0% YoY to ¥49,334mn and operating profit fell 13.5% YoY to ¥2,680mn. Net sales increased, because the number of prescriptions was up 7.8% YoY (due to the new store effect, including stores opened in FY3/22), which absorbed the 1.8% decline in prescription unit prices associated with the NHI drug price revisions. There were 149 pharmacies at end-FY3/23, an increase of 4 (including 2 added by M&A) compared to the end of the previous fiscal year.

**Pharmacy Services**




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

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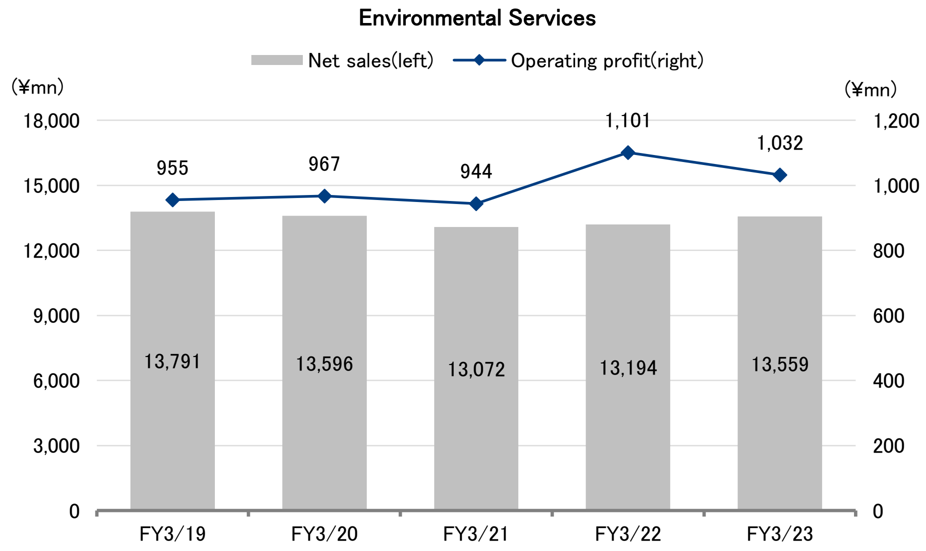
Looking at a breakdown of factors affecting net sales, sales from drugs increased ¥2,266mn in conjunction with the increase in the number of prescriptions, sales from technical fees were up ¥453mn, and other sales rose ¥53mn. Looking at factors affecting operating profit, although profit increased ¥453mn due to higher sales from technical fees, the impact of drug price revisions, etc. had a ¥277mn negative impact on profit and rise in store expenses and other costs a ¥593mn negative impact. The negative impact on profit of drug price revisions, etc. also includes an increase in drug procurement costs due to the supply shortage of generic drugs. Regarding store expenses and other costs, multiple openings of large-scale stores in 2H FY3/22 resulted in an increase in labor expenses, rental fees, and utility costs.

### (3) Environmental Services

In Environmental Services, net sales increased 2.8% YoY to ¥13,559mn and operating profit decreased 6.2% YoY to ¥1,032mn.




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

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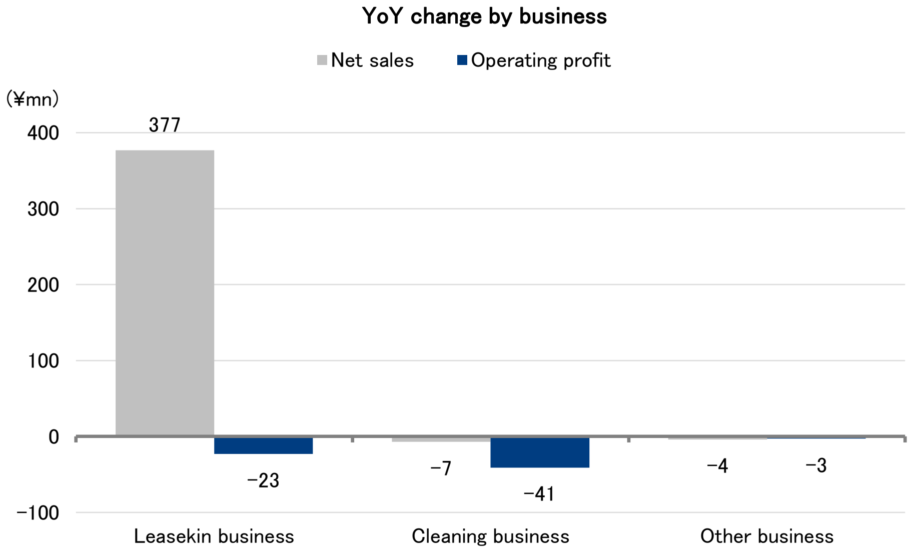


Source: Prepared by FISCO from the Company's results briefing materials

In the Leasekin business, net sales increased ¥377mn and operating profit was down ¥23mn. This was mainly the result of increases in product sales of materials, etc. for affiliated stores due to the recovery in demand from COVID-19, especially an 8.3% YoY increase in sales of toilet-peripheral products, which are focus items, against the backdrop of heightened sanitation management needs and labor shortage. Profit declined, however, due to an increase in fuel and FC headquarters expenses, and higher depreciation from investment in systems and laundry equipment. The increase in FC headquarters expenses came from running various types of events for sales promotion and holding the national meeting of affiliated stores after a period of restraint during the pandemic.

In the cleaning business, net sales decreased by ¥7mn YoY and operating profit fell ¥41mn. Although sales of hospital cleaning (a high value-added business) increased a steady 8.1% YoY, sales of the cleaning business for general facilities turned down. Profit wise, initiation of new contracts and an increase in one-time expenses from a concentration of special jobs occurring in regular cleaning were negative factors.

## The financial condition continues to be good

### 3. Financial condition and management indicators

The Company's financial condition as of the end of FY3/23 was as follows. Total assets increased ¥4,885mn from the end of the previous fiscal year to ¥110,785mn. The main reasons for the changes were, in current assets, attributable to an increase in cash and deposits of ¥276mn and respective increases of ¥789mn in inventories, ¥934mn in notes and accounts receivable – trade and ¥566mn in securities. In non-current assets, there were increases of ¥1,853mn in tangible assets from an increase of construction in progress from the start of construction of the Saitama Plant and ¥171mn in goodwill from carrying out M&A.

Total liabilities increased by ¥181mn to ¥28,562mn compared to the end of FY3/23. Notes and accounts payable – trade increased ¥853mn and accounts payable – other increased ¥106mn, offset against decreases in income taxes payable of ¥432mn and interest-bearing debt of ¥522mn. Total net assets increased ¥4,704mn to ¥82,223mn. The reason for the increases was recording ¥6,106mn in profit attributable to owners of parent despite ¥1,549mn in expenses for payment of dividends.

Looking at management indicators, the equity ratio rose by 1.0 percentage points, from 72.7% at the previous fiscal year-end to 73.7%, and the interest-bearing debt ratio declined by 0.9 percentage points. The operating margin at 6.0% was down 0.7pp YoY, but this is mainly due to the lower profitability of the Pharmacy Services segment. We can say that making Pharmacy Services more profitable is a management priority going forward, although one of the strengths of the Company's business model is its stable earnings structure due to the mainstay rental businesses such as line supply and Leasekin.

Consolidated balance sheet

(¥mn)

| | FY3/20 | FY3/21 | FY3/22 | FY3/23 | Change |
|---|---|---|---|---|---|
| Current assets | 55,657 | 58,769 | 59,748 | 62,628 | 2,880 |
| (Cash and deposits) | 32,202 | 35,148 | 35,794 | 36,070 | 276 |
| (Inventories) | 5,360 | 5,646 | 4,635 | 5,424 | 789 |
| (Securities) | 385 | 93 | 361 | 927 | 566 |
| Non-current assets | 41,374 | 43,411 | 46,151 | 48,157 | 2,006 |
| Total assets | 97,031 | 102,180 | 105,900 | 110,785 | 4,885 |
| Current liabilities | 22,859 | 22,689 | 23,194 | 23,561 | 367 |
| Non-current liabilities | 5,350 | 5,612 | 5,186 | 5,000 | -186 |
| Total liabilities | 28,210 | 28,302 | 28,381 | 28,562 | 181 |
| (Interest-bearing debt) | 4,176 | 3,876 | 3,398 | 2,876 | -522 |
| Total net assets | 68,821 | 73,878 | 77,519 | 82,223 | 4,704 |
| (Stability) | | | | | |
| Equity ratio | 70.5% | 71.8% | 72.7% | 73.7% | 1.0pt |
| Interest-bearing debt ratio | 6.1% | 5.3% | 4.4% | 3.5% | -0.9pt |
| Net cash | 28,411 | 31,365 | 32,757 | 34,121 | 1,364 |
| (Profitability) | | | | | |
| ROA | 8.5% | 8.1% | 8.5% | 7.5% | -1.0pt |
| ROE | 7.8% | 7.7% | 7.7% | 7.7% | 0.0pt |
| Operating profit margin | 6.5% | 6.2% | 6.7% | 6.0% | -0.7pt |

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

# Business Outlook

## Looks for lower profit on higher sales in FY3/24 due to expense increase associated with new plant starting operation

### 1. Outlook for FY3/24

For the FY3/24 consolidated results outlook, the Company forecasts an increase in net sales by 4.2% YoY to ¥135,609mn, a decrease in operating profit by 5.3% to ¥7,437mn, a decrease in ordinary profit by 3.4% to ¥7,804mn, and a decrease in profit attributable to owners of parent by 16.1% to ¥5,121mn.

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### Consolidated outlook for FY3/24

(¥mn)

| | FY3/23 | | FY3/24 | | |
|---|---|---|---|---|---|
| | Results | Vs. sales | Forecasts | Vs. sales | YoY |
| Net sales | 130,184 | - | 135,609 | - | 4.2% |
| Operating profit | 7,855 | 6.0% | 7,437 | 5.5% | -5.3% |
| Ordinary profit | 8,080 | 6.2% | 7,804 | 5.8% | -3.4% |
| Profit attributable to owners of parent | 6,106 | 4.7% | 5,121 | 3.8% | -16.1% |
| EBITDA* | 12,144 | 9.3% | 12,478 | 9.2% | 2.8% |
| Earnings per share (¥) | 173.39 | | 145.47 | | |

* EBITDA=operating profit + depreciation + amortization of goodwill
Amortization of goodwill in FY3/24 estimated by FISCO based on the most recent results
Source: Prepared by FISCO from the Company's financial results

The Company looks for net sales growth in all business segments. It expects continued expansion of mainstay rental sales amid the growing need for cleaning and health, the themes of its business development. In Pharmacy Services, it also forecasts net sales growth driven by an increase in the number of prescriptions due to opening more pharmacies. Although the Company forecasts a decline in operating profit due to cost increases, including a ¥740mn YoY rise in depreciation expenses associated with a new plant starting operation in fall 2023, core systems renewal, and aggressive investment in rental materials, it looks for a 2.8% increase in earnings before income tax, depreciation and amortization (EBITDA). Despite the outlook for increased fuel and utility expenses due to high energy prices, the Company plans price hikes to absorb these costs. It raised prices of hotel linen, nursing assistance, and Food Supply Services in FY3/23, and began increasing prices across a broader range of services from April 2023 onward. It remains to be seen by how much it can raise prices of its linen supply service for hospitals and nursing facilities, which it plans to begin in stages, because many hospitals and nursing facilities have been struggling financially since the pandemic. The Company forecasts a double-digit decline in profit attributable to owners of parent due to the dropout of extraordinary income recorded in FY3/23.

The Company intends to increase capital investment in FY3/24 by ¥3,106mn to ¥9,580mn (a record high). The main factors behind the increase are investment in the new Saitama Plant (¥1,049mn), rental materials (¥583mn), expenses for opening new pharmacies (¥507mn), and system-related investment (¥502mn).

### Breakdown of capital investment and depreciation

(¥mn)

| | FY3/21 | FY3/22 | FY3/23 | FY3/24 forecast | YoY difference |
|---|---|---|---|---|---|
| Rental materials | 1,082 | 1,285 | 1,396 | 1,979 | 583 |
| Plant and other facilities | 410 | 599 | 465 | 778 | 313 |
| New pharmacy opening costs, etc. | 395 | 1,262 | 186 | 693 | 507 |
| System-related | 609 | 693 | 499 | 1,001 | 502 |
| New plants | - | 211 | 2,784 | 3,833 | 1,049 |
| Other | 916 | 670 | 1,142 | 1,294 | 152 |
| Total capital investment | 3,414 | 4,722 | 6,474 | 9,580 | 3,106 |
| Depreciation | 3,553 | 3,863 | 4,189 | 4,929 | 740 |

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

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The Company began construction of its new Saitama Plant in Moroyamamachi, Saitama Prefecture in July 2022, which is scheduled to begin full-scale operation in fall 2023. A project with total investment of ¥8.4bn, it will combine functions of a laundry plant for hospital linens and a maintenance center for elderly care equipment and serve as the main factory covering the Kanto area. Once the Saitama Plant goes onstream, the Company will expand its Kanto area business scale even further and aims to roughly double rental sales of the Elderly Care Equipment business in the Kanto area within 10 years. Productivity of the hospital linen laundry plant is forecast to improve by around 40% and $CO_2$ emissions will be cut by around 17%* compared with the existing Yokohama Plant, because the hospital linen plant of the new, environmentally conscious plant will have the latest equipment, helping to reduce environmental impact. Although the new plant will be a negative factor for profit in FY3/24 due to start-up costs and increased depreciation expenses, it is expected to contribute to earnings expansion from FY3/25 onward.

* Improvements of 10% per unit of fuel consumption rate, 5% in electricity consumption rate, and 20% in water consumption rate are expected as a result of actions such as installing highly efficient boilers and solar panels, and introducing large washing machines that use far less water

As well, investment in rental materials (mainly elderly care equipment and materials for hospitals) has increased, due in part to purchases being delayed from the previous fiscal year. System-related investment is also expected to increase due to renewal of core systems in Healthcare Services and promoting DX initiatives in each business.

## All three segments to increase sales in FY3/24; operating profit up for Pharmacy Services and Environmental Services

### 2. Outlook by business segment

Results outlook by business segment

(¥mn)

| Net sales by business | FY3/20 | FY3/21 | FY3/22 | FY3/23 | FY3/24 E | YoY |
|---|---|---|---|---|---|---|
| Healthcare Services | 61,953 | 60,631 | 63,517 | 67,088 | 69,607 | 3.8% |
| Pharmacy Services | 45,053 | 44,098 | 46,561 | 49,334 | 50,880 | 3.1% |
| Environmental Services | 13,596 | 13,072 | 13,194 | 13,559 | 14,939 | 10.2% |
| Other Services | 206 | 206 | 211 | 202 | 181 | -10.3% |
| Total | 120,809 | 118,009 | 123,484 | 130,184 | 135,609 | 4.2% |

| Operating profit by business | FY3/20 | FY3/21 | FY3/22 | FY3/23 | FY3/24 E | YoY |
|---|---|---|---|---|---|---|
| Healthcare Services | 6,074 | 5,403 | 6,312 | 6,663 | 6,241 | -6.3% |
| Pharmacy Services | 2,917 | 3,006 | 3,097 | 2,680 | 2,765 | 3.1% |
| Environmental Services | 967 | 944 | 1,101 | 1,032 | 1,147 | 11.1% |
| Other Services | 29 | 31 | 34 | 16 | -18 | - |
| Elimination of internal transactions | -2,081 | -2,091 | -2,294 | -2,538 | -2,696 | - |
| Total | 7,908 | 7,294 | 8,252 | 7,855 | 7,437 | -5.3% |

| Operating profit margin by business | FY3/20 | FY3/21 | FY3/22 | FY3/23 | FY3/24 E | YoY |
|---|---|---|---|---|---|---|
| Healthcare Services | 9.8% | 8.9% | 9.9% | 9.9% | 9.0% | -0.9pt |
| Pharmacy Services | 6.5% | 6.8% | 6.7% | 5.4% | 5.4% | 0.0pt |
| Environmental Services | 7.1% | 7.2% | 8.3% | 7.6% | 7.7% | 0.1pt |
| Other Services | 14.1% | 15.0% | 16.1% | 7.9% | -9.9% | -17.8pt |
| Total | 6.5% | 6.2% | 6.7% | 6.0% | 5.5% | -0.5pt |

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

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### (1) Healthcare Services

In Healthcare Services, the Company forecasts a 3.8% YoY increase in net sales to ¥69,607mn and 6.3% decrease in operating profit to ¥6,241mn. In Hospital Services and bedding and linen supply services, the Company looks for continued net sales growth of ¥1,293mn, but a ¥432mn decrease in operating profit. Strategic products and hotel linen services will continue to drive net sales. Among strategic products, the Company forecasts a 10.6% YoY increase in sales of hospitalization/residency sets by attracting new users among elderly care facilities and 9.4% increase in sales of NEXSURG due to factors including expanding sales of hybrid systems combined with disposable medical materials and product improvements to better fulfill customer needs in addition an increase in the number of surgeries. The Company forecasts a 5.2% YoY rise in sales of bedding and linen supply services for lodging facilities as a result of higher hotel occupancy rates. While the Company sees sales recovering to pre-pandemic levels, its sales plan is somewhat conservative, because hotel occupancy rates have not fully recovered amid labor shortages. Negative factors for profit include increased depreciation expenses and one-time expenses such as tax on property purchase associated with the new plant starting up and depreciation expenses related to renewal of core systems.

In the Elderly Care Equipment Business, the Company forecasts increases of ¥1,004mn in net sales and ¥80mn in operating profit. It plans to expand market share in the Tokyo area by establishing two new business bases to provide a support structure with close attention to detail. In FY3/24, it also plans to open a new maintenance center in Kyushu. Currently, a maintenance center in Kagawa Prefecture supplies products to its five business bases in Kyushu in the cities of Kitakyushu, Fukuoka Kumamoto, Nagasaki, and Isahaya. The Company aims to increase market share in the Kyushu area by opening a new maintenance center there, which will streamline logistics and enable timely supply of products. It will also continue airing TV commercials screening since the previous fiscal year in the Chubu area to raise its profile, which will help to grow sales and facilitate recruitment. In terms of profit, the Company forecasts a profit increase based on the sales growth effect absorbing expenses increases for rental material purchases and higher depreciation and personnel expenses for the new plant starting up.

In Food Supply Services, the Company forecasts YoY increases of ¥286mn in net sales and ¥54mn in operating profit. It aims to increase net sales by acquiring new customers, recovery in the number of meals for existing customers, and reviewing transaction prices. It also targets a profit increase by absorbing the lingering effects of rising food prices by the sales growth effect (including transaction price revisions).

In other business, the Company forecasts decreases of ¥64mn in net sales and ¥124mn in operating profit. Although earnings of cleaning equipment manufacturing subsidiary Purex Co., Ltd. are recovering, the bulk of sales in FY3/24 will be from equipment for the new Saitama Plant. Accordingly, it will be a negative factor for net sales and operating profit because the business is treated as intracompany transactions in consolidated results.

### (2) Pharmacy Services

In Pharmacy Services, the Company forecasts increases of 3.1% YoY in net sales to ¥50,880mn and 3.1% in operating profit to ¥2,765mn. It plans to open 11 pharmacies (including those acquired by M&A), of which 7 are already in progress. The Company has traditionally opened pharmacies in front of medical institutions, but plans to focus on other formats such as pharmacies in medical malls for a more diversified management structure. Of the 11 new pharmacies planned for FY3/24, only 5 are fronting hospital pharmacies.

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In FY3/24, the Company forecasts a 3.0% YoY increase in the number of prescriptions and 0.2% YoY increase in prescription unit prices, which are components of sales. Although the Company's outlook for the increase in the number of prescriptions appears conservative considering that it opened 4 pharmacies in FY3/23 and plans to open 11 in FY3/24, we think this is due to the majority of new pharmacies being scheduled to open in 2H. While prescription unit prices will be impacted by a small drop in the unit price of drugs due to NHI drug price revisions, the Company plans to absorb this by raising the unit price for technical fees in such ways as increasing the number of community pharmacies that qualify for the local support system premium. It also aims for higher profit by increasing the number of prescriptions and raising the unit price for technical fees (which directly impact on profit) to counteract rising personnel and store expenses. It appears that a supply shortage that caused increases in procurement costs in FY3/23 will continue to have an impact in FY3/24 with the most recent issue still to be resolved.

In FY3/24, the Company plans to focus on strengthening home medical care and training specialized pharmacists and strengthening registration of certified pharmacies. It also plans to harness IT to improve user convenience, such as making online drug guidance for patients and handling of electronic prescriptions available at all of its pharmacies as a way to increase the number of users. For home medical care services, the Company plans to increase the number of pharmacies specializing in this area, add pharmacies with sterile compounding rooms, and streamline operations by developing an app for producing home medical care reports. For specialized pharmacists, the Company targets an increase in pharmacists who specialize in cancer, diabetes, dementia, etc., from 54 at end-FY3/23 to 120 or more in FY3/24 and will support acquisition of qualifications in each of these fields. It also aims to increase the number of certified pharmacies (total for regional cooperation pharmacies, specialized medical institution cooperation pharmacies, and health support pharmacies) from 47 in FY3/23 to 89 in FY3/24. In August 2022, the Company launched a LINE mini-app for Tanpopo Pharmacy to offer a range of services as an initiative to retain and increase the number of users by improving user convenience. Progress was solid as of May 2023, with over 50,000 users registered on the app. The Company's target for now is 100,000 registered users.

**(3) Environmental Services**

In Environmental Services, the forecasts are for double-digit increases in sales and profit, with net sales to increase 10.2% YoY to ¥14,939mn and operating profit to increase 11.1% to ¥1,147mn.

In the Leasekin business, the Company forecasts YoY increases of ¥1,242mn in net sales and ¥40mn in operating profit. Factors contributing to the increase in net sales are the effect of the absorption-type merger with RENTEX Co., Ltd.*, which became a subsidiary in October 2021, on April 1, 2023, and sales growth of toilet-peripheral products. The Company forecasts profit growth despite an increase in expenses for FC headquarters due to improved business efficiency (mainly savings in logistics costs) as a result of an absorption-type merger with two group companies (RENTEX and one consolidated subsidiary).

* In October 2021, the Company acquired a 90% stake in RENTEX Co., Ltd., which was established by Hakuyosha Co., Ltd.<9731> after splitting off the business in July 2021, and made it a subsidiary (the completion of its transformation into a subsidiary was announced on November 30, 2022). It had sales of around ¥1.7bn when it was made into a subsidiary and many large customers, including major hotels and factories.

In the cleaning business, the Company forecasts increases of ¥127mn in net sales and ¥22mn in operating profit. It aims to increase sales and profit by winning contracts to clean operating rooms (a high value-added contract in hospital cleaning, which accounts for around 80% of net sales). As a new initiative, it will also set up a structure for operating room preparation operations*. The Company forecasts a ¥51mn profit increase in other business due to the dropout of a one-time expense associated with real estate sales in FY3/23.

* 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.

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# Medium-term management plan

## Steady progress with growth strategies in Healthcare Services, Pharmacy Services, and Environmental Services; heightened growth potential after new Saitama Plant begins operation

### 1. Overview of the medium-term management plan

The Company formulated “Challenge for the new Stage!,” a 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 aims for growth as a corporate group that solves societal problems in the “medical care,” “nursing care,” and “environment” business areas and contributes to the realization of a sustainable society. Looking at progress after the end of the second year (FY3/23), profit is trailing targets despite steady net sales growth due to additional negative factors compared with the time the plan was formulated, including sharply higher energy costs, cost increases associated with a supply shortage of drugs, and a rise in personnel expenses stemming from the labor shortage. The Company has nonetheless maintained and even increased investment needed for sustained growth, and is making solid progress in terms of building a foundation for growth in our view. The basic policies, progress with business strategies, and numerical management targets 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
- Foster a corporate culture in which employees can continue to work with motivation and pride

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### (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. At the same time, it will aim to differentiate from the products of competitors with strategic products, hospitalization sets and NEXSURG, including by creating high added value and adding new items. The new Saitama Plant starting operation is also likely to strengthen its earnings capability. 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 further solidifying its place as Japan's No. 1 provider of elderly care equipment rentals, the Company will continue to proactively invest management resources. Along with its new maintenance centers (at the new Saitama Plant and in Kyushu) starting operation lifting its sales growth potential, the Company will strive to differentiate itself from competitors by improving service provision and speed and offering highly convenient services through logistics reforms and promoting DX, and training skilled, highly specialized personnel. 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 medical care services that will help to solve societal problems.
Specific examples include two clinical studies with a view to commercialization of iAide2, a wristband type wearable device. The Company aims to complete in FY3/24 a clinical study*2 to detect asymptomatic atrial fibrillation*1 in collaboration with Tokyo Medical and Dental University Hospital, which started in January 2022. This clinical study had by the end of March 2023 confirmed some positive results by detecting asymptomatic atrial fibrillation in nine out of 417 participants examined.

*1 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.

*2 A joint project with Tokyo Medical and Dental University Hospital, Shizuoka City, the Shizuoka City Shimizu Medical Association and TDK Corporation<6762>.

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In October 2022, the Company and Gifu University Hospital began a joint clinical study with chronic heart disease patients who require cardiac rehabilitation. The research, which is aimed at patients with chronic heart conditions who require cardiac rehabilitation, will verify that providing appropriate exercise management by visualizing the status of their in-home activities through vital data (such as pulse rate and steps) collected using iAide2, which a doctor or physical therapist will use as a base, contributes to improving the exercise tolerance of test subjects. The Company plans to make a presentation at an academic conference once a large volume of data has been collected. The current reality is that although there are medical staff who provide guidance for appropriate rehabilitation during hospital stays, doctors and physical therapists are unable to determine whether or not patients are doing the same type of rehabilitation at home unless stated by the patients themselves, and symptoms worsen for many after they leave hospital. If iAide2 can be used to continue appropriate rehabilitation while examining the patient's at-home status as data, this will ultimately prevent the symptoms of heart conditions from worsening and help to extend healthy life expectancies. The research team plans to publish their findings at an academic conference after acquiring data for around 100 patients. The Company intends to use the evidence obtained through the clinical research to work toward practical implementation.

The Company is also aggressively implementing initiatives to pioneer overseas markets. It established a company for linens, medical equipment and materials leasing in South India in October 2022 in a joint venture with Toyota Tsusho Corporation <8015>, with a 45% stake. The joint venture began a hospital linen supply service in India in collaboration with a local hospital cleaning company and laundry company in which the Company has a stake. It attaches radio frequency identification (RFID) to linen products for IC tag management at time of shipments and within the factory. A pilot test of the RFID system began in May 2023 at a Japanese-style general hospital run by Secom Medical System Co., Ltd. (a group company of Secom Co., Ltd. <9735>) and Toyota Tsusho. Once the Company has confirmed that the system reduces hospitals' workload, it plans to begin marketing it to hospitals in earnest. Using hospital linen supply services as a starting point, the Company intends to work on obtaining business opportunities for medical peripheral services in the Indian market, where high-level growth will continue.

**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. This entails opening a diverse range of pharmacies from fronting hospital pharmacies to those on hospital premises, located near clinics, in medical malls, and specializing in home medical care to build a more diverse management structure. The Company also plans to develop "life solution type pharmacies" that are a familiar part of local residents' daily lives. 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. It will also work to improve customer convenience through work reforms via DX and service expansion using LINE.

**c) Environmental Services**

In Environmental Services, the Company will further bolster its strength of being a "sanitation management professional" and work on changing to a business structure that can sustain growth. In the Leasekin business, it will focus on increasing sales of and developing products that meet sanitation management needs, centered on toilet-peripheral products, and increase the percentage of sales provided by these products. Meanwhile, in 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 operating room preparation operations* to enhance hospital cleaning. It intends to improve profitability by increasing the ratio of sales for hospitals to total sales (the current ratio is about 80%).

In Environmental Services, we see substantial growth potential for both the Leasekin and cleaning businesses, because demand will expand in a labor shortage situation.

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### (3) DX Initiatives

As one strategy for future growth, the Company has begun to build a company-wide DX platform. In order 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 aggressive DX investment during the medium-term management plan period. For concrete initiatives, after holding an e-learning lecture for all employees starting in June 2022, it ran a course to develop DX promoters beginning in July of the same year, with about 70 employees completing the first and second courses. Those who completed the course is advancing DX initiatives in their own departments going forward. Around 60 employees are scheduled to attend the course in FY3/24 with a target of 180 DX promoters trained in total by the end of FY3/25. Moreover, to share knowledge Companywide, an internal portal site for DX-related information was launched in July 2023.

On the business front, the Company is promoting DX measures that will lead to improved process efficiency and improved customer convenience. Apart from the LINE mini-app for Tanpopo Pharmacy, in the Elderly Care Equipment Business, the Company has introduced an e-signature system for signing contracts, digitalized business forms related to main transactions including rental contracts, and begun automating order process duties through coordination with core systems. It is expected that the introduction of these systems will improve the productivity of sales staff, which will result in a reduction of overtime. In the Leasekin business, after completely transitioning bills from FC headquarters to affiliate stores to an online format in FY3/22, it plans to gradually move ahead with transitioning the bills to corporate customers to an online format from 2023 onward.

### (4) Numerical management targets

The numerical management targets for FY3/25, the plan's final fiscal year, are net sales of ¥140.0bn 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. Among CAGR for net sales by segment, the rate is the highest in Pharmacy Services at 5.2%, factoring in the effect of opening large pharmacies, followed by 4.0% in Healthcare Services, and 3.2% in Environmental Services.

The Company projects the operating profit margin to increase from 6.2% in FY3/21 to 6.8% in FY3/25. Among these, 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.

**Numerical management targets**

(¥mn)

| | FY3/21 | FY3/22 | FY3/23 | FY3/24 | FY3/25 targets | CAGR* |
|---|---|---|---|---|---|---|
| Net sales | 118,009 | 123,484 | 130,184 | 135,609 | 140,000 | 4.4% |
| Healthcare Services | 60,631 | 63,517 | 67,088 | 69,607 | 71,000 | 4.0% |
| Pharmacy Services | 44,098 | 46,561 | 49,334 | 50,880 | 54,000 | 5.2% |
| Environmental Services | 13,072 | 13,194 | 13,559 | 14,939 | 14,800 | 3.2% |
| Other Services | 206 | 211 | 202 | 181 | 200 | -0.7% |
| Operating profit | 7,294 | 8,252 | 7,855 | 7,437 | 9,500 | 6.8% |
| Operating profit margin | 6.2% | 6.7% | 6.0% | 5.5% | 6.8% | |

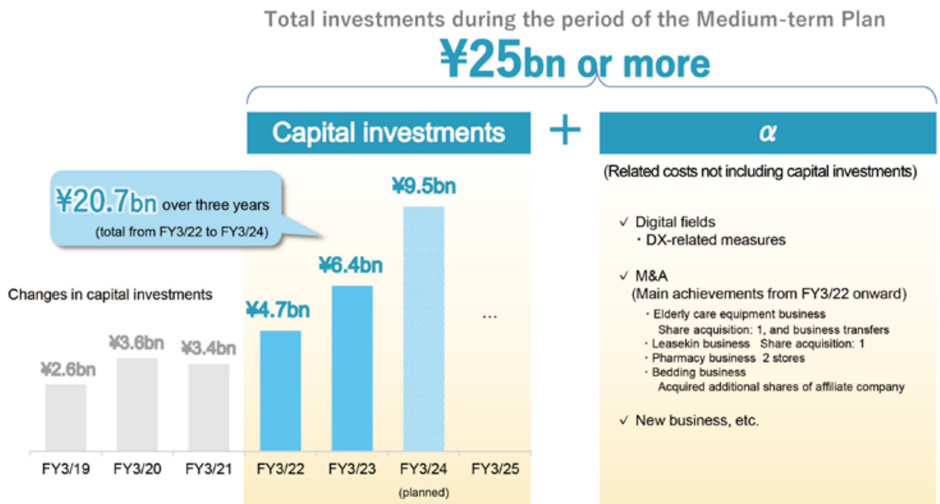
* Four-year CAGR with FY3/21 as the first years
Source: Prepared by FISCO from the Company's results briefing materials and medium-term management plan

To reiterate, progress through FY3/23 is more or less on track for net sales, but somewhat falling behind for operating profit due to cost increases stemming from higher energy prices and tight supply of drugs, and an increase in personnel expenses. If earnings are in line with the company plan in FY3/24, operating profit in FY3/25 may fall slightly short of target. However, this will depend on energy price trends going forward, progress of price increases in Healthcare Services, and content of dispensing fee revisions in FY2024 in Pharmacy Services.

#### (5) Growth investment plan

The Company was planning to make a total of ¥25.0bn in growth investments during the period of its medium-term management plan, but is likely to exceed this total due to aggressive growth investment activity. Investments including the FY3/24 plan total ¥20.7bn and investments totaling around ¥5.0bn are planned for FY3/25. Related costs not included in capital investment are investments in DX-related initiatives, M&A expenses, and new business-related investment. The Company intends to reinforce its foundation for future growth by maintaining and expanding its growth investment.

Investment during medium-term plan period




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. Initiatives for sustainability

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. In August 2022, it established a page for sustainability on its corporate website where it introduces the history of initiatives toward sustainability at the Company, identifies materialities in the fields of environment, health, and society, and explains key initiatives, etc.

**Materiality and Key Initiative**

| | Materiality | Key Initiative |
|---|---|---|
| Environment | Promote a circular economy | • Reduce waste occurring through disposable goods through increasing sales of rental products<br>• Reduce waste by reusing and reducing rental materials |
| | Realize a carbon-free society | • Reduce $CO_2$ emissions by improving the energy consumption rate at the laundry plant<br>• Create clean energy through solar power generation |
| | Effective use of water resources | • Reduce the amount of water resources consumed at the laundry plant by recycling laundry waste water |
| | Waste reduction | • Cut down on consumption of food material resources and reduce waste by reducing food loss in Food Supply Services<br>• Reduce general waste by eliminating paper |
| Health | Support independence of the elderly | • Support the independence of the elderly through rentals of elderly care equipment, which will lead to the extension of their healthy lives |
| | Expand opportunities for medical access | • 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. |
| Society | Promote diversity management | • Strive to create workplaces in which everyone can flourish by responding to diverse workstyles, particularly to support childcare<br>• Increase the percentage of women in managerial positions, which will lead to the creation of an organization that utilizes diversity<br>• Create workplaces in which people with disabilities can easily work and secure employment opportunities for them |

Source: Prepared by FISCO from the Company's homepage

In March 2023, the Company established medium- to long-term greenhouse gas (GHG) emissions reduction targets. Specifically, it aims to reduce the total* of Scope 1 (direct GHG emissions from the use of fuels by the reporting company itself) and Scope 2 (indirect GHG emissions from the use of electricity, heat, or steam supplied by others) emissions by 50.4% by 2030 versus 2018, and be carbon neutral by 2050. The Company plans to work with suppliers to review initiatives for reducing Scope 3 emissions (GHG emissions in the supply chain). It established the Tokai Group Human Rights Policy in March 2023 and plans to publish an Integrated Report in FY3/24, delivering integrated financial and non-financial information with the goal of further enhancement of corporate value.

* The scope of calculation is three companies (Tokai Corp., Tokai Corporation (Shikoku), and Dojinsha Co., Ltd.) that are required by law to report GHG emissions. Governing laws are the Act on the Rational Use of Energy (Energy Conservation Act) and Act on Promotion of Global Warming Countermeasures.

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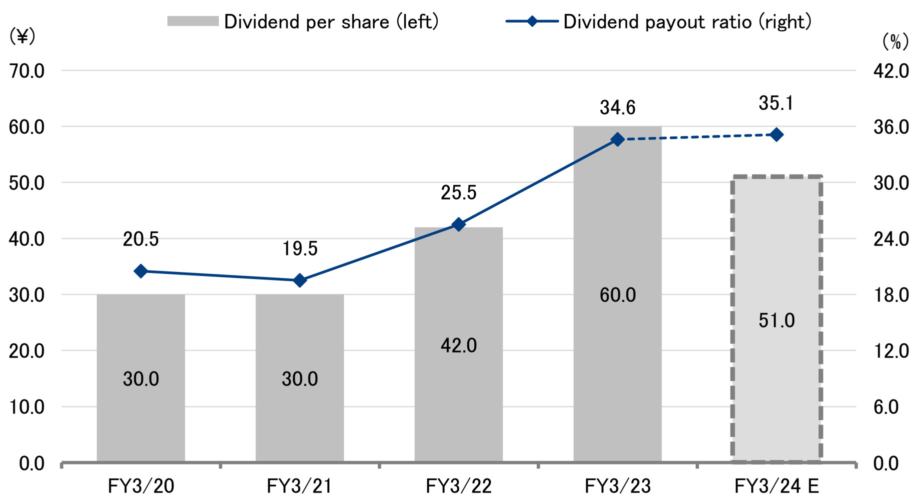
# Shareholder return policy

## Raised the target for dividend payout ratio from 25% to 35%

Regarding its shareholder returns policy, the Company raised its target for the dividend payout ratio from 25% to 35% from FY3/23 for further enhancement of shareholder returns based on the status of capital. As a result, dividend per share in FY3/23 was ¥60.0 (dividend payout ratio of 34.6%), an increase of ¥18.0 from the previous fiscal year. In FY3/24, the Company forecasts dividend per share of ¥51.0 (35.1%), a decrease of ¥9.0, because of its outlook for a fall in profit attributable to owners of parent. If profit growth continues going forward and the dividend payout ratio falls below 35%, dividend increases can be expected. The Company will also flexibly and appropriately consider share buybacks depending on the level of its stock price.

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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