COMPANY RESEARCH AND ANALYSIS REPORT

TOKAI Corp.

9729

Tokyo Stock Exchange Prime Market

12-Feb.-2025

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Contents

Summary

Aggressive promotion of growth investment such as a factory investments and M&A, aiming to achieve ROE of 8% at an early stage under the next medium-term management plan

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

1. Overview of 1H FY3/25 results

In the Company's consolidated results for 1H FY3/25 (April–September 2024), net sales increased 7.2% year on year (YoY) to ¥72,725mn and operating profit decreased 0.6% to ¥3,664mn. Net sales increased mainly due to favorable sales in the mainstay rental business, along with sales growth in the hotel linen and Cleaning Equipment Manufacturing Business, as well as making a subsidiary of mikjapan Co., Ltd. (July 2024), which operates drug store and rehabilitation-type daycare service businesses, among others. On the other hand, operating profit decreased slightly, mainly due to the depreciation burden of the Saitama Plant, which started operation in October 2023, and increased costs in the Pharmacy Services. The impact of Mikjapan on the Company's results was an addition of ¥1,350mn to net sales, while on operating profit it had a slightly negative impact, including factors such as M&A expenses and goodwill amortization. The Company has not announced plans for 1H, however, net sales and operating profit both appear to be slightly higher than plan.

2. Outlook for FY3/25

The Company's full-year FY3/25 consolidated results forecast remains unchanged from the initial forecast for a 3.4% YoY increase in net sales to ¥142,925mn and 4.8% decline in operating profit to ¥7,695mn. A net sales increase is forecast in all segments, for a fourth consecutive fiscal year of sales increases. Operating profit is expected to be weighed down by negative factors including increases in personnel costs and depreciation burden, but this is seen as upfront investment for future growth. The Company followed its making Mikjapan a subsidiary by acquiring all of the shares of Kaigo Center Hanaoka Co., Ltd., which operates an elderly care equipment business (rental and sales of elderly care equipment) in Nagano and Yamanashi Prefectures, making it a subsidiary. The effects of these M&As have not been factored into the initial plan, leaving considerable upside potential for net sales. The impact on the Company's profit base is currently under examination, but Group synergies are expected from FY3/26 onward. In particular, in the elderly care equipment business going forward, the Company will aggressively promote M&As to develop it as a growth driver.

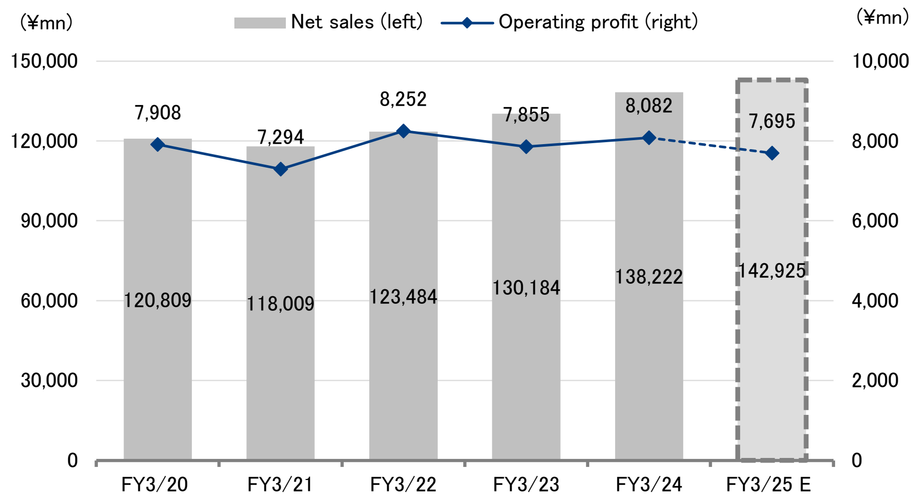
3. Outline of next medium-term management plan

The Company has announced the outline of its next medium-term management plan (FY3/26–FY3/28). By engaging in "transformation" to increase profitability, "creation" of new value, and "continuation" of efforts to strengthen the growth foundation, the Company aims to realized ROE of 8% at an early stage (FY3/24 result: 6.9%). The Company will conduct structural reforms of each business with a view to maximizing profits, and enhance profitability, while working to develop new businesses that will drive growth 10 years in the future. In addition, with regard to shareholder returns, the Company's policy is to provide a total return ratio of over 70% cumulatively over the three-year period, and it intends to conduct flexible treasury share acquisitions in addition to stable dividends. For FY3/25, the Company is aiming for a consolidated dividend payout ratio of around 35%, and plans to pay a dividend of ¥58.0 per share (dividend payout ratio of 36.6%), the same amount as the previous fiscal year. With the treasury share acquisition of approximately ¥2.9bn conducted in May, the Company expects the total return ratio for FY3/25 to be around 90%.

Key Points

- Net sales for 1H FY3/25 continued to achieve new record highs, with EBITDA also increasing, despite a decrease in operating profit
- FY3/25 earnings plan remains unchanged from the initial plan, without factoring in M&A effect
- Under the next medium-term management plan, the Company aims to achieve ROE of 8% by incorporating profitability increases and the development of new businesses

Trends in consolidated results



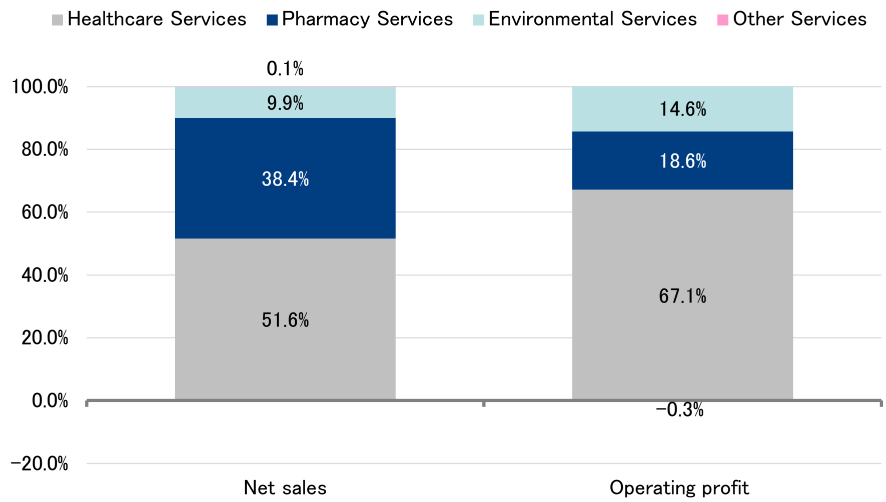
Source: Prepared by FISCO from the Company's financial results

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. By segment, Healthcare Services provides the majority of net sales and operating profit, followed by Pharmacy Services and Environmental Services.

Percentage of results by business segment (1H FY3/25)



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 Business (medical-related consignment services such as linen supply, nursing assistance, and distribution management for medical institutions and nursing care facilities), Bedding and Linen Supply Business (bedding rental and linen supply services to accommodation facilities such as hotels), Elderly Care Equipment Business (rental and sales of elderly care equipment, rehabilitation-type daycare services), Food Supply Business (for medical institutions and nursing care facilities), Cleaning Equipment Manufacturing Business, and Aqua Clara Business (sub-franchising Aqua Clara), which delivers water to homes.

In this segment, Hospital Business and Bedding and Linen Supply Business 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 Business 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 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 September 2024, 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 88 branches or offices (including 13 non-consolidated subsidiaries' bases), and 8 maintenance centers. 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. The Elderly Care Equipment Business also includes the rehabilitation-type daycare services operated by Mikjapan, which became a subsidiary in July 2024. Mikjapan operates a nationwide network of 33 Mik Kenko-no-Mori rehabilitation-focused daycare service facilities aimed at maintaining and improving the physical functions of elderly people. The majority of these are in areas that overlap with the Company's Elderly Care Equipment Business sales offices, and as care managers are the main route for customer acquisition, the inclusion of Mikjapan in the Group is expected to produce synergies.

2. Pharmacy Services

In the Pharmacy Services segment, consolidated subsidiary Tanpopo Pharmacy Co, Ltd., operates dispensing pharmacies in the Tokai, Hokuriku, Kansai, and Shikoku areas. It was operating 158 pharmacies at the end of September 2024. 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, however, 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. The Company has added 12 drugstores (including 3 with attached dispensing pharmacies) operated in the Kansai area by Mikjapan, which was made a subsidiary in July 2024.

3. Environmental Services

The Environmental Services segment mainly consists of the Leasekin Business and Cleaning Business. In the Leasekin Business, which accounts for more than 60% of net sales, the Company handles the Leasekin service, 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 900 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 toilet-related products in order to differentiate itself. In the Cleaning Business, which accounts for more than 30% of net sales, the Company 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 70% of sales. This segment also engages in the electricity sales business through solar power generation.

Results trends

Net sales for 1H FY3/25 continued to achieve new record highs, with EBITDA also increasing, despite a decrease in operating profit

1. Overview of 1H FY3/25 results

In the 1H FY3/25 consolidated results, net sales increased 7.2% YoY to ¥72,725mn, operating profit decreased by 0.6% to ¥3,664mn, ordinary profit grew by 1.3% to ¥3,917mn, and profit attributable to owners of parent increased 15.8% to 3,041mn. Net sales renewed a record high for a fourth consecutive fiscal year, and despite the slight decline in operating profit, ordinary profit and profit attributable to owners of parent both secured increases.

1H FY3/25 consolidated results

(¥mn)

	1H FY3/24		1H FY3/25		YoY	
	Results	Vs. sales	Results	Vs. sales	Change	Change %
Net sales	67,865	-	72,725	-	4,860	7.2%
Cost of sales	51,401	75.7%	55,735	76.6%	4,334	8.4%
SG&A expenses	12,778	18.8%	13,326	18.3%	548	4.3%
Operating profit	3,684	5.4%	3,664	5.0%	-20	-0.6%
Ordinary profit	3,869	5.7%	3,917	5.4%	48	1.3%
Extraordinary loss	-40	-	458	-	498	-
Profit attributable to owners of parent	2,626	3.9%	3,041	4.2%	415	15.8%
EBITDA*	5,866	8.6%	6,139	8.4%	273	4.6%

* EBITDA=operating profit + depreciation + amortization of goodwill
Source: Prepared by FISCO from the Company's financial results

Looking at net sales, Healthcare Services and Pharmacy Services both saw sales increase, but operating profit reflected negative factors including an increase in depreciation expenses associated with the start of operations of a new plant (up 266mn YoY) and increased costs in Pharmacy Services. A further factor was the recording of goodwill amortization*1 and one-time M&A expenses for Mikjapan, which was made a consolidated subsidiary in July 2024. Earnings before interest, taxes, depreciation and amortization (EBITDA), which originally shows a company's earning power, was higher, increasing 4.6% YoY to ¥6,139mn. The impact of Mikjapan on the Company's results was an addition of ¥1,350mn to net sales, while on operating profit it had a slightly negative impact. The Company also made progress in eliminating cross-shareholdings with financial institutions, recording gain on sale of investment securities of ¥770mn in 1H FY3/25, while under extraordinary losses it recorded impairment losses of ¥281mn.*2 The Company has not announced plans for 1H, however, net sales and operating profit both appear to be slightly higher than plan.

*1 The Company acquired all of the shares of Mikjapan for ¥2,400mn, and will amortize ¥1,003mn of goodwill (Healthcare Services ¥551mn, Pharmacy Services ¥452mn) over an eight-year period using the straight-line method. Amortization of goodwill in 1H amounted to ¥31mn.

*2 Impairment losses include ¥211mn for reviews of the carrying amounts of certain stores in the Pharmacy Services, while ¥69mn was due to impairment of business assets (carrying value zero) due to decision to withdraw the business (end of March 2025) of iAide (wearable monitoring system), which the Company had been developing as a new business.

Results trends

Results by business segment

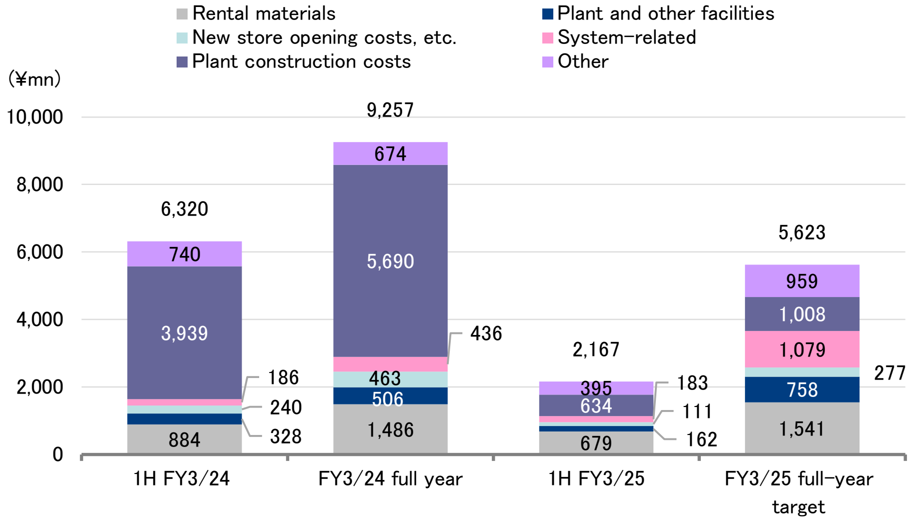
(¥mn)

		1H FY3/24 Results	1H FY3/25 Results	YoY	
				Change	Change %
Healthcare Services	Net sales	34,910	37,498	2,587	7.4%
	Operating profit	3,009	3,317	308	10.2%
Pharmacy Services	Net sales	25,535	27,950	2,415	9.5%
	Operating profit	1,201	920	-281	-23.4%
Environmental Services	Net sales	7,332	7,196	-135	-1.9%
	Operating profit	732	721	-11	-1.6%

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

Capital investment for 1H FY3/25 was ¥2,167mn (down ¥4,152mn YoY). Capital investment ballooned in the previous fiscal year due to the construction of the Saitama Plant, but has now returned to a normal pace. The Company plans to conduct full-year capital investments of ¥5,623mn (down ¥3,633mn), in line with its initial plan. It is proceeding with development of new core systems in Hospital Services, with system-related investment of ¥1,079mn (up ¥643mn). Rental materials are also expected to be ¥1,541mn (up ¥55mn) in association with sales expansion. Depreciation expenses were 2,402mn (up ¥266mn) for 1H, and are projected to be ¥5,182mn (up ¥586mn) for the full year, with FY3/25 expected to be the peak at this stage.

Trends in capital investment



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

The Saitama Plant has hospital linen laundry facilities and elderly care equipment maintenance center functions. It is the core plant for the Kanto area. The Elderly Care Equipment Business targets an 80% increase in rental sales in the Kanto area in 10 years. The new maintenance center provides the capacity for the expansion in scale of the business. The hospital linen laundry facility also saves labor by installing the latest equipment supplied by subsidiary Purex, requiring a work force 20% smaller than the previous facility (Yokohama Plant). The plant also reduces energy costs*1 with the addition of solar power generation, waste heat and wastewater recycling equipment, and energy-efficient air conditioners that use well water as a refrigerant. The facilities of the Saitama Plant are expected to improve productivity by around 40%, and from October 2024, the operation schedule will be compressed from a six-day system to a five-day, which is expected to boost productivity even further. The previous plant is continuing to operate as the NEXSURG*2 laundry facility.

*1 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, large washing machines that save water, installing various waste heat and wastewater recycling facilities and an energy-efficient air conditioning system that uses well water as a refrigerant.
*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.

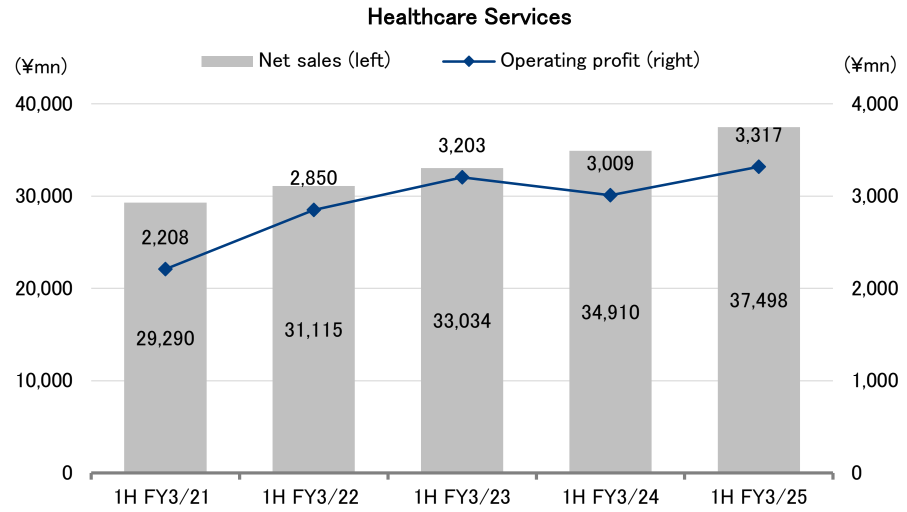
Linen Supply Business for hotels and Cleaning Equipment Manufacturing Business performed favorably, while Pharmacy Services posted lower profits due to the impact of cost increases

2. Results trends by business segment

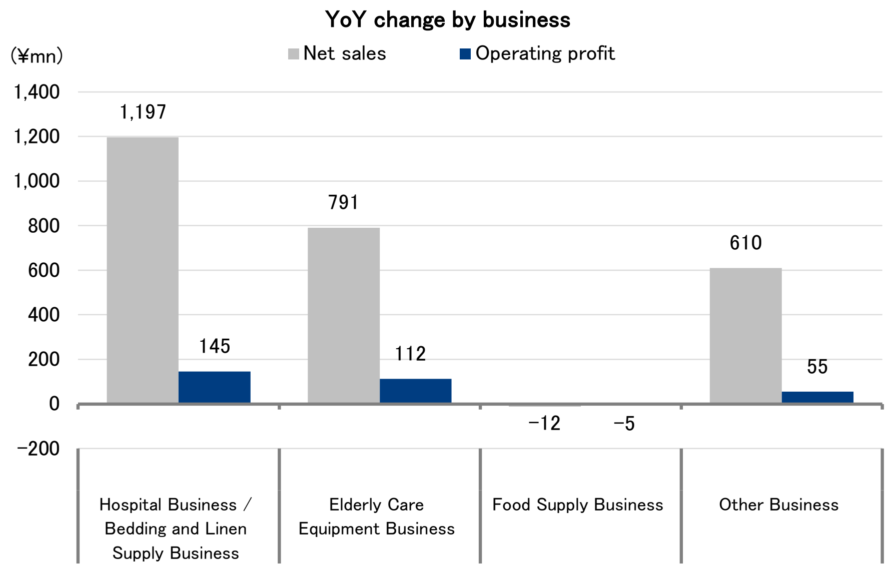
(1) Healthcare Services

In Healthcare Services, net sales increased 7.4% YoY to ¥37,498mn, and operating profit rose 10.2% to ¥3,317mn, reaching new record highs for the first time in two years. Net sales were driven mainly by steady increases in the mainstay Hospital Businessand Elderly Care Equipment Business, along with strong performance in rental sales for hotel linen and the Cleaning Equipment Manufacturing Business, which achieved double-digit growth. On the profit front, profits increased for the first time in two years due to the effect of higher sales and efforts to increase the efficiency of rental materials, despite an increase in depreciation expenses associated with the operation of the Saitama Plant.

Results trends



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



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

a) Hospital Business, Bedding and Linen Supply Business

In the Hospital Business and Bedding and Linen Supply Business, net sales increased by ¥1,197mn YoY, and operating profits were also up by ¥145mn. Net sales increased for a fourth consecutive year, while operating profit returned to growth for the first time in two years, with both renewing record highs. In particular, rental sales of linen for hotels was a driver of higher sales, increasing by a brisk 14.2%. The result reflected significant contributions from increases in hotel and Japanese inn occupancy rates and room rates due to the expansion of tourism demand, as well as progress on revising prices appropriately for rental fees. The Company made progress in winning new contracts for its hospitalization/residence set*, a strategic item, mainly among nursing care facilities, with sales continuing to increase favorably with 11.6% growth. Sales of NEXSURG increased 5.5% YoY due to steady progress on developing new customers, despite faltering among existing customers due to a YoY decrease in the number of surgeries. Furthermore, the number of linen supply beds in hospitals and nursing care facilities increased steadily by 1.7%, as the Company made progress in acquitting new contracts among nursing care facilities such as private nursing homes (of this, nursing care facilities, etc. grew 3.0%, hospitals remained level). In profits, the impact of higher sales absorbed an increase in depreciation expenses associated with operation of the Saitama Plant.

* Hospitalization/residence set: A service providing 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.

b) Elderly Care Equipment Business

In the Elderly Care Equipment Business, net sales increased by ¥791mn YoY, while operating profit increased ¥112mn. Net sales reached a new record high following the previous fiscal year, while operating profit returned to growth for the first time in two years. Direct rental sales continued to expand, increasing 5.2% supported by expansion in demand for elderly care equipment rental. In addition, the rehabilitation-type daycare service of Mikjapan, which was made a consolidated subsidiary in July 2024, was also seen as a factor increasing sales of over ¥200mn.

The Company opened 1 new business site in Tokyo in July 2024, bringing to total to 88 sites (including 13 sites of non-consolidated subsidiaries). In August 2024, the Company also opened the Kyushu Maintenance Center in Saga Prefecture. Previously, product supplies to the five business sites in Kyushu (Kita Kyushu City, Fukuoka City, Kumamoto City, Nagasaki City, Isahaya City) were provided from the Shikoku Maintenance Center in Kagawa Prefecture. With the start of operations of the new center, the Company has increased logistics efficiency and build a structure for supplying products rapidly. In November 2024, a new business site was opened in Fukuoka City, followed in January 2025 by the establishment of a site in Omuta City also following the transfer of business from a nursing equipment rental operator in Fukuoka Prefecture. Through such initiatives, the Company's strategy is to continue expanding its share in the Kyushu area.

On the profit front, profits increased due to the impact of higher sales and the effect of initiatives to increase the rental materials turnover rate, despite an increase in depreciation expenses associated with the opening of the Saitama Maintenance Center and the Kyushu Maintenance Center. In addition, the rehabilitation-type daycare service of Mikjapan had a negligible impact on profits, mainly due to the recording of a goodwill amortization amount.

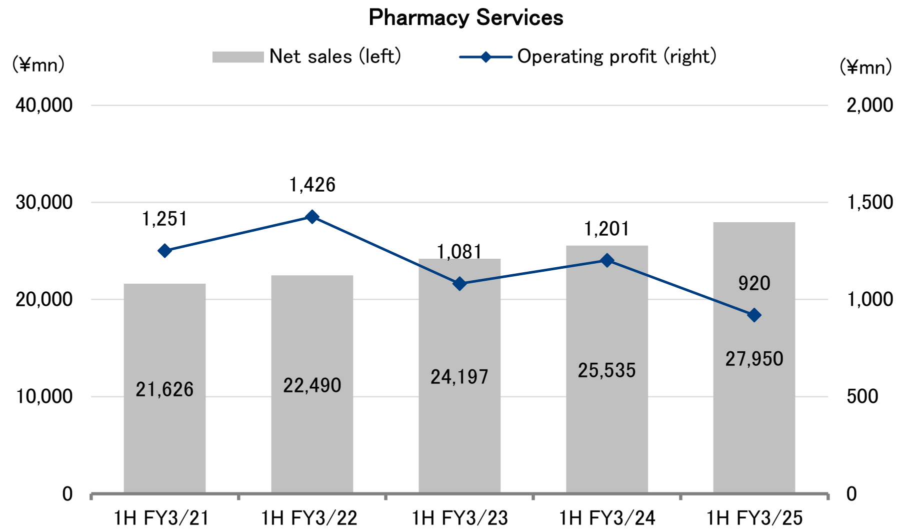
c) Food Supply and Other Business

In Food Supply Services, net sales decreased ¥12mn YoY, and operating profit decreased ¥5mn. The decrease in net sales was due to a fall in the number of consignment contracts and a decrease in the number of meals at existing facilities. On the profit front, the decrease in profits was due to high ingredients costs and an increase in labor costs.

In Other Services, (mainly Cleaning Equipment Manufacturing Business), net sales were up by ¥610mn and operating profit rose by ¥55mn. Sales of the mainstay Cleaning Equipment Manufacturing Business increased sharply by 85.6% (also helping to increase the growth rate was the fact that sales in the previous fiscal year were mainly internal transactions within the Group for the operation of the Saitama Plant). Linen supply demand expanded with an increase in occupancy rates at hotels and other facilities, while a rapid deterioration in labor shortages in the linen supply industry also drove demand expansion for labor-saving equipment.

(2) Pharmacy Services

Pharmacy Services posted a 9.5% YoY increase in net sales to ¥27,950mn, while operating profit declined 23.4% to ¥920mn. The existing Dispensing Pharmacy Business posted a 3.1% increase in number of prescriptions due to the new store effect (including stores opened in FY3/24), while the prescription unit price increased 2.0% (technical fees and drug fees), leading net sales to increase 5.1% (up ¥1,302mn). Furthermore, sales were increased by ¥1,113mn in relation to Mikjapan's drugstores. In new openings of dispensing pharmacies, the Company opened 4 stores with diverse store formats, such as stores inside multipurpose retail facilities (life solution-type pharmacies) and stores inside healthcare malls, where there tend to be clusters of houses and elderly care facilities nearby. Overall, the number of stores increased steadily by 6 stores YoY to 158.



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

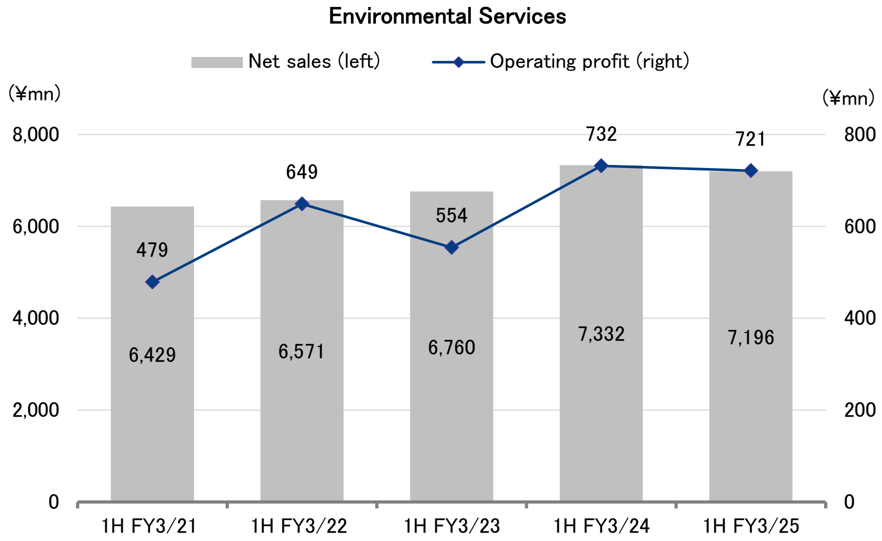
Looking at factors increasing and decreasing operating profit, in the Dispensing Pharmacy Business, the increase in technical fee sales increased profit by ¥171mn, but the impact of drug price revisions decreased profits by ¥167mn, and an increase in other expenses, such as personnel expense and store operation expenses decreased profit by ¥233mn, leading to a total decrease of ¥229mn. In addition, Mikjapan had a negative overall impact, including goodwill amortization of ¥52mn. In the Dispensing Pharmacy Business, costs increased atop drug price revisions and tight supply situation for pharmaceuticals. In addition, profit margins decreased due to an increase in labor expenses and personnel expenses following a revision of the salary system due to compensation improvement under the medical fee revisions.

In striving to increase profitability, the Company is promoting efforts to strengthen family pharmacy functions and to establish DX systems. The ratio of pharmacies with Community Cooperating Pharmacy certification increased from 31.6% in 1H FY3/24 to 36.1%, and the ratio of pharmacies with Health Support Pharmacy certification increased from 7.6% to 8.9%. In addition, the ratio of stores providing at-home medical care services remained at a high level at 89.2%. In DX system initiatives, the Company is taking steps to encourage use of My Number Insurance Cards, with the rate of usage in September 2024 at 23.6%, significantly higher than the national average of 13.7%. Efforts to retain customers using the LINE Mini App progressed, and by the end of September 2024, the number of registered members for the app had reached 237,000, a significant increase from 76,000 at the end of 1H FY3/24. The Company will continue this initiative going forward with a view to increasing profitability.

In addition, the Group aims to achieve profitability for the drug store-related business on a standalone basis while increase the Group's earning power by using Mikjapan's purchasing power to create synergies, such as having Tanpopo Pharmacy also carry the OTC pharmaceuticals and health foods handled by Mikjapan.

(3) Environmental Services

In Environmental Services, the sales and profit both experienced a down turn, with net sales decreasing 1.9% YoY to ¥7,196mn and operating profit falling 1.6% to ¥721mn.



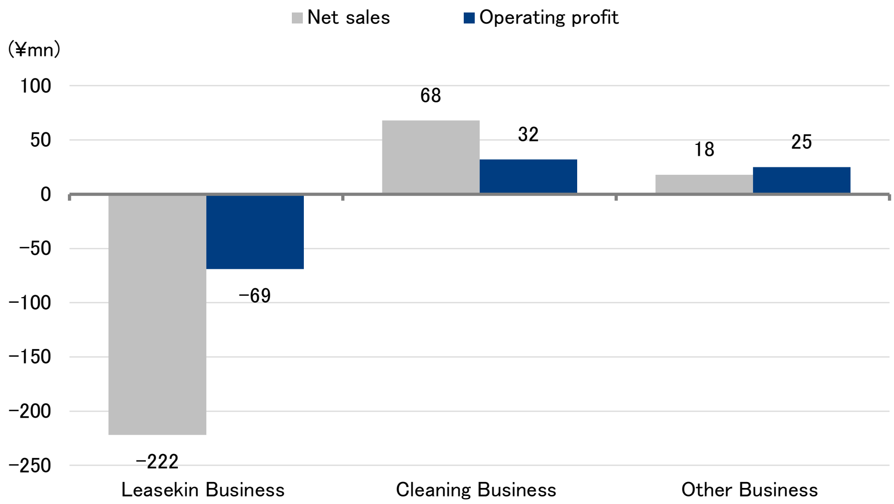
Source: Prepared by FISCO from the Company's financial results

The cause of the decreases can be seen in the mainstay Leasekin Business, which posted a YoY contraction of ¥222mn in net sales in and ¥69mn in operating profit. In the Company's focus area of toilet-related products, sales grew steadily by 5.6% YoY, but sales to franchise stores declined, partly reflecting rush demand ahead of a product pricing revision in the previous fiscal year. On the profit front, the main cause of the profit decrease was an increase in depreciation expenses related to a factory rebuild at a consolidated subsidiary and investments in molds for new products.

On the other hand, the Cleaning Business posted net sales growth of ¥68mn YoY, with operating profit increasing by ¥32mn. Hospital cleaning sales continued to increase steadily, growing 5.1%, with new contracts for operating room support services* and efforts to provide services at appropriate prices. On the profit front, the effect of higher sales coupled with increased productivity due to procedure improvements contributed to profit growth. In addition, sales and profit growth also reflected an increase in revenue from solar power sales.

* 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 at hospitals.

YoY change by business



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

Treasury share acquisition and M&A expenses led to a decrease in cash and deposits, but the Company's financial position is highly sound

3. Financial condition and management indicators

Looking at the Company's financial condition at the end of 1H FY3/25, total assets were down ¥2,520mn from the previous fiscal year-end to ¥112,406mn. The main change factors were an increase in inventories of ¥1,513mn in current assets, which was offset by a decrease of ¥4,185mn in cash and deposits, mainly due to the acquisition of treasury shares, the acquisition of Mikjapan shares, and the payment of dividends. In non-current assets, investment securities decreased by ¥1,136mn, while goodwill increased by ¥957mn and deferred tax assets by ¥467mn.

Total liabilities decreased by ¥786mn to ¥27,350mn compared to the end of FY3/24. Interest-bearing debt decreased by ¥135mn and deferred tax liabilities decreased ¥316mn. Net assets dropped ¥1,733mn to ¥85,055mn. Profit attributable to owners of parent of ¥3,041 was recorded, with decreasing factors including payment of dividends of ¥1,161mn and acquisition of treasury shares of ¥2,906mn. In addition, valuation difference on available-for-sale securities decreased by ¥764mn due to progress on selling cross-shareholdings.

Looking at the Company's management indicators, cash on hand (interest-bearing debt – cash and deposits) decreased ¥4,050mn from the previous fiscal year-end, but remained at a high level at ¥24,583mn. The Company is deemed to have maintained a high level of financial soundness, with a low interest-bearing debt ratio of 2.6% against an equity ratio of 75.1%. The Company's business model is focused on rental businesses, such as the linen supply, elderly care equipment rental, and the Leasekin business, with the highly stable revenue structure supporting the building of a strong financial foundation. This is one of the Company's strengths.

Consolidated balance sheet

(¥mn)

	FY3/23	FY3/24	1H FY3/25	Change
Current assets	62,628	59,601	56,479	-3,121
Cash and deposits	36,070	30,985	26,800	-4,185
Inventories	5,424	5,545	7,059	1,513
Non-current assets	48,157	55,324	55,926	601
Total assets	110,785	114,926	112,406	-2,520
Total liabilities	28,562	28,137	27,350	-786
Interest-bearing debt	2,876	2,352	2,217	-135
Total net assets	82,223	86,789	85,055	-1,733
Stability				
Equity ratio	73.7%	75.0%	75.1%	0.1pp
Interest-bearing debt ratio	3.5%	2.7%	2.6%	-0.1pp
Net cash	33,194	28,633	24,583	-4,050

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

Business outlook

Initial plan for FY3/25 remains unchanged, without factoring M&A effect into earnings plan

1. Outlook for FY3/25

For the FY3/25 consolidated results outlook, the Company has left the initial plan unchanged, forecasting an increase in net sales by 3.4% YoY to ¥142,925mn, a decrease in operating profit by 4.8% to ¥7,695mn, a decrease in ordinary profit by 3.6% to ¥8,195mn, and a decrease in profit attributable to owners of parent by 4.0% to ¥5,578mn. The Company looks for an increase in net sales for the fourth consecutive year, with net sales up in all three segments. Although a profit decline is forecast due to decreases in Pharmacy Services and Environmental Services, these are mainly due to a ¥586mn YoY rise in depreciation and an increase in goodwill amortization resulting from major capital investment in FY3/24, and profit on an EBITDA bases is projected to increase.

Consolidated outlook for FY3/25

(¥mn)

	FY3/24		FY3/25			Progress rate
	Results	Vs. sales	Forecasts	Vs. sales	YoY	
Net sales	138,222	-	142,925	-	3.4%	50.9%
Operating profit	8,082	5.8%	7,695	5.4%	-4.8%	47.6%
Ordinary profit	8,505	6.2%	8,195	5.7%	-3.6%	47.8%
Profit attributable to owners of parent	5,810	4.2%	5,578	3.9%	-4.0%	54.5%
Earnings per share (¥)	165.05		158.51			

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

Following the conversion of Mikjapan to a consolidated subsidiary in July 2024, in December 2024 the Company acquired all of the shares of Kaigo Center Hanaoka Co., Ltd.*, which operates an elderly care equipment rental business in Nagano Prefecture, making it a consolidated subsidiary. Since the results of the two companies have not been factored into the consolidated earnings plan, there is considerable upside potential for net sales. Operating profit effects are currently under examination, but are expected to be negligible.

* Net sales for FY5/24 were ¥2,036mn, with a total of five business sites, four in Nagano Prefecture and one in Yamanashi Prefecture. Three of these sites have the in-house maintenance facilities, and each operating base has the top share in the sales area.

Looking at synergies going forward, Mikjapan adds rehabilitation-type daycare services to the Company's core Elderly Care Equipment Business, giving it the potential to provide a combination of services that could help to improve users' QOL and function recovery. Synergies are also expected in terms of strengthening the goods sales functions of Tanpopo Pharmacy's through the drugstore-related business (OTC pharmaceuticals, health foods, etc.), strengthening the Group's procurement capabilities for various products, and through the use of Mikjapan's e-commerce foundation. Furthermore, through Kaigo Center Hanaoka, the Company will expand its share in Nagano Prefecture and obtain its first business site in Yamanashi Prefecture. Going forward, the Company is expected to strengthen its service structure through collaboration inside the Group, and to further expand its regional market share.

Forecasts net sales growth in all three segments in FY3/25

2. Outlook by business segment

Results by business segment

(¥mn)

Net sales by business	FY3/23	FY3/24	FY3/25 forecast	YoY	Progress rate
Healthcare Services	67,088	71,352	74,230	4.0%	50.5%
Pharmacy Services	49,334	52,287	53,974	3.2%	51.8%
Environmental Services	13,559	14,396	14,534	1.0%	49.5%
Other Services	202	185	185	-0.0%	42.9%
Total	130,184	138,222	142,925	3.4%	50.9%

Operating profit by business	FY3/23	FY3/24	FY3/25 forecast	YoY	Progress rate
Healthcare Services	6,663	6,618	6,688	1.1%	49.6%
Pharmacy Services	2,680	2,795	2,530	-9.4%	36.4%
Environmental Services	1,032	1,258	1,147	-8.9%	62.8%
Other Services	16	0	-2	-	-
Elimination of internal transactions	-2,538	-2,590	-2,669	-	-
Total	7,855	8,082	7,695	-4.8%	47.6%

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

(1) Healthcare Services

In Healthcare Services, the Company forecasts an increase of 4.0% YoY in net sales to ¥74,230mn and an increase of 1.1% in operating profit to ¥6,688mn. Looking at progress rates up to 1H, net sales is at 50.5% and operating profit at 49.6%. Although the Company has not announced plans for 1H, both figures show a steady pace against the plan.

In the initial plan, net sales of the Hospital Business and Bedding and Linen Supply Business are expected to increase ¥1,285mn YoY, while operating profit is expected to decrease by ¥234mn. Net sales incorporate a 4.3% increase in the linen supply for hotels, however, there is a strong possibility that results could exceed the plan due to expectations for continued high levels of occupancy rates at hotels and other facilities driving by inbound tourism demand, while the effects of appropriate pricing revision are also set to continue. On the other hand, on the profit front, an increase in the depreciation burden of the Saitama Plant has been a factor decreasing profits, but there is a possibility that profits will increase for the full year due to the effect of higher sales and increased productivity.

In the Elderly Care Equipment Business, the Company was forecasting an increase of ¥1,045mn YoY in net sales and an increase of ¥183mn in operating profit. However, partly due to the effect of consolidating Mikjapan and Kaigo Center Hanaoka, net sales are expected to be higher. Operating profit is also expected to see an increase effect from factors such as continued improvement in the rental materials turnover rate in 2H.

In Food Supply Services, the Company was forecasting a ¥150mn YoY increase in net sales and a ¥22mn increase in operating profit, however, the hurdle regarding net sales has become higher. As a measure to improve profits, the Company is phasing in the use of a central kitchen system. Previously, food preparation was conducted onsite at medical facilities and elderly care facilities, however, the Company plans to reduce costs by switching to a system in which complete meals are manufactured at a central kitchen and then transported to each facility, allowing meal provision with just simple onsite operations at facilities such as heating. In other business, net sales were forecast to increase ¥397mn YoY and operating profit to increase ¥98mn; however, results are progressing faster than planned due to continued brisk orders in for labor-saving equipment in the Cleaning Equipment Manufacturing Business, due to personnel shortages among linen supply operators.

(2) Pharmacy Services

In Pharmacy Services, the Company forecasts a 3.2% YoY increase in net sales to ¥53,974mn and a 9.4% decrease in operating profit to ¥2,530mn. The progress rate up to 1H has been 51.8% for net sales, while for operating profit progress is behind the halfway point at just 36.4%.

Net sales are expected to exceed the plan, as the number of prescriptions is expected to increase due to an increase in the number of stores (two store openings confirmed for 2H), and as the price of prescriptions increased during 1H, despite initial forecasts for a slight decrease in prescription prices, and Mikjapan's drugstore business sales are also expected to be around ¥3.5bn for the full year. On the other hand, on the profit front, there is a strong possibility that profits may be lower than the initial plan, as procurement prices continue to be high due to a tight supply situation for pharmaceutical products, and store expenses have increased, while the recording of goodwill amortization due to the consolidation of Mikjapan is also a negative factor.

(3) Environmental Services

In Environmental Services, the Company forecasts a 1.0% YoY increase in net sales to ¥14,534mn and an 8.9% decrease in operating profit to ¥1,147mn. Progress up to 1H has been 49.5% for net sales, and 62.8% for operating profit. Based on profit, performance has exceeded the plan.

By business, in the Leasekin Business, the Company forecasts an increase of ¥69mn YoY in net sales and a decrease of ¥44mn in operating profit. Although sales are expected to continue growing in the Company's focus areas of toilet-related products, it is not certain that to what degree the Company will be able to recover the decrease in sales from 1H during 2H. In terms of profits, depreciation expenses are a decreasing factor.

Forecasts for the Cleaning Business are an increase of ¥51mn YoY in net sales and a decrease of ¥86mn in operating profit. The Company forecasts an increase in net sales as a result of winning new contracts with medical facilities, but also an increase in personnel expenses to start a new foreign elderly care staffing agency business and train specialist personnel in the operating room support services business, and one-time expenses to mark a subsidiary's anniversary event as negative factors for profit. The foreign elderly care staffing agency business is a service that refers personnel educated in Indonesia with specialist skills to medical institutions and elderly care facilities. The business has orders for over 60 personnel by November 2024, and has introduced 14 of these. The Company plans to help resolve the labor shortage in the healthcare and elderly care businesses in Japan by taking advantage of its Group network.

Under the next medium-term management plan, the Company aims to achieve ROE of 8% by incorporating profitability increases and the development of new businesses

3. Outline of next medium-term management plan

(1) Review of the current medium-term management plan

Under the current four-year medium-term management plan, from FY3/22 to FY3/25, the Company aims to grow 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. It has set numerical management targets for FY3/25 of net sales of ¥140.0bn and operating profit of ¥9.5bn. The earnings forecast for FY3/25, the final fiscal year of the plan, is for net sales that exceed the initial target and operating profit that is around ¥1.8bn lower than the initial target.

The main factors contributing to the operating profit undershoot include larger-than-expected increases in energy costs and material procurement costs after formulating the medium-term management plan (approximately ¥500mn impact) and depreciation exceeding the initial plan due to the rising construction cost of the Saitama Plant (approximately ¥140mn impact). In Pharmacy Services, factors included a lower-than-expected number of prescriptions and unit price for technical fees, higher drug purchase costs, and an increase in costs such as system investment-related depreciation and maintenance and management expenses (approximately ¥720mn impact). As another factor, Companywide expenses such as IT security-related system investment, education and training expenses for DX promotion, M&A, and sustainability-related consulting expenses were also greater than expected. The initial plan for growth investment was ¥25.0bn during the period of the medium-term management plan, but this is now expected to exceed ¥30.0bn, including expenses for M&As conducted in 2024.

Numerical management targets

(¥mn)

	FY3/21	FY3/25	
		Initial target	Plan
Net sales	118,009	140,000	142,925
Healthcare Services	60,631	71,000	74,230
Pharmacy Services	44,098	54,000	53,974
Environmental Services	13,072	14,800	14,534
Other Services	206	200	185
Operating profit	7,294	9,500	7,695
Operating profit margin	6.2%	6.8%	5.4%

Source: Prepared by FISCO from the Company's medium-term management plan

(2) Positioning of the next medium-term management plan

The Company has positioned the period of the three-year medium-term management plan starting from FY3/26 as a period for sowing seeds for increasing profitability and creating new value towards realizing Vision 2035*. Specific numerical management targets are scheduled for announcement along with the financial results scheduled for May 2025; however, for the ROE target, the Company recognizes that the cost of capital is in the 7% level, and has therefore set an ROE target above that level at 8% (actual result for FY3/24: 6.9%).

* The Company's vision for 2035 is to "contribute to the realization of a health and longevity society as an infrastructure company supporting clean and healthy living for people."

(3) Basic policy

As a basic policy of the next medium-term management plan, the Company will engage in three themes: "transformation" to increase profitability, "creation" of new value, and "continuation" of efforts to strengthen the growth foundation.

a) "Transformation" to increase profitability

To maximize profits, each business will conduct business structure reforms. Each business will specialize in high-value added services for which there are higher needs, while transforming to a business structure that can realized sustainable profit growth through cost structure revisions. Specifically, the Company will concentrate management resources on highly profitable items and areas, while taking steps to increase individual productivity and provide services at appropriate prices in order to increase the profitability of each segment.

b) "Creation" of new value

The Company will promote the development of new businesses that will drive growth 10 years in the future. With the arrival of a super-aged society, demand is expected to expand in the fields of home medical care, at-home nursing care, and also prevention and pre-disease care. The Company expects to see even greater demand in these fields not only for services based on the insurance system, but also for the establishment of new services not covered by insurance. It sees this as a period for sowing the seeds for development of new products and services for existing customers and expansion of its existing products and services into new markets (overseas markets, etc.).

A concrete example that the Company has already started working on is the foreign elderly care staffing agency business described above, which contributes to eliminating labor shortages on medical care and elderly care front lines. Moreover, from a perspective of expanding into new markets, the Company has been working to provide medical peripheral services such as linen supply to hospitals in India through VALABHI HOSPITAL SERVICES PRIVATE LIMITED (45% equity stake), which the Company established in 2022 along with Toyota Tsusho <8015>, with a view to expanding into new markets. The Company has introduced a highly productive system for linen supply that utilizes IC tags. Starting with services for Japanese hospitals in India, it is currently providing services for four medical institutions.

Among the initiatives in a) and b) above, a major theme is the creation and maximization of Group synergies. Previous collaboration between businesses or organizations has not gone beyond initiatives aimed at partial optimization at the division level. Therefore, the current initiatives aim to maximize value as a Group by creating Group synergies with a focus on management resources and the customer base.

From a perspective of efficient management and increasing the profitability of existing businesses, the Company and its subsidiaries Tokai Corporation (Shikoku) and Dojinsha Co., Ltd. operate the same businesses (Hospital Business, Bedding and Linen Supply Business), and will share these resources (supplies, expertise, back-office operations, etc.) to conduct efficient business management and increase profitability.

c) "Continuation" of efforts to strengthen the growth foundation

The Company will realize a beneficial cycle by aggressively investing in human resources, creating strong organizational capabilities through employee growth, and realizing sustainable growth. Furthermore, the Company plans to actively make growth investments, taking a balanced approach, and to return profits to shareholders. For investments, the Company will make investments to maintain and expand high quality services and investments (including M&As) to expand its market share in new regions and areas, as well as continuing investments for the development and growth of new businesses. With regard to M&As, the Company intends to actively promote the elderly care equipment rental business, as a growth driver going forward. Under an environment of high resource costs and chronic labor shortages, there are many small- to medium size business operators who are concerned about deterioration of management conditions due trends in nursing care insurance system revisions, and market selection is progressing. This presents a good opportunity for the Company to expand is market share as the industry leader.

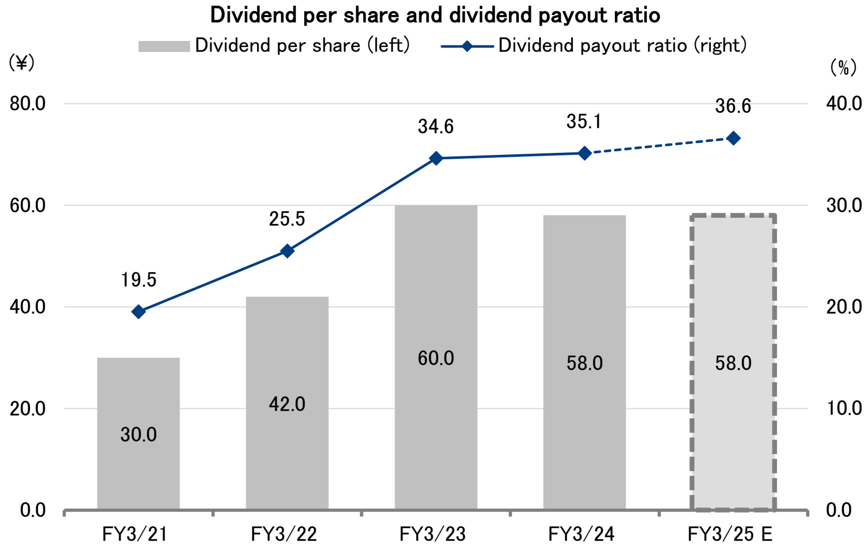
With regard to shareholder returns during the period of the next medium-term management plan, the Company's policy is to pay a stable dividend while also flexibly considering treasury share acquisitions, aiming for a total return ratio of over 70% on a cumulative basis over the three-year period.

Shareholder return policy

The Company will pay dividends aiming for a consolidated payout ratio of 35%. During the three-year period of the next medium-term management plan, the Company aims for a total shareholder return ratio exceeding 70% on a cumulative basis

The Company's shareholder return policy is to implement dividends with a consolidated dividend payout ratio of 35%, with the dividend per share of FY3/25 to be ¥58.0, the same as the previous fiscal year (dividend payout ratio 36.6%). In treasury share acquisitions, the Company acquired 1.40 million shares (4.0% of outstanding shares, excluding treasury stock) for ¥2.9bn in May 2024, and the total return ratio for FY3/25 is expected to be close to 90%. For the next medium-term management plan three-year period, starting from FY3/26, the Company has indicated that its basic policy is to pay a stable dividend, as mentioned previously, and to conduct returns with a total return ratio of over 70% during the period on a cumulative basis. Accordingly, we at FISCO believe that it is possible that the Company may flexibly conduct acquisitions of treasury shares going forward.

Shareholder return policy



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

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