COMPANY RESEARCH AND ANALYSIS REPORT

TOKAI Corp.

9729

Tokyo Stock Exchange Prime Market

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Summary

Release of new medium-term management plan through FY3/28 prioritizing increase in profitability

TOKAI Corp. <9729> (hereafter, also "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 FY3/25 results

In the Company's consolidated results for FY3/25, net sales increased 8.2% year on year (YoY) to ¥149,542mn and operating profit increased 1.5% to ¥8,205mn, exceeding the Company's forecast (net sales of ¥142,925mn, operating profit of ¥7,695mn). The increase in net sales was driven by strong sales in the mainstay rental business, and sales growth in hotel linen and the cleaning equipment manufacturing business. In addition, the inclusion of two newly consolidated subsidiaries resulted in record-high net sales for the fourth consecutive fiscal year. Meanwhile, operating profit increased for the second consecutive fiscal year as the impact of higher sales, including gains from service price optimization, absorbed cost factors such as higher depreciation expenses associated with launch of a new plant (increase of ¥250mn), acquisition-related expenses pertaining to M&A activity (¥150mn), and increased costs incurred in Pharmacy Services. Two M&A deals added approximately ¥4.5bn to net sales, but appear to have weighed on operating profit due to expenses related to acquisition and goodwill amortization.

2. New medium-term management plan

The Company released its new Medium-term Management Plan (FY3/26–FY3/28) in May 2025. The plan sets forth the long-term vision of "contribute to the realization of a health and longevity society as an infrastructure company supporting clean and healthy living for people," and accordingly positions the three years of the new medium-term management plan as a phase of "sowing seeds for increasing profitability and creating new value" toward realizing the Company's desired future state one decade ahead. It accordingly calls for placing top priority on increasing profitability in each of its businesses, while also developing new businesses to drive growth in ten years. It has set key performance targets for FY3/28 of ¥170.0bn in net sales, ¥9.5bn in operating profit, and ROE of 8%. The Company forecasts steady growth, projecting compound annual growth rates (CAGR) of 4.4% for net sales and 5.5% for operating profit. In the elderly care equipment business (rental and sales of elderly care equipment, etc.), a key driver of profitability, the Company aims to become an industry leader in raising its market share from 5% currently to 10% one decade ahead through initiatives that include aggressive store openings and M&As, amid a scenario of persistently growing demand attributable to Japan's increasingly super-aged society. In the elderly care equipment rental industry overall, the business environment is becoming increasingly challenging due to factors such as labor shortages and rising procurement costs. Against this backdrop, M&A activity appears to be on the rise, which is serving as a tailwind for the Company.

3. FY3/26 forecasts

The Company's full-year FY3/26 consolidated results forecast calls for a 5.6% YoY increase in net sales to ¥157,976mn and 0.1% increase in operating profit to ¥8,216mn. The Company projects sales growth in all three of its major business segments. On the profit front, however, the Company expects operating profit to remain largely unchanged YoY, which reflects a projected decrease in profits of Pharmacy Services due to higher drug purchase costs and increased labor and personnel costs, and also reflects planned expenditure associated with initiatives to commemorate the Company's 70th anniversary (approximately ¥100mn).

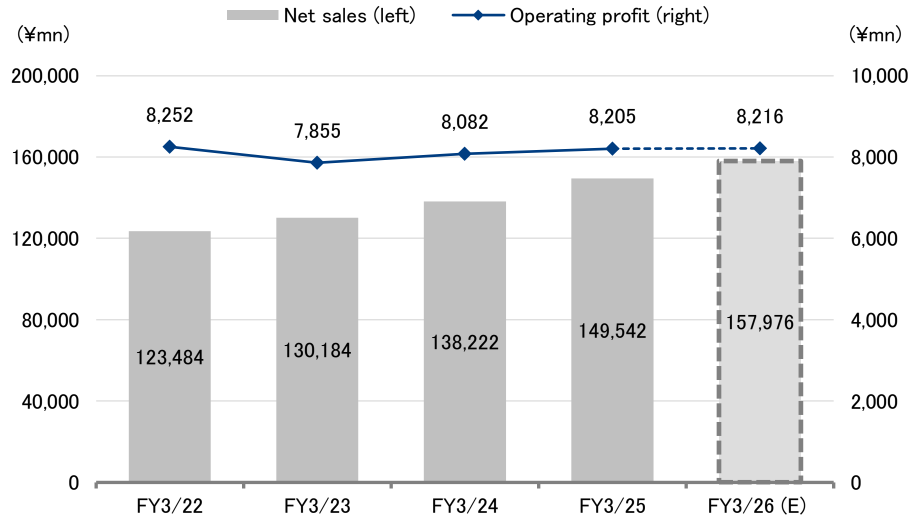
4. Shareholder return policy

The Company previously aimed for a consolidated dividend payout ratio of 35%, but it plans to pay dividends and/or acquire treasury shares aiming for a total payout ratio of over 70% cumulatively over the three years of FY3/26 through FY3/28 covered under the new medium-term management plan. For FY3/26, the Company plans to pay a dividend of ¥68.0 per share (dividend payout ratio of 41.8%), which includes a 70th anniversary commemorative dividend of ¥10.0 per share (¥5.0 with both the interim and year-end dividends). It is expected that the Company will consider treasury share acquisition as appropriate given that its PBR is under the 1.0 times threshold currently in the 0.8 times range.

Key Points

- Increases in sales and profits exceeding targets achieved for net sales, operating profit, and ordinary profit in FY3/25
- Release of new medium-term management plan targeting ¥9.5bn in operating profit and 8% ROE in FY3/28
- Policy of providing shareholder returns with a cumulative three-year total payout ratio target of 70% or higher over the duration of the new medium-term management plan

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.

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, operating 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.

* The rehabilitation-type daycare services involve operating 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.

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, Hokuriku, 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. 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. The elderly care equipment business were provided from Tohoku to Kyushu, covering metropolitan areas where the population of the elderly is expected to grow. 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. One of the Company's key strengths is its close coordination with care managers in each region to provide highly tailored services, along with the establishment of referral routes from medical institutions for patients after discharge. 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 rehabilitation-type daycare services operated by mikjapan Co., Ltd., which became a subsidiary in July 2024.

2. Pharmacy Services

In the Pharmacy Services segment, consolidated subsidiary Tanpopo Pharmacy Co, Ltd., operates dispensing pharmacies called Tanpopo Pharmacy in the Tokai, Hokuriku, Kansai, and Shikoku areas. It was operating 158 pharmacies at the end of March 2025. Initially, the Company improved management efficiency and maintained high profitability by focusing on pharmacies located in front of hospitals. In recent years, however, dispensing pharmacies are being required 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.

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 over 30% of the Company's net sales, primarily provides contracted cleaning and facility management services to hospitals and nursing facilities. This segment also engages in the electricity sales business through solar power generation.

Results trends

Increases in sales and profits exceeding targets achieved for net sales, operating profit, and ordinary profit in FY3/25

1. Overview of FY3/25 results

In the FY3/25 consolidated results, net sales increased 8.2% YoY to ¥149,542mn, operating profit rose 1.5% to ¥8,205mn, ordinary profit grew 3.9% to ¥8,838mn, and profit attributable to owners of parent decreased 18.5% to 4,733mn. The Company achieved a new record high in net sales for the fourth consecutive fiscal year along with gains in operating profit and ordinary profit for the second consecutive fiscal year, all of which outperformed the initial forecasts. On the other hand, profit attributable to owners of parent declined due to the recognition of ¥2,151mn in impairment losses on non-current assets, including goodwill, related to certain stores in the pharmacy business, the Kyushu Maintenance Center in the elderly care equipment business, and mikjapan, which became a consolidated subsidiary.

Mikjapan*1 and Kaigo Center Hanaoka Co., Ltd.*2 added approximately ¥4.5bn to net sales, but appear to have weighed on operating profit due to expenses related to acquisition (¥150mn) and goodwill amortization.

*1 In July 2024, the Company acquired the shares of mikjapan, which operates drugstores and rehabilitation-type daycare services, for ¥2,400mn. Although the Company had planned to amortize ¥1,003mn of goodwill (Healthcare Services ¥551mn, Pharmacy Services ¥452mn) over an eight-year period using the straight-line method, it ultimately recorded impairment losses on goodwill in Healthcare Services at fiscal year-end. For the nine-month period following the acquisition, mikjapan recorded approximately ¥4.0bn in net sales (approximately ¥0.7bn from Healthcare Services and ¥3.3bn from Pharmacy Services). On the profit front, however, goodwill amortization and ¥4mn in expenses related to acquisition were negative factors.

*2 In December 2024, the Company acquired the shares of Kaigo Center Hanaoka, which operates an elderly care equipment rental business primarily in Nagano Prefecture, for ¥4,861mn. It is amortizing ¥3,589mn of goodwill over a 13-year period using the straight-line method. For the three-month period following the acquisition, Kaigo Center Hanaoka recorded approximately ¥500mn in net sales. On the profit front, however, goodwill amortization and ¥146mn in expenses related to acquisition were negative factors.

FY3/25 consolidated results

(¥mn)

	FY3/24		FY3/25				
	Results	Vs. sales	Forecasts	Results	Vs. sales	YoY	Vs. forecasts
Net sales	138,222	-	142,925	149,542	-	8.2%	4.6%
Cost of sales	104,585	75.7%	-	114,102	76.3%	9.1%	-
SG&A expenses	25,554	18.5%	-	27,234	18.2%	6.6%	-
Operating profit	8,082	5.8%	7,695	8,205	5.5%	1.5%	6.6%
Ordinary profit	8,505	6.2%	8,195	8,838	5.9%	3.9%	7.8%
Extraordinary loss	-75	-	-	-1,484	-	-	-
Profit attributable to owners of parent	5,810	4.2%	5,578	4,733	3.2%	-18.5%	-15.1%

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

By segment, sales and profits increased in Healthcare Services, sales increased but profits decreased in Pharmacy Services, and sales and profits declined slightly in Environmental Services. Healthcare Services was a driver of overall earnings with both sales and operating profit outperforming initial forecasts.

Results by segment

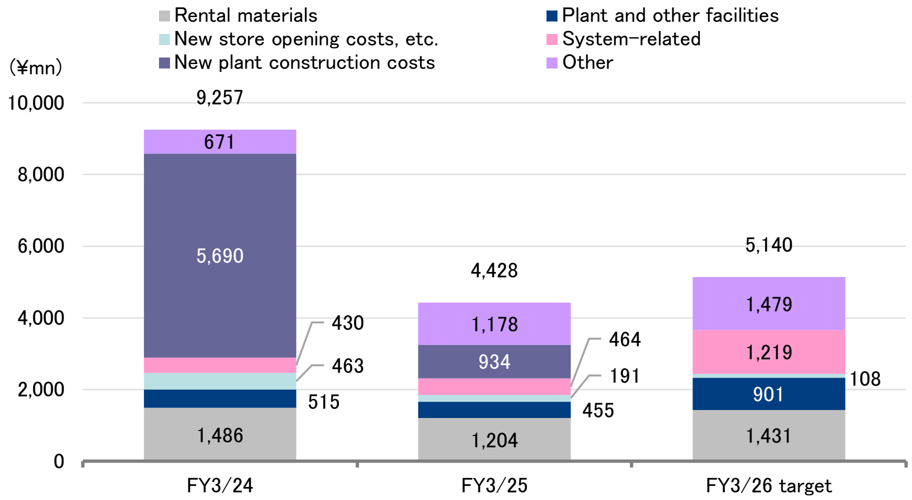
(¥mn)

		FY3/24 results	FY3/25			
			Initial forecasts	Results	YoY	Vs. forecasts
Healthcare Services	Net sales	71,352	74,230	76,935	7.8%	3.6%
	Operating profit	6,618	6,688	7,143	7.9%	6.8%
Pharmacy Services	Net sales	52,287	53,974	58,049	11.0%	7.6%
	Operating profit	2,795	2,530	2,378	-14.9%	-6.0%
Environmental Services	Net sales	14,396	14,534	14,389	-0.1%	-1.0%
	Operating profit	1,258	1,147	1,230	-2.3%	7.2%
Other	Net sales	185	185	168	-9.4%	-9.4%
	Operating profit	0	-2	-11	-	-

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

Capital investment for FY3/25 was ¥4,428mn (down ¥4,828mn YoY). The sharp decline is attributable to an elevated level of capital investment in FY3/24 associated with construction of the Saitama Plant, which is equipped with hospital linen laundry facilities as well as elderly care equipment maintenance center functions. It commenced operations in October 2023. For FY3/26, the Company plans to allocate ¥5,140mn to capital investment (up ¥712mn). Although the Company does not plan additional plant construction, system-related investment will amount to ¥1,219mn (up ¥755mn). Investment will also increase in upgrades to plant and other facilities, as well as investment in rental materials. The increase in system-related investment is attributable to development of a new core system in the hospital business, which was put into operation in June 2025. Depreciation expenses are projected to continue rising, from ¥4,850mn in FY3/25 (up ¥254mn) to ¥5,035mn in FY3/26 (up ¥185mn).

Trends in capital investment



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

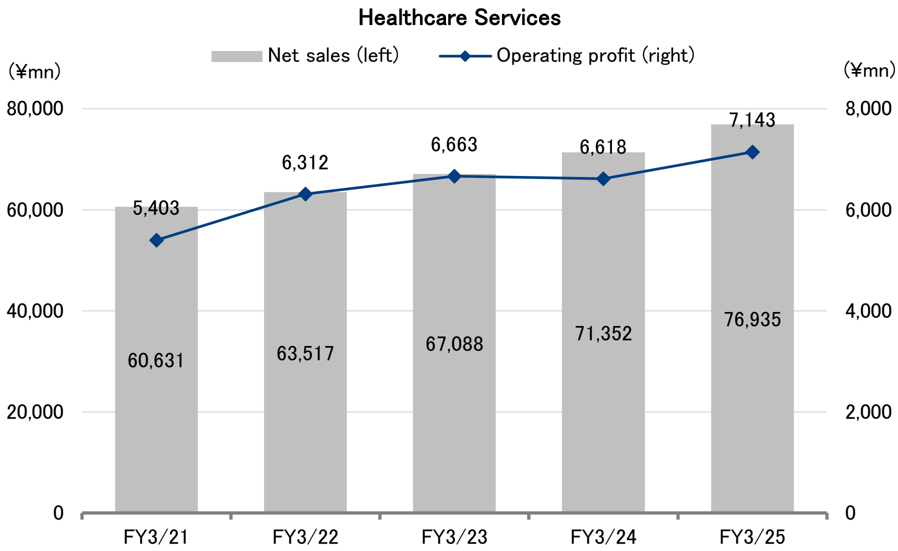
Strong performance in linen supply for hotels, hospitalization and residence sets, and the cleaning equipment manufacturing business

2. Results trends by segment

(1) Healthcare Services

In Healthcare Services, net sales increased 7.8% YoY to ¥76,935mn, and operating profit rose 7.9% to ¥7,143mn, reaching new record highs. The increase in net sales was driven by mainstay rental business sales including elderly care equipment, hotel linen, and hospitalization and residence sets*, as well as strong results in the cleaning equipment manufacturing business. The inclusion of results from the two companies acquired through M&A and added to the elderly care equipment business also contributed to the gain in net sales. On the profit front, profits increased for the first time in two fiscal years due to the effect of higher sales and efforts to optimize pricing of rental services, despite a ¥272mn increase in depreciation expenses in the Healthcare Services segment, partly reflecting the launch of operations at the Saitama Plant.

* 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.



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

a) Hospital business, bedding and linen supply business

In the hospital business and bedding and linen supply business, net sales increased by ¥2,694mn YoY, and operating profits were also up by ¥357mn. 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. Looking at a breakdown of net sales, rental sales of hotel linen were strong, rising 13.5%. The increase in sales is partly attributable to efforts to optimize rental pricing amid rising occupancy rates and room rates at hotels and Japanese inns due to growing tourism demand. The Company's strategic item, hospitalization and residence sets, continued to achieve double-digit growth, rising 11.3%, supported by its progress in winning new contracts primarily at nursing care facilities. Sales of NEXSURG were strong, up 4.9%, amid steady progress in developing new customers in the Kanto area. 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 2.4%, hospitals increased 0.7%). In profits, the impact of higher sales absorbed an increase in depreciation expenses associated with operation of the Saitama Plant.

b) Elderly care equipment business

In the elderly care equipment business, net sales and profit reached record highs, with net sales increasing by ¥2,327mn YoY and operating profit rising ¥28mn. Of the increase in sales, approximately ¥700mn came from the rehabilitation-type daycare service business of mikjapan (Mik Kenko-no-Mori operated at 33 locations nationwide), while around ¥500mn was attributable to the elderly care equipment rental business of Kaigo Center Hanaoka. At the operating profit level, however, goodwill amortization and M&A-related expenses appear to have been factors that weighed on earnings.

Direct sales in elderly care equipment rental increased 7.2% YoY, continuing to outpace overall market growth. This reflects success achieved from strengthening the service foundation in the Kyushu area particularly with the launch of Kyushu Maintenance Center in August 2024, and also from efforts to attract new users by holding exhibitions of elderly care equipment and preview events at rehabilitation-type daycare services locations of mikjapan. The number of sales locations increased by 8 from the end of the previous fiscal year, including 5 Kaigo Center Hanaoka business locations, to 95 locations (including 13 non-consolidated subsidiaries).

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.

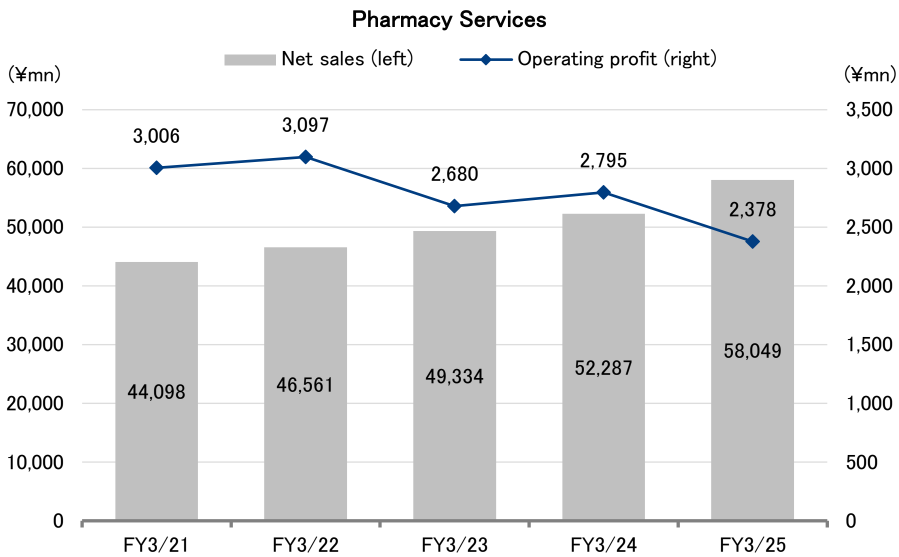
c) Food supply and other business

In the food supply business, net sales increased ¥45mn YoY but operating profit decreased ¥16mn, marking the third consecutive fiscal year of profit decline. While the increase in net sales was due to a higher number of contracted business locations, the decrease in profit was caused by higher food and labor costs as well as higher expenses associated with strengthening the central kitchen structure. To improve profitability, the Company is working to transition from an on-site food preparation format to a business model based on providing meals that are fully prepared using a central kitchen.

In Other Services, (mainly the cleaning equipment manufacturing business), net sales were up by ¥515mn YoY and operating profit rose ¥155mn. Net sales of the cleaning equipment manufacturing business operated by subsidiary Purex increased 20.9%, accounting for most of the gain in net sales. There has been growing demand for linen supply accompanying rising occupancy rates at hotels and other such establishments. Meanwhile, the industry continues to face a chronic labor shortage, which has led to increased demand for the Company's labor-saving equipment. In particular, demand has been growing for the Company's towel auto spread feeder, which is the first automated towel-folding machine in the industry.

(2) Pharmacy Services

Pharmacy Services posted a 11.0% YoY increase in net sales to ¥58,049mn, while operating profit declined 14.9% to ¥2,378mn. Net sales increased for the fourth consecutive fiscal year to set a new record high, but operating profit declined for the first time in two fiscal years. The inclusion of mikjapan as a subsidiary had a positive effect of ¥3,324mn on net sales (drugstores, etc.), but reduced profit by ¥109mn, including goodwill amortization. Looking solely at the existing pharmacy business, net sales rose 4.7%, while operating profit declined 11.0%.



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

Looking at factors affecting sales of the pharmacy business, positive factors included a 2.8% YoY increase in the number of prescriptions due to new stores (including stores opened in FY3/24), and a 1.9% gain in prescription unit price (both technical fees and drug fees increased). On a monetary basis, sales from drug fees increased ¥2,091mn, sales from technical fees rose ¥352mn, and other sales decreased ¥6mn. The main factors behind the rise in unit price for technical fees were an increase in points for basic dispensing fees to support compensation improvement for pharmacists and others, as well as the Company's acquisition of qualifications to receive incentives for promoting medical DX* newly implemented in fiscal 2024 (qualification acquired by 152 out of 158 pharmacies). The number of stores increased by 4 from the end of FY3/24 to 158 stores (5 new openings and 1 closure). In new store openings, the Company opened stores with diverse store formats taking into account the growing importance of local community family pharmacies. Accordingly, such establishments have included 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.

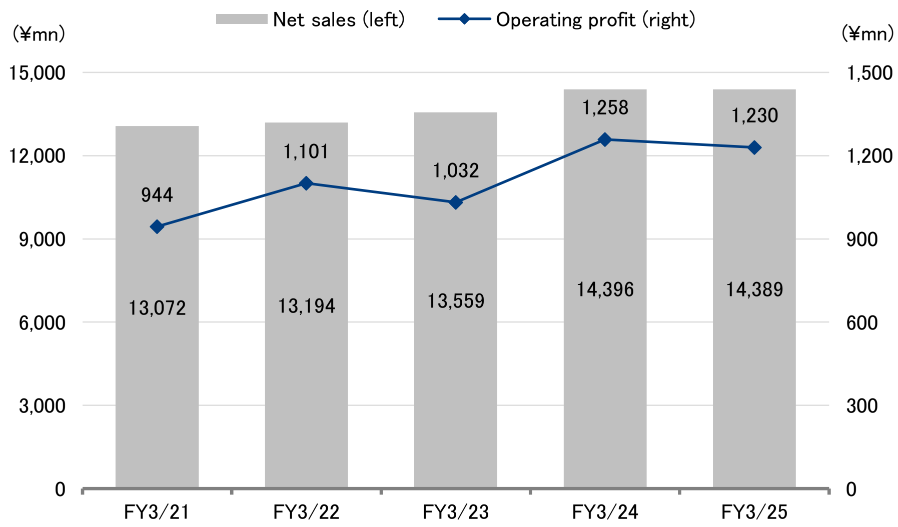
* Under the medical DX promotion incentive system, pharmacies are awarded reimbursement points based on criteria such as My Number Insurance Card usage rates and electronic prescription support.

Looking at factors affecting operating profit, while an increase in sales from technical fees contributed ¥352mn to operating profit, this was offset by a ¥259mn decline due to higher procurement costs stemming from drug price revisions and a tight supply situation for pharmaceuticals, as well as a ¥400mn decline resulting from increased labor and personnel costs associated with revision of the salary structure.

(3) Environmental Services

In Environmental Services, sales and profit both experienced a slight downturn, with net sales decreasing 0.1% YoY to ¥14,389mn and operating profit falling 2.3% to ¥1,230mn.

Environmental Services



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

In the mainstay Leasekin business, net sales decreased ¥186mn YoY and operating profit decreased ¥18mn. The decline in net sales was mainly due to a pullback in product sales to franchisees, reflecting the absence of front-loaded demand that occurred in the previous fiscal year before price revisions. However, sales channels of the business expanded, driven by strong sales growth of 4.6% in the focus area of profitable toilet-related products (through direct sales and agency channels), and also due to effects of initiatives involving Lunas Support ZERO sanitary disposal box and menstrual product dispenser sets launched in 2023. Although toilet-related products still account for only around 10–20% of total sales, the Company aims to achieve growth in the Leasekin business through sales channel expansion going forward. On the profit front, although some progress was made with price revisions, profit declined mainly due to higher depreciation expenses associated with the rebuilding of a subsidiary's factory.

In the cleaning business, net sales increased ¥175mn YoY but operating profit decreased ¥5mn. The increase in net sales was a result of providing hospital cleaning services at appropriate prices and gaining new consignment contracts for operating room support services*. On the profit front, the decrease in operating profit was due to higher upfront investment costs particularly for workforce expansion in the newly launched overseas human resources staffing business. The overseas human resources staffing business is a service for referring personnel with specialist skills (nursing care workers) educated in Indonesia and elsewhere to medical institutions and elderly care facilities in Japan. As of May 2025, the business has received orders for over 100 personnel, of which just under 20 have been placed with clients. With a lead time of about six months from receipt of staffing request until personnel placement, it is likely to take some time for the business to grow to a certain size. The Company also has its sights set on future business expansion into other markets that are subject to severe labor shortages.

* 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.

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 position and management indicators

Looking at the Company's financial position at the end of FY3/25, total assets were down ¥974mn from the previous fiscal year-end to ¥113,951mn. The main factors affecting the Company's financial position were increases in trade receivables of ¥647mn, inventories of ¥945mn, and securities of ¥707mn in current assets, which were offset by a decrease of ¥5,530mn in cash and deposits, mainly due to expenditures incurred for acquisition of treasury shares, dividends, and M&A funds. In non-current assets, property, plant and equipment decreased by ¥620mn and investments and other assets decreased by ¥966mn, while intangible assets increased by ¥3,902mn. This increase was primarily due to goodwill rising from ¥191mn to ¥4,130mn, an increase of ¥3,938mn as a result of mikjapan and Kaigo Center Hanaoka becoming subsidiaries.

Total liabilities decreased by ¥31mn to ¥28,105mn compared to the end of FY3/24. While interest-bearing debt increased ¥300mn and income taxes payable increased ¥693mn, trade payables decreased ¥1,073mn. Net assets dropped ¥943mn to ¥85,845mn. Profit attributable to owners of parent of ¥4,733 was recorded, with decreasing factors including payment of dividends of ¥2,142mn and acquisition of treasury shares of ¥2,906mn. In addition, valuation difference on available-for-sale securities decreased by ¥704mn due to progress on selling cross-shareholdings

Looking at the Company's management indicators, net cash (cash and deposits – interest-bearing debt) decreased ¥5,830mn from the previous fiscal year-end, but remained plentiful at ¥22,803mn. The Company is deemed to have maintained a high level of financial soundness, with a low interest-bearing debt ratio of 3.1% against an equity ratio of 74.8%. The Company's business model is focused on rental businesses, such as the linen supply, elderly care equipment rental, and the Leasekin businesses, with the highly stable revenue structure supporting the building of a strong financial foundation. This is one of the Company's strengths. The Company also maintains relatively stable profitability due to its focus on the rental businesses. However, its operating profit margin and ROE have continued on a modest downward trajectory over the last two fiscal years. This is attributed to diminishing profitability in Pharmacy Services and rising fixed costs such as those for construction of the Saitama Plant. Meanwhile, ROE declined from 7.7% in FY3/23 to 5.5% in FY3/25. Breaking down ROE into its three components, although total asset turnover increased from 1.20 times to 1.31 times, the decrease in ROE reflects a decline in the net profit margin from 4.7% to 3.2% along with reduction of financial leverage from 1.36 times to 1.34 times.

Consolidated balance sheet

(¥mn)

	End-FY3/22	End-FY3/23	End-FY3/24	End-FY3/25	Change
Current assets	59,748	62,628	59,601	56,311	-3,290
Cash and deposits	35,794	36,070	30,985	25,455	-5,530
Non-current assets	46,151	48,157	55,324	57,640	2,315
Property, plant and equipment	30,739	32,592	37,328	36,708	-620
Intangible assets	1,577	1,694	1,490	5,392	3,902
Investments and other assets	13,834	13,870	16,505	15,539	-966
Total assets	105,900	110,785	114,926	113,951	-974
Total liabilities	28,381	28,562	28,137	28,105	-31
Interest-bearing debt	3,398	2,876	2,352	2,652	300
Total net assets	77,519	82,223	86,789	85,845	-943
[Stability]					
Equity ratio	72.7%	73.7%	75.0%	74.8%	-0.2pp
Interest-bearing debt ratio	4.4%	3.5%	2.7%	3.1%	0.4pp
Net cash	32,396	33,194	28,633	22,803	-5,830
[Profitability]					
ROA	8.5%	7.5%	7.5%	7.7%	0.2pp
ROE	7.7%	7.7%	6.9%	5.5%	-1.4pp
Operating profit margin	6.7%	6.0%	5.8%	5.5%	-0.3pp
[Breakdown of ROE]					
Total asset turnover	1.19	1.20	1.22	1.31	0.09
Net profit margin	4.7%	4.7%	4.2%	3.2%	-1.0pp
Financial leverage	1.38	1.36	1.33	1.34	0.01

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

Outlook

Release of new medium-term management plan targeting ¥9.5bn in operating profit and 8% ROE in FY3/28

1. New medium-term management plan

(1) New medium-term management plan overview and key performance targets

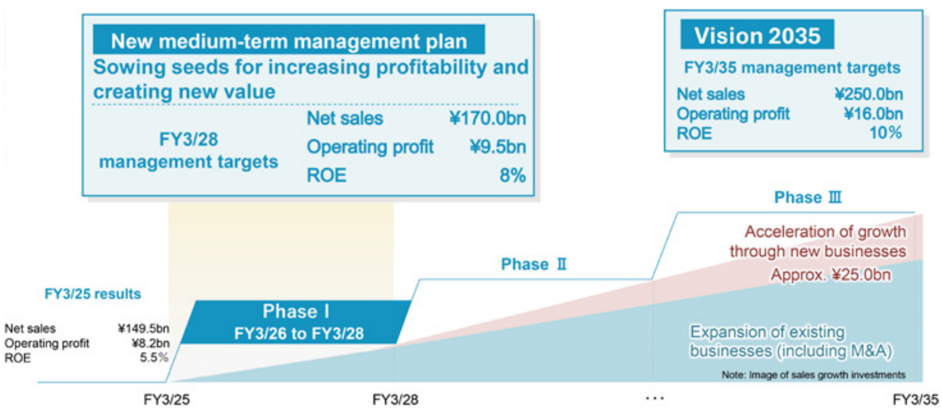
In May 2025, the Company released its medium-term management plan covering FY3/26 through FY3/28. It has positioned the three years of plan as a phase of "sowing seeds for increasing profitability and creating new value," in seeking to achieve its long-term vision of "contribute to the realization of a health and longevity society as an infrastructure company supporting clean and healthy living for people."

The TOKAI Group operates a wide range of businesses centered on medical and elderly care services under the themes of "cleanliness and health" and "rental," drawing on the strengths of its rental services expertise and strong customer base developed over seven decades of business activities. Going forward, the Company will leverage these strengths in placing top priority on increasing profitability in each of its businesses, while also embarking on development of new businesses to drive growth in ten years.

The Company has established the following five basic policies and will work to implement them.
1) Reform business structure in each business to maximize profit
2) Develop new businesses to drive growth in 10 years
3) Create and maximize Group synergies
4) Establish a beneficial cycle in which human capital investment leads to growth
5) Implement balanced growth investments and shareholder returns

The Company has set key performance targets for FY3/28 of ¥170.0bn in net sales, ¥9.5bn in operating profit, and ROE of 8%. The Company aims to achieve steady growth in terms of CAGR in net sales of 4.4% and operating profit of 5.0%. Regarding its new businesses, the Company will actively develop new businesses to drive growth in ten years over the duration of the medium-term management plan through FY3/28, with the expectation that this will accelerate its growth from FY3/29 onward. Under its long-term vision, the Company accordingly aims to achieve net sales of ¥250.0bn, operating profit of ¥16.0bn, and ROE of 10% in FY3/35.

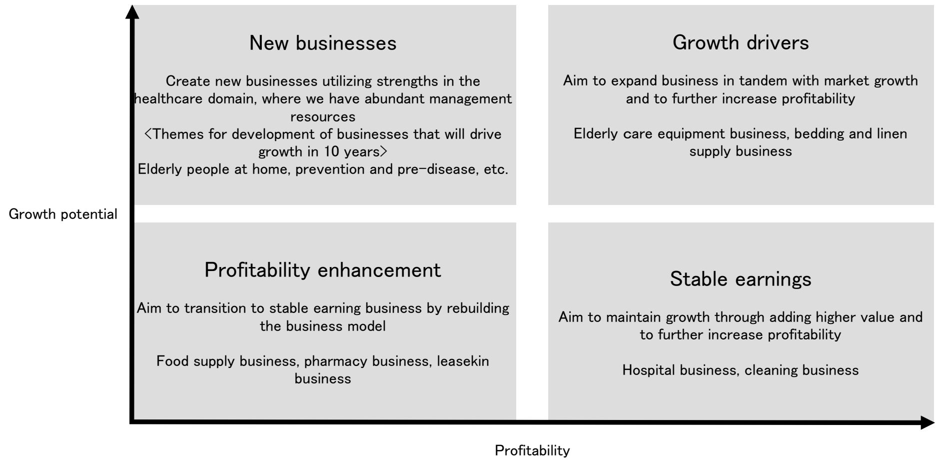
Performance growth roadmap



Source: The Company's medium-term management plan materials

As the basis for its new medium-term management plan, the Company has categorized the operations of its current business portfolio along the two axes of profitability and growth potential. Accordingly, the elderly care equipment business and the bedding and linen supply business are positioned in the high-growth, high-profitability category, the hospital business and cleaning business fall into the category of low-growth businesses with prospects for stable earnings, and the pharmacy business, food supply business, and Leasekin business are classified as low-profitability, low-growth businesses, which the Company aims to transform into stable earnings businesses by rebuilding their business models. The Company plans to increase profitability across the entire TOKAI Group by allocating management resources and implementing strategies based on the positioning of each business in the respective categories.

Business portfolio



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

Looking at CAGR by segment through FY3/28, the Company is targeting a 5.0% increase in net sales and an 8.2% increase in operating profit in Healthcare Services, a 4.0% increase in net sales but a 3.0% decline in operating profit in Pharmacy Services, and a 3.4% increase in net sales and a 7.7% increase in operating profit in Environmental Services. While the Company forecasts sluggish profit results in Pharmacy Services, this reflects the assumption that the challenging business environment will persist, particularly in terms of procurement margins, given that pharmaceutical supply shortages are likely to continue for several more years.

Results targets by segment

(¥bn)

		FY3/25 results	FY3/28		
			Target	Change	CAGR
Healthcare Services	Net sales	76.9	89.0	12.1	5.0%
	Operating profit	7.1	9.0	1.9	8.2%
	Operating profit margin	9.3%	10.1%	0.8pp	
Pharmacy Services	Net sales	58.0	65.3	7.3	4.0%
	Operating profit	2.3	2.1	-0.2	-3.0%
	Operating profit margin	4.1%	3.2%	-0.9pp	
Environmental Services	Net sales	14.3	15.8	1.5	3.4%
	Operating profit	1.2	1.5	0.3	7.7%
	Operating profit margin	8.5%	9.5%	1.0pp	
Adjusted amount		-2.5	-3.1	-	-
Total	Net sales	149.5	170.0	20.5	4.4%
	Operating profit	8.2	9.5	1.3	5.0%
	Operating profit margin	5.5%	5.6%	0.1pp	
	ROE	5.5%	8.0%	2.5pp	-

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

(2) Basic policy

a) Reform business structure in each business to maximize profit

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. Priority measures include focusing management resources on highly profitable items and areas, increasing per-employee productivity, and providing services at appropriate prices.

Specific strategies in Healthcare Services include the following. In the hospital business, the Company will add value to and expand sales of hospitalization and residence sets, while also increasing operational efficiency through the launch of a new core system in June 2025. In the bedding and linen supply business, the Company will strengthen the production system to capture growing hotel linen demand, while optimizing pricing to ensure stable supply. In the elderly care equipment business, the Company will expand its business scale through aggressive store openings and M&As centered in urban areas, pursue capital efficiency by strengthening maintenance center functions, and streamline operations by promoting digital transformation (DX). It will also generate Group synergies and strengthen alliances with other companies in the elderly care field. In the food supply business, the Company will transition from on-site food preparation to a business model of providing meals that are fully prepared using a central kitchen structure.

The elderly care equipment business, which is particularly positioned as a growth driver going forward, is seeing an increase in M&A deals involving small and medium-sized companies, as small and medium-sized companies are being weeded out against the backdrop of chronic labor shortages. FISCO believes that this presents a favorable opportunity for the Company to expand its business scale through M&A over the next several years. In addition, the elderly care equipment business is expected to increase productivity by strengthening its elderly care equipment maintenance center functions. It is also poised to acquire new customers through the rehabilitation-type daycare services network of Mikjapan, leveraging Group synergies. The Company is estimated to account for approximately 5%* of Japan's market through its elderly care equipment business and aims to become an industry leader with a 10% share over the next decade by advancing these initiatives.

* This refers to the Group's sales of such services as a percentage of service expenditures for welfare equipment rental and preventive care welfare equipment rental (Ministry of Health, Labour and Welfare statistics).

Specific strategies in Pharmacy Services include the following. In the pharmacy business, the Company will strengthen pharmacy functions and promote store openings aligned with community needs under a market dominance strategy. It will also improve operational efficiency and store operation efficiency through centralization of pharmacy business and promotion of DX (introduction of cloud-based electronic medication record system, etc.). The Company will also seek to leverage Group synergies by enhancing its role in community-based integrated care systems through coordination particularly with the elderly care equipment business and the drugstore business, while also developing expert personnel in the elderly care field. In the drugstore business, the Company will review its product lineup based on the characteristics and needs of each store location, while also expanding its e-commerce sales.

Specific strategies in Pharmacy Services include the following. in the Leasekin business, the Company will expand sales of high-value added toilet-related products, based on dust control products. In the cleaning business, the Company will expand contracts for high-value added operating room support services. It will also enhance work efficiency and decrease manpower through the introduction of AI cleaning robots.

b) Develop new businesses to drive growth in 10 years

With respect to the operating environment underlying new business development, demand is expected to expand going forward in the field of prevention and pre-disease alongside the field of at-home nursing care. In these fields, the Company intends to develop new services not covered by insurance leveraging the expertise and resources it has amassed in the healthcare domain thus far, in addition to services based on the insurance system.

The Company is also pursuing overseas expansion as a new market. It is currently developing the linen supply business targeting medical institutions backed by Japanese capital through a joint venture in India. While the number of contracted beds remained modest at approximately 2,000 beds as of the end of FY3/24, the target market is vast at more than tenfold the size that of Japan. As such, FISCO will closely monitor future developments in this regard. In addition, the Company has launched sales activities in Taiwan for its cleaning equipment manufacturing business and will continue to promote sales expansion overseas.

Business development in the healthcare domain

		Customers and markets	
		Existing	New
Products and services	New	**Provision of new value to existing customers and markets** ・Services to solve issues on the medical and elderly care front lines ・Services to enrich the lives of elderly people at home ・Services to help prevention and to improve pre-disease care in medical and elderly care	**Develop new markets, products and services utilizing existing expertise** ・Overseas expansion of medical-related services such as linen supply (In India) ・Overseas expansion of cleaning equipment manufacturing business (In Taiwan)
	Existing	**Current business domains** ・Rental and sales of elderly care equipment, rehabilitation-type daycare service, nursing assistance ・Linen supply ・Pharmacy, drugstores ・Food supply, cleaning, etc.	

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

c) Create and maximize Group synergies

With regard to Group synergies, while the Company has been engaging in sales collaboration and information sharing across its businesses and organizational units, these initiatives have primarily focused on partial optimization at the division level. Going forward, the Company aims to create and maximize new value for the Group by refocusing its current management resources and customer base, from the perspective of overall optimization.

A specific initiative in this regard has been the Company's launch of the overseas human resources staffing business in January 2024. The Company has accordingly been rolling out new services to address labor shortages at nursing care facilities, clients of the Company's hospital business, drawing on the expertise it has amassed thus far in utilizing foreign interns in its cleaning business.

Another initiative to take effect in FY3/26 is the Company's establishment of satellite sales offices in the elderly care equipment business inside existing stores of Tanpopo Pharmacy. By setting up consultation counters for welfare equipment within these pharmacies, the Company aims to enhance their role as dispensing pharmacies positioned to support community-based integrated care systems. From the perspective of the elderly care equipment business, this enables the Company to rapidly open new stores in areas without store coverage. This increases density of area coverage, thereby hastening service responsiveness and facilitating regional market share expansion. The initial plan is to open two such satellite sales offices during FY3/26.

d) Establish a beneficial cycle in which human capital investment leads to growth

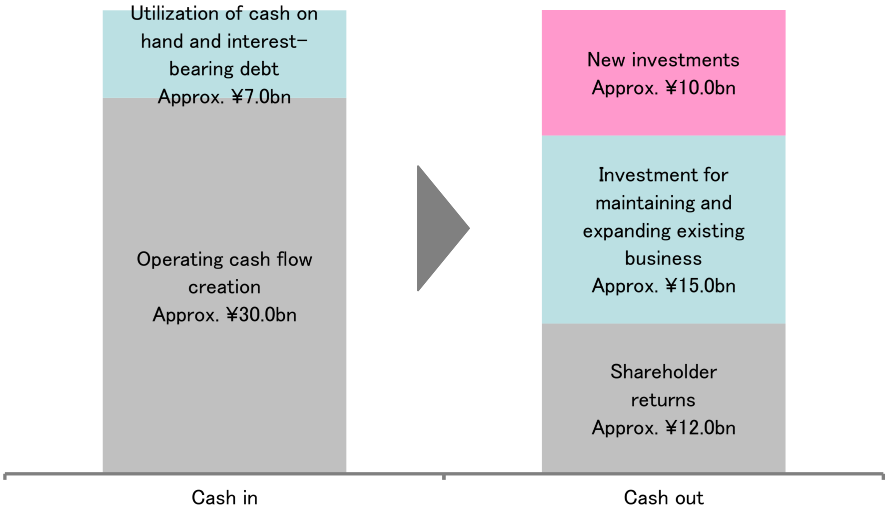
The Company seeks to enhance development of human resources, the source of its growth. To such ends, it will cultivate DX professionals who drive transformation, highly specialized talent who support front lines of service delivery, and the next generation of leaders across each of its businesses. Other initiatives will include establishing remuneration and evaluation systems designed to increase employee motivation, reviewing its organizational framework, and promoting diversity, equity and inclusion (DE&I). The Company aims to achieve sustained corporate growth by continuing to invest proactively in such human capital.

e) Implement balanced growth investments and shareholder returns

The Company seeks to enhance capital efficiency by taking a balanced approach to proactively making growth investment and providing shareholder returns. With regard to shareholder returns, the Company has accordingly unveiled its shareholder return policy aiming for a total payout ratio of over 70% cumulatively over the three years of its medium-term management plan.

The cash allocation plan for the three fiscal years on a cumulative basis is as follows. For cash inflows, the plan projects approximately ¥30.0bn in operating cash flow (stable operating cash flow from recurring revenue business) and approximately ¥7.0bn in utilization of cash on hand and interest-bearing debt. For cash outflows, the plan projects approximately ¥12.0bn in shareholder returns, approximately ¥15.0bn in investment for maintaining and expanding existing business (capital investment), and approximately ¥10.0bn allocated to a new investment budget, which is primarily for new business development, M&A in the elderly care equipment business and other growth drivers, and research and investment, M&A, and alliances with other companies to expand and strengthen business foundations.

Cash allocation (cumulative three-year total)



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

In FY3/26, net sales and operating profit poised to increase for the fifth and third fiscal years, respectively

2. FY3/26 forecasts

The Company's full-year FY3/26 consolidated results forecast calls for a 5.6% YoY increase in net sales to ¥157,976mn, 0.1% increase in operating profit to ¥8,216mn, 2.8% decrease in ordinary profit to ¥8,590mn, and 16.2% increase in profit attributable to owners of parent to ¥5,499mn. The Company projects an increase in net sales for the fifth consecutive year, up across all three segments. On the earnings front, meanwhile, the Company expects to achieve operating profit growth for the third consecutive year. This comes amid a scenario where the impact of higher sales offsets factors that include a projected decline in profits in Pharmacy Services, approximately ¥100mn in expenditure associated with initiatives to commemorate the Company's 70th anniversary, and a ¥180mn increase in depreciation. The Company projects a decrease in ordinary profit due to slight deterioration in non-operating income and expenses. However, it expects profit attributable to owners of parent to return to profit growth because it will no longer incur impairment losses that were recorded under extraordinary losses in the previous fiscal year.

FY3/26 forecasts

(¥mn)

	FY3/25		FY3/26		
	Results	Vs. sales	Forecasts	Vs. sales	YoY
Net sales	149,542	-	157,976	-	5.6%
Operating profit	8,205	5.5%	8,216	5.2%	0.1%
Ordinary profit	8,838	5.9%	8,590	5.4%	-2.8%
Profit attributable to owners of parent	4,733	3.2%	5,499	3.5%	16.2%
Earnings per share (¥)	139.09		162.69		

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

Results by segment

(¥mn)

Net sales by segment	FY3/23	FY3/24	FY3/25	FY3/26 (E)	YoY
Healthcare Services	67,088	71,352	76,935	81,678	6.2%
Pharmacy Services	49,334	52,287	58,049	61,206	5.4%
Environmental Services	13,559	14,396	14,389	14,927	3.7%
Other Services	202	185	168	162	-3.3%
Total	130,184	138,222	149,542	157,976	5.6%

Operating profit by segment	FY3/23	FY3/24	FY3/25	FY3/26 (E)	YoY
Healthcare Services	6,663	6,618	7,143	7,908	10.7%
Pharmacy Services	2,680	2,795	2,378	1,986	-16.5%
Environmental Services	1,032	1,258	1,230	1,239	0.8%
Other Services	16	0	-11	-7	-
Adjusted amount	-2,538	-2,590	-2,534	-2,911	-
Total	7,855	8,082	8,205	8,216	0.1%

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

(1) Healthcare Services

In Healthcare Services, the Company forecasts an increase of 6.2% YoY in net sales to ¥81,678mn and an increase of 10.7% in operating profit to ¥7,908mn. With respect to the gain in net sales, the Company projects increases of ¥1,293mn in the hospital business and bedding and linen supply business, primarily driven by hospitalization and residence sets and hotel linen, ¥3,042mn in the elderly care equipment business, reflecting expansion of rental sales and the full-year contribution of sales from two subsidiaries that became subsidiaries in the previous fiscal year, ¥96mn in the food supply business, partly resting from initiatives to optimize pricing, and ¥311mn in other business, due to growth in the cleaning equipment manufacturing business.

In operating profit, the Company projects an increase of only ¥1mn in the hospital business and bedding and linen supply business due to higher costs associated with the launch of a new core system. However, it projects increases of ¥493mn in the elderly care equipment business due to the impact of higher sales, ¥61mn in the food supply business driven by transition of the business model, and ¥208mn in other business due to the impact of higher sales of the cleaning equipment manufacturing business.

In terms of new store openings in the elderly care equipment business, the Company plans to open four new elderly care equipment rental sales locations (three in Kanto region and one in Kyushu), as well as two satellite sales offices located within Tanpopo Pharmacy stores. As for rehabilitation-type daycare services of mikjapan, the Company plans to open three new locations within elderly care equipment rental sales territories (two in Kansai and one in Kyushu), with the aim of creating Group synergies.

(2) Pharmacy Services

In Pharmacy Services, the Company forecasts an increase of 5.4% YoY in net sales to ¥61,206mn and decrease of 16.5% in operating profit to ¥1,986mn, marking the second consecutive fiscal year of higher sales but lower profits. For net sales, the Company projects increases of ¥2,038mn in the pharmacy business (drug fees up ¥1,715mn and technical fees up ¥308mn) and ¥1,119mn in the drugstore-related business given its full-year contribution. On the profit front, meanwhile, the decrease is largely attributable to negative effects of drug price revisions and higher labor and personnel costs. Challenging conditions related to drug purchase costs are likely to persist given that the tight pharmaceutical supply situation shows no signs of improvement. Therefore, the Company will continue strengthening the functions of its local community family pharmacies and establishing its medical DX promotion framework with the aim of raising unit prices for technical fees, which directly affect profitability. In new store openings, the Company plans to open around five new stores, consistent with the previous fiscal year.

(3) Environmental Services

In Environmental Services, the Company forecasts an increase of 3.7% YoY in net sales to ¥14,927mn and an increase of 0.8% in operating profit to ¥1,239mn. Primary factors affecting the net sales forecast are an increase in sales of ¥69mn in the Leasekin business due to expansion of toilet-related products, as well as the Company's aim of achieving an increase in sales of ¥440mn in the cleaning business resulting from an increase in the number of consignment contracts for hospital cleaning services and efforts to strengthen sales of operating room support services. On the profit front, operating profit is expected to increase by only ¥9mn, due in part to higher personnel costs.

Shareholder return policy

Policy of providing shareholder returns with a cumulative three-year total payout ratio target of 70% or higher

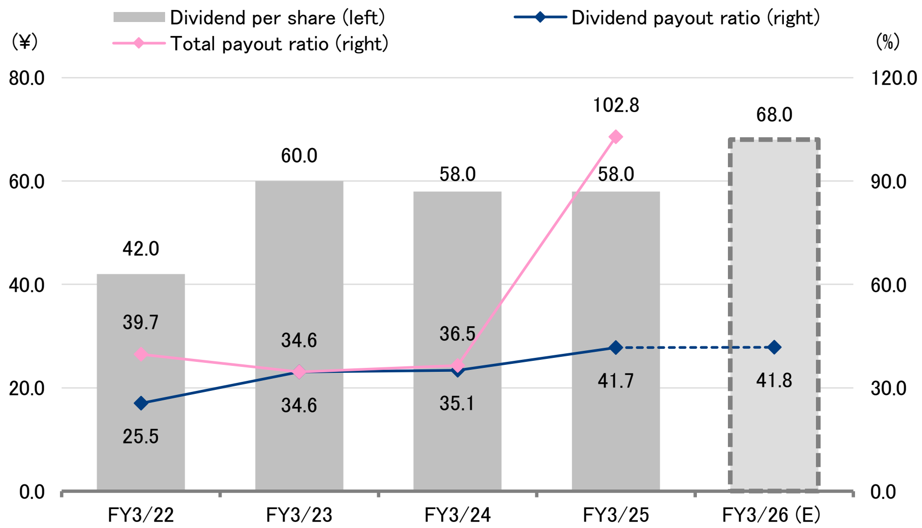
Under its shareholder return policy, the Company previously targeted a consolidated dividend payout ratio of 35%. However, in seeking to achieve an appropriate capital structure under its new medium-term management plan beginning in FY3/26, it has released plans to provide shareholder returns targeting a cumulative total payout ratio of over 70% over three years (compared with approximately 50% under the previous medium-term management plan). For FY3/26, the Company plans to pay a dividend of ¥68.0 per share (dividend payout ratio of 41.8%), which includes a commemorative dividend of ¥10.0 per share.

The total dividend amount paid over the three-year period is estimated at approximately ¥7.4bn*, assuming that the Company's financial results over the next three years proceed in line with the medium-term management plan and that the dividend payout ratio remains at the FY3/26 forecast level of 41.8%. In order to achieve the total payout ratio of 70% or higher, the Company will presumably need to either acquire treasury shares at some point or raise the dividend payout ratio by increasing dividends. The Company most recently acquired treasury shares in May 2024, purchasing 1.4 million shares for approximately ¥2.9bn through off-auction own share repurchase transaction (ToSTNeT-3).

* This has been calculated based on the assumption that profit attributable to owners of parent grows at the same compound annual growth rate of 7.5% as operating profit over the two fiscal years through FY3/28, using the FY3/26 forecast as a baseline.

Shareholder return policy

Dividend per share, dividend payout ratio, and total payout ratio



Note: The amount for FY3/26 includes the 70th anniversary commemorative dividend of ¥10.0.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

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