COMPANY RESEARCH AND ANALYSIS REPORT

TOKAI Corp.

9729

Tokyo Stock Exchange Prime Market

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Contents

Summary

Stable growth centered on rental business; promoting three-year medium-term management plan and focusing on improving profitability

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

1. Overview of 1H FY3/26 results

In the Company's consolidated results for 1H FY3/26 (April–September 2025), net sales increased 8.7% year on year (YoY) to ¥79,026mn and operating profit rose 21.1% to ¥4,436mn, resulting in higher sales and profits. Overall, net sales increased for the fifth consecutive fiscal year, reaching a record high. This was driven by strong performance in the mainstay rental business as well as sales growth in the dispensing pharmacy business due to an increase in prescriptions for high-priced pharmaceuticals and the effects of M&A. In addition to the effects of the increase in sales in the rental business, factors that included improved turnover of rental materials in the elderly care equipment business and efforts to optimize service prices, mainly in the bedding and linen supply business for accommodation facilities, contributed to the setting of a new record for highest-ever profits for the first time in six fiscal years. While the Company has not disclosed plans for 1H, net sales were generally in line with its plan, and operating profit appears to be trending favorably versus target.

2. FY3/26 forecasts

The Company's full-year FY3/26 consolidated results forecast remains unchanged from its initial one at a 5.6% YoY increase in net sales to ¥157,976mn and a 0.1% increase in operating profit to ¥8,216mn. The progress rate for 1H is steady, with 50.0% for net sales and 54.0% for operating profit. However, as the purchase of rental materials that was scheduled for 1H has been deferred to 2H, the Company anticipates an increase in expenses in 2H. However, FISCO believes that unless the market environment deteriorates rapidly in 2H, the Company may exceed its targets on a profit basis. Note that all expenditure associated with initiatives to commemorate the Company's 70th anniversary (approximately ¥0.1bn) has already been recorded in 1H.

3. Outline of medium-term management plan

In its new medium-term management plan that it announced in May 2025, the Company positioned the three-year period from FY3/26 to FY3/28 as a phase of "Sowing seeds for increasing profitability and creating new value." Its policy will be to focus on enhancing profitability in each business while simultaneously working on the development of new businesses to drive growth over the next 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 5.0% for operating profit. In the elderly care equipment business (rental and sales of nursing care products, etc.), which drives revenue, aims to increase its market share from the current approximately 5% to 10% in ten years and become the industry leader. This will be achieved through the following initiatives: proactively opening new stores and conducting M&A amid continued growth in demand driven by the advancement of Japan's super-aged society; and strengthening collaboration with Group companies operating the dispensing pharmacy business or other businesses, to capture customers.

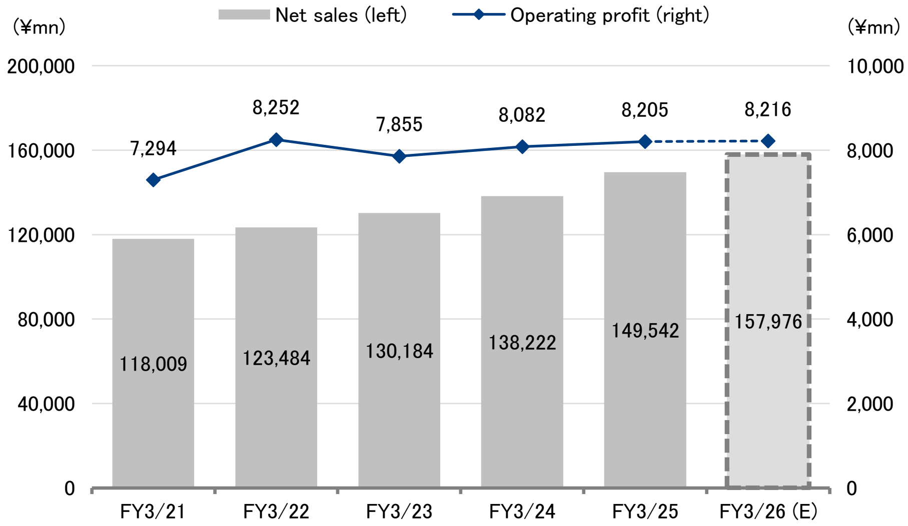
4. Shareholder return policy

The Company plans to pay dividends and/or acquire treasury shares aiming for a total payout ratio of over 70% cumulatively over the three fiscal years of FY3/26 through FY3/28 covered under the 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 dividend to commemorate the Company's 70th anniversary of ¥10.0 per share. In addition, it acquired 2,949 thousand shares of treasury shares worth ¥6,317mn in November 2025 in order to improve capital efficiency and enhance shareholder returns.

Key Points

- In 1H FY3/26, net sales, operating profit, and ordinary profit all reached record highs
- The Company is working to improve profitability and capital efficiency as it aims for operating profit of ¥9.5bn and ROE of 8% in FY3/28
- The Company's policy is to achieve a total payout ratio of over 70% cumulatively over the three fiscal years up to FY3/28. It acquired approximately ¥6.3bn of treasury shares in November 2025

Trends in consolidated results



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

Business overview

TOKAI's earnings pillar is the healthcare domain 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 segment includes 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.

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. As of October 2025, 98 locations under the business have been developed 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. Key strengths of the Company that can be cited are its possession of a system that efficiently utilizes its own resources at its 11 nursing care equipment maintenance centers nationwide, its building of strong relationships of trust with care managers in each region through its extensive track record going back to before the introduction of the long-term care insurance system and prompt service delivery, and its establishment of referral routes for patients after discharge by leveraging the relationships with medical institutions that it has formed through the undertaking of medical-related services. 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 Mik Kenko-no-Mori* rehabilitation-focused daycare services operated by mikjapan Co.,Ltd., which became a subsidiary in July 2024.

* Daycare service facilities aimed at maintaining and improving the physical functions of elderly people with 36 locations in operation in the Tokyo metropolitan area, Kansai, Tohoku, and Kyushu regions

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 159 pharmacies as of the end of September 2025. Initially, the subsidiary had improved management efficiency and maintained high profitability by specializing in pharmacies located in front of medical institutions. However, in recent years, there has been growing demand for it to fulfill the role of a “primary pharmacy” in local communities. The subsidiary is therefore making efforts to promote store formats tailored to local needs, strengthen primary pharmacy functions that include collaboration with medical institutions and home care support, establish systems in line with the government-promoted medical digital transformation (DX) initiatives, and improve pharmacy operation efficiency through DX. The Company has added 11 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 care facilities. This segment also engages in the electricity sales business through solar power generation.

Segment composition and business activities

	Segment-based business composition	Business composition by segment		Business description	Positioning of the portfolio
Healthcare	51.4%	28.3%	Hospital	Rental of hospital bedding and white coats and contracted medical-related services including linen supply, nursing assistance, and distribution management within hospitals. Rental of bedding to nursing care facilities	Stable earnings
			Bedding and Linen Supply	Bedding rental and linen supply service to accommodation facilities such as hotels	Growth drivers
		16.9%	Elderly Care Equipment	**Elderly Care Equipment Rental** Elderly care equipment rental and sales and home modification services based on the Long-Term Care Insurance System **Rehabilitation-Type Daycare Services** Operation of Mik Kenko-no-Mori rehabilitation-type daycare service facilities aimed at maintaining and improving the physical functions of elderly people	Growth drivers
		3.7%	Food Supply	Food supply in medical institutions and nursing care facilities	Profitability enhancement
		2.6%	Others	**Cleaning Equipment Manufacturing Business** Development and manufacturing of machinery and equipment for finishing processes that contribute to reducing labor and increasing efficiency at cleaning plants **Aqua Clara Business** Aqua Clara water delivery service and others	–
Pharmacy	38.8%	36.6%	Dispensing Pharmacy	Operation of Tanpopo Pharmacy dispensing pharmacies, primarily located near medical institution entrances	Profitability enhancement
		2.2%	Drugstore-Related (From FY3/25 End of Sep.)	Operation of community-focused Drug Mik drugstores in the Kansai area	–
Environ-mental	9.6%	6.0%	Leasekin	Operation of a nationwide franchise for rental of Leasekin-brand environmental beautification products	Profitability enhancement
		3.3%	Cleaning	Operation of building cleaning and management services focused on medical institutions and nursing care facilities	Stable earnings
		0.4%	Others	Solar Power Business: electricity retail business using solar power installed on companies' own premises, etc. and others	–

*Segment composition indicates the percentage of FY3/25 consolidated net sales. In addition to the above, there are also businesses not included among reporting Segments.

Source: The Company’s results briefing materials

Results trends

Posted record-high sales, operating profit, and ordinary profit in 1H FY3/26

1. Overview of 1H FY3/26 results

In 1H FY3/26 consolidated results, net sales increased 8.7% YoY to ¥79,026mn, operating profit rose 21.1% to ¥4,436mn, ordinary profit grew 20.0% to ¥4,699mn, and profit attributable to owners of parent increased 0.2% to ¥3,048mn. Net sales and operating profit increased for the fifth consecutive fiscal year, operating profit rose for the first time in two fiscal years, and ordinary profit grew for the third consecutive fiscal year, these accounts reaching record highs. The main reason why the growth rate of profit attributable to owners of parent halted at a slight increase is because the gain on sale of investment securities of ¥770mn that was recorded as extraordinary income in the same period of the previous fiscal year was no longer present. While the Company has not disclosed plans for 1H, net sales were generally in line with its plan, with profits appearing to have exceeded target. Note that mikjapan and Kaigo Center Hanaoka Co., Ltd.*, which were added as consolidated subsidiaries partway through the previous fiscal year, added approximately ¥2.3bn to net sales, and appear to have had a minor impact on operating profit due to goodwill amortization.

* mikjapan and Kaigo Center Hanaoka were added as consolidated subsidiaries as of 2Q FY3/25 and 4Q FY3/25, respectively. Goodwill amortization for 1H FY3/26 increased by ¥129mn YoY to ¥202mn.

1H FY3/26 consolidated results

(¥mn)

	1H FY3/25		1H FY3/26		YoY	
	Results	Vs. sales	Results	Vs. sales	Change	Change %
Net sales	72,725	-	79,026	-	6,300	8.7%
Cost of sales	55,735	76.6%	60,002	75.9%	4,267	7.7%
SG&A expenses	13,326	18.3%	14,587	18.5%	1,261	9.5%
Operating profit	3,664	5.0%	4,436	5.6%	771	21.1%
Ordinary profit	3,917	5.4%	4,699	5.9%	781	20.0%
Extraordinary loss	458	-	-82	-	-540	-
Profit attributable to owners of parent	3,041	4.2%	3,048	3.9%	6	0.2%

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

By segment, Healthcare Services, Pharmacy Services, and Environmental Services all saw increases in sales. Although operating profit in Environmental Services saw a slight decrease, Healthcare Services drove overall results with a double-digit increase in profit, and Pharmacy Services secured a slight increase in profit.

Results trends

Results by segment

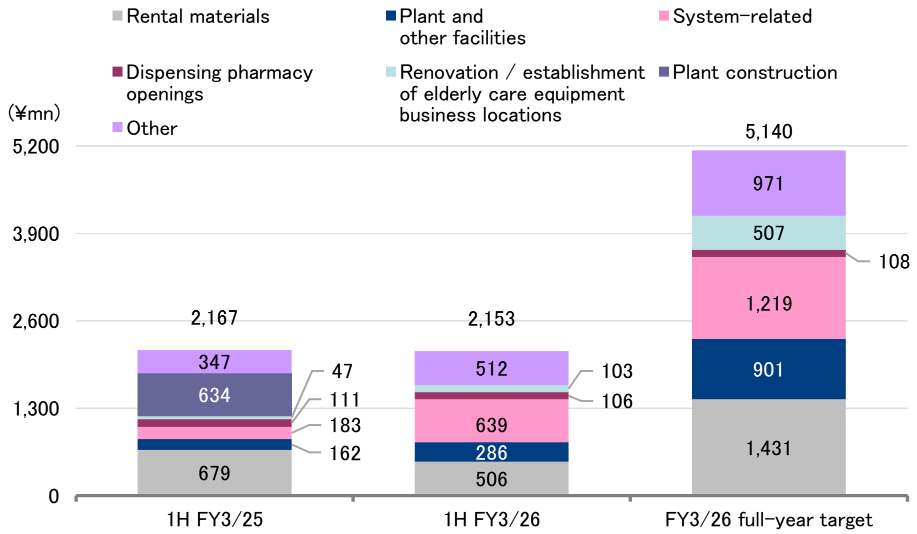
(¥mn)

		1H FY3/25	1H FY3/26	YoY	
				Change	Change %
Healthcare Services	Net sales	37,498	40,587	3,088	8.2%
	Operating profit	3,317	4,190	872	26.3%
Pharmacy Services	Net sales	27,950	30,922	2,971	10.6%
	Operating profit	920	961	41	4.5%
Environmental Services	Net sales	7,196	7,430	234	3.3%
	Operating profit	721	699	-22	-3.1%

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

Capital investment for 1H FY3/26 was ¥2,153mn (a decrease of ¥13mn YoY). In the same period of the previous fiscal year, the Company made factory investments totaling ¥634mn, including the establishment of a new maintenance center for elderly care equipment in Kyushu and the expansion of production bases at the Group companies. As a result, there was a slight decrease YoY in 1H. Meanwhile, system-related investments swelled to ¥639mn (an increase of ¥456mn YoY), including core system renewal investments for the hospital business and expenses for establishing a medical DX promotion system in the dispensing pharmacy business. Regarding rental materials, due to the impact of purchase timing being partially delayed to 2H, the amount came to ¥506mn (a decrease of ¥173mn YoY). However, for the full year, the Company is targeting an amount of ¥1,431mn (an increase of ¥227mn YoY). In the elderly care equipment business, although success with suppressing the deployment of materials by improving the turnover rate of rental materials yielded some effects, a major manufacturer's new nursing care bed was released at the end of August, and it is also possible that the Company will move to purchase that product in 2H after gaging demand trends. It is also targeting a full-year total of ¥507mn for investments in renovation and openings aimed at expanding sales locations in the elderly care equipment business. In addition, although the Company had scheduled construction and relocation work for a Group company's new headquarters and warehouse construction in 2H, due to progress being somewhat delayed, total capital investment for the full year may fall slightly under the initial target. Depreciation expenses for 1H FY3/26 are expected to be ¥2,314mn (a decrease of ¥88mn YoY). For the full year, they are anticipated to be ¥5,035mn (an increase of ¥185mn YoY).

Trends in capital investment



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

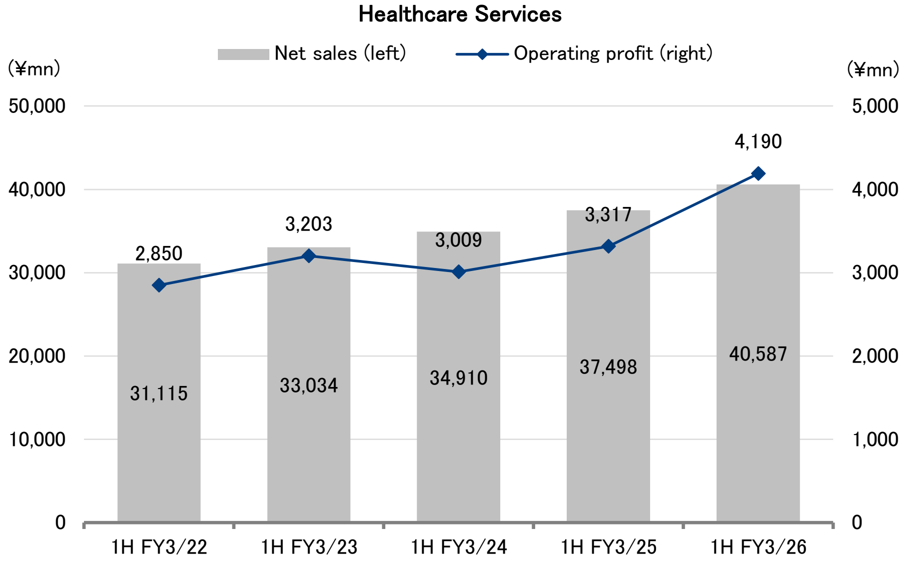
Sales increased in all segments, with Healthcare Services driving profits for the Group overall

2. Results trends by business segment

(1) Healthcare Services

In Healthcare Services, net sales increased 8.2% YoY to ¥40,587mn, and operating profit rose 26.3% to ¥4,190mn, consecutively reaching new record highs. In net sales, growth in rental sales for the likes of elderly care equipment, hotel linens, and hospitalization and residence sets*; continued strong performance in the cleaning equipment manufacturing business; and the full contribution of sales from mikjapan and Kaigo Center Hanaoka, which were added as consolidated subsidiaries during the previous fiscal year (yielding an increase in sales of approximately ¥1.3bn), positively affected sales. In profits, in addition to the effects of the increase in sales, efforts were made to optimize service prices mainly in the bedding and linen supply business, and the cost ratio improved due to higher turnover of rental materials in the elderly care equipment business. These and other factors positively affected profit to yield an operating profit margin of 10.3%, exceeding the 10% level for the first time in eight fiscal years.

* A service providing necessary clothing, towels, disposable diapers, daily commodities, etc. rented at a fixed daily charge when people are hospitalized or enter a nursing care facility.



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

a) Hospital business and bedding and linen supply business

In the hospital business and bedding and linen supply business, net sales increased by ¥932mn YoY, and operating profits were also up by ¥201mn. Net sales and operating profit increased for the fifth and second consecutive fiscal year, respectively. Both renewed record highs. Looking at a breakdown of net sales, rental sales of hotel linen stayed strong, rising 10.2%. In line with the increase in the number of inbound tourists to Japan, the occupancy rates at hotels and Japanese inns have increased. This, plus efforts by the Company to optimize service prices, positively affected sales. Currently, the Company is negotiating with users regarding price revisions for Spring 2026 and beyond. Hospitalization and residence sets continued to show an increase in sales, rising 7.3%, due to progress in new acquisitions mostly at nursing care facilities. In addition, NEXSURG, the reuse system for surgical linen, also saw growth in the number of contracts, mainly among medical institutions working to reduce medical waste, resulting in a 5.6% increase in sales. The number of linen supply beds in medical institutions and nursing care facilities steadily increased overall by 2.2%. While the number for hospitals decreased 0.9%, that for nursing care facilities increased 4.3%. In profits, in addition to the effects of the increase in sales, efforts were made to optimize service prices mainly in the hotel linen business. These absorbed increases in outsourcing and other expenses, leading to a higher profit margin.

b) Elderly care equipment business

In the elderly care equipment business, both net sales and profit consecutively reached record highs, with net sales increasing by ¥1,837mn YoY and operating profit rising ¥432mn. Of the increase in sales, approximately ¥260mn was contributed by the rehabilitation-type daycare service business of mikjapan (Mik Kenko-no-Mori operated at 36 locations nationwide), while around ¥990mn was contributed by the elderly care equipment rental business of Kaigo Center Hanaoka. Direct sales of elderly care equipment rentals grew significantly, rising 14.0% due to the addition of Kaigo Center Hanaoka. Even excluding this factor, these direct sales expanded steadily, up 6.5%, on an existing business basis as well.

The Company opened three new sales locations for its elderly care equipment business, bringing the total number of locations to 97 as of the end of September 2025 (including 13 locations under non-consolidated subsidiaries). Of these, the sales office opened in Ichinomiya City, Aichi Prefecture in August 2025 was established in the Tanpopo Pharmacy Ichinomiya store, marking the first entry in an initiative aimed at creating synergy between the Company's elderly care equipment and dispensing pharmacy businesses. By establishing new locations attached to existing Tanpopo Pharmacy stores, the Company will realize openings of elderly care equipment business locations at low cost and with a sense of speed, and will increase the density of its location development efforts to help improve response speed and expand market share. In addition, by enabling its pharmacies to respond to nursing care consultations from visiting patients and building a comprehensive support system for local community healthcare and nursing care, the Company will also become able to differentiate itself from other pharmacies. Since the opening of the Ichinomiya Sales Office, the number of consultations regarding nursing care appears to be on the rise, pointing to a great start.

For factors positively affecting operating profit, in addition to the effects of the increase in sales, the Company worked on the efficient operation of rental materials through strengthening the maintenance center structure. The resulting higher turnover rate for rental materials and improved cost ratio contributed to operating profit. The improved cost ratio is seen to have contributed an increase in profit of approximately ¥180mn. In addition, mikjapan opened three new rehabilitation-type daycare service facilities (two in Osaka Prefecture and one in Fukuoka Prefecture). These did not contribute to profits due to an increase in the upfront investment burden including personnel expenses. However, it appears that the Kaigo Center Hanaoka contributed to an increase in profit even after goodwill amortization.

c) Food supply and other services

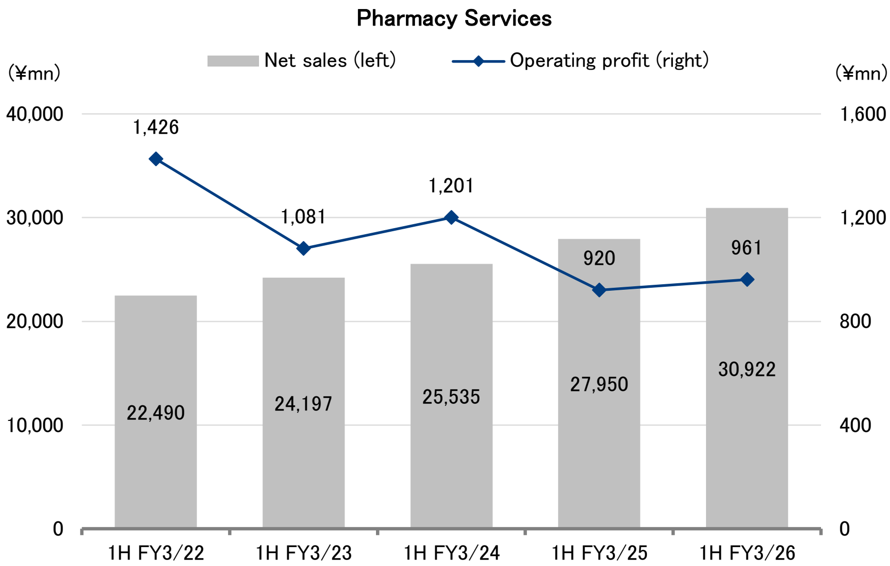
In the food supply business, net sales increased ¥28mn YoY and operating profit increased ¥55mn, marking higher sales and profit for the first time in fourth fiscal years. In net sales, the Company offset a decrease caused by the closure of unprofitable business locations with price revisions and increased sales of meals that are fully prepared using a central kitchen. Operating profit turned positive for the first time in four fiscal years at 1H, reflecting the effects of the promotion of fully-prepared meals, the closure of unprofitable business locations, and structural reforms that included price revisions. Note that while the ratio of customers that have adopted fully-prepared meals is around 40%, the Company aims to raise this level to 60–70% as a target in the immediate term.

In Other Services, (mainly the cleaning equipment manufacturing business), net sales were up ¥290mn YoY and operating profit rose ¥182mn. Net sales in the cleaning equipment manufacturing business operated by subsidiary PUREX Co., Ltd. continued to grow at a high rate, increasing 22.0% to positively affect both sales and profit. This was driven by growing demand for labor-saving equipment at linen supply plants amid a labor shortage. 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.

Pharmacy Services posted profit growth for first time in two fiscal years; Environmental Services recorded profit decline largely due to booking of temporary expenses

(2) Pharmacy Services

Pharmacy Services posted a 10.6% YoY increase in net sales to ¥30,922mn and a 4.5% increase in operating profit to ¥961mn. Net sales increased for the fifth consecutive fiscal year to set a new record high, with operating profit also entering positive territory for the first time in two fiscal years. Of this amount, the drugstore-related business of mikjapan, which was added as a consolidated subsidiary as of 2Q FY3/25, contributed to an increase in net sales of ¥1,086mn, but negatively affected operating profit by ¥8mn.



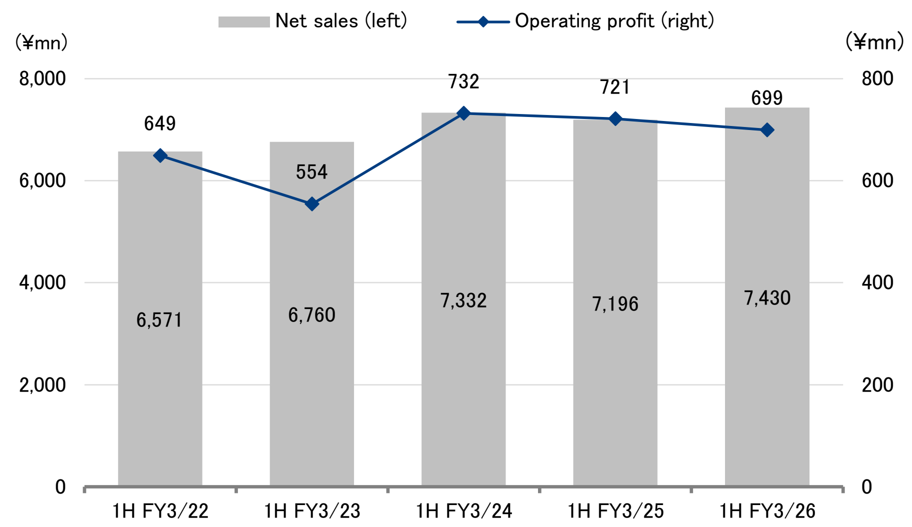
Source: Prepared by FISCO from the Company's financial results

Looking at factors affecting sales of the dispensing pharmacy business, the number of prescriptions decreased 0.4% YoY due largely to an increase in long-term prescriptions. On the other hand, a positive factor was a 7.6% gain in the prescription unit price, owing to an increase in prescriptions for high-priced pharmaceuticals and efforts to obtain additional technical fees through means that included the establishment of a medical DX promotion system and the reinforcement of support for home dispensing. This positive effect on sales breaks down into an increase of ¥1,756mn in sales from drug fees and an increase of ¥138mn in sales from technical fees. Looking at factors affecting operating profit, the increase in sales from technical fees and increase in sales from drug fees positively affected profit by ¥138mn and ¥72mn, respectively, while factors that included an increase in personnel expenses due to ongoing wage hikes largely intended to improve compensation negatively affected profit by ¥160mn. Note that the number of stores increased by 1 YoY to 159 stores, with 2 openings and 1 closure in this 1H.

(3) Environmental Services

In Environmental Services, sales increased and profit decreased slightly, with net sales increasing 3.3% YoY to ¥7,430mn and operating profit falling 3.1% to ¥699mn.

Environmental Services



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

In the mainstay Leasekin business, net sales decreased ¥28mn YoY and operating profit decreased ¥26mn. Net sales declined slightly as sales of dust control products, which included mops and mats, remained sluggish. The factors behind this are the heightened awareness of expense control among companies, stores, and other entities amid rising prices, as well as a persistent intense competitive environment. However, regarding the Company's main focus area of toilet-related products, sales continued to show an increase, rising 8.9%, mainly driven by the automatic open/close sanitary disposal box (Lunas) and the urinary stone adhesion prevention device (Suterabaisu). Moreover, the sales composition ratio rose to the 18% level. In addition to the decrease in gross profit due to lower net sales, higher material costs resulting from an increase in the replenishment of rental materials negatively affected operating profit. Meanwhile, in the cleaning business, both net sales and operating profit increased ¥253mn and ¥1mn, respectively. Net sales reached a record high due to a pair of factors positively affecting sales: the gaining of new consignment contracts for hospital cleaning services and operating room support services* and efforts to optimize pricing. Operating profit halted at a slight increase, as the increase in gross profit resulting from higher net sales was partially offset by initial expenses that included higher labor expenses associated with the new consignment contracts and the purchasing of materials and equipment.

* 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.

Note that in the newly launched overseas human resources staffing business*, orders for approximately 120 personnel have been received from medical institutions and nursing care facilities as of the end of September 2025. While it will take some time for the business to grow to a certain scale, the policy of the Company will be to continue responding to the needs of medical and nursing care sites, where there is a growing sense of a labor shortage.

* A service refers personnel with specialist skills (nursing care workers) educated in Indonesia and elsewhere to medical institutions and elderly care facilities in Japan. For net sales, the Company records referral fees and monthly guidance and management fees.

Continuing to generate profits, resulting in increase in net assets; maintaining sound financial position

3. Financial position and management indicators

Looking at the Company's financial position at the end of 1H FY3/26, total assets were up ¥3,041mn from the end of FY3/25 to ¥116,992mn. The main factors affecting the Company's financial position were increases in trade receivables of ¥991mn, inventories of ¥475mn, and securities of ¥415mn in current assets, with a decrease of ¥132mn in cash and deposits. In non-current assets, property, plant and equipment decreased ¥565mn, while intangible assets, mainly software assets, increased ¥184mn, and investment securities increased ¥1,554mn.

Total liabilities increased ¥14mn to ¥28,120mn compared to the end of FY3/25. While accrued consumption taxes decreased ¥469mn and income taxes payable decreased ¥326mn, trade payables increased ¥682mn and deferred tax assets (non-current) increased ¥388mn. Net assets rose ¥3,026mn to ¥88,872mn. This was mainly due to the recording of profit attributable to owners of parent of ¥3,048mn and an increase of ¥875mn in valuation difference on available-for-sale securities, despite dividend payments of ¥980mn.

Looking at management indicators, the equity ratio increased from 74.8% at the end of FY3/25 to 75.4%. Based on this and other indicators, the Company is deemed to have maintained a high level of financial soundness. 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 could be called one of the Company's key strengths. The Company also maintains relatively stable profitability due to its focus on the rental businesses. In its medium-term management plan that started from FY3/26, the Company has set forth the policy of "implement balanced growth investments and shareholder returns." Going forward, it intends to consciously address the improvement of capital efficiency as well.

Consolidated balance sheet

(¥mn)

	FY3/23	FY3/24	FY3/25	1H FY3/26	Change
Current assets	62,628	59,601	56,311	58,167	1,855
Cash and deposits	36,070	30,985	25,455	25,323	-132
Non-current assets	48,157	55,324	57,640	58,825	1,185
Property, plant and equipment	32,592	37,328	36,708	36,143	-565
Intangible assets	1,694	1,490	5,392	5,576	184
Investments and other assets	13,870	16,505	15,539	17,104	1,565
Total assets	110,785	114,926	113,951	116,992	3,041
Total liabilities	28,562	28,137	28,105	28,120	14
Total net assets	82,223	86,789	85,845	88,872	3,026
Stability					
Equity ratio	73.7%	75.0%	74.8%	75.4%	0.6pp

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

Outlook

Progress in 1H FY3/26 steady, but initial forecasts unchanged due partially to deferred expenses

1. 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. This is unchanged from the Company's initial forecasts. The Company projects an increase in net sales for the fifth consecutive fiscal year on a consolidated basis, up across all three segments. Meanwhile, in profit, the Company expects to achieve operating profit growth for the third consecutive fiscal year. This comes amid a scenario where the effects of higher sales absorb factors that include a projected decline in profits in Pharmacy Services, an increase in personnel expenses, and the recording of expenditure associated with initiatives to commemorate the Company's anniversary (approximately ¥100mn; already accounted for in 1H). 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 the ¥2,151mn in impairment losses that were recorded under extraordinary losses in the previous fiscal year will decrease by a large margin.

Looking at the progress rate against the full-year target up to 1H, net sales are at 50.0% and operating profit is at 54.0%. Compared to the average progress rate over the past five years, the progress rate for operating profit is significantly higher. However, as the purchase of rental materials that was scheduled for 1H has been deferred to 2H, the Company anticipates an increase in expenses in 2H. However, FISCO believes that unless the market environment deteriorates rapidly in 2H, the Company may exceed its targets on a profit basis.

FY3/26 forecasts

(¥mn)

	FY3/25		FY3/26			1H results ÷ full-year target	
	Results	Vs. sales	Forecasts	Vs. sales	YoY	FY3/26	Average over past 5 years
Net sales	149,542	-	157,976	-	5.6%	50.0%	49.3%
Operating profit	8,205	5.5%	8,216	5.2%	0.1%	54.0%	47.8%
Ordinary profit	8,838	5.9%	8,590	5.4%	-2.8%	54.7%	49.2%
Profit attributable to owners of parent	4,733	3.2%	5,499	3.5%	16.2%	55.4%	52.4%
Earnings per share (¥)	139.09		162.69				

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

Forecasts by segment

(¥mn)

Net sales by segment	FY3/24	FY3/25	FY3/26 (E)	YoY	1H progress rate
Healthcare Services	71,352	76,935	81,678	6.2%	49.7%
Pharmacy Services	52,287	58,049	61,206	5.4%	50.5%
Environmental Services	14,396	14,389	14,927	3.7%	49.8%
Others	185	168	162	-3.3%	52.9%
Total	138,222	149,542	157,976	5.6%	50.0%

Operating profit by segment	FY3/24	FY3/25	FY3/26 (E)	YoY	1H progress rate
Healthcare Services	6,618	7,143	7,908	10.7%	53.0%
Pharmacy Services	2,795	2,378	1,986	-16.5%	48.4%
Environmental Services	1,258	1,230	1,239	0.8%	56.4%
Others	0	-11	-7	-	-
Adjustments	-2,590	-2,534	-2,911	-	-
Total	8,082	8,205	8,216	0.1%	54.0%

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 due to initiatives to optimize pricing, and ¥311mn in other business, due to growth in the cleaning equipment manufacturing business. The progress rate as of 1H was 49.7%, indicating steady growth. The likelihood of achieving the full-year target is high. While there are concerns that the hotel linen supply service may be affected by the sharp decline in inbound Chinese tourists since late November, the Company's main sales territories are the Chubu region as well as the Tohoku and Shikoku regions in which its Group companies operate. The proportion of Chinese tourists in these territories appears to be relatively low, with the impact at present considered to be minor.

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. As the progress rate as of 1H was 53.0%, which significantly exceeds the average of 47.8% over the past five years, it is likely that the results will outperform the initial plan. Note that in the elderly care equipment business, the Company opened the Gidai-mae Sales Office, which functions as a sales base for the rental of elderly care equipment, in October. This office is also a co-located base aimed at creating synergy with Tanpopo Pharmacy. Also, regarding mikjapan's rehabilitation-type daycare service, the Company does not have any plans to open locations in 2H. However, going forward, it intends to continue creating synergy with the elderly care equipment rental business by opening stores within the rental business's sales area.

(2) Pharmacy Services

In Pharmacy Services, the Company anticipates an increase of 5.4% YoY in net sales to ¥61,206mn and a 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 dispensing 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. For this reason, as it moves forward, the Company will continue working to strengthen its functions as a family pharmacy and establish a medical DX promotion system to expand sales from technical fees directly contributing to profit while simultaneously utilizing a cloud-based electronic medication record system and centralizing prescription entry operations in its endeavors to boost store operation productivity as it aims to improve profitability. Note that in October, the Company acquired one pharmacy specializing in home dispensing through M&A, and intends to continue strengthening its initiatives in home dispensing as well. The progress rate as of 1H was 50.5% for net sales and 48.4% for operating profit, both of which are tracking slightly ahead of the average rate over the past five years (49.4% for net sales and 41.3% for operating profit).

(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. In net sales, the Company will aim to grow sales by ¥69mn in the Leasekin business through the expansion of toilet-related products and grow sales by ¥440mn in the cleaning business through an increase in the number of consignment contracts for hospital cleaning services and efforts to strengthen sales of operating room support services. In profits, operating profit is expected to increase by only ¥9mn due in part to higher personnel expenses. The progress rate as of 1H was 49.8% for net sales and 56.4% for operating profit, indicating generally steady progress.

Currently promoting three-year medium-term management plan to realize long-term vision

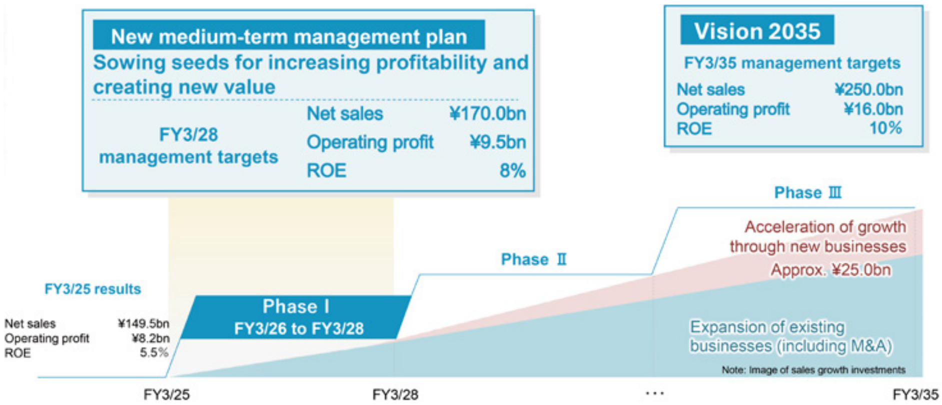
2. Outline of medium-term management plan and key performance targets

In May 2025, the Company released its medium-term management plan covering FY3/26 through FY3/28. It has positioned the three fiscal years of the plan as a phase of “Sowing seeds for increasing profitability and creating new value” in seeking to achieve “Vision 2035,” 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 is working to implement the following five basic policies.
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%. It will actively develop new businesses to drive growth in ten years over the duration of the medium-term management plan through FY3/28. Accordingly, under its long-term vision, the Company aims to achieve net sales of ¥250.0bn, operating profit of ¥16.0bn, and ROE of 10% in FY3/35.

Performance growth roadmap

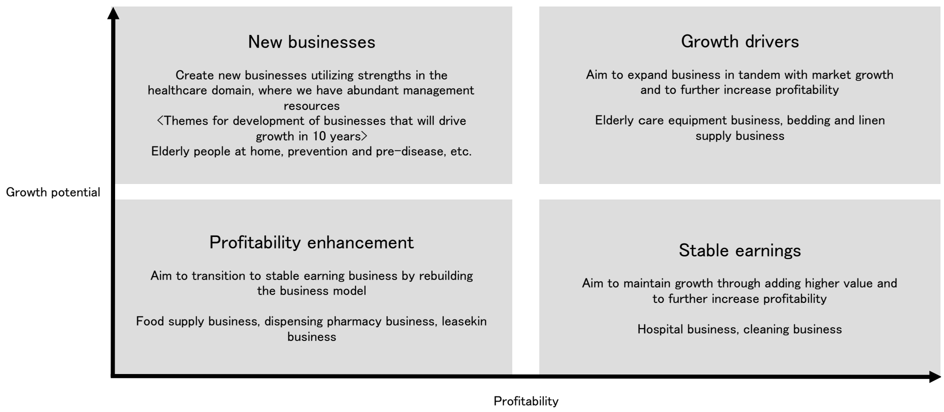


Source: The Company's medium-term management plan materials

For measures to improve profitability, the Company classifies its businesses into four business portfolios based on the business environment surrounding each business and the two axes of profitability and growth potential (growth driver businesses, stable earnings businesses, profitability enhancement businesses, and new businesses), and implements various measures accordingly. The Company classifies its elderly care equipment business and bedding and linen supply business as growth driver businesses, its hospital business and cleaning business as areas where stable earnings can be anticipated, and its dispensing pharmacy business, food supply business, and Leasekin business as areas in which it will aim to transition to stable earning business by rebuilding the business model. In addition, for new businesses, the Company intends to leverage its strengths in the area of healthcare, where it has an abundance of management resources, to pursue the development of new businesses focused on themes that include elderly people at home, medical and nursing care prevention, and pre-disease improvement*.

* The state between health and illness is referred to as pre-disease. Improving this state helps prevent the onset of illness and maintain good health.

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	
Adjustments		-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

Working on measures based on its five basic policies to achieve ROE of 8%

3. Basic policy of and status of initiatives under medium-term management plan

(1) Reform business structure in each business to maximize profit

a) Growth driver businesses

In the elderly care equipment business, the Company is advancing initiatives to expand regional market share by actively opening locations and M&A, and to improve the turnover rate of rental materials by strengthening the functions of its maintenance centers. While the rental and sales market for elderly care equipment keeps on expanding year after year as Japan's super-aging society advances, rising personnel expenses and inflation continue to create a challenging business environment for small and medium-sized enterprises and mid-tier companies. As a result, M&A opportunities are expected to keep on increasing going forward, presenting a favorable opportunity for the Company to expand its market share. The Company plans to continue expanding the number of its sales locations, including those in Tanpopo Pharmacy, at a pace of three to five locations per year. Also, as a measure to improve profitability, the Company has gotten started on efforts to improve the turnover rate of rental materials, which is helping to curb the input rate of new materials. In addition, with the Kyushu Maintenance Center, which was newly built last year, having entered operation, there has also been progress in improvements to delivery efficiency in the Kyushu area. The Company will continue to promote the efficient operation of rental materials by enhancing the functions of its maintenance centers to improve delivery, inventory management, and other operational processes as it aims for further improvement in profitability

In the bedding and linen supply business, the Company is working on strengthening its service supply system in existing business areas through M&A to meet expanding demand. In the Hida Takayama area of Gifu Prefecture, the Company has been pursuing the enhancement of its supply system in the area by augmenting the production facilities of Nissei Linen Supply Co., Ltd. and Nissei Yuuhi Co., Ltd., which became members of the TOKAI Group from 2022 up through 2023. In the Tohoku area as well, the Company welcomed SHINJYOBANSHINGU Co., Ltd., which operates a linen supply business for hospitals and hotels in Iwaki City, Fukushima Prefecture, as a Group member company in November 2024, and is endeavoring to reinforce its service system in the Tohoku area through business collaboration with DOJINSHA CO., LTD., also headquartered in Fukushima.

b) Stable earnings businesses

In the hospital business, the new core system entered operation in July 2025. The Company is working to improve productivity by advancing and streamlining operations. Also, regarding the strategic products of hospitalization and residence sets, the Company is working to enhance the added value of its services so that it can meet the diversifying needs of customers. One example is how it started offering proposals for those sets that incorporate television leasing. In the cleaning business, the Company has introduced AI cleaning robots at 12 business locations (medical institutions) with the aim of simultaneously providing high-quality cleaning services and improving productivity.

c) Profitability enhancement businesses

In the dispensing pharmacy business, the Company is working to streamline pharmacy operation by promoting DX. This includes promoting the implementation and utilization of a cloud-based electronic medication record system at all locations and the commencement of centralized prescription entry operations. Regarding the drugstore business of mikjapan, the Company is carrying out measures to enhance customer footfall through reviewing store layouts and product lineups tailored to the characteristics and needs of each opening territory. In addition, as a measure to improve profitability, the Company is seeking to collaborate with manufacturers in order to facilitate lower purchase rates. In the food supply business, the Company will endeavor to improve profitability by promoting a shift in its services from in-hospital meal preparation to the provision of meals that are fully prepared using a central kitchen. Also, in the Leasekin business, the “Lunas Support ZERO” service, which involves installing a set of automatic open/close sanitary disposal boxes (Lunas) and menstrual products that can be used for free, has seen growth in adoption to more than 500 users, mainly universities, companies, and food and beverage establishments. Coming off this strong reception, the Company is working to enhance its brand value of Leasekin that contributes to society.

(2) Develop new businesses to drive growth in 10 years

With respect to the operating environment underlying new business development, the Company is expecting demand 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 aims to develop services not covered by insurance by leveraging the expertise and resources it has amassed in the healthcare domain thus far in addition to services based on the insurance system. Additionally, as part of its efforts to develop new markets, the Company is working on expanding its business overseas. Currently, the Company is developing a linen supply business for medical facilities with Japanese capital through a joint venture in India. While the number of contracted beds is still small at around 2,000, as the market size is greater than 10 times that of Japan, significant growth is expected going forward. Also, for its cleaning equipment manufacturing business as well, the Company is carrying out sales activities in Taiwan and South Korea. Expectations are that there will be room for markets overseas to grow in the future.

(3) Create and maximize Group synergies

As an initiative aimed at creating and maximizing Group synergy, the Company initiated efforts to maximize synergies between its elderly care equipment rental and pharmacy businesses by opening sales offices for services under the former business within existing Tanpopo Pharmacy locations starting from FY3/26.

By establishing new locations attached to existing Tanpopo Pharmacy stores, the Company will realize openings of elderly care equipment business locations at low cost and with a sense of speed, and will increase the density of its location development efforts to help improve response speed and expand market share. In addition, by enabling its pharmacies to respond to nursing care consultations from visiting patients and building a comprehensive support system for local community healthcare and nursing care, the Company will become able to differentiate itself from competing pharmacies. If the effects of those openings can be confirmed, the Company plans to accelerate similar initiatives in various territories where Tanpopo Pharmacy locations are in operation. Also, in the elderly care equipment business, the Company is working to generate synergy through cross-sales by opening mikjapan's Mik Kenko-no-Mori, rehabilitation-type daycare service facilities within the service areas of its elderly care equipment rental business. (Three of these facilities were opened in 1H FY3/26.) At present, in addition to promoting the display and use of elderly care equipment at all 36 stores, the Company is holding rehabilitation-type daycare preview events and elderly care equipment exhibitions at seven locations nationwide. These efforts are being tied into the acquisition of customers for elderly care equipment rental services. The Company's future strategy will be to differentiate itself by developing proprietary rehabilitation programs utilizing elderly care equipment as it aims to enhance store profitability.

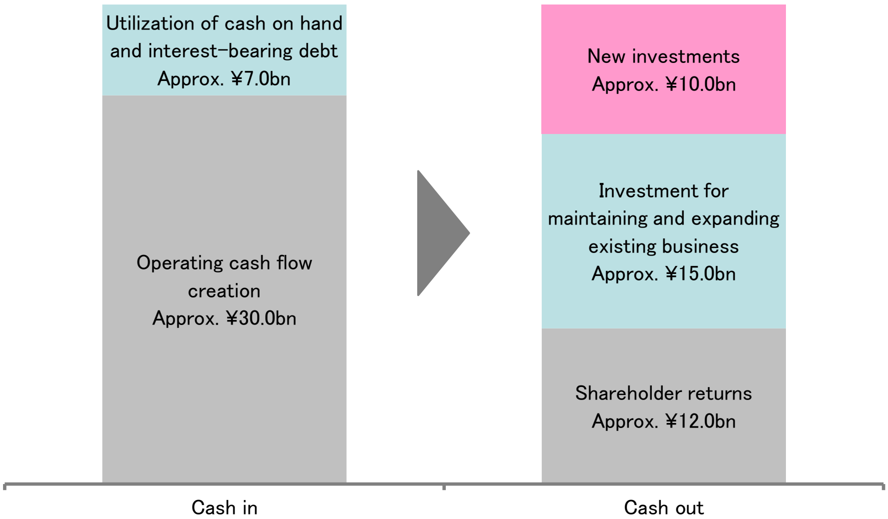
(4) Establish a beneficial cycle in which human capital investment leads to growth

The Company is enhancing development of human resources, the source of its growth. To such ends, it is cultivating DX professionals who drive transformation, highly specialized talent who support the 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 will aim for sustained corporate growth by continuing to invest proactively in such human capital.

(5) 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 set forth a policy of achieving a total payout ratio of over 70% cumulatively over the three fiscal 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)



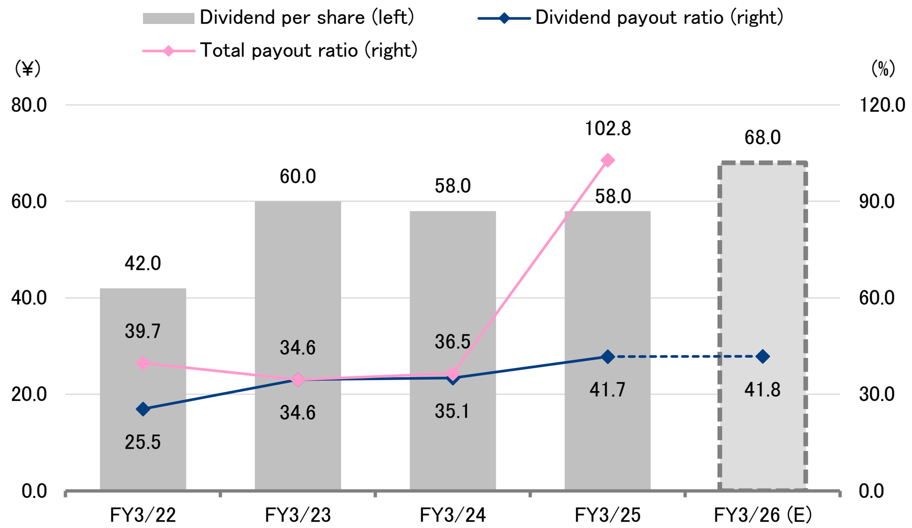
Source: Prepared by FISCO from the Company's medium-term management plan

Shareholder return policy

Policy of achieving total payout ratio of over 70% cumulatively over three fiscal years up to FY3/28

For its shareholder return policy, the Company has set forth a policy of achieving a total payout ratio of over 70% cumulatively over the three fiscal years of its medium-term management plan (FY3/26–FY3/28). For FY3/26, the Company plans to pay a dividend of ¥68.0 per share (dividend payout ratio of 41.8%), which includes a dividend to commemorate the Company's 70th anniversary of ¥10.0 per share. In addition, with a view to the ROE target of 8% set forth in the medium-term management plan, the Company acquired 2,949 thousand shares (equivalent to 8.7% of the number of shares issued, excluding treasury shares) for ¥6,317mn on November 12, 2025, and subsequently canceled the same number of shares on November 28, 2025.

Dividend per share and 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

Disclaimer

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