COMPANY RESEARCH AND ANALYSIS REPORT

internet infinity INC.

6545

Tokyo Stock Exchange Growth Market

31-Jan.-2023

FISCO Ltd. Analyst
Yoichiro Shimizu

FISCO Ltd.
https://www.fisco.co.jp

Index

Summary

Advancing structural reforms, including investments in M&A and startups, in anticipation of the post-COVID-19 era

internet infinity INC. <6545> (hereafter, also "the Company) is a healthcare solutions company providing new healthcare services both in the real world and online. In the Healthcare Solution Business, it conducts the Record Book Business, which manages Record Book short-time, rehabilitative ambulant care services (daycare services) to increase the healthy lifespan*1 of the elderly; the Web Solution Business, which provides marketing support for the senior market and support for those balancing their professional and caregiving duties using the care manager network constructed through Care Management Online, its dedicated care manager*2 portal site; and the Care Supply Business, which leases and sells eldercare utensils. Conversely, in the Home-Centered Service Business, it provides various long-term care insurance services for elderly people living at home.

*1 The period in which people can live their usual daily lives without restrictions due to health problems.
*2 An eldercare support specialist who creates a care plan so that the suitable eldercare services can be used according to the physical and mental conditions and the wishes of the person requiring eldercare.

1. 1H FY3/23 results summary

In the 1H FY3/23 consolidated results, net sales decreased 0.3% year-on-year (YoY) to ¥2,083mn, operating profit declined 47.5% to ¥35mn, ordinary profit decreased 67.4% to ¥53mn, and profit attributable to owners of parent decreased 74.7% to ¥27mn. Despite an ongoing impact from COVID-19, overall sales only declined slightly as a result of continued new facility openings in the Record Book Business. However, operating profit declined as overall expenses rose accompanying the resumption of normal business activities and subsequent revision of bonus levels, IT investments to promote digital transformation (DX), and investments in the future in all businesses in anticipation of the post-COVID-19 era.

As for topics, the Company advanced structural reforms, including investments in M&A and startups, in anticipation of the post-COVID-19 era. Regarding M&A, the Company made Seikougiken Co., Ltd. (hereafter, also "Seikougiken"), which specializes in home renovation business in Hiroshima Prefecture, into a subsidiary in October 2022. Since Seikougiken mainly provides home renovation services not covered by long-term care insurance, it diversifies the Group's business portfolio beyond the long-term care insurance domain, with the aim of expanding its long-term earnings potential. In December 2022, the consolidated subsidiary Kankeisha Inc. (hereafter also, "Kankeisha") took over two residential-type fee-charging homes for the elderly and business accompanying them from Ainoie Co., Ltd. In the future, it aims to contribute to the prolonging of healthy lifespans for users in various stages of long-term care. As for investments in startups, the Company invested in SeniorLife Technologies, Inc. in August 2022, with the aim of enhancing existing services such as walking analysis in the Record Book Business.

2. FY3/23 results outlook

For the FY3/23 consolidated results, the Company is forecasting that net sales will increase 6.1% YoY to ¥4,421mn, operating profit will rise 102.4% to ¥315mn, ordinary profit will grow 8.2% to ¥313mn, and profit attributable to owners of parent will increase 9.4% to ¥203mn. The Company maintained its initial forecasts, given prospects for growth in net sales and profits from M&A in 2H, in addition to recent performance trends. Net sales reached 47.1% of the Company's full-term forecast, operating profit 11.2%, ordinary profit 16.9%, and profit attributable to owners of parent 13.3%. Although net sales are making steady progress, profit headway at all levels is sluggish due mainly to the 7th COVID-19 wave, and growth in expenses such as upfront investments. The Company expects two M&A in 2H to help address that (i.e., contributions from Seikougiken, which the Company made a subsidiary in October 2022, and residential-type fee-charging homes for the elderly, which a subsidiary plans to take over in December 2022). Also considering that Record Book Business earnings are concentrated in 2H, with the number of facilities tending to rise towards the end of the fiscal year, we at FISCO think the Company's full-year forecasts are likely to be met.

3. Medium-term management policies

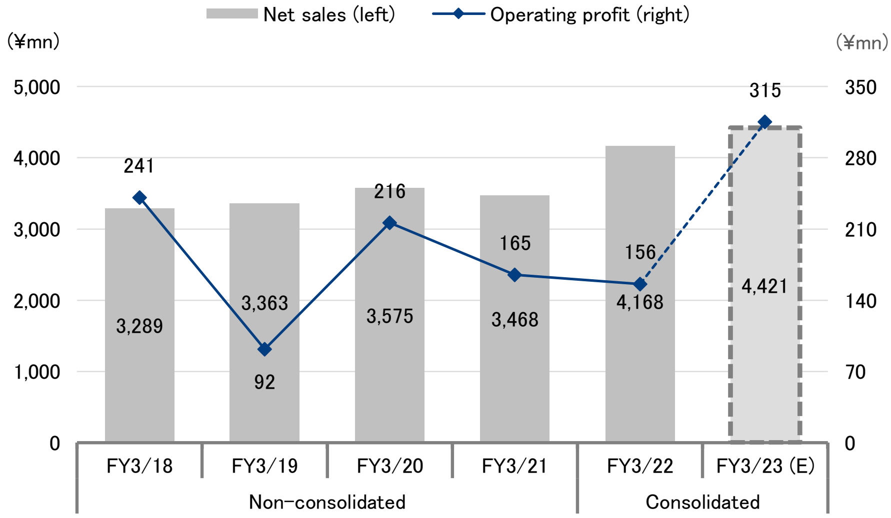
For its medium-term management policies, in June 2022 the Company updated the Business Plan and Items relating to Growth Potential. Within that plan, it formulated Medium-term Vision 2025: Toward the Realization of a Society with Prolonged Healthy Lifespans, which is the Group's medium-term vision toward achieving sustainable growth and improving enterprise value in the medium term. In it, it aims to realize the extension of healthy life expectancy through initiatives for "physical health," "brain and mental health," and "social participation." Also, as its priority strategies, the Company is accelerating initiatives toward the extension of healthy life expectancy by expanding the existing businesses at the same time as developing and providing new solutions. By advancing these initiatives, in FY3/26, which is the plan's final fiscal year, it is targeting net sales of ¥5,900mn, operating profit of ¥750mn, profit attributable to owners of parent of ¥492mn, ROE of 20.0%, and an operating profit margin of 12.9%. Among these targets, ROE and the operating profit margin are the main management indicators, and its policy is to aim to improve the profit margin by providing high value-added services and to increase ROE through this. In addition, the Company is advancing structural reforms, including M&A, in anticipation of the post-COVID-19 era. In FY3/23, it executed two M&A transactions. In the future, it plans to offer solutions for prolonging healthy lifespans at every stage, from preventative care to services for medium- to high-level users.

At FISCO, we think the Company is highly likely to achieve the targets in the medium-term management plan when considering that in the Record Book Business, the number of newly opened facilities and the number of users are both currently trending solidly, that the strategy of encouraging further facility openings by existing franchise members will enable it to open facilities more efficiently and speedily, and that presently medical solution results are strong. In particular, we expect the profit margin to increase even more, including from the expansion of franchise facilities and the Web Solution Business that have high profit margins, and also the market launches of new services.

Key Points

- A healthcare solutions company that provides new healthcare services both in the real world and online
- In 1H FY3/23, the Record Book Business did well, but profit declined due to investments in growth looking to the post-COVID-19 era
- Is maintaining initial forecasts for higher sales and profits in FY3/23, given outlook for sales and profit growth via M&A in 2H
- By accelerating initiatives toward the prolonging of healthy lifespans, is targeting net sales of ¥5,900mn and operating profit of ¥750mn in FY3/26

Results trends



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

Company summary

A healthcare solutions company that provides new healthcare services both in the real world and online

The Company is a healthcare solutions company that provides new healthcare services both in the real world and online. Based on the corporate slogan of "A Healthy Future," its mission is "to provide solutions to issues that a super-aging society faces, through innovation and an appetite for challenges," and toward this, it conducts the Healthcare Solution Business and the Home-Centered Service Business.

A feature of the Company is that it is utilizing its existing assets, of real-world facilities and the Care Management Online portal site, to actively launch peripheral businesses. Through this, it is stabilizing the earnings base and realizing a business structure that is not easily affected by the external environment. Another of its features is that its building business models that can effectively generate profits. Within the Healthcare Solution Business, the strategy for the Record Book Business is to increase franchise facilities that have high profit margins, while in addition, the profit margin is relatively high in the Web Solution Business.

The Company was established by Representative Director Keiichi Beck in May 2001 as internet infinity Ltd. in order to conduct a systems integration business. After around a year had passed from the Company's establishment, it was conducting a work system construction project for a client in the eldercare industry, and during this time, it became aware of the enormous business opportunities in this industry. Therefore, in October 2002, the Company established the home-visit eldercare business office and launched an eldercare-related business. Then in August 2005, it opened Care Management Online, its dedicated care manager portal site, and started a senior marketing support business as a new business. Subsequently in October 2011, it opened Record Book Nihonbashi and started the Record Book Business, which consists of short-time, rehabilitation daycare services, and then started developing Record Book franchise operations in March 2014. In April 2021, it made a subsidiary of FullCare, which rents and sells welfare equipment and conducts a residential renovation business for the elderly, and also in December of the same year, it established Kankeisha Inc. to progress the company split, including of the Home-Centered Service Business. On April 1, 2022, Kankeisha succeeded the Home-Centered Service Business and other businesses through a company split.

In share related, the Company was listed on the Tokyo Stock Exchange (TSE) Mothers Market in March 2017, and then its listing was transferred to the Growth Market in April 2022 following the TSE's reorganization of its market categories.

History

Date	Summary
May 2001	internet infinity Ltd. was established in Sumida Ward, Tokyo, to conduct a systems integration business
October 2002	Opened Clover Carestation (home-visit eldercare) in Chuo Ward, Tokyo, and launched an eldercare business
June 2003	Opened the Residential Eldercare Support Center Himawari (care plans, rentals and sales of welfare equipment), in Chuo Ward, Tokyo
July 2004	Changed the organization from a limited company to a stock company
March 2005	Opened Clover Day Services (a daycare-type eldercare facility) in Narashino City, Chiba Prefecture
August 2005	Opened Care Management Online, a dedicated care manager portal site, and launched a silver marketing support business as a new business
December 2009	Acquired the shares and made a subsidiary of Aikea Co., Ltd., which conducts referrals for medical specialist human resources and manages introductions to fee-charging homes for the elderly
July 2010	Launched Wakarukaigo, an eldercare consultation service for individuals to consult with a specialist about eldercare
January 2011	Launched Wakarukaigo biz, which is a service to support for people both working and providing eldercare, as a welfare service for company employees
October 2011	Opened Record Book Nihonbashi in Chuo Ward, Tokyo, and launched the Record Book Business, of short-time, rehabilitation daycare services
March 2014	Started Record Book franchise operations
March 2017	Listed on the TSE Mothers market
July 2017	Added the Wakaru Dementia service specializing in dementia support and the Wakarukaigo Consultation Center service that enables face-to-face consultations on eldercare, to the Wakarukaigo biz which is a service to support for people both working and providing eldercare
April 2021	Acquired the shares and made a subsidiary of FullCare Co., Ltd. (currently a consolidated subsidiary), which rents and sells welfare equipment and conducts a home renovation business for the elderly
December 2021	Established Kankeisha Co., Ltd. (currently a consolidated subsidiary) in order to progress the company split of the Home-Centered Service Business
April 2022	Kankeisha succeeded the Home-Centered Service Business through a company split The Company's listing was transferred to the TSE Growth market following the TSE's reorganization of its market categories

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

Business summary

Conducts the Healthcare Solution Business and the Home-Centered Service Business

The Company conducts the Healthcare Solution Business and the Home-Centered Service Business. Within the Healthcare Solution Business, it conducts the Record Book Business, which manages Record Book short-time, rehabilitation daycare services to increase the healthy life expectancy of the elderly; the Web Solution Business, which provides support for the senior market and support for those balancing their professional and caregiving duties using the care manager network constructed through Care Management Online, the dedicated care manager portal site; and the Care Supply Business, which leases and sells eldercare utensils. Conversely, in the Home-Centered Service Business, it provides various long-term care insurance services for elderly people living at home.

In the percentages of net sales in 1H FY 3/23, the Record Book Business provided 44.2%, the Web Solution Business 5.0%, the Care Supply Business 20.2%, and the Home-Centered Service Business 30.6%.

1. Healthcare Solution Business

To solve the issues facing Japan's super-aging society, the Company utilizes the platform comprised of the Record Book facilities network, the care manager network, and eldercare consultation data, etc. to prolong people's healthy lifespans to establish living environments for the elderly, to establish and share information on eldercare facilities, and to support marketing for the senior market, and thereby to support people to both work and provide eldercare.

(1) Record Book Business

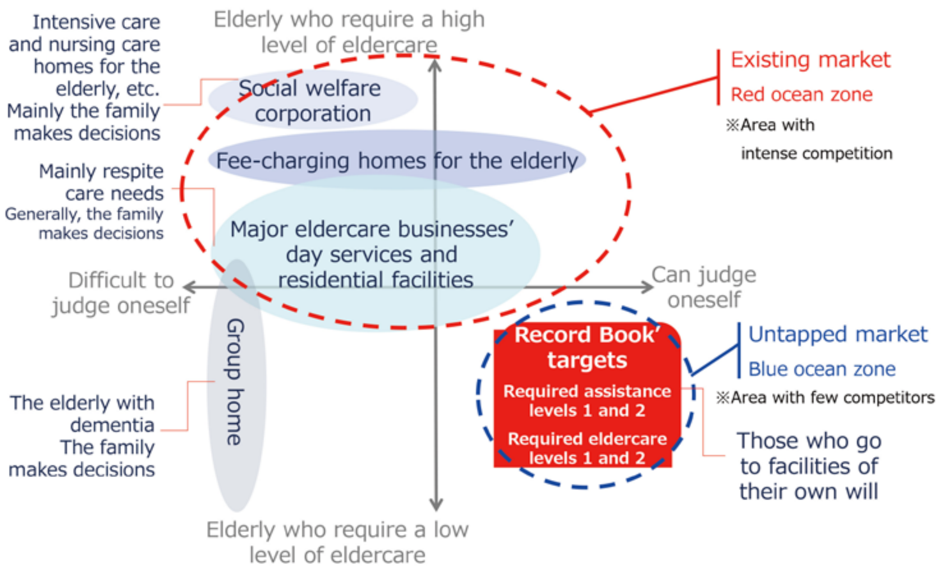
Targeting the elderly certified as requiring eldercare and certified as requiring assistance and with the aim of maintaining, recovering, and improving their physical functions, the Company manages Record Book short-time, rehabilitation daycare services. The Company has gradually increased the number of facilities by 3 from the end of the previous fiscal year to 214, and at the end of 1H FY3/23, there were 29 directly-managed facilities and 164 franchise facilities, while Meitetsu Life Support Co., Ltd., a joint venture with Nagoya Railroad Co., Ltd. <9048>, was managing 21 Meitetsu Record Book facilities, mainly in Aichi Prefecture. The features of Record Book facilities include "spaces that do not feel like eldercare spaces" that instead look like fitness clubs or dance studios, "professional exercise guidance" that incorporates fully fledged exercise programs based on scientific evidence, and "hospitality" aiming for active communication by creating lively spaces that are full of warm hospitality. They are rehabilitation daycare service facilities that deviate from the image that eldercare facilities have had up to the present time. Users have high levels of satisfaction with the enhanced service content, including programs that do not use Record Book' proprietary machines and setting aside tea times, and the continuous membership rate is high.

The Company actively utilizes the data collected through this business for the Record Book programs. In April 2022, it developed jointly with LiveSmart KK, a walking-analysis application that utilizes Record Book data and AI and launched a service using it at Record Book directly-managed facilities. The app takes a picture of TUG measurements* and visualizes the walking ability of the user, automatically analyzes and evaluates items such as the walking score and balance score, and creates a report. It then proposes advice and recommends programs based on the measurement results. Other than this, the Company is developing solutions that utilize AI and IoT to extend healthy life expectancy, including the joint development of another exercise program with the University of Tsukuba.

* TUG (Timed Up and Go) measurements are an indicator used worldwide as a test to comprehensively judge aspects such as walking ability, dynamic balance, and agility. It is generally adopted as a useful test for the elderly who have a high risk of falling.

Record Book targets the elderly certified as requiring a light level of eldercare (level 1 or 2 support, or level 1 or 2 long-term care) for who self-determination is possible, and it has few competitors and has acquired competitive advantages. Compared to the number of subjects targeted by rehabilitation daycare services facilities to which Record Book belongs, there are few facilities for them, and the market scale has room to grow and there are many potential new users, so this business is expected to further expand. Also, as the Company targets the elderly certified as requiring light eldercare, it can sell products and provide other services within its facilities. In addition to the directly-managed facilities, Record Book has been developing franchise operations since 2014, and the royalty income from franchise members is a stable source of income (recurring income).

Record Book Business' competitive advantages



Source: Reprinted from the Business Plan and Items relating to Growth Potential

(2) Web Solution Business

a) Marketing support for the senior market

The Company provides support for its customer companies' marketing research and promotions by methods including utilizing the network of care managers registered on Care Management Online and carrying out qualitative and quantitative surveys using questionnaires and other methods, and conducting sampling of the elderly who require eldercare. Care Management Online is a portal site that aims to support the work of care managers, and at the end of 1H FY3/23, more than 100,000 care managers had registered on it as members. It provides the latest information relating to eldercare, including information on the revised Long-Term Care Insurance Act, and also tools, manuals, and other items they need for work, and it has become established as an indispensable tool for care managers' work. The Company is connected to around 2.6mn elderly households nationwide through the Care Management Online website and is utilizing this care manager network to support its customer companies' marketing. It has a track record of projects for many customers, including for a major food manufacturer.

b) Support for those balancing their professional and caregiving duties

The number of people providing eldercare while still working is increasing, and in this situation, the number of people having to leave or change their job in order to provide eldercare is also rising. In this sort of situation, the Company is targeting companies' welfare services* and providing services to its customer companies' employees to support them being able to continue working while also providing eldercare. Companies that started providing services in FY3/22 include LOTTE CO., LTD., Hitachi Academy Co., Ltd., TEIJIN LIMITED <3401>, and KANEMATSU CORPORATION <8020>, and at the end of 1H FY3/23, 210 companies had introduced such services and had more than 2.1mn members. Interest is rising in companies' initiatives for ESG and SDGs, and in this situation, at FISCO we think that the number of companies considering introducing these services in order to improve the lives and the satisfaction levels of their employees will increase.

* Specifically, it holds eldercare seminars, etc., manages an eldercare information website, and has an eldercare concierge service (introductions of care managers by telephone or e-mail, introductions of eldercare facilities, long-term care insurance filing service, etc.).

c) Medical solutions

The Company provides market data, such as on disease awareness and usage conditions, to pharmaceutical manufacturers and medical device manufacturers, and it also provides marketing support services for medicinal pharmaceuticals. It utilizes the care managers registered on Care Management Online to conduct online questionnaires of its care-manager members who specialize in the medical area and to develop education contents on Care Management Online. Going forward, the Company is also aiming to grow the Web Solution Business by creating a medical solutions business. In FY3/23, the Company is bolstering sales activities, focusing on things like holding seminars for pharmaceutical companies and medical device manufacturers as well as promotional activities. In 1H, it won new orders for several projects, which are expected to further contribute to earnings.

(3) Care Supply Business

The subsidiary Kankeisha succeeded the Care Supply Business accompanying the spin-off at the start of FY3/23. Through the residential eldercare business office and FullCare, which was made a wholly owned subsidiary in April 2021, this business sells living support related-products that are needed by the elderly and their families. Among these products, it mainly leases and sells eldercare utensils relating to establishing an eldercare environment and preventive care and welfare equipment for the elderly, while it also provides residential renovation services.

2. Home-Centered Service Business

Targeting the elderly living at home, this business provides a range of long-term care insurance services. Also, the Wakarukaigo Consultation Center provides various types of consultations and support services.

(1) In-home eldercare support services

Care managers with specialist knowledge create an eldercare support plan (care plan) that incorporates the necessary types and content of eldercare services depending on the wishes of users and their families. Then, they coordinate and conduct adjustments with the providers of the eldercare services and provide support so that the users can smoothly receive the eldercare services. At the end of 1H FY3/23, it was managing eight business offices.

(2) Home-visit eldercare services

Specialist home-visit eldercare nurses (home helpers) visit the homes of the elderly who require eldercare and assistance and provide them with eldercare, such as for bathing, going to the toilet, and eating. They also support their daily living activities, including cleaning, changing clothes, and shopping. At the end of FY3/23, it was managing four business offices.

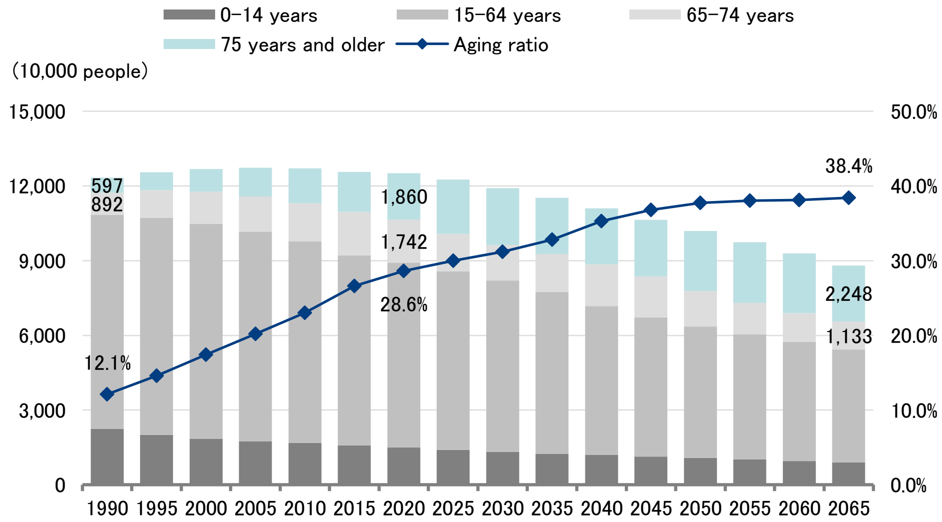
(3) Ambulant care services (Day services)

Targeting the elderly who require eldercare and assistance, this business provides eldercare services at day service centers, such as support for bathing, going to the toilet, and eating, and other support for daily living activities. It also provides support services for the elderly's independence, including functional training and recreation activities. At the end of 1H FY3/23, it was managing six business offices.

3. The business environment

The elderly, who the Company targets, continue to trend upwards both in terms of their absolute number and their percentage of the total population. According to the "Annual Report on the Ageing Society FY 2022" issued by the Cabinet Office, the elderly population aged 65 and above in 1990 was 14.89mn, but by 2020 this had rapidly increased by 141.9% to 36.02mn. Also, by 2065, the elderly population will be 33.81mn, which is slightly lower than in 2020, but because of the decline of the total population, it is projected that the aging ratio (the percentage of the total population aged 65 or above) will have risen to as high as 38.4%.

Aging trend and future projections



Source: Prepared by FISCO from the Annual Report on the Ageing Society FY 2022 by the Cabinet Office

Moreover, the Government's formulation of the medical expense optimization plan to maintain a high-quality medical provision system using the national insurance system is also proving to be advantageous for the Company. In this plan, the Government has indicated its policy that "the growth of medical expenses for the elderly must be gradually lowered in the medium- to long-term" as a specific measure to optimize medical expenses on the arrival of the super-aging society. The average life expectancy has increased due to the progress of medical technologies and changes to dietary habits, but the gap between life expectancy and healthy life expectancy has widened to around 10 years, and during this period, the burden of medical and eldercare expenses becomes extremely large. In order to narrow the gap between average life expectancy and healthy life expectancy, or in other words "to prolong healthy lifespans," it can be said that it will be important to reduce medical and eldercare expenses alongside the increase in the elderly population. Record Book facilities managed by the Company are also effective in improving the certification level of required eldercare and lead to the expansion of users' range of activities and also their quality of life. Based on this, at FISCO we think that the Company has a role to play in applying the brakes to the increase in social security expenses, which is an issue for the Government, and that social needs for its services will increase.

In the Record Book Business and Home-Centered Service Business, there is the risk that earnings will decrease due to revisions to the long-term care insurance system or to nursing care fees. To mitigate this risk, the Company is strengthening profitability by providing services other than long-term care insurance services at Record Book facilities. It also intends to quickly launch new businesses that are not dependent on the long-term care insurance system, and made Seikougiken, which mainly provides home renovation services not covered by long-term care insurance, into a subsidiary in October 2022.

Results trends

Although the Record Book Business did well in 1H FY3/23, profit declined due to investments in growth in anticipation of the post-COVID-19 era

1. 1H FY3/23 results summary

In the 1H FY3/23 consolidated results, net sales declined 0.3% YoY to ¥2,083mn, operating profit decreased 47.5% to ¥35mn, ordinary profit declined 67.4% to ¥53mn, and profit attributable to owners of parent decreased 74.7% to ¥27mn. Although there was ongoing impact from COVID-19, overall net sales were only slightly lower because new facility openings continued in the Record Book Business. However, operating profit declined as overall expenses rose accompanying the resumption of normal business activities and subsequent revision of bonus levels, IT investments to promote digital transformation (DX), and investments in the future in all businesses in anticipation of the post-COVID-19 era. In addition, non-operating profit declined significantly due to the essential lack of posting of employment adjustment subsidies and so forth utilized as measures to prevent the spread of COVID-19 until now. As one topic, the Company promoted structural reforms, including investments in M&A and startups, in anticipation of the post-COVID-19 era.

Results trends

1H FY3/23 consolidated results

(¥mn)

	1H FY3/22		1H FY3/23		Increase/decrease	
	Result	Composition ratio	Result	Composition ratio	Amount	Ratio
Net sales	2,090	-	2,083	-	-6	-0.3%
Healthcare Solution Business	1,444	69.1%	1,445	69.4%	0	0.0%
Record Book Business	914	43.8%	920	44.2%	6	0.7%
Web Solution Business	117	5.6%	103	5.0%	-14	-11.9%
Marketing support for the senior market	48	2.3%	34	1.7%	-13	-29.2%
Support for those balancing their professional and caregiving duties	65	3.1%	63	3.0%	-2	-3.1%
Medical solutions	4	0.2%	5	0.3%	1	25.0%
Care Supply Business	412	19.7%	420	20.2%	7	1.9%
Home-Centered Service Business	645	30.9%	638	30.6%	-7	-1.1%
Ambulant care	231	11.1%	214	10.3%	-17	-7.4%
Home-visit eldercare	257	12.3%	248	11.9%	-8	-3.5%
Residential eldercare support	156	7.5%	174	8.4%	18	11.5%
Gross profit	741	35.5%	736	35.3%	-5	-0.7%
Operating profit	67	3.2%	35	1.7%	-31	-47.5%
Healthcare Solution Business	160	11.1%	156	10.8%	-4	-2.5%
Record Book Business	100	10.9%	109	11.8%	9	9.0%
Web Solution Business	25	21.4%	14	13.6%	-11	-43.7%
Care Supply Business	34	8.3%	31	7.4%	-2	-6.1%
Home-Centered Service Business	198	30.8%	143	22.5%	-54	-27.6%
Adjustment amount	-291	-	-264	-	27	-
Ordinary profit	162	7.8%	53	2.5%	-109	-67.4%
Profit attributable to owners of parent by quarter	106	5.1%	27	1.3%	-79	-74.7%

Note:The composition ratios of operating profit by segment show the percentages relative to net sales by segment (the segment operating profit margin)
Source: Prepared by FISCO from the Company's financial results and financial briefing materials

The results by segment are described below.

(1) Healthcare Solution Business

In the Healthcare Solution Business, net sales were unchanged YoY at ¥1,445mn, while operating profit declined 2.5% to ¥156mn.

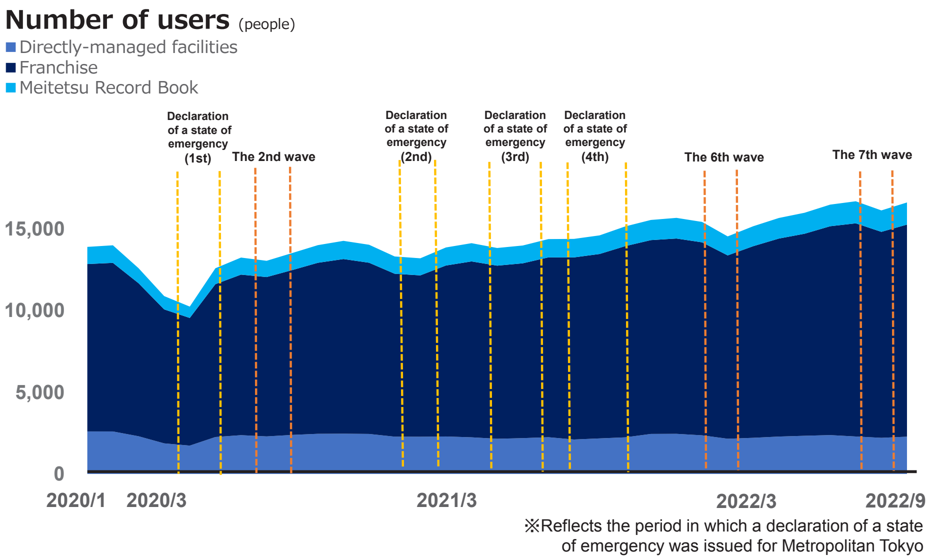
a) Record Book Business

In the Record Book Business, net sales increased 0.7% YoY to ¥920mn and operating profit rose 9.0% to ¥109mn. Net sales rose as a contribution from growth in the total number of Record Book facilities offset a slight YoY decline in income such as membership fees associated with new facility openings of franchise members. On the profit front, the operating profit margin remained high at 11.8% as a result of a decline in land rent and depreciation borne by the Company alongside plan changes and so forth in some franchise agreements.

The Company continues to see a certain level of new facility openings as the financing environment is improving even amid COVID-19. In addition to new members, the Company is focusing on supporting improved results at the facilities of existing members to encourage openings of their second and third facilities, and that seems to be going well. The number of users is on an uptrend as a result of the gradual easing of various restrictions related to COVID-19 and increased understanding among the elderly of the importance of regular exercise as a measure for preventing secondary health conditions. Recovery temporarily slowed between this past July and August 2022 mainly because several facilities were closed temporarily due to the 7th COVID-19 wave, but momentum had picked up again as the end of 1H as the Company called on users that temporarily held off on visits to start coming again in September.

Results trends

Trend in the number of Record Book users



Source: The Company's results briefing materials

b) Web Solution Business

In the Web Solution Business, net sales decreased 11.9% YoY to ¥103mn and operating profit declined 43.7% to ¥14mn. Although the Company strengthened sales activities and won orders for several new projects in the medical solutions field, overall segment sales and profits declined due to a reaction from the absence of large-scale projects from the same period of the previous fiscal year in marketing support for the senior market.

Support for those balancing their professional and caregiving duties was affected by customers' welfare service budget cuts in connection with COVID-19, despite robust demand on the back of tailwinds from the promotion of ESG and SDG initiatives. As for topics, the Company launched a new service, Wakarukaigo Biz Cloud, in October 2022. The service offers significantly improved operability and convenience because it enables centralized management via the cloud of various content, from that pertaining to customer companies conducting surveys to assess their employees' conditions to the analysis and comparison of survey results and examination and implementation (requesting) of necessary support measures. The service also enhances safety on the information management and security fronts by enabling verification via the cloud of various measures' implementation status and results as well as created content.

Dashboard functions

Source: Prepared by FISCO from the Company's press release

The Company strengthened sales activities in the medical solutions field by holding several seminars for pharmaceutical companies and medical device manufacturers as well as concentrating on promotional activities. Conveying the service's usefulness, while increasing points of contact with marketing staff led to the acquisition of new business.

c) Care Supply Business

In the Care Supply Business, net sales increased 1.9% YoY to ¥420mn, while operating profit declined 6.1% to ¥31mn. Net sales trended solidly as the impact from COVID-19 was minimal. The Company is promoting the sharing of expertise within the Group along with FullCare, which it made a subsidiary in FY3/22, and plans to make the business a long-term stable earnings base. Synergies can also be expected with Seikougiken, which became a subsidiary in October 2022.

(2) Home-Centered Service Business

In the Home-Centered Service Business, net sales decreased 1.1% YoY to ¥638mn and operating profit declined 27.6% to ¥143mn. Net sales were slightly lower, owing to an impact from lackluster user numbers accompanying the spread of COVID-19 variants. The ambulant care business was affected by temporary closures of some facilities in August 2022 due to the 7th COVID-19 wave. On the profit front, the Company advanced unique measures tailored to business characteristics targeting further growth accompanying the spin-off of the business and its succession by Kankeisha. As a result, expenses increased slightly and profit declined.

No problems with liquidity on hand in the short or long term and is highly financially sound

2. Financial condition and management indicators

At the end of 1H FY3/23, total assets had increased ¥119mn on the end of the previous period to ¥2,949mn. Within this amount, current assets increased ¥172mn to ¥2,123mn. This is mainly because cash and cash deposits rose ¥151mn and notes and accounts receivable – trade increased ¥14mn. Non-current assets decreased ¥52mn to ¥825mn, primarily as property, plant and equipment declined ¥74mn. Total liabilities increased ¥82mn to ¥1,666mn. Within this amount, current liabilities increased ¥133mn to ¥1,253mn due to factors including a ¥65mn increase in deposits. Non-current liabilities decreased ¥50mn to ¥412mn, chiefly because long-term borrowings declined ¥48mn. Net assets increased ¥37mn to ¥1,282mn, mainly due to the recording of profit attributable to owners of parent of ¥27mn. As a result, the equity ratio declined 0.5 of a percentage point (pp) to 43.5%, the current ratio declined 4.8pps to 169.4%, and the non-current ratio decreased 6.1pps to 64.4%. We at FISCO believe the Company will have no problems with liquidity on hand in the short or long term and its financial position is sound.

Consolidated balance sheet and management indicators

(¥mn)

	End of FY3/22	End of 1H FY3/23	Increase/decrease amount
Current assets	1,951	2,123	172
Cash and deposits	1,130	1,282	151
Non-current assets	878	825	-52
Property, plant and equipment	340	265	-74
Intangible assets	240	232	-7
Total assets	2,829	2,949	119
Total liabilities	1,584	1,666	82
Current liabilities	1,120	1,253	133
Non-current liabilities	463	412	-50
Net assets	1,245	1,282	37
Retained earnings	798	816	17
Total liabilities and net assets	2,829	2,949	119
[Safety]			
Equity ratio	44.0%	43.5%	-0.5pt
Current ratio	174.1%	169.4%	-4.8pt
Non-current ratio	70.5%	64.4%	-6.1pt

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

In 1H FY3/23, cash flow from operating activities was ¥214mn. The main inflows were depreciation of ¥60mn and quarterly profit before income taxes of ¥45mn. The main outflow was income taxes paid of ¥23mn. Cash flow from investing activities was ¥4mn. The main inflow was proceeds from the sale of businesses of ¥14mn. The main outflows were ¥9mn for the purchase of intangible assets and ¥7mn for payments for guarantee deposits. Cash flow from financing activities was ¥58mn. The main outflows included ¥53mn for repayments of long-term borrowings. As a result, cash and cash equivalents increased ¥151mn to ¥1,282mn at the end of the quarter.

Consolidated statements of cash flows

(¥mn)

	1H FY3/22	1H FY3/23
Cash flow from operating activities	118	214
Cash flow from investing activities	-245	-4
Cash flow from financing activities	54	-58
Cash and cash equivalents increase/decrease amount	-71	151
Cash and cash equivalents balance at the end of the quarter	773	1,282

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

Future outlook

Is maintaining initial forecast for higher sales and profits in FY3/23, given the outlook for sales and profit growth via M&A in 2H

● FY3/23 results outlook

For the FY3/23 consolidated results, the Company is forecasting that net sales will increase 6.1% YoY to ¥4,421mn, operating profit will rise 102.4% to ¥315mn, ordinary profit will grow 8.2% to ¥313mn, and profit attributable to owners of parent will increase 9.4% to ¥203mn. The Company maintained its initial forecasts, given prospects for growth in net sales and profits from M&A in 2H, in addition to recent performance trends. In FY3/23, the impact of COVID-19 on the increase and decrease in the number of users in the Record Book Business and the Home-Centered Service Business was small compared to in FY3/22. Therefore, the Company calculated the FY3/23 results forecasts without considering COVID-19 and assuming it would have no effect, such as causing an increase or decrease in the number of users.

FY3/23 consolidated results outlook

(¥mn)

	FY3/22		FY3/23		Increase/decrease		1H progress rate
	Result	Composition ratio	Forecast	Composition ratio	Amount	Ratio	
Net sales	4,168	-	4,421	-	253	6.1%	47.1%
Healthcare Solution Business	2,893	69.4%	3,133	70.9%	240	8.3%	46.1%
Record Book Business	1,819	43.7%	2,008	45.4%	189	10.4%	45.8%
Web Solution Business	230	5.5%	272	6.2%	41	18.3%	37.9%
Care Supply Business	843	20.2%	853	19.3%	9	1.2%	49.2%
Home-Centered Service Business	1,274	30.6%	1,287	29.1%	13	1.0%	49.6%
Operating profit	156	3.7%	315	7.1%	159	102.4%	11.2%
Healthcare Solution Business	338	11.7%	559	17.8%	220	65.2%	27.9%
Record Book Business	212	11.7%	369	18.4%	157	74.1%	29.5%
Web Solution Business	49	21.3%	89	32.7%	39	81.6%	15.7%
Care Supply Business	76	9.0%	100	11.7%	24	31.6%	31.0%
Home-Centered Service Business	377	29.6%	345	26.8%	-32	-8.6%	41.7%
Adjustment amount	-559	-	-588	-	-28	-	-
Ordinary profit	289	6.9%	313	7.1%	24	8.2%	16.9%
Profit attributable to owners of parent	186	4.5%	203	4.6%	17	9.4%	13.3%

Note: The composition ratios of operating profit by segment show the percentages relative to net sales by segment (segment operating profit margin)
Source: Prepared by FISCO from the Company's financial results and financial briefing materials

Net sales reached 47.1% of the Company's full-term forecast, operating profit 11.2%, ordinary profit 16.9%, and profit attributable to owners of parent 13.3%. Although net sales are making steady progress, profit headway at all levels is sluggish due mainly to the 7th COVID-19 wave, and growth in expenses such as upfront investments. The Company expects two M&A transactions in 2H to help address that (i.e., contributions from Seikougiken, which the Company made into a subsidiary in October 2022, and residential-type fee-charging homes for the elderly, which a subsidiary plans to take over in December 2022). Also considering that Record Book Business earnings are concentrated in 2H, with the number of facilities tending to rise towards the end of the fiscal year, we at FISCO think the Company's full-year forecasts are likely to be met.

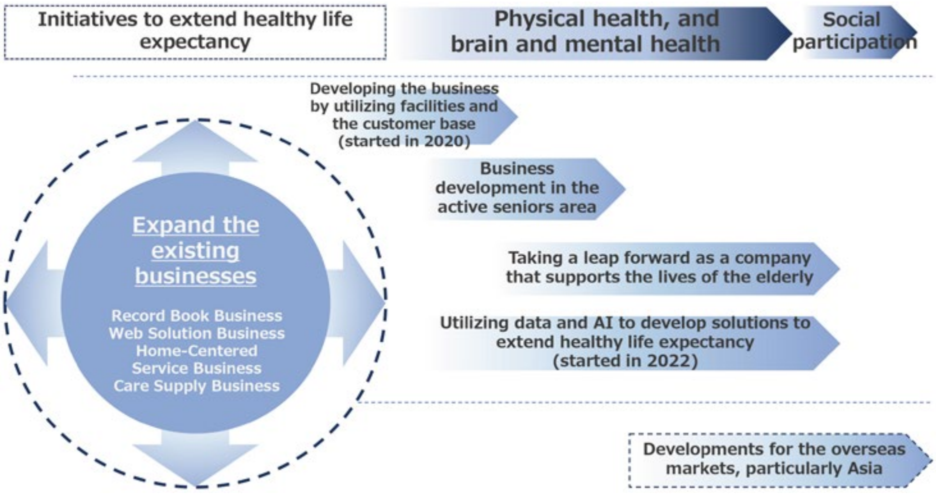
Within the Healthcare Solution Business, the Company is focusing on increasing facilities among existing franchise members and continuing to open new facilities in the Record Book Business. It intends to rapidly bring the number of users back to the level before the 6th COVID-19 wave by encouraging customers to start using facilities again, and targets further growth. Within the Web Solution Business, the Company is focusing on winning new customers in the senior marketing support business. In support for those balancing their professional and caregiving duties, it aims to use Wakarukaigo Biz Cloud as a tool for expanding cross-sales. In medical solutions, the Company expects the full-fledged introduction of services at companies that tried them in 1H, and further expansion looks promising. In the Care Supply Business, the Company is promoting the sharing of expertise among the Group, targeting growth as a long-term stable earnings foundation. Regarding the Home-Centered Service Business, the number of users is currently stable and expected to recover in 2H.

Medium-term management policies

In FY3/26, is aiming for net sales of ¥5,900mn and operating profit of ¥750mn by accelerating initiatives to extend healthy life expectancy

For its medium-term management policies, in June 2022 the Company updated the Business Plan and Items relating to Growth Potential. Within it, it formulated the Medium-term Vision 2025: Toward the Realization of a Society with Prolonged Healthy Lifespans, which is the Group's medium-term vision toward achieving sustainable growth and improving enterprise value in the medium term. In it, it aims to realize an extension of healthy life expectancy through initiatives for "physical health," "brain and mental health," and "social participation." Also, as the priority strategies, the Company is accelerating initiatives toward the prolonging of healthy lifespans by expanding the existing businesses at the same time as developing and providing new solutions. By advancing these initiatives, in FY3/26, which is the plan's final fiscal year, it is targeting net sales of ¥5,900mn, operating profit of ¥750mn, profit attributable to owners of parent of ¥492mn, ROE of 20.0%, and an operating profit margin of 12.9%. Among these targets, ROE and the operating profit margin are the main management indicators, and its policy is to work to improve the profit margin by providing high value-added services and to increase ROE through this.

Important strategies in the medium-term vision



Source: The Company's results briefing materials

Medium-term management plan

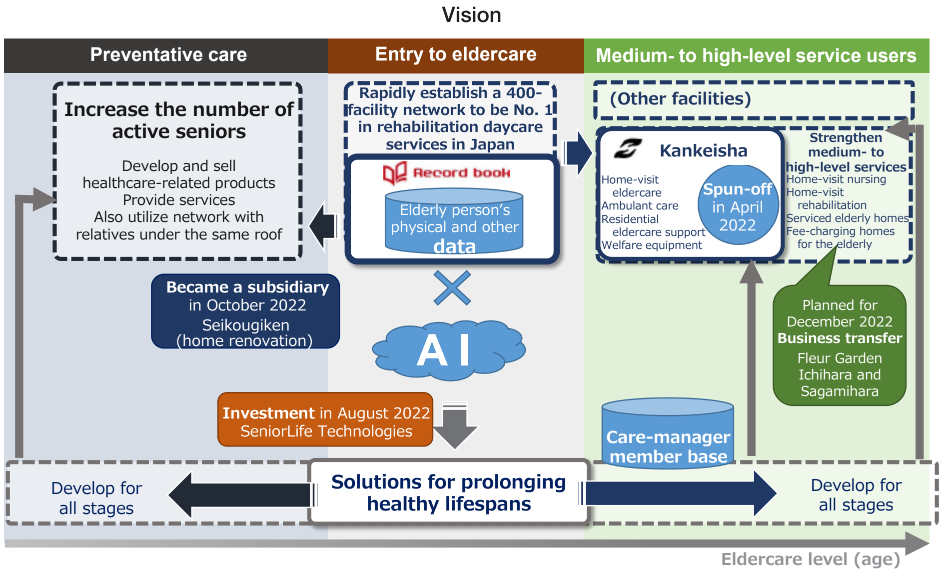
(¥mn)

	FY3/22 Result	FY3/23 Forecast	FY3/24 Target	FY3/25 Target	FY3/26 Target
Net sales	4,168	4,421	5,080	5,630	5,900
Healthcare Solution Business	2,893	3,133	3,690	4,080	4,340
Record Book Business	1,819	2,008	2,470	2,760	2,850
Web Solution Business	230	272	310	380	500
Care Supply Business	843	853	910	940	990
Home-Centered Service Business	1,274	1,287	1,390	1,550	1,560
Operating profit	156	315	540	650	750
Operating profit margin	3.7%	7.1%	10.7%	11.7%	12.9%
Profit attributable to owners of parent	186	203	355	427	492
ROE	15.0%	15.1%	21.8%	21.2%	20.0%

Source: Prepared by FISCO from the Company's financial results briefing materials and the Business Plan and Items relating to Growth Potential

Further, the Company is promoting structural reforms, including M&A, with a view to the post-COVID era. In FY3/23, it executed two M&A transactions. In the future, it plans to offer solutions for extending healthy lives at every stage, from preventative care to services for medium- to high-level users.

Medium-term management policies



Source: The Company's results briefing materials

The sales targets by segment are described below.

(1) Record Book Business

The net sales target for FY3/26 is ¥2,850mn. The Company will focus on supporting improved results at the facilities of existing members and will encourage openings of their second and third facilities, while for the future, it plans to increase the total number of Record Book facilities to 400 facilities, centered on franchise members. As a result, profitability is forecast to improve through strengthening the competitiveness of the Record Book brand and also through collaborations, including between products sales and the Care Supply Business and the Web Solution Business. In 1H FY3/23, the Company made steady progress, sustaining a certain level of new facility openings even amid COVID-19.

(2) Web Solution Business

The net sales target for FY3/26 is ¥500mn. The Company's policy is to expand this business by focusing on medical solutions, and it is aiming to create a medical solutions business by creating solutions that utilize data and AI to extend healthy life expectancy. As previously mentioned, bolstered sales activities helped the Company win new orders for several projects in 1H FY3/23, which are expected to further contribute to earnings.

Also, to strengthen the care manager network that will be the foundation for this, it intends to continue to implement measures to increase the number of people registering with Care Management Online and to improve the value of the member network. Specifically, by strengthening its provision of information and tools that are useful for care managers which includes the refinement of its work support tools, tie-ups with other companies, and the latest information about the revised Long-Term Care Insurance Act, it is targeting increasing the number of members to 110,000 people by FY3/26 (compared to approximately 100,000 people at the end of FY3/22).

(3) Care Supply Business

The net sales target for FY3/26 is ¥990mn. The Company is aiming to expand this business through synergies with the Record Book Business (capturing peripheral needs) by utilizing the expertise of both consolidated subsidiaries, FullCare and Kankeisha, to deepen and grow the business. Its policy is also to improve the profit margin by sharing their sales expertise and their customer bases. In terms of topics, the Company made Seikougiken a subsidiary in October 2022. Seikougiken specializes in the home renovation business in Hiroshima Prefecture, and over 70% of its customers are seniors. Since FullCare has been in the home renovation business in the same area for more than 20 years, sharing of their sales expertise and customer bases is likely to generate synergies. Additionally, Seikougiken mainly provides home renovation services not covered by long-term care insurance, so diversifies the Group’s business portfolio beyond the long-term care insurance domain, with the aim of expanding long-term earnings potential.

(4) Home-Centered Service Business

The net sales target for FY3/26 is ¥1,560mn. Through the business being split-off and succeeded by Kankeisha in April 2022, authorities are being transferred, decision-making is being sped-up, and flexible business execution is being progressed. The Company also intends to actively conduct M&A and open new facilities in order to expand this business. Specifically, its policy is to take on the challenge of eldercare for the elderly who require medium- to high-level services and to prolong healthy lifespans through eldercare at every stage, from the active senior group to the elderly who require a high level of eldercare. In terms of topics, Kankeisha took over two residential-type fee-charging homes for the elderly and business accompanying them from Ainoie in December 2022. The Company aims to expand earnings through interactions leveraging the environment located near Kankeisha’s existing offices. It also aims to contribute to healthy life expectancy for users in various stages of long-term care in the future.

(5) Others

In the near future, it seems that the Company has in its sights utilizing its expertise in providing eldercare services for overseas business development, particularly in Asia.

Returns to shareholders

Policy is to improve shareholder value through business expansion. Is also considering paying a dividend in the future

The Company considers returning profits to shareholders to be one of its most important management issues. But it is currently in a growth process and so intends to supplement internal reserves in order to secure and develop human resources and to actively develop its businesses and to strengthen its management foundation, such as by actively investing in order to expand the network of Record Book facilities. Therefore, it has not paid a dividend up to the present time and its policy for the time being is to supplement internal reserves. However, it intends to pay a dividend in the future after taking into consideration its business results and financial condition and maintaining a balance with internal reserves.

FISCO

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp