# COMPANY RESEARCH AND ANALYSIS REPORT

# TOKAI Corp.

## 9729

Tokyo Stock Exchange Prime Market

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# Summary

## Growing as a healthcare company contributing to medical care and nursing care needs in the age of a super-aging society

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

### 1. Overview of 1H FY3/23 results

In 1H FY3/23 consolidated results (April-September 2022), net sales increased 6.3% year on year (YoY) to ¥64,091mn, and operating profit decreased 6.8% to ¥3,567mn. The Company's three main businesses each increased net sales, achieving record highs. Meanwhile, in regard to profits, Healthcare Services increased profits by raising productivity and through the effect of increased sales despite the impact of rising costs due to high crude oil prices yen depreciation, but profits fell in Pharmacy Services, against a backdrop of drug price revisions and tight supply of pharmaceuticals that increased costs, and in Environmental Services, which faced one-off cost increases, leading to a decrease in profit overall for the first time in two years. Profit attributable to owners of parent also achieved a record high as the Company booked ¥1,079mn extraordinary income for the sale of real estate holdings.

### 2. Forecasts of FY3/23

For its FY3/23 consolidated results, the Company is forecasting net sales to increase 5.5% YoY to ¥130,307mn and operating profit to decrease 5.7% to ¥7,782mn, unchanged from the initial plan. Pharmacy Services is expected to be slightly weaker than planned in 2H due to drug price revisions and the impact of cost increases due to the tight supply of generic drugs, the strong performance of Healthcare Services should cover this. The impact of high crude oil prices and yen depreciation will continue in 2H, but this is viewed as mostly absorbable through price pass-throughs and increased productivity. Bedding and linen supply services for hotels continue to recover, and hospitalization sets and NEXSURG, as well as elderly care equipment among others are on an expanding trend and will drive earnings.

### 3. The medium-term management plan

The Company's four-year medium-term management plan, "Challenge for the New Stage!," which started in FY3/22, sets numerical management targets for FY3/25 of net sales of ¥140bn and operating profit of ¥9.5bn. It plans to increase sales by expanding market share in existing businesses and increasing sales of strategic products, among other initiatives, and the Company also intends to raise its operating margin from 6.2% in FY3/21 to 6.8% by promoting digital transformation (hereafter, "DX") initiatives in each business to improve work efficiency and productivity. The Company plans to make capital investments of ¥25bn, including new plant construction, over four years, and build a business foundation for medium- to long-term growth. The Saitama Plant (hospital linen plant, elderly care equipment maintenance center), which is aiming to create an environmentally friendly plant that is energy-efficient and highly productive – one that will serve as a new core plant covering the Kanto region—is scheduled to become fully operational in the fall of 2023. The Company's services in both the medical care and nursing care fields, where demand is expected to grow due to the progressive aging of people, means the outlook from a medium-term view is for results to continue to grow stably.

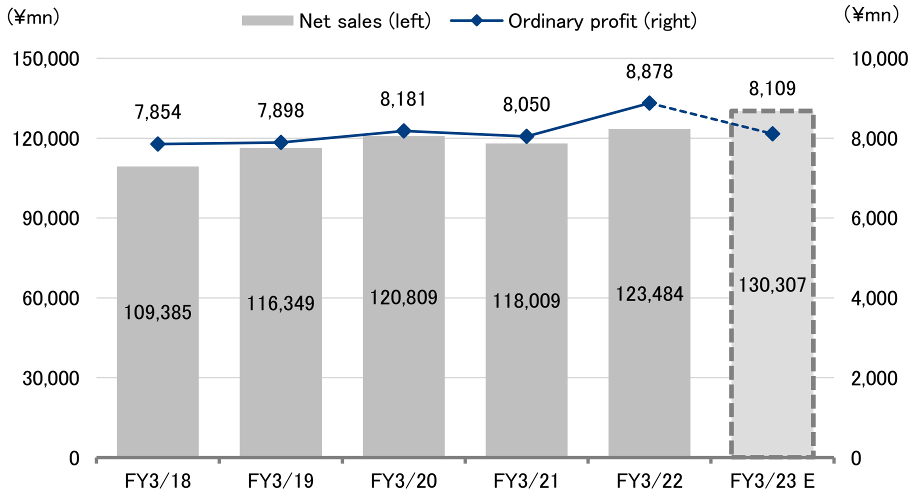
### 4. Shareholder return policy

For its shareholder return policy, the Company announced an increase in its consolidated dividend payout ratio to 35% from the existing 25%, taking into account its ample internal reserves. This means that in FY3/23 it will significantly increase the dividend to ¥60.0 per share (dividend payout ratio 35.2%), up from the initially planned ¥43.0 per share, an increase of ¥18.0 per share YoY. The Company will also flexibly and appropriately consider share buybacks depending on the level of its stock price.

**Key Points**

- Record high sales in 1H FY3/23 results
- All three segments to increase sales in FY3/23, with strong performance by Healthcare Services covering operating profit shortfall in Pharmacy Services
- Aims for sustainable growth while helping to solve social issues in the fields of medical care, nursing care, and environment
- Enhanced shareholder returns from FY3/23, raising dividend payout ratio level from 25% to 35%

Trends in consolidated results



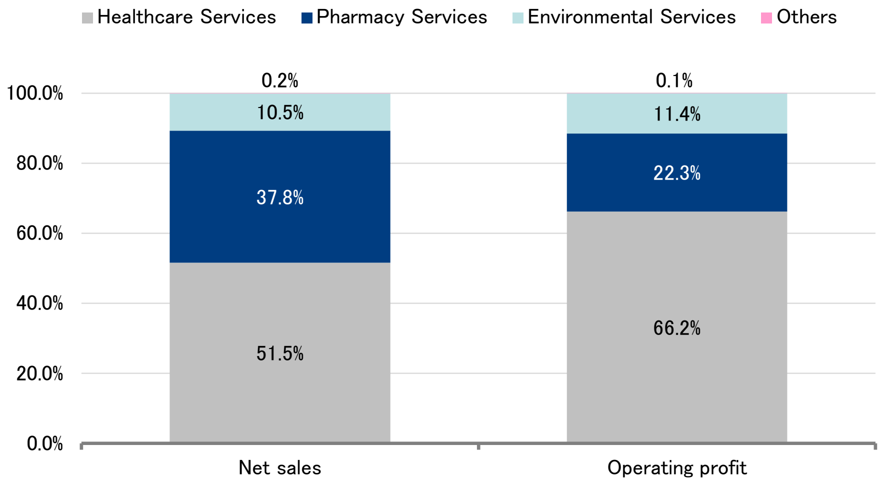

Source: Prepared by FISCO from the Company's financial results

# Business overview

## TOKAI's earnings pillar is the healthcare business that combines Healthcare Services and Pharmacy Services

The Company, whose headquarters is in Gifu Prefecture, conducts businesses on the axis of three business segments: Healthcare Services, Pharmacy Services, and Environmental Services. In percentages of results by segment, the healthcare business, which is the combination of Healthcare Services and Pharmacy Services, provides about 90% of net sales and operating profit.

**Percentage of results by business segment (1H FY3/23)**




Note: Operating profit is presented prior to elimination of internal transactions
Source: Prepared by FISCO from the Company's financial results

### 1. Healthcare Services

Healthcare Services include Hospital Services (medical-related consignment services such as linen supply, nursing assistance, and distribution management for medical institutions and nursing care facilities), bedding and linen supply services (bedding and linen supply services for lodging facilities such as hotels), Elderly Care Equipment Business (rental and sales of elderly care equipment), Food Supply Services (for medical institutions and nursing care facilities), cleaning equipment manufacturing, and sub-franchising business for Aqua Clara, which delivers water to homes.

In this segment, Hospital Services and bedding and linen supply services provide 50% to 60% of net sales. Linen supply services to hospitals, nursing facilities, and lodging facilities are provided in the Tohoku, Kanto, Chubu, Kansai, Chugoku, and Shikoku areas of Japan. The Company is the second largest provider of these services to hospitals and nursing care facilities in Japan, after industry-leader Watakyu Seimoa Corporation. A key strength of the Company's Hospital Services is the ability to provide a one-stop source of medical-related services, including linen supplies, nursing assistance, and distribution management within hospitals.

The Elderly Care Equipment Business, which contributes more than 30% of this segment's net sales, involves the rental and sales of elderly care equipment, such as electric beds and wheelchairs, based on the Long-Term Care Insurance System. At the end of September 2022, Elderly Care Equipment Business were provided from Tohoku to Kyushu, covering metropolitan areas where the population of the elderly is expected to grow, with a sales network included 74 branches or offices, and 7 maintenance centers (including consolidated subsidiaries' bases). TOKAI's market share in this business varies by region. In Shikoku, it is relatively high at around 30%. In the three metropolitan areas of Greater Tokyo, Greater Osaka and Greater Nagoya, it is about 5-10%, leaving room to expand its presence. Although competitors include FRANCE BED HOLDINGS CO., LTD. <7840> and a subsidiary of Panasonic Holdings Corporation <6752> (Panasonic AGE-FREE Co., Ltd.), the Company is seen as being the top in direct rental sales. The Company works closely with care managers in each region to provide highly tailored services, apart from other actions such as aiming to utilize its relationships with medical institutions and building a route to receive patients discharged from them, thereby increasing user numbers. Through this strategy, it continues to grow at a rate higher than the market as a whole. Moreover, by working to increase its share in regions utilizing M&A and other measures, it is aiming to establish a position as having the No. 1 market share in each region.

Looking at the 1H FY3/23 results, the majority of net sales and profits were provided by three businesses; Hospital Services, bedding and linen supply services, and Elderly Care Equipment Business. Of these, the profitability of the Elderly Care Equipment Business is the highest.

**2. Pharmacy Services**

In the Pharmacy Services segment, consolidated subsidiary Tanpopo Pharmacy Co, Ltd., operates dispensing pharmacies in Tokai, Hokuriku, Kansai, and Shikoku areas. It was operating 147 pharmacies at the end of September 2022. Expanding the number of stores through organic growth in principle and specializing in opening stores in front of large hospitals, it has promoted a strategy of raising management efficiency and maintaining high earnings. In recent years, in the Japanese government's Vision for Patient-centered Pharmacies, dispensing pharmacies are being required more than ever before to function as local communities' family pharmacies. So, the Company's policy is to diversify the formats of the pharmacies that it opens and to improve their functions as local communities' family pharmacies, and also to contribute to medical care in local communities by training highly specialized pharmacists.

**3. Environmental Services**

The Environmental Services segment mainly consists of the Leasekin business and cleaning business. It handles the Leasekin service of franchising the sale and rental of mops, mats, and other environment beautification products mainly to offices, stores, and homes under the Leasekin brand. The Leasekin service has about 1,000 franchisees nationwide, including regional head offices and agencies. In this service, TOKAI ranks second in Japan, after DUSKIN CO., LTD. <4665>. Over the past few years, it has focused on products peripheral to toilets in order to differentiate itself. In the cleaning business, it provides cleaning and management services on a consignment basis to buildings, and in recent years, it has focused on provision of advanced cleaning services to prevent infections within medical institutions. Cleaning at medical institutions and nursing care facilities already generates about 70% of sales. This segment also engages in the electricity sales business through solar power generation.

**4. Other Services**

Other Services include the provision of management information by the consolidated subsidiary Japan Intelligence Mart.

# Results Trends

## Mainstay Healthcare Services' performance a driving force, achieved record high net sales

**1. Overview of 1H FY3/23 results**

In 1H FY3/23 consolidated results, net sales increased 6.3% YoY to ¥64,091mn, operating profit decreased 6.8% YoY to ¥3,567mn, ordinary profit decreased 12.6% YoY to ¥3,720mn and profit attributable to owners of parent increased 11.9% YoY to ¥3,130mn, with net sales and profit attributable to owners of parent achieving record highs.

**1H FY3/23 consolidated results**

(¥mn)

| | 1H FY3/22 | | 1H FY3/23 | | YoY | |
|---|---|---|---|---|---|---|
| | Results | Vs. sales | Results | Vs. sales | Change rate | Change |
| Net sales | 60,269 | - | 64,091 | - | 6.3% | 3,821 |
| Cost of sales | 45,108 | 74.8% | 48,583 | 75.8% | 7.7% | 3,475 |
| SG&A expenses | 11,333 | 18.8% | 11,940 | 18.6% | 5.4% | 607 |
| Operating profit | 3,828 | 6.4% | 3,567 | 5.6% | -6.8% | -260 |
| Ordinary profit | 4,255 | 7.1% | 3,720 | 5.8% | -12.6% | -534 |
| Extraordinary loss | -86 | - | 974 | - | - | 1,060 |
| Profit attributable to owners of parent | 2,799 | 4.6% | 3,130 | 4.9% | 11.9% | 331 |

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

**Results by segment**

(¥mn)

| | | 1H FY3/22 | 1H FY3/23 | YoY | |
|---|---|---|---|---|---|
| | | | | Change rate | Change |
| Healthcare Services | Net sales | 31,115 | 33,034 | 6.2% | 1,918 |
| | Operating profit | 2,850 | 3,203 | 12.4% | 352 |
| Pharmacy Services | Net sales | 22,490 | 24,197 | 7.6% | 1,706 |
| | Operating profit | 1,426 | 1,081 | -24.2% | -344 |
| Environmental Services | Net sales | 6,571 | 6,760 | 2.9% | 189 |
| | Operating profit | 649 | 554 | -14.6% | -94 |

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

All segments achieved increased sales by promoting sales activities while living with COVID-19 and focusing on expanding sales of services that meet customers' needs. Operating profit, meanwhile, decreased for the first time in two years, mainly because of increased costs due to rising fuel expenses accompanying high crude oil prices and further yen depreciation together with increases in pharmaceutical and other prices. By segment, Healthcare Services achieved a record high performance that exceeded levels from before COVID-19, but on the other hand, profits declined in Pharmacy Services and Environment Services.

Non-operating income and expenses worsened by ¥273mn YoY. The main reason was the absence of the ¥179mn gain on sale of investment securities that had been booked in the previous fiscal year. Meanwhile, the Company secured increased profit attributable to owners of parent through the recording of extraordinary income from ¥1,079mn in gain on sale of non-current assets.

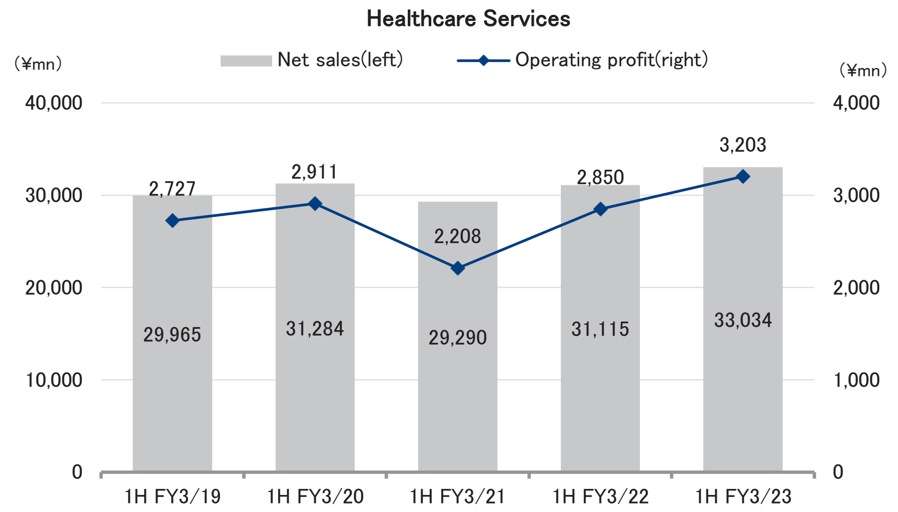
Furthermore, the increase in expenses due to high crude oil prices and the yen depreciation was about ¥250mn. As a breakdown of the expenses, rises in fuel prices, mainly for gas boilers used at linen washing plants, and electricity charges were about ¥160mn, rising gasoline prices for delivery vehicles were about ¥30mn and increased costs for the supply of products from overseas (bedding and covers and other linens) about ¥60mn. However, the negative impact on profits was not as bad as had been expected due to efforts to raise productivity at plants.

## Maintain strong performance in key services of Healthcare Services in addition to recovery in hotel linens

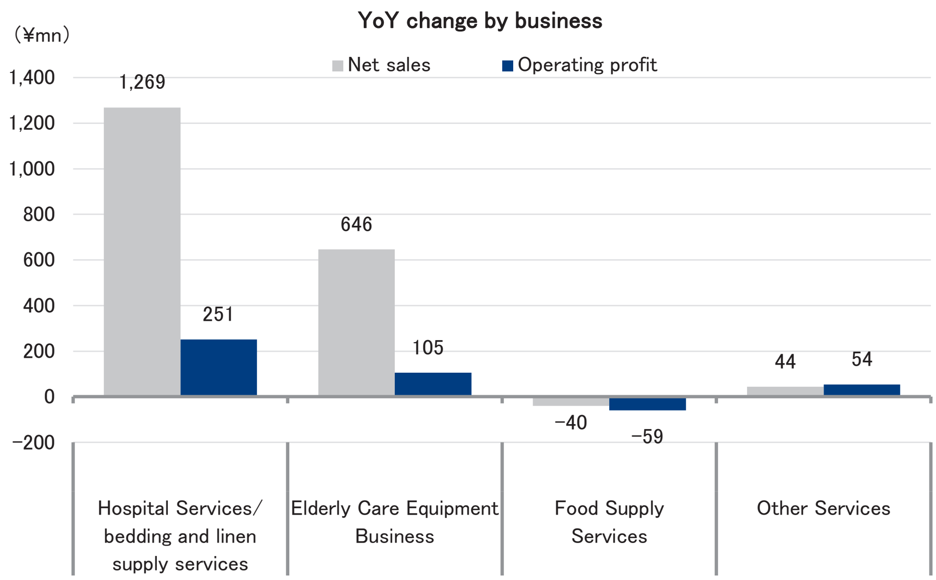
### 2. Result trends by segment

#### (1) Healthcare Services

In Healthcare Services, net sales increased 6.2% YoY to ¥33,034mn and operating profit increased 12.4% to ¥3,203mn, increasing both sales and profits and both achieving record highs for the second consecutive year. The operating margin also rose from 9.2% to 9.7%. The mainstay Hospital Services and bedding and linen supply services and Elderly Care Equipment Business both achieved increased sales and profits and were the driving forces.




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




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

#### a) Hospital Services, bedding and linen supply services

In Hospital Services and bedding and linen supply services, net sales increased ¥1,269mn YoY and operating profit increased ¥251mn, achieving record highs. Bedding and linen supply services expanded significantly, increasing by 30.5% YoY due to a recovery in the occupancy rate of accommodation facilities such as hotels, while the increasing sales trend continued for the Hospital Services strategic products of hospitalization sets*1, up 13.3% YoY, and NEXSURG*2, a YoY increase of 5.4%, and performance was steady.

*1 Hospitalization set: A set of commodities rented at a fixed daily charge when people are hospitalized, including towels, day wear, sleepwear (pajamas), underwear, toothbrush, and body soap.
*2 NEXSURG: A surgical linen reuse system that TOKAI pioneered and commercialized. The key advantages of this system are that it offers lower medical waste disposal costs and environmental impact than those of regular disposable offerings.

In bedding and linen supply services for lodging facilities, September net sales recovered to 85% of the pre-pandemic level (FY3/20). In addition, strong demand continued for hospitalization sets with the number of contracted facilities increasing by 12.4% YoY as visits to hospitalized patients or facility residents continued to be restricted due to COVID-19. NEXSURG's growth rate slowed to single digits, but the trend to switch from disposables to reusable NEXSURG items continues as awareness of the SDGs increases, including at medical corporations. The number of contracted beds for linen supply for hospitals, nursing and other facilities increased by 2.1% YoY. The downward trend for hospitals continued as the number declined by 0.2%, but progress was made in finding new customers for nursing facilities, which increased 3.9% YoY.

From a profit aspect, rising costs, such as for fuel and materials, were absorbed by increased sales and profits, a double-digit increase for the latter, centered on the bedding and linen supply services for hotels, and the profit margin also increased.

#### b) Elderly Care Equipment Business

In the Elderly Care Equipment Business, net sales increased ¥646mn YoY and operating profit increased ¥105mn, both of which were consecutive record highs. Against the backdrop of increasing demand for at-home nursing care services, sales from direct rentals of elderly care equipment performed well, increasing by 7.9%. In addition, the consolidation of one subsidiary*1 in the fiscal year under review was a factor in increasing sales by about ¥150mn, and the acquisition of one business site*2 through M&A in August 2022 also contributed to the increase in sales.

*1 The Company acquired all shares and made a subsidiary of Youel Co., Ltd. (Osaka Prefecture) in June 2018. Annual turnover is approx. ¥300mn.
*2 Assumed this business from Mominoki Co., Ltd. in August 2022 through a simplified absorption-type company split and opened a site of this business as the Toyokawa Office (Aichi Prefecture). Annual turnover is approx. ¥270mn.

New users acquired through hospital discharge counters accounted for 24.2% of all new users acquired, a steady increase of 8.3% YoY.

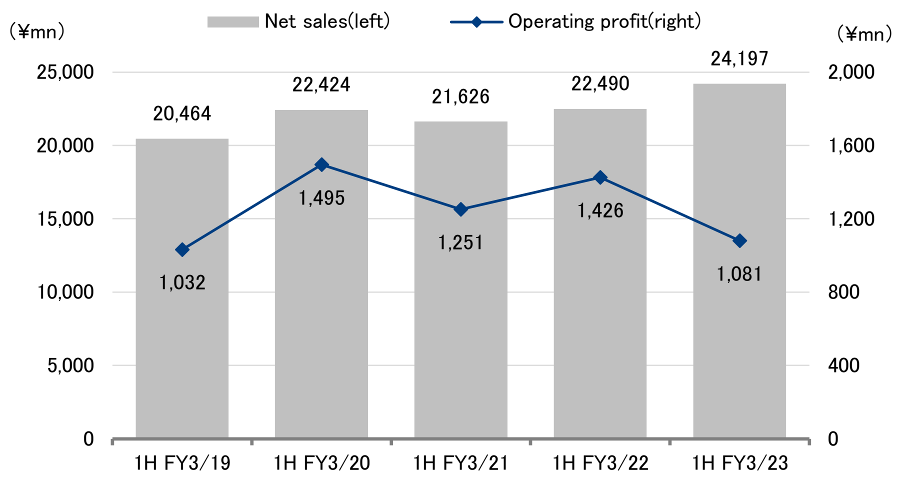
#### c) Food Supply and Other Services

In Food Supply Services, net sales decreased by ¥40mn YoY and operating profit decreased by ¥59mn YoY. The decrease in sales was attributable to a lowering of the operation rate of nursing facilities in the COVID-19 pandemic. On the profit side, the decrease in profit was caused by skyrocketing foodstuff costs and a rising labor cost rate. In other businesses, which center on the cleaning equipment manufacturing business, net sales increased ¥44mn YoY and operating profit grew by ¥54mn. Both the cleaning equipment manufacturing business and Aqua Clara business experienced sales increases, which helped to improve profit as well. The cleaning equipment manufacturing business has not yet fully recovered from the impact of COVID-19, but if hotel occupancy rates continue to recover, linen suppliers will once again be willing to invest in cleaning equipment and performance will improve.

(2) Pharmacy Services

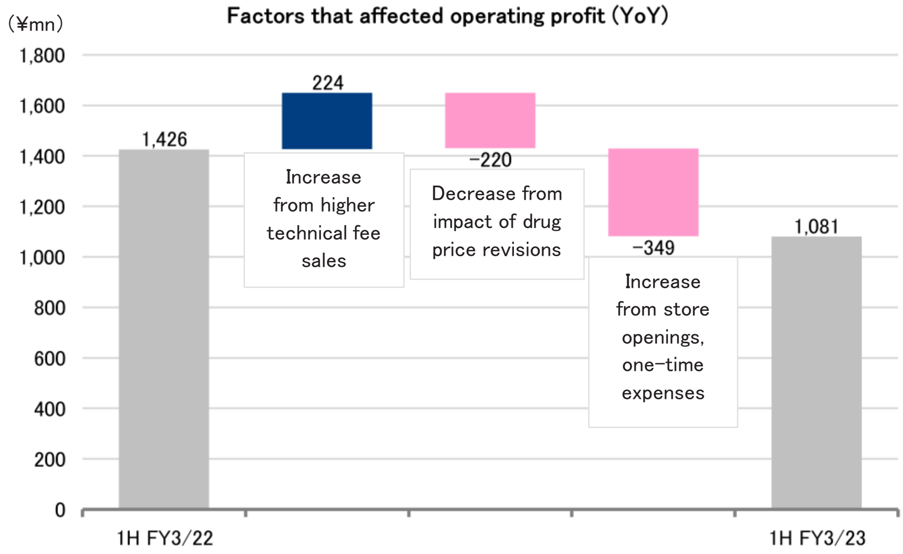
In Pharmacy Services, net sales increased 7.6% YoY to ¥24,197mn and operating profit decreased 24.2% to ¥1,081mn. Net sales achieved a record high as the number of prescriptions increased (up 9.7% YoY, and a 0.3% increase YoY on an existing pharmacy basis), which absorbed the decline in prescription unit prices (down 2.0% YoY) resulting from a drug price revision in April 2022 and shortening of prescription periods that had been prolonged since the onset of COVID-19. Looking at a breakdown behind the increase in sales, sales from technical fees increased ¥224mn in conjunction with the increase in prescriptions, sales from drugs increased ¥1,448mn, and other sales increased ¥32mn. There were 147 pharmacies as of the end of 1H FY3/23, an increase of 6 compared to the end of the previous fiscal year, with one fronting hospital pharmacy and one on-site pharmacy, both of which opened in May.

Pharmacy Services




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

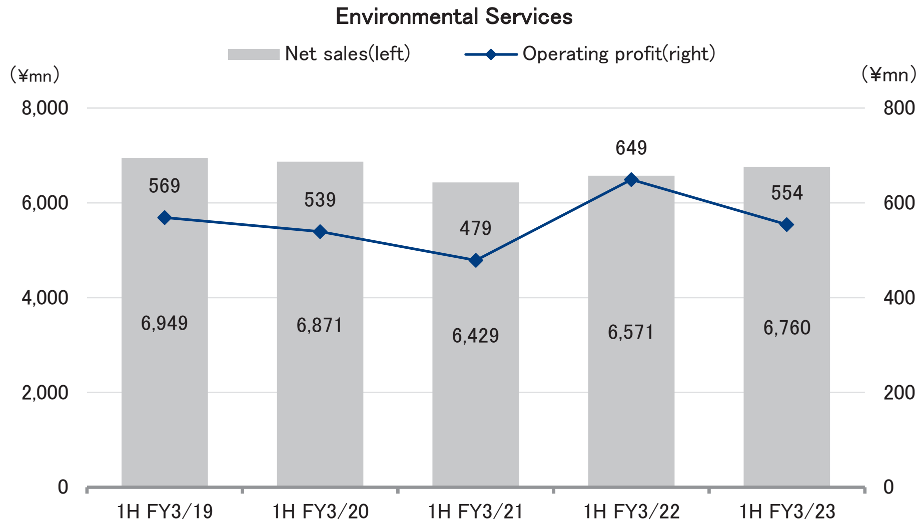
Meanwhile, looking at factors that affected operating profit, although profit increased ¥224mn due to the increase in sales from technical fees, the impact of drug price revisions and other factors decreased profit by ¥220mn and the increase in store expenses and other costs led to a decline in profit of ¥349mn. The decrease in profit due to drug price revisions and other factors includes the impact of an increase in consumption tax in conjunction with increased inventories against a backdrop of a shortage in supply of generic drugs. Regarding store expenses and other costs, multiple openings of large-scale stores in 2H of the previous fiscal year resulted in an increase in labor expenses and rental fees. Net sales increased steadily, but operating profit seems to have decreased more than envisaged due to the burgeoning cost of drug procurement. Regarding the impact of the shortage in supply of generic drugs, the Company is working to improvement procurement methods after the shortage had at one time eased only to now be viewed as continuing into 2H.




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

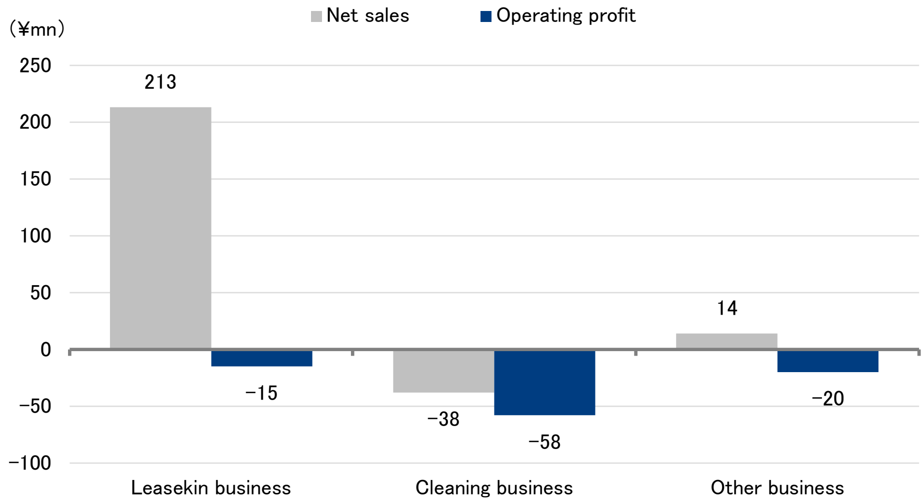
### (3) Environmental Services

In Environmental Services, net sales increased 2.9% YoY to ¥6,760mn and operating profit decreased 14.6% YoY to ¥554mn, marking the second consecutive increase in sales but first time in two years for operating profit to fall.




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

YoY change by business




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

In the Leasekin business, net sales increased ¥213mn. This was mainly the result of increases in product sales for affiliated stores due to the recovery in demand from COVID-19 in addition to favorable sales of toilet-peripheral products, which are focus items, against the backdrop of heightened sanitation management needs. Meanwhile, operating profit decreased ¥15mn due to an increase in FC headquarters expenses and an increase in depreciation from investment in systems and laundry equipment and rising fuel expenses. The increase in FC headquarters expenses came from holding various types of events for sales and promotion and from holding the national meeting of affiliated stores that had exercised self-restraint in meeting during COVID-19. Toilet-peripheral products contributed to the increase in sales by progressing in the cultivation of new customers such as medical institutions and universities. In recent years, an increasing number of men have been using urinary incontinence pads due to conditions such as prostate and bladder cancer, so products have been progressively introduced in men's toilets, too.

In the cleaning business, net sales decreased overall by ¥38mn due to declining sales of cleaning services for general facilities, despite the expansion trend continuing for the mainstay market of cleaning business for hospitals, which increased 7.1% YoY. From the profit aspect, operating profit decreased ¥58mn due to the initiation of new contracts and an increase in one-time expenses from a concentration of special jobs occurring in regular cleaning. Operating profit in the Others business decreased by ¥20mn, mainly due to a one-time increase in expenses accompanying the gain on sale of non-current assets of a subsidiary.

## Cash on hand is plentiful and the financial condition is good

### 3. Financial condition and management indicators

The Company's financial condition as of the end of 1H FY3/23 was as follows. Total assets increased ¥1,841mn from the end of the previous fiscal year to ¥107,741mn. The main reasons for the changes were, in current assets, attributable to a decrease in cash and deposits of ¥862mn and respective increases of ¥1,171mn in inventories, ¥348mn in notes and accounts receivable – trade and ¥310mn in securities. In non-current assets, there were respective decreases of ¥237mn in land and ¥257mn in investment securities and respective increases of ¥1,286mn in construction in progress from the start of construction of the Saitama Plant and ¥127mn in goodwill from carrying out M&A.

Total liabilities decreased by ¥394mn from the end of the previous fiscal year to ¥27,986mn. Notes and accounts payable – trade increased ¥799mn, but there were decreases of ¥451mn in income taxes payable, ¥242mn in accounts payable – other, ¥244mn in interest-bearing debt and ¥103mn in provision for bonuses, respectively. Total net assets increased ¥2,235mn YoY to ¥79,754mn. The reason for increase was recording of ¥3,130mn in profit attributable to owners of parent despite ¥809mn in expenses for payment of dividends.

Looking at management indicators, the equity ratio rose by 0.8 percentage points, from 72.7% at the previous fiscal year-end to 73.5%, and the interest-bearing debt ratio declined by 0.4 percentage points. Net cash (the sum of cash and deposits and securities less interest-bearing debt) reached a level above ¥30bn, attesting to the Company's healthy financial foundation. The Company's business model can be said to be one of its strengths, due to mainstay rental businesses such as linen supply and Leasekin forming a highly stable earnings structure.

Consolidated balance sheet

(¥mn)

| | FY3/20 | FY3/21 | FY3/22 | 1H FY3/23 | Change |
|---|---|---|---|---|---|
| Current assets | 55,657 | 58,769 | 59,748 | 61,131 | 1,383 |
| (Cash and deposits) | 32,202 | 35,148 | 35,794 | 34,932 | -862 |
| (Inventories) | 5,360 | 5,646 | 4,635 | 5,806 | 1,171 |
| (Securities) | 385 | 93 | 361 | 672 | 310 |
| Non-current assets | 41,374 | 43,411 | 46,151 | 46,609 | 457 |
| Total assets | 97,031 | 102,180 | 105,900 | 107,741 | 1,841 |
| Current liabilities | 22,859 | 22,689 | 23,194 | 23,094 | -100 |
| Non-current liabilities | 5,350 | 5,612 | 5,186 | 4,891 | -294 |
| Total liabilities | 28,210 | 28,302 | 28,381 | 27,986 | -394 |
| (Interest-bearing debt) | 4,176 | 3,876 | 3,398 | 3,154 | -244 |
| Total net assets | 68,821 | 73,878 | 77,519 | 79,754 | 2,235 |
| (Stability) | | | | | |
| Equity ratio | 70.5% | 71.8% | 72.7% | 73.5% | +0.8pt |
| Interest-bearing debt ratio | 6.1% | 5.3% | 4.4% | 4.0% | -0.4pt |
| Net cash | 28,411 | 31,365 | 32,757 | 32,450 | -307 |

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

# Business Outlook

## For FY3/23 results, has left the initial plan unchanged, and intends to further growth investment

### 1. Outlook for FY3/23

For the FY3/23 consolidated results outlook, the Company has left its initial plan unchanged, and forecasts an increase in net sales by 5.5% YoY to ¥130,307mn, a decrease in operating profit by 5.7% to ¥7,782mn, a decrease in ordinary profit by 8.7% to ¥8,109mn, and an increase in profit attributable to owners of parent by 3.3% to ¥5,998mn.

Amid business conditions affected by living with COVID-19, the Company expects needs related to cleaning and health, the themes of its business development, to continue to expand. It is projecting that results will improve further in 2H because of increases in the rate of operation in bedding and linen supply services for lodging facilities, which have been affected by COVID-19, and it appears likely that the favorable performance of Healthcare Services will cancel out the amount of shortfall in Pharmacy Services. Furthermore, although it is projected that cost increases brought on by high crude oil prices and yen depreciation will continue to have an impact in 2H as well, price pass-throughs are moving along in businesses such as bedding and linen supply services, and it is projected that the monetary amount of negative impact in 2H will remain smaller than the impact in 1H.

In terms of factors negatively affecting operating profit, increased purchase costs for rental materials and increases in depreciation (up ¥634mn compared to FY3/22) in conjunction with the expansion of system-related investments were significant, and the Company forecasts that it will secure an increase in earnings despite the fact that EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) will only increase slightly YoY by 1.4%.

Consolidated outlook for FY3/23

(¥mn)

| | FY3/22 | | FY3/23 | | | 1H progress rate |
|---|---|---|---|---|---|---|
| | Results | Vs. sales | Forecasts | Vs. sales | YoY | |
| Net sales | 123,484 | - | 130,307 | - | 5.5% | 49.2% |
| Operating profit | 8,252 | 6.7% | 7,782 | 6.0% | -5.7% | 45.8% |
| Ordinary profit | 8,878 | 7.2% | 8,109 | 6.2% | -8.7% | 45.9% |
| Extraordinary loss | -230 | | 0 | | - | |
| Profit attributable to owners of parent | 5,806 | 4.7% | 5,998 | 4.6% | 3.3% | 52.2% |
| EBITDA* | 12,205 | 9.9% | 12,374 | 9.5% | 1.4% | 46.1% |
| Earnings per share (¥) | 164.42 | | 170.27 | | | |

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

The Company intends to increase capital investment in FY3/23 by ¥3,489mn to ¥8,212mn. The three main factors behind the increase are investment in the construction of a new plant, rental material purchasing costs and system-related investment. Construction on the new plant in Moroyama, Saitama Prefecture began in July 2022, and is expected to be completed in the summer of 2023, with full-scale operations scheduled to launch in the fall. The total amount of investment is approximately ¥6.6bn, and the Company will invest ¥2,810mn in FY3/23. The plant will possess functions including a laundry plant for hospital linens and a maintenance center for elderly care equipment, and will serve as an environmentally conscious plant with high energy efficiency and productivity. For hospital linens, functions will be transferred from the current Yokohama Plant, and it is projected that the plant itself will be a core plant covering the Kanto area.

The Company plans for rental materials to increase ¥561mn to ¥1,846mn due to purchases of elderly care equipment and renewed investment in hospital-related materials (such as white coats), and plans to make system-related investments of ¥1,241mn, an increase of ¥548mn from the previous fiscal year. Among this, there is a sense that system-related investments will be somewhat delayed, and although there is a possibility that these investments may partially overlap into FY3/24, the Company forecasts that other capital investments will largely proceed according to plan.

**Breakdown of capital investment and depreciation**

(¥mn)

| | FY3/21 | FY3/22 | 1H FY3/23 total | FY3/23 forecast | YoY difference |
|---|---|---|---|---|---|
| Rental materials | 1,082 | 1,285 | 711 | 1,846 | 561 |
| Plant and other facilities | 410 | 599 | 274 | 708 | 109 |
| New pharmacy opening costs, etc. | 395 | 1,262 | 27 | 723 | -539 |
| System-related | 609 | 693 | 233 | 1,241 | 548 |
| New plants | - | 211 | 1,422 | 2,810 | 2,599 |
| Other | 916 | 670 | 548 | 882 | 212 |
| Total capital investment | 3,414 | 4,722 | 3,216 | 8,212 | 3,489 |
| Depreciation | 3,553 | 3,863 | 2,088 | 4,498 | 634 |

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

## All three segments to increase sales in FY3/23, with strong performance by Healthcare Services covering operating profit shortfall in Pharmacy Services

### 2. Outlook by business

The Company has not revised its FY3/23 results outlook by business from the initial plan. Looking at the rate of progress up to 1H, net sales have trended largely according to plan, and are forecast to increase in all three segments. On the other hand, in Pharmacy Services where progress is lagging, operating profit may fall short in terms of the full year as well. Despite this, Healthcare Services will continue to be favorable in 2H on a consolidated basis, and at FISCO it is our view that it will be able to cover the amount of shortfall in Pharmacy Services.

**Results outlook by business**

(¥mn)

| Net sales by business | FY3/20 | FY3/21 | FY3/22 | FY3/23 E | YoY | 1H progress rate |
|---|---|---|---|---|---|---|
| Healthcare Services | 61,953 | 60,631 | 63,517 | 67,430 | 6.2% | 49.0% |
| Pharmacy Services | 45,053 | 44,098 | 46,561 | 49,138 | 5.5% | 49.2% |
| Environmental Services | 13,596 | 13,072 | 13,194 | 13,560 | 2.8% | 49.9% |
| Other Services | 206 | 206 | 211 | 178 | -15.8% | 55.4% |
| Total | 120,809 | 118,009 | 123,484 | 130,307 | 5.5% | 49.2% |

| Operating profit by business | FY3/20 | FY3/21 | FY3/22 | FY3/23 E | YoY | 1H progress rate |
|---|---|---|---|---|---|---|
| Healthcare Services | 6,074 | 5,403 | 6,312 | 6,220 | -1.5% | 51.5% |
| Pharmacy Services | 2,917 | 3,006 | 3,097 | 3,263 | 5.4% | 33.1% |
| Environmental Services | 967 | 944 | 1,101 | 961 | -12.6% | 57.7% |
| Other Services | 29 | 31 | 34 | -28 | - | - |
| Elimination of internal transactions | -2,081 | -2,091 | -2,294 | -2,635 | - | 48.4% |
| Total | 7,908 | 7,294 | 8,252 | 7,782 | -5.7% | 45.8% |

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

**(1) Healthcare Services**

In Healthcare Services, the Company is forecasting net sales to increase 6.2% YoY to ¥67,430mn and operating profit to decline 1.5% to ¥6,220mn. In Hospital Services and bedding and linen supply services, net sales are expected to increase ¥1,823mn and operating profit to decrease ¥204mn. Among the increased amount, approximately ¥800mn will stem from increases in the bedding and linen supply services for lodging facilities. In addition to the relaxation of restrictions on foreigners entering Japan from October 2022 onward, the hotel occupancy rate has improved significantly through the resumption of nationwide travel support, and if it does not appear that restrictions will be implemented once again due to the arrival of the 8th wave of infections in the future, further increases to net sales can be expected. At the same time, in Hospital Services, the Company expects hospitalization sets and NEXSURG to continue to drive the business. Despite sales growth, the Company is forecasting a decrease in profit because it is projecting energy costs to increase by ¥380mn YoY, which includes the impact of fuel prices and increases in electricity and gas rates, materials costs to increase by ¥280mn (including ¥100mn in renewal of white coats and other items for large contracts), and an increase in depreciation associated with upgrades to core systems. However, it appears that the progress of price pass-throughs in businesses such as Hospital Services and bedding and linen supply services and the effect of increased sales can be expected to contribute to profit for the full year.

In Elderly Care Equipment Business, the Company is forecasting net sales to increase ¥1,436mn YoY and operating profit to increase ¥23mn on the same basis. It intends to acquire new users by taking advantage of increasing demand for at-home nursing care and strengthening sales, and it is projected that the net sales of a newly consolidated subsidiary (annual sales of around ¥300mn) and business sites acquired through M&A in August 2022 will contribute to sales. On the profit front, the Company is projecting profit to increase as cost increases from active material purchases, system investment and new openings of Elderly Care Equipment Business offices are expected to be absorbed by increased sales. The Company planned to open two new offices within the 23 wards of Tokyo in an effort to expand its share in the Tokyo metropolitan area, but currently expects that they will be shifted to the next fiscal period or later.

In Food Supply Services, the Company is projecting net sales to increase ¥52mn YoY and operating profit to increase ¥4mn. It plans to work to increase sales by acquiring new customers and expanding contracted services for existing customers. Although sales have decreased up to 1H, the key to achieving the plan will depend on how much the Company can improve the rising cost of foodstuffs and percentage of personnel expenses on the profit front in 2H. In the Others business, with orders recovering in the cleaning equipment manufacturing business, the Company is forecasting net sales to increase ¥600mn YoY and operating profit to improve ¥83mn. There is a possibility that net sales will decrease slightly because the pace of recovery in the cleaning equipment manufacturing business will be more gradual than anticipated. At the beginning of the period, the Company's view that was that net sales would recover to 75% compared to the pre-pandemic level, but total net sales in 1H only reached the 50% level.

Regarding iAide2, a wristband-type wearable device being developed as a new business, although delays arose due to COVID-19, a certain level of results has been confirmed. For instance, in clinical research*2 on detecting asymptomatic atrial fibrillation*1 conducted in collaboration with Tokyo Medical and Dental Hospital starting in January 2022, asymptomatic atrial fibrillation was detected in 5 people among a little fewer than 200 test subjects who visited for examinations.

*1 Asymptomatic atrial fibrillation has no subjective symptoms and is said to increase the risk of developing cardiogenic cerebral infarction if left untreated. Around one million people in Japan are estimated to have this condition. The early detection of asymptomatic atrial fibrillation through using iAide2 to collect pulse-wave data and a program that utilizes AI is expected to lead to the prevention of cerebral infarctions.

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

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

### (2) Pharmacy Services

In Pharmacy Services, the Company is forecasting increases in sales and profit, with net sales expected to increase 5.5% YoY to ¥49,138mn and operating profit to increase 5.4% to ¥3,263mn. Due to revisions for both dispensing fees and drug fees for FY22, prescription unit prices are expected to decline slightly, but the Company forecasts that sales will increase through an increase in the number of prescriptions as a result of new store openings.

The Company is planning to open seven new pharmacies over the full year. It opened two of these during 1H, and opened two through M&A in October. One more store opening during the period has been confirmed, but the others will continue to be considered. However, the sales progress rate advanced steadily up to 1H at 49.2%, and it appears that the plan for net sales is achievable.

On the other hand, there is a strong possibility that operating profit may fall short of the plan, given that the progress rate up to 1H was low at 33.1%. Although approximately ¥120mn of temporary costs in 1H will be eliminated in 2H, it appears that increases to procurement costs caused by factors including an insufficient supply of generic drugs will continue to have an impact. The initial plan predicted a gain of ¥461mn from increases in technical fee sales and a gain of ¥589mn from increases in drug fee sales, etc., which would absorb an increase in labor costs and store expenses of ¥885mn, but the amount of increase from the gain in drug fee sales will be cancelled out by the increase in procurement costs.

### (3) Environmental Services

In Environmental Services, the forecasts are for increased sales and decreased profit, with net sales to increase 2.8% YoY to ¥13,560mn and operating profit to fall 12.6% to ¥961mn.

In the Leasekin business, the Company is projecting an increase in net sales of ¥449mn and a decrease in operating profit of ¥58mn. Regarding net sales, with demand recovering from COVID-19, the Company expects increases in product sales from FC headquarters to franchise stores and in user rental sales. In particular, it forecasts that toilet-peripheral products, which have been a focus in recent years, will continue to perform well. On the profit front, the main factors behind the profit decrease will be an increase of expenses for FC headquarters, in addition to an increase in investment expenses associated with RENTEX*, which was made a subsidiary in October 2021. RENTEX is not currently included in the scope of consolidation, but fees have been incurred due to factors such as the advancement of consolidation of product delivery functions and branches within the Group.

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

Note: This is an English translation of a report issued on January 6, 2023

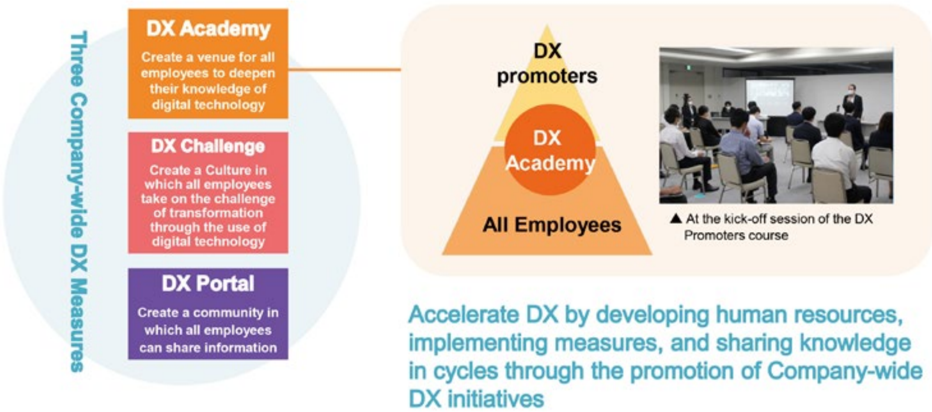
In the cleaning business, the Company is forecasting net sales to decrease by ¥72mn YoY and operating profit to decrease by ¥45mn. The factors behind these expected declines are continued lower sales from general cleaning and a reduction in hospital beds reserved for COVID-19 patients that were contracted in the previous term. However, hospital cleaning is steadily growing, so there is a possibility that it will exceed the forecast.

### (4) DX Initiatives

As one strategy for future growth, the Company has begun to build a company-wide DX platform. In order to achieve Business Value Transformation (use of DX to improve process efficiency and raise productivity) and Customer Value Transformation (use of DX to create new businesses and services), the Company is planning DX investment totaling ¥3.5bn over the four years from FY3/22 to FY3/25.

For concrete initiatives, after holding an e-learning lecture for all employees starting in June 2022, it held a course to develop DX Promoters beginning in July of the same year, and 41 employees completed the course as the inaugural class in November. Those who completed the lecture will advance DX initiatives in their own departments going forward. The Company intends to develop 180 DX Promoters over the next three years, share knowledge on a companywide level, and accelerate DX within the Group.

DX Measures




Source: The Company's results briefing materials

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

In Pharmacy Services, the Company set up an official LINE account for Tanpopo Pharmacy in August 2022. Transmitting prescriptions through LINE reduces wait times at pharmacies and makes it possible to pick up medicine smoothly, as well as receive medication guidance online. Going forward, it plans to add online payment and delivery services functions as well, which will be one strategy for the Company to retain customers. As of November 2022, there were 28,000 registered users, and the Company is targeting 100,000 to start.

# Medium-term management plan

## Aims for sustainable growth while helping to solve social issues in the fields of medical care, nursing care, and environment

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

The Company has started “Challenge for the New Stage!” its four-year medium-term management plan from FY3/22 to FY3/25. Lifestyles are changing greatly due to COVID-19, but even in this situation, it aims for growth as a corporate group that solves societal problems in the “medical care,” “nursing care,” and “environment” business areas and that contributes to the realization of a sustainable society.

Also, the Company has set “To enter a new stage in which sustainable growth can be realized, and implement measures for “Continuing,” “Changing,” and “Creating”” as the concept for the current medium-term management plan. Its basic policy is to implement measures based on these three viewpoints that will lead to sustainable growth. The basic policies, business strategies and numerical management targets are as follows.

**(1) Basic policies**

**a) “Continue” to meet the needs of society and of customers**

- Rental business model that contributes to a recycling-based society
- Stably provide services that support the societal infrastructure of medical care and nursing care (Hospital Services, Food Supply Services, Elderly Care Equipment Business, Pharmacy business, and cleaning business)
- Strengthen the existing core businesses and improve share in regions (Hospital Services, Elderly Care Equipment Business, Pharmacy business, and Leasekin business)
- Provide services from the customers’ perspective and pursue even higher levels of specialism
- Strengthen “human capital” that is essential for differentiation

**b) “Change” to respond to changes in the business environment and that will lead to further growth**

- Establish new workstyles for individuals and organizations in the new normal era
- Promote DX to improve work efficiency and productivity
- Establish and maintain corporate governance suitable for the Prime Market
- Train management-level human resources and proactively promote the young generation
- Conduct management that prioritizes diversity

**c) “Create” to generate new value that will lead to next-generation businesses**

- Develop new businesses and services in the healthcare business (including for the at-home services market for which demand is expected to grow)
- Promote DX to create a new business model (including creating services based on the data accumulated in the Elderly Care Equipment Business and Pharmacy business)
- Create new business value by organically combining the Group’s management resources (implement coordination between businesses that leads to sales increases)
- Discover investment fields that will contribute to growth and flexibly conduct investment
- Foster a corporate culture in which employees can continue to work with motivation and pride

### (2) Business strategies

Based on the basic polices, the Company is aiming to realize sustainable growth in each business segment by progressing the following business strategies.

#### a) Healthcare Services

In Healthcare Services, in order to further deepen relations of trust with medical institutions and nursing care facilities, which are the foundation of this business. For Hospital Services, the Company will strengthen the structure that can provide existing services stably and at high levels of quality, centered on linen supply. At the same time, it will aim to differentiate from the products of competitors with strategic products, hospitalization sets and NEXSURG, including by creating high added value and adding new items. In addition, it is working on measures including creating new core items for medical institutions and improving work efficiency through digitalization.

In Elderly Care Equipment Business, with the goal of further solidifying its place as Japan's No. 1 provider of elderly care equipment rentals, the Company will continue to proactively invest management resources. Along with working to improve service provision and speed through logistics reforms and promoting DX, it will strive to differentiate itself from competitors by training skilled, highly specialized personnel capable of proposing elderly care equipment needed by nursing care recipients. In addition, the Company intends to enhance business sites and work to expand its share of local markets while actively utilizing M&A, primarily in urban areas where the elderly population is expected to increase going forward. In addition to the above, in the healthcare business, the Company continues to focus on developing and commercializing new at-home services that will help to solve societal problems (iAide2, etc.).

As an initiative for overseas markets, the Company established a company for linens, medical equipment and materials leasing for Indian hospitals through a joint venture with Toyota Tsusho Corporation <8015> in October 2022 (an investment ratio of 45%). In the Indian market, the Company had previously invested in a local company developing a hospital cleaning business in 2017, and has continued to give technical guidance aimed at the permeation and spread of hospital cleaning services that incorporate that company's advanced infection management technology and Japanese hospitality. Starting with the launch of a linen supply service for hospitals through the joint-venture company, the Company intends to work on obtaining business opportunities for medical peripheral services in the Indian market, where high-level growth will continue.

#### b) Pharmacy Services

In Pharmacy Services, the aim is to become "the pharmacy of choice in the community," being highly specialized and contributing to medical care in local communities. Specifically, the Company is working to pursue the roles and functions required at the work sites that provide home medical care, including multidisciplinary cooperation. It is also aiming to establish a good balance in terms of pharmacy formats, including fronting clinic pharmacies, pharmacies within medical care malls, and pharmacies specializing in at-home services, etc. In addition, it can leverage the expertise in advanced pharmacy management that it has accumulated by responding to prescriptions at core hospitals up to the present time to support and promote health among the residents of local communities. It will also work to improve customer convenience through work reforms via DX and service expansion using LINE.

#### c) Environmental Services

In Environmental Services, the Company will further bolster its strength of being a "sanitation management professional" and work on changing to a business structure that can sustain growth. In the Leasekin business, it will focus on increasing sales of and developing products that meet sanitation management needs, centered on toilet-peripheral products, and increase the percentage of sales provided by these products.

Meanwhile, in the cleaning business, the Company is aiming to differentiate itself from other companies by developing proprietary services that can meet the needs of medical institutions, including operating room preparation operations* to enhance hospital cleaning. It intends to improve profitability by increasing the ratio of sales for hospitals to total sales (the current ratio is around 70%).

* 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.

### (3) Numerical management targets

The numerical management targets for FY3/25, the plan's final fiscal year, are net sales of ¥140bn and operating profit of ¥9.5bn. With FY3/21 as the first year, the four-year CAGR targets are 4.4% for net sales and 6.8% for operating profit. The numerical targets are basically to be achieved through organic growth and do not incorporate the effects of M&A.

**Numerical management targets**

(¥mn)

| | FY3/21 | FY3/22 | FY3/23 E | FY3/25 targets | CAGR* |
|---|---|---|---|---|---|
| Net sales | 118,009 | 123,484 | 130,307 | 140,000 | 4.4% |
| Healthcare Services | 60,631 | 63,517 | 67,430 | 71,000 | 4.0% |
| Pharmacy Services | 44,098 | 46,561 | 49,138 | 54,000 | 5.2% |
| Environmental Services | 13,072 | 13,194 | 13,560 | 14,800 | 3.2% |
| Other Services | 206 | 211 | 178 | 200 | -0.7% |
| Operating profit | 7,294 | 8,252 | 7,782 | 9,500 | 6.8% |
| Operating profit margin | 6.2% | 6.7% | 6.0% | 6.8% | |

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

Among CAGR for net sales by segment, the rate is the highest in Pharmacy Services at 5.2%, followed by 4.0% in Healthcare Services, and 3.2% in Environmental Services. One reason for the high rate in Pharmacy Services is that a high growth rate is predicted thanks to the contributions of large-scale pharmacies within hospital grounds that opened in 2H FY3/22. However, on-site pharmacies are less profitable than fronting hospital pharmacies, and are negative affected by changes to dispensing fees in FY2022, so the Company will be circumspect in opening on-site pharmacies going forward.

The Company projects the operating profit margin to increase from 6.2% in FY3/21 to 6.8% in FY3/25. Among these, in Pharmacy Services, it is difficult to foresee the impact of dispensing fee revisions, so the assumption is that the profit margin will decline compared to FY3/21. On the other hand, in Healthcare Services and Environmental Services, profit margins are expected to rise on growth in products and services with high added value.

In FY3/23 results, due to unexpected environmental changes such as surging energy prices and yen depreciation, profit was forecast to temporarily decline, but because price pass-throughs are advancing steadily, ¥9,500mn in operating profit for FY3/25 will likely be within range.

### (4) Growth investment plan

The Company is planning to make a total of ¥25bn in growth investments during the period of its medium-term management plan. Of this amount, ¥9.5bn is slated for plant facilities, including new plant construction, ¥6.5bn for rental materials purchases, ¥3.5bn for digital investment, and ¥3.0bn for new pharmacy openings and M&A. Through FY3/23, the Company is planning, or has made, investments of ¥12.9bn (the capital investment amount basis) and has achieved roughly 50% of its target, so progress is being made at a steady pace.

## Contributing to the SDGs since its founding through rental businesses that help reduce waste and realize a recycling-based society

### 2. Initiatives for sustainability

In order to further promote sustainability management, the Company created the Basic Sustainability Policy in May 2022 and also established the Sustainability Committee.

The Basic Sustainability Policy redefines the "Three Declarations" the Company established in 2020. The Company will 1) Contribute to reducing waste and realizing a recycling-based society through rental businesses, which are its core businesses since its founding, 2) Contribute to the sound development of medical care and nursing care in the super-aging society, and 3) Aim to be a company where all Group employees smile and are surrounded by much gratitude.

The Company established the Sustainability Committee for the purpose of systematically implementing corporate activities in line with the basic policy across the Group and sharing sustainability issues, considering various measures, discussing the design and operation of implementation items, and promoting ESG strategy. In August 2022, it established a page for sustainability on its corporate website where it introduces the history of initiatives toward sustainability at the Company, identifies materialities in the fields of environment, health, and society, and explains key initiatives, etc.

**Materiality and Key Initiative**

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

Source: Prepared by FISCO from the Company's homepage

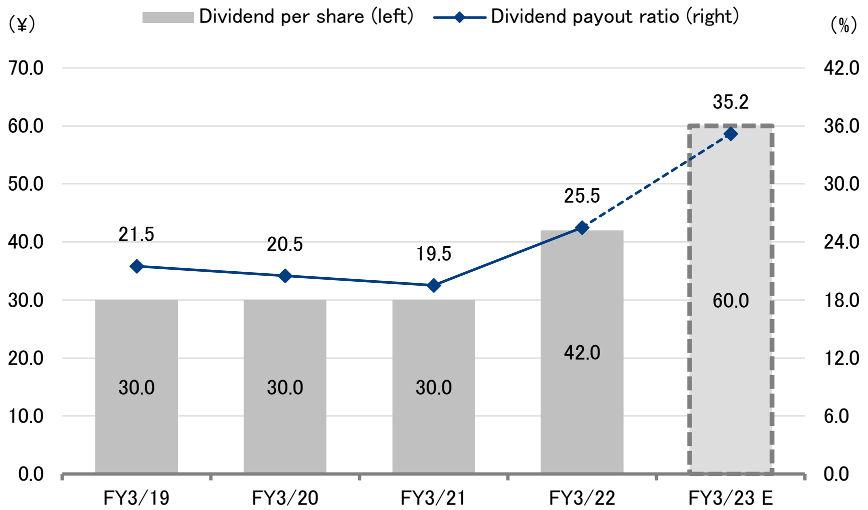
As for future initiatives, the Environmental Committee established under the Sustainability Committee assesses and calculates supply chain emissions in the Group, and considers initiatives aimed at reducing them. In FY3/24, it plans to disclose $CO_2$ reduction targets in line with the Task Force on Climate-related Financial Disclosures (TCFD).

# Shareholder return policy

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

Regarding its policy on shareholder returns, the Company established a policy of continuing to pay a stable, performance-linked dividend, aiming for a payout ratio of 25% from FY3/22 onward, but based on the business environment and the status of capital, among other things, it targeted further enhancement of shareholder returns, and announced in November 2022 that it would raise the target for the dividend payout ratio from 25% to 35%. As a result, the dividend per share for FY3/23 was raised from the initial forecast of ¥43.0 to ¥60.0 (the period-end dividend adjusted from ¥22.0 to ¥39.0), a significant increase of ¥18.0 compared to the previous fiscal year. If profit growth continues going forward and the dividend payout ratio falls below 35.0%, dividend increases can be expected. The Company will also flexibly and appropriately consider share buybacks depending on the level of its stock price.

Dividend per share and dividend payout ratio




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

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