COMPANY RESEARCH AND ANALYSIS REPORT

ELAN Corporation

6099

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Summary

The pioneer in and the largest provider of hospitalization CS Set services Expectations for medium- to long-term growth

Elan Corporation <6099> (hereafter, also "the Company") provides the CS (Care Support) Set service (hereafter, "the CS Set") that supplies all the daily items a person will need when they are hospitalized and for their stay in the hospital, nursing facility for the elderly, or other facility. These include rental items with a laundry service, such as of clothes and towels, and daily necessities like oral care products, a set of skin care products, and disposable diapers. When entering a facility, this service enables people to "enter empty handed" and "leave empty handed" without having to prepare items themselves in advance.

1. The pioneer in and the biggest provider of hospitalization CS Set services that has been systematically developing its business.

The Company is the biggest provider of hospitalization CS Set services and has been systematically developing its business. In the CS Set business model, through the facilities like hospitals and nursing facilities for the elderly, or other such facilities, the Company concludes a CS Set usage agreement (rental agreement) with the person entering the hospital or other such facility, and in return receives from them service usage fees (rental fees), which become the Company's sales. Some of the operations are carried out by the hospitals, nursing facilities for the elderly, and other such facilities, and by the linen suppliers, suppliers of consumables, and other suppliers, with which the Company has concluded outsourcing agreements. A feature of its business model is that it is stock-type revenue model, with the number of service users increasing alongside the growth in the number of agreement facilities.

2. Builds a Win-Win-Win relationship between the people entering the hospitals and other facilities, the hospitals and other facilities, and the linen and other suppliers

The Company's CS Set offers advantages not only to the people entering hospitals and other facilities who will use the service and their families, but also the hospitals, nursing facilities for the elderly, and other such facilities, and to the linen suppliers and other suppliers. It builds a Win-Win-Win relationship centered on the Company that supports a safe and comfortable stay in the hospital or other facility.

3. The number of agreement facilities and the number of monthly users are trending upwards

Both the number of agreement facilities (hospitals, nursing facilities for the elderly, or other such facilities) and the number of monthly users are trending upward. At the end of FY12/16, the Company had 764 agreements facilities (up 120 facilities, or 18.6%, on the end of the previous fiscal year), while the number of monthly users in December 2016 (single month) was 120,026 people (up 30,201 people, or 33.6%, on the end of previous fiscal year). Taking the end of FY12/09 as the starting point, the number of agreement facilities in FY12/16 had increased by an annual rate of 30.3%, while the number of monthly users in December 2016 had increased by an annual rate of 36.1%.

4. The FY12/16 results exceeded the targets for major increases in sales and profits

In the FY12/16 results (non-consolidated), net sales increased 26.6% year on year (YoY) to ¥11,407mn, operating income rose 25.1% to ¥736mn, ordinary income grew 26.7% to ¥749mn, and net income increased 37.9% to ¥500mn. Both the number of agreement facilities and number of monthly users steadily rose and exceeded their targets, for the tenth consecutive fiscal year of increasing sales and profits.

5. The forecast for the FY12/17 results is for only a slight rise in profits due to the impact of upfront investment, but the trend of increasing sales and profits will not change.

The FY12/17 results (non-consolidated) forecasts are for net sales to increase 20.1% YoY to 13,700mn, operating income to rise 1.9% to ¥750mn, ordinary income to grow 1.8% to ¥763mn, and net income to increase 1.1% to ¥505mn. The impact of upfront investment means that the forecast is for profits to increase only slightly, but the number of agreement facilities and the number of users will continue to rise steadily and there will be no change to the trend of increasing sales and profits.

6. Entering the stage of expanding use of the CS Set due to improved name awareness, while there remains plenty of room to acquire new customers.

The Company's main target markets are hospitals, nursing facilities for the elderly, or other such facilities with at least 50 beds. At the end of FY12/16, its nationwide customer acquisition rates were 8% for hospitals and 2% for nursing facilities for the elderly. Both these markets have only just entered the stage of expanding usage of the CS Set, and it can be said that there remains plenty of room in each for the Company to acquire new customers.

7. Made a subsidiary of LTASK and is aiming for 3,000 facilities for the Group as a whole

In February 2017, the Company made a subsidiary of LTASK Corporation. The aim for the Group as a whole is to have 1,000 agreement facilities by the end of FY12/17 and 1,500 facilities by the end of FY12/19, while its long-term vision is to have 3,000 facilities. The long-term target for the operating income margin is 10%.

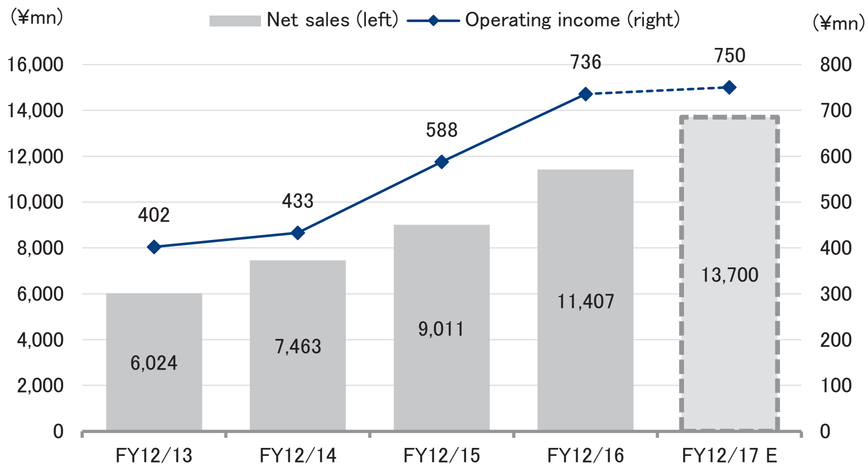
8. Decides on returns to shareholders based on a comprehensive consideration of factors and has continuously raised the dividend payout ratio

The FY12/16 annual dividend was ¥12, up ¥6 YoY (for a dividend payout ratio of 17.6%). The forecast for the FY12/17 annual dividend is ¥16, up ¥4 (for a forecast dividend payout ratio of 23.5%).

Key Points

- Is a pioneer in and the biggest provider of hospitalization CS Set services and has been systematically developing its business
- The number of agreement facilities and the number of users are trending upward
- The CS Set is entering stage of expanding use due to the improved name awareness, while there remains plenty of room to acquire customers

Results trends



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

Company profile

Developing the CS Set in its nursing- and medical care-related business

1. Company profile

As a nursing- and medical care-related business, the Company provides the CS Set service that supplies all the daily items a person will need when they are hospitalized and for their stay in a hospital, nursing facility for the elderly, or other facility. These include rental items with a laundry service, such as of clothes and towels, and daily necessities like oral care products, a set of skin care products, and disposable diapers. When entering a facility, this service enables people to "enter empty handed" and "leave empty handed" without having to prepare items themselves in advance.

At the end of FY12/16, capital was ¥562mn, the equity ratio was 55.5%, net assets per share was ¥393.71, the number of outstanding shares (including treasury shares) was 7,420,000 shares, and the Company had 255 employees (including part-time employees).

2. History

February 1995, Limited Company Elan was established for the sales of bedding in Sagamihara City, Kanagawa Prefecture. October 1997, organization was changed to Elan Corporation. May 1998, launched a bedding renewal business. June 2001, relocated head office to Matsumoto City, Nagano Prefecture (Minamihara) to expand the bedding renewal business. May 2003, launched a nursing- and medical care-related business (launched CS Set services from the Sagamihara branch office). December 2006, reduced the scales of the bedding sales business and the bedding renewal business in order to concentrate management resources into the nursing- and medical care-related business. September 2012, relocated the head office to Matsumoto City, Nagano Prefecture (Idegawa Town), its current location. November 2014, newly listed on TSE Mothers. November 2015, was transferred to TSE 1st Section.

In February 2017, the Company made a wholly owned subsidiary of LTASK, which provides the LT Set (same type of service as the CS Set) in the Tohoku region.

Company history

Month and year	Major event
February 1995	Limited Company Elan was established for bedding sales in Sagamihara City, Kanagawa Prefecture
September 1997	Relocated head office to Zama City, Kanagawa Prefecture, to expand the business
October 1997	Organization was changed to Elan Corporation
May 1998	Launched a bedding renewal business
November 1998	Opened a Matsumoto branch office in Matsumoto City, Nagano Prefecture (Minamihara)
June 2001	Relocated head office to Matsumoto City, Nagano Prefecture (Minamihara) to expand the bedding renewal business
August 2001	Opened a Nagano branch office in Nagano City, Nagano Prefecture, to expand the bedding renewal business
May 2003	Opened a Sagamihara branch office in Chuo Ward, Sagamihara City, Kanagawa Prefecture Launched a nursing- and medical care-related business Launched CS Set services for hospitals and nursing facilities for the elderly from the Sagamihara branch office
January 2006	Launched CS Set services from the Matsumoto head office
December 2006	Integrated the Nagano branch office into the Matsumoto head office Reduced the scales of the bedding sales business and bedding renewal business in order to concentrate management resources into the nursing- and medical care-related business
September 2008	Relocated head office to Matsumoto City, Nagano Prefecture (Takamiya-higashi)
October 2008	Opened a Kanazawa branch office in Kanazawa City, Ishikawa Prefecture
April 2009	Opened a Nagoya branch office in Naka Ward, Nagoya City, Aichi Prefecture
February 2010	Opened a Hiroshima branch office in Naka Ward, Hiroshima City, Hiroshima Prefecture
March 2011	Opened an Osaka branch office in Suita City, Osaka Prefecture
March 2012	Opened a Shikoku branch office in Takamatsu City, Kagawa Prefecture
September 2012	Relocated head office to Matsumoto City, Nagano Prefecture (Idegawa Town)
January 2013	Launched an education and recreation set service in the Sagamihara branch office
March 2013	Opened a Fukuoka branch office in Hakata Ward, Fukuoka City, Fukuoka Prefecture
April 2014	Opened a Sapporo branch office in Shiroishi Ward, Sapporo City, Hokkaido
November 2014	Listed on TSE Mothers
March 2015	Opened a Saitama branch office in Omiya Ward, Saitama City, Saitama Prefecture
November 2015	Listing was transferred to the TSE 1st Section
April 2016	Concluded a capital tie-up to acquire a 10% stake in LTASK Corporation.
July 2016	Opened the Tokyo office in Minato-ku, Tokyo
October 2016	Relocated the Nagoya branch to Nagoya City, Aichi prefecture
February 2017	Made LTASK Corporation a wholly owned subsidiary

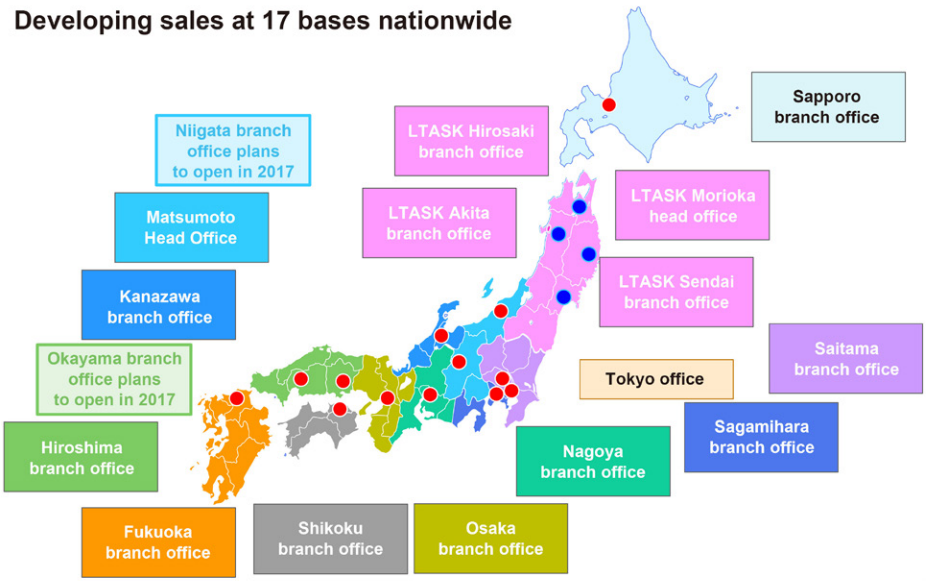
Source: Prepared by FISCO from the Company's website and press releases

3. Building a network of bases covering the entire country

At the end of FY12/16, the Company had 10 sales bases; the Matsumoto Head Office (Matsumoto City, Nagano Prefecture), the Sagamihara branch office (Sagamihara City, Kanagawa Prefecture), the Kanazawa branch office (Kanazawa City, Ishikawa Prefecture), the Nagoya branch office (Nagoya City, Aichi Prefecture), the Hiroshima branch office (Hiroshima City, Hiroshima Prefecture), the Osaka branch office (Suita City, Osaka Prefecture), the Shikoku branch office (Takamatsu City, Kagawa Prefecture), the Fukuoka branch office (Fukuoka City, Fukuoka Prefecture), the Sapporo branch office (Sapporo City, Hokkaido), and the Saitama branch office (Saitama City, Saitama Prefecture). In addition, in July 2016, it opened the Tokyo office (Minato Ward), and it is promoting in-company sharing, such as of facilities management information.

The four sales bases of LTASK that was made a wholly owned subsidiary in February 2017 (the Morioka head office and in Miyagi, Aomori, and Akita) have been added to the network, while in addition, the Company plans to open new branch offices in Niigata and Okayama during FY12/17. This will mean that at the end of FY12/17, the Group will have a total of 17 bases, including the Matsumoto head office, the Tokyo office, and LTASK's 4 bases, and apart from some parts of southern Kyushu, Okinawa, and Hokkaido (Doutou), it will have basically completed the construction of a network of bases covering the entire country.

Made LTASK a wholly owned subsidiary and is accelerating its nationwide deployment



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

Business overview

What is the CS Set?

1. The CS Set is a service that enables people to enter and leave a hospital "empty handed"

The CS Set provided by the Company is a service that supplies all the daily items a person will need when entering a hospital and for their stay in the hospital, nursing facility for the elderly, or other such facility. These include rental items with a laundry service, such as of clothes (hospital gown, sweat shirt and sweat pants, underwear, socks, towels, and a food bib), and daily necessities like oral care products, a set of skin care products, and disposable nappies. It enables people entering a facility to "enter empty handed" and "leave empty handed" without having to prepare any items themselves in advance. It is a system that can be used when the necessary items are needed on the unit of single days.

The Company has prepared a variety of plans for the service usage fees (that differ according to factors such as region, type of facility, and the composition of the items provided). The standard plan is both affordable and easy to use, at ¥300 to ¥800 per day. A feature of its service usage fees is that it has adopted a daily fee system rather than calculating fees based on "how much" of "what" is used. This makes it easier to calculate the fees from the number of days after entering into the hospital or facility, regardless of the frequency with which items like clothes or towels are replaced. (For example, in the case of a plan with a daily fee of ¥500 and hospitalization for 7 days, ¥500 X 7 days = ¥3,500).

The CS Set System, the CS Set, and the CS Plan are the Company's registered trademarks. CS is an abbreviation of "care support," but also stands for "customer satisfaction," "communication services," "carrier smile," "country spirit," and "create solutions."

A business model of revenue from the service usages fees from the people entering into the hospital or other facility

2. A business model of revenue from the service usages fees from the people entering into the hospital or other facility

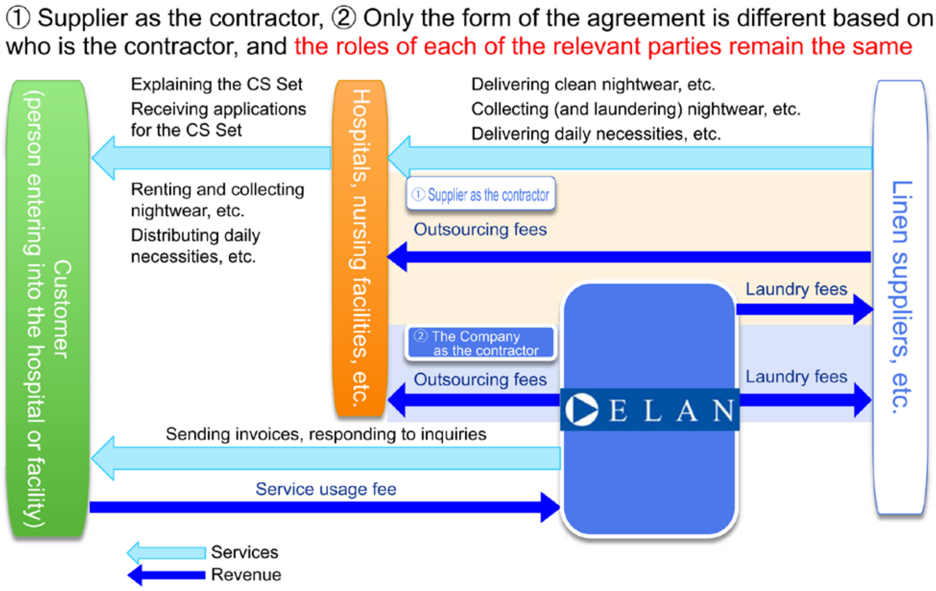
In the CS Set business model, through the facilities like the hospitals and the nursing facilities for the elderly, the Company concludes a CS Set usage agreement (rental agreement) with the person entering into the hospital or other such facility, and in return receives from them service usage fees (rental fees), which become the Company's sales. Some of the operations are carried out by the hospitals, nursing facilities for the elderly, and other such facilities, and also by the linen suppliers, suppliers of consumables, and other suppliers, with which the Company has concluded outsourcing agreements.

The Company concludes outsourcing agreements with the hospitals, nursing facilities for the elderly, and other such facilities. These facilities carry out the operations outsourced to them, including explaining to patients or residents the CS Set and accepting applications for it, renting and collecting the rental fee for items like clothing and towels, and distributing daily necessities. In return, the Company pays them outsourcing fees.

The Company also concludes rental agreements and goods-delivery agreements with linen suppliers, suppliers of consumables, and other suppliers. It outsources to these suppliers the delivery of clean clothes and towels, the collection of used clothes and towels, and the delivery of daily necessities. In return, it pays them laundry fees, fees to purchase the items, and other such fees.

There are two agreement forms; an agreement in which the Company is the contractor (the Company as the contractor) and an agreement in which the linen suppliers or other suppliers are the contractor (supplier as the contractor). However, in whichever form of the agreement, the same fundamental roles for the CS Set management are played by each of the Company, the hospital or the nursing facility for the elderly, and the linen suppliers, the suppliers of consumables, and the other suppliers. The basic business model does not change, in that the Company concludes a CS Set usage agreement (rental agreement) with the person entering into the hospital or facility, and collects service usage fees (rental fees) from them.

Business model (the sequence for the services and the revenue)



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

The advantages for the people entering into the hospital or nursing facilities for the elderly and for the linen suppliers

3. Builds a Win-Win-Win relationship with the patients entering the hospitals and other facilities, the hospitals and the other facilities, and the linen suppliers and other suppliers

The CS Set is a service that offers major advantages not just to the services users, of the people entering into a hospital or other facility and their families, but also to the hospitals and nursing facilities for the elderly, and moreover to the linen suppliers and other suppliers. Therefore, a feature of the CS Set business is that it builds a Win-Win-Win relationship, with the Company at its center.

For the service users, of the people entering into the hospital or other facilities and their families, the CS Set offers the advantage that when they are entering into the hospital or other facility, they do not have to prepare any items and can “enter empty handed” and then “leave empty handed.” In the case of a short stay in a hospital or facility, rather than having to buy the necessary personal items, the set offers reasonable prices (an economic advantage), and also can reduce the work and time they would have to spend on changing and washing daily items like clothes and towels and replenishing daily necessities (physical, temporal, and psychological advantages).

The set is proving to be very popular with families, because instead of visiting their relative with the main purpose of their visit being to replenish their daily necessities, they are able to devote the visit to spending quality time with their relative. It also has the advantage that the people entering into the hospital or other facility dislike the fact that their families have to prepare and replenish their daily necessities.

Many of the users are elderly, for whom the Set’s advantages are greater than for the young. There are many people in two-income households and one-person households who cannot rely on their families to prepare and replenish their daily necessities during their stay in a hospital or other such facility, and consequently they highly evaluate the CS Set that allows them to “enter it empty handed.”

A situation has continued in hospitals, nursing facilities for the elderly, and other such facilities of a chronic shortage of nurses and care workers. By introducing the Company’s CS Set, the work they are required to do to provide patients and residents with daily necessities during their stay in the hospital or other such facility (for example, contacting the family when there is a shortage of items, and exchanging, washing, and disinfecting clothes and towels) is reduced, and they can concentrate solely on the nursing and care-related tasks that they were originally meant to do. Therefore, the Set’s advantages also include improving the work and the working environment of nurses and care workers.

In addition, compared to when the person entering into the hospital or other facility independently brings with them the daily necessities they will require for their stay, the area around the bed is kept in a tidy and pristine condition (for example, because the dirty clothes and towels the person brought with them are no longer kept in the vicinity of the bed). This offers advantages for the facilities in terms of their measures to prevent infections within their facility and for thorough hygiene management.

Also, with regard to services outside of the scope of insurance, when the hospital, nursing facility for the elderly, or other such facility itself bills the person entering into the facility for the usage fees, they must strictly comply with the administrative guidelines set forth by the Ministry of Health, Labour, and Welfare. But as the Company provides the CS Set in a form that complies with these administrative guidelines, the risk of non-compliance with the administrative guidelines can be reduced. Further, as the outsourcing fees are revenue outside of the scope of insurance, for the hospital, the nursing facility for the elderly, or other such facility, the Set has the advantage of increasing revenue that is outside of the scope of insurance and creating opportunities to generate such revenue.

In terms of the needs of the various hospitals, nursing facilities for the elderly, or other such facilities for the introduction of the CS Set, it seems there is strong demand for increased revenue and opportunities to generate revenue in large cities, to improve the working environments of nurses and care workers in medium-sized cities, and to improve services for the people entering into the hospital or other facility in regional cities.

Linen suppliers and other suppliers conclude an agreement with the hospital, nursing facility for the elderly, or other such facility to deliver the bedding covered by medical insurance and nursing insurance (futons, wrapping linen, sheets, pillows, and pillow cases), and to provide a laundry outsourcing service. For these linen suppliers and other suppliers, introducing the Company's CS Set has the advantage of creating new opportunities for revenue from the laundry of clothes and towels and the sale of daily necessities that they did not previously handle.

In addition, the Company is not considering itself entering into the linen supply business, and when proposing the CS Set, its basic policy is to outsource the laundry of linens to the linen suppliers or other such suppliers with which the respective hospital, nursing facility for the elderly, or other facility in each area already has an agreement and is doing business with. The threat for linen suppliers is the participation of their competitors in the hospitals and other facilities to which they supply bedding and provide laundry and other services. Due to this basic policy of the Company, many linen suppliers or other such suppliers feel the benefit of collaborating with the Company.

The CS Set is a service that offers major advantages not just to the services users, of the people entering into the hospital or other facilities and their families, but also to the hospitals and nursing facilities for the elderly, and moreover to the linen suppliers and other suppliers. Therefore, a feature of the CS Set business is that it can build a Win-Win-Win relationship with the Company at its center, and that it enables people to have safe and comfortable stays in a facility.

A Win-Win-Win circle

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

The history of the hospitalization set, and the history of the CS Set

4. Is a pioneer in hospitalization sets and the biggest provider of this service, and its strength includes the independent expertise it has accumulated

The Company is a pioneer in the organized business development of the CS Set as a service for people entering into a hospital or other such facility, and it is the biggest provider of this service with an overwhelming lead over its industry peers who entered this business after it.

The Company has created a co-existence, co-prosperity model that utilizes existing business relations (with hospitals and nursing facilities for the elderly, and with linen suppliers in each region), to build a Win-Win-Win relationship with the Company at its center. In addition, its strengths include service management that complies with administrative guidance, the accumulation of independent expertise in setting plans while ascertaining user needs and profitable lines, and an open positioning in which it does not belong to any specific affiliation of companies.

The Company has prepared multiple CS Set plans with different components and fees. Also, one of strengths that differentiates it from its competitors and helps to maintain the gross margin is that, rather than having sets and plans that are uniform nationwide, it has accumulated expertise in the setting of plans with components and fees that are customized to reflect the respective characteristics of each region, user needs, and the type of facility such as hospitals or nursing facilities for the elderly, while also ascertaining which lines are profitable.

5. High barriers to entry

At first glance, it seems that the barriers to enter the hospitalization set business are low. However, it is not easy to accumulate the expertise needed in various areas, including providing explaining the sets and conducting other operations at the nursing and care facilities, providing services compliant with administrative guidance, and conducting the billing and fee collection operations. So in fact, the barriers to entry are higher than anticipated.

The numbers of CS Set agreement facilities and monthly users are trending upward

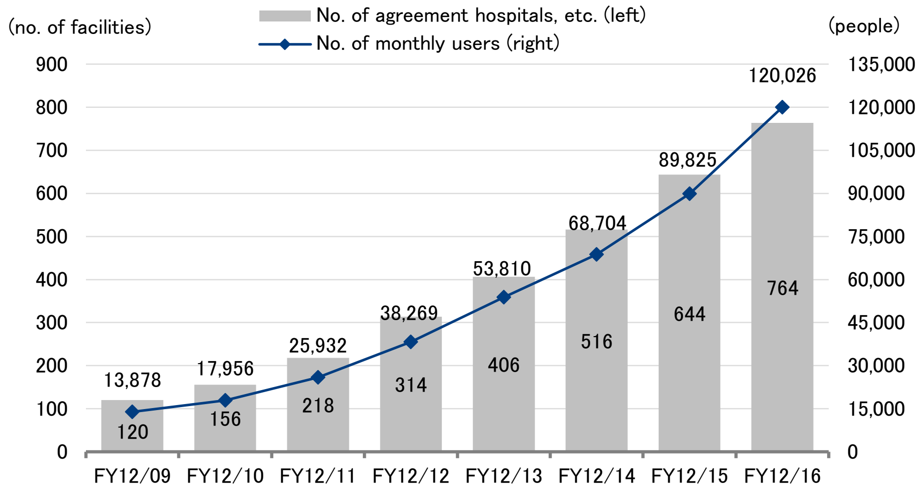
6. The numbers of agreement facilities and monthly users are trending upward

The number of CS Set agreement facilities (hospitals, nursing facilities for the elderly, and other such facilities) and number of monthly users are trending upward.

The number of agreement facilities at the end of FY12/16 was 764 facilities (an increase of 120, or 18.6%, from the end of FY12/15). The number of monthly users in December 2016 (single month) was as high as 120,026 people (an increase of 30,201 people, or 33.6%, compared to December 2015). In FY12/16, the rise in the number of agreements with large-scale, acute care hospitals contributed to the growth in the rate of increase of monthly users.

Also, on taking the end of FY12/09 as the starting point, the number of agreement facilities in FY12/16 had increased by an annual rate of 30.3%, while the number of monthly users in December 2016 had increased by an annual rate of 36.1%.

Trends in the numbers of agreement facilities and monthly users



Note: the number of monthly users is the number of users at the end of each fiscal period
Source: Prepared by FISCO from the Company's results briefing materials

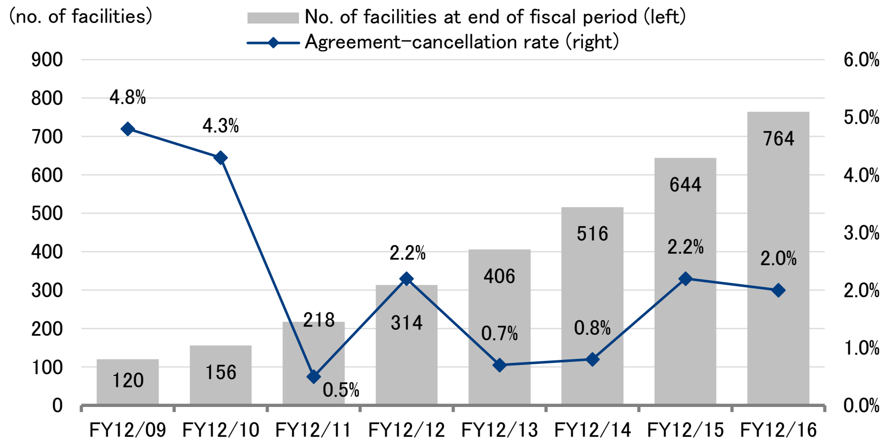
A stock-type revenue model, with the service usages fees increasing alongside the growth in the number of facilities

7. A stock-type revenue model

The agreement cancellation rate of the agreement facilities (hospitals, nursing facilities for the elderly, or other such facilities) is at the low level of around 1% to 2%. A characteristic of the Company's business model is that it is a stock-type revenue model, in which the number of service users increases alongside the growth in the number of agreement facilities.

The Company does not disclose the average services usage rate per facility or the average usage unit price per user, but it seems that there are facilities with a usage rate of above 90%, but also facilities with low usage rates that do not enjoy the benefits that the hospitalization set provides to facilities, such as improving operations and the working environment, and therefore it is continually shoring-up these facilities. If the Company is able to improve the service usage rate among its agreement facilities, the benefit of a reduction in the operating expenses ratio is likely to occur.

Growth potential and earnings power of a stock-type business model



Note: cancellation rate = number of cancellations during the period / (number of agreements at end of previous period + number of new agreements during the current period)

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

Results trends

FY12/16 results exceeded the targets for major increases in sales and profits

1. Overview of the FY12/16 results

In the FY12/16 results (non-consolidated) announced on February 10, net sales increased 26.6% YoY to ¥11,407mn, operating income rose 25.1% to ¥736mn, ordinary income grew 26.7% to ¥749mn, and net income increased 37.9% to ¥500mn.

The results exceeded their initial targets (net sales of ¥10,800mn, operating income of ¥600mn, ordinary income of ¥600mn, and net income ¥380mn) that were announced on February 12, 2016, and moreover they also exceeded their upwardly revised targets (net sales of ¥11,000mn, operating income of ¥640mn, ordinary income of ¥650mn, and net income of ¥415mn) announced on November 9, 2016, for major increases in sales and profits. Both the number of agreement facilities and the number of monthly users rose steadily, and sales and profits increased for the tenth consecutive fiscal year.

At the end of FY12/16, the number of agreement facilities had increased by 120, or 18.6%, compared to the end of FY12/15, to 764 facilities. Breaking down this increase of 120 facilities, 135 newly introduced the CS set and 15 cancelled their agreement. The reasons for the cancellations included switching to the hospitalization sets of other companies, stopping using a hospitalization set, and the closure of the hospital. Also, the number of monthly users on a single-month basis in December 2016 was 120,026 people, which was an increase of 30,201 people, or 33.6%, compared to the single month of December 2015.

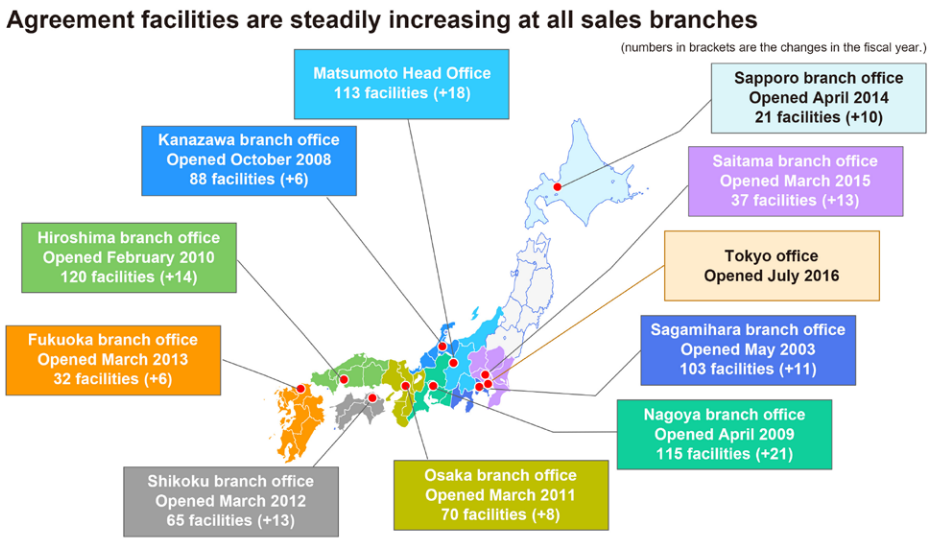
No. of agreement facilities at end of fiscal period

	FY12/15				FY12/16			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Number of agreement facilities	536	579	613	644	661	704	725	764
Increase	26	48	36	32	27	45	24	39
Decrease	-6	-5	-2	-1	-10	-2	-2	0
Number of monthly users*	75,060	78,716	81,597	89,825	99,709	103,593	109,813	120,026

*The number of monthly users is the number of users at the end of each fiscal period.
Source: Prepared by FISCO from the Company's results briefing materials

Looking at the number of agreement facilities by sales office at the end of FY12/16, the Matsumoto head office had 113 facilities, an increase of 18 facilities; the Sagamihara branch office had 103 facilities, an increase of 11; the Kanazawa branch office had 88 facilities, an increase of 6; the Nagoya branch office had 115 facilities, an increase of 21; the Hiroshima branch office had 120 facilities, an increase of 14; the Osaka branch office had 70 facilities, an increase of 8; the Shikoku branch office had 65 facilities, an increase of 13; the Fukuoka branch office had 32 facilities, an increase of 6; the Sapporo branch office had 21 facilities, an increase of 10; and the Saitama branch office had 37 facilities, an increase of 13.

Number of agreement facilities at the sales offices nationwide (As of the end of FY12/16)



Source: From the Company's results briefing materials

Gross profit was ¥3,028mn, up 21.5% YoY, while the gross margin declined 1.1 percentage points to 26.5%. This was mainly because the Company advanced the outsourcing of delivery work in order to enable sales staff to focus on their original work of sales and thereby improve their productivity, and as a result, outsourcing expenses, including logistics expenses, increased. But in the medium term, gross profit's rate of increase is expected to rise alongside the improved productivity of sales staff. SG&A expenses were ¥2,292mn, up 20.4%, but the SG&A expenses ratio fell 1.0 percentage point to 20.1%, as the higher sales absorbed the impact of the increase in personnel expenses and other expenses. ROE was 18.6%, up 2.7 percentage points. At the end of FY12/16, the Company had 255 employees (including part-time employees), which was an increase of 37 people on the end of the previous fiscal year.

2. Implementing measures to strengthen the sales and management foundations

The Company's measures to strengthen its sales and management foundations include the following: recruiting additional personnel (16 new graduates and 16 mid-career hires, including management executives and sales staff); opening the Tokyo office (July 2016) toward in-company sharing, such as of facilities management information; establishing a sales headquarters (October 2016) to strengthen and enhance the sales structure by directly communicating management policy; strengthening the management foundation by appointing Outside Director Yoshiteru Ando as the Vice President (October 2016); and establishing the Management Planning Department as a department dedicated to promoting excellent facility management (November 2016).

Also, toward strengthening the in-company systems and improving processing capacity, the inventory-related system, whose start of operations had been delayed, became operational in November 2016. This contributed to the increased efficiency of the end-of-fiscal period stocktaking.

3. Provided CS sets free of charge as support following the Kumamoto Earthquakes

In April 2016, the Company donated ¥1mn via the Japanese Red Cross Society as support for the disaster relief following the 2016 Kumamoto Earthquakes. In addition, from April 14, 2016, to May 31, 2016, it provided CS sets free of charge to users at the 11 facilities within Kumamoto Prefecture with which it has an agreement, and also, following an application, to users of the CS sets outside of Kumamoto Prefecture who were affected by the Kumamoto Earthquakes.

As a result, in 2016 it provided services free of charge to 1,076 people in April and to 1,262 people in May. Therefore, it recorded a total sales loss for the relevant period (approximately ¥10mn as the total for the 11 facilities). But from June 2016 onwards, it resumed the provision of paid-for services and sales returned to normal.

Is highly financially sound

4. Is highly financially sound and practices debt-free management

Looking at the financial condition, at the end of FY12/16, the equity ratio was 55.5%, down 1.5 percentage points on the end of the previous fiscal year. But due to the recording of net income, net assets increased ¥464mn to ¥2,921mn and are rising steadily. The Company is also highly financially sound and practices debt-free management.

It carried out a two-for-one share split on July 1, 2015.

Main management indicators (unconsolidated)

(¥mn)

Item	FY12/13	FY12/14	FY12/15	FY12/16
Net sales	6,024	7,463	9,011	11,407
Cost of sales	4,369	5,408	6,519	8,379
Gross profit	1,654	2,055	2,491	3,028
Gross margin (%)	27.5	27.5	27.6	26.5
SG&A expenses	1,252	1,621	1,903	2,292
SG&A expenses margin (%)	20.8	21.7	21.1	20.1
Operating income	402	433	588	736
Operating income margin (%)	6.7	5.8	6.5	6.5
Non-operating income	3	13	2	13
Non-operating expenses	5	12	0	0
Ordinary income	401	434	591	749
ordinary income to sales ratio of 10%	6.7	5.8	6.6	6.6
Extraordinary income	0	0	0	0
Extraordinary losses	0	-	19	-
Net income before income taxes	401	434	572	749
Total income taxes, etc.	153	175	209	248
Net income	247	258	363	500
Net income margin (%)	4.1	3.5	4.0	4.4
Total assets	2,267	3,702	4,309	5,263
(current assets)	1,949	3,378	3,967	4,840
(non-current assets)	318	323	341	423
Total liabilities	1,457	1,592	1,851	2,342
(current liabilities)	1,266	1,592	1,851	2,342
(non-current liabilities)	191	-	-	-
Net assets, total	810	2,109	2,457	2,921
(Shareholders' equity)	809	2,108	2,455	2,921
Capital	30	556	557	562
No. of shares outstanding at end of fiscal year, excluding treasury shares (shares)	6,000,000	7,330,000	7,360,000	7,419,954
Net income per share (¥)	41.30	41.95	49.51	68.00
Net assets per share (¥)	135.05	287.81	333.86	393.71
Dividend per share (¥)	2.00	2.50	6.00	12.00
Equity ratio (%)	35.7	57.0	57.0	55.5
Return on equity (%)	35.9	17.7	15.9	18.6
Cash flow from operating actives	262	264	323	396
Cash flows from investing activities	-43	-17	-70	-106
Cash flow from financing activities	-40	819	-37	-35
Cash and cash equivalents at end of fiscal year	588	1,654	1,869	2,124
No. of employees (including temporary employees) (people)	142	186	218	255

Note: The number of shares outstanding at end of the fiscal year excluding treasury shares and the per-share values for FY12/13 and FY12/14 have been retroactively adjusted to reflect the onehundred-for-one share split of July 28, 2014, and the two-for-one share split of July 1, 2015.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Business outlook

The forecasts for the FY12/17 results are for higher sales and profits, and for both the number of agreement facilities and the number of users to trend upward

1. Outlook for the FY12/17 results

The FY12/17 results (non-consolidated) forecasts are for net sales to increase 20.1% YoY to ¥13,700mn, operating income to rise 1.9% to ¥750mn, ordinary income to grow 1.8% to ¥763mn, and net income to increase 1.1% to ¥505mn.

In terms of sales, the forecast is for a double-digit increase in net sales from the steady rise in the number of agreement facilities and the number of users. In terms of profits, the gross margin will decline due to the increase in logistics expenses and other expenses following the outsourcing of some operations, including for deliveries and data input. Therefore, it is expected that profits will increase only slightly because of the higher upfront investment, including to recruit additional personnel and for education and training. The Company plans to have 290 employees (including part-time employees) at the end of FY12/17, which will be an increase of 35 people on the end of the previous fiscal year.

Although the increase in profits is expected to be small due to the impact of the higher logistics expenses and the upfront investment, the number of agreement facilities and the number of users will both continue to trend upward and there will be no change to the trend of increases in sales and profits. Moreover, the operating income margin is expected to bottom-out in FY12/17 and then rise from the improved productivity.

Trends in results (unconsolidated)

(¥mn, ¥)

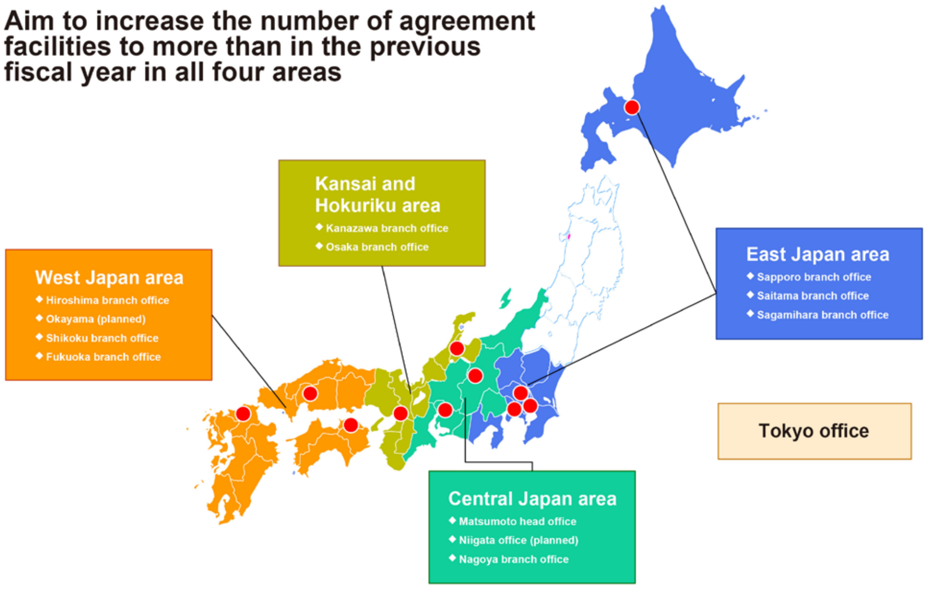
Fiscal year	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17 E
Net sales	6,024	7,463	9,011	11,407	13,700
Operating income	402	433	588	736	750
Ordinary income	401	434	591	749	763
Net income	247	258	363	500	505
EPS	41.30	41.95	49.51	68.00	68.19
Dividend	2.00	2.50	6.00	12.00	16.00
BPS	135.05	287.81	333.86	393.71	-

Note: The per-share values for FY12/13 and FY12/14 have been retroactively adjusted following the onehundred-for-one share split of July 28, 2014, and the two-for-one share split of July 1, 2015.
Source: Prepared by FISCO from the Company's financial results

2. Plans to open two new branch offices

During FY12/17, the Company plans to open new branch offices in Niigata and Okayama. Its intends to divide the entire country into four areas – the East Japan area (Sapporo branch office, Saitama branch office, and Sagamihara branch office), the Central Japan area (Matsumoto head office, Niigata branch office, and Nagoya branch office), the Kansai and Hokuriku area (Kanazawa branch office and Osaka branch office), and the West Japan area (Hiroshima branch office, Okayama branch office, Shikoku branch office, and Fukuoka branch office) – and to increase the number of agreement facilities to more than in the previous fiscal year in all four areas.

Nationwide bases and the sales-area divisions



Source: From the Company's results briefing materials

3. Working to build a foundation to become a strong organization able to continuously improve results

To respond to the increases in the number of agreement facilities and the number of users, the Company plans to recruit new employees in FY12/17 of around the same number as in FY12/16. Its policy is to actively recruit mid-career hires, in addition to new graduates.

However, while the number of full-time employees has doubled over three years, both the Sales Department and the Management Department are facing a situation in which the strengthening of employees' "front-line capabilities" has not kept pace with the business growth. Moreover, the situation is also that the work hours created by the outsourcing of operations, including for deliveries and data input, are not producing value. These are recognized to be important issues for management.

Therefore in FY12/17, the priority measures for the sales structure are dividing the sales area into four areas, delegating authority and speeding-up decision making, and promoting strengthened relations with facilities and business partners. In addition, toward the Group-wide deployment of best practices, the Company will collect, analyze and standardize case studies of best practices, such as on sales methods, methods of managing CS sets in facilities, and responding to users, and then deploy them horizontally across the Group, centered on the department established specifically for this task in November 2016. In addition, the Company will strengthen its human resources training and education system, including for internal and external training.

The plan is to complete the systemization of operations, including logistics, billing, and ordering, during FY12/17, and to have the new systems operational in FY12/18.

Entering the stage of expanding use of the CS Set due to improved name awareness, while there remains plenty of room to acquire new customers.

4. Business environment

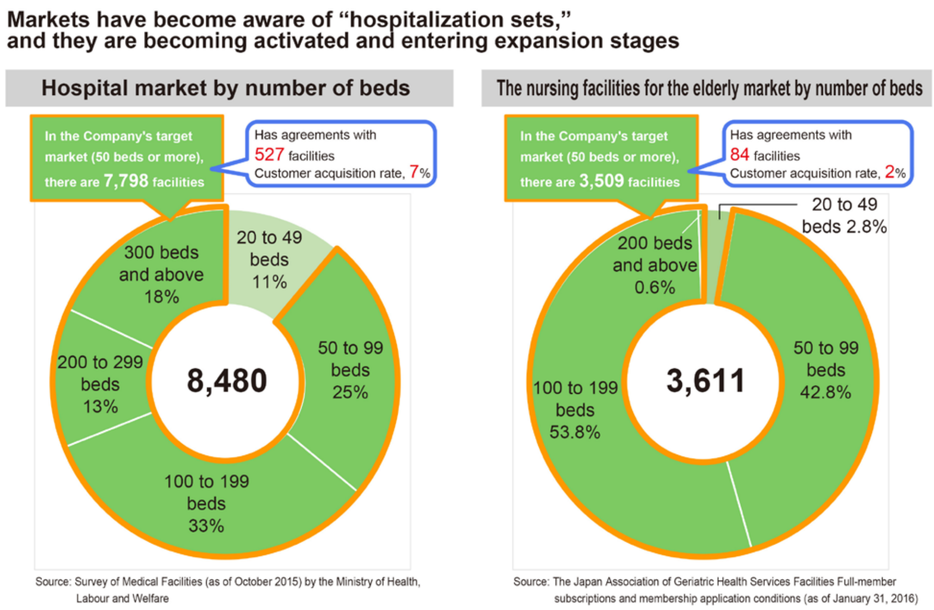
The Company's main target markets are hospitals, nursing facilities for the elderly, and other such facilities with at least 50 beds.

According to the Survey of Medical Facilities (as of October 2015) by the Ministry of Health, Labour and Welfare, nationwide there are 8,480 hospitals and related medical facilities with 20 or more beds. Within them, there are 7,798 facilities with 50 beds or more, which is the Company's target market. This gives a customer acquisition rate of 8% from the 586 facilities it had agreements with among these facilities at the end of FY12/16.

Also, within the 3,611 facilities from the full-member subscriptions and membership application conditions for the Japan Association of Geriatric Health Services Facilities (as of December 31, 2016), there are 3,509 nursing facilities for the elderly that have 50 beds or more, which are the Company's main target market. This gives a customer acquisition rate of 2% from the 84 facilities it had agreements with among these facilities at the end of FY12/16.

Each of these markets have only just entered the stage of expanding use of the CS Set, and it can be said that there remains plenty of room in each for the Company to acquire new customers.

CS Set deployment conditions



Source: From the Company's results briefing materials

Made LTASK a wholly owned subsidiary and it is advancing nationwide deployment and customer acquisition

5. Made a wholly owned subsidiary of LTASK, which operates a business in the Tohoku region

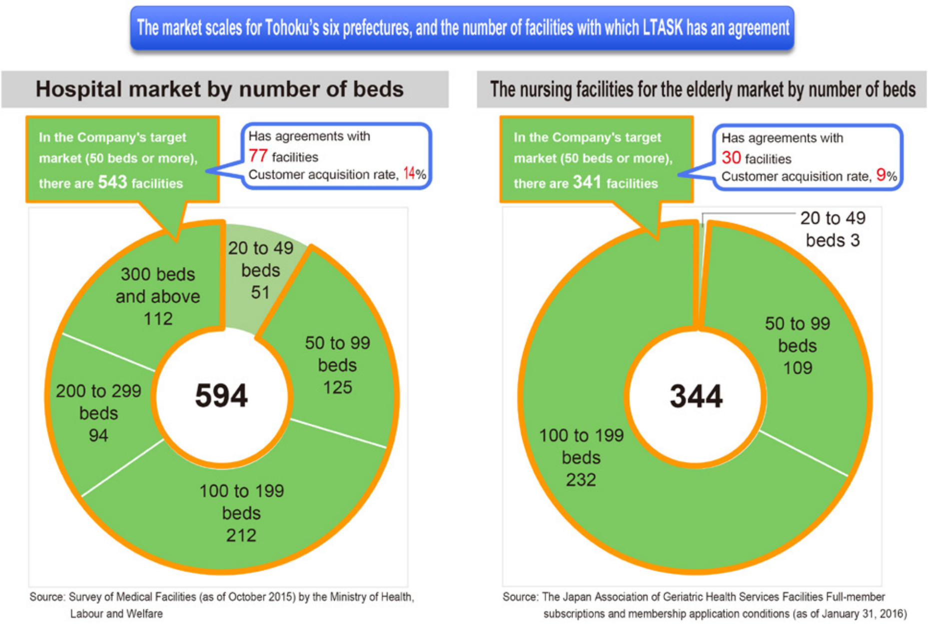
In February 2017, the Company made a subsidiary of LTASK Corporation, which provides the LT set (same type of services as the CS Set) from its four sales bases (the head office in Iwate and branches in Miyagi, Aomori, and Akita) in the Tohoku region.

In FY09/16, LTASK newly entered into agreements with 27 facilities, while 2 facilities cancelled their agreements. Therefore at the end of FY09/16, it had agreements with a total of 117 facilities (1 facility in Hokkaido, 36 facilities in Aomori Prefecture, 25 facilities in Iwate Prefecture, 11 facilities in Akita Prefecture, 20 facilities in Miyagi Prefecture, 8 facilities in Yamagata Prefecture, and 16 facilities in Fukushima Prefecture).

According to the Survey of Medical Facilities (October 1, 2015) by the Ministry of Health, Labour and Welfare, in the six Tohoku prefectures, there are 594 hospitals and related medical facilities with 20 or more beds. Within them, there are 543 facilities with 50 beds or more, which is the Company's main target market. LTASK has agreements with 77 of these facilities, which means its customer acquisition rate at the end of FY09/16 was 14%.

Also, from the full-member subscriptions and membership application conditions for the Japan Association of Geriatric Health Services Facilities (as of December 31, 2016), there are 344 nursing facilities for the elderly in Tohoku's six prefectures that have 20 beds or more. Of these, there are 341 facilities with 50 beds or more, which is the Company's main target market. At the end of September 2016, LTASK had agreements with 30 of these facilities, meaning its customer acquisition rate was 9%. So it can be said that there remains plenty of room for it to acquire customers in both these markets.

The market scales for Tohoku's six prefectures, and the number of facilities with which LTASK has an agreement



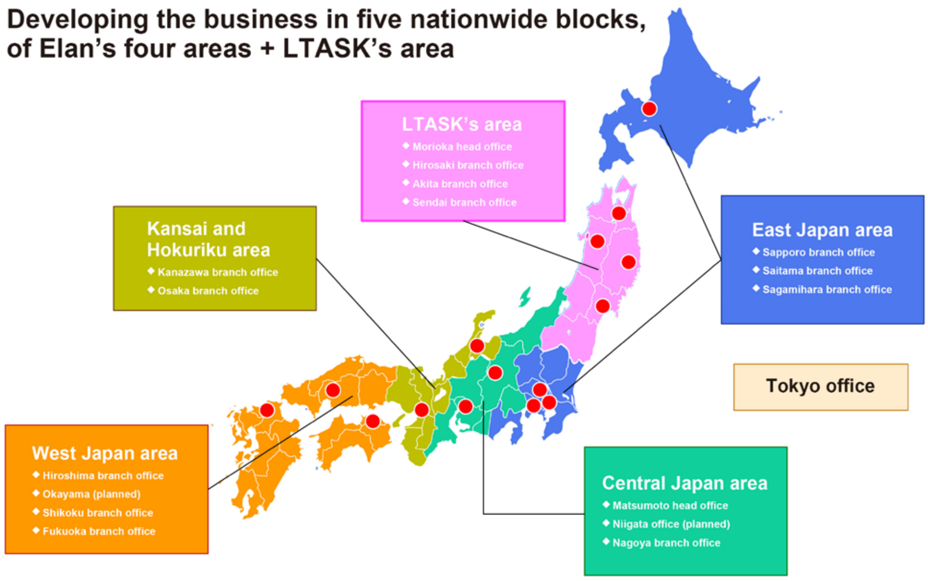
Source: From the Company's results briefing materials

6. Has a total of 17 bases nationwide, and is advancing nationwide deployment and customer acquisition

In the future, the Group as a whole will achieve nationwide coverage from a total of 17 bases, of the 5 blocks of the "Elan's 4 area + LTASK's area" and the Tokyo office, and it will accelerate its nationwide deployment. Then, as it will have completed the building of a network with practically nationwide coverage, its policy will be for each base to pursue the acquisition of small- and medium-sized facilities as customers, and to raise the gross margin by improving productivity and lowering the expenses ratio.

The Company will also promote the sharing of both companies' strengths and expertise, reducing costs through the standardization of materials, and utilizing the advantages of a nationwide business deployment (including sales activities for large-scale group hospitals and with business partners on a nationwide scale). It is also aiming to solidity its position as the leading company in the hospitalization set industry.

Nationwide bases and sales-area divisions



Source: From the Company's results briefing materials

7. Plans to shift to consolidated results from FY12/17 2Q

As the Company made LTASK a wholly owned subsidiary in February 2017, it plans to shift to consolidated results from FY12/17 2Q (April to June).

LTASK's FY09/16 results were net sales of ¥1,364mn, operating income of ¥158mn, ordinary income of ¥160mn, and net income of ¥117mn. The amortization of goodwill and related are unlikely to have a significant impact, so LTASK is expected to contribute to the consolidated results.

Medium-to-long-term growth strategy

Is targeting 3,000 agreement facilities as its long-term vision

● **The target for the Group as a whole is to have 1,500 agreement facilities at the end of FY12/19, while the long-term vision is for 3,000 facilities.**

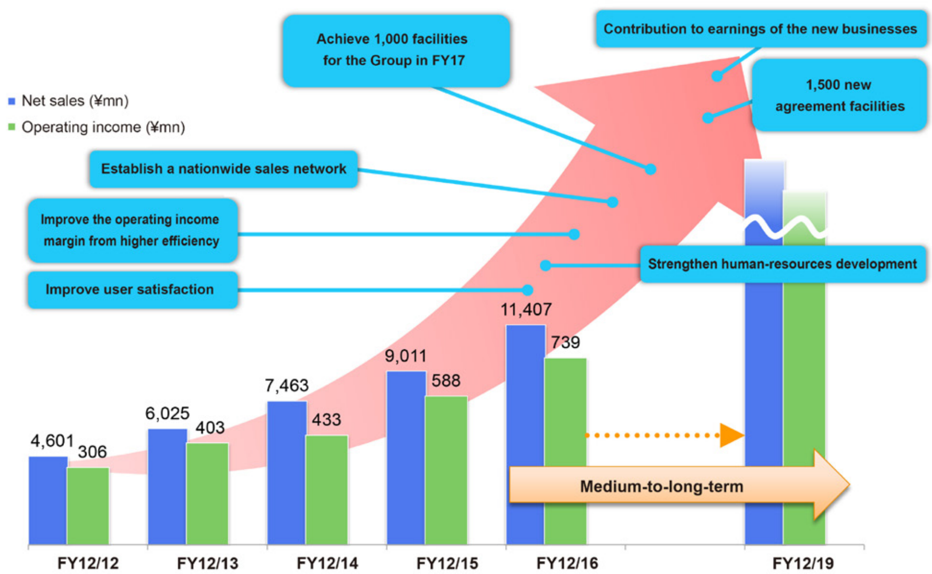
The Company will advance the following measures as its medium- to long-term growth strategy; 1) deploy the CS Set nationwide (strengthen the sales manpower, thoroughly realize the Win-Win-Win relationship, and thoroughly implement profit management), 2) pursue productivity through improved efficiency (the standardization, manual creation, and systemization of management methods), 3) enter into new businesses (utilizing the personal information of CS Set users and its strong relations with business and other partners), and 4) continue to enable employees to excel (establishing and maintaining an appropriate working environment, developing human resources, and strengthening organizational capabilities).

In terms of its numerical targets, the aim for the Group as a whole is to have 1,000 agreement facilities by the end of FY12/17, 1,500 facilities by the end of FY12/19, and 3,000 facilities as the long-term vision. The long-term target for the operating income margin is 10%.

For the entry into new businesses, against the backdrop of the rise in the number of single-person households and elderly households, the Company seems to be considering businesses such as mediating the provision of services for people's daily lives after they leave hospital and also mediating the provision of services for families.

The Company has practically completed the development of a nationwide network of bases, eliminating the need to significantly increase the number of sales staff. In addition, improved productivity is expected from the results of the education and training and the standardization and systemization. Therefore, the forecast is for the rate of increase of personnel to slow down from FY12/19. Medium-term growth is expected, including from the contribution of profitability per employee (net sales and operating income).

Image of the Company Group's growth



Source: From the Company's results briefing materials

Shareholder return policy

Forecast for FY12/17 is once again for a higher dividend

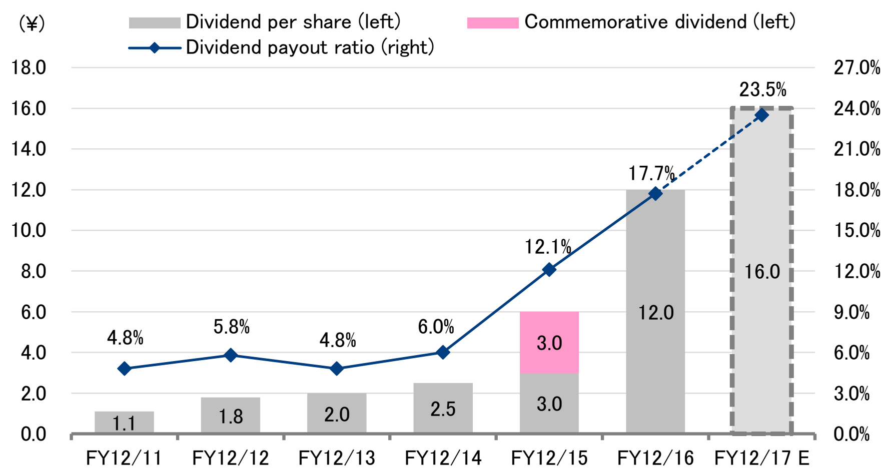
With regard to the distribution of profits, the Company is aware that appropriately returning profits to shareholders is an important management issue, and its basic policy is to return profits to shareholders through dividends after comprehensively considering factors such as the state of its internal reserves, the profit level in each fiscal year, and the outlook for results and its capital needs in subsequent fiscal years.

The FY12/16 annual dividend was ¥12 (ordinary dividend of ¥12 paid entirely at the end of the period), which was an increase of ¥6 on FY12/15 (ordinary dividend of ¥3 and a commemorative dividend of ¥3 paid entirely at the end of the period). The dividend payout ratio was 17.6% (compared to 12.1% in FY12/15).

The forecast for the FY12/17 annual dividend is ¥16 (ordinary dividend of ¥16 to be paid entirely at the end of the period), up ¥4 on the annual dividend of ¥12 in FY12/16. The forecast dividend payout ratio is 23.5%.

The Company has continuously raised the dividend payout ratio and its medium- to long-term target is a ratio of 30%. It is expected to supplement returns to shareholders alongside the increase in earnings.

Dividend per share and dividend payout ratio



Source: Prepared by FISCO from the Company's results briefing materials
Note: The dividend per share has been retroactively adjusted to take into account the effects of the fifty-for-one share split of August 17, 2012 and the onehundred-for-one share split of July 28, 2014 and two-for-one share split of July 1, 2015.

Disclaimer