

Japan Animal Referral Medical Center

6039

TSE Mothers

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■ Summary

Operation of general animal hospitals specializing in advanced medical care for dogs and cats

Japan Animal Referral Medical Center <6039> (hereinafter, also “the Company” and “JARMeC”) operates general animal hospitals (secondary clinics) that specialize in providing advanced medical care for pets (dogs and cats).

1. Offers advanced animal medical care through the division of labor with local “family animal hospitals”

It provides advanced medical care (secondary medical care) for animals with severe conditions that are difficult to treat at primary clinics in collaboration with regional animal hospitals that are the pet owners’ “family animal hospitals” (the primary clinics), through referrals from these primary clinics. As needs are rising among pet owners for more varied and advanced animal medical care based on pet owners’ desire for pets to receive the same advanced medical care as people, the Company is providing advanced and complete animal medical care through the division of labor with nationwide family animal hospitals which are primary clinics.

2. Posted higher sales in FY3/21 but lower profits due to rising personnel expenses

In the FY3/21 consolidated results, net sales increased 4.2% year-on-year (YoY) to ¥2,847mn, operating profit declined 5.8% to ¥405mn, ordinary profit fell 8.9% to ¥410mn, and profit attributable to owners of parent declined 8.8% to ¥285mn. Net sales were a new record high as there were steady increases in the number of collaborating clinics, the number of first hospital visits (number of referrals), the total number of medical care services provided, and the number of surgeries. However, profit declined due to the increase in personnel expenses accompanying the increase in the number of employees.

3. The FY3/22 consolidated results forecasts are conservative, with profits to remain basically unchanged YoY

For the FY3/22 consolidated results, the Company is forecasting net sales to increase 2.9% YoY to ¥2,930mn, operating profit to rise 1.1% to ¥410mn, ordinary profit to increase 2.2% to ¥420mn, and profit attributable to owners of parent to increase 1.7% to ¥290mn. Sales are forecast to be higher due to an increase in the number of first hospital visits (expected to rise 3.1% to 7,140 visits). However, each profit line is forecast to only rise slightly due to an increase in personnel expenses accompanying an increase in the number of veterinarians and veterinary nurses in advance of the opening of the Osaka Hospital (scheduled to open in November 2022), among other factors. This forecast seems conservative on the whole, and at FISCO we think there is room for the results to exceed the Company’s forecasts.

4. Aiming to be a comprehensive company in the animal medical care industry

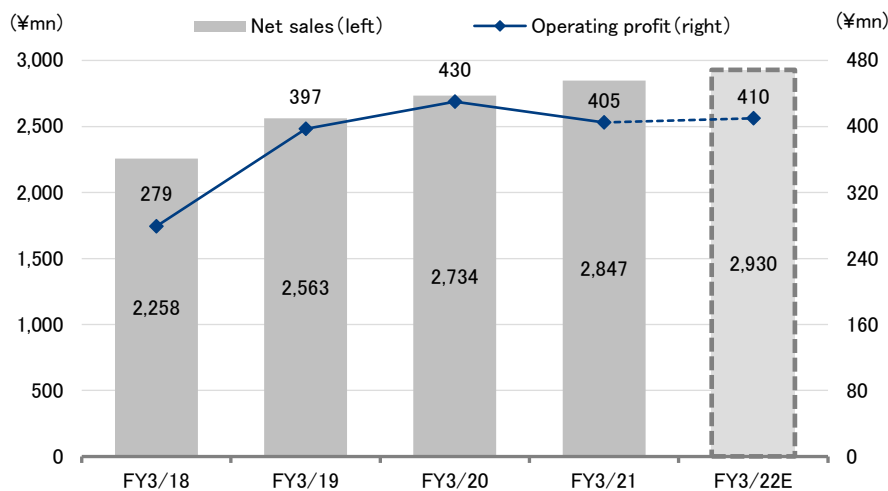
The Company’s medium-term growth strategy includes increasing the number of bases and collaborating clinics, securing, training and retaining personnel, and expanding new businesses, including by utilizing M&A, as the Company aims to be comprehensive company in the animal medical care industry. With the opening of the Osaka Hospital, the Company plans to expand the number of collaborating clinics not just in the Kinki region but also throughout western Japan, including the Chugoku and Shikoku regions. In terms of new businesses, the Company is collaborating with large companies with the aim of expanding the use of “PLUS CYCLE,” a pet activity measurement tool. The market environment for advanced medical care for animals is excellent, and there is lots of room for market to grow. The Company is expected to grow over the medium- to long-term horizon by actively deploying its business while leveraging its strength of having general animal hospitals that can provide advanced medical care services.

Summary

Key Points

- Operates general animal hospitals specializing in advanced medical care for pets (dogs and cats)
- The FY3/22 consolidated results forecasts are conservative, with profits to remain basically unchanged YoY
- Aiming to be a comprehensive company in the animal medical care industry

Results trends



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

Company profile

Operation of general animal hospitals specializing in advanced medical care for dogs and cats

1. Company profile

The Company operates general animal hospitals (secondary clinics) that specialize in providing advanced medical care for pets (dogs and cats). The Company operates animal hospitals that provide advanced, specialized medical care (secondary medical care) for animals with severe conditions that are difficult to treat at primary clinics through referrals from regional animal hospitals (the primary clinics), which are family animal hospitals for pet owners. Its consolidated subsidiary CAMIC Co., Ltd., provides diagnostic imaging services for animals using advanced medical devices.

At the end of FY3/21, total assets were ¥5,844mn, net assets were ¥2,336mn, capital was ¥385mn, the equity ratio was 40.0%, and net assets per share was ¥981.33, while the total number of outstanding shares (including 55,577 treasury shares) was 2,436,200 shares.

Company profile

2. History

The Company was established in Takatsu Ward, Kawasaki City, Kanagawa Prefecture in September 2005, and it opened the Kawasaki Main Hospital in June 2007. In March 2009, it was designated “clinical practice medical facilities for small animals” by the Minister of Agriculture, Forestry and Fisheries, the first such designation in the private sector. It was newly listed on the Tokyo Stock Exchange (TSE) Mothers market in March 2015.

History

Date	Major event
September 2005	Japan Animal Referral Medical Center was established in Takatsu Ward, Kawasaki City, Kanagawa Prefecture
June 2007	Opened the Kawasaki Main Hospital
March 2009	Designated “clinical practice medical facilities for small animals” by the Minister of Agriculture, Forestry and Fisheries, the first such designation in the private sector
December 2011	Opened the Nagoya Hospital
January 2014	Made CAMIC Co., Ltd. a subsidiary by acquiring its shares from Olympus Business Creates Co., Ltd.
March 2015	Newly listed on the TSE Mothers market
January 2018	Opened the Tokyo Hospital
February 2019	Released “PLUS CYCLE,” an IoT health management tool for pets

Source: Prepared by FISCO from Company material

3. Business bases

As its business bases, the Company operates the Kawasaki Main Hospital, which is a general hospital specializing in advanced medical care (opened in June 2007, Takatsu Ward, Kawasaki City, Kanagawa Prefecture), the Nagoya Hospital (opened in December 2011, Tenpaku Ward, Nagoya City, Aichi Prefecture), and the Tokyo Hospital (opened in January 2018, Adachi Ward, Tokyo). The timetable for the opening of the Osaka Hospital (Minoo City, Osaka Prefecture) has changed due to factors including the revision to the construction plan, and is now expected to open in November 2022.

The consolidated subsidiary CAMIC provides diagnostic imaging services for animals using advanced medical devices at four bases in Metropolitan Tokyo (in Edogawa Ward, Nerima Ward, and Setagaya Ward in Tokyo, and in Kawaguchi City in Saitama Prefecture).

Business overview

Provides advanced medical care for animals through the division of labor with local family animal hospitals

1. Business summary

The Company operates comprehensive animal hospitals (secondary clinics) that specialize in providing advanced medical care to pets (dogs and cats). It operates animal hospitals that provide advanced, specialist medical care for animals with severe conditions that are difficult to treat at primary clinics, through a complete referral and reservation system from regional animal hospitals (the primary clinics) that are family animal hospitals for pet owners.

Business overview

The same as human medical care, the Company has advanced medical care facilities and equipment, such as CT, MRI, and radiation-therapy equipment, and it provides advanced medical care (testing and treatment) for dogs and cats, mainly by veterinarians who conduct research and clinical practice on conditions specific to dogs and cats. It does not provide primary medical care, such as vaccinations and preventive medicine. Also, it requests that the care after its medical treatment be carried out by the referring primary clinics.

As pets are becoming part of the family, are living longer, and their medical conditions are becoming more diverse, needs are rising among pet owners for more varied and advanced animal medical care, from them “wanting pets to receive the same advanced medical care as people.” In this situation, the Company is realizing an advanced, complete animal medical care system through the division of labor with the family animal hospitals, which are the primary clinics, in regions throughout the country.

In March 2009, the Company was designated “clinical practice medical facilities for small animals” by the Minister of Agriculture, Forestry and Fisheries, the first such designation in the private sector. The Company is aiming to contribute widely to society by providing advanced medical care, as venues to conduct training and research such as establishing an environment to train human resources who will be active in clinical and educational settings in the animal medical care industry and taking on challenges in conducting clinical research to improve animal medical care technologies.

For the diagnostic imaging services of the consolidated subsidiary CAMIC, the same as for the Company's secondary clinics, it receives referrals from primary clinics for pet owners who only want a diagnostic imaging service. Through a complete referral and reservation system, it takes images using MRI and CT and reports its findings to the primary clinics, and its basic stance is positioned as a supporter of the primary clinics.

2. Strengths and features

As an operator of general animal hospitals specializing in advanced medical care for pets (dogs and cats), a feature is that it provides advanced and comprehensive veterinary medical care. The Company has in place specialist medical departments and cutting-edge medical facilities and devices that cover a wide range of fields that are greatly related to the lives or the quality of life of animals, such as for cardiology and respiratory, urogenital and gastroenterology, oncology, neurology and orthopedics, ophthalmology, radiation and diagnostic imaging, and anesthesiology. It uses them to provide medical care specialized for specific medical fields, and also medical care through multiple medical departments for conditions in concurrent fields and for conditions with symptoms that are difficult to diagnose.

In FY3/21, the total number of first hospital visits was 6,926. In the percentages of first hospital visits by medical department, urology and gastroenterology provided about 37%, neurology and orthopedics about 26%, oncology about 22%, cardiology and respiratory about 13%, and ophthalmology about 1%. Looking at the past four fiscal years, there have been no particularly large changes in the ratios of hospital visits by medical department. In May 2021, the Company newly opened a hematology department.

3. Earnings model

The Company's earnings are mainly medical care fees collected from pet owners. There are no referral fees with the primary clinics. Veterinary medical care fees are liberalized medical care, so these fees are set individually by each animal hospital. The Antimonopoly Act prohibits veterinarian organizations setting standard fees and veterinarians concluding agreements to set fees. For this reason, there are discrepancies in medical care fees depending on the animal hospital. In the case of the Company, it sets medical care fees based on the consideration of its depreciation of capital investment and personnel expenses. The content of the medical care is determined in accordance with the pet owner's wishes.

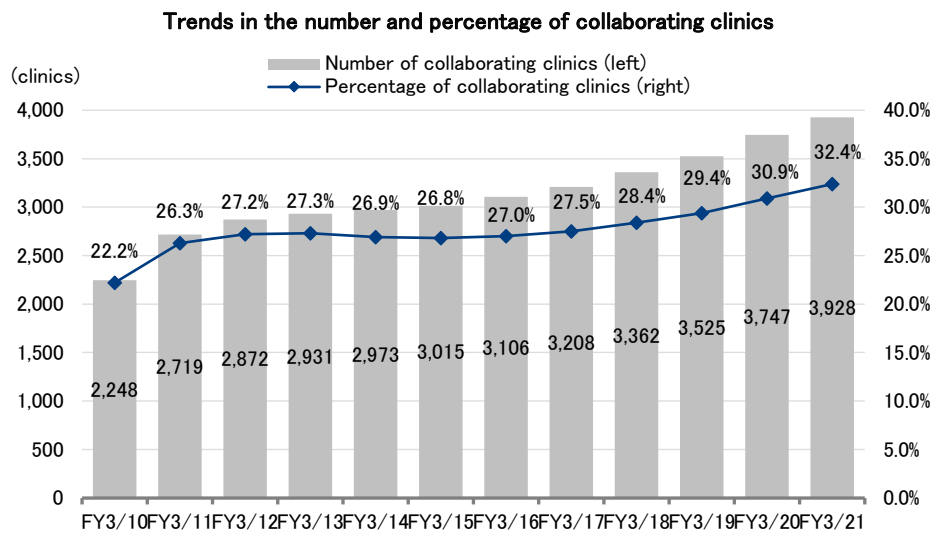
Business overview

In the percentages of total sales in FY3/21, the Company's secondary medical care services accounted for just over 80% of sales, while consolidated subsidiary CAMIC's diagnostic imaging services accounted for over 10% of sales.

4. The number of collaborating clinics, number of first hospital visits, and the total number of medical care services provided are increasing

As the number of medical-care services the Company provides depends on the number of referrals from primary clinics, it positions the number of first hospital visits (the number of cases newly received) as the most important management indicator. Therefore, increasing the number of collaborating clinics based on registration application will lead to increases in the number of first hospital visits and the total number of medical care services provided (the total number of first and subsequent hospital visits), or in other words, it will lead to a growth in earnings.

It is continuously promoting academic activities, such as presenting at academic conferences and holding seminars, with an aim of increasing the number of collaborating animal hospitals. The number of collaborating clinics is trending upward, increasing from 2,248 clinics at the end of March 2010 to 3,928 clinics at the end of March 2021. The referrals acceptance system is strengthened when a new hospital opens for business, so the number of collaborating clinics has also tended to increase significantly when new hospitals opened for business (the Nagoya Hospital in December 2011 and the Tokyo Hospital in January 2018). Also, alongside the increase in the number of collaborating clinics, the percentage of collaborating clinics out of the number of small animal medical care facilities nationwide is rising, increasing from 22.2% at the end of March 2010 to 32.4% at the end of March 2021. Also, by area, this percentage has increased to 50.2% in the Kanto region where the Kawasaki Main Hospital and the Tokyo Hospital are located, and to 41.5% in the Tokai region where the Nagoya Hospital is located.



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

The number of first hospital visits and the total number of medical care services provided are trending upward, linked to the increase in the number of collaborating clinics. In addition, the percentage of services that run from a first hospital visit to a surgery is trending at around one third, and therefore the number of surgeries is increasing alongside the rise in the number of first hospital visits. In FY3/21, the number of first hospital visits increased 6.9% compared to FY3/20 to 6,926, total medical care services provided rose 7.8% to 27,269, and the number of surgeries grew 6.6% to 2,108.

We encourage readers to review our complete legal statement on "Disclaimer" page.

5. Risk factors

The Company's risk factors include its reliance on referrals from primary clinics; the fluctuations in earnings alongside the openings of new hospitals; changes in its business environment, such as the decrease in the number of pets reared and competition; errors when providing medical care services and epidemics among animals receiving medical care; the strengthening of regulations through law amendments, such as to the Veterinarians Act and the Veterinary Practice Act; and training and securing human resources.

With regards to competition, the number of primary animal hospitals is trending upward (according to a survey by the Ministry of Agriculture, Forestry and Fisheries, the number of small animal medical care facilities nationwide had increased from 10,135 at the end of 2009 to 12,116 at the end of 2019). However, the Company's business model is that it does not compete directly with these primary clinics, but rather it collaborates with them. Also, looking at the comparison with veterinary medicine university hospitals and secondary care clinics specializing in one area, both of which are thought of as competitors, the Company's strengths are that, as a general animal hospital specializing in advanced medical care with 11 specialized departments, the Company offers advanced medical care through specialized clinical departments, has cutting-edge, advanced medical facilities and equipment, has flexible intake for patient animals, and has a team-based medical care system. Also, the barriers to entry in the general hospitals business specializing in advanced medical care that are able to rapidly provide optimal testing, diagnoses, and treatment for animal patients are high, so the risk of competition intensifying is considered to be small.

6. Training and securing human resources

At the end of FY3/21, the Company had 218 employees, an increase of nine from the end of FY3/20. (On a standalone basis, the number of employees increased by 10 to 188, while the number of employees at the subsidiary declined by one to 30 employees.) Due to the shortage of veterinarians, it is difficult to hire many veterinarians and increase the number of veterinarians. However, in order to provide advanced medical services, it is essential to have high-quality veterinarians and veterinary nurses, so the Company is focusing on securing and training human resources as it aims to grow over the medium term.

To train and secure human resources, the Company is strengthening recruitment through building relationships and forming networks of contacts with universities, vocational colleges, and various organizations, while it is also training veterinarians through a postgraduate clinical training system (launched in April 2008). The postgraduate clinical training system is based on a systematic curriculum and teaching system for two years after graduation from university. The aim of the system is to develop students to have the personalities and values required of veterinarians and for them to learn the basic medical skills in order to systematically examine and treat animal patients.

Expectations are also rising for the utilization of veterinary nurses. To respond to the increasing sophistication of animal medical care, the Pet Veterinary Nurses Bill was established and promulgated in June 2019. The law makes veterinary nursing a national qualification and allows the nurses to perform the same medical actions as nurses perform for people, such as collecting blood and administering medication. The Council for the Certification of Registered Veterinary Nurses is the designated examining agency, and the 1st Pet Veterinary Nurse National Examination is expected to be held by the end of December 2023, at the latest. As the Company's veterinary nurses have already acquired private-sector qualifications, through this law they will be able to transition smoothly to having a national qualification, and the utilization of veterinary nurses is expected to lead to a reduction in veterinarians' work load and to improved work efficiency.

Results trends

Posted higher sales in FY3/21 but lower profits due to rising personnel costs

1. Summary of FY3/21 consolidated results

In the FY3/21 consolidated results, net sales increased 4.2% YoY to ¥2,847mn, operating profit declined 5.8% to ¥405mn, ordinary profit fell 8.9% to ¥410mn, and profit attributable to owners of parent declined 8.8% to ¥285mn.

Consolidated results for FY3/21

Item	(¥mn)		
	FY3/20	FY3/21	Change %
Net sales	2,734	2,847	4.2%
Gross profit	1,008	994	-1.3%
SG&A expenses	577	589	2.0%
Operating profit	430	405	-5.8%
Ordinary profit	450	410	-8.9%
Profit attributable to owners of parent	312	285	-8.8%
Number of collaborating clinics	3,747	3,928	4.8%
Number of first hospital visits (number of referrals)	6,476	6,926	6.9%
Total number of medical care services provided	25,307	27,269	7.8%
Number of surgeries	1,977	2,108	6.6%

Source: Prepared by FISCO from Company material

Net sales were a new record high as there were steady increases in the number of collaborating clinics, the number of first hospital visits (number of referrals), the total number of medical care services provided, and the number of surgeries. However, profit declined due to the increase in personnel expenses accompanying the increase in the number of employees and improved pay and benefits for employees. The gross margin declined 2.0 percentage points YoY to 34.9%, while the SG&A expense ratio fell 0.4 percentage points to 20.7%. The number of collaborating clinics increased 4.8% YoY to 3,928 clinics, the number of first hospital visits (number of referrals) increased 6.9% to 6,926 visits, the total number of medical care services provided increased 7.8% to 27,269, and the number of surgeries rose 6.6% to 2,108 surgeries. All were new record highs.

The COVID-19 pandemic has had minimal impact on the Company, but people refraining from going out has led to pet owners spending more time with their pets. This, in turn, has led to an increase in people noticing small abnormalities in their pets and taking them to family animal hospitals. Therefore, it seems that the COVID-19 pandemic has had a positive impact at the primary clinic stage.

The equity ratio rose

2. Financial conditions

Looking at the financial condition, at the end of FY3/21 total assets were ¥5,844mn, down ¥84mn compared to the end of the previous fiscal year. The main factors were the decline in cash and deposits in current assets, and in non-current assets, the decline in buildings and structures (net) due to depreciation. Total liabilities declined ¥286mn YoY to ¥3,507mn. The main factor was the decline in interest-bearing debt. The reliance on interest-bearing debt declined 4.8 percentage points to 52.6%. Net assets increased ¥202mn to ¥2,336mn. As a result, the equity ratio rose 4.0 percentage points to 40.0%, and the Company's financial soundness improved. Free cash flow (FCF = cash flows from operating activities + cash flows from investing activities) was ¥434mn. There were no large-scale investments, and positive free cash flow was maintained.

Simplified balance sheet

	(¥mn)		
	End of FY3/19	End of FY3/20	End of FY3/21
Total assets	6,088	5,928	5,844
(Current assets)	1,480	1,464	1,457
(Non-current assets)	4,607	4,464	4,386
Total liabilities	4,259	3,794	3,507
(Current liabilities)	890	840	914
(Non-current liabilities)	3,368	2,953	2,593
Total net assets	1,828	2,133	2,336
Total liabilities and net assets	6,088	5,928	5,844
[Reference]			
Interest-bearing debt	3,834	3,404	3,074
Equity ratio (%)	30.0	36.0	40.0

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

Summary of the consolidated statement of cash flows

	(¥mn)		
	FY3/19	FY3/20	FY3/21
Cash flows from operating activities	741	537	504
Cash flows from investing activities	-108	-93	-69
Cash flows from financing activities	-273	-445	-469
Cash and cash equivalents at end of period	1,150	1,149	1,114
(Reference) Free cash flow	633	444	434

Note: Free cash flow = cash flows from operating activities + cash flows from investing activities
 Source: Prepared by FISCO from the Company's financial results

Future outlook

The FY3/22 consolidated results forecasts are conservative, with expectations for profits to increase slightly

● Consolidated results forecast for FY3/22

For the FY3/22 consolidated results, the Company is forecasting net sales to increase 2.9% YoY to ¥2,930mn, operating profit to rise 1.1% to ¥410mn, ordinary profit to increase 2.2% to ¥420mn, and profit attributable to owners of parent to increase 1.7% to ¥290mn. Sales are forecast to be higher as the Company continues to strengthen communication with primary clinics with a resulting increase in the number of first hospital visits (expected to rise 3.1% to 7,140 visits). However, each profit line is forecast to only rise slightly due to higher personnel expenses accompanying an increase in the number of veterinarians and veterinary nurses in advance of the opening of the Osaka Hospital (scheduled to open in November 2022), among other factors. This forecast seems quite conservative on the whole, and at FISCO we think there is room for the results to exceed the Company's forecasts.

Consolidated results forecast for FY3/22

	FY3/21	FY3/22 forecast	Change %
			(¥mn)
Net sales	2,847	2,930	2.9%
Operating profit	405	410	1.1%
Ordinary profit	410	420	2.2%
Profit attributable to owners of parent	285	290	1.7%
EPS (¥)	120.73	121.82	-
Number of first hospital visits (referrals)	6,926	7,140	3.1%

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

Growth strategy

The market environment for advanced medical care for animals is excellent

1. The market environment

The market environment for advanced medical care for animals is excellent. This is because while in general, pet medical care (primary medical care) is provided by family animal hospitals located close to the homes of the pet owners, needs have further risen among owners for advanced medical care (secondary medical care) from "wanting pets to have the same advanced medical care as people."

Growth strategy

According to Company materials, the number of dogs and cats being kept as pets had been trending downward overall, but in 2019 this trend changed direction as the number of pets increased 6.1% YoY to 820,000 (dogs increased 5.5% to 404,000 and cats increased 6.7% to 416,000). In 2020, the number of pets then increased significantly by 15.2% to 945,000 pets (dogs increased 14.4% to 462,000, while cats increased 16.1% to 483,000), and this was largest number in the past five years. It appears that people staying at home due to the COVID-19 pandemic was also boon for pet ownership. Also, alongside pets becoming members of the family, spending on animal hospitals per household is trending upward, and the scale of the pet insurance market continues to grow by double digits.

2. Aiming to be a comprehensive company in the animal medical care industry

With this business environment as the backdrop, the Company's medium-term growth strategy is to increase the number of bases and collaborating clinics, to secure and train human resources, and to expand new businesses, and it is aiming to be a comprehensive company in the animal medical care industry.

Increasing the number of bases and collaborating clinics

The Company will open clinics in major cities throughout Japan and promote academic activities, including giving presentations at academic conferences and holding seminars. The timetable for the opening of the Osaka Hospital (Minoo City, Osaka Prefecture) has been changed to November 2022, due to the fact that the design changes accompanying the construction plan revisions will take around six months to receive approval following a new round of ordinance discussions with Minoo City based on these changes. With the opening of the Osaka Hospital, the Company plans to expand the number of collaborating clinics not just in the Kinki region but also throughout western Japan, including the Chugoku and Shikoku regions. Subsequently, with bases in Tokyo, Nagoya, and Osaka as the core bases, the Company is planning to accelerate the increase in collaborating clinics, including in regional cities, as well as the number of referrals.

Train and secure human resources

the Company is focusing on strengthening relationships and forming networks of contacts with universities, vocational colleges, and various organizations, and it is actively conducting recruitment activities. It also intends to respond to the expansion in bases by progressing the development of veterinarians through its postgraduate clinical training system. Moreover, following the enforcement of the Pet Veterinary Nurses Bill, it will encourage its veterinary nurses to acquire the national qualification and promote the utilization of veterinary nurses in order to reduce veterinarians' work load and to improve work efficiency and productivity.

Expanding new business, including utilizing M&A

The "PLUS CYCLE" tool, a "pet health tech" tool for pets released in February 2019, links to a smartphone to measure the daily activity volume, number of jumps, hours of sleep, and other variables of a pet, and enables the detection of abnormalities in a pet at an early stage before they become severe by making a pet's health visible. The Company is currently collaborating with major companies with the aim of increasing the use of this tool. In September 2020, the Company began a joint service with Panasonic Corporation's blue-ray disc recorder, Ouchi Cloud DIGA. In April 2021, in partnership with NEC Corporation's pet communication platform service "waneco," the Company began internal demonstration testing of the "waneco talk" service for pet owners, in which NEC uses LINE to allow pet owners to remotely assess their pet's situation.

■ Shareholder return policy

Continues to not to pay a dividend at the present time, as it is prioritizing supplementing internal reserves

The Company positions returning profits to shareholders as one of its most important management issues. However, as it is currently in the process of expanding its businesses, it intends to supplement its internal reserves to strengthen its management foundation and to actively develop its businesses, and to enhance investment in order to strengthen its financial structure and for business expansion. It considers that aiming to further expand the scope of its business in this way will lead to the greatest return of profits to shareholders in the future.

Therefore, since its establishment up to FY3/21, the Company has not paid a dividend. Going forward also, for the time being it intends to supplement internal reserves as the funds necessary to recruit excellent human resources and for the capital investment that will contribute to improving services. The opening of the Osaka Hospital (provisional name) will basically complete the Company's large-scale capital investment. Therefore, looking to the future, it is contemplating returning profits to shareholders while considering business results and the financial condition. However, at the current time, it has not decided on the possibility or the timing of dividend payments.



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