

## TOKAI Corp.

9729

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FISCO Ltd. Analyst

**Yuzuru Sato**



FISCO Ltd.

<https://www.fisco.co.jp>

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## Summary

### **Results are being driven by growth in demand for services related to the COVID-19 pandemic and the forecast is for continued stable growth in the medium to long term centered on the rental business, which contributes to the SDGs**

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 health-care company catering to a super-aging society, utilizing its strengths in both the medical care and nursing care business fields.

#### **1. Summary of FY3/22 1H results**

In the FY3/22 1H (April-September 2021) consolidated results, sales increased 4.9% year-on-year (YoY) to ¥60,269mn and operating profit increased 31.6% to ¥3,828mn. This increase in sales and profits slightly exceeded the Company’s forecasts. Although the performance of bedding and linen supply services for hotels and Japanese inns was weaker than anticipated due to the impact of COVID-19, mainstay businesses such as Hospital Services and SILVER Services in the Healthcare Services and Pharmacy Services boosted results. Sales and operating profit levels have recovered and are now close to pre-COVID-19 levels, while recurring profit and net profit attributable to the owners of the parent saw record highs for the first time in two years.

#### **2. FY3/22 forecasts**

For the FY3/22 consolidated results, the Company has maintained its initial forecasts, anticipating sales to rise 4.4% YoY to ¥123,160mn and operating profit to grow 6.0% to ¥7,732mn. The rate of progress on these forecasts as of the end of 2Q was 48.9% for sales and 49.5% for operating profit. In terms of profit, this is a slight improvement on the average rate of progress toward the full-year results of the last five years (sales: 49.5%, operating profit: 47.3%). There is thought to be room for profits to exceed forecasts going forward, provided there is no resurgence in COVID-19 leading to another declaration of a state of emergency. Looking by segment, sales and profits in both Healthcare Services and Pharmacy Services are expected to increase due to the growth of Hospital Services and SILVER Services in Healthcare Services and the effects of new pharmacy openings and the rise in technical fee unit prices in Pharmacy Services. At FISCO, we also see that sales and profits in Environmental Services can be expected to increase due to contributions from profitability enhancements in the cleaning business, despite the forecast of a decrease in profit in the LEASEKIN business caused by an increase in depreciation costs.

Summary

3. The new medium-term management plan

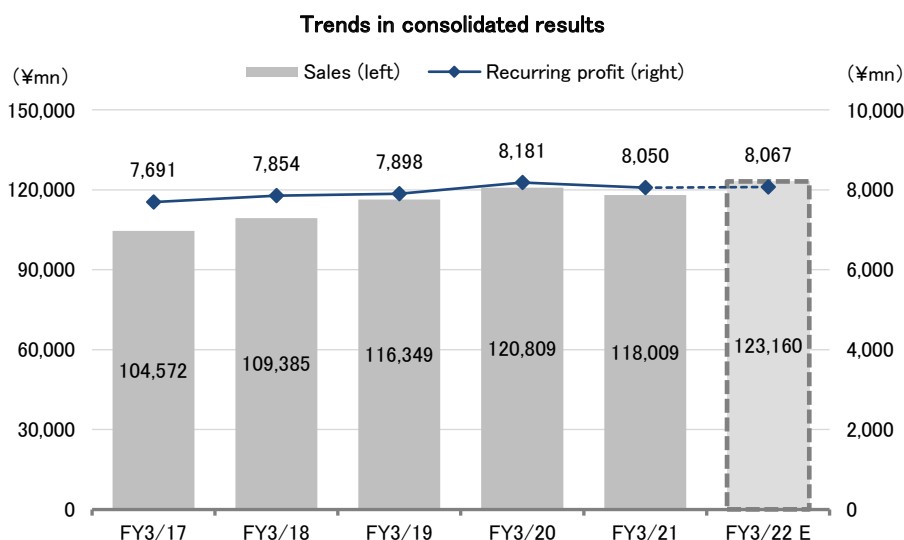
The Company has started “Challenge for the New Stage!,” its four-year medium-term management plan from FY3/22. Within that plan, it has set three goals to achieve in the medium to long term, of “Contribute to the reduction of waste and the realization of a recycling-based society through the rental business, a core area since its founding,” “Contribute to the sound development of the medical care and nursing care areas in a super-aging society,” and “Aim to be a company infused with smiles and appreciation among all Group employees.” Toward achieving these goals, it is working on each business to grow sustainably based on the three viewpoints of “Continuing,” “Changing,” and “Creating.” The consolidated management numerical targets for FY3/25 are sales of ¥140bn, operating profit of ¥9.5bn. The Company is aiming to raise the operating margin from 6.2% in FY3/21 to 6.8% by working to increase existing businesses’ share and the result of steady sales increases through, for instance, the sales expansion of strategic products, and at the same time, by improving work efficiency and productivity through advancing Digital Transformation (hereafter, DX). As society ages, there is a need to build Integrated Community Care Systems. As the Company is engaged in business in both the healthcare and nursing care fields, this presents an opportunity for business expansion, so its stable growth is expected to continue in the medium to long term.

4. Shareholder return policy

For its shareholder return policy, from FY3/22, the Company targets a dividend payout ratio of 25%. In FY3/22, it plans to increase the dividend per share by ¥8.0 YoY to ¥38.0 (dividend payout ratio, 25.2%). Also, it considers buybacks of treasury shares as appropriate, depending on the circumstances.

Key Points

- The FY3/22 1H results showed a recovery in mainstay businesses, recording increases in both sales and profits for the first time in two years
- The Company is targeting sales of ¥140bn and operating profit of ¥9.5bn for FY3/25
- The business model itself is in line with the approach for the SDGs, so engaging in business growth will lead to contributions to the SDGs



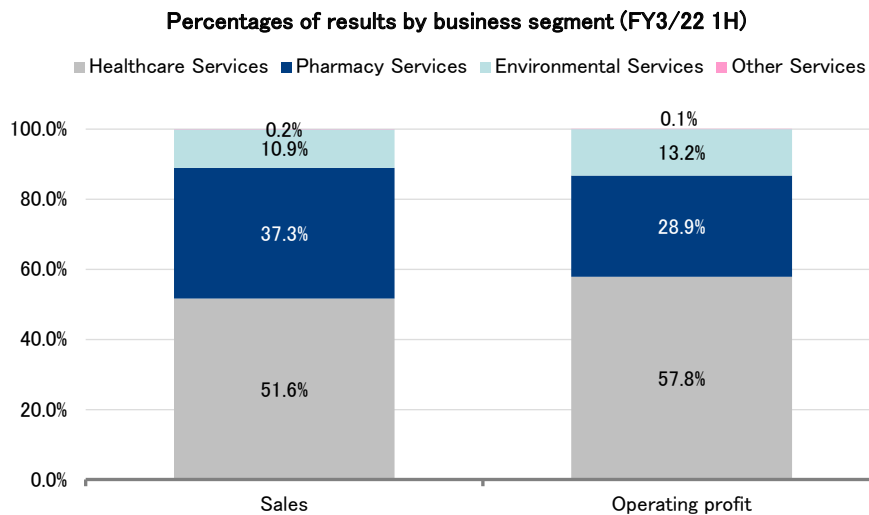
Source: Prepared by FISCO from the Company's financial results

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## Business description

### 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 just under 90% of total sales and operating profit.



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 (linen supply and nursing assistance for medical institutions and nursing care facilities, distribution management within hospitals, and other medical-related consignment services), bedding and linen supply services (linen supply and bedding rental services for hotels and other lodging facilities), SILVER Services (rental and sales of elderly care equipment), Food Supply (for medical institutions and nursing care facilities), cleaning equipment manufacturing, and sub-franchiser 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 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.

#### Business description

SILVER Services, which contribute more than 30% of this segment's sales, involves the rental and sales of elderly care equipment, such as electric beds and wheelchairs, based on the Long-Term Care Insurance System. For direct rental business, it can be seen competing with industry leaders such as FRANCE BED HOLDINGS Co., Ltd. <7840> and Panasonic AGE-FREE Co., Ltd. (a subsidiary of Panasonic Corporation <6752>). At the end of September 2021, SILVER Services were provided from Tohoku to Kyushu, covering metropolitan areas where the population of the elderly is expected to grow, with a sales network included 72 branches or offices, 7 maintenance centers. TOKAI's market share in this business varies by region. In Shikoku, it is relatively high, around 30%. In the three metropolitan areas of Greater Tokyo, Greater Osaka and Greater Nagoya, it is about 5 to 10%, leaving room to expand its presence. The Company is implementing a strategy that only it is capable of, of closely coordinating with the care managers in each region to provide highly tailored services. In addition, it has aimed to utilize its relationships with medical institutions and has been 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. By working to increase share in regions utilizing M&A and other measures, it is aiming to establish a position as the "No.1 in Japan for direct rental sales."

Looking at the FY3/22 1H results, the majority of sales and profits were provided by three businesses; Hospital Services, bedding and linen supply services, and SILVER Services. Of these, the profitability of SILVER Services is the highest.

## 2. Pharmacy Services

In the Pharmacy Services segment, consolidated subsidiary Tanpopo Pharmacy Co, Ltd., operates dispensing pharmacies in the Tokai, Hokuriku, Kansai, and Shikoku areas. It was operating 141 pharmacies at the end of September 2021. It has promoted a strategy of boosting management efficiency through fundamentally organic increases in store volume and specialization as a pharmacy located next to large hospitals. Therefore, it is maintaining a profit margin at the highest level in the industry. 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 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>. It is currently focusing on products peripheral to toilets in order to differentiate itself. In 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 a majority of sales. This segment also engages in 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.

## Business trends

### The FY3/22 1H results showed a recovery in mainstay businesses, recording increases in both sales and profits for the first time in two years

#### 1. Summary of the FY3/22 1H results

In the FY3/22 1H consolidated results, sales and profits both increased, with sales increasing 4.9% YoY to ¥60,269mn, operating profit increasing 31.6% to ¥3,828mn, recurring profit increasing 29.7% YoY to ¥4,255mn, and net profit attributable to the owners of the parent increasing 27.7% YoY to ¥2,799mn. Sales and operating profit levels have recovered and are now close to the levels recorded in FY3/20 1H, before COVID-19. Gain on sale of securities of ¥179mn was recorded under non-operating income, resulting in record highs for recurring profit and net profit attributable to the owners of the parent.

Each business saw recovery from the impact of COVID-19 experienced in the same period of the previous fiscal year, and growth in demand led to continued strong performances in SILVER Services and Hospital Services, including of sales of hospitalization sets and NEXSURG and of cleaning business for hospitals, which boosted business results. As a result, sales and profits increased in all segments. Comparing results to the Company's forecasts, the recovery of the bedding and linen supply services for hotels and Japanese inns and the cleaning equipment manufacturing business was weaker than expected due to the continued effects of COVID-19. However, the performance of the other businesses was generally in line with expectations and overall progress slightly seemed to exceed forecasts.

#### FY3/22 1H results (consolidated)

	FY3/20 1H		FY3/21 1H		FY3/22 1H		YoY
	Results	Vs. sales	Results	Vs. sales	Results	Vs. sales	
Sales	60,686	-	57,449	-	60,269	-	4.9%
Cost of goods sold	45,615	75.2%	43,601	75.9%	45,108	74.8%	3.5%
SG&A costs	11,123	18.3%	10,938	19.0%	11,333	18.8%	3.6%
Operating profit	3,947	6.5%	2,909	5.1%	3,828	6.4%	31.6%
Recurring profit	4,078	6.7%	3,280	5.7%	4,255	7.1%	29.7%
Net profit attributable to the owners of the parent	2,685	4.4%	2,192	3.8%	2,799	4.6%	27.7%

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

#### Results by segment

		FY3/20 1H			FY3/21 1H			FY3/22 1H			YoY
		Results	Vs. sales	Results	Vs. sales	Results	Vs. sales	Results	Vs. sales		
Healthcare Services	Sales	31,284		29,290		31,115		6.2%			
	Operating profit	2,911		2,208		2,850		29.1%			
Pharmacy Services	Sales	22,424		21,626		22,490		4.0%			
	Operating profit	1,495		1,251		1,426		14.0%			
Environmental Services	Sales	6,871		6,429		6,571		2.2%			
	Operating profit	539		479		649		35.6%			

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

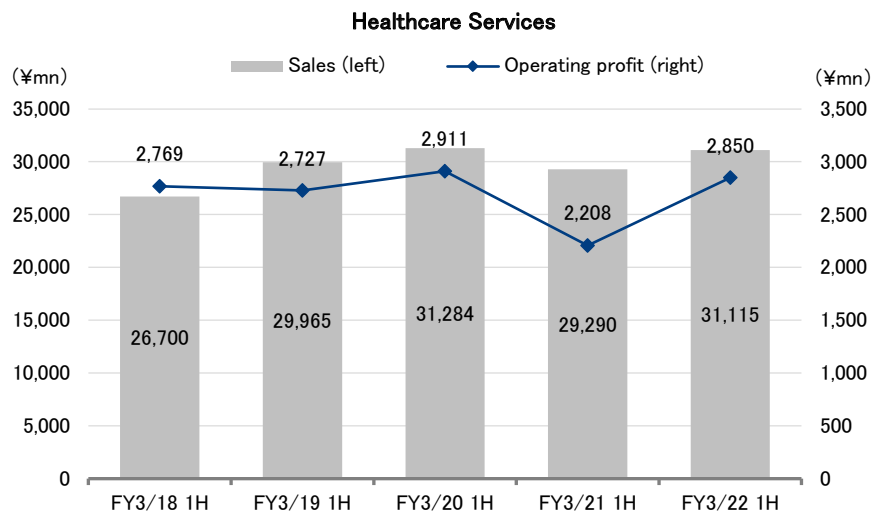
Business trends

## Sales and profits increased in all segments and the profit margin rose

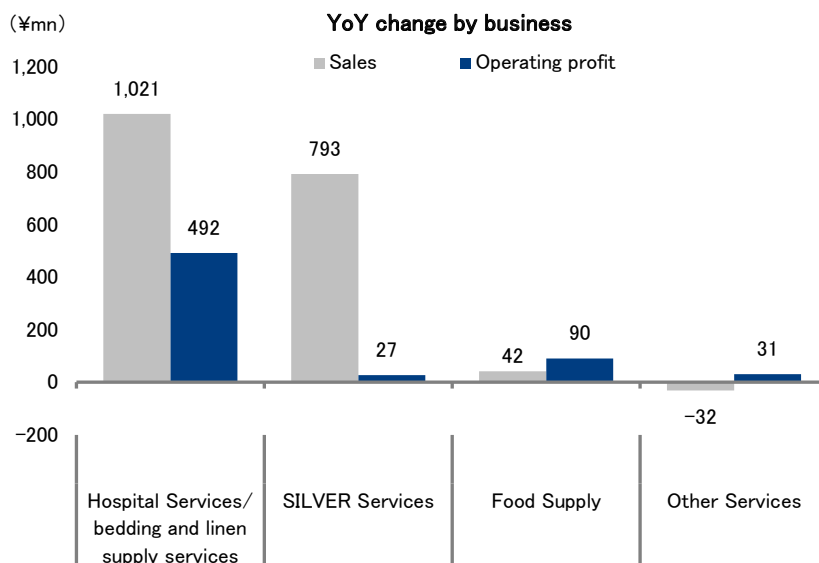
### 2. Performance trends by segment

#### (1) Healthcare Services

In Healthcare Services, sales increased 6.2% YoY to ¥31,115mn and operating profit increased 29.1% to ¥2,850mn, resulting in an increase in both sales and profits for the first time in two years. Hotels and Japanese inns continued to experience low occupancy rates due to the effects of COVID-19, and this impacted the bedding and linen supply services and cleaning equipment manufacturing business, but growth in Hospital Services and SILVER Services boosted results.



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



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

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Business trends

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

In Hospital Services and bedding and linen supply services, sales increased by ¥1,021mn YoY and operating profit increased by ¥492mn. The main factor behind this rise in sales was the favorable sales of hospitalization sets\*1, and NEXSURG\*2, which are strategic products in Hospital Services. These products combined were responsible for a ¥460mn increase in sales. For hospitalization sets, the number of contracting facilities increased, while in addition to this, restrictions on face-to-face meetings with patients when they enter a hospital due to COVID-19 led to a rise in users, resulting in sales growing 21.2% YoY. For NEXSURG, while it temporarily became difficult to acquire competing disposable-type products due to a shortage of non-woven fabrics in 2020, the introduction of reused products started becoming more widespread. As a result, sales grew 11.4% YoY. Hospitals are also becoming more interested in NEXSURG from an SDG perspective, which will likely lead to the acquisition of new contracts.

\*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 linen supply services to hospitals and nursing facilities, the number of contracted beds at hospitals remained at roughly the same level YoY, but new customer development led to an increase of 2.4% in contracted beds at nursing facilities, resulting in a steady increase of 1.3% overall. On the other hand, in bedding and linen supply services for hotels and Japanese inns, although sales recovered with an increase of 15% YoY, customers continue to suffer from low occupancy rates due to COVID-19, causing sales levels to remain at about 65% of levels recorded in FY3/20 1H.

Looking at profits, in addition to the effects of increases in sales, the absence of a payment of about ¥100mn paid to employees as special support funds that was recorded in the same period of the previous fiscal year was a factor that contributed to a profit increase.

**b) SILVER Services**

SILVER Services saw record high business results with sales increasing by ¥793mn YoY and operating profit increasing by ¥27mn. Amid growing demand for at-home nursing care services, direct rental sales were strong, increasing by 8.9% YoY. Acquisitions of new users increased 13.5% YoY due to the slump in the acquisitions of new users in the previous fiscal year when operations were hampered by COVID-19, as well as the smooth progress of operations in the current fiscal year, including the acquisition of new users from hospital discharge counters. In profits, although profit growth was limited by an increase in rental materials costs accompanied by rising demand for nursing care products and an increase in personnel costs, this is seen as a temporary setback due to upfront investment.

Additionally, in July 2021 the Company acquired shares in NISSHO Co., Ltd., which holds the top share of the market in Nagasaki Prefecture, and made it into a Group company. NISSHO records sales of about ¥400mn per year, but at present it is being treated as outside the scope of consolidation. The Company is also developing sales offices in Fukuoka Prefecture and Kumamoto Prefecture and now it has established a new location in Nagasaki, it will be looking to establish a maintenance center for the Kyushu area. Previously, it is sending rental materials from its maintenance center in Shikoku. So establishing a maintenance center in Kyushu will likely reduce logistics costs and shorten delivery times. The Company aims to continue its M&A strategy going forward to become the “No.1 in Japan for direct rental sales.”

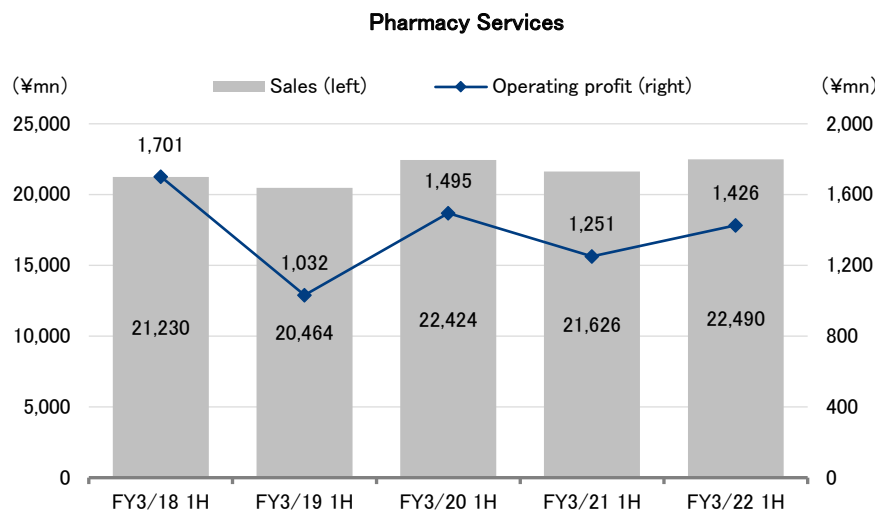
## Business trends

**c) Food Supply and Other Services**

In Food Supply, sales increased due to an increase in users at contracting hospitals and nursing facilities. Profits also increased due to initiatives to make operations more efficient and a decrease in labor costs. In the cleaning equipment manufacturing business, sales decreased as investment by its customers in the linen supply industry cooled down. However, it has accumulated a backlog of orders and sales are forecast to gradually recover into the next fiscal year.

**(2) Pharmacy Services**

In Pharmacy Services, sales increased 4.0% YoY to ¥22,490mn and operating profit increased 14.0% to ¥1,426mn. This was a new record high for sales. Although prescription unit prices decreased 3.4%, the number of prescriptions increased 7.6% due to the easing of the impact of people refraining from visiting medical facilities and the effects of new pharmacy openings, leading to an increase in sales.



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

Breaking down prescription unit prices, drug fee unit prices were lower due to the effects of shorter prescription periods compared to the previous fiscal year, when prescription periods were lengthened by COVID-19, and a decline in drug prices. Despite this, technical fee unit prices, which are directly linked to profits, increased due to efforts to strengthen the functions of family doctors with close ties to local communities, such as home dispensing. Home dispensing sales were strong, rising 7.4% YoY, and the ratio for the numbers of pharmacies that provide home dispensing services also increased from 91.2% to 94.3%. The number of prescriptions issued from medical institutions other than the main medical institutions at each pharmacy also grew 11.7% YoY and the ratio of these prescriptions among overall prescriptions rose to 14.6%. Additionally, the generics use ratio rose slightly from 82.1% for the same period of the previous fiscal year to 82.2%, exceeding the target level of 80% set by the Ministry of Health, Labour and Welfare.

Business trends

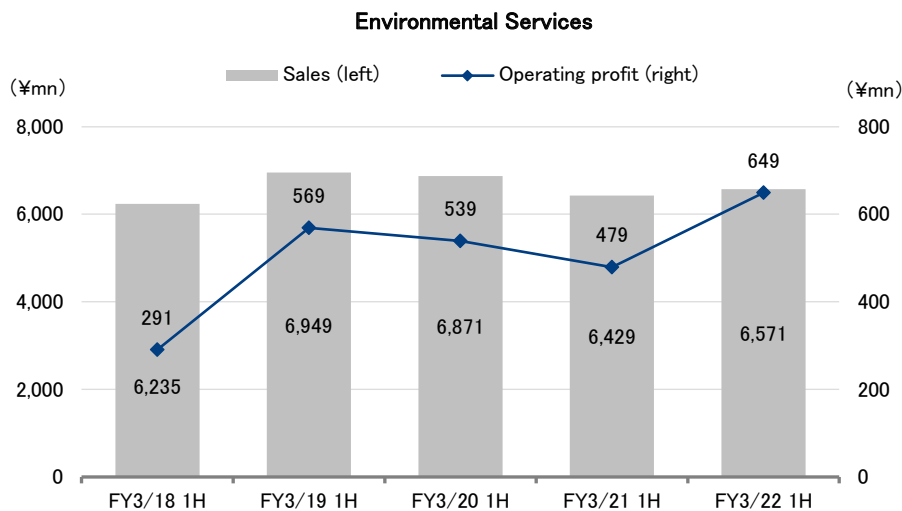
Looking at the factors that affected operating profit, an increase in labor costs and store expenses was the main factor behind a ¥275mn decrease in profit, but an increase in technology fee sales was the main factor behind a ¥378mn increase in profit, and an increase in drug fee sales among other factors caused a ¥71mn increase in profit. As of the end of September 2021, the number of pharmacies had increased by three compared to the end of the previous fiscal year to 141 pharmacies (five new openings and two closures). Among these, the number of on-site pharmacies increased by four, resulting in nine pharmacies in total.

**(3) Environmental Services**

In Environmental Services, sales rose 2.2% YoY to ¥6,571mn and operating profit rose 35.6% to ¥649mn, resulting in a new record high for operating profit. In the LEASEKIN business, although the situation for clients such as restaurants continued to worsen due to COVID-19, sales of toilet-peripheral products grew steadily, rising 5.3% YoY, and the Company also focused on developing products that meet the needs of a society tackling COVID-19, such as disinfectant and non-contact products, resulting in increases in both sales and profits.

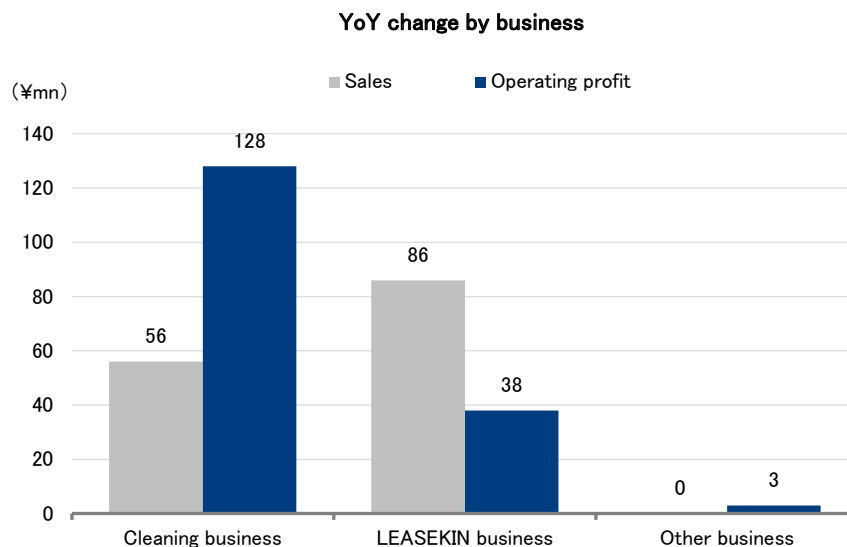
In the cleaning business, growing need for anti-infection measures led to strong sales of high-added-value hospital cleaning services, which rose 16.1% YoY. This helped to drive an increase in sales. In profits, the effects of this sales increase, together with the effects of efforts to raise productivity, such as the manualization of work, led to a large increase in profits. Hospitals also continued to introduce Halofogger®, which is an environmental surface sterilization system dedicated device, as a measure to prevent COVID-19 infections, and the number of rented devices grew steadily by 1.5 times YoY.

\* Halofogger® is a system that automatically disperses a mist of chemicals with a strong disinfectant effect and effectively disinfects rooms in the remotest corners that cannot be reached by people. At medical facilities, where in-facility cluster infections were confirmed, all areas within the facilities were disinfected with Halofogger, which contributed to the early resumption of outpatient consultations.



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

## Business trends



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

## The financial condition remains healthy

### 3. Financial position and management indicators

Looking at the financial condition at the end of FY3/22 1H, total assets were up ¥356mn YoY to ¥102,537mn. The main change factors were that, in current assets, cash and deposits decreased ¥871mn and securities increased ¥207mn. Also, in fixed assets, tangible fixed assets decreased ¥430mn, while investment securities increased ¥623mn.

Total liabilities decreased by ¥1,193mn from the end of FY3/21 to ¥27,108mn. This is due to decreases of ¥385mn in notes and accounts payable, ¥211mn in long-term borrowings, ¥171mn in accounts payable, and ¥118mn in income taxes payable. Also, total net assets increased ¥1,550mn to ¥75,428mn. This was because although dividend payments of ¥533mn and the acquisition of treasury shares of ¥624mn were decrease factors, the Company recorded ¥2,799mn in net profit attributable to the owners of the parent.

In management indicators, the equity ratio improved by 1.3 percentage points from 71.8% at the end of FY3/21 to 73.1% and the interest-bearing debt ratio was down by 0.4 percentage points. Despite net cash (cash and deposits + securities - interest-bearing debt) decreased ¥425mn to ¥32,201mn, the Company's financial condition can be judged to be continually sound.

## Business trends

## Consolidated balance sheet

	End of FY3/19	End of FY3/20	End of FY3/21	End of FY3/22 1H	Change
	(¥mn)				
Current assets	53,309	55,657	58,769	58,332	-437
(Cash and deposits)	30,429	32,202	35,148	34,276	-871
Fixed assets	42,322	41,374	43,411	44,205	793
(Tangible fixed assets)	31,121	30,730	30,209	29,779	-430
(Intangible fixed assets)	1,082	1,303	1,517	1,446	-71
(Investments and other assets)	10,118	9,340	11,684	12,979	1,295
Total assets	95,631	97,031	102,180	102,537	356
Total liabilities	29,555	28,210	28,302	27,108	-1,193
(Interest-bearing debt)	4,763	4,176	3,876	3,635	-241
Total net assets	66,076	68,821	73,878	75,428	1,550
(Stability)					
Equity ratio	68.7%	70.5%	71.8%	73.1%	1.3pt
Interest-bearing debt ratio	7.3%	6.1%	5.3%	4.9%	-0.4pt
Net cash	25,730	28,411	31,365	30,940	-425

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

## Outlook

### Forecasts for FY3/22 remain the same as initial forecasts but there is room to exceed these

#### 1. FY3/22 forecasts

For the FY3/22 consolidated results, the Company maintains its initial forecast for an increase in sales by 4.4% YoY to ¥123,160mn, a rise in operating profit by 6.0% to ¥7,732mn, 0.2% growth of recurring profit to ¥8,067mn, and a decrease in net profit attributable to the owners of the parent by 3.0% to ¥5,315mn. The rate of progress on these forecasts as of the end of 2Q was 48.9% for sales and 49.5% for operating profit. This is a slight improvement on the rate for profit in the average rate of progress for the full-year results of the last five years (sales: 49.5%, operating profit: 47.3%). Therefore, at FISCO, we think there is potential for profits to exceed forecasts as long as there are no serious negative effects on business activities, such as another declaration of a state of emergency. Recurring profit is expected to increase only slightly YoY due to a reduction of non-operating income and expenses (a decrease in subsidy income), while net profit attributable to the owners of the parent is expected to decrease slightly because of an increase in tax costs.

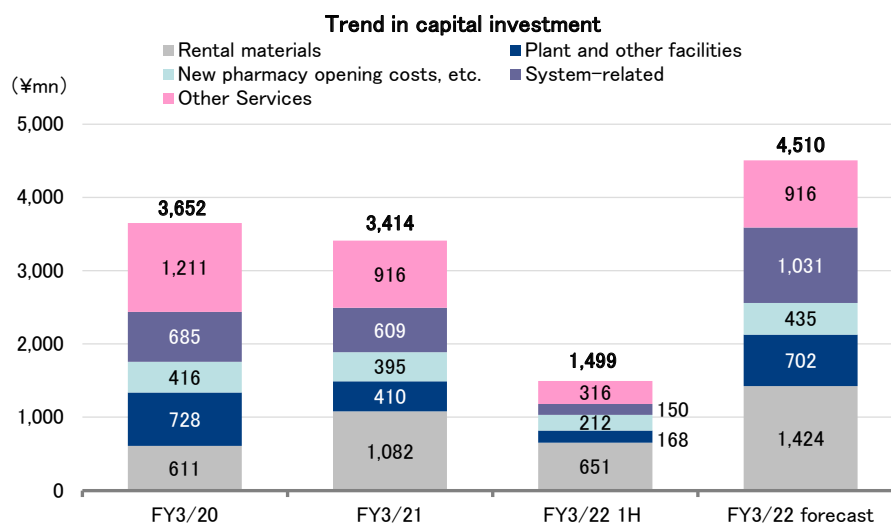
## Outlook

**Consolidated outlook for FY3/22**

	FY3/21		FY3/22			Average rate of progress in the last 5 years
	Results	YoY	Forecasts	YoY	1H progress rate	
Sales	118,009	-2.3%	123,160	4.4%	48.9%	49.5%
Operating profit	7,294	-7.8%	7,732	6.0%	49.5%	47.3%
Recurring profit	8,050	-1.6%	8,067	0.2%	52.7%	47.0%
Net profit attributable to the owners of the parent	5,481	4.3%	5,315	-3.0%	52.7%	45.9%
EPS (¥)	153.96		150.97			

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

In FY3/22, the Company plans to increase capital investment ¥1,096mn YoY to ¥4,510mn, mainly through expenditure on elderly care equipment rental materials and system-related investment. However, investments related to systems, as well as plant and other facilities, have been somewhat delayed, so at FISCO, we think it is possible that capital investment will fall slightly below forecasts. System-related investment planned by the Company for FY3/22 includes responding to remote work (replacing terminals, strengthening security, etc.), as well as the digitalization of workflows in SILVER Services and systems upgrades in the LEASEKIN business. Alongside the growth of capital investment, the forecast is for depreciation costs to increase ¥585mn YoY to ¥4,139mn (results for FY3/22 1H show an increase of ¥146mn YoY to 1,870mn) but there may actually be a slight decrease compared to forecasts due to delays to investments.



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

## Outlook

## Forecasts are for increases in sales and profits in Healthcare Services and Pharmacy Services, and profits in Environmental Services may exceed forecasts

### 2. Outlook by business

#### Results outlook by business

(¥mn)						
Sales by business	FY3/19	FY3/20	FY3/21	FY3/22 forecasts	YoY	1H progress rate
Healthcare Services	60,529	61,953	60,631	63,571	4.8%	48.9%
Pharmacy Services	41,817	45,053	44,098	46,183	4.7%	48.7%
Environmental Services	13,791	13,596	13,072	13,219	1.1%	49.7%
Other Services	211	206	206	186	-9.7%	49.5%
<b>Total</b>	<b>116,349</b>	<b>120,809</b>	<b>118,009</b>	<b>123,160</b>	<b>4.4%</b>	<b>48.9%</b>

Operating profit by business	FY3/19	FY3/20	FY3/21	FY3/22 forecast	YoY	1H progress rate
Healthcare Services	5,744	6,074	5,403	6,042	11.8%	47.2%
Pharmacy Services	2,493	2,917	3,006	3,116	3.7%	45.8%
Environmental Services	955	967	944	896	-5.0%	72.4%
Other Services	35	29	31	-5	-	-
Elimination of internal transactions	-1,916	-2,081	-2,091	-2,318	-	-
<b>Total</b>	<b>7,311</b>	<b>7,908</b>	<b>7,294</b>	<b>7,732</b>	<b>6.0%</b>	<b>49.5%</b>

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

#### (1) Healthcare Services

In Healthcare Services, the forecasts are for sales to increase 4.8% YoY to ¥63,571mn and operating profit to increase 11.8% to ¥6,042mn. For bedding and linen supply services, although sales will only recover to around 80% of the level in FY3/20, they are still forecast to increase by around 20% YoY. However, if hotel and Japanese inn occupancy rates fail to recover in the second half of the fiscal year, then there is a risk that results will be lower than forecast. For Hospital Services as well, sales of hospitalization sets and NEXSURG will continue to grow, and in addition, the steady growth in the number of linen supply contracted beds is expected to be maintained from new acquisitions of nursing facilities.

In SILVER Services, against the backdrop of an increase in people requiring nursing care, the outlook is that rental demand for elderly care equipment will continue to grow, and the Company is aiming to increase sales and profits while enhancing productivity through efforts such as digitalizing workflows. In the Food Supply business, signs are that the recovery trend in sales and profits will continue without change in 2H, while an upswing is also expected in the cleaning equipment manufacturing business.

The rate of progress on full-year forecasts as of the end of 2Q was 48.9% for sales and 47.2% for operating profit. This is roughly the same as the average rate of progress for the last five years (sales: 49.5%, operating profit: 46.9%), and as long as there are no major changes in the market environment, FISCO sees the Company's targets as achievable.

#### Outlook

Regarding the new business of iAide2, which is a wristband wearable device the Company is developing as a medical diagnostic device, the effects of COVID-19 appear to have somewhat delayed development. Initially, a joint clinical study with the Tokyo Medical and Dental University, Medical Hospital, and Shimizu Ward, Shizuoka City, to utilize iAide2 to detect asymptomatic atrial fibrillation was scheduled to begin in summer 2021 but the start date was moved to December 2021 due to the impact of COVID-19. If its efficacy is confirmed, the Company will aim to acquire pharmaceutical approval

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. Additionally, research with other academic partners into using the device to diagnose other conditions has begun, and future movement will be watched carefully.

#### (2) Pharmacy Services

In Pharmacy Services, the forecasts are for sales to increase 4.7% YoY to ¥46,183mn and operating profit to increase 3.7% to ¥3,116mn. The rate of progress on these forecasts as of the end of 2Q was 48.7% for sales and 45.8% for operating profit. This is roughly the same as the average rate of progress for the last five years (sales: 49.3%, operating profit: 45.8%).

In 2H, the Company plans to open six pharmacies (which includes one relocation and renewal). Five of these will be on-site pharmacies and among them, the pharmacy within the Central Japan International Medical Center, which is scheduled to be opened in January 2022, will be the Company's largest ever pharmacy and is expected to contribute to an increase in sales.

Sales are forecast to rise from the effect of the increased sales due to the new pharmacy openings, in addition to the recovery in the number of prescriptions at existing pharmacies and a rise in technical fees due to the increase in the number of pharmacies acquiring community support system incentives. Regarding profits, although there will be an increase in new pharmacy opening costs and labor costs, it is expected that these can be absorbed by an increase in profits from the effect of the increased sales and an increase in technical fee unit prices. Also, a Group subsidiary started a pharmacist referrals business in April 2021 which is expected to contribute to an increase in profits by eliminating fees for pharmacist dispatches, which were previously paid to external parties.

#### (3) Environmental Services

In Environmental Services, the forecasts are for sales to increase 1.1% YoY to ¥13,219mn and operating profit to fall 5.0% to ¥896mn. The rate of progress on these forecasts as of the end of 2Q was 49.7% for sales and 72.4% for operating profit. This rate for profit is high compared to the average rate of progress for the last five years (sales: 50.0%, operating profit: 61.3%).

For sales, the cleaning business to hospitals will continue to be strong in 2H and in the LEASEKIN business, sales are expected to further improve in 2H due to factors such as the restart of business at restaurants that had been restricting operations due to COVID-19. Furthermore, looking at profits, although 2H levels in the LEASEKIN business may fall slightly due to an anticipated increase in depreciation costs accompanying investment in systems, at FISCO, we think there is a strong possibility that profits will exceed the Company's forecasts due to the continued strong performance of the cleaning business.



#### Outlook

In October 2020, the Company announced a business partnership with Hakuyosha Company, Ltd. <9731> for a dust control business. However, with the aims of rationalizing and further growing this field, the Company acquired 90% of the shares and made a subsidiary of Rentex Co., Ltd. in October 2021. Rentex had been established by Hakuyosha Company, Ltd. through a business split in July 2021. The company has a sales scale of around ¥1.7bn and at present it is being treated as outside the scope of consolidation. Going forward, the Company's policy is to enhance profitability by targeting Rentex customers for the horizontal development of the toilet-peripheral products the Company is focusing on and improving delivery efficiency. Rentex also has many large account customers, such as hotels and plants and it is expected that the synergies produced by this will grow the LEASEKIN business.

## ■ Medium-term management plan

### Targeting sales of ¥140bn and operating profit of ¥9.5bn for FY3/25

#### 1. Summary 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 continues to aim 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.

The Company has set forth the following three goals as medium- to long-term visions that serve as the conditions of its medium-term management plan.

- Contribute to the reduction of waste and the realization of a recycling-based society through the rental business, a core area since its founding
- Contribute to the sound development of the medical care and nursing care areas in a super-aging society
- Aim to be a company infused with smiles and appreciation among all Group employees

Also, the Company has set "To enter a new stage in which sustainable growth can be realized, 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 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 medical care and nursing care services that support the societal infrastructure (Hospital Services, Food Supply, SILVER Services, pharmacy business, and cleaning business)
- Strengthen the existing core businesses and improve share in regions (Hospital Services, SILVER Services, 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

Medium-term management plan

**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 actively recruit 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 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 SILVER Services 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
- A corporate culture in which employees can continue to work with motivation and pride

**(2) Business strategies**

Based on the basic policies, 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. It is also aiming to differentiate hospitalization sets and NEXSURG from the products of competitors, 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.

For SILVER Services, the Company’s policy is to continue to actively invest management resources with the aim of being “No.1 in Japan for direct rental sales.” It is working to increase share in regions by improving the speed of service provision through reforming logistics and promoting digitalization, and also by training human resources with advanced expertise who have the skills to propose elderly care equipment to people who require nursing care when it is needed. Also, in cities where the elderly population is forecast to increase in the future, its policy is to actively work on conducting M&A in order to increase its share.

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.).

Medium-term management plan

### b) Pharmacy Services

In Pharmacy Services, the aim is to have “family pharmacies that are No.1 in local communities” that are highly specialized and that contribute 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 coordination between multiple jobs. It is also aiming to establish a good balance in terms of pharmacy formats, including on-site pharmacies, pharmacies within medical care malls, and pharmacies specializing in home services. In addition, it will utilize the expertise in advanced pharmacy management it has accumulated up to the present time to respond to prescriptions at core hospitals, with the aim of supporting the maintenance and promotion of health among the residents of local communities while possessing advanced expertise. Moreover, it is working on reforming work through DX and developing services that will contribute to improving convenience for patients.

### c) Environmental Services

In Environmental Services, the Company is further bolstering its strength of being a “sanitation management professional” and working on changing to a business structure that can sustain growth. In the LEASEKIN business, it is focusing on increasing sales of and developing products that meet sanitation management needs, centered on toilet-peripheral products, and increasing the percentage of total sales provided by these products.

For 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 by proposing the new environmental surface sterilization system. It intends to improve profitability by increasing the ratio of sales for hospitals to total sales (the current ratio is around 70%).

### (3) Numerical management targets

The numerical management targets for FY3/25, the plan’s final fiscal year, are 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 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 forecasts	FY3/25 targets	CAGR*
Sales	118,009	123,160	140,000	4.4%
Healthcare Services	60,631	63,571	71,000	4.0%
Pharmacy Services	44,098	46,183	54,000	5.2%
Environmental Services	13,072	13,219	14,800	3.2%
Other Services	206	186	200	-
Operating profit	7,294	7,732	9,500	6.8%
Profit margin	6.2%	6.3%	6.8%	-

\*Four-year CAGR with FY3/21 as the first year

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

#### Medium-term management plan

Looking at sales CAGR by segment, the Pharmacy Services is the highest at 5.2%, followed by Healthcare Services and Environmental Services. The main factor behind the high growth rate of Pharmacy Services will be the openings of large on-site pharmacy in FY3/22. However, the profitability of on-site pharmacies is low compared to hospital-adjacent pharmacies, and it is difficult to determine how pharmaceutical dispensing fees will change going forward, so the assumption is that the profit margin will decline in comparison to FY3/21. Conversely, the profit margin is forecast to rise in Healthcare Services and Environmental Services, and therefore the outlook is that the total operating margin will rise from 6.2% in the previous fiscal year to 6.8% in FY3/25.

While only six months have passed since the start of the plan, our assessment at FISCO is that progress has generally been smooth in this early stage. In Healthcare Services, there has been solid growth for strategic products such as hospitalization sets and NEXSURG, and the Company has been steadily expanding its market share in SILVER Services through the acquisition of new users and M&As. In Pharmacy Services, sales are expected to grow in FY3/23 and beyond due to the opening of several new on-site pharmacies. Also, the profitability of Environmental Services can be expected to increase going forward due to rising profitability driven by strong sales of hospital cleaning services, as well as synergies created by M&As in the LEASEKIN business. Although COVID-19 will continue to be a risk factor in the future, at FISCO, we think that the numerical targets in the medium-term management plan are fully achievable provided there are no major changes in the market environment.

#### (4) The investment plan and returns to shareholders

In the next 4 years, the Company plans to invest ¥25bn. Of this amount, it is considered that around ¥22bn will be to construct a new plant, to purchase rental materials, and for capital investment including new pharmacy openings, while the remainder will be allocated to growth investment, such as for DX, M&As and new business development. For the new plant, the plan is to construct a hospital linen laundry plant in Moroyama (Saitama Prefecture), and also to construct an elderly care equipment rental maintenance center, with the aim of starting operations in April 2023. The Company purchased the site around five years ago, but the construction period has been delayed, due to soaring construction costs because of Olympics-related demand. It seems that through installing the latest equipment, it will be a plant considerate to the environment that realizes high energy efficiency and an improved waste water recycling rate. The plan is to transfer to it most of the functions of the Yokohama Plant, which is the laundry base in the Kanto area, and to utilize the Yokohama Plant for the existing NEXSURG's production functions and as a logistics base. If excluding the construction costs of the new plant, the annual capital investment will be around ¥3.5bn to ¥4bn, which is a level unchanged from the previous pace.

The Company's basic dividend policy continues to be to stably pay dividends in accordance with results. But it has changed the standard for returns to shareholders from the previous standard, of a total return ratio of 20%, to a dividend payout ratio of 25%. Based on the FY3/22 dividend forecast, in the next four years it will allocate around ¥6bn to shareholders, while its intention is also to consider acquiring treasury shares as appropriate, depending on the level of stock price.

Medium-term management plan

## Business model itself is in line with the approach for the SDGs, so engaging in business growth will lead to contributions to the SDGs

### 2. Initiatives for SDGs

The Company, whose original business was bedding rentals, has placed its business focus on rental businesses that contribute to reduction of waste and a recycling-based society from its establishment up to the present time. Therefore, many of the businesses it is currently focusing on are in line with the approach for SDGs, so it can be said that growing its business will also lead to contributions to the SDGs.

In particular, it has set quantitative targets for FY3/25 for the initiatives that will contribute to reducing the burden on the environment. For the theme of reducing waste, it has calculated the waste reduction effects of switching from disposable-type products to the Company's reusable products, and by FY3/25, it is targeting this effect amount to increase by 23% compared to FY3/21. Estimates based on FY3/21 results show that the rental mops provided by all LEASEKIN franchise chains contributed to reducing the waste produced by around 69 million disposable-type mops (mop waste volumes are based on the assumption that LEASEKIN customers have switched away from disposable-type products). Similarly, it is estimated that the use of NEXSURG gowns will lead to waste reduction effects equivalent to around one million disposable gowns made of non-woven fabrics, and that the use of rented electric beds for nursing care will lead to waste reduction effects equivalent to around 40,000 beds.

For reductions of CO<sub>2</sub> emissions as well, it will contribute through improving energy efficiency at the laundry plant and increasing the amount of energy generated by solar power generators installed within the Group. Moreover, with an aim of effectively using water resources, it is targeting raising the waste water recycling rate at the laundry plant from 10.2% in FY3/21 to 20% in FY3/25, and moreover to 40% in 2030.

Other than the above, the Company is contributing to the theme of extending people's healthy lives by expanding services, centered on SILVER Services and the pharmacy business. In addition, it is working to promote diversity management, particularly by enhancing support for childcare and improving the percentage of women in management positions.

#### Initiatives for SDGs and targets for FY3/25

Description of initiatives		Quantitative targets
<b>Waste reduction</b>	Reduce waste through increasing sales of rental products	Waste reduction effect <sup>*1</sup> 7,500 tons (+23.0% compared to FY20)
<b>Reduce CO<sub>2</sub> emissions</b>	Reduce CO <sub>2</sub> emissions by improving the energy consumption rate at the laundry plant, and create clean energy through solar power generation	Fuel consumption rate <sup>*2</sup> 137.5 liters / ton (-12.1% compared to FY13) Solar power generation <sup>*3</sup> 11,125,000 kWh (+5.7% compared to FY20)
<b>Effective use of water resources</b>	Reduce the amount of water resources consumed at the laundry plant by recycling laundry waste water	Waste water recycling rate <sup>*4</sup> 20% (+9.8pt compared to FY20) →Reduce water consumed by approx. 239,000 tons
<b>Extending people's health lives</b>	Support the independence of the elderly through rentals of elderly care equipment, which will lead to the extension of their healthy lives 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.	
<b>Promote diversity management</b>	Strive to create workplaces in which everyone can flourish by responding to diverse workstyles, particularly to support childcare Increase the percentage of women in managerial positions, which will lead to the creation of an organization that utilizes diversity Create workplaces in which people with disabilities can easily work and secure employment opportunities for them	

<sup>\*1</sup> For products that are mainly disposable products, the estimates were calculated on considering the contribution to reducing waste through increasing the sales of the Company's reusable products.

<sup>\*2</sup> The amount of fuel (gas, heavy oil, etc.) needed to produce 1 ton of laundry was converted to crude oil

<sup>\*3</sup> The total power generated through power generation facilities on the roofs of plants, etc., and at Group companies

<sup>\*4</sup> Waste water recycling rate = amount of waste water recycled ÷ total amount of waste water ×100

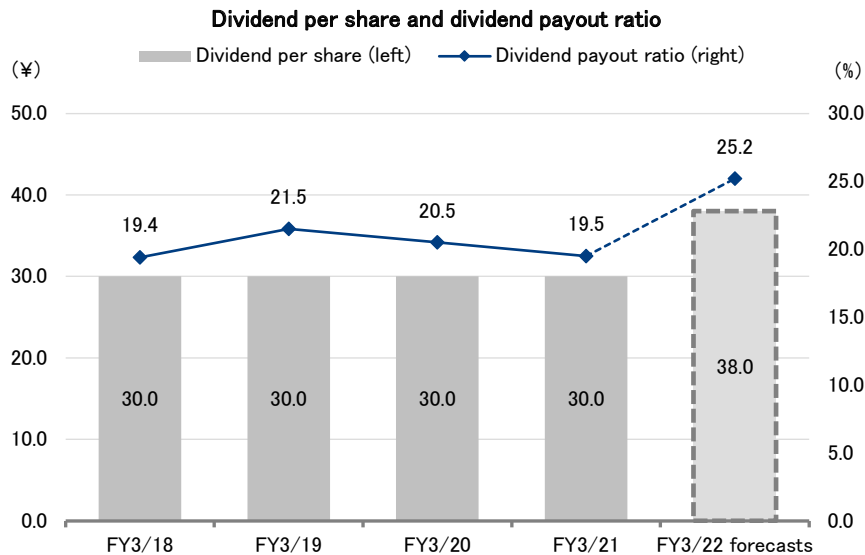
Source: Prepared by FISCO from the Company's results briefing materials

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## Shareholder return policy

### Stably and continuously pays dividends, targeting a dividend payout ratio of 25%

For its shareholder return policy, the Company has changed its standard for returns to shareholders from FY3/22. The new policy is to stably and continuously pays dividends in line with business results, targeting a dividend payout ratio of 25%. Based on this policy, in FY3/22 it plans to increase the dividend per share by ¥8.0 YoY to ¥38.0 (dividend payout ratio, 25.2%), which will be the first increase in four periods. Going forward, it can be expected to increase dividends if the dividend payout ratio falls below 25% due to profit growth. Additionally, although the standard for shareholder return has been changed from the total return ratio to the dividend payout ratio, the Company will consider the acquisition of treasury shares as appropriate based on share price levels.



Note: Dividend values for FY3/18 have been converted to reflect a 1-to-2 stock split conducted on January 1, 2018.  
 Source: Prepared by FISCO from the Company's financial results and results briefing materials

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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: [support@fisco.co.jp](mailto:support@fisco.co.jp)