ELAN | 6099 (TSE Prime)

Company Report

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Strategy Advisors Co., Ltd.
Hiroyuki Sakaida
Yoshifumi Kato

H1 Results Exceeded Slightly, but Full-Year Guidance Left Unchanged; Gross Margin Outlook Key from Q3

ELAN's interim results for FY12/26 (hereinafter "H1") showed increases in both sales and operating profit, primarily due to an increase in the number of contracted facilities under CS set contracts. The results slightly exceeded the H1 plan and indicated steady progress toward the full-year forecast. Sales rose 10.0% YoY to ¥29,525 million, while operating profit increased 28.3% YoY to ¥2,641 million. The number of contracted facilities expanded by 9.3% compared to the end of the same period last year, reaching 2,942, with ongoing sales activities supporting this growth. On the profit front, in addition to revenue growth, the change in the depreciation method for "lifte" from a lump-sum write-off to a 3-year depreciation period contributed to the results; when treating "lifte" depreciation as a lump-sum write-off as in the past, the domestic gross profit margin improved slightly in the Q2 compared to the same period last year. The full-year corporate forecast remains unchanged at ¥60,800 million in sales and ¥5,000 million in operating profit, and the full-year dividend forecast also remains unchanged at 16 yen. In the second half of the fiscal year, attention will focus on gross profit margin trends resulting from the negative impact of rising oil prices—expected to materialize from the Q3 onward—and the positive impact of product price increases. Although rising crude oil prices are expected to drive up procurement costs starting in the H2 FY12/26, the company has already implemented product price increases for some customers. While negotiations with all customers will take some time, we will be looking closely for the gradual improvement in gross profit margins.

The cancellation rate, which we have been monitoring for some time, had been declining since peaking at 4.0% in Q1 FY12/25; however, it rebounded to 3.5% in Q1 of FY12/26 and rose to 3.9% in Q2 of the same fiscal year. While the closure of some facilities is having an impact, we will monitor the situation starting in Q3—when price passthroughs begin in earnest—to determine whether the increase in Q2 falls within the range of temporary fluctuations.

Regarding strategic products, the number of facilities adopting "lifte" expanded to 549, bringing the adoption rate to 18.7%, while "Smile Wear" for nursing care facilities also grew to 112 facilities, with an adoption rate of 3.8%. The overseas business remains in a stage of consolidating its foundation rather than pursuing further growth, with expansion expected starting on FY12/28.

Stock Price and Trading Volume (Past 1 Year)

Source: Strategy Advisors.

Key Indicators

Stock Price (8/26/26)	760
52-Week High (8/27/25)	840
52-Week Low (1/29/26)	665
All-Time High (1/25/21)	1,662
All-Time Low (3/29/16)	117
Shares Issued (mn)	60.5
Market Capitalization (¥bn)	46.0
EV (¥bn)	41.4
Equity Ratio (FY12/25 Actual, %)	55.1
ROE (FY12/25, %)	20.5
PER (FY12/26 CoE, x)	14.4
PBR (FY12/25 Actual, x)	3.2
Yield (FY12/26 CoE, %)	2.1

Source: Strategy Advisors.

Although the stock price initially fell immediately after the earnings announcement due to market trends that saw concentrated buying of semiconductor-related stocks and others, there are no major negative factors affecting the company's performance. While the current PER is lower than the market average, it could prompt a reassessment of the valuation if the benefits of the partnership with M3 materialize or if the new mid-term plan's target ROE of 25% is achieved.

Japanese GAAP - Consolidated

FY	Sales (¥mn)	YoY (%)	OP (¥mn)	YoY (%)	RP (¥mn)	YoY (%)	NP (¥mn)	YoY (%)	EPS (¥)	DPS (¥)
12/25 H1	26,840	17.5	2,059	6.7	2,032	4.3	1,367	3.2	22.6	-
12/26 H1	**29,525**	**10.0**	**2,641**	**28.3**	**2,591**	**27.5**	**1,738**	**27.1**	**28.7**	**-**
12/22	36,264	14.6	3,391	21.2	3,411	21.1	2,082	9.3	34.4	11.0
12/23	41,425	14.2	3,665	8.1	3,681	7.9	2,518	20.9	41.6	13.0
12/24	47,513	14.7	3,575	-2.5	3,542	-3.8	2,354	-6.5	38.9	13.0
12/25	55,448	16.7	4,272	19.5	4,184	18.1	2,767	17.5	45.8	15.0
12/26 CoE	60,800	9.7	5,000	17.0	5,000	19.5	3,200	15.6	52.8	16.0

Note: Net profit refers to net profit attributable to owners of parent.
Source: Company data, compiled by Strategy Advisors.

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1. Financial Results & Key KPI Trends

1) H1 FY12/26 Results Overview

Sales and Profit Increased

ELAN ("the Company") reported the following financial results for the H1 FY12/26: sales of ¥29,525 million (+10.0% YoY), gross profit of ¥6,682 million (+15.9% YoY), operating profit of ¥2,641 million (+28.3% YoY), ordinary profit of ¥2,591 million (+27.5% YoY), and interim net income attributable to owners of the parent of ¥1,738 million (+27.1% YoY), marking a period of both revenue and profit growth. The H1 results exceeded plans, representing 52.8% of the full-year operating profit forecast and 51.8% of the full-year ordinary profit forecast.

The primary factor behind the revenue growth was the number of contracted facilities with CS Set contracts at the end of H1, which reached 2,942—a 9.3% increase compared to the same period last year. The main factors contributing to the increase in operating profit were the rise in sales, as well as an improvement in the gross profit margin resulting from changing the depreciation method for "lifte" (original patient wear) from lump-sum depreciation to a three-year depreciation period.

Furthermore, the reasons for the operating profit exceeding the H1 plan (initial forecast: ¥2,400 million; actual: ¥2,641 million) were higher-than-expected sales and SG&A expenses that came in below plan.

2) FY12/26 Full-Year Forecast

FY12/26 Full-Year Forecast Maintains Outlook for Increased Revenue and Profit

Although first-half results exceeded the plan, the impact of rising costs from Q3 onward remains uncertain; therefore, the FY12/26 Full-Year Forecast has not been revised from the initial forecast. The initial forecast calls for sales of ¥60,800 million (+9.7% YoY), operating profit of ¥5,000 million (+17.0% YoY), ordinary profit of ¥5,000 million (+19.5% YoY), and net profit of ¥3,200 million (+15.6% YoY).The dividend forecast also remains unchanged at 16 yen for the Q4 year-end dividend.

Starting with FY12/26, the Depreciation Method for Lifte Will Be Changed to Reflect Actual Conditions

Regarding lifte, for which initial costs were recognized in a lump sum during the implementation phase through FY12/25, it has been confirmed through on-site verification that more than 3 years have passed since implementation and that lifte-specific clothing has a usable life of at least three years; therefore, starting with FY12/26, the costs can be amortized over three years. As a result, the distortion in profits caused by the one-time costs associated with the "lifte" implementation will be eliminated, and the operating profit margin for FY12/26 is expected to rise to 8.2% (compared to 7.7% for FY12/25).

Figure 1. ELAN: Summary of Financial Results for H1 FY12/26 (¥mn)

FY	H1 12/25	**H1 12/26 (A)**	YoY	Progress Rate (A)/(B)	12/26 CoE (B)	YoY
Net Sales	26,840	**29,525**	10.0%	48.6%	60,800	9.7%
Operating Profit	2,059	**2,641**	28.3%	52.8%	5,000	17.0%
Ordinary Profit	2,032	**2,591**	27.5%	51.8%	5,000	19.5%
Profit Attributable to Owners of Parent	1,367	**1,738**	27.1%	54.3%	3,200	15.6%

Source: Company data, compiled by Strategy Advisors

Although the Cancellation Rate Has Risen Due to Hospital Closures and Consolidations, the Company Is Working to Prevent Cancellations Through Synergies with M3

As of the end of the H1 FY12/26, the number of contracted facilities stood at 2,942, representing a net increase of 251 (+9.3%) compared to one year earlier (end of the H1 FY12/25), continuing the company's projected annual growth rate of approximately 10%.

The cancellation rate had been declining from the Q2 through the Q4 FY12/25, but upon entering FY12/26, it showed a slight upward trend, reaching 3.5% in the Q1 and 3.9% in Q2. To address the lack of communication with contracted facilities caused by a decrease in customer visits following the outbreak of COVID-19, the company continues to strengthen communication through proactive facility visits; however, hospital closures and consolidations are driving up the cancellation rate. As for whether the increase in Q2 falls within the range of temporary fluctuations, we will monitor the situation starting in Q3, when price pass-throughs are expected to take full effect.

The company plans to continue pursuing additional churn prevention effects by leveraging synergies with its parent company, M3 (2413 TSE Prime). Specifically, by promoting the simultaneous introduction of M3's hospital support services and the company's CS Set (Care Support Set, a service that rents clothing and other items necessary for hospital stays at a fixed daily rate), the company expects that customers will appreciate the convenience and be less likely to cancel their contracts in the future.

Figure 2. Changes in the Number of Contracted Facilities by Area (Qtly)

(# of Contracts)	12/24				12/25				12/26	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total	2,360	2,439	2,503	2,570	2,589	2,691	2,761	2,830	2,856	2,942
Hokkaido	152	163	170	173	172	178	185	190	189	194
Tohoku	301	315	319	331	332	340	351	372	376	389
Kan-etsu	404	422	433	454	458	476	497	511	513	525
Chubu	432	437	444	445	450	460	464	484	487	503
Kansai/Hokuriku	447	464	481	503	502	526	557	554	554	573
Chugoku/Shikoku	435	442	450	451	455	472	457	465	464	466
Kyushu/Okinawa	189	196	206	213	220	239	250	254	273	292
Total Cancellation Rate	**3.2%**	**3.2%**	**3.1%**	**3.7%**	**4.0%**	**3.7%**	**3.5%**	**3.4%**	**3.5%**	**3.9%**

Source: Company data, compiled by Strategy Advisors

3) Impact from the Lifte Amortization Method Change Is Fading; Focus Shifts to Underlying Earnings Trends

Operating Profit Margin, Adjusted for Lifte Amortization Expenses, Declined Slightly; Attention Turns to Future Price Pass-Through

The domestic operating profit margin (adjusted for lifte amortization expenses) for the H1 FY12/26 was 9.3%, down from 9.9% in the H1 FY12/25. To eliminate seasonal fluctuations, the top-right graph in Figure 3 shows the 12-month moving average of the operating profit margin (adjusted for lifte amortization expenses). While the trend has remained largely flat since 2022, it appears to have declined slightly in the H1 of the current fiscal year. Starting in Q3, we will be watching closely to see how the balance between rising costs and price pass-through plays out.

The Change in the Depreciation Method for Lifte Will Make It Easier to Assess the Company's True Profitability Going Forward.

Due to the change in the depreciation method for the lifte system from lump-sum depreciation to a 3-year depreciation period, effective from Q1 FY12/26, depreciation expenses for the lifte system decreased from ¥170 million in Q4 FY12/25 to ¥43 million in H1 FY12/26. Since this was the first year of the change in the depreciation method, the lifte depreciation expense for the H1 FY12/26 was lower than the typical annual amount under the 3-year depreciation method. In Figure 3, it appears that for both the gross profit margin and the operating profit margin, the difference between the figures before and after adding back the lifte depreciation expenses has virtually disappeared for the H1 FY12/26.

Total annual depreciation expense for the lifte is estimated to decrease from approximately ¥1 billion in FY12/25 to about ¥300 million in FY12/26—one-third of the previous year's level. Although the impact of the change in depreciation method will continue through FY12/28, the lifte depreciation expense will become a minor factor in operating profit fluctuations; therefore, it is expected that it will become easier to assess the company's true profitability based on accounting operating profit—which does not include the lifte depreciation expense—moving forward.

Focus on the Improvement in the Gross Profit Margin of the Domestic Business, Taking into Account the Change in Depreciation Method

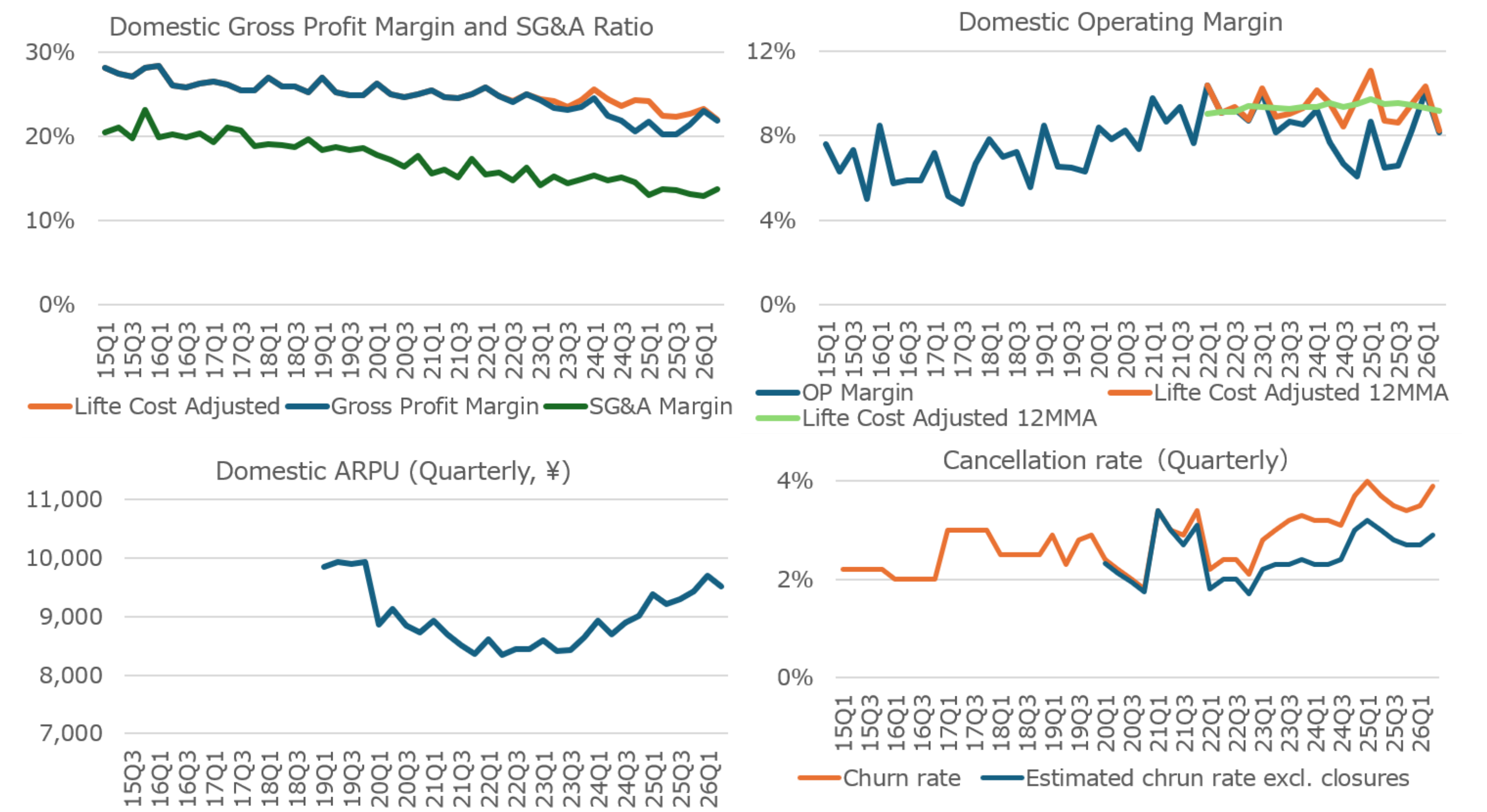
The gross profit margin for the domestic business stood at 22.4% in the first half of FY12/26, an improvement from 21.0% in the first half of FY12/25. However, according to the company's explanation, if lifte's amortization is assumed to have been calculated using the previous lump-sum method, the margin actually deteriorated slightly compared to the first half of FY12/25. On the other hand, when viewed on a quarterly basis, the gross profit margin for the domestic business improved from 20.2% in Q2 of FY12/25 to 21.9% in Q2 of FY12/26. Furthermore, the company states that even assuming the previous lump-sum depreciation method for "lifte," the gross profit margin for this Q2 improved YoY. It can be concluded that, over these three months, the domestic business's underlying profitability has improved, even when accounting for the change in the depreciation method.

The company's management views the decline in gross profit margin for the domestic business as a key issue and has established an internal framework to negotiate price pass-throughs. While the medium-term management plan documents state that the decline in gross profit margin will be curbed through "contract redesign and a review of procurement methods," it can be assessed that the effects of these measures are beginning to materialize to some extent.

The Upward Trend in Average Revenue Per User Continues.

The average revenue per domestic user rose significantly in Q1 compared to the previous quarter due to seasonal factors and then declined in Q2; however, we assess that the upward trend observed since 2022 continues to this day. The introduction of new products such as "lifte" and the increase in facilities for the elderly—where stays tend to be longer than in hospitals—are the primary drivers of the rise in revenue per user observed to date. Going forward, we will also monitor how selling prices are adjusted in response to rising costs.

Figure 3. Quarterly Trends in GPM, SG&A Ratio, OPM & User Price for the Domestic Business



Note: Lifte cost return OP is an estimate by Strategy Advisors
Source: Company data, compiled by Strategy Advisors

4) Trends in Strategic Products "Lifte" and "Smile Wear" and Initiatives in New Business Ventures

"lifte" Is Progressing as Planned, and Sales Expansion in the Pediatric Market Is Expected Going Forward

The number of facilities adopting the original "lifte" patient wear reached 549 at the end of H1, an increase of 44 facilities compared to the end of Q1, and the adoption rate rose to 18.7% (Figure 4). Although deliveries to hospitals and other facilities were slow in the first half due to concerns over rising prices, the company implemented a sales strategy focused on profitability and is on track with its plans. While the company will continue to prioritize profitability in its sales efforts in the second half, it plans to sell the newly launched pediatric version of "lifte" to pediatric specialty hospitals, and further expansion is expected.

The Adoption of Smile Wear, Which Serves the Long-Term Care Facility Market, Is Progressing Smoothly

Smile Wear, a new service for nursing care facilities that began nationwide rollout in Q2 of FY12/25, had been implemented in 112 facilities nationwide by the end of the first half, an increase of 38 facilities compared to the end of Q1. The adoption rate reached 3.8%, and the company assesses this as steady progress.

Smile Wear is a service that allows residents of nursing facilities to enjoy selecting clothing as if they were shopping from a variety of items—carefully curated by apparel professionals and hung on hangers within the facility—thereby enabling them to live a life where they wear clothes they truly want to wear. Because it lifts residents' spirits through fashion, the service is expected to improve their quality of life; it is also highly regarded by caregivers for reducing the burden of managing residents' personal belongings.

5) Status of the Collaboration with M3

The cumulative number of synergy cases realized with M3 stood at 116 as of the end of H1, with an increase of 9 cases in Q1 and 7 cases in Q2.Although the specific details of these synergies have not been disclosed, the introduction of M3's products is expected to offer benefits such as: 1) expanding sales opportunities to secure new clients through cross-selling to both companies' existing clients; and 2) contributing to the operational improvement of medical institutions and reducing the risk of contract termination by combining M3's products—which are difficult for competitors to replicate.

Figure 4. Percentage of Facilities with CS Set R/LC & Lifte Services (Qtly)

FY	12/24				12/25				26/12	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
CS Set R Contracted Facility Ratio	10%	11%	11%	11%	12%	13%	13%	13%	13%	13%
CS Set LC Contracted Facility Ratio	8%	8%	9%	9%	9%	10%	10%	10%	10%	11%
Lifte Introduced Facility Ratio	3%	5%	6%	10%	11%	14%	15%	17%	18%	19%
% of Facilities Using Smile wear	NA	NA	NA	0.3%	NA	0.9%	1.4%	2.3%	3.8%	3.8%
Number of synergy initiatives realized with M3	-	-	-	-	-	-	-	100	109	116

Source: Company data, compiled by Strategy Advisors

Figure 5. Trends in Sales, Gross Profit, Operating Profit, Introductory Costs (Estimated) & Lifte Cost Return Operating Profit (Estimated) (¥mn, Qtly)

FY	12/24				25/12				12/26	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales	11,486	11,358	12,002	12,667	13,433	13,407	13,899	14,709	14,762	14,763
(YoY)	16.5%	14.4%	12.7%	15.2%	17.0%	18.0%	15.8%	16.1%	9.9%	10.1%
Gross Profit	2,821	2,551	2,619	2,726	2,993	2,773	2,871	3,237	3,397	3,285
(Gross Profit Margin)	24.6%	22.5%	21.8%	21.5%	22.3%	20.7%	20.7%	22.0%	23.0%	22.3%
Operating Profit	1,059	872	800	847	1,182	877	983	1,230	1,441	1,200
(OP Margin)	9.2%	7.7%	6.7%	6.7%	8.8%	6.5%	7.1%	8.4%	9.8%	8.1%
# of Facilities with Lifte (Cumulative)	74	117	160	252	293	365	425	471	505	549
# of Facilities with Lifte	22	43	43	92	41	72	60	46	34	44
Lifte Introduction Costs (Estimated)	110	215	215	460	310	290	270	170	13	30
Lifte Cost Return Gross Profit	2,931	2,766	2,834	3,186	3,150	2,898	2,979	3,144	3,314	3,169
(Lifte Cost Return Gross Margin)	**25.5%**	**24.4%**	**23.6%**	**24.3%**	**24.1%**	**22.5%**	**22.3%**	**22.6%**	**23.2%**	**22.0%**
Lifte cost return Operating profit	1,169	1,087	1,015	1,307	1,444	1,126	1,153	1,318	1,464	1,201
(Lifte Cost Return Operating Margin)	**10.2%**	**9.6%**	**8.5%**	**9.8%**	**11.1%**	**8.7%**	**8.6%**	**9.5%**	**10.3%**	**8.2%**

Note: Lifte amortization expenses will be expensed immediately through Q4 2025 and will be amortized over 3 years starting in Q1 2026.
Source: Company data, compiled by Strategy Advisors

Figure 6. Performance Trends (¥mn, Qtly)

FY	12/24				12/25				12/26	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales	**11,486**	**11,358**	**12,003**	**12,666**	**13,433**	**13,407**	**13,899**	**14,709**	**14,762**	**14,763**
(YoY)	16.5%	14.4%	12.8%	15.2%	17.0%	18.0%	15.8%	16.1%	9.9%	10.1%
Cost of Sales	8,665	8,807	9,384	9,940	10,439	10,634	11,028	11,473	11,365	11,478
Gross Profit	**2,820**	**2,552**	**2,618**	**2,726**	**2,993**	**2,773**	**2,871**	**3,237**	**3,397**	**3,285**
(Gross Profit Margin)	24.6%	22.5%	21.8%	21.5%	22.3%	20.7%	20.7%	22.0%	23.0%	22.3%
SG&A Expenses	1,761	1,680	1,818	1,880	1,810	1,897	1,888	2,006	1,956	2,084
Operating Profit	**1,059**	**871**	**801**	**846**	**1,182**	**877**	**983**	**1,230**	**1,441**	**1,200**
(OP Margin)	9.2%	7.7%	6.7%	6.7%	8.8%	6.5%	7.1%	8.4%	9.8%	8.1%
Non- Operating Income/Expenses	6	12	-52	1	-7	-20	10	-71	-31	-20
Ordinary Profit	**1,065**	**883**	**749**	**847**	**1,175**	**857**	**993**	**1,159**	**1,410**	**1,181**
(Ordinary Profit Margin)	9.3%	7.8%	6.2%	6.7%	8.7%	6.4%	7.1%	7.9%	9.6%	8.0%
Extraordinary Income/Losses	0	0	0	0	0	0	0	0	0	0
Profit Before Income Taxes	**1,065**	**883**	**749**	**847**	**1,175**	**857**	**993**	**1,159**	**1,410**	**1,181**
Total Income Tax	338	285	242	325	372	281	317	385	470	388
(Corporate Tax Rate)	31.7%	32.3%	32.3%	38.4%	31.7%	32.8%	31.9%	33.2%	33.3%	32.9%
Profit Attributable to Owners of Parent	**726**	**599**	**507**	**522**	**800**	**567**	**655**	**745**	**949**	**789**
Net Profit Margin	6.3%	5.3%	4.2%	4.1%	6.0%	4.2%	4.7%	5.1%	6.4%	5.3%

Source: Strategy Advisors.

2. Impact of the Situation in the Middle East

The Impact of Soaring Crude Oil Prices Is Expected to Intensify Starting in July .

Regarding the Impact of the Situation in the Middle East, while the effects on linens, consumables, and disposable diapers were minimal through June, we expect the impact to become apparent for each category starting in July, with linens and disposable diapers being particularly hard hit (Figure 7).

Preparations Are Underway to Pass on Rising Costs

While there are concerns that rising production costs across these product categories could lead to deteriorating profitability, the company has been proactively negotiating price increases for its products. Although there are uncertainties, the company believes it can absorb the cost increases through higher product prices. We will continue to closely monitor trends in gross profit margins—excluding the impact of lifte amortization—starting in Q3 and beyond.

Figure 7. Impact of Rising Costs for FY2026

	Through Q2 (Jun)	Q3 (Jul) Onwards
Linen (clothing and towels)	Low	Moderate to High
Personal care items	Low	Moderate
Disposable diapers	Low	High

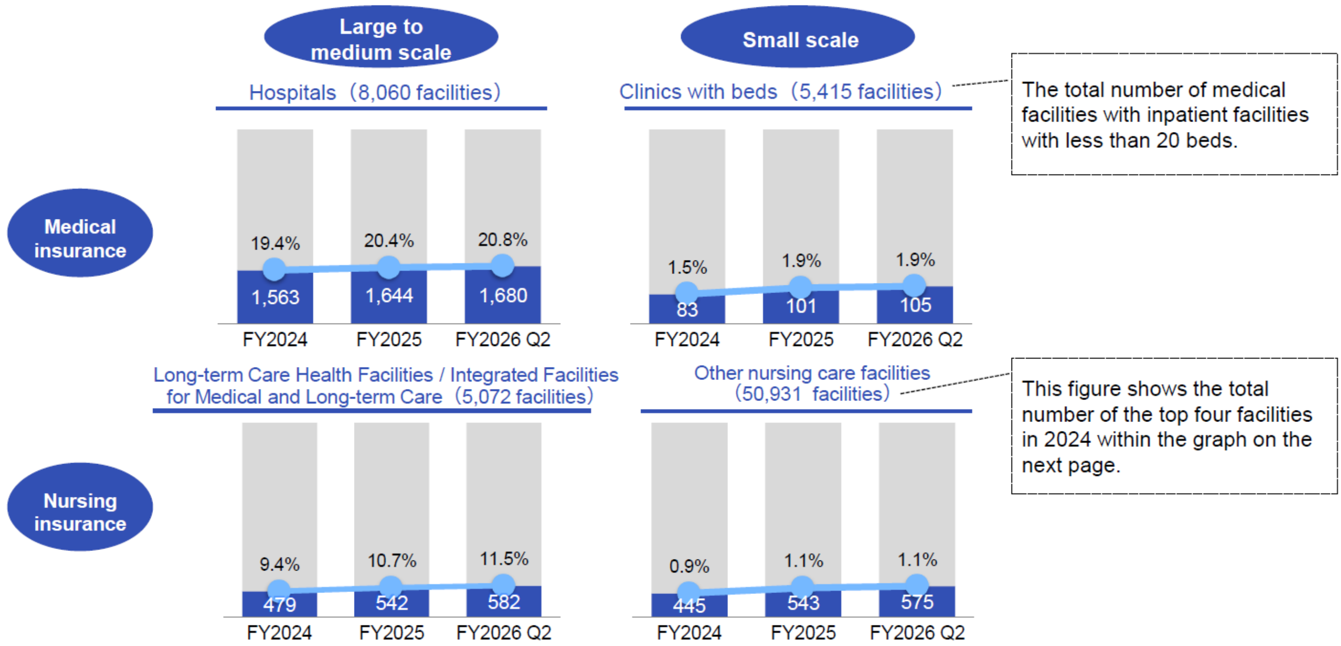
Source: Company Data

Market Penetration Is Progressing Steadily in All Markets, and Potential Demand Is Significant

The company categorizes its target markets as follows: in the medical sector, "hospitals (large to medium-sized)" and "clinics with inpatient beds (small-scale)"; and in the long-term care sector—on which it will focus going forward—"long-term care health facilities & medical care facilities for the elderly (large to medium-sized)" and "other long-term care facilities (small-scale)." It thus divides its markets into four segments based on type and scale (Figure 8). In terms of market penetration rates, the rate in the hospital market rose from 19.4% at the end of FY12/24 to 20.8% at the end of Q2 of FY12/26, while the rate for clinics with inpatient beds increased from 1.5% to 1.9% over the same period. In the long-term care market as well, the penetration rate rose from 9.4% to 11.5% for long-term care facilities for the elderly and medical care facilities, and from 0.9% to 1.1% for other long-term care facilities. In all four markets, there remains significant unmet demand.

Given that the company possesses highly competitive products—such as the CS Set, lifte, and Smile Wear—that cannot be easily replicated by competitors, and considering its steady annual growth in the number of facilities to which it supplies products, it is highly likely that the company will continue to sustainably grow sales in each market over the long term.

Figure 8. Facility Penetration Rates



Source: Company Data

3. Stock Prices and Valuations

1) Recent Stock Price Movements

The Stock Price Fell on the Business Day Following the Earnings Announcement, Partly Due to Market Movements

On the business day following the H1 earnings announcement (July 31)—August 3—the company’s stock closed at 741 yen, down 3.9% from the previous business day (the TOPIX fell 1.1% over the same period). The company reported that its H1 ordinary profit represented 51.8% of its full-year target. The full-year forecast remains unchanged, and it appears there were no specific factors related to business performance that should be viewed as particularly negative.

That said, if we were to identify potential factors behind the stock price decline immediately following the earnings announcement, they would likely be the following two points.

First, semiconductor-related stocks and the Nikkei 225 began to rise after bottoming out on July 29. The company’s stock price, viewed as a defensive stock, peaked on July 29 and then declined through August 3. The stock price decline on August 3—the business day following the earnings announcement—may not necessarily have been caused by factors specific to ELAN. Rather, the company’s stock price has risen slightly since August 3, and it can be assessed as having performed well as a defensive stock amid a rising Nikkei 225, which is heavily influenced by price movements in AI and semiconductor-related stocks.

Second, although H1 results exceeded forecasts, the full-year forecast remained unchanged. Looking at the stock's recovery since August 4, while this cannot be said to have been a major negative factor, it is possible that it had some impact in the short term.

2) The valuation premium that once existed has narrowed

From 2018 to 2022, The PBR Was High, at Around 10 x

As detailed in the FY12/25 Q2 Earnings Report, the company's valuation remained at a high level relative to its peers from 2018 through 2022. Initially, the rise in the stock price was likely supported by increased attention following the acquisition of ELTASK—a competitor operating in the Tohoku region (made a subsidiary in 2017 and absorbed via merger in 2020)—as well as subsequent profit growth driven by the consolidation of ELTASK's results. Subsequently, the stock price rose further in 2020 as the number of users of the CS set increased due to changes in hospital operations (such as visitation restrictions) caused by the COVID-19 pandemic, reaching an all-time high closing price of 1,662 yen on January 25, 2021. From 2018 to 2022, the company maintained a high valuation, with a PER ranging from 40 to 70 times and a P/B ratio of around 10 times.

The Current Valuation Does Not Reflect the High Premiums Seen in the Past

Since then, as expectations for growth have moderated, the stock price has gradually declined. While the PBR remains high at 3.2x compared to the stock market average, the PER stands at 14.4x, which is below the market average. Although the current stock price is supported by a high ROE (20.5% for FY12/25), it appears that the company has not yet reached a point where its PER commands a premium based on an attractive equity story.

3) Factors That Will Support Future Valuation Growth

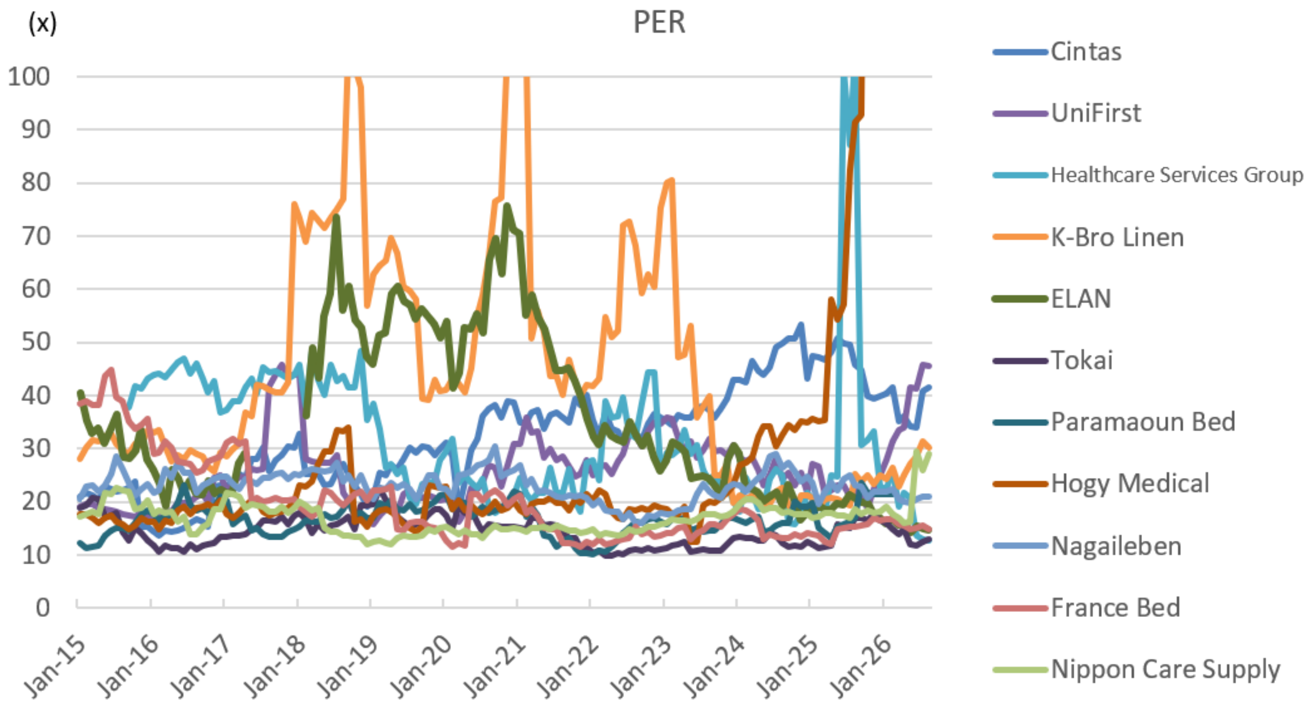
Benefits of the Partnership with M3, Appeal as a Platform Company, and Achievement of 25% ROE

Factors that will support future valuation growth include the further realization of benefits from the partnership with M3 and the potential for a revaluation as a platform company. Additionally, if the ROE rises to the 25% target set for FY12/25 under the new mid-term management plan—driven by profit growth resulting from the expansion of existing businesses and the accumulation of M&A and new business initiatives—this could also serve as a positive factor for valuation.

Price Pass-Through Using Differentiated Products in a Rising Cost Environment Is Also a Key Focus

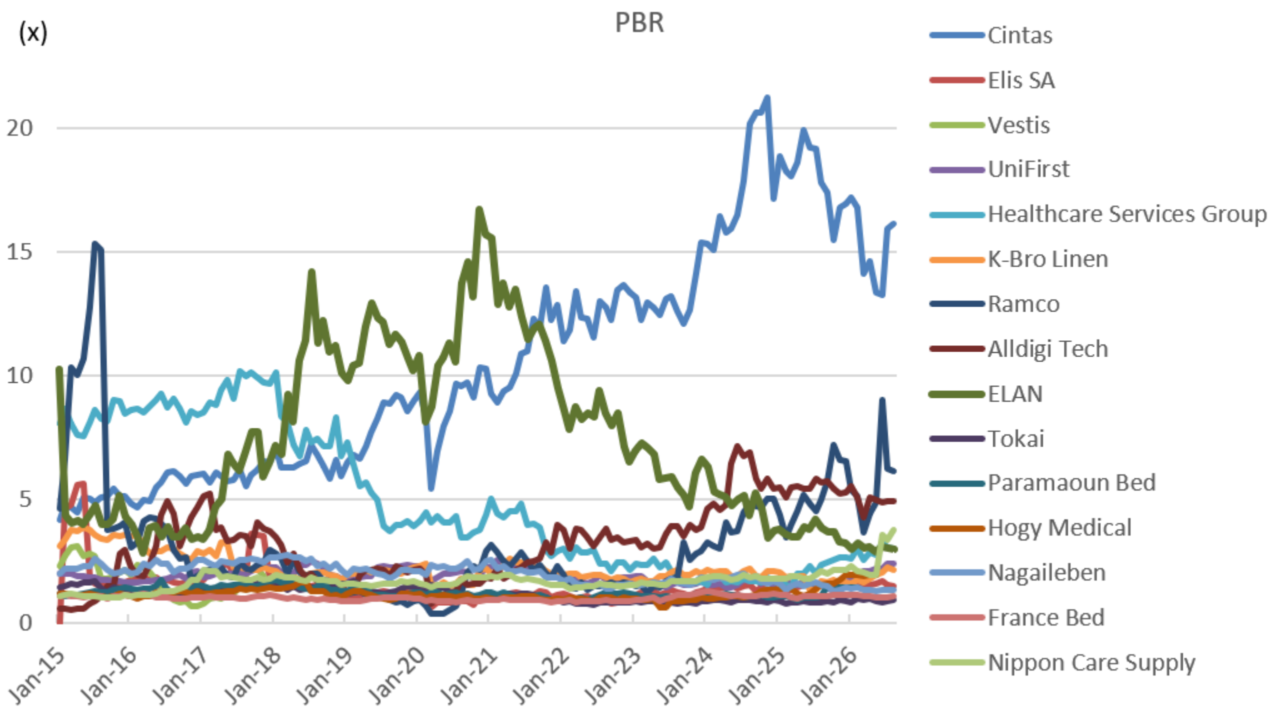
Progress in passing on cost increases amid rising costs is also a point of focus. It appears the company is currently negotiating price revisions with many customers. In the company's case, it has strategies beyond simply passing on cost increases, such as leveraging differentiated products like "lifte" and collaborating with M3 on sales efforts. If a stabilization in the gross profit margin or an improvement in the operating profit margin is observed, this could mark a turning point from past trends from the stock market's perspective, so we will be keeping a close eye on developments in the second half of the fiscal year.

Figure 9. PER Comparison



Note: Companies with a PER of 100 or higher are omitted
Source: Strategy Advisors.

Figure 10. PBR Comparison



Source: Strategy Advisors.

Figure 11. Consolidated Income Statement (¥mn)

FY	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	12/26 CoE
Net Sales	**18,585**	**21,518**	**26,056**	**31,635**	**36,264**	**41,425**	**47,513**	**55,448**	**60,800**
Domestic	18,585	21,518	26,056	31,635	36,264	41,425	47,244	53,214	
Overseas	-	-	-	-	-	-	269	2,234	
Cost of Sales	13,758	16,045	19,492	23,758	27,237	31,674	36,796	43,574	
Gross Profit	**4,827**	**5,473**	**6,563**	**7,876**	**9,027**	**9,751**	**10,716**	**11,874**	
Domestic	4,827	5,473	6,563	7,876	9,027	9,751	10,545	11,131	
Overseas	-	-	-	-	-	-	171	742	
(Gross Profit Margin)	26.0%	25.4%	25.2%	24.9%	24.9%	23.5%	22.6%	21.4%	
SG&A Expenses	3,548	3,980	4,495	5,078	5,635	6,085	7,139	7,601	
Operating Profit	**1,278**	**1,492**	**2,068**	**2,798**	**3,391**	**3,665**	**3,577**	**4,272**	**5,000**
Domestic	1,278	1,492	2,068	2,798	3,391	3,665	3,480	4,001	
Overseas	-	-	-	-	-	-	96	270	
(OP Margin)	6.9%	6.9%	7.9%	8.8%	9.4%	8.8%	7.5%	7.7%	8.2%
Non-Operating Income	4	13	82	25	27	32	51	117	
Gain on Sale of Assets	0	0	0	1	1	0	3	6	
Late Charges Income	-	6	16	15	13	11	10	13	
Consulting Fee Income	-	-	-	-	4	4	4	4	
Subsidy Income	1	2	0	3	1	6	5	8	
Non-Operating Expenses	0	4	2	5	7	16	84	205	
Loss on Retirement of Non-current Assets	0	4	0	1	2	3	3	3	
Loss on Investments in Investment Partnerships	-	-	-	3	4	4	18	45	
Ordinary Profit	**1,282**	**1,501**	**2,148**	**2,818**	**3,411**	**3,681**	**3,544**	**4,184**	**5,000**
(Ordinary Profit Margin)	6.9%	7.0%	8.2%	8.9%	9.4%	8.9%	7.5%	7.5%	8.2%
Extraordinary Profit/Loss	0	0	0	0	-376	0	0	0	
Gain on Step Acquisitions	0	0	0	0	0	0	0	0	
Loss on Valuation of Investment Securities	0	0	0	0	-376	0	0	0	
Profit before Income Taxes	1,282	1,501	2,148	2,818	3,035	3,681	3,544	4,184	
(Pre-Tax Profit Margin)	6.9%	7.0%	8.2%	8.9%	8.4%	8.9%	7.5%	7.5%	
Corporate Taxes	417	511	702	912	952	1,162	1,190	1,355	
Profit Attributable to Owners of Parent	**865**	**989**	**1,446**	**1,905**	**2,082**	**2,518**	**2,354**	**2,767**	**3,200**
(Net Profit Margin)	4.7%	4.6%	5.5%	6.0%	5.7%	6.1%	5.0%	5.0%	5.3%

Source: Company data, compiled by Strategy Advisors

Figure 12. Consolidated Balance Sheet (¥mn)

FY	12/18	12/19	Dec. 20	Dec. 21	12/22	12/23	12/24	12/25
Cash and Deposits	3,057	3,472	4,497	5,632	6,036	5,488	6,849	6,845
Trade Receivables	3,657	4,476	5,044	5,848	7,104	8,621	8,178	9,320
Inventory	594	766	995	1,080	1,331	1,899	2,292	2,966
Others	-317	-388	-357	-430	-396	-502	-447	-596
Current Assets	**6,992**	**8,327**	**10,180**	**12,129**	**14,075**	**15,506**	**16,872**	**18,535**
Land	114	114	114	114	269	269	269	269
Other Tangible Fixed Assets	188	197	202	227	292	270	306	1,117
Tangible Fixed Assets	**302**	**311**	**316**	**341**	**561**	**539**	**575**	**1,386**
Goodwill	127	87	48	9	0	0	427	1,078
Other Intangible Fixed Assets	111	108	114	96	92	108	585	1,104
Intangible Fixed Assets	**238**	**195**	**162**	**105**	**92**	**108**	**1,012**	**2,182**
Investments and Other Assets	**290**	**401**	**1,029**	**1,371**	**1,342**	**2,837**	**3,241**	**4,470**
Total Fixed Assets	**831**	**909**	**1,508**	**1,817**	**1,996**	**3,486**	**4,829**	**8,039**
Total Assets	**7,824**	**9,236**	**11,689**	**13,947**	**16,072**	**18,993**	**21,702**	**26,575**
Trade Payables	2,745	3,340	4,157	4,868	5,567	6,427	7,222	8,384
Accounts Payable and Accrued Expenses	368	397	563	616	622	699	783	971
Short-Term Borrowings	-	-	-	-	-	-	-	462
Unpaid Corporate Taxes, etc.	390	424	712	846	729	858	797	1,096
Current Liabilities	58	50	69	87	93	104	116	141
Current Liabilities	**3,561**	**4,211**	**5,501**	**6,417**	**7,011**	**8,088**	**8,918**	**11,054**
Long-Term Borrowings	-	-	-	-	-	-	76	365
Provision for Stock Benefits	-	-	-	13	20	27	38	44
Provision for Stock Benefits for Officers	-	-	-	31	49	62	60	27
Other Fixed Liabilities	0	4	3	3	1	1	108	222
Fixed Liabilities	**0**	**4**	**3**	**47**	**70**	**90**	**282**	**658**
Total Liabilities	**3,561**	**4,215**	**5,504**	**6,464**	**7,082**	**8,178**	**9,200**	**11,712**
Capital and Surplus	1,116	1,116	1,116	1,116	1,116	1,116	1,116	1,116
Retained Earnings	3,141	3,919	5,092	6,574	8,111	9,964	11,530	13,511
Treasury Stock	0	0	0	-197	-194	-194	-191	-163
Shareholders' Equity	**4,258**	**5,035**	**6,209**	**7,494**	**9,034**	**10,886**	**12,456**	**14,464**
Valuation Difference	-13	-14	-25	-10	-45	-72	45	-21
Non-controlling Interests	-	-	-	-	-	-	-	419
Stock Acquisition Rights	18	-	-	-	-	-	-	-
Total Net Assets	**4,262**	**5,021**	**6,184**	**7,483**	**8,989**	**10,814**	**12,501**	**14,862**
Liabilities & Net Assets	**7,824**	**9,236**	**11,689**	**13,947**	**16,072**	**18,993**	**21,702**	**26,575**

Source: Company data, compiled by Strategy Advisors

Figure 13. Consolidated Cash Flow Statement (¥mn)

FY	12/18	12/19	Dec. 20	Dec. 21	12/22	12/23	12/24	12/25
Profit Before Tax	1,282	1,501	2,148	2,818	3,035	3,681	3,542	4,184
Depreciation	99	110	117	119	143	187	919	1,348
Unrealized Gains & Losses on Securities & Investment Securities	0	0	0	0	376	8	0	0
Allowance for Doubtful Accounts	86	119	23	74	-43	102	70	242
Working Capital	60	-445	13	-162	-728	-1,069	1,151	-517
Corporate Tax Paid	-375	-559	-562	-916	-1,081	-1,098	-1,282	-1,215
Other Operating Cash Flows	39	53	208	173	-121	-31	100	243
Cash Flows from Operating Activities	**1,191**	**779**	**1,947**	**2,106**	**1,581**	**1,780**	**4,500**	**4,285**
Acquisition of Securities & Investment Securities	-67	-70	-550	-267	-210	-1,474	-353	-212
Acquisition of Tangible & Intangible Fixed Assets	-102	-71	-87	-78	-347	-194	-896	-1,137
Acquisition of Subsidiary Shares	-	-	-	-	-	-	-867	-1,082
Deposits	-7	-12	-14	-11	-68	9	-13	-57
Others	0	2	3	-1	1	-2	-104	-897
Cash Flows from Investing Activities	**-176**	**-151**	**-648**	**-357**	**-624**	**-1,661**	**-2,233**	**-3,385**
Issuance of Shares	15	0	0	0	3	0	0	0
Redemption & Cancellation of Shares	0	0	0	-196	0	0	0	0
Dividend Payment	-119	-211	-272	-415	-554	-665	-788	-787
Other Financial Cash flows	1	-1	-1	-3	-1	-2	-61	-119
Cash Flows from Financing Activities	**-103**	**-212**	**-273**	**-614**	**-552**	**-667**	**-849**	**-906**
Free Cash Flow	**1,015**	**627**	**1,300**	**1,748**	**956**	**120**	**2,266**	**900**

Source: Company data, compiled by Strategy Advisors

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Central Building 703, 1-27-8 Ginza, Chuo-Ku, Tokyo 104-0061, Japan