

## Highly Profitable Hospital Services Company that has Increased Sales & Profits for 17 Consecutive Years

Elan Corporation is a pioneer in the hospitalization set business, which rents clothing, towels, daily necessities and diapers necessary for hospitalization and in long-term care insurance facilities, etc. It is the industry leader with a market development rate of 15.0%, double that of the second-placed company. In FY12/2023, the company posted sales of ¥41.4bn (+14.2% YoY), operating profit of ¥3.7bn (+8.1% YoY), net income of ¥2.5bn (+20.9% YoY) and ROE of 25.4%, representing 17 consecutive years of growth in sales and profit.

The founder, Hideharu Sakurai, CEO, started out in the bedding door-to-door sales business and over the past 10 years has aggressively changed his business model to seize larger business opportunities, shifting to the bedding renovation business and then to the hospitalization set business. Behind this speed of business development, is Sakurai's conviction, gained through his racing experience, that "speed is the key to decision making."

The hospitalization set business created by Elan is an excellent business model that benefits all parties involved: it reduces the burden on family members and nurses by providing hospitalized patients with rental contracts for personal linen, etc., and provides an opportunity for linen suppliers, who already have business relationships with hospitals through the lease of bedding, etc., to expand their business by outsourcing the supply of personal linens to them. The equity story of Elan is to protect this superior business model by fending off price competition from latecomers by introducing new products that include insurance and guarantees; while continuing to challenge new business areas such as hospital-related linen companies and e-commerce platforms for hospitals in India and Vietnam, which are experiencing rapid growth.

Elan's PER, which was in the 40x range before the COVID-19 pandemic, reached over 60x due to the increase in demand caused by the pandemic and since then has continued to decline as the pandemic subsided. The company's profits have increased since prior to the COVID-19 pandemic and given its high ROE and dividend payout ratio, it appears to be undervalued.

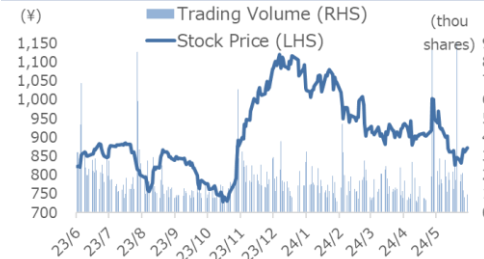
There are virtually no domestic companies involved in hospital-related linen services that are expanding internationally, including Tokai Corporation (TSE 9729) (most recent PER 13.3). Overseas companies such as Cintas Corp (NASDAQ CTAS) (PER 35.8) & UniFirst Corp (NYSE UNF) (PER 31.8) are operating internationally.

### Japanese GAAP - Consolidated

FY	Sales (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	RP (¥ mn)	YoY (%)	NP (¥ mn)	YoY (%)	EPS (¥)	DPS (¥)
FY12/2020	26,056	21.1	2,068	38.6	2,148	43.1	1,446	46.1	23.9	14.0
FY12/2021	31,636	21.4	2,799	35.3	2,819	31.2	1,906	31.8	31.5	9.0
FY12/2022	36,265	14.6	3,391	21.2	3,412	21.0	2,083	9.3	34.5	11.0
FY12/2023	41,426	14.2	3,665	8.1	3,682	7.9	2,519	20.9	41.7	13.0
FY12/2024 CoE	50,000	20.7	4,200	14.6	4,230	14.9	2,850	13.1	47.1	14.0

Source: Strategy Advisors, Based on Company Data.

### Share Price & Volumes (Past Year)



Source: Strategy Advisors

### Key Indicators

Stock Price (2024/6/12)	857
YTD High (1/3)	1,105
YTD Low (5/28)	827
52-Week High (23/12/17)	1,120
52-Week Low (23/10/25)	729
Shares Issued (mn)	60.6
Market Capitalization (¥ bn)	52.7
EV (¥ bn)	61.9
Equity Ratio (Actual, %)	56.9
ROE (23/12, %)	25.4
PER (24/12 Forecast, Times)	20.0
PBR (23/12 Actual, Times)	6.2
Yield (24/12 CoE, %)	1.4

Source: Strategy Advisors

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## Executive Summary

### **Pioneer in Hospitalization Set Services, 17 Consecutive Years of Sales and Profit Growth**

Elan Corporation is a pioneer in hospitalization set services, renting clothing, towels, daily necessities and diapers necessary for hospitalization (admission) in hospitals and long-term care insurance facilities. The company's name for this service is "CS Set" (\*derived from "care and support set" and reads ""CS Set""). The service has 428,000 users and 2,320 contracted facilities, for a market development rate of 15.0%, the highest in the industry (as of FY12/2023). The company's FY12/2023 results include sales of ¥41.4bn (+14.2% YoY), operating profit of ¥3.7bn (+8.1% YoY), net income of ¥2.5bn (+20.9% YoY), operating profit margin of 8.8%, ROE of 25.4% and PER of 26.8 for the latest fiscal year, marking 17 consecutive years of sales and profit growth.

### **Management to Seize Larger Business Opportunities with Speedy Decision Making Cultivated Through Racing Experience**

The founder, Hideharu Sakurai, CEO, started out in the bedding door-to-door sales business, which allowed him to have more flexible hours to become a motorcycle racer and over the past 10 years has become more independent; establishing Elan (1995), shifting to the bedding renovation business (1998) and then into the hospitalization set business (2003). This speed of business development is unique in the bedding and linen industry, where most companies have been in the same business for decades and is based on Sakurai's conviction, gained through his experience at Racing, that speed is the key to success."

### **Invests in India's Largest Hospital E-Commerce Platform as Well as in Linen**

After going public in 2014, the company differentiated itself from similar latecomer services in Japan by offering a hospitalization set combined with joint guarantees and indemnification to avoid price competition, while overseas, it focused on the fast-growing Southeast Asia. In India and Vietnam, it has invested in hospital-related linen companies and also made a joint investments with Toppan Printing and MSI in the largest e-commerce platform for hospitals in India.

### **Some Overseas Peers with International Operations have PER >30x**

Including Tokai Corporation (TSE 9729) (PER 13.3 in the latest period), there are no domestic companies in the hospital linen industry with international operations. Overseas companies include Cintas Corp (NASDAQ CTAS) (35.8), Elis SA (Paris ELIS) (16.8), UniFirst Corp (NYSE UNF) (31.8), Healthcare Services Group Inc (NASDAQ HCSG) (20.0), SESCOI Inc (NASDAQ HCSG) (20.0), Servizi Italia SpA (Italia SRI) (9.0) as well as others are operating internationally like Elan.

## 1. Company Profile

### 1) Elan has Developed into a Provider of “CS Set’s” as a Result of Pursuing Solutions to the World's Greater Problems & Has Achieved 17 Consecutive Years of Increased Sales and Profits

#### Continuously Solving the World's Problems and Moving into the Hospitalization Set Service

Since its establishment in 1995, the company has been striving to solve the “world's problems” under the theme of “realization of a spiritually enriching living environment”. The company has converted from the bedding sales business (door-to-door sales of bedding) in its early years to the current “CS Set” business.

#### Provide Patient Set Services Not Only to Hospitals but Also to Geriatric Healthcare Facilities

The “CS Set” business combines rental of clothes and towels with laundry service and provision of daily necessities for people hospitalized in hospitals or in long-term care facilities such as geriatric health care facilities, special nursing homes for the elderly, fee-based nursing homes, group homes and care houses. The company operates in a single segment of the nursing-care and healthcare-related business.

#### Elan, Hospitals/Nursing Homes and Linen Suppliers Work Together to Provide Services

Patients, residents and their families can use the “CS Set” to realize “empty-handed hospitalization/admission,” “empty-handed visitation” and “empty-handed discharge/release”. The user or his/her family concludes a contract with Elan when using the “CS Set”. The contract is executed by Elan, hospitals, nursing care facilities, etc., linen suppliers (businesses that supply linen products such as clothes, towels, sheets, pillowcases, etc.) and daily commodities dealers (hereinafter referred to as “linen suppliers, etc.”).

#### 17 Consecutive Years of Sales and Profit Growth & ROE >25%

The company operates from 28 head offices and sales branches nationwide, with 428,000 users and 2,320 contracted facilities. The company has achieved 17 consecutive years of sales and profit growth in FY12/2023. On a consolidated basis, the company employs 378 people (as of December 31, 2023). Elan has 291 employees, including 185 in sales and 106 in administration.

## 2) “CS Set” Business Model Benefits All 3 Parties Involved in Commercial Distribution

### Build Win-Win-Win Relationships

This business model not only reduces anxiety, stress and family burden upon admission and hospitalization, but also improves the work of ward staff and stabilizes the management of nursing care facilities and hospitals, benefiting not only “CS Set” users and their families, but also the hospitals, geriatric healthcare facilities and linen suppliers. This establishes a win-win-win relationship.

The commercial distribution of “CS Set’s” can be broadly classified into two types of transactions based on differences in contractual arrangements with hospitals, geriatric healthcare facilities and linen suppliers.

- ① Form of direct contract between hospitals, geriatric healthcare facilities, etc., and the Elan Group (Elan prime contractor)
- ② The Elan Group does not have a direct contractual relationships with hospitals and geriatric healthcare facilities.

### There are 2 Types of Transactions, But There is No Real Difference Between Them

The difference between the two types of transactions is due to the history of contact with hospitals and geriatric healthcare facilities, etc., and there is no difference in the roles of the parties involved in the management of the “CS Set”.

### Users and Their Families Can Reduce Hassle and Worry During Hospitalization and Admission

The benefit for users and their families is that the “CS Set” reduces hassles and concerns during hospitalization and admission. The “CS Set” can be used to wash and change necessary clothing and towels and to replenish daily necessities, making it possible for patients to enter and leave the hospital “empty-handed” and for family members to visit without leaving the hospital “empty-handed”. Since the usage fee includes a fixed daily fee based on the number of days of hospitalization/admission, it is easy to calculate expenses related to hospitalization/admission living. This allows patients to remain at this hospital without worrying about the frequency of changing clothes and towels or the amount of daily necessities used.

**Chart1. Standard Plans for “CS Set’s”**

	Plan A	Plan B	Plan C
Expenses	700 yen per day	500 yen per day	300 yen per day
Towels	Bath towel, face towel, hand towel		
Daily Necessities	Cups, tissues, shampoo, slippers, etc.		
	Complete set of oral care products		
Clothing	Hospital gown or top and bottom sweatshirt		
	Underwear & Socks		
	Nursing care nightgowns and meal aprons		

Source: Prepared by Strategy Advisors based on GMO FG Data.

## Hospitals and Nursing Homes Can Concentrate on Their Primary Nursing and Care Duties

The advantage for hospitals and nursing care facilities is that they can concentrate on their primary nursing and care duties by introducing Elan's services. The workload related to on-site laundry and replenishment of daily necessities by nurses and caregivers will be reduced. Furthermore, since Elan consigns the work of explaining services to users, accepting applications and storing goods to hospitals and nursing care facilities and pays outsourcing commissions in return, which contributes to increased revenues for hospitals and nursing care facilities. In addition, when hospitals and nursing care facilities themselves charge fees for services that are not covered by insurance, they are required to take strict measures in accordance with administrative guidance from the Ministry of Health, Labor and Welfare. However, by using Elan's services, this hassle can be eliminated.

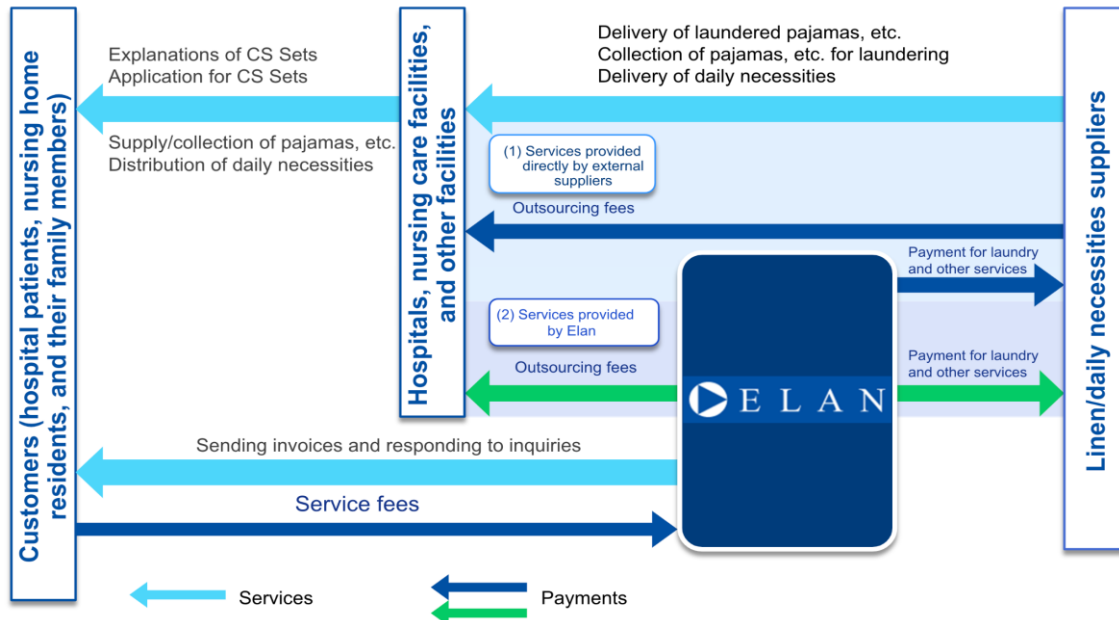
## New Revenue Opportunities for Linen Suppliers

The advantage for linen suppliers, etc., is that they can gain new revenue opportunities by contracting with Elan. Linen suppliers' contract with hospitals and nursing care facilities to deliver bedding (futon, wrapping cloths, sheets, pillows and pillowcases) covered by medical insurance and nursing care insurance and to perform laundry services. However, the existing hospital-related business is saturated and the company needs to find new opportunities for meaningful cost reductions and new revenue opportunities. Through Elan's services, linen suppliers and others will have the opportunity to expand their sales through leasing and laundry services for daily clothing and towels included in “CS Set's” and sales of daily commodities, which they had not previously implemented.



**Chart 2 . Elan's Business Model**

For (1) services provided directly by external suppliers and (2) services provided by Elan, the roles of all parties involved are the same; only the contract format is different.



Source: Elan website

### 3) Active Business Development in India and Southeast Asia Where Economic Growth is Remarkable

#### Aiming to Expand in India and Southeast Asia, Where Economic Growth is Remarkable

In order to expand its successful business Japanese business overseas which has the world's highest aging population rate, Elan is also aggressively developing its business in India, Southeast Asia and other emerging countries that are experiencing remarkable economic growth. The company has been expanding overseas through investments in a laundry service company for hospitals in India, among others.

#### First Investment in India is in a Medical B-to-B E-Commerce Company

The first investment in India was in Boston Ivy Healthcare Solution Pvt. Ltd. ("BIHS") (India unlisted), a healthcare-related B-to-B e-commerce company (2018). It operates one of India's largest hospital e-commerce services, Medikabazaar. The service offers about 300,000 products on the service, allowing hospitals to search and compare products in real time BIHS has 17 fulfillment centers in India that even handle deliveries, helping healthcare providers manage inventory and stocking efficiency. Following BIHS, Elan invested in Quick Smart Wash Pvt. Ltd. (QSW, 2021), an in-hospital laundry company and Akal Information Systems Ltd. (unlisted in India) (2023), an IT staffing company.

## Several Hospital Laundry Service Companies are Being Made Subsidiaries in Vietnam

Vietnam's population and economy are expected to continue to grow, and the population is expected to age in the future. In addition, the number of medical institutions and hospital beds in Vietnam is expected to increase and demand for medical-related services is expected to rise further. In March 2024, the Company made GREEN LAUNDRY JOINT STOCK COMPANY (GREEN) (unlisted in Vietnam) a wholly owned subsidiary, the company provides laundry services to major hospitals mainly in Ho Chi Minh City, Vietnam. Furthermore, TMC VIETNAM TRADING AND SERVICE JOINT STOCK COMPANY (TMC) (unlisted in Vietnam), which is headquartered in Hanoi, Vietnam and engages in business including laundry services for major hospitals, is scheduled to become a subsidiary (in June 2024).

## Expansion into Other Southeast Asian Countries to be Considered

In 2024, the company aims to dispatch personnel to India and Vietnam to begin operations. Expansion to other countries planned include Indonesia, Malaysia, Vietnam, Thailand, Singapore and Taiwan.

### Chart3 . Elan's Overseas Expansion

Company	Country	Business Type	Investment Ratio	Consolidated Balance Sheet	Companies Accounted for Using the Equity Method
Boston Ivy Healthcare Solution Pvt. Ltd. (BIHS)	India	Sales of medical materials, etc.	5% or less	No	No
Quick Smart Wash Pvt. Ltd. (QSW)	India	Laundry service for hospitals	42.18%	No	No
AKAL	India	Temporary staffing	5% or less	No	No
GREEN LAUNDRY JOINT STOCK COMPANY (GREEN)	Vietnam	Laundry service for hospitals	100%	Yes	-
TMC VIETNAM TRADING AND SERVICE JOINT STOCK COMPANY (TMC)	Vietnam	Laundry service for hospitals	51%	Yes	-

Note: QSW is materiality criteria; TMC is planned acquisition. Source: Elan

## 4) Shareholder Composition With > 52% Held by Insiders

### CEO Sakurai Effectively Owns Approximately 27%

Major shareholders include CEO Hideharu Sakurai, 19.8% (26.53% including his spouse and SAKURA Corporation) and Nobuhiro Nakajima, one of the founders of the company, 15.25% (21.25% including his spouse and N-Style), so at least 52% of the shares are held by insiders. By ownership, individuals and others account for 50.2%, financial institutions 19.7%, other corporations 15.0%, foreign corporations 14.5% and financial instruments firms 0.5% (as of December 31, 2023).



**Chart4 . Elan Ownership Overview by Category (December 31, 2023)**

Category	% of Shares Held
Individuals and Others	50.2
Financial Institutions	19.7
Other Corporations	15.0
Foreign Corporations, etc.	14.5
Financial Instruments Firms	0.5

Source: Elan

**Chart5. List of Major Shareholders (as of December 31, 2023)**

Ranking	Major Shareholders	# of Shares Held (‘000)	Shareholding Ratio (%)
1	Hideharu Sakurai	12,000	19.80
2	Nobuhiro Nakajima	9,240	15.25
3	The Custody Bank of Japan, Ltd.	5,578	9.20
4	The Master Trust Bank of Japan, Ltd.	4,897	8.08
5	SAKURA Corporation	3,760	6.20
6	N-Style Corporation	3,160	5.21
7	ES Corporation	1,960	3.23
8	NORTHERN TRUST CO.(AVFC) RE FIDELITY FUNDS	1,673	2.76
9	NORTHERN TRUST CO.(AVFC) RE THE HIGHCLERE INTERNATIONAL INVESTORS SMALLER COMPANIES FUND	858	1.42
10	RE FUND 107-CLIENT AC	774	1.28
<b>Total Amount</b>		<b>43,900</b>	<b>72.44</b>

Source: Company Data

## 2. History

### **Shifted Business Format from Bedding Sales to Bedding Remodeling & Then to Hospitalization Set Services**

In February 1995, the company was established in Sagami-hara City, Kanagawa Prefecture, as Elan Limited Liability Company for the purpose of selling bedding; in June 2001, the head office was moved to Matsumoto City, Nagano Prefecture, to expand the bedding renovation business. In May 2003, the company launched the “CS Set” service, a nursing care medical-related business.

### **Since 2006, the Company has Concentrated its Resources on the Hospitalization Set Service Business and was Listed on the Stock Exchange in 2014**

In December 2006, the company quit the bedding remodeling business and concentrated its resources on expanding its business into the nursing and medical care-related business. In November 2014, the company was listed on the Mothers market of the Tokyo Stock Exchange and the following November, it was promoted to the First Section of the Tokyo Stock Exchange (TSE Prime Market).

### **Investment in Several Indian Companies Since 2018**

In September 2018, Elan Services Inc. was established to strengthen customer support, specializing in personal billing and customer support. In November of the same year, the company signed a stock subscription agreement with Boston Ivy Healthcare Solutions (unlisted in India), the largest hospital e-commerce platform in India; in March 2019, the number of facilities using “CS Set” surpassed 1,000 facilities; in February 2021, the company invested in Quick Smart Wash which operates a hospital-related linen business.

### **Achieved Introduction of “CS Set’s” in All 47 Prefectures in Japan in 2021**

In April 2021, Ryukyu Elan Co., Ltd. was established to develop “CS Set” and other healthcare-related businesses in Okinawa Prefecture, and in November 2021, “CS Set” were introduced in all 47 prefectures nationwide.

### **Investment in an Indian Human Resources-Related IT Services Company in 2023**

In September 2022, the number of facilities using “CS Set” exceeded 2,000 facilities; in October 2023, Elan Logistics Co. was established to strengthen logistics functions; in November 2023, Elan invested in AKAL (unlisted in India), which develops IT services such as human resource management applications. and also acquired additional shares of Classico, a developer of white coats, with which it had a capital and business alliance in 2020 (41.3% shareholding and 14.9% of voting rights as of June 2024).

## 3. Hideharu Sakurai CEO's "My Resume"

### **A Passion for Vehicles Led Him to Become a Motorcycle Racer**

Chairman Hideharu Sakurai was born in Miyazaki Prefecture, where his mother is from and is now 54 years old (born March 28, 1970). Immediately after his birth, he moved to Kawasaki City, Kanagawa Prefecture and later grew up in Sagami-hara City. Since elementary school, he has loved bicycles and other vehicles, and his interest eventually shifted to motorcycles, where he aspired to become an auto racer. After graduating from high school, he joined Honda Clio Sagami-hara (Honda Cars Kanagawa Kawanishi) in April 1988. While working as a car dealer, he spent his time racing to become a motorcycle racer. He also attended a racing school in Australia.

### **After His Father Passed-Away, He Gave Up Racing and Became a Passionate Door-to-Door Bedding Salesman**

After joining Nippon Columbia DCS Sales in January 1990, he joined a bedding door-to-door sales company in February 1991. This was the result of choosing a position that allowed him to have more freedom of time to pursue his goal of becoming a motorcycle racer. However, after his father passed away from illness in the same year, his family began to oppose his pursuit of a career that risked the loss of his life and he gave up the idea of becoming a racer. In order to distract himself from his feelings, he became passionate about sales as a door-to-door bedding salesman. As a result, his sales performance improved significantly and his income, which was based on a full commission system, increased greatly and he even took on a directorial position at the age of 23.

### **Fired After Discussing Future Independence and Founded a Company by Choice**

Eventually, running a company became a new goal and when he and Nobuhiro Nakajima and Yukio Sato, who had worked together, discussed their future independence with the president of the company they worked for, the president became angry and fired them. As a result, they were forced to become independent, and in February 1995, Mr. Nakajima, Mr. Sato and Mr. Sakurai founded Elan, with Mr. Sakurai as the representative director. The company was founded in Sagami-hara City, Kanagawa Prefecture, where Sakurai grew up and the business was a door-to-door bedding sales business.

### **Finding a Need in the Bedding Remodeling Business, the Company Steadily Expanded its Business**

Elan was a limited liability company when it was founded, but two years later it became a joint-stock corporation. While listening to customers through door-to-door bedding sales, the company discovered that there was a need to remake old futons into futons and cushions of different sizes to meet their needs. Seeing a commercial opportunity in this situation, the company opened a branch in Matsumoto City, Nagano Prefecture, in 1998 and began a full-scale bedding remodeling business. The city of Matsumoto in Nagano Prefecture was chosen not only because it was close to the hometown of Chairman Sakurai's wife, but also because more futons were owned in the countryside than in the city center (since most people live in one house) and because it is in the center of the map of Japan. Because of the large number of hotels and inns in the area, the bedding remodeling business expanded steadily and in 2001, the head office was relocated to Matsumoto City, Nagano Prefecture.

## **Finding a Greater Need in the Hospitalization Set Service Business, the Company Shifted its Focus and Went Public**

While the bedding remodeling business was doing well with general households, hotels, and inns as customers, one day Elan received a single inquiry from a hospital asking if it handled hospital bedding, which prompted Elan to start researching the hospital industry. As a result, Elan found that hospitalized patients, their families and hospital staff were very troubled over “personal effects”. With the desire to “solve the problems of many people in the hospital industry,” it created the “CS Set” hospitalization set service and launched the “CS Set” business in 2003 at a branch in Sagamihara City, Kanagawa Prefecture. The company grew steadily as it shifted its focus from the successful bedding remodeling business to the much-needed “CS Set” business and finally went public in 2014. Mr. Sakurai was appointed Chairman and CEO in March 2022 (his current position).

## **His Motto is, “Challenge Yourself to Do What No-One Else is Doing”**

Chairman Sakurai's motto is “to challenge what no one else is doing”. He aims to please people by creating a system that generates profit, not by volunteering to help people in need. Elan's mission is to “bring smiles to the faces of those in need in the healthcare field”. The idea of doing such best work with the best people is part of Elan's DNA.

## **If his Father Had Not Died, He Could Have Been a World-Class Racer**

He says that being a racer helps a lot in management. There are many similarities between the two. A racer makes a mistake and it is literally fatal. Speed is also important in making decisions. He sometimes thinks to this day, “If my father had not died, I could have been a world-class racer”.

## 4. Management Philosophy

### **Elan Means “Leap/Flight” in French and “Passion/Enthusiasm” in English**

“Elan” means “leap and flight” in French and “passion and enthusiasm” in English. The company was named Elan to express their desire to be a company that contributes to society through the passionate actions of each and every one of our employees and plays a significant role in the wider world.

### **Elan's Mission is to Increase Smiles by Solving Healthcare-Related Problems**

Elan's management philosophy is “We pursue the best products and services to satisfy our customers and realize a heart-enriching living environment through passionate actions”. Elan's mission is to “bring smiles to the faces of those in need in the healthcare field”. As each person's life stage changes from day to day, they may face various problems and anxieties related to healthcare. Elan's mission is to resolve such problems and concerns and bring smiles to the faces of as many people as possible.

### **Three Guiding Principles That Support our Activities to Raise Smiles**

The society and vision that Elan wants to realize is “to increase the total amount of smiles”. By continuing to think of businesses and methods that make everyone happy, without sacrificing anyone or anything and without giving up, Elan aims to realize a society in which all people around the world can live healthy, enriched lives with smiles on their faces. The action guidelines (credo) that support Elan's activities to realize its vision are “A-T-G,” “Win-Win-Win,” and “Exciting Work”. In addition to these three, there are many other credos, which are compiled into a book, which is distributed to employees when they join the company.

### **“A.T.G.”**

“A.T.G.” is the most important spirit of ELAN, which is to do any work cheerfully (Akaruku in Japanese), happily (Tanoshiku) and energetically (Genkini)! This is the most important spirit of Elan. Even in difficult times, if you have the ATG mindset, you will not look for reasons why you can't do the job, but will instead think, “If I'm going to do it anyway, let's enjoy it!” or “Let's find a way to make it fun!” and “Let's think of a way to make it fun!”; always instead of looking for reasons why we can't do it, turning the situation into a positive one and take the first step forward without giving up.

### **“WIN-WIN-WIN”**

At Elan, we place great importance on thinking about mutually beneficial situations that benefit both ourselves and the other party. Also, at that time the firm values thinking about the “three WINS,” not “Win-Win,” but “Win-Win-Win. This is because it believes that it is difficult to maintain a balanced relationship if they only think about ourselves and the other party and do not pay attention to someone else who is always around them. Elan values such a way of working that everyone balances each other out and everyone WINS.

### **“Exciting Work”**

At Elan, they value not just doing what we are told, but transforming it into exciting work that they themselves want to do. As a result, work becomes more positive and enjoyable. At Elan, they value the attitude of changing one's usual work into “exciting work” by oneself.

## 5. Equity Story

**Elan - A Highly Profitable & High-Growth Company, is Also Expanding into Other Asian Countries**

Elan is a highly profitable, high-growth company. Elan's core business is healthcare services, a growth area. The company is expanding into Asian countries where the population is growing and health care services are lagging significantly.

**Sales, Profits & Profit Margins Have All Achieved Growth**

Elan's Return on Equity (ROE, last quarter) at 25% is quite high compared to 9% for all Japanese companies. Over the past five years (Nikkei forecast for the current term), the company has achieved very high growth, with sales and net income increasing 2.1 and 2.9 times respectively, despite the economic crisis caused by the new coronavirus. They have also steadily increased their profit margin on sales.

**Strategy is THE "Story" that Makes You Want to Tell Someone**

An equity story is a long-term scenario that will grow the company's stock price and profits. From the perspective of long-term stock price growth, an equity story is considered to consist primarily of (1) a feasible and precise management strategy and (2) an "exciting dream". In "Competitive Strategy as a Story: Conditions for Excellent Strategy," Ken Kusunoki, a leading Japanese management scholar and professor at Hitotsubashi University's Graduate School of Business Administration, wrote, "Companies that have achieved and sustained great success have in common that their strategies are constructed as a 'story' with flow and movement. Strategy is a necessary and difficult process. Strategy is not something that is forced upon you by necessity and is not something that you have no choice but to trudge along with a difficult look on your face, but it is about creating an interesting "story" that you can't wait to tell someone". An equity story is a concept similar to this.

**Difficult to Imitate Elan Which Has Established Win-Win-Win Relationships**

Elan has steadily implemented a "feasible and precise business strategy". Elan has been trying to coexist and prosper with linen suppliers and other businesses by ensuring that their businesses do not compete with Elan's. Since Elan is not in the linen supply business and is not affiliated with any particular company, it is not hostile to linen suppliers, etc., and can partner with any company, giving it a competitive edge in its nationwide expansion. Thus, by establishing a win-win-win relationship, the business partner itself becomes a barrier to entry, forming a barrier that makes it difficult for others to imitate Elan.

**Also Working on Value-Added Enhancement Through "CS Set" R & "CS Set" LC**

In order to further differentiate itself from its competitors, the company has been adding value to its "CS Set's" by developing "CS Set" R (a service that eliminates the need for a joint guarantor upon hospitalization or admission), "CS Set" LC (a service that compensates "CS Set" users for accidents involving damage) and original patient garments.



## **“Exciting Dreams” of Expansion into Emerging Countries**

The “exciting dream” for Elan is to expand into emerging markets. Japan is rapidly aging and demand for healthcare services is growing. The market development rate in Japan is estimated to be 15% as of the end of 2011, suggesting that there is still much room for development. However, with the average age of the so-called baby boomers now in their late 70s, the elderly population is expected to peak out over the next 10 to 20 years. Thus, it is clear that there is a limit to long-term growth if the population remains only in Japan, where the population is declining.

## **Already in India and Vietnam**

Therefore, Elan is expanding into India and Vietnam. Both have growing populations and low levels of healthcare services. Elan has invested in three venture companies in India that are involved in the wholesale of medical supplies, linen supply, and temporary staffing services. It also acquired a hospital laundry company in Vietnam. It is also considering expansion into Indonesia, Malaysia, Thailand and Singapore. By entering countries and regions with aggregate populations more than 10 times that of Japan, the company aims to sustain growth over the medium to long term.

## 6. Comparison with Competitors in the Industry and Market Trends

### 1) Comparing Elan's Global Business Portfolio with Domestic and International Peers

#### Comparison of Elan Group with 15 Domestic and International Peer Companies

While Elan's domestic business is limited to the "CS Set" business, it is involved in a wide range of overseas businesses, including linen and garment leasing to hospitals in India and Vietnam and related goods sales and human resource-related businesses in India. With this in mind, in addition to the nine domestic companies that provide hospitalization set services, six major listed companies involved in linen leasing to hospitals overseas were included in Elan's comparison.

#### The Top 4 Companies in Terms of Sales are European and U.S. Companies with Customers in Diverse Industries

The top four companies in terms of sales are from Europe and the U.S. These companies rent a wide variety of items, including uniforms, workplace equipment, toiletries and linen. Therefore, their customers include not only hospitals, but also accommodations, restaurants, various retailers, factories and beyond. Cintas, the largest company in terms of revenue, is the leading provider of uniforms, towels, and mats for employees; Elis, in second place, provides uniforms, linens and beverage rental and maintenance services for the workplace; and Vestis, in third place, rents uniforms, mats, towels, linens and other workplace supplies. UniFirst, in fourth place, provides workplace uniforms and protective clothing. In Europe and the United States, hospitals offer their own inpatient set-up services.

#### The Largest in Japan is Watakyu Seimoa, an Equity-Method Affiliate of ITOCHU Corporation

Other than Elan, none of the other Japanese companies have overseas operations, almost all of which are focused solely on Japan. The largest is Watakyu Seimoa Corporation (unlisted), an equity method affiliate of ITOCHU Corporation (TSE 8001), which has expanded its scale through multiple acquisitions in the same industry. The company has a large presence in an industry where many companies are community-based, with offices throughout Japan.

#### Second in Japan is Tokai, a Publicly Listed Company That Also Operates a Dispensing Pharmacy

Second to Watakyu Seimoa in terms of sales is Tokai Corp. (TSE 9729). Tokai started its business in 1955 in Gifu Prefecture, Japan, renting bedding to construction workers. Today, the company is involved in linen supply for hospitals, "hospitalization and move-in sets", linen and bedding supply for hotels and inns, nursing care equipment rental and finally dispensing pharmacies.

#### Amenity, a Latecomer to the Hospitalization Set Business, Reached Half of Elan's Sales Through a Low-Priced Offensive

While most of the domestic linen washing companies, including Watakyu Seimoa and Tokai, have their own linen washing factories, Amenity Co. (unlisted), a latecomer to Elan, entered the hospitalization set business and has grown to about half Elan's sales off the back of its low pricing strategy.

## **In Vietnam, Where the Overall Market is Growing, Elan has Laundry Factories**

In Japan, Elan specializes in the hospitalization set business, does not operate a linen leasing business for hospitals and nursing care facilities and does not own a laundry. This is a decision made to avoid excessive competition in a mature market where the company is a latecomer. On the other hand, unlike in Japan, the markets in India and Vietnam are still growing, and linen leasing services are not widely available in those countries. The company plans to introduce the hospitalization set business after the linen leasing service has been established to a certain extent.

## **Entering the Medical Supplies Sales Business in a Way that has Potential for Business Growth**

In addition, some companies in the same industry are taking advantage of their strong ties to hospitals and nursing care facilities to wholesale medical-related equipment and supplies to these facilities. However, these businesses are localized, lack price transparency and lack business expansion capability. Against this backdrop, Elan invested in Boston Ivy Healthcare Solutions, which operates India's largest healthcare B2B e-commerce platform. The platform allows many industry players to participate without geographical restrictions and ensures price transparency, making it a business with high growth potential.

## **Aiming to Expand Provision of IT-Based Human Resource-Related Solutions**

Furthermore, similarly with regard to healthcare-related staffing and placement, while there are other companies in the same industry that utilize their usual connections to conduct business within a geographically limited scope for medical institutions and nursing care facilities, Elan does not conduct business that lacks such a broad business focus. Elan has realized an investment in Akal Information Systems, a human resource-related IT services company in India and is looking for an opportunity to provide human resource-related solutions utilizing IT.

**Chart6 . Major Business Portfolios of Leading Companies Involved in Linen Leasing to Hospitals**

Company	Country	Recent Sales (¥ mn)	Major Business Portfolio							
			Hospital Set	Linen And Garment Leasing			Related Goods Sales		Human Resources	
				Hospital & Nursing Facility	Lodging Facility	Eating & Drinking Facility	Wholesale	Plat Form	Dispatch Introduction	IT Service
Cintas Corp.	US	1,322,365	-	Yes	Yes	Yes	Yes	-	-	-
Elis SA	France	732,598	-	Yes	Yes	Yes	-	-	-	-
Vestis Corp.	US	423,793	-	Yes	-	Yes	-	-	-	-
UniFirst Corp.	US	334,957	-	Yes	Yes	Yes	-	-	-	-
Watakyu Seimoa Corp.	Japan	174,869	Yes	Yes	Yes	-	Yes	-	-	-
Tokai Corp.	Japan	138,222	Yes	Yes	Yes	Yes	Yes	-	-	-
Servizi Italia	Italy	48,946	-	Yes	Yes	Yes	-	-	-	-
<b>ELAN Group</b>										
<b>ELAN</b>	<b>Japan</b>	<b>41,426</b>	<b>Yes</b>	-	-	-	-	-	-	-
TMC VietNam	Vietnam	910	-	Yes	-	-	Yes	-	-	-
Green Laundry	Vietnam	433	-	Yes	-	-	-	-	-	-
Quick Smart Wash	India	246	-	Yes	-	-	-	-	-	-
Boston Ivy	India	-	-	-	-	-	-	Yes	-	-
Akal Information	India	-	-	-	-	-	-	-	-	Yes
K-Bro Linen	Canada	35,297	-	Yes	Yes	Yes	-	-	-	-
Koyama Corp.	Japan	30,800	Yes	Yes	Yes	-	Yes	-	-	-
Shibahashi Shokai	Japan	26,900	Yes	Yes	Yes	-	-	-	Yes	-
Yamashita	Japan	26,800	Yes	Yes	Yes	-	-	-	-	-
Amenity	Japan	23,600	Yes	-	-	-	-	-	Yes	-
Koyama Shokai	Japan	23,200	Yes	Yes	Yes	-	-	-	-	-
NIC	Japan	8,362	Yes	Yes	-	-	-	-	-	-
Benex	Japan	6,600	Yes	Yes	Yes	Yes	-	-	-	-

\*Calculated at 150 Yen to the US Dollar, 170 Yen to the Euro, 110 Yen to the Canadian Dollar, 0.006 Yen to the Vietnamese Dong, and 1.8 Yen to the Indian Rupee.

Source: Prepared by Strategy Advisors. Based on Company Data.

## 2) Comparison Across Countries of Operation

**U.S. Companies have a Limited Number of Countries of Operation. While European Companies Operate in a Larger Number of Countries**

Comparing the countries in which each company operates, three U.S. companies; Cintas, Vestis and UniFirst, have operations only in the U.S. and Canada; both countries are large enough to cover a large geographic area, but the number of countries themselves is small. Elis is present in about 20 European countries, including France and the UK and four South American countries (Mexico, Brazil, Chile, and Colombia), but not in Asia. Servizi Italia operates in Albania, Morocco, Turkey, India and Brazil, in addition to Italy.

**In Addition to Elan, Yamashita is the Only Other Japanese Company to Expand Overseas**

In addition to Elan's operations in Vietnam and India, Japanese firm Yamashita Corporation (unlisted) operates a welfare equipment rental and sales business and a nursing care renovation business in China.

**Chart7 . Major Business Expansion Countries - Representative Companies Involved in Linen Leasing to Hospitals**

Company	Country	Recent Sales (¥ mn)	Main Business Development Countries									
			Japan	China	Vietnam	India	Turkey	Italy	France	UK	USA	Canada
Cintas Corp.	America	1,322,365	-	-	-	-	-	-	-	-	○	○
Elis SA	France	732,598	-	-	-	-	-	○	○	○	-	-
Vestis Corp.	America	423,793	-	-	-	-	-	-	-	-	○	○
UniFirst Corp.	America	334,957	-	-	-	-	-	-	-	-	○	○
Watakyu Seimoa Corp.	Japan	174,869	○	-	-	-	-	-	-	-	-	-
Tokai	Japan	138,222	○	-	-	-	-	-	-	-	-	-
Servizi Italia	Italy	48,946	-	-	-	○	○	○	-	-	-	-
<b>ELAN</b>	<b>Japan</b>	<b>41,426</b>	<b>○</b>	<b>-</b>	<b>○</b>	<b>○</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
K-Bro Linen	Canada	35,297	-	-	-	-	-	-	-	○	-	○
Koyama Corp.	Japan	30,800	○	-	-	-	-	-	-	-	-	-
Shibahashi Shokai	Japan	26,900	○	-	-	-	-	-	-	-	-	-
Yamashita	Japan	26,800	○	○	-	-	-	-	-	-	-	-
Amenity	Japan	23,600	○	-	-	-	-	-	-	-	-	-
Koyama Shokai	Japan	23,200	○	-	-	-	-	-	-	-	-	-
NIC	Japan	8,362	○	-	-	-	-	-	-	-	-	-
Benex	Japan	6,600	○	-	-	-	-	-	-	-	-	-

\*Calculated at 150 Yen to the USD, 170 Yen to the Euro and 110 Yen to the Canadian Dollar.

Source: Prepared by Strategy Advisors. Based on Company Data.

### 3) Comparison of Key Financial Indicators & PER

#### Cintas Has the Highest ROE & PER

Comparing key financial indicators and PER (listed companies only) for the most recent fiscal year, Cintas has the highest 3-year average ROE and PER, mainly due to its high net income margin, making it the only company in the comparison group with a double-digit net income margin.



## Elan is Less Expensive Than UniFirst & K-Bro Linen

Elan has the second highest ROE, mainly due to its high total asset turnover. However, UniFirst Corp, which has a much lower ROE, has a PER of 31.8, higher than Elan's 26.8. K-Bro Linen, which also has a much lower ROE than Elan, has a PER of 20.0, which is close to Elan's. Compared to these companies, Elan's share price is undervalued.

**Chart 8 . Key Indicators for the Most Recent Fiscal Year for Representative Companies Involved in Linen Leasing to Hospitals**

Company	Country	Key Indicators for the Most Recent Fiscal Year							
		Recent Sales (¥ mn)	3 Years CAGR	Net Profit Margin	Total Asset Turnover	Financial Leverage	ROE	3-Year Average ROE	PER
Cintas Corp.	America	1,322,365	7.6%	15.2%	1.1	2.3	37.4%	34.9%	35.8
Elis SA	France	732,598	15.4%	6.1%	0.5	2.7	7.8%	6.2%	16.8
Vestis Corp.	America	423,793	3.3%	7.5%	0.9	2.0	13.3%	8.4%	11.9
UniFirst Corp.	America	334,957	7.4%	4.6%	0.9	1.3	5.3%	6.3%	31.8
Watakyu Seimoa Corp.	Japan	174,869	4.6%	3.1%	1.9	2.0	12.1%	9.2%	-
Tokai	Japan	138,222	5.4%	4.2%	1.2	1.3	6.9%	7.4%	13.3
Servizi Italia	Italy	48,946	6.2%	1.9%	0.7	2.9	4.0%	4.4%	9.0
<b>Elan</b>	<b>Japan</b>	<b>41,426</b>	<b>16.7%</b>	<b>6.1%</b>	<b>5.4</b>	<b>0.8</b>	<b>25.4%</b>	<b>26.1%</b>	<b>26.8</b>
K-Bro Linen	Canada	35,297	17.7	5.5%	0.9	2.0	10.0%	5.5%	20.0
Koyama Corp.	Japan	30,800	-	7.9%	1.0	1.3	10.1%	11.0%	-
Shibahashi Shokai	Japan	26,900	-	1.1%	1.5	2.5	4.0%	9.1%	-
Yamashita	Japan	26,800	-	-	-	-	-	-	-
Amenity	Japan	23,600	-	-	-	-	-	-	-
Koyama Shokai	Japan	23,200	-	-	-	-	-	-	-
NIC	Japan	8,362	3.2%	-	-	-	-	-	-
Benex	Japan	6,600	0.5%	-	-	-	-	-	-

\*Calculated at 150 Yen to the USD, 170 Yen to the Euro and 110 Yen to the Canadian Dollar.

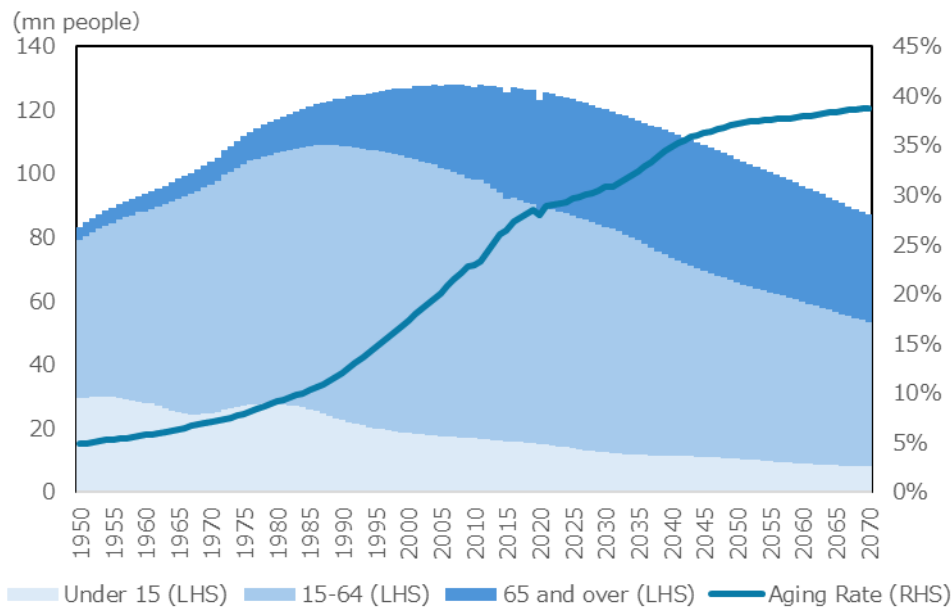
Source: Prepared by Strategy Advisors Based on Company Data.

4) Domestic Hospitalization Set Market

The Aging Population Rate Will Not Stop Rising Soon

As of March 1, 2024, the population aged 65 and over in Japan was 36.23mn, accounting for 29.2% of the total population (estimated population by the Statistics Bureau of the Ministry of Internal Affairs and Communications). 38.7% of the population is expected to be aged 65 and over by 2070, with one out of every 2.6 persons aged 65 and over and one out of every four aged 75 and over. Hence, the market size for Elan's services is expected to grow further due to the aging of the population.

Chart9 . Aging Population Trends and Future Projections



Note: Figures for 2024 are March 1 estimates; figures before that are based on the Ministry of Internal Affairs and Communications population estimates as of October 1 of each year; figures for 2025 and thereafter are 2023 mid-year estimates from the National Institute of Population and Social Security Research. The aging rate is the percentage of the population aged 65 and over. Source: Ministry of Internal Affairs and Communications, National Institute of Population and Social Security Research

Market Size Expanded 10-Fold in 10 years

The domestic hospitalization set market (CS market) is worth ¥122bn in FY2022, growing 10-fold from ¥12.2bn in FY2012. The average annual growth rate is 25.9%.

## **Industry Leader Elan's Strategy is to Add Value to Avoid Price Competition**

Elan leads the industry with a 15.0% share of the "CS Set" market (as of FY12/2023), targeting 11,404 facilities (7,241 hospitals with 50 or more beds and 4,163 geriatric healthcare facilities and long-term care hospitals with 50 or more beds). The number of hospital contracts (50 beds or more) was 1,368, for a development rate of 18.9%. The number of contracts for geriatric healthcare facilities and long-term care medical care hospitals (50 beds or more) was 343, for a development rate of 8.2%. Elan is the leader in the CS market, but in order to avoid homogenization of services and price competition, the company is working to add value through the development of peripheral services.

## **Second Place is Amenity, with About Half of Elan's Sales**

The next largest company in terms of market size after Elan is Amenity, which is involved in hospitalization sets. Amenity is about half the size of Elan. Other major competitors in the industry include Watakyu Seimoa and Tokai, although sales figures are not available.

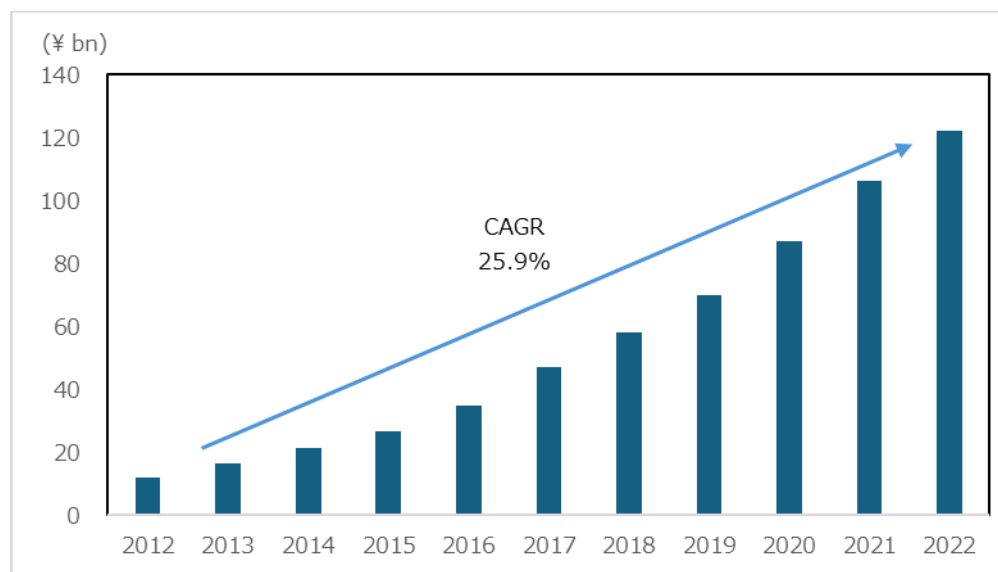
## **Tokai is Also Increasing Sales**

One of Tokai's main products is the "hospitalization and occupancy set," a set of clothing, towels and daily necessities for hospitalization and occupancy with rental services provided on a per day basis (daily billing). The number of contracts for linen supply services is approximately 1,000 for hospitals and 2,700 for nursing care facilities. Sales figures for "hospitalization and occupancy sets" were not disclosed, although sales for FY2022 grew by 11.2% YOY.

## **Medium to Long-Term Market Growth is Expected to Continue**

According to Elan, the CS market is expected to continue growing over the medium to long term for the following reasons. First, new introductions are increasing due to increased attention to infection prevention, such as the 2021 revision of nursing care fees that will make infection control mandatory under operating standards (with a three-year transitional measure). Second, facilities that experienced the convenience of high utilization rates in response to the new coronavirus (ban on visits) are continuing to actively promote its use. Third, the new coronavirus was moved to category 5 illness and the utilization rate of hospital beds is expected to increase in the future.

**Chart 10 . CS Market Size Trends**



Source: Elan

## 5) Global Hospital Linen Leasing Market

### Projected to Grow at an Annual Rate of Nearly 10%

According to Market.US, the global hospital linen leasing market is expected to grow at a CAGR of 9.8% over the 10-year period from 2022 to 2032 on the back of rising hygiene awareness due to the COVID-19 pandemic and increasing awareness that it is ultimately cheaper to outsource to specialized hospital vendors. Currently, the largest market is North America, but the future growth driver is expected to be the Asia-Pacific region.

**Chart11 . Global Hospital Linen Leasing Market**

(bn \$)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	CAGR
Global Market	11.5	12.7	13.9	15.3	16.8	18.4	20.2	22.2	24.4	26.7	29.4	-
(YoY)	-	10.4%	9.4%	10.1%	9.8%	9.5%	9.8%	9.9%	9.9%	9.4%	10.1%	9.8%

Source: Prepared by Strategy Advisors. Based on Company Data.

## 6) Linen Leasing Market for Hospitals in India

### **QSW Plans to Aggressively Increase Facility Capacity in Anticipation of Growth in the Indian Market**

According to QSW, the company currently handles 35 tons per day and aims to increase its capacity to 200 tons per day to capture 10% of the industry market share. Therefore, the total daily throughput for the Indian market is approximately 2,000 tons, which means that QSW's current market share is approximately 2, and since QSW's sales for the most recent fiscal year were 246mn yen, the total market size is approximately ¥14,000mn. As mentioned above, the average growth rate of the global market as a whole is about 10%, with the Asia-Pacific region leading the growth, so the Indian market is expected to grow at a pace exceeding 10%.

## 7) India's Human Resources-Related IT Services Market

### **The Human Resources-Related IT Services Market is Expected to Grow at an Annual Rate of Approximately 26%**

According to TechSci Research, a U.S. research firm, the Indian market for human resources-related IT services was worth \$344mn in 2023 and is expected to grow at a CAGR of 26.2% until 2029. This is largely due to the fact that Indian companies are recognizing the importance of IT for human resource-related administrative tasks and are working on IT for more and more administrative tasks. Another factor supporting the promotion of IT is the fact that the regulations set by states in India differ greatly from state to state, making reporting to state governments extremely complex.

### **Akal Information's Peers are Also Experiencing Rapid Sales Growth**

Akal Information Systems, a subsidiary of Elan, does not disclose its results publicly, but its peers Allsec Technologies Ltd (Bombay 532633) and Greytip Software Pvt Ltd (unlisted) have had sales growth rates in the neighborhood of or exceeding 20% for the last three years.

## 7. Competitive Strategy Analysis

### Strategy to Concentrate on "CS Set" Business

Michael Porter's "Strategy of Competition" is classified as positioning theory. It emphasizes "how to position your company to gain an advantage within your industry". Porter classifies competitive strategies into differentiation, concentration and cost leadership. Elan's strategy is to concentrate on the "CS Set" business, for example, with limited participation in peripheral areas. It does not participate in price-cutting competition but responds by upgrading its products and services.

### Avoid Price Competition with Value-Added Strategies

"CS Sets" are composed of items necessary for hospitalization and residential care, such as clothing and towels. The products included in the set are not unique and are a combination of existing products, making them easy for other companies in the same industry to imitate. In fact, one or two companies enter the market each year and there are about 30 competitors in the "CS Set" market. While some competitors offer services at reduced prices, Elan responds

by increasing the added value of its services. In addition, Elan has established a win-win-win relationship, benefiting not only users and their families, but also hospitals and geriatric healthcare facilities, as well as linen suppliers and others.

### Pioneer in the Hospitalization Set Business, Overwhelmingly Leading Other Latecomers

Elan was the first to systematically develop the hospitalization set as a business, and as a pioneer, it leads its latecomers by far. The following factors are the key to its competitive advantage: (1) Know-How, (2) Business Model and (3) Positioning. The company has particularly built an even higher barrier to entry through its stock of Know-How and its Positioning in the industry.

#### ① Know-How

Determination of profitability line, explanation and operation of the nursing and long-term care field, operation of services in conformity with administrative guidance and billing and collection operations.

#### ② Business Model

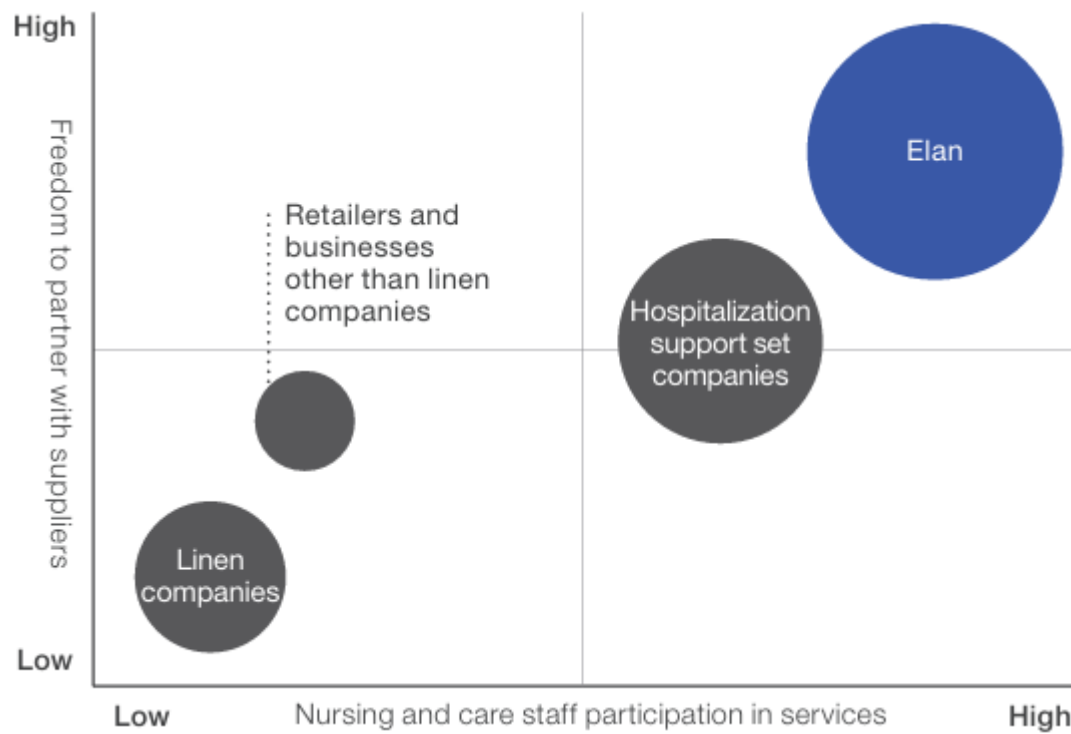
Coexistence and co-prosperity model that leverages existing business relationships as is.

#### ③ Positioning

Open positioning or not belonging to a specific family.



Chart12 . Strategy Group Map in the Hospitalization Support Set Industry



Source: ELAN Integrated Report “ELAN REPORT 2023” (November 24, 2023)

**Expansion of “CS Set” with Creation of New Pillars in Japan & Overseas are THE 3 Pillars for the Future**

**Focus on “CS Set” Sales to Large Hospitals with Large Potential for Development**

**Also Promote Sales of “CS Set” R and “CS Set” LC**

Under the “Medium-Term Management Vision (2023-2025)” started in FY2023, the company aims for net sales of ¥68bn, operating income of ¥7bn and a market development rate of 26%. In the mid to long-term, we expect a market development rate of 30% and an operating profit margin of 10%. The three pillars of the vision are “expansion of “CS Set’s”, “Creation of new pillars in Japan” and the “Creation of pillars overseas”.

In particular, the company is aggressively marketing to hospitals with more than 50 beds, where there is great room for development. The facility's contract retention rate is high with a customer satisfaction rate of over 96% for five consecutive years.

The company is switching from paper-based to the use of tablets for the operation of “CS Set’s” from application for use to issuance of invoices and is working on digitalization. In addition, the company has proposed “CS Set” R (a service that provides advance payment for hospitalization and nursing care expenses) and “CS Set’s” LC (a service that compensates for damage accidents during hospitalization and residential care). In FY12/2023, “CS Set” R was introduced to 22 of 81 facilities (27.2%), and “CS Set” LC to 15 of 69 facilities (21.7%), a net increase. (21.7%).

## **Plans to Commercialize Home Set's & Promote the Introduction of Original Patient Garments**

As a new business, the company aims to commercialize the home set. Utilizing customer contacts with more than 420,000 monthly "CS Set" users and their families, the company is developing a business that solves problems in all directions from post-discharge to re-hospitalization. Since the medical treatment environment changes drastically for about four weeks immediately after discharge from the hospital, placing a heavy burden on users and their families, the company will provide comprehensive support services for problems that occur sequentially during the period until the patients become accustomed to life at home. In addition, the company has developed an original patient gown called "lifte" and aims to introduce it to more than 200 facilities by 2024.

## **Overseas Investment Destination Industries are Not Limited to Linen Leasing-Related Industries**

Overseas, in addition to two hospital linen leasing companies in Vietnam and a linen leasing company in India, the company has invested in a hospital-related product e-commerce platform operator and a human resource-related IT services company. The company is also investing in a hospital-related products e-commerce platform operator and a human resources-related IT services company.

## 8. ROE Analysis and Management with the Cost of Capital and Stock Price in Mind

### Elan is a Highly Profitable Company

Elan's ROE level is high, which is well above its cost of equity. Therefore, Elan's management can be considered highly profitable.

### ROE Can be Broken Down into 3 Factors

ROE is net income divided by equity capital (average of beginning and end of period). It indicates how much profit is generated by the company's equity attributable to shareholders. According to the DuPont analysis, ROE can be broken down into the following three factors. The following, equity capital and total assets are all averages at the beginning and end of the period.

$$\text{ROE} = \text{Net income to sales (net income/sales)} \times \text{Total asset turnover (sales/total assets)} \times \text{Financial leverage (total assets/equity capital)}$$

Net profit margin is an indicator of profitability, total asset turnover is an indicator of efficiency and financial leverage is an indicator of safety. It is useful to increase ROE, where companies can (1) increase profit margin, (2) increase sales or (3) increase financial leverage.

### Elan's ROE Increase is Due to Higher Net Profit Margin

Elan's ROE for the year ending December 31, 2023 is high at 25.4%. The company has a net profit margin of 6.1%, an asset turnover of 2.4 times, and a financial leverage of 1.8 times. TSE Prime (excluding financials) has an average ROE of 9.6%, return on sales of 4.8%, asset turnover of 0.5 times and financial leverage of 3.1 times in FY2022. Relatively speaking, Elan's total asset turnover is high. Thus, the main reason for the long-term increase in Elan's ROE is the increase in the net profit margin on sales.

**Chart 13. Elan's ROE Dupont Analysis**

(FY)	ROE (%)	Profit to Net Sales (%)	Total Asset Turnover (Times)	Financial Leverage (Times)
2013	35.9	4.1	3.0	2.9
2014	17.7	3.5	2.5	2.0
2015	15.9	4.0	2.2	1.8
2016	18.6	4.4	2.4	1.8
2017	20.5	4.3	2.6	1.8
2018	22.3	4.7	2.6	1.8
2019	21.3	4.6	2.5	1.8
2020	25.8	5.6	2.5	1.9
2021	27.9	6.0	2.5	1.9
2022	25.3	5.7	2.4	1.8
2023	25.4	6.1	2.4	1.8

Source: QUICK FactSet

## Elan Estimates Cost of Equity at 7.7%

The cost of equity is the expected return demanded by shareholders and investors. Elan estimates the cost of equity at 7.7%. This is based on the Capital Asset Pricing Model (CAPM), proposed by Sharpe and Lintner, in which the cost of equity is the "risk-free interest rate +  $\beta \times$  market risk premium".

## Beta is the Sensitivity of the Subject Company's Stock Price to the Overall Market

Beta (beta) is the sensitivity of the stock price of the target company to the overall market; a beta of 1 means that the market and the stock price of the target company move similarly; a beta greater than 1 means that the volatility of the stock price of the target company is greater. The market risk premium is the additional return sought for the amount of risk in the stock.

## Equity Spreads are Above Shareholder Return Expectations but Trending Lower

Since the company's ROE is 25.4%, the equity spread, the difference between ROE and cost of shareholders' equity, is 17.8%, generating a profit that exceeds shareholders' return expectations. On the other hand, over the past five years, the equity spread, which had been on the rise, has been on the decline since FY12/2022 due to lower profitability (lower ROE) and higher beta (higher cost of shareholders' equity) caused by delays in passing on higher purchase prices.

## Three Measures are Set Forth

The company's future actions include (1) making growth investments to achieve sustainable growth and increase profitability and ROE, (2) reducing the cost of capital through enhanced information disclosure, proactive investor relations activities, sustainability management and strengthened governance and finally, (3) increasing the equity spread through each of these measures to increase corporate value. The company's goals are as follows.

## Aiming for 26% ROE in the Medium Term

The medium-term vision calls for ROE of 26% in FY12/2025 (25.4% in FY12/2023) and payout ratio of 30% (31.2% in FY12/2023). Dividends have been increasing for 10 consecutive years, from ¥0.3 per share (DPS) in FY12/2014 to ¥14 per share (DPS) in FY12/2024.

**Chart 14. Elan's Cost of Capital and ROE Based on CAPM**

Year	ROE	Equity Spread	Cost of Equity	Risk-Free Rate	B	Risk Premium
FY 2019	21.4%	17.5%	3.9%	-0.03%	0.62	6.27%
FY 2020	25.8%	20.2%	5.6%	0.02%	1.02	5.45%
FY 2021	27.9%	22.2%	5.7%	0.07%	1.03	5.49%
FY 2022	25.3%	18.7%	6.6%	0.41%	1.11	5.62%
FY 2023	25.4%	17.8%	7.7%	0.62%	1.29	5.45%

Source: Elan

## 9. Current Performance Trends

### 1) FY12/2024 1Q Results

**Increase in Sales and Income Due to Acquisition of New Facilities and Increase in Number of Users of “CS Set’s” etc.**

**Operating Margin Declined Due to M&A-Related Expenses in Vietnam and Higher Employee Salaries Number of Facilities with “CS Set’s” reached 2,360**

Elan's performance in the first quarter of FY12/2024 was as follows: net sales of ¥11,487mn (+16.5% YoY), operating income of ¥1,059mn (+6.8% YoY) and higher sales and profits. The increase in both sales and income was due to the acquisition of new “CS Set” facilities, an increase in the number of users and a price pass-through of higher procurement costs.

Although gross profit margin increased due to progress in price pass-through, SG&A expenses increased due to M&A-related costs in Vietnam and salary increases for employees, resulting in a decline in operating profit margin.

The number of facilities with new contracts and the number of facilities with cancelled contracts during the first quarter totaled 71 and 31, respectively, bringing the total number of “CS Set” installations to 2,360 facilities at the end of the first quarter, up 40 facilities from the end of the previous consolidated fiscal year.

Chart 15. Quarterly Business Performance Trends (¥ mn)

FY End	12/22				12/23				12/24
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>Net Sales</b>	<b>8,793</b>	<b>8,811</b>	<b>9,162</b>	<b>9,499</b>	<b>9,857</b>	<b>9,924</b>	<b>10,645</b>	<b>11,000</b>	<b>11,487</b>
(YoY)	16.9%	14.5%	13.6%	13.7%	12.1%	12.6%	16.2%	15.8%	16.5%
Cost Of Sales	6,523	6,626	6,962	7,127	7,467	7,603	8,187	8,417	8,666
<b>Gross Profit</b>	<b>2,270</b>	<b>2,185</b>	<b>2,200</b>	<b>2,372</b>	<b>2,390</b>	<b>2,322</b>	<b>2,458</b>	<b>2,581</b>	<b>2,821</b>
(Gross Profit Margin)	25.8%	24.8%	24.0%	25.0%	24.2%	23.4%	23.1%	23.5%	24.6%
SG&A Expenses	1,356	1,385	1,352	1,543	1,397	1,513	1,533	1,643	1,762
<b>Operating Profit</b>	<b>914</b>	<b>800</b>	<b>848</b>	<b>829</b>	<b>992</b>	<b>809</b>	<b>925</b>	<b>939</b>	<b>1,059</b>
(Operating Profit Margin)	10.4%	9.1%	9.3%	8.7%	10.1%	8.2%	8.7%	8.5%	9.2%
Non-Operating Income	4	7	7	2	5	7	4	1	7
(Loss)									
<b>Recurring Profit</b>	<b>918</b>	<b>808</b>	<b>855</b>	<b>831</b>	<b>997</b>	<b>816</b>	<b>929</b>	<b>940</b>	<b>1,066</b>
(Recurring Profit Margin)	10.4%	9.2%	9.3%	8.7%	10.1%	8.2%	8.7%	8.5%	9.3%
Extraordinary	0	0	0	-377	0	0	0	0	0
Income/Loss									
<b>Income Before Income Taxes</b>	<b>918</b>	<b>808</b>	<b>855</b>	<b>454</b>	<b>997</b>	<b>816</b>	<b>929</b>	<b>940</b>	<b>1,066</b>
<b>Taxes</b>									
Total Income Taxes	291	257	269	136	302	258	293	310	339
(Corporate Tax Rate)	31.7%	31.8%	31.5%	30.0%	30.3%	31.6%	31.5%	33.0%	31.8%
<b>Net Profit</b>	<b>627</b>	<b>551</b>	<b>585</b>	<b>320</b>	<b>696</b>	<b>557</b>	<b>636</b>	<b>630</b>	<b>727</b>
Net Profit Margin	7.1%	6.3%	6.4%	3.4%	7.1%	5.6%	6.0%	5.7%	6.3%

Source: Company Data.



## 2) Forecast for FY12/2024

### Forecasting Increased Sales & Profit for FY12/24 Also

For FY12/2024, the company forecasts sales of ¥50.0bn (+20.7% YoY), operating profit of ¥4.2bn (+14.6% YoY), recurring profit of ¥4.2bn (+14.9% YoY) and net income of ¥2.8bn (+13.1% YoY). The company plans to further develop the number of facilities that use “CS Set’s” from its 28 sales offices nationwide, and by enhancing the added value of its services, secure a competitive advantage over competitors and promote an increase in the number of new facilities and the number of users. In addition, the company plans to increase the profitability of the entire group by improving operational efficiency and productivity through further promotion of various types of systemization.

### Sales Growth Pace is Expected to Accelerate in the Second Half of the Year

For 1H FY12/2024, the company expects sales to increase 14.3% YoY, but earnings are expected to decline. In 2H FY12/2024, sales are expected to increase at an accelerated pace to +20.7% YoY, due to an improved operating environment for “CS Set’s”, an increase in the utilization rate of hospital beds, and progress in price shifting. This is due to the expected improvement in the “CS Set” operating environment, increase in bed utilization and progress in price shifting in the second half of the year.

## 10. Valuation

### 1) Undervalued Compared to Past Performance

#### PER Down Despite Higher ROE & Dividend Payout Ratio

Elan's share price rose from 2017 to 2019, along with its PER, on the back of business growth and increased shareholder returns. In 2020, PER rose to over 60x on expectations of increased demand for hospitalization sets due to the COVID-19 pandemic, reaching a high of ¥1,736 in January 2021. Since then, the share price has declined as the COVID-19 pandemic subsided and PER is currently below 20x. PER is lower now than it was in 2017-2019, before the COVID-19 pandemic, despite higher ROE and dividend payout ratios and the company is now undervalued compared to past performance.

Chart13. Elan's Share Price and Key Indicators

	12/17	12/18	12/19	12/20	12/21	12/22	12/23	LTM
Share Price (¥)	355	674	805	1,499	1,110	938	1,116	827
Net Profit (¥ mn)	658	865	990	1,446	1,906	2,083	2,519	2,550
PER (Times)	32.2	47.2	49.3	62.8	35.2	27.2	19.6	17.5
ROE	20.5%	22.3%	21.3%	25.8%	27.9%	25.3%	25.4%	25.8%
Dividend Payout Ratio	18.2%	24.5%	27.6%	29.3%	28.5%	31.9%	31.2%	-

Source: Prepared by Strategy Advisors. Based on Company Data.

### 2) Undervalued Compared to Domestic Companies

#### Elan is a Highly Profitable Company

As Tokai Corp. is the only listed peer in Japan, Elan ranks fifth in terms of market capitalization when compared to other medical and welfare-related companies in the category. Hoky Medical (TSE 3593) is a leading manufacturer of medical non-woven fabrics, sterile packaging materials and various medical kit products. Compared to these companies, Elan's ROE is high (3-8x), but its PER is below or about the same level, making it undervalued. Only Elan's share price has declined over the past year, making it even more undervalued.

**Chart14. Valuations of the Top 10 Medical and Welfare Supplies Companies**

	Description	Market Capitalization (¥ bn)	Net Profit (¥ bn)	ROE	PER (Times)	PBR (Times)	Stock Price Percentage change (Past Year)
1	Paramount Bed HD	160.9	10.6	8.0%	13.8	1.1	11.7%
2	Hogy Medical	99.2	2.8	3.3%	28.8	1.1	20.7%
3	Nagaileben	81.2	3.2	7.6%	23.3	1.7	8.9%
4	Tokai	73.3	5.8	6.9%	12.2	0.8	8.0%
<b>5</b>	<b>ELAN</b>	<b>50.1</b>	<b>2.5</b>	<b>25.4%</b>	<b>16.7</b>	<b>6.2</b>	<b>-4.9%</b>
6	France Bed HD	44.1	3.1	8.2%	13.2	1.2	6.2%
7	Nippon Care Supply	30.6	1.6	9.7%	16.2	1.8	19.0%
8	KOWA	6.2	0.7	29.3%	9.3	2.6	41.6%
9	Kawamoto	4.7	0.6	5.9%	9.9	0.6	-17.2%
10	PLATZ	3.0	0.2	7.2%	24.1	0.8	20.4%

Note: As of May 31, 2024; PER is the FactSet forecast for the current term. PER's for companies below France Bed Holdings are company estimates.

Source: Prepared by Strategy Advisors from QUICK FactSet data.

### 3) Undervalued Compared to Foreign Companies

#### Elan is Less Expensive Than UniFirst & K-Bro Linen

As mentioned earlier, Elan has the second highest ROE, mainly due to its high total asset turnover. However, UniFirst Corp, which has a much lower ROE, has a PER of 31.8, higher than Elan's 26.8. K-Bro Linen, which also has a much lower ROE than Elan, has a PER of 20.0, which is close to Elan's. Compared to these companies, Elan's share price is undervalued.

**Chart15. Key Indicators for the Most Recent Fiscal Year for Representative Firms Involved in Linen Leasing to Hospitals (Restated)**

Company	Country	Key Indicators for the Most Recent Fiscal Year							
		Net Sales (¥ mn)	3 Year CAGR	Net Income Ratio	Total Asset Turnover	Financial Leverage	ROE	3-Year Average ROE	PER
Cintas Corp.	US	1,322,365	7.6%	15.2%	1.1	2.3	37.4%	34.9%	35.8
Elis SA	France	732,598	15.4%	6.1%	0.5	2.7	7.8%	6.2%	16.8
Vestis Corp.	US	423,793	3.3%	7.5%	0.9	2.0	13.3%	8.4%	11.9
UniFirst Corp.	US	334,957	7.4%	4.6%	0.9	1.3	5.3%	6.3%	31.8
Watakyu Seimoa Corp.	Japan	174,869	4.6%	3.1%	1.9	2.0	12.1%	9.2%	-
Tokai	Japan	138,222	5.4%	4.2%	1.2	1.3	6.9%	7.4%	13.3
Servizi Italia	Italy	48,946	6.2%	1.9%	0.7	2.9	4.0%	4.4%	9.0
<b>ELAN</b>	<b>Japan</b>	<b>41,426</b>	<b>16.7%</b>	<b>6.1%</b>	<b>5.4</b>	<b>0.8</b>	<b>25.4%</b>	<b>26.1%</b>	<b>26.8</b>
K-Bro Linen	Canada	35,297	17.7%	5.5%	0.9	2.0	10.0%	5.5%	20.0
Koyama Corp.	Japan	30,800	-	7.9%	1.0	1.3	10.1%	11.0%	-
Shibahashi Shokai	Japan	26,900	-	1.1%	1.5	2.5	4.0%	9.1%	-
Yamashita	Japan	26,800	-	-	-	-	-	-	-
Amenity	Japan	23,600	-	-	-	-	-	-	-
Koyama Shokai	Japan	23,200	-	-	-	-	-	-	-
NIC	Japan	8,362	3.2%	-	-	-	-	-	-
Benex	Japan	6,600	0.5%	-	-	-	-	-	-

\*Calculated at 150 Yen to the US Dollar, 170 Yyen to the Euro and 110 Yen to the Canadian Dollar.

Source: Prepared by Strategy Advisors. Based on Company Data.

11. Sustainability

Women on Board of Directors in 2020

Elan has an audit committee system. In February 2020, the company initiated an executive officer system and in March 2020, the company introduced an audit committee system. In the same year, a female director was appointed to the board. Three of the eight directors are independent outside directors and all three are audit committee members (including two outside directors).

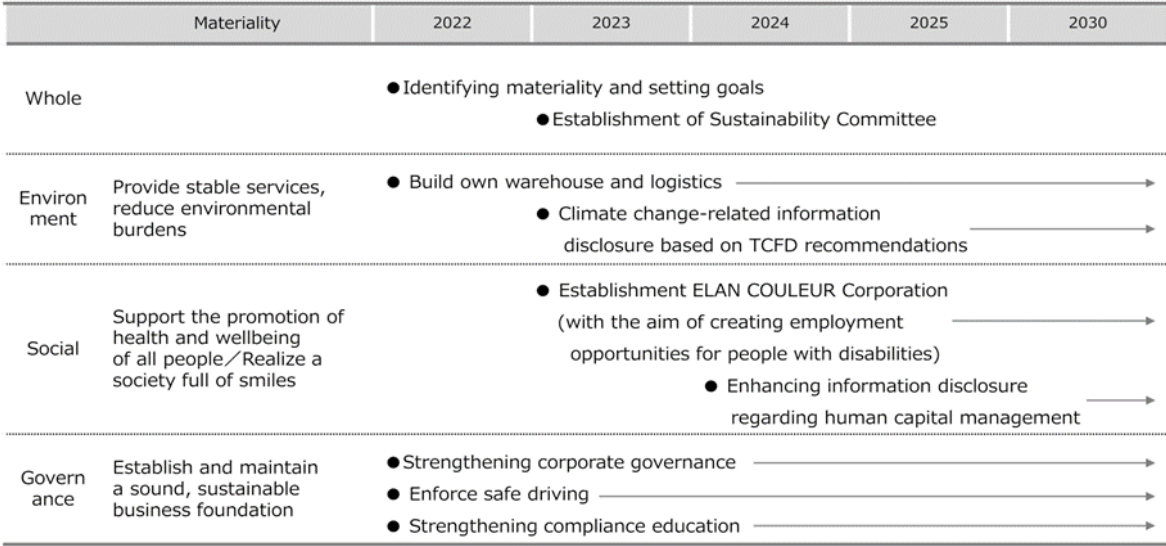
Outside Director Ratio is 37.5%

According to Principle 4-8 of the Corporate Governance Code, companies listed on the prime market are required to appoint at least one-third and half of their independent outside directors, which in the case of Elan, is met with an outside director ratio of 37.5%. In addition, the company has established a Nomination and Compensation Committee as a voluntary advisory body, the main members of which are independent outside directors.

Goal is to Have 5 Female Board Members by 2025

There is one female director, and the goal is to have five female directors by 2025. This target exceeds the standard required by the TSE. The TSE has set a target of appointing at least one female director by 2025 and at least 30% by 2030 for companies listed on the prime market. In addition to directors, corporate auditors and executive officers, female officers may include executive officers or equivalent positions.

Chart 19. Elan's Sustainability Roadmap



Source: Elan, "Financial Results for the Year Ended December 31, 2023," February 26, 2024.

## Sustainability Committee (Elan Mirai Committee) Established

Elan has established the Sustainability Committee (Elan Mirai Committee) in order to achieve both “resolution of social issues” and “corporate and human growth” through business by promoting sustainability management. In order to contribute to the “realization of an enriched living environment,” the following four materialities have been identified as important issues that should be prioritized, and the initiatives, indicators and targets for the materialities are disclosed in the December 2023 Integrated Report “ELAN REPORT 2023”.

1. Support the promotion of health and the well-being of all
2. Stable service provision and reduced environmental impact
3. Bringing smiles to our own faces and to those of others we come in contact with.
4. Build and maintain a sound and sustainable business foundation

## Climate Change-Related Disclosures In-Line with TCFD

With regard to climate change, the company discloses information in line with the framework recommended by the Climate-related Financial Disclosure Task Force (TCFD). The Climate Change (TCFD) Subcommittee has been established as a subordinate body of the Sustainability Committee (Elan Mirai Committee), which is chaired by the President and COO.

## Calculated GHG Emissions in 2022

GHG emissions were calculated for the first time in FY12/2022. Scope 1 refers to direct emissions from the company's own fuel use and industrial processes. Scope 2 refers to indirect emissions from the use of energy purchased by the company, such as electricity and heat. Specifically, the sources of emissions are electricity, heat, cold water and steam purchased and used by the company.

## Aim for Virtually Zero Emissions by 2050 for Scope 1 and 2

Scope 3 refers to the emissions of other companies, other than Scope 1 and 2; related to Elan's business activities such as raw material procurement, logistics, and sales, etc. Scope 3 accounts for about 99% of Elan's GHG emissions, and they will strive to reduce GHG emissions through continuous efforts to encourage suppliers to reduce their GHG emissions. For Scope 1 and 2, Elan aims to achieve virtually zero emissions by 2050.

## Continuing to Increase the Amount of Human Investment to Improve Corporate Value

In order to enhance corporate value, the key themes of human capital management are “maximizing the value of human resources,” “increasing diversity,” “reforming work styles and promoting women's activities,” “promoting health management,” “compliance and ethics” and “reflection in management strategies”. And the amount of human capital investment will be ¥86.91mn in FY12/2010 and ¥156.62mn in FY12/2011, with a target of ¥115.68bn in FY12/2012.

## 50% of Male Employees Take Childcare Leave

Elan's female management ratio is 9.9% (consolidated company), with targets of 20% in FY12/2024 and 25% in FY12/2025. The male childcare leave utilization rate is 50% (Elan unconsolidated), with targets of 55% in FY12/2024 and 60% in FY12/2025. The wage gap between men and women is 56.4% (71.6% for full-time workers and 35.6% for part-time/fixed-term workers).

## **Ratio of Female Managers is on Par with the Average of Listed Companies**

According to a survey by Tokyo Shoko Research, of the 2,456 companies with fiscal year ending March 31, 2023, the average ratio of female managers is 9.4% (1,706 of the companies listed). The average gender wage gap is 71.7% (1,677 companies listed), with women earning approximately 30% less than men. Elan's ratio of female managers is on par with the average for listed companies, but the gender wage gap is 15.3 percentage points larger.



## 12. Risk Factors

Although there are no major risks to watch at this point, the following two risks can be identified as possibly prevent the company's performance from growing as much as planned.

- ① Further increases in the number of new entrants into the hospitalization set business and intensified price competition may become obstacles to expanding Elan's customer base. However, the hospitalization set business requires the accumulation of know-how, such as the need for careful explanations to on-site personnel at hospitals and nursing care facilities, and the barriers to entry are higher than they appear on the surface.
- ② In markets such as India and Vietnam, which are new challenges for Elan, there is a possibility that a situation that cannot be assumed from the common sense of the Japanese market will arise and have a negative impact on Elan.

**Chart 20. Consolidated Statements of Income**

(¥ mn)	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24 CoE
<b>Net Sales</b>	<b>15,467</b>	<b>18,585</b>	<b>21,519</b>	<b>26,056</b>	<b>31,636</b>	<b>36,265</b>	<b>41,426</b>	<b>50,000</b>
Cost of Sales	11,469	13,758	16,045	19,493	23,759	27,238	31,674	
<b>Gross Profit</b>	<b>3,998</b>	<b>4,827</b>	<b>5,473</b>	<b>6,564</b>	<b>7,877</b>	<b>9,027</b>	<b>9,751</b>	
Gross Profit Margin	25.8%	26.0%	25.4%	25.2%	24.9%	24.9%	23.5%	
SG&A Expenses	3,085	3,548	3,981	4,495	5,078	5,636	6,086	
<b>Operating Profit</b>	<b>913</b>	<b>1,279</b>	<b>1,492</b>	<b>2,068</b>	<b>2,799</b>	<b>3,391</b>	<b>3,665</b>	<b>4,200</b>
Operating Profit Margin	5.9%	6.9%	6.9%	7.9%	8.8%	9.4%	8.8%	8.4%
Non-Operating Income	12	4	14	82	26	28	33	
Gain on Sale of Non-Current Assets	2	0	1	0	2	1	0	
Late Charges Income	-	-	7	17	16	14	11	
Consulting Fee Income	3	-	-	-	-	4	4	
Subsidy Income	1	1	3	0	3	1	6	
Non-Operating Expenses	1	1	5	2	6	7	16	
Loss on Retirement of Non-current Assets	1	0	4	0	1	2	4	
Loss on Investments in Investment Partnerships	-	-	-	-	3	5	5	
<b>Ordinary Profit</b>	<b>924</b>	<b>1,282</b>	<b>1,501</b>	<b>2,148</b>	<b>2,819</b>	<b>3,412</b>	<b>3,682</b>	<b>4,230</b>
Ordinary Profit Margin	6.0%	6.9%	7.0%	8.2%	8.9%	9.4%	8.9%	8.5%
Extraordinary Income/Loss	27	0	0	0	0	-377	0	
Marginal Gain on Step Acquisitions	27	0	0	0	0	0	0	
Loss on Valuation of Investment Securities	0	0	0	0	0	-377	0	
Profit Before Income Taxes	951	1,282	1,501	2,148	2,819	3,035	3,682	
Profit Before Tax Ratio	6.1%	6.9%	7.0%	8.2%	8.9%	8.4%	8.9%	
Income Taxes	293	417	512	702	913	953	1,163	
Income Taxes - Current	328	469	547	778	973	1,066	1,219	
Deferred Income Taxes	-35	-51	-35	-76	-60	-114	-56	
Profit	658	865	990	1,446	1,906	2,083	2,519	
Net Profit Margin	4.3%	4.7%	4.6%	5.5%	6.0%	5.7%	6.1%	5.7%

Source: Company Data.

**Chart 16. Consolidated Balance Sheet**

(¥ mn)	12/17	12/18	12/19	12/20	12/21	12/22	12/23
Cash and Deposits	2,147	3,057	3,472	4,498	5,632	6,036	5,489
Accounts receivable	3,409	3,658	4,476	5,044	5,848	7,105	8,622
Inventories	499	595	767	995	1,080	1,332	1,899
Deferred Tax Asset	110	157	0	0	0	0	0
Other	-239	-317	-388	-357	-430	-397	-503
<b>Current Assets</b>	<b>5,926</b>	<b>7,150</b>	<b>8,327</b>	<b>10,180</b>	<b>12,130</b>	<b>14,076</b>	<b>15,507</b>
Land	114	114	114	114	114	269	269
Other	180	188	198	203	227	292	271
<b>Property, Plant and Equipment</b>	<b>294</b>	<b>302</b>	<b>312</b>	<b>317</b>	<b>341</b>	<b>561</b>	<b>540</b>
Goodwill	166	127	88	49	10	0	0
Other	61	112	108	113	95	92	109
<b>Intangible Assets</b>	<b>227</b>	<b>239</b>	<b>196</b>	<b>162</b>	<b>105</b>	<b>92</b>	<b>109</b>
<b>Investments and Other Assets</b>	<b>79</b>	<b>133</b>	<b>402</b>	<b>1,030</b>	<b>1,371</b>	<b>1,342</b>	<b>2,838</b>
<b>Total Non-Current Assets</b>	<b>601</b>	<b>674</b>	<b>909</b>	<b>1,509</b>	<b>1,818</b>	<b>1,996</b>	<b>3,486</b>
<b>Total Assets</b>	<b>6,527</b>	<b>7,824</b>	<b>9,236</b>	<b>11,689</b>	<b>13,948</b>	<b>16,072</b>	<b>18,993</b>
Accounts payable - trade	2,340	2,746	3,340	4,158	4,868	5,568	6,427
Accounts payable - other	335	369	397	564	617	622	700
Income Taxes Payable	250	390	425	712	847	730	859
Other	105	57	49	68	85	92	103
<b>Current Liabilities</b>	<b>3,030</b>	<b>3,562</b>	<b>4,211</b>	<b>5,502</b>	<b>6,417</b>	<b>7,012</b>	<b>8,089</b>
Provision for share awards	-	-	-	-	14	20	28
Provision for share awards for directors	-	-	-	-	31	50	63
Other	0	0	4	3	2	1	0
<b>Non-current liabilities</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>47</b>	<b>71</b>	<b>90</b>
<b>Total Liabilities</b>	<b>3,030</b>	<b>3,562</b>	<b>4,215</b>	<b>5,505</b>	<b>6,464</b>	<b>7,083</b>	<b>8,179</b>
Capital & Surplus	1,102	1,116	1,116	1,116	1,116	1,116	1,116
Retained Earnings	2,396	3,142	3,919	5,093	6,575	8,112	9,964
Treasury shares	0	0	0	0	-197	-194	-194
<b>Shareholders' Equity</b>	<b>3,497</b>	<b>4,258</b>	<b>5,036</b>	<b>6,210</b>	<b>7,494</b>	<b>9,035</b>	<b>10,887</b>
<b>Total Net Assets</b>	<b>3,497</b>	<b>4,263</b>	<b>5,021</b>	<b>6,184</b>	<b>7,484</b>	<b>8,990</b>	<b>10,814</b>
<b>Total Liabilities and Net Assets</b>	<b>6,527</b>	<b>7,824</b>	<b>9,236</b>	<b>11,689</b>	<b>13,948</b>	<b>16,072</b>	<b>18,993</b>

Source: Company Data.

**Chart 2217. Consolidated Operating Cash Flows**

(¥ mn)	12/17	12/18	12/19	12/20	12/21	12/22	12/23
Profit Before Income Taxes	951	1,282	1,501	2,148	2,819	3,035	3,682
Depreciation	79	99	110	117	120	144	188
Loss (Gain) on Valuation of Investment Securities	0	0	0	0	0	377	8
Increase (Decrease) in Allowance for Doubtful Accounts	60	87	120	24	75	-44	102
Working Capital	-394	60	-445	13	-162	-728	-1,069
Income Taxes Paid	-346	-376	-560	-563	-916	-1,082	-1,098
Other Operating Cash Flows	-32	39	53	209	170	-121	-32
<b>Cash Flows from Operating Activities</b>	<b>318</b>	<b>1,191</b>	<b>779</b>	<b>1,948</b>	<b>2,106</b>	<b>1,581</b>	<b>1,781</b>
Purchase of Investment Securities	0	-68	-71	-550	-268	-211	-1,475
Acquisition of Tangible and Intangible Fixed Assets	-74	-102	-71	-87	-78	-347	-195
Acquisition of Subsidiary Shares	-161	-	-	-	-	-	-
(Security) Deposit	-8	-8	-12	-14	-11	-68	-9
Other	5	2	2	3	-1	1	18
<b>Cash Flows from Investing Activities</b>	<b>-238</b>	<b>-176</b>	<b>-152</b>	<b>-648</b>	<b>-358</b>	<b>-625</b>	<b>-1,661</b>
Issuance of Shares	7	16	0	0	0	3	0
Redemption and Cancellation of Shares	0	0	0	0	-197	0	0
Dividends Paid	-89	-119	-212	-272	-416	-555	-666
Other Financing Cash Flows	0	-1	-1	-2	-1	-1	-1
<b>Cash Flows from Financing Activities</b>	<b>-82</b>	<b>-104</b>	<b>-213</b>	<b>-274</b>	<b>-614</b>	<b>-553</b>	<b>-667</b>
<b>Free Cash Flow</b>	<b>80</b>	<b>1,015</b>	<b>627</b>	<b>1,300</b>	<b>1,748</b>	<b>956</b>	<b>120</b>

Source: Company Data.

**Chart 23. Stock Indicators, ROE and KPIs**

	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
								CoE
EPS (Yen)	44.2	28.8	32.7	23.9	31.5	34.5	41.7	47.1
BPS (Yen)	233.9	140.1	165.7	102.1	123.8	148.7	178.9	
Dividend Per Share (Yen)	8.0	14.0	9.0	14.0	9.0	11.0	13.0	14.0
Dividend Payout Ratio	18.2	24.5	27.6	29.3	28.5	31.9	31.2	
Closing Price (Yen)	1,418	1,347	1,610	1,499	1,110	938	1,116	
PER (Times)	32.2	47.2	49.3	62.8	35.2	27.2	26.8	18.7
PBR (Times)	6.1	9.6	9.7	14.7	9.0	6.3	6.2	
Shares Issue & Outstanding (tn)	14,950	15,150	30,300	30,300	60,600	60,600	60,600	
Number Of Treasury Stock (Shares)	162	220	440	469	140,969	138,769	138,795	
Number Of Shares of Treasury								
Stock Excluded (Thousand Shares)	14,950	15,150	30,300	30,300	60,459	60,461	60,461	
Market Capitalization (¥ mn)	21,199	40,814	48,782	90,839	67,110	56,713	67,475	
Shareholders' Equity Ratio	53.6	54.5	54.4	52.9	53.7	55.9	56.9	
Interest-Bearing Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
D/E Ratio	-0.6	-0.7	-0.7	-0.7	-0.8	-0.7	-0.5	
EV (Enterprise Value)	19,052	37,757	45,310	86,341	61,478	50,677	61,986	
EBITDA (¥ mn)	992	1,378	1,602	2,185	2,919	3,535	3,853	4,388
EV/EBITDA Multiple	19.2	27.4	28.3	39.5	21.1	14.3	16.1	10.9
ROE	20.5	22.3	21.3	25.8	27.9	25.3	25.4	
ROIC (Capital Invested)	-	22.2	21.1	24.4	27.6	29.6	25.3	
ROIC (Business Assets)	-	103.7	124.0	208.7	329.7	402.0	288.7	
Number Of Employees	232	242	276	290	320	349	378	

Note: Share price indices for FY3/24 are based on the closing price on March 22; balance sheet items are as of December 31, 2023.

Source: Company Data.

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**Strategy Advisors**

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