ELAN | 6099 (TSE Prime)

Company Report

June 19, 2025

Strategy Advisors, Inc.
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Q1 Results Were in Line with Plan with No Change to Full-Year Forecast. Collaboration with M3 Appears to Have Started Early

In Q1 FY12/25 results, net sales were ¥13.4 billion (+16.9% YoY), gross profit was ¥2.9 billion (+6.1% YoY), operating profit was ¥1.1 billion (+12.1% YoY), ordinary profit was ¥1.1 billion (+10.8% YoY) and net income was ¥800 million (+10.1% YoY), representing increases in both sales and income. The main factors behind the revenue growth were an increase in the number of users due to the acquisition of new contracts and a rise in the unit price per user. The main factors behind the increase in operating profit were the ongoing decline in the SG&A-to-sales ratio due to the impact of systemization and the effect of the newly consolidated Vietnam business in the overseas business.

The full-year forecast for FY12/25 remains unchanged from the initial forecast. The company forecasts net sales of ¥59.0 billion (+24.2% YoY), operating profit of ¥4.7 billion (+31.9% YoY), ordinary profit of ¥4.7 billion (+33.7% YoY) and net income of ¥3.0 billion (+31.2% YoY). The dividend forecast remains unchanged with no Q2 year-end dividend and a Q4 year-end dividend of ¥15.

Regarding collaboration and synergies with M3, 3-points were introduced in the Q1 financial results materials: "Developed differentiated product for CS set. Demonstration trial scheduled soon", " Implemented joint proposals to medical institutions and confirmed early results" and "Cost reduction effects by taking advantage of the Group's purchasing power began to emerge". It is clear that collaborative efforts are underway very quickly. We look forward to further reports from the Q2 results onward.

From 2018 to 2021, the company's stock had a PBR of around 10x and a PER of 40-70x. In contrast, the current PBR is as high as 3.9x, but the PER of 15.9x is not high relative to peers and the market. While high ROE supports the stock price, it has not yet reached the point where it commands a premium due to exciting business development and high growth expectations. In our view, the 2 factors of 1) the progress of the alliance with M3 and 2) the potential for valuation as a platform company are the factors that will make ELAN's equity story attractive going forward and may lead to a renewed premium on valuations.

Share Price & Volumes (Past Year)

Source: Strategy Advisors

Key Indicators

Stock Price (6/18/24)	813
YTD High (9/20/24)	1,002
YTD Low (4/7/25)	621
All-Time High (11/11/14)	4,350
All-Time Low (4/7/25)	621
Shares Issued (mn)	60.5
Market Capitalization (¥ bn)	49.2
EV (¥ bn)	44.8
Equity Ratio (FY12/24 Actual, %)	57.9
ROE (FY12/24, %)	20.2
PER (FY12/25 CoE, Times)	15.9
PBR (FY12/24 Actual, Times)	3.9
Yield (FY12/25 CoE, %)	1.8

Source: Strategy Advisors

Japanese GAAP - Consolidated

FY	Sales (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	RP (¥ mn)	YoY (%)	NP (¥ mn)	YoY (%)	EPS (¥)	DPS (¥)
FY12/24 Q1	11,486	16.5	1,059	6.7	1,065	6.8	726	4.5	12.0	-
FY12/25 Q1	13,433	16.9	1,187	12.1	1,180	10.8	800	10.1	13.2	-
FY12/22	36,264	14.6	3,391	21.2	3,411	21.1	2,082	9.3	34.4	11.0
FY12/23	41,425	14.2	3,665	8.1	3,681	7.9	2,518	20.9	41.6	13.0
FY12/24	47,513	14.7	3,577	-2.4	3,544	-3.7	2,354	-6.5	38.9	13.0
FY12/25 CoE	59,000	24.2	4,720	31.9	4,740	33.7	3,090	31.2	51.0	15.0

Source: Company Data. Prepared by Strategy Advisors.

Table of Contents

1. Current Performance Trends

1) Sales & Profit Up Q1 of FY12/25, Full-Year Forecast Unchanged

Increased Revenue and Profit Due to the Introduction into New Facilities & an Increase in the Number of Users of CS Sets

In Q1 FY12/25, ELAN posted sales of ¥13.4 billion (+16.9% YoY), gross profit of ¥2.9 billion (+6.1% YoY), operating profit of ¥1.1 billion (+12.1% YoY), ordinary profit of ¥1.8 billion (+10.8% YoY) and net income of ¥800 million (+10.1% YoY). Q1 results were 25.1% of the company's full-year forecast for operating profit and 24.9% for ordinary profit. The main factors behind the increase in sales were an increase in the number of subscribers due to the acquisition of new CS set subscriptions and a rise in the unit price per subscriber. The main factors for the increase in operating profit were the continued decline in the SG&A ratio in the domestic business due to the systemization effect and the effect of the newly consolidated Vietnam business in the overseas business.

Newly Recorded Sales and Profits from the Vietnam Business Were Also Factors in the YoY Increase in Sales and Profits

Of the subsidiaries in Vietnam, GREEN's PL was consolidated in Q4 of FY12/24, and TMC's PL was also consolidated in Q1 of FY12/25. As a result, overseas operations posted net sales of ¥383 million and operating income of ¥53 million in Q1 of FY12/25. Since these figures were not consolidated in Q1 of FY12/24, they are one of the factors contributing to the YoY increase in both sales and operating profit.

Full-Year Forecasts for FY12/25 Remain Unchanged for Both Sales and Profits

The full-year forecast for FY12/25 remains unchanged from the initial forecast. The company forecasts net sales of ¥59.0 billion (+24.2% YoY), operating profit of ¥4.7 billion (+31.9% YoY), ordinary profit of ¥4.7 billion (+33.7% YoY) and net income of ¥3.0 billion (+31.2% YoY). The dividend forecast remains unchanged with no Q2 year-end dividend and a Q4 year-end dividend of ¥15.

Figure 1: Summary of ELAN's Financial Results for Q1 FY12/25

(¥ mn)	12/24 Q1	**12/25 Q1 (A)**	YoY	Achievement Rate (A)/(B)	12/25 CoE (B)	YoY
Net Sales	11,486	**13,433**	16.9%	22.8%	59,000	24.2%
Operating Profit	1,059	**1,187**	12.1%	25.1%	4,720	31.9%
Ordinary Profit	1,065	**1,180**	10.8%	24.9%	4,740	33.7%
Profit Attributable to Owners of Parent	726	**800**	10.1%	25.9%	3,090	31.2%

Source: Company Data. Prepared by Strategy Advisors.

Number of Facilities under Contract at the End of the Q1 Period Reached 2,589

The number of facilities under contract at the end of FY12/25 Q1 totaled 2,589, a net increase of 19 facilities (57 new contracts and 38 cancellations) from the end of FY12/24 and a net increase of 229 facilities (+9.7%) over the past year. The number of facilities under contract continues to increase. Although a net increase of 19 facilities may seem rather small, the number of new contracts tends to be low in Q1 every year due to seasonality, so it will be necessary to see how these numbers are from Q2 onwards.

Figure 2: Changes in the Number of Contracted Facilities by Area (Quarterly)

(Subject)	12/22				12/23				12/24				12/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Number of Contracted Facilities	1,862	1,945	2,005	2,060	2,081	2,171	2,237	2,320	2,360	2,439	2,503	2,570	2,589
Hokkaido	120	127	129	136	138	143	145	149	152	163	170	173	172
Tohoku	235	246	259	269	270	279	284	298	301	315	319	331	332
Kanetsu	301	316	327	331	332	345	371	392	404	422	433	454	458
Central	388	394	399	405	406	419	418	426	432	437	444	445	450
Kansai Hokuriku	336	351	363	375	375	403	421	438	447	464	481	503	502
Chugoku & Shikoku	368	383	389	400	407	417	421	429	435	442	450	451	455
Kyushu & Okinawa	114	128	139	144	153	165	177	188	189	196	206	213	220

Source: Company Data. Prepared by Strategy Advisors.

2) Although the Initial Cost of Introducing the Lifte Still Pushes Down the Apparent Gross Profit

There is an Apparent Negative Effect Until the Cumulative Number of Installations Builds Up

The rapid increase in the introduction of Lifte, the original patient gowns that began to be introduced in 2022, in the second half of 2023, has caused the initial cost of introducing Lifte to pull down apparent gross profit and operating profit. This is because the cost of Lifte is expensed in a lump sum at the time of Lifte installation, while sales are recorded over the 3–4 years usage period. The total cost of introducing Lifte, which was recorded as an expense in Q1 of FY12/25, was ¥310 million. However, since the cumulative number of facilities where Lifte has been introduced is still 293, revenue from Lifte alone is estimated to be approximately ¥80-¥100 million (our estimate), which is a factor lowering the apparent gross profit.

The Impact is Expected to Lessen as the Cumulative Number of Lifte Installations Increases

The following section analyzes the actual profit trend based on gross profit and operating profit after adding back the one-time costs of introducing Lifte. In the second half of FY12/26 to FY12/27, when the cumulative number of facilities with Lifte will increase, the apparent negative impact of the introduction will disappear and actual profits will become visible without the need to add back the costs. See our March 19, 2025 report for an analysis of the Lifte cost impact and more information on the Lifte product.

3) Actual Operating Margin Continues to Rise

Real Gross Profit Margin Stopped Declining After 2022

Looking at the trend since 2015, the gross profit margin (on an adjusted basis for the addition of Lifte costs, gross profit margin for domestic operations) was gradually declining until around 2022, but after 2022 it has tended to level off at around 24% (Figure 3).

One of the reasons for the decline in gross profit margin through 2022 may be the increased adoption of CS sets by large acute care hospitals due to their increased credibility as a company after being listed on the stock exchange. Large acute care hospitals operate differently from the large number of convalescent hospitals that used to be and this tends to be a factor in the decline in gross profit margins.

User Price per User is on an Upward Trend Since 2022

The stabilization of the gross profit margin after 2022 is likely to have been influenced by an increase in the unit cost per user. The unit price per user fell sharply at the beginning of 2020 against the backdrop of changes in usage methods in the Covid-19 disaster and continued to decline moderately thereafter. However, the introduction of new products such as CS Set R, CS Set LC and Lifte (Figure 4) from since 2022 has led to an increase in the unit price. Another factor contributing to the rise in the unit price is the increasing proportion of long-term care facilities that are used longer days per user than hospitals, as well as recent price hikes due to cost increases.

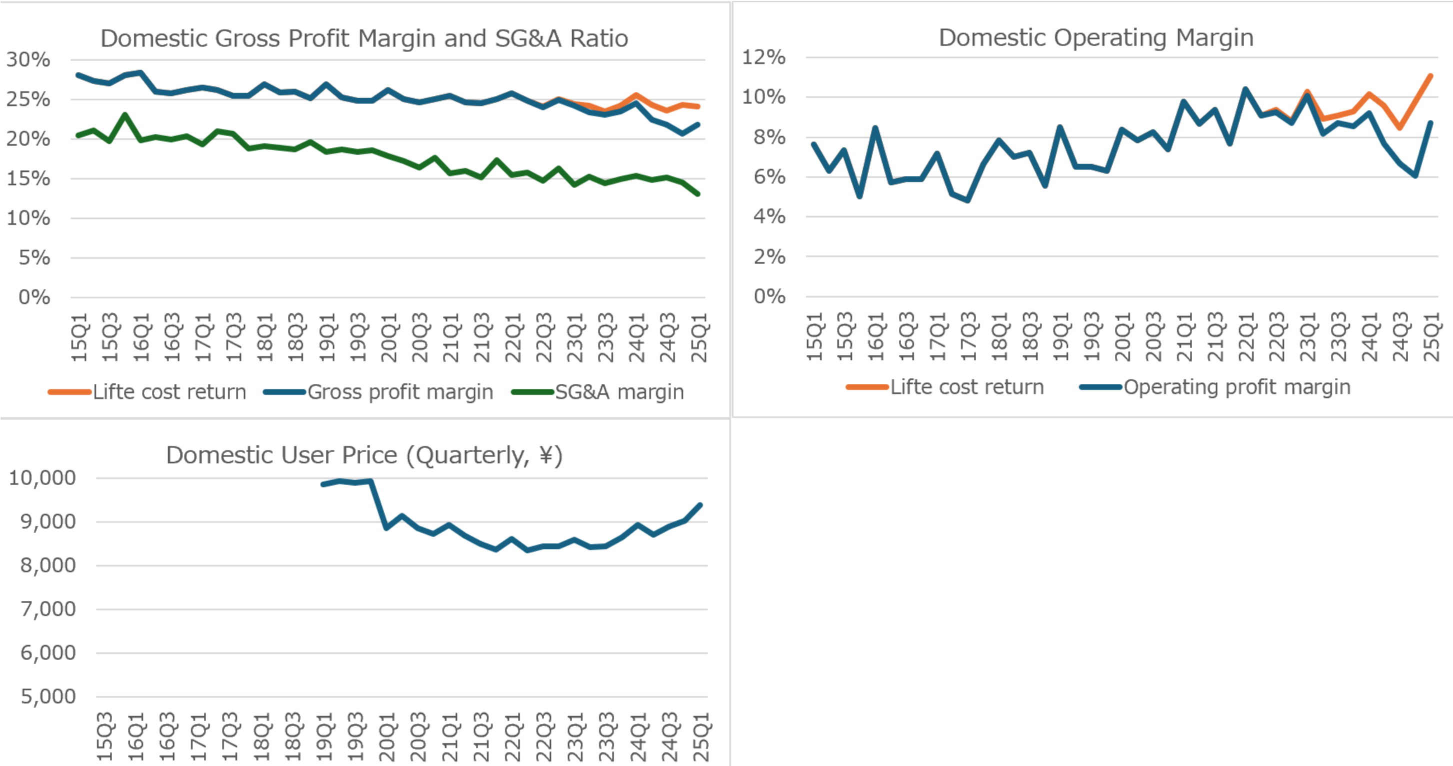
SG&A Ratio Continues to Decline Over Time Due to the Effects of Systemization

On the other hand, the SG&A ratio has consistently declined since 2015. This is mainly due to the effect of the systemization of operations. Until listing in November 2014, the entire operation from sales to billing was done manually. After a sales representative collected an application form, a part-time employee would manually input the information to create an invoice. By systematizing this process after the listing, the company was able to establish a system in which the number of part-time employees did not increase even as the number of users increased. This has resulted in an expense structure that automatically lowers the SG&A expense ratio as sales increase.

As a Result, Operating Profit Margins Continue to Rise

As a result of the above, the operating margin of the domestic business increased from 6.5% in FY12/15 to 9.5% in FY12/24 on an add-back basis for Lifte costs.

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



Note: Profit ratios based on the addition and subtraction of lifte costs are estimated by Strategy Advisors.

Source: Company Data. Prepared by Strategy Advisors.

Figure 4: Percentage of Facilities with CS Set R/LC and Lifte Services (Quarterly)

(¥ mn)	12/22				12/23				12/24				12/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
CS Set R Contract Facility Ratio	6%	6%	7%	7%	8%	9%	9%	10%	10%	11%	11%	11%	12%
CS Set LC Contract Facility Ratio	5%	5%	5%	6%	6%	8%	8%	8%	8%	8%	9%	9%	9%
“lifte” Introduction Facility Ratio	0%	0%	0%	0%	1%	1%	2%	2%	3%	5%	6%	10%	11%

Source: Company Data. Prepared by Strategy Advisors.

Figure 5: Net Sales, Gross Profit, Operating profit, Lifte Introductory Costs (Estimated), and Lifte Cost Return Operating Profit (Estimated) (Quarterly)

(¥ mn)	12/22				12/23				12/24				12/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	8,793	8,811	9,162	9,499	9,857	9,924	10,645	11,000	11,487	11,358	12,002	12,667	13,434
(YoY Comparison)	17%	15%	14%	14%	12%	13%	16%	16%	17%	14%	13%	15%	17%
Gross Profit	2,270	2,185	2,200	2,372	2,390	2,322	2,458	2,581	2,821	2,551	2,619	2,726	2,994
(Gross Profit Margin)	26%	25%	24%	25%	24%	23%	23%	23%	25%	22%	22%	22%	22%
Operating Profit	914	800	848	829	992	809	925	939	1,059	872	800	847	1,188
(Operating Profit Margin)	10%	9%	9%	9%	10%	8%	9%	9%	9%	8%	7%	7%	9%
Number of facilities with Lifte (cumulative)	-	5	7	8	12	27	35	52	74	117	160	252	293
Number of facilities with Lifte	-	-	2	1	4	15	8	17	22	43	43	92	41
Lifte Introduction Costs (Estimated)	-	-	10	5	20	75	40	85	110	215	215	460	310
Lifte Cost Return Gross Profit	-	-	2,210	2,377	2,410	2,397	2,498	2,666	2,931	2,766	2,834	3,186	3,150
(Lifte Cost Return Gross Margin)	-	-	**24%**	**25%**	**24%**	**24%**	**23%**	**24%**	**26%**	**24%**	**24%**	**25%**	**24%**
Lifte Cost Reversal Operating Profit	-	-	858	834	1,012	884	965	1,024	1,169	1,087	1,015	1,307	1,444
(Lifte Cost Return Operating Margin)	-	-	**9%**	**9%**	**10%**	**9%**	**9%**	**9%**	**10%**	**10%**	**8%**	**10%**	**11%**

Source: Company Data. Prepared by Strategy Advisors.

Figure 6: Quarterly Performance Trends (¥ mn)

Accounting Period	12/23				12/24				12/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	**9,857**	**9,924**	**10,645**	**11,000**	**11,487**	**11,358**	**12,002**	**12,667**	**13,434**
(YoY Comparison)	12.1%	12.6%	16.2%	15.8%	16.5%	14.4%	12.7%	15.2%	16.9%
Cost of Sales	7,467	7,603	8,187	8,417	8,666	8,806	9,385	9,940	10,440
Gross Profit	**2,390**	**2,322**	**2,458**	**2,581**	**2,821**	**2,551**	**2,619**	**2,726**	**2,994**
(Gross Profit Margin)	24.2%	23.4%	23.1%	23.5%	24.6%	22.5%	21.8%	21.5%	22.3%
SG&A Expenses	1,397	1,513	1,533	1,643	1,762	1,680	1,817	1,880	1,806
Operating Profit	**992**	**809**	**925**	**939**	**1,059**	**872**	**800**	**847**	**1,188**
(Operating Profit Margin)	10.1%	8.2%	8.7%	8.5%	9.2%	7.7%	6.7%	6.7%	8.8%
Non-Operating Profit/Loss	5	7	4	1	7	11	-52	1	-8
Ordinary Profit	**997**	**816**	**929**	**940**	**1,066**	**883**	**749**	**847**	**1,180**
(Ordinary Profit Margin)	10.1%	8.2%	8.7%	8.5%	9.3%	7.8%	6.2%	6.7%	8.8%
Extraordinary Income/Loss	0	0	0	0	0	0	0	0	0
Profit Before Tax	**997**	**816**	**929**	**940**	**1,066**	**883**	**749**	**847**	**1,180**
Total Corporate Tax, etc.	302	258	293	310	339	284	243	324	374
(Corporate Tax Rate)	30.3%	31.6%	31.5%	33.0%	31.8%	32.2%	32.4%	38.3%	31.7%
Profit Attributable to Owners of Parent	**696**	**557**	**636**	**630**	**727**	**598**	**507**	**523**	**800**
Net Profit Margin	7.1%	5.6%	6.0%	5.7%	6.3%	5.3%	4.2%	4.1%	6.0%

Source: SPEEDA. Compiled by Strategy Advisors.

2. Progress of Collaboration & Synergies with M3

4 Areas of Collaboration were Originally Planned

The company originally envisioned four areas of collaboration and synergy with M3, which were also mentioned in the previous Q4 FY12/24 financial results presentation: 1) developing new businesses and adding value to the CS set through collaboration with M3's services, 2) cross-selling to clients of both companies, 3) leveraging M3's resources to enhance competitiveness and 4) supporting overseas expansion.

3 Progress Updates in Q1 Financial Documents

Of these four areas, the Q1 financial data provided updates on progress in three areas. These are: "Developed differentiated product for CS set. Demonstration trial scheduled soon", " Implemented joint proposals to medical institutions and confirmed early results" and "Cost reduction effects by taking advantage of the Group's purchasing power began to emerge" (Figure 7). The details of each are as follows.

Differentiated Products in the CS Set

In the Q1 earnings materials, it is reported that a differentiated product is being developed for the CS set and that a demonstration trial is scheduled to be conducted soon. It is assumed that this is a type of value-added service like CS set R and CS set LC, which have been introduced in the past; but details are not disclosed at at this time, so we await additional announcements in the future.

Joint Proposal for Medical Institutions

Regarding M3 and ELAN's policy of cross-selling to each other's clients, it was reported that they will implement a specific joint proposal. M3 has business with approximately 6,000 hospitals, while ELAN has business with approximately 1,600 hospitals and the two companies will make joint proposals to these non-overlapping customers. Specifically, the company will offer a discount on the registration fee for M3's Doctor Referral Service and ELAN's Hospitalization Set if both services are introduced at the same time.

Cost Reduction Effects by Leveraging the Group's Purchasing Power

M3 and ELAN share some common purchases and in some cases M3's purchase prices are more favorable due to the size of the company. Examples include IT-related terminal equipment and aptitude test fees at the time of recruitment and cost reduction effects have already begun to be seen in some of these areas.

Support for Overseas Expansion is Expected to Progress in the Future

In the tender offer disclosure material released in September 2024, it is explained that ELAN will support ELAN's overseas development through the provision of M3's global physician platform know-how, thereby contributing to the acceleration of ELAN's overseas development and the expansion of the scale of its business. Although there was no progress update on this point in the Q1 FY12/25 results presentation, if progress is made in overseas expansion, it could be a factor in reassessing the company's valuation.

Expect Further Effects in the Future

As shown in Figure 7, there is no overlap in the business scope of M3 and ELAN, and there has always been significant potential for collaboration between the two companies. Since there was no mention of specific progress in collaboration in the Q4 financial results for FY12/24 3-months ago, it is clear that collaboration efforts are progressing very quickly. We look forward to further reports following the Q2 financial results.

Figure 7: Collaborations and Expected Synergies with M3

1	Promoting new business development and enhancing the added value of CS Sets through collaboration with M3's existing services	■ CS Set: **Developed differentiated product for CS set. Demonstration trial scheduled soon** ■ In addition to receiving assistance in developing discharge and home care packages, ELAN will also contribute to improving the quality of life of patients and improving the management of medical institutions through support that leads to early discharge by M3 ■ By acquiring patient contacts through ELAN, M3 will expand the to-C platform for which they provide services
2	Cross-selling to business partners of both parties	■ **Implemented joint proposals to medical institutions and confirmed early results**
3	Enhancing the competitiveness by leveraging M3's resources	■ **Cost reduction effects by taking advantage of the Group's purchasing power began to emerge**
4	Support for overseas expansion	■ Assumes information gathering and sales cooperation for expanding ELAN's overseas development. Also possible to get assistance entry into markets that have not yet been developed

Source: Company Data.

Figure 8: Main Business Portfolios of Major Companies Involved in the Linen Leasing and Information Provision Services for Hospital Fields

Company Name	Consolidated Sales (¥ mn)	Ticker	Country	Main Business Portfolio							
				Hospitalization Sets	Information Site		Linen & Clothing Leasing		Product Sales	Human Resources	
					Patients	Doctors	Hospital	Hotel /Food		Dispatch	IT Service
Cintas Corp	1,439,492	CTAS	America	-	-	-	Y	Y	Y	-	-
Wolters Kluwer	946,560	WKL	The Netherlands	-	-	Y	-	-	-	-	-
Elis SA	731,776	ELIS	France	-	-	-	Y	Y	-	-	-
Vestis Corp	420,873	VSTS	America	-	-	-	Y	Y	-	-	-
UniFirst Corp	364,115	UNF	America	-	-	-	Y	Y	-	-	-
M3	**284,900**	**2413**	**Japan**	**-**	**Y**	**Y**	**-**	**-**	**-**	**Y**	**-**
			North America, Europe, Asia	**-**	**-**	**Y**	**-**	**-**	**-**	**Y**	**-**
Watakyu Seimore	185,867	-	Japan	Y	-	-	Y	Y	Y	-	-
Tokai	149,542	9729	Japan	Y	-	-	Y	Y	Y	-	-
ELAN Group											
ELAN	**47,514**	**6099**	**Japan**	**Y**	**-**	**-**	**Y**	**-**	**-**	**-**	**-**
TMC Vietnam	910	-	Vietnam	-	-	-	Y	-	Y	-	-
Green Laundry	567	-	Vietnam	-	-	-	Y	-	-	-	-
Quick Smart Wash	246	-	India	-	-	-	Y	-	-	-	-
Boston Ivy	-	-	India	-	-	-	-	-	Y	-	-
Akal Information	-	-	India	-	-	-	-	-	-	-	Y
K-Bro Linen	35,297	KBL	Canada	-	-	-	Y	Y	-	-	-
Koyama	33,800	-	Japan	Y	-	-	Y	Y	Y	-	-
Yamashita	30,380	-	Japan	Y	-	-	Y	Y	-	-	-
Shibahashi Company	28,900	-	Japan	Y	-	-	Y	Y	-	Y	-
Amenities	27,700	-	Japan	Y	-	-	-	-	-	Y	-
Koyama Company	25,600	-	Japan	Y	-	-	Y	Y	-	-	-
MedPeer	14,948	6095	Japan	-	-	Y	-	-	-	Y	-
CareNet	11,183	2150	Japan	-	-	Y	-	-	-	Y	-
Nick	8,362	-	Japan	Y	-	-	Y	-	-	-	-
Benec	7,500	-	Japan	Y	-	-	Y	Y	-	-	-

Note: Calculated at ¥150 to the US Dollar, ¥160 to the Euro, ¥110 to the Canadian Dollar, ¥0.006 to the Vietnamese dong and ¥1.8 to the Indian rupee.

Note: Sales figures are for non-listed companies from FY2023, and for listed companies from the most recent of FY2023 or FY2024.

Source: Company Data. Prepared by Strategy Advisors.

3. Share Price and Valuation

1) Valuations Were High at One Time, But Have Now Settled to the Same Level as Peers

Valuations were High Until 2021

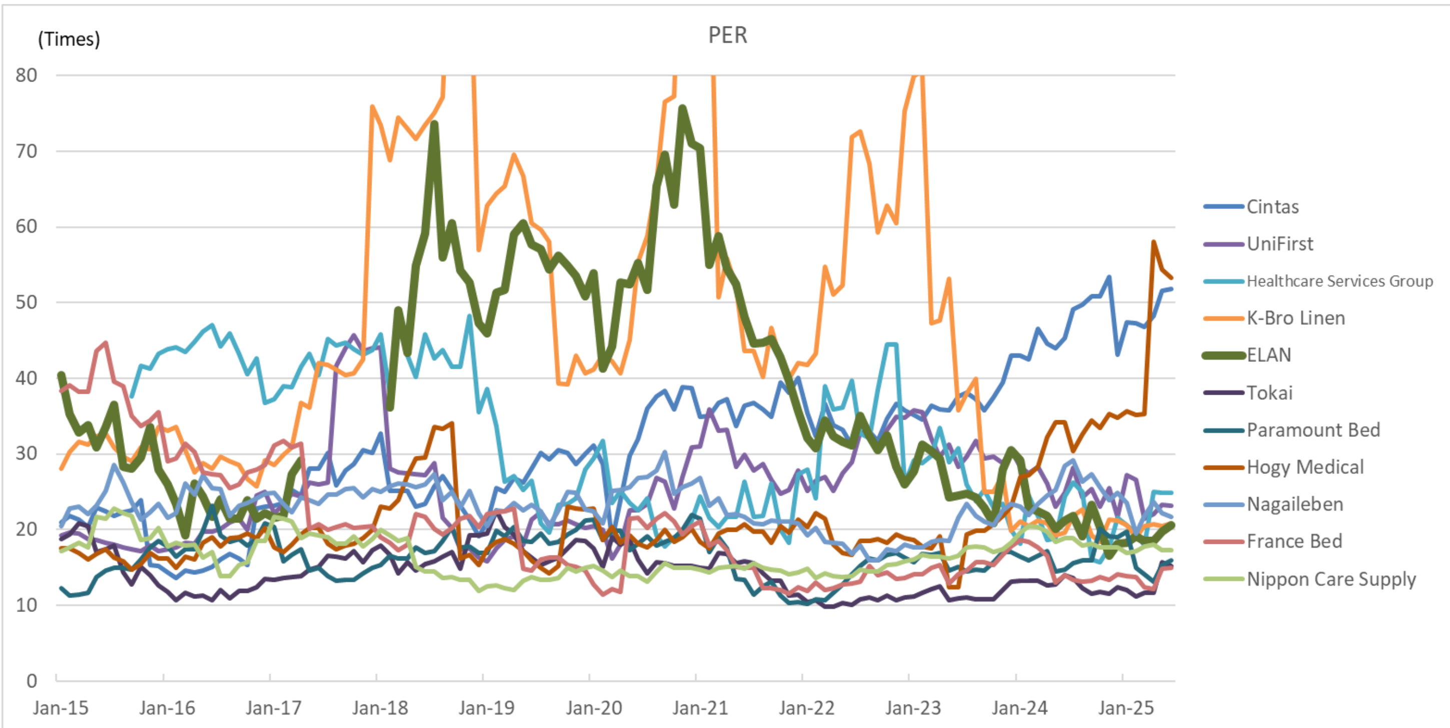
Figure 9 shows the PER for ELAN and its global peers, and Figure 10 shows the PBR. It can be seen that ELAN's valuations were remarkably high compared to its global peers from 2018 to 2021. At its peak, PER was over 70x and PBR was over 16x.

Most Recent PER is Average

However, while the company's current PBR of 3.9x, supported by its high ROE, is far higher than its Japanese peers, its PER of 15.9x is in line with the Japanese market average and not particularly high compared to its peers (see Figure 11 for recent PERs). The 3 companies that currently outperform the company's PBR are all overseas companies.

The following is a discussion of the factors that led to these major valuation changes in the past, as well as the factors that are now the average PER and the factors that could trigger a valuation correction.

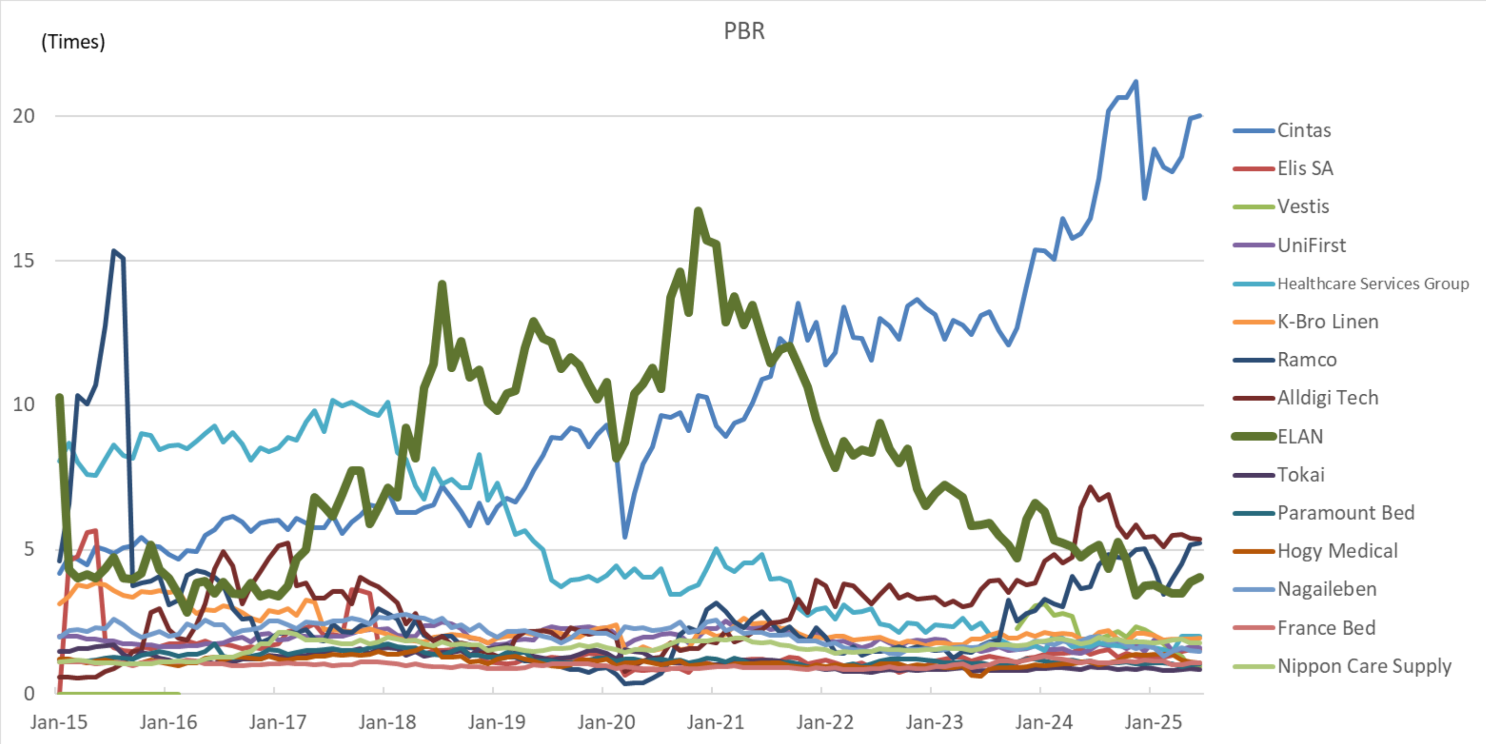
Figure 9: PER Comparison



Note: PER over 80x is omitted.

Source: SPEEDA. Compiled by Strategy Advisors.

Figure 10: PBR Comparison



Source: SPEEDA. Compiled by Strategy Advisors.

Figure 11: Key Indicators and Valuations of Companies in Global Comparison

Company	Code	Country	Key Indicators for the Most Recent Fiscal Year					Actual	Forecast
			Net Profit Margin	Total Asset Turnover	Financial Leverage	ROE	3-Year Average ROE	PBR	PER
Cintas Corp	CTAS	America	16.3%	1.1	2.1	38.3%	37.0%	21.0	50.2
Alldigi Tech	532633	India	15.2%	1.4	1.6	33.0%	27.4%	5.3	16.0
Ramco Systems	532370	India	-5.8%	0.9	2.1	-10.9%	-35.1%	5.0	-
Elis SA	ELIS	France	7.4%	0.5	2.6	9.6%	8.0%	1.5	12.8
Vestis Corp	VSTS	America	0.7%	0.9	3.2	2.4%	7.2%	0.9	24.8
UniFirst Corp	UNF	America	6.0%	0.9	1.3	7.1%	5.9%	1.7	23.2
Healthcare Services Group	HCSG	America	2.3%	2.2	1.6	8.3%	8.3%	2.1	17.2
K-Bro Linen	KBL	Canada	5.0%	0.9	2.3	10.3%	7.5%	2.0	18.2
ELAN	**6099**	**Japan**	**5.0%**	**2.3**	**1.7**	**20.2%**	**23.6%**	**4.1**	**15.9**
Tokai	9729	Japan	3.2%	1.3	1.3	5.5%	6.7%	0.9	13.2
Paramount Bed Holdings, Inc.	7817	Japan	8.4%	0.6	1.3	6.6%	7.3%	1.1	14.4
Hogi Medical	3593	Japan	3.9%	0.4	1.3	1.9%	3.5%	1.1	26.7
Nagai Raven	7447	Japan	17.2%	0.3	1.1	6.6%	7.7%	1.4	20.7
France Bed holdings	7840	Japan	4.9%	0.9	1.7	7.5%	7.6%	1.1	14.3
Nippon Care Supply Co.	2393	Japan	5.6%	1.2	1.5	10.5%	9.9%	1.8	16.4

Note: PER is calculated based on current forecast EPS and June 18 closing price.

Source: SPEEDA. Compiled by Strategy Advisors.

2) High Valuation Period from 2018 to 2022

Share Price Increased Following the Acquisition of ELTASK in 2017

The stock price began to rise after the company announced on February 10, 2017 that it had become a subsidiary through the acquisition of ELTASK Corporation (a company that, like ELAN, provides hospitalization sets and operates in the Tohoku region). ELAN had been a company with high growth potential before that (27% increase in sales and 25% increase in operating profit in FY12/16, the previous year), but until early 2017, its market capitalization was still small at around ¥10 billion, which may have limited the market's attention to it. The news of L-Task's consolidation may have triggered the recognition of expectations for an upward swing in growth rates, which may have triggered the rise in the stock price. FY12/17 financial results supported the rise in the stock price, with a 36% increase in revenue and 24% increase in operating profit, partly due to the consolidation effect of ELTASK. The PER temporarily exceeded 70x as the stock continued to rise until June 2019.

Share Price Rises Again in 2020 on the Back of Increased Use in the Covid-19 Disaster

The upward revision of the full-year earnings forecast on August 13, 2020 triggered another sharp rise in the stock price, which hit a high of ¥1,662 at the close on January 25, 2021. The increase in the number of users of CS sets due to the implementation of visitation restrictions at hospitals as a result of the Covid-19 disaster is believed to have contributed to the increased expectations of profit growth in the stock market.

Era of High Valuations

As a result of the above, valuations remained high between 2018 and 2022, with PBR around 10x and PER of 40-70x. While an attractive equity story is necessary for valuations to rise, we believe that the stock market was aware of the story of business expansion through acquisitions in 2017 and the story of continued, unexpected demand growth from the new Corona in 2020, which shaped the stock price.

3) What Elements Could Make a Future Attractive Equity Story?

The Current Situation is Judged to be One in Which the Valuation Premium has Been Peeled Off

The current PER of 15.9x is in line with valuations of domestic comparables and the stock market average, as the factors that drove high valuations from 2017 to 2022, such as expectations of higher growth rates and increased demand from the Corona disaster, have calmed down. Meanwhile, PBR remains relatively high at 3.9x. Given these factors, although the current share price is supported by a high ROE (20.2% in FY12/24), the company's attractive equity story, including exciting business development expectations and higher growth expectations than its competitors, has not yet reached the point where a PER premium is being added to the share price.

Evaluation of Partnership with M3 and Potential for Evaluation as a Platform Company

If ELAN's valuations were to rise again in the future, what would be the likely factors? Put another way, what factors are likely to frame an attractive equity story going forward?

We believe that two factors, the effectiveness of the alliance with M3 and the potential re-evaluation of ELAN as a platform company, are factors that may make ELAN's equity story more attractive in the future.

4) Expectations for the Effects of the Alliance with M3

Effects of the Alliance with M3

The TOB by M3 was announced on September 19, 2024, and although the share price remained close to the offer price (¥1,040) during the subsequent tender offer period (September 20 to October 21), the share price declined after the offer period ended and the current price is at ¥800, the same level as before the TOB announcement. The stock market has yet to gain sufficient assurance about the effects of the alliance with M3, and it is believed that the effects have not yet been factored into the stock price.

Potential for New Growth Stories

It is highly likely that the stock market has viewed ELAN as a growth company in the hospital and nursing home sectors. In particular, the market for nursing homes is expected to expand and thus the company can be considered a growth company. However, after once being regarded as a growth company during the period of high valuations from 2018 to 2022, the company's valuation is now somewhat subdued. The view of a growth company itself is not necessarily a new story for the stock market.

However, if a new growth story through the alliance with M3 becomes visible, the stock market may recognize this as a new change that could lead to a valuation correction.

Concrete Progress Could be a Trigger

As explained in the Q1 earnings materials, it is expected that more detailed explanations of the effects of the M3 alliance will be provided as concrete results are achieved in the future. If concrete progress is made, it could trigger an impact on valuations.

5) Possibility of Evaluation as a Platform Company

We at Strategy Advisors believe that one way to view the characteristics of ELAN is as a platform company.

Fragmented Industry Structure

The industry to which ELAN belongs is characterized by a fragmented industrial structure consisting of many small players, both in terms of customers, such as hospitals and nursing care facilities and the business partners who provide linen and other services to their customers. Although there are some major companies in the linen industry, such as Watakyu Seimoa (unlisted), it appears that even major companies do not necessarily have unified control over their business sites by their headquarters. Therefore, there is still room for the industry as a whole to cooperate with each other and operate more efficiently.

Business Model that solves the Problems of End Users, Hospitals/Care Facilities, and Business Partners

Based on the concept of win-win-win, one of the company's Credo (code of conduct), ELAN has been advancing its business by providing CS sets and other services to solve the problems of hospitalized patients and their families, while at the same time contributing to solving the problems of hospitals and nursing care facilities suffering from human resource shortages.

Figure 12 shows the company's business model. It is characterized by a coexistence and co-prosperity model that leverages existing business relationships. If hospitals and linen companies individually handle applications, billing, and fee collection with hospitalized patients, it could become inefficient. By having ELAN take over all of these tasks, the transaction is beneficial to each party involved, in other words, it is a win-win-win relationship.

Introducing New Products One After Another According to Needs

By carefully monitoring customer needs within this business model, new products have been developed one after another, such as CS set R, a service that guarantees unpaid hospitalization expenses, and CS set LC, a service with added coverage for equipment damage, and Rifute, an original patient gown.

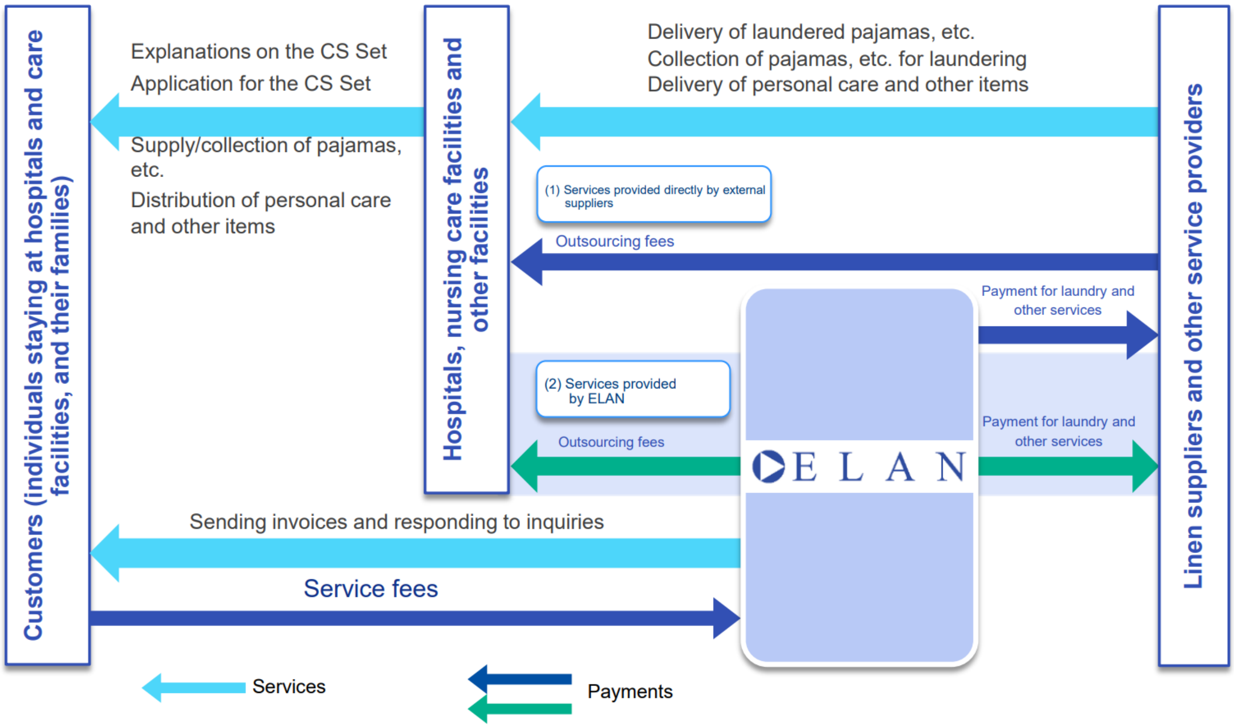
The original patient gown "lifte" has the role of providing comfortable clothing for patients, but in some cases, it is also a beneficial system for linen companies. Smaller linen companies may be hesitant to renew patient gowns in their inventory due to financial constraints. In such cases, ELAN can introduce a lifte system in which ELAN provides patient gowns, allowing the linen company to continue providing linen services to the same hospital while ELAN pays for the introduction of the patient gowns.

Potential Positive Impact on Valuations

This understanding of the evolution of ELAN's business model indicates that the company is becoming more than just a provider of hospitalization sets, but is also playing the role of a platform company that solves a wide range of industry-wide issues. If the company is viewed as a platform company in the future, this could have a positive impact on the company's valuation.

Figure 12: 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: Company Data.

Figure 13: Consolidated Income Statement (¥ mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25 CoE
Net Sales	**15,466**	**18,585**	**21,518**	**26,056**	**31,635**	**36,264**	**41,425**	**47,513**	**59,000**
Domestic	15,466	18,585	21,518	26,056	31,635	36,264	41,425	47,244	56,600
Overseas	-	-	-	-	-	-	-	269	2,400
Cost of Sales	11,468	13,758	16,045	19,492	23,758	27,237	31,674	36,796	
Gross Profit	**3,997**	**4,827**	**5,473**	**6,563**	**7,876**	**9,027**	**9,751**	**10,716**	
Domestic	3,997	4,827	5,473	6,563	7,876	9,027	9,751	10,545	
Overseas	-	-	-	-	-	-	-	171	
Gross Profit Margin	25.8%	26.0%	25.4%	25.2%	24.9%	24.9%	23.5%	22.6%	
SG&A Expenses	3,084	3,548	3,980	4,495	5,078	5,635	6,085	7,139	
Operating Profit	**912**	**1,278**	**1,492**	**2,068**	**2,798**	**3,391**	**3,665**	**3,577**	**4,720**
Domestic	912	1,278	1,492	2,068	2,798	3,391	3,665	**3,480**	
Overseas	-	-	-	-	-	-	-	**96**	
OPM	5.9%	6.9%	6.9%	7.9%	8.8%	9.4%	8.8%	7.5%	8.0%
Non-Operating Income	11	4	13	82	25	27	32	51	
Gain on Sales of Fixed Assets	2	0	0	0	1	1	0	3	
Late Receipt Penalty	-	-	6	16	15	13	11	10	
Management Guidance Fee	3	-	-	-	-	4	4	4	
Subsidy Income	1	1	2	0	3	1	6	5	
Non-Operating Expenses	1	0	4	2	5	7	16	84	
Loss on Sale or Disposal of Fixed Assets	1	0	4	0	1	2	3	3	
Investment Partnership Losses	-	-	-	-	3	4	4	18	
Ordinary Profit	**923**	**1,282**	**1,501**	**2,148**	**2,818**	**3,411**	**3,681**	**3,544**	**4,740**
Ordinary Profit Margin	6.0%	6.9%	7.0%	8.2%	8.9%	9.4%	8.9%	7.5%	8.0%
Extraordinary Profit and Loss	27	0	0	0	0	-376	0	0	
Gain on Step Acquisitions	27	0	0	0	0	0	0	0	
Loss on Valuation of Investment Securities	0	0	0	0	0	-376	0	0	
Net Income before Taxes and Other Adjustments	950	1,282	1,501	2,148	2,818	3,035	3,681	3,544	
Pre-Tax Profit Margin	6.1%	6.9%	7.0%	8.2%	8.9%	8.4%	8.9%	7.5%	
Corporate Tax etc.	292	417	511	702	912	952	1,162	1,190	
Profit Attributable to Owners of Parent	**657**	**865**	**989**	**1,446**	**1,905**	**2,082**	**2,518**	**2,354**	**3,090**
Net Profit Margin	4.3%	4.7%	4.6%	5.5%	6.0%	5.7%	6.1%	5.0%	5.2%

Source: Company Data. Prepared by Strategy Advisors.

Figure 14: Consolidated Balance Sheet (¥ mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
Cash and Deposits	2,146	3,057	3,472	4,497	5,632	6,036	5,488	6,849
Trade Receivables	3,409	3,658	4,476	5,044	5,848	7,104	8,621	8,178
Inventory	499	595	767	995	1,080	1,332	1,899	2,292
Others	-128	-159	-388	-356	-431	-397	-502	-447
Current Assets	**5,926**	**7,150**	**8,327**	**10,180**	**12,129**	**14,075**	**15,506**	**16,872**
Land	114	114	114	114	114	269	269	269
Other Tangible Fixed Assets	179	188	197	202	227	292	270	306
Tangible Fixed Assets	**293**	**302**	**311**	**316**	**341**	**561**	**539**	**575**
Goodwill	166	127	87	48	9	-	-	813
Other Intangible Fixed Assets	61	111	108	114	96	92	108	102
Intangible Fixed Assets	**227**	**238**	**195**	**162**	**105**	**92**	**108**	**915**
Investments and Other Assets	**79**	**133**	**401**	**1,029**	**1,371**	**1,342**	**2,837**	**3,241**
Total Fixed Assets	**600**	**674**	**909**	**1,508**	**1,817**	**1,996**	**3,486**	**4,733**
Total Assets	**6,526**	**7,824**	**9,236**	**11,689**	**13,947**	**16,072**	**18,993**	**21,605**
Trade Payables	2,340	2,745	3,340	4,157	4,868	5,567	6,427	7,222
Accounts Payable and Accrued Expenses	335	368	397	563	616	622	699	783
Unpaid Corporate Taxes, etc.	250	390	425	713	846	729	858	797
Current Liabilities	104	58	49	68	87	93	104	302
Current Liabilities	**3,029**	**3,561**	**4,211**	**5,501**	**6,417**	**7,011**	**8,088**	**9,104**
Long-Term Debt	-	-	-	-	-	-	-	76
Provision for Stock Benefits	-	-	-	-	13	20	27	38
Provision for Stock Benefits for Officers	-	-	-	-	31	49	62	60
Other Fixed Liabilities	0	0	4	3	3	1	1	11
Fixed Liabilities	**0**	**0**	**4**	**3**	**47**	**70**	**90**	**185**
Total Liabilities	**3,029**	**3,561**	**4,215**	**5,504**	**6,464**	**7,082**	**8,178**	**9,104**
Capital and Surplus	1,101	1,116	1,116	1,116	1,116	1,116	1,116	1,116
Retained Earnings	2,395	3,141	3,919	5,092	6,574	8,111	9,964	11,530
Treasury Stock	0	0	0	0	-197	-194	-194	-191
Shareholders' Equity	**3,497**	**4,258**	**5,035**	**6,209**	**7,494**	**9,034**	**10,886**	**12,456**
Valuation Difference	0	-13	-14	-25	-10	-45	-72	45
Stock Acquisition Rights	-	18	-	-	-	-	-	-
Total Net Assets	**3,497**	**4,262**	**5,021**	**6,184**	**7,483**	**8,989**	**10,814**	**12,501**
Liabilities & Net Assets	**6,526**	**7,824**	**9,236**	**11,689**	**13,947**	**16,072**	**18,993**	**21,605**

Source: Company Data. Prepared by Strategy Advisors.

Figure 15: Consolidated Cash Flow (¥ mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
Profit Before Tax	950	1,282	1,501	2,148	2,818	3,035	3,681	3,544
Depreciation	79	99	110	117	119	143	187	896
Unrealized Gains & Losses on Securities & Investment Securities	0	0	0	0	0	376	8	0
Allowance for Doubtful Accounts	59	86	119	23	74	-43	102	70
Working Capital	-394	60	-445	13	-162	-728	-1,069	1,151
Corporate Tax Paid	-345	-375	-559	-562	-916	-1,081	-1,098	-1,282
Other Operating Cash Flows	-32	39	53	208	173	-121	-31	121
Cash Flows from Operating Activities	**317**	**1,191**	**779**	**1,947**	**2,106**	**1,581**	**1,780**	**4,500**
Acquisition of Securities & Investment Securities	-	-67	-70	-550	-267	-210	-1,474	-353
Acquisition of Tangible & Intangible Fixed Assets	-74	-102	-71	-87	-78	-347	-194	-896
Acquisition of Subsidiary Shares	-160	-	-	-	-	-	-	-867
Deposits	-7	-7	-12	-14	-11	-68	9	-13
Others	4	0	2	3	-1	1	-2	-104
Cash Flows from Investing Activities	**-237**	**-176**	**-151**	**-648**	**-357**	**-624**	**-1,661**	**-2,233**
Issuance of Shares	7	15	0	0	0	3	0	0
Redemption & Cancellation of Shares	0	0	0	0	-196	0	0	0
Dividend Payment	-89	-119	-211	-272	-415	-554	-665	-788
Other Financial Cash flows	1	1	-1	-1	-3	-1	-2	-61
Cash Flows from Financing Activities	**-81**	**-103**	**-212**	**-273**	**-614**	**-552**	**-667**	**-849**
Free Cash Flow	**80**	**1,015**	**627**	**1,300**	**1,748**	**956**	**120**	**2,266**

Source: Company Data. Prepared by Strategy Advisors.

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