ELAN | 6099 (TSE Prime)

Company Report
September 17 , 2025

Strategy Advisors Inc.
Hiroyuki Sakaida

Although Q2 Cumulative Results Fell Slightly Short of Plan, Full-Year Forecasts Remain Unchanged. The M3 Collaboration Appears to Be Progressing Well

For Q2 FY12/25 cumulative results, the company achieved YoY increases in both sales and profits, but both net sales and profits fell short of the company's initial forecasts. Net sales were ¥26.84bn, 1.0% below the initial forecast of ¥27.1bn and operating profit was ¥2.075bn, 3.9% below the initial forecast of ¥2.16bn. The main reason for the profit shortfall was higher-than-planned costs for implementing lifte. However, the company's full-year forecast was unchanged due to positive factors such as a recovery in the number of hospitalized patients and a decline in the cancellation rate of contracted facilities. The full-year dividend forecast remains unchanged at ¥15. The stock price fell 5.2% the day after the earnings announcement (August 7), but recovered to ¥851 on August 18, exceeding the ¥845 share price on the announcement date, suggesting that the impact of the Q2 shortfall has been temporarily factored in.

We would like to introduce 2 recent developments that may lead to a revision in ELAN's valuation. The first is the nationwide rollout of Smile Wear, a new service for nursing care facilities that was introduced on a trial basis last year and which began properly in Q2. This service displays multiple types of clothing on hangers, allowing residents to enjoy choosing their clothes just like they would go shopping. It is expected to lift the spirits of nursing care facility residents through fashion and improve their quality of life. The service was born out of dialogue with nursing care facilities, with the clothing selection are carried out by apparel professionals. This is a concrete example of the Company's platform-like operations generating business through win-win-win relationships with a variety of business partners.

Secondly, with regard to collaboration and synergies with M3, preparations are progressing smoothly for the full-scale launch of differentiated CS Set products. Once fully launched, it is expected to have the effect of increasing the number of CS Sets introduced and raising unit prices. Details will likely be announced and explained at some point.

Stock Price & Trading Volumes (Past Year)

Source: Strategy Advisors.

Key Indicators

Stock Price (9/16/25)	834
52-Week High (9/20/24)	1,002
52-Week Low (4/07/25)	621
All-Time High (1/25/21)	1,662
All-Time Low (3/29/16)	117
Shares Issued (mn)	60.5
Market Capitalization	50.4
EV (¥bn)	43.7
Equity Ratio (FY12/24 Actual, %)	57.9
ROE (FY12/24, %)	20.2
PER (FY12/25 CoE , x)	16.4
PBR (FY12/24 Actual, x)	4.0
Yield (FY12/25 CoE , %)	1.8

Source: Strategy Advisors

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 4.0x, but the PER of 16.4x 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. Strategy Advisors believes that 1) the progress of the alliance with M3 and 2) the potential for valuation as a platform company will make the company's future equity story more attractive and will likely lead to a valuation premium once again. We highly rate the concrete developments that are taking place in this regard.

Japanese GAAP - Consolidated

FY	Sales (¥mn)	YoY (%)	OP (¥mn)	YoY (%)	RP (¥mn)	YoY (%)	NP (¥mn)	YoY (%)	EPS (¥)	DPS (¥)
FY12/24 Q1-Q2	22,844	15.5	1,930	7.2	1,948	7.5	1,325	5.8	21.9	-
FY12/25 Q1-Q2	**26,840**	**17.5**	**2,075**	**7.5**	**2,048**	**5.1**	**1,367**	**3.2**	**22.6**	**-**
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, Compiled by Strategy Advisors

Table of Contents

1. Financial Results and Key KPI Trends

1) Q2 FY12/25 Fell Slightly Short of Initial Forecasts

Stock Prices Fell the Day After the Earnings Announcement

ELAN achieved YoY increases in both sales and profits in Q2 cumulative FY12/25, but both net sales and profits fell short of the company's initial forecasts. Net sales were ¥26.840 billion, 1.0% below the initial forecast of ¥27.100 billion, operating profit was ¥2.075 billion, 3.9% below the initial forecast of ¥2.160 billion and ordinary profit was ¥2.048 billion, 5.6% below the initial forecast of ¥2.170 billion. Interim profit attributable to owners of parent was ¥1.367 billion, 1.7% below the initial forecast of ¥1.390 billion. The main reason for the shortfall in profits was the higher-than-expected introduction costs of the original patient gown "lifte". The procurement costs for "lifte" are recorded in a lump sum upon introduction and are subsequently recovered through rental fees. For this reason, when there are many new installations, this will reduce short-term profits, but in the long term it will lead to an increase in sales prices.

Meanwhile, the company's full-year forecasts remained unchanged with net sales of ¥59.000 billion and operating profit of ¥4.720 billion. The recovery in the number of hospitalized patients and a declining trend in contracted facility cancellation rates are positive factors, leading to the company presumably leaving its full-year forecasts unchanged. The full-year dividend forecast also remains unchanged at ¥15.

Although the stock price fell 5.2% on the day after the financial results were announced (August 7th) in response to the shortfall in cumulative Q2 profits, by August 18th the stock price had recovered to ¥851, slightly above ¥845 on the day of the financial results announcement; and it is thought that the impact of the shortfall has been temporarily factored in.

Main Reason for the Failure to Achieve the Profit Plan is the Increase in the Cost of Introducing lifte

The slight shortfall in cumulative Q2 net sales was mainly due to new contracts falling slightly short of plan. However, this was not due to external factors such as intense competition, but rather to the company's internal plans being set slightly higher.

The shortfall in profits was an increase in lifte expenses due to the number of lifte installations exceeding expectations. The number of new facilities installing lifte increased significantly from 65 facilities in the cumulative Q2 of the previous fiscal year to 113 facilities in the cumulative Q2 of this fiscal year, exceeding expectations. As a result, lifte expenses for the cumulative Q2 increased to ¥600 million, exceeding the planned ¥400 million and this led to the operating profit not achieving the plan. While cumulative Q2 net sales increased 17.5% YoY, the increase in operating profit was only 7.5%, mainly due to an increase in lift costs.

lifte, costs are recorded as a lump sum expense at the time of installation, while sales are recorded over a 3 to 4-year usage period. As the total number of facilities that have installed lifte is still 365, accounting for 13.6% of the total, the burden of initial installation costs is currently a factor that is putting pressure on short-term profits. On the other hand, the introduction of lifte increases the average customer price, which is expected to have a positive impact on long-term performance. Strategy Advisors predicts that the apparent short-term negative impact of recording installation costs will be significantly reduced due to the increased contribution to sales from the second half of FY12/26 through FY12/27, when the cumulative number of facilities that have installed lifte will increase.

Overseas Business Progressing as Planned

Among the Vietnam business subsidiaries, consolidation of GREEN's P&L began in the fourth quarter of FY12/24, and TMC also began in the first quarter of FY12/25. As a result, net sales of ¥896 million and an operating profit of ¥105 million were recorded as overseas business in the cumulative second quarter of FY12/25. This may seem low, at just 37% of the full-year forecast for net sales of ¥2.400 billion for the overseas business, but this is because TMC was only consolidated partway through Q1 and is not making a full contribution. The company says that it is progressing as planned.

The company has recorded approximately ¥80 million in goodwill amortization expenses (10-year amortization) and the operating profit ratio of the Vietnam business before goodwill amortization expenses is at 20.6%.

Figure 1. ELAN: Summary of Financial Results for Q2 FY12 / 25

(¥mn)	12/24 Q2 Cumulative	**12/25 Q2 Cumulative (A)**	YoY	Progress (A)/(B)	12/25 CoE (B)	YoY
Net Sales	22,844	**26,840**	17.5%	45.5%	59,000	24.2%
Operating Profit	1,930	**2,075**	7.5%	44.0%	4,720	31.9%
Ordinary Profit	1,948	**2,048**	5.1%	43.2%	4,740	33.7%
Profit Attributable to Owners of Parent	1,325	**1,367**	3.2%	44.2%	3,090	31.2%

Source: Company Data, Compiled by Strategy Advisors

The Number of Facilities Introducing the System is Increasing Nationwide

At the end of Q2 FY12/25, the number of contracted facilities was 2,691, a net increase of 121 facilities compared to the end of FY12/24 (Figure 2). The number of new contracts was 172 and the number of cancellations was 51. The number of annual cancellations increased from 80 facilities in FY12/23 to 100 facilities in FY12/24, so from the second half of FY12/24, the company began visiting existing facilities to improve communication.

In FY12/25, cancellations were high at 38 facilities (compared to 31 facilities in the same period last year), but in Q2, cancellations decreased to 13 facilities (compared to 16 facilities in the same period last year). While it is difficult to judge based on figures for just 3-months, the company says it is feeling the effects of improved communication, so the decrease in cancellations in Q2 may be a result of these efforts.

Looking at the breakdown of the number of contracted facilities, new contracts are progressing smoothly nationwide. The number of facilities is increasing in all areas: Hokkaido area (+6), Tohoku area (+8), Kansai area (+18), Chubu area (+10), Kansai/Hokuriku area (+24), Chugoku/Shikoku area (+17) and Kyushu/Okinawa area (+19).

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

(# of Contracts)	12/23				12/24				12/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total	2,081	2,171	2,237	2,320	2,360	2,439	2,503	2,570	2,589	2,691
Hokkaido	138	143	145	149	152	163	170	173	172	178
Tohoku	270	279	284	298	301	315	319	331	332	340
Kan- etsu	332	345	371	392	404	422	433	454	458	476
Chubu	406	419	418	426	432	437	444	445	450	460
Kansai/ Hokuriku	375	403	421	438	447	464	481	503	502	526
Chugoku/ Shikoku	407	417	421	429	435	442	450	451	455	472
Kyushu/ Okinawa	153	165	177	188	189	196	206	213	220	239

Source: Company Data, Compiled by Strategy Advisors

2）Although Gross Profit Has Declined Slightly, Operating Profit Ratio Remains Stable

Gross Profit Margins Fell in Q2, but this was Strategic and is Expected to Improve from Q3 Onwards

In the profit analysis below, as in previous reports, we will analyze the actual profit trends based on the gross profit and operating profit of the domestic business, with the one-time costs of introducing lifte added back.

The gross profit margin for cumulative Q2 (after adjusting for lifte expenses) was 23.3%, and 22.5% for Q2 alone, which appears to have declined slightly even taking seasonal factors into account (Figure). This is because, from Q3 FY12/24, the company adopted a strategy of introducing lifte to existing contract customers to popularize lifte, but in some cases was unable to sufficiently increase unit prices from existing contracts. Although the strategy prioritized the popularization of lifte, it appears that the expected improvement in unit prices and gross profit from lifte was limited. From the second half of FY12/25, the company will review this and, in principle, will adopt a strategy that will ensure sufficient improvement in gross profit, such as introducing lifte to new contract customers. We will be closely monitoring the state of gross profit from Q3 onwards.

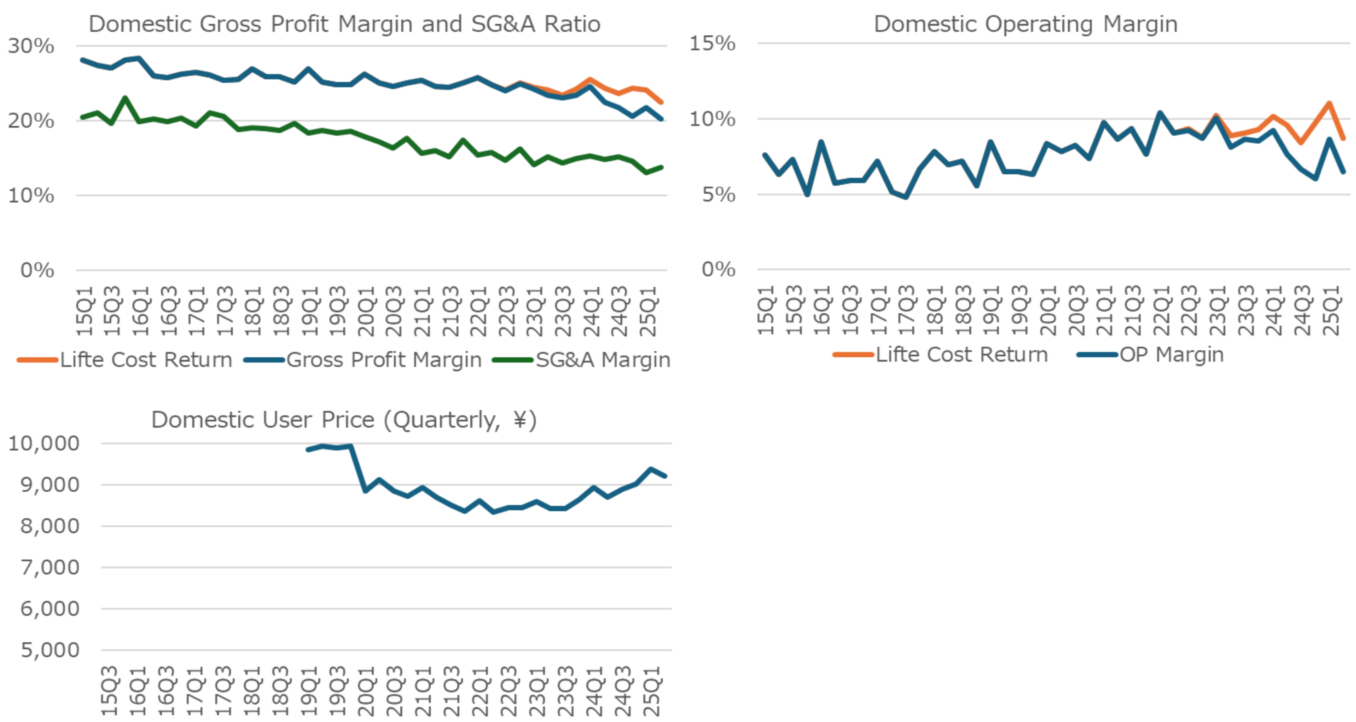
Q2 Cumulative Operating Profit Rate is Stable

Although the gross profit margin for Q2 cumulative fell slightly as mentioned above, the trend of the SG&A expense ratio declines as the number of customers increased continues because of business systemization. As a result, the operating profit margin for Q2 cumulative (after adjusting for lifte expenses) remained stable at a high level of 9.9% YoY.

The Average User Price Continues to Rise

Looking at Figure 3, it appears that the average user price in Q2 FY12/25 has fallen, but prices are high in Q1 every year and then fall in Q2. Considering this seasonality, it is safe to say that the average user price is continuing to rise.

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



Note: lifte 's profit margin after expenses is an estimate by Strategy Advisors.

Source: Company Data, Compiled by Strategy Advisors

3）Strategic Product Trends

lifte is Steadily Increasing

The number of facilities using lifte rose to 365 as of the end of Q2, accounting for 13.6 % of facilities. This indicates a steady increase (Figure 4).

Launch of Nationwide Rollout of "Smile Wear", a New Service for Nursing Care Facilities

"Smile Wear" a new service for nursing care facilities that has been on a trial basis since last year, began a nationwide rollout in Q2, and as of the end of June 2025, will be available in 24 facilities nationwide. This service features hangers with a variety of clothing carefully selected by apparel professionals, allowing residents to enjoy shopping and choose the clothes they truly want to wear. It is expected to improve the quality of life of nursing care facility residents, as they can feel more fashionable.

According to President Minezaki at the financial results briefing, the service was born from the company's employees talking to staff at nursing homes, who told them that "residents often wear dark-colored clothing, but perhaps they would actually prefer to wear something more vibrant".

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

(¥mn)	12/ 23				12/24				12/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
CS Set R Contracted Facility Ratio	8%	9%	9%	10%	10%	11%	11%	11%	12%	13%
CS Set LC Contracted Facility Ratio	6%	8%	8%	8%	8%	8%	9%	9%	9%	10%
lifte Introduced Facility Ratio	1%	1%	2%	2%	3%	5%	6%	10%	11%	14%

Source: Company Data, Compiled by Strategy Advisors

Figure 5. Net Sales, Gross Profit, Operating Profit, Introductory Costs (Estimated) and lifte Cost Return Operating Profit (Estimated) (Quarterly)

(¥mn)	12/23				12/24				12/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales	9,857	9,924	10,645	11,000	11,487	11,358	12,002	12,667	13,433	13,407
(YoY)	12%	13%	16%	16%	17%	14%	13%	15%	17%	18%
Gross Profit	2,390	2,322	2,458	2,581	2,821	2,551	2,619	2,726	2,994	2,772
(Gross Profit Margin)	24%	23%	23%	23%	25%	22%	22%	22%	22%	21%
Operating Profit	992	809	925	939	1,059	872	800	847	1,187	888
(OP Margin)	10%	8%	9%	9%	9%	8%	7%	7%	9%	7%
Number of Facilities with lift (Cumulative)	12	27	35	52	74	117	160	252	293	365
Number of Facilities with lift	4	15	8	17	22	43	43	92	41	72
lifte Introduction Costs (Estimated)	20	75	40	85	110	215	215	460	310	290
Lift Cost Return Gross Profit	2,410	2,397	2,498	2,666	2,931	2,766	2,834	3,186	3,150	2,898
(lifte Cost Return Gross Margin)	**24%**	**24%**	**23%**	**24%**	**26%**	**24%**	**24%**	**25%**	**24%**	**22%**
lifte Cost Return Operating Profit	1,012	884	965	1,024	1,169	1,087	1,015	1,307	1,444	1,126
(lifte Cost Return Operating Margin)	**10%**	**9%**	**9%**	**9%**	**10%**	**10%**	**8%**	**10%**	**11%**	**9%**

Source: Company Data, Compiled by Strategy Advisors

Figure 6. Performance Trends (¥mn)

FY	12/23				12/24				12/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales	**9,857**	**9,924**	**10,645**	**11,000**	**11,487**	**11,358**	**12,002**	**12,667**	**13,433**	**13,407**
(YoY)	12.1%	12.6%	16.2%	15.8%	16.5%	14.4%	12.7%	15.2%	17.0%	18.0%
Cost of Sales	7,467	7,603	8,187	8,417	8,666	8,806	9,385	9,940	10,440	10,633
Gross Profit	**2,390**	**2,322**	**2,458**	**2,581**	**2,821**	**2,551**	**2,619**	**2,726**	**2,994**	**2,772**
(Gross Profit Margin)	24.2%	23.4%	23.1%	23.5%	24.6%	22.5%	21.8%	21.5%	22.3%	20.7%
SG&A Expenses	1,397	1,513	1,533	1,643	1,762	1,680	1,817	1,880	1,806	1,885
Operating Profit	**992**	**809**	**925**	**939**	**1,059**	**872**	**800**	**847**	**1,187**	**888**
(OP Margin)	10.1%	8.2%	8.7%	8.5%	9.2%	7.7%	6.7%	6.7%	8.8%	6.6%
Non- Operating Income/Expenses	5	7	4	1	7	11	-52	1	-8	-19
Ordinary Profit	**997**	**816**	**929**	**940**	**1,066**	**883**	**749**	**847**	**1,180**	**868**
(Ordinary Profit Margin)	10.1%	8.2%	8.7%	8.5%	9.3%	7.8%	6.2%	6.7%	8.8%	6.5%
Extraordinary Income/Losses	0	0	0	0	0	0	0	0	0	0
Profit Before Income Taxes	**997**	**816**	**929**	**940**	**1,066**	**883**	**749**	**847**	**1,180**	**868**
Total Income Tax	302	258	293	310	339	284	243	324	374	288
(Corporate Tax Rate)	30.3%	31.6%	31.5%	33.0%	31.8%	32.2%	32.4%	38.3%	31.7%	33.2%
Profit Attributable to Owners of Parent	**696**	**557**	**636**	**630**	**727**	**598**	**507**	**523**	**800**	**567**
Net Profit Margin	7.1%	5.6%	6.0%	5.7%	6.3%	5.3%	4.2%	4.1%	6.0%	4.2%

Source: SPEEDA, Strategy Advisors

2. Progress of Collaboration & Synergies with M3

Plans for Collaboration in 4 Areas

Collaboration and synergies with M3 (2413 TSE Prime) are planned in the following four areas: 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 (Figure 7). As shown in Figure 8, there is no overlap between the business scopes of M3 and the company, so there is likely to be a high upside potential from collaboration between the two companies.

Initiatives & Results to Date

According to the explanation given at the financial results briefing, from FY12/25, the company and M3 have begun full-scale joint proposals to their client medical institutions, which has resulted in speeding up the time it takes to introduce CS sets. In addition, the company has been implementing cost reductions by leveraging the group's purchasing power.

Developing Differentiated Cs Set Products as a Mid to Long-Term Initiative

Of the four areas mentioned above, the Q2 financial statement included an update on progress in one area. A differentiated CS Set product has been developed, and preparations are progressing smoothly for full-scale introduction. As of Q1, the product was explained as being planned for a proof-of-concept trial, and it appears that this has since begun. Once fully implemented, it is expected to have the effect of increasing the adoption of CS Sets and raising unit prices. While no details about this product have been released at this time, it is believed that they will be announced and explained at some point.

Figure 7. Collaborations and Expected Synergies with M3

Source: Company Materials

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	1,560,138	CTAS	USA	-	-	-	Y	Y	Y	-	-
Wolters Kluwer	946,560	WKL	The Netherlands	-	-	Y	-	-	-	-	-
Elis SA	731,776	ELIS	France	-	-	-	Y	Y	-	-	-
Vestis Corp	420,873	VSTS	USA	-	-	-	Y	Y	-	-	-
UniFirst Corp	364,115	UNF	USA	-	-	-	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. Sales figures are for non-listed companies from FY2023 and for listed companies from the most recent of FY2023 or FY2024.
Source: Company Data, Compiled by Strategy Advisors

3. Stock Price and Valuation

1) Recent stock price movements

The Impact of the Q2 Profit Shortfall Has Been Factored in for the Time Being

The stock price fell 5.2% the day after the financial results were announced (August 7th) in reaction to the fact that cumulative Q2 profits did not meet the target; but gradually recovered thereafter, and by August 18th it had returned to ¥851, slightly above ¥845 price on the day of the financial results announcement. In the short term, it is thought that the impact of the cumulative Q2 profits not reaching their targets has been factored in during this process.

Stock Prices Have Performed in Line with the Market Average This Year

The recent stock price of ¥834 is a 13% increase compared to the closing price of ¥738 at the end of 2024. However, since TOPIX rose 13.8% from 2,784.92 to 3,168.36 during this period, it can be said that the company's stock price since the end of last year has moved roughly in line with the market average.

Valuations Are Low Compared to the Past. But Factors That Could Trigger a Correction Are Emerging

On the other hand, looking at long-term trends, the company's stock price and valuation have changed significantly. The current valuation of the company's stock is significantly lower than at certain times in the past, but recent management actions by the company have indicated that there are factors that could trigger a valuation adjustment. This was discussed in detail in the previous Q1 earnings report, so we will republish the content below (with additions and updates on new products and the valuation situation).

2) Valuation Were High at One Time, but Have Now Settled to the Same Level as Peers

Valuations Were High until 2021

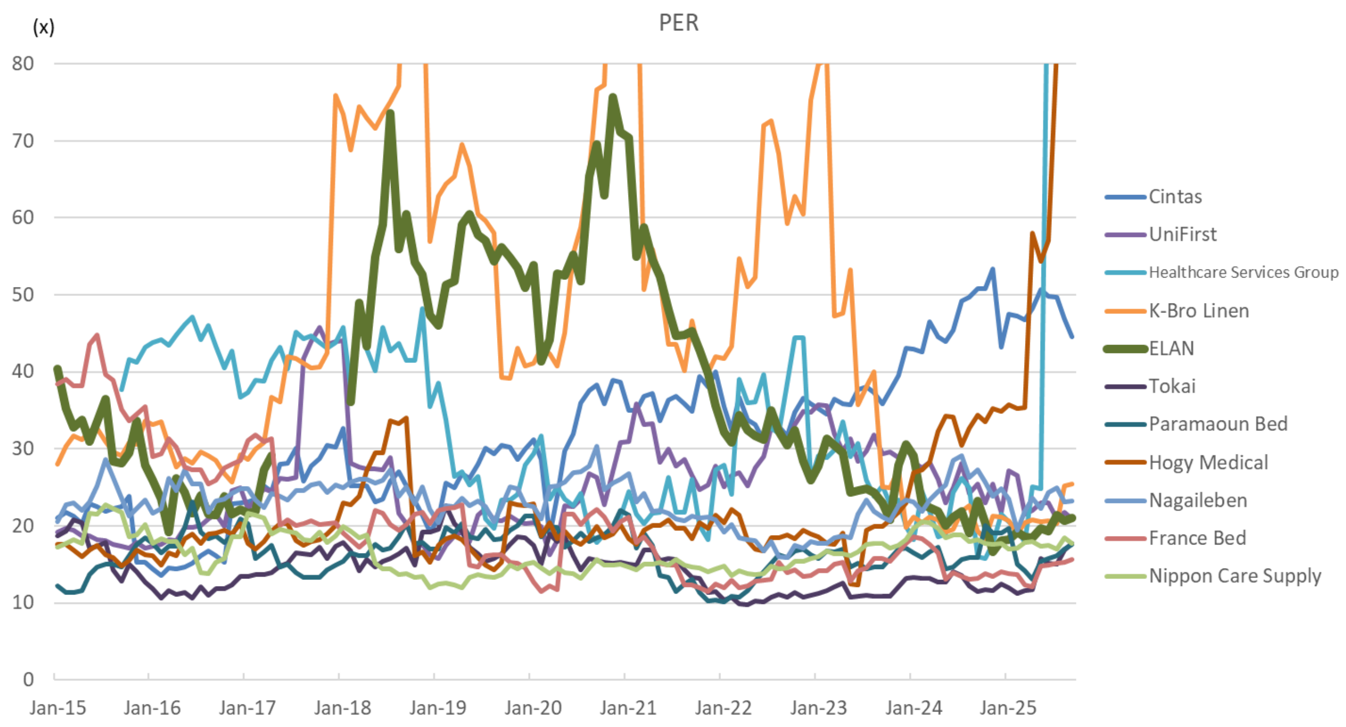
Figure 9 shows PER for ELAN and its global peers and Figure 10 shows PBR. ELAN's valuations were unusually high compared to its global peers from 2018 to 2021. At its peak, PER was over 70x and PBR was over 16x.

Most Recent PER is Average

However, while the company's current PBR of 4.0x, supported by its high ROE, is far higher than its Japanese peers, its PER of 16.4x is in line with the Japanese market average and not particularly high compared to its peers (see Figure 11 for recent PER data). The 3 companies that currently outperform the company's PBR are all overseas companies.

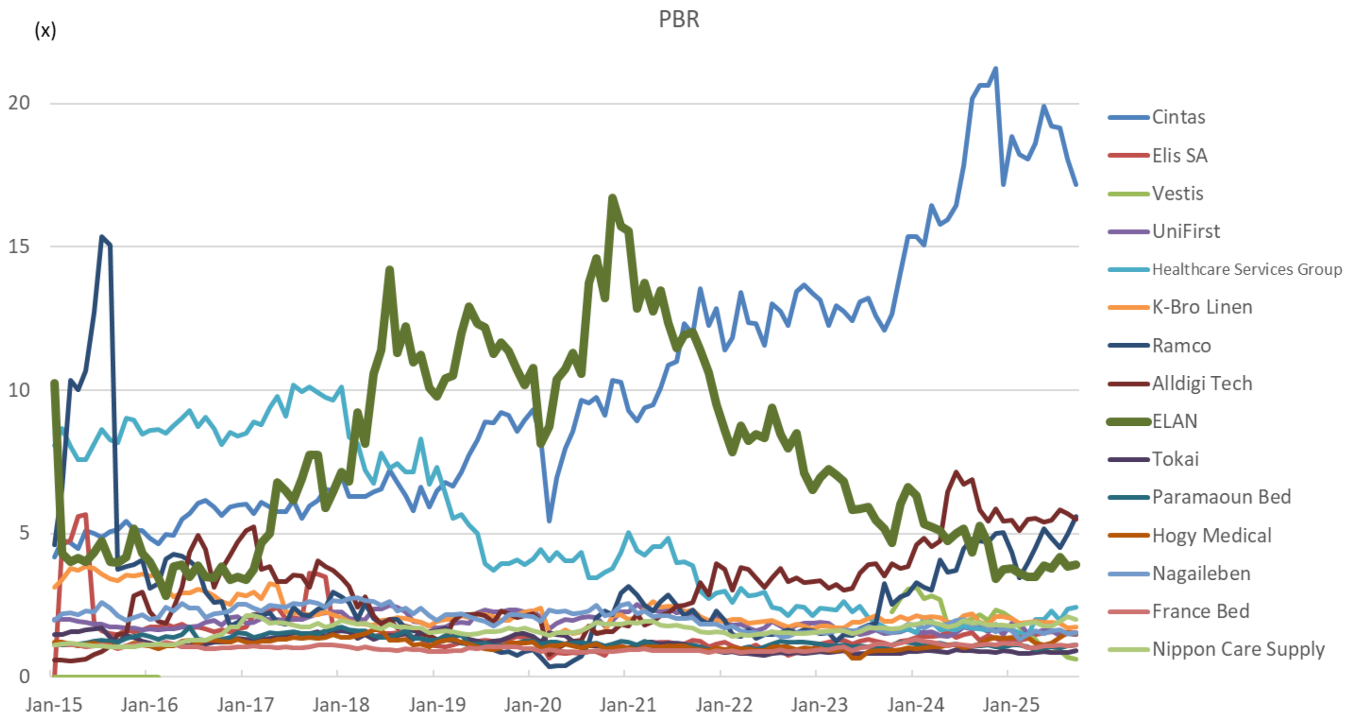
Below we consider the factors that led to these significant valuation changes in the past, the factors that led to the current average PER and the factors that could trigger a valuation correction.

Figure 9. PER Comparison



Note: PER of 80 or more is Omitted. Source: SPEEDA, Strategy Advisors

Figure 10. PBR Comparison



Source: SPEEDA, 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	3yr Average ROE	PBR	PER
Cintas Corp	CTAS	USA	17.5%	1.1	2.1	40.1%	38.6%	17.2	41.2
Alldigi Tech	532633	India	15.2%	1.4	1.6	33.0%	27.4%	5.5	18.7
Ramco Systems	532370	India	-5.8%	0.9	2.1	-10.9%	-35.1%	5.6	-
Elis SA	ELIS	France	7.4%	0.5	2.6	9.6%	8.0%	1.6	12.9
Vestis Corp	VSTS	USA	0.7%	0.9	3.2	2.4%	7.2%	0.6	18.4
UniFirst Corp	UNF	USA	6.0%	0.9	1.3	7.1%	5.9%	1.5	21.2
Healthcare Services Group	HCSG	USA	2.3%	2.2	1.6	8.3%	8.3%	2.3	18.4
K-Bro Linen	KBL	Canada	5.0%	0.9	2.3	10.3%	7.5%	2.0	17.7
ELAN	**6099**	**Japan**	**5.0%**	**2.3**	**1.7**	**20.2%**	**23.6%**	**4.0**	**16.4**
Tokai	9729	Japan	3.2%	1.3	1.3	5.5%	6.7%	0.9	14.0
Paramount Bed Holdings	7817	Japan	8.4%	0.6	1.3	6.6%	7.3%	1.1	15.2
Hogi Medical	3593	Japan	3.9%	0.4	1.3	1.9%	3.5%	1.5	36.8
Nagai Raven	7447	Japan	17.2%	0.3	1.1	6.6%	7.7%	1.5	22.0
France Bed Holdings	7840	Japan	4.9%	0.9	1.7	7.5%	7.6%	1.1	14.7
Nippon Care Supply Co.	2393	Japan	5.6%	1.2	1.5	10.5%	9.9%	1.9	17.9

Note: Calculations are based on the closing price on September 16th (September 15th for overseas companies). PER for overseas companies is based on consensus forecasts from FactSet.

Source: SPEEDA, Strategy Advisors

3) High Valuation Period From 2018 to 2022

Share Price Increased Following the Acquisition of ELTASK in 2017

On February 10, 2017, the company announced the acquisition of ELTASK, Inc. (a company like the company that provides hospitalization kits and operates in the Tohoku region). The company's stock price began to rise. Prior to this, the company demonstrated high growth potential (net sales increased 27% and operating profit increased 25% in FY12/16). However, until early 2017, its market capitalization remained small at around ¥10 billion, limiting market interest. The news of the ELTASK consolidation subsequently sparked expectations for an upturn in growth, which likely led to a rise in the stock price. The FY12/17 financial results, partly due to the impact of the ELTASK consolidation, showed a 36% increase in sales and a 24% increase in operating profit, supporting the stock price rise. Valuation-wise, the stock price continued to rise until June 2019, reaching a PER of over 70x at one point.

Share Price Rises Again in 2020 on the Back of Increased Use During the COVID-19 Pandemic

Following the upward revision of its full-year earnings forecast on August 13, 2020, the stock price began a sharp rise once again, reaching a record closing high of ¥1,662 on January 25, 2021. This surge is attributed to heightened market expectations for increased profits, driven by rising demand for CS sets as hospitals implemented visitor restrictions during the COVID-19 pandemic.

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.

4) 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

As factors that drove the high valuation from 2017 to 2022, such as expectations of an upward growth rate and increased demand due to the COVID-19 pandemic, have subsided, the exciting expectations for profit growth have faded, leaving the current PER at 16.4x, which is the same level as domestic comparable companies and the stock market average. Meanwhile, PBR remains at a relatively high level of 4.0x. Given these factors, it appears that although the current stock price is supported by a high ROE (20.2% as of FY12/24), the situation has not yet reached a point where a PER premium can be awarded based on an attractive equity story such as expectations of exciting business development and higher growth than competitors.

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

If the company's valuation were to rise again in the future, what factors would likely be behind it? In other words, what elements are likely to form the backbone of a compelling equity story going forward?

Strategy Advisors believe that the further realization of the benefits of the partnership with M3 and the possibility of the company being reassessed as a platform company will be 2 factors that will make the company's equity story attractive going forward.

5）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 being highly valued as a growth company during the high valuation period from 2018 to 2022, the valuation has now somewhat stabilized. While viewing ELAN as a growth company is not necessarily new for the stock market, it is currently difficult to see a trigger for a valuation adjustment or a new story. 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

At this Q2 earnings briefing, the effects of the partnership with M3 were explained, including improvements in introduction speed through joint proposals and differentiated products for CS sets. As concrete results emerge, it is expected that information on the effects of the partnership with M3 will be disclosed and detailed explanations will be given. If concrete progress is seen, it could trigger an increase in the valuation.

6）Possibility of Evaluation as a Platform Company

Strategy Advisors believe the company can be thought of 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 industry 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 these tasks, the transaction is beneficial to each party involved, in other words, it is a win-win-win relationship.

In Cooperation with Business Partners, We Are Introducing New Products One After Another to Meet Customer 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 lifte, an original patient gown.

The original patient gown "lifte" plays a key role in 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. With “lifte", the company covers the cost of introducing patient gowns, so by introducing "lifte", linen companies with limited financial resources can continue to provide linen services to existing contracted hospitals without having to bear the large initial capital burden.

The new service "Smile Wear", introduced in the Q2 financial results briefing materials, was born out of dialogue with nursing care facilities, which are its business partners, and it was explained that apparel professionals select the clothing for the customers. This is a good example of how the company's platform-like approach has enabled it to create business through win-win-win relationships with various business partners.

Potential Positive Impact on Valuations

This understanding of the evolution of ELAN's business model indicates that the company is 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. 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**	-
OP Margin	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 Sale of Non- C current Assets	2	0	0	0	1	1	0	3	-
Late Charges Income	-	-	6	16	15	13	11	10	-
Consulting Fee Income	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 Retirement of Non-current Assets	1	0	4	0	1	2	3	3	-
Loss on Investments in Investment Partnerships	-	-	-	-	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 / 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	-
Profit before Income Taxes	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 Taxes	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, Compiled by Strategy Advisors

Figure 13. 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, Compiled by Strategy Advisors

Figure 14. Consolidated Cash Flow Statement (¥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, Compiled by Strategy Advisors

Disclaimer

This report is published by Strategy Advisors, Inc. (hereafter referred to as "the issuer") and was prepared with outside partners and analysts as the primary authors.

The purpose of this report is to provide an unconventional approach to the introduction and commentary of the companies covered. In principle, the publisher does not review or approve the content of the report (although we will point out obvious errors or Inappropriate language to the authors).

The Publisher may receive compensation, directly or indirectly, from the Subject Company for providing planning proposals and infrastructure for the publication of this report.

The outside firms and analysts who write this report may receive compensation, directly or indirectly, from the subject company in addition to preparing this report. In addition, the outside firms and analysts who write this report may have entered into transactions in the securities of the subject company or may do so in the future.

This report is prepared solely for the purpose of providing information to assist in investment decisions and is not intended as a solicitation for securities or other transactions. Final decisions regarding securities and other transactions are the sole responsibility of the investor.

In preparing this report, the authors have received information through interviews with the subject companies. However, the hypotheses and views expressed in this report are not those of the subject companies, but rather are based on the authors' analysis and evaluation.

This report is based on information that the authors believe to be reliable, but they do not guarantee its accuracy, completeness, or timeliness. The views and forecasts expressed in this report are based on the judgment of the authors at the time of publication and are subject to change without notice.

In no event shall the publisher or authors be liable for any direct, indirect, incidental, or special damages that may be incurred by an investor as a result of reliance on the information or analysis contained in this report.

Strategy Advisors

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