

**3360**

# Ship Healthcare Holdings

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# Executive summary

## Business overview

Ship Healthcare Holdings, Inc. (TSE Prime: 3360) is a group of companies that provide hospitals and other medical institutions with comprehensive medical and nursing care support solutions, including medical care, healthcare, welfare, and long-term care. At end-March 2024, the group consisted of a holding company, 66 consolidated subsidiaries mainly acquired through M&A, and three equity-method affiliates. Ship provides one-stop shopping for healthcare services related to the establishment and operation of hospitals, long-term care facilities, and other medical institutions. Its services range from planning to the procurement of medical equipment, as well as the distribution of medical equipment and materials and contract management once the facilities are operational.

Based in Suita, Osaka Prefecture, Ship has a strong presence in the Kansai region and is actively expanding nationwide, including Tokyo. Overseas, the company is also expanding its hospital operations, primarily focusing on the Asian region. The company aims to provide comprehensive services in the healthcare field, offering a one-stop shopping experience. Ship has been actively engaged in mergers and acquisitions, as well as business expansion, increasing the number of group companies since its establishment in 1992. The company continues to expand its services in the medical and long-term care industries.

The company has a recurring revenue business model that centers on further enhancing relationships with medical institutions. Its services encompass a wide range of offerings, including initial planning and consultations for facility construction, relocation, and expansions, as well as logistics, long-term care services, and the provision of pharmaceuticals once operations have commenced. The company regards medical institutions as not just customers but important business partners, so maintaining relationships with medical institutions provides the opportunity to expand business by potentially being awarded the next project and providing support and contract management. In addition to expanding these relationships nationwide, the company looks to also cultivate relationships with overseas local medical institutions and governments, expanding the business to include contract management of medical institutions.

The company has the following four business segments: Total Pack Produce (TPP), which accounts for 21% of sales and 48% of operating profit; Medical Supply (MSP), which accounts for 68% of sales and 27% of operating profit; Life Care (LC), which accounts for 6% of sales and 11% of operating profit; and Dispensing Pharmacy (PH), which accounts for 5% of sales and 14% of operating profit. Over the past 10 years, OPMs have ranged from 7.4% to 10.4% for TPP, 1.3% to 2.0% for MSP, 0.8% to 9.5% for LC, and 8.3% to 11.1% for PH (FY03/24 results).

The TPP segment, which is the largest profit contributor, can be broadly divided into trading and manufacturing businesses. Within the trading business, construction and relocation of hospital facilities, dubbed "projects," contribute to profits, but profit margins tend to fluctuate due to the changing scope of these projects each year. The MSP segment, the largest contributor to sales, involves the distribution of medical equipment and instruments to hospitals, for which profit margins are stable. The company is working to improve profitability by expanding handling volumes and streamlining product management. The LC business includes the operation of retirement homes, group homes, and other facilities for the elderly, as well as the provision of meal services and rehabilitation support within these facilities. Profit margins for the retirement homes and group homes operated by Ship remain high, thanks to persistently high occupancy rates. However, while the meal service business is expanding, its profitability is being squeezed by sharply rising input costs. In the PH business, the company operates dispensing pharmacies covered by National Healthcare Insurance (NHI) and leverages M&A and pharmacy consolidation to maintain higher profit margins than major industry players.

## Trends and outlook

In FY03/24, Ship reported sales of JPY631.0bn (+10.3% YoY), operating profit of JPY24.5bn (+16.0% YoY), recurring profit of JPY25.2bn (+22.4% YoY), and net income attributable to owners of the parent of JPY13.8bn (+14.3% YoY). Sales were generally in line with projections as projects in the mainstay Total Pack Produce business progressed steadily. The company delivered solid results, with sales increasing across all reportable segments. Profits grew in all but the Medical Supply segment, which incurred one-time expenses.

For FY03/25, the company forecasts sales of JPY640.0bn (+1.4% YoY), operating profit of JPY26.0bn (+6.0% YoY), recurring profit of JPY26.0bn (+3.1% YoY), and net income attributable to owners of the parent of JPY15.0bn (+8.8% YoY). The company maintained this forecast when it announced its 1H results. Ship is committed to continuous business growth as a group and plans to enhance its ability to deliver comprehensive solutions in the fields of healthcare, wellness, welfare, long-term care,

and services. The company has disclosed its medium-term management plan, Ship Vision 2024. The company anticipates that the financial results for FY03/25, as outlined in its recent announcement, will surpass the targets set for the final year of this medium-term plan.

On May 16, 2022, one year after the completion of the previous medium-term management plan, Ship unveiled a new medium-term management plan called Ship Vision 2024 (FY03/23–FY03/25). The announcement of the new plan was delayed due to the COVID-19 pandemic. For FY03/25, the final year of the plan, the company aims for sales of JPY630.0bn (three-year CAGR of 7.0%) and operating profit of JPY26.0bn (8.2%). Ship expects an increase in the number of mainstay Total Pack Produce projects, driven by the rise in the number of large-scale hospital construction projects, as well as expansion of the Medical Supply business through proposals for in-hospital logistics management systems. On the profit front, in addition to business expansion, the company plans to address rising operating costs and achieve profit growth through aggressive and strategic acquisitions, followed by the maximization of integration effects.

# Key financial data

Income statement	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Consolidated forecast
<b>Sales</b>	<b>273,327</b>	<b>306,853</b>	<b>408,487</b>	<b>425,566</b>	<b>444,048</b>	<b>484,395</b>	<b>497,156</b>	<b>514,353</b>	<b>572,285</b>	<b>630,988</b>	<b>640,000</b>
YoY	5.5%	12.3%	33.1%	4.2%	4.3%	9.1%	2.6%	3.5%	11.3%	10.3%	1.4%
<b>Operating profit</b>	<b>13,597</b>	<b>14,049</b>	<b>16,055</b>	<b>18,259</b>	<b>17,952</b>	<b>18,794</b>	<b>21,800</b>	<b>20,505</b>	<b>21,144</b>	<b>24,535</b>	<b>26,000</b>
YoY	-1.9%	3.3%	14.3%	13.7%	-1.7%	4.7%	16.0%	-5.9%	3.1%	16.0%	6.0%
Operating profit margin	5.0%	4.6%	3.9%	4.3%	4.0%	3.9%	4.4%	4.0%	3.7%	3.9%	4.1%
<b>Recurring profit</b>	<b>13,910</b>	<b>14,737</b>	<b>16,478</b>	<b>18,935</b>	<b>18,532</b>	<b>19,931</b>	<b>21,761</b>	<b>21,287</b>	<b>20,607</b>	<b>25,215</b>	<b>26,000</b>
YoY	-5.7%	5.9%	11.8%	14.9%	-2.1%	7.5%	9.2%	-2.2%	-3.2%	22.4%	3.1%
<b>Net income</b>	<b>7,472</b>	<b>8,847</b>	<b>9,410</b>	<b>10,350</b>	<b>11,236</b>	<b>11,803</b>	<b>12,280</b>	<b>12,172</b>	<b>12,063</b>	<b>13,789</b>	<b>15,000</b>
YoY	-12.3%	18.4%	6.4%	10.0%	8.6%	5.0%	4.0%	-0.9%	-0.9%	14.3%	8.8%
<b>Per-share data (split-adjusted; JPY)</b>											
EPS	168.5	179.1	186.3	204.6	227.8	247.7	247.7	129.0	127.9	146.2	159.0
Book value per share	1,524.3	1,639.4	1,806.1	1,974.0	2,003.4	1,073.4	1,181.1	1,253.7	1,357.1	1,478.7	
Dividend per share	55.0	55.0	60.0	64.0	70.0	75.0	80.0	41.0	42.0	50.0	53.0
Dividend payout ratio	32.6%	30.7%	32.2%	31.3%	30.7%	30.2%	30.8%	31.8%	32.8%	34.2%	33.3%
<b>Balance sheet (JPYmn)</b>											
Cash and cash equivalents	38,676	36,255	49,444	59,644	72,393	78,717	73,907	73,808	80,839	85,072	
Tangible fixed assets	38,135	43,723	53,483	55,770	54,652	57,014	57,941	57,995	65,127	63,305	
Investments and other assets	17,071	22,244	23,402	24,398	32,654	31,838	44,085	41,195	43,458	49,402	
Intangible assets	11,223	12,302	12,208	11,780	10,333	9,520	10,581	9,354	16,149	14,088	
<b>Total fixed assets</b>	<b>66,430</b>	<b>78,270</b>	<b>89,093</b>	<b>91,949</b>	<b>97,640</b>	<b>98,373</b>	<b>112,607</b>	<b>108,545</b>	<b>124,735</b>	<b>126,795</b>	
<b>Total assets</b>	<b>202,562</b>	<b>218,456</b>	<b>263,540</b>	<b>285,438</b>	<b>299,212</b>	<b>308,873</b>	<b>334,498</b>	<b>335,074</b>	<b>381,977</b>	<b>386,819</b>	
Accounts payable	71,321	71,074	86,307	88,716	106,143	109,719	123,690	122,244	138,505	147,073	
Short-term debt	5,397	5,437	6,770	7,646	5,998	5,490	7,174	6,208	32,367	7,471	
Total current liabilities	89,160	99,105	126,377	137,928	128,176	133,115	151,942	148,371	197,020	181,165	
Long-term debt	31,629	31,218	36,146	36,765	64,866	62,078	57,787	55,011	41,571	50,459	
<b>Total non-current liabilities</b>	<b>37,538</b>	<b>37,827</b>	<b>43,530</b>	<b>45,154</b>	<b>73,300</b>	<b>71,076</b>	<b>67,451</b>	<b>64,384</b>	<b>53,842</b>	<b>63,438</b>	
<b>Total liabilities</b>	<b>126,698</b>	<b>136,933</b>	<b>169,908</b>	<b>183,083</b>	<b>201,477</b>	<b>204,191</b>	<b>219,394</b>	<b>212,756</b>	<b>250,862</b>	<b>244,603</b>	
<b>Total net assets</b>	<b>75,864</b>	<b>81,522</b>	<b>93,632</b>	<b>102,354</b>	<b>97,734</b>	<b>104,681</b>	<b>115,103</b>	<b>122,318</b>	<b>131,115</b>	<b>142,216</b>	
<b>Total liabilities and net assets</b>	<b>202,562</b>	<b>218,456</b>	<b>263,540</b>	<b>285,438</b>	<b>299,212</b>	<b>308,873</b>	<b>334,498</b>	<b>335,074</b>	<b>381,977</b>	<b>386,819</b>	
Total interest-bearing debt	37,026	36,655	42,916	44,411	70,864	67,568	64,961	61,219	73,938	57,930	
<b>Financial ratios</b>											
ROA (RP-based)	7.4%	7.0%	6.8%	6.9%	6.3%	6.6%	6.8%	6.4%	5.7%	6.6%	-
ROE	12.2%	11.3%	10.9%	10.8%	11.5%	12.0%	11.5%	10.6%	9.8%	10.3%	-
Equity ratio	37.2%	37.1%	34.7%	35.0%	31.9%	33.0%	33.3%	35.3%	33.5%	36.1%	-

Source: Shared Research based on company materials

Note: Figures may differ from company materials due to differences in rounding methods.

# Earnings trends

## Quarterly trends and results

Cumulative (JPYmn)	FY03/23				FY03/24				FY03/25		FY03/25			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	% of forecast	1H forecast	% of forecast	FY forecast
Sales	121,214	263,520	407,120	572,285	146,467	296,771	453,057	630,988	155,219	310,032	103.3%	300,000	48.4%	640,000
YoY	6.1%	12.3%	12.1%	11.3%	20.8%	12.6%	11.3%	10.3%	6.0%	4.5%		1.1%		1.4%
Gross profit	11,554	26,726	42,012	60,617	14,136	29,538	45,571	65,607	13,689	28,007				
YoY	4.0%	13.1%	15.4%	13.0%	22.3%	10.5%	8.5%	8.2%	-3.2%	-5.2%				
Gross profit margin	9.5%	10.1%	10.3%	10.6%	9.7%	10.0%	10.1%	10.4%	8.8%	9.0%				
SG&A expenses	8,724	18,755	28,642	39,473	10,294	20,300	30,441	41,071	10,186	20,263				
YoY	9.0%	17.0%	19.1%	19.1%	18.0%	8.2%	6.3%	4.0%	-1.0%	-0.2%				
SG&A ratio	7.2%	7.1%	7.0%	6.9%	7.0%	6.8%	6.7%	6.5%	6.6%	6.5%				
Operating profit	2,830	7,971	13,370	21,144	3,842	9,238	15,130	24,535	3,502	7,743	91.1%	8,500	29.8%	26,000
YoY	-8.9%	5.0%	8.2%	3.1%	35.8%	15.9%	13.2%	16.0%	-8.8%	-16.2%		-8.0%		6.0%
Operating profit margin	2.3%	3.0%	3.3%	3.7%	2.6%	3.1%	3.3%	3.9%	2.3%	2.5%		2.8%		4.1%
Recurring profit	2,913	7,498	12,849	20,607	4,648	10,116	15,788	25,215	4,485	8,414	99.0%	8,500	32.4%	26,000
YoY	-4.7%	1.6%	3.8%	-3.2%	59.6%	34.9%	22.9%	22.4%	-3.5%	-16.8%		-16.0%		3.1%
Recurring profit margin	2.4%	2.8%	3.2%	3.6%	3.2%	3.4%	3.5%	4.0%	2.9%	2.7%		2.8%		4.1%
Net income	1,585	4,143	7,450	12,063	2,998	3,686	7,224	13,789	3,065	5,539	110.8%	5,000	36.9%	15,000
YoY	-1.1%	0.6%	6.7%	-0.9%	89.1%	-11.0%	-3.0%	14.3%	2.2%	50.3%		35.6%		8.8%
Net margin	1.3%	1.6%	1.8%	2.1%	2.0%	1.2%	1.6%	2.2%	2.0%	1.8%		1.7%		2.3%
Quarterly (JPYmn)	FY03/23			FY03/24			FY03/25							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Sales	121,214	142,306	143,600	165,165	146,467	150,304	156,286	177,931	155,219	154,813				
YoY	6.1%	18.1%	11.8%	9.2%	20.8%	5.6%	8.8%	7.7%	6.0%	3.0%				
Gross profit	11,554	15,172	15,286	18,605	14,136	15,402	16,033	20,036	13,689	14,318				
YoY	4.0%	21.2%	19.6%	7.9%	22.3%	1.5%	4.9%	7.7%	-3.2%	-7.0%				
Gross profit margin	9.5%	10.7%	10.6%	11.3%	9.7%	10.2%	10.3%	11.3%	8.8%	9.2%				
SG&A expenses	8,724	10,031	9,887	10,831	10,294	10,006	10,141	10,630	10,186	10,077				
YoY	9.0%	25.0%	23.3%	19.2%	18.0%	-0.2%	2.6%	-1.9%	-1.0%	0.7%				
SG&A ratio	7.2%	7.0%	6.9%	6.6%	7.0%	6.7%	6.5%	6.0%	6.6%	6.5%				
Operating profit	2,830	5,141	5,399	7,774	3,842	5,396	5,892	9,405	3,502	4,241				
YoY	-8.9%	14.8%	13.3%	-4.6%	35.8%	5.0%	9.1%	21.0%	-8.8%	-21.4%				
Operating profit margin	2.3%	3.6%	3.8%	4.7%	2.6%	3.6%	3.8%	5.3%	2.3%	2.7%				
Recurring profit	2,913	4,585	5,351	7,758	4,648	5,468	5,672	9,427	4,485	3,929				
YoY	-4.7%	6.1%	7.1%	-13.0%	59.6%	19.3%	6.0%	21.5%	-3.5%	-28.1%				
Recurring profit margin	2.4%	3.2%	3.7%	4.7%	3.2%	3.6%	3.6%	5.3%	2.9%	2.5%				
Net income	1,585	2,558	3,307	4,613	2,998	688	3,538	6,565	3,065	2,474				
YoY	-1.1%	1.7%	15.4%	-11.1%	89.1%	-73.1%	7.0%	42.3%	2.2%	259.6%				
Net margin	1.3%	1.8%	2.3%	2.8%	2.0%	0.5%	2.3%	3.7%	2.0%	1.6%				

Source: Shared Research based on company materials

Note: Figures may differ from company materials due to differences in rounding methods.

## 1H FY03/25 results (out November 8, 2024)

### 1H FY03/25 results (April–September 2024)

- Sales: JPY310.0bn (+4.5% YoY)
- Operating profit: JPY7.7bn (-16.2% YoY)
- Recurring profit: JPY8.4bn (-16.8% YoY)
- Net income attributable to owners of the parent: JPY5.5bn (+50.3% YoY)

### Business environment

The Japanese economy showed signs of a gradual recovery, supported by improvements in employment and income levels, as well as the effects of various policies. However, ongoing inflation and rising consumer prices due to the yen's depreciation have created significant challenges, leaving the economic outlook uncertain.

In the healthcare industry, various initiatives have been launched, including the 8th Medical Care Plan, the 4th Medical Cost Optimization Plan, and reforms to improve working conditions for doctors. The industry still faces the challenge of building an efficient, effective, and high-quality healthcare delivery system.

### Results overview

1H sales increased 4.5% YoY, largely in line with expectations, driven by growth in the Medical Supply (MSP) segment as new large-scale projects began operations. 1H sales were 103.3% of the 1H forecast, while operating profit reached 91.1%, recurring profit 99.0%, and net income 110.8%.

Gross profit totaled JPY28.0bn (-5.2% YoY), with a GPM of 9.0% (-1.0pp YoY). The decline in both profit and profitability was primarily due to several factors: the concentration of construction project sales in the Total Pack Produce (TPP) segment in

2H, upfront expenditures such as personnel and equipment expenses associated with acquiring new projects in the MSP segment, and rising drug procurement costs in the Dispensing Pharmacy (PH) segment. SG&A expenses, including personnel expenses, remained largely unchanged from 1H FY03/24 levels, totaling JPY20.3bn (-0.2% YoY). Consequently, operating profit declined 16.2% YoY, with an OPM of 2.5% (-0.6pp YoY).

FY03/25 marks the final year of the medium-term management plan, Ship Vision 2024. The company continued to advance the four key initiatives it initially set out: further expansion of core businesses, aggressive expansion of value, strategic enhancement of functions, and sustainability initiatives.

## Results by segment

### Total Pack Produce (TPP) segment

#### Earnings performance

Total Pack Produce (JPYmn)	FY03/23				FY03/24				FY03/25	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2
Sales	16,707	48,651	77,904	121,868	27,876	56,665	85,574	133,717	25,307	48,083
YoY	-0.7%	40.2%	39.5%	22.4%	66.9%	16.5%	9.8%	9.7%	-9.2%	-15.1%
Operating profit	624	2,684	4,899	9,024	1,326	3,443	5,738	11,805	1,098	2,498
YoY	-28.3%	20.7%	21.0%	-2.6%	112.5%	28.3%	17.1%	30.8%	-17.2%	-27.4%
Operating profit margin	3.7%	5.5%	6.3%	7.4%	4.8%	6.1%	6.7%	8.8%	4.3%	5.2%
Number of projects		12		42		15		39		9
Quarterly	FY03/23				FY03/24				FY03/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	16,707	31,944	29,253	43,964	27,876	28,789	28,909	48,143	25,307	22,776
YoY	-0.7%	78.7%	38.3%	0.7%	66.9%	-9.9%	-1.2%	9.5%	-9.2%	-20.9%
Operating profit	624	2,060	2,215	4,125	1,326	2,117	2,295	6,067	1,098	1,400
YoY	-28.3%	52.1%	21.4%	-20.9%	112.5%	2.8%	3.6%	47.1%	-17.2%	-33.9%
Operating profit margin	3.7%	6.4%	7.6%	9.4%	4.8%	7.4%	7.9%	12.6%	4.3%	6.1%

Source: Shared Research based on company data

- ▶ Segment sales (external; all references to segment sales are external sales): JPY48.1bn (-15.1% YoY)
- ▶ Segment profit: JPY2.5bn (-27.4% YoY)

#### Summary

Segment sales decreased 15.1% YoY, primarily due to several factors. The company expects sales from large construction projects to be recorded predominantly in the latter half of FY03/25 (annual plan: 40 projects; 1H result: nine projects), in contrast to FY03/24. Additionally, the Myanmar business ceased contributing to results in FY03/25, and some manufacturing subsidiaries reported lower sales due to a decrease in maintenance projects, which had been concentrated in 2H FY03/24. Meanwhile, the performance of Kingrun group companies exceeded expectations set at the time of their acquisition. Furthermore, in the heavy-ion radiotherapy facility, treatments expanded beyond the initially planned prostate cancer therapies, as insurance coverage for heavy particle beam treatments broadened. This drove steady growth in treatments for other conditions, with cumulative treated patients reaching 4,771 by end-Q2 FY03/25, up 573 from end-FY03/24.

Segment sales comprised JPY17.9bn (-33.7% YoY) from construction projects, routine projects, and overseas operations; JPY13.4bn (-5.1% YoY) from the manufacturing business; JPY11.6bn (+5.4% YoY) from the Kingrun group; and JPY5.3bn (+13.8% YoY) from other businesses.

Segment profit fell 27.4% YoY, with a profit margin of 5.2% (-0.9pp YoY). The decrease was primarily attributable to the timing of large construction project sales being weighted toward 2H, which reduced project-related profits, and a decline in the manufacturing business following the concentration of projects at end-FY03/24.

## Medical Supply (MSP) segment

### Earnings performance

Medical Supply (JPYmn)	FY03/23				FY03/24				FY03/25	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2
Sales	90,461	184,681	282,204	386,335	101,771	205,922	316,849	428,451	112,613	227,091
YoY	7.3%	6.5%	5.8%	7.1%	12.5%	11.5%	12.3%	10.9%	10.7%	10.3%
Operating profit	984	2,687	4,372	6,666	1,245	2,800	4,609	6,513	963	2,536
YoY	-7.3%	1.5%	4.4%	7.4%	26.5%	4.2%	5.4%	-2.3%	-22.7%	-9.4%
Operating profit margin	1.1%	1.5%	1.5%	1.7%	1.2%	1.4%	1.5%	1.5%	0.9%	1.1%
Quarterly	FY03/23				FY03/24				FY03/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	90,461	94,220	97,523	104,131	101,771	104,151	110,927	111,602	112,613	114,478
YoY	7.3%	5.8%	4.4%	10.9%	12.5%	10.5%	13.7%	7.2%	10.7%	9.9%
Operating profit	984	1,703	1,685	2,294	1,245	1,555	1,809	1,904	963	1,573
YoY	-7.3%	7.5%	9.3%	13.5%	26.5%	-8.7%	7.4%	-17.0%	-22.7%	1.2%
Operating profit margin	1.1%	1.8%	1.7%	2.2%	1.2%	1.5%	1.6%	1.7%	0.9%	1.4%

Source: Shared Research based on company data

▶ Segment sales: JPY227.1bn (+10.3% YoY)

▶ Segment profit: JPY2.5bn (-9.4% YoY)

### Summary

Segment sales rose 10.3% YoY, driven by several factors. These include the start of operations at SPD facilities commissioned by Ship, which increased by 16 locations from end-FY03/24, bringing the total to 262 facilities and approximately 97,000 beds nationwide as of end-September 2024. Additionally, services began operating within a collaborative framework involving multiple hospitals rather than individual institutions. Contributions from a company in the orthopedics field that joined the Ship group in Q4 FY03/24 also contributed to sales growth. Shared Research believes that the adoption of IT-driven SPD data management has been instrumental in driving the increase in commissioned SPD contracts.

Segment profit declined 9.4% YoY, with a profit margin of 1.1% (-0.3pp YoY). The decrease was mainly attributable to upfront expenditures, including personnel expenses and capital investments associated with the launch of contract management at new facilities, a sharp rise in procurement costs for medical materials, and investments in infrastructure to enhance SPD data visualization as part of future logistics strategies. To strengthen group-wide synergy and optimize management resources, Ship has been advancing the reorganization and consolidation of group companies by segment. In the MSP segment, the company reorganized 17 group companies (as of April 1, 2024) into 12 companies on October 1, 2024, ahead of other segments.

## Life Care (LC) segment

### Earnings performance

Life Care (JPYmn)	FY03/23				FY03/24				FY03/25	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2
Sales	6,831	15,472	24,331	33,581	8,920	18,010	27,233	36,099	9,135	18,268
YoY	10.9%	23.7%	28.8%	33.0%	30.6%	16.4%	11.9%	7.5%	2.4%	1.4%
Operating profit	531	1,111	1,709	2,055	564	1,293	2,060	2,606	620	1,155
YoY	-9.5%	-10.4%	-6.4%	-14.6%	6.2%	16.4%	20.5%	26.8%	9.9%	-10.7%
Operating profit margin	7.8%	7.2%	7.0%	6.1%	6.3%	7.2%	7.6%	7.2%	6.8%	6.3%
Nursing care occupancy	-	99.5%	-	99.0%	-	98.9%	-	98.9%	-	-
Number of facilities	-	74	-	75	-	75	-	75	-	-
Capacity	-	4,638	-	4,762	-	4,762	-	4,753	-	-
Residents	-	4,613	-	4,716	-	4,710	-	4,703	-	-
Quarterly	FY03/23				FY03/24				FY03/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	6,831	8,641	8,859	9,250	8,920	9,090	9,223	8,866	9,135	9,133
YoY	10.9%	36.2%	38.8%	45.4%	30.6%	5.2%	4.1%	-4.2%	2.4%	0.5%
Operating profit	531	580	598	346	564	729	767	546	620	535
YoY	-9.5%	-11.2%	2.2%	-40.5%	6.2%	25.7%	28.3%	57.8%	9.9%	-26.6%
Operating profit margin	7.8%	6.7%	6.8%	3.7%	6.3%	8.0%	8.3%	6.2%	6.8%	5.9%

Source: Shared Research based on company data

▶ Segment sales: JPY18.3bn (+1.4% YoY)

▶ Segment profit: JPY1.2bn (-10.7% YoY)

### Summary

Segment sales increased 1.4% YoY. In the life (long-term care) business, sales totaled JPY12.2bn (+1.3% YoY), supported by continued high occupancy rates at elderly care facilities, despite efforts to review administrative expenses and pass on higher



costs through price adjustments. Sales in the food (meal service) business amounted to JPY6.1bn (+1.7% YoY), driven by the strategic restructuring of operations, including the withdrawal from unprofitable businesses, as well as ongoing price negotiations to offset rising food costs.

Segment profit decreased 10.7% YoY, with a profit margin of 6.3% (-0.9pp YoY). The decline was primarily attributable to upfront expenditures related to a collaborative project in the life (long-term care) business with Charm Care Corporation (TSE Prime: 6062), which included the opening of an elderly care facility in July 2024. Additionally, soaring food costs in the food (meal service) business, particularly for essential items such as rice, which are difficult to substitute, further weighed on profits. Both businesses were also affected by increased dispatch and outsourcing expenses driven by labor shortages.

## Dispensing Pharmacy (PH) segment

### Earnings performance

Dispensing Pharmacy (JPYmn)	FY03/23				FY03/24				FY03/25	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2
Sales	7,214	14,715	22,680	30,499	7,899	16,173	24,401	32,719	8,162	16,589
YoY	4.5%	4.5%	4.8%	5.4%	9.5%	9.9%	7.6%	7.3%	3.3%	2.6%
Operating profit	641	1,419	2,322	3,256	737	1,676	2,670	3,530	793	1,546
YoY	6.5%	-8.3%	-5.0%	1.8%	15.0%	18.1%	15.0%	8.4%	7.6%	-7.8%
Operating profit margin	8.9%	9.6%	10.2%	10.7%	9.3%	10.4%	10.9%	10.8%	9.7%	9.3%
Number of stores		122		123		126		129		132
Quarterly	FY03/23				FY03/24				FY03/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	7,214	7,501	7,965	7,819	7,899	8,274	8,228	8,318	8,162	8,427
YoY	4.5%	4.5%	5.4%	7.3%	9.5%	10.3%	3.3%	6.4%	3.3%	1.8%
Operating profit	641	778	903	934	737	939	994	860	793	753
YoY	6.5%	-17.7%	0.8%	23.4%	15.0%	20.7%	10.1%	-7.9%	7.6%	-19.8%
Operating profit margin	8.9%	10.4%	11.3%	11.9%	9.3%	11.3%	12.1%	10.3%	9.7%	8.9%

Source: Shared Research based on company data

- ▶ Segment sales: JPY16.6bn (+2.6% YoY)
- ▶ Segment profit: JPY1.5bn (-7.8% YoY)

### Summary

Segment sales grew 2.6% YoY, driven by the addition of three new pharmacies since end-FY03/24 and one pharmacy acquired through M&A, partially offset by the closure of unprofitable locations. This brought the total number of pharmacies to 132 as of end-September 2024. In the PH segment, Ship collaborated with the TPP segment to open a pharmacy at Nakanoshima Gross, a future-oriented international medical hub. Furthermore, the number of users registered on the LINE app, which supports initiatives such as online medication guidance, continued to grow.

Segment profit declined 7.8% YoY, with a profit margin of 9.3% (-1.1pp YoY). Despite higher sales, the decline in profit was attributed to several factors: NHI drug price revisions, rising drug procurement costs, higher personnel expenses, and expenses associated with the closure of unprofitable pharmacies.

## Company forecast for FY03/25

(JPYmn)	FY03/23			FY03/24			FY03/25		
	1H results	2H results	FY results	1H results	2H results	FY results	1H results	2H forecast	FY forecast
Sales	263,520	308,765	572,285	296,771	334,217	630,988	310,032	329,968	640,000
YoY	12.3%	10.4%	11.3%	12.6%	8.2%	10.3%	4.5%	-1.3%	1.4%
Operating profit	7,971	13,173	21,144	9,238	15,297	24,535	7,743	18,257	26,000
YoY	5.0%	2.0%	3.1%	15.9%	16.1%	16.0%	-16.2%	19.4%	6.0%
Operating profit margin	3.0%	4.3%	3.7%	3.1%	4.6%	3.9%	2.5%	5.5%	4.1%
Recurring profit	7,498	13,109	20,607	10,116	15,099	25,215	8,414	17,586	26,000
YoY	1.6%	-5.8%	-3.2%	34.9%	15.2%	22.4%	-16.8%	16.5%	3.1%
Recurring profit margin	2.8%	4.2%	3.6%	3.4%	4.5%	4.0%	2.7%	5.3%	4.1%
Net income	4,143	7,920	12,063	3,686	10,103	13,789	5,539	9,461	15,000
YoY	0.6%	-1.7%	-0.9%	-11.0%	27.6%	14.3%	50.3%	-6.4%	8.8%
Net margin	1.6%	2.6%	2.1%	1.2%	3.0%	2.2%	1.8%	2.9%	2.3%

Source: Shared Research based on company materials

Notes: Figures may differ from company materials due to differences in rounding methods.

Operating profit margin is calculated from unadjusted segment profit.

### FY03/25 company forecast

On May 10, 2024, Ship announced its full-year earnings forecast for FY03/25, which it maintained when releasing its 1H results on November 8, 2024. Details are outlined below. Progress toward the full-year forecast through 1H was 48.4% for

sales, 29.8% for operating profit, 32.4% for recurring profit, and 36.9% for net income. The company considers its 1H progress to be generally in line with expectations, particularly in its construction project-based business activities.

- Sales: JPY640.0bn (+1.4% YoY)
- Operating profit: JPY26.0bn (+6.0% YoY)
- Recurring profit: JPY26.0bn (+3.1% YoY)
- Net income attributable to owners of the parent: JPY15.0bn (+8.8% YoY)
- EPS: JPY158.98 (JPY146.15 in FY03/24)

As the baby boom generation (those born between 1947 and 1949 during Japan's first baby boom) ages and low birth rates continue, the company sees the Japanese government continuing to restrain spending on medical and nursing care, and further reducing drug reimbursement prices in the years ahead.

In addition, since the enactment of the Acts for Securing Comprehensive Medical and Long-term Care in the Community, progress in Japan is being made toward the development of community-based integrated care systems through ongoing reforms in the structure of providing medical care, with completion envisioned for 2025.

Against this backdrop, Ship is committed to continuous business growth as a group while planning to enhance its ability to deliver comprehensive solutions in the fields of healthcare, wellness, welfare, long-term care, and services. The company has disclosed its medium-term management plan, Ship Vision 2024. Ship anticipates that its financial performance for FY03/25 will surpass the targets set for the final year of this medium-term plan.

The company outlined a proposal for restructuring and consolidating its group companies as part of its management policy for FY03/25 and beyond. This initiative aims to capitalize on the group's overall strengths by fostering autonomous growth among group companies while optimizing the use of management resources. As of October 1, 2024, the reorganization of the MSP segment has been completed. In other segments, the reorganization of the life (long-term care) business within the LC segment is scheduled for completion by January 1, 2025. Additionally, Ship expects to complete the reorganization of the TPP segment, the food (meal service) business within the LC segment, and the PH segment by April 1, 2025. Following these efforts, the company projects the number of its group companies to decrease from 65 (as of April 1, 2024) to 50.

#### Full-year outlook by segment

The earnings forecasts for major segments for FY03/25 are outlined below. The company has maintained its initial projections.

- ▶ TPP segment: sales of JPY136.0bn (+1.7% YoY), operating profit of JPY12.6bn (+6.7% YoY)

Ship plans to handle 40 construction projects annually, executing these projects as planned and securing new orders. In the manufacturing business, the company aims to launch new products and provide high-value-added services by leveraging synergies among its group companies.

- ▶ MSP segment: sales of JPY433.0bn (+1.1% YoY), operating profit of JPY7.1bn (+9.0% YoY)

The company seeks to further expand high-demand SPD projects, promoting demand analysis and sales proposals utilizing databases. In the future, it aims to offer high-value-added services through the promotion of medical digital transformation.

- ▶ LC segment: sales of JPY37.0bn (+2.5% YoY), operating profit of JPY2.6bn (+0.1% YoY)

In the life (long-term care) business, the company focuses on maintaining high occupancy rates at existing elderly care facilities and expanding employment support services for people with disabilities. Additionally, it seeks to grow operations through a new elderly care facility developed in collaboration with Charm Care, which opened in July 2024, with upfront expenditures recorded since FY03/24. In the food (meal service) business, the company plans to expand its Dream Kitchen business, which offers fully prepared ingredients, to drive sales growth.

- ▶ PH segment: sales of JPY34.0bn (+3.9% YoY), operating profit of JPY3.7bn (+4.5% YoY)

The company plans to expand the number of dispensing pharmacies through new openings and acquisitions, leveraging the strengths of its group companies. Each dispensing pharmacy will promote the use of smartphone apps and other tools to become a primary-care family pharmacy, aiming to increase medical treatment fees. Furthermore, the company will continue to optimize in-store staffing levels and consolidate back-office functions to improve operational efficiency.

## Historical forecasts versus results

Initial forecast vs. results	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales (initial forecast)	280,000	300,000	418,000	425,000	440,000	466,000	500,000	530,000	560,000	600,000
Sales (Results)	273,327	306,853	408,487	425,566	444,048	484,395	497,156	514,353	572,285	630,988
<b>Initial forecast vs. results</b>	<b>-2.4%</b>	<b>2.3%</b>	<b>-2.3%</b>	<b>0.1%</b>	<b>0.9%</b>	<b>3.9%</b>	<b>-0.6%</b>	<b>-3.0%</b>	<b>2.2%</b>	<b>5.2%</b>
Operating profit (initial forecast)	14,600	14,800	15,800	16,900	17,500	18,500	21,000	22,500	21,000	24,000
Operating profit (Results)	13,597	14,049	16,055	18,259	17,952	18,794	21,800	20,505	21,144	24,535
<b>Initial forecast vs. results</b>	<b>-6.9%</b>	<b>-5.1%</b>	<b>1.6%</b>	<b>8.0%</b>	<b>2.6%</b>	<b>1.6%</b>	<b>3.8%</b>	<b>-8.9%</b>	<b>0.7%</b>	<b>2.2%</b>
Recurring profit (initial forecast)	15,000	15,100	16,100	17,100	17,101	19,300	21,000	22,500	21,000	23,500
Recurring profit (Results)	13,910	14,737	16,478	18,935	18,532	19,931	21,761	21,287	20,607	25,215
<b>Initial forecast vs. results</b>	<b>-7.3%</b>	<b>-2.4%</b>	<b>2.3%</b>	<b>10.7%</b>	<b>8.4%</b>	<b>3.3%</b>	<b>3.6%</b>	<b>-5.4%</b>	<b>-1.9%</b>	<b>7.3%</b>
Net income (initial forecast)	8,800	8,300	9,400	10,000	10,001	11,800	12,100	12,500	12,500	13,500
Net income (Results)	7,472	8,847	9,410	10,350	11,236	11,803	12,280	12,172	12,063	13,789
<b>Initial forecast vs. results</b>	<b>-15.1%</b>	<b>6.6%</b>	<b>0.1%</b>	<b>3.5%</b>	<b>12.3%</b>	<b>0.0%</b>	<b>1.5%</b>	<b>-2.6%</b>	<b>-3.5%</b>	<b>2.1%</b>

Source: Shared Research based on company materials

CE=Company estimates; figures may differ from company materials due to differences in rounding methods.

# Medium-term management plan

## Review of medium-term management plan: Ship Vision 2020

The company unveiled its new medium-term plan in November 2017. Dubbed Ship Vision 2020, the three-year plan (FY03/19–FY03/21) targeted sales of JPY500bn and operating profit of JPY21bn in FY03/21 (the final year of the plan; both figures would be new record-highs). The main elements had not changed from its medium-term strategy, but with this plan, the company set forth specific performance targets and timing, and has outlined specific steps it intends to take to reach those targets as it works toward its ultimate goal of JPY1.0tn in sales per annum. The company announced an earnings plan for its Healthcare Service business, which is positioned as its fifth core business.

### More or less achieved plan targets

The company more or less achieved its medium-term plan targets for FY03/21, with sales coming in at JPY497.5bn and operating profit at JPY21.8bn. During the period of the medium-term plan, the company's priorities were to seek further growth of core businesses, to start up its fifth core business (Healthcare Service) in earnest, to pursue an aggressive M&A strategy, and to strengthen shareholder returns.

### Status of four core businesses

The Total Pack Produce segment undershot its final FY03/21 targets by around JPY20.0bn for sales and JPY2.4bn for segment profit. FY03/21, which was the final year of the three-year plan, was impacted by the COVID-19 pandemic. Although the pandemic had some positive effects such as increased spending on medical equipment and facilities to prevent infection boosted by government subsidies, it also had many negative impacts such as reduced demand for equipment other than those for preventing infection, hospital management coming under pressure from reduced outpatient visits and cancellation of non-urgent procedures (including heavy-ion radiotherapy facilities).

The Medical Supply segment surpassed final plan targets for sales and segment profit in FY03/21. In particular, the OPM improved by 0.5pp more than the target. In addition to pursuing strategic M&A opportunities to aid the expansion of operations nationwide, in the Kansai area the company is looking to enhance its procurement capabilities by combining its product master data system with its IT system, and will also begin planning for the construction of a central distribution center. The company is also looking to do more original new private brand product proposals and development work.

The Life Care segment undershot its final FY03/21 sales target by around JPY2.0bn, but surpassed the operating profit target by JPY400mn, with segment OPM of 9.1%, an improvement of 2.3pp over the target 6.8%.

At its long-term care business, the company had planned from the stage of formulating the medium-term plan to take additional steps in an effort to keep the occupancy rates of its facilities above 98%, including further integration of its long-term care facility management nationwide, programs aimed at increasing interaction with people in the community, and a wider variety of room plans. It will also expand employee training programs, and an apprentice training program for foreign workers. Regarding facility operation, in the three-year plan, the company aimed to increase resident convenience so that it could maintain occupancy rates above 98% at existing facilities rather than adding more facilities.

In the Dispensing Pharmacy segment, sales undershot the final FY03/21 target by around JPY2.0bn and segment profit by JPY100mn. The company aimed to strategically expand its bases through M&A with a focus on regional dominance while bolstering its primary-care family pharmacies and supporting establishment of community care systems. The company is strategically conducting M&A to open new pharmacies through collaboration with other segments.

### Establishing fifth business field: Healthcare Service

The elimination of losses by the Osaka Heavy Ion Therapy Center is in sight. The planned overseas businesses—Bangladesh hospital business and Myanmar business—were launched during the medium-term management plan. The PFI business is growing stably.

### Strategic M&A and shareholder return

Ship has aggressively invested in M&A since its founding, with the focus on the Total Pack Produce and Dispensing Pharmacy segments during the medium-term plan period. As for shareholder returns, over JPY16.0bn, the target amount under the medium-term plan, was allocated to dividends and stock buybacks.

### Dividends, ROE , and other indicators

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Total dividends	2,717	2,717	3,035	3,238	3,334	3,556	3,774	3,868	3,962	4,171
Total treasury stock acquired	-2,364	0	-	-	12,999	1,000	1,078	-	-	-
Total returns to shareholders	353	2,717	3,035	3,238	16,333	4,556	4,852	3,868	3,962	4,171
Net income attributable to parent company shareholders	7,472	8,847	9,410	10,350	11,236	11,803	12,280	12,172	12,063	13,789
Dividend payout ratio	36.4%	30.7%	32.3%	31.3%	29.7%	30.1%	30.7%	31.8%	32.8%	34.2%
Total shareholder return ratio	4.7%	30.7%	32.3%	31.3%	145.4%	38.6%	39.5%	31.8%	32.8%	30.2%
Net assets available to common shareholders (year end)	75,309	80,994	91,385	99,880	95,420	101,784	111,440	118,289	128,037	139,516
Average of beginning and end of year	61,242	78,152	86,190	95,633	97,650	98,602	106,612	114,865	123,163	133,777
EPS	168.5	179.1	186.3	204.6	227.8	247.7	247.7	129.0	127.9	146.2
Dividend per share	55.0	55.0	60.0	64.0	70.0	75.0	80.0	41.0	42.0	50.0
DOE	4.4%	3.5%	3.5%	3.4%	3.5%	3.6%	3.5%	3.4%	3.2%	3.1%

Source: Shared Research based on company data

## Ship Vision 2024 medium-term management plan (FY03/23–FY03/25) released on May 16, 2022

FY03/21 was the final year of the Ship Vision 2020 medium-term management plan, but the company was unable to announce its next medium-term management plan starting from FY03/22 because the COVID-19 pandemic drastically changed the business environment. The new medium-term management plan (FY03/23–FY03/25) was announced on May 16, 2022, soon after the company reported FY03/22 earnings results.

### Basic policy

The Japanese healthcare system faces issues like rising social security costs and an increasing burden placed on healthcare providers; medical needs are rising even as medical resources are becoming increasingly tight. Important social issues and needs that must be addressed include establishment of a high-quality healthcare delivery system that can provide services like comprehensive community care, home-based medical care, and home-visit nursing care; initiation of work style reforms such as task-sharing and outsourcing in response to the diminishing working-age population engaged in the healthcare field; and implementation of infectious disease control measures to accommodate medical institutions based on their functions. It is also essential to ensure sustainability of the healthcare system with limited medical resources.

Ship looks to contribute to solving these problems as one of the main players supporting comprehensive community medical care in Japan. The company has indicated it aims for further growth of the group, eyeing sales of JPY1tn over the long term. It disclosed strategic policies and numerical targets for FY03/25, the final year of the current medium-term management plan, which will be a preparatory phase for achieving the long-term goals.

### Numerical targets

The targets for group earnings as well as sales and profit by segment during the period of the Ship Vision 2024 medium-term management plan (as announced) are as follows.

## Ship Vision 2024 earnings targets

(JPYmn)	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/23	FY03/24	FY03/24	FY03/25
	Results	Results	Results	Results	Results	Target	Results	Target	Target
Sales	444,048	484,395	497,156	514,353	572,285	560,000	630,988	600,000	630,000
Operating profit	17,952	18,794	21,800	20,505	21,144	21,000	24,535	24,000	26,000
Operating profit margin	4.0%	3.9%	4.4%	4.0%	3.7%	3.8%	3.9%	4.0%	4.1%
<b>Total Pack Produce</b>									
Sales	99,441	100,688	104,355	99,539	121,868	129,000	133,717	152,000	163,000
Segment profit	9,794	9,620	9,781	9,265	9,024	9,700	11,805	12,150	13,450
Segment OPM	9.8%	9.6%	9.4%	9.3%	7.4%	7.5%	8.8%	8.0%	8.3%
<b>Medical Supply</b>									
Sales	290,363	325,664	341,157	360,635	386,335	374,000	428,451	390,000	407,000
Segment profit	4,191	5,035	6,958	6,209	6,666	6,600	6,513	6,800	7,260
Segment OPM	1.4%	1.5%	2.0%	1.7%	1.7%	1.8%	1.5%	1.7%	1.8%
<b>Life Care</b>									
Sales	23,500	23,929	24,571	25,247	33,581	28,000	36,099	29,000	29,500
Segment profit	1,625	1,770	2,237	2,407	2,055	2,430	2,606	2,500	2,600
Segment OPM	6.9%	7.4%	9.1%	9.5%	6.1%	8.7%	7.2%	8.6%	8.8%
<b>Dispensing Pharmacy</b>									
Sales	25,585	27,050	27,070	28,930	30,499	29,000	32,719	29,000	30,500
Segment profit	2,193	2,661	2,884	3,200	3,256	2,830	3,530	3,100	3,200
Segment OPM	8.6%	9.8%	10.7%	11.1%	10.7%	9.8%	10.8%	10.7%	10.5%

Source: Company materials

## Earnings targets for each healthcare service business under the TPP segment

(JPYmn)	FY03/22	FY03/23	FY03/24	FY03/25
	Results	Target	Target	Target
<b>Osaka Heavy Ion Therapy Center</b>				
Sales	1,085	1,300	1,340	1,350
Operating profit	-266	0	100	150
Number of treatments	697	800	950	1,100
<b>Bangladesh business</b>				
Sales	446	960	1,380	1,770
Operating profit	-255	-300	-100	90
<b>Myanmar business</b>				
Sales	14,486	13,700	14,500	15,000
Operating profit	1,391	1,400	1,500	1,550

Source: Company materials

Notes: This content is as of the announcement date.

The company exited the Myanmar business in FY03/24 due to changes in the business environment under the military regime (for details, see the "Overseas hospital business" section below).

## Strategic policies

The following four strategic policies were cited as key to achieving the above-noted numerical targets.

### (1) Further expansion of core businesses

The company aims to further bolster its consulting and production (i.e., planning) capabilities, the sources of its competitiveness, to increase value-added and boost group synergies so that it can sustain growth of existing businesses. It also looks to establish a system that can quickly respond to changes in the environment surrounding the medical industry and take advantage of new business opportunities.

### (2) Aggressive expansion of value

Through aggressive and strategic M&A and strengthened PMI functions, the company aims to not only increase existing businesses and profitability, but to also create value through new businesses that utilize M&A and leverage synergies from both Japan and overseas operations.

## M&A deals during the Ship Vision 2020 medium-term plan period

Made a subsidiary		Segment	Company
2017	Dec.	Medical Supply	Organ Medical Co., Ltd.
2018	Dec.	Dispensing Pharmacy	Will Way Ltd.
2019	Jun.	Total Pack Produce	I&C Co., Ltd.
	Jul.	Total Pack Produce	Nihon System Kagu Co., Ltd.
	Sep.	Medical Supply	Joyup Co., Ltd.
	Oct.	Other	Nihon Network Service Co., Ltd.
	Dec.	Dispensing Pharmacy	Fureai Co., Ltd.
2020	Mar.	Dispensing Pharmacy	M's Pharmacy Co., Ltd.
	Apr.	Total Pack Produce	Okkar Thiri Co., Ltd.
	Apr.	Total Pack Produce	Snow Everest Co., Ltd.
	May.	Life Care	STK Co., Ltd.
	Aug.	Dispensing Pharmacy	Osaka Pharmacy Co., Ltd.
	Nov.	Dispensing Pharmacy	Kindness Ltd.

Source: Shared Research based on company materials

### (3) Strategic enhancement of functions

The company will promote projects aimed at bolstering the following five functions: (1) management, (2) marketing, (3) accounting and finance, (4) human resources development/personnel, and (5) compliance. Meanwhile, the cash flow policy will focus on strengthening growth investment and shareholder returns (maintain a dividend payout ratio of 30% or higher) while ensuring sufficient liquidity on hand.

### (4) Sustainability initiatives

While further strengthening the business model used since its founding, the group will aggressively pursue ESG and SDGs initiatives aimed at achieving both sustainable growth for the group and sustainability of society. The group believes the Ship Philosophy and spirit of sincerity, which have been a cornerstone since the group's founding, are in line with the basic concept of the 17 goals advocated by the SDGs. The objective is to realize a sustainable society by sharing these ideas with all employees and continuing to "create an environment for the people who protect lives."

# Business

## Summary

The group consisted of a holding company, 66 consolidated subsidiaries mainly acquired through M&A, and three equity-method affiliates.

All companies within the group operate across five domains: medical care, healthcare, long-term care, welfare, and service. In FY03/24, the Total Pack Produce (TPP) business accounted for 21% of sales and 48% of operating profit, the Medical Supply (MSP) business accounted for 68% of sales and 27% of operating profit, the Life Care (LC) business accounted for 6% of sales and 11% of operating profit, and the Dispensing Pharmacy (PH) business accounted for 5% of sales and 14% of operating profit. The segment that contributes the most to operating profit is the Total Pack Produce business, which is the company's core business and includes construction projects that focus on consulting services for medical institutions.

A typical example of work in construction projects is consulting with a general hospital for the relocation of approximately 500 beds. The following four steps illustrate the process.

1. Ship would provide consulting services three to five years prior to the opening of the new hospital
2. Supply medical equipment and instruments (approximately JPY3.0bn to JPY4.0bn)
3. Consumable goods such as syringes and surgical gowns (JPY100mn to JPY200mn monthly)
4. The company would also supply additional machines and run a "monzen" pharmacy adjacent to the hospital



Osaka Heavy Ion Therapy Center



Bangladesh business



Example of a complex building that houses a hospital and an assisted living facility for the elderly

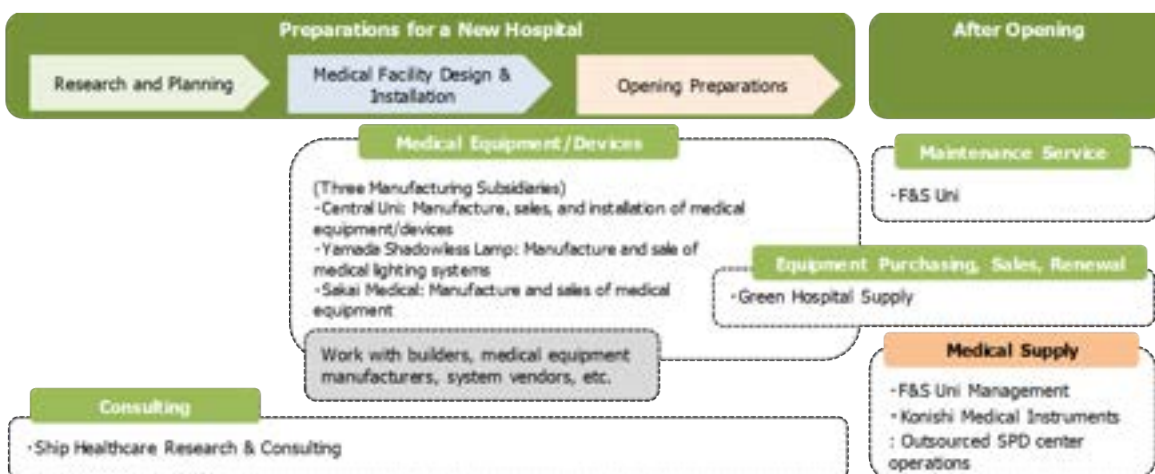


A "monzen" pharmacy



Source: Shared Research based on company data

## Project flow



Source: Shared Research based on company material

Ship provides comprehensive support services for its general-hospital clients. The company also establishes and manages assisted living facilities for the elderly that are adjacent to hospitals. (The nursing homes and hospitals are housed in the



same buildings or connected through a corridor.)

In addition to the Total Pack Produce segment, the company has the Medical Supply segment that supports supply, processing, and distribution (SPD; a logistics management business) of hospitals, the Life Care segment that operates retirement homes and provides meal services, and the Dispensing Pharmacy segment that operates NHI dispensing pharmacies.

## M&A strategy

### Restructuring of medical supply distributors

Amid accelerated industry restructuring, Ship is taking a proactive stance toward acquisitions in the Medical Supply and Dispensing Pharmacy segments to facilitate future growth. Although the company's M&A efforts were hindered by its public stock offering in October 2014, it subsequently accelerated its pace with acquisitions in various fields. In March 2015, it acquired a distributor specializing in cardiovascular products with annual sales of JPY5.0bn at the time of acquisition. In August 2015, it acquired Nishino Ikakikai Co., Ltd., a distributor specializing in the orthopedics field with annual sales of JPY9.0bn. In April 2016, it acquired Konishi Kyowa Holdings, which plays an important role in the Medical Supply business. In FY03/23, Ship consolidated Kingrun and its group companies, which have annual sales of JPY26.2bn. Additionally, the company has selected and acquired profitable mid-tier dispensing pharmacies in the Dispensing Pharmacy segment.

The motivation behind acquisitions appears to be the decline in medical fees related to catheters and other medical treatment materials, as well as the examination of distribution costs by the Ministry of Health, Labour and Welfare. Ship expects alliances and industry restructuring among regional specialty distributors to accelerate and plans to participate in acquisitions. The company aims to address the increasing shortage of pharmacists in the Dispensing Pharmacy segment, where restructuring is already underway.

### Major medical supply distributors (FY03/24)

	Sales	Core companies	Location
Ship Healthcare Group	JPY572bn	Green Hospital Supply	Osaka
Medius Group	JPY239bn	Medius Holdings (TSE Prime: 3154)	Shizuoka
MC Healthcare, Inc.	JPY107bn	MC Healthcare (unlisted)	Tokyo
Yagami Group	JPY150bn	Yagami (unlisted)	Aichi
Mutoh Group	JPY186bn	Mutoh (unlisted)	Hokkaido
Miyano Group	JPY125bn	Miyano Medical Instruments (unlisted)	Hyogo
Olba Group	JPY110bn	Olba Healthcare (TSE Standard: 2689)	Okayama

Source: Shared Research based on company materials

## Segment information

### Total Pack Produce (TPP) segment

Total Pack Produce (JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	101,574	102,202	95,245	98,064	99,441	100,688	104,355	99,539	121,868	133,717
YoY	5.7%	0.6%	-6.8%	3.0%	1.4%	1.3%	3.6%	-4.6%	22.4%	9.7%
Operating profit	9,826	9,688	9,889	10,150	9,794	9,620	9,781	9,265	9,024	11,805
YoY	4.9%	-1.4%	2.1%	2.6%	-3.5%	-1.8%	1.7%	-5.3%	-2.6%	30.8%
Operating profit margin	9.7%	9.5%	10.4%	10.4%	9.8%	9.6%	9.4%	9.3%	7.4%	8.8%
Number of projects	39	43	44	45	45	42	33	35	42	39
Sales per project	903	893	909	866	955	1,062	793	-	-	-
% of consolidated Sales	37.2%	33.3%	23.3%	23.0%	22.4%	20.8%	21.0%	19.4%	21.3%	21.2%
Operating profit	72.3%	69.0%	61.6%	55.6%	54.6%	51.2%	44.9%	45.2%	42.7%	48.1%

Source: Shared Research based on company materials

### TPP segment business structure: new projects form the basis for replacement demand

Sales generated in this segment can be broadly divided into four categories: approximately 40% comes from construction projects involving the establishment and relocation of medical institutions, about 20% from routine projects, which refer to the renewal or replacement of medical equipment for existing customers, and nearly 40% from medical instrument sales conducted by manufacturing subsidiaries. In the TPP business, the company acquires new projects such as the construction and relocation of hospitals, which in turn generate replacement demand for various medical services and equipment three to five years after the facility opens, creating a recurring revenue stream.

## Projects (construction projects)

A project refers to a business that offers comprehensive services to customers who wish to establish, relocate, expand, or renovate hospitals and other medical institutions, and purchase medical equipment. The company receives orders for these services on a lump-sum basis, which include planning and operation, consulting on medical equipment, and the construction, sale, and leasing of medical equipment and facilities.

In construction projects, the company plays a role similar to that of engineering companies such as Chiyoda Corp. (TSE Prime: 6366) and JGC Holdings Corporation (TSE Prime: 1963) in the oil services industry. It typically manages about 200–300 hospital construction projects simultaneously. The sales per project range from about JPY500mn to JPY5bn, and the lead time varies from three to five years, depending on the scale of the project and other conditions, from initial consultation to the opening of the new medical facility.

The company provides comprehensive services to medical institutions in need of establishment, relocation, expansion, or renovation of their facilities. Its main operations can be categorized into the following four areas, which are offered as a comprehensive package:

1. Planning and operation, and consultation on medical equipment
2. Manufacturing and sale of medical instruments and facilities
3. Facility construction, real estate leasing, and other related services
4. Development and sale of systems for medical institutions

### Expanding the number of projects and acquiring the skills to handle more complex projects

Ship is working to increase its number of new projects by acquiring the expertise and building the structures needed to provide consulting on larger and more complex projects. In addition, it is benefiting from project introductions from numerous sources, including physicians, hospitals, manufacturers, local medical supply distributors, and architectural and construction companies. Since listing, financial institutions have been another source.

Cultivating personnel with the skills to make projects profitable is essential. The company is cultivating personnel capable of achieving this goal, while simultaneously increasing its number of projects. This expansion sets the stage for further growth, as past projects lead to replacement demand.

However, the number of projects may decrease due to the challenging operating environment for hospitals, driven by Japan's declining population and aging society. In order to adapt to changing market conditions, the company is implementing medium- to long-term initiatives to sustain earnings growth. These initiatives include operating the heavy-ion radiotherapy facility in Osaka and participating in the operation of overseas hospitals.

#### Research and Planning



#### Medical facility design and installation



#### Opening and operations



Source: Company data

## Routine projects

The company refers to renewal-driven business for existing medical facility customers as routine projects. In contrast to construction projects, where the company generally maintains engagement over several years, routine projects are only for

one year. A specific example would be providing hospital administrators with optimal medical equipment renewal or proposing equipment replacement. Although various types of specialists handle hospital design and construction, the Ship Healthcare group leverages its expertise in installing special-purpose equipment. Routine projects also include IT development and the rental operations for the retirement homes and hospitals owned by the group's real estate management company.

According to the company, higher sales from construction projects are resulting in more additional orders and peripheral work. At the same time, it is becoming increasingly difficult to distinguish between construction projects and routine projects. Ship believes that it is becoming less meaningful to separate these projects.

## Manufacturing business

In its manufacturing business, the company produces and sells medical equipment and devices. The group's three main subsidiaries in this business are Central Uni Co., Ltd. (made a subsidiary in November 2006), Yamada Shadowless Lamp Co., Ltd. (made a subsidiary in April 2008), and Sakai Medical Co., Ltd. (made a subsidiary in October 2009).

The three subsidiaries in the manufacturing business hold a significant market share for their core products and services. Based on company estimates, in 2012, Central Uni had the leading share of the domestic market for medical gas equipment and the domestic market for operating room interior design; Yamada Shadowless Lamp also held the top spot in of the domestic market for shadowless lamps. Yamada Shadowless Lamp and Central Uni's combined market share in the domestic shadowless lamp market make them the largest player in the segment at 50.0% of the market. Sakai Medical is the leader in the domestic market for specialized bath equipment and is vying for the top market share with two competitors in the domestic rehabilitation device market.

### Central Uni Co., Ltd.

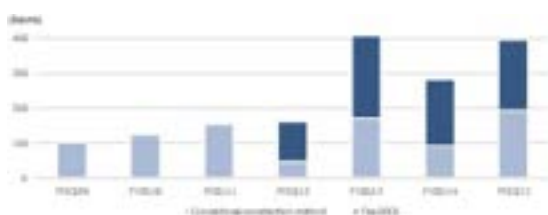
Central Uni is primarily engaged in the manufacture and sale of medical gas supply equipment, as well as the design and construction of operating rooms. Through its subsidiary, F&S Uni Management, the company also provides SPD-related services for the Medical Supply business. Sales recorded in the manufacturing business within the TPP segment are attributed to the manufacture and construction of medical equipment.

Central Uni has a showroom in Yushima, Bunkyo-ku (Tokyo) called Mashup Studio. Mashup Studio is more than a simple showroom—it provides a simulated medical treatment facility. Since it opened in FY03/11, the facility has welcomed hundreds of visitors ever year.

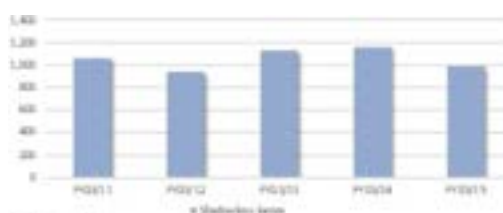
### Yamada Shadowless Lamp Co., Ltd.

Founded in 1927, Yamada Shadowless Lamp is a manufacturer of medical lighting equipment. It manufactures and sells shadowless lamps (surgical lighting fixtures that use multiple light sources to provide high-intensity illumination without casting shadows on the surgical area) and other medical examination lights. Its product brand is SKYLUX. Yamada Shadowless Lamp operates under the motto "to illuminate objects more accurately and to deliver gentler light to medical professionals." Its key feature is the use of ultra-high color rendering LEDs that enhance the visibility and differentiation of blood, organs, and body tissues during surgery, ensuring high-precision operations. This subsidiary has a showroom, Medical Lighting Lab, located in Bunkyo-ku, Tokyo.

Number of Central Uni operating rooms



Number of Yamada Shadowless Lamp's shadowless lamps



Source: Shared Research based on company materials

## Sakai Medical Co., Ltd.

Founded in 1881, Sakai Medical joined the Ship Healthcare group in 2006. This subsidiary manufactures and sells medical equipment, including care bathtubs and rehabilitation devices.

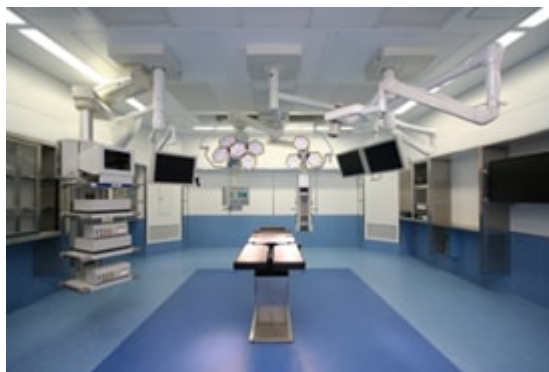
Ship has commented that with the addition of these three equipment manufacturing companies to its group, it can now offer products and services that enhance the value of client hospitals, in addition to the products and services it offers through its trading business. The company is able to provide engineering and consulting services when a hospital expands or renovates existing facilities, for example, but it is also able to provide assistance in choosing medical devices, creating layout diagrams for machinery, and building and installing such machinery.

### Restructuring of the manufacturing business (FY03/15–FY03/17)

Earnings at subsidiaries in the manufacturing business have consistently grown, benefiting from favorable factors such as increased capital investment at medical institutions, growth in the number of long-term care facilities, and subsidies for nursing care equipment. However, performance turned sluggish from FY03/15 owing to a harsh management environment for hospitals following the consumption tax hike and other factors. Against this backdrop, the company began structural reforms of its manufacturing subsidiaries in FY03/17.

For instance, since Sakai Medical became a subsidiary in 2009, Ship has streamlined the subsidiary's business structure by reducing assets and consolidating production bases at the Chiba Shirai Factory. When Sakai Medical's performance stagnated in FY03/15, Ship reshuffled the subsidiary's management, implemented organizational reforms to turn around the business, and promoted efficiency through cost reduction and consolidation of business bases. As a result, the subsidiary experienced a V-shaped recovery in its performance in FY03/17.

### Mashup Studio of Central Uni



### Showroom of Sakai Medical



Source: Company materials

### Business expansion through acquisitions

Ship has continued its M&A activities both directly and through its subsidiaries. In February 2022, the group acquired Tom-Medic Inc., a medical equipment sales company based in Aomori, Aomori Prefecture (unlisted). In March 2022, it acquired hana Co., Ltd., a veterinary hospital operator based in Kishiwada, Osaka Prefecture (unlisted). In April 2022, the group acquired Chuoh Co., Ltd., a meal service business operator based in Takamatsu, Kagawa Prefecture (unlisted). Additionally, in March 2022, it acquired shares of Kingrun Co., Ltd., a curtain leasing business operator for medical and long-term care facilities based in Chiyoda-ku, Tokyo (unlisted), and its group companies.

### Approach to healthcare service business

The company is advancing longer-term initiatives to develop healthcare services, including operation of medical facilities, as its fifth core business to ensure profit growth even if project volumes decline due to consolidation of medical facilities in line with the government's policy.

In October 2014, Ship announced it would sell shares to designated buyers and the public to raise JPY21.6bn (7mn new shares, 1mn treasury shares, and 1.2mn shares through over-allotment). The company will use JPY14.8bn to build a facility in Osaka for heavy-ion radiotherapy (JPY11.8bn for the facility and JPY3bn for a new subsidiary to operate the facility) and JPY3.6bn for overseas projects (JPY3.4bn in Bangladesh and JPY215mn in Myanmar). The company effectively exited the Myanmar business in FY03/24.

In the previous medium-term management plan, Ship Vision 2020, the company aimed to establish a healthcare service business in both Japan and overseas and expand business opportunities across all of its facilities. As of FY03/23, the healthcare service business is included in the Total Pack Produce segment.

Specific examples in Japan include the operation of the heavy-ion radiotherapy center (heavy-ion radiotherapy business) and the International Legal Affairs Center in Akishima, Tokyo (PFI business). Overseas, the company has its hospital business in Bangladesh and operates two subsidiaries in Myanmar. The company aims to leverage its expertise gained from operating these medical facilities to further expand business opportunities.

### **Heavy-ion radiotherapy business**

The National Institute of Radiological Sciences is a global pioneer in heavy-ion radiotherapy for cancer patients. The Ministry of Economy, Trade and Industry seeks to promote the technology developed by the institute to fight hard-to-treat cancers and reduce national healthcare spending. The ministry also wants to make the technology a global standard for cancer treatment. Ship has won a contract to provide consultation for the opening of SAGA Heavy Ion Medical Accelerator in Tosu (SAGA HIMAT), a heavy-ion radiotherapy center in Kyushu, southwestern Japan. The company will also take part in a project to build a heavy-ion radiotherapy facility that will accompany the reconstruction of the Osaka Medical Center for Cancer and Cardiovascular Diseases. The project, the first of its kind undertaken by the private sector, will carry a huge investment risk. Thus, Ship will manage the facility through Osaka Heavy Ion Administration Company.

Expanding utilization of heavy-ion radiotherapy is a national policy, and the company's entry into this field began when it was commissioned to provide consulting for the opening of SAGA HIMAT. Ship plans to spend JPY13.5bn (including JPY4.5bn to establish a new wholly owned company Osaka Heavy Ion Therapy Center Facility Management and looks to recover the initial investment in 12 years (in FY03/30). Construction of the facility began in August 2015, scheduled for completion in March 2018). Depreciation expenses were slightly under JPY400mn in FY03/18, peaked at about JPY750mn in FY03/19, and have declined at a rate of around 8% per year since.

Initially, the company thought that the Osaka Heavy Ion Therapy Center would provide 120 sessions in the initial year, 600 in the second, and 800 in the third (the maximum number would be between 1,000 and 1,200 a year), and with fees of JPY2.4mn for the treatment of patients with certain tumors covered by insurance (bone and soft tissue tumors not indicated for surgery; 30% copayment and the rest covered by health insurance), and copayment of JPY3.14mn for advanced treatment for other tumors.

The Osaka Heavy Ion Therapy Center business operated at a loss until FY03/22. However, in FY03/23, the scope of insurance coverage for heavy-ion therapy expanded from primarily prostate cancer to include liver cancer, pancreatic cancer, and other indications, leading to a significant increase in the number of treatments beyond initial expectations. As a result, sales in FY03/23 increased to JPY1.4bn (+26.3% YoY) and the business generated operating profit of JPY46mn (compared to a loss of JPY266mn in FY03/22). The company expects to maintain profitable operations going forward.

The company has three heavy-ion radiotherapy facilities (two in Kyushu) that perform 640 treatments per year. It had anticipated that the utilization rate would be higher considering the population difference between the Kyushu and Kinki regions, but it seems that the extension of insurance coverage in March 2019 to include heavy-ion therapy for prostate cancer means that the company has faced a greater number of persons seeking the treatment than expected. The expected unit price also decreased sharply due to the expansion of insurance coverage. Thus, it is possible that it will take longer than planned for the service to turn profitable due to increased operation of the facility at a lower unit price than initially assumed.

Ship will use the so-called high-speed scanning irradiation technology at the heavy-ion radiotherapy facility in Osaka, instead of the conventional method known as external beam therapy, which is used at the four existing facilities in Japan.

The high-speed scanning irradiation method, compared with the conventional therapy, poses fewer risks to the patient's organs that are not subject to treatment. The technology also allows for three-dimensional irradiation, which provides a uniform radiation dose throughout the target tumor. In addition, the technology does not require a collimator, a device that regulates the direction of heavy particle beams and becomes radioactive waste.) Thus, this technology may be more widely



used in the future. In fact, SAGA HIMAT adopted this technology when building its third treatment facility and the Kanagawa Cancer Center has followed suit.

Ship purchased equipment from Hitachi Ltd. (TSE Prime: 6501), which has experience in high-speed scanning irradiation technology for proton therapy facilities. Kanagawa Cancer Center and SAGA HIMAT bought similar equipment from Toshiba Corporation (TSE Prime: 6502) and from Mitsubishi Electric Corporation (TSE Prime: 6503), respectively.

## Heavy-ion radiotherapy centers in Japan

Heavy-ion radiotherapy centers in Japan	Established	Facility details	Technology employed	Total patients treated	
National Institute of Radiological Sciences	1994	3 rooms, 4 ports	Extended-field irradiation (wobbler method)	15,911	(As of end-Mar. 2024)
Hyogo Ion Beam Medical Center	2006	5 rooms, 6 ports	Extended-field irradiation (wobbler method)	10,420	(As of end-Mar. 2024)
Gunma University Heavy Ion Medical Center	2010	3 rooms, 4 ports	Extended-field irradiation (wobbler method)	7,175	(As of end-Apr. 2024)
SAGA Heavy Ion Medical Accelerator in Tosu	2013	2 rooms, 4 ports	Extended-field irradiation (wobbler method)	9,316	(As of end-Mar. 2024)
		1 room, 2 ports	High-speed scanning irradiation		
Kanagawa Cancer Center	Dec. 2015	4 rooms, 6 ports	High-speed scanning irradiation	3,542	(As of end-Feb. 2024)
Osaka Heavy Ion Therapy Center	Mar. 2018	3 rooms, 6 ports	High-speed scanning irradiation	4,198	(As of end-Mar. 2024)

Source: Shared Research based on company data and various other materials

Note: "Room" refers to the rooms where treatment is offered. "Port" refers to the number of heavy-ion ports. For example, three-room, six-port facilities have X-axis and Y-axis heavy-ion ports in each room.

## Overseas hospital business (Bangladesh and Myanmar)

Overseas, Ship operates a Japanese-style medical facility development business in Dhaka, Bangladesh.

The hospital business in Bangladesh is operated by subsidiary Ship Aichi Medical Service, Ltd. Initially, the plan was to have a grand opening with all facilities fully operational. However, at the request of the Bangladeshi government, the hospital started accepting COVID-19 patients (including Japanese residents in Bangladesh) in completed facilities before the official opening.

The hospital commenced operations in June 2022 with 200 beds, and plans to eventually expand to a full capacity of 600 beds. Initial investments focused on specialized areas with high local demand such as vascular diseases (including cardiovascular and cerebrovascular diseases), perinatal care, and acute trauma. In February 2023, a Japanese cardiologist was assigned to the hospital, and cardiovascular surgical procedures commenced in March. The company also opened an aorta center in October of the same year. Although the grand opening did not proceed as initially planned, the company still aims to achieve profitability within a single year by FY03/25.

The Myanmar business involved facility consulting and the sale and maintenance of medical equipment and facilities. Although the formal signing took place in February 2016, the project was delayed due to the impact of terrorism in the country and the subsequent spread of COVID-19.

This business was mainly operated by Okkar Thiri Co., Ltd. and Snow Everest Co., Ltd., both of which turned a profit in FY03/21. However, economic sanctions imposed by the international community on the military regime established after the coup significantly altered the business environment beyond expectations. In FY03/23, the foreign currency (especially US dollars) shortage caused by financial regulations, such as forced foreign currency conversion by the Central Bank of Myanmar, resulted in substantial delays in the import and sale of foreign-made medical equipment, leading to almost no profit contribution. In FY03/24, financial sanctions were further tightened, making it even more difficult to collect and procure foreign currency, increasing the uncertainty of business operations. Consequently, Ship concluded that it would not be able to realize the previously anticipated excess earnings and recorded an impairment loss of JPY2.6bn, equivalent to the full amount of goodwill, as an extraordinary loss.

## Reference: FY03/21 results of Myanmar business (two companies)

	Okkar Thiri Co., Ltd.	Snow Everest Co., Ltd.
Established	1998	2011
Number of employees	193	85
Sales (FY03/21)	8,477	3,921
Operating profit (FY03/21)	1,083	368

Source: Shared Research based on company materials

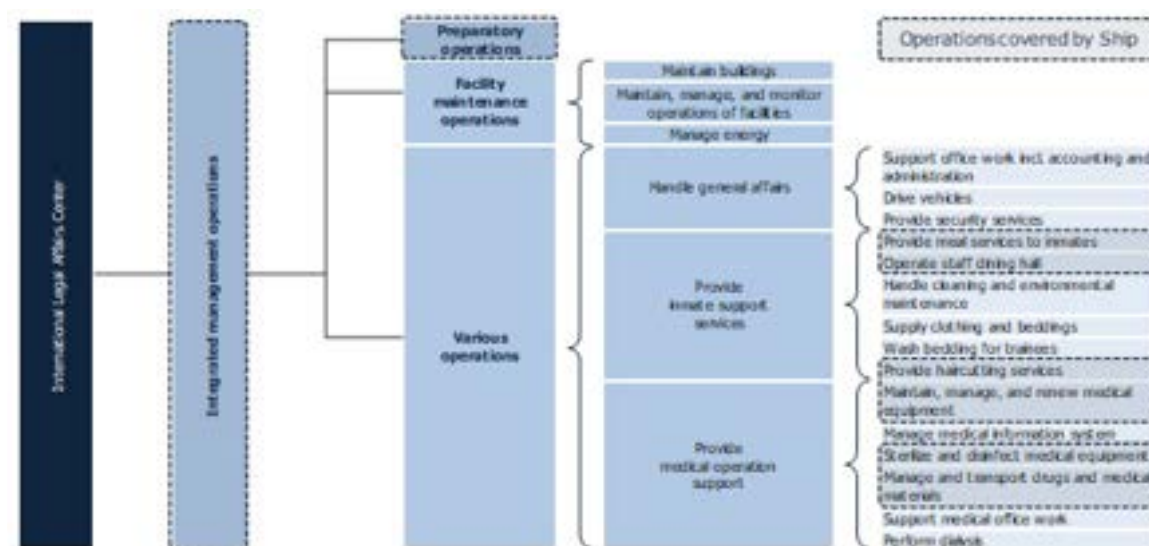
## PFI business

In the PFI business, the company acquired the project in October 2016 to maintain, manage, and operate the International Legal Affairs Center from the Ministry of Justice on a PFI (Private Finance Initiative) basis, on top of the construction of the heavy-ion radiotherapy facility, overseas operations in Bangladesh and Myanmar, and healthcare REITs.

The International Legal Affairs Center is a complex of a training institute for correctional personnel and medical prison built by the Ministry of Justice in Akishima, Tokyo, which began operations in September 2017. When the ministry decided to outsource its maintenance, management, and operation to the private sector on a private finance initiative (PFI) basis, the Ship Healthcare group (forming an SPC led by a subsidiary as the largest shareholder) participated in the bidding and successfully acquired the project for JPY23.8bn. The project is scheduled to run from September 2017 through March 2027. The company will be in charge of the maintenance and transportation of drugs and materials, the sterilization and disinfection of medical equipment, barber and meal services, the running of the staff canteen, and the provision, maintenance, and renewal of medical instruments.

While the entire JPY23.8bn will not become the company's revenue, the costs of purchase and renewal of medical equipment are already included, so the company expects the project to contribute significantly to earnings in FY03/18 and when renewed (in FY03/24), with a stable source of earnings expected each year. In addition, it may result in extra revenue outside the scope of the project since the purchase of drugs, diagnostic materials, and supplies are to be covered by the government. Showa International Legal PFI Co., Ltd., a subsidiary, maintains and operates the business.

## International Legal Affairs Center: maintenance, management, and operation



Source: Shared Research based on Ministry of Justice and company data

## Medical Supply segment

Medical Supply (JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	128,112	158,227	263,528	274,058	290,363	325,664	341,157	360,635	386,335	428,451
YoY	5.7%	23.5%	66.6%	4.0%	5.9%	12.2%	4.8%	5.7%	7.1%	10.9%
Operating profit	1,882	2,299	3,318	4,161	4,191	5,035	6,958	6,209	6,666	6,513
YoY	-12.7%	22.2%	44.3%	25.4%	0.7%	20.1%	38.2%	-10.8%	7.4%	-2.3%
Operating profit margin	1.5%	1.5%	1.3%	1.5%	1.4%	1.5%	2.0%	1.7%	1.7%	1.5%
% of consolidated Sales	46.9%	51.6%	64.5%	64.4%	65.4%	67.2%	68.6%	70.1%	67.5%	67.9%
Operating profit	13.8%	16.4%	20.7%	22.8%	23.3%	26.8%	31.9%	30.3%	31.5%	26.5%

Source: Shared Research based on company materials

In the Medical Supply segment, the company sells materials used in medical examinations and associated consumables. Since FY03/17, the company's business scale has expanded significantly, following the merger with Konishi Kyowa Holding Corporation (merged with Konishi Medical Instruments Co., Ltd. in October 2020; "Konishi Kyowa HD"). This segment involves the logistics management business for hospitals referred to as supply, processing, and distribution (SPD). When limited to a particular region or specialist field, the business is also referred to as local medical supply distribution business or specialized medical supply distribution business.

## Out-of-hospital SPD

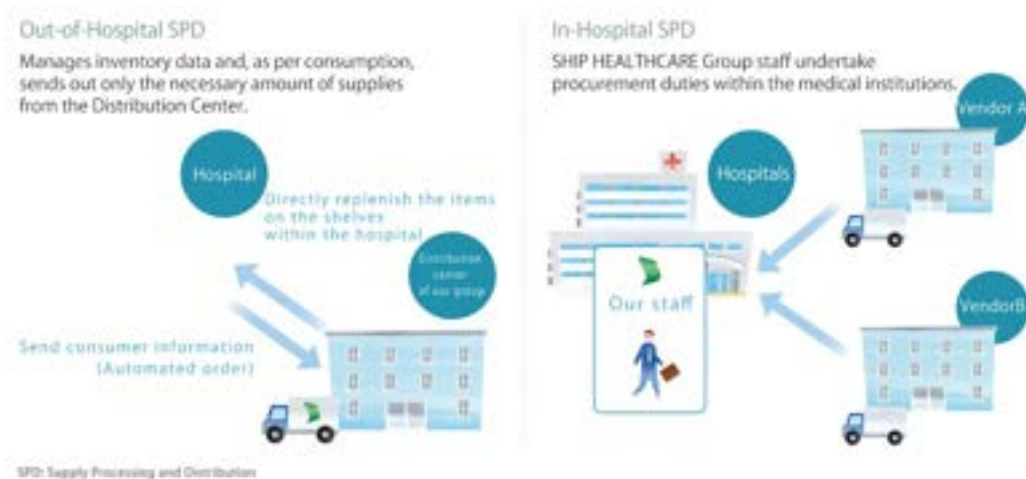
According to the company, out-of-hospital SPD is similar to the “Toyama Drug Sales” business model. The company has warehouses next to its headquarters (in Osaka) and can therefore quickly supply small-lot orders of medical materials, medical non-durables, and other items according to the needs of medical institutions. The company uses this system for medical institutions within a two-hour drive from the warehouse. Therefore, it is concentrated mainly in Osaka/Kansai area. Other areas use in-hospital SPD.

## In-hospital SPD

In-hospital SPD refers to the provision of personnel to medical institutions to perform delegated tasks. These tasks include inventory management of medical supplies and pharmaceuticals, cleaning and sterilization services, and sales support services for medical supplies and pharmaceuticals. None of these tasks requires the qualifications of a physician or nurse. Following the merger with Konishi Kyowa HD, the business expanded 66.6% YoY. At the time of the merger, Konishi Kyowa HD operated its SPD business in approximately 50 hospitals with about 20,000 beds, with an average of 400 beds per hospital, most of which were large hospitals. Ship believes that Konishi Kyowa HD possesses expertise in in-hospital SPD that exceeds that of the company.

Konishi Medical Instruments is part of the Ship Healthcare group. In FY03/23, it generated sales of JPY126.5bn (+7.0% YoY) and recurring profit of JPY1.8bn (+11.4% YoY).

## Out-of-hospital and in-hospital SPD



Source: Company data

## Other businesses

Other businesses include normal route sales other than those related to out-of-hospital and in-hospital SPD. A strategy for business expansion through acquisitions is underway. Lighttec Corp., Heart Life Corp., Sun Life Corp., SMC Co., Ltd., and other subsidiaries that sell specialty medical supplies used in cardiology are included in this category. Specialty medical supplies include pacemakers, cardiac catheters, and other items that require a license to handle.

## Merger with well-established medical equipment trading company Konishi Kyowa HD

In April 2016, Ship merged with Konishi Kyowa HD. Through this merger, Ship hopes to take advantage of Konishi Kyowa HD's long operating history (since 1946) and its strong relationships with major medical equipment manufacturers in Japan and overseas; extensive track record in handling high-value-added products, such as surgery room equipment; customer base that includes companies that have not yet been contacted by a representative of Ship's TPP or other businesses; and economies of scale resulting from the roughly 50% boost to sales from the merger, which is expected to benefit Ship in negotiations with manufacturers, as well as in logistics and organizational management.



Regarding the earnings impact of the merger with Konishi Kyowa HD, although Konishi Kyowa HD was consolidated in FY03/17, it contributed approximately JPY90bn to sales and JPY700mn to operating profit in the first year (after adjusting for JPY310mn in advisory fees and JPY110mn in goodwill amortization). Full-scale earnings contributions began in FY03/18.

Ship anticipates a higher-than-expected contribution to profits from this business integration, including synergistic effects. In FY03/21, the company completed the construction of the Osaka Solution Center, which incorporates state-of-the-art logistics technology, with Konishi Medical Instruments (formerly, Konishi Kyowa HD) having played a major role. Full-scale operations commenced in FY03/22. The center serves as a next-generation logistics hub in the Kansai region. According to the company, facility tours are in high demand as the center has garnered significant attention from medical professionals for its streamlined medical supplies processes. By further optimizing logistics, the company aims to increase the profit margin in the Medical Supply business from the current level of 1–2% to 3% in the future.

## Reference: Konishi Kyowa HD performance summary (before merger)

	FY08/13	FY08/14	FY08/15		FY08/13	FY08/14	FY08/15		
Consolidated sales	75,821	81,296	83,589	Consolidated net assets	13,804	14,830	15,879	Total shares issued	765,500 shares
YoY		7.2%	2.8%	Consolidated total assets	32,450	34,357	35,404		
Consolidated operating profit	1,525	1,539	1,358					Top shareholders	Employees
YoY		0.9%	-11.8%	EPS	1,587	1,650	1,397	Treasury stock	23.7%
Operating profit margin	2.0%	1.9%	1.6%	Book value per share	22,990	24,699	26,443	Kenzo Konishi	16.7%
Consolidated recurring profit	1,658	1,588	1,448	Dividend per share	45	50	50		
Net income	951	989	837					Consolidated employees	599

Source: Shared Research based on company materials

## Nishino Medical Instruments (a distributor specializing in the orthopedics field) and a distributor specializing in cardiovascular equipment

In September 2015, Ship acquired Nishino Medical Instruments Co., Ltd. (unlisted; a distributor specializing in the orthopedics field, and made it a wholly owned subsidiary. Ship expected Nishino Medical Instruments to contribute about JPY8.5bn to annual sales and JPY350mn to operating profit (JPY100mn after goodwill amortization). According to the company, it consolidated the new subsidiary's seven-month results in FY03/16, which were about JPY5bn in sales and JPY100–200mn in operating profit (after goodwill amortization). Since FY03/17, Nishino Medical Instruments has contributed to sales of about JPY9bn and operating profit of JPY100–200mn (after goodwill amortization) for the full year.

Ship expects the synergies through Nishino Medical Instruments to come from three areas. First, as Nishino Medical Instruments is Ship's first distributor specializing in orthopedics, the company believes it will contribute to the group's operations in the TPP and other segments. Second, the subsidiary can begin to develop its business outside the orthopedics field. Third, the Ship Healthcare group expects to benefit from the information that Nishino Medical Instruments possesses.

At a new group distributor that specialize in cardiovascular equipment, profitability has been falling as catheter prices were lowered due to the changes in government reimbursement schedule for medical treatment fees. Ship plans to review management of the distributor along with other group distributors of cardiovascular equipment from scratch and aims to convert its structure to one that can expand its performance by obtaining new orders.

## Life Care segment

Life Care (JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	19,994	19,991	21,167	22,724	23,500	23,929	24,571	25,247	33,581	36,099
YoY	5.9%	-0.0%	5.9%	7.4%	3.4%	1.8%	2.7%	2.8%	33.0%	7.5%
Operating profit	191	151	634	955	1,625	1,770	2,237	2,407	2,055	2,606
YoY	-66.9%	-20.9%	319.9%	50.6%	70.2%	8.9%	26.4%	7.6%	-14.6%	26.8%
Operating profit margin	1.0%	0.8%	3.0%	4.2%	6.9%	7.4%	9.1%	9.5%	6.1%	7.2%
Number of facilities	66	67	68	68	68	68	67	70	75	75
Capacity	4,256	4,316	4,392	4,373	4,373	4,373	4,352	4,431	4,762	4,753
Number of residents	3,570	3,738	4,068	4,212	4,316	4,323	4,305	4,406	4,716	4,703
Occupancy rate	83.9%	86.6%	92.6%	96.3%	98.7%	98.9%	98.9%	99.4%	99.0%	98.9%
% of consolidated Sales	7.3%	6.5%	5.2%	5.3%	5.3%	4.9%	4.9%	4.9%	5.9%	5.7%
Operating profit	1.4%	1.1%	3.9%	5.2%	9.1%	9.4%	10.3%	11.7%	9.7%	10.6%

Source: Shared Research based on company materials

In the Life Care segment, the company primarily offers long-term care services through assisted living facilities for the elderly (long-term care business), as well as meal services for medical institutions and welfare facilities (meal service business).

## Long-term care business

After acquiring the AntCare group, which operates small and medium-sized community-based long-term care facilities, and making it a subsidiary in FY03/12, long-term care became the main business for this segment. The facility management business incurs high fixed costs, making it crucial to maintain high occupancy rates. Over the past decade, the company's facilities have maintained an occupancy rate of over 80%, reaching the high-90s since FY03/18 and nearly 99% through FY03/24.

Primarily in the Kanto region, the AntCare group operated 53 facilities nationwide—including assisted living facilities, group homes, and other nursing homes for the elderly—with a total of 2,311 residents (as of July 30, 2011).

In FY03/19, the company implemented successful initiatives to improve occupancy rates, including leveraging the Hello Kitty characters owned by Sanrio Co., Ltd. (TSE Prime: 8136) to create a family-friendly environment that encourages visits from grandchildren and other family members. Additionally, by promoting the advantage of being adjacent to medical facilities as a COVID-19 risk countermeasure, the occupancy rate remained at a high level of 99% in FY03/24, continuing from FY03/19. This high occupancy rate is well above the industry average.

Thanks to the continued high occupancy rates, the OPM of this segment showed an upward trend from FY03/17 to FY03/22. However, in FY03/23, OPM declined by more than 3pp YoY, and in FY03/24, it only improved by about 1pp YoY. These downturns in OPM were due to investments aimed at strengthening the meal service business, including the consolidation of Kingrun, which operates meal services among other businesses, and investments in companies running the central kitchen business.

In May 2020, Ship entered into a business partnership with Charm Care Corporation (TSE Prime: 6062), which primarily focuses on the long-term care business, and made Charm Care an equity-method affiliate by acquiring approximately 30% of its shares through its wholly owned subsidiary, STK Co., Ltd. The company operates assisted living facilities for the elderly through its group companies, Green Life Co., Ltd. and Green Life East Japan Co., Ltd. The company believes that the alliance with Charm Care will create synergies, as Ship primarily focuses on the mid-priced and lower markets, while Charm Care targets the mid-priced and higher markets. The number of Ship's assisted living facilities for the elderly has remained relatively stable over the past few years, so Shared Research believes that the collaboration with Charm Care has the potential to expand the scale of the long-term care business.

## Expectations for Healthcare and Medical Investment Corporation

Healthcare and Medical Investment Corporation (TSE REIT: 3455; "HCM Corp."), an investment company specializing in healthcare facilities, was listed on the TSE REIT market in March 2015, with Ship as the main sponsor. The main sponsors of HCM Corp.'s asset management company are Ship, NEC Capital Solutions Ltd. (TSE Prime: 8793), and Sumitomo Mitsui Banking Corporation (a group company of Sumitomo Mitsui Financial Group, Inc. [TSE Prime: 8316]). HCM Corp. leverages the functions and expertise of each sponsor company in long-term care and medical care, fund management, and finance. Ship holds 1.11% (4,000 units as of FY01/24) of HCM Corp.'s outstanding investment units and is a major shareholder (33.3% ownership) of Healthcare Asset Management Co., Ltd., HCM Corp.'s asset management subsidiary.

### Three major sponsors of HCM Corp.

Main sponsors	Function	Support details	Number of directors and their responsibilities
Ship Healthcare Holdings	Long-term and medical care	Provides specialty expertise	2
		Advises on due diligence for healthcare facility business	Head of asset management
		Provides personnel	Outside director
NEC Capital Solutions	Fund management	Offers expertise in fund management	2
		Provides warehouses	Head of investment
		Provides personnel	Outside director
Sumitomo Mitsui Banking Corporation	Finance	Advises on finance	2
		Introduces customers with healthcare facility liquidity needs	Head of internal audit
		Provides personnel	Head of financial affairs

Source: Shared Research based on company materials

## Portfolio policy: 80% or more investment in healthcare facilities

HCM Corp. follows a portfolio policy that allocates 80% or more (based on acquisition prices) of its investments to healthcare facilities such as senior residences and medical facilities, and 20% or less to other facilities. In terms of geographical

distribution, 80% or more of investments are targeted at the three major metropolitan areas (Tokyo, Kinki, and Chubu) and key population centers, with the remaining 20% or less allocated to other regions. HCM Corp. generally invests only in properties valued at JPY500mn or more.

## HCM Corp. portfolio

Operator	Acquisition price (JPYmn)	Total space for lease (sqm)	Number of facilities
Green Life Co., Ltd.	11,350	28,041	5
Kyowakai Medical Corporation*	12,920	24,814	1
Green Life East Japan Co., Ltd.	2,253	3,871	2
Benesse Style Care Co., Ltd.	7,040	21,285	9
As Partners Co., Ltd.	2,815	6,136	3
Sompo Care Inc.	13,358	33,196	11
Sawayaka Club Co., Ltd.	3,290	12,740	3
Japan Life Design Inc.	1,740	3,400	1
Medical Corporation Aikokai	2,830	17,788	4
Proud Life Inc.	5,512	14,841	6
Verde Co., Ltd.	2,948	17,451	2
Kawashima Corporation	3,243	5,953	2
Nichii Carepalace Company	2,228	6,260	2
Senior Life Support	1,260	3,484	1
Noah Konzer Co., Ltd.	6,150	14,401	4
Meisho	2,000	3,886	1
SUNWELS Co., Ltd.	693	1,793	1
Total	81,630	219,339	58

Source: Shared Research based on HCM Corp. website

Notes: The name of the property marked with an asterisk (\*) is Ship Senri Building, which is operated by Kyowakai Medical Corporation and Ship's subsidiary, Green Life Co., Ltd.

The data is as of February 1, 2024.

## Expected synergies with Ship

In Shared Research's view, potential synergies with HCM Corp. include the following.

### Main sponsor

As previously mentioned, Ship is HCM Corp.'s main sponsor, contributing to the asset management company's capital, and providing expertise in nursing and medical care.

### Exit strategy

Shared Research believes that Ship has established an exit strategy for long-term care facility management within the Healthcare Service segment, with one of its properties already in the HCM Corp. portfolio. Based on its portfolio, it appears that HCM Corp. is focused on acquiring relatively large-scale properties. For Ship, achieving high occupancy rates is critical to increasing the value of these properties when they are sold.

### An option for medical institutions in the TPP segment

In the TPP segment, Ship provides comprehensive consulting services to customers who wish to establish, relocate, expand, or renovate hospitals and other medical facilities. The company receives orders for these services on a lump-sum basis, which include planning through facility opening. During the consultation process, options such as REITs, including HCM Corp., are presented as potential funding options for medical institutions.

When proposing projects with high land prices and heavy investment burdens, such as medical facilities adjacent to the nearest station and also offering assisted living facilities for the elderly, suggesting REITs as one of the financing options to medical institutions can be beneficial. A complex building that houses a hospital and an assisted living facility for the elderly allows medical institutions to stabilize their management. On the other hand, for REITs, properties with a low risk of declining land prices, such as those adjacent to stations, are attractive, creating demand for such proposals. Shared Research believes that the synergy between the long-term care business and the core Total Pack Produce business are effective in terms of expanding profits.

### Healthcare Service as the fifth segment

Shared Research believes that providing solutions using the aforementioned REIT can become a key component of the company's fifth segment, the Healthcare Service business, which it has been aiming to develop. For example, the company could develop large-scale long-term care facilities and, after several years of enhancing their value by achieving high occupancy rates, sell them to the REIT. Such high-quality projects have the potential to generate billions of yen in profits.

## Meal service business

Ship entered into the meal service business in October 2016 when its group company, Ship Healthcare Food Co., Ltd., began operations. In the same month, the company was awarded the PFI-based International Legal Affairs Center project, which commenced operations in November 2017. In this project, the company was responsible for meal services and staff cafeteria operations. Ship has experience in providing meal services to large medical institutions and long-term care facilities. The company also has a track record in business development, including the launch of a low-sodium bento box delivery service in collaboration with the National Cerebral and Cardiovascular Center.

In FY03/23, Ship conducted several M&A activities related to this business domain, intensifying its efforts in Dream Kitchen, a meal service for senior care facilities operated by Ship Healthcare Food.

Chuoh Co., Ltd. (unlisted), which has joined the Ship Healthcare group, operates a "central kitchen" in Kagawa Prefecture. A central kitchen is a facility that prepares food in large quantities for multiple clients, such as hospitals, schools, and welfare facilities, allowing for cost reduction and increased efficiency in kitchen operations. Additionally, the company acquired the Kingrun group, which includes Grandic Inc. and Grand Gourmet Co., Ltd. Grandic operates commissioned medical meal services, while Grand Gourmet operates a central kitchen in Tama, Tokyo, specializing in Japanese cuisine such as sushi and *kaiseki* (traditional multi-course Japanese meal).

With the enhanced business operations in meal services following the M&A activities in FY03/23, the company aims to encourage manufacturing consignment and shared use of facilities within the group to improve operational efficiency and quality. Furthermore, the company seeks to expand its business scale by developing sales channels not only for facilities operated by its group companies but also for external customers.

## Dispensing Pharmacy segment

Dispensing Pharmacy (JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
Sales	Cons. 22,273	Cons. 24,572	Cons. 24,134	25,789	25,585	27,050	27,070	28,930	30,499	32,719
YoY	1.9%	10.3%	-1.8%	6.9%	-0.8%	5.7%	0.1%	6.9%	5.4%	7.3%
Operating profit	1,847	2,275	2,284	2,826	2,193	2,661	2,884	3,200	3,256	3,530
YoY	-6.3%	23.2%	0.4%	23.7%	-22.4%	21.3%	8.4%	11.0%	1.8%	8.4%
Operating profit margin	8.3%	9.3%	9.5%	11.0%	8.6%	9.8%	10.7%	11.1%	10.7%	10.8%
Number of stores	85	90	90	100	105	109	115	119	123	129
% of consolidated										
Sales	8.1%	8.0%	5.9%	6.1%	5.8%	5.6%	5.4%	5.6%	5.3%	5.2%
Operating profit	13.6%	16.2%	14.2%	15.5%	12.2%	14.2%	13.2%	15.6%	15.4%	14.4%

Source: Shared Research based on company materials

In the Dispensing Pharmacy segment, the company operates a group of NHI dispensing pharmacies that sell pharmaceutical drugs prescribed to patients by medical institutions and provide drug counseling to patients. Many of them are "monzen (Japanese meaning "in front of the gate") pharmacies adjacent to or in hospitals with which the company has conducted consulting business. In a broad sense, this segment is one of the company's medical services. The company's annual procurement value is large, which secures volume discounts from suppliers and allows the company to maintain a certain level of margins (the difference between the actual price of the drugs and their delivery costs from the wholesaler to pharmacy, a major revenue source for dispensing pharmacies).

Subsidiaries operating in the Dispensing Pharmacy segment are Nisseicyozai, Inc., which operates mainly in Shimane Prefecture; Green Pharmacy Co., Ltd., which operates in the Kansai region and parts of the Chugoku and Shikoku regions; and Ship Healthcare Pharmacy East Japan, Inc., which operates in Hokkaido, Tohoku, Kanto, Chubu, and Kyushu (partial). The number of group pharmacies totaled 129 in FY03/24, an increase of seven pharmacies YoY.

The Ministry of Health, Labour and Welfare mandate the establishment of ceilings on wholesale NHI drug prices based on the results of market price surveys. Once price ceilings are set for a particular drug, suppliers engage in intense price competition. However, once prices reach equilibrium, the ceilings are lowered in the subsequent drug price review. This cycle has been repeated in the past. Previously, NHI drug price revisions occurred every two years, and the company's performance went through a cycle of improvement in one year, followed by deterioration in the next. Since FY2021, NHI drug prices have been revised annually, creating a challenging business environment for pharmaceutical sales.

In the Dispensing Pharmacy segment, the company aims to pursue quality acquisitions, achieve economies of scale, and support stable growth, as it has successfully done in the Medical Supply segment.

## Loans receivable

The company extends loans to certain hospitals. Many of its customers (such as hospitals) have limited access to capital markets for financing, especially for the purpose of initial construction and during the renovation period. Accordingly, the company provides loans to some customers as part of a package of solutions. According to the company, although there is associated credit risk, its assessment capabilities keep the risk low. Typically, these loans are less speculative and could be considered bridge loans because hospitals that are restructuring tend to develop track records to secure financing from traditional financial institutions.

### Loans receivable

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Total loans receivable	9,247	12,147	12,203	11,963	11,602	9,600	10,061	9,236	8,926	12,550
Short-term loans receivable	1,741	1,682	1,684	1,788	1,770	1,790	2,406	1,718	1,809	2,775
Current portion of LT loans	311	367	347	305	301	-	-	-	-	-
Long-term loans receivable	7,195	10,098	10,172	9,870	9,531	7,810	7,655	7,518	7,117	9,775

Source: Shared Research based on company data

# Market and value chain

## Business conditions

The Japanese healthcare and long-term care industries are undergoing major changes because of demographic trends and other factors. These include a change in the population pyramid, such as the “2025 problem” of baby boomers turning 75 and an increase in senior citizens living in major cities leading to a decline in healthcare demand in regional areas. The Japanese government is aggressively adapting healthcare policy through measures such as healthcare quality regulations taking hold under the community health care vision in the context of the seventh Medical Care Act revision of 2015, eighth Medical Care Act revision and partial revision of the Long-Term Care Insurance Act to strengthen community-based integrated care systems in 2017, and a change in financial management of national health insurance in 2018.

## Aging demographic

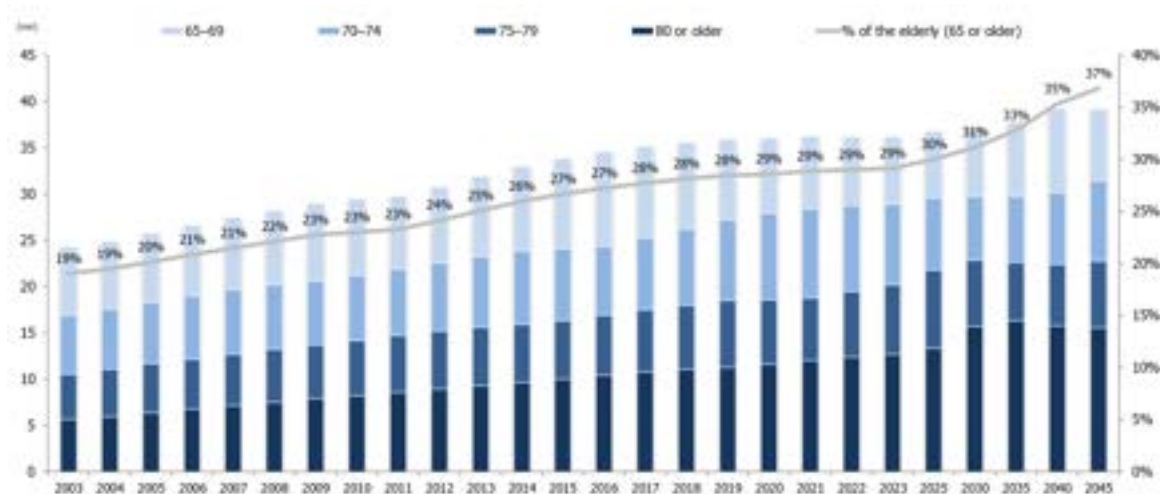
According to the National Institute of Population and Social Security Research, Japan’s population topped 100mn in 1967, climbing from 5.5mn in the early Heian period (800 AD) to 8.18mn in 1338 (start of the Muromachi regime), 12.3mn in 1603 (start of the Tokugawa regime), 31mn in 1716–1745 (Kyoho reforms), 33.3mn in 1868 (Meiji Restoration), 72mn in 1945 (end of the Second World War), and peaking at 128mn in 2008. The population is forecast to drop below 90mn in 2060, when the percentage of those aged 65 or over will be close to 40%. According to the Ministry of Internal Affairs and Communications, the proportion of elderly people (aged 65 and over) in Japan’s total population was 29.0% in 2022.

## Issues in 2025

Japan’s population pyramid has two peaks: one for baby boomers (born 1947 to 1949) and another for their children (born 1971 to 1974). Baby boomers became 65 years or older in 2015, entering the “early-stage elderly” phase, and will be 75 years or older, entering the “later-stage elderly” phase, in 2025. The Ministry of Health, Labour and Welfare predicts that by 2025, the elderly population will account for 30% of the total population (with those aged 75 and over making up 18%) in what is termed a “super-aged society.” The rapid progression of aging is expected to significantly alter social structures and systems, raising concerns about the sharp increase in social security costs, including medical and long-term care expenses—a phenomenon projected for 2025.

From the standpoint of hospital management, the environment for medical institutions has become more severe due to the separation of hospital functions, reinforcement of such functions and cooperation between hospitals, reviews of medical fee payments for strengthening home-based medical care, the rise in the consumption tax, and the increase in electricity rates. Meanwhile, the company is winning more hospital restructuring projects due to factors such as the weighted allocation of medical fees for advanced medical treatment and progress in the separation of regional hospitals by function.

## Population of elderly in Japan



Source: Shared Research based on Population Estimates from the Ministry of Internal Affairs and Communications  
Note: Values from 2025 are estimates.



## Estimated increase in number of the elderly in cities, based on population

	2015	2020	2025	2030	2035	2040	2045
Nationwide	100	106.8	108.5	109.7	111.7	115.9	115.9
Large cities	100	107.5	110.6	114.9	121.3	129.9	133.4
Cities with population 300,000 or more (ex. large cities)	100	107.9	110.4	112.8	116.6	123	124.4
Cities with population 100,000–300,000	100	107.3	109.1	110.2	112.1	116.3	116.1
Cities with population 50,000–100,000	100	106.9	108.2	107.9	107.7	109.9	108.3
Cities with population less than 50,000	100	104.3	103.6	100.5	96.6	94.3	89.7

Source: Shared Research, based on White Paper on the Aging Society 2017, Cabinet Office  
 Note: Indexed to 2015 = 100

## Government's healthcare policy

In response to the progression of an aging society, the Japanese government has repeatedly revised its healthcare policies. The first revision of the Medical Care Act in 1985 limited the total number of hospital beds and number of beds per medical administration area. The third revision of 1997 assigned certain functions to medical institutions and the fourth revision of 2000 introduced hospital bed categories, broadly dividing them into general beds and long-term care beds to optimize inpatient care. The medical corporation system was revamped in the fifth revision of 2007. The sixth revision in 2014 included the establishment of the regional medical care cooperation corporation system, among other changes.

Ship sees an approximately 15-year cycle of major reforms, with 1985 (first revision), 2000 (fourth revision), and 2014 (sixth revision) as the key milestones. The first revision controlled the increase in the number of hospital beds, the fourth revision overturned preconceived ideas of the healthcare market with the launch of the Long-Term Care Insurance (LTCI) system, and the sixth revision made the transition from quantitative to qualitative restrictions under the aim to create community-based health care. The seventh revision implemented the community-based health care system proposed in the sixth revision. An array of policy changes coincided in 2018 with NHI medical care and long-term care fee revisions, the start of the seventh Medical Care Plan (six years), seventh LTCI business plan (three years), and third Medical Care Expenditure Regulation Plan (six years, designed to halve the inequalities in healthcare between regions), and NHI reforms (change from municipal-level to prefectural-level financial administration).

### Hospital management

As the Japanese government pushed ahead with its healthcare policies, the number of hospitals peaked at 10,096 in 1990 and has been trending down to 8,327 in 2019. Closed hospitals had on average 60 beds, and the majority likely withdrew from the market due to succession problems. Hospital management has also come under pressure from repeated NHI medical fee cuts. The cuts were especially severe in 2000–2005 and challenging for hospital management. Business conditions for hospitals worsened further due to the frequency of NHI medical fee revisions changing from every two years to once a year starting in 2019, the consumption tax hike from 8% to 10% in October 2019, and the burden on the healthcare system caused by the COVID-19 pandemic since 2020, and this challenging situation has persisted.

### New public hospital guidelines: progressing consolidation of public hospitals

In 2019, there were 867 public hospitals with a total of 209,298 beds. Reforms have been under way, following new guidelines released in 2015, which updated the previous guidelines of December 2007 in response to tough business conditions. As of March 2017, 93% of hospitals (800 hospitals) had formulated reform plans and had started putting them into action. In FY2017, 65% of public hospitals were in municipalities with a population of less than 100,000 (30% in municipalities with less than 30,000 people). Public hospitals comprise a larger proportion of all hospitals in rural areas, and their reform is urgently required.

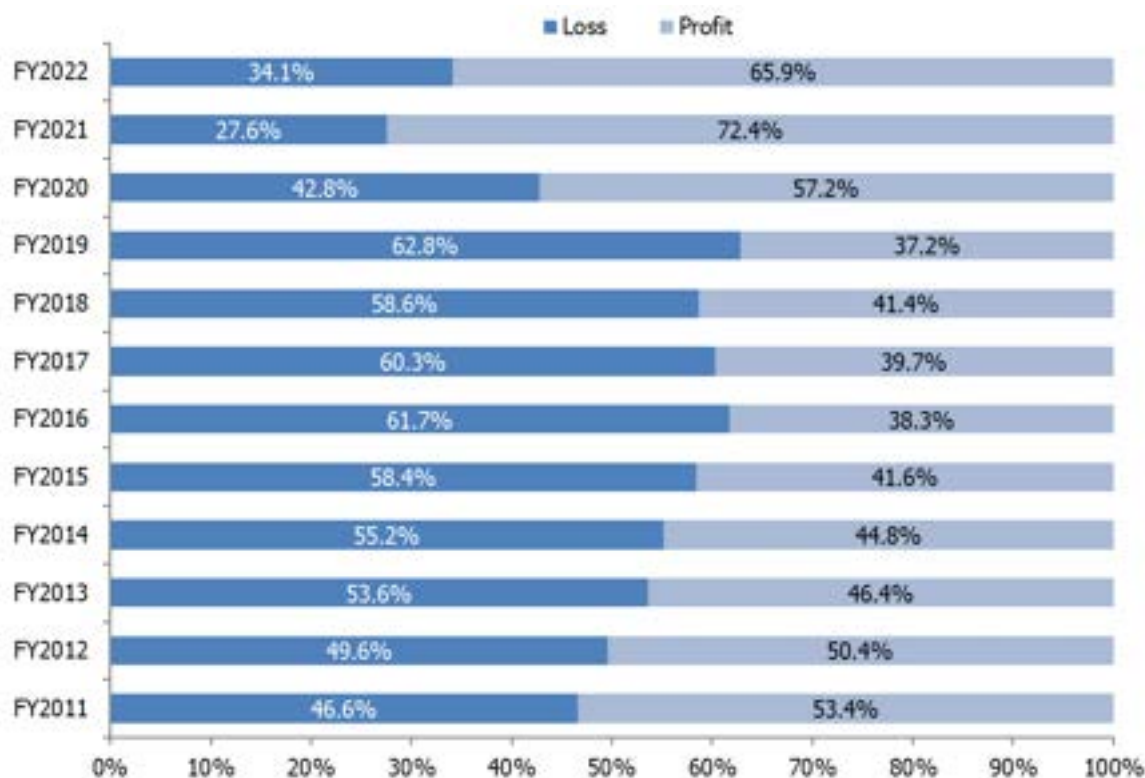
Public hospitals: Hospitals run by municipal enterprises, public universities, or local incorporated administrative agencies. This category does not include national hospitals and quasi-public hospitals such as Japanese Red Cross Society and JA Kouseiren hospitals.

## Number of public hospitals and beds

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Number of hospitals	983	975	961	943	931	917	908	897	892	881
Number of beds	235,510	233,784	230,923	228,280	224,615	221,866	219,474	217,392	216,374	213,556
	2015	2016	2017	2018	2019	2020	2021	2022		
	886	873	867	865	857	853	849	853		
	212,606	210,023	209,298	207,228	205,259	203,882	201,893	202,765		

Source: Shared Research based on materials concerning initiatives for public hospital reforms published by the Local Public Finance Bureau of the Ministry of Internal Affairs and Communications

## Trends in percentage of all hospitals that recorded recurring profit/loss



Source: Shared Research based on Ministry of Internal Affairs and Communications Local Public Finance Bureau, "Current status of public hospitals and public hospital reform"

Looking at the percentage of hospitals that recorded recurring profits or losses, approximately 60% of hospitals experienced recurring losses through FY2018, but business conditions improved rapidly in FY2021. In FY2022, the number of hospitals with recurring losses remained relatively low. Shared Research attributes the improvement primarily to the financial support provided by national and local governments for COVID-19 countermeasures. The table below indicates that smaller facilities had weaker management performance.

The new guidelines are pushing for reforms to improve management efficiency, progress consolidation and networking, and review management formats. As of September 2016, 162 hospitals were working on reorganization and/or consolidation. Public hospitals received various forms of financial assistance funded by Local Allocation Tax, but the new guidelines change the basis for calculation of tax funding from the number of beds (JPY755,000 per bed basic allowance; JPY1.3mn or JPY842,000 per bed in unprofitable areas and JPY396,000 per bed for rehabilitation hospitals) to the number of operating beds, with interim measures to ease the transition. Since the change can mean a sharp revenue decline for some regional public hospitals with idle beds due to a shortage of doctors and nurses, they are being forced to integrate or reorganize. In this way, government policy is setting the scene for consolidation of the healthcare industry, including hospital construction bonds.

**Hospital construction bonds:** For example, if building a 300-bed hospital at a cost of JPY10bn, if the bonds are issued by a single entity, 50% (JPY5bn) is repaid from hospital revenue and the other 50% from the municipal government's general account, of which half (25%) is covered by Local Allocation Tax. If two or more hospitals are being integrated/reorganized, 34% (JPY3.4bn) is repaid from hospital revenue and the other 66% from the municipal government's general account, of which 40% of the total is covered by Local Allocation Tax. Thus, there is a financial incentive to integrate hospitals.

## Business conditions of public general hospitals by size

(JPYbn)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
500 beds or more	29.4	19.3	6.0	-2.9	2.6	-0.2	-17.1	58.4	124.6	60.9
400-499 beds	15.1	1.6	-3.3	-11.3	-13.8	-12.4	-9.0	35.5	62.0	35.5
300-399 beds	-3.5	-8.9	-18.8	-17.6	-24.0	-27.1	-21.9	22.0	73.4	50.5
200-299 beds	-6.8	-8.7	-9.9	-15.2	-19.9	-15.3	-13.4	6.8	28.0	16.5
100-199 beds	-14.5	-18.6	-15.7	-9.3	-17.7	-18.6	-16.7	2.0	28.5	23.0
1-99 beds	-3.9	-4.7	-4.2	-5.4	-4.6	-5.9	-7.2	0.1	9.1	4.6

Source: Shared Research based on data from the Ministry of Health, Labor and Welfare



## Rebuilding demand

There is also rebuilding demand for hospitals built before the hospital bed restrictions came into effect (i.e., over 50 years old). For example, of 1,867 advanced acute care hospitals as of 2013, 13% (239) built by Ship fall into this category, being at least 40 years old or being rebuilt, while 29% (548) are 20–39 years old and candidates for rebuilding. The number of these hospitals is forecast to increase in the years to 2030 when patient numbers are projected to peak, which suggests that hospital rebuilding demand will expand along with hospital bed demand.

## Hospital management and consulting

In the 1990s, there were over 10,000 hospitals in Japan with 20 or more beds. This fell to 8,327 in 2019. Hospital management has become more challenging amid an aging population, hospital bed shortage, hospital management reforms, and deterioration of older facilities.

In Japan, with its universal care system, hospitals earn more by increasing patient stay as much as possible. However, this has been so prevalent that it has strained the national budget. Consequently, the Japanese government is implementing a policy to limit the number of days a patient can stay in the hospital and increase patient turnover.

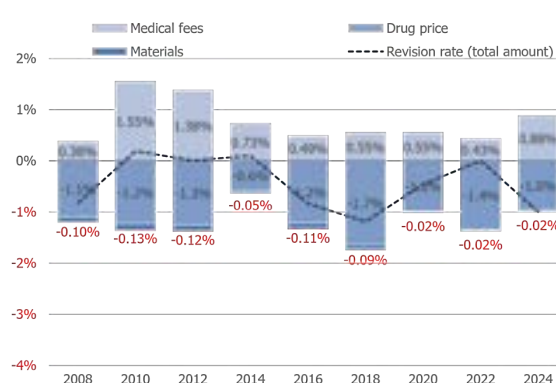
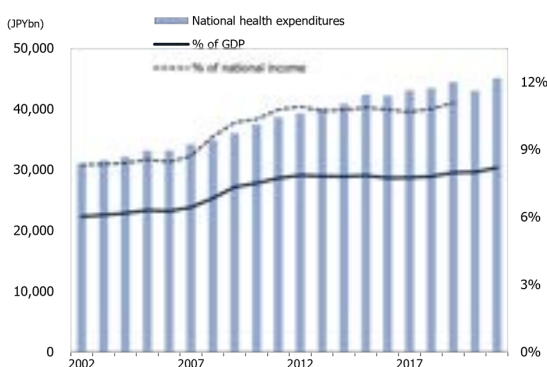
According to an OECD study, Japan has significantly longer average hospital stays for acute care compared to other countries. These conditions are likely to generate demand for the company's medical consulting services. Another factor contributing to the growth of medical consulting services is the heightened need for more specialist hospitals. The company can apply the knowledge and expertise acquired in its consulting and one-stop-solution facility services for building general hospitals to specialist hospitals as well.

## Medical equipment demand

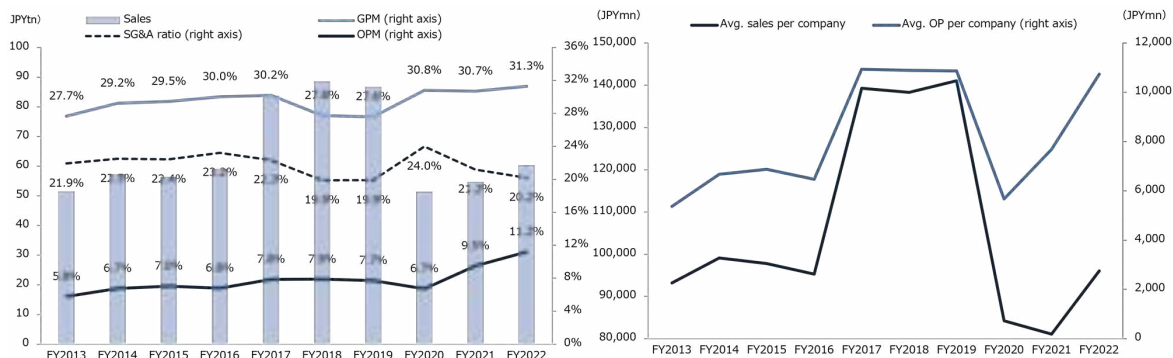
While medical costs are on the rise, with aggregate costs surpassing JPY40tn per year, the Ministry of Health, Labour and Welfare conducts a revision of medical fees, drug prices, and medical reimbursements every other year to reduce medical costs (every year since FY2020). These revisions have had a significant impact on the industry, as evidenced by the substantial price reductions between 2001 and 2006 that triggered major restructuring within the pharmaceutical and drug wholesaling industries.

While the medical equipment wholesaling industry has been subject to the same pressure, its realignment has not been spearheaded by manufacturers, as was the case with the drug wholesaling industry, since the range of equipment types and prices is diverse and there are strong regional characteristics, whereas the drug wholesaling business typically has fixed prices, which are shipped on a regular basis. In addition, the medical equipment wholesaling industry has numerous distributors that specialize in cardiovascular and other equipment. Shared Research believes that sales per company are rising as industry realignment progresses, but it will take time to see improvements in profitability, such as OPM, due to the ongoing challenging business environment.

## National health expenditures and revision of medical fees, prices of drugs, and reimbursements (materials)



## Medical equipment market



Source: Shared Research based on "Statistics on Pharmaceutical and Medical Device Industry" from Ministry of Health, Labour and Welfare

## Customers

There are 7,000 to 8,000 hospitals in Japan that are potential major clients for Ship. The company contributes to the early-stage planning of between 200 and 300 projects relating to new hospitals or hospital expansion at any given time. Annually, it records sales for 40 to 50 of those projects once the acceptance inspection has been completed. The current client base also includes large general contractors, construction companies, and architecture firms that take on medical facility construction projects as well as collaboration with other companies such as regional medical supply distributors.

## Suppliers

Ship has a diverse range of suppliers and supply items. Its universal supply coverage allows it to offer the best medical equipment and medical supplies to suit the needs of its clients. The company's main suppliers and supply items are listed below.

- Fuji Film Medical Co., Ltd.: Imaging diagnostic machines, biochemical testing machines
- Canon Medical Systems Corporation (formerly Toshiba Medical Systems Corporation): MRI, CT scan, X-ray equipment
- GE Healthcare: MRI, CT scan, X-ray equipment
- Philips: MRI, CT scan, X-ray equipment
- Siemens: MRI, CT scan, X-ray equipment
- Shimadzu (TSE Prime: 7701): MRI, CT scan, X-ray equipment
- Hitachi, Ltd. (TSE Prime: 6501) (formerly Hitachi Medico): MRI, CT scan, X-ray equipment
- Nipro (TSE Prime: 8086): Medical equipment, materials used in medical examination
- Terumo (TSE Prime: 4543): Medical equipment, materials used in medical examinations
- Sysmex (TSE Prime: 6869): Blood-testing equipment
- Paramount Bed Holdings Co., Ltd. (TSE Prime: 7817): Hospital and nursing home beds, furniture for hospital rooms
- Nihon Kohden (TSE Prime: 6849): Electrocardiographs, physical data monitors
- Fukuda Denshi (TSE Standard: 6960): Electrocardiographs, physical data monitors
- Central Uni (100%-owned subsidiary): Medical gas (oxygen, anesthetics) delivery pipe equipment
- Air Water (TSE Prime: 4088): Medical gas (oxygen, anesthetics) delivery pipe equipment

## Barriers to entry

Shared Research believes that the biggest barrier to entry in the development of medical consultants is the time required. Since its establishment in 1992, Ship has hired about 15 new graduates each year, increasing to 25 new graduates annually since 2011. However, after gaining 10 years of experience, only about three to five of them can become independent project leaders. In medical consulting, there are no patented technologies or methods, and Shared Research understands that differentiation is achieved through the accumulated expertise of each consultant.

From this perspective, Shared Research views the company's medical consulting personnel as a significant barrier to entry for other companies. Additionally, in the medical field, technical teams related to medical devices are also necessary, and Ship has sufficient personnel in this area as well. While the medical field is regulated by laws such as the Medical Care Act and the Pharmaceutical Affairs Law, which could be considered formal barriers to entry, Shared Research believes that the authorization system itself is unlikely to be a substantial barrier. Therefore, it is possible for new entrants to establish a medical consulting system.

In fact, a medical supply distributor—which has been invested in by general trading company Mitsubishi Corporation (TSE Prime: 8058) and other companies—has entered the market. However, it will take a significant amount of time for such new entrants to train consultants and for them to gain sufficient experience to provide a comparable level of quality consulting. Accordingly, Shared Research believes that it will be difficult for new entrants to surpass Ship. The company also notes that personal relationships are important for the hospital consulting business, and it is not easy for new entrants to build relationships similar to those enjoyed by Ship employees. From these perspectives, Shared Research believes that the barriers to entry in the medical consulting field are formidable.

## Competition

In the medical consulting field, MC Healthcare Holdings (a Mitsubishi Corporation group company) is a direct competitor, but compared with others in the industry, Ship provides more complete and continuous consulting. Ship suggests that if the market forces weaker peers to exit, there should be less competitive pressure.

Further, Ship has exposure to the medical equipment distribution business; it also sells materials for medical examinations and medical-use consumables. In the distribution businesses, direct competitors that are listed include Yamashita Health Care Holdings, Inc. (TSE Standard: 9265), Medius Holdings Co. (TSE Prime: 3154), WIN-Partners Co., Ltd. (TSE Prime: 3183) while there are also many unlisted companies. Some of the larger unlisted competitors are Mutoh Co., Ltd., Yagami Co., Ltd., and Miyano Medical Instruments Co., Ltd.

### Ranking of medical supply distributors

Company	Fiscal year-end	Revenue (JPYmn)
Ship Healthcare Holdings, Inc.	FY03/24	630,988
MC Healthcare, Inc.	FY03/23	106,888
Mutoh Co., Ltd.	FY06/23	185,900
Yagami Co., Ltd.	FY12/23	150,400
Miyano Medical Instruments Co., Ltd.	FY04/23	125,106
Kuribara Medical Instruments Co., Ltd.	FY06/23	109,500
MM Corp.	FY03/23	68,097
Kyowa Medical Corp.	FY06/23	89,047
ITI K.K.	FY06/23	107,690

Source: Shared Research based on company materials

Notes: MC Healthcare is a consolidated subsidiary of Mitsubishi Corporation, which owns an 80% equity stake. Kuribara Medical Instruments is a wholly owned subsidiary of Medius Holdings.

Sales figures are based on the latest results shown on each company's website and other materials.

## Strategy

Ship focuses on leveraging its expertise, cultivated from years of experience in hospital facility engineering consulting, particularly through its Total Pack Produce business. Its aim is to evolve into a company that provides comprehensive services, including engineering, products, and medical materials, to hospitals across Japan.

Ship has shifted its business focus from simply increasing earnings (which makes the company vulnerable to pricing pressures) to emphasizing cost management. This shift means that the management focus is moving from individual transactions to comprehensive relationships and contracts with customers. Currently, Ship is developing a system that allows it to provide overall cost reduction solutions to customers while maintaining a certain level of profitability. Shared Research believes that the company can effectively retain customers by utilizing the experience of its subsidiaries in building integrated information management systems (both in-hospital and external SPD) and its medical engineering consulting experience.

The company's manufacturing functions, which have been enhanced in recent years, have become one of the pillars of its future competitive strategy. By linking manufacturing functions with project consulting, the company's business is not limited to one-off project consulting but also includes the provision of continuous services, such as supply services to hospital facilities, even after project completion. This allows the company to build long-term relationships with customers. Going forward, the company is exploring entry into overseas markets such as Vietnam and Turkey, laying the groundwork to grow into a global niche specialist company.

# Historical performance and financial statements

## Income statement

Income statement (JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
<b>Sales</b>	<b>273,327</b>	<b>306,853</b>	<b>408,487</b>	<b>425,566</b>	<b>444,048</b>	<b>484,395</b>	<b>497,156</b>	<b>514,353</b>	<b>572,285</b>	<b>630,988</b>
Total Pack Produce	101,574	102,202	95,245	98,064	99,441	100,688	104,355	99,539	121,868	133,717
Medical Supply	128,112	158,227	263,528	274,058	290,363	325,664	341,157	360,635	386,335	428,451
Life Care	19,994	19,991	21,167	22,724	23,500	23,929	24,571	25,247	33,581	36,099
Dispensing Pharmacy	22,273	24,572	24,134	25,789	25,585	27,050	27,070	28,930	30,499	32,719
YoY	5.5%	12.3%	33.1%	4.2%	4.3%	9.1%	2.6%	3.5%	11.3%	10.3%
Total Pack Produce	5.7%	0.6%	-6.8%	3.0%	1.4%	1.3%	3.6%	-4.6%	22.4%	9.7%
Medical Supply	5.7%	23.5%	66.6%	4.0%	5.9%	12.2%	4.8%	5.7%	7.1%	10.9%
Life Care	5.9%	-0.0%	5.9%	7.4%	3.4%	1.8%	2.7%	2.8%	33.0%	7.5%
Dispensing Pharmacy	1.9%	10.3%	-1.8%	6.9%	-0.8%	5.7%	0.1%	6.9%	5.4%	7.3%
Cost of sales	238,206	270,182	363,993	378,484	397,396	434,768	442,670	460,709	511,667	565,380
<b>Gross profit</b>	<b>35,121</b>	<b>36,671</b>	<b>44,494</b>	<b>47,082</b>	<b>46,652</b>	<b>49,627</b>	<b>54,486</b>	<b>53,643</b>	<b>60,617</b>	<b>65,607</b>
Gross profit margin	12.8%	12.0%	10.9%	11.1%	10.5%	10.2%	11.0%	10.4%	10.6%	10.4%
SG&A expenses	21,523	22,622	28,438	28,822	28,699	30,832	32,685	33,138	39,473	41,071
SG&A ratio	7.9%	7.4%	7.0%	6.8%	6.5%	6.4%	6.6%	6.4%	6.9%	6.5%
<b>Operating profit</b>	<b>13,597</b>	<b>14,049</b>	<b>16,055</b>	<b>18,259</b>	<b>17,952</b>	<b>18,794</b>	<b>21,800</b>	<b>20,505</b>	<b>21,144</b>	<b>24,535</b>
Total Pack Produce	9,826	9,688	9,889	10,150	9,794	9,620	9,781	9,265	9,024	11,805
Medical Supply	1,882	2,299	3,318	4,161	4,191	5,035	6,958	6,209	6,666	6,513
Life Care	191	151	634	955	1,625	1,770	2,237	2,407	2,055	2,606
Dispensing Pharmacy	1,847	2,275	2,284	2,826	2,193	2,661	2,884	3,200	3,256	3,530
Eliminations, company-wide	-283	-463	-148	-137	-273	-742	-61	-577	141	78
YoY	-1.9%	3.3%	14.3%	13.7%	-1.7%	4.7%	16.0%	-5.9%	3.1%	16.0%
Total Pack Produce	4.9%	-1.4%	2.1%	2.6%	-3.5%	-1.8%	1.7%	-5.3%	-2.6%	30.8%
Medical Supply	-12.7%	22.2%	44.3%	25.4%	0.7%	20.1%	38.2%	-10.8%	7.4%	-2.3%
Life Care	-66.9%	-20.9%	319.9%	50.6%	70.2%	8.9%	26.4%	7.6%	-14.6%	26.8%
Dispensing Pharmacy	-6.3%	23.2%	0.4%	23.7%	-22.4%	21.3%	8.4%	11.0%	1.8%	8.4%
Operating profit margin	5.0%	4.6%	3.9%	4.3%	4.0%	3.9%	4.4%	4.0%	3.7%	3.9%
Total Pack Produce	9.7%	9.5%	10.4%	10.4%	9.8%	9.6%	9.4%	9.3%	7.4%	8.8%
Medical Supply	1.5%	1.5%	1.3%	1.5%	1.4%	1.5%	2.0%	1.7%	1.7%	1.5%
Life Care	1.0%	0.8%	3.0%	4.2%	6.9%	7.4%	9.1%	9.5%	6.1%	7.2%
Dispensing Pharmacy	8.3%	9.3%	9.5%	11.0%	8.6%	9.8%	10.7%	11.1%	10.7%	10.8%
Non-operating income	1,169	1,119	1,115	1,098	1,112	1,502	1,430	1,473	1,104	1,838
Non-operating expenses	855	430	692	422	532	365	1,468	691	1,641	1,158
<b>Recurring profit</b>	<b>13,910</b>	<b>14,737</b>	<b>16,478</b>	<b>18,935</b>	<b>18,532</b>	<b>19,931</b>	<b>21,761</b>	<b>21,287</b>	<b>20,607</b>	<b>25,215</b>
YoY	-5.7%	5.9%	11.8%	14.9%	-2.1%	7.5%	9.2%	-2.2%	-3.2%	22.4%
Recurring profit margin	5.1%	4.8%	4.0%	4.4%	4.2%	4.1%	4.4%	4.1%	3.6%	4.0%
Extraordinary gains	63	126	794	82	61	194	35	3	94	833
Extraordinary losses	253	1,174	1,193	1,604	102	255	561	486	35	4,189
Income taxes	6,158	4,726	6,535	6,924	7,407	8,041	8,873	8,418	9,061	8,123
Net income attributable to non-controlling interests	89	116	132	138	-152	25	82	213	-458	-52
<b>Net income</b>	<b>7,472</b>	<b>8,847</b>	<b>9,410</b>	<b>10,350</b>	<b>11,236</b>	<b>11,803</b>	<b>12,280</b>	<b>12,172</b>	<b>12,063</b>	<b>13,789</b>
YoY	-12.3%	18.4%	6.4%	10.0%	8.6%	5.0%	4.0%	-0.9%	-0.9%	14.3%
Net margin	2.7%	2.9%	2.3%	2.4%	2.5%	2.4%	2.5%	2.4%	2.1%	2.2%

Source: Shared Research based on company materials

Note: Figures may differ from company materials due to differences in rounding methods.

# Balance sheet

Balance sheet	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash and deposit	38,676	36,255	49,444	59,644	72,393	78,717	73,907	73,808	80,839	85,072
Accounts receivable	74,009	78,302	95,657	99,090	101,207	99,234	117,800	109,399	127,083	121,689
Inventories	10,949	10,819	13,837	14,950	16,153	16,385	18,723	22,105	26,669	26,774
Other	12,417	14,761	15,492	19,804	11,818	16,163	11,460	21,217	22,650	26,488
<b>Current assets</b>	<b>136,051</b>	<b>140,137</b>	<b>174,430</b>	<b>193,488</b>	<b>201,571</b>	<b>210,499</b>	<b>221,890</b>	<b>226,529</b>	<b>257,241</b>	<b>260,023</b>
Tangible fixed assets	38,135	43,723	53,483	55,770	54,652	57,014	57,941	57,995	65,127	63,305
Intangible assets	11,223	12,302	12,208	11,780	10,333	9,520	10,581	9,354	16,149	14,088
Investments and other assets	17,071	22,244	23,402	24,398	32,654	31,838	44,085	41,195	43,458	49,402
<b>Total fixed assets</b>	<b>66,430</b>	<b>78,270</b>	<b>89,093</b>	<b>91,949</b>	<b>97,640</b>	<b>98,373</b>	<b>112,607</b>	<b>108,545</b>	<b>124,735</b>	<b>126,795</b>
<b>Total assets</b>	<b>202,562</b>	<b>218,456</b>	<b>263,540</b>	<b>285,438</b>	<b>299,212</b>	<b>308,873</b>	<b>334,498</b>	<b>335,074</b>	<b>381,977</b>	<b>386,819</b>
Accounts payable	71,321	71,074	86,307	88,716	106,143	109,719	123,690	122,244	138,505	147,073
Short-term debt	5,397	5,437	6,770	7,646	5,998	5,490	7,174	6,208	32,367	7,471
Other	12,442	22,594	33,300	41,566	16,035	17,906	21,078	19,919	26,148	26,621
<b>Current liabilities</b>	<b>89,160</b>	<b>99,105</b>	<b>126,377</b>	<b>137,928</b>	<b>128,176</b>	<b>133,115</b>	<b>151,942</b>	<b>148,371</b>	<b>197,020</b>	<b>181,165</b>
Long-term debt	31,629	31,218	36,146	36,765	64,866	62,078	57,787	55,011	41,571	50,459
Other	5,909	6,609	7,384	8,389	8,434	8,998	9,664	9,373	12,271	12,979
<b>Non-current liabilities</b>	<b>37,538</b>	<b>37,827</b>	<b>43,530</b>	<b>45,154</b>	<b>73,300</b>	<b>71,076</b>	<b>67,451</b>	<b>64,384</b>	<b>53,842</b>	<b>63,438</b>
<b>Total liabilities</b>	<b>126,698</b>	<b>136,933</b>	<b>169,908</b>	<b>183,083</b>	<b>201,477</b>	<b>204,191</b>	<b>219,394</b>	<b>212,756</b>	<b>250,862</b>	<b>244,603</b>
Shareholders' equity	73,727	79,828	89,881	97,428	92,399	99,841	107,483	115,899	123,718	133,597
Valuation and translation adjustments	1,580	1,166	1,503	2,451	3,079	2,019	3,923	1,503	2,978	5,863
Non-controlling interests	555	528	2,247	2,474	2,314	2,897	3,663	4,028	3,077	2,699
<b>Net assets</b>	<b>75,864</b>	<b>81,522</b>	<b>93,632</b>	<b>102,354</b>	<b>97,734</b>	<b>104,681</b>	<b>115,103</b>	<b>122,318</b>	<b>131,115</b>	<b>142,216</b>
<b>Total liabilities and net assets</b>	<b>202,562</b>	<b>218,456</b>	<b>263,540</b>	<b>285,438</b>	<b>299,212</b>	<b>308,873</b>	<b>334,498</b>	<b>335,074</b>	<b>381,977</b>	<b>386,819</b>
Working capital	13,637	18,047	23,187	25,324	11,217	5,900	12,833	9,260	15,247	1,390
Interest-bearing debt	37,026	36,655	42,916	44,411	70,864	67,568	64,961	61,219	73,938	57,930
Net debt	-1,650	400	-6,528	-15,233	-1,529	-11,149	-8,946	-12,589	-6,901	-27,142
ROA (RP-based)	7.4%	7.0%	6.8%	6.9%	6.3%	6.6%	6.8%	6.4%	5.7%	6.6%
ROE	12.2%	11.3%	10.9%	10.8%	11.5%	12.0%	11.5%	10.6%	9.8%	10.3%
Total asset turnover	1.3	1.4	1.6	1.5	1.5	1.6	1.5	1.5	1.5	1.6
Inventory turnover	21.8	25.0	26.3	25.3	24.6	26.5	23.6	20.8	19.2	21.1
Days in inventory	16.8	14.6	13.9	14.4	14.8	13.8	15.4	17.5	19.0	17.3
Quick ratio	126.4%	115.6%	114.8%	115.1%	135.4%	133.7%	126.2%	123.5%	105.5%	114.1%
Current ratio	152.6%	141.4%	138.0%	140.3%	157.3%	158.1%	146.0%	152.7%	130.6%	143.5%
Equity ratio	37.2%	37.1%	34.7%	35.0%	31.9%	33.0%	33.3%	35.3%	33.5%	36.1%
Net debt / Equity	-2.2%	0.5%	-7.1%	-15.3%	-1.6%	-11.0%	-8.0%	-10.6%	-5.4%	-19.5%

Source: Shared Research based on company materials

Note: Figures may differ from company materials due to differences in rounding methods.

## Cash flow statement

Statement of cash flows	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities (1)	1,682	16,708	15,311	20,204	10,534	24,010	19,772	12,428	14,105	31,609
Cash flows from investing activities (2)	-6,995	-14,913	-5,709	-6,640	-7,678	-4,264	-19,289	-3,870	-6,774	-7,202
<b>FCF (1+2)</b>	<b>-5,313</b>	<b>1,795</b>	<b>9,602</b>	<b>13,564</b>	<b>2,856</b>	<b>19,746</b>	<b>483</b>	<b>8,558</b>	<b>7,331</b>	<b>24,407</b>
Cash flows from financing activities	21,817	-4,013	3,543	-3,347	9,828	-8,416	-10,465	-8,842	-1,022	-20,482
Depreciation and goodwill amortization (A)	3,847	4,496	4,669	4,185	4,503	4,853	5,127	5,488	7,450	7,439
Capital expenditures (B)	-6,944	-7,601	-5,920	-5,885	-3,019	-3,812	-5,010	-3,470	-3,908	-3,516
Change in working capital (C)	5,252	4,410	5,140	2,137	-14,107	-5,317	6,933	-3,573	5,987	-13,857
<b>Simple free cash flow (NI + A +B -C)</b>	<b>-877</b>	<b>1,332</b>	<b>3,019</b>	<b>6,513</b>	<b>26,827</b>	<b>18,161</b>	<b>5,464</b>	<b>17,763</b>	<b>9,618</b>	<b>31,569</b>

Source: Shared Research based on company materials

Note: Figures may differ from company materials due to differences in rounding methods.

# Historical financial statements

## Q1 FY03/25 results (out August 9, 2024)

### Q1 FY03/25 results (April–June 2024)

- Sales: JPY115.2bn (+6.0% YoY)
- Operating profit: JPY3.5bn (-8.8% YoY)
- Recurring profit: JPY4.5bn (-3.5% YoY)
- Net income attributable to owners of the parent: JPY3.1bn (+2.2% YoY)

## Business environment

The Japanese economy showed signs of a gradual recovery, supported by improvements in employment and income levels, as well as the effects of various policies. However, ongoing inflation and rising consumer prices due to the yen's depreciation have created significant challenges, leaving the economic outlook uncertain.

In the healthcare industry, various initiatives have been launched, including the 8th Medical Care Plan, the 4th Medical Cost Optimization Plan, and reforms to improve working conditions for doctors. The industry still faces the challenge of building

an efficient, effective, and high-quality healthcare delivery system.

## Results overview

In Q1 FY03/25, sales increased 6.0% YoY, largely in line with projections, primarily due to steady progress in construction projects within the Total Pack Produce (TPP) segment. By end-Q1, sales had reached 51.7% of 1H targets, operating profit 41.2%, recurring profit 52.8%, and net income 61.3%.

FY03/25 marks the final year of the medium-term management plan, Ship Vision 2024. The company continued to advance the four key initiatives it initially set out: further expansion of core businesses, aggressive expansion of value, strategic enhancement of functions, and sustainability initiatives.

Gross profit amounted to JPY13.7bn (-3.2% YoY), with a GPM of 8.8% (-0.9pp YoY). These declines reflected reduced demand following a surge in orders for high-value-added services in the manufacturing business within the TPP segment, as well as upfront costs incurred for new large-scale projects in the Medical Supply (MSP) segment. SG&A expenses decreased 1.0% YoY to JPY10.2bn, driven by the company's withdrawal from the Myanmar business and a review of management costs in the Life Care (LC) segment. Consequently, operating profit declined 8.8% YoY, with an OPM of 2.3% (-0.3pp YoY).

## Results by segment

### Total Pack Produce (TPP) segment

#### Earnings performance

Total Pack Produce (JPYmm)	FY03/23				FY03/24				FY03/25
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1
Sales	16,707	48,651	77,904	121,868	27,876	56,665	85,574	133,717	25,307
YoY	-0.7%	40.2%	39.5%	22.4%	66.9%	16.5%	9.8%	9.7%	-9.2%
Operating profit	624	2,684	4,899	9,024	1,326	3,443	5,738	11,805	1,098
YoY	-28.3%	20.7%	21.0%	-2.6%	112.5%	28.3%	17.1%	30.8%	-17.2%
Operating profit margin	3.7%	5.5%	6.3%	7.4%	4.8%	6.1%	6.7%	8.8%	4.3%
Number of projects		12		42		15		39	
Quarterly	FY03/23				FY03/24				FY03/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	16,707	31,944	29,253	43,964	27,876	28,789	28,909	48,143	25,307
YoY	-0.7%	78.7%	38.3%	0.7%	66.9%	-9.9%	-1.2%	9.5%	-9.2%
Operating profit	624	2,060	2,215	4,125	1,326	2,117	2,295	6,067	1,098
YoY	-28.3%	52.1%	21.4%	-20.9%	112.5%	2.8%	3.6%	47.1%	-17.2%
Operating profit margin	3.7%	6.4%	7.6%	9.4%	4.8%	7.4%	7.9%	12.6%	4.3%

Source: Shared Research based on company data

▶ Segment sales (external; all references to segment sales are external sales): JPY25.3bn (-9.2% YoY)

▶ Segment profit: JPY1.1bn (-17.2% YoY)

#### Summary

Segment sales declined 9.2% YoY. While the mainstay construction projects progressed largely as initially expected, the decline in sales was primarily due to the withdrawal from the Myanmar business, which did not contribute to FY03/25 earnings, and reduced orders in certain areas of the manufacturing business that had received a high volume of orders in FY03/24. However, earnings from the heavy-ion radiotherapy facility in Osaka and the Bangladesh business remained on track with the company's projections.

Operating profit in the TPP segment fell 17.2% YoY, with an OPM of 4.3% (-0.5pp YoY), in line with company expectations. The decline in profit was attributed to the exit from the Myanmar business, which had previously generated stable earnings. Additionally, the reduction in projects in the manufacturing business—particularly short-term, high-margin service projects such as repair and maintenance work—also weighed on segment profit.

## Medical Supply (MSP) segment

### Earnings performance

Medical Supply (JPYmn)	FY03/23				FY03/24				FY03/25
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1
Sales	90,461	184,681	282,204	386,335	101,771	205,922	316,849	428,451	112,613
YoY	7.3%	6.5%	5.8%	7.1%	12.5%	11.5%	12.3%	10.9%	10.7%
Operating profit	984	2,687	4,372	6,666	1,245	2,800	4,609	6,513	963
YoY	-7.3%	1.5%	4.4%	7.4%	26.5%	4.2%	5.4%	-2.3%	-22.7%
Operating profit margin	1.1%	1.5%	1.5%	1.7%	1.2%	1.4%	1.5%	1.5%	0.9%
Quarterly	FY03/23				FY03/24				FY03/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	90,461	94,220	97,523	104,131	101,771	104,151	110,927	111,602	112,613
YoY	7.3%	5.8%	4.4%	10.9%	12.5%	10.5%	13.7%	7.2%	10.7%
Operating profit	984	1,703	1,685	2,294	1,245	1,555	1,809	1,904	963
YoY	-7.3%	7.5%	9.3%	13.5%	26.5%	-8.7%	7.4%	-17.0%	-22.7%
Operating profit margin	1.1%	1.8%	1.7%	2.2%	1.2%	1.5%	1.6%	1.7%	0.9%

Source: Shared Research based on company data

- ▶ Segment sales: JPY112.6bn (+10.7% YoY)
- ▶ Segment profit: JPY963mn (-22.7% YoY)

### Summary

Segment sales increased 10.7% YoY, driven by the commencement of operations at several newly contracted large-scale SPD facilities.

Operating profit in the MSP segment fell 22.7% YoY, with an OPM of 0.9% (-0.3pp YoY). The decline was primarily due to higher upfront costs, including personnel expenses related to the launch of new projects, as well as a YoY decrease in equipment-related orders.

## Life Care (LC) segment

### Earnings performance

Life Care (JPYmn)	FY03/23				FY03/24				FY03/25
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1
Sales	6,831	15,472	24,331	33,581	8,920	18,010	27,233	36,099	9,135
YoY	10.9%	23.7%	28.8%	33.0%	30.6%	16.4%	11.9%	7.5%	2.4%
Operating profit	531	1,111	1,709	2,055	564	1,293	2,060	2,606	620
YoY	-9.5%	-10.4%	-6.4%	-14.6%	6.2%	16.4%	20.5%	26.8%	9.9%
Operating profit margin	7.8%	7.2%	7.0%	6.1%	6.3%	7.2%	7.6%	7.2%	6.8%
Nursing care occupancy	-	99.5%	-	99.0%	-	98.9%	-	98.9%	-
Number of facilities	-	74	-	75	-	75	-	75	-
Capacity	-	4,638	-	4,762	-	4,762	-	4,753	-
Residents	-	4,613	-	4,716	-	4,710	-	4,703	-
Quarterly	FY03/23				FY03/24				FY03/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	6,831	8,641	8,859	9,250	8,920	9,090	9,223	8,866	9,135
YoY	10.9%	36.2%	38.8%	45.4%	30.6%	5.2%	4.1%	-4.2%	2.4%
Operating profit	531	580	598	346	564	729	767	546	620
YoY	-9.5%	-11.2%	2.2%	-40.5%	6.2%	25.7%	28.3%	57.8%	9.9%
Operating profit margin	7.8%	6.7%	6.8%	3.7%	6.3%	8.0%	8.3%	6.2%	6.8%

Source: Shared Research based on company data

- ▶ Segment sales: JPY9.1bn (+2.4% YoY)
- ▶ Segment profit: JPY620mn (+9.9% YoY)

### Summary

Segment sales grew 2.4% YoY. In the long-term care business, Ship maintained high occupancy rates at its facilities even after revising administrative costs. In the meal service business, the company strategically restructured its operations and implemented other initiatives.

Operating profit in the LC segment increased 9.9% YoY, with an OPM of 6.8% (+0.5pp YoY). The profit growth, along with the improvement in OPM, was driven by the sustained high occupancy rates in the long-term care business despite the revision of administrative costs. Additionally, the restructuring of the meal service business helped mitigate the impact of rising food ingredient costs.



## Dispensing Pharmacy (PH) segment

### Earnings performance

Dispensing Pharmacy (JPYmn)	FY03/23				FY03/24				FY03/25
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1
Sales	7,214	14,715	22,680	30,499	7,899	16,173	24,401	32,719	8,162
YoY	4.5%	4.5%	4.8%	5.4%	9.5%	9.9%	7.6%	7.3%	3.3%
Operating profit	641	1,419	2,322	3,256	737	1,676	2,670	3,530	793
YoY	6.5%	-8.3%	-5.0%	1.8%	15.0%	18.1%	15.0%	8.4%	7.6%
Operating profit margin	8.9%	9.6%	10.2%	10.7%	9.3%	10.4%	10.9%	10.8%	9.7%
Number of stores		122		123		126		129	
Quarterly	FY03/23				FY03/24				FY03/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	7,214	7,501	7,965	7,819	7,899	8,274	8,228	8,318	8,162
YoY	4.5%	4.5%	5.4%	7.3%	9.5%	10.3%	3.3%	6.4%	3.3%
Operating profit	641	778	903	934	737	939	994	860	793
YoY	6.5%	-17.7%	0.8%	23.4%	15.0%	20.7%	10.1%	-7.9%	7.6%
Operating profit margin	8.9%	10.4%	11.3%	11.9%	9.3%	11.3%	12.1%	10.3%	9.7%

Source: Shared Research based on company data

- ▶ Segment sales: JPY8.2bn (+3.3% YoY)
- ▶ Segment profit: JPY793mn (+7.6% YoY)

### Summary

Segment sales rose 3.3% YoY, supported by the continued opening of new pharmacies, with careful attention to store environments and other factors.

Operating profit in the PH segment was up 7.6% YoY, with an OPM of 9.7% (+0.4pp YoY). This profit growth was driven by efforts to enhance management efficiency, particularly through the closure of unprofitable pharmacies.

## Full-year FY03/24 results (out May 10, 2024)

### Full-year FY03/24 results (April 2023–March 2024)

- Sales: JPY631.0bn (+10.3% YoY)
- Operating profit: JPY24.5bn (+16.0% YoY)
- Recurring profit: JPY25.2bn (+22.4% YoY)
- Net income attributable to owners of the parent: JPY13.8bn (+14.3% YoY)

### Business environment

In Japan, social and economic activities began to normalize rapidly as movement restrictions imposed by the COVID-19 pandemic were eased. However, the outlook remains uncertain due to rising resource and energy prices caused by ongoing instability in overseas conditions (such as in Ukraine and the Middle East) and the continued depreciation of the yen, as well as global financial tightening and uncertainties surrounding the future of the Chinese economy.

In the healthcare industry, following the reclassification of COVID-19 under the Infectious Diseases Control Law, amendments were made to the hospital bed reservation fees and special provisions for medical treatment fees that were introduced in response to COVID-19. To comply with the guidelines of the 8th Medical Care Plan to be implemented by the Ministry of Health, Labour and Welfare during FY2024–2029, each prefecture in Japan is required to address various challenges in regional healthcare—revealed by the spread of COVID-19—and changes in population structure.

### Results overview

Sales increased 10.3% YoY, driven by the Total Pack Produce segment (+9.7% YoY) and the Medical Supply segment (+10.9% YoY), both exceeding company projections, along with sales growth in the other two segments.

Gross profit rose to JPY65.6bn (+8.2% YoY), with a GPM of 10.4% (-0.2pp YoY). Despite the impact of rising food costs in the Life Care segment's meal services, the overall profit margin remained largely unchanged YoY. SG&A expenses increased to JPY41.1bn (+4.0% YoY) due to higher personnel and other expenses, impacted by the full-year inclusion of SG&A expenses from companies acquired in FY03/23. As a result, operating profit grew 16.0% YoY, with an OPM of 3.9% (+0.2pp YoY). Excluding the Medical Supply segment, which recorded one-time expenses, all segments reported profit growth, demonstrating steady performance across the board.



Recurring profit increased 22.4% YoY, thanks to higher equity investment gains from profit growth at equity-method affiliates. The smaller increase in net income, which was up 14.3% YoY, was due to extraordinary losses, including JPY2.7bn in impairment losses and a JPY1.3bn loss on the sale of affiliated company shares. Progress toward the company's full-year targets for FY03/24 was 105.2% for sales, 104.4% for operating profit, 107.3% for recurring profit, and 110.3% for net income.

The Myanmar business, consisting of two consolidated subsidiaries, had been affected by financial sanctions imposed by Western countries and forced foreign currency conversions in the aftermath of the military coup. The situation has been exacerbated by the tightening of financial sanctions, which have impeded the collection of foreign currency-denominated receivables and procurement of goods. Anticipating that its Myanmar business will continue to face these challenges, Ship concluded that it would not be able to realize the previously anticipated excess earnings and sold all its shares in the two subsidiaries, recording an impairment loss of JPY2.6bn (equivalent to the full amount of goodwill) as an extraordinary loss in Q2.

## Results by segment

### Total Pack Produce segment

#### Earnings performance

Total Pack Produce (JPYmn)	FY03/22				FY03/23				FY03/24			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4
Sales	16,827	34,705	55,864	99,539	16,707	48,651	77,904	121,868	27,876	56,665	85,574	133,717
YoY	-6.1%	-11.5%	-12.8%	-4.6%	-0.7%	40.2%	39.5%	22.4%	66.9%	16.5%	9.8%	9.7%
Operating profit	870	2,224	4,049	9,265	624	2,684	4,899	9,024	1,326	3,443	5,738	11,805
YoY	-11.7%	-6.4%	-33.4%	-5.3%	-28.3%	20.7%	21.0%	-2.6%	112.5%	28.3%	17.1%	30.8%
Operating profit margin	5.2%	6.4%	7.2%	9.3%	3.7%	5.5%	6.3%	7.4%	4.8%	6.1%	6.7%	8.8%
Number of projects	11				12				15			
Quarterly	FY03/22				FY03/23				FY03/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	16,827	17,878	21,159	43,675	16,707	31,944	29,253	43,964	27,876	28,789	28,909	48,143
YoY	-6.1%	-16.1%	-14.8%	8.4%	-0.7%	78.7%	38.3%	0.7%	66.9%	-9.9%	-1.2%	9.5%
Operating profit	870	1,354	1,825	5,216	624	2,060	2,215	4,125	1,326	2,117	2,295	6,067
YoY	-11.7%	-2.6%	-50.8%	41.0%	-28.3%	52.1%	21.4%	-20.9%	112.5%	2.8%	3.6%	47.1%
Operating profit margin	5.2%	7.6%	8.6%	11.9%	3.7%	6.4%	7.6%	9.4%	4.8%	7.4%	7.9%	12.6%

Source: Shared Research based on company data

- ▶ Segment sales (external; all references to segment sales are external sales): JPY133.7bn (+9.7% YoY)
- ▶ Segment profit: JPY11.8bn (+30.8% YoY)

#### Summary

In the Total Pack Produce segment, sales increased 9.7% YoY. Sales from construction projects, routine projects, and overseas businesses amounted to JPY66.0bn (+7.0% YoY) as construction projects largely progressed according to plan. Sales from manufacturing businesses reached JPY33.1bn (+8.4% YoY), improving toward normal levels despite continued impacts from longer lead times for electrical components and rising raw material prices. Sales from Kingrun-related businesses grew to JPY24.7bn (+24.8% YoY), thanks in part to cross-selling effects from consolidation. Additionally, new outpatient visits and treatment cases at the company's heavy-ion radiotherapy facility increased.

Segment profit was up 30.8% YoY, with a profit margin of 8.8% (+1.4pp YoY). Despite investments to differentiate Ship from competitors in the Bangladesh business, steady progress on construction projects contributed to the improvement in segment profit and profit margin.

## Medical Supply segment

### Earnings performance

Medical Supply (JPYmn)	FY03/22				FY03/23				FY03/24			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4
Sales	84,322	173,368	266,757	360,635	90,461	184,681	282,204	386,335	101,771	205,922	316,849	428,451
YoY	12.6%	11.1%	8.1%	5.7%	7.3%	6.5%	5.8%	7.1%	12.5%	11.5%	12.3%	10.9%
Operating profit	1,062	2,646	4,187	6,209	984	2,687	4,372	6,666	1,245	2,800	4,609	6,513
YoY	20.4%	11.4%	-10.5%	-10.8%	-7.3%	1.5%	4.4%	7.4%	26.5%	4.2%	5.4%	-2.3%
Operating profit margin	1.3%	1.5%	1.6%	1.7%	1.1%	1.5%	1.5%	1.7%	1.2%	1.4%	1.5%	1.5%
Quarterly	FY03/22				FY03/23				FY03/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	84,322	89,046	93,389	93,878	90,461	94,220	97,523	104,131	101,771	104,151	110,927	111,602
YoY	12.6%	9.8%	3.0%	-0.7%	7.3%	5.8%	4.4%	10.9%	12.5%	10.5%	13.7%	7.2%
Operating profit	1,062	1,584	1,541	2,022	984	1,703	1,685	2,294	1,245	1,555	1,809	1,904
YoY	20.4%	6.1%	-33.1%	-11.4%	-7.3%	7.5%	9.3%	13.5%	26.5%	-8.7%	7.4%	-17.0%
Operating profit margin	1.3%	1.8%	1.7%	2.2%	1.1%	1.8%	1.7%	2.2%	1.2%	1.5%	1.6%	1.7%

Source: Shared Research based on company data

▶ Segment sales: JPY428.5bn (+10.9% YoY)

▶ Segment profit: JPY6.5bn (-2.3% YoY)

### Summary

In the Medical Supply segment, sales grew 10.9% YoY. The operation of new SPD facilities contracted in 2H FY03/23 remained strong. In addition, the scope of operations expanded at existing SPD facilities. The company also secured orders for multiple projects set to start operations in FY03/25, bringing the total number of SPD facility contracts to 246.

Segment profit fell 2.3% YoY, with a profit margin of 1.5% (-0.2pp YoY). This decline was due to rising raw material prices and personnel expenses, as well as upfront costs for new SPD facilities set to begin operations in FY03/25, share acquisition costs associated with new M&A activities, and inventory valuation losses for infection control products. According to the company, excluding these one-time expenses, the profitability of the Medical Supply business remained largely unchanged YoY.

## Life Care segment

### Earnings performance

Life Care (JPYmn)	FY03/22				FY03/23				FY03/24			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4
Sales	6,161	12,504	18,887	25,247	6,831	15,472	24,331	33,581	8,920	18,010	27,233	36,099
YoY	1.5%	2.0%	2.2%	2.8%	10.9%	23.7%	28.8%	33.0%	30.6%	16.4%	11.9%	7.5%
Operating profit	587	1,240	1,825	2,407	531	1,111	1,709	2,055	564	1,293	2,060	2,606
YoY	1.2%	8.9%	7.2%	7.6%	-9.5%	-10.4%	-6.4%	-14.6%	6.2%	16.4%	20.5%	26.8%
Operating profit margin	9.5%	9.9%	9.7%	9.5%	7.8%	7.2%	7.0%	6.1%	6.3%	7.2%	7.6%	7.2%
Nursing care occupancy	-	99.2%	-	99.4%	-	99.5%	-	99.0%	-	98.9%	-	98.9%
Number of facilities	70	70	70	70	74	75	75	75	75	75	75	75
Capacity	4,431	4,431	4,431	4,431	4,638	4,762	4,762	4,762	4,762	4,762	4,753	4,753
Residents	4,397	4,397	4,406	4,406	4,613	4,716	4,716	4,716	4,710	4,710	4,703	4,703
Quarterly	FY03/22				FY03/23				FY03/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	6,161	6,343	6,383	6,360	6,831	8,641	8,859	9,250	8,920	9,090	9,223	8,866
YoY	1.5%	2.4%	2.7%	4.3%	10.9%	36.2%	38.8%	45.4%	30.6%	5.2%	4.1%	-4.2%
Operating profit	587	653	585	582	531	580	598	346	564	729	767	546
YoY	1.2%	16.8%	3.7%	9.0%	-9.5%	-11.2%	2.2%	-40.5%	6.2%	25.7%	28.3%	57.8%
Operating profit margin	9.5%	10.3%	9.2%	9.2%	7.8%	6.7%	6.8%	3.7%	6.3%	8.0%	8.3%	6.2%

Source: Shared Research based on company data

▶ Segment sales: JPY36.1bn (+7.5% YoY)

▶ Segment profit: JPY2.6bn (+26.8% YoY)

### Summary

In the Life Care segment, sales rose 7.5% YoY. Sales from long-term care services reached JPY24.1bn (+2.9% YoY) as the company maintained high occupancy rates at its facilities. Sales from meal services grew to JPY12.0bn (+18.2% YoY), driven by the full-year contribution of companies consolidated in FY03/23 and an increase in events and gatherings following the reclassification of COVID-19 to a Class 5 infectious disease.

Segment profit increased 26.8% YoY, with a profit margin of 7.2% (+1.1pp YoY). Despite the burden of rising food costs in meal services, the segment profit margin improved as the company implemented strict cost controls in long-term care services to mitigate the impact of elevated utility expenses incurred in FY03/23.

## Dispensing Pharmacy segment

### Earnings performance

Dispensing Pharmacy (JPYmn)	FY03/22				FY03/23				FY03/24			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4
Sales	6,904	14,084	21,644	28,930	7,214	14,715	22,680	30,499	7,899	16,173	24,401	32,719
YoY	5.4%	6.7%	7.3%	6.9%	4.5%	4.5%	4.8%	5.4%	9.5%	9.9%	7.6%	7.3%
Operating profit	602	1,547	2,443	3,200	641	1,419	2,322	3,256	737	1,676	2,670	3,530
YoY	35.0%	19.1%	19.3%	11.0%	6.5%	-8.3%	-5.0%	1.8%	15.0%	18.1%	15.0%	8.4%
Operating profit margin	8.7%	11.0%	11.3%	11.1%	8.9%	9.6%	10.2%	10.7%	9.3%	10.4%	10.9%	10.8%
Number of stores		119		119		122		123		126		129
Quarterly	FY03/22				FY03/23				FY03/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	6,904	7,180	7,560	7,286	7,214	7,501	7,965	7,819	7,899	8,274	8,228	8,318
YoY	5.4%	7.9%	8.6%	5.5%	4.5%	4.5%	5.4%	7.3%	9.5%	10.3%	3.3%	6.4%
Operating profit	602	945	896	757	641	778	903	934	737	939	994	860
YoY	35.0%	10.8%	19.8%	-9.6%	6.5%	-17.7%	0.8%	23.4%	15.0%	20.7%	10.1%	-7.9%
Operating profit margin	8.7%	13.2%	11.9%	10.4%	8.9%	10.4%	11.3%	11.9%	9.3%	11.3%	12.1%	10.3%

Source: Shared Research based on company data

- ▶ Segment sales: JPY32.7bn (+7.3% YoY)
- ▶ Segment profit: JPY3.5bn (+8.4% YoY)

### Summary

In the Dispensing Pharmacy segment, sales grew 7.3% YoY. Since end-FY03/23, the company opened three new dispensing pharmacies and added four more through acquisitions. The outbreak of influenza and other infectious diseases during FY03/24 led to an increase in the number of patients, also contributing to sales growth.

Segment profit was up 8.4% YoY, with a profit margin of 10.8% (+0.1pp YoY). Despite the impact of NHI drug price revisions, the company reduced temporary staffing expenses by promoting optimal staff allocations through an organizational structure consisting of independent business units, resulting in a profit margin that remained roughly on par with FY03/23.

## Cumulative Q3 FY03/24 results (out February 9, 2024)

### Cumulative Q3 FY03/24 results (April–December 2023)

- Sales: JPY453.1bn (+11.3% YoY)
- Operating profit: JPY15.1bn (+13.2% YoY)
- Recurring profit: JPY15.8bn (+22.9% YoY)
- Net income attributable to owners of the parent: JPY7.2bn (-3.0% YoY)

### Business environment

In Japan, social and economic activities began to normalize rapidly as restrictions on movement due to COVID-19 were eased. However, the outlook remains uncertain owing to soaring resource and energy prices caused by ongoing instability in overseas conditions and sustained yen depreciation, as well as global financial tightening and uncertainties surrounding the future of the Chinese economy.

In the healthcare industry, following the reclassification of COVID-19 under the Infectious Diseases Control Law, amendments were made to the hospital bed reservation fees and special provisions for medical treatment fees that were introduced in response to COVID-19. To comply with the guidelines of the 8th Medical Care Plan to be implemented by the Ministry of Health, Labour and Welfare during FY2024–2029, each prefecture in Japan is required to address various challenges in regional healthcare—revealed by the spread of COVID-19—and changes in population structure.

### Results overview

Cumulative Q3 sales grew 11.3% YoY. Sales increased in all reportable segments, including the TPP and MSP businesses.

Gross profit was JPY45.6bn (+8.5% YoY) with a GPM of 10.1% (-0.2pp YoY), which was roughly on par with the year-ago level. SG&A expenses rose to JPY30.4bn (+6.3% YoY) due to the impact of various expenses associated with the 12 companies of the Kingrun group, which was consolidated in Q2 FY03/23. As a result, operating profit grew 13.2% YoY and OPM was 3.3% (flat YoY). Recurring profit increased 22.9% YoY, partly due to the recording of investment income of JPY631mn under the

equity method. Net income fell 3.0% YoY due to the recording of an extraordinary loss of JPY2.6bn—equivalent to the full amount of goodwill of the company's two consolidated subsidiaries in Myanmar—in Q2 FY03/24.

The background to the impairment of goodwill at the company's two consolidated subsidiaries in Myanmar is as follows. The two subsidiaries were previously affected by financial sanctions imposed by Western countries and forced currency conversion in the aftermath of the military coup in Myanmar. The situation has been exacerbated by the tightening of financial sanctions, which have impeded the collection of foreign currency-denominated receivables and procurement of goods. Anticipating that these challenges will continue, Ship concluded that it would not be able to realize the previously anticipated excess earnings and recorded the total impairment charges as extraordinary losses.

## Results by segment

### Total Pack Produce segment

#### Earnings performance

Total Pack Produce (JPYmn)	FY03/22				FY03/23				FY03/24		
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3
Sales	16,827	34,705	55,864	99,539	16,707	48,651	77,904	121,868	27,876	56,665	85,574
YoY	-6.1%	-11.5%	-12.8%	-4.6%	-0.7%	40.2%	39.5%	22.4%	66.9%	16.5%	9.8%
Operating profit	870	2,224	4,049	9,265	624	2,684	4,899	9,024	1,326	3,443	5,738
YoY	-11.7%	-6.4%	-33.4%	-5.3%	-28.3%	20.7%	21.0%	-2.6%	112.5%	28.3%	17.1%
Operating profit margin	5.2%	6.4%	7.2%	9.3%	3.7%	5.5%	6.3%	7.4%	4.8%	6.1%	6.7%
Number of projects		11		35		12		42		15	
Quarterly	FY03/22				FY03/23				FY03/24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	16,827	17,878	21,159	43,675	16,707	31,944	29,253	43,964	27,876	28,789	28,909
YoY	-6.1%	-16.1%	-14.8%	8.4%	-0.7%	78.7%	38.3%	0.7%	66.9%	-9.9%	-1.2%
Operating profit	870	1,354	1,825	5,216	624	2,060	2,215	4,125	1,326	2,117	2,295
YoY	-11.7%	-2.6%	-50.8%	41.0%	-28.3%	52.1%	21.4%	-20.9%	112.5%	2.8%	3.6%
Operating profit margin	5.2%	7.6%	8.6%	11.9%	3.7%	6.4%	7.6%	9.4%	4.8%	7.4%	7.9%

Source: Shared Research based on company data

- ▶ Segment sales (external; all references to segment sales are external sales): JPY84.6bn (+9.8% YoY)
- ▶ Segment profit: JPY5.7bn (+17.1% YoY)

#### Summary

Segment sales were up 9.8% YoY. Sales from construction projects and routine projects remained solid. The projects that the company had envisioned generally progressed as planned, and the number of new outpatient visits and treatments at the company's heavy-ion radiotherapy facility increased, supported by expanded insurance coverage beginning in April 2022. The increase in sales was due to the easing of the impact of longer delivery times for electrical components and soaring raw material prices at manufacturing subsidiaries YoY, as well as the contribution from the Kingrun group from Q1, which joined the group in July 2022.

Segment profit increased 17.1% YoY, and the segment profit margin rose 0.4pp YoY to 6.7%. The improvement in profit margin was due to an increase in sales at manufacturing subsidiaries, which offset the impact of soaring raw material prices.

### Medical Supply segment

#### Earnings performance

Medical Supply (JPYmn)	FY03/22				FY03/23				FY03/24		
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3
Sales	84,322	173,368	266,757	360,635	90,461	184,681	282,204	386,335	101,771	205,922	316,849
YoY	12.6%	11.1%	8.1%	5.7%	7.3%	6.5%	5.8%	7.1%	12.5%	11.5%	12.3%
Operating profit	1,062	2,646	4,187	6,209	984	2,687	4,372	6,666	1,245	2,800	4,609
YoY	20.4%	11.4%	-10.5%	-10.8%	-7.3%	1.5%	4.4%	7.4%	26.5%	4.2%	5.4%
Operating profit margin	1.3%	1.5%	1.6%	1.7%	1.1%	1.5%	1.5%	1.7%	1.2%	1.4%	1.5%
Quarterly	FY03/22				FY03/23				FY03/24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	84,322	89,046	93,389	93,878	90,461	94,220	97,523	104,131	101,771	104,151	110,927
YoY	12.6%	9.8%	3.0%	-0.7%	7.3%	5.8%	4.4%	10.9%	12.5%	10.5%	13.7%
Operating profit	1,062	1,584	1,541	2,022	984	1,703	1,685	2,294	1,245	1,555	1,809
YoY	20.4%	6.1%	-33.1%	-11.4%	-7.3%	7.5%	9.3%	13.5%	26.5%	-8.7%	7.4%
Operating profit margin	1.3%	1.8%	1.7%	2.2%	1.1%	1.8%	1.7%	2.2%	1.2%	1.5%	1.6%

Source: Shared Research based on company data

- ▶ Segment sales: JPY316.8bn (+12.3% YoY)

- ▶ Segment profit: JPY4.6bn (+5.4% YoY)

## Summary

Segment sales grew 12.3% YoY, driven by the steady operation of the SPD facilities newly contracted in 2H FY03/23.

Segment profit was up 5.4% YoY, and the segment profit margin was 1.5% (flat YoY). The profit margin was maintained because the increase in the number of surgeries at medical institutions and the recovery in demand for medical supplies covered the steep rise in purchase prices and personnel expenses.

## Life Care segment

### Earnings performance

Life Care (JPYmn)	FY03/22				FY03/23				FY03/24		
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3
Sales	6,161	12,504	18,887	25,247	6,831	15,472	24,331	33,581	8,920	18,010	27,233
YoY	1.5%	2.0%	2.2%	2.8%	10.9%	23.7%	28.8%	33.0%	30.6%	16.4%	11.9%
Operating profit	587	1,240	1,825	2,407	531	1,111	1,709	2,055	564	1,293	2,060
YoY	1.2%	8.9%	7.2%	7.6%	-9.5%	-10.4%	-6.4%	-14.6%	6.2%	16.4%	20.5%
Operating profit margin	9.5%	9.9%	9.7%	9.5%	7.8%	7.2%	7.0%	6.1%	6.3%	7.2%	7.6%
Nursing care occupancy	-	99.2%	-	99.4%	-	99.5%	-	99.0%	-	98.9%	-
Number of facilities	-	70	-	70	-	74	-	75	-	75	-
Capacity	-	4,431	-	4,431	-	4,638	-	4,762	-	4,762	-
Residents	-	4,397	-	4,406	-	4,613	-	4,753	-	4,710	-
Quarterly	FY03/22				FY03/23				FY03/24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	6,161	6,343	6,383	6,360	6,831	8,641	8,859	9,250	8,920	9,090	9,223
YoY	1.5%	2.4%	2.7%	4.3%	10.9%	36.2%	38.8%	45.4%	30.6%	5.2%	4.1%
Operating profit	587	653	585	582	531	580	598	346	564	729	767
YoY	1.2%	16.8%	3.7%	9.0%	-9.5%	-11.2%	2.2%	-40.5%	6.2%	25.7%	28.3%
Operating profit margin	9.5%	10.3%	9.2%	9.2%	7.8%	6.7%	6.8%	3.7%	6.3%	8.0%	8.3%

Source: Shared Research based on company data

- ▶ Segment sales: JPY27.2bn (+11.9% YoY)
- ▶ Segment profit: JPY2.1bn (+20.5% YoY)

## Summary

Segment sales increased 11.9% YoY. In the long-term care business, in order to mitigate the impact of rising utility expenses, Ship meticulously controlled various expenditures. Occupancy rates at the company's long-term care facilities remained high. In the meal service business, the recovery in business performance of a subsidiary that was newly consolidated in FY03/23 contributed to sales growth.

Segment profit rose 20.5% YoY, and the segment profit margin was 7.6% (+0.6pp YoY). Factors contributing to this increase include thorough cost management and revisions to facility management costs in the long-term care business. In the meal service business, the company was able to compensate for soaring foodstuff prices with improved earnings from a subsidiary that joined the group in FY03/23.

## Dispensing Pharmacy segment

### Earnings performance

Dispensing Pharmacy (JPYmn)	FY03/22				FY03/23				FY03/24		
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3
Sales	6,904	14,084	21,644	28,930	7,214	14,715	22,680	30,499	7,899	16,173	24,401
YoY	5.4%	6.7%	7.3%	6.9%	4.5%	4.5%	4.8%	5.4%	9.5%	9.9%	7.6%
Operating profit	602	1,547	2,443	3,200	641	1,419	2,322	3,256	737	1,676	2,670
YoY	35.0%	19.1%	19.3%	11.0%	6.5%	-8.3%	-5.0%	1.8%	15.0%	18.1%	15.0%
Operating profit margin	8.7%	11.0%	11.3%	11.1%	8.9%	9.6%	10.2%	10.7%	9.3%	10.4%	10.9%
Number of stores	-	119	-	119	-	122	-	123	-	-	-
Quarterly	FY03/22				FY03/23				FY03/24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	6,904	7,180	7,560	7,286	7,214	7,501	7,965	7,819	7,899	8,274	8,228
YoY	5.4%	7.9%	8.6%	5.5%	4.5%	4.5%	5.4%	7.3%	9.5%	10.3%	3.3%
Operating profit	602	945	896	757	641	778	903	934	737	939	994
YoY	35.0%	10.8%	19.8%	-9.6%	6.5%	-17.7%	0.8%	23.4%	15.0%	20.7%	10.1%
Operating profit margin	8.7%	13.2%	11.9%	10.4%	8.9%	10.4%	11.3%	11.9%	9.3%	11.3%	12.1%

Source: Shared Research based on company data

- ▶ Segment sales: JPY24.4bn (+7.6% YoY)
- ▶ Segment profit: JPY2.7bn (+15.0% YoY)

## Summary

Segment sales grew 7.6% YoY. New pharmacy openings and small-scale acquisitions contributed to this increase.

Segment profit rose 15.0% YoY, and the segment profit margin was 10.9% (+0.7pp YoY), roughly unchanged from the previous year's level.

## 1H FY03/24 results (out November 10, 2023)

### 1H FY03/24 results (April–September 2023)

- Sales: JPY296.8bn (+12.6% YoY)
- Operating profit: JPY9.2bn (+15.9% YoY)
- Recurring profit: JPY10.1bn (+34.9% YoY)
- Net income attributable to owners of the parent: JPY3.7bn (-11.0% YoY)

## Business environment

In Japan, social and economic activities began to normalize rapidly as restrictions on movement due to COVID-19 were eased. However, the outlook remains uncertain due to soaring resource and energy prices caused by the ongoing Russia–Ukraine conflict and the depreciation of the yen, as well as concerns about the resulting increase in commodity prices.

In the healthcare industry, following the reclassification of COVID-19 under the Infectious Diseases Control Law, amendments were made to the hospital bed reservation fees and special provisions for medical treatment fees that were introduced in response to COVID-19. To comply with the guidelines of the 8th Medical Care Plan to be implemented by the Ministry of Health, Labour and Welfare during FY2024–2029, each prefecture in Japan is required to address various challenges in regional healthcare—revealed by the spread of COVID-19—and changes in population structure.

## Results overview

Sales increased 12.6% YoY, mainly due to the steady progress of projects in the Total Pack Produce (TPP) business. The progress rate against the company's forecast for 1H was 109.9%, exceeding the plan.

Gross profit was JPY29.5bn (+10.5% YoY) with a GPM of 10.0% (-0.1pp YoY). Higher sales absorbed increased utility expenses and various other costs. SG&A expenses were JPY20.3bn (+8.2% YoY), reflecting the amortization of goodwill from the consolidation of the Kingrun group, the expansion of the Medical Supply business, and an increase in personnel-related expenses. As a result, operating profit grew 15.9% YoY, and OPM rose 0.1pp YoY to 3.1%. Recurring profit was up 34.9% YoY due to the increase in operating profit, the recording of equity investment gains, and the disappearance of foreign exchange losses.

Net income fell 11.0% YoY, due to the recording of an extraordinary loss of JPY2.6bn (equivalent to the entire amount of goodwill) as an impairment loss for the two consolidated subsidiaries in Myanmar, which were judged unable to generate the initially projected excess earnings. The financial situation of these subsidiaries has been adversely affected by financial sanctions imposed by Western countries and forced currency conversion in the wake of the military coup in Myanmar. The company anticipates these conditions to persist as the intensification of financial sanctions has made the collection of foreign currency-denominated receivables and procurement of goods increasingly challenging.



# Results by segment

## Total Pack Produce segment

### Earnings performance

Total Pack Produce (JPYmn)	FY03/22				FY03/23				FY03/24		
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	
Sales	16,827	34,705	55,864	99,539	16,707	48,651	77,904	121,868	27,876	56,665	
YoY	-6.1%	-11.5%	-12.8%	-4.6%	-0.7%	40.2%	39.5%	22.4%	66.9%	16.5%	
Operating profit	870	2,224	4,049	9,265	624	2,684	4,899	9,024	1,326	3,443	
YoY	-11.7%	-6.4%	-33.4%	-5.3%	-28.3%	20.7%	21.0%	-2.6%	112.5%	28.3%	
Operating profit margin	5.2%	6.4%	7.2%	9.3%	3.7%	5.5%	6.3%	7.4%	4.8%	6.1%	
Number of projects	11				12				42		15
Quarterly	FY03/22				FY03/23				FY03/24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Sales	16,827	17,878	21,159	43,675	16,707	31,944	29,253	43,964	27,876	28,789	
YoY	-6.1%	-16.1%	-14.8%	8.4%	-0.7%	78.7%	38.3%	0.7%	66.9%	-9.9%	
Operating profit	870	1,354	1,825	5,216	624	2,060	2,215	4,125	1,326	2,117	
YoY	-11.7%	-2.6%	-50.8%	41.0%	-28.3%	52.1%	21.4%	-20.9%	112.5%	2.8%	
Operating profit margin	5.2%	7.6%	8.6%	11.9%	3.7%	6.4%	7.6%	9.4%	4.8%	7.4%	

Source: Shared Research based on company data

- ▶ Segment sales (external; all references to segment sales are external sales): JPY56.7bn (+16.5% YoY)
- ▶ Segment profit: JPY3.4bn (+28.3% YoY)

### Summary

Segment sales grew 16.5% YoY. The breakdown by business is as follows. Construction projects and routine projects, which provide comprehensive services including planning and management for the establishment, relocation, expansion, or renovation of medical institutions, posted sales of JPY25.2bn (+3.0% YoY), partly due to some renovation projects being moved up. The manufacturing business, which involves sales and leasing of medical devices and equipment, generated sales of JPY14.1bn (+15.3% YoY). This was mainly due to eased delivery times for parts procurement at Sakai Medical Co., Ltd. The overseas business, which includes operations in Bangladesh and Myanmar, had sales of JPY1.8bn (+6.4% YoY). Meanwhile, among the companies of the Kingrun group, which joined the Ship Healthcare group in July 2022, those related to the TPP business reported sales of JPY10.2bn (+114.2% YoY). Other sales were JPY4.6bn (-10.4% YoY). Additionally, the number of new outpatient visits and treatments at the company's heavy-ion radiotherapy facility increased, supported by expanded insurance coverage beginning in April 2022.

Segment profit increased 28.3% YoY, and the segment profit margin rose 0.6pp YoY to 6.1%. The profit margin improved YoY as construction projects and routine projects progressed as planned and the impact of extended delivery times for electrical components and higher raw material prices in the manufacturing business was mitigated. Additionally, the absence of M&A fees associated with the acquisition of the Kingrun group also contributed to the profit margin improvement.

## Medical Supply segment

### Earnings performance

Medical Supply (JPYmn)	FY03/22				FY03/23				FY03/24	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2
Sales	84,322	173,368	266,757	360,635	90,461	184,681	282,204	386,335	101,771	205,922
YoY	12.6%	11.1%	8.1%	5.7%	7.3%	6.5%	5.8%	7.1%	12.5%	11.5%
Operating profit	1,062	2,646	4,187	6,209	984	2,687	4,372	6,666	1,245	2,800
YoY	20.4%	11.4%	-10.5%	-10.8%	-7.3%	1.5%	4.4%	7.4%	26.5%	4.2%
Operating profit margin	1.3%	1.5%	1.6%	1.7%	1.1%	1.5%	1.5%	1.7%	1.2%	1.4%
Quarterly	FY03/22				FY03/23				FY03/24	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	84,322	89,046	93,389	93,878	90,461	94,220	97,523	104,131	101,771	104,151
YoY	12.6%	9.8%	3.0%	-0.7%	7.3%	5.8%	4.4%	10.9%	12.5%	10.5%
Operating profit	1,062	1,584	1,541	2,022	984	1,703	1,685	2,294	1,245	1,555
YoY	20.4%	6.1%	-33.1%	-11.4%	-7.3%	7.5%	9.3%	13.5%	26.5%	-8.7%
Operating profit margin	1.3%	1.8%	1.7%	2.2%	1.1%	1.8%	1.7%	2.2%	1.2%	1.5%

Source: Shared Research based on company data

- ▶ Segment sales: JPY205.9bn (+11.5% YoY)
- ▶ Segment profit: JPY2.8bn (+4.2% YoY)

## Summary

Segment sales were up 11.5% YoY. Amid a recovery in demand for medical supplies driven by an increase in cardiac and orthopedic surgeries, the operation of the SPD facilities newly contracted in 2H FY03/23 remained strong. The scope of services undertaken at existing SPD sites also expanded. At end-September 2023, the number of SPD contracts was 249 (+4 contracts from end-FY03/23).

Segment profit increased by 4.2%, while the segment profit margin remained at 1.4% (-0.1pp YoY). This was due to an increase in personnel expenses associated with higher purchase prices and a minimum wage hike.

## Life Care segment

### Earnings performance

Life Care (JPYmn)	FY03/22				FY03/23				FY03/24	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2
Sales	6,161	12,504	18,887	25,247	6,831	15,472	24,331	33,581	8,920	18,010
YoY	1.5%	2.0%	2.2%	2.8%	10.9%	23.7%	28.8%	33.0%	30.6%	16.4%
Operating profit	587	1,240	1,825	2,407	531	1,111	1,709	2,055	564	1,293
YoY	1.2%	8.9%	7.2%	7.6%	-9.5%	-10.4%	-6.4%	-14.6%	6.2%	16.4%
Operating profit margin	9.5%	9.9%	9.7%	9.5%	7.8%	7.2%	7.0%	6.1%	6.3%	7.2%
Nursing care occupancy	-	99.2%	-	99.4%	-	99.5%	-	99.0%	-	-
Number of facilities		70		70		74		75		75
Capacity		4,431		4,431		4,638		4,762		4,762
Residents		4,397		4,406		4,613		4,753		4,710
Quarterly	FY03/22				FY03/23				FY03/24	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	6,161	6,343	6,383	6,360	6,831	8,641	8,859	9,250	8,920	9,090
YoY	1.5%	2.4%	2.7%	4.3%	10.9%	36.2%	38.8%	45.4%	30.6%	5.2%
Operating profit	587	653	585	582	531	580	598	346	564	729
YoY	1.2%	16.8%	3.7%	9.0%	-9.5%	-11.2%	2.2%	-40.5%	6.2%	25.7%
Operating profit margin	9.5%	10.3%	9.2%	9.2%	7.8%	6.7%	6.8%	3.7%	6.3%	8.0%

Source: Shared Research based on company data

▶ Segment sales: JPY18.0bn (+16.4% YoY)

▶ Segment profit: JPY1.3bn (+16.4% YoY)

## Summary

Segment sales grew 16.4% YoY. By service, sales from long-term care services were JPY12.1bn (+4.4% YoY) and sales from meal services were JPY5.9bn (+51.7% YoY). In long-term care services, more than 90% of facilities completed reviews of occupancy fees and continued to maintain high occupancy rates. In meal services, sales and profit increased thanks to the contributions from companies within the Kingrun group, which were newly consolidated in FY03/23.

Segment profit was up 16.4% YoY, with a profit margin of 7.2% (-0.0pp YoY). The profit margin remained roughly at the same level as in 1H FY03/23 due to rising utility expenses affecting long-term care services. In meal services, the profit margin was weighed down by a drop in GPM resulting from increased food ingredient costs, as well as higher temporary staffing and personnel expenses due to labor shortages.

## Dispensing Pharmacy segment

### Earnings performance

Dispensing Pharmacy (JPYmn)	FY03/22				FY03/23				FY03/24	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2
Sales	6,904	14,084	21,644	28,930	7,214	14,715	22,680	30,499	7,899	16,173
YoY	5.4%	6.7%	7.3%	6.9%	4.5%	4.5%	4.8%	5.4%	9.5%	9.9%
Operating profit	602	1,547	2,443	3,200	641	1,419	2,322	3,256	737	1,676
YoY	35.0%	19.1%	19.3%	11.0%	6.5%	-8.3%	-5.0%	1.8%	15.0%	18.1%
Operating profit margin	8.7%	11.0%	11.3%	11.1%	8.9%	9.6%	10.2%	10.7%	9.3%	10.4%
Number of stores		119		119		122		123		
Quarterly	FY03/22				FY03/23				FY03/24	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	6,904	7,180	7,560	7,286	7,214	7,501	7,965	7,819	7,899	8,274
YoY	5.4%	7.9%	8.6%	5.5%	4.5%	4.5%	5.4%	7.3%	9.5%	10.3%
Operating profit	602	945	896	757	641	778	903	934	737	939
YoY	35.0%	10.8%	19.8%	-9.6%	6.5%	-17.7%	0.8%	23.4%	15.0%	20.7%
Operating profit margin	8.7%	13.2%	11.9%	10.4%	8.9%	10.4%	11.3%	11.9%	9.3%	11.3%

Source: Shared Research based on company data

▶ Segment sales: JPY16.2bn (+9.9% YoY)

▶ Segment profit: JPY1.7bn (+18.1% YoY)

## Summary

Segment sales were up 9.9% YoY. The number of patients increased due to outbreaks of infectious diseases such as influenza, and Ship promoted the use of the LINE app to improve convenience for patients. As of end-Q2, the number of dispensing pharmacies was 126 (+4 from end-FY03/23) due to two new store openings and acquisitions.

Segment profit increased 18.1% YoY, and the segment profit margin rose 0.8pp YoY to 10.4%. As sales expanded, temporary staffing expenses decreased due to the appropriate allocation of personnel.

# News and topics

## Ship announces dividend increase

2024-05-10

Ship Healthcare Holdings, Inc. announced its dividend payments for FY03/24.

For FY03/24, the company has decided to pay a year-end dividend of JPY50.0 per share (previous forecast: JPY48.0; JPY42.0 in FY03/23).

# Other information

## History

Date	Overview
Aug 1992	Ship Corporation Limited was established in Suita, Osaka, with the aim of operating as a consultant to medical, healthcare, and welfare institutions. Started with seven employees.
Nov 1992	Green Hospital Supply Co., Ltd. (acquired by Ship) was established in Suita, Osaka, with the objective of selling X-ray films and automatic developing machines made by Fuji Film (4901), as well as medical equipment.
Oct 1999	The former Green Hospital Supply Co., Ltd. divested its Medical Imaging Division operations to West Japan Fuji Film Medical Imaging Co., Ltd.
Feb 2005	The company was listed on TSE2.
Nov 2006	Central Uni Co., Ltd. and its five subsidiaries became subsidiaries.
Mar 2007	The company's listing designation was changed to TSE1.
Apr 2008	Yamada Shadowless Lamp Co., Ltd. and its five subsidiaries became subsidiaries.
Oct 2009	Central Uni became a 100%-owned subsidiary through a share swap; the company's name changed to Ship Healthcare Holdings, Inc.
Oct 2009	Sakai Medical Co., Ltd. and one subsidiary became subsidiaries.
Oct 2010	Sapporo Medical Corporation and its three subsidiaries became subsidiaries.
Dec 2011	AntCare Holdings Co., Ltd. (subsequently merged with Green Life Holdings) and its four subsidiaries became subsidiaries.
Dec 2012	The Institute of Medical Services Co., Ltd. became a subsidiary.
Nov 2013	Nakajima Medical Supply Co., Ltd. became a subsidiary
Feb 2014	Tik Inc. became a subsidiary
Mar 2014	Agora-Japan became a subsidiary
Mar 2015	Aurum Medical Co., Ltd. and its subsidiary became subsidiaries
Aug 2015	Nishino Ikakikai Co., Ltd. became a subsidiary
Apr 2016	Konishi Kyowa Holding Corporation and its four subsidiaries became subsidiaries
Aug 2016	Japan Pana-Use Co., Ltd. and one subsidiary became subsidiaries
Apr 2017	Euro Meditech Co., Ltd. and Karin Chozai Co., Ltd became subsidiaries
Oct 2019	Japan Network Service Co., Ltd. and its subsidiary became subsidiaries
Apr 2020	Okkar Thiri Co., Ltd. and its subsidiary became subsidiaries
	Snow Everest Co., Ltd. and its subsidiary became subsidiaries
May 2020	STK Co., Ltd. (Suita, Osaka) became a subsidiary
Apr 2021	Masters Hospitality Co., Ltd. (Chuo-ku, Osaka) became a subsidiary
Feb 2022	TOM-MEDIC Co., Ltd. (Aomori, Aomori Prefecture) and its subsidiary became subsidiaries
Apr 2022	Chuoh Co., Ltd. (Takamatsu, Kagawa Prefecture) became a subsidiary
Jul 2022	Kingrun Co., Ltd. and its 11 subsidiaries (Chiyoda-ku, Tokyo) became subsidiaries
Aug 2022	Nano Hana Pharmacy Co., Ltd. (Chuo-ku, Tokyo) became a subsidiary
Oct 2022	All Care Co., Ltd. (Hofu, Yamaguchi) became a subsidiary

## Top management

Kunihisa Furukawa (born 1945) is Ship's chairman, CEO, and founder. Mr. Furukawa joined Nishimoto Sangyo Co., Ltd. (now CANON MEDTECH Supply Corporation; unlisted) in April 1964. He created Ship Corporation in August 1992 with the objective of building a firm specializing in consulting to medical and healthcare institutions and was appointed chairman and CEO in June 2021.

Vice chairman and COO Hirotaka Ogawa (born 1958) founded the company alongside Mr. Furukawa, as shown by his employee identification number of "2." He was instrumental in the establishment of the company's consulting business—the predecessor to the current Total Pack Produce segment. He has a range of experience across the company's businesses; in 2004, he moved to the Corporate Planning Office as the company looked to go public, before moving to lead the Business Management Office in 2008. He was appointed vice chairman and COO in June 2021.

Former vice president Futoshi Ohashi (born 1964) was appointed president and CEO after the 29th Annual General Meeting of Shareholders in June 2021. Ohashi joined F&S Uni Management in 1987 and became president and CEO of the company in 2006. He became a director of Central Uni in 2007 and director of Ship in 2009.

# Employees

(Number of employees)	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
Total Pack Produce	968	981	988	1,396	1,699	2,151	2,734	2,398
Temporary workers	440	426	365	356	353	1,657	2,255	2,423
Medical Supply	2,149	2,211	2,181	2,216	2,289	2,426	2,475	2,562
Temporary workers	1,608	1,725	1,731	1,811	1,890	1,978	2,047	2,171
Life Care	1,699	1,725	1,716	1,716	1,695	1,697	2,092	2,059
Temporary workers	1,698	1,860	1,984	2,082	2,140	2,228	3,564	3,925
Dispensing Pharmacy	462	489	498	540	581	604	682	716
Temporary workers	417	437	449	487	472	471	455	452
Other	322	322	317	391	391	-	-	-
Temporary workers	613	492	501	1,375	1,287	-	-	-
Company-wide	74	74	79	109	114	65	63	58
Temporary workers	37	32	39	41	46	74	28	24
Total	5,674	5,802	5,779	6,368	6,769	6,943	8,046	7,793
Temporary workers	4,813	4,972	5,069	6,152	6,188	6,408	8,349	8,995

Source: Shared Research based on company materials

# Major shareholders

Top 10 shareholders	Shares held ('000)	Shareholding ratio
The Master Trust Bank of Japan, Ltd. (Trust account)	12,047	12.77%
Custody Bank of Japan, Ltd. (Trust account)	8,489	9.00%
Kokko Co., Ltd.	7,978	8.45%
State Street Bank and Trust Company	7,225	7.66%
JP MORGAN CHASE BANK (Standing proxy: Mizuho Bank, Ltd. Settlement & Clearing Services Department)	3,561	3.77%
JP MORGAN CHASE BANK (Standing proxy: Mizuho Bank, Ltd. Settlement & Clearing Services Department)	2,895	3.07%
Kasuga Kousan G.K.	2,800	2.97%
GOVERNMENT OF NORWAY (Standing proxy: Citibank, N.A., Tokyo Branch)	2,536	2.69%
Koichiro Furukawa	2,640	2.61%
BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	2,181	2.31%
SUM	52,173	55.30%

Source: Shared Research based on company data (as of September 30, 2024)

# Dividends and shareholder returns

The company's target dividend policy is based on payout ratios rather than a specific dividend amount. The company intends to increase the payout ratio from 20% to 30% in accordance with the medium-term management plan released on April 30, 2008. In the Ship Vision 2024 medium-term management plan, the company clearly stated that it aims for a consolidated dividend payout ratio of at least 30%.



# Profile

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**Tokyo Stock Exchange, Prime Market**

Exchange Listing

**2005-02-22**

Fiscal Year-End

**Mar**

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