

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

Southern TOHOKU Research Institute for Neuroscience (security code: -)

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable

Rationale

- (1) Southern TOHOKU Research Institute for Neuroscience (the "Corporation") is a core corporation of the Southern TOHOKU Group (the "Group") operating in Tokyo and five other prefectures. Offering a wide range of medical and nursing services mainly through the affiliated Southern TOHOKU General Hospital in Koriyama City, Fukushima Prefecture (the "Hospital"), the Corporation manages the Group's nine hospitals with more than 2,000 beds in total. As distinctive characteristics, it undertakes initiatives to provide advanced medical treatment. As part of such, it has launched the first proton therapy center for cancer operated by a private hospital in Japan, and in 2020, it began world's first medical care related to treatment using boron-neutron capture therapy (BNCT) as the facility with a hospital. The Corporation's rating reflects creditworthiness of the entire Group considering the Group's governance, collaboration structure, etc.
- (2) The Corporation has been maintaining competitiveness in each area where it operates the business. In the situation where business environment is deteriorating, for instance, various expenses are under the pressure of increase while it is difficult to increase revenue, it is working on strengthening admission and discharge management and reduction in pharmaceutical and material costs, and such efforts have started to yield positive outcome. JCR assumes the Group will be able to continue to secure certain cash flow by focusing on securing earnings commensurate with the manpower allocation and controlling expenses into the future. Furthermore, financial structure is in the improvement trend. JCR believes the Hospital's relocation and construction will be advanced giving thorough consideration to the impact on the financial side and feasibility of recovery of the funds invested. Based on the above, JCR has affirmed the rating on the Corporation with a Stable outlook.
- (3) While attention still needs to be paid to the moves of securing nurses, the Hospital demonstrates the strong ability to attract doctors leveraging the commitment to advanced medical care and a number of cases it worked on. Facing with the severe earning environment, it has become more difficult in securing the difference between revenue and expenditure than before, but a sign of recovery can be observed at present. Therefore, JCR will monitor the progress in strengthening admission and discharge management in the Hospital and reducing pharmaceutical and material costs for the foreseeable future. In order to increase financial resilience in preparation for the upcoming relocation and construction of the Hospital, the issue to address continues to be to improve Tokyo General Hospital and BNCT, which are in relatively a tight revenue and expenditure condition.
- (4) The financial side is in the improvement trend. As interest-bearing liabilities are being reduced, the balance between cash flow and interest-bearing liabilities are staying within a certain range. JCR still holds the view that the relocation and construction of the Hospital will further reinforce the business foundation in the medical area of the central Fukushima Prefecture and stabilize the cash flow generation capacity. That said, the business content, total project costs, and impacts on the associated financial bases should be revisited after the investment plan is crystallized considering the impact of high prices on the investment amount.

Yosuke Sato, Tadashi Ono

Rating

Issuer: Southern TOHOKU Research Institute for Neuroscience

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Rating Assignment Date: December 17, 2024

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (October 1, 2024) and "Medical Institutions" (August 1, 2023) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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