

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

Social Welfare Corporation Southern TOHOKU Social Welfare Foundation (security code: -)

<Affirmation>

Long-term Issuer Rating: BBB+

Outlook: Stable

Rationale

- (1) Social Welfare Corporation Southern TOHOKU Social Welfare Foundation (the "Foundation") is a social welfare corporation under the Southern TOHOKU Group (the "Group"), which operates nine hospitals in Tohoku and the Tokyo metropolitan area. Dr. Kazuo Watanabe, the Group's president, serves as the Chairman of the Foundation. The Foundation operates a wide range of businesses in the field of elderly, disabled and child welfare in Fukushima Prefecture and Tokyo. It started in 2019 the joint operation of Tokyo Rehabilitation Center Setagaya in Setagaya ward, Tokyo with Southern TOHOKU Research Institute for Neuroscience, the Group's core entity, and provides support services to persons with disabilities, including children. Although entities in the Group closely cooperate with each other, the rating is based on the Foundation's stand-alone creditworthiness in consideration that the Foundation's funds are independently managed under the social welfare corporation system.
- (2) With steady cash flow, the Foundation will likely be able to continue stable operation into the future. While the COVID crisis is causing a decline in the number of users for some services and slow increase in users for the newly established Tokyo Rehabilitation Center Setagaya, existing facilities have been operated generally steadily, backed by sufficient required manpower and stable needs in the area of welfare services for the elderly and disabled. Financial position is also sound, with cash reserves exceeding borrowings as of March 31, 2021. Based on the above, JCR affirmed the rating on the Foundation with Stable outlook.
- (3) Despite tough operating conditions for social welfare corporations, including a rise in personnel expenses due to the serious shortage of manpower, the Foundation maintains a stable human resources base by taking advantage of being a group entity. As Tokyo Rehabilitation Center Setagaya has yet to turn profitable, the profit level is lower than a few years ago; however, the Foundation is striving to secure revenue commensurate with staffing and managing expenditures appropriately for existing facilities. All in all, it will probably be able to ensure a certain level of cash flow going forward, too. Given that there is room for raising the occupancy rate for some services, including Tokyo Rehabilitation Center Setagaya, close attention will be paid to the measures taken to secure users for such services.
- (4) The Foundation is in a net cash position with net asset ratio standing at 55.3% as of March 31, 2021. It maintains a stable financial base while working on aggressive business expansion to meet growing welfare needs. A new group home for the disabled is scheduled to open in Koriyama City, Fukushima Prefecture in 2022, but its impact on finances is limited as the project costs have been constrained. When the rate of subsidies to social welfare corporations for facility improvements is declining, the Foundation probably needs to systematically build up funds to prepare for the wears and tears of existing facilities arising from aging.

Hiroyuki Chikusa, Yosuke Sato

Rating

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Rating Assignment Date: December 9, 2021

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" (November 7, 2014) and "Medical Institutions" (September 6, 2010) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).



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