

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 in Japan to be operated by a private hospital, and in 2020 began providing medical care in relation to treatment using boron-neutron capture therapy (BNCT) by conducting the world's first clinical case. Its rating reflects the creditworthiness of the entire Group in consideration of the Group's governance, collaboration structure, etc.
- (2) The Corporation has been maintaining competitiveness in each area where it operates the business. Although the Corporation's operation has been affected by the impact of the COVID crisis, it steadily secures necessary personnel in general for the major operating bases. It also strives for enhancing medical functions and attracting patients. JCR assumes the Corporation can continue to ensure a certain level of cash flow. In addition, the financial foundation is stable. The Corporation needs to raise a large amount of funds over the medium term since it currently engages in a project for relocation and construction of the Hospital aiming to open in the fiscal year ending March 2028. However, JCR assumes the financial structure will be on improvement until the hospital construction goes into full swing, and this will highly likely boost the financial margin from the current level. Based on the above, JCR has affirmed the rating on the Corporation with Stable outlook.
- (3) The Corporation enhanced the functions of the Group headquarters, and has been improving operational efficiency through strengthening controls over the business operations and allocation of the resources in recent years. In addition, a new corporation has also been established under the Group to establish a support system for recruitment activities for each operating base, etc. Although adverse impacts of COVID crisis are being observed in attracting patients and users, it appropriately accepts patients of COVID-19 and receives aid such as subsidies. The Corporation has steadily been making progress in revising medical fees and strengthening medical functions in the major operating bases as shown that in 2022, the Hospital and Shin-yurigaoka General Hospital has implemented calculation of additional points to the structure of full support providing to patients in acute phase, and Tokyo General Hospital has been designated to a community medical support hospital at the same time of implementing calculation of additional points to the comprehensive hospital admission structure.
- (4) Underpinned by the strict profit management and others, past investment projects have steadily led to earnings, and the balance between cash flow and interest-bearing debt has remained within a certain range. Despite varying financial structures among the Group's corporations, the financial base for the Group on the whole is maintained. For the project of the Hospital's construction and relation, attention needs to be paid to the possible expansion of the investment size due partly to soaring construction costs. On the other hand, JCR assumes the Hospital will become more competitive in Koriyama City through strengthening the medical functions and improving efficiency of the hard aspect; therefore, there are no concerns over recovery of the investment at present. The key factors for the time being will be crystallization of the Hospital's construction and relocation project, a pace of improvement in earnings of Tokyo General Hospital and BNCT, etc.

Hiroyuki Chikusa, Yosuke Sato

Rating

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<Affirmation>

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Rating Assignment Date: December 8, 2022

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/>).

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

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