

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 region and the Tokyo metropolitan area. The Foundation operates a wide range of businesses in the fields of elderly welfare, disabled person welfare and child welfare in Fukushima Prefecture and Tokyo. Since 2019, the Foundation has been jointly operating Tokyo Rehabilitation Center Setagaya (in Setagaya Ward, Tokyo) with Southern TOHOKU Research Institute for Neuroscience, the Group’s core entity. The Foundation provides support services to disabled persons (including children). Although the Group has a close unity, the rating is based on the Foundation’s stand-alone creditworthiness, given that the Foundation’s funds are independently managed under the social welfare corporation system.
- (2) The Foundation is expected to steadily secure cash flow by continuing stable operations. The needs of the elderly/disabled welfare fields in the areas where the operating bases are located are stable, and a certain level of human resources is maintained. Although the number of users at its disabled person support institution in Setagaya Ward remains at a low level, the operating status of other facilities is generally steady as the negative effects of the COVID-19 pandemic diminish. In addition, the Foundation’s financial structure is sound, with a substantially net debt-free position. Based on the above, JCR has affirmed the rating on the Foundation with Stable outlook.
- (3) The business environment for social welfare corporations is difficult, with a nationwide shortage of human resources in the field of nursing care becoming increasingly serious. However, in the fiscal year 2024 revisions to nursing care fees, disability welfare services, etc., allowances were set aside for increases in staff wages and utility costs. While leveraging the strengths of expanding businesses as a group, the Foundation strives to secure stable human resources and income commensurate with the allocation of human resources, and it also manages expenditures appropriately. There are no major problems with the revenue/expenditure structure. The focus will be on efforts to secure users and secure/retain human resources for the disabled person support institution in Setagaya Ward as well as their results.
- (4) In recent years, the net assets ratio has remained in the 50% range, and the Foundation has been in a net cash position since the end of March 2021. While actively expanding its business to meet growing welfare needs, it maintains the stable financial base. As the subsidy rates for facility development by social welfare corporations decline, the challenge is to systematically accumulate funds to respond to the aging of existing facilities considered. On the other hand, in tandem with the relocation of the Southern TOHOKU Research Institute for Neuroscience Southern TOHOKU General Hospital, business that utilize the former site of the hospital will likely be considered. JCR will follow up on business details, group collaboration, financial impacts, etc.

Tadashi Ono, Yosuke Sato

Rating

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Rating Assignment Date: March 5, 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" (February 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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