

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 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) Earnings have started to recover, and a certain level of cash flow generation capacity will likely be kept going forward. With recruitment generally steady, the operation base of each hospital is maintained. Major hospitals in the Group are active in acceptance of COVID-19 patients, playing a role as core hospitals in the community. Over the medium term, earnings of facilities opened in recent years will also likely improve. Attention should be continued to be paid to trends in the infectious disease, but as public support is assumed for responses, it will unlikely have a major impact on financials. Based on the above, JCR has affirmed the rating on the Corporation with Stable outlook.
- (3) Although medical care was limited due to nosocomial infections in part of its facilities, stable management has been continued in the whole Group. Currently, the Corporation is strengthening the functions of the Group headquarters, strengthening controls on the management of funds and income/expenditures as well as the allocation of management resources, with an attempt to further improve management efficiency. Thanks to efforts for advanced medical care services and a wealth of clinical cases, the Group has a strong ability to acquire doctors in addition to many facilities with a high ability to attract patients. As shown by Tokyo Rehabilitation Center Setagaya (Setagaya Ward, Tokyo Prefecture) and the new wing of Shin-yurigaoka General Hospital (Kawasaki City, Kanagawa Prefecture), the operation rates of facilities launched in recent years are steadily ascending. Attention should be paid to response for calculation of additional points to a comprehensive hospital admission structure, etc. at Tokyo General Hospital (Nakano Ward, Tokyo Prefecture), and progress in ensuring patients for BNCT treatment, etc.
- (4) 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 thanks to support from financial institutions. Amid the COVID-19 pandemic, the Corporation gives leeway to cash on hand by using low-interest, government-directed credits. Net borrowings have been on a downward trend after peaking at March 31, 2019, but the planned relocation of the affiliated Southern TOHOKU General Hospital to a new building will increase the burden on the financial side if it materializes. Accelerating the fund accumulation in preparation for the relocation will become important.

Hiroyuki Chikusa, Yosuke Sato

Rating

Issuer: Southern TOHOKU Research Institute for Neuroscience

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: November 18, 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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