

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. The Foundation operates a wide range of businesses in the fields 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. The Foundation 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) The Foundation will likely be able to continue stable operations ensuring cash flow steadily. As adverse effects of the COVID crisis have shrunk and necessary human resources are also in place. Although attention needs to be paid to the fact that the number of users is weakening for some facilities, JCR views that the Foundation can ensure certain revenue from provision of services supported by stable needs in the areas of welfare services for the elderly and disabled. The Foundation’s expenditure control is also appropriate. It maintains sound financial conditions as shown that funds on hand as at the end of the fiscal year ended March 2022 (FY2021) exceeded borrowings. Based on the above, JCR has affirmed the rating on the Foundation with Stable outlook.
- (3) Operating environment of social welfare corporations is increasing severe due partly to difficulties in recruiting human resources working in the areas of nursing care and welfare nationwide and a rise in personnel and utilities expenses. In order to cope with the situation, the Foundation is striving for ensuring human resources in a stable manner and securing revenue from provision of services commensurate with the staffing by taking advantage of being a group entity. The new group home for the disabled opened in Koriyama City, Fukushima Prefecture in 2022 is being operated without having any event. JCR views that the Foundation’s issue to address is to secure users of the facility providing support services for persons with disability in Setagaya, and the key factor is whether the Foundation can review the operation structure at the same time of cooperating with the government.
- (4) The business in Setagaya has yet to turn profitable, and the difference in increase and decrease in revenue from provision of services before depreciation is hovering at a lower level than that in the past. In light of the Group’s business management structure, operating track records, and also the countermeasures implemented at the moment, an improvement in earnings of the said business will progress in a step-wise manner, in JCR’s view. Financial structure is favorable with net asset ratio standing at 57.0% as at the end of March 2022 and others. The Foundation maintains stable financial base while actively expanding the business operations to meet growing needs for social welfare services. JCR views that systematically building up funds to prepare for the wears and tears of existing facilities arising from aging will become important for the Foundation.

Hiroyuki Chikusa, Yosuke Sato

Rating

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Rating Assignment Date: March 7, 2023

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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