Consolidated Financial Results for the fiscal year of 2018

[Japanese GAAP]

February 13, 2019

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Listing: Tokyo Stock Exchange, First Section
URL: http://www.kkelan.com/

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Preparation of supplementary materials for quarterly financial results: Yes
Holding of financial results meeting: Yes (for institutional investors and analysts, and individual investors)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year of 2018 (January 1 to March 31, 2019)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December. 31, 2018	18,585	20.2	1,278	40.1	1,282	38.9	865	31.6
December. 31, 2017	15,466	-	912	-	923	-	657	-

Note: Comprehensive income December 31, 2018: 851million yen (29.5%) December 31, 2017:657 million yen (-%)

	Earnings per share	Diluted earnings per share	Net income to Net Assets attributable to shareholders	Ordinary Income to Total Assets	Operating Income to Nets Sales
Fiscal year ended	Yen	Yen	%	%	%
December. 31, 2018	28.78	28.56	22.4	17.9	6.9
December. 31, 2017	22.11	21.73	20.5	15.7	5.9

Reference: Equity in earnings by the equity method December 31, 2018:-million yen; December 31, 2017: -million yen

Notes: 1. ELAN acquired shares of LTASK Corporation to make it a subsidiary with March 31, 2017 used as the assumed acquisition date for accounting purposes. As a result, results of operations in the fiscal 2017 presented for the year-on-year comparative analysis include the sales and earnings of LTASK for only 9 month (April 1 to December 31, 2017)..

2. ELAN conducted a 2-for-1 common stock split on October 1, 2017. Earnings per share and diluted earnings per share have been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
December 31, 2018	7,824	4,262	54.2	140.68
December 31, 2017	6,526	3,497	53.6	116.96

Reference: Shareholders' equity As of December 31, 2018: 4,244 million yen; December 31, 2017: 3,497 million yen

(3) Conditions of Cash flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at the end of the period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2018	1,192	△176	△103	3,034
December 31, 2017	317	△237	△81	2,122

2. Dividends

	Dividends per share					Total dividends	Dividend payout ratio	Dividend on Net Assets ratio
	1Q-end	2Q-end	3Q-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
December 31,2017	-	0.00	-	8.00	8.00	119	18.1	3.7
December 31,2018	-	0.00	-	14.00	14.00	212	24.3	5.4
Fiscal year ending December 31,2019(forecast)	-	0.00	-	9.00	9.00		28.1	

Note: ELAN conducted a 2-for-1 common stock split on January 1, 2018. Dividends per share of Fiscal year ending Dcember31, 2019 (forecast) is calculated considering this stock split. Without considering the stock split, Dividends per share of Fiscal year ending Dcember31, 2019 (forecast) is 18.00yen.

3. Consolidated Earnings Forecast for 2019 (January 1 to December 31, 2019)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Half year	10,100	12.3	670	0.4	670	0.2	450	3.6	14.85
Full year	21,500	15.7	1,430	11.8	1,430	11.5	970	12.1	32.01

*** Notes**

(1) Changes in significant subsidiaries during the period (change in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting-based estimates: None
4) Restatements: None

(4) Number of outstanding shares (common stock)

1) Number of outstanding shares at the end of the period (including treasury shares)
As of Dec. 31, 2018:30,300,000 shares;As of Dec. 31, 2017:29,900,000 shares

2) Number of treasury shares at the end of the period
As of Dec. 31, 2018:440 shares; As of Dec. 31, 2017:324 shares

3) Average number of shares during the period
Fiscal year ended Dec. 31, 2018:30,069,544 sharesFiscal year months ended Dec. 31, 2017:29,741,496 shares

Note: ELAN conducted a 2-for-1 common stock split on January 1, 2019. The average number of shares during the period has been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

* The current financial report is not subject to review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecast and other special items

Cautionary statement with respect to forward-looking statements

Forecasts of future performance in this document are based on assumption judged to be valid and information currently available to the ELAN's management. Actual results may differ materially from the forecasts for a number of reasons.

How to view supplementary materials for financial results

ELAN plans to hold financial results meetings for institutional investors and analysts on Monday, February 25, 2019, and for individual investors on Friday, March 8, 2019 in Tokyo and on Thursday, March 14, 2019 in Osaka. Materials distributed at these events will be disclosed, using the Timely Disclosure network (TDnet), and available on the ELAN website after completion of transactions on Friday, February 22, 201

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1. Overview of Operating Results, Etc.

(1) Overview of Operating Results for the Fiscal Year under Review

In fiscal 2018, the Japanese economy was on a moderate recovery trend on the whole with the effects of the government's economic policies and Bank of Japan's monetary policies leading to corporate earnings going strong and improvements in the employment and income situation, such as expansion of non-regular employment and increase in nominal wages.

On the other hand, with rise in corporate goods prices due to rise in crude oil prices, growing trade friction between the U.S. and China, series of natural disasters and several other economic downside risks, the Japanese economic outlook remains uncertain.

In the medical care and nursing care industry in which the Group operates, with steady progress in aging of the population as evident by such factors as the population aged 65 years and over of 35.62 million accounting for 28.2% of the total population as of January 1, 2019 (January 2019 Monthly Report of Population Estimates by the Statistics Bureau of the Ministry of Internal Affairs and Communications), the market size for services that concern the Group is likely to increasingly expand.

Under such circumstances, the Group engaged in sales to facilities (hospitals, nursing facilities for the elderly and other such facilities) at the 18 sales bases across Japan, including the Tokyo Branch Office (Minato Ward, Tokyo) and the Fukuoka Branch Office's Minamikyushu Sales Office (Kumamoto City, Kumamoto Prefecture) that commenced operations in fiscal 2018, to increasingly spread and expand the "CS (Care Support) Set" and "LT Set," which are the core services in the nursing- and medical-care related business of the Group. As a result, the Group had 177 facilities with which agreements were newly entered and 29 facilities with which agreements ended in fiscal 2018, increasing the combined total of the number of facilities that have introduced the CS Set and the number of facilities that have introduced the LT Set by 148 facilities from the end of fiscal 2017 to 1,140 facilities at the end of fiscal 2018.

The above resulted in net sales for fiscal 2018 of 18,585,306 thousand yen (up 20.16% year-on-year), operating profit of 1,278,724 thousand yen (up 40.07% year-on-year), ordinary profit of 1,282,455 thousand yen (up 38.85% year-on-year) and profit attributable to owners of parent of 865,411 thousand yen (up 31.58% year-on-year).

Furthermore, the Company made LTASK Corporation a subsidiary through acquisition of shares in fiscal 2017. With the end of the first quarter of fiscal 2017 (March 31, 2017) as the deemed acquisition date, LTASK Corporation's earnings results for the nine months (from April 1, 2017 to December 31, 2017) is consolidated for the earnings results for fiscal 2017 in the comparative analysis with fiscal 2017.

Moreover, the Company conducted a 2-for-1 stock split of the Company's common shares, with January 1, 2019 as the effective date. This was conducted in an aim to lower the amount per unit of investment and also increase the number of shares in order to enhance the liquidity of shares and thereby establish an environment that makes it easier for investors to invest.

(2) Overview of Financial Position for the Fiscal Year under Review

Assets

Total assets at the end of fiscal 2018 increased by 1,297,464 thousand yen compared with the end of fiscal 2017 to 7,824,440 thousand yen.

Of this, current assets increased by 1,223,743 thousand yen compared with the end of fiscal 2017 to 7,150,169 thousand yen. This was mainly attributable to allowance for doubtful accounts increasing by 86,647 thousand yen (allowance translates to decrease in balance of current assets), while cash and deposits increased by 910,760 thousand yen and trade accounts receivable increased by 362,763 thousand yen.

Meanwhile, non-current assets increased by 73,720 thousand yen compared with the end of fiscal 2017 to 674,270 thousand yen. This was mainly attributable to property, plant and equipment increasing by 8,242 thousand yen, intangible assets increasing by 11,591 thousand yen and investments and other assets increasing by 53,886 thousand yen.

Liabilities

Total liabilities at the end of fiscal 2018 increased by 531,816 thousand yen compared with the end of fiscal 2017 to 3,561,764 thousand yen. This was mainly attributable to other accounts payable decreasing by 75,775 thousand yen, while trade accounts payable increased by 405,334 thousand yen and income taxes payable increased by 122,163 thousand yen.

Net assets

Total net assets at the end of fiscal 2018 increased by 765,647 thousand yen compared with the end of fiscal 2017 to 4,262,675 thousand yen. Equity ratio was 54.25%, up 0.67% compared with the end of fiscal 2017.

The increase in total net assets was mainly attributable to increase in retained earnings in that, while there was decrease in retained earnings due to payment of dividends to shareholders, posting of profit attributable to owners of parent led to retained earnings increasing by 865,411 thousand yen.

(3) Overview of Cash Flows for the Fiscal Year under Review

Cash and cash equivalents ("net cash") at the end of fiscal 2018 increased by 912,638 thousand yen compared with the end of fiscal 2017 to 3,034,988 thousand yen.

The following outlines the status and underlying factors of each classification of cash flows for fiscal 2018.

Cash flows from operating activities

Cash flows from operating activities for fiscal 2018 amounted to net cash provided by operating activities of 1,192,907 thousand yen (inflow increase of 875,002 thousand yen year-on-year). While there was decrease in net cash due to payment of income taxes of 375,525 thousand yen, there was increase in net cash from operating activities throughout the year of 1,568,399 thousand yen.

Cash flows from investing activities

Cash flows from investing activities for fiscal 2018 amounted to net cash used in investing activities of 176,349 thousand yen (outflow decrease of 61,489 thousand yen year-on-year). This was mainly attributable to purchase of investment securities of 67,660 thousand yen, purchase of intangible assets of 67,189 thousand yen, and purchase of property, plant and equipment of 35,287 thousand yen.

Cash flows from financing activities

Cash flows from financing activities for fiscal 2018 amounted to net cash used in financing activities of 103,919 thousand yen (outflow increase of 21,930 thousand yen year-on-year). This was mainly attributable to payment of dividends to shareholders of 119,486 thousand yen.

(4) Future Outlook

The future outlook is that the Group will continue to execute measures to enhance growth and profitability.

Further efforts will be made to seek facilities to newly introduce the CS Set and LT Set from the 18 sales bases across Japan and superiority over competitors will be secured by enhancing the added value of services in pursuit of increase in the number of newly introducing facilities and increase in the number of users. In addition, various systemization will be pushed forward further for greater operational efficiency and productivity in pursuit of enhancement of the Group's overall profitability.

The consolidated earnings outlook for the next fiscal year (fiscal 2019: from January 1, 2019 to December 31, 2019) is net sales of 21,500 million yen (up 15.68% year-on-year), operating profit of 1,430 million yen (up 11.83% year-on-year), ordinary profit of 1,430 million yen (up 11.50% year-on-year) and profit attributable to owners of parent of 970 million yen (up 12.09% year-on-year).

(5) Basic Policy Regarding Distribution of Profit, and Dividends for the Fiscal Year under Review and the Next Fiscal Year

Recognizing appropriate return of profit to shareholders as an important management task, the Company's policy is to keep distributing profit to shareholders by taking the status of internal reserves, the profit level of each fiscal year, the earnings and fund demand outlook for the next fiscal year onward and other factors into consideration in a comprehensive manner.

Taking the earnings trend for fiscal 2018 and the earnings forecast for fiscal 2019 into consideration in a comprehensive manner, dividends of surplus for fiscal 2018 are forecast to be annual dividends of 14.00 yen per share to be distributed in the form of year-end dividends.

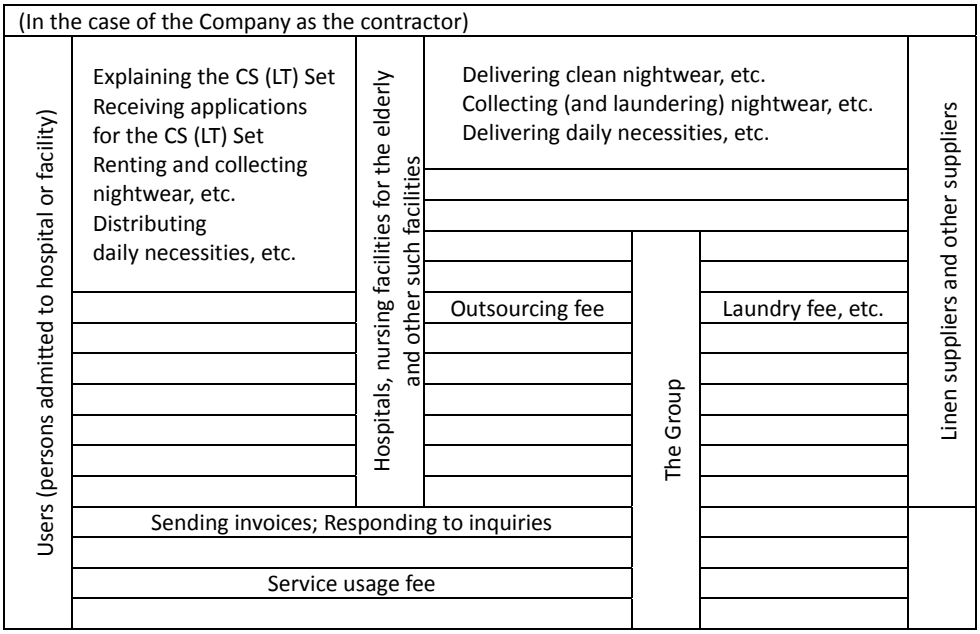
In addition, dividends of surplus for fiscal 2019 are forecast to be annual dividends of 9.00 yen per share (annual dividends of 18.00 yen per share if not factoring in the 2-for-1 stock split of common shares, effective January 1, 2019).

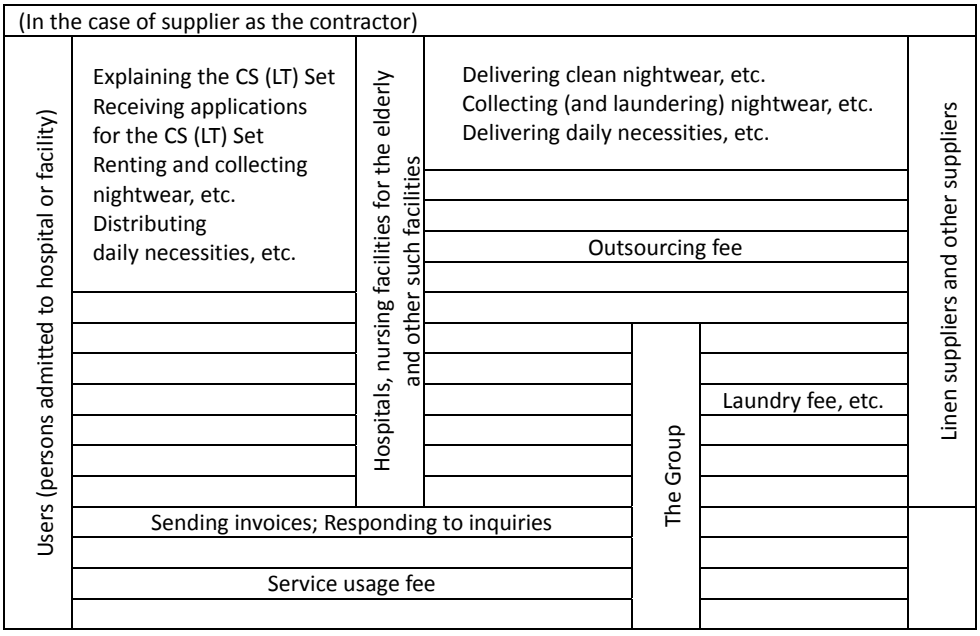
2. Status of the Corporate Group

The Group (the Company, and the Company's subsidiaries and associates) engages in the nursing- and medical-care related business in which the Group provides services for rental with laundry service of clothes, towels, etc. combined with supply of daily necessities as a set called the "CS (Care Support) Set" (hereinafter, the "CS Set") or the "LT Set" to persons admitted to hospitals and persons admitted to long-term care health facilities for the elderly, intensive care homes for the elderly, fee-based homes for the elderly, group homes for the elderly requiring long-term care who have dementia known simply as 'group homes' in Japanese, low-cost homes for the elderly known simply as 'care houses' in Japanese and other nursing care facilities (hereinafter, "nursing facilities for the elderly and other such facilities").

Segment information is omitted, because the Group has a single segment—the nursing- and medical-care related business.

The following charts outline the business.





(About the Company as the contractor or supplier as the contractor)
Commercial distribution of the CS Set (LT Set) is broadly divided into two forms of transaction according to the different forms of agreement with hospitals, nursing facilities for the elderly and other such facilities and with linen suppliers and other suppliers.

① Form where the Company directly contracts with hospitals, nursing facilities for the elderly and other such facilities (the Company as the contractor)

② Form where linen suppliers and other suppliers are the parties contracting with hospitals, nursing facilities for the elderly and other such facilities, and the Company has no direct contractual relationship with the hospitals, nursing

facilities for the elderly and other such facilities (supplier as the contractor)

The above forms of transaction have differences, such as in the way of contact with the hospitals, nursing facilities for the elderly and other such facilities, but there is no difference in the roles of each of the relevant parties in terms of the CS Set (LT Set) management.

3. Basic Policy Regarding Selection of Accounting Standards

Given that many of the Group's stakeholders are Japanese shareholders, creditors, business partners, etc. and the little need to procure funds from overseas, Japanese generally accepted accounting principles are applied.

4. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated Balance Sheet

(Unit: thousand yen)

	Fiscal 2017 (as of Dec. 31, 2017)	Fiscal 2018 (as of Dec. 31, 2018)
Assets		
Current assets		
Cash and deposits	2,146,632	3,057,392
Accounts receivable - trade	2,114,530	2,477,293
Merchandise	496,305	592,548
Supplies	2,653	2,171
Accounts receivable - other	1,294,357	1,180,556
Deferred tax assets	109,920	157,252
Other	33,179	40,754
Allowance for doubtful accounts	(271,153)	(357,801)
Total current assets	5,926,426	7,150,169
Non-current assets		
Property, plant and equipment		
Buildings and structures	200,864	210,778
Accumulated depreciation	(59,159)	(69,227)
Buildings and structures, net	141,704	141,551
Machinery, equipment and vehicles	58,791	51,032
Accumulated depreciation	(37,933)	(36,949)
Machinery, equipment and vehicles, net	20,858	14,082
Land	114,018	114,018
Other	42,425	62,786
Accumulated depreciation	(25,098)	(30,288)
Other, net	17,326	32,498
Total property, plant and equipment	293,907	302,150
Intangible assets		
Software	60,445	106,344
Goodwill	166,111	127,026
Other	842	5,620
Total intangible assets	227,399	238,990
Investments and other assets		
Investment securities	—	53,720
Other	79,242	79,409
Total investments and other assets	79,242	133,129
Total non-current assets	600,549	674,270
Total assets	6,526,975	7,824,440

(Unit: thousand yen)

	Fiscal 2017 (as of Dec. 31, 2017)	Fiscal 2018 (as of Dec. 31, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	2,340,491	2,745,825
Accounts payable - other	335,017	259,241
Accrued expenses	55,957	109,671
Income taxes payable	187,954	310,117
Accrued consumption taxes	61,720	80,249
Provision for bonuses	3,829	7,998
Other	44,978	48,659
Total current liabilities	3,029,947	3,561,764
Total liabilities	3,029,947	3,561,764
Net assets		
Shareholders' equity		
Share capital	565,666	573,496
Capital surplus	535,666	543,496
Retained earnings	2,395,841	3,141,654
Treasury shares	(145)	(238)
Total shareholders' equity	3,497,028	4,258,408
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	—	(13,940)
Total accumulated other comprehensive income	—	(13,940)
Share acquisition rights	—	18,207
Total net assets	3,497,028	4,262,675
Total liabilities and net assets	6,526,975	7,824,440

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Unit: thousand yen)

	Fiscal 2017 (from Jan. 1, 2017 to Dec. 31, 2017)	Fiscal 2018 (from Jan. 1, 2018 to Dec. 31, 2018)
Net sales	15,466,664	18,585,306
Cost of sales	11,468,817	13,758,175
Gross profit	3,997,846	4,827,130
Selling, general and administrative expenses	3,084,921	3,548,406
Operating profit	912,925	1,278,724
Non-operating income		
Gain on sales of non-current assets	2,205	125
Business advisory fee income	3,000	—
Subsidy income	1,070	1,076
Other	5,446	3,065
Total non-operating income	11,722	4,266
Non-operating expenses		
Loss on retirement of non-current assets	680	331
Loss on sales of non-current assets	330	—
Other	38	204
Total non-operating expenses	1,049	536
Ordinary profit	923,597	1,282,455
Extraordinary income		
Gain on step acquisitions	27,000	—
Total extraordinary income	27,000	—
Profit before income taxes	950,597	1,282,455
Income taxes - current	327,666	468,516
Income taxes - deferred	(34,795)	(51,472)
Total income taxes	292,871	417,043
Profit	657,726	865,411
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	657,726	865,411

Consolidated Statement of Comprehensive Income

(Unit: thousand yen)

	Fiscal 2017 (from Jan. 1, 2017 to Dec. 31, 2017)	Fiscal 2018 (from Jan. 1, 2018 to Dec. 31, 2018)
Profit	657,726	865,411
Other comprehensive income		
Valuation difference on available-for-sale securities	—	(13,940)
Total other comprehensive income	—	(13,940)
Comprehensive income	657,726	851,471
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	657,726	851,471
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statement of Changes in Equity

Fiscal 2017 (from January 1, 2017 to December 31, 2017)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	562,096	532,096	1,827,154	(56)	2,921,290
Changes in items during period					
Issuance of new shares	3,570	3,570			7,140
Dividends of surplus			(89,039)		(89,039)
Profit attributable to owners of parent			657,726		657,726
Purchase of treasury shares				(89)	(89)
Net changes in items other than shareholders' equity					—
Total changes in items during period	3,570	3,570	568,687	(89)	575,737
Balance at end of period	565,666	535,666	2,395,841	(145)	3,497,028

(Unit: thousand yen)

	Accumulated other comprehensive income		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of period	—	—	—	2,921,290
Changes in items during period				
Issuance of new shares				7,140
Dividends of surplus				(89,039)
Profit attributable to owners of parent				657,726
Purchase of treasury shares				(89)
Net changes in items other than shareholders' equity	—	—	—	—
Total changes in items during period	—	—	—	575,737
Balance at end of period	—	—	—	3,497,028

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	565,666	535,666	2,395,841	(145)	3,497,028
Changes in items during period					
Issuance of new shares	7,830	7,830			15,660
Dividends of surplus			(119,598)		(119,598)
Profit attributable to owners of parent			865,411		865,411
Purchase of treasury shares				(92)	(92)
Net changes in items other than shareholders' equity					
Total changes in items during period	7,830	7,830	745,813	(92)	761,380
Balance at end of period	573,496	543,496	3,141,654	(238)	4,258,408

(Unit: thousand yen)

	Accumulated other comprehensive income		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of period	—	—	—	3,497,028
Changes in items during period				
Issuance of new shares				15,660
Dividends of surplus				(119,598)
Profit attributable to owners of parent				865,411
Purchase of treasury shares				(92)
Net changes in items other than shareholders' equity	(13,940)	(13,940)	18,207	4,267
Total changes in items during period	(13,940)	(13,940)	18,207	765,647
Balance at end of period	(13,940)	(13,940)	18,207	4,262,675

(4) Consolidated Statement of Cash Flows

(Unit: thousand yen)

	Fiscal 2017 (from Jan. 1, 2017 to Dec. 31, 2017)	Fiscal 2018 (from Jan. 1, 2018 to Dec. 31, 2018)
Cash flows from operating activities		
Profit before income taxes	950,597	1,282,455
Depreciation	50,381	60,497
Amortization of goodwill	29,313	39,085
Increase (decrease) in provision for bonuses	(3,963)	4,169
Increase (decrease) in allowance for doubtful accounts	59,863	86,647
Interest and dividend income	(30)	(33)
Share-based remuneration expenses	—	18,207
Loss (gain) on step acquisitions	(27,000)	—
Loss (gain) on sales of non-current assets	(1,875)	(125)
Loss on retirement of non-current assets	680	331
Decrease (increase) in trade receivables	(713,820)	(248,962)
Decrease (increase) in inventories	(60,571)	(95,983)
Decrease (increase) in other current assets	4,296	(7,352)
Increase (decrease) in trade payables	380,682	404,899
Increase (decrease) in accounts payable - other	(15,018)	(76,583)
Increase (decrease) in other current liabilities	11,569	106,438
Other, net	(1,444)	(5,289)
Subtotal	663,661	1,568,399
Interest and dividends received	32	34
Income taxes paid	(345,788)	(375,525)
Net cash provided by (used in) operating activities	317,905	1,192,907
Cash flows from investing activities		
Payments into time deposits	(24,283)	(24,285)
Proceeds from withdrawal of time deposits	24,279	24,283
Purchase of property, plant and equipment	(48,375)	(35,287)
Proceeds from sales of property, plant and equipment	3,719	125
Purchase of investment securities	—	(67,660)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(160,689)	—
Purchase of intangible assets	(25,950)	(67,189)
Payments of leasehold deposits	(7,568)	(7,596)
Other, net	1,029	1,261
Net cash provided by (used in) investing activities	(237,838)	(176,349)
Cash flows from financing activities		
Proceeds from issuance of shares	7,140	15,660
Purchase of treasury shares	(89)	(92)
Dividends paid	(89,039)	(119,486)
Net cash provided by (used in) financing activities	(81,989)	(103,919)
Net increase (decrease) in cash and cash equivalents	(1,922)	912,638
Cash and cash equivalents at beginning of period	2,124,271	2,122,349
Cash and cash equivalents at end of period	2,122,349	3,034,988

(5) Notes to the Consolidated Financial Statements

(Notes on the Going Concern Assumption)

Not applicable.

(Significant Matters Serving as Basis for Preparation of the Consolidated Financial Statements)

1. Matters concerning scope of consolidation

Number of consolidated subsidiaries: 2 companies

Name of consolidated subsidiaries:

LTASK Corporation

ELAN Service Corporation

ELAN Service Corporation is included in the scope of consolidation following its new establishment in fiscal 2018.

2. Matters concerning fiscal year, etc. of consolidated subsidiaries

The account closing date of consolidated subsidiaries is the same as the consolidated account closing date.

3. Matters concerning accounting policies

(1) Valuation standards and valuation methods for significant assets

① Securities

Available-for-sale securities

Non-marketable available-for-sale securities

Stated at cost determined by the moving average method. However, foreign-currency-denominated available-for-sale securities are translated into Japanese yen at the spot exchange rate on the consolidated account closing date and the translation adjustment is recognized as a valuation difference. In addition, the valuation difference is entirely posted directly to net assets.

② Inventories

Merchandise

Stated at cost determined by the weighted average method (the balance sheet amount is by the method of writing down book value based on decline in profitability).

(2) Method of depreciation and amortization of significant depreciable assets

① Property, plant and equipment

The declining-balance method is adopted. However, the straight-line method is adopted for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.

The estimated useful lives are mainly as follows:

Buildings	8—38 years
Structures	10—45 years
Vehicles	5—6 years
Tools, furniture and fixtures	4—15 years

② Intangible assets

The straight-line method is adopted.

Software for internal use is amortized using the straight-line method over the estimated internal useful life (5 years).

(3) Standards for recognition of significant allowances and provisions

① Allowance for doubtful accounts

The estimated irrecoverable amount based on historical default rates for general receivables and individual assessments of recoverability for doubtful and other specific receivables is posted to provide for losses on default of receivables.

② Provision for bonuses

Of the estimated amount of payment of bonuses, the amount to be borne in fiscal 2018 is posted to provide for payment of bonuses to employees.

(4) Method and period of amortization of goodwill
Goodwill is amortized using the straight-line method over a period of 5 years.

(5) Scope of cash and cash equivalents on the consolidated statement of cash flows
Cash and cash equivalents comprise cash on hand and demand deposits, and short-term investments with a maturity of 3 months or less from the date of acquisition that are readily convertible to cash and that are subject to an insignificant risk of changes in value.

(6) Other significant matters for preparation of the consolidated financial statements
Accounting for consumption tax, etc.
The accounting for consumption tax and local consumption tax is by the method of exclusion of the taxes.

(Changes in Presentation Methods)

(On the consolidated balance sheet)

"Software," which was included in "Other" under "Intangible assets" in fiscal 2017, is presented separately, starting from fiscal 2018, due to greater quantitative materiality. The consolidated financial statements for fiscal 2017 have been reclassified to reflect this change in presentation method.

As a result, on the consolidated balance sheet for fiscal 2017, the 61,287 thousand yen that was presented in "Other" under "Intangible assets" is reclassified as "Software" in the amount of 60,445 thousand yen and "Other" in the amount of 842 thousand yen.

In addition, "Accrued expenses" and "Accrued consumption taxes," which were included in "Other" under "Current liabilities" in fiscal 2017, are presented separately, starting from fiscal 2018, due to greater quantitative materiality. The consolidated financial statements for fiscal 2017 have been reclassified to reflect this change in presentation method.

As a result, on the consolidated balance sheet for fiscal 2017, the 162,655 thousand yen that was presented in "Other" under "Current liabilities" is reclassified as "Accrued expenses" in the amount of 55,957 thousand yen, "Accrued consumption taxes" in the amount of 61,720 thousand yen and "Other" in the amount of 44,978 thousand yen.

(On the consolidated statement of income)

"Subsidy income," which was included in "Other" under "Non-operating income" in fiscal 2017, is presented separately, starting from fiscal 2018, due to greater quantitative materiality. The consolidated financial statements for fiscal 2017 have been reclassified to reflect this change in presentation method.

As a result, on the consolidated statement of income for fiscal 2017, the 6,516 thousand yen that was presented in "Other" under "Non-operating income" is reclassified as "Subsidy income" in the amount of 1,070 thousand yen and "Other" in the amount of 5,446 thousand yen.

(Segment Information, Etc.)

[Segment information]

Fiscal 2017 (from January 1, 2017 to December 31, 2017)

The information is omitted, because the Group has a single segment—the nursing- and medical-care related business.

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

The information is omitted, because the Group has a single segment—the nursing- and medical-care related business.

[Related information]

Fiscal 2017 (from January 1, 2017 to December 31, 2017)

1. Information by product and service

   The information is omitted, because net sales to external customers for a single group of products and services exceed 90% of net sales on the statement of income.

2. Information by geographic area

   (1) Net sales

   Not applicable, because there is no net sales to external customers outside of Japan.

   (2) Property, plant and equipment

   Not applicable, because there is no property, plant and equipment located outside of Japan.

3. Information by major customer

   The information is omitted, because out of net sales to external customers, no party accounts for 10% or more of net sales on the statement of income.

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

1. Information by product and service

   The information is omitted, because net sales to external customers for a single group of products and services exceed 90% of net sales on the statement of income.

2. Information by geographical area

   (1) Net sales

   Not applicable, because there is no net sales to external customers outside of Japan.

   (2) Property, plant and equipment

   Not applicable, because there is no property, plant and equipment located outside of Japan.

3. Information by major customer

   The information is omitted, because out of net sales to external customers, no party accounts for 10% or more of net sales on the statement of income.

[Information about impairment loss on non-current assets by reportable segment]

Not applicable.

[Information about amortization and unamortized balance of goodwill by reportable segment]
Fiscal 2017 (from January 1, 2017 to December 31, 2017)

(Unit: thousand yen)

	Nursing- and medical-care related business	Total	Corporate or elimination	Amount on consolidated financial statements
Amortization for period	29,313	29,313	-	29,313
Balance at end of period	166,111	166,111	-	166,111

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(Unit: thousand yen)

	Nursing- and medical-care related business	Total	Corporate or elimination	Amount on consolidated financial statements
Amortization for period	39,085	39,085		39,085
Balance at end of period	127,026	127,026		127,026

[Information about gain on bargain purchase by reportable segment]
Not applicable.

(Per Share Information)

	Fiscal 2017 (from Jan. 1, 2017 to Dec. 31, 2017)	Fiscal 2018 (from Jan. 1, 2018 to Dec. 31, 2018)
Net assets per share	116.96 yen	140.68 yen
Basic earnings per share	22.11 yen	28.78 yen
Diluted earnings per share	21.73 yen	28.56 yen

(Note) 1. The Company conducted a 2-for-1 stock split of common shares, effective October 1, 2017, and a 2-for-1 stock split of common shares, effective January 1, 2019. Net assets per share, basic earnings per share and diluted earnings per share are calculated on the basis that the concerned stock splits were conducted at the beginning of fiscal 2017.

2. The basis for calculation of net assets per share is as follows:

	Fiscal 2017 (as of Dec. 31, 2017)	Fiscal 2018 (as of Dec. 31, 2018)
Total net assets (thousand yen)	3,497,028	4,262,675
Amount deducted from total net assets (thousand yen)	—	—
Net assets at end of period attributable to common shares (thousand yen)	3,497,028	4,262,675
Number of common shares used in calculation of net assets per share (shares)	29,899,676	30,299,560

3. The basis for calculation of basic earnings per share and diluted earnings per share is as follows:

	Fiscal 2017 (from Jan. 1, 2017 to Dec. 31, 2017)	Fiscal 2018 (from Jan. 1, 2018 to Dec. 31, 2018)
Basic earnings per share		
Profit attributable to owners of parent (thousand yen)	657,726	865,411
Amount not available to common shareholders (thousand yen)	—	—
Profit attributable to owners of parent available to common shareholders (thousand yen)	657,726	865,411
Average number of common shares during period (shares)	29,741,496	30,069,544
Diluted earnings per share		
Adjustment to profit attributable to owners of parent (thousand yen)	—	—
Increase in number of common shares (shares)	521,784	230,165
[Of which, share acquisition rights (shares)]	[521,784]	[230,165]
Description of potentially dilutive shares not included in calculation of diluted earnings per share, because they are antidilutive	—	—

(Significant Subsequent Events)

(Stock Split and Partial Amendments to Articles of Incorporation Accompanying Stock Split)

At the meeting of the board of directors held on November 9, 2018, the Company passed a resolution to conduct a stock split and make partial amendments to the Articles of Incorporation accompanying the stock split. Based on such, the Company conducted the following stock split, with January 1, 2019 as the effective date.

(1) Purpose of stock split

The amount per unit of investment is being lowered and the number of shares is being increased to enhance the liquidity of shares in an aim to establish an environment that makes it easier for investors to invest and also further broaden the investor base for the Company's shares.

(2) Overview of stock split

① Method of stock split

A 2-for-1 split of the common shares owned by the shareholders stated or recorded in the final shareholder register on the record date, which shall be December 31, 2018 (Monday) (said date is not a business day for the shareholder register administrator and thus, in effect, December 28, 2018 (Friday)).

② Increase in number of shares due to stock split

Total number of shares issued and outstanding before stock split	15,150,000 shares
Increase in number of shares due to stock split	15,150,000 shares
Total number of shares issued and outstanding after stock split	30,300,000 shares
Total number of shares authorized after stock split	96,000,000 shares

③ Schedule of stock split

Date of public notice of record date	December 14, 2018 (Friday)
Record date	December 31, 2018 (Monday) (in effect, December 28, 2018 (Friday))
Effective date	January 1, 2019 (Tuesday)

④ Impact on per share information

The impact on per share information is presented in the concerned section.

5. Non-Consolidated Financial Statements

(1) Balance Sheet

(Unit: thousand yen)

	Fiscal 2017 (as of Dec. 31, 2017)	Fiscal 2018 (as of Dec. 31, 2018)
Assets		
Current assets		
Cash and deposits	1,701,155	2,507,972
Accounts receivable - trade	1,878,332	2,216,886
Merchandise	431,578	522,615
Prepaid expenses	14,439	19,257
Accounts receivable - other	1,146,524	1,015,531
Deferred tax assets	101,128	142,223
Other	16,184	17,027
Allowance for doubtful accounts	(253,735)	(333,441)
Total current assets	5,035,607	6,108,074
Non-current assets		
Property, plant and equipment		
Buildings	192,695	198,618
Accumulated depreciation	(56,104)	(65,915)
Buildings, net	136,590	132,702
Structures	929	1,659
Accumulated depreciation	(319)	(414)
Structures, net	610	1,244
Vehicles	55,648	49,056
Accumulated depreciation	(35,607)	(35,464)
Vehicles, net	20,040	13,591
Tools, furniture and fixtures	38,514	43,943
Accumulated depreciation	(21,962)	(26,385)
Tools, furniture and fixtures, net	16,551	17,557
Land	114,018	114,018
Total property, plant and equipment	287,811	279,116
Intangible assets		
Software	54,671	97,977
Other	842	5,620
Total intangible assets	55,513	103,597
Investments and other assets		
Investment securities	—	53,720
Shares of subsidiaries and associates	613,000	623,000
Leasehold deposits	54,557	49,605
Deferred tax assets	17,784	21,924
Other	2,946	2,924
Total investments and other assets	688,288	751,174
Total non-current assets	1,031,613	1,133,888
Total assets	6,067,221	7,241,962

(Unit: thousand yen)

	Fiscal 2017 (as of Dec. 31, 2017)	Fiscal 2018 (as of Dec. 31, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	2,090,654	2,465,962
Accounts payable - other	290,474	228,142
Accrued expenses	33,609	85,324
Income taxes payable	168,204	274,671
Accrued consumption taxes	53,220	73,056
Deposits received from employees	20,780	20,905
Other	14,435	15,840
Total current liabilities	2,671,379	3,163,904
Total liabilities	2,671,379	3,163,904
Net assets		
Shareholders' equity		
Share capital	565,666	573,496
Capital surplus		
Legal capital surplus	535,666	543,496
Total capital surplus	535,666	543,496
Retained earnings		
Legal retained earnings	7,500	7,500
Other retained earnings		
General reserve	12,500	12,500
Retained earnings brought forward	2,274,655	2,937,037
Total retained earnings	2,294,655	2,957,037
Treasury shares	(145)	(238)
Total shareholders' equity	3,395,842	4,073,791
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	—	(13,940)
Total valuation and translation adjustments	—	(13,940)
Share acquisition rights	—	18,207
Total net assets	3,395,842	4,078,058
Total liabilities and net assets	6,067,221	7,241,962

(2) Statement of Income

(Unit: thousand yen)

	Fiscal 2017 (from Jan. 1, 2017 to Dec. 31, 2017)	Fiscal 2018 (from Jan. 1, 2018 to Dec. 31, 2018)
Net sales	13,971,712	16,474,458
Cost of sales		
Beginning merchandise inventory	387,658	431,578
Cost of purchased goods	8,644,372	10,243,503
Total	9,032,031	10,675,082
Ending merchandise inventory	431,578	522,615
Cost of goods sold	8,600,452	10,152,466
Outsourcing fee	1,891,859	2,183,691
Total cost of sales	10,492,312	12,336,158
Gross profit	3,479,400	4,138,300
Selling, general and administrative expenses	2,743,607	3,088,288
Operating profit	735,792	1,050,011
Non-operating income		
Interest income	28	27
Rental income from buildings	555	555
Subsidy income	1,070	1,076
Gain on sales of non-current assets	2,205	90
Business advisory fee income	57,000	72,000
Other	2,840	10,536
Total non-operating income	63,700	84,286
Non-operating expenses		
Loss on retirement of non-current assets	485	87
Loss on sales of non-current assets	330	—
Other	10	0
Total non-operating expenses	825	87
Ordinary profit	798,667	1,134,210
Extraordinary income		
Total extraordinary income	—	—
Profit before income taxes	798,667	1,134,210
Income taxes - current	278,598	397,464
Income taxes - deferred	(36,471)	(45,235)
Total income taxes	242,127	352,229
Profit	556,540	781,980

(3) Statement of Changes in Equity

Fiscal 2017 (from January 1, 2017 to December 31, 2017)

	Shareholders' equity					
	Share capital	Capital surplus		Retained earnings		
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	
					General reserve	Retained earnings brought forward
Balance at beginning of period	562,096	532,096	532,096	7,500	12,500	1,807,154
Changes in items during period						
Issuance of new shares	3,570	3,570	3,570			
Dividends of surplus						(89,039)
Profit						556,540
Purchase of treasury shares						
Net changes in items other than shareholders' equity						
Total changes in items during period	3,570	3,570	3,570	—	—	467,501
Balance at end of period	565,666	535,666	535,666	7,500	12,500	2,274,655

(Unit: thousand yen)

	Shareholders' equity			Valuation and translation adjustments		Share acquisition rights	Total net assets
	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
	Total retained earnings						
Balance at beginning of period	1,827,154	(56)	2,921,290	—	—	—	2,921,290
Changes in items during period							
Issuance of new shares			7,140				7,140
Dividends of surplus	(89,039)		(89,039)				(89,039)
Profit	556,540		556,540				556,540
Purchase of treasury shares		(89)	(89)				(89)
Net changes in items other than shareholders' equity				—	—	—	—
Total changes in items during period	467,501	(89)	474,551	—	—	—	474,551
Balance at end of period	2,294,655	(145)	3,395,842	—	—	—	3,395,842

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

	Shareholders' equity					
	Share capital	Capital surplus		Retained earnings		
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	
					General reserve	Retained earnings brought forward
Balance at beginning of period	565,666	535,666	535,666	7,500	12,500	2,274,655
Changes in items during period						
Issuance of new shares	7,830	7,830	7,830			
Dividends of surplus						(119,598)
Profit						781,980
Purchase of treasury shares						
Net changes in items other than shareholders' equity						
Total changes in items during period	7,830	7,830	7,830	—	—	662,382
Balance at end of period	573,496	543,496	543,496	7,500	12,500	2,937,037

(Unit: thousand yen)

	Shareholders' equity			Valuation and translation adjustments		Share acquisition rights	Total net assets
	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
	Total retained earnings						
Balance at beginning of period	2,294,655	(145)	3,395,842	—	—	—	3,395,842
Changes in items during period							
Issuance of new shares			15,660				15,660
Dividends of surplus	(119,598)		(119,598)				(119,598)
Profit	781,980		781,980				781,980
Purchase of treasury shares		(92)	(92)				(92)
Net changes in items other than shareholders' equity				(13,940)	(13,940)	18,207	4,267
Total changes in items during period	662,382	(92)	677,949	(13,940)	(13,940)	18,207	682,216
Balance at end of period	2,957,037	(238)	4,073,791	(13,940)	(13,940)	18,207	4,078,058

6. Other

Changes in Directors

Disclosure will be made when disclosure content is determined.