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## Japan Lifeline (7575 JP)

An Independent Medical Device Company with Focus on Cardiovascular Area



...for patient comfort.

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NIPPON INVESTMENT BESPOKE RESEARCH UK LTD

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## Executive Summary

Japan Lifeline [JLL] is an independent medical device manufacturer / distributor whose primary focus lies in cardiovascular devices. The business consists of four product groups 1) Cardiac Rhythm Management [CRM], 2) Electrophysiology [EP] / Ablation, 3) Cardiovascular Surgery, and 4) Gastrointestinal [GI] / Percutaneous Intervention [PI]. According to estimates by JLL based on Pharmaceutical Industry Production Statistics by the Ministry of Health, Labour, and Welfare [MHLW] and Yano Research Institute, the domestic medical device market is a ¥3.5~¥4.0 trillion market, whose CAGR is estimated at 3~4%. Within that, the market for JLL's products is some ¥250,000mil in size. Assuming the firm earns FY22 sales of ¥51,527mil, the market share for all of its products is estimated at approx. 20%.

JLL currently has a hybrid distribution and manufacturing business model. Given the medical device market is constantly changing, to stay up to date means the firm must respond promptly as possible to meet those changes. By connecting directly with users (doctors), JLL can utilise their feedback for its in-house product development. In FY21, JLL's in-house product ratio reached 52.4%.

The firm reported FY22 1H results that were largely in line with the firm's expectations, with OP of ¥5,119mil (+9.4%YoY) on sales of ¥25,489mil (+1.4% YoY). The solid performance came despite headwinds such as 1) a revision to insurance reimbursement prices – this saw a reduction in the price of medical devices paid by insurers, and 2) a surge in Omicron cases in Q2. These negative factors were offset by 1) an increase in ablation treatments for atrial fibrillation [AF or A-Fib] that employ JLL's in-house products, 2) higher sales volume and an improved sales mix on the back of a 2.6ppt YoY rise of the in-house product ratio to 53.9%, and 3) a decrease in losses on inventory disposal / write-downs related to Orsiro, a product in Gastrointestinal [GI] and Percutaneous Intervention [PI].

The FY22 OP forecast is unchanged from the company's initial guidance of ¥10,011mil (+0.4% YoY) on sales of ¥51,527mil (+0.1% YoY). The firm assumes that the uncertainty with the COVID situation could still potentially pose a risk to 2H earnings, which would subsequently affect the number of cases that use JLL's devices. At the same time, JLL has had to review the ongoing FY20~FY24 medium-term plan that was announced in November 2020, which eyed CAGR of sales and OP between FY21 and FY24 at 10% and 15%, respectively, as the breakout of COVID and its prolonged effects has presented as unexpected hardships to JLL. Progress towards management's medium-term goals, therefore, is well short of initial expectations. JLL plans to relaunch the medium-term management plan in May 2023.

JLL's capital allocation policy focuses on the following three areas:

- 1) CAPEX and R&D to capture the growth potential in the cardiovascular area. The firm also plans to extend application of existing devices to other treatment area such as: a) biliopancreatic area such as cholangioscope in GI/PI, and b) neurovascular area such as reapplication of embolic coil in Cardiovascular Surgery.
- 2) Cash dividend, which management aims to pay 40% pay-out.
- 3) Share buy-back (between February and July 2022, 2.5mil shares (3.1% of shares outstanding) were repurchased and cancelled).

## Business Model

JLL is an independent medical device manufacturer / full-service distributor whose primary focus lies in the cardiovascular devices. The firm reported FY21 consolidated sales of ¥51,469mil, from the following four products:

Japan Lifeline (7575 JP): Products			
Segment	Main Products	% Total Sales	In-House (%)
CRM	Devices that are planted in the body to control heartbeats / treat arrhythmia such as Pacemakers and ICDs	25.2	0%. Under a long-term supply contract with Boston Scientific Japan,
EP/Ablation	Disposable catheter that are used to investigate and treat arrhythmia	48.8	80%
Cardiovascular Surgery	Devices that replace damaged blood vessels to treat aortic aneurysms, such as artificial blood vessel, abdominal stent graft	18.8	60%
GI / PI	Devices that treat gastrointestinal problems	7.2	40% (100% only in case of GI)

*Source: Nippon-IBR based on JLL's presentation materials*

## The Cardiovascular Device Market

According to JLL's estimate based on Pharmaceutical Industry Production Statistics by the Ministry of Health, Labour, and Welfare [MHLW] and Yano Research Institute, the domestic medical device market is worth ¥3.5~¥4.0 trillion, with CAGR of around at 3~4%. Of the domestic device market, the market size of products such as catheter tubes and interventional radiology devices is approx. ¥400bil, of which some ¥250bil is covered by products currently handled by JLL. The markets for JLL's core products are relatively concentrated with no more than 5~6 players. Market positions, the size of the market and the market growth rate for each product group's core products are discussed below:

### Cardiac Rhythm Management (CRM)

There are two product groups in CRM, (1) pacemakers and (2) implantable cardioverter-defibrillator [ICD]. JLL sources the full line-up of products from Boston Scientific Japan, a Japan entity of Boston Scientific Corporation (BSX:US) as the firm has a long-term exclusive distributor contract in Japan. The domestic market of pacemakers is estimated at ¥43,000mil with 3% growth per annum. In the broadly defined domestic pacemaker market (that includes leads that connect pacemaker and CRT-P (an implantable cardiac resynchronization therapy [CRT] pacemaker), the firm is currently positioned No. 3 out of five players with around a 14% market share after Medtronic (MDT:US) which has approx. 44% market share and Abbott Laboratories (ABT:US) which has some 24% market share.

In the ICD market, which includes leads that connects S-ICD and CRT-D, JLL holds the No.2 position with a 22% market share after Medtronic's 42%. Currently, the market in Japan is worth approx. ¥32,000mil and is growing at 3% per annum.

### Electrophysiology [EP] / Ablation

JLL identifies one-of-a-kind products that do not have competitive products as "only-one" products. In the EP catheter product, BeeAT, a catheter with intracardiac cardioversion functions, is categorised as an "only-one" product. Although the EP catheter market in Japan was dominated by overseas device makers, JLL holds top market share with its in-house EP catheter products used in check-ups on hearts. The firm reckons that this market will grow at around 5~7% per annum from the current market size of some ¥40,000mil. In the ablation catheter market, which is estimated at approx. ¥40,000mil (+6% per annum), JLL only has a 3% market share and ranks at No.5.

### Cardiovascular Surgery

JLL has a rich portfolio of in-house products among the Cardiovascular Surgery products. In this category, artificial blood vessels, which include open stent grafts, are also deemed an "only-one" product. The firm holds top market share of 75% in the artificial blood vessels market. The market is ¥8,000mil in size (CAGR of 2~3%). In the abdominal stent grafts market, which is ¥18,000mil in value (CAGR of 4~5%), JLL is positioned No. 3 with an 18% market share.

### Gastrointestinal [GI] and Percutaneous Intervention [PI]

JLL entered the GI / PI market in 2017 by launching in-house products. In GI stents, JLL ranks No.3 with a 5% market share. The market is estimated at ¥8,500mil in size with flattish growth. In the liver cancer ablation needle markets, the firm is one of the five players with a 16% market share. The market is ¥1,500mil in size but is contracting at 2% per annum.

### Strengths and risks

The environment that surrounds the firm's business keeps changing rapidly by forces such as 1) social security expenditure reforms, 2) technology innovations, such as AI, robotics, and health tech, 3) the fast-aging society, 4) workstyle reform at medical institutions, and 5) COVID outbreaks.

JLL has created a business model that enables it to respond to the ever-evolving market. The uniqueness and strength of JLL's business model lies in the following factors:

- **Having both full-service distributor functions and manufacturing capabilities with 48 sales offices nationwide:** Sales offices cover major medical institutions across the nation through localised marketing. The sales team also play a key role in cultivating solutions to unmet needs at hospitals, which results in improvements of the firm's existing products and the development of new products. Since 2001, JLL started allocating its resources to in-house production to develop products that do not yet exist or are desired by doctors. Having both distribution and manufacturing capabilities enables the firm to promptly update its product portfolio to meet those needs. As a distributor, JLL is categorised as a market authorisation holder, which is similar to manufacturer in having capabilities from regulatory affairs (as explained below), safety and quality control functions, and inventory management. Compared to distributors without those functions, while JLL is liable for any risk to product safety and quality, and inventories, it likely enjoys higher profitability.
- **In-house development and strong distribution network:** Through in-house development of its cardiovascular product portfolio, the firm cultivates unique technology, which can be applied to other diseases and treatment areas. On the other hand, JLL's distribution capabilities allows the firm to readily have access to overseas companies and products – if it is easier and quicker to access new, unique, and effective products from overseas than it is to develop them in house.
- **Overseeing regulatory affairs, safety and quality control capabilities in-house:** The regulatory affairs process is mandatory for the distribution of medical devices. Having this capability in-house helps speeds up launch and distribution process for medical devices.
- **Direct promotions to users (doctors):** By approaching directly to doctors who use medical devices supplied by JLL, the firm can directly obtain post-procedure feedback, which are subsequently passed on to product development.
- **Prompt delivery time for procedures:** JLL ensures medical devices are delivered with sterilisation time limits at hospitals. Those devices can be promptly used in emergency. Sales will be recognised when the device is used in the surgical procedure.

On the other hand, risks to JLL's business models are as below:

- **Competition:** High exposure to “only-one” products, which comprised 40% of FY21 consolidated sales.
- **Acquisition of its suppliers:** JLL sources products from overseas suppliers including start-ups. In the distribution business, JLL obtains exclusive distribution rights, however, if any of the suppliers were acquired by a competitor company, any exclusivity with the supply-distributor contract will be lost. Most of supplier-distributor contracts come with Change of Control [COC] clause, which restricts action by the acquirer or enables the firm to terminate the contract.

- **Aggressive pricing:** Acceleration of price declines due to tough competition will subsequently lead to faster price declines to the insurance reimbursement price revision. To hedge against this risk, the firm continues to launch new, fresh products.
- **Fewer AF cases:** Slower growth of atrial fibrillation [AF] cases will negatively impact the EP/Ablation products sales. In the short term, delay in procedures due to COVID affected the EP/Ablation earnings. To ensure that growth of the EP/Ablation sales are not solely reliant on the number of AF cases, the firm aims to expand into other business areas such as the gastrointestinal area.

## Recent earnings

### FY22 1H results

Japan Lifeline reported FY22 1H results that were largely in line with its guidance, with OP of ¥5,119mil (+9.4% YoY) on sales of ¥25,489mil (+1.4% YoY). FY22 1H earnings saw positive YoY growth despite the following headwinds:

1. With the April 2022 revision to prices for insurance reimbursement – a process that takes place every two years for certain medical devices– the price of many items was revised down. Consequently, sales and gross profit [GP] were reduced by ¥980mil and ¥467mil YoY, respectively. In particular, the reimbursement prices of the core CRM product were cut, by as much as 16% YoY. In addition, the reimbursement price of the core EP (electrophysiology) / Ablation device was revised down by 9% YoY.
2. The surge in Omicron cases in Q2 put Japan's healthcare system under extreme pressure, leading to a delay in procedures that use JLL's devices. This compares to Q1, when there were fewer COVID cases, hence hospital procedures and treatment numbers were not affected.

Those factors were primarily offset by the following:

1. Increases in ablation treatments for atrial fibrillation [AF or A-Fib: a condition that causes an irregular and often excessively fast heartbeat]. AF ablation uses hot or cold energy to create tiny scars in the heart to block the faulty electrical signals and restore a typical heartbeat. It may be used if medications or other treatments don't work, by using catheters inserted through the veins or arteries to the heart. JLL reckons that numbers of AF ablation treatments increased in line (+8~9% YoY) with the firm's assumption FY22 1H. The EP / Ablation product group has a high in-house product ratio, which has supported JLL's earnings. The higher sales volumes and an improved sales mix were boosted thanks to a 2.6ppt YoY rise in the in-house product ratio to 53.9% and resulted in 1H OP rising ¥437mil YoY.
2. A decrease in losses on the disposal / write-downs of Orsiro-related inventories contributed ¥383mil (+¥125mil YoY in Q1 and ¥258mil in Q2) to FY22 1H OP. Orsiro is a Percutaneous Intervention [PI] product.

Japan Lifeline (7575 JP): Earnings Results Summary								
(¥mil / March Year-end)	FY21		FY22					
	1H	FY	Q1	Q2	1HCE	1H	YoY (%)	vs. CE (%)
Sales	25,130	51,469	12,969	12,519	24,861	25,489	1.4	2.5
GP	14,292	28,835	7,458	7,087	14,312	14,546	1.8	1.6
GPM (%)	56.9	56.0	57.5	56.6	57.6	57.1	+0.2pp	-0.5pp
SG&A	9,610	18,861	4,751	4,675	9,909	9,426	-1.9	-4.9
SG&A / Sales (%)	38.2	36.6	36.6	37.3	39.9	37.0	-1.2pp	-2.9pp
OP	4,681	9,973	2,707	2,412	4,403	5,119	9.4	16.3
OPM (%)	18.6	19.4	20.9	19.3	17.7	20.1	+1.5pp	+2.4pp
NP*	3,591	7,484	1,946	1,756	3,193	3,702	3.1	15.9
NPM (%)	14.3	14.5	15.0	14.0	12.8	14.5	+0.2pp	+1.7pp

Source: Nippon-IBR based on JLL's FY21, FY22 Q1-Q2 earnings results materials

\* Net profit attributed to the parent's shareholders

## FY22 1H earnings by products

JLL revenue is categorised by four product groups: (1) Cardiac Rhythm Management, (2) EP / Ablation, (3) Cardiovascular Surgery, and (4) Gastrointestinal [GI]/Percutaneous Intervention [PI]

### **Cardiac Rhythm Management (CRM)**

The CRM product group saw FY22 1H sales decline -4.3% YoY to ¥6,293mil due to the reimbursement price cuts. Products such as pacemakers faced intensified competition from new product launches and aggressive pricing. Sales of pacemakers fell -16.1% YoY to ¥2,530mil. In Q2 alone, pacemaker sales were down -15.6% YoY / -0.6% QoQ to ¥1,261mil.

1H sales of Implantable Cardioverter Defibrillator [ICD] – the dominant product among JLL’s CRM sales – rose +5.9% YoY to ¥3,595mil. There are two types of ICD devices:

1. **T-ICD:** A traditional ICD is battery operated and is implanted in the chest. The procedure requires the leads to be attached to the heart via invasive surgery. New T-ICD devices are put in when the battery is exchanged, usually in ten years.
2. **Subcutaneous ICD [S-ICD]:** This device is implanted under the skin at the side of the chest below the armpit. It is attached to an electrode that runs along the breastbone. Although the device is larger than a T-ICD, its lead is not implanted in the heart, hence least likely causes serious complications. JLL is the sole distributor of S-ICD. FY22 1H sales remained flat YoY.

### **Electrophysiology [EP] / Ablation**

The EP / Ablation product group consists of three product sub-categories: (1) EP Catheters, (2) Ablation Catheters and (3) Others which includes disposable products such as radiofrequency [RF] needles and steerable sheaths.

- Although the insurance reimbursement price revision affected all of the EP Catheter products, FY22 1H sales improved 9.0% YoY to ¥9,780mil thanks to solid sales volume increases in the EP Catheter products.
- Steady growth in AF cases led to an increase in sales of in-house ablation products. However, FY22 1H Ablation Catheter sales overall fell -10.9% YoY to ¥496mil, amid components shortages – specifically, a delay in shipments of an endoscope laser ablation catheter, *HeartLight X3*, from the manufacturer. While Q1 sales of Ablation Catheters surged +17.8% YoY to ¥321mil, Q2 sales declined -38.5% YoY / -45.8% QoQ to ¥174mil due to shipment delays.
- FY22 1H sales of Others fell 2.4% YoY to ¥2,735mil. RF Needle sales were lagging on the back of tough competition, while steerable sheath sales grew 56.5% YoY.

### **Cardiovascular Surgery**

The Cardiovascular Surgery products sales saw a +11.6% YoY rise to FY22 1H sales of ¥4,922mil, thanks to continued growth in vascular grafts (sales ¥4,837mil +14.6% YoY). In-house products such as artificial blood vessels and open stent grafts contributed to the sales growth. Sales of abdominal stent grafts that the firm distributes in Japan also grew thanks to synergy effects with the new product, abdominal stent graft [Alto].

Although the FY22 1H sales of Others products fell 54.3% YoY to ¥85mil, sales growth could have been +73.5% YoY on a like-for-like comparison, excluding the effect of divestment of the blood purification business which took place in FY21 1H.

However, the development of the embolic coil – currently sold for use in abdominal cases but as of Q1 is being sold for use in neurovascular cases – will likely become a new pillar of growth for JLL in the neurovascular area.



### **Gastrointestinal [GI] and Percutaneous Intervention [PI]**

JLL reported FY22 1H GI / PI sales of ¥1,260mil (-30.4% YoY). The GI products sales showed a stable growth thanks to expanding depository facilities for large intestinal / stomach / duodenum stents. Ablation needles for the treatment of liver cancer also performed well. On the other hand, the PI business faces severe business conditions due to a slow recovery in cases and the drastic revision in the insurance reimbursement prices. Furthermore, due to the early termination of the exclusive distribution contract of Orsiro's drug-eluting coronary stent in June 2022, FY22 1H Orsiro sales significantly declined to ¥364mil compared to FY21 1H sales of ¥879mil.

### **FY22 Guidance and Medium-term**

JLL is guiding for FY22 OP of ¥10,011mil (+0.4% YoY) on sales of ¥51,527mil (+0.1% YoY), unchanged from the initial guidance announced on 11 May. The firm assumes that the uncertainty with the COVID situation could still potentially pose a risk to 2H earnings, which would subsequently affect the number of cases that use JLL's devices.

The existing medium-term plan, which covers five years between FY20 and FY24, was announced in November 2020 under the influence of COVID, with three KPIs:

1. Sales CAGR of 10%
2. OP CAGR of 15%
3. In-house product ratio of more than 50%, reaching to 60% in longer term

Those KPIs will be achieved by:

- Solidifying the existing business areas and ensuring stable growth.
- Improving profitability through cost control and operational restructuring.
- The development of products in the gastrointestinal area and preparing for the further growth.

However, the breakout of COVID and its prolonged effects presented as an unexpected hardship to JLL's business and therefore progress towards management's medium-term goals is well short of initial expectations. For example, Sales and OP CAGRs for the two-year to FY21 were -0.3% and -2.2%, respectively on the back of (1) the prolonged COVID impact, (2) the underperformance of Orsiro, and (3) fiercer competition in the rhythm device market. On the other hand, while the in-house product ratio has hit 52.4%, this is not due to major launches of new in-house products but because of sluggish sales of third-party products sold by JLL as a distributor which resulted in an increase in JLL's in-house products ratio.

Consequently, management realise that the targets and assumptions of JLL's medium-term plan, which were made in the midst of COVID, are unrealistic. Therefore, they will review market conditions and plan to announce new targets around May 2023, when the firm reports its FY22 earnings.

### **Capital Allocation Policy**

There are currently three areas that JLL plans to allocate its capital:

- 1) **CAPEX and R&D for growth:** JLL is guiding for FY22 CAPEX of ¥2,245mil. FY22 R&D cost ¥2,288mil will likely account for some 8.3% of FY22 in-house product sales (estimated at approx. ¥27,466mil). The firm plans to enter the two new areas of products: (1) biliopancreatic area such as cholangioscope, a GI/PI product, and (2) the neurovascular area such as the reapplication of embolic coils included in the Cardiovascular Surgery products and handling an additional 11 items supplied by Wallaby Medical (unlisted, Hong Kong).
- 2) **Cash dividend:** Management targets a dividend pay-out ratio of 40% with a stable cash dividend. FY22 dividend forecast is for ¥38.00/share, which generates a pay-out of 40.8%
- 3) **Share buy-backs:** In the most recent repurchase programme implemented between February and July 2022, 2.5mil shares (3.1% of shares outstanding) were repurchased and cancelled.



Japan Lifeline (7575 JP): Sales Breakdown by Product Groups											
(¥mil)	FY21			FY22							
	Q1	Q2	FY	Q1	Q2	YoY (%)	QoQ (%)	1H	YoY (%)	FYCE	YoY (%)
Pacemaker	1,520	1,495	5,862	1,269	1,261	-15.6	-0.6	2,530	-16.1	5,215	-11.0
ICD	1,706	1,687	6,785	1,742	1,853	9.8	6.4	3,595	5.9	6,959	2.6
Others	92	74	329	83	84	13.8	1.2	167	0.7	370	12.5
Cardiac Rhythm Management	3,320	3,257	12,977	3,094	3,199	-1.8	3.4	6,293	-4.3	12,546	-3.3
EP Catheter	4,502	4,471	18,412	4,967	4,813	7.7	-3.1	9,780	9.0	18,963	3.0
ABL Catheter	273	283	1,232	321	174	-38.4	-45.8	496	-10.9	2,200	78.6
Others	1,435	1,366	5,455	1,374	1,360	-0.4	-1.0	2,735	-2.4	5,441	-0.3
EP / Ablation	6,211	6,120	25,099	6,662	6,349	3.7	-4.7	13,012	5.5	26,605	6.0
Vascular Graft	2,150	2,072	9,370	2,499	2,338	12.8	-6.4	4,837	14.6	9,877	5.4
Others	39	146	286	36	48	-66.7	33.3	85	-54.3	142	-50.3
Cardiovascular Surgery	2,190	2,219	9,657	2,535	2,387	7.6	-5.8	4,922	11.6	10,020	3.8
Gastrointestinal	87	99	448	134	150	51.2	11.9	285	52.3	591	31.9
PI	802	820	3,285	541	433	-47.2	-20.0	974	-40.0	1,763	-46.3
Gastrointestinal	890	920	3,733	676	583	-36.6	-13.8	1,260	-30.4	2,354	-36.9
Consolidated Net Sales	12,612	12,518	51,469	12,969	12,519	0.0	-3.5	25,489	1.4	51,527	0.1

Source: Nippon-IBR based on JLL's FY21, FY22 Q1-Q2 earnings results materials and Fact Book

## Financial Summary

P&L Summary										
(¥mil / March year-end)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22CE	FY23Cons
Sales	25,696	30,540	37,181	42,298	45,525	51,761	51,286	51,469	51,500	52,000
YoY (%)	5.4	18.8	21.7	13.7	7.6	13.6	-1.0	0.3	0.0	0.9
COGS	11,739	13,289	15,182	15,722	17,703	22,570	22,622	22,634	N/A	N/A
Gross Profit (GP)	13,956	17,250	21,998	26,576	27,822	29,191	28,664	18,835	N/A	N/A
GPM (%)	54.3	56.5	59.2	62.8	61.1	56.4	55.9	36.6	N/A	N/A
SG&A	12,111	13,550	14,313	15,904	17,295	18,756	18,296	18,861	N/A	N/A
Operating Profit (OP)	1,845	3,700	7,685	10,671	10,526	10,434	10,367	9,973	10,000	10,000
YoY (%)	51.3	100.5	107.7	38.8	-1.4	-0.9	-0.7	-3.9	0.2	2
OPM (%)	7.1	12.1	20.6	25.2	23.1	20.1	20.2	19.3	19.4	19.6
Interest & dividend received	32	78	95	160	506	604	381	110	N/A	N/A
Interest payment	39	200	52	55	118	141	183	76	N/A	N/A
Investment gains & losses	0	0	0	0	0	0	0	0	0	0
Recurring Profit (RP)	2,037	3,574	8,010	10,730	10,808	10,425	10,519	10,005	10,000	10,200
YoY (%)	52.4	75.4	124.1	33.9	0.7	-3.6	0.9	-4.9	-0.1	2.0
RPM (%)	7.9	11.7	21.5	25.4	23.7	20.1	20.5	19.4	19.4	19.6
Pre-tax Profit	1,958	4,514	7,957	10,615	10,801	10,425	4,540	10,041	N/A	N/A
Tax costs	834	1,710	2,607	3,137	3,077	2,676	2,540	2,556	N/A	N/A
Minority shareholder interest	0	0	0	0	0	0	0	0	0	0
Net Profit (NP)	1,124	2,804	5,350	7,478	7,723	7,748	2,000	7,484	7,300	7,400
YoY (%)	0.0	149.4	90.7	39.7	3.2	0.3	-74.2	274.2	-2.5	1.3
Comprehensive Profit	1,028	2,780	5,325	7,586	7,718	7,552	2,249	7,652	N/A	N/A

Source: Nippon-IBR based on Japan Lifeline's presentation materials, YUHOs and Toyo Keizai estimate

Balance Sheet Summary									
(¥mil / March yr-end)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	
Current Asset	23,789	25,943	29,025	40,821	41,665	44,077	44,552	45,153	
Fixed Asset	9,373	10,221	11,401	20,159	26,117	30,923	28,439	29,044	
Tangible	5,828	7,155	7,234	9,914	9,920	11,341	13,111	12,911	
Intangible	114	128	492	576	558	493	505	1,470	
Investment and others	3,430	2,938	3,675	9,668	15,638	19,089	14,822	13,662	
Total Asset	33,163	36,163	40,427	60,980	67,783	75,000	72,962	73,197	
Current Liability	13,018	13,498	13,421	15,452	14,580	16,093	16,467	14,211	
Fixed Liability	4,759	6,776	6,255	4,438	6,709	7,500	5,190	4,418	
Net Asset	15,385	15,890	20,750	41,090	46,493	51,406	51,304	54,567	
Capital	2,115	2,115	2,115	2,115	2,115	2,115	2,115	2,115	
Capital Surplus	2,328	2,327	2,327	15,572	15,572	14,853	14,853	14,853	
Retained Earnings	11,363	13,843	18,729	25,091	30,499	35,912	35,352	38,890	
Treasury Shares	-351	-2,301	-2,301	-1,691	-1,691	-1,263	-1,053	-1,496	
Minority Interest	0	0	0	0	0	0	0	0	
Shareholders' Equity	15,385	15,890	20,750	41,076	46,480	51,406	51,304	54,567	
Shareholders' Equity Ratio (%)	46.3	43.9	51.3	67.3	68.5	68.5	70.3	74.5	
Interest-bearing Debt	8,257	11,430	10,103	8,760	9,366	10,973	9,620	7,494	

Source: Nippon-IBR based on ODK Solution's presentation materials, YUHOs and Toyo Keizai estimate

**Cash Flow Summary**

(¥mil / March yr-end)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Operating Cash Flow	1,245	916	6,584	4,450	7,037	7,096	11,432	10,246
Depreciation	699	916	960	1,095	1,258	1,461	1,840	1,929
Goodwill Amortisation	71	78	0	0	0	0	0	0
Change in Sales Receivables	-928	-2,105	-970	-1,359	114	-1,598	572	746
Change in inventories	-648	-814	289	-3,301	-3,508	-1,123	2,201	1,159
Change in Accounts Payable	2,503	-2,239	289	434	823	1,100	-1,190	373
Investment Cash Flow	-1,044	-905	-2,255	-9,161	-9,964	-4,419	-3,731	-1,131
Free Cash Flow	201	11	4,329	-4,711	-2,927	2,677	7,701	9,115
Finance Cash Flow	480	783	-1,895	11,294	-1,783	-1,136	-3,720	-6,804
Cash and Cash Equivalent	2,945	3,737	6,148	12,732	8,018	9,555	13,708	16,058

Source: Nippon-IBR based on ODK Solution's presentation materials, YUHOs and Toyo Keizai estimate

**Trend of Financial KPIs**

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22 EST	FY23 EST
	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol
ROE (%)	7.3	17.6	25.7	18.2	16.6	15.0	3.8	13.7	13.3	13.5
ROA (%)	3.3	7.7	13.2	12.2	11.3	10.3	2.7	10.2	9.9	10.1
EBITDA (¥mil)	2,544	4,616	8,645	11,766	11,784	11,895	12,207	11,902	n/a	n/a
Financial Leverage (x)	2.1	2.2	1.9	1.4	1.4	1.4	1.4	1.4	1.4	1.3
Net D/E Ratio (x)	0.3	0.4	0.1	0.0	0.0	0.0	0.0	-0.1	N/A	N/A
Total Asset Turnover (x)	0.7	0.8	0.9	0.6	0.6	0.6	0.7	0.7	N/A	N/A

Source: Nippon-IBR based on Japan Lifeline's presentation materials, YUHOs and Toyo Keizai estimate

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