Overview and Trends in the Senior’s Industry in Japan and Investment Opportunities

March 12th, 2012

Asia Corporate Advisory Department
Industry Research Division
Mizuho Corporate Bank
1 Overview & Trends in the Senior’s Industry in Japan

2 Investment Opportunities in Senior’s Housing property in Japan

Appendix Aging Population in Asia
1. Overview & Trends in the Senior’s Industry in Japan
Aging population in Asia

- Japan had become an Aged society in 1995.
- Besides Japan, aging society is also becoming apparent in Asia.
- Hong Kong, Singapore, Korea will become Aged Societies by 2018, and China by 2025.
- India, Philippines, Bangladesh and Laos would not become Aged societies until after 2045.

By 2025, 226 million of Over 65 yrs old in China

Japan became an Aged Society in 1995

HK(2013), Singapore(2016), Korea(2018) and China(2025) Enter Aged Society

India, Philippine, Bangladesh and Laos are slower to become aged society

**Aging Society** Population aged 65 and over make up 7-14% of total population

**Aged Society** Population aged 65 and over make up over 14% of total population
Japan’s Increasing Elderly Population

- Japan’s Senior’s population (those older than 65 years old) is growing at an unprecedented pace, and will exceed 30% of total Japanese population in 2025.
- Approximately 20% of those Seniors will require nursing and/or medical care in 2030.

(Source) IPSS’s materials on population issues, and the Japan Cabinet Office white paper on the elderly.
Definition of the Senior’s Market

- The Senior’s market can be divided into 3 categories;
  a) Healthcare/Pharma, b) Nursing Care and c) Lifestyle
- The revenue is derived from;
  1) consumer expenditures of those 65 years old and above, and 2) public expenditures on those citizens.

(Sources) Compiled by MHCB Industry Research Division
Senior’s Market Size in Japan

- In 2007, the total Senior Citizen Market was estimated to be around USD 699 billion
- The market is expected to reach USD1.2 Trillion in 2025

### 2007 Market Size

<table>
<thead>
<tr>
<th>Category</th>
<th>Public Exp.</th>
<th>Consumer Exp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Pharma</td>
<td>180</td>
<td>220</td>
</tr>
<tr>
<td>Nursing Care</td>
<td>71</td>
<td>31</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>448</td>
<td>448</td>
</tr>
</tbody>
</table>

### 2025 Market Size

<table>
<thead>
<tr>
<th>Category</th>
<th>Public Exp.</th>
<th>Consumer Exp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Pharma</td>
<td>389 (116%↑)</td>
<td>489</td>
</tr>
<tr>
<td>Nursing Care</td>
<td>169 (137.5%↑)</td>
<td>69</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>568 (26.8%↑)</td>
<td>568</td>
</tr>
</tbody>
</table>

※Healthcare/nursing care and share of public burden are included in public expenditures

Numbers in parenthesis are growth above 2007 values

(Source) Compiled by MHCB Industry Research Division

Exchange rate of JPY90 = USD1 is used for reference
Description of Senior’s business in Japan (1)

There are variety of businesses catering to Senior’s in Japan:

Examples

<table>
<thead>
<tr>
<th>Day Service</th>
<th>Nursing Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providers:</td>
<td>BENESSE, Message Amille, Nichii, Best Life, Watami etc</td>
</tr>
<tr>
<td>Services:</td>
<td>Pick up, Check up, Bath, Hobby, Lunch, Recreation, Rehabilitation, Snacks, Return</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Home Visit Bathing Service</th>
<th>Nursing Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providers:</td>
<td>Large number of community based small providers</td>
</tr>
<tr>
<td>Services:</td>
<td>Steps</td>
</tr>
<tr>
<td></td>
<td>Visit</td>
</tr>
<tr>
<td></td>
<td>Bath</td>
</tr>
<tr>
<td></td>
<td>Health check</td>
</tr>
<tr>
<td></td>
<td>Checkup</td>
</tr>
<tr>
<td></td>
<td>Bath setting takes only about 10 min</td>
</tr>
<tr>
<td></td>
<td>Health check by nurse</td>
</tr>
</tbody>
</table>

(Source) Tsukui homepage etc.
Examples (Cont’d)

**Housing, Care homes for Elderly**

**Security Service**

**Nursing Care**

**Lifestyle**

- **Companies:** BENESSE, Message Amille, Nichii, Best Life, Watami etc
- **Providers:** Secom, ALSOK etc.

Barrier free designed with aides all around the property

Emergency buttons in bedrooms, toilets, bathrooms, to call security staff who are certified care providers. There are motion Sensors provided too

- **IH Cooker (Non fire).** Meals can be provided too.
- **Providers:** Duskin, AEON Delight, Bears, etc.
Examples (Cont’d)

**FOOD Service**

Providers: Senior Life Create, Watami, etc

Catering services for Individual house or for Care Centers, catering special foods requirement

- Soft
- Smooth
- Easy bites
- Calorie control

**FITNESS**

Providers: Konami, Megalos, Central Sports etc

Providing Preventive Care – such as Special programs for elderly: muscle training, with special equipment for Muscle training for stable walking, straightening back etc.
Description of Nursing Care Businesses in Japan

Nursing care businesses can be categorised into 4 types:
- a) live-in
- b) day facility
- c) In home, visited by caregiver
- d) equipment, tools, etc to be rented out/purchased for homecare.

Currently, the largest market is the live-in care (nursing care), however, there is a trend for In-home care rather than live-in facilities, hence services related to home care are expected to grow.

<table>
<thead>
<tr>
<th>Types of Nursing Care Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live in care</td>
</tr>
<tr>
<td>a Live in Care</td>
</tr>
<tr>
<td>① Intensive Care Home for Elderly (Tokuyo)</td>
</tr>
<tr>
<td>② Long-Term Care Health Facility (Rouken)</td>
</tr>
<tr>
<td>③ Designated Medical Long-Term Care (Yorobyocho)</td>
</tr>
<tr>
<td>④ Care house</td>
</tr>
<tr>
<td>⑤ Silver housing</td>
</tr>
<tr>
<td>⑥ Group home</td>
</tr>
<tr>
<td>⑦⑧⑨ Fee based nursing home</td>
</tr>
<tr>
<td>⑩⑪⑫ Rental Housing for Elderly and Others</td>
</tr>
<tr>
<td>⑩⑪⑫⑬ Silver housing</td>
</tr>
<tr>
<td>⑩⑪⑫⑬⑭ Silver housing</td>
</tr>
<tr>
<td>⑩⑪⑫⑬⑭⑮ Silver housing</td>
</tr>
<tr>
<td>⑩⑪⑫⑬⑭⑮⑯ Silver housing</td>
</tr>
<tr>
<td>⑩⑪⑫⑬⑭⑮⑯⑰ Silver housing</td>
</tr>
<tr>
<td>⑩⑪⑫⑬⑭⑮⑯⑰⑱ Silver housing</td>
</tr>
</tbody>
</table>

Staying at the facility

In-home care
(live at home and receive service at home or by commuting to the facility)
## Description of Live-In Facilities by Type

<table>
<thead>
<tr>
<th>Facility Type</th>
<th>No.</th>
<th>Name</th>
<th>Nursing Care</th>
<th>Cost</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>1</td>
<td>Intensive Care Home for Elderly (Tokuyo)</td>
<td>✔️</td>
<td>Low</td>
<td>For those who require nursing care. Often wait listed for years.</td>
</tr>
<tr>
<td>Public</td>
<td>2</td>
<td>Long-Term Care Health Facility (Rouken)</td>
<td>✔️</td>
<td>Low</td>
<td>Provide medical support and rehabilitation for those who try to return home. Average period of stay is 9 months.</td>
</tr>
<tr>
<td>Public</td>
<td>3</td>
<td>Designated Medical Long-Term Care</td>
<td>✔️</td>
<td>Low</td>
<td>Long term hospital stay. To be abolished in 2017.</td>
</tr>
<tr>
<td>Public</td>
<td>4</td>
<td>Care house</td>
<td>✔️</td>
<td>Low</td>
<td>Only for those over 60 yr, provided for low income.</td>
</tr>
<tr>
<td>Public</td>
<td>5</td>
<td>Silver Housing</td>
<td>X</td>
<td>Low</td>
<td>Public housing built/ designed specially for elderly</td>
</tr>
<tr>
<td>Both</td>
<td>6</td>
<td>Group home</td>
<td>✔️</td>
<td>Midd</td>
<td>Both public &amp; private, special home for the demented</td>
</tr>
<tr>
<td>Private</td>
<td>7</td>
<td>Fee based nursing home (Nursing care)</td>
<td>✔️</td>
<td>High</td>
<td>Only for those requiring nursing care. Provided with food etc.</td>
</tr>
<tr>
<td>Private</td>
<td>8</td>
<td>Fee based nursing home (Mix)</td>
<td>△</td>
<td>High</td>
<td>For those who require /don't require nursing care.</td>
</tr>
<tr>
<td>Private</td>
<td>9</td>
<td>Fee based nursing home (Healthy)</td>
<td>X</td>
<td>High</td>
<td>For those who don’t require nursing care but choose to stay in nursing homes.</td>
</tr>
<tr>
<td>Private</td>
<td>10</td>
<td>Serviced housing for elderly</td>
<td>✔️</td>
<td>Midd</td>
<td>Rented housing with services such as regular checks, consulting and meals etc.</td>
</tr>
<tr>
<td>Private</td>
<td>11</td>
<td>Rental housing for elderly</td>
<td>△</td>
<td>Low</td>
<td>Private housing built/ designed specially for the elderly</td>
</tr>
</tbody>
</table>

*Operation of ‘Public’ facilities are only permitted to government, local municipalities, social welfare corporation, medical corporations etc., and not to private companies.

**Private’ ones can be operated by both public or private companies.
Major players in the Nursing Care Market

There are some large operators in the nursing care market in Japan.

Those major players are increasingly covering wider ranges of services to cater to the different needs of Senior’s via both organic expansion and/or M&A.

<table>
<thead>
<tr>
<th>Nichii Gakkan</th>
<th>Message (incl. Japan care service)</th>
<th>Benesse Stylecare</th>
<th>WATAMI® Watami</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1,539mil</td>
<td>672mil</td>
<td>738mil</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>112mil</td>
<td>69mil</td>
<td>52mil</td>
</tr>
<tr>
<td><strong>OP margin</strong></td>
<td>7.3%</td>
<td>10.2%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nichii Gakkan</th>
<th>Message (incl. Japan care service)</th>
<th>Benesse Stylecare</th>
<th>WATAMI® Watami</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of facilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Live-in Care</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group Home</td>
<td>241</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Fee Based Nursing Home</td>
<td>50</td>
<td>177</td>
<td>193</td>
</tr>
<tr>
<td>Fee Based Nursing Home (Healthy)</td>
<td>42</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Serviced housing for Elderly</td>
<td>3</td>
<td>76</td>
<td>1</td>
</tr>
<tr>
<td>Day service</td>
<td>326</td>
<td>48</td>
<td>3</td>
</tr>
<tr>
<td>Caregiver visit</td>
<td>1,062</td>
<td>244</td>
<td>14</td>
</tr>
<tr>
<td>Nurse visit</td>
<td>23</td>
<td>17</td>
<td>1</td>
</tr>
<tr>
<td>Others</td>
<td>35</td>
<td>22</td>
<td>9</td>
</tr>
</tbody>
</table>

Unit: USD BIL

Exchange rate of JPY90 = USD1 is used for reference

=their strong area, differentiation point
Case Study - Benesse Corporation

Benesse Nursing Home by Brand

- New business model - converting dormitories or apartments into nursing homes
- Create categories by different level of fees
- Focus on particular geographic segments

Nursing Home Fee Structure – Business Model Less Reliant on Long-term care insurance

Model Case: Clara Home

Monthly Fees Total: 547,000 yen per person

<table>
<thead>
<tr>
<th>Brand name</th>
<th>Initial Down Payment (Thousand Yen)</th>
<th>Monthly fees (Thousand Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aria</td>
<td>20,000~30,000</td>
<td>280~</td>
</tr>
<tr>
<td>Clara</td>
<td></td>
<td>330~</td>
</tr>
<tr>
<td>Granny &amp; Granny</td>
<td>8,000~18,000</td>
<td>180~</td>
</tr>
<tr>
<td>Madoka</td>
<td></td>
<td>230~</td>
</tr>
<tr>
<td>Bon Sejour</td>
<td>5,000~8,000</td>
<td>170~</td>
</tr>
<tr>
<td>Cocochi</td>
<td>1,000~3,000</td>
<td>150~</td>
</tr>
</tbody>
</table>

Source) Benesse Holdings HP Nov.9, 2012
2. Investment Opportunities; Senior’s Housing in Japan
There is increasing interest in investing in Elderly housing / nursing care housing in Japan, both from Japanese and overseas investors.

One example is the Parkway REIT which currently holds total assets of S$438.8 million of 33 nursing care facilities in Japan.

Source: Parkway Life REIT Investor Relation Presentation 25 Jan 2013 and HP
Based on a survey conducted by MOHLW for 60 domestic investment institutions, 93% of investment made on nursing care facilities was for Privately run, Fee-Based nursing homes.

The asset value of those facilities mostly ranges from $5-$20 millions.

93% of investment are made to ‘Fee based nursing home’ type facilities.

Most of asset value of ‘Fee based nursing home’ ranges from $5 to $20 millions.
Future Investment Interest

According to the survey, although most (97%) current investments are made in Fee based nursing homes, around 25% of the investors said they are considering investing in Serviced Housing for Elderly.

Type of facilities investors are considering for future investment
Based on the survey, Investors’ expected yield typically ranges between 6 and 10% (around 8%).

Sellers expect a yield of approximately 6-7%.

**Investor**

**Supplier**

Sell side’s expected yield

- More lending from financial institutions available
- Not desperate for sales because financial situation is rather stable. More variety of buyers available in the market.

**GAP**

(50-100 pbs)
Reason for investing in the Senior’s market and Risks

<table>
<thead>
<tr>
<th>Why Invest in Elderly Housing/Nursing facilities? <del>Pros of Senior’s market business</del></th>
<th>Challenges in investing in Elderly Housings / Nursing facilities <del>Cons of Senior’s market business</del></th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ The senior’s market is expected to grow continuously</td>
<td>✓ Risk of changing government policy</td>
</tr>
<tr>
<td>✓ The senior’s business is less susceptible to economic troubles than hotels (since most occupants usually stay for a long period of time)</td>
<td>✓ Risk of being excluded from subsidies or reduction of subsidies etc..</td>
</tr>
<tr>
<td>✓ Stable revenue (rent income) is expected</td>
<td>✓ Low liquidity</td>
</tr>
<tr>
<td>✓ The senior’s housing can be established not only in urban areas, but in any residential area (low rent, rooms to grow)</td>
<td>✓ Limited freedom to exit or to change the operator</td>
</tr>
<tr>
<td>✓ The investment can have important social meaning</td>
<td>✓ Initial fee setting can influence the long term occupancy rates</td>
</tr>
<tr>
<td></td>
<td>✓ Varying levels of governance and managing capability</td>
</tr>
<tr>
<td></td>
<td>✓ Not many large operators</td>
</tr>
</tbody>
</table>
Asset Investment Opportunities by operator types

- Tier 2 operators are more open to asset investments at the moment.
- In the future, Tier 1 operators are expected to provide more opportunities for asset investments.

**Operator types**

**Tier 1**
- Nichi
- WATAMI
- More open for collaboration with REIT
- Operates large no. of facilities
- Typically operate over 100 facilities
- A few assets are sold to investors
- Most of their properties are owned by individual land owners and leased out

**Tier 2**
- UCHIYAMA HOLDINGS
- Medis Corporation
- Fureai group
- Operates multiple facilities
- Typically operates 10-50 facilities
- More open to asset investments due to limited financial availability
- Require capital for expansions

**Tier 3**
- Individual operators (operates only 1 facility)
- Operate only 1 facility, owned by themselves or leasing
- No need to sell the property to REITS

**Typical Land lease situation**

- There are possibilities of Tier 1 operators to seek more investors to aid cash flow to facilitate faster expansion
- More investment opportunities with more stable operators
Summary

1. The Senior’s market is expected to grow continuously.
2. There are a variety of business in the Senior’s market, which include medical/pharma, nursing care and lifestyle.
3. The nursing care market consists of live-in type, commute type and home-visit type.
4. For the live-in nursing care, there are more than 10 types of homes and housing that cater to different income levels and levels of nursing support required.
5. Profitability of nursing homes is largely dependent on the amount of subsidies (public health insurance) given from government.
6. There is an increasing investment appetite for nursing homes in Japan, especially for ‘fee based nursing homes’ which are mostly privately run and charge higher prices.
7. More investment is expected in privately-run ‘fee based nursing homes’ and ‘serviced housing for elderly’ in the future.
8. There are pros and cons particularly for investment in nursing homes.
9. There are gaps between investor’s expectations and operators’ expectations.
10. At the moment, more properties in Tier 2 are seeking for investment. However, Tier 1 operators are expected to increase their opportunities for investors to facilitate faster expansion.
Thank you!
Appendix. Aging Population in Asia
Increasing percentage of population aged over 65 and a lower percentage of children exists in Japan, Hong Kong, Korea, Singapore, China and Thailand; A large portion of old people to be supported by fewer young people in those countries.

There is a large young populations in countries like Bangladesh, Philippines and Pakistan.

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(1) The child dependency ratio is the ratio of the population aged 0-19 to the population aged 20-64. The ratio is presented as number of dependants per 100 persons of working age (20-64).

(2) The old-age dependency ratio is the ratio of the population aged 65 years or over to the population aged 20-64. The ratio is presented as number of dependants per 100 persons of working age (20-64).

(3) The total dependency ratio is the ratio of the sum of the population aged 0-19 and that aged 65+ to the population aged 20-64. The ratio is presented as number of dependants per 100 persons of working age (20-64).

Source: UN Population Division
Aging population and fewer children in Asia(2)

- Some countries in Asia like Philippines, Pakistan and India still have high rates of TFR contrary to some other countries like Japan, Korea and Singapore.
- Indonesia, India and Bangladesh as well as Philippines and Pakistan have relatively large, and increasing working age population with low dependency ratio.

Needs for fostering flexible movement of human capitals among the Asian countries

Source: UN Population Division
The figure below describes the prospects of population change in China until 2050. The elderly dependency rate is expected to increase from 15% to almost 60% while the child and working age population is expected to decline.

Population change by age group, China
(World Population Prospects, 2010 revision)

- Population aged 65 & over; 226 million
- Population aged 65 & over; 132 million
- Population aged 65 & over; 334 million
- Population aged 65 & over; 400 million

Source: UN Population Division
‘One child policy’ started in China since 1979, resulting in a large aging population and fewer children. Many children will not be able to take care of their parents.

Children would not be able to support their own parents themselves

⇒ Need for a care center

Source: UN Population Division
The Nursing Care Industry in Japan mainly consists of providers of equipment, nursing care homes and visit care service, special housing developers and general operators.

### General Care Service

- **Benesse Corp**
  - Sales: US$735mil
- **Message**
  - Sales: US$440mil
- **Best Life**
  - Sales: US$306mil
- **Half Century more**
  - Sales: US$201mil
- **Watami no Kaigo**
  - Sales: US$219mil
- **Kinoshita**
  - Sales: US$219mil

### Nursing Care homes

- **Nichii Gakkan**
  - Sales: US$3,000mil
- **Benesse Style Care**
  - Sales: US$556 mil
- **UNIMAT SOYOKAZE (fka Medka)**
  - Sales: US$336 mil
- **Tokai**
  - Sales: US$1,005mil
- **Paramount bed**
  - Sales: US$661mil
- **Francebed**
  - Sales: US$556mil
- **Nippon Care Supply**
  - Sales: US$108mil
- **Matsunaga**
  - Sales: US$60mil
- **Nissin medical Industries**
  - Sales: US$56mil

### Housing for elderly

- **Message**
  - Sales: US$558mil
- **Fuji Amenity Service**
  - Sales: US$256mil
- **Gakken Cocofump**
  - Sales: US$126mil
- **Saint-care holding**
  - Sales: US$304mil
- **Medical care service co**
  - Sales: US$161mil
- **Asahi-Sun-Clean**
  - Sales: US$113mil

### Visit Care Service

- **Tsukui Corp**
  - Sales: US$558mil
- **Japan care service group**
  - Sales: US$256mil
- **Wisnet**
  - Sales: US$126mil

Accumulated know-how in nursing centers for elderly

Sales are calculated as US$=JPY80

Finance Flow / Agreement Structure

- Typical structure of the financial scheme for asset investment in Nursing Home (Image)
The Government is trying to promote the establishments of Senior’s Housing because of the lack of such housing in Japan.

**Government Target**
Increase the rate to 3-5% by 2020

Require establishment of new Elderly Housing of around 650 thousand to 1.3 million (approx).

Source: Ministry of Health, Labour and Welfare
Potential Collaboration between Singapore & Japanese companies

**Singapore**
1. Int’l HR management
2. Cross-cultural understanding

**Japan**
Expertise accumulated in advanced aging society

**Asia Care Centre**
- Provide medical facilities and housing for elderly
- Provide HR training and allocate staff flexibly around Asia
- Provide Specialised Tools and equipments

**Resource**
Network with care homes/training centers in Philippines, Indonesia, Bangladesh etc.

**Knowledge**
Know-how based on long experience of catering to Senior’s market
Tie up with hospitals/neurosurgeons

**North Asia**
- China
- Korea
- Japan

**South East Asia**
- Thailand
- Singapore

**Other**
- US
- EUROPE