

## ETIC to Provide Support to Yojoin Medical Corporation

July 7<sup>th</sup> 2010

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”), decided to provide support to Yojoin Medical Corporation under Article 25, Clause 4 of the Enterprise Turnaround Initiative Corporation of Japan Act (Act 63, of 2009, hereafter “the ETIC Act”),

1. Name(s) of persons or companies concerned

Yojoin Medical Corporation (hereafter “Yojoin”)

2. Name(s) of financial institutions jointly applying for rehabilitation support with Yojoin  
Bank of Yokohama, Ltd.

3. Outline of business revitalization plan

Please see appendix.

4. Comments from State Ministers in charge of ETIC

Prime Minister, Minister of Finance, Minister of Economy, Trade and Industry: No opinion expressed

Minister of Health, Labour and Welfare: *“I have no objection. May I add the followings? ETIC should guide Yojoin promptly to communicate with the labor force as early as possible. ETIC should pay enough attention to instruct that Yojoin should respect the compliance with the related rules and regulations and that Yojoin should ensure enough opportunities to discuss the matters sufficiently between them and the work force.”*

5. Comment from state minister supervising business activities

Minister of Health, Labour and Welfare: *“Yojoin provides necessary inpatient care and other long-term medical services for people in the Yokosuka/Miura healthcare area, and I therefore have no objection to the decision to provide support.*

*In carrying out the revitalization plan, I ask that ETIC respects the opinion of the Governor of Kanagawa Prefecture, who is working to secure the provision of appropriate medical services in the region, and makes every effort to ensure that necessary healthcare services can continue to be provided.”*

6. Debt purchase application period

From Wednesday, July 7<sup>th</sup>, 2010 for receipt by ETIC no later than Friday August 10<sup>th</sup>, 2010.

7. Request for temporary suspension

Under Article 27, Clause 1 of the ETIC Act, financial institutions have been requested not to recover loans or exercise any other rights they may have as creditors before the end of the debt purchase period as per item 6 above.

8. Treatment of trade and general creditors

The decision by ETIC to provide support involves requesting financial support only from financial institutions providing loans to Yojoin. There will be no impact on other than the lenders above.

9. Basis for decision to support

ETIC's basis for deciding to provide support is as follows.

9.1 Rationale

Yojoin is a corporation operating general hospital and geriatric healthcare institution in Kanagawa Prefecture. The medical and care facilities operated by Yojoin provide local residents with medical and nursing care services, and have a high degree of community involvement.

Yojoin's contribution to the community is particularly important with respect to the fact that the corporation (1) focuses heavily on providing medical, nursing, and home support services for the elderly, and (2) plays a major role in providing the kind of medical services that are inadequately represented in the local area (namely, care during the sub-acute period prior to inpatient care of chronic conditions).

The collapse of Yojoin would have a severe impact on local communities. With the population profile continuing to age, the inability to provide necessary medical and nursing services would greatly affect inpatients, outpatients and others relying on the facility.

Accordingly, ETIC has determined that there is ample merit in supporting the revitalization of Yojoin as a means of contributing to the stable provision of medical and nursing services in regional society.

Moreover, there are relatively few examples in Japan of private revitalization of medical corporations, and ETIC believes that successfully undertaking this support program should provide a useful rehabilitation business model for the sector. In addition, it should be noted that regional medical corporations are generally small-scale operations and have a tendency to lack sufficient skilled management personnel. In this context ETIC, by drawing on internal human resources and taking steps to develop the next generation of management personnel, aims to contribute to the overall development and accumulation of useful business revitalization experience in this sector.

## 9.2 Role of ETIC

In deciding to support Yojoin, ETIC's planned role is as follows:

- (1) Reduce the amount of interest-bearing debt by coordinating among financial institutional creditors
- (2) Pursue business revitalization with the injection of new loans
- (3) Strengthen the management structure by supplying management personnel with specialist skills.

With regard to (1) above, ETIC will reduce excessive interest-bearing debt and improve the financial condition of Yojoin by requesting debt forgiveness from financial institutional creditors. With regard to (2), ETIC will coordinate with Bank of Yokohama, Ltd., the main bank of Yojoin, to secure working capital and finance for structural reform and other matters, with the aim of stabilizing cash flows and enabling the steady implementation of business revitalization. With regard to (3), ETIC will place experienced managers within the organization to strengthen its management structure, and work with senior personnel at Yojoin to ensure correct positioning of services and operations to meet regional needs amid a continually changing business environment, while establishing a stable management structure.

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## Appendix: Outline of the Business Revitalization Plan

### Section 1: Overview of the companies receiving support

#### 1.1 Names of companies

Yojoin Medical Corporation (hereafter, “Yojoin”)

#### 1.2 Main business

Operation of general hospital, clinic and geriatric healthcare institution

#### 1.3 Main facilities

(1) Yojoin Medical Corporation Kiyokawa Clinic

2-13-7 Komachi, Kamakura city, Kanagawa-Ken

(2) Yojoin Medical Corporation geriatric healthcare facility Kamakura Silver Home

1-10-1 Yukinoshita, Kamakura city, Kanagawa-Ken

#### 1.4 Head office

2-13-7 Komachi, Kamakura city, Kanagawa-Ken

#### 1.5 Number of employees

241 (Including temporary employees. As of May 31<sup>st</sup>, 2010)

#### 1.6 Labor union

None

#### 1.7 Affiliated companies

None

#### 1.8 Related bank and financial institutions

Bank of Yokohama, Ltd.

Welfare and Medical Service Agency

Credit Guarantee Corporation of Kanagawa-Ken; others

#### 1.9 Financial overview (financial results for year ended March 31, 2010)

Medical practice revenue	¥2,131 million
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Operating loss	¥37 million
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Interest-bearing debt	¥2,543 million
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### Section 2: Background and circumstances leading to request for ETIC support

Deriving from a medical clinic established in 1891, Yojoin operates general hospital and geriatric healthcare institution in Kamakura City, Kanagawa Prefecture, particularly focusing on providing medical and nursing services for the elderly.

Yojoin has operated as a medical and geriatric healthcare institution in the region for over 100 years, but during the reconstruction of its facilities around 1993, changes of the design and contractor, and the discovery of archaeological remains on the construction site,

resulted in a lengthy period of closure for the hospital, causing a large increase in interest-bearing debt.

Moreover, Yojoin was operated in a manner that hindered functional development as a medical facility, for example by accepting a large number of long-term care patients into its general hospital wards, which restricted the capacity for revenue growth. In combination with a failure to develop an appropriate management structure, this led to a drop in profitability and problems with working capital and cash flow.

The collapse of Yojoin would have a severe impact on inpatients, outpatients, and others relying on the facility, and significantly impair the ability to provide necessary medical and nursing services in the local communities.

To avoid this outcome, Yojoin made the decision to apply for support from ETIC in an effort to reduce excessive interest-bearing debt and enable steady revitalization. Yojoin will work in coordination with Bank of Yokohama to plan and implement comprehensive business revitalization, incorporating the elimination of excessive debt, a shift in facility functionality, and structural reform.

### **Section 3: Outline of business revitalization plan**

#### **1. Basic policy**

In the first year, the business revitalization plan will seek to reduce excessive interest-bearing debt by requesting debt forgiveness from financial institutional creditors. Additionally, it will work to enable the provision of medical and nursing services that match the local needs and healthcare systems, ensuring the continuity of the hospital and elderly care facility in the region.

#### **2. Main Initiatives**

##### **(1) Transformation of hospital functions**

A cycle will be established in which inpatients are taken in from partner and emergency clinics, are treated at general hospital wards, and provided with support to return home at rehabilitation wards and elderly care facilities, before being released to care facility, elderly nursing homes, or their own home.

##### **(2) Development of business management functions**

To enable the steady implementation of the business revitalization plan, the board members, auditors and committee members will be reorganized, the decision

making process will be clarified, and a monitoring committee will be put in place to undertake appropriate management supervision.

Additionally, steps will be taken to recruit internal personnel and utilize external personnel, while strengthening the medical and operational functionality and maintaining rapid and appropriate provision of information to the management committee.

(3) Request for financial support

Of the ¥2.5 billion owed to financial institutions and others by Yojoin, financial support of approximately ¥800 million will be requested from financial institution and others. With regard to the remaining debt, a request will be made for an adjustment to the loan conditions (including an adjustment to the conditions of ¥300 million subordinated quasi-capital loan from Bank of Yokohama).

(4) Financing

Financing of the business is expected to be sufficient, provided that financial support is received in line with the business revitalization plan, along with additional financing from Bank of Yokohama and ETIC.

**Section 4. Conformance with standards for support**

(1) Standards for productivity improvement

The Enterprise Turnaround Initiative Corporation of Japan Support Standards (hereafter “Support Standards”) require that Yojoin Healthcare either increases ROE by at least two percentage points, increases the tangible fixed asset turnover ratio by at least five percentage points, or increases the value-add per employee by at least six percentage points within three years of the day of the decision to provide support. As a result of the implementation of the business revitalization plan, Yojoin Healthcare is expected to increase the tangible fixed asset turnover ratio by at least five percentage points, and increase the value-add per employee by at least six percentage points within three years of the day of the decision to provide support. Accordingly, the business revitalization plan is deemed to be meeting the standards for productivity improvement.

(2) Standards for financial soundness

The standards for financial support stipulate that the ratio of interest-bearing debt to cash flow should be within ten times, and current revenues should be greater than

current expenses within three years of the day of the decision to provide support. As a result of the implementation of the business revitalization plan, Yojoin Healthcare is expected to meet all of these standards. Accordingly, the business revitalization plan is deemed to be meeting the standards for financial soundness.

(3) Potential to refinance within three years

Implementation of the business revitalization plan is expected to significantly improve the financial condition of Yojoin, enabling the company to reach suitable levels of capital repayment and interest payment capacity, and making refinancing highly possible.

(4) Connection with structural oversupply

The regions in which the hospitals operated by Yojoin are located (Kanagawa secondary medical care area name: Yokosuka, Miura) are deemed to have an oversupply of beds, in that the current total number of beds for rehabilitation and general treatment (5,333, as of January 1, 2008) is in excess of the required number of beds (4,545).

Under the business revitalization plan, the number of beds at Yojoin will be maintained at the existing level, but the intake of post-acute and unstable patients will be increased, concomitant with the under-representation of these services in the local area. Accordingly, the plan has been judged as not hindering the resolution of structural oversupply.

(5) Consultation with workforce

There are no labor unions in Yojoin. As part of the revitalization process, it is planned that meetings with employees will be scheduled promptly after announcement of the decision to provide support, and opportunities provided to discuss employment conditions and other aspects of the business revitalization plan.

**Section 5. Responsibility of management**

In addition to accepting the resignation of the administrative director and other members of management, the directors will abandon the compassionate allowance related with board members' retirements.

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