

## ETIC to Provide Support to Saneikai Medical Association

April 5<sup>th</sup>, 2012

Enterprise Turnaround Initiative Corporation of Japan

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

1. Name of association concerned  
Saneikai Medical Association (hereafter “Saneikai”)
2. Name of financial institution jointly applying for rehabilitation support with Saneikai  
The Bank of Yokohama, Ltd. (hereafter “Bank of Yokohama”)
3. Outline of business revitalization plan  
Please see appendix.
4. Comments from State Ministers in charge of ETIC  
Prime Minister, Minister of Internal Affairs, Minister of Finance, Minister of Economy, Trade and Industry: No opinion expressed

Minister of Health, Labour and Welfare: *“I have no objection to the decision to support Saneikai. However, I ask that after reaching the decision to support, ETIC should encourage Saneikai to discuss the situation with employees as soon as possible. I also ask that in advising on and guiding the implementation of the corporate revitalization plan, ETIC should aim to ensure that Saneikai complies with related laws and regulations, and that the company also provides adequate opportunities for substantive discussions with the workforce with due consideration of employment stability and other such factors.”*

5. Comment from State Minister supervising business activities  
Minister of Health, Labour and Welfare: *“Although Saneikai is situated in the central medical services provision area, a region that has an oversupply of hospital beds, I have no objection to the decision to provide support, because the hospital plays a role*

*as a designated provider of emergency medical services and a member of the duty hospital roster.*

*I ask that in implementing the revitalization plan, due consideration is given to the opinion of the Governor of Kanagawa Prefecture, who is working to ensure that a proper structure exists for the provision of medical services, and that all necessary medical functions continue to be delivered through a system that has an appropriate scale in terms of available hospital beds and other such factors.”*

6. Debt purchase application period

From Thursday, April 5<sup>th</sup>, 2012 for receipt by ETIC no later than Thursday, June 7<sup>th</sup>, 2012.

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, other than those permitted under the business revitalization plan, before the end of the debt purchase period as per item 6 above.

8. Treatment of trade creditors

The decision by ETIC to provide support involves requesting the waiver of debt only from financial institutions providing loans to Saneikai. No request for support will be made with regard to trade debt. Therefore there will be no impact on trade creditors.

9. Basis for decision to support

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

(1) Rationale

Saneikai, based in Yamato City, Kanagawa Prefecture, is a medical care company that manages medical facilities currently comprising 121 beds. It is mainly focused on treatment of digestive system disorders and provides treatment mainly in the areas of internal medicine and surgery as well as cardiovascular treatment, orthopedics, urology and artificial dialysis. It is considered to be a business with high value to society. In particular, it occupies a leading position in the region in the treatment of digestive disorders, including by endoscopy, and by utilizing endoscopy examination to diagnose cancer it can be said to contribute to the prevention of cancer in the region. In addition, as a secondary emergency hospital it plays a role in emergency

medical care in Yamato City. ETIC therefore believes that Saneikai makes a large contribution to the local community. Furthermore, ETIC believes that as the medical facilities are a valuable resource, located near the train station (within walking distance of stations on the Tokyu Denentoshi and Odakyu Enoshima Lines in Yamato City, Kanagawa Prefecture) in the center of Yamato City and maintaining a significant number of doctors and nurses who are indispensable to the maintenance and development of medical treatment. If Saneikai became bankrupt and unable to provide medical treatment there would be major effects on users of the facilities, including in-patients, and considerable impact on the local community.

ETIC therefore believes that there is ample merit in the provision of business revitalization support to Saneikai and that this would contribute to the stable provision of medical care to the local community in the region.

There are relatively few cases where a hospital has been revitalized via a voluntary liquidation and ETIC will provide such a model through this program of support. By working with local financial institutions to implement business revitalization, ETIC also aims to contribute to regional expertise in hospital revitalization.

## (2) The Role of ETIC

ETICs planned role in this support program is as follows:

- (1) Act as a coordinator among the financial institutions concerned (for debt purchase)
- (2) Facilitate the involvement of new financial institutions
- (3) Supply management personnel

With regard to (1) above, ETIC will reduce excessive interest-bearing debt, by requesting support in the form of debt forgiveness from the financial institutions concerned, and improve the financial position of Sansei. ETIC also intends to effect debt purchases by requesting such purchases from the financial institutions involved.

With regard to (2), ETIC will provide funding up to a maximum of ¥525 million to stabilize Sanseikai's cash flow and ensure its revitalization.

With regard to (3), ETIC will strengthen the management structure by providing management personnel and enable the recipient to put in place the foundations needed to operate on a stable basis.

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## Appendix: Outline of the Business Revitalization Plan

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

#### 1.1 Names of companies

Saneikai Medical Association

#### 1.2 Main business

Hospital and clinic operations

#### 1.3 Main medical and nursing care facilities

(1) Saneikai Medical Association Chuorinkan Hospital (121 general beds)

4-14-18 Chuorinkan, Yamato City, Kanagawa Prefecture

(2) Saneikai Medical Association Chuorinkan-jin Clinic

301 KT Hasegawa Bldg., 4-15-22 Chuorinkan, Yamato City, Kanagawa Prefecture

#### 1.4 Location of head office

4-14-18 Chuorinkan, Yamato City, Kanagawa Prefecture

#### 1.5 Number of employees

251 (including non full-time employees; as of March 1, 2012)

#### 1.6 Labor union

None

#### 1.7 Financial institutions with whom transacting

The Bank of Yokohama, Ltd.

Credit Guarantee Corporation of Kanagawa-Ken

#### 1.8 Financial overview (as of December 31, 2011)

Income from medical operations: ¥1,956 million

Loss from medical operations: ¥72 million

Total assets: ¥852 million

Net assets: (¥7 million)

Interest-bearing debt: ¥334 million

#### (2) Background and circumstances leading to request for ETIC support

The recipient has suffered a loss of medical income on a number of occasions due to the retirement of doctors, a reduction in the number of beds, and low numbers of hospitalized patients as a result of policies designed to encourage the discharge of in-patients.

In order to compensate for the above-mentioned medical losses, the recipient has raised additional loans, notionally for operational purposes such as staff costs. Interest-bearing debt has expanded due to capital investments such as the building of new facilities and the

improvement of existing ones, and the introduction of new systems.

In view of its circumstances, the recipient entered into consultations with the Bank of Yokohama and decided to draw up a drastic restructuring plan, speedily implement restructuring and apply to ETIC for revitalization support.

### (3) Outline of the Revitalization Plan

#### 1. Basic Policy Regarding the Business Plan

Financial support as explained below will be implemented in the first year of the plan and excess debts reduced. In addition, Sanseikai's medical care capabilities will be further strengthened through its core expertise in endoscope-based digestive disease care. In order to improve cash flow, which deteriorated precipitously due to losses in the medical business in fiscal Dec. 2011, measures will be taken to improve profitability and restore operational viability. These include increased acceptance of dialysis patients (which had previously been reduced), boosting the operation rate in departments where in-patient numbers are low, and reducing costs by reviewing expenses currently outsourced.

#### 2. Main Initiatives to Improve Profitability

##### (1) Cost Reductions

Outsourced expenses will be cut.

##### (2) Capture more in-patients

In order to ensure a stable income base, profitability will be improved, both by winning more dialysis in- and outpatients, and by strengthening acute care so as to capture more in-patients in digestive medicine, internal medicine and orthopedics.

#### 3. Request for financial support to involved financial institutions

In order to conserve hospital assets, hospital real estate currently owned by Mr. Kiyama will be transferred and the recipient absolved from liability to the debt proportional thereto.

With regard to the ¥512 million in assets held by involved financial institutions after the transfer, ¥100 million will be forgiven and ¥170 million will be subject to a request for altered loan conditions, namely a quasi-capital subordinated loan (debt-debt swap).

#### 4. Funding Plans

There is no concern that the recipient will experience a funding shortage, as new financing will be provided by the involved financial institutions, ETIC and the Bank of Yokohama (to a maximum of ¥625 million), as determined in this revitalization plan.

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

This business revitalization plan meets ETIC's standards for support.

#### 1. Main clauses in standards for support

##### 1.1 Possession of effective management resources

Saneikai possesses effective management resources in that it has a sufficient number of physicians and nurses for the operation of this hospital and its medical facilities are located in a highly convenient area.

##### 1.2 Excessive indebtedness

Saneikai carries an excessive amount of debt compared to its revenues. Debt forgiveness and financial support are essential to the revitalization of Saneikai.

#### 2. Standards relating to decision to support

##### 2.1 Agreement of main creditor

The application by Saneikai was made jointly with main creditor The Bank of Yokohama.

##### 2.2 Standards for productivity improvement

Successful implementation of this business revitalization plan is expected to enable Saneikai to meet the required standards with respect to productivity.

##### 2.3 Standards for financial soundness

Successful implementation of this business revitalization plan is expected to enable Saneikai to meet the required standards with respect to financial soundness.

#### 3. Comparison with liquidation value

The value of Saneikai available through implementation of the business revitalization plan is estimated to be greater than the value available through debt recovery on bankruptcy or civil rehabilitation proceedings.

#### 4. Potential to refinance within three years

Implementation of the business revitalization plan is expected to significantly improve the financial condition of Saneikai, enabling it to reach an appropriate level of financial stability for the repayment of debt principal and interest, thereby making refinancing highly possible.

#### 5. Connection with structural oversupply

The regions in which the medical facilities operated by Saneikai are located (Kanagawa secondary medical care area name: Central Medical Area) are deemed to have an oversupply of beds, in that the current total number of beds for rehabilitation and general treatment (4,785) is slightly exceeding the required number of beds (4,750).

However, Saneikai's specialist capabilities in digestive disorders, focusing on endoscopes, creates a clear distinction between it and the excessive competition in this medical region, and because Saneikai will reinforce this specialist area under the business revitalization plan, the plan has been judged as not hindering the resolution of structural oversupply.

#### 6. Status of consultations with workforce

As the company does not have an employees union 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 and governance**

#### 1. Responsibility of investors

All current investors in Saneikai will renounce their equity interest claims, and with the exception of Satoshi Kiyama, will all resign from their positions at Saneikai. Saneikai will then become a non-equity based medical association, in which investors do not hold any claim to the refunding of their equity interests.

#### 2. Responsibility of management

In order to further strengthen the operational structure of Saneikai, and to ensure the stable execution of the business revitalization plan, with the exception of Chairman

Satoshi Kiyama all current employees, directors and board members of Saneikai will resign from their positions, and will transfer to a new operational system.

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