

Nagaileben7447 Tokyo Stock Exchange
First Section

14-Nov.-16

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Noboru Terashima**■ Net sales and each profit item exceeded the initial targets, and record highs were achieved**

Nagaileben <7447> (hereafter, also “the Company”) is the leading manufacturer of medical gowns in Japan, with a domestic market share of over 60%. In the consolidated results for FY8/16 announced by the Company, net sales increased 2.4% y-o-y to ¥16,537mn, operating profit rose 2.9% to ¥4,950mn, recurring profit decreased 3.0% to ¥4,937mn, and net profit attributable to the owners of the parent company increased 1.1% to ¥3,262mn. The reason for the decline in recurring profit was that while a foreign exchange gain of ¥226mn was recorded in FY8/15, this became a foreign exchange loss of ¥70mn in FY8/16 due to the appreciation of the yen. There were no major changes to the industry environment or market structure and net sales and each profit item exceeded their initial targets, and record highs were achieved.

The forecasts for the full-year consolidated results for FY8/17, which is currently underway, are for net sales to increase 2.8% y-o-y to ¥17,000mn, operating profit to rise 3.1% to ¥5,106mn, recurring profit to climb 4.3% to ¥5,150mn, and net profit attributable to the owners of the parent company to increase 8.2% to ¥3,528mn. The Company is particularly aiming to expand sales of healthcare wear, its mainstay products. In terms of expenses, domestic processing charges are forecast to increase, but this increase will be absorbed by the rise in the overseas production ratio, so the plan is to maintain the same profit margin as in the previous fiscal year. The ongoing favorable industry environment is expected to continue, so it is highly likely that the Company will achieve its forecasts.

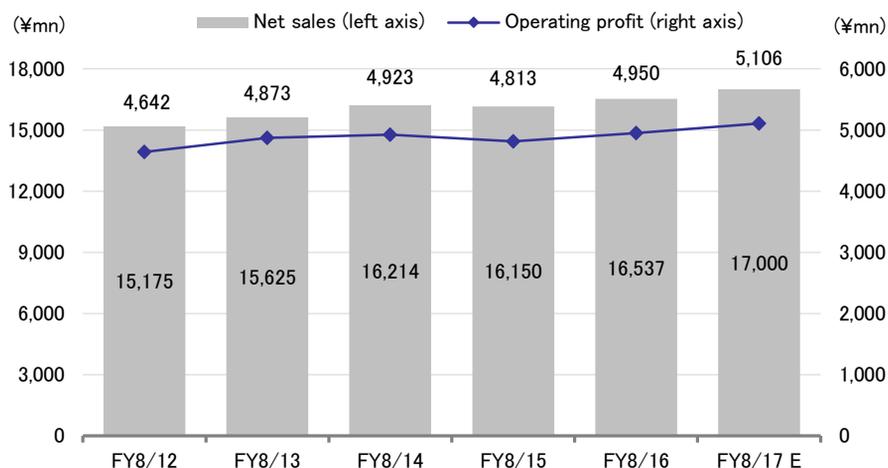
Based on the FY8/16 results, the Company has announced targets for FY8/19 in its new Mid-term Management Plan, of net sales of ¥18,000mn and operating profit of ¥5,400mn. It is considered that the Company will aim to achieve these targets through expanding overseas production and strengthening advanced-functions products with high margins.

The Company is also actively returning profits to shareholders. In FY8/15, in addition to the usual annual dividend of ¥50, it paid a commemorative dividend of ¥50 on the occasion of its 100th anniversary, and implemented a share buyback of 1 million shares through a tender offer (¥1,500mn). In FY8/16 also, it paid an annual dividend of ¥50 (for a dividend payout ratio of 52.5% on a non-consolidated basis). It has already announced that it will once again pay an annual dividend of ¥50 in FY8/17, but based on its pledge of a dividend payout ratio (on a non-consolidated basis) of above 50%, it may increase this dividend if profits exceed the forecast. So the Company merits praise for its commitment to returning profits to shareholders.

■ Check Point

- Sales and profits increased in FY8/16 from the steady acquisition of new projects
- Sales and profits are expected to increase in FY8/17 from the launches of high-value-added products
- Announced mid-term targets of net sales of ¥18.0bn and operating profit of ¥5.4bn

Trends in net sales and operating profit (consolidated)



■ Company profile

Going forward, its policy is to focus on expanding sales of advanced-function products

(1) Description of businesses

Nagaileben is a specialist manufacturer of medical gowns for nurses, doctors, patients and others. Established in 1915 as Nagai Shoten, the Company has a rich history. Since then, it has expanded its operations nationally to become a leading domestic manufacturer with a share of over 60% of the market for medical gowns for nurses.

Company history

1915	Founded business specializing in medical gowns in Kanda-Jinbocho in Tokyo, Japan, as Nagai Shoten, privately owned by Koji Nagai.
1950	Liquidated Tokyo Eisei Hakui Co. Ltd. Koji Nagai and Tatsuro Sawanobori jointly established Nagai Shoten Co. Ltd.
1969	Established a subsidiary, Nagai Hakui Kogyo Co. Ltd., in Akita Prefecture to expand the medical gowns manufacturing division. Tatsuro Sawanobori was appointed President. Shifted focus of manufacturing and sales business specialization from multi-purpose white gowns to medical gowns.
1977	Built second product center in Kameido, Tokyo. Established a partnership with a US company, G.D. Searle & Company, and established Japan Surgical Apparel Co. Ltd. in Hiroshima to expand sales of new surgical apparel products for hospitals.
1978	Established technology partnerships with Angelica Corp (US) and Toray Industries, Inc. Developed and released medical gowns made with a new fabric for leasing.
1980	Changed name to Nagai Co. Ltd. Opened a sales office in Takamatsu, Kagawa Prefecture. Concluded a license agreement with designer Kansai Yamamoto.
1982	Concluded a license agreement with designer Yukiko Hanai.
1988	Established Emit Co. Ltd. as a spin-off from Nagai Co. Ltd. Thereafter, the two companies exchanged their names, with Emit Co. Ltd. becoming a group management company, and Nagai Co. Ltd. becoming a group headquarters for sales.
1989	Newly built Nagai Luminous, a manufacturing plant for high-grade products, in Akita Prefecture. Started overseas production toward the global division of labor.
1994	Changed name from Nagai Co. Ltd. to Nagaileben Co. Ltd. Built a new logistics center in Akita Prefecture.
1995	Started over-the-counter trading of the Company's stock. Started development and sales of a second pillar product to respond to the aging of society. Vice President Ichiro Sawanobori appointed President.
1996	Concluded an agreement with French designer Andre Courreges.
1999	Opened a sales office in Nagoya, Aichi Prefecture. Concluded a license agreement with designer Atsuro Tayama.
2001	Listed on the Second Section of Tokyo Stock Exchange.
2002	Established a technology partnership with Standard Textile Company, Inc. (US) and Toray Industries, Inc. for surgical textiles. Raised the status of the Nagoya sales office to a branch.
2004	Acquired ISO 9001. Listed on the First Section of Tokyo Stock Exchange. Absorbed Hokkaido Nagai Co. Ltd. and established the Hokkaido branch
2005	Acquired ISO 14001. Concluded a license agreement with designer Keita Maruyama.
2006	Concluded a brand agreement with designer Minako Yokomori.
2014	Relocated to a new head office building in Kajicho, Chiyoda Ward, Tokyo.
2015	Held ceremony to commemorate its 100th anniversary.

a) Sales breakdown

All of the Company's products are medical gowns and related products. The contribution to sales by item (FY8/16) is 58.5% from healthcare wear, 16.1% from doctors' wear, 9.8% from patient wear, 9.5% from surgical wear, 3.6% from utility wear, 1.3% from other products, and 1.2% from shoes. Healthcare wear consists mainly of products for nurses, and utility wear consists of aprons, cardigans, and other items worn as outer garments. Profit margins for each item do not vary significantly, but the profit margins of purchased products, such as shoes, are relatively lower.

In terms of each region's contribution to sales (FY8/16), eastern Japan accounts for 51.6%, western Japan 36.8%, central Japan 10.4%, and overseas 1.2%. While coverage is nationwide, sales in western Japan and overseas remain low, indicating the potential for future expansion.

In terms of the contribution to sales by product (function) (FY8/16), advanced-function products constitute 52.7%, standard-function products 37.5%, mass-produced products 5.4%, and DC brand products 4.4%. As an example, in nursing wear products, when classified by price range, mass produced products are under ¥5,000, standard-function products are ¥5,000-7,500, advanced function products are ¥7,500-10,000, and DC brand products are over ¥10,000, with the higher the price, the greater the profit margin. Going forward, the Company plans to particularly focus on expanding sales of advanced-function products

b) Sales channels and production status

The Company's end users include nurses and doctors, with the purchasers of the products mainly being medical facilities such as hospitals, nursing care facilities, and other such facilities. However, the Company does not conduct direct sales, with 100% of sales being agency sales via medical equipment wholesalers that sell to these medical and other facilities. As a result, direct sales expenses are kept down, but the Company is still able to understand customers' needs as the sales staff is constantly in contact with large hospitals and other facilities.

In most cases up until recently, medical gowns were laundered within the hospitals by the hospitals themselves, but in recent years they have been switching to leasing alongside the spread in laundry outsourcing. The lease term is typically four years. Because this generates lease switching demand every four years, it seems to stably support the Company's earnings. However, the lease renewal cycle does not necessarily occur in the same time period as the previous time and there are cases of it being slightly before or after (a delay), so sometimes a slight shifting occurs for the net sales (y-o-y) for each quarter.

Looking at the Company's production structure, based on FY8/16 performance, internal production and at partner plants constitute an aggregate of 98.6% (51.2% domestically and 47.4% overseas), with purchased products accounting for 1.4%. Overseas production predominantly takes place in Indonesia, Vietnam, and China, but the Company owns no plants and the goods are produced at the plants of its local partners, which mitigates investment risk and reduces costs.

Provides products with excellent functionality and designs**(2) Characteristics and strengths**

The Company is a specialized manufacturer of medical gowns, and one of its strengths is that it has in place an integrated system to undertake every aspect of this business, from design through to raw material procurement, manufacturing, and sales. In its product planning, it can accurately understand customer needs and reflect them in its products. Specifically, the Company sells products that are easy to wear and easy to work in while incorporating anti-static, antibacterial, and other functions, as well as featuring excellent designs, and they have earned excellent reputations among their users. At the same time, it deals directly with major synthetics manufacturers and textiles traders, including Toray Industries, Inc. <3402>, with which it is jointly developing materials, so it is able to secure optimal materials and products at low costs while selling them at appropriate margins.

Furthermore, in addition to its large number of affiliated plants, the Company has the necessary financial resources to be able to constantly maintain product item inventories that extend into the thousands of varieties, while also being able to swiftly respond to a broad range of user needs, including for made-to-order products, through a rapid production and sales system (the Quick Response system) that delivers the desired product on the specified day. This has also helped to earn it the strong trust of its customers. On the sales side, it has a network of close to 1,000 agents nationwide, and while its sales capabilities are robust, the Company itself keeps down its sales expenses as much as possible.

As a result, the Company's share of the domestic market for medical gowns for nurses exceeds 60%, and it maintains a firm position as the leading medical gown manufacturer in Japan. Additionally, it is maintaining profitability with a gross profit margin of 46.8% (actual results for FY8/16). The fact that it is both highly profitable and has a high market share demonstrates that most of its customers are satisfied with its products and services, which is the Company's greatest strength

By concentrating its business resources in the niche market of medical gowns, the Company can efficiently manage every aspect of its business, from design through to manufacturing and sales. Moreover, although it is a niche market, there remains room for further development, as it has relatively low shares of the peripheral markets for patient wear, surgical wear, and other items. The Company has explicitly stated that the medical gown business could grow for some time and that it will take active steps to develop the peripheral markets

(3) Corporate policies

The Company commemorated its centennial in 2015, by cultivating a corporate culture called Nagaism that is focused on realizing interpersonal harmony, generating profits, and contributing to society. It has undertaken the following specific initiatives toward achieving these goals and intends to remain an enterprise that contributes to society and to the healthcare industry

a) A robust management approach

The Company is pursuing stable medium- and long-term growth by exploring principles.

b) Social responsibilities

1) Contributing to communities through production sites

The Company is creating employment and contributing to regional economies through its production operations in Akita Prefecture in Japan, in Dalian in China, and also in Indonesia, Vietnam, and elsewhere overseas.

2) Fostering opportunities for women

The Company is creating workplaces in which women can play key roles, including in the medical and apparel arenas.

3) Environmental initiatives

The Company secured ISO 14001 certification in 2005. It is also helping to address environmental issues by expanding sales of its COMPELPAK, which reduces medical waste

4) Support for children

The Company endeavors to educate and enlighten to make careers in the medical field more attractive to children, including by having the popular character, Miffy, visit pediatric wards and by lending children's coats to medical institutions.

c) Returns to shareholders

The Company actively returns profits to shareholders by providing stable dividends and maintaining a dividend payout ratio of at least 50% on a non-consolidated basis. It also flexibly repurchases its own shares when the share price is considered to be undervalued.

■ Results trends

Sales and profits increased in FY8/16 from the steady acquisition of new projects

(1) Summary of the FY8/16 consolidated results

a) Profit-and-loss conditions

In the consolidated results for FY8/16, net sales increased 2.4% y-o-y to ¥16,537mn, operating profit rose 2.9% to ¥4,950mn, recurring profit fell 3.0% to ¥4,937mn, and net profit attributable to the owners of the parent company climbed 1.1% to ¥3,262mn. Net sales and each profit item exceeded their initial targets, and record highs were achieved.

Summary of the FY8/16 consolidated results

(Unit: ¥mn, %)

	FY8/15		FY8/16			
	Amount	Percentages	Amount	Percentages	Change	y-o-y
Net sales	16,150	100.0	16,537	100.0	387	+2.4
Gross profit	7,532	46.6	7,735	46.8	202	+2.7
SG&A expenses	2,719	16.8	2,784	16.9	65	+2.4
Operating profit	4,813	29.8	4,950	29.9	137	+2.9
Recurring profit	5,088	31.5	4,937	29.9	-151	-3.0
Net profit attributable to the owners of the parent company	3,225	20.0	3,262	19.7	36	+1.1

Source: the Company's financial results summary

In terms of market trends, there had been concerns about the effects from the revised medical fees and drug prices from the spring of 2016. But the effect from the medical fees themselves was +0.49%, so no particularly major impact was seen, and both the market environment and the industry environment were basically stable. In this sort of environment, due to the Company steadily capturing delayed large-scale renewal demand and smoothly acquiring new projects, and additionally from the effects of the price hikes to some products implemented from 2H of the previous fiscal year, net sales increased 2.4% y-o-y.

Gross profit increased ¥202mn y-o-y. On analyzing the factors behind this, the increase factors were ¥233mn from the higher sales and price hikes, and ¥97mn from the effects of the rise in the overseas production ratio (45.6%→47.4%). Conversely, the decrease factors were ¥22mn from the higher raw material prices and processing charges and ¥115mn from the increase in costs due to the exchange rate (the appreciation of the yen). As a result, the gross profit margin improved to 46.8% (compared to 46.6% in the previous fiscal year). Conversely, SG&A expenses increased 2.4% to ¥2,784mn, but this was mainly due to increases in expenses related to the Company's centennial anniversary of ¥34mn, which was factored into forecasts from the beginning, and pro-forma standard taxation of ¥50mn, and the amount was basically as initially forecast. As a result, operating profit rose 2.9% y-o-y to achieve a record high.

In contrast, recurring profit decreased 3.0% y-o-y, but this was mainly due to the effects of a foreign exchange loss recorded in costs in non-operating profit, which again was factored into the forecasts from the beginning. A foreign exchange gain of ¥226mn was recorded in FY8/15, which was from the dollar-denominated deposits held in order to hedge against the effects of a weak yen in costs of sales. But in FY8/16, this became a foreign exchange loss of ¥70mn, because although dollar-denominated deposits were reduced, the yen appreciated significantly. Due to this, recurring profit declined y-o-y, but the result still exceeded the initial forecast. In extraordinary profit and loss, there were no major fluctuations or unexpected events, but the corporate tax amount decreased following the lowering of the tax rate, so net profit attributable to the owners of the parent company increased 1.1% y-o-y to ¥3,262mn. Taken as a whole, the results can be said to be basically in line with the forecasts.

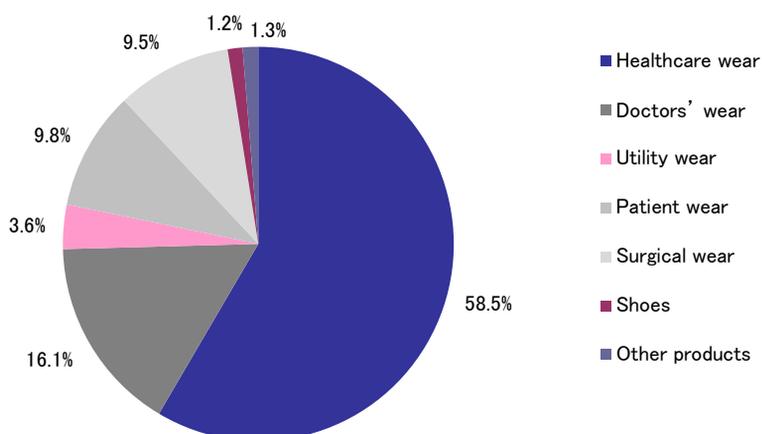
Net sales by item

(Unit: ¥mn, %)

	FY8/15		FY8/16	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	9,429	-0.1	9,674	+2.6
Doctors' wear	2,604	-2.6	2,654	+2.0
Utility wear	670	-9.8	601	-10.3
Patient wear	1,451	+7.2	1,613	+11.1
Surgical wear	1,560	+2.3	1,574	+0.9
Shoes	211	-10.9	204	-3.1
Other products	222	-7.0	213	-3.9
Total	16,150	-0.4	16,537	+2.4

Source: the Company's financial results summary

Net sales by item (FY8/16)



Source: the Company's financial results briefing materials

In net sales by item, healthcare wear increased 2.6% y-o-y to ¥9,674mn, doctors' wear rose 2.0% to ¥2,654mn, utility wear decreased 10.3% to ¥601mn, patient wear climbed 11.1% to ¥1,613mn, surgical wear increased 0.9% to ¥1,574mn, shoes declined 3.1% to ¥204mn, and other products decreased 3.9% to ¥213mn.

In the mainstay healthcare wear, due to the switching of some renewal demand and the delay in the recording of sales in Q1, net sales were significantly down y-o-y. However, following the recovery of the delayed projects and the steady acquisition of the targeted renewal demand from Q2 onwards, sales for the full fiscal year recovered to increase 2.6%. The same trend was seen in doctors' wear and healthcare wear, of a recovery from Q2 onwards from the portions that sales declined in Q1, including from the strong performance of the new product lineup, and their results improved y-o-y.

Surgical wear was basically unchanged y-o-y, with the COMPELPAK laundry sterilization plant having reached full capacity. Patient wear increased significantly, by double digits, including due to the contributions of the new product lineup. In utility wear, the trend of shifting from individual supply to that of common goods continued and sales declined y-o-y, but this result was within the scope of the forecast and was not surprising. Sales of shoes and other products also declined, but as their monetary contributions are small, the impact of these declines on the overall results were small.

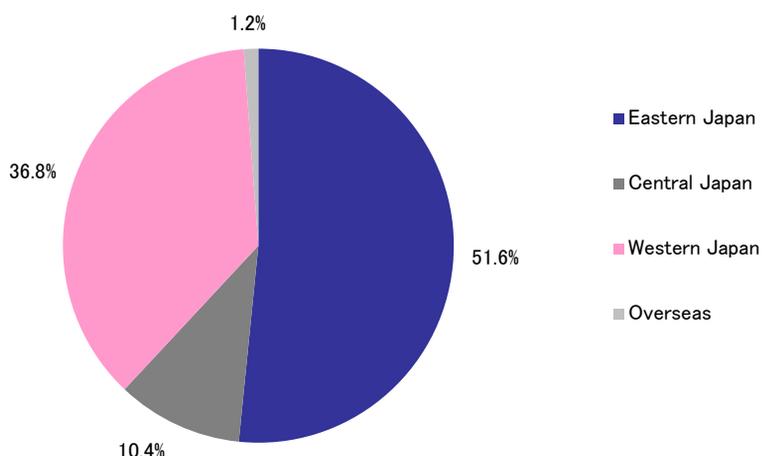
Net sales by region

(Unit: ¥mn, %)

	FY8/15		FY8/16	
	Amount	y-o-y	Amount	y-o-y
Eastern Japan	8,357	-1.2	8,539	+2.2
Central Japan	1,774	+1.7	1,717	-3.2
Western Japan	5,842	+0.0	6,080	+4.1
Overseas	176	+5.4	200	+14.1
Total	16,150	-0.4	16,537	+2.4

Source: the Company's financial results briefing materials

Net sales by region (FY8/16)



Source: the Company's financial results briefing materials

In net sales by region, in eastern Japan sales increased 2.2% y-o-y to ¥8,539mn, in central Japan they decreased 3.2% to ¥1,717mn, in western Japan they rose 4.1% to ¥6,080mn, and overseas they climbed 14.1% to ¥200mn. Although sales were slightly down y-o-y in eastern Japan up to the end of 1H, in 2H they recovered, particularly in Q3, which is the demand period, increasing 4.2% compared to 2H in the previous fiscal year and ultimately achieving record high net sales for the full fiscal year. Market scale is small in central Japan and it is significantly affected by the number of projects. In FY8/16, there was a delay in the period of projects and this caused sales to decline y-o-y, but this is not considered to be a cause for concern. In western Japan, market share trended steadily upward thanks to the steady acquisition of renewal projects and new projects, and the target was achieved and once again record high net sales were recorded. While the scale of sales from overseas is still small, the Company's products are becoming known for their quality and functionality and the number of repeat customers is steadily increasing, and as a result, overseas sales achieved double-digit growth.

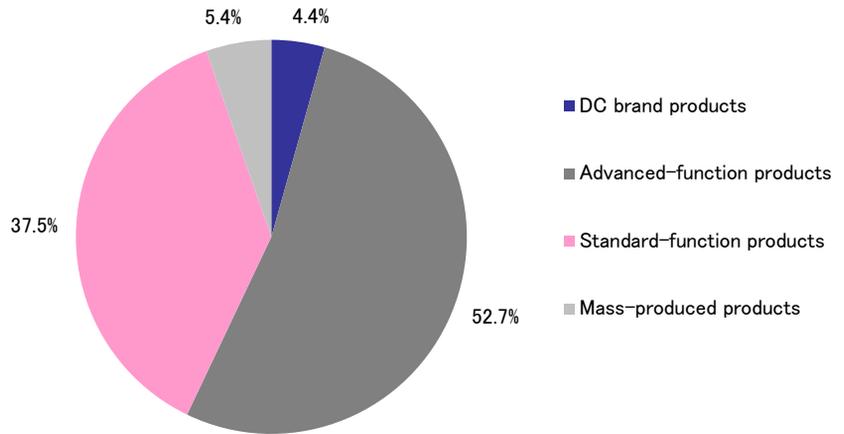
Net sales by product

(Unit: ¥mn, %)

	FY8/15		FY8/16	
	Amount	y-o-y	Amount	y-o-y
DC brand products	846	-9.9	720	-14.8
Advanced-function products	8,090	+3.8	8,720	+7.8
Standard-function products	6,252	-3.2	6,199	-0.9
Mass-produced products	960	-5.6	896	-6.6
Total	16,150	-0.4	16,537	+2.4

Source: the Company's financial results briefing materials

Net sales by product (FY8/16)



Source: the Company's financial results briefing materials

In net sales by product, DC brand products decreased 14.8% y-o-y to ¥720mn, advanced-function products increased 7.8% to ¥8,720mn, standard-function products fell 0.9% to ¥6,199mn, and mass-produced products decreased 6.6% to ¥896mn. In advanced-function products, which is the market's volume zone and in which the Company is most focusing its efforts toward expanding sales, sales steadily increased from capturing customers who already use standard-function products. Although sales of DC brand products and mass-produced products were down, their sales scales are small so these results are not a particular cause for concern.

Sales and profits expected to increase in FY8/17 from the launch of high-value-added products

b) Financial position

The Company's financial position continues to be stable. Total assets at the end of FY8/16 were ¥38,857mn, down ¥151mn compared to the end of the previous fiscal year. Current assets were ¥29,083mn, a decline of ¥628mn, with the main factors being increases in cash and deposits of ¥830mn and in notes and accounts receivable of ¥177mn, but a decrease in securities of ¥1,518mn following the redemption of investment trusts, including MMF. Fixed assets were ¥9,774mn, up ¥477mn, primarily due to an increase of ¥620mn in investments and other assets following the recording of ¥900mn in time deposits exceeding 1 year.

Total liabilities were ¥4,355mn, up ¥142mn compared to the end of the previous fiscal year. The main factors included an increase in bills and accounts payable of ¥162mn and a decrease in corporate tax payable of ¥1mn. Total net assets were ¥34,501mn, a decline of ¥293mn. This was mainly due to reductions in retained earnings of ¥62mn following the payment of dividends, and in the deferred gain/loss on hedges of ¥276mn. As a result of these factors, the shareholders' equity ratio was 88.8%, falling very slightly from 89.2% at the end of the previous fiscal year.

Summary of the consolidated balance sheet

	(Unit: ¥mn)		
	End of FY8/15	End of FY8/16	Change
Cash and deposits	18,673	19,504	+830
Notes and accounts receivable	4,689	4,866	+177
Securities	1,518	-	-1,518
Inventories	4,199	4,348	+148
Current assets, total	29,711	29,083	-628
Tangible fixed assets	7,605	7,476	-128
Intangible fixed assets	71	57	-14
Investments and other assets	1,619	2,240	+620
Fixed assets, total	9,296	9,774	+477
Total assets	39,008	38,857	-151
Bills and accounts payable	1,399	1,561	+162
Corporate tax payable	1,151	1,149	-1
Total liabilities	4,213	4,355	+142
Retained earnings	35,040	34,978	-62
Treasury stock	-4,902	-4,902	-0
Deferred gain/loss on hedges	276	0	-276
Net assets, total	34,795	34,501	-293
Total liabilities and net assets	39,008	38,857	-151

Source: the Company's financial results summary

c) Cash flow conditions

In FY8/16, cash flow from operating activities was ¥3,565mn. The main income items were the recording of net income before income taxes of ¥4,934mn, depreciation and amortization of ¥331mn, and an increase in accounts payable of ¥162mn, while the main expenditure items included increases in notes and accounts receivable-trade of ¥180mn and in inventory assets of ¥148mn. Cash flow used in investing activities was ¥1,997mn, which was primarily due to spending on fixed deposits (net) of ¥2,000mn and on the acquisition of tangible fixed assets of ¥151mn. Cash flow used in financing activities was ¥3,324mn, with the main item being ¥3,324mn for the payment of dividends. As a result, cash and cash equivalents during this fiscal period declined ¥1,787mn, and the balance of cash and cash equivalents at the end of the fiscal period was ¥6,704mn. The Company does not have any interest-bearing debt, and in addition, it holds ¥4,902mn of treasury stock (4,989,551 stocks). Therefore, as before it has an abundance of cash on hand.

Summary of the consolidated cash flow statement

	(Unit: ¥mn)	
	FY8/15	FY8/16
Cash flow from operating activities	2,727	3,565
Net income before income taxes	5,115	4,934
Depreciation and amortization	360	331
Change in notes and accounts receivable-trade	-55	-180
Change in inventory assets	-364	-148
Change to accounts payable	-118	162
Cash flow from investing activities	143	-1,997
Acquisition of tangible fixed assets	-204	-151
Change in fixed deposits (net)	200	-2,000
Cash flow from financing activities	-3,211	-3,324
Change to cash and cash equivalents	-179	-1,787
Balance of cash and cash equivalents at period end	8,491	6,704

Source: the Company's financial results summary

(2) The FY8/17 consolidated results forecast

The full year consolidated result forecasts for FY8/17 are for net sales to increase 2.8% y-o-y to ¥17,000mn, operating profit to rise 3.1% to ¥5,106mn, recurring profit to climb 4.3% to ¥5,150mn, and net profit attributable to the owners of the parent company to increase 8.2% to ¥3,528mn. There will be no revisions to medical fees, and the market and the industry environment are expected to continue to be stable and trend basically unchanged. In this sort of environment, the Company plans to achieve higher sales by increasing its shares of each market through launching highly functional and advanced high-value-added products.

Consolidated results forecast

(Unit: ¥mn, %)

	FY8/16		FY8/17 forecast			
	Amount	Percentages	Amount	Percentages	Change	y-o-y
Net sales	16,537	100.0	17,000	100.0	463	+2.8
Gross profit margin	7,735	46.8	7,945	46.7	210	+2.7
SG&A expenses	2,784	16.9	2,839	16.7	55	+2.0
Operating profit	4,950	29.9	5,106	30.0	156	+3.1
Recurring profit	4,937	29.9	5,150	30.3	213	+4.3
Net profit attributable to the owners of the parent company	3,262	19.7	3,528	20.8	266	+8.2

Source: the Company's financial results summary

Gross profit is expected to climb ¥210mn, with the positive factors forecast to be increases of ¥321mn from the higher sales and price hikes, and ¥52mn from the rise in the overseas production ratio, and the negative factors being ¥70mn from the effects of the higher raw materials and processing charges, and ¥71mn from the effects of the exchange rate (FY8/16 ¥99.8 / dollar→FY8/17 ¥103.8 / dollar) on costs. As a result, the gross profit margin is forecast to remain basically unchanged y-o-y, at 46.7% (46.8% in the previous fiscal year).

In addition, SG&A expenses are forecast to be ¥2,839mn (up 2.0% y-o-y), including due to the anticipated pro-forma standard taxation of ¥83mn. Therefore, operating profit is expected to be ¥5,106mn, which will once again be a record high. Moreover, as the effects of the exchange rate on costs in non-operating profit will be zero, both recurring profit and net profit attributable to the owners of the parent company are forecast to increase y-o-y.

Net sales forecasts by item

(Unit: ¥mn, %)

	FY8/16		FY8/17 forecast	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	9,674	+2.6	9,950	+2.8
Doctors' wear	2,654	+2.0	2,710	+2.1
Utility wear	601	-10.3	550	-8.6
Patient wear	1,613	+11.1	1,740	+7.9
Surgical wear	1,574	+0.9	1,650	+4.8
Shoes	204	-3.1	200	-2.3
Other products	213	-3.9	200	-6.4
Total	16,537	+2.4	17,000	+2.8

Source: the Company's financial results summary

In net sales by item, healthcare wear is forecast to be ¥9,950mn (up 2.8% y-o-y), doctors' wear ¥2,710mn (up 2.1%), utility wear ¥550mn (down 8.6%), patient wear ¥1,740mn (up 7.9%), surgical wear ¥1,650mn (up 4.8%), shoes ¥200mn (down 2.3%), and other products ¥200mn (down 6.4%).

Strong increases in sales are expected in healthcare wear and doctors' wear from the activation of their markets following the launches of new high-value-added products. The utility wear market is shrinking and its sales are forecast to continue to decline. The major increase in patient wear sales is set to continue from the effects of new product launches against the backdrop of the strong demand in this market. Higher sales are also expected in surgical wear from eliminating the cap at the COMPELPAK laundry sterilization plant and through developing new customers.

Net sales forecasts by regions

(Unit: ¥mn, %)

	FY8/16		FY8/17 forecast	
	Amount	y-o-y	Amount	y-o-y
Eastern Japan	8,539	+2.2	8,680	+1.7
Central Japan	1,717	-3.2	1,800	+4.8
Western Japan	6,080	+4.1	6,300	+3.6
Overseas	200	+14.1	220	+9.5
Total	16,537	+2.4	17,000	+2.8

Source: the Company's financial results briefing materials

The forecasts for net sales by region are ¥8,680mn in eastern Japan (up 1.7% y-o-y), ¥1,800mn in central Japan (up 4.8%), ¥6,300mn in western Japan (up 3.6%), and ¥220mn overseas (up 9.5%).

In eastern Japan, the Company expects sales to continue to increase from it steadily capturing demand for renewal projects by proposing new high-value-added products. In central Japan and western Japan, the Company is aiming to achieve sales growth y-o-y by focusing on increasing market share through strengthening sales promotions. Overseas results will be affected by exchange rates, but the Company plans to utilize its name recognition and focus on expanding sales. The plan is to increase sales in every region and to achieve record highs for net sales.

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Net sales forecasts by product

(Unit: ¥mn, %)

	FY8/16		FY8/16 forecast	
	Amount	y-o-y	Amount	y-o-y
DC brand products	720	-14.8	680	-5.7
Advanced-function products	8,720	+7.8	9,260	+6.2
Standard-function products	6,199	-0.9	6,200	0.0
Mass-produced products	896	-6.6	860	-4.1
Total	16,537	+2.4	17,000	+2.8

Source: the Company's financial results briefing materials

The net sales forecasts by product are ¥680mn for DC brand products (down 5.7%), ¥9,260mn for advanced-function products (up 6.2%), ¥6,200mn for standard-function products (0.0%), and ¥860mn for mass-produced products (down 4.1%).

Sales of DC brand products will be underpinned by the Miffy and Liberty brands, but the severe market conditions are set to continue for all other brands and therefore sales are expected to decline. The new lineups of advanced-function products have been favorably received by the markets and are trending strongly, and the Company plans to continue to promote its high-value-added strategy. The downward trend in mass-produced products is forecast to continue, but the plan is to pursue the transfer of these customers to functional products, including from other companies' projects.

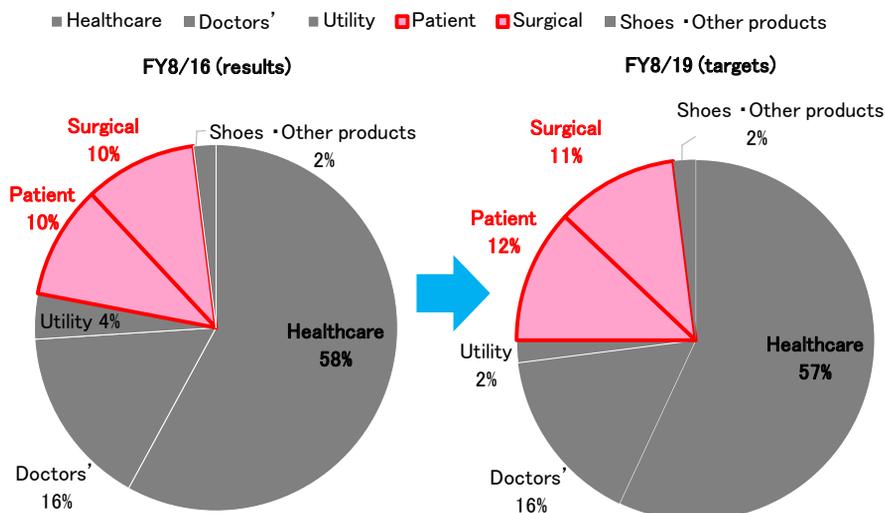
■ Mid-term Management Plan targets and outlook

Announced mid-term targets of net sales of ¥18.0bn and operating profit of ¥5.4bn

(1) Mid-term Management plan

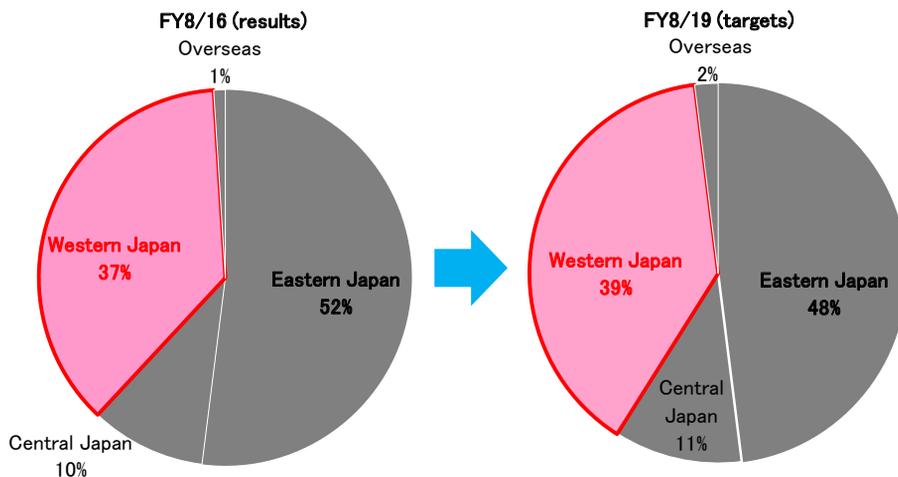
The Company initially announced targets for FY8/18 of sales of ¥17,500mn and operating profit of ¥5,300mn in its Mid-term Management Plan. But based on the FY8/16 results, it has newly announced the plan's mid-term targets for FY8/19, of net sales of ¥18,000mn and operating profit of ¥5,400mn.

Targeted net sales percentages by item



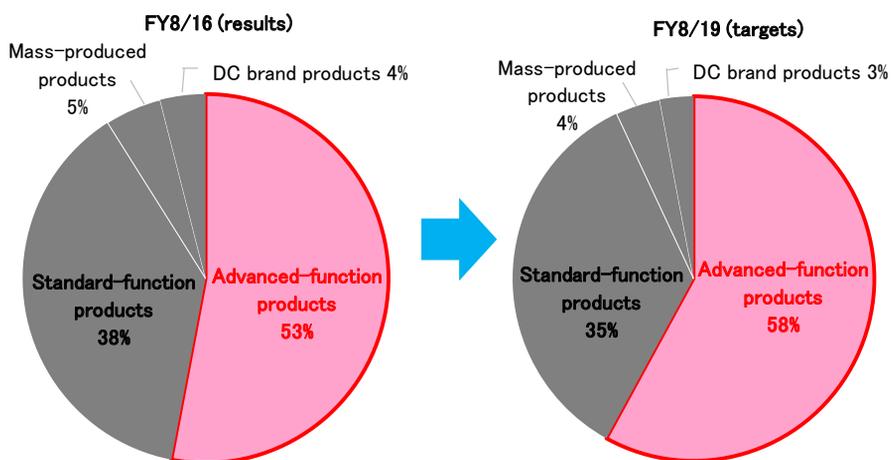
Targeted net sales percentages by region

■ Eastern Japan ■ Central Japan ■ Western Japan ■ Overseas



Targeted net sales percentages by product

■ Advanced-function products ■ Standard-function products
■ Mass-produced products ■ DC brand products

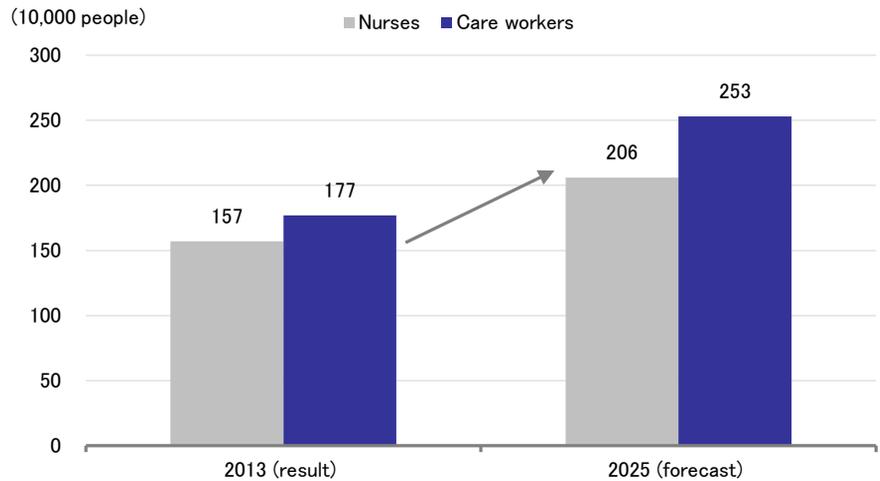


Source: the Company's financial results briefing materials

(2) Future business strategies

The operating environment surrounding the Company should be favorable for some time. According to data released by the Japanese Nursing Association and the Ministry of Health, Labour and Welfare, the number of nurses in Japan is projected to increase from 1.57 million in 2013 to a maximum of 2.06 million in 2025. Moreover, the number of care workers is forecast to increase from 1.77 million in 2013 to 2.53 million in 2025. In this operating environment, the Company plans to achieve its Mid-Term Management Plan by implementing the following strategies.

Estimates of future demand for nurses and care workers



Source: the Japanese Nursing Association and the Ministry of Health, Labour and Welfare

a) Marketing Strategy to boost sales

- Aim to increase share by further uncovering demand in the core markets, including the current mainstay markets for nurses and care workers.
- In addition to the existing mainstay healthcare wear products, further develop the peripheral markets, including patient wear and surgical wear.
- Open-up new markets by utilizing the Company's technological expertise in materials and apparel manufacturing, and its sales network.

b) Production strategy to ensure a stable supply

- In the context of the tightening of the domestic labor market, respond to wage increases among domestic manufacturers and further strengthen the production system.
- Strengthen measures for materials manufacturers and trading companies, and improve new product development capabilities.
- Further bolster the quick response system and the ability to respond rapidly to small-lot, multi-product orders.

c) Strategy toward stable profitability

- Further promote the shift from domestic production to overseas production.
- Actively utilize special tax measures, including EPA and FTA.
- Secure business profitability through flexibly revising prices in response to fluctuations in production costs, including from exchange rates.

■ Shareholder Returns Policy

Is highly aware of returns to shareholders and maintaining capital efficiency

The Company's shareholders' equity ratio reached 88.8% at the end of FY8/16, and it is financially stable. Additionally, considering the Company's business conditions, it seems highly unlikely that its profits will rapidly deteriorate, so continued stable earnings are expected. As a result, as its distribution of earnings outside the Company (particularly dividend payments) is low and profits will accumulate in shareholders' equity each year, return on equity (ROE) will decline; which is to say, capital efficiency will decline. But in addition to paying dividends commensurate with the growth in profits, the Company actively and comprehensively returns profits to shareholders, including through share buybacks, and as a result has maintained a high ROE (9.4% in FY8/16).



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The Company will thus maintain a stable financial position while pursuing solid shareholder returns. In FY8/15, it supplemented the normal dividend of ¥50 per share with an additional ¥50 per share to commemorate its centennial. This raised the total annual dividend to ¥100 per share, for a non-consolidated payout ratio of 107.5%. It also spent ¥1,500mn in repurchasing 1 million shares during the fiscal year, raising the total return ratio (non-consolidated basis) to 153.8%. In the completed FY8/16 also, it paid an annual dividend of ¥50 for a dividend payout ratio of 52.5% on a non-consolidated basis.

Trends in the dividend payout ratio and the total return ratio

	Total dividend amount (¥mn)	Share buybacks (¥mn)	Dividend payout ratio* (%)	Total returns ratio* (%)
FY8/01	475	0	27.4	27.4
FY8/02	475	0	29.3	29.3
FY8/03	530	1,697	29.7	124.6
FY8/04	744	0	36.5	36.5
FY8/05	1,117	0	56.9	56.9
FY8/06	1,117	0	53.4	53.4
FY8/07	1,117	0	53.1	53.1
FY8/08	1,083	1,077	56.6	111.2
FY8/09	1,040	1,220	57.3	122.2
FY8/10	1,127	0	51.4	51.4
FY8/11	1,205	226	52.0	61.7
FY8/12	1,205	0	55.1	55.1
FY8/13	1,541	229	51.3	58.7
FY8/14	1,712	0	54.4	54.4
FY8/15	3,324	1,500	107.5	153.8
FY8/16	1,662	0	52.5	52.5

*: on a non-consolidated basis

Source: the Company's financial results briefing materials

In every year in the last 10 years, the dividend payout ratio (on a non-consolidated basis) has exceeded 50%. For FY8/17 also, the Company has announced an annual dividend of ¥50 for a dividend payout ratio of above 50% on a non-consolidated basis, and it may also increase the dividend if profits exceed the forecast. In such ways, the Company is demonstrating that it is highly aware of returning profits to shareholders and maintaining capital efficiency, which merits praise.

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