# COMPANY RESEARCH AND ANALYSIS REPORT

# Nagaileben co., Ltd.

## 7447

Tokyo Stock Exchange First Section

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# Summary

## In FY8/19 1H, operating profit decreased 10.4% YoY, but this was due to special factors and was as expected

### 1. FY8/19 1H results

Nagaileben co., Ltd. <7447> (hereafter, also "the Company") is the leading manufacturer of medical gowns in Japan, with a domestic market share of over 60%. The Company boasts high profit margins and a solid financial condition. The Company has announced its FY8/19 1H consolidated results, in which net sales decreased 2.5% year on year (YoY) to ¥7,233mn, operating profit declined 10.4% to ¥1,797mn, recurring profit decreased 10.1% to ¥1,835mn, and net profit attributable to the owners of the parent company dropped 10.5% to ¥1,263mn. In its mainstay healthcare wear, sales declined due to fewer renewal projects YoY. In costs, gross profit margin declined 0.2 of a percentage point (PP) YoY due to special factors, including increases in depreciation expenses and real estate acquisition tax following the launch of the new plant. But on excluding these special factors, it improved 0.2 of a PP. Conversely, SG&A expenses increased 7.7% YoY because of temporary factors, mainly the abolition of the retirements benefits system for directors. As a result, operating profit declined by double digits, but this result was basically as expected and is not a cause for concern.

### 2. FY8/19 forecast

The forecasts for the FY8/19 full year consolidated results are for net sales to increase 2.7% YoY to ¥17,600mn, operating profit to decrease 0.4% to ¥5,242mn, recurring profit to decline 0.6% to ¥5,304mn, and net profit attributable to the owners of the parent company to fall 0.7% to ¥3,650mn. In 2H, the Company aims to secure higher sales by capturing the projects postponed in 1H, but also projects a slight decrease in gross profit margin due to higher depreciation expenses and real estate acquisition tax from construction of the new plant. In addition, ¥81mn was booked in 1H as a reward-for-retirement following the abolition of the retirement benefits system for directors, so operating profit is forecast to decrease marginally.

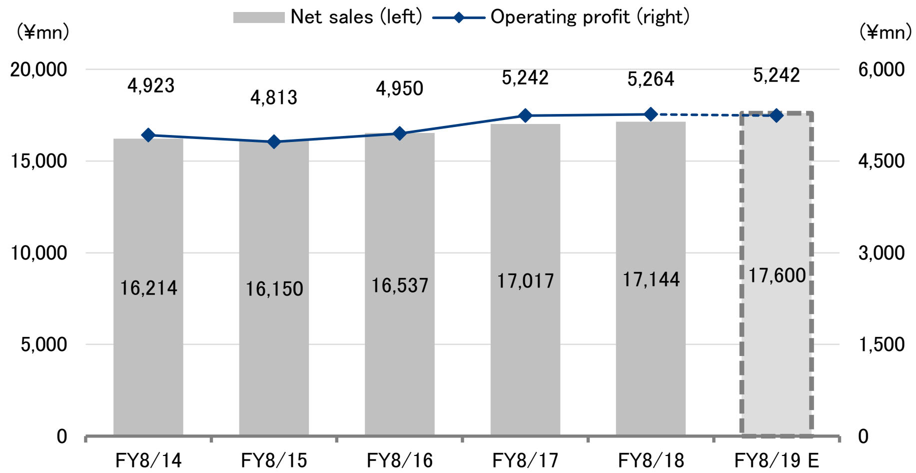
### 3. Mid-term Management Plan targets

Based on the results in the previous fiscal year (FY8/18), the Company announced that it had rolled over its plan up to that time and set new Mid-term Management Plan targets for FY8/21, of net sales of ¥18,600mn and operating profit of ¥5,600mn. It would seem to be aiming to achieve these targets through expanding overseas production and strengthening advanced-function products that have significant profit margins. The Company is also actively returning profits to shareholders. It has pledged a dividend payout ratio of above 50% (on a non-consolidated basis) and in this fiscal year (FY8/19), it plans to pay an annual dividend of ¥60, with the possibility of an increase depending on business performance. The Company has also declared it will flexibly buy back its own shares. Thus, the Company's approach toward returning profits to shareholders seems worthy of praise.

**Key Points**

- Operating profit is forecast to decrease slightly in FY8/19, down 0.4% YoY, due to special factors
- Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/21
- Annual dividend of ¥60 planned with proactive shareholder returns including share buybacks

Trends in net sales and operating profit (consolidated)




Source: Prepared by FISCO from the Company's financial results

# Company profile

## Leading manufacturer of medical gowns with a domestic market share of over 60%

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.

History

| | |
|---|---|
| 1915 | Mitsuji Nagai started a privately owned business "Nagai Shoten" specializing in medical gowns in Kanda-Jinbocho, Chiyoda-ku, Tokyo |
| 1950 | Liquidated Tokyo Eisei Hakui Co. Ltd. Mitsuji 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. Established technology partnerships with Angelica Corp (US) and Toray Industries, Inc. <3402>. Developed and released medical gowns made with a new fabric for leasing. |
| 1979 | Changed name to Nagai Co., Ltd. |
| 1980 | 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 a license 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. |
| 2016 | Transitioned to a Company with Audit & Supervisory Committee |
| 2017 | Concluded a joint development agreement with Shiseido Company, Ltd. <4911>. |
| 2018 | Constructed a new sewing center in Daisen City, Akita Prefecture |

Source: Prepared by FISCO from the Company's securities report

# Business overview

## Focusing on expanding sales of high value-added, advanced-function products

### 1. Sales breakdown

All of the Company's products are medical gowns and related products. The contribution to sales by item for FY8/18 is 58.2% from healthcare wear, 15.6% from doctors' wear, 2.9% from utility wear, 11.4% from patient wear, 9.6% from surgical wear, 1.1% from shoes, and 1.2% from other products. 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 and other products, are relatively lower.

In terms of each region's contribution to sales for FY8/18, eastern Japan accounts for 52.9%, western Japan 35.4%, central Japan 10.5%, and overseas 1.2%. While coverage is nationwide, sales in western Japan remain low, indicating the potential for future expansion including overseas.

The product (function) categories were changed from FY8/17. The Company's own brand of high-priced products, together with the products previously in the DC brand, became the "high-end products" category, and products that up to that time were called advanced-function products have been redefined and categorized as "high value-added products." The name of the standard-function products category was changed to "value-added products," while the mass-produced products category has been left unchanged.

In the new categories, the percentages of total net sales by product (FY8/18) are 7.4% from high-end products, 51.1% from high value-added products, 36.5% from value-added products, and 5.0% from mass-produced products. On looking at the approximate price-band classifications in nurse wear, mass-produced products are less than ¥5,000, value-added products are ¥5,000 to ¥7,500, high value-added products are ¥7,500 to ¥10,000, and high-end products are more than ¥10,000. The tendency is for higher prices to achieve greater profit margins, so the Company is focusing on expanding sales of high-end products and high value-added products.

### 2. 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, 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 renewal 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, so sometimes a slight shifting occurs for the net sales (YoY) for each quarter.

Looking at the Company's production structure, based on FY8/18 performance, internal production and at partner plants constitute an aggregate of 98.6% (49.6% domestically and 49.0% 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.

### 3. 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 planning 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 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 as mentioned above, 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 47.0% (actual results for FY8/18). 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 planning through to manufacturing and sales. Moreover, although it is a niche market, there remains room for further development, as the Company 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.

### 4. Company policy (initiatives for CSR/ESG)

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 for CSR/ESG.

#### (1) Expanding women's roles: Supporting industries led by women

Many of the Company's products are for women working on the frontlines at hospitals and nursing care facilities, and its production facilities have many women involved in sewing work. The Company's business operations create many opportunities to expand the roles of women from a variety of life stages, which connects to supporting working women.

**(2) Contributing to communities**

**a) Lending of historical gowns**

Together with the changes to gowns, the Company lends gowns free of charge, such as to the events of medical facilities, with the objective of understanding the history of nurses.

**b) 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, and in China, Indonesia, Vietnam, and elsewhere overseas.

**c) Medical kids project**

This project started from the idea of deepening interaction between hospitals and local communities and enabling children to attend hospitals or undergo hospitalization with ease of mind. Child-sized medical gowns resembling those worn by doctors and nurses are lent to hospitals and a Miffy character makes hospital visits.

**(3) Contributing to customers**

**a) Opened the ITONA gallery, an oasis for nurses**

The ITONA gallery, Japan's first communication space for nurses, was opened in 2015 to celebrate the centenary of foundation and as a gesture of gratitude to nurses, the Company's main end users.

**b) Beauty courses for nurses**

With the cooperation of Shiseido Japan Co., Ltd., the Company is providing practical courses, including learning about make-up and personal behavior that are suitable for nurses in medical settings.

**(4) Social contribution**

**a) Promotion of the employment of disabled persons**

Subsidiary Nagai hakui kougyou co., Ltd. was awarded by the Minister of Health, Labour and Welfare in September 2016 after being selected as a business in terms of contribution to the employment and promotion of people with disabilities.

**b) Disaster support activities**

Monetary donations, provision of medical gowns and presentation of wheelchairs and other items has been made through nursing associations or the Japanese Red Cross Society following the outbreak of SARS and natural disasters including the Indonesian earthquake, the Great Hanshin Earthquake, the Great East Japan Earthquake and the Kumamoto earthquakes.

**(5) Environmental initiatives**

The Company secured ISO 14001 certification in 2005. Cutting wastage from raw materials is reused for roofing processing and other purposes. The Company has also developed and sells COMPELPAK, a reusable product for use on surgical front lines. By converting to a reusable product instead of the disposable type that had been used until now, it enables medical waste to be reduced and contributes to solving environmental problems.

**(6) Recent new measure: support for Planting of Cherry Blossom Trees for Restoration in Minamisanriku**

For the "Forest of Life with an Ocean View" project, the Company is planting cherry blossom trees at sites hit by the Great East Japan Earthquake and tsunami in cooperation with volunteers from Minamisanriku Town, Miyagi Prefecture, in the disaster area.

# Results trends

## In FY8/19 1H, operating profit decreased 10.4% YoY, but this was due to special factors and was as expected

● Summary of FY8/19 1H consolidated results

(1) Profit-and-loss conditions

For FY8/19 1H consolidated results, the Company reported net sales of ¥7,233mn, down 2.5% YoY, operating profit of ¥1,797mn, down 10.4%, recurring profit of ¥1,835mn, down 10.1%, and net profit attributable to the owners of the parent company of ¥1,263, down 10.5%.

In costs, the gross profit margin declined 0.2 of a PP YoY due to special factors, including increases in depreciation expenses and real estate acquisition tax following the launch of the new plant. But on excluding these special factors, it improved 0.2 of a PP. Conversely, SG&A expenses increased 7.7% YoY because of temporary factors, mainly the abolition of the retirements benefits system for directors. As a result, operating profit declined by double digits, down 10.4%, but this result was basically as expected and is not a cause for concern.

Summary of FY8/19 1H consolidated results

(¥mn, %)

| | FY8/18 1H | | FY8/19 1H | | | |
|---|---|---|---|---|---|---|
| | Amount | % of total | Amount | % of total | Change | YoY |
| Net sales | 7,419 | 100.0 | 7,233 | 100.0 | -185 | -2.5 |
| Gross profit | 3,469 | 46.8 | 3,373 | 46.6 | -96 | -2.8 |
| SG&A expenses | 1,463 | 19.8 | 1,576 | 21.8 | 112 | 7.7 |
| Operating profit | 2,006 | 27.0 | 1,797 | 24.8 | -209 | -10.4 |
| Recurring profit | 2,042 | 27.5 | 1,835 | 25.4 | -207 | -10.1 |
| Net profit attributable to the owners of the parent company | 1,411 | 19.0 | 1,263 | 17.5 | -147 | -10.5 |

Source: Prepared by FISCO from the Company's financial results

Sales decreased, due to fewer renewal projects in the mainstay healthcare wear than in the same period in the previous fiscal year and the comparatively high level of sales in the same period in the previous fiscal year.

Gross profit decreased 2.8% YoY (down ¥96mn) to ¥3,373mn, with the decline in sales causing a reduction of ¥87mn and production factors causing a decrease of ¥10mn. Breaking down these production factors, a ¥13mn decrease was from the effect of the increase in processing costs (mainly overseas), a ¥20mn increase was from the effect of the exchange rate on costs (¥109.5 to US$1 in FY8/18 1H→¥107.4 to US$1 in FY8/19 1H), and a ¥13mn increase was from the effect of the rise in the overseas production rate (48.5% in FY8/18 1H→49.2% in FY8/19 1H). Moreover, there were also temporary increases in costs, as depreciation expenses rose ¥15mn and real estate acquisition tax grew ¥14mn following the construction of the new plant.

As a result, gross profit margin declined 0.2 of a PP YoY to 46.6%. However, on excluding these factors temporary increasing costs, it improved 0.2 of a PP to 47.0%, so this result is absolutely not a cause for concern.

Conversely, SG&A expenses increased 7.7% YoY to ¥1,576mn, but this was mainly because domestic shipping expenses rose ¥6mn and also due to a temporary factor, recording ¥81mn in reward-for-retirement on the abolition of the retirements benefits system for directors. SG&A expenses would only have increased 2.1% YoY if this reward-for-retirement had not been recorded.

Capital expenditure was ¥176mn. Breaking this down, ¥82mn was production facilities-related, ¥29mn was logistics facilities-related, ¥28mn was buildings-related, and ¥22mn was IT equipment-related. Depreciation expenses were ¥166mn, an increase of ¥25mn from the ¥141mn in the same period in the previous fiscal year.

As stated above, in this 1H, operating profit declined by double digits, but it can be said that this was mainly due to the decrease in sales and the increase in temporary costs. The former was due to the comparatively high level of sales in the same period in the previous fiscal year and also as some projects were postponed, so it is not a reason for pessimism. For the latter also, the cost-increase factors were as initially forecast and were basically within the expected range. Therefore, it can be said that the current decline in profits is absolutely not a cause for concern.

**a) Net sales by item**

In net sales by item, healthcare wear decreased 3.5% YoY to ¥4,116mn, doctors' wear decreased 0.8% to ¥1,084mn, utility wear decreased 10.9% to ¥202mn, patient wear increased 2.7% to ¥995mn, surgical wear decreased 1.7% to ¥687mn, shoes decreased 9.4% to ¥61mn, and other products decreased 11.7% to ¥86mn.

In the mainstay healthcare wear, sales of high-end products were steady, but there were fewer renewal projects than in the same period in the previous fiscal year, so sales fell as this decline could not be covered by new acquisitions. In doctors' wear, sales conditions for mass-produced products were harsh, but overall there were no major changes and sales were about the same YoY. In surgical wear, COMPELPAK performed steadily, but the other products struggled and sales decreased slightly. On the other hand, in patient wear, which the Company has focused on in the last few years, sales continued to increase by double digits against the backdrop of the market's expansion from the spread in the use of hospitalization sets. However, in FY8/19, 1H sales increased by only 2.7% due to the impact of the negative result in 1Q.

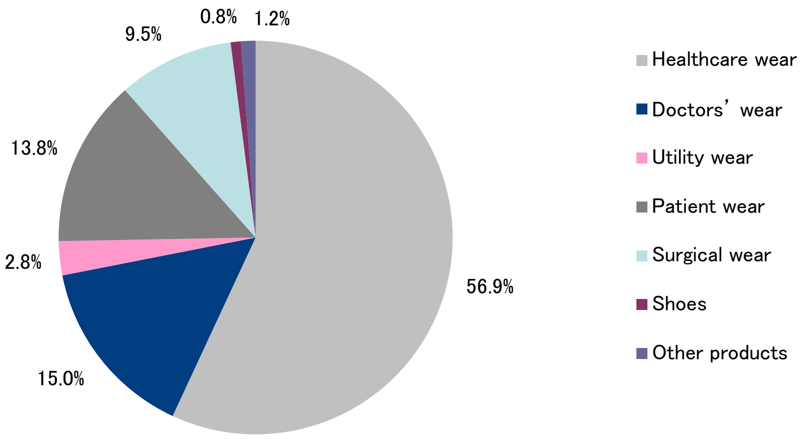
**Net sales by item**

(¥mn, %)

| | FY8/18 1H | | FY8/19 1H | |
|---|---|---|---|---|
| | Amount | YoY | Amount | YoY |
| Healthcare wear | 4,265 | +3.8 | 4,116 | - 3.5 |
| Doctors' wear | 1,092 | +1.6 | 1,084 | - 0.8 |
| Utility wear | 227 | - 6.1 | 202 | - 10.9 |
| Patient wear | 969 | +11.4 | 995 | +2.7 |
| Surgical wear | 698 | +2.6 | 687 | - 1.7 |
| Shoes | 67 | - 8.9 | 61 | - 9.4 |
| Other products | 97 | +2.4 | 86 | - 11.7 |
| Total | 7,419 | +3.8 | 7,233 | - 2.5 |

Source: Prepared by FISCO from the Company's financial results

Net sales by item (FY8/19 1H)




Source: Prepared by FISCO from the Company's results briefing materials

**b) Net sales by region**

By region, in eastern Japan, net sales decreased 1.7% YoY to ¥3,764mn; in central Japan, they decreased 13.0% to ¥705mn; in western Japan, they increased 0.3% to ¥2,668mn; and overseas, they dropped 20.4% to ¥94mn.

In eastern Japan, sales decreased due to high sales-increase rate in the same period in the previous fiscal year, and there were fewer renewal projects than in the same period in the previous fiscal year, in addition to a slowdown in the growth of sales in patient wear. In central Japan, the impact of the number of projects is significant because its market scale is small, and particularly in this 1H, the number of renewal projects was extremely small, so the sales-decrease rate was large. In western Japan, sales trended stably, but some new and renewal projects were postponed to the 2H, so sales were basically the same as in the same period in the previous fiscal year. Overseas, although the YoY sales-decrease rate was large due to large projects acquired in the same period in the previous fiscal year, its impact on the total amount was negligible as its absolute amount is still small.

Net sales by region

(¥mn, %)

| | FY8/18 1H | | FY8/19 1H | |
|---|---|---|---|---|
| | Amount | YoY | Amount | YoY |
| Eastern Japan | 3,829 | +5.6 | 3,764 | - 1.7 |
| Central Japan | 811 | +7.1 | 705 | - 13.0 |
| Western Japan | 2,659 | - 0.5 | 2,668 | +0.3 |
| Overseas | 119 | +26.8 | 94 | - 20.4 |
| Total | 7,419 | +3.8 | 7,233 | - 2.5 |

Source: Prepared by FISCO from the Company's results briefing materials

### c) Net sales by product

In net sales by products, high-end products increased 3.2% YoY to ¥540mn, of high value-added products decreased 0.1% ¥3,859mn, of value-added products declined 6.5% to ¥2,497mn, and of mass-produced products fell 6.4% to ¥336mn. In high-end products, sales increased for luxury brands, such as Bright Days, 4D+, and Beads Berry, mainly among small-lot users. In high-value added products, advanced-function products, such as PRO-FUNCTION, were favorably evaluated by the market and their sales increased. On the other hand, sales of general value-added products and mass-produced products decreased. However, as for mass-produced products, the plan is to transfer their customers to value-added products, including to the products of other companies.

**Net sales by product**

(¥mn, %)

| | FY8/18 1H | | FY8/19 1H | |
|---|---|---|---|---|
| | Amount | YoY | Amount | YoY |
| High-end products | 523 | +11.4 | 540 | +3.2 |
| High value-added products | 3,864 | +6.6 | 3,859 | - 0.1 |
| Value-added products | 2,671 | - 1.6 | 2,497 | - 6.5 |
| Mass-produced products | 359 | +6.1 | 336 | - 6.4 |
| Total | 7,419 | +3.8 | 7,233 | - 2.5 |

Source: Prepared by FISCO from the Company's results briefing materials

## Financial position is sound, with cash and deposits on hand of ¥21.7bn and an equity ratio of 90.8%.

### (2) Financial position

The Company's financial position continues to be stable. At the end of FY8/19 1H, total assets were down ¥1,183mn on the end of the previous fiscal year to ¥41,459mn. Current assets decreased ¥1,239mn to ¥31,981mn. This was due to a ¥2,171mn decline in cash and deposits, a ¥757mn increase in notes and accounts receivable, and a ¥685 increase in inventories. Fixed assets increased ¥55mn to ¥9,477mn, mainly due to a ¥47mn increase in investments and other assets. Inventories rose, but first of all this is compared to the end of the previous fiscal year, and moreover this is an intentional increase in advance of 3Q, which is the busy period, so there is no need to view it as a problem. Inventories increased only ¥62mn compared to the end of FY8/18 1H.

Total liabilities were ¥3,804mn, down ¥492mn compared to the end of the previous fiscal year. The main factors included a ¥429mn decrease in income taxes payable. Total net assets were ¥37,654mn, a decline of ¥690mn, mainly because of a decrease in retained earnings of ¥731mn following the payment of dividends. As a result, at the end of FY8/19 1H, the equity ratio had increased by 0.9 of a PP compared to the end of the previous fiscal year to 90.8%.

Summary of the consolidated balance sheet

(¥mn)

| | FY8/18 | FY8/19 1H | Change |
|---|---|---|---|
| Cash and deposits | 23,930 | 21,759 | -2,171 |
| Notes and accounts receivable | 3,133 | 3,891 | 757 |
| Inventories | 4,386 | 5,071 | 685 |
| Current assets | 33,220 | 31,981 | -1,239 |
| Tangible fixed assets | 7,880 | 7,894 | 13 |
| Intangible fixed assets | 44 | 39 | -5 |
| Investments and other assets | 1,497 | 1,544 | 47 |
| Fixed assets | 9,422 | 9,477 | 55 |
| Total assets | 42,643 | 41,459 | -1,183 |
| Notes and accounts payable | 1,424 | 1,508 | 84 |
| Income taxes payable | 1,057 | 628 | -429 |
| Total liabilities | 4,297 | 3,804 | -492 |
| Retained earnings | 38,670 | 37,939 | -731 |
| Treasury shares | -4,902 | -4,896 | 6 |
| Net assets | 38,345 | 37,654 | -690 |
| Total liabilities and net assets | 42,643 | 41,459 | -1,183 |

Source: Prepared by FISCO from the Company's financial results

### (3) Cash flow conditions

In FY8/19 1H, cash flow provided by operating activities was ¥7mn. The main income items were the recording of net income before income taxes of ¥1,833mn, depreciation and amortization of ¥166mn, and an increase in notes and accounts payable of ¥84mn, while the main expenditure items included increases in notes and accounts receivable of ¥312mn and inventories of ¥685. Cash flow provided by investing activities was ¥1,717mn. The main expenditure item was acquisition of tangible fixed assets of ¥183mn and the main income item was proceeds from withdrawal of time deposits of ¥1,900mn. Cash flow used in financing activities was ¥1,994mn, with the main item being ¥1,994mn in dividends paid. As a result, cash and cash equivalents during 1H decreased ¥271mn, and the balance of cash and cash equivalents at the end of FY8/18 1H was ¥5,159mn. The Company does not have any interest-bearing debt, and in addition, it holds ¥4,896mn of treasury stock (4,983,122 shares). Therefore, as before it has an abundance of cash on hand.

Summary of the consolidated cash flow statement

(¥mn)

| | FY8/18 1H | FY8/19 1H |
|---|---|---|
| Cash flow from operating activities | 114 | 7 |
| Net income before income taxes | 2,043 | 1,833 |
| Depreciation and amortization | 141 | 166 |
| Change in notes and accounts receivable-trade | -237 | -312 |
| Change in inventory assets | -697 | -685 |
| Change to accounts payable | 164 | 84 |
| Cash flow from investing activities | 1,895 | 1,717 |
| Acquisition of tangible fixed assets | -333 | -183 |
| Change in fixed deposits (net) | 2,200 | 1,900 |
| Cash flow from financing activities | -1,992 | -1,994 |
| Dividend payout | -1,992 | -1,994 |
| Change to cash and cash equivalents | 16 | -271 |
| Balance of cash and cash equivalents at period end | 4,678 | 5,159 |

Source: Prepared by FISCO from the Company's financial results

# Business outlook

## Despite higher sales, operating profit is forecast to decline in FY8/19 due to special factors

● **FY8/19 full-year outlook**

**(1) Outlook of profit and loss**

The forecasts for the FY8/19 full year consolidated results are unchanged from the initial forecast with net sales to increase 2.7% YoY to ¥17,600mn, operating profit to decrease 0.4% to ¥5,242mn, recurring profit to decline 0.6% to ¥5,304mn, and net profit attributable to the owners of the parent company to fall 0.7% to ¥3,650mn. Full-year presumptive conditions are as outlined below. The gross profit margin is forecast to decline due to factors including the impact of exchange rates and the increase in depreciation expenses. In addition, the Company expects transportation expenses to rise and to record a reward-for-retirement amount (¥81mn) following the abolition of the retirement benefits system for directors. Therefore, operating profit is forecast to decrease, it only slightly.

**FY8/19 consolidated earnings outlook**

(¥mn, %)

| | FY8/18 | | FY8/19 forecast | | | |
|---|---|---|---|---|---|---|
| | Amount | % of total | Amount | % of total | Change | YoY |
| Net sales | 17,144 | 100.0 | 17,600 | 100.0 | 455 | 2.7 |
| Gross profit | 8,050 | 47.0 | 8,210 | 46.7 | 159 | 2.0 |
| SG&A expenses | 2,786 | 16.3 | 2,968 | 16.9 | 181 | 6.5 |
| Operating profit | 5,264 | 30.7 | 5,242 | 29.8 | -22 | -0.4 |
| Recurring profit | 5,338 | 31.1 | 5,304 | 30.1 | -34 | -0.6 |
| Net profit attributable to the owners of the parent company | 3,675 | 21.4 | 3,650 | 20.7 | -25 | -0.7 |

Source: Prepared by FISCO from the Company's results briefing materials

Net sales were sluggish in the 1H, but in the 2H, renewal and new projects are expected in the mainstay healthcare wear, and in addition, the Company intends to further strengthen its value-added strategy for high-end products and high value-added products, and to further grow sales in peripheral markets, such as for patient wear and surgical wear. Therefore, it is forecasting higher sales YoY and once again achieve a record high.

The gross profit margin is forecast to decline slightly YoY, to 46.7% (47.0% in the previous fiscal year). Gross profit is expected to increase ¥159mn, with the anticipated factors being an increase of ¥212mn from the higher sales and a decrease of ¥52mn due to production. Breaking down the decreases due to production, they include a decrease of ¥40mn from the impact of the rise in raw material costs, processing costs and other costs, an increase of ¥11mn from the effects of the exchange rates on costs (¥109.6 to U.S.$1 in FY8/18→¥109.0 to U.S.$1 in FY8/19), an increase of ¥25mn from the rise in the overseas production ratio (49.0% in FY8/18→50.0% in FY8/19), a decrease of ¥30mn from the increase in depreciation expenses alongside the construction of the new plant, and a decrease of ¥14mn on the occurrence of real estate acquisition tax on the construction of the same new plant. However, for the exchange rates, the Company already has in place forward contracts for the portion from January to March 2019, and the actual average rates may be lower than expected.

SG&A expenses are forecast to be ¥2,968mn (up 6.5% YoY), as in addition to the increase from normal business expansion, the Company will record expenses of ¥81mn as the reward-for-retirement amount following the abolition of the retirement benefits system for executives. As a result, operating profit is expected to decrease, if only slightly, to ¥5,242mn (down 0.4%). Due to this, both recurring profit and net profit attributable to the owners of the parent company are also forecast to decrease.

### a) Net sales forecasts by item

In net sales by item, healthcare wear is forecast to be ¥10,180mn (up 2.1% YoY), doctors' wear ¥2,730mn (up 2.2%), utility wear ¥450mn (down 9.8%), patient wear ¥2,170mn (up 10.4%), surgical wear ¥1,700mn (up 3.5%), shoes ¥175mn (down 6.4%), and other products ¥195mn (down 4.5%).

**Net sales forecasts by item**

(¥mn, %)

| | FY8/18 | | FY8/19 forecast | |
|---|---|---|---|---|
| | Amount | YoY | Amount | YoY |
| Healthcare wear | 9,974 | 0.3 | 10,180 | 2.1 |
| Doctors' wear | 2,671 | -0.4 | 2,730 | 2.2 |
| Utility wear | 498 | -10.5 | 450 | -9.8 |
| Patient wear | 1,964 | 10.0 | 2,170 | 10.4 |
| Surgical wear | 1,643 | 0.6 | 1,700 | 3.5 |
| Shoes | 187 | -7.9 | 175 | -6.4 |
| Other products | 204 | -4.7 | 195 | -4.5 |
| Total | 17,144 | 0.7 | 17,600 | 2.7 |

Source: Prepared by FISCO from the Company's results briefing materials

In healthcare wear, sales are forecast to increase, as in addition to promoting new high value-added products, the Company expects more renewal projects in the 2H than in the previous period and to acquire new projects, while it is also forecasting a steady increase in high-end product sales. In doctors' wear, although mass-produced products are struggling, the Company is aiming to increase sales by focusing on growing sales of high-end products. In patient wear, business discussions for new measures are ongoing, and they may be realized in the 2H, so the forecast is for the double-digit increase in sales to continue. Sales of surgical wear are also expected to grow from increasing the capacity of the COMPELPAK laundry sterilization plant and from acquiring new customers.

### b) Net sales forecast by region

For net sales by region, the Company forecasts ¥9,270mn in eastern Japan (up 2.3% YoY), ¥1,800mn in central Japan (up 0.3%), ¥6,300mn in western Japan (up 3.8%), and ¥230mn in overseas (up 7.1%).

**Net sales forecast by region**

(¥mn, %)

| | FY8/18 | | FY8/19 forecast | |
|---|---|---|---|---|
| | Amount | YoY | Amount | YoY |
| Eastern Japan | 9,065 | 0.6 | 9,270 | 2.3 |
| Central Japan | 1,795 | 2.2 | 1,800 | 0.3 |
| Western Japan | 6,069 | 0.0 | 6,300 | 3.8 |
| Overseas | 214 | 16.4 | 230 | 7.1 |
| Total | 17,144 | 0.7 | 17,600 | 2.7 |

Source: Prepared by FISCO from the Company's results briefing materials

In eastern Japan, in addition to the renewal projects, the Company expects to acquire new projects. It is working to steadily capture demand for renewal projects through proposing high value-added products, and sales are expected to continue to increase. In central Japan, although sales decreased significantly in the 1H, it expects to acquire renewal projects in 2H, and the full fiscal-year sales are forecast to be basically unchanged YoY. In western Japan, sales are expected to increase, by capturing the projects postponed from previous period, and working to acquire new projects in patient wear. Overseas, conditions are affected by exchange rates, the Company will focus on strengthening the development of its Japanese business model (sales to linen suppliers) in Taiwan to achieve sales growth.

**c) Net sales forecasts by product**

In the net sales by product, the Company forecasts ¥1,370mn for high-end products (up 7.9% YoY), ¥9,170mn for high value-added products (up 4.7%), ¥6,260mn for value-added products (up 0.1%), and ¥800mn for mass-produced products (down 7.0%).

**Net sales forecasts by product**

(¥mn, %)

| | FY8/18 | | FY8/19 forecast | |
|---|---|---|---|---|
| | Amount | YoY | Amount | YoY |
| High-end products | 1,269 | 6.5 | 1,370 | 7.9 |
| High value-added products | 8,759 | 1.7 | 9,170 | 4.7 |
| Value-added products | 6,255 | -1.4 | 6,260 | 0.1 |
| Mass-produced products | 860 | -1.0 | 800 | -7.0 |
| Total | 17,144 | 0.7 | 17,600 | 2.7 |

Source: Prepared by FISCO from the Company's results briefing materials

In high-end products, the Company's luxury brands, including Bright Days', 4D+ and Beads Berry, are performing strongly among small-lot users in particular, thus the forecast for high-end products as a whole is for sales to increase. The high value-added products, such as PRO-FUNCTION advanced-performance products have been well- received by the market and their sales are trending favorably, and the Company plans to achieve even higher sales by continuing to promote its strategy of higher quality and value-added products. The forecast is for sales of mass-produced products to decline, but the plan is to transfer their customers to value-added products, including to the products of other companies.

**(2) Reorganization and streamlining of domestic plants**

To strengthen the production structure going forward, the Company merged two aging plants as a new plant adjacent to its logistics center. This move is designed to improve operation efficiency and facilitate quick response. The project has completed at the end of August 2018 and the depreciation cost expected to be recognized from FY8/19.

# Medium- to long-term growth strategy

## Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/21

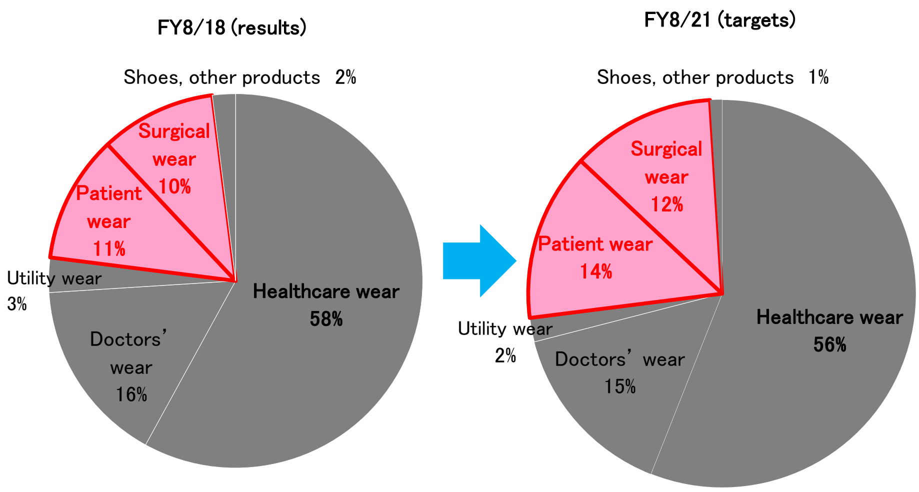
### 1. Mid-term Management Plan

The Company announced targets for FY8/21 of net sales of ¥18,600mn and operating profit of ¥5,600mn in its Mid-term Management Plan based on FY8/18 results.

For percentages of total net sales by item, the forecasts are 56% from healthcare (58% in FY8/18), 15% from doctors' wear (16%), 2% from utility wear (3%), 14% from patient wear (11%), 12% from surgical wear (10%), and 1% from shoes and other products (2%).

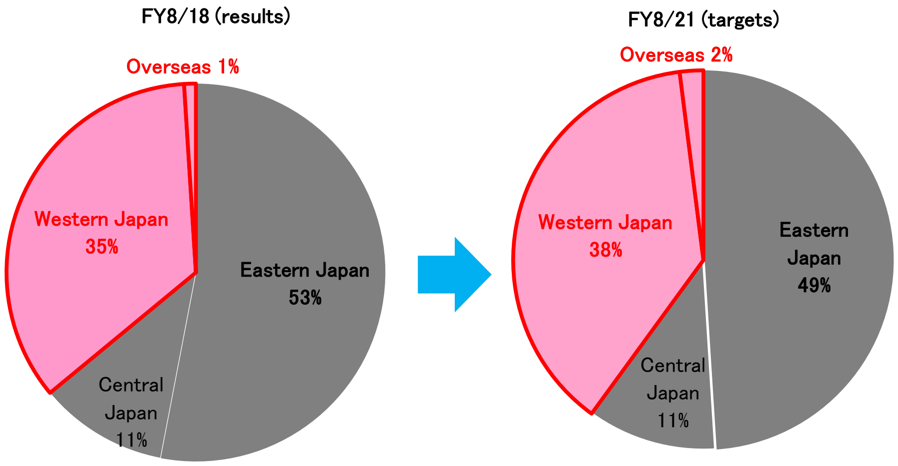
The forecast percentages of total net sales by region are 49% from eastern Japan (53%), 11% from central Japan (11%), 38% from western Japan (35%), and 2% from overseas (1%). The forecast percentages of total net sales by product are 9% from high-end products (7%), 54% from high value-added products (51%), 34% from value-added products (37%), and 3% from mass-produced products (5%).

Targeted net sales percentage by item



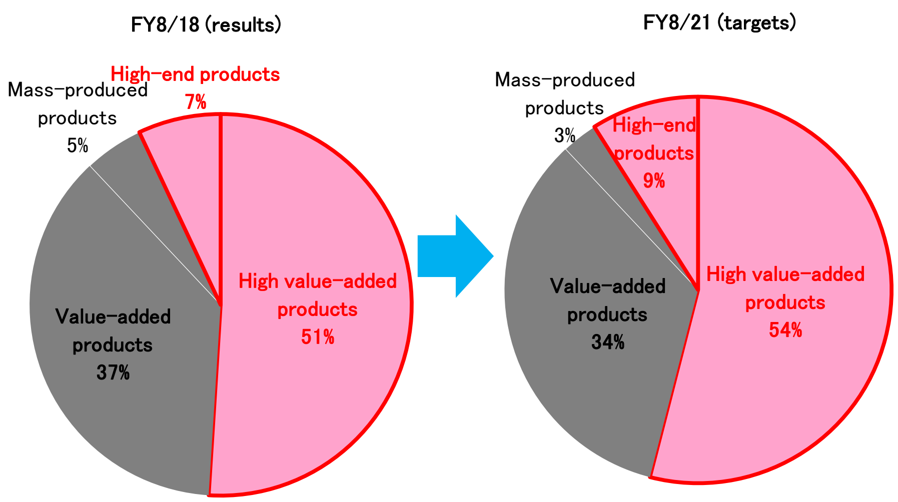

Source: Prepared by FISCO from the Company's results briefing materials

Targeted net sales percentages by region




Source: Prepared by FISCO from the Company's results briefing materials

Targeted net sales percentages by product



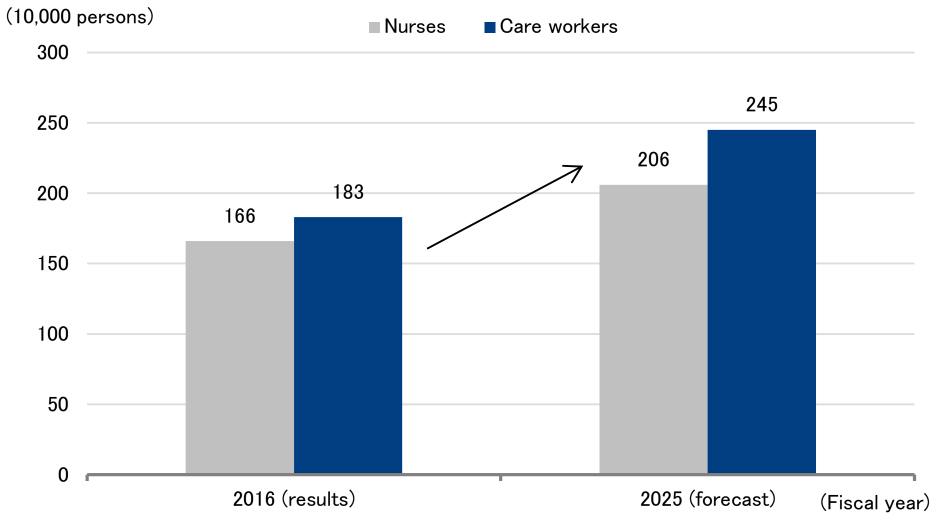

Source: Prepared by FISCO from the Company's results briefing materials

## Actively developing advanced-function products and high value-added products

### 2. Future business strategies

The operating environment surrounding the Company should be favorable for some time. According to data released by the Ministry of Health, Labour and Welfare, the number of nurses in Japan is projected to increase from 1.66 million in 2016 to as many as 2.06 million in 2025. Moreover, the number of care workers is forecast to increase from 1.83 million in 2016 to 2.45 million in 2025. In this operating environment, the Company plans to achieve its medium-term growth by implementing the following strategies.

Estimates of future demand for nurses and care




Source: Prepared by FISCO from the Company's results briefing materials

**(1) Marketing strategy to boost sales**

a) Aim to increase share by further uncovering demand in the core markets, including the current mainstay markets for nurses and care workers.

b) In addition to the existing mainstay healthcare wear products, further expand the peripheral markets, including patient wear and surgical wear.

c) Actively open up overseas markets. Particularly in Taiwan, the Company is progressing on establishing the same business model as in Japan (not only direct sales to hospitals, but also sales to linen suppliers), and future developments can be expected,

**(2) Production strategy to ensure a steady supply**

a) By relocating domestic sewing plants, further strengthen rapid responses and the ability to meet requests for small-lot, multiple-product production runs.

b) Strengthen collaborations with materials manufacturers and trading companies, and improve new product development capabilities.

**(3) Strategy to stabilize profitability**

a) Further promote the shift from domestic production to overseas production.

b) Develop new oversea materials applying special tax measures for EPA and FTA.

c) Secure business profitability by focusing on increasing sales of the high value-added products

# Shareholder return policy

## Pledges a dividend payout ratio of above 50% (non-consolidated basis) and while the forecast is for an annual dividend of ¥60, this may increase depending on the level of profits

The Company's shareholders' equity ratio reached 90.8% at the end of FY8/18 1H, 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, if its distribution of earnings outside the Company (particularly dividend payments) is low, profits will accumulate in shareholders' equity each year, and 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 (9.8% in FY8/18).

The Company will thus maintain a stable financial position while pursuing solid shareholder returns. In FY8/15, it supplemented the regular 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 FY8/16, it paid an annual dividend of ¥50 for a dividend payout ratio of 52.5% on a non-consolidated basis.

The Company has pledged a dividend payout ratio of above 50% on a non-consolidated basis. In FY8/17, it increased the annual dividend from ¥50 to ¥60, and paid an annual dividend of ¥60 for FY8/18. The Company is also forecasting an annual dividend of ¥60 for FY8/19, which is currently underway. It may further increase the dividend if profits exceed their forecasts.

Trends in the dividend payout ratio and the total return ratio

| | Total dividend amount (¥mn) | Share buybacks (¥mn) | Dividend payout ratio*(%) | Total return 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 |
| FY8/17 | 1,994 | 0 | 55.2 | 55.2 |
| FY8/18 | 1,994 | 0 | 55.2 | 55.2 |
| FY8/19 E | 1,994 | 0 | 55.3 | 55.3 |

* On a non-consolidated basis
Source: Prepared by FISCO from the Company's results briefing materials

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