COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben co., Ltd.

7447

Tokyo Stock Exchange First Section

25-Nov.-2019

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Summary

In FY8/19, operating profit decreased 6.6% YoY due to the decline in net sales and special factors

1. FY8/19 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 consolidated results, in which net sales decreased 2.1% year on year (YoY) to ¥16,785mn, operating profit declined 6.6% to ¥4,918mn, recurring profit decreased 6.5% to ¥4,990mn, and net profit attributable to the owners of the parent company dropped 6.3% to ¥3,445mn. Sales declined YoY because a renewal project for its mainstay healthcare wear was postponed further than expected. In costs, the gross profit margin declined 0.3 of a percentage point (PP) to 46.7% YoY due to special factors, including increases in depreciation and real estate acquisition tax following the launch of the new plant. But on excluding these special factors, it can be said it is basically unchanged YoY. Conversely, SG&A expenses increased 4.9% YoY because of temporary factors, mainly the abolition of the retirement benefit system for directors. As a result, operating profit declined by 6.6%, but this result was basically as expected from the result up to FY8/19 3Q.

2. FY8/20 forecast

The forecasts for the FY8/20 full year consolidated results are for net sales to increase 3.7% YoY to ¥17,400mn, operating profit to increase 5.1% to ¥5,167mn, recurring profit to increase 5.0% to ¥5,242mn, and for net profit attributable to the owners of the parent company to increase 4.6% ¥3,605mn. The Company plans to secure higher sales by capturing the projects put off in FY8/19. Meanwhile, the Company expects a continued increase in depreciation expenses in conjunction with the construction of the new plant, but is forecasting gross profit margin to remain at least the same level as FY8/19 due to factors including the disappearance of the real estate acquisition tax and the increase in the overseas production ratio. As a result, the Company is forecasting a year-on-year increase in operating profit due to the increase in sales.

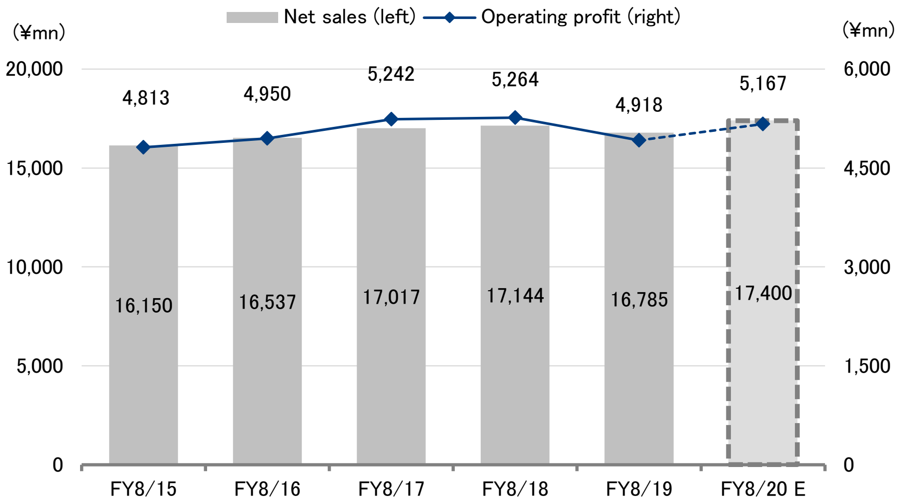
3. Mid-term Management Plan targets

Based on the results in FY8/19, the Company announced that it had rolled over its plan up to that time and set new Mid-term Management Plan targets for FY8/22, of net sales of ¥18,400mn and operating profit of ¥5,600mn. It would seem to be aiming to achieve these targets through expanding overseas production and strengthening highly functional 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 FY8/20, it plans to pay an annual dividend of ¥60 per share. 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 decreased slightly in FY8/19, down 6.6% YoY, due to special factors
- Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/22
- In FY8/20, an 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 website and the securities report

Business overview

Focusing on expanding sales of highly functional, high-value-added products

1. Sales breakdown

All of the Company’s products are medical gowns and related products. The contribution to sales by item for FY8/19 is 57.7% from healthcare wear, 15.9% from doctors’ wear, 2.6% from utility wear, 12.1% from patient wear, 9.5% from surgery wear, 1.0% from shoes, and 1.1% 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 FY8/19, eastern Japan accounts for 53.0%, western Japan 35.9%, central Japan 9.9%, and overseas 1.1%. 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 "highly functional products" have been redefined and categorized as "high-value-added products." The name of the "standard functional products" category was changed to "value-added products," while the "mass products" category has been left unchanged.

In the new categories, the composition of total net sales by product (FY8/19) is 7.6% from high-end products, 53.4% from high-value-added products, 34.1% from value-added products, and 4.9% from mass products. On looking at the approximate price-band classifications in nurse wear, mass products are ¥5,000 or less, value-added products are ¥5,000 to ¥7,500, high-value-added products are ¥7,500 to ¥10,000, and high-end products are ¥10,000 or more. 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 the past, medical gowns were laundered in-house by the hospitals themselves in most cases, 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 FY8/19 performance, internal production and at partner plants constitute an aggregate of 98.6% (49.4% domestically and 49.2% overseas), with purchased products accounting for 1.4%. Overseas production 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 in earning the strong trust of its customers. On the sales side, the Company has a network of close to 1,000 agents nationwide, and while its sales capabilities are robust, the Company itself keeps sales expenses as low 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 46.7% (actual results for FY8/19). 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. 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, surgery 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 "Nagaism," the company spirit, which 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 at hospitals 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, operating profit decreased 6.6% YoY due to the decline in net sales and special factors, but this was as expected

● **Summary of FY8/19 consolidated results**

(1) Profit-and-loss conditions

For FY8/19 consolidated results, the Company reported net sales of ¥16,785mn, down 2.1% YoY, operating profit of ¥4,918mn, down 6.6%, recurring profit of ¥4,990mn, down 6.5%, and net profit attributable to the owners of the parent company of ¥3,445mn, down 6.3%.

Summary of FY8/19 consolidated results

(¥mn, %)

	FY8/18		FY8/19			
	Amount	% of total	Amount	% of total	Change	YoY
Net sales	17,144	100.0	16,785	100.0	-359	-2.1
Gross profit	8,050	47.0	7,840	46.7	-210	-2.6
SG&A expenses	2,786	16.3	2,922	17.4	136	4.9
Operating profit	5,264	30.7	4,918	29.3	-346	-6.6
Recurring profit	5,338	31.1	4,990	29.7	-348	-6.5
Net profit attributable to the owners of the parent company	3,675	21.4	3,445	20.5	-230	-6.3

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

In the mainstay healthcare wear, sales of high-value-added products were strong, but overall net sales declined 2.1% YoY due to the fact that FY8/19 2H sales of value-added products were postponed to projects scheduled for renewal, as well as the fact that full-fledged negotiations with a new customer in patient wear, an area which has seen large growth in the past few years, were put off until FY8/20. Another possible factor is that linen suppliers (the company's customers, medical gown rental companies and laundering companies) have seen a decline in profitability due to the shortage of personnel and other factors, and this could have led to progress on price hike negotiations with end users (hospitals, clinics) not going as planned, which might have resulted in a delay in new orders placed with the Company. At any rate, if progress is made on these price revision negotiations, orders placed with the Company may recover.

In costs, there were special factors, including an increase in depreciation expenses (¥39mn) and the occurrence of real estate acquisition tax (¥14mn) following the start of operations at the new plant. As a result, the gross profit margin decreased 0.3 of a PP YoY to 46.7%, but excluding these special factors it was generally on par with FY8/18. On the other hand, SG&A expenses increased 4.9% YoY due to factors including the increase in domestic transport costs (¥9mn) in conjunction with transport rate hikes, as well as ¥81mn in reward-for-retirement in association with the abolition of the retirement allowance system for directors. As a result, operating profit decreased 6.6%, but this result was basically within the expected range based on results through Q3.

a) Net sales by item

In net sales by item, healthcare wear decreased 2.9% YoY to ¥9,681mn, doctors' wear increased 0.1% to ¥2,673mn, utility wear decreased 11.6% to ¥441mn, patient wear increased 3.5% to ¥2,033mn, surgery wear decreased 2.8% to ¥1,596mn, shoes decreased 8.2% to ¥171mn, and other products decreased 8.1% to ¥187mn. Sales for items other than doctors' wear and patient wear declined YoY due to somewhat lackluster performance overall.

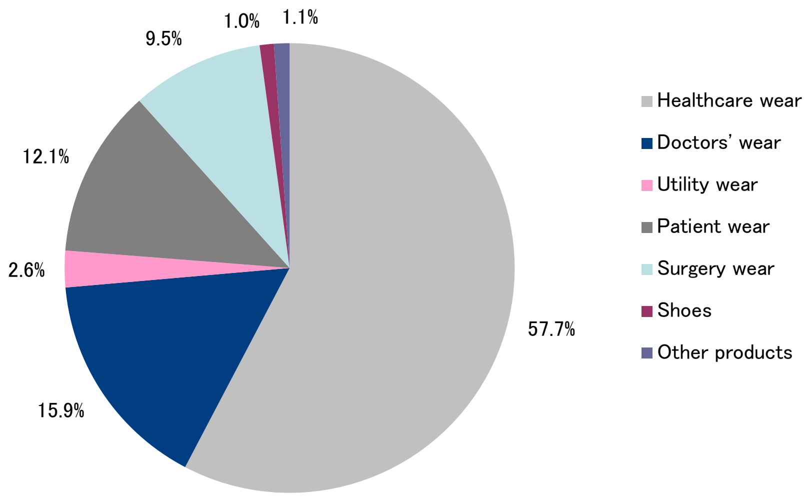
Net sales by item

(¥mn, %)

	FY8/18		FY8/19	
	Amount	YoY	Amount	YoY
Healthcare wear	9,974	0.3	9,681	-2.9
Doctors' wear	2,671	-0.4	2,673	0.1
Utility wear	498	-10.5	441	-11.6
Patient wear	1,964	10.0	2,033	3.5
Surgery wear	1,643	0.6	1,596	-2.8
Shoes	187	-7.9	171	-8.2
Other products	204	-4.7	187	-8.1
Total	17,144	0.7	16,785	-2.1

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

Net sales composition by item (FY8/19)



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

b) Net sales by region

By region, net sales in eastern Japan declined 1.8% YoY to ¥8,898mn, net sales in central Japan declined 7.3% to ¥1,664mn, while net sales in western Japan fell 0.6% to ¥6,033mn. Meanwhile, overseas net sales declined 11.5% to ¥189mn. In eastern Japan, the impact of the postponement of talks on renewal projects that had been scheduled for FY8/19 2H was significant, and the Company was not able to cover this with sales of other products, resulting in a decline in sales. In central Japan, the Company aimed for sales at least on par with FY8/18 due to the fact that there were few renewal projects, but there ended up being a YoY decline in sales as the Company was unable to cover the poor performance in FY8/19 1H. In western Japan, despite the progress on acquiring new projects, sales were basically on par with FY8/18 due to postponements of renewal projects and delays in capturing new business for patient wear. Overseas, because there were deliveries of large projects in FY8/18, the Company tried to make up for this by promoting its business model, but introductions were put off and sales declined.

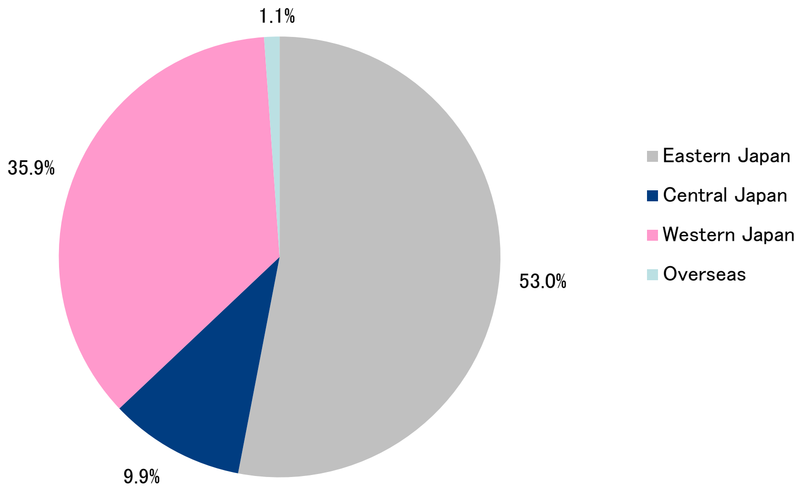
Net sales by region

(¥mn, %)

	FY8/18		FY8/19	
	Amount	YoY	Amount	YoY
Eastern Japan	9,065	0.6	8,898	-1.8
Central Japan	1,795	2.2	1,664	-7.3
Western Japan	6,069	0.0	6,033	-0.6
Overseas	214	16.4	189	-11.5
Total	17,144	0.7	16,785	-2.1

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

Net sales composition by region (FY8/19)



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

c) Net sales by product

By product, net sales for high-end products increased 0.4% YoY to ¥1,274mn, high-added-value products increased 2.4% YoY to ¥8,969mn, added-value products declined 8.6% to ¥5,716mn, while mass products fell 5.0% to ¥817mn. In high-end products, sales increased based on the expansion of sales of luxury brands including Bright Days, 4D+ and Beads Berry to markets besides small-lot users. In high-value-added products, advanced-performance products such as PRO-FUNCTION have been well-received by the market and their sales are trending favorably. Meanwhile, in value-added products, the Company encouraged the switch from mass products to value-added products, including other companies' projects, with the introduction of new products, but sales were sluggish. Mass products are not mainstay products, and sales declined YoY, but the value amount was not considerable and there is no need for concern.

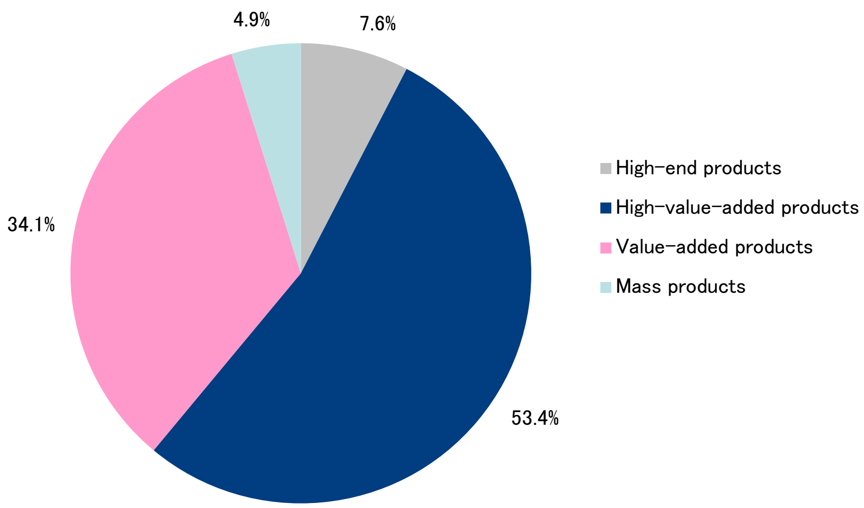
Net sales by product

(¥mn, %)

	FY8/18		FY8/19	
	Amount	YoY	Amount	YoY
High-end products	1,269	6.5	1,274	0.4
High-value-added products	8,759	1.7	8,969	2.4
Value-added products	6,255	-1.4	5,724	-8.6
Mass products	860	-1.0	817	-5.0
Total	17,144	0.7	16,785	-2.1

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

Net sales composition by product (FY8/19)



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

Financial position is sound, with cash and deposits on hand of ¥25.1bn and an equity ratio of 89.7%.

(2) Financial position

The Company's financial position continues to be stable. At the end of FY8/19, total assets increased by ¥1,637mn to ¥44,281mn compared to the end of previous fiscal year. Current assets increased by ¥1,833mn to ¥35,054mn. This was mainly due to a ¥1,227mn increase in cash and deposits, a ¥413mn increase in notes and accounts receivable, and a ¥93 increase in inventories. Conversely, fixed assets decreased by ¥195mn to ¥9,226mn, mainly due to a ¥113mn decrease in tangible fixed assets for depreciation.

Total liabilities were ¥4,559mn, up ¥261mn compared to the end of the previous fiscal year. The main factors included a ¥181mn increase in other current liabilities. Total net assets were ¥39,721mn, a rise of ¥1,376mn, mainly because of an increase in retained earnings of ¥1,450mn following the recording of net profit attributable to the owners of the parent company. As a result, at the end of FY8/19, the equity ratio had decreased by 0.2 of a PP compared to the end of the previous fiscal year to 89.7%.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/18	End of FY8/19	Change
Cash and deposits	23,930	25,157	1,227
Notes and accounts receivable	3,133	3,547	413
Inventories	4,386	4,479	93
Current assets	33,220	35,054	1,833
Tangible fixed assets	7,880	7,767	-113
Intangible fixed assets	44	32	-12
Investments and other assets	1,497	1,426	-70
Fixed assets	9,422	9,226	-195
Total assets	42,643	44,281	1,637
Notes and accounts payable	1,424	1,452	28
Income taxes payable	1,057	994	-63
Total liabilities	4,297	4,559	261
Retained earnings	38,670	40,120	1,450
Treasury shares	-4,902	-4,896	6
Net assets	38,345	39,721	1,376
Total liabilities and net assets	42,643	44,281	1,637

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

(3) Cash flow conditions

In FY8/19, cash flow provided by operating activities was ¥3,433mn. The main income items were the recording of net income before income taxes of ¥4,988mn, depreciation of ¥337mn, and an increase in notes and accounts payable of ¥27mn, while the main expenditure items included increases in notes and accounts receivable of ¥519mn and inventories of ¥93mn. Cash flow used by investing activities was ¥1,605mn. The main expenditure items were acquisition of tangible fixed assets of ¥231mn and fixed deposits (net) of ¥1,400mn. 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 the period decreased ¥172mn, and the balance of cash and cash equivalents at the end of FY8/19 was ¥5,257mn. The Company does not have any interest-bearing debt, and in addition, it holds ¥4,896mn of treasury stock (4,983,157 shares). Therefore, as before it has an abundance of cash on hand.

Summary of the consolidated cash flow statement

(¥mn)

	FY8/18	FY8/19
Cash flow from operating activities	4,009	3,433
Net income before income taxes	5,338	4,988
Depreciation	289	337
Change in notes and accounts receivable-trade	271	-519
Change in inventory assets	-74	-93
Change to accounts payable	-4	27
Cash flow from investing activities	-1,244	-1,605
Acquisition of tangible fixed assets	-878	-231
Change in fixed deposits (net)	-400	-1,400
Cash flow from financing activities	-1,994	-1,994
Dividend payout	-1,994	-1,994
Change to cash and cash equivalents	768	-172
Balance of cash and cash equivalents at period end	5,430	5,257

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

Business outlook

Forecasting higher sales and operating income in FY8/20 by capturing postponed projects

● FY8/20 full-year outlook

(1) Outlook of profit and loss

The forecasts for the FY8/20 full year consolidated results are for net sales to increase 3.7% YoY to ¥17,400mn, operating profit to increase 5.1% to ¥5,167mn, recurring profit to increase 5.0% to ¥5,242mn, and net profit attributable to the owners of the parent company to rise 4.6% to ¥3,605mn.

FY8/20 consolidated earnings outlook

(¥mn, %)

	FY8/19		FY8/20 forecast			
	Amount	% of total	Amount	% of total	Change	YoY
Net sales	16,785	100.0	17,400	100.0	615	3.7
Gross profit	7,840	46.7	8,130	46.7	290	3.7
SG&A expenses	2,922	17.4	2,963	17.0	41	1.4
Operating profit	4,918	29.3	5,167	29.7	249	5.1
Recurring profit	4,990	29.7	5,242	30.1	252	5.0
Net profit attributable to the owners of the parent company	3,445	20.5	3,605	20.7	160	4.6

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

Net sales are expected to increase 3.7% YoY due to the acquisition of renewal projects in healthcare wear, and by capturing large new projects in patient wear that had been put off.

The gross profit margin is forecast to be 46.7%, which is on par with FY8/19 (46.7%). Gross profit is expected to increase ¥290mn, with the anticipated factors being an increase of ¥287mn from the higher sales and an increase of ¥3mn due to production. The increase due to production is mainly from the increase in the overseas production ratio. Meanwhile, in terms of costs, the Company expects costs to increase ¥53mn due to the impact of the rise in domestic processing rates, and ¥62mn from the impact of the rise in raw materials prices. Also, costs are expected to decline ¥60mn due to the effects of the exchange rates on costs (¥107.5 to U.S.$1 in FY8/19→¥104.5 to U.S.$1 in FY8/20), a decline of ¥40mn from the increase in the overseas production ratio (49.2% in FY8/19→49.5% in FY8/20). However, for the exchange rates, the Company already has in place forward contracts for the portion from January to March 2020, a period where the exchange rates are relatively low (strong yen), so the actual average rates may be lower than the anticipated rates.

SG&A expenses are forecast to be ¥2,963mn (up 1.4% YoY), as despite the disappearance of expenditures as the reward-for-retirement amount following the abolition of the retirement benefit system for executives, an increase in expenses is expected in association with normal business expansion. As a result, operating profit is expected to increase to ¥5,167mn (up 5.1%). Due to this, both recurring profit and net profit attributable to the owners of the parent company are also forecast to increase.

a) Net sales forecasts by item

In net sales by item, healthcare wear is forecast to be ¥10,005mn (up 3.3% YoY), doctors' wear ¥2,750mn (up 2.9%), utility wear ¥400mn (down 9.3%), patient wear ¥2,250mn (up 10.6%), surgery wear ¥1,650mn (up 3.4%), shoes ¥165mn (down 3.9%), and other products ¥180mn (down 4.1%).

Net sales forecasts by item

(¥mn, %)

	FY8/19		FY8/20 forecast	
	Amount	YoY	Amount	YoY
Healthcare wear	9,681	-2.9	10,005	3.3
Doctors' wear	2,673	0.1	2,750	2.9
Utility wear	441	-11.6	400	-9.3
Patient wear	2,033	3.5	2,250	10.6
Surgery wear	1,596	-2.8	1,650	3.4
Shoes	171	-8.2	165	-3.9
Other products	187	-8.1	180	-4.1
Total	16,785	-2.1	17,400	3.7

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

In healthcare wear, the Company aims to increase sales, as in addition to postponed projects from FY8/19, it will focus on expanding sales of high-value-added products through new product development as well as by promoting large orders received for high-end products. In doctors' wear, although mass products are struggling, the Company plans to invigorate the market by continuing to introduce new value-added products at reasonable price bands, centered on expanded sales of high-end products. In patient wear, based on the fact that the Company still has a low market share, the Company is forecasting double-digit sales growth by introducing new products and expanding new customers. Sales of surgery wear are also expected to grow as a result of increasing the capacity of the COMPELPAK laundry sterilization plant and from progress on cultivating market share in areas where the Company had gotten a late start due to the acquisition of new customers from FY8/19.

b) Net sales forecast by region

For net sales by region, the Company forecasts ¥9,080mn in eastern Japan (up 2.0% YoY), ¥1,800mn in central Japan (up 8.2%), ¥6,300mn in western Japan (up 4.4%), and ¥220mn in overseas (up 15.8%).

Net sales forecast by region

(¥mn, %)

	FY8/19		FY8/20 forecast	
	Amount	YoY	Amount	YoY
Eastern Japan	8,898	-1.8	9,080	2.0
Central Japan	1,664	-7.3	1,800	8.2
Western Japan	6,033	-0.6	6,300	4.4
Overseas	189	-11.5	220	15.8
Total	16,785	-2.1	17,400	3.7

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

In eastern Japan, the Company will increase sales, as in addition to receiving orders for postponed projects, it will invigorate the market with highly-functional and highly-sensitive products. In central Japan, the market is small, so the number of projects has a large impact, but the Company aims to receive orders because there will be many renewal projects in FY8/20. In western Japan, sales are expected to increase by capturing the projects postponed from FY8/19, continuing to acquire new projects, and by introducing patient wear products in earnest. Overseas, although the conditions are affected by exchange rates, the Company will work to increase sales through sales promotion activities targeting market permeation, based on the fact that the Company's domestic business model (sales to linen suppliers) is close to being established.

c) Net sales forecasts by product

The net sales forecasts by product are ¥1,330mn for high-end products (up 4.3% YoY), ¥9,370mn for high-value-added products (up 4.5%), ¥5,910mn for value-added products (up 3.4%), and ¥790mn for mass products (down 3.3%).

Net sales forecasts by product

(¥mn, %)

	FY8/19		FY8/20 forecast	
	Amount	YoY	Amount	YoY
High-end products	1,274	0.4	1,330	4.3
High-value-added products	8,969	2.4	9,370	4.5
Value-added products	5,716	-8.6	5,910	3.4
Mass products	817	-5.0	790	-3.3
Total	16,785	-2.1	17,400	3.7

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, advanced-performance products such as PRO-FUNCTION 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 products to decline, but the plan is to shift to value-added products, including products of other companies.

Medium- to long-term growth strategy

Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/22

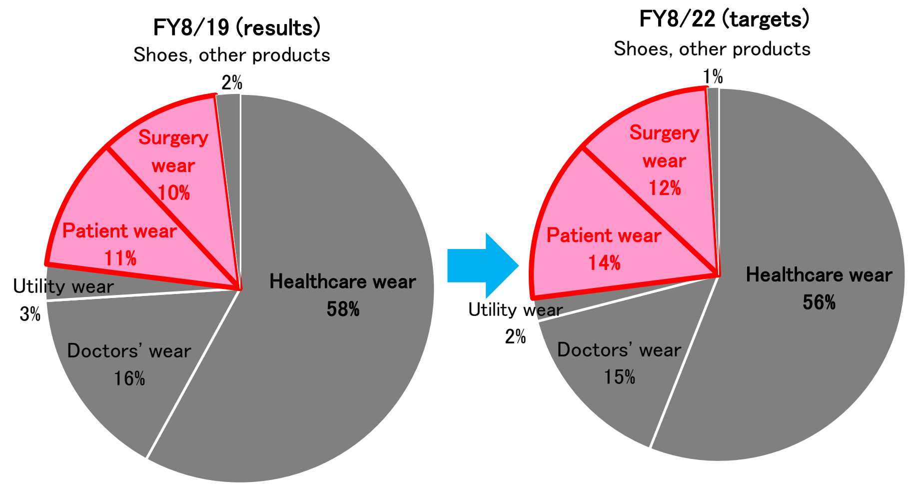
1. Mid-term Management Plan

The Company announced targets for FY8/22 of net sales of ¥18,400mn and operating profit of ¥5,600mn in its Mid-term Management Plan based on FY8/19 results.

For composition of total net sales by item, the forecasts are 56% from healthcare (58% in FY8/19), 15% from doctors' wear (16%), 2% from utility wear (3%), 14% from patient wear (11%), 12% from surgery wear (10%), and 1% from shoes and other products (2%).

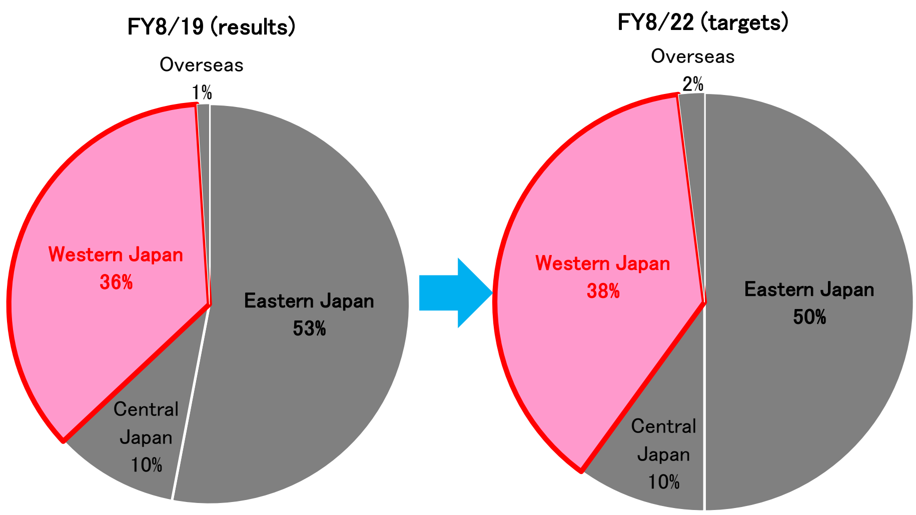
The forecast composition of total net sales by region is 50% from eastern Japan (53% in FY8/19), 10% from central Japan (10%), 38% from western Japan (36%), and 2% from overseas (1%). The forecast composition of total net sales by product is 9% from high-end products (8% in FY8/19), 55% from high-value-added products (53%), 33% from value-added products (34%), and 3% from mass products (5%).

Targeted net sales percentage by item



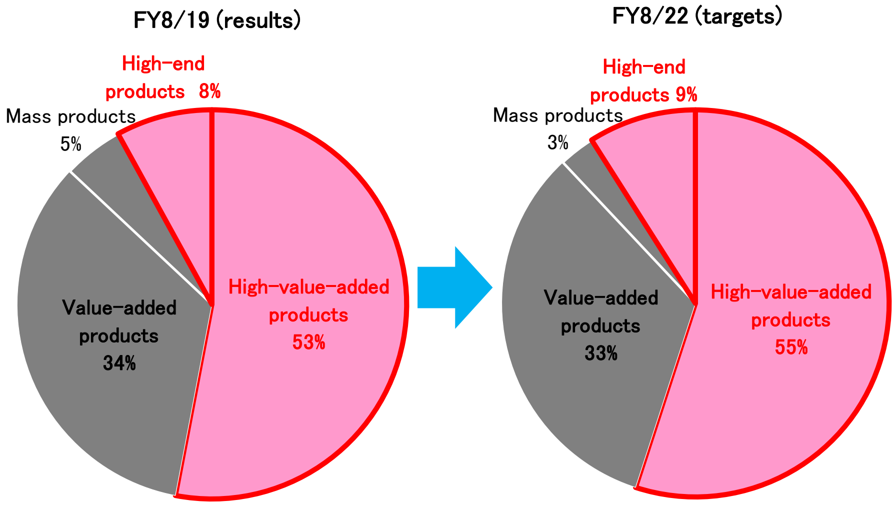
Source: Prepared by FISCO from the Company's results briefing materials

Targeted net sales percentages by region



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

Targeted net sales percentages by product

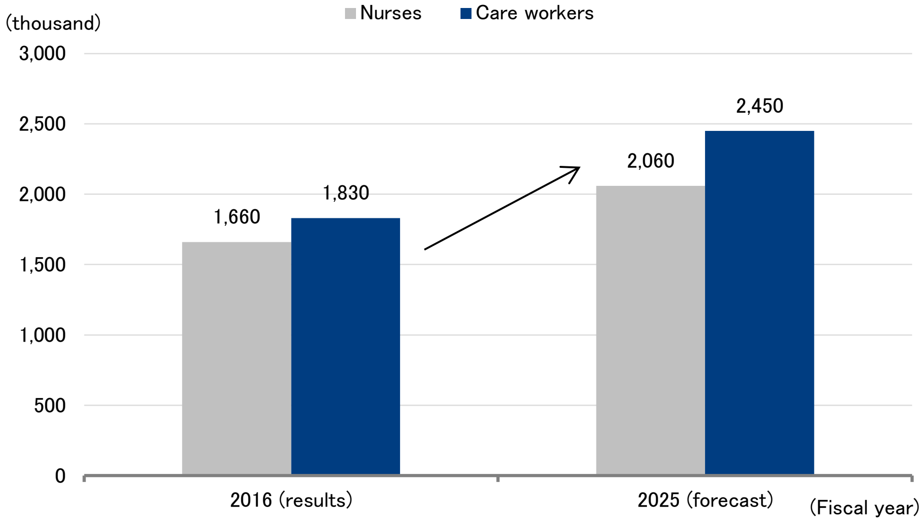


Source: Prepared by FISCO from the Company's results briefing materials

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.

Forecasts for future demand for nurses and care workers



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

(1) Marketing strategy to boost sales
a) Increase peripheral business in products for patients and surgery
b) Increase market share in western Japan
c) Development and sales of high-end products and high-value-added products
d) Cultivate overseas markets

(2) Strategy to increase profit margin
a) Promote high-value-added strategy
b) Shift production overseas
c) Minimize foreign exchange risk (level exchange rate fluctuations by using forward contracts)
d) Transfer materials overseas

Shareholder return policy

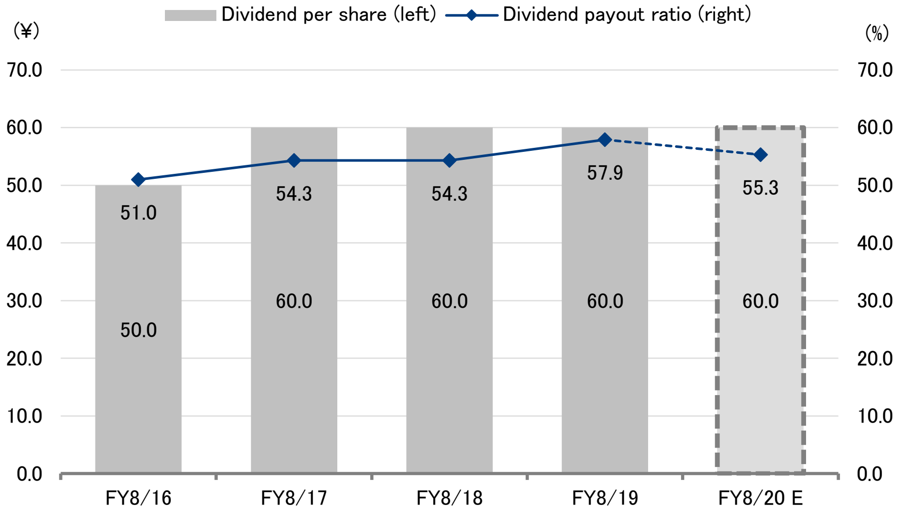
Pledges a dividend payout ratio of above 50% (non-consolidated basis) and while the forecast is for an annual dividend of ¥60

The Company's shareholders' equity ratio reached 89.7% at the end of FY8/19 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 (8.8% in FY8/19).

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 and FY8/19. The Company is also forecasting an annual dividend of ¥60 for FY8/20, which is currently underway.

Trends in the dividend and dividend payout ratio



* Dividend payout ratios are on a consolidated basis
Source: Prepared by FISCO from the Company's financial results

Trends in the dividend payout ratio* and the total return ratio*

(¥mn, %)

	Total dividend amount	Share buybacks	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	1,995	0	58.0	58.0

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

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