COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben co., Ltd.

7447

Tokyo Stock Exchange First Section

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Index

Summary

In FY8/20 1H, deliveries were delayed due to the confusion at medical sites from the COVID-19 pandemic, but the Company is expecting them to recover in the 2H

1. FY8/20 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. In the consolidated results for FY8/20 1H announced by the Company, net sales decreased 2.5% year on year (YoY) to ¥7,051mn, operating profit decreased 3.2% to ¥1,739mn, recurring profit decreased 2.3% to ¥1,793mn, and net profit attributable to the owners of the parent company decreased 2.1% to ¥1,236mn. Up to January 2020, sales were maintained at levels above those in the same period in the previous fiscal year. But on entering February, there was confusion at medical sites due to the COVID-19 pandemic, and alongside this, there were delays in deliveries to medical facilities and other locations, and as a result, sales and profits decreased. However, the COVID-19 pandemic is having no impact on the production, sales, and logistics work sites related to the Company Group. But on the other hand, it has started to develop products to control the infection (such as reusable protective clothing and masks) and is aiming to market launch them during FY8/20.

2. FY8/20 forecasts

The forecasts for the FY8/20 full year consolidated results have been left unchanged with 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 decline in sales in the 1H is not because orders have disappeared, but rather as they have been delayed due to the confusion at medical sites. Therefore, the forecast is that an increase in sales will be secured from steadily delivering these delayed projects and recovering them in the 2H. 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.

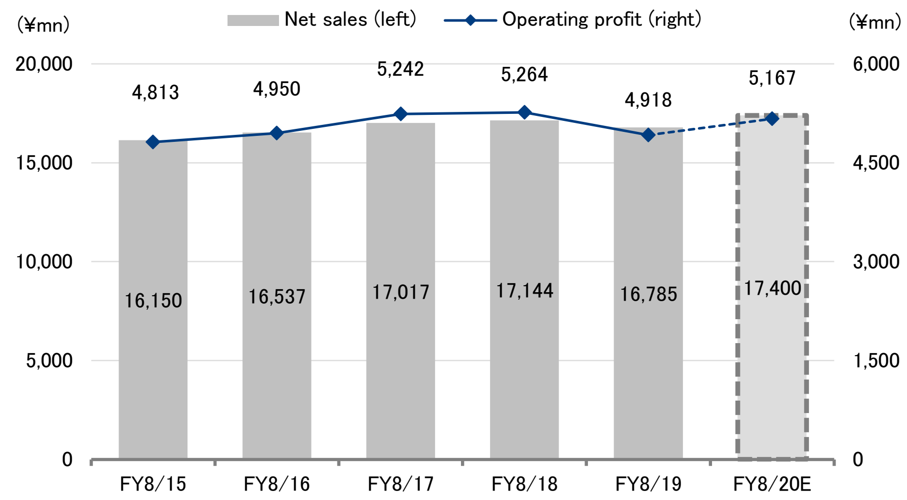
3. Mid-term Management Plan targets

Based on the results in FY8/19, the Company had announced to roll over the plan up to that time and set new Mid-term Management Plan targets for FY8/22, and for now the targets have been left unchanged with 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. In addition, it acquired 400,000 treasury shares (¥1,031mn) through a share buyback in November 2019, and as a result, the FY8/20 total return ratio is expected to be 84.9%. So the Company's approach toward returning profits to shareholders seems worthy of praise.

Key Points

- In FY8/20 1H, deliveries were delayed due to the confusion at medical sites from the COVID-19 pandemic, but the Company is expecting to recover it in the 2H
- Mid-term Management Plan targets have been left unchanged aiming 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 FY8/20 1H is 56.1% from healthcare wear, 15.0% from doctors’ wear, 2.5% from utility wear, 14.0% from patient wear, 10.3% from surgery wear, 0.8% from shoes, and 1.3% 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 FY8/20 1H, eastern Japan accounts for 52.8%, western Japan 35.5%, central Japan 10.2%, and overseas 1.5%. 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 (FY8/20 1H) is 7.0% from high-end products, 54.1% from high-value-added products, 34.2% from value-added products, and 4.7% 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 FY8/20 1H performance, internal production and at partner plants constitute an aggregate of 98.8% (49.2% domestically and 49.6% overseas), with purchased products accounting for 1.2%. 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 46.3% (actual results for FY8/20 1H). 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 and approach towards SDGs)

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, the Kumamoto earthquakes, and the COVID-19 pandemic. Among its measures in response to the COVID-19 pandemic, it has donated reusable masks (masks that can be reused by washing) to medical facilities.

(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.

Also, as a recent new initiative, it is supporting the "Planting of Cherry Blossom Trees for Restoration in Minamisanriku" project. 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.

(6) Approach towards SDGs

For SDGs (Sustainable Development Goals), which recently have become mainstream around the world, the Company is working to solve social issues mainly by leveraging its strengths, which include "Supporting medical sites through clothing" and "Realizing the special functionality and sensations required by medical sites."

a) "We want to become the power of life"

The Company is supporting medical sites through clothing and realizing the special functionality and sensations required by medical sites.

b) Environment

It has developed and is selling COMPELPAK, an environmentally friendly product for hospitals. It has also established a sales structure that is considerate to the environment (has already acquired ISO 14001).

c) Returns to society

Based on the Nagaileben spirit, it is returning the profits it acquires in business to various stakeholders.

Results trends

In FY8/20 1H, net sales and operating profit declined due to the delays in deliveries because of the confusion at medical sites from the COVID-19 pandemic

● Summary of FY8/20 1H consolidated results

(1) Profit-and-loss conditions

In the FY8/20 1H consolidated results, net sales declined 2.5% YoY to ¥7,051mn, operating profit fell 3.2% to ¥1,739mn, recurring profit decreased 2.3% to ¥1,793mn, and net profit attributable to the owners of the parent company was down 2.1% to ¥1,236mn. Up to January 2020, sales were maintained at levels above those in the same period in the previous fiscal year. But on entering February, there was confusion at medical sites due to the COVID-19 pandemic, and alongside this, there were delays in deliveries to medical facilities and other locations, and as a result, sales and profits decreased. However, the COVID-19 pandemic is having no impact on the production, sales, and logistics work sites related to the Company Group. But on the other hand, it has started to develop products to control the infection (such as reusable protective clothing and masks) and is aiming to market launch them during FY8/20.

Summary of FY8/20 1H consolidated results

(¥mn)

	FY8/19 1H		FY8/20 1H			
	Amount	% of total	Amount	% of total	Change	YoY
Net sales	7,233	100.0%	7,051	100.0%	-181	-2.5%
Gross profit	3,373	46.6%	3,263	46.3%	-109	-3.3%
SG&A expenses	1,576	21.8%	1,523	21.6%	-52	-3.3%
Operating profit	1,797	24.8%	1,739	24.7%	-57	-3.2%
Recurring profit	1,835	25.4%	1,793	25.4%	-42	-2.3%
Net profit attributable to the owners of the parent company	1,263	17.5%	1,236	17.5%	-27	-2.1%

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

In terms of the market environment, medical treatment fees and nursing care fees were revised in conjunction with the consumption tax hike of October 2019, while in addition, in April 2020, revisions to medical treatment fees were expected (overall, down 0.46%; main fees up 0.55% and drug prices down 1.01%). However, at FISCO we think that these factors will not have that great of an effect on the Company's results. But conversely, confusion is occurring at medical sites due to the impact of the COVID-19 pandemic, and this caused net sales to sharply decline in February on a single-month basis, even though up to January 2020 they had been maintained at levels above those in the same period in the previous fiscal year. But it is not that case that sales declined because demand itself has disappeared, but rather as there are occurring significant delays in renewals and orders of the Company's products due to the confusion at work sites resulting from the measures in response to the COVID-19 pandemic. However, the COVID-19 pandemic is having no impact on the production, sales, and logistics work sites related to the Company Group.

In terms of costs, the gross profit margin was 46.3%, down 0.3pp (percentage point) on 46.6% in the same period in the previous fiscal year. The main decrease factors behind this were the sales factor (a decrease in net sales) of ¥85mn and the production factor of ¥25mn. On further analyzing the increases and decreases for the production factor, there were decreases of ¥24mn from the effect of the rise in processing fees (domestically) and of ¥27mn from the effect of the higher prices of raw materials, while conversely, increases of ¥21mn from the effect of the exchange rate (FY8/19 1H, ¥107.4 to US$1→FY8/20 1H, ¥105.2 to US$1) and ¥13mn from the effect of the increase in the overseas production ratio (FY8/19 1H, 49.2%→FY8/20 1H, 49.6%).

SG&A expenses were ¥1,523mn (down 3.3% YoY), including due to the end of a special factor that occurred in the same period in the previous fiscal year (reward-for-retirement amount of ¥81mn following the abolition of the retirement benefit system for executives), which constituted 21.6% of sales (21.8% in the same period in the previous fiscal year.) As a result, operating profit decreased 3.2%. The capital investment amount was ¥117mn (IT equipment ¥53mn, buildings-related ¥27mn, logistics equipment ¥24mn, and production equipment ¥11mn), while depreciation expenses were ¥168mn.

a) Net sales by item

In net sales by item, healthcare wear decreased 3.8% YoY to ¥3,958mn, doctors' wear decreased 2.1% to ¥1,061mn, utility wear decreased 13.9% to ¥174mn, patient wear decreased 1.2% to ¥983mn, surgery wear increased 5.8% to ¥727mn, shoes decreased 6.8% to ¥56mn, and other products increased 3.4% to ¥89mn.

In the mainstay healthcare wear and doctors' wear, sales decreased because of the confusion at medical sites due to the COVID-19 pandemic. In patient wear, delays occurred in the scheduled deliveries of new products because of the impact of the virus on the responses of linen suppliers to medical facilities. Conversely, surgery wear grew significantly, mainly of COMPELPAK, and sales increased YoY. Utility wear was less affected by the market turmoil because it does not have renewal items, but its downward trend continued from before and sales declined.

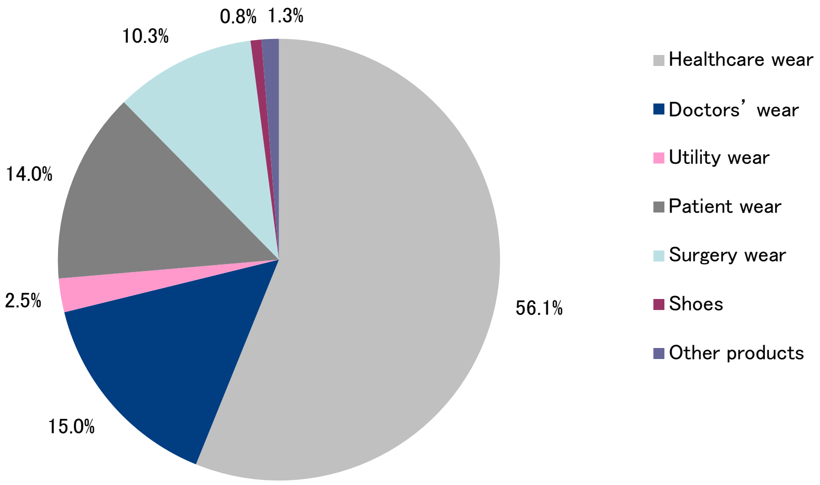
Net sales by item

(¥mn)

	FY8/19 1H		FY8/20 1H	
	Amount	YoY	Amount	YoY
Healthcare wear	4,116	-3.5%	3,958	-3.8%
Doctors' wear	1,084	-0.8%	1,061	-2.1%
Utility wear	202	-10.9%	174	-13.9%
Patient wear	995	2.7%	983	-1.2%
Surgery wear	687	-1.7%	727	5.8%
Shoes	61	-9.4%	56	-6.8%
Other products	86	-11.7%	89	3.4%
Total	7,233	-2.5%	7,051	-2.5%

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

Net sales by item (FY8/20 1H)



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

b) Net sales by region

By region, net sales declined 1.2% YoY to ¥3,720mn in eastern Japan, increased 2.0% to ¥720mn in central Japan, declined 6.2% to ¥2,503mn in western Japan, and increased 13.2% to ¥107mn in overseas.

In eastern Japan, results trended steadily up to January 2020, but on entering February, deliveries for renewal projects were delayed due to the impact of the COVID-19 pandemic. In addition to this impact, the fall was particularly large in February, so sales declined. In central Japan, sales had declined greatly YoY, so in FY8/20 1H, a steady recovery was expected. But due to the market turmoil caused by the COVID-19 pandemic, sales increased only 2.0%. In western Japan, sales decreased significantly as the situation there is severe due to the delays in the renewal projects, and additionally as the market turmoil further exacerbated this situation and even patient wear was affected. Overseas, sales had declined greatly YoY, but they are recovering through the Company steadily capturing large-scale projects.

Net sales by region

(¥mn)

	FY8/19 1H		FY8/20 1H	
	Amount	YoY	Amount	YoY
Eastern Japan	3,764	-1.7%	3,720	-1.2%
Central Japan	705	-13.0%	720	2.0%
Western Japan	2,668	0.3%	2,503	-6.2%
Overseas	94	-20.4%	107	13.2%
Total	7,233	-2.5%	7,051	-2.5%

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

c) Net sales by product

By products, net sales declined 8.7% YoY to \493mn for high-end products, 1.1% to ¥3,817mn for high-value-added products, 3.6% to ¥2,408mn for value-added products, and 1.1% to ¥332mn for mass products.

Net sales by product

(¥mn)

	FY8/19 1H		FY8/20 1H	
	Amount	YoY	Amount	YoY
High-end products	540	3.2%	493	-8.7%
High-value-added products	3,859	-0.1%	3,817	-1.1%
Value-added products	2,497	-6.5%	2,408	-3.6%
Mass products	336	-6.4%	332	-1.1%
Total	7,233	-2.5%	7,051	-2.5%

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

Financial position is sound, with cash and deposits on hand of ¥22.2bn and an equity ratio of 90.4%

(2) Financial position

The Company's financial position continues to be stable. At the end of FY8/20 1H, total assets decreased by ¥2,444mn to ¥41,836mn compared to the end of previous fiscal year. Current assets decreased by ¥2,374mn to ¥32,679mn. This was mainly due to a ¥2,937mn decrease in cash and deposits, a ¥449mn increase in notes and accounts receivable, and a ¥741mn increase in inventories. Fixed assets decreased ¥70mn to ¥9,156mn, which was mainly because of a \88mn decline in tangible fixed assets due to the increase in depreciation expenses.

Total liabilities were ¥3,932mn, down ¥626mn compared to the end of the previous fiscal year. The main factors included a ¥386mn decrease in income taxes payable. Total net assets were ¥37,903mn, a decline of ¥1,818mn, mainly because of a \758mn decrease in retained earnings following the payment of dividend and ¥1,024mn in purchase of treasury shares. As a result, at the end of FY8/20 1H, the equity ratio had increased by 0.9pp compared to the end of the previous fiscal year to 90.6%.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/19	End of FY8/20 1H	Change
Cash and deposits	25,157	22,220	-2,937
Notes and accounts receivable	3,547	3,997	449
Inventories	4,479	5,221	741
Current assets	35,054	32,679	-2,374
Tangible fixed assets	7,767	7,678	-88
Intangible fixed assets	32	44	12
Investments and other assets	1,426	1,433	6
Fixed assets	9,226	9,156	-70
Total assets	44,281	41,836	-2,444
Notes and accounts payable	1,452	1,494	42
Income taxes payable	994	608	-386
Total liabilities	4,559	3,932	-626
Retained earnings	40,120	39,362	-758
Treasury shares	-4,896	-5,920	-1,024
Net assets	39,721	37,903	-1,818
Total liabilities and net assets	44,281	41,836	-2,444

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 ¥149mn. The main income items were the recording of net income before income taxes of ¥1,793mn, depreciation and amortization of ¥168mn, a decrease in trade receivables of \39mn, and an increase in notes and accounts payable of \42mn, while the main expenditure item included increase in inventories of \741. Cash flow provided by investing activities was ¥2,631mn. The main income item was proceeds from withdrawal of time deposits of \2,700mn. Cash flow used in financing activities was ¥3,025mn, with the main items being ¥1,994mn in dividends paid and \1,031mn in purchase of treasury shares. As a result, cash and cash equivalents during 1H decreased ¥237mn, and the balance of cash and cash equivalents at the end of FY8/18 1H was ¥5,020mn. The Company does not have any interest-bearing debt, and in addition, it holds ¥5,920mn of treasury stock (5,376,686 shares). Therefore, as before it has an abundance of cash on hand.

Summary of the consolidated cash flow statement

(¥mn)

	FY8/19 1H	FY8/20 1H
Cash flow from operating activities	7	149
Net income before income taxes	1,833	1,793
Depreciation and amortization	166	168
Change in notes and accounts receivable-trade	-312	39
Change in inventory assets	-685	-741
Change to accounts payable	84	42
Cash flow from investing activities	1,717	2,631
Purchase of property, plant and equipment	-183	-102
Change in fixed deposits (net)	1,900	2,700
Cash flow from financing activities	-1,994	-3,025
Dividend payout	-1,994	-1,994
Share buybacks	0	-1,031
Change to cash and cash equivalents	-271	-237
Balance of cash and cash equivalents at period end	5,159	5,020

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 have been left unchanged with 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. In the current 2Q, profits decreased because of the confusion at medical sites due to the impact of the COVID-19 pandemic. But the main reason for this decrease was the delays in renewal projects, so the aim is to recover these projects in the 2H and achieve higher sales and profits for the full fiscal year. However, it goes without saying that revisions are possible, depending on when the COVID-19 pandemic settles down in the future.

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%	614	3.7%
Gross profit	7,840	46.7%	8,130	46.7%	289	3.7%
SG&A expenses	2,922	17.4%	2,963	17.0%	40	1.4%
Operating profit	4,918	29.3%	5,167	29.7%	248	5.1%
Recurring profit	4,990	29.7%	5,242	30.1%	251	5.0%
Net profit attributable to the owners of the parent company	3,445	20.5%	3,605	20.7%	159	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. As previously explained, during FY8/20 the Company plans to launch reusable products to control the infection (new products), such as masks and isolation gowns, but they have not been included in the net sales forecast for the current fiscal period.

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 ¥289mn, 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 ¥32 due to the effects of the exchange rates on costs (¥107.5 to U.S.$1 in FY8/19→¥105.9 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 rate, the Company concluded forward contracts with relatively low rates (a strong yen) for the period from January to March 2020, while in addition, it concluded forward contracts at low rates even for the currently temporarily strong yen (around ¥102). Therefore, it seems possible that the actual average rate will be lower than expected.

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. The forecasts are for capital investment of ¥229mn and depreciation expenses of ¥334mn.

a) Net sales forecasts by item

In net sales by item, healthcare wear is forecast to be ¥9,970mn (up 3.0% YoY), doctors' wear ¥2,730mn (up 2.1%), utility wear ¥390mn (down 11.6%), patient wear ¥2,250mn (up 10.6%), surgery wear ¥1,700mn (up 6.5%), shoes ¥165mn (down 3.9%), and other products ¥195mn (up 3.9%).

Net sales forecasts by item

(¥mn)

	FY8/19		FY8/20 forecast	
	Amount	YoY	Amount	YoY
Healthcare wear	9,681	-2.9%	9,970	3.0%
Doctors' wear	2,673	0.1%	2,730	2.1%
Utility wear	441	-11.6%	390	-11.6%
Patient wear	2,033	3.5%	2,250	10.6%
Surgery wear	1,596	-2.8%	1,700	6.5%
Shoes	171	-8.2%	165	-3.9%
Other products	187	-8.1%	195	3.9%
Total	16,785	-2.1%	17,400	3.7%

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

Healthcare wear is greatly affected by trends in the market environment, but the Company is forecasting an increase in sales by focusing on steadily obtaining orders for the delayed projects and conducting efficient sales negotiations for scheduled renewal projects in the 2H, and moreover, from the momentum of the new product group. 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, it is forecasting double-digit sales growth by introducing new products and expanding new customers. In surgery wear, it is opening-up markets in areas that it has been slow to enter by increasing the capacity of the laundry sterilization plant through appealing to the advantages of reusable products, such as COMPELPAK, and also from new customers from FY8/19. Moreover, it is strongly appealing for a re-evaluation of the advantages of reusable products, so sales are expected to increase.

b) Net sales forecast by region

For net sales by region, the Company forecasts ¥9,130mn in eastern Japan (up 2.6% YoY), ¥1,800mn in central Japan (up 8.2%), ¥6,250mn in western Japan (up 3.6%), 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%	9,130	2.6%
Central Japan	1,664	-7.3%	1,800	8.2%
Western Japan	6,033	-0.6%	6,250	3.6%
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 is aiming for a firm increase in sales through steadily obtaining orders for delayed projects and capturing new orders in patient wear. In central Japan, the market is small, so the number of projects has a large impact, but as there are many renewal projects in FY8/20, it is aiming to steadily obtain orders. In western Japan, it is targeting higher sales from the expected acquisitions of new projects in the future, and also through the growth in sales of patient wear from the projects delayed from the 1H. 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	5,724	-8.5%	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, in addition, the Company began to deliver them to some major hospitals, 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

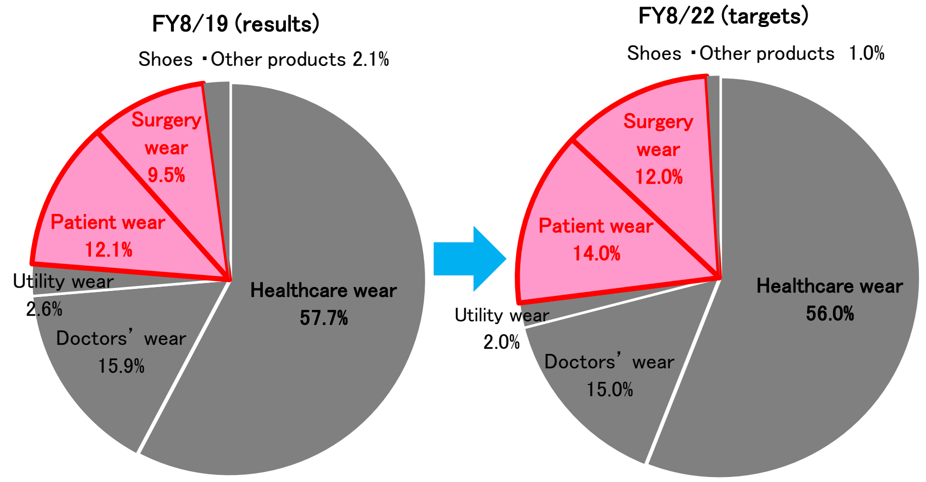
1. Mid-term Management Plan

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. Although they have not been changed the present time, at FISCO we think that the targets in the medium-term management plan may be revised in the future, depending on the situation for the COVID-19 pandemic.

For composition of total net sales by item, the forecasts are 56.0% from healthcare (57.7% in FY8/19), 15.0% from doctors' wear (15.9%), 2.0% from utility wear (2.6%), 14.0% from patient wear (12.1%), 12.0% from surgery wear (9.5%), and 1.0% from shoes and other products (2.1%).

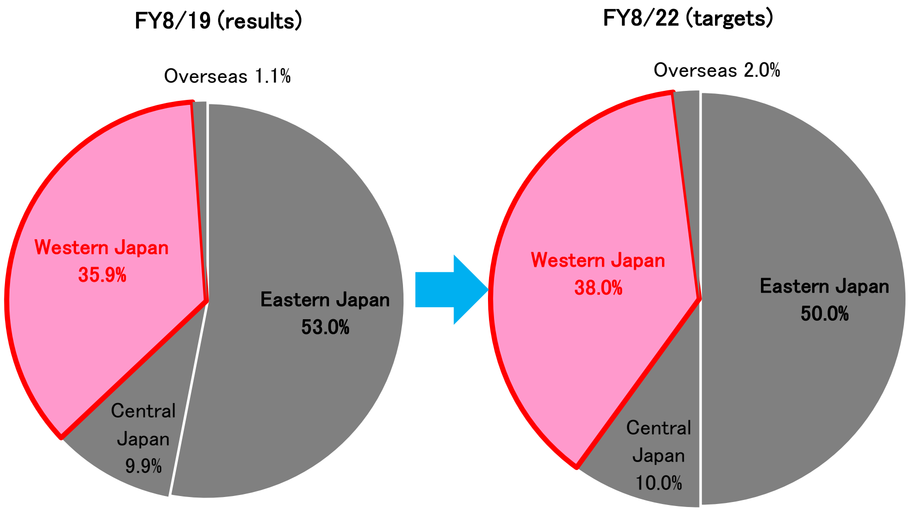
The forecast composition of total net sales by region is 50.0% from eastern Japan (53.0% in FY8/19), 10.0% from central Japan (9.9%), 38.0% from western Japan (35.9%), and 2.0% from overseas (1.1%). The forecast composition of total net sales by product is 9.0% from high-end products (7.6% in FY8/19), 55.0% from high-value-added products (53.4%), 33.0% from value-added products (34.1%), and 3.0% from mass products (4.9%).

Targeted net sales percentage by item



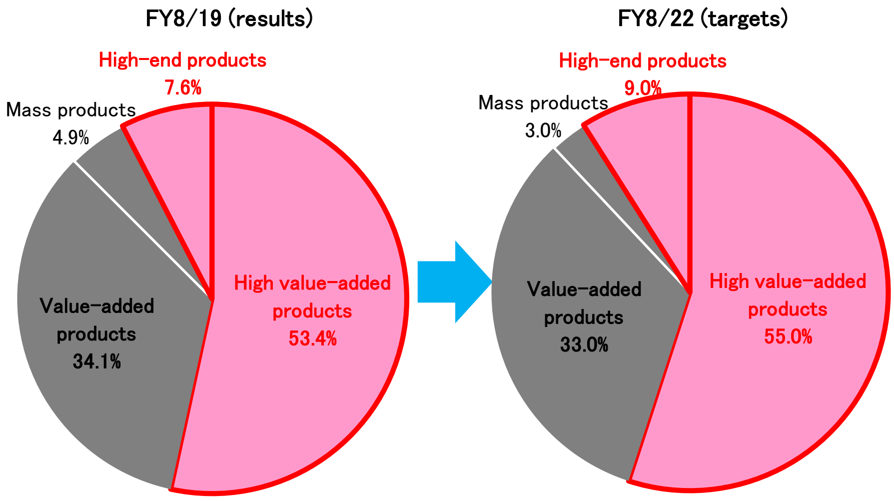
Note: Key items are colored pink
Source: Prepared by FISCO from the Company''s results briefing materials

Targeted net sales composition by region



Note: Key regions are colored pink
Source: Prepared by FISCO from the Company''s results briefing materials

Targeted net sales composition by product

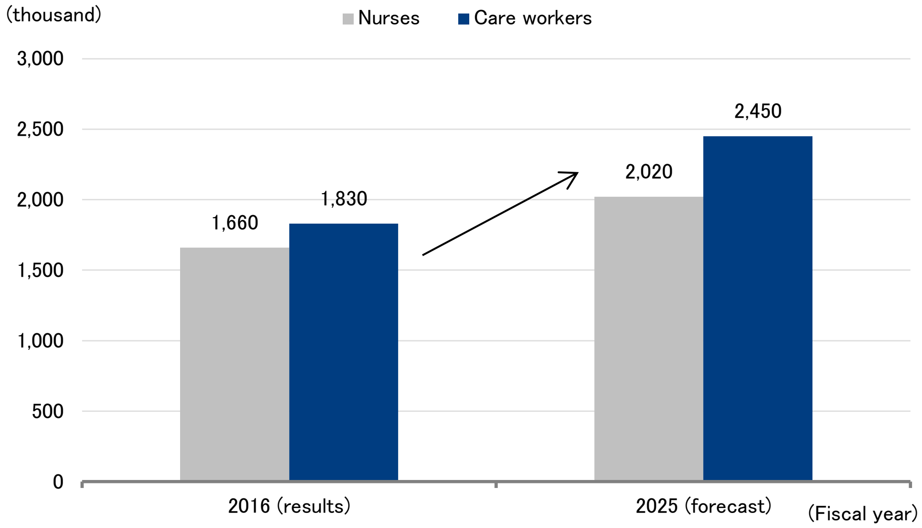


Note: Key products are colored pink
Source: Prepared by FISCO from the Company''s results briefing materials

2. Future business strategies

The Company's business environment is currently being impacted by the COVID-19 pandemic, but it can be said that this may actually prove advantageous to it in the medium- to long-term. 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 2.02 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 following materials (English titles have been translated from Japanese)
FY2016 Actual Number of Nursing Professionals "Statistical Data on Nursing Service in Japan" (Japanese Nursing Association)
FY2025 Estimated Number of Nursing Professionals Documents from "The Meeting on Projection of Supply and Demand for Nursing Personnel" Materials (Ministry of Health, Labour and Welfare)
FY2016 Actual Number of Nursing Care Professionals "Survey of Institutions and Establishments for Long-term Care" (Ministry of Health, Labour and Welfare)
FY2025 Estimated Number of Nursing Care Professionals "The 7th Insured Long-Term Care Service Plans" (Ministry of Health, Labour and Welfare)

(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

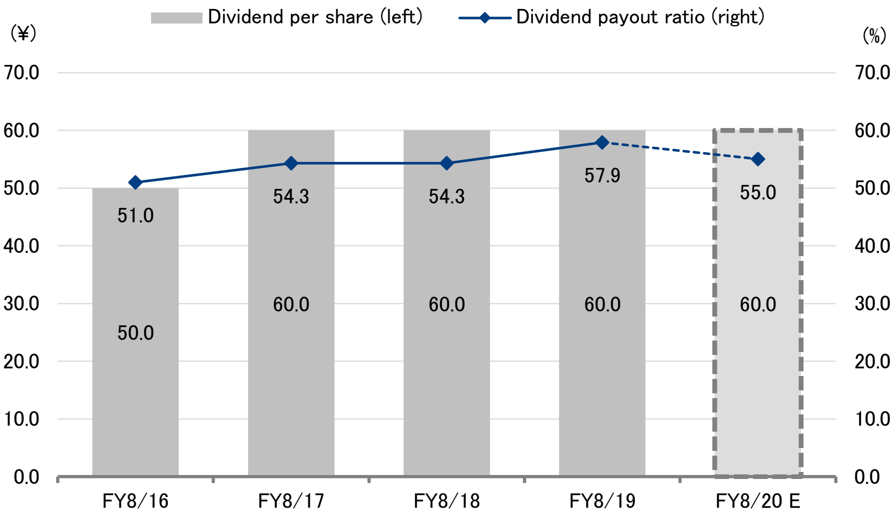
Pledges a dividend payout ratio of above 50% (non-consolidated basis) and while the forecast is for an annual dividend of ¥60

The Company's shareholders' equity ratio reached 90.6% at the end of FY8/20 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 (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, and furthermore the Company executed a share buyback totaling 400,000 shares (¥1,031mn) in November 2019, which combined with the dividend brought the total return ratio to 84.9% (forecast). In addition to the strong financial standing, this aggressive stance on shareholder returns is worthy of strong praise.

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	Share buybacks	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
FY8/03	744	0	36.5	36.5
FY8/05	1,117	0	56.9	56.9
FY8/05	1,117	0	53.4	53.4
FY8/07	1,117	0	53.1	53.1
FY8/07	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	1,995	0	58.0	58.0
FY8/20 E	1,971	1,031	55.0	84.9

* On a non-consolidated basis
Note: In August 2004, the Company executed a 1:2 stock split, and executed a 1:2 stock split again in August 2011
Source: Prepared by FISCO from the Company's results briefing materials

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