Nagaileben

7447 Tokyo Stock Exchange First Section

12-Nov.-15

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Earnings could rise depending on term-end foreign exchange rates

Nagaileben Co., Ltd. <7447> (hereafter, "Nagaileben" or "the Company") is the leading manufacturer of medical gowns in Japan, with a domestic market share of over 60%. In the consolidated business results for FY8/15 announced by the Company, sales amounted to ¥16,150mn, a 0.4% decrease year on year ("y-o-y"); operating profit amounted to ¥4,813mn, a 2.2% decrease y-o-y; recurring profit amounted to ¥5,088mn, a 1.0% decrease y-o-y; and net profit amounted to ¥3,225mn, a 0.1% increase y-o-y. While there have been no significant changes, such as to the industry environment and market structure, some large contracts were postponed to the next fiscal year. As a result there was a very slight decline in profits y-o-y, but not to an extent that would be a serious cause for concern.

In its full-year business results for FY8/16, the current fiscal year, the Company expects to achieve ¥16,500mn in sales, a 2.2% increase y-o-y; ¥4,814mn in operating profit, unchanged from FY8/15; ¥4,869mn in recurring profit, a 4.3% decrease y-o-y; and ¥3,237mn in net profit, a 0.3% increase y-o-y. While recurring profit is expected to decline amid a projected absence of foreign exchange games, net profit could increase owing to the impact of the exchange rate at the end of the term.

The Company announced a new Mid-Term Management Plan, that includes numerical targets of ¥17,500mn in sales and ¥5,300mn in operating profit by FY8/17, but it has set those targets back to FY8/18 because current results are somewhat sluggish. The Company plans to achieve its goals by expanding overseas production and strengthening its high-margin advanced-function product range.

The Company is also upbeat on shareholder returns. In FY8/15, it augmented its normal annual dividend of ¥50 per share with an equivalent amount to commemorate its 100th anniversary. It also spent ¥1,500mn in a share buyback of 1 million shares through a takeover bid. The Company thus generated a total return ratio of 153.8% in that period. For FY8/16, management has pledged that it will pay an annual dividend of ¥50 per share and attaining a payout ratio exceeding 50%, so it merits praise for that commitment.

Check Point

- Notwithstanding slightly lower revenues and earnings and postponements, performances should normalize over the medium- and long-term.
- Looking to expand overseas production ratio and enhance margins by developing high-value-added offerings.
- Maintain a high return on equity as a comprehensive shareholder return policy with respect to profit growth.

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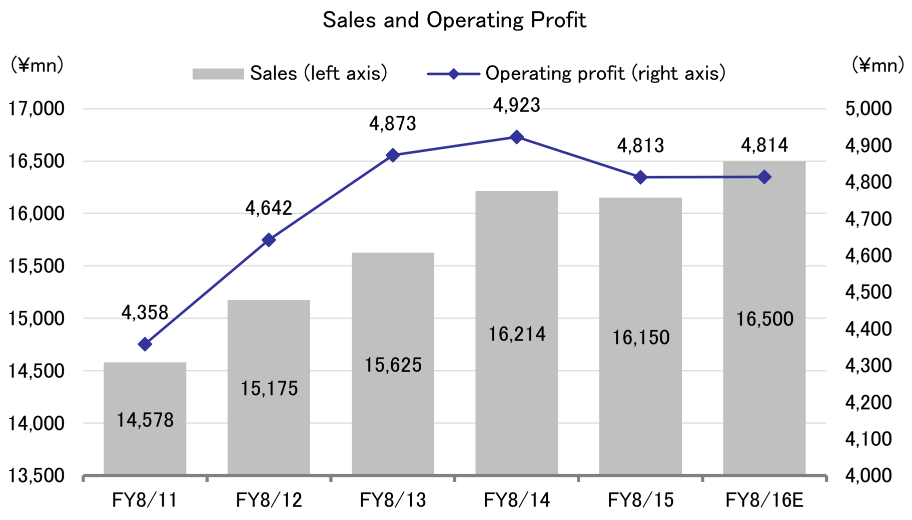

Company Profile

A leading manufacturer of medical gowns focusing on expanding sales of advanced-function products

(1) Description of businesses

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

Company History

1915	Founded business specializing in medical gowns in Kanda-Jinbocho in Tokyo, Japan, as Nagai Shoten, privately owned by Koji Nagai.
1950	Liquidated Tokyo Eisei Hakui Co. Ltd. Koji Nagai and Tatsuro Sawanobori jointly established Nagai Shoten Co. Ltd.
1969	Established a subsidiary, Nagai Hakui Kogyo Co. Ltd., in Akita Prefecture to expand the medical gowns manufacturing division. Tatsuro Sawanobori was appointed President. Shifted focus of manufacturing and sales business specialization from multi-purpose white gowns to medical gowns.
1977	Built second product center in Kameido, Tokyo. Established partnership with a US company, G.D. Searle & company; and established Japan Surgical Apparel Co. Ltd. in Hiroshima to expand sales of new surgical apparel products for hospitals.
1978	Established technology partnerships with Angelica Corp (US) and Toray Industries, Inc. Developed and released medical gowns made with new fabric for leasing.
1980	Changed name to Nagai Co. Ltd. Opened sales office in Takamatsu, Kagawa. 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 new Nagai Luminous, a manufacturing plant for high grade products, in Akita Prefecture. Started overseas production for 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 society. Vice President Ichiro Sawanobori appointed President.
1996	Concluded an agreement with French designer Andre Courreges.
1999	Opened 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 technology partnership with Standard Textile Company, Inc. (US) and Toray Industries, Inc. for surgical textiles. Raised the status of 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 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 new head office building in Kajicho, Chiyoda Ward, Tokyo.

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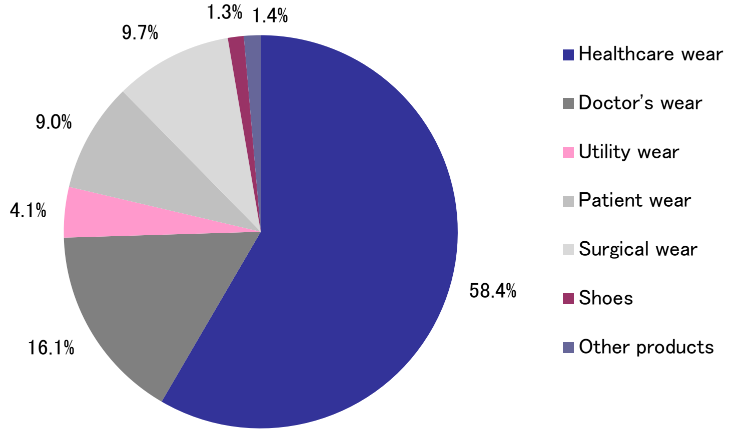
●Sales Breakdown

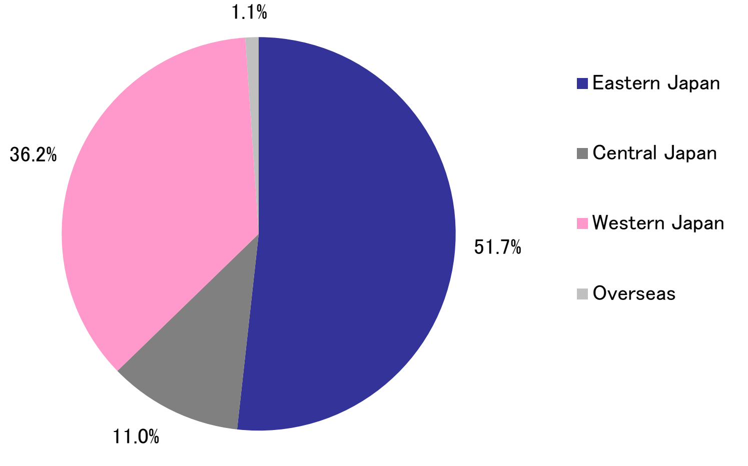
All of the Company's products are medical gowns and related products. The sales contribution by item (FY8/15) is healthcare wear 58.4%, doctor's wear 16.1%, surgical wear 9.7%, patient wear 9.0%, utility wear 4.1%, shoes 1.3% and other products 1.4%. Healthcare wear consists of products mainly for nurses, and utility wear consists of aprons, cardigans, and other items worn as outer garments. Profit margins for each item do not vary significantly; however, the profit margins of purchased products, such as shoes, are relatively lower.

Sales Percentages by Item
(FY8/15)



In terms of sales contribution by region (FY8/15), eastern Japan accounts for 51.7%, western Japan 36.2%, central Japan 11.0%, and overseas 1.1%. While coverage is nationwide, sales in western Japan, central Japan and overseas remain low, indicating potential for future expansion.

Sales Percentages by Region
(FY8/15)



In terms of sales contribution by product (function) (FY8/15), advanced-function products made up 50.1%, standard-function products 38.7%, mass-produced products 6.0%, and DC brand products 5.2%. As an example, in nursing wear products, when classified by price range, mass-produced products are under ¥5,000, standard-function products are ¥5,000-7,500, advanced-function products are ¥7,500-10,000, and DC brand products are over ¥10,000; the higher the price, the greater the profit margin. The Company plans to focus on expanding sales of advanced-function products.

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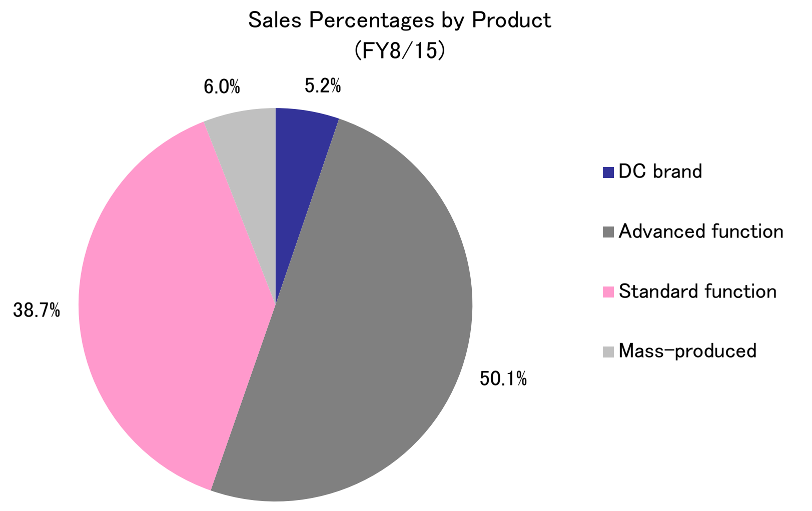

●Sales channels and production status
The Company's end users include nurses and doctors, with the purchasers of the products being mainly medical facilities such as hospitals, nursing care facilities, and other such facilities. However, the Company does not conduct direct sales, with 100% being agency sales via medical equipment wholesalers that trade with these medical and other facilities. As a result, direct sales expenses are contained; however, as sales staff is constantly in contact with large hospitals and other facilities, the Company understands customers' needs.

In most cases, medical gowns are laundered within the hospitals by the hospitals themselves, but in recent years they have been switching to leasing. The lease term is typically four years. Because this generates lease switching demand every four years, it seems to provide stable support for the Company's earnings.

Looking at the Company's production structure, based on FY8/15 performance, internal production constitutes 98.5% (domestic production 53.0%, overseas production 45.6%), and purchased products 1.5%. Overseas production is predominantly in Indonesia, but the Company owns no factories and the goods are produced at factories of local partners, which mitigates investment risk and reduces costs.

Generating high profit margins and solid market share by satisfying customers

(2) Distinctive characteristics and strength

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 everything, from design to raw material procurement, manufacturing and sales. In its product planning, it can accurately understand customer needs and reflect them in its products. Specifically, the Company sells products that are easy to wear and easy to work in while incorporating anti-static, antibacterial, and other functions, as well as feature excellent designs, which have earned a good reputation from its users. At the same time, it deals directly with major synthetics manufacturers and textiles traders, so it secure optimal materials and produce at low costs while selling at appropriate margins.

Furthermore, in addition to its large number of affiliated factories, 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 a specified day. This has also helped it to earn strong trust from its customers. On the sales side, it has a network of close to 1,000 agents nationwide, and while its sales capabilities are robust, the Company itself controls its sales expenses as much as possible.

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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 has maintained profitability with a gross margin of 46.6% (actual results for FY8/15). The fact that it is both highly profitable and has a high market share means 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 everything from design to manufacturing and sales. Moreover, although it is a niche market, room for further development remains, as it has relatively low market shares for patient wear, surgical wear and other items. The Company has explicitly stated that the medical gown business could grow for some time and it will move aggressively to develop peripheral markets.

(3) Corporate policies

The Company commemorates its centennial this year by cultivating a corporate culture called Nagaism that champions interpersonal harmony, generating profits, and contributing to society. Management has undertaken the following specific initiatives in those regards, and looks to remain an enterprise that contributes to society and the healthcare industry.

●A robust management approach
The Company is pursuing stable medium- and long-term growth by exploring principles.

●Social responsibilities
(Contributing to communities through production sites)
The Company is creating employment and contributing to regional economies through its production operations in Akita Prefecture, Japan, as well as in Dalian, China, Indonesia, Vietnam, and elsewhere overseas.

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

(Environmental initiatives)
The Company secured ISO 14001 certification in 2015. It is also helping to address environmental issues by expanding sales of its compel packs.

(Providing support to children)
The Company endeavors to educate and enlighten to make its business more attractive to children, including by having the mascot Miffy visit pediatric wards and by lending children's coats to medical institutions.

●Shareholder returns
Management has committed itself to generating shareholder returns by providing stable dividends and by maintaining a payout ratio of at least 50% on a non-consolidated basis.

Management is ready to repurchase shares when it concludes that the stock is undervalued.

Earnings Trends

Notwithstanding slightly lower revenues and earnings and postponements, performances should normalize over medium and long terms

(1) Summary for FY8/15

●Status of profit and loss

In the consolidated results for FY8/15, the Company achieved sales of ¥16,150mn, a 0.4% decrease y-o-y; operating profit of ¥4,813mn, a 2.2% decrease y-o-y; recurring profit of ¥5,088mn, a 1.0% decrease y-o-y; and net profit of ¥3,225mn, a 0.1% increase y-o-y. The initial targets for sales and operating profit were slight decreases y-o-y, but the actual results were even lower, but the shortfalls were all very small and neither result is a particular cause for concern.

Summary for FY8/15

(¥mn, %)

	FY8/14		FY8/15			
	Amount	Sales %	Amount	Sales %	Change	y-o-y
Sales	16,214	100.0	16,150	100.0	-63	-0.4
Gross profit	7,585	46.8	7,532	46.6	-52	-0.7
SG&A costs	2,662	16.4	2,719	16.8	57	+2.1
Operating profit	4,923	30.4	4,813	29.8	-109	-2.2
Recurring profit	5,142	31.7	5,088	31.5	-53	-1.0
Net profit	3,224	19.9	3,225	20.0	1	+0.1

Sales were down 0.4% y-o-y, but the effects of the revisions to the medical treatment fees in the spring of 2014 and to the nursing care fees in the spring 2015 have not yet appeared, so it is difficult to image that the market structure and market environment are changing greatly, and these factors are unlikely to be behind the decline in sales. The Company says that while there were no particular factors in sales being below target, one difference from to date was that some renewals of lease contracts for large hospitals were been postponed to the following fiscal year. However, these changes are leveled out over time so are not a cause for concern over the medium and long terms, and the Company has not revised its full-year forecasts described below. One more factor behind the decline is the trend in small contracts for medical facilities and clinics operated by individuals, which account for 30% of sales. There had been an increase in sales for these small contracts in the form of last-minute demand up to March of last year, which was immediately prior to the hike in the consumption tax rate. But subsequently sales declined and it seems that this effect exerted downward pressure on sales. However, this is also a factor that should disappear over time and is not a particular cause for concern for the future.

The gross margin fell from 46.7% in the same period in the previous fiscal year to 46.6%. Gross profit was ¥7,532mn, down ¥53mn. The main factors were a ¥30mn decline in sales and a ¥23mn decrease in the profit margin. The lower margin reflected a ¥42mn increase in raw materials and processing fees and a ¥94mn impact from the yen's depreciation on costs. The average rate dropped from ¥88.1 to the dollar in FY8/14 to ¥93.5 to the dollar in FY8/15. The use of forward contracts minimized fluctuations in the spot rate for the yen, but the impact of such contracts is dissipating. Also, the Company lifted overseas production from 43.1% of the total, to 45.6%, representing a roughly ¥100mn positive impact, while various other measures to reduce costs seemed to have absorbed the higher costs due to the weak yen.

Selling, general and administrative (SG&A) costs increased 2.1% y-o-y to ¥2,719mn. The main factor driving this rise was a ¥35mn increase in depreciation costs due to the relocation to a new head office and ¥25mn spent on centennial commemorations. However, the increase had been factored in initially and the SG&A costs were 1.2% lower than planned. Operating profit thus decreased 2.2% y-o-y.

Conversely, recurring profit declined 1.0% y-o-y, and while the extent of the decline was less than that of operating profit, this was mainly due to the increase in non-operating profit, particularly foreign exchange gains. To hedge against the effects of the yen's depreciation on the cost of sales, the Company holds deposits in U.S. dollars. The foreign exchange gain arising from these deposits increased dramatically, from ¥87mn in FY8/14 to ¥226mn. Meanwhile, in extraordinary profit/loss, the gain on sale of fixed assets of ¥114mn recorded in FY8/14 (in association with the relocation to the new head office) was not recorded this year. Net profit was slightly greater than a year earlier, as the Company posted ¥30mn in gains from the divestment of fixed assets (a research unit in Kameido) and benefited from a tax rate that was lower than expected.

●Sales Breakdown by Item

(¥mn, %)

	FY8/14		FY8/15	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	9,440	+4.4	9,429	-0.1
Doctor's wear	2,674	+4.2	2,604	-2.6
Utility wear	743	-6.6	670	-9.8
Patient wear	1,353	+6.3	1,451	+7.2
Surgical wear	1,525	+3.2	1,560	+2.3
Shoes	237	-5.1	211	-10.9
Other products	239	+9.0	222	-7.0
Total	16,214	+3.8	16,150	-0.4

In sales by item, healthcare wear amounted to ¥9.429mn, a 0.1% decrease y-o-y; doctor's wear amounted to ¥2,604mn, a 2.6% decrease y-o-y; utility wear amounted to ¥670mn, a 9.8% decrease y-o-y; patient wear amounted to ¥1,451mn, a 7.2% increase y-o-y; surgical wear amounted to ¥1,560mn, a 2.3% increase y-o-y; shoes amounted to ¥211mn, a 10.9% decrease y-o-y; and other products amounted to ¥222mn, a 7.0% decrease y-o-y.

In the mainstay healthcare wear, results were down y-o-y due to the previously described factors, of the changes in renewal demand for some products and the delayed recording of sales. In addition to the same factor of changes in renewal demand, the reason for the decline in sales for doctor's wear were the effects of the high growth rate in the same period in the previous fiscal year, and there are no major changes to market trends. The trend in utility wear of shifting away from individual supply toward shared use of items continued, driving a continued decline in sales. Although the monetary amount is small, patient wear performed strongly due to growing market demand. Surgical wear sales were also strong, driven by market penetration of scrub wear and compel packs.

●Sales Breakdown by Region

(¥mn, %)

	FY8/14		FY8/15	
	Amount	y-o-y	Amount	y-o-y
Eastern Japan	8,461	+0.8	8,357	-1.2
Central Japan	1,745	+9.7	1,774	+1.7
Western Japan	5,839	+6.0	5,842	+0.0
Overseas	167	+24.3	176	+5.4
Total	16,214	+3.8	16,150	-0.4

Sales in eastern Japan decreased 1.2% to ¥8,357mn, sales in central Japan rose 1.7% to ¥1,774mn, and sales in western Japan were unchanged at ¥5,842mn. Overseas sales were up 5.4% to ¥176mn.

Sales were down from a year earlier in eastern Japan because of postponements in renewal demand for mainline healthcare wear, which offset efforts to expand sales of patient wear. Still, this was a passing phenomenon, and did not reflect demand saturation or other fundamental issues. While the central Japan market is small the impact of order quantities is large, and a focus on sales promotions enabled the Company to again increase revenues considerably. In western Japan, new orders resulted in solid sales of healthcare wear, but sales were basically unchanged because of lower demand in the utility wear and other categories. Although the scale of overseas sales is still small, the Company has gradually increased brand penetration, continuing to steadily boost revenues.

●Sales Breakdown by Product

(¥mn, %)

	FY8/14		FY8/15	
	Amount	y-o-y	Amount	y-o-y
DC brand	938	+0.6	846	-9.9
Advanced function	7,795	+8.1	8,090	+3.8
Standard function	6,462	+0.4	6,252	-3.2
Mass-produced	1,017	-2.7	960	-5.6
Total	16,214	+3.8	16,150	-0.4

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Sales of DC brand products declined 9.9% to ¥846mn, sales of advanced-function products rose 3.8% to ¥8,090mn, sales of standard-function items were down 3.2% to ¥6,252mn, and sales of mass-produced offerings dropped 5.6% to ¥960mn. We consider the overall result favorable, as the Company was able to boost sales of the advanced-function offerings that it is prioritizing, offsetting declines in DC brand and standard-function products.

●Financial position

The Company's financial status has remained stable. Total assets at the end of FY8/15 amounted to ¥39,008mn, a decrease of ¥142mn compared to the previous year-end. Total current assets amounted to ¥29,711mn, an increase of ¥122mn, primarily reflecting a decrease of ¥381mn in cash and deposits and an increase of ¥364mn in inventories. Fixed assets amounted to ¥9,296mn, a decrease of ¥264mn, due mainly to depreciation.

Total liabilities amounted to ¥4,213mn, a decrease of ¥255mn compared to the previous year. Its primary causes include a decrease of ¥118mn in bills and accounts payable and a decrease of ¥182mn in corporate tax payable. Net assets amounted to ¥34,795mn, an increase of ¥114mn compared to the previous fiscal year-end. This was mainly because an increase of ¥ 1,471mn in retained earnings due to the recording of net profit was exceeded by a decrease of ¥1,500mn due to acquisition of treasury stock. As a result of these factors, the shareholders' equity ratio was 89.2%, increasing from 88.6% at the previous year-end.

Consolidated Balance Sheet

(¥mn)

	End FY8/14	End FY8/15	Change
Cash and deposits	19,054	18,673	-380
Notes and accounts receivable	4,696	4,689	-6
Securities	1,516	1,518	+1
Inventories	3,835	4,199	+364
Current assets	29,589	29,711	+121
Buildings and other structures	2,570	2,450	-119
Land	4,480	4,447	-32
Investment and other assets	1,651	1,619	-31
Fixed assets	9,560	9,296	-263
Total assets	39,150	39,008	-142
Bills and accounts payable	1,517	1,399	-118
Corporate tax payable	1,333	1,151	-182
Total liabilities	4,468	4,213	-255
Retained earnings	33,569	35,040	+1,471
Treasury stock	-3,402	-4,902	-1,500
Net assets	34,681	34,795	+113
Total liabilities and net assets	39,150	39,008	-142

●Cash flows

In FY8/15, the Company generated ¥2,727mn in cash from operating activities, the main positive factors being ¥5,115mn in pretax income and ¥360mn in depreciation and amortization, against which there was an increase of ¥364mn in inventories. Net cash from investing activities was ¥143mn, the main factors being ¥200mn from a net rise in time deposits and ¥204mn in outlays for acquiring tangible fixed assets. Net cash used in finance activities was ¥3,211mn, the principle factors being ¥1,711mn in dividend payments and ¥1,500mn in treasury stock acquisitions. Cash and cash equivalents at the end of the term thus declined ¥179mn y-o-y, to ¥8,491mn. Given that the Company is free of interest-bearing debt and has ¥4,902mn (4,989,504 shares) in treasury stock, the Company maintained its very solid net cash position.

Statement of Cash Flow

(¥mn)

	FY8/14	FY8/15
Cash flow from operating activities	3,271	2,727
Net income before income taxes	5,231	5,115
Depreciation costs	335	360
Change in notes and accounts receivable-trade	-80	-55
Change in inventory assets	-311	-364
Change in accounts payable	131	-118
Cash flow from investment activities	1,518	143
Acquisition of tangible fixed assets	-719	-204
Change in fixed deposits (net)	400	200
Cash flow from financing activities	-1,539	-3,211
Change to cash and cash equivalents balance	3,298	-179
Cash and cash equivalents balance at period start	5,373	8,671
Cash and cash equivalents balance at period end	8,671	8,491

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Deploying high-value-added products and targeting new contracts

(2) FY8/16 business results forecast

FY8/16 Consolidated Business Results Forecast

(¥mn, %)

	FY8/15		FY8/16E			
	Amount	Sales %	Amount	Sales %	Change	y-o-y
Sales	16,150	100.0	16,500	100.0	349	+2.2
Gross profit	7,532	46.6	7,590	46.0	57	+0.8
SG&A costs	2,719	16.8	2,776	16.8	56	+2.1
Operating profit	4,813	29.8	4,814	29.2	0	+0.0
Recurring profit	5,088	31.5	4,869	29.5	-219	-4.0
Net profit	3,225	20.0	3,237	19.6	11	+0.3

For the full-year business results for FY8/16, the Company expects to achieve ¥16,500mn in sales, a 2.2% increase y-o-y; ¥4,814mn in operating profit, unchanged from FY8/15; ¥4,869mn in recurring profit, a 4.3 % decrease y-o-y; and ¥3,237mn in net profit, a 0.3% increase y-o-y.

Sales are forecast to increase due to factors including sales of new value-added offerings in the mainstay healthcare wear and doctor's wear segments, secure winning the delayed renewal demand for large scale contracts, and efforts to secure new contracts. Further, the Company continues to focus on raising its market share in central Japan and western Japan, and it is targeting sales increases in all regions for the full fiscal year. Recurring profit is forecast to decline as a foreign exchange gain is not expected to be recorded, but depending on the yen rate, there is a possibility of an increase in recurring profit. At the same time, net income is expected to increase slightly because the tax rate should decline owing to tax system revisions.

For the full term, management looks for gross profit to increase ¥57mn y-o-y to ¥7,590mn. The positive factor would be a sales increase of ¥161mn, the negative one being a decrease of ¥104mn owing to lower margins. The gross margin forecast is 46.0%, down from 46.6% a year earlier. One driver would be that overseas operations should account for 47.1% of net sales in FY8/16, from 45.6% in FY8/15, adding ¥63mn. On the downside, the impact of higher raw materials and processing fees would be ¥25mn, while the negative forex impact would be ¥156mn (with the yen declining from an effective ¥93.5 to the dollar in FY8/15 to an average ¥102.5 to the dollar in FY8/16).

While higher costs owing to the yen's decline are a concern, this should not pose immediate concerns, as the Company should minimize the impact through forward contracts. That said, the reality is that such contracts are gradually becoming less effective than they were two years ago. The impact from increasing the overseas production ratio and hedging against a lower yen through dollar-denominated deposits has becoming less effective. For that reason, management has said that internal measures to combat higher expenses have their limits and that the time has come to explore boosting prices. While it would not be easy to get the price hikes through, it seems highly likely that it would win acceptance. That is because the Company has a high market share and solid trust for its products and because many rivals have already boosted their prices.

SG&A costs are forecast to be ¥2,776mn (a 2.1% increase y-o-y), reflecting ¥34mn for the remaining costs related to the Company's 100th anniversary. The y-o-y decrease in recurring profit assumes that the foreign exchange gains (¥226mn) recorded in non-operating profit in FY8/14 will decline. However, if the yen weakens further by the end of FY8/16 compared to FY8/15, it is possible that the decline in profits will be less than anticipated, and depending on circumstances, recurring profit may actually increase y-o-y. Furthermore, since the extraordinary profit that was recorded in FY8/15 (the ¥30mn profit on the sale of a research center in Kameido) will not occur in FY8/16, and revisions to the tax system are expected to increase the adjustment amount of corporate tax payable, net profit is forecast to increase y-o-y.

Mid-term Management Plan and Outlook

Looking to expand overseas production ratio and enhance margins by developing high-value-added offerings

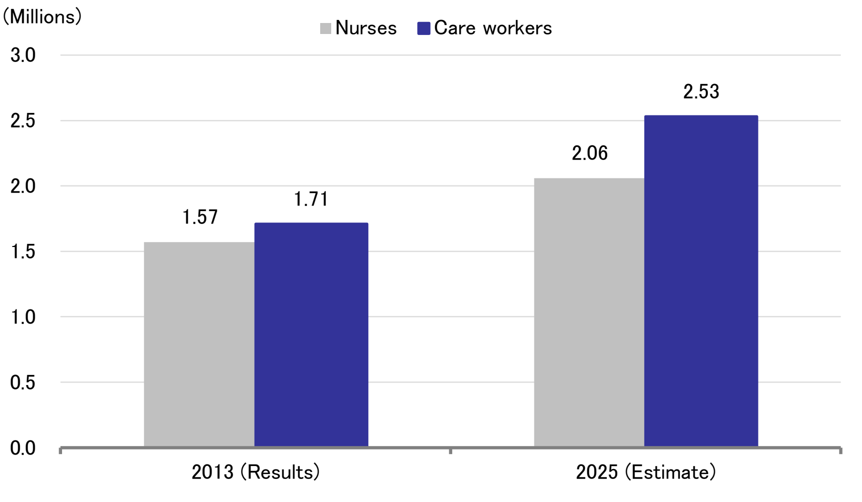
(1) Mid-term Management Plan

The Company initially targeted FY8/17 sales of ¥17,500mn and operating profit of ¥5,300mn in announcing its Mid-term Management Plan. Management decided to set those targets back to FY8/18, however, in light of prevailing results. The Company has not changed the business strategies described below.

(2) Future business strategies

The operating environment surrounding the Company should be favorable for some time. According to the material released by the Ministry of Health, Labour and Welfare, the number of nurses in Japan is projected to increase from 1.57 million in 2013 to a maximum of 2.06 million in 2025. Moreover, the number of care workers is projected to increase from 1.71 million in 2013 to 2.53 million in 2025. In this operating environment, the Company plans to achieve its Mid-Term Management Plan based on the following strategies.

Projected Demand for Nurses and Care Workers



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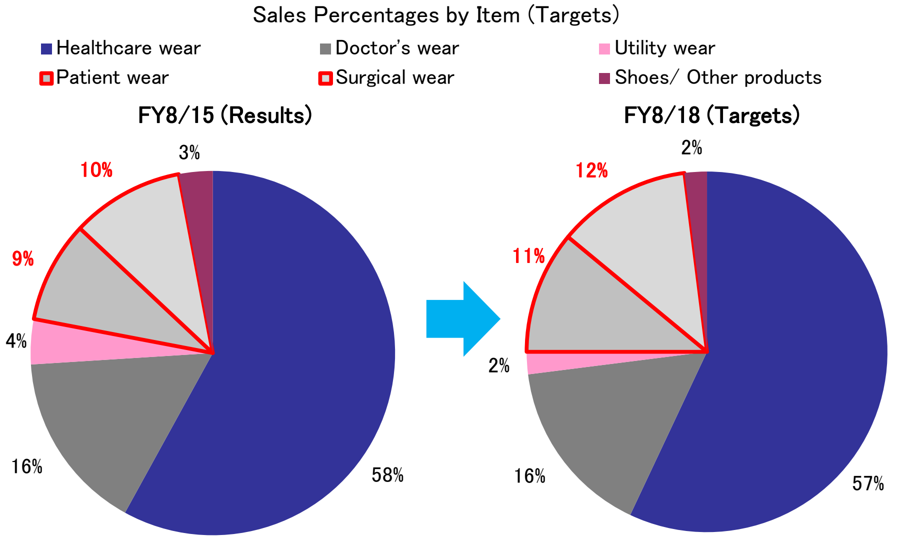
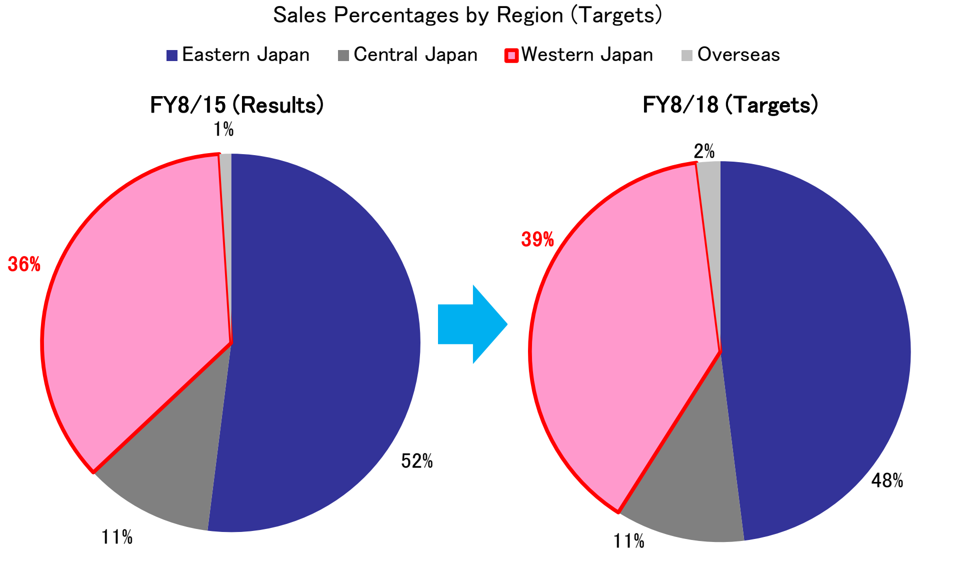
●Expansion in patient, surgical & other peripheral market

In its mainstay healthcare wear, the Company already maintains a high market share and can expect stable renewal demand. On the other hand, the peripheral market for patient wear and surgical wear and others still has ample development potential. The Company plans to focus on expanding the peripheral market by launching new products.



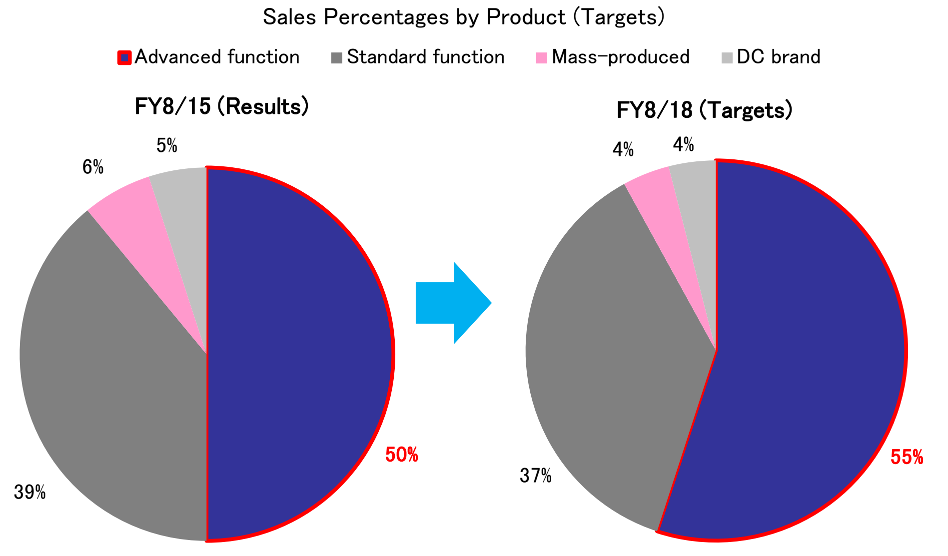
●Increase market share in western Japan

By region, the Company maintains a high market share in eastern Japan, but in central Japan and western Japan, it has relatively low market shares. In other words, these regions have potential for further market share growth. To expand its market share, the Company will not only conduct an aggressive sales campaign, but will actively launch advanced-function products and new products.



●Development and sales of advanced-function product

The Company is actively developing products with even greater functionality and added value to deliver added value to markets where it is already strong, and to serve as tools for its marketing strategy in markets where it seeks to increase its market share. To that end, its strategy is to collaborate more closely with material manufacturers and trading companies while further refining its Quick Response (QR) production system to raise customer satisfaction.



●Improving gross margin

In the last 20 years, the Company's profit margin has improved approximately 12 percentage points (from around 35% to 47%). In the future, although improving profitability at the same pace as before will not be easy, the Company aims to make further improvements mainly through the following measures.

The first is to increase overseas production. Currently, the Company's ratio of overseas production is still around 45.6%, which is way lower when compared to other apparel manufacturers. In other words, there is considerable room to further increase the overseas production ratio with potential for improving profitability from expansion of overseas production. However, the Company's policy is not to shift domestic production all at once to overseas, but rather to produce the portion of increased sales overseas while maintaining domestic production volumes. In February 2014, a new factory, which had been under construction in Java in central Indonesia, began operation, and it is expected that by the end of 2015, the transfer of existing production from Jakarta will have been completed.

The second measure to improve profitability is the development of high value-added products. If the percentage of sales of products with high profit margins, such as advanced-function products, increases, the overall gross margin will also improve. Furthermore, while there have been no official announcements, the Company continues to develop new markets, and its plans for new markets (new products) should also contribute to improving its gross margins in the future.

While a weaker yen is a major factor in deteriorating margins, management has responded by extensively using forward contracts to average out foreign exchange fluctuations, while hedging as much as possible with dollar denominated deposits. As mentioned earlier, however, the Company is nearing the limits with such measures for the yen depreciation, and seems to be approaching a time in which it should consider measures to deal with a higher yen. In any case, the Company will retain its policy of promptly leveling out the impacts of foreign exchange swings.

Shareholder Return Policy

Maintain a high return on equity as a comprehensive shareholder return policy with respect to profit growth

The Company's shareholders' equity ratio has reached 89.2% (FY8/15) and it is financially stable. Additionally, considering the Company's business conditions, it seems highly unlikely that those profits will rapidly deteriorate, so continued stable earnings are expected. As a result, as its distribution of earnings outside the Company (particularly dividend payments) is low and profits will accumulate in shareholders' equity each year, return on equity (ROE) will decline, which is to say, capital efficiency will decline. But in addition to paying dividends commensurate with the growth in profits, the Company actively and comprehensively returns profits to shareholders, including through share buy-backs, and as a result has maintained a high ROE (9.3% in FY8/15).

The Company will thus maintain a stable financial position while pursuing solid shareholder returns. In FY8/15, management announced that it would augment the normal dividend of ¥50 per share with an additional ¥50 per share to commemorate its centennial. This raised total dividends to ¥100 per share, for a non-consolidated payout ratio of 107.5%. Management also spent ¥1,500mn in repurchasing 1 million shares during the term, raising the total payout ratio to 153.8%. Even given the centennial payment, the Company's ratio was far higher than that of many other listed entities.

For FY8/16, management has announced that the non-consolidated payout ratio will again be 50% or more. This approach merits solid praise, as it demonstrates that the Company is greatly committed to delivering shareholder returns and maintaining its capital efficiency.

Dividend Payout Ratio and Total Return Ratio

	Total dividend (¥mn)	Share buyback (¥mn)	Dividend 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

* Nonconsolidated basis

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