COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben Co., Ltd.

7447

Tokyo Stock Exchange Prime Market

23-Aug.-2022

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Index

Summary

FY8/22 3Q results were in line with expectations despite lower profits due to elimination of special demand for Ministry of Health, Labour and Welfare (MHLW) products and higher costs. In the mid-term management plan, is targeting operating profit of ¥5.4bn in FY8/24

1. FY8/22 3Q results

Nagaileben Co., Ltd. <7447> (hereafter, also "the Company") is the leading manufacturer in Japan of medical gowns, which is one of its core markets*1, with a domestic market share of over 60%, and it has both a high profit margin and a sound financial condition. In the FY8/22 3Q consolidated results, net sales decreased 3.0% year on year (YoY) to ¥13,617mn, operating profit decreased 8.4% to ¥3,940mn, recurring profit decreased 8.2% to ¥4,014mn and net profit attributable to the owners of the parent company decreased 0.2% to ¥3,002mn*2. Net sales decreased due to the elimination of special demand for the MHLW products (infection prevention products) in FY8/21 3Q and the adoption of the Accounting Standard for Revenue Recognition and other relevant standards from FY8/22. However, net sales decreased 0.4%, virtually unchanged YoY on an actual basis, after excluding these special factors. In terms of profits, although operating profit decreased YoY due to the effect of exchange rates (weakening of the yen), higher raw material prices and the rise in processing fees and logistics costs (use of air transport), we feel this is not cause for major concern given that sales were steady and the downturn was in line with expectations.

*1 In the new categories introduced from FY8/21, among its domestic markets, the core markets are those markets in which the Company has comparatively high shares. They correspond to healthcare wear, doctors' wear, utility wear, shoes and other products, and infection prevention products. There are three markets in the new categories: the core markets, the peripheral markets (patient wear and surgery wear) and the overseas markets.

*2 Effective from FY8/22, the Company has adopted the Accounting Standard for Revenue Recognition and other relevant standards. In addition, year-on-year comparisons have been calculated on the basis of figures prior to application of the accounting standard given that its adoption has a negligible effect on earnings results.

2. FY8/22 forecasts

For the FY8/22 consolidated results*, the Company is holding to its initial forecasts given that its 3Q results were largely as expected. It accordingly forecasts net sales to increase 0.8% YoY to ¥17,700mn, operating profit to decrease 3.8% to ¥5,013mn, recurring profit to decline 4.1% to ¥5,090mn, and (as upwardly revised in April 2022) net profit attributable to the owners of the parent company to improve 1.5% to ¥3,700mn. Despite efforts to expand sales of mainstay products, net sales are forecast to increase only slightly due to the elimination of MHLW products (infection prevention products) (¥315mn) and application of the Accounting Standard for Revenue Recognition and other relevant standards (forecast to decrease net sales by ¥20mn). Meanwhile, operating profit is forecast to decrease due to the effect of exchange rates (weakening of the yen), and the rise in domestic processing fees and logistics costs. The Company has raised its forecast for net profit attributable to owners of the parent company due to extraordinary profit (¥338mn) recorded in 3Q from the sale of some strategic shareholdings. Exchange rates have been shaken by the greater than expected weakening of the yen, but with much of FY8/22 being covered by forward contracts, this will not impact the cost rate as much as it appears. SG&A expenses such as advertising have not risen as much as the Company expected. Based on these factors, FISCO believes operating profit is likely to be within the Company's forecast.

* The earnings results forecasts have been calculated subsequent to application of the Accounting Standard for Revenue Recognition and other relevant standards adopted by the Company in FY8/22. As the impact on business performance is forecast to be negligible, the YoY comparison is based on figures before application of the accounting standard.

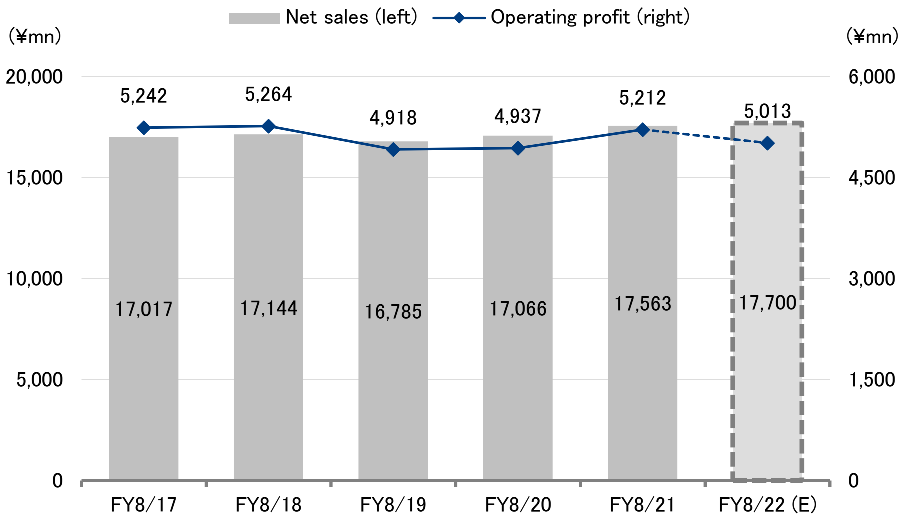
3. Mid-term management plan

In conjunction with its FY8/21 financial results announcement, the Company released its mid-term management plan extending through the plan's final year of FY8/24. The plan's numerical targets are net sales of ¥18.5bn and operating profit of ¥5.4bn in FY8/24. The weakening of the yen means exchange rates are currently a headwind, but with sales rising steadily and the Company considering price hikes, we believe it likely that these targets will be achieved. There has been no change to the Company's approach for returning profits to shareholders and for FY8/21, it paid an annual dividend of ¥60, and plans to pay the same amount for FY8/22. The Company proactively engages in share buybacks and acquired 480,000 treasury shares (¥976mn) in April 2022 and 132,700 treasury shares (¥254mn) in May 2022 with the objective of enhancing capital efficiency and to respond to the changing management environment. The Company's consistent return to shareholders in this manner is worthy of recognition.

Key Points

- In FY8/22 3Q, operating profit decreased, but this was in line with expectations. Mainstay items were steady
- In FY8/22, operating profit is forecast to decrease 3.8% YoY, unchanged from the initial forecast, but the forecast for net profit attributable to the owners of the parent company has been upwardly revised to an increase of 1.5% YoY due to the recording of extraordinary profit
- In the mid-term management plan, is targeting operating profit of ¥5.4bn in FY8/24. Is also actively returning profits to shareholders

Trends in net sales and operating profit (consolidated)



Note: The earnings results forecasts have been calculated subsequent to application of the Accounting Standard for Revenue Recognition and other relevant standards adopted by the Company in FY8/22
Source: Prepared by FISCO from the Company's financial results

Company profile

In its core markets, is the leading manufacturer of medical gowns with a domestic market share of over 60%

The Company 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, the Company says it has now expanded its operations nationally to become a leading domestic manufacturer that boasts an annual supply of more than 6.5 million medical gowns a year and a market share of over 60% in one of its core markets of medical gowns for nurses. With regard to the reviewed market categories introduced by the Tokyo Stock Exchange (TSE), the Company shifted its listing to the Prime Market.

History

1915	Mitsuji Nagai started Nagai Shoten, a privately owned business specializing in medical gowns, in Kanda-Jinbocho, Chiyoda-ku, Tokyo.
1941	Ended private business, established Tokyo Eisei Hakui Co. Ltd. together with seven stores in the same industry
1950	Liquidated Tokyo Eisei Hakui Co., Ltd. Mitsuji Nagai and Tatsuro Sawanobori jointly established Nagai Shoten Co., Ltd.
1969	Established a subsidiary, NAGAI UNIFORM INDUSTRY 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 multipurpose white gowns to medical gowns.
1977	Built second product center in Kameido, Koto-ku, Tokyo. Established a partnership with a US company, G.D. Searle & Company, and established Japan Surgical Apparel Co., Ltd. in Hiroshima City 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 the 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 certification. Listed on the First Section of the Tokyo Stock Exchange. Absorbed Hokkaido Nagai Co., Ltd. and established the Hokkaido branch.
2005	Acquired ISO 14001 certification. 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-ku, Tokyo.
2015	Held a ceremony to commemorate its 100th anniversary.
2016	Transitioned to a company with an 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.
2020	Delivered 600,000 articles of PPE garments from protection from COVID-19.
2022	Shifted listing to the Tokyo Stock Exchange Prime Market

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

Business overview

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

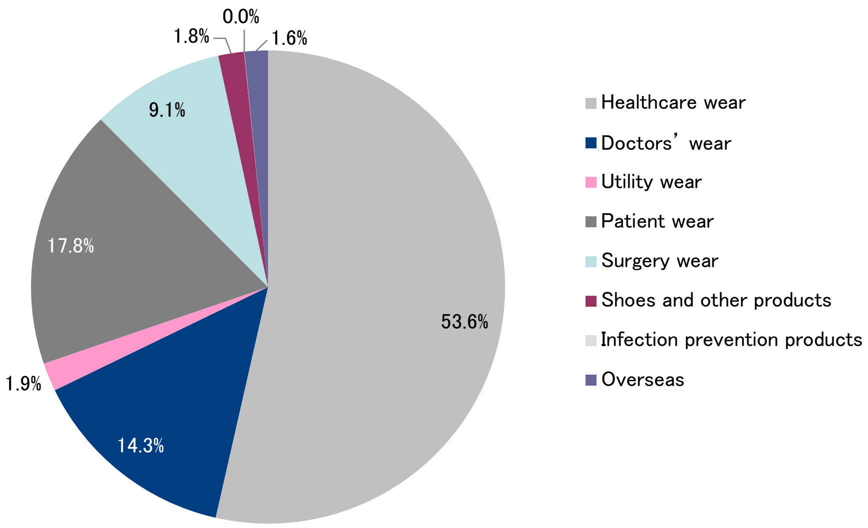
1. Sales breakdown

All of the Company's products are medical gowns and related products. The sales composition by item for FY8/22 1H is 53.6% from healthcare wear, 14.3% from doctors' wear, 1.9% from utility wear, 1.8% from shoes and other products, 0.0% from infection prevention products*, 17.8% from patient wear, 9.1% from surgery wear, and 1.6% from overseas markets.

* The Company added the new category of "infection prevention products" from FY8/20.

Healthcare wear mainly refers to products for nurses, and utility wear covers aprons, cardigans, and other garments worn on top of medical gowns and such. While profitability does not vary much among the various items, shoes and other purchased products have relatively low margins. Also, infection prevention products, which were separated into a new segment from FY8/20, are mainly MHLW products, so their profit margin is slightly lower than the average.

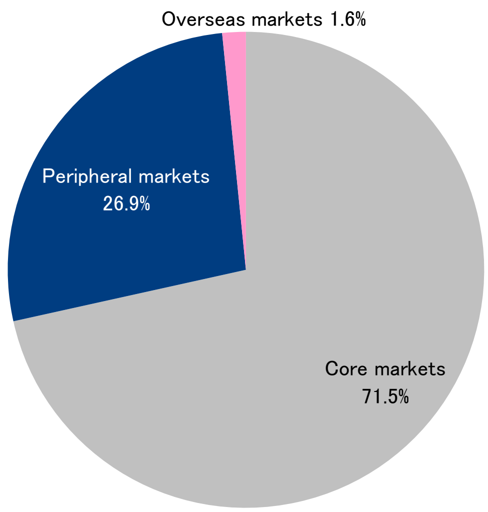
Net sales composition by item (FY8/22 1H)



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

Also, in the new categories introduced from FY8/21, the markets are divided into three categories: the core markets where the Company has comparatively high market shares domestically (healthcare wear, doctors' wear, utility wear, shoes and other products, and infection prevention products), the peripheral markets where there is plenty of room to grow in the future (patient wear and surgery wear), and the overseas markets. Regarding the composition of total net sales in FY8/22 1H, the core markets provided 71.5%, the peripheral markets 26.9%, and the overseas markets 1.6%. Net sales were previously disclosed by region, but following the establishment of the new categories, they will no longer be disclosed by region.

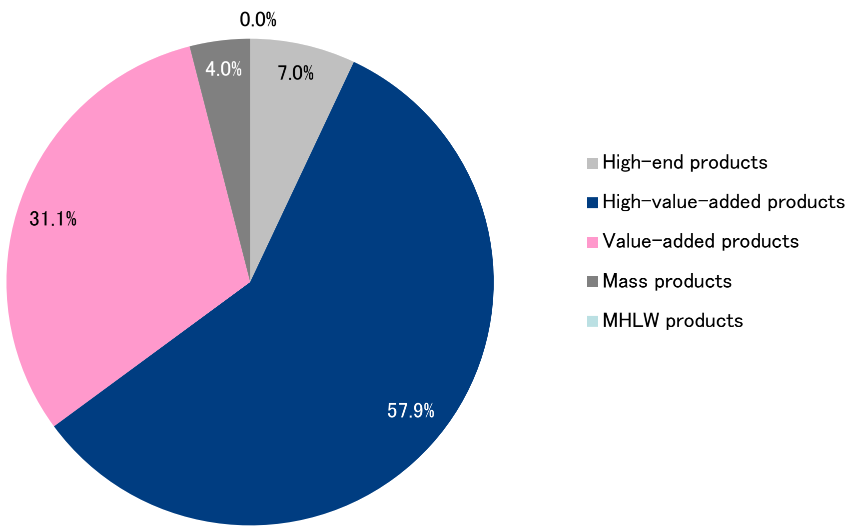
Net sales composition by market (FY8/22 1H)



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

The composition of total net sales by product (function) for FY8/22 1H is 7.0% from high-end products, 57.9% from high-value-added products, 31.1% from value-added products, 4.0% from mass products and 0.0% from MHLW 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.

Net sales composition by product (FY8/22 1H)



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

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 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 FY8/21 results (non-consolidated), internal production and at partner plants constitute an aggregate of 98.8% (48.1% domestically and 50.7% 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 (easy to move around) while incorporating antistatic, antibacterial (restricting the spread of bacteria), 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 produce 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 and respond to needs for made-to-order products. It has established a quick response (QR) system of rapid production and sales that delivers the desired product on a specified day in response to a broad range of users. 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 in one of its core markets of medical gowns, the domestic market for medical gowns exceeds 60.0%, and it maintains a firm position as the leading medical gown manufacturer in Japan. Additionally, it is maintaining high profitability with a gross profit margin of 45.9% (actual results for FY8/21). 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)

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.

"We want to become the power of life" at the core of initiatives

(1) Expanding women's roles: Supporting industries led by women
Many of the Company's products are for women working on the front lines 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 people dressed as characters make 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 Company's 100th anniversary 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 the medical industry.

c) Remake of student nurses' uniforms
The Company has deconstructed the training uniforms of student nurses at Okayama University and remade them into pochettes, so that they can use them even after starting work at medical facilities.

Social responsibility initiatives

(4) Environment

a) Reducing environmental burden through business

Many of the Company's products use materials derived from depletable resources and it believes that by planning, manufacturing and selling products that can be use repeatedly and for a long time is effective use of limited resources, which will lead to reducing environmental burden. Specifically, the Company acquired ISO 14001 certification in 2005, and carries out initiatives such as using cutting wastage from raw materials for roofing processing and other purposes. The Company has also developed and sells COMPELPACK, a reusable infection prevention product for use on surgical front lines. By providing wear that can be repeatedly washed and sterilized, converting it to reusable products instead of being disposable, it is contributing to the reduction of medical waste. Other initiatives include introducing hybrid vehicles for use as sales vehicles and installing solar power generating panels on the headquarters building.

b) Response to climate change problems

The Company plans mitigation and adaption initiatives for climate change problems, identification of opportunities and risks, etc., and implementation of a decision-making process toward scenario analysis as a climate change disclosure in accordance with the TCFD (Task Force on Climate-related Financial Disclosure).

(5) Social contribution

a) Donations of new infection prevention products to medical entities and others

In the fight against COVID-19, the Company donated 40,000 reusable masks and 10,000 reusable isolation gowns. It is also continuously conveying messages of support to medical personnel and the Company regularly publishes a poetry collection for nurses, which are given free of charge to hospitals and nurses.

b) Promotion of the employment of persons with disabilities

Subsidiary nagai uniform industry Co., Ltd. was awarded by the Minister of Health, Labour and Welfare in September 2016 after being selected as an excellent business that contributes to the active employment and promotion of persons with disabilities.

c) Disaster support activities

The Company has provided monetary donations, medical gowns, masks, wheelchairs and other items through the Japanese Nursing Association and 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.

d) Published in Future Class

The Company's initiatives are introduced in Future Class, which is a teaching material used in classes on SDGs (Sustainable Development Goals) that is distributed to elementary and junior high schools nationwide.

e) Other assistance

The Company supports the United Nations' World Food Programme (WFP), an entity that provides food assistance. Additionally, it supports the Minamisanriku Reconstruction Sakura Tree Planting effort and is cooperating with volunteers from Minamisanriku Town (Miyagi Prefecture), an area affected by the Great East Japan Earthquake, on the "Forest of Life with a View of the Ocean" initiative to plant sakura (cherry blossom) trees at the location that tsunami waters reached. Representative Director and President Ichiro Sawanobori is serving as the Industrial Ambassador for Misato Town (Akita Prefecture).

Results trends

In FY8/22 3Q, operating profit decreased, but this was in line with expectations. Mainstay items were steady

1. Summary of FY8/22 3Q consolidated results

In FY8/22 3Q consolidated results, net sales declined 3.0% YoY to ¥13,617mn, operating profit decreased 8.4% to ¥3,940mn, recurring profit decreased 8.2% to ¥4,014mn, and net profit attributable to the owners of the parent company decreased 0.2% to ¥3,002mn.

In the corresponding period of the previous fiscal year, the Company significantly increased sales by 14.2% due to the delivery of products delayed by COVID-19, capture of new large projects and special demand for MHLW products (infection prevention products). In addition, as the Company has applied the Accounting Standard for Revenue Recognition and other relevant standards from FY8/22, it caused a decrease in sales for FY 8/22 3Q. As a result, sales decreased YoY, but if the aforementioned factors are excluded, sales decreased 0.4% in real terms, virtually unchanged from the corresponding period of the previous fiscal year. In terms of profit and loss, operating profit decreased due to the effect of exchange rates (weakening of the yen) and the rise in domestic processing fees and logistics costs (use of air transport), we feel this is not cause for concern given that the downturn was in line with expectations.

Summary of FY8/22 3Q consolidated results

(¥mn)

	FY8/21 3Q		FY8/22 3Q		Change	
	Result	% of total	Result	% of total	Amount	Percentage
Net sales	14,034	100.0%	13,617	100.0%	-417	-3.0%
Gross profit	6,459	46.0%	6,089	44.7%	-370	-5.7%
SG&A expenses	2,155	15.4%	2,148	15.8%	-7	-0.3%
Operating profit	4,304	30.7%	3,940	28.9%	-363	-8.4%
Recurring profit	4,373	31.2%	4,014	29.5%	-359	-8.2%
Net profit attributable to the owners of the parent company	3,009	21.4%	3,002	22.1%	-6	-0.2%

Note: Figures presented for FY8/22 3Q have been calculated subsequent to application of the Accounting Standard for Revenue Recognition and other relevant standards adopted by the Company in FY8/22. Moreover, comparative information has been calculated using numerical values prior to application of such accounting standards when it comes to respective figures for the same period of the previous fiscal year as well as increases and decreases

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

In the market environment, medical frontline operations that have not fully recovered yet have regained calm after having emerged from a period of disruption. Furthermore, with the authorities having increased medical fees by 0.43% and decreased drug prices by 1.35% per their revision of medical fees effective from April 2022, yet are unlikely to substantially affect orders of the Company's products.

Regarding net sales were steady as projects scheduled for renewal and new projects were ensured in the mainstay core markets. However, strong sales in FY8/21 in response to the COVID-19 pandemic and special demand for the MHLW products meant that net sales decreased 5.3% YoY. Net sales in peripheral markets and overseas markets were less affected YoY, increasing 3.6% and 32.6% respectively.

In profits, the gross profit margin decreased 1.3pp YoY to 44.7%, and gross profit decreased 5.7% to ¥6,089mn. The YoY downturn in the gross profit was due to the impact in exchange rates (weakening yen), rising raw material prices and processing fees, and increased overseas logistics costs (due to using air mail to transport some materials, etc., in response to a customer request amid a time when logistics is disrupted globally). Exchange rates have been shaken by the greater than expected weakening of the yen, but it appears that much of FY8/22 is covered by forward contracts. Excluding exchange rates, higher cost factors were in line with Company expectations.

On the other hand, SG&A expenses decreased 0.3% YoY. Although transportation costs rose from the recovery in business activity both domestically and overseas, advertising costs decreased as exhibitions were postponed or cancelled, etc. As a result, operating profit decreased 8.4% to ¥3,940mn, but this was broadly in line with Company plan.

● Net sales forecasts by item and market

In net sales by item, healthcare wear decreased 1.4% YoY to ¥7,580mn, doctors' wear decreased 0.6% to ¥2,064mn, utility wear decreased 16.4% to ¥265mn, shoes and other products decreased 14.4% to ¥263mn, infection prevention products decreased 99.3% to ¥2mn, patient wear increased 10.1% to ¥2,056mn, and surgery wear decreased 5.7% to ¥1,214mn.

As a result, for net sales by market, the core markets decreased 5.3% YoY to ¥10,176mn, the peripheral markets increased 3.6% to ¥3,270mn, and the overseas markets increased 32.6% to ¥169mn. The steady increase in sales in peripheral markets, an area the Company is focusing on, is worthy of recognition.

Net sales forecasts by item and market

(¥mn)

	FY8/22 3Q	
	Result	YoY
Core markets	10,176	-5.3%
Healthcare wear	7,580	-1.4%
Doctors' wear	2,064	-0.6%
Utility wear	265	-16.4%
Shoes and other products	263	-14.4%
Infection prevention products	2	-99.3%
Peripheral markets	3,270	3.6%
Patient wear	2,056	10.1%
Surgery wear	1,214	-5.7%
Overseas markets	169	32.6%
Total	13,617	-3.0%

Note: Figures presented for FY8/22 3Q have been calculated subsequent to application of the Accounting Standard for Revenue Recognition and other relevant standards adopted by the Company in FY8/22. Moreover, comparative information has been calculated using numerical values prior to application of such accounting standards when it comes to respective figures for the same period of the previous fiscal year
Source: Prepared by FISCO from the Company's results briefing materials

Financial position remains sound given a high level of cash and deposits on hand at ¥26.1bn, and an equity ratio of 90.0%

2. Financial position

The Company's financial position remains stable. At the end of FY8/22 3Q, total assets had decreased by ¥360mn to ¥46,068mn compared to the end of the previous fiscal year. Current assets increased by ¥272mn to ¥37,595mn, mainly due to a decrease in cash and deposits of ¥1,742mn, an increase in notes and accounts receivable including electronically recorded claims of ¥1,750mn, and a decrease in inventories of ¥12mn. Meanwhile, fixed assets decreased by ¥633mn to ¥8,472mn, mainly due to a decrease in tangible fixed assets of ¥163mn from depreciation and a decrease in investments and other assets of ¥472mn as a result of a decrease in investment securities.

Total liabilities were ¥4,596mn, up ¥197mn compared to the end of the previous fiscal year. This was largely attributable to an increase of ¥192mn in notes and accounts payable and a decrease of ¥147mn in income taxes payable. Net assets decreased ¥558mn to ¥41,471mn, mainly due to a ¥991mn increase in retained earnings from the booking of net profit attributable to the owners of the parent company, and a ¥1,223mn decrease from the acquisition, etc. of treasury shares. As a result, the equity ratio was 90.0% at the end of FY8/22 3Q, down 0.5pp compared to the end of the previous fiscal year.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/21	End of FY8/22 3Q	Change
Cash and deposits	27,879	26,136	-1,742
Notes and accounts receivable (including electronically recorded claims)	4,775	6,525	1,750
Inventories	4,615	4,602	-12
Current assets	37,322	37,595	272
Tangible fixed assets	7,489	7,325	-163
Intangible fixed assets	43	46	2
Investments and other assets	1,572	1,100	-472
Fixed assets	9,106	8,472	-633
Total assets	46,428	46,068	-360
Notes and accounts payable	1,290	1,482	192
Income taxes payable	945	798	-147
Total liabilities	4,399	4,596	197
Retained earnings	43,276	44,267	991
Treasury shares	-5,913	-7,136	-1,223
Net assets	42,029	41,471	-558
Total liabilities and net assets	46,428	46,068	-360

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

Business outlook

In FY8/22, operating profit is forecast to decrease 3.8% YoY, unchanged from the initial forecast, but the forecast for net profit attributable to the owners of the parent company has been upwardly revised to an increase of 1.5% due to the recording of extraordinary profit

● FY8/22 consolidated earnings outlook

For the FY8/22 consolidated results, the Company is holding to its initial forecasts given that its 3Q results were largely as expected. It accordingly forecasts net sales to increase 0.8% YoY to ¥17,700mn, operating profit to decrease 3.8% to ¥5,013mn, recurring profit to decline 4.1% to ¥5,090mn, and net profit attributable to the owners of the parent company to improve 1.5% to ¥3,700mn (as upwardly revised in April 2022). The Company expects a higher number of renewal projects than usual in 4Q, and views sales as on a recovery track.

FY8/22 consolidated earnings outlook

(¥mn)

	FY8/21		FY8/22		Change	
	Result	% of total	Forecast	% of total	Amount	Percentage
Net sales	17,563	100.0%	17,700	100.0%	136	0.8%
Gross profit	8,058	45.9%	7,894	44.6%	-164	-2.0%
SG&A expenses	2,846	16.2%	2,880	16.3%	34	1.2%
Operating profit	5,212	29.7%	5,013	28.3%	-198	-3.8%
Recurring profit	5,306	30.2%	5,090	28.8%	-215	-4.1%
Net profit attributable to the owners of the parent company	3,647	20.8%	3,700	20.9%	52	1.5%

Note: The earnings results forecasts have been calculated subsequent to application of the Accounting Standard for Revenue Recognition and other relevant standards adopted by the Company in FY8/22.
Figures for FY8/21 are before the application of the relevant accounting standards, while YoY comparisons have been calculated on the basis of figures prior to adoption of the relevant accounting standards
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Regarding net sales, the Company has introduced new products with new concepts into core markets, striving to energize the market and increase share by ensuring receipt of orders for renewal projects. In peripheral markets, in addition to patient wear, which is forecast to continue to see significant sales growth, COMPELPACK is expected to penetrate markets and increase sales in surgery wear. These increases will cover the elimination of MHLW products (infection prevention products) (¥315mn), and adoption of the Accounting Standard for Revenue Recognition, etc. (forecast to decrease net sales by ¥20mn), and the overall forecast is for record high net sales up 0.8% YoY to ¥17,700mn.

Exchange rates have been shaken by the greater than expected weakening of the yen, and forecasts are for a gross profit margin of 44.6% (45.9% in the previous period) and for gross profit to decrease ¥164mn YoY, with sales growth being an increase factor of ¥61mn and production being a decrease factor of ¥225mn. Breaking down the production factors, gross profit is forecast to decrease ¥180mn due to the effect of exchange rates (weakening of the yen from ¥104.3 to US$1 in FY8/21 to around ¥113.0 to US$1 in FY8/22, which is covered by forward contracts), to decrease ¥50mn due to the increase in processing fees at domestic plants, and to increase ¥60mn because of the rise in the overseas production ratio (from 50.7% FY8/21 to 51.9% in FY8/22).

The impact of COVID-19 is expected to subside and the market moved toward stabilizing. Sales activities are to a certain extent expected to return to normal, so the forecasts are for travel and transportation costs to rise ¥31mn and SG&A expenses are forecast to increase 1.2% YoY to ¥2,880mn. As a result, operating profit is expected to decrease 3.8% YoY to ¥5,013mn. The Company is forecasting capital investment of ¥249mn and depreciation of ¥285mn, which are within the normal ranges. The Company forecasts an increase in net profit attributable to owners of the parent company due to the recording of an extraordinary profit of ¥338mn in 3Q from the sale of some strategic shareholding.

The early July 2022 exchange rate was weaker than the Company expected at around ¥135.0, but with much of FY8/22 being covered by forward contracts, this will not impact the cost rate as much as it appears. SG&A expenses such as advertising have not risen as much as the Company expected. Based on these factors, FISCO believes operating profit is likely to be within the Company's forecast.

(1) Net sales forecasts by item and market

In net sales by item, sales of healthcare wear are forecast to increase 1.0% YoY to ¥9,660mn, doctors' wear to increase 1.9% to ¥2,650mn, utility wear to decrease 7.4% to ¥330mn, shoes and other products to decrease 8.7% to ¥300mn, infection prevention products to decrease 86.2% to ¥50mn, patient wear to increase 12.1% to ¥2,820mn, and surgery wear to increase 2.5% to ¥1,680mn. By market, net sales are forecast to decrease 1.6% to ¥12,990mn in the core markets, to increase 8.4% to ¥4,500mn in the peripheral markets, and to increase 3.4% to ¥210mn in the overseas markets.

Net sales forecasts by item

(¥mn)

	FY8/21		FY8/22	
	Result	YoY	Forecast	YoY
Healthcare wear	9,560	8.2%	9,660	1.0%
Doctors' wear	2,600	6.1%	2,650	1.9%
Utility wear	356	-3.6%	330	-7.4%
Shoes and other products	328	-4.9%	300	-8.7%
Infection prevention products	361	-67.7%	50	-86.2%
Patient wear	2,514	22.0%	2,820	12.1%
Surgery wear	1,638	-3.0%	1,680	2.5%
Overseas markets	203	0.9%	210	3.4%
Total	17,563	2.9%	17,700	0.8%

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

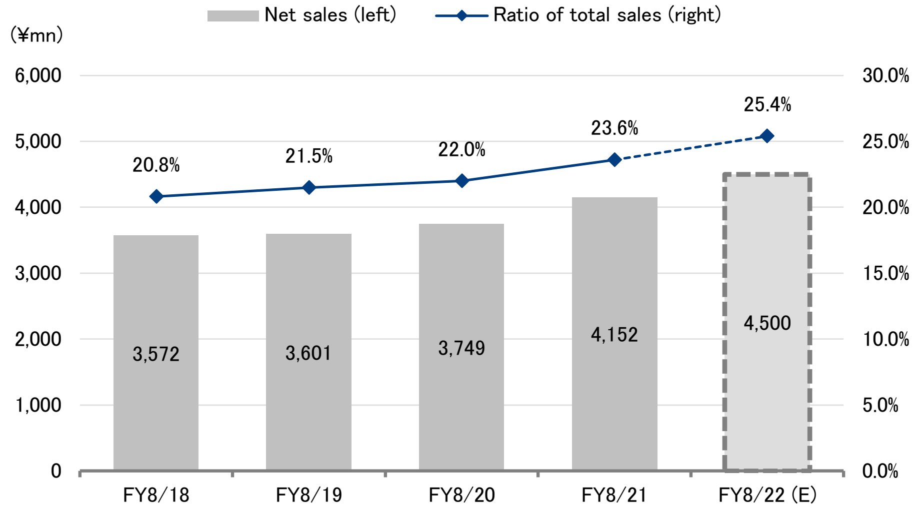
Net sales forecasts by market

(¥mn)

	FY8/21		FY8/22	
	Result	YoY	Forecast	YoY
Core markets	13,207	0.7%	12,990	-1.6%
Peripheral markets	4,152	10.8%	4,500	8.4%
Overseas markets	203	0.9%	210	3.4%
Total	17,563	2.9%	17,700	0.8%

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

Trend in net sales of peripheral markets and ratio of total sales



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

For the mainstay healthcare wear and doctors' wear, the Company is aiming to strongly increase sales by steadily acquiring orders for renewal projects through market launches of new concept products against a backdrop of a stable market. In patient wear, it plans to continue to increase sales from the growth of demand in the market and by increasing its market share. In surgery wear, it will focus on market penetration of COMPELPACK, from their advantage of being reusable, and sales are expected to increase. In infection prevention products, it does not expect sales of MHLW products and reusable masks, and it plans to market only reusable isolation gowns. For overseas markets, the Company will continue to advance its business model in Taiwan.

(2) Net sales forecasts by product

In sales by product, the Company forecasts are sales of ¥1,280mn of high-end products (up 5.1% YoY), ¥10,190mn of high-value-added products (up 9.5%), ¥5,500mn of value-added products (down 7.8%), ¥730mn of mass products (down 4.5%), and ¥0mn of MHLW (Japan) (down 100.0%).

Net sales forecasts by product

(¥mn)

	FY8/21		FY8/22	
	Result	YoY	Forecast	YoY
High-end products	1,218	13.6%	1,280	5.1%
High-value-added products	9,302	7.0%	10,190	9.5%
Value-added products	5,963	6.5%	5,500	-7.8%
Mass products	764	1.1%	730	-4.5%
MHLW products	315	-66.7%	0	-100.0%
Total	17,563	2.9%	17,700	0.8%

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

In high-end products, the Company focused on market stimulation by strengthening the lineup of new products (healthcare wear and doctors' coats). In high-value-added products, it is aiming to improve added value with additional functionality and enhanced design and thereby ensure recruitment of renewal projects. In value-added products, although sales are forecast to decrease due to having delivered a new, large-scale project in the previous fiscal year, it will move forward on the capture of other company's projects and the shift from mass-market to value-added products.

Medium- to long-term growth strategy

Has announced the mid-term management plan and is targeting operating profit of ¥5.4bn in FY8/24

1. Mid-term management plan

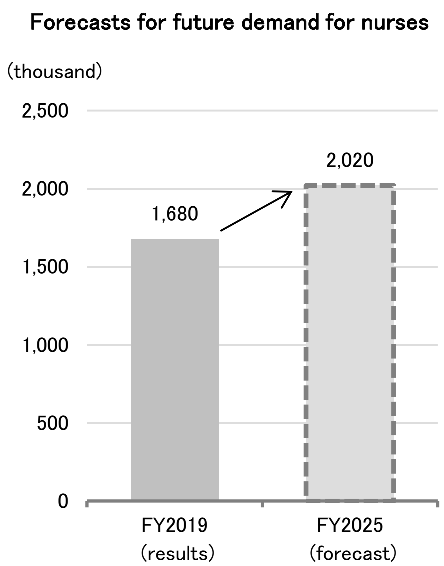
Before the COVID-19 pandemic, the Company announced the mid-term management plan for the next three years based on the results of the previously completed fiscal period. But when it announced its FY8/20 financial results, it decided to postpone the announcement of numerical targets for the mid-term management plan, as it concluded that it would be difficult to calculate them amid the ongoing disruption at medical facilities. However, having since deemed it possible rationally calculate such targets particularly amid improvement in the market environment outlook, the Company accordingly released its mid-term management plan extending through the plan's final year of FY8/24 in conjunction with its FY8/21 financial results announcement. The plan's numerical targets are net sales of ¥18.5bn and operating profit of ¥5.4bn in FY8/24*. Although these plans and targets had not been revised as of the announcement of the Company's FY8/22 3Q consolidated financial results, the Company has stated that "there is a possibility of another review at the end of FY8/22."

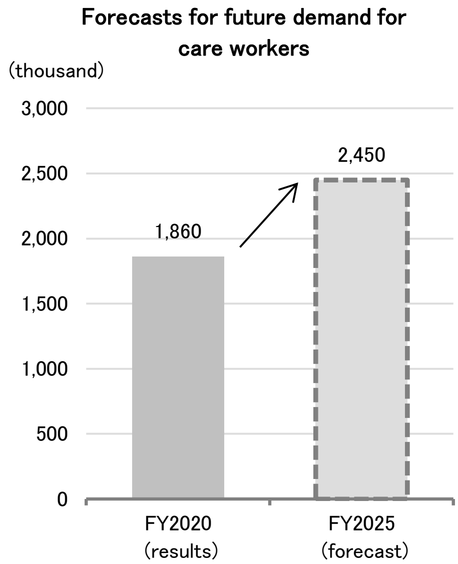
* Assumes an exchange rate of ¥110.0 (fixed).

With FY8/22 3Q net sales increasing steadily, FISCO believes the focal points (based on the Company's plan) for FY8/23 onwards are currency exchange trends and price revisions (price hikes). Although currency exchange predictions are difficult, the Company has said it would probably need to consider price hikes in the future. We at FISCO expect the Company to gradually negotiate price hikes from FY8/23. Given that it is the industry leader, we think price hikes will be accepted by customers.

2. Future business strategies

The COVID-19 pandemic is currently affecting the Company's business environment, but could be a medium- to long-term tailwind. According to data released by MHLW among others, the number of nurses in Japan is projected to increase from 1.68 million in FY2019 to a maximum of 2.02 million in FY2025. Moreover, the number of demanded nursing care professionals is forecast to increase from 1.86 million in FY2020 to 2.45 million in FY2025.





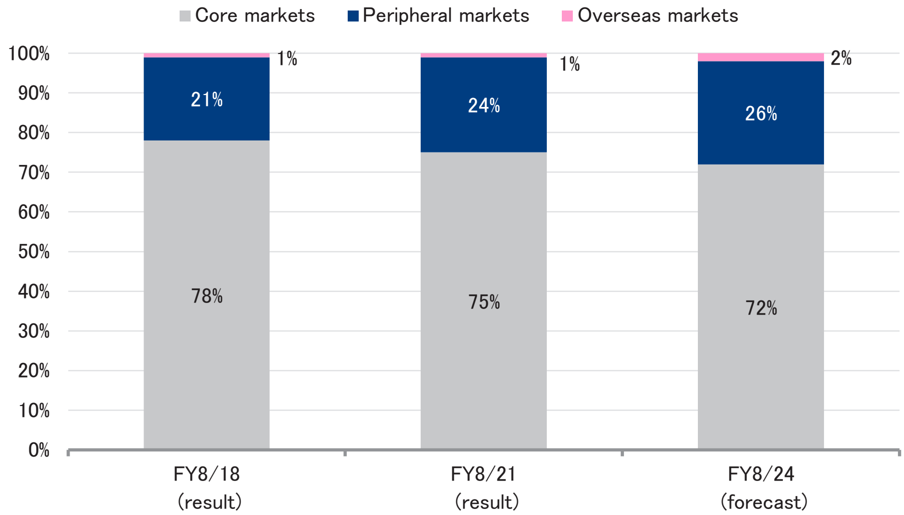
Source: Prepared by FISCO from the following materials (English titles have been translated from Japanese)
FY2019 Actual Number of Nursing Professionals from "Statistical Data on Nursing Service in Japan" (Japanese Nursing Association)
FY2025 Estimated Number of Nursing Professionals from "Study Group on Supply and Demand of Medical Personnel" Materials (MHLW)
FY2020 Actual Number of Nursing Care Professionals from "Survey of Institutions and Establishments for Long-Term Care" (MHLW)
FY2025 Estimated Number of Nursing Care Professionals from "7th Nursing Care Insurance Business Group Plan" (MHLW)

In this sort of business environment, the Company plans to achieve growth in the medium term through the following three strategies: (1) market strategy to expand sales, (2) product strategy to stabilize profitability, (3) and production strategy to improve the profit margin.

(1) Market strategy to expand sales

As its market strategy, the Company is aiming to expand sales not only in its core markets in which it has comparatively high shares, but also by further deepening its businesses in the peripheral markets that still have plenty of room to grow in the future. For the overseas markets, the Company is developing markets, mainly in South Korea and Taiwan, by utilizing the business model that is one of its strengths. By implementing these strategies, it forecasts that the net sales composition by market in FY8/24 will be 72% from the core markets (compared to 78% in FY8/18), 26% from the peripheral markets (21%), and 2% from the overseas markets (1%).

Forecasts for net sales composition by market

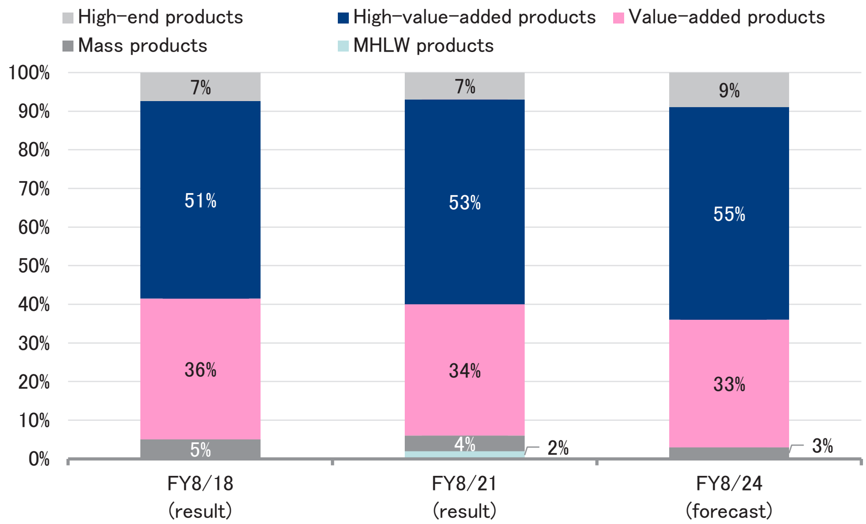


Source: Prepared by FISCO from the Company's results briefing materials

(2) Product strategy to stabilize profitability

As its product strategy, the Company will aim to progress sales growth of high-end products and high-value-added products, and at the same time make an effort to increase sales of mass products and value-added products. Its policy is to stabilize profitability even further. As a result, it is forecasting that the composition of net sales by product in FY8/24 will be 9% from high-end products (compared to 7% in FY8/18), 55% from high-value-added products (51%), 33% from value-added products (36%), and 3% from mass products (5%).

Forecasts for net sales composition by product

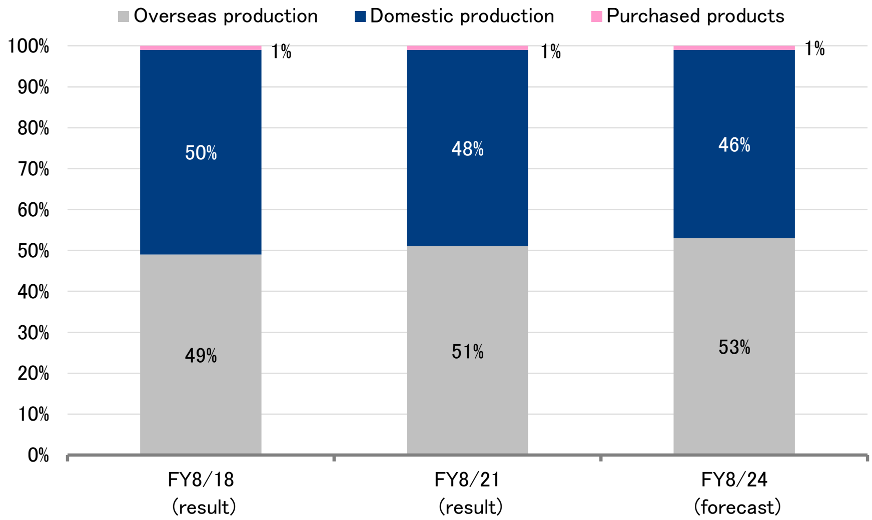


Source: Prepared by FISCO from the Company's results briefing materials

(3) Production strategy to improve the profit margin

As its production strategy, the Company intends to improve the profit margin by raising the overseas production ratio through shifting production overseas, while keeping down exchange rate-related risk. In Japan, its policy is to maintain a high profit margin by strengthening its ability to respond to requests for QR and multiple-product, small-lot production runs. By implementing these strategies, it is forecasting that the composition of total production in FY8/24 will be 53% from overseas production (compared to 49% in FY8/18), 46% from domestic production (50%), and 1% from purchased products (1%).

Forecasts for the composition of production



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

Shareholder return policy

Pledges a dividend payout ratio of 50% or higher (non-consolidated basis) and forecasts an annual dividend of ¥60.0 per share

The Company's equity ratio reached 90.5% at the end of FY8/21 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 (8.9% in FY8/21).

The Company has pledged a dividend payout ratio of 50% or higher on a non-consolidated basis. In FY8/17, it increased the annual dividend from ¥50.0 to ¥60.0, and paid an annual dividend of ¥60.0 each year from FY8/18 to FY8/21. The Company has already announced an annual dividend of ¥60.0 per share for FY8/22 as well. In addition, the Company proactively engages in share buybacks and acquired 480,000 treasury shares (¥976mn) in April 2022 and 132,700 treasury shares (¥254mn) in May 2022 with the objective of enhancing capital efficiency and to respond to the changing management environment. In addition to the Company's strong financial position, this consistent return to shareholders is worthy of recognition.

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	1,995	0	58.0%	58.0%
FY8/20	1,971	1,031	57.9%	87.9%
FY8/21	1,971	0	55.0%	55.0%

*On a non-consolidated basis
Note: The Company executed 1:2 stock splits in FY8/04 and FY8/11
Source: Prepared by FISCO from the Company's results briefing materials

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