COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben Co., Ltd.

7447

Tokyo Stock Exchange Prime Market

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Summary

In FY8/23 1H, operating profit declined 8.7% year on year, but exceeded expectations. Full-year forecasts are unchanged, though there is a strong likelihood of upward revisions

1. FY8/23 1H 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*, with a domestic market share of over 60%, and it has both a high profit margin and a sound financial condition. In its FY8/23 1H consolidated results, net sales increased 1.5% year on year (YoY) to ¥7,931mn, operating profit decreased 8.7% to ¥1,859mn, recurring profit decreased 9.3% to ¥1,890mn, and net profit attributable to the owners of the parent company decreased 9.6% to ¥1,295mn. Net sales increased compared to the same period of the previous fiscal year, but the total fell short of the forecast due to delays in some projects and other factors. However, the gross profit margin was 42.9%, exceeding the initial forecast of 41.5%. This was primarily attributable to the yen being somewhat stronger than expected in exchange rates on average due to forward contacts and other factors, overseas logistics costs coming down compared to the recent past, and the effect of price revision conducted since February 2023 beginning to materialize. SG&A expenses increased 6.1% YoY due mainly to factors including increases in advertising expenses and travel and transportation costs resulting from the COVID-19 pandemic, but the figure was 4.1% lower than the forecast. As a result, operating profit decreased 8.7% YoY, but was 8.2% higher than expected.

* Domestic markets in which the Company has a relatively higher share. The markets include healthcare wear, doctors’ wear, utility wear and other products, and infection prevention products.

2. FY8/23 forecasts

For its consolidated results in FY8/23, the Company is projecting net sales to increase 2.6% YoY to ¥18,200mn, operating profit to decrease 9.1% to ¥4,574mn, recurring profit to decline 9.8% to ¥4,638mn, and net profit attributable to the owners of the parent company to decline 16.2% to ¥3,164mn, all unchanged from initial forecasts. The large decline in net profit attributable to the owners of the parent company is due to the absence of extraordinary profit recorded in the previous fiscal year. While the Company expects steady growth in sales, it also sees the impact from exchange rates (weakening of the yen YoY) and rising processing fees continuing, and expects operating profits to decline as cost rates rise. In response, the Company plans to enact steps to further improve profitability, including greater production efficiency and price revisions that are already underway. 1H results exceeded initial expectations, but the Company has retained its initial forecasts for the full year because the outlook is uncertain. However, if current business conditions continue, FISCO believes there is a strong likelihood that full-year results will be upwardly revised.

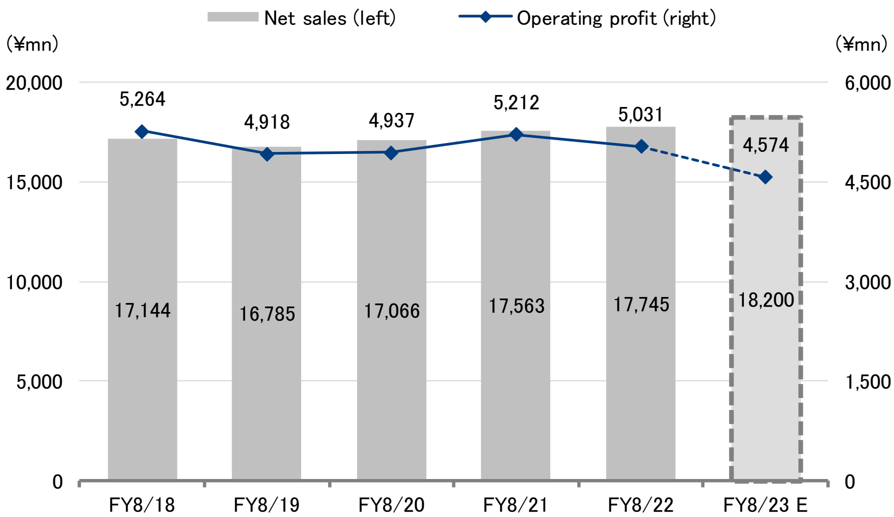
3. Mid-term management plan

The Company announced its mid-term management plan, taking into account the results of FY8/22. The plan's numerical targets are net sales of ¥19.3bn and operating profit of ¥5.5bn in FY8/25. The weakening of the yen means exchange rates are currently a headwind, but with sales rising steadily and price revisions being conducted, we believe it likely that these targets will probably be achieved. There has been no change to the Company's approach for returning profits to shareholders and for FY8/22, it paid an annual dividend of ¥60.0, and plans to pay the same amount for FY8/23. The Company proactively engages in share buybacks and acquired 612,700 treasury shares (¥1,231mn) in FY8/22 with the objective of enhancing capital efficiency and responding to the changing management environment. The Company's consistent return to shareholders in this manner is worthy of recognition.

Key Points

- In FY8/23 1H, operating profit decreased 8.7% YoY, but exceeded expectations
- FY8/23 operating profit is expected to decrease 9.1% YoY as initially forecasted, but there is a strong likelihood forecasts will be upwardly revised
- In the mid-term management plan, is targeting operating profit of ¥5.5bn in FY8/25, and also actively returning profits to shareholders

Trends in net sales and operating profit (consolidated)



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) in April 2022, 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

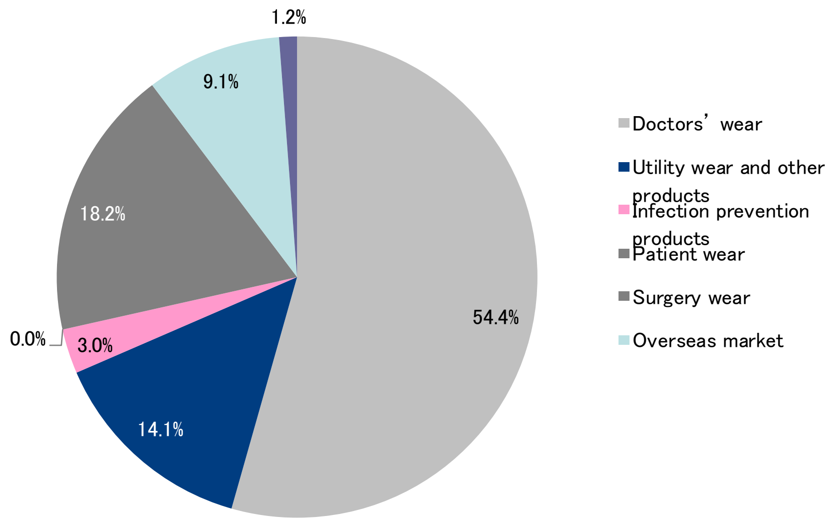
1. Sales breakdown

The Company's products are medical gowns and related products. The sales composition by item for FY8/23 1H is 54.4% from healthcare wear, 14.1% from doctors' wear, 3.0% from utility wear and other products, 0.0% from infection prevention products*, 18.2% from patient wear, 9.1% from surgery wear, and 1.2% from overseas markets.

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

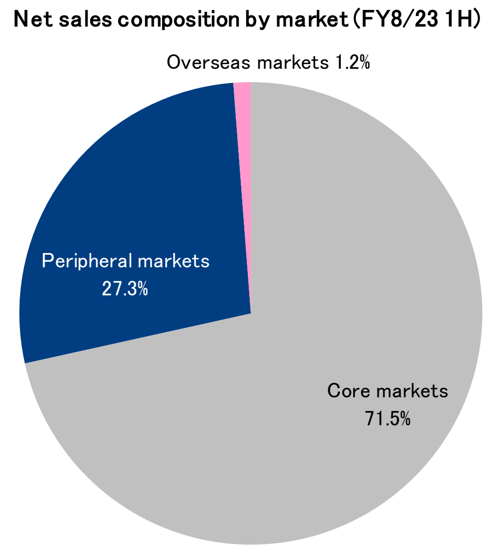
Healthcare wear mainly refers to products for nurses, while utility wear and other products include utility wear (aprons, cardigans, and other garments worn on top of medical gowns and such) and shoes. While profitability does not vary much among the various items, utility wear and other purchased products have a high percentage of purchased products and 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 (FY8/23 1H)



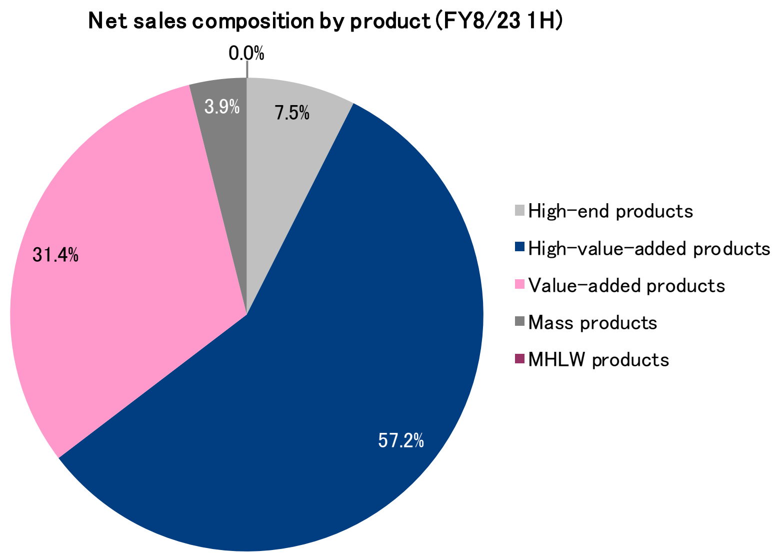
Source: Prepared by FISCO from the Company's results briefing materials

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 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 FY8/23 1H, the core markets provided 71.5%, the peripheral markets 27.3%, and the overseas markets 1.2%. Net sales were previously disclosed by region, but following the establishment of the new categories, they will no longer be disclosed by region.



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

The composition of total net sales by product (function) for FY8/23 1H is 7.5% from high-end products, 57.2% from high-value-added products, 31.4% from value-added products, 3.9% 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.



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 FY8/23 1H results (non-consolidated), internal production and at partner plants constitute an aggregate of 99.6% (47.6% domestically and 52.0% overseas), with purchased products accounting for 0.4%. Overseas production takes place in Indonesia, Vietnam, and China, but the Company owns no plants and the goods are produced at the plants of its local partners, which mitigates investment risk and reduces costs.

3. Characteristics and strengths

The Company is a specialized manufacturer of medical gowns, and one of its strengths is that it has in place an integrated system to undertake every aspect of this business, from planning through to raw material procurement, manufacturing, and sales. In its product planning, it can accurately understand customer needs and reflect them in its products. Specifically, the Company sells products that are easy to work in (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 44.4% (actual results for FY8/22). 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 main 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 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 provides practical educational courses on such subjects as make-up and personal behavior that are suitable for nurses in the medical industry. The courses have been provided online since FY8/22 and have included online beauty courses and beauty-related instructional videos. In FY8/23 2Q, the Company provided the re-edited version of the video to be used in training for new nurses beginning their careers at those institutions.

c) Remaking student nurses' uniforms

The Company remakes the training uniforms of student nurses at Okayama University into pochettes and other items so that the nurses can use them even after starting work at medical facilities. In addition, in FY8/23 2Q, the training uniforms of all graduates of FUJI Nursing School were upcycled into pochettes and presented by the school as graduation gifts.

(3) Contributing to communities

a) 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.

b) 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.

c) 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.

d) Provision of uniforms to nurses providing support after disasters

In a new initiative launched in FY8/22, the Company provided the Japanese Nursing Association with uniforms to be worn by nurses dispatched to different regions in the event of a disaster, and also provided the nursing associations of each prefecture with uniforms for storage and stockpiling.

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 agency 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 in locations reached by the tsunami. Representative Director and President Ichiro Sawanobori also serves as the Industrial Ambassador for Misato Town (Akita Prefecture). In addition, the Company serves as an official supporter of the Para-Art Activity promoted by the Nippon Charity Kyokai to support the disabled.

Results trends

In FY8/23 1H, operating profit decreased 8.7% YoY, but this exceeded expectations

1. Summary of FY8/23 1H consolidated results

In FY8/23 1H consolidated results, net sales increased 1.5% YoY to ¥7,931mn, operating profit decreased 8.7% to ¥1,859mn, recurring profit decreased 9.3% to ¥1,890mn, and net profit attributable to the owners of the parent company decreased 9.6%% to ¥1,295mn. Profits decreased YoY, but exceeded forecasts, so the result should not necessarily be viewed negatively.

Net sales increased YoY, but fell short of the forecast by 1.1% due to delays in some projects and other factors. At the same time, the gross profit margin was 42.9%, exceeding the initial forecast of 41.5%. This was primarily attributable to the yen being somewhat stronger than expected in exchange rates on average due to forward contacts and other factors, overseas logistics costs coming down compared to the recent past, and the effect of price revision conducted since February 2023 beginning to materialize. SG&A expenses increased 6.1% YoY due mainly to factors including increases in advertising expenses and travel and transportation costs resulting from the COVID-19 pandemic, but the figure was 4.1% lower than the forecast. As a result, operating profit decreased 8.7% YoY, but was 8.2% higher than expected.

Summary of FY8/23 1H consolidated results

(¥mn)

	FY8/22 1H		FY8/23 1H		Change	
	Results	% of total	Results	% of total	Amount	Percentage
Net sales	7,817	100.0%	7,931	100.0%	114	1.5%
Gross profit	3,491	44.7%	3,404	42.9%	-87	-2.5%
SG&A expenses	1,456	18.6%	1,544	19.5%	88	6.1%
Operating profit	2,035	26.0%	1,859	23.4%	-176	-8.7%
Recurring profit	2,084	26.7%	1,890	23.8%	-193	-9.3%
Net profit attributable to the owners of the parent company	1,433	18.3%	1,295	16.3%	-138	-9.6%

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

The market environment has emerged from a period of disruption and is beginning to stabilize. This is due in part to COVID-19 being reclassified as a Category 5 disease in May 2023. However, there are concerns that operations at medical institutions could be stressed by influenza breakouts, so the situation will need to be monitored going forward. In addition, authorities increased medical fees by 0.43% and decreased drug prices by 1.37% based on medical fee revisions effective April 2022, and average wages for nurses and care staff were also increased (by 1% in February 2022 and 3% in October), but as of now these changes do not appear to have had a significant impact on orders for the Company's products.

(1) Net sales by item and market

Net sales in core markets decreased 15.3% YoY in 1Q, in part as a reaction to a major renewal order received in the same period of the previous fiscal year, so the situation was challenging, but in 2Q the figure increased 13.9% YoY as order renewals and new order acquisition proceeded steadily driven by the new EARTH SONG brand concept. As a result, 1H net sales in core markets increased 1.5% YoY to ¥5,674mn. By item, healthcare wear increased 3.1% to ¥4,318mn, doctors' wear edged up 0.3% to ¥1,118mn, and utility wear and other products declined 18.3% to ¥236mn.

Net sales in peripheral markets, where the Company is focusing its efforts, were impacted in 1Q by a temporary restraint of new material purchases placed on linen suppliers, but began to recover in 2Q. As a result, 1H sales in this area increased 2.9% YoY to ¥2,161mn. By item, patient wear increased 3.8% to ¥1,443mn and surgery wear increased 1.0% to ¥718mn. In overseas markets, net sales decreased 22.8% to ¥96mn.

Net sales by item and market

(¥mn)

	FY8/22 1H		FY8/23 1H	
	Results	YoY	Results	YoY
Core markets	5,591	-6.8%	5,674	1.5%
Healthcare wear	4,186	-0.4%	4,318	3.1%
Doctors' wear	1,114	0.5%	1,118	0.3%
Utility wear and other products	288	-12.1%	236	-18.3%
Infection prevention products	1	-99.6%	1	-29.3%
Peripheral markets	2,101	5.5%	2,161	2.9%
Patient wear	1,389	14.1%	1,443	3.8%
Surgery wear	711	-8.1%	718	1.0%
Overseas markets	124	60.9%	96	-22.8%
Total	7,817	-3.1%	7,931	1.5%

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

(2) Net sales by products

Net sales in high-end products, where the Company is focused on strengthening its Elegance product line, increased 8.7% YoY to ¥590mn. In high value-added products, further market penetration of the Company's new EARTH SONG brand concept led net sales to edge up 0.2% to ¥4,535mn. In value-added products, net sales increased 2.6% to ¥2,493mn by capturing projects from other companies and promoting a shift from mass-market products. Mass market products decreased 0.9% to ¥311mn. The growth of high-end products and high value-added products is contributing to improving the overall profit margin.

Net sales by products

(¥mn)

	FY8/22 1H		FY8/23 1H	
	Results	YoY	Results	YoY
High-end products	543	5.8%	590	8.7%
High-value-added products	4,528	10.5%	4,535	0.2%
Value-added products	2,430	-13.2%	2,493	2.6%
Mass products	314	-8.8%	311	-0.9%
MHLW products	0	-100.0%	0	-
Total	7,817	-3.1%	7,931	1.5%

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 ¥25.6bn, and an equity ratio of 90.9%

2. Financial position

The Company's financial position remains stable. At the end of FY8/23 1H, total assets had decreased by ¥1,562mn to ¥45,785mn compared to the end of the previous fiscal year. Current assets decreased by ¥1,525mn to ¥37,376mn, mainly due to a decrease in cash and deposits of ¥2,950mn, an increase in notes and accounts receivable including electronically recorded claims of ¥498mn, and an increase in inventories of ¥918mn. The increase in inventories is because 3Q is the Company's peak period, so it is not cause for concern. Meanwhile, fixed assets decreased by ¥36mn to ¥8,408mn, mainly due to a decrease in tangible fixed assets of ¥78mn from depreciation and an increase in investments and other assets of ¥38mn.

Total liabilities were ¥4,174mn, down ¥918mn compared to the end of the previous fiscal year. This was largely attributable to a decrease of ¥415mn in income taxes payable. Net assets decreased ¥644mn to ¥41,610mn, mainly due to a ¥639mn decrease in retained earnings from payment of dividends. As a result, the equity ratio was 90.9% at the end of FY8/23 1H. (89.2% at the end of the previous fiscal year).

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/22	End of FY8/23 1H	Change
Cash and deposits	28,560	25,610	-2,950
Notes and accounts receivable (including electronically recorded claims)	5,239	5,737	498
Inventories	4,886	5,804	918
Current assets	38,902	37,376	-1,525
Tangible fixed assets	7,381	7,303	-78
Intangible fixed assets	56	59	2
Investments and other assets	1,006	1,045	38
Fixed assets	8,445	8,408	-36
Total assets	47,347	45,785	-1,562
Notes and accounts payable	1,607	1,772	164
Income taxes payable	1,055	640	-415
Total liabilities	5,092	4,174	-918
Retained earnings	42,532	41,892	-639
Treasury shares	-4,151	-4,140	10
Net assets	42,255	41,610	-644
Total liabilities and net assets	47,347	45,785	-1,562

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

3. Cash flow situation

In 1H FY8/23, net cash used in operating activities was ¥877mn. This was mainly attributable to cash inflows of ¥1,889mn in profit before income taxes and ¥132mn in depreciation, and cash outflows of ¥1,014mn in income taxes paid, a ¥918mn increase in inventories, and a ¥739mn increase in trade receivables. Net cash provided by investing activities was ¥1,965mn, but this was primarily due to cash inflows of ¥2,100mn (net) in withdrawal of time deposits. Net cash provided by financing activities decreased ¥1,935mn. This was primarily due to cash outflows of ¥1,935mn in dividends paid. As a result, cash and cash equivalents for the period decreased ¥850mn, and the balance of cash and cash equivalents at the end of the period was ¥4,610mn. The Company does not have any interest-bearing debt and holds treasury shares worth ¥4,140mn (3,467,061 shares), so it continues to have an abundance of liquidity on hand.

Summary of the consolidated balance sheet

(¥mn)

	FY8/22 1H	FY8/23 1H
Cash flows from operating activities	-56	-877
Profit before income taxes	2,077	1,889
Depreciation	142	132
Decrease (increase) in trade receivables	-696	-739
Decrease (increase) in inventories	-725	-918
Increase (decrease) in trade payables	267	164
Cash flows from investing activities	2,462	1,965
Purchase of property, plant and equipment	-48	-117
Net decrease (increase) in time deposits	2,500	2,100
Cash flows from financing activities	-1,970	-1,935
Dividends paid	-1,970	-1,935
Net increase (decrease) in cash and cash equivalents	439	-850
Cash and cash equivalents at end of period	6,118	4,610

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

Business outlook

Initial forecasts for FY8/23 remain unchanged (9.1% YoY decrease in operating profit), but there is a strong likelihood they will be upwardly revised

● FY8/23 consolidated earnings outlook

For its FY8/23 consolidated results, the Company is forecasting net sales to increase 2.6% YoY to ¥18,200mn, operating profit to decrease 9.1% to ¥4,574mn., recurring profit to decline 9.8% to ¥4,638mn, and net profit attributable to the owners of the parent company to fall 16.2% to ¥3,164mn, so the initial forecast remains unchanged. The decrease in net profit attributable to the owners of the parent company is larger due to the absence of extraordinary profit recorded in the previous fiscal year.

Assumption conditions remain unchanged from the beginning of the fiscal year, so net sales are expected to grow steadily. On the other hand, from a profits aspect, a decrease in operating profit is expected due to an increase in cost rates from such factors as the impact of currency exchange (a weaker yen YoY) and rising processing costs. In response, the Company plans to enact steps to further improve profitability, including greater production efficiency and price revisions that are already underway. However, 1H results exceeded initial expectations, currency rates have stayed within the anticipated range, logistics costs overseas are coming down compared to the recent past, and price revisions are steadily penetrating the market, so based on these and other factors, FISCO believes there is a strong likelihood that full-year results will be upwardly revised.

FY8/23 consolidated earnings outlook

(¥mn)

	FY8/22		FY8/23		Change	
	Results	% of total	Forecast	% of total	Amount	Percentage
Net sales	17,745	100.0%	18,200	100.0%	454	2.6%
Gross profit	7,881	44.4%	7,618	41.9%	-263	-3.3%
SG&A expenses	2,850	16.0%	3,044	16.8%	193	6.8%
Operating profit	5,031	28.4%	4,574	25.1%	-457	-9.1%
Recurring profit	5,139	29.0%	4,638	25.5%	-501	-9.8%
Net profit attributable to the owners of the parent company	3,778	21.3%	3,164	17.4%	-614	-16.2%

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

In terms of net sales, in its core market the Company will push to the fore EARTH SONG, its new brand concept launched in FY8/22, in an effort to invigorate the market while ensuring it receives orders for renewal projects and increases market share. In the peripheral markets, the Company aims to introduce and expand sales of new products in patient wear, a strong performer. In overseas markets, it will develop new sales channels, launching direct e-commerce sales in Taiwan. With these steps, it plans to increase sales across all markets, and aims to achieve record-high sales overall.

On the other hand, in terms of profit, the Company expects conditions to remain challenging. Due to the weaker-than-expected yen exchange rate, the gross profit margin is projected to be 41.9% (44.4% in the previous fiscal year), with gross profit of ¥7,618mn (down 3.3% YoY), with an increase of ¥202mn due to the higher sales factor but a decrease of ¥466mn due to lower profit margins. Factors expected to reduce profit margins include a ¥340mn decrease due to the exchange rate (weakening of the yen – expected to be about ¥130.0/US$ in FY8/23, covered by forward contracts, compared to ¥114.1/US$ in FY8/22), a ¥110mn decrease due to a rise in processing fees, including overseas, and a ¥60mn increase due to an increase in the overseas production ratio (forecast at 53.0% in FY8/23 compared to 51.9% in FY8/22). Also, due to concerns about a further rise in raw material expenses, the Company expects profits to decline by ¥290mn. At the same time, the Company expects logistics costs to fall with a decline in the use of air transport, greater efficiency and other improvements to profitability, contributing ¥30mn to increased profits, along with a ¥184mn increase from price revisions.

The Company predicts the impact of the COVID-19 pandemic will diminish and markets will move toward greater stability. In terms of expenses, it expects transportation expenses to increase by ¥23mn and advertising expenses by ¥51mn as sales activities are expected to return to normal, resulting in a ¥6.8% YoY increase in SG&A expenses to ¥3,044mn. As a result, the Company expects operating profit to decline 9.1% to ¥4,574mn. Note that it expects capital investments to total ¥325mn (building and property-related ¥127mn, IT facilities ¥107mn, logistics facilities ¥60mn, production facilities ¥30mn) with depreciation of ¥301mn, both within normal range.

(1) Net sales forecasts by item and market

In net sales by market, sales are forecast to increase across all markets. Net sales in core markets are expected to increase 1.4% YoY to ¥13,200mn. By item, the Company plans for a 1.6% increase in healthcare wear, to ¥9,850mn, a 1.7% increase in doctors' wear, to ¥2,700mn, and a 6.4% decrease in others to ¥620mn, with infection prevention products increase 477.3% to ¥30mn. It expects a 5.9% increase in peripheral markets, to ¥4,750mn, with patient wear up 7.9% to ¥3,100mn and surgical wear up 2.2% to ¥1,650mn. It also forecasts a 5.5% increase in overseas markets, to ¥250mn.

Net sales forecasts by item and market

(¥mn)

	FY8/22		FY8/23	
	Results	YoY	Forecast	YoY
Core markets	13,021	-1.4%	13,200	1.4%
Healthcare wear	9,698	1.4%	9,850	1.6%
Doctors' wear	2,655	2.1%	2,700	1.7%
Utility wear and other products	662	-3.3%	620	-6.4%
Infection prevention products	5	-98.6%	30	477.3%
Peripheral markets	4,486	8.0%	4,750	5.9%
Patient wear	2,872	14.2%	3,100	7.9%
Surgery wear	1,614	-1.5%	1,650	2.2%
Overseas markets	237	16.7%	250	5.5%
Total	17,745	1.0%	18,200	2.6%

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

(2) Net sales forecasts by product

In high-end products, the Company plans to increase sales by 2.4% YoY, to ¥1,300mn, by focusing on strengthening its Elegance product line. In high value-added products, it will pursue higher added value through market penetration of its new EARTH SONG brand concept, with sales expected to increase 4.2% to ¥10,700mn. The Company plans to increase sales of value-added products by 0.9%, to ¥5,500mn, by capturing projects from other companies and promoting a shift from mass-market to value-added products.

Net sales forecasts by product

(¥mn)

	FY8/22		FY8/23	
	Results	YoY	Forecast	YoY
High-end products	1,269	4.2%	1,300	2.4%
High-value-added products	10,269	10.4%	10,700	4.2%
Value-added products	5,452	-8.6%	5,500	0.9%
Mass products	752	-1.5%	700	-7.0%
MHLW products	0	-100.0%	-	-
Total	17,745	1.0%	18,200	2.6%

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

Medium- to long-term growth strategy

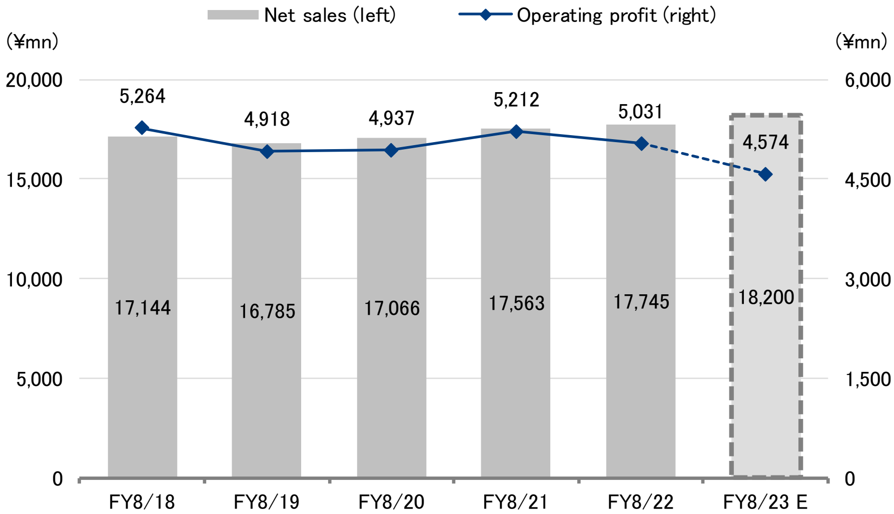
Mid-term management plan targets operating profit of ¥5.5bn in FY8/25

1. Mid-term management plan

The Company previously announced a mid-term management plan ending in FY8/24 when it announced its FY8/21 results, but based on its FY8/22 results, subsequently announced a plan that would carry over from the previous mid-term management plan. The plan sets out numerical targets for FY8/25 net sales of ¥19.3bn and operating profit of ¥5.5bn*. It also expects gross profit margin to bottom out in FY8/23, before gradually improving with the effects of price revisions and other moves. The Company plans for gross profit margin to recover to 44.5% by FY8/25, the final year of the plan.

* Assumes an exchange rate of ¥125 (fixed).

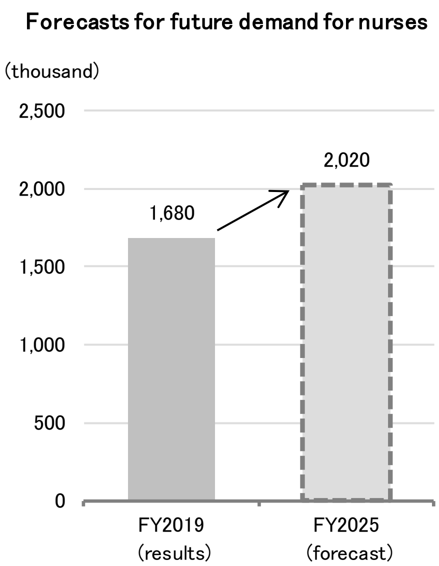
Trends in net sales and operating profit (consolidated)

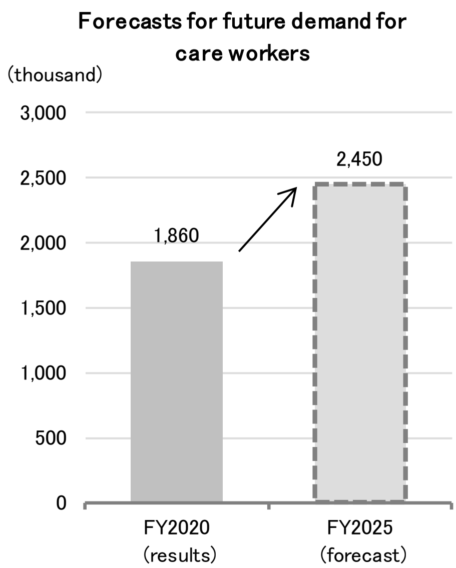


Note: Planned figures for FY8/24 are estimates calculated by FISCO
Source: Prepared by FISCO from the Company's financial results and results briefing materials

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.



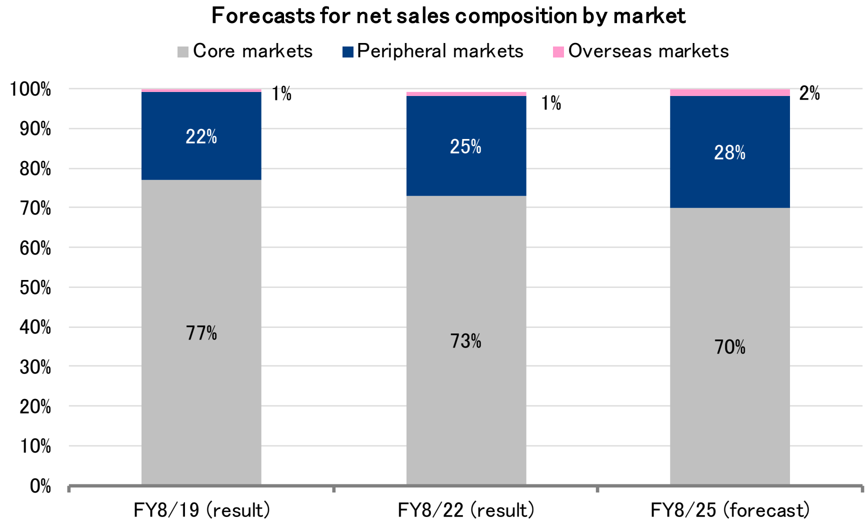


Source: Prepared by FISCO from the following materials (English titles have been translated from Japanese)
FY2019 Actual Number of Nursing Professionals from “Statistical Data on Nursing Service in Japan” (Japanese Nursing Association)
FY2025 Estimated Number of Nursing Professionals from “Study Group 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

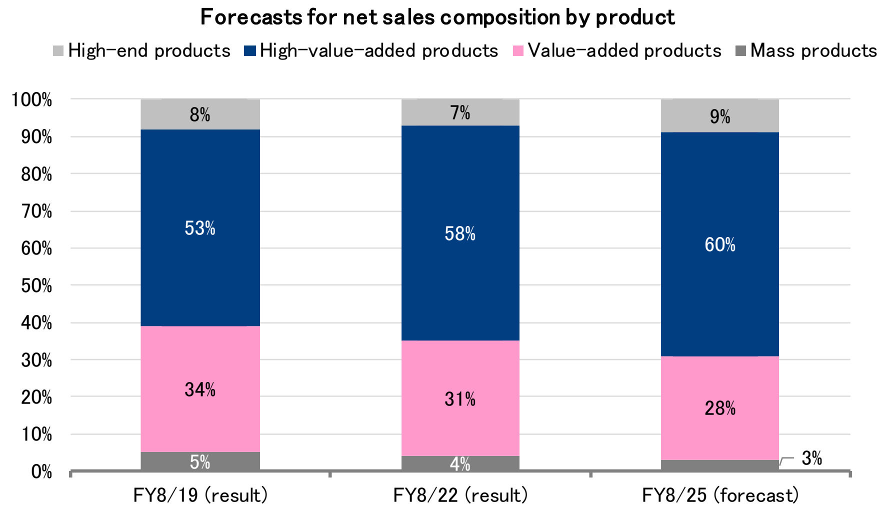
As its market strategy, the Company is aiming to expand sales not only in its core markets in which it has comparatively high shares, but also by further deepening its businesses in the peripheral markets that still have plenty of room to grow in the future. For the overseas markets, the Company is developing 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 FY8/25 will be 70% from the core markets (compared to 77% in FY8/19), 28% from the peripheral markets (22%), and 2% from the overseas markets (1%).



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 FY8/25 will be 9% from high-end products (compared to 8% in FY8/19), 60% from high-value-added products (53%), 28% from value-added products (34%), and 3% from mass products (5%).

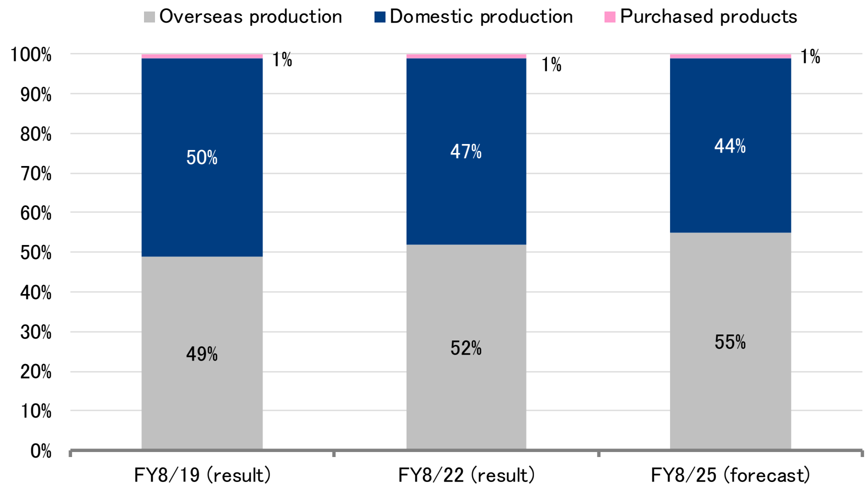


Source: Prepared by FISCO from the Company's results briefing materials

(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 FY8/25 will be 55% from overseas production (compared to 49% in FY8/19), 44% 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 89.2% at the end of FY8/22 and it is financially stable. Additionally, considering the Company's business conditions, it seems highly unlikely that its profits will rapidly deteriorate, so continued stable earnings are expected. As a result, if its distribution of earnings outside the Company (particularly dividend payments) is low, profits will accumulate in shareholders' equity each year, and return on equity (ROE) will decline; which is to say, capital efficiency will decline. But in addition to paying dividends commensurate with the growth in profits, the Company actively and comprehensively returns profits to shareholders, including through share buybacks, and as a result has maintained a high ROE (9.0% in FY8/22).

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 FY8/22. The Company has already announced an annual dividend of ¥60.0 per share for FY8/23 as well. In addition, the Company proactively engages in share buybacks and acquired 612,700 treasury shares (¥1,231mn) and retired 2,500,000 treasury shares in FY8/22 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*
FY8/10	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%
FY8/22	1,935	1,231	52.5%	84.9%

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

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