COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben Co., Ltd.

7447

Tokyo Stock Exchange Prime Market

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Summary

In FY8/23, operating profit decreased 8.5% YoY, but this exceeded expectations. For FY8/24, expecting the weak yen to continue and operating profit to be flat

1. FY8/23 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 consolidated results, net sales decreased 3.2% year on year (YoY) to ¥17,181mn, operating profit decreased 8.5% to ¥4,604mn, recurring profit decreased 9.1% to ¥4,673mn, and net profit attributable to the owners of the parent company decreased 14.6% to ¥3,226mn. The large decline in net profit attributable to the owners of the parent company was due to the posting of extraordinary profit in the previous fiscal year. Net sales were below the forecast as there were delays in some projects due to factors including the deterioration in the hospital business environment resulting from rising prices despite medical fees remaining unchanged, along with other factors. The gross profit margin was 43.9%, exceeding the initial forecast of 41.9% and the 2Q result of 42.9%. 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 3.2% 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 3.3% lower than the forecast. As a result, operating profit decreased 8.5% YoY, but was 0.7% 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. FY8/24 forecasts

For its consolidated results in FY8/24, the Company is projecting net sales to increase 3.6% YoY to ¥17,800mn, operating profit to increase 0.2% to ¥4,615mn, recurring profit to remain about the same at ¥4,673mn, and net profit attributable to the owners of the parent company to increase 0.2% to ¥3,231mn. The Company is forecasting steady growth in net sales, but is also expecting an increase in the cost of sales ratio, as it thinks the impacts of exchange rates (the yen will be weaker compared to the previous year) and the rise in both processing fees and raw materials will continue. However, the Company is implementing further improvements in profitability, such as streamlining production, while also revising product prices, and expects operating profit to be roughly flat YoY. The Company expects that the environment will continue to be difficult in terms of costs of sales and expenses, but the current forecasts are quite conservative, and at FISCO we believe that the full-year results forecasts may be revised upward if the Company steadily incorporates delayed projects and makes further improvements in costs.

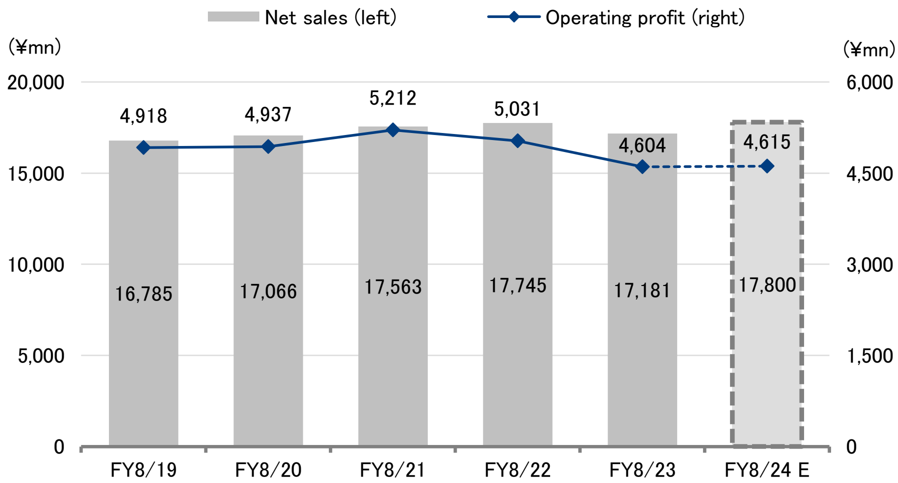
3. Mid-term management plan

The Company announced its mid-term management plan, taking into account the results of FY8/23. The plan's numerical targets are net sales of ¥18.9bn and operating profit of ¥5.5bn in FY8/26. The weakening of the yen means exchange rates are currently a headwind, but with price revisions moving forward and high-end products and high value-added products being proactively introduced, we believe it likely that these targets will probably be achieved. Meanwhile, the Company's stance on shareholder returns remains unchanged, with an annual dividend of ¥60.0 for FY8/23 and plans for an annual dividend of ¥60.0 yen for FY8/24 as well (consolidated dividend payout ratio of 59.3%). The Company is proactive about acquiring treasury shares and acquired 612,700 shares (¥1,231mn) and retired 2,500,000 treasury shares in FY8/22, with the aim of improving capital efficiency and implementing a flexible capital policy in response to changes in the business environment. Furthermore, the Company announced that it would acquire up to 500,000 treasury shares (up to ¥1,000mn) between June 30, 2023, and December 11, 2023, and it has already acquired 164,000 treasury shares (¥373mn) as of the end of August 2023. In addition to its robust financial condition, we at FISCO think the Company's consistent stance towards shareholder returns is worthy of praise.

Key Points

- In FY8/23, operating profit decreased 8.5% YoY, but this exceeded expectations
- FY8/24 operating profit is forecast to be flat, but there is room for upward revision
- In the mid-term management plan, is targeting operating profit of ¥5.5bn in FY8/26, 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

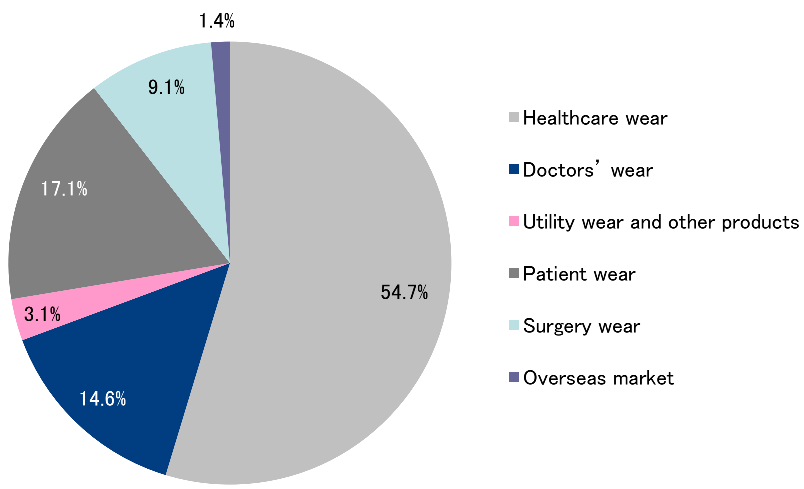
1. Sales breakdown

The Company's products are medical gowns and related products. The sales composition by item for FY8/23 is 54.7% from healthcare wear, 14.6% from doctors' wear, 3.1% from utility wear and other products*, 17.1% from patient wear, 9.1% from surgery wear, and 1.4% from overseas markets.

* Includes infection countermeasure products

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), shoes and, furthermore, infection countermeasure products. 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.

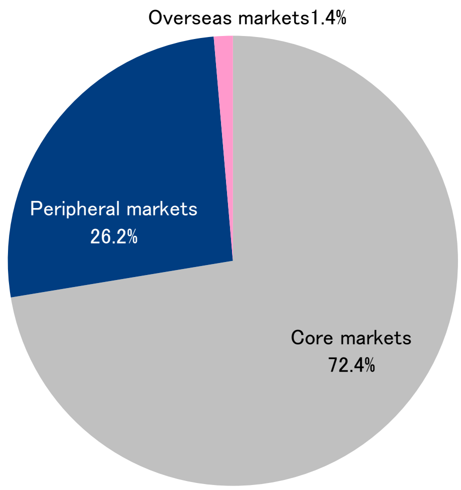
Net sales composition by item (FY8/23)



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, and utility wear and other 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, the core markets provided 72.4%, the peripheral markets 26.2%, and the overseas markets 1.4%.

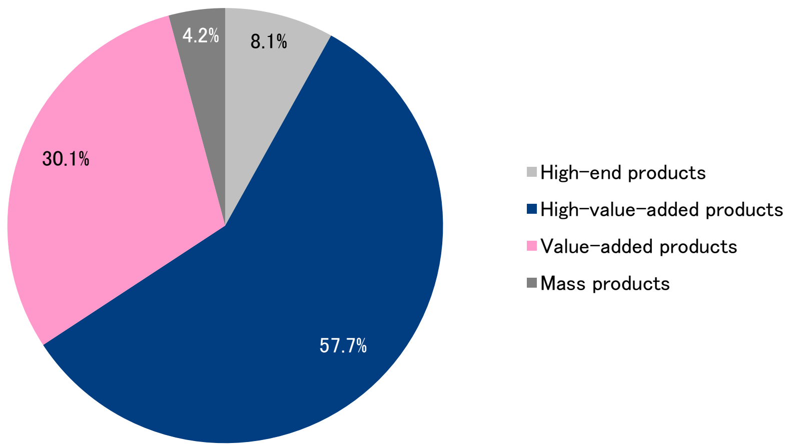
Net sales composition by market (FY8/23)



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

The composition of net sales by product (function) for FY8/23 is 8.1% from high-end products, 57.7% from high-value-added products, 30.1% from value-added products, and 4.2% from mass products. On looking at the approximate price-band classifications in nurse wear, mass products are ¥5,000 or less, value-added products are ¥5,000 to ¥7,500, high-value-added products are ¥7,500 to ¥10,000, and high-end products are ¥10,000 or more. The tendency is for higher prices to achieve greater profit margins, so the Company is focusing on expanding sales of high-end products and high-value-added products.

Net sales composition by product (FY8/23)



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 results (non-consolidated), internal production and at partner plants constitute an aggregate of 99.4% (46.2% domestically and 53.2% overseas), with purchased products accounting for 0.6%. 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 43.9% (actual results for FY8/23). 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, 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, 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.

(4) New initiatives

a) Holding Para-Art Exhibition

At Itona Gallery sponsored by the Company, the Company held a Para-Art Exhibition showcasing artwork produced by persons with disabilities.

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

As a measure to counter COVID-19 infections, the Company donated isolation gowns that can be washed and reused (10,000 gowns) to medical institutions, etc.

Social responsibility initiatives

(5) 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 reusable infection prevention products and 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 on the surgical front lines. 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 to implement a decision-making process toward scenario analysis, including mitigation and adaptation initiatives for climate change problems, identification of opportunities and risks, etc. as a climate change disclosure in accordance with the TCFD (Task Force on Climate-related Financial Disclosure).

(6) Social contribution

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

In 2020, 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, operating profit decreased 8.5% YoY, but this exceeded expectations

1. Summary of FY8/23 consolidated results

In its FY8/23 consolidated results, net sales decreased 3.2% year on year (YoY) to ¥17,181mn, operating profit decreased 8.5% to ¥4,604mn, recurring profit decreased 9.1% to ¥4,673mn, and net profit attributable to the owners of the parent company decreased 14.6% to ¥3,226mn. The large decline in net profit attributable to the owners of the parent company was due to the fact that extraordinary income was posted in the previous fiscal year.

Net sales were lower than the forecast (up 2.6% YoY), but this was due to project delays, not due to the loss of projects altogether. The main reason for the delays in projects was that medical fees remained unchanged amid the continued increases in prices (the last revision of medical fees was in the spring of 2022), which resulted in a deterioration in the business environment for hospitals, and there was a growing trend for putting off lease properties and other items.

In terms of profits, the gross profit margin decreased by 0.5 percentage points (pp) YoY to 43.9%, but exceeded the initial forecast (41.9%) and the 2Q results (42.9%). As a result, gross profit decreased by 4.2% YoY to ¥7,547mn. The factors behind the change in gross profit included the decline in sales resulting in a drop of ¥250mn and the decline in the profit margin leading to a drop of ¥84mn. Further analysis of the factors behind the decline in profit margin shows that the impact of exchange rates (weak yen) resulted in a decrease of ¥380mn (¥114.1/USD in FY8/22 compared to ¥131.5/USD in FY8/23), the increase in processing fees resulted in a decline of ¥90mn, while the increase in the overseas production ratio (53.2% in FY8/23 compared to 51.9% in FY8/22) resulted in a ¥90mn increase. Also, overseas logistics costs (added to the cost of sales) settled down after a temporary period of turmoil (use of air delivery, etc.) and decreased by ¥85mn yen (a factor that increased profits), but the rise in raw materials costs resulted in a decline of ¥150mn. On the other hand, product price revisions from February 2023, resulted in an increase of ¥300mn.

Sales, general and administrative expenses rose 3.2% YoY to ¥2,942mn. This was mainly due to the increase in travel expenses accompanying the recovery of sales activities both in Japan and overseas (up ¥24mn) and the increase in advertising costs (up ¥63mn), along with other factors. Capital investment was ¥206mn (building related: ¥122mn, IT equipment: ¥24mn, logistics equipment: ¥28mn, production facilities: ¥30mn), while depreciation totaled ¥272mn.

Summary of FY8/23 consolidated results

(¥mn)

	FY8/22		FY8/23		YoY	
	Results	% of total	Results	% of total	Change amount	Change percentage
Net sales	17,745	100.0%	17,181	100.0%	-563	-3.2%
Gross profit	7,881	44.4%	7,547	43.9%	-334	-4.2%
SG&A expenses	2,850	16.0%	2,942	17.1%	92	3.2%
Operating profit	5,031	28.4%	4,604	26.8%	-426	-8.5%
Recurring profit	5,139	29.0%	4,673	27.2%	-466	-9.1%
Net profit attributable to the owners of the parent company	3,778	21.3%	3,226	18.8%	-551	-14.6%

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. Meanwhile, 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 inflationary trends (increases in various prices) since then are expected to put pressure on the management of medical institutions. In fact, there have been delays in orders for the Company's products as discussed above, so attention must be paid to the developments going forward.

(1) Net sales by item and market

In terms of net sales in its core market, net sales declined 4.5% YoY to ¥12,438mn. Through 2Q, the Company made smooth progress on property renewals and new property acquisitions under the new concept brand "EARTH SONG," but from the beginning of 2H the business environment for medical institutions has deteriorated significantly due to rising prices caused by inflation as well as increased personnel costs, while in addition price revisions from February 2023 have led to delays mainly for renewal properties in the core market, resulting in a YoY decrease in net sales.

By item, healthcare wear decreased 3.1% YoY to ¥9,395mn, doctors' wear decreased 5.2% to ¥2,517mn, and utility wear and other products fell 21.4% to ¥525mn.

Net sales in peripheral markets increased 0.5% YoY to ¥4,509mn. By item, patient wear, which the Company is focusing on, increased 2.3% to ¥2,938mn and surgery wear decreased 2.7% to ¥1,571mn. In overseas markets, net sales were roughly flat, decreasing 1.1% to ¥234mn.

Net sales by item and market

(¥mn)

	FY8/22		FY8/23	
	Results	YoY	Results	YoY
Core markets	13,021	-1.4%	12,438	-4.5%
Healthcare wear	9,698	1.4%	9,395	-3.1%
Doctors' wear	2,655	2.1%	2,517	-5.2%
Other products	667	-36.2%	525	-21.4%
Peripheral markets	4,486	8.0%	4,509	0.5%
Patient wear	2,872	14.2%	2,938	2.3%
Surgery wear	1,614	-1.5%	1,571	-2.7%
Overseas markets	237	16.7%	234	-1.1%
Total	17,745	1.0%	17,181	-3.2%

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, resulted in an increase 9.4% YoY to ¥1,389mn. In high-value-added products, the new concept brand "EARTH SONG" made good progress in market penetration, but net sales decreased 3.5% YoY to ¥9,908mn due to the impact of the delays. Value-added products performed relatively well in 1H due to the acquisition of properties from other companies and the promotion of upgrading from mass products, but some projects were postponed in 2H, and net sales decreased by 5.3%, only reaching ¥5,164mn. Sales of mass products decreased by 4.5% to ¥719mn, partly due to less proactive sales activities. The growth in high-end products is contributing to a better-than-expected improvement in the gross profit margin.

Net sales by products

(¥mn)

	FY8/22		FY8/23	
	Results	YoY	Results	YoY
High-end products	1,269	4.2%	1,389	9.4%
High-value-added products	10,269	10.4%	9,908	-3.5%
Value-added products	5,452	-8.6%	5,164	-5.3%
Mass products	752	-1.5%	719	-4.5%
Total	17,745	1.0%	17,181	-3.2%

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 ¥27.1bn, and an equity ratio of 91.2%

2. Financial position

The Company's financial position remains stable. At the end of FY8/23, total assets had increased by ¥29mn to ¥47,377mn compared to the end of the previous fiscal year. Current assets increased by ¥92mn to ¥38,995mn, mainly due to a decrease in cash and deposits of ¥1,401mn, a decrease in notes and accounts receivable including electronically recorded claims of ¥259mn, and an increase in inventories of ¥1,173mn. The increase in inventories is because of the aforementioned occurrence of project delays, so it is not cause for concern. Meanwhile, fixed assets decreased by ¥63mn to ¥8,382mn, mainly due to a decrease in tangible fixed assets of ¥69mn from depreciation.

Total liabilities were ¥4,163mn, down ¥929mn compared to the end of the previous fiscal year. This was largely attributable to a decrease of ¥190mn in income taxes payable. Net assets increased ¥958mn to ¥43,214mn, mainly due to a ¥1,290mn increase in retained earnings due to recording net profit attributable to the owners of the parent company and ¥363mn decrease due to an increase in treasury shares. As a result, the equity ratio was 91.2% at the end of FY8/23. (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	Change
Cash and deposits	28,560	27,159	-1,401
Notes and accounts receivable (including electronically recorded claims)	5,239	4,979	-259
Inventories	4,886	6,059	1,173
Current assets	38,902	38,995	92
Tangible fixed assets	7,381	7,312	-69
Intangible fixed assets	56	59	2
Investments and other assets	1,006	1,010	3
Fixed assets	8,445	8,382	-63
Total assets	47,347	47,377	29
Notes and accounts payable	1,607	1,606	-1
Income taxes payable	1,055	865	-190
Total current liabilities	4,048	3,223	-825
Total non-current liabilities	1,044	940	-104
Total liabilities	5,092	4,163	-929
Retained earnings	42,532	43,823	1,290
Treasury shares	-4,151	-4,514	-363
Net assets	42,255	43,214	958
Total liabilities and net assets	47,347	47,377	29

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

3. Cash flow conditions

In FY8/23, cash flows from operating activities were positive ¥1,812mn. The main inflows were ¥4,671mn in pre-tax profit, ¥272mn in depreciation, and a ¥67mn decline in accounts receivable, while the main outflow was the increase in inventories of ¥1,173mn. Cash flows from investing activities were positive ¥3,417mn. The main inflows were ¥3,700mn in refund of fixed deposits (net), while the main outflow was ¥258mn in payments for the acquisition of tangible fixed assets. Cash flows from financing activities were negative ¥2,935mn. The main outflows were ¥1,935mn from the payment of dividends, and ¥1,000mn from the acquisition of treasury shares (including deposits). As a result, cash and cash equivalents increased ¥2,298mn during the period, and the balance of cash and cash equivalents at period-end was ¥7,759mn.

Summary of the consolidated statement of cash flows

(¥mn)

	FY8/22	FY8/23
Cash flow from operating activities	3,442	1,812
Profit before income taxes, etc.	5,468	4,671
Depreciation	283	272
Change in trade receivables (negative is an increase)	-478	67
Change in inventories (negative is an increase)	-270	-1,173
Change in accounts payable (negative is a decrease)	317	-1
Cash flow from investing activities	-471	3,417
Payments to acquire tangible fixed assets	-94	-258
Change in fixed deposits (net)	-900	3,700
Cash flow from financing activities	-3,202	-2,935
Payment of dividends	-1,971	-1,935
Payment to acquire treasury shares (including deposits)	-1,231	-1,000
Change in cash and cash equivalents	-218	2,298
Balance of cash and cash equivalents at period end	5,460	7,759

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

Business outlook

Expecting an increase in net sales in FY8/24 due to the introduction of new brands and other factors, but profit is expected to be flat as the exchange rates headwind continues

• FY8/24 consolidated earnings outlook

For its consolidated results in FY8/24, the Company is projecting net sales to increase 3.6% YoY to ¥17,800mn, operating profit to increase 0.2% to ¥4,615mn, recurring profit remain about the same YoY at ¥4,673mn, and net profit attributable to the owners of the parent company to increase 0.2% to ¥3,231mn.

As for the market environment, a difficult business environment is expected due to the prolonged effects of inflation since FY8/23, but improvements are also expected due to the double revision of medical fees and nursing care fees in June 2024. Under such circumstances, the Company is working to revitalize the market by expanding the lineup of “Earth Song,” which has been performing well, and by introducing the new “MACKINTOSH PHILOSOPHY” brand, which has name value. In the core market, the Company will work to eliminate update delays, and in peripheral markets it will focus on increasing the share of patient wear, expanding surgery wear Compelpak, and developing overseas markets. The Company is aiming to increase sales by 3.6% YoY and achieve record-high sales.

Meanwhile, in terms of profit, the cost of sales ratio is expected to rise as the yen is expected to continue to depreciate, and processing fees and raw materials prices are expected to continue to rise. SG&A expenses, mainly personnel expenses, are also expected to increase, but the Company expects these cost increases to be absorbed through price revisions and operating income to remain roughly the same.

FY8/24 consolidated earnings outlook

(¥mn)

	FY8/23		FY8/24		YoY	
	Results	% of total	Forecast	% of total	Change amount	Change percentage
Net sales	17,181	100.0%	17,800	100.0%	618	3.6%
Gross profit	7,547	43.9%	7,723	43.4%	175	2.3%
SG&A expenses	2,942	17.1%	3,107	17.5%	164	5.6%
Operating profit	4,604	26.8%	4,615	25.9%	10	0.2%
Recurring profit	4,673	27.2%	4,673	26.3%	0	0.0%
Net profit attributable to the owners of the parent company	3,226	18.8%	3,231	18.2%	4	0.2%

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 addition to further sales promotion of the MACKINTOSH PHILOSOPHY medicalwear® brand, a new brand to be launched in January 2024, 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, the Company expects the profit situation to remain challenging. Due to the weaker-than-expected yen exchange rate, gross profit margin is projected to be 43.4% (versus 43.9% the previous fiscal year), with gross profit of ¥7,723mn (up 2.3% YoY), with an increase of ¥272mn due to the higher sales factor but a decrease of ¥96mn due to lower profit margins. Factors expected to reduce profit margins include a ¥260mn decrease due to the exchange rate (weakening of the yen—expected to be about ¥143.3/US$ in FY8/23, covered by forward contracts, compared to ¥131.5/US$ in FY8/23); a decrease of ¥75mn due to a rise in processing fees, including overseas; and an increase of ¥100mn due to an increase in the overseas production ratio (forecast at 54.5% in FY8/24 versus 53.2% in FY8/23). Also, because of concerns over a further rise in raw material expenses, the Company expects profits to decline by ¥170mn. At the same time, the Company expects overseas logistics costs to remain on a par with the previous fiscal year, along with a ¥310mn increase from price revisions.

In terms of expenses, it expects personnel expenses to increase ¥112mn, packing and transportation costs to increase by ¥23mn and advertising expenses by ¥23mn as sales activities are expected to return to normal, resulting in a ¥5.6% YoY increase in SG&A expenses to ¥3,107mn. As a result, the Company expects operating profit to increase 0.2% to ¥4,615mn. Note that it expects capital investments to total ¥400mn (building and property-related ¥146mn, IT facilities ¥123mn, logistics facilities ¥110mn, production facilities ¥20mn) with depreciation of ¥275mn, both within normal range.

(1) Introduction of "MACKINTOSH PHILOSOPHY" brand

The Company announced that it has signed a brand license agreement with Yagi Tsusho Co., Ltd. and Mackintosh Japan Co., Ltd., and will launch "MACKINTOSH PHILOSOPHY Medicalwear®" from January 2024. Up until now, the Company had been developing the elegant "Bright Days®" and "Beads Berry®" brands, but in addition to these, by introducing "MACKINTOSH PHILOSOPHY" which inherits the manufacturing spirit and classic, timely style of MACKINTOSH, which represents Britain, the Company aims to add depth to its high-end zone and achieve a diverse and high level of user satisfaction. The Company aims for sales of ¥100mn in the first fiscal year ¥500mn in three years' time.

(2) 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 2.5% YoY to ¥12,750mn. By item, the Company plans for a 2.6% increase in healthcare wear, to ¥9,640mn, a 3.3% increase in doctors' wear, to ¥2,600mn, and a 2.9% decrease in others to ¥510mn. It expects a 6.4% increase in peripheral markets, to ¥4,800mn, with patient wear up 7.2% to ¥3,150mn and surgical wear up 5.0% to ¥1,650mn. It also forecasts a 6.6% increase in overseas markets, to ¥250mn.

Net sales forecasts by item and market

(¥mn)

	FY8/23		FY8/24	
	Results	YoY	Forecast	YoY
Core markets	12,438	-4.5%	12,750	2.5%
Healthcare wear	9,395	-3.1%	9,640	2.6%
Doctors' wear	2,517	-5.2%	2,600	3.3%
Other products	525	-21.4%	510	-2.9%
Peripheral markets	4,509	0.5%	4,800	6.4%
Patient wear	2,938	2.3%	3,150	7.2%
Surgery wear	1,571	-2.7%	1,650	5.0%
Overseas markets	234	-1.1%	250	6.6%
Total	17,181	-3.2%	17,800	3.6%

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

Net sales forecasts by product

In high-end products, the Company plans to increase sales by 11.6% YoY, to ¥1,550mn, by focusing on strengthening its Elegance product line in addition to launching the new brand, MACKINTOSH PHILOSOPHY medicalware. In high value-added products, it will continue to pursue higher added value through market penetration of its new EARTH SONG brand concept, with sales expected to increase 3.9% to ¥10,300mn. The Company plans to increase sales of value-added products by 1.7%, to ¥5,250mn, by capturing projects from other companies and promoting a shift from mass-market to value-added products.

Net sales forecasts by product

(¥mn)

	FY8/23		FY8/24	
	Results	YoY	Forecast	YoY
High-end products	1,389	9.4%	1,550	11.6%
High-value-added products	9,908	-3.5%	10,300	3.9%
Value-added products	5,164	-5.3%	5,250	1.7%
Mass products	719	-4.5%	700	-2.7%
Total	17,181	-3.2%	17,800	3.6%

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

Medium- to long-term growth strategy

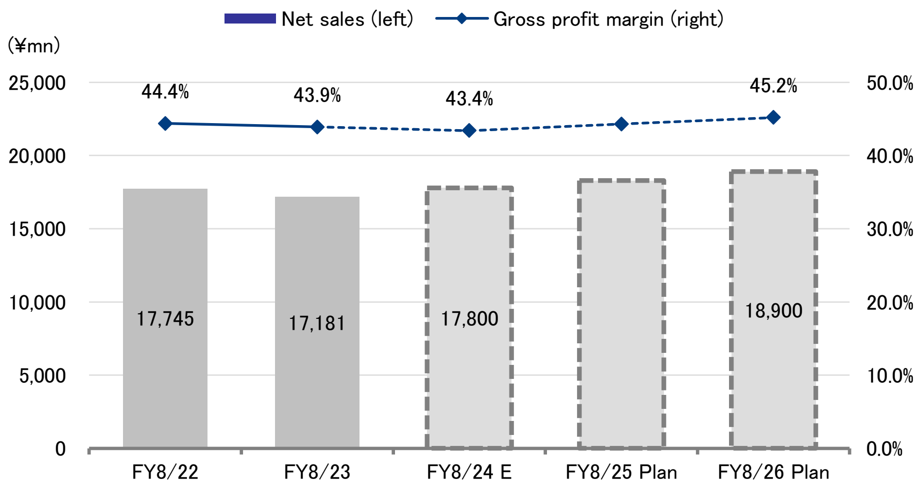
Mid-term management plan targets operating profit of ¥5.5bn in FY8/26

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 taking into account its FY8/23 results, subsequently announced a plan that would carry over from the previous mid-term management plan. The plan sets out numerical targets for FY8/26 net sales of ¥18.9bn and operating profit of ¥5.5bn*. It also expects gross profit margin to bottom out in FY8/24, before gradually improving with the effects of price revisions and other moves. The Company plans for gross profit margin to recover to more than 45% by FY8/26, the final year of the plan.

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

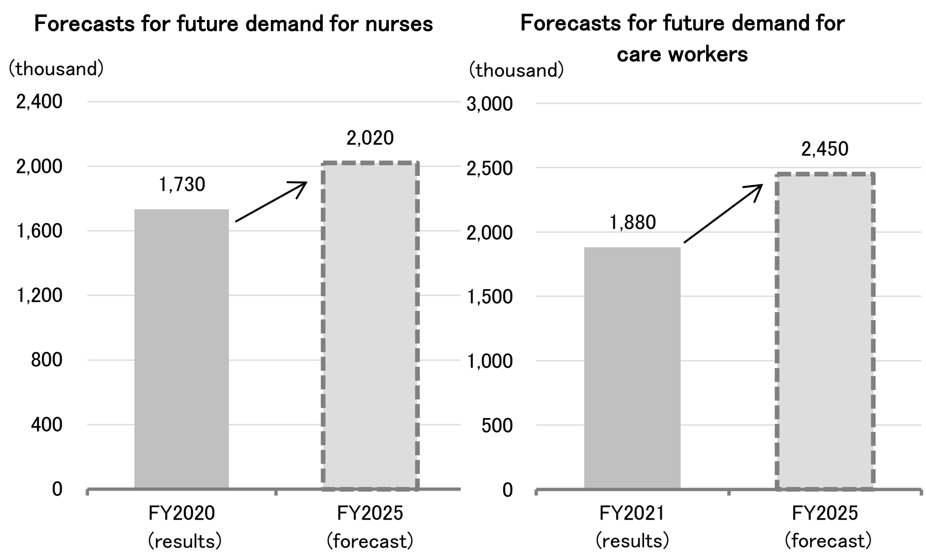
Trends in net sales and gross profit margin



Note: Planned figures for FY8/25 and gross profit margin for FY8/26 are estimates calculated by FISCO
Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Future business strategies

Although the business environment encompassing the Company now has strong uncertainties, this 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 1.73 million in FY2020 to a maximum of 2.02 million in FY2025. Moreover, the number of demanded nursing care professionals is forecast to increase from 1.88 million in FY2021 to 2.45 million in FY2025.



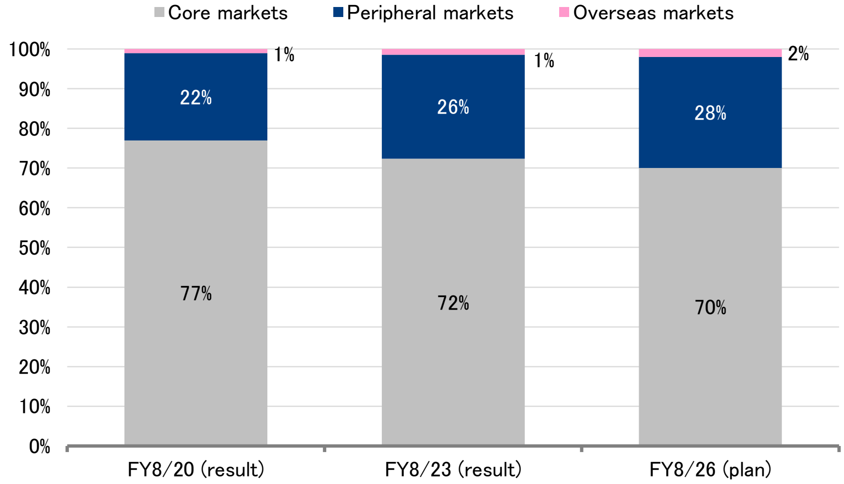
Source: Prepared by FISCO from the following materials
FY2020 Actual Number of Nursing Professionals from "Statistical Data on Nursing Service in Japan" (Japanese Nursing Association)
FY2025 Estimated Number of Nursing Professionals from "Study Group on Supply and Demand of Medical Personnel" Materials (MHLW)
FY2021 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 by cultivating its core markets in which it has comparatively high shares, but also by expanding its share in 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 FY8/26 will be 69% from the core markets (compared to 77% in FY8/20), 29% from the peripheral markets (22%), and 2% from the overseas markets (1%).

Forecasts for net sales composition by market

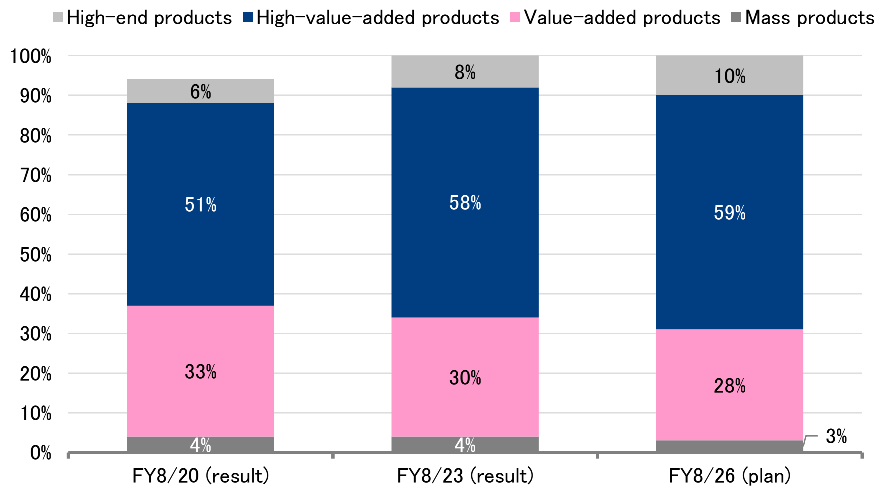


Source: Prepared by FISCO from the Company's results briefing materials

(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 FY8/26 will be 10% from high-end products (compared to 6% in FY8/20), 59% from high-value-added products (51%), 28% from value-added products (33%), and 3% from mass products (4%).

Forecasts for net sales composition by product

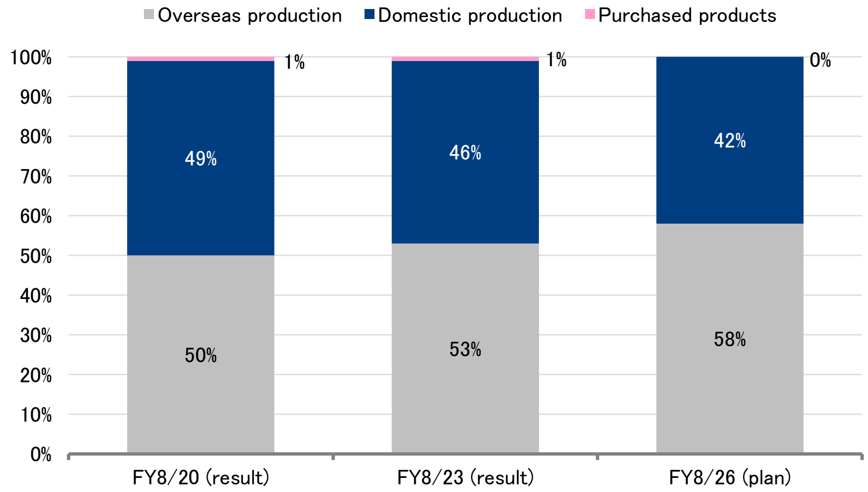


Note: The graph for FY8/2020 excludes "for MHLW" so the total is not 100%. For FY8/2023 and FY8/2026 (forecast), the amount to MHLW is zero.
Source: Prepared by FISCO from the Company's results briefing materials

(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. It will also promote the development of low-priced strategic products by utilizing its overseas factories. 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 FY8/26 will be 58% from overseas production (compared to 50% in FY8/20), 42% from domestic production (49%), and 0% 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 91.2% at the end of FY8/23 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 (7.5% in FY8/23).

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 FY8/23. The Company has already announced an annual dividend of ¥60.0 per share for FY8/24 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. Furthermore, the Company has announced a buyback from the market of up to 500,000 shares (up to ¥1,000mn) in the period from June 30, 2023 until December 11, 2023, and as of August 31, 2023, it had already acquired 164,600 shares (¥373mn). 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%
FY8/23 E	1,926	373	60.7%	72.1%

FY8/23 E (Forecast): For general shareholder meeting approval at the current point in time
*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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