Nagaileben
7447 Tokyo Stock Exchange First Section

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FY8/16 Q3 results were within the range of expectations, with increases in sales and operating profit

Nagaileben <7447> (hereafter, also "the Company") is the leading manufacturer of medical gowns in Japan, with a domestic market share of over 60%. In the consolidated results for FY8/16 Q3 (September 2015 to May 2016) announced by the Company, net sales increased 2.8% year-on-year (y-o-y) to ¥12,879mn, operating profit rose 1.5% to ¥3,896mn, and recurring profit fell 5.1% to ¥3,896mn. This was because while a foreign exchange gain of ¥237mn was recorded in the previous fiscal year, a foreign exchange loss of ¥40mn was recorded in this period due to the strong yen. Net profit attributable to the owners of the parent company declined 0.6% to ¥2,563mn. The Company has not published forecasts for Q3, but net sales and each profit item were above the initial forecasts. There were no major changes, such as to the industry environment or the market structure, and the results were within the range of expectations.

The forecasts for the full-year consolidated results for FY8/16, which is currently underway, are for net sales to increase 2.2% y-o-y to ¥16,500mn, operating profit to remain unchanged at ¥4,814mn, recurring profit to decrease 4.3% to ¥4,869mn, and net profit attributable to the owners of the parent company to increase 0.3% to ¥3,237mn. As there were no major changes to the industry environment or elsewhere, the results for Q3, which is the Company's busiest season, were basically as forecast, so it is highly likely that it will achieve its full-year forecasts.

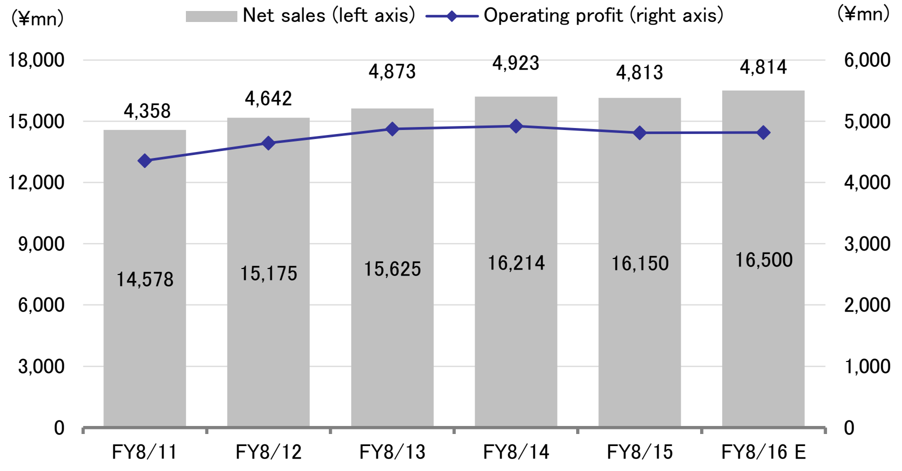
In its mid-term management plan, the Company has announced targets for FY8/18 of net sales of ¥17,500mn and operating profit of ¥5,300mn, and these targets have not changed. It is considered that it will aim to achieve these targets through expanding overseas production and strengthening advanced-functions products with high margins.

The Company is also actively returning profits to shareholders. In the previous fiscal year (FY8/15), in addition to the usual annual dividend of ¥50, it paid a commemorative dividend of ¥50 on the occasion of its 100th anniversary, and implemented a share buyback of 1 million shares through a tender offer (¥1,500mn). As a result, the total return ratio in the previous fiscal year (on a non-consolidated basis) reached 153.8%, and in this fiscal year also, it has pledged an annual dividend of ¥50, for a dividend payout ratio (non-consolidated basis) of above 50%. So the Company merits praise for its commitment to returning profits to shareholders.

Check Point

- Coverage is practically nationwide, but could expand its share of the western Japan and overseas markets
- Sales increased from steadily capturing delayed, large-scale renewal demand
- Is actively developing advanced-functions, high-value-added products

Trends in net sales and operating profit (consolidated)



Company profile

Coverage is practically nationwide, but could expand its share of the western Japan and overseas markets

(1) Description of businesses

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

Company history

1915	Founded business specializing in medical gowns in Kanda-Jinbocho in Tokyo, Japan, as Nagai Shoten, privately owned by Koji Nagai.
1950	Liquidated Tokyo Eisei Hakui Co. Ltd. Koji Nagai and Tatsuro Sawanobori jointly established Nagai Shoten Co. Ltd.
1969	Established a subsidiary, Nagai Hakui Kogyo Co. Ltd., in Akita Prefecture to expand the medical gowns manufacturing division. Tatsuro Sawanobori was appointed President. Shifted focus of manufacturing and sales business specialization from multi-purpose white gowns to medical gowns.
1977	Built second product center in Kameido, Tokyo. Established a partnership with a US company, G.D. Searle & Company, and established Japan Surgical Apparel Co. Ltd. in Hiroshima to expand sales of new surgical apparel products for hospitals.
1978	Established technology partnerships with Angelica Corp (US) and Toray Industries, Inc. Developed and released medical gowns made with a new fabric for leasing.
1980	Changed name to Nagai Co. Ltd. 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 an agreement with French designer Andre Courreges.
1999	Opened a sales office in Nagoya, Aichi Prefecture. Concluded a license agreement with designer Atsuro Tayama.
2001	Listed on the Second Section of Tokyo Stock Exchange.
2002	Established a technology partnership with Standard Textile Company, Inc. (US) and Toray Industries, Inc. for surgical textiles. Raised the status of the Nagoya sales office to a branch.
2004	Acquired ISO 9001. Listed on the First Section of Tokyo Stock Exchange. Absorbed Hokkaido Nagai Co. Ltd. and established the Hokkaido branch.
2005	Acquired ISO 14001. Concluded a license agreement with designer Keita Maruyama.
2006	Concluded a brand agreement with designer Minako Yokomori.
2014	Relocated to a new head office building in Kajicho, Chiyoda Ward, Tokyo.
2015	Held ceremony to commemorate its 100th anniversary.

a) Sales breakdown

All of the Company's products are medical gowns and related products. The contribution to sales by item (FY8/16 Q2) is 58.0% from healthcare wear, 15.4% from doctors' wear, 9.6% from surgical wear, 10.4% from patient wear, 4.1% from utility wear, 1.0% from shoes, and 1.5% from other products. Healthcare wear consists mainly of products for nurses, and utility wear consists of aprons, cardigans, and other items worn as outer garments. Profit margins for each item do not vary significantly, but the profit margins of purchased products, such as shoes, are relatively lower.

In terms of each region's contribution to sales (FY8/16 Q2), eastern Japan accounts for 49.1%, western Japan 38.8%, central Japan 10.4%, and overseas 1.7%. While coverage is nationwide, sales in western Japan and overseas remain low, indicating the potential for future expansion.

In terms of the contribution to sales by product (function) (FY8/16 Q2), advanced-function products constitute 53.6%, standard-function products 36.7%, mass-produced products 5.3%, and DC brand products 4.4%. As an example, in nursing wear products, when classified by price range, mass-produced products are under ¥5,000, standard-function products are ¥5,000-7,500, advanced-function products are ¥7,500-10,000, and DC brand products are over ¥10,000, with the higher the price, the greater the profit margin. Going forward, the Company plans to particularly focus on expanding sales of advanced-function products.

b) Sales channels and production status

The Company's end users include nurses and doctors, with the purchasers of the products mainly being medical facilities such as hospitals, nursing care facilities, and other such facilities. However, the Company does not conduct direct sales, with 100% of sales being agency sales via medical equipment wholesalers that sell to these medical and other facilities. As a result, direct 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 most cases up until recently, medical gowns were laundered within the hospitals by the hospitals themselves, 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 switching 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 (a delay), so sometimes a slight shifting occurs for the net sales (y-o-y) for each quarter.

Looking at the Company's production structure, based on FY8/15 performance, internal production and at partner plants constitute an aggregate of 98.6% (53.0% domestically and 45.6% overseas), with purchased products accounting for 1.4%. Overseas production predominantly 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.

Can carry out integrated and efficient management, from planning through to production and sales

(2) 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 design 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 wear and easy to work in while incorporating anti-static, antibacterial, and other functions, as well as featuring excellent designs, and they have earned excellent reputations among their users. At the same time, it deals directly with major synthetics manufacturers and textiles traders, including Toray Industries <3402>, with which it is jointly developing materials, so it is able to secure optimal materials and products at low costs while selling them at appropriate margins.

Furthermore, in addition to its large number of affiliated plants, the Company has the necessary financial resources to be able to constantly maintain product item inventories that extend into the thousands of varieties, while also being able to swiftly respond to a broad range of user needs, including for made-to-order products, through a rapid production and sales system (the Quick Response system) that delivers the desired product on the specified day. This has also helped to earn it the strong trust of its customers. On the sales side, it has a network of close to 1,000 agents nationwide, and while its sales capabilities are robust, the Company itself keeps down its sales expenses as much as possible.

As a result, the Company's share of the domestic market for medical gowns for nurses exceeds 60%, and it maintains a firm position as the leading medical gown manufacturer in Japan. Additionally, it is maintaining profitability with a gross profit margin of 46.6% (actual results for FY8/16 Q3). 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 design through to manufacturing and sales. Moreover, although it is a niche market, there remains room for further development, as it has relatively low shares of the peripheral markets for patient wear, surgical 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.

(3) Corporate policies

The Company commemorated its centennial in 2015, by cultivating a corporate culture called Nagaism that is focused on realizing interpersonal harmony, generating profits, and contributing to society. It has undertaken the following specific initiatives toward achieving these goals and intends to remain an enterprise that contributes to society and to the healthcare industry.

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

b) Social responsibilities
1) 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, in Dalian in China, and also in Indonesia, Vietnam, and elsewhere overseas.

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

3) Environmental initiatives
The Company secured ISO 14001 certification in 2005. It is also helping to address environmental issues by expanding sales of its COMPELPAK, which reduces medical waste.

4) Support for children
The Company endeavors to educate and enlighten to make careers in the medical field more attractive to children, including by having the popular character, Miffy, visit pediatric wards and by lending children's' coats to medical institutions.

c) Returns to shareholders
The Company actively returns profits to shareholders by providing stable dividends and maintaining a dividend payout ratio of at least 50% on a non-consolidated basis. It also flexibly repurchases its own shares when the share price is considered to be undervalued.

Results trends

Sales increased from steadily capturing delayed, large-scale renewal demand

(1) Summary of the FY8/16 Q3 consolidated results

a) Profit-and-loss conditions

In the consolidated results for FY8/16 Q3 (September 2015 to May 2016), net sales increased 2.8% y-o-y to ¥12,879mn, operating profit rose 1.5% to ¥3,896mn, recurring profit fell 5.1% to ¥3,896mn, and net profit attributable to the owners of the parent company declined 0.6% to ¥2,563mn. The Company has not published forecasts for Q3.

Summary of the FY8/16 Q3 consolidated results

(¥mn, %)

	FY8/15 Q3		FY8/16 Q3			
	Amount	Percentages	Amount	Percentages	Change	y-o-y
Net sales	12,524	100.0	12,879	100.0	355	+2.8
Gross profit	5,852	46.7	6,005	46.6	153	+2.6
SG&A expenses	2,015	16.1	2,109	16.4	94	+4.7
Operating profit	3,837	30.6	3,896	30.3	58	+1.5
Recurring profit	4,104	32.8	3,896	30.3	-208	-5.1
Net profit attributable to the owners of the parent company	2,580	20.6	2,563	19.9	-16	-0.6

Net sales increased 2.8% y-o-y. Specifically, sales rose compared to the same period in the previous fiscal year from factors including the Company steadily capturing delayed, large-scale renewal demand and also new projects. In terms of market trends, there had been concerns about the effects from the revised medical fees and drug prices from the spring of 2016. But the effect from the medical fees themselves was +0.49%, so no particularly major impact was seen, and both the market environment and the industry environment can be said to be stable.

The gross profit margin was 46.6% (46.7% in the same period in the previous fiscal year), so it was basically unchanged y-o-y. It was 45.8% at the end of Q2 (46.6%), but due to factors such as the rise in the overseas product ratio, the appreciation of the yen, and changes to the product mix, the higher raw material prices and processing costs were absorbed, so the gross profit margin improved. Conversely, SG&A expenses increased 4.7% to ¥2,109mn, but this was due to the increase in expenses related to the Company's centennial anniversary, which was factored into forecasts from the beginning, so this amount was basically in accordance with the initial target. As a result of the above, operating profit rose 1.5%.

In contrast, recurring profit decreased 5.1% y-o-y, but this was mainly due to the effects of foreign exchange gains and losses in non-operating profit, which again was factored into the forecasts from the beginning. A foreign exchange gain of ¥237mn was recorded in the same period in the previous fiscal year, which was from the dollar-denominated deposits held in order to hedge against the effects of a weak yen in costs of sales. But in Q3 in the current fiscal year, this became a foreign exchange loss of ¥40mn, which was the main reason why non-operating profit declined ¥244 y-o-y. In extraordinary profit and loss, there were no major fluctuations or unexpected events, but the corporate tax adjusted amount increased due to the effects of the lowering of the tax rate, and so net income attributable to the owners of the parent company decreased only slightly, by 0.6% to ¥2,563mn. So although the profit items from recurring profit downward each declined y-o-y, these results were still above the initial forecasts and would not seem to be a cause for concern.

Net sales by item

(¥mn, %)

	FY8/15 Q3		FY8/16 Q3	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	7,313	-4.9	7,533	+3.0
Doctors' wear	2,094	-4.7	2,154	+2.8
Utility wear	525	-13.6	480	-8.5
Patient wear	1,070	+3.8	1,199	+12.1
Surgical wear	1,137	+0.5	1,139	+0.2
Shoes	167	-12.8	161	-3.8
Other products	214	-6.1	211	-1.6
Total	12,524	-4.3	12,879	+2.8

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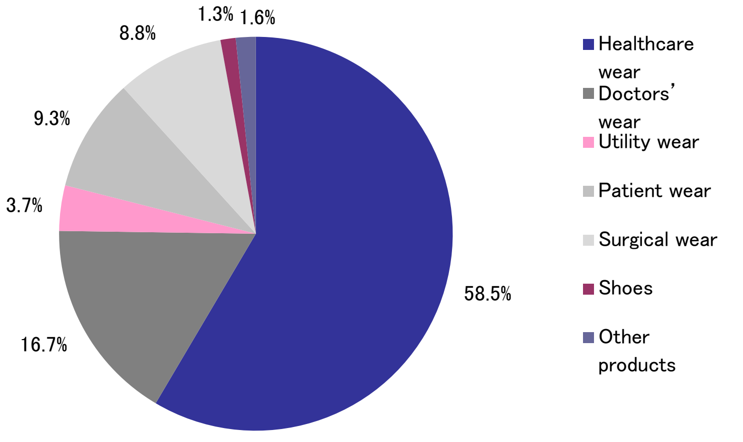
Net sales by item(FY8/16 Q3)



In net sales by item, healthcare wear increased 3.0% y-o-y to ¥7,533mn, doctors' wear rose 2.8% to ¥2,154mn, utility wear decreased 8.5% to ¥480mn, patient wear climbed 12.1% to ¥1,199mn, surgical wear increased 0.2% to ¥1,139mn, shoes declined 3.8% to ¥161mn, and other products decreased 1.6% to ¥211mn.

In its mainstay healthcare wear, due to the switching of some renewal demand and the delay in the recording of sales in Q1, net sales were significantly down, declining 16.1% y-o-y. However, following the recovery of the delayed projects and the steady acquisition of the targeted renewal demand from Q2 onwards, sales recovered to increase 3.0% y-o-y. The same trend was seen in doctors' wear and healthcare wear, of a recovery from Q2 onwards from the decline in sales in Q1, including from the strong performance of the new product lineup, and the results exceeded those in the same period in the previous fiscal year.

Surgical wear was basically unchanged y-o-y, but patient wear increased by double digits, up 12.1%, including due to the contributions of the new product lineup, which is a noteworthy result. The result for utility wear was not surprising, as it previously had been trending downward. Sales of shoes and other products also declined, but as their monetary contributions are small, the impact of this on the overall results was also small.

Targeting sales increases in all regions for the full fiscal year

b) Financial position

The Company's financial position continues to be stable. Total assets at the end of FY8/16 Q3 were ¥37,909mn, down ¥1,098mn compared to the end of the previous fiscal year. Current assets were ¥28,987mn, a decline of ¥724mn, with the main factors being a decrease in cash and deposits of ¥1,756mn, a fall in securities of ¥617mn, and an increase in notes and accounts receivable of ¥1,907mn. The decrease in cash and deposits and the increase in notes and accounts receivable were due to seasonal factors (in Q3). Fixed assets were ¥8,922mn, down ¥374mn, primarily due to decreases in depreciation and in investments and other assets.

Total liabilities were ¥4,044mn, down ¥169mn compared to the end of the previous fiscal year. The main factors included an increase in bills and accounts payable of ¥187mn and a decrease in corporate tax payable of ¥353mn. Total net assets were ¥33,865mn, a decline of ¥929mn. This was mainly due to a reduction in retained earnings of ¥760mn following the payment of dividends. As a result of these factors, the shareholders' equity ratio was 89.3%, rising very slightly from 89.2% at the end of the previous fiscal year.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/15	End of FY8/16 Q3	Change
Cash and deposits	18,673	16,916	-1,756
Notes and accounts receivable	4,689	6,597	+1,907
Securities	1,518	900	-617
Inventories	4,199	4,122	-77
Current assets, total	29,711	28,987	-724
Tangible fixed assets	7,605	7,467	-137
Intangible fixed assets	71	56	-15
Investments and other assets	1,619	1,398	-221
Fixed assets, total	9,296	8,922	-374
Total assets	39,008	37,909	-1,098
Bills and accounts payable	1,399	1,586	+187
Corporate tax payable	1,151	797	-353
Total liabilities	4,213	4,044	-169
Retained earnings	35,040	34,280	-760
Treasury stock	-4,902	-4,902	-
Net assets, total	34,795	33,865	-929
Total liabilities and net assets	39,008	37,909	-1,098

(2) The FY8/16 consolidated results forecast

(¥mn, %)

	FY8/15		FY8/16 forecast			
	Amount	Percentages	Amount	Percentages	Change	y-o-y
Net sales	16,150	100.0	16,500	100.0	349	+2.2
Gross profit	7,532	46.6	7,590	46.0	57	+0.8
SG&A expenses	2,719	16.8	2,776	16.8	56	+2.1
Operating profit	4,813	29.8	4,814	29.2	0	+0.0
Recurring profit	5,088	31.5	4,869	29.5	-219	-4.3
Net income attributable to the owners of the parent company	3,225	20.0	3,237	19.6	11	+0.3

For the consolidated full-year results for FY8/16, the Company is forecasting ¥16,500mn in sales, a 2.2% increase y-o-y; ¥4,814mn in operating profit, unchanged from FY8/15; ¥4,869mn in recurring profit, a 4.3% decrease; and ¥3,237mn in net profit, a 0.3% increase, and there have been no changes to the initial forecasts.

The reasons why the Company has not changed the forecasts include that in Q2 and Q3, it recovered from the lower Q1 sales due to some large projects being delayed, and the results were basically as expected. Also, the government raised medical treatment fees by 0.49% in the spring of 2016, which had been a factor causing uncertainty about the future, and for the time being the business environment is expected to remain stable. In addition, the Company has already started negotiating price hikes with key customers and margins should improve as those increases go into effect. So at the current point in time, there seem no particular grounds for concern about the full-year forecasts.

Sales are forecast to increase due to factors including the activation of the markets following the launches of new value-added products in the mainstay healthcare wear and doctors' wear segments, the steady acquisition of the renewal demand, and the efforts to secure new contracts. Further, according to region, the Company continues to focus on raising its market shares in central Japan and western Japan, and it is targeting sales increases in all regions for the full fiscal year.

The gross profit margin is forecast to fall from 46.6% in the previous fiscal year to 46.0%. While on the one hand a positive factor will be the rise in the overseas product ratio, negative factors are expected to include the impact of the higher raw material prices and processing costs. Initially there were concerns about higher costs due to the weak yen, but due to the recent appreciation of the yen, there will be no one-time negative impact. Further, the Company has stated that internal measures to combat higher expenses have their limits and that the time has come to explore raising prices, and it has already started to negotiate price increases with some customers. While it will not be easy to have customers accept the higher prices, it seems highly likely that it will gradually win acceptance for them when considering its high market share, that its products are highly trusted by customers, and that many competitors have already raised their prices. However, in the current fiscal year the effects of this are still limited to only the announcement effects, and the fully-fledged effects of the price hikes will likely be felt from the next fiscal year onwards.

SG&A expenses are forecast to be ¥2,776mn (up 2.1% y-o-y), reflecting the remaining costs related to the Company's centennial anniversary. The forecast for a y-o-y decrease in recurring profit assumes the absence of the foreign exchange gain (¥226mn) recorded in the previous fiscal year in non-operating profit. If the yen has further weakened by the end of this fiscal period compared to its level at the end of the previous fiscal period, it is possible that the decline in recurring profit will be less than anticipated, but this seems unlikely based on the yen's recent exchange-rate level. Further, while the extraordinary profit that was recorded in the previous fiscal year (the ¥30mn profit on the sale of a research center in Kameido) will not be recorded in this fiscal year, the effective corporate tax rate has been lowered following revisions to the tax system. As a result, net profit attributable to the owners of the parent company is forecast to increase y-o-y.

Mid-term management plan targets and outlook

Is actively developing advanced-function, high value-added products

(1) Mid-term management plan targets

The Company initially announced targets for FY8/17 of sales of ¥17,500mn and operating profit of ¥5,300mn in its Mid-term Management Plan. But it decided to set its targets back 1 year in light of recent results and is now targeting net sales of ¥17,500mn and operating profit of ¥5,300mn in FY8/18. The Company has not changed the business strategies described below.

(2) Future business strategies

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

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

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

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

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

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The first is to increase overseas production. In FY8/15, the Company's ratio of overseas production was still around 45.6%, which is much lower than other apparel manufacturers. In other words, there is considerable room for it to further increase its overseas production ratio and thereby improve profitability. However, the Company's policy is not to shift domestic production all at once to overseas, but rather to produce overseas the portion of products resulting from the increased sales, while maintaining its domestic production volumes. In February 2014, a new plant constructed in Java in central Indonesia began operations, and by the end of 2015, the transfer of existing production from the former base in Jakarta had been completed.

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

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

Shareholder Returns Policy

On taking into account share buybacks, the total return ratio is at the high level of 153.8%

The Company's shareholders' equity ratio reached 89.3% at the end of FY8/16 Q3, 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, as its distribution of earnings outside the Company (particularly dividend payments) is low and profits will accumulate in shareholders' equity each year, return on equity (ROE) will decline; which is to say, capital efficiency will decline. But in addition to paying dividends commensurate with the growth in profits, the Company actively and comprehensively returns profits to shareholders, including through share buybacks, and as a result has maintained a high ROE (9.3% in FY8/15).

The Company will thus maintain a stable financial position while pursuing solid shareholder returns. In FY8/15, it supplemented the normal dividend of ¥50 per share with an additional ¥50 per share to commemorate its centennial. This raised total dividends to ¥100 per share, for a non-consolidated payout ratio of 107.5%. It also spent ¥1,500mn in repurchasing 1 million shares during the fiscal year, raising the total return ratio (non-consolidated basis) to 153.8%. Over the past five years, the weighted average total return ratio (dividends over five years plus the share buyback amount divided by net profit over five years) has reached 79.25%, which is far higher than the ratios of many other listed companies.

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

■ Shareholder Returns Policy

Trends in the dividend payout ratio and the total return ratio

	Total dividend (¥mn)	Share buyback (¥mn)	Dividend payout ratio* (%)	Total return ratio* (%)
FY8/01	475	0	27.4	27.4
FY8/02	475	0	29.3	29.3
FY8/03	530	1,697	29.7	124.6
FY8/04	744	0	36.5	36.5
FY8/05	1,117	0	56.9	56.9
FY8/06	1,117	0	53.4	53.4
FY8/07	1,117	0	53.1	53.1
FY8/08	1,083	1,077	56.6	111.2
FY8/09	1,040	1,220	57.3	122.2
FY8/10	1,127	0	51.4	51.4
FY8/11	1,205	226	52.0	61.7
FY8/12	1,205	0	55.1	55.1
FY8/13	1,541	229	51.3	58.7
FY8/14	1,712	0	54.4	54.4
FY8/15	3,324	1,500	107.5	153.8

*non-consolidated basis
Source: The Company’s financial results briefing materials

Disclaimer