Nagaileben
7447 Tokyo Stock Exchange
First Section

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FISCO Ltd. Analyst
Noboru Terashima

Double-digit Growth in Sales and Earnings for Q1 FY8/17

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 Q1 FY8/17 announced by the Company, net sales increased 11.0% y-o-y to ¥2,862mn, operating profit rose 32.2% to ¥720mn, recurring profit increased 37.2% to ¥773mn, and net profit attributable to the owners of the parent company increased 43.0% to ¥527mn. Sales recorded double-digit growth due to robust growth in peripheral products undergoing focus, in addition to mainstay products. The gross profit margin improved due to increased sales of high value-added products, forward exchange transactions and the advance of shifting production overseas and absorbed increased costs caused by depreciation of the yen and rising processing charges. In addition, the lower than expected increase in profits caused by postponing contracts for mainstay products in the same period of the previous fiscal year also drove up the earnings growth in Q1 FY8/17.

The forecasts for the full-year consolidated results for FY8/17, which is currently underway, are for net sales to increase 2.8% y-o-y to ¥17,000mn, operating profit to rise 3.1% to ¥5,106mn, recurring profit to climb 4.3% to ¥5,150mn, and net profit attributable to the owners of the parent company to increase 8.2% to ¥3,528mn. The Company is particularly aiming to expand sales of healthcare wear, its mainstay products. In terms of expenses, domestic processing charges are forecast to increase, but this increase will be absorbed by the rise in the overseas production ratio, so the plan is to maintain the same profit margin as in the previous fiscal year. The ongoing favorable industry environment is expected to continue, so it is highly likely that the Company will achieve its forecasts.

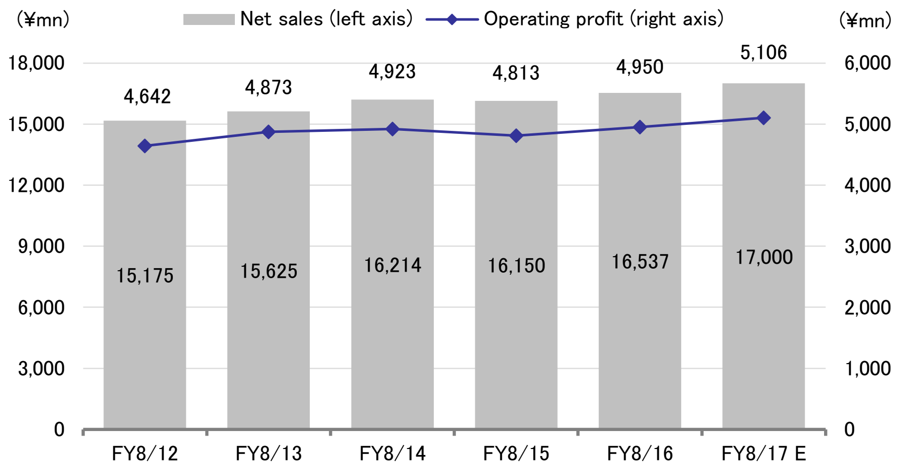
Based on the FY8/16 results, the Company has announced targets for FY8/19 in its new Mid-term Management Plan, of net sales of ¥18,000mn and operating profit of ¥5,400mn. It is considered that the Company will aim to achieve these targets through expanding overseas production and strengthening advanced-functions products with high margins.

The Company is also actively returning profits to shareholders. In 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). In FY8/16 also, it paid an annual dividend of ¥50 (for a dividend payout ratio of 52.5% on a non-consolidated basis). It has already announced that it will once again pay an annual dividend of ¥50 in FY8/17, but based on its pledge of a dividend payout ratio (on a non-consolidated basis) of above 50%, it may increase this dividend if profits exceed the forecast. 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 securing 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 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 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) is 58.5% from healthcare wear, 16.1% from doctors' wear, 9.8% from patient wear, 9.5% from surgical wear, 3.6% from utility wear, 1.3% from other products, and 1.2% from shoes. 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), eastern Japan accounts for 51.6%, western Japan 36.8%, central Japan 10.4%, and overseas 1.2%. 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), advanced-function products constitute 52.7%, standard-function products 37.5%, mass-produced products 5.4%, 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, 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 FY8/16 performance, internal production and at partner plants constitute an aggregate of 98.6% (51.2% domestically and 47.4% 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 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 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, Inc. <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 46.8% (actual results for FY8/16). 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. 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 securing delayed, large-scale renewal demand

(1) Summary of the Q1 FY8/17 consolidated results

a) Profit-and-loss conditions

In the consolidated results for Q1 FY8/17, net sales increased 11.0% y-o-y to ¥2,862mn, operating profit rose 32.2% to ¥720mn, recurring profit rose 37.2% to ¥773mn, and net profit attributable to the owners of the parent company climbed 43.0% to ¥527mn. Capturing the demand surely centered on mainstay products secured increased sales. Increased profits were maintained by increased sales of high value-added products, further shift toward overseas production and absorbed increased costs caused by depreciation of the yen and rising processing charges.

Summary of the Q1 FY8/16 consolidated results

(Unit: ¥mn, %)

	Q1 FY8/16		Q1 FY8/17			
	Amount	Percentages	Amount	Percentages	Change	y-o-y
Net sales	2,579	100.0	2,862	100.0	282	+11.0
Gross profit	1,183	45.9	1,359	47.5	175	+14.9
SG&A expenses	639	24.8	639	22.3	0	+0.1
Operating profit	544	21.1	720	25.2	175	+32.2
Recurring profit	563	21.8	773	27.0	209	+37.2
Net profit attributable to the owners of the parent company	369	14.3	527	18.4	158	+43.0

The market environment and the industry environment were generally stable, as had been initially forecast. In this environment, the Company secured renewal demand that was greater than the previous fiscal year, and patient wear—a peripheral market being focused on—as well as surgical wear were steady, resulting in net sales increasing 11.0% y-o-y.

In terms of costs, depreciation of the yen and rising processing charges in some areas were minus factors, but these were absorbed by the likes of forward exchange transactions, the advance of shifting production overseas and expanding sales of high value-added products. As a result, the gross profit margin improved from 45.9% in the same period in the previous fiscal year to 47.5%. SG&A expenses remained level y-o-y at ¥639mn, operating profit increased 32.3% y-o-y and recurring profit and net profit attributable to the owners of the parent company also increased.

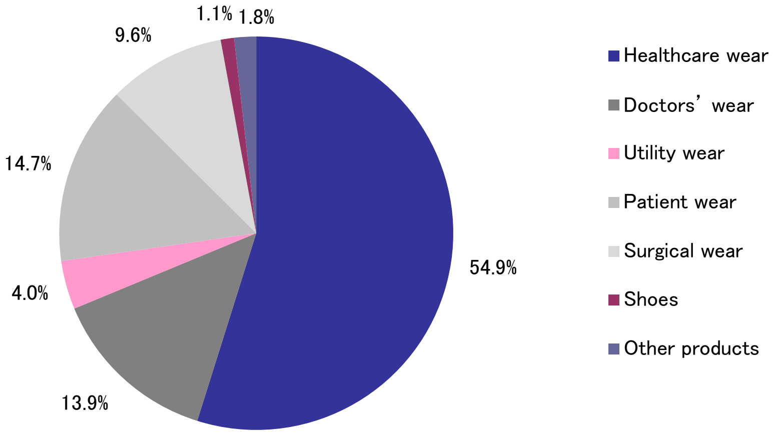
Postponed contracts of mainstay products in Q1 FY8/16 had resulted in a slightly lower standard profit than usual and this was one reason to an increased profit margin in Q1 FY8/17, but the overall result can be said to have been roughly in line with forecasts.

Net sales by item

(Unit: ¥mn, %)

	Q1 FY8/16		Q1 FY8/17	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	1,429	-16.1	1,571	+9.9
Doctors' wear	358	-19.5	398	+11.0
Utility wear	124	-14.2	113	-8.6
Patient wear	330	+3.0	422	+27.7
Surgical wear	254	-10.4	276	+8.6
Shoes	32	-6.2	30	-5.7
Other products	49	-17.3	50	+1.2
Total	2,579	-13.8	2,862	+11.0

Net sales by item (Q1 FY8/17)



In net sales by item, healthcare wear increased 9.9% y-o-y to ¥1,571mn, doctors' wear rose 11.0% to ¥398mn, utility wear decreased 8.6% to ¥113mn, patient wear climbed 27.7% to ¥422mn, surgical wear increased 8.6% to ¥276mn, shoes declined 5.7% to ¥30mn, and other products increased 1.2% to ¥50mn.*

* "Sales conditions by region" and "Sales conditions by product" are not disclosed for Q1.

In the mainstay healthcare wear, there was a significant y-o-y increase due to securing acquisition of renewal projects in addition to change in contract renewal demand and postponed sales booking in the same period in the previous fiscal year. Doctors' wear and healthcare wear showed the same tendencies, and securing to capture new projects in addition to renewal demand resulted in double-digit growth compared to the same period in the previous fiscal year.

Peripheral markets that have been the object of focus in recent years also saw a steady expansion in patient wear and surgical wear. In utility wear, the trend of shifting from individual supply to that of common goods continued and sales declined y-o-y, but this result was within the scope of the forecast and was not surprising. Sales of shoes and other products also declined, but as their monetary contributions are small, the impact of these declines on the overall results were small.

b) Financial position

The Company's financial position continues to be stable. Total assets at the end of 1Q FY8/17 were ¥36,801mn, down ¥2,056mn compared to the end of the previous fiscal year. Current assets were ¥27,992mn, a decline of ¥1,090mn, with the main factors being decreases in cash and deposits of ¥657mn, in notes and accounts receivable of ¥1,268mn and an increase in inventories of ¥750mn. Fixed assets were ¥8,808mn, down ¥965mn, primarily due to a decrease of ¥910mn in investments and other assets accompanying the transfer of long-term deposits to current assets.

Total liabilities were ¥3,354mn, down ¥1,000mn compared to the end of the previous fiscal year. The main factors included a decrease in corporate tax payable of ¥940mn. Total net assets were ¥33,446mn, a decline of ¥1,055mn. This was mainly due to reductions in retained earnings of ¥1,134mn following the payment of dividends.

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Summary of the consolidated balance sheet

(Unit: ¥mn)

	End of FY8/16	End of Q1 FY8/17	Change
Cash and deposits	19,504	18,847	-657
Notes and accounts receivable	4,866	3,598	-1,268
Inventories	4,348	5,098	+750
Current assets, total	29,083	27,992	-1,090
Tangible fixed assets	7,476	7,422	-53
Intangible fixed assets	57	55	-1
Investments and other assets	2,240	1,330	-901
Fixed assets, total	9,774	8,808	-965
Total assets	38,857	36,801	-2,056
Notes and accounts payable	1,561	1,488	-73
Income taxes payable	1,149	209	-940
Total liabilities	4,355	3,354	-1,000
Retained earnings	34,978	33,843	-1,134
Treasury shares	-4,902	-4,902	0
Deferred gain/loss on hedges	0	51	+51
Net assets, total	34,501	33,446	-1,055
Total liabilities and net assets	38,857	36,801	-2,056

Targeting sales increases in all regions for the full fiscal year

(2) The FY8/17 consolidated results forecast

(Unit: ¥mn, %)

	FY8/16		FY8/17 forecast			
	Amount	Percentages	Amount	Percentages	Change	y-o-y
Net sales	16,537	100.0	17,000	100.0	462	+2.8
Gross profit margin	7,735	46.8	7,945	46.7	209	+2.7
SG&A expenses	2,784	16.8	2,839	16.7	54	+2.0
Operating profit	4,950	29.9	5,106	30.0	155	+3.1
Recurring profit	4,937	29.9	5,150	30.3	212	+4.3
Net profit attributable to the owners of the parent company	3,262	19.7	3,528	20.8	265	+8.2

The full year consolidated result forecasts for FY8/17, unchanged from the initial forecast, are for net sales to increase 2.8% y-o-y to ¥17,000mn, operating profit to rise 3.1% to ¥5,106mn, recurring profit to climb 4.3% to ¥5,150mn, and net profit attributable to the owners of the parent company to increase 8.2% to ¥3,528mn. There will be no revisions to medical fees, and the market and the industry environment are expected to continue to be stable and trend basically unchanged. The gross profit margin was high in Q1 FY 8/17, but roughly as initially forecast, so the Company has kept the initial forecast unchanged. Full-year presumptive conditions are as outlined below, and these are also unchanged from the initial forecast, but there is a possibility of a revision depending on circumstances going forward due to slight differences in the exchange rate.

Gross profit is expected to climb ¥209mn, with the positive factors forecast to be increases of ¥321mn from the higher sales and price hikes, and ¥52mn from the rise in the overseas production ratio (FY8/16 47.4→FY8/17 48.1%), and the negative factors being ¥70mn from the effects of the higher raw materials and processing charges, and ¥71mn from the effects of the exchange rate (FY8/16 ¥99.8 / dollar→FY8/17 ¥103.8 / dollar) on costs. As a result, the gross profit margin is forecast to remain basically unchanged y-o-y, at 46.7% (46.8% in the previous fiscal year).

In addition, SG&A expenses are forecast to be ¥2,839mn (up 2.0% y-o-y), including due to the anticipated pro-forma standard taxation of ¥83mn. Therefore, operating profit is expected to be ¥5,106mn, which will once again be a record high. Moreover, as the effects of the exchange rate on costs in non-operating profit will be zero, both recurring profit and net profit attributable to the owners of the parent company are forecast to increase y-o-y.

(Unit: ¥mn, %)

	FY8/16		FY8/17 forecast	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	9,674	+2.6	9,950	+2.8
Doctors' wear	2,654	+2.0	2,710	+2.1
Utility wear	601	-10.3	550	-8.6
Patient wear	1,613	+11.1	1,740	+7.9
Surgical wear	1,574	+0.9	1,650	+4.8
Shoes	204	-3.1	200	-2.3
Other products	213	-3.9	200	-6.4
Total	16,537	+2.4	17,000	+2.8

In net sales by item, healthcare wear is forecast to be ¥9,950mn (up 2.8% y-o-y), doctors' wear ¥2,710mn (up 2.1%), utility wear ¥550mn (down 8.6%), patient wear ¥1,740mn (up 7.9%), surgical wear ¥1,650mn (up 4.8%), shoes ¥200mn (down 2.3%), and other products ¥200mn (down 6.4%).

Strong increases in sales are expected in healthcare wear and doctors' wear from the activation of their markets following the launches of new high-value-added products. The utility wear market is shrinking and its sales are forecast to continue to decline. The major increase in patient wear sales is set to continue from the effects of new product launches against the backdrop of the strong demand in this market. Higher sales are also expected in surgical wear from eliminating the cap at the COMPELPAK laundry sterilization plant and through developing new customers.

(Unit: ¥mn, %)

	FY8/16		FY8/17 forecast	
	Amount	y-o-y	Amount	y-o-y
Eastern Japan	8,539	+2.2	8,680	+1.7
Central Japan	1,717	-3.2	1,800	+4.8
Western Japan	6,080	+4.1	6,300	+3.6
Overseas	200	+14.1	220	+9.5
Total	16,537	+2.4	17,000	+2.8

The forecasts for net sales by region are ¥8,680mn in eastern Japan (up 1.7% y-o-y), ¥1,800mn in central Japan (up 4.8%), ¥6,300mn in western Japan (up 3.6%), and ¥220mn overseas (up 9.5%).

In eastern Japan, the Company expects sales to continue to increase from it securing demand for renewal projects by proposing new high-value-added products. In central Japan and western Japan, the Company is aiming to achieve sales growth y-o-y by focusing on increasing market share through strengthening sales promotions. Overseas results will be affected by exchange rates, but the Company plans to utilize its name recognition and focus on expanding sales. The plan is to increase sales in every region and to achieve record highs for net sales.

(Unit: ¥mn, %)

	FY8/16		FY8/17 forecast	
	Amount	y-o-y	Amount	y-o-y
DC brand products	720	-14.8	680	-5.7
Advanced-function products	8,720	+7.8	9,260	+6.2
Standard-function products	6,199	-0.9	6,200	+0.0
Mass-produced products	896	-6.6	860	-4.1
Total	16,537	+2.4	17,000	+2.8

The net sales forecasts by product are ¥680mn for DC brand products (down 5.7%), ¥9,260mn for advanced-function products (up 6.2%), ¥6,200mn for standard-function products (0.0%), and ¥860mn for mass-produced products (down 4.1%).

Sales of DC brand products will be underpinned by the Miffy and Liberty brands, but with the change in the design trend, the severe market conditions are set to continue for all other brands and therefore sales are expected to decline. The new lineups of advanced-function products have been favorably received by the markets and are trending strongly, and the Company plans to continue to promote its high-value-added strategy. The downward trend in mass-produced products is forecast to continue, but the plan is to pursue the transfer of these customers to functional products, including from other companies' projects.

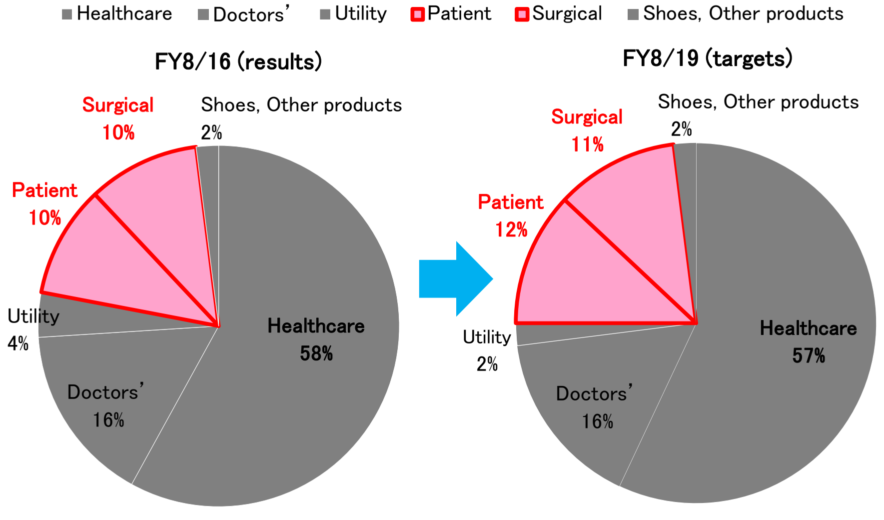
Mid-term Management Plan targets and outlook

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

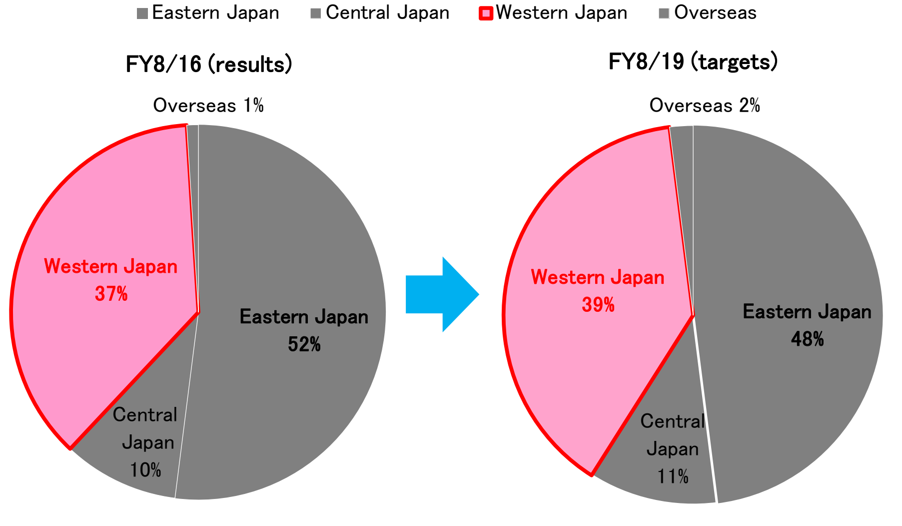
(1) Mid-term Management plan

The Company initially announced targets for FY8/18 of net sales of ¥17,500mn and operating profit of ¥5,300mn in its Mid-term Management Plan. But based on the FY8/16 results, it has newly announced the plan's mid-term targets for FY8/19, of net sales of ¥18,000mn and operating profit of ¥5,400mn, and this target currently remains unchanged. Net sales by item, region and product are as follows.

Targeted net sales percentages by item

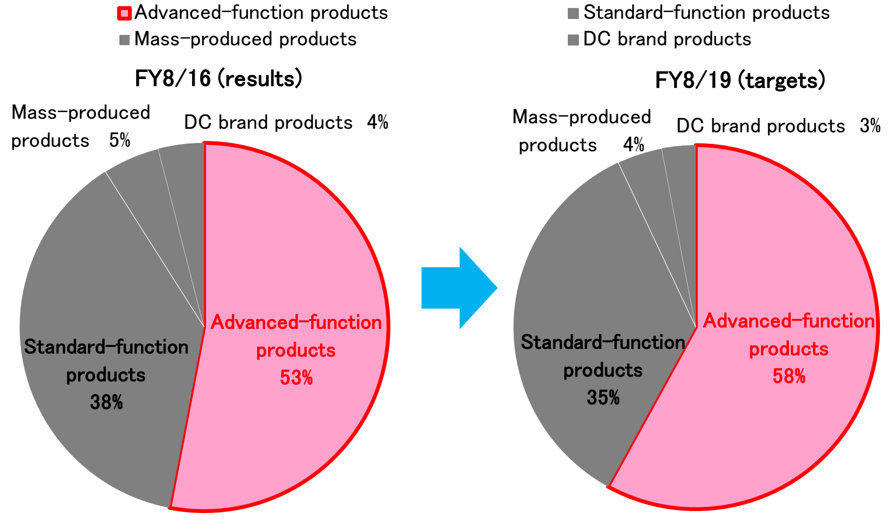


Targeted net sales percentages by region



■ Mid-term Management Plan targets and outlook

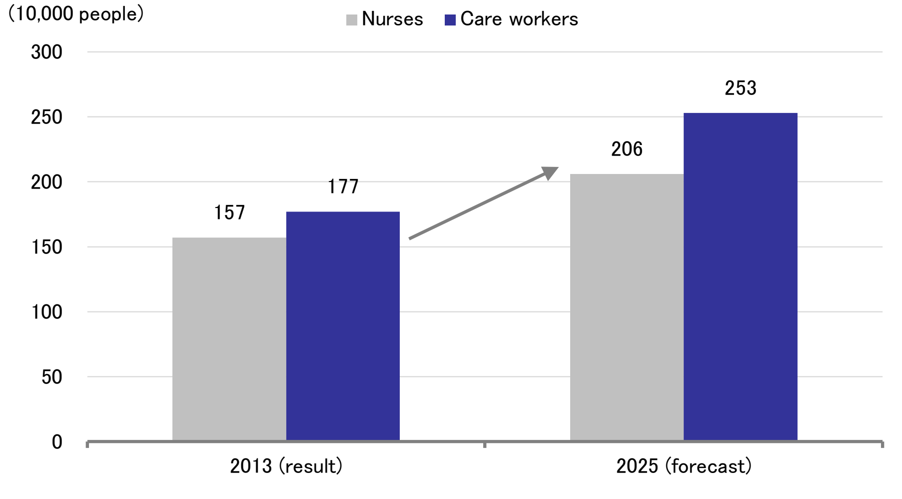
Targeted net sales percentages by product



(2) Future business strategies

The operating environment surrounding the Company should be favorable for some time. According to data released by the Japanese Nursing Association and 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.

Estimates of future demand for nurses and care workers



a) Marketing strategy to boost sales

- Aim to increase share by further uncovering demand in the core markets, including the current mainstay markets for nurses and care workers.
- In addition to the existing mainstay healthcare wear products, further develop the peripheral markets, including patient wear and surgical wear.
- Open-up new markets by utilizing the Company's technological expertise in materials and apparel manufacturing, and its sales network.

b) Production strategy to ensure a stable supply

- In the context of the tightening of the domestic labor market, respond to wage increases among domestic manufacturers and further strengthen the production system.
- Strengthen measures for materials manufacturers and trading companies, and improve new product development capabilities.
- Further bolster the quick response system and the ability to respond rapidly to small-lot, multi-product orders.

c) Strategy toward stable profitability

- Further promote the shift from domestic production to overseas production.
- Actively utilize special tax measures, including EPA and FTA.
- Secure business profitability through flexibly revising prices in response to fluctuations in production costs, including from exchange rates.

■ 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 88.8% at the end of FY8/16, 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 (9.4% in FY8/16).

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 the total annual dividend 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%. In the completed FY8/16 also, it paid an annual dividend of ¥50 for a dividend payout ratio of 52.5% on a non-consolidated basis.

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Nagaileben

7447 Tokyo Stock Exchange First Section

2-Feb.-17

Trends in the dividend payout ratio and the total return ratio

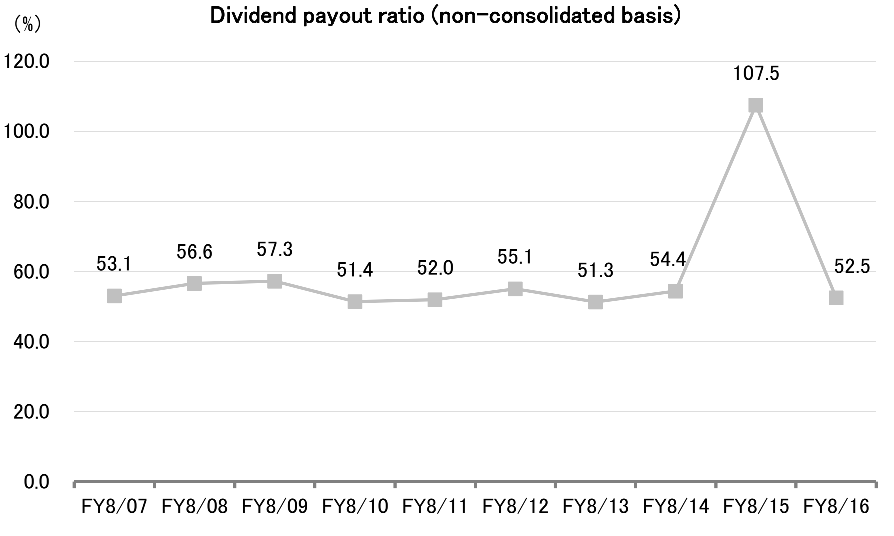
	Total dividend amount (¥mn)	Share buybacks (¥mn)	Dividend payout ratio* (%)	Total returns ratio* (%)
FY8/01	475	0	27.4	27.4
FY8/02	475	0	29.3	29.3
FY8/03	530	1,697	29.7	124.6
FY8/04	744	0	36.5	36.5
FY8/05	1,117	0	56.9	56.9
FY8/06	1,117	0	53.4	53.4
FY8/07	1,117	0	53.1	53.1
FY8/08	1,083	1,077	56.6	111.2
FY8/09	1,040	1,220	57.3	122.2
FY8/10	1,127	0	51.4	51.4
FY8/11	1,205	226	52.0	61.7
FY8/12	1,205	0	55.1	55.1
FY8/13	1,541	229	51.3	58.7
FY8/14	1,712	0	54.4	54.4
FY8/15	3,324	1,500	107.5	153.8
FY8/16	1,662	0	52.5	52.5

*: on a non-consolidated basis

Source: the Company's financial results briefing materials

As shown in the chart below, in every year in the last 10 years the dividend payout ratio (on a non-consolidated basis) has exceeded 50%. For FY8/17 also, the Company has announced an annual dividend of ¥50 for a dividend payout ratio of above 50% on a non-consolidated basis, and it may also increase the dividend if profits exceed the forecast. In such ways, the Company is demonstrating that it is highly aware of returning profits to shareholders and maintaining capital efficiency, which merits praise.

Dividend payout ratio (non-consolidated basis)



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