COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben co., Ltd.

7447

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Summary

Both net sales and operating profit achieved record highs in FY8/17 1H

Nagaileben <7447> (hereafter, also "the Company") is the leading manufacturer of medical gowns in Japan, with a domestic market share of over 60%. The Company boasts high profit margins and a solid financial condition.

1. Reached a new record high operating profit in FY8/17 1H

In the consolidated results for 1H FY8/17 announced by the Company, net sales increased 3.0% year on year (YoY) to ¥7,149mn, operating profit rose 13.0% to ¥1,932mn, recurring profit increased 17.9% to ¥2,007mn, and net profit attributable to the owners of the parent company increased 22.8% to ¥1,380mn and both sales and profits achieved a record high. Even with the negative impact of increased production cost due to depreciation of the yen and rising processing charges, the gross profit margin was improved thanks to the larger sales volume of high-value-added products and the rise in the overseas production ratio. As a result, the Company posted a double-digit rise in the profit items.

2. No changes to the initial forecasts for the FY8/17 full year, Possibility of an upward revision are high

The forecasts for the full-year consolidated results for FY8/17, which is currently underway, are for net sales to increase 2.8% YoY 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, cost 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 based on the FY8/17 1H result, it is highly likely that the Company will exceed its forecasts.

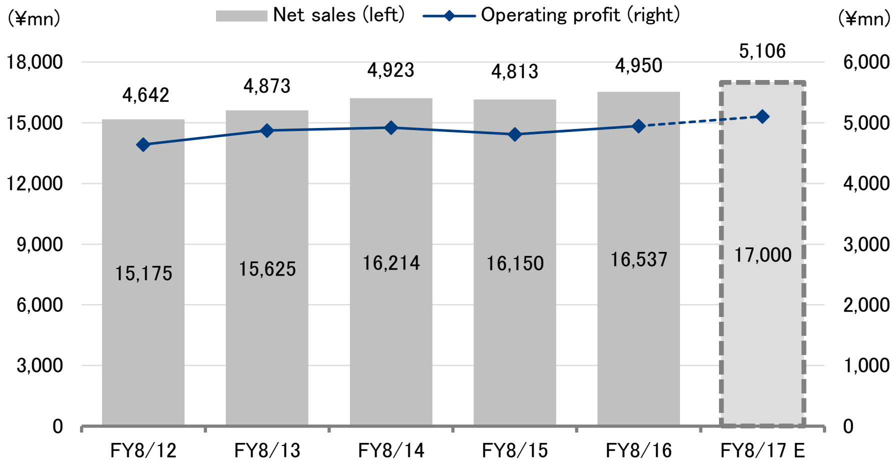
3. The Company is taking a positive stance on shareholder returns. We see a possibility of increased dividends depending on the level of profits.

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.

Key Points

- Net sales and operating profit achieved record highs in FY8/17 1H
- Mid-term Management Plan target aims for operating profit of ¥5,400mn
- Commitment to payout ratio (non-consolidated basis) of above 50% and it is possible to increase dividend

Trends in net sales and operating profit (consolidated)



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

Company profile

Leading manufacturer of medical gowns with a domestic market share of over 60%

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.

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.
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	Acquired ISO 9001. Listed on the First Section of Tokyo Stock Exchange. Absorbed Hokkaido Nagai Co. Ltd. and established the Hokkaido branch.
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.

Source: Prepared by FISCO from the securities report

Business overview

Plans to focus on expanding sales of high value-added advanced-function products

1. 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%, and its coverage is nationwide.

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.

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 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 (YoY) 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.

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 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, 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/ESG)

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 for CSR/ESG

(1) Expanding women's roles: Fostering opportunities for women support

The Company's products are for women working on the frontlines at hospitals and nursing care facilities, and its production facilities have many women involved in sewing work. The Company's business operations create many opportunities to expand the roles of women from a variety of life stages, which connects to supporting working women.

(2) Contributing to communities

a) 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.

b) 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 a Miffy character makes hospital visits.

(3) Contributing to customers: opened the ITONA gallery, an oasis for nurses

The ITONA gallery, Japan's first emotional communication space for nurses, was opened in 2015 to celebrate the centenary of foundation and as a gesture of gratitude to nurses, the Company's main customers.

(4) Social Contribution Initiatives

a) Promotion of the Employment of Disabled Persons

The Company actively employs people with disabilities and was awarded by the Ministry of Health, Labour and Welfare in September 2016) as an outstanding business in terms of contribution to the employment and promotion of people with disabilities. The Company is poised to continue actively employing people with disabilities.

b) Disaster support activities

Monetary donations, provision of medical gowns and presentation of wheelchairs and other items has been made through nursing associations or the Japanese Red Cross Society following the outbreak of natural disasters including SARS, the Indonesian earthquake, the Great Hanshin Earthquake, the Great East Japan Earthquake and the Kumamoto earthquakes.

(5) Environmental initiatives

The Company secured ISO 14001 certification in 2005. Cutting wastage from raw materials is reused for roofing processing and other purposes. The Company has also developed and sells COMPELPAK, a reusable product for use on hospital front lines. By converting to a reusable product instead of the disposable type that had been used until now, it enables medical waste to be reduced and contributes to solving environmental problems.

Results trends

Net sales and operating profit achieved record highs in FY8/17 1H

● Summary of the FY8/17 2Q consolidated results

(1) Profit-and-loss conditions

In the consolidated results for 2Q FY8/17, net sales increased 3.0% YoY to ¥7,149mn, operating profit rose 13.0% to ¥1,932mn, recurring profit rose 17.9% to ¥2,007mn, and net profit attributable to the owners of the parent company climbed 22.8% to ¥1,380mn. Both net sales and operating profit achieved record high. 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 2Q FY8/17 consolidated results

(¥mn, %)

	FY8/16 1H		FY8/17 1H			
	Amount	% of total	Amount	% of total	Change	YoY
Net sales	6,938	100.0	7,149	100.0	211	+3.0
Gross profit	3,174	45.8	3,405	47.6	230	+7.3
SG&A expenses	1,464	21.1	1,473	20.6	8	+0.6
Operating profit	1,709	24.6	1,932	27.0	222	+13.0
Recurring profit	1,702	24.5	2,007	28.1	305	+17.9
Net profit attributable to the owners of the parent company	1,123	16.2	1,380	19.3	256	+22.8

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

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 3.0% YoY.

Gross profit increased ¥230mn YoY. On analyzing the factors behind this, the increase factors were ¥244mn from the higher sales, and ¥18mn from the effects of the rise in the overseas production ratio (46.5%→47.0%). Conversely, the decrease factors were ¥16mn from the higher raw material prices and processing charges and ¥25mn from the increase in costs due to the exchange rate (the depreciation of the yen). As a result, the gross profit margin highly improved to 47.6% (compared to 45.8% in the previous fiscal year). Conversely, SG&A expenses increased 0.6% to ¥1,473mn, but this was mainly due to increases in expenses related to the Company's centennial anniversary of ¥34mn, which was factored into forecasts from the beginning, and pro-forma standard taxation of ¥36mn (up ¥17mn), and the amount was basically as initially forecast. As a result, operating profit rose 13.0% YoY to achieve a record high.

In contrast, recurring profit increased 17.9% YoY, increased more than in operating profit, this was mainly due to the effects of foreign exchange gains and losses in non-operating profit and expenses (a gain of ¥46mn in FY8/17 1H, compared to a loss of ¥33mn in previous year).In extraordinary profit and loss, there were no major fluctuations or unexpected events, but the corporate tax amount decreased following the lowering of the tax rate, so net profit attributable to the owners of the parent company increased 22.8% YoY to ¥1,380mn. Taken as a whole, despite the decreased profit due to the increased cost of products, the results can be said to be favorable and greater than initially expected.

a) net sales by item

In net sales by item, healthcare wear increased 2.2% YoY to ¥4,110mn, doctors' wear rose 0.7% to ¥1,075mn, utility wear decreased 14.3% to ¥241mn, patient wear climbed 20.9% to ¥870mn, surgical wear increased 2.1% to ¥681mn, shoes increased 1.3% to ¥74mn, and other products decrease d 10.1% to ¥95mn.

In the mainstay healthcare wear, markets have become active following the launch of new high-value-added products in recent years, and acquisition has been brisk through renewal projects due to module changes and new projects. As a result, there has been an increase in revenue YoY, In doctor's wear, sales have been difficult for mass-produced products but the high end, high-value-added products have sold well and revenue increased YoY. In utility wear, the trend of shifting from individual supply to that of common goods continued and sales declined significantly YoY, but as their monetary contributions are small, the impact of these declines on the overall results were small.

Peripheral markets that have been the object of focus in recent years saw a steady expansion in patient wear and surgical wear. In patient wear, sales trended strongly including the significant contribution of the new product group as well as steady sales of existing products and achieved a significant increase YoY. Sales of surgical wear slightly increased 2.1% YoY, with the COMPELPAK laundry sterilization plant having reached full capacity against a backdrop of strong demand in this market. Eliminating the cap at the COMPELPAK laundry sterilization plant, there remains room for further development, as it has relatively low shares of the peripheral markets for patient wear, surgical wear, and other items. As sales amount of shoes and other products are small, the impact on the overall results was small.

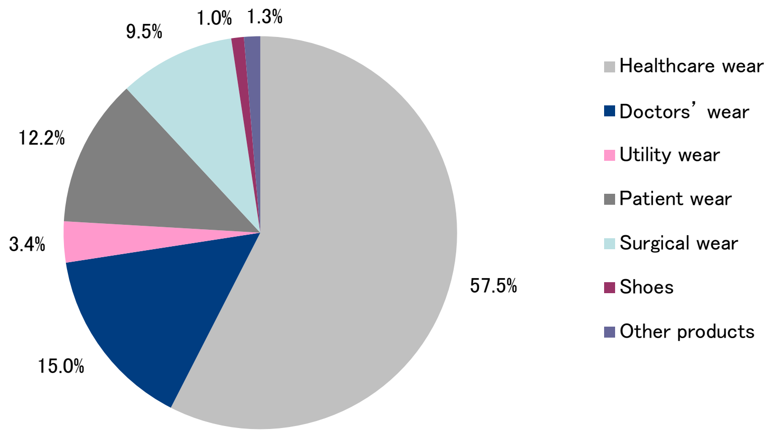
Net sales by item

(¥mn, %)

	FY8/16 1H		FY8/17 1H	
	Amount	YoY	Amount	YoY
Healthcare wear	4,021	+ 0.2	4,110	+ 2.2
Doctors' wear	1,067	+ 2.0	1,075	+ 0.7
Utility wear	282	- 5.4	241	- 14.3
Patient wear	719	+ 13.2	870	+ 20.9
Surgical wear	667	+ 1.3	681	+ 2.1
Shoes	73	- 6.2	74	+ 1.3
Other products	106	- 4.0	95	- 10.1
Total	6,938	+ 1.4	7,149	+ 3.0

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

Net sales by item (FY8/17 1H)



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

b) Net sales by region

In net sales by region, in eastern Japan sales increased 6.4% YoY to ¥3,625mn, in central Japan they rose 5.5% to ¥757mn, in western Japan they decreased 0.8% to ¥2,672mn, and overseas they decreased 21.4% to ¥94mn. In eastern Japan, thanks to the steady acquisition of renewal projects and new projects, record high net sales were recorded. Market scale is small in central Japan and it is significantly affected by the number of projects. In FY8/17 1H, there was a delay in the period of projects and this caused sales to increase YoY. In western Japan, there had been a significant increase in sales in the same period in the previous year due to a major project, but steady sales expansion due to acquisition of renewal projects and new projects continuing in 1H that secured sales so that they were almost flat YoY. For overseas, since the scale of sales is still small due to elimination of previous year sales for large hospital sales a significant decline was recorded. Incidentally, sales in western Japan and overseas remain low, indicating the potential for future expansion.

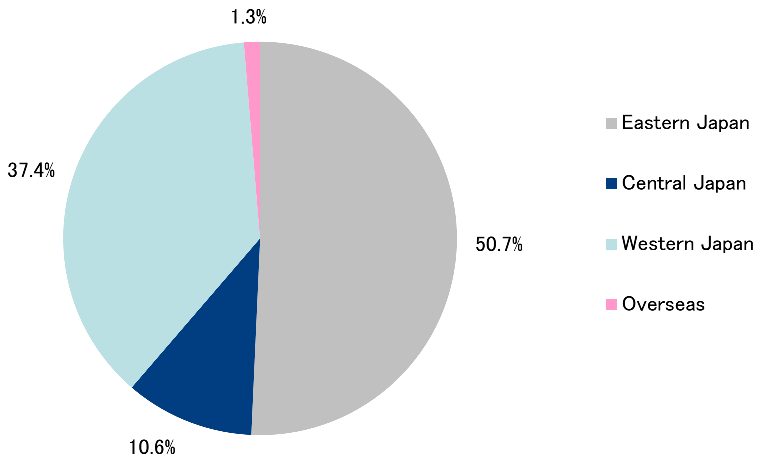
Net sales by region

(¥mn, %)

	FY8/16 1H		FY8/17 1H	
	Amount	YoY	Amount	YoY
Eastern Japan	3,406	- 0.7	3,625	+ 6.4
Central Japan	717	- 8.9	757	+ 5.5
Western Japan	2,694	+ 6.5	2,672	- 0.8
Overseas	119	+ 29.3	94	- 21.4
Total	6,938	+ 1.4	7,149	+ 3.0

Source: Prepared by FISCO from Company materials

Net sales by region (FY8/17 1H)



Source: Prepared by FISCO from Company materials

c) Net sales by product

In net sales by product, DC brand products decreased 13.4% YoY to ¥264mn, advanced-function products increased 3.1% to ¥3,831mn, standard-function products rose 6.6% to ¥2,714mn, and mass-produced products decreased 8.5% to ¥338mn. In advanced-function products, which is the market's volume zone and in which the Company is most focusing its efforts toward expanding sales, sales steadily increased and sales of standard-function products also increased. Although sales of DC brand products and mass-produced products were down, their sales scales are small so these results are not a particular cause for concern.

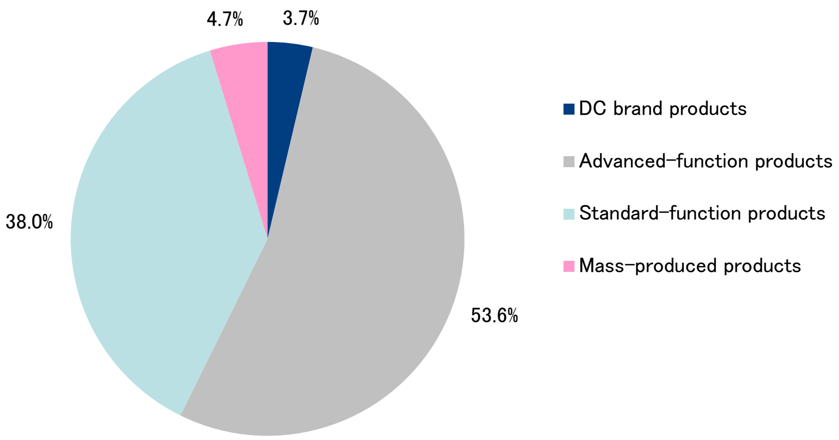
Net sales by product

(¥mn, %)

	FY8/16 1H		FY8/17 1H	
	Amount	YoY	Amount	YoY
DC brand products	305	- 16.7	264	- 13.4
Advanced-function products	3,716	+ 7.5	3,831	+ 3.1
Standard-function products	2,545	- 2.7	2,714	+ 6.6
Mass-produced products	370	- 7.1	338	- 8.5
Total	6,938	+ 1.4	7,149	+ 3.0

Source: Prepared by FISCO from Company materials

Net sales by product (FY8/17 1H)



Source: Prepared by FISCO from Company materials

Sturdy financial standing based on a shareholders' equity ratio of more than 90%

(2) Financial position

The Company's financial position continues to be stable. Total assets at the end of 2Q FY8/17 were ¥37,991mn, down ¥865mn compared to the end of the previous fiscal year. Current assets were ¥29,234mn, an increase of ¥151mn, with the main factors being decreases in cash and deposits of ¥635mn, an increase in notes and accounts receivable of ¥30mn and an increase in inventories of ¥764mn.The increase of inventories was due to seasonal factors (compared to the end of 2Q and previous fiscal year end) and is not a cause for concern. Fixed assets were ¥8,756mn, down ¥1,017mn, primarily due to a decrease of ¥921mn in investments and other assets accompanying the transfer of long-term deposits to current assets.

Total liabilities were ¥3,710mn, down ¥645mn compared to the end of the previous fiscal year. The main factors included a decrease in corporate tax payable of ¥528mn. Total net assets were ¥34,281mn, a decline of ¥220mn. This was mainly due to reductions in retained earnings of ¥1,662mn following the payment of dividends. As a result of these factors, the shareholders'' equity ratio at the end of 2Q FY8/17 was 90.2%, increasing from 1.4 percentage points at the previous year-end.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/16	End of FY8/17 2Q	Change
Cash and deposits	19,504	18,868	-635
Notes and accounts receivable	4,866	4,897	30
Inventories	4,348	5,112	764
Current assets, total	29,083	29,234	151
Tangible fixed assets	7,476	7,375	-100
Intangible fixed assets	57	61	4
Investments and other assets	2,240	1,319	-921
Fixed assets, total	9,774	8,756	-1,017
Total assets	38,857	37,991	-865
Notes and accounts payable	1,561	1,567	5
Income taxes payable	1,149	621	-528
Total liabilities	4,355	3,710	-645
Retained earnings	34,978	34,696	-281
Treasury shares	-4,902	-4,902	0
Net assets, total	34,501	34,281	-220
Net liabilities and net assets	38,857	37,991	-865

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

(3) Cash flow conditions

In FY8/17 2Q, cash flow provided by operating activities was ¥105mn. The main income items were the recording of net income before income taxes of ¥2,011mn, depreciation and amortization of ¥156mn, and a decrease in notes and accounts receivable of ¥35mn, while the main expenditure items included increases in inventory assets of ¥764mn. Cash flow used in investing activities was ¥317mn, which was primarily due to spending on fixed deposits (net) of ¥300mn and on the acquisition of tangible fixed assets of ¥67mn. Cash flow used in financing activities was ¥1,654mn, with the main item being ¥1,654mn for the payment of dividends. As a result, cash and cash equivalents during this fiscal period declined ¥1,835mn, and the balance of cash and cash equivalents at the end of the fiscal period was ¥4,868mn. The Company does not have any interest-bearing debt, and in addition, it holds ¥4,902mn of treasury stock (4,989,504 stocks). Therefore, as before it has an abundance of cash on hand.

Summary of cash flow statement

(¥mn)

	FY8/16 1H	FY8/17 1H
Cash flow from operating activities	30	105
Net income before income taxes	1,701	2,011
Depreciation and amortization	163	156
Change in notes and accounts receivable-trade	-70	35
Change in inventory assets	-678	-764
Change to accounts payable	188	5
Cash flow from investing activities	34	-317
Purchase of property, plant and equipment	-72	-67
Change in fixed deposits (net)	0	-300
Cash flow from financing activities	-3,322	-1,654
Change to cash and cash equivalents balance	-3,273	-1,835
Cash and cash equivalents balance at period end	5,218	4,868

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

Business outlook

Full-year forecast retains the initial targets and is highly likely revised upwardly

● **FY8/17 full year result outlook**

(1) Outlook of profit and loss

The Company forecasts the full year consolidated result for FY8/17, unchanged from the initial forecast, are for net sales to increase 2.8% YoY 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. Full-year presumptive conditions are as outlined below, and these are also unchanged from the initial forecast. However, retained full year forecast indicates YoY decrease in earnings for 2H. Since the current market climate does not have a cause for concern and another cost increase factor does not expected, at FISCO, the full year forecast will highly likely be revised upward.

Summary of the full-year FY8/17 consolidated results

(¥mn, %)

	FY8/16		FY8/17 forecast			
	Amount	% of total	Amount	% of total	Change	YoY
Net sales	16,537	100.0	17,000	100.0	462	+2.8
Gross profit	7,735	46.8	7,945	46.7	209	+2.7
SG&A expenses	2,784	16.9	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

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

Gross profit is expected to climb ¥209mn, with the positive factors forecast to be increases of ¥321mn from the higher sales, and ¥40mn from the rise in the overseas production ratio (FY8/16 47.4% →FY8/17 47.9%), and the negative factors being ¥70mn from the effects of the higher raw materials and processing charges, and ¥86mn from the effects of the exchange rate (FY8/16 ¥99.8 / dollar →FY8/17 ¥104.5 / dollar) on costs. As a result, the gross profit margin is forecast to remain basically unchanged YoY. However, since the gross profit margin in FY8/17 1H improved YoY, the full year gross profit margin will also increase YoY.

In addition, SG&A expenses are forecast to be ¥2,839mn (up 2.0% YoY), 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. In addition, if a higher than expected gross profit margin is achieved, operating profit will highly likely be revised upward. 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 YoY.

a) Net sales forecasts by item

Net sales forecasts by item

(¥mn, %)

	FY8/16		FY8/17 forecast	
	Amount	YoY	Amount	YoY
Healthcare wear	9,674	+2.6	9,920	+2.5
Doctors' wear	2,654	+2.0	2,700	+1.7
Utility wear	601	-10.3	510	-15.2
Patient wear	1,613	+11.1	1,850	+14.7
Surgical wear	1,574	+0.9	1,630	+3.5
Shoes	204	-3.1	200	-2.3
Other products	213	-3.9	190	-11.1
Total	16,537	+2.4	17,000	+2.8

Source: Prepared by FISCO from Company materials

In net sales by item, healthcare wear is forecast to be ¥9,920mn (up 2.5% YoY), doctors' wear ¥2,700mn (up 1.7%), utility wear ¥510mn (down 15.2%), patient wear ¥1,850mn (up 14.7%), surgical wear ¥1,630mn (up 3.5%), shoes ¥200mn (down 2.3%), and other products ¥190mn (down 11.1%).

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.

b) Forecasts for net sales by region

Forecasts for net sales by region

(¥mn, %)

	FY8/16		FY8/17 forecast	
	Amount	YoY	Amount	YoY
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

Source: Prepared by FISCO from Company materials

The forecasts for net sales by region are ¥8,680mn in eastern Japan (up 1.7% YoY), ¥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 YoY 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.

c) Net sales forecasts by product

Net sales forecasts by product

(¥mn, %)

	FY8/16		FY8/17 forecast	
	Amount	YoY	Amount	YoY
DC brand products	720	-14.8	660	-8.4
Advanced-function products	8,720	+7.8	9,110	+4.5
Standard-function products	6,199	-0.9	6,400	+3.2
Mass-produced products	896	-6.6	830	-7.4
Total	16,537	+2.4	17,000	+2.8

Source: Prepared by FISCO from Company materials

The net sales forecasts by product are ¥660mn for DC brand products (down 8.4% YoY), ¥9,110mn for advanced-function products (up 4.5%), ¥6,400mn for standard-function products (up 3.2%), and ¥830mn for mass-produced products (down 7.4%).

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.

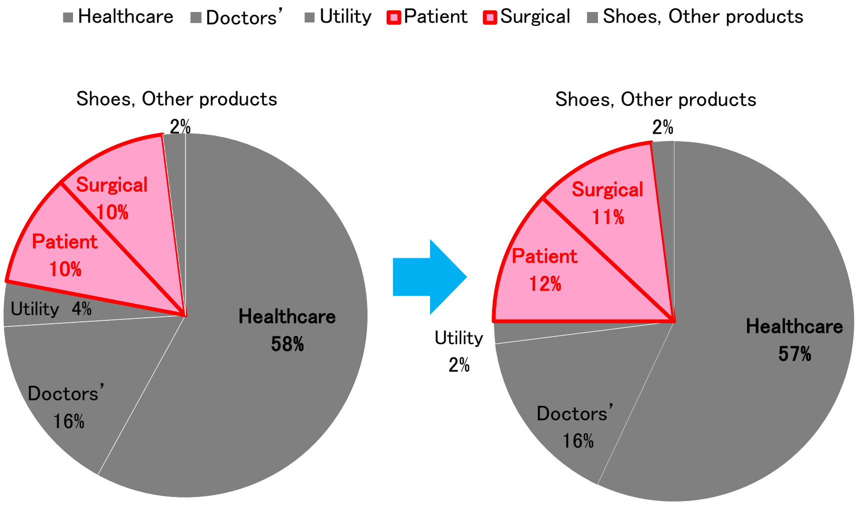
Medium-to-long-term growth strategy

Mid-term plan targets for FY8/19 of operating profit of ¥5,400mn

1. Mid-term Management Plan

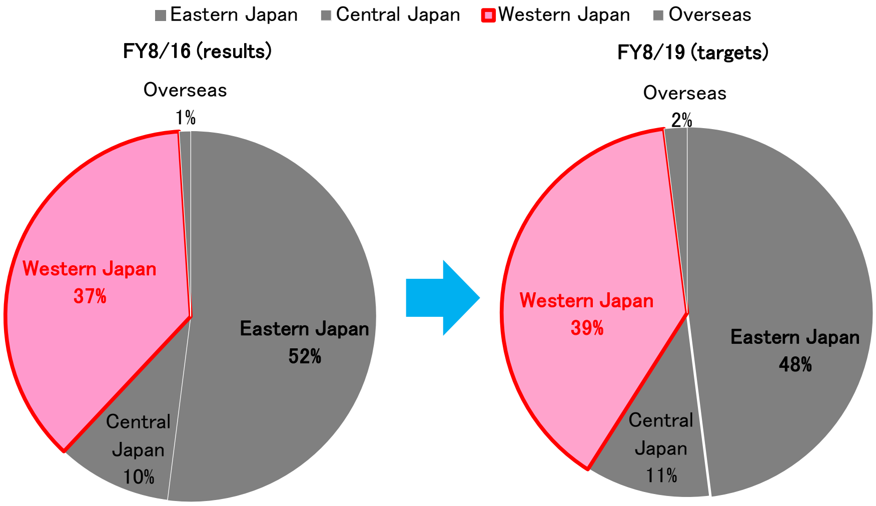
The Company initially announced targets for FY8/18 of net sales of ¥17,500mn and operating profit of ¥5,300mn in its Mid-term Management Plan. But based on the FY8/16 results, it has newly announced the plan's mid-term targets for FY8/19, of net sales of ¥18,000mn and operating profit of ¥5,400mn, and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

Targeted net sales percentages by item



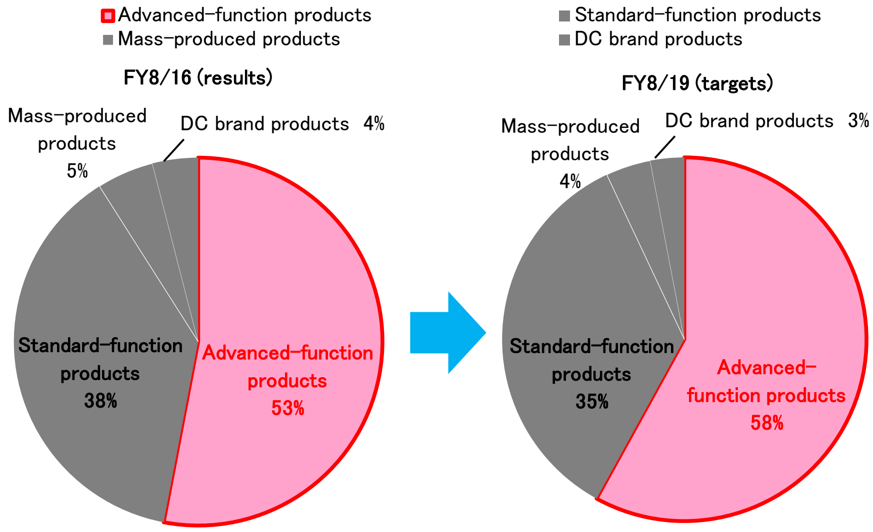
Source: Prepared by FISCO from Company materials

Targeted net sales percentages by region



Source: Prepared by FISCO from Company materials

Targeted net sales percentages by product



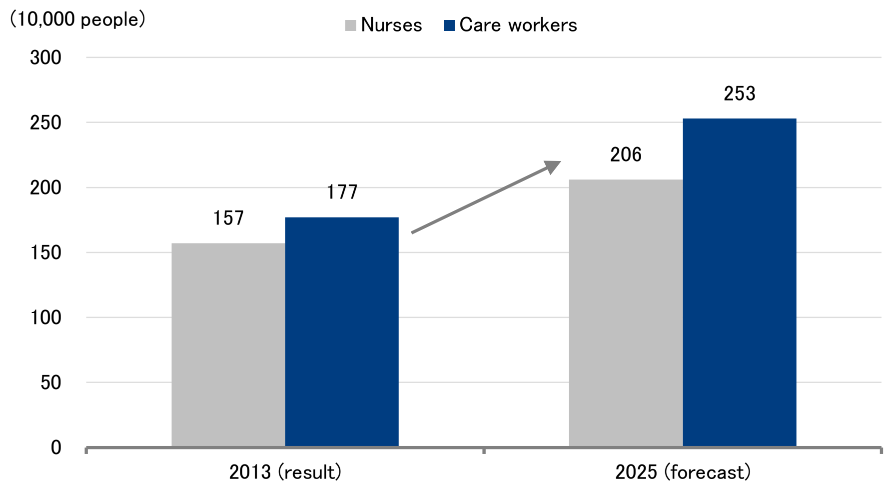
Source: Prepared by FISCO from Company materials

Set operating strategy, production strategy, and stable profitability strategy backed by healthy business environment

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 1.77 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



Source: Prepared by FISCO from Company materials

(1) Marketing strategy to boost sales

a) Aim to increase share by further uncovering demand in the core markets, including the current mainstay markets for nurses and care workers.

b) In addition to the existing mainstay healthcare wear products, further develop the peripheral markets, including patient wear and surgical wear.

c) Open-up new markets by utilizing the Company's technological expertise in materials and apparel manufacturing, and its sales network.

(2) Production strategy to ensure a stable supply

a) In the context of the tightening of the domestic labor market, respond to wage increases among domestic manufacturers and further strengthen the production system.

b) Strengthen measures for materials manufacturers and trading companies, and improve new product development capabilities.

c) Further bolster the quick response system and the ability to respond rapidly to small-lot, multi-product orders.

(3) Strategy toward stable profitability

a) Further promote the shift from domestic production to overseas production.

b) Actively utilize special tax measures, including EPA and FTA.

c) Secure business profitability through flexibly revising prices in response to fluctuations in production costs, including from exchange rates.

Shareholder Returns Policy

The Company has pledged a dividend payout ratio (on a non-consolidated basis) of above 50%, it may increase FY8/17 dividend

The Company's shareholders' equity ratio reached 90.2% at the end of FY8/16 2Q, 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.

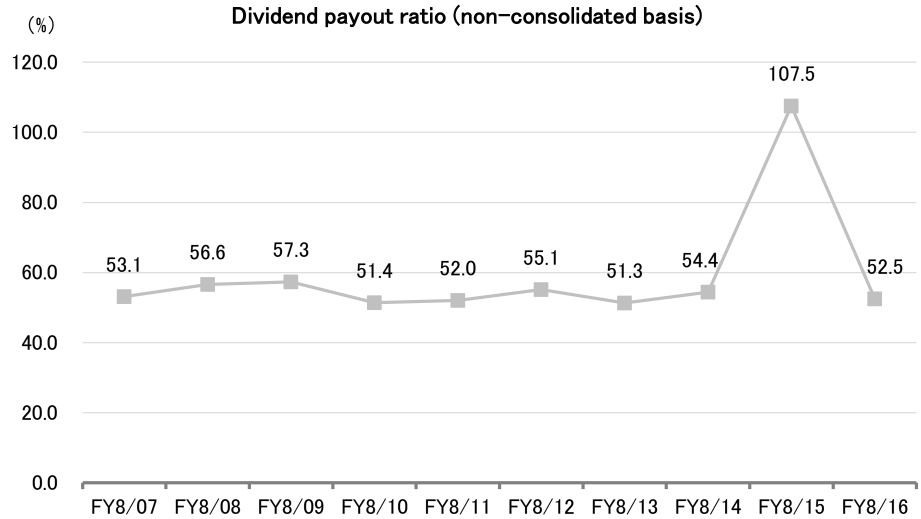
For FY8/17 also, the Company has announced an annual dividend of ¥50 for a dividend payout ratio of above 50% on a non-consolidated basis, and it may also increase the dividend if profits exceed the forecast.

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: Prepared by FISCO from Company materials

Dividend payout ratio (non-consolidated basis)



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

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