

Nagaileben co., Ltd.

7447

Tokyo Stock Exchange First Section

13-Feb.-2019

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Summary

In FY8/19 1Q, gross profit margin improved despite lower sales following the strong performance in FY8/18 1Q

1. FY8/19 1Q results

Nagaileben co., Ltd. <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. The Company has announced its FY8/19 1Q consolidated results, in which net sales decreased 5.2% year on year (YoY) to ¥2,910mn, operating profit declined 21.1% to ¥631mn, recurring profit decreased 20.6% to ¥652mn, and net profit attributable to the owners of the parent company dropped 21.7% to ¥447mn. Performance was strong in FY8/18 1Q so there was a decrease in sales, however the gross profit margin slightly improved. In terms of expenses, SG&A expenses increased and operating profit declined 21.1% due to one-time special factors. However, this was anticipated in the initial forecast and the overall results were within the range of expectations.

2. FY8/19 forecast

The forecasts for the FY8/19 full year consolidated results are for net sales to increase 2.7% YoY to ¥17,600mn, operating profit to decrease 0.4% to ¥5,242mn, recurring profit to decline 0.6% to ¥5,304mn, and net profit attributable to the owners of the parent company to fall 0.7% to ¥3,650mn. These are unchanged from the initial forecast. 1Q saw a decline in profits, but the Company usually experiences lower amounts around this time of the period, and it is expected to recover after 2Q. The Company plans to secure an increase in sales by securely capturing projects and other work carried over from the previous year. But it expects the gross profit margin to decline slightly due to factors including an increase in depreciation expenses alongside the construction of the new plant and real estate acquisition tax. In addition, operating profit is forecast to decline slightly because of the recording in SG&A expenses of a scheduled reward-for-services amount of ¥81mn following the abolition of the retirement benefits system for directors.

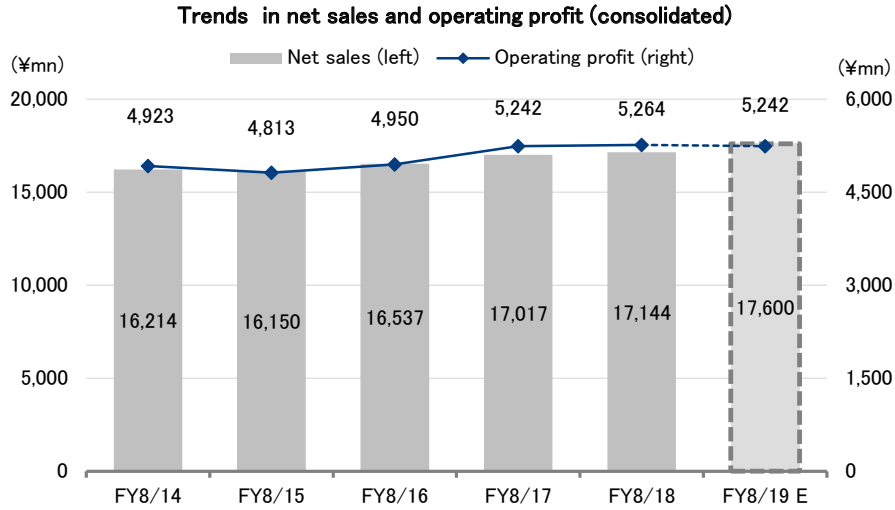
3. Mid-term Management Plan targets

Based on the results in the previous fiscal year (FY8/18), the Company announced that it had rolled over its plan up to that time and set new mid-term management targets for FY8/21, of net sales of ¥18,600mn and operating profit of ¥5,600mn. It would seem to be aiming to achieve these targets through expanding overseas production and strengthening advanced-function products that have significant profit margins. The Company is also actively returning profits to shareholders. It has pledged a dividend payout ratio of above 50% (on a non-consolidated basis) and in FY8/19, it plans to pay an annual dividend of ¥60, with the possibility of an increase depending on business performance. The Company has also declared it will flexibly buy back its own shares, and given the present level of stock prices, we see the possibility for another share buyback. Thus the Company’s approach toward returning profits to shareholders seems worthy of praise.

Key Points

- Sales declined but gross profit margin improved in FY8/19 1Q
- Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/21
- Annual dividend of ¥60 planned with proactive shareholder returns including share buybacks

Summary



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.

Company profile

History

1915	Mitsuji Nagai started a privately owned business "Nagai Shoten" specializing in medical gowns in Kanda-Jinbocho, Chiyoda-ku, Tokyo
1950	Liquidated Tokyo Eisei Hakui Co. Ltd. Mitsuji 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. Established technology partnerships with Angelica Corp (US) and Toray Industries, Inc. <3402>. Developed and released medical gowns made with a new fabric for leasing.
1979	Changed name to Nagai Co., Ltd.
1980	Opened a sales office in Takamatsu, Kagawa Prefecture. Concluded a license agreement with designer Kansai Yamamoto.
1982	Concluded a license agreement with designer Yukiko Hanai.
1988	Established Emit Co. Ltd. as a spin-off from Nagai Co. Ltd. Thereafter, the two companies exchanged their names, with Emit Co. Ltd. becoming a group management company, and Nagai Co. Ltd. becoming a group headquarters for sales.
1989	Newly built Nagai Luminous, a manufacturing plant for high-grade products, in Akita Prefecture. Started overseas production toward the global division of labor.
1994	Changed name from Nagai Co. Ltd. to Nagaileben Co. Ltd. Built a new logistics center in Akita Prefecture.
1995	Started over-the-counter trading of the Company's stock. Started development and sales of a second pillar product to respond to the aging of society. Vice President Ichiro Sawanobori appointed President.
1996	Concluded a license agreement with French designer Andre Courreges.
1999	Opened a sales office in Nagoya, Aichi Prefecture. Concluded a license agreement with designer Atsuro Tayama.
2001	Listed on the Second Section of 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.
2016	Transitioned to a Company with Audit & Supervisory Committee
2017	Concluded a joint development agreement with Shiseido Company, Ltd. <4911>.
2018	Constructed a new sewing center in Daisen City, Akita Prefecture

Source: Prepared by FISCO from the Company's securities report

Business overview

Focusing 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 (FY8/18) is 58.2% from healthcare wear, 15.6% from doctors' wear, 2.9% from utility wear, 11.4% from patient wear, 9.6% from surgical wear, 1.1% from shoes, and 1.2% 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 and other products, are relatively lower.

Business overview

In terms of each region's contribution to sales (FY8/18), eastern Japan accounts for 52.9%, western Japan 35.4%, central Japan 10.5%, and overseas 1.2%. While coverage is nationwide, sales in western Japan and overseas remain low, indicating the potential for future expansion.

The product (function) categories were changed from FY8/17. The Company's own brand of high-priced products, together with the products previously in the DC brand, became the "high-end products" category, and products that up to that time were called advanced-function products have been redefined and categorized as "high value-added products." The name of the standard-function products category was changed to "value-added products," while the mass-produced products category has been left unchanged.

In the new categories, the percentages of total net sales by product (FY8/18) are 7.4% from high-end products, 51.1% from high value-added products, 36.5% from value-added products, and 5.0% from mass-produced products. On looking at the approximate price-band classifications in nurse wear, mass-produced products are less than ¥5,000, value-added products are ¥5,000 to ¥7,500, high value-added products are ¥7,500 to ¥10,000, and high-end products are more than ¥10,000. The tendency is for higher prices to achieve greater profit margins, so the Company is focusing on expanding sales of high-end products and high value-added products.

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, 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 renewal demand every four years, it seems to stably support the Company's earnings. However, the lease renewal cycle does not necessarily occur in the same time period as the previous time and there are cases of it being slightly before or after, so sometimes a slight shifting occurs for the net sales (YoY) for each quarter.

Looking at the Company's production structure, based on FY8/18 performance, internal production and at partner plants constitute an aggregate of 98.6% (49.6% domestically and 49.0% 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 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.

Business overview

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 as mentioned above, 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 47.0% (actual results for FY8/18). 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 the Company 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.

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: Supporting industries led by women

Many of 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) Lending of historical gowns

Together with the changes to gowns, the Company lends gowns free of charge, such as to the events of medical facilities, with the objective of understanding the history of nurses.

b) Contributing to communities through production sites

The Company is creating employment and contributing to regional economies through its production operations in Akita Prefecture in Japan, and in China, Indonesia, Vietnam, and elsewhere overseas.

c) 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.

Business overview

(3) Contributing to customers

a) Opened the ITONA gallery, an oasis for nurses

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

b) Beauty courses for nurses

With the cooperation of Shiseido Japan Co., Ltd., the Company is providing practical courses, including learning about make-up and personal behavior that are suitable for nurses in medical settings.

(4) Social contribution

a) Promotion of the employment of disabled persons

Subsidiary Nagai hakui kougyou co., Ltd. was awarded by the Minister of Health, Labour and Welfare in September 2016 after being selected as a business in terms of contribution to the employment and promotion of 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 SARS and natural disasters including 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 surgical 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

FY8/19 1Q operating profit declined 21.1% YoY, but amount is within the range of expectations

● Summary of FY8/19 1Q consolidated results

(1) Profit-and-loss conditions

The Company has announced its FY8/19 1Q consolidated results, in which net sales decreased 5.2% YoY to ¥2,910mn, operating profit declined 21.1% to ¥631mn, recurring profit decreased 20.6% to ¥652mn, and net profit attributable to the owners of the parent company dropped 21.7% to ¥447mn.

Sales declined but the FY8/18 1Q results were relatively high (up 7.2% YoY) so there is no need for pessimism regarding profitability. On the other hand, gross profit margin slightly improved, increasing from 46.9% in FY8/18 1Q to 47.0% due to a rise in the overseas production ratio. In terms of expenses, SG&A expenses increased 15.1% due to an increase (approx.. ¥8mn) in depreciation expenses alongside the construction of the new plant, and a recording of ¥81mn in reward-for-services following the abolition of the retirement benefits system for directors. As a result, operating profit declined 21.7% to ¥631mn.

Results trends

Summary of FY8/19 1Q consolidated results

(¥mn, %)

	FY8/18 1Q		FY8/19 1Q		Change	% change
	Amount	% of total	Amount	% of total		
Net sales	3,068	100.0	2,910	100.0	-158	-5.2
Gross profit	1,440	46.9	1,367	47.0	-72	-5.1
SG&A expenses	639	20.8	735	25.3	96	15.1
Operating profit	801	26.1	631	21.7	-169	-21.1
Recurring profit	822	26.8	652	22.4	-169	-20.6
Net profit attributable to the owners of the parent company	571	18.6	447	15.4	-123	-21.7

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

In net sales by item, healthcare wear decreased 4.8% YoY to ¥1,573mn, doctors' wear increased 1.4% to ¥418mn, utility wear decreased 11.0% to ¥99mn, patient wear decreased 5.5% to ¥481mn, surgical wear decreased 9.8% to ¥270mn, shoes decreased 10.6% to ¥28mn, and other products decreased 24.6% to ¥38mn. Sales for items other than doctors' wear declined in line with a decrease in overall net sales. However, there is no particular cause for concern in regards to these items.

Net sales by item

(¥mn, %)

	FY8/18 1Q		FY8/19 1Q	
	Amount	YoY	Amount	YoY
Healthcare wear	1,651	5.1	1,573	- 4.8
Doctors' wear	412	3.6	418	1.4
Utility wear	112	- 1.6	99	- 11.0
Patient wear	509	20.8	481	- 5.5
Surgical wear	299	8.5	270	- 9.8
Shoes	31	1.6	28	- 10.6
Other products	51	2.6	38	- 24.6
Total	3,068	7.2	2,910	- 5.2

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

The financial position is solid, with cash and deposit at the end of FY8/19 1Q at ¥21,974mn and a shareholders' equity ratio of 90.6%

(2) Financial position

The Company's financial position continues to be stable. Total assets at the end of FY8/10 1Q were ¥40,562mn, down ¥2,080mn compared to the end of the previous fiscal year. Current assets were ¥31,151mn, a decrease of ¥2,069mn. The main factors were a decrease in cash and deposits of ¥1,955mn, a decrease in notes and accounts receivable of ¥529mn and an increase in inventories of ¥761mn. Fixed assets were ¥9,410mn, down ¥11mn, mainly due to a ¥3mn decrease in investments and other assets.

Total liabilities were ¥3,807mn, down ¥489mn compared to the end of the previous fiscal year. The main factors included an increase in notes and accounts payable of ¥136mn and a decrease in income taxes payable of ¥824mn. Net assets were ¥36,754mn, a decrease of ¥1,591mn. This was mainly due to a decrease in retained earnings of ¥1,547mn following dividend payout. As a result of these factors, the shareholders' equity ratio at the end of FY8/19 1Q was 90.6%.

Results trends

Summary of the consolidated balance sheet

	FY8/18	FY8/19 1Q	Change
	(¥mn)		
Cash and deposits	23,930	21,974	-1,955
Notes and accounts receivable	3,133	2,604	-529
Inventories	4,386	5,148	761
Current assets	33,220	31,151	-2,069
Tangible fixed assets	7,880	7,875	-4
Intangible fixed assets	44	41	-3
Investments and other assets	1,497	1,493	-3
Fixed assets	9,422	9,410	-11
Total assets	42,643	40,562	-2,080
Notes and accounts payable	1,424	1,561	136
Income taxes payable	1,057	233	-824
Total liabilities	4,297	3,807	-489
Retained earnings	38,670	37,123	-1,547
Treasury shares	-4,902	-4,902	0
Net assets	38,345	36,754	-1,591
Total liabilities and net assets	42,643	40,562	-2,080

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

Business outlook

Despite higher sales, operating profit is forecast to decline slightly in FY8/19 due to special factors

● FY8/19 full-year outlook

(1) Outlook of profit and loss

The forecasts for the FY8/19 full year consolidated results are left unchanged for net sales to increase 2.7% YoY to ¥17,600mn, operating profit to decrease 0.4% to ¥5,242mn, recurring profit to decline 0.6% to ¥5,304mn, and net profit attributable to the owners of the parent company to fall 0.7% to ¥3,650mn.

The gross profit margin is forecast to decline due to factors including the impact of exchange rates and the increase in depreciation expenses. In addition, the Company expects transportation expenses to rise and to record a reward-for-services amount (¥81mn) following the abolition of the retirement benefits system for directors. Therefore, operating profit is forecast to decrease, it only slightly.

FY8/19 consolidated earnings outlook

	FY8/18		FY8/19 forecast			
	Amount	% of total	Amount	% of total	Change	% change
Net sales	17,144	100.0	17,600	100.0	456	2.7
Gross profit	8,050	47.0	8,210	46.7	160	2.0
SG&A expenses	2,786	16.3	2,968	16.9	182	6.5
Operating profit	5,264	30.7	5,242	29.8	-22	-0.4
Recurring profit	5,338	31.1	5,304	30.1	-34	-0.6
Net profit attributable to the owners of the parent company	3,675	21.4	3,650	20.7	-25	-0.7

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

Business outlook

The forecast is for net sales to continue to achieve a new record high. In the mainstay healthcare wear market, sales will increase as the Company will further strengthen its value-added strategy for the high-end products and the high value-added products. It is also aiming to further increase sales for peripheral markets, including patient wear and surgical wear.

The gross profit margin is forecast to decline slightly YoY, to 46.7% (47.0% in the previous fiscal year). Gross profit is expected to increase ¥160mn, with the anticipated factors being an increase of ¥212mn from the higher sales and a decrease of ¥52mn due to production. Breaking down the decreases due to production, they include a decrease of ¥40mn from the impact of the rise in processing costs and other costs, a decrease of ¥45mn from the effects of the exchange rates on costs (¥109.6 to U.S.\$1 in FY8/18→¥112.0 to U.S.\$1 in FY8/19), an increase of ¥55mn from the rise in the overseas production ratio (49.0% in FY8/18→50.0% in FY8/19), a decrease of ¥30mn from the increase in depreciation expenses alongside the construction of the new plant, and a decrease of ¥15mn on the occurrence of real estate acquisition tax on the construction of the same new plant. However, for the exchange rates, the Company already has in place forward contracts for the portion from September to December 2018, and the actual average rates may be lower than expected.

SG&A expenses are forecast to be ¥2,968mn (up 6.5% YoY), as in addition to the increase from normal business expansion, the Company will record expenses of ¥81mn as the reward-for-services amount following the abolition of the retirement benefits system for executives. As a result, operating profit is expected to decrease, if only slightly, to ¥5,242mn (down 0.4%). Due to this, both recurring profit and net profit attributable to the owners of the parent company are also forecast to decrease.

a) Net sales forecasts by item

In net sales by item, healthcare wear is forecast to be ¥10,180mn (up 2.1% YoY), doctors' wear ¥2,730mn (up 2.2%), utility wear ¥450mn (down 9.8%), patient wear ¥2,170mn (up 10.4%), surgical wear ¥1,700mn (up 3.5%), shoes ¥175mn (down 6.4%), and other products ¥195mn (down 4.5%).

In healthcare wear, the Company will continue to revitalize the market through introducing high value-added and high-end new products, and sales are expected to steadily increase. In doctors' wear, despite the severe conditions for mass-produced products, it is aiming for higher sales by focusing on increasing sales of the high-end products. In patient wear, against the backdrop of a firm increase in demand in the market, the Company plans to increase its share of the market to continue achieving greater sales. Higher sales are also expected in surgical wear from increasing capacity at the COMPELPAK laundry sterilization plant and through developing new customers.

Net sales forecasts by item

	(¥mn)			
	FY8/18		FY8/19 forecast	
	Amount	YoY	Amount	YoY
Healthcare wear	9,974	0.3	10,180	2.1
Doctors' wear	2,671	-0.4	2,730	2.2
Utility wear	498	-10.5	450	-9.8
Patient wear	1,964	10.0	2,170	10.4
Surgical wear	1,643	0.6	1,700	3.5
Shoes	187	-7.9	175	-6.4
Other products	204	-4.7	195	-4.5
Total	17,144	0.7	17,600	2.7

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

Business outlook

b) Forecasts for net sales by region

The forecasts for net sales by region are ¥9,250mn in eastern Japan (up 2.0% YoY), ¥1,850mn in central Japan (up 3.0%), ¥6,270mn in western Japan (up 3.3%), and ¥230mn overseas (up 7.1%).

In eastern Japan, the Company expects sales to continue to increase from 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. The plan is to increase sales in every region and to achieve record highs for net sales.

Forecasts for net sales by region

	(¥mn)			
	FY8/18		FY8/19 forecast	
	Amount	YoY	Amount	YoY
Eastern Japan	9,065	0.6	9,250	2.0
Central Japan	1,795	2.2	1,850	3.0
Western Japan	6,069	0.0	6,270	3.3
Overseas	214	16.4	230	7.1
Total	17,144	0.7	17,600	2.7

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

c) Net sales forecasts by product

The net sales forecasts by product are ¥1,350mn for high-end products (up 6.3% YoY), ¥9,150mn for high value-added products (up 4.5%), ¥6,260mn for value-added products (up 0.1%), and ¥840mn for mass-produced products (down 2.4%).

In high-end products, conditions are severe for the DC brand, but the Company's luxury brands, including Bright Days', 4D+ and Beads Berry, are performing strongly among small-lot users in particular, thus the forecast for high-end products as a whole is for sales to increase. The high value-added products, such as PRO-FUNCTION advanced-performance products have been well- received by the market and their sales are trending favorably, and the Company plans to achieve even higher sales by continuing to promote its strategy of higher quality and value-added products. The forecast is for sales of mass-produced products to decline, but the plan is to transfer their customers to value-added products, including to the products of other companies.

Net sales forecasts by product

	(¥mn)			
	FY8/18		FY8/19 forecast	
	Amount	YoY	Amount	YoY
High-end products	1,269	6.5	1,350	6.3
High value-added products	8,759	1.7	9,150	4.5
Value-added products	6,255	- 1.4	6,260	0.1
Mass-produced products	860	- 1.0	840	- 2.4
Total	17,144	0.7	17,600	2.7

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

(2) Reorganization and streamlining of domestic plants

To strengthen the production structure going forward, the Company merged two aging plants as a new plant adjacent to its logistics center. This move is designed to improve operation efficiency and facilitate quick response. The project has completed at the end of August 2018 and the depreciation cost expected to be recognized from FY8/19.

■ Medium- to long-term growth strategy

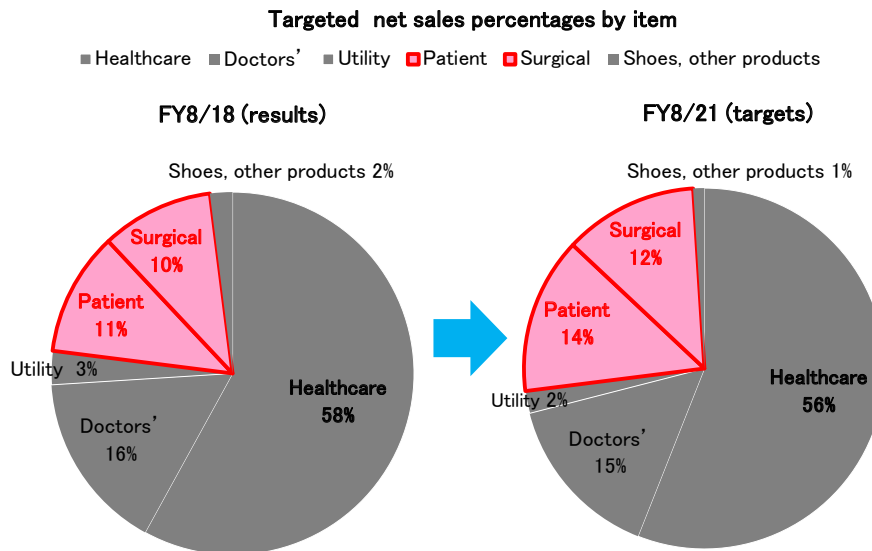
Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/21

1. Mid-term Management Plan

The Company announced targets for FY8/21 of net sales of ¥18,600mn and operating profit of ¥5,600mn in its Mid-term Management Plan based on FY8/18 results.

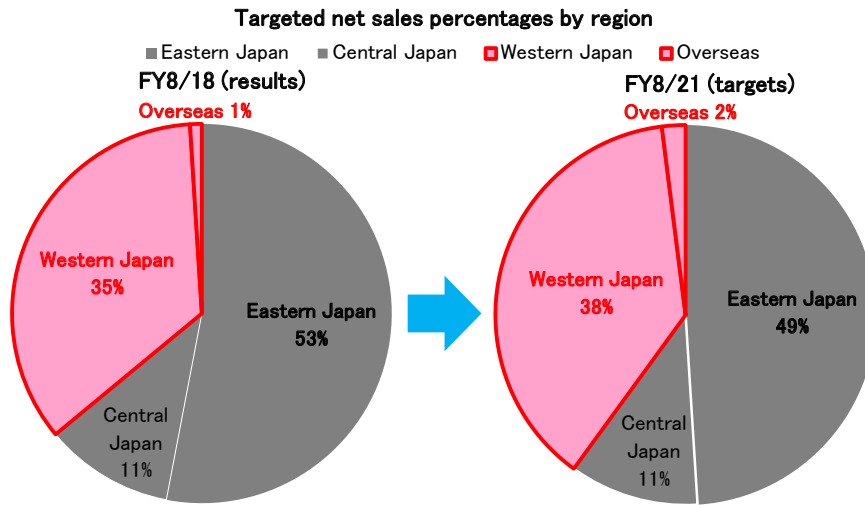
For percentages of total net sales by item, the forecasts are 56% from healthcare (58% in FY8/18), 15% from doctors' wear (16%), 2% from utility wear (3%), 14% from patient wear (11%), 12% from surgical wear (10%), and 1% from shoes and other products (2%).

The forecast percentages of total net sales by region are 49% from eastern Japan (53%), 11% from central Japan (11%), 38% from western Japan (35%), and 2% from overseas (1%). The forecast percentages of total net sales by product are 9% from high-end products (7%), 54% from high value-added products (51%), 34% from value-added products (37%), and 3% from mass-produced products (5%).

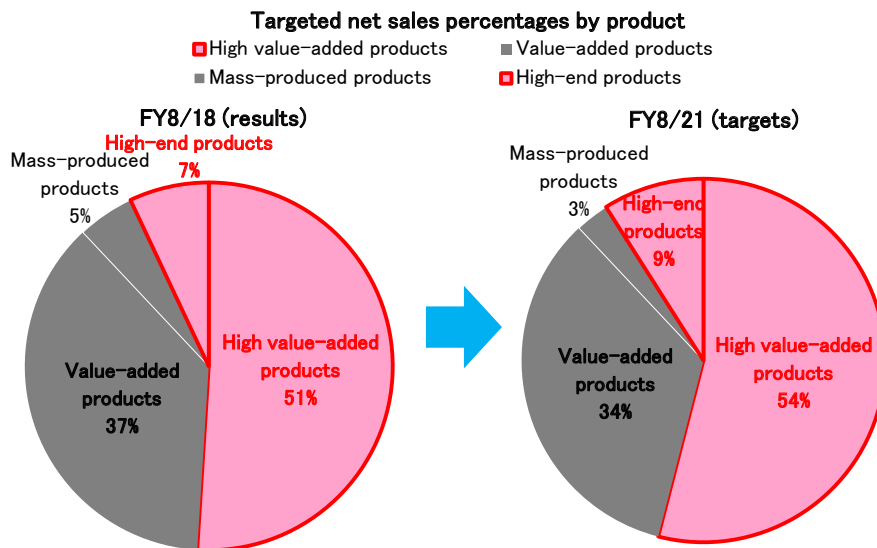


Source: Prepared by FISCO from the Company's results briefing materials

Medium- to long-term growth strategy



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



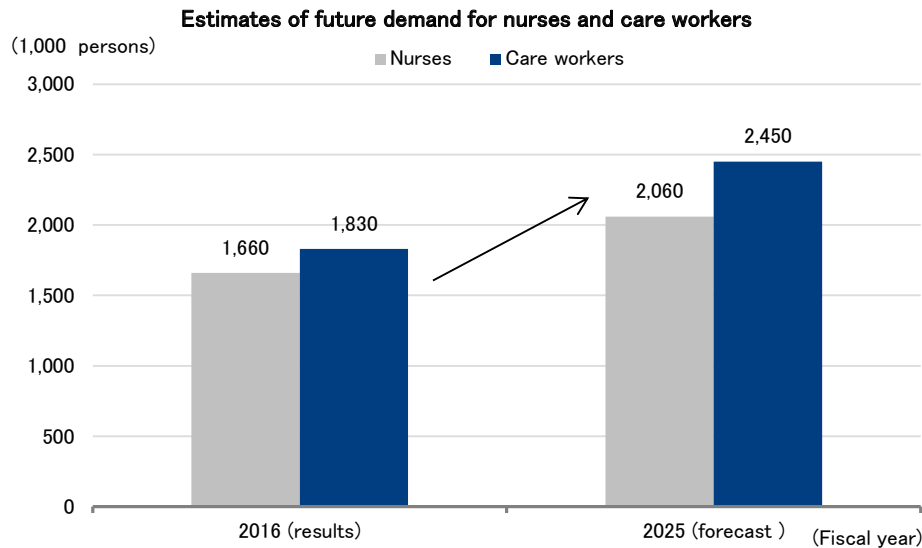
Source: Prepared by FISCO from the Company's results briefing materials

Medium- to long-term growth strategy

Actively developing advanced-function products and high value-added products

2. Future business strategies: The supporting tailwind will continue for the time being

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 1.66 million in FY2016 to as many as 2.06 million in FY2025. Moreover, the number of care workers is forecast to increase from 1.83 million in FY2016 to 2.45 million in FY2025. In this operating environment, the Company plans to achieve its medium-term growth by implementing the following strategies.



Source: Prepared by FISCO from the Company's results briefing 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 expand the peripheral markets, including patient wear and surgical wear
- c) Actively open up overseas markets (particularly Taiwan)

(2) Production strategy to ensure a steady supply

- a) In the context of the tightening of the domestic labor market, further strengthen the production system through the relocation and new establishment of domestic sewing plants, and also further improve the Quick Response capability and the ability to respond to small-lot, multiple-product production runs
- b) Strengthen collaborations with materials manufacturers and trading companies, and improve new product development capabilities

(3) Strategy to stabilize profitability

- a) Further promote the shift from domestic production to overseas production
- b) Develop new overseas materials applying special tax measures for EPA and FTA
- c) Secure business profitability by focusing on increasing sales of the high value-added products

We encourage readers to review our complete legal statement on "Disclaimer" page.

Shareholder return policy

Pledges a dividend payout ratio of above 50% (non-consolidated basis) and while the forecast is for an annual dividend of ¥60, this may increase depending on the level of profits

The Company's shareholders' equity ratio reached 90.6% at the end of FY8/19 1Q, and it is financially stable. Additionally, considering the Company's business conditions, it seems highly unlikely that its profits will rapidly deteriorate, so continued stable earnings are expected. As a result, if its distribution of earnings outside the Company (particularly dividend payments) is low, profits will accumulate in shareholders' equity each year, and return on equity (ROE) will decline; which is to say, capital efficiency will decline. But in addition to paying dividends commensurate with the growth in profits, the Company actively and comprehensively returns profits to shareholders, including through share buybacks, and as a result has maintained a high ROE (9.8% in FY8/18).

The Company will thus maintain a stable financial position while pursuing solid shareholder returns. In FY8/15, it supplemented the regular 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 FY8/16, it paid an annual dividend of ¥50 for a dividend payout ratio of 52.5% on a non-consolidated basis.

The Company has pledged a dividend payout ratio of above 50% on a non-consolidated basis. In FY8/17, it increased the annual dividend from ¥50 to ¥60. In FY8/18, it paid an annual dividend of ¥60, for a dividend payout ratio of 55.2%. The Company is also forecasting an annual dividend of ¥60 for FY8/19, which is currently underway. It may further increase the dividend if profits exceed their forecasts. Taking into consideration that the Company has not conducted share buybacks for the past three years, as well as the present stock value level, there is a possibility that it will conduct share buybacks during FY8/19.

Trends in the dividend payout ratio and the total return ratio

	Total dividend amount (¥mn)	Share buybacks (¥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
FY8/16	1,662	0	52.5	52.5
FY8/17	1,994	0	55.2	55.2
FY8/18	1,994	0	55.2	55.2

* On a non-consolidated basis

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



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