COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben co., Ltd.

7447

Tokyo Stock Exchange First Section

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Summary

FY8/20 1Q operating profit increased 5.9% YoY

1. FY8/20 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. In the consolidated results for FY8/20 1Q announced by the Company, net sales decreased 0.8% year on year (YoY) to ¥2,886mn, operating profit rose 5.9% to ¥669mn, recurring profit increased 6.9% to ¥697mn, and net profit attributable to the owners of the parent company increased 6.8% to ¥477mn. There were no major changes in the market environment, and net sales were generally on par with the same period of the previous year. The gross profit margin declined slightly year on year, but operating profit increased due to the non-recurrence of a special factor (temporary increase in expenses) that occurred with respect to SG&A expenses in the year-earlier period.

2. FY8/20 forecast

The forecasts for the FY8/20 full year consolidated results are for net sales to increase 3.7% YoY to ¥17,400mn, operating profit to increase 5.1% to ¥5,167mn, recurring profit to increase 5.0% to ¥5,242mn, and for net profit attributable to the owners of the parent company to increase 4.6% ¥3,605mn. These are unchanged from the initial forecast. The Company plans to secure higher sales by capturing the projects put off in FY8/19. Meanwhile, the Company expects a continued increase in depreciation expenses in conjunction with the construction of the new plant, but is forecasting gross profit margin to remain at least the same level as FY8/19 due to factors including the disappearance of the real estate acquisition tax and the increase in the overseas production ratio. As a result, the Company is forecasting a year-on-year increase in operating profit due to the increase in sales.

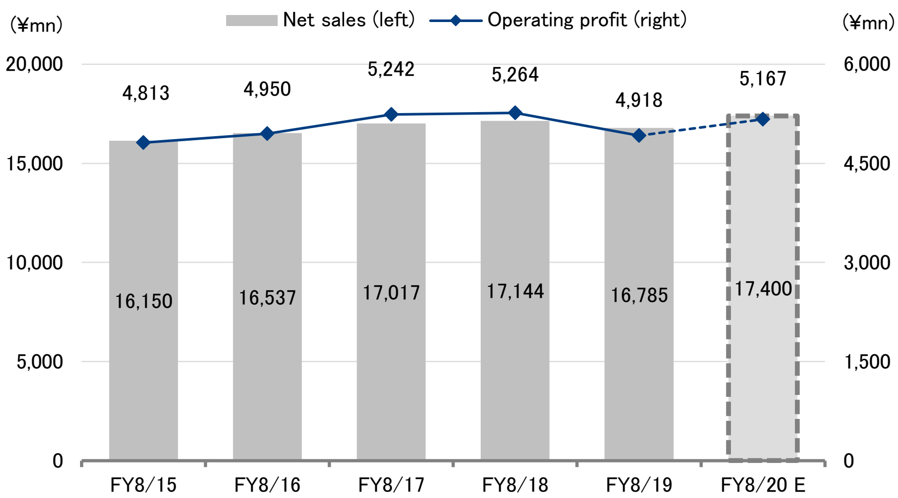
3. Mid-term Management Plan targets

Based on the results in FY8/19, the Company announced that it had rolled over its plan up to that time and set new Mid-term Management Plan targets for FY8/22, of net sales of ¥18,400mn and operating profit of ¥5,600mn. It would seem to be aiming to achieve these targets through expanding overseas production and strengthening highly functional 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 FY8/20, it plans to pay an annual dividend of ¥60 per share. The Company has also declared it will flexibly buy back its own shares. Thus, the Company's approach toward returning profits to shareholders seems worthy of praise.

Key Points

- FY8/20 1Q operating profit increased 5.9% YoY due to the reduction in SG&A expenses
- Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/22
- In FY8/20, an annual dividend of ¥60 planned with proactive shareholder returns including share buybacks

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	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 website and the securities report

Business overview

Focusing on expanding sales of highly functional, high-value-added products

1. Sales breakdown

All of the Company’s products are medical gowns and related products. The contribution to sales by item for FY8/19 is 57.7% from healthcare wear, 15.9% from doctors’ wear, 2.6% from utility wear, 12.1% from patient wear, 9.5% from surgery wear, 1.0% from shoes, and 1.1% 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.

In terms of each region's contribution to sales for FY8/19, eastern Japan accounts for 53.0%, western Japan 35.9%, central Japan 9.9%, and overseas 1.1%. While coverage is nationwide, sales in western Japan remain low, indicating the potential for future expansion including overseas.

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 "highly functional products" have been redefined and categorized as "high-value-added products." The name of the "standard functional products" category was changed to "value-added products," while the "mass products" category has been left unchanged.

In the new categories, the composition of total net sales by product (FY8/19) is 7.6% from high-end products, 53.4% from high-value-added products, 34.1% from value-added products, and 4.9% from mass products. On looking at the approximate price-band classifications in nurse wear, mass products are ¥5,000 or less, value-added products are ¥5,000 to ¥7,500, high-value-added products are ¥7,500 to ¥10,000, and high-end products are ¥10,000 or more. The tendency is for higher prices to achieve greater profit margins, so the Company is focusing on expanding sales of high-end products and high-value-added products.

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 the past, medical gowns were laundered in-house by the hospitals themselves in most cases, but in recent years, they have been switching to leasing alongside the spread in laundry outsourcing. The lease term is typically four years. Because this generates lease renewal demand every four years, it seems to stably support the Company's earnings. However, the lease renewal cycle does not necessarily occur in the same time period as the previous time and there are cases of it being slightly before or after, so sometimes a slight shifting occurs for the net sales (YoY) for each quarter.

Looking at the Company's production structure, based on FY8/19 performance, internal production and at partner plants constitute an aggregate of 98.6% (49.4% domestically and 49.2% overseas), with purchased products accounting for 1.4%. Overseas production takes place in Indonesia, Vietnam, and China, but the Company owns no plants and the goods are produced at the plants of its local partners, which mitigates investment risk and reduces costs.

3. Characteristics and strengths

The Company is a specialized manufacturer of medical gowns, and one of its strengths is that it has in place an integrated system to undertake every aspect of this business, from planning through to raw material procurement, manufacturing, and sales. In its product planning, it can accurately understand customer needs and reflect them in its products. Specifically, the Company sells products that are easy to work in 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 in earning the strong trust of its customers. On the sales side, the Company has a network of close to 1,000 agents nationwide, and while its sales capabilities are robust, the Company itself keeps sales expenses as low as possible.

As a result, the Company's share 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 46.2% (actual results for FY8/20 1Q). The fact that it is both highly profitable and has a high market share demonstrates that most of its customers are satisfied with its products and services, which is the Company's greatest strength.

By concentrating its business resources in the niche market of medical gowns, the Company can efficiently manage every aspect of its business, from planning through to manufacturing and sales. Although it is a niche market, there remains room for further development, as the Company has relatively low shares of the peripheral markets for patient wear, surgery wear, and other items. The Company has explicitly stated that the medical gown business could grow for some time and that it will take active steps to develop the peripheral markets.

4. Company policy (initiatives for CSR/ESG)

The Company commemorated its centennial in 2015 by cultivating "Nagaism," the company spirit, which is focused on realizing interpersonal harmony, generating profits, and contributing to society. It has undertaken the following specific initiatives for CSR/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.

(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 at hospitals and contributes to solving environmental problems.

(6) Recent new measure: support for Planting of Cherry Blossom Trees for Restoration in Minamisanriku

For the "Forest of Life with an Ocean View" project, the Company is planting cherry blossom trees at sites hit by the Great East Japan Earthquake and tsunami in cooperation with volunteers from Minamisanriku Town, Miyagi Prefecture, in the disaster area.

Results trends

FY8/20 1Q operating profit increased 5.9% YoY due to the reduction in SG&A expenses

● **Summary of FY8/20 1Q consolidated results**

(1) Profit-and-loss conditions

For FY8/20 1Q consolidated results, the Company reported net sales of ¥2,886mn, down 0.8% YoY, operating profit of ¥669mn, up 5.9%, recurring profit of ¥697mn, up 6.9%, and net profit attributable to the owners of the parent company of ¥477mn, up 6.8%.

Summary of FY8/20 1Q consolidated results

(¥mn)

	FY8/19 1Q		FY8/20 1Q			
	Amount	% of total	Amount	% of total	Change	YoY
Net sales	2,910	100.0%	2,886	100.0%	-23	-0.8%
Gross profit	1,367	47.0%	1,333	46.2%	-33	-2.5%
SG&A expenses	735	25.3%	664	23.0%	-71	-9.7%
Operating profit	631	21.7%	669	23.2%	37	5.9%
Recurring profit	652	22.4%	697	24.2%	45	6.9%
Net profit attributable to the owners of the parent company	447	15.4%	477	16.6%	30	6.8%

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

Regarding the market environment, medical treatment fees and nursing care fees were revised in conjunction with the consumption tax hike which went into effect in October 2019. In terms of medical treatment fees, the minus portion corresponding to the prevailing drug prices exceeded the positive portion corresponding to consumption tax, and in total the fees were revised downward. On the other hand, nursing care fees were revised up to reflect the consumption tax hike, and the revision was generally neutral overall. However, it seems that there was some confusion in the market due to the fact that this revision came on the heels of the April 2018 revision, as well as based on the fact that this revision was carried out in October, which was unusual timing. Under these circumstances, the Company's product sales (year-over-year) were solid in peripheral markets such as surgical wear and patient wear, but sales of core healthcare wear declined due to the impact of market turmoil. As a result, overall sales fell slightly year on year.

In terms of costs, gross profit margin declined 0.8 percentage points year on year to 46.2%, due to factors such as the lack of benefit of foreign exchange forward contracts in production, rising raw material costs, and a slight delay in shifting production from Japan to overseas. However, considering the fact that the gross profit margin was 46.7% for the previous full fiscal year, it can be said that 47.0% in the same period of the previous year (Q1) was slightly higher than usual, so 46.2% in Q1 of FY8/20 was not necessarily a bad result. On the other hand, SG&A expenses were ¥664 million (down 9.7% year-on-year), mainly due to the non-recurrence of special factors (¥81 million in merit bonus in conjunction with the abolition of the director retirement benefit system) that arose in the same period of the previous year. As a result, operating profit increased by 5.9% YoY, which was generally within the expected range.

Net sales by item

In net sales by item, healthcare wear decreased 0.3% YoY to ¥1,567mn, doctors' wear decreased 1.6% to ¥411mn, utility wear decreased 21.6% to ¥78mn, patient wear increased 1.7% to ¥490mn, surgery wear increased 2.0% to ¥275mn, shoes decreased 0.8% to ¥27mn, and other products decreased 7.8% to ¥35mn.

As mentioned above, the revision of medical treatment fees accompanying the consumption tax hike was carried out in October, an unusual time, which partially led to the decline in sales of mainstay healthcare wear, but this was offset by the increase in sales of peripheral market products such as surgical wear and patient wear, and overall sales were generally on part with the same period of the previous year.

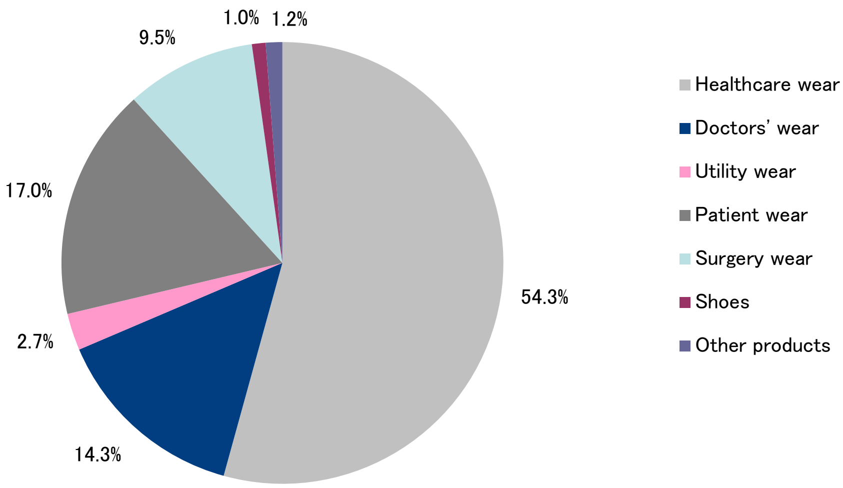
Net sales by item

(¥mn)

	FY8/19 1Q		FY8/20 1Q	
	Amount	YoY	Amount	YoY
Healthcare wear	1,573	-4.8%	1,567	-0.3%
Doctors' wear	418	1.4%	411	-1.6%
Utility wear	99	-11.0%	78	-21.6%
Patient wear	481	-5.5%	490	1.7%
Surgery wear	270	-9.8%	275	2.0%
Shoes	28	-10.6%	27	-0.8%
Other products	38	-24.6%	35	-7.8%
Total	2,910	-5.2%	2,886	-0.8%

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

Net sales by item (FY8/20 1Q)



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

Financial position is sound, with cash and deposits on hand of ¥22.2bn and an equity ratio of 90.4%

(2) Financial position

The Company's financial position continues to be stable. At the end of FY8/20 1Q, total assets decreased by ¥3,126mn to ¥41,155mn compared to the end of previous fiscal year. Current assets decreased by ¥3,192mn to ¥31,861mn. This was mainly due to a ¥2,955mn decrease in cash and deposits, a ¥585mn decrease in notes and accounts receivable, and a ¥686mn increase in inventories. Conversely, fixed assets increased by ¥66mn to ¥9,293mn, mainly due to a ¥113mn decrease in tangible fixed assets for depreciation and a ¥90mn increase in invests and other assets.

Total liabilities were ¥3,960mn, down ¥599mn compared to the end of the previous fiscal year. The main factors included a ¥746mn decrease in income taxes payable. Total net assets were ¥37,194mn, a decline of ¥2,526mn, mainly because of a decrease in retained earnings of ¥1,517mn following the payment of dividend and share buybacks of ¥1,031mn. As a result, at the end of FY8/20 1Q, the equity ratio had increased by 0.7 of a PP compared to the end of the previous fiscal year to 90.4%.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/19	End of FY8/20 1Q	Change
Cash and deposits	25,157	22,202	-2,955
Notes and accounts receivable	3,547	2,962	-585
Inventories	4,479	5,166	686
Current assets	35,054	31,861	-3,192
Tangible fixed assets	7,767	7,746	-21
Intangible fixed assets	32	29	-3
Investments and other assets	1,426	1,517	90
Fixed assets	9,226	9,293	66
Total assets	44,281	41,155	-3,126
Notes and accounts payable	1,452	1,530	78
Income taxes payable	994	247	-746
Total liabilities	4,559	3,960	-599
Retained earnings	40,120	38,603	-1,517
Treasury shares	-4,896	-5,927	-1,031
Net assets	39,721	37,194	-2,526
Total liabilities and net assets	44,281	41,155	-3,126

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

Business outlook

Forecasting higher sales and operating income in FY8/20 by capturing postponed projects

● FY8/20 full-year outlook

(1) Outlook of profit and loss

The forecasts for the FY8/20 full year consolidated results are for net sales to increase 3.7% YoY to ¥17,400mn, operating profit to increase 5.1% to ¥5,167mn, recurring profit to increase 5.0% to ¥5,242mn, and net profit attributable to the owners of the parent company to rise 4.6% to ¥3,605mn. 1Q results were generally in line with the forecasts, so the initial forecasts were left unchanged.

FY8/20 consolidated earnings outlook

(¥mn)

	FY8/19		FY8/20 forecast			
	Amount	% of total	Amount	% of total	Change	YoY
Net sales	16,785	100.0%	17,400	100.0%	614	3.7%
Gross profit	7,840	46.7%	8,130	46.7%	289	3.7%
SG&A expenses	2,922	17.4%	2,963	17.0%	40	1.4%
Operating profit	4,918	29.3%	5,167	29.7%	248	5.1%
Recurring profit	4,990	29.7%	5,242	30.1%	251	5.0%
Net profit attributable to the owners of the parent company	3,445	20.5%	3,605	20.7%	159	4.6%

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

Net sales are expected to increase 3.7% YoY due to the acquisition of renewal projects in healthcare wear, and by capturing large new projects in patient wear that had been put off.

The gross profit margin is forecast to be 46.7%, which is on par with FY8/19 (46.7%). Gross profit is expected to increase ¥289mn, with the anticipated factors being an increase of ¥287mn from the higher sales and an increase of ¥3mn due to production. The increase due to production is mainly from the increase in the overseas production ratio. Meanwhile, in terms of costs, the Company expects costs to increase ¥53mn due to the impact of the rise in domestic processing rates, and ¥62mn from the impact of the rise in raw materials prices. Also, costs are expected to decline ¥60mn due to the effects of the exchange rates on costs (¥107.5 to U.S.$1 in FY8/19→¥104.5 to U.S.$1 in FY8/20), a decline of ¥40mn from the increase in the overseas production ratio (49.2% in FY8/19→49.5% in FY8/20). However, for the exchange rates, the Company already has in place forward contracts for the portion from January to March 2020, a period where the exchange rates are relatively low (strong yen), so the actual average rates may be lower than the anticipated rates.

SG&A expenses are forecast to be ¥2,963mn (up 1.4% YoY), as despite the disappearance of expenditures as the reward-for-retirement amount following the abolition of the retirement benefit system for executives, an increase in expenses is expected in association with normal business expansion. As a result, operating profit is expected to increase to ¥5,167mn (up 5.1%). Due to this, both recurring profit and net profit attributable to the owners of the parent company are also forecast to increase.

a) Net sales forecasts by item

In net sales by item, healthcare wear is forecast to be ¥10,005mn (up 3.3% YoY), doctors' wear ¥2,750mn (up 2.9%), utility wear ¥400mn (down 9.3%), patient wear ¥2,250mn (up 10.6%), surgery wear ¥1,650mn (up 3.4%), shoes ¥165mn (down 3.9%), and other products ¥180mn (down 4.1%).

Net sales forecasts by item

(¥mn)

	FY8/19		FY8/20 forecast	
	Amount	YoY	Amount	YoY
Healthcare wear	9,681	-2.9%	10,005	3.3%
Doctors' wear	2,673	0.1%	2,750	2.9%
Utility wear	441	-11.6%	400	-9.3%
Patient wear	2,033	3.5%	2,250	10.6%
Surgery wear	1,596	-2.8%	1,650	3.4%
Shoes	171	-8.2%	165	-3.9%
Other products	187	-8.1%	180	-4.1%
Total	16,785	-2.1%	17,400	3.7%

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

In healthcare wear, the Company aims to increase sales, as in addition to postponed projects from FY8/19, it will focus on expanding sales of high-value-added products through new product development as well as by promoting large orders received for high-end products. In doctors' wear, although mass products are struggling, the Company plans to invigorate the market by continuing to introduce new value-added products at reasonable price bands, centered on expanded sales of high-end products. In patient wear, based on the fact that the Company still has a low market share, the Company is forecasting double-digit sales growth by introducing new products and expanding new customers. Sales of surgery wear are also expected to grow as a result of increasing the capacity of the COMPELPAK laundry sterilization plant and from progress on cultivating market share in areas where the Company had gotten a late start due to the acquisition of new customers from FY8/19.

b) Net sales forecast by region

For net sales by region, the Company forecasts ¥9,080mn in eastern Japan (up 2.0% YoY), ¥1,800mn in central Japan (up 8.2%), ¥6,300mn in western Japan (up 4.4%), and ¥220mn in overseas (up 15.8%).

Net sales forecast by region

(¥mn)

	FY8/19		FY8/20 forecast	
	Amount	YoY	Amount	YoY
Eastern Japan	8,898	-1.8%	9,080	2.0%
Central Japan	1,664	-7.3%	1,800	8.2%
Western Japan	6,033	-0.6%	6,300	4.4%
Overseas	189	-11.5%	220	15.8%
Total	16,785	-2.1%	17,400	3.7%

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

In eastern Japan, the Company will increase sales, as in addition to receiving orders for postponed projects, it will invigorate the market with highly-functional and highly-sensitive products. In central Japan, the market is small, so the number of projects has a large impact, but the Company aims to receive orders because there will be many renewal projects in FY8/20. In western Japan, sales are expected to increase by capturing the projects postponed from FY8/19, continuing to acquire new projects, and by introducing patient wear products in earnest. Overseas, although the conditions are affected by exchange rates, the Company will work to increase sales through sales promotion activities targeting market permeation, based on the fact that the Company's domestic business model (sales to linen suppliers) is close to being established.

c) Net sales forecasts by product

The net sales forecasts by product are ¥1,330mn for high-end products (up 4.3% YoY), ¥9,370mn for high-value-added products (up 4.5%), ¥5,910mn for value-added products (up 3.4%), and ¥790mn for mass products (down 3.3%).

Net sales forecasts by product

(¥mn)

	FY8/19		FY8/20 forecast	
	Amount	YoY	Amount	YoY
High-end products	1,274	0.4%	1,330	4.3%
High-value-added products	8,969	2.4%	9,370	4.5%
Value-added products	5,716	-8.6%	5,910	3.4%
Mass products	817	-5.0%	790	-3.3%
Total	16,785	-2.1%	17,400	3.7%

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

In high-end products, 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, advanced-performance products such as PRO-FUNCTION 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 products to decline, but the plan is to shift to value-added products, including products of other companies.

Medium- to long-term growth strategy

Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/22

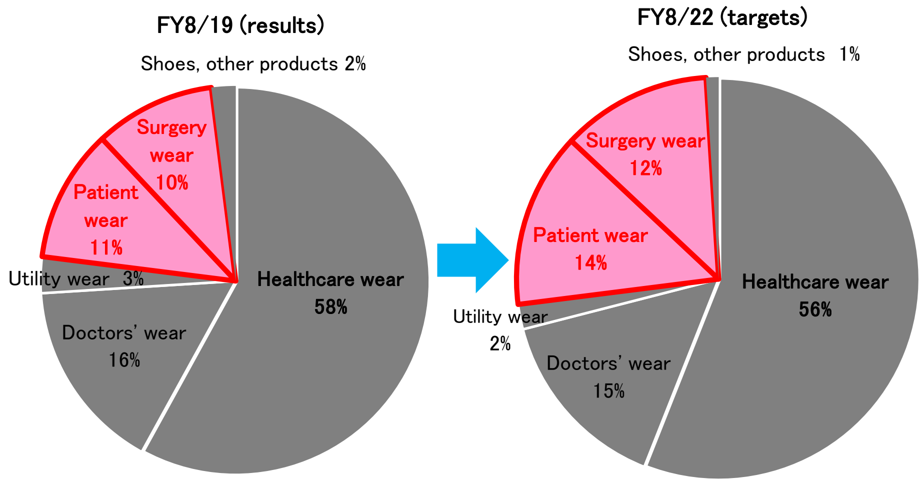
1. Mid-term Management Plan

The Company announced targets for FY8/22 of net sales of ¥18,400mn and operating profit of ¥5,600mn in its Mid-term Management Plan based on FY8/19 results.

For composition of total net sales by item, the forecasts are 56% from healthcare (58% in FY8/19), 15% from doctors' wear (16%), 2% from utility wear (3%), 14% from patient wear (11%), 12% from surgery wear (10%), and 1% from shoes and other products (2%).

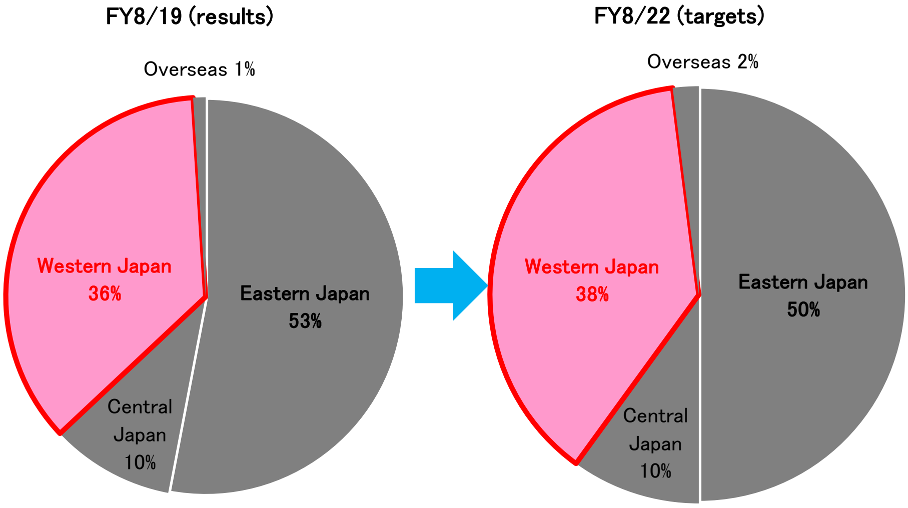
The forecast composition of total net sales by region is 50% from eastern Japan (53% in FY8/19), 10% from central Japan (10%), 38% from western Japan (36%), and 2% from overseas (1%). The forecast composition of total net sales by product is 9% from high-end products (8% in FY8/19), 55% from high-value-added products (53%), 33% from value-added products (34%), and 3% from mass products (5%).

Targeted net sales percentage by item



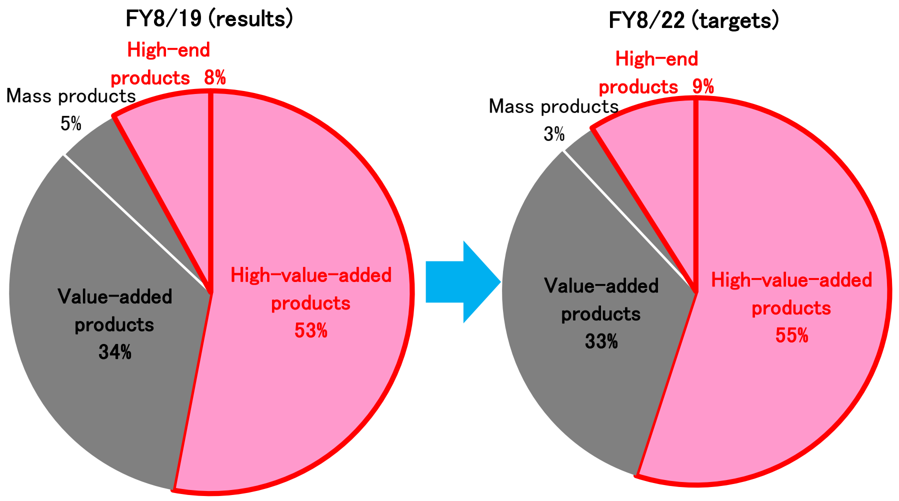
Note: Key items are colored pink
Source: Prepared by FISCO from the Company's results briefing materials

Targeted net sales percentages by region



Note: Key regions are colored pink
Source: Prepared by FISCO from the Company's results briefing materials

Targeted net sales percentages by product

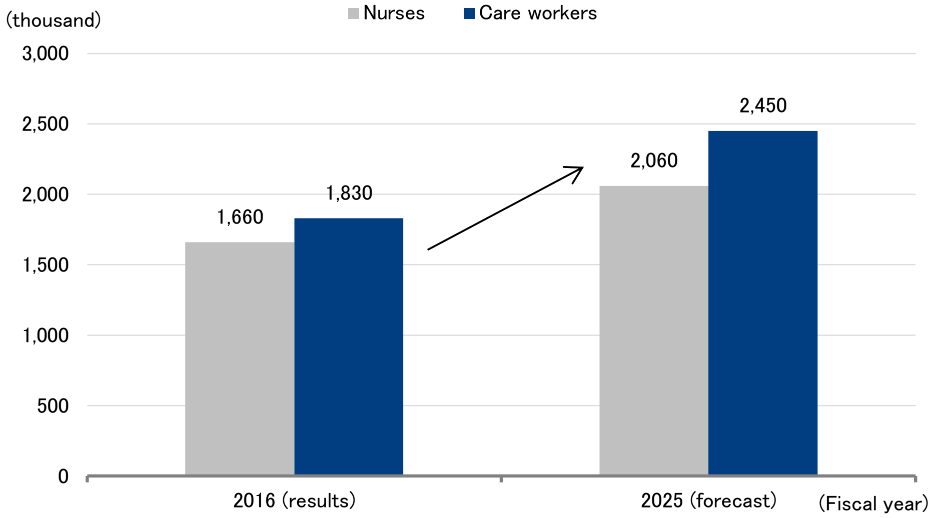


Note: Key products are colored pink
Source: Prepared by FISCO from the Company's results briefing materials

2. Future business strategies

The operating environment surrounding the Company should be favorable for some time. According to data released by the Ministry of Health, Labour and Welfare, the number of nurses in Japan is projected to increase from 1.66 million in 2016 to as many as 2.06 million in 2025. Moreover, the number of care workers is forecast to increase from 1.83 million in 2016 to 2.45 million in 2025. In this operating environment, the Company plans to achieve its medium-term growth by implementing the following strategies.

orecasts for future demand for nurses and care workers



Source: Prepared by FISCO from the following materials (English titles have been translated from Japanese)
FY2016 Actual Number of Nursing Professionals "Statistical Data on Nursing Service in Japan" (Japanese Nursing Association)
FY2025 Estimated Number of Nursing Professionals Documents from "The Meeting on Projection of Supply and Demand for Nursing Personnel" Materials (Ministry of Health, Labour and Welfare)
FY2016 Actual Number of Nursing Care Professionals "Survey of Institutions and Establishments for Long-term Care" (Ministry of Health, Labour and Welfare)
FY2025 Estimated Number of Nursing Care Professionals "The 7th Insured Long-Term Care Service Plans" (Ministry of Health, Labour and Welfare)

(1) Marketing strategy to boost sales

a) Increase peripheral business in products for patients and surgery
b) Increase market share in western Japan
c) Development and sales of high-end products and high-value-added products
d) Cultivate overseas markets

(2) Strategy to increase profit margin

a) Promote high-value-added strategy
b) Shift production overseas
c) Minimize foreign exchange risk (level exchange rate fluctuations by using forward contracts)
d) Transfer materials overseas

Shareholder return policy

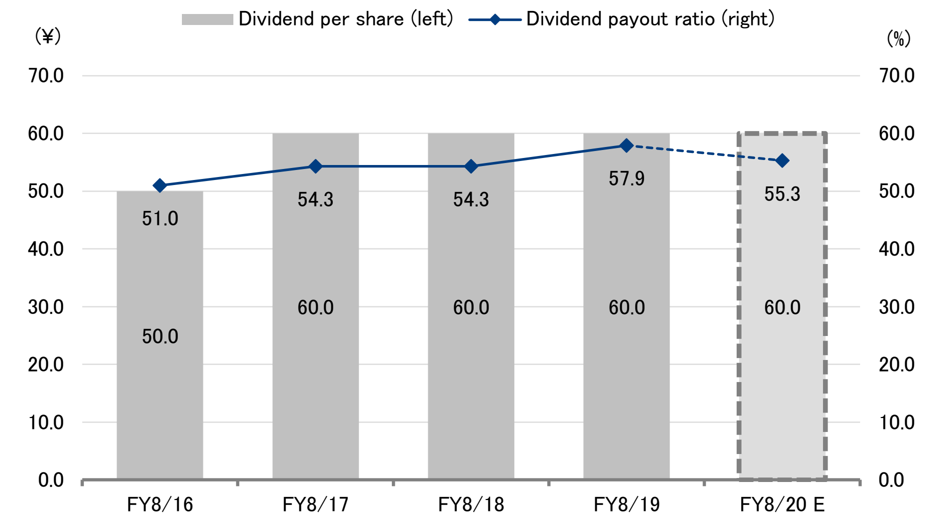
Pledges a dividend payout ratio of above 50% (non-consolidated basis) and while the forecast is for an annual dividend of ¥60

The Company's shareholders' equity ratio reached 90.4% at the end of FY8/20 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 (8.8% in FY8/19).

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, and paid an annual dividend of ¥60 for FY8/18 and FY8/19. The Company is also forecasting an annual dividend of ¥60 for FY8/20, which is currently underway, and furthermore the Company executed a share buyback totaling 400,000 shares (¥1,031 million) in November 2019, which combined with the dividend brought the total return ratio to 85.6% (forecast). In addition to the strong financial standing, this aggressive stance on shareholder returns is worthy of strong praise.

Trends in the dividend and dividend payout ratio



* Dividend payout ratios are on a consolidated basis
Source: Prepared by FISCO from the Company's financial results

Shareholder return policy

Trends in the dividend payout ratio* and the total return ratio*

(¥mn, %)

	Total dividend amount	Share buybacks	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
FY8/19	1,994	0	58.0	58.0
FY8/20 E	1,994	1,031	56.4	85.6

* On a non-consolidated basis
Note: In August 2004, the Company executed a 1:2 stock split, and executed a 1:2 stock split again in August 2011
Source: Prepared by FISCO from the Company's results briefing materials

Disclaimer

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