

# Nagaileben co., Ltd.

7447

Tokyo Stock Exchange First Section

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## ■ Summary

### Net sales reached a record high and operating profit grew 55.3% year on year in FY8/21 1Q

#### 1. FY8/21 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%. In the consolidated results for FY8/21 1Q announced by the Company, net sales increased 24.6% year on year (YoY) to ¥3,595mn, operating profit increased 55.3% to ¥1,039mn, recurring profit increased 52.3% to ¥1,062mn, and net profit attributable to the owners of the parent company increased 52.1% to ¥726mn. Net sales rose sharply YoY to a record high for the first quarter as a result of the Company steadily following through on delayed business from the previous fiscal year and ¥339mn in special demand for infection prevention products from the Ministry of Health, Labour and Welfare (MHLW). In earnings, operating profit increased significantly as the gross profit margin improved 0.3pp YoY, reflecting progress on shifting production of infection prevention products overseas and exchange rate effects from yen appreciation YoY, and SG&A expenses continued to decline YoY. 1Q earnings apparently outpaced the Company’s initial outlook for profit growth YoY in FY8/21 1H premised on special demand from the MHLW.

#### 2. FY8/21 forecasts

The Company maintained its initial FY8/21 consolidated earnings forecasts for net sales to increase 1.4% YoY to ¥17,300mn, operating profit to increase 2.7% to ¥5,068mn, recurring profit to increase 2.2% to ¥5,140mn, and net profit attributable to the owners of the parent company to increase 1.3% to ¥3,518mn. Despite 1Q outpacing the plan, the Company left its full-year forecasts unchanged because special demand from the MHLW (arising from FY8/20 4Q through FY8/21 1Q) will come to an end in FY8/21 2Q and it remains unclear what impact the COVID-19 pandemic will have going forward. However, the gross profit margin is improving and exchange rates are gradually moving towards a stronger yen, so earnings could continue to top the Company’s forecasts in 2Q onward if it steadily follows through on business postponed from FY8/20.

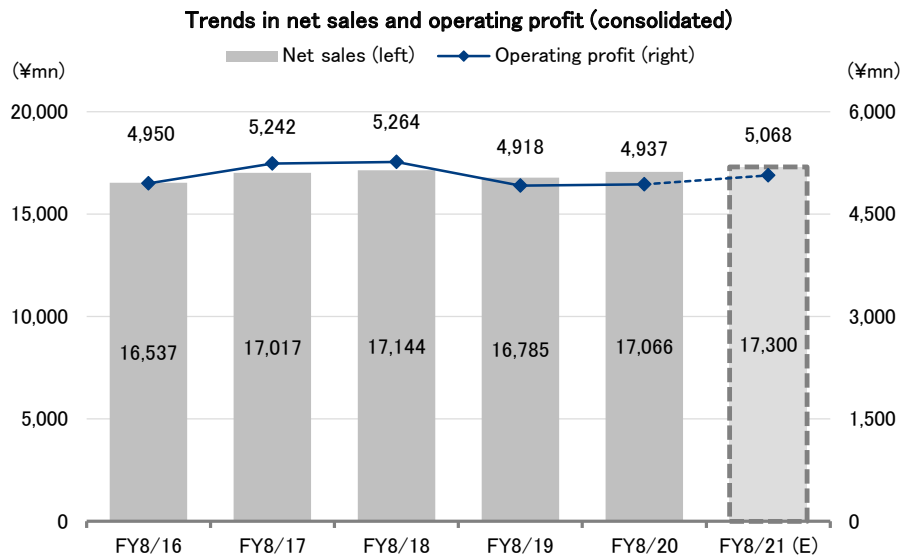
#### 3. Mid-term management plan

The Company previously announced its mid-term management plan for the next three years based on results from a completed fiscal year. However, it postponed disclosure of numerical targets for the mid-term management plan at this time due to concluding that it would be difficult to calculate the outlook for the next three years amid ongoing disruptions at medical entities. It intends to announce a plan once the market environment outlook improves and it is possible to make reasonable calculations. Meanwhile, the Company has not changed its shareholder return stance and aims to pay an annual dividend of ¥60 for FY8/20 and FY8/21. It has also indicated intent to conduct a constructive review of share buybacks. FISCO thinks the Company deserves credit for its unwavering approach to shareholder returns.

Summary

**Key Points**

- Operating profit increased 55.3% YoY in FY8/21 1Q, reflecting following through on delayed business and extraordinary demand from the MHLW
- FY8/21 sales and profit growth targets could be topped, mid-term management plan's numerical targets remain undisclosed
- Plans to pay a ¥60 dividend again in FY8/21 and has a proactive stance toward shareholder returns including share buybacks



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 that boasts an annual supply of more than 6 million medical gowns a year and a market share of over 60%.

## Company profile

**History**

1915	Mitsuji Nagai started Nagai Shoten, a privately owned business 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 UNIFORM INDUSTRY 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 multipurpose white gowns to medical gowns.
1977	Built second product center in Kameido, Koto-ku, Tokyo. Established a partnership with a US company, G.D. Searle & Company, and established Japan Surgical Apparel Co., Ltd. in Hiroshima City 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 the 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 certification. Listed on the First Section of the Tokyo Stock Exchange. Absorbed Hokkaido Nagai Co., Ltd. and established the Hokkaido branch.
2005	Acquired ISO 14001 certification. 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-ku, Tokyo.
2015	Held a ceremony to commemorate its 100th anniversary.
2016	Transitioned to a company with an 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 securities report

## Business overview

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

#### 1. Sales breakdown

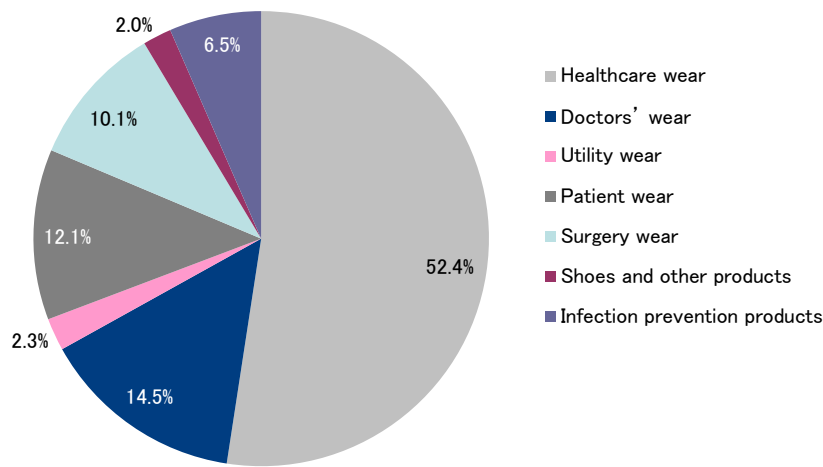
All of the Company's products are medical gowns and related products. The contribution to sales by item for FY8/20 is 52.4% from healthcare wear, 14.5% from doctors' wear, 2.3% from utility wear, 12.1% from patient wear, 10.1% from surgery wear, 2.0% from shoes and other products, and 6.5% from infection prevention products\*.

\* The Company added the new category of "infection prevention products" from FY8/20.

Business overview

Healthcare wear consists mainly of products for nurses, and utility wear consists of aprons, cardigans, and other items worn over gowns. 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. Infection prevention products, which were added as a new segment, had lower margins than the Company's average in FY8/20 because these products were mainly sold to the MHLW. Going forward, however, the Company expects to improve profit margin by increasing production at overseas sites.

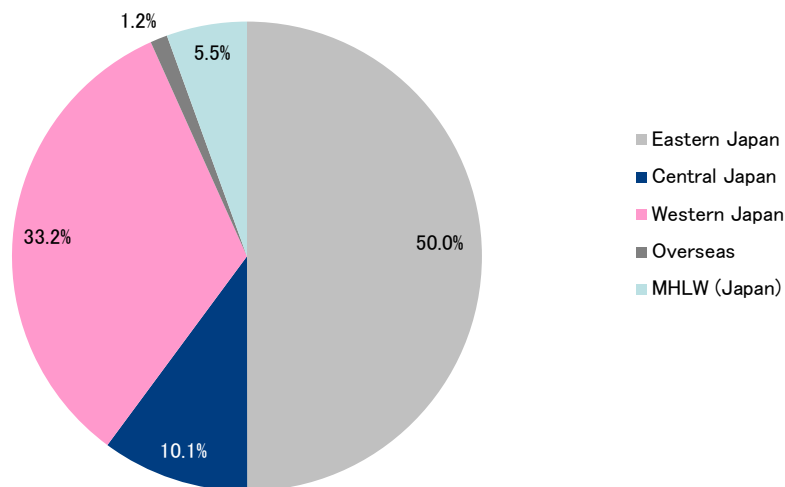
Net sales composition by item (FY8/20)



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

In terms of each region's contribution to sales for FY8/20, Eastern Japan accounts for 50.0%, Central Japan 10.1%, Western Japan 33.2%, overseas 1.2% and MHLW (Japan) 5.5%. While coverage is nationwide, sales in Western Japan remain low, indicating the potential for future expansion including overseas.

Net sales composition by region (FY8/20)



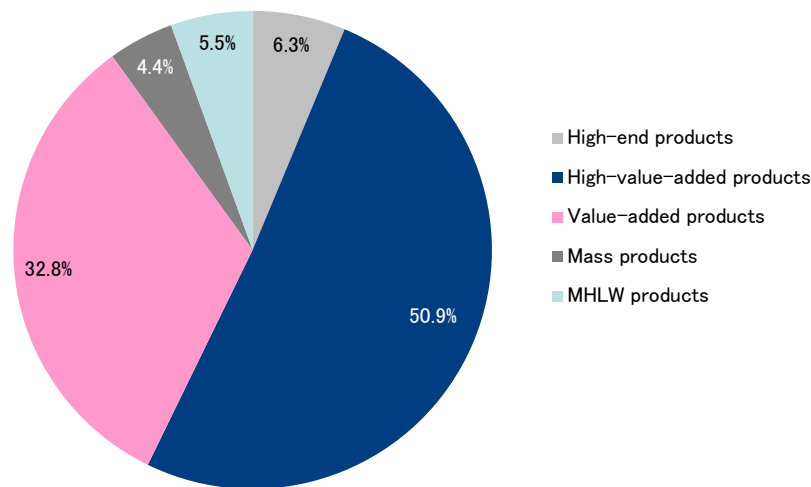
Source: Prepared by FISCO from the Company's results briefing materials

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Business overview

The composition of total net sales by product (function) for FY8/20 is 6.3% from high-end products, 50.9% from high-value-added products, 32.8% from value-added products, 4.4% from mass products and 5.5% from MHLW 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.

Net sales composition by product (FY8/20)



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

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 FY8/20 performance, internal production and at partner plants constitute an aggregate of 98.7% (49.2% domestically and 49.5% overseas), with purchased products accounting for 1.3%. 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 antistatic, 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 produce 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 and respond to needs for made-to-order products. It has established a quick response system of rapid production and sales that delivers the desired product on a specified day in response to a broad range of users. 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 high profitability with a gross profit margin of 45.8% (actual results for FY8/20). 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 and approach towards SDGs)

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 front lines 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.



## Business overview

**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 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 Company's 100th anniversary 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 the medical industry.

**(4) Social contribution****a) Promotion of the employment of disabled persons**

Subsidiary NAGAI UNIFORM INDUSTRY co., Ltd. was awarded by the Minister of Health, Labour and Welfare in September 2016 after being selected as a business that contributes to the employment and promotion of people with disabilities.

**b) Disaster support activities**

Monetary donations, medical gowns, wheelchairs and other items have been provided through nursing associations and 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, the Kumamoto earthquakes, and the COVID-19 pandemic.

**c) Other assistance**

The Company supports the United Nations' World Food Programme (WFP), an entity that provides food assistance. Additionally, it supports the Minamisanriku Reconstruction Sakura Tree Planting effort and is cooperating with volunteers from Minamisanriku Town (Miyagi Prefecture), an area affected by the Great East Japan Earthquake, on the "Forest of Life with a View of the Ocean" initiative to plant sakura (cherry blossom) trees at the location that tsunami waters reached.

**d) Development of new infection prevention products and donations to medical entities and others**

In the fight against COVID-19, the Company donated 40,000 reusable masks and 10,000 isolation gowns. It is also continuously conveying messages of support to medical personnel.

**(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 COMPELPACK, 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.

Business overview

**(6) Approach towards SDGs**

For SDGs (Sustainable Development Goals), which recently have become mainstream around the world, the Company is working to solve social issues mainly by leveraging its strengths, which include “supporting medical sites through clothing” and “realizing the special functionality and sensations required by medical sites.”

**a) “We want to become the power of life”**

The Company is supporting medical sites through clothing and realizing the special functionality and sensations required by medical sites.

**b) Environment**

It has developed and is selling COMPELPACK, an environmentally friendly product for hospitals. It has also established an operational structure that is considerate to the environment (having already acquired ISO 14001 certification).

**c) Returns to society**

Based on the Nagaism spirit, it is returning the profits it acquires in business to various stakeholders.

**d) COVID-19 infection measures**

Specifically, the Company is addressing mask/gown shortages and infection spread risk with development of new reusable infection prevention products and reinforcement of the COMPELPACK business.

## ■ Results trends

### Net sales reached a record high and operating profit grew 55.3% YoY in FY8/21 1Q

**1. Summary of FY8/21 1Q consolidated results**

In FY8/21 1Q consolidated results, net sales rose 24.6% YoY to ¥3,595mn, operating profit increased 55.3% to ¥1,039mn, recurring profit increased 52.3% to ¥1,062mn, and net profit attributable to the owners of the parent company rose 52.1% to ¥726mn.

Net sales increased significantly to a record high for the first quarter. In addition to sales growing YoY for all items as business delayed from the previous fiscal year was captured, this reflects ¥339mn in special demand for infection prevention products from the MHLW. On the earnings front, the gross profit margin improved to 46.5% (from 46.2% in FY8/20 1Q), buoyed by shifting the production of infection prevention products overseas and exchange rates moving towards a stronger yen YoY. In addition, SG&A expenses declined 4.9% YoY due to travel restrictions, event cancellations, and other ongoing impact from the COVID-19 pandemic. As a result, operating profit rose sharply. 1Q earnings apparently outpaced the Company’s initial outlook for profit growth YoY in FY8/21 1H premised on special demand from the MHLW.

## Results trends

## Summary of FY8/21 1Q consolidated results

	(¥mn)					
	FY8/20 1Q		FY8/21 1Q		Change	
	Results	% of total	Results	% of total	Value	Percentage
Net sales	2,886	100.0%	3,595	100.0%	709	24.6%
Gross profit	1,333	46.2%	1,671	46.5%	337	25.3%
SG&A expenses	664	23.0%	632	17.6%	-32	-4.9%
Operating profit	669	23.2%	1,039	28.9%	370	55.3%
Recurring profit	697	24.2%	1,062	29.6%	365	52.3%
Net profit attributable to the owners of the parent company	477	16.6%	726	20.2%	248	52.1%

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

**● Net sales by item**

In net sales by item, healthcare wear increased 10.0% YoY to ¥1,724mn, doctors' wear increased 10.8% to ¥456mn, utility wear increased 5.1% to ¥82mn, patient wear increased 26.9% to ¥621mn, surgery wear increased 10.3% to ¥303mn, shoes and other products increased 6.3% to ¥67mn, and newly added infection prevention products totaled ¥339mn (no YoY comparison).

In healthcare wear and doctors' wear, there were significant delays in renewal business and restrained buying in 2H FY8/20 due to curtailed sales activities and turmoil on the medical front lines spurred by the COVID-19 pandemic, but sales rose sharply in FY8/21 1Q as the Company steadily followed through on delayed business. It is also worth noting that sales of utility wear increased after having continued to decline over the past few years. This seems to reflect growth in demand to avoid shared use due to the COVID-19 pandemic. In addition, sales of patient wear on which the Company has been focusing rose sharply as new measures that were delayed got rolling. Surgery wear posted double-digit sales growth even in peripheral markets because COMPELPACK products continued to do well. Infection prevention products contributed significantly to overall sales, owing to large-scale deliveries to the MHLW (¥339mn).

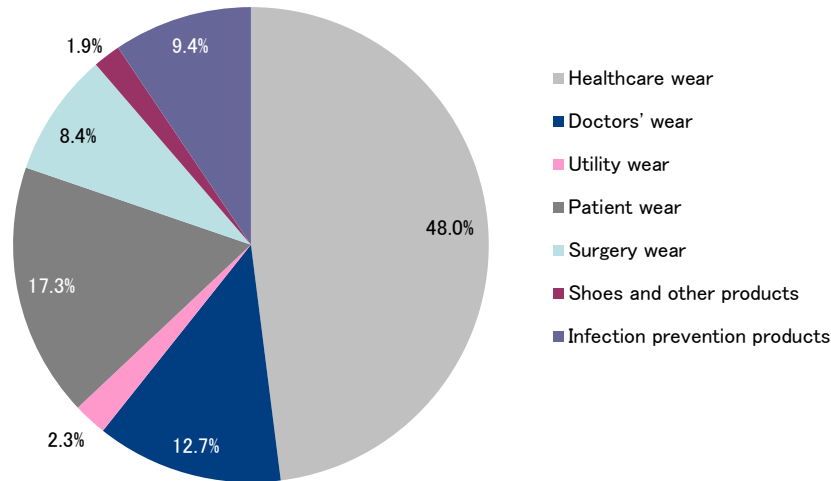
**Net sales by item**

	(¥mn)			
	FY8/20 1Q		FY8/21 1Q	
	Results	YoY	Results	YoY
Healthcare wear	1,567	-0.3%	1,724	10.0%
Doctors' wear	411	-1.6%	456	10.8%
Utility wear	78	-21.6%	82	5.1%
Patient wear	490	1.7%	621	26.9%
Surgery wear	275	2.0%	303	10.3%
Shoes and other products	63	-4.9%	67	6.3%
Infection prevention products	-	-	339	-
Total	2,886	-0.8%	3,595	24.6%

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

Results trends

Net sales composition by item (FY8/21 1Q)



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

## Financial position is sound, with cash and deposits on hand of ¥24,384mn and an equity ratio of 90.2%

### 2. Financial position

The Company's financial position remains stable. At the end of FY8/21 1Q, total assets decreased by ¥1,762mn to ¥43,169mn compared to the end of the previous fiscal year. Current assets decreased by ¥1,842mn to ¥34,094mn. This was mainly due to a ¥1,262mn decrease in cash and deposits and a ¥1,125mn decrease in notes and accounts receivable, which outweighed a ¥789mn increase in inventories. Conversely, fixed assets increased by ¥79mn to ¥9,074mn, mainly due to an ¥80mn increase in investments and other assets.

Total liabilities were ¥4,229mn, down ¥580mn compared to the end of the previous fiscal year. Main factors included a ¥102mn increase in notes and accounts payable and a ¥680mn decrease in income taxes payable. Net assets decreased ¥1,181mn to ¥38,939mn. This primarily reflects a ¥1,244mn decrease in retained earnings due partly to the payment of dividends. As a result, the equity ratio was 90.2% at the end of FY8/21 1Q, up 0.9pp compared to the end of the previous fiscal year.

## Results trends

## Summary of the consolidated balance sheet

	End of FY8/20	End of FY8/21 1Q	Change
(¥mn)			
Cash and deposits	25,646	24,384	-1,262
Notes and accounts receivable	3,734	2,609	-1,125
Inventories	4,631	5,421	789
<b>Current assets</b>	<b>35,936</b>	<b>34,094</b>	<b>-1,842</b>
Tangible fixed assets	7,571	7,571	-0
Intangible fixed assets	49	49	-0
Investments and other assets	1,373	1,454	80
<b>Fixed assets</b>	<b>8,995</b>	<b>9,074</b>	<b>79</b>
<b>Total assets</b>	<b>44,931</b>	<b>43,169</b>	<b>-1,762</b>
Notes and accounts payable	1,592	1,695	102
Income taxes payable	1,036	355	-680
<b>Total liabilities</b>	<b>4,810</b>	<b>4,229</b>	<b>-580</b>
Retained earnings	41,599	40,355	-1,244
Treasury shares	-5,920	-5,920	0
<b>Net assets</b>	<b>40,121</b>	<b>38,939</b>	<b>-1,181</b>
<b>Total liabilities and net assets</b>	<b>44,931</b>	<b>43,169</b>	<b>-1,762</b>

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

## Business outlook

### Forecasting higher sales and profits in FY8/21 by capturing postponed projects

#### ● FY8/21 full-year outlook

The Company's forecasts for the FY8/21 consolidated results project net sales to increase 1.4% YoY to ¥17,300mn, operating profit to increase 2.7% to ¥5,068mn, recurring profit to increase 2.2% to ¥5,140mn, and net profit attributable to the owners of the parent company to rise 1.3% to ¥3,518mn.

#### FY8/21 consolidated earnings outlook

	FY8/20		FY8/21		Change	
	Results	% of total	Target	% of total	Value	Percentage
Net sales	17,066	100.0%	17,300	100.0%	234	1.4%
Gross profit	7,810	45.8%	8,010	46.3%	200	2.6%
SG&A expenses	2,872	16.9%	2,941	17.0%	69	2.4%
Operating profit	4,937	28.9%	5,068	29.3%	131	2.7%
Recurring profit	5,031	29.5%	5,140	29.7%	109	2.2%
Net profit attributable to the owners of the parent company	3,474	20.4%	3,518	20.3%	44	1.3%

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

Business outlook

The gross profit margin is forecast to be 46.3% (vs. 45.8% for FY8/20). Gross profit is expected to increase ¥200mn, with the anticipated factors being an increase of ¥108mn from the higher sales and an increase of ¥92mn due to production. The production-related increase is expected to comprise ¥60mn on a rise in the overseas production ratio (from 49.5% to 50.5%), including ¥20mn from transferring output of infection prevention products to overseas sites. Meanwhile, the Company thinks COGS should be neutral in FY8/21 due to exhausting impacts of higher domestic processing fees and raw material price hikes in FY8/20. It forecasts a ¥105.0/US\$ exchange rate in FY8/21 (vs. ¥106.0/US\$ in FY8/20) that works to ¥20mn in COGS savings.

In SG&A expenses, the Company forecasts a ¥31mn increase in travel and transportation costs on the prospect of restoring normalcy in sales activities to some extent. It plans to make catalogs for overseas business and hence budgeted an extra ¥18mn in advertising and promotion costs. Based on this, it expects a 2.4% YoY rise in SG&A expenses to ¥2,941mn. As a result, the Company forecasts a 2.7% gain in operating profit to ¥5,068mn. It budgets ¥275mn in capital investments and ¥317mn in depreciation costs, which are values within the ordinary range.

**(1) Net sales forecasts by item**

In net sales by item, healthcare wear is forecast to increase 6.3% YoY to ¥9,510mn, doctors' wear to increase 5.8% to ¥2,620mn, utility wear to decrease 10.0% to ¥355mn, patient wear to increase 6.4% to ¥2,200mn, surgery wear to increase 3.5% to ¥1,780mn, shoes and other products to decrease 8.0% to ¥320mn, and infection prevention products to decrease 53.9% to ¥515mn.

**Net sales forecasts by item**

	FY8/20		FY8/21	
	Results	YoY	Forecast	YoY
Healthcare wear	8,944	-7.6%	9,510	6.3%
Doctors' wear	2,475	-7.4%	2,620	5.8%
Utility wear	394	-10.6%	355	-10.0%
Patient wear	2,067	1.7%	2,200	6.4%
Surgery wear	1,719	7.7%	1,780	3.5%
Shoes and other products	347	-3.2%	320	-8.0%
Infection prevention products	1,116	-	515	-53.9%
<b>Total</b>	<b>17,066</b>	<b>1.7%</b>	<b>17,300</b>	<b>1.4%</b>

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

In mainstay healthcare wear and doctors' wear, the Company acknowledges lingering uncertainty about sales activity progress going forward but aims to increase sales by continuing to steadily book deals delayed from FY8/20. In addition, surgery wear for which ongoing demand is anticipated and patient wear for which initiatives got off to a delayed start in FY8/20 appear to have already recovered in 1Q. As such, the Company expects them to keep steadily contributing to sales growth from 2Q. While utility wear appears to have recovered slightly in 1Q, the Company expects sales for the full fiscal year to decline due to ongoing market contraction. Meanwhile, the Company expects the special demand (for infection prevention products) from the MHLW that contributed to sales growth from FY8/20 4Q through FY8/21 1Q to come to an end in 2Q. However, it aims to offset that with growth in sales of conventional items such that net sales rise 1.4% YoY to a record high.

**(2) Net sales forecast by region**

In regional sales, the Company projects ¥8,915mn for Eastern Japan (up 4.5% YoY), ¥1,800mn for Central Japan (up 4.0%), ¥6,050mn for Western Japan (up 6.9%), ¥220mn for overseas business (up 9.3%), and ¥315mn for MHLW (Japan) (down 66.7%).

## Business outlook

**Net sales forecast by region**

(¥mn)

	FY8/20		FY8/21	
	Results	YoY	Forecast	YoY
Eastern Japan	8,530	-4.1%	8,915	4.5%
Central Japan	1,730	4.0%	1,800	4.0%
Western Japan	5,658	-6.2%	6,050	6.9%
Overseas	201	6.0%	220	9.3%
MHLW (Japan)	945	-	315	-66.7%
<b>Total</b>	<b>17,066</b>	<b>1.7%</b>	<b>17,300</b>	<b>1.4%</b>

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

In Eastern Japan, the Company aims to increase sales with a confirmed major deal order, steady recruitment of delayed opportunities, and increased sales of infection prevention products. In Central Japan, it targets all-time high sales by booking planned renewal opportunities. In Western Japan, it hopes to attain sales recovery by following through on deliveries for delayed opportunities and ramping up initiatives in patient wear. In overseas business, the Company plans to continuously increase sales by advancing its business model in Taiwan (selling to linen businesses), which fell behind schedule due to the COVID-19 pandemic. In MHLW business, the Company confirmed sales of ¥315mn as of 1Q but no further deals are planned.

**(3) Net sales forecasts by product**

In sales by product, the Company forecasts ¥1,170mn in high-end products (up 9.1% YoY), ¥9,430mn in high-value-added products (up 8.5%), ¥5,685mn in value-added products (up 1.5%), ¥700mn in mass products (down 7.4%), and ¥315mn in MHLW (Japan) (down 66.7%).

**Net sales forecasts by product**

(¥mn)

	FY8/20		FY8/21	
	Results	YoY	Forecast	YoY
High-end products	1,072	-15.9%	1,170	9.1%
High-value-added products	8,692	-3.1%	9,430	8.5%
Value-added products	5,600	-2.2%	5,685	1.5%
Mass products	756	-7.5%	700	-7.4%
MHLW products	945	-	315	-66.7%
<b>Total</b>	<b>17,066</b>	<b>1.7%</b>	<b>17,300</b>	<b>1.4%</b>

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

In high-end products, the Company plans to significantly boost sales by stimulating the market with reinforcement of the product lineup with new offerings (37°C and doctors' coats). In high-value-added products, it aims for higher added value and increased sales by enhancing features and design aspects to support recruitment of renewal business. In value-added products, it intends to drive the shift from mass products, including other companies' deals, by releasing new functional products.

## ■ Medium- to long-term growth strategy

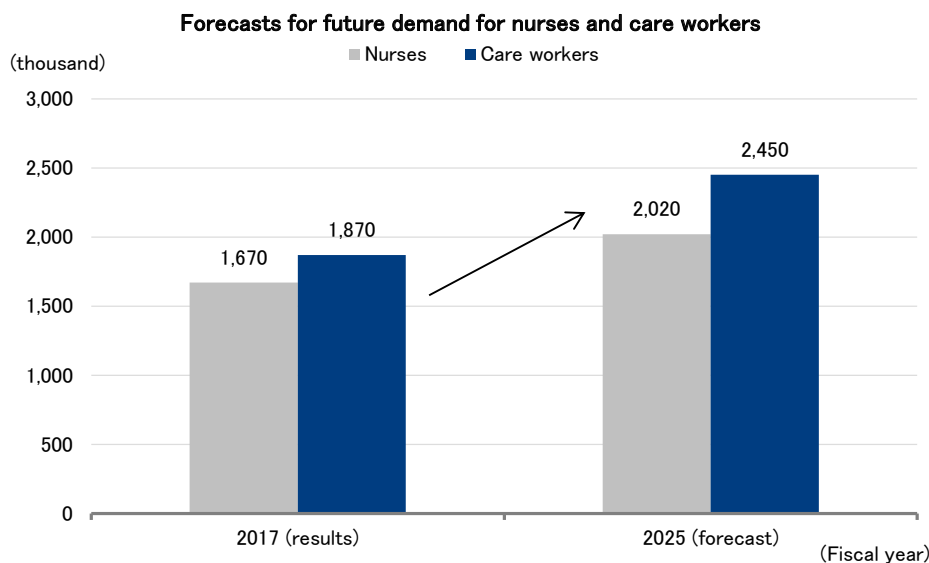
### Temporarily postponed disclosure of numerical targets for the mid-term management plan

#### 1. Mid-term management plan

The Company previously announced its mid-term management plan for the next three years based on results from a completed fiscal year. However, it postponed disclosure of numerical targets for the mid-term management plan at this time due to concluding that it would be difficult to calculate the outlook for the next three years amid ongoing disruptions at medical entities. It intends to announce a plan once the market environment outlook improves and it is possible to make reasonable calculations.

#### 2. Future business strategies

The COVID-19 pandemic is currently affecting the Company’s business environment, but could be a medium- to long-term tailwind. According to data released by the Ministry of Health, Labour and Welfare among others, the number of nurses in Japan is projected to increase from 1.67 million in 2017 to a maximum of 2.02 million in 2025. Moreover, the number of care workers is forecast to increase from 1.87 million in 2017 to 2.45 million in 2025.



Source: Prepared by FISCO from the following materials (English titles have been translated from Japanese)  
 FY2017 Actual Number of Nursing Professionals from “Statistical Data on Nursing Service in Japan” (Japanese Nursing Association)  
 FY2025 Estimated Number of Nursing Professionals from “The Meeting on Projection of Supply and Demand for Nursing Personnel” Materials (Ministry of Health, Labour and Welfare)  
 FY2017 Actual Number of Nursing Care Professionals from “Survey of Institutions and Establishments for Long-Term Care” (Ministry of Health, Labour and Welfare)  
 FY2025 Estimated Number of Nursing Care Professionals from “7th Insured Long-Term Care Service Plans” (Ministry of Health, Labour and Welfare)



Medium- to long-term growth strategy

In this business environment, the Company aims to achieve medium-term growth through three main strategies: (1) marketing strategy to expand sales, (2) production strategy to ensure stable supply, and (3) strategy seeking stable profitability.

**(1) Marketing strategy to boost sales**

- a) Deepen business in nursing, long-term care, and other core markets
- b) Increase peripheral business in products for patients and surgery
- c) Cultivate overseas markets
- d) Develop reusable infection prevention products

**(2) Production strategy to ensure stable supply**

- a) Bolster domestic production operations and reinforce capabilities to support QR and small-lot, high-variety output by launching operations at a new domestic sewing plant
- b) Strengthen initiatives with material manufacturers and trading companies

**(3) Strategy seeking stable profitability**

- a) Promote high-value-added strategy
- b) Transfer materials overseas
- c) Shift production overseas
- d) Promote effective utilization of raw materials

## ■ Shareholder return policy

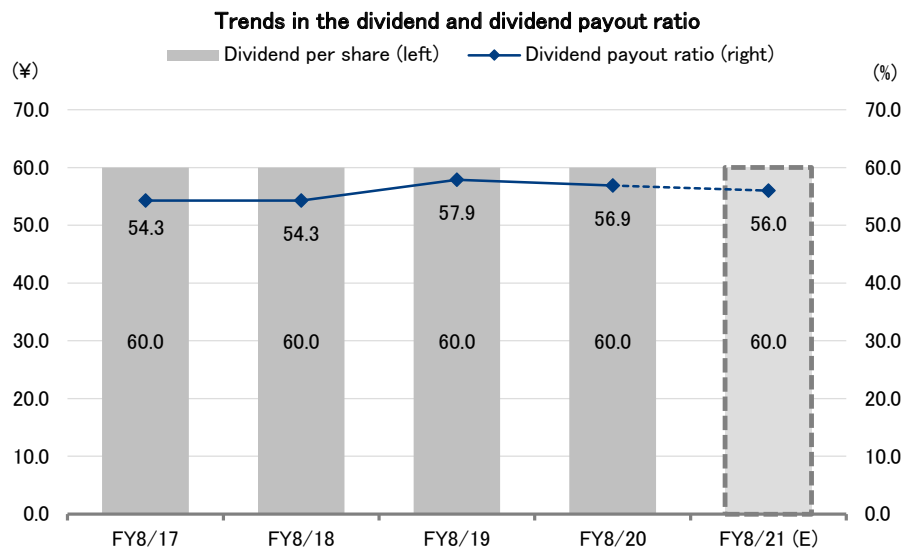
### **Pledges a dividend payout ratio of 50% or higher (non-consolidated basis) and forecasts an annual dividend of ¥60**

The Company's equity ratio reached 90.2% at the end of FY8/21 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 (8.7% in FY8/20).

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 implementing a share buyback of 1 million shares during the fiscal year. That combined with the dividend, raised 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.

Shareholder return policy

The Company has pledged a dividend payout ratio of 50% or higher 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, FY8/19 and FY8/20. Furthermore, the Company executed a share buyback totaling 400,000 shares (¥1,031mn) in November 2019. As a result, the total return ratio was 87.9% in FY8/20. For the current fiscal year, FY8/21, the Company has announced plans for annual dividends of ¥60 per share, which would put the dividend payout ratio at 56.0% if the Company's profit forecasts are achieved. In addition to the strong financial standing, this aggressive stance on shareholder returns is worthy of strong praise.



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

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

(¥mn)

	Total dividend amount	Share buybacks	Dividend payout ratio*	Total return ratio*
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	1,995	0	58.0%	58.0%
FY8/20	1,971	1,031	57.9%	87.9%

\* On a non-consolidated basis

Note: The Company executed a 1:2 stock split in FY8/11

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



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