COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben co., Ltd.

7447

Tokyo Stock Exchange First Section

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Summary

Delivered gains (YoY) of 14.4% in net sales and 30.8% in operating profit in FY8/21 1H

1. FY8/21 1H 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 1H announced by the Company, net sales increased 14.4% year on year (YoY) to ¥8,069mn, operating profit increased 30.8% to ¥2,275mn, recurring profit increased 29.5% to ¥2,322mn, and net profit attributable to the owners of the parent company increased 29.1% to ¥1,595mn. Net sales increased significantly YoY as a result of steady recruitment of projects that were postponed from FY8/20, special demand from the Ministry of Health, Labour and Welfare (MHLW; ¥315mn in infection prevention products), and other factors. In earnings, gross profit was up 13.9%, despite a 0.2pp YoY decline in the gross profit margin resulting from the effect of modest yen appreciation (YoY) on the forex rate and a flat overseas production ratio, driven by the impact of higher sales. Operating profit climbed substantially on a continued YoY decline in SG&A expenses and other positive trends. While the Company expected higher profit (YoY) in FY8/21 1H due to the prospect of MHLW special demand and other opportunities at the start of the period, it exceeded plan targets by 5.4% in net sales and 12.6% in operating profit.

2. FY8/21 forecasts

For FY8/21, the Company retained its initial consolidated forecasts of ¥17,300mn in net sales (up 1.4% YoY), ¥5,068mn in operating profit (up 2.7%), ¥5,140mn in recurring profit (up 2.2%), and ¥3,518mn in net profit attributable to the owners of the parent company (up 1.3%). This stance factors in non-recurrence of MHLW special demand (which lasted from FY8/20 4Q through FY8/21 1Q) in FY8/21 2Q and uncertainty about the impact of the spread of COVID-19 infections (hereafter, the “COVID-19 pandemic”). Nevertheless, FISCO expects results to overshoot plan targets due to upside in FY8/21 1H results, existing forex reservations for FY8/21 requirements (despite recent yen depreciation), and other positive factors.

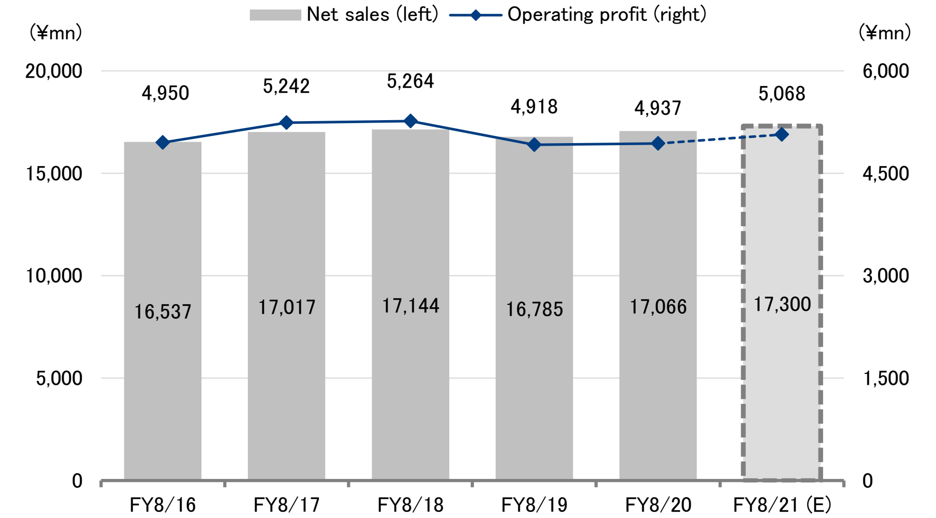
3. Mid-term management plan

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 annual dividends of ¥60 per share 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.

Key Points

- Operating profit increased 30.8% YoY in FY8/21 1H, reflecting following through on delayed projects and special demand from the MHLW
- While FY8/21 forecasts project higher sales and profits and a 2.7% YoY rise in operating profit, results are likely to exceed the forecast
- Plans to pay a ¥60 dividend again in FY8/21 and has a proactive stance toward 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 that boasts an annual supply of more than 6 million medical gowns a year and a market share of over 60%.

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

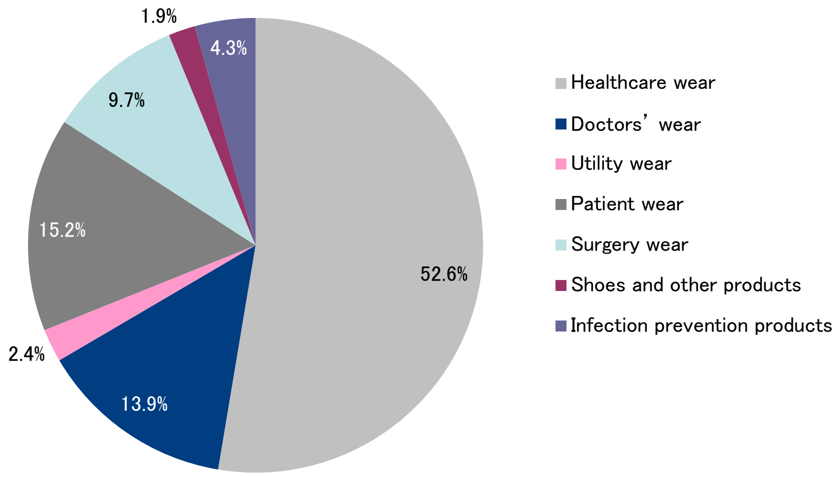
1. Sales breakdown

All of the Company's products are medical gowns and related products. The contribution to sales by item for FY8/21 1H is 52.6% from healthcare wear, 13.9% from doctors' wear, 2.4% from utility wear, 15.2% from patient wear, 9.7% from surgery wear, 1.9% from shoes and other products, and 4.3% from infection prevention products*.

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

Healthcare wear mainly refers to products for nurses, and utility wear covers aprons, cardigans, and other garments worn on top of medical gowns and such. While profitability does not vary much among the various items, shoes and other procured products have relatively low margins. Additionally, infection prevention products created as a new segment had lower-than-average margins initially because it mainly was MHLW business, but the Company plans to improve the margins by increasing overseas production.

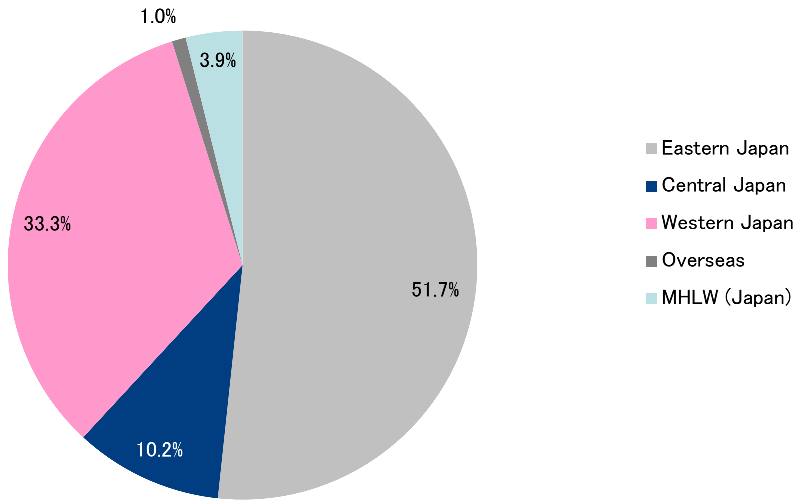
Net sales composition by item (FY8/21 1H)



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

In terms of each region's contribution to sales for FY8/21 1H, Eastern Japan accounts for 51.7%, Central Japan 10.2%, Western Japan 33.3%, overseas 1.0% and MHLW (Japan) 3.9%. While coverage is nationwide, sales in Western Japan remain low, indicating the potential for future expansion including overseas.

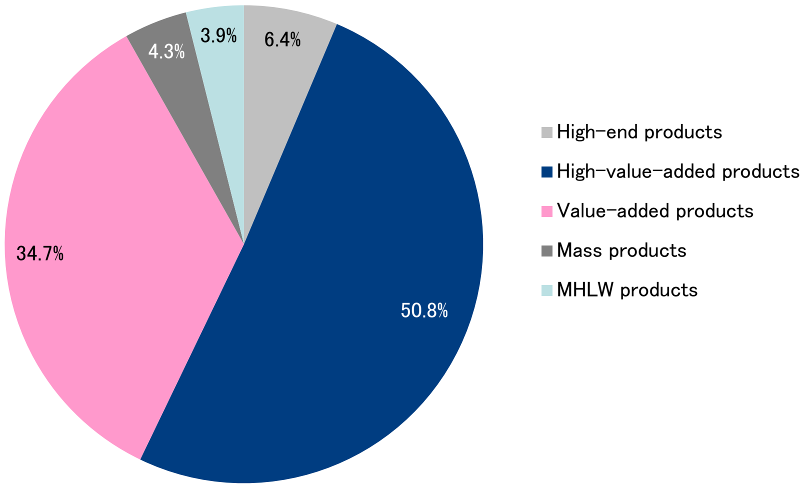
Net sales composition by region (FY8/21 1H)



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

The composition of total net sales by product (function) for FY8/21 1H is 6.4% from high-end products, 50.8% from high-value-added products, 34.7% from value-added products, 4.3% from mass products and 3.9% 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 (FY8/21 1H)



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 98.8% (49.2% domestically and 49.6% overseas), with purchased products accounting for 1.2%. 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 46.1% (actual results for FY8/21 1H). 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.

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) 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.

b) 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.

c) 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.

d) 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. Representative Director and President Ichiro Sawanobori is serving as the Industrial Ambassador for Misato Town (Akita Prefecture).

(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.

(6) Approach towards SDGs (Sustainable Development Goals)

For SDGs 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

Posted double-digit sales and profit increases in FY8/21 1H, exceeding forecasts

1. Summary of FY8/21 1H consolidated results

In FY8/21 1H consolidated results, net sales rose 14.4% YoY to ¥8,069mn, operating profit increased 30.8% to ¥2,275mn, recurring profit increased 29.5% to ¥2,322mn, and net profit attributable to the owners of the parent company rose 29.1% to ¥1,595mn.

Summary of FY8/21 1H consolidated results

(¥mn)

	FY8/20 1H		FY8/21 1H		Change	
	Results	% of total	Results	% of total	Value	Percentage
Net sales	7,051	100.0%	8,069	100.0%	1,017	14.4%
Gross profit	3,263	46.3%	3,718	46.1%	455	13.9%
SG&A expenses	1,523	21.6%	1,442	17.9%	-81	-5.3%
Operating profit	1,739	24.7%	2,275	28.2%	536	30.8%
Recurring profit	1,793	25.4%	2,322	28.8%	529	29.5%
Net profit attributable to the owners of the parent company	1,236	17.5%	1,595	19.8%	359	29.1%

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

In the market environment, while medical frontline operations have not fully recovered and are still facing disruptions, the situation has settled down compared to previously. Furthermore, the government is providing assistance to medical entities and others as pandemic measures (combined value of ¥3trn), and long-term care fee revisions in April 2021 added 0.70% (including 0.05% as COVID-19 infection prevention response). Authorities are also reducing standard levels for drug prices by ¥430bn on a medical fee basis in April*.

* Drug price revisions will now be disclosed annually on a value basis, rather than a percentage.

Net sales improved YoY for all items as medical frontline operations calmed from previous disruptions and with steady recruitment of projects that were postponed from FY8/20. Since the Company's products are consumables, even if there is modest disparity in timing, demand should manifest at some point. The 1H result confirmed this dynamic again. With the addition of ¥315mn in MHLW special demand (infection prevention products), net sales increased 14.4% YoY and reached an all-time high on a 1H basis. They also rose 10.0% on a real basis excluding MHLW special demand.

In earnings, the gross profit margin dropped 0.2pp to 46.1% (vs. 46.3% a year earlier), and gross profit expanded 13.9% YoY to ¥3,718mn. Main changes in gross profit were a ¥471mn increase from sales factors (higher sales) and a ¥16mn decline from production factors. Closer analysis of production factors shows a boost of ¥6mn from forex rate impact (change in the forex rate from ¥105.2/USD in FY8/20 1H to ¥104.6/USD in FY8/21 1H) versus a setback of ¥25mn due to higher overseas logistics costs (unit costs) from use of air cargo services in some instances. Since the overseas production ratio remained unchanged YoY at 49.6%, this factor had a neutral impact on the gross profit margin.

SG&A expenses, meanwhile, were down 5.3% YoY to ¥1,442mn and undershot the budget by 5.5%, thanks to continued efforts to reduce spending. Primary cutbacks were advertising and promotional costs by ¥37mn and travel and transportation costs by ¥22mn. Operating profit hence increased 30.8% to ¥2,275mn. Capital investments totaled ¥130mn (¥9mn in IT facilities, ¥80mn in building-related items, ¥27mn in logistics facilities, and ¥13mn in production facilities), and depreciation costs totaled ¥157mn.

(1) Net sales by item

In net sales by item, healthcare wear increased 7.2% YoY to ¥4,244mn, doctors' wear increased 5.7% to ¥1,122mn, utility wear increased 9.2% to ¥190mn, patient wear increased 24.3% to ¥1,222mn, surgery wear increased 7.3% to ¥780mn, shoes and other products increased 2.3% to ¥149mn, and infection prevention products totaled ¥359mn (no YoY comparison).

In healthcare wear and doctors' wear, there were significant delays in renewal projects and restrained buying in FY8/20 2H 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 2Q as the Company steadily followed through on delayed projects. 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 did well in FY8/20 2 H as demand COMPELPACK products was strong. Infection prevention products contributed significantly to overall sales, owing to large-scale deliveries to the MHLW (¥315mn).

Net sales by item

(¥mn)

	FY8/20 1H		FY8/21 1H	
	Results	YoY	Results	YoY
Healthcare wear	3,958	-3.8%	4,244	7.2%
Doctors' wear	1,061	-2.1%	1,122	5.7%
Utility wear	174	-13.9%	190	9.2%
Patient wear	983	-1.2%	1,222	24.3%
Surgery wear	727	5.8%	780	7.3%
Shoes and other products	146	-0.8%	149	2.3%
Infection prevention products	-	-	359	-
Total	7,051	-2.5%	8,069	14.4%

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

(2) Net sales by region

In regional sales, the Company recorded ¥4,170mn for Eastern Japan (up 12.1% YoY), ¥822mn for Central Japan (up 14.3%), ¥2,684mn for Western Japan (up 7.2%), ¥77mn for overseas business (down 27.8%), and ¥315mn for MHLW (Japan) (no YoY comparison).

In Eastern Japan, the Company booked sharply higher sales on steady recruitment of projects that were postponed from FY8/20 and new acquisition of major projects. In Central Japan, sales increased at a double-digit pace due to smooth recruitment of renewal projects. In Western Japan, the Company steadily increased sales on reliable recruitment of projects that were postponed from the previous fiscal year and reinforcement of patient wear initiatives. In overseas business, a steep decline was recorded due to stagnant sales activities from pandemic impact, but the longevity of the decline was short and only had a minor impact on total sales. The Company delivered products to the MHLW (Japan) through FY8/21 1Q and had ¥315mn in 1H sales in this business.

Net sales by region

(¥mn)

	FY8/20 1H		FY8/21 1H	
	Results	YoY	Results	YoY
Eastern Japan	3,720	-1.2%	4,170	12.1%
Central Japan	720	2.0%	822	14.3%
Western Japan	2,503	-6.2%	2,684	7.2%
Overseas	107	13.2%	77	-27.8%
MHLW (Japan)	-	-	315	-
Total	7,051	-2.5%	8,069	14.4%

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

(3) Net sales by product

In sales by product, the Company recorded ¥513mn in high-end products (up 4.1% YoY), ¥4,097mn in high-value-added products (up 7.3%), ¥2,798mn in value-added products (up 16.2%), ¥345mn in mass products (up 3.8%), and ¥315mn in MHLW (Japan) (no YoY comparison).

Net sales by product

(¥mn)

	FY8/20 1H		FY8/21 1H	
	Results	YoY	Results	YoY
High-end products	493	3.2%	513	4.1%
High-value-added products	3,817	-0.1%	4,097	7.3%
Value-added products	2,408	-6.5%	2,798	16.2%
Mass products	332	-6.4%	345	3.8%
MHLW products	-	-	315	-
Total	7,051	-2.5%	8,069	14.4%

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

In high-end products, the Company focused on market stimulation by strengthening the lineup of new products (healthcare wear and doctors' coats). In high-value-added products, it aimed to improve added value with additional functionality and enhanced design and thereby ensure recruitment of renewal projects. In value-added products, it acquired projects previously held by rivals through roll out of new products from FY8/20 and promoted upgrades from mass products.

Financial position is sound, with cash and deposits on hand of ¥24,020mn and an equity ratio of 90.7%

2. Financial position

The Company's financial position remains stable. At the end of FY8/21 1H, total assets decreased by ¥971mn to ¥43,960mn compared to the end of the previous fiscal year. Current assets decreased by ¥1,052mn to ¥34,883mn. This was mainly due to a ¥1,626mn decrease in cash and deposits, which outweighed a ¥205mn increase in notes and accounts receivable and a ¥519mn increase in inventories. Since the increase in inventory assets involves build-up of inventories for the busy season in 3Q, it is not negative accumulation. While fixed asset value rose ¥81mn to ¥9,076mn, the main cause was a ¥115mn upturn in investments and other assets.

Total liabilities were ¥4,086mn, down ¥724mn compared to the end of the previous fiscal year. Main factors included a ¥106mn decrease in notes and accounts payable and a ¥257mn decrease in income taxes payable. Net assets decreased ¥246mn to ¥39,874mn. This primarily reflects a ¥375mn decrease in retained earnings due partly to the payment of dividends. As a result, the equity ratio was 90.7% at the end of FY8/21 1H, up 1.4pp compared to the end of the previous fiscal year.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/20	End of FY8/21 1H	Change
Cash and deposits	25,646	24,020	-1,626
Notes and accounts receivable	3,734	3,940	205
Inventories	4,631	5,150	519
Current assets	35,936	34,883	-1,052
Tangible fixed assets	7,571	7,539	-32
Intangible fixed assets	49	47	-2
Investments and other assets	1,373	1,489	115
Fixed assets	8,995	9,076	81
Total assets	44,931	43,960	-971
Notes and accounts payable	1,592	1,486	-106
Income taxes payable	1,036	778	-257
Total liabilities	4,810	4,086	-724
Retained earnings	41,599	41,224	-375
Treasury shares	-5,920	-5,913	6
Net assets	40,121	39,874	-246
Total liabilities and net assets	44,931	43,960	-971

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

3. Cash flow situation

In FY8/21 1H, net cash provided by operating activities was ¥480mn. The main items for increase were recording of ¥2,313mn from net income before income taxes and ¥157mn in depreciation costs, and the main items for decrease were an increase of ¥162mn in accounts receivable, an increase of ¥519mn in inventories and a decrease of ¥106mn in accounts payable. Cash flow provided by investing activities was ¥356mn. The main items for increase were proceeds from withdrawal of time deposits (net) of ¥500mn. Cash flow used in financing activities was ¥1,971mn in dividends paid. As a result, cash and cash equivalents decreased and by the end of FY8/21 1H was ¥5,320mn. The Company still has extensive surplus net cash because it does not have any interest-bearing debt and holds ¥5,913mn in treasury shares (5,370,376 shares).

Summary of the cash flow statement

(¥mn)

	FY8/20 1H	FY8/21 1H
Cash flows from operating activities	149	480
Profit before income taxes	1,793	2,313
Depreciation	168	157
Decrease (increase) in trade receivables	39	-162
Decrease (increase) in inventories	-741	-519
Increase (decrease) in trade payables	42	-106
Cash flows from investing activities	2,631	356
Purchase of property, plant and equipment	-102	-134
Net decrease (increase) in time deposits	2,700	500
Cash flows from financing activities	-3,025	-1,971
Dividends paid	-1,994	-1,970
Purchase of treasury shares	-1,031	-0
Net increase (decrease) in cash and cash equivalents	-237	-1,126
Cash and cash equivalents at end of period	5,020	5,320

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

For FY8/21, the Company retained initial consolidated forecasts of ¥17,300mn in net sales (up 1.4% YoY), ¥5,068mn in operating profit (up 2.7%), ¥5,140mn in recurring profit (up 2.2%), and ¥3,518mn in net profit attributable to the owners of the parent company (up 1.3%). This stance, despite upside in 1H results, takes into account uncertainty including the COVID-19 situation. Nevertheless, FISCO expects results to overshoot plan targets due to current healthy conditions, existing forex reservations for FY8/21 requirements (despite recent yen depreciation), and other positive factors.

FY8/21 consolidated earnings outlook

(¥mn)

	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%	7,976	46.1%	166	2.1%
SG&A expenses	2,872	16.8%	2,908	16.8%	36	1.2%
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

The Company projects a gross profit margin of 46.1% (vs. 45.8% in FY8/20) and a ¥166mn YoY increase in gross profit with gains of ¥108mn from higher sales and ¥59mn from production factors. In production, it expects ¥65mn from a rise in the overseas production ratio (from 49.6% to 50.8%). Unit costs, meanwhile, should be neutral in FY8/21 due to exhaustion of impact from higher domestic processing fees and raw material prices in FY8/20. The plan assumes a ¥104.6/USD forex rate in FY8/21 (vs. ¥106.0/USD in FY8/20) that is likely to reduce unit costs by ¥27mn. However, it also expects a roughly ¥30mn rise in logistics costs due to shifting some transportation from ship cargo to air cargo amid disruption of some overseas logistics.

In SG&A expenses, the Company forecasts a ¥6mn 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 ¥15mn in advertising and promotion costs. Based on this, it expects a 1.2% YoY rise in SG&A expenses to ¥2,908mn. As a result, the Company forecasts a 2.7% gain in operating profit to ¥5,068mn. It budgets ¥268mn in capital investments and ¥319mn 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 5.0% YoY to ¥9,390mn, doctors' wear to increase 4.4% to ¥2,585mn, utility wear to increase 3.9% to ¥410mn, patient wear to increase 15.1% to ¥2,380mn, surgery wear to increase 1.2% to ¥1,740mn, shoes and other products to decrease 2.3% to ¥340mn, and infection prevention products to decrease 59.2% to ¥455mn.

Net sales forecasts by item

(¥mn)

	FY8/20		FY8/21	
	Results	YoY	Forecast	YoY
Healthcare wear	8,944	-7.6%	9,390	5.0%
Doctors' wear	2,475	-7.4%	2,585	4.4%
Utility wear	394	-10.6%	410	3.9%
Patient wear	2,067	1.7%	2,380	15.1%
Surgery wear	1,719	7.7%	1,740	1.2%
Shoes and other products	347	-3.2%	340	-2.3%
Infection prevention products	1,116	-	455	-59.2%
Total	17,066	1.7%	17,300	1.4%

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

In mainstay healthcare wear and doctors' wear, despite lingering uncertainty about progress in sales activities, the Company expects stable market trends and aims to increase sales via continued steady recruitment of projects that were postponed from FY8/20. In patient wear, the Company hopes to expand sales by realizing initiatives for new projects suspended in FY8/20 and developing new business. In surgical wear, it projects sales on par with the previous year and demand for infection prevention products to settle down coming off the sharp sales increase in FY8/20 2H. In utility wear, the Company forecasts higher sales even with the cooling of demand for infection prevention products. Meanwhile, it anticipates significantly lower sales of infection prevention products due to non-recurrence of MHLW special demand that contributed to higher sales during FY8/20 4Q through FY8/21 1Q (¥945mn in infection prevention products) and one-time demand for reusable masks.

(2) Net sales forecast by region

In regional sales, the Company projects ¥9,000mn for Eastern Japan (up 5.5% YoY), ¥1,800mn for Central Japan (up 3.9%), ¥6,000mn for Western Japan (up 6.0%), ¥185mn for overseas business (down 8.1%), and ¥315mn for MHLW (Japan) (down 66.7%).

Net sales forecast by region

(¥mn)

	FY8/20		FY8/21	
	Results	YoY	Forecast	YoY
Eastern Japan	8,530	-4.1%	9,000	5.5%
Central Japan	1,730	4.0%	1,800	3.9%
Western Japan	5,658	-6.2%	6,000	6.0%
Overseas	201	6.0%	185	-8.1%
MHLW (Japan)	945	-	315	-66.7%
Total	17,066	1.7%	17,300	1.4%

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

In Eastern Japan, the market is stable and the Company expects to increase sales by reliably recruiting large projects and delayed projects and expanding infection prevention product sales. In Central Japan, the Company forecasts all-time-high sales on steady recruitment of renewal projects. In Western Japan, it intends to promote deliveries for delayed projects and new deal acquisition and continue initiatives for patient wear. In overseas business, it aims to revive sales in FY8/21 2H, despite stalled sales activities from pandemic impact, on promotion of its business model (selling to linen companies) in Taiwan that had been lagging. While the Company confirmed MHLW business through FY8/21 1Q (¥315mn), it does not have any subsequent projects arranged at this point.

(3) Net sales forecasts by product

In sales by product, the Company forecasts ¥1,120mn in high-end products (up 4.5% YoY), ¥9,155mn in high-value-added products (up 5.3%), ¥6,010mn in value-added products (up 7.3%), ¥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%	1,120	4.5%
High-value-added products	8,692	-3.1%	9,155	5.3%
Value-added products	5,600	-2.2%	6,010	7.3%
Mass products	756	-7.5%	700	-7.4%
MHLW products	945	-	315	-66.7%
Total	17,066	1.7%	17,300	1.4%

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 (healthcare wear 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 projects. In value-added products, it intends to drive the shift from mass products, including other companies' projects, by releasing new functional products.

Medium- to long-term growth strategy

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

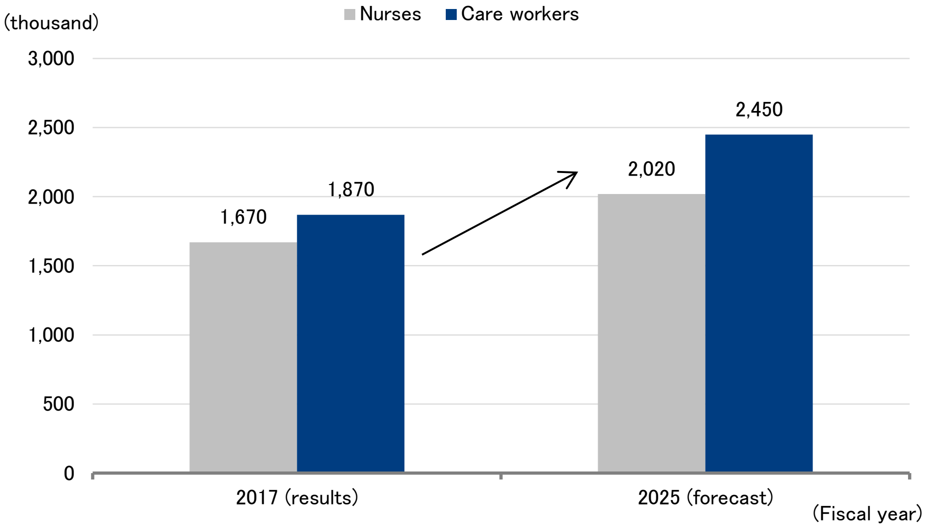
1. Mid-term management plan

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.

Forecasts for future demand for nurses and care workers



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)

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 expand 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 per share

The Company's equity ratio reached 90.7% at the end of FY8/21 1H 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.

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 its solid financial standing, this aggressive stance on shareholder returns is worthy of strong praise.

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%
FY8/21 (E)	1,971	0	56.0%	56.0%

* 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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