COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben Co., Ltd.

7447

Tokyo Stock Exchange First Section

10-Feb.-2022

FISCO Ltd. Analyst

Noboru Terashima

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

FY8/22 1Q results were in line with expectations despite lower profits due to elimination of special demand for MHLW products. In the mid-term management plan, is targeting operating profit of ¥5.4bn in FY8/24

1. FY8/22 1Q results

Nagaileben Co., Ltd. <7447> (hereafter, also "the Company") is the leading manufacturer in Japan of medical gowns, which is one of its core markets*1, with a domestic market share of over 60%, and it has both a high profit margin and a sound financial condition. In the FY8/22 1Q consolidated results, net sales decreased 6.1% year on year (YoY) to ¥3,378mn, operating profit decreased 12.0% to ¥915mn, recurring profit decreased 11.5% to ¥940mn and net profit attributable to the owners of the parent company decreased 10.7% to ¥648mn*2. Whereas net sales decreased given an absence of special demand for infection prevention products for the Ministry of Health, Labour and Welfare (MHLW) in FY8/21 1Q, results have been favorable overall given that sales generated by all other mainstay items were higher. Moreover, net sales increased 3.0% YoY on an actual basis, after excluding results of MHLW products (infection prevention products). Although the decrease in net sales resulted in lower operating profit, we feel this is not cause for concern given that the downturn was in line with expectations.

*1 In the new categories introduced from FY8/21, among its domestic markets, the core markets are those markets in which the Company has comparatively high shares. They correspond to healthcare wear, doctors' wear, utility wear, shoes and other products, and infection prevention products. There are three markets in the new categories: the core markets, the peripheral markets (patient wear and surgery wear) and the overseas markets.
*2 Effective from FY8/22, the Company applies the Accounting Standard for Revenue Recognition and other relevant standards. In addition, year-on-year comparisons have been calculated on the basis of figures prior to adoption of the accounting standard given that its application has a negligible effect on earnings results.

2. FY8/22 forecasts

For the FY8/22 consolidated results, the Company is holding to its initial forecasts given that its 1Q results were largely as expected. It accordingly forecasts that net sales will increase 0.8% YoY to ¥17,700mn, operating profit will decrease 3.8% to ¥5,013mn, recurring profit will decline 4.1% to ¥5,090mn, and net profit attributable to the owners of the parent company will fall 4.0% to ¥3,500mn. It is aiming for sales growth of the mainstay products, but net sales are forecast to increase only slightly mainly because MHLW products (infection prevention products) will be eliminated (¥315mn) and also due to the adoption of the Accounting Standard for Revenue Recognition* (expected to reduce net sales by ¥20mn). Conversely, operating profit is forecast to decrease due to the expectations that the yen will weaken in exchange rates, domestic processing fees will rise, and SG&A expenses will increase. As before, uncertainties remain about the future due to the spread of coronavirus (hereinafter, the COVID-19 pandemic), so the forecasts appear fairly conservative and we shall be paying attention to developments in the future. With regard to the new market categories to be introduced by the Tokyo Stock Exchange (TSE), the Company has already been notified that it satisfies the listing criteria for the Prime Market, and it is completing the procedure for this.

* The earnings results forecasts have been calculated subsequent to application of the Accounting Standard for Revenue Recognition and other relevant standards adopted by the Company in FY8/22. The impact of this on results is expected to be negligible.

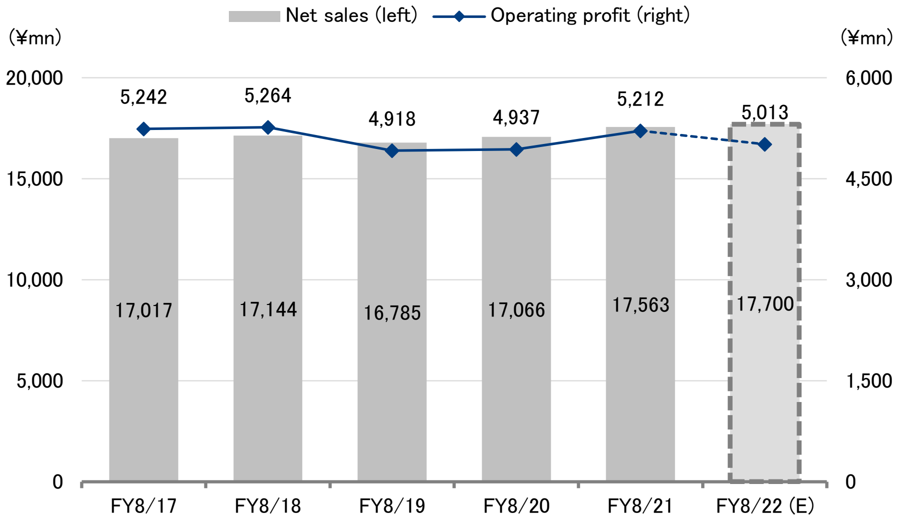
3. Mid-term management plan

In conjunction with its FY8/21 financial results announcement, the Company released its mid-term management plan extending through the plan's final year of FY8/24. The plan's numerical targets are net sales of ¥18.5bn and operating profit of ¥5.4bn in FY8/24. On the other hand, there has been no change to its approach for returning profits to shareholders and for FY8/21, it plans to pay an annual dividend of ¥60, and also the same amount for FY8/22. In addition, it intends to positively investigate share buybacks, and the Company can be highly evaluated for its consistent approach of actively returning profits to shareholders.

Key Points

- In FY8/22 1Q, results were in line with expectations despite profits having decreased due to elimination of infection prevention product sales to the MHLW. Meanwhile, sales of mainstay items have been favorable
- In FY8/22, operating profit is forecast to decrease 3.8% YoY, including due to the expected weakening of the yen, but the forecast appears conservative
- In the mid-term management plan, is targeting operating profit of ¥5.4bn in FY8/24. Is also actively returning profits to shareholders

Trends in net sales and operating profit (consolidated)



Note: The earnings results forecasts have been calculated subsequent to application of the Accounting Standard for Revenue Recognition and other relevant standards adopted by the Company in FY8/22
Source: Prepared by FISCO from the Company's financial results

Company profile

In its core markets, is the leading manufacturer of medical gowns with a domestic market share of over 60%

The Company 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, the Company says it has now 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% in one of its core markets of medical gowns for nurses.

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.
2020	Delivered 600,000 articles of PPE garments from protection from COVID-19.

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

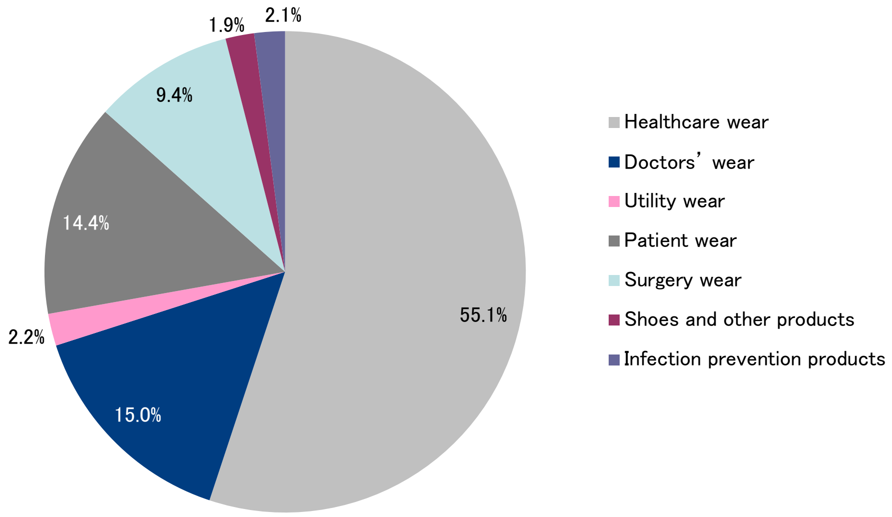
1. Sales breakdown

All of the Company's products are medical gowns and related products. The sales composition by item for FY8/21 is 55.1% from healthcare wear, 15.0% from doctors' wear, 2.2% from utility wear, 1.9% from shoes and other products, 2.1% from infection prevention products*, 14.4% from patient wear, and 9.4% from surgery wear.

* 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 purchased products have relatively low margins. Also, infection prevention products, which were separated into a new segment from FY8/20, are mainly MHLW products, so their profit margin is slightly lower than the average.

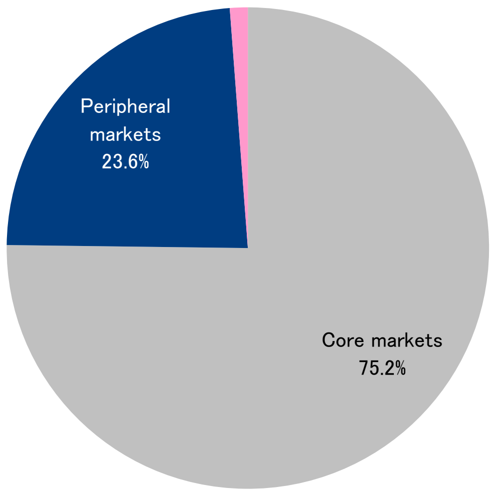
Net sales composition by item (FY8/21)



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

Also, in the new categories introduced from FY8/21, the markets are divided into three categories: the core markets where the Company has comparatively high market shares domestically (healthcare wear, doctors' wear, utility wear, shoes and other products, and infection prevention products), the peripheral markets where there is plenty of room to grow in the future (patient wear and surgery wear), and the overseas markets. Regarding the composition of total net sales in FY8/21, the core markets provided 75.2%, the peripheral markets 23.6%, and the overseas markets 1.2%. Net sales were previously disclosed by region, but following the establishment of the new categories, they will no longer be disclosed by region.

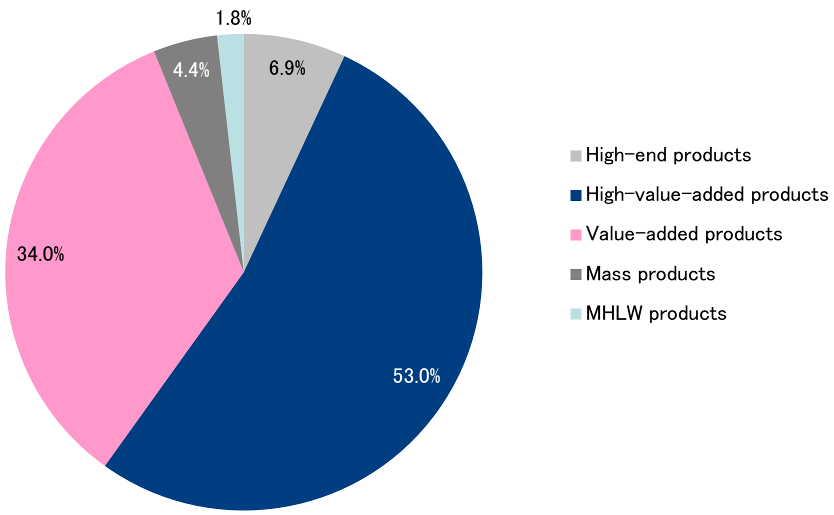
Net sales composition by market (FY8/21)



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

The composition of total net sales by product (function) for FY8/21 is 6.9% from high-end products, 53.0% from high-value-added products, 34.0% from value-added products, 4.4% from mass products and 1.8% 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)



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 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 FY8/21 results (non-consolidated), internal production and at partner plants constitute an aggregate of 98.8% (48.1% domestically and 50.7% 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 (easy to move around) while incorporating antistatic, antibacterial (restricting the spread of bacteria), 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 (QR) 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 in one of its core markets of medical gowns, the domestic market for medical gowns 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 45.9% (actual results for FY8/21). 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 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 people dressed as characters make 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 reusable isolation gowns. It is also continuously conveying messages of support to medical personnel.

b) Promotion of the employment of persons with disabilities

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 persons with disabilities.

c) Disaster support activities

The Company has provided monetary donations, medical gowns, masks, wheelchairs and other items through the Japanese Nursing Association 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."

(7) New initiatives

a) Published in Future Class

The Company's initiatives are introduced in Future Class, which is a teaching material used in classes on SDGs that is distributed to elementary and junior high schools nationwide.

b) Remake of student nurses' uniforms

The Company has deconstructed the training uniforms of student nurses at Okayama University and remade them into pochettes, so that they can use them even after starting work at medical facilities.

Results trends

In FY8/22 1Q, results were in line with expectations despite profits having decreased due to elimination of infection prevention product sales to the MHLW. Meanwhile, sales of mainstay items have been favorable

1. Summary of FY8/22 1Q consolidated results

In the FY8/22 1Q consolidated results, net sales decreased 6.1% year on year (YoY) to ¥3,378mn, operating profit decreased 12.0% to ¥915mn, recurring profit decreased 11.5% to ¥940mn and net profit attributable to the owners of the parent company decreased 10.7% to ¥648mn. Whereas net sales decreased given an absence of special demand for infection prevention products for the MHLW in FY8/21 1Q, results have been favorable overall given higher sales generated by all other mainstay items such as those in the core market of healthcare wear and the peripheral market of patient wear. Moreover, net sales increased 3.0% YoY on an actual basis, after excluding results of MHLW products (infection prevention products). Although the decrease in net sales resulted in lower operating profit, we feel this is not cause for concern given that the downturn was in line with expectations.

Summary of FY8/22 1Q consolidated results

(¥mn)

	FY8/21 1Q		FY8/22 1Q		Change	
	Results	% of total	Results	% of total	Value	Percentage
Net sales	3,595	100.0%	3,378	100.0%	-217	-6.1%
Gross profit	1,671	46.5%	1,532	45.4%	-139	-8.3%
SG&A expenses	632	17.6%	617	18.3%	-15	-2.4%
Operating profit	1,039	28.9%	915	27.1%	-124	-12.0%
Recurring profit	1,062	29.6%	940	27.8%	-122	-11.5%
Net profit attributable to the owners of the parent company	726	20.2%	648	19.2%	-77	-10.7%

Note: Figures presented for FY8/22 1Q have been calculated subsequent to application of the Accounting Standard for Revenue Recognition and other relevant standards adopted by the Company in FY8/22. Moreover, comparative information has been calculated using numerical values prior to application of such accounting standards when it comes to respective figures for the same period of the previous fiscal year as well as increases and decreases

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

In the market environment, medical frontline operations that have not fully recovered yet have regained calm after having emerged from a period of disruption. Furthermore, with the authorities having increased medical fees by 0.43% and decreased drug prices by 1.35% per their revision of medical fees effective from April 2022, these revisions may have a slight impact on hospital management yet are unlikely to substantially affect orders of the Company's products.

In profits, the gross profit margin decreased 1.1pp YoY to 45.4%, and gross profit decreased 8.3% to ¥1,532mn. The YoY downturn in the gross profit margin is attributable to extraordinary circumstances such that overseas production had been enlisted to address special demand for MHLW products (infection prevention products) in FY8/21 1Q. Meanwhile, the extent of the downturn does not seem to pose any particular concerns, particularly given a gross profit margin forecast of 45.0% for the entire fiscal year. On the other hand, whereas the Company reduced its SG&A expenses by 2.4% YoY to ¥617mn largely because of its ongoing efforts to cut costs, its operating profit also decreased 12.0% to ¥915mn as a result.

● Net sales by item and by market

In net sales by item, healthcare wear increased 3.8% YoY to ¥1,770mn, doctors' wear increased 2.9% to ¥463mn, utility wear increased 3.7% to ¥81mn, shoes and other products decreased 7.7% to ¥62mn, infection prevention products decreased 99.8% to less than ¥1mn, patient wear increased 6.5% to ¥660mn, and surgery wear decreased 0.2% to ¥299mn.

In terms of results by market, this performance culminated in core market sales of ¥2,378mn (down 10.0% YoY), peripheral market sales of ¥959mn (up 4.3%), and overseas market sales of ¥40mn (up 17.2%). These results clearly indicate that the decrease in overall net sales was mainly attributable to the lack of MHLW product sales (infection prevention products), with performance in other categories having remained favorable.

Net sales by item and by market

(¥mn)

	FY8/22 1Q	
	Result	YoY
Core markets	2,378	-10.0%
Healthcare wear	1,770	3.8%
Doctors' wear	463	2.9%
Utility wear	81	3.7%
Shoes and other products	62	-7.7%
Infection prevention products	0	-99.8%
Peripheral markets	959	4.3%
Patient wear	660	6.5%
Surgery wear	299	-0.2%
Overseas markets	40	17.2%
Total	3,378	-6.1%

Note: Figures presented for FY8/22 1Q have been calculated subsequent to application of the Accounting Standard for Revenue Recognition and other relevant standards adopted by the Company in FY8/22. In addition, year-on-year comparisons have been calculated on the basis of figures prior to adoption of the accounting standard
Source: Prepared by FISCO from the Company's financial results

Financial position remains sound given a high level of cash and deposits on hand at ¥25.9bn, and an equity ratio of 90.8%

2. Financial position

The Company's financial position remains stable. At the end of FY8/22 1Q, total assets had decreased by ¥1,761mn to ¥44,667mn compared to the end of the previous fiscal year. Current assets decreased by ¥1,618mn to ¥35,703mn, mainly due to a decrease in cash and deposits of ¥1,969mn, a decrease in notes and accounts receivable including electronically recorded claims of ¥492mn, and an increase in inventories of ¥669mn. Meanwhile, fixed assets decreased by ¥142mn to ¥8,964mn, mainly due to a decrease in tangible fixed assets of ¥52mn and a decrease in investments and other assets of ¥86mn.

Total liabilities were ¥4,115mn, down ¥283mn compared to the end of the previous fiscal year. This was largely attributable to an increase of ¥215mn in notes and accounts payable and a decrease of ¥620mn in income taxes payable. Net assets decreased ¥1,477mn to ¥40,552mn, mainly due to a ¥1,362mn decrease in retained earnings as a result of the Company having paid out dividends. As a result, the equity ratio was 90.8% at the end of FY8/22 1Q, up 0.3pp compared to the end of the previous fiscal year.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/21	End of FY8/22 1Q	Change
Cash and deposits	27,879	25,909	-1,969
Notes and accounts receivable (including electronically recorded claims)	4,775	4,282	-492
Inventories	4,615	5,285	669
Current assets	37,322	35,703	-1,618
Tangible fixed assets	7,489	7,437	-52
Intangible fixed assets	43	40	-3
Investments and other assets	1,572	1,486	-86
Fixed assets	9,106	8,964	-142
Total assets	46,428	44,667	-1,761
Notes and accounts payable	1,290	1,505	215
Income taxes payable	945	324	-620
Total liabilities	4,399	4,115	-283
Retained earnings	43,276	41,913	-1,362
Treasury shares	-5,913	-5,913	-0
Net assets	42,029	40,552	-1,477
Total liabilities and net assets	46,428	44,667	-1,761

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

Business outlook

In FY8/22, operating profit is forecast to decrease 3.8% YoY, including due to the expected weakening of the yen, but the forecast appears conservative

● FY8/22 consolidated earnings outlook

For the FY8/22 consolidated results, the Company is holding to its initial forecasts given that its 1Q results were largely as expected. It accordingly forecasts that net sales will increase 0.8% YoY to ¥17,700mn, operating profit will decrease 3.8% to ¥5,013mn, recurring profit will decline 4.1% to ¥5,090mn, and net profit attributable to the owners of the parent company will fall 4.0% to ¥3,500mn. It is aiming for sales growth of the mainstay products, but net sales are forecast to increase only slightly mainly because MHLW products (infection prevention products) will be eliminated (¥315mn) and also due to the adoption of the Accounting Standard for Revenue Recognition (expected to reduce net sales by ¥20mn). If excluding these special factors, actual net sales would increase 2.7%.

Conversely, operating profit is forecast to decrease due to the expectations that the yen will weaken in exchange rates and that SG&A expenses (advertising and promotion costs, travel and transportation costs, etc.) will return to levels seen before COVID-19. However, this forecast is conservative, such as for the expected logistics costs, and if net sales achieve their forecast, it seems possible that the operating profit forecast will be upwardly revised.

FY8/22 consolidated earnings outlook

(¥mn)

	FY8/21		FY8/22		Change	
	Result	% of total	Target	% of total	Value	Percentage
Net sales	17,563	100.0%	17,700	100.0%	136	0.8%
Gross profit	8,058	45.9%	7,973	45.0%	-84	-1.1%
SG&A expenses	2,846	16.2%	2,960	16.7%	114	4.0%
Operating profit	5,212	29.7%	5,013	28.3%	-198	-3.8%
Recurring profit	5,306	30.2%	5,090	28.8%	-215	-4.1%
Net profit attributable to the owners of the parent company	3,647	20.8%	3,500	19.8%	-147	-4.0%

Note: The earnings results forecasts have been calculated subsequent to application of the Accounting Standard for Revenue Recognition and other relevant standards adopted by the Company in FY8/22. Moreover, comparative information has been calculated using numerical values prior to application of such accounting standards when it comes to respective figures for the previous fiscal year as well as increases and decreases
Source: Prepared by FISCO from the Company's financial results and results briefing materials

The forecasts are for a gross profit margin of 45.0% (45.9% in the previous period) and for gross profit to decrease ¥85mn YoY, with sales growth being an increase factor of ¥70mn and production being a decrease factor of ¥149mn. Breaking down the production factors, gross profit is forecast to decrease ¥114mn due to the effect of exchange rates (weakening of the yen from ¥104.3 to US$1 in FY8/21 to ¥110 to US$1 in FY8/22), to decrease ¥50mn due to the increase in processing fees at domestic plants, and to increase ¥50mn because of the rise in the overseas production ratio (from 50.7% FY8/21 to 51.7% in FY8/22). It appears that overseas logistics costs, which temporarily rose in FY8/21, will not rise further (remain unchanged YoY), but if transportation fees, such as for containers, return to normal (decrease), this will become an increase factor for profit.

In SG&A expenses, sales activities are to a certain extent expected to return to normal, so the forecasts are for advertising and promotion costs to increase ¥48mn and travel and transportation costs to rise ¥26mn. SG&A expenses, which includes these items, are forecast to increase 4.0% YoY to ¥2,960mn and as a result, operating profit is expected to decrease 3.8% YoY to ¥5,013mn. The Company is forecasting capital investment of ¥272mn and depreciation of ¥296mn, which are within the normal ranges.

(1) Net sales forecasts by item

In net sales by item, sales of healthcare wear are forecast to increase 0.9% YoY to ¥9,760mn, doctors' wear to increase 2.0% to ¥2,680mn, utility wear to decrease 7.7% to ¥350mn, shoes and other products to decrease 8.5% to ¥310mn, infection prevention products to decrease 72.4% to ¥100mn, patient wear to increase 10.9% to ¥2,800mn, and surgery wear to increase 2.4% to ¥1,700mn. By market, net sales are forecast to decrease 1.4% to ¥13,023mn in the core markets, to increase 7.6% to ¥4,467mn in the peripheral markets, and to increase 3.4% to ¥210mn in the overseas markets.

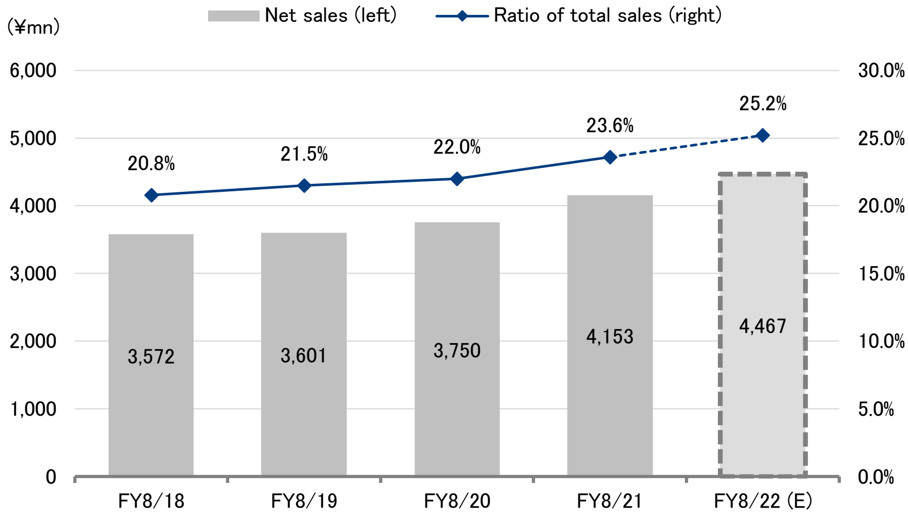
Net sales forecasts by item

(¥mn)

	FY8/21		FY8/22	
	Result	YoY	Forecast	YoY
Healthcare wear	9,673	8.2%	9,760	0.9%
Doctors' wear	2,626	6.1%	2,680	2.0%
Utility wear	378	-3.9%	350	-7.7%
Patient wear	2,523	22.1%	2,800	10.9%
Surgery wear	1,659	-3.5%	1,700	2.4%
Shoes and other products	338	-2.6%	310	-8.5%
Infection prevention products	362	-67.6%	100	-72.4%
Total	17,563	2.9%	17,700	0.8%

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

Trend in net sales of peripheral markets and ratio of total sales



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

For the mainstay healthcare wear and doctors' wear, the Company is aiming to strongly increase sales by steadily acquiring orders for renewal projects through market launches of new concept products. In patient wear, it plans to continue to increase sales from the growth of demand in the market and by increasing its market share. In surgery wear, it will focus on market penetration of COMPELPACK, from their advantage of being reusable, and sales are expected to increase. In infection prevention products, it does not expect sales of MHLW products and reusable masks, and it plans to market only reusable gowns.

(2) Net sales forecasts by product

In sales by product, the Company forecasts are sales of ¥1,260mn of high-end products (up 3.4% YoY), ¥9,690mn of high-value-added products (up 4.2%), ¥6,000mn of value-added products (up 0.6%), ¥750mn of mass products (down 1.9%), and ¥0mn of MHLW (Japan) (down 100%).

Net sales forecasts by product

(¥mn)

	FY8/21		FY8/22	
	Result	YoY	Forecast	YoY
High-end products	1,218	13.6%	1,260	3.4%
High-value-added products	9,302	7.0%	9,690	4.2%
Value-added products	5,963	6.5%	6,000	0.6%
Mass products	764	1.1%	750	-1.9%
MHLW products	315	-66.7%	0	-100.0%
Total	17,563	2.9%	17,700	0.8%

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

Medium- to long-term growth strategy

Has announced the mid-term management plan and is targeting operating profit of ¥5.4bn in FY8/24

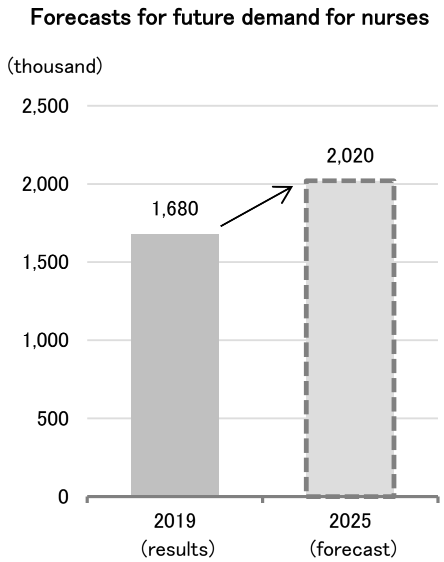
1. Mid-term management plan

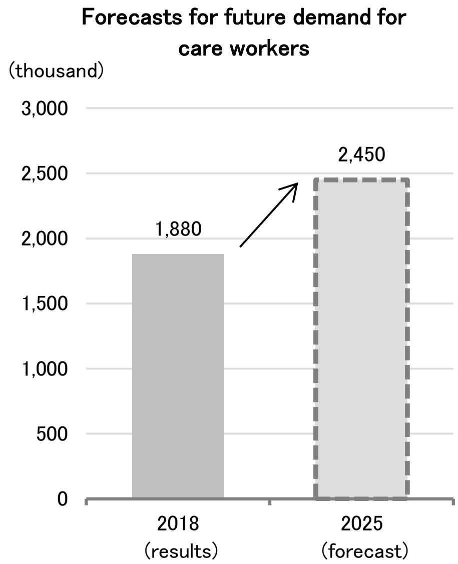
Before the COVID-19 pandemic, the Company announced the mid-term management plan for the next three years based on the results of the previously completed fiscal period. But when it announced its FY8/20 financial results, it decided to postpone the announcement of numerical targets for the mid-term management plan, as it concluded that it would be difficult to calculate them amid the ongoing disruption at medical facilities. However, having since deemed it possible rationally calculate such targets particularly amid improvement in the market environment outlook, the Company accordingly released its mid-term management plan extending through the plan's final year of FY8/24 in conjunction with its FY8/21 financial results announcement. The plan's numerical targets are net sales of ¥18.5bn and operating profit of ¥5.4bn in FY8/24*.

* Assumes an exchange rate of ¥110 (fixed).

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 1.68 million in FY2019 to a maximum of 2.02 million in FY2025. Moreover, the number of demanded nursing care professionals is forecast to increase from 1.88 million in FY2018 to 2.45 million in FY2025.





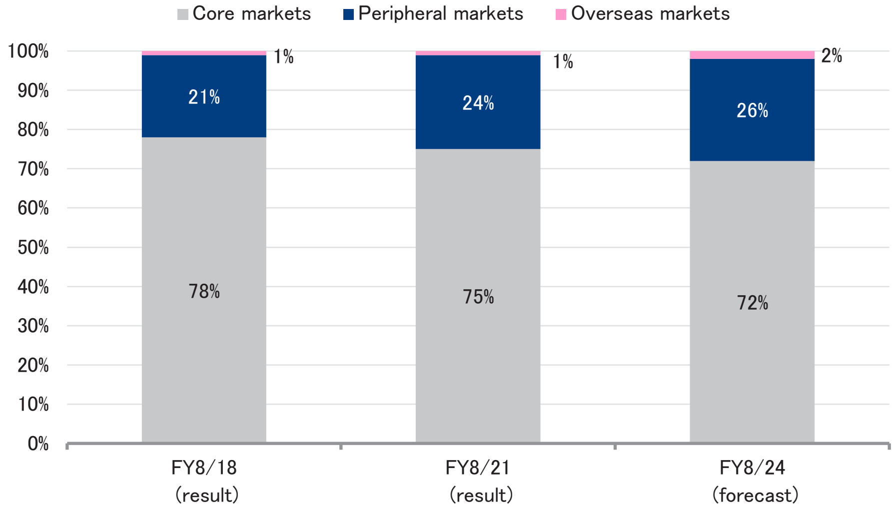
Source: Prepared by FISCO from the following materials (English titles have been translated from Japanese)
FY2019 Actual Number of Nursing Professionals from "Statistical Data on Nursing Service in Japan" (Japanese Nursing Association)
FY2025 Estimated Number of Nursing Professionals from "Study Group on Supply and Demand of Medical Personnel" Materials (Ministry of Health, Labour and Welfare)
FY2018 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 Nursing Care Insurance Business Group Plan" (Ministry of Health, Labour and Welfare)

In this sort of business environment, the Company plans to achieve growth in the medium term through the following three strategies: (1) market strategy to expand sales, (2) product strategy to stabilize profitability, (3) and production strategy to improve the profit margin.

(1) Market strategy to expand sales

As its market strategy, the Company is aiming to expand sales not only in its core markets in which it has comparatively high shares, but also by further deepening its businesses in the peripheral markets that still have plenty of room to grow in the future. For the overseas markets, the Company is developing markets, mainly in South Korea and Taiwan, by utilizing the business model that is one of its strengths. By implementing these strategies, it forecasts that the net sales composition by market in FY8/24 will be 72% from the core markets (compared to 78% in FY8/18), 26% from the peripheral markets (21%), and 2% from the overseas markets (1%).

Forecasts for net sales composition by market

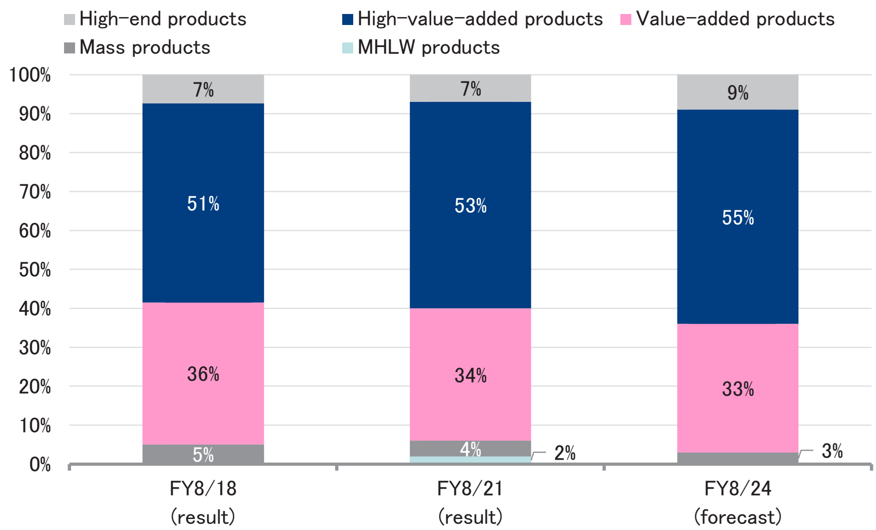


Source: Prepared by FISCO from the Company's results briefing materials

(2) Product strategy to stabilize profitability

As its product strategy, the Company will aim to progress sales growth of high-end products and high-value-added products, and at the same time make an effort to increase sales of mass products and value-added products. Its policy is to stabilize profitability even further. As a result, it is forecasting that the composition of net sales by product in FY8/24 will be 9% from high-end products (compared to 7% in FY8/18), 55% from high-value-added products (51%), 33% from value-added products (36%), and 3% from mass products (5%).

Forecasts for net sales composition by product

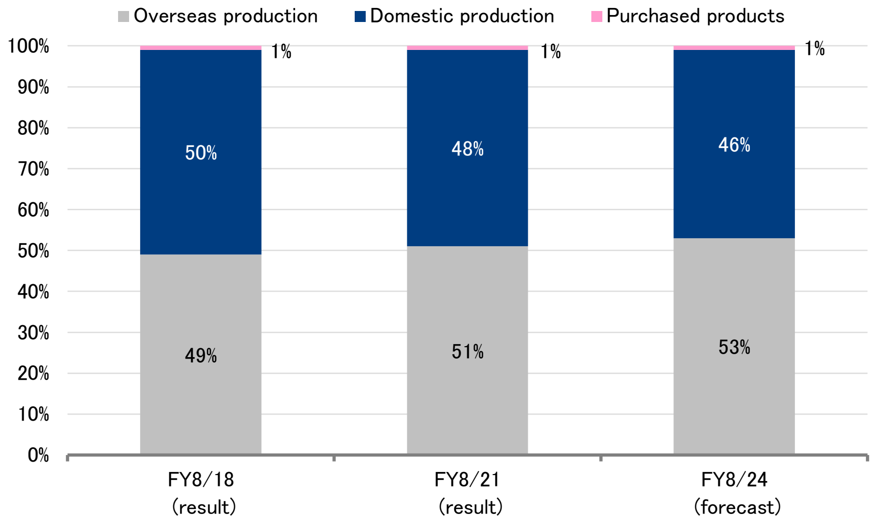


Source: Prepared by FISCO from the Company's results briefing materials

(3) Production strategy to improve the profit margin

As its production strategy, the Company intends to improve the profit margin by raising the overseas production ratio through shifting production overseas, while keeping down exchange rate-related risk. In Japan, its policy is to maintain a high profit margin by strengthening its ability to respond to requests for QR and multiple-product, small-lot production runs. By implementing these strategies, it is forecasting that the composition of total production in FY8/24 will be 53% from overseas production (compared to 49% in FY8/18), 46% from domestic production (50%), and 1% from purchased products (1%).

Forecasts for the composition of production



Source: Prepared by FISCO from the Company's results briefing 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 90.5% at the end of FY8/21 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 (8.9% in FY8/21).

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 each year from FY8/18 to FY8/20. It also plans to pay a dividend of ¥60 for FY8/21, for a total return ratio of 55.0%. For FY8/22, which is currently underway, it has already announced that it will pay an annual dividend of ¥60, for a dividend payout ratio of 57.6% (non-consolidated), if it achieves the profit forecast. So in addition to its strong financial structure, the Company can be highly evaluated for its approach of actively returning profits to shareholders.

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	1,995	0	58.0%	58.0%
FY8/20	1,971	1,031	57.9%	87.9%
FY8/21	1,971	0	55.0%	55.0%

* On a non-consolidated basis
Note: The Company executed 1:2 stock splits in FY8/04 and FY8/11
Source: Prepared by FISCO from the Company's results briefing materials

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp