COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben co., Ltd.

7447

Tokyo Stock Exchange First Section

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Index

Summary

In FY3/18 Q3, operating profit declined slightly, although sales increased

Nagaileben co., Ltd. <7447> (hereafter, also "the Company") is the leading manufacturer of medical gowns in Japan, with a domestic market share of over 60%. The Company boasts high profit margins and a solid financial condition.

1. In FY3/18 Q3, operating profit declined 2.0% YoY, but this is not a particular cause for concern

In the consolidated results for FY8/18 3Q announced by the Company, net sales increased 0.2% year on year (YoY) to ¥13,477mn, operating profit declined 2.0% to ¥4,215mn, recurring profit decreased 2.5% to ¥4,272mn, and net profit attributable to the owners of the parent company decreased 2.2% to ¥2,947mn. The gross profit margin declined a little YoY, but this was within the expected range and it improved compared to Q2. Although there were no special factors, the items from operating profit downward decreased slightly due to the sluggish sales. However, the results are not a particular cause for concern.

2. Continued profit increases forecast for FY8/18

The forecasts for the full-year consolidated earnings for FY8/18 are left unchanged for net sales to increase 2.8% YoY to ¥17,500mn, operating profit to rise 2.5% to ¥5,373mn, recurring profit to climb 2.0% to ¥5,448mn, and net profit attributable to the owners of the parent company to increase 1.8% to ¥3,739mn. The Company is aiming to expand sales, particularly of its mainstay healthcare wear products. It is also forecasting that it will absorb the higher costs by the continuing rise in the overseas production ratio and other means, to maintain the increase in operating profit.

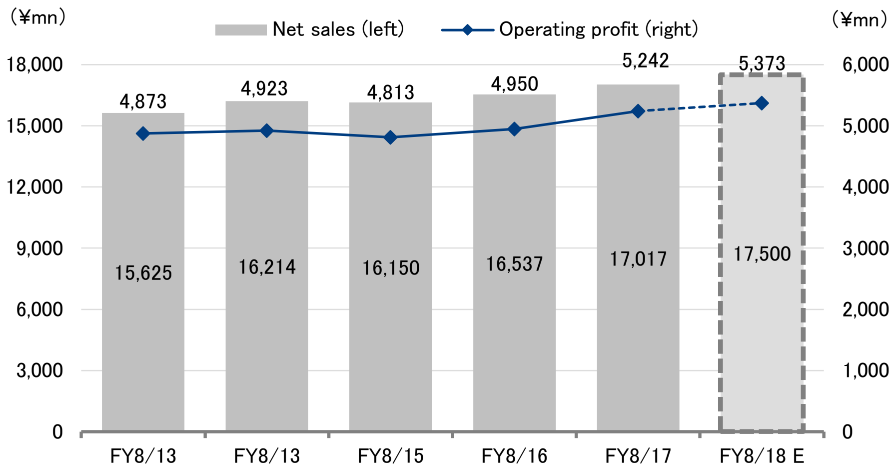
3. Actively returns profits to shareholders

Based on the results in the previous fiscal year (FY8/17), the Company announced that it had rolled over its plan up to that time and set new medium-term management targets for FY8/20, of net sales of ¥18,500mn and operating profit of ¥5,600mn. It would seem to be aiming to achieve these targets through expanding overseas production and strengthening high value-added products that have significant profit margins. The Company is also actively returning profits to shareholders. It has pledged a dividend payout ratio of above 50% (on a non-consolidated basis) and in FY8/18, it plans to pay an annual dividend of ¥60. It has also declared that it will flexibly buy back its own shares, and its approach toward returning profits to shareholders would seem worthy of praise.

Key Points

- In FY3/18 Q3, sales growth was sluggish so operating profit declined 2.0% YoY, but this is not particularly a problem
- Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/20
- Annual dividend of ¥60 planned for FY8/18 again, with proactive shareholder returns including share buybacks

Trends in net sales and operating profit (consolidated)



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

Company profile

Leading manufacturer of medical gowns with a domestic market share of over 60%

Nagaileben is a specialist manufacturer of medical gowns for nurses, doctors, patients and others. Established in 1915 as Nagai Shoten, the Company has a rich history. Since then, it has expanded its operations nationally to become a leading domestic manufacturer with a share of over 60% of the market for medical gowns for nurses.

History

1915	Mitsuji Nagai started a privately owned business “Nagai Shoten” specializing in medical gowns in Kanda-Jinbocho, Chiyoda-ku, Tokyo
1950	Liquidated Tokyo Eisei Hakui Co. Ltd. Mitsuji Nagai and Tatsuro Sawanobori jointly established Nagai Shoten Co. Ltd.
1969	Established a subsidiary, Nagai 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 multi-purpose white gowns to medical gowns.
1977	Built second product center in Kameido, Tokyo. Established a partnership with a US company, G.D. Searle & Company, and established Japan Surgical Apparel Co. Ltd. in Hiroshima to expand sales of new surgical apparel products for hospitals.
1978	Established technology partnerships with Angelica Corp (US) and Toray Industries, Inc. <3402>. Developed and released medical gowns made with a new fabric for leasing.
1979	Changed name to Nagai Co. Ltd.
1980	Opened a sales office in Takamatsu, Kagawa Prefecture. Concluded a license agreement with designer Kansai Yamamoto.
1982	Concluded a license agreement with designer Yukiko Hanai.
1988	Established Emit Co. Ltd. as a spin-off from Nagai Co. Ltd. Thereafter, the two companies exchanged their names, with Emit Co. Ltd. becoming a group management company, and Nagai Co. Ltd. becoming a group headquarters for sales.
1989	Newly built Nagai Luminous, a manufacturing plant for high-grade products, in Akita Prefecture. Started overseas production toward the global division of labor.
1994	Changed name from Nagai Co. Ltd. to Nagaileben Co. Ltd. Built a new logistics center in Akita Prefecture.
1995	Started over-the-counter trading of the Company’s stock. Started development and sales of a second pillar product to respond to the aging of society. Vice President Ichiro Sawanobori appointed President.
1996	Concluded a license agreement with French designer Andre Courreges.
1999	Opened a sales office in Nagoya, Aichi Prefecture. Concluded a license agreement with designer Atsuro Tayama.
2001	Listed on the Second Section of Tokyo Stock Exchange.
2002	Established a technology partnership with Standard Textile Company, Inc. (US) and Toray Industries, Inc. for surgical textiles. Raised the status of the Nagoya sales office to a branch.
2004	Acquired ISO 9001. Listed on the First Section of Tokyo Stock Exchange. Absorbed Hokkaido Nagai Co. Ltd. and established the Hokkaido branch.
2005	Acquired ISO 14001. Concluded a license agreement with designer Keita Maruyama.
2006	Concluded a brand agreement with designer Minako Yokomori.
2014	Relocated to a new head office building in Kajicho, Chiyoda Ward, Tokyo.
2015	Held ceremony to commemorate its 100th anniversary.
2016	Transitioned to a Company with Audit & Supervisory Committee
2017	Concluded a joint development agreement with Shiseido Company, Ltd. <4911>.

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

Business overview

Focusing on expanding sales of high value-added, advanced-function products

1. Sales breakdown

All of the Company’s products are medical gowns and related products. The contribution to sales by item (FY8/17) is 58.4% from healthcare wear, 15.7% from doctors’ wear, 3.3% from utility wear, 10.5% from patient wear, 9.6% from surgical wear, 1.2% from shoes, and 1.3% from other products. Healthcare wear consists mainly of products for nurses, and utility wear consists of aprons, cardigans, and other items worn as outer garments. Profit margins for each item do not vary significantly, but the profit margins of purchased products, such as shoes and other products, are relatively lower.

In terms of each region's contribution to sales (FY8/17), eastern Japan accounts for 52.9%, western Japan 35.7%, central Japan 10.3%, and overseas 1.1%. While coverage is nationwide, sales in western Japan and overseas remain low, indicating the potential for future expansion.

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

In the new categories, the percentages of total net sales by product (FY8/17) are 7.0% from high-end products, 50.6% from high value-added products, 37.3% from value-added products, and 5.1% from mass-produced products. On looking at the approximate price-band classifications in nurse wear, mass-produced products are less than ¥5,000, value-added products are ¥5,000 to ¥7,500, high value-added products are ¥7,500 to ¥10,000, and high-end products are more than ¥10,000. The tendency is for higher prices to achieve greater profit margins, so the Company is focusing on expanding sales of high-end products and high value-added products.

2. Sales channels and production status

The Company's end users include nurses and doctors, with the purchasers of the products mainly being medical facilities such as hospitals, nursing care facilities, and other such facilities. However, the Company does not conduct direct sales, with 100% of sales being agency sales via medical equipment wholesalers that sell to these medical and other facilities. As a result, sales expenses are kept down, but the Company is still able to understand customers' needs as the sales staff is constantly in contact with large hospitals and other facilities.

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

Looking at the Company's production structure, based on FY8/17 performance, internal production and at partner plants constitute an aggregate of 98.7% (50.6% domestically and 48.1% overseas), with purchased products accounting for 1.3%. Overseas production predominantly takes place in Indonesia, Vietnam, and China, but the Company owns no plants and the goods are produced at the plants of its local partners, which mitigates investment risk and reduces costs.

3. Characteristics and strengths

The Company is a specialized manufacturer of medical gowns, and one of its strengths is that it has in place an integrated system to undertake every aspect of this business, from planning through to raw material procurement, manufacturing, and sales. In its product planning, it can accurately understand customer needs and reflect them in its products. Specifically, the Company sells products that are easy to work in while incorporating anti-static, antibacterial, and other functions, as well as featuring excellent designs, and they have earned excellent reputations among their users. At the same time, it deals directly with major synthetics manufacturers and textiles traders, including Toray Industries, Inc. <3402>, with which it is jointly developing materials, so it is able to secure optimal materials and products at low costs while selling them at appropriate margins.

Furthermore, in addition to its large number of affiliated plants, the Company has the necessary financial resources to be able to constantly maintain product item inventories that extend into the thousands of varieties, while also being able to swiftly respond to a broad range of user needs, including for made-to-order products, through a rapid production and sales system (the quick response system) that delivers the desired product on the specified day. This has also helped to earn it the strong trust of its customers. On the sales side, it has a network of close to 1,000 agents nationwide, and while its sales capabilities are robust, the Company itself keeps down its sales expenses as much as possible.

As a result, the Company's share of the domestic market for medical gowns for nurses exceeds 60%, and it maintains a firm position as the leading medical gown manufacturer in Japan. Additionally, it is maintaining profitability with a gross profit margin of 47.5% (actual results for FY8/17). The fact that it is both highly profitable and has a high market share demonstrates that most of its customers are satisfied with its products and services, which is the Company's greatest strength.

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

4. Company policy (initiatives for CSR/ESG)

The Company commemorated its centennial in 2015, by cultivating a corporate culture called Nagaism that is focused on realizing interpersonal harmony, generating profits, and contributing to society. It has undertaken the following specific initiatives for CSR/ESG.

(1) Expanding women's roles: Supporting industries led by women

Many of the Company's products are for women working on the frontlines at hospitals and nursing care facilities, and its production facilities have many women involved in sewing work. The Company's business operations create many opportunities to expand the roles of women from a variety of life stages, which connects to supporting working women.

(2) Contributing to communities

a) 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.

b) Medical kids project

This project started from the idea of deepening interaction between hospitals and local communities and enabling children to attend hospitals or undergo hospitalization with ease of mind. Child-sized medical gowns resembling those worn by doctors and nurses are lent to hospitals and a Miffy character makes hospital visits.

(3) Contributing to customers: Opened the ITONA® gallery, an oasis for nurses

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

(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 an outstanding business in terms of contribution to the employment and promotion of people with disabilities.

b) Disaster support activities

Monetary donations, provision of medical gowns and presentation of wheelchairs and other items has been made through nursing associations or the Japanese Red Cross Society following the outbreak of SARS and natural disasters including the Indonesian earthquake, the Great Hanshin Earthquake, the Great East Japan Earthquake and the Kumamoto earthquakes.

(5) Environmental initiatives

The Company secured ISO 14001 certification in 2005. Cutting wastage from raw materials is reused for roofing processing and other purposes. The Company has also developed and sells COMPELPAK®, a reusable product for use on surgical front lines. By converting to a reusable product instead of the disposable type that had been used until now, it enables medical waste to be reduced and contributes to solving environmental problems.

Results trends

In FY3/18 Q3, sales growth was sluggish so operating profit declined 2.0% YoY, but this is not particularly a problem

● Summary of FY8/18 3Q consolidated results

(1) Profit-and-loss conditions

In the consolidated results for FY8/18 3Q announced by the Company, net sales increased 0.2% year on year (YoY) to ¥13,477mn, operating profit declined 2.0% to ¥4,215mn, recurring profit decreased 2.5% to ¥4,272mn, and net profit attributable to the owners of the parent company decreased 2.2% to ¥2,947mn. The gross profit margin declined a little YoY, but this was within the expected range and it improved compared to Q2. Although there were no special factors, the items from operating profit downward decreased slightly due to the sluggish sales. However, the results are not a particular cause for concern.

Summary of FY8/18 3Q consolidated results

(¥mn, %)

	FY8/17 3Q		FY8/18 3Q			
	Amount	% of total	Amount	% of total	Change	YoY
Net sales	13,449	100.0	13,477	100.0	28	0.2
Gross profit	6,420	47.7	6,331	47.0	-88	-1.4
SG&A expenses	2,119	15.8	2,116	15.7	-3	-0.1
Operating profit	4,300	32.0	4,215	31.3	-85	-2.0
Recurring profit	4,380	32.6	4,272	31.7	-107	-2.5
Net profit attributable to the owners of the parent company	3,014	22.4	2,947	21.9	-67	-2.2

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

In the market environment and the industry environment, there were concerns regarding the impact of a double revision of medical treatment fees and nursing care fees implemented from April 2018. Nevertheless, the impact on the Company was negligible as the revisions exceeded the previous revision, with medical treatment fees themselves increasing by 0.55% and nursing care fees by 0.54%. But on the other hand, in the system reforms that go beyond the boundary between medical care and nursing care through simultaneous revisions, there are some other reforms, including the new establishment of nursing and medical care facilities, and it seems that some confusion is occurring in medical care and nursing care workplaces. It is estimated that sales were sluggish from the effects of this. However, even if only slightly, sales increased YoY and thereby achieved a new record high for a Q3.

The gross profit margin declined 0.7 of a percentage point to 47.0% (compared to 47.7% for FY8/17 3Q). This reflects the impact of the yen's depreciation (decline in cover from foreign currency forward exchange contracts) as well as delays in transferring and starting operations overseas associated with an increase in new products. The Company's practice is to manufacture products domestically when initially launching new products, moving production offshore in phases as the volume increases. There is a tendency for domestic production to increase initially when replacing lines with new products, causing a drop in the gross profit margin. Since this phenomenon occurs especially in the 1H, while the gross profit margin in Q3 decreased YoY, it improved compared to Q2 (46.8%).

SG&A expenses were basically unchanged YoY, but operating profit declined due to the fall in the gross profit margin. Recurring profit decreased 2.5% YoY. This was mainly due to the impact of exchange-rate profit and loss in non-operating profit and loss (FY8/17 3Q profit of ¥45mn, FY8/18 3Q loss of ¥2mn).

In net sales by item, healthcare wear increased 0.1% YoY to ¥7,878mn, doctors' wear decreased 1.2% to ¥2,150mn, utility wear decreased 9.2% to ¥394mn, patient wear increased 8.8% to ¥1,535mn, surgical wear decreased 1.0% to ¥1,178mn, shoes decreased 5.9% to ¥147mn, and other products decreased 6.3% to ¥192mn.

As overall sales were sluggish, by individual item also, sales were down slightly YoY. But the fact that sales of patient wear, for which the Company has focused on growing sales since the past, increased 8.8% can be highly evaluated. Against the backdrop of the expansion of the market from the spread in the use of hospitalization sets, it is estimated that the factor behind this is that the market is favorably receiving the value-added products group and its market share grew.

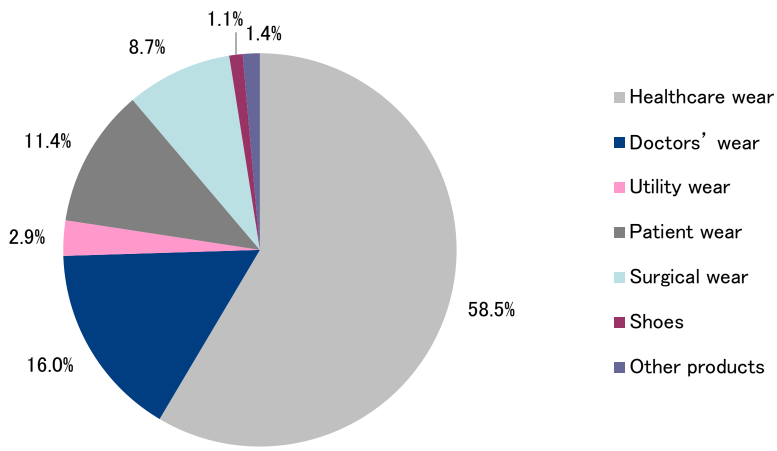
Net sales by item

(¥mn, %)

	FY8/17 3Q		FY8/18 3Q	
	Amount	YoY	Amount	YoY
Healthcare wear	7,874	4.5	7,878	0.1
Doctors' wear	2,176	1.1	2,150	-1.2
Utility wear	434	-9.5	394	-9.2
Patient wear	1,410	17.6	1,535	8.8
Surgical wear	1,190	4.5	1,178	-1.0
Shoes	156	-3.0	147	-5.9
Other products	205	-3.1	192	-6.3
Total	13,449	4.4	13,477	0.2

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

Net sales composition by item (FY8/18 3Q)



Sales conditions by region and sales conditions by product are not disclosed for 3Q.
Source: Prepared by FISCO from the Company's financial results

The financial position is solid, with cash at the end of FY8/18 3Q at ¥21,500mn and a shareholders' equity ratio of 89.9%

(2) Financial position

The Company's financial position continues to be stable. Total assets at the end of FY8/18 3Q were ¥41,791mn, up ¥840mn compared to the end of the previous fiscal year. Current assets were ¥32,739mn, an increase of ¥414mn. The main factors were decreases in cash and deposits of ¥1,234mn for the payment of dividends, an increase in notes and accounts receivable of ¥382mn and a decrease in inventories of ¥153mn. Fixed assets were ¥9,052mn, up ¥426mn, mainly due to a ¥398mn increase in tangible fixed assets for capital expenditure.

Total liabilities were ¥4,230mn, down ¥174mn compared to the end of the previous fiscal year. The main factors included an increase in notes and accounts payable of ¥110mn and a decrease in income tax payable of ¥304mn. Net assets were ¥37,560mn, an increase of ¥1,015mn. This was mainly due to an increase in retained earnings of ¥952mn following the recording of net profit attributable to the owners of the parent company. As a result of these factors, the shareholders' equity ratio at the end of FY8/18 3Q was 89.9%, increasing 0.7 percentage points from the end of the previous fiscal year.

Summary of the consolidated balance sheet

(¥mn)

	FY8/17	FY8/18 3Q	Change
Cash and deposits	22,762	21,527	-1,234
Notes and accounts receivable	3,944	4,327	382
Inventories	4,311	4,158	-153
Current assets	32,325	32,739	414
Tangible fixed assets	7,256	7,655	398
Intangible fixed assets	54	48	-6
Investments and other assets	1,315	1,348	33
Fixed assets	8,626	9,052	426
Total assets	40,951	41,791	840
Notes and accounts payable	1,428	1,539	110
Income taxes payable	1,091	786	-304
Total liabilities	4,405	4,230	-174
Retailed earnings	36,989	37,941	952
Treasury shares	-4,902	-4,902	-
Net assets	36,545	37,560	1,015
Total liabilities and net assets	40,951	41,791	840

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

Business outlook

Higher profits are forecast in FY8/18

● FY8/18 full-year outlook

(1) Outlook of profit and loss

The Company's forecasts have been left unchanged for the full-year consolidated result for FY8/18 with net sales forecast to increase 2.8% YoY to ¥17,500mn, operating profit to rise 2.5% to ¥5,373mn, recurring profit to climb 2.0% to ¥5,448mn, and net profit attributable to the owners of the parent company to increase 1.8% to ¥3,739mn. But as mentioned above, in the Q3 results, profits were slightly down YoY, so while it is absolutely not an easy target to achieve, the Company plans to continue to increase sales and profits, mainly by growing sales of high-value-added products.

FY8/18 consolidated earnings outlook

(¥mn, %)

	FY8/17		FY8/18 forecast			
	Amount	% of total	Amount	% of total	Change	YoY
Net sales	17,017	100.0	17,500	100.0	482	+2.8
Gross profit	8,086	47.5	8,260	47.2	173	+2.2
SG&A expenses	2,843	16.7	2,886	16.5	42	+1.5
Operating profit	5,242	30.8	5,373	30.7	131	+2.5
Recurring profit	5,340	31.4	5,448	31.1	108	+2.0
Net profit attributable to the owners of the parent company	3,673	21.6	3,739	21.4	66	+1.8

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

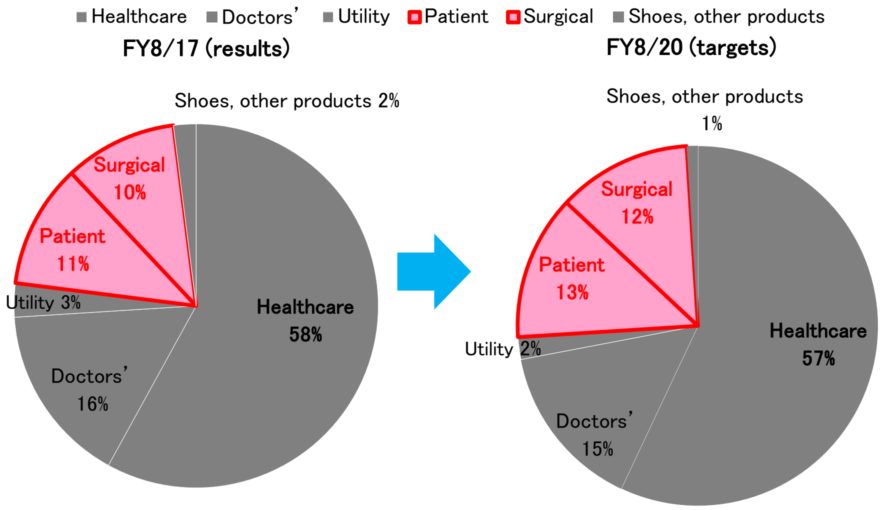
Net sales forecasts by item

(¥mn, %)

	FY8/17		FY8/18 forecast	
	Amount	YoY	Amount	YoY
Healthcare wear	9,940	+2.8	10,220	+2.8
Doctors' wear	2,681	+1.0	2,740	+2.2
Utility wear	557	-7.4	510	-8.5
Patient wear	1,786	+10.7	1,950	+9.2
Surgical wear	1,634	+3.8	1,690	+3.4
Shoes	203	-0.8	190	-6.5
Other products	214	+0.3	200	-6.7
Total	17,017	+2.9	17,500	+2.8

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

Targeted net sales percentage by item



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

In net sales by item, healthcare wear is forecast to be ¥10,220mn (up 2.8% YoY), doctors' wear ¥2,740mn (up 2.2%), utility wear ¥510mn (down 8.5%), patient wear ¥1,950mn (up 9.2%), surgical wear ¥1,690mn (up 3.4%), shoes ¥190mn (down 6.5%), and other products ¥200mn (down 6.7%).

In healthcare wear, the revitalization of the market from the launch of the new high value-added products and the resulting steady increase in sales are expected to continue. In doctors' wear, conditions will be severe for mass-produced products, but the forecast is for high-end products to perform strongly and for results to trend stably. The utility wear market is shrinking and sales are expected to continue to decrease. For patient wear, the Company is forecasting that the major increase in sales will continue from the effects of new products, against the backdrop of the strong growth in demand in this market. Higher sales are also expected in surgical wear from increasing capacity at the COMPELPAK laundry sterilization plant of a partner company and through developing new customers.

(2) Reorganization and streamlining of domestic plants

To strengthen the production structure going forward, the Company plans to merge two aging plants as a new plant adjacent to its logistics center. This move is designed to improve operation efficiency and facilitate quick response. The project is scheduled for completion at the end of July 2018. The total investment amount of ¥799 million, with depreciation cost expected to be recognized from FY8/18.

Medium- to long-term growth strategy

Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/20, actively developing advanced-function products and high value-added products

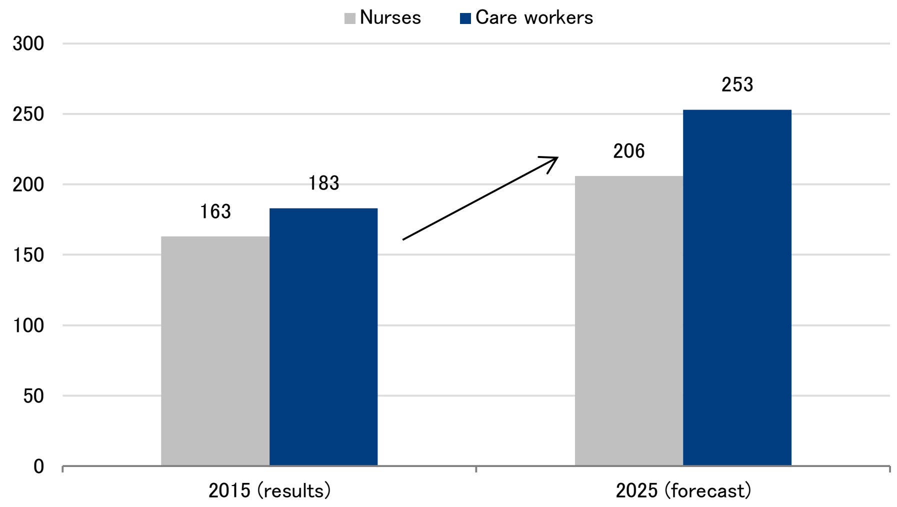
1. Mid-term Management Plan

The Company initially announced targets for FY8/19 of net sales of ¥18,000mn and operating profit of ¥5,400mn in its Mid-term Management Plan. But based on the FY8/17 results, it has newly announced the plan's mid-term targets for FY8/20, of net sales of ¥18,500mn and operating profit of ¥5,600mn.

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

The operating environment surrounding the Company should be favorable for some time. According to data released by the Ministry of Health, Labour and Welfare, the number of nurses in Japan is projected to increase from 1.63 million in 2015 to as many as 2.06 million in 2025. Moreover, the number of care workers is forecast to increase from 1.83 million in 2015 to 2.53 million in 2025. In this operating environment, the Company plans to achieve its medium-term growth by implementing the following strategies.

Estimates of future demand for nurses and care



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

(1) Marketing strategy to boost sales

· Capture clusters of needs in the healthcare wear market
· Increase peripheral business in products for patients and surgery
· Cultivate overseas markets

(2) Production strategy to ensure a steady supply

· Relocate domestic sewing plants and establish new ones
  - Strengthen domestic production
  - Strengthen ability to respond Quick Response and small-lot multi-product
· Strengthen ties with material makers and trade firms

(3) Strategy to stabilize profitability

· Shift to overseas from domestic production
· Develop new oversea materials applying special tax measures for EPA and FTA
· Improvement of profitability by driving the strategy of higher quality and value-added products

Shareholder return policy

The Company has pledged a dividend payout ratio (on a nonconsolidated basis) of above 50%, raised the dividend from ¥50 to ¥60

The Company's shareholders' equity ratio reached 89.9% at the end of FY8/18 3Q, 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 (10.3% in FY8/17).

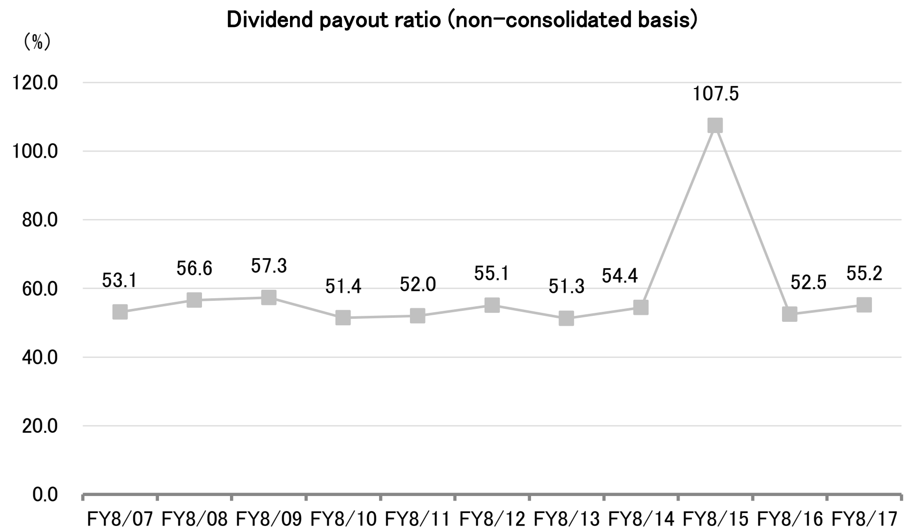
The Company will thus maintain a stable financial position while pursuing solid shareholder returns. In FY8/15, it supplemented the regular dividend of ¥50 per share with an additional ¥50 per share to commemorate its centennial. This raised the total annual dividend to ¥100 per share, for a non-consolidated payout ratio of 107.5%. It also spent ¥1,500mn in repurchasing 1 million shares during the fiscal year, raising the total return ratio (non-consolidated basis) to 153.8%. In FY8/16, it paid an annual dividend of ¥50 for a dividend payout ratio of 52.5% on a non-consolidated basis.

The Company has pledged a dividend payout ratio of above 50% on a non-consolidated basis. In the previous fiscal year (FY8/17), it increased the annual dividend from ¥50 to ¥60, and it is also forecasting an annual dividend of ¥60 for FY8/18, which is currently underway. It may further increase the dividend if profits exceed their forecasts.

Trends in the dividend payout ratio and the total return ratio

	Total dividend amount (¥mn)	Share buybacks (¥mn)	Dividend payout ratio* (%)	Total return ratio* (%)
FY8/01	475	0	27.4	27.4
FY8/02	475	0	29.3	29.3
FY8/03	530	1,697	29.7	124.6
FY8/04	744	0	36.5	36.5
FY8/05	1,117	0	56.9	56.9
FY8/06	1,117	0	53.4	53.4
FY8/07	1,117	0	53.1	53.1
FY8/08	1,083	1,077	56.6	111.2
FY8/09	1,040	1,220	57.3	122.2
FY8/10	1,127	0	51.4	51.4
FY8/11	1,205	226	52.0	61.7
FY8/12	1,205	0	55.1	55.1
FY8/13	1,541	229	51.3	58.7
FY8/14	1,712	0	54.4	54.4
FY8/15	3,324	1,500	107.5	153.8
FY8/16	1,662	0	52.5	52.5
FY8/17	1,994	0	55.2	55.2

* On a non-consolidated basis
Source: The Company's results briefing materials



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

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