

# Nagaileben co., Ltd.

7447

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## ■ Summary

### Profits decreased in FY8/20 3Q due to confusion at medical sites but the Company plans to address this in 4Q

#### 1. FY8/20 3Q results

Nagaileben co., Ltd. <7447> (hereafter, also “the Company”) is the leading manufacturer of medical gowns in Japan, with a domestic market share of over 60%. The Company boasts high profit margins and a solid financial condition. In the consolidated results for FY8/20 3Q announced by the Company, net sales decreased 4.9% year on year (YoY) to ¥12,290mn, operating profit decreased 9.2% to ¥3,440mn, recurring profit decreased 8.5% to ¥3,514mn, and net profit attributable to the owners of the parent company decreased 8.4% to ¥2,426mn. Many new projects were postponed upon encountering confusion at medical sites, stalled sales activities and other such factors as the impact of the COVID-19 pandemic became more apparent at the outset of 3Q which is the Company’s major sales season. Meanwhile, sales and profits consequently decreased in 3Q despite special demand for protective clothing such as isolation gowns. The gross profit margin decreased by 0.7pp YoY, that was also attributable to a higher proportion of production carried out in Japan due to the impact of the COVID-19 pandemic.

#### 2. FY8/20 forecasts

The initial forecasts for the FY8/20 full year consolidated results have been left unchanged with net sales to increase 3.7% YoY to ¥17,400mn, operating profit to increase 5.1% to ¥5,167mn, recurring profit to increase 5.0% to ¥5,242mn, and for net profit attributable to the owners of the parent company to increase 4.6% to ¥3,605mn. The decline in sales until the 3Q is not because demand itself has disappeared, but rather as orders have been delayed due to the confusion at medical sites or lackluster performance at sales locations. Therefore, the forecast is that an increase in sales will be secured from steadily delivering these delayed projects and recovering them in the 4Q. Meanwhile, the Company expects gross profit margin to remain at least the same level as FY8/19 due to factors including the increase in the overseas production ratio. As a result, the Company is forecasting a year-on-year increase in operating profit due to the increase in sales.

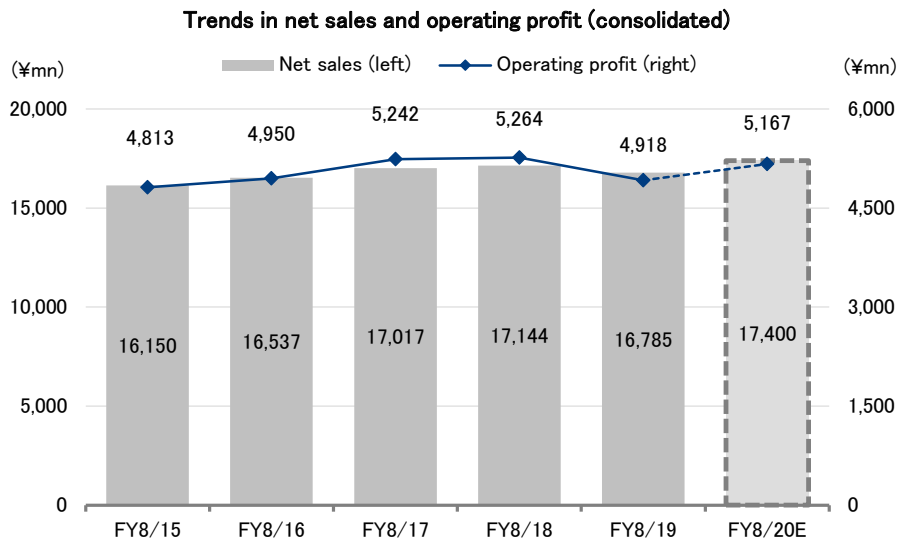
#### 3. Mid-term Management Plan and shareholder return policy

Based on the results in FY8/19, the Company had announced to roll over the plan up to that time and set new Mid-term Management Plan targets for FY8/22, and for now the targets have been left unchanged with net sales of ¥18,400mn and operating profit of ¥5,600mn. It would seem to be aiming to achieve these targets through expanding overseas production and strengthening highly functional products that have significant profit margins. The Company is also actively returning profits to shareholders. It has pledged a dividend payout ratio of 50% or more (on a non-consolidated basis) and in FY8/20, it plans to pay an annual dividend of ¥60. In addition, it acquired 400,000 treasury shares (¥1,031mn) through a share buyback in November 2019, and as a result, the FY8/20 total return ratio is expected to be 84.9%. So the Company’s approach toward returning profits to shareholders seems worthy of praise.

Summary

**Key Points**

- In FY8/20 3Q, deliveries were delayed due to the confusion at medical sites from the COVID-19 pandemic, but the Company is expecting them to recover in the 4Q
- Mid-term Management Plan targets have been left unchanged aiming for operating profit of ¥5,600mn in FY8/22
- In FY8/20, an annual dividend of ¥60 planned bringing total return ratio to 84.9% including share buybacks



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

## Company profile

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

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

Company profile

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, 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 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-ku, Tokyo.
2015	Held ceremony to commemorate its 100th anniversary.
2016	Transitioned to a Company with Audit & Supervisory Committee.
2017	Concluded a joint development agreement with Shiseido Company, Ltd. <4911>.
2018	Constructed a new sewing center in Daisen City, Akita Prefecture.

Source: Prepared by FISCO from the Company's website and the securities report

## Business overview

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

#### 1. Sales breakdown

All of the Company's products are medical gowns and related products. The contribution to sales by item for FY8/20 3Q is 55.4% from healthcare wear, 15.7% from doctors' wear, 3.0% from utility wear, 12.4% from patient wear, 10.3% from surgery wear, 0.9% from shoes, and 2.4% from other products. Healthcare wear consists mainly of products for nurses, and utility wear consists of aprons, cardigans, and other items worn over gowns. Profit margins for each item do not vary significantly, but the profit margins of purchased products, such as shoes and other products, are relatively lower.

#### Business overview

In terms of each region's contribution to sales for FY8/20 1H, eastern Japan accounts for 52.8%, western Japan 35.5%, central Japan 10.2%, and overseas 1.5%. While coverage is nationwide, sales in western Japan remain low, indicating the potential for future expansion including overseas.

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

In the new categories (function), the composition of total net sales by product (FY8/20 1H) is 7.0% from high-end products, 54.1% from high-value-added products, 34.2% from value-added products, and 4.7% from mass products. On looking at the approximate price-band classifications in nurse wear, mass products are ¥5,000 or less, value-added products are ¥5,000 to ¥7,500, high-value-added products are ¥7,500 to ¥10,000, and high-end products are ¥10,000 or more. The tendency is for higher prices to achieve greater profit margins, so the Company is focusing on expanding sales of high-end products and high-value-added products.

## 2. Sales channels and production status

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

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

Looking at the Company's production structure, based on FY8/20 1H 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 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 produce at low costs while selling them at appropriate margins.

#### Business overview

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 46.0% (actual results for FY8/20 3Q). 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 frontlines at hospitals and nursing care facilities, and its production facilities have many women involved in sewing work. The Company's business operations create many opportunities to expand the roles of women from a variety of life stages, which connects to supporting working women.

##### (2) Contributing to communities

###### a) Lending of historical gowns

Together with the changes to gowns, the Company lends gowns free of charge, such as to the events of medical facilities, with the objective of understanding the history of nurses.

###### b) Contributing to communities through production sites

The Company is creating employment and contributing to regional economies through its production operations in Akita Prefecture in Japan, and in China, Indonesia, Vietnam, and elsewhere overseas.

###### c) Medical kids project

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

## Business overview

**(3) Contributing to customers****a) Opened the ITONA gallery, an oasis for nurses**

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

**b) Beauty courses for nurses**

With the cooperation of Shiseido Japan Co., Ltd., the Company is providing practical courses, including learning about make-up and personal behavior that are suitable for nurses in medical settings.

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

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

**b) Disaster support activities**

Monetary donations, provision of medical gowns and presentation of wheelchairs and other items has been made through nursing associations or the Japanese Red Cross Society following the outbreak of SARS and natural disasters including the Indonesian earthquake, the Great Hanshin Earthquake, the Great East Japan Earthquake, the Kumamoto earthquakes, and the COVID-19 pandemic. Among its measures in response to the COVID-19 pandemic, it has donated reusable masks (masks that can be reused by washing) to medical facilities.

**(5) Environmental initiatives**

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

Also, as a recent new initiative, it is supporting the "Planting of Cherry Blossom Trees for Restoration in Minamisanriku" project. For the "Forest of Life with an Ocean View" project, the Company is planting cherry blossom trees in cooperation with volunteers from Minamisanriku Town, Miyagi Prefecture, at sites hit by the tsunami from the Great East Japan Earthquake.

**(6) Approach towards SDGs**

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

**a) "We want to become the power of life"**

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

**b) Environment**

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

**c) Returns to society**

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



## Results trends

### In FY8/20 3Q, sales and profits decreased due to the COVID-19 pandemic

#### 1. Summary of FY8/20 3Q consolidated results

For FY8/20 3Q consolidated results, the Company reported net sales of ¥12,290mn, down 4.9% YoY, operating profit of ¥3,440mn, down 9.2%, recurring profit of ¥3,514mn, down 8.5%, and net profit attributable to the owners of the parent company of ¥2,426mn, down 8.4%.

Renewal projects (leasing) were delayed amid a scenario of persisting confusion at many medical sites as the impact of the COVID-19 pandemic became more apparent at the outset of 3Q which is the Company's major sales season. Meanwhile, many new projects were postponed as sales activities stalled as people exercised self-restraint, such as by not going out. Meanwhile, sales decreased in 3Q despite special demand for protective clothing such as isolation gowns.

In terms of profit and loss, the gross profit margin was 46.0%, down 0.7pp YoY. One factor attributable to the decrease was that of a hike in domestic processing rates, whose effects began to emerge in 2Q. Furthermore, overall, the gross profit margin decreased due to a sudden increase in domestic production caused by brisk sales of surgical wear as a measure to prevent COVID-19 infections and as the gowns went out of stock in places. SG&A expenses decreased 1.1% YoY overall, but the ratio of SG&A expenses to net sales increased to 18% (17.3% in the same period of the previous fiscal year) as a result of the downturn in sales. As a result, operating profit decreased YoY.

#### Summary of FY8/20 3Q consolidated results

	FY8/19 3Q		FY8/20 3Q		Change		YoY
	Amount	% of total	Amount	% of total			
Net sales	12,916	100.0%	12,290	100.0%	-626	-4.9%	
Gross profit	6,027	46.7%	5,655	46.0%	-372	-6.2%	
SG&A expenses	2,240	17.3%	2,215	18.0%	-25	-1.1%	
Operating profit	3,786	29.3%	3,440	28.0%	-346	-9.2%	
Recurring profit	3,839	29.7%	3,514	28.6%	-324	-8.5%	
Net profit attributable to the owners of the parent company	2,649	20.5%	2,426	19.7%	-222	-8.4%	

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

#### 2. Net sales by item

In net sales by item, healthcare wear decreased 8.6% YoY to ¥6,804mn, doctors' wear decreased 7.7% to ¥1,929mn, utility wear increased 4.1% to ¥364mn, patient wear decreased 1.4% to ¥1,521mn, surgery wear increased 9.0% to ¥1,269mn, shoes decreased 21.4% to ¥108mn, and other products increased 60.9% to ¥291mn.

## Results trends

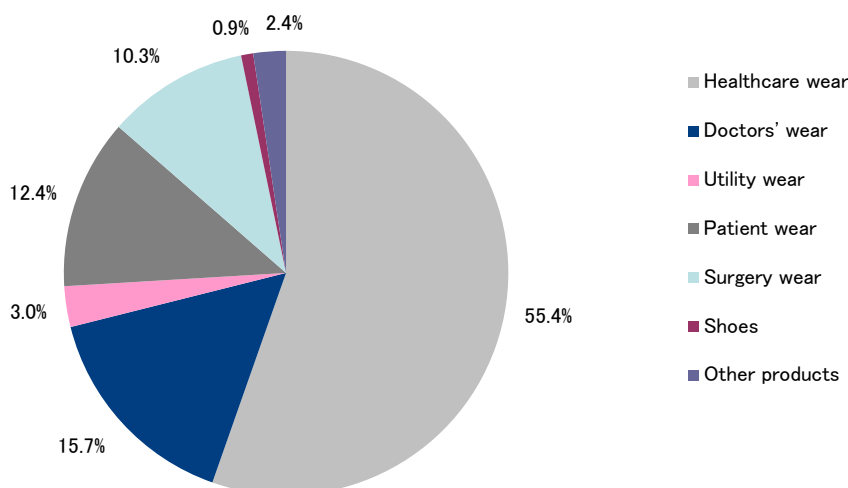
In the mainstay healthcare wear and doctors' wear, sales decreased because many renewal projects were delayed due to confusion at medical sites brought on by the COVID-19 pandemic. In patient wear, delays occurred in the scheduled deliveries of new products as sales activities targeting linen suppliers to medical facilities stalled. Conversely, sales of surgery wear, mainly COMPELPAK, increased YoY, particularly for use with respect to infection control. Sales of utility wear also increased YoY after declining over the last several years, but that upturn is also attributable to higher demand amid a shortage of medical supplies due to the impact of the COVID-19 pandemic. During the three months of 3Q, growth in sales of surgery wear and utility wear amounted to increases of 13.6% and 28.6%, respectively.

## Net sales by item

	FY8/19 3Q		FY8/20 3Q	
	Amount	YoY	Amount	YoY
Healthcare wear	7,448	-5.5%	6,804	-8.6%
Doctors' wear	2,090	-2.8%	1,929	-7.7%
Utility wear	350	-11.2%	364	4.1%
Patient wear	1,543	0.5%	1,521	-1.4%
Surgery wear	1,164	-1.2%	1,269	9.0%
Shoes	137	-6.4%	108	-21.4%
Other products	181	-5.5%	291	60.9%
<b>Total</b>	<b>12,916</b>	<b>-4.2%</b>	<b>12,290</b>	<b>-4.9%</b>

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

## Net sales by item (FY8/20 3Q)



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

## Results trends

## Financial position is sound, with cash and deposits on hand of ¥23,085mn and an equity ratio of 90.0%

### 3. Financial position

The Company's financial position continues to be stable. At the end of FY8/20 3Q, total assets decreased by ¥783mn to ¥43,497mn compared to the end of previous fiscal year. Current assets decreased by ¥714mn to ¥34,339mn. This was mainly due to a ¥2,072mn decrease in cash and deposits, partly offset by a ¥449mn increase in notes and accounts receivable, and a ¥259mn increase in inventories. Conversely, fixed assets decreased by ¥68mn to ¥9,158mn, mainly due to a ¥156mn decrease in tangible fixed assets for depreciation partly offset by a ¥72mn increase in invests and other assets.

Total liabilities were ¥4,360mn, down ¥198mn compared to the end of the previous fiscal year. The main factors included a ¥371mn decrease in income taxes payable. Total net assets were ¥39,137mn, a decline of ¥584mn, mainly because of a ¥1,031mn in purchase of treasury shares, partly offset by ¥431mn increase in retained earnings following the recording of net profit attributable to the owners of the parent company. As a result, at the end of FY8/20 3Q, the equity ratio had increased by 0.3pp compared to the end of the previous fiscal year to 90.0%.

#### Summary of the consolidated balance sheet

	(¥mn)		
	End of FY8/19	End of FY8/20 3Q	Change
Cash and deposits	25,157	23,085	-2,072
Notes and accounts receivable	3,547	3,997	449
Inventories	4,479	4,739	259
<b>Current assets</b>	<b>35,054</b>	<b>34,339</b>	<b>-714</b>
Tangible fixed assets	7,767	7,610	-156
Intangible fixed assets	32	47	15
Investments and other assets	1,426	1,499	72
<b>Fixed assets</b>	<b>9,226</b>	<b>9,158</b>	<b>-68</b>
<b>Total assets</b>	<b>44,281</b>	<b>43,497</b>	<b>-783</b>
Notes and accounts payable	1,452	1,555	103
Income taxes payable	994	622	-371
<b>Total liabilities</b>	<b>4,559</b>	<b>4,360</b>	<b>-198</b>
Retained earnings	40,120	40,552	431
Treasury shares	-4,896	-5,920	-1,024
<b>Net assets</b>	<b>39,721</b>	<b>39,137</b>	<b>-584</b>
<b>Total liabilities and net assets</b>	<b>44,281</b>	<b>43,497</b>	<b>-783</b>

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

## Business outlook

### Forecasting higher sales and profits in FY8/20 by capturing postponed projects

#### 1. FY8/20 full-year outlook

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

Profits decreased during FY8/20 3Q because of confusion at medical sites due to the impact of the COVID-19 pandemic, although demand itself has not disappeared given that the decrease in profits was mainly attributable to delays in renewal projects. As such, the Company aims to recover these projects during 4Q, and achieve higher sales and profits for the full fiscal year. However, it goes without saying that revisions are possible, depending on the manner in which the COVID-19 pandemic settles down in the future.

#### FY8/20 consolidated earnings outlook

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

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

Net sales are expected to increase 3.7% YoY due to the acquisition of renewal projects in healthcare wear, and by capturing large new projects in patient wear that had been put off. As a measure to prevent COVID-19 infections, during FY8/20 the Company launched reusable products to control the infection (new products), such as masks and isolation gowns, and they have been included in the net sales forecast for the current fiscal period.

The gross profit margin is forecast to be 46.7%, which is on par with FY8/19 (46.7%). Gross profit is expected to increase ¥289mn, with the anticipated factors being an increase of ¥287mn from the higher sales and an increase of ¥3mn due to production. The increase due to production is mainly from the increase in the overseas production ratio. Meanwhile, in terms of costs, the Company expects costs to increase ¥53mn due to the impact of the rise in domestic processing rates, and ¥62mn from the impact of the rise in raw materials prices. Also, costs are expected to decline ¥32mn due to the effects of the exchange rates on costs (¥107.5 to U.S.\$1 in FY8/19→¥105.9 to U.S.\$1 in FY8/20) and a decline of ¥40mn from the increase in the overseas production ratio (49.2% in FY8/19→49.5% in FY8/20). However, for the exchange rate, the Company concluded forward contracts with relatively low rates (a strong yen) for the period from January to March 2020, while in addition, it concluded forward contracts at low rates even for the currently temporarily strong yen (around ¥102). Therefore, it seems possible that the actual average rate will be lower than expected.

Business outlook

SG&A expenses are forecast to be ¥2,963mn (up 1.4% YoY) due to an expected increase in expenses accompanying regular sales expansion, ending the expenditure of reward for services accompanying the abolition of the retirement benefit system for executives. As a result, operating profit is expected to increase to ¥5,167mn (up 5.1%). Due to this, both recurring profit and net profit attributable to the owners of the parent company are also forecast to increase. The forecasts are for capital investment of ¥229mn and depreciation expenses of ¥334mn.

## 2. Net sales forecasts by item

In net sales by item, healthcare wear is forecast to be ¥9,970mn (up 3.0% YoY), doctors' wear ¥2,730mn (up 2.1%), utility wear ¥390mn (down 11.6%), patient wear ¥2,250mn (up 10.6%), surgery wear ¥1,700mn (up 6.5%), shoes ¥165mn (down 3.9%), and other products ¥195mn (up 3.9%). These forecasts remain unchanged from initial projections and have not otherwise been revised based on financial results achieved until 3Q.

### Net sales forecasts by item

	FY8/19		FY8/20 forecast	
	Amount	YoY	Amount	YoY
Healthcare wear	9,681	-2.9%	9,970	3.0%
Doctors' wear	2,673	0.1%	2,730	2.1%
Utility wear	441	-11.6%	390	-11.6%
Patient wear	2,033	3.5%	2,250	10.6%
Surgery wear	1,596	-2.8%	1,700	6.5%
Shoes	171	-8.2%	165	-3.9%
Other products	187	-8.1%	195	3.9%
<b>Total</b>	<b>16,785</b>	<b>-2.1%</b>	<b>17,400</b>	<b>3.7%</b>

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

Healthcare wear is greatly affected by trends in the market environment, but the Company is forecasting an increase in sales by focusing on steadily obtaining orders for the delayed projects and conducting efficient sales negotiations for scheduled renewal projects in the 4Q, and moreover, from the momentum of the new product group. In doctors' wear, although mass products are struggling, the Company plans to invigorate the market by continuing to introduce new value-added products at reasonable price bands, centered on expanded sales of high-end products. In patient wear, based on the fact that the Company still has a low market share, it is forecasting double-digit sales growth by introducing new products and expanding new customers. In surgery wear, it is opening up markets in areas that it has been slow to enter by increasing the capacity of the laundry sterilization plant through appealing to the advantages of reusable products, such as COMPELPAK, and also from new customers from FY8/19. Moreover, it is strongly appealing for a re-evaluation of the advantages of reusable products, so sales are expected to increase.

## 3. Net sales forecast by region

For net sales by region, the Company forecasts ¥9,130mn in eastern Japan (up 2.6% YoY), ¥1,800mn in central Japan (up 8.2%), ¥6,250mn in western Japan (up 3.6%), and ¥220mn in overseas (up 15.8%).

## Business outlook

**Net sales forecast by region**

	FY8/19		FY8/20 forecast	
	Amount	YoY	Amount	YoY
Eastern Japan	8,898	-1.8%	9,130	2.6%
Central Japan	1,664	-7.3%	1,800	8.2%
Western Japan	6,033	-0.6%	6,250	3.6%
Overseas	189	-11.5%	220	15.8%
<b>Total</b>	<b>16,785</b>	<b>-2.1%</b>	<b>17,400</b>	<b>3.7%</b>

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

In eastern Japan, the Company is aiming for a firm increase in sales through steadily obtaining orders for delayed projects and capturing new orders in patient wear. In central Japan, the market is small, so the number of projects has a large impact, but as there are many renewal projects in FY8/20, it is aiming to steadily obtain orders in 4Q. In western Japan, it is targeting higher sales from the expected acquisitions of new projects in the future, and also through the growth in sales of patient wear from the projects delayed from the 3Q. Overseas, although the conditions are affected by exchange rates, the Company will work to increase sales through sales promotion activities targeting market permeation, based on the fact that the Company's domestic business model (sales to linen suppliers) is close to being established.

**4. Net sales forecasts by product**

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

**Net sales forecasts by product**

	FY8/19		FY8/20 forecast	
	Amount	YoY	Amount	YoY
High-end products	1,274	0.4%	1,330	4.3%
High-value-added products	8,969	2.4%	9,370	4.5%
Value-added products	5,724	-8.5%	5,910	3.4%
Mass products	817	-5.0%	790	-3.3%
<b>Total</b>	<b>16,785</b>	<b>-2.1%</b>	<b>17,400</b>	<b>3.7%</b>

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

In high-end products, the Company's luxury brands, including Bright Days, 4D+ and Beads Berry, are performing strongly among small-lot users in particular, in addition, the Company began to deliver them to some major hospitals, thus the forecast for high-end products as a whole is for sales to increase. The high-value-added products, highly functional products such as PRO-FUNCTION have been well-received by the market and their sales are trending favorably, and the Company plans to achieve even higher sales by continuing to promote its strategy of high-value-added products. The forecast is for sales of mass products to continue on a downward trend, but the plan is to continuously shift to value-added products, including products of other companies.

## ■ Medium- to long-term growth strategy

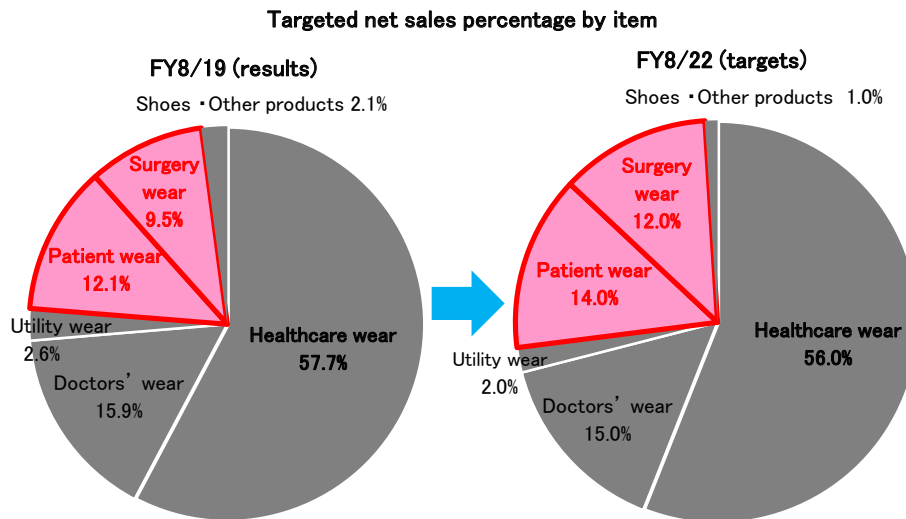
### Mid-term Management Plan target aims for operating profit of ¥5,600mn in FY8/22

#### 1. Mid-term Management Plan

The Company announced targets for FY8/22 of net sales of ¥18,400mn and operating profit of ¥5,600mn in its Mid-term Management Plan based on FY8/19 results. Although they have not been changed at the present time, at FISCO we think that the targets in the medium-term management plan may be revised in the future, depending on the situation for the COVID-19 pandemic.

For composition of total net sales by item, the forecasts are 56.0% from healthcare (57.7% in FY8/19), 15.0% from doctors' wear (15.9%), 2.0% from utility wear (2.6%), 14.0% from patient wear (12.1%), 12.0% from surgery wear (9.5%), and 1.0% from shoes and other products (2.1%).

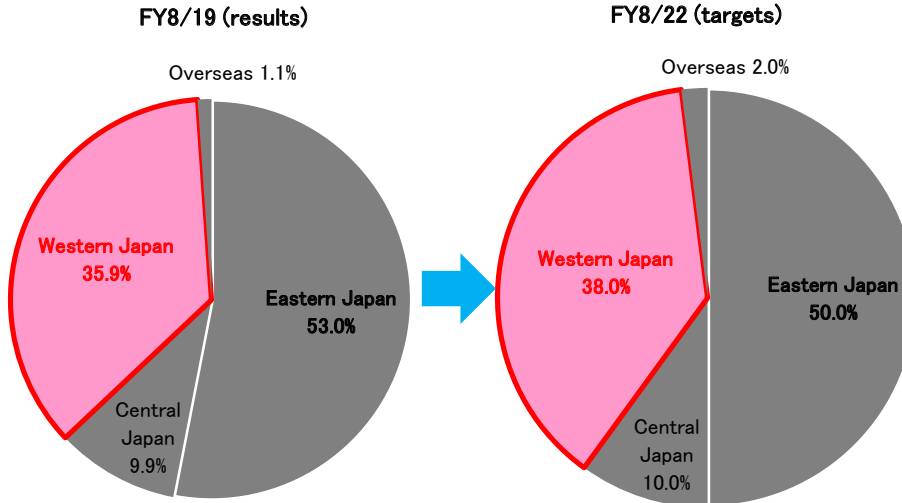
The forecast composition of total net sales by region is 50.0% from eastern Japan (53.0% in FY8/19), 10.0% from central Japan (9.9%), 38.0% from western Japan (35.9%), and 2.0% from overseas (1.1%). The forecast composition of total net sales by product is 9.0% from high-end products (7.6% in FY8/19), 55.0% from high-value-added products (53.4%), 33.0% from value-added products (34.1%), and 3.0% from mass products (4.9%).



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

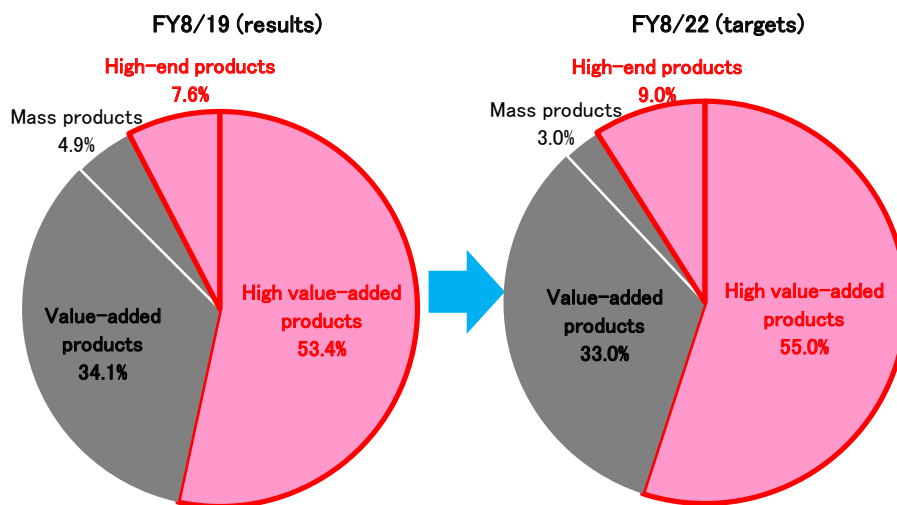
Medium- to long-term growth strategy

**Targeted net sales percentages by region**



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

**Targeted net sales percentages by product**



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

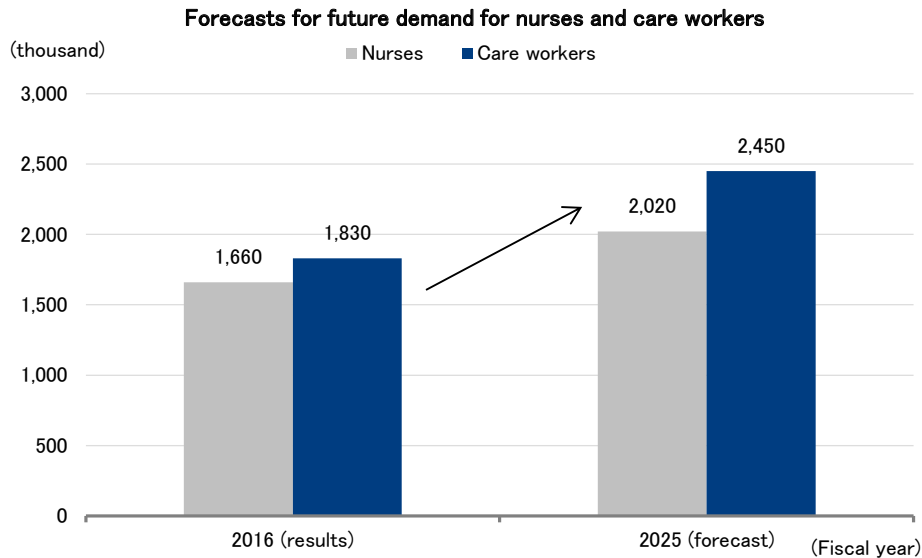
**2. Future business strategies**

The Company's business environment is currently being impacted by the COVID-19 pandemic, but it can be said that this may actually prove advantageous to it in the medium- to long-term. 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 1.66 million in 2016 to a maximum of 2.02 million in 2025. Moreover, the number of care workers is forecast to increase from 1.83 million in 2016 to 2.45 million in 2025. In this operating environment, the Company plans to achieve its medium-term growth by implementing the following strategies.

We encourage readers to review our complete legal statement on "Disclaimer" page.



Medium- to long-term growth strategy



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

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

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

**(2) Strategy to increase profit margin**

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

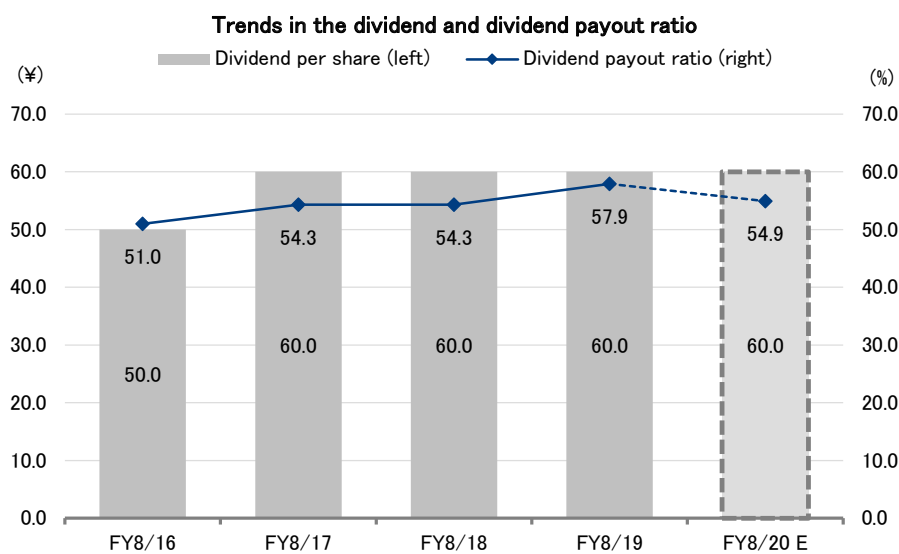
## Shareholder return policy

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

The Company's equity ratio reached 90.0% at the end of FY8/20 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 (8.8% in FY8/19).

The Company will thus maintain a stable financial position while pursuing solid shareholder returns. In FY8/15, it supplemented the regular dividend of ¥50 per share with an additional ¥50 per share to commemorate its centennial. This raised the total annual dividend to ¥100 per share, for a non-consolidated payout ratio of 107.5%. It also spent ¥1,500mn in 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 and FY8/19. The Company is also forecasting an annual dividend of ¥60 for FY8/20, which is currently underway, and furthermore the Company executed a share buyback totaling 400,000 shares (¥1,031mn) in November 2019, which combined with the dividend brought the total return ratio to 84.9% (forecast). In addition to the strong financial standing, this aggressive stance on shareholder returns is worthy of strong praise.



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

## Shareholder return policy

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

(¥mn, %)

	Total dividend amount	Share buybacks	Dividend payout ratio*	Total return ratio*
FY8/01	475	0	27.4	27.4
FY8/02	475	0	29.3	29.3
FY8/03	530	1,697	29.7	124.6
FY8/04	744	0	36.5	36.5
FY8/05	1,117	0	56.9	56.9
FY8/06	1,117	0	53.4	53.4
FY8/07	1,117	0	53.1	53.1
FY8/08	1,083	1,077	56.6	111.2
FY8/09	1,040	1,220	57.3	122.2
FY8/10	1,127	0	51.4	51.4
FY8/11	1,205	226	52.0	61.7
FY8/12	1,205	0	55.1	55.1
FY8/13	1,541	229	51.3	58.7
FY8/14	1,712	0	54.4	54.4
FY8/15	3,324	1,500	107.5	153.8
FY8/16	1,662	0	52.5	52.5
FY8/17	1,994	0	55.2	55.2
FY8/18	1,994	0	55.2	55.2
FY8/19	1,995	0	58.0	58.0
FY8/20 E	1,971	1,031	55.0	84.9

\* On a non-consolidated basis

Note: In August 2004, the Company executed a 1:2 stock split, and executed a 1:2 stock split again in August 2011

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



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