COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben Co., Ltd.

7447

Tokyo Stock Exchange First Section

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Summary

In FY8/21, net sales set a new record high and operating profit increased 5.6% YoY. In the mid-term management plan, is targeting operating profit of ¥5.4bn in FY8/24

1. FY8/21 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*, with a domestic market share of over 60%, and it has both a high profit margin and a sound financial condition. In the FY8/21 consolidated results, net sales increased 2.9% year on year (YoY) to ¥17,563mn to achieve a new record high, operating profit rose 5.6% to ¥5,212mn, recurring profit grew 5.5% to ¥5,306mn and net profit attributable to the owners of the parent company increased 5.0% to ¥3,647mn. Sales increased, because in its core markets of healthcare wear and doctors' wear, the Company steadily implemented renewal projects postponed from the previous period, and as it acquired new large-scale projects. It also made progress in increasing its share of the patient wear market, which is a peripheral market, and its sales increased significantly, which covered for the decline in sales of Ministry of Health, Labour and Welfare (MHLW) products (infection prevention products), so net sales overall increased. In profits, the gross profit margin improved 0.1 of a percentage point (pp), mainly as although overseas logistics costs (cost of sales) increased, the yen strengthened slightly in exchange rates, while the overseas production ratio rose. Moreover, SG&A expenses decreased 0.9%, including as advertising and promotion costs and travel and transportation costs decreased, and therefore operating profit increased. The results were also higher than the forecasts, with net sales 1.5% and operating profit 2.8% higher than forecast.

* 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. FY8/22 forecasts

For the FY8/22 consolidated results, the Company is forecasting 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 the 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 novel coronavirus pandemic (below, COVID-19), 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 criteria to retain a listing on the Prime Market, and it is completing the procedure for this.

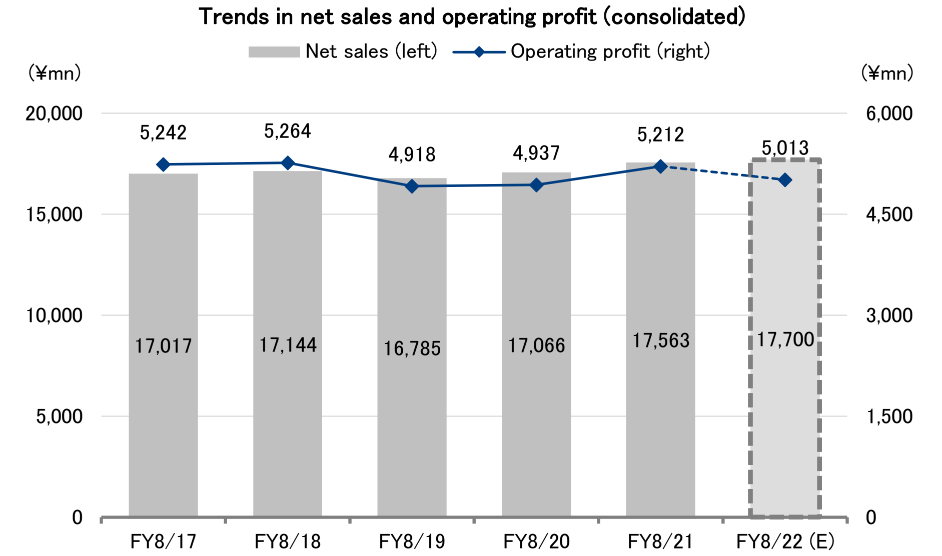
* Following the adoption from FY8/22 of the Accounting Standard for Revenue Recognition, etc., the results forecasts are set based on this new standard. The impact of this on results is expected to be negligible.

3. Mid-term management plan

When the Company announced its FY8/20 financial results, it decided to postpone the announcement of numerical targets in the mid-term management plan, as it concluded that it would be difficult to calculate these targets due to the ongoing disruption at medical facilities. However, as the outlook for market conditions and other factors has improved and it has become possible to make rational calculations, it has announced the current mid-term management plan, with FY8/24 as its final fiscal year. 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 acquiring treasury shares, and the Company can be highly evaluated for its consistent approach of actively returning profits to shareholders.

Key Points

- In FY8/21, implemented postponed renewal projects in its core markets and increased shares of peripheral markets, so net sales set a new record high and operating profit increased 5.6% YoY
- 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



Note: Following the adoption from FY8/22 of the Accounting Standard for Revenue Recognition, etc., the results forecasts are set based on this new standard
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%

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, 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

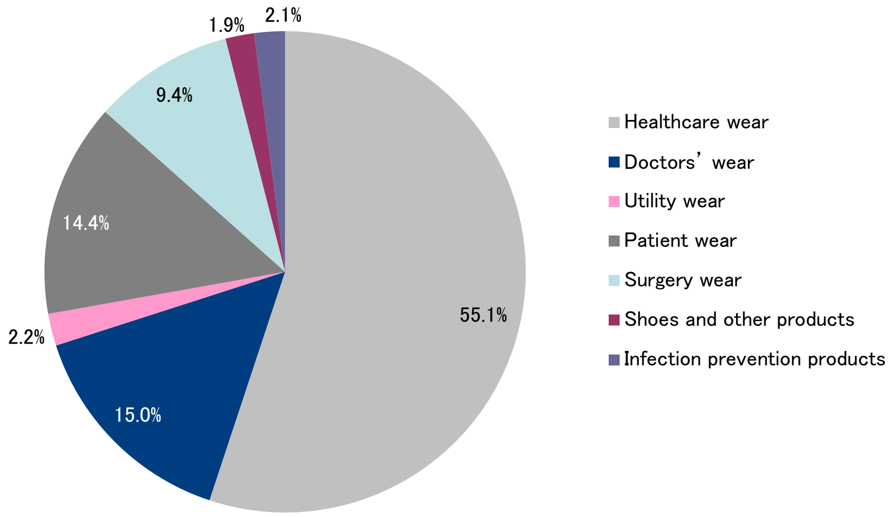
1. Sales breakdown

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

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

Healthcare wear mainly refers to products for nurses, and utility wear covers aprons, cardigans, and other garments worn on top of medical gowns and such. While profitability does not vary much among the various items, shoes and other 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.

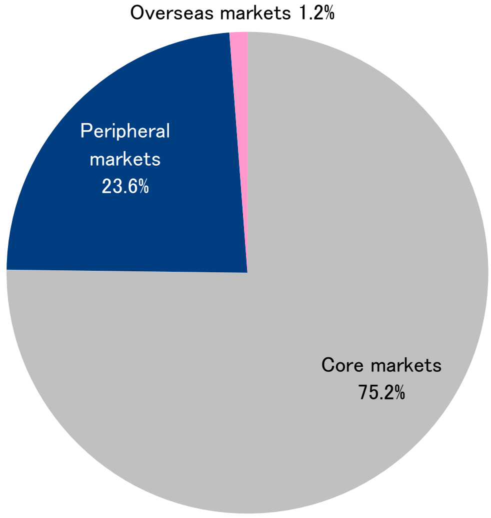
Net sales composition by item (FY8/21)



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.

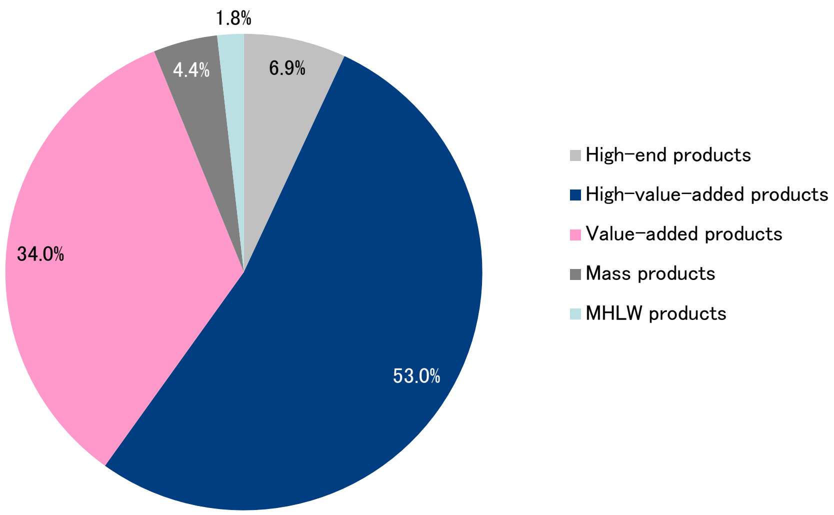
Net sales composition by market (FY8/21)



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 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 FY8/21 performance (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 while incorporating antistatic, antibacterial, and other functions, as well as featuring excellent designs, and they have earned excellent reputations among their users. At the same time, it deals directly with major synthetics manufacturers and textiles traders, including Toray Industries, Inc. <3402>, with which it is jointly developing materials, so it is able to secure optimal materials and produce at low costs while selling them at appropriate margins.

Furthermore, in addition to its large number of affiliated plants, the Company has the necessary financial resources to be able to constantly maintain product item inventories that extend into the thousands of varieties and respond to needs for made-to-order products. It has established a quick response (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 for nurses exceeds 60%, and it maintains a firm position as the leading medical gown manufacturer in Japan. Additionally, it is maintaining high profitability with a gross profit margin of 45.9% (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 a character makes hospital visits.

(3) Contributing to customers

a) Opened the ITONA gallery, an oasis for nurses

The ITONA gallery, Japan's first communication space for nurses, was opened in 2015 to celebrate the Company's 100th anniversary and as a gesture of gratitude to nurses, the Company's main end users.

b) Beauty courses for nurses

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

(4) Social contribution

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

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

b) Promotion of the employment of disabled persons

Subsidiary nagai uniform industry Co., Ltd. was awarded by the Minister of Health, Labour and Welfare in September 2016 after being selected as a business that contributes to the employment and promotion of people with disabilities.

c) Disaster support activities

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 FY8/21, implemented postponed renewed projects in the core markets and increased shares of peripheral markets, so net sales set a new record high and operating profit increased 5.6% YoY

1. Summary of FY8/21 consolidated results

In the FY8/21 consolidated results, net sales increased 2.9% YoY to ¥17,563mn, operating profit rose 5.6% to ¥5,212mn, recurring profit grew 5.5% to ¥5,306mn, and net profit attributable to the owners of the parent company increased 5.0% to ¥3,647mn. The results were also higher than the forecasts, with net sales 1.5% and operating profit 2.8% higher than forecast.

Summary of FY8/21 consolidated results

(¥mn)

	FY8/20		FY8/21		Change	
	Results	% of total	Results	% of total	Value	Percentage
Net sales	17,066	100.0%	17,563	100.0	496	2.9%
Gross profit	7,810	45.8%	8,058	45.9	248	3.2%
SG&A expenses	2,872	16.9%	2,846	16.2	-26	-0.9%
Operating profit	4,937	28.9%	5,212	29.7	274	5.6%
Recurring profit	5,031	29.5%	5,306	30.2	274	5.5%
Net profit attributable to the owners of the parent company	3,474	20.4%	3,647	20.8	173	5.0%

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, the government is providing assistance to medical entities and others through pandemic measures (combined value of approx. ¥3tn) and has implemented long-term care fee revisions amounting to an additional 0.70% which took effect in April 2021 (including 0.05% as COVID-19 infection prevention response). Authorities also correspondingly reduced standard levels for drug prices by ¥430bn on a medical fee basis in April*. These revisions are expected to have a slight impact on hospital management, but it seems they will not have a major impact on orders of the Company's products.

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

Net sales achieved a record high, also exceeding the planned target. Net sales increased in its core markets of healthcare wear and doctors' wear because the Company steadily implemented renewal of projects postponed from the previous period and acquired new large-scale projects. It also made progress in increasing its share of the patient wear market, which is a peripheral market, and its sales increased significantly, which covered for the decline in sales of MHLW products (infection prevention products; down from ¥945mn in FY8/20 to ¥315mn in FY8/21), so net sales overall increased. Special demand for MHLW products occurred in FY8/20 and FY8/21, but on an actual basis after excluding this factor, net sales increased 6.9%.

In profits, the gross profit margin improved 0.1pp YoY to 45.9%, and gross profit increased 3.2% to ¥8,058mn. Factors affecting gross profit included increases of ¥227mn due to sales (increase in sales) and ¥21mn due to production. Furthermore, upon analyzing the changes in production factors, they included the effect of the exchange rate (¥104.3 to US$1 in FY8/21 compared to ¥106.0 to US$1 in FY8/20), which was an increase factor of ¥34mn; the impact of the rise in overseas logistics costs (cost of sales) to use air transportation to transport some materials, etc., due to the temporary rapid increase in overseas production, which was a decrease factor of ¥58mn; and the rise in the overseas production ratio (50.7% in FY8/21 compared to 49.5% in FY8/20), which was an increase factor of ¥60mn.

Conversely, SG&A expenses decreased 0.9% YoY to ¥2,846mn and were also 3.2% lower than forecast, mainly because the Company continued to work to reduce costs. The main factors were that advertising and promotion costs decreased ¥21mn and travel and transportation costs declined ¥18mn. As a result, operating profit increased 5.6% to ¥5,212mn. Capital investment was ¥237mn (buildings-related ¥164mn, IT facilities ¥18mn, logistics facilities ¥35mn, and production facilities ¥18mn), and depreciation were ¥316mn.

With regards to the impact of COVID-19, all of the production, sales, and logistics over which the Company has jurisdiction are operating normally and its impact on the production environments in Japan and overseas has been negligible. Other than this, the Company has been notified that it meets the standards to maintain a listing on the Prime Market in the TSE's new market categories. Based on this, it resolved to be selected for the Prime Market and has already submitted its application for this to the TSE.

(1) Net sales by item

In net sales by item, healthcare wear increased 8.2% YoY to ¥9,673mn, doctors' wear increased 6.1% to ¥2,626mn, utility wear decreased 3.9% to ¥378mn, patient wear increased 22.1% to ¥2,523mn, surgery wear decreased 3.5% to ¥1,659mn, shoes and other products decreased 2.6% to ¥338mn, and infection prevention products decreased 67.6% to ¥362mn.

The Company secured an increase in sales, because in its core markets of healthcare wear and doctors' wear, it steadily implemented renewal projects postponed from the previous period, and it acquired new large-scale projects. It also made progress in increasing its share of the patient wear market, which it has focused on since previously, against the backdrop of the strong demand in this market. This included by realizing new initiatives it had planned for the previous period, and sales increased significantly. In the surgery wear market, demand for infection prevention measures fell in the 1H and returned to a normal pace in the 2H, and therefore while sales increased greatly in FY8/20 2H, they declined for the full fiscal year. For infection prevention products, the large-scale deliveries of MHLW products and the special temporary demand for reusable masks in FY8/20 2H came to an end, so sales decreased significantly.

Net sales by item

(¥mn)

	FY8/20		FY8/21	
	Results	YoY	Results	YoY
Healthcare wear	8,944	-7.6%	9,673	8.2%
Doctors' wear	2,475	-7.4%	2,626	6.1%
Utility wear	394	-10.6%	378	-3.9%
Patient wear	2,067	1.7%	2,523	22.1%
Surgery wear	1,719	7.7%	1,659	-3.5%
Shoes and other products	347	-3.2%	338	-2.6%
Infection prevention products	1,116	0.0%	362	-67.6%
Total	17,066	1.7%	17,563	2.9%

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

(2) Net sales by product

In net sales by product, sales of high-end products increased 13.6% YoY to ¥1,218mn, high-value-added products grew 7.0% to ¥9,302mn, value-added products rose 6.5% to ¥5,963mn, mass products increased 1.1% to ¥764mn, and MHLW products decreased 66.7% to ¥315mn.

In high-end products, the Company strengthened the lineup of new products (healthcare wear and doctors' coats) and focused on activating the markets. In high-value-added products, it improved functions and designs and aimed to increase added value in order to steadily acquire orders for renewal projects. In value-added products, it acquired the projects of other companies through the products it newly launched in the previous period, while it also continued to drive the transition away from mass products.

Net sales by product

(¥mn)

	FY8/20		FY8/21	
	Results	YoY	Results	YoY
High-end products	1,072	-15.9%	1,218	13.6%
High-value-added products	8,692	-3.1%	9,302	7.0%
Value-added products	5,600	-2.2%	5,963	6.5%
Mass products	756	-7.5%	764	1.1%
MHLW products	945	-	315	-66.7%
Total	17,066	1.7%	17,563	2.9%

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

Financial position is sound, with cash and deposits on hand of ¥27,879mn and an equity ratio of 90.5%

2. Financial position

The Company's financial position remains stable. At the end of FY8/21, total assets increased by ¥1,497mn to ¥46,428mn compared to the end of the previous fiscal year. Current assets increased by ¥1,386mn to ¥37,322mn mainly due to an increase in cash and deposits of ¥2,232mn and decrease in notes and accounts receivable of ¥1,005mn. While fixed assets rose ¥111mn to ¥9,106mn, mainly due to a decrease in tangible fixed assets of ¥82mn and increase in investments and other assets of ¥199mn.

Total liabilities were ¥4,399mn, down ¥411mn compared to the end of the previous fiscal year. Main factors included decreases of ¥302mn in notes and accounts payable and ¥91mn in income taxes payable. Net assets increased ¥1,908mn to ¥42,029mn. This primarily reflects a ¥1,676mn increase in retained earnings following the recording of net profit attributable to the owners of the parent company. As a result, the equity ratio was 90.5% at the end of FY8/21, up 1.2pp compared to the end of the previous fiscal year.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/20	End of FY8/21	Change
Cash and deposits	25,646	27,879	2,232
Notes and accounts receivable	3,734	2,729	-1,005
Inventories	4,631	4,615	-16
Current assets	35,936	37,322	1,386
Tangible fixed assets	7,571	7,489	-82
Intangible fixed assets	49	43	-5
Investments and other assets	1,373	1,572	199
Fixed assets	8,995	9,106	111
Total assets	44,931	46,428	1,497
Notes and accounts payable	1,592	1,290	-302
Income taxes payable	1,036	945	-91
Total liabilities	4,810	4,399	-411
Retained earnings	41,599	43,276	1,676
Treasury shares	-5,920	-5,913	6
Net assets	40,121	42,029	1,908
Total liabilities and net assets	44,931	46,428	1,497

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

3. Cash flow conditions

In FY8/21, cash flow provided by operating activities was ¥4,448mn. The main increase factors were the recording of profit before income taxes, etc. of ¥5,288mn, depreciation of ¥316mn, and a decrease in trade receivables of ¥890mn, while the main decrease factors were a decrease in accounts payable of ¥302mn and payments of income taxes paid of ¥1,725mn. Cash flow used in investing activities was ¥3,255mn. The main decrease factors included acquisition of tangible fixed assets of ¥238mn and fixed deposits (net) of ¥3,000mn. Cash flow used in financing activities was ¥1,971mn, with the main item being dividend payments of ¥1,971mn. As a result, cash and cash equivalents during the period decreased ¥767mn and the balance of cash and cash equivalents at the end of the period was ¥5,679mn. The Company has no interest-bearing debt and owns treasury shares worth ¥5,913mn (5,370,425 shares), so as before, it possesses an abundance of net cash on hand.

Summary of the consolidated statement of cash flows

(¥mn)

	FY8/20	FY8/21
Cash flow from operating activities	3,634	4,448
Profit before income taxes, etc.	5,030	5,288
Depreciation	334	316
Change in trade receivables (negative is an increase)	-218	890
Change in inventories (negative is an increase)	-151	16
Change in accounts payable (negative is a decrease)	140	-302
Payments of income tax	-1,520	-1,725
Cash flow from investing activities	575	-3,255
Payments to acquire tangible fixed assets	-145	-238
Change in fixed deposits (net)	700	-3,000
Cash flow from financing activities	-3,026	-1,971
Payment of dividends	-1,994	-1,971
Payment to acquire treasury shares	-1,031	-0
Effect of exchange rate change on cash and cash equivalents	5	10
Change in cash and cash equivalents	1,189	-767
Balance of cash and cash equivalents at period end	6,446	5,679

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 full-year outlook

For the FY8/22 consolidated results, the Company is forecasting 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	
	Results	% 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%	-85	-1.1%
SG&A expenses	2,846	16.2%	2,960	16.7%	113	4.0%
Operating profit	5,212	29.7%	5,013	28.3%	-199	-3.8%
Recurring profit	5,306	30.2%	5,090	28.8%	-216	-4.1%
Net profit attributable to the owners of the parent company	3,647	20.8%	3,500	19.8%	-147	-4.0%

Note: Following the adoption from FY8/22 of the Accounting Standard for Revenue Recognition, etc., the results forecasts are set based on this new standard
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, patient wear to increase 10.9% to ¥2,800mn, surgery wear to increase 2.4% to ¥1,700mn, shoes and other products to decrease 8.5% to ¥310mn, and infection prevention products to decrease 72.4% to ¥100mn. 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.

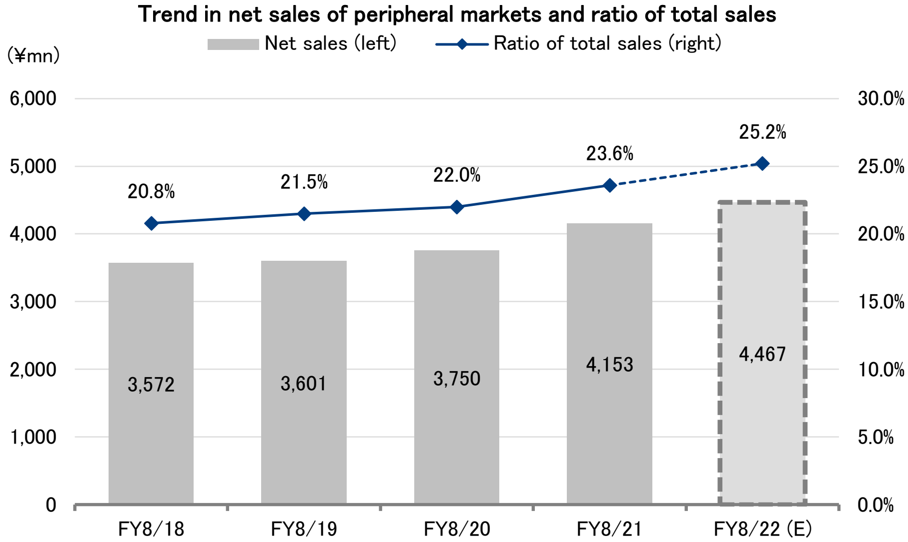
Net sales forecasts by item

(¥mn)

	FY8/21		FY8/22	
	Results	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	
	Results	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 COVID-19, 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, as the outlook for market conditions and other factors has improved and it has become possible to make rational calculations, it has announced the current mid-term management plan, with FY8/24 as its final fiscal year.

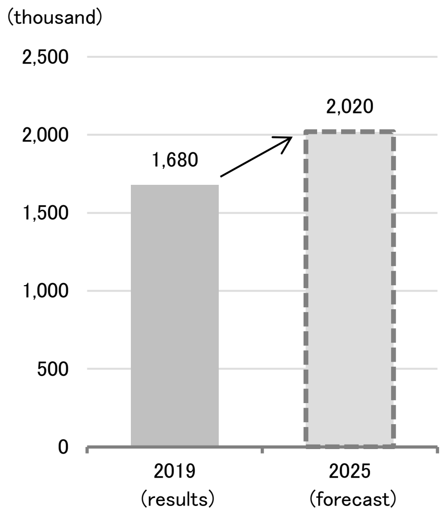
The plan's numerical targets are net sales of ¥18.5bn and operating profit of ¥5.4bn in FY8/24.*

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

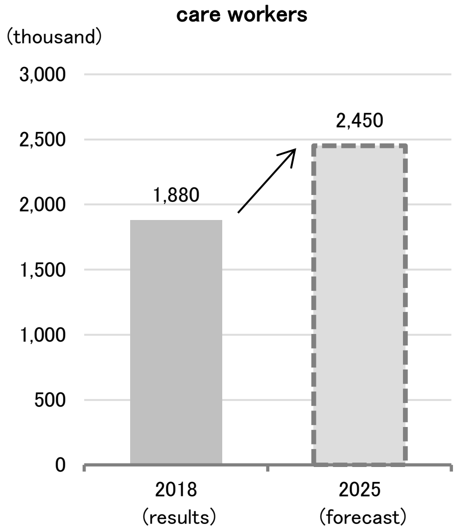
2. Future business strategies

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 care workers is forecast to increase from 1.88 million in FY2018 to 2.45 million in FY2025.

Forecasts for future demand for nurses



Forecasts for future demand for care workers



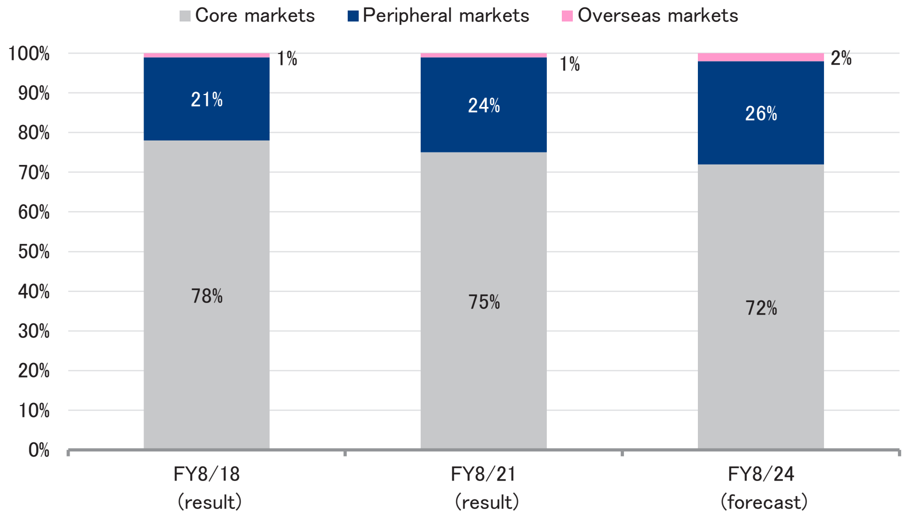
Source: Prepared by FISCO from the following materials (English titles have been translated from Japanese)
FY2019 Actual Number of Nursing Professionals from "Statistical Data on Nursing Service in Japan" (Japanese Nursing Association)
FY2025 Estimated Number of Nursing Professionals from "Study Group 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 composition of net sales 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

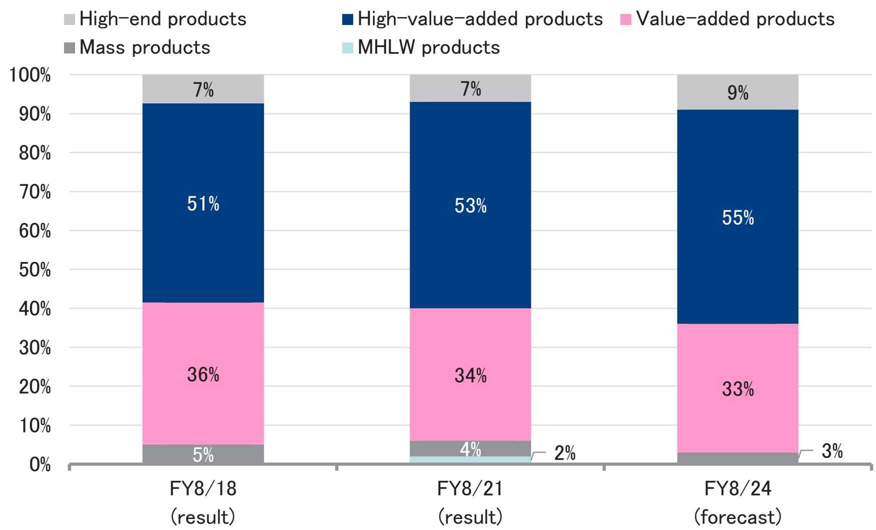


Source: Prepared by FISCO from the Company's results briefing materials

(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, at the same time as increasing 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

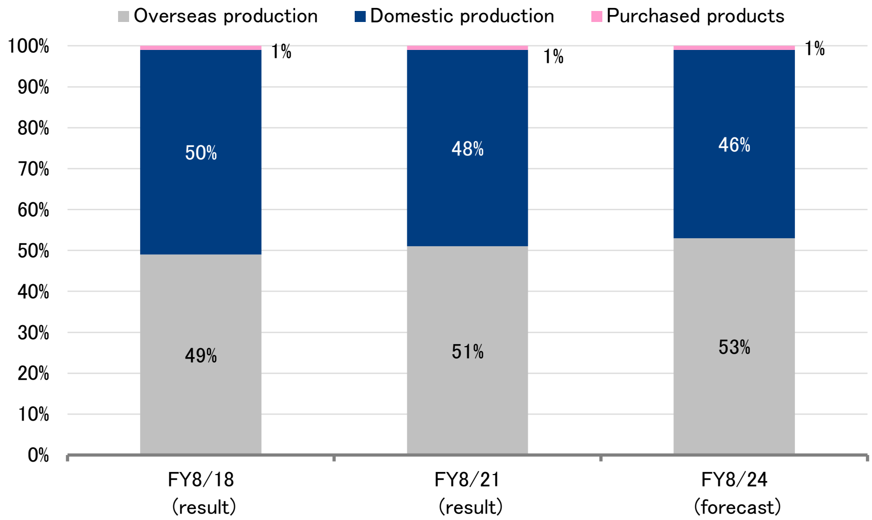


Source: Prepared by FISCO from the Company's results briefing materials

(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 (E)	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

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