COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben Co., Ltd.

7447

Tokyo Stock Exchange Prime Market

20-Feb.-2024

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Index

Summary

In FY8/24 1Q, operating profit increased 4.3% YoY, showing signs of business environment upturn

1. FY8/24 1Q results

Nagaileben Co., Ltd. <7447> (hereafter, also "the Company") is the leading manufacturer in Japan of medical gowns, which is one of its core markets*, with a domestic market share of over 60%, and it has both a high profit margin and sound financial condition. In its FY8/24 1Q consolidated results, net sales increased 3.2% year on year (YoY) to ¥3,048mn, operating profit rose 4.3% to ¥657mn, recurring profit grew 4.3% to ¥676mn, and net profit attributable to the owners of the parent company was up 4.2% to ¥464mn. Net sales increased as a result of steady sales growth of products mainly in peripheral markets due to efforts of the sales team and price hike effect. The gross profit margin was 44.0%, improving 1.2 percentage points from 42.8% a year earlier mainly due to a somewhat stronger yen and the effect of price revisions starting in February 2023 filtering through. The SG&A expense ratio increased 7.7% YoY, which was within budget, resulting in a 4.3% rise in operating profit. The Company did not announce its forecast for 1Q, but results appear to be in line with the company plan and the business environment shows signs of improvement.

* Domestic markets in which the Company has a relatively higher share. The markets include healthcare wear, doctors' wear, utility wear and other products, and infection prevention products.

2. FY8/24 forecasts

For its FY8/24 consolidated forecast, the Company's initial forecast is unchanged, calling for a 3.6% YoY increase in net sales to ¥17,800mn, 0.2% rise in operating profit to ¥4,615mn, flat recurring profit at ¥4,673mn, and 0.2% increase in net profit attributable to the owners of the parent company to ¥3,231mn. Despite the outlook for steady growth in net sales, the Company forecasts a rise in the cost of sales ratio due to negative impacts from foreign exchange rates (yen weakening YoY) and ongoing increase in processing costs. However, the Company expects flat YoY operating profit as a result of ongoing profitability improvement measures such as streamlining production as well as product sales price revisions. The business environment appears to be improving more than the initial assumption, because the yen is currently stronger than expected, price revisions are expected to filter through further, and positive impacts are likely from the FY2024 NHI medical and nursing care fee revisions (price increase) and new product effect for high-end products. We at FISCO therefore see potential for an upward revision to the full-year earnings forecast if current conditions continue.

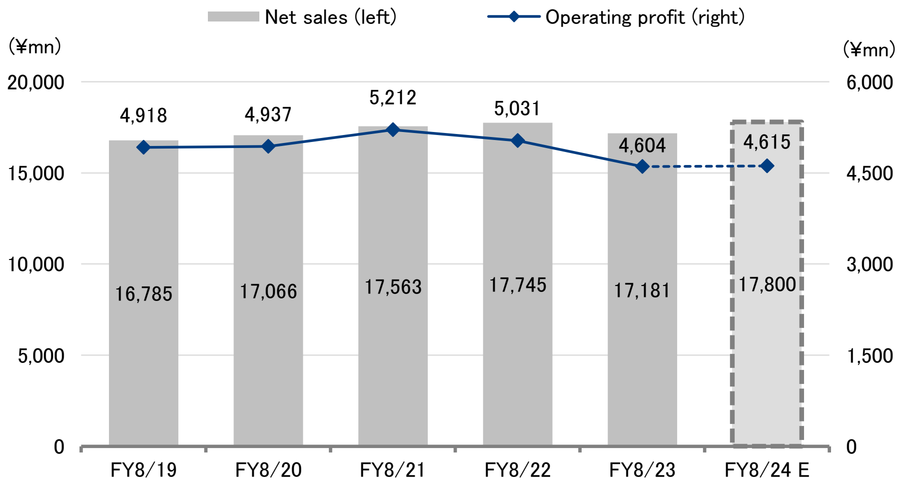
3. Mid-term management plan

The Company announced its mid-term management plan that would carry over from the previous plan, taking into account the results of FY8/23, and there are currently no changes to the plan. The plan's numerical targets are net sales of ¥18.9bn and operating profit of ¥5.5bn in FY8/26. The weakening of the yen means exchange rates are currently a headwind, but with price revisions moving forward and high value-added products and high-priced products being proactively introduced, we believe it likely that these targets will probably be achieved. Meanwhile, the Company's stance on shareholder returns remains unchanged, with an annual dividend of ¥60.0 for FY8/23 and plans for an annual dividend of ¥60.0 yen for FY8/24 as well (consolidated dividend payout ratio of 59.3%). The Company is proactive about acquiring treasury shares and acquired 612,700 shares (¥1,231mn) in FY8/22, with the aim of improving capital efficiency and implementing a flexible capital policy in response to changes in the business environment. Furthermore, the Company announced that it would acquire up to 500,000 treasury shares (up to ¥1,000mn) between June 30, 2023, and December 11, 2023, and it has already acquired 423,600 treasury shares (¥928mn) as of the end of 1Q (November 2023). In addition to its robust financial condition, we at FISCO think the Company's proactive stance towards shareholder returns is worthy of praise.

Key Points

- In FY8/24 1Q, operating profit increased 4.3% YoY, basically along the planned line
- FY8/24 operating profit is forecast to be flat, but there is room for upward revision
- In the mid-term management plan, is targeting operating profit of ¥5.5bn in FY8/26, and also actively returning profits to shareholders

Trends in net sales and operating profit (consolidated)



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

Company profile

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

The Company is a specialist manufacturer of medical gowns for nurses, doctors, patients, and others. Established in 1915 as Nagai Shoten, the Company has a rich history. Since then, the Company says it has now expanded its operations nationally to become a leading domestic manufacturer that boasts an annual supply of more than 6.50 million medical gowns a year and a market share of over 60% in one of its core markets of medical gowns mainly for nurses. With regard to the reviewed market categories introduced by the Tokyo Stock Exchange (TSE) in April 2022, the Company shifted its listing to the Prime Market.

History

1915	Mitsuji Nagai started Nagai Shoten, a privately owned business specializing in medical gowns, in Kanda-Jinbocho, Chiyoda-ku, Tokyo.
1941	Ended private business, established Tokyo Eisei Hakui Co.. Ltd. together with seven stores in the same industry.
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.
2022	Shifted listing to the Tokyo Stock Exchange Prime Market.

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

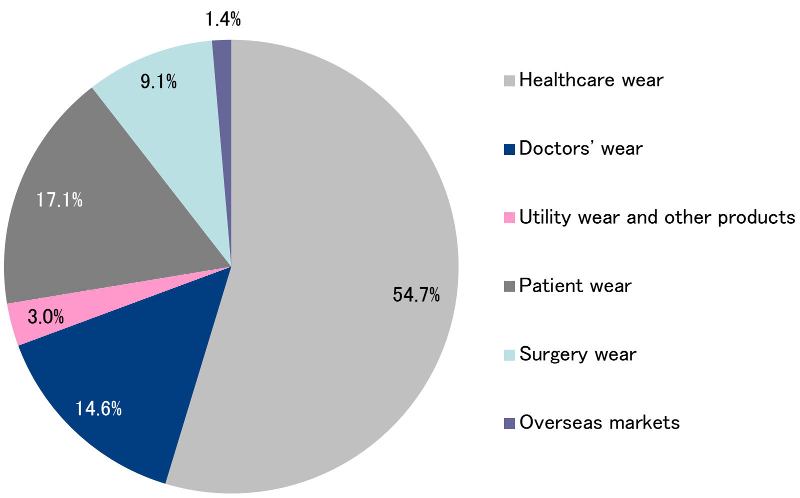
1. Sales breakdown

The Company's products are medical gowns and related products. The sales composition by item for FY8/23 is 54.7% from healthcare wear, 14.6% from doctors' wear, 3.1% from utility wear and other products*, 17.1% from patient wear, 9.1% from surgery wear, and 1.4% from overseas markets.

* Includes infection prevention products.

Healthcare wear mainly refers to products for nurses, while utility wear and other products include utility wear (aprons, cardigans, and other garments worn on top of medical gowns and such), shoes and, furthermore, infection prevention products. While profitability does not vary much among the various items, utility wear and other products have a high percentage of purchased products and relatively low margins.

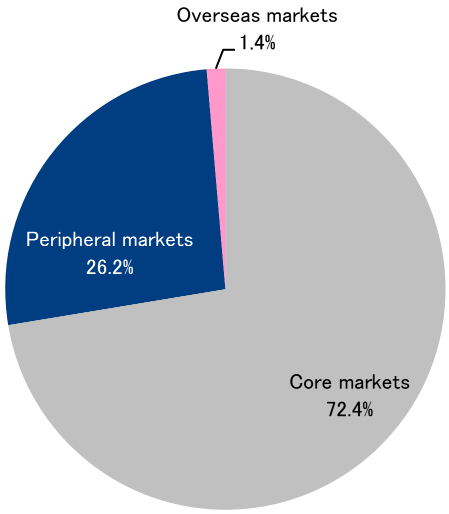
Net sales composition by item (FY8/23)



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, and utility wear and other 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 FY8/23, the core markets provided 72.4%, the peripheral markets 26.2%, and the overseas markets 1.4%.

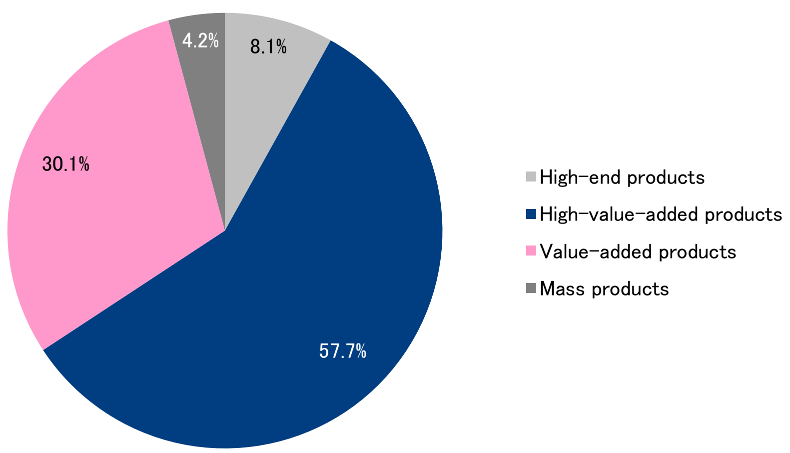
Net sales composition by market (FY8/23)



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

The composition of net sales by product (function) for FY8/23 is 8.1% from high-end products, 57.7% from high value-added products, 30.1% from value-added products, 4.2% from mass products and 0.0% 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 (FY8/23)



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

2. Sales channels and production status

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

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

Looking at the Company's production structure, based on FY8/23 results (non-consolidated), internal production and at partner plants constitute an aggregate of 99.4% (46.2% domestically and 53.2% overseas), with purchased products accounting for 0.6%. Overseas production takes place in Indonesia, Vietnam, and China, but the Company owns no plants and the goods are produced at the plants of its local partners, which mitigates investment risk and reduces costs.

3. Characteristics and strengths

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

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

As a result, the Company's share in one of its core markets of medical gowns, the domestic market for medical gowns exceeds 60.0%, 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 43.9% (actual results for FY8/23). 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)

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.

"Let us help the human life" at the core of main initiatives

(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 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 provides practical educational courses on such subjects as make-up and personal behavior that are suitable for nurses in the medical industry. The courses have been provided online since FY8/22 and have included online beauty courses and beauty-related instructional videos. In FY8/24 1Q, the Company provided the re-edited version of the video to be used in training for new nurses beginning their careers at those institutions.

c) Remaking student nurses' uniforms

The Company remakes the training uniforms of student nurses at Okayama University into pochettes and other items so that the nurses can use them even after starting work at medical facilities. In addition, in FY8/24 1Q, the training uniforms of all graduates of FUJI Nursing School were upcycled into pochettes and presented by the school as graduation gifts.

(3) Contributing to communities

a) Medical kids project

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

b) 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.

c) 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.

d) Provision of uniforms to nurses providing support after disasters

In a new initiative launched in FY8/22, the Company provided the Japanese Nursing Association with uniforms to be worn by nurses dispatched to different regions in the event of a disaster, and also provided the nursing associations of each prefecture with uniforms for storage and stockpiling.

(4) New initiatives

a) Holding Para-Art Exhibition

At Itona Gallery sponsored by the Company, the Company held a Para-Art Exhibition showcasing artwork produced by persons with physical disabilities.

b) Donations of new infection prevention products to medical entities and others

As a measure to counter COVID-19 infections, the Company donated 10,000 isolation gowns that can be washed and reused to medical institutions, etc.

Social responsibility initiatives

(5) Environment

a) Reducing environmental burden through business

Many of the Company's products use materials derived from depletable resources and it believes that by planning, manufacturing and selling products that can be used repeatedly and for a long time is an effective use of limited resources, which will lead to reducing environmental burden. Specifically, the Company acquired ISO 14001 certification in 2005, and carries out initiatives such as using cutting wastage from raw materials for roofing processing and other purposes. The Company has also developed reusable infection prevention products and developed and sells COMPELPACK, a reusable infection prevention product for use on surgical front lines. By providing wear that can be repeatedly washed and sterilized, converting it to reusable products instead of being disposable, it is contributing to the reduction of medical waste on the surgical front lines. Other initiatives include introducing hybrid vehicles for use as sales vehicles and installing solar power generating panels on the headquarters building.

b) Response to climate change problems

The Company plans to implement a decision-making process toward scenario analysis, including mitigation and adaptation initiatives for climate change problems, identification of opportunities and risks, etc. as a climate change disclosure in accordance with the TCFD (Task Force on Climate-related Financial Disclosure).

(6) Social contribution

a) Donations, etc. of new infection prevention products to medical entities and others

In the fight against COVID-19, the Company donated 40,000 reusable masks and 10,000 reusable isolation gowns. It is also continuously conveying messages of support to medical personnel and the Company regularly publishes a poetry collection for nurses, which are given free of charge to hospitals and nurses.

b) Promotion of the employment of persons with disabilities

Subsidiary NAGAI UNIFORM INDUSTRY co., Ltd. was awarded by the Minister of Health, Labour and Welfare in September 2016 after being selected as an excellent business that contributes to the active employment and promotion of persons with disabilities.

c) Disaster support activities

The Company has provided monetary donations, medical gowns, masks, wheelchairs and other items through the Japanese Nursing Association and the Japanese Red Cross Society following the outbreak of SARS and natural disasters including the Indonesian earthquake, the Great Hanshin Earthquake, the Great East Japan Earthquake, the Kumamoto earthquakes, and the COVID-19 pandemic.

d) Published in Future Class

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

e) Other assistance

The Company supports the United Nations' World Food Programme (WFP), an agency that provides food assistance. Additionally, it supports the Minamisanriku Planting of Revival Cherry Trees 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 in locations reached by the tsunami. Representative Director and President Ichiro Sawanobori also serves as the Industrial Ambassador for Misato Town (Akita Prefecture). In addition, the Company serves as an official supporter of the Para-Art Activity promoted by the Nippon Charity Kyokai to support the disabled.

Results trends

In FY8/24 1Q, operating profit increased 4.3% YoY, basically along the planned line

1. Summary of FY8/24 1Q consolidated results

In its FY8/24 1Q consolidated results, net sales increased 3.2% year on year (YoY) to ¥3,048mn, operating profit rose 4.3% to ¥657mn, recurring profit grew 4.3% to ¥676mn, and net profit attributable to the owners of the parent company was up 4.2% to ¥464mn.

Net sales increased as a result of steady sales growth of products mainly in peripheral markets mainly due to efforts of the sales team and price hike effect. The gross profit margin was 44.0%, improving 1.2 percentage points from 42.8% a year earlier mainly due to a somewhat stronger yen and the effect of price revisions starting in February 2023 filtering through. The SG&A expense ratio increased 7.7% YoY, which was within budget, resulting in a 4.3% rise in operating profit. The Company did not announce its initial forecast for 1Q, but results appear to be in line with the Company plan.

Summary of FY8/24 1Q consolidated results

(¥mn)

	FY8/23 1Q		FY8/24 1Q			
	Amount	% of total	Amount	% of total	Change amount	YoY
Net sales	2,954	100.0%	3,048	100.0%	93	3.2%
Gross profit	1,265	42.8%	1,340	44.0%	75	6.0%
SG&A expenses	633	21.5%	682	22.4%	48	7.7%
Operating profit	631	21.4%	657	21.6%	26	4.3%
Recurring profit	648	21.9%	676	22.2%	28	4.3%
Net profit attributable to the owners of the parent company	445	15.1%	464	15.2%	18	4.2%

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

(1) Net sales by item and market

In its core markets, net sales increased 2.1% YoY to ¥2,058mn. Order trends of mainstay healthcare wear were steady, mainly in projects for which lease renewal had been delayed, but delays occurred with more items amid a tough market environment, resulting in a modest 2.1% sales growth. By item, sales rose 2.5% YoY to ¥1,550mn for healthcare wear, grew 2.5% for doctors' wear to ¥408mn, and fell 4.6% to ¥99mn for utility wear and other products.

In peripheral markets, the expanding share of patient wear drove sales, which increased 6.9% YoY. By item, sales were up 8.9% YoY to ¥674mn for patient wear (a focus product) and up 2.2% for surgery wear to ¥270mn.

Overseas markets are heavily influenced by the number of projects due to their small scale; net sales down 17.9% YoY.

Net sales by item and market

(¥mn)

	FY8/23 1Q		FY8/24 1Q	
	Results	YoY	Results	YoY
Core markets	2,015	-15.3%	2,058	2.1%
Healthcare wear	1,512	-14.5%	1,550	2.5%
Doctors' wear	398	-14.0%	408	2.5%
Utility wear and other products	103	-28.2%	99	-4.6%
Peripheral markets	884	-7.9%	945	6.9%
Patient wear	619	-6.2%	674	8.9%
Surgery wear	265	-11.6%	270	2.2%
Overseas markets	55	37.7%	45	-17.9%
Total	2,954	-12.5%	3,048	3.2%

Note: The Company does not disclose net sales forecast by product for 1Q
Source: Prepared by FISCO from the Company's financial results

Financial position remains sound given a high level of cash and deposits on hand at ¥25.3bn, and an equity ratio of 91.6%

2. Financial position

The Company's financial position remains stable. At the end of FY8/24 1Q, total assets decreased by ¥2,376mn from the end of the previous fiscal year to ¥45,001mn. Current assets decreased by ¥2,342mn to ¥36,652mn, mainly due to decreases in cash and deposits of ¥1,810 and notes and accounts receivable including electronically recorded claims of ¥1,047mn, offset against a ¥1,033 increase in inventories. Meanwhile, fixed assets decreased by ¥34mn to ¥8,348mn, mainly due to a decrease in tangible fixed assets of ¥19mn from depreciation.

Total liabilities were ¥3,787mn, down ¥376mn from the end of the previous fiscal year. This was largely due to an increase in notes and accounts payable of ¥129mn, decrease in income taxes payable of ¥639mn, and a rise in other current liabilities of ¥80mn. Net assets decreased by ¥2,000mn to ¥41,213mn, mainly due to decreases in retained earnings of ¥1,461mn due to the payment of dividends and ¥555mn as a result of an increase in treasury shares. As a result, the equity ratio was 91.6% at the end of FY8/24 1Q (91.2% at the end of the previous fiscal year).

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/23	End of 1Q FY8/24	Change amount
Cash and deposits	27,159	25,348	-1,810
Notes and accounts receivable (including electronically recorded claims)	4,979	3,932	-1,047
Inventories	6,059	7,092	1,033
Current assets	38,995	36,652	-2,342
Tangible fixed assets	7,312	7,292	-19
Intangible fixed assets	59	55	-4
Investments and other assets	1,010	1,000	-9
Fixed assets	8,382	8,348	-34
Total assets	47,377	45,001	-2,376
Notes and accounts payable	1,606	1,736	129
Income taxes payable	865	225	-639
Other	666	747	80
Total liabilities	4,163	3,787	-376
Retained earnings	43,823	42,361	-1,461
Treasury shares	-4,514	-5,069	-555
Net assets	43,214	41,213	-2,000
Total liabilities and net assets	47,377	45,001	-2,376

Note: The Company does not disclose a cash flow statement for 1Q
Source: Prepared by FISCO from the Company's financial results

Business outlook

Flat profit forecast for 8/24, but potential for upward revision

● FY8/24 consolidated earnings outlook

For its consolidated results in FY8/24, the Company's initial forecast is unchanged, calling for net sales to increase 3.6% YoY to ¥17,800mn, operating profit to increase 0.2% to ¥4,615mn, recurring profit to remain about the same YoY at ¥4,673mn, and net profit attributable to the owners of the parent company to increase 0.2% to ¥3,231mn.

The forecast assumes the continuation of a tough operating environment due to the impact of prolonged inflation that started in FY8/23. Under these conditions, the Company seeks to expand its Earth Song range, which has been selling well, and launched the new MACKINTOSH PHILOSOPHY brand (see below) to stimulate the market. It is working to resolve delays in lease renewals in its core markets and focusing on increasing its market share in patient wear, expanding COMPELPACK in the surgery wear market, and pioneering overseas markets in peripheral markets. Through these measures, the Company is aiming to increase sales by 3.6% YoY and achieve record-high sales.

Meanwhile, in terms of profit, the cost of sales ratio is expected to rise as the yen is expected to continue to depreciate, and processing fees and raw materials prices are expected to rise. SG&A expenses, mainly personnel expenses, are also expected to increase, but the Company expects these cost increases to be absorbed through price revisions and operating income to remain roughly the same.

That being said, the yen has been trending stronger against the US dollar by around ¥5 than the initial Company assumption since 1Q. As well, under the spring 2024 NHI medical and nursing care fee revisions, the basic medical fee goes up by 0.88% and the basic nursing care fee by 1.59%. We think this will also be a positive factor for the Company's business environment. The effect of price revisions that started in February 2023 will likely remain through 2H FY8/24, and new products such as the aforementioned MACKINTOSH PHILOSOPHY are expected to make a positive impact. Based on these factors, we at FISCO see potential for an upward revision of the Company's initial full-year forecast.

FY8/24 consolidated earnings outlook

(¥mn)

	FY8/23		FY8/24		YoY	
	Results	% of total	Forecast	% of total	Change amount	Change percentage
Net sales	17,181	100.0%	17,800	100.0%	618	3.6%
Gross profit	7,547	43.9%	7,723	43.4%	175	2.3%
SG&A expenses	2,942	17.1%	3,107	17.5%	165	5.6%
Operating profit	4,604	26.8%	4,615	25.9%	10	0.2%
Recurring profit	4,673	27.2%	4,673	26.3%	0	0.0%
Net profit attributable to the owners of the parent company	3,226	18.8%	3,231	18.2%	5	0.2%

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

(1) Introduction of “MACKINTOSH PHILOSOPHY” brand

The Company announced that it has signed a brand license agreement with Yagi Tsusho Limited and Mackintosh Japan Limited, and will launch “MACKINTOSH PHILOSOPHY Medicalwear®” from January 2024. Up until now, the Company had been developing the elegant “Bright Days®” and “Beads Berry®” brands, but in addition to these, by introducing “MACKINTOSH PHILOSOPHY” which inherits the manufacturing spirit and classic, timely style of MACKINTOSH, which represents Britain, the Company aims to add depth to its high-end zone and achieve a diverse and high level of user satisfaction. The Company aims for sales of ¥100mn in the first fiscal year and ¥500mn in three years’ time.

(2) Net sales forecasts by item and market

In net sales by market, sales are forecast to increase across all markets. Net sales in core markets are expected to increase 2.5% YoY to ¥12,750mn. By item, the Company plans for a 2.6% increase in healthcare wear, to ¥9,640mn, a 3.3% increase in doctors’ wear, to ¥2,600mn, and a 2.7% decrease in other products to ¥510mn. It expects a 6.4% increase in peripheral markets, to ¥4,800mn, with patient wear up 7.2% to ¥3,150mn and surgery wear up 5.0% to ¥1,650mn. It also forecasts a 6.6% increase in overseas markets, to ¥250mn.

Net sales forecasts by item and market

(¥mn)

	FY8/23		FY8/24	
	Results	YoY	Forecast	YoY
Core markets	12,438	-4.5%	12,750	2.5%
Healthcare wear	9,395	-3.1%	9,640	2.6%
Doctors’ wear	2,517	-5.2%	2,600	3.3%
Other products	525	-21.4%	510	-2.7%
Peripheral markets	4,509	0.5%	4,800	6.4%
Patient wear	2,938	2.3%	3,150	7.2%
Surgery wear	1,571	-2.7%	1,650	5.0%
Overseas markets	234	-1.1%	250	6.6%
Total	17,181	-3.2%	17,800	3.6%

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

(3) Net sales forecasts by product

In high-end products, the Company plans to increase sales by 11.6% YoY, to ¥1,550mn, by focusing on strengthening its elegance product line in addition to launching the new brand, MACKINTOSH PHILOSOPHY Medicalwear®. In high value-added products, it will continue to pursue higher added value through market penetration of its new Earth Song brand concept, with sales expected to increase 3.9% to ¥10,300mn. The Company plans to increase sales of value-added products by 1.7%, to ¥5,250mn, by capturing projects from other companies and promoting a shift from mass products to value-added products.

Net sales forecasts by product

(¥mn)

	FY8/23		FY8/24	
	Results	YoY	Forecast	YoY
High-end products	1,389	9.4%	1,550	11.6%
High-value-added products	9,908	-3.5%	10,300	3.9%
Value-added products	5,164	-5.3%	5,250	1.7%
Mass products	719	-4.5%	700	-2.7%
Total	17,181	-3.2%	17,800	3.6%

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

Medium- to long-term growth strategy

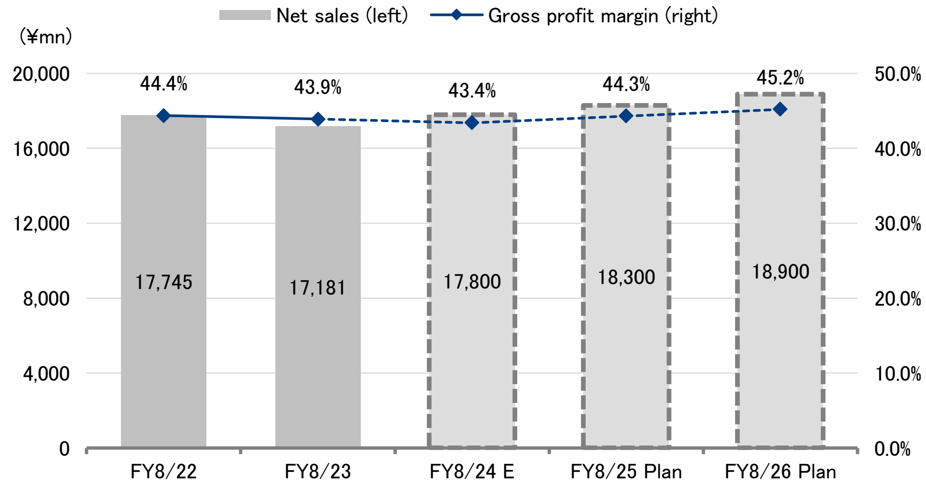
Mid-term management plan targets operating profit of ¥5.5bn in FY8/26

1. Mid-term management plan

The Company announced its mid-term management plan that would carry over from the previous plan, taking into account the results of FY8/23, and there are currently no changes to the plan. The plan sets out numerical targets for FY8/26 net sales of ¥18.9bn and operating profit of ¥5.5bn*. It also expects gross profit margin to bottom out in FY8/24, before gradually improving with the effects of price revisions and other moves. The Company plans for gross profit margin to recover to more than 45% by FY8/26, the final year of the plan.

* Assumes an exchange rate of ¥125 (fixed).

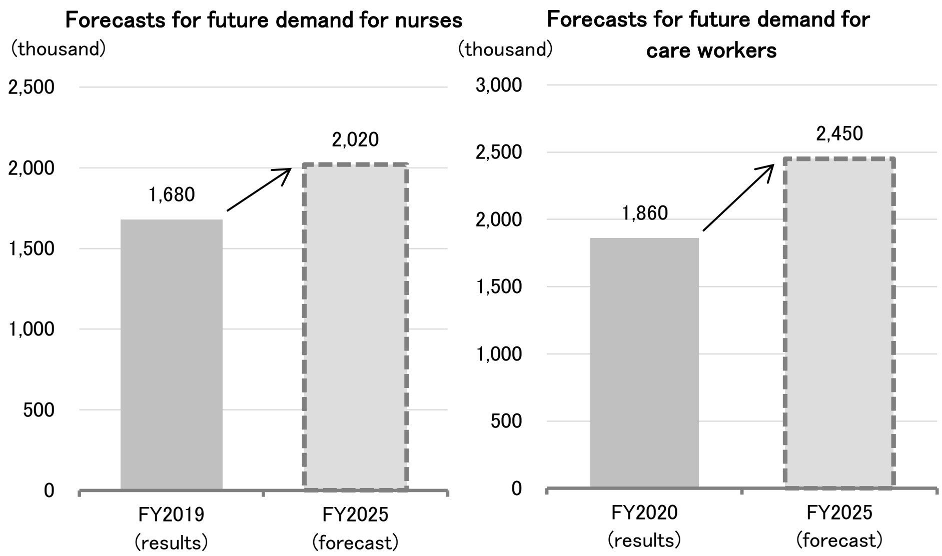
Trends in net sales and gross profit margin



Note: Planned figures for FY8/25 and gross profit margin for FY8/26 are estimates calculated by FISCO
Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Future business strategies

Although the business environment encompassing the Company is currently affected by COVID-19, this could be a medium- to long-term tailwind. According to data released by MHLW among others, the number of nurses in Japan is projected to increase from 1.68 million in FY2019 to a maximum of 2.02 million in FY2025. Moreover, the number of demanded nursing care professionals is forecast to increase from 1.86 million in FY2020 to 2.45 million in FY2025.



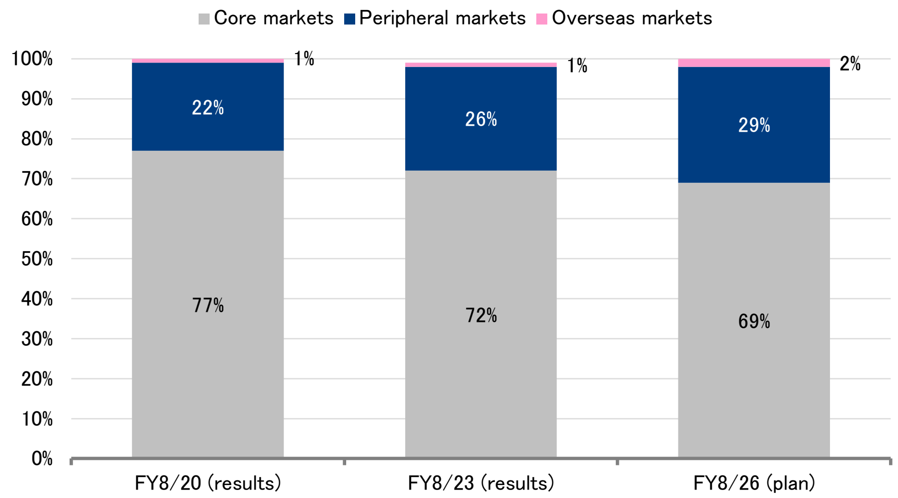
Source: Prepared by FISCO from the following materials
FY2019 Actual Number of Nursing Professionals from "Statistical Data on Nursing Service in Japan" (Japanese Nursing Association)
FY2025 Estimated Number of Nursing Professionals from "Study Group on Supply and Demand of Medical Personnel" (MHLW)
FY2020 Actual Number of Nursing Care Professionals from "Survey of Institutions and Establishments for Long-Term Care" (MHLW)
FY2025 Estimated Number of Nursing Care Professionals from "Seventh Nursing Care Insurance Business Group Plan" (MHLW)

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 by cultivating its core markets in which it has comparatively high shares, but also by expanding its share in peripheral markets that still have plenty of room to grow in the future. For the overseas markets, the Company is developing markets, mainly in South Korea and Taiwan, by utilizing the business model that is one of its strengths. By implementing these strategies, it forecasts that the net sales composition by market in FY8/26 will be 69% from the core markets (compared to 77% in FY8/20 and 72% in FY8/23), 29% from the peripheral markets (22% in FY8/20 and 26% in FY8/23), and 2% from the overseas markets (1% in FY8/20 and 1% in FY8/23).

Forecasts for net sales composition by market

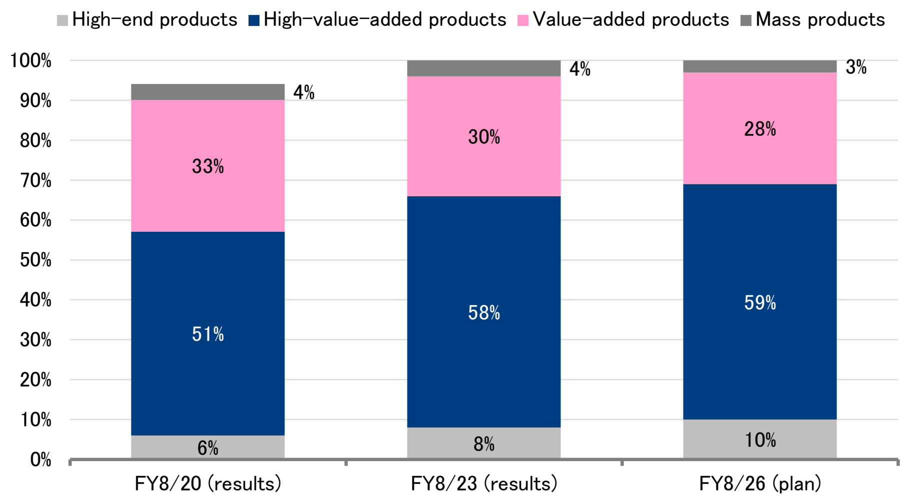


Source: Prepared by FISCO from the Company's results briefing materials

(2) Product strategy to stabilize profitability

As its product strategy, the Company will aim to progress sales growth of high-end products and high-value-added products, and at the same time make an effort to increase sales of mass products and value-added products. Its policy is to stabilize profitability even further. As a result, it is forecasting that the composition of net sales by product in FY8/26 will be 10% from high-end products (compared to 6% in FY8/20 and 8% in FY8/23), 59% from high-value-added products (51% in FY8/20 and 58% in FY8/23), 28% from value-added products (33% in FY8/20 and 30% in FY8/23), and 3% from mass products (4% in FY8/20 and 4% in FY8/23).

Forecasts for net sales composition by product

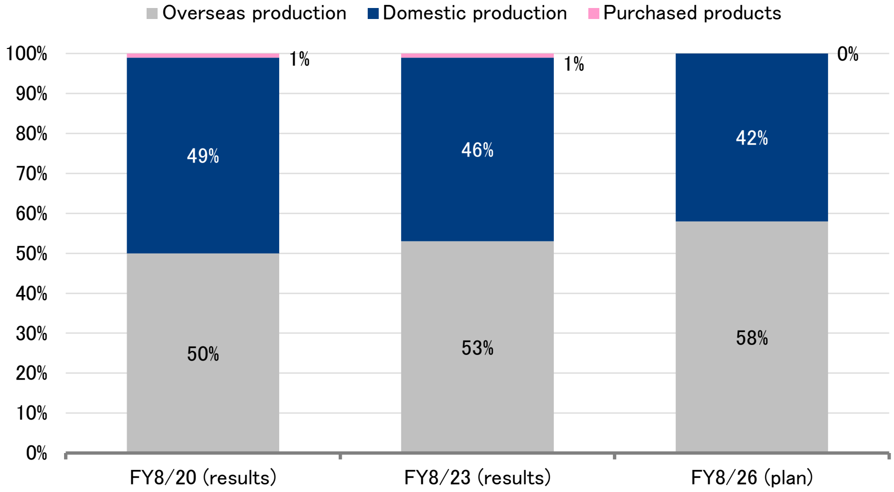


Note: The graph for FY8/20 excludes "for MHLW" so the total is not 100%. For FY8/23 and FY8/26 (forecast), the amount to MHLW is zero
Source: Prepared by FISCO from the Company's results briefing materials

(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. It will also promote the development of low-priced strategic products by utilizing its overseas factories. 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 FY8/26 will be 58% from overseas production (compared to 50% in FY8/20 and 53% in FY8/23), 42% from domestic production (49% in FY8/20 and 46% in FY8/23), and 0% from purchased products (1% in FY8/20 and 1% in FY8/23).

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 ¥60.0 per share

The Company's equity ratio reached 91.2% at the end of FY8/23 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 (7.5% in FY8/23).

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 ¥50.0 to ¥60.0, and paid an annual dividend of ¥60.0 each year from FY8/18 to FY8/23. The Company has already announced an annual dividend of ¥60.0 per share for FY8/24 as well. In addition, the Company proactively engages in share buybacks and acquired 612,700 treasury shares (¥1,231mn) and retired 2,500,000 treasury shares in FY8/22 with the objective of enhancing capital efficiency and to respond to the changing management environment. Furthermore, the Company has announced a buyback from the market of up to 500,000 shares (up to ¥1,000mn) in the period from June 30, 2023 until December 11, 2023, and as of November 30, 2023, it had already acquired 423,600 shares (¥928mn). In addition to the Company's strong financial position, this consistent return to shareholders is worthy of recognition.

Trends in the dividend payout ratio and the total return ratio

(¥mn)

	Total dividend amount	Share buybacks	Dividend payout ratio*	Total return ratio*
FY8/10	1,127	0	51.4%	51.4%
FY8/11	1,205	226	52.0%	61.7%
FY8/12	1,205	0	55.1%	55.1%
FY8/13	1,541	229	51.3%	58.7%
FY8/14	1,712	0	54.4%	54.4%
FY8/15	3,324	1,500	107.5%	153.8%
FY8/16	1,662	0	52.5%	52.5%
FY8/17	1,994	0	55.2%	55.2%
FY8/18	1,994	0	55.2%	55.2%
FY8/19	1,995	0	58.0%	58.0%
FY8/20	1,971	1,031	57.9%	87.9%
FY8/21	1,971	0	55.0%	55.0%
FY8/22	1,935	1,231	52.5%	84.9%
FY8/23	1,926	373	60.7%	72.1%

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

Disclaimer

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