COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben Co., Ltd.

7447

Tokyo Stock Exchange Prime Market

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FISCO Ltd. Analyst

Noboru Terashima

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

Sales and profits fell in FY8/24 3Q. The Company expects operating profit to rise 1.7% in 2H, broadly in line with initial forecast

1. Summary of FY8/24 3Q results

Nagaileben Co., Ltd. <7447> (hereafter, also "the Company"), posted FY8/24 3Q consolidated results where net sales decreased 4.1% year on year (YoY) to ¥12,646mn, operating profit declined 11.5% to ¥3,132mn, recurring profit decreased 11.6% to ¥3,182mn, and net profit attributable to the owners of the parent company was down 11.5% to ¥2,195mn. Amid rising prices, medical institutions and other customers pushed back purchases of consumables, including the Company's products. Also, net sales in 3Q in the previous fiscal year were higher than usual due to a spike in demand ahead of product price hikes, which was another factor behind the 4.1% YoY decline in net sales. The gross profit margin was 43.2%, supported by product price revisions and an increase in the overseas production ratio. Although the margin declined 0.6 of percentage points YoY, it was in line with the Company's forecast. SG&A expenses were within budget, up 4.2% YoY, but operating profit declined due to the drop in net sales. This was also in line with the Company's forecast.

2. FY8/24 forecasts

The Company has not changed its FY8/24 consolidated forecasts, which were revised with 1H results. It forecasts net sales to increase 0.1% YoY to ¥17,200mn, operating profit to decrease 4.4% to ¥4,400mn, recurring profit to decline 4.6% to ¥4,460mn, and net profit attributable to the owners of the parent company to decrease 4.5% to ¥3,080mn. Although full-year forecasts were revised down after lower-than-expected 1H results, the 2H outlook is mostly unchanged, with operating profit forecast to rise 1.7% YoY. Sales are expected to be broadly flat YoY, but the Company assumes a lower gross profit margin due to an increase in the cost of sales ratio, reflecting forex factors and the risk of a continued increase in processing fees and raw materials prices. However, it sees operating profit declining only 4.4% YoY, due to productivity gains and further improvements in profitability, as well as price hikes.

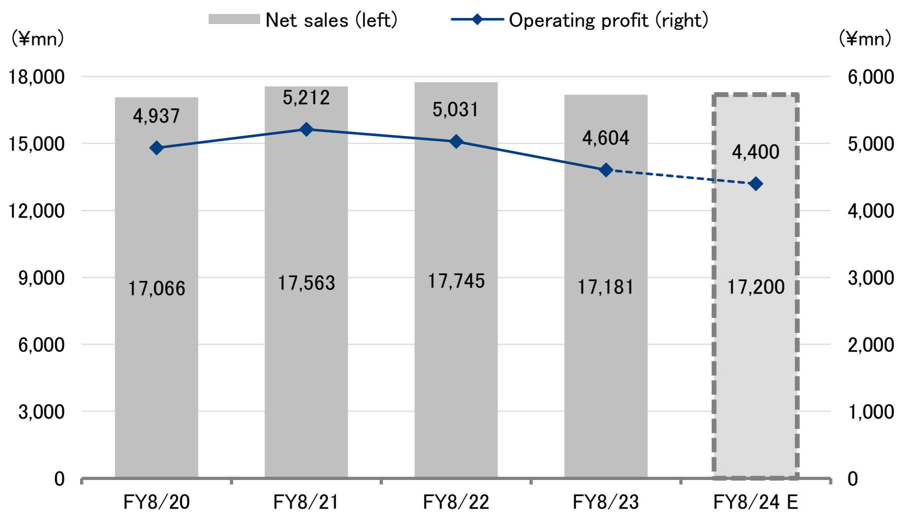
3. Mid-term management plan

The Company is making progress with its mid-term management plan, which was carried over from the previous plan, taking into account the results of FY8/23. 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 at FISCO 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 for FY8/24 as well (forecast consolidated dividend payout ratio of 62.1%). Also, to improve capital efficiency and implement a flexible capital policy in response to changes in the operating environment, the Company has been proactive on share buybacks, repurchasing 612,700 shares in FY8/22 and 164,600 shares in FY8/23. It also repurchased 415,500 shares in FY8/24 3Q. Along with the Company's robust financial condition, we at FISCO view this proactive stance on shareholder returns as positive.

Key Points

- In FY8/24 3Q, operating profit decreased 11.5% YoY, but was in line with the plan
- Operating profit projected to drop 4.4% YoY in FY8/24, but increase in 2H, largely in line with initial forecast
- In the mid-term management plan, the Company is targeting operating profit of ¥5.5bn in FY8/26, and also actively returning profits to shareholders

Results trends



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

Company profile

In its core markets, the Company 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.

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

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 the Company's 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 for 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

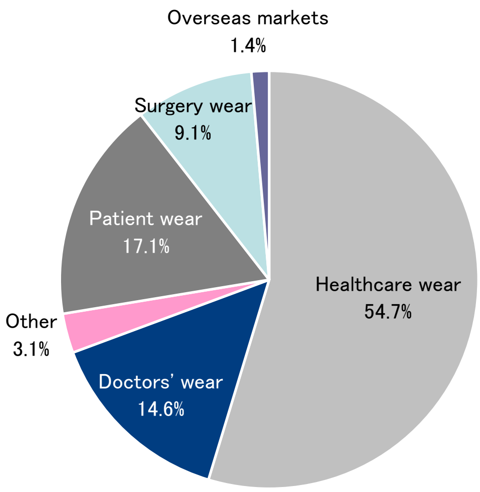
Focusing on expanding sales of highly functional, high-value-added products

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.

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 also 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.

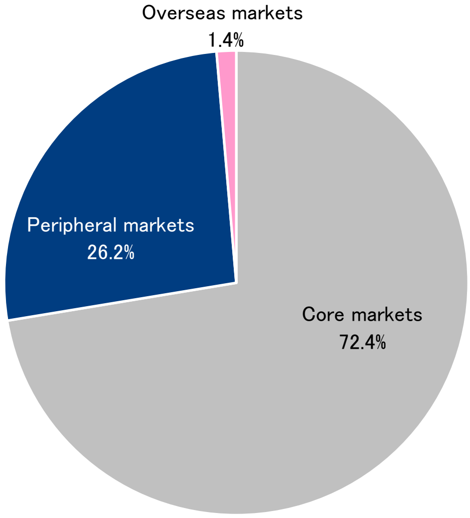
Net sales composition by item (FY8/23)



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%.

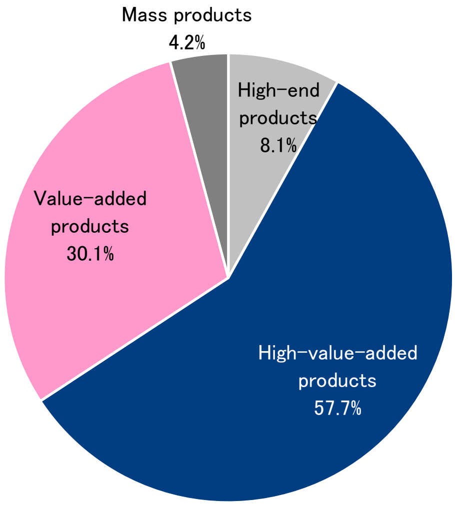
Net sales composition by market (FY8/23)



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 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 sales being agency sales via wholesalers that deal with 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 for each quarter.

Looking at the Company's production structure, based on FY8/23 results (non-consolidated), internal production and production 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

One of the Company's 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. 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. Moreover, 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. On the sales side, the Company has a network of close to 1,000 agents nationwide, and while its sales capabilities are robust, the Company itself keeps sales expenses as low as possible.

As a result, the Company's share in one of its core markets of medical gowns, the domestic market for medical gowns exceeds 60%, and it maintains a firm position as the leading medical gown manufacturer in Japan. Additionally, it is maintaining high profitability with a gross profit margin of 43.9% in its FY8/23 results. 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.

CSR activities guided by the "Nagaism" company spirit

4. Initiatives for CSR

The Company commemorated its centennial in 2015. Over this time, it has cultivated "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 medical 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

The Company lends historical gowns free of charge to events run by medical facilities and so forth aimed a fostering understanding of the changes to gowns and the history of nursing.

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) Recent new initiatives

a) Support for areas affected by the Noto Peninsula Earthquake

The Company donated isolation gowns to medical institutions impacted by the Noto Peninsula Earthquake.

b) Resumed in-person beauty classes

Based on requests, the Company resumed offering classes (beauty classes for nurses) in person after they had changed to an online format during the COVID-19 pandemic, and the number of times the classes were held recovered to the pre-pandemic level.

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 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, sterilized, and converted 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 Disclosures).

(6) Social contribution

a) Donations, etc. of 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 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; natural disasters including the Indonesian earthquake, the Great Hanshin Earthquake, the Great East Japan Earthquake, and 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 The 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 people with disabilities.

Results trends

In FY8/24 3Q, operating profit decreased 11.5% YoY. Gross profit margin in line with forecast, despite continued tough operating environment.

1. Summary of FY8/24 3Q results

In the Company's FY8/24 3Q consolidated results, net sales decreased 4.1% YoY to ¥12,646mn, operating profit declined 11.5% to ¥3,132mn, recurring profit decreased 11.6% to ¥3,182mn, and net profit attributable to the owners of the parent company was down 11.5% to ¥2,195mn. Earnings were broadly in line with forecasts revised down with 1H results.

At medical institutions, the business environment continues to be challenging as medical fees are fixed but the price of goods is rising due to inflation and other factors. As a result, purchases of consumables, including the Company's products, were put off in some cases. In addition, sales in the same period of the previous fiscal year were higher than usual due to last-minute demand before product price increases, resulting in a 4.1% YoY decrease in net sales.

While the yen continued to weaken in 3Q, the gross profit margin was 43.2%, supported by product price revisions and an increase in the overseas production ratio. The margin declined 0.6 percentage points from 43.8% in the same period of the previous fiscal year, but this was in line the Company's forecast. SG&A expenses were within budget, up 4.2% YoY, but operating profit declined due to the drop in net sales. This was also in line with the Company's forecast.

Summary of FY8/24 3Q consolidated results

(¥mn)

	FY8/23 3Q		FY8/24 3Q		YoY	
	Amount	% of net sales	Amount	% of net sales	Change amount	Change percentage
Net sales	13,187	100.0%	12,646	100.0%	-541	-4.1%
Gross profit	5,779	43.8%	5,464	43.2%	-314	-5.4%
SG&A expenses	2,238	17.0%	2,332	18.4%	94	4.2%
Operating profit	3,540	26.8%	3,132	24.8%	-408	-11.5%
Recurring profit	3,598	27.3%	3,182	25.2%	-415	-11.6%
Net profit attributable to the owners of the parent company	2,480	18.8%	2,195	17.4%	-285	-11.5%

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

In the Company's core markets, net sales decreased 5.2% YoY to ¥9,251mn. In the mainstay area of healthcare wear, although there was a steady catching up on transactions that had been postponed from the previous fiscal year, product selection and price negotiations took time due to the harsh market environment for medical institutions and some renewal transactions were shifted to later months. Due to these and other factors, sales declined. By item, sales declined 5.2% YoY to ¥6,974mn for healthcare wear, decreased 5.0% to ¥1,888mn for doctors' wear, and fell 6.8% to ¥388mn for utility wear and other products.

In peripheral markets, net sales declined 1.5% YoY to ¥3,236mn, with key linen supplier customers reducing material purchases in an effort to control rising costs. By item, sales were down 2.7% YoY to ¥2,045mn for patient wear (a focus product) and up 0.6% for surgery wear to ¥1,190mn.

In overseas markets, which are still small in value terms, sales increased 12.4% YoY to ¥158mn.

Net sales by item and market

(¥mn)

	FY8/23 3Q		FY8/24 3Q	
	Results	YoY	Results	YoY
Core markets	9,759	-4.1%	9,251	-5.2%
Healthcare wear	7,355	-3.0%	6,974	-5.2%
Doctors' wear	1,987	-3.7%	1,888	-5.0%
Utility wear and other products	417	-21.5%	388	-6.8%
Peripheral markets	3,286	0.5%	3,236	-1.5%
Patient wear	2,103	2.3%	2,045	-2.7%
Surgery wear	1,183	-2.6%	1,190	0.6%
Overseas markets	141	-17.0%	158	12.4%
Total	13,187	-3.2%	12,646	-4.1%

Note: Sales by product not disclosed in 3Q
Source: Prepared by FISCO from the Company's financial results

Financial position still stable. Cash and deposits ¥24,621mn, equity ratio high at 91.8%

2. Financial position

The Company's financial position remains stable. At the end of FY8/24 3Q, total assets had decreased by ¥977mn to ¥46,400mn compared to the end of the previous fiscal year. Current assets decreased by ¥953mn to ¥38,041mn, mainly due to a decrease in cash and deposits of ¥2,537mn, a decrease in notes and accounts receivable including electronically recorded claims of ¥1,079mn, and an increase in inventories of ¥346mn. Meanwhile, fixed assets decreased by ¥23mn to ¥8,358mn, mainly due to a decrease in tangible fixed assets of ¥91mn from depreciation and an increase in investments and other assets of ¥61mn.

Total liabilities were ¥3,796mn, down ¥367mn from the end of the previous fiscal year. This was largely due to a decrease in notes and accounts payable of ¥177mn, a decrease in income taxes payable of ¥313mn, and an increase in other current liabilities of ¥104mn. Net assets decreased by ¥610mn to ¥42,603mn, mainly due to an increase in retained earnings of ¥269mn due to recording of net profit attributable to the owners of the parent company and a decrease of ¥913mn due to an increase in treasury shares. As a result, the equity ratio was 91.8% at the end of FY8/24 3Q (91.2% at the end of the previous fiscal year).

With cash and deposits of ¥24,621mn and a high equity ratio of 91.8%, the Company's financial position remains stable.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/23	End of FY8/24 3Q	Change amount
Cash and deposits	27,159	24,621	-2,537
Notes and accounts receivable (including electronically recorded claims)	4,979	6,059	1,079
Inventories	6,059	6,406	346
Current assets	38,995	38,041	-953
Tangible fixed assets	7,312	7,220	-91
Intangible fixed assets	59	66	6
Investments and other assets	1,010	1,071	61
Fixed assets	8,382	8,358	-23
Total assets	47,377	46,400	-977
Notes and accounts payable	1,606	1,429	-177
Income taxes payable	865	551	-313
Other	666	770	104
Total liabilities	4,163	3,796	-367
Retained earnings	43,823	44,092	269
Treasury shares	-4,514	-5,427	-913
Net assets	43,214	42,603	-610
Total liabilities and net assets	47,377	46,400	-977

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

Business outlook

Operating profit forecast to drop 4.4% YoY in FY8/24, but increase 1.7% in 2H

The Company has not changed its FY8/24 consolidated forecasts, which were revised with 1H results. It forecasts net sales to increase 0.1% YoY to ¥17,200mn, operating profit to decrease 4.4% to ¥4,400mn, recurring profit to decline 4.6% to ¥4,460mn, and net profit attributable to the owners of the parent company to decrease 4.5% to ¥3,080mn. While the Company expects full-year operating profit to decline YoY, this mainly reflects downside versus the 1H forecast. It expects operating profit to increase 1.7% YoY in 2H.

The Company assumes the continuation of a tough operating environment due to the impact of prolonged inflation that started in FY8/23. Therefore, the Company seeks to expand its Earth Song range, which has been selling well, and has launched the new “MACKINTOSH PHILOSOPHY” brand to stimulate the market. It is working to resolve delays in lease renewals in its core markets and is also 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 0.1% YoY and achieve record-high sales, even if only just.

The gross profit margin is forecast to be 43.3% (43.9% in the previous fiscal year), and gross profit is expected to decline 1.3% YoY to ¥7,450mn. The factors behind the change in gross profit are expected to be an increase of ¥8mn due to an increase in sales, and a decline of ¥105mn due to a decline in the profit margin. Factors behind the change in profit margin are expected to be the impact of exchange rates (weak yen), decreased by ¥240mn (¥131.5/ USD in FY8/23 compared to ¥143.0/USD in FY8/24), the increase in the overseas production ratio, which is expected to result in an increase of ¥100mn (overseas production ratio of 54.5% in FY8/24 compared to 53.2% in FY8/23), the increase in processing fees, which is forecast to result in a decline of ¥75mn, and the increase in raw materials costs, which is expected to result in a decline of ¥160mn. On the other hand, progress on product price revisions from February 2023 is expected to result in an increase of ¥265mn in profits.

SG&A expenses are expected to increase 3.7% YoY to ¥3,050mn. The main components are an expected ¥92mn increase in personnel expenses, a ¥19mn increase in advertising expenses, and a ¥13mn increase in transportation expenses. The Company expects capital investments to total ¥400mn (building and property-related ¥146mn, IT facilities ¥123mn, logistics facilities ¥110mn, production facilities ¥20mn) with depreciation of ¥275mn.

FY8/24 consolidated results outlook

(¥mn)

	FY8/23		FY8/24		YoY	
	Results	% of net sales	Forecast	% of net sales	Change amount	Change %
Net sales	17,181	100.0%	17,200	100.0%	18	0.1%
Gross profit	7,547	43.9%	7,450	43.3%	-97	-1.3%
SG&A expenses	2,942	17.1%	3,050	17.7%	107	3.7%
Operating profit	4,604	26.8%	4,400	25.6%	-204	-4.4%
Recurring profit	4,673	27.2%	4,460	25.9%	-213	-4.6%
Net profit attributable to the owners of the parent company	3,226	18.8%	3,080	17.9%	-146	-4.5%

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 started sales of "MACKINTOSH PHILOSOPHY Medicalwear®" from January 2024. The Company has been offering the elegant "Bright Days®" brand in conjunction with Shiseido Beauty Creation Center, but it aims to increase user satisfaction with the addition of the classic British style "MACKINTOSH PHILOSOPHY" brand, which will add depth to its product range in the high-end zone. It is targeting sales of ¥100mn in the brand's first year and ¥500mn in three years' time.

(2) Net sales forecasts by item and market

In net sales by market, net sales in core markets are expected to decrease 1.0% YoY to ¥12,320mn. By item, the Company plans for a 0.7% decrease in healthcare wear to ¥9,330mn, a 0.3% decrease in doctors' wear to ¥2,510mn, and an 8.6% decrease in utility wear and other products to ¥480mn. It expects a 2.7% increase in peripheral markets to ¥4,630mn, with patient wear up 3.8% to ¥3,050mn and surgery wear up 0.6% to ¥1,580mn. 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%	12,320	-1.0%
Healthcare wear	9,395	-3.1%	9,330	-0.7%
Doctors' wear	2,517	-5.2%	2,510	-0.3%
Utility wear and other products	523	-21.0%	480	-8.6%
Peripheral markets	4,509	0.5%	4,630	2.7%
Patient wear	2,938	2.3%	3,050	3.8%
Surgery wear	1,571	-2.7%	1,580	0.6%
Overseas markets	234	-1.1%	250	6.6%
Total	17,181	-3.2%	17,200	0.1%

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

(3) Net sales forecasts by product

In high-end products, the Company aims to grow sales 2.2% YoY to ¥1,420mn, supported by the launch of the new "MACKINTOSH PHILOSOPHY Medicalwear®" brand. 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 1.9% to ¥10,100mn. The Company is advancing its plans to increase sales of value-added products by capturing projects from other companies but plans a 3.2% decrease in sales to ¥5,000mn. Sales are forecast to decrease 5.5% to ¥680mn as the Company is not focusing on expanding sales of mass products.

Net sales forecasts by product

(¥mn)

	FY8/23		FY8/24	
	Results	YoY	Forecast	YoY
High-end products	1,389	9.4%	1,420	2.2%
High-value-added products	9,908	-3.5%	10,100	1.9%
Value-added products	5,164	-5.3%	5,000	-3.2%
Mass products	719	-4.5%	680	-5.5%
Total	17,181	-3.2%	17,200	0.1%

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

Medium- to long-term growth strategy

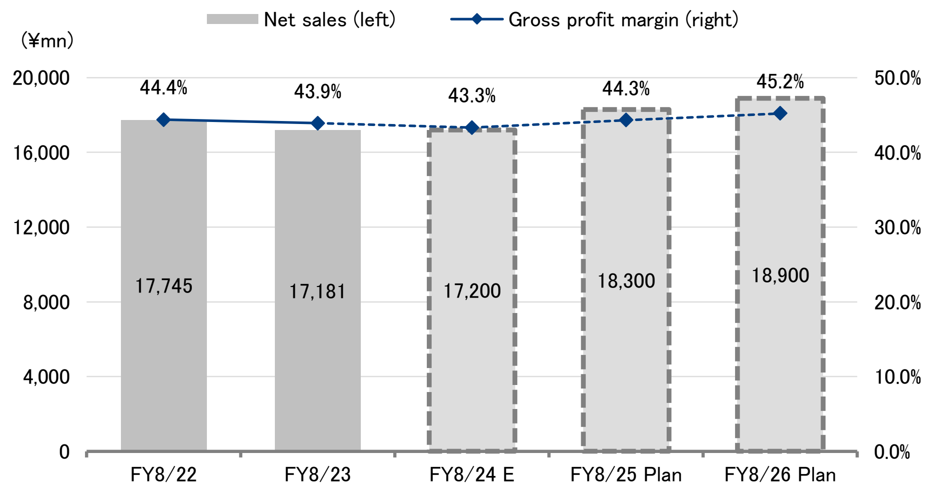
Mid-term management plan targets operating profit of ¥5.5bn in FY8/26, but The Company is expected to review at the end of FY8/24

1. Mid-term management plan

The Company has carried over its previous mid-term management plan in light of recent performance, which has been impacted by fluctuating conditions, including forex rates. At this point in FY8/24, based on results for FY8/23, the Company is targeting net sales of ¥18.9bn and operating profit of ¥5.5bn in FY8/26*. It expects the gross profit margin to bottom out in FY8/24 before gradually improving to over 45% in the plan's final year of FY8/26, supported by price hikes and other factors. However, it intends to revisit these targets after the end of FY8/24.

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

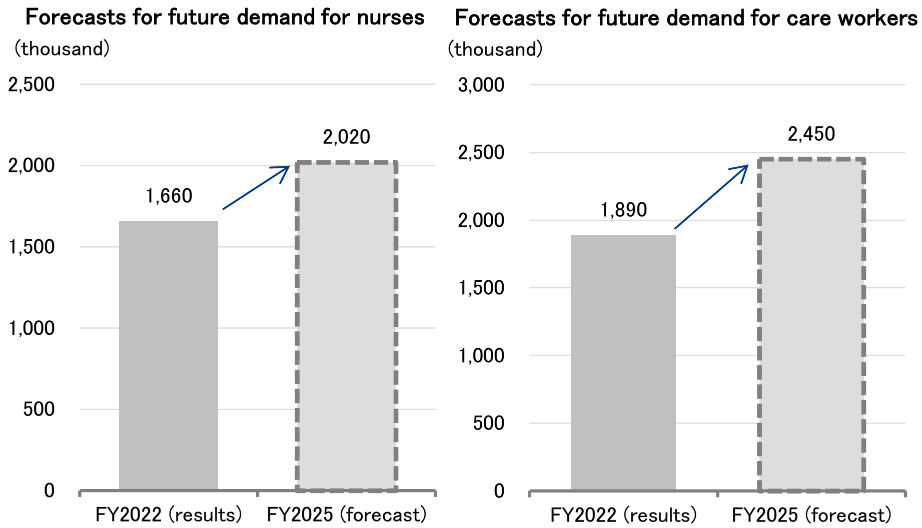
Trends in net sales and gross profit margin



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 Company's operating environment is being affected by forex fluctuations and surging prices in Japan, we at FISCO anticipate tailwinds over the medium and long term. According to the Company's business report, demand for nurses in Japan is projected to increase from 1.66 million in FY2022 to as many as 2.02 million in FY2025. Moreover, demand for care workers is forecast to rise from 1.89 million in FY2022 to 2.45 million in FY2025.

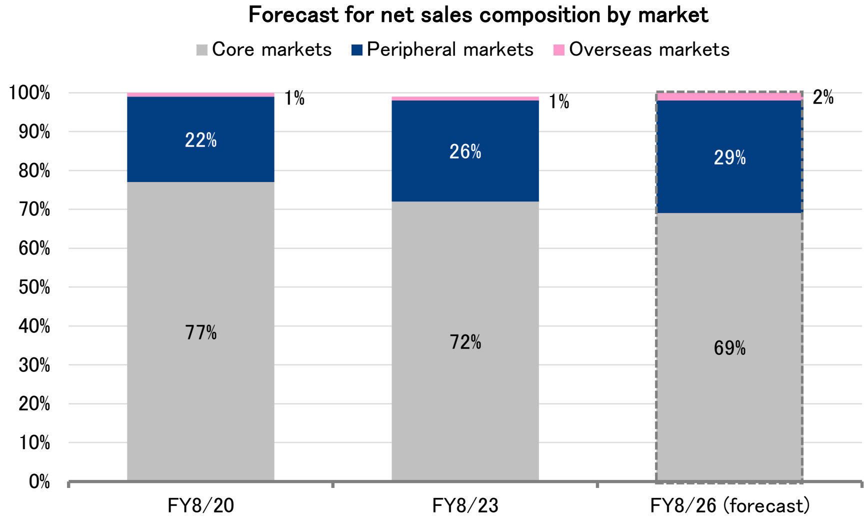


Note: Numbers for nurses and care workers based on actual data from “Summary of Health Administration Report Cases” (MHLW), estimates from “Study Group on Supply and Demand of Medical Personnel” (MHLW), actual number of nurses from “Survey of Institutions and Establishments for Long-Term Care” (MHLW), and estimates for care workers from “Seventh Nursing Care Insurance Business Group Plan” (MHLW)
Source: Prepared by FISCO from Company’s business reports

In this sort of business environment, the Company plans to promote 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

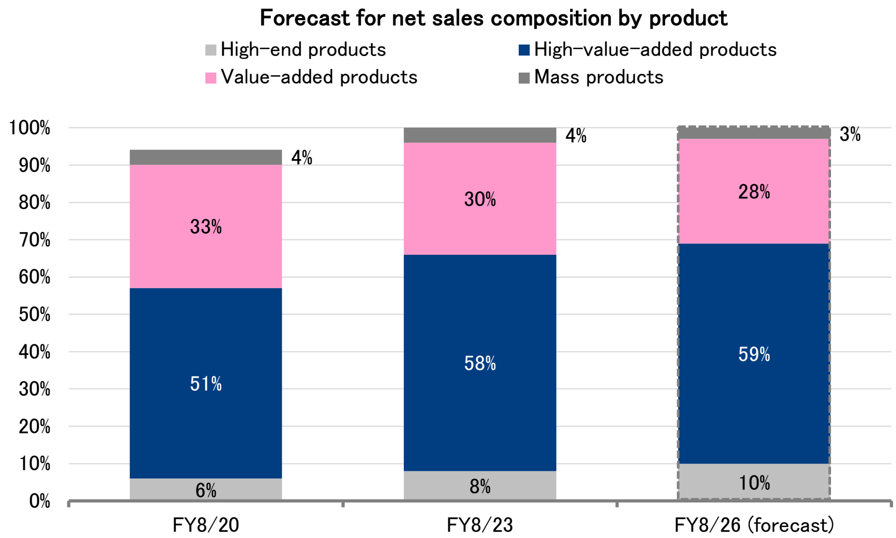
The Company is aiming to expand its share in peripheral markets that still have plenty of room to grow in the future and to cultivate its core markets in which it has comparatively high shares. For the overseas market, the Company aims to further develop markets by opening sales branches in South Korea and Taiwan, which it has positioned as its main supply and sales bases. By implementing these strategies, it forecasts net sales composition by market in FY8/26 will be 69% for core markets (compared with 77% in FY8/20 and 72% in FY8/23), 29% for peripheral markets (22% in FY8/20 and 26% in FY8/23), and 2% for overseas markets (1% in FY8/20 and 1% in FY8/23).



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

(2) Product strategy to stabilize profitability

As its product strategy, the Company will work on stabilizing profitability by expanding sales of high-end products and high-value-added products, and at the same time increasing sales of mass products and value-added products. 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).

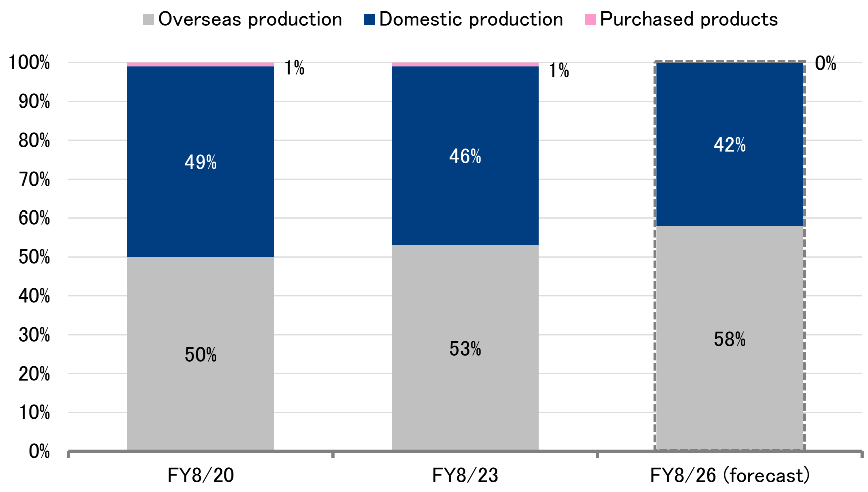


Note: The graph for FY8/20 excludes "for MHLW" so the total is not 100%. For FY8/23 and FY8/26 (forecast), net sales for MHLW is zero
Source: Prepared by FISCO from the Company's results briefing materials

(3) Production strategy to improve the profit margin

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).

Forecast for the composition of production



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

Shareholder return policy

Forecasts annual dividend of ¥60.0 per share for FY8/24. Total return ratio of 71.1% over the past decade

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 (shareholder returns) 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. However, in addition to increasing dividends in line with profit growth, the Company is actively and comprehensively returning profits to shareholders, including through share buybacks, as part of efforts to improve capital efficiency and implement a flexible capital policy in response to changes in the operating environment. As a result, it 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.

The Company repurchased 612,700 shares (¥1,231mn) and retired 2,500,000 shares in FY8/22. In addition, it repurchased 164,600 shares (¥373mn) in FY8/23 and 415,500 shares (¥923mn) by the end of FY8/24 3Q. As a result, the balance of treasury stock at the end of FY8/24 3Q was ¥5,427mn (up ¥913mn from the end of FY8/23).

Over the past 10 years (from FY8/14 to FY8/23), the total return ratio combining dividends and share buybacks (weighted average*) has been 71.1%, so in addition to the Company's strong financial position, this stance of proactively delivering shareholder returns is worthy of recognition.

* Weighted average total return ratio = (Aggregate sum of dividends + aggregate sum amount of share buybacks) / (Aggregate sum of net income)

Trends in the dividend payout ratio and the total return ratio

(¥mn)

	Total dividend amount	Share buybacks	Dividend payout ratio*	Total return ratio*
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
Source: Prepared by FISCO from the Company's results briefing materials

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