COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben Co., Ltd.

7447

Tokyo Stock Exchange Prime Market

17-Mar.-2025

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Contents

Summary

1Q FY8/25 operating profit declined 11.9% YoY. Gross profit margin declined due to the weak yen and higher raw material costs, but results were in line with expectations

1. Summary of 1Q FY8/25 results

Nagaileben Co., Ltd. <7447> (hereafter, also "the Company"), posted 1Q FY8/25 consolidated results where net sales increased 5.3% year on year (YoY) to ¥3,210mn, operating profit declined 11.9% to ¥579mn, recurring profit decreased 11.0% to ¥601mn, and net profit attributable to the owners of the parent company was down 11.0% to ¥413mn. While the Company was able to increase net sales by acquiring projects that had been delayed from the previous fiscal year, the gross profit margin was 39.8% (44.0% in 1Q FY8/24) due to the weak yen and increases in processing fees and raw material costs. The increase in SG&A expenses was limited to 2.4% YoY, but operating profit declined 11.9% YoY due to a lower gross profit margin. Despite the decline in profits YoY, the Company had been predicting lower profits for 1H from the beginning of the fiscal year, so the results were largely in line with the plan.

2. FY8/25 forecasts

The Company's forecasts for FY8/25 remained unchanged, anticipating net sales to increase 6.6% YoY to ¥17,500mn, operating profit to rise 1.9% to ¥4,082mn, recurring profit to go up 2.5% to ¥4,175mn, and net profit attributable to the owners of the parent company to increase 2.2% to ¥2,883mn. While the Company expects overall market conditions to remain difficult, it sees net sales increasing YoY, supported by the launch of strategic products in the low-price market and by efforts to capture delayed projects in core markets. In peripheral markets, an area the Company is focusing on, it aims to increase sales by introducing new patient wear products and by shifting to a leasing model for surgery wear. In terms of profitability, it expects a further decline in the gross profit margin due to the continued possibility of an impact from exchange rates and higher processing fees and raw material costs. However, it sees operating profit rising 1.9% YoY, supported by productivity gains and a further improvement in profitability, as well as a boost from hikes to product prices.

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 FY8/24. The plan's numerical targets are net sales of ¥18.8bn and operating profit of ¥4.8bn in FY8/27. In terms of business strategy, the Company aims to achieve its targets by continuing to implement its market strategy, product strategy, and production strategy. The Company's stance on shareholder returns is unchanged. It plans to pay an annual dividend of ¥60.0 per share for FY8/25, the current fiscal year, but it may increase this amount, adding a commemorative dividend, as 2025 marks the Company's 110th anniversary. It also has a proactive stance on share buybacks to improve capital efficiency and as part of a flexible capital policy to respond to changes in the operating environment. The Company already holds 4,490,053 treasury shares (12.6% of shares outstanding), as of end-1Q FY8/25. FISCO takes a positive view of the Company's proactive stance on shareholder returns, as well as its robust financial position.

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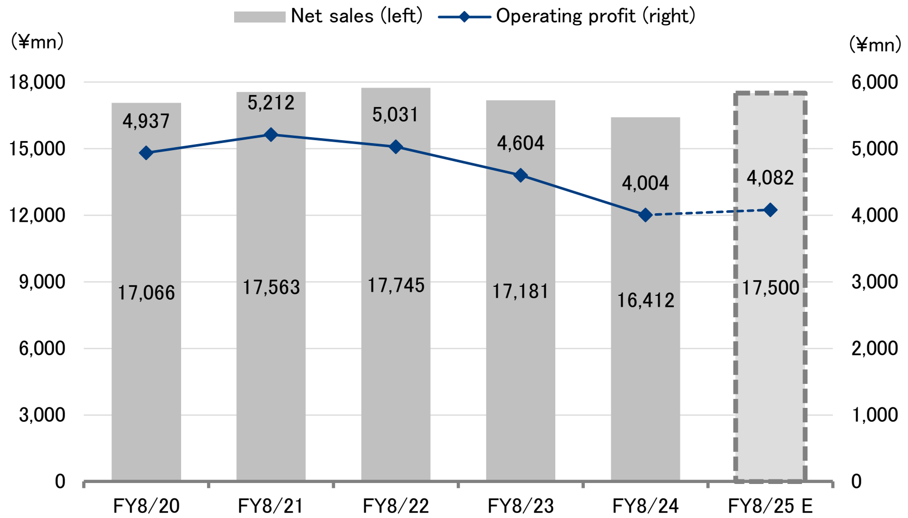
Key Points

- Operating profit for 1Q FY8/25 was in line with expectations, declining 11.9% YoY
- For FY8/25, the current fiscal year, the Company forecasts operating profit will recover to growth of 1.9% YoY, supported by the acquisition of delayed projects and the launch of new products
- In the mid-term management plan, the Company is targeting operating profit of ¥4.8bn in FY8/27, 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

Leading manufacturer of medical gowns with an estimated 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, it has expanded its operations nationally to become a leading domestic manufacturer that boasts an annual supply of more than 6.00 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, and utility wear and other products.

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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
1991	Changed name from Emit Co., Ltd. to Nagai Co., Ltd. following an absorption-type merger with Nagai Co., Ltd. and another subsidiary
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
2023	Signed license agreements with Yagi Tsusho Limited and Mackintosh Japan Limited
2024	Reopened Osaka branch showroom

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

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Business overview

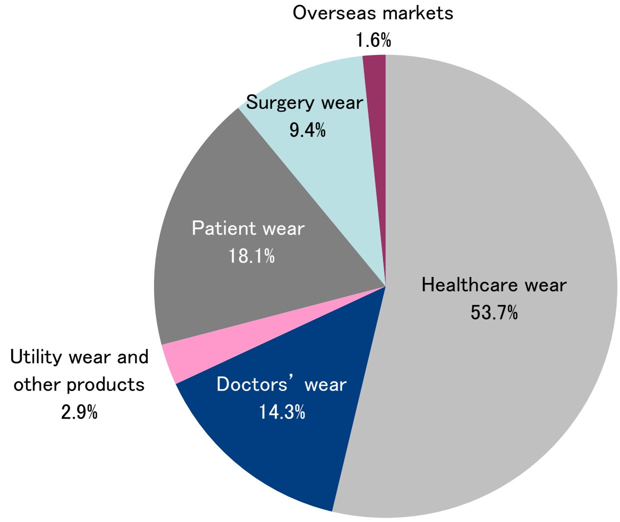
Focusing on expanding sales of highly functional, high-value-added products and patient wear

1. Sales breakdown

The Company's products are medical gowns and related products. It supplies only one category of product, so it does not disclose segment data, but net sales composition by item for FY8/24 is 53.7% from healthcare wear, 14.3% from doctors' wear, 2.9% from utility wear and other products, 18.1% from patient wear, 9.4% from surgery wear, and 1.6% 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 (FY8/24)



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

Also, in the categories introduced from FY8/22, 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 net sales composition by market in FY8/24, the core markets provided 70.9%, the peripheral markets 27.5%, and the overseas markets 1.6%.

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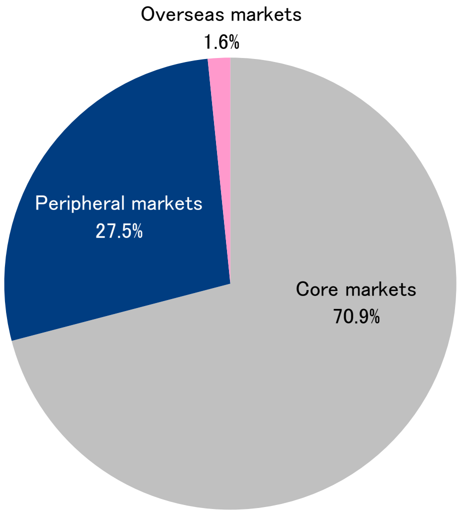
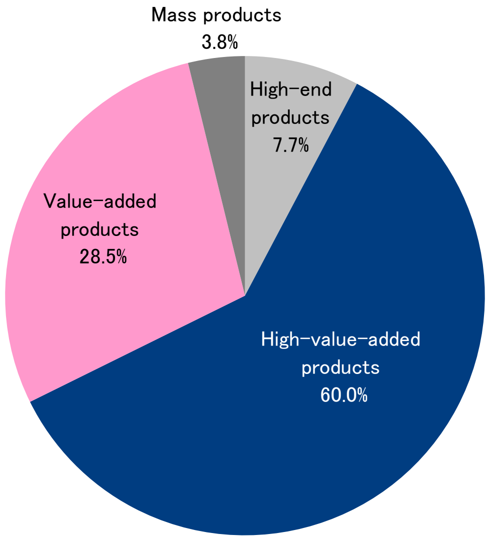
Net sales composition by market (FY8/24)



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

The net sales composition by product (function) for FY8/24 is 7.7% from high-end products, 60.0% from high-value-added products, 28.5% from value-added products, and 3.8% from mass products. Looking at the priceband 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 (FY8/24)



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.

Based on FY8/24 results (non-consolidated), internal production and production at partner plants constitute an aggregate of 99.4% (45.4% domestically and 54.0% 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 42.8% in its FY8/24 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 as it approaches its 110th anniversary

4. Initiatives for CSR

The Company commemorated its 110th anniversary in 2025. Since it was founded, it has cultivated “Nagaism,” the company spirit, which is focused on realizing interpersonal harmony, generating profits, and contributing to society. Today, it continues to undertake the following specific CSR initiatives.

“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 makeup 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 1Q FY8/24, 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 1Q FY8/24, 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 to pass on the history of nursing.

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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.

(4) Recent new initiatives

a) Installation of solar power system at Nagaileben West Japan Distribution Center

The system has an annual generation capacity of around 68,000 kWh, providing renewable energy for all the center's electricity needs and reducing CO_2 emissions by approximately 35 tons per year. The system began operation in August 2024.

b) Resona Group Kids Academy

The Company participated in an educational program for children run by Resona Bank and held "white coat" seminars to deepen interest in and understanding about medical professionals.

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 is implementing the following measures:

- Acquired ISO 14001 certification in 2005 and implementing initiatives such as using cutting wastage from raw materials for roofing processing and other purposes
- Developed reusable infection prevention products
- Developed COMPELPACK and selling as a reusable infection prevention product for use in hospital surgery settings. Also reducing medical waste by providing medical wear that can be repeatedly washed and sterilized for use in surgical settings, where disposable products are often used
- Introducing hybrid vehicles for use as sales vehicles
- Installed solar panels on the headquarters building and the Nagaileben West Japan Distribution Center

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

The Company is implementing the following measures:

- Providing uniforms to the Japanese Nursing Association for nurses working in disaster relief
- Donations of infection prevention products to medical entities and others
- Conveying messages of support to healthcare professionals
- Regularly publishes poetry collections for nurses, which are given free of charge to hospitals and nurses
- Supporting the employment of people with disabilities: Subsidiary NAGAI UNIFORM INDUSTRY co., Ltd. was awarded by the Minister of Health, Labour and Welfare for being an excellent business that contributes to the active employment and promotion of persons with disabilities.
- Nagaileben's Representative Director and President, Ichiro Sawanobori, appointed as Industrial Ambassador for Misato Town (Akita Prefecture)
- Support for natural disasters: 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-Awaji Earthquake, the Great East Japan Earthquake, and the Kumamoto earthquakes; and the COVID-19 pandemic.
- Supporting the United Nations World Food Programme (WFP), an agency that provides food assistance
- Supporting the Minamisanriku Planting of Revival Cherry Trees effort: Cooperating with volunteers from Minamisanriku Town (Miyagi Prefecture), an area affected by the Great East Japan Earthquake, on the "Ocean View Forest for Saving Life" initiative to plant Sakura (cherry blossom) trees in locations reached by the tsunami.
- 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.
- Supporting Para-Art Activity

Results trends

In 1Q FY8/25, operating profit decreased 11.9% YoY. Gross profit margin declined, but results were mostly in line with the plan

1. Summary of 1Q FY8/25 results

The Company posted 1Q FY8/25 consolidated results where net sales increased 5.3% YoY to ¥3,210mn, operating profit declined 11.9% to ¥579mn, recurring profit decreased 11.0% to ¥601mn, and net profit attributable to owners of the parent company was down 11.0% to ¥413mn.

Net sales increased in the mainstay core markets due to the steady acquisition of projects that had been delayed from the previous fiscal year. For patient wear (a focus product), there were some delays, but net sales remained almost flat YoY. As a result, overall net sales increased by 5.3%.

The gross profit margin declined 4.2 percentage points (pp) YoY to 39.8% due to the weak yen and higher raw material costs. This decline in the gross profit margin was largely in line with the Company's plan, as 1H was initially expected to be the most difficult period. As a result, gross profit declined 4.7% YoY to ¥1,278mn.

SG&A expenses were within the budget, increasing 2.4% YoY to ¥698mn mainly due to higher personnel expenses.

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Summary of 1Q FY8/25 consolidated results

(¥mn)

	1Q FY8/24		1Q FY8/25		YoY	
	Results	% of net sales	Results	% of net sales	Change amount	Change %
Net sales	3,048	100.0%	3,210	100.0%	161	5.3%
Gross profit	1,340	44.0%	1,278	39.8%	-62	-4.7%
SG&A expenses	682	22.4%	698	21.8%	16	2.4%
Operating profit	657	21.6%	579	18.0%	-78	-11.9%
Recurring profit	676	22.2%	601	18.8%	-74	-11.0%
Net profit attributable to the owners of the parent company	464	15.2%	413	12.9%	-50	-11.0%

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

(1) Net sales by item and market

In its core markets, net sales increased 8.2% YoY to ¥2,227mn. The Company secured an increase in net sales by steadily capturing projects that were delayed from the previous fiscal year. By item, net sales rose 9.4% YoY to ¥1,695mn for healthcare wear, grew 7.5% for doctors' wear to ¥439mn, and fell 6.5% to ¥92mn for utility wear and other products.

In peripheral markets, net sales decreased 0.6% YoY to ¥939mn. By item, net sales fell 4.0% to ¥647mn for patient wear (a focus product), which was slightly behind the plan. Surgery wear grew steadily by 7.9% to ¥292mn.

In overseas markets, which are still small in value terms, sales decreased 4.2% YoY to ¥43mn.

Net sales by item and market

(¥mn)

	1Q FY8/24		1Q FY8/25	
	Results	YoY	Results	YoY
Core markets	2,058	2.1%	2,227	8.2%
Healthcare wear	1,550	2.5%	1,695	9.4%
Doctors' wear	408	2.5%	439	7.5%
Utility wear and other products	99	-4.6%	92	-6.5%
Peripheral markets	945	6.9%	939	-0.6%
Patient wear	674	8.9%	647	-4.0%
Surgery wear	270	2.2%	292	7.9%
Overseas markets	45	-17.9%	43	-4.2%
Total	3,048	3.2%	3,210	5.3%

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

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Financial position is solid. Cash and deposits ¥23,368mn, equity ratio high at 92.1%

2. Financial position

The Company's financial position remains healthy and stable. At the end of 1Q FY8/25, total assets had decreased by ¥2,596mn to ¥44,130mn compared to the end of the previous fiscal year. Current assets decreased by ¥2,559mn to ¥35,725mn, mainly due to a decrease in cash and deposits of ¥2,980mn, a decrease in notes and accounts receivable including electronically recorded claims of ¥708mn, and an increase in inventories of ¥668mn. Inventories rose in preparation for the busy season in 2Q and 3Q, but inventory levels are not cause for concern. Fixed assets totaled ¥8,404mn, down ¥36mn YoY, largely reflecting a decrease in intangible fixed assets of ¥56mn from depreciation.

Total liabilities were ¥3,464mn, down ¥564mn from the end of the previous fiscal year. This was largely due to decreases in notes and accounts payable of ¥59mn and income taxes payable of ¥522mn. Net assets decreased by ¥2,031mn to ¥40,665mn, mainly due to a decrease in retained earnings of ¥1,475mn due to payment of dividends and a decrease of ¥575mn due to an increase in treasury shares. As a result, the equity ratio was 92.1% at the end of 1Q FY8/25 (91.4% at the end of the previous fiscal year).

The Company's financial position remains stable, with cash and deposits and the equity ratio at high levels.

Summary of the consolidated balance sheet

(¥mn)

	End of FY8/24	End of 1Q FY8/25	Change amount
Cash and deposits	26,349	23,368	-2,980
Notes and accounts receivable (including electronically recorded claims)	5,005	4,297	-708
Inventories	6,591	7,259	668
Current assets	38,285	35,725	-2,559
Tangible fixed assets	7,313	7,256	-56
Intangible fixed assets	72	90	18
Investments and other assets	1,055	1,057	1
Intangible fixed assets	8,441	8,404	-36
Total assets	46,727	44,130	-2,596
Notes and accounts payable	1,298	1,238	-59
Income taxes payable	748	226	-522
Total liabilities	4,029	3,464	-564
Retained earnings	44,719	43,243	-1,475
Treasury shares	-5,953	-6,528	-575
Net assets	42,697	40,665	-2,031
Total liabilities and net assets	46,727	44,130	-2,596

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

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Business outlook

The Company's forecasts for FY8/25 remain unchanged, anticipating operating profit to increase 1.9% YoY

1. FY8/25 forecasts

The Company's forecasts for FY8/25 remain unchanged, anticipating net sales to increase 6.6% YoY to ¥17,500mn, operating profit to rise 1.9% to ¥4,082mn, recurring profit to go up 2.5% to ¥4,175mn, and net profit attributable to the owners of the parent company to increase 2.2% to ¥2,883mn. It forecasts lower profits YoY in 1H amid a continued difficult business climate caused mainly by exchange rates and rising raw material costs. However, it anticipates a recovery in 2H, supported by steady progress capturing delayed projects and an improved lineup of new patient wear products, as well as growth for COMPELPACK and the shift to a leasing model in surgery wear.

The Company expects the market environment to remain tough, as it sees few positive catalysts in the business climate for medical institutions, which have been grappling with the impact of inflation since FY8/23. In core markets, however, the Company forecasts sales will increase 5.2% YoY, mainly on prospects for capturing renewal orders and large-lot orders delayed from FY8/24, and the launch of new strategic products in the low-price market, where the Company struggled to renew orders in FY8/24, backed by integrated production overseas. In peripheral markets, it forecasts sales will increase 9.8% YoY, supported by replacement demand for existing products and higher sales of new patient wear products, a category where it is stepping up efforts. It also anticipates a boost from COMPELPACK and the shift to a leasing model in surgery wear. In overseas markets, the Company sees sales rising 13.8% YoY, supported by the rollout of its business model from Japan.

The gross profit margin is forecast to decline to 41.7% (from 42.8% in the previous fiscal year), and gross profit is expected to increase 3.9% YoY to ¥7,304mn. The factors behind the change in gross profit are expected to be an increase of ¥466mn due to an increase in sales, and a decline of ¥191mn due to a decline in the profit margin. The factors behind the change in the gross profit margin are expected to be the impact of exchange rates (weak yen), decreasing by ¥44mn (¥148.0/USD in FY8/25 compared to ¥146.0/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 55.0% in FY8/25 compared to 54.0% in FY8/24), the increase in processing fees, which is forecast to result in a decline of ¥100mn, and the increase in raw materials costs, which is expected to result in a decline of ¥250mn. On the other hand, progress on product price revisions from February 2023 is expected to result in an increase of ¥100mn in profits.

SG&A expenses are expected to increase 6.5% YoY to ¥3,221mn. The main components are an expected ¥101mn increase in personnel expenses and a ¥23mn increase in depreciation. The Company expects capital investments to total ¥426mn (building and property-related ¥135mn, IT facilities ¥238mn, logistics facilities ¥31mn, production facilities ¥19mn) with depreciation of ¥293mn.

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FY8/25 consolidated results outlook

(¥mn)

	FY8/24		FY8/25		YoY	
	Results	% of net sales	Forecast	% of net sales	Change amount	Change %
Net sales	16,412	100.0%	17,500	100.0%	1,088	6.6%
Gross profit	7,028	42.8%	7,304	41.7%	276	3.9%
SG&A expenses	3,024	18.4%	3,221	18.4%	197	6.5%
Operating profit	4,004	24.4%	4,082	23.3%	78	1.9%
Recurring profit	4,074	24.8%	4,175	23.9%	101	2.5%
Net profit attributable to the owners of the parent company	2,822	17.2%	2,883	16.5%	61	2.2%

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

2. Net sales forecasts by item and market

The Company expects conditions in core markets to remain difficult, but it forecasts net sales will increase 5.2% YoY to ¥12,250mn, supported by the delivery of large-lot projects and projects delayed from FY8/24. By item, it sees sales rising 6.1% YoY to ¥9,350mn for healthcare wear and 4.9% to ¥2,470mn for doctors' wear, but it forecasts a drop of 8.6% YoY to ¥430mn for utility wear and other products.

It expects net sales in peripheral markets to increase 9.8% YoY to ¥4,950mn. In patient wear, it forecasts sales will rise 11.2% to ¥3,300mn, supported by continued growth for high-value-added product lines and by a recovery in replacement demand for value-added products. In surgery wear, it forecasts growth of 7.1% to ¥1,650mn on continued growth in sales of COMPELPACK and the shift to a leasing model.

It sees net sales rising 13.8% YoY to ¥300mn in overseas markets, supported by increased uptake of laundry outsourcing and by the establishment of a business model based on direct e-commerce sales.

Net sales forecasts by item and market

(¥mn)

	FY8/24		FY8/25	
	Results	YoY	Forecast	YoY
Core markets	11,640	-6.4%	12,250	5.2%
Healthcare wear	8,815	-6.2%	9,350	6.1%
Doctors' wear	2,354	-6.5%	2,470	4.9%
Utility wear and other products	470	-10.4%	430	-8.6%
Peripheral markets	4,508	0.0%	4,950	9.8%
Patient wear	2,967	1.0%	3,300	11.2%
Surgery wear	1,540	-1.9%	1,650	7.1%
Overseas markets	263	12.5%	300	13.8%
Total	16,412	-4.5%	17,500	6.6%

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

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3. Net sales forecasts by product

Looking at net sales by product, the Company forecasts sales of high-end products will increase 10.3% YoY to ¥1,400mn, helped by market uptake of its new “MACKINTOSH PHILOSOPHY” brand, which is being rolled out annually. In high-value-added products, it forecasts sales growth of 7.7% YoY to ¥10,600m due to orders for large-scale renewal projects, led by high-functionality product lines such as the popular Earth Song range. In value-added products, the Company sees sales increasing 4.8% to ¥4,900mn thanks to the steady acquisition of delayed and planned projects through the launch of low-price strategic products made using an integrated overseas production system. It expects sales of mass products to contract 4.3% to ¥600mn, partly because it is not focusing on expanding sales in this category.

Net sales forecasts by product

(¥mn)

	FY8/24		FY8/25	
	Amount	YoY	Forecast	YoY
High-end products	1,269	-8.6%	1,400	10.3%
High-value-added products	9,840	-0.7%	10,600	7.7%
Value-added products	4,675	-9.5%	4,900	4.8%
Mass products	627	-12.8%	600	-4.3%
Total	16,412	-4.5%	17,500	6.6%

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

Medium- to long-term growth strategy

Mid-term management plan unchanged; Targeting operating profit of ¥4.8bn in FY8/27

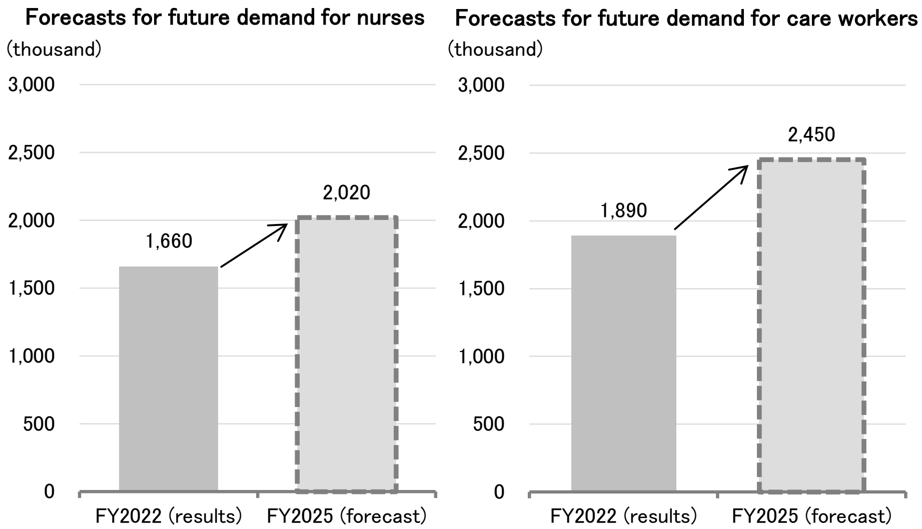
1. Mid-term management plan

The Company is updating its mid-term management plan on an ongoing basis each fiscal year to reflect recent performance, as earnings are being impacted by fluctuating conditions, including forex rates. The plan’s current targets are net sales of ¥18.8bn and operating profit of ¥4.8bn in FY8/27*. Since 1Q of the first year has just ended, there are no changes to this plan at this time.

* Assumes an exchange rate of ¥140/USD (fixed). Previous plan was based on ¥125/USD.

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 results briefing materials, 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.



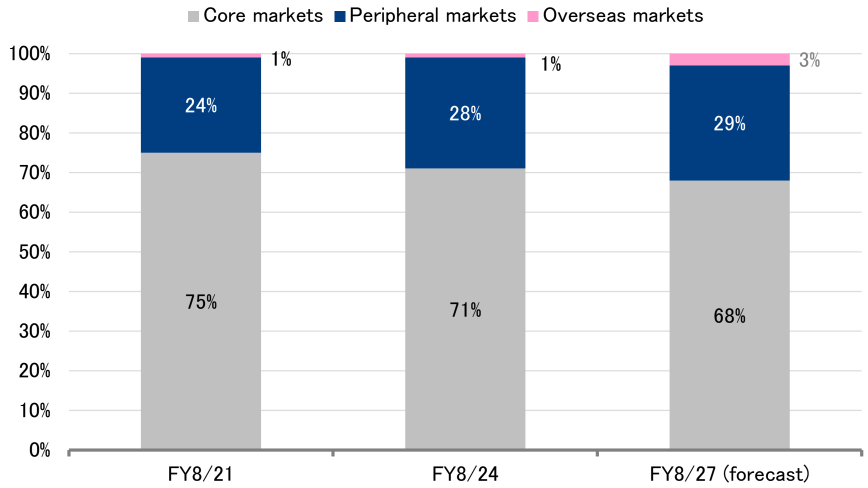
Note: Numbers for nurses based on actual data from "Summary of Health Administration Report Cases" (MHLW), estimates from "Study Group on Supply and Demand of Medical Personnel" (MHLW), actual number of care workers from "Survey of Institutions and Establishments for Long-Term Care" (MHLW), and estimates for care workers from "Seventh Insured Long-Term Care Service Plans" (MHLW)
Source: Prepared by FISCO from the Company's results briefing materials

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 and to cultivate its core markets. For the overseas market, the Company aims to 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 FY8/27 will be 68% for core markets (compared with 75% in FY8/21 and 71% in FY8/24), 29% for peripheral markets (24% in FY8/21 and 28% in FY8/24), and 3% for overseas markets (1% in FY8/21 and 1% in FY8/24).

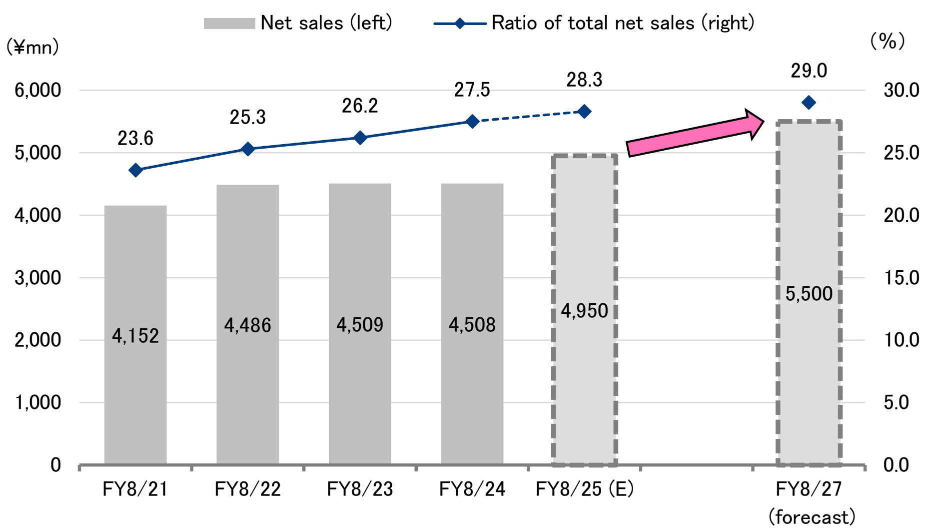
Forecasts for net sales composition by market



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

In peripheral markets in particular, the Company aims to increase net sales to ¥5,500mn and the share of total net sales to 29.0%, supported by market share gains for COMPELPACK and patient wear.

Trend in net sales of peripheral markets and ratio of total net sales

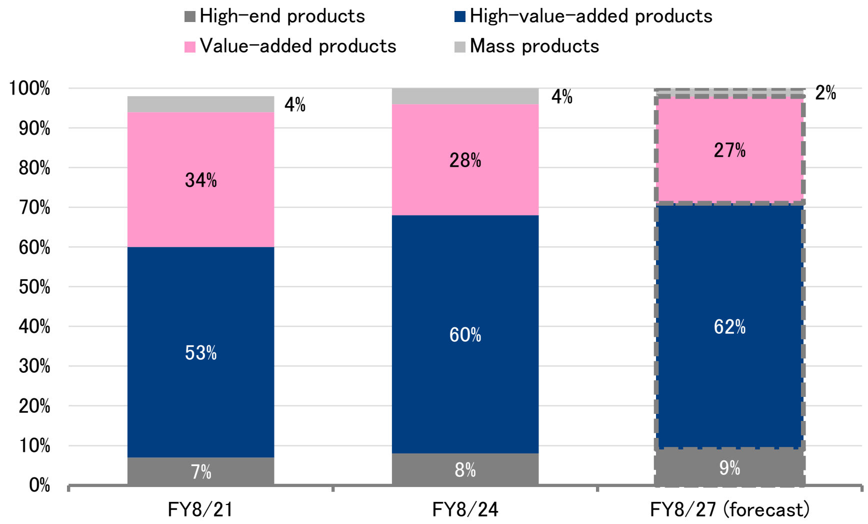


Source: Prepared by FISCO from the Company's results briefing materials

(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 net sales composition by product in FY8/27 will be 9% from high-end products (compared to 7% in FY8/21 and 8% in FY8/24), 62% from high-value-added products (53% in FY8/21 and 60% in FY8/24), 27% from value-added products (34% in FY8/21 and 28% in FY8/24), and 2% from mass products (4% in FY8/21 and 4% in FY8/24).

Forecasts for net sales composition by product



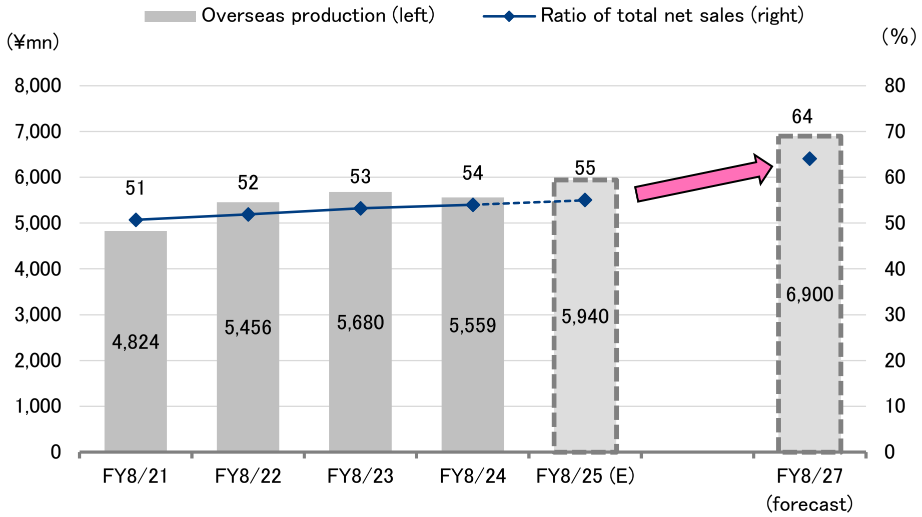
Note: The graph for FY8/21 excludes "for MHLW" so the total is not 100%. For FY8/24 and FY8/27 (forecast), net sales for MHLW is zero
Source: Prepared by FISCO from the Company's results briefing materials

(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 FY8/27 will be 64% from overseas production (compared to 51% in FY8/21 and 54% in FY8/24), 36% from domestic production (48% in FY8/21 and 45% in FY8/24), and 0% from purchased products (1% in FY8/21 and 1% in FY8/24).

In overseas production, it is targeting production value of ¥6,900mn and a 64% share of total procurement by rolling out low-price strategic products in core markets that use locally procured materials.

Overseas production and composition



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

Shareholder return policy

For FY8/25, the Company plans to pay an annual dividend of ¥60.0 per share, but this could be increased. Total return ratio (weighted average) for the past 10 fiscal years is 77.9%

The Company's equity ratio reached 91.4% at the end of FY8/24 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 (6.6% in FY8/24).

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 FY8/24. The Company has already announced an annual dividend of ¥60.0 per share for FY8/25 as well. Given that 2025 is the Company's 110th anniversary, we think it could increase the dividend, including a commemorative dividend.

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 622,000 shares (¥1,449mn) in FY8/24. In addition, the Company announced a share buyback of 500,000 shares (up to ¥1,000mn) from October 2, 2024 to February 28, 2025. As a result, it held 4,490,053 treasury shares as of the end of 1Q FY8/25, valued at ¥6,528mn.

Over the past 10 years (from FY8/15 to FY8/24), the total return ratio combining dividends and share buybacks (weighted average*) has been 77.9%, so in addition to the Company's strong financial position, this stance of proactively delivering shareholder returns is very positive, in our view.

* 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*
FY8/15	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%
FY8/24	1,889	1,449	68.1%	119.1%

* On a non-consolidated basis
Source: Prepared by FISCO from the Company's results briefing materials

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