COMPANY RESEARCH AND ANALYSIS REPORT

Nagaileben Co., Ltd.

7447

Tokyo Stock Exchange Prime Market

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Contents

Summary

1H FY8/25 operating profit declined 6.8% YoY but exceeded forecasts. Full-year forecast of a 1.9% YoY increase in operating profit due to the capture of delayed projects

1. Overview of 1H FY8/25 results

Nagaileben Co., Ltd. <7447> (hereafter, also "the Company"), posted 1H FY8/25 consolidated results where net sales increased 6.1% year on year (YoY) to ¥7,843mn, operating profit declined 6.8% to ¥1,499mn, recurring profit decreased 5.9% to ¥1,543mn, and net profit attributable to the owners of the parent company was down 5.9% to ¥1,062mn. Although operating profit declined, this was anticipated at the start of the fiscal year and net sales and operating profit exceeded forecasts by 2.4% and 2.0% respectively. The Company was able to increase net sales by acquiring projects that had been delayed from the previous fiscal year. On the profit front, although the gross profit margin declined to 39.8% (43.2% in 1H 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 2.0% (a decrease of 3.5% compared to the forecast). This resulted in a 6.8% decrease in operating profit, slightly exceeding the forecast.

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 promoting sales of new patient wear products and by shifting to a leasing model for surgery wear. In terms of profitability, it expects the gross profit margin to decline on a full-year basis to 41.0% (from 42.8% in the previous fiscal year), 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.

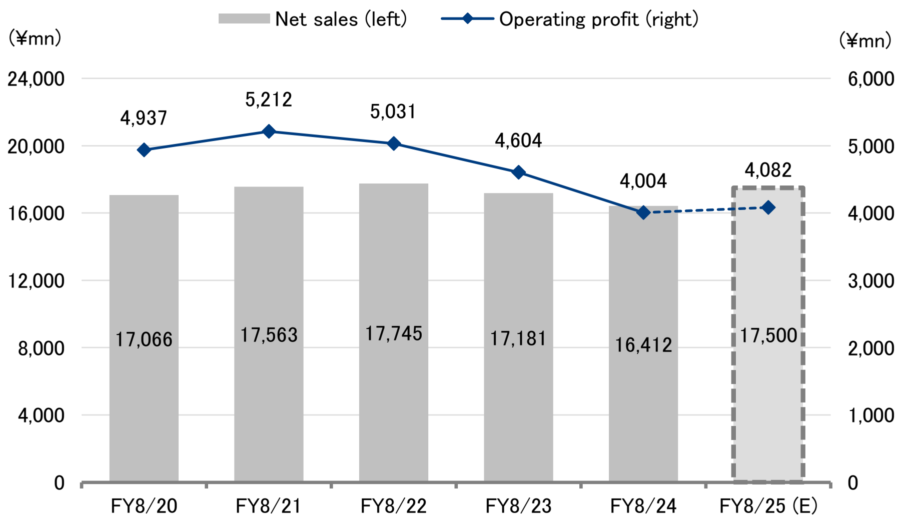
3. Mid-term management plan

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, and there is no change to that plan. The plan's 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 of its foundation. 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 4,762,825 treasury shares, as of end-1H FY8/25. FISCO takes a positive view of the Company's proactive stance on shareholder returns, as well as its robust financial position.

Key Points

- Operating profit for 1H FY8/25 declined 6.8% YoY due to the increases in costs, but exceeded forecasts
- 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 new products sales promotion
- 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, boasting high profit margins and a strong financial position

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.

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 (TSE)
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 TSE. 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 TSE 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

Business overview

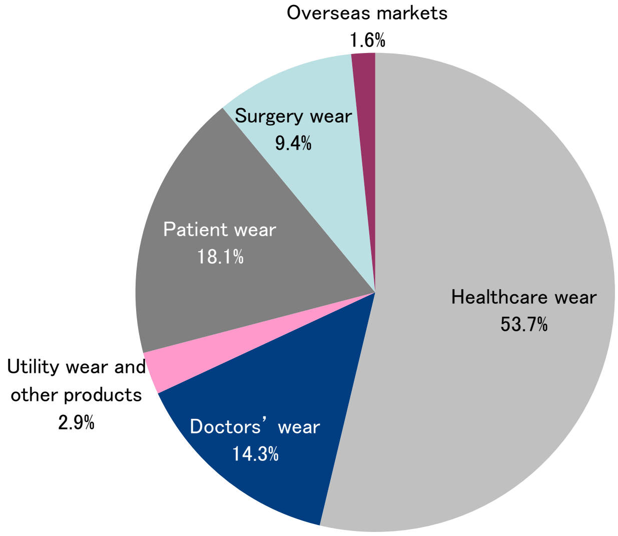
Focusing on expanding sales of highly functional, high-value-added products and patient wear

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.

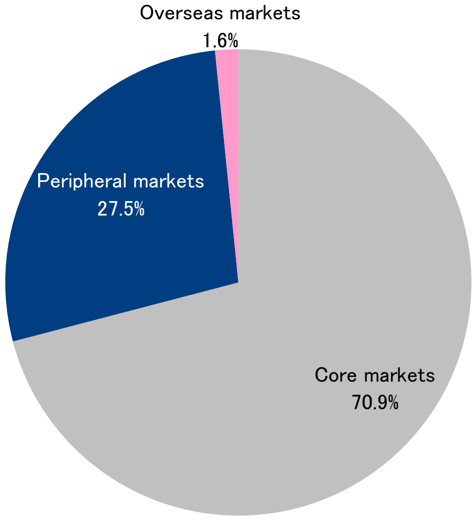
Net sales composition by item (FY8/24)



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%.

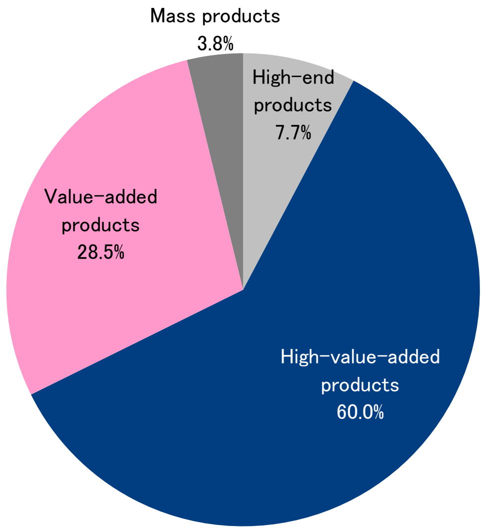
Net sales composition by market (FY8/24)



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. Features 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 has both high profitability and 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 of its foundation

4. Initiatives for CSR

The Company commemorated its 110th anniversary of its foundation 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 of its foundation and as a gesture of gratitude to nurses, the Company's main end users.

b) Beauty courses for nurses

With the cooperation of Shiseido Japan Co., Ltd., the Company 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 has created an archive of historical gowns which it lends free of charge to events run by medical facilities and so forth to pass on 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.

(4) Recent new initiatives

a) Healthcare support for developing countries

The Company donated surgical gowns, surgical supplies, and isolation gowns through an NPO corporation to help protect healthcare professionals in Cambodia against infection risk.

b) Accepting educational observation visits

The Company is implementing a program that enables high school students with an interest in learning about nursing to visit the Company as observers. This initiative is being promoted Ministry of Education, Culture, Sports, Science and Technology as an opportunity for students to consider their career path.

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 Task Force on Climate-related Financial Disclosures (TCFD).

(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.
- Participated in an educational program for children organized by Resona Bank in which the Company carried out activities aimed at deepening interest and understanding regarding the work of healthcare professionals through a seminar on medical gowns.
- Supporting Para-Art Activity

Results trends

1H FY8/25 operating profit declined 6.8% YoY but exceeded forecasts by 2.0%. The gross profit margin declined, but the increase in SG&A expenses was limited to 2.0%

1. Overview of 1H FY8/25 results

The Company posted 1H FY8/25 consolidated results where net sales increased 6.1% YoY to ¥7,843mn, operating profit declined 6.8% to ¥1,499mn, recurring profit decreased 5.9% to ¥1,543mn, and net profit attributable to owners of the parent company was down 5.9% to ¥1,062mn. Although operating profit declined, this was anticipated at the start of the fiscal year and net sales and operating profit exceeded forecasts by 2.4% and 2.0% respectively.

The Company was able to increase net sales by acquiring projects that had been delayed from the previous fiscal year and delivering large-lot projects on schedule, particularly in its mainstay core markets.

On the profit front, the gross profit margin declined 3.4 percentage points (pp) YoY to 39.8%. As a result, gross profit declined 2.4% YoY to ¥3,117mn. The factors behind the change in gross profit were an increase of ¥195mn due to an increase in sales, and a decrease of ¥273mn due to a decline in the profit margin. Furthermore, an analysis of factors behind the decline in the gross profit margin shows a decrease of ¥158mn due to the impact of exchange rates (weak yen; ¥154.4/USD in 1H FY8/25 compared to ¥140.0/USD in 1H FY8/24), an increase of ¥30mn due to the rise in the overseas production ratio (overseas production ratio of 55.0% in 1H FY8/25 compared to 54.0% in 1H FY8/24), a decrease of ¥47mn due to the increase in processing fees, a decrease of ¥110mn due to the increase in raw materials costs, and a decrease of ¥30mn due to a rise in overseas logistics costs. On the other hand, progress on product price revisions from February 2023 resulted in an increase of ¥30mn.

SG&A expenses increased 2.0% YoY to ¥1,618mn, which was 3.5% lower than forecast. The main factors behind the increase in SG&A expenses included increases of ¥22mn in personnel expenses and ¥8mn in advertising expenses. The Company made capital investments totaling ¥47mn (building and property-related ¥11mn, IT facilities ¥31mn, and production facilities ¥6mn, etc.), while depreciation was ¥134mn (¥130mn in 1H FY8/24).

Therefore, although operating profit declined, the result can be appraised as exceeding forecasts by 2.0%.

Overview of 1H FY8/25 consolidated results

(¥mn)

	1H FY8/24		1H FY8/25		YoY	
	Results	% of net sales	Results	% of net sales	Change amount	Change %
Net sales	7,392	100.0%	7,843	100.0%	451	6.1%
Gross profit	3,195	43.2%	3,117	39.8%	-77	-2.4%
SG&A expenses	1,586	21.5%	1,618	20.6%	31	2.0%
Operating profit	1,608	21.8%	1,499	19.1%	-109	-6.8%
Recurring profit	1,639	22.2%	1,543	19.7%	-96	-5.9%
Net profit attributable to the owners of the parent company	1,129	15.3%	1,062	13.5%	-66	-5.9%

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

(1) Net sales by item and market

In its core markets, net sales increased 6.6% YoY to ¥5,530mn. The Company was able to increase net sales by capturing projects that had been delayed from the previous fiscal year, particularly for high-functionality products, as well as by smoothly delivering large-lot projects on schedule. By item, net sales rose 7.8% YoY to ¥4,263mn for healthcare wear, grew 5.8% for doctors' wear to ¥1,079mn, and fell 11.2% to ¥188mn for utility wear and other products.

In peripheral markets, net sales decreased 6.4% YoY to ¥2,230mn. By item, net sales of patient wear (a focus product) for both inpatient and health check purposes grew smoothly by 6.5% YoY to ¥1,472mn. Net sales of surgery wear grew steadily by 6.2% to ¥757mn due to the capture of new projects.

Net sales in overseas markets decreased 23.5% YoY to ¥81mn. Although this is a large YoY change, as overseas sales are still small in value terms, it is not a cause for concern.

Net sales by item and market

(¥mn)

	1H FY8/24		1H FY8/25	
	Results	YoY	Results	YoY
Core markets	5,187	-8.6%	5,530	6.6%
Healthcare wear	3,956	-8.4%	4,263	7.8%
Doctors' wear	1,019	-8.8%	1,079	5.8%
Utility wear and other products	211	-10.8%	188	-11.2%
Peripheral markets	2,097	-3.0%	2,230	6.4%
Patient wear	1,383	-4.2%	1,472	6.5%
Surgery wear	713	-0.6%	757	6.2%
Overseas markets	107	11.3%	81	-23.5%
Total	7,392	-6.8%	7,843	6.1%

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

(2) Net sales by product

Net sales of high-end products increased 10.9% YoY to ¥611mn. Strong sales of the new "MACKINTOSH PHILOSOPHY" brand contributed to this increase. Net sales of high-value-added products increased 12.7% to ¥4,942mn. This considerable increase was due to securing orders, including for large-scale renewal projects, led by mainly high-functionality product lines such as the Earth Song range, a new concept brand. Net sales of value-added products decreased 7.7% to ¥2,004mn. This decline was due to the continuation of the difficult business climate for medical institutions.

Net sales by product

(¥mn)

	1H FY8/24		1H FY8/25	
	Results	YoY	Results	YoY
High-end products	551	-6.7%	611	10.9%
High-value-added products	4,384	-3.3%	4,942	12.7%
Value-added products	2,170	-12.9%	2,004	-7.7%
Mass products	285	-8.4%	284	-0.3%
Total	7,392	-6.8%	7,843	6.1%

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

Financial position is solid with the equity ratio high at 92.8%. Inventories have increased in preparation for the busy season

2. Financial position

The Company's financial position remains healthy and stable. At the end of 1H FY8/25, total assets had decreased by ¥2,834mn to ¥43,892mn compared to the end of the previous fiscal year. Current assets decreased by ¥2,780mn to ¥35,505mn, mainly due to a decrease in cash and deposits of ¥3,291mn, an increase in notes and accounts receivable including electronically recorded claims of ¥83mn, and an increase in inventories of ¥555mn. Inventories rose in preparation for the busiest season in 3Q, but inventory levels are not cause for concern. Fixed assets totaled ¥8,387mn, down ¥54mn YoY, largely reflecting a decrease in tangible fixed assets of ¥105mn from depreciation and an increase in investments and other assets of ¥32mn.

Total liabilities were ¥3,156mn, down ¥873mn from the end of the previous fiscal year. This was largely due to decreases in notes and accounts payable of ¥365mn and income taxes payable of ¥195mn. Net assets decreased by ¥1,961mn to ¥40,735mn, mainly due to a decrease in retained earnings of ¥826mn due to payment of dividends and a decrease of ¥1,154mn due to an increase in treasury shares. As a result, the equity ratio was 92.8% at the end of 1H 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 1H FY8/25	Change amount
Cash and deposits	26,349	23,057	-3,291
Notes and accounts receivable (including electronically recorded claims)	5,005	5,089	83
Inventories	6,591	7,146	555
Current assets	38,285	35,505	-2,780
Tangible fixed assets	7,313	7,207	-105
Intangible fixed assets	72	91	18
Investments and other assets	1,055	1,087	32
Fixed assets	8,441	8,387	-54
Total assets	46,727	43,892	-2,834
Notes and accounts payable	1,298	932	-365
Income taxes payable	748	553	-195
Total liabilities	4,029	3,156	-873
Retained earnings	44,719	43,892	-826
Treasury shares	-5,953	-7,108	-1,154
Net assets	42,697	40,735	-1,961
Total liabilities and net assets	46,727	43,892	-2,834

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

3. Cash flow conditions

In 1H FY8/25, cash flow used in operating activities was ¥231mn. The main inflows included profit before income taxes of ¥1,543mn and depreciation of ¥134mn, while the main outflows included a ¥176mn increase in trade receivables, a ¥555mn increase in inventories, and a ¥365mn decrease in accounts payable. Cash flow from investing activities was ¥2,325mn. The main outflow was ¥136mn in payments to acquire tangible fixed assets while the main inflow was an increase in fixed deposits (net) of ¥2,500mn. Cash flow used in financing activities was ¥2,885mn. The main inflow was a decrease in deposits to acquire treasury shares of ¥182mn, while the main outflows included ¥1,888mn for the payment of dividends and ¥1,179mn for payments to acquire treasury shares. As a result, cash and cash equivalents decreased ¥791mn over the period, leaving the balance at the end of 1H FY8/25 at ¥4,557mn.

Summary of the consolidated statement of cash flows

(¥mn)

	1H FY8/24	1H FY8/25
Cash flow from operating activities	-83	-231
Profit before income taxes, etc.	1,639	1,543
Depreciation	130	134
Change in trade receivables (negative is an increase)	-11	-176
Change in inventories (negative is an increase)	-942	-555
Change in accounts payable (negative is a decrease)	40	-365
Cash flow from investing activities	-890	2,325
Payments to acquire tangible fixed assets	-81	-136
Change in fixed deposits (net)	-800	2,500
Cash flow from financing activities	-1,925	-2,885
Payment of dividends	-1,925	-1,888
Payment to acquire treasury shares	-626	-1,179
Change in deposits to acquire treasury shares (negative is an increase)	626	182
Change in cash and cash equivalents (negative is a decrease)	-2,897	-791
Balance of cash and cash equivalents at period end	4,861	4,557

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

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.

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 5.7% YoY, mainly on prospects for capturing renewal projects and large-lot projects 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 8.7% YoY, supported by replacement demand for existing products and higher sales of new patient wear products, a category the Company is focusing on. 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 41.0% (from 42.8% in the previous fiscal year), and gross profit is expected to increase 2.0% YoY to ¥7,169mn. 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 ¥326mn due to a decline in the profit margin. The factors behind the change in the gross profit margin are expected to be a decrease of ¥121mn due to the impact of exchange rates (weak yen; ¥151.5/USD in FY8/25 compared to ¥146.0/USD in FY8/24), an increase of ¥90mn due to the increase in the overseas production ratio (overseas production ratio of 55.0% in FY8/25 compared to 54.0% in FY8/24), a decrease of ¥100mn due to the rise in processing fees, a decrease of ¥250mn due to the increase in raw materials costs, and a decrease of ¥30mn due to a rise in overseas logistics costs. On the other hand, progress on product price revisions from February 2023 is expected to result in an increase of ¥60mn in profits.

SG&A expenses are expected to increase 2.1% YoY to ¥3,086mn. The main components are an expected ¥67mn increase in personnel expenses and a ¥12mn 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 ¥278mn.

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%	7,169	41.0%	141	2.0%
SG&A expenses	3,024	18.4%	3,086	17.6%	62	2.1%
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 5.7% YoY to ¥12,300mn, supported by the delivery of large-lot projects and projects delayed from FY8/24. By item, it sees sales rising 6.7% YoY to ¥9,410mn for healthcare wear and 4.9% to ¥2,470mn for doctors' wear, but it forecasts a drop of 10.7% YoY to ¥420mn for utility wear and other products.

It expects net sales in peripheral markets to increase 8.7% YoY to ¥4,900mn. Net sales of patient wear were steady in 1H FY8/25 and in 2H, the Company is forecasting an increase of 9.5% to ¥3,250mn due to contributions from new products launched in its high-value-added product lines. 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%	12,300	5.7%
Healthcare wear	8,815	-6.2%	9,410	6.7%
Doctors' wear	2,354	-6.5%	2,470	4.9%
Utility wear and other products	470	-10.4%	420	-10.7%
Peripheral markets	4,508	0.0%	4,900	8.7%
Patient wear	2,967	1.0%	3,250	9.5%
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

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 further market uptake of its new "MACKINTOSH PHILOSOPHY" brand, which is being rolled out annually. In high-value-added products, it forecasts sales growth of 8.7% YoY to ¥10,700m 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 2.7% to ¥4,800mn 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	
	Results	YoY	Forecast	YoY
High-end products	1,269	-8.6%	1,400	10.3%
High-value-added products	9,840	-0.7%	10,700	8.7%
Value-added products	4,675	-9.5%	4,800	2.7%
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

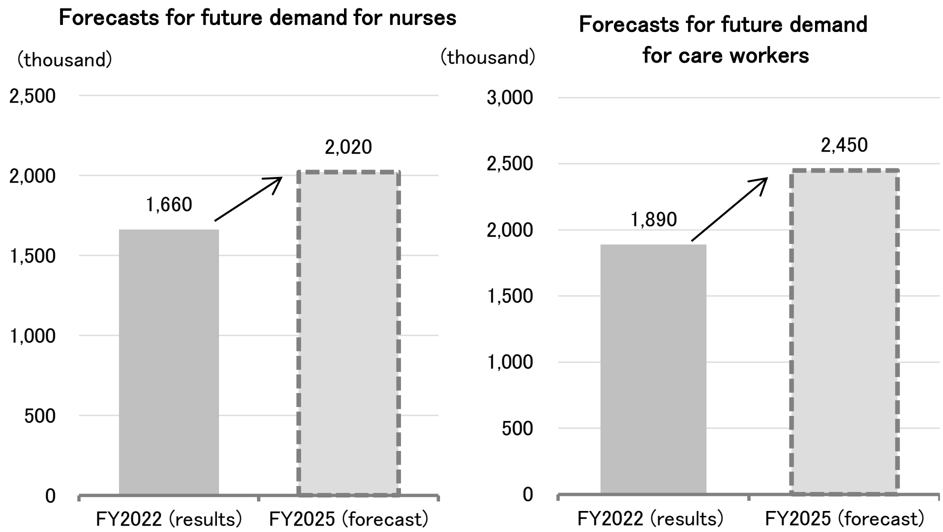
1. Mid-term management plan

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 1H 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.



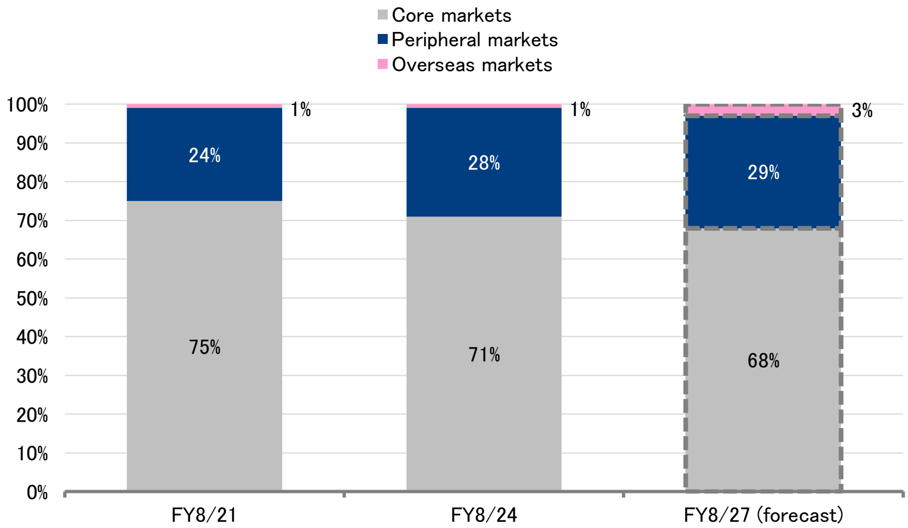
Note: Numbers for nurses based on actual data from "Summary of Health Administration Report Cases" (MHLW), estimates from "Study Group on Supply and Demand of Medical Personnel" (MHLW), actual number of care workers from "Survey of Institutions and Establishments for Long-Term Care" (MHLW), and estimates 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).

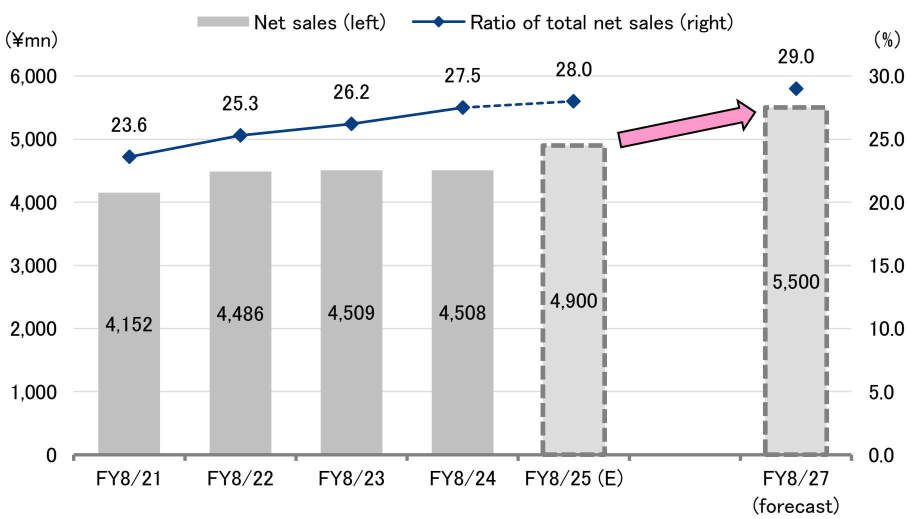
Forecasts for net sales composition by market



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

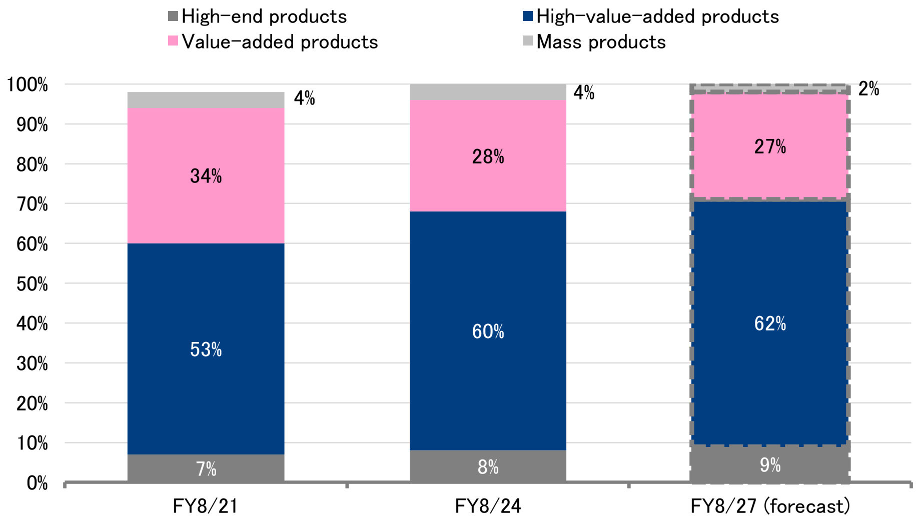


Source: Prepared by FISCO from the Company's results briefing materials

(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



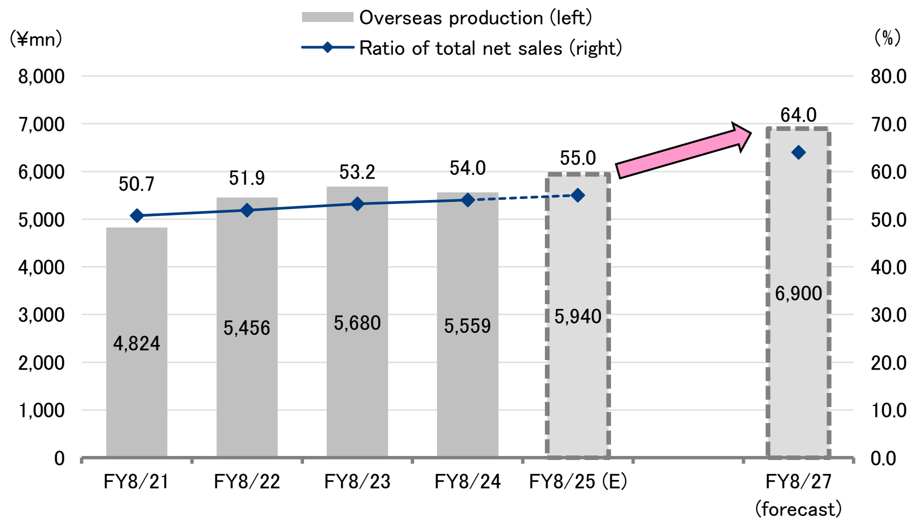
Note: The graph for FY8/21 excludes "for MHLW" so the total is not 100%. For FY8/24 and FY8/27 (forecast), net sales for MHLW is zero.
Source: Prepared by FISCO from the Company's results briefing materials

(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 of its foundation, 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, 622,000 shares (¥1,449mn) in FY8/24, and 531,800 shares (¥1,177mn) in 1H FY8/25. As a result, it held 4,762,825 treasury shares as of the end of 1H FY8/25, valued at ¥7,108mn.

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%
FY8/25 (E)	1,830	2,177	64.8%	140.0%

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

Disclaimer

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