COMPANY RESEARCH AND ANALYSIS REPORT

# Nagaileben co., Ltd.

## 7447

Tokyo Stock Exchange First Section

11-Nov.-2020

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# Summary

## Reported higher sales and profits in FY8/20, despite impact from the COVID-19 pandemic, including extraordinary demand from the Ministry of Health, Labour and Welfare


### 1. FY8/20 results

Nagaileben co., Ltd. <7447> (hereafter, also "the Company") is the leading manufacturer of medical gowns in Japan,with a domestic market share of over 60%. The Company boasts high profit margins and a solid financial condition. In the consolidated results for FY8/20 announced by the Company, net sales increased 1.7% year on year (YoY) to ¥17,066mn, operating profit increased 0.4% to ¥4,937mn, recurring profit increased 0.8% to ¥5,031mn, and net profit attributable to the owners of the parent company increased 0.8% to ¥3,474mn. Net sales were relatively healthy through January 2020 but fell sharply in 3Q, the main sales season, following disruptions in the medical industry due to the COVID-19 pandemic from February and also curtailment of sales activities amid the state of emergency declaration period. Despite special demand for isolation gowns from the Ministry of Health, Labour and Welfare (MHLW) in 4Q (¥945mn), this was not enough to adequately offset the previous downturn, and full-year net sales ended up roughly on par with FY8/19. In earnings, while the gross profit margin slipped because of a temporary increase in domestic production due to the COVID-19 pandemic, operating profit stayed roughly on par with the previous year as well with help from restricting SG&A expenses. FISCO thinks it is positive that the Company managed to sustain the upward trend in sales and profits in a difficult environment.

### 2. FY8/21 forecasts

The Company's forecasts for the FY8/21 consolidated results project net sales to increase 1.4% YoY to ¥17,300mn, operating profit to increase 2.7% to ¥5,068mn, recurring profit to increase 2.2% to ¥5,140mn, and net profit attributable to the owners of the parent company to increase 1.3% to ¥3,518mn. While disruptions continue at medical entities and the market environment remains challenging, demand should emerge for the Company's products at some point because they are consumable items, and the Company aims to increase sales by steadily following through on delayed business. In earnings, the Company expects improved profit margins because of a decline in MHLW business with relatively low margins, recovery in overseas production, and exhaustion of hikes in domestic processing fees and raw material prices, and hence forecasts a rise in operating profit.

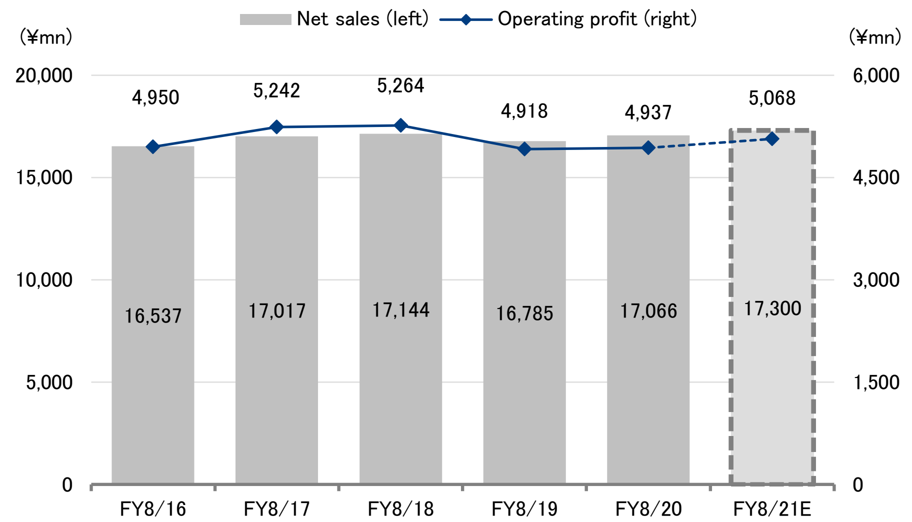
### 3. Mid-term management plan

The Company previously announced its mid-term management plan for the next three years based on results from a completed fiscal year. However, it postponed disclosure of numerical targets for the mid-term management plan at this time due to concluding that it would be difficult to calculate the outlook for the next three years amid ongoing disruptions at medical entities. It intends to announce a plan once the market environment outlook improves and it is possible to make reasonable calculations. Meanwhile, the Company has not changed its shareholder return stance and aims to pay an annual dividend of ¥60 for FY8/20 and FY8/21. It has also indicated intent to conduct a constructive review of share buybacks. FISCO thinks the Company deserves credit for its unwavering approach to shareholder returns.

**Key Points**

- In FY8/20, sales and profits increased, even with delayed deliveries due to confusion in the medical industry from the COVID-19 pandemic, with support due to extraordinary demand from the MHLW
- Targets a 2.7% YoY rise in operating profit for FY8/21 from following through on delayed business, and has temporarily postponed disclosure of mid-term management plan goals
- Plans to pay a ¥60 dividend again in FY8/21 and has a proactive stance toward shareholder returns including share buybacks

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 a domestic market share of over 60%

Nagaileben is a specialist manufacturer of medical gowns for nurses, doctors, patients and others. Established in 1915 as Nagai Shoten, the Company has a rich history. Since then, it has expanded its operations nationally to become a leading domestic manufacturer that boasts an annual supply of more than 6 million medical gowns a year and a market share of over 60%.

History

| | |
|---|---|
| 1915 | Mitsuji Nagai started a privately owned business "Nagai Shoten" specializing in medical gowns in Kanda-Jinbocho, Chiyoda-ku, Tokyo. |
| 1950 | Liquidated Tokyo Eisei Hakui Co. Ltd. Mitsuji Nagai and Tatsuro Sawanobori jointly established Nagai Shoten Co. Ltd. |
| 1969 | Established a subsidiary, NAGAI UNIFORM INDUSTRY co., Ltd., in Akita Prefecture to expand the medical gowns manufacturing division. Tatsuro Sawanobori was appointed President. Shifted focus of manufacturing and sales business specialization from multi-purpose 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 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. Listed on the First Section of Tokyo Stock Exchange. Absorbed Hokkaido Nagai Co. Ltd. and established the Hokkaido branch. |
| 2005 | Acquired ISO 14001. 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 ceremony to commemorate its 100th anniversary. |
| 2016 | Transitioned to a Company with 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. |

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

# Business overview

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

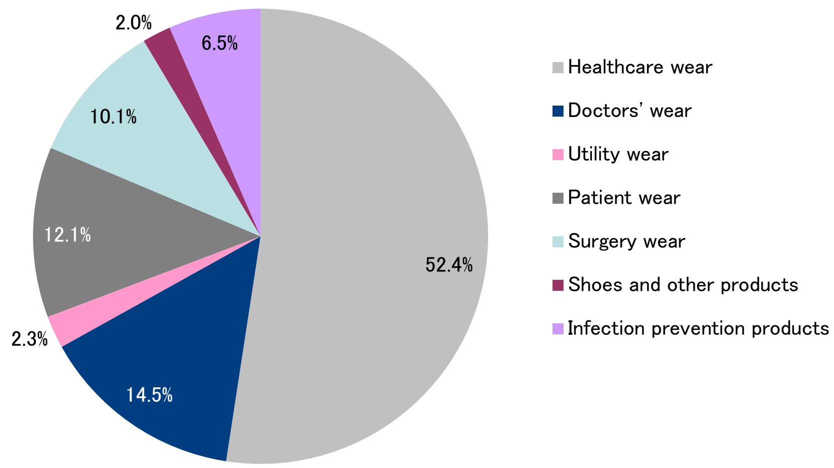
### 1. Sales breakdown

All of the Company's products are medical gowns and related products. The contribution to sales by item for FY8/20 is 52.4% from healthcare wear, 14.5% from doctors' wear, 2.3% from utility wear, 12.1% from patient wear, 10.1% from surgery wear, 2.0% from shoes and other products, and 6.5% from infection prevention products*.

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

Healthcare wear consists mainly of products for nurses, and utility wear consists of aprons, cardigans, and other items worn over gowns. Profit margins for each item do not vary significantly, but the profit margins of purchased products, such as shoes and other products, are relatively lower. Infection prevention products, which were added as a new segment, had lower margins than the Company's average in FY8/20 because these products were mainly sold to the MHLW. Going forward, however, the Company expects to improve profit margin by increasing production at overseas sites.

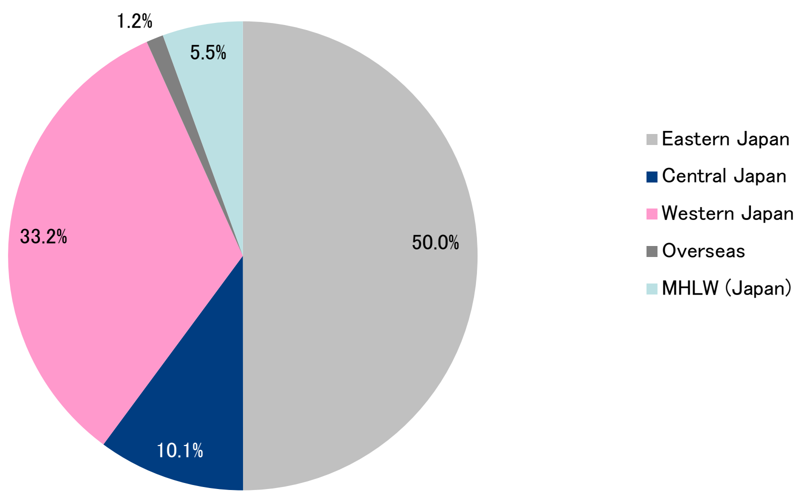
**Net sales composition by item (FY8/20)**




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

In terms of each region's contribution to sales for FY8/20, Eastern Japan accounts for 50.0%, Central Japan 10.1%, Western Japan 33.2%, overseas 1.2% and MHLW (Japan) 5.5%. While coverage is nationwide, sales in Western Japan remain low, indicating the potential for future expansion including overseas.

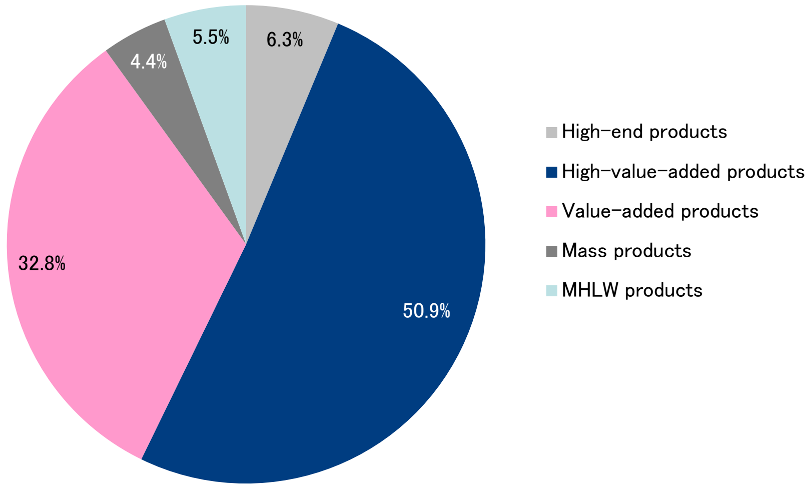
**Net sales composition by region (FY8/20)**




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

The composition of total net sales by product (function) for FY8/20 is 6.3% from high-end products, 50.9% from high-value-added products, 32.8% from value-added products, 4.4% from mass products and 5.5% from MHLW products. On looking at the approximate price-band classifications in nurse wear, mass products are ¥5,000 or less, value-added products are ¥5,000 to ¥7,500, high-value-added products are ¥7,500 to ¥10,000, and high-end products are ¥10,000 or more. The tendency is for higher prices to achieve greater profit margins, so the Company is focusing on expanding sales of high-end products and high-value-added products.

**Net sales composition by product (FY8/20)**




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

### 2. Sales channels and production status

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

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

Looking at the Company's production structure, based on FY8/20 performance, internal production and at partner plants constitute an aggregate of 98.7% (49.2% domestically and 49.5% overseas), with purchased products accounting for 1.3%. Overseas production takes place in Indonesia, Vietnam, and China, but the Company owns no plants and the goods are produced at the plants of its local partners, which mitigates investment risk and reduces costs.

### 3. Characteristics and strengths

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

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

As a result, the Company's share of the domestic market for medical gowns for nurses exceeds 60%, and it maintains a firm position as the leading medical gown manufacturer in Japan. Additionally, it is maintaining high profitability with a gross profit margin of 45.8% (actual results for FY8/20). The fact that it is both highly profitable and has a high market share demonstrates that most of its customers are satisfied with its products and services, which is the Company's greatest strength.

By concentrating its business resources in the niche market of medical gowns, the Company can efficiently manage every aspect of its business, from planning through to manufacturing and sales. Although it is a niche market, there remains room for further development, as the Company has relatively low shares of the peripheral markets for patient wear, surgery wear, and other items. The Company has explicitly stated that the medical gown business could grow for some time and that it will take active steps to develop the peripheral markets.

### 4. Company policy (initiatives for CSR/ESG and approach towards SDGs)

The Company commemorated its centennial in 2015 by cultivating "Nagaism," the company spirit, which is focused on realizing interpersonal harmony, generating profits, and contributing to society. It has undertaken the following specific initiatives for CSR/ESG.

#### (1) Expanding women's roles: Supporting industries led by women

Many of the Company's products are for women working on the front lines at hospitals and nursing care facilities, and its production facilities have many women involved in sewing work. The Company's business operations create many opportunities to expand the roles of women from a variety of life stages, which connects to supporting working women.

#### (2) Contributing to communities

#### a) Lending of historical gowns

Together with the changes to gowns, the Company lends gowns free of charge, such as to the events of medical facilities, with the objective of understanding the history of nurses.

**b) Contributing to communities through production sites**

The Company is creating employment and contributing to regional economies through its production operations in Akita Prefecture in Japan, and in China, Indonesia, Vietnam, and elsewhere overseas.

**c) Medical kids project**

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

**(3) Contributing to customers**

**a) Opened the ITONA gallery, an oasis for nurses**

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

**b) Beauty courses for nurses**

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

**(4) Social contribution**

**a) Promotion of the employment of disabled persons**

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

**b) Disaster support activities**

Monetary donations, medical gowns, wheelchairs and other items have been provided through nursing associations and the Japanese Red Cross Society following the outbreak of SARS and natural disasters including the Indonesian earthquake, the Great Hanshin Earthquake, the Great East Japan Earthquake, the Kumamoto earthquakes, and the COVID-19 pandemic.

**c) Other assistance**

The Company supports the United Nations' World Food Programme (WFP), an entity that provides food assistance. Additionally, it supports the Minamisanriku Reconstruction Sakura Tree Planting effort and is cooperating with volunteers from Minamisanriku Town (Miyagi Prefecture), an area affected by the Great East Japan Earthquake, on the "Forest of Life with a View of the Ocean" initiative to plant sakura (cherry blossom) trees at the location that tsunami waters reached.

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

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

**(5) Environmental initiatives**

The Company secured ISO 14001 certification in 2005. Cutting wastage from raw materials is reused for roofing processing and other purposes. The Company has also developed and sells COMPELPACK, a reusable product for use on surgical front lines. By converting to a reusable product instead of the disposable type that had been used until now, it enables medical waste to be reduced at hospitals and contributes to solving environmental problems.

**(6) Approach towards SDGs**

For SDGs (Sustainable Development Goals), which recently have become mainstream around the world, the Company is working to solve social issues mainly by leveraging its strengths, which include "supporting medical sites through clothing" and "realizing the special functionality and sensations required by medical sites."

**a) "We want to become the power of life"**

The Company is supporting medical sites through clothing and realizing the special functionality and sensations required by medical sites.

**b) Environment**

It has developed and is selling COMPELPACK, an environmentally friendly product for hospitals. It has also established an operational structure that is considerate to the environment (having already acquired ISO 14001 certification).

**c) Returns to society**

Based on the Nagaism spirit, it is returning the profits it acquires in business to various stakeholders.

**d) COVID-19 infection measures**

Specifically, the Company is addressing mask/gown shortages and infection spread risk with development of new reusable infection prevention products and reinforcement of the COMPELPACK business.

# Results trends

## Reported higher operating profit in FY8/20, despite COVID-19 pandemic impact, on extraordinary demand from the MHLW and other drivers

**1. Summary of FY8/20 consolidated results**

For FY8/20 consolidated results, the Company reported net sales of ¥17,066mn, up 1.7% YoY, operating profit of ¥4,937mn, up 0.4%, recurring profit of ¥5,031mn, up 0.8%, and net profit attributable to the owners of the parent company of ¥3,474mn, up 0.8%.

Net sales were relatively healthy through January 2020 but fell sharply in 3Q, the main sales season, following disruptions in the medical industry due to the COVID-19 pandemic from February and also curtailment of sales activities during the state of emergency declaration period. Even special demand for isolation gowns from the MHLW in 4Q (¥945mn) was not enough to adequately offset the previous downturn, and full-year net sales ended up roughly on par with FY8/19. In earnings, while the gross profit margin slipped because of a temporary increase in domestic production due to the COVID-19 pandemic, operating profit stayed roughly on par with the previous year as well with help from restricting SG&A expenses. FISCO thinks it is positive that the Company managed to sustain the upward trend in sales and profits in a difficult environment.

Summary of FY8/20 consolidated results

(¥mn)

| | FY8/19 | | FY8/20 | | Change | |
|---|---|---|---|---|---|---|
| | Results | % of total | Results | % of total | Value | Percentage |
| Net sales | 16,785 | 100.0% | 17,066 | 100.0% | 280 | 1.7% |
| Gross profit | 7,840 | 46.7% | 7,810 | 45.8% | -30 | -0.4% |
| SG&A expenses | 2,922 | 17.4% | 2,872 | 16.9% | -49 | -1.7% |
| Operating profit | 4,918 | 29.3% | 4,937 | 28.9% | 19 | 0.4% |
| Recurring profit | 4,990 | 29.7% | 5,031 | 29.5% | 41 | 0.8% |
| Net profit attributable to the owners of the parent company | 3,445 | 20.5% | 3,474 | 20.4% | 28 | 0.8% |

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

Looking at the market environment, while authorities updated medical treatment and care compensation fees accompanying the consumption tax hike in October 2019 and revised medical treatment compensation fees (-0.46% overall, +0.55% for medical care, and -1.01% for drugs, etc.) in April 2020, there was not much impact on the Company's income as revisions only raised fees paid for medical care. The COVID-19 pandemic, meanwhile, disrupted the medical industry. In line with these trends, the Company's sales sustained positive growth (YoY) through January 2020 but dropped sharply from February. Nevertheless, demand itself did not disappear, and main impacts were significant delays in renewals and order placement for the Company's products due to disruptions by the COVID-19 pandemic in the medical industry and curtailed sales activities during the state of emergency declaration period. The COVID-19 pandemic did not hinder production, sales, or logistics sites related to the Company's Group.

In quarterly sales trends, while 1H sales dropped 2.5% YoY as the impact of COVID-19 began to emerge in February, 3Q (accounting period) sales were down 7.8%. Sales rebounded in 4Q with a 23.5% gain aided by deliveries amounting to ¥945mn to the MHLW. Excluding MHLW business, sales only fell 1% YoY, so it can be said that activity is recovering, albeit with a lingering slight decline.

From a COGS perspective, the gross profit margin weakened 0.9pp to 45.8% (vs. 46.7% in the previous fiscal year) based on a ¥129mn boost from sales (higher sales) and a ¥159mn setback from production. Closer analysis of the production factor showed declines of ¥63mn (domestic) due to processing fee hikes and ¥68mn due to raw material price hikes. These impacts were anticipated from the outset and hence stayed on track with expectations. Additionally, a boost of ¥30mn was seen from exchange rate effects (¥107.5/US$ in FY8/19 to ¥106.0/US$ in FY8/20), alongside a ¥35mn increase from a rise in the overseas production ratio (49.2% in FY8/19 to 49.5% in FY8/20). Extra costs from emergency production of infection prevention products for the MHLW in Japan totaled ¥100mn.

SG&A expenses, meanwhile, declined 1.7% YoY to ¥2,872mn, based on an ¥84mn savings from non-recurrence of a special factor in FY8/19 (reward for services accompanying the abolition of the retirement benefit system for executives), ¥36mn reduction in travel and transportation costs with curtailed sales activities, and an extra ¥20mn in donations to medical entities, putting the ratio to sales at 16.9% (vs. 17.4% for FY8/19). Operating profit hence rose 0.4% YoY to ¥4,937mn. The Company recorded ¥183mn in capital investments (¥75mn in IT equipment, ¥67mn in building-related investments, ¥28mn in logistics facilities, and ¥12mn in production facilities) and ¥334mn in depreciation costs.

### (1) Net sales by item

In net sales by item, healthcare wear decreased 7.6% YoY to ¥8,944mn, doctors' wear decreased 7.4% to ¥2,475mn, utility wear decreased 10.6% to ¥394mn, patient wear increased 1.7% to ¥2,067mn, surgery wear increased 7.7% to ¥1,719mn, shoes and other products decreased 3.2% to ¥347mn, and newly added infection prevention products totaled ¥1,116mn (no YoY comparison).

Mainstay healthcare wear and doctors' wear were significantly impacted by turmoil in the medical frontlines brought on by the COVID-19 pandemic and curtailed sales activities, resulting in significant delays in renewal business and restrained buying. However, sales recovered in 4Q versus a steep decline in 3Q. While patient wear faced relatively low impact from the COVID-19 pandemic, compared to the Company's other products, sales only rose slightly due to slower progress in new deals. Surgery wear, meanwhile, posted sharply higher sales, particularly in 3Q, because of increased interest in reusable COMPELPACK products amid shortages in supply of disposable products (halt of imports from other countries, etc.). The Company booked ¥1,116mn in sales of infection prevention products developed during the fiscal year, including ¥945mn in MHLW business.

**Net sales by item**

(¥mn)

| | FY8/19 | | FY8/20 | |
|---|---|---|---|---|
| | Results | YoY | Results | YoY |
| Healthcare wear | 9,681 | -2.9% | 8,944 | -7.6% |
| Doctors' wear | 2,673 | 0.1% | 2,475 | -7.4% |
| Utility wear | 441 | -11.6% | 394 | -10.6% |
| Patient wear | 2,033 | 3.5% | 2,067 | 1.7% |
| Surgery wear | 1,596 | -2.8% | 1,719 | 7.7% |
| Shoes and other products | 359 | -8.1% | 347 | -3.2% |
| Infection prevention products | - | - | 1,116 | - |
| Total | 16,785 | -2.1% | 17,066 | 1.7% |

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

### (2) Net sales by region

Sales results by region were Eastern Japan at ¥8,530mn (down 4.1% YoY), Central Japan at ¥1,730mn (up 4.0%), Western Japan at ¥5,658mn (down 6.2%), overseas at ¥201mn (up 6.0%), and MHLW (Japan) at ¥945mn (no YoY comparison).

In Eastern Japan, sales were upbeat through January 2020 but the impact of the COVID-19 pandemic caused delivery delays in renewal business from February. Despite recovery in 3Q from focus on surgery wear and infection prevention products and in 4Q from efforts to catch up with opportunities, sales declined YoY as a substantial amount of business was postponed to the next fiscal year, mainly in urban areas. In Central Japan, sales increased thanks to a major renewal order in 4Q. In Western Japan, despite the start of recruitment of patient wear business in 4Q and focus on renewal business, including deals postponed from 1H, sales declined because a large number of deals shifted into the next fiscal year, particularly in the Kansai area. In overseas business, market conditions in 3Q were just as difficult as in Japan, but sales improved due to successful recruitment of business in Taiwan in 4Q. In MHLW business, the Company booked an order for isolation gowns, which it developed during the year, totaling ¥945mn in 4Q. These items were distributed for free via the MHLW to medical entities nationwide.

**Net sales by region**

(¥mn)

| | FY8/19 | | FY8/20 | |
|---|---|---|---|---|
| | Results | YoY | Results | YoY |
| Eastern Japan | 8,898 | -1.8% | 8,530 | -4.1% |
| Central Japan | 1,664 | -7.3% | 1,730 | 4.0% |
| Western Japan | 6,033 | -0.6% | 5,658 | -6.2% |
| Overseas | 189 | -11.5% | 201 | 6.0% |
| MHLW (Japan) | - | - | 945 | - |
| Total | 16,785 | -2.1% | 17,066 | 1.7% |

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

### (3) Net sales by product

Sales by product consisted of high-end products at ¥1,072mn (down 15.9% YoY), high-value-added products at ¥8,692mn (down 3.1%), value-added products at ¥5,600mn (down 2.2%), mass products at ¥756mn (down 7.5%), and MHLW products at ¥945mn (no YoY comparison). While high-end product had a larger decline rate, this reflects a tough hurdle from a relatively large order in the previous fiscal year and is not caused by a special factor.

**Net sales by product**

(¥mn)

| | FY8/19 | | FY8/20 | |
|---|---|---|---|---|
| | Results | YoY | Results | YoY |
| High-end products | 1,274 | 0.4% | 1,072 | -15.9% |
| High-value-added products | 8,969 | 2.4% | 8,692 | -3.1% |
| Value-added products | 5,724 | -8.5% | 5,600 | -2.2% |
| Mass products | 817 | -5.0% | 756 | -7.5% |
| MHLW products | - | - | 945 | - |
| Total | 16,785 | -2.1% | 17,066 | 1.7% |

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

## Financial position is sound, with cash and deposits on hand of ¥25,646mn and an equity ratio of 89.3%

### 2. Financial position

The Company's financial position remains stable. At the end of FY8/20, total assets increased by ¥650mn to ¥44,931mn compared to the end of previous fiscal year. Current assets increased by ¥882mn to ¥35,936mn. This was mainly due to a ¥489mn increase in cash and deposits, partly offset by increases of ¥186mn in notes and accounts receivable and ¥151mn in inventories. Conversely, fixed assets decreased by ¥231mn to ¥8,995mn, mainly due to a ¥195mn decrease in tangible fixed assets due to depreciation.

Total liabilities were ¥4,810mn, up ¥251mn compared to the end of the previous fiscal year. Main factors included increases of ¥140mn in notes and accounts payable and ¥42mn in income taxes payable. Total liabilities and net assets expanded ¥399mn YoY to ¥40,121mn, primarily based on a ¥1,478mn addition to retained earnings from booking net profit attributable to the owners of the parent company and a ¥1,024mn decline due to expenditures for purchase of treasury shares. As a result, at the end of FY8/20, the equity ratio had decreased by 0.4pp compared to the end of the previous fiscal year to 89.3%.

Summary of the consolidated balance sheet

(¥mn)

| | End of FY8/19 | End of FY8/20 | Change |
|---|---|---|---|
| Cash and deposits | 25,157 | 25,646 | 489 |
| Notes and accounts receivable | 3,547 | 3,734 | 186 |
| Inventories | 4,479 | 4,631 | 151 |
| Current assets | 35,054 | 35,936 | 882 |
| Tangible fixed assets | 7,767 | 7,571 | -195 |
| Intangible fixed assets | 32 | 49 | 17 |
| Investments and other assets | 1,426 | 1,373 | -53 |
| Fixed assets | 9,226 | 8,995 | -231 |
| Total assets | 44,281 | 44,931 | 650 |
| Notes and accounts payable | 1,452 | 1,592 | 140 |
| Income taxes payable | 994 | 1,036 | 42 |
| Total liabilities | 4,559 | 4,810 | 251 |
| Retained earnings | 40,120 | 41,599 | 1,478 |
| Treasury shares | -4,896 | -5,920 | -1,024 |
| Net assets | 39,721 | 40,121 | 399 |
| Total liabilities and net assets | 44,281 | 44,931 | 650 |

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

### 3. Cash flow situation

Cash flow from operating activities in FY8/20 had a surplus of ¥3,634mn with main inflow items of ¥5,030mn in net profit before income taxes, ¥334mn in depreciation, and a ¥140mn rise in account payables and main outflow items of a ¥218mn increase in notes and accounts receivable-trade and a ¥151mn increase in inventory assets. Cash flow from investing activities had a ¥575mn surplus mainly on inflow of ¥700mn in increase in fixed deposits (net). Cash flow from financing activities had a ¥3,026mn deficit mainly on outflow of ¥1,994mn in dividend payout and ¥1,031mn in expenditures for purchase of treasury shares. As a result, cash and cash equivalents posted an increase of ¥1,189mn during the period and balance of cash and cash equivalents at period end stood at ¥6,446mn. The Company continues to hold extensive net cash considering the absence of interest-bearing debt and ¥5,920mn in treasury shares (5,376,686 shares).

Summary of consolidated cash flow statement

(¥mn)

| | FY8/19 | FY8/20 |
|---|---|---|
| Cash flow from operating activities | 3,433 | 3,634 |
| Net profit before income taxes | 4,988 | 5,030 |
| Depreciation | 337 | 334 |
| Change in notes and accounts receivable-trade | -519 | -218 |
| Change in inventory assets | -93 | -151 |
| Change to accounts payables | 27 | 140 |
| Cash flow from investing activities | -1,605 | 575 |
| Acquisition of tangible fixed assets | -231 | -145 |
| Change in fixed deposits (net) | -1,400 | 700 |
| Cash flow from financing activities | -1,994 | -3,026 |
| Dividend payout | -1,994 | -1,994 |
| Expenditures for purchase of treasury shares | -0 | -1,031 |
| Conversion difference in cash and cash equivalents | -5 | 5 |
| Change to cash and cash equivalents | -172 | 1,189 |
| Balance of cash and cash equivalents at period end | 5,257 | 6,446 |

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

# Business outlook

## Forecasting higher sales and profits in FY8/21 by capturing postponed projects

### ● FY8/21 full-year outlook

The Company's forecasts for the FY8/21 consolidated results project net sales to increase 1.4% YoY to ¥17,300mn, operating profit to increase 2.7% to ¥5,068mn, recurring profit to increase 2.2% to ¥5,140mn, and net profit attributable to the owners of the parent company to rise 1.3% to ¥3,518mn.

FY8/21 consolidated earnings outlook

(¥mn)

| | FY8/20 | | FY8/21 | | Change | |
|---|---|---|---|---|---|---|
| | Results | % of total | Target | % of total | Value | Percentage |
| Net sales | 17,066 | 100.0% | 17,300 | 100.0% | 234 | 1.4% |
| Gross profit | 7,810 | 45.8% | 8,010 | 46.3% | 200 | 2.6% |
| SG&A expenses | 2,872 | 16.9% | 2,941 | 17.0% | 69 | 2.4% |
| Operating profit | 4,937 | 28.9% | 5,068 | 29.3% | 131 | 2.7% |
| Recurring profit | 5,031 | 29.5% | 5,140 | 29.7% | 109 | 2.2% |
| Net profit attributable to the owners of the parent company | 3,474 | 20.4% | 3,518 | 20.3% | 44 | 1.3% |

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

In net sales, despite lingering uncertainty in progress with future sales activities, the Company expects steady orders flow, including support from deals that were postponed from the previous fiscal year, as medical wear is a consumable product. Meanwhile, deliveries of infection prevention products to the MHLW will continue through 1Q. Surgery wear, which is expected to see continued upbeat demand, and patient wear, which had a delayed start in FY8/20, are expected to steadily contribute to sales. Driven by these trends, the Company is targeting all-time high sales at a 1.4% YoY increase, excluding deliveries to MHLW in FY8/20.

The gross profit margin is forecast to be 46.3% (vs. 45.8% for FY8/20). Gross profit is expected to increase ¥200mn, with the anticipated factors being an increase of ¥108mn from the higher sales and an increase of ¥92mn due to production. The production-related increase is expected to comprise ¥60mn on a rise in the overseas production ratio (from 49.5% to 50.5%), including ¥20mn from transferring output of infection prevention products to overseas sites. Meanwhile, the Company thinks COGS should be neutral in FY8/21 due to exhausting impacts of higher domestic processing fees and raw material price hikes in FY8/20. It forecasts a ¥105.0/US$ exchange rate in FY8/21 (vs. ¥106.0/US$ in FY8/20) that works to ¥20mn in COGS savings.

In SG&A expenses, the Company forecasts a ¥31mn increase in travel and transportation costs on the prospect of restoring normalcy in sales activities to some extent. It plans to make catalogs for overseas business and hence budgeted an extra ¥18mn in advertising and promotion costs. Based on this, it expects a 2.4% YoY rise in SG&A expenses to ¥2,941mn. As a result, the Company forecasts a 2.7% gain in operating profit to ¥5,068mn. It budgets ¥275mn in capital investments and ¥317mn in depreciation costs, which are values within the ordinary range.

### (1) Net sales forecasts by item

In net sales by item, healthcare wear is forecast to increase 6.3% YoY to ¥9,510mn, doctors' wear to increase 5.8% to ¥2,620mn, utility wear to decrease 10.0% to ¥355mn, patient wear to increase 6.4% to ¥2,200mn, surgery wear to increase 3.5% to ¥1,780mn, shoes and other products to decrease 8.0% to ¥320mn, and infection prevention products to decrease 53.9% to ¥515mn.

**Net sales forecasts by item**

(¥mn)

| | FY8/20 | | FY8/21 | |
|---|---|---|---|---|
| | Results | YoY | Forecast | YoY |
| Healthcare wear | 8,944 | -7.6% | 9,510 | 6.3% |
| Doctors' wear | 2,475 | -7.4% | 2,620 | 5.8% |
| Utility wear | 394 | -10.6% | 355 | -10.0% |
| Patient wear | 2,067 | 1.7% | 2,200 | 6.4% |
| Surgery wear | 1,719 | 7.7% | 1,780 | 3.5% |
| Shoes and other products | 347 | -3.2% | 320 | -8.0% |
| Infection prevention products | 1,116 | - | 515 | -53.9% |
| Total | 17,066 | 1.7% | 17,300 | 1.4% |

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

While the Company acknowledges lingering uncertainty in business deal progress in healthcare wear and doctors' wear, it expects order placement to resume as these are consumable products and higher sales supported by steady booking of deals delayed from the previous fiscal year. In patient wear, it forecasts a smooth rise in sales on realization of new initiatives that were suspended in FY8/20. In surgery wear, it hopes to achieve a consecutive increase in sales on future market inroads with COMPELPACK through continued emphasis on the risk avoidance advantage. In infection prevention products, despite the prospect of steep decline in orders from the MHLW, the Company aims to actively roll out these products in the commercial market and ensure that the market for reusable infection prevention products takes hold. In utility wear, it expects weaker sales due to likely continuation of the market shrinkage trend.

### (2) Net sales forecast by region

In regional sales, the Company projects ¥8,915mn for Eastern Japan (up 4.5% YoY), ¥1,800mn for Central Japan (up 4.0%), ¥6,050mn for Western Japan (up 6.9%), ¥220mn for overseas business (up 9.3%), and ¥315mn for MHLW (Japan) (down 66.7%).

**Net sales forecast by region**

(¥mn)

| | FY8/20 | | FY8/21 | |
|---|---|---|---|---|
| | Results | YoY | Forecast | YoY |
| Eastern Japan | 8,530 | -4.1% | 8,915 | 4.5% |
| Central Japan | 1,730 | 4.0% | 1,800 | 4.0% |
| Western Japan | 5,658 | -6.2% | 6,050 | 6.9% |
| Overseas | 201 | 6.0% | 220 | 9.3% |
| MHLW (Japan) | 945 | - | 315 | -66.7% |
| Total | 17,066 | 1.7% | 17,300 | 1.4% |

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

In Eastern Japan, the Company aims to increase sales with a confirmed major deal order, steady recruitment of delayed opportunities, and increased sales of infection prevention products. In Central Japan, it targets all-time high sales by booking planned renewal opportunities. In Western Japan, it hopes to attain sales recovery by following through on deliveries for delayed opportunities and ramping up initiatives in patient wear. In overseas business, the Company plans to achieve consecutive sales improvement by promoting its business model in Taiwan (selling to linen businesses) that fell behind schedule due to the COVID-19 pandemic. In MHLW business, while it has confirmed ¥315mn in 1Q sales, no further deals are planned.

**(3) Net sales forecasts by product**

In sales by product, the Company forecasts ¥1,170mn in high-end products (up 9.1% YoY), ¥9,430mn in high-value-added products (up 8.5%), ¥5,685mn in value-added products (up 1.5%), ¥700mn in mass products (down 7.4%), and ¥315mn in MLHW (Japan) (down 66.7%).

**Net sales forecasts by product**

(¥mn)

| | FY8/20 | | FY8/21 | |
|---|---|---|---|---|
| | Results | YoY | Forecast | YoY |
| High-end products | 1,072 | -15.9% | 1,170 | 9.1% |
| High-value-added products | 8,692 | -3.1% | 9,430 | 8.5% |
| Value-added products | 5,600 | -2.2% | 5,685 | 1.5% |
| Mass products | 756 | -7.5% | 700 | -7.4% |
| MHLW products | 945 | - | 315 | -66.7% |
| Total | 17,066 | 1.7% | 17,300 | 1.4% |

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

In high-end products, the Company plans to significantly boost sales by stimulating the market with reinforcement of the product lineup with new offerings (37°C and doctors' coats). In high-value-added products, it aims for higher added value and increased sales by enhancing features and design aspects to support recruitment of renewal business. In value-added products, it intends to drive the shift from mass products, including other companies' deals, by releasing new functional products.

# Medium- to long-term growth strategy

## Temporarily postponed disclosure of numerical targets for the mid-term management plan

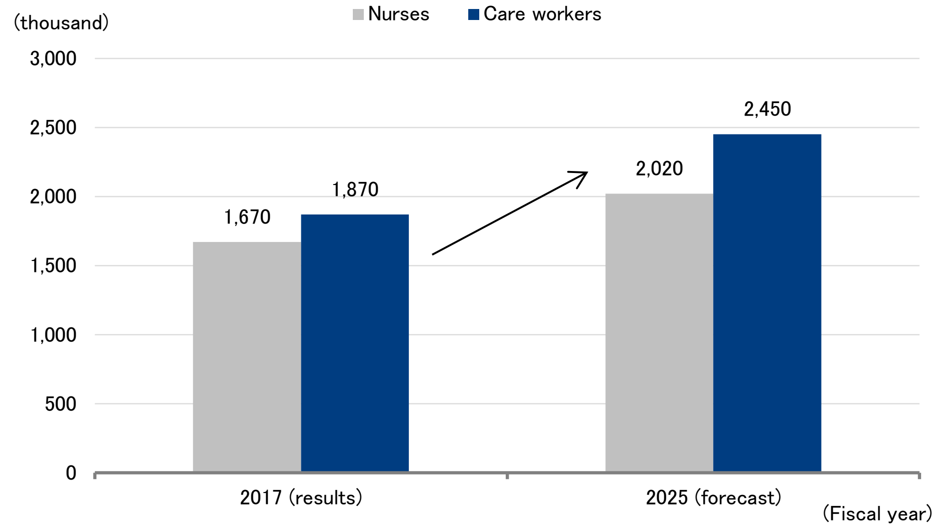
### 1. Mid-term management plan

The Company previously announced its mid-term management plan for the next three years based on results from a completed fiscal year. However, it postponed disclosure of numerical targets for the mid-term management plan at this time due to concluding that it would be difficult to calculate the outlook for the next three years amid ongoing disruptions at medical entities. It intends to announce a plan once the market environment outlook improves and it is possible to make reasonable calculations.

### 2. Future business strategies

The Company's business environment is currently being impacted by the COVID-19 pandemic, but it can be said that this may actually prove advantageous to it in the medium to long term. According to data released by the Ministry of Health, Labour and Welfare among others, the number of nurses in Japan is projected to increase from 1.67 million in 2017 to a maximum of 2.02 million in 2025. Moreover, the number of care workers is forecast to increase from 1.87 million in 2017 to 2.45 million in 2025.

Forecasts for future demand for nurses and care workers




Source: Prepared by FISCO from the following materials (English titles have been translated from Japanese)
FY2017 Actual Number of Nursing Professionals from "Statistical Data on Nursing Service in Japan" (Japanese Nursing Association)
FY2025 Estimated Number of Nursing Professionals from "The Meeting on Projection of Supply and Demand for Nursing Personnel" Materials (Ministry of Health, Labour and Welfare)
FY2017 Actual Number of Nursing Care Professionals from "Survey of Institutions and Establishments for Long-Term Care" (Ministry of Health, Labour and Welfare)
FY2025 Estimated Number of Nursing Care Professionals from "7th Insured Long-Term Care Service Plans" (Ministry of Health, Labour and Welfare)

In this business environment, the Company aims to achieve medium-term growth through three main strategies: (1) marketing strategy to expand sales, (2) production strategy to ensure stable supply, and (3) strategy seeking stable profitability.

**(1) Marketing strategy to boost sales**

a) Deepen business in nursing, long-term care, and other core markets
b) Increase peripheral business in products for patients and surgery
c) Cultivate overseas markets
d) Develop reusable infection prevention products

**(2) Production strategy to ensure stable supply**

a) Bolster domestic production operations and reinforce capabilities to support QR and small-lot, high-variety output by launching operations at a new domestic sewing plant
b) Strengthen initiatives with material manufacturers and trading companies

**(3) Strategy seeking stable profitability**

a) Promote high-value-added strategy
b) Transfer materials overseas
c) Shift production overseas
d) Promote effective utilization of raw materials

# Shareholder return policy

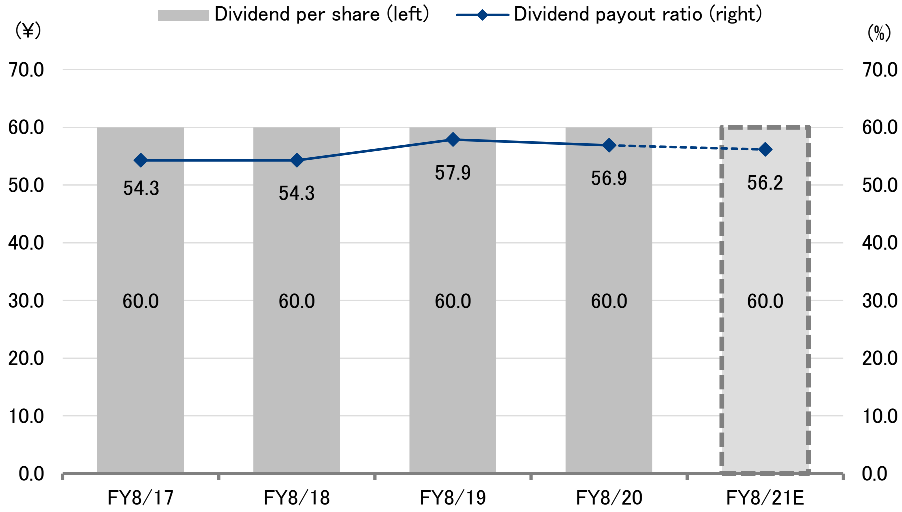
## Pledges a dividend payout ratio of 50% or higher (non-consolidated basis) and forecasts an annual dividend of ¥60

The Company's equity ratio reached 89.3% at the end of FY8/20 and it is financially stable. Additionally, considering the Company's business conditions, it seems highly unlikely that its profits will rapidly deteriorate, so continued stable earnings are expected. As a result, if its distribution of earnings outside the Company (particularly dividend payments) is low, profits will accumulate in shareholders' equity each year, and return on equity (ROE) will decline; which is to say, capital efficiency will decline. But in addition to paying dividends commensurate with the growth in profits, the Company actively and comprehensively returns profits to shareholders, including through share buybacks, and as a result has maintained a high ROE (8.7% in FY8/20).

The Company will thus maintain a stable financial position while pursuing solid shareholder returns. In FY8/15, it supplemented the regular dividend of ¥50 per share with an additional ¥50 per share to commemorate its centennial. This raised the total annual dividend to ¥100 per share, for a non-consolidated payout ratio of 107.5%. It also spent ¥1,500mn in implementing a share buyback of 1 million shares during the fiscal year. That combined with the dividend, raised the total return ratio (non-consolidated basis) to 153.8%. In FY8/16, it paid an annual dividend of ¥50 for a dividend payout ratio of 52.5% on a non-consolidated basis.

The Company has pledged a dividend payout ratio of 50% or higher on a non-consolidated basis. In FY8/17, it increased the annual dividend from ¥50 to ¥60, and paid an annual dividend of ¥60 for FY8/18, FY8/19 and FY8/20. Furthermore, the Company executed a share buyback totaling 400,000 shares (¥1,031mn) in November 2019, which combined with the dividend brought the total return ratio to 87.9% (forecast). In addition to the strong financial standing, this aggressive stance on shareholder returns is worthy of strong praise.

Trends in the dividend and dividend payout ratio




* Dividend payout ratios are on a consolidated basis.
Source: Prepared by FISCO from the Company's financial results

Trends in the dividend payout ratio* and the total return ratio*

(¥mn)

| | Total dividend amount | Share buybacks | Dividend payout ratio* | Total return ratio* |
|---|---|---|---|---|
| FY8/01 | 475 | 0 | 27.4% | 27.4% |
| FY8/02 | 475 | 0 | 29.3% | 29.3% |
| FY8/03 | 530 | 1,697 | 29.7% | 124.6% |
| FY8/04 | 744 | 0 | 36.5% | 36.5% |
| FY8/05 | 1,117 | 0 | 56.9% | 56.9% |
| FY8/06 | 1,117 | 0 | 53.4% | 53.4% |
| FY8/07 | 1,117 | 0 | 53.1% | 53.1% |
| FY8/08 | 1,083 | 1,077 | 56.6% | 111.2% |
| FY8/09 | 1,040 | 1,220 | 57.3% | 122.2% |
| FY8/10 | 1,127 | 0 | 51.4% | 51.4% |
| FY8/11 | 1,205 | 226 | 52.0% | 61.7% |
| FY8/12 | 1,205 | 0 | 55.1% | 55.1% |
| FY8/13 | 1,541 | 229 | 51.3% | 58.7% |
| FY8/14 | 1,712 | 0 | 54.4% | 54.4% |
| FY8/15 | 3,324 | 1,500 | 107.5% | 153.8% |
| FY8/16 | 1,662 | 0 | 52.5% | 52.5% |
| FY8/17 | 1,994 | 0 | 55.2% | 55.2% |
| FY8/18 | 1,994 | 0 | 55.2% | 55.2% |
| FY8/19 | 1,995 | 0 | 58.0% | 58.0% |
| FY8/20E | 1,971 | 1,031 | 57.9% | 87.9% |

* On a non-consolidated basis
Note: The Company executed 1:2 stock splits in FY8/04 and FY8/11
Source: Prepared by FISCO from the Company's results briefing materials

## Disclaimer

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