Nagaileben

7447 Tokyo Stock Exchange First Section

Company Research and Analysis Report
FISCO Ltd.
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■Record-high sales and operating profit, assisted by positive market conditions

Nagaileben is the largest manufacturer of clothing for medical use in Japan, with a market share of more than 60%. In the fiscal year through August 2013, i.e., in FY8/13, the company raised its sales by 3.0% year-on-year (y-o-y) to ¥15,625mn, its operating profit by 5.0% to ¥4,873mn, and its recurring profit by 13.2% to ¥5,418mn. Reflecting increased sales of healthcare wear, sales and operating profit reached record highs.

For FY8/14, the company forecasts a 2.4% y-o-y rise in sales to ¥16,000mn, a 0.1% upturn in operating profit to ¥4,880mn, a 9.1% decline in recurring profit to ¥4,923mn, and a 2.8% fall in net profit to ¥3,030mn. The projected decline in recurring profit will stem from an absence of special non-operating profit, such as the foreign currency exchange profit earned in FY8/13.

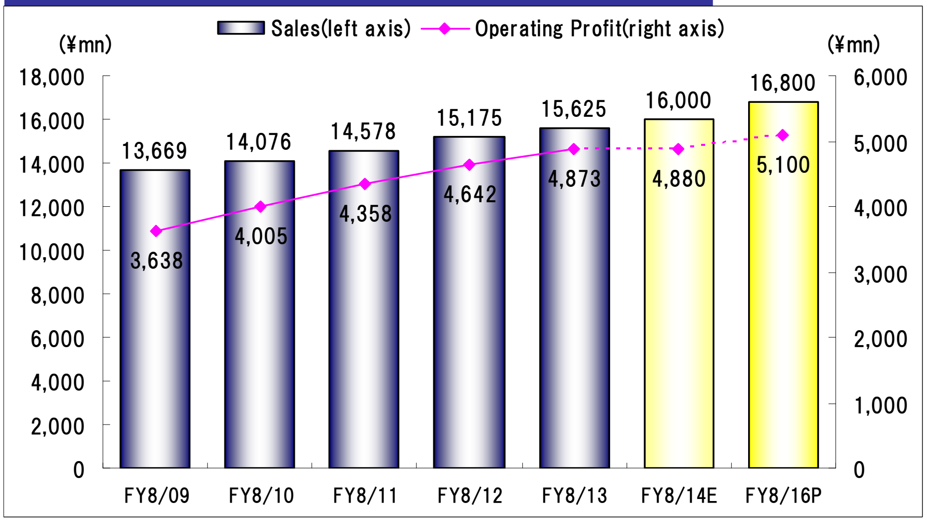
Nagaileben’s financial position remains strong. At the end of FY8/13, its equity ratio stood at 89.1%. At the same time, the company takes a positive attitude towards shareholder returns, or improving capital efficiency. It has pledged to maintain a dividend payout ratio of 50% or more, on a parent-company basis, and it intends to buy back shares at opportune moments.

In FY8/15, the final year of the company’s current medium-term plan, the company aims to generate sales of ¥16,800mn and earn an operating profit of ¥5,100mn. The company projects an operating profit of ¥4,880mn for FY8/14, so its operating profit target for FY8/15 appears attainable. As the average age of residents of Japan continues to rise, the number of home healthcare providers is also increasing. In 2012, there were 1.49mn such providers, and the government projects that this number will grow to about 2.49mn by 2025. This trend should support Nagaileben’s growth.

■Check Points

- Company achieved record-high sales and operating profit in FY8/13
- The numbers of nurses and home healthcare providers are growing, supporting the company’s growth
- Company pursues an aggressive approach to shareholder returns, maintaining a high dividend payout ratio and buying back shares at opportune moments

Consolidated Sales and Operating Profit (¥mn), FY8/09-FY8/14E and FY8/15 plan



Company Outline

The leading maker of medical clothing in Japan, with more than a 60% share of the market.

(1) History

Nagaileben specializes in the manufacture of clothing for nurses, doctors and patients. The company started out in 1915 as Nagai Shoten in Tokyo, and expanded its business content and geographical coverage to all of Japan, as detailed in the table below. It is now the leading maker of medical clothing in Japan, with more than a 60% share of the market.

Company History

1915	Koji Nagai established Nagai Shoten, a proprietorship engaged in manufacturing white clothing, in Jimbocho-Kanda area of Tokyo. In 1942, Nagai Shoten expanded to become Tokyo Sanitary White Clothing Co.
1950	Tokyo Sanitary White Clothing Co. disbanded. Koji Nagai and Tatsuro Sawanobori established Nagai Shoten Co., Ltd.
1969	Established subsidiary Nagai White Clothing Industry Co., Ltd. in Akita Prefecture to expand production. Mr. Sawanobori became president. Company specialized in producing and selling white clothing for medical use.
1977	Constructed Goods Center 2 in Kamedo, Tokyo. Established a business alliance with GD Searle, of the US; established Nippon Surgical Apparel Co. in Hiroshima City to expand sales of new operating room apparel.
1978	Established technical agreements with Angelica Co., of the US, and with Toray, of Japan. Developed clothing made of new materials for lease.
1980	Changed company name to Nagai Co., Ltd. Set up a sales office in Takamatsu City. Concluded a license agreement with designer Kansai Yamamoto.
1982	Concluded a license agreement with designer Sachiko Hanai.
1988	Nagai Co. spun off some of its operations as a new company, Emit Co. Subsequently, these companies traded names. Emit Co. became the overall group manager, while Nagai Co. became the sales company.
1989	Built the Nagai Luminous plant in Akita Prefecture to produce high-grade goods. Started overseas production, planned to divide business internationally.
1994	Nagai Co. changed its name to Nagaileben Co., Ltd. Built a distribution center in Akita Prefecture.
1995	Nagaileben registered its shares on Japan’s over-the-counter market. Developed a clothing line for the aged as the second main product line. Vice President Ichiro Sawanobori became president.
1996	Concluded a license agreement with French designer Courreges.
1999	Opened a sales office in Nagoya. Concluded a license agreement with designer Atsuro Utayama.
2001	Listed shares on the Second Section of the Tokyo Stock Exchange
2002	Concluded technical agreements in surgical textiles with Standard Textiles Inc., of the US, and with Toray. Upgraded Nagoya sales office to a branch office.
2004	Acquired SO 9001 certification. Listed shares on the First Section of the Tokyo Stock Exchange. Absorbed Nagai Hokkaido and opened a branch office in Hokkaido.
2005	Acquired ISO 14001 certification. Concluded a license agreement with designer Keita Maruyama.
2006	Concluded a license agreement with designer Minako Yokomori.

■Company Outline

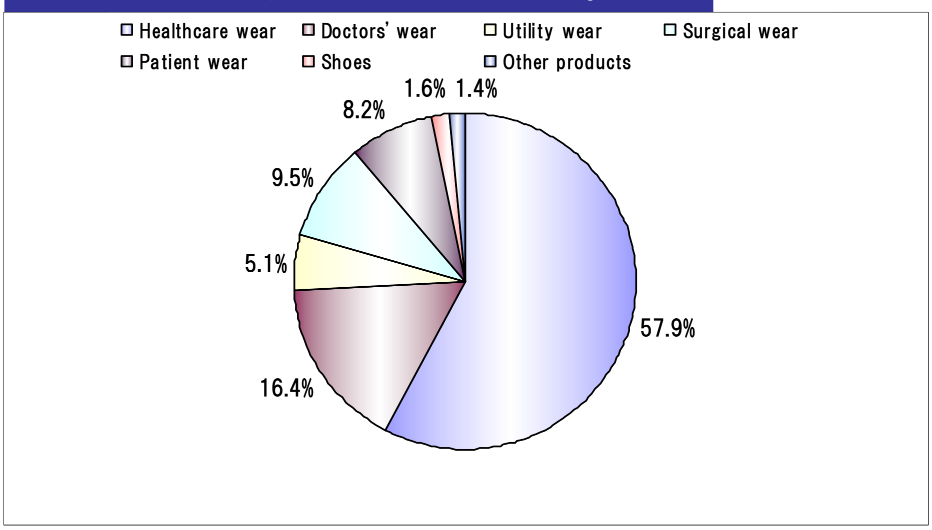
Room to expand sales in western Japan

(2) Description of Businesses

○Consolidated Sales Breakdowns

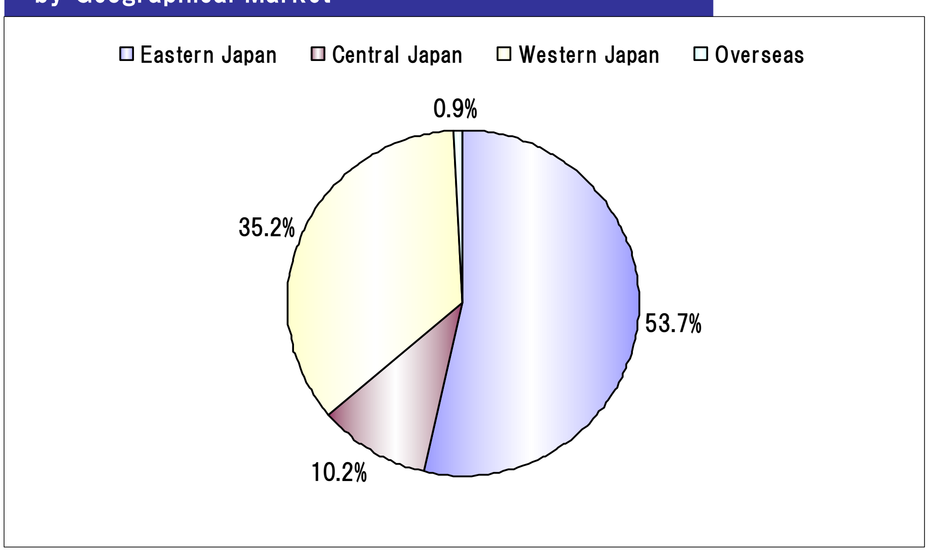
All of Nagaileben's products are medical clothing or related items. The company's sales can be broken down by item, or type of clothing, by geographical market, and by clothing classification. By item, as detailed in the pie chart below, in FY8/13, healthcare wear provided 57.9% of total sales, doctors' wear provided 16.4%, surgical wear supplied 9.5%, patient wear contributed 8.2%, utility wear provided 5.1%, shoes, etc. provided 1.6%, and other products accounted for 1.4%. Profitability does not vary much by item, but shoes and other products, which are purchased, are less profitable than the other types of clothing, which are made in-house.

Breakdown of FY8/13 Consolidated Sales by Item



By geographical market, eastern Japan accounted for 53.7% of total sales in FY8/13, western Japan, for 35.2%, central Japan, for 10.2%, and overseas for 0.9%. The overseas sales ratio could grow in coming years.

Breakdown of FY8/13 Consolidated Sales by Geographical Market



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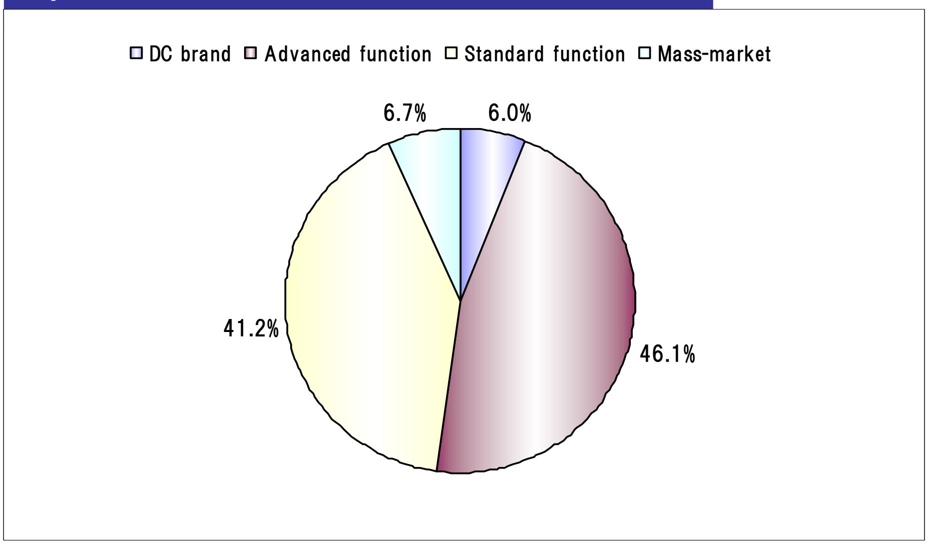
■Company Outline

By product classification, advanced function goods supplied 46.1% of total sales in FY8/13, standard function goods supplied 41.2%, mass-market goods provided 6.7%, and designer-character (DC) brand goods provided 6.0%. The price ranges of nurse wear by classification are as follows: mass-market ¥5,000 or less, standard function ¥5,000-7,500, advanced function ¥7,500-10,000, and DC brand ¥10,000 or more. The higher priced classifications are more profitable than lower priced classifications.

Breakdown of FY8/13 Consolidated Sales by Product Classification



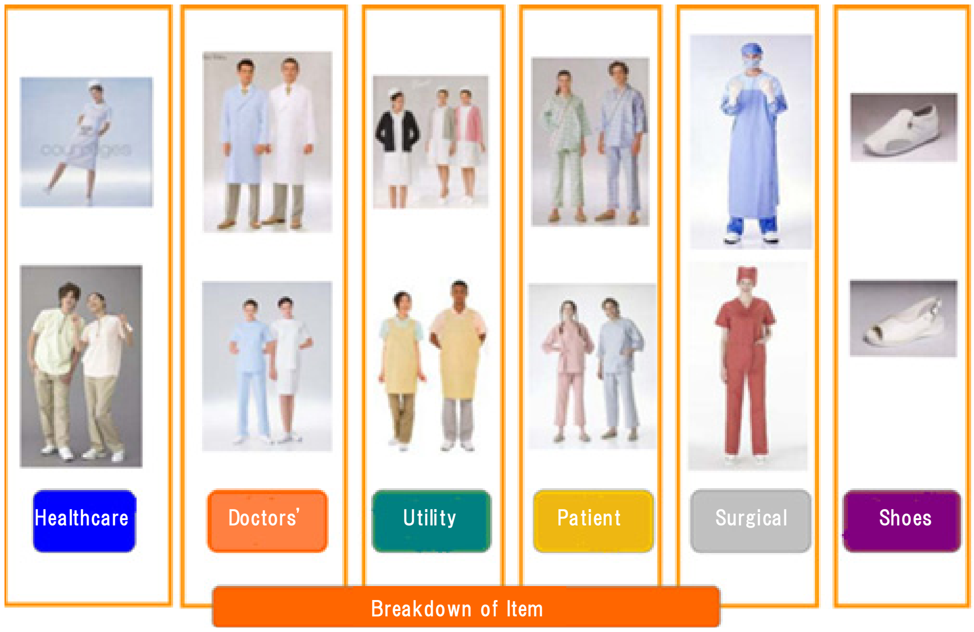
Since the end-users of Nagaileben’s products are mainly doctors, nurses and patients, the company’s main customers are hospitals, other medical facilities, and nursing homes. All of the company’s sales are made through agents, such as linen suppliers and wholesalers of medical equipment. Thus, the company has no direct selling cost. However, its sales representatives maintain contact with customer institutions to ascertain their needs and the needs of the end-users.

In the past, most customer institutions purchased Nagaileben’s clothing and washed it in-house. In recent years, however, more institutions have leased the clothing, returning it to linen suppliers for washing. These leases are usually for four years and are regularly renewed, contributing to the steady growth of Nagaileben’s sales and profits.

In FY8/13, 97.4% of the products sold by Nagaileben were made in-house and 2.6% were purchased. Products made by the company in Japan accounted for 57.6% of sales, and products made overseas accounted for 40.7%. Nagaileben does not own overseas plants. Its products made overseas are manufactured at plants owned by partner companies in the host country, i.e., the country where the goods are manufactured. This arrangement minimizes Nagaileben’s costs and investment risk.

■Company Outline

Examples of Different Items of Clothing Made by Nagaileben



High profitability stems from company's grasp of customer needs

(3) Distinctive Features and Strengths

Nagaileben' s dominance in the production of medical clothing stems in part from its integrated operations. The company performs all stages of work, from product planning to the procurement of raw materials, manufacturing, and sales. Thus, it can design products that reflect customer needs, procure the best materials for these products, manufacture cheaply, and sell at a reasonable profit margin.

Nagaileben' s production system is superior to those of competitors. The company has many contracted plants that manufacture several thousand clothing items, enabling the company to respond to a wide range of customer needs. With almost 1,000 sales agents throughout Japan, the company has an extensive sales coverage at minimal cost.

As a result of these strengths, Nagaileben has gained a more than 60% share of the Japanese market for medical clothing. According to the company, the second largest seller of this clothing has only a 7-8% market share, while companies ranking third or below have shares of only a few percentage points. In FY8/13, Nagaileben earned a gross profit margin of 47.0%. The company' s high market share and profitability reflect the satisfaction of its customers with its products and services. This customer satisfaction is probably the company' s greatest strength.

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Business Trends

Record-high sales and operating profit

(1) FY8/13 Results

In FY8/13, Nagaileben increased its consolidated sales by 3.0% y-o-y to ¥15,625mn, its operating profit by 5.0% to ¥4,873mn, its recurring profit by 13.2% to ¥5,418mn, and its net profit by 31.5% to ¥3,119mn. Sales of healthcare wear, doctors' wear, patients' wear and surgical wear grew, contributing to overall expansion. Sales in every geographical market reached all-time highs.

The costs of raw materials and processing rose by ¥43mn y-o-y, but the company's average yen-US$ rate for FY8/13 was ¥82.5, compared with an average rate of ¥83.6 in FY8/12, and this degree of yen appreciation against the US dollar reduced the company's cost of goods sold by ¥15mn. Furthermore, the sales weighting of goods produced overseas rose to 40.7% in FY8/13 from 39.4% in FY8/12, cutting ¥52mn from the cost of goods sold. Reflecting these factors, the gross profit in FY8/13 was ¥242mn larger than the gross profit in FY8/12, and the gross profit margin rose to 47.0% in FY8/13 from 46.8% in FY8/12.

Accompanying the sales increase, SGA costs rose to ¥2,473mn in FY8/13 from ¥2,461mn in FY8/12, but this included a one-off ¥52mn payment in preparation to transfer the company's main office. Without this payment, SGA costs would have decreased y-o-y. The ratio of SGA costs to sales declined to 15.8% in FY8/13 from 16.2% in FY8/12.

In its non-operating account, the company recorded a currency exchange gain of ¥500mn on its US dollar bank deposits and other gains that supported the 13.2% rise in recurring profit to ¥5,418mn. The company recorded an extraordinary asset impairment loss of ¥332mn on its current main office building, but this loss was more than offset by the large increase in recurring profit, so net profit grew by 31.5% y-o-y to ¥3,119mn.

The company's capital investment in FY8/13 totaled ¥925mn. Of this, ¥728mn was used to construct the new main office and ¥84mn was used to renew production facilities. Depreciation expense totaled ¥256mn.

Consolidated Sales and Profit (¥mn) Breakdown for FY8/12 and FY8/13

	FY8/12		FY8/13			
	Amount	Sales %	Amount	Sales %	Change amount	y-o-y
Sales	15,175	100.0	15,625	100.0	450	3.0
Gross profit	7,103	46.8	7,346	47.0	243	3.4
SGA cost	2,462	16.2	2,473	15.8	11	0.5
Operating profit	4,642	30.6	4,873	31.2	231	5.0
Recurring profit	4,787	31.5	5,418	34.7	631	13.2
Net profit	2,371	15.6	3,119	20.0	748	31.5

■Business Trends

Healthcare wear sales exceeded plan due to brisk sales of new products

(2) Sales Breakdowns

Sales in FY8/12 and FY8/13 are broken down by item, geographical market and product category in the following tables.

Breakdown of Consolidated Sales (¥mn) by Item, FY8/12-FY8/13

	FY8/12		FY8/13	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	8,769	+1.1	9,039	+3.1
Doctors' wear	2,483	+7.7	2,566	+3.3
Utility wear	864	▲ 0.1	796	▲ 7.9
Patient wear	1,223	+19.3	1,273	+4.1
Surgical wear	1,374	+9.2	1,479	+7.7
Shoes	268	▲ 1.0	249	▲ 7.0
Other products	191	+8.3	219	+14.5
Total	15,175	+4.1	15,625	+3.0

The market for healthcare wear was stable in FY8/13, and sales of this wear were led by some large orders and the popularity of new products. Thus, sales surpassed the company's expectation. Sales of doctors' wear reached an all-time high, reflecting strong sales of new products. Sales of utility wear dropped notably as the market for such wear continued to deteriorate. Utility wear is worn over aprons, doctors' coats, and other wear, but recently, utility wear has been supplanted by apparel serving the functions of both utility wear and the wear beneath it. The company had foreseen a drop in sales of patient wear in FY8/13 because it filled some large orders in FY8/12. However, the demand for patient wear was brisk in FY8/13, supporting sales growth. Reflecting the penetration of the market for scrub wear, sales of surgical wear grew slightly more slowly in FY8/13 than in FY8/12.

Breakdown of Consolidated Sales (¥mn) by Geographical Market, FY8/12-FY8/13

	FY8/12		FY8/13	
	Amount	y-o-y	Amount	y-o-y
Eastern Japan	8,106	+4.7	8,390	+3.5
Central Japan	1,564	+0.9	1,591	+1.7
Western Japan	5,386	+4.2	5,508	+2.3
Overseas	118	▲ 1.3	134	+13.6
Total	15,175	+4.1	15,625	+3.0

Sales in eastern Japan grew strongly in FY8/12 in reaction to weak sales in FY8/11, when sales were impeded by the Great East Japan Earthquake. Thus, the company had feared sales in eastern Japan might weaken y-o-y in FY8/13, but they grew respectably. Sales in central Japan fell by 2.4% y-o-y in the first half of FY8/13, but the company concentrated on sales expansion in the second half and achieved 4.6% y-o-y growth. Thus, full-year sales in central Japan increased by 1.7%. Sales in western Japan grew for the fourth consecutive year, reflecting brisk new orders. Overseas sales grew due to yen depreciation against the US dollar.

■Business Trends

Breakdown of Consolidated Sales (¥mn) by Product Classification, FY8/12-FY8/13

	FY8/12		FY8/13	
	Amount	y-o-y	Amount	y-o-y
DC brand	1,024	+2.6	933	▲ 8.9
Advanced function	6,547	+5.3	7,212	+10.1
Standard function	6,501	+4.3	6,433	▲ 1.0
Mass-market	1,100	▲ 2.6	1,045	▲ 5.1
Total	15,175	+4.1	15,625	+3.0

Cash and deposits grew strongly, due mainly to operating cash flow

(3) Financial Condition

The ¥829mn y-o-y increase in cash and deposits in FY8/13 (see balance sheet below) reflected several factors: ¥2,726mn of operating cash flow, the payment of ¥1,205mn in dividends, the payment of ¥1,005mn for intangible and tangible fixed assets, a ¥229mn buyback of the company’s shares, and a ¥500mn currency exchange valuation gain on certificates of deposit denominated in US dollars. The ¥1,014mn increase in fixed assets was the product of several factors: a ¥744mn increase in construction in progress, mainly to build the new head office; a ¥368mn increase in long-term loans; a ¥239mn increase in other fixed assets accompanying the conclusion of foreign exchange futures contracts; and an impaired asset loss of ¥332mn. The ¥2,008mn increase in total equity reflected the retention of the ¥3,119mn in net profit, the payment of ¥1,205mn in dividends, the ¥229mn increase in treasury shares, and the recognition of a ¥245mn deferred gain on hedging.

Summary Consolidated Balance Sheet (¥mn), FY8/12-FY8/13

	8/12	8/13	Change amount
Cash and deposits	16,627	17,456	+829
Notes and accounts receivable	4,219	4,622	+403
Inventories	3,396	3,524	+128
Current assets	25,195	26,247	+1,052
Buildings and other structures	1,793	1,645	+148
Land	4,962	4,692	▲ 270
Construction in progress	24	768	+744
Investments, other	2,390	3,079	+689
Fixed assets	9,793	10,807	+1,014
Total assets	34,988	37,054	+2,066
Bills and accounts payable	1,362	1,385	+23
Corporate taxes payable	1,353	1,344	▲ 9
Total liabilities	3,908	3,966	+58
Retained earnings	29,972	31,886	+1,914
Treasury stock	▲ 3,172	▲ 3,401	▲ 229
Total equity	31,080	33,088	+2,008
Total liabilities and equity	34,988	37,054	+2,066

As it holds no debt, the company has large net cash

(4) Cash Flow

In FY8/13, cash flow from operations came to ¥2,736mn, cash from investments totaled -¥4,351mn, and cash flow from financial activities was -¥1,435mn. Thus, the balance of cash and cash equivalents declined by ¥2,571mn to ¥5,373mn at the end of FY8/13. As the company has no interest-bearing debt, it has ample net cash.

Summary Consolidated Cash Flow Statement (¥mn), FY8/12-FY8/13

	FY8/12	FY8/13
Cash flow from operations	2,919	2,736
Income before taxes and other adjustments	4,151	5,073
Depreciation expense	270	256
Change in sales credits	49	▲ 386
Payments of corporate taxes, etc.	▲ 1,742	▲ 2,085
Cash flow from investments	▲ 2,515	▲ 4,351
Acquisition of tangible fixed assets	▲ 182	▲ 977
Net change in time deposits	▲ 2,300	▲ 2,900
Cash flow from financial activities	▲ 1,204	▲ 1,435
Change in cash and cash equivalents	▲ 756	▲ 2,571
Balance of cash and cash equivalents at term start	8,701	7,944
Balance of cash and cash equivalents at term end	7,944	5,373

■Company Forecasts for FY8/14

Stable market conditions expected to support sales growth

(1) Forecasts for FY8/14

For FY8/14, anticipating stable market conditions, the company projects a 2.4% y-o-y rise in consolidated sales to ¥16bn. The company foresees a ¥29mn increase in its US dollar cost of raw materials and an additional ¥55mn increase in production costs due to an expected depreciation of the yen against the US dollar from an average rate of ¥82.5 in FY8/13 to an average rate of ¥86.0 in FY8/14. On the other hand, it expects to reap an additional ¥75mn of gross profit by raising its overseas production ratio from 40.7% in FY8/13 to 42.6% in FY8/13. On balance, the company forecasts a gross profit margin of 47.0% for FY8/14, unchanged from the margin in FY8/13.

The company projects a ¥167mn increase in its SGA cost in FY8/14, to ¥2,640mn, including ¥93mn to move into the new head office. The company foresees no non-operating profit in FY8/14 similar to the ¥500mn foreign exchange gain that it logged in FY8/14. Thus, it forecasts a 9.1% y-o-y fall in recurring profit to ¥4,923mn. However, the company also foresees no extraordinary loss in FY8/14 similar to the ¥332mn asset impairment loss it declared in FY8/13. Therefore, it projects only a 2.9% y-o-y drop in net profit in FY8/14 to ¥3,030mn.

Nagaileben plans to invest ¥859mn in plant and equipment in FY8/14. Of this, ¥577mn is scheduled for the new head office, ¥95mn is for the renovation of equipment at distribution centers, and ¥50mn is for production facilities. The company estimates that its depreciation cost will come to ¥344mn in FY8/14.

■Company Forecasts for FY8/14

Consolidated Sales and Profit (¥mn) Breakdown for FY8/13 and FY8/14E

	FY8/13		FY8/14E			
	Amount	Sales %	Amount	Sales %	Change amount	y-o-y
Sales	15,625	100.0	16,000	100.0	375	2.4
Gross profit	7,346	47.0	7,520	47.0	174	2.4
SGA cost	2,473	15.8	2,640	16.5	167	6.8
Operating profit	4,873	31.2	4,880	30.5	7	0.1
Recurring profit	5,418	34.7	4,923	30.8	▲ 495	▲ 9.1
Net profit	3,119	20.0	3,030	18.9	▲ 89	▲ 2.9

Company aims to raise its market shares in central and western Japan

(2) Projected Sales Breakdowns

Breakdowns of the company’s consolidated sales forecasts for FY8/14 by item, by geographical market and by product classification are shown in the following tables, along with corresponding breakdowns for FY8/13.

Breakdown of Consolidated Sales (¥mn) by Item, FY8/13-FY8/14E

	FY8/13		FY8/14E	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	9,039	+3.1	9,230	+2.1
Doctors’ wear	2,566	+3.3	2,650	+3.2
Utility wear	796	▲ 7.9	740	▲ 7.1
Patient wear	1,273	+4.1	1,330	+4.4
Surgical wear	1,479	+7.7	1,600	+8.2
Shoes	249	▲ 7.0	230	▲ 8.0
Other products	219	+14.5	220	+0.2
Total	15,625	+3.0	16,000	+2.4

The company foresees sales growth in every geographical market.

Consolidated Sales (¥mn) by Geographical Market, FY8/13-FY8/14E

	FY8/13		FY8/14E	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	9,039	+3.1	9,230	+2.1
Doctors’ wear	2,566	+3.3	2,650	+3.2
Utility wear	796	▲ 7.9	740	▲ 7.1
Patient wear	1,273	+4.1	1,330	+4.4
Surgical wear	1,479	+7.7	1,600	+8.2
Shoes	249	▲ 7.0	230	▲ 8.0
Other products	219	+14.5	220	+0.2
Total	15,625	+3.0	16,000	+2.4

■Company Forecasts for FY8/14

The company projects sales growth for DC brand products and advanced function products, which carry higher profit margins than other product classifications.

Breakdown of Consolidated Sales (¥mn) by Product Classification, FY8/13-FY8/14E

	FY8/13		FY8/14E	
	Amount	y-o-y	Amount	y-o-y
DC brand	933	▲ 8.9	940	+0.7
Advanced function	7,212	+10.1	7,660	+6.2
Standard function	6,433	▲ 1.0	6,400	▲ 0.5
Mass-market	1,045	▲ 5.1	1,000	▲ 4.3
Total	15,625	+3.0	16,000	+2.4

■Medium-term Management Plan

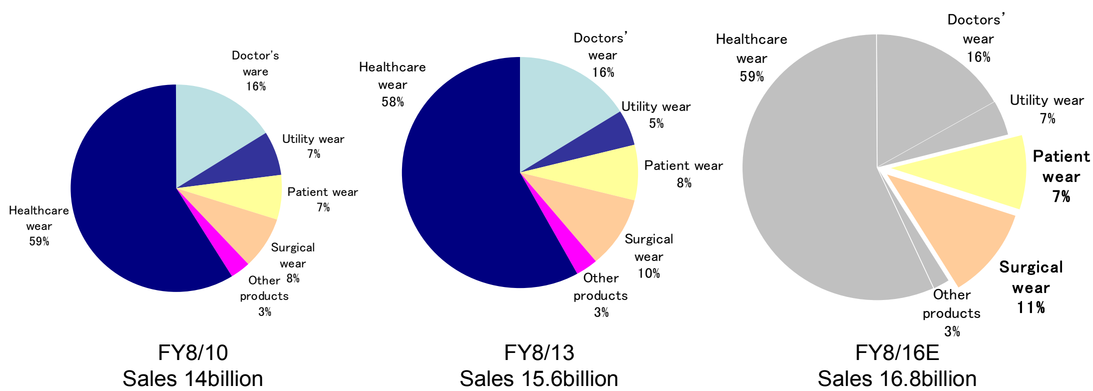
Aiming for consolidated sales of ¥16.8bn and operating profit of ¥5.1bn in FY8/16

For FY8/16, Nagaileben targets consolidated sales of ¥16.8bn and operating profit of ¥5.11bn. As the company forecasts an operating profit of ¥4.88bn for F8/14, it should be able to achieve its operating profit target for FY8/16. To reach the sales target, the company plans the following developments.

○ Sales by item

Over the next two fiscal years, the company intends to promote sales of two newer items, patient wear and surgical wear. In FY8/13, these items accounted for 8.2% and 9.5% of total sales, respectively, but by FY8/16, the company hopes to raise these ratios to 9.0% and 11.0%, respectively. The company foresees sales growth for other items, too, but not as much as the growth it projects for these items.

Sales Breakdown (%) by Item, FY8/10, FY8/13, and FY8/16E



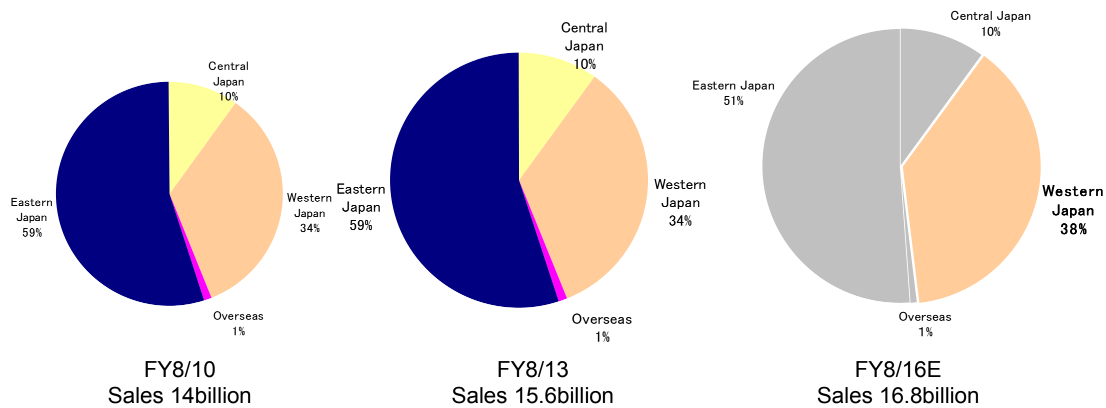
Source: Company

■Medium-term Management Plan

○ Sales by geographical market

The company’s strategy for promoting growth by geographical market is the same as its strategy for promoting growth by item, i.e., it will promote sales in the areas where sales are the weakest. Thus, the company will try to raise its sales weighting from western Japan from 35.3% in FY8/13 to 38.0% in FY8/15, but not at the expense of growth in eastern Japan.

Sales Breakdown (%) by Geographical Market, FY8/10, FY8/13, and FY8/16E

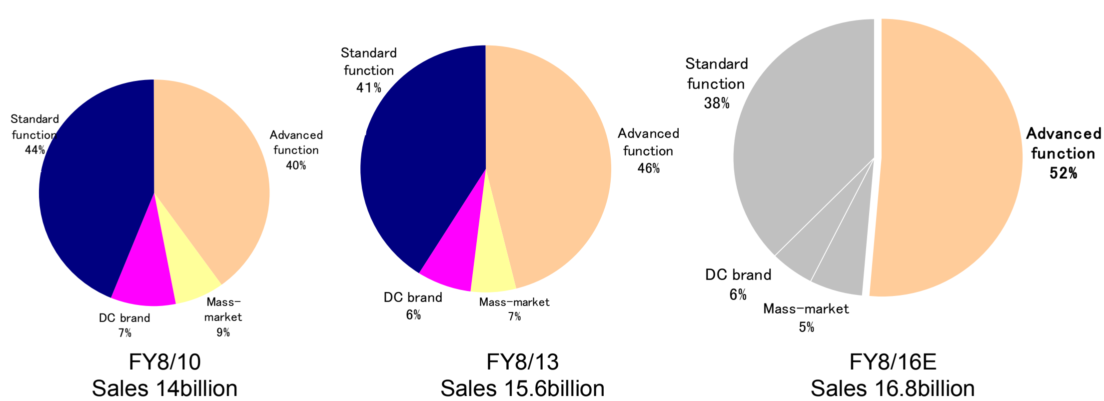


Source: Company

○ Sales by Product Classification

The company has gained customer credibility in advanced function clothing and plans to build on this trust to expand the sales weighting of this classification from 46.2% in FY8/13 to 52.0% in FY8/15. As noted earlier, many hospitals now lease the company’s products through three-year or four-year leases. When these leases are renewed, the company promotes new products for the new lease term. Using this approach, the company will probably be able to increase its sales weighting in advanced function clothing.

Sales Breakdown (%) by Product Classification, FY8/10, FY8/13, and FY8/16E



Source: Company

■Prospective Market Environment

The numbers of nurses and home healthcare providers are growing, supporting the company's growth

The market environment for Nagaileben may change in the following ways.

○ Changes in medical costs
Nagaileben sells clothing for medical use, so its business is not directly affected by changes in official drug prices or fees for medical diagnosis and treatment. However, as these prices and fees are reduced, hospitals and other medical facilities cut their costs to compensate for lower income. As part of their cost-cutting, they prolong the replacement period for medical clothing.

Japan's official drug prices and fees for medical diagnosis and treatment are scheduled for review again in April 2014. In the same month, the Japanese government plans to raise the country's consumption tax from 5% to 8%. Drug companies and medical facilities may be able to argue for increases in prices and fees to offset their additional tax burden, offsetting the downward trend in both. At any rate, these prices and fees are unlikely to be cut significantly, so Nagaileben's sales should not be affected much.

○ Increases in numbers of nurses and home healthcare workers
In December 2012, Japan's Ministry of Labor projected that the number of nurses in Japan would grow by an average annual rate of 2.57% between 2010 and 2015, when this number would reach 1.65mn. Similarly, the ministry forecasted that the number of home healthcare workers would grow by an average annual rate of 5.1% over the same period to 1.73mn. Furthermore, the Cabinet Office has forecasted that the number of home healthcare workers would increase from 1.49mn in 2012 to a maximum of 2.49mn in 2025. The growth in the numbers of these professionals is likely to support the growth of Nagaileben's business.

○ Rise in the consumption tax to 8%
As noted above, the government plans to raise Japan's consumption tax from 5% to 8% in April 2014. Nagaileben expects this tax increase to have only a minor impact on the Japanese market for its products. The demand for these products is likely to increase before the tax hike and to weaken after the hike, but the net impact should be modest.

○ Increase in overseas production cost due to yen depreciation
As explained earlier, 40.7% of the products sold by Nagaileben in FY8/13 were manufactured overseas. The profits from sales of these products are reduced by yen depreciation against other currencies, mainly the US dollar. To minimize the impact of changes in yen exchange rates on profits, the company covers about 80% of its imports planned for the coming two-three years with forward currency exchange contracts. Thus, changes in these rates affect profits only gradually.

As a hedge against the impact of yen depreciation against the US dollar, the company maintains US dollar bank deposits equivalent to about ¥2bn. Because of yen depreciation against the US dollar in FY8/13, the company's US dollar deposits earned a non-operating valuation gain of about ¥500mn, which boosted recurring profit.

■Prospective Market Environment

○ Rise in costs of raw materials and product processing

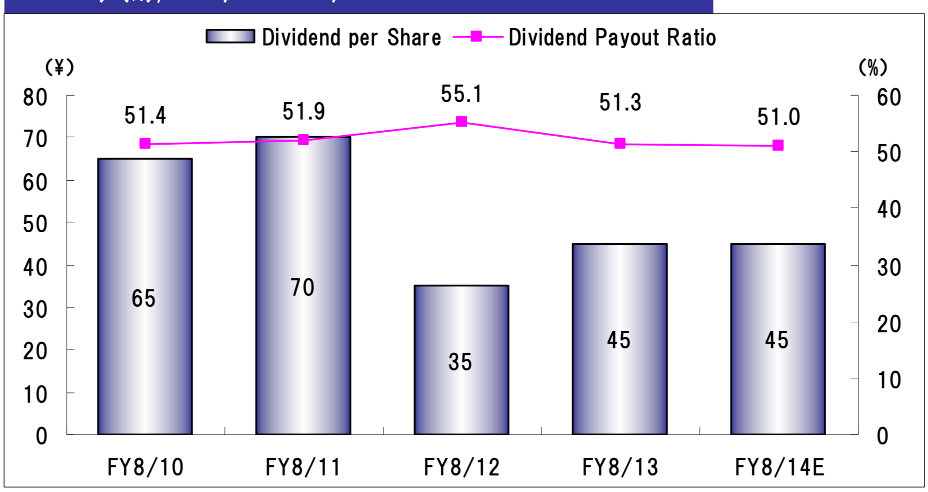
The company's cost of polyester may increase, reflecting an upturn in the US dollar cost of crude oil and depreciation of the yen against the US dollar. Furthermore, the cost of product processing at partner manufacturers in China and Southeast Asia is likely to rise. To counter these possible cost hikes, the company plans to modify its production processes and to seek partner manufacturers in countries with lower labor costs than those at its current partners.

■Shareholder Returns and Improvement of Capital Efficiency

The company pursues an aggressive approach to shareholder returns, maintaining a high dividend payout ratio and buying back shares at opportune moments

As noted earlier, Nagaileben is financially stable, with an equity ratio of 89.3% at the end of FY8/13. Given its sound business, the company is likely to continue to earn steady profits. If it kept all its net profit as retained earnings, its return on equity would drop. Therefore, the company has vowed to maintain a dividend payout ratio of 50% or more against its parent-company net profit. Management has also stated that it would buy back shares if there were a promising occasion to do so. Thus, it is quite conscious of the importance of maintaining attractive shareholder returns and of using capital efficiently.

Dividends (¥) and Dividend Payout Ratio (parent basis) (%), FY8/18-FY8/14E



Note: The company made a two-for-one stock split on September 1, 2011

Consolidated Financial Results (¥mn), FY8/09-FY8/14E

	Sales	y-o-y	Operating profit	y-o-y	Recurring Profit	y-o-y	Net profit	y-o-y	EPS(¥)	DPS(¥)
FY8/09	13,669	0.3%	3,638	4.0%	3,653	-0.2%	1,516	-27.6%	85.83	60.00
FY8/10	14,076	3.0%	4,005	10.1%	3,983	9.0%	2,344	54.6%	135.18	65.00
FY8/11	14,578	3.6%	4,358	8.8%	4,277	7.4%	2,493	6.4%	72.29	70.00
FY8/12	15,175	4.1%	4,642	6.5%	4,787	11.9%	2,371	-4.9%	68.86	35.00
FY8/13	5,625	3.0%	4,873	5.0%	5,418	13.2%	3,119	31.5%	90.84	45.00
FY8/14E	16,000	2.4%	4,880	0.1%	4,923	-9.1%	3,030	-2.8%	88.26	45.00

Note: The company made a two-for-one stock split on September 1, 2011