Nagaileben
7447 Tokyo Stock Exchange First Section

8-Aug.-14

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Core Business Remains Strong, Full-Year Earnings Have Upside Potential

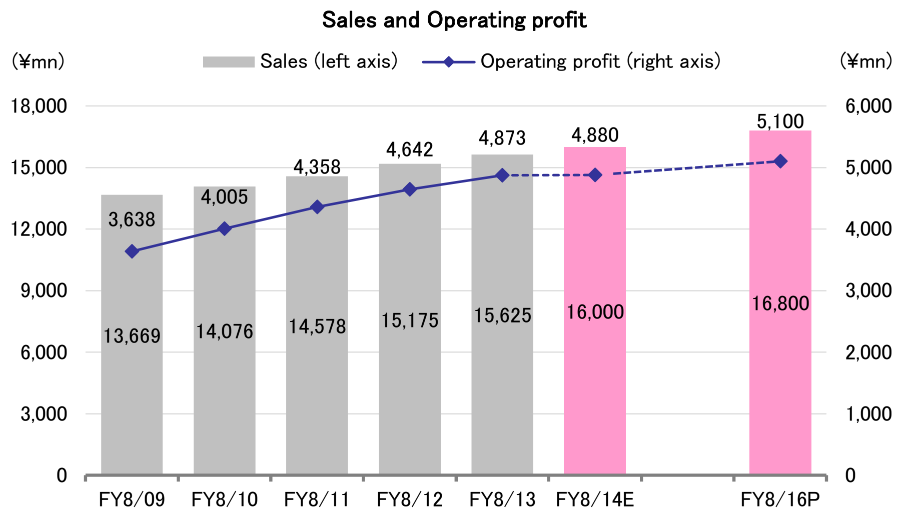
Nagaileben Co., Ltd. <7447> is the leading manufacturer of medical wear, with over 60% of the domestic market share. Results for Q3 FY8/14 on a consolidated basis, announced on June 27, were sales of ¥13,083mn (+5.2% y-o-y), operating profit of ¥4,140mn (+3.4%), recurring profit of ¥4,241mn (-8.5%), and net profit of ¥2,694mn (-5.7%). Its flagship healthcare operations expanded steadily due mainly to sound performance in the advanced function product range and the cumulative third quarter period marked the fifth consecutive period of record-breaking sales and operating profit.

The full-year FY8/14 forecast is for sales of ¥16,000mn (+2.4% y-o-y), operating profit of ¥4,880mn (+0.1%), recurring profit of ¥4,923mn (-9.1%), and net profit of ¥3,030mn (-2.8%), unchanged from the initial forecast. Operating profit, which shows the company's profitability in its core business, was strong to Q3, thus there remains room for an upward revision. On the other hand, recurring profit is forecast to decline. This is premised on the absence of special factors such as foreign exchange gains recorded at fiscal year-end, and there is the potential for a reduction in the amount of its profit decline depending on fiscal year-end exchange rate levels.

In its Mid-term Management Plan, the company has targeted sales of ¥16,800mn and operating profit of ¥5,100mn in FY8/16. Given the company's recent solid performance, it could achieve these mid-term targets (operating profit) as early as this fiscal year. It seeks to raise its profit margin by expanding overseas production and greater sales of its high-profit advanced function product range. Further, it has a positive approach to the returning of profits to shareholders, such as having declared a 50% dividend payout ratio on a nonconsolidated basis, and astutely buying back its own shares.

Check Point

- Maintains top industry position with integrated manufacturing and sales system
- Q3 sales and profits increase on steadily expanding sales of advanced function products
- Focused on items that have development potential and expansion of regional market share



Company Outline

Healthcare Wear for Nurses Are Mainstay, Domestic Market Share Exceeds 60%

(1) Description of Businesses

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 operations nationally and become a leading domestic manufacturer boasting a market share of more than 60%.

●Sales Breakdown

All of the Company's products are medical wear and related products. The sales contribution by item (Q2 FY8/14) is healthcare wear 57.8%, doctors' wear 15.7%, surgical wear 9.5%, patient wear 9.1%, utility wear 4.9%, shoes 1.3% and other products 1.7%. Healthcare wear consists of products mainly for nurses and utility wear consists of aprons, cardigans, and other items worn as outer garments. Profit margins for each item do not vary significantly; however, the profit margins of shoes and other products, which are purchased products, are relatively lower.

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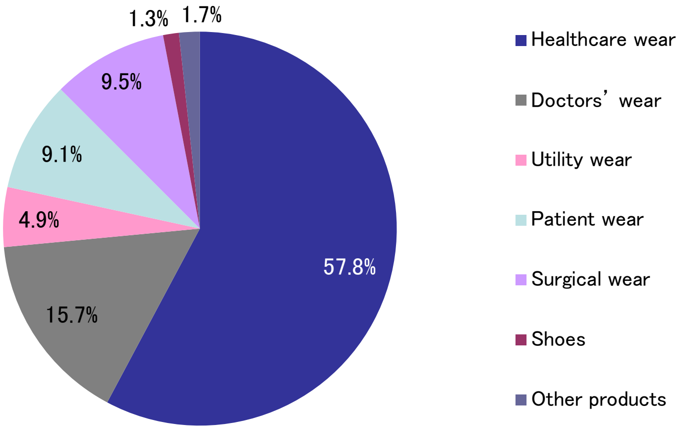
Sales Breakdown by Item (H1 FY8/14)



Classification by Item

Source: Company briefing materials

In terms of sales contribution by region, eastern Japan represents 50.5%, western Japan 37.0%, central Japan 11.5%, and overseas 1.0%, with virtually nationwide coverage. Overseas sales are still less than 1%, therefore, potential for future expansion remains.

In terms of sales contribution by product (function), advance function products represent 48.2%, products of standard function 40.1%, mass-produced products 5.9%, and DC brand products 5.8%. As an example, in nursing wear products, when classified by price range, mass-produced products are under ¥5,000, products with standard function ¥5,000-7,500, advanced function products are ¥7,500-10,000, and DC brand products over ¥10,000. The higher the price, the greater the profit margin.

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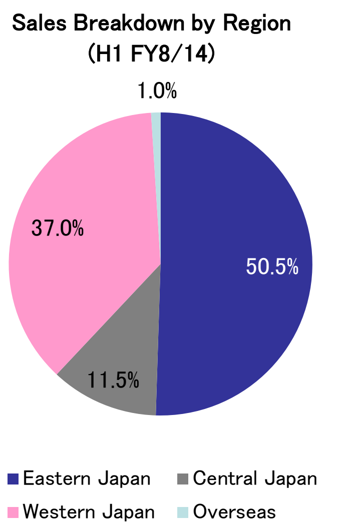

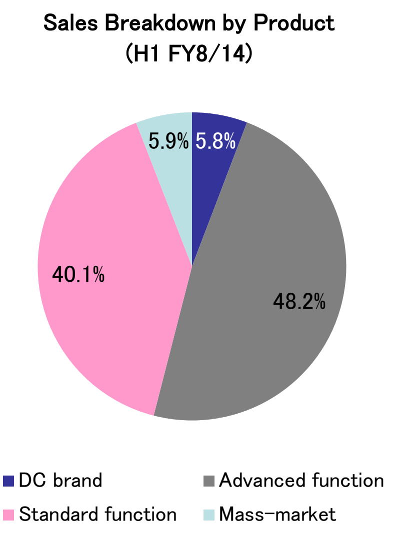

●Sales Channels & Production Status

The Company's end users include nurses and doctors, with the purchasers of the products being mainly medical, care and other facilities such as hospitals. However, direct sales are not undertaken, with 100% being agency sales via medical equipment wholesalers that trade with these medical and other facilities. As a result, direct sales expenses are contained; however, as sales staff is constantly in contact with large hospitals and other facilities, the company understands customers' needs.

In most cases, medical gowns are laundered within the hospitals by the hospitals themselves, but in recent years they have been switching to leasing. The lease term is typically four years. Because there is demand in every four years, this is said to provide stable support for the company's earnings.

As for production, results for H1 FY8/14 showed that 98.4% of products were produced in-house (domestic production: 55.7%; overseas production: 42.7% and 1.6% were purchased items. In overseas production, goods are produced at factories owned by local partners. As the company owns no factories, this mitigates investment risk and reduces costs.

Maintains top industry position with integrated manufacturing and sales system

(2) Distinctive Characteristics & Strengths

The Company is a specialized manufacturer of medical wear. One of the strength is that it has in place systems to undertake everything from design to raw material procurement, manufacturing and sales. As a result, it can accurately understand customer needs and at the same time secure optimal materials, manufacture at low cost and sell after adding an appropriate margin.

Further, given that it has a large number of affiliated factories, the product items inventories extend into the thousands of varieties, and it has in place a production system that can efficiently and swiftly respond to a broad range of user needs including made-to-order products. On the sales side, it has a network of close to 1,000 agents nationwide, and while its sales capabilities are robust, sales expenses are contained by the Company as much as possible. This could also be considered one of the company's strengths.

As a result, it has a domestic market share exceeding 60%, and maintains its firm position as the industry's leading company. The Company maintains high profitability with a gross margin of 46.8% (actual results for Q3 FY8/14). The fact that it is both highly profitable and has a high market share means 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 wear, the Company can efficiently manage everything from design to manufacturing and sales. Moreover, although it is a niche market, room for development remains, as it has relatively low market shares for patient wear, surgical wear and other items. The Company has explicitly stated that the medical wear business could grow for some time and it will move aggressively to develop peripheral markets.

■ Earnings Trends

Q3 sales and profits increase on steadily expanding sales of advanced function products

(1) Summary for Q3 FY8/14

Consolidated results (cumulative) for Q3 FY8/14 were sales of ¥13,083mn (+5.2% y-o-y), operating profit of ¥4,140mn (+3.4%), recurring profit of ¥4,241mn (-8.5%), and net profit of ¥2,964mn (-5.7%). Cumulative Q3 FY8/14 was the fifth consecutive period of record-breaking sales and operating profit. While there had been concerns about the effects of the consumption tax increase, the Company's view is that "It had almost no impact at all, and performance until the Q3 had been solid."

Q3 8/14 Results

(Millions of yen)

	Q3 FY8/13		Q3 FY8/14		
	Amount	Sales %	Amount	Sales %	y-o-y
Sales	12,433	-	13,083	-	5.2%
Gross profit	5,852	47.1%	6,122	46.8%	4.6%
SG&A costs	1,847	14.9%	1,981	15.1%	7.3%
Operating profit	4,005	32.2%	4,140	31.6%	3.4%
Recurring profit	4,637	37.3%	4,241	32.4%	-8.5%
Net profit	2,857	23.0%	2,694	20.6%	-5.7%

Sales of mainstay healthcare wear, and the peripheral surgical and patient wear led to solid growth, mainly of advanced function products, and increase in central and western Japan's market share contributed to revenue growth. Gross profit margin declined slightly year on year, but the Company views the decline as the effects of a depreciating yen and little cause for concern. On the other hand, the growth of SG&A costs was somewhat high, but this was mainly due to costs (approximately ¥50 mn) related to the relocation of its corporate headquarters and was a figure within its assumptions.

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Meanwhile, the decline in recurring profit was a factor behind the decrease in non-operating profit. Non-operating profit declined significantly from ¥664mn to ¥132mn year on year, but this was due to foreign exchange gains of ¥571mn generated in the same period last year declining to ¥53mn. In addition, ¥115mn from the sale of the old headquarters was recorded as extraordinary income.

Sales by item shows healthcare wear at ¥7,694mn (+6.1% y-o-y), doctor's wear ¥2,197mn (+5.4%), utility wear ¥607mn (-7.9%), patient wear ¥1,031mn (+10.7%), surgical wear ¥1,131mn (+3.8%), shoes ¥192mn (-7.0%) and other ¥228mn (+10.9%).

Breakdown of Sales by Item

(Millions of yen)

	Q3 FY8/13		Q3 FY8/14	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	7,252	3.0%	7,694	6.1%
Doctors' wear	2,086	4.4%	2,197	5.4%
Utility wear	659	-4.0%	607	-7.9%
Patient wear	931	2.3%	1,031	10.7%
Surgical wear	1,090	10.7%	1,131	3.8%
Shoes	206	-6.2%	192	-7.0%
Other products	206	13.5%	228	10.9%
Total	12,433	3.4%	13,083	5.2%

With the stabilization of the mainstay healthcare market, lease renewals and new lease contracts/purchase grew steadily and advanced function products performed well. Also, in doctor's wear, scrub wear*1, introduced several years ago, was a revenue contributor. In patient wear, increased demand for medical examinations boosted sales, while surgical wear experienced stable growth due to market penetration of scrub wear and COMPELPAK*2. Meanwhile, sales of aprons and other utility wear remain stagnant due to continuing tendency of shift from issuing those wear to individuals to sharing them among staff members.

*1 Scrub wear: V-neck style surgical and nursing wear that differs from traditional medical gowns (which are the short-sleeved, turtle neck variety).

*2 Converback: A system for reusing surgical linen (i.e. used in operations). A service that realizes reductions in cost and medical waste, enabling reuse by collecting, washing, pressing and sanitizing surgical linen that is normally disposed of as medical waste.

Continued Financial Stability and Rising Shareholders' Equity Ratio

(2)Financial Position

The financial position of the Company remains stable. At the end of Q3 FY8/14, total assets were ¥38,237mn, a ¥1,182mn increase from FY8/13 year-end. Total current assets were ¥27,377mn, a ¥1,130mn increase. This was mainly attributable to an increase in notes and accounts receivable of ¥2,048mn, and the increase of this line item was due to seasonal effects that cause sales be strongest during Q3. Total fixed assets increased ¥52mn to ¥10,859mn.

Total liabilities declined ¥14mn from the previous period-end to ¥3,951mn. This was mainly due to a decrease in accrued tax payable of ¥360mn and an increase in trade notes and accounts payable of ¥258mn. Total net assets increased ¥1,197mn from the previous period-end to ¥34,285mn. This was primarily attributable to an increase due to the recording of net profit. As a result, the shareholders' equity ratio stood at 89.7%, an increase from the 89.3% reported at the end of the previous period.

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Balance Sheet

(Millions of yen)

	8/13	2/14	Change
Cash and deposits	17,456	16,662	-794
Notes and accounts receivable	4,622	6,671	2,048
Inventories	3,524	3,342	-181
Current assets	26,247	27,377	1,130
Tangible fixed assets	7,639	7,847	207
Intangible fixed assets	88	78	-9
Investment	3,079	2,933	-146
Fixed assets	10,807	10,859	52
Total assets	37,054	38,237	1,182
Bills and accounts payable	1,385	1,644	258
Corporate tax payable	1,344	983	-360
Total liabilities	3,966	3,951	-14
Total equity	33,088	34,285	1,197

Better-than-Expected Results Likely in FY8/14 due to Substantial Progress up to Q3

(3) FY8/14 Forecasts

The full-year forecast for FY8/14 is for sales of ¥16,000mn (+2.4 y-o-y), operating profit of ¥4,880mn (+0.1%), recurring profit of ¥4,923mn (-9.1%), and net profit of ¥3,030mn (-2/8%), unchanged form the initial forecast. Considering that performance was solid up to Q3, the forecasts could be regarded as fairly conservative. Q4 appears to have gotten off to a good start and better-than-expected full-year results are highly likely.

FY8/14 Full-Year Forecast

(Millions of yen)

	Q3 FY8/14		FY8/14			% achieved to Q3
	Amount	Sales %	Amount	Sales %	Change	
Sales	13,083	-	16,000	-	2.4%	81.8%
Gross profit	6,122	46.8%	7,520	47.0%	2.4%	81.4%
SG&A costs	1,981	15.1%	2,640	16.5%	6.8%	75.1%
Operating profit	4,140	31.6%	4,880	30.5%	0.1%	84.8%
Recurring profit	4,241	32.4%	4,923	30.8%	-9.1%	86.1%
Net profit	2,694	20.6%	3,030	18.9%	-2.8%	88.9%

Increased sales of mainstay healthcare wear as well as doctors' wear and steady growth of patient wear and surgical wear are expected to lead to higher sales. Further, the Company continues to focus on raising its market share in central Japan and to the west, and plans to achieve its fourth consecutive period of record-high sales and profits.

On the other hand, a decrease in recurring profit assumes that foreign exchange gains recorded in non-operating profit in the previous period will decrease. If the exchange rate at the end of the period under review is a weaker yen than at the end of the previous period, the profit margin could decline less than expected. Also, net profit is expected to decrease only slightly due to the absence of the extraordinary loss (impairment of fixed assets of ¥332mn) recorded in the previous period. Although the Company realized a gain of ¥115mn from the sale of the former headquarters building, the gain was not included in the above forecast.

As a result, operating profit, which indicates the Company's profitability in its core business, will most likely exceed the full-year forecast, even if Q4 results proceed as planned. Although it is to some extent influenced by the exchange rate at the end of the period, we can expect solid operating profit. Regarding net profit, because the sale of the previous headquarters is already finalized as explained above, as long as recurring profit does not fall substantially below forecast, the chances of net profit surpassing the current forecast are high.

Mid-term Targets and Outlook

Mid-term Targets Could be Achieved Ahead of Schedule, Next Plan to be Announced

(1) Mid-term Management Plan

The Company had set sales of ¥16,800mn and operating profit of ¥5,100mn as numerical targets for FY8/16in its Mid-term Management Plan. However, with an operating profit forecast for FY8/14 of ¥4,880mn and performance solid to Q3, if we consider that the potential for upward revision is high, then attaining the mid-term targets is sufficiently possible, and could be achieved as early as FY8/14.

In the event that the Company achieves this target ahead of schedule, it has indicated that it will announce the next Mid-term Management Plan. , We need to keep an eye on how much of a target the Company will set in the new plan.

Focus on Items with Development Potential and Expansion of Regional Market Share

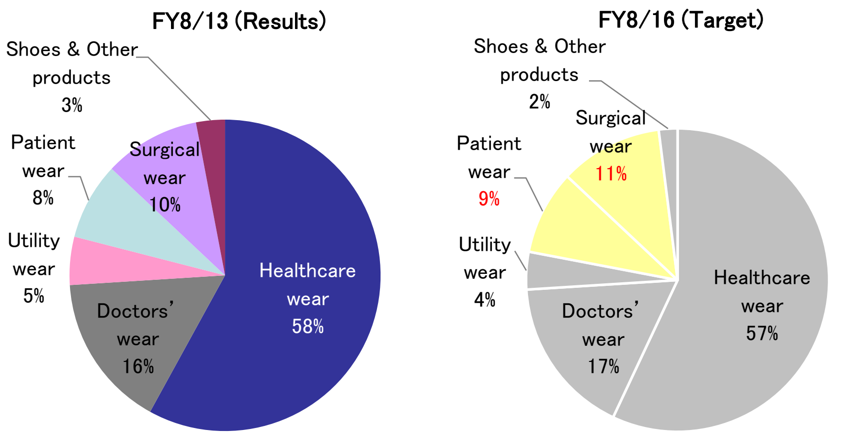
(2) Future Business Strategies

The operating environment surrounding the Company should be favorable for some time. According to the "Outlook for Nursing & Healthcare Worker Numbers" released by the Ministry of Health, Labour and Welfare, 1.65 million (a 2.57% increase over 2010) nurses and 1.76 million (a 5.71% increase over 2010) healthcare workers are expected in 2015. In this operating environment, the Company plans to achieve its Mid-term Management Plan based on the following strategies.

●Expansion in Patient, Surgical & Other Peripheral Markets

In its mainstay healthcare wear, the Company already maintains a high market share and can expect stable renewal demand. On the other hand, the peripheral market for patient wear and surgical wear and others still has development potential. The Company plans to focus on expanding the peripheral market by launching new products.

Sales and Growth Projections by Item

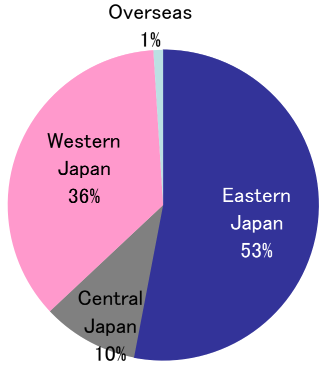


●Increase Market Share in Western Japan Region

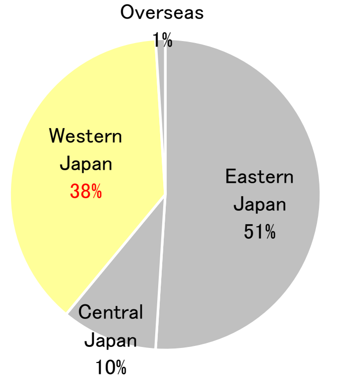
By region, the Company maintains a high market share in eastern Japan, but in central Japan and western Japan, it has relatively low market shares. In other words, these regions have potential for further market share growth. To expand its market share, the Company will not merely conduct an aggressive sales campaign, but it will actively launch advanced function products and new products.

Sales and Growth Projections by Market

FY8/13 (Results)



FY8/16 (Target)



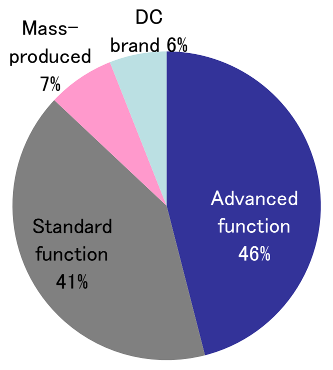
●Development and Sales of Advanced Function Products

The Company is proactively developing products with even greater functionality and added value in order to enhance its value added in markets where it is already strong, and in markets where it seeks to increase its market share as a weapon in its marketing strategy. To that end, its strategy is to collaborate more closely with material manufacturers and trading companies while refining its Quick Response (QR) production system to raise customer satisfaction.

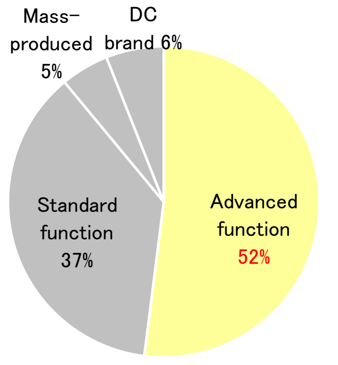
In September 2013, in the DC brand of high value-added products, healthcare wear with the new Miffy brand motif was launched for the first time in Japan. With its image of "security" and "warmth" that appeals to medical institutions and nursing care businesses, it has already contributed to the Company's earnings.

Percentage of Sales by Product (Targets)

FY8/13 (Results)



FY8/16 (Target)



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●Improving Gross Profit Margins

In the last 20 years, the Company's gross profit margin has improved approximately 10% (from around 35% to 47%). In the future, although improving profitability at the same pace as before is not easy, the Company sees the potential for further profitability improvement mainly for two reasons.

The first is increased overseas production. Currently, the Company's ratio of overseas production is still around 42.7%, which is low when compared to other apparel manufacturers. In other words, there is considerable room to increase the overseas production ratio with potential for improving profitability from expansion of overseas production. However, the Company's policy is to not shift domestic production at once to overseas, but rather to produce the portion of the increased sales at overseas while maintaining domestic production volumes. In February 2014, the new factory, which had been under construction in Java in central Indonesia, began operation.

The second measure to improve profitability is the development of high value-added products. If the percentage of sales of products with high profit margins increases, gross profit margins overall too will improve.

Shareholder Return Policy

Targeting a High Dividend Payout Ratio of 50%, it is Astutely Buying Back its Own Shares

The Company's shareholders' equity ratio has reached 89.7% (as of the end of Q3 FY8/14) and it is fiscally stable. Additionally, considering the Company's business conditions, it seems highly unlikely that those profits will rapidly deteriorate, so continued stable earnings are expected. Because profits will accumulate in shareholders' equity each year, return on equity (ROE) will decline, which is to say, capital efficiency will decline.

In response to this, the Company has demonstrated a policy of stable dividend payments and has targeted a dividend payout ratio of 50% (nonconsolidated basis). Further, it is also undertaking the buyback of its own shares depending on circumstances. The Company is highly conscious of maintaining shareholder returns and capital efficiency, which is a point that should be highly rated.

Shareholder Returns

	Dividend per share (yen)	Dividend after split (yen)	Repurchase of treasury stock (¥mn)	Dividend payout (nonconsolidated; %)	Total return (nonconsolidated; %)
FY8/03	30	15.0	1,697	29.7	124.6
FY8/04	40	20.0	0	36.5	36.5
FY8/05	60	30.0	0	56.9	56.9
FY8/06	60	30.0	0	53.4	53.4
FY8/07	60	30.0	0	53.1	53.1
FY8/08	60	30.0	1,077	56.6	111.2
FY8/09	60	30.0	1,220	57.3	122.2
FY8/10	*65	32.5	0	51.4	51.4
FY8/11	70	35.0	226	51.9	61.7
FY8/12	35	35.0	0	55.1	55.1
FY8/13	45	45.0	229	51.1	58.7
FY8/14E	45	45.0	-	-	-

* Dividend per share for FY8/10 included a commemorative dividend of ¥5.
Note: A two-for-one stock split was carried out on September 1, 2011.

Statement of Income

(Millions of yen)

	FY8/10	FY8/11	FY8/12	FY8/13	FY8/14E
Sales	14,076	14,578	15,175	15,625	16,000
(y-o-y)	3.0	3.6	4.1	3.0	2.4
Gross profit	6,388	6,793	7,103	7,346	7,520
(y-o-y)	45.4	46.6	46.8	47.0	47.0
SG&A costs	2,383	2,434	2,461	2,473	2,640
(y-o-y)	16.9	16.7	16.2	15.8	16.5
Operating profit	4,005	4,358	4,642	4,873	4,880
(y-o-y)	10.1	8.8	6.5	5.0	0.1
(sales %)	28.5	29.9	30.6	31.2	30.5
non-operating profit	154	101	202	621	-
non-operating expenses	176	183	57	76	-
Recurring profit	3,983	4,277	4,787	5,418	4,923
(y-o-y)	9.0	7.4	11.9	13.2	-9.1
(sales %)	28.3	29.3	31.5	34.7	30.8
Pre-tax profits	3,973	4,217	4,151	5,073	-
(y-o-y)	53.9	6.1	-1.6	22.2	-
(sales %)	28.2	28.9	27.4	32.5	-
Income tax	1,629	1,723	1,779	1,954	-
(effective tax rate)	41.0	40.9	42.9	38.5	-
Net profit	2,344	2,493	2,371	3,119	3,030
(y-o-y)	54.6	6.4	-4.9	31.5	-2.8
(sales %)	16.7	17.1	15.6	20.0	18.9
[Key Indicators]					
Average number of outstanding shares during period (thousands)	34,684	34,448	34,446	34,338	-
Net profit per share (yen)	67.59	72.30	68.86	90.84	88.50
Dividend per share (yen)	32.50	35.00	35.00	45.00	45.00
Net assets per share (yen)	826.97	866.12	902.29	966.18	-
Consolidated dividend payout ratio (%)	48.1	48.4	50.8	49.5	51.0

* A two-for-one stock split was carried out on September 1, 2011. The number of shares and per share information prior to August 2011 were adjusted retroactively taking into account said split.

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