Nagaileben

7447 Tokyo Stock Exchange First Section

Company Research and Analysis Report
FISCO Ltd.
http://www.fisco.co.jp

9-May-13

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■The largest manufacturer of clothing for medical use in Japan, with a market share of more than 60%

Nagaileben is the largest manufacturer of clothing for medical use in Japan, with a market share of more than 60%. For the fiscal year through August 2013, i.e., for FY8/13, the company forecasts a 1.8% year-on-year (y-o-y) rise in sales to ¥15,450mn, a 4.1% increase in operating profit to ¥4,834mn, and a 2.1% increase in recurring profit to ¥4,886mn. The company expects its main division, healthcare wear, to lead growth. If these forecasts are achieved, both sales and operating profit will hit record highs.

In the first half of FY8/13, i.e., in H1 FY8/13, the six months through February 2013, sales grew 4.5% y-o-y to ¥6,463mn, operating profit increased 12.9% to ¥1,771mn, recurring profit advanced 27.2% to ¥2,157mn, and net profit jumped 38.5% to 1,321mn. Given this strong growth, there is a good chance that the company will upgrade its forecasts for FY8/13.

Nagaileben is very financially sound, with an equity ratio of 88.8% at the end of August 2012. Company management is also positive on posting returns to shareholders and improving capital efficiency. Management 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.

■Check Points

- Company is likely to raise its forecasts for FY8/13
- Company is preparing to expand overseas operations
- Management promotes high shareholder returns to improve capital efficiency

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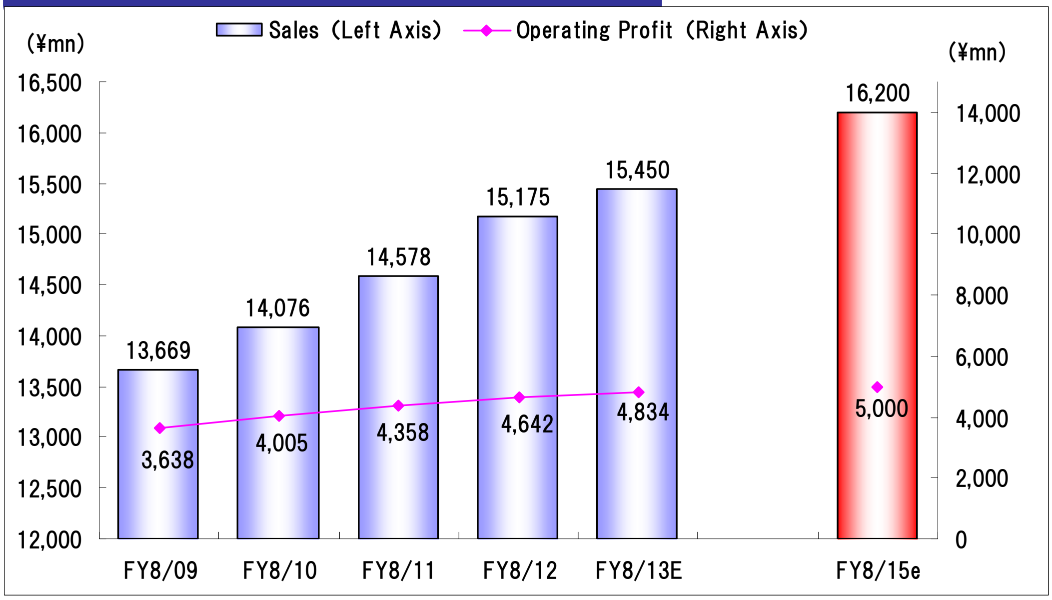
Sales and Operating Profit (¥mn), FY8/09-FY8/13E and FY8/15 plan



■Company History

Specializes in the manufacture of clothing for nurses,doctors and patients

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

Year	History
1915	Koji Nagai established Nagai Shoten, a proprietorship engaged in manufacturing white clothing, in Kanda-Jimbocho area of Tokyo.
1942	Disbanded proprietorship, joined seven other companies in the same business to establish 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.
1965	Vice-president Taturo Sawanobori became president.
1967	Fuchu branch office opened.
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.
1973	Constructed a goods center in Tokyo, elevated the Fuchu branch office to a full office, established Tama White Goods Company, established a production management center in Akita Prefecture.
1974	Established a nationwide hospital linen supply route.
1976	Established Hokkaido Nagai Company.
1977	Constructed the Second Goods Center in Kameido, 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.
1979	Set up Omagari plant in Akita Prefecture, established Osaka branch office, merged Nippon Surgical Apparel Co. with Nagai Clothing Co., made the former into the Hiroshima branch office and the latter into the Fukuoka branch office.
1980	Changed company name to Nagai Co., Ltd. Set up a sales office in Takamatsu City. Concluded a license agreement with designer Kansai Yamamoto.
1981	Established a white clothing distribution center and the Nakasen plant in Akita Prefecture.
1982	Concluded a license agreement with designer Sachiko Hanai.
1984	New head office building completed in Chiyoda Ward, Tokyo. Operations of the previous head office in Misakicho and of the Kameido sales head office relocated into the new head office.
1985	Established Nagai White Ace Co. in Akita Prefecture.
1987	Opened the Tohoku branch office, established a personal computer center in Akita Prefecture.
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.
1990	Constructed a health business building in Fukuoka City. To rationalize capital, merged Emit Co., Nagai Co. and Nagai White Clothing Industry Co. Emit Co. was the surviving company, but its name was changed to Nagai Co.
1992	Constructed the Nagai Building in Sendai City and a cutting center in Akita Prefecture.
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.
1997	Constructed the Osaka branch office building in Osaka City.
1998	Opened the Taipei branch office in Taipei City.
1999	Opened a sales office in Nagoya. Concluded a license agreement with designer Atsuro Utayama.
2000	Company' s 50th anniversary
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.
2003	Constructed the Nagaileben West Japan Distribution Center in Higashi-Hiroshima City.
2004	Acquired ISO 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.
2010	Constructed the Hokkaido branch office building in Sapporo City.

Source: Company

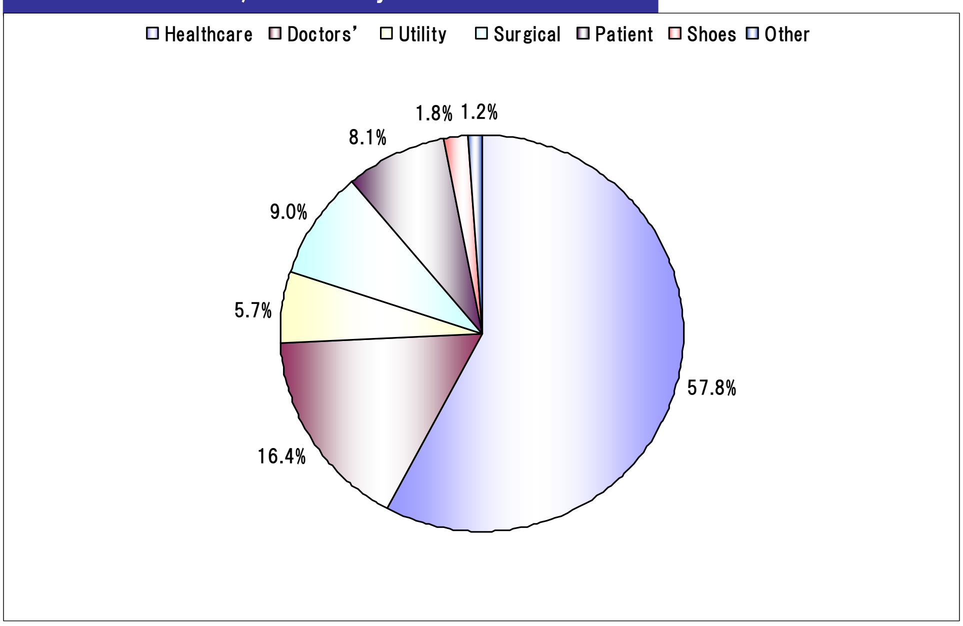
■Description of Businesses

Healthcare wear supplies more than half of all sales

(1) Sales Breakdowns

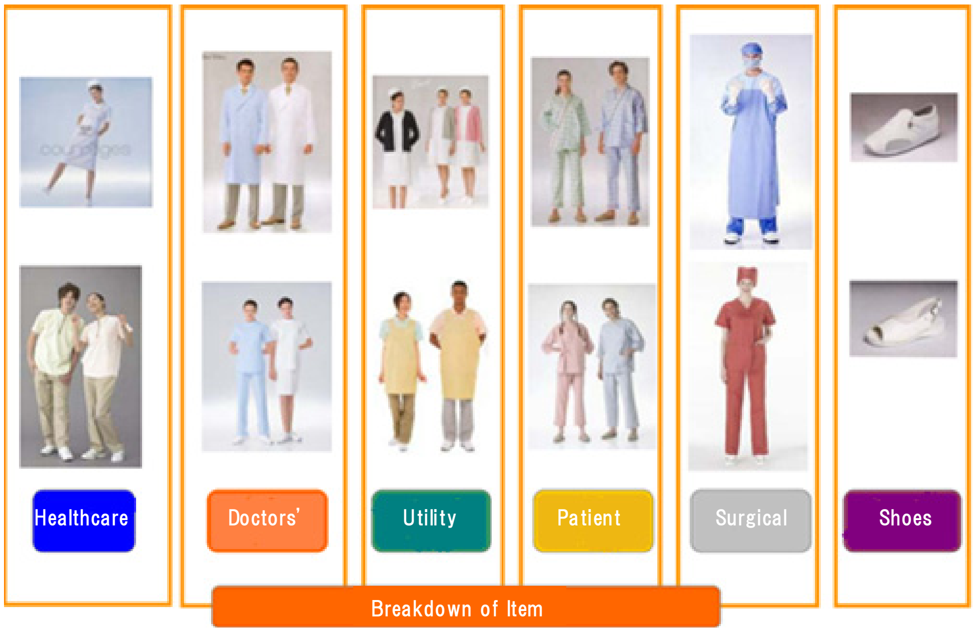
All of Nagaileben's products are medical clothing or related items. The company's sales can be broken down by item, or type of clothing, by geographical market, and by clothing classification. By item, as detailed in the pie chart below, in FY8/12, healthcare wear provided 57.8% of total sales, doctors' wear provided 16.4%, surgical wear supplied 9.0%, patient wear contributed 8.1%, utility wear provided 5.7%, shoes, etc. provided 1.8%, and other products accounted for 1.2%. 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 FY8/12 Sales by Item



■Description of Businesses

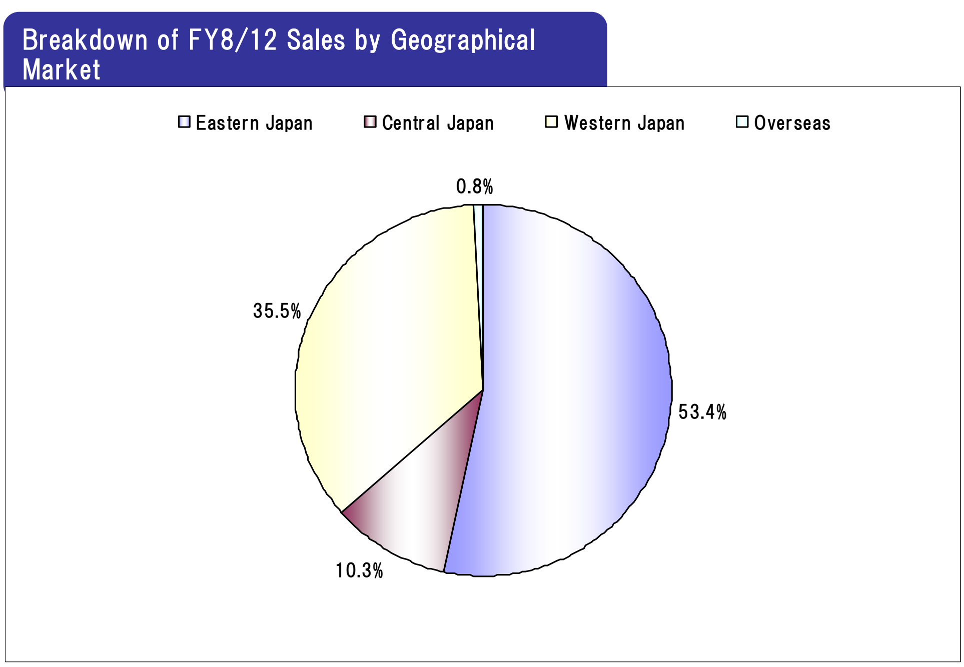
Examples of Different Items of Clothing Made by Nagaileben



Plans to expand sales in western Japan

(2) Sales by Geographical Market

By geographical market, eastern Japan accounted for 53.4% of total sales in FY8/12, western Japan, for 35.5%, central Japan, for 10.3%, and overseas for 0.8%. The company sells its products throughout most of Japan, but its sales in western Japan are relatively low, so it aims to expand sales in this market.



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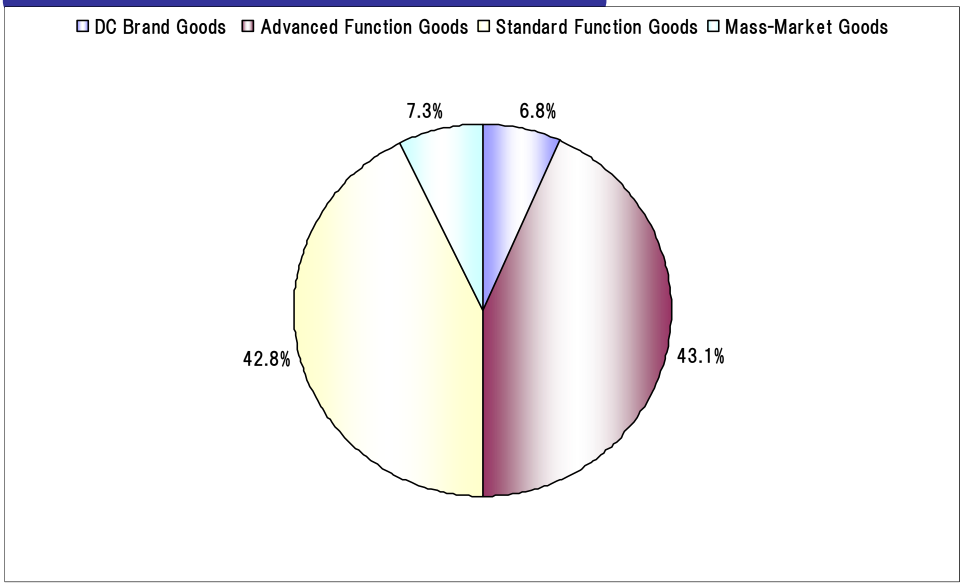
■Description of Businesses

Products costing ¥7,500 or more each account for half of sales

(3) Sales by Product Classification

By product classification, advanced function goods supplied 43% of total sales in FY8/12, as did standard function goods, while mass-market goods and designer-character (DC) brand goods each provided 7%. 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.

Breakdown of FY8/12 Sales by Product Classification



Sales through agents limits costs, rising demand for leasing stabilizes profits

(4) Sales Routes and Manufacturing

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 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.

■Description of Businesses

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 the company for washing. These leases are regularly renewed, contributing to the steady growth of Nagaileben’ s sales and profits.

In FY8/12, products made in Japan accounted for 57.9% of sales, and products made overseas accounted for 39.4%. 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.

Integrated operations contribute to dominant market share

(5) 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 steady 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 FY8/12, Nagaileben earned a gross profit margin of 46.8%, which is high for any industry. 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.

Business Trends

Strong sales of healthcare wear and an upturn in overseas production contributed to growth

(1) FY8/12 Results

In FY8/12, Nagaileben increased its sales by 4.1% y-o-y to ¥15,175mn, raised it operating profit by 6.5% to ¥4,652mn, and lifted its recurring profit by 11.9% to ¥4,787mn. Its net profit fell by 4.9% to ¥2,371mn because of extraordinary losses, mainly asset impairment losses (see table below). Sales of healthcare wear, doctors' wear, and patients' pajamas grew, contributing to overall expansion.

The costs of raw materials and processing rose by ¥168mn y-o-y, but the company's average yen-US$ rate for FY8/12 was ¥83.6, compared with an average rate of ¥91.3 in FY8/11, and this degree of yen appreciation against the US dollar reduced the company's cost of goods sold by ¥100mn. Furthermore, the sales weighting of goods produced overseas rose to 39.4% in FY8/12 from 37.9% in FY8/11, cutting ¥57mn from the cost of goods sold. Reflecting these factors, the gross profit margin rose to 46.8% in FY8/12 from 46.6% in FY8/11.

In absolute terms, SGA costs rose with the sales increase, but as a proportion of sales, they declined. In its non-operating account, the company recorded a currency exchange gain of ¥46mn and a gain of ¥46mn from an anonymous partnership. These non-operating gains supported an 11.9% rise in recurring profit. However, the company recorded an extraordinary asset impairment loss of ¥555mn on one of its buildings and an extraordinary loss of ¥37mn on the disposal of fixed distribution assets. These losses led to a 4.9% y-o-y drop in net profit.

Sales and Profit (¥mn) Breakdown for FY8/11 and FY8/12

(¥mn, %)	FY8/11		FY8/12			
	Amount	Ratio	Amount	Ratio	Change Amount	YOY
Sales	14,578	100.0	15,175	100.0	597	4.1
Gross Profit	6,793	46.6	7,103	46.8	310	4.6
SGA Cost	2,434	16.7	2,461	16.2	27	1.1
Operating Profit	4,358	29.9	4,642	30.6	284	6.5
Recurring Profit	4,277	29.3	4,787	31.5	510	11.9
Net Profit	2,493	17.1	2,371	15.6	▲ 122	▲ 4.9

■Business Trends

Sales in FY8/11 and FY8/12 are broken down by item, geographical market and product category in the following tables.

Breakdown of Sales (¥mn) by Item, FY8/11-FY8/12

(¥mn, %)	FY8/11		FY8/12	
	(Amount)	(YOY)	(Amount)	(YOY)
Healthcare Wear	8,675	+4.2	8,769	+1.1
Doctors' Wear	2,306	+3.6	2,483	+7.7
Utility Wear	865	▲ 7.5	864	▲ 0.1
Patient Wear	1,025	+6.6	1,223	+19.3
Surgical Wear	1,258	+7.4	1,374	+9.2
Shoes	271	▲ 5.4	268	▲ 1.0
Other Products	176	+6.3	191	+8.3
Total	14,578	+3.6	15,175	+4.1

Breakdown of Sales (¥mn) by Geographical Market, FY8/11-FY8/12

(¥mn, %)	FY8/11		FY8/12	
	(Amount)	(YOY)	(Amount)	(YOY)
Eastern Japan	7,739	▲ 0.5	8,106	+4.7
Central Japan	1,550	+7.1	1,564	+0.9
Western Japan	5,168	+9.2	5,386	+4.2
Overseas	119	+1.7	118	▲ 1.3
Total	14,578	+3.6	15,175	+4.1

■Business Trends

Breakdown of Sales (¥mn) by Product Classification, FY8/11-FY8/12

(¥mn, %)	FY8/11		FY8/12	
	(Amount)	(YOY)	(Amount)	(YOY)
DC Brand	998	+2.5	1,024	+2.6
Advanced Function	6,216	+10.8	6,547	+5.3
Standard Function	6,232	▲ 0.4	6,501	+4.3
Mass-Market	1,130	▲ 8.0	1,100	▲ 2.6
Total	14,578	+3.6	15,175	+4.1

The ¥1,042mn y-o-y increase in cash and deposits in FY8/12 reflected several factors: a ¥2,917mn operating cash flow, the payment of ¥1,204mn in dividends, the payment of ¥216mn for intangible and tangible fixed assets, and a ¥500mn drop in certificates of deposit. The ¥381mn increase in inventories in FY8/12 was due mainly to a rise in inventories of finished goods to accommodate sales growth. The ¥395mn decline in fixed assets was the product of several factors: an impaired asset loss of ¥555mn, a depreciation cost of ¥233mn, the ¥127mn renewal of a distribution center, and a ¥135mn increase in deferred tax assets. The ¥1,245mn increase in total equity reflected the retention of the ¥2,371mn in net profit and the payment of ¥1,205mn in dividends.

Balance Sheet (¥mn), FY8/11-FY8/12

(¥mn)	FY8/11	FY8/12	Change Amount
Cash and Deposits	15,584	16,627	+1,042
Notes and Accounts Receivable	4,272	4,219	▲ 52
Inventories	3,014	3,396	+381
Current Assets	23,349	25,195	+1,846
Buildings and Other Structures	2,023	1,793	▲ 229
Land	5,325	4,962	▲ 363
Investments, Other	2,218	2,390	+171
Fixed Assets	10,188	9,793	▲ 395
Total Assets	33,538	34,988	+1,450
Bills and Accounts Payable	1,448	1,362	▲ 85
Corporate Taxes Payable	1,154	1,353	+198
Total Liabilities	3,703	3,908	+204
Retained Earnings	28,806	29,972	+1,166
Treasury Stock	▲ 3,172	▲ 3,172	▲ 0
Total Equity	29,835	31,080	+1,245
Total Liabilities and Equity	33,538	34,988	+1,450

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■Business Trends

A summary cash flow statement for Nagaileben for FY8/11 and FY8/12 is shown below.

Cash Flow Statement (¥mn), FY8/11-FY8/12

(¥mn)	FY8/11	FY8/12
Cash Flow from Operations	3,050	2,919
Income before taxes and other adjustments	4,217	4,151
Depreciation Expense	280	270
Change in sales credits	▲ 22	49
Payments of corporate taxes, etc.	▲ 1,573	▲ 1,742
Cash fFow from Investments	554	▲ 2,515
Acquisition of tangible fixed assets	▲ 2,903	▲ 182
Net change in time deposits	3,500	▲ 2,300
Cash fFow from fFnancial Activities	▲ 1,353	▲ 1,204
Change in cash and cash equivalents	2,150	▲ 756
Balance of cash and cash equivalents at term start	6,550	8,701
Balance of cash and cash equivalents at term end	8,701	7,944

In FY8/12, cash flow from operations came to ¥2,919mn, cash from investments totaled -¥2,515mn, and cash flow from financial activities was -¥1,204mn. Thus, the balance of cash and cash equivalents declined by ¥756mn to ¥7,944mn at the end of FY8/12. As the company has no interest-bearing debt, it has ample net cash.

Company covers about 80% of its imports planned for the next two-three years with forward currency exchange contracts

(2) H1 FY8/13 Results

On April 4, 2013, the company announced its results in H1 FY8/13. As shown in the table below, sales grew by 4.5% y-o-y to ¥6,463mn, operating profit rose by 12.9% to ¥1,771mn, recurring profit advanced by 27.2% to ¥2,157mn, and net profit increased by 38.5% to ¥1,321mn. Sales and operating profit were close to the company’ s initial forecasts, but recurring and net profits were substantially larger than its initial forecasts, due mainly to currency exchange gains.

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■Business Trends

As explained earlier, products manufactured overseas account for an increasing proportion of sales. The profits from sales of these products are greatly affected by changes in exchange rates between the yen and 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. In H1 FY8/13, the yen was weaker against foreign currencies than the company had projected, but because of its forward currency exchange contracts, yen depreciation did not adversely affect profits very much. As a hedge against changes in the yen-US dollar exchange rate, the company maintains US dollar bank deposits equivalent to about ¥2bn. Because of yen depreciation against the US dollar in H1 FY8/13, the company's US dollar deposits earned a non-operating valuation gain of about ¥355mn, which boosted recurring profit.

Results (¥mn) in H1 FY8/12 and H1 FY8/13

(¥mn, %)	H1 FY8/12		H1 FY8/13			
	Amount	Ratio	Forecast	Amount	vs. forecast	YOY
Sales	6,186	100.0	6,412	6,463	0.8	4.5
Operating Profit	1,569	25.4	1,724	1,771	2.8	12.9
Recurring Profit	1,696	27.4	1,741	2,157	23.9	27.2
Net Profit	954	15.4	1,064	1,321	24.2	38.5

Upward revision of forecasts likely

(3) Company Forecasts for FY8/13

As shown in the table below, the company forecasts only a 1.8% y-o-y rise in sales in FY8/13 to ¥15,450mn. This conservative forecast reflects the uncertain trends in the company's customer institutions. However, the company foresees an upturn in its gross profit margin, due to an increase in sales of high-value-added products and to reductions in the cost of goods sold.

The company also expects to limit the increase in its SGA costs, so it projects a 4.1% y-o-y increase in operating profit to ¥4,834mn and a 2.1% rise in recurring profit to ¥4,886mn for FY8/13. In FY8/12, net profit declined because of extraordinary losses. For FY8/13, the company forecasts no large extraordinary losses, so it projects a 26.1% jump in net profit.

■Business Trends

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

(¥mn, %)	FY8/12		FY8/13E			
	Amount	Ratio	Amount	Sales	Change Amount	YOY
Sales	15,175	100.0	15,450	100.0	275	1.8
Gross Profit	7,103	46.8	7,299	47.2	196	2.7
SGA Cost	2,461	16.2	2,465	16.0	4	0.1
Operating Profit	4,642	30.6	4,834	31.3	192	4.1
Recurring Profit	4,787	31.5	4,886	31.6	99	2.1
Net Profit	2,371	15.6	2,991	19.4	620	26.1

As explained previously, in H1 FY8/13, Nagaileben's recurring and net profits substantially exceeded the company's forecasts. Nonetheless, because of future uncertainty, the company did not raise its recurring and net profit forecasts for FY8/13. The company's implied recurring and net profit forecasts for H2 FY8/13 are much lower than the corresponding profits in H2 FY8/12 and much lower than the corresponding profits in H1 FY8/13. Such large declines are highly unlikely unless the company's operating environment deteriorates substantially. The yen is weaker against the US dollar than the company's assumed average exchange rate for FY8/13 of ¥79.2. However, as explained previously, this yen depreciation will affect profits only gradually, due to the company's policy of covering imports with forward exchange rate contracts. For FY8/13, we foresee no great negative development in the company's operating environment. Thus, we anticipate an upward revision of the company's forecasts for FY8/13 soon.

Breakdowns of the company's sales forecasts for FY8/13 by item, by geographical market and by product classification are shown in the following tables, along with corresponding breakdowns for FY8/12.

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■Business Trends

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

(¥mn, %)	FY8/12		FY8/13E	
	(Amount)	(YOY)	(Amount)	(YOY)
Healthcare Wear	8,769	+1.1	8,915	+1.7
Doctors' Wear	2,483	+7.7	2,530	+1.9
Utility Wear	864	▲ 0.1	810	▲ 6.3
Patient Wear	1,223	+19.3	1,260	+3.0
Surgical Wear	1,374	+9.2	1,490	+8.4
Shoes	268	▲ 1.0	250	▲ 7.0
Other Products	191	+8.3	195	+1.7
Total	15,175	+4.1	15,450	+1.8

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

(¥mn, %)	FY8/12		FY8/13E	
	(Amount)	(YOY)	(Amount)	(YOY)
Eastern Japan	8,106	+4.7	8,220	+1.4
Central Japan	1,564	+0.9	1,610	+2.9
Western Japan	5,386	+4.2	5,500	+2.1
Overseas	118	▲ 1.3	120	+1.5
Total	15,175	+4.1	15,450	+1.8

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

(¥mn, %)	FY8/12		FY8/13E	
	(Amount)	(YOY)	(Amount)	(YOY)
DC Brand	1,024	+2.6	1,020	▲ 0.5
Advanced Function	6,547	+5.3	6,820	+4.2
Standard Function	6,501	+4.3	6,560	+0.9
Mass-Market	1,100	▲ 2.6	1,050	▲ 4.6
Total	15,175	+4.1	15,450	+1.8

The company projects the largest growth for DC brand products and advanced function products, which carry higher profit margins than other product classifications. If sales of these product classifications grow as projected, the gross profit margin may increase more than the company has forecast.

■Medium-term Plan and Business Development Prospects

Aiming for sales of ¥16.2bn and operating profit of ¥5bn in FY8/15

(1) Medium-term Plan

For FY8/15, Nagaileben targets sales of ¥16.2bn and operating profit of ¥5bn. As the company appears likely to surpass its forecasts for F8/13, it should be able to achieve its targets for FY8/15. 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 FY8/12, these items accounted for 8.1% and 9.0% of total sales, respectively, but by FY8/15, 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 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 35.5% in FY8/12 to 37.0% in FY8/15, but not at the expense of growth in eastern Japan.

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 43.1% in FY8/12 to 46% in FY8/15. As noted earlier, many hospitals now lease the company' s products through three-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.

■Medium-term Plan and Business Development Prospects

Peripheral businesses have growth potential

(2) Business Development Prospects

Because Nagaileben already holds more than a 60% share of the Japanese market for medical clothing, its growth in Japan will probably slow. However, it should be able to expand its peripheral businesses, such as clothing for nursing homes, a buiness which the company entered in 2000. Another promising product line recently developed by the company is the Compel Pack line of reusable surgical wear, to reduce the waste caused by disposable wear.

Overseas manufacturing

By shifting part of its manufacturing to China and Southeast Asia, Nagaileben has lowered its cost of goods sold, but in recent years, some production costs have risen in China, and in Jakarta, Indonesia, labor cost has risen sharply. Thus, the company is adjusting its overseas production flexibly and agilely. In Vietnam, for example, the company has had a manufacturing partner near Hanoi, in the north of the country, but the company is shifting production to central Vietnam, where costs are lower.

Overseas sales

Overseas sales account for less than 1% of Nagaileben's total sales. The company has been hesitant to sell overseas, mainly because the demand for its advanced function clothing, which it is promoting, is weak overseas. The market for medical wear is growing in China and Southeast Asia, but demand is mainly for mass-market goods, not advanced function goods, and price competition in mass-market goods made locally is strong, limiting profitability. Thus, the company has not aggressively promoted overseas sales.

However, the company has gathered information from its overseas manufacturing partners on local markets so it can be ready to launch overseas sales at an opportune moment.

Results (¥mn), FY8/09-FY8/15 plan

	Sales	YOY	Operating Profit	YOY	Recurring Profit	YOY	Net Profit	YOY	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%	144.59	70.00
FY8/12	15,175	4.1%	4,642	6.5%	4,787	11.9%	2,371	-4.9%	68.86	35.00
FY8/13E	15,450	1.8%	4,834	4.1%	4,886	2.1%	2,991	26.1%	86.89	35.00
FY8/15 Plan	16,200	-	5,000	-	-	-	-	-	-	-

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

FISCO

■Shareholder Return Policy and Improvement of Capital Efficiency

Intent on Improving Capital Efficiency

As noted earlier, Nagaileben is financially stable, with an equity ratio of 88.8% at the end of FY8/12. 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.