Nagaileben
7447 Tokyo Stock Exchange
First Section

6-Feb.-15

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FISCO Ltd. Analyst
Noboru Terashima

Achieves Mid-term Management Plan Ahead of Schedule, Taking Positive Stance on Shareholder Returns

Marking its 100th anniversary this fiscal year, Nagaileben Co., Ltd. <7447> (hereafter, "Nagaileben" or "the Company") is the leading manufacturer of medical wear, with domestic share of over 60%. In the consolidated business results for the first quarter of FY8/15 announced by the Company, sales amounted to ¥2,994mn, a 6.5% decrease year-on-year ("y-o-y"); operating profit amounted to ¥784mn, a 15.0% decrease y-o-y; recurring profit amounted to ¥1,013mn, a 1.3% increase y-o-y; and quarterly net profit amounted to ¥649mn, a 5.4% increase y-o-y. Although the operating profit decreased compared to the same period of the previous fiscal year, it should not be a concern, as the first quarter is usually a weak period for sales, and the level reached in the same period of the previous year was higher than usual.

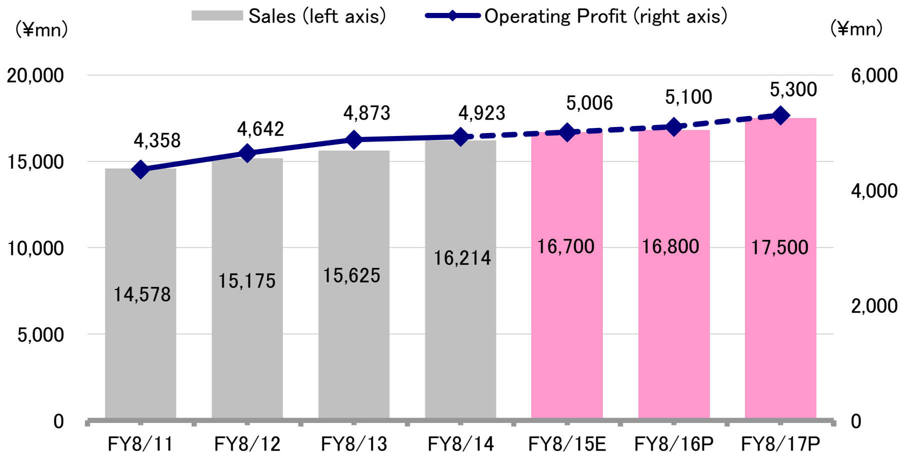
In the business results for the full-year of the ongoing FY8/15, the Company expects to achieve: ¥16,700mn in sales, a 3% increase y-o-y; ¥5,006mn in operating profit, a 1.7 increase y-o-y; ¥5,058mn in recurring profit, a 1.6 decrease y-o-y; and ¥3,244mn in annual net profit, a 0.6% increase y-o-y. As for the recurring profit, the Company recorded foreign exchange gains of ¥87mn in the previous year, but they are not included in this year's forecast. These are fairly conservative forecasts, because of concerns regarding increases in the cost of raw materials overseas due to the effects of exchange rate fluctuations and processing charges. Thus there remains room for upward revisions if such concerns do not materialize.

In its previously stated Mid-Term Management Plan, the Company has aimed to achieve sales of ¥16,800mn and operating profit of ¥5,100mn for FY8/16. However, since it is likely to be achieved during FY8/15, the Company newly released numerical goals to achieve sales of ¥17,500mn and operating profit of ¥5,300mn for FY8/17 in its Mid-Term Management Plan. The Company plans to achieve these goals through expanding overseas production and strengthening its high-profit advanced function product range. Furthermore, the Company is taking a positive stance on shareholder returns as it announced a share buy-back of approximately 1.1mn shares to be carried out again at this time through takeover bid (TOB).

Check Point

- Consolidated business results for the first quarter resulted within the original forecast, maintaining stable financial conditions
- The Company's principal products contributed to sales increase with its patient and surgical wear expanding steadily
- Stable financial status and income are expected to continue with its plan to provide steady dividends, aiming for payout ratio of 50%

Sales and Operating Profit



Company Profile

Leading medical gowns manufacturer boasting over 60% of domestic share of healthcare wear for nurses

(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 more than 60% of the healthcare wear for nurses market.

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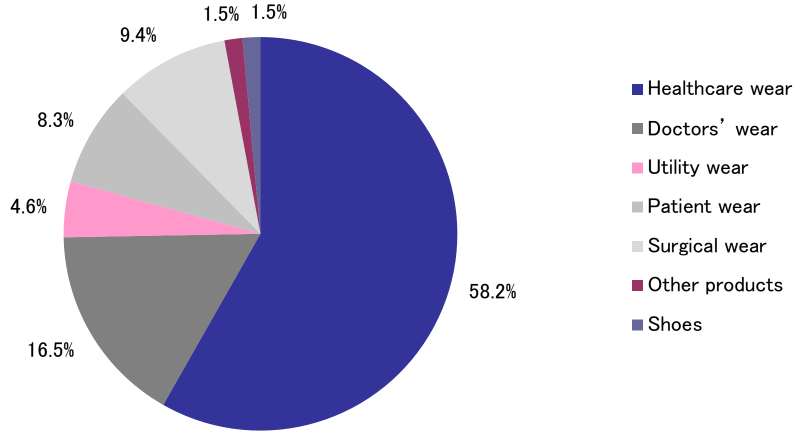
Company's History

1915	Founded business specialized in medical gowns in Kanda-Jinbocho in Tokyo, Japan, as Nagai Shoten, privately owned by Koji Nagai.
1950	Liquidated Tokyo Eisei Hakui Co. Ltd. Koji Nagai and Tatsuro Sawanobori jointly established Nagai Shoten Co. Ltd.
1969	Established a subsidiary, Nagai Hakui Kogyo Co. Ltd. to expand its medical gowns manufacturing division. Tatsuro Sawanobori was appointed the President. Shifted its manufacturing and sales business from multi-purpose white gowns to medical gowns.
1977	Built its second product center in Kameido, Tokyo. Established partnership with a US company, G.D. Searle & company; and established Japan Surgical Apparel Co. Ltd. in Hiroshima to expand sales of new surgical apparel products for hospitals.
1978	Established technology partnerships with Angelica Corp (US) and Toray Industries Inc. Developed and released medical gowns made with new fabric for leasing.
1980	Changed its name to Nagai Co. Ltd. Opened sales office in Takamatsu, Kagawa. 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 changed their names of the companies mutually; and Emit Co. Ltd. became a group management company, and Nagai Co. Ltd. became a group headquarters for sales.
1989	Newly built new Nagai Luminous, a manufacturing plant for high grade products, in Akita. Started overseas production for global division of labor.
1994	Changed its name from Nagai Co. Ltd. to Nagaileben Co. Ltd. Newly built a logistics center in Akita.
1995	Started over-the-counter trading for the stock. Started development and sales of its second pillar product to respond to the aging society. Vice President Ichiro Sawanobori took the post of President.
1996	Concluded an agreement with French designer Andre Courreges.
1999	Opened sales office in Nagoya, Aichi. Concluded a license agreement with designer Atsuro Tayama.
2001	Listed on the second section of Tokyo Stock Exchange.
2002	Established technology partnership with Standard Textile company, Inc. (US) and Toray Industries Inc. for surgical textile. Raised the status of Nagoya sales office to a branch.
2004	Acquired ISO9001. Listed on the first section of Tokyo Stock Exchange. Absorbed Hokkaido Nagai Co. Ltd. and established Hokkaido branch.
2005	Acquired ISO14001. Concluded a license agreement with designer Keita Maruyama.
2006	Concluded a brand agreement with designer Minako Yokomori.
2014	Relocated to new head office building in Kajicho, Chiyoda Ward, Tokyo.

●Sales Breakdown

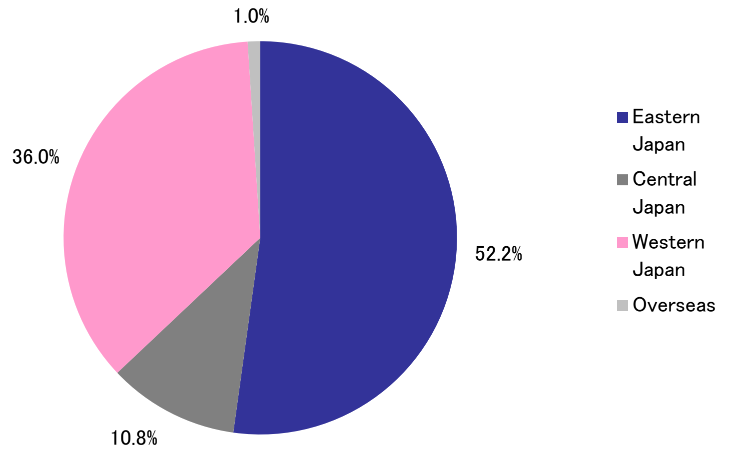
All of the Company's products are medical wear and related products. The sales contribution by item (FY8/14) is healthcare wear 58.2%, doctor's wear 16.5%, surgical wear 9.4%, patient wear 8.3%, utility wear 4.6%, shoes 1.5% and other products 1.5%. Healthcare wear consists of products mainly for nurses 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.

Sales Breakdown by Item (FY8/14)



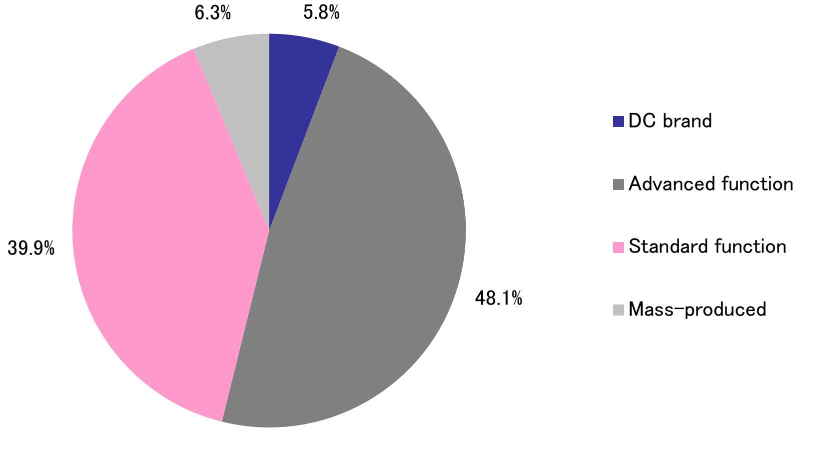
In terms of sales contribution by region, eastern Japan represents 52.2%, western Japan 36.0%, central Japan 10.8%, and overseas 1.0%. While coverage is nationwide, sales in western Japan and abroad remain low, leaving potential for future expansion.

Sales Breakdown by Region (FY8/14)



In terms of sales contribution by product (function), advanced function products represent 48.1%, products of standard function 39.9%, mass-produced products 6.3%, 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.

Sales Breakdown by Product (FY8/14)



●Sales Channels & Production Status

The Company's end users include nurses, carers and doctors, with the purchasers of the products being mainly medical facilities such as hospitals, nursing care facilities and others. 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.

The Company's production structure is composed of 97.4% of its own production (domestic production: 54.3%, overseas production: 43.1%) and 2.6% of purchased products. Overseas production is predominantly in Indonesia, but the Company owns no factories and the goods are produced at factories of local partners, which mitigates investment risk and reduces costs.

The company's strengths lie in its integrated system: planning, procurement of raw materials, manufacturing, and sales

(2) Distinctive Characteristics & Strength

The Company is a specialized manufacturer of medical wear, and one of its strengths is that it has in place systems to undertake everything from design to raw material procurement, manufacturing and sales. In its product planning, it can accurately understand customer needs and reflect them in its products. The Company provides products not only with functionality including easiness to work in (comfortability), anti-staticity, and washing durability (cost reduction), but also excellent design, which earn a good reputation from its users. At the same time, in manufacturing it is able to secure optimal materials, manufacture at low cost, and sell after adding an appropriate margin by dealing directly with material suppliers like synthetic fiber manufacturers and textile firms.

Furthermore, in addition to its large number of affiliated factories, it has the necessary financial resources to be able to constantly maintain product item inventories that extend into the thousands of varieties; while also being able to swiftly respond to a broad range of user needs, including for made-to-order products, through a rapid production and sales system (the Quick Response system) that delivers the desired product on the specified day. This increases customers' trust in it. 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.

As a result, its share of the domestic market for healthcare wear for nurses exceeds 60%, and it maintains its firm position as the medical wear leading company. Additionally, it has maintained profitability with a gross margin of 46.8% (actual results for 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 further 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

Consolidated business results for the first quarter resulted within the original forecast, maintaining stable financial conditions

(1) Summary for the First Quarter of FY8/15

●Profit-loss Conditions

In the consolidated results for the first quarter of FY8/15, the Company achieved: sales of ¥2,994mn, a 6.5% decrease y-o-y; operating profit of ¥784mn, a 15.1% decrease y-o-y; recurring profit of ¥1,013mn, a 1.3% increase y-o-y; and quarterly net profit of ¥649mn, a 5.4% increase y-o-y. Although the sales and operating profit decreased compared to the same period of the previous fiscal year, it should not be a concern, as the first quarter is usually a weak period for both sales and income. The recurring profit and net profit increased, but these increases are due to the following causes and have been originally forecasted; thus the results were in accord with the original forecast.

Consolidated Results

(￥mn, %)

	Q1 FY8/14		Q1 FY8/15			
	Amount	Sales %	Amount	Sales %	Change	y-o-y
Sales	3,201	100.0	2,994	100.0	-207	-6.5
Gross Profit	1,499	46.8	1,401	46.8	-98	-6.5
SG&A Costs	576	18.0	617	20.7	41	7.0
Operating Profit	922	28.8	784	26.2	-138	-15.0
Recurring Profit	1,000	31.2	1,013	33.8	13	1.3
Quarterly Net Profit	616	19.2	649	21.7	33	5.4

Although sales decreased compared to the same period of the previous fiscal year, there was no significant change in the market environment. This decrease was caused by a higher than usual level reached in the previous year as well as delayed renewals, but turned out not to be significant. Gross profit accounted for 46.8%, maintaining the same level as the same period last year. While the yen is going down, there still seems to be no significant impact of the weak yen on the cost of sales especially due to its early hedging. Meanwhile, SG&A costs amounted to ¥617mn, an increase of 7.1%, but this was caused by an increase in depreciation expense (about￥30mn) mainly due to the Company's relocation of its main office; and this figure is yet within the original forecast.

An increase in recurring profit, however, was caused by an increase in non-operating profit. The non-operating profit significantly increased from ¥87mn to ¥237mn; this was due to that foreign exchange gains resulted from the Company's deposits in US dollars, which the Company held for hedging purposes, increased from ¥62mn to ¥215mn. Additionally, as for extraordinary profit/loss, there was no significant recorded item.

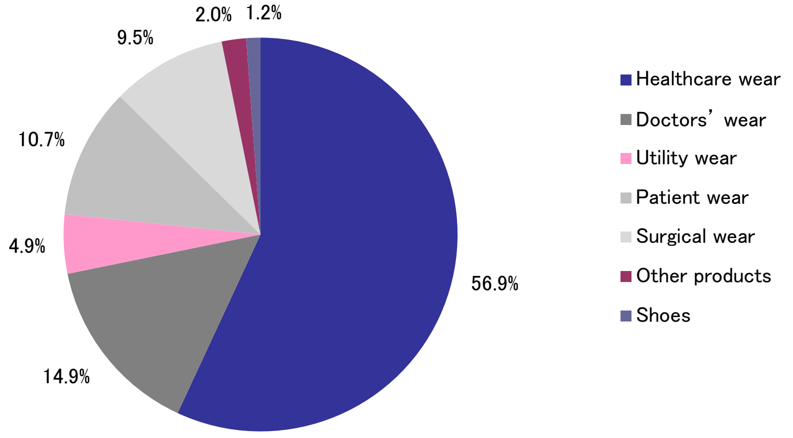
●Breakdown of Sales by Items

Breakdown of Sales by Item

(￥mn, %)

	Q1 FY8/14		Q1 FY8/15	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	1,776	7.3	1,704	-4.1
Doctors' wear	504	10.7	445	-11.6
Utility wear	171	0.7	145	-15.3
Patient wear	314	3.3	320	2.0
Surgical wear	334	13.0	283	-15.1
Shoes	36	-16.9	34	-5.4
Other products	53	18.7	59	-6.0
Total	3,201	7.5	2,994	-6.5

Sales Breakdown by Item (Q1 FY8/15)



In sales by item; healthcare wear amounted to ¥1,704mn, a 4.1% decrease y-o-y; doctor's wear amounted to ¥445mn, a 11.6% decrease y-o-y; utility wear amounted to 145mn, a 15.3% decrease y-o-y; patient wear amounted to ¥320mn, a 2.0% increase y-o-y; surgical wear amounted to ¥283mn, a 15.1% decrease y-o-y; shoes amounted to ¥34mn, a 5.4% decrease y-o-y; and other products amounted to ¥59mn, a 6.0% decrease y-o-y. It fell in all types except the patient wear, but this was mostly due to delays in demand for renewals and recording of sales items; it should not be a significant concern.

Figures in sales by region and by product for the first quarter have not been disclosed.

●Financial Position

The Company's financial status has remained stable. Total assets for the first quarter of FY8/15 amounted to ¥37,460mn and decreased by ¥1,690mn compared to the previous year-end. Total current assets amounted to ¥27,799mn with a decrease by ¥1,790mn. These were primarily caused by a decrease of ¥3,551mn in cash and deposits and an increase of ¥1,700mn in securities. Fixed assets amounted to ¥9,660mn and increased by ¥100mn. The increase of securities in the current assets was due to that the Company sold part of its investment securities, which the Company held as "investment and other assets", and changed them to short-term investment securities during the previous year.

Total liabilities amounted to ¥3,656mn and decreased by ¥812mn compared to the previous year. Its primary causes include a decrease of ¥1,011mn in corporate tax payable. Net assets amounted to ¥33,804mn and decreased by ¥877mn compared to the previous year-end. This was mainly caused by a decrease of ¥ 1,105mn in retained earnings due to dividend payouts. As a result of these, shareholders' equity ratio accounted for 90.2% and increased by 88.6% from the previous year-end.

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Balance Sheet

(¥mn)

	End FY8/14	Q1 FY8/15	Change
Cash and deposits	19,054	15,503	-3,551
Notes and accounts receivable	4,696	3,819	-877
Securities	1,517	3,217	1,700
Inventories	3,835	4,612	777
Current Assets	29,589	27,799	-1,790
Buildings and other Structures	2,570	2,533	-37
Land	4,480	4,480	0
Investment and other assets	1,651	1,819	168
Fixed assets	9,560	9,660	100
Total assets	39,150	37,460	-1,690
Bills and accounts payable	1,517	1,585	68
Corporate tax payable	1,333	322	-1,011
Total liabilities	4,468	3,656	-812
Retained earnings	33,569	32,464	-1,105
Treasury stock	-3,402	-3,402	0
Net assets	34,681	33,804	-877
Total liabilities and net assets	39,150	37,460	-1,690

Company's principal products contributed to sales increase with its patient and operation wear expanding steadily

(2) FY8/15 Forecast

Forecast of Business Results for FY Ending August 2015

(¥mn, %)

	FY8/14		FY8/15E			
	Amount	Sales %	Amount	Sales %	Change	y-o-y
Sales	16,214	100.0	16,700	100.0	486	3.0
Gross Profit	7,585	46.8	7,757	46.5	172	2.3
SG&A Costs	2,662	16.4	2,751	16.5	89	3.3
Operating Profit	4,923	30.4	5,006	30.0	83	1.7
Recurring Profit	5,142	31.7	5,058	30.3	-84	-1.6
Net Profit	3,224	19.9	3,244	19.4	20	0.6

For the business results for the full-year of FY8/15, the Company expects to achieve: ¥16,700mn in sales, a 3% increase y-o-y; ¥5,006mn in operating profit, a 1.7% increase y-o-y; ¥5,058mn in recurring profit, a 1.6 % decrease y-o-y; and ¥3,244mn in net profit, a 0.6% increase y-o-y. Due to cost issues, the Company expects the growth rate in operating profit to be low, but, if these factors could be less than anticipated, there would remain a possibility that the profit may exceed the forecast. As seen above, while the business results for the first quarter resulted in a decline in both sales and operating profit y-o-y, the Company has not revised its original forecast as the results are not of significant concern.

Increased sales of mainstay healthcare wear as well as doctor's 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 once again achieve record sales and profits. The forecasts for sales by item, region and product are shown below.

Sales Forecast by Product Segment

(¥mn, %)

	Q1 FY8/14		Q1 FY8/15	
	Amount	y-o-y	Amount	y-o-y
Healthcare wear	9,437	4.4	9,700	2.8
Doctors' wear	2,674	4.2	2,800	4.7
Utility wear	743	-6.6	700	-5.9
Patient wear	1,353	6.3	1,450	7.1
Surgical wear	1,526	3.2	1,600	4.9
Shoes	236	-5.1	200	-15.6
Other products	239	9.0	250	4.5
Total	16,214	3.8	16,700	3.0

Factors affecting gross profit are expected to be increases of ¥226mn from higher sales and ¥53mn from the further expansion in the percentage of production conducted overseas (forecast to be 44.4% by FY8/15 year-end) and decreases of ¥58mn due to increased material and processing costs and ¥17mn due to the exchange rate (with the FY8/15 exchange rate forecast to be ¥89.2/USD). As a result, gross profit in FY8/15 is forecast to be ¥7,752mn (an increase of ¥172mn, or 2.3%, y-o-y) and the gross profit margin to be 46.5% (compared to 46.8% in FY8/14).

While there is a concern for cost increase due to the weak yen, it is unlikely that these negative factors will occur all at once, especially since the Company has entered into foreign exchange forward contracts. Even though the impact of the weak yen will gradually surface, the Company plans to partially offset the cost increase by proceeding with a plan to relocate to a new plant as stated below. A number of general uniform manufacturers have already raised the prices of their products, but the Company has not done so, and therefore there still remains to improve the sales cost ratio by raising prices even in the worst case scenario.

SG&A costs are forecast to be ¥2,751mn (a 5.7% increase y-o-y), as the increases in depreciation costs of ¥41mn associated with the new company headquarters and ¥30mn for costs related to the Company's 100th anniversary are expected. The decrease in recurring profit y-o-y assumes that the foreign exchange gains recorded in non-operating profit in FY8/14 will decline, but should the yen have weakened further by the end of FY8/15 compared to FY8/14, it is possible that this decline in profits will be less than anticipated. Furthermore, the forecast assumes that the extraordinary profit that was recorded in FY8/14 (the ¥115mn profit on the sale of the old headquarters) will not occur in FY8/15.

■ Mid-term Management Plan and Outlook

As targets to be met ahead of schedule, management announced mid-term targets for future periods

(1) Mid-term Management Plan

The Company had set sales of ¥16,800mn and operating profit of ¥5,100mn as the targets for FY8/16 in its Mid-Term Management Plan. But given the strong possibility of it meeting these targets in FY8/15, it has released new targets for it Mid-Term Management Plan for FY8/17, of sales of ¥17,500mn and operating profit of ¥5,300mn. It plans to develop its business through implementing the policies described below, but considering its business environment, these targets can be considered fairly conservative and are very achievable.

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The Company's business environment is favorable with potential improvement in profit margin

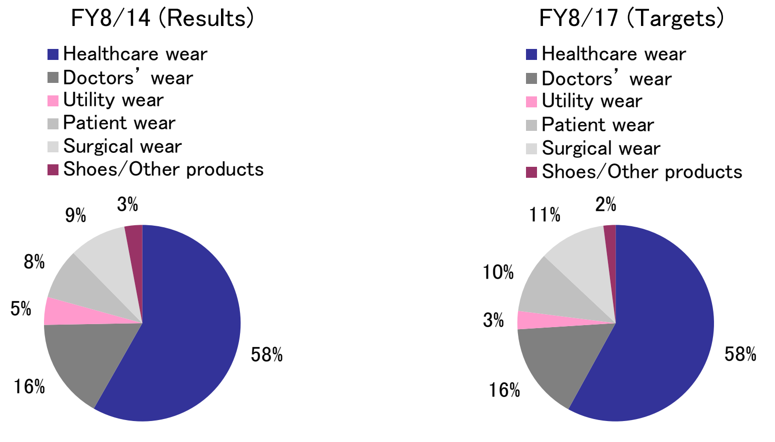
(2) Future Business Strategies

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, Labor and Welfare, 1.65 million (a 2.57% increase over 2010) nurses are expected. Moreover, 1.76 million (a 5.71% increase over 2010) healthcare workers are expected in 2015, and 2.49 million are forecasted by 2025 (a 4.27% increase over 2010). 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 Market

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.

Percentage of Sales by Item (Targets)



●Increase Market Share in Western Japan

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.

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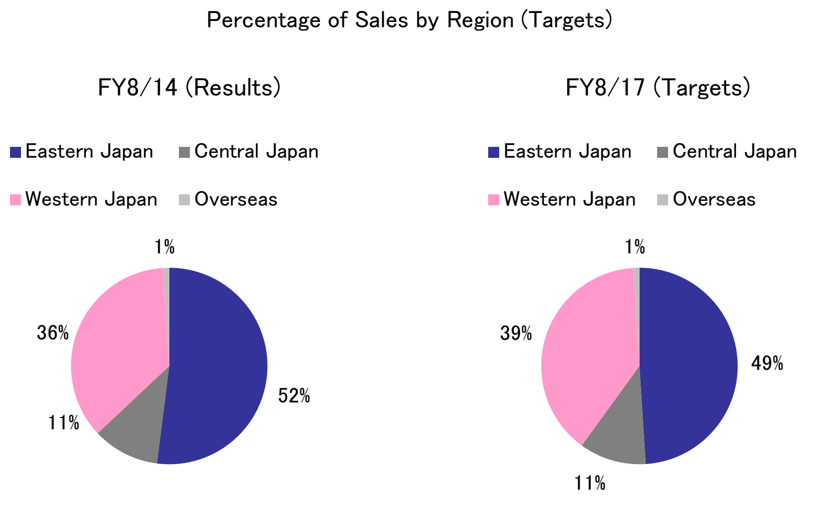
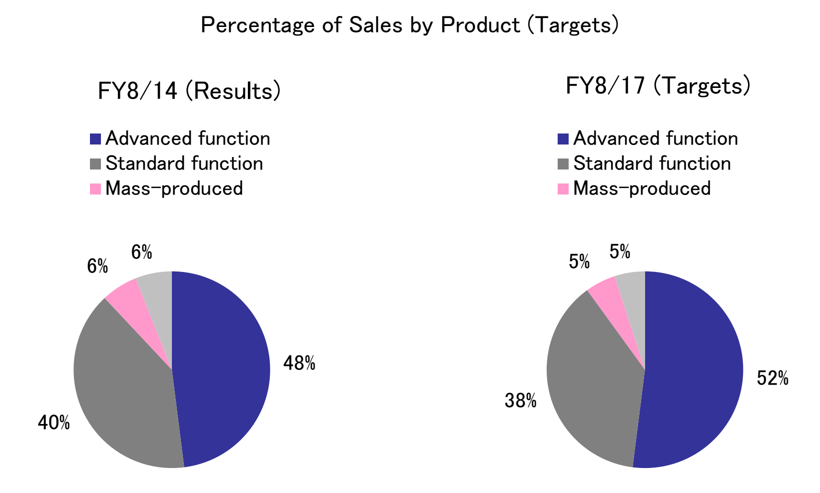


●Development and Sales of Advanced Function Product

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



●Improving Gross Profit Margin

In the last 20 years, the Company's gross profit margin has improved approximately 12 points (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.

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The first is increased overseas production. Currently, the Company's ratio of overseas production is still around 43.1%, 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, and it is expected that by the end of 2015, the transfer of existing production from Jakarta will have been completed.

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. Furthermore, while there have been no official announcements, it continues to develop new markets, and its plans for new markets (new products) should also contribute to improving gross profit margins in the future.

■ Shareholder Return Policy

Stable financial status and income are expected to continue with its plan to provide steady dividends, aiming for payout ratio of 50%

The Company's shareholders' equity ratio has reached 90.2% (Q1 FY8/15) 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. As a result, as its distribution of earnings outside the Company (particularly dividend payments) is low and 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), with a dividend payout ratio at this level being high even compared to the majority of listed companies. While the Company has flexibly made share buy-backs, it announced a share buy-back (¥1,500 per share, purchased amount: ¥1,650mn) to be carried out through TOB at this time. Since the share buy-backs are recorded as a reduction in total assets, undertaking them leads to improvement in both earnings per share (EPS) and ROE, which means the Company is highly conscious of its shareholder returns and maintaining capital efficiency; and thus this should be also highly regarded.

Outline of the share buy-back that was announced at this time	
TOB period:	December 26, 2014 – January 30, 2015
Number of purchased shares:	1,100,000 (2.88% of the shares issued)
TOB price:	¥1,500 per share
Purchased amount:	¥1,650mn

Disclaimer