

Nitori Holdings



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Portfolio Manager

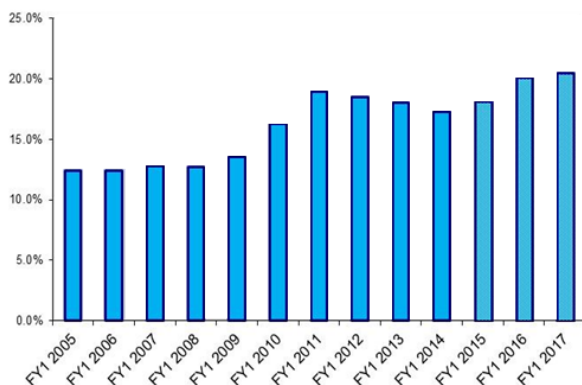
Country: Japan
Market Cap: US\$6.5 billion
Sector: Consumer Discretionary/Retailer
Purchase Price: ¥5,000
Perennial Target Price: ¥7,000 +40%



During the second quarter of 2014, the Perennial Global Shares High Alpha Trust added a new position in Japanese retailer Nitori Holdings. The company is unique in a Japanese context in that they are an owner managed business, and have a wonderful long term track record of value creation. We can best summarize Nitori as being the 'Ikea' of Japan. The business was founded by the now Chairman and largest shareholder in the early 1970's after he toured America and was amazed by the quality and variety of home furnishings available to Western consumers. Japanese consumers he surmised were starved of choice, and so with a single store measuring just 100 sq. metres he set out to fill a gap in the market. 40 years on, with 330 stores and some 1.5 million square metres of retail floor space, the company are the dominant furniture and home décor chain in Japan. The company have been consistent market share gainers at a time when overall demand for furniture and home décor has been stagnant. They use superior sourcing to consistently offer the lowest prices and the widest choice to consumers.

Over the past decade that company have delivered compound annual sales growth of 13% with earnings per share growing at 17%. But unlike many in Japan this is not simply a cost of capital proposition. Nitori have generated average after tax returns on invested capital of 16% over the past decade, placing it in the very highest ranks of Japanese corporates on this measure. Further, our modelling suggests that Nitori's returns could rise into the low 20% range over the coming 3-5 years. Based on our initial purchase price we are buying shares at around 13x current year earnings, a 25% discount to the Japanese market, and an even more substantial discount to other tier-one Japanese corporates who have demonstrated similar standards of operational excellence. As investors shake off fears of the impact of the rise in the consumption tax in Japan, our belief is that Nitori shares will re-rate to be worth up to 40-50% more than our initial purchase price.

Nitori Holdings - Return on Invested Capital



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