

SHOFU (7979)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2016		22,975	1,568	1,393	789	49.4	18.0	1,340
FY03/2017		22,305	1,382	1,141	836	52.6	20.0	1,397
FY03/2018CoE		23,970	1,488	1,403	959	60.4	20.0	-
FY03/2017		YoY	(2.9%)	(11.9%)	(18.1%)	6.0%	-	-
FY03/2018CoE		YoY	7.5%	7.7%	23.0%	14.6%	-	-
Consolidated Half Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2017		11,052	800	509	301	-	-	-
Q3 to Q4 FY03/2017		11,253	582	632	535	-	-	-
Q1 to Q2 FY03/2018CoE		11,713	657	618	392	-	-	-
Q3 to Q4 FY03/2018CoE		12,257	831	785	567	-	-	-
Q1 to Q2 FY03/2018CoE		YoY	6.0%	(17.9%)	21.5%	30.3%	-	-
Q3 to Q4 FY03/2018CoE		YoY	8.9%	42.8%	24.2%	6.0%	-	-
Consolidated Quarter (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY03/2017		5,708	540	317	230	-	-	-
Q2 FY03/2017		5,344	260	192	71	-	-	-
Q3 FY03/2017		5,402	196	360	352	-	-	-
Q4 FY03/2017		5,851	386	272	183	-	-	-
Q1 FY03/2018		5,736	346	432	294	-	-	-
Q1 FY03/2018		YoY	0.5%	(35.8%)	36.2%	27.9%	-	-

Source: Company Data, WRJ Calculation

1.0 Results Update (8 August 2017)

In Line with Company Forecasts

On 4 August 2017, SHOFU, developing, manufacturing and selling dental materials, released its Q1 FY03/2018 results. It has been revealed that recent trading is in line with assumptions of Company forecasts. Due to sluggish sales, operating profit adjusted, but the Company saw progress rate of 52.7% for operating profit when compared with assumptions of Q1 to Q2 Company forecasts. Full-year Company forecasts are going for operating profit increasing due mainly to increasing sales in H2, while it has been the case that operating profit in Q1 to Q2 is supposed to come down over the previous year since the beginning. In Q1, the Company launched “EyeSpecial C- ” or new model for its digital oral imaging devices in Japan, which is to be followed by launch overseas in Q2, Meanwhile, the Company is to launch new strength-enhanced materials of CAD/CAM-related products in H2, which is to be another driver for sales with the Company.

For information: [SHOFU \(7979\) Driven by Increasing Sales \(23 June 2016\)](#)

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2.0 Company Profile

Comprehensive Manufacturer of Dental Materials

Company Name	SHOFU INC. Website IR Information Share Price
Established	15 May 1922
Listing	25 July 1963: Tokyo Stock Exchange 1st Section (Ticker: 7979)
Capital	¥4,474m (As of the end of June 2017)
No. of Shares	16,114,089 shares, including 215,620 treasury shares (As of the end of June 2017)
Main Features	<ul style="list-style-type: none">● The leader of artificial teeth and abrasives in Japan● Focus on operations overseas where the Company finds a huge room to cultivate● Also developing, manufacturing and selling materials for nail salons
Business Segments	<ul style="list-style-type: none">. Dental-related Business. Nail-related Business. Other Business
Top Management	President: Noriyuki Negoro
Shareholders	Mitsui Chemicals, Inc. 11.17%, The Bank of Kyoto, Ltd. 4.42% (As of the end of March 2017)
Headquarters	Higashiyama-ku, Kyoto-city, JAPAN
No. of Employees	Consolidated:1,104, Parent: 443 (As of the end of June 2017)

Source: Company Data

3.0 Recent Trading and Prospects

Q1 FY03/2018 Results

In Q1 FY03/2018, sales came in at ¥5,736m (up 0.5% YoY), operating profit ¥346m (down 35.8%), recurring profit ¥432m (up 36.2%) and profit attributable to owners of parent ¥294m (up 27.9%), while operating profit margin 6.0% (down 3.4% points). When compared with Q1 to Q2 Company forecasts, the results suggest progress rate of 49.0% in sales, 52.7% in operating profit, 69.9% in recurring profit and 75.0% in profit attributable to owners of parent.

Due to sluggish sales, operating profit adjusted, but recurring profit surged over the previous year in line with dramatically improving non-operating balance by ¥309m to ¥86 from negative ¥223m. Thus so did profit attributable to owners of parent. Improvement here at the non-operating level was in line with that of forex gains and losses by ¥292m to ¥68m from negative ¥224m. The Company books forex gains and losses based on gap between forex rates as of the end of every quarter and those as of the end of the most recent fiscal yearend, when it evaluates foreign-currencies-denominated assets and liabilities held by the Company. Company forecasts have assumed no forex gains and losses.

By region, sales in Japan came in at ¥3,311m (down 0.8%) and sales overseas ¥2,425m (up 2.3%). As mentioned above, the Company saw major changes on forex gains and losses to have been driven by changes of forex rates as of the end of the periods, but sales were almost immune to changes of forex rates over the previous year. The Company saw ¥111.61 (depreciated by 2.3% over the same period in the previous year) per US dollar, ¥123.14 (depreciated by 0.5%) per euro, ¥142.92 (appreciated by 8.2%) per sterling pound and ¥16.51 (appreciated by 7.5%) per Chinese yuan, implying a mixed situation by yen's appreciation and yen's depreciation. Sales overseas were up 2.5% over the same period in the previous year on a local currencies basis (roughly in line with above-mentioned increases by 2.3% in Japanese yen), up 0.8% in North America and Latin America, up 0.1% in Europe and up 7.5% in Asia, Oceania and Other. In regards to China, being estimated to account for more than half of sales in Asia, Oceania and Other, sales were up 5.7% in the same way.

Above-mentioned business performance as a whole for the Company is basically accounted for by that of Dental-related Business to develop, manufacture and sell dental materials. Sales came in at ¥5,174m (down 1.6%), operating profit ¥354m (down 36.1%) and operating profit margin 6.8% (down 3.7% points), having accounted for 90.2% of sales out the Company as a whole and 102.6% (before elimination) of operating profit.

In Japan, sales benefited from launch of new model for its digital oral imaging devices, i.e., "EyeSpecial C-" as well as from restorative materials and CAD/CAM-related products on both of which the Company focuses, but they were not substantial enough to fully offset negative impacts stemming from intensifying competition in the market as a whole. Still, the Company is to launch new strength-enhanced materials of CAD/CAM-related products in H2, to which is the Company looking as the key driver for sales. On the overseas side, the Company is to launch above-mentioned new model for its digital oral imaging devices, i.e., "EyeSpecial C-" in Q2. Prior to this, sales overseas in Q1 were in an off-crop season, according to the Company.

Meanwhile, sales came in at ¥538m (up 25.7%) and operating loss ¥14m (versus operating loss of ¥21m during the same period in the previous year) in Nail-related Business to develop, manufacture and sell materials for nail salons. Given firm sales in Japan and overseas, the Company saw operating loss reduced over the previous year. In Japan, the Company successfully launched new decorative fake nail products of "ageha" brand to have been co-developed with Ms. ageha or a famous manicurist, while sales were also favorable for "by Nail Labo", i.e., decorative fake nail kits for general consumers. Meanwhile, on the overseas side, the Company saw sales favorably increasing in the United States and Taiwan for "Presto" or LED gel nails. Still, SG&A expenses also increased due to aggressive sales promotions.

FY03/2018 Company Forecasts

FY03/2018 Company forecasts have remained unchanged, going for prospective sales of ¥23,970m (up 7.5% YoY), operating profit of ¥1,488m (up 7.7%), recurring profit of ¥1,403m (up 23.0%) and profit attributable to owners of parent of ¥959m (up 14.6%), while operating profit margin of 6.2% (up 0.01% point). Meanwhile, prospective annual dividend of ¥20.0 per share, implying payout ratio of 33.1%, have also remained unchanged.

4.0 Financial Statements

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
	03/2017	03/2017	03/2017	03/2017	03/2018	03/2018	03/2018	03/2018	03/2018	
Sales	5,708	11,052	16,454	22,305	5,736	-	-	-	-	+28
CoGS	2,282	4,504	6,841	9,357	2,420	-	-	-	-	+138
Gross Profit	3,425	6,547	9,612	12,947	3,315	-	-	-	-	(110)
SG&A	2,885	5,747	8,616	11,564	2,968	-	-	-	-	+83
Operating Profit	540	800	996	1,382	346	-	-	-	-	(194)
Non Operating Balance	(223)	(291)	(127)	(241)	86	-	-	-	-	+309
Recurring Profit	317	509	869	1,141	432	-	-	-	-	+115
Extraordinary Balance	0	0	0	0	9	-	-	-	-	+9
Profit before Income Taxes	317	509	869	1,141	441	-	-	-	-	+124
Total Income Taxes	87	206	211	299	146	-	-	-	-	+59
NP Belonging to Non-Controlling SHs	-	1	4	5	0	-	-	-	-	-
Profit Attributable to Owners of Parent	230	301	653	836	294	-	-	-	-	+64
Sales YoY	(2.9%)	(4.7%)	(3.5%)	(2.9%)	+0.5%	-	-	-	-	-
Operating Profit YoY	+2.9%	(5.0%)	(17.1%)	(11.9%)	(35.8%)	-	-	-	-	-
Recurring Profit YoY	(45.7%)	(38.3%)	(22.7%)	(18.1%)	+36.2%	-	-	-	-	-
Profit Attributable to Owners of Parent YoY	(36.7%)	(39.3%)	(9.4%)	+6.0%	+37.9%	-	-	-	-	-
Gross Profit Margin	60.0%	59.2%	58.4%	58.0%	57.8%	-	-	-	-	(2.2%)
(SG&A / Sales)	50.5%	52.0%	52.4%	51.8%	51.7%	-	-	-	-	+1.2%
Operating Profit Margin	9.5%	7.2%	6.1%	6.2%	6.0%	-	-	-	-	(3.4%)
Recurring Profit Margin	5.6%	4.6%	5.3%	5.1%	7.5%	-	-	-	-	+2.0%
Profit Attributable to Owners of Parent Margin	4.0%	2.7%	4.0%	3.7%	5.1%	-	-	-	-	+1.1%
Total Income Taxes / Profit before Income Taxes	27.4%	40.5%	24.3%	26.2%	33.1%	-	-	-	-	+5.7%

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
	03/2017	03/2017	03/2017	03/2017	03/2018	03/2018	03/2018	03/2018	03/2018	
Sales	5,708	5,344	5,402	5,851	5,736	-	-	-	-	+28
CoGS	2,282	2,222	2,337	2,516	2,420	-	-	-	-	+138
Gross Profit	3,425	3,122	3,065	3,335	3,315	-	-	-	-	(110)
SG&A	2,885	2,862	2,869	2,948	2,968	-	-	-	-	+83
Operating Profit	540	260	196	386	346	-	-	-	-	(194)
Non Operating Balance	(223)	(68)	164	(114)	86	-	-	-	-	+309
Recurring Profit	317	192	360	272	432	-	-	-	-	+115
Extraordinary Balance	0	0	0	0	9	-	-	-	-	+9
Profit before Income Taxes	317	192	360	272	441	-	-	-	-	+124
Total Income Taxes	87	119	5	88	146	-	-	-	-	+59
NP Belonging to Non-Controlling SHs	-	1	3	1	0	-	-	-	-	-
Profit Attributable to Owners of Parent	230	71	352	183	294	-	-	-	-	+64
Sales YoY	(2.9%)	(6.7%)	(0.9%)	(1.2%)	+0.5%	-	-	-	-	-
Operating Profit YoY	+2.9%	(18.0%)	(45.6%)	+5.5%	(35.8%)	-	-	-	-	-
Recurring Profit YoY	(45.7%)	(20.3%)	+20.4%	+1.1%	+36.2%	-	-	-	-	-
Profit Attributable to Owners of Parent YoY	(36.7%)	(46.2%)	+56.4%	+165.2%	+37.9%	-	-	-	-	-
Gross Profit Margin	60.0%	58.4%	56.7%	57.0%	57.8%	-	-	-	-	(2.2%)
(SG&A / Sales)	50.5%	53.6%	53.1%	50.4%	51.7%	-	-	-	-	+1.2%
Operating Profit Margin	9.5%	4.9%	3.6%	6.6%	6.0%	-	-	-	-	(3.4%)
Recurring Profit Margin	5.6%	3.6%	6.7%	4.6%	7.5%	-	-	-	-	+2.0%
Profit Attributable to Owners of Parent Margin	4.0%	1.3%	6.5%	3.1%	5.1%	-	-	-	-	+1.1%
Total Income Taxes / Profit before Income Taxes	27.4%	62.0%	1.4%	32.4%	33.1%	-	-	-	-	+5.7%

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	03/2017	03/2017	03/2017	03/2017	03/2018	03/2018	03/2018	03/2018		
Dental-related Business	5,258	10,095	14,999	20,267	5,174	-	-	-		(84)
Nail-related Business	428	913	1,385	1,944	538	-	-	-		+110
Other Business	21	43	69	93	23	-	-	-		+2
Sales	5,708	11,052	16,454	22,305	5,736	-	-	-		+28
Dental-related Business	554	812	1,009	1,380	354	-	-	-		(200)
Nail-related Business	(21)	(26)	(36)	(25)	(14)	-	-	-		+7
Other Business	6	12	19	22	5	-	-	-		(1)
Segment profit	539	798	992	1,376	345	-	-	-		(194)
Elimination	1	2	4	5	1	-	-	-		0
Operating Profit	540	800	996	1,382	346	-	-	-		(194)
Dental-related Business	10.5%	8.0%	6.7%	6.8%	6.8%	-	-	-		(3.7%)
Nail-related Business	(4.9%)	(2.8%)	(2.6%)	(1.3%)	(2.6%)	-	-	-		+2.3%
Other Business	28.6%	27.9%	27.5%	23.7%	21.7%	-	-	-		(6.8%)
Elimination	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	-		(0.0%)
Operating Profit Margin	9.5%	7.2%	6.1%	6.2%	6.0%	-	-	-		(3.4%)

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	03/2017	03/2017	03/2017	03/2017	03/2018	03/2018	03/2018	03/2018		
Dental-related Business	5,258	4,837	4,904	5,268	5,174	-	-	-		(84)
Nail-related Business	428	485	472	559	538	-	-	-		+110
Other Business	21	22	26	24	23	-	-	-		+2
Sales	5,708	5,344	5,402	5,851	5,736	-	-	-		+28
Dental-related Business	554	258	197	371	354	-	-	-		(200)
Nail-related Business	(21)	(5)	(10)	11	(14)	-	-	-		+7
Other Business	6	6	7	3	5	-	-	-		(1)
Segment profit	539	259	194	384	345	-	-	-		(194)
Elimination	1	1	2	1	1	-	-	-		0
Operating Profit	540	260	196	386	346	-	-	-		(194)
Dental-related Business	10.5%	5.3%	4.0%	7.0%	6.8%	-	-	-		(3.7%)
Nail-related Business	(4.9%)	(1.0%)	(2.1%)	2.0%	(2.6%)	-	-	-		+2.3%
Other Business	28.6%	27.3%	26.9%	12.5%	21.7%	-	-	-		(6.8%)
Elimination	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	-		(0.0%)
Operating Profit Margin	9.5%	4.9%	3.6%	6.6%	6.0%	-	-	-		(3.4%)

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2017	Q2 03/2017	Q3 03/2017	Q4 03/2017	Q1 03/2018	Q2 03/2018	Q3 03/2018	Q4 03/2018		
Cash & Deposit	4,581	4,449	4,651	4,997	4,844	-	-	-	-	+263
Accounts Receivables	2,933	2,907	2,869	3,138	3,199	-	-	-	-	+266
Inventory	5,510	5,480	5,653	5,365	5,712	-	-	-	-	+202
Other	1,063	799	886	786	965	-	-	-	-	(98)
Current Assets	14,087	13,635	14,059	14,286	14,720	-	-	-	-	+633
Tangible Assets	6,574	6,553	6,629	6,682	6,677	-	-	-	-	+103
Intangible Assets	1,561	1,510	1,586	1,538	1,595	-	-	-	-	+34
Investments & Other Assets	5,624	5,787	6,290	6,345	6,840	-	-	-	-	+1,216
Fixed Assets	13,760	13,851	14,506	14,566	15,113	-	-	-	-	+1,353
Total Assets	27,848	27,486	28,566	28,853	29,834	-	-	-	-	+1,986
Accounts Payables	520	492	618	612	706	-	-	-	-	+186
Short Term Debt	504	504	505	505	505	-	-	-	-	+1
Other	2,224	1,969	1,922	2,098	2,315	-	-	-	-	+91
Current Liabilities	3,248	2,965	3,045	3,215	3,526	-	-	-	-	+278
Long Term Debt	1,604	1,479	1,355	1,225	1,100	-	-	-	-	(504)
Other	1,979	1,990	2,129	2,116	2,286	-	-	-	-	+307
Fixed Liabilities	3,583	3,469	3,484	3,341	3,386	-	-	-	-	(197)
Total Liabilities	6,832	6,435	6,530	6,556	6,912	-	-	-	-	+80
Shareholders' Equity	19,470	19,541	19,766	19,949	20,066	-	-	-	-	+596
Other	1,545	1,510	2,269	2,347	2,855	-	-	-	-	+1,310
Net Assets	21,015	21,051	22,035	22,296	22,921	-	-	-	-	+1,906
Total Liabilities & Net Assets	27,848	27,486	28,566	28,853	29,834	-	-	-	-	+1,986
Equity Capital	20,929	20,957	21,930	22,185	22,818	-	-	-	-	+1,889
Interest Bearing Debt	2,108	1,983	1,860	1,730	1,605	-	-	-	-	(503)
Net Debt	(2,473)	(2,466)	(2,791)	(3,267)	(3,239)	-	-	-	-	(766)
Equity Ratio	75.2%	76.2%	76.8%	76.9%	76.5%	-	-	-	-	+1.3%
Net Debt Equity Ratio	(11.8%)	(11.8%)	(12.7%)	(14.7%)	(14.2%)	-	-	-	-	(2.4%)
ROE (12 months)	3.0%	2.8%	3.3%	3.8%	4.1%	-	-	-	-	+1.1%
ROA (12 months)	3.9%	3.8%	3.9%	4.0%	4.4%	-	-	-	-	+0.4%
Days for Inventory Turnover	220	225	221	195	215	-	-	-	-	-
Quick Ratio	231%	248%	247%	253%	228%	-	-	-	-	-
Current Ratio	434%	460%	462%	444%	417%	-	-	-	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2017	Q1 to Q2 03/2017	Q1 to Q3 03/2017	Q1 to Q4 03/2017	Q1 03/2018	Q1 to Q2 03/2018	Q1 to Q3 03/2018	Q1 to Q4 03/2018		
Operating Cash Flow	-	1,012	-	2,308	-	-	-	-	-	-
Investing Cash Flow	-	(396)	-	(1,052)	-	-	-	-	-	-
Operating CF & Investing CF	-	616	-	1,256	-	-	-	-	-	-
Financing Cash Flow	-	(434)	-	(835)	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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