

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 FY03/2018		11,701	742	853	635	-	-	-
Q3 to Q4 FY03/2018CoE		12,269	746	550	324	-	-	-
Q1 to Q2 FY03/2018	YoY	5.9%	(7.2%)	67.6%	111.2%	-	-	-
Q3 to Q4 FY03/2018CoE	YoY	9.0%	28.2%	(13.0%)	(39.4%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (19 December 2017)

Earnings Recovery in H2

SHOFU, developing, manufacturing and selling dental materials, is to see a short-term earnings recovery. In H2 FY03/2018, the Company is to benefit from accelerating sales increases on a year-on-year basis, more than offsetting increases of expenses. Due mainly to this, initial Company forecasts going for an earnings recovery on a full-year basis are to be met. FY03/2018 Company forecasts assume sales in Japan to increase by 5.2% over the previous year driven by launch of new products and sales overseas by 10.8%, resulting in increasing exposure to sales overseas where the Company sees gross profit margin relatively high due to its exclusive exposure to own products. The Company is partly exposed to selling of merchandises to have been procured in Japan mainly on the equipment side. In the first place, as has been claimed as its management strategy, the Company has been putting the utmost emphasis on sales promotions in markets overseas where it finds a great room to cultivate, while recent trading suggests a meaningful success here. However, as have been disclosed since the release of FY03/2017 results, sales are to fall short of assumption of existing midterm management plan (FY03/2016 to FY03/2018) in Japan as well as overseas and thus earnings as a whole. In Japan, it appears that the Company suffers from competition intensifying more than assumed, while it has been turned out to be the case that it takes more time to create setup overseas for sales promotions as much as assumed, although the Company has been doing this not badly so far.


In Q1 to Q2 FY03/2018, sales came in at ¥11,701m (up 5.9% YoY), operating profit ¥742m (down 7.2%) and operating profit margin 6.3% (down 0.9% points). Sales in Japan were ¥6,773m (up 2.1%) and sales overseas ¥4,927m (up 11.6%). By business segment, the mainstay Dental-related Business to develop, manufacture and sell dental materials saw sales of ¥10,441m (up 3.4%), operating profit of ¥717m (down 11.7%) and operating profit margin of 6.9% (down 1.2% points), having accounted for 89.2% of sales as a whole for the Company and 97.0% of operating profit (before elimination of intersegment transactions). Hence, earnings as a whole for the Company hinge on this business segment. Operating profit as a whole for the Company saw net decreases of ¥58m over the same period in the previous year, comprising net increases of ¥289m by increasing sales, net decreases of ¥238m by increasing cost rate, net decreases of ¥124m by increasing expenses and net increases of ¥16m by forex changes, implying the bulk of net increases by increasing sales were offset by net decreases by increasing cost rate, which had something to do with a technical issue on the accounting side. During the same period in the previous year, the Company saw unrealized gain of ¥80m on its inventory overseas due to yen's appreciation, while unrealized loss of ¥20m due to yen's depreciation. Thus, this issue only resulted in net decreases of ¥100m in operating profit.

FY03/2018 initial Company forecasts have remained unchanged, going for prospective sales of ¥23,970m (up 7.5% YoY), operating profit of ¥1,488m (up 7.7%) and operating profit margin of 6.2% (up 0.01% point). Operating profit is to see net increases of ¥106m, comprising net increases of ¥1,007m by increasing sales, net decreases of ¥47m by increasing cost rate, net decreases of ¥824m by increasing expenses and net decreases of ¥28m by forex changes. The Company is to see increasing expenses in regards to personnel, advertising and R&D, but this will be more than offset by increasing sales, while it suffers from negative impacts just marginal stemming from increasing cost rate. Sales overseas are expected to remain buoyant, while sales in Japan are to accelerate. Company forecasts assume sales in Japan to see net increases of ¥680m, while net increases of ¥461m in regards to sales of "Equipment, etc." As mentioned earlier, sales of equipment include those of merchandises to have been procured, but the key positive impacts here are to come from "EyeSpecial C- ", i.e., new model of self-developed digital oral cavity imaging device to have been launched on 22 May 2017. In FY03/2017, sales of said device were adjusting prior to launch of this new model, while sales of this new model are to pick up on a full-fledged basis in H2. On top of this, the Company is to launch new product for CAD/CAM-related materials.

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2.0 Company Profile

Comprehensive Manufacturer of Dental Materials

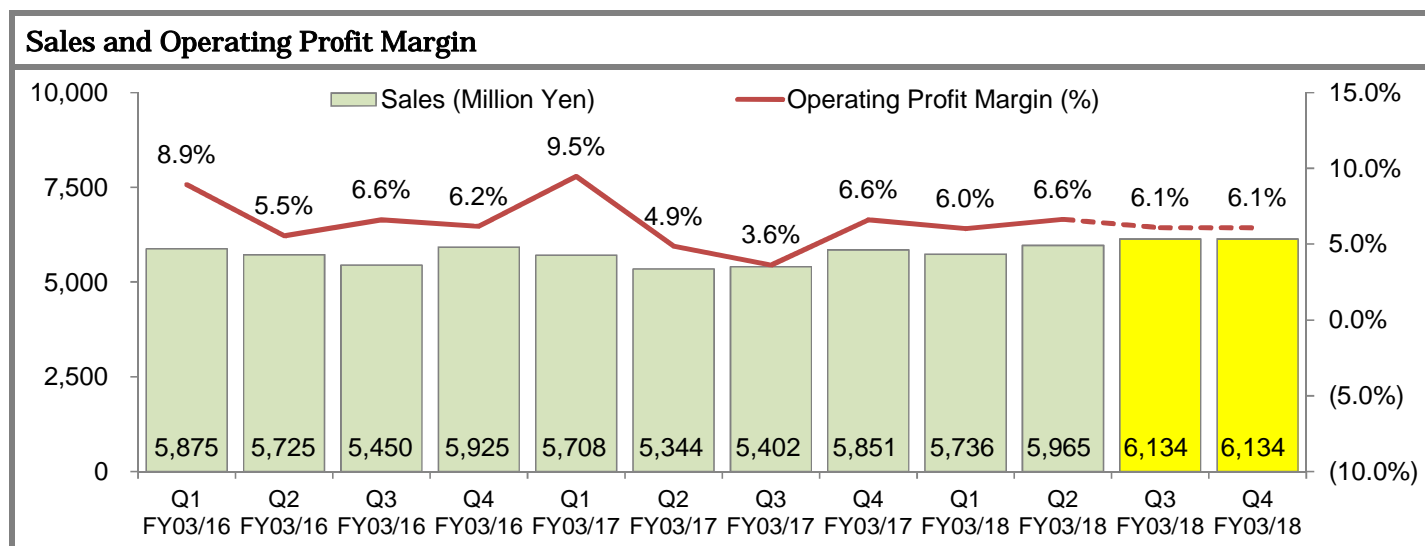
Company Name	SHOFU INC. Website IR Information Share Price 
Established	15 May 1922
Listing	25 July 1963: Tokyo Stock Exchange 1st Section (Ticker: 7979)
Capital	¥4,474m (As of the end of September 2017)
No. of Shares	16,114,089 shares, including 215,621 treasury shares (As of the end of Sep. 2017)
Main 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 great 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 & CEO: Noriyuki Negoro
Shareholders	Mitsui Chemicals, Inc. 11.17%, The Bank of Kyoto, Ltd. 4.42% (As of the end of September 2017)
Headquarters	Higashiyama-ku, Kyoto-city, JAPAN
No. of Employees	Consolidated:1,111, Parent: 440 (As of the end of September 2017)

Source: Company Data

3.0 Recent Trading & Prospects

Q1 to Q2 FY03/2018 Results

In Q1 to Q2 FY03/2018, sales came in at ¥11,701m (up 5.9% YoY), operating profit ¥742m (down 7.2%), recurring profit ¥853m (up 67.6%) and profit attributable to owners of parent ¥635m (up 111.2%), while operating profit margin 6.3% (down 0.9% points).



Source: Company Data, WRJ Calculation (Q3 and Q4 FY03/2018: H2 Company forecasts pro rata)

When compared with initial Company forecasts, sales were worse by ¥12m (0.1%), operating profit better by ¥85m (12.9%), recurring profit better by ¥235m (38.0%) and profit attributable to owners of parent better by ¥243m (62.0%). Sales were roughly in line, while gross profit margin having rather fallen short. Nevertheless, the timing for booking expenses associated with advertising, R&D and personnel was delayed, when compared with assumptions, having resulted in operating profit better than expected.

Company forecasts were exceeded by ¥150m more in recurring profit than operating profit. This was due mainly to unexpected booking of forex profit of ¥133m at the non-operating level. This was in line with the Company's regular accounting measures to reevaluate own foreign-currencies-denominated assets and liabilities at the end of every quarter on the basis of comparison with the most recent fiscal yearend results, generating forex profit or loss at the non-operating level. Yen got depreciated through the end of FY03/2017 to the end of Q2 FY03/2018, having resulted in forex profit as much as mentioned above. On top of this, Company forecasts were exceeded even more at profit attributable to owners of parent as tax rate got smaller temporarily.

Sales in Japan came in at ¥6,773m (up 2.1%) and sales overseas ¥4,927m (up 11.6%), comprising ¥1,364m (up 14.7%) in North America & Latin America, ¥1,933m (up 8.3%) in Europe and ¥1,630m (up 13.1%) in Asia & Oceania, etc. As far as Nail-related Business to develop, manufacture and sell materials for nail salons is concerned, sales came in at ¥714m (up 22.2%) in Japan and ¥496m (up 50.8%) overseas, both having risen sharply due to successful launch of new products, etc., but having accounted for no more than 1.8% of operating profit (before elimination for intersegment transactions). Thus, as mentioned earlier, earnings as a whole for the Company hinge on those of the mainstay Dental-related Business.

Forex Rate

Forex Rate	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	YoY Net Chg.
(Yen)	03/2017	03/2017	03/2017	03/2017	03/2018	03/2018	03/2018	03/2018	
US Dollar	109.07	106.43	107.88	109.03	111.61	111.42	-	-	+4.99
Euro	122.47	119.12	119.13	119.37	123.14	126.63	-	-	+7.51
GBP	155.63	146.56	143.72	143.04	142.92	144.38	-	-	(2.18)
Chinese Yuan	17.84	17.21	16.68	16.56	16.51	16.42	-	-	(0.79)
US Dollar (YoY)	(10.1%)	(12.4%)	(11.2%)	(9.3%)	+2.3%	+4.7%	-	-	-
Euro	(8.5%)	(11.5%)	(10.9%)	(9.8%)	+0.5%	+6.3%	-	-	-
GBP	(16.3%)	(21.5%)	(22.5%)	(20.8%)	(8.2%)	(1.5%)	-	-	-
Chinese Yuan	(6.9%)	(11.1%)	(13.7%)	(13.8%)	(7.5%)	(4.6%)	-	-	-

Source: Company Data, WRJ Calculation

Meanwhile, due to forex changes mainly yen having depreciated against US dollar and Euro, sales overseas saw add-ons by ¥169m, comprising ¥134m in Dental-related Business and ¥35m in Nail-related Business. But for all those forex impacts, sales overseas on the Dental-related Business side increased by 5.2%, while by 7.7% in North America & Latin America, by 2.6% in Europe and by 6.7% in Asia & Oceania, etc. On the Dental-related Business side, sales in Japan came in at ¥6,009m, unchanged from the same period in the previous year.

In the first place, the Company does not assume any major growth potentials in the future for the market in Japan where maturity is prevailing, while therefore concentrating own management resources on sales promotions overseas where the Company finds high growth potentials going forward as well as a great room to cultivate remaining. The Company is looking to ongoing increases of demand in the markets overseas, due to future economic growth in developing countries, etc. Meanwhile, in Japan, it appears that competition is intensifying more than assumed in existing midterm management plan (FY03/2016 to FY03/2018) and sales are falling short of. However, it appears that recent trading in Japan is roughly in line with assumptions of FY03/2018 Company forecasts.

In Japan, the Company supplies dental clinics and dental technician's offices to process dental materials with diverse dental materials, comprising artificial teeth, abrasives, metals, restorative materials and cements as well as equipment. Dental technicians refer to specialty operators of dental materials processing and operating in line with detailed orders from each dental clinic. The Company has been keen on developing and launching new products for all those final users, while speaking to them directly to provide information, but sales of dental materials are rather coming down over the same period in the previous year. Meanwhile, sales of equipment were buoyant given launch of "EyeSpecial C-", i.e., new model of self-developed digital oral cavity imaging device, etc., having resulted in sales of Dental-related Business unchanged as a whole.

On the overseas side, the Company sees improving local awareness that own products are relatively superior to those of competitors. The Company has been horizontally applying strategy that was proven to be successful in the United States to elsewhere overseas, i.e., that of efficient use of own MDRs (Medical Dental Representatives) for sales promotions. Meanwhile, concept of MiCD (Minimally Invasive Cosmetic Dentistry) project to have been advocated in Japan and overseas is now increasingly accepted.

The Company is locally hiring personnel and train them as own MDRs to directly speak to final users, i.e., dentists and dental technicians for sales promotions. MDRs are sales representatives who have sufficiently learned about academic expertise as well as expertise on own products to sell. Meanwhile, MiCD project is of cosmetic dentistry to introduce the way of pursuing the best results on the aesthetic side while minimally invading natural teeth.

Still, sales overseas are also falling short of, when compared with assumptions of existing midterm management plan (FY03/2016 to FY03/2018). It has been turned out to be the case that it takes more time to create setup overseas for sales promotions as much as assumed, which is mentioned as the key factor. For example, the Company recently set up new bases in Brazil and India, while it used to be assumed to have been done for both some two years earlier in existing midterm management plan. The Company has been suffering from lots of issues to take time longer than initially assumed, e.g., in authorization, licensing and hiring in its operations overseas, while it has been too hard for the Company to quickly cope with all those problems in time due to constraints on own human resources, etc.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		YoY
(Million Yen)	03/2017	03/2017	03/2017	03/2017	03/2018	03/2018	03/2018	03/2018		Net Chg.
Sales	5,708	11,052	16,454	22,305	5,736	11,701	-	-		+649
CoGS	2,282	4,504	6,841	9,357	2,420	4,986	-	-		+482
Gross Profit	3,425	6,547	9,612	12,947	3,315	6,714	-	-		+167
SG&A	2,885	5,747	8,616	11,564	2,968	5,971	-	-		+224
Operating Profit	540	800	996	1,382	346	742	-	-		(58)
Non Operating Balance	(223)	(291)	(127)	(241)	86	111	-	-		+402
Recurring Profit	317	509	869	1,141	432	853	-	-		+344
Extraordinary Balance	0	0	0	0	9	23	-	-		+23
Profit before Income Taxes	317	509	869	1,141	441	876	-	-		+367
Total Income Taxes	87	206	211	299	146	237	-	-		+31
NP Belonging to Non-Controlling SHs	-	1	4	5	0	3	-	-		+2
Profit Attributable to Owners of Parent	230	301	653	836	294	635	-	-		+334
Sales YoY	(2.9%)	(4.7%)	(3.5%)	(2.9%)	+0.5%	+5.9%	-	-		-
Operating Profit YoY	+2.9%	(5.0%)	(17.1%)	(11.9%)	(35.8%)	(7.2%)	-	-		-
Recurring Profit YoY	(45.7%)	(38.3%)	(22.7%)	(18.1%)	+36.2%	+67.6%	-	-		-
Profit Attributable to Owners of Parent YoY	(36.7%)	(39.3%)	(9.4%)	+6.0%	+27.9%	+111.2%	-	-		-
Gross Profit Margin	60.0%	59.2%	58.4%	58.0%	57.8%	57.4%	-	-		(1.9%)
(SG&A / Sales)	50.5%	52.0%	52.4%	51.8%	51.7%	51.0%	-	-		(1.0%)
Operating Profit Margin	9.5%	7.2%	6.1%	6.2%	6.0%	6.3%	-	-		(0.9%)
Recurring Profit Margin	5.6%	4.6%	5.3%	5.1%	7.5%	7.3%	-	-		+2.7%
Profit Attributable to Owners of Parent Margin	4.0%	2.7%	4.0%	3.7%	5.1%	5.4%	-	-		+2.7%
Total Income Taxes / Profit before Income Taxes	27.4%	40.5%	24.3%	26.2%	33.1%	27.1%	-	-		(13.4%)
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
(Million Yen)	03/2017	03/2017	03/2017	03/2017	03/2018	03/2018	03/2018	03/2018		Net Chg.
Sales	5,708	5,344	5,402	5,851	5,736	5,965	-	-		+621
CoGS	2,282	2,222	2,337	2,516	2,420	2,566	-	-		+344
Gross Profit	3,425	3,122	3,065	3,335	3,315	3,399	-	-		+277
SG&A	2,885	2,862	2,869	2,948	2,968	3,003	-	-		+141
Operating Profit	540	260	196	386	346	396	-	-		+136
Non Operating Balance	(223)	(68)	164	(114)	86	25	-	-		+93
Recurring Profit	317	192	360	272	432	421	-	-		+229
Extraordinary Balance	0	0	0	0	9	14	-	-		+14
Profit before Income Taxes	317	192	360	272	441	435	-	-		+243
Total Income Taxes	87	119	5	88	146	91	-	-		(28)
NP Belonging to Non-Controlling SHs	-	1	3	1	0	3	-	-		+2
Profit Attributable to Owners of Parent	230	71	352	183	294	341	-	-		+270
Sales YoY	(2.9%)	(6.7%)	(0.9%)	(1.2%)	+0.5%	+11.6%	-	-		-
Operating Profit YoY	+2.9%	(18.0%)	(45.6%)	+5.5%	(35.8%)	+52.3%	-	-		-
Recurring Profit YoY	(45.7%)	(20.3%)	+20.4%	+1.1%	+36.2%	+119.3%	-	-		-
Profit Attributable to Owners of Parent YoY	(36.7%)	(46.2%)	+56.4%	+165.2%	+27.9%	+380.3%	-	-		-
Gross Profit Margin	60.0%	58.4%	56.7%	57.0%	57.8%	57.0%	-	-		(1.4%)
(SG&A / Sales)	50.5%	53.6%	53.1%	50.4%	51.7%	50.3%	-	-		(3.2%)
Operating Profit Margin	9.5%	4.9%	3.6%	6.6%	6.0%	6.6%	-	-		+1.8%
Recurring Profit Margin	5.6%	3.6%	6.7%	4.6%	7.5%	7.1%	-	-		+3.5%
Profit Attributable to Owners of Parent Margin	4.0%	1.3%	6.5%	3.1%	5.1%	5.7%	-	-		+4.4%
Total Income Taxes / Profit before Income Taxes	27.4%	62.0%	1.4%	32.4%	33.1%	20.9%	-	-		(41.1%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (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		
Dental-related Business	5,258	10,095	14,999	20,267	5,174	10,441	-	-	+346	
Nail-related Business	428	913	1,385	1,944	538	1,210	-	-	+297	
Other Business	21	43	69	93	23	49	-	-	+6	
Sales	5,708	11,052	16,454	22,305	5,736	11,701	-	-	+649	
Dental-related Business	554	812	1,009	1,380	354	717	-	-	(95)	
Nail-related Business	(21)	(26)	(36)	(25)	(14)	13	-	-	+39	
Other Business	6	12	19	22	5	8	-	-	(4)	
Segment profit	539	798	992	1,376	345	739	-	-	(59)	
Elimination of intersegment transactions	1	2	4	5	1	3	-	-	+1	
Operating Profit	540	800	996	1,382	346	742	-	-	(58)	
Dental-related Business	10.5%	8.0%	6.7%	6.8%	6.8%	6.9%	-	-	(1.2%)	
Nail-related Business	(4.9%)	(2.8%)	(2.6%)	(1.3%)	(2.6%)	1.1%	-	-	+3.9%	
Other Business	28.6%	27.9%	27.5%	23.7%	21.7%	16.3%	-	-	(11.6%)	
Operating Profit Margin	9.5%	7.2%	6.1%	6.2%	6.0%	6.3%	-	-	(0.9%)	

Segmented Information (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		
Dental-related Business	5,258	4,837	4,904	5,268	5,174	5,267	-	-	+430	
Nail-related Business	428	485	472	559	538	672	-	-	+187	
Other Business	21	22	26	24	23	26	-	-	+4	
Sales	5,708	5,344	5,402	5,851	5,736	5,965	-	-	+621	
Dental-related Business	554	258	197	371	354	363	-	-	+105	
Nail-related Business	(21)	(5)	(10)	11	(14)	27	-	-	+32	
Other Business	6	6	7	3	5	3	-	-	(3)	
Segment profit	539	259	194	384	345	394	-	-	+135	
Elimination of intersegment transactions	1	1	2	1	1	2	-	-	+1	
Operating Profit	540	260	196	386	346	396	-	-	+136	
Dental-related Business	10.5%	5.3%	4.0%	7.0%	6.8%	6.9%	-	-	+1.6%	
Nail-related Business	(4.9%)	(1.0%)	(2.1%)	2.0%	(2.6%)	4.0%	-	-	+5.0%	
Other Business	28.6%	27.3%	26.9%	12.5%	21.7%	11.5%	-	-	(15.7%)	
Operating Profit Margin	9.5%	4.9%	3.6%	6.6%	6.0%	6.6%	-	-	+1.8%	

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	4,881	-	-	+432	
Accounts Receivables	2,933	2,907	2,869	3,138	3,199	3,227	-	-	+320	
Inventory	5,510	5,480	5,653	5,365	5,712	5,934	-	-	+454	
Other	1,063	799	886	786	965	956	-	-	+157	
Current Assets	14,087	13,635	14,059	14,286	14,720	14,998	-	-	+1,363	
Tangible Assets	6,574	6,553	6,629	6,682	6,677	6,667	-	-	+114	
Intangible Assets	1,561	1,510	1,586	1,538	1,595	1,613	-	-	+103	
Investments & Other Assets	5,624	5,787	6,290	6,345	6,840	7,194	-	-	+1,407	
Fixed Assets	13,760	13,851	14,506	14,566	15,113	15,475	-	-	+1,624	
Total Assets	27,848	27,486	28,566	28,853	29,834	30,473	-	-	+2,987	
Accounts Payables	520	492	618	612	706	611	-	-	+119	
Short Term Debt	504	504	505	505	505	505	-	-	+1	
Other	2,224	1,969	1,922	2,098	2,315	2,248	-	-	+279	
Current Liabilities	3,248	2,965	3,045	3,215	3,526	3,364	-	-	+399	
Long Term Debt	1,604	1,479	1,355	1,225	1,100	975	-	-	(504)	
Other	1,979	1,990	2,129	2,116	2,286	2,423	-	-	+433	
Fixed Liabilities	3,583	3,469	3,484	3,341	3,386	3,398	-	-	(71)	
Total Liabilities	6,832	6,435	6,530	6,556	6,912	6,762	-	-	+327	
Shareholders' Equity	19,470	19,541	19,766	19,949	20,066	20,408	-	-	+867	
Other	1,545	1,510	2,269	2,347	2,855	3,302	-	-	+1,792	
Net Assets	21,015	21,051	22,035	22,296	22,921	23,710	-	-	+2,659	
Total Liabilities & Net Assets	27,848	27,486	28,566	28,853	29,834	30,473	-	-	+2,987	
Equity Capital	20,929	20,957	21,930	22,185	22,818	23,598	-	-	+2,641	
Interest Bearing Debt	2,108	1,983	1,860	1,730	1,605	1,480	-	-	(503)	
Net Debt	(2,473)	(2,466)	(2,791)	(3,267)	(3,239)	(3,401)	-	-	(935)	
Equity Ratio	75.2%	76.2%	76.8%	76.9%	76.5%	77.4%	-	-	+1.2%	
Net Debt Equity Ratio	(11.8%)	(11.8%)	(12.7%)	(14.7%)	(14.2%)	(14.4%)	-	-	(2.6%)	
ROE (12 months)	3.0%	2.8%	3.3%	3.8%	4.1%	5.3%	-	-	+2.5%	
ROA (12 months)	3.9%	3.8%	3.9%	4.0%	4.4%	5.1%	-	-	+1.3%	
Days for Inventory Turnover	220	225	220	194	215	211	-	-	-	
Quick Ratio	231%	248%	247%	253%	228%	241%	-	-	-	
Current Ratio	434%	460%	462%	444%	417%	446%	-	-	-	

Source: Company Data, WRJ Calculation

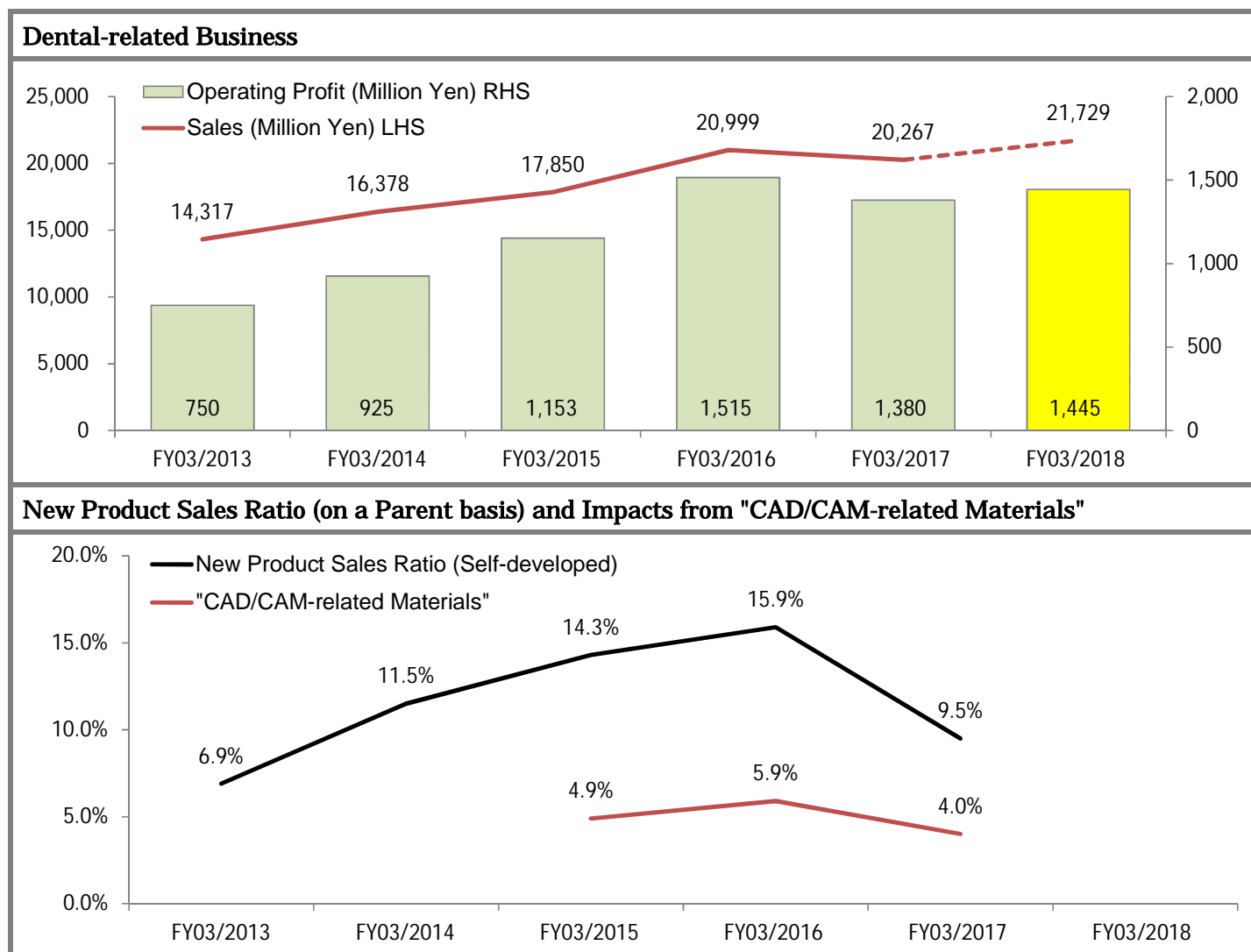
Cash Flow Statement (Cumulative)

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	-	611	-	-	(401)	
Investing Cash Flow	-	(396)	-	(1,052)	-	(578)	-	-	(182)	
Operating CF & Investing CF	-	616	-	1,256	-	33	-	-	(583)	
Financing Cash Flow	-	(434)	-	(835)	-	(458)	-	-	(24)	

Source: Company Data, WRJ Calculation

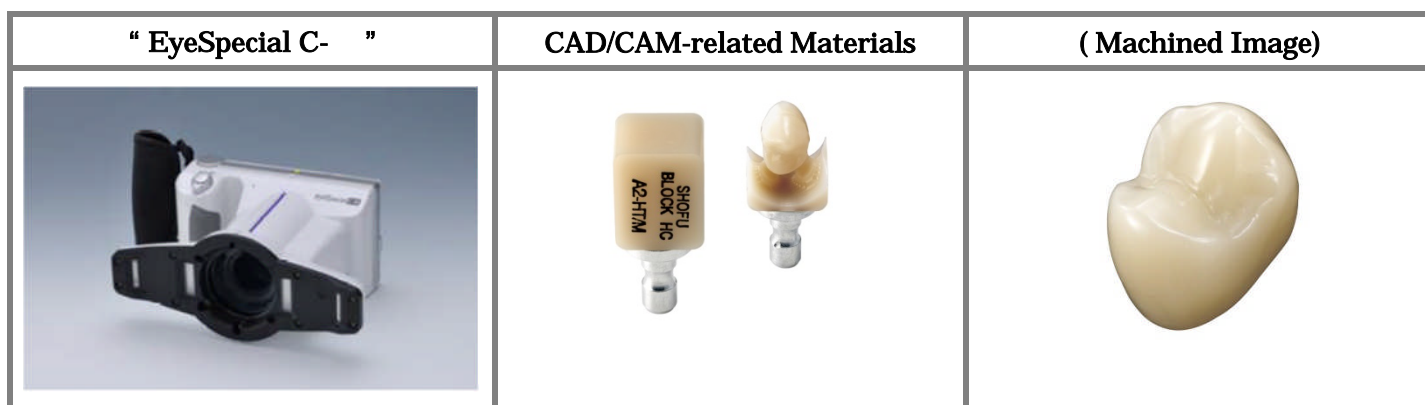
FY03/2018 Company Forecasts

FY03/2018 initial 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). Prospective annual dividend of ¥20.0 per share, implying payout ratio of 33.1%, has also remained unchanged.



Source: Company Data, WRJ Calculation

Earnings as a whole for the Company to have been mentioned above hinge on those of the mainstay Dental-related Business. In regards to the past 5 years, sales and operating profit of Dental-related Business have been positively correlated to new product sales ratio in regards to those to have been self-developed. The definition here for new product is "product to have been newly released within the past 36 months", while a single new product to have been newly released at the beginning of FY03/2015 used to play a substantial role to enhance new product sales ratio in regards to self-developed ones over 36-month period towards the end of FY03/2017. Said new product is CAD/CAM-related materials, representing those to cope with new format having been applicable to National Health Insurance Scheme since April 2014 to offer cost efficiency highest ever for patients in regards to the treatment of back teeth (premolars). At the moment, they are not defined as new product any more, while it appears that the Company has started to suffer from competition intensifying here too.



Source: Company Data

Still, the Company is seeing a recovery for new product sales ratio in regards to self-developed ones in FY03/2018, which is to drive a recovery of sales and earnings on the Dental-related Business side. In Q1 to Q2 results, the Company saw a recovery up to 9.9% for said ratio. This was driven by “EyeSpecial C- ”, i.e., new model of self-developed digital oral cavity imaging device to have been launched on 22 May 2017. In H2, the positive impacts from here are likely to get enhanced, while the Company is to launch new product for CAD/CAM-related materials on top of this. As a result, new product sales ratio in regards to self-developed ones is to reach level beyond 9.5% in FY03/2017 results on a full-year basis, eventually becoming the key factor of an earnings recovery for the Company as a whole.

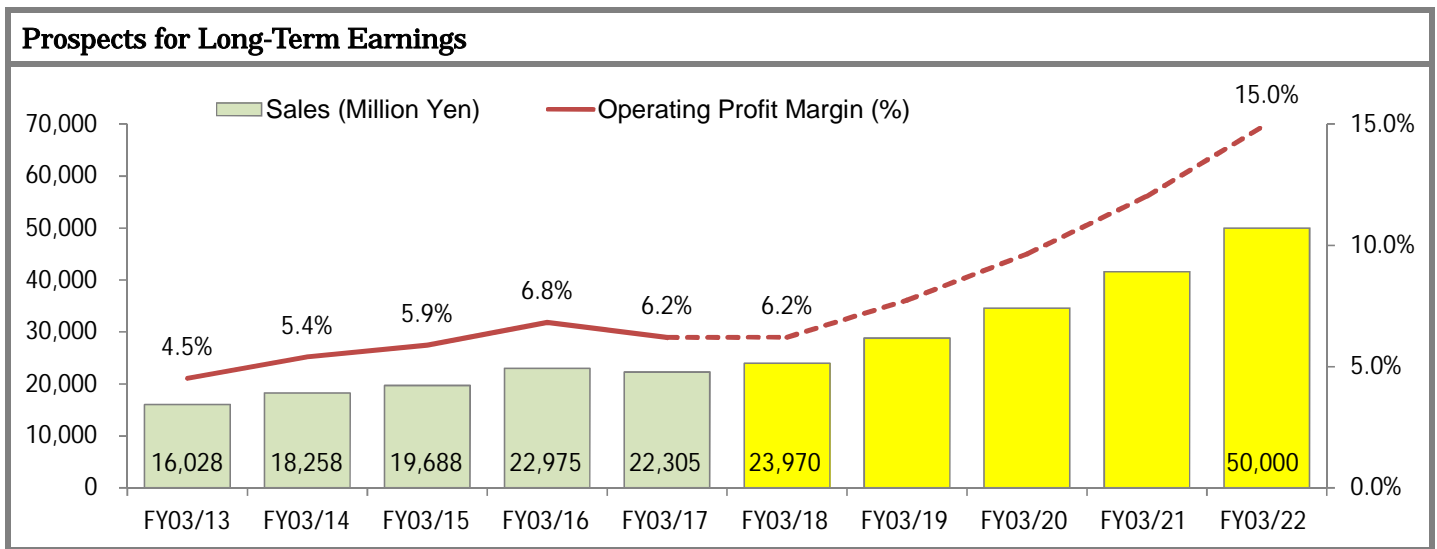
Forex Rate							
Forex Rate	Cons.Act FY	Cons.Act FY	Cons.Act FY	Cons.Act FY	Cons.Act FY	Cons.CoE FY	YoY Net Chg.
(Yen)	03/2013	03/2014	03/2015	03/2016	03/2017	03/2018	
US Dollar	83.23	100.00	110.03	120.17	109.03	108.00	(1.03)
Euro	107.57	134.01	138.68	132.35	119.37	119.00	(0.37)
GBP	131.36	159.20	176.81	180.66	143.04	145.00	+1.96
Chinese Yuan	12.69	15.80	17.26	19.21	16.56	16.20	(0.36)
US Dollar (YoY)	-	+20.1%	+10.0%	+9.2%	(9.3%)	(0.9%)	-
Euro	-	+24.6%	+3.5%	(4.6%)	(9.8%)	(0.3%)	-
GBP	-	+21.2%	+11.1%	+2.2%	(20.8%)	+1.4%	-
Chinese Yuan	-	+24.5%	+9.2%	+11.3%	(13.8%)	(2.2%)	-
US Dollar (1 yen to sales, million yen)	-	-	-	-	-	(28)	-
Euro	-	-	-	-	-	(31)	-
GBP	-	-	-	-	-	(2)	-
Chinese Yuan	-	-	-	-	-	(100)	-
US Dollar (1 yen to OP, million yen)	-	-	-	-	-	(10)	-
Euro	-	-	-	-	-	(5)	-
GBP	-	-	-	-	-	+0	-
Chinese Yuan	-	-	-	-	-	(54)	-

Source: Company Data, WRJ Calculation

In regards to forex rate, Company forecasts assume limited changes over the previous year across the board, when compared with the results over the past years and thus impacting to sales and operating profit less than before. Meanwhile, as mentioned earlier, the Company saw forex profit of ¥133m at the non-operating level in Q1 to Q2, but existing Company forecasts do not assume any forex profit nor loss.

Long-Term Prospects

The Company's existing midterm management plan (FY03/2016 to FY03/2018) is going for prospective sales of ¥28,471m, operating profit of ¥2,978m and operating profit margin of 10.5%, while going for ROE of 8.5% (versus 2.8% in FY03/2015) in FY03/2018, i.e., the last year of the plan..



Source: Company Data, WRJ Calculation (FY03/2018: Company forecasts)

Meanwhile, as mentioned, FY03/2018 initial Company forecasts are going for prospective sales of ¥23,970m (up 7.5% YoY), operating profit of ¥1,488m (up 7.7%) and operating profit margin of 6.2% (up 0.01% point), which have been remained unchanged to date. When compared with business performance target of existing midterm management plan, sales are smaller by ¥4,501m (15.8%) and operating profit smaller by ¥1,490m (50.0%). While sales in Japan are smaller by ¥2,155m (13.5%) and sales overseas smaller by ¥1,650m (13.3%), differences between the two in terms of forex rate assumptions cut back sales by ¥696m, according to the Company. In line with sales smaller, the Company is to see expenses smaller too, but as is taken for granted shortfall of sales are to generate shortfall of gross profit, collectively resulting in a major shortfall of operating profit.

Going forward, in FY03/2022, when the Company celebrates its 100th anniversary, the Company is calling for prospective sales of ¥50,000m (¥17,000m in Japan, ¥33,000m overseas and thus overseas sales ratio of 66.0%) to be achieved as well as operating profit of ¥7,500m and operating profit margin of 15.0%. To date, the Company has not made changes for this, but changes are unavoidable in the near future, given increasing probability for existing midterm management plan (FY03/2016 to FY03/2018) to fall short of the target, which is positioned as a process to achieve prospective earnings in FY03/2022.

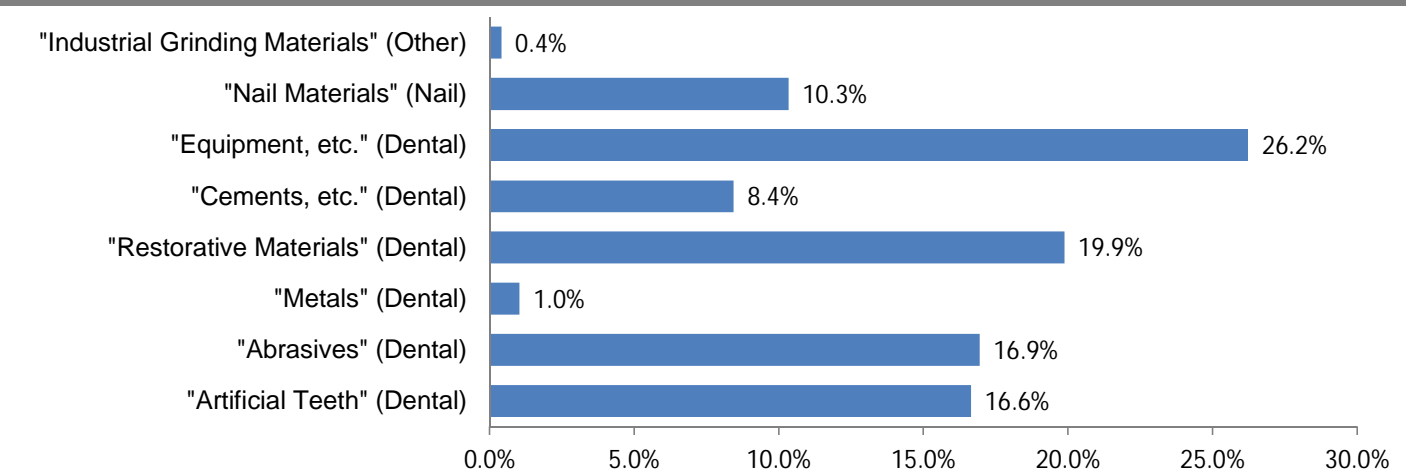
The Company plans to come up with and release new midterm management plan (FY03/2019 to FY03/2021) in line with the release of FY03/2018 results, while also planning to talk about and explain prospective earnings target in FY03/2022 at the same time.

4.0 Business Model

Contributing to Dentistry on a Global basis

The Company, claiming for “contributing to dentistry on a global basis by means of creative corporate activities” as the corporate philosophy, mainly runs Dental-related Business. The key contents here are developing, manufacturing and selling of diverse dental materials. Artificial teeth are dental materials for dentures and implants, while abrasives are those to grind affected areas and/or to polish dental crowns. Metals are foundation materials for dental crowns and implants. Restorative materials are for implants, stuffing for affected areas, gums of dentures and those of more diversified applications. Cements are bonding materials for implants and stuffing, while equipment are of diverse purposes associated with dental treatment and related finesse.

Sales Composition Ratio (Q1 to Q2 FY03/2018)



Source: Company Data, WRJ Calculation

Thus, the Company is heavily involved with diverse dental materials as well as equipment. As far as “Artificial Teeth”, “Abrasives”, “Restorative Materials” and “Cements, etc.” are concerned, the Company basically develops, manufactures and sells own products, while “Equipment, etc.” also with selling of procured merchandises on top of self-developed products. Sales of “Equipment, etc.” include those of CAD/CAM-related cutting & processing machine (“DWX-50”) to be procured and to be sold, for example, as well as those of CAD/CAM-related materials at the same time. On top of this, sales of self-developed digital oral imaging device are also included here.

Out of sales in Japan as a whole, the Company is exposed to sales of merchandises to have been procured by some 20% to 25%, while nothing or all own products on the overseas side.

Basically, the Company sees gross profit margin relatively high in regards to “Artificial Teeth”, “Abrasives”, “Restorative Materials” and “Cements, etc.”, i.e., all those own products to be developed, manufactured and sold, while seeing gross profit margin relatively low in regards to “Equipment, etc.” where sales of procured merchandises being included. Out of own products, it appears that the Company sees gross profit margin high in particular in regards to “Restorative Materials” to benefit from volume effects due to capacity utilization rate currently remaining high. Meanwhile, the Company sees gross profit margin the highest second only to “Restorative Materials” in regards to “Artificial Teeth” and “Abrasives” due to high competitiveness to have been held originally. Meanwhile, the Company sees gross profit margin relatively low in regards to “Equipment, etc.” by category, although own products carrying high gross profit margin are a part of this category.

Mainstay Products of Dental-related Business

Artificial Teeth



Ceramic Teeth



Hard-Resin Teeth



Resin Teeth



Dental Porcelains Metals

Abrasives



Diamond



Silicon Carbide



Rubber



Other Instruments

Restorative Materials



Composite Resins



For Crowns & Bridges



Other Resins



For Denture Bases

Cements



Luting Cements



Filling Cements



Embedding Materials



Gypsums

Source: Company Data

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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