Walden Research Japan

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SHOFU (7979)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2017		22,305	1,382	1,141	836	52.61	20.00	1,396.7
FY03/2018		24,031	1,497	1,565	877	55.20	20.00	1,511.9
FY03/2019CoE		25,725	1,737	1,630	1,109	69.77	21.00	-
FY03/2018	YoY	7.7%	8.3%	37.2%	4.8%	-	-	-
FY03/2019CoE	YoY	7.1%	16.0%	4.2%	26.4%	-	-	-
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 FY03/2018		11,701	742	853	635	-	-	-
Q3 to Q4 FY03/2018		12,330	755	712	242	-	-	-
Q1 to Q2 FY03/2019CoE		12,550	639	589	346	-	-	-
Q3 to Q4 FY03/2019CoE		13,175	1,098	1,041	763	-	-	-
Q1 to Q2 FY03/2019CoE	YoY	7.3%	(14.0%)	(30.9%)	(45.5%)	-	-	-
Q3 to Q4 FY03/2019CoE	YoY	6.9%	45.4%	46.2%	215.3%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (22 June 2018)

Organic Growth

SHOFU, developing, manufacturing and selling dental materials as the key earnings pillar, is making steady progress with its measures to cultivate markets overseas. Going forward, there still remains room to cultivate even more, suggesting a long-term growth potential for the Company. Since FY03/2013, when the Company started up the first midterm management plan with cultivation of markets overseas as the key initiative, the Company has been seeing favorable results to date, i.e., sales overseas of Dental-related Business to develop, manufacture and sell dental materials having seen CAGR of 12.5% by FY03/2018 in terms of local currencies versus 2.2% for sales in Japan. Even when removing impacts associated with merger & acquisition, sales overseas have seen CAGR of 7.8% in terms of local currencies. Thus, organic growth of sales overseas far exceeded those of Japan. Meanwhile, the third midterm management plan (FY03/2019 to FY03/2021) is going for sales overseas mainly driving prospective earnings, planning to see sales of ¥29,264m and operating profit of ¥2,341m in FY03/2021, i.e., the last year of the plan, suggesting CAGR of 6.8% for sales and 16.1% for earnings when based on FY03/2018 results. The plan assumes CAGR of 3.7% for sales in Japan and 10.1% for sales overseas in terms of local currencies for Dental-related Business during the same period, while the Company having recently established a clear vision to accelerate cultivation of markets overseas by means of further implementing merger & acquisition in the foreseeable future.

In FY03/2018, sales came in at ¥24,031m (up 7.7% YoY), operating profit ¥1,497m (up 8.3%) and operating profit margin 6.23% (up 0.03% points). Gross profit margin came in at 57.3% (down 0.8% points), but operating profit margin slightly improved over the previous year due to increases of SG&A expenses having been rather suppressed compared with those of sales. Lowering gross profit margin has a lot to do with that of Dental-related Business. In Japan, market prices of dental materials came down, while strategic price cut to promote sales was implemented in China. Actually, it appears that the Company is currently seeing market share increasing in China as expected. Meanwhile, by region, sales in Japan came in at ¥13,652m (up 3.5%) and sales overseas ¥10,378m (up 13.8%), implying overseas sales ratio of 43.2% (up 2.3% points). In terms of local currencies, sales overseas increased by 9.3%. In FY03/2018, the Company saw surging sales and thus dramatically improving earnings in Nail-related Business to develop, manufacture and sell nail salon materials due to successful launches of new products both in Japan and overseas, etc. Still, Dental-related Business accounted for 94.6% of operating profit as a whole for the Company (before elimination of intersegment transactions), suggesting developing, manufacturing and selling dental materials being the overwhelming source of earnings for the Company.

FY03/2019 Company forecasts are going for prospective sales of ¥25,725m (up 7.1% YoY), operating profit of ¥1,737m (up 16.0%) and operating profit margin of 6.75% (up 0.52%), assuming sales of ¥14,453m (up 5.9%) in Japan and ¥11,271m (up 8.6%) overseas. In terms of local currencies, sales overseas are to increase by 10.2% over the previous year. Sales and earnings in Nail-related Business are to remain buoyant, while sales and earnings are to favorably rise in Dental-related Business. With respect to CAD/CAM-related materials & equipment in Japan, stocking and selling of equipment is to see ongoing increases of sales, while sales of materials, having adjusted due to intensifying competition for some time, are to increase due to launch of new products, as far as we could gather. Meanwhile, sales overseas are to remain favorable across the board, i.e., up 6.0% over the previous year in the Americas, up 9.1% in Europe, up 12.9% in China and up 15.7% in Asia & Oceania, all in terms of local currencies. Generally speaking, sales overseas all comprising own products carrying gross profit margin higher than that of sales in Japan comprising own products and stocking and selling as well. Thus, steady progress, being consistently made, for cultivation of markets overseas are to bring improving sales mix for the Company in this respect. FY03/2019 Company forecasts are going for gross profit margin of 58.2%, the highest ever over the past 5 years.

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2.0 Company Profile

Comprehensive Manufacturer of Dental Materials

Company Name	SHOFU INC. Website IR Information Share Price (Japanese)
Established	15 May 1922
Listing	25 July 1963: Tokyo Stock Exchange 1st Section (ticker: 7979)
Capital	¥4,474m (as of the end of March 2018)
No. of Shares	16,114,089 shares, including 215,792 treasury shares (as of the end of March 2018)
Main Features	● The leader of artificial teeth and abrasives in Japan ● Focus on sales promotions overseas where great room to cultivate is found ● Also developing, manufacturing and selling nail salon materials
Business Segments	Ⅰ. Dental-related Business Ⅱ. Nail-related Business Ⅲ. 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 March 2018)
Headquarters	Higashiyama-ku, Kyoto-city, JAPAN
No. of Employees	Consolidated:1,124, Parent: 435 (as of the end of March 2018)

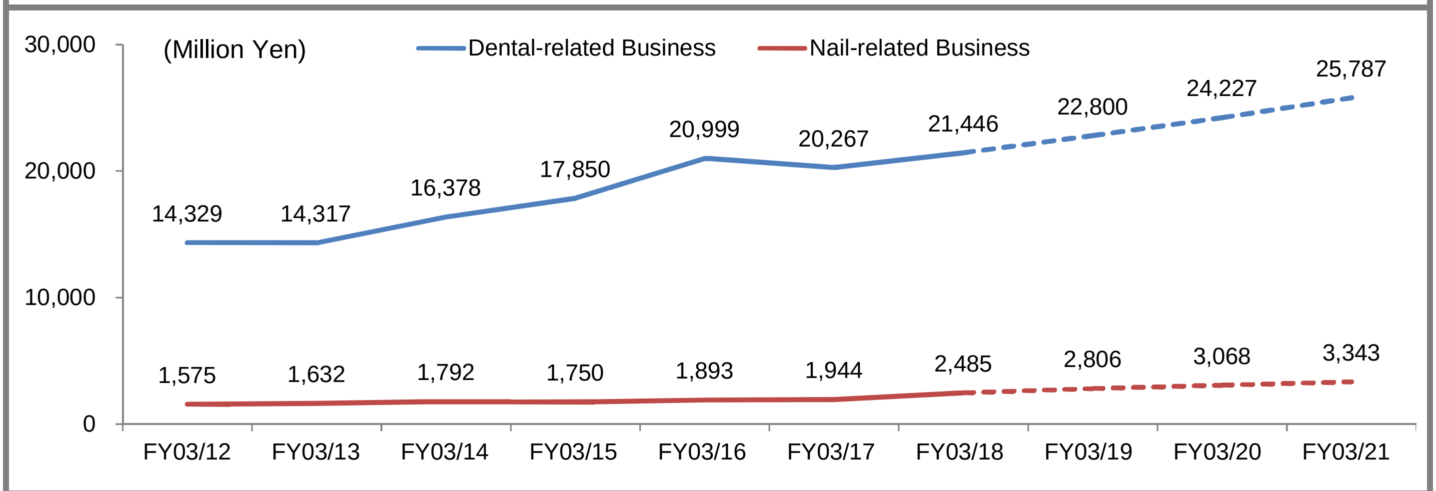
Source: Company Data

3.0 Recent Trading & Prospects

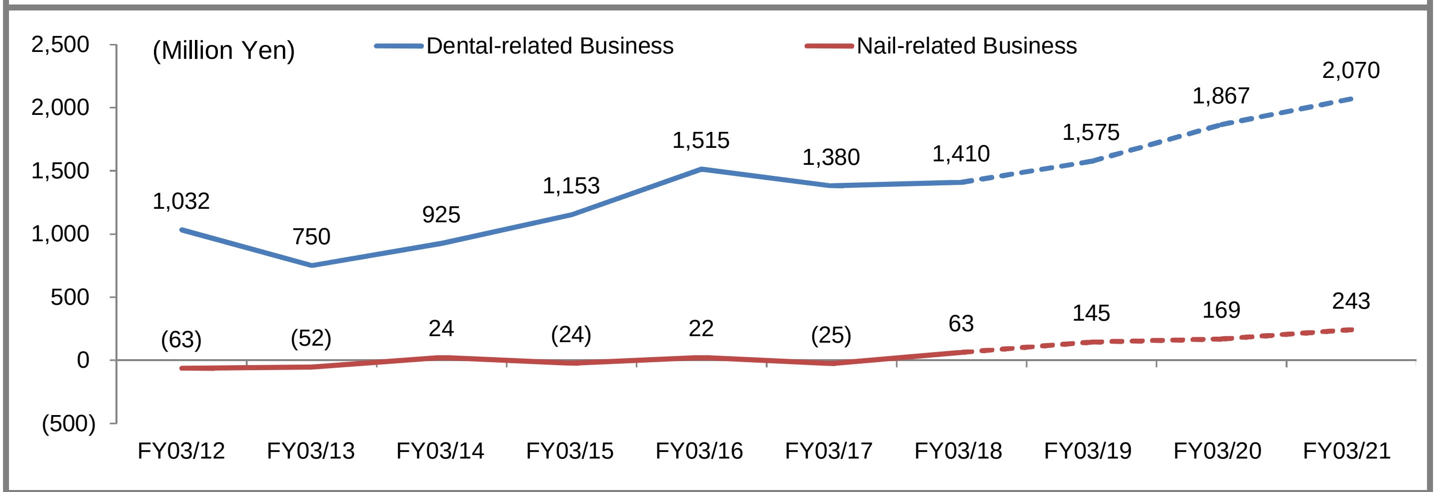
FY03/2018 Results

In FY03/2018, sales came in at ¥24,031m (up 7.7% YoY), operating profit ¥1,497m (up 8.3%), recurring profit ¥1,565m (up 37.2%) and profit attributable to owners of parent ¥877m (up 4.8%), while operating profit margin 6.23% (up 0.03% points).

Sales (The Third Midterm Management Plan)



Operating Profit (The Third Midterm Management Plan)



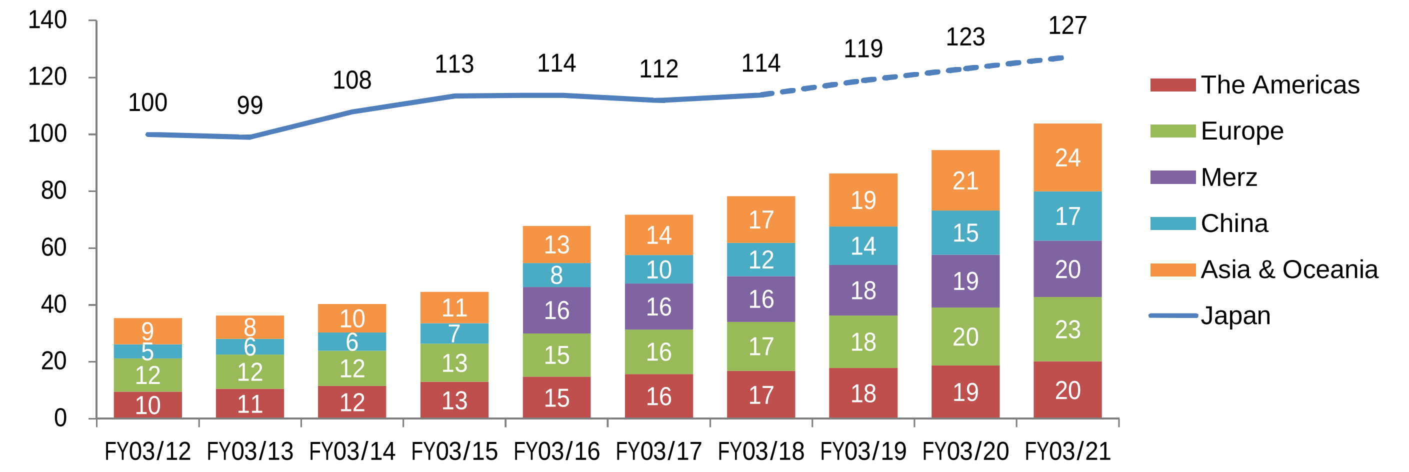
Source: Company Data, WRJ Calculation

The mainstay Dental-related Business saw sales of ¥21,446m (up 5.8%), operating profit of ¥1,410m (up 2.2%) and operating profit margin of 6.6% (down 0.2% points), while Nail-related Business sales of ¥2,485m (up 27.8%), operating profit of ¥63m (versus operating loss off negative ¥25m in the previous year) and operating profit margin of 2.5% (up 3.8% points).

In regards to the latter, the Company saw surging sales and thus dramatically improving earnings due to successful launches of new products both in Japan and overseas, etc. In Japan, the Company launched new brand of “ageha” for gel nail products in July 2017 through cooperative development with a famous manicurist, while aggressive sales promotion measures taking advantage of SNS in the United States and Taiwan nicely drove sales overseas of gel nail products.

Still, Dental-related Business accounted for 94.6% of operating profit as a whole for the Company (before elimination of intersegment transactions), suggesting developing, manufacturing and selling dental materials being the overwhelming source of earnings for the Company. This is true of assumptions of the third midterm management plan (FY03/2019 to FY03/2021).

Dental-related Business : Sales in Terms of Local Currencies (Sales of Japan in FY03/2012 =100)



Forex Rate

(Yen / Foreign Currencies)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
US Dollar	82.19	83.23	100.00	110.03	120.17	109.03	110.81	105.00	105.00	105.00
Euro	109.80	107.57	134.01	138.68	132.35	119.37	129.45	130.00	130.00	130.00
GBP	131.34	131.36	159.20	176.81	180.66	143.04	147.27	150.00	150.00	150.00
RMB	12.31	12.69	15.80	17.26	19.21	16.56	16.64	16.50	16.50	16.50

Source: Company Data, WRJ Calculation

As far as the mainstay Dental-related Business is concerned, the Company has been making intensive corporate efforts to cultivate markets overseas since FY03/2013, when the Company started up the first midterm management plan. Sales overseas have been boosted by yen getting depreciated against foreign currencies since then, but having steadily increased in terms of local currencies at the same time. Through FY03/2013 to FY03/2018, the Company saw CAGR of 12.5% for sales overseas versus 2.2% for sales in Japan. As far as we could see, did the Company well cultivate markets overseas during the period of both the first midterm management plan and the second, respectively, FY03/2013 to FY03/2015 and FY03/2016 to FY03/2018.

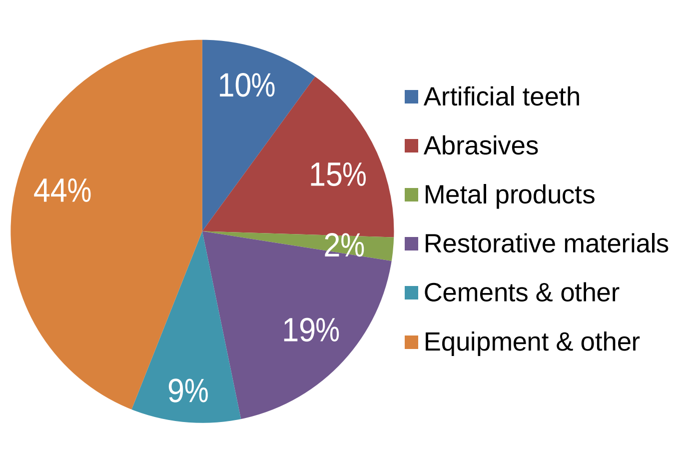
Meanwhile, sales overseas saw CAGR of 7.8%, when excluding impacts stemming from consolidation of Merz Dental GmbH (Merz), i.e., one of the largest manufacturers of artificial teeth in Germany to have been merged and acquired since the beginning of FY03/2016.

By region, the Company saw CAGR of 9.9% in regards to sales in Americas, 6.7% in Europe, 15.4% in China and 0.3% in Asia & Oceania. When Merz being included, sales in Europe saw CAGR of 19.1%. In line with steady progress of market cultivations overseas in Dental-related Business, overseas sales ratio has been increasing as a whole for the Company, including operations of Nail-related Business.

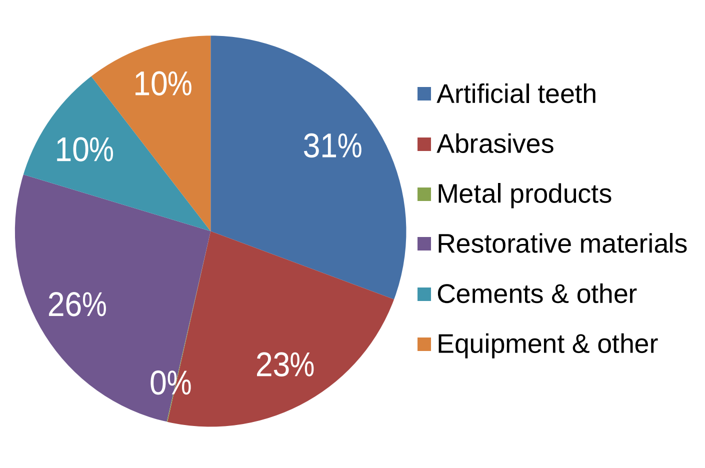
Compared with overseas sales ratio of 23.8% in FY03/2012 just before the startup of the first midterm management plan, the Company saw overseas sales ratio of 43.2% in FY03/2018, i.e., the last year of the second midterm management plan, having seen the ratio risen by 19.4% points during the same period. Meanwhile, the third midterm management plan is going for further increases of overseas sales ratio going forward.

Dental-related Business: Sales by Category (FY03/2018)

Japan



Overseas



Source: Company Data, WRJ Calculation

Meanwhile, it appears that increasing overseas sales ratio for Dental-related Business has a strong tendency to lead to sales mix improving as a whole for the Company. While sales overseas all relate to own products, the Company suggests that it is exposed to stocking and selling more than a certain extent in regards to sales of equipment & other in Japan, accounting for 44% of total. The Company also suggests that it is exposed to stocking and selling by 20% to 25% in regards to sales in Japan, suggesting that half of sales of equipment & other is of own products and the other half of stocking and selling, just roughly speaking.

Generally speaking, sales based on a stocking and selling basis carry gross profit margin lower than that of sales based on an own product basis, while sales overseas not being exposed to the former is suggested to carry gross profit margin relatively higher than that of sales in Japan

In the first place, the Company does not assume any major growth potential in the future in the market for Japan where maturity is prevailing, while therefore having concentrated own resources on sales promotions overseas where the Company finds high growth potential going forward as well as great room to cultivate remaining. It is taken for granted that the Company will do so in the future too. For example, future economic growth in developing countries suggests high potential for the markets overseas to expand over the long term, while it could be the case that the Company has not been hardy exposed to markets overseas yet in a sense.

In Japan, the Company supplies dental clinics and dental technician's offices to process dental materials with diverse dental materials comprising artificial teeth, abrasives, metal products, restorative materials and cements & other as well as equipment & other. Dental technicians represent specialty operators of dental materials processing to operate in line with detailed instructions from each dental clinic. The Company has been keen on developing and launching new products and/or new models for all those final users, while speaking to them directly to provide information on own products and other issues. In FY03/2018, the Company launched "EyeSpecial C-Ⅲ", i.e., new model of self-developed digital oral cavity imaging device, belonging to equipment & other, which has become the key driver for sales in Japan, as far as we could gather.

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

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 learnt 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.

Meanwhile, when compared with initial Company forecasts, sales in FY03/2018 were better by ¥61m (0.3%), operating profit better by ¥9m (0.6%), recurring profit better by ¥162m (11.5%) and profit attributable to owners of parent worse by ¥82m (8.6%). Thus, sales and operating profit were effectively in line, while Company forecasts were well exceeded in terms of recurring profit, which was due mainly to forex profit. Still, this was not substantial enough to compensate of unexpected extraordinary loss, having resulted in profit attributable to owners of parent fallen short.

The former came in at ¥75m and the latter ¥231m. As of the end of every quarter, the Company reevaluates foreign-currencies-denominated debts and credits. As of the end of FY03/2018, yen got depreciated over the end of FY03/2017, having resulted in forex profit in line with improved evaluations on foreign-currencies-denominated credits. Meanwhile, the Company has written off some 40% of remaining goodwill on Merz, because of sales and earnings having fallen short of expectations initially made at the stage of consolidation, having resulted in above-mentioned extraordinary loss for the Company.

In regards to long-term “ideal” earnings target released in line with that of the first midterm management plan calling for prospective sales of ¥50,000m and operating profit of ¥7,500m in FY03/2022, when the Company celebrates the 100th anniversary, the Company mentions “it is now difficult to do so in FY03/2022”. The main reasons for this are a) having coped with market needs in growth domains and with growth opportunities not quickly enough, b) delayed expansion of sales network overseas and delayed measures to cope with pharmaceutical regulations in each country and c) measures to cope with pricing pressure having not made progress.

More importantly, however, all those issues are insufficient and/or delayed, only when compared with initial assumptions of above-mentioned long-term “ideal” earnings target, while the Company did make steady progress for its measures to cultivate markets overseas, as discussed so far, implying each of the Company’s measures having been implemented turned out to be effective more than a certain extent. Going forward, the Company is to actively look at all those issues of a), b) and c) in the face to provide them with solutions so that said earnings target will be achievable at an early stage.

Income Statement (Cumulative, Quarterly)

Income Statement (Million Yen)	Cons.Act Q1 03/2017	Cons.Act Q1 to Q2 03/2017	Cons.Act Q1 to Q3 03/2017	Cons.Act Q1 to Q4 03/2017	Cons.Act Q1 03/2018	Cons.Act Q1 to Q2 03/2018	Cons.Act Q1 to Q3 03/2018	Cons.Act Q1 to Q4 03/2018	YoY Net Chg.
Sales	**5,708**	**11,052**	**16,454**	**22,305**	**5,736**	**11,701**	**17,801**	**24,031**	**+1,726**
CoGS	2,282	4,504	6,841	9,357	2,420	4,986	7,556	10,267	+910
Gross Profit	3,425	6,547	9,612	12,947	3,315	6,714	10,244	13,763	+816
SG&A	2,885	5,747	8,616	11,564	2,968	5,971	9,109	12,266	+702
Operating Profit	**540**	**800**	**996**	**1,382**	**346**	**742**	**1,135**	**1,497**	**+115**
Non Operating Balance	(223)	(291)	(127)	(241)	86	111	146	68	+309
Recurring Profit	**317**	**509**	**869**	**1,141**	**432**	**853**	**1,281**	**1,565**	**+424**
Extraordinary Balance	0	0	0	0	9	23	23	(208)	(208)
Profit before Income Taxes	317	509	869	1,141	441	876	1,304	1,357	+216
Total Income Taxes	87	206	211	299	146	237	368	478	+179
NP Belonging to Non-Controlling SHs	-	1	4	5	0	3	3	1	(4)
Profit Attributable to Owners of Parent	**230**	**301**	**653**	**836**	**294**	**635**	**933**	**877**	**+41**
Sales YoY	(2.9%)	(4.7%)	(3.5%)	(2.9%)	+0.5%	+5.9%	+8.2%	+7.7%	-
Operating Profit YoY	+2.9%	(5.0%)	(17.1%)	(11.9%)	(35.8%)	(7.2%)	+14.0%	+8.3%	-
Recurring Profit YoY	(45.7%)	(38.3%)	(22.7%)	(18.1%)	+36.2%	+67.6%	+47.3%	+37.2%	-
Profit Attributable to Owners of Parent YoY	(36.7%)	(39.3%)	(9.4%)	+6.0%	+27.9%	+111.2%	+42.8%	+4.8%	-
Gross Profit Margin	60.0%	59.2%	58.4%	58.0%	57.8%	57.4%	57.5%	57.3%	(0.8%)
(SG&A / Sales)	50.5%	52.0%	52.4%	51.8%	51.7%	51.0%	51.2%	51.0%	(0.8%)
Operating Profit Margin	9.46%	7.24%	6.05%	6.20%	6.03%	6.34%	6.38%	6.23%	+0.03%
Recurring Profit Margin	5.6%	4.6%	5.3%	5.1%	7.5%	7.3%	7.2%	6.5%	+1.4%
Profit Attributable to Owners of Parent Margin	4.0%	2.7%	4.0%	3.7%	5.1%	5.4%	5.2%	3.6%	(0.1%)
Total Income Taxes / Profit before Income Taxes	27.4%	40.5%	24.3%	26.2%	33.1%	27.1%	28.2%	35.2%	+9.0%

Income Statement (Million Yen)	Cons.Act Q1 03/2017	Cons.Act Q2 03/2017	Cons.Act Q3 03/2017	Cons.Act Q4 03/2017	Cons.Act Q1 03/2018	Cons.Act Q2 03/2018	Cons.Act Q3 03/2018	Cons.Act Q4 03/2018	YoY Net Chg.
Sales	**5,708**	**5,344**	**5,402**	**5,851**	**5,736**	**5,965**	**6,100**	**6,230**	**+379**
CoGS	2,282	2,222	2,337	2,516	2,420	2,566	2,570	2,711	+195
Gross Profit	3,425	3,122	3,065	3,335	3,315	3,399	3,530	3,519	+184
SG&A	2,885	2,862	2,869	2,948	2,968	3,003	3,138	3,157	+209
Operating Profit	**540**	**260**	**196**	**386**	**346**	**396**	**393**	**362**	**(24)**
Non Operating Balance	(223)	(68)	164	(114)	86	25	35	(78)	+36
Recurring Profit	**317**	**192**	**360**	**272**	**432**	**421**	**428**	**284**	**+12**
Extraordinary Balance	0	0	0	0	9	14	0	(231)	(231)
Profit before Income Taxes	317	192	360	272	441	435	428	53	(219)
Total Income Taxes	87	119	5	88	146	91	131	110	+22
NP Belonging to Non-Controlling SHs	-	1	3	1	0	3	0	(2)	(3)
Profit Attributable to Owners of Parent	**230**	**71**	**352**	**183**	**294**	**341**	**298**	**(56)**	**(239)**
Sales YoY	(2.9%)	(6.7%)	(0.9%)	(1.2%)	+0.5%	+11.6%	+12.9%	+6.5%	-
Operating Profit YoY	+2.9%	(18.0%)	(45.6%)	+5.5%	(35.8%)	+52.3%	+100.5%	(6.2%)	-
Recurring Profit YoY	(45.7%)	(20.3%)	+20.4%	+1.1%	+36.2%	+119.3%	+18.9%	+4.4%	-
Profit Attributable to Owners of Parent YoY	(36.7%)	(46.2%)	+56.4%	+165.2%	+27.9%	+380.3%	(15.3%)	-	-
Gross Profit Margin	60.0%	58.4%	56.7%	57.0%	57.8%	57.0%	57.9%	56.5%	(0.5%)
(SG&A / Sales)	50.5%	53.6%	53.1%	50.4%	51.7%	50.3%	51.4%	50.7%	+0.3%
Operating Profit Margin	9.46%	4.87%	3.63%	6.60%	6.03%	6.64%	6.44%	5.81%	(0.79%)
Recurring Profit Margin	5.6%	3.6%	6.7%	4.6%	7.5%	7.1%	7.0%	4.6%	(0.1%)
Profit Attributable to Owners of Parent Margin	4.0%	1.3%	6.5%	3.1%	5.1%	5.7%	4.9%	(0.9%)	(4.0%)
Total Income Taxes / Profit before Income Taxes	27.4%	62.0%	1.4%	32.4%	33.1%	20.9%	30.6%	207.5%	+175.2%

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act Q1 03/2017	Cons.Act Q1 to Q2 03/2017	Cons.Act Q1 to Q3 03/2017	Cons.Act Q1 to Q4 03/2017	Cons.Act Q1 03/2018	Cons.Act Q1 to Q2 03/2018	Cons.Act Q1 to Q3 03/2018	Cons.Act Q1 to Q4 03/2018	YoY Net Chg.
Dental-related Business	5,258	10,095	14,999	20,267	5,174	10,441	15,903	21,446	+1,179
Nail-related Business	428	913	1,385	1,944	538	1,210	1,821	2,485	+541
Other Business	21	43	69	93	23	49	76	98	+5
Sales	**5,708**	**11,052**	**16,454**	**22,305**	**5,736**	**11,701**	**17,801**	**24,031**	**+1,726**
Dental-related Business	554	812	1,009	1,380	354	717	1,093	1,410	+30
Nail-related Business	(21)	(26)	(36)	(25)	(14)	13	21	63	+88
Other Business	6	12	19	22	5	8	14	17	(5)
Segment profit	**539**	**798**	**992**	**1,376**	**345**	**739**	**1,130**	**1,491**	**+115**
Elimination of intersegment transactions	1	2	4	5	1	3	4	6	+1
Operating Profit	**540**	**800**	**996**	**1,382**	**346**	**742**	**1,135**	**1,497**	**+115**
Dental-related Business	10.5%	8.0%	6.7%	6.8%	6.8%	6.9%	6.9%	6.6%	(0.2%)
Nail-related Business	(4.9%)	(2.8%)	(2.6%)	(1.3%)	(2.6%)	1.1%	1.2%	2.5%	+3.8%
Other Business	28.6%	27.9%	27.5%	23.7%	21.7%	16.3%	18.4%	17.3%	(6.3%)
Operating Profit Margin	**9.5%**	**7.2%**	**6.1%**	**6.2%**	**6.0%**	**6.3%**	**6.4%**	**6.2%**	**+0.0%**

Segmented Information (Million Yen)	Cons.Act Q1 03/2017	Cons.Act Q2 03/2017	Cons.Act Q3 03/2017	Cons.Act Q4 03/2017	Cons.Act Q1 03/2018	Cons.Act Q2 03/2018	Cons.Act Q3 03/2018	Cons.Act Q4 03/2018	YoY Net Chg.
Dental-related Business	5,258	4,837	4,904	5,268	5,174	5,267	5,462	5,543	+275
Nail-related Business	428	485	472	559	538	672	611	664	+105
Other Business	21	22	26	24	23	26	27	22	(2)
Sales	**5,708**	**5,344**	**5,402**	**5,851**	**5,736**	**5,965**	**6,100**	**6,230**	**+379**
Dental-related Business	554	258	197	371	354	363	376	317	(54)
Nail-related Business	(21)	(5)	(10)	11	(14)	27	8	42	+31
Other Business	6	6	7	3	5	3	6	3	0
Segment profit	**539**	**259**	**194**	**384**	**345**	**394**	**391**	**361**	**(23)**
Elimination of intersegment transactions	1	1	2	1	1	2	1	2	+1
Operating Profit	**540**	**260**	**196**	**386**	**346**	**396**	**393**	**362**	**(24)**
Dental-related Business	10.5%	5.3%	4.0%	7.0%	6.8%	6.9%	6.9%	5.7%	(1.3%)
Nail-related Business	(4.9%)	(1.0%)	(2.1%)	2.0%	(2.6%)	4.0%	1.3%	6.3%	+4.4%
Other Business	28.6%	27.3%	26.9%	12.5%	21.7%	11.5%	22.2%	13.6%	+1.1%
Operating Profit Margin	**9.5%**	**4.9%**	**3.6%**	**6.6%**	**6.0%**	**6.6%**	**6.4%**	**5.8%**	**(0.8%)**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act Q1 03/2017	Cons.Act Q2 03/2017	Cons.Act Q3 03/2017	Cons.Act Q4 03/2017	Cons.Act Q1 03/2018	Cons.Act Q2 03/2018	Cons.Act Q3 03/2018	Cons.Act Q4 03/2018	YoY Net Chg.
Cash & Deposit	4,581	4,449	4,651	4,997	4,844	4,881	5,111	5,733	+736
Accounts Receivables	2,933	2,907	2,869	3,138	3,199	3,227	3,020	3,285	+147
Inventory	5,510	5,480	5,653	5,365	5,712	5,934	6,141	5,871	+506
Other	1,063	799	886	786	965	956	973	979	+193
Current Assets	**14,087**	**13,635**	**14,059**	**14,286**	**14,720**	**14,998**	**15,245**	**15,868**	**+1,582**
Tangible Assets	6,574	6,553	6,629	6,682	6,677	6,667	6,597	6,588	(94)
Intangible Assets	1,561	1,510	1,586	1,538	1,595	1,613	1,599	1,279	(259)
Investments & Other Assets	5,624	5,787	6,290	6,345	6,840	7,194	7,659	7,620	+1,275
Fixed Assets	**13,760**	**13,851**	**14,506**	**14,566**	**15,113**	**15,475**	**15,856**	**15,488**	**+922**
Total Assets	**27,848**	**27,486**	**28,566**	**28,853**	**29,834**	**30,473**	**31,102**	**31,357**	**+2,504**
Accounts Payables	520	492	618	612	706	611	688	744	+132
Short Term Debt	504	504	505	505	505	505	505	500	(5)
Other	2,224	1,969	1,922	2,098	2,315	2,248	2,110	2,419	+321
Current Liabilities	**3,248**	**2,965**	**3,045**	**3,215**	**3,526**	**3,364**	**3,303**	**3,663**	**+448**
Long Term Debt	1,604	1,479	1,355	1,225	1,100	975	850	986	(239)
Other	1,979	1,990	2,129	2,116	2,286	2,423	2,599	2,551	+435
Fixed Liabilities	**3,583**	**3,469**	**3,484**	**3,341**	**3,386**	**3,398**	**3,449**	**3,537**	**+196**
Total Liabilities	**6,832**	**6,435**	**6,530**	**6,556**	**6,912**	**6,762**	**6,753**	**7,200**	**+644**
Shareholders' Equity	**19,470**	**19,541**	**19,766**	**19,949**	**20,066**	**20,408**	**20,578**	**20,522**	**+573**
Other	1,545	1,510	2,269	2,347	2,855	3,302	3,770	3,635	+1,288
Net Assets	**21,015**	**21,051**	**22,035**	**22,296**	**22,921**	**23,710**	**24,348**	**24,157**	**+1,861**
Total Liabilities & Net Assets	**27,848**	**27,486**	**28,566**	**28,853**	**29,834**	**30,473**	**31,102**	**31,357**	**+2,504**
Equity Capital	20,929	20,957	21,930	22,185	22,818	23,598	24,230	24,035	+1,850
Interest Bearing Debt	2,108	1,983	1,860	1,730	1,605	1,480	1,355	1,486	(244)
Net Debt	(2,473)	(2,466)	(2,791)	(3,267)	(3,239)	(3,401)	(3,756)	(4,247)	(980)
Equity Ratio	75.2%	76.2%	76.8%	76.9%	76.5%	77.4%	77.9%	76.7%	(0.2%)
Net Debt Equity Ratio	(11.8%)	(11.8%)	(12.7%)	(14.7%)	(14.2%)	(14.4%)	(15.5%)	(17.7%)	(2.9%)
ROE (12 months)	3.0%	2.8%	3.3%	3.8%	4.1%	5.3%	4.8%	3.8%	(0.0%)
ROA (12 months)	3.9%	3.8%	3.9%	4.0%	4.4%	5.1%	5.2%	5.2%	+1.2%
Days for Inventory Turnover	220	225	220	194	215	211	218	197	-
Quick Ratio	231%	248%	247%	253%	228%	241%	246%	246%	-
Current Ratio	434%	460%	462%	444%	417%	446%	462%	433%	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

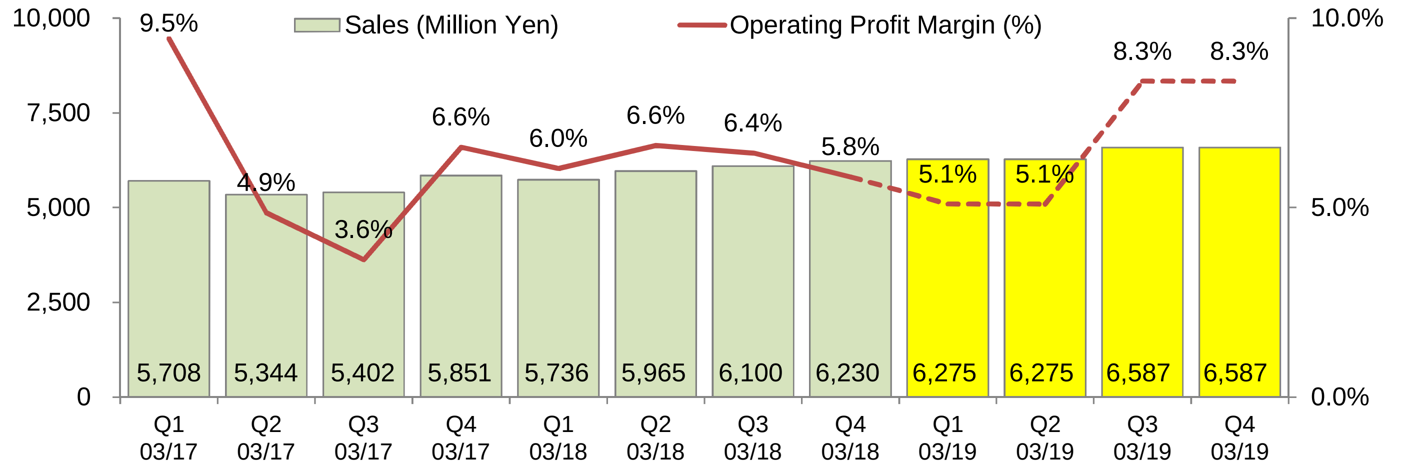
Cash Flow Statement (Million Yen)	Cons.Act Q1 03/2017	Cons.Act Q1 to Q2 03/2017	Cons.Act Q1 to Q3 03/2017	Cons.Act Q1 to Q4 03/2017	Cons.Act Q1 03/2018	Cons.Act Q1 to Q2 03/2018	Cons.Act Q1 to Q3 03/2018	Cons.Act Q1 to Q4 03/2018	YoY Net Chg.
Operating Cash Flow	-	1,012	-	2,308	-	611	-	1,936	(372)
Investing Cash Flow	-	(396)	-	(1,052)	-	(578)	-	(772)	+280
Operating CF & Investing CF	**-**	**616**	**-**	**1,256**	**-**	**33**	**-**	**1,164**	**(92)**
Financing Cash Flow	-	(434)	-	(835)	-	(458)	-	(592)	+243

Source: Company Data, WRJ Calculation

FY03/2019 Company Forecasts

FY03/2019 Company forecasts are going for prospective sales of ¥25,725m (up 7.1% YoY), operating profit of ¥1,737m (up 16.0%), recurring profit of ¥1,630m (up 4.2%) and profit attributable to owners of parent of ¥1,109m (up 26.4%), while operating profit margin of 6.75% (up 0.52% points). Company forecasts are also going for prospective annual dividend of ¥21.00 per share, implying payout ratio of 30.1%.

Sales and Operating Profit Margin



Source: Company Data, WRJ Calculation ((FY03/2019 quarterly forecasts: half-year Company forecasts pro rata)

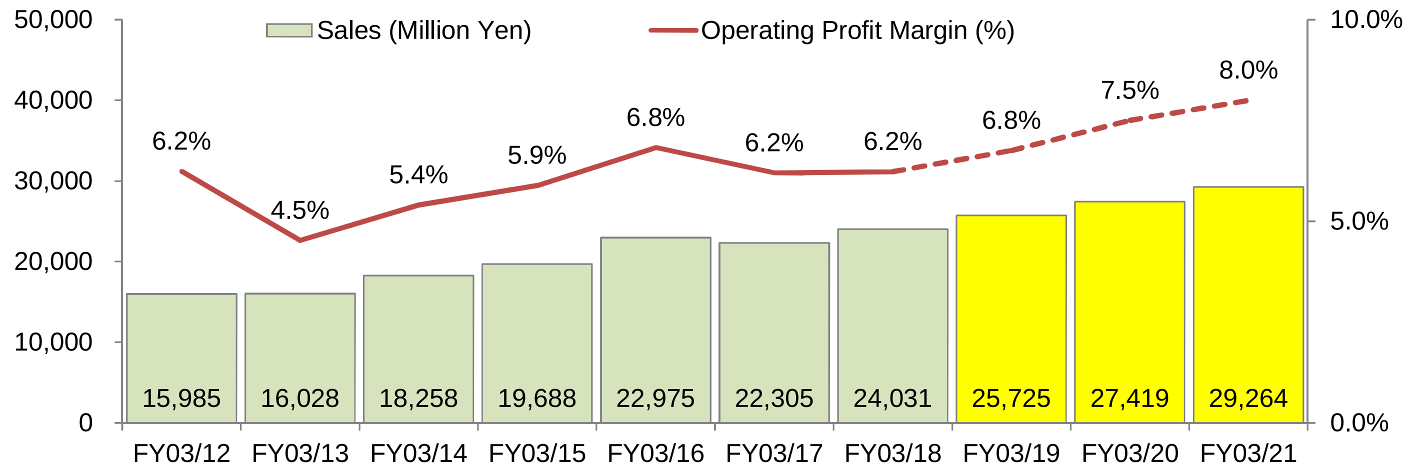
As far as we could gather, the Company is to see operating profit margin rising sharply in H2 over H1 (Q1 to Q2) due to seasonal factors, etc. impacting more than past years, i.e., 8.3% over 5.1%. However, effectively, the Company is just going for marginal improvement of operating profit margin over the previous year on a full-year basis due to effect on increased productivity and improving sales mix more than offsetting negative impacts from increasing expenses.

With respect to Dental-related Business, Company forecasts assume sales of ¥12,642m (up 4.4%) in Japan. The market for Japan is exposed to intensifying competition, but Company forecasts are going for increases of sales across the board by category. Equipment & other is to see the largest increases of sales, which is to be brought forth by CAD/CAM-related materials & equipment belonging to this category. Sales stemming from stocking and selling of equipment are to go on increasing, while sales of materials having rather adjusted most recently are to recovery due to launch of new products offering characteristics and functionality even better than those of existing "SHOFU BLOCK HC HARD".

Long-Term Prospects

On 23 May 2018, the Company held its results meeting and disclosed contents of the third midterm management plan (FY03/2019 to FY03/2021), calling for prospective sales of ¥29,264m and operating profit of ¥2,341m in FY03/2021, i.e., the last year of the plan as the target to be achieved. When based on FY03/2018 results, the Company is calling for CAGR of 6.8% for sales and 16.1% for earnings. Thus, operating profit margin is to rise by 1.8% points from 6.2% to 8.0% through FY03/2018 to FY03/2021, while ROE by 2.2% points from 3.8% to 6.0% during the same period.

The Third Midterm Management Plan (FY03/2019 to FY03/2021)



Source: Company Data, WRJ Calculation

The target assumes sales of ¥15,700m in Japan and ¥13,563m overseas in FY03/2021, implying CAGR of 4.8% and 9.3%, respectively, when based on FY03/2018 results. In terms of local currencies, sales overseas are to see CAGR of 9.8%. In line with this overseas sales ratio as a whole for the Company is to rise by 3.1% points from 42.3% to 46.3% through FY03/2018 to FY03/2021.

Meanwhile, CAGR of 6.3% is assumed for prospective sales of the mainstay Dental-related Business, e.g., by region as follows (in terms of local currencies): 3.7% in Japan versus 10.1% overseas, comprising 6.2% in the Americas, 8.4% in Europe, 14.3% in China and 17.4% in Asia & Oceania. Thus, the Company is to see increasing exposure to sales overseas carrying gross profit margin relatively higher than that of Japan on the expense of sales in Japan, implying consistently improving gross profit margin for the Company. Expenses for R&D activities and for sales promotions are to be actively spent, increasing SG&A expenses for the Company. As far as we could gather, the idea of the plan is to actively spend SG&A expenses but not as fast as increases of sales so that edging up gross profit margin should consistently and directly lead to edging up operating profit margin.

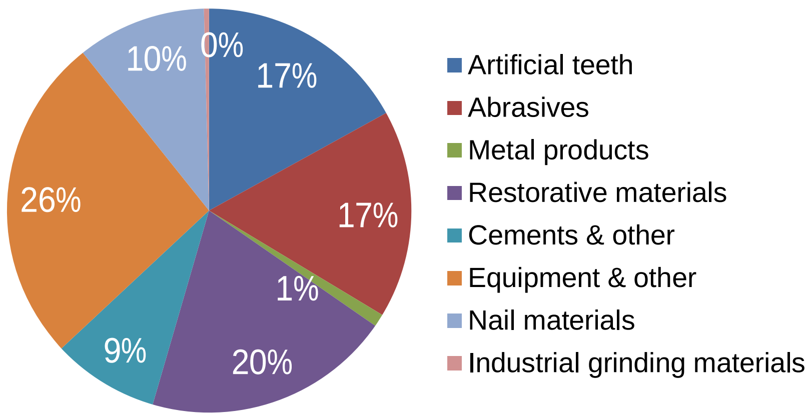
In order to meet the target, the Company implements the four key measures, i.e., a) developing and launching new products suitable to demand and needs region by region, b) reconsidering configuration of overseas production bases and beefing up production overseas, c) improving sales network (taking advantage of distributors overseas), enhancing sales bridgeheads (setting up new ones overseas), establishing academic network in Japan and overseas (establishing sales promotion organization to directly speak to users, enhancing MDR activities and efficiently using MDRs) and d) propelling MiCD project.

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, runs Dental-related Business as the overwhelming source of earnings, mainly comprising operations to develop, manufacture and sell dental materials.

Sales by Category (FY03/2018)



Source: Company Data, WRJ Calculation

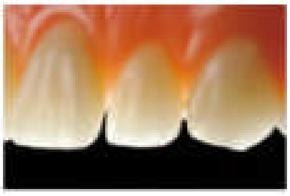
Artificial teeth are dental materials for dentures and implants, while abrasives those to grind affected areas and/or to polish dental crowns. Metal products are foundation materials for dental crowns and implants. Restorative materials are for implants, stuffing for affected areas, gums of dentures and those of more diversified applications. Cements & other represents bonding materials for implants and stuffing.

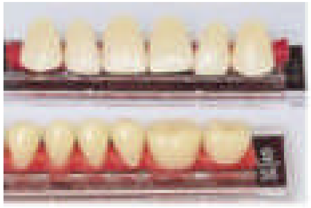
Equipment & other includes CAD/CAM-related materials & equipment, on top of equipment for diverse dental treatment and related finesse including self-developed digital oral cavity imaging device, i.e. "EyeSpecial C-Ⅲ", etc. as well as merchandises on a stocking and selling basis to a large extent. Meanwhile, in regards to CAD/CAM-related materials & equipment, the former is of own products and the latter of stocking and selling. In the first place, CAD/CAM-related materials and equipment represents those to correspond to new format to have provided patients with high cost efficiency unprecedented for the treatment of the back teeth (premolars) since the application of health insurance in April 2014.

Mainstay Products of Dental-related Business

Artificial Teeth

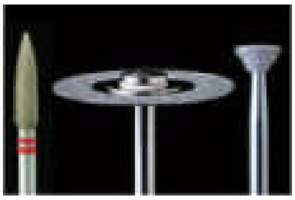

Ceramic Teeth

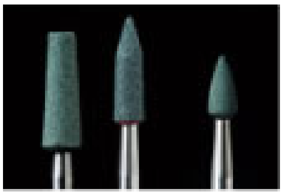

Hard-Resin Teeth

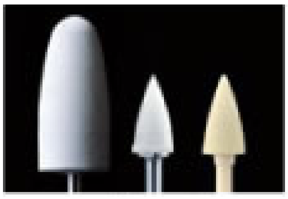

Resin Teeth

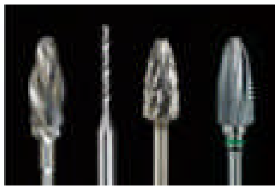

Dental Porcelains Metals

Abrasives


Diamond


Silicon Carbide


Rubber


Other Instruments

Restorative Materials


Composite Resins


For Crowns & Bridges


Other Resins


For Denture Bases

Cements & Other

Luting Cements


Filling Cements


Embedding Materials


Gypsums

Equipment & Other


Digital Oral Cavity Imaging Device

CAD/CAM-related Materials


(Machined Image)


CAD/CAM-related Equipment

Source: Company Data

Disclaimer

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