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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	52.6	20.0	1,396.7
FY03/2018		24,031	1,497	1,565	877	55.2	20.0	1,511.9
FY03/2019CoE		25,725	1,737	1,630	1,109	69.8	21.0	-
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%	-	-	-
Consolidated Quarter (Million Yen)		**Sales**	**Operating Profit**	**Recurring Profit**	**Profit Attributable to Owners of Parent**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 FY03/2018		5,736	346	432	294	-	-	-
Q1 FY03/2019		6,092	388	415	262	-	-	-
Q1 FY03/2019	YoY	6.2%	12.0%	(3.9%)	(10.9%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Results Update (6 August 2018)

Steady Cultivation Overseas

On 3 August 2018, SHOFU, developing, manufacturing and selling dental materials as the key earnings pillar, released its Q1 FY03/2019 results. Sales overseas came in at ¥2,769m (up 14.2% YoY), having revealed that the Company saw steady cultivation of markets overseas. On a local currencies basis, but for impacts from forex changes, sales overseas increased by 12.4% over the same period in the previous year, driven by those of North & South Americas and China on the mainstay Dental-related Business side.

Sales overseas on the Dental-related Business side, since FY03/2013 when the Company started up its first midterm management plan placing the utmost emphasis on cultivation of the markets overseas, have seen CAGR of 7.8% (on a local currencies basis, excluding impacts from merger and acquisition) by FY03/2018. Compared with this, it appears that the said cultivation is rather accelerating now. Going forward, the Company is keen on focusing own resources on sales promotions overseas, where it finds market growth potential and gross profit margin both higher than Japan.

For information: SHOFU (7979) Organic Growth (22 June 2018)

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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 June 2018)
No. of Shares	16,114,089 shares, including 210,942 treasury shares (as of the end of June 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:1,142, Parent: 444 (as of the end of June 2018)

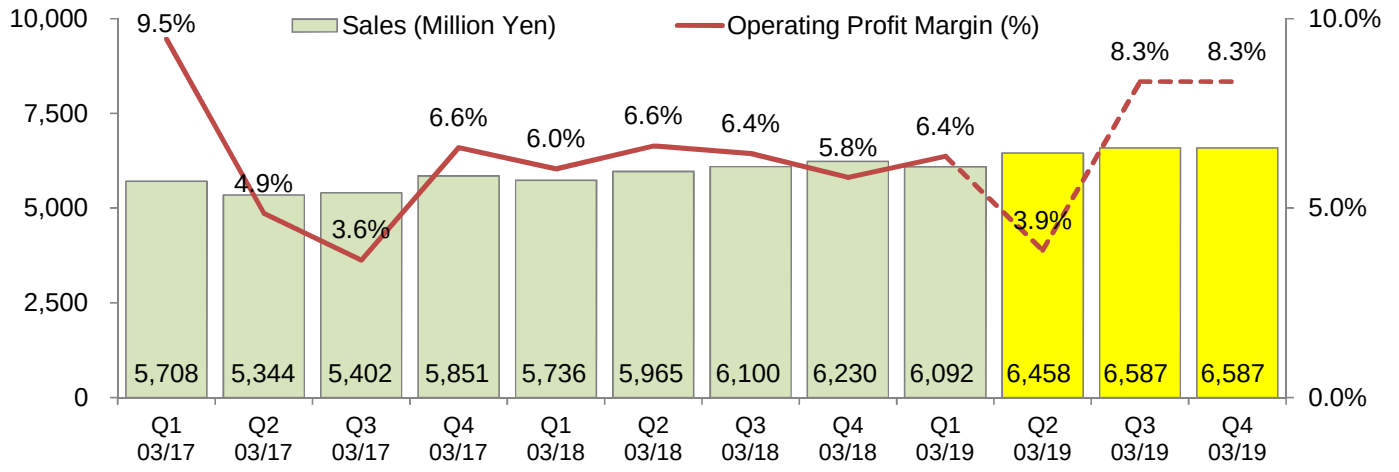
Source: Company Data

3.0 Recent Trading and Prospects

Q1 FY03/2019 Results

In Q1 FY03/2019, sales came in at ¥6,092m (up 6.2% YoY), operating profit ¥388m (up 12.0%), recurring profit ¥415m (down 3.9%) and profit attributable to owners of parent ¥262m (down 10.9%), while operating profit margin 6.4% (up 0.3% points). The Company saw net increases by ¥42m over the same period in operating profit versus net decreases by ¥59m (¥86m to ¥27m) for non-operating balance, having resulted in recurring profit decreased. This is basically in line with net decreases by ¥72m (¥68m to negative ¥4m) for net forex gain or loss.

Sales and Operating Profit Margin



Source: Company Data, WRJ Calculation (Q3 and Q4 FY03/2019: half-year Company forecasts pro rata)

When compared with Q1 to Q2 Company forecasts, the Company saw progress rate of 48.5% in sales and 60.7% in operating profit, suggesting rather outstanding progress with the latter. As a result, it is now the case that Company forecasts assume prospective operating profit of ¥251m (down 36.6% YoY), operating profit margin of 3.9% (down 2.8% points) in Q2, implying that operating profit was better than expected in Q1. Meanwhile, FY03/2019 Company forecasts assume nil for net forex gain or loss.

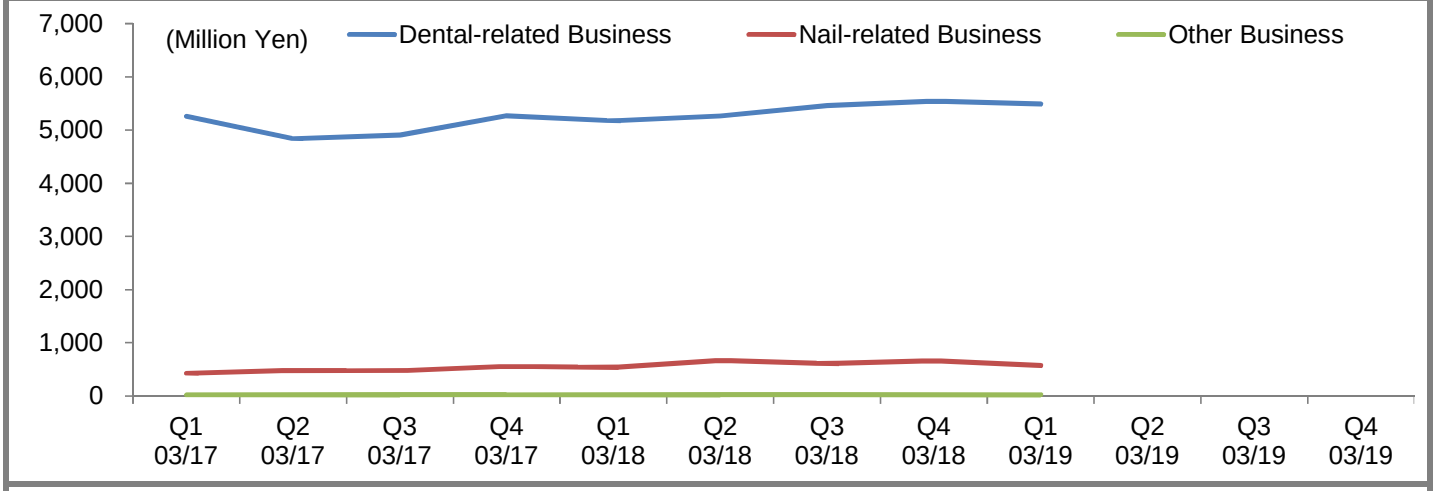
Forex Rate

Forex Rate (Yen)	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	Cons.Act Q1 03/2019	Cons.Act Q1 to Q2 03/2019	Cons.Act Q1 to Q3 03/2019	Cons.Act Q1 to Q4 03/2019	YoY Net Chg.
US Dollar	111.61	111.42	111.82	110.81	108.71	-	-	-	(2.90)
Euro	123.14	126.63	128.59	129.45	129.39	-	-	-	+6.25
GBP	142.92	144.38	146.24	147.27	147.54	-	-	-	+4.62
Chinese Yuan	16.51	16.42	16.50	16.64	17.10	-	-	-	+0.59
US Dollar (YoY)	+2.3%	+4.7%	+3.7%	+1.6%	(2.6%)	-	-	-	-
Euro	+0.5%	+6.3%	+7.9%	+8.4%	+5.1%	-	-	-	-
GBP	(8.2%)	(1.5%)	+1.8%	+3.0%	+3.2%	-	-	-	-
Chinese Yuan	(7.5%)	(4.6%)	(1.1%)	+0.5%	+3.6%	-	-	-	-

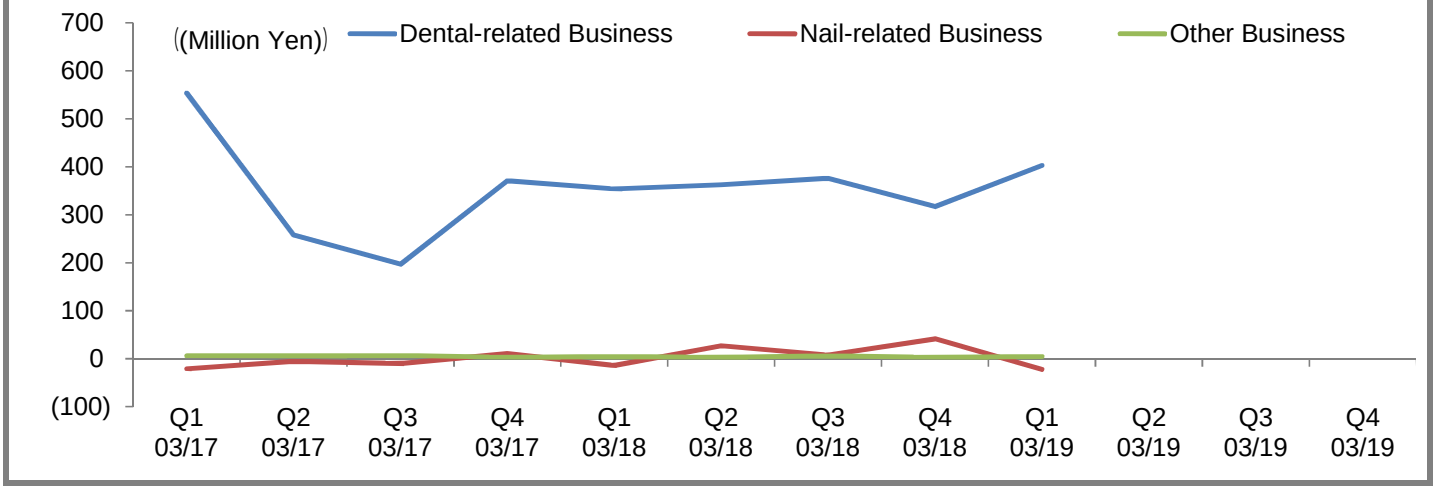
Source: Company Data, WRJ Calculation

By region, sales in Japan came in at ¥3,322m (up 0.4%) and ¥2,769m (up 14.2%) overseas, while sales overseas increased by 12.4% over the same period in the previous year on a local currencies basis but for impacts from above-mentioned forex changes, according to the Company.

Sales



Operating Profit



Source: Company Data, WRJ Calculation

By business segment, the mainstay Dental-related Business to develop, manufacture and sell dental materials saw sales of ¥5,494m (up 6.2%), operating profit of ¥403m (up 14.0%) and operating profit margin of 7.3% (up 0.5% points), having accounted for 90.2% of sales as a whole for the Company and 104.1% of operating profit (before intersegment transactions), implying Dental-related Business is the determinant for business performance as a whole for the Company. Meanwhile, Nail-related Business to develop, manufacture and sell nail salon materials saw sales of ¥572m (up 6.3%), operating profit of negative ¥22m (versus negative ¥14m during the same period of in the previous year) and operating profit margin of negative 3.8% (down 1.2% points).

On the Nail-related Business side, sales in Japan increased and sales overseas decreased, according to the Company. Sales in the United States were buoyant, but sales in Taiwan came down due mainly to intensifying competition. The former was not substantial enough to compensate for the latter. On top of this, the Company saw increases of expenses associated with sales promotions enhanced overseas, having negatively affected to earnings.

On the Dental-related Business side, sales in Japan suffered from marginal decreases due mainly to price-oriented competition, but this was far more than compensated for by increase overseas, having resulted in steady increases of sales and earnings in this business segment as above-mentioned. Meanwhile, sales in Japan comprise own products as well as stocking and selling versus all own products in regards to sales overseas. Given this as one of the key factors, the Company suggests sales overseas carry gross profit margin higher than Japan. When based on the Q1 results, this business segment continues seeing improving sales mix as far as we could see.

FY03/2019 Company Forecasts

FY03/2019 initial Company forecasts have remained unchanged, 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 6.8% (up 0.5% points). Company forecasts for prospective annual dividend have also remained unchanged, going for ¥21.0 per share, implying payout ratio of 30.1%.

4.0 Financial Statements

Income Statement (Cumulative, Quarterly)

Income Statement	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
(Million Yen)	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019	Net Chg.
Sales	**5,736**	**11,701**	**17,801**	**24,031**	**6,092**	**-**	**-**	**-**	**+356**
CoGS	2,420	4,986	7,556	10,267	2,545	-	-	-	+125
Gross Profit	3,315	6,714	10,244	13,763	3,546	-	-	-	+231
SG&A	2,968	5,971	9,109	12,266	3,158	-	-	-	+190
Operating Profit	**346**	**742**	**1,135**	**1,497**	**388**	**-**	**-**	**-**	**+42**
Non Operating Balance	86	111	146	68	27	-	-	-	(59)
Recurring Profit	**432**	**853**	**1,281**	**1,565**	**415**	**-**	**-**	**-**	**(17)**
Extraordinary Balance	9	23	23	(208)	0	-	-	-	(9)
Profit before Income Taxes	441	876	1,304	1,357	415	-	-	-	(26)
Total Income Taxes	146	237	368	478	160	-	-	-	+14
NP Belonging to Non-Controlling SHs	-	3	3	1	(7)	-	-	-	(7)
Profit Attributable to Owners of Parent	**294**	**635**	**933**	**877**	**262**	**-**	**-**	**-**	**(32)**
Sales YoY	+0.5%	+5.9%	+8.2%	+7.7%	+6.2%	-	-	-	-
Operating Profit YoY	(35.8%)	(7.2%)	+14.0%	+8.3%	+12.0%	-	-	-	-
Recurring Profit YoY	+36.2%	+67.6%	+47.3%	+37.2%	(3.9%)	-	-	-	-
Profit Attributable to Owners of Parent YoY	+27.9%	+111.2%	+42.8%	+4.8%	(10.9%)	-	-	-	-
Gross Profit Margin	57.8%	57.4%	57.5%	57.3%	58.2%	-	-	-	+0.4%
(SG&A / Sales)	51.7%	51.0%	51.2%	51.0%	51.8%	-	-	-	+0.1%
Operating Profit Margin	6.0%	6.3%	6.4%	6.2%	6.4%	-	-	-	+0.3%
Recurring Profit Margin	7.5%	7.3%	7.2%	6.5%	6.8%	-	-	-	(0.7%)
Profit Attributable to Owners of Parent Margin	5.1%	5.4%	5.2%	3.6%	4.3%	-	-	-	(0.8%)
Total Income Taxes / Profit before Income Taxes	33.1%	27.1%	28.2%	35.2%	38.6%	-	-	-	+5.4%

Income Statement	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	YoY
(Million Yen)	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019	Net Chg.
Sales	**5,736**	**5,965**	**6,100**	**6,230**	**6,092**	**-**	**-**	**-**	**+356**
CoGS	2,420	2,566	2,570	2,711	2,545	-	-	-	+125
Gross Profit	3,315	3,399	3,530	3,519	3,546	-	-	-	+231
SG&A	2,968	3,003	3,138	3,157	3,158	-	-	-	+190
Operating Profit	**346**	**396**	**393**	**362**	**388**	**-**	**-**	**-**	**+42**
Non Operating Balance	86	25	35	(78)	27	-	-	-	(59)
Recurring Profit	**432**	**421**	**428**	**284**	**415**	**-**	**-**	**-**	**(17)**
Extraordinary Balance	9	14	0	(231)	0	-	-	-	(9)
Profit before Income Taxes	441	435	428	53	415	-	-	-	(26)
Total Income Taxes	146	91	131	110	160	-	-	-	+14
NP Belonging to Non-Controlling SHs	-	3	-	(2)	(7)	-	-	-	(7)
Profit Attributable to Owners of Parent	**294**	**341**	**298**	**(56)**	**262**	**-**	**-**	**-**	**(32)**
Sales YoY	+0.5%	+11.6%	+12.9%	+6.5%	+6.2%	-	-	-	-
Operating Profit YoY	(35.8%)	+52.3%	+100.5%	(6.2%)	+12.0%	-	-	-	-
Recurring Profit YoY	+36.2%	+119.3%	+18.9%	+4.4%	(3.9%)	-	-	-	-
Profit Attributable to Owners of Parent YoY	+27.9%	+380.3%	(15.3%)	-	(10.9%)	-	-	-	-
Gross Profit Margin	57.8%	57.0%	57.9%	56.5%	58.2%	-	-	-	+0.4%
(SG&A / Sales)	51.7%	50.3%	51.4%	50.7%	51.8%	-	-	-	+0.1%
Operating Profit Margin	6.0%	6.6%	6.4%	5.8%	6.4%	-	-	-	+0.3%
Recurring Profit Margin	7.5%	7.1%	7.0%	4.6%	6.8%	-	-	-	(0.7%)
Profit Attributable to Owners of Parent Margin	5.1%	5.7%	4.9%	(0.9%)	4.3%	-	-	-	(0.8%)
Total Income Taxes / Profit before Income Taxes	33.1%	20.9%	30.6%	207.5%	38.6%	-	-	-	+5.4%

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information	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
(Million Yen)	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019	Net Chg.
Dental-related Business	5,174	10,441	15,903	21,446	5,494	-	-	-	+320
Nail-related Business	538	1,210	1,821	2,485	572	-	-	-	+34
Other Business	23	49	76	98	25	-	-	-	+2
Sales	**5,736**	**11,701**	**17,801**	**24,031**	**6,092**	**-**	**-**	**-**	**+356**
Dental-related Business	354	717	1,093	1,410	403	-	-	-	+49
Nail-related Business	(14)	13	21	63	(22)	-	-	-	(8)
Other Business	5	8	14	17	5	-	-	-	0
Segment profit	**345**	**739**	**1,130**	**1,491**	**387**	**-**	**-**	**-**	**+42**
Elimination of intersegment transactions	1	3	4	6	1	-	-	-	0
Operating Profit	**346**	**742**	**1,135**	**1,497**	**388**	**-**	**-**	**-**	**+42**
Dental-related Business	6.8%	6.9%	6.9%	6.6%	7.3%	-	-	-	+0.5%
Nail-related Business	(2.6%)	1.1%	1.2%	2.5%	(3.8%)	-	-	-	(1.2%)
Other Business	21.7%	16.3%	18.4%	17.3%	20.0%	-	-	-	(1.7%)
Operating Profit Margin	**6.0%**	**6.3%**	**6.4%**	**6.2%**	**6.4%**	**-**	**-**	**-**	**+0.3%**

Segmented Information	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	YoY
(Million Yen)	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019	Net Chg.
Dental-related Business	5,174	5,267	5,462	5,543	5,494	-	-	-	+320
Nail-related Business	538	672	611	664	572	-	-	-	+34
Other Business	23	26	27	22	25	-	-	-	+2
Sales	**5,736**	**5,965**	**6,100**	**6,230**	**6,092**	**-**	**-**	**-**	**+356**
Dental-related Business	354	363	376	317	403	-	-	-	+49
Nail-related Business	(14)	27	8	42	(22)	-	-	-	(8)
Other Business	5	3	6	3	5	-	-	-	0
Segment profit	**345**	**394**	**391**	**361**	**387**	**-**	**-**	**-**	**+42**
Elimination of intersegment transactions	1	2	1	2	1	-	-	-	0
Operating Profit	**346**	**396**	**393**	**362**	**388**	**-**	**-**	**-**	**+42**
Dental-related Business	6.8%	6.9%	6.9%	5.7%	7.3%	-	-	-	+0.5%
Nail-related Business	(2.6%)	4.0%	1.3%	6.3%	(3.8%)	-	-	-	(1.2%)
Other Business	21.7%	11.5%	22.2%	13.6%	20.0%	-	-	-	(1.7%)
Operating Profit Margin	**6.0%**	**6.6%**	**6.4%**	**5.8%**	**6.4%**	**-**	**-**	**-**	**+0.3%**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY
(Million Yen)	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019	Net Chg.
Cash & Deposit	4,844	4,881	5,111	5,733	5,713	-	-	-	+869
Accounts Receivables	3,199	3,227	3,020	3,285	3,096	-	-	-	(103)
Inventory	5,712	5,934	6,141	5,871	6,302	-	-	-	+590
Other	965	956	973	979	499	-	-	-	(466)
Current Assets	**14,720**	**14,998**	**15,245**	**15,868**	**15,610**	**-**	**-**	**-**	**+890**
Tangible Assets	6,677	6,667	6,597	6,588	6,519	-	-	-	(158)
Intangible Assets	1,595	1,613	1,599	1,279	1,220	-	-	-	(375)
Investments & Other Assets	6,840	7,194	7,659	7,620	7,422	-	-	-	+582
Fixed Assets	**15,113**	**15,475**	**15,856**	**15,488**	**15,163**	**-**	**-**	**-**	**+50**
Total Assets	**29,834**	**30,473**	**31,102**	**31,357**	**30,773**	**-**	**-**	**-**	**+939**
Accounts Payables	706	611	688	744	861	-	-	-	+155
Short Term Debt	505	505	505	500	500	-	-	-	(5)
Other	2,315	2,248	2,110	2,419	2,536	-	-	-	+221
Current Liabilities	**3,526**	**3,364**	**3,303**	**3,663**	**3,897**	**-**	**-**	**-**	**+371**
Long Term Debt	1,100	975	850	986	855	-	-	-	(245)
Other	2,286	2,423	2,599	2,551	1,986	-	-	-	(300)
Fixed Liabilities	**3,386**	**3,398**	**3,449**	**3,537**	**2,841**	**-**	**-**	**-**	**(545)**
Total Liabilities	**6,912**	**6,762**	**6,753**	**7,200**	**6,739**	**-**	**-**	**-**	**(173)**
Shareholders' Equity	**20,066**	**20,408**	**20,578**	**20,522**	**20,598**	**-**	**-**	**-**	**+532**
Other	2,855	3,302	3,770	3,635	3,436	-	-	-	+581
Net Assets	**22,921**	**23,710**	**24,348**	**24,157**	**24,034**	**-**	**-**	**-**	**+1,113**
Total Liabilities & Net Assets	**29,834**	**30,473**	**31,102**	**31,357**	**30,773**	**-**	**-**	**-**	**+939**
Equity Capital	22,818	23,598	24,230	24,035	23,919	-	-	-	+1,101
Interest Bearing Debt	1,605	1,480	1,355	1,486	1,355	-	-	-	(250)
Net Debt	(3,239)	(3,401)	(3,756)	(4,247)	(4,358)	-	-	-	(1,119)
Equity Ratio	76.5%	77.4%	77.9%	76.7%	77.7%	-	-	-	+1.2%
Net Debt Equity Ratio	(14.2%)	(14.4%)	(15.5%)	(17.7%)	(18.2%)	-	-	-	(4.0%)
ROE (12 months)	4.1%	5.3%	4.8%	3.8%	3.6%	-	-	-	(0.5%)
ROA (12 months)	4.4%	5.1%	5.2%	5.2%	5.1%	-	-	-	+0.8%
Days for Inventory Turnover	215	211	218	197	225	-	-	-	-
Quick Ratio	228%	241%	246%	246%	226%	-	-	-	-
Current Ratio	417%	446%	462%	433%	401%	-	-	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

Cash Flow Statement	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)	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019	Net Chg.
Operating Cash Flow	-	611	-	1,936	-	-	-	-	-
Investing Cash Flow	-	(578)	-	(772)	-	-	-	-	-
Operating CF & Investing CF	**-**	**33**	**-**	**1,164**	**-**	**-**	**-**	**-**	**-**
Financing Cash Flow	-	(458)	-	(592)	-	-	-	-	-

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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