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	52.6	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 FY03/2019		12,179	784	782	546	-	-	-
Q3 to Q4 FY03/2019CoE		13,546	953	848	563	-	-	-
Q1 to Q2 FY03/2019	YoY	4.1%	5.7%	(8.3%)	(14.1%)	-	-	-
Q3 to Q4 FY03/2019CoE	YoY	9.9%	26.2%	19.1%	132.6%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (19 December 2018)

Growth Overseas

SHOFU, developing, manufacturing and selling dental materials as the key earnings pillar, has been consistently taking in growth of the markets overseas, while this is to persist over the long-term, driving sales and earnings with the Company. The Third Midterm Management Plan (FY03/2019 to FY03/2021), assuming consistent increases of sales overseas, is calling for CAGR of 6.8% for sales and 16.1% for earnings during the said period. With respect to prospective sales overseas on the Dental-related Business side, the Plan assumes CAGR of 10.1% on a local currencies basis versus 12.8% over the same period in the previous year in Q1 to Q2 FY03/2019 results, implying the assumptions marginally exceeded. On a Japanese yen basis, sales overseas on the Dental-related Business side came in at ¥5,069m (up 14.4% YoY) as a result on add-ons made by changes of forex rate. Sales of Japan on the Dental-related Business side came in at ¥5,860m (down 2.5%), having failed to increase over the same period in the previous year due mainly to intensifying competition. Still, going forward in H2, the Company expects a recovery of new product sales ratio on a full-fledged basis as well as for startup of positive impacts stemming from new business unit organized at the beginning of FY03/2019. Thus, sales of Japan are expected to be buoyant in H2. The market in Japan is expected to make progress with its maturity going forward, but to basically maintain the size in the foreseeable future, according to the Company. Meanwhile, the size of markets overseas, including those of emerging countries with a high penitential of growth for economy, etc., currently equates to 13 times of Japan, which is expected to reach no less than 20 times in 10 years. On top of above-mentioned organic growth potential overseas, the Company is currently trying to get at acceleration of own growth by means of implementing merger and acquisition.

IR Representative: Miyuki Motoda, Corporate Planning Department (ir@shofu.co.jp)

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 September 2018)
No. of Shares	16,114,089 shares, including 210,949 treasury shares (as of the end of Sep. 2018)
Main Features	● The leader of artificial teeth and abrasives in Japan ● Focus on sales promotions overseas where great room to cultivate remaining ● 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 September 2018)
Headquarters	Higashiyama-ku, Kyoto-city, JAPAN
No. of Employees	Consolidated:1,154, Parent: 443 (as of the end of September 2018)

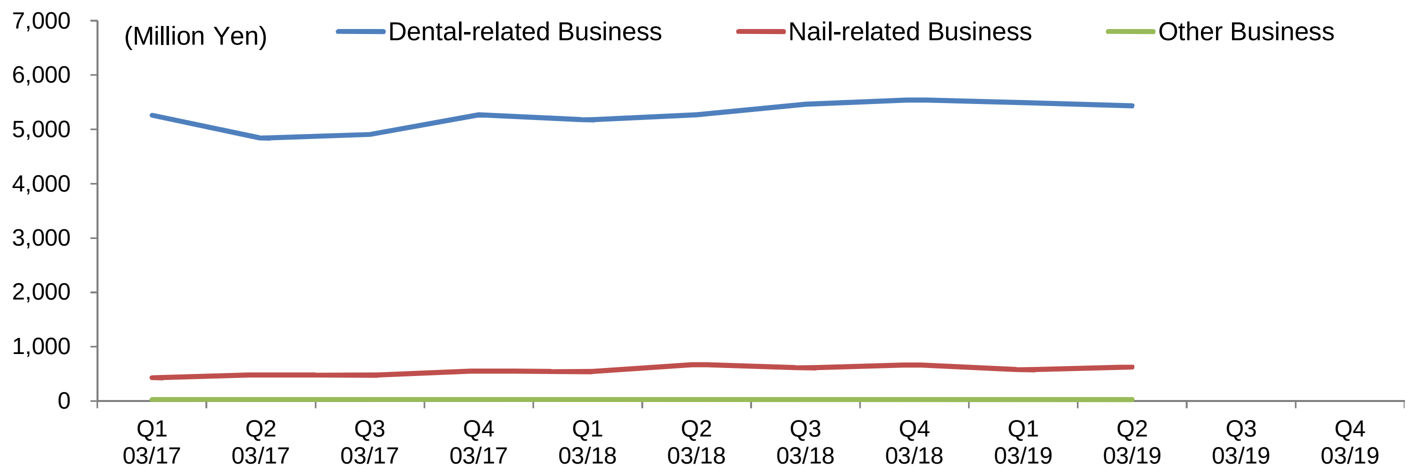
Source: Company Data

3.0 Recent Trading & Prospects

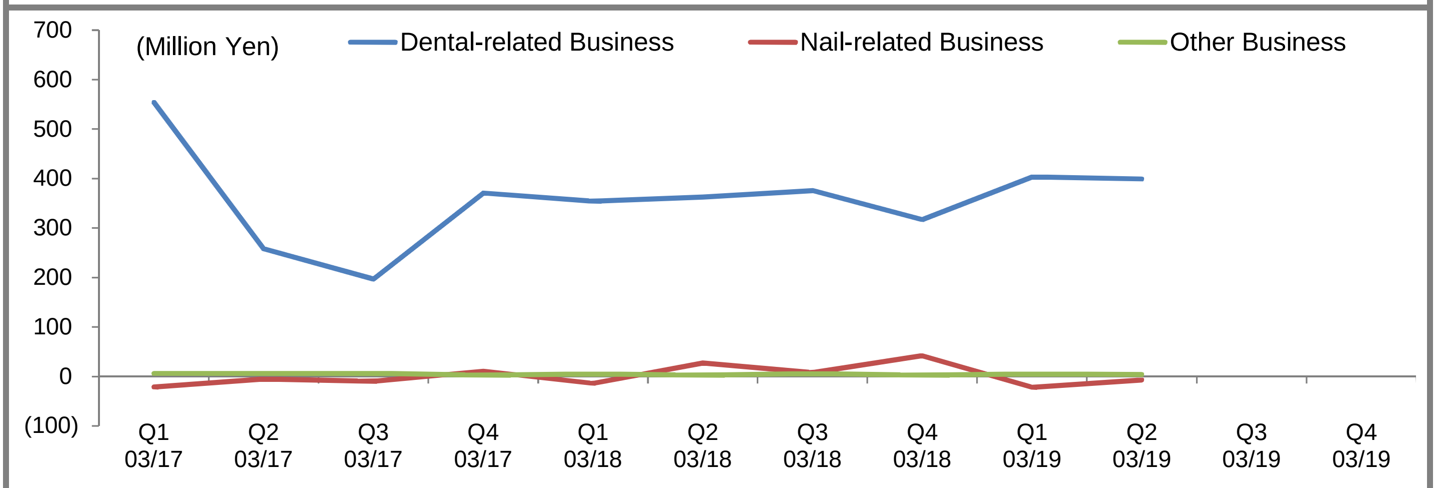
Q1 to Q2 FY03/2019 Results

In Q1 to Q2 FY03/2019, sales came in at ¥12,179m (up 4.1% YoY), operating profit ¥784m (up 5.7%), recurring profit ¥782m (down 8.3%) and profit attributable to owners of parent ¥546m (down 14.1%), while operating profit margin 6.4% (up 0.1% point).

Sales



Operating Profit



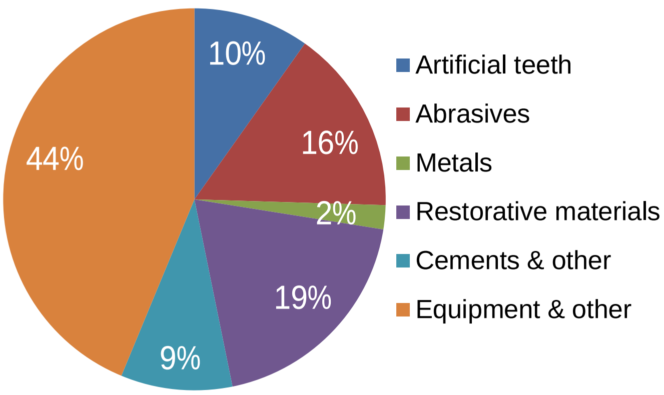
Source: Company Data, WRJ Calculation

Given decreases of forex profit, booked at the non-operating level, by ¥131m (¥133m to ¥2m) over the same period in the previous year, recurring profit marginally declined and thus profit attributable to owners of parent. Meanwhile, sales fell short of initial Company forecasts by ¥371m (3.0%) but better by ¥145m (22.8%) in operating profit. According to the Company, sales fell short due mainly to competition rather more intense than expected in Japan on the Dental-related Business side, but this was more than compensated for by delayed spending at the SG&A level in some parts at the operating level.

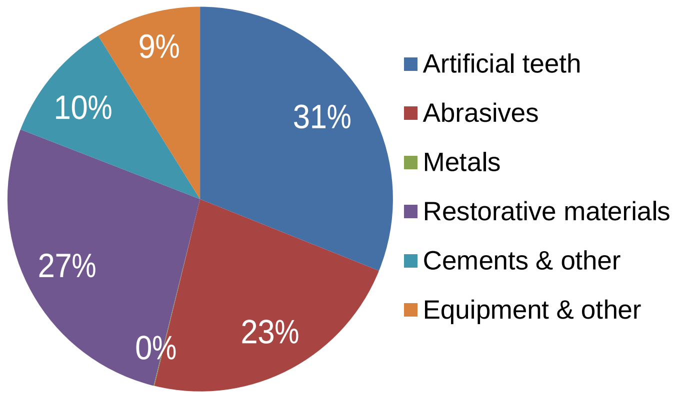
The mainstay Dental-related Business to develop, manufacture and sell dental materials saw sales of ¥10,929m (up 4.7%), operating profit of ¥802m (up 11.9%) and operating profit margin of 7.3% (up 0.5% points), having accounted for 102.7% of operating profit (before intersegment transactions) as a whole for the Company. Thus, this business segment is the determinant for earnings as a whole for the Company to a large extent. Meanwhile, Nail-related Business saw sales of ¥1,198m (down 1.0%), operating profit of negative ¥29m (versus ¥13m during the same period in the previous year) and operating profit margin of negative 2.4% (down 3.5% points), while sales of ¥51m (up 4.9%), operating profit of ¥9m (up 12.5%) and operating profit margin of 17.6% (up 1.3% points) on the Other Business side.

Dental-related Business: Sales by Category (Q1 to Q2 FY03/2019)

Japan



Overseas



Source: Company Data, WRJ Calculation

By region, sales of Japan came in at ¥6,679m (down 1.4%) and ¥5,500m (up 11.6%) overseas. In Japan, sales on the Dental-related Business side came in at ¥5,860m (down 2.5%) and Nail-related Business ¥767m (up 7.4%). With respect to Dental-related Business in Japan, the Company saw income-increasing effects with launches of new product, but it was not substantial enough to compensate for sluggishness stemming from intensifying competition. As a result, sales of the 6 categories of product, represented by that of artificial teeth, all came down over the same period in the previous year.

New product sales ratio on a parent basis disclosed by the Company came in at 10.0% for own product and 4.6% for merchandise to stock and sell versus 9.7% and 4.3%, respectively, in terms of FY03/2018 results, implying a recovery of this ratio most recently. More importantly, this recovery is to accelerate in H2 as found in FY03/2019 Company forecasts going for 11.3% and 6.8%, respectively, resulting in income-increasing effects from here accelerating too at the same time. On top of this, while reviewing the progress rate associated with annual contract with distributors, presuming startup of positive impacts stemming from new business unit organized at the beginning of FY03/2019, the Company believes sales in H2 should be buoyant. On the Nail-related Business side, sales were driven by those of gel nail product.

Sales overseas on the Dental-related Business side came in at ¥5,069m (up 14.4%) and Nail-related Business ¥430m (down 13.2%). With respect to sales overseas on the Dental-related Business side, sales of North America & Latin America came in at ¥1,347m (up 6.3%), sales of Europe ¥2,063m (up 6.7%) and sales of Asia, Oceania, etc. ¥1,657m (up 34.8%), suggesting the Company's aggressive sales promotion measures are successful across the board. On the Nail-related Business side, sales of the United States remain favorable, but sales of Taiwan are plummeting in line with intensifying competition. As a whole, sales overseas came down on the Nail-related Business side.

On the mainstay Dental-related Business side, overwhelmingly driving business performance as a whole for the Company, operations to sell diverse dental materials in Japan and overseas are going on. As far as equipment & other of Japan are concerned, the Company is exposed to stocking and selling of merchandise to a certain extent, while the Company is exclusively exposed to sales of own product self-developed and self-manufactured anywhere else out of all those categories. Own product essentially carries gross profit margin higher than that of merchandise and thus sales overseas all comprising own product see gross profit margin higher than that of Japan, according to the Company. Meanwhile, sales of Japan came in at ¥5,860m (down 2.5%) versus sales overseas ¥5,069m (up 14.4%) as above-mentioned, implying sales mix improving. In fact, this does drive gross profit margin as a whole for the Company.

The Company is the second largest in Japan where the market is getting matured and it cannot be denied that negative impacts stemming from maturity are being generated unavoidably. According to Statistics of Production by Pharmaceutical Industry (Ministry of Health, Labor and Welfare), the market to which the Company is exposed in Japan equates to ¥217,500m in CY2015, including that of dental gold-silver-palladium alloys and of equipment for dental offices, eventually suggesting market share of 5.4% for the Company. The size of the market here in Japan is expected to keep the current level over the long term, according to the Company, while the Company is trying to get at increases of sales in a long-term view by means of being keen on launches of new product as above-mentioned.

Meanwhile, the size of markets overseas, including those of emerging countries with a high penitential of growth for economy, etc., currently equates to 13 times of Japan (¥2.8 trillion), which is expected to reach no less than 20 times in 10 years. Taking into account this high growth potential, the Company has been massively shifting own resources towards overseas since FY03/2013, i.e., the first year of the First Midterm Management Plan, having resulted in overseas sales ratio of 46.4% in Q1 to Q2 FY03/2019 on the Dental-related Business side. Compared with 25.8% in FY03/2012, i.e., the year directly preceded by the period of First Midterm Management Plan, it is suggested that the Company has been successfully taking in growth in the markets overseas.

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.CoE Q1 to Q4 03/2019
U.S. Dollar	111.61	111.42	111.82	110.81	108.71	110.07	-	105.00
Euro	123.14	126.63	128.59	129.45	129.39	129.88	-	130.00
GBP	142.92	144.38	146.24	147.27	147.54	146.99	-	150.00
Chinese Yuan	16.51	16.42	16.50	16.64	17.10	17.05	-	16.50
U.S. Dollar (YoY)	+2.3%	+4.7%	+3.7%	+1.6%	(2.6%)	(1.2%)	-	(5.2%)
Euro	+0.5%	+6.3%	+7.9%	+8.4%	+5.1%	+2.6%	-	+0.4%
GBP	(8.2%)	(1.5%)	+1.8%	+3.0%	+3.2%	+1.8%	-	+1.9%
Chinese Yuan	(7.5%)	(4.6%)	(1.1%)	+0.5%	+3.6%	+3.8%	-	(0.8%)

Source: Company Data, WRJ Calculation

Changes of forex rate are one of the factors to have driven sales overseas on the Dental-related Business side in Q1 to Q2 FY03/2019, but steady increases achieved on a local currency basis too. Compared with increases by 14.4% over the same period in the previous year on a Japanese yen basis, sales overseas increased by 12.8% on a local currencies basis. On top of this, initial Company forecasts were exceeded as far as sales overseas on the Dental-related Business side are concerned, i.e., by 4.8% on a Japanese yen basis and by 3.0% on a local currencies basis. However, this was not substantial enough to fully compensate for shortfall in Japan.

Sales of North America & Latin America where yen got appreciated increased by 7.5% on a local currencies basis versus increases by 6.3% on a Japanese yen basis. Sales of Europe where yen got depreciated increased by 4.1% and 6.7%, respectively. Sales of Asia, Oceania, etc. where yen got depreciated increased by 32.0% and 34.8%, respectively.

At the end of the day, sales came in at ¥12,179m (up 4.1%) as a whole for the Company. Meanwhile, gross profit of ¥7,091m (up 5.6%) and SG&A expenses of ¥6,306m (up 5.6%) resulted in operating profit of ¥784m (up 5.7%), while gross profit margin of 58.2% (up 0.8% points) and the ratio of SG&A expenses to sales of 51.8% (up 0.7% points) resulted in operating profit margin of 6.4% (up 0.1% point). Although not as much as initially expected, the Company actively implemented R&D investment and sales promotions, having resulted in SG&A expenses increased over the same period in the previous year as well as in terms of ratio to sales. However, income-increasing effects and improving gross profit margin were more than compensating. Meanwhile, changes of forex rate resulted in net increases by ¥25m for operating profit, compared with net increases by ¥42m as a whole for the Company.

Income Statement (Cumulative, Quarterly)

Income Statement (Million 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.
Sales	**5,736**	**11,701**	**17,801**	**24,031**	**6,092**	**12,179**	**-**	**-**	**+478**
CoGS	2,420	4,986	7,556	10,267	2,545	5,087	-	-	+101
Gross Profit	3,315	6,714	10,244	13,763	3,546	7,091	-	-	+377
SG&A	2,968	5,971	9,109	12,266	3,158	6,306	-	-	+335
Operating Profit	**346**	**742**	**1,135**	**1,497**	**388**	**784**	**-**	**-**	**+42**
Non Operating Balance	86	111	146	68	27	(2)	-	-	(113)
Recurring Profit	**432**	**853**	**1,281**	**1,565**	**415**	**782**	**-**	**-**	**(71)**
Extraordinary Balance	9	23	23	(208)	0	0	-	-	(23)
Profit before Income Taxes	441	876	1,304	1,357	415	782	-	-	(94)
Total Income Taxes	146	237	368	478	160	244	-	-	+7
NP Belonging to Non-Controlling SHs	-	3	3	1	(7)	(8)	-	-	(11)
Profit Attributable to Owners of Parent	**294**	**635**	**933**	**877**	**262**	**546**	**-**	**-**	**(89)**
Sales YoY	+0.5%	+5.9%	+8.2%	+7.7%	+6.2%	+4.1%	-	-	-
Operating Profit YoY	(35.8%)	(7.2%)	+14.0%	+8.3%	+12.0%	+5.7%	-	-	-
Recurring Profit YoY	+36.2%	+67.6%	+47.3%	+37.2%	(3.9%)	(8.3%)	-	-	-
Profit Attributable to Owners of Parent YoY	+27.9%	+111.2%	+42.8%	+4.8%	(10.9%)	(14.1%)	-	-	-
Gross Profit Margin	57.8%	57.4%	57.5%	57.3%	58.2%	58.2%	-	-	+0.8%
(SG&A / Sales)	51.7%	51.0%	51.2%	51.0%	51.8%	51.8%	-	-	+0.7%
Operating Profit Margin	6.0%	6.3%	6.4%	6.2%	6.4%	6.4%	-	-	+0.1%
Recurring Profit Margin	7.5%	7.3%	7.2%	6.5%	6.8%	6.4%	-	-	(0.9%)
Profit Attributable to Owners of Parent Margin	5.1%	5.4%	5.2%	3.6%	4.3%	4.5%	-	-	(0.9%)
Total Income Taxes / Profit before Income Taxes	33.1%	27.1%	28.2%	35.2%	38.6%	31.2%	-	-	+4.1%

Income Statement (Million Yen)	Cons.Act Q1 03/2018	Cons.Act Q2 03/2018	Cons.Act Q3 03/2018	Cons.Act Q4 03/2018	Cons.Act Q1 03/2019	Cons.Act Q2 03/2019	Cons.Act Q3 03/2019	Cons.Act Q4 03/2019	YoY Net Chg.
Sales	**5,736**	**5,965**	**6,100**	**6,230**	**6,092**	**6,087**	**-**	**-**	**+122**
CoGS	2,420	2,566	2,570	2,711	2,545	2,542	-	-	(24)
Gross Profit	3,315	3,399	3,530	3,519	3,546	3,545	-	-	+146
SG&A	2,968	3,003	3,138	3,157	3,158	3,148	-	-	+145
Operating Profit	**346**	**396**	**393**	**362**	**388**	**396**	**-**	**-**	**-**
Non Operating Balance	86	25	35	(78)	27	(29)	-	-	(54)
Recurring Profit	**432**	**421**	**428**	**284**	**415**	**367**	**-**	**-**	**(54)**
Extraordinary Balance	9	14	0	(231)	0	0	-	-	(14)
Profit before Income Taxes	441	435	428	53	415	367	-	-	(68)
Total Income Taxes	146	91	131	110	160	84	-	-	(7)
NP Belonging to Non-Controlling SHs	-	3	-	(2)	(7)	(1)	-	-	(4)
Profit Attributable to Owners of Parent	**294**	**341**	**298**	**(56)**	**262**	**284**	**-**	**-**	**(57)**
Sales YoY	+0.5%	+11.6%	+12.9%	+6.5%	+6.2%	+2.0%	-	-	-
Operating Profit YoY	(35.8%)	+52.3%	+100.5%	(6.2%)	+12.0%	+0.0%	-	-	-
Recurring Profit YoY	+36.2%	+119.3%	+18.9%	+4.4%	(3.9%)	(12.8%)	-	-	-
Profit Attributable to Owners of Parent YoY	+27.9%	+380.3%	(15.3%)	-	(10.9%)	(16.7%)	-	-	-
Gross Profit Margin	57.8%	57.0%	57.9%	56.5%	58.2%	58.2%	-	-	+1.3%
(SG&A / Sales)	51.7%	50.3%	51.4%	50.7%	51.8%	51.7%	-	-	+1.4%
Operating Profit Margin	6.0%	6.6%	6.4%	5.8%	6.4%	6.5%	-	-	(0.1%)
Recurring Profit Margin	7.5%	7.1%	7.0%	4.6%	6.8%	6.0%	-	-	(1.0%)
Profit Attributable to Owners of Parent Margin	5.1%	5.7%	4.9%	(0.9%)	4.3%	4.7%	-	-	(1.1%)
Total Income Taxes / Profit before Income Taxes	33.1%	20.9%	30.6%	207.5%	38.6%	22.9%	-	-	+2.0%

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million 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.
Dental-related Business	5,174	10,441	15,903	21,446	5,494	10,929	-	-	+488
Nail-related Business	538	1,210	1,821	2,485	572	1,198	-	-	(12)
Other Business	23	49	76	98	25	51	-	-	+2
Sales	**5,736**	**11,701**	**17,801**	**24,031**	**6,092**	**12,179**	**-**	**-**	**+478**
Dental-related Business	354	717	1,093	1,410	403	802	-	-	+85
Nail-related Business	(14)	13	21	63	(22)	(29)	-	-	(42)
Other Business	5	8	14	17	5	9	-	-	+1
Segment profit	**345**	**739**	**1,130**	**1,491**	**387**	**781**	**-**	**-**	**+42**
Elimination of intersegment transactions	1	3	4	6	1	3	-	-	0
Operating Profit	**346**	**742**	**1,135**	**1,497**	**388**	**784**	**-**	**-**	**+42**
Dental-related Business	6.8%	6.9%	6.9%	6.6%	7.3%	7.3%	-	-	+0.5%
Nail-related Business	(2.6%)	1.1%	1.2%	2.5%	(3.8%)	(2.4%)	-	-	(3.5%)
Other Business	21.7%	16.3%	18.4%	17.3%	20.0%	17.6%	-	-	+1.3%
Operating Profit Margin	**6.0%**	**6.3%**	**6.4%**	**6.2%**	**6.4%**	**6.4%**	**-**	**-**	**+0.1%**

Segmented Information (Million Yen)	Cons.Act Q1 03/2018	Cons.Act Q2 03/2018	Cons.Act Q3 03/2018	Cons.Act Q4 03/2018	Cons.Act Q1 03/2019	Cons.Act Q2 03/2019	Cons.Act Q3 03/2019	Cons.Act Q4 03/2019	YoY Net Chg.
Dental-related Business	5,174	5,267	5,462	5,543	5,494	5,435	-	-	+168
Nail-related Business	538	672	611	664	572	626	-	-	(46)
Other Business	23	26	27	22	25	26	-	-	+0
Sales	**5,736**	**5,965**	**6,100**	**6,230**	**6,092**	**6,087**	**-**	**-**	**+122**
Dental-related Business	354	363	376	317	403	399	-	-	+36
Nail-related Business	(14)	27	8	42	(22)	(7)	-	-	(34)
Other Business	5	3	6	3	5	4	-	-	+1
Segment profit	**345**	**394**	**391**	**361**	**387**	**394**	**-**	**-**	**0**
Elimination of intersegment transactions	1	2	1	2	1	2	-	-	0
Operating Profit	**346**	**396**	**393**	**362**	**388**	**396**	**-**	**-**	**0**
Dental-related Business	6.8%	6.9%	6.9%	5.7%	7.3%	7.3%	-	-	+0.4%
Nail-related Business	(2.6%)	4.0%	1.3%	6.3%	(3.8%)	(1.1%)	-	-	(5.1%)
Other Business	21.7%	11.5%	22.2%	13.6%	20.0%	15.4%	-	-	+3.8%
Operating Profit Margin	**6.0%**	**6.6%**	**6.4%**	**5.8%**	**6.4%**	**6.5%**	**-**	**-**	**(0.1%)**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act Q1 03/2018	Cons.Act Q2 03/2018	Cons.Act Q3 03/2018	Cons.Act Q4 03/2018	Cons.Act Q1 03/2019	Cons.Act Q2 03/2019	Cons.Act Q3 03/2019	Cons.Act Q4 03/2019	YoY Net Chg.
Cash & Deposit	4,844	4,881	5,111	5,733	5,713	5,380	-	-	+499
Accounts Receivables	3,199	3,227	3,020	3,285	3,096	3,116	-	-	(111)
Inventory	5,712	5,934	6,141	5,871	6,302	6,469	-	-	+535
Other	965	956	973	979	499	443	-	-	(513)
Current Assets	**14,720**	**14,998**	**15,245**	**15,868**	**15,610**	**15,408**	**-**	**-**	**+410**
Tangible Assets	6,677	6,667	6,597	6,588	6,519	6,757	-	-	+90
Intangible Assets	1,595	1,613	1,599	1,279	1,220	1,218	-	-	(395)
Investments & Other Assets	6,840	7,194	7,659	7,620	7,422	7,549	-	-	+355
Fixed Assets	**15,113**	**15,475**	**15,856**	**15,488**	**15,163**	**15,525**	**-**	**-**	**+50**
Total Assets	**29,834**	**30,473**	**31,102**	**31,357**	**30,773**	**30,933**	**-**	**-**	**+460**
Accounts Payables	706	611	688	744	861	719	-	-	+108
Short Term Debt	505	505	505	500	500	500	-	-	(5)
Other	2,315	2,248	2,110	2,419	2,536	2,394	-	-	+146
Current Liabilities	**3,526**	**3,364**	**3,303**	**3,663**	**3,897**	**3,613**	**-**	**-**	**+249**
Long Term Debt	1,100	975	850	986	855	739	-	-	(236)
Other	2,286	2,423	2,599	2,551	1,986	2,005	-	-	(418)
Fixed Liabilities	**3,386**	**3,398**	**3,449**	**3,537**	**2,841**	**2,744**	**-**	**-**	**(654)**
Total Liabilities	**6,912**	**6,762**	**6,753**	**7,200**	**6,739**	**6,357**	**-**	**-**	**(405)**
Shareholders' Equity	**20,066**	**20,408**	**20,578**	**20,522**	**20,598**	**20,882**	**-**	**-**	**+474**
Other	2,855	3,302	3,770	3,635	3,436	3,694	-	-	+392
Net Assets	**22,921**	**23,710**	**24,348**	**24,157**	**24,034**	**24,576**	**-**	**-**	**+866**
Total Liabilities & Net Assets	**29,834**	**30,473**	**31,102**	**31,357**	**30,773**	**30,933**	**-**	**-**	**+460**
Equity Capital	22,818	23,598	24,230	24,035	23,919	24,457	-	-	+859
Interest Bearing Debt	1,605	1,480	1,355	1,486	1,355	1,239	-	-	(241)
Net Debt	(3,239)	(3,401)	(3,756)	(4,247)	(4,358)	(4,141)	-	-	(740)
Equity Ratio	76.5%	77.4%	77.9%	76.7%	77.7%	79.1%	-	-	+1.6%
Net Debt Equity Ratio	(14.2%)	(14.4%)	(15.5%)	(17.7%)	(18.2%)	(16.9%)	-	-	(2.5%)
ROE (12 months)	4.1%	5.3%	4.8%	3.8%	3.6%	3.3%	-	-	(2.0%)
ROA (12 months)	4.4%	5.1%	5.2%	5.2%	5.1%	4.9%	-	-	(0.3%)
Days for Inventory Turnover	215	211	218	197	225	232	-	-	-
Quick Ratio	228%	241%	246%	246%	226%	235%	-	-	-
Current Ratio	417%	446%	462%	433%	401%	426%	-	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

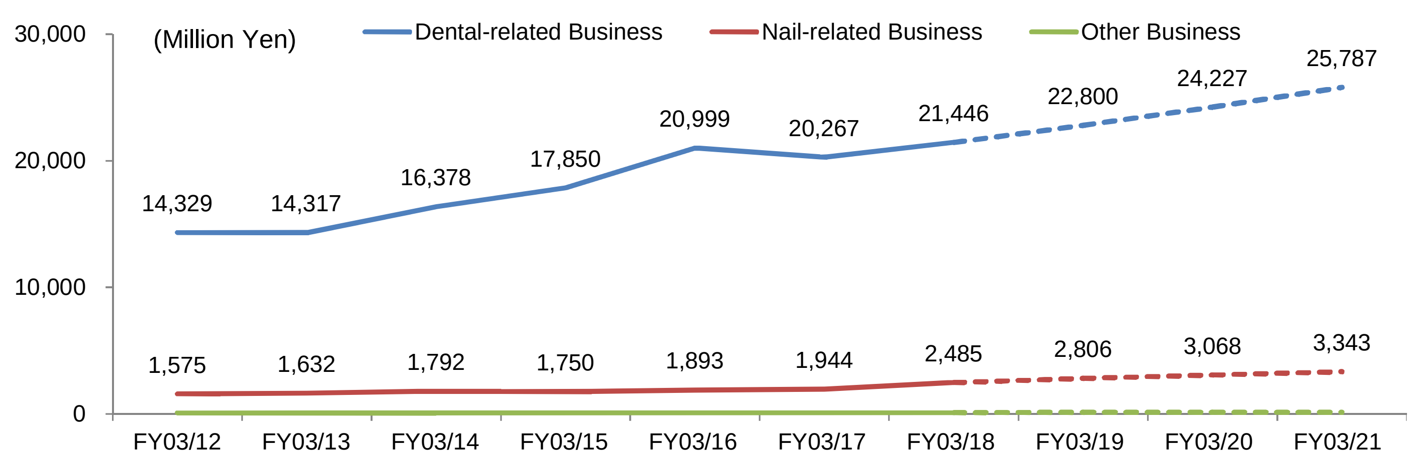
Cash Flow Statement (Million Yen)	Cons.Act Q1 03/2018	Cons.Act Q1 to Q2 03/2018	Cons.Act Q1 to Q3 03/2018	Cons.Act Q1 to Q4 03/2018	Cons.Act Q1 03/2019	Cons.Act Q1 to Q2 03/2019	Cons.Act Q1 to Q3 03/2019	Cons.Act Q1 to Q4 03/2019	YoY Net Chg.
Operating Cash Flow	-	611	-	1,936	-	616	-	-	+5
Investing Cash Flow	-	(578)	-	(772)	-	(518)	-	-	+60
Operating CF & Investing CF	**-**	**33**	**-**	**1,164**	**-**	**98**	**-**	**-**	**+65**
Financing Cash Flow	-	(458)	-	(592)	-	(454)	-	-	+4

Source: Company Data, WRJ Calculation

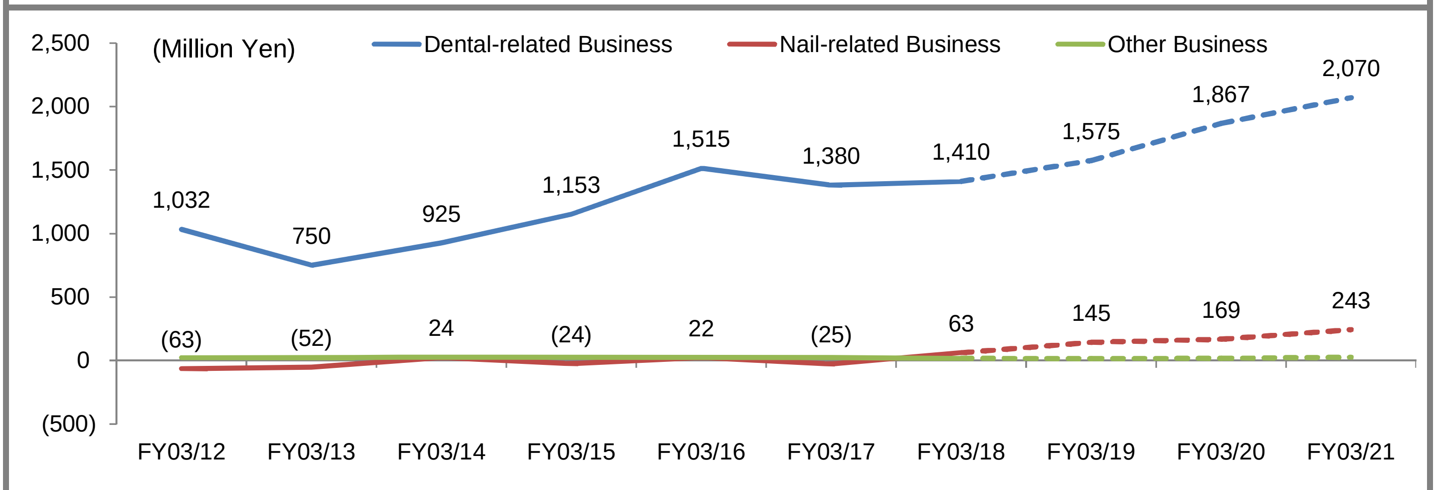
FY03/2019 Company Forecasts

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%.

Sales



Operating Profit



Source: Company Data, WRJ Calculation

Due mainly to decreases of forex profit at the non-operating level, recurring profit sees rather limited increases over the previous year, but profit attributable to owners of parent is to surge as extraordinary loss of ¥231m in FY03/2018 is not to reappear. Compared with forex profit of ¥75m in FY03/2018, Company forecasts are going for breaking even for this in FY03/2019. Meanwhile, the extraordinary loss is of impairment on a subsidiary, which is one off and literally extraordinary.

Since the beginning of FY03/2016, the Company has consolidated Merz Dental GmbH as subsidiary by means of merger and acquisition, which is a representative manufacturer of artificial teeth in Germany. This subsidiary had been performing below expectations, having had resulted in write-off on some 40% of remaining goodwill as of the end of FY03/2018. Merz Dental GmbH is exposed to Germany by some 80% or more in terms of sales, where price-oriented competition has been intensifying for some time, driven by ongoing inflow of low-priced product from surrounding countries.

Meanwhile, Company forecasts assume sales of ¥22,800m (up 6.3%), operating profit of ¥1,575m (up 11.7%) and operating profit margin of 6.9% (up 0.3% points) on the Dental-related Business side, while sales of ¥2,806m (up 12.9%), operating profit of ¥145m (up 130.2%) and operating profit margin of 5.2% (down 2.6% points) on the Nail-related Business side. Prospective sales of Japan are ¥14,453m (up 5.9%) and sales overseas ¥11,271m (up 8.6%).

In Japan, Company forecasts assume sales of ¥12,642m (up 4.4%) on the Dental-related Business side and ¥1,693m (up 17.3%) on the Nail-related Business side. In regards to Japan on the Dental-related Business side, the Company is to propel sales promotions with focus on priority domains, while aggressively providing dental personnel with information, with an objective to beef up sales. In terms of distribution, distributors and/or Internet mail-order houses, etc. do intervene between the Company and dental personnel or the final users for the Company's product. Still, as far as we could see, the Company is directly and aggressively appealing to dental personnel or the final users by means of information provision, product introduction, etc. in order to raise adoption rate for the Company's product. Meanwhile, the Company will remain placing focus on sales promotions of gel nail product on the Nail-related Business side.

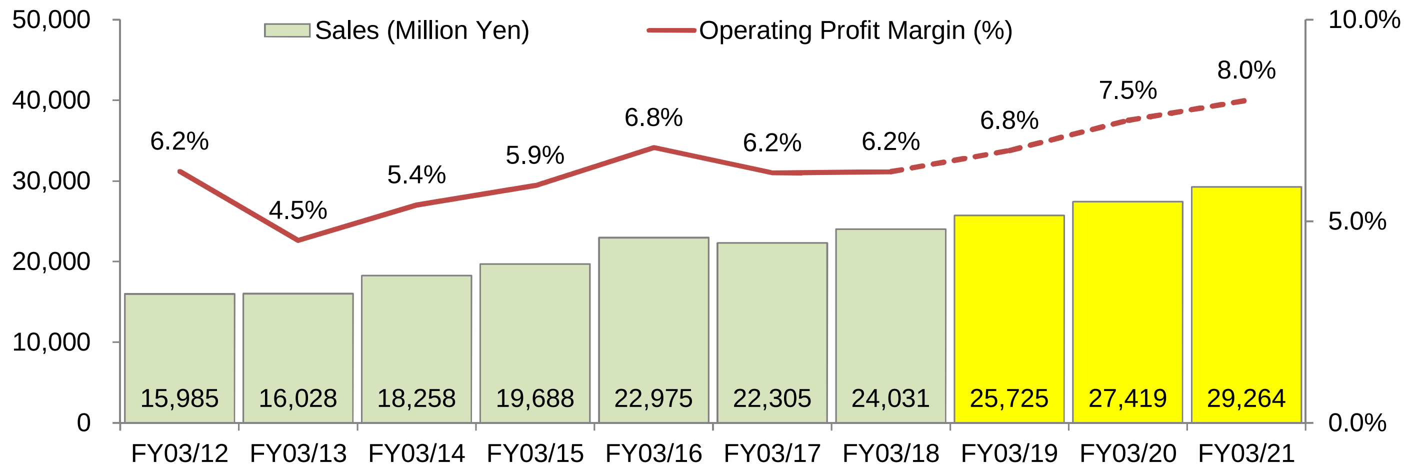
Prospective sales overseas on the Dental-related Business side are ¥10,158m (up 8.8%) and ¥1,113m (up 6.8%) on the Nail-related Business side. With respect to sales overseas on the Dental-related Business side, the Company will remain keen on expanding sales network, while trying to accelerate the speed of business development through enhancing tie-up operations with other companies. Meanwhile, the Company will remain placing focus on sales promotions in the United States and Taiwan on the Nail-related Business side.

As a result, prospective sales are ¥25,725m (up 7.1%) as a whole for the Company, while prospective gross profit of ¥14,981m (up 8.8%) and SG&A expenses of ¥13,244m (up 8.0%) are to result in operating profit of ¥1,737m (up 16.0%). In the same way, prospective gross profit margin of 58.2% (up 1.0% point) and the ratio of SG&A expenses to sales of 51.5% (up 0.4% points) are to result in operating profit margin of 6.8% (up 0.5% points). The Company is to remain investing in human resources for the future as well as aggressively spending on sales promotions, resulting in SG&A expenses increasing over the previous year as well as in terms of ratio to sales. Still, income-increasing effects and improving gross profit margin are to be more than compensating. Meanwhile, changes of forex rate is expected to result in net decreases by ¥89m for operating profit, compared with net increases by ¥240m as a whole for the Company.

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. 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 on the mainstay Dental-related Business side is to rise by 6.5% points from 43.5% to 50.0% through FY03/2018 to FY03/2021.

Meanwhile, CAGR of 6.3% is assumed for prospective sales of the mainstay Dental-related Business. By region, CAGR of 3.7% is assumed for Japan versus 10.1% for overseas on a local currencies basis, 6.2% for North America & Latin America, 8.4% for Europe and 17.4% for Asia & Oceania, etc. Thus, the Company is to see increasing exposure to sales overseas carrying gross profit margin higher than that of Japan, implying consistently improving gross profit margin for the Company. In fact, the Company is to actively spend on R&D activities and on sales promotions at the same time, which is to drive SG&A expenses. However, as far as we could gather, the idea of the Plan is to actively spend SG&A expenses but roughly in line with increases of sales at most 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, comprising a) developing and launching new product suitable to demand and needs region by region on a global basis, b) reconsidering configuration of production bases and beefing up production overseas, c) improving sales network (taking advantage of distributors overseas) and sales bridgehead offices (setting up new ones overseas) as well as establishing academic network in Japan and overseas (establishing sales promotion organization to directly speak to dental personnel or final users and efficiently enhancing MDR activities) and d) propelling MiCD project.

MDR (Medical Dental Representative) is of personnel who is capable of appealing superiority of own product so well based on sufficient dental care knowledge. Meanwhile, MiCD (Minimally Invasive Cosmetic Dentistry) is of “aesthetic dental treatment to materialize the best results by the minimal invasion onto the natural teeth”. A project to propel this creates a corporate image to evoke advanced dental care for the Company, while offering higher cost efficiency as well as persuading consumption of dental filling materials, according to the Company.

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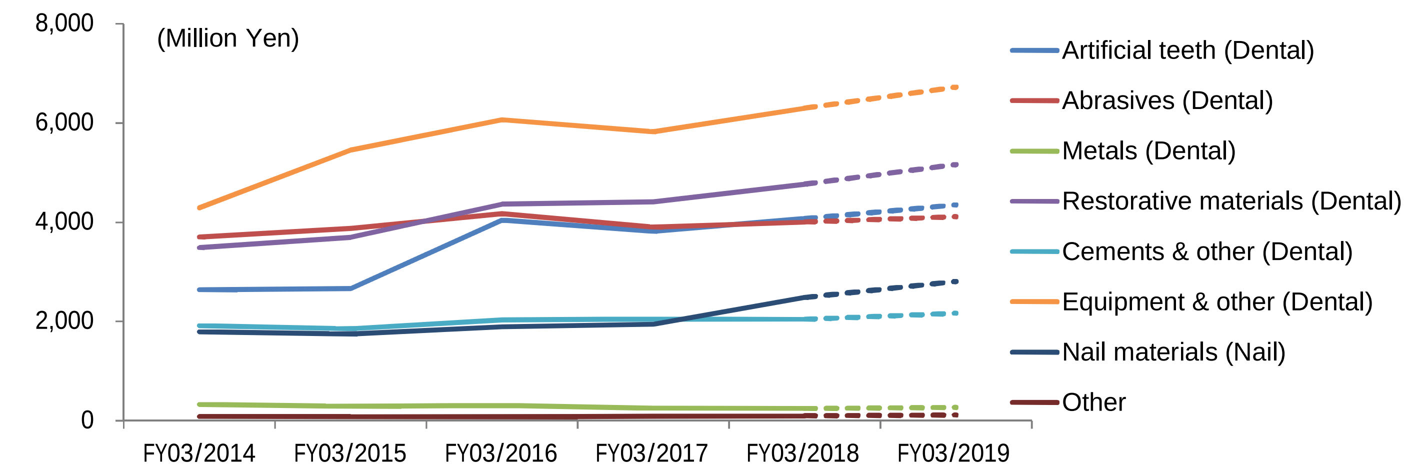
4.0 Business Model

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

Sales by Category



Source: Company Data, WRJ Calculation

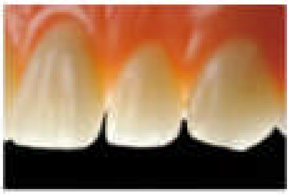
Artificial teeth are dental materials for dentures and implants, while abrasives those to grind affected areas and/or to polish dental crowns. Metals are foundation materials for dental crowns and implants. Restorative materials are for implants, stuffing for affected areas, gums of dentures and those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

Equipment & other include 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 merchandise to stock and sell to a certain extent. Meanwhile, in regards to CAD/CAM-related materials & equipment, the former is of own product and the latter of stocking and selling. In the first place, CAD/CAM-related materials and equipment represent those to correspond to new format to have provided patients with unprecedentedly high cost efficiency for the treatment of the back teeth (premolars) since the application of health insurance in April 2014.

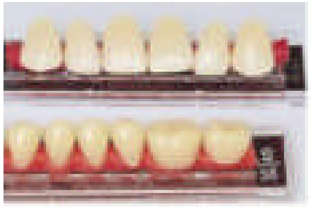
Mainstay Products of Dental-related Business

Artificial Teeth

Ceramic Teeth



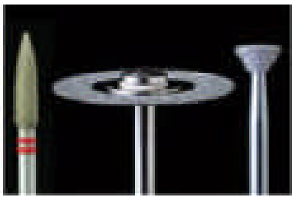
Hard-Resin Teeth



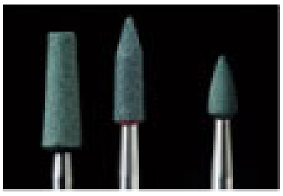
Resin Teeth

Dental Porcelains Metals

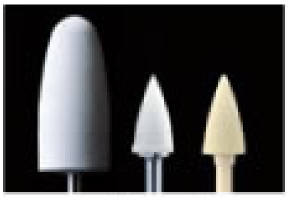
Abrasives



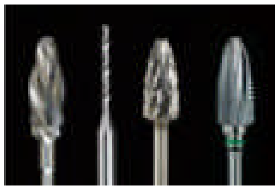
Diamond



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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