

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 Results Update (5 November 2018)

Overshoot Overseas

On 2 November 2018, SHOFU, developing, manufacturing and selling dental materials as the key earnings pillar, released its Q1 to Q2 FY03/2019 results. It has been revealed that the Company sees sales overseas better than initially expected. As far as we could see, this is due mainly to sales in emerging markets, i.e., China and other Asian countries, are increasing by more than 30% over the previous year on a local currencies basis. In Japan where the market is getting matured, sales are rather coming down given intensifying competition, but this is more than compensated for by increasing sales overseas carrying high gross profit margin, having resulted in steady increases of sales and earnings as a whole for the Company. In Japan, the Company is involved with sales of own products as well as with stocking and selling, while specializing in sales of own products overseas where gross profit margin is suggested to be relatively higher than Japan. Meanwhile, we are to attend the upcoming results meeting on 20 November as well as to interview with management afterwards so that we should be able to update [SHOFU \(7979\) Organic Growth \(22 June 2018\)](#) and release anew.

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

2.0 Company Profile

Comprehensive Manufacturer of Dental Materials

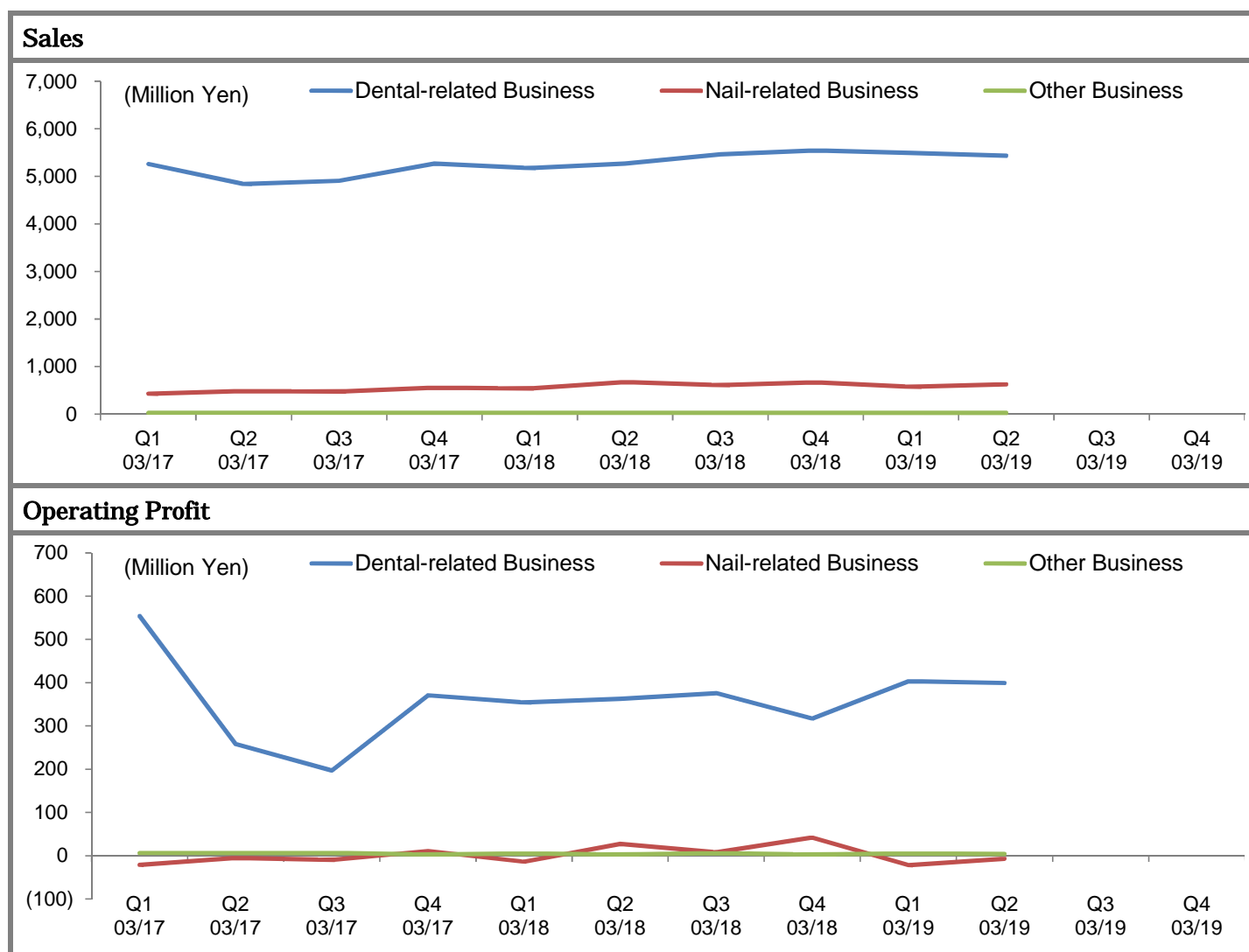
Company Name	SHOFU INC. Website IR Information Share Price (Japanese)
Established	15 May 1922
Listing	25 July 1963: Tokyo Stock Exchange 1st Section (ticker: 7979)
Capital	¥4,474m (as of the end of September 2018)
No. of Shares	16,114,089 shares, including 210,949 treasury shares (as of the end of Sep. 2018)
Main Features	<ul style="list-style-type: none"> ● 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	<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 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 and 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). Given worsening at the non-operating level, recurring profit and profit attributable to owners of parent came down, which is basically in line with worsening of forex profit by ¥131m to ¥2m from ¥133m during the same period in the previous year.



Source: Company Data, WRJ Calculation

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.

By region, sales of Dental-related Business came in at ¥5,860m (down 2.5%) in Japan and ¥5,069m (up 14.4%) overseas or up 12.8% overseas on a local currencies basis. Yen got higher against U.S. dollar while weaker against euro, GBP and Chinese yuan, having resulted in net add-ons to sales overseas as a whole.

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)	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019		
U.S. Dollar	111.61	111.42	111.82	110.81	108.71	110.07	-	-	(1.35)	
Euro	123.14	126.63	128.59	129.45	129.39	129.88	-	-	+3.25	
GBP	142.92	144.38	146.24	147.27	147.54	146.99	-	-	+2.61	
Chinese Yuan	16.51	16.42	16.50	16.64	17.10	17.05	-	-	+0.63	
U.S. Dollar (YoY)	+2.3%	+4.7%	+3.7%	+1.6%	(2.6%)	(1.2%)	-	-	-	
Euro	+0.5%	+6.3%	+7.9%	+8.4%	+5.1%	+2.6%	-	-	-	
GBP	(8.2%)	(1.5%)	+1.8%	+3.0%	+3.2%	+1.8%	-	-	-	
Chinese Yuan	(7.5%)	(4.6%)	(1.1%)	+0.5%	+3.6%	+3.8%	-	-	-	

Source: Company Data, WRJ Calculation

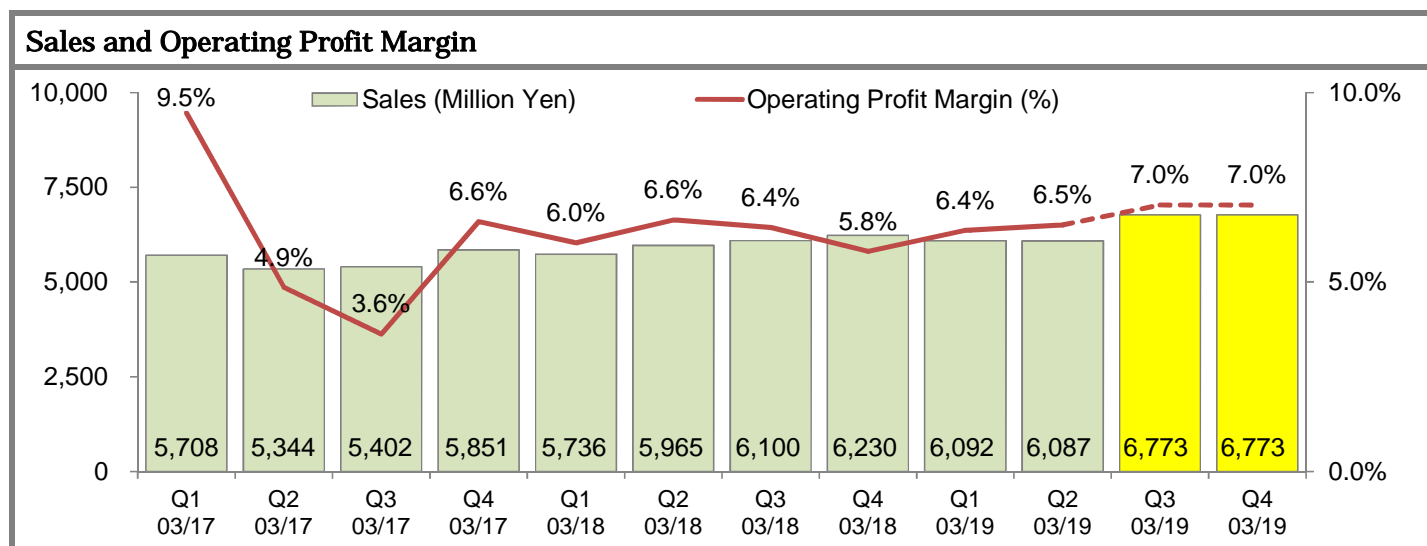
In Dental-related Business, sales overseas were better than initially expected by 4.8%. Yen's depreciation as overall trend is one of the drivers, but also better by 3.0% on a local currencies basis, according to the Company. By region, sales came in at ¥1,347m (up 6.3% YoY) in North America and Latin America, ¥2,063m (up 6.7%) in Europe and ¥1,657m (up 34.8%) in Asia, Oceania, etc. or up 7.5%, up 4.1% and up 32.0%, respectively, on a local currencies basis.

In North America and Latin America, it appears that sales were driven by restorative materials on which the Company focuses, implying that the Company's sales promotion measures are well accepted also in developed countries. Meanwhile, in Europe, the Company suggests sales are stagnating in regards to Merz Dental GmbH or the representative manufacturer of artificial teeth in Germany acquired and consolidated since the beginning of FY03/2016. In Germany, price-oriented competition is intensifying due to increasing new entrants from surrounding countries, etc. offering low prices, according to the Company. Still, sales stemming from manufacturing on an OEM basis in England are favorable as well as sales taking advantage of local distributors.

In regards to Asia, Oceania, etc., sales in China, increased rapidly as far as we could gather, where needs for sophistication are prevailing across the board. It appears that the Company well succeeds in quickly coping with those associated with dental materials. On top of this, given startup of new sales bridgehead in India on a full-fledged basis, etc., sales as a whole in Asia, Oceania, etc. increased so fast.

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%.



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

4.0 Financial Statements

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019	03/2019	
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	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019	03/2019	
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	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		
	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019	03/2019	
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	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019	03/2019	
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	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019		
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	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		
	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019		
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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