

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 Q1 to Q3 (Million Yen)	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY03/2018	17,801	1,135	1,281	933	-	-	-
Q1 to Q3 FY03/2019	18,445	1,323	1,270	892	-	-	-
Q1 to Q3 FY03/2019	YoY	3.6%	16.5%	(0.8%)	(4.3%)	-	-

Source: Company Data, WRJ Calculation

1.0 Results Update (6 February 2019)

Further Development Overseas

On 5 February 2019, SHOFU, developing, manufacturing and selling dental materials, released its Q1 to Q3 FY03/2019 results. It has been revealed that sales in Japan fail to increase but sales overseas carrying gross profit margin higher are increasing favorably. Operating profit margin is on the rise, due to improving sales mix. Sales in Japan came in at ¥10,116m (down 0.8% YoY) and sales overseas ¥8,329m (up 9.6%). Sales in Japan are negatively affected by intensifying price-oriented competition in line with ongoing maturity in the market, while this is more than compensated for by increased sales overseas, which increased favorably also on a local currencies basis, i.e., up 9.3% over the same period in the previous year as forex rates have remained roughly unchanged. In the United States, the Company's sales promotion measures have been working very well for some time, while the Company's market share in China has been consistently increasing as far as we could gather. On top of this, the Company sees emerging sales from its new bridgehead in India as well as planning to do so with another one in Brazil to take off toward the end of FY03/2019 and to drive sales on a full-year basis starting in FY03/2020. Thus, the Company is currently in the pursuit of further development on cultivation of the markets overseas.

For your information: [SHOFU \(7979\) Growth Overseas \(19 December 2018\)](#)

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

2.0 Company Profile

Comprehensive Manufacturer of Dental Materials

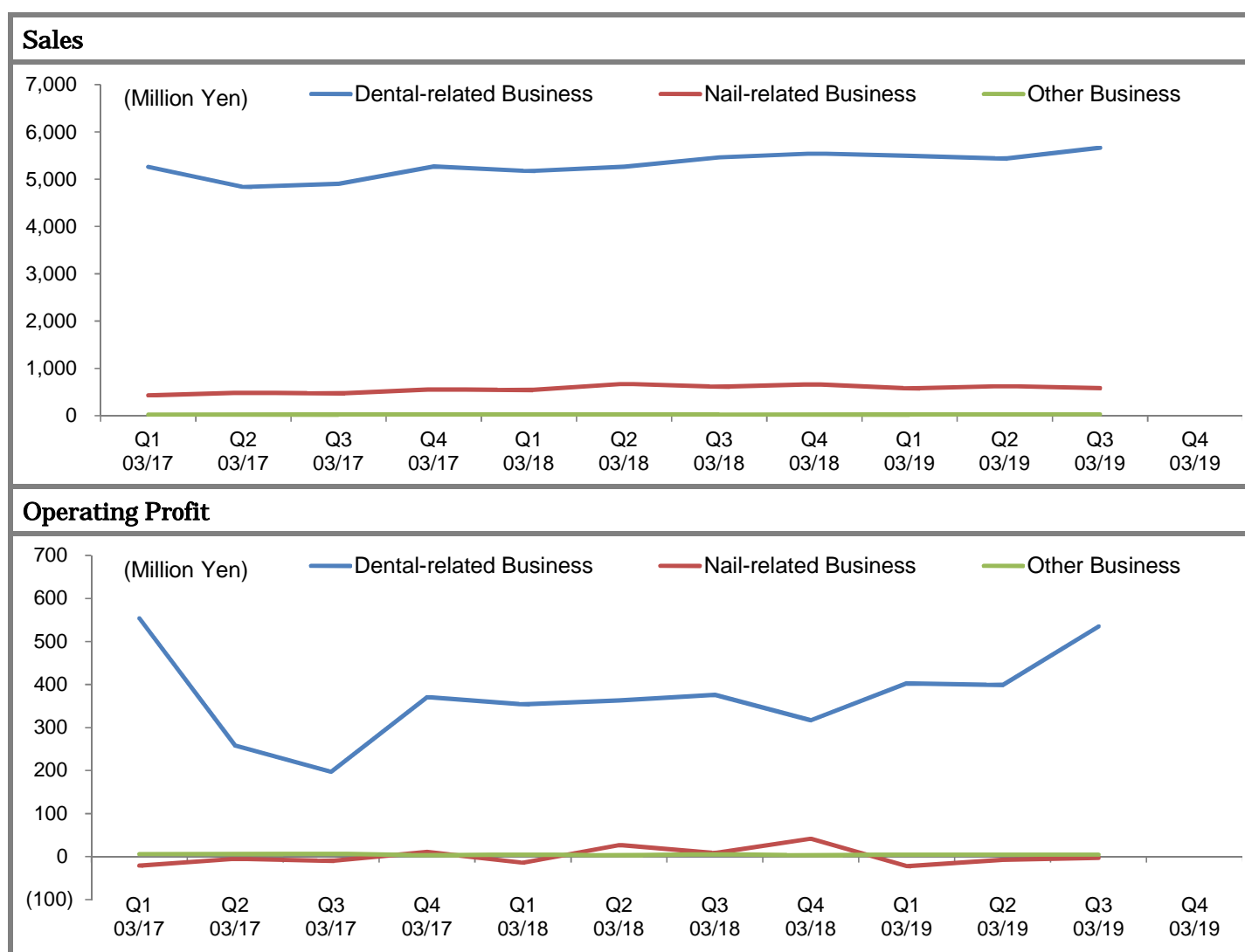
Company Name	SHOFU INC. Website IR Information Share Price (Japanese)
Established	15 May 1922
Listing	25 July 1963: Tokyo Stock Exchange 1st Section (ticker: 7979)
Capital	¥4,474m (as of the end of December 2018)
No. of Shares	16,114,089 shares, including 211,122 treasury shares (as of the end of Dec. 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:1,147, Parent: 439 (as of the end of December 2018)

Source: Company Data

3.0 Recent Trading and Prospects

Q1 to Q3 FY03/2019 Results

In Q1 to Q3 FY03/2019, sales came in at ¥18,445m (up 3.6% YoY), operating profit ¥1,323m (up 16.5%), recurring profit ¥1,270m (down 0.8%) and profit attributable to owners of parent ¥892m (down 4.3%), while operating profit margin 7.2% (up 0.8% points). Due to worsening of non-operating balance to negative ¥53m from ¥146m, recurring profit marginally decreased over the same period in the previous year. This has a lot to do with worsening of forex profit and/or loss to negative ¥44m from ¥163m. The key factor why the Company sees forex profit and/or loss is its exposure to euro-dominated debts and credits, which are reevaluated as of the end of every quarter based on actual forex rates.



Source: Company Data, WRJ Calculation

By business segment, the mainstay Dental-related Business to develop, manufacture and sell dental materials saw sales of ¥16,592m (up 4.3%), operating profit of ¥1,337m (up 22.3%) and operating profit margin of 8.1% (up 1.2% points), having accounted for 90.0% of sales as a whole for the Company and 101.4% of operating profit (before intersegment transactions). Thus, this business segment is the determinant for business performance as a whole for the Company to a large extent. As far as Q3 results are concerned, sales came in at ¥5,663m (up 3.7%), operating profit ¥535m (up 42.3%) and operating profit margin 9.4% (up 2.6% points), having seen a major improvement with operating profit margin.

Meanwhile, Nail-related Business to develop, manufacture and sell nail salon materials saw sales of ¥1,776m (down 2.5%), operating profit of negative ¥32m (versus ¥21m during the same period of in the previous year) and operating profit margin of negative 1.8% (down 3.0% points). Sales in Japan increased, but sales overseas decreased more than increases in Japan, while the Company suffered from increased expenses on sales promotions, having resulted in earnings correction. In the United States, sales increased, while sales came down sharply in Taiwan due to intensifying competition.

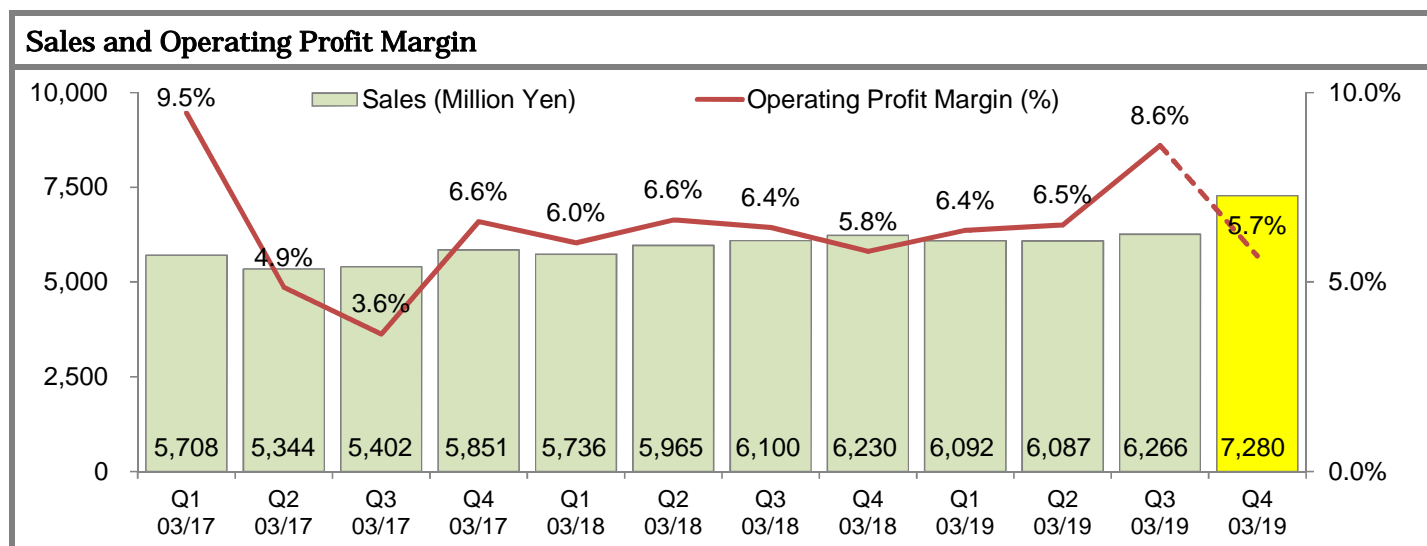
By region, as a whole for the Company, sales in Japan came in at ¥10,116m (down 0.8%) and sales overseas ¥8,329m (up 9.6%). On a local currencies basis, sales overseas increased by 9.3% or up 7.4% in North America & Latin America, up 2.8% in Europe and up 18.7% in Asia, Oceania, etc.

In regards to North America & Latin America, the Company suggests that its sales promotion measures have been working very well for time in the United States, which is the key driving force for sales here. On top of this, sales stemming from its new bridgehead in Brazil will also drive sales on a full-year basis starting in FY03/2020. Still, in regards to Europe, the Company suggests that business performance has remained unfavorable for Merz Dental GmbH or the representative manufacturer of artificial teeth based 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.

In regards to Asia, Oceania, etc., sales in China increased by 24.9% over the same period in the previous year and by 12.6% for the rest, implying that sales here are mainly driven by those of China where market share increases persist as far as we could gather. For the rest but for China, the Company suggests it is noteworthy that sales stemming from its new bridgehead in India are well taking off, bringing net add-ons to a meaningful extent, i.e., equating to almost 2% of sales overseas as whole for the Company, as far as we could gather.

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

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	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	18,445	-	-	+644
CoGS	2,420	4,986	7,556	10,267	2,545	5,087	7,635	-	-	+79
Gross Profit	3,315	6,714	10,244	13,763	3,546	7,091	10,809	-	-	+565
SG&A	2,968	5,971	9,109	12,266	3,158	6,306	9,485	-	-	+376
Operating Profit	346	742	1,135	1,497	388	784	1,323	-	-	+188
Non Operating Balance	86	111	146	68	27	(2)	(53)	-	-	(199)
Recurring Profit	432	853	1,281	1,565	415	782	1,270	-	-	(11)
Extraordinary Balance	9	23	23	(208)	0	0	0	-	-	(23)
Profit before Income Taxes	441	876	1,304	1,357	415	782	1,270	-	-	(34)
Total Income Taxes	146	237	368	478	160	244	390	-	-	+22
NP Belonging to Non-Controlling SHs	-	3	3	1	(7)	(8)	(13)	-	-	(16)
Profit Attributable to Owners of Parent	294	635	933	877	262	546	892	-	-	(41)
Sales YoY	+0.5%	+5.9%	+8.2%	+7.7%	+6.2%	+4.1%	+3.6%	-	-	-
Operating Profit YoY	(35.8%)	(7.2%)	+14.0%	+8.3%	+12.0%	+5.7%	+16.5%	-	-	-
Recurring Profit YoY	+36.2%	+67.6%	+47.3%	+37.2%	(3.9%)	(8.3%)	(0.8%)	-	-	-
Profit Attributable to Owners of Parent YoY	+27.9%	+111.2%	+42.8%	+4.8%	(10.9%)	(14.1%)	(4.3%)	-	-	-
Gross Profit Margin	57.8%	57.4%	57.5%	57.3%	58.2%	58.2%	58.6%	-	-	+1.1%
(SG&A / Sales)	51.7%	51.0%	51.2%	51.0%	51.8%	51.8%	51.4%	-	-	+0.3%
Operating Profit Margin	6.0%	6.3%	6.4%	6.2%	6.4%	6.4%	7.2%	-	-	+0.8%
Recurring Profit Margin	7.5%	7.3%	7.2%	6.5%	6.8%	6.4%	6.9%	-	-	(0.3%)
Profit Attributable to Owners of Parent Margin	5.1%	5.4%	5.2%	3.6%	4.3%	4.5%	4.8%	-	-	(0.4%)
Total Income Taxes / Profit before Income Taxes	33.1%	27.1%	28.2%	35.2%	38.6%	31.2%	30.7%	-	-	+2.5%
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	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	6,266	-	-	+166
CoGS	2,420	2,566	2,570	2,711	2,545	2,542	2,548	-	-	(22)
Gross Profit	3,315	3,399	3,530	3,519	3,546	3,545	3,718	-	-	+188
SG&A	2,968	3,003	3,138	3,157	3,158	3,148	3,179	-	-	+41
Operating Profit	346	396	393	362	388	396	539	-	-	+146
Non Operating Balance	86	25	35	(78)	27	(29)	(51)	-	-	(86)
Recurring Profit	432	421	428	284	415	367	488	-	-	+60
Extraordinary Balance	9	14	0	(231)	0	0	0	-	-	-
Profit before Income Taxes	441	435	428	53	415	367	488	-	-	+60
Total Income Taxes	146	91	131	110	160	84	146	-	-	+15
NP Belonging to Non-Controlling SHs	-	3	-	(2)	(7)	(1)	(5)	-	-	(5)
Profit Attributable to Owners of Parent	294	341	298	(56)	262	284	346	-	-	+48
Sales YoY	+0.5%	+11.6%	+12.9%	+6.5%	+6.2%	+2.0%	+2.7%	-	-	-
Operating Profit YoY	(35.8%)	+52.3%	+100.5%	(6.2%)	+12.0%	+0.0%	+37.2%	-	-	-
Recurring Profit YoY	+36.2%	+119.3%	+18.9%	+4.4%	(3.9%)	(12.8%)	+14.0%	-	-	-
Profit Attributable to Owners of Parent YoY	+27.9%	+380.3%	(15.3%)	-	(10.9%)	(16.7%)	+16.1%	-	-	-
Gross Profit Margin	57.8%	57.0%	57.9%	56.5%	58.2%	58.2%	59.3%	-	-	+1.5%
(SG&A / Sales)	51.7%	50.3%	51.4%	50.7%	51.8%	51.7%	50.7%	-	-	(0.7%)
Operating Profit Margin	6.0%	6.6%	6.4%	5.8%	6.4%	6.5%	8.6%	-	-	+2.2%
Recurring Profit Margin	7.5%	7.1%	7.0%	4.6%	6.8%	6.0%	7.8%	-	-	+0.8%
Profit Attributable to Owners of Parent Margin	5.1%	5.7%	4.9%	(0.9%)	4.3%	4.7%	5.5%	-	-	+0.6%
Total Income Taxes / Profit before Income Taxes	33.1%	20.9%	30.6%	207.5%	38.6%	22.9%	29.9%	-	-	(0.7%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
(Million Yen)	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	03/2019	Net Chg.
Dental-related Business	5,174	10,441	15,903	21,446	5,494	10,929	16,592	-	-	+689
Nail-related Business	538	1,210	1,821	2,485	572	1,198	1,776	-	-	(45)
Other Business	23	49	76	98	25	51	75	-	-	(1)
Sales	5,736	11,701	17,801	24,031	6,092	12,179	18,445	-	-	+644
Dental-related Business	354	717	1,093	1,410	403	802	1,337	-	-	+244
Nail-related Business	(14)	13	21	63	(22)	(29)	(32)	-	-	(53)
Other Business	5	8	14	17	5	9	13	-	-	(1)
Segment profit	345	739	1,130	1,491	387	781	1,318	-	-	+188
Elimination of intersegment transactions	1	3	4	6	1	3	4	-	-	0
Operating Profit	346	742	1,135	1,497	388	784	1,323	-	-	+188
Dental-related Business	6.8%	6.9%	6.9%	6.6%	7.3%	7.3%	8.1%	-	-	+1.2%
Nail-related Business	(2.6%)	1.1%	1.2%	2.5%	(3.8%)	(2.4%)	(1.8%)	-	-	(3.0%)
Other Business	21.7%	16.3%	18.4%	17.3%	20.0%	17.6%	17.3%	-	-	(1.1%)
Operating Profit Margin	6.0%	6.3%	6.4%	6.2%	6.4%	6.4%	7.2%	-	-	+0.8%

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
(Million Yen)	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	03/2019	Net Chg.
Dental-related Business	5,174	5,267	5,462	5,543	5,494	5,435	5,663	-	-	+201
Nail-related Business	538	672	611	664	572	626	578	-	-	(33)
Other Business	23	26	27	22	25	26	24	-	-	(3)
Sales	5,736	5,965	6,100	6,230	6,092	6,087	6,266	-	-	+166
Dental-related Business	354	363	376	317	403	399	535	-	-	+159
Nail-related Business	(14)	27	8	42	(22)	(7)	(3)	-	-	(11)
Other Business	5	3	6	3	5	4	4	-	-	(2)
Segment profit	345	394	391	361	387	394	537	-	-	+146
Elimination of intersegment transactions	1	2	1	2	1	2	1	-	-	0
Operating Profit	346	396	393	362	388	396	539	-	-	+146
Dental-related Business	6.8%	6.9%	6.9%	5.7%	7.3%	7.3%	9.4%	-	-	+2.6%
Nail-related Business	(2.6%)	4.0%	1.3%	6.3%	(3.8%)	(1.1%)	(0.5%)	-	-	(1.8%)
Other Business	21.7%	11.5%	22.2%	13.6%	20.0%	15.4%	16.7%	-	-	(5.6%)
Operating Profit Margin	6.0%	6.6%	6.4%	5.8%	6.4%	6.5%	8.6%	-	-	+2.2%

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	4,806	-	-	(305)
Accounts Receivables	3,199	3,227	3,020	3,285	3,096	3,116	2,981	-	-	(39)
Inventory	5,712	5,934	6,141	5,871	6,302	6,469	6,669	-	-	+528
Other	965	956	973	979	499	443	519	-	-	(454)
Current Assets	14,720	14,998	15,245	15,868	15,610	15,408	14,975	-	-	(270)
Tangible Assets	6,677	6,667	6,597	6,588	6,519	6,757	6,784	-	-	+187
Intangible Assets	1,595	1,613	1,599	1,279	1,220	1,218	1,149	-	-	(450)
Investments & Other Assets	6,840	7,194	7,659	7,620	7,422	7,549	6,422	-	-	(1,237)
Fixed Assets	15,113	15,475	15,856	15,488	15,163	15,525	14,355	-	-	(1,501)
Total Assets	29,834	30,473	31,102	31,357	30,773	30,933	29,331	-	-	(1,771)
Accounts Payables	706	611	688	744	861	719	781	-	-	+93
Short Term Debt	505	505	505	500	500	500	500	-	-	(5)
Other	2,315	2,248	2,110	2,419	2,536	2,394	2,008	-	-	(102)
Current Liabilities	3,526	3,364	3,303	3,663	3,897	3,613	3,289	-	-	(14)
Long Term Debt	1,100	975	850	986	855	739	604	-	-	(246)
Other	2,286	2,423	2,599	2,551	1,986	2,005	1,662	-	-	(937)
Fixed Liabilities	3,386	3,398	3,449	3,537	2,841	2,744	2,266	-	-	(1,183)
Total Liabilities	6,912	6,762	6,753	7,200	6,739	6,357	5,556	-	-	(1,197)
Shareholders' Equity	20,066	20,408	20,578	20,522	20,598	20,882	21,101	-	-	+523
Other	2,855	3,302	3,770	3,635	3,436	3,694	2,674	-	-	(1,096)
Net Assets	22,921	23,710	24,348	24,157	24,034	24,576	23,775	-	-	(573)
Total Liabilities & Net Assets	29,834	30,473	31,102	31,357	30,773	30,933	29,331	-	-	(1,771)
Equity Capital	22,818	23,598	24,230	24,035	23,919	24,457	23,656	-	-	(574)
Interest Bearing Debt	1,605	1,480	1,355	1,486	1,355	1,239	1,104	-	-	(251)
Net Debt	(3,239)	(3,401)	(3,756)	(4,247)	(4,358)	(4,141)	(3,702)	-	-	+54
Equity Ratio	76.5%	77.4%	77.9%	76.7%	77.7%	79.1%	80.7%	-	-	+2.7%
Net Debt Equity Ratio	(14.2%)	(14.4%)	(15.5%)	(17.7%)	(18.2%)	(16.9%)	(15.6%)	-	-	(0.1%)
ROE (12 months)	4.1%	5.3%	4.8%	3.8%	3.6%	3.3%	3.5%	-	-	(1.3%)
ROA (12 months)	4.4%	5.1%	5.2%	5.2%	5.1%	4.9%	5.1%	-	-	(0.1%)
Days for Inventory Turnover	215	211	218	197	225	232	238	-	-	-
Quick Ratio	228%	241%	246%	246%	226%	235%	237%	-	-	-
Current Ratio	417%	446%	462%	433%	401%	426%	455%	-	-	-

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	-	616	-	-	-	-
Investing Cash Flow	-	(578)	-	(772)	-	(518)	-	-	-	-
Operating CF & Investing CF	-	33	-	1,164	-	98	-	-	-	-
Financing Cash Flow	-	(458)	-	(592)	-	(454)	-	-	-	-

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.

Company name: Walden Research Japan Incorporated

Head office: 4F Hulic Ginza 1-chome Building, 1-13-1 Ginza, Chuo-city, Tokyo 104-0061 JAPAN

URL: www.walden.co.jp

E-mail: info@walden.co.jp

Phone : +81 3 3553 3769
