

## SHOFU (7979)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2018		24,031	1,497	1,565	877	55.2	20.0	1,511.9
FY03/2019		24,915	1,814	1,709	1,201	75.5	23.0	1,524.9
FY03/2020CoE		26,190	2,056	1,941	1,377	86.6	26.0	-
FY03/2019	YoY	3.7%	21.1%	9.2%	36.9%	-	-	-
FY03/2020CoE	YoY	5.1%	13.4%	13.6%	14.7%	-	-	-
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 FY03/2019		12,179	784	782	546	-	-	-
Q3 to Q4 FY03/2019		12,736	1,030	927	655	-	-	-
Q1 to Q2 FY03/2020CoE		12,906	905	854	569	-	-	-
Q3 to Q4 FY03/2020CoE		13,284	1,151	1,087	808	-	-	-
Q1 to Q2 FY03/2020CoE	YoY	6.0%	15.3%	9.3%	4.3%	-	-	-
Q3 to Q4 FY03/2020CoE	YoY	4.3%	11.7%	17.3%	23.4%	-	-	-

Source: Company Data, WRJ Calculation

### 1.0 Executive Summary (25 June 2019)

#### Strengths of China

SHOFU, developing, manufacturing and selling dental materials / equipment, is seeing favorable earnings. Having renewed record high earnings in FY03/2019, sales and earnings are expected to further increase in the foreseeable future. Although sales are stagnating in Japan where market conditions are tough, strengths of sales overseas where the Company finds a great room to cultivate going forward are more than compensating. In particular, the Company benefits from strengths of China. The local market is on the rise as well as the Company's market share, having resulted in sales increased by 23.2% over the previous year with respect to those of China in FY03/2019. The net increases of sales here equate to almost half of the net increases of sales as a whole for the Company. As has been advocated by the Company, needs for dental care are emerging in fact for emerging countries in line with developing economy, etc., while it appears that the Company has been steadily coping with increased local needs. Generally speaking, emerging countries are of BRICs (Brazil, Russia, India and China) and/or VISTA (Vietnam, Indonesia, South Africa, Turkey and Argentina). The Company is keen on placing the utmost emphasis on cultivation of markets in all those emerging countries, while spending resources on sales promotions in developed countries in Europe and America at the same time. For example, the Company set up SHOFU DENTAL INDIA PVT. LTD. in April 2017 for the sake of locally starting up direct sales in India, while sales from here have started to take off on a full-fledged basis to date. Now, the Company is trying to get up speed for all those developments overseas like setting up local bridgeheads for sales and/ or for the manufacture.

IR Representative: Miyuki Motoda / Corporate Planning Department ([ir@shofu.co.jp](mailto:ir@shofu.co.jp))

## 2.0 Company Profile

### Comprehensive Manufacturer of Dental Materials / Equipment

<b>Company Name</b>	SHOFU INC. <a href="#">Website</a> <a href="#">IR Information</a> <a href="#">Share Price (Japanese)</a>
<b>Established</b>	15 May 1922
<b>Listing</b>	25 July 1963: Tokyo Stock Exchange 1st section (ticker: 7979)
<b>Capital</b>	¥4,474m (as of the end of March 2019)
<b>No. of Shares</b>	16,114,089 shares, including 211,210 treasury shares (as of the end of March 2019)
<b>Main Features</b>	<ul style="list-style-type: none"> <li>● The leader of artificial teeth / abrasives in Japan</li> <li>● Focus on sales promotions overseas where huge room to cultivate remaining</li> <li>● Also developing, manufacturing and selling nail salon materials</li> </ul>
<b>Business Segments</b>	<ul style="list-style-type: none"> <li>. Dental-related Business</li> <li>. Nail-related Business</li> <li>. Other Business</li> </ul>
<b>Top Management</b>	President & CEO: Noriyuki Negoro
<b>Shareholders</b>	Mitsui Chemicals, Inc. 11.17%, The Bank of Kyoto, Ltd. 4.42% (as of the end of March 2019)
<b>Headquarters</b>	Higashiyama-ku, Kyoto-city, JAPAN
<b>No. of Employees</b>	Consolidated:1,168, Parent: 439 (as of the end of March 2019)

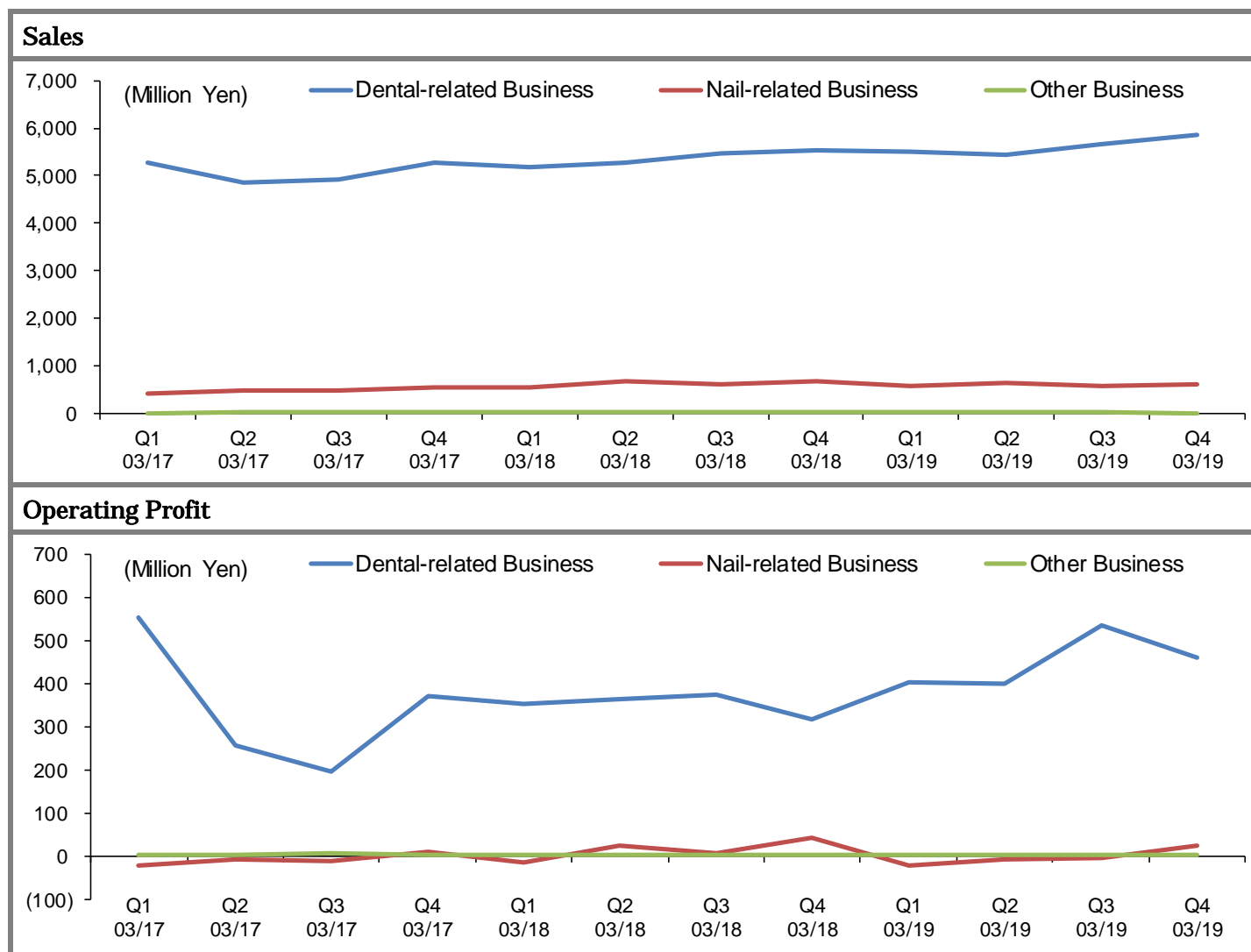


Source: Company Data

## 3.0 Recent Trading & Prospects

### FY03/2019 Results

In FY03/2019, sales came in at ¥24,915m (up 3.7% YoY), operating profit ¥1,814m (up 21.1%), recurring profit ¥1,709m (up 9.2%) and profit attributable to owners of parent ¥1,201m (up 36.9%), while operating profit margin 7.3% (up 1.1% points).

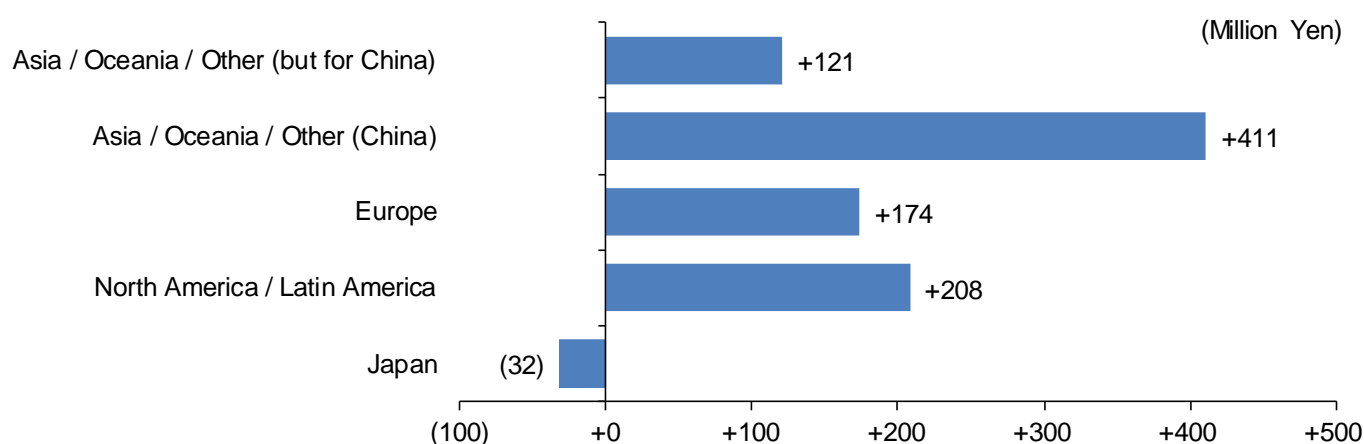


Source: Company Data, WRJ Calculation

By business segment, the mainstay Dental-related Business to develop, manufacture and sell dental materials / equipment saw sales of ¥22,446m (up 4.7%), operating profit of ¥1,797m (up 27.5%) and operating profit margin of 8.0% (up 1.4% points), having accounted for 90.1% of sales as a whole for the Company and 99.4% of operating profit (before intersegment transactions). Thus, business performance as a whole for the Company hinge on this business segment to a large extent. Meanwhile, Nail-related Business to develop, manufacture and sell nail salon materials saw sales of ¥2,372m (down 4.6%), operating profit of negative ¥5m (versus ¥63m in the previous year) and operating profit margin of negative 0.2% (down 2.7% points).

At the non-operating level, the Company suffered from aggravation by ¥173m to negative ¥105m from ¥68m and improvement by ¥208m to breaking even from negative ¥208m at the extraordinary level at the same time. The former has a lot to do with aggravation by ¥130m to negative ¥55m from ¥75m for forex profit / loss balance. The Company is exposed to euro-dominated debts and credits to more than a certain extent, while reevaluating them based on actual forex rate. As of the end of FY03/2019, the Company did it by means of comparing with the state as of the end of FY03/2018, having resulted in forex loss of ¥55m. Meanwhile, the Company saw major improvement at the extraordinary level, as impairment loss of ¥231m in FY03/2018 did not reappear. This is of frontloaded write-off on goodwill of Merz Dental GmbH or manufacturer of artificial teeth, based in Germany, having been consolidated as subsidiary since the beginning of FY03/2016.

### Net Changes of Sales by Region (FY03/2018 to FY03/2019)



### Forex Rate

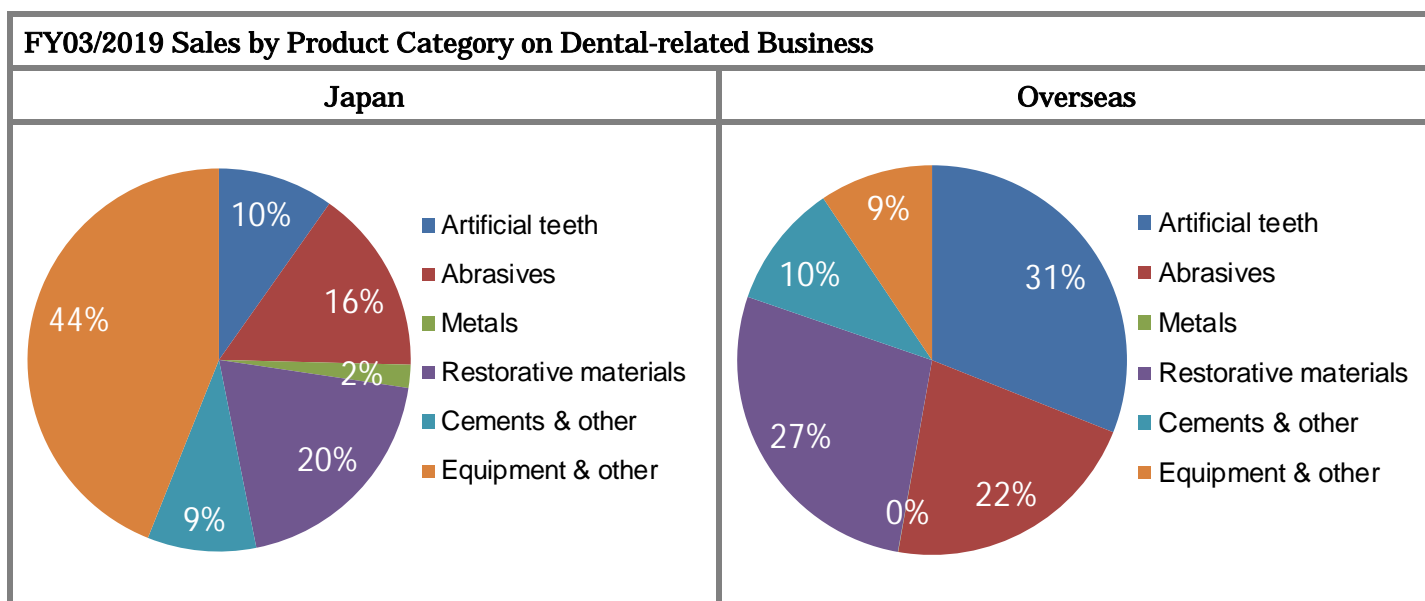
Forex Rate (Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2018	Q1 to Q2 03/2018	Q1 to Q3 03/2018	Q1 to Q4 03/2018	Q1 03/2019	Q1 to Q2 03/2019	Q1 to Q3 03/2019	Q1 to Q4 03/2019		
U.S. Dollar	111.61	111.42	111.82	110.81	108.71	110.07	110.82	110.69	(0.12)	
Euro	123.14	126.63	128.59	129.45	129.39	129.88	129.38	128.43	(1.02)	
GBP	142.92	144.38	146.24	147.27	147.54	146.99	145.83	145.68	(1.59)	
Chinese Yuan	16.51	16.42	16.50	16.64	17.10	17.05	16.83	16.69	+0.05	
U.S. Dollar (YoY)	+2.3%	+4.7%	+3.7%	+1.6%	(2.6%)	(1.2%)	(0.9%)	(0.1%)	-	
Euro	+0.5%	+6.3%	+7.9%	+8.4%	+5.1%	+2.6%	+0.6%	(0.8%)	-	
GBP	(8.2%)	(1.5%)	+1.8%	+3.0%	+3.2%	+1.8%	(0.3%)	(1.1%)	-	
Chinese Yuan	(7.5%)	(4.6%)	(1.1%)	+0.5%	+3.6%	+3.8%	+2.0%	+0.3%	-	

Source: Company Data, WRJ Calculation

In FY03/2019, the Company has renewed its record high sales and thus earnings. Sales of Japan came in at ¥13,619m (down 0.2%) and ¥11,295m (up 8.8%) overseas, implying the renewals were driven by increased sales overseas and those of China in particular. Compared with net increases of sales by ¥884m out of the Company as a whole, those of China equated to ¥411m. By region, sales overseas comprised ¥2,844m (up 7.9%) of North America / Latin America, ¥4,322m (up 4.2%) of Europe and ¥4,128m (up 14.8%) of Asia / Oceania / Other. Sales of China, accounting for more than half of Asia / Oceania / Other increased by 23.2% and the rest increased by 6.7%. By business segment, Dental-related Business saw ¥11,983m (down 1.0%) for sales of Japan and ¥10,462m (up 12.1%) overseas, while ¥1,539m (up 6.6%) sales of Japan and ¥833m (down 20.0%) overseas on the Nail-related Business side.

On the Dental-related Business side, sales are stagnating in Japan. The market conditions are tough and the Company suffers from difficulties to beef up sales across the board for almost all the mainstay product categories represented by artificial teeth. There are some positive impacts stemming from launch of new product, for example, for restorative materials, but they have remained not significant enough to be compensating. Meanwhile, sales overseas increased by 12.1% as above mentioned on a Japanese yen basis versus increases by 12.6% on a local currencies basis. Forex rate has hardly changed over the previous year across the board and the rate of increases on a local currencies basis almost equates to that of Japanese yen. As far as sales overseas are concerned, the Company succeeded in beefing up those with its aggressive sales promotion measures across the board by region, i.e., ¥2,635m (up 8.8%) for sales of North America / Latin America, ¥4,322m (up 4.2%) for sales of Europe and ¥3,504m (up 26.7%) for sales of Asia / Oceania / Other. On a local currencies basis, they were up 8.9%, up 5.1% and up 27.0%, respectively.

On the Nail-related Business side, sales of Japan are buoyant. The market conditions are tough and price-oriented competition is intensifying, but the Company's strategy to cope with needs of users is working very well. The Company cuts back volume per product to sell as well as cutting back selling prices at the same time, having driven sales of the mainstay gel nail product. Meanwhile, sales overseas are coming down due mainly to intensifying competition in Taiwan.



Source: Company Data, WRJ Calculation

Meanwhile, gross profit came in at ¥14,445m (up 5.0%) as a whole for the Company and SG&A expenses ¥12,631m (up 3.0%) and thus gross profit margin 58.0% (up 0.7% points) and SG&A ratio 50.7% (down 0.3% points). One of the reasons for improved gross profit margin is improved sales mix. On the mainstay Dental-related Business side, sales overseas carrying gross profit margin higher than that of Japan are increasing favorably. In Japan, sales of equipment & other accounted for 44% of total, including those of stocking and selling more than a certain extent, while 9% for sales overseas. As a result, sales overseas are exposed to own product more than those of Japan and carry gross profit margin higher, according to the Company. On the other hand, SG&A expenses increased in line with spending on sales promotions in Japan and overseas as well as on acquisition of pharmaceutical approval and on investment in human resources both overseas. Still, the rate of increases is rather smaller than that of sales. In other words, the Company benefits from increased sales, having seen operating profit margin of 7.3% (up 1.1% point).

## 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	
<b>Sales</b>	<b>5,736</b>	<b>11,701</b>	<b>17,801</b>	<b>24,031</b>	<b>6,092</b>	<b>12,179</b>	<b>18,445</b>	<b>24,915</b>		<b>+884</b>
CoGS	2,420	4,986	7,556	10,267	2,545	5,087	7,635	10,469		+202
Gross Profit	3,315	6,714	10,244	13,763	3,546	7,091	10,809	14,445		+682
SG&A	2,968	5,971	9,109	12,266	3,158	6,306	9,485	12,631		+365
<b>Operating Profit</b>	<b>346</b>	<b>742</b>	<b>1,135</b>	<b>1,497</b>	<b>388</b>	<b>784</b>	<b>1,323</b>	<b>1,814</b>		<b>+317</b>
Non Operating Balance	86	111	146	68	27	(2)	(53)	(105)		(173)
<b>Recurring Profit</b>	<b>432</b>	<b>853</b>	<b>1,281</b>	<b>1,565</b>	<b>415</b>	<b>782</b>	<b>1,270</b>	<b>1,709</b>		<b>+144</b>
Extraordinary Balance	9	23	23	(208)	0	0	0	0		+208
Profit before Income Taxes	441	876	1,304	1,357	415	782	1,270	1,709		+352
Total Income Taxes	146	237	368	478	160	244	390	512		+34
NP Belonging to Non-Controlling SHs	-	3	3	1	(7)	(8)	(13)	(4)		(5)
<b>Profit Attributable to Owners of Parent</b>	<b>294</b>	<b>635</b>	<b>933</b>	<b>877</b>	<b>262</b>	<b>546</b>	<b>892</b>	<b>1,201</b>		<b>+324</b>
Sales YoY	+0.5%	+5.9%	+8.2%	+7.7%	+6.2%	+4.1%	+3.6%	+3.7%		-
Operating Profit YoY	(35.8%)	(7.2%)	+14.0%	+8.3%	+12.0%	+5.7%	+16.5%	+21.1%		-
Recurring Profit YoY	+36.2%	+67.6%	+47.3%	+37.2%	(3.9%)	(8.3%)	(0.8%)	+9.2%		-
Profit Attributable to Owners of Parent YoY	+27.9%	+111.2%	+42.8%	+4.8%	(10.9%)	(14.1%)	(4.3%)	+36.9%		-
Gross Profit Margin	57.8%	57.4%	57.5%	57.3%	58.2%	58.2%	58.6%	58.0%		+0.7%
SG&A Ratio	51.7%	51.0%	51.2%	51.0%	51.8%	51.8%	51.4%	50.7%		(0.3%)
Operating Profit Margin	6.0%	6.3%	6.4%	6.2%	6.4%	6.4%	7.2%	7.3%		+1.1%
Recurring Profit Margin	7.5%	7.3%	7.2%	6.5%	6.8%	6.4%	6.9%	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%	4.8%		+1.2%
Total Income Taxes / Profit before Income Taxes	33.1%	27.1%	28.2%	35.2%	38.6%	31.2%	30.7%	30.0%		(5.3%)

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	
<b>Sales</b>	<b>5,736</b>	<b>5,965</b>	<b>6,100</b>	<b>6,230</b>	<b>6,092</b>	<b>6,087</b>	<b>6,266</b>	<b>6,470</b>		<b>+240</b>
CoGS	2,420	2,566	2,570	2,711	2,545	2,542	2,548	2,834		+123
Gross Profit	3,315	3,399	3,530	3,519	3,546	3,545	3,718	3,636		+117
SG&A	2,968	3,003	3,138	3,157	3,158	3,148	3,179	3,146		(11)
<b>Operating Profit</b>	<b>346</b>	<b>396</b>	<b>393</b>	<b>362</b>	<b>388</b>	<b>396</b>	<b>539</b>	<b>491</b>		<b>+129</b>
Non Operating Balance	86	25	35	(78)	27	(29)	(51)	(52)		+26
<b>Recurring Profit</b>	<b>432</b>	<b>421</b>	<b>428</b>	<b>284</b>	<b>415</b>	<b>367</b>	<b>488</b>	<b>439</b>		<b>+155</b>
Extraordinary Balance	9	14	0	(231)	0	0	0	0		+231
Profit before Income Taxes	441	435	428	53	415	367	488	439		+386
Total Income Taxes	146	91	131	110	160	84	146	122		+12
NP Belonging to Non-Controlling SHs	-	3	-	(2)	(7)	(1)	(5)	9		+11
<b>Profit Attributable to Owners of Parent</b>	<b>294</b>	<b>341</b>	<b>298</b>	<b>(56)</b>	<b>262</b>	<b>284</b>	<b>346</b>	<b>309</b>		<b>+365</b>
Sales YoY	+0.5%	+11.6%	+12.9%	+6.5%	+6.2%	+2.0%	+2.7%	+3.9%		-
Operating Profit YoY	(35.8%)	+52.3%	+100.5%	(6.2%)	+12.0%	+0.0%	+37.2%	+35.6%		-
Recurring Profit YoY	+36.2%	+119.3%	+18.9%	+4.4%	(3.9%)	(12.8%)	+14.0%	+54.6%		-
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%	56.2%		(0.3%)
SG&A Ratio	51.7%	50.3%	51.4%	50.7%	51.8%	51.7%	50.7%	48.6%		(2.0%)
Operating Profit Margin	6.0%	6.6%	6.4%	5.8%	6.4%	6.5%	8.6%	7.6%		+1.8%
Recurring Profit Margin	7.5%	7.1%	7.0%	4.6%	6.8%	6.0%	7.8%	6.8%		+2.2%
Profit Attributable to Owners of Parent Margin	5.1%	5.7%	4.9%	(0.9%)	4.3%	4.7%	5.5%	4.8%		+5.7%
Total Income Taxes / Profit before Income Taxes	33.1%	20.9%	30.6%	207.5%	38.6%	22.9%	29.9%	27.8%		(179.8%)

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	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		
Dental-related Business	5,174	10,441	15,903	21,446	5,494	10,929	16,592	22,446		+1,000
Nail-related Business	538	1,210	1,821	2,485	572	1,198	1,776	2,372		(113)
Other Business	23	49	76	98	25	51	75	96		(2)
<b>Sales</b>	<b>5,736</b>	<b>11,701</b>	<b>17,801</b>	<b>24,031</b>	<b>6,092</b>	<b>12,179</b>	<b>18,445</b>	<b>24,915</b>		<b>+884</b>
Dental-related Business	354	717	1,093	1,410	403	802	1,337	1,797		+387
Nail-related Business	(14)	13	21	63	(22)	(29)	(32)	(5)		(68)
Other Business	5	8	14	17	5	9	13	16		(1)
<b>Segment profit</b>	<b>345</b>	<b>739</b>	<b>1,130</b>	<b>1,491</b>	<b>387</b>	<b>781</b>	<b>1,318</b>	<b>1,807</b>		<b>+316</b>
Elimination of intersegment transactions	1	3	4	6	1	3	4	6		0
<b>Operating Profit</b>	<b>346</b>	<b>742</b>	<b>1,135</b>	<b>1,497</b>	<b>388</b>	<b>784</b>	<b>1,323</b>	<b>1,814</b>		<b>+317</b>
Dental-related Business	6.8%	6.9%	6.9%	6.6%	7.3%	7.3%	8.1%	8.0%		+1.4%
Nail-related Business	(2.6%)	1.1%	1.2%	2.5%	(3.8%)	(2.4%)	(1.8%)	(0.2%)		(2.7%)
Other Business	21.7%	16.3%	18.4%	17.3%	20.0%	17.6%	17.3%	16.7%		(0.7%)
<b>Operating Profit Margin</b>	<b>6.0%</b>	<b>6.3%</b>	<b>6.4%</b>	<b>6.2%</b>	<b>6.4%</b>	<b>6.4%</b>	<b>7.2%</b>	<b>7.3%</b>		<b>+1.1%</b>

Segmented Information	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		
Dental-related Business	5,174	5,267	5,462	5,543	5,494	5,435	5,663	5,854		+311
Nail-related Business	538	672	611	664	572	626	578	596		(68)
Other Business	23	26	27	22	25	26	24	21		(1)
<b>Sales</b>	<b>5,736</b>	<b>5,965</b>	<b>6,100</b>	<b>6,230</b>	<b>6,092</b>	<b>6,087</b>	<b>6,266</b>	<b>6,470</b>		<b>+240</b>
Dental-related Business	354	363	376	317	403	399	535	460		+143
Nail-related Business	(14)	27	8	42	(22)	(7)	(3)	27		(15)
Other Business	5	3	6	3	5	4	4	3		0
<b>Segment profit</b>	<b>345</b>	<b>394</b>	<b>391</b>	<b>361</b>	<b>387</b>	<b>394</b>	<b>537</b>	<b>489</b>		<b>+128</b>
Elimination of intersegment transactions	1	2	1	2	1	2	1	2		0
<b>Operating Profit</b>	<b>346</b>	<b>396</b>	<b>393</b>	<b>362</b>	<b>388</b>	<b>396</b>	<b>539</b>	<b>491</b>		<b>+129</b>
Dental-related Business	6.8%	6.9%	6.9%	5.7%	7.3%	7.3%	9.4%	7.9%		+2.1%
Nail-related Business	(2.6%)	4.0%	1.3%	6.3%	(3.8%)	(1.1%)	(0.5%)	4.5%		(1.8%)
Other Business	21.7%	11.5%	22.2%	13.6%	20.0%	15.4%	16.7%	14.3%		+0.6%
<b>Operating Profit Margin</b>	<b>6.0%</b>	<b>6.6%</b>	<b>6.4%</b>	<b>5.8%</b>	<b>6.4%</b>	<b>6.5%</b>	<b>8.6%</b>	<b>7.6%</b>		<b>+1.8%</b>

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	4,890	(843)	
Accounts Receivables	3,199	3,227	3,020	3,285	3,096	3,116	2,981	3,354	+69	
Inventory	5,712	5,934	6,141	5,871	6,302	6,469	6,669	6,207	+336	
Other	965	956	973	456	499	443	519	524	+68	
<b>Current Assets</b>	<b>14,720</b>	<b>14,998</b>	<b>15,245</b>	<b>15,345</b>	<b>15,610</b>	<b>15,408</b>	<b>14,975</b>	<b>14,975</b>	<b>(370)</b>	
Tangible Assets	6,677	6,667	6,597	6,588	6,519	6,757	6,784	7,100	+512	
Intangible Assets	1,595	1,613	1,599	1,279	1,220	1,218	1,149	1,132	(147)	
Investments & Other Assets	6,840	7,194	7,659	7,676	7,422	7,549	6,422	6,953	(723)	
<b>Fixed Assets</b>	<b>15,113</b>	<b>15,475</b>	<b>15,856</b>	<b>15,545</b>	<b>15,163</b>	<b>15,525</b>	<b>14,355</b>	<b>15,186</b>	<b>(359)</b>	
<b>Total Assets</b>	<b>29,834</b>	<b>30,473</b>	<b>31,102</b>	<b>30,890</b>	<b>30,773</b>	<b>30,933</b>	<b>29,331</b>	<b>30,161</b>	<b>(729)</b>	
Accounts Payables	706	611	688	744	861	719	781	669	(75)	
Short Term Debt	505	505	505	500	500	500	500	849	+349	
Other	2,315	2,248	2,110	2,419	2,536	2,394	2,008	2,302	(117)	
<b>Current Liabilities</b>	<b>3,526</b>	<b>3,364</b>	<b>3,303</b>	<b>3,663</b>	<b>3,897</b>	<b>3,613</b>	<b>3,289</b>	<b>3,820</b>	<b>+157</b>	
Long Term Debt	1,100	975	850	986	855	739	604	125	(861)	
Other	2,286	2,423	2,599	2,084	1,986	2,005	1,662	1,832	(252)	
<b>Fixed Liabilities</b>	<b>3,386</b>	<b>3,398</b>	<b>3,449</b>	<b>3,070</b>	<b>2,841</b>	<b>2,744</b>	<b>2,266</b>	<b>1,957</b>	<b>(1,113)</b>	
<b>Total Liabilities</b>	<b>6,912</b>	<b>6,762</b>	<b>6,753</b>	<b>6,733</b>	<b>6,739</b>	<b>6,357</b>	<b>5,556</b>	<b>5,778</b>	<b>(955)</b>	
<b>Shareholders' Equity</b>	<b>20,066</b>	<b>20,408</b>	<b>20,578</b>	<b>20,522</b>	<b>20,598</b>	<b>20,882</b>	<b>21,101</b>	<b>21,409</b>	<b>+887</b>	
Other	2,855	3,302	3,770	3,635	3,436	3,694	2,674	2,974	(661)	
<b>Net Assets</b>	<b>22,921</b>	<b>23,710</b>	<b>24,348</b>	<b>24,157</b>	<b>24,034</b>	<b>24,576</b>	<b>23,775</b>	<b>24,383</b>	<b>+226</b>	
<b>Total Liabilities &amp; Net Assets</b>	<b>29,834</b>	<b>30,473</b>	<b>31,102</b>	<b>30,890</b>	<b>30,773</b>	<b>30,933</b>	<b>29,331</b>	<b>30,161</b>	<b>(729)</b>	
Equity Capital	22,818	23,598	24,230	24,035	23,919	24,457	23,656	24,250	+215	
Interest Bearing Debt	1,605	1,480	1,355	1,486	1,355	1,239	1,104	974	(512)	
Net Debt	(3,239)	(3,401)	(3,756)	(4,247)	(4,358)	(4,141)	(3,702)	(3,916)	+331	
Equity Ratio	76.5%	77.4%	77.9%	77.8%	77.7%	79.1%	80.7%	80.4%	+2.6%	
Net Debt Equity Ratio	(14.2%)	(14.4%)	(15.5%)	(17.7%)	(18.2%)	(16.9%)	(15.6%)	(16.1%)	+1.5%	
ROE (12 months)	4.1%	5.3%	4.8%	3.8%	3.6%	3.3%	3.5%	5.0%	+1.2%	
ROA (12 months)	4.4%	5.1%	5.2%	5.2%	5.1%	4.9%	5.1%	5.6%	+0.4%	
Days for Inventory Turnover	215	211	218	197	225	232	238	199	-	
Quick Ratio	228%	241%	246%	246%	226%	235%	237%	216%	-	
Current Ratio	417%	446%	462%	419%	401%	426%	455%	392%	-	

Source: Company Data, WRJ Calculation

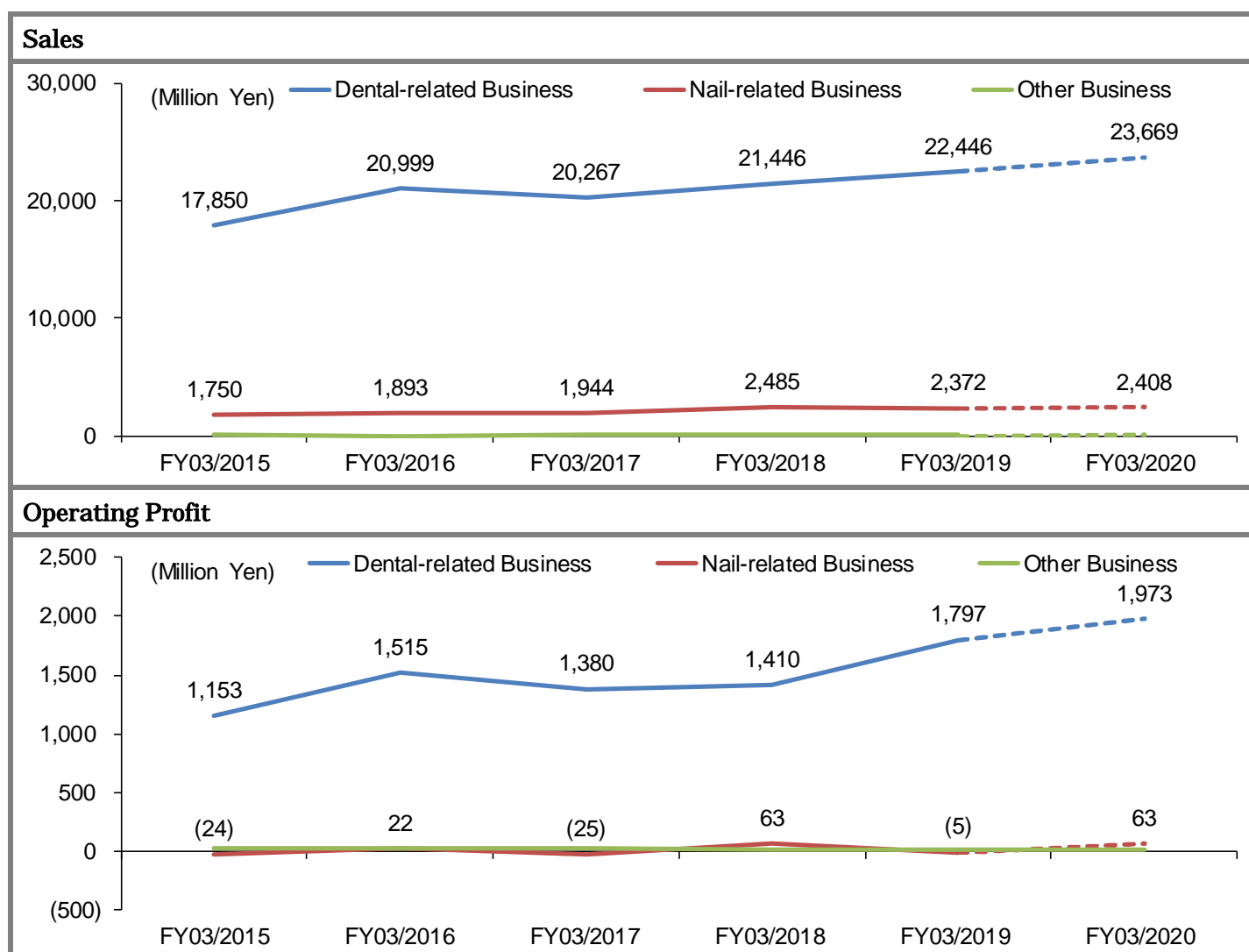
## Cash Flow Statement (Cumulative)

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	-	1,468	(468)	
Investing Cash Flow	-	(578)	-	(772)	-	(518)	-	(1,519)	(747)	
<b>Operating CF &amp; Investing CF</b>	<b>-</b>	<b>33</b>	<b>-</b>	<b>1,164</b>	<b>-</b>	<b>98</b>	<b>-</b>	<b>(51)</b>	<b>(1,215)</b>	
Financing Cash Flow	-	(458)	-	(592)	-	(454)	-	(844)	(252)	

Source: Company Data, WRJ Calculation

### FY03/2020 Company Forecasts

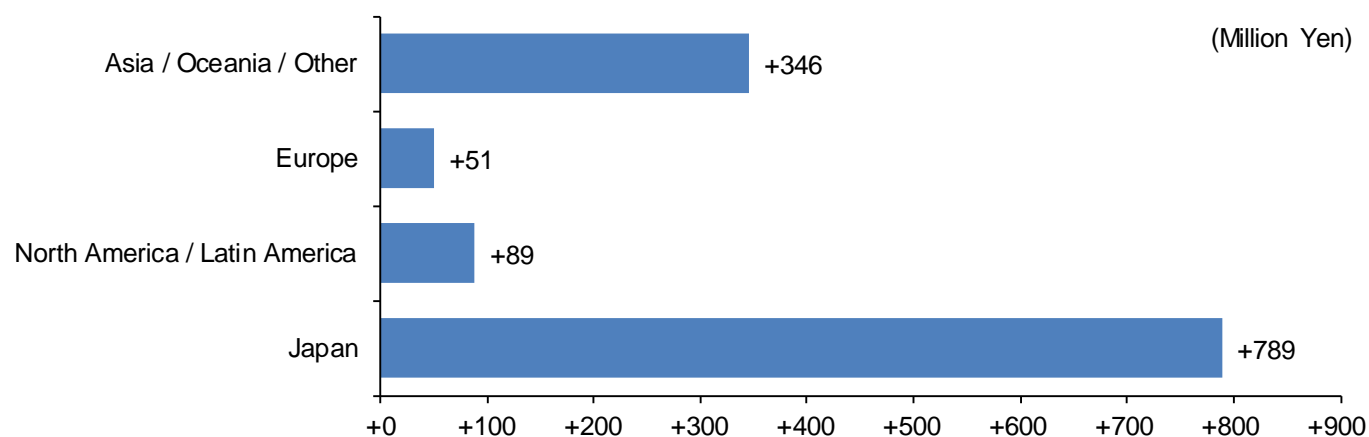
FY03/2020 Company forecasts are going for prospective sales of ¥26,190m (up 5.1% YoY), operating profit of ¥2,056m (up 13.4%), recurring profit of ¥1,941m (up 13.6%) and profit attributable to owners of parent of ¥1,377m (up 14.7%), while operating profit margin of 7.9% (up 0.6% points). Company forecasts are also going for prospective annual dividend of ¥26.0 per share, implying payout ratio of 30.0%.



Source: Company Data, WRJ Calculation

Company forecasts assume ¥14,408m (up 5.8%) for sales of Japan and ¥11,781m (up 4.3%) for sales overseas. By region, sales overseas comprise ¥2,933m (up 3.1%) for sales of North America / Latin America, ¥4,373m (up 1.2%) for sales of Europe and ¥4,474m (up 8.4%) for sales of Asia / Oceania / Other, while sales of China, accounting for more than half of total in sales of Asia / Oceania / Other are expected to increase by 15.1% and by 0.9% for the rest. FY03/2020 Company forecasts assume yen getting appreciated, cutting back the rate of increases of sales overseas with above-mentioned figures on a Japanese yen basis. On a local currencies basis, sales of North America / Latin America are expected increases by 8.5%, sales of Europe by 3.8%, sales of Asia / Oceania / Other by 9.4%, while by 16.4% for sales of China, accounting for more than half of total in sales of Asia / Oceania / Other and by 1.5% for the rest.

## Net Changes of Sales by Region (FY03/2019 to FY03/2020)



## Forex Rate

Forex Rate (Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 03/2015	FY 03/2016	FY 03/2017	FY 03/2018	FY 03/2019	FY 03/2020	YoY Net Chg.
U.S. Dollar	110.03	120.17	109.03	110.81	110.69	105.00	(5.69)
Euro	138.68	132.35	119.37	129.45	128.43	125.00	(3.43)
GBP	176.81	180.66	143.04	147.27	145.68	145.00	(0.68)
Chinese Yuan	17.26	19.21	16.56	16.64	16.69	16.50	(0.19)
U.S. Dollar (YoY)	+10.0%	+9.2%	(9.3%)	+1.6%	(0.1%)	(5.1%)	-
Euro	+3.5%	(4.6%)	(9.8%)	+8.4%	(0.8%)	(2.7%)	-
GBP	+11.1%	+2.2%	(20.8%)	+3.0%	(1.1%)	(0.5%)	-
Chinese Yuan	+9.2%	+11.3%	(13.8%)	+0.5%	+0.3%	(1.1%)	-

Source: Company Data, WRJ Calculation

Thus, Company forecasts assume increased sales of Japan to drive sales as a whole for the Company most substantially. Sales of Japan are expected to see net increases by ¥789m versus net increases by ¥485m for sales overseas. With respect to net increases by ¥346m for sales of Asia / Oceania / Other, it appears that the bulk is of net increases with sales of China.

By business segment, Company forecasts assume sales of ¥23,669m (up 5.4%), operating profit of ¥1,973m (up 9.8%) and operating profit margin of 8.3% (up 0.3% points) on the Dental-related Business side, while sales of ¥2,408m (up 1.5%), operating profit of ¥63m (versus negative ¥5m in the previous year) and operating profit margin of 2.6% (up 2.8% points) on the Nail-related Business side.

On the Dental-related Business side, sales of Japan are expected to be buoyant due mainly to launch of new product. On top of digital oral cavity imaging device and Restorative Materials, the Company is to launch new product also for CAD/CAM-related materials to see demand picking up for the foreseeable future. As far as CAD/CAM-related materials are concerned, delayed launch of new product used to be a negative factor also for sales of existing mainstay product, while the launch of new product will make the Company to able to promote sales with full line-up product portfolio, driving sales of the existing mainstay product at the same time, according to the Company. As the measure to materialize all those increases for sales of Japan, the Company will remain keen on activity to provide dental personnel with information as it has been the case so far. With respect to strategy overseas, the Company is to further expand its sales network, while planning to get up speed for business developments with cooperation with other companies, etc. in sight. Meanwhile, on the Nail-related Business side, the Company is to further promote sales of Japan for gel nail product, including new brand one, as well as focusing on sales promotions, mainly in United States and Taiwan, for sales overseas.

Meanwhile, Company forecasts are going for prospective gross profit of ¥15,351m (up 6.3%) and SG&A expenses of ¥13,295m (up 5.3%) as a whole for the Company, implying gross profit margin of 58.6% (up 0.6% points) and SG&A ratio 50.8% (up 0.1% point). Gross profit margin is expected to rise, while SG&A expenses are to rise roughly in line with increases of sales, resulting in benefit from increased sales, i.e., operating profit margin of 7.9% (up 0.6% points) as mentioned earlier. With respect to improved gross profit margin, the Company is basically looking to benefits from increased volume and as well as to cost reductions on reallocation of production bassets. With respect to increased SG&A expenses, the Company suggests that personnel expenses are on the rise due to investment in human resources for future growth and that the Company is keen on spending on sales promotions.

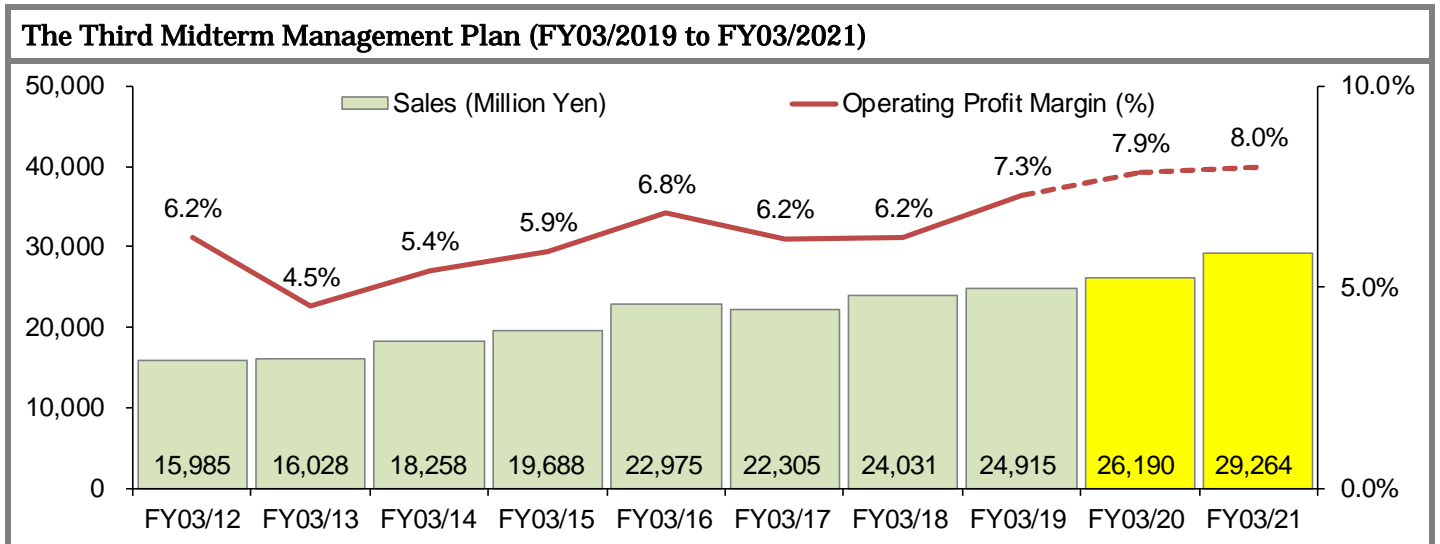
Now, the Company is going for prospects for the market of Japan and that of overseas on the mainstay Dental-related Business side. The market of Japan is likely to maintain a certain level in terms of the size going forward, but unlikely to see any major growth as far as the Company is concerned. Going forward, new developments on the aesthetic / diseases-prevention side may accelerate due to increased consciousness on oral hygiene, while demand associated with periodontal diseases is on the rise. Still, the market of Japan suffers from decreased total population and sees decreased dental caries at the same time. The population of the elderly is on the rise, but this does not necessary increase needs for dental care, according to the Company.

On the other hand, the market overseas is so promising with its future growth potential. Currently, the market overseas equates to no less than 13 times of Japan in the size and this will be more than 20 times in 10 years, according to the Company. Emerging countries are to see consistent growth of economy and thus consistently improved living standard, driving demand for dental care consistently and substantially going forward. When estimating potential growth of the market stemming from here, it is required to take issues into accounts such as differences of level of prices, etc. and the Company says that this is done with above-mentioned prospects.

Looking at above-mentioned state of the market on a global basis, the Company believes that it has failed to be involved with it on a full-fledged basis in a sense so far. Based on idea like this, the Company is now keen on increasing allocation of resources on operations overseas, while maintaining and/or enhancing operations of Japan at the same time, for the sake of beefing up exposure to operations overseas. Thus, the Company is going for prospective sales of ¥50,000m (¥17,000m for sales of Japan and ¥33,000m for sales overseas) in the foreseeable future. Meanwhile, as step to achieve this, the Company has disclosed the Third Midterm Management Plan (FY03/2019 to FY03/2021).

### Long-Term Prospects

On 23 May 2018, the Company disclosed details 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.



Source: Company Data, WRJ Calculation

FY03/2021 business performance target assumes ¥15,700m for sales of Japan and ¥13,563m for sales overseas, implying CAGR of 4.8% and 9.3%, respectively, when based on FY03/2018 results. On a local currencies basis, 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 4.1% points from 43.5% to 47.6% through FY03/2018 to FY03/2021.

Meanwhile, CAGR of 6.3% is assumed for prospective sales on the mainstay Dental-related Business side. By region, CAGR of 3.7% is assumed for sales of Japan versus 10.1% for sales overseas on a local currencies basis, 6.2% for North America / Latin America, 8.4% for Europe and 17.4% for Asia / Oceania / Other. Thus, the Company is to see increasing exposure to sales overseas carrying gross profit margin higher than that of Japan, implying consistently improved 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 operating profit margin edging up.

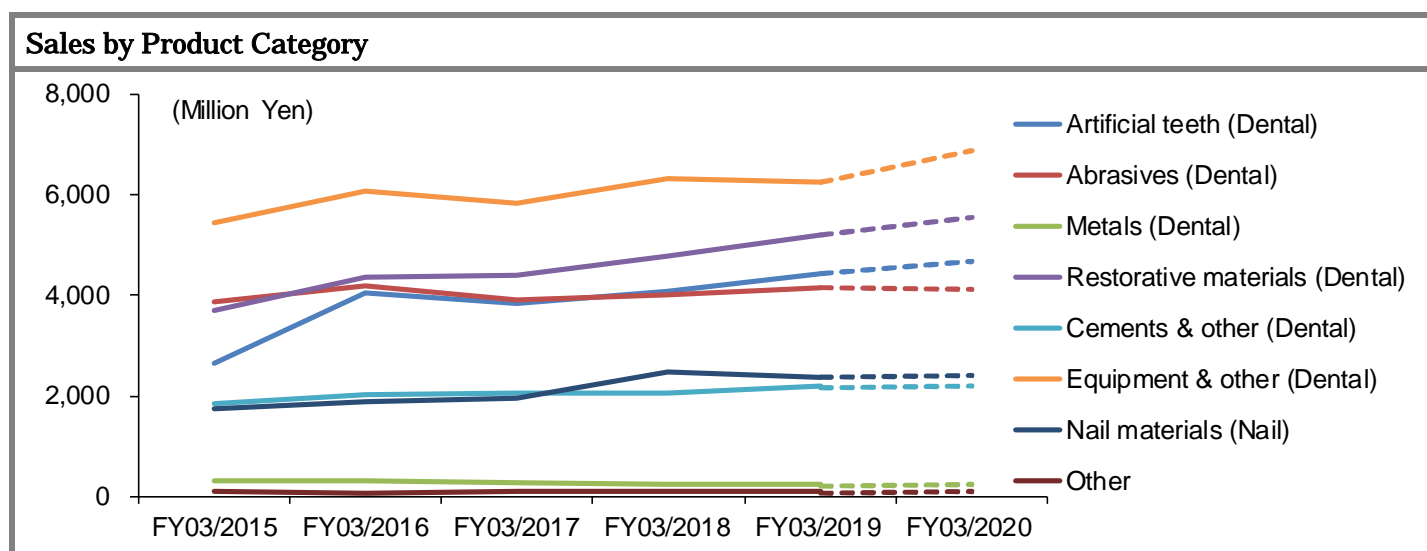
In order to meet with the business performance target, the Company implements the three key measures, comprising a) developing and launching new product suitable to demand and needs region by region on a global basis, b) reconsidering configuration of production bases and beefing up production overseas and c) enhancing sales network (taking advantage of distributors overseas) and sales bridgeheads (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). 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, FY03/2019 results fell short of assumptions of Third Midterm Management Plan in terms of sales, but better in terms of operating profit. Sales as a whole for the Company fell short of by ¥809m (3.1%) as a whole for the Company, while better by ¥23m (0.2%) for sales overseas and fell short of by no less than ¥833m (5.8%) for sales of Japan. On the Dental-related Business side, sales fell short of across the board by product category, implying a possibility that the market maturity is making progress faster than initially estimated. Still, expenses also fell short, having resulted in earnings marginally better than the assumptions.

## 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 / equipment in Japan and overseas. The Company is comprehensively involved with dental materials / equipment and thus developing, manufacturing and selling with diverse product categories.



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- ”, etc. as well as merchandise to stock and sell to more than 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**

---

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-ku, Tokyo 104-0061 JAPAN

URL: [www.walden.co.jp](http://www.walden.co.jp)

E-mail: [info@walden.co.jp](mailto:info@walden.co.jp)

Phone : +81 3 3553 3769

---