

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 FY03/2020		13,421	1,415	1,242	788	-	-	-
Q3 to Q4 FY03/2020CoE		12,769	641	699	589	-	-	-
Q1 to Q2 FY03/2020		YoY	10.2%	80.4%	58.8%	44.3%	-	-
Q3 to Q4 FY03/2020CoE		YoY	0.3%	(37.8%)	(24.6%)	(10.1%)	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (7 January 2020)


Increased Sales in Japan and Overseas

SHOFU, developing, manufacturing and selling dental materials & equipment, has achieved steady sales growth both in Japan and overseas, likely to consistently seeing increased sales and earnings in FY03/2020. From a long-term perspective, the Company is planning to achieve sustainable growth by making progress in expanding sales overseas, where there is still considerable room for cultivation. Recent trading has shown steady progress in cultivating markets in developed countries, while the Company's efforts to capture expanding local demand have successfully continued in the so-called emerging markets. Looking forward, the Company plans to expand its sales network overseas, while strengthening alliances with other companies to accelerate developments of business overseas. Given increased sales overseas carrying high gross profit margin over the last years, the Company has been seeing consistently increased gross profit margin as a whole, while the extent of the Company's contribution of expenses to sales expansion has not increased a lot. As a result, operating profit margin has continued to improve. The Company intends to continue expanding its overseas business by shifting its allocation of management resources to operations overseas for the future, calling for prospective sales of ¥50,000m (¥33,000m overseas), operating profit of ¥7,500m and operating profit margin of 15.0% as the target that should be achievable at some stage in the future.

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

2.0 Company Profile

Comprehensive Manufacturer of Dental Materials & Equipment

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 2019)	
No. of Shares	16,114,089 shares, including 168,926 treasury shares (as of the end of Sep. 2019)	
Main Features	<ul style="list-style-type: none"> ● The leader of artificial teeth and abrasives in Japan ● Focus on sales promotions overseas where huge 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	Representative Director, President & CEO: Noriyuki Negoro	
Shareholders	Mitsui Chemicals 11.1%, Bank of Kyoto 4.4%, Nippon Life Ins. 4.0% (as of the end of September 2019)	
Headquarters	Higashiyama-ku, Kyoto-city, JAPAN	
No. of Employees	Consolidated:1,183, Parent: 445 (as of the end of September 2019)	

Source: Company Data

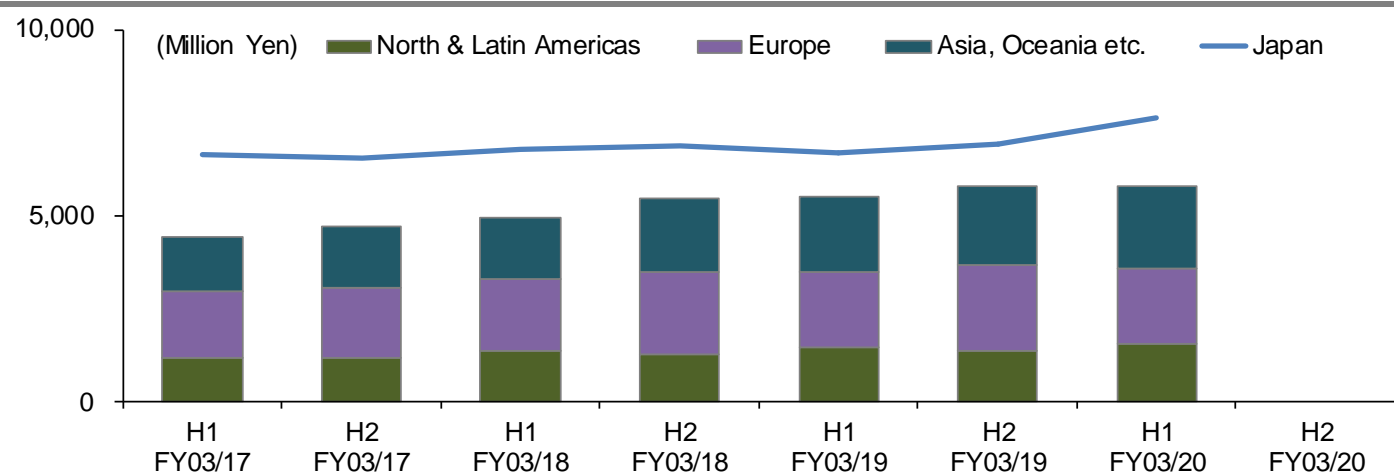
3.0 Recent Trading & Prospects

Q1 to Q2 FY03/2020 Results

In Q1 to Q2 FY03/2020, sales came in at ¥13,421m (up 10.2% YoY), operating profit ¥1,415m (up 80.4%), recurring profit ¥1,242m (up 58.8%) and profit attributable to owners of parent ¥788m (up 44.3%), while operating profit margin 10.5% (up 4.1% points). The results were better than assumptions of initial Company forecasts by ¥514m (4.0%) in sales, by ¥510m (56.4%) in operating profit, by ¥387m (45.4%) in recurring profit and by ¥218m (38.3%) in profit attributable to owners of parent.

Initial Company forecasts are exceeded for operating profit due mainly to shortfall of SG&A expenses. On top of this, the Company benefited from increased sales more than expected mainly in Japan on the Dental-related Business side, having resulted in operating profit much better than expected. The shortfall of SG&A expenses is partly attributable to timing to spend expenses delayed to H2, but the Company suggests that SG&A expenses are likely to be smaller also on a full-year basis. Meanwhile, higher yen led to deterioration of forex profit and/or loss at the non-operating level, having resulted in overshoot in recurring profit rather narrower than operating profit.

Sales by Region

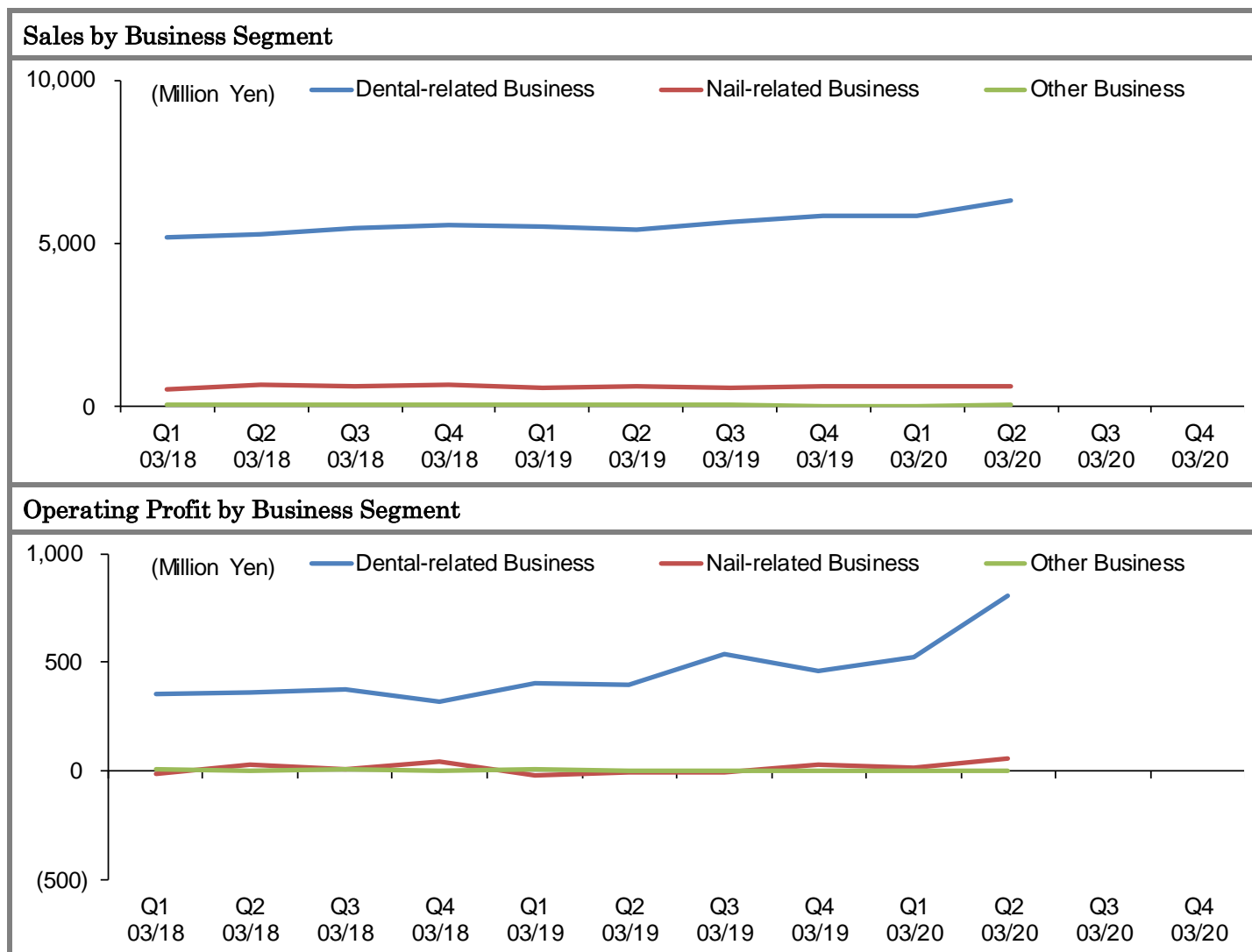


Forex Rate

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 03/2019	Q1 to Q2 03/2019	Q1 to Q3 03/2019	Q1 to Q4 03/2019	Q1 03/2020	Q1 to Q2 03/2020	Q1 to Q3 03/2020	Q1 to Q4 03/2020		
U.S. Dollar	108.71	110.07	110.82	110.69	110.00	109.00	-	-	(1.07)	
Euro	129.39	129.88	129.38	128.43	123.29	121.43	-	-	(8.45)	
GBP	147.54	146.99	145.83	145.68	140.88	136.84	-	-	(10.15)	
Chinese Yuan	17.10	17.05	16.83	16.69	16.37	16.21	-	-	(0.84)	
U.S. Dollar (YoY)	(2.6%)	(1.2%)	(0.9%)	(0.1%)	+1.2%	(1.0%)	-	-	-	
Euro (YoY)	+5.1%	+2.6%	+0.6%	(0.8%)	(4.7%)	(6.5%)	-	-	-	
GBP (YoY)	+3.2%	+1.8%	(0.3%)	(1.1%)	(4.5%)	(6.9%)	-	-	-	
Chinese Yuan (YoY)	+3.6%	+3.8%	+2.0%	+0.3%	(4.3%)	(4.9%)	-	-	-	

Source: Company Data, WRJ Calculation

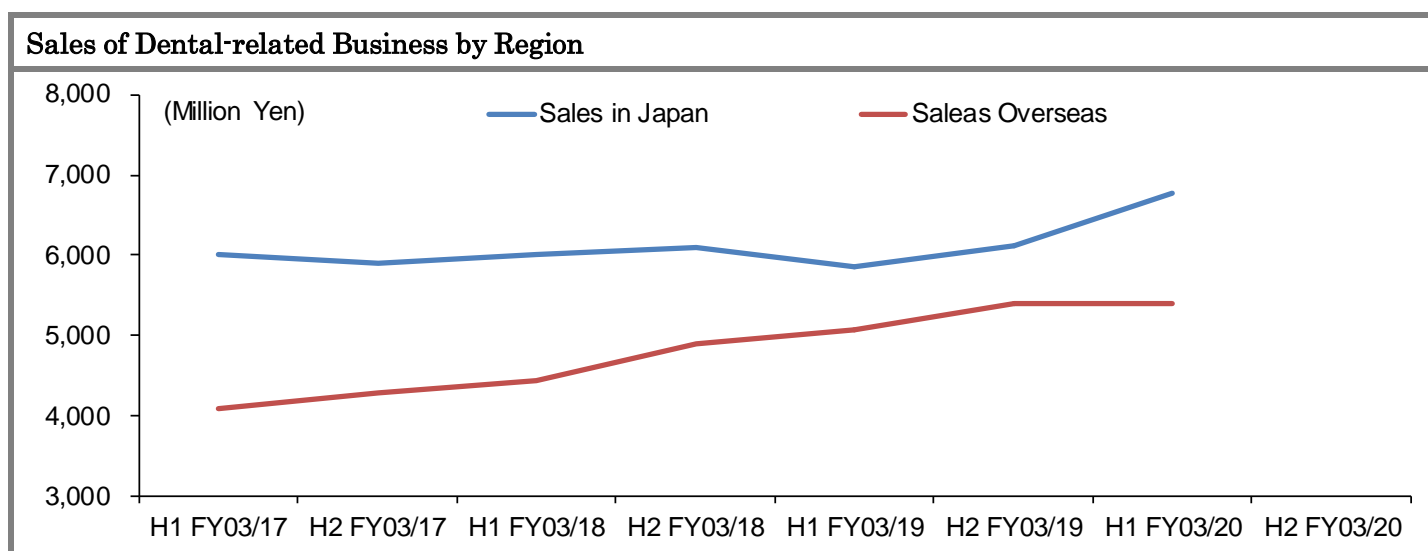
By region, sales in Japan came in at ¥7,609m (up 13.9%) and sales overseas ¥5,811m (up 5.7%). Meanwhile, sales overseas comprised ¥1,543m (up 5.1%) in North & Latin Americas, ¥2,028m (up 0.2%) in Europe and ¥2,239m (up 11.6%) in Asia, Oceania etc. On a local currency basis, sales overseas increased by 10.0%. In the same way, sales in North & Latin Americas increased by 6.2%, sales in Europe by 7.2% and sales in Asia, Oceania etc. by 15.5%, implying that sales overseas are firm on a local currency basis across the board. In other words, yen's appreciation over the same period of the previous year has reduced increases of sales overseas on a Japanese yen basis in Q1 to Q2.



Source: Company Data, WRJ Calculation

By business segment, the mainstay Dental-related Business to develop, manufacture and sell dental materials & equipment saw sales of ¥12,168m (up 11.3%), operating profit of ¥1,330m (up 65.7%) and operating profit margin of 10.9% (up 3.6% points), having accounted for 90.7% of sales as a whole for the Company and 94.2% of operating profit (before intersegment transactions). Thus, business performance as a whole for the Company hinges on this business segment to a large extent.

Meanwhile, Nail-related Business to develop, manufacture and sell nail salon materials saw sales of ¥1,209m (up 1.0%), operating profit of ¥77m (versus minus ¥29m during the same period of the previous year) and operating profit margin of 6.4% (up 8.8% points). Sales in Japan came in at ¥801m (up 4.5%) and sales overseas ¥408m (down 5.3%). In Japan, sales of gel nail products for both the mainstay existing brand and new brand are favorable. Sales overseas are driven by those of the United States, but this is more than offset by decreased sales in Taiwan where competition is intensifying. Still, the Company succeeded in cutting back cost on loss-making operations in Taiwan, having resulted in improved earnings as a whole for this business segment.



Source: Company Data, WRJ Calculation

On the Dental-related Business side, sales in Japan came in at ¥6,765m (up 15.4%) and sales overseas ¥5,403m (up 6.6%). In Japan, sales of dental materials, comprising artificial teeth, abrasives and other came in at ¥3,416m (up 3.7%) and sales of equipment & other ¥3,347m (up 30.6%). According to the Company, frontloaded demand accompanying the consumption tax hike did not take place a lot as far as dental materials were concerned, given that they were consumables. Meanwhile, it did take place more than a certain extent as far as those of equipment & other, including high-priced equipment, were concerned. On top of this, the Company benefited from successful launch of new products, having resulted in a surge of sales with equipment & other.

According to the Company, sales are firm for digital oral imaging device or EyeSpecial C-IV launched in FY03/2020 and for multi-purpose dental ultrasonic therapy apparatus or Airflow Profhylaxis Master launched in FY03/2019. On top of this, firmness on sales of resin materials for dental machining or Shofu Block HC Super Hard (CAD/CAM-related materials) is also contributing to sales of equipment & other. Meanwhile, sales of dental materials, which have hardly seen frontloaded demand accompanying the consumption tax hike, also increased steadily. One of the possibilities here is that the Company's measures to beef up sales have begun to bear fruit to the point to more than compensate for maturity and intensifying competition in Japan.

With respect to operations overseas on the Dental-related Business side, the Company continues to steadily cultivate markets in developed countries, while continue capturing increased demand in the so-called emerging markets. The Company suggests that sales by region and changes of sales for each region are roughly in line with those of the Company as a whole, which was mentioned earlier. With respect to sales in Asia, Oceania etc. to have seen the rate of increases by 15.5% or the highest by region on a local currency basis, a bit more than half is accounted for by those of China and a bit less than half by other Asian countries, India, etc. Sales are firm for both and particularly for the latter.

In terms of earnings as a whole for the Company, meanwhile, gross profit came in at ¥7,590m (up 7.0%) and SG&A expenses ¥6,174m (down 2.1%), implying gross profit margin of 56.6% (down 1.7% points) and sales to SG&A expenses ratio of 46.0% (down 5.8% points). As a result, operating profit margin came in at 10.5% (up 4.1% points). The decline in gross profit margin is attributable to the impact of inventory disposal losses stemming from Brexit which forced the change of pharmaceutical approval institution in Europe and to deterioration in sales mix to a large extent as far as we could see. Sales of dental materials carry gross profit margin higher than those of equipment & other by product category, while sales overseas higher than sales in Japan by region, according to the Company.

The former is due to the fact that the Company sells its own products in dental materials while doing so as well as being involved with stocking and selling to more than a certain extent in equipment & other. With respect to the latter, the Company suggests that almost half of sales in Japan are those of equipment & other carrying low gross profit margin versus no more than some 10% in sales overseas. That is to say, sales in Japan, carrying low gross profit margin in the first place, increased sharply in Q1 to Q2, while sales mix got worse by product in Japan at the same time, inevitably having resulted in a decline with gross profit margin as a whole for the Company. Nevertheless, the Company suffered from limited decline with gross profit margin as mentioned above, while SG&A expenses came down sharply in line with decreases of personnel cost and advertising expenses. Thus, operating profit margin has improved a lot.

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.
(Million Yen)	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020		
Sales	6,092	12,179	18,445	24,915	6,461	13,421	-	-	-	+1,242
Cost of Sales	2,545	5,087	7,635	10,469	2,813	5,830	-	-	-	+743
Gross Profit	3,546	7,091	10,809	14,445	3,647	7,590	-	-	-	+499
SG&A Expenses	3,158	6,306	9,485	12,631	3,105	6,174	-	-	-	(132)
Operating Profit	388	784	1,323	1,814	542	1,415	-	-	-	+631
Non Operating Balance	27	(2)	(53)	(105)	(42)	(173)	-	-	-	(171)
Recurring Profit	415	782	1,270	1,709	500	1,242	-	-	-	+460
Extraordinary Balance	-	-	-	-	-	-	-	-	-	-
Profit before Income Taxes	415	782	1,270	1,709	500	1,242	-	-	-	+460
Total Income Taxes	160	244	390	512	253	445	-	-	-	+201
NP Belonging to Non-Controlling SHs	(7)	(8)	(13)	(4)	0	8	-	-	-	+16
Profit Attributable to Owners of Parent	262	546	892	1,201	247	788	-	-	-	+242
Sales YoY	+6.2%	+4.1%	+3.6%	+3.7%	+6.1%	+10.2%	-	-	-	-
Operating Profit YoY	+12.0%	+5.7%	+16.5%	+21.1%	+39.6%	+80.4%	-	-	-	-
Recurring Profit YoY	(3.9%)	(8.3%)	(0.8%)	+9.2%	+20.6%	+58.8%	-	-	-	-
Profit Attributable to Owners of Parent YoY	(10.9%)	(14.1%)	(4.3%)	+36.9%	(5.8%)	+44.3%	-	-	-	-
Gross Profit Margin	58.2%	58.2%	58.6%	58.0%	56.4%	56.6%	-	-	-	(1.7%)
Sales to SG&A Expenses Ratio	51.8%	51.8%	51.4%	50.7%	48.1%	46.0%	-	-	-	(5.8%)
Operating Profit Margin	6.4%	6.4%	7.2%	7.3%	8.4%	10.5%	-	-	-	+4.1%
Recurring Profit Margin	6.8%	6.4%	6.9%	6.9%	7.7%	9.3%	-	-	-	+2.8%
Profit Attributable to Owners of Parent Margin	4.3%	4.5%	4.8%	4.8%	3.8%	5.9%	-	-	-	+1.4%
Total Income Taxes/Profit before Income Taxes	38.6%	31.2%	30.7%	30.0%	50.6%	35.8%	-	-	-	+4.6%
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.
(Million Yen)	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020		
Sales	6,092	6,087	6,266	6,470	6,461	6,960	-	-	-	+873
Cost of Sales	2,545	2,542	2,548	2,834	2,813	3,017	-	-	-	+475
Gross Profit	3,546	3,545	3,718	3,636	3,647	3,943	-	-	-	+398
SG&A Expenses	3,158	3,148	3,179	3,146	3,105	3,069	-	-	-	(79)
Operating Profit	388	396	539	491	542	873	-	-	-	+477
Non Operating Balance	27	(29)	(51)	(52)	(42)	(131)	-	-	-	(102)
Recurring Profit	415	367	488	439	500	742	-	-	-	+375
Extraordinary Balance	-	-	-	-	-	-	-	-	-	-
Profit before Income Taxes	415	367	488	439	500	742	-	-	-	+375
Total Income Taxes	160	84	146	122	253	192	-	-	-	+108
NP Belonging to Non-Controlling SHs	(7)	(1)	(5)	9	0	8	-	-	-	+9
Profit Attributable to Owners of Parent	262	284	346	309	247	541	-	-	-	+257
Sales YoY	+6.2%	+2.0%	+2.7%	+3.9%	+6.1%	+14.3%	-	-	-	-
Operating Profit YoY	+12.0%	+0.0%	+37.2%	+35.6%	+39.6%	+120.5%	-	-	-	-
Recurring Profit YoY	(3.9%)	(12.8%)	+14.0%	+54.6%	+20.6%	+102.2%	-	-	-	-
Profit Attributable to Owners of Parent YoY	(10.9%)	(16.7%)	+16.1%	-	(5.8%)	+90.5%	-	-	-	-
Gross Profit Margin	58.2%	58.2%	59.3%	56.2%	56.4%	56.7%	-	-	-	(1.6%)
Sales to SG&A Expenses Ratio	51.8%	51.7%	50.7%	48.6%	48.1%	44.1%	-	-	-	(7.6%)
Operating Profit Margin	6.4%	6.5%	8.6%	7.6%	8.4%	12.5%	-	-	-	+6.0%
Recurring Profit Margin	6.8%	6.0%	7.8%	6.8%	7.7%	10.7%	-	-	-	+4.6%
Profit Attributable to Owners of Parent Margin	4.3%	4.7%	5.5%	4.8%	3.8%	7.8%	-	-	-	+3.1%
Total Income Taxes/Profit before Income Taxes	38.6%	22.9%	29.9%	27.8%	50.6%	25.9%	-	-	-	+3.0%

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 03/2019	Q1 to Q2 03/2019	Q1 to Q3 03/2019	Q1 to Q4 03/2019	Q1 03/2020	Q1 to Q2 03/2020	Q1 to Q3 03/2020	Q1 to Q4 03/2020		
Dental-related Business	5,494	10,929	16,592	22,446	5,846	12,168	-	-	+1,239	
Nail-related Business	572	1,198	1,776	2,372	595	1,209	-	-	+11	
Other Business	25	51	75	96	20	42	-	-	(8)	
Sales	6,092	12,179	18,445	24,915	6,461	13,421	-	-	+1,242	
Dental-related Business	403	802	1,337	1,797	521	1,330	-	-	+527	
Nail-related Business	(22)	(29)	(32)	(5)	17	77	-	-	+106	
Other Business	5	9	13	16	2	5	-	-	(3)	
Segment profit	387	781	1,318	1,807	541	1,412	-	-	+631	
Elimination of intersegment transactions	1	3	4	6	1	3	-	-	0	
Operating Profit	388	784	1,323	1,814	542	1,415	-	-	+631	
Dental-related Business	7.3%	7.3%	8.1%	8.0%	8.9%	10.9%	-	-	+3.6%	
Nail-related Business	(3.8%)	(2.4%)	(1.8%)	(0.2%)	2.9%	6.4%	-	-	+8.8%	
Other Business	20.0%	17.6%	17.3%	16.7%	10.0%	11.9%	-	-	(5.7%)	
Operating Profit Margin	6.4%	6.4%	7.2%	7.3%	8.4%	10.5%	-	-	+4.1%	

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 03/2019	Q2 03/2019	Q3 03/2019	Q4 03/2019	Q1 03/2020	Q2 03/2020	Q3 03/2020	Q4 03/2020		
Dental-related Business	5,494	5,435	5,663	5,854	5,846	6,322	-	-	+887	
Nail-related Business	572	626	578	596	595	614	-	-	(12)	
Other Business	25	26	24	21	20	22	-	-	(4)	
Sales	6,092	6,087	6,266	6,470	6,461	6,960	-	-	+873	
Dental-related Business	403	399	535	460	521	809	-	-	+410	
Nail-related Business	(22)	(7)	(3)	27	17	60	-	-	+67	
Other Business	5	4	4	3	2	3	-	-	(1)	
Segment profit	387	394	537	489	541	871	-	-	+477	
Elimination of intersegment transactions	1	2	1	2	1	2	-	-	0	
Operating Profit	388	396	539	491	542	873	-	-	+477	
Dental-related Business	7.3%	7.3%	9.4%	7.9%	8.9%	12.8%	-	-	+5.5%	
Nail-related Business	(3.8%)	(1.1%)	(0.5%)	4.5%	2.9%	9.8%	-	-	+10.9%	
Other Business	20.0%	15.4%	16.7%	14.3%	10.0%	13.6%	-	-	(1.7%)	
Operating Profit Margin	6.4%	6.5%	8.6%	7.6%	8.4%	12.5%	-	-	+6.0%	

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 03/2019	Q2 03/2019	Q3 03/2019	Q4 03/2019	Q1 03/2020	Q2 03/2020	Q3 03/2020	Q4 03/2020		
Cash & Deposit	5,713	5,380	4,806	4,890	5,139	4,695	-	-	(685)	
Accounts Receivables	3,096	3,116	2,981	3,354	3,304	3,731	-	-	+615	
Inventory	6,302	6,469	6,669	6,207	6,565	6,602	-	-	+133	
Other	499	443	519	524	442	517	-	-	+74	
Current Assets	15,610	15,408	14,975	14,975	15,450	15,545	-	-	+137	
Tangible Assets	6,519	6,757	6,784	7,100	7,175	7,190	-	-	+433	
Intangible Assets	1,220	1,218	1,149	1,132	1,185	1,124	-	-	(94)	
Investments & Other Assets	7,422	7,549	6,422	6,953	6,547	6,970	-	-	(579)	
Fixed Assets	15,163	15,525	14,355	15,186	14,908	15,285	-	-	(240)	
Total Assets	30,773	30,933	29,331	30,161	30,359	30,831	-	-	(102)	
Accounts Payables	861	719	781	669	770	780	-	-	+61	
Short Term Debt	500	500	500	849	1,144	1,143	-	-	+643	
Other	2,536	2,394	2,008	2,302	2,464	2,193	-	-	(201)	
Current Liabilities	3,897	3,613	3,289	3,820	4,378	4,116	-	-	+503	
Long Term Debt	855	739	604	125	244	236	-	-	(503)	
Other	1,986	2,005	1,662	1,832	1,677	1,791	-	-	(214)	
Fixed Liabilities	2,841	2,744	2,266	1,957	1,921	2,027	-	-	(717)	
Total Liabilities	6,739	6,357	5,556	5,778	6,300	6,144	-	-	(213)	
Shareholders' Equity	20,598	20,882	21,101	21,409	21,369	21,958	-	-	+1,076	
Other	3,436	3,694	2,674	2,974	2,689	2,729	-	-	(965)	
Net Assets	24,034	24,576	23,775	24,383	24,058	24,687	-	-	+111	
Total Liabilities & Net Assets	30,773	30,933	29,331	30,161	30,359	30,831	-	-	(102)	
Equity Capital	23,919	24,457	23,656	24,250	23,928	24,548	-	-	+91	
Interest Bearing Debt	1,355	1,239	1,104	974	1,388	1,379	-	-	+140	
Net Debt	(4,358)	(4,141)	(3,702)	(3,916)	(3,751)	(3,316)	-	-	+825	
Equity Ratio	77.7%	79.1%	80.7%	80.4%	78.8%	79.6%	-	-	+0.6%	
Net Debt Equity Ratio	(18.2%)	(16.9%)	(15.6%)	(16.1%)	(15.7%)	(13.5%)	-	-	+3.4%	
ROE (12 months)	3.6%	3.3%	3.5%	5.0%	5.0%	5.9%	-	-	+2.6%	
ROA (12 months)	5.1%	4.9%	5.1%	5.6%	5.9%	7.0%	-	-	+2.2%	
Days for Inventory Turnover	225	232	238	199	212	199	-	-	-	
Quick Ratio	226%	235%	237%	216%	193%	205%	-	-	-	
Current Ratio	401%	426%	455%	392%	353%	378%	-	-	-	

Source: Company Data, WRJ Calculation

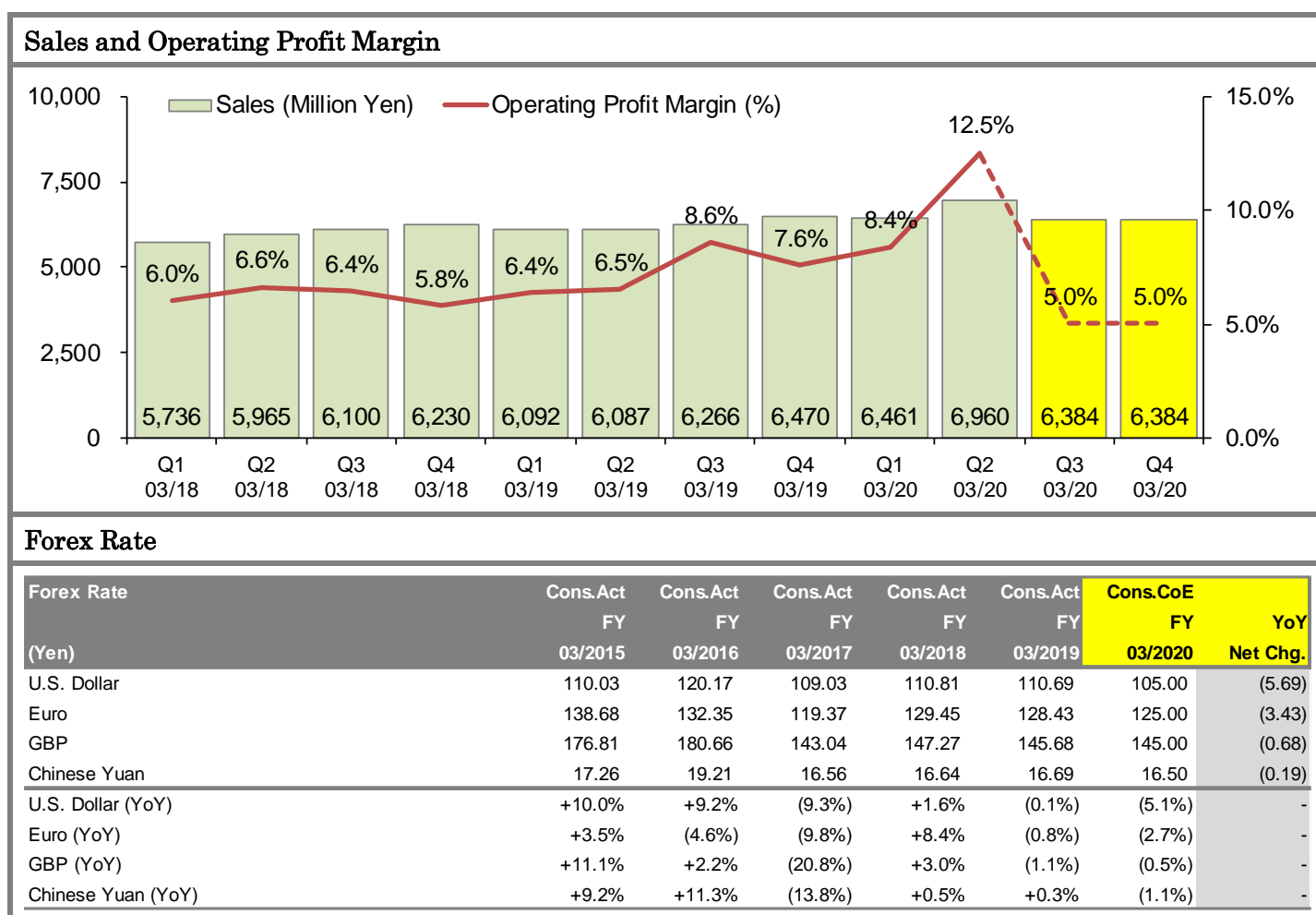
Cash Flow Statement (Cumulative)

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 03/2019	Q1 to Q2 03/2019	Q1 to Q3 03/2019	Q1 to Q4 03/2019	Q1 03/2020	Q1 to Q2 03/2020	Q1 to Q3 03/2020	Q1 to Q4 03/2020		
Operating Cash Flow	-	616	-	1,468	-	349	-	-	(267)	
Investing Cash Flow	-	(518)	-	(1,519)	-	(677)	-	-	(159)	
Operating Cash Flow and Investing Cash Flow	-	98	-	(51)	-	(328)	-	-	(426)	
Financing Cash Flow	-	(454)	-	(844)	-	148	-	-	+602	

Source: Company Data, WRJ Calculation

FY03/2020 Company Forecasts

FY03/2020 initial Company forecasts have remained unchanged, 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 have also remained unchanged for prospective annual dividend, going for ¥26.0 per share, implying payout ratio of 30.0%.

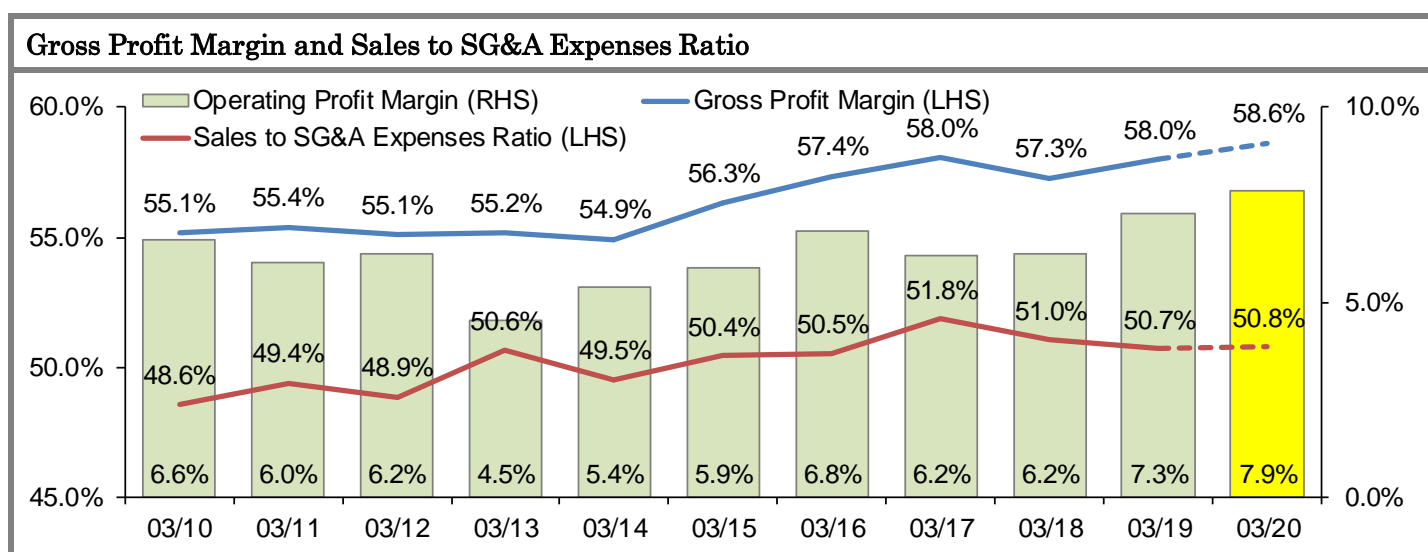


Source: Company Data, WRJ Calculation (Q3 and Q4 FY03/2020: H2 Company forecasts, pro rata)

The Company suggests that sales in H2 should suffer from a reaction stemming from the emergence of frontloaded demand in Q2 accompanying the consumption tax hike. On top of this, yen's appreciation may reduce sales and earnings further and SG&A expenses in H2 should suffer from add-ons stemming from delayed contribution from Q1 to Q2 to some extent. Thus, FY03/2020 initial Company forecasts have remained unchanged. Simply based on Q1 to Q2 results better than expected and full-year Company forecasts, prospective sales in H2 are ¥12,769m (up 0.3% YoY), operating profit ¥641m (down 37.8%) and operating profit margin 5.0% (down 3.1% points).

Company forecasts assume sales of ¥14,408m (up 5.8%) in Japan and ¥11,781m (up 4.3%) for sales overseas. On a local currency basis, sales overseas are expected to increase by 7.0%. On the mainstay Dental-related Business side, the Company plans to focus on information provision for dental practitioners in Japan for the sake of promoting sales of CAD/CAM-related materials & equipment for which demand is expected to increase. At the same time, the Company plans to expand its sales network overseas, while strengthening alliances with other companies to accelerate business developments overseas.

In terms of earnings, full-year Company forecasts assume gross profit of ¥15,351m (up 6.3%) and SG&A expenses of ¥13,295m (up 5.3%), implying gross profit margin of 58.6% (up 0.6% points) and sales to SG&A expenses ratio of 50.8% (up 0.1% point). As a result, full-year Company forecasts assume operating profit margin of 7.9% (up 0.6% points).



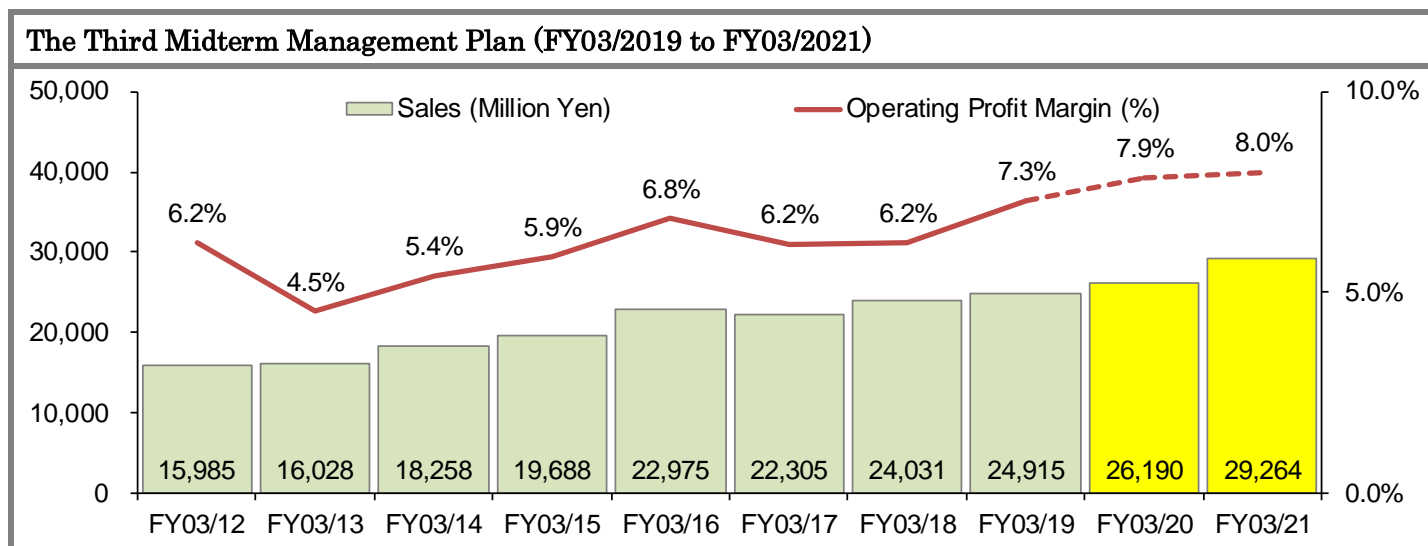
Source: Company Data, WRJ Calculation

In Q1 to Q2, gross profit margin came in at 56.6% (down 1.7% points YoY) due mainly to deterioration of sales mix, but sales mix is to improve in H2 as increased sales of equipment & other in Japan, which was the key negative factor for gross profit margin in Q1 to Q2, are not to reappear in H2. In the first place, the Company has been seeing lowered cost of sales for years in line with its measures to reorganize production etc., while having raised its exposure to sales overseas carrying high gross profit margin. Thus, gross profit margin has been on the rise as an underlying trend for some time. When compared with the results over the last 10 years, the Company is to renew its record high for gross profit margin in FY03/2020.

Meanwhile, with respect to increases in SG&A expenses, the Company suggests that this has a lot to do with aggressive investments to drive growth for the future. That is to say, the Company is to increase spending on sales promotions, i.e., personnel cost, advertising cost etc. Still, this is expected to be more than compensated for by benefits from higher sales and improved gross profit margin, leading to improved operating profit margin as above mentioned. At the end of the day, Company forecasts are going for renewal of record high also with operating profit on an absolute amount basis.

Long-Term Prospects

On 23 May 2018, the Company disclosed the 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 the 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%, respectively in FY03/2018 and FY03/2021, while ROE by 2.2% points from 3.8% to 6.0% during the same period.



Source: Company Data, WRJ Calculation

According to the Company, the market for dental care in Japan is unlikely to grow significantly for the future, although it is likely to maintain a certain size. On the other hand, there is currently the market overseas for dental care that is some 13 times the size of that of Japan. More importantly, the Company suggests that the market overseas could reach 20 times in 10 years even after taken differences of price levels into account. The Third Midterm Management Plan places the utmost emphasis on capturing this expansion in the market overseas.

In Japan, the elderly population is increasing, but this has not necessarily led to expansion in the market for dental care, while the total population and dental caries are on a declining trend, according to the Company. However, demand related to periodontal diseases, aesthetics and prevention is increasing. In other words, increased awareness of oral hygiene is to drive the market. Meanwhile, the market overseas for dental care is highly likely to see dramatic growth for the future, when considering future potential of economic growth and improved living standards in emerging countries.

The Plan assumes prospective 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. On a local currencies basis, sales overseas are to see CAGR of 9.8%. In line with this, sales overseas on the mainstay Dental-related Business side are to account for 47.6% of total in FY03/2021, up 4.1% points from 43.5% in FY03/2018.

On the mainstay Dental-related Business side, the Company is going for CAGR of 6.3%. By region, sales in Japan are to see CAGR of 3.7% and sales overseas CAGR of 10.1% on a local currency basis. In the same way, the Company is going for CAGR of 6.2% in North & Latin Americas, CAGR of 8.4% in Europe and CAGR of 17.4% in Asia, Oceania etc. Thus, the Company is to see increased exposure to sales overseas carrying gross profit margin higher than that of Japan, implying consistently improved gross profit margin with the Company. In order to do so, the Company is to actively spend on R&D activities and on sales promotions, but it appears that the Company is planning to confine the increases of SG&A expenses in line with increases of sales at most for the sake of seeing consistent improvement of operating profit margin.

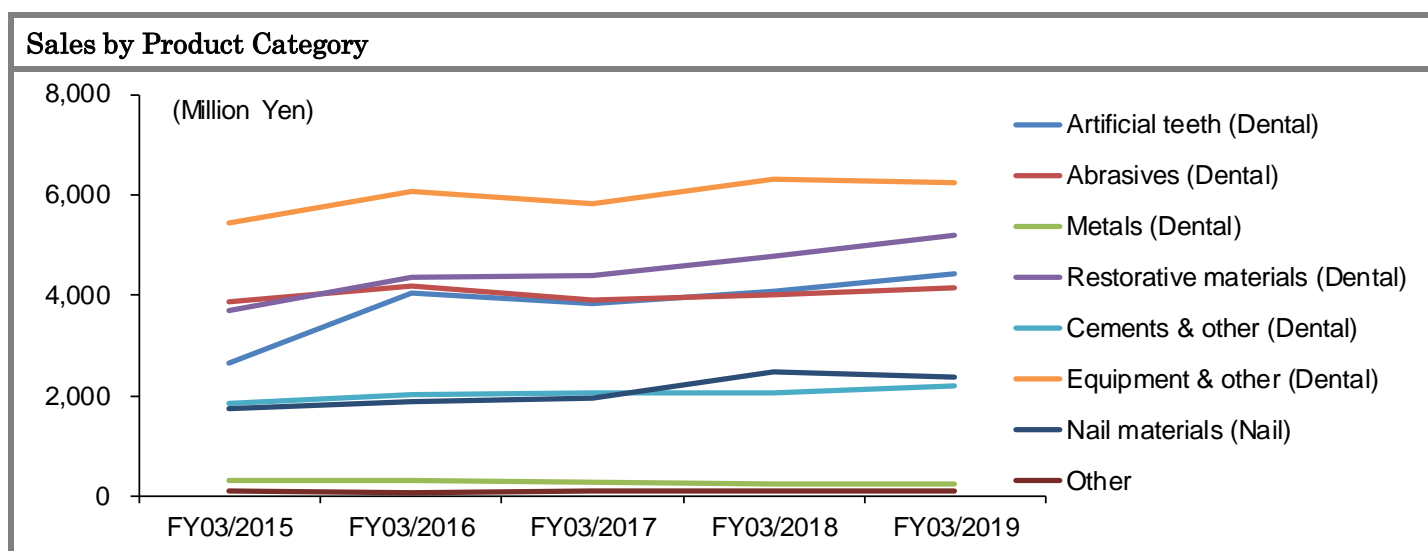
In order to meet with the above-mentioned business performance target, the Company implements the three key measures comprising a) developing and launching new products suitable to demand and needs region by region on a global basis, b) reconsidering configuration of production bases and beefing up production overseas and c) enhancing sales network (taking advantage of distributors overseas) as well as setting up sales offices (new ones overseas) and establishing academic network in Japan and overseas (establishing sales promotion organization to directly speak to dental practitioners or final users and beefing up MDR activities). MDR, standing for Medical Dental Representative, refers to personnel who is capable of appealing superiority of own products so well based on sufficient dental care knowledge.

In FY03/2019 or the first year of the Plan, the Company saw sales below assumptions by ¥809m (3.1%) and operating profit above assumptions by ¥76m (4.4%). With respect to sales, those of Japan were lower by ¥833m (5.8%) and those of overseas better by ¥23m (0.2%). Meanwhile, shortfall in sales is more than compensated for by shortfall of expenses, resulting in operating profit better. In Japan, the situations could be like that maturity in the market and intensification of competition are generating negative impacts larger than assumptions, but the Q1 to Q2 FY03/2020 results imply that sales in Japan are now on the rise even when removing impacts of the consumption tax hike. Attention should be paid to developments here in H2 and thereafter.

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, 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, belonging to dental materials, are those 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 of affected areas, gums of dentures and more diverse applications. Cements & other represent bonding materials for implants and stuffing.

Meanwhile, equipment comprise equipment & other, including CAD/CAM-related materials & equipment on top of equipment for diverse dental treatment and related finesse including self-developed digital oral cavity imaging device or EyeSpecial C-IV etc. as well as merchandises to stock and sell to more than a certain extent. Meanwhile, with respect to CAD/CAM-related materials & equipment, materials are of own products and equipment of stocking and selling. In the first place, CAD/CAM-related materials & 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.

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