

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 Results Update (5 November 2019)

Surging Earnings

On 1 November 2019, SHOFU, developing, manufacturing and selling dental materials as well as equipment, released its Q1 to Q2 FY03/2020 results. It has been revealed that the Company achieved significant increases of earnings that exceeded assumptions of initial Company forecasts. Over the same period of the previous year, sales of Japan increased by 13.9% and sales overseas by 5.7%, both having performed better than expected, while SG&A expenses fell short of assumptions. In Japan, there was frontloaded demand stemming from the consumption tax rate hike. In particular, sales of equipment with high unit selling prices have increased substantially. On top of this, sales of dental materials saw a trend of acceleration with the rate of increases. Meanwhile, sales overseas were rather reduced by yen's appreciation. On a local currencies basis, sales of North America and Latin America increased by 6.2%, sales of Europe by 7.2% and sales of Asia, Oceania and Other by 15.5%. In other words, market cultivation in developed countries has continued to be firm and steady capturing of increased demand in the so-called emerging markets has persisted. We are to attend the upcoming results meeting on 20 November as well as interviewing with management afterwards so that we should be able to update [SHOFU \(7979\) Strengths of China \(25 June 2019\)](#) and release anew.

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2.0 Company Profile

Comprehensive Manufacturer of Dental Materials and 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	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)

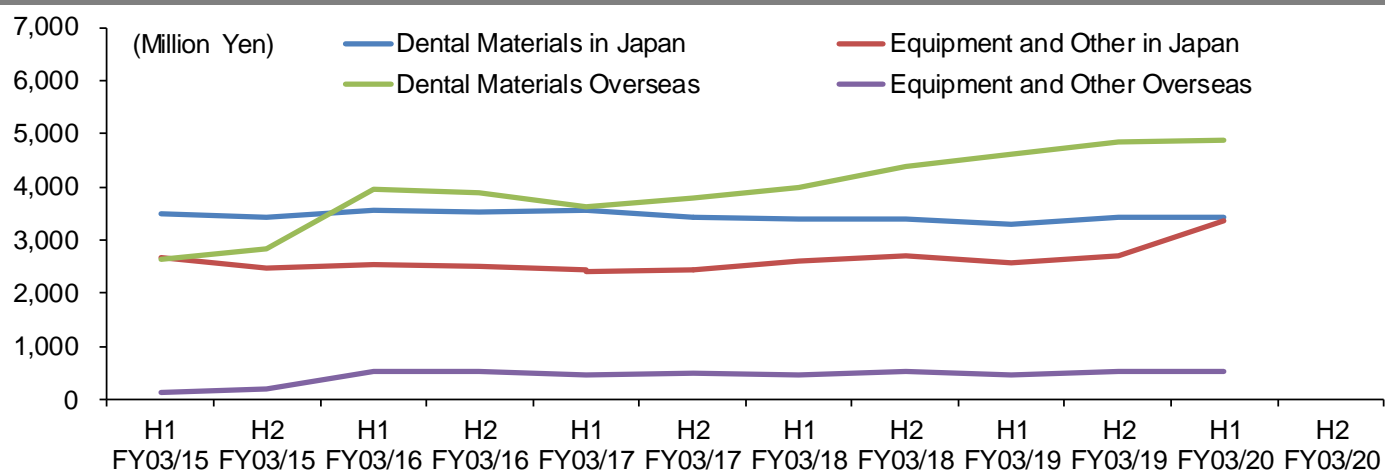
Source: Company Data

3.0 Recent Trading and 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 ¥515m (4.0%) in sales, by ¥510m (56.4%) in operating profit, by ¥388m (45.4%) in recurring profit and by ¥219m (38.5%) in profit attributable to owners of parent.

Sales of Dental-related Business



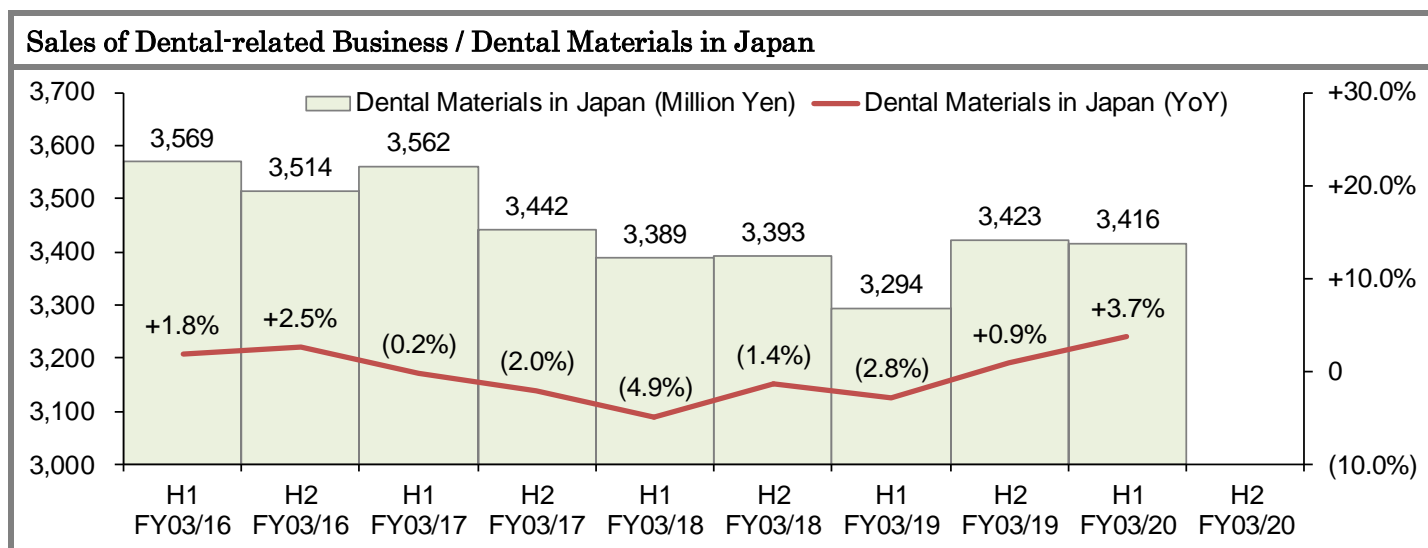
Forex Rate

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

Sales of Japan came in at ¥7,609m (up 13.9%) and sales overseas ¥5,811m (up 5.7%). By business segment, Dental-related Business to develop, manufacture and sell dental materials as well as 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), while 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). In other words, the Company's business performance heavily hinges on the mainstay Dental-related Business side, but there was a noticeable improvement in earnings on the Nail-related Business side in Q1 to Q2. It appears that this has a lot to do with the Company's successful measures to cut back expenses, etc. with the loss-making operations in Taiwan.

On the mainstay Dental-related Business side, sales of Japan came in at ¥6,765m (up 15.4%), having risen sharply. Sales of Equipment and Other saw sales of ¥3,347m (up 30.6%). This was due mainly to firm sales of “EyeSpecial C-IV” or digital oral imaging device newly launched in FY03/2020 and to those of “AIRFLOW PROPHYLAXIS MASTER” or multipurpose ultrasonic therapy apparatus for dental-use newly launched in FY03/2019, etc. Nevertheless, it should be noted that this was largely driven by frontloaded increases in demand for all those equipment with high unit selling prices stemming from the consumption tax rate hike.

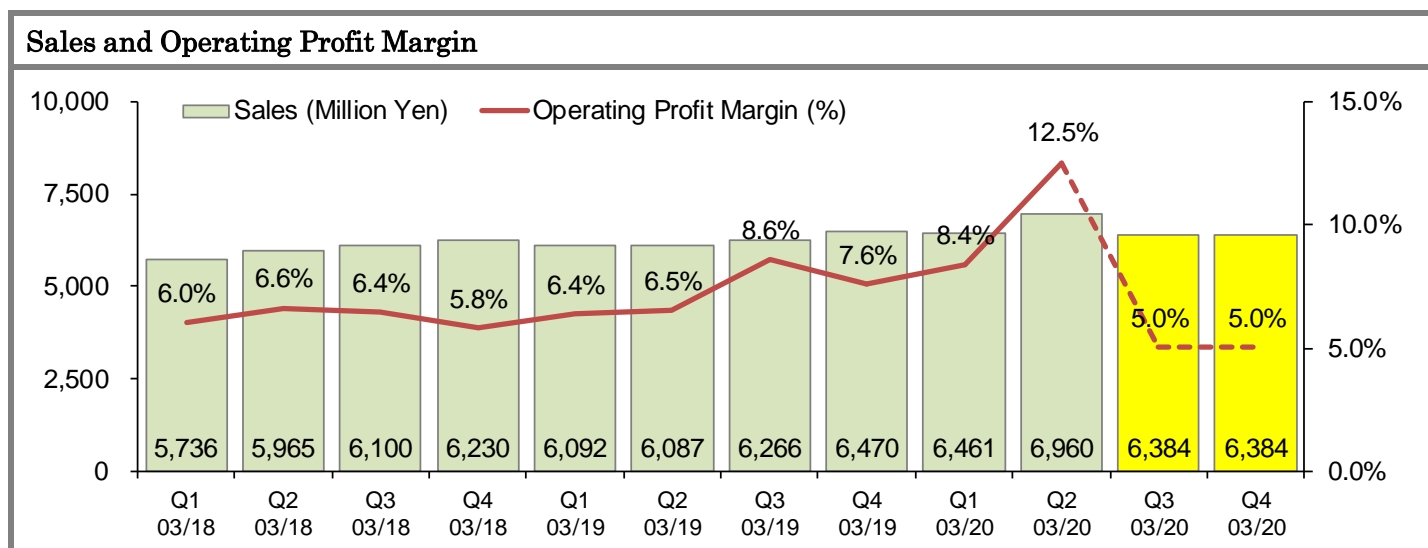


Source: Company Data, WRJ Calculation

Meanwhile, sales of Dental Materials came in at ¥3,416m (up 3.7%), when they are defined to comprise all those of artificial teeth, abrasives, etc. but for Equipment and Other. It is spotted that the effects from the consumption tax rate hike may have occurred also here, but it should not be very much as they are basically consumables. Thus, it could be the case that the Company’s sales promotion measures have become successful most recently. As far as assuming this, sales of Dental Materials in Japan, having had suffered from consistent sluggishness for some time, negatively affected by market maturity and intensified price-oriented competition, are now starting to see a trend of recovery, having hit the bottom in Q1 to Q2 FY03/2019. The situations in upcoming H2 and onward are worthy of note.

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)

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.
	03/2019	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
CoGS	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	0	0	0	0	0	0	-	-	-	-
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.
	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
CoGS	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	0	0	0	0	0	0	-	-	-	-
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	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.
	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020	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	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.
	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020	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	-	-	-	-	-	
Investing Cash Flow	-	(518)	-	(1,519)	-	-	-	-	-	
Operating CF & Investing CF	-	98	-	(51)	-	-	-	-	-	
Financing Cash Flow	-	(454)	-	(844)	-	-	-	-	-	

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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