

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 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 FY03/2019		18,445	1,323	1,270	892	-	-	-
Q1 to Q3 FY03/2020		19,602	1,921	1,814	1,188	-	-	-
Q1 to Q3 FY03/2019	YoY	3.6%	16.5%	(0.8%)	(4.3%)	-	-	-
Q1 to Q3 FY03/2020	YoY	6.3%	45.2%	42.8%	33.1%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Results Update (6 February 2020)

Limited Reactionary Fall


On 4 February 2020, SHOFU, developing, manufacturing and selling dental materials as well as equipment, released its Q1 to Q3 FY03/2020 results. It has been revealed that that the Company is seeing significant increases of earnings, exceeding assumptions of initial Company forecasts. In Q1 to Q3, sales in Japan have increased by 8.5% over the same period of the previous year as reactionary fall stemming from consumption tax hike has been limited. It appears that sales of dental materials carrying high gross profit margin have remained rather sluggish, which was more than compensated for by strengths on equipment due mainly to successful launch of new products. Meanwhile, the Company consistently makes steady progress in cultivation of markets overseas where the bulk of sales are of dental materials. Due to yen's appreciation mainly against euro and Chinese yuan, sales overseas increased by 3.6% on a Japanese yen basis versus by 7.9% on a local currencies basis. In particular, sales in India are increasing fast in line with steady launch of new local bridgehead. At the same time, the Company, placing the utmost emphasis on expanding its operations overseas, reveals its plan to newly set up manufacturing subsidiary in Vietnam in order to reallocate its production bases as a whole more efficiently to meet demand on a global basis.

For information: [SHOFU \(7979\) Increased Sales in Japan and Overseas \(7 January 2020\)](#)

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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)	 SHOFU INC. <small>PROVEN PRODUCTS FOR BETTER DENTISTRY</small>
Established	15 May 1922	
Listing	25 July 1963: Tokyo Stock Exchange 1st section (ticker: 7979)	
Capital	¥4,474m (as of the end of December 2019)	
No. of Shares	16,114,089 shares, including 169,054 treasury shares (as of the end of Dec. 2019)	
Main Features	<ul style="list-style-type: none"> ● The leader of Artificial Teeth and Abrasives in Japan ● Focus on promotions of sales 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:1,188, Parent: 447 (as of the end of December 2019)	

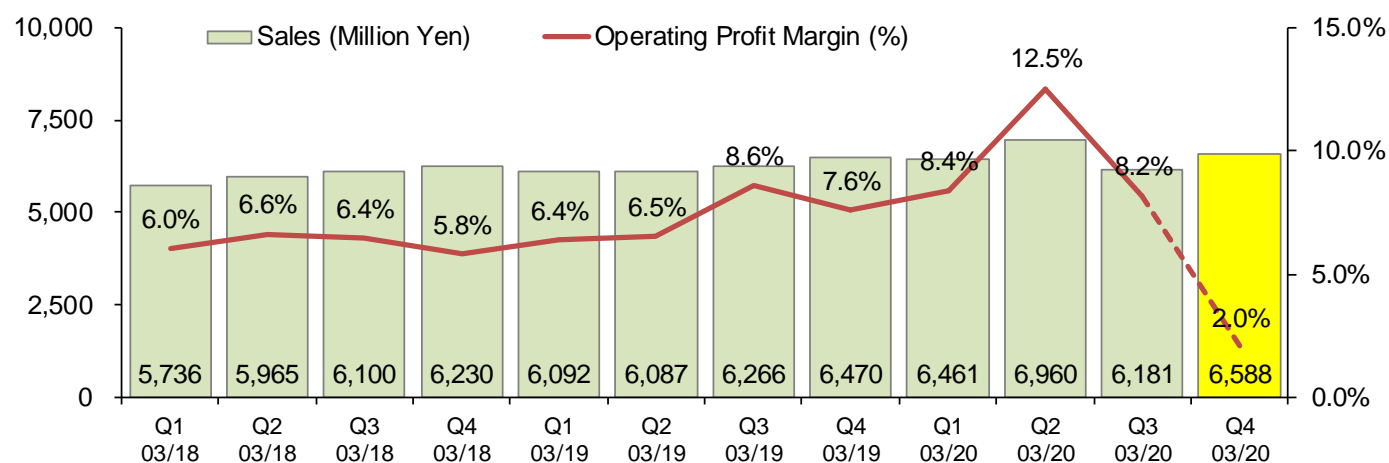
Source: Company Data

3.0 Recent Trading and Prospects

Q1 to Q3 FY03/2020 Results

In Q1 to Q3 FY03/2020, sales came in at ¥19,602m (up 6.3% YoY), operating profit ¥1,921m (up 45.2%), recurring profit ¥1,814m (up 42.8%) and profit attributable to owners of parent ¥1,188m (up 33.1%), while operating profit margin 9.8% (up 2.6% points).

Sales and Operating Profit Margin



Forex Rate

Forex Rate	Cons.Act Q1 03/2019	Cons.Act Q1 to Q2 03/2019	Cons.Act Q1 to Q3 03/2019	Cons.Act Q1 to Q4 03/2019	Cons.Act Q1 03/2020	Cons.Act Q1 to Q2 03/2020	Cons.Act Q1 to Q3 03/2020	Cons.Act Q1 to Q4 03/2020	YoY Net Chg.
U.S. Dollar (Yen)	108.71	110.07	110.82	110.69	110.00	109.00	109.10	-	(1.72)
Euro	129.39	129.88	129.38	128.43	123.29	121.43	121.46	-	(7.92)
GBP	147.54	146.99	145.83	145.68	140.88	136.84	138.34	-	(7.49)
Chinese Yuan	17.10	17.05	16.83	16.69	16.37	16.21	15.93	-	(0.90)
U.S. Dollar (YoY)	(2.6%)	(1.2%)	(0.9%)	(0.1%)	+1.2%	(1.0%)	(1.6%)	-	-
Euro (YoY)	+5.1%	+2.6%	+0.6%	(0.8%)	(4.7%)	(6.5%)	(6.1%)	-	-
GBP (YoY)	+3.2%	+1.8%	(0.3%)	(1.1%)	(4.5%)	(6.9%)	(5.1%)	-	-
Chinese Yuan (YoY)	+3.6%	+3.8%	+2.0%	+0.3%	(4.3%)	(4.9%)	(5.3%)	-	-

Source: Company Data, WRJ Calculation

The progress rate against full-year Company forecasts is 74.8% in sales and 93.4% in operating profit, suggesting remarkable progress in earnings. The Company spots that the timing of spending SG&A expenses has been delayed, but it appears that SG&A expenses on a full-year basis will not reach assumptions of full-year Company forecasts as the Company also spots that it succeeds in spending expenses efficiently for advertising, etc. Nevertheless, initial Company forecasts have remained unchanged, resulting in prospect for earnings in Q4 to sharply correct, when simply based on Q1 to Q3 results, which is only ostensible as far as we are concerned.

In Q1 to Q3, sales in Japan came in at ¥10,973m (up 8.5%) and sales overseas ¥8,629m (up 3.6%). Meanwhile, by business segment, Dental-related Business to develop, manufactures and sell dental materials as well as equipment saw sales of ¥17,783m (up 7.2%) operating profit of ¥1,835m (up 37.2%) and operating profit margin of 10.3% (up 2.3%). That is to say, business performance as a whole for the Company hinges on that of this business segment to a large extent, having accounted for 90.7% of sales with the Company as a whole and 95.8% of operating profit (before elimination of intersegment transactions).

In Japan, frontloaded demand stemming from consumption tax hike occurred in Q2 over Q1 and reactionary fall in Q3 over Q2. More importantly, however, sales in Japan in Q1 to Q3 were buoyant as mentioned above, suggesting that reactionary fall in Q3 has been limited. By product category, it appears that sales of Equipment & Other increased fast, driven by increasing demand 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. Meanwhile, with respect to CAD/CAM-related products, sales of both materials and equipment were firm, according to the Company.

Sales overseas increased by 7.9% on a local currencies basis. By region, sales in Asia, Oceania, etc. increased by 12.0%, sales in North & Latin Americas by 5.4% and sales in Europe by 5.6% on a local currencies basis. In other words, the Company consistently makes steady progress in cultivation of markets overseas across the board. With respect to remarkable increases of sales in Asia, Oceania, etc., those of China are the key contributor, while the rate of increases is the highest in India where new bridgehead is steadily taking off. The outlook for business conditions in China is uncertain, given that the outbreak of new coronaviruses continues to spread. According to the Company, this will give impacts to the Company's business performance in Q1 FY03/2021 and thereafter. Given that the Company's local subsidiary has fiscal yearend of December, the Company's accounts reflect the results in China with a three-month delay.

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%.

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.
	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020	03/2020	
Sales	6,092	12,179	18,445	24,915	6,461	13,421	19,602	-	-	+1,157
Cost of Sales	2,545	5,087	7,635	10,469	2,813	5,830	8,427	-	-	+792
Gross Profit	3,546	7,091	10,809	14,445	3,647	7,590	11,174	-	-	+365
SG&A Expenses	3,158	6,306	9,485	12,631	3,105	6,174	9,253	-	-	(232)
Operating Profit	388	784	1,323	1,814	542	1,415	1,921	-	-	+598
Non Operating Balance	27	(2)	(53)	(105)	(42)	(173)	(107)	-	-	(54)
Recurring Profit	415	782	1,270	1,709	500	1,242	1,814	-	-	+544
Extraordinary Balance	-	-	-	-	-	-	-	-	-	-
Profit before Income Taxes	415	782	1,270	1,709	500	1,242	1,814	-	-	+544
Total Income Taxes	160	244	390	512	253	445	615	-	-	+225
NP Belonging to Non-Controlling SHs	(7)	(8)	(13)	(4)	-	8	10	-	-	+23
Profit Attributable to Owners of Parent	262	546	892	1,201	247	788	1,188	-	-	+296
Sales YoY	+6.2%	+4.1%	+3.6%	+3.7%	+6.1%	+10.2%	+6.3%	-	-	-
Operating Profit YoY	+12.0%	+5.7%	+16.5%	+21.1%	+39.6%	+80.4%	+45.2%	-	-	-
Recurring Profit YoY	(3.9%)	(8.3%)	(0.8%)	+9.2%	+20.6%	+58.8%	+42.8%	-	-	-
Profit Attributable to Owners of Parent YoY	(10.9%)	(14.1%)	(4.3%)	+36.9%	(5.8%)	+44.3%	+33.1%	-	-	-
Gross Profit Margin	58.2%	58.2%	58.6%	58.0%	56.4%	56.6%	57.0%	-	-	(1.6%)
Sales to SG&A Expenses Ratio	51.8%	51.8%	51.4%	50.7%	48.1%	46.0%	47.2%	-	-	(4.2%)
Operating Profit Margin	6.4%	6.4%	7.2%	7.3%	8.4%	10.5%	9.8%	-	-	+2.6%
Recurring Profit Margin	6.8%	6.4%	6.9%	6.9%	7.7%	9.3%	9.3%	-	-	+2.4%
Profit Attributable to Owners of Parent Margin	4.3%	4.5%	4.8%	4.8%	3.8%	5.9%	6.1%	-	-	+1.2%
Total Income Taxes/Profit before Income Taxes	38.6%	31.2%	30.7%	30.0%	50.6%	35.8%	33.9%	-	-	+3.2%
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.
	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020	03/2020	
Sales	6,092	6,087	6,266	6,470	6,461	6,960	6,181	-	-	(85)
Cost of Sales	2,545	2,542	2,548	2,834	2,813	3,017	2,597	-	-	+49
Gross Profit	3,546	3,545	3,718	3,636	3,647	3,943	3,584	-	-	(134)
SG&A Expenses	3,158	3,148	3,179	3,146	3,105	3,069	3,079	-	-	(100)
Operating Profit	388	396	539	491	542	873	506	-	-	(33)
Non Operating Balance	27	(29)	(51)	(52)	(42)	(131)	66	-	-	+117
Recurring Profit	415	367	488	439	500	742	572	-	-	+84
Extraordinary Balance	-	-	-	-	-	-	-	-	-	-
Profit before Income Taxes	415	367	488	439	500	742	572	-	-	+84
Total Income Taxes	160	84	146	122	253	192	170	-	-	+24
NP Belonging to Non-Controlling SHs	(7)	(1)	(5)	9	-	8	2	-	-	+7
Profit Attributable to Owners of Parent	262	284	346	309	247	541	400	-	-	+54
Sales YoY	+6.2%	+2.0%	+2.7%	+3.9%	+6.1%	+14.3%	(1.4%)	-	-	-
Operating Profit YoY	+12.0%	+0.0%	+37.2%	+35.6%	+39.6%	+120.5%	(6.1%)	-	-	-
Recurring Profit YoY	(3.9%)	(12.8%)	+14.0%	+54.6%	+20.6%	+102.2%	+17.2%	-	-	-
Profit Attributable to Owners of Parent YoY	(10.9%)	(16.7%)	+16.1%	-	(5.8%)	+90.5%	+15.6%	-	-	-
Gross Profit Margin	58.2%	58.2%	59.3%	56.2%	56.4%	56.7%	58.0%	-	-	(1.4%)
Sales to SG&A Expenses Ratio	51.8%	51.7%	50.7%	48.6%	48.1%	44.1%	49.8%	-	-	(0.9%)
Operating Profit Margin	6.4%	6.5%	8.6%	7.6%	8.4%	12.5%	8.2%	-	-	(0.4%)
Recurring Profit Margin	6.8%	6.0%	7.8%	6.8%	7.7%	10.7%	9.3%	-	-	+1.5%
Profit Attributable to Owners of Parent Margin	4.3%	4.7%	5.5%	4.8%	3.8%	7.8%	6.5%	-	-	+0.9%
Total Income Taxes/Profit before Income Taxes	38.6%	22.9%	29.9%	27.8%	50.6%	25.9%	29.7%	-	-	(0.2%)

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	17,783	-	+1,191	
Nail-related Business	572	1,198	1,776	2,372	595	1,209	1,752	-	(24)	
Other Business	25	51	75	96	20	42	66	-	(9)	
Sales	6,092	12,179	18,445	24,915	6,461	13,421	19,602	-	+1,157	
Dental-related Business	403	802	1,337	1,797	521	1,330	1,835	-	+498	
Nail-related Business	(22)	(29)	(32)	(5)	17	77	70	-	+102	
Other Business	5	9	13	16	2	5	10	-	(3)	
Segment profit	387	781	1,318	1,807	541	1,412	1,916	-	+598	
Elimination of intersegment transactions	1	3	4	6	1	3	4	-	-	
Operating Profit	388	784	1,323	1,814	542	1,415	1,921	-	+598	
Dental-related Business	7.3%	7.3%	8.1%	8.0%	8.9%	10.9%	10.3%	-	+2.3%	
Nail-related Business	(3.8%)	(2.4%)	(1.8%)	(0.2%)	2.9%	6.4%	4.0%	-	+5.8%	
Other Business	20.0%	17.6%	17.3%	16.7%	10.0%	11.9%	15.2%	-	(2.2%)	
Operating Profit Margin	6.4%	6.4%	7.2%	7.3%	8.4%	10.5%	9.8%	-	+2.6%	

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	5,615	-	(48)	
Nail-related Business	572	626	578	596	595	614	543	-	(35)	
Other Business	25	26	24	21	20	22	24	-	-	
Sales	6,092	6,087	6,266	6,470	6,461	6,960	6,181	-	(85)	
Dental-related Business	403	399	535	460	521	809	505	-	(30)	
Nail-related Business	(22)	(7)	(3)	27	17	60	(7)	-	(4)	
Other Business	5	4	4	3	2	3	5	-	+1	
Segment profit	387	394	537	489	541	871	504	-	(33)	
Elimination of intersegment transactions	1	2	1	2	1	2	1	-	-	
Operating Profit	388	396	539	491	542	873	506	-	(33)	
Dental-related Business	7.3%	7.3%	9.4%	7.9%	8.9%	12.8%	9.0%	-	(0.5%)	
Nail-related Business	(3.8%)	(1.1%)	(0.5%)	4.5%	2.9%	9.8%	(1.3%)	-	(0.8%)	
Other Business	20.0%	15.4%	16.7%	14.3%	10.0%	13.6%	20.8%	-	+4.2%	
Operating Profit Margin	6.4%	6.5%	8.6%	7.6%	8.4%	12.5%	8.2%	-	(0.4%)	

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 and Deposit	5,713	5,380	4,806	4,890	5,139	4,695	4,516	-	-	(290)
Accounts Receivables	3,096	3,116	2,981	3,354	3,304	3,731	3,050	-	-	+69
Inventory	6,302	6,469	6,669	6,207	6,565	6,602	7,183	-	-	+514
Other	499	443	519	524	442	517	590	-	-	+71
Current Assets	15,610	15,408	14,975	14,975	15,450	15,545	15,339	-	-	+364
Tangible Assets	6,519	6,757	6,784	7,100	7,175	7,190	7,642	-	-	+858
Intangible Assets	1,220	1,218	1,149	1,132	1,185	1,124	1,128	-	-	(21)
Investments and Other Assets	7,422	7,549	6,422	6,953	6,547	6,970	7,884	-	-	+1,462
Fixed Assets	15,163	15,525	14,355	15,186	14,908	15,285	16,655	-	-	+2,300
Total Assets	30,773	30,933	29,331	30,161	30,359	30,831	31,995	-	-	+2,664
Accounts Payables	861	719	781	669	770	780	808	-	-	+27
Short Term Debt	500	500	500	849	1,144	1,143	1,388	-	-	+888
Other	2,536	2,394	2,008	2,302	2,464	2,193	1,950	-	-	(58)
Current Liabilities	3,897	3,613	3,289	3,820	4,378	4,116	4,146	-	-	+857
Long Term Debt	855	739	604	125	244	236	245	-	-	(359)
Other	1,986	2,005	1,662	1,832	1,677	1,791	2,059	-	-	+397
Fixed Liabilities	2,841	2,744	2,266	1,957	1,921	2,027	2,304	-	-	+38
Total Liabilities	6,739	6,357	5,556	5,778	6,300	6,144	6,451	-	-	+895
Shareholders' Equity	20,598	20,882	21,101	21,409	21,369	21,958	22,208	-	-	+1,107
Other	3,436	3,694	2,674	2,974	2,689	2,729	3,335	-	-	+661
Net Assets	24,034	24,576	23,775	24,383	24,058	24,687	25,543	-	-	+1,768
Total Liabilities & Net Assets	30,773	30,933	29,331	30,161	30,359	30,831	31,995	-	-	+2,664
Equity Capital	23,919	24,457	23,656	24,250	23,928	24,548	25,402	-	-	+1,746
Interest Bearing Debt	1,355	1,239	1,104	974	1,388	1,379	1,633	-	-	+529
Net Debt	(4,358)	(4,141)	(3,702)	(3,916)	(3,751)	(3,316)	(2,883)	-	-	+819
Equity Ratio	77.7%	79.1%	80.7%	80.4%	78.8%	79.6%	79.4%	-	-	(1.3%)
Net Debt Equity Ratio	(18.2%)	(16.9%)	(15.6%)	(16.1%)	(15.7%)	(13.5%)	(11.3%)	-	-	+4.3%
ROE (12 months)	3.6%	3.3%	3.5%	5.0%	5.0%	5.9%	6.1%	-	-	+2.6%
ROA (12 months)	5.1%	4.9%	5.1%	5.6%	5.9%	7.0%	7.3%	-	-	+2.2%
Days for Inventory Turnover	225	232	238	199	212	199	252	-	-	-
Quick Ratio	226%	235%	237%	216%	193%	205%	182%	-	-	-
Current Ratio	401%	426%	455%	392%	353%	378%	370%	-	-	-

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	-	-	-	-
Investing Cash Flow	-	(518)	-	(1,519)	-	(677)	-	-	-	-
Operating Cash Flow and Investing Cash Flow	-	98	-	(51)	-	(328)	-	-	-	-
Financing Cash Flow	-	(454)	-	(844)	-	148	-	-	-	-

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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