

SHOFU (7979)

Consolidated Fiscal Year (Million Yen)	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2019	24,915	1,814	1,709	1,201	75.54	23.00	1,524.92
FY03/2020	26,108	2,210	1,988	704	44.24	26.00	1,491.81
FY03/2021CoE	-	-	-	-	-	-	-
FY03/2019	YoY	3.7%	21.1%	9.2%	36.9%	-	-
FY03/2020	YoY	4.8%	21.9%	16.4%	(41.3%)	-	-
FY03/2021CoE	YoY	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (12 June 2020)


Digitalization

SHOFU, developing, manufacturing and selling dental materials & equipment, saw record highs in sales and operating profit in FY03/2020. This is due to consistently successful cultivation of market overseas and to firm sales even in Japan where the market is matured. According to the Company, the key driver in Japan is that it has launched new products coping with the market needs amid the progress of digitalization for dental treatment. Still, the Company now suggests that earnings so far in FY03/2021 are rather adjusting, negatively affected by the impacts stemming from novel coronavirus infections. On top of this, it is too difficult to rationally estimate the impacts for the future and thus FY03/2021 Company forecasts have not been decided. Meanwhile, the Company has implemented impairment as of the end of FY03/2020, given this uncertainty, which is expected to cut back on expenses to a corresponding extent going forward, while benefiting from some other factors to reduce expenses at the same time in FY03/2021. With respect to demand, it could be the case that uncertainty persists going forward, but the situations would not change that there remains a great room to cultivate in the market overseas. Meanwhile, the Company is to beef up development of new products by means of capital and business alliance. All in all, the Company has good opportunities of long-term growth in the foreseeable future.

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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 March 2020)	
No. of Shares	16,114,089 shares, including 169,076 treasury shares (as of the end of March 2020)	
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 11.17%, Bank of Kyoto 4.42%, Japan Trustee Services T. 4.16% (as of the end of March 2020, except treasury shares)	
Headquarters	Higashiyama-ku, Kyoto-city, JAPAN	
No. of Employees	Consolidated:1,189, Parent: 453 (as of the end of March 2020)	

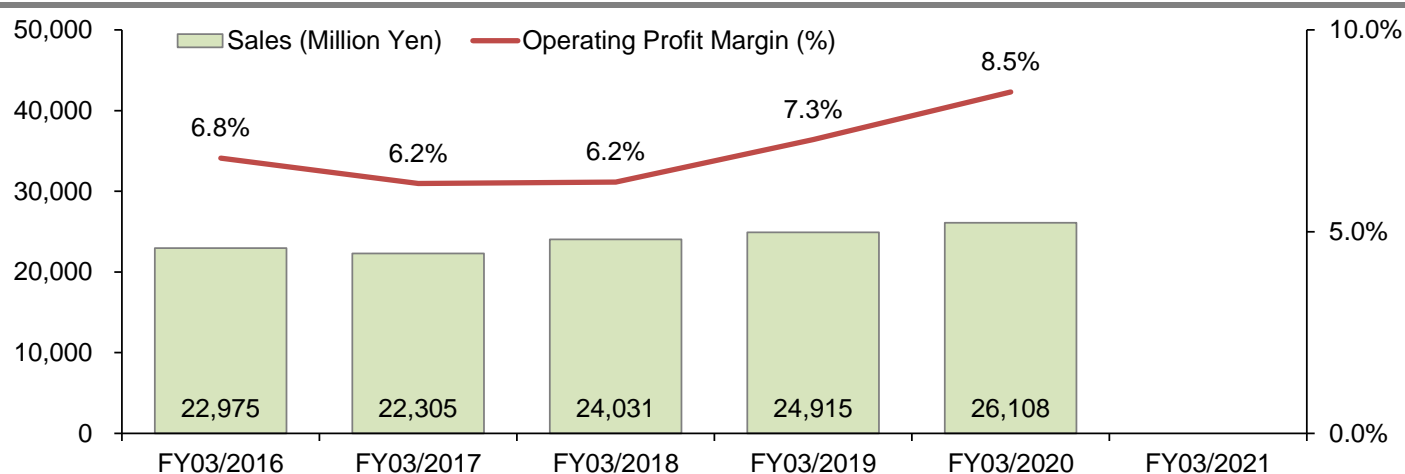
Source: Company Data

3.0 Recent Trading & Prospects

FY03/2020 Results

In FY03/2020, sales came in at ¥26,108m (up 4.8% YoY), operating profit ¥2,210m (up 21.9%), recurring profit ¥1,988m (up 16.4%) and profit attributable to owners of parent ¥704m (down 41.3%), while operating profit margin 8.5% (up 1.2% points). Compared with initial Company forecasts (disclosed on 9 May 2019), sales are worse by ¥81m (0.3%), but operating profit better by ¥154m (7.5%) and recurring profit better by ¥47m (2.5%). As a result, the Company saw record highs in operating profit and recurring profit. Nevertheless, profit attributable to owners of parent is worse by ¥672m (48.8%).

Sales and Operating Profit Margin



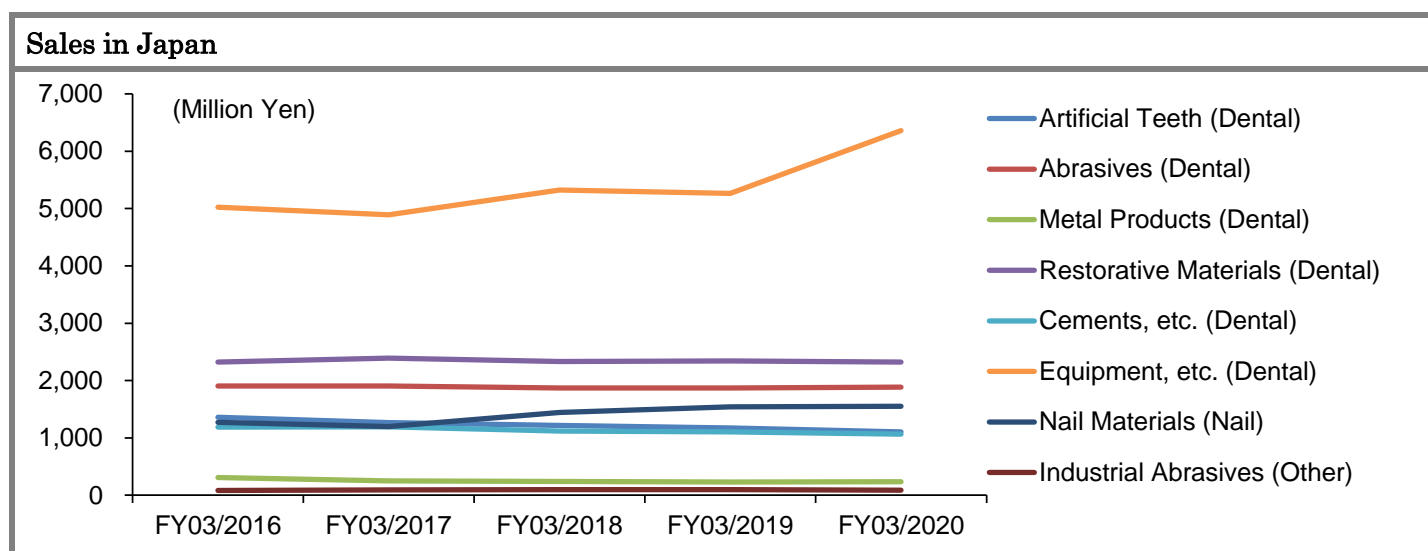
Forex Rate

Forex Rate (Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 03/2016	FY 03/2017	FY 03/2018	FY 03/2019	FY 03/2020	FY 03/2021	YoY Net Chg.
U.S. Dollar	120.17	109.03	110.81	110.69	109.10	-	-
Euro	132.35	119.37	129.45	128.43	121.14	-	-
GBP	180.66	143.04	147.27	145.68	138.51	-	-
Chinese Yuan	19.21	16.56	16.64	16.69	15.85	-	-
U.S. Dollar (YoY)	+9.2%	(9.3%)	+1.6%	(0.1%)	(1.4%)	-	-
Euro (YoY)	(4.6%)	(9.8%)	+8.4%	(0.8%)	(5.7%)	-	-
GBP (YoY)	+2.2%	(20.8%)	+3.0%	(1.1%)	(4.9%)	-	-
Chinese Yuan (YoY)	+11.3%	(13.8%)	+0.5%	+0.3%	(5.0%)	-	-

Source: Company Data, WRJ Calculation

Sales in Japan came in at ¥14,608m (up 7.3%) and sales overseas ¥11,499m (up 1.8%). Compared with initial expectations, sales in Japan are better but sales overseas worse due partly to yen's appreciation. As a whole for the Company, the effect of the latter was larger than that of the former.

By business segment, the mainstay Dental-related Business to develop, manufacture and sell dental materials & equipment saw sales of ¥23,665m (up 5.4%), operating profit of ¥2,083m (up 15.9%) and operating profit margin of 8.8% (up 0.8% points), having accounted for 90.6% of sales as a whole for the Company and 94.5% of operating profit (before intersegment transactions). Thus, the 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 ¥2,355m (down 0.7%), operating profit of ¥107m (versus minus ¥5m in the previous year) and operating profit margin of 4.5% (up 4.8% points).



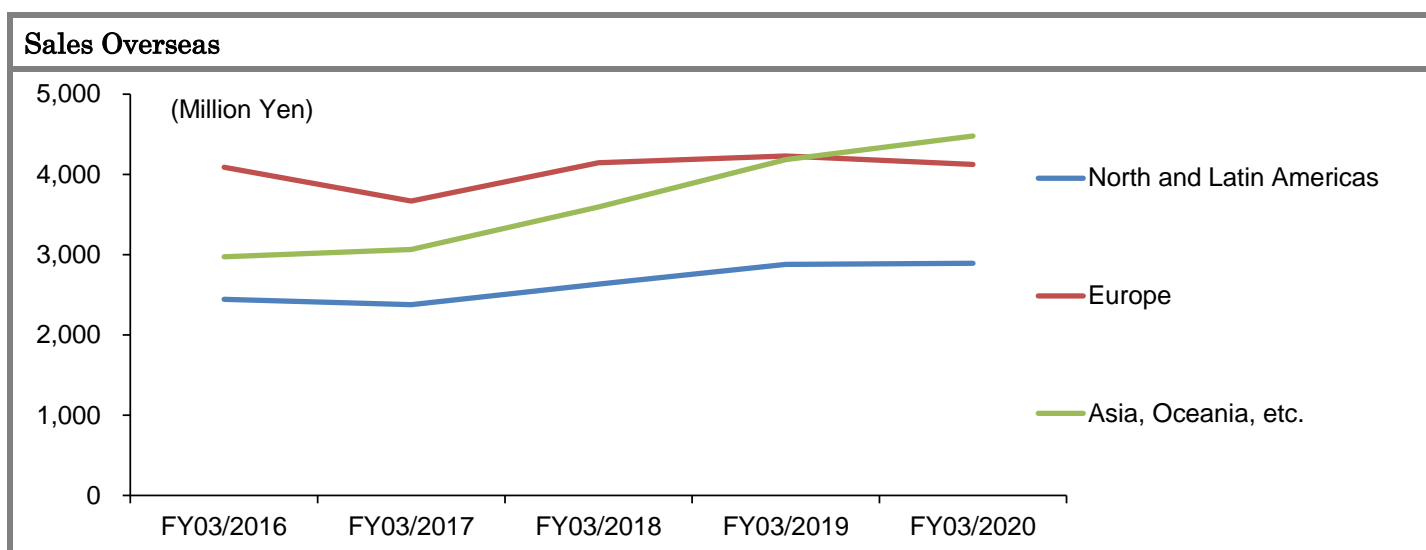
Source: Company Data, WRJ Calculation

The market for dentistry in Japan is matured and the Company has been seeing sluggish sales here over the past years. However, the Company saw surging sales of Equipment, etc. in FY03/2020 and thus firmness as a whole for sales in Japan. With respect to surging sales of Equipment, etc., the Company has launched new products coping with the market needs amid the progress of digitalization for dental treatment, which is the key driver. CAD/CAM-related products, presumably accounting for more than 30% of sales of Equipment, etc., expanded rapidly in regards to both materials and equipment. For materials, the Company saw favorable sales of newly launched resin material for dental milling processing SHOFU BLOCK HC SUPER HARD, while sales generated by stocking and selling of equipment were also firm. On top of this, so were sales of newly launched digital oral imaging device EYE Special C-IV. Meanwhile, sales of Nail Materials have just edged up.

As far as sales of Equipment, etc. are concerned, it is the case that those of stocking and selling carrying relatively lower gross profit margin are included to more than a certain extent, implying that increased sales here have a tendency to worsen sales mix. In our estimates, sales of stocking and selling here account for 75% of total and own products here, represented by materials of CAD/CAM-related products, digital oral imaging device, etc. for the remaining 25%. Meanwhile, with respect to sales of dental materials, comprising Artificial Teeth, Abrasives, etc. are of all own products. Although sales are not plummeting in any domain, those of dental materials as a whole have remained sluggish across the board.

Meanwhile, sales overseas have increased by no more than 1.8%, due partly to yen's appreciation. With respect to Nail Materials, sales overseas marginally came down. The Company saw increased sales in the United States, but decreased sales in Taiwan where competition was intensifying. Nevertheless, there was an improvement of earnings on the Nail-related Business side as a result of successful business reorganization in Taiwan.

On a local currencies basis or before the impacts of forex changes, sales overseas as a whole for the Company increased by 5.8% over the previous year or by 2.0% in North and Latin Americas, by 3.3% in Europe and by 10.9% in Asia, Oceania, etc. in terms of regions, while by 16.7% in China accounting for more than half of sales in Asia, Oceania, etc. and by 4.4% in regions but for China accounting for the remaining less than half.



Source: Company Data, WRJ Calculation

With respect to sales of regions but for China in Asia, Oceania, etc., the Company has noticed the advent of the impacts stemming from novel coronavirus infections towards the end of the fiscal year. Thus, sales growth rate has come down, when compared with equivalents in the past years. Meanwhile, sales in China have surged, but the Company suggests that sluggishness did actually take place also in China towards the end of the fiscal year. With respect to operations in China, the Company reflects the business in the consolidated accounts with a three-month delay, given that local subsidiaries have fiscal yearend of December.

Looking at sales overseas by product domain, it is spotted that the Company is almost exclusively exposed to those of own products, which is the key feature. More importantly, as a result of this, sales overseas carry gross profit margin relatively higher than those of Japan. Sales overseas are exposed to Equipment, etc. by 10%, but the bulk is those of self-developed digital oral imaging device. Meanwhile, when compared with the market in Japan, which is matured, the markets in emerging countries (Asia, Oceania, etc. and Latin America) have a future growth potential far higher, while there remains a huge room to cultivate in developed countries (North America and Europe). Given all those factors, the Company has been pretty keen on sales promotions overseas, including acquisition of peers, for some time, having resulted in favorable and consistent progress so far. In spite of the fact that the rate of growth was rather slowing in FY03/2020, the Company has renewed its record high in sales as a whole, driven by strengths in Japan.

Meanwhile, operating profit margin came in at 8.5% (up 1.2% points), suggesting that the Company benefited from higher sales and having resulted in renewal of record high also in operating profit. Gross profit came in at ¥14,685m (up 1.7%), SG&A expenses ¥12,474m (down 1.2%), implying gross profit margin of 56.2% (down 1.7% points) and sales to SG&A expenses ratio of 47.8% (down 2.9% points). In other words, it appears that operating profit margin improved due to marginal decreases of SG&A expenses in spite of limited increases in gross profit. For some time, the Company has been planning to strengthen local hiring overseas for the sake of aggressively enhancing sales activities in overseas, but this did not progress as much as originally planned in FY03/2020. On top of this, the Company suggests that the similar issues took place also elsewhere, which incurred unused expenses at the SG&A level to more than a certain extent.

Gross profit margin came down by 1.7% points over the previous year. Cost of sales increased by ¥79m (equating to 0.3% of sales) due to one-off factor, while the remaining 1.4% appears to have been basically in line with change of sales mix driven by surging sales of Equipment, etc. in Japan, carrying relatively lower gross profit margin. Meanwhile, the said one-off factor stemmed from change of pharmaceutical approval authority in Europe in response to Brexit, which is to result in decreases in cost of sales and thus improvement of gross profit margin to a corresponding extent in FY03/2021. In other words, this change brought forth one-off inventory disposal loss, etc., according to the Company.

At the non-operating level, forex loss increased due to yen's appreciation, but the Company saw record high renewed also in recurring profit. Still, profit attributable to owners of parent came down sharply, given impairment implemented due to uncertainty of the impacts from novel coronavirus infections.

Since the beginning of FY03/2016, the Company has consolidated Merz Dental GmbH (manufacturer of artificial teeth, based in Germany) as subsidiary, having written off goodwill as much as ¥79m in FY03/2020, for example. So far, this consolidation has been contributing more than a certain extent, but below initial expectations at the time of acquisition. On top of this, the impacts from novel coronavirus infections, totally unexpected, are now going on. The Company saw impairment loss of ¥846m in FY03/2020, which was basically of Merz Dental GmbH (some ¥800m), having written off all the remaining goodwill and intangible assets incurred at the time of acquisition.

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	19,602	26,108		+1,193
Cost of Sales	2,545	5,087	7,635	10,469	2,813	5,830	8,427	11,423		+954
Gross Profit	3,546	7,091	10,809	14,445	3,647	7,590	11,174	14,685		+240
SG&A Expenses	3,158	6,306	9,485	12,631	3,105	6,174	9,253	12,474		(157)
Operating Profit	388	784	1,323	1,814	542	1,415	1,921	2,210		+396
Non Operating Balance	27	(2)	(53)	(105)	(42)	(173)	(107)	(222)		(117)
Recurring Profit	415	782	1,270	1,709	500	1,242	1,814	1,988		+279
Extraordinary Balance	-	-	-	-	-	-	-	(804)		(804)
Profit before Income Taxes	415	782	1,270	1,709	500	1,242	1,814	1,184		(525)
Total Income Taxes	160	244	390	512	253	445	615	460		(52)
NP Belonging to Non-Controlling SHs	(7)	(8)	(13)	(4)	-	8	10	18		+22
Profit Attributable to Owners of Parent	262	546	892	1,201	247	788	1,188	704		(497)
Sales YoY	+6.2%	+4.1%	+3.6%	+3.7%	+6.1%	+10.2%	+6.3%	+4.8%		-
Operating Profit YoY	+12.0%	+5.7%	+16.5%	+21.1%	+39.6%	+80.4%	+45.2%	+21.9%		-
Recurring Profit YoY	(3.9%)	(8.3%)	(0.8%)	+9.2%	+20.6%	+58.8%	+42.8%	+16.4%		-
Profit Attributable to Owners of Parent YoY	(10.9%)	(14.1%)	(4.3%)	+36.9%	(5.8%)	+44.3%	+33.1%	(41.3%)		-
Gross Profit Margin	58.2%	58.2%	58.6%	58.0%	56.4%	56.6%	57.0%	56.2%		(1.7%)
Sales to SG&A Expenses Ratio	51.8%	51.8%	51.4%	50.7%	48.1%	46.0%	47.2%	47.8%		(2.9%)
Operating Profit Margin	6.4%	6.4%	7.2%	7.3%	8.4%	10.5%	9.8%	8.5%		+1.2%
Recurring Profit Margin	6.8%	6.4%	6.9%	6.9%	7.7%	9.3%	9.3%	7.6%		+0.8%
Profit Attributable to Owners of Parent Margin	4.3%	4.5%	4.8%	4.8%	3.8%	5.9%	6.1%	2.7%		(2.1%)
Total Income Taxes/Profit before Income Taxes	38.6%	31.2%	30.7%	30.0%	50.6%	35.8%	33.9%	38.9%		+8.9%

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	6,181	6,506		+36
Cost of Sales	2,545	2,542	2,548	2,834	2,813	3,017	2,597	2,996		+162
Gross Profit	3,546	3,545	3,718	3,636	3,647	3,943	3,584	3,511		(125)
SG&A Expenses	3,158	3,148	3,179	3,146	3,105	3,069	3,079	3,221		+75
Operating Profit	388	396	539	491	542	873	506	289		(202)
Non Operating Balance	27	(29)	(51)	(52)	(42)	(131)	66	(115)		(63)
Recurring Profit	415	367	488	439	500	742	572	174		(265)
Extraordinary Balance	-	-	-	-	-	-	-	(804)		(804)
Profit before Income Taxes	415	367	488	439	500	742	572	(630)		(1,069)
Total Income Taxes	160	84	146	122	253	192	170	(155)		(277)
NP Belonging to Non-Controlling SHs	(7)	(1)	(5)	9	-	8	2	8		(1)
Profit Attributable to Owners of Parent	262	284	346	309	247	541	400	(484)		(793)
Sales YoY	+6.2%	+2.0%	+2.7%	+3.9%	+6.1%	+14.3%	(1.4%)	+0.6%		-
Operating Profit YoY	+12.0%	+0.0%	+37.2%	+35.6%	+39.6%	+120.5%	(6.1%)	(41.1%)		-
Recurring Profit YoY	(3.9%)	(12.8%)	+14.0%	+54.6%	+20.6%	+102.2%	+17.2%	(60.4%)		-
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%	54.0%		(2.2%)
Sales to SG&A Expenses Ratio	51.8%	51.7%	50.7%	48.6%	48.1%	44.1%	49.8%	49.5%		+0.9%
Operating Profit Margin	6.4%	6.5%	8.6%	7.6%	8.4%	12.5%	8.2%	4.4%		(3.1%)
Recurring Profit Margin	6.8%	6.0%	7.8%	6.8%	7.7%	10.7%	9.3%	2.7%		(4.1%)
Profit Attributable to Owners of Parent Margin	4.3%	4.7%	5.5%	4.8%	3.8%	7.8%	6.5%	(7.4%)		(12.2%)
Total Income Taxes/Profit before Income Taxes	38.6%	22.9%	29.9%	27.8%	50.6%	25.9%	29.7%	24.6%		(3.2%)

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	23,665	+1,219	
Nail-related Business	572	1,198	1,776	2,372	595	1,209	1,752	2,355	(16)	
Other Business	25	51	75	96	20	42	66	87	(9)	
Sales	6,092	12,179	18,445	24,915	6,461	13,421	19,602	26,108	+1,193	
Dental-related Business	403	802	1,337	1,797	521	1,330	1,835	2,083	+286	
Nail-related Business	(22)	(29)	(32)	(5)	17	77	70	107	+112	
Other Business	5	9	13	16	2	5	10	13	(2)	
Segment profit	387	781	1,318	1,807	541	1,412	1,916	2,204	+397	
Intersegment transactions	1	3	4	6	1	3	4	6	-	
Operating Profit	388	784	1,323	1,814	542	1,415	1,921	2,210	+396	
Dental-related Business	7.3%	7.3%	8.1%	8.0%	8.9%	10.9%	10.3%	8.8%	+0.8%	
Nail-related Business	(3.8%)	(2.4%)	(1.8%)	(0.2%)	2.9%	6.4%	4.0%	4.5%	+4.8%	
Other Business	20.0%	17.6%	17.3%	16.7%	10.0%	11.9%	15.2%	14.9%	(1.7%)	
Operating Profit Margin	6.4%	6.4%	7.2%	7.3%	8.4%	10.5%	9.8%	8.5%	+1.2%	

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	5,882	+28	
Nail-related Business	572	626	578	596	595	614	543	603	+7	
Other Business	25	26	24	21	20	22	24	21	-	
Sales	6,092	6,087	6,266	6,470	6,461	6,960	6,181	6,506	+36	
Dental-related Business	403	399	535	460	521	809	505	248	(212)	
Nail-related Business	(22)	(7)	(3)	27	17	60	(7)	37	+10	
Other Business	5	4	4	3	2	3	5	3	-	
Segment profit	387	394	537	489	541	871	504	288	(201)	
Intersegment transactions	1	2	1	2	1	2	1	2	-	
Operating Profit	388	396	539	491	542	873	506	289	(202)	
Dental-related Business	7.3%	7.3%	9.4%	7.9%	8.9%	12.8%	9.0%	4.2%	(3.6%)	
Nail-related Business	(3.8%)	(1.1%)	(0.5%)	4.5%	2.9%	9.8%	(1.3%)	6.1%	+1.6%	
Other Business	20.0%	15.4%	16.7%	14.3%	10.0%	13.6%	20.8%	14.3%	+0.0%	
Operating Profit Margin	6.4%	6.5%	8.6%	7.6%	8.4%	12.5%	8.2%	4.4%	(3.1%)	

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	4,862	(28)	
Accounts Receivables	3,096	3,116	2,981	3,354	3,304	3,731	3,050	3,187	(167)	
Inventory	6,302	6,469	6,669	6,207	6,565	6,602	7,183	6,730	+523	
Other	499	443	519	524	442	517	590	637	+113	
Current Assets	15,610	15,408	14,975	14,975	15,450	15,545	15,339	15,416	+441	
Tangible Assets	6,519	6,757	6,784	7,100	7,175	7,190	7,642	7,689	+589	
Intangible Assets	1,220	1,218	1,149	1,132	1,185	1,124	1,128	310	(822)	
Investments and Other Assets	7,422	7,549	6,422	6,953	6,547	6,970	7,884	6,417	(536)	
Fixed Assets	15,163	15,525	14,355	15,186	14,908	15,285	16,655	14,417	(769)	
Total Assets	30,773	30,933	29,331	30,161	30,359	30,831	31,995	29,834	(327)	
Accounts Payables	861	719	781	669	770	780	808	831	+162	
Short Term Debt	500	500	500	849	1,144	1,143	1,388	558	(291)	
Other	2,536	2,394	2,008	2,302	2,464	2,193	1,950	2,291	(11)	
Current Liabilities	3,897	3,613	3,289	3,820	4,378	4,116	4,146	3,680	(140)	
Long Term Debt	855	739	604	125	244	236	245	678	+553	
Other	1,986	2,005	1,662	1,832	1,677	1,791	2,059	1,538	(294)	
Fixed Liabilities	2,841	2,744	2,266	1,957	1,921	2,027	2,304	2,216	+259	
Total Liabilities	6,739	6,357	5,556	5,778	6,300	6,144	6,451	5,897	+119	
Shareholders' Equity	20,598	20,882	21,101	21,409	21,369	21,958	22,208	21,715	+306	
Other	3,436	3,694	2,674	2,974	2,689	2,729	3,335	2,221	(753)	
Net Assets	24,034	24,576	23,775	24,383	24,058	24,687	25,543	23,936	(447)	
Total Liabilities & Net Assets	30,773	30,933	29,331	30,161	30,359	30,831	31,995	29,834	(327)	
Equity Capital	23,919	24,457	23,656	24,250	23,928	24,548	25,402	23,786	(464)	
Interest Bearing Debt	1,355	1,239	1,104	974	1,388	1,379	1,633	1,236	+262	
Net Debt	(4,358)	(4,141)	(3,702)	(3,916)	(3,751)	(3,316)	(2,883)	(3,626)	+290	
Equity Ratio	77.7%	79.1%	80.7%	80.4%	78.8%	79.6%	79.4%	79.7%	(0.7%)	
Net Debt Equity Ratio	(18.2%)	(16.9%)	(15.6%)	(16.1%)	(15.7%)	(13.5%)	(11.3%)	(15.2%)	+0.9%	
ROE (12 months)	3.6%	3.3%	3.5%	5.0%	5.0%	5.9%	6.1%	2.9%	(2.0%)	
ROA (12 months)	5.1%	4.9%	5.1%	5.6%	5.9%	7.0%	7.3%	6.6%	+1.0%	
Days for Inventory Turnover	225	232	238	199	212	199	252	204	-	
Quick Ratio	226%	235%	237%	216%	193%	205%	182%	219%	-	
Current Ratio	401%	426%	455%	392%	353%	378%	370%	419%	-	

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	-	1,942	+474	
Investing Cash Flow	-	(518)	-	(1,519)	-	(677)	-	(1,768)	(249)	
Operating Cash Flow and Investing Cash Flow	-	98	-	(51)	-	(328)	-	174	+225	
Financing Cash Flow	-	(454)	-	(844)	-	148	-	(224)	+620	

Source: Company Data, WRJ Calculation

FY03/2021 Company Forecasts

FY03/2021 Company forecasts have not been decided. The background to this is that "it is too difficult to rationally estimate the impacts from novel coronavirus at the moment". Novel coronavirus infections are continuously spreading on a global basis, while pace of spread for the future and/or time of convergence is just uncertain. The economy is currently under considerable downward pressure and could worsen further, according to the Company. Under such circumstances, it is too difficult to rationally estimate the future outlook at present, given insufficient information both in Japan and overseas. Still, the Company reveals an intention to promptly disclose Company forecasts when it becomes possible to estimate. The same applies to dividend plans. Meanwhile, the following issues were raised at the financial results briefing (video distribution) held on 27 May 2020.

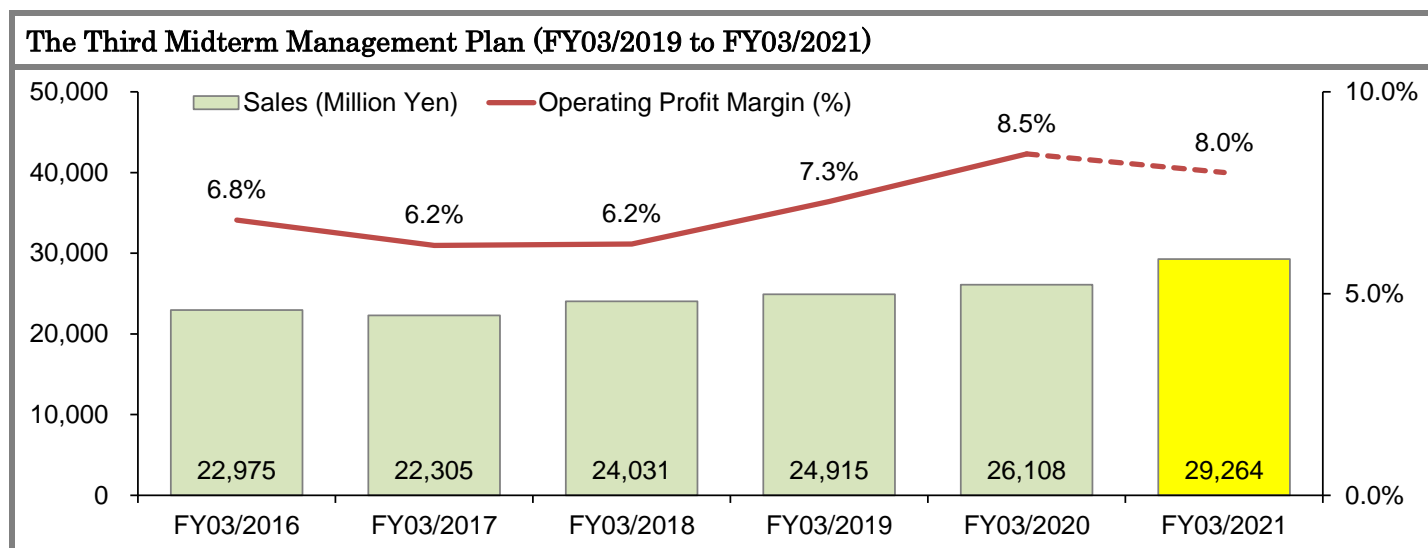
Dental treatment is prohibited in the United States, etc., while self-restraint is demanded for dental treatment in many countries around the world. In regions and countries where self-restraint is not demanded, the number of visiting patients is coming down, due to the measures implemented, e.g., expanding the interval between reservations with an objective of avoiding contacts amongst visiting patients. Meanwhile, the Company voluntarily restrains holding own seminars and/or lectures, making it too hard to aggressively work on sales promotions.

However, some bright signs have been seen most recently. In China, dental treatment has resumed, while many countries around the world are showing signs of easing in terms of restrictions on outings. In other words, there are signs of a resumption of economy on a global basis. Thus, as progress is made here, demand for self-restraint on dental treatment should be eased going forward.

The current situations are as described above, while the Company has left its long-term management policy unchanged, i.e., running business based on the fundamental policy to allocate own management resources mainly overseas with an objective of expanding operations overseas. Meanwhile, the Company continues basically going for stability for its dividend policy, while targeting to achieve payout ratio of 30% or more. For FY03/2020, the Company pays annual dividend of ¥26.0 per share, implying payout ratio of 58.8%. Profit attributable to owners of parent, which is the denominator for payout ratio, has come down sharply due to impairment, but the Company does implement its policy of stability for dividend, resulting in payout ratio far higher than the target.

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 the FY03/2018 results, the Company is to achieve 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

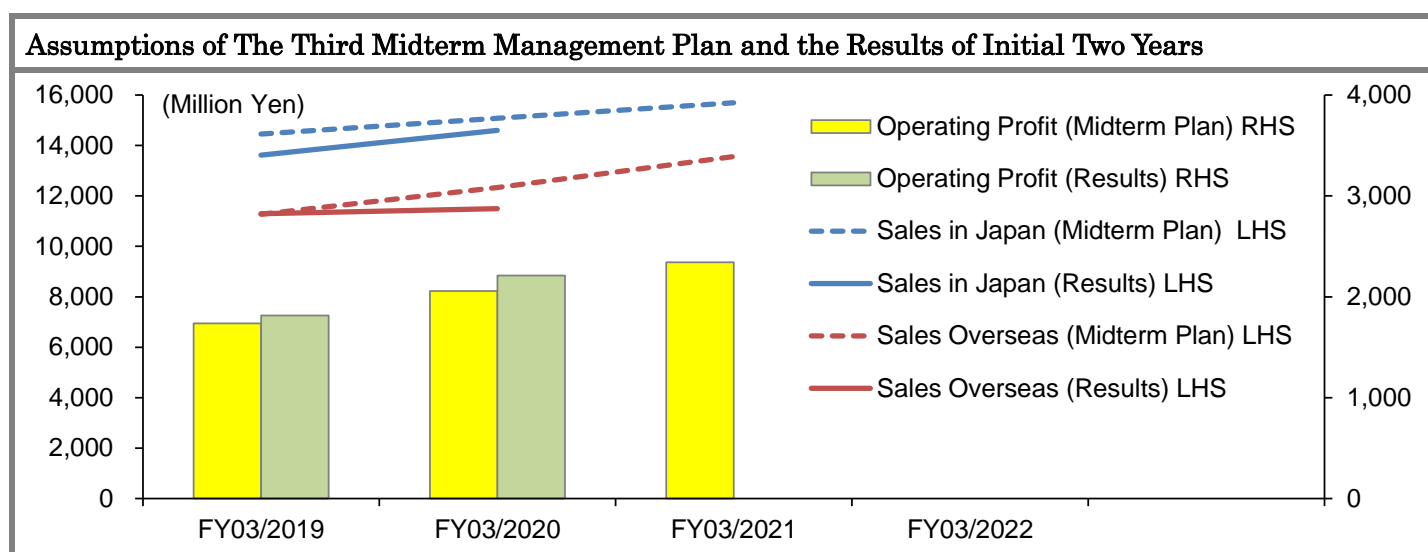
According to the Company, the market for dentistry in Japan is unlikely to grow significantly for the future, although it is likely to maintain a certain size. Meanwhile, the market for dentistry overseas has size currently equating to 14 times the size of Japan, while it is expected to equate to 20 times or more in 10 years even after difference of price levels taken 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 dentistry, 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 for dentistry overseas is highly likely to see dramatic growth for the future, when considering future potential of economic growth and improved living standards in emerging countries, etc.

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 the 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 reach 47.6% 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% for sales. By region, sales in Japan are to see CAGR of 3.7% and sales overseas CAGR of 10.1% on a local currencies 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. Meanwhile, 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 in 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) implementing 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 professionals as final customers 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 knowledge on dental treatment.



Source: Company Data, WRJ Calculation

In the initial two-year period (FY03/2019 and FY03/2020), sales have slightly fallen short of assumptions both in Japan and overseas, but operating profit has exceeded assumptions. Although sales in Japan trended strongly in FY03/2020 as mentioned earlier, the level has not expanded as much as originally assumed. Meanwhile, sales overseas in FY03/2020 have fallen short. Yen's appreciation seems to have had a major negative impact. Meanwhile, operating profit has been better than expected as a result of effort to "execute expenses by examining cost effectiveness", according to the Company.

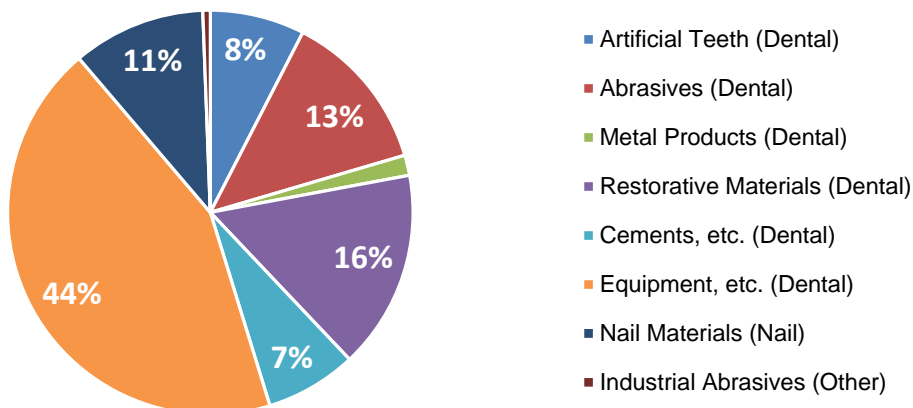
Elsewhere, on 14 May 2020, the Company announced that it would strengthen capital alliance with Mitsui Chemicals, Inc., the largest shareholder, for the sake of further beefing up business alliance in development of new products and/or expansion of product lineup. Thus, the Company is trying to get at improvement for its long-term growth potential with this.

4.0 Business Model

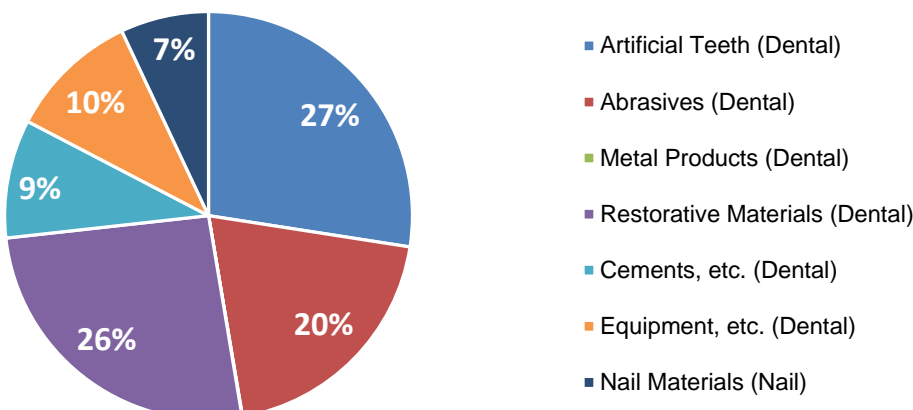
Contribution to Dentistry

The Company, claiming for “contribution to dentistry through innovative business 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 products belonging to diverse domains.

Sales Composition Ratio in Japan (FY03/2020)



Sales Composition Ratio Overseas (FY03/2020)



Source: Company Data, WRJ Calculation

Artificial Teeth, belonging to “dental materials” of “dental materials & equipment”, are those for dentures and upper structure of implants, while Abrasives those for grinding affected areas and/or polishing dental crowns. Metal Products are foundation materials for dental crowns and bridges. Restorative Materials are for crowns and bridges, filling of affected areas made by composite resin, denture bases and other diverse applications. Cements, etc. represents bonding materials for stuffing. Meanwhile, “equipment” comprises the contents of Equipment, etc., i.e., CAD/CAM-related materials and equipment on top of equipment for diverse dental treatment and related finesse. CAD/CAM-related materials and equipment are those corresponding to new digital format to have provided patients with unprecedentedly high cost efficiency for the treatment of the back teeth since the application of health insurance in April 2014. This was applied to premolar teeth only at the beginning, while having been also to molar teeth to date, continuously driving demand for the treatment as far as we could gather.

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, etc.



Luting Cements



Filling Cements



Embedding Materials



Gypsums

Equipment, etc.



Digital Oral 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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