

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		23,287	1,733	1,589	1,072	61.68	18.00	-
FY03/2020		YoY	4.8%	21.9%	16.4%	(41.3%)	-	-
FY03/2021CoE		YoY	(10.8%)	(21.6%)	(20.1%)	52.1%	-	-
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 FY03/2020		13,421	1,415	1,242	788	-	-	-
Q3 to Q4 FY03/2020		12,687	795	746	(84)	-	-	-
Q1 to Q2 FY03/2021		11,217	905	891	568	-	-	-
Q3 to Q4 FY03/2021CoE		12,070	828	698	504	-	-	-
Q1 to Q2 FY03/2021		YoY	(16.4%)	(36.0%)	(28.2%)	(27.8%)	-	-
Q3 to Q4 FY03/2021CoE		YoY	(4.9%)	4.2%	(6.4%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (21 December 2020)

As It Should

SHOFU, developing, manufacturing and selling dental materials & equipment, has the long-term basic policy (As It Should) of significantly moving the management resources overseas to cultivate the markets overseas, while maintaining and/or expanding its business foundations in Japan. In a short-term perspective, the Company inevitably suffers from the impacts stemming from COVID-19, while it saw a major recovery of sales in Japan and overseas for Q2 over Q1 in FY03/2021. It appears that this has a lot to do with that the impacts stemming from COVID-19 came down, while the Company suggests that it saw a recovery in sales rather earlier than the market. In Japan, new products were contributing to sales and sales overseas saw a recovery more substantial than in Japan, presumably given a back action to the impacts larger stemming from COVID-19. In other words, it appears that the Company steadily takes in demand recovered with its sold sales network overseas. Meanwhile, the impacts stemming from COVID-19 have remained unclear for H2, particularly for those of the third spike of infections in the United States and Europe. More importantly, however, the Company has a good opportunity to achieve performance as assumed in the long-term basic policy (As It Should) after all those impacts stemming from COVID-19.

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2.0 Company Profile

Comprehensive Manufacturer of Dental Materials & Equipment

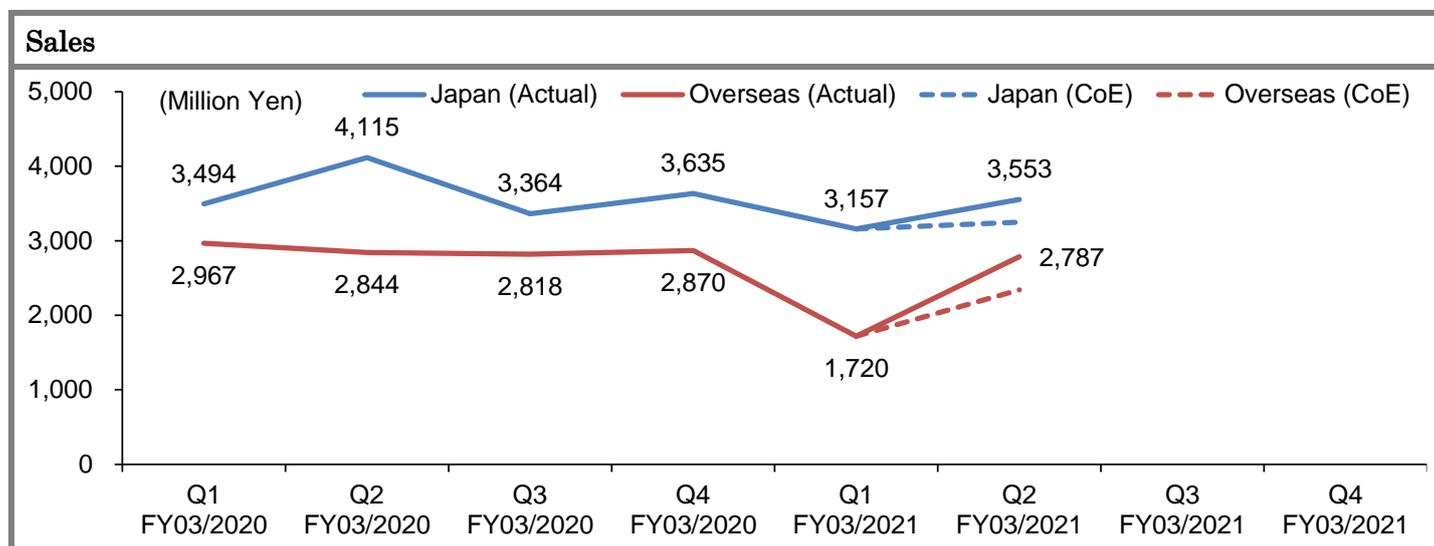
Company Name	SHOFU INC. Website IR Information Share Price (Japanese)	
Established	15 May 1922	
Listing	25 July 1963: Tokyo Stock Exchange 1st section (ticker: 7979)	
Capital	¥5,968m (as of the end of September 2020)	
No. of Shares	17,894,089 shares, including 132,541 treasury shares (as of the end of Sep. 2020)	
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 20.15%, Bank of Kyoto 4.01%, Custody Bank of Japan, T. 3.84% (as of the end of September 2020, but for treasury shares)	
Headquarters	Higashiyama-ku Kyoto-city, JAPAN	
No. of Employees	Consolidated: 1,197, Parent: 467 (as of the end of September 2020)	

Source: Company Data

3.0 Recent Trading & Prospects

Q1 to Q2 FY03/2021 Results

In Q1 to Q2 FY03/2021, sales came in at ¥11,217m (down 16.4% YoY), operating profit ¥905m (down 36.0%), recurring profit ¥891m (down 28.2%) and profit attributable to owners of parent ¥568m (down 27.8%), while operating profit margin 8.1% (down 2.5% points).



Source: Company Data, WRJ Calculation

In Q1, sales came in at ¥4,877m (down 24.5%) and ¥6,340m (down 8.9%) in Q2. In Q1 (April to June), demand declined in line with declined occasions for dental treatments in Japan and overseas due to the impacts stemming from COVID-19. On top of this, the Company inevitably suffered from restrained sales activities at the same time. The impacts stemming from COVID-19 continued into Q2 (July to September), but it appears that the extent of the impacts was rather reduced. For Q2 over Q1, sales as a whole for the Company recovered substantially and assumptions of Company forecasts announced at the time of the release of Q1 results (4 August 2020) were exceeded by no less than ¥744m (7.1%) for those of Q1 to Q2.

By region, sales in Japan came in at ¥6,710m (down 11.8%) and sales overseas ¥4,507m (down 22.4%). Meanwhile, by business segment, Dental-related Business, where the Company develops, manufactures and sells dental materials & equipment, saw sales of ¥10,042m (down 17.5%), operating profit of ¥793m (down 40.4%) and operating profit margin of 7.9% (down 3.0% points). Having accounted for almost 90% of sales and operating profit as a whole for the Company, this business segment is the key driver for performance as a whole for the Company.

In Japan, the Company saw negative impacts stemming from consumption tax hike (8% to 10% since 1 October 2019) in addition to the impacts stemming from COVID-19. During the same period of the previous year, there was a last-minute surge in demand prior to the tax hike, having generated an aspect that sales in Japan had to suffer from a back action due to this. Meanwhile, the Company suggest that new products to have had been launched by the end of FY03/2020 were nicely contributing to sales, e.g., digital oral imaging device EYE Special C-IV and resin material for dental cutting processing SHOFU BLOCK HC SUPER HARD. With respect to so-called CAD/CAM-related materials, including the latter, it appears that sales have increased almost 30% over the same period of the previous year. Now, as this may imply, the Company suggests that it sees increased share in the market of Japan for dental materials.

The revision of medical treatment fees, implemented in April 2020, drove sales of CAD/CAM-related materials for the Company. It appears that the Company responded swiftly and appropriately to the expansion of health-insurance coverage and the changes of classifications by functionality. In the first place, CAD/CAM-related materials are those of corresponding to so-called new digital formats that provide patients with higher cost-effectiveness than previously possible for the treatment of back teeth with access having become available to health-insurance coverage in April 2014. At the beginning, the access was available only for those of premolars and is now also for molar teeth, while classifications by functionality have been made, i.e., a) conventional ones for premolars, b) enhanced-strength ones for premolars and c) ones for molar teeth. The Company has a full lineup of products in all the three classifications, actively responding to continued growth in demand. By the end of FY03/2021, the Company plans to launch ones for anterior teeth with the aim of further expanding sales.

Sales overseas by region comprised those of ¥1,013m (down 34.3%) in North & Latin Americas, ¥1,784m (down 12.1%) in Europe and ¥1,709m (down 23.7%) in Asia, Oceania etc. In Q1, sales overseas came down sharply due to local measures to prevent infections more enforcedly than in Japan, having resulted in the impacts stemming from COVID-19 larger. Meanwhile, presumably as a back action to that, sales overseas recovered in Q2 over Q1 more substantially than in Japan.

With respect to Nail-related Business to develop, manufacture and sell nail salon materials, sales came in at ¥1,136m (down 6.1%), operating profit ¥108m (up 40.1%) and operating profit margin 9.5% (up 3.1% points). By region, sales in Japan came in at ¥718m (down 10.4%) and sales overseas ¥418m (up 2.5%). In Japan, sales were sluggish as nail salons to procure products from the Company were forced to temporarily suspend operations. On the other hand, the Company saw strengths for online sales carrying high gross profit margin, in the United States as well as for the mainstay gel-nail products in Taiwan where the Company had reconstructed business operations. Thus, it appears that improvement of earnings as a whole for this business segment appears to have been driven by those of operations overseas to a large extent.

As a consequence of all those above-mentioned issues, gross profit came in at ¥6,193m (down 18.4%) and SG&A expenses ¥5,287m (down 14.4%) for the Company, implying gross profit margin of 55.2% (down 1.3% points) and sales to SG&A expenses ratio of 47.1% (up 1.1% points), having resulted in operating profit margin of 8.1% (down 2.5% points) as above mentioned.

As for the decline in gross profit margin, the fact that it became difficult to recover fixed costs due to the decline in sales had a major impact, according to the Company. With respect to SG&A expenses, meanwhile, the Company saw decrease in line with restrained sales activities and some expenses delayed for the timing of booking for H2 due to the impacts stemming from COVID-19. For example, progress in R&D projects that are outsourced to external parties were sluggish. At the end of the day, the Company saw earnings much better than expected, i.e., by ¥590m (187.2%) in operating profit, by ¥645m (262.5%) in recurring profit and by ¥517m in profit attributable to owners of parent, when compared with assumptions of Company forecasts announced in line with the release of Q1 results (4 August 2020).

Income Statement (Cumulative/Quarterly)

Income 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 03/2020	Q1 to Q2 03/2020	Q1 to Q3 03/2020	Q1 to Q4 03/2020	Q1 03/2021	Q1 to Q2 03/2021	Q1 to Q3 03/2021	Q1 to Q4 03/2021		
Sales	6,461	13,421	19,602	26,108	4,877	11,217	-	-	-	(2,204)
Cost of Sales	2,813	5,830	8,427	11,423	2,187	5,023	-	-	-	(807)
Gross Profit	3,647	7,590	11,174	14,685	2,690	6,193	-	-	-	(1,397)
SG&A Expenses	3,105	6,174	9,253	12,474	2,561	5,287	-	-	-	(887)
Operating Profit	542	1,415	1,921	2,210	128	905	-	-	-	(510)
Non Operating Balance	(42)	(173)	(107)	(222)	(48)	(14)	-	-	-	+159
Recurring Profit	500	1,242	1,814	1,988	80	891	-	-	-	(351)
Extraordinary Balance	-	-	-	(804)	-	-	-	-	-	-
Profit before Income Taxes	500	1,242	1,814	1,184	80	891	-	-	-	(351)
Total Income Taxes	253	445	615	460	136	309	-	-	-	(136)
NP Belonging to Non-Controlling SHs	-	8	10	18	2	12	-	-	-	+4
Profit Attributable to Owners of Parent	247	788	1,188	704	(58)	568	-	-	-	(220)
Sales YoY	+6.1%	+10.2%	+6.3%	+4.8%	(24.5%)	(16.4%)	-	-	-	-
Operating Profit YoY	+39.6%	+80.4%	+45.2%	+21.9%	(76.2%)	(36.0%)	-	-	-	-
Recurring Profit YoY	+20.6%	+58.8%	+42.8%	+16.4%	(83.9%)	(28.2%)	-	-	-	-
Profit Attributable to Owners of Parent YoY	(5.8%)	+44.3%	+33.1%	(41.3%)	-	(27.8%)	-	-	-	-
Gross Profit Margin	56.4%	56.6%	57.0%	56.2%	55.2%	55.2%	-	-	-	(1.3%)
Sales to SG&A Expenses Ratio	48.1%	46.0%	47.2%	47.8%	52.5%	47.1%	-	-	-	+1.1%
Operating Profit Margin	8.4%	10.5%	9.8%	8.5%	2.6%	8.1%	-	-	-	(2.5%)
Recurring Profit Margin	7.7%	9.3%	9.3%	7.6%	1.6%	7.9%	-	-	-	(1.3%)
Profit Attributable to Owners of Parent Margin	3.8%	5.9%	6.1%	2.7%	(1.2%)	5.1%	-	-	-	(0.8%)
Total Income Taxes/Profit before Income Taxes	50.6%	35.8%	33.9%	38.9%	170.0%	34.7%	-	-	-	(1.1%)

Income Statement (Million Yen)	Cons.Act	Cons.Act	YoY Net Chg.							
	Q1 03/2020	Q2 03/2020	Q3 03/2020	Q4 03/2020	Q1 03/2021	Q2 03/2021	Q3 03/2021	Q4 03/2021		
Sales	6,461	6,960	6,181	6,506	4,877	6,340	-	-	-	(620)
Cost of Sales	2,813	3,017	2,597	2,996	2,187	2,836	-	-	-	(181)
Gross Profit	3,647	3,943	3,584	3,511	2,690	3,503	-	-	-	(440)
SG&A Expenses	3,105	3,069	3,079	3,221	2,561	2,726	-	-	-	(343)
Operating Profit	542	873	506	289	128	777	-	-	-	(96)
Non Operating Balance	(42)	(131)	66	(115)	(48)	34	-	-	-	+165
Recurring Profit	500	742	572	174	80	811	-	-	-	+69
Extraordinary Balance	-	-	-	(804)	-	-	-	-	-	-
Profit before Income Taxes	500	742	572	(630)	80	811	-	-	-	+69
Total Income Taxes	253	192	170	(155)	136	173	-	-	-	(19)
NP Belonging to Non-Controlling SHs	-	8	2	8	2	10	-	-	-	+2
Profit Attributable to Owners of Parent	247	541	400	(484)	(58)	626	-	-	-	+85
Sales YoY	+6.1%	+14.3%	(1.4%)	+0.6%	(24.5%)	(8.9%)	-	-	-	-
Operating Profit YoY	+39.6%	+120.5%	(6.1%)	(41.1%)	(76.2%)	(11.0%)	-	-	-	-
Recurring Profit YoY	+20.6%	+102.2%	+17.2%	(60.4%)	(83.9%)	+9.3%	-	-	-	-
Profit Attributable to Owners of Parent YoY	(5.8%)	+90.5%	+15.6%	-	-	+15.7%	-	-	-	-
Gross Profit Margin	56.4%	56.7%	58.0%	54.0%	55.2%	55.3%	-	-	-	(1.4%)
Sales to SG&A Expenses Ratio	48.1%	44.1%	49.8%	49.5%	52.5%	43.0%	-	-	-	(1.1%)
Operating Profit Margin	8.4%	12.5%	8.2%	4.4%	2.6%	12.3%	-	-	-	(0.3%)
Recurring Profit Margin	7.7%	10.7%	9.3%	2.7%	1.6%	12.8%	-	-	-	+2.1%
Profit Attributable to Owners of Parent Margin	3.8%	7.8%	6.5%	(7.4%)	(1.2%)	9.9%	-	-	-	+2.1%
Total Income Taxes/Profit before Income Taxes	50.6%	25.9%	29.7%	24.6%	170.0%	21.3%	-	-	-	(4.5%)

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 03/2020	Q1 to Q2 03/2020	Q1 to Q3 03/2020	Q1 to Q4 03/2020	Q1 03/2021	Q1 to Q2 03/2021	Q1 to Q3 03/2021	Q1 to Q4 03/2021		
Dental-related Business	5,846	12,168	17,783	23,665	4,341	10,042	-	-	-	(2,126)
Nail-related Business	595	1,209	1,752	2,355	517	1,136	-	-	-	(73)
Other Business	20	42	66	87	19	38	-	-	-	(4)
Sales	6,461	13,421	19,602	26,108	4,877	11,217	-	-	-	(2,204)
Dental-related Business	521	1,330	1,835	2,083	82	793	-	-	-	(537)
Nail-related Business	17	77	70	107	42	108	-	-	-	+31
Other Business	2	5	10	13	2	1	-	-	-	(4)
Segment profit	541	1,412	1,916	2,204	127	902	-	-	-	(510)
Intersegment transactions	1	3	4	6	1	2	-	-	-	(1)
Operating Profit	542	1,415	1,921	2,210	128	905	-	-	-	(510)
Dental-related Business	8.9%	10.9%	10.3%	8.8%	1.9%	7.9%	-	-	-	(3.0%)
Nail-related Business	2.9%	6.4%	4.0%	4.5%	8.1%	9.5%	-	-	-	+3.1%
Other Business	10.0%	11.9%	15.2%	14.9%	10.5%	2.6%	-	-	-	(9.3%)
Operating Profit Margin	8.4%	10.5%	9.8%	8.5%	2.6%	8.1%	-	-	-	(2.5%)

Segmented Information (Million Yen)	Cons.Act	Cons.Act	YoY Net Chg.							
	Q1 03/2020	Q2 03/2020	Q3 03/2020	Q4 03/2020	Q1 03/2021	Q2 03/2021	Q3 03/2021	Q4 03/2021		
Dental-related Business	5,846	6,322	5,615	5,882	4,341	5,701	-	-	-	(621)
Nail-related Business	595	614	543	603	517	619	-	-	-	+5
Other Business	20	22	24	21	19	19	-	-	-	(3)
Sales	6,461	6,960	6,181	6,506	4,877	6,340	-	-	-	(620)
Dental-related Business	521	809	505	248	82	711	-	-	-	(98)
Nail-related Business	17	60	(7)	37	42	66	-	-	-	+6
Other Business	2	3	5	3	2	(1)	-	-	-	(4)
Segment profit	541	871	504	288	127	775	-	-	-	(96)
Intersegment transactions	1	2	1	2	1	1	-	-	-	(1)
Operating Profit	542	873	506	289	128	777	-	-	-	(96)
Dental-related Business	8.9%	12.8%	9.0%	4.2%	1.9%	12.5%	-	-	-	(0.3%)
Nail-related Business	2.9%	9.8%	(1.3%)	6.1%	8.1%	10.7%	-	-	-	+0.9%
Other Business	10.0%	13.6%	20.8%	14.3%	10.5%	(5.3%)	-	-	-	(18.9%)
Operating Profit Margin	8.4%	12.5%	8.2%	4.4%	2.6%	12.3%	-	-	-	(0.3%)

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 03/2020	Q2 03/2020	Q3 03/2020	Q4 03/2020	Q1 03/2021	Q2 03/2021	Q3 03/2021	Q4 03/2021		
Cash and Deposit	5,139	4,695	4,516	4,862	5,157	5,435	-	-	-	+740
Accounts Receivables	3,304	3,731	3,050	3,187	2,716	3,071	-	-	-	(660)
Inventory	6,565	6,602	7,183	6,730	7,394	7,195	-	-	-	+593
Other	442	517	590	637	705	521	-	-	-	+4
Current Assets	15,450	15,545	15,339	15,416	15,972	16,222	-	-	-	+677
Tangible Assets	7,175	7,190	7,642	7,689	7,726	7,753	-	-	-	+563
Intangible Assets	1,185	1,124	1,128	310	301	372	-	-	-	(752)
Investments and Other Assets	6,547	6,970	7,884	6,417	9,607	10,204	-	-	-	+3,234
Fixed Assets	14,908	15,285	16,655	14,417	17,635	18,330	-	-	-	+3,045
Total Assets	30,359	30,831	31,995	29,834	33,607	34,553	-	-	-	+3,722
Accounts Payables	770	780	808	831	584	580	-	-	-	(200)
Short Term Debt	1,144	1,143	1,388	558	457	413	-	-	-	(730)
Other	2,464	2,193	1,950	2,291	2,523	2,354	-	-	-	+161
Current Liabilities	4,378	4,116	4,146	3,680	3,564	3,347	-	-	-	(769)
Long Term Debt	244	236	245	678	1,659	1,590	-	-	-	+1,354
Other	1,677	1,791	2,059	1,538	1,629	1,798	-	-	-	+7
Fixed Liabilities	1,921	2,027	2,304	2,216	3,288	3,388	-	-	-	+1,361
Total Liabilities	6,300	6,144	6,451	5,897	6,853	6,735	-	-	-	+591
Shareholders' Equity	21,369	21,958	22,208	21,715	24,390	25,073	-	-	-	+3,115
Other	2,689	2,729	3,335	2,221	2,364	2,744	-	-	-	+15
Net Assets	24,058	24,687	25,543	23,936	26,754	27,817	-	-	-	+3,130
Total Liabilities & Net Assets	30,359	30,831	31,995	29,834	33,607	34,553	-	-	-	+3,722
Equity Capital	23,928	24,548	25,402	23,786	26,600	27,658	-	-	-	+3,110
Interest Bearing Debt	1,388	1,379	1,633	1,236	2,116	2,003	-	-	-	+624
Net Debt	(3,751)	(3,316)	(2,883)	(3,626)	(3,041)	(3,432)	-	-	-	(116)
Equity Ratio	78.8%	79.6%	79.4%	79.7%	79.2%	80.0%	-	-	-	-
Net Debt Equity Ratio	(15.7%)	(13.5%)	(11.3%)	(15.2%)	(11.4%)	(12.4%)	-	-	-	-
ROE (12 months)	5.0%	5.9%	6.1%	2.9%	1.6%	1.9%	-	-	-	-
ROA (12 months)	5.9%	7.0%	7.3%	6.6%	4.9%	5.0%	-	-	-	-
Days for Inventory Turnover	212	199	252	204	308	231	-	-	-	-
Quick Ratio	193%	205%	182%	219%	221%	254%	-	-	-	-
Current Ratio	353%	378%	370%	419%	448%	485%	-	-	-	-

Source: Company Data, WRJ Calculation

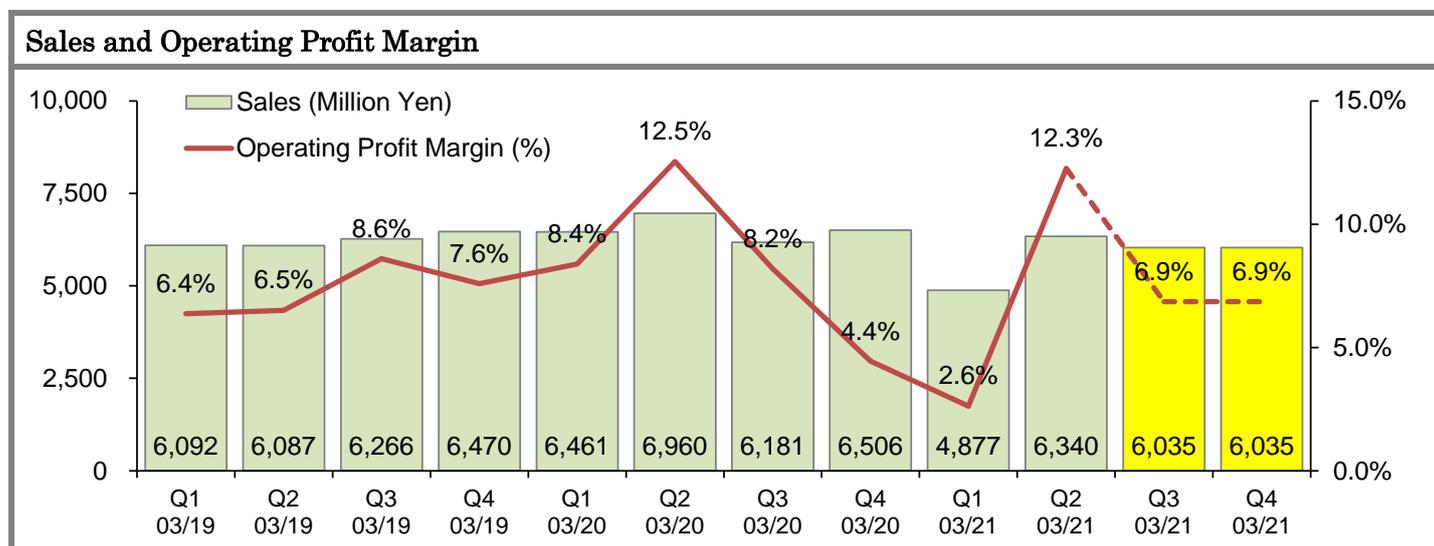
Cash Flow Statement (Cumulative)

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 03/2020	Q1 to Q2 03/2020	Q1 to Q3 03/2020	Q1 to Q4 03/2020	Q1 03/2021	Q1 to Q2 03/2021	Q1 to Q3 03/2021	Q1 to Q4 03/2021		
Operating Cash Flow	-	349	-	1,942	-	800	-	-	-	+451
Investing Cash Flow	-	(677)	-	(1,768)	-	(3,540)	-	-	-	(2,863)
Operating Cash Flow and Investing Cash Flow	-	(328)	-	174	-	(2,740)	-	-	-	(2,412)
Financing Cash Flow	-	148	-	(224)	-	3,359	-	-	-	+3,211

Source: Company Data, WRJ Calculation

FY03/2021 Company Forecasts

FY03/2021 Company forecasts (announced on 28 October 2020) are going for prospective sales of ¥23,287m (down 10.8% YoY), operating profit of ¥1,733m (down 21.6%), recurring profit of ¥1,589m (down 20.1%) and profit attributable to owners of parent of ¥1,072m (up 52.1%), while operating profit margin of 7.4% (down 1.0% point). At the same time, Company forecasts are going for prospective annual dividend of ¥18.00 per share, implying payout ratio of 29.2%.



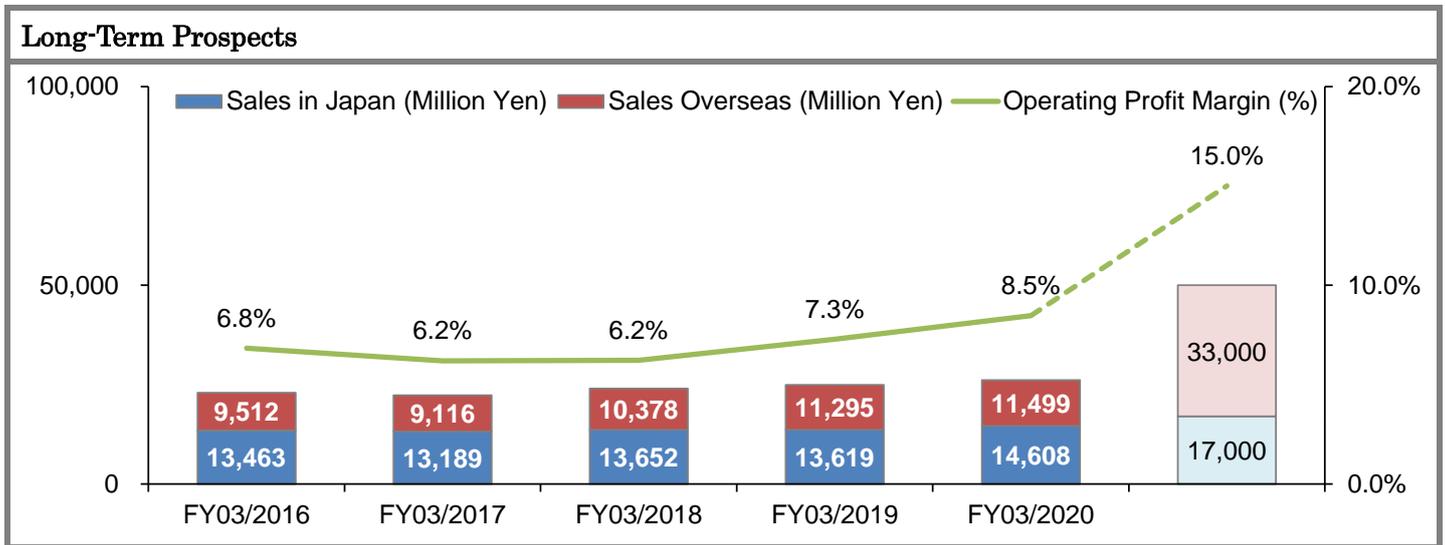
Source: Company Data, WRJ Calculation (Q3 and Q4 FY03/2021: H2 Company forecasts, pro rata)

Full-year Company forecasts have been revised up, given the Q1 to Q2 results better than expected, but Company forecasts for H2 were revised down. At the moment, Company forecasts for H2 are going for prospective sales of ¥12,070m (down 4.9% YoY), operating profit of ¥828m (up 4.2%) and operating profit margin of 6.9% (up 0.6% points), i.e., revised down by ¥295m (2.4%) for sales and by ¥235m (22.1%) for operating profit, when compared with assumptions of Company forecasts as of the announcement of Q1 results (4 August 2020).

The Company says that "it cannot predict when COVID-19 to converge and uncertainty will continue". In light of the fact that the number of infected individuals is surging in the United States and Europe, it appears that the Company now assumes sales in the said regions will be rather smaller than expected as of the announcement of Q1 results.

Long-Term Prospects

The Company has the long-term basic policy (As It Should) of significantly moving the management resources overseas to cultivate the markets overseas, while maintaining and/or expanding its business foundations in Japan, calling for prospective sales of ¥50,000m (¥17,000m in Japan and ¥33,000m overseas), operating profit of ¥7,500m and operating profit margin of 15.0% for the future. The Company aims to globalize all the divisions and operations (R&D, production and sales), people and ultimately management as a whole.



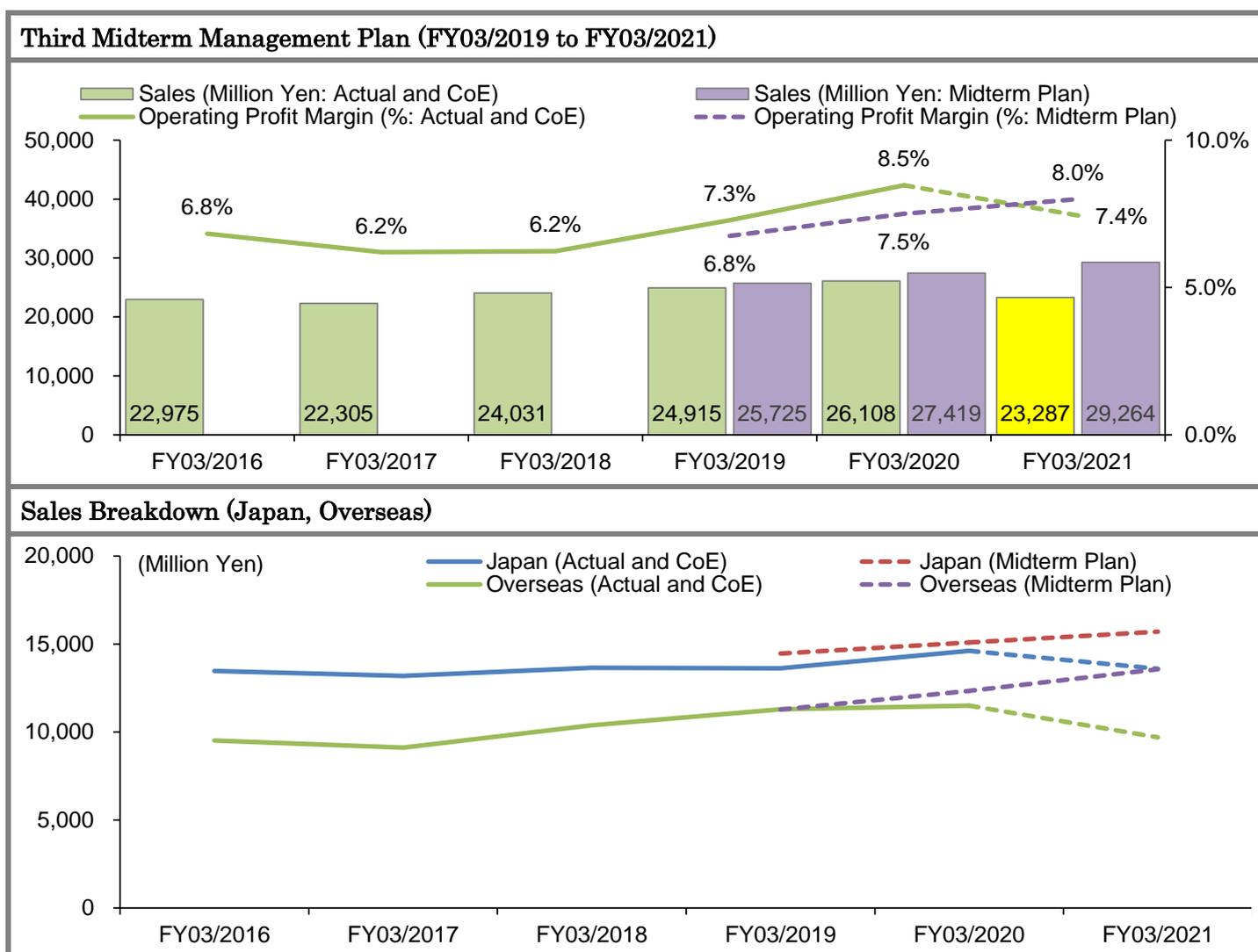
Source: Company Data, WRJ Calculation

According to the Company, the market for dental treatment in Japan will maintain a certain size for the future, but it is unlikely to grow significantly. The elderly population is increasing, but the current situation is that it does not necessarily lead to an expansion of the market for dental treatment. Meanwhile, the total population and caries are on a downward trend. However, going forward, demand related to periodontal diseases, aesthetics and prevention is expected to continue increasing. In other words, the Company expects a contribution from heightened awareness of oral hygiene.

Meanwhile, there is currently market overseas for dental treatment that is roughly 14 times the market in Japan. Moreover, the Company believes that this may reach 20 times or more even when differences in price levels are taken into account at a stage that is more or less 10 years from now. In light of the potential for the future related to economic growth and rising living standards in emerging countries and other overseas regions, the market for dental treatment overseas is said to have the potential to show dramatic expansion for the future.

The Company, claiming for “contribution to dentistry through innovative business activities” as the corporate philosophy, has made its awareness clear as mentioned above, while another awareness as well that the degree of contribution and presence of the Company on a global basis in the history leading up to the present situation have not yet reached an adequate level. For the Company, the scale of sales is positioned as a barometer of contribution, while what is cited as a standard for achieving an adequate presence is to be ranked within the 10th in market share on a global basis. In other words, it is thought that the level of contribution and presence of the Company reaches that of being envisioned in the corporate philosophy at the stage when the above-mentioned performance targets for the future are achieved.

Meanwhile, on 23 May 2018, the Company disclosed the contents of its Third Midterm Management Plan (FY03/2019 to FY03/2021) in light of its long-term basic policy (As It Should), calling for prospective sales of ¥29,264m, operating profit of ¥2,341m and operating profit margin of 8.0% for FY03/2021, the final year of the plan. However, the impacts stemming from COVID-19 are occurring in FY03/2021 and the most recent Company forecasts (announced on 28 October 2020) are going for prospective sales of ¥23,287m (down 10.8% YoY), operating profit of ¥1,733m (down 21.6%) and operating profit margin to be 7.4% (down 1.0% points) as mentioned earlier.



Source: Company Data, WRJ Calculation

Third Midterm Management Plan (FY03/2019 to FY03/2021) were going for prospective CAGR of 6.8% for sales and 16.1% for earnings, when based on the actual results of FY03/2018, as well as for operating profit margin to rise by 1.8% points up to 8.0% from 6.2% through FY03/2018 to FY03/2021 and by 2.2% points up to 6.0% from 3.8% for ROE. Meanwhile, sales in Japan were expected to reach ¥15,700m and sales overseas ¥13,563m, implying CAGR of 4.8% and 9.3%, respectively, when based on the actual results of FY03/2018. CAGR for sales overseas was 9.8%, when based on a local currency basis. As far as we could see, the Company has an idea to achieve the target performance of the long term basic policy (As It Should) by means of seeing CAGR for each as in the assumptions here.

In the performance of FY03/2019 and FY03/2020, the first two years of Third Midterm Management Plan (FY03/2019 to FY03/2021), sales were slightly lower than expectations, but operating profit better and thus also operating profit margin. This is due to efforts to "execute expenses after careful examination of cost effectiveness", according to the Company. Meanwhile, sales overseas in FY03/2019 were in line, while sales overseas in FY03/2020 were negatively affected by the yen's appreciation. It appears that sales overseas were effectively in line on a local currency basis.

In FY03/2021, when the Company suffers from the impacts stemming from COVID-19, it is too difficult to achieve the above performance targets, including the level of sales overseas. In response, the Company plans to strengthen collaborations with external parties, while accelerating its efforts to address the priority issues set out in the long-term basic policy (As It Should) by focusing on the utilization of corporate acquisitions, etc. Priority issues are listed in each aspect of R&D, production, sales and human resources.

For example, on 14 May 2020, it was announced that the Company would strengthen its capital and business alliance with Mitsui Chemicals, the largest shareholder of the Company. The Company has newly issued 1.78m shares (¥2,988m in value) for Mitsui Chemicals through a third party allotment, while the Company has acquired 20% of shares in Sun Medical Company (manufacturer of dental materials) or subsidiary of Mitsui Chemicals. In the first place, the business alliance amongst the three companies was launched in May 2009, while this has led to the release of new products co-developed in the domains of filling & restorative dental materials, CAD/CAM-related materials, etc. to date. Now, together with the strengthening of capital and business alliance this time around, the Company aims to accelerate the strengthening for the aspect of production and of sales on top that of R&D. Meanwhile, as far as we could see, the Company is planning to aggressively increase such projects in the future. The contents of priority issues in each aspect are as follows.

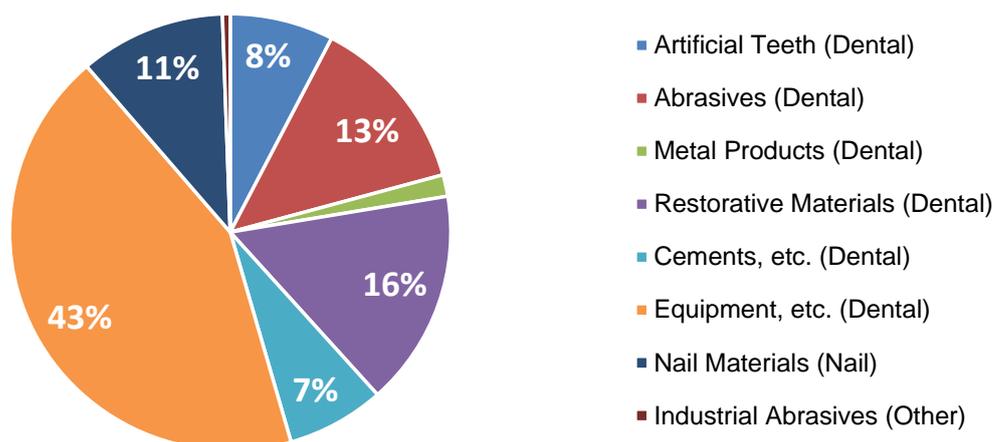
For the aspect of R&D, the Company is focusing on developing and introducing new products that meet demand and needs in each region of the world. The Company is of R&D, developing products from a global perspective. Most recently, the Company says that it beefs up its product development for middle layers and high-volume zones around the world. The Company is also keen on development of all those products well coping with digitalization of dentistry, represented by CAD/CAM-related materials. For the aspect of production, the Company is making progress in reallocating production bases and expanding production overseas. With respect to the former, it is said that the Company is promoting the utilization of domestic manufacturing subsidiaries, while keeping the production capacity at its home factory in Kyoto constant. Cost reduction and improvement of price competitiveness are being attempted through this, according to the Company. For the aspect of sales, the Company is preparing sales network (strengthening of distributor network overseas) as well as preparing sales bases (establishing new sales bases overseas). On top of this, academic networks are being constructed in Japan and overseas. That is to say, the Company is building an organization for direct advertising to dental professionals, the ultimate users, while beefing up activities by MDR (Medical Dental Representative), referring to personnel who is capable of appealing superiority of own products so well based on sufficient knowledge of dental treatment. For the aspect of human resources, the Company is focusing on developing and securing global human resources.

4.0 Business Model

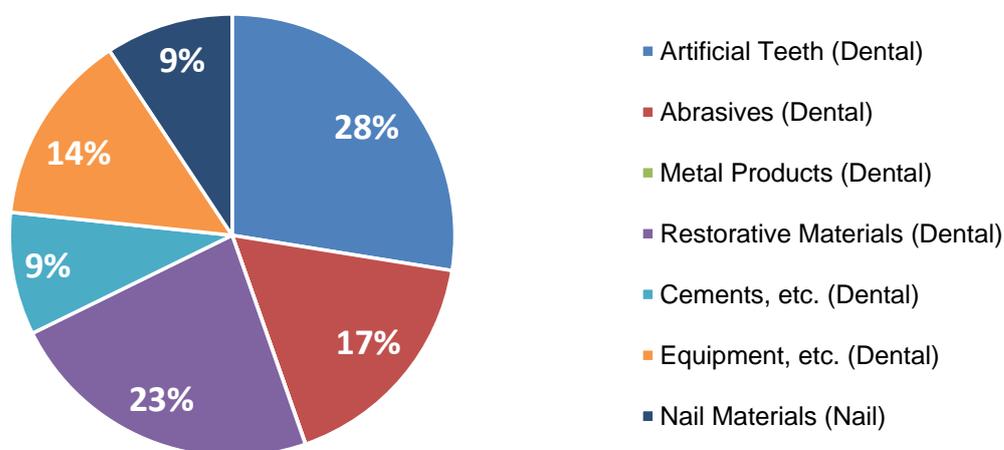
Dental-related Business

The Company runs Dental-related Business as the overwhelming source of earnings, comprising operations to develop, manufacture and sell 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. By category of products, they are as follows:

Sales Composition Ratio in Japan (Q1 to Q2 FY03/2021)



Sales Composition Ratio Overseas (Q1 to Q2 FY03/2021)



Source: Company Data, WRJ Calculation

Artificial teeth are materials for dentures and false teeth, while abrasives those for grinding affected areas and/or polishing dental crowns. Metal products are materials used as foundations for dental crowns and false teeth. Restorative materials are those of being used in diverse applications, comprising those of false teeth, filling of affected areas, denture bases, etc. Cements, etc. represents materials for luting false teeth and/or filling. Meanwhile, equipment, etc. comprises a variety of equipment for dental treatment and/or dental technique, represented by digital oral imaging device. In Japan, the Company has a large exposure to equipment, etc. in terms of sales as those of stocking and selling are included to more than a certain extent, e.g., those of CAD/CAM-related equipment. Meanwhile, CAD/CAM-related materials are of proprietary dental materials, just like artificial teeth and other, but sales are included in equipment, etc. by category of products.

Mainstay Products of Dental-related Business

Artificial Teeth



Ceramic Teeth



Hard-Resin Teeth



Resin Teeth



Dental Porcelains Metals

Abrasives



Diamond



Silicon Carbide



Rubber



Other

Restorative Materials



Composite Resins



For Crowns



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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