

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 Results Update (6 November 2020)

Significant Recovery for Sales

On 4 November 2020, SHOFU, developing, manufacturing and selling dental materials & equipment, has released its Q1 to Q2 FY03/2021 results. It has been revealed that sales in Japan and overseas have recovered sharply for Q2 over Q1. It was just unavoidable in Q1 that sales were stagnated due to lowered opportunities for dental treatments and those of sales promotions, stemming from the impacts of COVID-19, while it appears that the said impacts have been trimmed down in Q2. Still, the Company spots that there are concerns for H2, in light of the surging number of the infected individuals in the West, for example. The Company says that "it cannot predict when COVID-19 will converge and uncertainty will continue". We are to watch the Company's financial results briefing on the web, scheduled for Wednesday, 25 November, which will be followed by our interview with management through the web-based conference, so that we should be able to update [SHOFU \(7979\) Digitalization \(12 June 2020\)](#) and release anew.

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2.0 Company Profile

Comprehensive Manufacturer of Dental Materials & Equipment

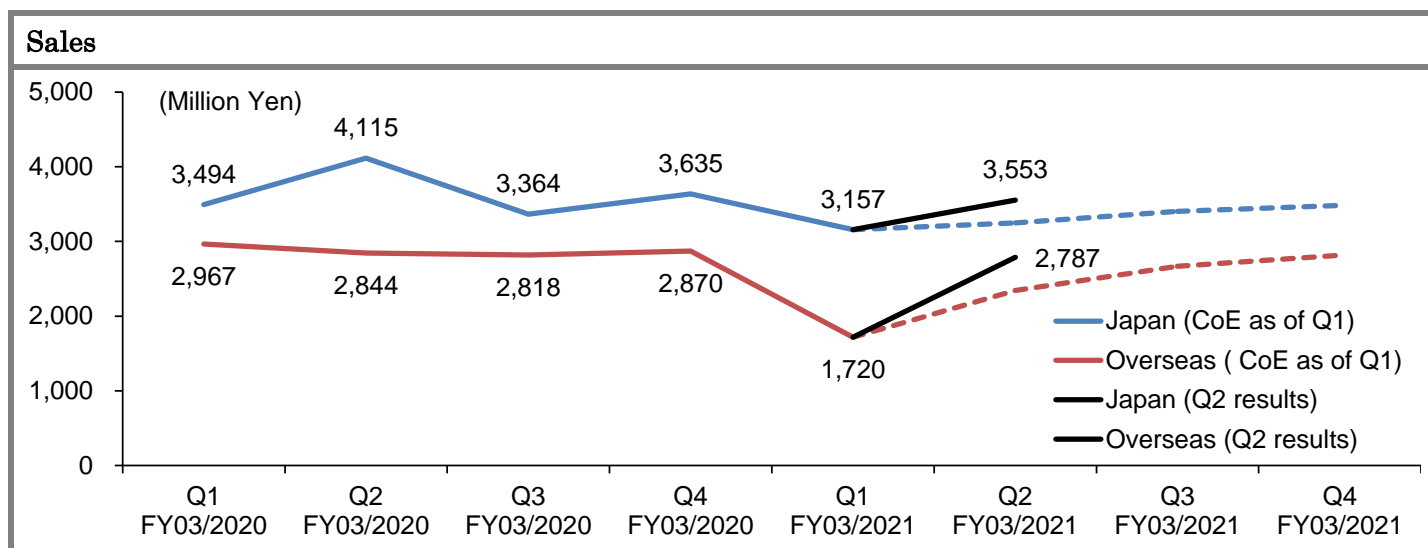
Company Name	SHOFU INC. Website IR Information Share Price (Japanese)
Established	15 May 1922
Listing	25 July 1963: Tokyo Stock Exchange 1st section (ticker: 7979)
Capital	¥5,968m (as of the end of September 2020)
No. of Shares	17,894,089 shares, including 132,541 treasury shares (as of the end of Sep. 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 20.16%, Bank of Kyoto 4.01%, Custody Bank of Japan, T. 3.85% (as of the end of September 2020)
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 and 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

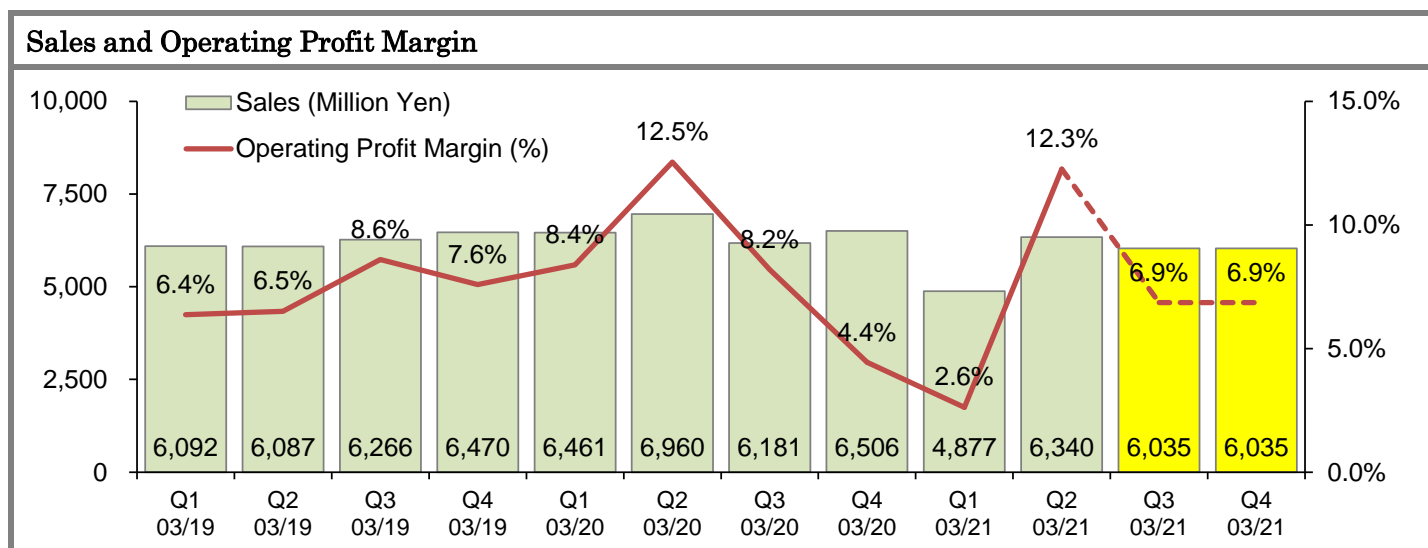
By region, sales in Japan came in at ¥6,710m (down 11.8%) and sales overseas ¥4,507m (down 22.4%). Meanwhile, sales in Japan and overseas have recovered sharply in Q2 over Q1, having resulted in sales for Q1 to Q2 as a whole for the Company better by no less than ¥744m (7.1%), when compared with assumptions of Company forecasts made in line with the announcement of the Q1 results on 4 August 2020.

In Japan, sales were firm for digital oral imaging device EYE Special C-IV to have been launched in FY03/2020 and also for resin material for dental cutting processing SHOFU BLOCK HC SUPER HARD. With respect to so-called CAD/CAM-related materials, comprising the latter, etc., it appears that sales in Q1 to Q2 have increased by almost 30% over the same period of the previous year. The scope of the treatments covered by the health insurance continues to expand, which is expected to further drive sales here going forward. At the same time, in light of trends shown in Q1 to Q2, the Company suggests that it has gained own market shares and that sales in Japan should have increased over the same period of the previous year if it were not for the impacts stemming from COVID-19. Sales overseas in Q1 suffered from the impacts stemming from COVID-19 more than in Japan. Presumably, partly due to a reaction to this, sales overseas saw V-shaped recovery from Q1 to Q2 to an extent rather greater than in Japan.

Meanwhile, due to the impacts stemming from COVID-19, the booking of some expenses has been pushed back to H2. For example, the progress of R&D projects outsourced has been slow. As a result, Company forecasts were exceeded a lot for earnings, i.e., by ¥590m (187.2%) for operating profit, by ¥645m (262.5%) for recurring profit and by ¥517m for profit attributable to owners of parent.

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, while Company forecast 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 to ¥828m (up 4.2%) and operating profit margin to 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 Company forecasts as of the announcement of Q1 results (4 August 2020).

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

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.
	03/2020	03/2020	03/2020	03/2020	03/2021	03/2021	03/2021	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	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.
	03/2020	03/2020	03/2020	03/2020	03/2021	03/2021	03/2021	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	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		
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

7

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	-	-	-	-	-	-
Investing Cash Flow	-	(677)	-	(1,768)	-	-	-	-	-	-
Operating Cash Flow and Investing Cash Flow	-	(328)	-	174	-	-	-	-	-	-
Financing Cash Flow	-	148	-	(224)	-	-	-	-	-	-

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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