

SHOFU (7979)

Consolidated Fiscal Year (Million Yen)	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2021	24,680	2,300	2,523	1,674	96.29	29.00	1,690.45
FY03/2022	28,137	3,217	3,658	2,546	143.22	39.00	1,841.55
FY03/2023CoE	31,158	3,308	3,695	2,719	152.79	39.00	-
FY03/2022	YoY	14.0%	39.8%	45.0%	52.1%	-	-
FY03/2023CoE	YoY	10.7%	2.8%	1.0%	6.8%	-	-
Consolidated Quarter (Million Yen)	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY03/2022	6,970	929	1,006	630	-	-	-
Q2 FY03/2022	6,897	1,071	1,124	876	-	-	-
Q3 FY03/2022	7,147	980	1,144	840	-	-	-
Q4 FY03/2022	7,123	237	384	200	-	-	-
Q1 FY03/2023	8,097	1,229	1,627	1,144	-	-	-
Q1 FY03/2023	YoY	16.2%	32.4%	61.8%	81.5%	-	-

Source: Company Data, WRJ Calculation

1.0 Results Update (5 August 2022)

Strategy of Expanding Sales Overseas


On 4 August 2022, SHOFU, developing, manufacturing and selling dental materials & equipment, released its Q1 FY03/2023 results. It has been revealed that recent trading is running far ahead of assumptions of initial Company forecasts due to the success of its strategy of expanding sales overseas and yen's weakness. According to the Company sales in China have maintained a high growth rate, while sales in India are now emerging and/or ramping up rapidly. FY03/2023 initial Company forecasts have already been revised up, but it appears that the extent of the upward revision roughly equates only to that of the overshoot in Q1. From the perspective of full-year operating profit, we estimate some 80% of the extent of upward revision equates to the overshoot in Q1. With respect to the remaining 20% or so, it appears to have a lot to do with change of full-year assumptions for forex rate towards yen's depreciation. On the other hand, the Company says that it is rather worried about a case that distributors overseas to which it directly supplies own products are building up inventory in preparation for potentially upcoming advent of accelerated inflation as well as some other cases, implying that the latest Company forecasts are again too conservative based on such assumptions.

The Company's business model, etc.: [SHOFU \(7979\) Growth Investment \(6 July 2022\)](#)

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2.0 Company Profile

Comprehensive Manufacturer of Dental Materials & Equipment

Company Name	SHOFU INC. Company Website IR Information Share Price (Japanese)	
Established	15 May 1922	
Listing	4 April 2022: Tokyo Stock Exchange Prime Market (ticker: 7979) 29 March 2012: Tokyo Stock Exchange 1st section 15 February 2007: Tokyo Stock Exchange 2nd section 9 November 1989: Osaka Stock Exchange 2nd section and Kyoto Stock Exchange 25 July 1963: OTC registration of JSDA (Osaka)	
Capital	¥5,968m (as of the end of June 2022)	
No. of Shares	17,894,089 shares, including 89,213 treasury shares (as of the end of June 2022)	
Main Features	<ul style="list-style-type: none"> ● The leader of artificial teeth and abrasives in Japan ● Focus on sales promotions overseas where a great room to cultivate remaining ● Also developing, manufacturing and selling nail salon materials 	
Segments	I . Dental-related Business II . Nail-related Business III. Other Business	
Representative	Representative Director, President & CEO : Tetsuo Takami	
Shareholders	Mitsui Chemicals 20.12%, The Master Trust Bank of Japan, T. 5.27%, Bank of Kyoto 4.00% (as of the end of March 2022, but for treasury shares)	
Head Office	Higashiyama-ku, Kyoto-city, JAPAN	
No. of Personnel	Consolidated: 1,289, Parent: 475 (as of the end of June 2022)	

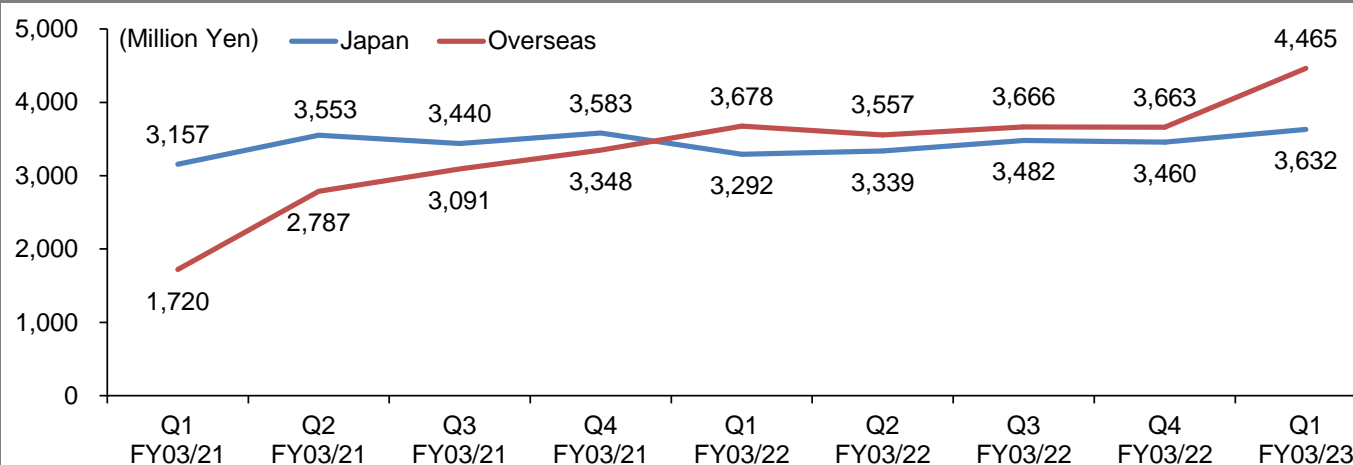
Source: Company Data

3.0 Recent Trading and Prospects

Q1 FY03/2023

For Q1 FY03/2023, sales came in at ¥8,097m (up 16.2% YoY), operating profit ¥1,229m (up 32.4%), recurring profit ¥1,627m (up 61.8%) and profit attributable to owners of parent ¥1,144m (up 81.5%), while operating profit margin 15.2% (up 1.8% points). Sales in Japan came in at ¥3,632m (up 10.3%) and sales overseas came in at ¥4,465m (up 21.4% and/or up 10.0% on a local currency basis). In other words, sales overseas have been accelerating due to the yen's weakness, but even if the impact of this is excluded, it should be the case that the Company steadily develops markets overseas. The Company sets the cruising rate of growth as much as some 10% for sales overseas on a local currency basis, while this has been just achieved for Q1.

Sales (Japan and Overseas)



Forex Rate

(Yen)	Q1 FY03/22	Q1 to Q2 FY03/22	Q1 to Q3 FY03/22	Q1 to Q4 FY03/22	Q1 FY03/23
US Dollar	110.00	110.18	111.38	112.86	129.04
Euro	131.78	130.97	130.85	131.01	138.24
GBP	153.24	152.49	153.10	153.94	162.48
Chinese Yuan	16.31	16.63	16.77	17.03	18.43
US Dollar (YoY)	+2.1%	+3.3%	+5.2%	+6.3%	+17.3%
Euro (YoY)	+10.8%	+7.9%	+7.0%	+5.9%	+4.9%
GBP (YoY)	+15.4%	+12.9%	+12.7%	+11.0%	+6.0%
Chinese Yuan (YoY)	+4.8%	+8.2%	+9.3%	+10.3%	+13.0%

Source: Company Data, WRJ Calculation

By segment, Dental-related Business, which is responsible for developing, manufacturing and selling dental materials & equipment, saw sales of ¥7,523m (up 17.2%), segment profit of ¥1,212m (up 36.6%) and segment profit margin of 16.1% (up 2.3 % points), having accounted for 92.9% of sales for the Company as a whole and 98.7% of segment profit. For the trends in Japan on the Dental-related Business side to almost exclusively account for the performance as a whole for the Company, sales were driven particularly by digital oral imaging equipment EyeSpecial C-IV and CAD/CAM-related products (materials) to comprise ceramics for dental cutting processing SHOFU DISK ZR Lucent and other ones.

On the other hand, for the trends overseas on the Dental-related Business side, the Company suggests that it is gaining market share. The Company has been focusing on improving its sales network and strengthening its supply structure in regions across the board on a global basis, while it currently appears that the Company is entering a stage where it can fully benefit from the results of all those measures. For the actual results of Q1, sales were particularly buoyant in the region of Asia, Oceania, etc. For example, sales in China have maintained a high sales growth rate, while sales in India, where the Company newly set up a sales subsidiary in April 2017, are now emerging and/or ramping up rapidly.

FY03/2023 Company Forecasts

FY03/2023 Company forecasts (announced on 1 August 2022) are going for prospective sales of ¥31,158m (up 10.7% YoY), operating profit of ¥3,308m (up 2.8%), recurring profit of ¥3,695m (up 1.0%) and profit attributable to owners of parent of ¥2,719m (up 6.8%), while operating profit margin of 10.6% (down 0.8% points). At the same time, Company forecasts are going for prospective annual dividend of ¥39.00 per share, implying payout ratio of 25.5%.

Compared with initial Company forecasts (announced on 11 May 2022), the Company has revised up prospective sales by ¥1,844m (6.3%), by ¥575m (21.1%) for operating profit, by ¥844m (29.6%) for recurring profit and by ¥744m (37.7%) for profit attributable to owners of parent. However, even in the context of the current situation, prospective annual dividend has been left unchanged.

Meanwhile, across the board did yen get depreciated for Q1 more than assumed in initial Company forecasts, i.e., ¥115.00 per US Dollar, ¥130.00 per Euro, ¥155.00 per GBP and ¥18.00 per Chinese yuan. Now, the latest Company forecasts adopt the actual forex rate of each in Q1 as assumption for sales and earnings on a full-year basis.

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.
	03/2022	03/2022	03/2022	03/2022	03/2023	03/2023	03/2023	03/2023		
Sales	6,970	13,867	21,014	28,137	8,097	-	-	-	-	+1,127
Cost of Sales	3,089	5,877	8,864	11,970	3,396	-	-	-	-	+307
Gross Profit	3,881	7,990	12,149	16,167	4,700	-	-	-	-	+819
SG&A Expenses	2,952	5,989	9,169	12,950	3,470	-	-	-	-	+518
Operating Profit	929	2,000	2,980	3,217	1,229	-	-	-	-	+300
Non Operating Balance	77	130	294	441	398	-	-	-	-	+321
Recurring Profit	1,006	2,130	3,274	3,658	1,627	-	-	-	-	+621
Extraordinary Balance	(41)	(41)	(40)	(47)	38	-	-	-	-	+79
Profit before Income Taxes	965	2,089	3,234	3,611	1,665	-	-	-	-	+700
Total Income Taxes	330	574	872	1,043	514	-	-	-	-	+184
NP Belonging to Non-Controlling SHs	4	8	14	20	5	-	-	-	-	+1
Profit Attributable to Owners of Parent	630	1,506	2,346	2,546	1,144	-	-	-	-	+514
Sales YoY	+42.9%	+23.6%	+18.4%	+14.0%	+16.2%	-	-	-	-	-
Operating Profit YoY	+620.9%	+120.9%	+75.6%	+39.8%	+32.4%	-	-	-	-	-
Recurring Profit YoY	-	+138.9%	+82.9%	+45.0%	+61.8%	-	-	-	-	-
Profit Attributable to Owners of Parent YoY	-	+164.9%	+104.7%	+52.1%	+81.5%	-	-	-	-	-
Gross Profit Margin	55.7%	57.6%	57.8%	57.5%	58.0%	-	-	-	-	+2.4%
Sales to SG&A Expenses Ratio	42.4%	43.2%	43.6%	46.0%	42.9%	-	-	-	-	+0.5%
Operating Profit Margin	13.3%	14.4%	14.2%	11.4%	15.2%	-	-	-	-	+1.8%
Recurring Profit Margin	14.4%	15.4%	15.6%	13.0%	20.1%	-	-	-	-	+5.7%
Profit Attributable to Owners of Parent Margin	9.0%	10.9%	11.2%	9.0%	14.1%	-	-	-	-	+5.1%
Total Income Taxes / Profit before Income Taxes	34.2%	27.5%	27.0%	28.9%	30.9%	-	-	-	-	(3.3%)
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.
	03/2022	03/2022	03/2022	03/2022	03/2023	03/2023	03/2023	03/2023		
Sales	6,970	6,897	7,147	7,123	8,097	-	-	-	-	+1,127
Cost of Sales	3,089	2,788	2,987	3,106	3,396	-	-	-	-	+307
Gross Profit	3,881	4,109	4,159	4,018	4,700	-	-	-	-	+819
SG&A Expenses	2,952	3,037	3,180	3,781	3,470	-	-	-	-	+518
Operating Profit	929	1,071	980	237	1,229	-	-	-	-	+300
Non Operating Balance	77	53	164	147	398	-	-	-	-	+321
Recurring Profit	1,006	1,124	1,144	384	1,627	-	-	-	-	+621
Extraordinary Balance	(41)	-	1	(7)	38	-	-	-	-	+79
Profit before Income Taxes	965	1,124	1,145	377	1,665	-	-	-	-	+700
Total Income Taxes	330	244	298	171	514	-	-	-	-	+184
NP Belonging to Non-Controlling SHs	4	4	6	6	5	-	-	-	-	+1
Profit Attributable to Owners of Parent	630	876	840	200	1,144	-	-	-	-	+514
Sales YoY	+42.9%	+8.8%	+9.4%	+2.8%	+16.2%	-	-	-	-	-
Operating Profit YoY	+620.9%	+37.8%	+23.7%	(60.7%)	+32.4%	-	-	-	-	-
Recurring Profit YoY	-	+38.6%	+27.3%	(47.6%)	+61.8%	-	-	-	-	-
Profit Attributable to Owners of Parent YoY	-	+39.9%	+45.3%	(62.1%)	+81.5%	-	-	-	-	-
Gross Profit Margin	55.7%	59.6%	58.2%	56.4%	58.0%	-	-	-	-	+2.4%
Sales to SG&A Expenses Ratio	42.4%	44.0%	44.5%	53.1%	42.9%	-	-	-	-	+0.5%
Operating Profit Margin	13.3%	15.5%	13.7%	3.3%	15.2%	-	-	-	-	+1.8%
Recurring Profit Margin	14.4%	16.3%	16.0%	5.4%	20.1%	-	-	-	-	+5.7%
Profit Attributable to Owners of Parent Margin	9.0%	12.7%	11.8%	2.8%	14.1%	-	-	-	-	+5.1%
Total Income Taxes / Profit before Income Taxes	34.2%	21.7%	26.0%	45.4%	30.9%	-	-	-	-	(3.3%)

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 03/2022	Q1 to Q2 03/2022	Q1 to Q3 03/2022	Q1 to Q4 03/2022	Q1 03/2023	Q1 to Q2 03/2023	Q1 to Q3 03/2023	Q1 to Q4 03/2023		
Dental-related Business	6,419	12,764	19,357	25,876	7,523	-	-	-	-	+1,104
Nail-related Business	528	1,058	1,588	2,168	552	-	-	-	-	+24
Other Business	23	44	68	92	21	-	-	-	-	(2)
Sales	6,970	13,867	21,014	28,137	8,097	-	-	-	-	+1,127
Dental-related Business	887	1,928	2,867	3,065	1,212	-	-	-	-	+325
Nail-related Business	36	67	103	131	13	-	-	-	-	(23)
Other Business	0	1	5	14	2	-	-	-	-	+1
Segment Profit	924	1,997	2,976	3,211	1,228	-	-	-	-	+303
Inter-segment Transactions	4	2	4	5	1	-	-	-	-	(3)
Operating Profit	929	2,000	2,980	3,217	1,229	-	-	-	-	+299
Dental-related Business	13.8%	15.1%	14.8%	11.8%	16.1%	-	-	-	-	+2.3%
Nail-related Business	6.8%	6.3%	6.5%	6.0%	2.4%	-	-	-	-	(4.5%)
Other Business	1.3%	2.3%	7.4%	15.2%	9.5%	-	-	-	-	+8.2%
Operating Profit Margin	13.3%	14.4%	14.2%	11.4%	15.2%	-	-	-	-	+1.8%

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 03/2022	Q2 03/2022	Q3 03/2022	Q4 03/2022	Q1 03/2023	Q2 03/2023	Q3 03/2023	Q4 03/2023		
Dental-related Business	6,419	6,345	6,593	6,519	7,523	-	-	-	-	+1,104
Nail-related Business	528	530	530	580	552	-	-	-	-	+24
Other Business	23	21	24	24	21	-	-	-	-	(2)
Sales	6,970	6,897	7,147	7,123	8,097	-	-	-	-	+1,127
Dental-related Business	887	1,041	939	198	1,212	-	-	-	-	+325
Nail-related Business	36	31	36	28	13	-	-	-	-	(23)
Other Business	0	0	4	9	2	-	-	-	-	+1
Segment Profit	924	1,072	979	235	1,228	-	-	-	-	+303
Inter-segment Transactions	4	(2)	2	1	1	-	-	-	-	(3)
Operating Profit	929	1,070	980	237	1,229	-	-	-	-	+299
Dental-related Business	13.8%	16.4%	14.2%	3.0%	16.1%	-	-	-	-	+2.3%
Nail-related Business	6.8%	5.8%	6.8%	4.8%	2.4%	-	-	-	-	(4.5%)
Other Business	1.3%	3.3%	16.7%	37.5%	9.5%	-	-	-	-	+8.2%
Operating Profit Margin	13.3%	15.5%	13.7%	3.3%	15.2%	-	-	-	-	+1.8%

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 03/2022	Q2 03/2022	Q3 03/2022	Q4 03/2022	Q1 03/2023	Q2 03/2023	Q3 03/2023	Q4 03/2023		
Cash and Deposit	7,191	7,349	7,732	9,064	9,367	-	-	-	-	+2,176
Accounts Receivables	3,273	3,212	3,266	3,293	3,608	-	-	-	-	+335
Inventory	7,255	7,469	7,563	7,554	7,837	-	-	-	-	+582
Other	500	666	649	551	530	-	-	-	-	+30
Current Assets	18,219	18,696	19,210	20,462	21,342	-	-	-	-	+3,123
Tangible Assets	8,189	8,170	8,202	8,429	8,971	-	-	-	-	+782
Intangible Assets	351	364	374	427	449	-	-	-	-	+98
Investments and Other Assets	11,450	11,561	11,283	11,390	11,301	-	-	-	-	(149)
Fixed Assets	19,991	20,096	19,859	20,247	20,722	-	-	-	-	+731
Total Assets	38,210	38,792	39,070	40,709	42,065	-	-	-	-	+3,855
Accounts Payables	783	686	688	928	882	-	-	-	-	+99
Short Term Debt	950	844	847	325	325	-	-	-	-	(625)
Other	2,899	2,832	2,752	3,184	3,331	-	-	-	-	+432
Current Liabilities	4,632	4,362	4,287	4,437	4,538	-	-	-	-	(94)
Long Term Debt	850	768	687	1,153	1,095	-	-	-	-	+245
Other	2,136	2,112	2,004	2,179	2,226	-	-	-	-	+90
Fixed Liabilities	2,986	2,880	2,691	3,332	3,321	-	-	-	-	+335
Total Liabilities	7,619	7,242	6,979	7,769	7,860	-	-	-	-	+241
Shareholders' Equity	26,295	27,227	27,835	27,978	28,677	-	-	-	-	+2,382
Other	4,296	4,322	4,255	4,962	5,527	-	-	-	-	+1,231
Net Assets	30,591	31,549	32,090	32,940	34,204	-	-	-	-	+3,613
Total Liabilities & Net Assets	38,210	38,792	39,070	40,709	42,065	-	-	-	-	+3,855
Equity Capital	30,412	31,385	31,918	32,759	34,047	-	-	-	-	+3,635
Interest Bearing Debt	1,800	1,612	1,534	1,478	1,420	-	-	-	-	(380)
Net Debt	(5,391)	(5,737)	(6,198)	(7,586)	(7,947)	-	-	-	-	(2,556)
Equity Ratio	79.6%	80.9%	81.7%	80.5%	80.9%	-	-	-	-	-
Net Debt Equity Ratio	(17.7%)	(18.3%)	(19.4%)	(23.2%)	(23.3%)	-	-	-	-	-
ROE (12 months)	8.3%	8.8%	9.6%	8.1%	9.5%	-	-	-	-	-
ROA (12 months)	9.6%	10.3%	10.8%	9.3%	10.7%	-	-	-	-	-
Days for Inventory Turnover	214	244	231	221	210	-	-	-	-	-
Quick Ratio	226%	242%	257%	278%	286%	-	-	-	-	-
Current Ratio	393%	429%	448%	461%	470%	-	-	-	-	-

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 03/2022	Q1 to Q2 03/2022	Q1 to Q3 03/2022	Q1 to Q4 03/2022	Q1 03/2023	Q1 to Q2 03/2023	Q1 to Q3 03/2023	Q1 to Q4 03/2023		
Operating Cash Flow	-	1,544	-	3,736	-	-	-	-	-	-
Investing Cash Flow	-	(648)	-	(1,288)	-	-	-	-	-	-
Operating Cash Flow and Investing Cash Flow	-	896	-	2,448	-	-	-	-	-	-
Financing Cash Flow	-	(678)	-	(1,074)	-	-	-	-	-	-

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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