

SHOFU (7979)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2020		26,108	2,210	1,988	704	44.24	26.00	1,491.81
FY03/2021		24,680	2,300	2,523	1,674	96.29	29.00	1,690.45
FY03/2022CoE		26,105	1,799	1,837	1,234	69.48	32.00	-
FY03/2021	YoY	(5.5%)	4.1%	26.9%	137.5%	-	-	-
FY03/2022CoE	YoY	5.8%	(21.8%)	(27.2%)	(26.3%)	-	-	-
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 FY03/2021		11,217	905	891	568	-	-	-
Q3 to Q4 FY03/2021		13,463	1,395	1,632	1,106	-	-	-
Q1 to Q2 FY03/2022CoE		12,807	695	698	370	-	-	-
Q3 to Q4 FY03/2022CoE		13,298	1,104	1,139	864	-	-	-
Q1 to Q2 FY03/2022CoE	YoY	14.2%	(23.2%)	(21.7%)	(34.9%)	-	-	-
Q3 to Q4 FY03/2022CoE	YoY	(1.2%)	(20.9%)	(30.2%)	(21.9%)	-	-	-

Source: Company Data, WRJ Calculation (Accounting Standard for Revenue Recognition to be adopted from FY03/2022, but simply compared with FY03/2021 actual results for "YoY" changes)

1.0 Executive Summary (5 July 2021)


Contributing to Dentistry around the World

SHOFU, developing, manufacturing and selling dental materials & equipment in Japan and overseas, plans to achieve long-term growth based on its long-term basic policy "As It Should" to cultivate markets overseas. For FY03/2021, sales and expenses declined in response to the impacts stemming from COVID-19, having renewed record high earnings as expenses declined more than sales. Meanwhile, for FY03/2022, sales overseas are to increase favorably, but earnings are to see a short-term correction in line with active spending to drive long-term growth potential. At the operating level, the Company also suffers from a decline due to the adoption of a new accounting standard. More importantly, the fourth midterm management plan (FY03/2022 to FY03/2024) is calling for steady increase in sales and earnings to persist for FY03/2023 and FY03/2024 in its performance target, conservatively setting a strategic investment line (buffer in expenses). Meanwhile, the Company advocates to realize its corporate philosophy "contribution to dentistry through innovative business activities", by means of achieving 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 foreseeable future.

IR Representative: Miyuki Motoda, Corporate Planning Department (ir@shofu.co.jp)

2.0 Company Profile

Comprehensive Manufacturer of Dental Materials & Equipment

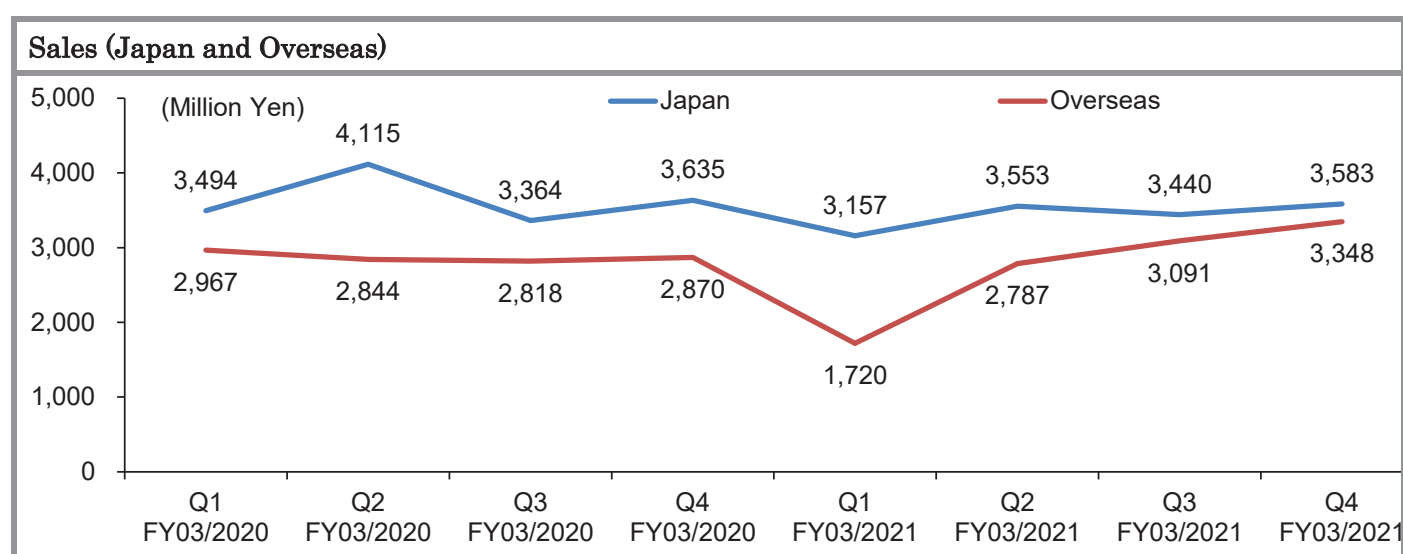
Company Name	SHOFU INC. Company Website IR Information Share Price (Japanese)	 PROVEN PRODUCTS FOR BETTER DENTISTRY SHOFU INC.
Established	15 May 1922	
Listing	25 July 1963: Tokyo Stock Exchange 1st section (ticker: 7979)	
Capital	¥5,968m (as of the end of March 2021)	
No. of Shares	17,894,089 shares, including 132,642 treasury shares (as of the end of March 2021)	
Main Features	<ul style="list-style-type: none"> ● The leader of artificial teeth and abrasives in Japan ● Focus on sales promotion overseas where huge 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: Noriyuki Negoro	
Shareholders	Mitsui Chemicals 20.15%, Custody Bank of Japan, T. 5.43%, Bank of Kyoto 4.01% (as of the end of March 2021, but for treasury shares)	
Head Office	Higashiyama-ku Kyoto-city, JAPAN	
No. of Personnel	Consolidated: 1,206, Parent: 468 (as of the end of March 2021)	

Source: Company Data

3.0 Recent Trading & Prospects

FY03/2021

For FY03/2021, sales came in at ¥24,680m (down 5.5% YoY), operating profit ¥2,300m (up 4.1%), recurring profit ¥2,523m (up 26.9%) and profit attributable to owners of parent ¥1,674m (up 137.5%), while operating profit margin 9.3% (up 0.9% points). At the same time, gross profit came in at ¥13,596m (down 7.4%) and SG&A expenses ¥11,296m (down 9.4%), implying gross profit margin of 55.1% (down 1.2% points) and sales to SG&A expenses ratio of 45.8% (down 2.0% points). In other words, gross profit margin declined gradually due to the difficulty of recovering fixed costs following the decline in sales, while the impacts of the decline in SG&A expenses became larger at the operating level. In particular, advertising expenses and traveling expenses (travelling for business overseas, etc.) declined significantly due to a decline in the level of business activities in Japan and overseas following the impacts stemming from COVID-19.

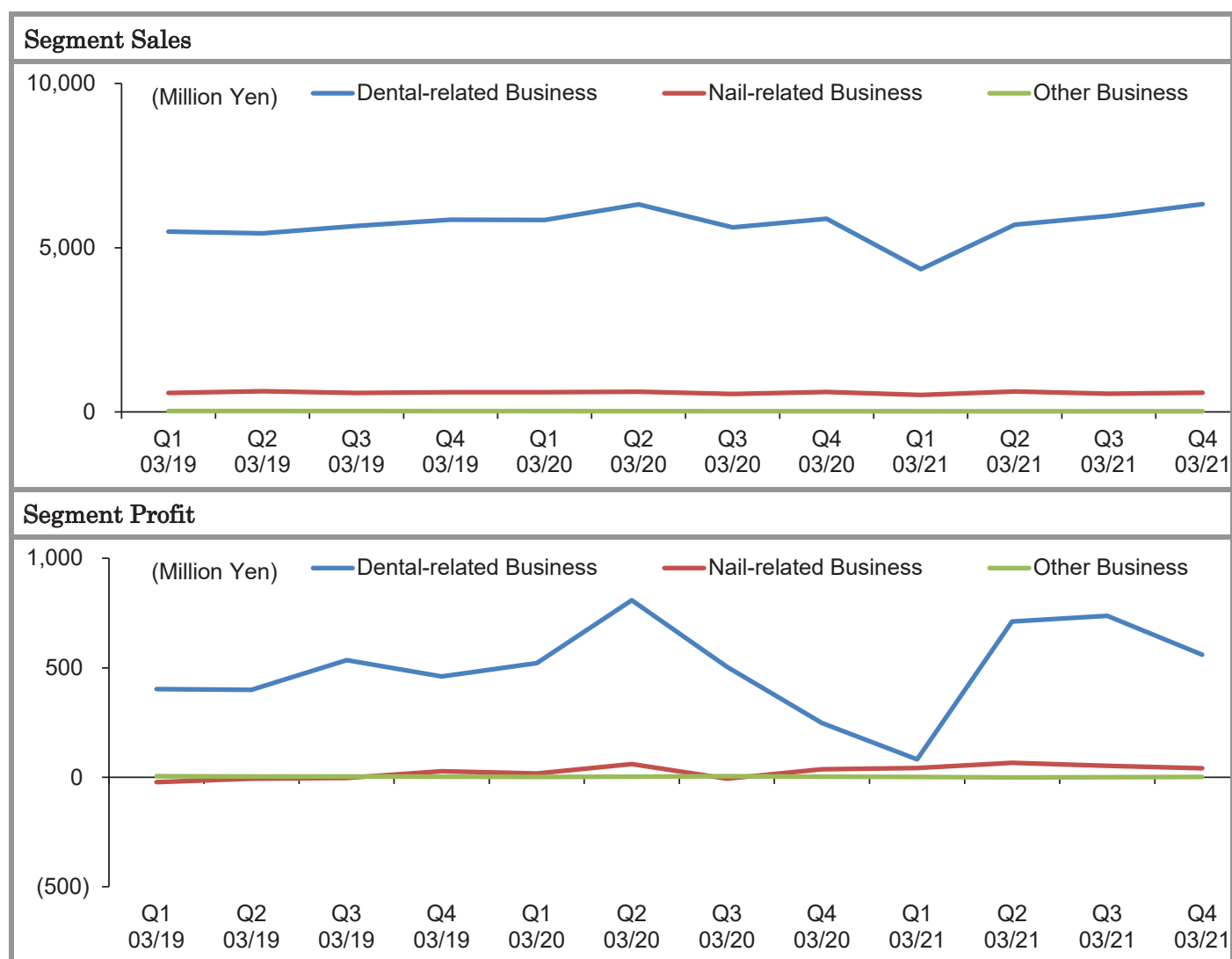


Source: Company Data, WRJ Calculation

By region, sales in Japan came in at ¥13,733m (down 6.0%) and sales overseas ¥10,946m (down 4.8% and/or down 4.3% on a local currencies basis). In Japan, the impacts stemming from COVID-19 resulted in fewer opportunities for dental care and limited sales activities, having forced the Company to see decreased sales for all the product categories but for restorative materials where sales edged up. On top of this, the Company spots another issue has generated a considerable impact (some ¥900m) to decreased sales in Japan that it has had pulled out of stocking and selling of ultrasonic scalers imported from a supplier overseas. Meanwhile, the Company saw favorable sales for digital oral imaging device EYE Special C-IV launched in FY03/2020, while persisting strengths on CAD/CAM-related materials and equipment well corresponding to needs of market. As for CAD/CAM-related materials, it appears that sales have increased by more than 20% over the previous year. Thus, the Company saw favorable performance as far as the domains focused, but it was too hard to insulate itself across the board from the impacts stemming from COVID-19.

Meanwhile, sales overseas plummeted in Q1, given that the impacts stemming from COVID-19 increased rapidly. More importantly, however, this has been continuously followed by steady recovery in sales toward the end of the fiscal year. On a full-year basis, sales in North & Latin Americas came in at ¥2,500m (down 13.6% and/or down 11.1% on a local currencies basis), sales in Europe ¥4,237m (up 2.7% and/or up 0.7%) and sales in ex-Japan Asia, Oceania, etc. ¥4,208m (down 6.0% and/or down 4.5%). For breakdown of ex-Japan Asia, Oceania etc., sales in China came in at ¥2,403m (down 1.0% and/or up 1.6%) and sales in other than China ¥1,804m (down 12.0% and/or down 11.6%).

For North & Latin Americas, the decline in sales was particularly large due to the impacts of lockdowns and the ban on going out. Meanwhile, for Europe, sales increased rapidly for stocking and selling of disposable masks, gloves and other products due to the spread of COVID-19. With respect to China, accounting for more than half of sales in ex-Japan Asia, Oceania, etc., sales on a local currency basis have increased over the previous year, while it appears that sales are currently increasing fast over the same period of the previous year.



Source: Company Data, WRJ Calculation

By segment, Dental-related Business, where the Company develops, manufactures and sells dental materials & equipment, saw sales of ¥22,334m (down 5.6%), operating profit of ¥2,091m (up 0.4%) and operating profit margin of 9.4% (up 0.6% points), having accounted for 90.5% of sales as a whole for the Company and 91.2% of segment profit (prior to elimination of intersegment transactions), implying that business performance as a whole for the Company hinges on those of this segment.

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	17,748	24,680		(1,428)
Cost of Sales	2,813	5,830	8,427	11,423	2,187	5,023	7,941	11,083		(340)
Gross Profit	3,647	7,590	11,174	14,685	2,690	6,193	9,806	13,596		(1,089)
SG&A Expenses	3,105	6,174	9,253	12,474	2,561	5,287	8,109	11,296		(1,178)
Operating Profit	542	1,415	1,921	2,210	128	905	1,697	2,300		+90
Non Operating Balance	(42)	(173)	(107)	(222)	(48)	(14)	93	223		+445
Recurring Profit	500	1,242	1,814	1,988	80	891	1,790	2,523		+535
Extraordinary Balance	-	-	-	(804)	-	-	(101)	(153)		+651
Profit before Income Taxes	500	1,242	1,814	1,184	80	891	1,689	2,370		+1,186
Total Income Taxes	253	445	615	460	136	309	524	672		+212
NP Belonging to Non-Controlling SHs	-	8	10	18	2	12	18	24		+6
Profit Attributable to Owners of Parent	247	788	1,188	704	(58)	568	1,146	1,674		+970
Sales YoY	+6.1%	+10.2%	+6.3%	+4.8%	(24.5%)	(16.4%)	(9.5%)	(5.5%)		-
Operating Profit YoY	+39.6%	+80.4%	+45.2%	+21.9%	(76.2%)	(36.0%)	(11.7%)	+4.1%		-
Recurring Profit YoY	+20.6%	+58.8%	+42.8%	+16.4%	(83.9%)	(28.2%)	(1.4%)	+26.9%		-
Profit Attributable to Owners of Parent YoY	(5.8%)	+44.3%	+33.1%	(41.3%)	-	(27.8%)	(3.6%)	+137.8%		-
Gross Profit Margin	56.4%	56.6%	57.0%	56.2%	55.2%	55.2%	55.3%	55.1%		(1.2%)
Sales to SG&A Expenses Ratio	48.1%	46.0%	47.2%	47.8%	52.5%	47.1%	45.7%	45.8%		(2.0%)
Operating Profit Margin	8.4%	10.5%	9.8%	8.5%	2.6%	8.1%	9.6%	9.3%		+0.9%
Recurring Profit Margin	7.7%	9.3%	9.3%	7.6%	1.6%	7.9%	10.1%	10.2%		+2.6%
Profit Attributable to Owners of Parent Margin	3.8%	5.9%	6.1%	2.7%	(1.2%)	5.1%	6.5%	6.8%		+4.1%
Total Income Taxes/Profit before Income Taxes	50.6%	35.8%	33.9%	38.9%	170.0%	34.7%	31.0%	28.4%		(10.5%)
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	6,531	6,932		+426
Cost of Sales	2,813	3,017	2,597	2,996	2,187	2,836	2,918	3,142		+146
Gross Profit	3,647	3,943	3,584	3,511	2,690	3,503	3,613	3,790		+279
SG&A Expenses	3,105	3,069	3,079	3,221	2,561	2,726	2,822	3,187		(34)
Operating Profit	542	873	506	289	128	777	792	603		+314
Non Operating Balance	(42)	(131)	66	(115)	(48)	34	107	130		+245
Recurring Profit	500	742	572	174	80	811	899	733		+559
Extraordinary Balance	-	-	-	(804)	-	-	(101)	(52)		+752
Profit before Income Taxes	500	742	572	(630)	80	811	798	681		+1,311
Total Income Taxes	253	192	170	(155)	136	173	215	148		+303
NP Belonging to Non-Controlling SHs	-	8	2	8	2	10	6	6		(2)
Profit Attributable to Owners of Parent	247	541	400	(484)	(58)	626	578	528		+1,012
Sales YoY	+6.1%	+14.3%	(1.4%)	+0.6%	(24.5%)	(8.9%)	+5.7%	+6.5%		-
Operating Profit YoY	+39.6%	+120.5%	(6.1%)	(41.1%)	(76.2%)	(11.0%)	+56.5%	+108.7%		-
Recurring Profit YoY	+20.6%	+102.2%	+17.2%	(60.4%)	(83.9%)	+9.3%	+57.2%	+321.3%		-
Profit Attributable to Owners of Parent YoY	(5.8%)	+90.5%	+15.6%	-	-	+15.7%	+44.5%	-		-
Gross Profit Margin	56.4%	56.7%	58.0%	54.0%	55.2%	55.3%	55.3%	54.7%		+0.7%
Sales to SG&A Expenses Ratio	48.1%	44.1%	49.8%	49.5%	52.5%	43.0%	43.2%	46.0%		(3.5%)
Operating Profit Margin	8.4%	12.5%	8.2%	4.4%	2.6%	12.3%	12.1%	8.7%		+4.3%
Recurring Profit Margin	7.7%	10.7%	9.3%	2.7%	1.6%	12.8%	13.8%	10.6%		+7.9%
Profit Attributable to Owners of Parent Margin	3.8%	7.8%	6.5%	(7.4%)	(1.2%)	9.9%	8.9%	7.6%		+15.1%
Total Income Taxes/Profit before Income Taxes	50.6%	25.9%	29.7%	24.6%	170.0%	21.3%	26.9%	21.7%		(2.9%)

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	16,005	22,334	(1,331)	
Nail-related Business	595	1,209	1,752	2,355	517	1,136	1,686	2,268	(87)	
Other Business	20	42	66	87	19	38	56	76	(11)	
Sales	6,461	13,421	19,602	26,108	4,877	11,217	17,748	24,680	(1,428)	
Dental-related Business	521	1,330	1,835	2,083	82	793	1,531	2,091	+8	
Nail-related Business	17	77	70	107	42	108	160	201	+94	
Other Business	2	5	10	13	2	1	0	2	(11)	
Segment Profit	541	1,412	1,916	2,204	127	902	1,692	2,294	+90	
Intersegment Transactions	1	3	4	6	1	2	4	5	0	
Operating Profit	542	1,415	1,921	2,210	128	905	1,697	2,300	+90	
Dental-related Business	8.9%	10.9%	10.3%	8.8%	1.9%	7.9%	9.6%	9.4%	+0.6%	
Nail-related Business	2.9%	6.4%	4.0%	4.5%	8.1%	9.5%	9.5%	8.9%	+4.3%	
Other Business	10.0%	11.9%	15.2%	14.9%	10.5%	2.6%	1.6%	2.6%	(12.3%)	
Operating Profit Margin	8.4%	10.5%	9.8%	8.5%	2.6%	8.1%	9.6%	9.3%	+0.9%	

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	5,963	6,329	+447	
Nail-related Business	595	614	543	603	517	619	550	582	(21)	
Other Business	20	22	24	21	19	19	18	20	(1)	
Sales	6,461	6,960	6,181	6,506	4,877	6,340	6,531	6,932	+426	
Dental-related Business	521	809	505	248	82	711	738	560	+312	
Nail-related Business	17	60	(7)	37	42	66	52	41	+4	
Other Business	2	3	5	3	2	(1)	(0)	1	(1)	
Segment Profit	541	871	504	288	127	775	790	602	+314	
Intersegment Transactions	1	2	1	2	1	1	2	1	(1)	
Operating Profit	542	873	506	289	128	777	792	603	+314	
Dental-related Business	8.9%	12.8%	9.0%	4.2%	1.9%	12.5%	12.4%	8.8%	+4.6%	
Nail-related Business	2.9%	9.8%	(1.3%)	6.1%	8.1%	10.7%	9.5%	7.0%	+0.9%	
Other Business	10.0%	13.6%	20.8%	14.3%	10.5%	(5.3%)	(0.6%)	5.5%	(8.8%)	
Operating Profit Margin	8.4%	12.5%	8.2%	4.4%	2.6%	12.3%	12.1%	8.7%	+4.3%	

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	6,068	6,943	+2,081	
Accounts Receivables	3,304	3,731	3,050	3,187	2,716	3,071	2,840	3,205	+18	
Inventory	6,565	6,602	7,183	6,730	7,394	7,195	7,190	7,077	+347	
Other	442	517	590	637	705	521	600	604	(33)	
Current Assets	15,450	15,545	15,339	15,416	15,972	16,222	16,698	17,829	+2,413	
Tangible Assets	7,175	7,190	7,642	7,689	7,726	7,753	7,914	8,008	+319	
Intangible Assets	1,185	1,124	1,128	310	301	372	376	340	+30	
Investments and Other Assets	6,547	6,970	7,884	6,417	9,607	10,204	10,154	11,635	+5,218	
Fixed Assets	14,908	15,285	16,655	14,417	17,635	18,330	18,444	19,983	+5,566	
Total Assets	30,359	30,831	31,995	29,834	33,607	34,553	35,143	37,813	+7,979	
Accounts Payables	770	780	808	831	584	580	799	898	+67	
Short Term Debt	1,144	1,143	1,388	558	457	413	415	682	+124	
Other	2,464	2,193	1,950	2,291	2,523	2,354	2,279	2,632	+341	
Current Liabilities	4,378	4,116	4,146	3,680	3,564	3,347	3,493	4,212	+532	
Long Term Debt	244	236	245	678	1,659	1,590	1,520	1,190	+512	
Other	1,677	1,791	2,059	1,538	1,629	1,798	1,876	2,212	+674	
Fixed Liabilities	1,921	2,027	2,304	2,216	3,288	3,388	3,396	3,402	+1,186	
Total Liabilities	6,300	6,144	6,451	5,897	6,853	6,735	6,889	7,614	+1,717	
Shareholders' Equity	21,369	21,958	22,208	21,715	24,390	25,073	25,509	26,037	+4,322	
Other	2,689	2,729	3,335	2,221	2,364	2,744	2,745	4,161	+1,940	
Net Assets	24,058	24,687	25,543	23,936	26,754	27,817	28,254	30,198	+6,262	
Total Liabilities & Net Assets	30,359	30,831	31,995	29,834	33,607	34,553	35,143	37,813	+7,979	
Equity Capital	23,928	24,548	25,402	23,786	26,600	27,658	28,089	30,024	+6,238	
Interest Bearing Debt	1,388	1,379	1,633	1,236	2,116	2,003	1,935	1,872	+636	
Net Debt	(3,751)	(3,316)	(2,883)	(3,626)	(3,041)	(3,432)	(4,133)	(5,071)	(1,445)	
Equity Ratio	78.8%	79.6%	79.4%	79.7%	79.2%	80.0%	79.9%	79.4%	-	
Net Debt Equity Ratio	(15.7%)	(13.5%)	(11.3%)	(15.2%)	(11.4%)	(12.4%)	(14.7%)	(16.9%)	-	
ROE (12 months)	5.0%	5.9%	6.1%	2.9%	1.6%	1.9%	2.5%	6.2%	-	
ROA (12 months)	5.9%	7.0%	7.3%	6.6%	4.9%	5.0%	5.9%	7.5%	-	
Days for Inventory Turnover	212	199	252	204	308	231	224	205	-	
Quick Ratio	193%	205%	182%	219%	221%	254%	255%	241%	-	
Current Ratio	353%	378%	370%	419%	448%	485%	478%	423%	-	

Source: Company Data, WRJ Calculation

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Cash Flow Statement (Cumulative)

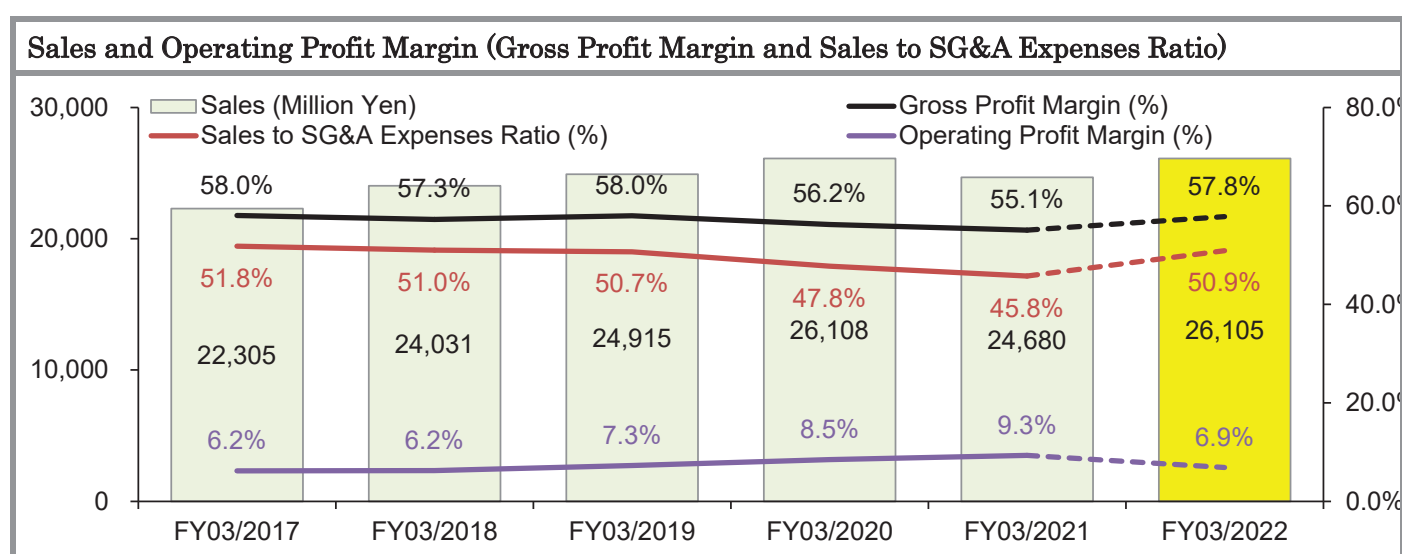
Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2020	Q1 to Q2 03/2020	Q1 to Q3 03/2020	Q1 to Q4 03/2020	Q1 03/2021	Q1 to Q2 03/2021	Q1 to Q3 03/2021	Q1 to Q4 03/2021		
Operating Cash Flow	-	349	-	1,942	-	800	-	2,829	+887	
Investing Cash Flow	-	(677)	-	(1,768)	-	(3,540)	-	(4,081)	(2,313)	
Operating Cash Flow and Investing Cash Flow	-	(328)	-	174	-	(2,740)	-	(1,252)	(1,426)	
Financing Cash Flow	-	148	-	(224)	-	3,359	-	3,023	+3,247	

Source: Company Data, WRJ Calculation

FY03/2022 Company Forecasts

FY03/2022 Company forecasts (announced on 14 May 2021) are going for prospective sales of ¥26,105m (up 5.8% YoY), when simply compared with the actual results of FY03/2021, operating profit of ¥1,799m (down 21.8%), recurring profit of ¥1,837m (down 27.2%) and profit attributable to owners of parent of ¥1,234m (down 26.3%), while operating profit margin of 6.9% (down 2.4% points).

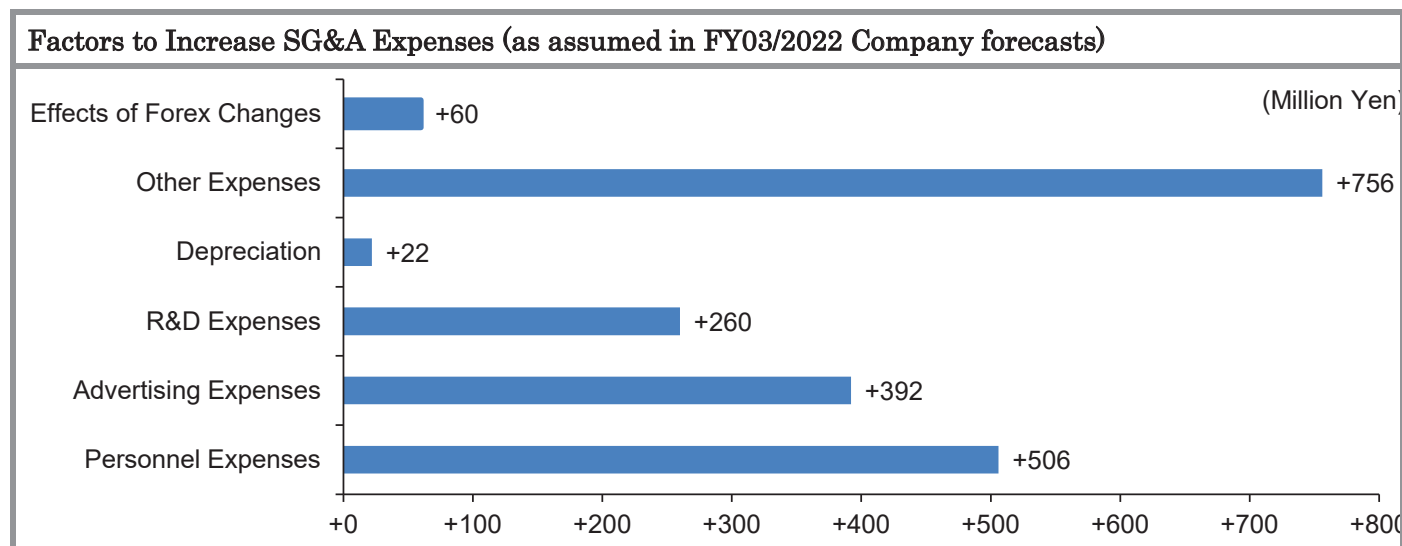
For FY03/2022, Accounting Standard for Revenue Recognition is adopted from the beginning of the fiscal year. If it were not to for this, Company forecasts would have been going for prospective sales of ¥26,278m (up 6.5%), operating profit of ¥1,960m (down 14.8%) and operating profit margin of 7.5% (down 1.9% points). That is to say, the adoption of this accounting standard reduces sales by ¥172m and operating profit by ¥161m, while by 0.6% points for operating profit margin. Meanwhile, recurring profit and profit attributable to owners of parent are immune to this change in accounting.



Source: Company Data, WRJ Calculation

Basically, the idea of Company forecasts is to go for the level of sales in FY03/2020, which is a stage prior to the occurrence of the impacts stemming from COVID-19. Company forecasts assume a gradual recovery in business environment where the impacts stemming from COVID-19 will not be larger than now in Japan and overseas, going for prospective sales of ¥13,627m (down 0.8%) in Japan and sales overseas of ¥12,478m (up 14.0% and/or up 12.0% on a local currencies basis). Yen is expected to be depreciated against Chinese yuan, which is the key reason why sales overseas will increase faster on a Japanese currency basis than on a local currencies basis. At the same time, Company forecasts are going for prospective gross profit of ¥15,092m (up 11.0%) and SG&A expenses of ¥13,292m (up 17.7%), implying gross profit margin of 57.8% (up 2.7% points) and sales to SG&A expenses ratio of 50.9% (up 5.1% points).

Sales overseas, expected to perform well, carry gross profit margin higher than those of Japan due to relatively smaller exposure to stocking and selling and thus relatively larger exposure to products developed in-house, which is the key reason why Company forecasts are going for gross profit margin to improve. At the same time, however, the Company has revealed its plan to actively increase spending to drive future growth potential, which is expected to result in a major increase in SG&A expenses. On top of this, the Company will suffer from a negative factor stemming from above-mentioned adoption of new accounting standard, inevitably leading to a correction in operating profit margin for FY03/2022, albeit temporarily.



Source: Company Data, WRJ Calculation

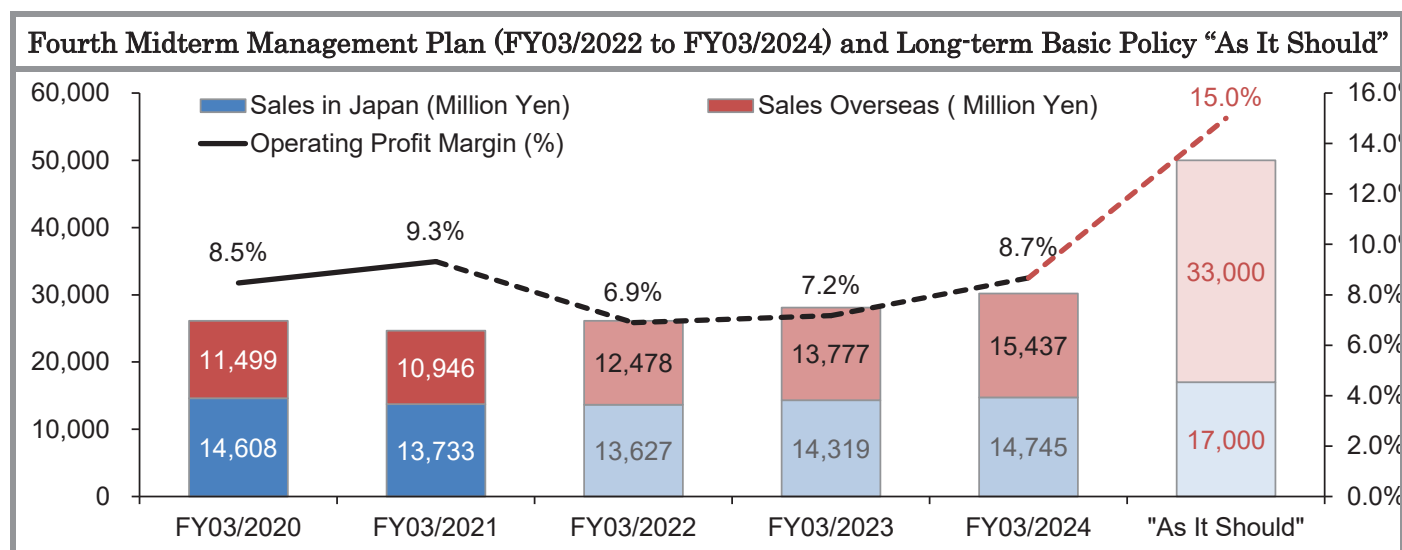
While operating profit is to decline by ¥501m, SG&A expenses are to increase by ¥1,996m. For the increase of SG&A expenses as a whole, Company forecasts assume that increase of Other Expenses by ¥756m is to have the largest impact. In light of a situation that business activity is now resuming, it appears that Company forecast are going for major increase in a couple of subcategories in this category, i.e., travelling expenses (travelling for business overseas, etc.) to have declined by ¥344m over the previous year for FY03/2021 and charges related to pharmaceutical affairs and patents.

For personnel expenses to have the second largest impact, the Company mentions an issue that it is to start up operations for a new production base in Vietnam for October 2021 (established in April 2020), which is expected to become one of the mainstay factories for the future, while additional personnel expenses will be inevitably incurred from here. With respect to advertising expenses to have declined by ¥455m over the previous year for FY03/2021 and thus contributed to improved earnings as a whole for the Company to a large extent, Company forecasts assume a recovery almost to the level of FY03/2020, which is raised as another reason why earnings are to decline for FY03/2022. Meanwhile, R&D expenses, having had remained roughly at the same level over the previous year for FY03/2021, Company forecasts are going for an increase more than a certain extent due mainly to a factor associated with cycle of new product development.

With respect to prospective annual dividend, Company forecasts are going for ¥32.00 per share, comprising ordinary dividend of ¥30.00 and commemorative dividend of ¥2.00 for the 100th anniversary of the Company's foundation, implying payout ratio of 46.1%. Meanwhile, when based on ordinary dividend only and book value per share of ¥1,690.45 as of the end of FY03/2021, Company forecasts suggest payout ratio of 43.2% and dividend on equity (DOE) of 1.8%. Previously, the Company had a policy to see payout ratio of 30% or more, while currently going for a new policy to achieve the target set to see DOE of 1.7% for the sake of returning earnings to shareholders paying respect to capital efficiency, during the period of the fourth midterm management plan.

Long-Term Prospects

With the long-term basic policy “As It Should”, the Company aims to expand its operations overseas by means of significantly shifting the allocation of management resources to overseas, while maintaining and/or expanding its business basis in Japan. For the performance target, the Company is 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 foreseeable future. The Company is to globalize all the divisions, operations (R&D, manufacture, sales promotion, etc.), personnel and ultimately management as a whole. Meanwhile, on 14 May 2021, the Company has announced the fourth midterm management plan (FY03/2022 to FY03/2024), which is based on an idea of long-term basic policy “As It Should” and appears to be equivalent to the process of achieving the above-mentioned performance target for the foreseeable future.

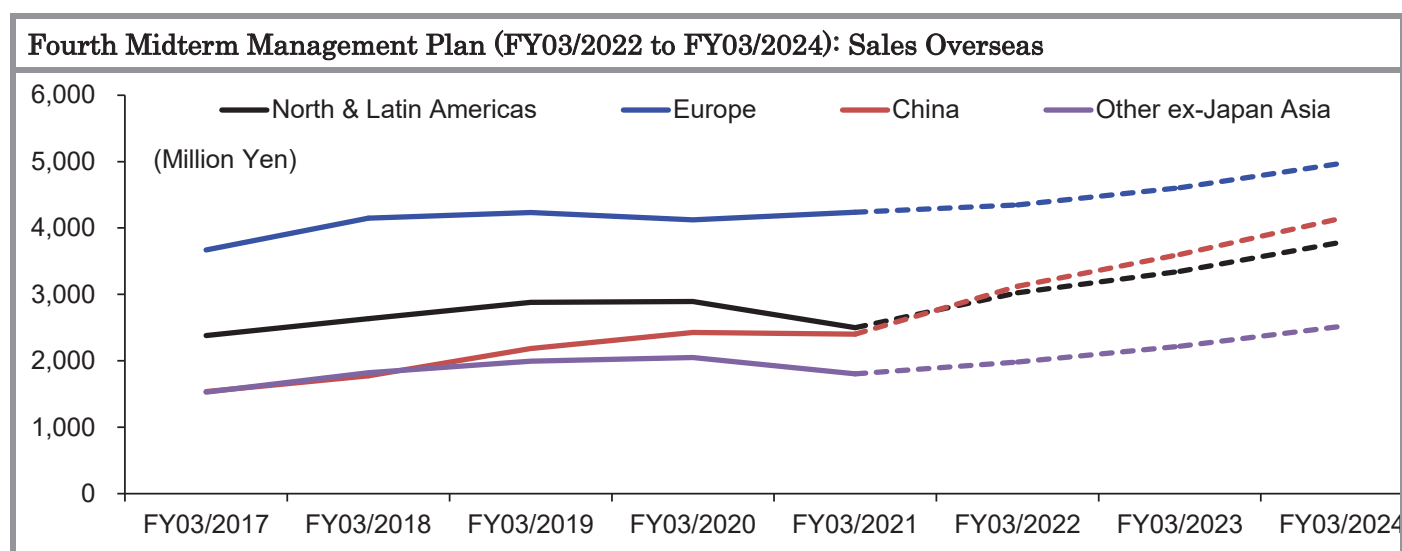


Source: Company Data, WRJ Calculation

According to the Company, the market for dental care 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 care. 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 care 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 improving living standards in emerging countries and other regions overseas, the market overseas for dental care is said to have the potential to show dramatic expansion for the future.

The Company, running its operations with the corporate philosophy of “contribution to dentistry through innovative business activities” has revealed its above-mentioned awareness, while mentioning that the degree of contribution and presence of the Company on a global basis in the history leading up to the present situation has 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, when the target of performance in the long-term basic policy “As It Should” is achieved.



Source: Company Data, WRJ Calculation

The fourth midterm management plan (FY03/2022 to FY03/2024) is calling for prospective sales of ¥30,182m, operating profit of ¥2,618m, operating profit margin of 8.7% for FY03/2024, the final year of the plan, as performance target, while ROE of 5.8% at the same time. During the period, sales are to see CAGR of 6.9% and 4.4% for earnings, while 2.4% for sales in Japan and 12.1% for sales overseas.

By means of running operations based on the long-term basic policy “As It Should”, it is anticipated that sales overseas will increase favorably. Sales in China are expected to drive sales overseas most significantly, which is followed by sales in North & Latin Americas (mainly the United States), accounting for some 40% and some 30%, respectively, out of overall net increase in sales overseas during the period as far as we could see. From a long-term perspective, the Company aims at sales promotion across the region on a global basis, while it appears that the Company has a tendency to focus on sales promotion in superpowers represented by China and the United States from a midterm or short-term perspective, where the Company sees high efficiency in promoting sales.

For earnings, it may be considered that prospective recovery in operating profit margin is rather limited. Due to the backgrounds mentioned earlier, the Company is to see a one-off correction in operating profit margin by 2.4% points from 9.3% to 6.9% for FY03/2022 over FY03/2021, while the plan is calling for operating profit margin of 7.2% for FY03/2023 and 8.7% for FY03/2024. Meanwhile, when comparing to operating profit margin of 9.3% for the actual results of FY03/2021, it should be noted that adoption of new accounting standard is lowering the level by some 0.6% points. On top of this, the plan assumes a strategic investment line for FY03/2023 and FY03/2024, equating to some 1% of sales for each, cutting back on prospective operating profit margin to a corresponding extent, which is another issue to be considered. A strategic investment line is nothing but buffer in expenses based on a conservative standpoint.

For the sake of achieving the target performance of the fourth midterm management plan (FY03/2022 to FY03/2024), the Company will make progress in its key initiatives as follows: On the R&D side, the Company will focus on developing new products that meet the demand and needs of each region overseas. In particular, it is said that the Company will strengthen its development aimed at middle layers and high-volume segments in each region, which is expected to drive sales overseas from a long-term perspective. At the same time, the Company is also keen on development of products to create new markets in new domains, such as those of CAD/CAM-related and those of 3D printers.

On the manufacturing side, Company mentions that it will focus on starting up operations of production base in Vietnam, established in April 2020, on a full-fledged basis, which is expected to contribute a lot to reallocation of production bases as a whole for the Company and expansion in manufacturing overseas for the future. At the initial stage, the Company plans to start up with the manufacture of abrasives for market overseas, mainly for China, while gradually increasing the number of items to manufacture, eventually fostering this into a key production base for the Company. It appears that a remarkable move to expand its manufacturing overseas is now taking place after a while since having consolidated Merz Dental GmbH (based in Germany) as subsidiary in April 2015.

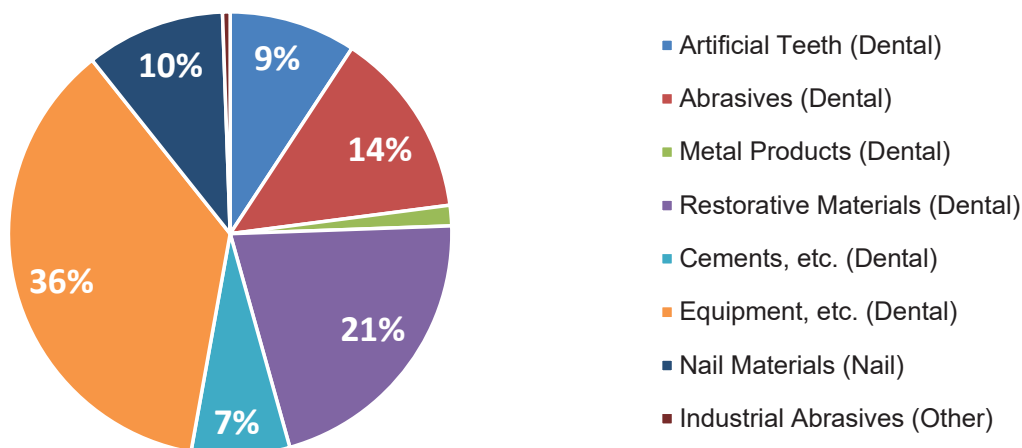
On the sales promotion side, the most important priority is placed on maintaining and strengthening continuous efforts to build a system in which the superiority of the Company's products is fully recognized by dental professionals, who are ultimate customers, by actively engaging in MDR activities. MDR stands for Medical Dental Representative, while MDR activities represent those of fostering MDR who can explain the superiority of the Company's products from a specialist point of view and make them assume responsibility for sales promotion. At the same time, the Company is developing its sales agent network and establishing new sales bases across region on a global basis. For example, in April 2021, the Company established a representative office in Dubai (United Arab Emirates) to develop market in the Middle East and Africa.

4.0 Business Model

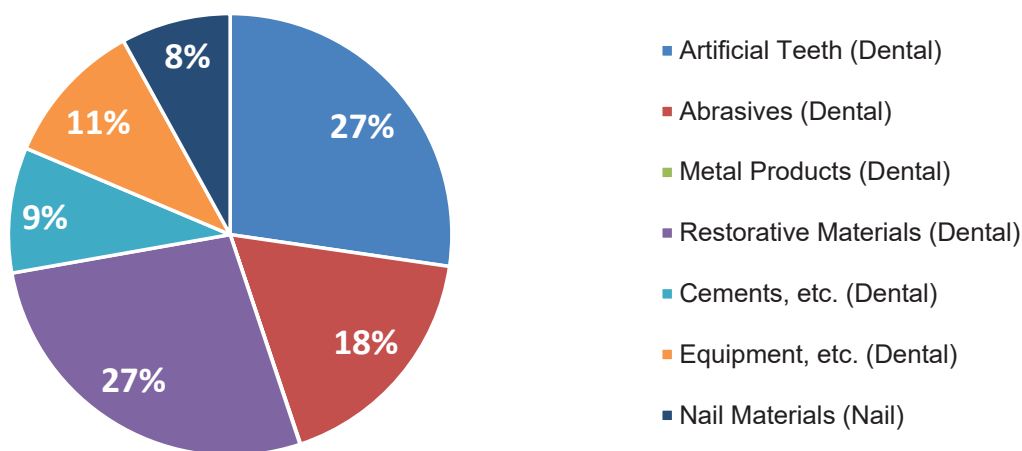
Dental-related Business

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 Breakdown in Japan (FY03/2021)



Sales Breakdown Overseas (FY03/2021)



Source: Company Data, WRJ Calculation

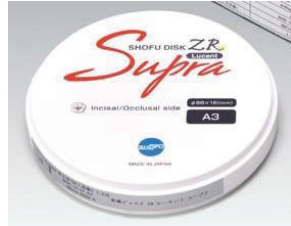
Artificial teeth are materials for dentures and false teeth, while abrasives those for grinding affected areas and/or polishing dental crowns. Metal products are materials used as foundations for dental crowns and false teeth. Restorative materials are those of being used in diverse applications, comprising those of false teeth, filling of affected areas, denture bases, etc. Cements, etc. represents materials for luting false teeth and/or filling. All those dental materials are of development in-house by the Company, while equipment, etc. comprises a variety of dental-technique-oriented machineries and/or instruments represented by CAD/CAM-related equipment and digital oral imaging device, while sales of equipment, etc. are basically of stocking and sell of all those merchandises. Meanwhile, sales of CAD/CAM-related materials had been included in those of equipment, etc. by FY03/2020, although they are of development in-house. Starting in FY03/2021, they have been reallocated to restorative materials and artificial teeth, respectively, resin materials for dental cutting processing and ceramics for dental cutting processing.

Mainstay Products of Dental-related Business

Artificial Teeth



Ceramic Teeth



Ceramics for Dental Cutting Processing



Resin Teeth



Dental Porcelains Metals

Abrasives



Diamond



Silicon Carbide



Rubber



Other

Restorative Materials



Composite Resins



For Crowns



Resin Materials for Dental Cutting Processing



For Denture Bases

Cements, etc.



Luting Cements



Filling Cements



Embedding Materials



Gypsums

Equipment, etc.



Digital Oral Imaging Device



Dental Multipurpose Ultrasonic Therapy Device



Lip Closure Force Measuring Instrument



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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