

**The Second Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2018  
(Japanese Accounting Standards)**

November 2, 2017

Company name: SHOFU INC.  
 Listing: Tokyo Stock Exchange (First section)  
 Code number: 7979  
 URL: <http://www.shofu.co.jp/>  
 Representative: Noriyuki Negoro, President  
 Contact: Takahiro Umeda, Executive Officer & General Manager of Finance Department  
 Scheduled date for filing of quarterly securities report: November 14, 2017  
 Scheduled commencement date of dividend payment: November 30, 2017  
 Supplementary documents for quarterly financial results: Yes  
 Quarterly financial results briefing: Yes (for analysts and institutional investors)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of Fiscal Year Ended March 31, 2018 (April 1, 2017 – September 30, 2017)

(1) Consolidated Operating Results (% indicates changes from previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2017	11,701	5.9	742	-7.2	853	67.6	635	111.2
Six months ended September 30, 2016	11,052	-4.7	800	-5.0	509	-38.3	301	-39.3

(Note) Comprehensive income: Six Months ended September 30, 2017 1,594 million yen (-%)  
 Six Months ended September 30, 2016 -166 million yen (-%)

	Second Quarter Net income (loss) per share	Second Quarter Fully diluted net income (loss) per share
	Yen	Yen
Six months ended September 30, 2017	40.01	39.77
Six months ended September 30, 2016	18.91	18.78

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Six months ended September 30, 2017	30,473	23,710	77.4	1,484.35
Year ended March 31, 2017	28,853	22,296	76.9	1,396.74

(Reference) Shareholder's equity: Six Months ended September 30, 2017 23,598 million yen  
 Year ended March 31, 2017 22,185 million yen

2. Dividends

	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2017	-	8.00	-	12.00	20.00
Year ended March 31, 2018	-	8.00	-	-	-
Year ending March 31, 2018 (Forecasts)	-	-	-	12.00	20.00

(Notes) Revision to the dividend forecast during the current quarter: None

(Notes) Year-end dividends for the fiscal year ended March 31, 2017 include commemorative dividend of 2.0 yen.  
 (The 95th anniversary of company's founding)

Year-end dividends for the fiscal year ended March 31, 2018(Forecasts) include commemorative dividend of 2.0 yen. (The 95th anniversary of company's founding)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2018. (April 1, 2017 – March 31, 2018)

(% indicates changes from previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31,2018	23,970	7.5	1,488	7.7	1,403	23.0	959	14.6	60.38

(Notes) Revision during the current quarter to the performance forecasts: None

\*Notes

(1) Changes in significant subsidiaries during the period (change in scope of consolidation): None

(2) Adoption of accounting methods specific to the preparation of quarterly financial statements: Yes

(3) Changes in accounting principles, procedures, or indication methods:

(a) Changes in accounting standards: None

(b) Changes other than (a) above: None

(c) Changes in accounting estimates: None

(d) Retrospective restatements: None

(4) Number of shares outstanding (common stock)

(a) Number of shares outstanding at end of period (including treasury stock).

As of September 30, 2017: 16,114,089 shares

As of March 31, 2017: 16,114,089 shares

(b) Number of shares of treasury stock at end of period

As of September 30, 2017: 215,621 shares

As of March 31, 2017: 230,355 shares

(c) Average number of shares during the period

As of September 30, 2017: 15,892,149 shares

As of September 30, 2016: 15,925,633 shares

\*This quarterly earnings report is not subject to audit procedures

\*Explanation concerning the appropriate use of business forecasts, and other special items

The forecasts and other statements regarding the future included in this report are based on currently available information and certain assumptions. Actual results may differ from forecasts for a variety of reasons. With respect to the preconditions for the forecasts, please refer to the "Explanation of Future Forecast Information including Consolidated Business Results Forecasts" section on page 3.

Accompanying Materials—Contents

- 1. Qualitative information related to financial results for the quarter under review.....2
  - (1) Explanation of Business Results.....2
  - (2) Explanation of Financial Position.....2
  - (3) Explanation of Future Forecast Information including Consolidated Business Results Forecasts .....3
- 2. Quarterly Consolidated Financial Statements and Primary Notes.....4
  - (1) Quarterly Consolidated Balance Sheets .....4
  - (2) Quarterly Consolidated Statements of Income and Comprehensive Income.....6
  - (3) Notes to Quarterly Consolidated Financial Statements.....7
    - (Notes Relating to Assumptions for the Going Concern) .....7
    - (Notes to Significant Changes in the Amounts of Shareholders’ Equity).....7
    - (Application of Special Accounting Processing in the Compilation of Quarterly Financial Statements). .....7
    - (Segment Information,etc).....7

## 1. Qualitative information related to financial results for the quarter under review

### (1) Explanation of Business Results

During the first half of the consolidated fiscal year (from April 1, 2017 to September 30, 2017), although the global economy continued to be on a moderate recovery trend primarily in developed nations, the risk of economic downturn remains due to factors such as the US administration trend and the unstable conditions in North Korea. The Japanese economy continues to be on a moderate recovery trend owing to an improvement in the employment and income conditions against a backdrop of strong corporate earnings.

Under such circumstances, the Company Group posted net sales of 11,701 million yen for the first half of the consolidated fiscal year under review, an increase of 648 million yen (5.9%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 4,927 million yen (42.1% of net sales), an increase of 511 million yen (11.6%).

Concerning profits, the cost of sales ratio increased and selling, general and administrative expenses increased by 224 million yen (3.9%) from the corresponding period of the previous consolidated fiscal year, causing operating income to decline to 742 million yen, a decrease of 57 million yen (7.2%). However, the impact of exchange rates had a positive effect on non-operating income, yielding ordinary income of 853 million yen, an increase of 344 million yen (67.6%). As a result of posting gain on sales of investment securities on extraordinary income, profit attributable to owners of parent, after deducting tax expenses, was 635 million yen, an increase of 334 million yen (111.2%).

#### (Dental business)

Domestically, with intensifying competition in the market, new products such as the “EyeSpecial C-III,” a digital oral cavity photography device which was introduced to the market during the first half of the consolidated fiscal year under review, and the “CERAMAGE Duo,” hard resin for premolar crowns which was introduced to the market during the previous consolidated fiscal year contributed to sales. However, sales remained unchanged from the corresponding period of the previous consolidated fiscal year. Looking overseas, with solid sales performance in each region mainly in North America, Central and South America and China, sales increased year on year due partly to the effects of foreign exchange.

As a result of these factors, although net sales for the first half of the consolidated fiscal year under review increased by 345 million yen (3.4%) from the corresponding period of the previous consolidated fiscal year to 10,441 million yen, operating income decreased by 95 million yen (11.7%) to 717 million yen owing to an increase in the cost of sales ratio and an increase in selling, general and administrative expenses.

#### (Nail care business)

With sales driven by the new “ageha” brand of gel nail products which was introduced to the market during the first half of the consolidated fiscal year under review and favorable sales performance from the “by Nail Labo” gel nail system for general consumers, domestic sales increased year on year. Overseas, aggressive sales promotion activities were successful in generating favorable sales performance from the “Presto” LED gel in the US and Taiwan.

As a result of these factors, net sales for the first half of the consolidated fiscal year under review increased by 296 million yen (32.5%) from the corresponding period of the previous consolidated fiscal year to 1,210 million yen. Operating income achieved profitability of 13 million yen, a year-on-year increase in profitability of 39 million yen.

#### (Other businesses)

SHOFU PRODUCTS KYOTO INC., a Group company, uses its dental abrasives manufacturing technology to manufacture and sell industrial abrasives. Net sales for the first half of the consolidated fiscal year under review increased by 5 million yen (13.8%) from the corresponding period of the previous consolidated fiscal year to 49 million yen. However, due to an increase in the cost of sales ratio, operating income decreased by 3 million yen (26.6%) to 8 million yen.

(2) Explanation of Financial Position

Total assets at the end of the first half of the consolidated fiscal year under review increased by 1,620 million yen from the end of the previous consolidated fiscal year to 30,473 million yen.

The primary factor for the increase in assets was an increase in investment securities due to higher stock prices.

Liabilities increased by 206 million yen to 6,762 million yen. The primary factor was an increase in other noncurrent liabilities such as long-term deferred tax liabilities.

Net assets increased by 1,414 million yen to 23,710 million yen. The primary factors were increases in retained earnings and valuation difference on available-for-sale securities.

As a result of the above, the capital-to-assets ratio rose to 77.4%, an increase of 0.5 points from the end of the previous consolidated fiscal year.

(3) Explanation of Future Forecast Information including Consolidated Business Results Forecasts

We have not revised the performance forecast for the fiscal year ending March 31, 2018, as announced on May 12, 2017.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (as of March 31, 2017)	End of Second Quarter of Fiscal 2017 (as of September 30, 2017)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	4,997	4,881
Notes and accounts receivable-trade	3,138	3,227
Securities	5	5
Merchandises and finished goods	3,666	4,067
Work in process	882	890
Raw materials and supplies	817	977
Other	871	1,048
Allowance for doubtful accounts	-93	-99
<b>Total current assets</b>	<b>14,286</b>	<b>14,998</b>
<b>Noncurrent assets</b>		
Property, plant and equipment		
Buildings and structures	8,096	8,140
Accumulated depreciation	-4,917	-5,038
Buildings and structures, net	3,179	3,102
Other	9,557	9,882
Accumulated depreciation	-6,054	-6,317
Other, net	3,503	3,565
Total property, plant and equipment	6,682	6,667
Intangible assets		
Goodwill	558	590
Other	980	1,022
Total intangible assets	1,538	1,613
Investments and other assets		
Investment securities	5,304	6,262
Net defined benefit asset	710	611
Other	338	333
Allowance for doubtful accounts	-8	-13
Total investments and other assets	6,345	7,194
<b>Total non-current assets</b>	<b>14,566</b>	<b>15,475</b>
<b>Total assets</b>	<b>28,853</b>	<b>30,473</b>

(Millions of yen)

	Previous fiscal year (as of March 31,2017)	End of Second Quarter of Fiscal 2017 (as of September 30, 2017)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	612	611
Current portion of long-term loans payable	505	505
Income taxes payable	312	386
Provision for directors' bonuses	30	16
Other	1,753	1,844
<b>Total current liabilities</b>	<b>3,215</b>	<b>3,364</b>
<b>Noncurrent liabilities</b>		
Long-term loans payable	1,225	975
Net defined benefit liability	198	207
Other	1,918	2,215
<b>Total noncurrent liabilities</b>	<b>3,341</b>	<b>3,398</b>
<b>Total liabilities</b>	<b>6,556</b>	<b>6,762</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	11,150	11,592
Treasury shares	-252	-236
<b>Total shareholders' equity</b>	<b>19,949</b>	<b>20,408</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	2,318	3,003
Foreign currency translation adjustment	-176	65
Remeasurements of defined benefit plans	93	121
<b>Total accumulated other comprehensive income</b>	<b>2,235</b>	<b>3,190</b>
<b>Subscription rights to shares</b>	<b>92</b>	<b>90</b>
<b>Non-controlling interests</b>	<b>18</b>	<b>21</b>
<b>Total net assets</b>	<b>22,296</b>	<b>23,710</b>
<b>Total liabilities and net assets</b>	<b>28,853</b>	<b>30,473</b>

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income**  
**Quarterly Consolidated Statements of Income**

(Millions of yen)

	Second Quarter of Fiscal 2016 (from April 1, 2016 to September 30, 2016)	Second Quarter of Fiscal 2017 (from April 1, 2017 to September 30, 2017)
<b>Net sales</b>	11,052	11,701
<b>Cost of sales</b>	4,504	4,986
<b>Gross profit</b>	6,547	6,714
<b>Selling, general, and administrative expenses</b>	5,747	5,971
<b>Operating profit</b>	800	742
<b>Non-operating income</b>		
Interest income	3	2
Dividend income	42	50
Membership fee income	54	51
Foreign exchange gains	-	133
Other	50	45
<b>Total non-operating income</b>	150	283
<b>Non-operating expenses</b>		
Interest expenses	5	4
Sales discounts	83	81
Membership fee	68	60
Foreign exchange losses	263	-
Other	20	26
<b>Total non-operating expenses</b>	441	172
<b>Ordinary profit</b>	509	853
<b>Extraordinary income</b>		
Gain on sales of investment securities	-	23
Total extraordinary income	-	23
<b>Profit before income taxes</b>	509	876
<b>Income taxes</b>	206	237
<b>Profit</b>	302	639
<b>Profit (loss) attributable to non-controlling interests</b>	1	3
<b>Profit attributable to owners of parent</b>	301	635

**Quarterly Consolidated Statements of Comprehensive Income**

(Millions of yen)

	Second Quarter of Fiscal 2016 (from April 1, 2016 to September 30, 2016)	Second Quarter of Fiscal 2017 (from April 1, 2017 to September 30, 2017)
<b>Profit</b>	302	639
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	182	685
Foreign currency translation adjustment	-674	241
Remeasurements of defined benefit plans, net of tax	22	27
<b>Total other comprehensive income</b>	-469	954
<b>Comprehensive income</b>	-166	1,594
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	-167	1,590
Comprehensive income attributable to non-controlling interests	0	3

(3) Notes to Quarterly Consolidated Financial Statements

(Notes Relating to Assumptions for the Going Concern)

Not applicable.

(Notes to Significant Changes in the Amounts of Shareholders' Equity)

Not applicable.

(Application of Special Accounting Processing in the Compilation of Quarterly Financial Statements).

Calculation of tax expenses

To calculate tax expenses, we made a reasonable estimate of the effective tax rate after the application of tax effect accounting to current net income before tax for the current consolidated fiscal year and then multiplied the current net income before tax for the quarter under review by the estimated effective tax rate. However, where use of the estimated effective tax rate to calculate tax expenses would result in an unreasonable figure, we have used the legal effective tax rate instead.

(Segment Information, etc)

Previous fiscal year (April 1, 2016—September 30, 2016)

1. Information regarding sales, gains (losses) by reportable segment

(Millions of yen)

	Reporting segment				Adjustment *1	Consolidated financial statements *2
	Dental Business	Nail care business	Other businesses	Total		
Net sales						
(1) Sales to external customers	10,095	913	43	11,052	-	11,052
(2) Internal sales or transfers	0	0	3	4	(4)	-
Total	10,096	913	46	11,056	(4)	11,052
Segment profit (loss)	812	(26)	12	798	2	800

\*1 The ¥2 million adjustment to segment profit/loss serves to cancel out transactions between segments.

\*2 Segment profit (loss) equals the operating income on quarterly consolidated financial statements.

Fiscal year under review (April 1, 2017—September 30, 2017)

1. Information regarding sales, gains (losses) by reportable segment

(Millions of yen)

	Reporting segment				Adjustment *1	Consolidated financial statements *2
	Dental Business	Nail care business	Other businesses	Total		
Net sales						
(1) Sales to external Customers	10,441	1,210	49	11,701	-	11,701
(2) Internal sales or Transfers	0	0	3	4	(4)	-
Total	10,442	1,210	52	11,705	(4)	11,701
Segment profit(loss)	717	13	8	739	3	742

\*1 The ¥3 million adjustment to segment profit/loss serves to cancel out transactions between segments.

\*2 Segment profit (loss) equals the operating income on quarterly consolidated financial statements.