The Second Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2014 (Japanese Accounting Standards)

November 5, 2013

Company name: SHOFU INC.
Listing: Tokyo Stock Exchange (First section)
Code number: 7979
URL: http://www.shofu.co.jp/
Representative: Noriyuki Negoro, President
Contact: Wataru Fujishima, Managing Director (Finance, Personnel, General Affairs and Nail care business)
Scheduled date for filing of quarterly securities report: November 14, 2013
Scheduled commencement date of dividend payment: November 29, 2013
Supplementary documents for quarterly financial results: Yes
Quarterly financial results briefing: Yes

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

1. Consolidated Financial Results for the Second Quarter of Fiscal Year Ended March 31, 2014 (April 1,2013 – September 30,2013)

(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, 2013	8,639	11.2	403	144.1	414	314.6	226	-
Six months ended September 30, 2012	7,766	0.0	165	(62.3)	99	(75.3)	(138)	-

(Note) Comprehensive income: Six Months ended September 30, 2013 711 million yen (—%)
Six Months ended September 30, 2012 (314) 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, 2013	14.19	14.11
Six months ended September 30, 2012	(8.59)	-

(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, 2013	23,494	19,209	81.6	1,202.36
Year ended March 31, 2013	22,817	18,662	81.6	1,169.09

(Reference) Shareholder's equity: Six Months ended September 30, 2013 19,162 million yen
Year ended March 31, 2012 18,623 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 31,2013	-	8.00	-	11.00	19.00
Year ended March 31,2014	-	8.00			
Year ending March 31,2014 (Forecasts)			-	10.00	18.00

(Notes) Revision to the dividend forecast during the current quarter: None
Year-end dividends for the fiscal year ended March 31, 2013, include a commemorative dividend of 1.0 yen. (For the 90th anniversary of company's founding)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2014. (April 1, 2013 – March 31, 2014)

(% 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 31,2014	17,694	10.4	725	(0.0)	661	(9.7)	383	-	24.08

(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: Yes
- (c) Changes in accounting estimates: None
- (d) Retrospective restatements: None

(Notes) For details, please refer to the "Changes to accounting policies; changes to and restatements of accounting estimates" section on page 3

(4) Number of shares outstanding (common stock)
- (a) Number of shares outstanding at end of period (including treasury stock).
  - As of September 30, 2013: 16,114,089 shares
  - As of March 31, 2013: 16,114,089 shares
- (b) Number of shares of treasury stock at end of period
  - As of September 30, 2013: 176,617 shares
  - As of March 31, 2013: 184,497 shares
- (c) Average number of shares during the period
  - As of September 30, 2013: 15,934,099 shares
  - As of September 30, 2012: 16,077,064 shares

*Implementation status of audit procedures

This quarterly earnings report is not subject to audit procedures under the Financial Instruments and Exchange Act. At the time of disclosing these consolidated financial statements, audit procedures specified in the Financial Instruments and Exchange Act have not been completed with respect to the financial statements.

*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 "Qualitative information related to the company's consolidated business outlook" section on page 3.

Accompanying Materials—Contents

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

(1) Qualitative information related to the company's consolidated business performance

During the consolidated cumulative second quarter (from April 1 to September 30, 2013) ("the period under review"), the Japanese economy made gradual progress as the yen continued to weaken and stock prices to rise thanks to the government's economic measures and the Bank of Japan's monetary easing, leading to improvements in corporate earnings and employment. At the same time, a slowing Chinese economy and fiscal problems in the U.S. exerted downward pressure, causing continued uncertainty concerning the future direction of the economy.

Against this backdrop, the Group posted net sales of 8,639 million yen for the period under review, an increase of 873 million yen (11.2%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 2,350 million yen (27.2%) of net sales, an increase of 573 million yen (32.3%).

Aggressive investment in areas such as sales activities drove up selling, general and administrative expenses 265 million yen (6.5%) over the corresponding period of the previous consolidated fiscal year, causing operating income to rise to 403 million yen, an increase of 238 million yen (144.1%). Additionally, improvement in non-operating income due to the impact of exchange rates and other factors yielded ordinary income of 414 million, an increase of 314 million yen (314.6%). After subtraction of tax expenses, the result of these factors was a quarterly profit of 226 million yen, an increase of 364 million yen.

(Dental business)

Domestically, dental business sales rose from the corresponding period of the previous consolidated fiscal year as sales were bolstered by the launch of new products such as EyeSpecial C-II, a smart digital camera designed exclusively for dentistry, and BeautiCem SA, a fluoride-releasing, self-adhesive resin cement, during the period under review as well as the launch of Air-Flow Master Piezon, an ultrasonic therapy unit designed for multipurpose endodontic and periodontic use, during the previous consolidated fiscal year. Dental business sales also rose in North America, Central and South America, and Europe thanks to the weakening yen.

As a result of these factors, net sales during the period under review increased 812 million yen (11.8%) from the corresponding period of the previous consolidated fiscal year to 7,708 million yen. Increased earnings offset higher selling, general and administrative expenses as operating income rose to 372 million yen, an increase of 177 million yen (90.4%).

(Nail care business)

While continued growth is forecast for the market for nail care products, competition on price and quality is expected to intensify. In June 2013, we created a Nail Care Division at the Shofu Head Office as a way to put in place and strengthen business structures extending from product development and quality control to manufacturing and sales.

Net sales during the period under review increased 59 million yen (7.2%) from the corresponding period of the previous consolidated fiscal year to 889 million yen due in part to growth in overseas sales. Elimination of amortization of goodwill and other factors combined with the effects of higher sales to drive down selling, general and administrative expenses, returning the segment to profitability with operating income of 17 million yen, an increase of 59 million yen.

(Other businesses)

Group company Shoken Inc. uses technology for manufacturing dental abrasives to manufacture and sell industrial abrasives. Net sales during the period under review rose 0.6 million yen (1.5%) from the corresponding period of the previous consolidated fiscal year to 42 million yen, and operating income rose 3 million yen (35.2%) to 15 million yen.

(2) Qualitative information related to the company's consolidated financial position

Total assets at the end of the period under review rose 677 million yen from the end of the previous consolidated fiscal year to 23,494 million yen. The increase is principally due to increases in merchandise and finished goods.

Liabilities increased 130 million yen from the end of the previous consolidated fiscal year to 4,284 million yen due principally to increases in income taxes payable and other obligations.

Net assets rose 547 million yen from the end of the previous consolidated fiscal year to 19,209 million yen on increases in valuation difference on available-for-sale securities and the foreign currency translation adjustment account.

As a result of these factors, the equity ratio held steady at 81.6%, unchanged from the end of the previous consolidated fiscal year.

(3) Qualitative information related to the company's consolidated business outlook

We have revised the consolidated forecast for the fiscal year ending March 31, 2014, as announced on May 13, 2013. For more information, see "Notice of Revisions to the Consolidated Forecast," announced on October 28, 2013.

Consolidated forecast for the fiscal year ending March 31, 2014

(Unit: Millions of yen)

	Previous forecast (A)	New forecast (B)	Change (B-A)	Change (%)
Sales	17,168	17,694	525	3.1
Operating Income	715	725	9	1.4
Ordinary Income	570	661	90	15.9
Net Income	340	383	42	12.6

The exchange rates used in the forecast have been revised as follows:

USD 1 = JPY 97.99 (initial rate: JPY 85.00)

EUR 1 = JPY 128.79 (initial rate: JPY 110.00)

GBP 1 = JPY 151.33 (initial rate: JPY 135.00)

CNY 1 = JPY 15.29 (initial rate: JPY 13.50)

2. Items related to summary information (other)

(1) Important subsidiary developments during the quarter under review

None

(2) 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.

(3) Changes to accounting policies; changes to and restatements of accounting estimates

(Changes to accounting policies)

Shofu has traditionally converted earnings and expenses of its overseas consolidated subsidiaries into yen using the spot exchange rate in effect on the last day of the fiscal year. However, we began using the average exchange rate for the period in question to convert these figures into yen starting with the quarter under review based on our judgment that use of the average exchange rate was more conducive to the appropriate disclosure of information than use of the exchange rate at a single point in time. This judgment reflects the growing importance of overseas consolidated subsidiaries to our bottom line.

Since the company is required to retain financial statements and other documents for a period of 10 years, it is not possible to retroactively apply this change any further than that into the past. Consequently, use of an average exchange rate in converting overseas earnings and expenses to yen has been applied from April 1, 2003.

This change to our accounting policies has been retroactively applied, and quarterly and annual consolidated financial statements for the previous fiscal year reflect the new method.

As a result of the retroactive application of the new method, cumulative net sales for the first and second quarters of the previous consolidated fiscal year increased 12 million yen, while gross profit and operating profit increased 15 million yen and 7 million yen, respectively. At the same time, ordinary profit and income before income taxes both fell 0 million yen. Additionally, due to the cumulative effect of changes on net assets at the beginning of the previous consolidated fiscal year, retained earnings as of the end of the previous fiscal year increased 28 million yen, while foreign currency translation adjustment as of the beginning of the previous fiscal year fell 28 million yen.

Ⅲ. Quarterly Consolidated Financial Statements

(1)Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (as of March 31, 2013)	End of Second Quarter of Fiscal 2013 (as of September 30, 2013)
Assets		
Current assets		
Cash and deposits	5,511	5,148
Notes and accounts receivable-trade	2,649	2,538
Short term investment securities	350	157
Merchandise and finished goods	2,330	3,044
Work in process	675	596
Raw materials and supplies	688	843
Other	837	869
Allowance for doubtful accounts	(78)	(66)
Total current assets	12,965	13,131
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures	6,348	6,454
Accumulated depreciation	(4,038)	(4,131)
Buildings and structures, net	2,310	2,323
Other	7,353	7,547
Accumulated depreciation	(4,491)	(4,590)
Other, net	2,861	2,957
Total property, plant, and equipment	5,171	5,280
Intangible assets	167	143
Investments and other assets		
Investment securities	3,177	3,554
Other	1,344	1,392
Allowance for doubtful accounts	(9)	(9)
Total investments and other assets	4,512	4,937
Total noncurrent assets	9,851	10,362
Total assets	22,817	23,494

(Millions of yen)

	Previous fiscal year (as of March 31, 2013)	End of Second Quarter of Fiscal 2013 (as of September 30, 2013)
Liabilities		
Current liabilities		
Accounts payable-trade	576	612
Short-term loans payable	980	975
Income and other taxes payable	114	256
Provision for directors' bonuses	3	1
Other	1,295	1,208
Total current liabilities	2,969	3,053
Noncurrent liabilities		
Provision for retirement benefits	120	113
Other	1,064	1,117
Total noncurrent liabilities	1,185	1,230
Total liabilities	4,154	4,284
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	9,495	9,542
Treasury stock	(169)	(162)
Total shareholders' equity	18,377	18,431
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	644	880
Foreign currency translation adjustment	(398)	(149)
Total accumulated other comprehensive income	245	730
Stock acquisition rights	39	47
Total net assets	18,662	19,209
Total liabilities and net assets	22,817	23,494

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	Second Quarter of Fiscal 2012 (from April 1, 2012 to September 30, 2012)	Second Quarter of Fiscal 2013 (from April 1, 2013 to September 30, 2013)
Net sales	7,766	8,639
Cost of sales	3,484	3,854
Gross profit	4,282	4,785
Selling, general, and administrative expenses	4,117	4,382
Operating income	165	403
Non-operating income		
Interest income	8	11
Dividend income	29	27
Annual fee and seminar fee income	39	69
Foreign exchange profits	-	39
Other	71	43
Total non-operating income	149	192
Non-operating expenses		
Interest expenses	4	4
Sales discounts	75	80
Operating expenses for seminars hosted by the company	44	83
Foreign exchange losses	75	-
Other	13	13
Total non-operating expenses	214	181
Ordinary income	99	414
Extraordinary losses		
Loss on valuation of investment securities	156	-
Loss on retirement of noncurrent assets	15	-
Total extraordinary losses	171	-
Income (loss) before income and other taxes	(71)	414
Income and other taxes	66	187
Income (loss) before minority interests	(138)	226
Net income (loss)	(138)	226

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second Quarter of Fiscal 2012 (from April 1, 2012 to September 30, 2012)	Second Quarter of Fiscal 2013 (from April 1, 2013 to September 30, 2013)
Income (loss) before minority interests	(138)	226
Other comprehensive income		
Valuation difference on available-for-sale securities	(115)	236
Foreign currency translation adjustment	(61)	248
Total other comprehensive income	(176)	484
Comprehensive income	(314)	711
Comprehensive income attributable to:		
Comprehensive income attributable to shareholders of parent company	(314)	711
Comprehensive income attributable to minority interests	-	-

(3) Notes Relating to Assumptions for the Going Concern

Not applicable.

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

Not applicable.

(5) Segment Information, etc

Previous fiscal year (April 1, 2012－September 30, 2012)

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	6,895	829	41	7,766	-	7,766
(2) Internal sales or transfers	-	0	2	2	(2)	-
Total	6,895	829	44	7,769	(2)	7,766
Segment profit (loss)	195	(42)	11	164	0	165

*1 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, 2013－September 30, 2013)

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	7,708	889	42	8,639	-	8,639
(2) Internal sales or transfers	-	0	2	2	(2)	-
Total	7,708	889	44	8,642	(2)	8,639
Segment profit(loss)	372	17	15	405	(2)	403

*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.

2. Items related to changes in reporting segments

(Change in the method used to convert earnings and expenses at overseas consolidated subsidiaries into yen)

As noted in the section describing changes to accounting policies, Shofu has traditionally converted earnings and expenses of its overseas consolidated subsidiaries into yen using the spot exchange rate in effect on the last day of the fiscal year. However, we began using the average exchange rate for the period in question to convert these figures into yen starting with the quarter under review based on our judgment that use of an average exchange rate was more conducive to the appropriate disclosure of information than use of the exchange rate at a single point in time. This judgment reflects the growing importance of overseas consolidated subsidiaries to our bottom line.

This change to our accounting policies has been retroactively applied, and the segment information provided for the second quarter of the previous consolidated fiscal year reflects the change.

As a result of the retroactive application of the new method, cumulative net sales for the first and second quarters of the previous consolidated fiscal year increased 12 million yen in the dental business and fell 0 million yen in the nail care business. Segment profit/loss increased 9 million yen in the dental business and fell 0 million yen in the nail care business.