

The First Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2015
(Japanese Accounting Standards)

August 4, 2014

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: August 8, 2014
 Scheduled commencement date of dividend payment: None
 Supplementary documents for quarterly financial results: None
 Quarterly financial results briefing: None

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

1. Consolidated Financial Results for the First Quarter of Fiscal Year Ended March 31, 2015 (April 1, 2014 – June 30, 2014)

(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	%
Three months ended June 30, 2014	4,649	12.7	421	809.6	390	452.5	109	-
Three months ended June 30, 2013	4,124	9.1	46	(48.8)	70	(10.5)	(57)	-

(Note) Comprehensive income: Three Months ended June 30, 2014 341 million yen (83.1%)
 Three Months ended June 30, 2013 186 million yen (-%)

	First Quarter Net income (loss) per share	First Quarter Fully diluted net income (loss) per share
	Yen	Yen
Three months ended June 30, 2014	6.87	6.84
Three months ended June 30, 2013	(3.62)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Three months ended June 30, 2014	24,768	20,048	80.7	1,253.33
Year ended March 31, 2014	24,039	19,747	81.9	1,235.34

(Reference) Shareholder's equity: Three Months ended June 30, 2014 19,997 million yen
 Year ended March 31, 2014 19,687 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, 2014	-	8.00	-	10.00	18.00
Year ended March 31, 2015	-	-	-	-	-
Year ending March 31, 2015 (Forecasts)	-	8.00	-	10.00	18.00

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

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2015. (April 1, 2014 – March 31, 2015)

(% 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
Six months ending September 30, 2014 (cumulative)	9,177	6.2	389	(3.5)	316	(23.5)	149	(34.1)	9.36
Year ending March 31, 2015	18,838	3.2	1,048	6.2	925	(5.5)	565	11.6	35.46

(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: Yes

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

(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 June 30, 2014: 16,114,089 shares

As of March 31, 2014: 16,114,089 shares

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

As of June 30, 2014: 158,950 shares

As of March 31, 2014: 177,030 shares

(c) Average number of shares during the period

As of June 30, 2014: 15,941,579 shares

As of June 30, 2013: 15,931,557 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.

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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 first quarter of the consolidated fiscal year (from April 1 to June 30, 2014) ("the quarter under review"), the Japanese economy made gradual progress toward recovery as the government's economic measures and the Bank of Japan's monetary easing led to moderate improvement in corporate earnings and employment, compensating for the effects of a swing in the market away from the rush demand that had preceded the hike in Japan's consumption tax rate. However, concerns over the future direction of the economy remain due to a slowing of economic growth in emerging nations and other factors.

Against this backdrop, the Shofu Group posted net sales of 4,649 million yen for the quarter under review, an increase of 524 million yen (12.7%) from the corresponding quarter of the previous consolidated fiscal year. Overseas sales accounted for 1,443 million yen (31.1%) of net sales, an increase of 311 million yen (27.5%).

Despite an increase in selling, general and administrative expenses of 39 million yen (1.8%) from the corresponding quarter of the previous consolidated fiscal year, increased sales and a decline in the cost to sales ratio caused operating income to rise to 421 million yen, an increase of 375 million yen (809.6%). A deterioration in non-operating income due to the impact of exchange rates and other factors yielded ordinary income of 390 million yen, an increase of 319 million yen (452.5%). After subtraction of tax expenses, the result of these factors was a quarterly profit of 109 million yen, an increase of 167 million yen.

(Dental business)

Domestically, dental business sales rose from the corresponding quarter of the previous consolidated fiscal year as sales were bolstered by the launch of new products such as Shofu Block HC, a hybrid resin block for CAD/CAM fabrication, EyeSpecial C-II, a smart digital camera designed exclusively for dentistry, and the Shofu S-WAVE Scanner D900, a computer-assisted design and manufacturing unit engineered to be installed in dental laboratories. Overseas, dental business sales rose in every region thanks to the favorable impact of the weakening yen.

As a result of these factors, net sales during the quarter under review increased 560 million yen (15.3%) from the corresponding quarter of the previous consolidated fiscal year to 4,231 million yen. Increased earnings offset higher selling, general and administrative expenses as operating income rose to 419 million yen, an increase of 379 million yen (954.8%).

(Nail care business)

Even as the market for nail care products is forecast to continue to expand, competition on price and quality is intensifying. Sales of gel nail products increased from the corresponding quarter of the previous consolidated fiscal year as sales of Presto Bambina, a new gel nail system launched during the previous consolidated fiscal year, grew steadily thanks to the company's active promotional efforts. However, sales of flagship product Nail de Dance fell due to the contracting acrylic market and competitors' price-oriented offensives.

As a result of these factors, net sales during the quarter under review decreased 37 million yen (8.7%) from the corresponding quarter of the previous consolidated fiscal year to 395 million yen. Investments in the form of sales activity costs and other factors combined to drive up selling, general and administrative expenses, causing operating income to fall 6 million yen for an operating loss of 7 million yen.

(Other businesses)

Group company Shoken Inc. uses technology for manufacturing dental abrasives to manufacture and sell industrial abrasives. Net sales during the quarter under review rose 1 million yen (6.3%) from the corresponding quarter of the previous consolidated fiscal year to 22 million yen, and operating income rose 1 million yen (23.9%) to 7 million yen.

Note: Effective July 1, 2014, Shoken Inc. changed its name to Shofu Products Kyoto, Inc.

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

Total assets at the end of the quarter under review rose 729 million yen from the end of the previous consolidated

fiscal year to 24,768 million yen. The increase is principally due to increases in merchandise and finished goods as well as an increase in investment securities due to rising market value.

Liabilities increased 429 million yen from the end of the previous consolidated fiscal year to 4,720 million yen due principally to increases in unpaid expenses and other current liabilities.

Net assets rose 300 million yen from the end of the previous consolidated fiscal year to 20,048 million yen due principally to increases in valuation difference on available-for-sale securities.

As a result of these factors, the equity ratio fell 1.2 points from the end of the previous consolidated fiscal year to 80.7%.

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

We have not revised the consolidated forecast for the fiscal year ending March 31, 2015, as announced on May 12, 2014.

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)

We began applying the provisions of Article 35 of the Accounting Standard for Retirement Benefits (Corporate Accounting Standards No. 26, dated May 17, 2012) and Article 67 of the Application Policies for Accounting Standards for Retirement Benefits (Corporate Accounting Standards Application Policies No. 25, dated May 17, 2012) during the quarter under review. This change entailed revising the methods used to calculate retirement benefit obligations and service costs, changing the method used to determine quarterly attribution of estimated retirement benefits from a fixed-amount basis to a benefit calculation-basis, and changing the method used to determine the discount rate from a method based on a number of years approximating employees' average remaining years of service to a method based on multiple discount rates assigned to each period during which we anticipate paying retirement benefits.

In applying the new standard and associated guidelines, we have observed the transitional treatment of figures set forth in Article 37 so that the impact associated with changes to the methods used to calculate retirement benefit obligations and service costs has been added to, or subtracted from, retained earnings at the beginning of the quarter under review.

As a result, retirement benefit assets at the beginning of the quarter under review increased 176 million yen, and retained earnings increased 114 million yen. In addition, operating income, ordinary income, and quarterly profit before income taxes for the quarter under review each increased 4 million yen.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (as of March 31, 2014)	End of First Quarter of Fiscal 2014 (as of June 30, 2014)
Assets		
Current assets		
Cash and deposits	5,266	4,894
Notes and accounts receivable-trade	2,910	2,647
Short term investment securities	117	114
Merchandises and finished goods	2,803	3,162
Work in process	615	610
Raw materials and supplies	750	757
Other	931	903
Allowance for doubtful accounts	(96)	(99)
Total current assets	13,298	12,990
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	6,544	7,238
Accumulated depreciation	(4,175)	(4,225)
Buildings and structures, net	2,369	3,013
Other	8,274	7,983
Accumulated depreciation	(4,762)	(4,788)
Other, net	3,511	3,194
Total property, plant and equipment	5,881	6,207
Intangible assets	161	206
Investments and other assets		
Investment securities	3,622	4,104
Net defined benefit asset	551	737
Other	534	533
Allowance for doubtful accounts	(10)	(11)
Total investments and other assets	4,698	5,364
Total noncurrent assets	10,741	11,777
Total assets	24,039	24,768

(Millions of yen)

	Previous fiscal year (as of March 31,2014)	End of First Quarter of Fiscal 2014 (as of June 30, 2014)
Liabilities		
Current liabilities		
Accounts payable-trade	501	660
Income taxes payable	356	186
Provision for directors' bonuses	53	10
Other	1,890	2,177
Total current liabilities	2,801	3,035
Noncurrent liabilities		
Net defined benefit liability	110	111
Other	1,380	1,573
Total noncurrent liabilities	1,490	1,685
Total liabilities	4,291	4,720
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	9,697	9,758
Treasury stock	(162)	(145)
Total shareholders' equity	18,586	18,663
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	968	1,279
Foreign currency translation adjustment	43	(28)
Remeasurements of defined benefit plans	88	81
Total accumulated other comprehensive income	1,101	1,333
Stock acquisition rights	60	51
Total net assets	19,747	20,048
Total liabilities and net assets	24,039	24,768

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

(Millions of yen)

	First Quarter of Fiscal 2013 (from April 1, 2013 to June 30, 2013)	First Quarter of Fiscal 2014 (from April 1, 2014 to June 30, 2014)
Net sales	4,124	4,649
Cost of sales	1,833	1,942
Gross profit	2,291	2,706
Selling, general, and administrative expenses	2,245	2,284
Operating income	46	421
Non-operating income		
Interest income	4	2
Dividend income	27	30
Annual fee and seminar fee income	38	45
Foreign exchange profits	39	-
Other	16	5
Total non-operating income	126	83
Non-operating expenses		
Interest expenses	1	0
Sales discounts	40	41
Operating expenses for seminars hosted by the company	49	53
Foreign exchange losses	-	17
Other	10	2
Total non-operating expenses	102	114
Ordinary income	70	390
Income before income and other taxes	70	390
Income and other taxes	128	280
Income (loss) before minority interests	(57)	109
Net income (loss)	(57)	109

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	First Quarter of Fiscal 2013 (from April 1, 2013 to June 30, 2013)	First Quarter of Fiscal 2014 (from April 1, 2014 to June 30, 2014)
Income (loss) before minority interests	(57)	109
Other comprehensive income		
Valuation difference on available-for-sale securities	88	310
Foreign currency translation adjustment	155	(72)
Remeasurements of defined benefit plans net of tax	-	(6)
Total other comprehensive income	244	231
Comprehensive income	186	341
Comprehensive income attributable to:		
Comprehensive income attributable to shareholders of parent company	186	341
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, 2013 – June 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	3,670	432	21	4,124	-	4,124
(2) Internal sales or transfers	-	0	1	1	(1)	-
Total	3,670	432	22	4,126	(1)	4,124
Segment profit (loss)	39	(0)	6	45	1	46

*1 The ¥1 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, 2014 – June 30, 2014)

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	4,231	395	22	4,649	-	4,649
(2) Internal sales or transfers	-	0	1	2	(2)	-
Total	4,231	395	24	4,651	(2)	4,649
Segment profit(loss)	419	(7)	7	419	2	421

*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

As noted in the section describing changes to accounting policies, the methods used to calculate retirement benefit obligations and service costs for each business segment has been changed to reflect the changes to the methods used to calculate retirement benefit obligations and service costs that took effect during the quarter under review.

These changes have had the following effects on segment profit (loss): segment profit in the dental business increased 4 million yen, while segment profit in the nail care business rose 0 million yen.