

The Second Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2017
(Japanese Accounting Standards)

November 4, 2016

Company name: SHOFU INC.
 Listing: Tokyo Stock Exchange (First section)
 Code number: 7979
 URL: <http://www.shofu.co.jp/>
 Representative: Noriyuki Negoro, President
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 Scheduled date for filing of quarterly securities report: November 11, 2016
 Scheduled commencement date of dividend payment: November 30, 2016
 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, 2017 (April 1, 2016 – September 30, 2016)

(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, 2016	11,052	Δ4.7	800	Δ5.0	509	Δ38.3	301	Δ39.3
Six months ended September 30, 2015	11,600	18.2	842	Δ11.4	825	Δ8.2	495	Δ22.1

(Note) Comprehensive income: Six Months ended September 30, 2016 Δ166 million yen (- %)
 Six Months ended September 30, 2015 452 million yen (Δ57.2%)

	Second Quarter Net income (loss) per share	Second Quarter Fully diluted net income (loss) per share
	Yen	Yen
Six months ended September 30, 2016	18.91	18.78
Six months ended September 30, 2015	31.05	30.86

(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, 2016	27,486	21,051	76.2	1,319.39
Year ended March 31, 2016	28,305	21,500	75.7	1,340.00

(Reference) Shareholder's equity: Six Months ended September 30, 2016 20,957 million yen
 Year ended March 31, 2016 21,414 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, 2016	-	8.00	-	10.00	18.00
Year ended March 31, 2017	-	8.00	-	-	-
Year ending March 31, 2017 (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)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(% 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, 2017	22,304	Δ2.9	1,514	Δ3.5	1,164	Δ16.4	788	Δ0.1	49.54

(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

(4) Number of shares outstanding (common stock)

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

As of September 30, 2016: 16,114,089 shares

As of March 31, 2016: 16,114,089 shares

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

As of September 30, 2016: 230,175 shares

As of March 31, 2016: 132,879 shares

(c) Average number of shares during the period

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

As of September 30, 2015: 15,971,281 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 half of the consolidated fiscal year (from April 1, 2016 to September 30, 2016), the Japanese economy continued to be on a moderate recovery trend as a result of factors including the government's economic measures and improved employment and income conditions. However, the effects of the UK decision to leave the EU, concerns about an economic slowdown in emerging nations and rapid fluctuations in exchange rates have continued to make future business conditions unclear.

Under such circumstances, the Company Group posted net sales of 11,052 million yen for the first half of the consolidated fiscal year under review, a decrease of 548 million yen (4.7%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 4,416 million yen (40.0% of net sales), a decrease of 375 million yen (7.8%).

Concerning profits, selling, general and administrative expenses decreased 25 million yen (0.4%) from the corresponding period of the previous fiscal year, but operating income fell to 800 million yen, a decrease of 42 million yen (5.0%). In addition, the impact of exchange rates had a negative effect on non-operating income, yielding ordinary income of 509 million yen, a decrease of 316 million yen (38.3%). Profit attributable to owners of parent, after deducting tax expenses, was 301 million yen, a decrease of 194 million yen (39.3%).

(Dental business)

Domestically, in spite of contributions to sales from "Block HC Cem," a dental adhesive resin cement, and "PEN Bright," a dental polymerization light irradiator, which were introduced to the market during the first half of the consolidated fiscal year under review, as well as from CAD/CAM-related new products, sales decreased from the corresponding period of the previous consolidated fiscal year due to increasing competition in the market. Overseas, despite solid sales performance mainly in North America, Central and South America, and China, sales decreased year on year due to the effects of foreign exchange resulting from a stronger yen.

As a result of these factors, although net sales for the first half of the consolidated fiscal year under review decreased by 474 million yen (4.5%) from the corresponding period of the previous consolidated fiscal year to 10,095 million yen, operating income increased 19 million yen (2.5%) from the corresponding period of the previous consolidated fiscal year to 812 million yen due to a decline in selling, general and administrative expenses.

(Nail care business)

Market conditions in the nail care business are harsh as intensifying price competition continues in the domestic market and sales trended at low levels. Additionally, regarding gel products, although the Company worked to achieve a recovery by strengthening sales promotions, including the release of new color options in our range of color gels, we were unable to escape the effects of a voluntary partial recall of color gels that began in September 2015, and sales levels still fell short of the previous fiscal year. Overseas, sales of LED gel "Presto" were robust in America and Taiwan.

As a result of these factors, net sales for the first half of the consolidated fiscal year under review decreased by 77 million yen (7.8%) from the corresponding period of the previous consolidated fiscal year to 913 million yen, resulting in an operating loss of 26 million yen, a year-on-year decrease of 59 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 in the "other businesses" segment increased 3 million yen (10.2%) from the corresponding period of the previous consolidated fiscal year to 43 million yen, and operating income remained largely unchanged from the corresponding period of the previous consolidated fiscal year at 12 million yen.

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

Total assets at the end of the first half of the consolidated fiscal year under review decreased by 818 million yen

from the end of the previous consolidated fiscal year to 27,486 million yen.

The primary decrease in assets was in notes and accounts receivable-trade and merchandises and finished goods.

Liabilities decreased by 369 million yen to 6,435 million yen. Primary factors were decreases in accounts payable-trade and long-term loans payable.

Net assets decreased by 448 million yen from the corresponding period of the previous consolidated fiscal year to 21,051 million yen. The primary factor was a decrease in foreign currency translation adjustment.

As a result of the above, the capital-to-assets ratio rose to 76.2%, an increase of 0.6 points from the end of the previous consolidated fiscal year.

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

The performance forecast for the fiscal year ending March 31, 2017, announced on May 13, 2016, has been revised. For more details, please refer to "Notice Regarding the Revision of Performance Forecast," announced on October 28, 2016.

Performance forecast for the full-year of the fiscal year ending March 31, 2017

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Increase/decrease (B-A)	Increase/decrease ratio
Net sales	24,649	22,304	Δ2,345	Δ9.5%
Operating income	1,669	1,514	Δ154	Δ9.3%
Ordinary income	1,520	1,164	Δ355	Δ23.4%
Profit attributable to owners of parent	1,084	788	Δ295	Δ27.2%

The main foreign exchange rates are revised as follows.

US Dollar	1 USD =	103.98 yen	(120.00 yen at beginning of fiscal year)
Euro	1 EUR =	116.46 yen	(127.00 yen at beginning of fiscal year)
British Pound	1 GBP =	139.38 yen	(185.00 yen at beginning of fiscal year)
Chinese Yuan	1 RMB =	16.32 yen	(19.00 yen at beginning of fiscal year)

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, estimates and restatements

(Changes to accounting policies)

In line with revisions to the Corporation Tax Act, the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practical Issues Task Force (PITF) No. 32; June 17, 2016) has been applied from the quarter under review, and the method of depreciation for facilities attached to buildings and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The effect on the quarterly consolidated financial statements for the first half of the consolidated fiscal year under review was insignificant.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (as of March 31, 2016)	End of Second Quarter of Fiscal 2016 (as of September 30, 2016)
Assets		
Current assets		
Cash and deposits	4,413	4,449
Notes and accounts receivable-trade	3,185	2,907
Short term investment securities	80	20
Merchandises and finished goods	3,885	3,683
Work in process	863	868
Raw materials and supplies	872	929
Other	1,080	879
Allowance for doubtful accounts	114	102
Total current assets	14,265	13,635
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	7,982	7,933
Accumulated depreciation	4,715	4,774
Buildings and structures, net	3,266	3,159
Other	9,144	9,091
Accumulated depreciation	5,683	5,696
Other, net	3,460	3,394
Total property, plant and equipment	6,727	6,553
Intangible assets		
Goodwill	649	552
Other	1,113	957
Total intangible assets	1,762	1,510
Investments and other assets		
Investment securities	4,508	4,799
Net defined benefit asset	669	651
Other	381	344
Allowance for doubtful accounts	9	7
Total investments and other assets	5,549	5,787
Total non-current assets	14,039	13,851
Total assets	28,305	27,486

(Millions of yen)

	Previous fiscal year (as of March 31,2016)	End of Second Quarter of Fiscal 2016 (as of September 30, 2016)
Liabilities		
Current liabilities		
Accounts payable-trade	647	492
Current portion of long-term loans payable	385	504
Income taxes payable	115	182
Provision for directors' bonuses	44	24
Other	1,856	1,761
Total current liabilities	3,049	2,965
Noncurrent liabilities		
Long-term loans payable	1,729	1,479
Net defined benefit liability	177	172
Other	1,847	1,817
Total noncurrent liabilities	3,755	3,469
Total liabilities	6,804	6,435
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	10,600	10,741
Treasury shares	122	252
Total shareholders' equity	19,530	19,541
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,781	1,964
Foreign currency translation adjustment	137	535
Remeasurements of defined benefit plans	34	12
Total accumulated other comprehensive income	1,884	1,416
Subscription rights to shares	73	82
Minority interests	11	12
Total net assets	21,500	21,051
Total liabilities and net assets	28,305	27,486

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

(Millions of yen)

	Second Quarter of Fiscal 2015 (from April 1, 2015 to September 30, 2015)	Second Quarter of Fiscal 2016 (from April 1, 2016 to September 30, 2016)
Net sales	11,600	11,052
Cost of sales	4,984	4,504
Gross profit	6,615	6,547
Selling, general, and administrative expenses	5,773	5,747
Operating income	842	800
Non-operating income		
Interest income	4	3
Dividend income	35	42
Membership fee income	54	54
Foreign exchange profits	21	-
Other	51	50
Total non-operating income	167	150
Non-operating expenses		
Interest expenses	9	5
Sales discounts	84	83
Membership fee	64	68
Foreign exchange losses	-	263
Other	27	20
Total non-operating expenses	185	441
Ordinary income	825	509
Extraordinary income		
Gain on sales of investment securities	35	-
Total extraordinary income	35	-
Extraordinary loss		
Loss on sales of investment securities	25	-
Total extraordinary losses	25	-
Income before income taxes and minority interests	835	509
Income taxes	333	206
Profit	501	302
Profit attributable to non-controlling interests	5	1
Profit attributable to owners of parent	495	301

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second Quarter of Fiscal 2015 (from April 1, 2015 to September 30, 2015)	Second Quarter of Fiscal 2016 (from April 1, 2016 to September 30, 2016)
Profit	501	302
Other comprehensive income		
Valuation difference on available-for-sale securities	187	182
Foreign currency translation adjustment	157	674
Remeasurements of defined benefit plans, net of tax	18	22
Other comprehensive income	48	469
Comprehensive income	452	166
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	448	167
Comprehensive income attributable to non-controlling interests	4	0

(3) Notes relating to assumptions for the going concern

None

(4) Notes to significant changes in the amounts of shareholders' equity

None

(5) Segment information, etc.

Previous fiscal year (April 1, 2015 – September 30, 2015)

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	10,570	990	39	11,600	-	11,600
(2) Internal sales or transfers	-	0	3	3	Δ3	-
Total	10,570	990	42	11,603	Δ3	11,600
Segment profit (loss)	792	32	12	838	4	842

*1 The 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, 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	3	4	Δ4	-
Total	10,096	913	46	11,056	Δ4	11,052
Segment profit (loss)	812	Δ26	12	798	2	800

*1 The 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. Matters regarding changes, etc. by reportable segment

As stated in Changes to Accounting Policies, in line with revisions to the Corporation Tax Act, the method of depreciation for facilities attached to buildings and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method. Therefore, the method for depreciation in business segments has been changed in the same manner.

The effect of the above change on segment profit (loss) for the first half of the consolidated fiscal year under review was insignificant.