

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

February 3, 2017

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: February 10, 2017
 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 Third Quarter of Fiscal Year Ended March 31, 2017 (April 1, 2016 – December 31, 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	%
Nine months ended December 31, 2016	16,454	Δ3.5	996	Δ17.1	869	Δ22.7	653	Δ9.4
Nine months ended December 31, 2015	17,050	16.3	1,202	Δ0.3	1,124	Δ10.1	720	Δ5.8

(Note) Comprehensive income: Nine Months ended December 31, 2016 938 million yen (11.3%)
 Nine Months ended December 31, 2015 843 million yen (Δ53.1%)

	Third Quarter Net income (loss) per share	Third Quarter Fully diluted net income (loss) per share
	Yen	Yen
Nine months ended December 31, 2016	41.07	40.80
Nine months ended December 31, 2015	45.13	44.86

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Nine months ended December 31, 2016	28,566	22,035	76.8	1,380.66
Year ended March 31, 2017	28,305	21,500	75.7	1,340.00

(Reference) Shareholder's equity: Nine Months ended December 31, 2016 21,930 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 December 31, 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 December 31, 2016: 230,225 shares

As of March 31, 2016: 132,879 shares

(c) Average number of shares during the period

As of December 31, 2016: 15,913,112 shares

As of December 31, 2015: 15,974,279 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 nine months of the consolidated fiscal year (from April 1, 2016 to December 31, 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 economic outlook continued to be unclear due to the effects of the UK's decision to leave the EU, concerns over an economic slowdown in emerging nations and uncertainty regarding the policies of the new US administration.

Under such circumstances, the Company Group posted net sales of 16,454 million yen for the first nine months of the consolidated fiscal year under review, a decrease of 595 million yen (3.5%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 6,622 million yen (40.2% of net sales), a decrease of 476 million yen (6.7%).

Concerning profits, selling, general and administrative expenses increased 6 million yen (0.1%) from the corresponding period of the previous consolidated fiscal year, and operating income fell to 996 million yen, a decrease of 205 million yen (17.1%). In addition, the impact of exchange rates had a negative effect on non-operating income, yielding ordinary income of 869 million yen, a decrease of 254 million yen (22.7%). Profit attributable to owners of parent, after deducting tax expenses, was 653 million yen, a decrease of 67 million yen (9.4%).

(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 nine months 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, net sales for the first nine months of the consolidated fiscal year under review decreased by 590 million yen (3.8%) from the corresponding period of the previous consolidated fiscal year to 14,999 million yen, and operating income decreased 149 million yen (12.9%) from the corresponding period of the previous consolidated fiscal year to 1,009 million yen despite 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 lineup of color gels, sales fell compared to the corresponding period of the previous consolidated fiscal year. On the other hand, as a result of our aggressive sales promotion activities overseas, sales of the LED gel "Presto" were robust in America and Taiwan.

As a result of these factors, net sales for the first nine months of the consolidated fiscal year under review decreased by 13 million yen (1.0%) from the corresponding period of the previous consolidated fiscal year to 1,385 million yen, resulting in an operating loss of 36 million yen, a year-on-year decrease of 54 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 for the first nine months of the consolidated fiscal year under review increased 7 million yen (12.7%) from the corresponding period of the previous consolidated fiscal year to 69 million yen, and operating income increased by 1 million yen (7.0%) to 19 million yen.

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

Total assets at the end of the first nine months of the consolidated fiscal year under review increased by 260 million yen from the end of the previous consolidated fiscal year to 28,566 million yen.

In assets, investment securities mainly increased.

Liabilities decreased by 274 million yen to 6,530 million yen. The primary factors were decreases in other current liabilities such as accrued expenses and long-term loans payable.

Net assets increased by 535 million yen from the corresponding period of the previous consolidated fiscal year to 22,035 million yen. The primary factor was an increase in valuation difference on available-for-sale securities.

As a result of the above, the capital-to-assets ratio rose to 76.8%, an increase of 1.1 points from the end of the previous consolidated fiscal year.

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

With regard to the forecast for the consolidated fiscal year ending March 31, 2017, no revision has been made to the forecast announced on October 28, 2016.

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 nine months 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 Third Quarter of Fiscal 2016 (as of December 31, 2016)
Assets		
Current assets		
Cash and deposits	4,413	4,651
Notes and accounts receivable-trade	3,185	2,869
Short term investment securities	80	53
Merchandises and finished goods	3,885	3,782
Work in process	863	879
Raw materials and supplies	872	992
Other	1,080	918
Allowance for doubtful accounts	114	89
Total current assets	14,265	14,059
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	7,982	7,983
Accumulated depreciation	4,715	4,862
Buildings and structures, net	3,266	3,120
Other	9,144	9,338
Accumulated depreciation	5,683	5,829
Other, net	3,460	3,508
Total property, plant and equipment	6,727	6,629
Intangible assets		
Goodwill	649	584
Other	1,113	1,001
Total intangible assets	1,762	1,586
Investments and other assets		
Investment securities	4,508	5,317
Net defined benefit asset	669	628
Other	381	352
Allowance for doubtful accounts	9	7
Total investments and other assets	5,549	6,290
Total non-current assets	14,039	14,506
Total assets	28,305	28,566

(Millions of yen)

	Previous fiscal year (as of March 31,2016)	End of Third Quarter of Fiscal 2016 (as of December 31, 2016)
Liabilities		
Current liabilities		
Accounts payable-trade	647	618
Current portion of long-term loans payable	385	505
Income taxes payable	115	252
Provision for directors' bonuses	44	36
Other	1,856	1,632
Total current liabilities	3,049	3,045
Noncurrent liabilities		
Long-term loans payable	1,729	1,355
Net defined benefit liability	177	186
Other	1,847	1,943
Total noncurrent liabilities	3,755	3,484
Total liabilities	6,804	6,530
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	10,600	10,967
Treasury shares	122	252
Total shareholders' equity	19,530	19,766
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,781	2,354
Foreign currency translation adjustment	137	186
Remeasurements of defined benefit plans	34	4
Total accumulated other comprehensive income	1,884	2,163
Subscription rights to shares	73	87
Minority interests	11	17
Total net assets	21,500	22,035
Total liabilities and net assets	28,305	28,566

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

(Millions of yen)

	Third Quarter of Fiscal 2015 (from April 1, 2015 to December 31, 2015)	Third Quarter of Fiscal 2016 (from April 1, 2016 to December 31, 2016)
Net sales	17,050	16,454
Cost of sales	7,238	6,841
Gross profit	9,811	9,612
Selling, general, and administrative expenses	8,609	8,616
Operating income	1,202	996
Non-operating income		
Interest income	6	4
Dividend income	60	69
Membership fee income	86	85
Other	75	103
Total non-operating income	228	263
Non-operating expenses		
Interest expenses	11	7
Sales discounts	124	122
Membership fee	111	111
Foreign exchange losses	35	112
Other	22	35
Total non-operating expenses	305	390
Ordinary income	1,124	869
Extraordinary income		
Gain on sales of non-current assets	21	-
Gain on sales of investment securities	35	-
Total extraordinary income	56	-
Extraordinary loss		
Loss on sales of investment securities	25	-
Expenses for voluntary recall of the products	51	-
Total extraordinary losses	76	-
Income before income taxes and minority interests	1,105	869
Income taxes	378	211
Profit	726	658
Profit attributable to non-controlling interests	5	4
Profit attributable to owners of parent	720	653

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third Quarter of Fiscal 2015 (from April 1, 2015 to December 31, 2015)	Third Quarter of Fiscal 2016 (from April 1, 2016 to December 31, 2016)
Profit	726	658
Other comprehensive income		
Valuation difference on available-for-sale securities	96	572
Foreign currency translation adjustment	48	322
Remeasurements of defined benefit plans, net of tax	27	29
Other comprehensive income	116	279
Comprehensive income	843	938
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	838	932
Comprehensive income attributable to non-controlling interests	4	5

(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 – December 31, 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	15,589	1,399	61	17,050	-	17,050
(2) Internal sales or transfers	-	0	4	4	Δ4	-
Total	15,589	1,399	65	17,055	Δ4	17,050
Segment profit (loss)	1,159	18	17	1,195	6	1,202

*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– December 31, 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	14,999	1,385	69	16,454	-	16,454
(2) Internal sales or transfers	0	0	4	5	Δ5	-
Total	14,999	1,386	74	16,460	Δ5	16,454
Segment profit (loss)	1,009	Δ36	19	992	4	996

*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 nine months of the consolidated fiscal year under review was insignificant.