

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

February 2, 2018

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 14, 2018
 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, 2018 (April 1, 2017 – December 31, 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	%
Nine months ended December 31, 2017	17,801	8.2	1,135	14.0	1,281	47.3	933	42.8
Nine months ended December 31, 2016	16,454	-3.5	996	-17.1	869	-22.7	653	-9.4

(Note) Comprehensive income: Nine Months ended December 31, 2017 2,353 million yen (150.9%)
 Nine Months ended December 31, 2016 938 million yen (11.3%)

	Third Quarter Net income (loss) per share	Third Quarter Fully diluted net income (loss) per share
	Yen	Yen
Nine months ended December 31, 2017	58.73	58.38
Nine months ended December 31, 2016	41.07	40.80

(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, 2017	31,102	24,348	77.9	1,524.12
Year ended March 31, 2017	28,853	22,296	76.9	1,396.74

(Reference) Shareholder's equity: Nine Months ended December 31 2017 24,230 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 December 31, 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 December 31, 2017: 215,742 shares

As of March 31, 2017: 230,355 shares

(c) Average number of shares during the period

As of December 31, 2017: 15,894,033 shares

As of December 30, 2016: 15,913,112 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.

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

(1) Explanation of Business Results

During the first nine months of the consolidated fiscal year (from April 1, 2017 to December 31, 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 solid corporate earnings.

Under such circumstances, the Company Group posted net sales of 17,801 million yen for the first nine months of the consolidated fiscal year under review, an increase of 1,346 million yen (8.2%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 7,602 million yen (42.7% of net sales), an increase of 980 million yen (14.8%).

Concerning profits, although selling, general and administrative expenses increased by 492 million yen (5.7%) from the corresponding period of the previous consolidated fiscal year, operating income accounted for 1,135 million yen, an increase of 139 million yen (14.0%) owing to an increase in the net sales. In addition, the impact of exchange rates had a positive effect on non-operating income, yielding ordinary income of 1,281 million yen, an increase of 411 million yen (47.3%). 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 933 million yen, an increase of 279 million yen (42.8%).

(Dental business)

Domestically, with intensifying competition in the market, new products such as the “EyeSpecial C-III,” a digital oral cavity photography device and the “BEAUTIFIL Flow Plus X,” a dental filling composite resin, which were introduced to the market during the first nine months of the consolidated fiscal year under review, contributed to sales, and sales increased 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, net sales for the first nine months of the consolidated fiscal year under review increased by 903 million yen (6.0%) from the corresponding period of the previous consolidated fiscal year to 15,903 million yen, and operating income increased by 84 million yen (8.3%) to 1,093 million yen despite an increase in selling, general and administrative expenses.

(Nail care business)

The new “ageha” brand of gel nail products which was introduced to the market during the first nine months of the consolidated fiscal year under review contributed to sales. Due to factors such as the record sale in “TOKYO NAIL EXPO 2017,” a leading exhibition in the industry, domestic sales increased year on year with favorable performance. Looking overseas, sales of the LED gel “Presto” were solid in the US and Taiwan.

As a result of these factors, net sales for the first nine months of the consolidated fiscal year under review increased by 435 million yen (31.4%) from the corresponding period of the previous consolidated fiscal year to 1,821 million yen. Operating income achieved profitability of 21 million yen, a year-on-year increase in profitability of 58 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 nine months of the consolidated fiscal year under review increased by 6 million yen (10.1%) from the corresponding period of the previous consolidated fiscal year to 76 million yen. However, due to an increase in the cost of sales ratio, operating income decreased by 4 million yen (22.1%) to 14 million yen.

(2) Explanation of Financial Position

Total assets at the end of the first nine months of the consolidated fiscal year under review increased by 2,248 million yen from the end of the previous consolidated fiscal year to 31,102 million yen.

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

Liabilities increased by 196 million yen to 6,753 million yen. The primary factor was an increase in other noncurrent liabilities such as long-term deferred tax liabilities.

Net assets increased by 2,052 million yen to 24,348 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 77.9%, an increase of 1.0 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 Third Quarter of Fiscal 2017 (as of December 31, 2017)
Assets		
Current assets		
Cash and deposits	4,997	5,111
Notes and accounts receivable-trade	3,138	3,020
Securities	5	5
Merchandises and finished goods	3,666	4,232
Work in process	882	929
Raw materials and supplies	817	980
Other	871	1,053
Allowance for doubtful accounts	-93	-88
Total current assets	14,286	15,245
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	8,096	8,158
Accumulated depreciation	-4,917	-5,112
Buildings and structures, net	3,179	3,046
Other	9,557	10,019
Accumulated depreciation	-6,054	-6,468
Other, net	3,503	3,551
Total property, plant and equipment	6,682	6,597
Intangible assets		
Goodwill	558	585
Other	980	1,013
Total intangible assets	1,538	1,599
Investments and other assets		
Investment securities	5,304	6,784
Net defined benefit asset	710	562
Other	338	324
Allowance for doubtful accounts	-8	-13
Total investments and other assets	6,345	7,659
Total non-current assets	14,566	15,856
Total assets	28,853	31,102

(Millions of yen)

	Previous fiscal year (as of March 31,2017)	End of Third Quarter of Fiscal 2017 (as of December 31, 2017)
Liabilities		
Current liabilities		
Accounts payable-trade	612	688
Current portion of long-term loans payable	505	505
Income taxes payable	312	368
Provision for directors' bonuses	30	25
Other	1,753	1,715
Total current liabilities	3,215	3,303
Noncurrent liabilities		
Long-term loans payable	1,225	850
Net defined benefit liability	198	211
Other	1,918	2,388
Total noncurrent liabilities	3,341	3,449
Total liabilities	6,556	6,753
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	11,150	11,763
Treasury shares	-252	-236
Total shareholders' equity	19,949	20,578
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,318	3,366
Foreign currency translation adjustment	-176	151
Remeasurements of defined benefit plans	93	134
Total accumulated other comprehensive income	2,235	3,652
Subscription rights to shares	92	95
Non-controlling interests	18	21
Total net assets	22,296	24,348
Total liabilities and net assets	28,853	31,102

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

(Millions of yen)

	Third Quarter of Fiscal 2016 (from April 1, 2016 to December 31, 2016)	Third Quarter of Fiscal 2017 (from April 1, 2017 to December 31, 2017)
Net sales	16,454	17,801
Cost of sales	6,841	7,556
Gross profit	9,612	10,244
Selling, general, and administrative expenses	8,616	9,109
Operating profit	996	1,135
Non-operating income		
Interest income	4	5
Dividend income	69	80
Membership fee income	85	81
Foreign exchange gains	-	163
Other	103	86
Total non-operating income	263	418
Non-operating expenses		
Interest expenses	7	5
Sales discounts	122	123
Membership fee	111	105
Foreign exchange losses	112	-
Other	35	38
Total non-operating expenses	390	273
Ordinary profit	869	1,281
Extraordinary income		
Gain on sales of investment securities	-	23
Total extraordinary income	-	23
Profit before income taxes	869	1,304
Income taxes	211	368
Profit	658	936
Profit (loss) attributable to non-controlling interests	4	3
Profit attributable to owners of parent	653	933

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third Quarter of Fiscal 2016 (from April 1, 2016 to December 31, 2016)	Third Quarter of Fiscal 2017 (from April 1, 2017 to December 31, 2017)
Profit	658	936
Other comprehensive income		
Valuation difference on available-for-sale securities	572	1,048
Foreign currency translation adjustment	-322	327
Remeasurements of defined benefit plans, net of tax	29	41
Total other comprehensive income	279	1,417
Comprehensive income	938	2,353
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	932	2,350
Comprehensive income attributable to non-controlling interests	5	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—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	(5)	-
Total	14,999	1,386	74	16,460	(5)	16,454
Segment profit (loss)	1,009	(36)	19	992	4	996

*1 The ¥4 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—December 31, 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	15,903	1,821	76	17,801	-	17,801
(2) Internal sales or Transfers	0	0	5	6	(6)	-
Total	15,903	1,822	81	17,807	(6)	17,801
Segment profit(loss)	1,093	21	14	1,130	4	1,135

*1 The ¥4 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.