

The Second Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2020
(Japanese Accounting Standards)

November 1, 2019

Company name: SHOFU INC.
 Listing: Tokyo Stock Exchange (First section)
 Code number: 7979
 URL: <http://www.shofu.co.jp/>
 Representative: Noriyuki Negoro, President
 Contact: Takahiro Umeda, Managing Executive Officer & General Manager of Finance Department
 Scheduled date for filing of quarterly securities report: November 13, 2019
 Scheduled commencement date of dividend payment: November 29, 2019
 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, 2020 (April 1, 2019 – September 30, 2019)

(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, 2019	13,421	10.2	1,415	80.4	1,242	58.8	788	44.3
Six months ended September 30, 2018	12,179	4.1	784	5.7	782	(8.3)	546	(14.1)

(Note) Comprehensive income: Six Months ended September 30, 2019 555 million yen (7.4%)
 Six Months ended September 30, 2018 599 million yen (-62.4%)

	Second Quarter Net income (loss) per share	Second Quarter Fully diluted net income (loss) per share
	Yen	Yen
Six months ended September 30, 2019	49.51	49.15
Six months ended September 30, 2018	34.35	34.12

(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, 2019	30,831	24,687	79.6	1,539.56
Year ended March 31, 2019	30,161	24,383	80.4	1,524.92

(Reference) Shareholder's equity: Six Months ended September 30, 2019 24,548 million yen
 Year ended March 31, 2019 24,250 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, 2019	-	8.00	-	15.00	23.00
Year ended March 31, 2020	-	10.00	-	-	-
Year ending March 31, 2020 (Forecasts)	-	-	-	16.00	26.00

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

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2020. (April 1, 2019 – March 31, 2020)

(% 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, 2020	26,190	5.1	2,056	13.4	1,941	13.6	1,377	14.7	86.61

(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, 2019: 16,114,089 shares

As of March 31, 2019: 16,114,089 shares

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

As of September 30, 2019: 168,926 shares

As of March 31, 2019: 211,210 shares

(c) Average number of shares during the period

As of September 30, 2019: 15,922,038 shares

As of September 30, 2018: 15,901,067 shares

* This quarterly earnings report is not subject to quarterly review by a certified public accountant or an audit firm.

*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.

Accompanying Materials—Contents

- 1. Qualitative information related to financial results for the quarter under review.....2
 - (1) Explanation of Business Results.....2
 - (2) Explanation of Financial Position.....3
 - (3) Explanation of Future Forecast Information including Consolidated Business Results Forecasts3
- 2. Quarterly Consolidated Financial Statements and Primary Notes.....4
 - (1) Quarterly Consolidated Balance Sheets4
 - (2) Quarterly Consolidated Statements of Income and Comprehensive Income.....6
 - (3) Notes to Quarterly Consolidated Financial Statements7
 - (Notes Relating to Assumptions for the Going Concern)7
 - (Notes to Significant Changes in the Amounts of Shareholders' Equity).....7
 - (Application of Special Accounting Processing in the Compilation of Quarterly Financial Statements).7
 - (Changes in Accounting Principles).....7
 - (Segment Information,etc).....7

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

(1) Explanation of Business Results

During the Second quarter of the consolidated fiscal year under review, although the global economy was on a moderate expansion trend primarily in developed nations, the economic outlook remains unclear as uncertainties in the global economy increased, with the trade conflict caused by the US trade policy and the political situation in Europe. The Japanese economy progressed on a moderate recovery trend, with individual consumption and capital investment trending higher, as the employment and income conditions continued to improve and corporate earnings remained firm.

Under such circumstances, the Company Group posted net sales of 13,421 million yen for the quarter under review, an increase of 1,242 million yen (10.2%) from the corresponding period of the previous year. Overseas sales accounted for 5,811 million yen (43.3% of net sales), an increase of 311 million yen (5.7%).

Operating income accounted for 1,415 million yen, an increase of 630 million yen (80.4%) owing to a decrease in selling, general, and administrative expenses as well as an effect of increase in net sales.

In addition, the impact of exchange rates had a negative effect on non-operating income, yielding ordinary income of 1,242 million yen, an increase of 460 million yen (58.8%) from the corresponding period of the previous year.

Profit attributable to owners of parent, after deducting tax expenses, was 788 million yen, income increased of 241 million yen (44.3%).

(Dental business)

Domestically, the “EyeSpecial C-IV,” a digital oral cavity photography device, which was introduced to the market during the current consolidated fiscal year, and “AIRFLOW PROPHYLAXIS MASTER,” a dental multi-purpose ultrasonic therapy machine, which was launched during the previous consolidated fiscal year, etc. contributed to sales. In addition, sales of CAD/CAM-related products also increased steadily, and sales increased from the corresponding period of the previous year. Looking overseas, with solid sales performance in all regions centered on China, sales increased from the corresponding period of the previous year, despite being affected by the stronger yen at exchange markets.

As a result of these factors, net sales for the second quarter under review increased 1,239 million yen (11.3%) from the corresponding period of the previous year to 12,168 million yen, and operating income increased 527 million yen (65.7%) to 1,330 million yen.

(Nail care business)

Domestically, with steady increase in sales of gel nail products such as LED gel “Presto” and “ageha,” sales increased from the corresponding period of the previous year. Looking overseas, in the US, active sales promotion activities were successful in generating favorable sales performance, and sales increased from the corresponding period of the previous year. However, in Taiwan, as competitors were still taking aggressive actions, sales decreased from the corresponding period of the previous year.

As a result of these factors, net sales for the second quarter under review increased 11 million yen (1.0%) from the corresponding period of the previous year to 1,209 million yen. Operating income achieved profitability of 77 million yen, a year-on-year increase of 106 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 second quarter under review decreased 8 million yen (17.1%) from the corresponding period of the previous year to 42 million yen, and operating income decreased 3 million yen (37.8%) to 5 million yen.

(2) Explanation of Financial Position

Total assets at the end of the second quarter under review increased by 669 million yen from the end of the previous year to 30,831 million yen. The primary factor for the increase in assets was an increase in notes and accounts receivable-trade, and merchandises and finished goods.

Liabilities increased by 366 million yen to 6,144 million yen. The primary factor was an increase in short term loans payable.

Net assets decreased by 303 million yen to 24,678 million yen. The primary factor was an increase in retained earnings.

As a result of the above, the capital-to-assets ratio fell to 79.6%, a decrease of 0.8 points from the end of the previous 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, 2020, as announced on May 9, 2019.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (as of March 31,2019)	End of Second Quarter of Fiscal 2019. (as of September 30, 2019)
Assets		
Current assets		
Cash and deposits	4,890	4,695
Notes and accounts receivable-trade	3,354	3,731
Securities	5	5
Merchandises and finished goods	4,347	4,584
Work in process	911	936
Raw materials and supplies	949	1,082
Other	574	569
Allowance for doubtful accounts	(58)	(60)
Total current assets	14,975	15,545
Noncurrent assets		
Property,plant and equipment		
Buildings and structures	8,237	8,572
Accumulated depreciation	(5,377)	(5,458)
Buildings and structures, net	2,859	3,114
Other	10,806	10,534
Accumulated depreciation	(6,566)	(6,457)
Other, net	4,240	4,076
Total property,plant and equipment	7,100	7,190
Intangible assets		
Goodwill	274	246
Other	857	878
Total intangible assets	1,132	1,124
Investments and other assets		
Investment securities	6,026	6,059
Net defined benefit asset	530	513
Other	409	410
Allowance for doubtful accounts	(13)	(13)
Total investments and other assets	6,953	6,970
Total non-current assets	15,186	15,285
Total assets	30,161	30,831

(Millions of yen)

	Previous fiscal year (as of March 31,2019)	End of Second Quarter of Fiscal 2019. (as of September 30, 2019)
Liabilities		
Current liabilities		
Accounts payable-trade	669	780
Short-term loans payable	—	432
Current portion of long-term loans payable	849	711
Income taxes payable	242	309
Provision for directors' bonuses	42	19
Other	2,016	1,863
Total current liabilities	3,820	4,116
Noncurrent liabilities		
Long-term loans payable	125	236
Net defined benefit liability	222	216
Other	1,610	1,575
Total noncurrent liabilities	1,957	2,027
Total liabilities	5,778	6,144
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,586
Retained earnings	12,589	13,082
Treasury shares	(231)	(185)
Total shareholders' equity	21,409	21,958
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,797	2,887
Foreign currency translation adjustment	(196)	(521)
Remeasurements of defined benefit plans	239	223
Total accumulated other comprehensive income	2,841	2,589
Subscription rights to shares	118	116
Non-controlling interests	14	22
Total net assets	24,383	24,687
Total liabilities and net assets	30,161	30,831

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

(Millions of yen)

	Second Quarter of Fiscal 2018 (from April 1, 2018 to September 30, 2018)	Second Quarter of Fiscal 2019 (from April 1, 2019 to September 30, 2019)
Net sales	12,179	13,421
Cost of sales	5,087	5,830
Gross profit	7,091	7,590
Selling, general, and administrative expenses	6,306	6,174
Operating profit	784	1,415
Non-operating income		
Interest income	3	5
Dividend income	52	62
Membership fee income	51	56
Foreign exchange gains	2	—
Other	62	45
Total non-operating income	171	169
Non-operating expenses		
Interest expenses	4	3
Sales discounts	80	86
Membership fee	58	76
Foreign exchange losses	—	133
Other	30	42
Total non-operating expenses	174	342
Ordinary profit	782	1,242
Profit before income taxes	782	1,242
Income taxes	244	445
Profit	537	796
Profit (loss) attributable to non-controlling interests	(8)	8
Profit attributable to owners of parent	546	788

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second Quarter of Fiscal 2018 (from April 1, 2018 to September 30, 2018)	Second Quarter of Fiscal 2019 (from April 1, 2019 to September 30, 2019)
Profit	537	796
Other comprehensive income		
Valuation difference on available-for-sale securities	(15)	89
Foreign currency translation adjustment	72	(314)
Remeasurements of defined benefit plans, net of tax	5	(16)
Total other comprehensive income	61	(241)
Comprehensive income	599	555
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	607	547
Comprehensive income attributable to non-controlling interests	(8)	7

(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.

(Changes in Accounting Principles)

Subsidiaries which adopt the International Financial Reporting Standards have adopted IFRS 16 Leases (hereinafter referred to as "IFRS 16") since the first quarter of the consolidated fiscal year under review. As a result, lessees have recorded all leases, in principle, as assets and liabilities in the balance sheet. The adoption of IFRS 16 is subject to transitional treatment, and the cumulative effect of the change in the accounting principles was recorded in retained earnings at the beginning of the first quarter of the consolidated fiscal year under review.

As a result, as of the end of the second quarter of the consolidated fiscal year under review, "Other" under "Intangible assets" increased by 71 million yen, "Other" under "Current liabilities" increased by 54 million yen, and "Other" under "Noncurrent liabilities" increased by 32 million yen. The impact on profit and loss for the second quarter of the consolidated fiscal year under review is immaterial. The balance of retained earnings as of the beginning of the second quarter of the consolidated fiscal year under review decreased by 16 million yen.

(Segment Information, etc)

Previous fiscal year (April 1, 2018—September 30, 2018)

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	10,929	1,198	51	12,179	-	12,179
(2) Internal sales or transfers	-	-	4	4	(4)	-
Total	10,929	1,198	55	12,183	(4)	12,179
Segment profit(loss)	802	(29)	9	781	3	784

*1 The ¥3 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, 2019—September 30, 2019)

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	12,168	1,209	42	13,421	-	13,421
(2) Internal sales or transfers	-	-	3	3	(3)	-
Total	12,168	1,209	46	13,424	(3)	13,421
Segment profit(loss)	1,330	77	5	1,412	3	1,415

*1 The ¥3 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.