

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

February 4, 2020

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: February 12, 2020  
 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, 2020(April 1,2019 – December 31,2019)

(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	%
Nine months ended December 31, 2019	19,602	6.3	1,921	45.2	1,814	42.8	1,188	33.1
Nine months ended December 31, 2018	18,445	3.6	1,323	16.5	1,270	(0.8)	892	(4.3)

(Note) Comprehensive income: Nine Months ended December 31, 2019 1,565 million yen (—%)  
 Nine Months ended December 31, 2018 (79) million yen (—%)

	Third Quarter Net income (loss) per share	Third Quarter Fully diluted net income (loss) per share
	Yen	Yen
Nine months ended December 31, 2019	74.63	74.10
Nine months ended December 31, 2018	56.15	55.76

(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, 2019	31,995	25,543	79.4	1,593.11
Year ended March 31, 2019	30,161	24,383	80.4	1,524.92

(Reference) Shareholder's equity: Nine Months ended December 31, 2019 25,402 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 December 31, 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 December 31, 2019: 169,054 shares

As of March 31, 2019: 211,210 shares

(c) Average number of shares during the period

As of December 31, 2019: 15,928,947 shares

As of December 31, 2018: 15,901,659 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 Forecasts .....3
- 2. Quarterly Consolidated Financial Statements and Primary Notes.....4
  - (1) Quarterly Consolidated Balance Sheets .....4
  - (2) Quarterly Consolidated Statements of Income and Comprehensive Income.....6
  - (3) Notes to Quarterly Consolidated Financial Statements .....7
    - (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 third 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 19,602 million yen for the quarter under review, an increase of 1,156 million yen (6.3%) from the corresponding period of the previous year. Overseas sales accounted for 8,629 million yen (44.0% of net sales), an increase of 300 million yen (3.6%).

Operating income accounted for 1,921 million yen, an increase of 598 million yen (45.2%) 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 1,814 million yen, an increase of 544 million yen (42.8%) from the corresponding period of the previous year.

Profit attributable to owners of parent, after deducting tax expenses, was 1,188 million yen, income increased of 295 million yen (33.1%).

#### (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 mainly in the Asia region including 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 third quarter under review increased 1,191 million yen (7.2%) from the corresponding period of the previous year to 17,783 million yen, and operating income increased 497 million yen (37.2%) to 1,835 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 third quarter under review decreased 24 million yen (1.4%) from the corresponding period of the previous year to 1,752 million yen. Operating income achieved profitability of 70 million yen, a year-on-year increase of 103 million yen, owing to a reduction in selling, general, and administrative expenses.

#### (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 third quarter under review decreased 9 million yen (12.8%) from the corresponding period of the previous year to 66 million yen, and operating income decreased 3 million yen (22.6%) to 10 million yen.

(2) Explanation of Financial Position

Total assets at the end of the third quarter under review increased by 1,833 million yen from the end of the previous year to 31,995 million yen. The primary factor for the increase in assets was an increase in merchandises and finished goods, and investment securities due to market price rise.

Liabilities increased by 673 million yen to 6,451 million yen. The primary factor was an increase in short term loans payable.

Net assets increased by 1,160 million yen to 25,543 million yen. The primary factor was an increase in retained earnings.

As a result of the above, the capital-to-assets ratio fell to 79.4%, a decrease of 1.0 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 Third Quarter of Fiscal 2019. (as of December 31, 2019)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	4,890	4,516
Notes and accounts receivable-trade	3,354	3,050
Securities	5	5
Merchandises and finished goods	4,347	5,086
Work in process	911	1,017
Raw materials and supplies	949	1,080
Other	574	640
Allowance for doubtful accounts	(58)	(56)
<b>Total current assets</b>	<b>14,975</b>	<b>15,339</b>
<b>Noncurrent assets</b>		
Property, plant and equipment		
Buildings and structures	8,237	8,709
Accumulated depreciation	(5,377)	(5,526)
Buildings and structures, net	2,859	3,183
Other	10,806	11,041
Accumulated depreciation	(6,566)	(6,582)
Other, net	4,240	4,459
Total property, plant and equipment	7,100	7,642
Intangible assets		
Goodwill	274	247
Other	857	880
Total intangible assets	1,132	1,128
Investments and other assets		
Investment securities	6,026	6,982
Net defined benefit asset	530	505
Other	409	410
Allowance for doubtful accounts	(13)	(13)
Total investments and other assets	6,953	7,884
<b>Total non-current assets</b>	<b>15,186</b>	<b>16,655</b>
<b>Total assets</b>	<b>30,161</b>	<b>31,995</b>

(Millions of yen)

	Previous fiscal year (as of March 31,2019)	End of Third Quarter of Fiscal 2019. (as of December 31, 2019)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	669	808
Short-term loans payable	—	793
Current portion of long-term loans payable	849	595
Income taxes payable	242	237
Provision for directors' bonuses	42	29
Other	2,016	1,681
<b>Total current liabilities</b>	<b>3,820</b>	<b>4,146</b>
<b>Noncurrent liabilities</b>		
Long-term loans payable	125	245
Net defined benefit liability	222	219
Other	1,610	1,840
<b>Total noncurrent liabilities</b>	<b>1,957</b>	<b>2,304</b>
<b>Total liabilities</b>	<b>5,778</b>	<b>6,451</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	4,474	4,474
Capital surplus	4,576	4,586
Retained earnings	12,589	13,332
Treasury shares	(231)	(185)
<b>Total shareholders' equity</b>	<b>21,409</b>	<b>22,208</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	2,797	3,376
Foreign currency translation adjustment	(196)	(392)
Remeasurements of defined benefit plans	239	208
Total accumulated other comprehensive income	2,841	3,193
<b>Subscription rights to shares</b>	<b>118</b>	<b>116</b>
<b>Non-controlling interests</b>	<b>14</b>	<b>25</b>
<b>Total net assets</b>	<b>24,383</b>	<b>25,543</b>
<b>Total liabilities and net assets</b>	<b>30,161</b>	<b>31,995</b>

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

(Millions of yen)

	Third Quarter of Fiscal 2018 (from April 1, 2018 to December 31, 2018)	Third Quarter of Fiscal 2019 (from April 1, 2019 to December 31, 2019)
<b>Net sales</b>	18,445	19,602
<b>Cost of sales</b>	7,635	8,427
<b>Gross profit</b>	10,809	11,174
<b>Selling, general, and administrative expenses</b>	9,485	9,253
<b>Operating profit</b>	1,323	1,921
<b>Non-operating income</b>		
Interest income	5	10
Dividend income	85	99
Membership fee income	91	85
Other	105	72
<b>Total non-operating income</b>	287	268
<b>Non-operating expenses</b>		
Interest expenses	6	6
Sales discounts	122	131
Membership fee	112	115
Foreign exchange losses	44	71
Other	53	49
<b>Total non-operating expenses</b>	340	375
<b>Ordinary profit</b>	1,270	1,814
<b>Profit before income taxes</b>	1,270	1,814
<b>Income taxes</b>	390	615
<b>Profit</b>	879	1,198
<b>Profit (loss) attributable to non-controlling interests</b>	(13)	10
<b>Profit attributable to owners of parent</b>	892	1,188

**Quarterly Consolidated Statements of Comprehensive Income**

(Millions of yen)

	Third Quarter of Fiscal 2018 (from April 1, 2018 to December 31, 2018)	Third Quarter of Fiscal 2019 (from April 1, 2019 to December 31, 2019)
<b>Profit</b>	879	1,198
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	(839)	579
Foreign currency translation adjustment	(127)	(181)
Remeasurements of defined benefit plans, net of tax	7	(31)
<b>Total other comprehensive income</b>	(959)	366
<b>Comprehensive income</b>	(79)	1,565
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	(66)	1,554
Comprehensive income attributable to non-controlling interests	(13)	10



(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 third quarter of the consolidated fiscal year under review, "Other" under "Intangible assets" increased by 58 million yen, "Other" under "Current liabilities" increased by 45 million yen, and "Other" under "Noncurrent liabilities" increased by 29 million yen. The impact on profit and loss for the third quarter of the consolidated fiscal year under review is immaterial. The balance of retained earnings as of the beginning of the third quarter of the consolidated fiscal year under review decreased by 16 million yen.

(Segment Information, etc)

Previous fiscal year (April 1, 2018—December 31, 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	16,592	1,776	75	18,445	-	18,445
(2) Internal sales or transfers	-	-	6	6	(6)	-
Total	16,592	1,777	82	18,451	(6)	18,445
Segment profit(loss)	1,337	(32)	13	1,318	4	1,323

\*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, 2019—December 31, 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	17,783	1,752	66	19,602	-	19,602
(2) Internal sales or transfers	-	-	4	4	(4)	-
Total	17,783	1,752	70	19,606	(4)	19,602
Segment profit(loss)	1,835	70	10	1,916	4	1,921

\*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.