

**The First Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2021  
(Japanese Accounting Standards)**

August 4, 2020

Company name: SHOFU INC.  
 Listing: Tokyo Stock Exchange (First section)  
 Code number: 7979  
 URL: <http://www.shofu.co.jp/>  
 Representative: Noriyuki Negoro, Representative Director, President & Chief Executive Officer  
 Contact: Takahiro Umeda, Managing Executive Officer of Finance & General Manager of Finance Department  
 Scheduled date for filing of quarterly securities report: August 12, 2020  
 Scheduled commencement date of dividend payment: —  
 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 First Quarter of Fiscal Year Ended March 31, 2021 (April 1, 2020 – June 30, 2020)

(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	%
Three months ended June 30, 2020	4,877	(24.5)	128	(76.2)	80	(83.9)	(58)	—
Three months ended June 30, 2019	6,461	6.1	542	39.6	500	20.6	247	(5.8)

(Note) Comprehensive income: Three Months ended June 30, 2020 84 million yen (—%)  
 Three Months ended June 30, 2019 (25) million yen (—%)

	First Quarter Net income (loss) per share	First Quarter Fully diluted net income (loss) per share
	Yen	Yen
Three months ended June 30, 2020	(3.61)	—
Three months ended June 30, 2019	15.54	15.43

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Three months ended June 30, 2020	33,607	26,754	79.2	1,500.76
Year ended March 31, 2020	29,834	23,936	79.7	1,491.81

(Reference) Shareholder's equity: Three Months ended June 30, 2020 26,600 million yen  
 Year ended March 31, 2020 23,786 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, 2020	—	10.00	—	16.00	26.00
Year ended March 31, 2021	—	—	—	—	—
Year ending March 31, 2021 (Forecasts)	—	8.00	—	10.00	18.00

(Notes) Revision to the dividend forecast during the current quarter: Yes

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2021. (April 1, 2020 – March 31, 2021)

(% 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
Six months ending September 30, 2020 (cumulative)	10,473	(22.0)	315	(77.7)	245	(80.2)	51	(93.4)	3.05
Year ending March 31, 2021	22,838	(12.5)	1,378	(37.6)	1,179	(40.7)	771	9.5	44.57

(Notes) Revision during the current quarter to the performance forecasts: Yes

\*Notes

(1) Changes in significant subsidiaries during the period (change in scope of consolidation): Yes

Addition: 1

Company name: SHOFU Products Vietnam Co.,Ltd.

(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 June 30, 2020: 17,894,089 shares

As of March 31, 2020: 16,114,089 shares

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

As of June 30, 2020: 169,070 shares

As of March 31, 2020: 169,076 shares

(c) Average number of shares during the period

As of June 30, 2020: 16,257,981 shares

As of June 30, 2019: 15,904,694 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

(Forward-looking Statements)

Please refer to the “Notice Regarding Results Forecast and Dividend Forecast” released on the date of this document with respect to our results forecast for the fiscal year ending March 31, 2021. The aforementioned forecasts have been calculated based upon currently available information and accordingly are not intended as a guarantee that the Company will achieve such results. Actual results may differ materially from the forecasts due to a variety of factors.

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

### (1) Explanation of Business Results

During the first quarter of the consolidated fiscal year under review, future prospects for the global economy became uncertain amid developments that included a deteriorating employment and income environment in the US and Europe given substantial restrictions on economic activities with respective governments having imposed emergency measures such as lockdowns and stay-at-home orders in major cities due to the spread of the novel coronavirus. The Japanese economy has also been marked by growing concerns of an economic downturn amid a scenario whereby individual consumption and corporate earnings have been deteriorating significantly underpinned by a mounting atmosphere of self-restraint, with seemingly no end in sight with respect to the COVID-19 pandemic.

Under such circumstances, the Company has concluded a new business and capital tie-up agreement with Mitsui Chemicals Inc. (“MCI”) in order to further strengthen business and capital tie-ups relating to the dental materials businesses with respect to which agreement had been concluded with MCI and its subsidiary Sun Medical Co., Ltd. (“Sun Medical”).

The Company has become an equity-method affiliate of MCI as a result of MCI now holding 20% of the total number of shares issued by the Company upon the Company having issued new shares to MCI by means of third-party allotment, in conjunction with the new business and capital tie-up agreement. Moreover, Sun Medical has been made an equity-method affiliate of the Company upon having acquired its shares from MCI (20% of the total number of issued shares) by means of bilateral transaction.

The Company Group posted net sales of 4,877 million yen for the quarter under review, a decrease of 1,583 million yen (24.5%) from the corresponding period of the previous consolidated fiscal year due to effects of the novel coronavirus. Overseas sales decreased by 1,247 million yen (42.0%) from the corresponding period of the previous consolidated fiscal year to 1,720 million yen (35.3% of net sales).

Operating income decreased by 413 million yen (76.2%) from the corresponding period of the previous consolidated fiscal year to 128 million yen despite a decrease in selling, general, and administrative expenses.

Ordinary income decreased by 420 million yen (83.9%) from the corresponding period of the previous consolidated fiscal year to 80 million yen largely as a result of having posted expenses associated with issuance of new shares by means of third-party allotment as non-operating expenses.

Profit attributable to owners of parent, after deducting tax expenses, was a loss of 58 million yen, a decrease of 305 million yen, from the corresponding period of the previous consolidated fiscal year.

#### (Dental business)

Domestically, the “EyeSpecial C-IV,” a digital oral cavity photography device, and “SHOFU BLOCK HC SUPER HARD,” a resin material for dental cutting processing, which was launched during the previous consolidated fiscal year, etc. contributed to sales. However, sales decreased from the corresponding period of the previous consolidated fiscal year given fewer opportunities to provide dental care due to effects of the novel coronavirus, and also as a result of restrictions having been imposed on sales activities. Looking overseas, sales decreased from the corresponding period of the previous consolidated fiscal year given more serious effects of the novel coronavirus that led to lackluster results in each region, as well as effects of foreign currency exchange rates.

As a result of these factors, net sales for the quarter under review decreased 1,504 million yen (25.7%) from the corresponding period of the previous consolidated fiscal year to 4,341 million yen, and operating income decreased 438 million yen (84.1%) to 82 million yen.

#### (Nail care business)

Domestically, sales decreased from the corresponding period of the previous consolidated fiscal year owing to lackluster results of products for professional manicurists largely due to cancellations of major exhibitions, and despite growth in sales of “by Nail Labo” gel nail products for home use due to effects of the novel coronavirus. Looking overseas, sales increased from the corresponding period of the previous consolidated fiscal year, driven by strong online sales in the US due to active sales promotion activities through social networking sites (SNS) and by sales in Taiwan of our mainstay gel nail products “L·E·D Gel Presto.”

As a result of these factors, net sales for the quarter under review decreased 77 million yen (13.1%) from the corresponding period of the previous consolidated fiscal year to 517 million yen. Operating income was 42 million yen, a year-on-year increase of 24 million yen (142.9%), 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 quarter under review decreased 1 million yen (5.4%) from the corresponding period of the previous consolidated fiscal year to 19 million yen, and operating income was almost same as the previous consolidated fiscal year 2 million yen.

## (2) Explanation of Financial Position

Total assets at the end of the quarter under review increased by 3,773 million yen from the end of the previous consolidated fiscal year to 33,607 million yen. The increase in investment securities due to the acquisition of Sun Medical shares is the main factor.

Liabilities increased by 955 million yen to 6,853 million yen. The primary factor was an increase in long term loans payable.

Net assets increased by 2,817 million yen to 26,754 million yen. The primary factors were increases in capital stock and capital surplus associated with issuance of new shares by means of third-party allotment.

As a result of the above, the capital-to-assets ratio fell to 79.2%, a decrease of 0.5 points from the end of the previous consolidated fiscal year.

## (3) Explanation of Future Forecast Information including Consolidated Business Results Forecasts

Please refer to the “Notice Regarding Results Forecast and Dividend Forecast” released on the date of this document with respect to our results forecast for the fiscal year ending March 31, 2021.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	Previous fiscal year (as of March 31,2020)	End of First Quarter of Fiscal 2020. (as of June 30, 2020)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	4,862	5,157
Notes and accounts receivable-trade	3,187	2,716
Securities	5	5
Merchandises and finished goods	4,713	5,283
Work in process	1,045	1,133
Raw materials and supplies	972	978
Other	646	722
Allowance for doubtful accounts	(16)	(26)
<b>Total current assets</b>	<b>15,416</b>	<b>15,972</b>
<b>Noncurrent assets</b>		
Property, plant and equipment		
Buildings and structures	8,692	9,206
Accumulated depreciation	(5,575)	(5,530)
Buildings and structures, net	3,116	3,675
Other	11,195	10,741
Accumulated depreciation	(6,623)	(6,690)
Other, net	4,572	4,050
Total property, plant and equipment	7,689	7,726
Intangible assets	310	301
Investments and other assets		
Investment securities	5,648	8,800
Net defined benefit asset	361	361
Other	418	456
Allowance for doubtful accounts	(10)	(11)
Total investments and other assets	6,417	9,607
<b>Total non-current assets</b>	<b>14,417</b>	<b>17,635</b>
<b>Total assets</b>	<b>29,834</b>	<b>33,607</b>

	(Millions of yen)	
	Previous fiscal year (as of March 31,2020)	End of First Quarter of Fiscal 2020. (as of June 30, 2020)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	831	584
Short-term loans payable	433	132
Current portion of long-term loans payable	125	325
Income taxes payable	202	155
Provision for directors' bonuses	50	13
Other	2,037	2,354
<b>Total current liabilities</b>	<u>3,680</u>	<u>3,564</u>
<b>Noncurrent liabilities</b>		
Long-term loans payable	678	1,659
Net defined benefit liability	236	233
Other	1,302	1,394
<b>Total noncurrent liabilities</b>	<u>2,216</u>	<u>3,288</u>
<b>Total liabilities</b>	<u>5,897</u>	<u>6,853</u>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	4,474	5,968
Capital surplus	4,586	6,080
Retained earnings	12,840	12,525
Treasury shares	(185)	(185)
<b>Total shareholders' equity</b>	<u>21,715</u>	<u>24,390</u>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	2,465	2,648
Foreign currency translation adjustment	(495)	(534)
Remeasurements of defined benefit plans	100	97
<b>Total accumulated other comprehensive income</b>	<u>2,071</u>	<u>2,210</u>
<b>Subscription rights to shares</b>	<u>116</u>	<u>116</u>
<b>Non-controlling interests</b>	<u>33</u>	<u>37</u>
<b>Total net assets</b>	<u>23,936</u>	<u>26,754</u>
<b>Total liabilities and net assets</b>	<u>29,834</u>	<u>33,607</u>

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

(Millions of yen)

	First Quarter of Fiscal 2019 (from April 1, 2019 to June 30, 2019)	First Quarter of Fiscal 2020 (from April 1, 2020 to June 30, 2020)
<b>Net sales</b>	6,461	4,877
<b>Cost of sales</b>	2,813	2,187
<b>Gross profit</b>	3,647	2,690
<b>Selling, general, and administrative expenses</b>	3,105	2,561
<b>Operating profit</b>	542	128
<b>Non-operating income</b>		
Interest income	2	3
Dividend income	54	45
Membership fee income	22	5
Foreign exchange gains	-	10
Other	23	62
<b>Total non-operating income</b>	102	127
<b>Non-operating expenses</b>		
Interest expenses	0	1
Sales discounts	41	40
Membership fee	21	12
Share issuance costs	-	98
Foreign exchange losses	66	-
Other	13	22
<b>Total non-operating expenses</b>	144	175
<b>Ordinary profit</b>	500	80
<b>Profit before income taxes</b>	500	80
<b>Income taxes</b>	253	136
<b>Profit (loss)</b>	246	(55)
<b>Profit (loss) attributable to non-controlling interests</b>	(0)	2
<b>Profit (loss) attributable to owners of parent</b>	247	(58)

**Quarterly Consolidated Statements of Comprehensive Income**

(Millions of yen)

	First Quarter of Fiscal 2019 (from April 1, 2019 to June 30, 2019)	First Quarter of Fiscal 2020 (from April 1, 2020 to June 30, 2020)
<b>Profit (loss)</b>	246	(55)
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	(183)	182
Foreign currency translation adjustment	(86)	(38)
Remeasurements of defined benefit plans, net of tax	(1)	(3)
<b>Total other comprehensive income</b>	(272)	140
<b>Comprehensive income</b>	(25)	84
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	(24)	81
Comprehensive income attributable to non-controlling interests	(0)	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)

On May 14, 2020, the Company concluded a business and capital tie-up agreement with Mitsui Chemicals Inc. On June 15, 2020, the Company accordingly received proceeds for the capital increase by way of third-party allotment from Mitsui Chemicals Inc. As a result, capital stock and capital reserve each increased by 1,494 million yen during the first quarter of the consolidated fiscal year under review.

(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.

(Additional Information )

(Application of Tax Effect Accounting with regard to the Transition from the Consolidated Taxation System to the Group Tax Sharing System)

The Company and some of its domestic consolidated subsidiaries do not apply Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) to items revised under the non-consolidated taxation system in connection with the transition to the group tax sharing system established under the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020) and the transition to the group tax sharing system otherwise, per application of Paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020), but instead apply the pre-amendment income tax provisions to the amount of deferred tax assets and deferred tax liabilities.

(Segment Information, etc)

Previous fiscal year (April 1, 2019—June 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	5,846	595	20	6,461	-	6,461
(2) Internal sales or transfers	-	-	1	1	(1)	-
Total	5,846	595	21	6,462	(1)	6,461
Segment profit	521	17	2	541	1	542

\*1 The ¥1 million adjustment to segment profit/loss serves to cancel out transactions between segments.

\*2 Segment profit equals the operating income on quarterly consolidated financial statements.

Fiscal year under review (April 1, 2020—June 30, 2020)

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	4,341	517	19	4,877	-	4,877
(2) Internal sales or transfers	-	-	1	1	(1)	-
Total	4,341	517	20	4,878	(1)	4,877
Segment profit(loss)	82	42	2	127	1	128

\*1 The ¥1 million adjustment to segment profit/loss serves to cancel out transactions between segments.

\*2 Segment profit equals the operating income on quarterly consolidated financial statements.