

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

November 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: November 11, 2020  
 Scheduled commencement date of dividend payment: November 30, 2020  
 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, 2021(April 1,2020 – September 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	%
Six months ended September 30, 2020	11,217	(16.4)	905	(36.0)	891	(28.2)	568	(27.8)
Six months ended September 30, 2019	13,421	10.2	1,415	80.4	1,242	58.8	788	44.3

(Note) Comprehensive income: Six Months ended September 30, 2020 1,095 million yen (97.4%)  
 Six Months ended September 30, 2019 555 million yen (-7.4%)

	Second Quarter Net income (loss) per share	Second Quarter Fully diluted net income (loss) per share
	Yen	Yen
Six months ended September 30, 2020	33.44	33.33
Six months ended September 30, 2019	49.51	49.15

(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, 2020	34,553	27,817	80.0	1,557.21
Year ended March 31, 2020	29,834	23,936	79.7	1,491.81

(Reference) Shareholder's equity: Six Months ended September 30, 2020 27,658 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	-	8.00			
Year ending March 31,2021 (Forecasts)			-	10.00	18.00

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

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
Year ending March 31, 2021	23,287	(10.8)	1,733	(21.6)	1,589	(20.1)	1,072	52.1	61.68

(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): 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 September 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 September 30, 2020: 132,541 shares

As of March 31, 2020: 169,076 shares

(c) Average number of shares during the period

As of September 30, 2020: 17,011,164 shares

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

Business results forecasts and other forward-looking statements included in this document are based on information currently available to the Company and certain assumptions deemed reasonable at the time of writing. Please note that actual business results may differ materially from these forecasts, due to a variety of factors. For information concerning the business results forecasts, please refer to “(3) Explanation of Future Forecast Information including Consolidated Business Results Forecasts” on Page 3 of the Accompanying Materials.

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## 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, economic activities were substantially restricted from lockdowns and stay-at-home orders in major cities due to the spread of the COVID-19, and while the global economy started to get back on a recovery track supported by fiscal policies of governments, the economic outlook remained uncertain with no end in sight to the pandemic. The Japanese economy has shown signs of recovery due to the resumption of economic activities after individual consumption and corporate earnings significantly deteriorated, but concerns remain over an economic downturn.

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 11,217 million yen for the quarter under review, a decrease of 2,203 million yen (16.4%) from the corresponding period of the previous consolidated fiscal year due to effects of the COVID-19. Overseas sales decreased by 1,304 million yen (22.4%) from the corresponding period of the previous consolidated fiscal year to 4,507 million yen (40.2% of net sales).

Operating income decreased by 510 million yen (36.0%) from the corresponding period of the previous consolidated fiscal year to 905 million yen despite a decrease in selling, general, and administrative expenses.

Ordinary income decreased by 350 million yen (28.2%) from the corresponding period of the previous consolidated fiscal year to 891 million yen, largely as a result of having posted subsidy income associated with the COVID-19 as non-operating income.

Profit attributable to owners of parent, after deducting tax expenses, was a loss of 568 million yen, a decrease of 219 million yen (27.8%), 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 COVID-19, 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 COVID-19 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 2,126 million yen (17.5%) from the corresponding period of the previous consolidated fiscal year to 10,042 million yen, and operating income decreased 536 million yen (40.4%) to 793 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 cancellation of major exhibitions in addition to the temporary closure of nail salons, despite growth in sales of “by Nail Labo” gel nail products for home use due to effects of the COVID-19. 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 73 million yen (6.1%) from the

corresponding period of the previous consolidated fiscal year to 1,136 million yen. Operating income was 108 million yen, a year-on-year increase of 30 million yen (40.1%), 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 4 million yen (9.8%) from the corresponding period of the previous consolidated fiscal year to 38 million yen, and operating income decreased 4 million yen (72.1%) to 1 million yen.

## (2) Explanation of Financial Position

Total assets at the end of the quarter under review increased by 4,718 million yen from the end of the previous consolidated fiscal year to 34,553 million yen. The increase in investment securities due to the acquisition of Sun Medical shares is the main factor.

Liabilities increased by 837 million yen to 6,735 million yen. The primary factor was an increase in long term loans payable.

Net assets increased by 3,880 million yen to 27,817 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 80.0%, a increase of 0.3 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 on Revisions to Business Results Forecasts” dated October 28, 2020 for information on our business 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 Second Quarter of Fiscal 2020. (as of September 30, 2020)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	4,862	5,435
Notes and accounts receivable-trade	3,187	3,071
Securities	5	5
Merchandises and finished goods	4,713	5,011
Work in process	1,045	1,239
Raw materials and supplies	972	945
Other	646	534
Allowance for doubtful accounts	(16)	(21)
<b>Total current assets</b>	<b>15,416</b>	<b>16,222</b>
<b>Noncurrent assets</b>		
Property,plant and equipment		
Buildings and structures	8,692	9,270
Accumulated depreciation	(5,575)	(5,596)
Buildings and structures, net	3,116	3,673
Other	11,195	10,852
Accumulated depreciation	(6,623)	(6,773)
Other, net	4,572	4,079
Total property,plant and equipment	7,689	7,753
Intangible assets	310	372
Investments and other assets		
Investment securities	5,648	9,314
Net defined benefit asset	361	360
Other	418	541
Allowance for doubtful accounts	(10)	(11)
Total investments and other assets	6,417	10,204
<b>Total non-current assets</b>	<b>14,417</b>	<b>18,330</b>
<b>Total assets</b>	<b>29,834</b>	<b>34,553</b>

(Millions of yen)

	Previous fiscal year (as of March 31,2020)	End of Second Quarter of Fiscal 2020. (as of September 30, 2020)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	831	580
Short-term loans payable	433	88
Current portion of long-term loans payable	125	325
Income taxes payable	202	258
Provision for directors' bonuses	50	26
Other	2,037	2,068
<b>Total current liabilities</b>	<b>3,680</b>	<b>3,347</b>
<b>Noncurrent liabilities</b>		
Long-term loans payable	678	1,590
Net defined benefit liability	236	238
Other	1,302	1,559
<b>Total noncurrent liabilities</b>	<b>2,216</b>	<b>3,388</b>
<b>Total liabilities</b>	<b>5,897</b>	<b>6,735</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	4,474	5,968
Capital surplus	4,586	6,097
Retained earnings	12,840	13,153
Treasury shares	(185)	(145)
<b>Total shareholders' equity</b>	<b>21,715</b>	<b>25,073</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	2,465	3,004
Foreign currency translation adjustment	(495)	(509)
Remeasurements of defined benefit plans	100	90
Total accumulated other comprehensive income	2,071	2,584
<b>Subscription rights to shares</b>	<b>116</b>	<b>116</b>
<b>Non-controlling interests</b>	<b>33</b>	<b>42</b>
<b>Total net assets</b>	<b>23,936</b>	<b>27,817</b>
<b>Total liabilities and net assets</b>	<b>29,834</b>	<b>34,553</b>

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

(Millions of yen)

	Second Quarter of Fiscal 2019 (from April 1, 2019 to September 30, 2019)	Second Quarter of Fiscal 2020 (from April 1, 2020 to September 30, 2020)
<b>Net sales</b>	13,421	11,217
<b>Cost of sales</b>	5,830	5,023
<b>Gross profit</b>	7,590	6,193
<b>Selling, general, and administrative expenses</b>	6,174	5,287
<b>Operating profit</b>	1,415	905
<b>Non-operating income</b>		
Interest income	5	6
Dividend income	62	52
Membership fee income	56	15
Foreign exchange gains	-	25
Share of profit of entities accounted for using equity method	-	1
Subsidy income	-	65
Other	45	69
<b>Total non-operating income</b>	169	237
<b>Non-operating expenses</b>		
Interest expenses	3	5
Sales discounts	86	78
Membership fee	76	32
Share issuance costs	-	98
Foreign exchange losses	133	-
Other	42	36
<b>Total non-operating expenses</b>	342	251
<b>Ordinary profit</b>	1,242	891
<b>Profit before income taxes</b>	1,242	891
<b>Income taxes</b>	445	309
<b>Profit</b>	796	581
<b>Profit attributable to non-controlling interests</b>	8	12
<b>Profit attributable to owners of parent</b>	788	568

**Quarterly Consolidated Statements of Comprehensive Income**

(Millions of yen)

	Second Quarter of Fiscal 2019 (from April 1, 2019 to September 30, 2019)	Second Quarter of Fiscal 2020 (from April 1, 2020 to September 30, 2020)
<b>Profit</b>	796	581
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	89	538
Foreign currency translation adjustment	(314)	(13)
Remeasurements of defined benefit plans, net of tax	(16)	(10)
<b>Total other comprehensive income</b>	(241)	514
<b>Comprehensive income</b>	555	1,095
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	547	1,082
Comprehensive income attributable to non-controlling interests	7	13



(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 Second 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—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	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 equals the operating income on quarterly consolidated financial statements.

Fiscal year under review (April 1, 2020—September 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	10,042	1,136	38	11,217	-	11,217
(2) Internal sales or transfers	0	-	2	2	(2)	-
Total	10,042	1,136	40	11,219	(2)	11,217
Segment profit(loss)	793	108	1	902	2	905

\*1 The ¥2 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.