

**The Second Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2022
(Japanese Accounting Standards)**

November 4, 2021

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: Takashi Morimoto, General Manager of Finance Department
 Scheduled date for filing of quarterly securities report: November 10, 2021
 Scheduled commencement date of dividend payment: November 30, 2021
 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, 2022(April 1,2021 – September 30,2021)

(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, 2021	13,867	23.6	2,000	120.9	2,130	138.9	1,506	164.9
Six months ended September 30, 2020	11,217	(16.4)	905	(36.0)	891	(28.2)	568	(27.8)

(Note) Comprehensive income: Six Months ended September 30, 2021 1,687 million yen (54.0%)
 Six Months ended September 30, 2020 1,095 million yen (97.4%)

	Second Quarter Net income (loss) per share	Second Quarter Fully diluted net income (loss) per share
	Yen	Yen
Six months ended September 30, 2021	84.79	84.52
Six months ended September 30, 2020	33.44	33.33

(Note) Starting from the beginning of the first quarter of the consolidated fiscal year under review, the Company has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and other standards. Further details are provided in the section titled “(Changes in Accounting Principles)” in “(3) Notes to Quarterly Consolidated Financial Statements” of “2. Quarterly Consolidated Financial Statements and Primary Notes.”

(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, 2021	38,792	31,549	80.9	1,764.33
Year ended March 31, 2021	37,813	30,198	79.4	1,690.45

(Reference) Shareholder’s equity: Six Months ended September 30, 2021 31,385 million yen
 Year ended March 31, 2021 30,024 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 31,2021	-	8.00	-	21.00	29.00
Year ended March 31,2022	-	13.00			
Year ending March 31,2022 (Forecasts)			-	19.00	32.00

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

(Notes) Year-end dividends for the fiscal year ended March 31, 2022 include commemorative dividend of 2.0 yen.

(The 100th anniversary of company's founding)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2022. (April 1, 2021 – March 31, 2022)

(% 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, 2022	27,710	12.3	3,011	30.9	3,199	26.8	2,227	33.0	125.26

(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, 2021: 17,894,089 shares

As of March 31, 2021: 17,894,089 shares

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

As of September 30, 2021: 105,013 shares

As of March 31, 2021: 132,642 shares

(c) Average number of shares during the period

As of September 30, 2021: 17,773,301 shares

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

Please refer to the "Notice Regarding Revision of Results Forecast" released on the date October 26, 2021 with respect to our results forecast for the fiscal year ending March 31, 2022. 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 second quarter of the consolidated fiscal year under review, while there were signs of the world economy picking up with the progress in vaccination against the novel coronavirus disease (COVID-19), primarily in Europe and the US, the future economic outlook remained uncertain given that some regions still experienced increases in infections. The Japanese economy saw improvements in corporate revenue and some recovery in capital investments against the backdrop of rising exports in line with economic recovery overseas; however, there still remain concerns about an economic downturn with no end in sight to the spread of infections.

The Company Group posted net sales of 13,867 million yen for the quarter under review, an increase of 2,650 million yen (23.6%) from the corresponding period of the previous consolidated fiscal year, due to solid overseas sales. Overseas sales, which are included in net sales, increased by 2,728 million yen (60.5%) to 7,235 million yen (52.2% of net sales).

Operating income increased by 1,095 million yen (120.9%) from the corresponding period of the previous consolidated fiscal year to 2,000 million thanks to a growth in sales despite an increase in selling, general, and administrative expenses owing to the gradual relaxation of restrictions on sales activities.

Ordinary income increased by 1,238 million yen (138.9%) from the corresponding period of the previous consolidated fiscal year to 2,130 million yen after increased earnings growth was experienced thanks to decreases in non-operating expenses.

As a result of posting 40 million yen in loss on retirement of non-current assets as extraordinary losses, profit attributable to owners of parent, after deducting tax expenses, increased by 938 million yen (164.9%) from the corresponding period of the previous consolidated fiscal year to 1,506 million yen.

As a result of these factors, net sales, operating income, ordinary income and profit all reached record highs for a six months period.

Starting from the beginning of the first quarter of the consolidated fiscal year under review, the Company has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and other standards. Further details are provided in the section titled “(Changes in Account Principles)” in “(3) Notes to Quarterly Consolidated Financial Statements” of “2. Quarterly Consolidated Financial Statements and Primary Notes.”

(Dental business)

Domestically, “BeautiBond Xtreme,” a dentine bonding product for dental use launched during the period under review and “SHOFU BLOCK HC HARD II,” a resin material for dental cutting processing launched during previous fiscal year, among other products, contributed to sales, making for increased sales over the corresponding period of the previous consolidated fiscal year. Looking overseas, the impact of COVID-19 have eased, enabling us to expand sales of existing products primarily in North America, Europe and China and resulting in favorable sales in various regions. Also, with the impact of foreign exchange fluctuations, we saw increased sales over the corresponding period of the previous consolidated fiscal year.

As a result of these factors, net sales for the quarter under review increased 2,722 million yen (27.1%) from the corresponding period of the previous consolidated fiscal year to 12,764 million yen, and operating income increased 1,135 million yen (143.2%) to 1,928 million yen, despite an increase in selling, general, and administrative expenses.

(Nail care business)

Domestically, due to the impact of restrictions on activities with the reemergence of infections and as a result of the tapering of stay-at-home demand, we saw a decrease in sales of our mainstay gel nail-related products, resulting in a decrease in sales over the corresponding period of the previous consolidated fiscal year. Looking overseas, although online sales were favorable thanks to proactive promotional activities using social media in the US, sales in Taiwan decreased due to the rapid spread of infections, resulting in a decrease in sales over the corresponding period of the previous consolidated fiscal year.

As a result of these factors, net sales for the quarter under review decreased 77 million yen (6.9%) from the corresponding period of the previous consolidated fiscal year to 1,058 million yen, and operating income decreased

40 million yen (37.6%) to 67 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 quarter under review increased 5 million yen (15.1%) from the corresponding period of the previous consolidated fiscal year to 44 million yen, and operating income was almost same as the previous consolidated fiscal year 1 million yen.

(2) Explanation of Financial Position

Total assets at the end of the quarter under review increased by 978 million yen from the end of the previous consolidated fiscal year to 38,792 million yen. The primary factors were increases in cash and deposits, merchandises and finished goods.

Liabilities decreased by 372 million yen to 7,242 million yen. The primary factors were decreases in Long-term loans payable.

Net assets increased by 1,351 million yen to 31,549 million yen. The primary factors were increases in Retained earnings.

As a result of the above, the capital-to-assets ratio rose to 80.9%, an increase of 1.5 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, 2022, as announced on October 26, 2021.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (as of March 31, 2021)	End of Second Quarter of Fiscal 2021. (as of September 30, 2021)
Assets		
Current assets		
Cash and deposits	6,943	7,349
Notes and accounts receivable-trade	3,205	3,212
Merchandises and finished goods	4,815	5,143
Work in process	1,222	1,143
Raw materials and supplies	1,040	1,183
Other	611	667
Allowance for doubtful accounts	(10)	(4)
Total current assets	17,829	18,696
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	9,694	9,779
Accumulated depreciation	(5,744)	(5,884)
Buildings and structures, net	3,949	3,894
Other	11,048	11,274
Accumulated depreciation	(6,989)	(6,998)
Other, net	4,058	4,275
Total property, plant and equipment	8,008	8,170
Intangible assets	340	364
Investments and other assets		
Investment securities	9,977	9,882
Net defined benefit asset	1,134	1,128
Other	529	555
Allowance for doubtful accounts	(6)	(5)
Total investments and other assets	11,635	11,561
Total non-current assets	19,983	20,096
Total assets	37,813	38,792

(Millions of yen)

	Previous fiscal year (as of March 31,2021)	End of Second Quarter of Fiscal 2021. (as of September 30, 2021)
Liabilities		
Current liabilities		
Accounts payable-trade	898	686
Short-term loans payable	98	-
Current portion of long-term loans payable	584	844
Income taxes payable	428	624
Provision for directors' bonuses	42	19
Other	2,159	2,186
Total current liabilities	4,212	4,362
Noncurrent liabilities		
Long-term loans payable	1,190	768
Net defined benefit liability	243	246
Other	1,967	1,864
Total noncurrent liabilities	3,402	2,880
Total liabilities	7,614	7,242
Net assets		
Shareholders' equity		
Capital stock	5,968	5,968
Capital surplus	6,097	6,123
Retained earnings	14,116	15,250
Treasury shares	(145)	(115)
Total shareholders' equity	26,037	27,227
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,457	3,482
Foreign currency translation adjustment	(114)	72
Remeasurements of defined benefit plans	644	602
Total accumulated other comprehensive income	3,987	4,158
Subscription rights to shares	116	116
Non-controlling interests	57	48
Total net assets	30,198	31,549
Total liabilities and net assets	37,813	38,792

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

(Millions of yen)

	Second Quarter of Fiscal 2020 (from April 1, 2020 to September 30, 2020)	Second Quarter of Fiscal 2021 (from April 1, 2021 to September 30, 2021)
Net sales	11,217	13,867
Cost of sales	5,023	5,877
Gross profit	6,193	7,990
Selling, general, and administrative expenses	5,287	5,989
Operating profit	905	2,000
Non-operating income		
Interest income	6	9
Dividend income	52	57
Membership fee income	15	41
Foreign exchange gains	25	47
Share of profit of entities accounted for using equity method	1	-
Subsidy income	65	20
Other	69	94
Total non-operating income	237	270
Non-operating expenses		
Interest expenses	5	4
Sales discounts	78	-
Membership fee	32	71
Share issuance costs	98	-
Share of loss of entities accounted for using equity method	-	42
Other	36	22
Total non-operating expenses	251	141
Ordinary profit	891	2,130
Extraordinary losses		
Loss on retirement of non-current assets	-	40
Total extraordinary losses	-	40
Profit before income taxes	891	2,089
Income taxes	309	574
Profit	581	1,515
Profit attributable to non-controlling interests	12	8
Profit attributable to owners of parent	568	1,506

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second Quarter of Fiscal 2020 (from April 1, 2020 to September 30, 2020)	Second Quarter of Fiscal 2021 (from April 1, 2021 to September 30, 2021)
Profit	581	1,515
Other comprehensive income		
Valuation difference on available-for-sale securities	538	25
Foreign currency translation adjustment	(13)	188
Remeasurements of defined benefit plans, net of tax	(10)	(41)
Total other comprehensive income	514	172
Comprehensive income	1,095	1,687
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	1,082	1,677
Comprehensive income attributable to non-controlling interests	13	9

(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)

(Application of Accounting Standard for Revenue Recognition, Etc.)

Starting from the beginning of the first quarter of the consolidated fiscal year under review, we have applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 of March 31, 2020; hereinafter referred to as the "Standard for Revenue Recognition") and other standards. Accordingly, we now recognize revenue in amounts projected to be received in exchange for goods or services at the point in time when the control over the promised goods or services have been transferred to the customer. As a result of this, some expenses which we had previously recorded as cost of sales and selling, general, and administrative expenses, as well as sales discounts, which were previously recorded as non-operating expenses, have been deducted from net sales as amounts constituting compensation paid to customers, starting from the first quarter of the consolidated fiscal year under review.

The Standard for Revenue Recognition and other standards are applied in accordance with the transitional procedures outlined in the proviso of item 84 of the Standard for Revenue Recognition. The new standard is applied from beginning of the first quarter of the consolidated fiscal year under review, and the cumulative amount of impact of retrospectively applying this new standard to periods prior to the beginning of the first quarter of the consolidated fiscal year under review is added to or deducted from the balance of retained earnings at the beginning of the first quarter of the consolidated fiscal year under review.

As a result, in the second quarter of the consolidated fiscal year under review, net sales decreased by 89 million yen. In addition, operating income decreased by 75 million yen due to a decrease of 7 million yen in cost of sales and a decrease of 6 million yen in selling, general, and administrative expenses. However, due to a decrease of 77 million yen in non-operating expenses, the impacts on ordinary income and profit before income taxes were minor. The impact on the beginning balance of retained earnings was minor as well.

The information for the previous consolidated fiscal year has not been reclassified to reflect the change in the method of presentation in accordance with the transitional procedures outlined in item 89-2 of the Standard for Revenue Recognition. Furthermore, in accordance with the transitional procedures stipulated in item 28-15 of "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12 of March 31, 2020), we have not provided information on the disaggregation of revenue arising from contracts with customers for the second quarter of the previous consolidated fiscal year.

(Application of Accounting Standard for Fair Value Measurement, Etc.)

Starting from the beginning of the first quarter of the consolidated fiscal year under review, we have applied "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30 of July 4, 2019; hereinafter referred to as the "Fair Value Measurement Standard") and other standards. New accounting principles stipulated by the Fair Value Measurement Standard will be applied prospectively in accordance with the transitional procedures outlined in item 19 of the Fair Value Measurement Standard and item 44-2 of

“Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 of July 4, 2019). The application of these standards has no impact on the quarterly consolidated financial statements.

(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, 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	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.

Fiscal year under review (April 1, 2021—September 30, 2021)

1. Information regarding sales, gains (losses) by reportable segment and revenue decomposition information

(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	12,764	1,058	44	13,867	—	13,867
(2) Internal sales or transfers	—	—	3	3	(3)	—
Total	12,764	1,058	47	13,870	(3)	13,867
Segment profit(loss)	1,928	67	1	1,997	2	2,000

*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.

(Millions of yen)

	Reporting segment			Total
	Dental business	Nail care business	Other businesses	
Domestic	6,240	692	44	6,977
North and Latin America	1,587	133	—	1,721
Europe	2,926	—	—	2,926
Asia	2,009	233	—	2,242
Revenue from contracts with customers	12,764	1,058	44	13,867
Other revenue	—	—	—	—
Sales to external customers	12,764	1,058	44	13,867

2. Matters concerning changes in reporting segment, etc.

As stated in “Changes in Accounting Principles,” starting from the beginning of the first quarter of the consolidated fiscal year under review, the Company has applied the Accounting Standard for Revenue Recognition and other standards, and changed the accounting treatment of revenue recognition. Accordingly, methods used to calculate revenue or loss of business segments were changed in the same manner.

As a result of this change, in comparison with the previous method, net sales of “Dental business” for the six months ended September 30, 2021 decreased by 89 million yen, and segment profit decreased by 75 million yen.