

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

February 4, 2022

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
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 Scheduled date for filing of quarterly securities report: February 9, 2022
 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, 2022(April 1,2021 – December 31,2021)

(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	%
Nine months ended December 31, 2021	21,014	18.4	2,980	75.6	3,274	82.9	2,346	104.7
Nine months ended December 31, 2020	17,748	(9.5)	1,697	(11.7)	1,790	(1.4)	1,146	(3.6)

(Note) Comprehensive income: Nine Months ended December 31, 2021 2,460 million yen (47.0%)
 Nine Months ended December 31, 2020 1,673 million yen (6.9%)

	Third Quarter Net income (loss) per share	Third Quarter Fully diluted net income (loss) per share
	Yen	Yen
Nine months ended December 31, 2021	131.99	131.37
Nine months ended December 31, 2020	66.40	66.08

(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
Nine months ended December 31, 2021	39,070	32,090	81.7	1,794.26
Year ended March 31, 2021	37,813	30,198	79.4	1,690.45

(Reference) Shareholder’s equity: Nine Months ended December 31, 2021 31,918 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 December 31, 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 December 31, 2021: 105,013 shares

As of March 31, 2021: 132,642 shares

(c) Average number of shares during the period

As of December 31, 2021: 17,778,033 shares

As of December 31, 2020: 17,261,479 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 third 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 infections with the new variant have spread to various countries. The Japanese economy also 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 given the rapidly rising number of cases of variant infections.

The Company Group posted net sales of 21,014 million yen for the quarter under review, an increase of 3,265 million yen (18.4%) 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 3,303 million yen (43.5%) to 10,901 million yen (51.9% of net sales).

Operating income increased by 1,283 million yen (75.6%) from the corresponding period of the previous consolidated fiscal year to 2,980 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 1,484 million yen (82.9%) from the corresponding period of the previous consolidated fiscal year to 3,274 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 1,200 million yen (104.7%) from the corresponding period of the previous consolidated fiscal year to 2,346 million yen.

As a result of these factors, net sales, operating income, ordinary income and profit all reached record highs for a nine 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, “BeutiBond 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, 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 3,351 million yen (20.9%) from the corresponding period of the previous consolidated fiscal year to 19,357 million yen, and operating income increased 1,336 million yen (87.3%) to 2,867 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, resulting in an increase in sales over the corresponding period of the previous consolidated fiscal year, 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 97 million yen (5.8%) from the corresponding period of the previous consolidated fiscal year to 1,588 million yen, and operating income decreased

56 million yen (35.4%) to 103 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 11 million yen (20.7%) from the corresponding period of the previous consolidated fiscal year to 68 million yen, and operating income increased 4 million yen (410.2%) to 5 million yen.

(2) Explanation of Financial Position

Total assets at the end of the quarter under review increased by 1,257 million yen from the end of the previous consolidated fiscal year to 39,070 million yen. The primary factors were increases in cash and deposits, merchandises and finished goods.

Liabilities decreased by 635 million yen to 6,979 million yen. The primary factors were decreases in Long-term loans payable.

Net assets increased by 1,892 million yen to 32,090 million yen. The primary factors were increases in Retained earnings.

As a result of the above, the capital-to-assets ratio rose to 81.7%, an increase of 2.3 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 Third Quarter of Fiscal 2021. (as of December 31, 2021)
Assets		
Current assets		
Cash and deposits	6,943	7,732
Notes and accounts receivable-trade	3,205	3,266
Merchandises and finished goods	4,815	5,237
Work in process	1,222	1,138
Raw materials and supplies	1,040	1,188
Other	611	652
Allowance for doubtful accounts	(10)	(4)
Total current assets	17,829	19,210
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	9,694	9,706
Accumulated depreciation	(5,744)	(5,831)
Buildings and structures, net	3,949	3,874
Other	11,048	11,416
Accumulated depreciation	(6,989)	(7,088)
Other, net	4,058	4,328
Total property, plant and equipment	8,008	8,202
Intangible assets	340	374
Investments and other assets		
Investment securities	9,977	9,643
Net defined benefit asset	1,134	1,125
Other	529	520
Allowance for doubtful accounts	(6)	(5)
Total investments and other assets	11,635	11,283
Total non-current assets	19,983	19,859
Total assets	37,813	39,070

	(Millions of yen)	
	Previous fiscal year (as of March 31, 2021)	End of Third Quarter of Fiscal 2021. (as of December 31, 2021)
Liabilities		
Current liabilities		
Accounts payable-trade	898	688
Short-term loans payable	98	-
Current portion of long-term loans payable	584	847
Income taxes payable	428	685
Provision for directors' bonuses	42	29
Other	2,159	2,036
Total current liabilities	<u>4,212</u>	<u>4,287</u>
Noncurrent liabilities		
Long-term loans payable	1,190	687
Net defined benefit liability	243	239
Other	1,967	1,764
Total noncurrent liabilities	<u>3,402</u>	<u>2,691</u>
Total liabilities	<u>7,614</u>	<u>6,979</u>
Net assets		
Shareholders' equity		
Capital stock	5,968	5,968
Capital surplus	6,097	6,123
Retained earnings	14,116	15,859
Treasury shares	(145)	(115)
Total shareholders' equity	<u>26,037</u>	<u>27,835</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,457	3,300
Foreign currency translation adjustment	(114)	201
Remeasurements of defined benefit plans	644	579
Total accumulated other comprehensive income	<u>3,987</u>	<u>4,082</u>
Subscription rights to shares	<u>116</u>	<u>116</u>
Non-controlling interests	<u>57</u>	<u>56</u>
Total net assets	<u>30,198</u>	<u>32,090</u>
Total liabilities and net assets	<u>37,813</u>	<u>39,070</u>

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

(Millions of yen)

	Third Quarter of Fiscal 2020 (from April 1, 2020 to December 31, 2020)	Third Quarter of Fiscal 2021 (from April 1, 2021 to December 31, 2021)
Net sales	17,748	21,014
Cost of sales	7,941	8,864
Gross profit	9,806	12,149
Selling, general, and administrative expenses	8,109	9,169
Operating profit	1,697	2,980
Non-operating income		
Interest income	10	16
Dividend income	89	97
Membership fee income	49	61
Foreign exchange gains	45	114
Subsidy income	175	27
Other	91	146
Total non-operating income	462	464
Non-operating expenses		
Interest expenses	7	6
Sales discounts	121	-
Membership fee	84	108
Share issuance costs	98	-
Share of loss of entities accounted for using equity method	12	20
Other	44	34
Total non-operating expenses	369	170
Ordinary profit	1,790	3,274
Extraordinary losses		
Loss on retirement of non-current assets	-	40
Loss on remittance fraud at overseas subsidiary	101	-
Total extraordinary losses	101	40
Profit before income taxes	1,689	3,234
Income taxes	524	872
Profit	1,164	2,361
Profit attributable to non-controlling interests	18	14
Profit attributable to owners of parent	1,146	2,346

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third Quarter of Fiscal 2020 (from April 1, 2020 to December 31, 2020)	Third Quarter of Fiscal 2021 (from April 1, 2021 to December 31, 2021)
Profit	1,164	2,361
Other comprehensive income		
Valuation difference on available-for-sale securities	469	(156)
Foreign currency translation adjustment	57	319
Remeasurements of defined benefit plans, net of tax	(17)	(64)
Total other comprehensive income	509	98
Comprehensive income	1,673	2,460
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	1,654	2,441
Comprehensive income attributable to non-controlling interests	19	18

(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 third quarter of the consolidated fiscal year under review, net sales decreased by 140 million yen. In addition, operating income decreased by 115 million yen due to a decrease of 16 million yen in cost of sales and a decrease of 8 million yen in selling, general, and administrative expenses. However, due to a decrease of 118 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 third 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—December 31, 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	16,005	1,686	56	17,748	—	17,748
(2) Internal sales or transfers	0	—	3	3	(3)	—
Total	16,005	1,686	59	17,751	(3)	17,748
Segment profit	1,531	160	0	1,692	4	1,697

*1 The ¥4 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—December 31, 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	19,357	1,588	68	21,014	—	21,014
(2) Internal sales or transfers	—	—	4	4	(4)	—
Total	19,357	1,588	72	21,018	(4)	21,014
Segment profit(loss)	2,867	103	5	2,976	4	2,980

*1 The ¥4 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	9,547	1,008	68	10,623
North and Latin America	2,312	202	—	2,515
Europe	4,334	—	—	4,334
Asia	3,162	378	—	3,540
Revenue from contracts with customers	19,357	1,588	68	21,014
Other revenue	—	—	—	—
Sales to external customers	19,357	1,588	68	21,014

(Note) Sales to external customers are divided into countries and regions according to the location of the Company and its consolidated subsidiaries.

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 nine months ended December 31, 2021 decreased by 140 million yen, and segment profit decreased by 115 million yen.