

**The First Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2023
(Japanese Accounting Standards)**

August 4, 2022

Company name: SHOFU INC.
 Listing: Tokyo Stock Exchange (Prime Market)
 Code number: 7979
 URL: <https://www.shofu.co.jp/>
 Representative: Tetsuo Takami, Representative Director, President & Chief Executive Officer
 Contact: Takashi Morimoto, General Manager of Finance Department
 Scheduled date for filing of quarterly securities report: August 10, 2022
 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, 2023 (April 1, 2022 – June 30, 2022)

(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, 2022	8,097	16.2	1,229	32.4	1,627	61.8	1,144	81.5
Three months ended June 30, 2021	6,970	42.9	929	620.9	1,006	—	630	—

(Note) Comprehensive income: Three Months ended June 30, 2022 1,744 million yen (127.7%)
 Three Months ended June 30, 2021 765 million yen (804.2%)

	First Quarter Net income (loss) per share	First Quarter Fully diluted net income (loss) per share
	Yen	Yen
Three months ended June 30, 2022	64.35	64.25
Three months ended June 30, 2021	35.52	35.46

(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, 2022	42,065	34,204	80.9	1,912.28
Year ended March 31, 2022	40,709	32,940	80.5	1,841.55

(Reference) Shareholder's equity: Three Months ended June 30, 2022 34,047 million yen
 Year ended March 31, 2022 32,759 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, 2022	—	13.00	-	26.00	39.00
Year ended March 31, 2023	—	—	—	—	—
Year ending March 31, 2023 (Forecasts)	—	15.00	-	24.00	39.00

(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 2.00 yen.

(The 100th anniversary of company's founding)

Year-end dividends for the fiscal year end in March 31, 2023 (Forecasts) include commemorative dividend of 2.00 yen.

(The 100th anniversary of company's founding)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(% 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, 2022 (cumulative)	15,523	11.9	1,810	(9.5)	2,138	0.4	1,487	(1.3)	83.57
Year ending March 31, 2023	31,158	10.7	3,308	2.8	3,695	1.0	2,719	6.8	152.79

(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: 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, 2022: 17,894,089 shares
 - As of March 31, 2022: 17,894,089 shares
 - (b) Number of shares of treasury stock at end of period
 - As of June 30, 2022: 89,213 shares
 - As of March 31, 2022: 105,013 shares
 - (c) Average number of shares during the period
 - As of June 30, 2022: 17,793,026 shares
 - As of June 30, 2021: 17,761,447 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 August 1, 2022 with respect to our results forecast for the fiscal year ending March 31, 2023. 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.

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 Forecasts3
- 2. Quarterly Consolidated Financial Statements and Primary Notes.....4
 - (1) Quarterly Consolidated Balance Sheets4
 - (2) Quarterly Consolidated Statements of Income and Comprehensive Income.....6
 - (3) Notes to Quarterly Consolidated Financial Statements7
 - (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
 - (Additional Information)7
 - (Segment Information,etc).....7

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, while there were signs of the world economy recovering due to the economic policies of various countries who have adopted a living with the novel coronavirus disease (COVID-19) approach, the future outlook was uncertain due to factors including concerns about soaring resource prices and global inflation accompanying the prolonged conflict between Russia and Ukraine. The Japanese economy also saw signs of recovery as socioeconomic activities continued to normalize. However, there remained nagging uncertainty regarding the future outlook owing to factors such as a deteriorating international situation and the rapid depreciation of the yen.

The Company Group posted net sales of 8,097 million yen for the quarter under review, an increase of 1,126 million yen (16.2%) from the corresponding period of the previous consolidated fiscal year, due to solid Japan and overseas sales. Overseas sales, which are included in net sales, increased by 786 million yen (21.4%) to 4,465 million yen (55.1% of net sales).

Operating income increased by 300 million yen (32.4%) from the corresponding period of the previous consolidated fiscal year to 1,229 million thanks to a growth in sales despite an increase in selling, general, and administrative expenses.

Ordinary income increased by 621 million yen (61.8%) from the corresponding period of the previous consolidated fiscal year to 1,627 million yen after increased earnings growth was the impact of exchange rates had a positive effect on non-operating income.

As a result of posting 38 million yen in gain on sales of investment securities as extraordinary income, profit attributable to owners of parent, after deducting tax expenses, increased by 514 million yen (81.5%) from the corresponding period of the previous consolidated fiscal year to 1,144 million yen.

(Dental business)

Domestically, “EyeSpecial C-IV,” a digital dental camera, and the SHOFU DISK ZR Lucent Supra, a ceramic material for dental cutting processing, along with other CAD/CAM-related products, contributed to sales, with sales increasing compare with the corresponding period of the previous fiscal year. Looking overseas, the impact to expand sales of existing products primarily in Asia including North America 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 1,104 million yen (17.2%) from the corresponding period of the previous consolidated fiscal year to 7,523 million yen, and operating income increased 324 million yen (36.6%) to 1,212 million yen, despite an increase in selling, general, and administrative expenses.

(Nail care business)

Domestically, sales increased on the back of a recovery for acrylic materials; however, sales of gel nail-related products to general consumers continued to decrease due to an offensive from another company, resulting in a decrease in sales across Japan over the corresponding period of the previous consolidated fiscal year. Looking overseas, although consumption fell in the US owing to the impact of rapid inflation, sales actually increased over the corresponding period of the previous consolidated fiscal year owing to the impact of foreign exchange fluctuations. Also, the situation in Taiwan regarding the rapid spread in infections is subsiding, resulting in 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 24 million yen (4.6%) from the corresponding period of the previous consolidated fiscal year to 552 million yen. Operating income was 13 million yen, a year-on-year decrease of 23 million yen (64.2%), due to increase 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 2 million yen (8.9%) from the corresponding period of the previous consolidated fiscal year to 21 million yen, and operating income increased 2 million yen (672.3%) to 2 million yen.

(2) Explanation of Financial Position

Total assets at the end of the quarter under review increased by 1,355 million yen from the end of the previous consolidated fiscal year to 42,065 million yen. The primary factors were increases in cash and deposits and notes and accounts receivable-trade and property, plant and equipment.

Liabilities increased by 91 million yen to 7,860 million yen. The primary factors were increases in current liabilities such as accrued expenses.

Net assets increased by 1,264 million yen to 34,204 million yen. The primary factors were increases in retained earnings and foreign currency translation adjustment.

As a result of the above, the capital-to-assets ratio rose to 80.9%, an increase of 0.4 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, 2023, as announced on August 1, 2022.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	Previous fiscal year (as of March 31, 2022)	End of First Quarter of Fiscal 2023 (as of June 30, 2022)
Assets		
Current assets		
Cash and deposits	9,064	9,367
Notes and accounts receivable-trade	3,294	3,608
Merchandises and finished goods	5,303	5,369
Work in process	1,126	1,276
Raw materials and supplies	1,125	1,192
Other	555	540
Allowance for doubtful accounts	(6)	(13)
Total current assets	20,462	21,342
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	9,837	10,030
Accumulated depreciation	(5,930)	(6,053)
Buildings and structures, net	3,907	3,977
Other	11,742	12,393
Accumulated depreciation	(7,219)	(7,399)
Other, net	4,522	4,993
Total property, plant and equipment	8,429	8,971
Intangible assets	427	449
Investments and other assets		
Investment securities	9,626	9,384
Net defined benefit asset	1,220	1,219
Other	550	704
Allowance for doubtful accounts	(7)	(7)
Total investments and other assets	11,390	11,301
Total non-current assets	20,247	20,722
Total assets	40,709	42,065

	(Millions of yen)	
	Previous fiscal year (as of March 31,2022)	End of First Quarter of Fiscal 2023 (as of June 30, 2022)
Liabilities		
Current liabilities		
Accounts payable-trade	928	882
Current portion of long-term loans payable	325	325
Income taxes payable	656	684
Provision for directors' bonuses	50	12
Other	2,476	2,634
Total current liabilities	4,437	4,538
Noncurrent liabilities		
Long-term loans payable	1,153	1,095
Net defined benefit liability	235	242
Other	1,943	1,983
Total noncurrent liabilities	3,332	3,321
Total liabilities	7,769	7,860
Net assets		
Shareholders' equity		
Capital stock	5,968	5,968
Capital surplus	6,123	6,122
Retained earnings	16,001	16,683
Treasury shares	(115)	(97)
Total shareholders' equity	27,978	28,677
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,426	3,356
Foreign currency translation adjustment	713	1,393
Remeasurements of defined benefit plans	641	620
Total accumulated other comprehensive income	4,781	5,370
Subscription rights to shares	116	99
Non-controlling interests	64	57
Total net assets	32,940	34,204
Total liabilities and net assets	40,709	42,065

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

(Millions of yen)

	First Quarter of Fiscal 2022 (from April 1, 2021 to June 30, 2021)	First Quarter of Fiscal 2023 (from April 1, 2022 to June 30, 2022)
Net sales	6,970	8,097
Cost of sales	3,089	3,396
Gross profit	3,881	4,700
Selling, general, and administrative expenses	2,952	3,470
Operating profit	929	1,229
Non-operating income		
Interest income	3	9
Dividend income	48	79
Membership fee income	30	26
Foreign exchange gains	30	291
Other	59	51
Total non-operating income	172	457
Non-operating expenses		
Interest expenses	2	1
Membership fee	53	39
Share of loss of entities accounted for using equity method	25	10
Other	14	9
Total non-operating expenses	95	60
Ordinary profit	1,006	1,627
Extraordinary income		
Gain on sales of investment securities	-	38
Total extraordinary income	-	38
Extraordinary losses		
Loss on retirement of non-current assets	40	-
Total extraordinary losses	40	-
Profit before income taxes	965	1,665
Income taxes	330	514
Profit	634	1,150
Profit attributable to non-controlling interests	4	5
Profit attributable to owners of parent	630	1,144

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	First Quarter of Fiscal 2022 (from April 1, 2021 to June 30, 2021)	First Quarter of Fiscal 2023 (from April 1, 2022 to June 30, 2022)
Profit	634	1,150
Other comprehensive income		
Valuation difference on available-for-sale securities	(39)	(70)
Foreign currency translation adjustment	188	684
Remeasurements of defined benefit plans, net of tax	(18)	(20)
Total other comprehensive income	130	593
Comprehensive income	765	1,744
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	760	1,733
Comprehensive income attributable to non-controlling interests	5	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.

(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 will transition from the Consolidated Taxation System to the Group Tax Sharing System from the first quarter of the consolidated fiscal year under review. In line with this, we shall comply with “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (PITF No. 42, August 12, 2021; hereinafter, “PITF No. 42”) when it comes to the accounting treatment and disclosure of income taxes, local income taxes, and tax effect accounting. In addition, based on Paragraph 32-(1) of PITF No. 42, it has been deemed that the change in accounting policies accompanying the application of PITF No. 42 shall have no impact.

(Segment Information, etc)

1. Information regarding sales, gains (losses) by reportable segment and revenue decomposition information
Previous fiscal year (April 1, 2021 – June 30, 2021)

(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	6,419	528	23	6,970	—	6,970
(2) Internal sales or transfers	—	—	1	1	(1)	—
Total	6,419	528	25	6,972	(1)	6,970
Segment profit	887	36	0	924	4	929

*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	3,086	345	23	3,455
North and Latin America	793	70	—	863
Europe	1,587	—	—	1,587
Asia	951	112	—	1,064
Revenue from contracts with customers	6,419	528	23	6,970
Other revenue	—	—	—	—
Sales to external customers	6,419	528	23	6,970

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

Fiscal year under review (April 1, 2022 – June 30, 2022)

(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	7,523	552	21	8,097	—	8,097
(2) Internal sales or transfers	—	—	1	1	(1)	—
Total	7,523	552	22	8,098	(1)	8,097
Segment profit	1,212	13	2	1,228	1	1,229

*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.

(Millions of yen)

	Reporting segment			Total
	Dental business	Nail care business	Other businesses	
Domestic	3,528	315	21	3,865
North and Latin America	968	75	—	1,044
Europe	1,600	—	—	1,600
Asia	1,425	160	—	1,586
Revenue from contracts with customers	7,523	552	21	8,097
Other revenue	—	—	—	—
Sales to external customers	7,523	552	21	8,097

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