

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

November 2, 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: November 9, 2022
 Scheduled commencement date of dividend payment: November 30, 2022
 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, 2023 (April 1, 2022 – September 30, 2022)

(1) Consolidated Operating Results (% indicates changes from previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2022	15,831	14.2	2,237	11.8	2,745	28.9	2,133	41.6
Six months ended September 30, 2021	13,867	23.6	2,000	120.9	2,130	138.9	1,506	164.9

(Note) Comprehensive income: Six Months ended September 30, 2022 2,811 million yen (66.6%)
 Six Months ended September 30, 2021 1,687 million yen (54.0%)

	Second Quarter Net income (loss) per share	Second Quarter Fully diluted net income (loss) per share
	Yen	Yen
Six months ended September 30, 2022	119.77	119.42
Six months ended September 30, 2021	84.79	84.52

(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, 2022	42,773	35,332	82.2	1,971.10
Year ended March 31, 2022	40,709	32,940	80.5	1,841.55

(Reference) Shareholder's equity: Six Months ended September 30, 2022 35,168 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	—	15.00	-	-	-
Year ending March 31, 2023 (Forecasts)	-	-	-	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		Profit attributable to owners of parents		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2023	31,294	11.2	3,750	16.6	4,320	18.1	3,389	33.1	190.17

(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 September 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 September 30, 2022: 51,967 shares
 - As of March 31, 2022: 105,013 shares
 - (c) Average number of shares during the period
 - As of September 30, 2022: 17,814,067 shares
 - As of September 30, 2021: 17,773,301 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 the financial results forecast" released on the date October 25, 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.

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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 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 15,831 million yen for the quarter under review, an increase of 1,964 million yen (14.2%) 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 1,335 million yen (18.5%) to 8,571 million yen (54.1% of net sales).

Operating income increased by 236 million yen (11.8%) from the corresponding period of the previous consolidated fiscal year to 2,237 million thanks to a growth in sales despite an increase in selling, general, and administrative expenses.

Ordinary income increased by 615 million yen (28.9%) from the corresponding period of the previous consolidated fiscal year to 2,745 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 112 million yen in settlement income and 44 million yen in gain on sales of investment securities as extraordinary income, profit attributable to owners of parent, after deducting tax expenses, increased by 626 million yen (41.6%) from the corresponding period of the previous consolidated fiscal year to 2,133 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.

(Dental business)

Domestically, “EyeSpecial C-IV,” a digital dental camera, and the SHOFU DISK ZR Lucent, 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 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 1,887 million yen (14.8%) from the corresponding period of the previous consolidated fiscal year to 14,651 million yen, and operating income increased 267 million yen (13.8%) to 2,195 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, Taiwan emerged from the impact of the rapid spread in infections and experienced demand recovery, 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 77 million yen (7.3%) from the corresponding period of the previous consolidated fiscal year to 1,136 million yen. However, operating income was 34 million yen, a year-on-year decrease of 32 million yen (48.6%), 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 was almost same as the previous consolidated fiscal year 44 million yen, and operating income increased 2 million yen (126.3%) to 4 million yen.

(2) Explanation of Financial Position

Total assets at the end of the quarter under review increased by 2,063 million yen from the end of the previous consolidated fiscal year to 42,773 million yen. The primary factors were increases in cash and deposits and notes and accounts receivable-trade and property, plant and equipment.

Liabilities decreased by 329 million yen to 7,440 million yen. The primary factors were decreases in noncurrent liabilities such as long-term deferred tax liabilities.

Net assets increased by 2,392 million yen to 35,332 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 82.2%, an increase of 1.7 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 October 25, 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 Second Quarter of Fiscal 2023 (as of September 30, 2022)
Assets		
Current assets		
Cash and deposits	9,064	9,537
Notes and accounts receivable-trade	3,294	3,902
Merchandises and finished goods	5,303	5,654
Work in process	1,126	1,291
Raw materials and supplies	1,125	1,194
Other	555	735
Allowance for doubtful accounts	(6)	(8)
Total current assets	20,462	22,307
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	9,837	10,123
Accumulated depreciation	(5,930)	(6,146)
Buildings and structures, net	3,907	3,976
Other	11,742	12,579
Accumulated depreciation	(7,219)	(7,504)
Other, net	4,522	5,074
Total property, plant and equipment	8,429	9,051
Intangible assets	427	448
Investments and other assets		
Investment securities	9,626	9,018
Net defined benefit asset	1,220	1,218
Other	550	736
Allowance for doubtful accounts	(7)	(7)
Total investments and other assets	11,390	10,966
Total non-current assets	20,247	20,465
Total assets	40,709	42,773

(Millions of yen)

	Previous fiscal year (as of March 31, 2022)	End of Second Quarter of Fiscal 2023 (as of September 30, 2022)
Liabilities		
Current liabilities		
Accounts payable-trade	928	827
Current portion of long-term loans payable	325	325
Income taxes payable	656	895
Provision for directors' bonuses	50	25
Other	2,476	2,440
Total current liabilities	4,437	4,513
Noncurrent liabilities		
Long-term loans payable	1,153	1,013
Net defined benefit liability	235	244
Other	1,943	1,669
Total noncurrent liabilities	3,332	2,926
Total liabilities	7,769	7,440
Net assets		
Shareholders' equity		
Capital stock	5,968	5,968
Capital surplus	6,123	6,142
Retained earnings	16,001	17,672
Treasury shares	(115)	(57)
Total shareholders' equity	27,978	29,727
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,426	3,124
Foreign currency translation adjustment	713	1,721
Remeasurements of defined benefit plans	641	595
Total accumulated other comprehensive income	4,781	5,441
Subscription rights to shares	116	99
Non-controlling interests	64	65
Total net assets	32,940	35,332
Total liabilities and net assets	40,709	42,773

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

(Millions of yen)

	Second Quarter of Fiscal 2022 (from April 1, 2021 to September 30, 2021)	Second Quarter of Fiscal 2023 (from April 1, 2022 to September 30, 2022)
Net sales	13,867	15,831
Cost of sales	5,877	6,631
Gross profit	7,990	9,200
Selling, general, and administrative expenses	5,989	6,963
Operating profit	2,000	2,237
Non-operating income		
Interest income	9	18
Dividend income	57	91
Membership fee income	41	43
Foreign exchange gains	47	370
Other	114	84
Total non-operating income	270	607
Non-operating expenses		
Interest expenses	4	2
Membership fee	71	66
Share of loss of entities accounted for using equity method	42	9
Other	22	21
Total non-operating expenses	141	99
Ordinary profit	2,130	2,745
Extraordinary income		
Gain on sales of investment securities	-	44
Settlement income	-	112
Total extraordinary income	-	156
Extraordinary losses		
Loss on retirement of non-current assets	40	-
Total extraordinary losses	40	-
Profit before income taxes	2,089	2,902
Income taxes	574	754
Profit	1,515	2,147
Profit attributable to non-controlling interests	8	13
Profit attributable to owners of parent	1,506	2,133

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second Quarter of Fiscal 2022 (from April 1, 2021 to September 30, 2021)	Second Quarter of Fiscal 2023 (from April 1, 2022 to September 30, 2022)
Profit	1,515	2,147
Other comprehensive income		
Valuation difference on available-for-sale securities	25	(302)
Foreign currency translation adjustment	188	1,012
Remeasurements of defined benefit plans, net of tax	(41)	(46)
Total other comprehensive income	172	664
Comprehensive income	1,687	2,811
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	1,677	2,793
Comprehensive income attributable to non-controlling interests	9	17

(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, when 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 transit 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 – September 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	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	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

(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—September 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	14,651	1,136	44	15,831	—	15,831
(2) Internal sales or transfers	—	—	2	2	(2)	—
Total	14,651	1,136	46	15,834	(2)	15,831
Segment profit	2,195	34	4	2,234	2	2,237

*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	6,937	649	44	7,630
North and Latin America	1,900	143	—	2,043
Europe	3,121	—	—	3,121
Asia	2,693	343	—	3,036
Revenue from contracts with customers	14,651	1,136	44	15,831
Other revenue	—	—	—	—
Sales to external customers	14,651	1,136	44	15,831

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