

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

February 3, 2023

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: February 8, 2023
 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 Third Quarter of Fiscal Year Ended March 31, 2023 (April 1, 2022 – December 31, 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	%
Nine months ended December 31, 2022	23,742	13.0	3,290	10.4	3,664	11.9	2,796	19.2
Nine months ended December 31, 2021	21,014	18.4	2,980	75.6	3,274	82.9	2,346	104.7

(Note) Comprehensive income: Nine Months ended December 31, 2022 3,206 million yen (30.3%)
 Nine Months ended December 31, 2021 2,460 million yen (47.0%)

	Third Quarter Net income (loss) per share	Third Quarter Fully diluted net income (loss) per share
	Yen	Yen
Nine months ended December 31, 2022	156.89	156.23
Nine months ended December 31, 2021	131.99	131.37

(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, 2022	42,798	35,459	82.5	1,978.11
Year ended March 31, 2022	40,709	32,940	80.5	1,841.55

(Reference) Shareholder's equity: Nine Months ended December 31, 2022 35,293 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 December 31, 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 December 31, 2022: 52,007 shares
 - As of March 31, 2022: 105,013 shares
 - (c) Average number of shares during the period
 - As of December 31, 2022: 17,822,476 shares
 - As of December 31, 2021: 17,778,033 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 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 foreign exchange fluctuations.

The Company Group posted net sales of 23,742 million yen for the quarter under review, an increase of 2,728 million yen (13.0%) 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 2,068 million yen (19.0%) to 12,969 million yen (54.6% of net sales).

Operating income increased by 310 million yen (10.4%) from the corresponding period of the previous consolidated fiscal year to 3,290 million thanks to a growth in sales despite an increase in selling, general, and administrative expenses.

Ordinary income increased by 389 million yen (11.9%) from the corresponding period of the previous consolidated fiscal year to 3,664 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 59 million yen in gain on sales of investment securities as extraordinary income, profit attributable to owners of parent, after deducting tax expenses, increased by 449 million yen (19.2%) from the corresponding period of the previous consolidated fiscal year to 2,796 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.

(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 2,592 million yen (13.4%) from the corresponding period of the previous consolidated fiscal year to 21,949 million yen, and operating income increased 355 million yen (12.4%) to 3,222 million yen, despite an increase in selling, general, and administrative expenses.

(Nail care business)

Domestically, sales of gel nail-related products to general consumers continued to decrease due to an offensive from another company; however, sales increased on the back of a recovery for acrylic materials, resulting in an increase 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 130 million yen (8.2%) from the corresponding period of the previous consolidated fiscal year to 1,719 million yen. However, operating income was 57 million yen, a year-on-year decrease of 46 million yen (44.6%), 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 increased 4 million yen (6.8%) to 72 million yen, and operating income was almost same as the previous consolidated fiscal year 5 million yen.

(2) Explanation of Financial Position

Total assets at the end of the quarter under review increased by 2,088 million yen from the end of the previous consolidated fiscal year to 42,798 million yen. The primary factors were increases in cash and deposits and merchandises and finished goods and property, plant and equipment.

Liabilities decreased by 431 million yen to 7,338 million yen. The primary factors were decreases in noncurrent liabilities such as long-term deferred tax liabilities.

Net assets increased by 2,519 million yen to 35,459 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 82.5%, an increase of 2.0 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 Third Quarter of Fiscal 2023 (as of December 31, 2022)
Assets		
Current assets		
Cash and deposits	9,064	9,453
Notes and accounts receivable-trade	3,294	3,401
Merchandises and finished goods	5,303	5,799
Work in process	1,126	1,346
Raw materials and supplies	1,125	1,241
Other	555	850
Allowance for doubtful accounts	(6)	(13)
Total current assets	20,462	22,079
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	9,837	10,057
Accumulated depreciation	(5,930)	(6,187)
Buildings and structures, net	3,907	3,869
Other	11,742	13,057
Accumulated depreciation	(7,219)	(7,578)
Other, net	4,522	5,478
Total property, plant and equipment	8,429	9,348
Intangible assets	427	435
Investments and other assets		
Investment securities	9,626	9,054
Net defined benefit asset	1,220	1,217
Other	550	670
Allowance for doubtful accounts	(7)	(7)
Total investments and other assets	11,390	10,934
Total non-current assets	20,247	20,718
Total assets	40,709	42,798

	(Millions of yen)	
	Previous fiscal year (as of March 31, 2022)	End of Third Quarter of Fiscal 2023 (as of December 31, 2022)
Liabilities		
Current liabilities		
Accounts payable-trade	928	889
Current portion of long-term loans payable	325	325
Income taxes payable	656	870
Provision for directors' bonuses	50	37
Other	2,476	2,366
Total current liabilities	<u>4,437</u>	<u>4,488</u>
Noncurrent liabilities		
Long-term loans payable	1,153	928
Net defined benefit liability	235	245
Other	1,943	1,675
Total noncurrent liabilities	<u>3,332</u>	<u>2,849</u>
Total liabilities	<u>7,769</u>	<u>7,338</u>
Net assets		
Shareholders' equity		
Capital stock	5,968	5,968
Capital surplus	6,123	6,142
Retained earnings	16,001	18,067
Treasury shares	(115)	(57)
Total shareholders' equity	<u>27,978</u>	<u>30,122</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,426	3,212
Foreign currency translation adjustment	713	1,389
Remeasurements of defined benefit plans	641	570
Total accumulated other comprehensive income	<u>4,781</u>	<u>5,171</u>
Subscription rights to shares	<u>116</u>	<u>99</u>
Non-controlling interests	<u>64</u>	<u>66</u>
Total net assets	<u>32,940</u>	<u>35,459</u>
Total liabilities and net assets	<u>40,709</u>	<u>42,798</u>

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

(Millions of yen)

	Third Quarter of Fiscal 2022 (from April 1, 2021 to December 31, 2021)	Third Quarter of Fiscal 2023 (from April 1, 2022 to December 31, 2022)
Net sales	21,014	23,742
Cost of sales	8,864	9,734
Gross profit	12,149	14,008
Selling, general, and administrative expenses	9,169	10,717
Operating profit	2,980	3,290
Non-operating income		
Interest income	16	28
Dividend income	97	139
Membership fee income	61	78
Foreign exchange gains	114	168
Other	173	119
Total non-operating income	464	535
Non-operating expenses		
Interest expenses	6	9
Membership fee	108	124
Share of loss of entities accounted for using equity method	20	1
Other	34	26
Total non-operating expenses	170	161
Ordinary profit	3,274	3,664
Extraordinary income		
Gain on sales of investment securities	-	59
Settlement income	-	112
Total extraordinary income	-	171
Extraordinary losses		
Loss on retirement of non-current assets	40	-
Total extraordinary losses	40	-
Profit before income taxes	3,234	3,836
Income taxes	872	1,020
Profit	2,361	2,815
Profit attributable to non-controlling interests	14	19
Profit attributable to owners of parent	2,346	2,796

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third Quarter of Fiscal 2022 (from April 1, 2021 to December 31, 2021)	Third Quarter of Fiscal 2023 (from April 1, 2022 to December 31, 2022)
Profit	2,361	2,815
Other comprehensive income		
Valuation difference on available-for-sale securities	(156)	(214)
Foreign currency translation adjustment	319	676
Remeasurements of defined benefit plans, net of tax	(64)	(71)
Total other comprehensive income	98	390
Comprehensive income	2,460	3,206
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	2,441	3,186
Comprehensive income attributable to non-controlling interests	18	19

(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 – December 31, 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	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	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	1,568	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.

Fiscal year under review (April 1, 2022 – December 31, 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	21,949	1,719	72	23,742	-	23,742
(2) Internal sales or transfers	-	-	3	3	(3)	-
Total	21,949	1,719	76	23,746	(3)	23,742
Segment profit	3,222	57	5	3,286	4	3,290

*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	10,310	981	72	11,365
North and Latin America	2,753	207	-	2,961
Europe	4,718	-	-	4,718
Asia	4,166	530	-	4,697
Revenue from contracts with customers	21,949	1,719	72	23,742
Other revenue	-	-	-	-
Sales to external customers	21,949	1,719	72	23,742

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

(Significant Subsequent Events)

(Repurchase of treasury share)

At the meeting of the Board of Directors of the Company held on February 3, 2023, resolved to repurchase its share in accordance with paragraph 1 of Article 459 of the Companies Act of Japan.

1. Reason for share repurchases

The Company acquired its own shares to execute capital policies flexibly in response to changing operating environments.

2. Resolution of the Board of Directors regarding share repurchases

(1) Type of shares to be repurchased

Shares of common stock

(2) Total number of shares to be repurchased

Up to 150,000 shares

(3) Repurchase Period

February 6, 2023

(4) Total amount of repurchase price

Up to 343,500,000 yen

(5) Repurchase method

Purchase through the Tokyo Stock Exchange Off-Auction Own Share Repurchase Trading (ToSTNeT-3)