The Third Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2014 (Japanese Accounting Standards)

February 4, 2014

Company name: SHOFU INC.
Listing: Tokyo Stock Exchange (First section)
Code number: 7979
URL: http://www.shofu.co.jp/
Representative: Noriyuki Negoro, President
Contact: Wataru Fujishima, Managing Director (Finance, Personnel, General Affairs and Nail care business)
Scheduled date for filing of quarterly securities report: February 14, 2014
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, 2014 (April 1,2013 – December 31,2013)

(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, 2013	13,137	12.9	734	179.0	802	201.0	473	-
Nine months ended December 31, 2012	11,632	1.0	263	(58.1)	266	(55.0)	(54)	-

(Note) Comprehensive income: Nine Months ended December 31, 2013 1,269 million yen （－%）
Nine Months ended December 31, 2012 52 million yen （－%）

	Second Quarter Net income (loss) per share	Second Quarter Fully diluted net income (loss) per share
	Yen	Yen
Nine months ended December 31, 2013	29.72	29.56
Nine months ended December 31, 2012	(3.39)	-

(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, 2013	24,000	19,649	81.6	1,229.54
Year ended March 31, 2013	22,817	18,662	81.6	1,169.09

(Reference) Shareholder's equity: Nine Months ended December 31, 2013 19,595 million yen
Year ended March 31, 2012 18,623 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 31,2013	-	8.00	-	11.00	19.00
Year ended March 31,2014	-	8.00	-		
Year ending March 31,2014 (Forecasts)				10.00	18.00

(Notes) Revision to the dividend forecast during the current quarter: None
Year-end dividends for the fiscal year ended March 31, 2013, include a commemorative dividend of 1.0 yen. (For the 90th anniversary of company's founding)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2014. (April 1, 2013 – March 31, 2014)

(% 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 31,2014	17,694	10.4	725	(0.0)	661	(9.7)	383	-	24.08

(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: Yes
(c) Changes in accounting estimates: None
(d) Retrospective restatements: None

(Notes) For details, please refer to the “Changes to accounting policies; changes to and restatements of accounting estimates”section on page 3

(4) Number of shares outstanding (common stock)

(a) Number of shares outstanding at end of period (including treasury stock).
As of December 31, 2013: 16,114,089 shares
As of March 31, 2013: 16,114,089 shares
(b) Number of shares of treasury stock at end of period
As of December 31, 2013: 176,785 shares
As of March 31, 2013: 184,497 shares
(c) Average number of shares during the period
As of December 31, 2013: 15,935,077 shares
As of December 31, 2012: 16,062,855 shares

*Implementation status of audit procedures

This quarterly earnings report is not subject to audit procedures under the Financial Instruments and Exchange Act. At the time of disclosing these consolidated financial statements, audit procedures specified in the Financial Instruments and Exchange Act have not been completed with respect to the financial statements.

*Explanation concerning the appropriate use of business forecasts, and other special items

The forecasts and other statements regarding the future included in this report are based on currently available information and certain assumptions. Actual results may differ from forecasts for a variety of reasons. With respect to the preconditions for the forecasts, please refer to the “Qualitative information related to the company’s consolidated business outlook” section on page 3.

Accompanying Materials－Contents

1. Qualitative information related to financial results for the quarter under review

(1) Qualitative information related to the company's consolidated business performance

During the consolidated cumulative third quarter (from April 1 to December 31, 2013) ("the period under review"), the Japanese economy made gradual progress as the yen continued to weaken and stock prices to rise thanks to the government's economic measures and the Bank of Japan's monetary easing, leading to gradual improvement in corporate earnings and employment. However, uncertainty concerning the future direction of the economy remains due to concerns about slowing growth in emerging economies and fear over the negative impact of an increase in Japan's consumption tax.

Against this backdrop, the Shofu Group posted net sales of 13,137 million yen for the period under review, an increase of 1,505 million yen (12.9%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 3,723 million yen (28.3%) of net sales, an increase of 931 million yen (33.3%).

Aggressive investment in areas such as sales activities drove up selling, general and administrative expenses 425 million yen (6.9%) over the corresponding period of the previous fiscal year, causing operating income to rise to 734 million yen, an increase of 471 million yen (179.0%). Additionally, improvement in non-operating income due to the impact of exchange rates and other factors yielded ordinary income of 802 million, an increase of 535 million yen (201.0%). After subtraction of tax expenses, the result of these factors was a quarterly profit of 473 million yen, an increase of 527 million yen.

(Dental business)

Domestically, dental business sales rose from the corresponding period of the previous consolidated fiscal year as sales were bolstered by the launch of new products such as EyeSpecial C-II, a smart digital camera designed exclusively for dentistry, and SOLIDEX HARDURA, a light-curing crown and bridge composite, during the period under review as well as the launch of Air-Flow Master Piezon, an ultrasonic therapy unit designed for multipurpose endodontic and periodontic use, during the previous consolidated fiscal year. Overseas, dental business sales rose in every region thanks to the favorable impact of the weakening yen.

As a result of these factors, net sales during the period under review increased 1,364 million yen (13.2%) from the corresponding period of the previous consolidated fiscal year to 11,733 million yen. Increased earnings offset higher selling, general and administrative expenses as operating income rose to 687 million yen, an increase of 373 million yen (118.9%).

(Nail care business)

While the overall market for nail care products continues to enjoy gradual growth, competition on price and quality is increasing. In addition to working to increase market share of its products by creating a Nail Care Division at the Shofu Head Office in June 2013 as a way to put in place and strengthen business structures extending from product development and quality control to manufacturing and sales, the company sought to increase sales through such means as holding a variety of seminars for customers.

Net sales during the period under review increased 140 million yen (11.7%) from the corresponding period of the previous consolidated fiscal year to 1,340 million yen due to continued growth in overseas sales in Asia. Elimination of amortization of goodwill and other factors combined with the effects of higher sales to drive down selling, general and administrative expenses, boosting operating income to 24 million yen, an increase of 94 million yen.

(Other businesses)

Group company Shoken Inc. uses technology for manufacturing dental abrasives to manufacture and sell industrial abrasives. Net sales during the period under review rose 0.7 million yen (1.2%) from the corresponding period of the previous consolidated fiscal year to 63 million yen, and operating income rose 5 million yen (31.8%) to 21 million yen.

(2) Qualitative information related to the company's consolidated financial position

Total assets at the end of the period under review rose 1,182 million yen from the end of the previous consolidated fiscal year to 24,000 million yen. The increase is principally due to increases in merchandise and finished goods.

Liabilities increased 196 million yen from the end of the previous consolidated fiscal year to 4,350 million yen due principally to increases in income taxes payable and other obligations.

Net assets rose 986 million yen from the end of the previous consolidated fiscal year to 19,649 million yen on increases in valuation difference on available-for-sale securities and the foreign currency translation adjustment account.

As a result of these factors, the equity ratio held steady at 81.6%, unchanged from the end of the previous consolidated fiscal year.

(3) Qualitative information related to the company's consolidated business outlook

We have not revised the consolidated forecast for the fiscal year ending March 31, 2014, as announced on October 28, 2013.

2. Items related to summary information (other)

(1) Important subsidiary developments during the quarter under review

None

(2) 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.

(3) Changes to accounting policies; changes to and restatements of accounting estimates

(Changes to accounting policies)

Shofu has traditionally converted earnings and expenses of its overseas consolidated subsidiaries into yen using the spot exchange rate in effect on the last day of the fiscal year. However, we began using the average exchange rate for the period in question to convert these figures into yen starting with the quarter under review based on our judgment that use of the average exchange rate was more conducive to the appropriate disclosure of information than use of the exchange rate at a single point in time. This judgment reflects the growing importance of overseas consolidated subsidiaries to our bottom line.

Since the company is required to retain financial statements and other documents for a period of 10 years, it is not possible to retroactively apply this change any further than that into the past. Consequently, use of an average exchange rate in converting overseas earnings and expenses to yen has been applied from April 1, 2003.

This change to our accounting policies has been retroactively applied, and quarterly and annual consolidated financial statements for the previous fiscal year reflect the new method.

As a result of the retroactive application of the new method, cumulative net sales for the first, second, and third quarters of the previous consolidated fiscal year decreased 164 million yen, gross profit 149 million yen, operating profit 70 million yen, ordinary profit 4 million yen, and income before income taxes 4 million yen. Additionally, due to the cumulative effect of changes on net assets at the beginning of the previous consolidated fiscal year, retained earnings as of the end of the previous fiscal year increased 28 million yen, while foreign currency translation adjustment as of the beginning of the previous fiscal year fell 28 million yen.

3. Quarterly Consolidated Financial Statements

(1)Quarterly Consolidated Balance Sheets

（Millions of yen）

	Previous fiscal year (as of March 31, 2013)	End of Third Quarter of Fiscal 2013 (as of December 31, 2013)
Assets		
Current assets		
Cash and deposits	5,511	5,756
Notes and accounts receivable-trade	2,649	2,358
Short term investment securities	350	116
Merchandise and finished goods	2,330	3,273
Work in process	675	631
Raw materials and supplies	688	817
Other	837	852
Allowance for doubtful accounts	(78)	(65)
Total current assets	12,965	13,739
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures	6,348	6,437
Accumulated depreciation	(4,038)	(4,140)
Buildings and structures, net	2,310	2,297
Other	7,353	7,761
Accumulated depreciation	(4,491)	(4,672)
Other, net	2,861	3,089
Total property, plant, and equipment	5,171	5,386
Intangible assets	167	147
Investments and other assets		
Investment securities	3,177	3,715
Other	1,344	1,020
Allowance for doubtful accounts	(9)	(10)
Total investments and other assets	4,512	4,726
Total noncurrent assets	9,851	10,260
Total assets	22,817	24,000

(Millions of yen)

	Previous fiscal year (as of March 31, 2013)	End of Third Quarter of Fiscal 2013 (as of December 31, 2013)
Liabilities		
Current liabilities		
Accounts payable-trade	576	477
Short-term loans payable	980	975
Income and other taxes payable	114	327
Provision for directors' bonuses	3	2
Other	1,295	1,227
Total current liabilities	2,969	3,009
Noncurrent liabilities		
Provision for retirement benefits	120	112
Other	1,064	1,228
Total noncurrent liabilities	1,185	1,341
Total liabilities	4,154	4,350
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	9,495	9,664
Treasury stock	(169)	(162)
Total shareholders' equity	18,377	18,553
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	644	1,031
Foreign currency translation adjustment	(398)	10
Total accumulated other comprehensive income	245	1,041
Stock acquisition rights	39	53
Total net assets	18,662	19,649
Total liabilities and net assets	22,817	24,000

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	Third Quarter of Fiscal 2012 (from April 1, 2012 to December 31, 2012)	Third Quarter of Fiscal 2013 (from April 1, 2013 to December 31, 2013)
Net sales	11,632	13,137
Cost of sales	5,232	5,841
Gross profit	6,339	7,295
Selling, general, and administrative expenses	6,136	6,561
Operating income	263	734
Non-operating income		
Interest income	14	15
Dividend income	50	51
Annual fee and seminar fee income	71	99
Foreign exchange profits	9	110
Other	85	64
Total non-operating income	231	341
Non-operating expenses		
Interest expenses	7	6
Sales discounts	113	121
Operating expenses for seminars hosted by the company	91	122
Other	15	21
Total non-operating expenses	227	273
Ordinary income	266	802
Extraordinary losses		
Loss on valuation of investment securities	142	-
Loss on retirement of noncurrent assets	15	-
Total extraordinary losses	157	-
Income before income and other taxes	108	802
Income and other taxes	163	328
Income (loss) before minority interests	(54)	473
Net income (loss)	(54)	473

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third Quarter of Fiscal 2012 (from April 1, 2012 to December 31, 2012)	Third Quarter of Fiscal 2013 (from April 1, 2013 to December 31, 2013)
Income (loss) before minority interests	(54)	473
Other comprehensive income		
Valuation difference on available-for-sale securities	8	387
Foreign currency translation adjustment	98	408
Total other comprehensive income	106	796
Comprehensive income	52	1,269
Comprehensive income attributable to:		
Comprehensive income attributable to shareholders of parent company	52	1,269
Comprehensive income attributable to minority interests	-	-

(3) Notes Relating to Assumptions for the Going Concern

Not applicable.

(4) Notes to Significant Changes in the Amounts of Shareholders' Equity

Not applicable.

(5) Segment Information, etc

Previous fiscal year (April 1, 2012－December 31, 2012)

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	10,369	1,199	63	11,632	-	11,632
(2) Internal sales or transfers	-	0	4	4	(4)	-
Total	10,369	1,200	67	11,636	(4)	11,632
Segment profit (loss)	313	(69)	16	260	2	263

*1 The ¥2 million adjustment to segment profit/loss serves to cancel out transactions between segments.

*2 Segment profit (loss) equals the operating income on quarterly consolidated financial statements.

Fiscal year under review (April 1, 2013－December 31, 2013)

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	11,733	1,340	63	13,137	-	13,137
(2) Internal sales or transfers	-	0	3	3	(3)	-
Total	11,733	1,340	66	13,140	(3)	13,137
Segment profit	687	24	21	733	0	734

*1 The ¥0 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.

2. Items related to changes in reporting segments

(Change in the method used to convert earnings and expenses at overseas consolidated subsidiaries into yen)

As noted in the section describing changes to accounting policies, Shofu has traditionally converted earnings and expenses of its overseas consolidated subsidiaries into yen using the spot exchange rate in effect on the last day of the fiscal year. However, we began using the average exchange rate for the period in question to convert these figures into yen starting with the quarter under review based on our judgment that use of an average exchange rate was more conducive to the appropriate disclosure of information than use of the exchange rate at a single point in time. This judgment reflects the growing importance of overseas consolidated subsidiaries to our bottom line.

This change to our accounting policies has been retroactively applied, and the segment information provided for the first, second, and third quarters of the previous consolidated fiscal year reflects the change.

As a result of the retroactive application of the new method, cumulative net sales for the first, second, and third quarters of the previous consolidated fiscal year fell 162 million yen in the dental business and fell 1 million yen in the nail care business. Segment profit/loss fell 70 million yen in the dental business and fell 0 million yen in the nail care business.