The First Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2017 (Japanese Accounting Standards)

August 4, 2016

Company name: SHOFU INC.
Listing: Tokyo Stock Exchange (First section)
Code number: 7979
URL: http://www.shofu.co.jp/
Representative: Noriyuki Negoro, President
Contact: Takahiro Umeda, General Manager of Finance Department
Scheduled date for filing of quarterly securities report: August 10, 2016
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 First Quarter of Fiscal Year Ended March 31, 2017(April 1,2016 – June 30,2016)

(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, 2016	5,708	-2.9	540	2.9	317	-45.7	230	-36.7
Three months ended June 30, 2015	5,875	26.4	525	24.6	584	49.7	363	232.0

(Note) Comprehensive income: Three Months ended June 30, 2016 -197 million yen （－%）
Three Months ended June 30, 2015 592 million yen（73.6%）

	First Quarter Net income (loss) per share	First Quarter Fully diluted net income (loss) per share
	Yen	Yen
Three months ended June 30, 2016	14.44	14.36
Three months ended June 30, 2015	22.79	22.66

(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, 2016	27,848	21,015	75.2	1,317.64
Year ended March 31, 2016	28,305	21,500	75.7	1,340.00

(Reference) Shareholder's equity: Three Months ended June 30, 2016 20,929 million yen
Year ended March 31, 2016 21,414 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 31,2016	-	8.00	-	10.00	18.00
Year ended March 31,2017	-				
Year ending March 31,2017 (Forecasts)		8.00	-	12.00	20.00

(Notes) Revision to the dividend forecast during the current quarter: None

(Notes) Year-end dividends for the fiscal year ended March 31, 2017 include commemorative dividend of 2.0 yen. (The 95th anniversary of company's founding)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2017. (April 1, 2016 – March 31, 2017)

(% 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 30,2016 (cumulative)	12,111	4.4	786	-6.6	719	-12.8	506	2.1	31.67
Year ending March 31,2017	24,649	7.3	1,669	6.4	1,520	9.1	1,084	37.3	67.86

(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 June 30, 2016: 16,114,089 shares
As of March 31, 2016: 16,114,089 shares
(b) Number of shares of treasury stock at end of period
As of June 30, 2016: 230,079 shares
As of March 31, 2016: 132,879 shares
(c) Average number of shares during the period
As of June 30, 2016: 15,956,897 shares
As of June 30, 2015: 15,963,726 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 first quarter of the consolidated fiscal year (from April 1, 2016 to June 30, 2016) ("the quarter under review"), the Japanese economy continued to be on a moderate recovery trend as a result of factors including the government's economic measures and improved employment and income conditions. However, the effects of the UK decision to leave the EU and concerns about an economic slowdown in emerging nations including China have continued to make future business conditions unclear.

Under such circumstances, the Company Group posted net sales of 5,708 million yen for the quarter under review, a decrease of 167 million yen (2.9%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 2,370 million yen (41.5% of net sales), a decrease of 68 million yen (2.8%).

Concerning profits, selling, general and administrative expenses increased 42 million yen (1.5%) from the corresponding period of the previous fiscal year, but a decline in the cost of sales ratio caused operating income to rise to 540 million yen, an increase of 15 million yen (2.9%). However, the impact of exchange rates had a negative effect on non-operating income, yielding ordinary income of 317 million yen, a decrease of 266 million yen (45.7%). Profit attributable to owners of parent, after deducting tax expenses, was 230 million yen, a decrease of 133 million yen (36.7%).

(Dental business)

Domestically, the hard resin for crowns "CERAMAGE Up" and the dental filling composite resin "BEAUTIFIL Kids" were introduced to the market in the quarter under review. In spite of contributions to sales from CAD/CAM-related new products, amid a harsh management environment resulting from intense competition, sales decreased from the corresponding period of the previous consolidated fiscal year. Overseas, despite solid sales performance in North America, Central and South America, Europe, and China, sales decreased year on year due to the effects of foreign exchange resulting from a stronger yen.

As a result of these factors, although net sales for the quarter under review decreased by 86 million yen (1.6%) from the corresponding period of the previous consolidated fiscal year to 5,258 million yen, operating income increased 64 million yen (13.1%) from the corresponding period of the previous consolidated fiscal year to 554 million yen due to a decline in the cost of sales ratio.

(Nail care business)

Market conditions in the nail care business are harsh as intensifying price competition continues in the domestic market and sales trended at low levels. Additionally, regarding gel products, the Company was unable to escape the effects of a voluntary partial recall of color gels that began in September 2015, and although it is on a recovery trend, sales levels still fell short of the previous fiscal year. Overseas, sales of LED gel "Presto" were robust in America and Taiwan.

As a result of these factors, net sales for the quarter under review decreased by 80 million yen (15.9%) from the corresponding period of the previous consolidated fiscal year to 428 million yen, resulting in an operating loss of 21 million yen, a year-on-year decrease of 47 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 decreased 0.7 million yen (3.4%) from the corresponding period of the previous consolidated fiscal year to 21 million yen, and operating income decreased 0.2 million yen (3.6%) to 6 million yen.

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

Total assets at the end of the quarter under review decreased by 456 million yen from the end of the previous consolidated fiscal year to 27,848 million yen.

The primary decrease in assets was in notes and accounts receivable-trade and merchandises and finished goods.

Liabilities increased by 27 million yen to 6,832 million yen. While noncurrent liabilities decreased, increases in accrued expenses and other factors resulted in an increase in current liabilities.

Net assets decreased by 484 million yen from the corresponding period of the previous consolidated fiscal year to 21,015 million yen. The primary factor was a decrease in foreign currency translation adjustment.

As a result of the above, the capital-to-assets ratio fell to 75.2%, a decrease of 0.5 points 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 performance forecast for the fiscal year ending March 31, 2017, as announced on May 13, 2016.

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, estimates and restatements

(Changes to accounting policies)

In line with revisions to the Corporation Tax Act, the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practical Issues Task Force (PITF) No. 32; June 17, 2016) has been applied from the quarter under review, and the method of depreciation for facilities attached to buildings and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The effect on the quarterly consolidated financial statements for the quarter under review was insignificant.

3. Quarterly Consolidated Financial Statements

(1)Quarterly Consolidated Balance Sheets

（Millions of yen）

	Previous fiscal year (as of March 31,2016)	End of First Quarter of Fiscal 2016 (as of June 30, 2016)
Assets		
Current assets		
Cash and deposits	4,413	4,581
Notes and accounts receivable-trade	3,185	2,933
Short term investment securities	80	31
Merchandises and finished goods	3,885	3,712
Work in process	863	870
Raw materials and supplies	872	928
Other	1,080	1,137
Allowance for doubtful accounts	-114	-107
Total current assets	14,265	14,087
Noncurrent assets		
Property,plant and equipment		
Buildings and structures	7,982	7,920
Accumulated depreciation	-4,715	-4,729
Buildings and structures, net	3,266	3,191
Other	9,144	9,034
Accumulated depreciation	-5,683	-5,650
Other, net	3,460	3,383
Total property,plant and equipment	6,727	6,574
Intangible assets		
Goodwill	649	569
Other	1,113	992
Total intangible assets	1,762	1,561
Investments and other assets		
Investment securities	4,508	4,599
Net defined benefit asset	669	660
Other	381	372
Allowance for doubtful accounts	-9	-7
Total investments and other assets	5,549	5,624
Total non-current assets	14,039	13,760
Total assets	28,305	27,848

(Millions of yen)

	Previous fiscal year (as of March 31,2016)	End of First Quarter of Fiscal 2016 (as of June 30, 2016)
Liabilities		
Current liabilities		
Accounts payable-trade	647	520
Current portion of long-term loans payable	385	504
Income taxes payable	115	131
Provision for directors' bonuses	44	12
Other	1,856	2,079
Total current liabilities	3,049	3,248
Noncurrent liabilities		
Long-term loans payable	1,729	1,604
Net defined benefit liability	177	167
Other	1,847	1,811
Total noncurrent liabilities	3,755	3,583
Total liabilities	6,804	6,832
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	10,600	10,671
Treasury shares	-122	-251
Total shareholders' equity	19,530	19,470
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,781	1,819
Foreign currency translation adjustment	137	-338
Remeasurements of defined benefit plans	-34	-21
Total accumulated other comprehensive income	1,884	1,458
Subscription rights to shares	73	76
Minority interests	11	9
Total net assets	21,500	21,015
Total liabilities and net assets	28,305	27,848

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	First Quarter of Fiscal 2015 (from April 1, 2015 to June 30, 2015)	First Quarter of Fiscal 2016 (from April 1, 2016 to June 30, 2016)
Net sales	5,875	5,708
Cost of sales	2,508	2,282
Gross profit	3,367	3,425
Selling, general, and administrative expenses	2,842	2,885
Operating income	525	540
Non-operating income		
Interest income	2	1
Dividends income	31	37
Membership fee income	30	31
Foreign exchange profits	56	-
Other	27	22
Total non-operating income	148	93
Non-operating expenses		
Interest expenses	8	2
Sales discounts	41	43
Membership fee	30	38
Foreign exchange losses	-	224
Other	9	6
Total non-operating expenses	89	316
Ordinary income	584	317
Income before income taxes and minority interests	584	317
Income taxes	216	87
Profit	367	229
Profit attributable to non-controlling interests	3	-0
Profit attributable to owners of parent	363	230

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	First Quarter of Fiscal 2015 (from April 1, 2015 to June 30, 2015)	First Quarter of Fiscal 2016 (from April 1, 2016 to June 30, 2016)
Profit	367	229
Other comprehensive income		
Valuation difference on available-for-sale securities	4	37
Foreign currency translation adjustment	229	-476
Remeasurements of defined benefit plans, net of tax	-9	12
Total other comprehensive income	224	-426
Comprehensive income	592	-197
Comprehensive income attributable to:		
Comprehensive income attributable to owner of the parent	588	-195
Comprehensive income attributable to non-controlling interests	3	-1

(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) Business Combination, Etc.

Revised allocations of acquisition cost due to the finalization of the temporary accounting treatment

On April 1, 2015, the Company acquired Merz Dental GmbH, and applied temporary accounting treatment for that business combination during the previous consolidated first quarter. In the previous consolidated second quarter, however, the Company finalized the accounting treatment.

In line with the finalization of this temporary accounting treatment, a significant revision to the initial allocation amounts of acquisition cost was reflected in comparison information included in the quarterly consolidated financial statements for the quarter under review.

As a result, the temporarily calculated amount of goodwill of 1,383 million yen decreased by 673 million yen to 709 million yen due to the finalization of the accounting treatment. The decrease in goodwill was due mainly to an increase of 867 million yen in intangible assets, an increase of 33 million yen in other current assets, and an increase of 228 million yen in deferred tax liabilities.

Additionally, as a result, in the quarterly consolidated statements of income for the first quarter of the previous consolidated fiscal year, operating income, ordinary income, and income before income taxes and minority interests each decreased by 0 million yen, and profit increased by 3 million yen.

(6) Segment Information, etc

Previous fiscal year (April 1, 2015－June 30, 2015)

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	5,344	509	21	5,875	-	5,875
(2) Internal sales or transfers	-	0	1	2	(2)	-
Total	5,344	509	23	5,877	(2)	5,875
Segment profit (loss)	490	25	6	523	2	525

*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, 2016－June 30, 2016)

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	5,268	428	21	5,708	-	5,708
(2) Internal sales or transfers	0	0	1	2	(2)	-
Total	5,259	428	22	5,710	(2)	5,708
Segment profit(loss)	554	(21)	6	539	1	540

*1 The ¥1 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.

*3 In line with the significant revision to the initial allocation amounts of acquisition cost as stated in "Revised allocations of acquisition cost due to the finalization of the temporary accounting treatment" of "Business Combination, Etc.," segment information for the first quarter of the previous consolidated fiscal year are shown after reflection of said revision.

2. Matters regarding changes, etc. by reportable segment

As stated in Changes to Accounting Policies, in line with revisions to the Corporation Tax Act, the method of depreciation for facilities attached to buildings and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method. Therefore, the method for depreciation in business segments has been changed in the same manner.

The effect of the above change on segment profit (loss) for the quarter under review was insignificant.