

**The First Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2019
(Japanese Accounting Standards)**

August 3, 2018

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, Executive Officer & General Manager of Finance Department
 Scheduled date for filing of quarterly securities report: August 10, 2018
 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, 2019(April 1,2018 – June 30,2018)

(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, 2018	6,092	6.2	388	12.0	415	Δ3.9	262	Δ10.9
Three months ended June 30, 2017	5,736	0.5	346	Δ35.8	432	36.2	294	27.9

(Note) Comprehensive income: Three Months ended June 30, 2018 62 million yen (Δ92.3%)
 Three Months ended June 30, 2017 810 million yen (–%)

	First Quarter Net income (loss) per share	First Quarter Fully diluted net income (loss) per share
	Yen	Yen
Three months ended June 30, 2018	16.51	16.40
Three months ended June 30, 2017	18.55	18.43

(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, 2018	30,773	24,034	77.7	1,504.07
Year ended March 31, 2018	30,890	24,157	77.8	1,511.85

(Reference) Shareholder's equity: Three Months ended June 30, 2018 23,919 million yen
 Year ended March 31, 2018 24,035 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, 2018	-	8.00	-	12.00	20.00
Year ended March 31, 2019	-	-	-	-	-
Year ending March 31, 2019 (Forecasts)	-	8.00	-	13.00	21.00

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

(Notes) Year-end dividends for the fiscal year ended March 31, 2018 include commemorative dividend of 2.0 yen.
 (The 95th anniversary of company's founding)

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2019. (April 1, 2018 – March 31, 2019)

(% 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, 2018 (cumulative)	12,550	7.3	639	Δ14.0	589	Δ30.9	346	Δ45.5	21.80
Year ending March 31, 2019	25,725	7.1	1,737	16.0	1,630	4.2	1,109	26.4	69.77

(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, 2018: 16,114,089 shares

As of March 31, 2018: 16,114,089 shares

(b) Number of shares of treasury stock at end of period

As of June 30, 2018: 210,942 shares

As of March 31, 2018: 215,792 shares

(c) Average number of shares during the period

As of June 30, 2018: 15,899,509 shares

As of June 30, 2017: 15,887,410 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

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 "Explanation of Future Forecast Information including Consolidated Business Results Forecasts" section on page 3.

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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 (from April 1, 2018 to June 30, 2018), although the global economy was on a moderate recovery trend primarily in developed nations, the risk of economic downturn continues to remain due to factors such as the trade conflict or the increase in crude oil prices caused by the US trade policy. The Japanese economy was on a moderate recovery trend owing to an improvement in the employment and income conditions against a backdrop of solid corporate earnings.

Under such circumstances, the Company Group posted net sales of 6,092 million yen for the quarter under review, an increase of 355 million yen (6.2%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 2,769 million yen (45.5% of net sales), an increase of 344 million yen (14.2%).

Concerning profits, although selling, general and administrative expenses increased by 189 million yen (6.4%) from the corresponding period of the previous consolidated fiscal year, operating income accounted for 388 million yen, an increase of 41 million yen (12.0%) owing to an increase in the net sales. However, the impact of exchange rates had a negative effect on non-operating income, yielding ordinary income of 415 million yen, a decrease of 16 million yen (3.9%). Profit attributable to owners of parent, after deducting tax expenses, was 262 million yen, a decrease of 32 million yen (10.9%).

(Dental business)

Domestically, the “EyeSpecial C-III,” a digital oral cavity photography device and the “BEAUTIFIL Flow Plus X,” a dental filling composite resin, which were introduced to the market during the previous consolidated fiscal year, and new CAD/CAM-related products, etc. contributed to sales. However, due to the intensified competition in the market, sales decreased from the corresponding period of the previous consolidated fiscal year. Looking overseas, with strong sales performance in each region, mainly in North America, Central and South America and China, sales increased year on year due partly to the effects of foreign exchange.

As a result of these factors, net sales for the quarter under review increased 320 million yen (6.2%) from the corresponding period of the previous consolidated fiscal year to 5,494 million yen, and operating income increased 49 million yen (14.0%) to 403 million yen despite an increase in selling, general and administrative expenses.

(Nail care business)

Domestically, with sales driven by our mainstay brands of LED gel “Presto” and “by Nail Labo” gel nail system for general consumers, the new “ageha” brand which was introduced to the market during the previous fiscal year and gel nail products, sales increased from corresponding period of the previous consolidated fiscal year. Looking overseas, although sales were solid in the US, as competitors are taking increasingly aggressive actions in Taiwan, sales decreased from corresponding period of the previous consolidated fiscal year.

As a result of these factors, net sales for the quarter under review increased 34 million yen (6.3%) from the corresponding period of the previous consolidated fiscal year to 572 million yen. Concerning profits, however, due to an increase in costs for promotion activities, operating loss was decreased 8 million yen to 22 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 for the quarter under review increased 1 million yen (7.5%) from the corresponding period of the previous consolidated fiscal year to 25 million yen, and operating income increased 0.8 million yen (16.7%) to 5 million yen.

(2) Explanation of Financial Position

Total assets at the end of the quarter under review decreased by 117 million yen from the end of the previous consolidated fiscal year to 30,773 million yen. The primary factor for the decrease in assets was a decrease in investment securities due to lower stock prices.

Liabilities increased by 5 million yen to 6,739 million yen. The primary factor was an increase in accounts payable-trade.

Net assets decreased by 122 million yen to 24,034 million yen. The primary factor was a decrease in valuation difference on available-for-sale securities.

As a result of the above, the capital-to-assets ratio fell to 77.7%, a decrease of 0.1 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, 2019, as announced on May 10, 2018.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	Previous fiscal year (as of March 31, 2018)	End of First Quarter of Fiscal 2018 (as of June 30, 2018)
Assets		
Current assets		
Cash and deposits	5,733	5,713
Notes and accounts receivable-trade	3,285	3,096
Securities	5	5
Merchandises and finished goods	3,996	4,233
Work in process	925	967
Raw materials and supplies	950	1,102
Other	480	521
Allowance for doubtful accounts	Δ 31	Δ 31
Total current assets	15,345	15,610
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	8,116	8,121
Accumulated depreciation	Δ 5,154	Δ 5,209
Buildings and structures, net	2,961	2,912
Other	10,108	10,139
Accumulated depreciation	Δ 6,481	Δ 6,532
Other, net	3,627	3,607
Total property, plant and equipment	6,588	6,519
Intangible assets		
Goodwill	320	305
Other	959	915
Total intangible assets	1,279	1,220
Investments and other assets		
Investment securities	6,663	6,460
Net defined benefit asset	629	586
Other	397	389
Allowance for doubtful accounts	Δ 13	Δ 12
Total investments and other assets	7,676	7,422
Total non-current assets	15,545	15,163
Total assets	30,890	30,773

	(Millions of yen)	
	Previous fiscal year (as of March 31,2018)	End of First Quarter of Fiscal 2018 (as of June 30, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	744	861
Current portion of long-term loans payable	500	500
Income taxes payable	505	278
Provision for directors' bonuses	43	11
Other	1,869	2,245
Total current liabilities	3,663	3,897
Noncurrent liabilities		
Long-term loans payable	986	855
Net defined benefit liability	216	217
Other	1,867	1,768
Total noncurrent liabilities	3,070	2,841
Total liabilities	6,733	6,739
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	11,707	11,778
Treasury shares	△ 236	△ 231
Total shareholders' equity	20,522	20,598
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,282	3,141
Foreign currency translation adjustment	2	△ 51
Remeasurements of defined benefit plans	228	230
Total accumulated other comprehensive income	3,513	3,320
Subscription rights to shares	101	102
Non-controlling interests	19	12
Total net assets	24,157	24,034
Total liabilities and net assets	30,890	30,773

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

(Millions of yen)

	First Quarter of Fiscal 2017 (from April 1, 2017 to June 30, 2017)	First Quarter of Fiscal 2018 (from April 1, 2018 to June 30, 2018)
Net sales	5,736	6,092
Cost of sales	2,420	2,545
Gross profit	3,315	3,546
Selling, general, and administrative expenses	2,968	3,158
Operating profit	346	388
Non-operating income		
Interest income	1	1
Dividend income	45	46
Membership fee income	25	22
Foreign exchange gains	68	-
Other	23	37
Total non-operating income	164	107
Non-operating expenses		
Interest expenses	2	1
Sales discounts	38	39
Membership fee	28	21
Foreign exchange losses	-	4
Other	9	11
Total non-operating expenses	79	80
Ordinary profit	432	415
Extraordinary income		
Gain on sales of investment securities	8	-
Total extraordinary income	8	-
Profit before income taxes	441	415
Income taxes	146	160
Profit	294	255
Profit (loss) attributable to non-controlling interests	0	△ 7
Profit attributable to owners of parent	294	262

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	First Quarter of Fiscal 2017 (from April 1, 2017 to June 30, 2017)	First Quarter of Fiscal 2018 (from April 1, 2018 to June 30, 2018)
Profit	294	255
Other comprehensive income		
Valuation difference on available-for-sale securities	386	△ 141
Foreign currency translation adjustment	114	△ 54
Remeasurements of defined benefit plans, net of tax	14	2
Total other comprehensive income	515	△ 192
Comprehensive income	810	62
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	810	69
Comprehensive income attributable to non-controlling interests	0	△ 7

(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 "Partial Amendments to Accounting Standard for Tax Effect Accounting", etc.)

We adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28; February 16, 2018), etc. from the beginning of the first quarter of the current consolidated fiscal year, and therefore, deferred tax assets and deferred tax liabilities have been reflected in the classification of investments and other assets and noncurrent liabilities respectively.

(Segment Information,etc)

Previous fiscal year (April 1, 2017— June 30, 2017)

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	5,174	538	23	5,736	-	5,736
(2) Internal sales or transfers	0	0	1	2	(2)	-
Total	5,175	538	25	5,738	(2)	5,736
Segment profit (loss)	354	(14)	5	345	1	346

*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.

Fiscal year under review (April 1, 2018—June 30, 2018)

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	5,494	572	25	6,092	-	6,092
(2) Internal sales or transfers	-	-	3	3	(3)	-
Total	5,494	572	28	6,095	(3)	6,092
Segment profit(loss)	403	(22)	5	387	1	388

*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.