

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

November 2, 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: November 13, 2018  
 Scheduled commencement date of dividend payment: November 30, 2018  
 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, 2019(April 1,2018 – September 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	%
Six months ended September 30, 2018	12,179	4.1	784	5.7	782	Δ8.3	546	Δ14.1
Six months ended September 30, 2017	11,701	5.9	742	Δ7.2	853	67.6	635	111.2

(Note) Comprehensive income: Six Months ended September 30, 2018 599 million yen (Δ62.4%)  
 Six Months ended September 30, 2017 1,594 million yen (—%)

	Second Quarter Net income (loss) per share	Second Quarter Fully diluted net income (loss) per share
	Yen	Yen
Six months ended September 30, 2018	34.35	34.12
Six months ended September 30, 2017	40.01	39.77

(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, 2018	30,933	24,576	79.1	1,537.91
Year ended March 31, 2018	30,890	24,157	77.8	1,511.85

(Reference) Shareholder's equity: Six Months ended September 30, 2018 24,457 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	-	8.00	-	-	-
Year ending March 31, 2019 (Forecasts)	-	-	-	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
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 September 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 September 30, 2018: 210,949 shares

As of March 31, 2018: 215,792 shares

(c) Average number of shares during the period

As of September 30, 2018: 15,901,067 shares

As of September 30, 2017: 15,892,149 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 Second quarter of the consolidated fiscal year (from April 1, 2018 to September 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 caused by the US trade policy. While there is concern about the negative impact on the economy caused by natural disasters, 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 12,179 million yen for the quarter under review, an increase of 478 million yen (4.1%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 5,500 million yen (45.2% of net sales), an increase of 572 million yen (11.6%).

Concerning profits, although selling, general and administrative expenses increased by 334 million yen (5.6%) from the corresponding period of the previous consolidated fiscal year, operating income accounted for 784 million yen, an increase of 42 million yen (5.7%) 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 782 million yen, a decrease of 71 million yen (8.3%). Profit attributable to owners of parent, after deducting tax expenses, was 546 million yen, a decrease of 89 million yen (14.1%).

#### (Dental business)

Domestically, 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, 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 487 million yen (4.7%) from the corresponding period of the previous consolidated fiscal year to 10,929 million yen, and operating income increased 85 million yen (11.9%) to 802 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 decreased 12 million yen (1.0%) from the corresponding period of the previous consolidated fiscal year to 1,198 million yen. Concerning profits, due to an increase in costs for promotion activities, operating loss was decreased 43 million yen to 29 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 2 million yen (4.9%) from the corresponding period of the previous consolidated fiscal year to 51 million yen, and operating income remained largely unchanged from the corresponding period of the previous consolidated fiscal year to 9 million yen.

### (2) Explanation of Financial Position

Total assets at the end of the quarter under review increased by 42 million yen from the end of the previous consolidated fiscal year to 30,933 million yen. The primary factor for the increase in assets was an increase in

Merchandises and finished goods.

Liabilities decreased by 376 million yen to 6,357 million yen. The primary factor was a decrease in long-term loans payable.

Net assets increased by 419 million yen to 24,576 million yen. The primary factor was an increase in Retained earnings.

As a result of the above, the capital-to-assets ratio rose to 79.1%, an increase of 1.3 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 Second Quarter of Fiscal 2018 (as of September 30, 2018)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	5,733	5,380
Notes and accounts receivable-trade	3,285	3,116
Securities	5	5
Merchandises and finished goods	3,996	4,488
Work in process	925	936
Raw materials and supplies	950	1,045
Other	480	471
Allowance for doubtful accounts	Δ 31	Δ 36
<b>Total current assets</b>	<b>15,345</b>	<b>15,408</b>
<b>Noncurrent assets</b>		
Property, plant and equipment		
Buildings and structures	8,116	8,151
Accumulated depreciation	Δ 5,154	Δ 5,283
Buildings and structures, net	2,961	2,868
Other	10,108	10,527
Accumulated depreciation	Δ 6,481	Δ 6,638
Other, net	3,627	3,888
Total property, plant and equipment	6,588	6,757
Intangible assets		
Goodwill	320	307
Other	959	910
Total intangible assets	1,279	1,218
Investments and other assets		
Investment securities	6,663	6,641
Net defined benefit asset	629	543
Other	397	377
Allowance for doubtful accounts	Δ 13	Δ 12
Total investments and other assets	7,676	7,549
<b>Total non-current assets</b>	<b>15,545</b>	<b>15,525</b>
<b>Total assets</b>	<b>30,890</b>	<b>30,933</b>

(Millions of yen)

	Previous fiscal year (as of March 31,2018)	End of Second Quarter of Fiscal 2018 (as of September 30, 2018)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	744	719
Current portion of long-term loans payable	500	500
Income taxes payable	505	363
Provision for directors' bonuses	43	23
Other	1,869	2,006
<b>Total current liabilities</b>	<b>3,663</b>	<b>3,613</b>
<b>Noncurrent liabilities</b>		
Long-term loans payable	986	739
Net defined benefit liability	216	222
Other	1,867	1,782
<b>Total noncurrent liabilities</b>	<b>3,070</b>	<b>2,744</b>
<b>Total liabilities</b>	<b>6,733</b>	<b>6,357</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	11,707	12,061
Treasury shares	△ 236	△ 231
<b>Total shareholders' equity</b>	<b>20,522</b>	<b>20,882</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	3,282	3,266
Foreign currency translation adjustment	2	△ 75
Remeasurements of defined benefit plans	228	233
<b>Total accumulated other comprehensive income</b>	<b>3,513</b>	<b>3,575</b>
<b>Subscription rights to shares</b>	<b>101</b>	<b>107</b>
<b>Non-controlling interests</b>	<b>19</b>	<b>11</b>
<b>Total net assets</b>	<b>24,157</b>	<b>24,576</b>
<b>Total liabilities and net assets</b>	<b>30,890</b>	<b>30,933</b>

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

(Millions of yen)

	Second Quarter of Fiscal 2017 (from April 1, 2017 to September 30, 2017)	Second Quarter of Fiscal 2018 (from April 1, 2018 to September 30, 2018)
<b>Net sales</b>	11,701	12,179
<b>Cost of sales</b>	4,986	5,087
<b>Gross profit</b>	6,714	7,091
<b>Selling, general, and administrative expenses</b>	5,971	6,306
<b>Operating profit</b>	742	784
<b>Non-operating income</b>		
Interest income	2	3
Dividend income	50	52
Membership fee income	51	51
Foreign exchange gains	133	2
Other	45	62
<b>Total non-operating income</b>	283	171
<b>Non-operating expenses</b>		
Interest expenses	4	4
Sales discounts	81	80
Membership fee	60	58
Other	26	30
<b>Total non-operating expenses</b>	172	174
<b>Ordinary profit</b>	853	782
<b>Extraordinary income</b>		
Gain on sales of investment securities	23	-
Total extraordinary income	23	-
<b>Profit before income taxes</b>	876	782
<b>Income taxes</b>	237	244
<b>Profit</b>	639	537
<b>Profit (loss) attributable to non-controlling interests</b>	3	△ 8
<b>Profit attributable to owners of parent</b>	635	546

**Quarterly Consolidated Statements of Comprehensive Income**

(Millions of yen)

	Second Quarter of Fiscal 2017 (from April 1, 2017 to September 30, 2017)	Second Quarter of Fiscal 2018 (from April 1, 2018 to September 30, 2018)
<b>Profit</b>	639	537
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	685	△ 15
Foreign currency translation adjustment	241	72
Remeasurements of defined benefit plans, net of tax	27	5
<b>Total other comprehensive income</b>	954	61
<b>Comprehensive income</b>	1,594	599
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	1,590	607
Comprehensive income attributable to non-controlling interests	3	△ 8

(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—September 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	10,441	1,210	49	11,701	-	11,701
(2) Internal sales or transfers	0	0	3	4	(4)	-
Total	10,442	1,210	52	11,705	(4)	11,701
Segment profit (loss)	717	13	8	739	3	742

\*1 The ¥4 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—September 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	10,929	1,198	51	12,179	-	12,179
(2) Internal sales or transfers	-	-	4	4	(4)	-
Total	10,929	1,198	55	12,183	(4)	12,179
Segment profit(loss)	802	(29)	9	781	3	784

\*1 The ¥4 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.