

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

February 5, 2019

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: February 13, 2019
 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, 2019(April 1,2018 – December 31,2018)

(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	%
Nine months ended December 31, 2018	18,445	3.6	1,323	16.5	1,270	Δ0.8	892	Δ4.3
Nine months ended December 31, 2017	17,801	8.2	1,135	14.0	1,281	47.3	933	42.8

(Note) Comprehensive income: Nine Months ended December 31, 2018 Δ79 million yen (—%)
 Nine Months ended December 31, 2017 2,353 million yen (150.9%)

	Third Quarter Net income (loss) per share	Third Quarter Fully diluted net income (loss) per share
	Yen	Yen
Nine months ended December 31, 2018	56.15	55.76
Nine months ended December 31, 2017	58.73	58.38

(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, 2018	29,331	23,775	80.7	1,487.53
Year ended March 31, 2018	30,890	24,157	77.8	1,511.85

(Reference) Shareholder's equity: Nine Months ended December 31, 2018 23,656 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 December 31, 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 December 31, 2018: 211,122 shares

As of March 31, 2018: 215,792 shares

(c) Average number of shares during the period

As of December 31, 2018: 15,901,659 shares

As of December 31, 2017: 15,894,033 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

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 third quarter of the consolidated fiscal year (from April 1, 2018 to December 31, 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 18,445 million yen for the quarter under review, an increase of 643 million yen (3.6%) from the corresponding period of the previous consolidated fiscal year. Overseas sales accounted for 8,329 million yen (45.2% of net sales), an increase of 726 million yen (9.6%).

Concerning profits, although selling, general and administrative expenses increased by 376 million yen (4.1%) from the corresponding period of the previous consolidated fiscal year, operating income accounted for 1,323 million yen, an increase of 187 million yen (16.5%) 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 1,270 million yen, a decrease of 10 million yen (0.8%). Profit attributable to owners of parent, after deducting tax expenses, was 892 million yen, a decrease of 40 million yen (4.3%).

(Dental business)

Domestically, the “AIRFLOW PROPHYLAXIS MASTER,” a dental multi-purpose ultrasonic therapy machine, which were introduced to the market during the third quarter of the consolidated fiscal year under review, and “SHOFU BeautiBond Universal,” a dental dentin adhesive, 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 solid sales performance in each region mainly in North America, Central and South America and Asia including China, sales increased year on year.

As a result of these factors, net sales for the quarter under review increased 688 million yen (4.3%) from the corresponding period of the previous consolidated fiscal year to 16,592 million yen, and operating income increased 243 million yen (22.3%) to 1,337 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 44 million yen (2.5%) from the corresponding period of the previous consolidated fiscal year to 1,776 million yen. Concerning profits, due to an increase in costs for promotion activities, operating loss was decreased 54 million yen to 32 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 corresponding period of the previous consolidated fiscal year to 75 million yen, and operating income remained largely unchanged from the corresponding period of the previous consolidated fiscal year to 13 million yen.

(2) Explanation of Financial Position

Total assets at the end of the quarter under review decreased by 1,559 million yen from the end of the previous consolidated fiscal year to 29,331 million yen. The primary factor for the decrease in assets was a decrease in

investment securities due to market price decline.

Liabilities decreased by 1,177 million yen to 5,556 million yen. The primary factor was a decrease in long-term loans payable and long-term deferred tax liabilities.

Net assets decreased by 381 million yen to 23,775 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 rose to 80.7%, an increase of 2.9 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 Third Quarter of Fiscal 2018 (as of December 31, 2018)
Assets		
Current assets		
Cash and deposits	5,733	4,806
Notes and accounts receivable-trade	3,285	2,981
Securities	5	5
Merchandises and finished goods	3,996	4,659
Work in process	925	907
Raw materials and supplies	950	1,103
Other	480	557
Allowance for doubtful accounts	31	46
Total current assets	15,345	14,975
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	8,116	8,126
Accumulated depreciation	5,154	5,320
Buildings and structures, net	2,961	2,805
Other	10,108	10,632
Accumulated depreciation	6,481	6,653
Other, net	3,627	3,978
Total property, plant and equipment	6,588	6,784
Intangible assets		
Goodwill	320	288
Other	959	861
Total intangible assets	1,279	1,149
Investments and other assets		
Investment securities	6,663	5,523
Net defined benefit asset	629	533
Other	397	377
Allowance for doubtful accounts	13	12
Total investments and other assets	7,676	6,422
Total non-current assets	15,545	14,355
Total assets	30,890	29,331

	(Millions of yen)	
	Previous fiscal year (as of March 31, 2018)	End of Third Quarter of Fiscal 2018 (as of December 31, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	744	781
Current portion of long-term loans payable	500	500
Income taxes payable	505	297
Provision for directors' bonuses	43	35
Other	1,869	1,674
Total current liabilities	3,663	3,289
Noncurrent liabilities		
Long-term loans payable	986	604
Net defined benefit liability	216	220
Other	1,867	1,442
Total noncurrent liabilities	3,070	2,266
Total liabilities	6,733	5,556
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	11,707	12,281
Treasury shares	236	231
Total shareholders' equity	20,522	21,101
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,282	2,442
Foreign currency translation adjustment	2	124
Remeasurements of defined benefit plans	228	236
Total accumulated other comprehensive income	3,513	2,554
Subscription rights to shares	101	112
Non-controlling interests	19	6
Total net assets	24,157	23,775
Total liabilities and net assets	30,890	29,331

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

(Millions of yen)

	Third Quarter of Fiscal 2017 (from April 1, 2017 to December 31, 2017)	Third Quarter of Fiscal 2018 (from April 1, 2018 to December 31, 2018)
Net sales	17,801	18,445
Cost of sales	7,556	7,635
Gross profit	10,244	10,809
Selling, general, and administrative expenses	9,109	9,485
Operating profit	1,135	1,323
Non-operating income		
Interest income	5	5
Dividend income	80	85
Membership fee income	81	91
Foreign exchange gains	163	-
Other	86	105
Total non-operating income	418	287
Non-operating expenses		
Interest expenses	5	6
Sales discounts	123	122
Membership fee	105	112
Foreign exchange losses	-	44
Other	38	53
Total non-operating expenses	273	340
Ordinary profit	1,281	1,270
Extraordinary income		
Gain on sales of investment securities	23	-
Total extraordinary income	23	-
Profit before income taxes	1,304	1,270
Income taxes	368	390
Profit	936	879
Profit (loss) attributable to non-controlling interests	3	△ 13
Profit attributable to owners of parent	933	892

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third Quarter of Fiscal 2017 (from April 1, 2017 to December 31, 2017)	Third Quarter of Fiscal 2018 (from April 1, 2018 to December 31, 2018)
Profit	936	879
Other comprehensive income		
Valuation difference on available-for-sale securities	1,048	△ 839
Foreign currency translation adjustment	327	△ 127
Remeasurements of defined benefit plans, net of tax	41	7
Total other comprehensive income	1,417	△ 959
Comprehensive income	2,353	△ 79
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	2,350	△ 66
Comprehensive income attributable to non-controlling interests	3	△ 13

(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—December 31, 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	15,903	1,821	76	17,801	-	17,801
(2) Internal sales or transfers	0	0	5	6	(6)	-
Total	15,903	1,822	81	17,807	(6)	17,801
Segment profit (loss)	1,093	21	14	1,130	4	1,135

*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—December 31, 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	16,592	1,776	75	18,445	-	18,445
(2) Internal sales or transfers	-	0	6	6	(6)	-
Total	16,592	1,777	82	18,451	(6)	18,445
Segment profit(loss)	1,337	(32)	13	1,318	4	1,323

*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.