

**Consolidated Financial Results for the Second Quarter in the Fiscal Year Ending March 31, 2025
(Japanese Accounting Standards)**

November 6, 2024

Company name: SHOFU INC.
 Listing: Tokyo Stock Exchange (Prime Market)
 Code number: 7979
 URL: <https://www.shofu.co.jp/>
 Representative: Tetsuo Takami, Representative Director, President & Chief Operating Officer
 Contact: Takashi Morimoto, General Manager of Finance Department
 Scheduled date for filing of semi-annual securities report: November 13, 2024
 Scheduled commencement date of dividend payment: November 29, 2024
 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 six months ended September 30, 2024

(1) Consolidated Operating Results

(% indicates changes from previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to Owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2024	18,887	14.8	3,042	41.2	3,006	25.9	2,364	51.7
Six months ended September 30, 2023	16,447	3.9	2,155	(3.7)	2,387	(13.0)	1,559	(26.9)

(Note) Comprehensive income: Six Months ended September 30, 2024 700 million yen (-79.8%)
 Six Months ended September 30, 2023 3,474 million yen (23.6%)

	Second Quarter Net income (loss) per share	Second Quarter Fully diluted net income (loss) per share
	Yen	Yen
Six months ended September 30, 2024	66.58	66.32
Six months ended September 30, 2023	43.99	43.78

(Note) The Company has conducted a two-for-one stock split with a record date of 1 October 2024. Net income and fully diluted net income per share were calculated under the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2024	48,757	41,605	85.1	1,166.90
As of March 31, 2024	50,093	41,609	82.7	1,168.02

(Reference) Shareholder's equity: Six months ended September 30, 2024 41,477 million yen
 Year ended March 31, 2024 41,448 million yen

(Note) The Company has conducted a two-for-one stock split with a record date of 1 October 2024. Net assets per share was calculated under the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

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, 2024	—	20.00	—	42.00	62.00
Year ended March 31, 2025	—	36.00	—	—	—
Year ending March 31, 2025 (Forecasts)	—	—	-	26.00	—

(Notes) 1. Revision to the dividend forecast during the current quarter: None
 2. The Company has conducted a two-for-one stock split with a record date of 1 October 2024. Annual

dividend per share forecast for the fiscal year ending March 31, 2025 is based on a number of shares taking into account the stock split, and the amount of the year-ended dividend for dividend for Year ending March 31, 2025 (forecast) takes this stock split into consideration and the amount of the annual dividend is displayed as "-". Without taking the stock split into account, the annual dividend per share forecast for the fiscal year ending March 31, 2025 would be 88.00 yen.

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2025 (April 1, 2024 – March 31, 2025)

(% indicates changes from previous fiscal year)

Year ending March 31, 2025	Net sales		Operating income		Ordinary income		Net income attributable to Owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	38,395	9.4	5,293	12.4	5,604	9.5	4,434	21.3	124.87

- (Notes) 1. Revision during the current quarter to the earnings forecasts: None
 2. The Company has conducted a two-for-one stock split with a record date of 1 October 2024. Net income per share was calculated under the assumption that the stock split had been conducted at the beginning of the current fiscal year. Without taking the stock split into account, the annual net income per share forecast for the fiscal year ending March 31, 2025 would be 249.74 yen.

*Notes

- (1) Changes in significant subsidiaries during the period (change in scope of consolidation): Yes
 Number of new companies 1 (their names): SHOFU PRODUCTS CHANGZHOU CO.,LTD,
 Number of excluded companies — (their names):—

- (2) Adoption of accounting methods specific to the preparation of semi-annual 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: Yes
 (d) Retrospective restatements: None

- (Notes) For details, please refer to page 8 “2. Consolidated Financial Statement and Major Notes (3) Notes to Consolidated Financial Statements (Changes in accounting policies that are difficult to distinguish from changes in accounting-based estimates)

- (4) Number of shares outstanding (common stock)

- (a) Number of shares outstanding at end of period (including treasury stock).

As of September 30, 2024: 35,788,178 shares

As of March 31, 2024: 35,788,178 shares

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

As of September 30, 2024: 242,968 shares

As of March 31, 2024: 302,228 shares

- (c) Average number of shares during the period

As of September 30, 2024: 35,516,041 shares

As of September 30, 2023: 35,443,778 shares

- (Notes) The Company has conducted a two-for-one stock split with a record date of 1 October 2024. The calculation of number of shares outstanding at end of period, number of shares of treasury stock at end of period and average number of shares during the period assume that the stock split was conducted at the beginning of the previous fiscal year.

* These semi-annual securities reports are not subject to review procedures by Certified Public Accountants or 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. Summary of Operating Results

(1) Summary of Consolidated Operating Results for the Second Quarter in the Fiscal Year Ending March 31, 2025

During the second quarter of the consolidated fiscal year under review, the global economy showed signs of recovery, but the outlook remained uncertain due to factors such as the continuation of high interest rate levels in the U.S. and European countries, and concerns about a downturn in the economy caused by rising geopolitical risks. The domestic economy also showed a moderate recovery trend against the backdrop of improved employment and income levels, but the outlook remained uncertain in light of downside risks in the global economy and inflation.

Our management philosophy outlines our intention to make a “Contribution to dentistry through innovative business activities,” and our group aims to achieve consolidated net sales of ¥50 billion and consolidated operating income of ¥7.5 billion in order to further increase our contribution to global dental care. Our fifth medium-term management plan started in April 2024 and marks the final four-year plan to achieve these goals, and we are working to address key issues for the medium- to long-term.

We posted net sales of ¥18,887 million for the second quarter under review, an increase of ¥2,439 million (14.8%) from the corresponding period of the previous consolidated fiscal year. Overseas sales, which are included in net sales, increased by ¥1,763 million (18.6%) to ¥11,233 million (59.5% of net sales).

Operating income increased ¥887 million (41.2%) year-on-year to ¥3,042 million, despite an increase in selling, general and administrative expenses associated with the higher sales.

Ordinary income increased by ¥618 million (25.9%) year-on-year to ¥3,006 million due to higher sales, despite an increase in membership fee and also incurred foreign exchange losses.

Net income attributable to owners of the parent after subtracting tax expenses was ¥2,364 million, an increase of ¥805 million (51.7%) year-on-year.

As a result, net sales, operating income, ordinary income, and net income all reached record highs for the second quarter of the consolidated fiscal year.

(Dental Business)

In Japan, sales grew year-on-year thanks to contributions from products including EyeSpecial C-V (Intraoral digital camera launched in the previous fiscal year), and CAD/CAM-related products such as SHOFU Disk ZR Lucent Supra (ceramic material for dental cutting/machining) and SHOFU BLOCK PEEK (resin material for dental cutting/machining). Overseas sales increased year-on-year due to solid sales growth in existing products, especially in the U.S. and Asian regions including China, as well as the effect of forex fluctuations.

As a result, net sales for the second quarter under review increased by ¥2,503 million (16.5%) year-on-year to ¥17,717 million and operating income increased by ¥955 million (45.1%) to ¥3,073 million due to higher sales, despite an increase in selling, general and administrative expenses.

(Nail Care Business)

Nail care products which have been selling well in Taiwan were launched in Japan, contributing to sales in Japan, but sales declined in mainstay gel nail products, resulting in a year-on-year sales decrease. Overseas, sales declined in the U.S., where consumption continued to decline due to inflation, and in Taiwan, where sales of gel nails did not grow as planned, resulting in a year-on-year decline in overall overseas sales.

As a result, net sales for the second quarter of the current fiscal year totaled ¥1,122 million, down ¥75 million (6.3%) year-on-year. Profits were down ¥68 million year-on-year to an operating loss of ¥40 million, due to an increase in selling, general and administrative expenses.

(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 second quarter under review increased by ¥11 million (31.7%) year-on-year to ¥47 million and operating income was ¥6 million, a year-on-year increase of ¥0.3 million (5.8%).

(2) Summary of Consolidated Financial Position for the Second Quarter in the Fiscal Year Ending March 31, 2025

Total assets at the end of the second quarter under review decreased by ¥1,336 million year-on-year to ¥48,757 million. Decrease in total assets was primarily due to a decline in market value of investment securities held.

Liabilities decreased by ¥1,332 million to ¥7,151 million. This was primarily due to a decrease in non-current liabilities such as accrued deferred tax assets.

Net assets decreased by ¥4 million to ¥41,605 million. This was primarily due to a decrease in valuation difference on available-for-sale securities.

As a result of the above, the capital-to-assets ratio rose to 85.1%, an increase of 2.4 points from the end of the previous consolidated fiscal year.

(3) Explanation of Future Forecast Information including Consolidated Earnings Forecasts

We have not revised the earnings forecast as announced on August 2, 2024 for the fiscal year ending March 31, 2025.

2.Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	9,716	9,462
Notes and accounts receivable-trade	4,539	4,271
Merchandises and finished goods	7,312	8,197
Work in process	1,741	1,821
Raw materials and supplies	1,237	1,326
Other	648	1,184
Allowance for doubtful accounts	-15	-36
Total current assets	25,179	26,226
Non-current assets		
Property, plant and equipment		
Buildings and structures	11,958	11,944
Accumulated depreciation	-6,705	-6,779
Buildings and structures, net	5,252	5,164
Other	13,258	13,381
Accumulated depreciation	-8,276	-8,360
Other, net	4,981	5,020
Total property, plant and equipment	10,234	10,185
Intangible assets	524	560
Investments and other assets		
Investment securities	11,553	9,227
Net defined benefit asset	1,875	1,873
Other	733	689
Allowance for doubtful accounts	-6	-5
Total investments and other assets	14,155	11,784
Total non-current assets	24,914	22,530
Total assets	50,093	48,757

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Accounts payable-trade	1,378	1,032
Current portion of long-term loans payable	281	200
Income taxes payable	880	1,114
Contract liabilities	75	95
Provision for directors' bonuses	63	38
Other	2,914	2,672
Total current liabilities	5,593	5,153
Non-current liabilities		
Net defined benefit liability	228	217
Other	2,661	1,781
Total non-current liabilities	2,890	1,998
Total liabilities	8,484	7,151
Net assets		
Shareholders' equity		
Capital stock	5,968	5,968
Capital surplus	6,134	6,151
Retained earnings	20,964	22,583
Treasury shares	-297	-239
Total shareholders' equity	32,770	34,464
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,094	3,381
Foreign currency translation adjustment	2,620	2,724
Remeasurements of defined benefit plans	963	907
Total accumulated other comprehensive income	8,678	7,013
Subscription rights to shares	79	61
Non-controlling interests	82	66
Total net assets	41,609	41,605
Total liabilities and net assets	50,093	48,757

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

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024
Net sales	16,447	18,887
Cost of sales	6,510	7,543
Gross profit	9,936	11,343
Selling, general, and administrative expenses	7,781	8,301
Operating income	2,155	3,042
Non-operating income		
Interest income	26	42
Dividend income	99	100
Membership fee income	88	83
Foreign exchange gains	202	-
Share of profit of entities accounted for using equity method	-	6
Other	100	127
Total non-operating income	517	360
Non-operating expenses		
Interest expenses	13	4
Membership fee	202	222
Foreign exchange losses	-	133
Share of loss of entities accounted for using equity method	15	-
Other	51	36
Total non-operating expenses	284	396
Ordinary income	2,387	3,006
Extraordinary income		
Gain on sales of investment securities	-	378
Total extraordinary income	-	378
Net income before income taxes	2,387	3,385
Income taxes	813	1,016
Net income	1,574	2,368
Net income attributable to non-controlling interests	14	4
Net income attributable to owners of parent	1,559	2,364

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024
Profit	1,574	2,368
Other comprehensive income		
Valuation difference on available-for-sale securities	919	-1,713
Foreign currency translation adjustment	1,024	101
Remeasurements of defined benefit plans, net of tax	-42	-55
Total other comprehensive income	1,900	-1,667
Comprehensive income	3,474	700
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	3,456	699
Comprehensive income attributable to non-controlling interests	18	1

(3) Notes to Consolidated Financial Statements

(Notes to Changes in Accounting Policies)

(Changes in accounting policies that are difficult to distinguish from changes in accounting-based estimates)

(Changes to depreciation methodology for property, plant and equipment)

In the past, the Company and its domestic consolidated subsidiaries mainly used the declining balance method for depreciation of property, plant and equipment (excluding leased assets, although the straight-line method was used for depreciation of building fixtures and structures acquired from April 1 2016) but from the Second Quarter in the Fiscal Year Ending March 31, 2025, the method of depreciation was changed to the straight-line method.

While maintaining and enhancing the foundation of the domestic business, the Group is shifting the allocation of management resources to overseas, expanding the size of the overseas business and promoting a more global management. As part of this strategy, in the new Fifth Medium-Term Management Plan (covering the period from the fiscal year ending March 2025 through fiscal year ending March 2028), the Company plans to reallocate its production bases, including those overseas. When considering the depreciation method for property, plant and equipment at this time, we decided that adopting the straight-line method for depreciation of property, plant and equipment is appropriate from a perspective of cost allocation and better reflects the economic situation. This is because the production and operations of property, plant and equipment are likely to be stable over the long-term and the effects of any investment will be seen on an average basis by optimizing the entire production system of the entire Group. As a result of this change, depreciation for the six months ended September 30, 2024 decreased by ¥77 million. As a result of that, operating income increased by ¥62 million, and ordinary income and net income before income taxes for the six months ended September 30, 2024 each increased by ¥63 million.

(Notes to Application of Accounting Procedures Specific to the Compilation of Consolidated 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 net income before income taxes for the current consolidated fiscal year and then multiplied the net income before income taxes for the six months ended September 30, 2024 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.

(Notes to Segment Information, etc)

1. Information regarding sales, gains (losses) by reportable segment and revenue decomposition information

For the six months ended June 30, 2023 (From April 1, 2023 to September 30, 2023)

(Millions of yen)

	Reportable segments				Adjustment *1	Consolidated financial statements *2
	Dental Business	Nail Care Business	Other Businesses	Total		
Net sales						
Sales to external customers	15,214	1,197	35	16,447	-	16,447
Internal sales or transfers	-	-	2	2	(2)	-
Total	15,214	1,197	38	16,450	(2)	16,447
Segment income	2,117	28	5	2,152	2	2,155

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

*2. Segment income equals the operating income on quarterly consolidated financial statements.

(Millions of yen)

	Reportable segments			Total
	Dental Business	Nail Care Business	Other Businesses	
Japan	6,609	696	35	7,341
North and Latin America	1,847	119	-	1,967
Europe	3,579	-	-	3,579
Asia	3,178	381	-	3,559
Revenue from contracts with customers	15,214	1,197	35	16,447
Other revenue	-	-	-	-
Sales to external customers	15,214	1,197	35	16,447

(Note) Sales to external customers are divided into countries and regions according to the location of the Company and its consolidated subsidiaries.

For the six months ended September 30, 2024 (From April 1, 2024 to September 30, 2024)

(Millions of yen)

	Reportable segments				Adjustment *1	Consolidated financial statements *2
	Dental Business	Nail Care Business	Other Businesses	Total		
Net sales						
Sales to external customers	17,717	1,122	47	18,887	-	18,887
Internal sales or transfers	-	-	1	1	(1)	-
Total	17,717	1,122	49	18,889	(1)	18,887
Segment income (loss)	3,073	(40)	6	3,039	2	3,042

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

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

(Millions of yen)

	Reportable segments			Total
	Dental Business	Nail Care Business	Other Businesses	
Japan	7,345	669	47	8,062
North and Latin America	2,359	91	-	2,451
Europe	4,077	-	-	4,077
Asia	3,934	361	-	4,295
Revenue from contracts with customers	17,717	1,122	47	18,887
Other revenue	-	-	-	-
Sales to external customers	17,717	1,122	47	18,887

(Note) Sales to external customers are divided into countries and regions according to the location of the Company and its consolidated subsidiaries.

2. Changes to reportable segments

(Change to depreciation method for property, plant and equipment)

As stated in the section on changes in accounting policies that are difficult to distinguish from changes in accounting-based estimates, the declining balance method was mainly used by the Company and its domestic consolidated subsidiaries for depreciation of property, plant and equipment (excluding lease assets) in the past, but the depreciation method was changed to the straight-line method from the Second Quarter in the Fiscal Year Ending March 31, 2025.

As a result, compared to the previous method, segment income for the six months ended September 30, 2024 increased by ¥61 million in the Dental Business, ¥0 million in the Nail Care Business and ¥0 million in Other Businesses.

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

Not applicable.

(Notes to Assumptions for the Going Concern)

Not applicable.

(Significant Subsequent Events)

Stock split

1. Purpose of stock split

By undertaking the stock split to lower the price of share trading units, we intend to make shares more affordable for investors, with a view to improving the liquidity of the Company's stock and expanding its shareholder base.

2. Details of Stock Split

(1) Method of stock split

The record date of the stock split will be Monday, September 30, 2024. Each share of common stock owned by a shareholder whose name appears or is recorded in the shareholder registry as of the end of the record date, will be split for two shares.

(2) Increase in the number of shares from the stock split

Total number of shares issued before the stock split	17,894,089 shares
Increase in the issued shares resulting from the stock split	17,894,089 shares
Total number of shares issued after the stock split	35,788,178 shares
Total number of shares authorized after the stock split	128,000,000 shares

3. Effect on Per Share Information

The effect on per share information is stated where applicable.

4. Partial Amendment to the Articles of Incorporation

(1) Reason for Amendment

In conjunction with the stock split, the Company will amend the total number of shares authorized to be issued in its Articles of Incorporation with an effective date of October 1, 2024, pursuant to the provisions of Article 184, Paragraph 2 of the Companies Act of Japan.

(2) Details of Amendment

The details of the amendment are as follows

Current Articles of Incorporation	Amendment
(Total Number of Shares Authorized) Article 6. The total number of shares authorized shall be <u>64,000,000</u> .	(Total Number of Shares Authorized) Article 6 The total number of shares authorized shall be <u>128,000,000</u> .

5. Others

(1) Amount of share capital

There will be no change in the amount of share capital as a result of the stock split.

(2) Dividends

As the stock split will take effect on October 1, 2024, the interim dividend for the fiscal year ending March 31, 2025 which has a dividend record date of September 30, 2024, will be paid based on the shares before the stock split.

(3) Shareholder special benefit

The Company has the following shareholder benefit plans, which will not change because of the stock split.

In-house product offerings	Eligible shareholders: Shareholders holding one unit (100 shares) or more as recorded in the shareholders' register as of March 31 of each year
Sales of In-house products at preferential prices	Eligible shareholders: All shareholders recorded in the shareholders' register as of March 31 every year
Sales of nail care products at preferential prices	Eligible shareholders: All shareholders recorded in the shareholders' register as of September 30 every year

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In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.