



SHOFU INC. INTEGRATED REPORT
2024



Our DNA now,
and for the next 100 years:

Pioneering spirit and a passion to succeed



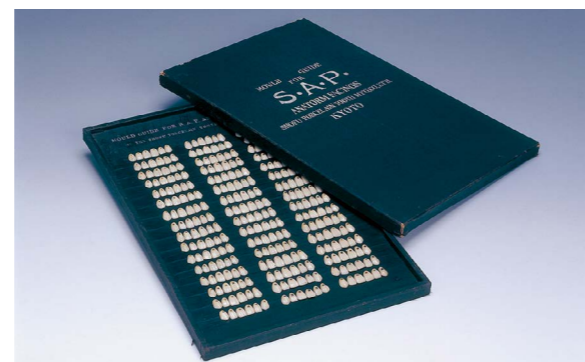
Kajo Shofu III, the founder

The origin of Shofu is our founder's ambitious aspiration to improve the quality of domestic products, and his passion to achieve that aspiration. The founder's ideals have been passed down as Shofu's corporate DNA, and we have developed a stream of pioneering products that are ahead of their time, including some which are the first of their kind in Japan or even the world, and which have contributed to the health and smiles of people around the globe.

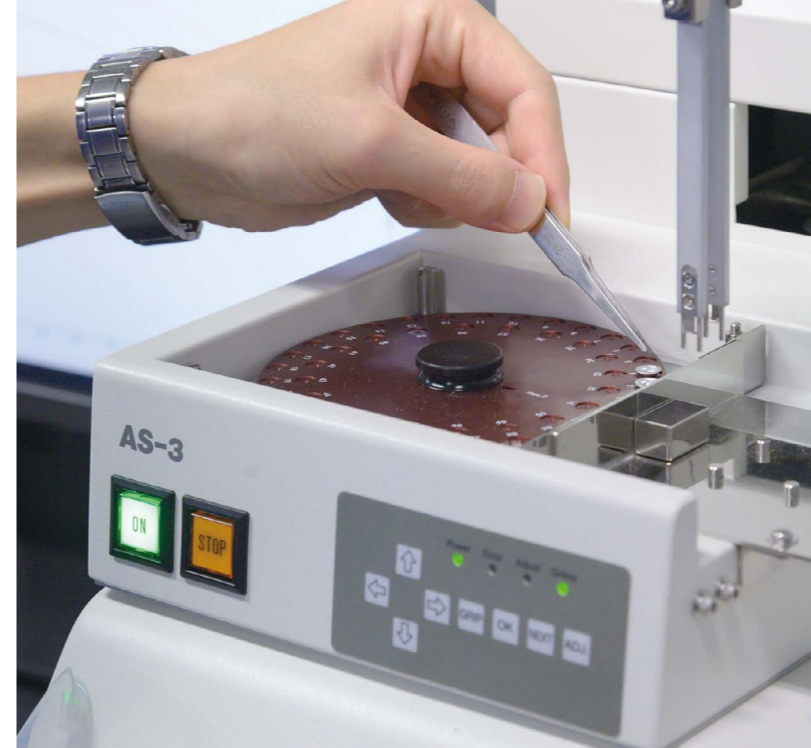
We have continued to take on the challenges of contributing to dentistry around the world until now, and will continue to do so for the next 100 years into the future.

Towards the next 100 years

Early in the Taisho era (1912-1926), dental professionals used imported products. It was an era in which foreign-made goods were respected more highly than domestic products. Our founder, Kajo Shofu III—who until then had made his living in ceramics—was enthusiastic about the domestic production of high-quality porcelain teeth, due to his strong desire to improve the quality of domestic products. He entrusted research on porcelain teeth to Norio Araki, who was the deputy factory manager of a dental laboratory in the United States. Later, when Mr. Araki returned to Japan, they opened the Shofu Research Center on Porcelain Teeth, and began full-scale research into porcelain teeth manufacturing. In 1921, after much trial and error, such as in finding appropriate levels of transparency and color tone close to that of natural teeth and strength to withstand the pressure of biting, they eventually succeeded in developing the first high-quality Japanese-produced porcelain teeth, S.A.P Anatomie Form, which was suitable for Japan people. In 1922, the following year, they established SHOFU DENTAL Mfg. Co., Ltd., and our company was born.



S.A.P Anatomie Form: Japan's first high-quality porcelain teeth



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A major role of dentistry is to maintain oral function at all life stages, and support people's ability to live their lives.

Through the development, manufacture, and sale of superior dental materials and equipment, Shofu aims to contribute to better dentistry, together with dental professionals.

CORPORATE PHILOSOPHY

Contribution to dentistry through innovative business activities

CORPORATE MESSAGE

Creating
Brighter
Smiles for
Healthier Lives

On the occasion of our 100th anniversary, we canvassed the opinions of our employees about the kind of corporate image that Shofu should project. Their feedback provided the basis for the creation of this Corporate Message.

It conveys our strong intent to deliver all over the world products that embody Shofu's advanced technologies and excellent quality and to support people's well-being.

Editorial policy

We prepared this integrated report in the hope that our shareholders, investors, and other stakeholders will deepen their understanding of our social and economic value creation through reporting on our management strategies, business activities, and ESG activities, among others. We will continue to use this integrated report as a communication tool with our stakeholders.

In editing this report, we have referred primarily to the "Guidance for Collaborative Value Creation" by the Ministry of Economy, Trade and Industry of Japan.

Period covered by the report

The fiscal year ended March 31, 2024 (April 1, 2023 through March 31, 2024) is the primary period covered by this report.

*The report also includes information for periods before or after the period above.

Scope covered by the report

SHOFU INC. and its consolidated subsidiaries (Some activities are relevant to SHOFU INC. alone.)

Forward-looking statements

Forward-looking information in this report including earnings forecasts is based on projections and forecasts in light of information currently available to us and is subject to potential risks and uncertainties, among other factors. As a result, actual results may differ materially from those we currently anticipate due to changes in various factors.

Shofu in Numbers

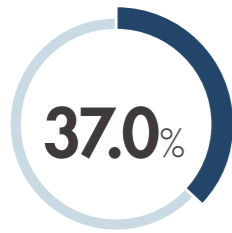
Going forward, we will aim for global growth by maintaining and expanding the business foundation and market presence that we have cultivated in Japan, while increasing our allocation of management resources overseas.



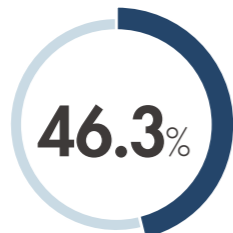
Founded in **1922**



High market share in Japan



Artificial teeth products market share Top in Japan



Abrasive products market share Top in Japan



Shofu's technological and product capabilities

Number of patents held

450

Ratio of R&D expenses to net sales

5.5%

Ratio of sales of new products to net sales

16.9%

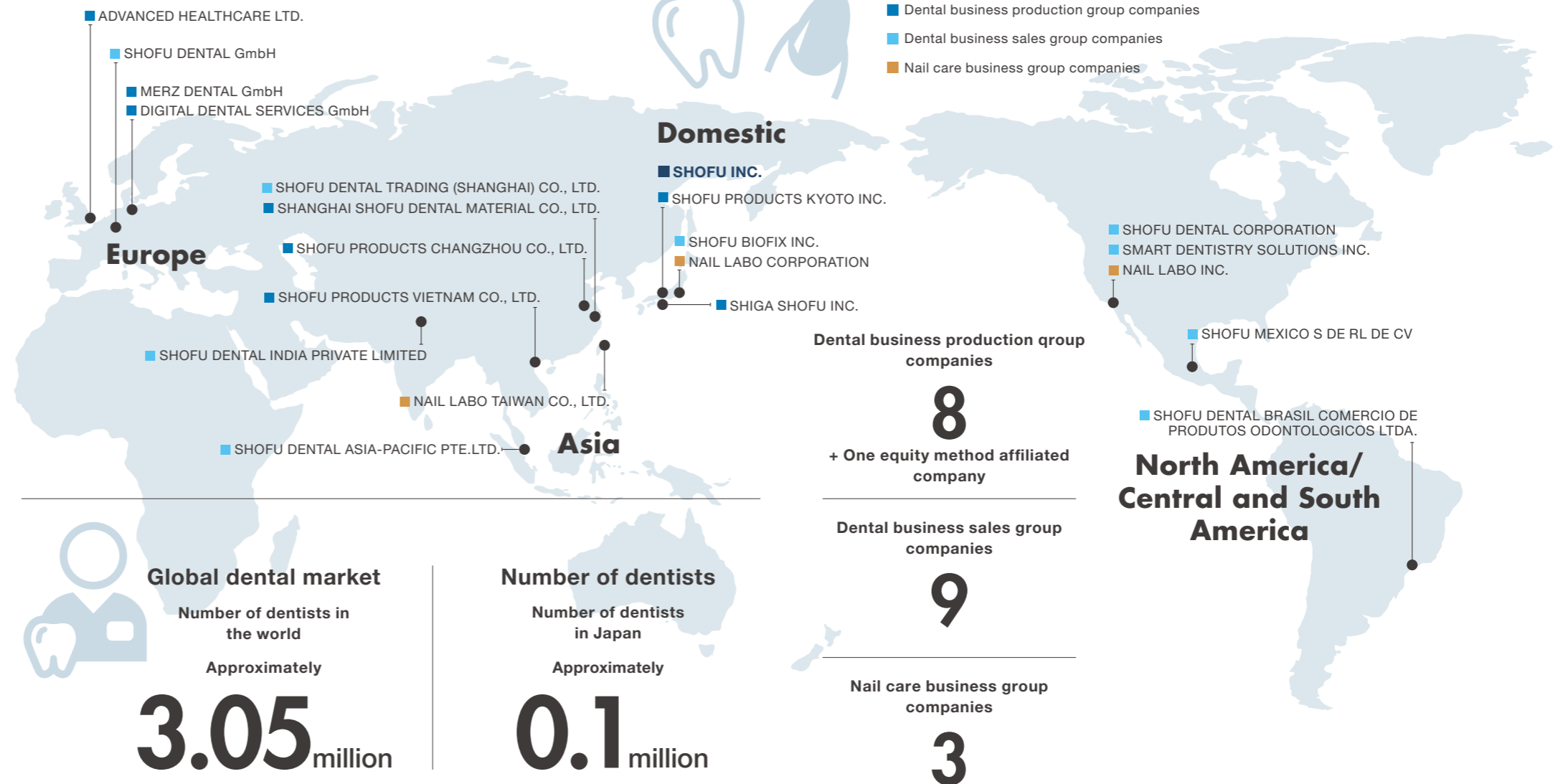
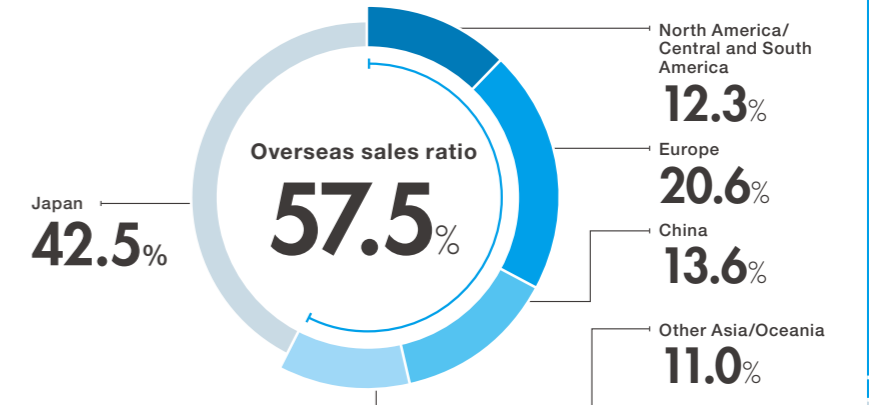
Contributing to dentistry worldwide from various angles

Products supplied in **123** countries around the world

Pharmaceutical approval in **85** countries

Ratio of overseas employees **49.8%**
Number of employees **1,369**

Ratio of sales by domestic and overseas regions

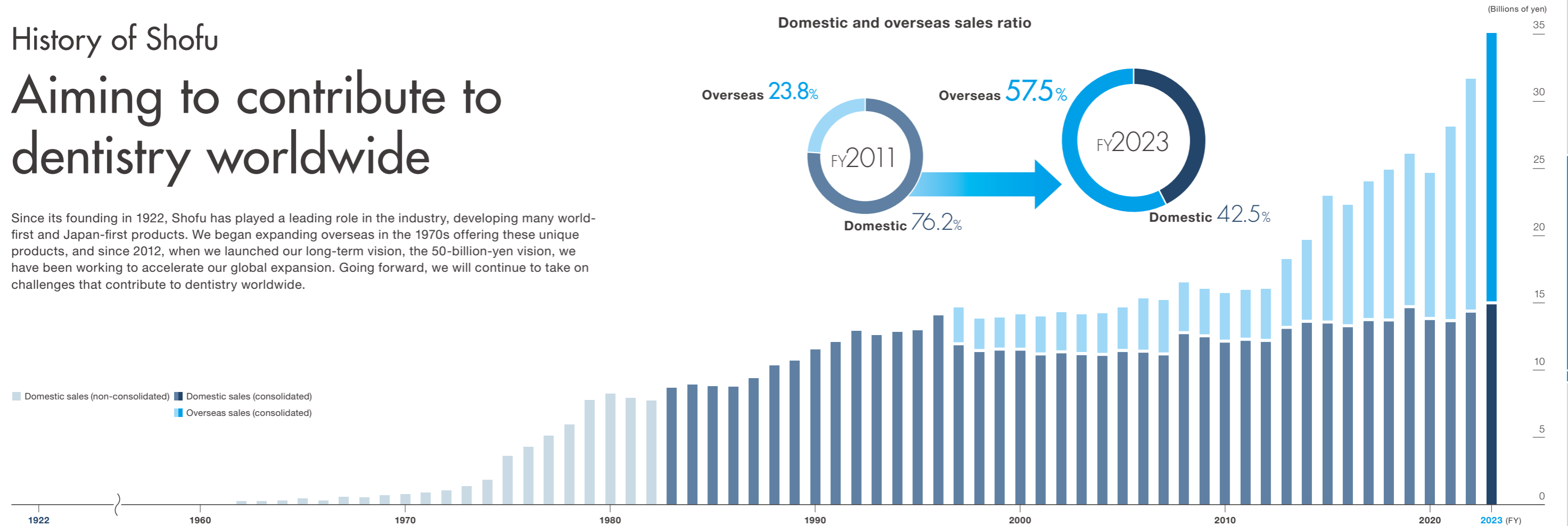
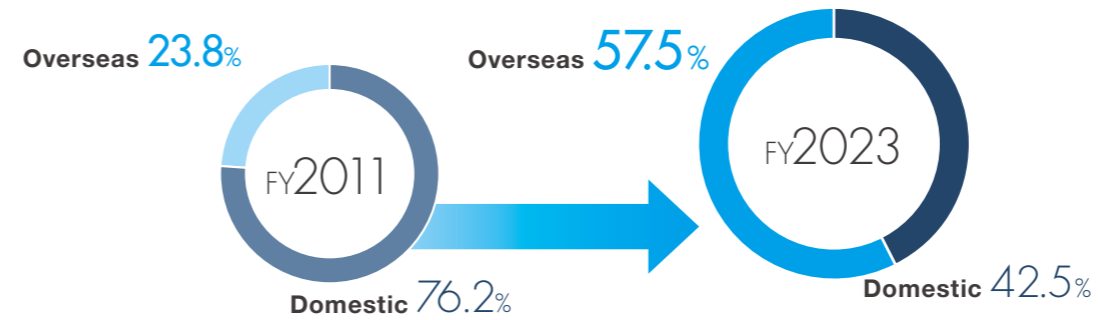


History of Shofu

Aiming to contribute to dentistry worldwide

Since its founding in 1922, Shofu has played a leading role in the industry, developing many world-first and Japan-first products. We began expanding overseas in the 1970s offering these unique products, and since 2012, when we launched our long-term vision, the 50-billion-yen vision, we have been working to accelerate our global expansion. Going forward, we will continue to take on challenges that contribute to dentistry worldwide.

Domestic and overseas sales ratio



1922~1950

- 1922** Developed and began selling Japan's first high-quality porcelain teeth S.A.P Anatom Form. The first president, Kajo Shofu III, established SHOFU DENTAL Mfg. Co., Ltd.
- 1928** Developed and began selling dental cements, which were one of the three major categories of dental supplies at the time, other two of which were porcelain teeth and rubber for denture bases.
- 1939** Opened the SHOFU Showroom at Ginza 1-chome, Tokyo.
- 1945** Developed and began selling Japan's first resin teeth.

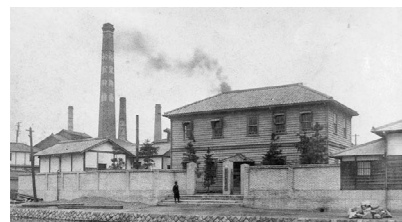
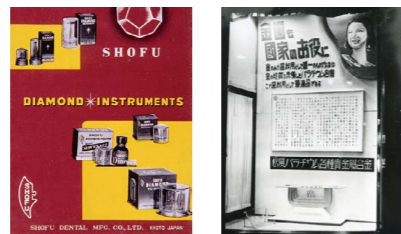


Photo of the Company at the time of establishment



New products that supported our postwar growth

SHOFU Showroom opened in Ginza, Tokyo as a service station

1950~

- 1952** Developed and began selling Japan's first diamond abrasives and vacuum fired porcelain teeth.
- 1957** Opened TOKYO SALES OFFICE in Yushima, Bunkyo-ku, Tokyo.

1960~

- 1963** Registered shares as over-the-counter stock to Osaka Prefecture Association of Japan Securities Dealers Association.
- 1965** Began selling the world's first dental spherical amalgam, SHOFU Spherical Amalgam.

1970~

- 1971** Established a sales subsidiary, SHOFU DENTAL CORPORATION in California, the U.S.
- 1972** Established SHIGA SHOFU INC. in Shigaraki-cho, Koga-gun, Shiga (currently, Shigaraki-cho, Koga-shi, Shiga).
- 1976** Established the Shofu Dental Club, a membership-based organization for domestic users in Japan.

1980~

- 1983** Changed company name to SHOFU INC. and carried out management reforms.
- 1986** Developed and began selling hybrid resin teeth, Endura—new generation artificial teeth.
- 1989** Listed on the Second Section of the Osaka Securities Exchange and on the Kyoto Stock Exchange.



First listed company in the dental industry

1990~

- 1997** Completed a research center equipped with the most advanced facilities in the dental industry. Obtained CE Marking certification.

2000~

- 2007** Listed on the Second Section of the Tokyo Stock Exchange.
- 2008** Purchased NAIL LABO CORPORATION and made it a subsidiary, which imports and sells nail care materials and equipment for professional nail care specialists.
- 2009** Concluded a business and capital tie-up with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd.

2010~

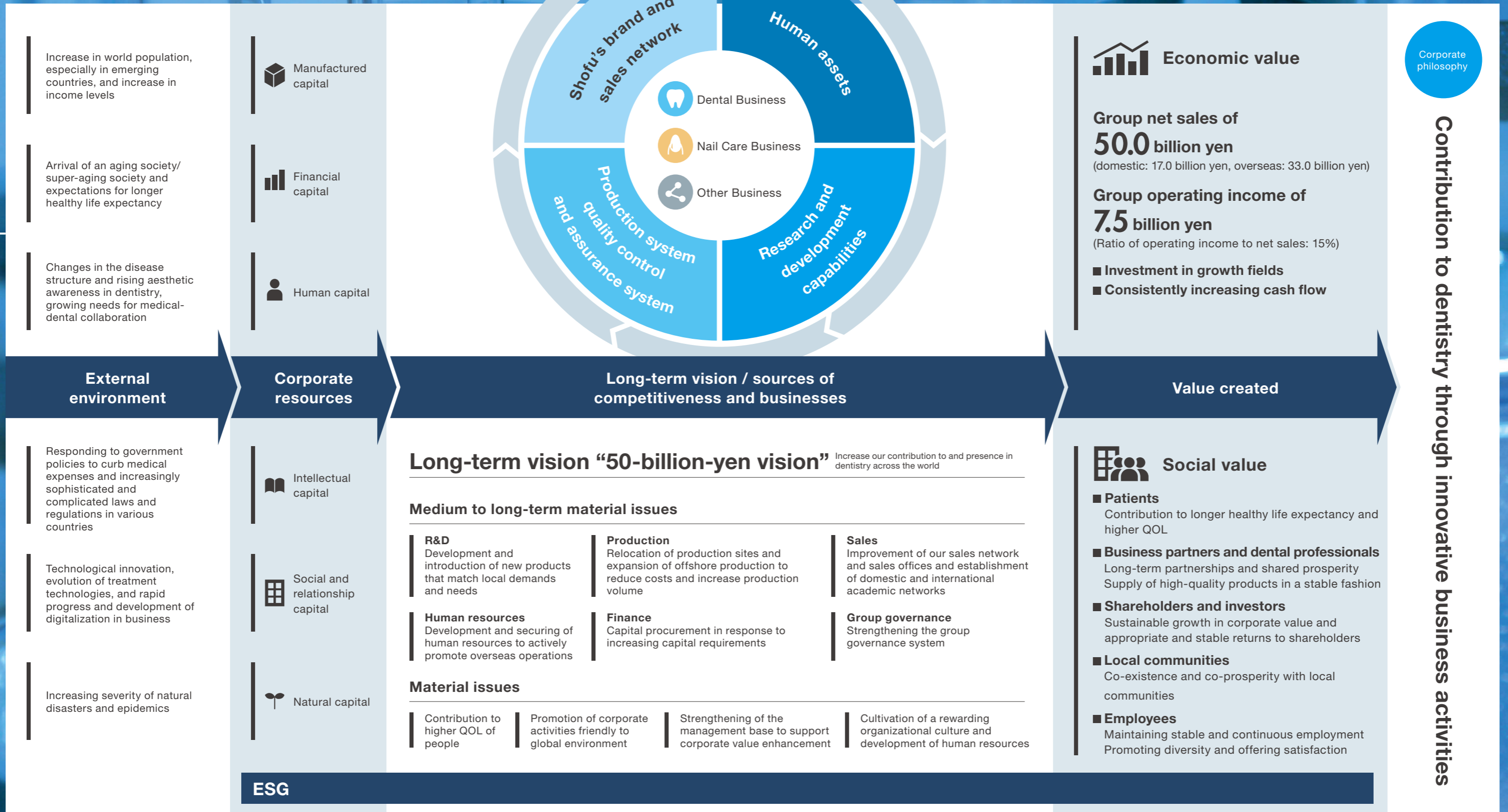
- 2012** Listed on the First Section of the Tokyo Stock Exchange.
- 2012** Formulated our long-term vision, the 10-year vision (current "50-billion-yen vision")

2020~

- 2020** Enhanced the business and capital tie-up with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd.
- 2022** Celebrated the 100th-year anniversary of the establishment of the Company. Transitioned to the Prime Market of the Tokyo Stock Exchange.
- 2024** Launched Fifth Medium-term Management Plan, which aims to achieve the 50-billion-yen vision.

Shofu's Value Creation Process

Based on our corporate philosophy of "Contribution to dentistry through innovative business activities," we aim to create economic and social value by pursuing business activities that utilize our wealth of resources and robust business foundation.



Corporate Value Improvement Logic Tree

Based on its corporate philosophy of “Contribution to dentistry through innovative business activities,” the Shofu Group will expand its ability to generate cash flow by advancing its medium-term management plan based on intangible assets regarded as sources of competitiveness, such as R&D capabilities, production technology capabilities, human resources, customer networks, and brand power, and engage in advanced governance and sustainability management. We will work to reduce the cost of capital by improving capital efficiency, and aim to sustainably increase corporate value.

Linking intangible assets to creation of corporate value

By increasing intangible assets, which are a source of corporate value, we aim to create cash flow and increase our corporate value.

Corporate philosophy
Contribution to dentistry through innovative business activities

Our corporate value

We will create free cash flow in the short to medium term through by advancing our medium-term management plan, reduce our cost of capital, and improve our growth rate, and link this to an increase in corporate value.

$$\text{Increase in corporate value} \uparrow = \frac{\text{Creation of free cash flow} \uparrow}{\text{Cost of capital (WACC)} \downarrow - \text{Growth rate} \uparrow}$$

Growth of intangible assets



Establishment of competitive advantage

03 Creation of free cash flow through the medium-term management plan

02 Lower cost of capital (WACC)

01 Fostering expectations for growth by refining core competencies

Creation of cash flow

Corporate value

Priority Measures

- Accelerating overseas growth
- Strengthening our business base in Japan
- Building a supply system that can cater to local demand

- Strengthening corporate governance
- Reviewing balance sheets, capital policy, and shareholder returns
- Promoting sustainability management

- Enhancing R&D capabilities / technological assets
- Development of global human resources/ human assets
- Strengthening production system, quality control and assurance system / organizational assets
- Strengthening the Shofu brand and sales network / customer assets

Material issues

01 Contribution to higher QOL of people
3 GOOD HEALTH AND WELL-BEING

02 Promotion of corporate activities friendly to global environment
7 AFFORDABLE AND CLEAN ENERGY, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 13 CLIMATE ACTION

03 Strengthening of the management base to support corporate value enhancement
11 SUSTAINABLE CITIES AND COMMUNITIES, 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

04 Cultivation of a rewarding organizational culture and development of human resources
4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH

Message from the President

We will continue to take on challenges to address changes and contribute to dental care around the world, such as expanding our business, making growth investments, and improving capital efficiency.



Representative Director
PRESIDENT & COO
Tetsuo Takami

Key messages

- We will contribute to the development of dental care around the world, and the extension of healthy life expectancies, and improve economic and social value with “AND”—through the global provision of innovative, high-quality dental materials and equipment.
- We will announce a new medium-term management plan and work to achieve our long-term vision.
- We will aim to create a corporate culture in which each and every employee can take on challenges.

Inheriting the aspirations and passion of our founder and actualizing the ideals in our corporate philosophy

Our founder, Kajo Shofu III, originally made his living in the ceramics industry in the Kiyomizuzaka area of Kyoto, which was a production area for Kyoto ware (also known as Kyo-yaki or Kiyomizuyaki). In addition to his skills as a ceramics maker, Kajo was also a talented businessman with foresight in business. At the end of the Meiji era, he foresaw the growing demand for electricity from hydroelectric power generation, and succeeded in developing ceramic insulators for high-voltage power transmission. He subsequently expanded the business in line with the development of hydroelectric power generation in Japan, contributing to the modern industrialization of the ceramics industry. Later, when he visited the United States for observation and market research, he met Dr. Mitsuru Okada (who later became the first professor of oral surgery at Keio University School of Medicine), who enthusiastically explained the necessity of Japanese-produced high-quality ceramic (porcelain) teeth, which led to the birth of our company.

From the Meiji era into the Taisho era, there was a trend of favoring imported products over Japanese-produced ones, but the situation was different when it came to artificial teeth. This is because the size and shape of teeth differed between people overseas, who ate a lot of meat, and Japanese people, who ate mostly grains and vegetables at the time. At the time, our founder had a strong desire to improve the quality of domestic products, and it can be said that his ambitious aspirations and passion to achieve them were exactly what we now call the venture spirit. Our corporate philosophy is a codification of the corporate culture that has taken root in the course of continuing our business activities, inheriting the aspirations of our founder, and incorporating a global perspective.

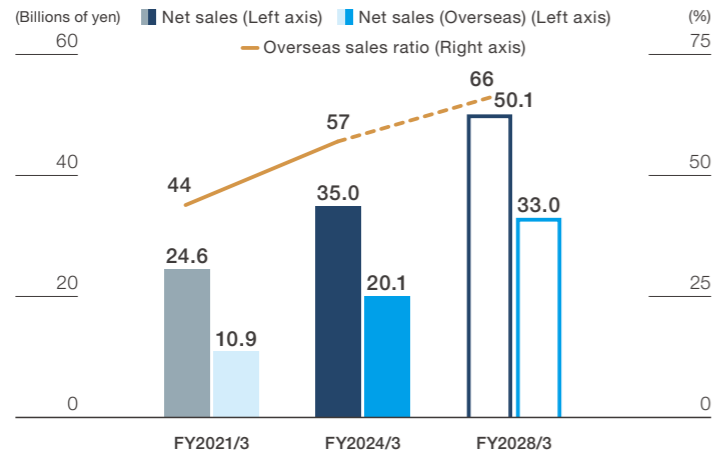
Our raison d'être—the significance of our existence in society—is “Contribution to dentistry through innovative business activities”. While medicine is healthcare for saving lives, dentistry is healthcare for preserving the quality of our daily lives, and it is a business area that is both highly public and indispensable in society. By practicing this corporate philosophy, we aim to be a company that creates brighter smiles for healthier lives, as stated in our corporate message, and continues to be needed by society.

Aiming to embody our corporate philosophy by contributing to dental care around the world

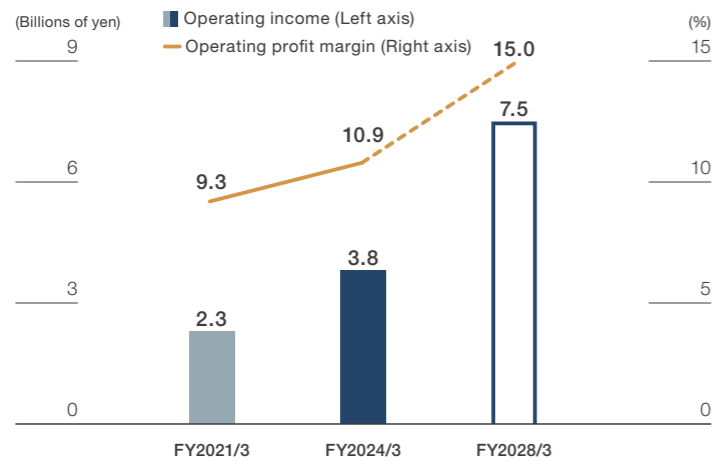
For many years, we had formulated medium-term management plans based on the buildup of actual business targets, but unfortunately we continued to fall short of achieving them. To overcome this situation, we decided to create a vision for the future and formulate a medium-term management plan based on a growth strategy drawn up through backcasting. In 2012, we formulated our ten-year vision, the predecessor to our 50-billion-yen vision. In terms of the business conditions surrounding our company, although we were able to maintain a certain market size in Japan due to growing needs in the fields of aesthetics and prevention, we did not expect significant growth due to the decline in total population size and incidence rates for tooth decay. On the other hand, there were markets overseas that were ten times the size of the Japanese market at the time, and considering the economic growth of each region, primarily emerging countries, demand for global dental care can be expected to expand dramatically in the future. Meanwhile, although we had already begun to expand overseas in the 1970s, overseas sales still accounted for less than a quarter of our total sales, and we could not say that we were contributing to global healthcare (dental care) in line with our corporate philosophy. To seriously aim to embody our corporate philosophy, we set sales as an indicator of the degree of contribution, and the goal of “being among the top ten players in the global dental materials market” as the level of presence necessary to contribute to the market. Based on this, we decided to significantly shift our allocation of management resources overseas.

However, it is not realistic for us to increase the scale of our overseas business to ten times that of our Japanese business in a single leap. In view of this, we have established the 50-billion-yen vision, as an immediate milestone to double the scale of our overseas business compared to the scale in Japan. In the early stages of initiatives based on this vision, however, we had to go through a process of trial and error due to a lack of knowledge about overseas business expansion. Coupled with the impact of the COVID-19 pandemic starting in 2020, we chose to delay the achievement of our 2022 target as we had originally envisioned it. Despite this, we have not wavered in our vision at all, and are continuing to engage in efforts to manifest our long-term vision: the 50-billion-yen vision.

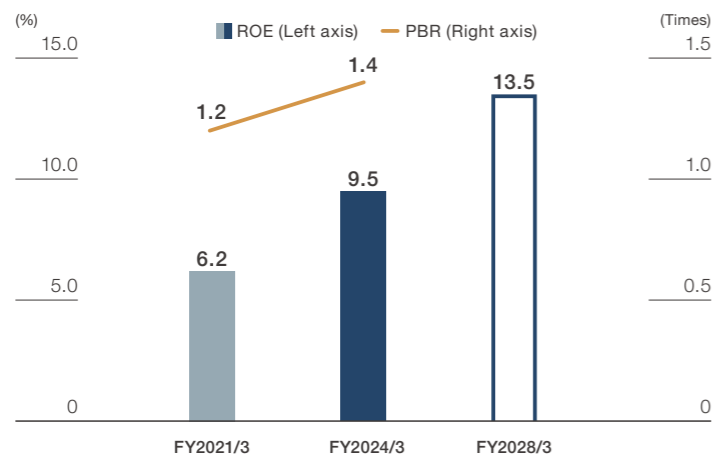
Net sales / overseas sales / overseas sales ratio



Operating income/Operating profit margin



Return on equity (ROE)/Price Book-value Ratio (PBR)



Record net sales and operating income for three consecutive years

We started the FY2021–FY2023 (fourth) medium-term management plan with the impact of the COVID-19 pandemic factored in to a certain extent during the planning stages. Due to strong demand in the dental market and the steady progress of our efforts, however, we were able to significantly exceed the plan targets from the first year. Our momentum did not stop from the second year, when the target was revised upward, and we significantly exceeded forecast figures in all indicators for the entire period of the plan. Sales and profits have also increased, setting new record highs for three consecutive years, and ROE rose to 9.5% in the final year. Management efficiency has also improved significantly.

These achievements were due mainly to improvements in the accuracy of our efforts to expand our overseas business in terms of sales. Specifically, sales methods have been established at subsidiaries in each region, and their accuracy is increasing year by year. Although instructions on general strategy are issued by our head office in Japan, aspects such as sales promotions to suits each local market are left to the discretion of local subsidiaries. While some of our competitors streamlined their product lineups and workforces during the early stages of the pandemic, we firmly maintained our organizational structure for delivering products and services to dental professionals as much as possible. We believe that this increased the level of trust invested in us by dental professionals, and led to growth as demand recovered.

At the same time, during the fourth medium-term management plan, we lost opportunities both in Japan and overseas due to supply shortages in responding to rapid increases in demand in each region. We believe that building a product supply structure that will enable us to respond to such increases in demand as soon as possible is the most important issue for our company at present. Additionally, while the recovery in demand after the pandemic has progressed faster than in other industries, it is also a fact that business expansion toward achieving our long-term vision has been delayed. In light of the above, the new medium-term management plan outlines specific measures to address these issues.

Actively investing in growth and strengthening our management base to achieve our 50-billion-yen vision (long-term vision)

The outline of our FY2024–FY2027 (fifth) medium-term management plan is the below three points.

The first point is the achievement of our long-term vision, the 50-billion-yen vision. We will further increase the efforts that we have made

so far to maintain and strengthen our domestic business base and expand our overseas business operations, and seek to achieve our 50-billion-yen vision (long-term vision) within the period of this medium-term management plan. As a breakdown, we have set numerical targets of domestic net sales of 17.0 billion yen, overseas net sales of 33.0 billion yen, Group net sales of 50.0 billion yen, Group operating income of 7.5 billion yen, and an operating profit margin of 15%. To ensure that these targets are achieved, the period of this medium-term management plan has been set at four years instead of three years.

The second point is investments of 15.3 billion yen. To meet the increasing demand for dental care around the world, we will invest in increasing our production capacity on an unprecedented scale for our company, with a view to achieving our long-term vision and future growth. Over the next four years, we will make a total of 10.0 billion yen in growth investments, consisting of 9.0 billion yen for production facilities and 1.0 billion yen for logistics bases, and build a product supply system responding to the increase in demand in each region.

The third point is to achieve management that is conscious of cost of capital and share price. Based on a request from the Tokyo Stock Exchange, we have clarified the issues to be addressed based on our analysis of the current situation with regard to our cost of capital, return on capital, and market valuation. We will aim to further improve capital efficiency through the appropriate allocation of management resources while seeking to balance growth investments with shareholder returns, strengthening of our management base, and improvement of the soundness of our financial position, and work to strongly drive sustainable growth and improvement of corporate value over the medium to long term.

Specific initiatives to address priority issues in R&D, production, and sales

As I mentioned earlier, in the fourth medium-term management plan, we achieved our plan targets in all fiscal years, increased our sales and profits, and were able to set new record highs. Based on this, too, it is our assessment that the direction of our efforts to achieve our 50-billion-yen vision is appropriate. Under the fifth medium-term management plan, we plan to further accelerate and implement measures to address the priority issues that we have been working on so far.

In R&D, the challenge is to develop and launch new products that meet the demands and needs of each region. As I mentioned when discussing our founder's aspirations and the ideals contained in our corporate philosophy, we aim to be an R&D-oriented company that solves social issues with technology. This stance will not change in the future, and we will continue to actively and continuously invest in R&D. Our R&D

policy is focused on product development from a global perspective, while developing products for the medium income and volume zones in each region, and developing products with the aim of creating markets in new fields. As one KPI to measure the efficiency of investment in R&D, we have identified the ratio of new product sales. We plan to increase the ratio of new product sales from 16.9% in the previous fiscal year to 20%, and maintain it at this level. We define a “new product” as a product that is still within 36 months of its launch. We have received strong inquiries for new products such as the dental dentin adhesive BeautiBond Xtreme, the dental composite resin cement ResiCem EX, and the intraoral digital camera EyeSpecial C-V. However, even if a major new product is launched in the current fiscal year, we will not be able to maintain 20% unless we are able to launch a new product in the next fiscal year or the year after—so we will continue to constantly develop new products and release them gradually.

In production, the challenges are cost reduction, relocating production bases to accommodate increased production volume, and expanding overseas production. In fields where we are competitive, such as artificial teeth and abrasive materials, we will seek to further improve our price competitiveness by further reducing costs. We will also make effective use of domestic production Group companies and relocate production bases including the expansion of overseas production, from six perspectives: eliminating restrictions on production capacity at the head office plant, reducing production costs, avoiding the impact of exchange rate fluctuations, avoiding high customs tariffs, reducing transportation costs for dangerous and heavy goods, and improving

Medium- to long- term priority issues

R&D	Development and introduction of new products that match local demands and needs
Production	Relocation of production sites and expansion offshore production to reduce costs and increase production volume
Sales	Developing sales networks and sales bases, and building domestic and overseas academic networks (organizations that engage in direct promotion activities to users)
Human resources	Development and securing of human resources to actively promote overseas operations
Finance	Capital procurement in response to increasing capital requirements
Governance	Strengthening the group governance system

logistics service and shortening delivery times. Net sales for the fiscal year ended March 31, 2024 (FY2023) were 35.0 billion yen, meaning that we will not reach our target of 50.0 billion yen unless we show a 1.4-fold increase in net sales heading toward the fiscal year ending March 31, 2028 (FY2027)—the final year of the fifth medium-term management plan. It is therefore essential to secure high level production capacity to achieve the target, and in the fifth medium-term management plan we will actively engage in capital investment to achieve this.

In sales, it can be said that our challenges are the development of sales bases, the expansion of our sales network, and the construction of academic networks both in Japan and overseas. In terms of sales, our priority measures are to build and strengthen a system to ensure that our products are recognized and evaluated highly by dental professionals, who are our end customers—both in Japan and overseas. Based on this purpose, we are working to establish a system of local subsidiaries and other sales bases, develop and enhance our network of distributors, and build an academic network. An academic network is an organization that engages in direct promotional activities toward dental professionals. By having influential university professors and dentists gain a deep understanding of the features of our products and appeal to others about them through seminars and study workshops, we will increase

recognition among dental professionals, and increase the value of the SHOFU brand. As a result, it will be possible for us to develop our business without entering the arena of price competition so readily.

Japan is our home turf, and although we have gained a certain amount of recognition, primarily for artificial teeth and abrasive materials, for which we boast a strong distributor network and the top market share in Japan, we believe that there is still adequate room to increase our market share in the growth fields of filling and restoration materials, CAD/CAM materials, and dental disease prevention. Going forward, we will engage in sales activities that focus on such areas, where the market is expected to expand.

Since recognition overseas is still low in comparison with Japan, we will seek to establish new bases in major countries and regions, expand our network of distributors, and enhance our pool of academic personnel, to create an environment in which we can promptly provide our products to dental professionals in each country. During the period of the fifth medium-term management plan, we aim to improve our sales network mainly in areas where it is not currently sufficient, such as Asia (excluding China) and the Middle East and Africa, which are included in the European area.

Contributing to a sustainable society through sustainability management

As shown in our Corporate Value Improvement Logic Tree, we will build a competitive advantage based on the growth of intangible assets and generate cash flow, based on our corporate philosophy. We are also working to reduce the cost of capital (WACC) by enhancing governance and reviewing our balance sheet, capital policy, and shareholder returns, with the aim of sustainably increasing corporate value.

We believe that engaging in sustainability management contributes to the improvement of corporate value and is a natural responsibility as a company because it leads to the strengthening of our intangible assets and management base while contributing to the creation of a sustainable society. Therefore, in the fifth medium-term management plan, we have positioned sustainability management as a priority issue. Our basic policy on sustainability is to contribute to a higher QOL for people, promote corporate activities that are friendly to the global environment, strengthen our management base to support corporate value enhancement, and cultivate a rewarding organizational culture and develop human resources. In terms of environmental impact, to reduce greenhouse gas emissions by 27% by 2030 (compared to FY2021), we will make investments that take into consideration the surrounding environment, mainly for large-scale projects such as the reconstruction of our head office factory.



Creating a corporate culture that allows us to take on the challenge of change for the next 100 years, after achieving our long-term vision

Major changes are taking place in the dental industry, such as in disease structures and treatment and technical techniques. In recent years, the relationship between periodontal disease and systemic diseases such as diabetes, aspiration pneumonia, and cardiovascular disease has been covered in various media. As a result, the “dental IQ” of Japanese people is also increasing. “Dental IQ” is a term that indicates a person’s degree of interest and awareness of dental and oral health. As a result of the increase in dental IQ, along with the evolution of treatment techniques and equipment, the disease structure is changing from heavy treatment to mild treatment; and from mild treatment to preventive measures and oral hygiene.

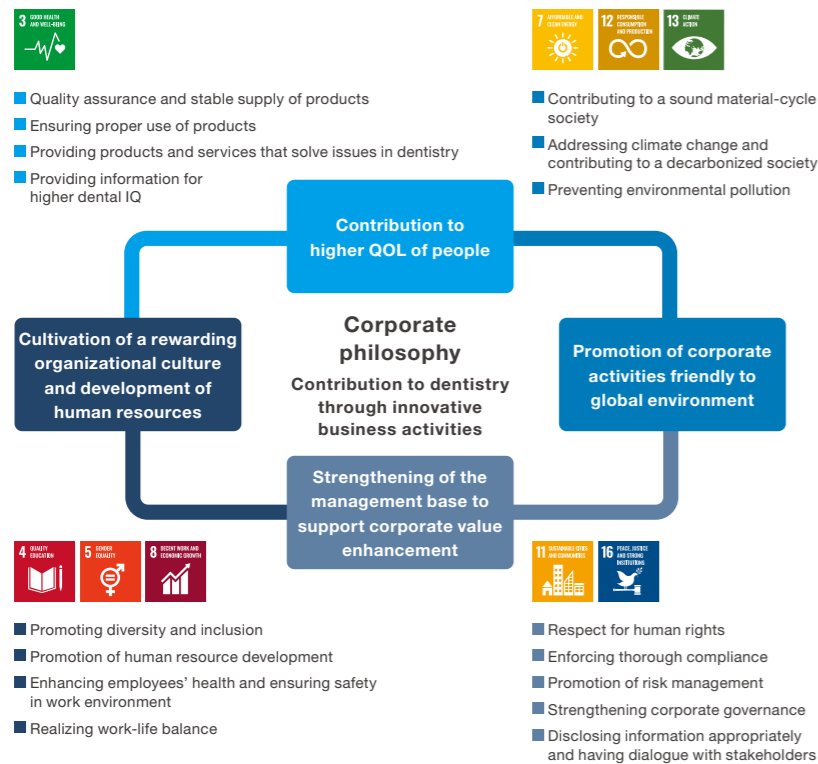
We are also at a major turning point in terms of technology, such as the spread of technical production using technologies such as CAD/CAM and 3D printing. Additionally, in Japan, which is strongly influenced by insurance administration, the Basic Policy on Economic and Fiscal Management and Reform 2024 approved by the Cabinet calls for “promoting new technologies and materials that have been recognized for their effectiveness and safety to be adopted by health insurance.” Shofu Block PEEK, which was launched in December 2023, is in line with this policy, and we believe that it is important to continue to respond ahead of government policy.

We already plan to achieve our 50-billion-yen vision (long-term vision) within the period of our fifth medium-term management plan. After that, we will continue to increase our level of contribution to dental care around the world by increasing sales while adapting to changes in disease structure and technological innovations. At the same time, we aim to achieve our target of being in the top ten in the global dental materials market in order to have a sufficient presence in the market.

Through our efforts to achieve our current 50-billion-yen vision (long-term vision), employee awareness and our corporate culture are steadily changing. However, in formulating and realizing a new long-term vision, we must be able to implement our action guidelines of taking on the challenge of change—anticipating all manner of changes and actively taking on challenges—at a higher level. We aim to create a corporate culture where employees with creativity, proactivity, and a sense of responsibility who are able to respond to changes can come together and maximize their abilities.

Dental care creates brighter smiles for healthier lives. The birthrate in Japan is declining, the country’s population is aging, and the working population is decreasing, so extending healthy life expectancy has become a major topic of concern. We hope that our products and services can contribute to this. We would like to overcome this turbulent era of change in disease structure and dental treatment technologies by anticipating unknown changes and further expand our business, so please look forward to our efforts in the future.

The Shofu Group’s approach to sustainability management



FY2021-FY2023

Review of the Fourth Medium-Term Management Plan

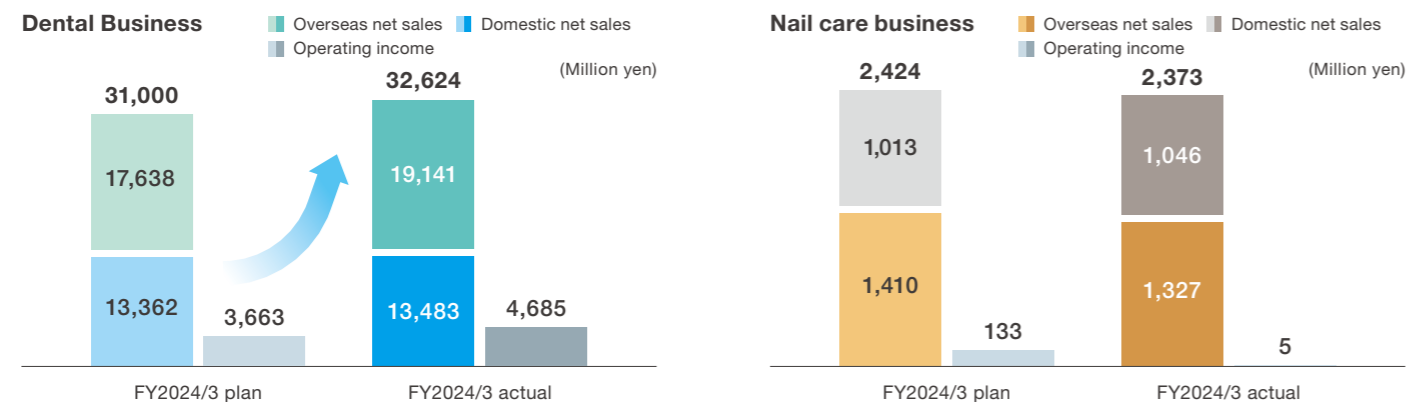
In the dental industry, recovery in demand from the COVID-19 pandemic progressed faster than expected. In the fourth medium-term management plan (FY2021-FY2023), by implementing initiatives to address priority issues, we achieved plan targets for the entire plan period, and were able to achieve record high performance for three consecutive fiscal years.

State of achievement of fourth medium-term management plan targets

	Indicator	FY2024/3 plan*	FY2024/3 actual
Profitability	Net sales	33.5 billion yen	35.0 billion yen (+4.6%)
	Domestic net sales	14.8 billion yen	14.8 billion yen (-0.0%)
	Overseas net sales	18.6 billion yen	20.1 billion yen (+8.2%)
	Operating income	3.8 billion yen	4.7 billion yen (+23.3%)
	(Ratio of operating income to net sales)	11.4%	13.4% (+2.0%)
Capital efficiency	ROE	7.7%	9.5% (+1.8%pt)

*Consolidated earnings forecast for FY2023 (year ending March 31, 2024), announced on May 10, 2023

State of achievement by business segment



Achievements	Expansion of sales in Japan and overseas due to the improvement of sales bases and sales networks, and building of academic networks
Review	Lost opportunities due to supply shortages due to the impact of the pandemic and geopolitical risks

Achievements	Expansion of sales by proprietary brands offered in Taiwan, mainly at chain stores such as drugstores
Review	Profitability deteriorated significantly due to failure to absorb cost burdens, owing to the decline in sales in Japan and the US

Major initiatives and achievements for priority issues

	Major initiatives	Achievements for priority issues
R&D	Development and introduction of new products that match local demands and needs	Developed and launched new products including CAD/CAM crowning materials, filling restoration materials, and digital cameras.
Sales	Improvement of sales bases and sales networks	Gradually expanded the multi-distributor system in major countries and signed contracts with large distributors in Brazil. → Expanded sales to over 120 countries
	Establishment of domestic and international academic networks	Strengthened academic activities in each region. Increased the number of KOLs (Key Opinion Leaders) mainly in Brazil, the Middle East, and Africa.
Production	Relocation of production sites and expansion offshore production to reduce costs and increase production volume	Launched full-scale production of abrasive materials for overseas markets at Vietnam production base. Reorganized and reviewed production items and processes at head office factory in Japan, and at domestic and overseas production bases.
Human resources	Development and securing of human resources to actively promote overseas operations	Increased the ratio of overseas personnel to 49.8% of the Group's total workforce. Seventy percent of the increase in personnel during the period of the fourth medium-term management plan were overseas personnel.
Finance	Capital procurement in response to increasing capital requirements	Secured an environment for agile financing that responds to financing needs by building relationships with financial institutions and making efforts to improve financing efficiency within the Group.
Governance	Strengthening the group governance system	Promoted the sharing of information and data from Group companies and established regulations.
M&A	Promotion of M&As (business tie-ups, technology partnerships, business acquisitions)	Established a dedicated system, engaged in external collaboration, and considered individual projects.
	Business tie-ups with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd.	Launched sale of Sun Medical products through our overseas sales network (Brazil).

Issues to be addressed in the new medium-term management plan

01

Achieving our long-term vision, the 50-billion-yen vision

02

Building a product supply system to respond to increased demand in each region

03

Measures to achieve management with awareness of improving capital efficiency

Fifth Medium-Term Management Plan

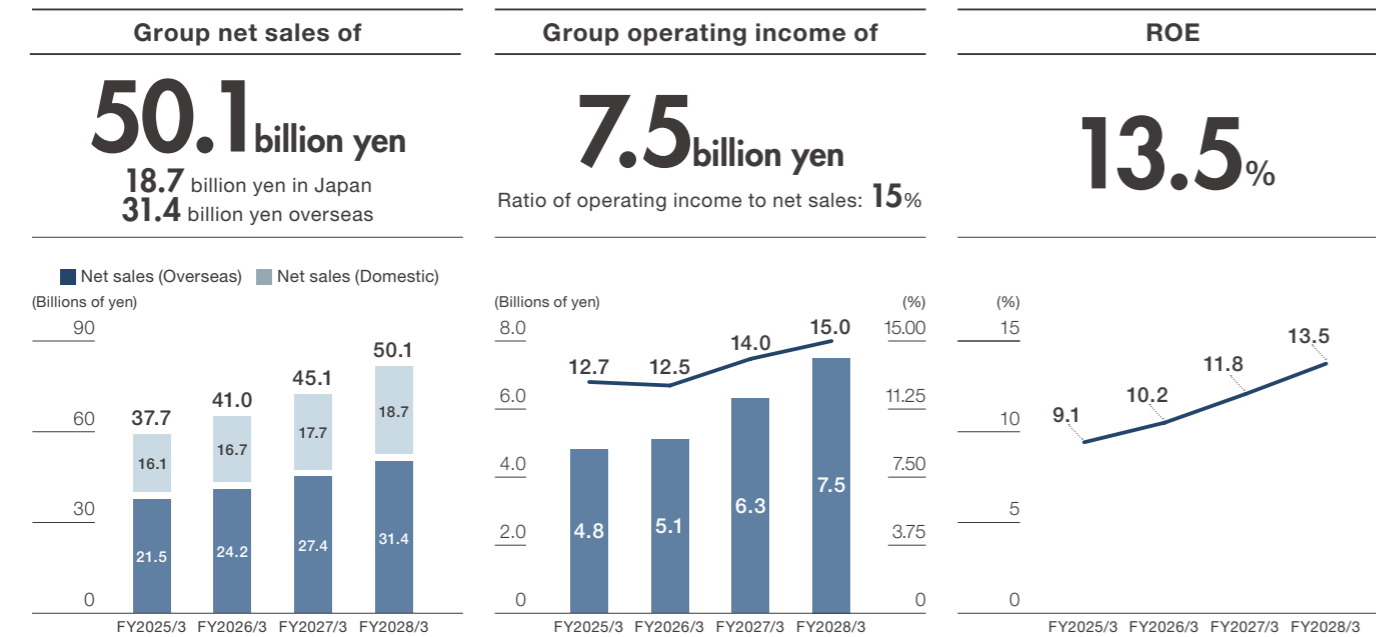
In 2012, we formulated the 50-billion-yen vision, as a long-term vision for the future. Since then, we have formulated medium-term management plans (from first to fourth) every three years with the aim of achieving this vision, and 12 years have now passed. Based on the achievements we have built up during this period, since April 2024, we have been working on the fifth medium-term management plan to realize our long-term vision, the 50-billion-yen vision.

Key points of the fifth medium-term management plan

01	02	03
<p>Long-term vision Achieving our long-term vision, the 50-billion-yen vision</p>	<p>Plan for unprecedented growth investments</p>	<p>Taking actions to enable management that is conscious of cost of capital and share price</p>

01 Achieving our long-term vision, the 50-billion-yen vision

By engaging in initiatives to address priority issues, we plan to achieve net sales of 50.0 billion yen and operating income of 7.5 billion yen (an operating profit margin of 15%) in the fiscal year ending March 31, 2028 (FY2027)—the final year of the plan.



02 Plan for unprecedented growth investments

With a view to achieving our long-term vision, the 50-billion-yen vision, and future growth, we plan to invest 10.0 billion yen (out of the 15.3 billion yen of capital investment and loans for the plan period) to increase production capacity and overseas logistics bases, in order to build a product supply system to cater to the increased demand in each region.

	FY2025/3	FY2026/3	FY2027/3	FY2028/3
Routine and renewal investments and loans	1.7	1.4	1.0	1.1
Growth investments	1.2	3.5	3.8	0.3
Increasing production capacity	0.9	1.5	1.1	—
New head office plant	—	0.8	2.0	0.3
Domestic production bases	0.2	1.2	0.6	—
Overseas production bases	—	—	—	1.0
Overseas logistics bases	—	—	—	—
Capital investment and financing total	3.0	4.9	4.9	2.4

(Billions of yen)

Record-class growth investment

10 billion yen

03 Taking actions to enable management that is conscious of cost of capital and share price

To achieve sustainable growth and increase corporate value in the medium to long term, we will analyze and evaluate the current state of our return on equity (ROE) and market valuation of our stocks, and engage in initiatives to improve them.

Analysis of current state
Fourth medium-term management plan

- Since the period of the fourth medium-term management plan, ROE has exceeded the cost of shareholders' equity (equity spread is positive), and we have been able to maintain ROE in excess of the cost of capital.
- On the other hand, PBR and PER have failed to reach the average for the medical device sector, so we are facing issues in market valuation.
- In particular, there is an urgent need to improve the current situation in which risk premiums are added to the cost of capital due to low liquidity of the company's shares, and to close the gap in investor perception of our growth story.

Measures 1	<p>Increase return on equity by increasing net profit margins ROE FY2024/3 9.5% ▶ FY2028/3 13.5%</p>	<p>Sales of cross-shareholdings</p> <hr/> <p>40 Billions of yen</p> <hr/> <p>Payout ratio</p> <hr/> <p>40% or more</p> <hr/> <p>DOE</p> <hr/> <p>3.0% or more</p>
Measures 2	<p>Stock split *Record date: September 30, 2024</p> <p>Purpose Improve the liquidity of the company's shares and expand the investor base</p> <p>Method Split at a ratio of two shares for each share of common stock</p>	
Measures 3	<p>Strengthen IR activities</p> <p>Pursuing dialogue with investors Increase the frequency of the president's participation in interviews, and holding overseas roadshows, etc.</p> <p>Translation of IR information into English Timely disclosure of materials in Japanese and English at the same time, mirroring of IR site in English, etc.</p>	
Measures 4	<p>Clarify capital policies</p> <p>The company plans to invest 15.3 billion yen in capital investment, including one of the largest growth investments in its history.</p> <p>We are working to increase shareholder returns and drive the return of profits to shareholders.</p> <p>Funds for investments will be allocated through operating cash flows generated during the medium-term management plan period, sale of cross-shareholdings, and dead financing.</p>	

Shofu's Material Issues



The Shofu Group has provided value to society through various business activities, including development of superior dental materials and equipment, to continue to be a company that is trusted by society.

In order to further promote sustainability management in the future, we have formulated the Basic Policy on Sustainability, which presents the Group's approach to sustainability, and identified four key themes and 16 material issues (materiality) that are linked to them.

Basic Policy on Sustainability

In our Basic Policy on Sustainability, we have presented four key themes for us to work on: "contribution to higher QOL of people," "promotion of corporate activities friendly to global environment," "strengthening of the management base to support corporate value enhancement," and "cultivation of a rewarding organizational culture and development of human resources."

Details of Basic Policy on Sustainability:

<https://www.shofu.co.jp/contents/hp2012/index.php?No=2041&CNo=2012> (in Japanese only)



Process for identification of material issue



	Material issues	Target	Major Initiatives and Achievements	SDGs
1	Quality assurance and stable supply of products	<ul style="list-style-type: none"> Zero product recall arising from quality issues 	<ul style="list-style-type: none"> One voluntary product recall 	
	Ensuring proper use of products	<ul style="list-style-type: none"> Strengthening the system for collecting and evaluating information on safety management Enhancing information provision for proper use of products 	<ul style="list-style-type: none"> Reviewed internal rules and procedural manuals for establishing a global safety management system Enhanced video content on product information sites 	
	Providing products and services that solve issues in dentistry (providing products and services that have positive impact on society)	<ul style="list-style-type: none"> Strengthening partnerships with dental professionals Increasing the number of countries in which our products are sold Strengthening protection and utilization of intellectual property Providing digital products and services continuously Providing preventive products (including Giomer products) and services continuously Increasing the ratio of sales of preventive and digital products to net sales 	<ul style="list-style-type: none"> Shofu Dental Club members: 18,930 (16,467) Seminars held for dental professionals: 112 Countries where our products are sold: 123 Made patent applications in accordance with product strategies Sales of CAD/CAM-related products in Japan: up 5.8% year on year Sales of Giomer products overseas: up 26.6% year on year *Giomer products: dental-related products applying the bioactive material S-PRG filler 	
2	Providing information for higher dental IQ	<ul style="list-style-type: none"> Raising awareness about diseases of and enhancing information provision to the general public 	<ul style="list-style-type: none"> Held two public lectures on civic dentistry 	
	Contributing to a sound material-cycle society	<ul style="list-style-type: none"> Developing recycling systems for product development, materials, etc. Increasing the recycling rate 	<ul style="list-style-type: none"> Considered the applicability of plant-derived raw materials in product development, and the recyclability of existing products Recycling rate: 82.9% (85.9%) 	
	Addressing climate change and contributing to a decarbonized society	<ul style="list-style-type: none"> 27% reduction in greenhouse gas emissions by 2030 (compared to FY2021) Realizing carbon neutrality by 2050 	<ul style="list-style-type: none"> Calculated and disclosed the Shofu Group's CO₂ emissions (Scope 1 and Scope 2) Shofu Group CO₂ emissions: 5,817 tCO₂ (5,817 tCO₂) *Of which CO₂ emissions in Japan: 3,524.2 tCO₂ (3,298 tCO₂) 	
3	Preventing environmental pollution	<ul style="list-style-type: none"> Maintaining our record with zero environment-related accident 	<ul style="list-style-type: none"> Zero violations of environmental laws and regulations 	
	Respect for human rights	<ul style="list-style-type: none"> Promoting understanding of human rights policy and initiatives throughout the Group Promoting sustainable procurement in our supply chain 	<ul style="list-style-type: none"> Formulated and announced Shofu Group Human Rights Policy Enhanced business partner surveys 	
	Enforcing thorough compliance	<ul style="list-style-type: none"> Zero serious compliance violation 	<ul style="list-style-type: none"> Zero serious compliance violations Comprehensively revised the Shofu Group Code of Conduct and implemented compliance education 	
	Promotion of risk management	<ul style="list-style-type: none"> Implementing highly effective business continuity management 	<ul style="list-style-type: none"> Conducted information security training Considered the establishment of a risk management system 	
	Strengthening corporate governance	<ul style="list-style-type: none"> Strengthening group governance Building a highly effective corporate governance structure 	<ul style="list-style-type: none"> Revised the Associated Companies Management Rules Responded to issues based on an evaluation of the effectiveness of the Board of Directors (revised discussion criteria, enhanced meeting materials, etc.) 	
4	Disclosing information appropriately and having dialogue with stakeholders	<ul style="list-style-type: none"> Conducting surveys, questionnaires, and dialogue with stakeholders and taking measures for improvement Enhancing the quality and quantity of information disclosure 	<ul style="list-style-type: none"> Proactively conducted shareholder surveys and investor meetings Enhanced disclosure of IR materials in English 	
	Enhancing employees' health and ensuring safety in work environment	<ul style="list-style-type: none"> Maintaining our record with zero serious industrial accident Raising employees' awareness about health (including oral health care) 	<ul style="list-style-type: none"> Frequency rate: 1.87 (2.01) Certified under the Certified Health & Productivity Management Organizations Recognition Program 	
	Promotion of human resource development	<ul style="list-style-type: none"> Strengthening our support for employees' career development 	<ul style="list-style-type: none"> Conducted rank-specific, purpose-specific, and selective training, etc. 	
	Promoting diversity and inclusion	<ul style="list-style-type: none"> Increasing the ratio of female managers 	<ul style="list-style-type: none"> Ratio of female managers: 3.0% (3.0%) Ratio of female hires: 21.6% (44.1%) 	
	Realizing work-life balance	<ul style="list-style-type: none"> Increasing employee satisfaction 	<ul style="list-style-type: none"> Actual working hours per year: 1,874 hours (1,879 hours) Turnover rate: 3.1% (2.3%) 	

Figures in parentheses show last year's results.

Message from Officer in Charge of Corporate Planning

We will make one of our largest capital investments ever to achieve further growth in Japan and overseas, with a view to achieving our 50-billion-yen vision and expanding our business in the future.

Director
Senior Managing Executive Officer
Corporate Planning
Fumitaka Yamazaki

Net sales and operating income reached record highs for the third consecutive year

In the last fiscal year, our sales and profits increased both in comparison with the previous fiscal year and our forecast. Profits also increased at the profit stage, and we achieved record high profits for the third consecutive year. In the fourth medium-term management plan, for the fiscal year ended March 31, 2022 (FY2021) to the fiscal year ended March 31, 2024 (FY2023), we achieved our plan targets in each fiscal year. Net sales for the previous fiscal year increased by 10.7% year-on-year to 35.08 billion yen, up 4.3% in Japan and 16.0% overseas, although these figures for net sales and profits include the boosting effect of currency exchange rate fluctuations. Even if we exclude the effects of exchange rates, net sales overseas increased by 8.7%, and total net sales in Japan and overseas increased by 6.7%.

The increase in domestic sales was mainly due to an increase in sales of Shofu Block PEEK—a CAD/CAM material for molars that was covered by health insurance in December last year—and its related adhesive system. Overseas sales increased mainly in chemical products. By region, sales increased due to strong performance in China and Asia, combined with the positive impact of exchange rate fluctuations. Our gross profit margin increased by 0.8 percentage points due to an increase in the ratio of overseas sales to total

sales, an increase in sales of chemical products and other improvements in the sales mix, and a high production utilization rate. While SG&A expenses increased by 1.4 billion yen, excluding the impact of currency fluctuations the increase was 6.1%, which is considered a normal increase due to business expansion. As a result, we posted operating income of 4,709 million yen, up 23.1% year on year. Taking into account the boosting effect of exchange rate fluctuations, operating income increased by around 300 million yen.

Full-year results for the fiscal year ending March 31, 2025 (FY2024) expected to reach record highs for the fourth consecutive year

In the fiscal year under review, net sales have been strong both in Japan and overseas. The exchange rate for the fiscal year under review is 140 yen to the US dollar, 150 yen to the euro, and 19 yen to the yuan. As a result, we expect sales to increase by 8.6% in Japan, 6.8% overseas, and 7.5% in Japan and overseas combined. Although the growth appears somewhat slower, excluding the impact of currency fluctuations, we expect sales to increase by 10.3%, which is the same level as the previous fiscal year. Operating income is expected to increase only slightly by 1.9% year-on-year, partly due to a decline in gross profit margin, an increase in SG&A expenses, and the negative

impact of currency fluctuations. Ordinary income will decline a slight 4.4% due to the loss of foreign exchange gains on non-operating income in the previous fiscal year. Based on the above, net sales, operating income, and net income are all expected to increase and reach record highs for the fourth consecutive fiscal year.

The decline in gross profit margin is not due to a decline in the ratio of overseas sales to total sales, or a deterioration in the sales mix. One factor is that, while in the previous fiscal year, the production utilization rate was at a fairly high level to eliminate shortages, it is now approaching the normal level. Our gross profit margin is also expected to decline slightly for a variety of reasons, including increased human capital investment to create a sustainable and standardized production system, an increase and reinforcement in the number of administrative and indirect operations in production, and the construction of new plants and relocation of production sites.

Making one of our largest-ever capital investments to further accelerate growth

Our biggest regret in the fourth medium-term management plan, which ended in the previous fiscal year, was that our supply could not keep up with the rapid increase in demand in the recovery from the COVID-19 pandemic, which resulted in lost opportunities. As a result, our market share declined, and growth slowed in some products and regions. Although we have been building an overseas sales network to achieve the 50-billion-yen vision that we have been promoting since 2012, we have been slightly slow to respond on the supply side. The reason for this is that in the first half of the 50-billion-yen vision, our profitability had not increased sufficiently, meaning that we had to be cautious about investing in production, which requires a large amount of investment. However, looking at our progress over the last five years, we judged that a solid foundation has been built through our efforts to date, that profitability has increased, and that it will be sustainable in the future, so we have now decided to make active investments to expand our supply capacity.

Under the fifth medium-term management plan, we plan to invest 15.3 billion yen over a period of four years. Over the 12 years from the first medium-term management plan to the fourth medium-term management plan, the total amount of investment was 15.2 billion yen. So, over the next four years, we will make investments comparable in scale to those made over the past 12 years. At its largest, we will make some of our largest-scale investments ever in production facilities in Japan and overseas. In Japan,

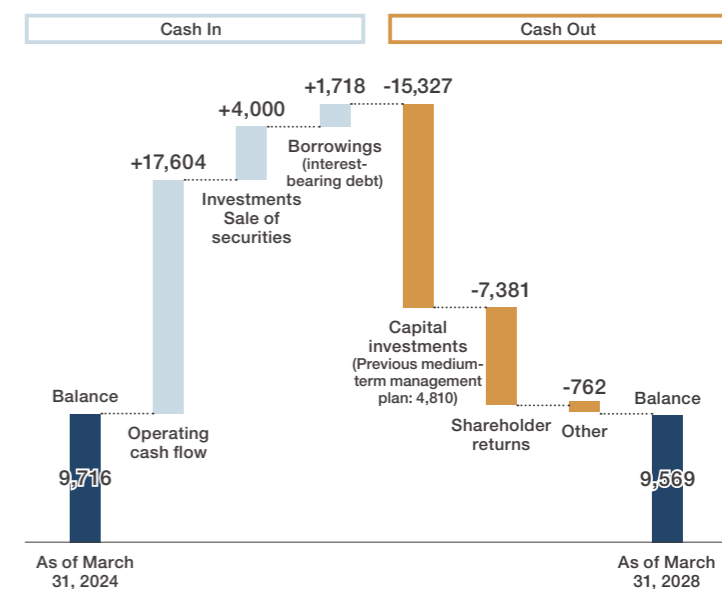
we will make investments of 3.65 billion yen for the reconstruction of our head office plant, 3.15 billion yen for the expansion of the plants of our domestic subsidiaries, and 2.17 billion yen for the expansion of plants in China and Vietnam, adding up to approximately 9.0 billion yen. Including investments of 1.0 billion yen in overseas logistics bases, these add up to 10.0 billion yen of new investments.

Our reason for investing in production facilities is the increase in global demand. Changes in dental diseases and the increased sophistication of treatments in emerging economies are driving a global expansion of the market for the most profitable filling restoration products. In the domestic market, which is mainly covered by health insurance, the shift from metal products to polymer / resin products is gradually progressing, and the expansion of supply capacity for chemical products has become a major issue. In emerging markets such as India and the Middle East, ceramic materials and cement products are growing rapidly, and expanding supply capacity is another issue.

In light of these developments, inquiries about our products are very strong, and demand conditions are favorable. Therefore, in order for us to achieve the targets of the fifth medium-term management plan, it is absolutely essential for us to increase production capacity, and capital investments for this purpose will be a strong driver for growth. Specifically, by rebuilding our two head office plant buildings in Kyoto, we will double our production capacity for chemical products in comparison with our existing production methods. At the same time, we will continue to improve efficiency and extend production hours through automation, so we expect to be able to establish a system for increasing production even

Capital allocation

Making capital investments for further growth in the medium to long term



further. In addition, while the majority of products in China had been exported from Japan, in anticipation of the future policy giving preference to domestic production we have established a new production base for the Chinese domestic market in Changzhou, and are preparing to commence operations.

Policy for sale of 4.0 billion yen in cross-shareholdings and procurement of interest-bearing debt

With regard to cross-shareholdings, we believe that there are various problems in terms of both capital efficiency and governance. Firstly, in terms of capital efficiency, since shareholders invest their funds in the first place on the premise that they will invest in the business itself, our view is that these funds should not be invested in stocks, and that cross-shareholdings should not be justified on the grounds that the stock price will rise, or that the dividends will increase. Another commonly given reason is business synergy, but under the valid terms of an alliance, the alliance should be possible regardless of whether or not the company owns shares. On the other hand, it does not make much sense to enter into an unreasonable alliance with little beneficial effect by being bound to capital due to holding shares. Based on the above considerations, we have decided to invest funds for the original purpose of improving corporate value and growth.

If there are no opportunities for growth, then we may have the option of returning funds to our shareholders. However, since our business has growth opportunities and social significance both in Japan and overseas, we will use capital efficiently to enhance our corporate value. From a governance perspective, we believe that it is undesirable to have a relationship in which, despite being shareholders, we have no say in management of the other party, and the other party is effectively given carte blanche. In terms of voting rights, it has the same effect as treasury stock, which may lead to a loosening of discipline in management. For these reasons, we will sell 4.0 billion yen of our cross-shareholdings, which amounted to around 9.0 billion yen at the end of the previous fiscal year, over the course of four years, and use them to fund growth. We also plan to reduce the ratio of shareholdings to net assets from the current ratio of around 20% to around 10%.

With regard to our policy on the procurement of interest-bearing debt, we have created a plan based on the idea of maintaining an appropriate cash and deposit balance and raising funds for the shortfall through interest-bearing debt, assuming the scale of growth investments, operating income, and shareholder returns over the next four years. Although net sales are expected to increase significantly over the next four years,

cash and deposit balances are expected to remain at around the current level. Although there is no clear standard for the amount or ratio of interest-bearing debt, from the perspective of fundraising costs (cost of shareholders' equity > cost of debt) and the ability to raise funds flexibly, fundraising through interest-bearing debts will be prioritized in the event of M&A or unplanned demand for funds. However, we do not intend to lower WACC through forced leveraging.

Aiming for a dividend payout ratio of 40% or more on a consolidated basis and a dividends on equity (DOE) ratio of 3.0% or more.

Our basic policy on shareholder returns is to maintain and continue to pay stable dividends, while aiming to return profits to shareholders by improving corporate value over the long term. At the same time, we will also consider internal reserves to prepare for aggressive business development in the future—such as investing in growth opportunities, expanding overseas business, and investing in R&D for new product development—while strengthening our management base and improving our financial position. In terms of specific numerical standards for the return of profits, we had been aiming for a dividend payout ratio of 30% or more on a consolidated basis, and a dividends on equity (DOE) ratio of 1.7%. These standards have now been raised to a dividend payout ratio of 40% or more on a consolidated basis and a dividends on equity (DOE) ratio of 3.0% or more.

The reason behind this is not only the purpose of improving capital efficiency, but also the fact that we have decided that it is necessary to enhance shareholder returns in light of the fact that the business base has been developed and profitability has increased over the course of 12 years of efforts to achieve the 50-billion-yen vision. However, I would like to say, without fear of misunderstanding, that we do not believe that shareholder returns are necessarily our top priority. We believe that our highest priority should be to make more effective use of the funds entrusted to us by our shareholders and increase them—in other words, to increase our corporate value. There are still many growth opportunities in our business, and we need to make investments to take advantage of those opportunities for our company's growth. We thoroughly understand that there are shareholders who place importance on dividends, and there may be some shareholders who believe that this change in policy is still insufficient. However, since under the fifth medium-term management plan we will actively invest in growth, we would like to limit the increase in shareholder returns to a minimum.

Management with an awareness of cost of capital and share price, and specific initiatives to solve issues

Since the period of the fourth medium-term management plan, the Group's ROE has exceeded the cost of shareholders' equity and equity spread has been positive, so we have been evaluated positively for being able to maintain ROE in excess of the cost of capital. On the other hand, the price book-value ratio (PBR) has been hovering around 1.0 in recent years and has recently nearly doubled. However, given that PBR in the medical device industry to which the Group belongs and among competitors is around three times higher, there is still a problem in that it is not well evaluated by the market.

The fact that we are facing issues with market evaluation is also reflected in the fact that the price earnings ratio (PER) has been in a downward trend compared to in the past during the period of the fourth medium-term management plan. Due to the decline in the expected growth rate, which is a component of this, and the low liquidity of our shares, we recognize that there is an issue in the fact that this is added to the cost of capital as a liquidity risk premium. Based on our analysis of the current situation with regard to the Group's cost of capital and stock-related indicators, we will implement the following four initiatives to achieve sustainable growth and increase our corporate value over the medium to long term.

The first is to further improve capital profitability by implementing initiatives to achieve the 50-billion-yen vision. We are now finally on track to achieve net sales of 50 billion yen and operating income of 7.5 billion yen in the next four years. By improving the net profit margin, we plan to increase ROE from the current level of 9.5% to 13.5% in the final year of the fifth medium-term management plan. I think this is the most important thing, the so-called top priority.

The second is engagement in initiatives to improve our liquidity in the stock market. According to an announcement by the Tokyo Stock Exchange, the daily liquidity of our shares is in the bottom 15% of the prime market. While the liquidity of our shares has improved recently, we plan to perform a one-for-two stock split (record date September 30, 2024) with the aim of attracting a wider range of shareholders to invest in the Company.

The third is enhancement of IR activities. The gap in the growth story between us and our investors is considered to be one factor in the decline in growth expectations. In particular, since there was an information gap for foreign investors—such as a time lag in the communication of information—we will work to bridge the information gap, including making more IR information available in English. Going forward,

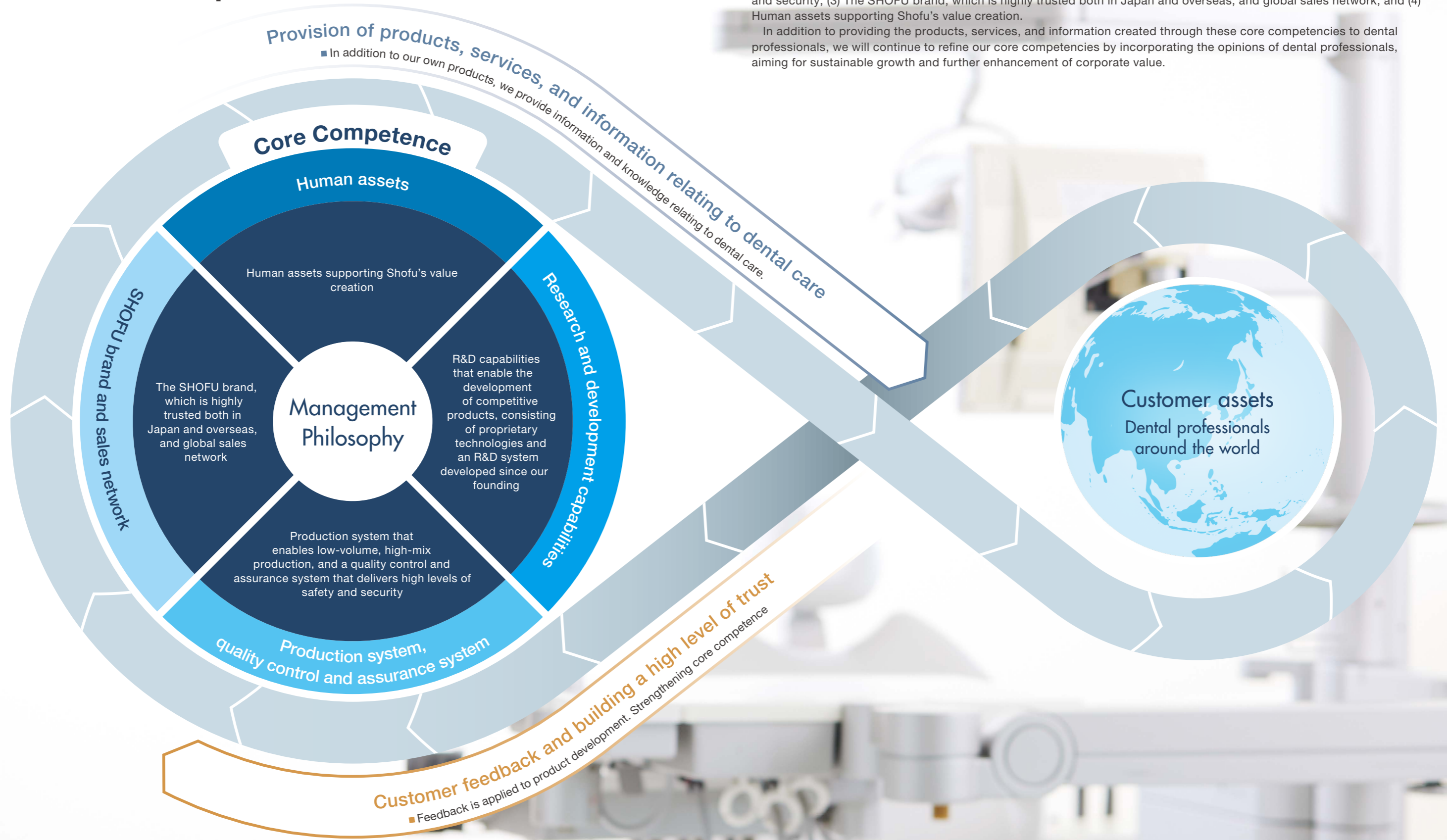


we will improve dialogue by seeking to increase the frequency of the president's participation in dialogue with investors, considering the participation of outside directors, and enhancing both the quality and quantity of contact points with investors. I would like us to reflect the knowledge we receive from investors in our management, and link that to the improvement and sophistication of our corporate governance.

The fourth is the clarification of capital policy and the increase of shareholder returns. Investors have pointed out the issue of equity capital on our balance sheet. In response to this, we will work to maintain an optimal capital structure and sustainably increase corporate value by allocating management resources while balancing growth investments with shareholder returns and efforts to strengthen our management base and build a sounder financial position. Under the fifth medium-term management plan, we clarify our capital policy to invest 9.0 billion yen in production-related growth, sell 4.0 billion yen of cross-shareholdings, and achieve a dividend payout ratio of 40% or more and DOE of 3.0% or more, and will work to increase shareholder returns. Since it is difficult to significantly reduce the cost of capital itself, I would like us to focus mainly on increasing profitability to increase ROE and raise the equity spread.

While the dental business is often seen as a mature industry, we believe that it is a growth industry with a lot of growth potential, not only overseas but also in Japan. To firmly incorporate this growth and link it to the growth of the Company, we will actively invest in the fifth medium-term management plan. Going forward, we would like to improve the level of our dialogue with investors and share our growth story, so we ask for your continued support.

Core Competence



The Shofu Group's core competencies are (1) R&D capabilities that enable the development of competitive products, consisting of proprietary technologies and an R&D system developed since our founding; (2) Production system that enables low-volume, high-mix production, and a quality control and assurance system that delivers high levels of safety and security; (3) The SHOFU brand, which is highly trusted both in Japan and overseas, and global sales network; and (4) Human assets supporting Shofu's value creation.

In addition to providing the products, services, and information created through these core competencies to dental professionals, we will continue to refine our core competencies by incorporating the opinions of dental professionals, aiming for sustainable growth and further enhancement of corporate value.

Research and development capabilities

Basic approach to R&D

- The Group is engaged in the development of new products from the following perspectives, with the aim of contributing to dental care around the world.
 - Advanced and innovative new products with a global perspective
 - New products targeting regional middle-income and volume zones, and tailored to fit each sales region
- Focus areas and technologies for new product development
 - In light of technological innovations and changes in disease structure, our focus areas for new product development are the fields of “digital dentistry” and “preventive dentistry.” The Group aims to contribute by providing materials and equipment used in all dental care and dental technology processes, and has established a development system for this purpose.

Proprietary technologies

In resin products—including chemical products—we combine our proprietary monomer and filler technologies, with appropriate designs for each product, achieving distinctive product development.

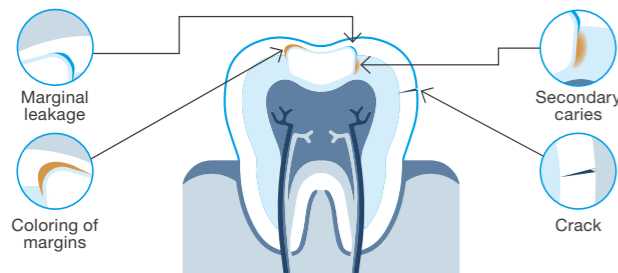
Low polymerization shrinkage monomer ML-01

Composite resins for dental fillings, which are widely used in the treatment of dental cavities (caries), have the property of shrinking during photopolymerization (curing). If polymerization shrinkage is large, it may be a cause of secondary caries in the vicinity of the restoration site. This risk can be reduced by using a composite resin for dental fillings containing ML-01 monomer, which was developed jointly in collaboration with Mitsui Chemicals, and which achieves a low rate of polymerization shrinkage.



Beautifil II LS composite resin for dental fillings

Low polymerization shrinkage and shrinkage stress can reduce the following



High-strength monomer PUDA

Typically, materials with high rigidity have a tendency to become brittle. PUDA monomer was developed jointly in collaboration with Mitsui Chemicals, based on the concept of achieving both rigidity and toughness. Using this monomer has made it possible for us to develop products with excellent durability, with improved mechanical strength, including flexural strength and hardness.



Shofu Block HC Super Hard resin material for dental cutting/machining



Ceramage Duo hard resin for dental crowns

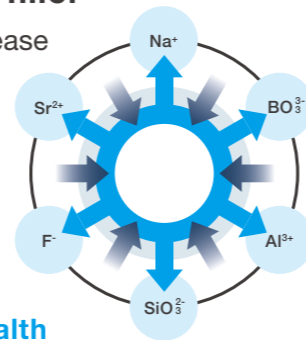
S-PRG filler with bioactive functionality

S-PRG filler, developed using our proprietary PRG technology*, releases six ions that can be expected to contribute to the health of the oral environment. The filler has been confirmed not only to release but also to recharge these six ions. When the fluoride concentration in the mouth is low, the ions are released from within the filler. When the concentration is high, they are recharged into the filler, and the process is repeated. This filler is also attracting attention for other features, such as inhibiting plaque adhesion and neutralizing acid. Our general name for dental materials containing S-PRG filler is Giomer.

Features of S-PRG filler

S-PRG filler multi-ion release and recharge

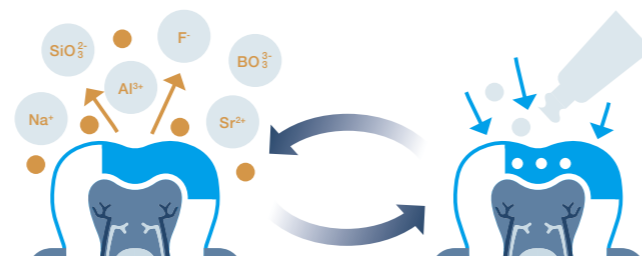
- Inhibits plaque adhesion
- Neutralizes acid
- Suppresses enamel demineralization, etc.



Contributes to oral health

Ion concentration in mouth

Release ← Low → High → Recharge



PRG Pro-Care Gel α dental polish

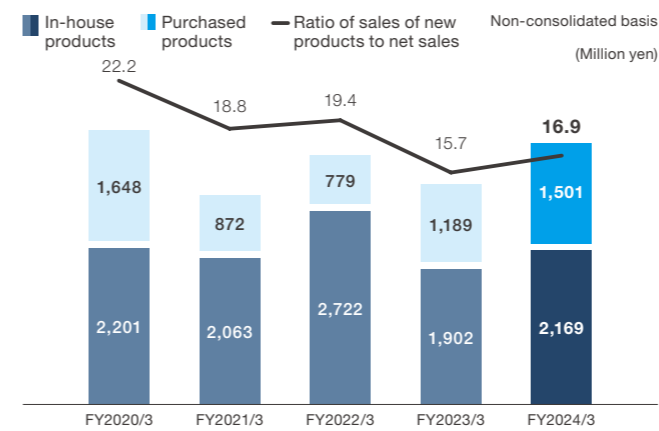


ResiCem EX dental composite resin cement

*Pre-Reacted Glass-ionomer (PRG) technology
A technology in which an acid-reactive fluoride-containing glass filler and a poly(acrylic) acid are made to react in an acid-base (glass ionomer) reaction in the presence of water, forming a stable glass ionomer phase in the glass filler.

Trends in the ratio of new product sales / recently launched new products

Trend in new product sales (in-house products / purchased products) and of new product sales



Recently launched new products

Shofu Create Diamond Point FG dental diamond burs

Our new Diamond Point FG diamond burs maintain and deliver the same quality in terms of high grinding ability, durability, and ease of use as current diamond point products at a lower cost.



EyeSpecial C-V intraoral digital camera

While following the same blueprint as our existing products with easy shooting, compact and lightweight design, and color-tone reproduction suitable for intraoral photography, the various functions of the EyeSpecial C-V have been upgraded in line with requests from users.



BeautiLink SA dental adhesive resin cement

BeautiLink SA enables adhesion of prosthetic devices, such as dental material, CAD/CAM crowns, and metal crowns, with no primer needed. It contains S-PRG filler that contributes to oral health.



Merssage Premium Care self-care toothpaste

A toothpaste that allows you to keep a healthy mouth at home, in the same way as if it has been cared for by a dental clinic. We offer six varieties that can be chosen according to the patient's symptoms, such as total care, periodontal disease prevention, hypersensitivity symptom prevention, and aesthetics.



Insurance coverage for Shofu Block PEEK

With the progress of digital transformation in the dental industry, restorations using CAD/CAM systems—so-called “CAD/CAM crowns”—are becoming widespread. Shofu Block PEEK, our CAD/CAM crown material for molars, is now covered by Japanese health insurance as of December 1, 2023.

Molar restorations, which are subjected to a large masticatory pressure in the mouth, need to be highly resistant to fracture (high toughness). Shofu Block PEEK is made of PEEK (Poly Ether Ether Ketone), a type of super engineering plastic which has excellent mechanical strength and heat resistance, and offers high toughness and low risk of fracture. PEEK also has excellent biocompatibility, such as being used in catheters and internal implants, making it a suitable material for dental restorations.

This product is aligned with the direction of Japanese insurance administrative policies to promote new

technologies and materials that have been recognized as safe and effective to be adopted by health insurance—as set forth in the Basic Policy on Economic and Fiscal Management and Reform 2024—and is expected to make a significant contribution to Shofu's business performance, and to the Japanese dental industry. Going forward, we will continue working to develop new products that meet the needs of the regions where they are sold, aiming to contribute further to dental care around the world.



Shofu Block PEEK resin material for dental milling

Quality Control and Assurance System

Basic approach

As a company handling medical equipment, Shofu considers it its mission to provide a stable supply of safe, reliable, and high-quality products based on the quality policy below.

Quality Policy

- To contribute to dentistry around the world, Shofu observes relevant regulatory requirements and provides a stable supply of high-quality products with high ethical standards.
- To achieve this goal, we set quality targets, operate quality management systems appropriately, and continuously improve all aspects of quality.

Quality management system in compliance with medical device regulations in each country

In 1997, Shofu became the first company in the Japanese dental industry to obtain CE marking certification, which meets the requirements of the Medical Device Directive (MDD: 93/42/EEC), a quality standard of the European Union (EU). We have also established a quality management system that conforms to the high standards of ISO 9001, the international standard for quality management systems, and ISO 13485, which includes special requirements for medical equipment.

To provide a stable supply of high-quality, high-value-added products and further enhance the reliability of our products, we are also working continuously to improve our quality assurance and post-market safety management systems. We provide safe and reliable dental materials and equipment around the world in compliance with the Pharmaceutical and Medical Device Act (the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices) and other standards and requirements set forth by various countries around the world.

Quality assurance activities supporting product safety and reliability

Dental materials must be adapted to the needs of individual patients, so high-mix / multi-product production is a prerequisite. It is also necessary to ensure reliable quality for each of these products.

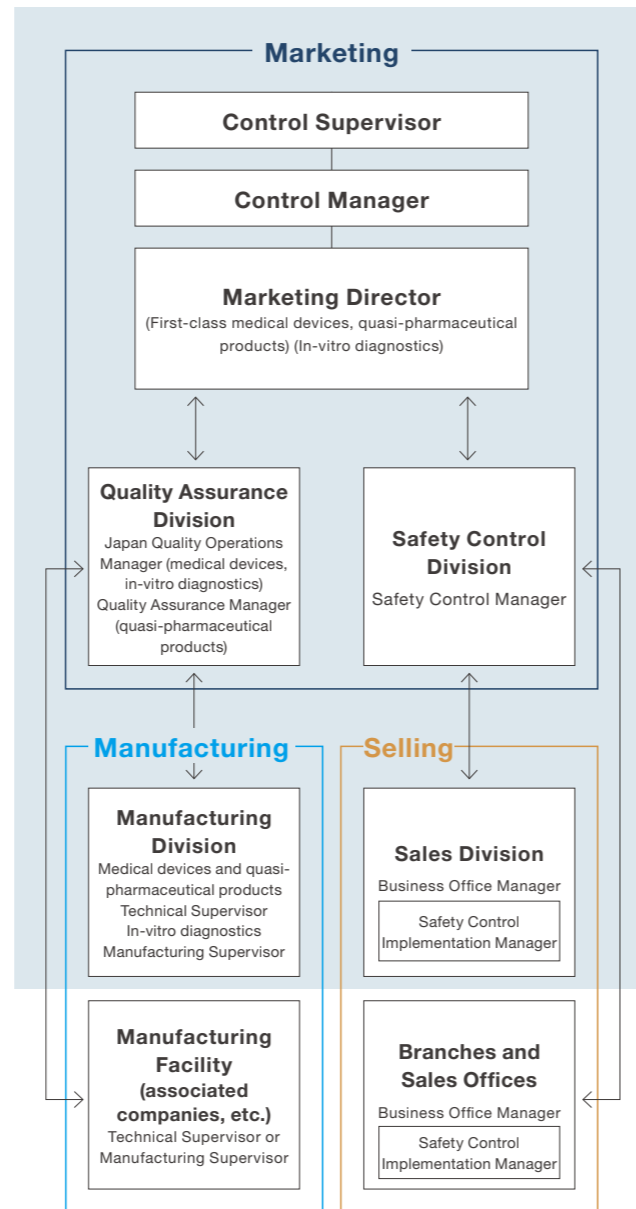
To implement consistent quality assurance activities from R&D through post-manufacturing and sales, we have set quality targets for each business process, and engage in daily improvement activities across the entire company.

To ensure that our quality management system operates continuously, appropriately, and effectively, we conduct quality assurance activities that support the safety and security of our products, such as monitoring at review meetings (management reviews) by management once a year, and reflecting the results in activities for the following fiscal year.

Safety Management System

To ensure that dental professionals can use our products with peace of mind, we collect safety management information (information about defects, etc.) related to medical devices, both from within Japan and from overseas, for evaluation and deliberation, based on the GVP Ordinance.* Information about quality, effectiveness, and safety obtained through these processes is provided swiftly and appropriately to dental professionals to promote the proper use of our products. In this way, we strive to minimize safety-related risks and to enhance the safety and reliability of our products.

*GVP Ordinance: Standards for post-marketing safety management of drugs, quasi-pharmaceutical products, cosmetics and medical devices and regenerative medicine products, etc.



Employee training

Shofu conducts training on its quality management systems to raise awareness and encourage knowledge acquisition about quality among employees. We also conduct education required for the maintenance and enhancement of our quality management systems, including GMP/QMS courses and safety management information courses for employees in specific positions.

* GMP: Standards for manufacturing control and quality control for drugs
* QMS: Standards for manufacturing control and quality control for medical devices and in-vitro diagnostics

Production System

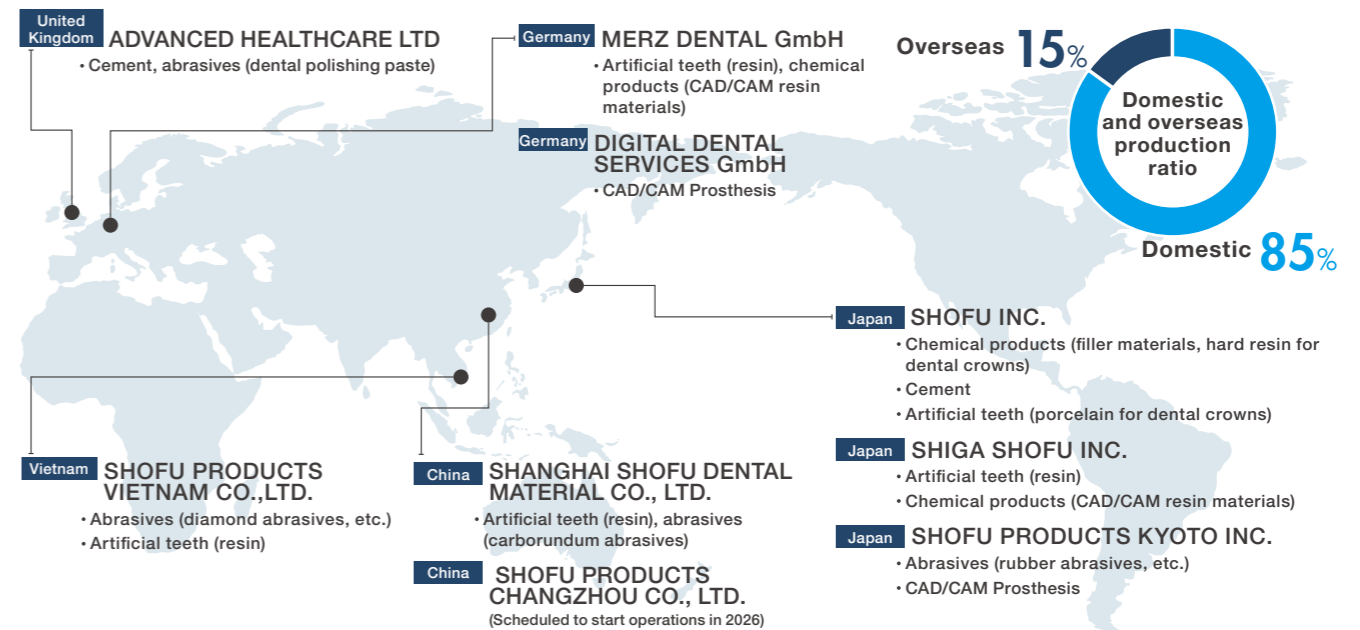
Production framework that allows a wide variety of products to be manufactured in small lots

Because the devices and materials used in dental treatment must be adapted to the needs of individual patients, Shofu handles a diverse range of products. To ensure the flexible production of many different products with an assured level of quality, in addition to installing state-of-the-art equipment, it is essential that we establish our own proprietary manufacturing technologies for the production of each product, and that we elevate the skills of employees involved in operations. While promoting the automation of our production equipment and systems on the one hand, we are also focusing efforts on the improvement of operator skills, and working to eliminate delays and waste in our processes.

Global production network

The Group has established a global production network, consisting of Shofu Inc. itself and eight Group production companies.

Shofu Group production bases and major products



Construction of new head office plant

To increase our production capacity for chemical products—which are the backbone of our sales expansion—with a view to actualizing our long-term vision, the 50-billion-yen vision, and achieving future growth, we will construct a new head office plant, expand production space, and save labor in production, to achieve a significant increase in production capacity.

This new plant is positioned as a flagship plant, which will serve as a model for the construction of the Group's other new plants in the future.

CONCEPT Create a flagship plant that is environmentally friendly and comfortable for employees to work



- 1 New plant to convey corporate image**
 - Appealing exterior design with awareness of corporate image
 - Exterior design with consideration for local area characteristics
 - Functional and attractive plant with consideration for both visitors and employees
- 2 Improved production environment for producing high-quality products**
 - Interior specifications with consideration for cleanliness
 - Rational circulation design with consideration for movement of people and flow of products
 - Mechanical balconies with consideration for future equipment upgrades and exterior scenery
- 3 Architecture and facility design with consideration for reducing environmental impact**
 - Reduction of heat load through high-performance skin insulation and rooftop greening
 - Adoption of various energy-saving technologies
 - Power generation using solar panels

Brand and Sales Network

S-WAVE

Basic approach

In terms of sales, a priority issue is to build a system to ensure that our products are recognized by dental professionals, who are our end customers. To build such a system, the Group is working to develop sales networks and sales bases, and establish domestic and international academic networks (organizations that engage in direct promotion activities to users).

Improvement of sales (distributor) network and sales bases

The Group has built a network of distributors in Japan and overseas through its head office sales division and overseas sales bases, and is working to develop the sales network needed to further raise awareness of its products among dental professionals around the world.

In terms of sales bases, we are establishing bases in key countries and regions with the following objectives: (1) to enhance customer service, (2) to achieve early delivery services by storing inventory, and (3) to enhance academic activities focused on communicating product information to dental professionals and expedite and improve the efficiency of regulatory applications.

In terms of our sales (distributor) network, we are conducting periodic reviews as necessary in countries where a distributor network is in place, taking into account the state of transactions and other factors, and shifting to a multi-distributor system in countries where a distributor network is not sufficiently developed.

Establishing sales offices

Year	Month	Region	Initiatives for establishment of sales bases
2013	April	Asia/Oceania	Established sales company in Singapore (SHOFU Dental ASIA-Pacific Pte. Ltd.) 
2014	June	North America/Central and South America	Established sales company in Mexico
	April	Japan	Established implant sales company (SHOFU BIOFIX INC.)
2015	April	Europe	Established Italy branch
	May	Asia/Oceania	Established Taiwan branch
	January	North America/Central and South America	Established sales company in Brazil (SHOFU DENTAL BRASIL COMERCIO DE PRODUTOS ODONTOLÓGICOS LTDA.)
2017			Established sales company in India (SHOFU DENTAL INDIA PRIVATE LIMITED) 
	April	Asia/Oceania	Opened Kyoto sales office
	April	Japan	Opened Kyoto sales office
2019	August	North America/Central and South America	Established dental technology sales company in the United States (SMART DENTISTRY SOLUTIONS INC.) 
2021	April	Europe	Opened representative offices in the Middle East and Africa

Establishment of domestic and international academic networks (organizations that engage in direct promotion activities to users)

We are working to increase our ability to communicate information to study groups and KOLs (Key Opinion Leaders) with the power to influence clinicians in various regions, both in Japan and overseas, to raise awareness of our products and build our customer network.



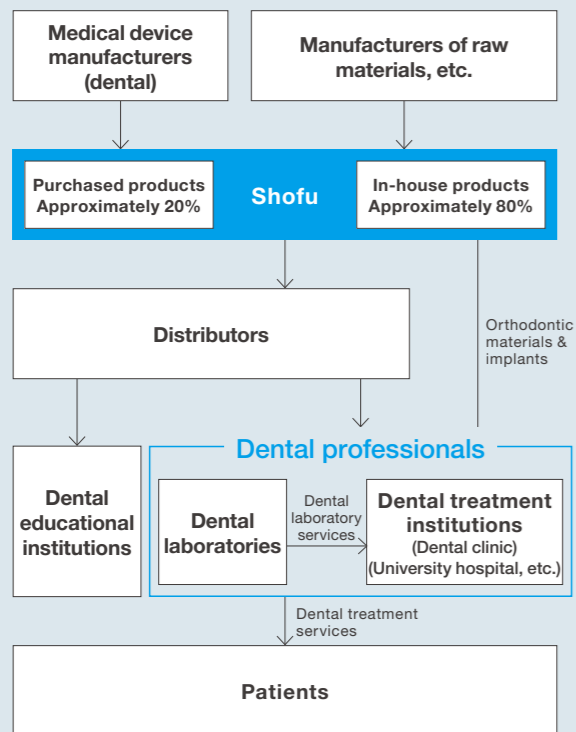
CIOSP expo (Brazil)

Specifically, we are working to expand the number of academic personnel at each site, and working with the cooperation of KOLs to enhance the collection of clinical results (evidence building) and communication of information, product briefings, and hands-on seminars.



Hands-on seminar (UAE)

Sales channels (dental business)



SHOFU S-WAVE CAD/CAM system

In recent years, the dental industry is at a major turning point, with the spread of technical production using technologies such as CAD/CAM and 3D printing. In its domestic business, the Group is developing a lineup of total solutions for dental laboratories—including scanners, software, processing machines, sintering furnaces, 3D printers, and processing materials necessary for the production of prosthetic devices such as CAD/CAM coverings—as the SHOFU S-WAVE CAD/CAM system. By concentrating our unique know-how for the production of our material products into each part of the system, we are enabling users to manufacture prosthetic devices with efficiency and high precision.



At our Kyoto head office and Tokyo branch showrooms, we offer a series of hands-on CAD/CAM experiences from scanning to design and machine processing, as well as consultation on various software solutions. For customers who have already introduced the S-WAVE system, we provide detailed after-sales follow-up services through our dedicated technical support center. The brand is already enjoying a high level of trust and recognition from customers.





Based on the ideas that human resources are the very source of creating new value and that the sum of the responsibilities performed by individual employees is the value of the Company, we aim to foster an organizational culture and realize a work environment that enable each and every member of the Shofu Group to demonstrate their abilities to the fullest and work energetically, by respecting diversity and providing opportunities for every individual to learn and grow.

Human resource development

Shofu's education and guidance policy is to develop creative, proactive, and responsible employees capable of responding to changes. We prepare education and training for employees to acquire knowledge and skills and develop their qualities as members of an organization according to their growth. Our goal is to develop human resources who can anticipate changes in the business environment, think about what needs to be done to achieve organizational goals, and have the strong will to take on challenges rather than simply perform assigned tasks proactively.

To develop core human resources who can play active roles globally, we actively conduct training programs and language training to enable employees to acquire the necessary grounding as international citizens and borderless business acumen, including an understanding of different cultures, knowledge of various business practices, and a broad perspective.

Category	Training name
Training by job level	Training for new directors, training for new department managers, training for promotion to managerial position, training for newly appointed managers, training for newly appointed performance appraisers, training for newly appointed assistant managers, training for newly appointed assistant managers (chiefs), education for newly hired employees, education for prospective employees, management training, training for mid-career employees, etc.
Selective training	Training for leaders of the next generation, leader development training for women's participation and advancement, career advancement training for women's participation and advancement, sales meetings, presentation training
Global training	Overseas dispatch training (long-term and short-term), global human resources training
Support for self-development	Distance learning assistance, assistance in obtaining qualifications, online English training

Creating a comfortable work environment

As part of its efforts to create a comfortable work environment, Shofu has enhanced its support system for employees' life events, such as childcare, nursing care, and personal injury and illness, by providing leave, holidays, and shorter working hours, each of which exceeds the legal requirements.

As part of our efforts to prevent long working hours, we have been regularly checking the actual status of working hours through the collaborative efforts of labor and management to examine and implement measures for improvement, to understand and optimize actual working hours, reduce total working hours, and solve various other problems related to working hours. Through these activities, we aim to improve productivity by reducing overtime and work on holidays and shortening total working hours.

Details of human resources initiatives

<https://www.shofu.co.jp/contents/hp2004/index.php?No=2015&CNo=2004>

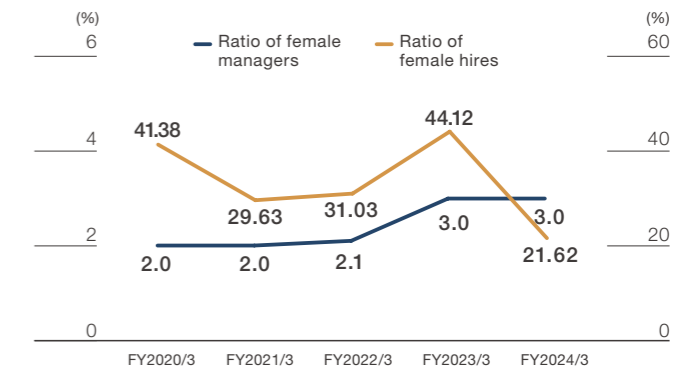


Diverse human resource activities

As part of our diversity management, Shofu is working to identify and address issues in accordance with the Act on Promotion of Women's Participation and Advancement in the Workplace to promote women's participation and advancement. Challenges include the low ratio of women in employment and the low number of women in leadership positions. For each of these issues, Shofu aims to raise the ratio of women in employment to 30% or more on average and continue to provide training for women to encourage them to take up management positions.

In addition, we aim to create an organization where diverse human resources can play active roles, such as promoting the active participation of elderly (senior) employees with abundant experience and diverse skills and foreign human resources who can adapt globally, as well as promoting the employment of people with disabilities.

Ratio of female managers/ratio of female hires



Health and productivity management

We promote "health and productivity management," which is an approach towards promoting and maintaining employees' health with a business management perspective, in order to achieve our corporate philosophy.

Working in cooperation with health insurance societies, industrial doctors, labor unions, and other stakeholders, we are making efforts to address various health issues and

improve measures for the physical and mental wellbeing of our employees, toward the goal of creating a "nice and comfortable workplace gleaming with healthy teeth," where every employee can work energetically, and with a sense of fulfillment. As a result of these activities, we were recognized in the 2024 Certified Health and Productivity Management Organization Recognition Program (Large Enterprise Category).

Health and productivity management initiatives

1 Promoting physical health

- Education and training for employees on oral hygiene
- Measures to encourage employees to receive dental consultations
- Encouraging regular health checkups, lifestyle-related disease checkups, etc. (target: 100% every year)
- Measures to improve the implementation rate of specific health guidance (for prevention of lifestyle-related diseases)

- Securing opportunities for (half-day) comprehensive medical checkups
- Measures to prevent passive smoking (relocation of smoking areas, etc.)
- Formulating process evaluation indicators and promotion plans for high-priority health issues, other measures necessary for promoting and maintaining employee health

2 Promoting mental health

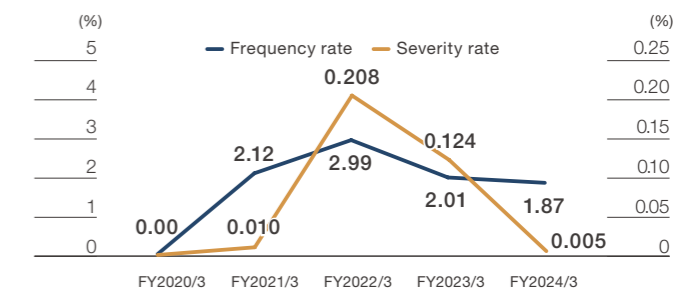
- Measures to increase the rate of stress checks
- Efforts to improve the workplace environment based on verification of results of stress checks

- Formulating interview standards for employees working long hours, and establishing a system for interviews with industrial doctors, etc.
- In-care and self-care education

Occupational safety and health

Our Safety and Health Committee, which is composed of both labor and management, takes a central role in conducting surveys, considering and implementing measures relating to safety and health, and conducting enlightenment activities; as well as working to create a comfortable work environment by preventing industrial accidents and diseases, investigating causes, and preventing recurrences. Each workplace implements near-miss and 3S activities (seiri / organizing, seiton / tidying and seiso / cleaning the workplace) to create a comfortable work environment. We also provide biannual training for workplace representatives to educate them on safety and health.

Frequency rate and severity rate



Increasing corporate value by respecting the diversity of human resources and providing opportunities for learning and growth



Managing Executive Officer
Shinya Teramoto

Developing human resources to realize our corporate philosophy

Based on the ideas that human resources are the very source of creating new value and that the sum of the responsibilities performed by individual employees is the value of the Company, the Shofu Group aims to foster an organizational culture and realize a work environment that enable each and every member of the Group to demonstrate their abilities to the fullest and work energetically, by respecting the diversity of human resources and providing opportunities for every individual to learn and grow. To achieve our corporate philosophy “Contribution to dentistry through innovative business activities,” it goes without saying that we will recruit and train employees with attributes such as creativity, proactivity, and a sense of responsibility. In addition to this, we recognize the following three issues as particularly important key issues in human resources development.

The first issue is women’s participation and advancement. The ratio of female dentists is increasing year by year, and the percentage of female students in dental schools is more than half. Additionally, considering that 99% of dental hygienists are women, managing our business from a male-biased perspective is nothing but a risk, let alone the social demand to work for women’s participation and advancement. Currently, the ratio of female employees in managerial positions does not meet the required level, so there is a pressing need for us to develop core female human resources and secure the required number of female managers.

The second issue is developing DX human resources. In recent years, digital transformation (DX) has progressed rapidly, such as in the production of dental crown restorations using CAD/CAM technology, and business models have undergone major transformations. Since the use of digital technologies can be expected to improve efficiency in daily business processes, the advancement of DX has been identified as a management issue, and the Human Resources Division intends to focus on the development of DX-oriented human resources.

The last issue is securing global human resources. In recent years, with the aim of achieving our 50-billion-yen vision, we have placed the focus of our growth overseas, and are responding to various issues with the aim of expanding our overseas business. For this reason, it is essential for us to secure global human resources who can adapt to foreign cultures, solve issues, and create results, so we will continue working to hire and develop global human resources.

While focusing on the above issues, we would also like to create a work environment where such human resources can feel comfortable and satisfied in their work, and have them participate with a high level of motivation, which will lead to an increase in corporate value.

Securing DX and global human resources to achieve the fifth medium-term management plan

When each division formulates a divisional policy under the medium-term management plan, they take the approach of analyzing their current situation (As-is) and their ideal vision (To-be). They then identify issues, set achievement indicators, and implement specific measures toward achieving their ideal vision.

The Human Resources Division will first work on measures to secure human resources with the skills necessary to achieve the Group’s management plan (To-be). In addition to offering education and training programs tailored to the growth of employees through job level and task-specific training, we also conduct training aimed at developing DX and global human resources as mentioned above, and are working to secure human resources who meet the requirements for skills, knowledge, and mindset. We were forced to temporarily suspend overseas dispatch training as a result of the COVID-19 pandemic, but now that we have an environment where we can resume training we will continue to drive the development of global human resources through both training and practical experience.

Implementing a variety of training and measures for the growth of people and the organization

Next, we will work to promote diversity and inclusion, and build an environment in which all employees are respected and can demonstrate their abilities with peace of mind (To-be). In terms of securing the number of female core human resources mentioned earlier, we will continue to maintain the ratio of female hires at least 30%, and promote the formation of a pool of female leadership candidates, through continuous training for female employees to encourage their promotion to managerial positions. We also employ people

with disabilities in a way that satisfies the statutory employment rate, and will continue to hire more people so that we can respond to future increases in the employment rate. In addition, we conduct mental health training and harassment training through e-learning every year. During the period of this medium-term management plan, we will also conduct face-to-face harassment training for all employees, with the aim of creating a workplace with a high level of psychological safety.

We would also like to improve workforce productivity and create innovation by helping employees to live healthy and fulfilling lives while working, and find a balance between their work and private lives (To-be). We have been working actively to improve the health and safety of our employees, and their work-life balance, and the percentage of taking childcare leave is 100% for female employees and over 50% for male employees. We have a well-established environment for balancing work and home life, including not only childcare, but also nursing care and support for employees’ own injuries and illnesses. In recognition of these efforts, we were certified as an Outstanding Health and Productivity Management Organization during the period of our previous medium-term management plan. During the period of this medium-term management plan, we aim to obtain a new Kurumin certification (for companies that support employees with childcare commitments). By acquiring these certifications, we aim to improve our corporate image, attract and retain talented human resources, and improve the vitality of our employees, which in turn will lead to an increase in workforce productivity.

In the fifth medium-term management plan, the Human Resources Division has adopted the slogan, “For the growth of people and the organization.” Going forward, we will continue to address various issues so that each and every one of us working in the Shofu Group can grow through our corporate activities, and so that growth will lead to an increase in our corporate value.



Environment
Social
Governance
Corporate Governance



Basic approach

Shofu conducts business activities in fields of a highly public nature under its corporate philosophy, "Contribution to dentistry through innovative business activities." To sustainably conduct such business activities, it is essential for us to fulfill our social responsibilities. To do so, it is necessary for us to maintain medium- to long-term sustainable growth through enhancement of corporate governance. Accordingly, it is our policy to enhance corporate governance in accordance with the basic approach presented below.

1. We respect and effectively secure shareholders' rights.
2. We consider the interest of stakeholders including employees, customers, business partners, creditors, and local communities and appropriately cooperate with them.
3. We proactively disclose the Company's information.
4. The Board of Directors appropriately fulfills required roles and responsibilities to ensure fiduciary responsibility and accountability to shareholders.
5. We hold constructive discussions with shareholders.

For our corporate governance policy, please refer to our Corporate Governance Guidelines.

https://www.shofu.co.jp/core_sys/images/main/sustainability/pdf/CG_guide-20220624.pdf



Corporate governance structure

The Company has adopted a Company with an Audit & Supervisory Board model as its organizational structure under the Companies Act, and has established a Board of Directors, an Audit & Supervisory Board, and an Accounting Auditor, as well as an executive officer system to separate the execution of business from the supervisory function, and engage in rapid business development. In addition, we have established the Nomination and Compensation Council and the Corporate Governance Meeting with majority membership consisting of outside directors as advisory bodies to the Board of Directors, in order to strengthen the Board's supervisory function.

Internal audits

The Internal Audit Department in charge of internal audits conducts audits under the direction of the President & COO by working with the Audit & Supervisory Board and the Accounting Auditor according to the internal audit plan. Specifically, the department conducts audits on the appropriateness of composition and operation of the Group's internal control system, effectiveness and efficiency of the business operations of the Group, reliability of financial reporting, state of asset protection and effective use, state of risk management, and state of compliance with laws, regulations, and internal rules. The Internal Audit Department collaborates with Auditors and the Accounting Auditor with regard to the results of internal audits, and reports results relating to internal control under the Companies Act to the Board of Directors.

Group governance

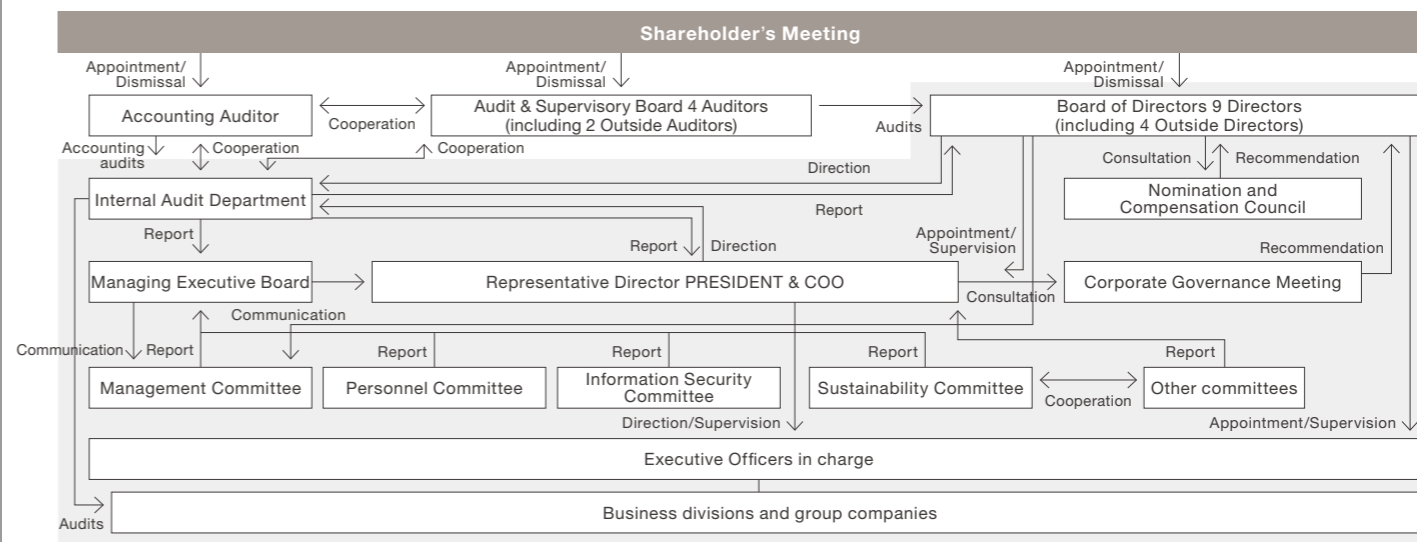
The role of Group companies in the Group is growing larger and larger every year. We recognize the issue of how we can link the activities of Group companies to enhancing the corporate value of the entire Group while controlling the various risks that could materialize at Group companies as a major issue.

In addition to meetings of the Group's Auditors meetings mainly consisting of Group company auditors, we are also working to ensure appropriate group management by holding Monitoring Officer Meetings consisting of directors responsible for monitoring at each company, whose main task is to monitor management of Group companies.

Internal control

Shofu complies with the Companies Act and the Financial Instruments and Exchange Act, etc. In addition, we have stipulated basic policies on our internal control system, taken measures for evaluation of internal control relating to financial reporting, and made other efforts to enhance the optimum internal control system of the Company and the Group. With regard to the evaluation of internal control relating to financial reporting, we have submitted an internal control report stating the findings that internal control is effective, and received a report from an auditing firm stating that the content of our report is appropriate.

Overview of the corporate governance structure



Structure and overview of main meeting bodies

Name	Overview	Number of meetings in the fiscal year ended March 31, 2024
Board of Directors	Makes decisions on important matters stipulated under the Companies Act, formulates management plans and annual plans, supervises the execution of duties by representative directors and other directors.	17 times
Nomination and Compensation Council	Deliberates on matters relating to the appointment and dismissal of directors, the selection and dismissal of representative directors and directors with titles, compensation of directors, succession planning (including training), etc., in response to calls for advice from the Board of Directors, and reports its findings to the Board of Directors—in order to enhance the fairness, transparency, and objectivity of procedures relating to the nomination and compensation of directors.	3 times
Corporate Governance Meeting	Deliberates on management strategies and management plans in response to requests for advice from the president and representative director, and reports to the Board of Directors—in order to achieve sustainable growth of the Company and increase corporate value over the medium to long term.	2 times
Managing Executive Board	Reviews and makes decisions on particularly important matters, such as matters submitted for discussion by the Board of Directors, matters delegated by the Board of Directors, and other strategic matters relating to business management.	46 times
Management Committee	Communicates resolutions of the Board of Directors and the Managing Executive Board, and conducts preliminary discussions between divisions, expresses opinions on important matters, and exchanges opinions among members as necessary.	12 times
Personnel Committee	Established as a deliberative and discussion body for all aspects of personnel policy, including personnel systems, human resources development, and human resources utilization.	10 times
Sustainability Committee	Deliberates on the formulation of basic sustainability policies, strategies, and plans, sets indicators as targets, and monitors the status of initiatives.	3 times
Information Security Committee	Deliberates on information security issues, including formulating basic information security policies, strategies, and plans, and evaluating the state of compliance with information security policies.	1 times

Evaluation of effectiveness of the Board of Directors

The Company evaluates and analyzes the effectiveness of the Board of Directors with the aim of improving the Board's functions.



Results of evaluation

- There were many positive opinions on such items as the operations of the Board of Directors and its discussions, and the Board of Directors was found to be largely effective.
- Challenges concerning effectiveness were also recognized, with some voices calling for an improvement in discussions on profitability, capital efficiency and sustainability.
- In response to the issues raised in the previous year's evaluations, criteria for submission to the Board of Directors were reviewed, and a summary of agenda items was prepared, and these improvements were confirmed.
- Further efforts are required to further improve the effectiveness of the Board of Directors.

Topics covered in the survey

- Composition, operations and discussions of the Board of Directors
- Roles and responsibilities of the Board of Directors
- Performance of Directors and Outside Directors
- Training
- Operations of voluntary advisory committees .etc

Cross-shareholdings

The Company reports on the status of cross-shareholdings at Board of Directors meetings and verifies the rationality of holding them. In verification, we specifically examine the appropriateness of the purpose of holding individual cross-shareholdings based on business and other cooperative relationships, and whether the profits associated with holding them are commensurate with the Company's cost of capital. As of March 31, 2024, the ratio of cross-shareholdings to consolidated net assets was 21.4%. We plan to sell 4.0 billion yen in cross-shareholdings during the period of the fifth medium-term management plan (by March 31, 2028) to reduce the ratio of cross-shareholdings to consolidated net assets from the current level of around 20% to around 10%.

Compensation of officers

The total amount of compensation of Directors and Auditors is determined within the amount resolved at the shareholder s meeting. The amount of each Director s compensation is determined by the Representative Director, Chairman (or the President, if the office of the Chairman is vacant) who is

Dialogue with shareholders and investors

The Company works to engage in dialogues with shareholders and investors with the aim of learning about their views and utilizing them in the management of the Company. At present, dialogues focus on communicating improvements in the Company's profitability over the past few years. Going forward, we intend to enhance dialogues to include the story of our medium- to long-term growth and capital policies, which are of particular interest to shareholders and investors.

Details of "Dialogue with shareholders and investors":

<https://www.shofu.co.jp/ir/contents/hp1870/index.php?No=2452&CNo=1870>



Risk Management

In its effort to prevent and minimize risks, the Group has put in place rules and guidelines for compliance, quality, the environment, disasters, information security, credit, and other issues, in addition to offering training themed on compliance, information security and other topics.

The Internal Audit Department conducts internal audits, the results of which are reported to the PRESIDENT & COO. We are also working to spot risks and reviewing the measures for dealing with risks, based on which we are improving our work

systems on an ongoing basis.

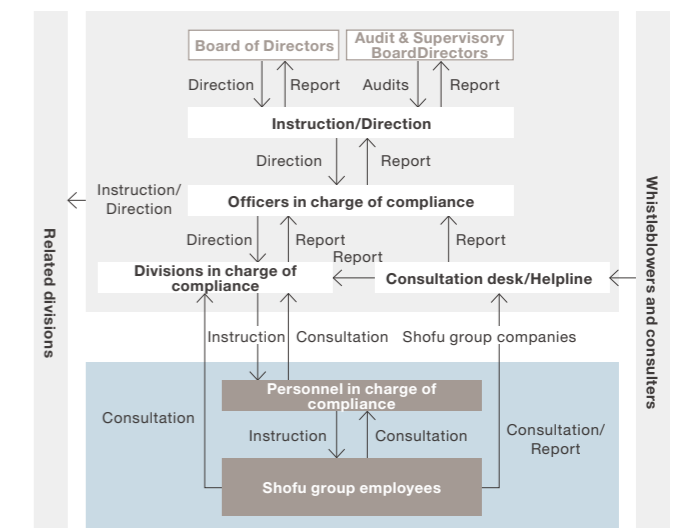
We are also making efforts to reduce risks so as to minimize damage in case of an emergency, such as conducting drills in preparation for earthquakes, fire, and other disasters, stockpiling necessary supplies, implementing various responses and measures to prevent the spread of infectious diseases, and complying with relevant laws and regulations concerning factory operations.

Compliance

For all of the Group's business activities, we engage in compliance-oriented management on the basis of ensuring corporate ethics and complying with laws and regulations. We have established an Ethics Committee, chaired by the President & COO, to deliberate and determine measures to ensure compliance, and established an internal reporting (whistleblowing) system to prevent legal violations and misconduct, so that we can increase the effectiveness of compliance within the Group. We also seek to ensure thorough awareness of the Shofu Group Code of Conduct, which sets standards for Shofu Group employees to behave in accordance with common ethical values, and work to improve compliance awareness through compliance education.

Details of Compliance

<https://www.shofu.co.jp/contents/hp2003/index.php?No=2013&CNo=2003>



Officer category	Details	
Directors (excluding Outside Directors)	<Basic policy> The compensation system shall sufficiently function as incentives for sustainable improvement of corporate value and be linked to shareholders' interests. The amount of each Director's compensation shall be at an appropriate level based on capabilities and responsibilities required of the Company's officers, their duties to improve future corporate value, and other matters.	
	1 Basic compensation	Shall be monthly fixed compensation and determined depending on the position and responsibility, with comprehensive consideration for the levels of other companies according to surveys by external research firms, the Company's business performance, and the level of employees' salaries, and finalized after consulting the Nomination and Compensation Council.
	2 Performance-based compensation, etc.	Shall be cash compensation, which reflects key performance indicators (KPIs) to raise Directors' motivation towards improvement of the Group's corporate value and business performance of each fiscal year. Performance-based compensation shall be paid as a bonus at a certain time each year in an amount calculated according to the degree of achievement of the targets for consolidated net sales and consolidated operating income for each fiscal year. The target KPIs and their values are set when formulating the medium-term management plan so as to be in line with the plan, and reviewed as needed in response to changes in the environment after consulting the Nomination and Compensation Council.
Outside Directors	3 Non-monetary compensation, etc.	To provide Directors with incentives for sustainable improvement of the Company's corporate value and for the further sharing of value with shareholders through compensation linked with shareholders' interests, the Company's common shares that are subject to a certain period during which the transfer is restricted are allotted at a certain time each year. As a basic policy, the amount of restricted share-based compensation is determined based on capabilities and responsibilities required of the Company's officers, their duties to improve future corporate value, and other matters. The number of allotted shares are determined by position within the amount resolved at the shareholder's meeting.
	Fixed compensation	Only fixed compensation shall be paid considering their responsibilities of supervising management and providing advice from a standpoint independent of business execution.
Auditors	Fixed compensation	From the perspective of valuing independence from and objectivity on management, compensation shall consist only of fixed compensation. The level of compensation is set referring to the levels of other companies learned from the surveys of external specialist institutions, and the amount is determined according to their roles.

*The total amount of compensation including bonuses of Directors was resolved to be up to 300 million yen per annum (of which up to 30 million yen per annum for Outside Directors) at the 143rd Shareholders' Meeting held on June 25, 2015. The total amount of compensation for Auditors were resolved to be up to 50 million yen per annum at the 126th Shareholders' Meeting held on June 26, 1998.
*Separate from the aforementioned total amount of compensation for Directors, it was resolved at the 147th Shareholders' Meeting held on June 26, 2019, that restricted share-based compensation shall be allotted in the amount up to 50 million yen per annum to the Company's Directors.

Status in FY2023

Officer category	Total amount of compensation (Millions of yen)	Total amount by type of compensation (Millions of yen)			Number of eligible officers
		Monetary compensation		Non-monetary compensation	
		Fixed compensation	Performance-based compensation	Restricted share-based compensation	
Directors (excluding Outside Directors)	253	156	63	33	6
Auditors (excluding Outside Auditors)	36	36	-	-	2
Outside officers	39	39	-	-	7

*The amount of restricted share-based compensation is the amount of expenses posted for the fiscal year under review.

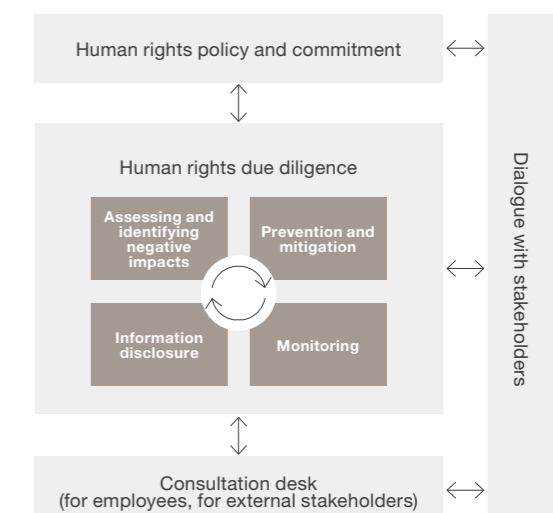
Respect for human rights

For the Shofu Group to realize its corporate philosophy, we believe that it is essential to respect the human rights of all people affected by our corporate activities. To fulfill our corporate responsibility to respect human rights, we have formulated the Shofu Group Human Rights Policy, which summarizes our approach and action guidelines for ensuring respect for human rights.

We support and respect the United Nations Guiding Principles on Business and Human Rights and other international norms relating to human rights, implement human rights due diligence, which is a mechanism for identifying, preventing, correcting, and remedying human rights risks, and conduct human rights training and harassment training, in accordance with the Shofu Group Human Rights Policy. We have also disclosed a statement on the prevention of slavery and human trafficking, in accordance with the UK Modern Slavery Act.

Details of Respect for Human Rights

<https://www.shofu.co.jp/contents/hp2019/index.php?CNo=2019&No=2090>



Governance

Officers (As of June 25, 2024)



01 Hiroyuki Hatayama | 02 Yoko Yamada | 03 Mitsuo Kamimoto | 04 Shuji Sonoi
 05 Noriyuki Negoro | 06 Kiichi Suzuki | 07 Fumitaka Yamazaki | 08 Tetsuo Takami
 09 Daizo Nishimura | 10 Takahiro Umeda | 11 Hiromi Mukai | 12 Hiromi Hayashida
 13 Shigeyuki Komatsu

Directors

Representative Director Chairman & CEO Noriyuki Negoro Number of shares held 93,870 shares Attendance Board of Directors meetings: 17/17 (100%)	Representative Director PRESIDENT & COO Tetsuo Takami Number of shares held 35,436 shares Attendance Board of Directors meetings: 17/17 (100%)	Director Senior Managing Executive Officer Fumitaka Yamazaki Number of shares held 37,517 shares Attendance Board of Directors meetings: 17/17 (100%)	Director Senior Managing Executive Officer Takahiro Umeda Number of shares held 24,303 shares Attendance Board of Directors meetings: 17/17 (100%)	Director Managing Executive Officer Shuji Sonoi Number of shares held 6,426 shares Attendance Board of Directors meetings: -
Outside Director Kiichi Suzuki Number of shares held 16,382 shares Attendance Board of Directors meetings: 17/17 (100%)	Outside Director Daizo Nishimura Number of shares held 2,220 shares Attendance Board of Directors meetings: 17/17 (100%)	Outside Director Mitsuo Kamimoto Number of shares held 3,223 shares Attendance Board of Directors meetings: 17/17 (100%)	Outside Director Hiromi Hayashida Number of shares held 0 shares Attendance Board of Directors meetings: 16/17 (94%)	

Numbers of shares held are as of April 30, 2024.

Auditors

Auditor Shigeyuki Komatsu Number of shares held 10,715 shares Attendance Board of Directors meetings: 17/17 (100%) Audit & Supervisory Board meetings: 15/15 (100%)	Auditor Hiroyuki Hatayama Number of shares held 2,664 shares Attendance Board of Directors meetings: - Audit & Supervisory Board meetings: -	Outside Auditor Yoko Yamada Number of shares held 610 shares Attendance Board of Directors meetings: 13/13 (100%) Audit & Supervisory Board meetings: 12/12 (100%)	Outside Auditor Hiromi Mukai Number of shares held - Attendance Board of Directors meetings: - Audit & Supervisory Board meetings: -
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Numbers of shares held are as of April 30, 2024.

Executive Officers (excluding those who also serve as Directors)

Executive Vice President Kazuhiko Murakami	Managing Executive Officer Shinya Teramoto	Managing Executive Officer Ryuichi Yoshimoto	Senior Executive Officer Yoshikazu Nakajima	Senior Executive Officer Toshiyuki Nakatsuka
Executive Officer Takashi Wakayama	Executive Officer Junichi Sugawara	Executive Officer Hiroyoshi Miyake	Executive Officer Michinori Matsunaga	

Skills Matrix of Directors

	Name	Knowledge and experience particularly expected for each director					
		Corporate Management	Production, Technology, and R&D	Sales and Marketing	Finance, Accounting, and Human Resources	Governance, Compliance, and Risk Management	Qualifications, Etc.
Directors	Noriyuki Negoro	●	●	●		●	
	Tetsuo Takami	●		●			
	Fumitaka Yamazaki	●	●		●		
	Takahiro Umeda	●			●	●	
	Shuji Sonoi	●	●				
Outside Director	Kiichi Suzuki	●	●			●	● Experienced manager of a listed company
	Daizo Nishimura				●	●	● Certified public accountant ● Tax accountant
	Mitsuo Kamimoto				●	●	● Certified public accountant ● Tax accountant
	Hiromi Hayashida	●	●	●			

* The above table does not show all of the skills held by each director.
 * Activities as a director are not limited to the items marked.

Environment

Social
Governance

Environment



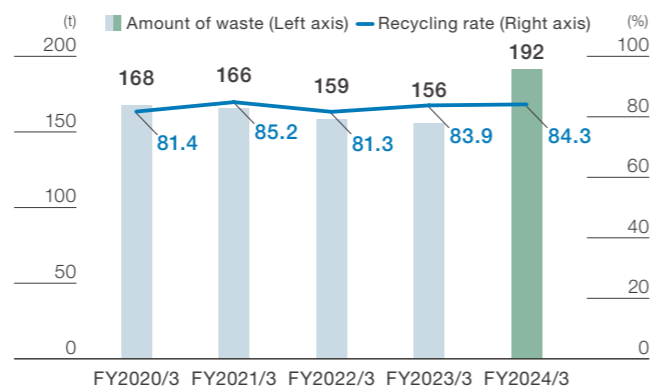
Environmental management system

Shofu seeks to harmonize with the global environment and fulfill its social responsibilities toward the environment, based on its Basic Policy on Sustainability. For this purpose, headed by the President & COO, and with the Officer in charge of general affairs serving as the Environmental Management Supervisor, the Environmental Management Committee deliberates and decides on environmental targets and implementation plans, and manages the promotion of environmental management.

Waste reduction and appropriate disposal

Shofu is committed to reducing and reusing waste generated by its business activities to reduce the consumption of resources and the generation of waste, thereby reducing the burden on the global environment. When consigning industrial waste disposal, we carefully check the permission status of contractors and promote recycling of waste through consignment contracts with appropriate disposal companies.

Trends in waste generation and recycling rate



Details of Environmental Management System

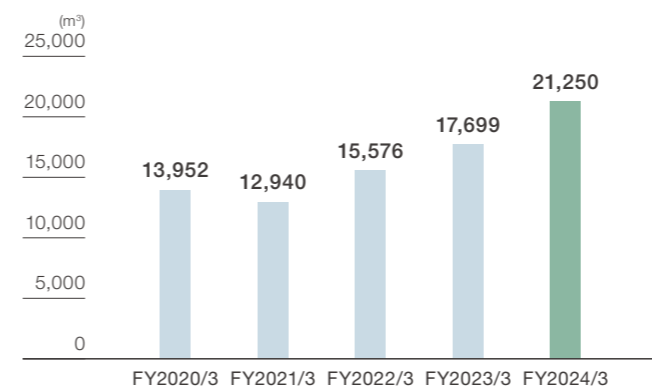
<https://www.shofu.co.jp/contents/hp2007/index.php?No=2018&CNo=2007>



Proper management of water

Shofu is working to reduce water consumption by saving water, and to ensure the quality of wastewater through proper management. We have established an in-house dedicated storage facility for waste liquids containing substances that significantly impact the environment. These are then outsourced to waste management companies for proper disposal. In addition, to properly manage the quality of industrial wastewater, we have established and are operating voluntary standards that exceed regulatory standards stipulated by laws and ordinances.

Trends in water consumption



Development of environmentally friendly products

Shofu is working to develop environmentally friendly products by reducing waste from product use and CO2 emissions from manufacturing processes, to harmonize with the global environment.

An example of an environmentally friendly product we have developed is a packaging container for artificial teeth. It is wax-free and uses less plastic. This development has made it easier to reduce waste and separate waste for disposal after use than conventional wax plates.

We are also working to reduce waste generation at dental clinics and laboratories by changing packaging materials from plastic to paper, using collapsible and disposable containers, and simplifying packaging materials.



Cubic Pack environmentally friendly artificial tooth packaging container

Shofu's Ayumi Terrace head office building receives "S" rank (highest rank) in CASBEE Smart Wellness Office certification

The CASBEE Smart Wellness Office is a certification system that evaluates the environmental performance of buildings, as well as factors that make it possible for the people working in the building to be healthy and productive, such as Health and Comfort, Convenience, Safety, Operations, Maintenance and Management, and Program. It is evaluated on a five-point scale.

In September 2023, Shofu's Ayumi Terrace received an "S" rank certification as a CASBEE Smart Wellness Office, based on an evaluation of the building's

environmental performance, hard aspects such as the building's refresh space, network environment, and office automation equipment, and human aspects such as efforts to maintain and improve the health of employees and increase productivity.

Going forward, we will position Ayumi Terrace as a symbol of our company and as a bridge between us and our stakeholders, including customers, local communities, and employees, and actively use it to link it to further growth.



As a company that contributes to people's health, Shofu seeks to harmonize with the global environment and fulfill its social responsibilities toward the environment. For this purpose, based on our Basic Policy on Sustainability, we conduct environmental conservation activities in all our business activities, from development to production and sales.

Information Disclosures Based on the TCFD Recommendations

The Shofu Group has established a corporate philosophy of “Contribution to dentistry through innovative business activities” under which we are determined to work to solve social issues through corporate activities in cooperation with stakeholders, aiming to improve corporate value over the medium- to long-term and create a sustainable society. We have established the following policy as an outline of our basic approach to achieving this. (1) Contribute to a higher QOL for people, (2) promote corporate activities that are friendly to the global environment, (3) strengthen our management base to support corporate value enhancement, and (4) cultivate a rewarding organizational culture and develop human resources

In response to climate change, one of our corporate activities that are friendly to the global environment, we are making efforts and disclosing information in line with the TCFD recommendations.

Governance

The Sustainability Committee deliberates on the formulation of basic sustainability policies, strategies, and plans, and sets targets, based on sustainability-related risks and opportunities. It also monitors the status of initiatives, and reports and makes recommendations to the Board of Directors at least once a year, based on which the Board deliberates and gives supervision.

Strategies

1 Scenario analysis

The Group has conducted scenario analyses for 2030 and 2050, assuming a world view in which global temperatures rise by 1.5°C, 2°C, and 4°C in the year 2100.

2 Risks and opportunities

We have identified five risks and five opportunities that are expected to have an impact on the Company.

Risk management

The Group’s Sustainability Committee discusses the identification of sustainability-related risks and opportunities, and the narrowing down of risks and opportunities that should be prioritized, and reports to the Board of Directors.

Climate change-related risks and opportunities are managed through the following activities (1)–(5), and reviewed periodically.

- 1 Scenario analysis for climate change
- 2 Identification of short-term, medium-term and long-term climate-related risks and opportunities
- 3 Determination of strategic initiatives and policies to address the important climate-related risks and opportunities that have been identified
- 4 Consideration of actual measures to address climate-related risks and opportunities
- 5 Implementation of measures to address climate-related risk and opportunities and management of progress

Based on the results of monitoring, we have established a system that enables us to respond flexibly and optimally, according to the degree of impact on business management.

Important risks relating to climate change are reported to the Managing Executive Board for coordination with company-wide risks.

Measures	Details
Using energy to adapt to a decarbonized society	<ul style="list-style-type: none"> ■ Implementing energy saving measures ■ Using renewable energy ■ Building an efficient production and distribution system
Balancing contributions to dental care with decarbonization initiatives	<ul style="list-style-type: none"> ■ Developing and selling environmentally friendly products ■ Saving resources in packaging containers
Establishing a stable business base to respond to the growing severity of natural disasters	<ul style="list-style-type: none"> ■ Establishing BCP ■ Strengthening cooperation with suppliers and logistics operators ■ Relocating production bases
Appropriately responding to environmental regulations	<ul style="list-style-type: none"> ■ Monitoring trends in environmental regulations and considering response measures

Metrics and targets

To reduce greenhouse gas emissions, the Group has set the following reduction targets for Scope 1 and 2, using FY2021 Scope 1 and 2 values as the baseline values.

- Reduce Scope 1 and 2 emissions by 27% by FY2030 (compared with FY2021)
- Achieve carbon neutrality by FY2050

CO ₂ emissions (Scope 1 and 2)		(Unit: t-CO ₂)		
		FY2021	FY2022	FY2023
Domestic		3,250	3,298	3,524
Overseas		2,032	2,027	2,292
Total		5,283	5,325	5,817
Percentage change from FY2021 (%)		-	0.8	10
Net sales intensity index (compared with FY2021) (%)		100	89	88

Shofu is working to reduce CO₂ emissions to prevent global warming. In manufacturing processes that consume large amounts of energy, we are implementing initiatives to improve energy efficiency by replacing facilities with those that contribute to energy conservation, and engaging in efficient operations. In terms of the office sector, we are working to optimize lighting fixtures and adjust the temperature settings for air conditioning. In addition, we are currently in the process of switching to LED lighting fixtures in factories and offices as a company-wide effort to reduce CO₂ emissions.

While energy usage for the entire Group (Scope 1 and Scope 2) in FY2023 slightly increased, CO₂ emissions increased by 10% in comparison with FY2021 due to an emission factor increase. We will continue working to reduce CO₂ emissions. Net sales intensity index (compared to FY2021) is in a downward trend.

Type	Factors behind risks and opportunities	Details	Financial impact in 2030		
			1.5°C (2°C)	4°C*2	
Transition risks	Progress in pricing GHG*1 emissions Strengthened GHG emissions reporting requirements	Energy, procurement, and transportation (logistics) costs will increase due to introduction of carbon tax.	Medium	—	
	Policies and regulations	Procurement risks and costs will increase due to tightening of environmental laws and regulations.	Small	—	
	Shift to mandatory status / regulation of existing products and services	If plastic regulations are tightened and the shift to plastic alternatives in our products does not progress, then we will be shut out of markets, primarily in Europe.	Medium	—	
	Technology	Upfront costs associated with transition to low-carbon technologies	Increased development and capital investment costs to invest in materials and technologies with lower environmental impact.	Small	—
Physical risks	Acute	Increase in the severity and frequency of abnormal weather events such as cyclones and floods Increased likelihood and severity of wildfires	Large-scale natural disasters (typhoons, torrential rains, floods, wildfires, etc.) will cause the Company’s operations to stagnate, making it difficult to provide a stable supply of products and leading to a decline in sales.	Medium	Medium
	Resource efficiency	Use of efficient means of transportation Use of efficient production and distribution processes	Production, transportation and storage costs can be reduced by using efficient production and distribution processes. Energy costs can be reduced by saving energy.	Small	Small
Opportunities	Use of recycling	Raw material costs can be reduced by reducing the amount of raw materials required, by recycling product components and packaging materials.	Small	—	
	Products and services	Development of low-carbon products and services, development of new products and services through expanded R&D and innovation	The development of products that contribute to improving the efficiency of dental care and reducing CO ₂ emissions will increase sales of our related products.	Medium	—
	Resilience	Participation in renewable energy programs and adoption of energy-saving measures	Relocating production bases and promoting the distribution of energy procurement sources, including renewable energy, is expected to improve resilience in the event of a disaster or grid power accident (business continuity and suppression of rising energy procurement costs).	Small	—

*1 GHG: An abbreviation for greenhouse gases.

*2 The 4°C scenario assumes a world where there are no GHG emissions regulations or environmental regulations, so some risks and opportunities are not calculated or evaluated.

Business Overview

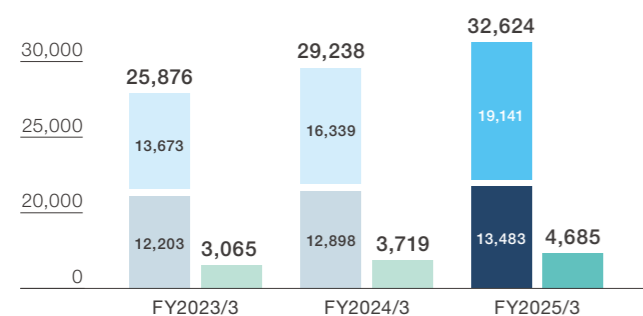


Line of business

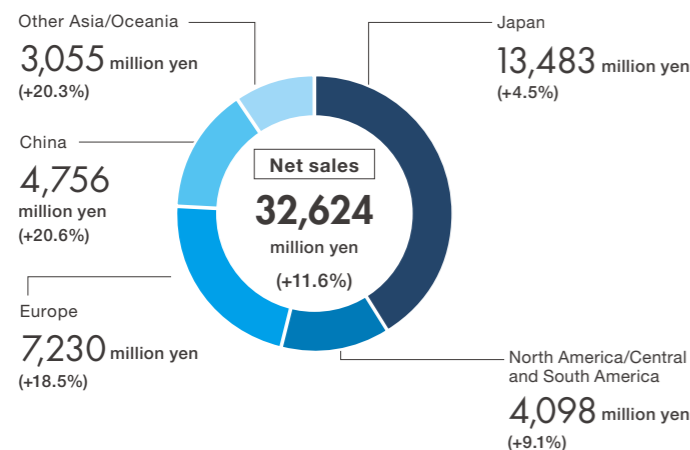
In the dental business, Shofu manufactures and sells dental materials and equipment used in dental treatment and techniques. We sell our products not only in Japan but also in countries around the world through our sales bases in the U.S., Germany, China, Singapore, India, Brazil, and other regions.

Net sales / Operating income

(Millions of yen)
40,000 ■ Net sales (Domestic) ■ Net sales (Overseas) ■ Operating income



Sales by region (Year ended March 31, 2024)



Domestic

Sales of our new intraoral digital camera model and CAD/CAM-related materials were favorable.

Market environment

- The economy recovered moderately against the backdrop of improvements in employment and income conditions.
- Competition among companies in the field of digital dentistry is intensifying globally.
- There were also positive signs for the industry, such as considerations toward universal dental checkups and the establishment and strengthening of systems for preventing oral frailty (deterioration of oral functions) and aggravation of diseases.

Business activities in the fiscal year ended March 31, 2024

While sales of CAD/CAM-related machinery declined in reaction to higher capital investment demand in the fiscal year ended March 31, 2023 due to the expansion of CAD/CAM crowns covered by insurance in the April 2022 medical fee revision, our new intraoral digital camera model and resin material for dental cutting/machining Shofu Block PEEK that was newly covered by insurance in December 2023 and its related materials contributed significantly to sales.

Overseas

As a result of our sales strategy leveraging the superiority of our products, sales of dental filling restorations have steadily expanded in each region and sales have remained strong, primarily in Europe and Asia including China.

North America/Central and South America

Market environment

- The future outlook is uncertain, with some people refraining from using dental care due to the impact of rising commodity prices.

Business activities in the fiscal year ended March 31, 2024

In the United States, excluding the positive impact of exchange rate fluctuations, sales remained at the same level as the previous fiscal year, due to inventory adjustments in the distribution of abrasive products, delays in the supply of chemical products in the first half of the fiscal year, and a gap before the launch of our new intraoral digital camera model.

China

Market environment

- Business confidence in the market as a whole worsened.
- Preferential treatment of domestic products was not seen in the dental materials market.

Business activities in the fiscal year ended March 31, 2024

As a result of our continued strengthening of sales capabilities such as network building and active engagement in academic activities with the aim of building relationships with dental professionals, we saw significant growth in chemical products—including filling and restoration materials—and artificial teeth.

Europe

Market environment

- The market remained unstable due to the impact of soaring resource and energy prices and financial instability.

Business activities in the fiscal year ended March 31, 2024

In addition to the existing European market, we focused on developing new markets in the Middle East. Sales were strong, partly due to initial inventory demand. In addition to chemical products, machinery and equipment including intraoral digital cameras also performed well.

Other Asia/Oceania

Market environment

- Markets such as the India and ASEAN markets are expanding steadily.

Business activities in the fiscal year ended March 31, 2024

We steadily increased sales by taking advantage of market growth, primarily in cement products. In particular, there was a significant increase in sales in India as a result of our swift response to the introduction of pharmaceutical regulations.

Nail care business

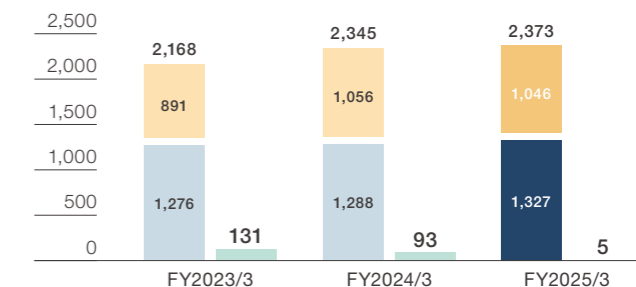
Overview

Although we faced some difficulties in the United States due to inflation, sales of our mainstay professional gel products and acrylic materials in Japan increased steadily, as did sales of our own brands—primarily at drugstores—in Taiwan.

Net sales / Operating income

(Millions of yen)

■ Net sales (Domestic) ■ Net sales (Overseas) ■ Operating income



Other Businesses (Industrial Polishing Materials)

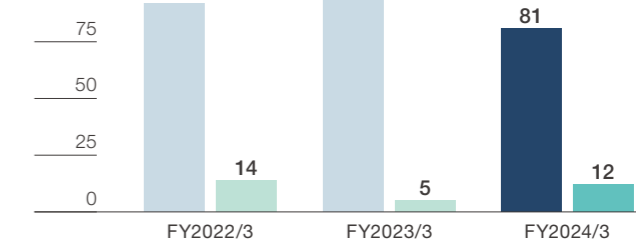
Overview

While the market remained strong against the backdrop of a recovery in capital investment and growing needs for automation and labor-saving solutions, orders fell due to the impact of the price hike in the previous fiscal year, which resulted in a significant decline in sales.

Net sales / Operating income

(Millions of yen)

■ Net sales (Domestic) ■ Operating income



Financial Summary for Past 11 Years

Fiscal year (Millions of yen)	142st Fiscal Year (Ended March 31, 2014)	143st Fiscal Year (Ended March 31, 2015)	144st Fiscal Year (Ended March 31, 2016)	145st Fiscal Year (Ended March 31, 2017)	146st Fiscal Year (Ended March 31, 2018)	147st Fiscal Year (Ended March 31, 2019)	148st Fiscal Year (Ended March 31, 2020)	149st Fiscal Year (Ended March 31, 2021)	150st Fiscal Year (Ended March 31, 2022)	151st Fiscal Year (Ended March 31, 2023)	152st Fiscal Year (Ended March 31, 2024)
Net sales	18,258	19,688	22,975	22,305	24,031	24,915	26,108	24,680	28,137	31,678	35,080
Cost of sales	8,229	8,598	9,798	9,357	10,267	10,469	11,423	11,083	11,970	12,979	14,084
Selling, general and administrative expenses	9,041	9,929	11,608	11,564	12,266	12,631	12,474	11,296	12,950	14,874	16,286
Operating income	987	1,159	1,568	1,382	1,497	1,814	2,210	2,300	3,217	3,824	4,709
Ordinary income	978	1,114	1,393	1,141	1,565	1,709	1,988	2,523	3,658	4,238	5,118
Net income before income and other taxes	978	965	1,352	1,141	1,357	1,709	1,184	2,370	3,611	4,410	5,282
Income taxes	472	387	557	299	478	512	460	672	1,043	1,250	1,604
Profit attributable to owners of parent	506	581	789	836	877	1,201	704	1,674	2,546	3,135	3,655
Comprehensive income	1,361	2,169	△15	1,194	2,156	523	△46	3,618	3,366	3,584	7,157
Capital expenditure	1,282	1,650	713	875	710	1,403	1,601	1,097	1,100	2,319	1,282
Depreciation expense	656	783	1,007	888	920	862	949	955	901	972	1,168
R&D expenses	1,332	1,410	1,431	1,408	1,494	1,492	1,537	1,563	1,738	1,846	1,927

Fiscal year (Millions of yen)

Current assets	13,298	15,625	14,265	14,286	15,345	14,975	15,416	17,829	20,462	22,220	25,179
Noncurrent assets	10,741	13,816	14,039	14,566	15,545	15,186	14,417	19,983	20,247	21,506	24,914
Current liabilities	2,801	5,510	3,049	3,215	3,663	3,820	3,680	4,212	4,437	5,949	5,593
Noncurrent liabilities	1,490	2,150	3,755	3,341	3,070	1,957	2,216	3,402	3,332	2,262	2,890
Net assets	19,747	21,781	21,500	22,296	24,157	24,383	23,936	30,198	32,940	35,515	41,609
Total assets	24,039	29,442	28,305	28,853	30,890	30,161	29,834	37,813	40,709	43,727	50,093

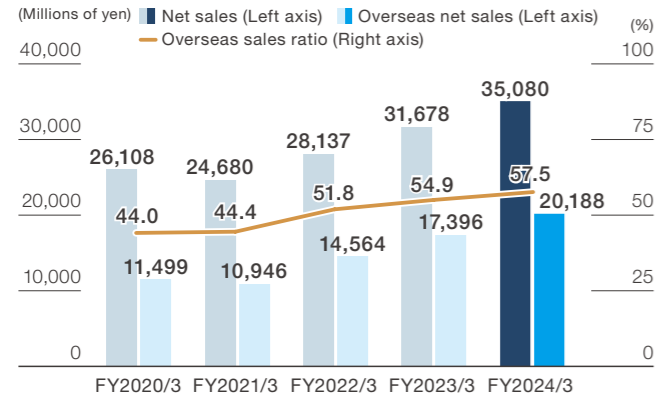
Other information

ROE(%)	2.6	2.8	3.7	3.8	3.8	5	2.9	6.2	8.1	9.2	9.5
ROA(%)	2.2	2.2	2.7	2.9	2.9	3.9	2.3	4.9	6.5	7.4	7.8
Equity ratio (%)	81.9	73.7	75.7	76.9	77.8	80.4	79.7	79.4	80.5	80.8	82.7
Net assets per share (Yen)	1,235.34	1,360.19	1,340.00	1,396.74	1,511.85	1,524.92	1,491.81	1,690.45	1,841.55	1,996.64	2,336.04
Net income per share (Yen)	31.77	36.45	49.43	52.61	55.2	75.54	44.24	96.29	143.22	176.1	206.18
Payout ratio (%)	56.7	49.4	36.4	38	36.2	30.4	58.8	30.1	27.2	32.4	30.1
Dividends on equity (DOE) ratio (%)	1.5	1.4	1.3	1.5	1.4	1.5	1.7	1.8	2.2	3	2.9
Price earnings ratio (Times)	27.6	37.7	27.9	25.1	26	16.9	39.8	20.6	10.9	11.5	14.2
Cash flows from operating activities (Millions of yen)	823	710	1,511	2,308	1,936	1,468	1,942	2,829	3,736	3,170	3,089
Cash flows from investing activities (Millions of yen)	△441	△3,139	748	△1,052	△772	△1,519	△1,768	△4,081	△1,288	△1,290	△1,295
Cash flows from financing activities (Millions of yen)	1,305	2,810	△2,152	△835	△592	△844	△224	3,023	△1,074	△1,457	△2,096
Number of employees (Persons)	834	881	1,080	1,103	1,124	1,168	1,189	1,206	1,266	1,299	1,369

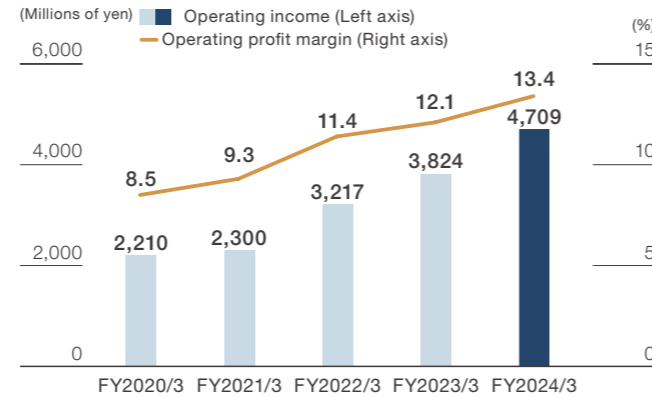
KPI Highlights

Financial Indicators

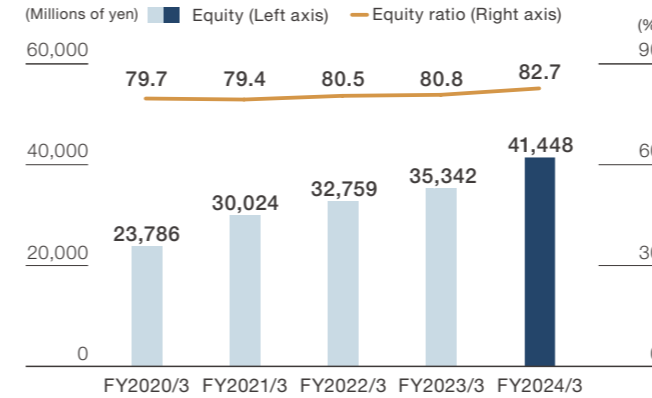
Net sales/Overseas net sales/Overseas sales ratio



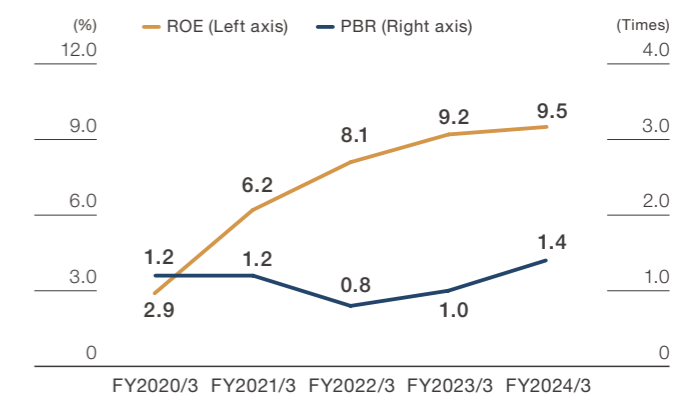
Operating income/Operating profit margin



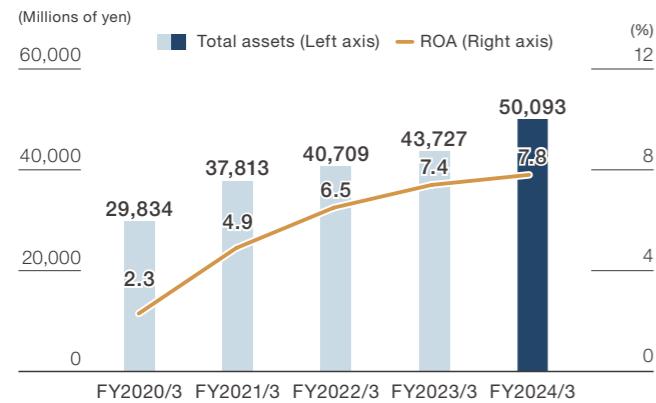
Equity/Equity ratio



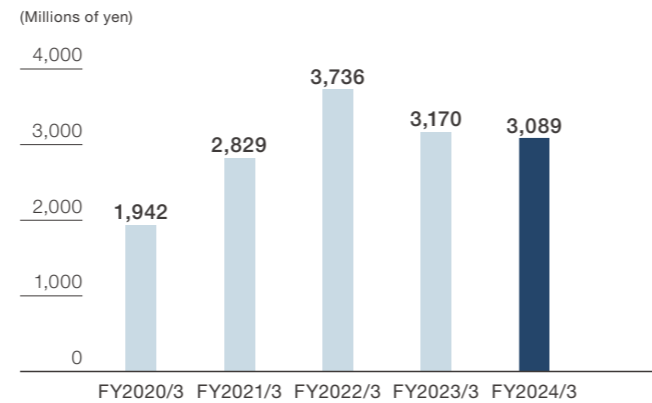
Return on equity (ROE)/Price Book-value Ratio (PBR)



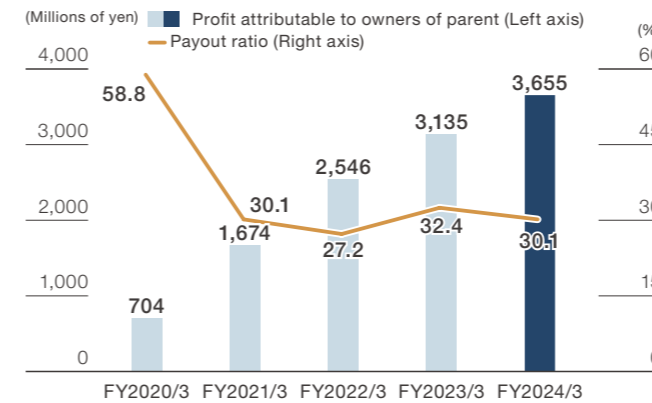
Total assets/Return on assets (ROA)



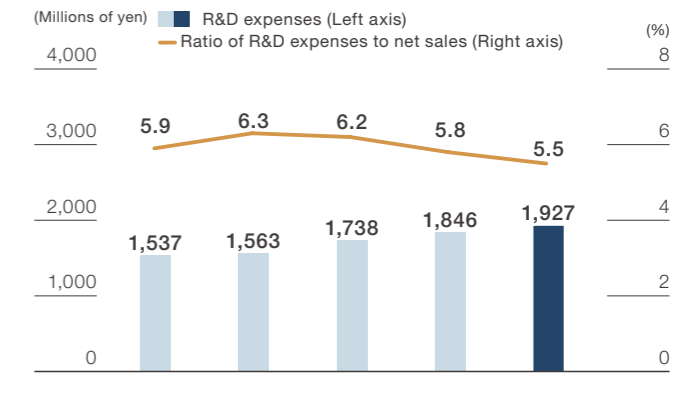
Cash flows from operating activities



Profit attributable to owners of parent/Payout ratio

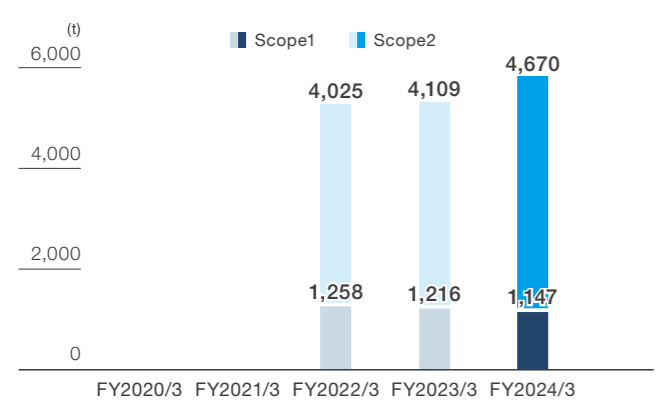


R&D expenses/Ratio of R&D expenses to net sales

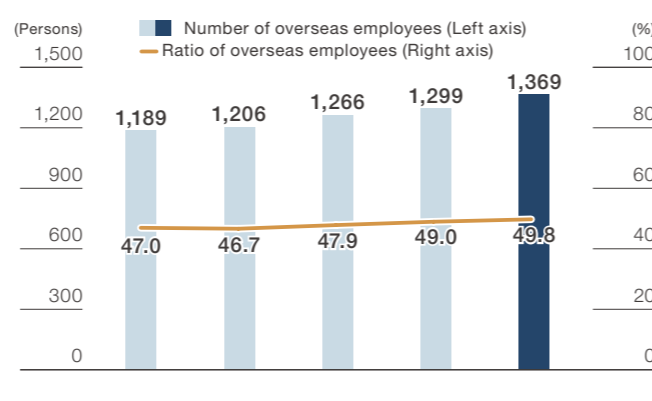


Non-financial Indicators

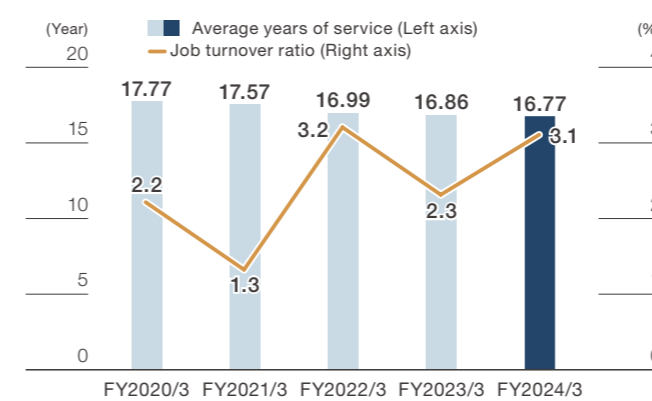
Greenhouse gas emissions (consolidated)



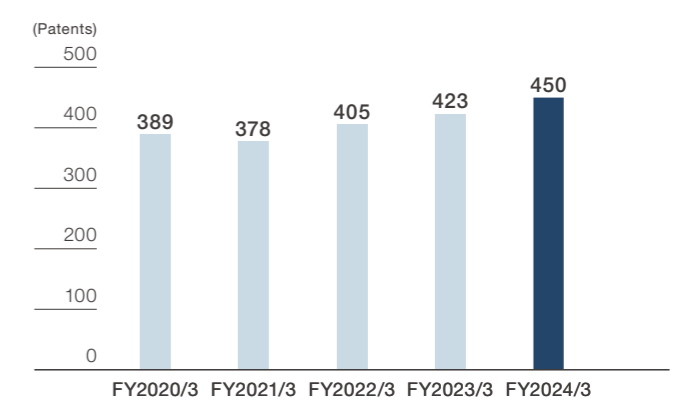
Number of employees at end of fiscal year/ Ratio of overseas employees (consolidated)



Average years of service/Job turnover ratio



Number of patents held



To fulfill our social responsibilities toward the environment, we are working to reduce greenhouse gas emissions in our corporate activities. Greenhouse gas emissions for the fiscal year ended March 31, 2024 increased by 9.2% year on year to 5,817 tCO₂, as a result of an increase in sales due to business expansion and an increase in the electricity emission factor.

To increase our level of recognition and contribution to the global dental market, we are actively increasing the size of our workforce. At the end of the fiscal year ended March 31, 2024, the number of employees increased by 70 from the previous fiscal year to 1,369, of which 49.8% were overseas employees.

To promote continued investment in employees and the transfer of skills, we work to enhance psychological safety and build a rewarding work environment and organizational culture. In the fiscal year ended March 31, 2024, the average length of service was 16.77 years, and the turnover rate was 3.1%.

We regard intellectual properties as an important management resource, and will aim to link them to sustainable value creation by implementing intellectual property strategies linked to our business and R&D strategies. At the end of the fiscal year ended March 31, 2024, the number of patents held increased by 27 from the previous fiscal year to 450.

Company Profile and Stock Information

Company Profile

Company name	SHOFU INC.
Headquarters address	11 Kamitakamatsu-cho, Fukuine, Higashiyama-ku, Kyoto 605-0983, Japan Phone: +81-75-561-1112 (main)
Date of establishment	May 15, 1922
Capital stock	5,968,956,614 yen
Closing date	March 31
Stock exchange listing	Prime Market of the Tokyo Stock Exchange (Securities Code: 7979)
Number of employees	1,369 (consolidated) 499 (non-consolidated)
Line of business	Manufacture and sale of dental materials and equipment
Fiscal year	From April 1 to March 31 of the following year
Ordinary shareholders' meeting	June of every year
Record dates	Ordinary shareholders' meeting: March 31 of every year Year-end dividend: March 31 of every year Interim dividend: September 30 of every year If otherwise necessary, the date designated by public notice in advance
Administrator of shareholder registry	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo

Network

Domestic offices	SAPPORO SALES OFFICE / SENDAI SALES OFFICE / TOKYO BRANCH / NAGOYA SALES OFFICE / KYOTO SALES OFFICE / OSAKA SALES OFFICE / FUKUOKA SALES OFFICE
Overseas sites	TAIWAN BRANCH / Middle East and Africa Representative Office
Shofu group companies	<p>Domestic</p> <p>SHIGA SHOFU INC. SHOFU PRODUCTS KYOTO INC. SHOFU BIOFIX INC. NAIL LABO CORPORATION</p> <p>Overseas</p> <p>SHOFU DENTAL CORPORATION SHOFU DENTAL GmbH ADVANCED HEALTHCARE LTD. SHANGHAI SHOFU DENTAL MATERIAL CO., LTD. SHOFU DENTAL TRADING (SHANGHAI) CO., LTD. SHOFU DENTAL ASIA-PACIFIC PTE.LTD. MERZ DENTAL GmbH DIGITAL DENTAL SERVICES GmbH SHOFU DENTAL INDIA PRIVATE LIMITED SHOFU DENTAL BRASIL COMERCIO DE PRODUTOS ODONTOLOGICOS LTDA. SHOFU PRODUCTS VIETNAM CO., LTD. SHOFU MEXICO S DE RL DE CV SMART DENTISTRY SOLUTIONS INC. NAIL LABO INC. NAIL LABO TAIWAN CO.,LTD.</p>
Affiliated company	<p>Domestic</p> <p>Sun Medical Company, Ltd.</p>

Status of shares

Total number of shares authorized to be issued*	64,000,000 shares
Total number of shares issued*	17,894,089 shares
Number of shareholders	13,773

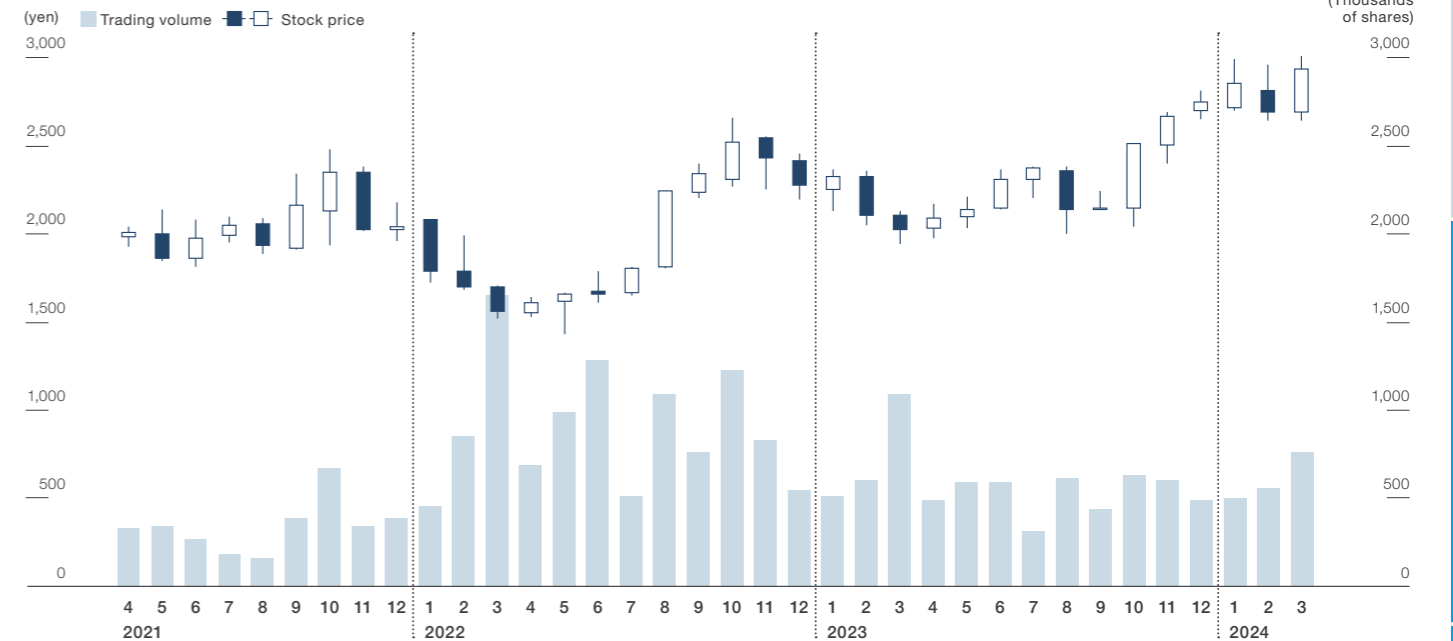
* On October 1, 2024, the Company conducted a 2-for-1 stock split of shares of common stock.

Major shareholders

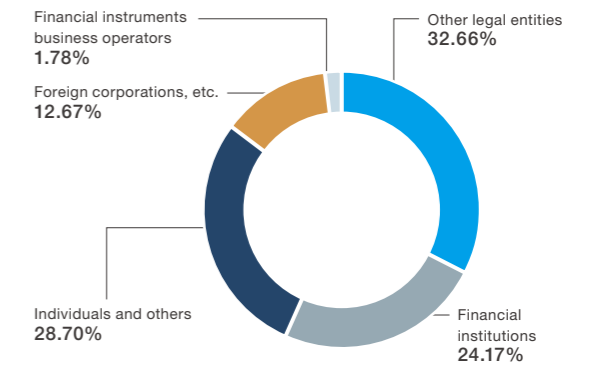
Shareholder name	Number of shares held (Thousands of shares)	Shareholding ratio (%)
Mitsui Chemicals, Inc.	3,580	20.17
The Master Trust Bank of Japan, Ltd. (Trust account)	866	4.88
The Bank of Kyoto, Ltd.	712	4.01
Nippon Life Insurance Company	646	3.64
The Shiga Bank, Ltd.	602	3.39
Custody Bank of Japan, Ltd. (Trust account)	479	2.69
NORTHERN TRUST CO.(AVFC) RE IEDP AIF CLIENTS NON TREATY ACCOUNT	448	2.52
MSIP CLIENT SECURITIES	424	2.39
Shofu Employee Stock Ownership Association	350	1.97
SCREEN Holdings Co., Ltd.	330	1.85

* The shareholding ratio is calculated by deducting the number of treasury shares (151,114 shares).

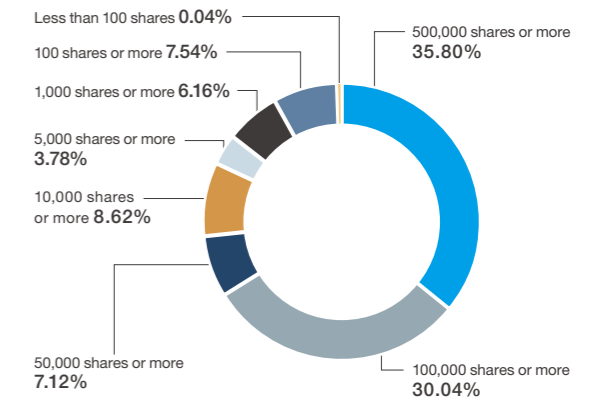
Trends in stock price and trading volume



Distribution of shares by owner



Distribution of shares by number of shares held



<https://www.shofu.co.jp>



PROVEN PRODUCTS FOR BETTER DENTISTRY

SHOFU INC.

Headquarters:

11 Kamitakamatsu-cho, Fukuine, Higashiyama-ku, Kyoto 605-0983, Japan