May 1, 2024

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Representative: Tetsuo Takami
Representative Director, President & COO
Listing: Tokyo Stock Exchange (Prime Market)
Code number: 7979
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Director Senior Managing Executive Officer Production and Corporate Planning

SHOFU Group Fifth Medium-Term Management Plan

SHOFU INC. (the “Company”) hereby announces that its Board of Directors on May 1, 2024 resolved to formulate the SHOFU Group fifth medium-term management plan, which covers the period from FY3/25 to FY3/28.

We first set out our long-term vision to drive annual sales to ¥50 billion in 2012, the year marking our 90th anniversary.

Recognizing that we had no future without overseas growth, key to the plan at the time was the shifting of a significant portion of our management resources overseas in order to increase our contribution to global dentistry and raise our presence in those markets. With that in mind, we set out to achieve Group sales of ¥50 billion (¥17 billion from domestic sales and ¥33 billion from overseas) and operating income of ¥7.5 billion (operating income margin of 15%).

In the 12 intervening years, we have implemented three further plans, formulating new plans every three years that kept in mind our long-term sales goal. Building on the achievements from this period, we have drawn up a fifth medium-term management plan, which sets out the direction from April 2024 we look for to realize our long-term vision of ¥50 billion in sales.

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- The actual (forecast) results for FY3/24 stated in this document are the forecast figures based on the "Notice regarding revision of financial forecast and dividend forecast" separately announced today (May 1, 2024).
- The figures in the "Numerical targets" and "Capital policy and shareholder returns" sections of the medium-term management plan in this document indicate the direction we are aiming for, etc., and are different in nature from the forecasts of business performance and dividends. As such please refer to the forecast of financial results and dividends for the fiscal year ending March 31, 2025 in the “Consolidated Financial Results for the Fiscal Year Ended March 31, 2024 (Japanese Accounting Standards)” scheduled for release on May 9, 2024.
- The forward-looking statements, including earnings forecasts, contained in this document are based on information currently available to the Company and certain assumptions that the Company deems reasonable.

1. Initiatives and achievements from previous medium-term management plans (No.1-No.4)

1-1. Key issues for the medium and long term

(1) Development and launch of new products aligned with local demand and needs
(2) Development of sales networks and sales offices
(3) Building national and international academic networks (building a direct promotional organization for users)
(4) Cost reductions, reallocation of production sites to accommodate increased production volumes, expansion of overseas production
(5) Developing and securing human resources to actively promote overseas development
(6) Financing to meet growing demand for funds
(7) M&A (business and technology alliances, business acquisitions)
(8) Strengthening the Group's governance structure
(9) Mitsui Chemicals, Inc. and Sun Medical Inc.

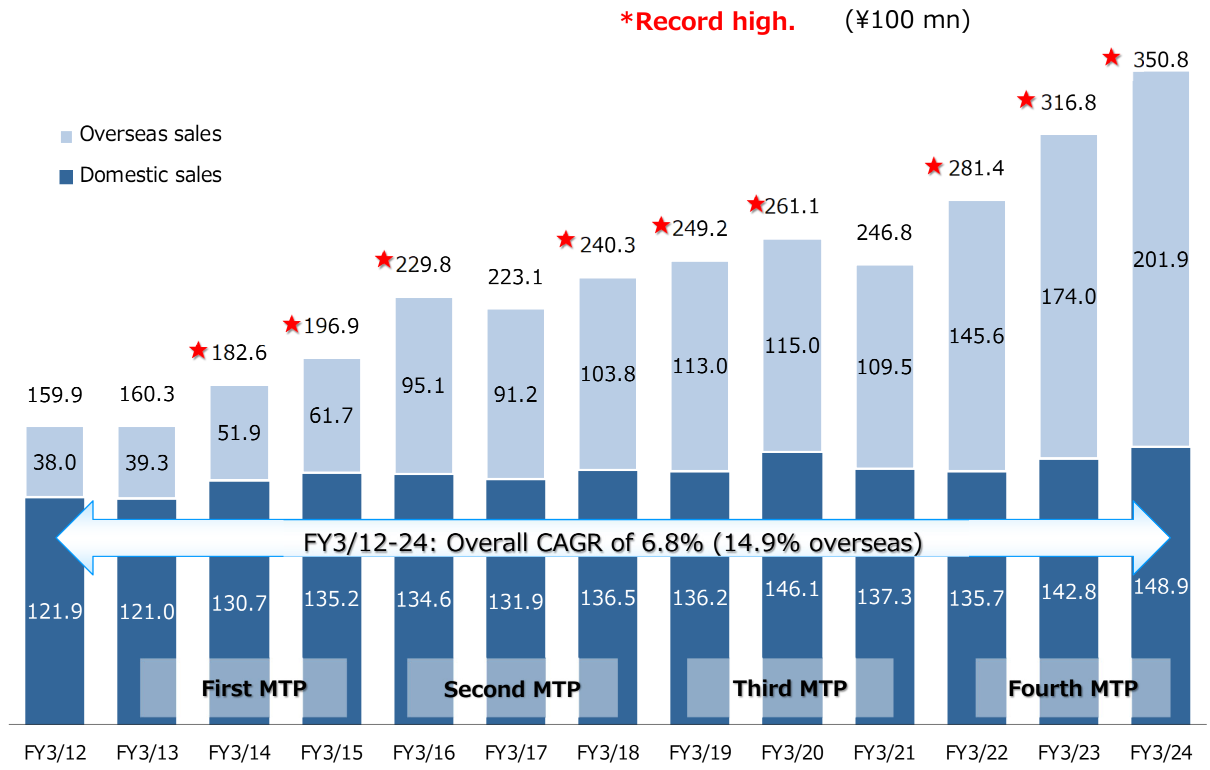
1-2. Main initiatives and achievements to date

(1) Main initiatives - development of sales offices and sales networks, construction of production systems and expansion of overseas production

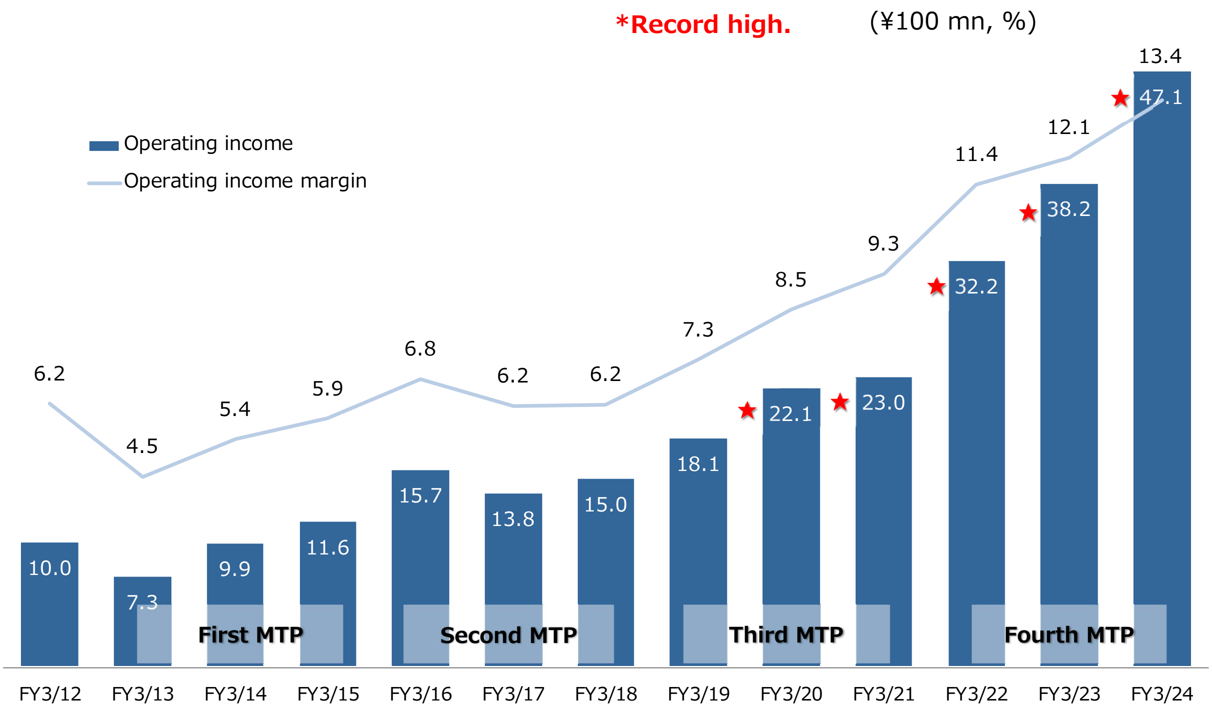
		Development of sales offices & sales networks	Production reorganization & overseas production expansion
First MTP	FY3/13		**Mar 2013** production reorganization for dental & nail businesses. Consolidation of nail subsidiaries' production and sales functions
	FY3/14	**Apr 2013** established sales company in Singapore.	**Mar 2014** CAD/CAM processing centre established in production subsidiary
	FY3/15	**Jun 2014** established sales company in Mexico	**Jul 2014** production subsidiaries relocated, expanded **Jan 2015** expanded Shiga production subsidiary
Second MTP	FY3/16	**Apr 2015** established domestic implant sales company set up a sales office in Italy **May 2015** set up a sales office in Taiwan	**Apr 2015** shares acquired in German artificial tooth maker, becomes a subsidiary, new production base in Europe **Sep 2015** CAD/CAM processing company established in Germany
	FY3/17	**Jan 2017** established sales company in Brazil	**Mar 2017** expanded head office plant
	FY3/18	**Apr 2017** established sales company in India	
Third MTP	FY3/19		**Mar 2019** expanded German plant
	FY3/20	**Apr 2019** opened Kyoto sales branch **Aug 2019** established sales company in USA	
	FY3/21	**Apr 2020** Germany sales company, construction of new building, strengthened mgmt functions	**Apr 2020** established Vietnam production base
Fourth MTP	FY3/22	**Apr 2021** set up base in Middle East and Africa	
	FY3/23	**Transition from exclusive to multiple distributors in various countries, broaden coverage areas**	**Major future investment plans** **Apr 2024** established 2nd production base in China (Changzhou, Jiangsu) **1H 2024-1H 2026** reconstruction of head office plant
	FY3/24		

Expansion of distributor network

(2) Sales trends



(3) Operating income and operating income margin



1-3. Fourth medium-term management plan and results

(¥ mn unless stated)	FY3/22		FY3/23		FY3/24	
	Plan	Actual	Plan	Actual	Plan	Actual
Sales	26,105	★ 28,137	29,314	★ 31,678	33,550	★ 35,080
Domestic sales	13,627	13,573	14,182	14,282	14,897	★ 14,892
Overseas sales	12,478	★ 14,564	15,132	★ 17,396	18,652	★ 20,188
Operating income	1,799	★ 3,217	2,732	★ 3,824	3,820	★ 4,709
(% of sales)	6.9%	11.4%	9.3%	12.1%	11.4%	13.4%
Ordinary income	1,837	★ 3,658	2,850	★ 4,238	3,938	★ 5,118
(% of sales)	7.0%	13.0%	9.7%	7.6%	11.7%	14.6%
Net income	1,234	★ 2,546	1,975	★ 3,135	2,769	★ 3,655
(% of sales)	4.7%	9.1%	6.7%	9.9%	8.3%	10.4%
EPS (¥)	69.48	143.22	111.06	176.1	156.46	206.18
Return on equity (ROE)	4.1%.	8.1%.	5.9%.	9.2%.	7.7%.	9.5%.

Notes:
1. Net income = net income attributable to owners of the parent
2. EPS = net income per share
3. Numbers in red = results below plan
4. ★ = new record-high

2. Overview of the fifth medium-term management plan

2-1. Basic approach

The Company has undergone significant changes as a result of setting a plan to achieve annual sales of ¥50 billion. We have registered a number of achievements and knowledge to date through the implementation of various measures aimed at realizing this goal. We will continue to maintain and develop strategies in pursuit of this target.

The fifth medium-term management plan is positioned as the final step in achieving our vision of realizing annual sales of ¥50 billion. The length of the management plan has also been extended from three years to four years in order to ensure we achieve the target.

2-2.Key issues for the medium and long term (including review of the fourth medium-term management plan and future direction)

(1) Development and launch of new products aligned with local demand and needs

As an R&D-oriented company, we aim to grow globally and will continue to develop products from a global perspective. This will remain our policy in future, but at the same time, we must keep in mind the need to develop locally adapted products that target the middle class and the volume zone, taking into account economic levels, levels of dental care and infrastructure development in each region of the world.

During the fourth medium-term management plan, for the domestic market we developed and launched new products mainly compatible with digital dentistry. Furthermore we were successful in our efforts to link changes in the market, such as insurance coverage for CAD/CAM crown materials, to our own growth. However, the digital dentistry field is undergoing rapid change, and in order to launch in-house developed products ahead of competitors, we need to continue to implement measures to increase the speed of development, such as improving information gathering capabilities and the development flow.

In overseas markets, we launched new products such as filling and restorative materials and digital cameras for dental use, which are central to sales growth. We were able to achieve steady sales growth in every region. The challenge ahead of us is to promote product development in line with needs in the region in addition to product development from a global perspective. At the same time, we need to promptly respond to new laws and regulations of various countries, which are getting more stringent every year. We continue to work on putting in place the required structures.

(2) Development of sales networks and sales offices

We have established a network of domestic and overseas distributors including the head office sales department and overseas sales offices, and we continue to develop a distributor network that allows us to further build awareness of our products among dental professionals.

In addition, we have set up bases in key countries and regions to (i) enhance customer service, (ii) realize early delivery through the holding of inventories, (iii) strengthen academic activities centered on providing product information to dental professionals, and (iv) accelerate and improve the efficiency of any regulatory applications.

During the fourth medium-term management plan, we promoted initiatives in the domestic market to effectively utilize the functions of our existing distributor network. In overseas markets, we worked to develop our distributor network in all regions. As a result of introducing a multiple distributor system in key countries and starting business with a large distributor in Brazil, we were able to increase the number of countries and regions where we sell our products to more than 120. We intend to continue developing our sales network in key countries and regions in the future.

(3) Building domestic and international academic networks (building a direct promotional organization for users)

We intend to further improve our ability to provide information to study groups and Key Opinion Leaders. These KOLs are influential clinicians in regions both at home and abroad, who are able to raise awareness of our products and help us build a customer network.

During the fourth medium-term management plan, we strengthened the activities we held at academic institutions (broadening our network of academic personnel, enhancement of advertising literature including clinical results, product information sessions and hands-on seminars) with the cooperation of the KOLs. In addition, we increased the number of KOLs we work with, mainly in newly developed areas such as Brazil and the Middle East and Africa, and made efforts to expand our customer network.

However, some geographical areas are taking longer to penetrate than the single markets in the USA and China due to a large number of countries targeted and different market environments. We believe further promotion and strengthening of our initiatives is needed.

(4) Cost reductions, reallocation of production sites to accommodate increased production volumes, expansion of overseas production

We will improve price competitiveness through further cost reductions in areas where we have a competitive edge, such as artificial teeth and abrasive materials.

In addition, we aim to effectively utilize our domestic subsidiaries and expand overseas production in order to (i) expand production capacity at the head office plant, (ii) select production items based on required production technology and profitability, (iii) minimize the effects of exchange rate fluctuations, (iv) reduce transport costs for dangerous and heavy goods, (v) improve delivery services to customers, (vi) avoid high customs duties, etc. We will look at the reallocation of production bases, including the effective utilization of domestic subsidiaries and expansion of overseas production.

During the fourth medium-term management plan, the Vietnam production base (established as one of our major manufacturing sites during the third medium-term management plan) went into full-scale operations for abrasive materials, mainly for overseas markets. On the other hand, a lack of supply capacity that was able to deal with the rapid increase in demand resulted in lost opportunities in Japan and abroad. Improving supply capacity to meet higher demand in each region is an urgent issue, and during the fifth medium-term management plan, we will work on building a production system to meet increased demand.

(5) Developing and securing human resources to actively promote overseas development

In addition to expanding the number of personnel at local bases and training overseas personnel at the head office, we are also working to secure human resources from various fields. At the same time, we are carrying out a fundamental review of our personnel system, including our performance-based compensation and rewards system, in order to put in place a system that enables employees to actively take on new challenges.

During the fourth medium-term management plan, we also made progress in securing human resources from various fields. In future, we intend to further develop our global talent base, both in divisions in charge of overseas sales, as well as in promoting globalization throughout the company.

As of end-March 2024, we had a total of 1,369 staff, breaking down as 687 domestic and 682 international employees. We are therefore globalizing in terms of our workforce.

In addition, we recognize that the concept of human capital management is important throughout the Group in developing and securing these human resources, and are therefore looking to promote initiatives that improve employee engagement.

(6) Financing to meet growing demand for funds

During the fourth medium-term management plan, our business competitiveness and high reliability on the back of a solid financial base have ensured an environment for flexible fundraising in response to demand for funds.

We intend to continue to secure funds so we are able to respond with active investment (business investment, personnel investment, capital investment, etc.), including improving the utilization of capital market funding.

(7) M&A (business and technology alliances, business acquisitions)

Based on the business strategy (segment story) for each product area and region, we intend to actively promote M&A as a form of collaboration and development with external parties to strengthen our systems in research and development, production and sales.

During the fourth medium-term management plan, we established an organizational structure to promote M&A, and look at information from various sources and individual projects, although this did not result in any actual transactions. During the fifth medium-term management plan, we intend to actively promote M&A based on our core competences and growth strategy after identifying suitable areas (fields, regions and functions).

(8) Strengthening the Group's governance structure

The role of Group companies in the Group is growing year by year, and the major challenge is how to link the activities of Group companies to the enhancement of our overall corporate value. At the same time, we need to assess how to control the various risks that may arise.

During the fourth medium-term management plan, efforts were made by head office to share information and materials from Group companies and to develop a set of rules. In future, we intend to make efforts to upgrade our governance system, including utilization of information and the establishment of an internal Group risk management system, including compliance and information security.

(9) Mitsui Chemicals, Inc. and Sun Medical Inc.

In May 2020, we signed a capital and business alliance agreement with Mitsui Chemicals Inc. and Sun Medical Inc. to strengthen capital ties (we became an equity method affiliate of Mitsui Chemicals Inc. and Sun Medical Inc.)　This further solidified our relationship.

During the fourth medium-term management plan, we also strengthened our cooperation in the areas of sales and production, as well as in research and development, which was previously the focus of the alliance. Specifically, sales of Sun Medical products in Brazil have commenced, utilizing our sales network. Going forward, the three companies intend to combine tangible and intangible assets to achieve objectives from the three-company alliance, namely to increase global competitiveness and business value in the dental business, and link this with growth of Shofu and expand our corporate value.

(10) Promotion of sustainability management

Promotion of sustainability management is a new initiative in the fifth medium-term management plan. Based on our management philosophy of contribution to dentistry through innovative business activities, we are committed to solving social issues through our corporate activities in collaboration with stakeholders. We aim to achieve both medium- and long-term improvements in corporate value and the realization of a sustainable society. We will promote initiatives to realize these goals based on basic policies of contributing to improving people's quality of life, promoting corporate activities that take the global environment into consideration, strengthening the management foundation that supports increased corporate value, and fostering a rewarding organizational culture and developing human resources.

During the period of the fifth medium-term management plan, we intend to continue to formulate investment plans that take the surrounding environment into consideration, focusing on major investments such as the rebuilding of the head office plant, in order to achieve a 27% reduction in greenhouse gas emissions by 2030 (compared to FY3/22). In addition, in fostering a rewarding organizational culture and developing human resources, we will work to improve the workplace environment and promote diversity and inclusion.

2-3. Numerical targets

(¥ mn unless stated)	FY3/24 Actual	FY3/25 Plan	FY3/26 Plan	FY3/27 Plan	FY3/28 Plan
Sales	★ 35,080	★ 37,721	★ 41,039	★ 45,151	★ 50,185
Domestic sales	★ 14,892	★ 16,170	★ 16,792	★ 17,739	★ 18,733
Overseas sales	★ 20,188	★ 21,551	★ 24,247	★ 27,411	★ 31,452
Operating income	★ 4,709	★ 4,544	★ 5,131	★ 6,325	★ 7,531
(% of sales)	13.4%	12.0%	12.5%	14.0%	15.0%
Ordinary income	★ 5,118	4,638	★ 5,255	★ 6,450	★ 7,663
(% of sales)	14.6%	12.3%	12.8%	14.3%	15.3%
Net income	★ 3,655	★ 3,838	★ 4,505	★ 5,488	★ 6,734
(% of sales)	10.4%	10.2%	11.0%	12.2%	13.4%
EPS (¥)	206.18	133.92	126.96	154.66	189.77
(Prior to stock spilt)	206.18	216.36	253.92	309.32	379.53
Return on equity (ROE)	9.5%.	9.1%.	10.2%.	11.8%.	13.5%.

Notes:
1. Net income = net income attributable to owners of the parent
2. EPS = net income per share
3. ★ = new record-high
4. Depreciation for all property, plant & equipment changed to straight-line method from FY3/25
5. Main forex assumptions: \140/$, \150/€, \160/£ and ¥19/RMB.
6. EPS for FY3/25 and beyond is calculated based on the number of shares after the stock split with a record date of September 30, 2024.

2-4. Capital policy and shareholder returns

The basic policy is to maintain and continue stable dividends while aiming to increase long-term corporate value (shareholder value) and return profits to shareholders, but also giving consideration to the enhancement of internal reserves to strengthen the management base and improve the financial structure, in preparation for active business development in future, such as through expansion of overseas business and R&D investment for new product development.

With regard to specific numerical standards, we have updated our consolidated basis target, and now target a payout ratio of at least 40% and a dividend on equity (DOE) of at least 3.0%, from a payout ratio of at least 30% and DOE ratio of 1.7%.

At the same time, we will implement a two-for one stock split on 30 September 2024 in view of the low liquidity (trading volume and value) of our shares, which adds a liquidity risk premium to the cost of capital, and with the aim of expanding the range of shareholders, particularly individual investors through a reduction in the minimum investment amount

In addition, to improve capital efficiency and secure funds for investment in growth we plan to sell strategic shareholdings and reduce the ratio of these shareholdings to net assets from the current 20% to around 10% by the end of the fifth medium-term management plan.

For more information on these measures, see 3. Measures to achieve cost of capital and share price conscious management.

	FY3/25	FY3/26	FY3/27	FY3/28
Dividend payout ratio	40% or more			
Dividend on equity (DOE)	3% or more			

3. Measures to achieve cost of capital and share price conscious management

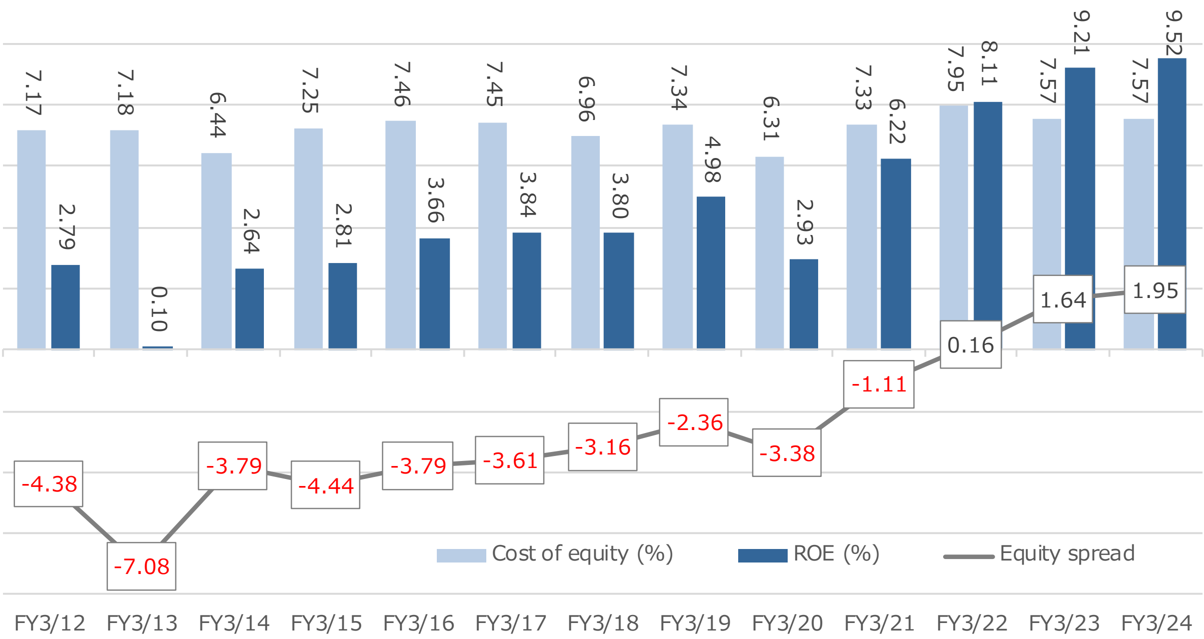
In order to ensure sustainable growth and increase corporate value over the medium and long term, we set forth the following analysis and assessment of the current situation and our policies and specific measures to be taken to improve our management based on an awareness of the cost of capital and our share price.

3-1. Analysis and assessment of our current business environment

Since the fourth medium-term management plan (FY3/22-24), our ROE has exceeded the cost of equity (a positive equity spread). This has allowed us to achieve a return on capital that exceeds our cost of capital. However, although our PBR (price-to-book ratio) has generally trended above 1x in recent years, it remains lower than the PBR multiples of our competitors and the wider industry, and may indicate that the market believes we face challenges.

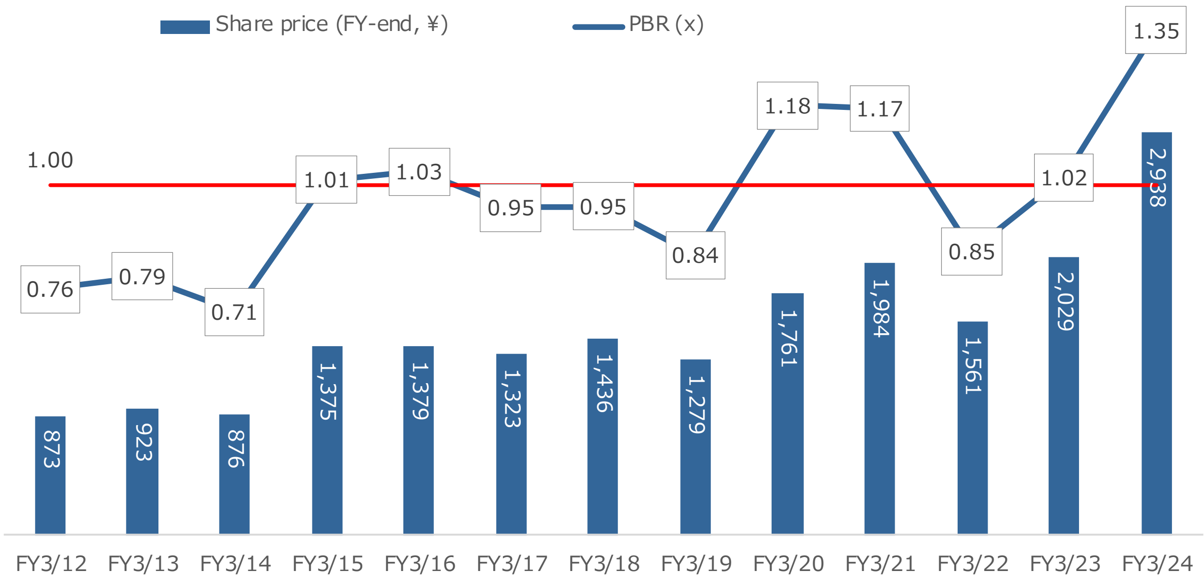
Furthermore, the lower PER (price-to-earnings ratio) during the fourth medium-term management plan compared to earlier periods may similarly reflects these challenges. In particular, we believe there may be a perception gap between the Company and investors regarding our growth story, a key factor for PER, and the high liquidity risk of our shares are issues we need to address in order to improve in future. We think it is necessary to take further steps to improve in future.

(1) Cost of equity, ROE and equity spread



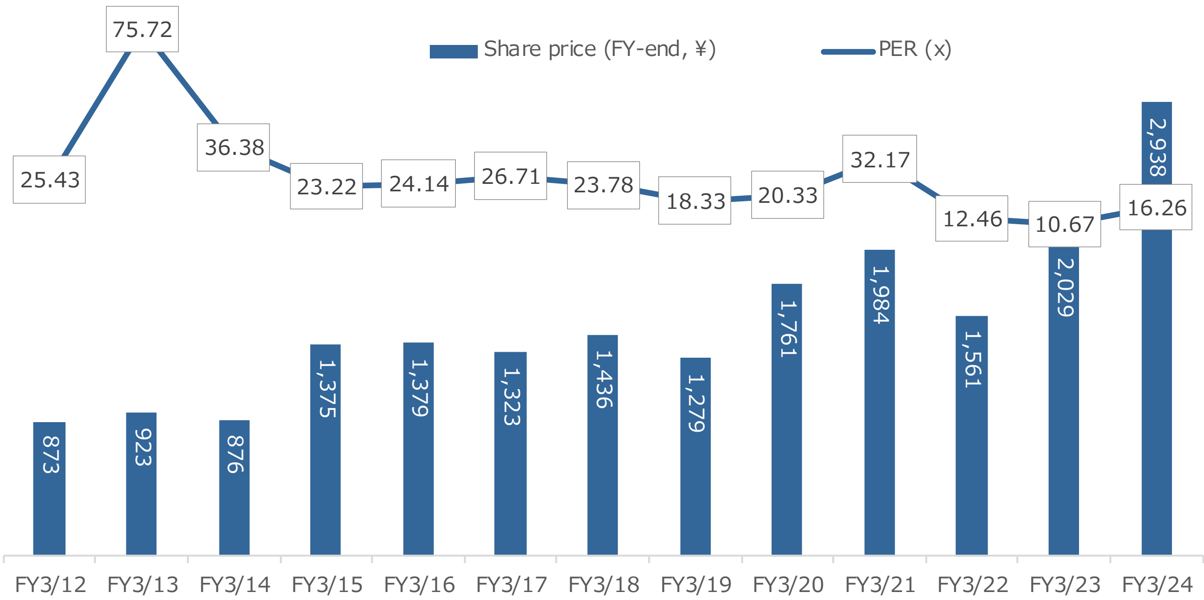
※ The above cost of equity is based on the CAPM two-factor model (including liquidity risk premium).

(2) PBR (Price-to-book ratio)



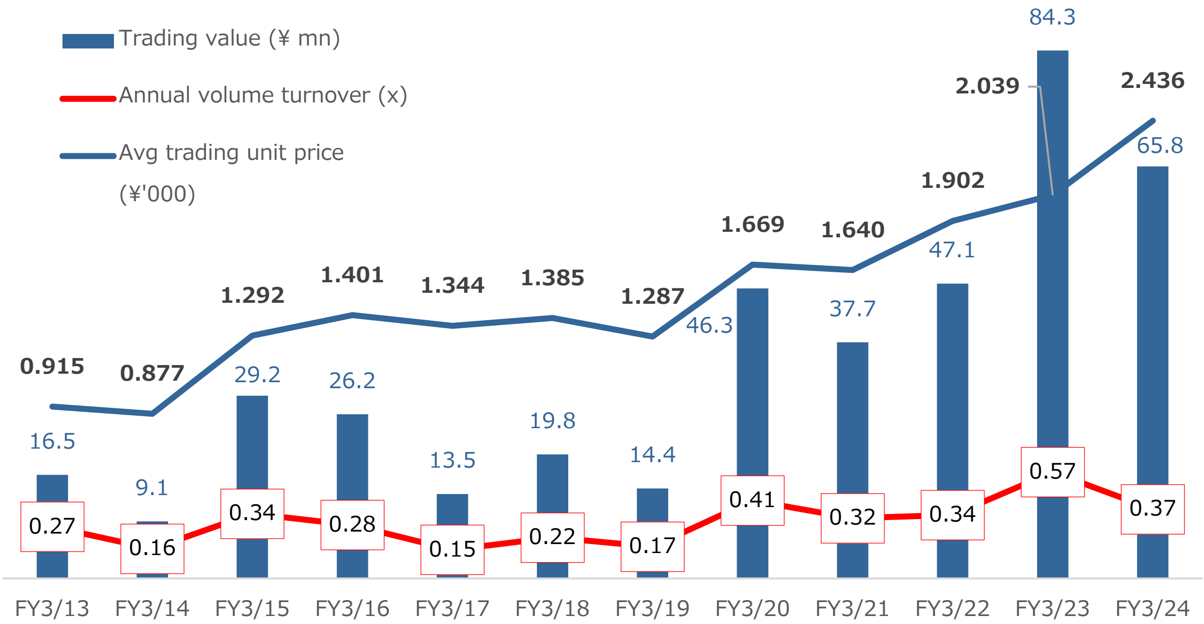
※ FY3/24 PBR is based on FY3/24 Q3 BPS.

(3) PER (price-to-earnings ratio)



※ PER is calculated based on forecast EPS as of the end of each FY (end of March).

(4) Trends in daily trading value and volume turnover



3-2. Specific policies and measures to be taken in future

Based on analysis and assessment of our current cost of capital and equity-related indicators, we will work towards sustainable growth and medium- to long-term enhancement of corporate value by further improving capital profitability through the promotion of tasks to realize annual sales of ¥50 billion, promoting initiatives to increase liquidity in the stock market, proactively fostering growth expectations through our IR activities, and clarifying capital policy and enhancing shareholder returns.

(1) Further improve capital profitability through the promotion of tasks to achieve annual sales of ¥50 billion

As indicated in 2-2. (key issues for the medium- and long-term), we plan to improve our return on equity (ROE) in FY3/28, the final year of the fifth medium-term management plan, to 13.5%, from 9.5% in FY3/24, mainly through the promotion of initiatives that intend to realize our vision of achieving annual sales of ¥50 billion and improving net income margins.

(2) Promote initiatives to improve liquidity in the stock market

i. Implementation of stock split

As indicated above (Section 3-1.(4)), in FY3/24 the liquidity of our shares was ¥65 million per day, and annual turnover was 0.37x . According to Prime Market listing criteria (trading value) for the period Jan-Dec 2023 announced by the Tokyo Stock Exchange, the median value of the 1,655 target companies was ¥276 million yen per day, putting us in 1,428th position, or in the bottom 15%.

In view of the low trading volume and trading value, which add a liquidity risk premium to the cost of capital, and with the aim of expanding the shareholder base, particularly individual investors, by reducing the minimum investment amount, we will implement a two-for-one stock split . The split will be carried out with a record date of 30 September 2024.

(3) Strengthening IR activities

i. Promoting dialogue with investors

As highlighted in our Corporate Governance Report, we hold 1-on-1 meetings with analysts and institutional investors on a regular basis, either in-person meetings or online, to explain our policies and initiatives, as well as performance trends and future growth strategy.

We are also available for meetings with investors at any time, although we may not be able to provide full context at certain periods during the year.

The meetings are generally done by the executives responsible for Corporate Planning, who carried out a total of 98 meetings in FY3/24 (including 34 with foreign investors).

In terms of future tasks, we consider the following initiatives necessary and we will actively promote these.

- Increase the frequency of meetings attended by the President and Representative Director
- Consider attendance by outside directors

- To strengthen the functions of the department in charge of IR, establish a system that allows us to approach a wider range of investors and to increase the quality and quantity of our contact with investors
- To strengthen our approach with foreign investors consideration should be given to English-language IR disclosure and the holding of overseas roadshows

ii. Increasing demands for IR disclosure in English

We will implement the following measures with regards to IR disclosure in English, including in response to requests from the Tokyo Stock Exchange.

<Implemented>.

- Notices of General Meeting of Shareholders
- Financial statements
- Q2 and Q4 (full year) results briefing documents
- Supplementary information on financial results for the first and third quarters when no financial results briefing is held.

<Additional measures to be implemented from FY2025

- Simultaneous disclosure of English materials already being disclosed and simultaneous disclosure in English and Japanese for timely disclosure materials.
- Simultaneous disclosure of press releases in English and Japanese.
- Mirroring of English-language IR websites.

(4) Clarify capital policy and increase shareholder returns

We will maintain an optimum capital structure and strive to continuously increase corporate value by allocating management resources to strike a balance between investment in growth, shareholder returns and strengthening the management base and financial health of the Group.

During the fifth medium-term management plan, we will implement growth investments on an unprecedented scale, mainly production-related investments, which have lagged compared to sales. We will also build a production system that is able to deal with increased demand in each region. At the same time, we will work to increase shareholder returns and strive to return profits to our shareholders.

These investments are planned to be funded by operating cash flow generated during the medium-term management plan, as well as from proceeds from the planned reduction of cross shareholdings and use of interest-bearing debt.

i. Aggressive investment in growth

In order to eliminate the type of opportunity losses that we saw in Japan and overseas during the fourth medium-term plan as a result of insufficient supply capacity, we will urgently look at improving supply capacity to develop a structure that is able to deal with increasing demand in each region. During the fifth medium-term plan, we will make efforts to build a production system to meet this demand growth.

Specifically, in order to increase production capacity for filling and restoration materials, for which demand is expected to increase worldwide, we will reconstruct the Kyoto head office plant and establish a second production base in Changzhou, Jiangsu, with a view to further business expansion in China, the second biggest business in any one country for the Group after Japan. In addition, investments are planned to increase production capacity at two domestic production subsidiaries (Kyoto and Shiga) and a production subsidiary in Vietnam, for a total planned investment of ¥9 billion.

ii. Sale of strategic shareholdings

As of 31 March 2024, the Company had strategic shareholdings in 14 companies with a total market value of ¥8,899 million (excluding those held in affiliated companies that are booked under investment securities).

The Board of Directors examines the appropriateness of each strategic shareholding by carefully looking at the appropriateness of each holding and whether income from the strategic shareholding is commensurate with the cost of capital, among other factors. The policy has been to reduce strategic shareholdings when the significance and validity of the holding is considered limited.

In accordance with this policy, to improve capital efficiency and secure funds for investment in growth we decided to proceed with the planned sale of strategic shareholdings.

As a specific target, we plan to sell strategic shareholdings totaling ¥4 billion and reduce the ratio of strategic shareholdings to net assets from around 20% at present to around 10% by the end of the fifth medium-term plan.

iii. Expansion of shareholder returns

The basic policy is to maintain and continue stable dividends while aiming to increase long-term corporate value (shareholder value) and return profits to shareholders, but also giving consideration to the enhancement of internal reserves to strengthen the management base and improve the financial structure, in preparation for active business development in future, such as through expansion of overseas business and R&D investment for new product development.

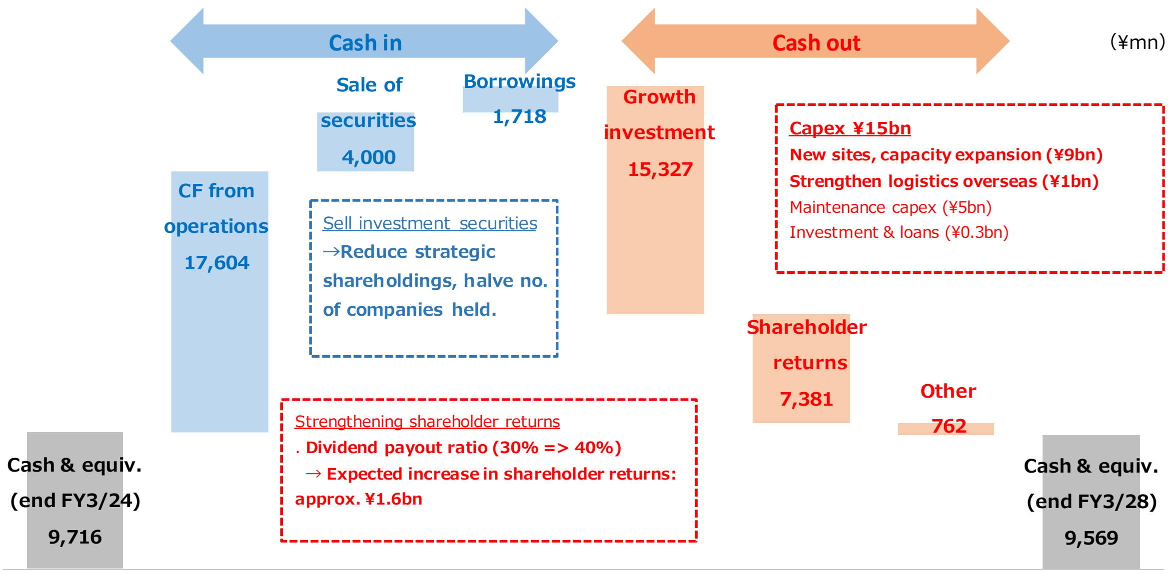
With regard to specific numerical standards, we have updated our consolidated basis target, and now target a payout ratio of at least 40% and a dividend on equity (DOE) of at least 3.0%, from a payout ratio of at least 30% and DOE ratio of 1.7%.

iv. Capital allocation

Capital policy: Cash flow allocation planning

Against operating CF of ¥17.6bn from FY3/24-28, plan to invest ¥15.3bn in capex, including growth investments, and return approx. ¥7.4bn to shareholders, including an increase in the dividend payout ratio.

Investments in excess of operating CF are to be met by a reduction in strategic shareholdings and interest-bearing debt. Net cash (cash & equivalents + investment securities) expected to fall by approx. ¥5.8bn



(Note) This document has been translated from the Japanese original for reference purposes only.
In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.