SHOFU INC.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2026

August 8, 2025

Event Summary

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[Participants]		
[Number of Speakers]	1	
	Fumitaka Yamazaki	Director, Senior Managing Executive Officer, Corporate Planning
[Analyst Names]*	Masatoshi Nagata	Ichiyoshi Research Institute
	Takahiro Mori	Nomura Securities
	Motoya Kohtani	Mizuho Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Moderator: Now that the time has come, SHOFU INC. will begin the financial results briefing for Q1 of the fiscal year ending March 2026. Thank you very much for taking time out of your busy schedule to participate in our financial results briefing today.

First, I would like to introduce the attendees from the Company. Today's speaker is Mr. Fumitaka Yamazaki, Director and Senior Managing Executive Officer, who will provide an overview of the Q1 results for the fiscal year ending March 31, 2026, and an outlook for the current fiscal year.

I would like to ask you for some favors on a variety of matters and also make announcements during this event. In this briefing, there will be time for a question-and-answer session after the financial report. Questions can be submitted via the raise-your-hand function in the control panel or the Q&A function.

You can submit your questions anytime during the briefing. Please note that we may not be able to answer all your questions due to time constraints. The chat function is not available, so if you have any issues, please let us know using the Q&A function.

We will also ask you to complete a three-minute questionnaire after the briefing. We appreciate your cooperation. Now, Mr. Yamazaki, Director and Senior Managing Executive Officer, will give an overview of the financial results and the outlook for the current fiscal year.

Yamazaki: Hello, everyone. I am Yamazaki, Senior Managing Executive Officer.

Thank you for participating in SHOFU INC.'s financial results briefing today. I would like to explain the financial results for Q1 of the fiscal year ending March 31, 2026, and the forecast for the full year, which were announced on August 6, the day before yesterday.

I would like to give a 20- to 25-minute presentation, after which I will have time to answer your questions. Now, let us begin the briefing.

Financial Summary

■ Financial Summary

Q1 FY2026 results

Net sales	¥9,506mn	(Overseas sales 58.3%)
Operating income	¥1,495mn	

- **Performance in line with plan. Overseas, momentum in some regions is easing, but strength in Japan is supporting overall performance. Net sales increased by 0.5% YoY.**
- **Operating income decreased by 3.6% YoY** due to an increase in SG&A expenses, despite an improvement in the gross profit margin thanks to a better product mix.
- **Q1 impact of the U.S. tariffs was limited to about ¥30mn.** Based on estimates of effects for the full year, we will take a flexible approach for measures as necessary while closely looking at policy trends.

FY2026 outlook

Net sales	¥40,876mn	(Overseas sales 58.6%)
Operating income	¥5, 236mn	

- We expect sales to increase by 5.6% YoY due to continued sales growth in Japan and overseas in existing products (mainly filling and restoration materials and CAD/CAM materials), as in the previous period. Assumptions are premised on a stronger yen than current forex rates (Forex assumptions: ¥140.00/$, ¥150.00/€, ¥20.00/RMB)
- **Expect sales to reach a record high for the fifth consecutive year. We also expect profits to remain at a high level.**

Shareholder returns

Dividend policy: Payout ratio of 40%+ and DOE of 3.0%+ on a consolidated basis
Dividend forecast for FY26 :¥53/share (H1: ¥21/share, H2: ¥32/share)

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This is a financial summary.

Net sales for Q1 of the fiscal year ending March 31, 2026, were JPY9,506 million, and operating income was JPY1,495 million, representing an increase in both sales and income compared to the previous year. Progress against the H1 forecast is 47.7% for net sales and 60.1% for operating income.

Sales were up 0.5% YoY, and while overseas sales as a whole came to a standstill, this was compensated for by domestic sales.

In terms of profit, operating income decreased by 3.6% due to an increase in SG&A expenses, despite an improvement in the gross profit margin.

The impact of the US tariffs was limited to JPY30 million in Q1.

Foreign exchange gains and losses included in non-operating income and expenses were a gain of JPY193 million in the previous period and a loss of JPY87 million in the current period, resulting in a larger decrease in operating profit and net income.

Foreign exchange fluctuations had a negative JPY158 million impacts on net sales and a negative JPY2 million impacts on operating income.

As for the forecast for H1 and full year of 2026, we have not changed our initial forecast, assuming the impact of the US tariffs of JPY260 million that I mentioned earlier.

Net sales growth is planned to remain strong both in Japan and overseas. However, as a result of assuming a strong yen trend in exchange rates, sales growth is slightly lower; in real terms, we plan for sales growth to exceed that of the previous year.

Despite the increase in sales, operating income is expected to decrease by 2.9% due to an increase in SG&A expenses.

Foreign exchange fluctuations are expected to have a negative impact of JPY1,825 million on net sales. The impact on operating income is expected to be a negative JPY625 million. As in the previous fiscal year, we plan to continue selling policy stock holdings, and we expect net income to increase.

■Consolidated Financial Results for Q1 FY2026

Key earnings highlights for Q1 FY2026

SHOFU

(¥mn, %)

	Q1-FY2025 Actual		Q1-FY2026 Actual		Change YoY		H1-FY2026 Forecast		Full Year FY2026 Forecast	
		(% of sales)		(% of sales)		(% change)		(progress, %)		(progress, %)
Net sales	9,457	(100.0)	9,506	(100.0)	49	(0.5)	19,943	(47.7)	40,876	(23.3)
(Domestic sales)	3,738	(39.5)	3,968	(41.7)	229	(6.2)	8,472	(46.8)	16,931	(23.4)
(Overseas sales)	5,719	(60.5)	5,538	(58.3)	- 180	(-3.2)	11,471	(48.3)	23,945	(23.1)
Gross profit	5,690	(60.2)	5,785	(60.9)	95	(1.7)	11,895	(48.6)	24,253	(23.9)
(SG&A)	4,140	(43.8)	4,290	(45.1)	150	(3.6)	9,406	(45.6)	19,016	(22.6)
Operating income	1,550	(16.4)	1,495	(15.7)	- 55	(-3.6)	2,489	(60.1)	5,236	(28.6)
Ordinary income	1,812	(19.2)	1,484	(15.6)	- 327	(-18.1)	2,580	(57.5)	5,363	(27.7)
Net income	1,120	(11.8)	854	(9.0)	- 266	(-23.7)	1,908	(44.8)	4,701	(18.2)
EPS	31.56		24.03		-7.53		53.69		132.28	
ROE	2.7%		2.0%		-0.7pt		4.6%		10.9%	
Forex										
$	156.53		145.19		-11.34		140.00		140.00	
€	168.37		164.37		-4.00		150.00		150.00	
RMB	20.54		20.98		0.44		20.00		20.00	

Effect of forex fluctuations: Net sales -¥158mn (vs Q1 FY2025)
Net income = net income attributable to owners of parent

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I would like to continue with a more detailed explanation of our financial results for Q1 of the fiscal year ending March 2026.

This page provides an overview of the results for Q1 of the fiscal year ending March 2026 compared to the previous fiscal year and also shows progress with the forecast for H1 and the full fiscal year for reference.

Net sales increased 0.5% YoY to JPY9,506 million. Domestic sales were up 6.2%, and overseas sales were down 3.2%. The impact of exchange rate fluctuations was minus JPY158 million, so excluding this, overseas sales were down 0.4% on a local currency basis, and domestic and overseas sales combined were up 2.2%.

The main reason for the increase in domestic sales was an increase in sales of CAD/CAM materials for molars and other CAD/CAM-related materials including PEEK blocks.

Overseas sales were solid in North America, Latin America, and China, while sales declined in Europe and Asia.

By product category, China and emerging markets showed a recovery trend due to sales expansion activities, but other markets were generally sluggish, and the negative effect of exchange rate fluctuations also contributed to a 3.2% decrease in sales.

In terms of gross profit, domestic sales of CAD/CAM-related materials, which are included in chemical engineering costs, increased due to a favorable product mix.

By region, sales increased in North America, Central and South America, and China, which have relatively high gross profits.

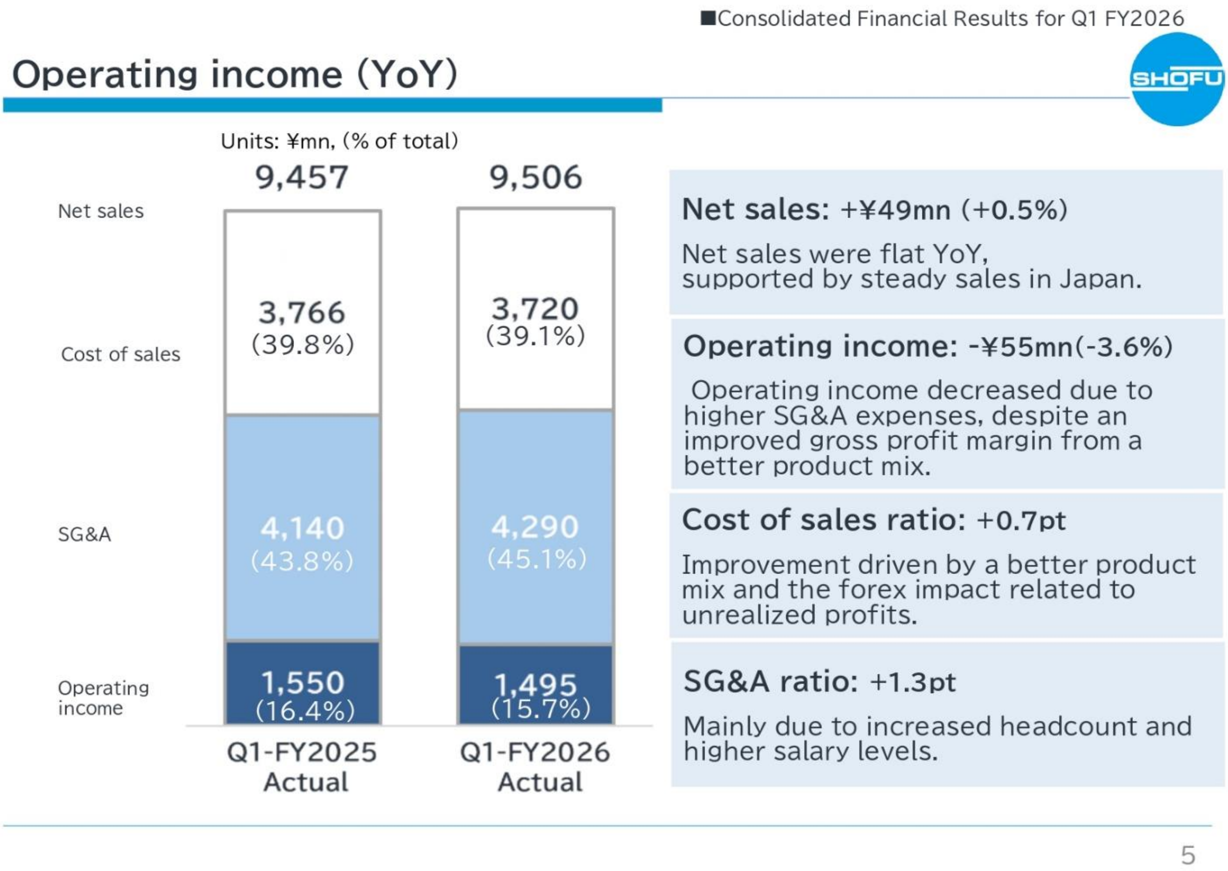
On the other hand, the gross profit margin increased by 0.7 percentage points due to a change in the regional mix, with decreases in Europe and Asia, which were relatively low, and due to foreign exchange fluctuations related to unrealized income.

SG&A expenses increased JPY150 million, or 3.6%. Major items such as personnel expenses and advertising expenses increased, but progress was slower than the 8.1% increase projected for the full year.

As a result, operating income decreased by 3.6% YoY.

As I mentioned earlier, the decline in operating profit and net profit has widened due to the impact of foreign exchange gains and losses included in non-operating income and expenses. In summary, net sales are slightly behind the H1 and full-year forecasts, while operating income and ordinary income are slightly ahead.

As for net income, we expect a gain of JPY863 million from the sale of policy stockholdings in Q4, so the progress toward the full-year plan is slow.

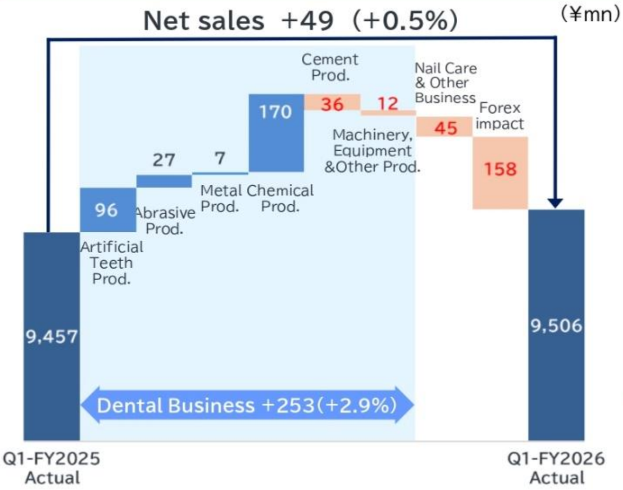


I will now explain operating income on page five.

Operating income decreased by JPY55 million despite a JPY49 million increase in net sales. Although the cost of sales ratio declined by 0.7 percentage points, SG&A expenses rose by 1.3 percentage points, resulting in a 0.7 percentage point decline in the operating income margin to 15.7%. However, this result exceeds the H1 forecast of 12.5% and the full-year forecast of 12.8%.

■Consolidated Financial Results for Q1 FY2026

Net sales by product category (YoY)



	Q1-FY2026		Change YoY(%)	
	Actual	Composition	¥ basis	LCY basis
Artificial Teeth	1,844	19.4%	4.1%	5.5%
Abrasive Products	1,375	14.5%	-1.4%	2.0%
Metal Products	45	0.5%	18.6%	18.6%
Chemical Products	3,193	33.6%	3.7%	5.5%
Cement Products	840	8.8%	-5.0%	-4.1%
Machinery, Equipment	1,666	17.5%	-1.6%	-0.7%
Dental Business total	8,965	94.3%	1.2%	2.9%
Nail Care & Other Business	540	5.7%	-9.1%	-7.7%
Total	9,506	100.0%	0.5%	2.2%

- **Sales of artificial teeth** rose sharply in Q1 due to intensified sales promotion efforts in China. Zirconia-related products also continued to perform steadily in Europe
- **Sales of abrasive and chemical** products remained strong and continued to drive product-level growth.
- Sales of **cement products** decreased YoY due to a pullback from temporary demand driven by regulatory approval in India.

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Page six shows net sales by product category.

The special notes are as stated in the materials, but I would like to provide some additional explanation.

Artificial teeth in China are made up of 60% resin teeth and 40% porcelain, a ceramic material with the same purpose. The contract for resin teeth is a three-party contract between the user—the technician, the dealer, and our company, but we have reviewed this contract. We saw a significant increase in sales due to the impact of sales of porcelain materials, etc.

For new customers, sales include initial inventory, so we expect a slight drop during the period. However, we aim for continued growth by expanding our customer base.

The sales increase in chemical products is mainly due to CAD/CAM-related resin blocks, including PEEK materials in Japan.

While the number of treatment cases at sites where PEEK can be used is approximately 6 million per year, our sales volume is currently at a pace of 250,000 units on an annual basis. In addition, the overall transition rate to CAD/CAM in Japan is still only about 30%, so we believe there is still much room for growth in this field.

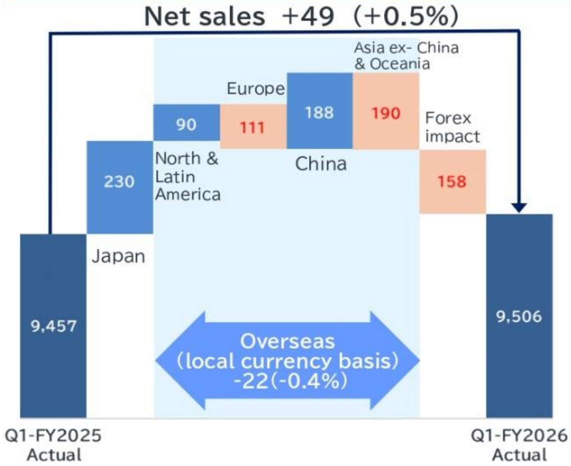
In particular, the transition rate was around 20% in 2022 and 2023, but according to last year's statistics, it was 30%, giving the impression that the speed is increasing.

Regarding the cement business in India, from the latter half of the two previous fiscal years to H1 of the previous fiscal year, there was a concentration of demand for our company’s products due to factors such as other companies not being able to obtain pharmaceutical approval, and we are now experiencing a backlash.

This is about double the level before the special demand occurred, and we believe our market share has expanded.

■Consolidated Financial Results for Q1 FY2026

Net sales by region (YoY)



(¥mn)

	Q1-FY2026		Change YoY(%)	
	Actual	Composition	¥ basis	LCY basis
Japan	3,968	41.7%	6.2%	6.2%
Overseas	5,538	58.3%	-3.2%	-0.4%
North & Latin America	1,249	13.1%	-0.6%	7.2%
Europe	1,889	19.9%	-7.6%	-5.5%
China	1,566	16.5%	16.5%	14.0%
Asia ex-China & Oceania	832	8.8%	-22.2%	-17.8%
Total	9,506	100.0%	0.5%	2.2%

*Europe：Includes Middle East and Africa

- **In Japan,** CAD/CAM-related products continued to drive growth.
- **In the U.S.,** abrasives and restorative materials remained stable.
- **In China,** promotional efforts proved effective, with artificial teeth seeing a significant YoY increase. Restorative materials also maintained steady growth.
- **In Europe,** sales decreased YoY due to the impact of economic conditions in Germany and temporary demand slowdown in the Middle East as a result of Euro depreciation.
- **In Asia,** overall demand remained steady despite a softening of demand in India following a temporary spike and stagnation in some regions due to geopolitical factors.

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Please see page seven for net sales by region.

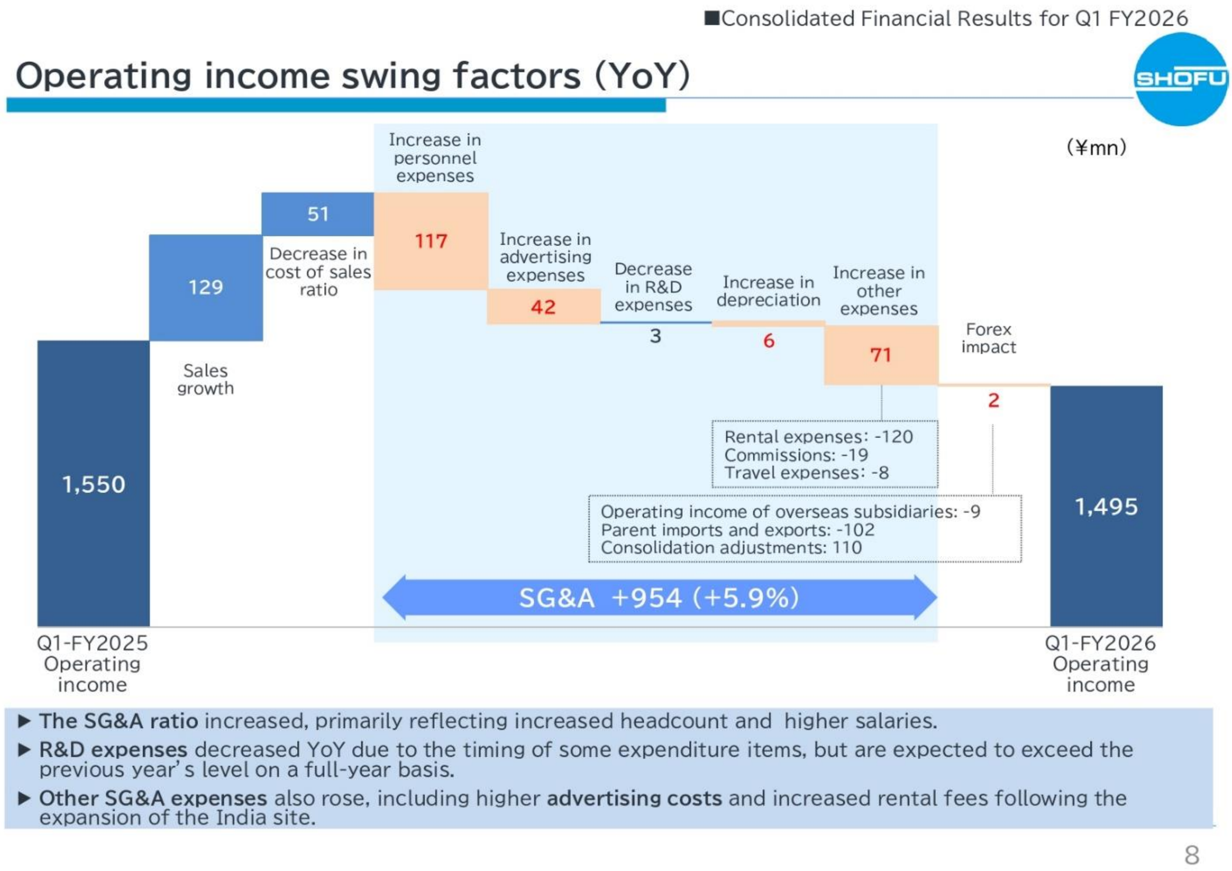
Special notes are as noted, but I would like to provide a few additional explanations.

Domestic CAD/CAM-related and Chinese artificial teeth are as I mentioned earlier.

In Europe, sales have also decreased in Germany, Russia, and the UAE. We believe the main factors for Germany are the impact of economic trends; for Russia, geopolitical factors; and for the UAE, a backlash from Q4 of the previous fiscal year.

In Asia, sales to dealers in Indonesia, Iraq, and the UAE, which sell to Iran, have decreased. We believe the reasons for this are the depreciation of the Indonesian currency against the US dollar, geopolitical factors in Iraq and the UAE, and the fact that import permits from these countries have been delayed in the first place.

While it is difficult to judge from just one quarter, there are some concerns, such as the decline in sales in Europe and Asia and the slowdown in growth in North America, Latin America, and China, which are still positive. We believe it is necessary to grasp the current situation from both the market environment and the competitive environment and take measures promptly.



Page eight shows the factors contributing to the change in operating income.

The special items are as described, but I would like to provide a few additional explanations.

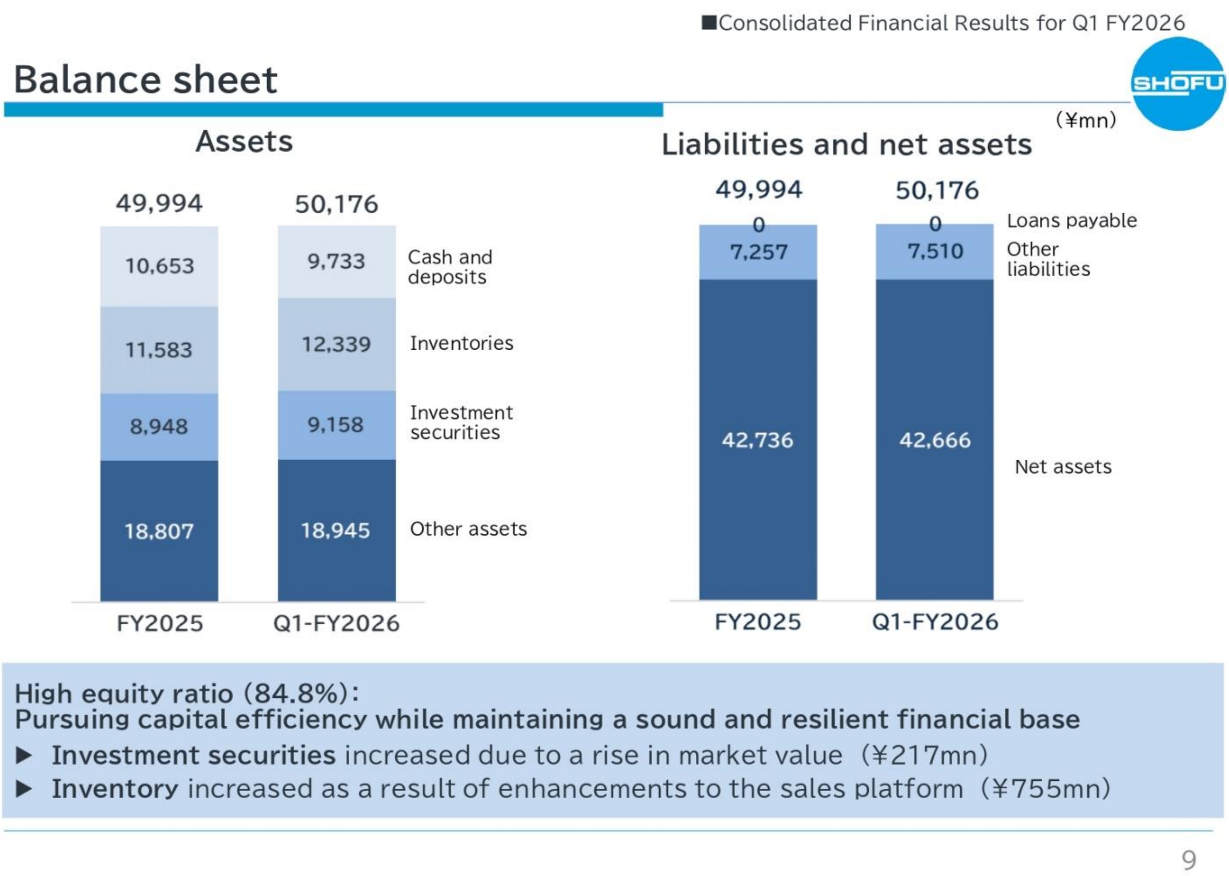
Positive factors include an increase in sales and a decrease in the cost of sales ratio, while negative factors include an increase in SG&A expenses, including personnel expenses, advertising, and other expenses. The decrease in the cost of sales ratio is due to changes in the product mix and regional mix that I mentioned earlier.

SG&A expenses were planned to increase 12.1% on a full-year basis in the initial forecast, based on the idea of aggressively promoting market development, strengthening the sales force, and investing in R&D both in Japan and overseas. Although progress has been slow at this point, the increase was 5.7% YoY, resulting in a 3.6% decrease in operating income.

The breakdown of the increase in personnel costs is approximately one-third due to an increase in personnel and approximately two-thirds due to an increase in salary levels.

Consolidation adjustments under forex impact are due to exchange rate fluctuations related to the increase in unrealized gains on inventories, as of the end of the reporting period.

This time, the yen was appreciated at the end of the period, so there was less profit to be deducted, resulting in a positive effect.



Next is our balance sheet.

The special items are as stated, but I would like to add a few additional explanations.

The increase in inventory was mainly due to a temporary increase in the amount of purchased goods and contracts with suppliers on a non-consolidated basis, as well as increases at overseas bases in Germany and China. Inventories at our overseas bases are slightly increasing, but we believe they will be adjusted to an appropriate level over the course of the fiscal year.

As for investment securities, there were no sales of policy shareholdings in Q1 of the current fiscal year. For the full fiscal year, we plan to record sales of JPY1 billion in Q4, but we would like to proceed with the sales as early as possible during the fiscal year.

Also, although it is not listed on this page, we have other fixed liabilities, including a subsidy for factory construction received from the Ministry of Economy, Trade and Industry. This is a large-scale growth investment subsidy for labor-saving measures aimed at raising wages at small and medium-sized enterprises.

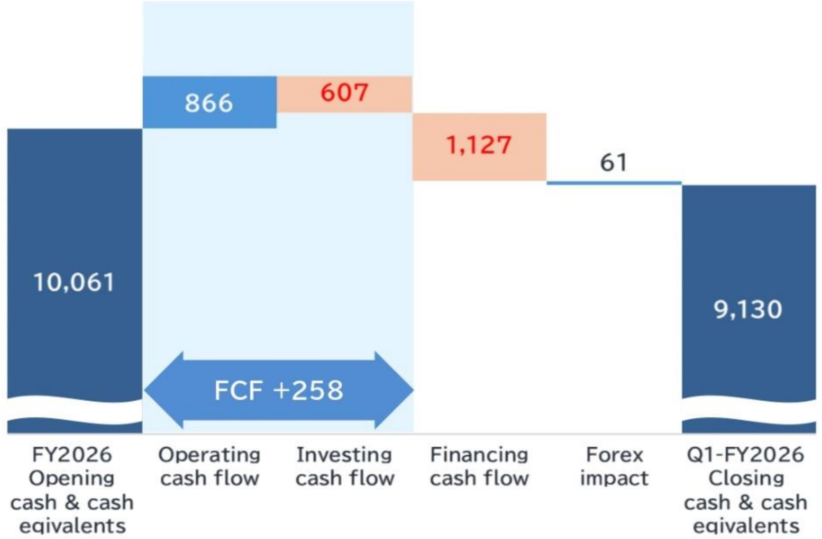
We applied for this subsidy and received a total of JPY660 million, which covers approximately one-third of the construction costs for the first phase of construction of our head office factory. We expect to receive JPY260 million in the current fiscal year and JPY400 million in the next fiscal year.

In Q1 of this fiscal year, we received JPY53 million. However, this income is subject to the condition that we continue to raise wages to a certain extent for three years after completion. Based on the results of this process, we will be able to record the amount as revenue, and until then, we will continue to record it in other long-term liabilities.

■Consolidated Financial Results for Q1 FY2026

Cash flows

(¥mn)



Operating cash flow	
Income before income taxes	+1,484
Depreciation and amortization	+270
Income taxes paid	-709
Increase in inventories	-756
Investing cash flow	
Receipt of a subsidy	+53
Acquisition of fixed assets	-615
Financing cash flow	
Dividends paid	-1,101

▶There were no significant changes in any cash flow categories, with fluctuations remaining within the normal range due to tax payments and an increase in inventory.

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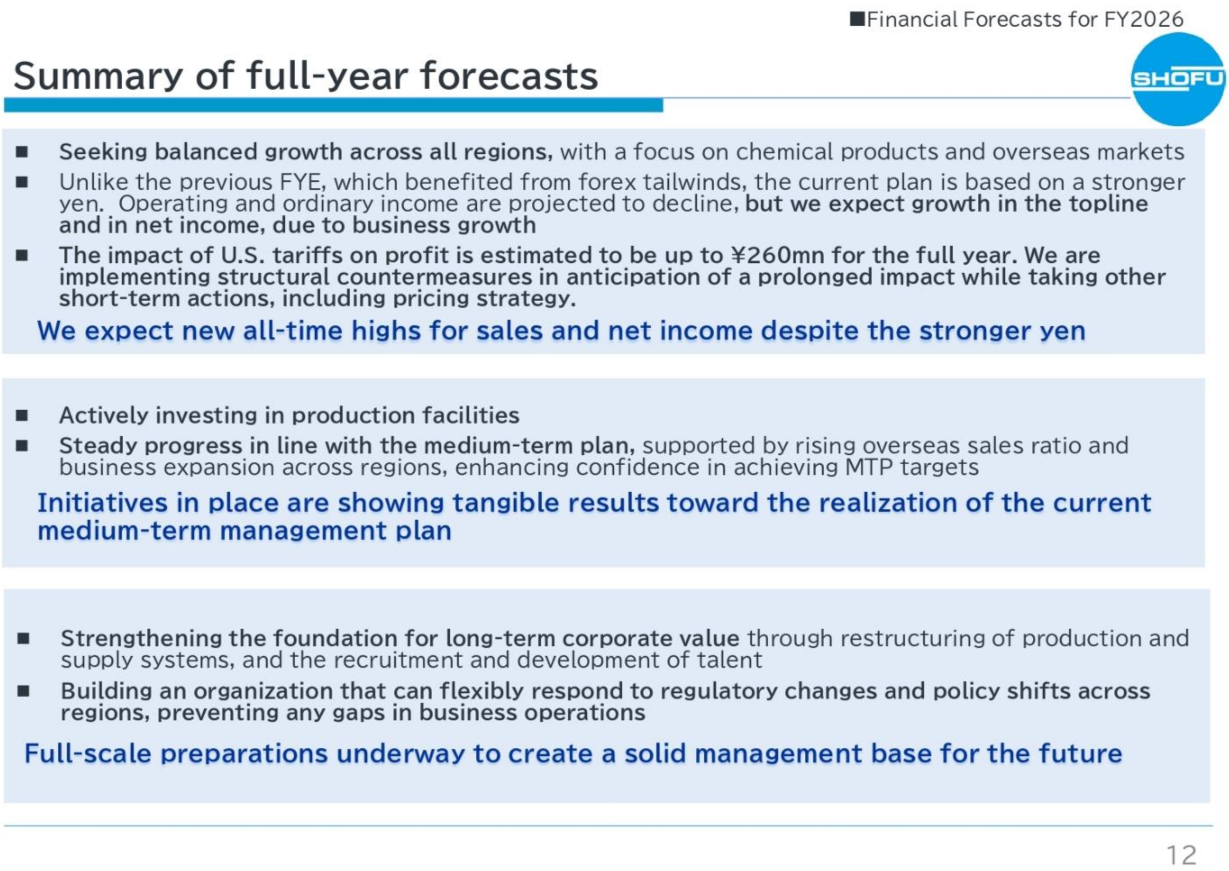
The next page shows our cash flows.

Regarding page 10, the special notes are as stated, but I would like to provide a little additional explanation.

The major expenditures in this Q1 were dividend payments and the acquisition of tangible fixed assets. The acquisition of tangible fixed assets involves fixed assets related to the head office factory and the second production base in China. Regarding subsidy income, it is as I stated earlier.



Next, I will explain our financial forecast for the full year.

This page summarizes the qualitative factors underlying the full-year forecast and descriptions of key factors.

The H1 forecast based on Q1 and the budget for the full year have not been revised from the initial forecast. Sales are expected to reach a record high for the fifth consecutive fiscal year.

Operating income and ordinary income will decrease as a result of the stronger yen assumption, but excluding the impact of exchange rate fluctuations, we expect the profit trend to continue.

In addition, we expect net income to continue to be boosted by gains from the sale of policy shareholdings, and we expect to achieve a record high for the sixth consecutive period.

This fiscal year is the second year of the fifth medium-term management plan announced last year, and although sales will decrease slightly, the current term sales have exceeded the plan.

We do not intend to revise our capital investment plan at this time, as we have confirmed that the growth of our main products, which was the premise of the plan, is progressing as planned.

We will continue to build a system that can respond quickly and flexibly to future changes in demand and business risks.

Comparison of key metrics

(¥mn, %)

	FY2025 Actual	(% of sales)	FY2026 Forecast	(% of sales)	Change YoY	(% change)
Net sales	38,698	(100.0)	40,876	(100.0)	2,178	(5.6)
(Domestic sales)	16,012	(41.4)	16,931	(41.4)	919	(5.7)
(Overseas sales)	22,685	(58.6)	23,945	(58.6)	1,259	(5.6)
Gross profit	22,991	(59.4)	24,253	(59.3)	1,261	(5.5)
(SG&A)	17,599	(45.5)	19,016	(46.5)	1,417	(8.1)
Operating income	5,392	(13.9)	5,236	(12.8)	- 156	(-2.9)
Ordinary income	5,523	(14.3)	5,363	(13.1)	- 159	(-2.9)
Net income	4,317	(11.2)	4,701	(11.5)	384	(8.9)
EPS	121.52		132.28		10.76	
ROE	10.3%		10.9%		0.6pt	
Forex						
$	152.48		140.00		-12.48	
€	163.62		150.00		-13.62	
RMB	21.03		20.00		-1.03	

*Effect of forex fluctuations (YoY): Net sales -¥1,825mn
*Net income = net income attributable to owners of parent

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Page 13 summarizes the key metrics.

Due to exchange rate assumptions, we are forecasting a decrease of JPY1,825 million in sales, which may appear as a slightly lower growth rate, but we are planning for steady growth both domestically and overseas.

Gross profit is expected to decline by 0.1 percentage point YoY, and the Company plans to increase SG&A expenses by JPY1,417 million, so operating income is expected to decrease 2.9% YoY, partly due to the impact of exchange rate fluctuations. The operating margin is also expected to decline to 12.8%.

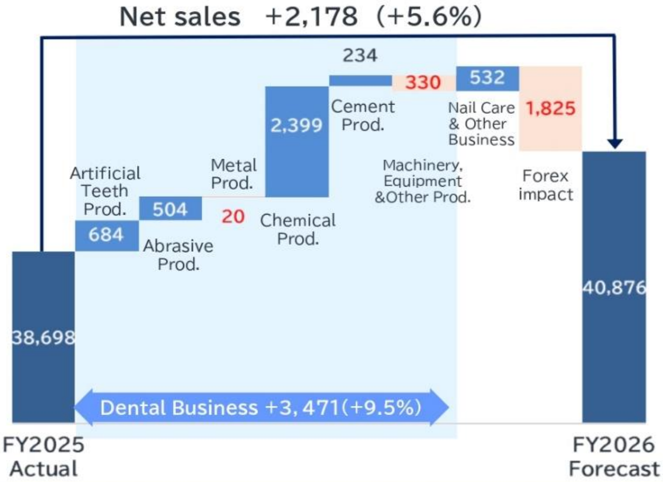
However, excluding the impact of exchange rate fluctuations on sales and operating income, the operating margin would be 13.7%.

Ordinary income is also expected to decrease by the same amount due to a decrease in operating income.

Net income is expected to increase by 8.9% due to an extraordinary gain of JPY863 million from the sale of investment securities, an increase of JPY182 million YoY.

Net sales by product category (YoY)

Units: ¥mn



	FY2026		Change YoY(%)	
	Forecast	Composition	¥ basis	LCY basis
Artificial Teeth	7,304	17.9%	3.7%	9.7%
Abrasive Products	5,811	14.2%	3.9%	9.0%
Metal Products	128	0.3%	-13.8%	-13.8%
Chemical Products	14,538	35.6%	13.3%	18.7%
Cement Products	3,580	8.8%	2.7%	6.7%
Machinery, Equipment	6,783	16.6%	-6.4%	-4.6%
Dental Business total	38,146	93.3%	4.9%	9.5%
Nail Care & Other Business	2,730	6.7%	16.6%	22.7%
Total	40,876	100.0%	5.6%	10.3%

- Chemical products are expected to drive overall performance, **with the Dental Business projected to grow 9.5% year on year on a local currency basis**
- **Artificial teeth**: Strong CAD/CAM zirconia disc demand in Europe/US. In China, despite lower sales in some low-margin products from rising competition, we aim to expand share through strategic pricing while securing sufficient profitability.
- **Machinery, Equipment & Other Products**: Sales decline expected in a pullback from last year's demand surge for CAD/CAM crowns and intraoral scanners following inclusion in insurance coverage the previous FY but CAD/CAM market penetration is progressing. Demand remains firm, with sales fluctuations seen as typical for this product category.

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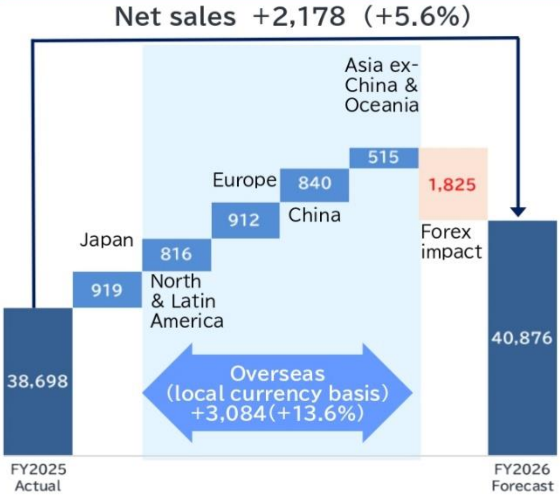
Page 14 shows the net sales forecast by product category.

We plan to continue growth driven by chemical products, but we also expect steady growth not only in chemical products but also in materials such as artificial teeth, abrasives, and cement.

For chemical products, we expect growth of around 10% in North America, Latin America, and Europe on a local currency basis, and more than 20% in China and Asia, with emerging countries making a greater contribution.

Net sales by region (YoY)



Units: ¥mn

	FY2026		Change YoY(%)	
	Forecast	Composition	¥ basis	LCY basis
Japan	16,931	41.4%	5.7%	5.7%
Overseas	23,945	58.6%	5.6%	13.6%
North & Latin America	5,345	13.1%	6.9%	16.3%
Europe	8,175	20.0%	2.6%	11.4%
China	6,210	15.2%	9.2%	14.8%
Asia ex-China & Oceania	4,214	10.3%	4.7%	12.8%
Total	40,876	100.0%	5.6%	10.3%

*Europe：Includes Middle East and Africa

- **Underlying growth expected in all regions**; overseas sales projected to grow over 10% ex. forex
- **Balanced growth expected in all regions**, led by Japan, Europe, and China; steady expansion in Asia
- **Closely monitoring US tariff policies and US-China trade tensions**; swift response planned if any impact materializes

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Please see page 15 for net sales by region.

In Japan, we expect demand to grow for molar resin blocks and PEEK, as well as for related equipment and adhesive system materials.

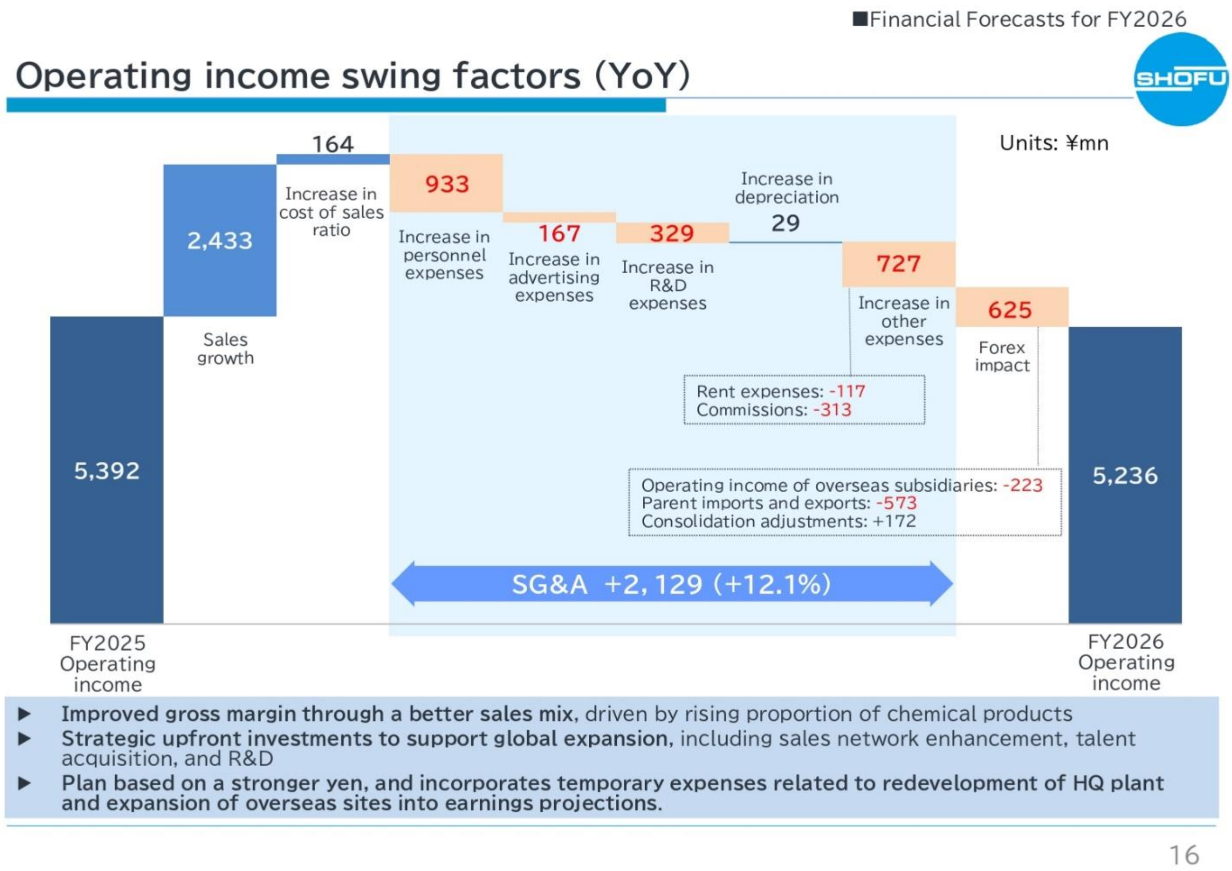
Overseas, we expect 10% growth in all areas on a local currency basis.

In addition to steady growth expected in chemical products across all regions, we also expect increased sales in North America and Central and South America for artificial teeth, CAD/CAM materials made of zirconia, and abrasives, including diamond abrasives made in Vietnam.

In Europe, we also expect increased sales of CAD/CAM materials made of zirconia.

In Asia, we expect increased sales of Indian ceramics and abrasives, which are included in Indian artificial teeth, and diamonds made in Vietnam.

We are currently unaffected by the economic slowdown in China and the preferential policies for made-in-China products.



Page 16 shows the factors contributing to the change in operating income.

Although there is an effect of increased sales and a decrease in the cost of sales ratio, as in the previous fiscal year, we will continue to actively develop domestic and overseas markets, strengthen our sales capabilities, and invest in research and development, which will result in an increase in SG&A expenses.

In addition, due to the negative impact of exchange rate fluctuations based on the assumption of a strong yen, we expect operating profit to decrease compared to the previous fiscal year.

Regarding the cost of sales ratio, there are positive factors such as an increase in the proportion of chemical products, but due to factors such as changes in work systems to deal with delays in factory construction and increased human resource investments for building a future production system, the decrease in the cost of sales ratio is still small.

Of the increase in SG&A expenses, personnel expenses are expected to increase by about 11% overall, mainly due to the strengthening of the sales structure in each overseas area.

Forex impact

FY2026 Forecast

Units: ¥mn

	Forex rate		Consolidated earnings impact		Per yen of ¥1 strength	
	FY2025	FY2026 Forecast	Sales	Operating income	Sales	Operating income
USD	152.48	140.00	-593	-278	-47	-22
EUR	163.62	150.00	-656	-254	-48	-18
RMB	21.03	20.00	-319	-220	-310	-195

- FY3/26 guidance assumes YoY appreciation ($:¥12.48 appreciation YoY)
- Overseas sales ratio is on an upward trend; yen appreciation will have a negative impact on performance ($: Every ¥1 of yen appreciation against the yen drags down sales by ¥47 million and operating income by ¥22 million)

17

Page 17 shows the forex impact.

The exchange rate assumptions for the current year are set at JPY140 to the US dollar, JPY150 to the euro, and JPY19 to the yuan.

The impact on the current operating income forecast is JPY796 million, including JPY754 million for these three currencies.

The appreciation of the yen is a negative factor, and the impact of JPY1 appreciation on net sales and operating income is shown in the table above.

Please note that the amount just mentioned does not include the impact of exchange rate fluctuations on the adjustment of unrealized profits on inventory, which I briefly explained earlier.

This concludes my explanation. Thank you very much for your kind attention.

Now, we would like to answer questions from you. Thank you.

Question & Answer

Moderator [M]: Thank you.

I would now like to move on to the question-and-answer session. If you have any questions, please click the -raise-hand button or text your question through the Q&A panel. If you click the raise-hand button, we will call on you in order.

If you are called on, we will ask you to unmute yourself. Once you are unmuted, please state your company name, your name, and then ask your question.

If you are participating by phone, please raise your hand by pressing asterisk 9, and after you have been called on, please unmute yourself by pressing asterisk 6 and ask your question.

We will start by answering questions raised by hand.

Okay. We have received some questions already, so we will ask the person asking the question to unmute themselves.

Mori [M]: I am Mori from Nomura Securities. Thank you.

Yamazaki [M]: Thank you.

Mori [Q]: My first question is regarding page seven.

As for net sales by region YoY, Europe and Asia ex-China and Oceania are down.

It says that in Europe, sales decreased YoY due to the impact of economic conditions in Germany and a temporary demand slowdown in the Middle East. When and how will sales in Europe recover?

Also, regarding other Asian countries, you mentioned the depreciation of Indonesia's currency. How will you recover from this downturn, taking current market trends into account?

Yamazaki [A]: Thank you for your question.

In Asia and Europe, sales were negative compared to the Q1 plan and slightly down compared to the internal plan, and we are taking this very seriously.

It's difficult to judge the situation in just three months.

Since we do business in many countries, we are currently working to identify the cause of the issues by investigating inventory adjustments of dealers in each country and trends in their distribution inventories. Based on this, we would like to consider our measures from Q2 onwards.

We do not yet have a clear picture of the factors responsible for this, but we believe that, in general, the factors I mentioned earlier are the main ones.

The reasons may not be entirely clear, but that is the current situation.

Mori [Q]: In the case of other companies, it seems that in China, dealers are in a somewhat difficult economic situation, and sell-in, or so-called take-back from companies to dealers, has weakened a bit.

For example, regarding sell-out at the end, from dealers to dental clinics, is there no problem with usage at dental clinics? Is it simply a problem of sell-in, from your company to dealers? Or is sell-out, from dealers to medical institutions, also weakening?

Could you please explain sell-in and sell-out separately?

Yamazaki [A]: In reality, we do not have a full grasp of the inventory situation and sales situation of dealers. We are currently studying a mechanism to check this using DX in the future.

However, we have received reports from the local sites that there has been no significant drop in end-user demand.

There are some issues with local manufacturers in China, such as [inaudible], so we are being affected by that.

Mori [Q]: Thank you.

Therefore, it is difficult to quantify. But qualitatively, sell-out, or so-called end-use demand, is not declining, which is what you are hearing from the local market.

Yamazaki [A]: Yes.

Mori [Q]: I understand.

This is the second question. In this market situation, particularly in Japan, we are seeing a change in trends in the CAD/CAM industry, where not only machinery and equipment but also chemical products such as PEEK are growing.

For example, in the chemical products industry, there is Giomer overseas and CAD/CAM domestically.

Could you please tell us what will happen to CAD/CAM domestically and Giomer overseas in the future, dividing these into domestic and overseas?

Yamazaki [A]: Sure.

As I mentioned earlier, in Japan, the transition from metal products to CAD/CAM is currently around 30%, so this will have a positive impact on the country's insurance finances, and we can expect positive effects from the transition to CAD/CAM. We believe that such a transition will progress in the future.

In terms of materials, we are continuing to develop materials that further enhance the functionality of our current materials. Including these related materials and 3D printing, these materials are currently mainly used for so-called temporary treatments, but there is also an emerging trend to use 3D printing to create final prosthetics, or things that remain in the mouth.

In this respect, we believe that there is still much room for growth in Japan.

Overseas, Giomer is already growing in each area. There are still many areas in developed countries where it has not yet fully penetrated, states in the United States and countries in Europe, so I have the impression that there is room for growth.

In emerging countries, there has been a gradual shift from conventional treatments, such as cement filling treatment, to high value-added composite resin treatment. In that sense, we believe we can capture that growth.

This is all from myself.

Mori [Q]: Thank you.

Just to confirm, in Japan, CAD/CAM-related products are classified as machinery under machinery and equipment, and materials are classified as chemical products and artificial teeth, correct?

Yamazaki [A]: Yes, that's correct.

For materials, zirconia material is included in the artificial teeth. And resin-based materials are included in the chemical products.

Mori [Q]: Thank you.

By prosthetics, you mean what we call "dentures," correct?

Yamazaki [A]: Dentures and bridge teeth. It means something that will ultimately remain in the mouth for a long period of time.

Mori [M]: I understand. Thank you very much. That is all.

Moderator [M]: Thank you. The person next in line, please ask a question.

Kohtani [Q]: This is Kohtani of Mizuho Securities.

I see that profits were reasonably strong, but the reason for the slight drop in the share price is that the growth rate of the Company's overseas operations, especially in local currency terms, is lower than initially expected. Chemical products in particular are weakening, and the biggest reason for this is Europe.

As you explained, there is a slight rebound decline in the United Arab Emirates and Dubai, but in the end, Germany is the biggest factor in Europe, correct?

Yamazaki [A]: Yes, that' s right.

Kohtani [Q]: I think this is the point where you mentioned something about the economic impact, but you have been saying for about two years now that the German dental market is actually quite difficult.

In considering why the market has recently weakened, I would like to ask Mr. Yamazaki: although I don't know much about dentistry, these composite resins are familiar SHOFU products, so even if the economic situation worsens, they will probably be priced the same as your company's competing products.

Since most wholesalers have their own private brands, is it common for people to shift to these types of products? I'm a little unclear here as to why the economic impact would reduce the demand for composite resins. Could you please explain this?

Yamazaki [A]: Sure. Thank you for your question.

The products that are decreasing in sales in Germany are not composite resin, but rather a hard resin for crowns called Ceramage, which is used for prosthetic or bridge teeth.

There has been a slight decline in filling and restorative materials, but not by much.

Rather, the hard resin for crowns that I just mentioned, which is a material used in dental laboratories, has seen a larger decline.

Merz Dental’s artificial teeth, which are also intended for dental laboratories, have also fallen, meaning that the decline in dental laboratory materials is greater than that for clinical materials.

We believe that this decrease is likely due to changes in the competitive environment, but as this situation has only been going on for three months, we are not yet able to pinpoint the exact cause.

Kohtani [Q]: Is it correct to understand that this is because competitors have launched some kind of offensive, taking away demand from brands like Ceramage and Merz, etc.?

Yamazaki [A]: In terms of the figures for the past three months, I think that is the case.

Kohtani [Q]: I understand.

Since Merz products are dentures in the first place, I have wondered for a long time why they have not been replaced by CAD/CAM. That being said, not everyone will switch to CAD/CAM, so in that sense, the denture market has been shrinking in Japan, and I think it is shrinking in Germany as well. Is it correct to understand that this is not a natural trend and that the impact of competition is now being felt?

Yamazaki [A]: Yes. That has been the case for the past three months, but since we are dealing with the inventory of Merz dealers, or the final direct sales of Merz, I think there may also be an impact from dental laboratory inventory. However, we are not yet able to grasp the quantitative factors behind this.

Kohtani [Q]: I would very much like to see a more detailed update of these areas in Q2.

Lastly, Asia also looks very weak. There are quite a lot of countries, and I'm not sure how much each one has, but is there any hope for improvement in this area?

Yamazaki [A]: We have businesses particularly targeting Asia and the Middle East. There are some geopolitical factors in each region, such as local import permits not being granted. It’s not that there is no demand at all, but these factors have caused a slight decline, and this has had a major impact.

Kohtani [Q]: In short, you are saying that geopolitical risk is a major factor.

Yamazaki [A]: Correct. Therefore, we believe it is necessary to lower the weight of sales to such areas and firmly expand ASEAN.

Kohtani [M]: I understand. Thank you.

Moderator [M]: Thank you.

Now, I would like to ask the next person who has their hand raised to speak. Thank you.

Nagata [Q]: I am Nagata from Ichiyoshi Research Institute. I would like to ask two questions.

First, I believe that Mr. Yamazaki made a comment earlier about trademarks in China. I think this is probably about chemical products, and I believe that this change had an effect in [inaudible] Q1. In fact, in Q1 in China, I believe the growth of chemical products alone was over 70%. If you are considering borrowing after Q2, I think there is a possibility that it could fall off. I would like to ask about this prospect.

The second is regarding the sales of PEEK blocks. I understand that there are three companies, including your company, that have already obtained pharmaceutical approval in Q1, and I would like to ask you about the status of competition.

Those are my two questions.

Yamazaki [A]: Thank you.

First, regarding China, the figures you mentioned were 16.5% in Q1 YoY.

Nagata [M]: My apologies. This was last term. Sorry.

Yamazaki [A]: Excluding the positive impact of exchange rates, growth is 10%. Of this, the largest growth was in artificial teeth, and as I mentioned earlier about the three-party contract, these are hard resin artificial teeth.

We have been working on a three-way contract with the initial user, the laboratory, the dealer, and our company, and we have been reviewing the contract to provide certain incentives, such as royalties-based incentives.

Some sales have been recovering as a result.

We want to win back existing users and attract new users. Since we believe that a certain amount of initial inventory-like items is included, especially in the case of new users, we believe that there will be some reactionary decline in the future during the term.

That is the situation in China.

As for PEEK materials in Japan, sales for Q1 totaled JPY245 million.

Nagata [Q]: What was the growth rate for this?

Yamazaki [A]: Q1 of the previous fiscal year was JPY126 million, so it is almost double the amount.

Nagata [Q]: I see. How about the competitive situation?

Yamazaki [A]: I have received information that it is now covered by insurance. We have not yet received any information that it is currently on the market, and we believe that it is still undergoing various initial preparations. Currently, there is still no competition in the market.

Nagata [M]: I see. Thank you very much.

Moderator [M]: Thank you.

Let's move on to the next question. We will now move on to questions that have been submitted via chat. Okay. I will read the question on your behalf.

Participant [Q]: This is about the United States.

Although you are experiencing solid growth on a local currency basis, I believe this is lower than the 16% local currency growth projected in your full-year plan. Please tell us about this situation. Thank you.

Yamazaki [A]: Thank you for your question.

As you pointed out, we expect high growth in the full-year plan, but for Q1 of H1 of the fiscal year, the growth rate was 7.2% on a local currency basis, and I understand that there is a considerable deviation from the full-year plan.

In Q1, as well as in other regions, we would like to make a firm forecast for Q2 and beyond, based on how much of the first three months of Q1 is a reaction to the previous term, and how much is dealer inventory. At this point, we have not received any information that the local demand or competitive environment has changed significantly, and we hope to be able to provide a clear explanation of this in Q2.

Moderator [M]: Thank you very much. We will now take next questions.

Participant [Q]: This is regarding the costs of investigating buried cultural properties in connection with the construction of your head office factory. Please tell us what expenses are expected for this fiscal year. Also, is there a particular quarter in which this expense is likely to occur? Did they find anything?

Yamazaki [A]: There are two phases of construction, the first phase and the second phase, and the survey was conducted after one of the buildings was demolished in the first phase of construction. We incurred research costs of about JPY60 million in the previous fiscal year.

Now, we are building a factory in the first phase of construction, which will be completed in the spring of next year, between the end of this fiscal year and the beginning of next year.

From there, we will demolish the other building, after which the survey will probably begin again. That is when the survey cost will be incurred, around Q2 or Q3 of next year. We believe the amount will be approximately the same.

This is all from myself.

Participant [Q]: Did you find anything?

Yamazaki [A]: What we found were the remains of a temple associated with the Fujiwara family during the Heian period. Of course, the cultural property is a cultural property, but rather than going so far as to determine whether it needs to be preserved for academic purposes, it was decided that it could be recorded and used later, and it is currently being used as normal.

That is all.

Moderator [M]: Thank you.

Now we're running out of time, so I'd like to make this the last question.

Participant [Q]: As you start selling to more countries in the future, it seems there will be polarization between high-quality, high-profit products that should be sold in developed countries like the US and Germany, and mass-produced, cheap products that should be sold in emerging countries.

Is it correct to say that factories in Vietnam and China will switch to products specialized for emerging countries, in other words, products that are cheap and can be mass-produced?

How far have you progressed in your respective areas of success and in developing emerging countries? When will full-scale operations begin?

Also, is that included in the medium-term plan of JPY50 billion? Are there costs associated with academic activities?

Yamazaki [A]: First, in terms of product composition, filling and restoration materials, which are currently growing worldwide, are high-priced products targeted at the so-called upper class in Europe, the United States, China, and emerging countries.

We will continue to make these products in Japan, and although it is most expensive to make them in Japan, we are considering concentrating production there because these products work well in mass production.

However, for processes after the final process, such as filling and packaging, we would like to consider a division of labor system in which such processes are produced close to the respective demand areas.

We would like to gradually expand our mass-produced products to Vietnam, China, and other countries as needed in the future. Currently, we have not reached that point and are in the process of transferring slightly older conventional products to the respective subsidiaries and group companies in order to increase the production capacity of relatively higher-priced products in Japan.

As you mentioned, for the future, we would like to establish a system to sell and produce what we can sell in each region as close to the local area as possible.

Our current medium-term management plan includes bases in Vietnam and China, but we have not yet made any decisions regarding product certification in Vietnam for specific products.

Regarding China, we are planning to produce filling and restorative materials, which are seeing increasing sales in China, as well as ceramics, similar ceramic products such as porcelain, and cement products as products for the Chinese market, labeled as “made in China” products.

Did I answer your question?

Participant [Q]: Regarding academic activities.

Yamazaki [A]: Academic activities are costly. Of course, we sell through distributors and dealers in the commercial distribution itself. We will proceed in collaboration with our own salespeople, academic staff, and influential professors known as KOLs.

Naturally, there will be academic costs involved, but we do not simply ask customers to purchase our products because they are cheap. Rather, we need to clearly communicate the characteristics of our products, their clinical advantages, and the value they provide to customers and patients.

By doing so, there is a very high possibility that customers will become long-term, loyal customers. We are determined to do this even if it means incurring significant costs.

This is all from myself.

Moderator [M]: We are very sorry that we exceeded our scheduled time. There were some questions we have not yet answered, but since we have reached the end of our time, we will conclude the Q&A session. We would be happy to follow up with you through individual interviews, so we look forward to hearing from you.

We would like to conclude with a few words from Mr. Yamazaki.

Yamazaki [M]: Thank you very much for taking time out of your busy schedule to participate in our earnings briefing today.

Starting this fiscal year, we have decided to hold quarterly briefing sessions. We would like to disclose information in a timely and appropriate manner and would appreciate your continued guidance.

Thank you very much for your time today.

Moderator [M]: Now that the time has come, we will conclude SHOFU INC.'s Q1 financial results briefing for the fiscal year ending March 2026. Thank you for your participation until the end today.

Yamazaki [M]: Thank you.

[END]

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Document Notes

1. *Portions of the document where the audio is unclear are marked with [inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
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