May 9, 2025

Corporate name: SHOFU INC.
Representative: Tetsuo Takami
Representative Director, President & COO
Listing: Tokyo Stock Exchange (Prime Market)
Code number: 7979
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Corporate Planning

Measures to achieve cost of capital and share price conscious management (UPDATE)

At the Board of Directors' meeting held on May 9, 2025, the Company conducted an analysis and evaluation of progress with implementing management that is conscious of cost of capital and the share price, aiming to achieve sustainable growth of the Group and increase corporate value over the longer term, including for measures announced on May 1, 2024. The Company hereby provides an update on its future initiatives and specific measures.

1. Analysis and evaluation of the current status

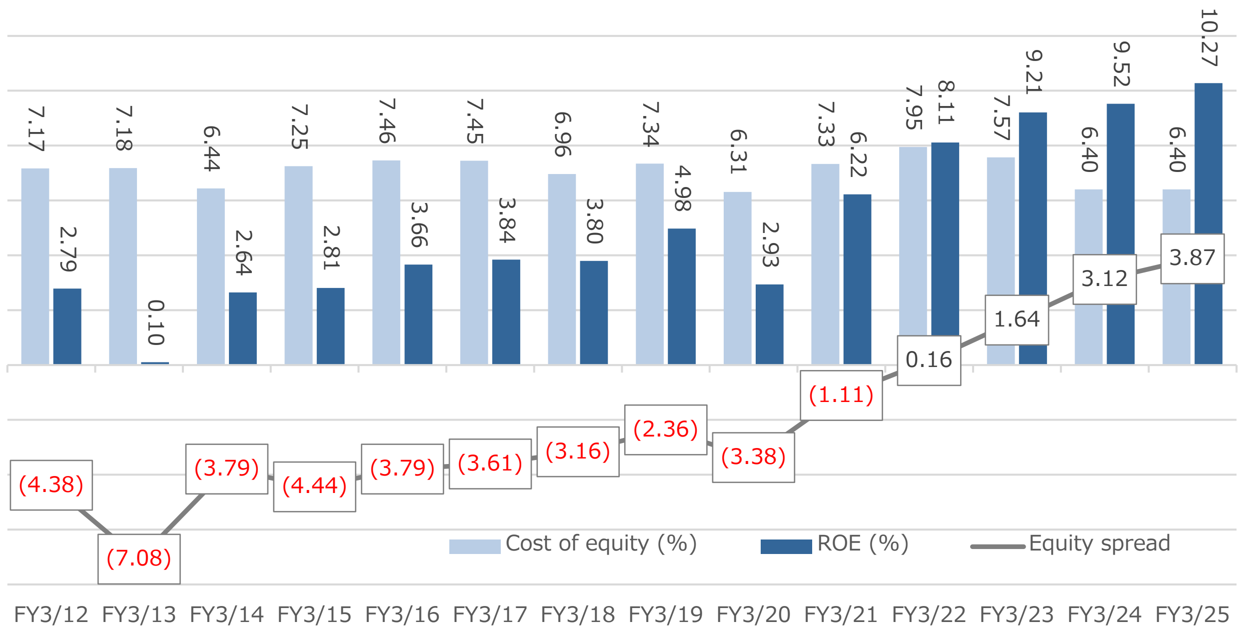
Since the fiscal year ended March 31, 2022, the Company's return on equity (ROE) has remained above the cost of equity calculated using a capital asset pricing model (i.e. the equity spread is positive). However, the Company recognizes through ongoing dialogue with shareholders and investors that the cost of equity expected by investors is 8-10%. In light of this, the Company acknowledges the need for further improvement in capital efficiency.

In addition, the Company's P/B (price-to-book) ratio has generally been higher than 1x, but below the P/B of competitors or the industry sector that the Company is in. This suggests that the market continues to see issues with valuing the stock.

The recent decline in the price-earnings (P/E) ratio also reflects issues with the market's evaluation of the stock. In particular, we see issues between investor perceptions of the Company's growth story and the high liquidity risk.

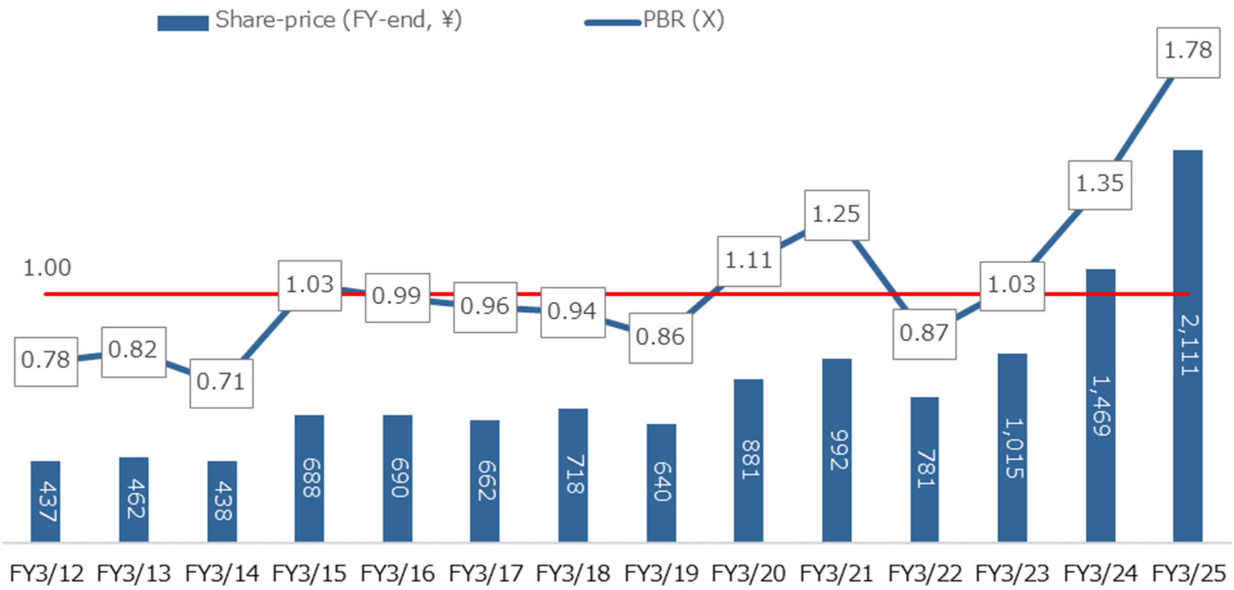
In the previous fiscal year, the fiscal year ended March 31, 2025, the Company believes that measures taken under the strategic policies to resolve these issues contributed to improvement in capital efficiency and market valuation. However, as these improvements are still not yet at a satisfactory level, the Company acknowledges the need to continue efforts at further improvement in these areas.

(1) Cost of equity, ROE and equity spread



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

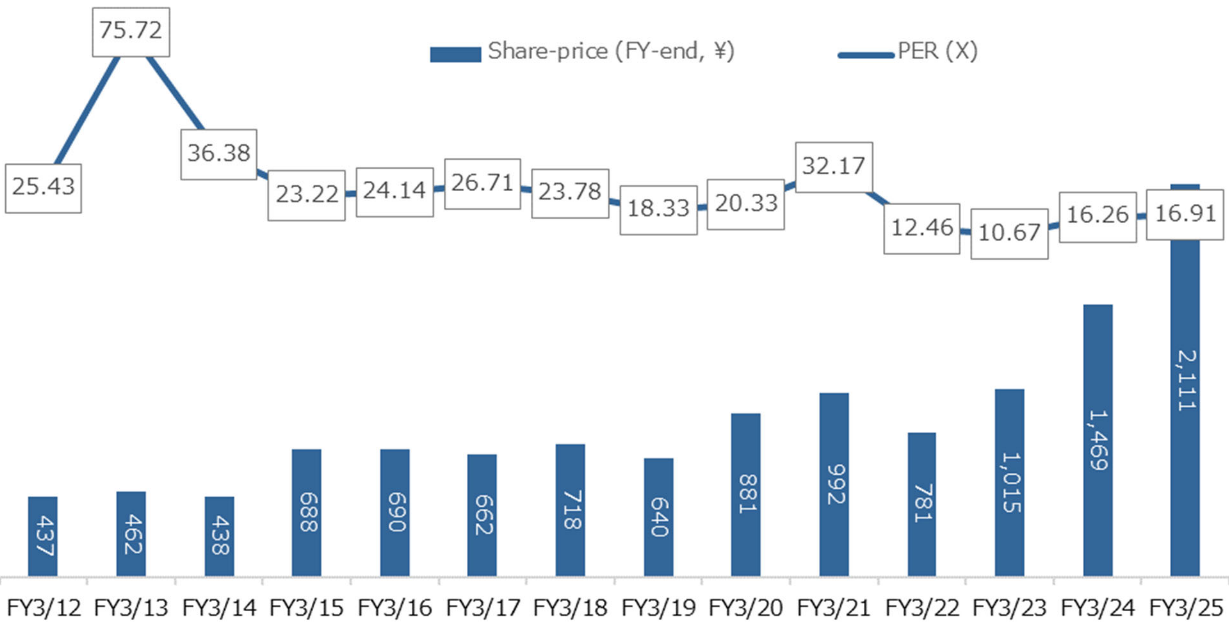
(2) PBR (Price-to-book ratio)



*PBR is based on the published book value per share as of the end of each fiscal year (end of March)

** On October 1, 2024, a 2-for-1 stock split of the common shares was effected. All year-end share prices for FY3/24 and prior periods have been restated to reflect the stock split, ensuring consistency with FY3/25 figures.

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



*PER is based on estimated earnings per share at the end of each fiscal year (end of March)

** On October 1, 2024, a 2-for-1 stock split of the common shares was effected. All year-end share prices for FY3/24 and prior periods have been restated to reflect the stock split, ensuring consistency with FY3/25 figures.

2. Strategy, Specific Initiatives aimed at Improvement and Progress

Based on analysis and evaluation of the group's cost of capital and stock-related indicators, the Company will pursue specific measures based on our analysis of current conditions, including "further improvement in returns on capital by promoting initiatives to achieve the ¥50 billion annual sales target," "pursuing initiatives to improve stock market liquidity," "fostering growth expectations through proactive IR activities," and "clarification of capital strategy and enhancement of shareholder returns," as well as "stepping up of corporate governance".

(1) Further improvement in returns on capital from pursuing measures to achieve annual sales of ¥50 billion

The Group is pursuing measures aimed at achieving initiatives to realize its long-term vision of annual sales of ¥50 billion, and aims to increase ROE from 9.5% in the fiscal year ended March 31, 2024, immediately prior to the announcement of this initiative, to 13.5% in the fiscal year ending March 31, 2028, the final year of the current Fifth Medium-Term Management Plan, mainly by improving net profit margins.

In the fiscal year ended March 31, 2025, the first year of the current plan, ROE rose by 0.75 percentage points from 9.52% in the fiscal year ended March 31, 2024 to 10.27%. This was due to an improvement in profitability driven by higher sales of investment securities and gains on sales, and an improvement in the total asset turnover ratio as a result of the sale of strategic shareholdings.

＜ROE Variance Analysis (compared to FY3/2024)＞

	ROE	Sales net profit margin	Total asset Turnover (x)	Finance Leverage (x)
FY3/2025	**10.27%**	**11.2%**	**0.77**	**1.19**
FY3/2024	9.52%	10.4%	0.70	1.30
increase or decrease	＋0.75%pt	+0.8%pt	+0.07	-0.11

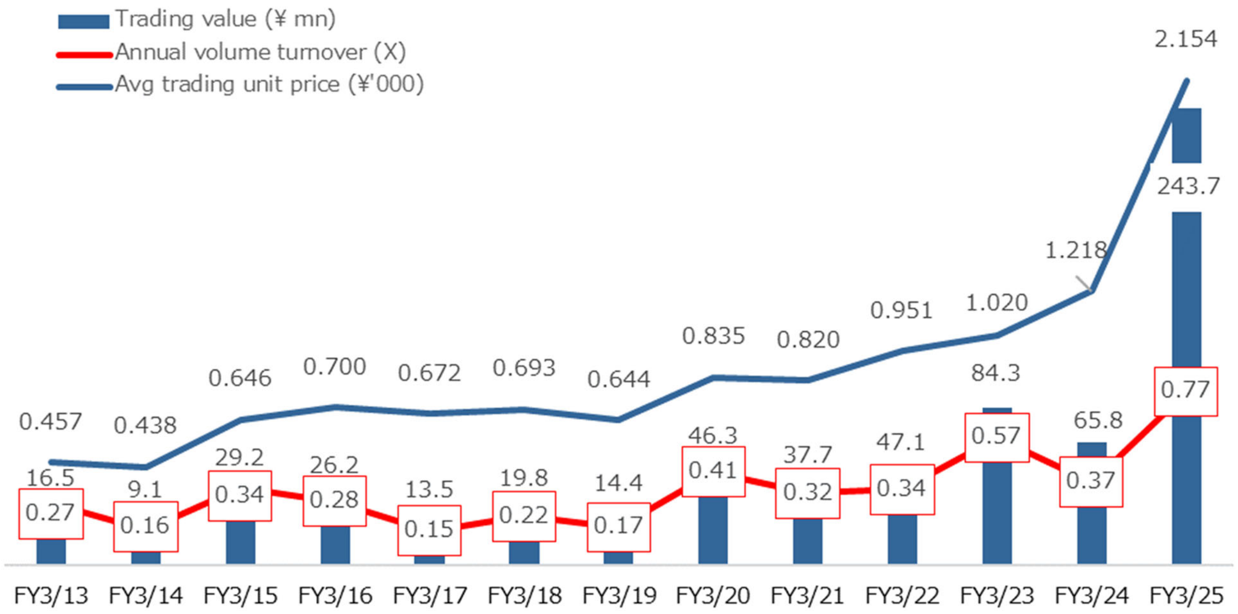
(Reference) Initiatives to realize annual sales of ¥50 billion and progress of these initiatives

Issues to be addressed	Status of initiatives in FY3/2025
【R&D】 Development and launch of new products that meet regional demands and needs	✧Japan: Expanding lineup of new CAD/CAM materials covered by insurance, expanding adhesive systems compatible with new CAD/CAM materials, expanding lineup of products for digital dentures ✧Overseas: Adhesive systems for various restorations, Made-in-Vietnam Diamond Point
【Sales】 Development of sales networks and sales bases, construction of domestic and overseas academic networks	Expansion of sales networks and KOLs* in each country and region ✧Number of distributors (worldwide): Approx. 1,000 ✧KOLs (Worldwide): Approx. 400 *Key Opinion Leader
【Production】 Implementation of cost cutting measures, relocation of production sites to respond to higher production volumes, and expansion of overseas manufacturing.	✧Implementation of cost reduction initiatives, relocation of production sites to respond to higher production volumes, and expansion of overseas manufacturing. ✧Started construction of a new plant at the Kyoto head office
【Human Resources】 Develop and secure human resources to actively promote overseas expansion	✧Promote initiatives to secure a global human resource pool (Establishment of the "System to select and develop Global Human Resources") ✧Launch of next-generation management human resource development program
【Finance】 Procure funds to meet the growing demand for funds	✧Promote measures to effectively use funds within the Group ✧Sale of cross-shareholdings
Promote M&A (business and technology alliances, business acquisitions)	✧Execute cross-border alliances with overseas distributors for the purpose of deepening cooperation ✧Identification of consideration targets based on segment stories (business strategies by product field and region)
Strengthening the Group governance structure	✧Promoting initiatives to strengthen Group compliance ✧Promote initiatives to strengthen information security measures at Group companies
Business Alliance with Mitsui Chemicals, Inc. and Sun Medical Company, Ltd,	✧Sales of Sun Medical Company, Ltd, “Super Bond” dental adhesive through the Company's sales subsidiary in Brazil ✧Apply our proprietary S-PRG technology to the products of Sun Medical Company, Ltd,

(2) Initiatives to improve stock market liquidity

i. Implementation of stock split

＜Trends in daily trading value and volume turnover＞



* The average trading price per share for FY3/25 has been calculated as if the 2-for-1 stock split had been effective from the start of the fiscal year. For comparability, average trading prices per share for FY3/24 and prior periods have been restated to reflect the split

As shown in the figure above, in the fiscal year ended March 31, 2024, market liquidity of the Company's shares was ¥65 million per day, and the turnover for the year was 0.37x. According to the TSE's criteria for continued listing for the Prime Market (based on trading value) in Jan-Dec 2023, the median daily turnover for the 1,655 companies was ¥276 million per day. Values for the Company were ¥63 million, ranking in 1428th place, or in the bottom 15%.

Given the low trading volume and value being added to the cost of capital as a liquidity risk premium, the Company conducted a 2-for-1 stock split on September 30, 2024, with the aim of expanding the shareholder base centering on retail investors by lowering the minimum investment amount. This, combined with the current Medium-Term Management Plan announced in May 2024 and our proactive IR initiatives, significantly improved liquidity in the fiscal year ending March 2025. According to the TSE's criteria for continued listing (based on trading value) released in January 2025, covering the period from January to December 2024, the Company ranked in the top 59% with a trading value of ¥243 million, which compared to the median of ¥317 million, put us 963rd among 1,626 listed companies. This shows a clear improvement from the previous year.

However, during our dialogues with investors, a common theme has emerged that the current liquidity is still too low for the Company to become an investment target for a wider range of investors. The Company continues to view the securitization of strategic shareholdings, mainly cross-shareholdings, as an issue.

However, the Company had 18,718 shareholders as of the end of the fiscal year ended March 31, 2025 (an increase of 4,945 from the previous fiscal year), and we have a positive view of the broadening of the shareholder base as a result of the stock split.

(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 earnings 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.

We view the following initiatives as necessary, and intend to proactively pursue them.

- Increase the frequency of meetings attended by the President and Representative Director
- Consider participation of 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 going on overseas roadshows

During the fiscal year ended March 31, 2025, the Company held 262 meetings with analysts and institutional investors (including 112 meetings with foreign investors), approximately three times the number of meetings held in the fiscal year ended March 31, 2024, while increasing the frequency of participation by the President and Representative Director. In addition, the Company held its first overseas roadshows (two trips to Europe for a total of eight days, meeting 23 organizations). In addition, the Company held technical briefings (small meetings) on its proprietary technologies. In recognition of this proactive stance of information provision and dialogue, five sell-side analysts have evaluated the Company's business performance, etc. and issued reports that include investment decisions and share price targets.

In dialogues with investors, we hear several opinions regarding business alliances and governance in relation to major shareholders, the composition of the Board of Directors and system design, improvement of the business portfolio and optimal allocation of management resources, etc. We would like to share these at the Board of Directors and utilize them for higher quality decision making.

In the fiscal year ended March 31, 2026, the Company plans to hold three overseas road shows (to Asia, the U.S., and Europe) and to actively promote dialogue with investors.

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>.

- Notice of General Shareholders’ Meeting
- 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.

From the fiscal year ended March 31, 2026, the Company plans to hold financial results briefings in the first and third quarters as well.

＜Measures implemented in FY3/2025＞

- Disclose financial information and simultaneous disclosure of timely materials in both English and Japanese

＜Additional measures to be implemented in FY3/2026＞

- Disclosure of Annual Securities Reports in English
- Disclosure of the Corporate Governance Report in English
- Mirroring of English-language IR pages with the Japanese website.

(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.

Funding of these investments is planned via operating cash flow generated during the 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 seen in Japan and overseas during the previous medium-term plan as a result of insufficient supply capacity, the Company will urgently look at improving supply capacity to develop a structure that is able to deal with increasing demand in each region. During the current medium-term plan, the Company 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 rebuild 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 largest market for the Group after Japan. In addition, investments to increase production capacity are planned at two domestic production subsidiaries (Kyoto and Shiga) and a production subsidiary in Vietnam, for a total planned investment of ¥9 billion.

The start of the rebuilding of the Kyoto main plant was delayed due to the Kyoto City’s survey of cultural treasure deposits, but construction is scheduled to be completed during the current medium-term plan .

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 shares in affiliates that are included in 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 received are aligned with the cost of capital, among other factors. The policy has been to reduce strategic shareholdings when the rationale and appropriateness of these holdings is considered limited.

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

As a specific target, we intend to sell ¥4 billion during the current medium-term plan and reduce the ratio of cross-shareholdings to net assets from around 20% in the fiscal year ended March 2024 to around 10%.

During the fiscal year ended March 31, 2025, the Company booked sales of ¥869 million in five holdings (four of which were sold outright). As a result, the ratio of cross-shareholdings to net assets was 14.4% as of the end of the fiscal year ended March 31, 2025. In the fiscal year ended March 31, 2026 and beyond, the Company will continue to promote the sale of shares held and strive to improve capital efficiency.

iii. Expansion of shareholder returns

The basic policy is to maintain and sustain stable dividends while aiming to increase long-term corporate value (shareholder value) and returning profits to shareholders. Consideration will also be given to increasing retained earnings in preparation for aggressive business development, including expansion overseas and investing in R&D for new product development, while strengthening the business base and improving the balance sheet

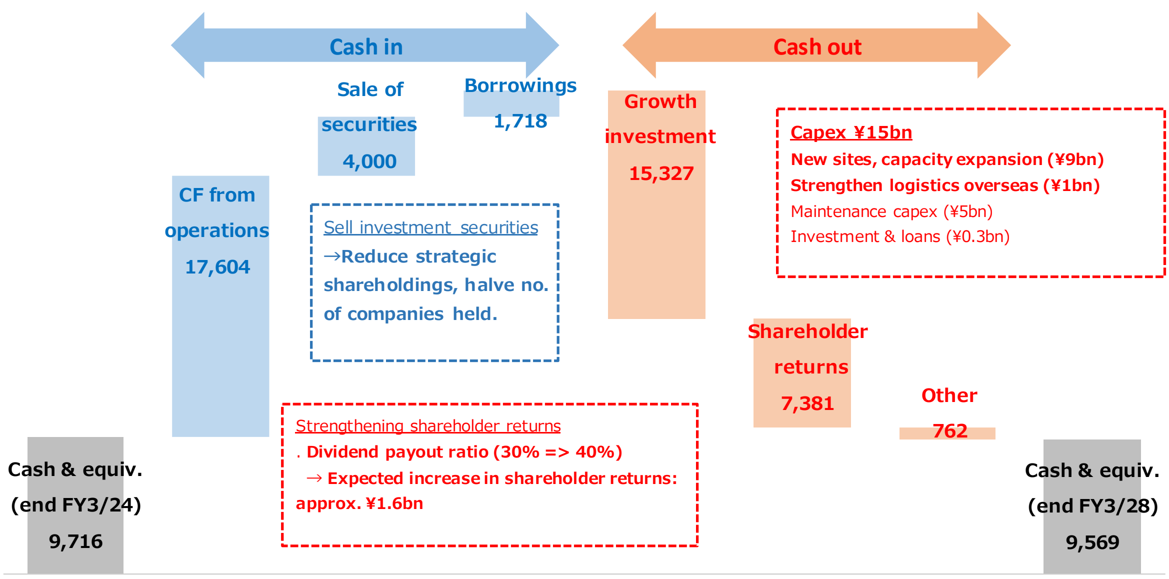
In terms of specific numerical metrics, the Company has updated its consolidated basis target, and since the fiscal year ending March 2024 targeted a payout ratio of at least 40% and a dividend on equity (DOE) of at least 3.0%, compared to previous targets of a payout ratio of at least 30% and a DOE of 1.7%.

iv. Capital allocation

<u>Capital policy: Cash flow allocation planning</u>

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



(5) Deepening of corporate governance

The Company will strive to achieve sustainable growth and enhance longer-term corporate value by leveraging its proactive dialogue with capital market participants in management decision-making and further improve management transparency and the quality of decision-making through enhancing corporate governance.

i. Abolition of Takeover Defense Measures

At a Board of Directors meeting held on April 10, 2025, the Company decided to discontinue and abolish the "Policy for Responding to Large-Scale Purchases of Share Certificates, etc. of the Company (Takeover Response Measures)," that expire after the 153rd Ordinary General Meeting of Shareholders on June 25, 2025, in view of the management stance expressed in the current medium-term plan, comments from domestic and overseas institutional investors and other shareholders, recent developments regarding acquisitions, and changes in the business environment surrounding the Company.

As long as the Company is listed on the stock exchange, the Company is aware it may receive various takeover bids regardless of the market capitalization and whether or not prior consent has been sought.

As such, the Company also intends to continue and increase constructive dialogue with shareholders and other stakeholders, based on a renewed awareness of the importance of initiatives that boost corporate value through management efforts and are reflected in the market capitalization.

ii. Promotion of diversity in the Board of Directors

The Company believes that it is important for the Board of Directors to have knowledge, experience, and capabilities as a whole and to have sufficient diversity, including gender, international experience, work experience, and age in order to achieve sustainable growth and increase corporate value over the longer term. For this reason, the Company has decided to nominate two women with deep knowledge of capital markets, ESG management, and quality assurance and responsive care as new Outside Director candidates at the 153rd General Shareholders' Meeting to be held on June 25, 2025. For details on the history of new director candidates, please refer to the " Announcement of Changes in Representative Director and Corporate Officers" published today.

(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.