SHOFU INC.

Briefing on Financial Results for FY March 2024 and New Medium-term Business Plan

May 23, 2024

Event Summary

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[Venue Size]	154 m^2	
[Participants]		
[Number of Speakers]	2	
	Tetsuo Takami	President & COO
	Fumitaka Yamazaki	Director, Senior Managing Executive Officer, Production and Corporate Planning
[Analyst Names]*	Masatoshi Nagata	Ichiyoshi Research Institute

*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.

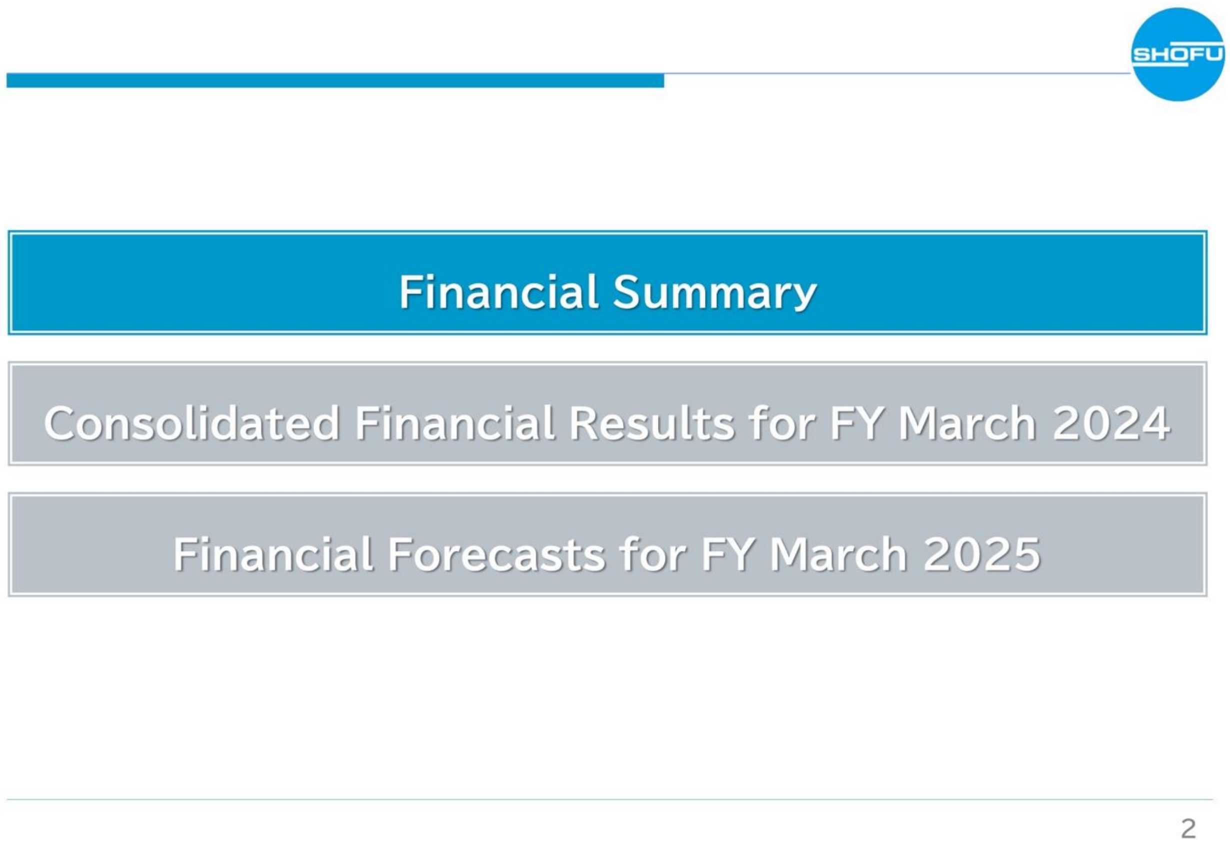
Presentation

Moderator: Thank you very much for taking time out of your busy schedules to participate in today's financial result briefing for the fiscal year ended March 2024 of SHOFU INC. The presentation materials used today can be viewed and downloaded from our IR page. Please make use of them as appropriate. The meeting is scheduled to end around 16:30.

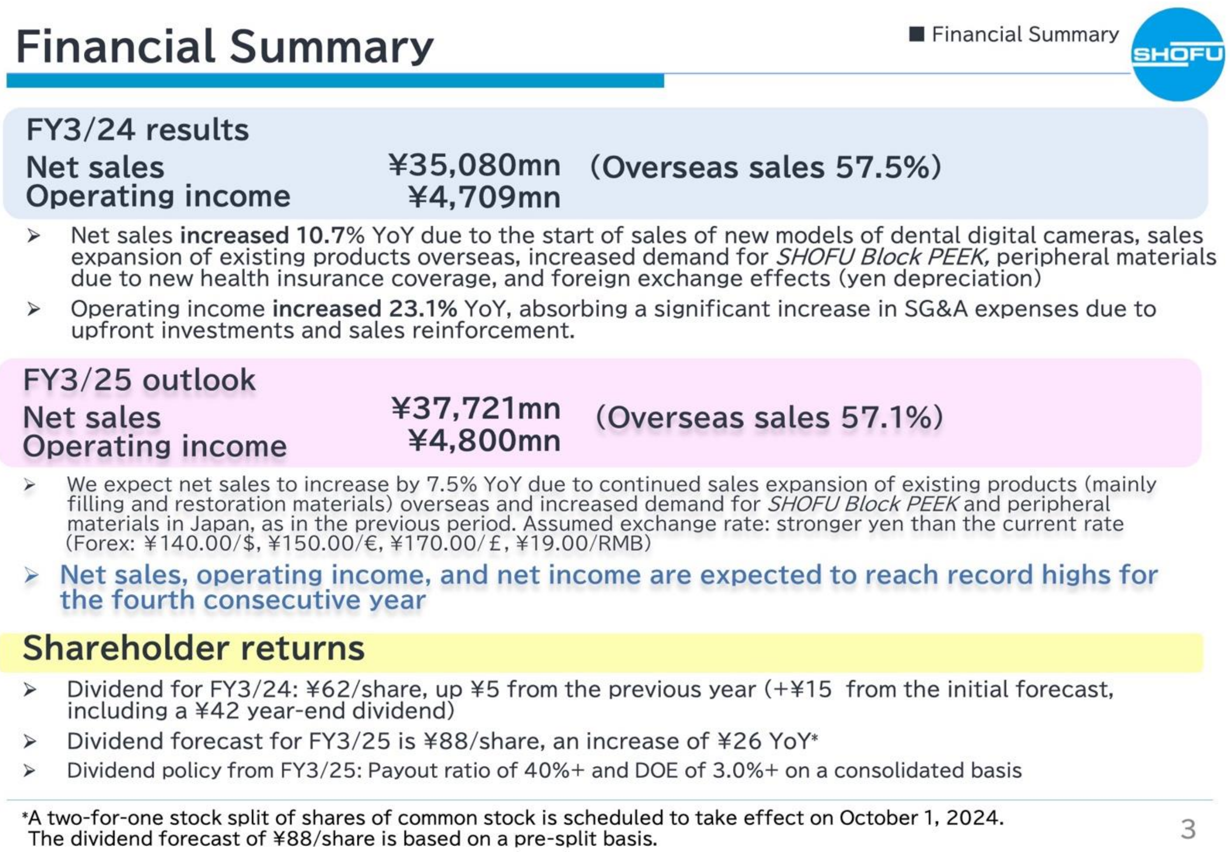
First, allow me to introduce the attendees from the Company. We have Mr. Tetsuo Takami, President and Chief Operating Officer, and Mr. Fumitaka Yamazaki, Director and Senior Managing Executive Officer.

Mr. Yamazaki, Director and Senior Managing Executive Officer, will give an overview of the financial results for the fiscal year ended March 31, 2024, and the outlook for the current fiscal year, followed by a presentation on the medium-term management plan by Mr. Takami, President and Representative Director. After that, we would like to move on to the question-and-answer session. Now, let me ask Mr. Yamazaki for an overview of the financial results for the fiscal year ended March 31, 2024, and the outlook for the current fiscal year.

Yamazaki: I am Yamazaki, Senior Managing Executive Officer of the Company, as introduced. Good afternoon. Thank you very much for attending and watching today's financial results presentation of SHOFU INC. As the moderator mentioned, today's briefing will consist of two parts, the first half of which will be an explanation of the financial results for the fiscal year ended March 31, 2024, and the outlook for the fiscal year ending March 31, 2025. Let me begin.



This is a financial results summary.



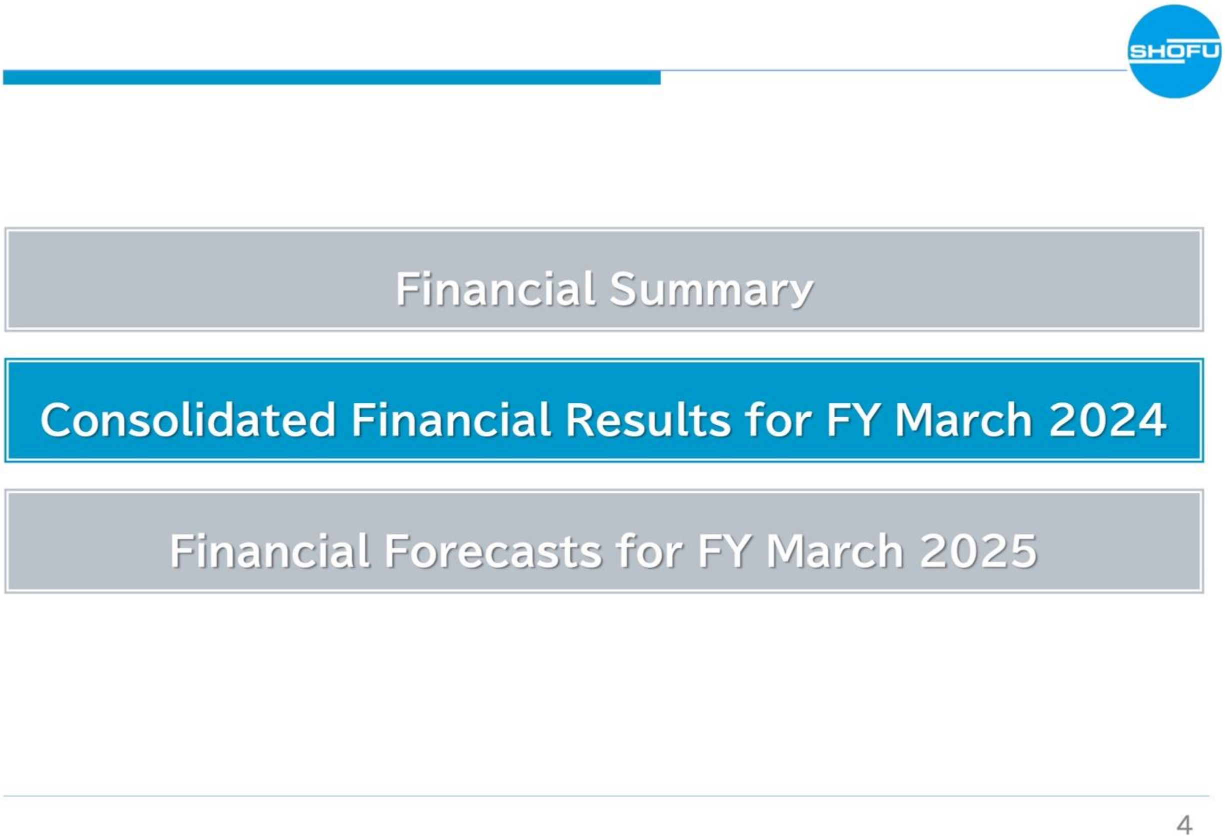
For FY3/24, the Company reported net sales of JPY35,080 million and operating income of JPY4,709 million, up both in sales and income compared to the previous year and the forecast. Sales remained strong both at home and abroad with 10.7% YoY increase, thanks to the positive impact of exchange rate fluctuations on overseas sales.

Operating income increased 23.1% despite a JPY1.4 billion increase in SG&A expenses due to the effect of top-line growth and higher gross margin. The positive effect of exchange rate fluctuations on operating income was JPY300 million.

In the FY3/25, we expect the solid performance to continue from the previous fiscal year both in Japan and overseas. We have set our foreign exchange rate assumptions based on a stronger yen than the current trend. If we exclude the currency effect, it will be 10.7% increase in net sales, which is higher than the growth of the previous year.

In terms of profit, operating income is expected to increase only slightly by 1.9% due to a decline in gross margin, an increase in SG&A expenses, and the negative impact of exchange rate fluctuations. We expect a negative effect of approximately JPY400 million on operating income due to exchange rate fluctuations.

Regarding shareholder returns, for FY3/24, we plan to increase dividends by JPY5 YoY to JPY62 per share. For the current fiscal year, we plan to raise the dividend payout ratio to 40% or more and DOE to 3% or more, respectively, and plan to pay JPY88 per share on a pre-split basis.



I would like to continue with a more detailed explanation of our financial results for FY3/24.

■Consolidated Financial Results for FY3/24

SHOFU

Key earnings highlights for FY3/24

(¥mn, %)

	FY3/23 Actual	(% of sales)	FY3/24 Actual	(% of sales)	Change YoY	(% change)	FY3/24 Forecast	(% change)
Net sales	31,678	(100.0)	35,080	(100.0)	3,401	(10.7)	34,888	(100.5)
(Domestic sales)	14,282	(45.1)	14,892	(42.5)	610	(4.3)	14,851	(100.3)
(Overseas sales)	17,396	(54.9)	20,188	(57.5)	2,791	(16.0)	20,037	(100.7)
Gross profit	18,699	(59.0)	20,995	(59.8)	2,295	(12.3)	20,614	(101.8)
(SG&A)	14,874	(47.0)	16,286	(46.4)	1,411	(9.5)	16,306	(99.9)
Operating income	3,824	(12.1)	4,709	(13.4)	884	(23.1)	4,308	(109.3)
Ordinary income	4,238	(13.4)	5,118	(14.6)	880	(20.8)	4,572	(112.0)
Net income	3,135	(9.9)	3,655	(10.4)	520	(16.6)	3,204	(114.1)
EPS	176.10		206.18		30.08		180.70	
ROE	9.2%		9.5%		0.3ppt		8.8%	
Forex								
$	134.95		144.40		9.45		141.31	
€	141.24		156.80		15.56		153.51	
RMB	19.38		19.80		0.42		19.65	

Effect of forex fluctuations: Net sales +¥1,271mn (vs previous FY)
Net income = net income attributable to owners of parent
FY3/24 Forecast = revised plan announced on October 24, 2023.

5

This page summarizes our performance for FY3/24 compared to the previous year and to our forecast. Sales increased 10.7% from the previous year to JPY35,080 million, with domestic sales up 4.3% and overseas sales up 16%.

Excluding the JPY1,271 million effect of exchange rate fluctuations, overseas sales were up 8.7% on a local currency basis, and domestic and overseas sales in total were up 6.7%.

The main reason for the increase in domestic sales was the growth of CAD/CAM material for molars, SHOFU Block PEEK, which was included in the national health insurance coverage in December last year as well as the sales growth in related adhesive systems.

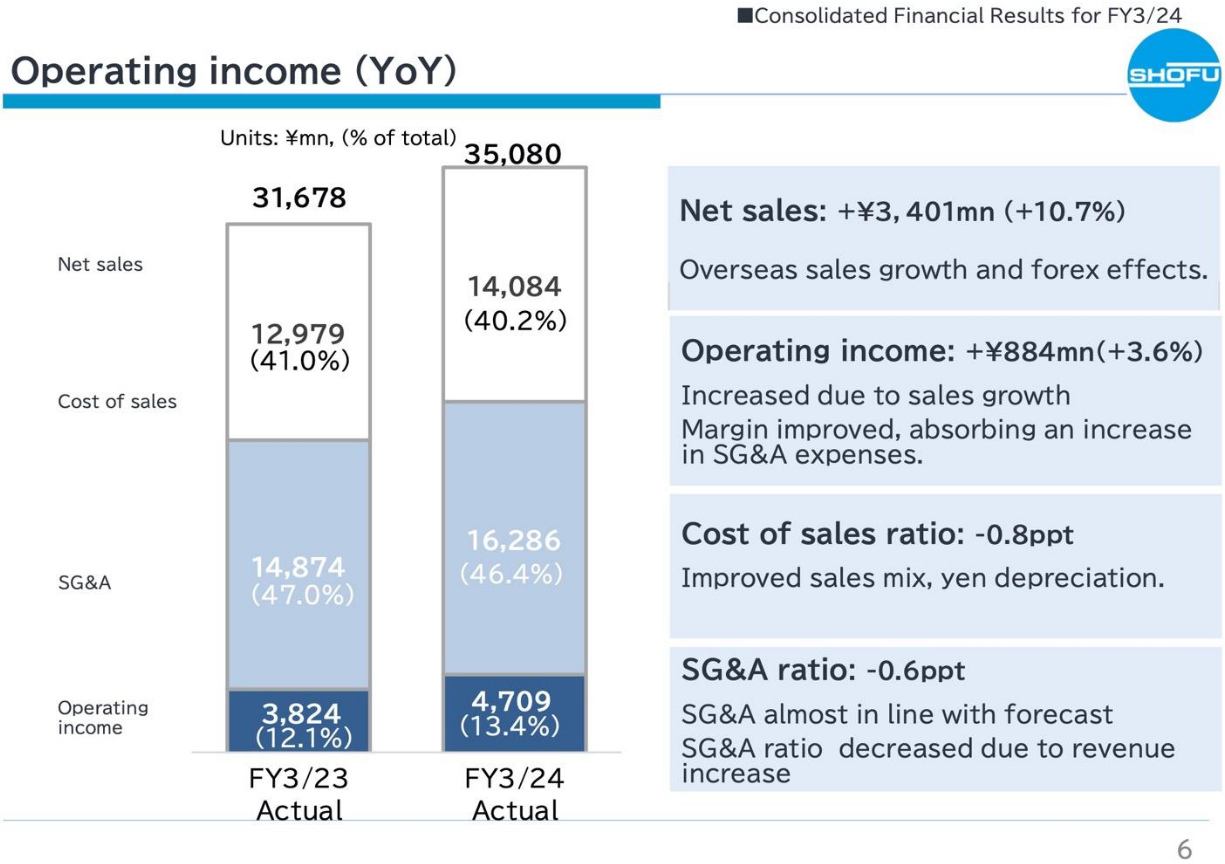
Overseas sales were driven by chemical products, primarily in China and Asia, with the positive impact of exchange rate fluctuations also contributing to the solid performance.

Gross profit rose 0.8 points due to a rise in overseas sales, an improvement in the sales mix such as higher sales of chemical products, and a high level of production capacity utilization.

SG&A expenses increased by JPY1.4 billion, but excluding the effect of exchange rate fluctuations, the increase was 6.1%, which we consider as a normal increase due to business expansion and increased activities.

As a result, operating income increased 23.1% from the previous year.

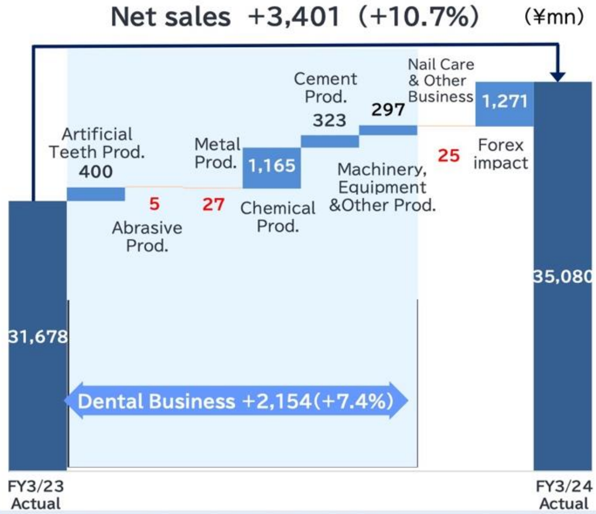
Non-operating expenses include an increase in workshop expenses to strengthen the activities of the membership organizations for dental professionals. Extraordinary gains include the gains in the sale of securities and the partial recovery of the damage in remittance fraud. Extraordinary losses include an impairment of fixed assets. These resulted in the increase in ordinary income and net income, though smaller compared to the operating income growth.



Please turn to page six for the YoY changes in operating income. Operating income increased by JPY884 million against a JPY3,401 million increase in sales. The gross profit margin increased 0.8 percentage points and the SG&A ratio decreased 0.6 percentage points, resulting in a 1.3 percentage point increase in the operating profit margin to 13.4%, a new record high for both value and profit margin ratio.

■Consolidated Financial Results for FY3/24

Net sales by product category (YoY)



	FY3/24		Change YoY(%)	
	Actual	Composition	¥ basis	Local currency basis
Artificial Teeth Products	6,846	19.5%	112.0%	106.6%
Abrasive Products	5,262	15.0%	104.4%	99.9%
Metal Products	160	0.5%	85.3%	85.3%
Chemical Products	10,592	30.2%	118.1%	113.0%
Cement Products	3,094	8.8%	116.1%	112.1%
Machinery, Equipment & Other Products	6,669	19.0%	106.5%	104.7%
Dental Business total	32,624	93.0%	111.6%	107.4%
Nail Care & Other Business	2,455	7.0%	100.6%	99.0%
Total	35,080	100.0%	110.7%	106.7%

- ✓ In chemical products (CR, CAD/CAM resin blocks), all supply constraints were resolved following expansion of raw material procurement channels and the establishment of a system to increase production. Sharp YoY increase in sales after resumption of proactive sales promotions, particularly overseas.
- ✓ *SHOFU Block PEEK* came under the scope of health insurance coverage, the first CAD/CAM crown for all molars in Japan. Sales of the product and peripheral materials and machinery increased.
- ✓ For artificial teeth products, sales growth of ceramic materials for overseas markets made a contribution.
- ✓ Inquiries for various new products such as *Eye Special C-V* (digital dental cameras) and cements were favorable throughout the year.

7

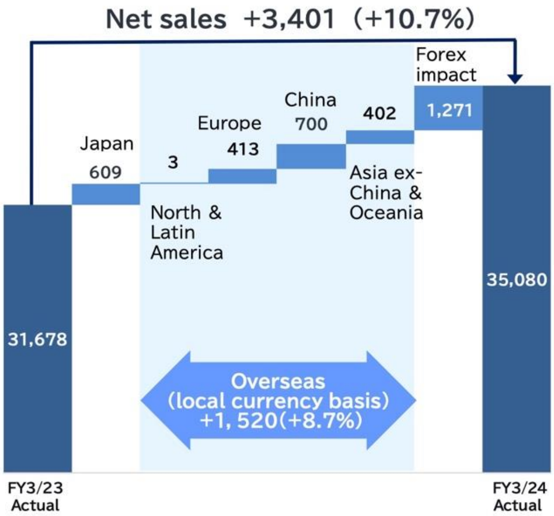
Please see page seven for net sales by product category. Sales growth was driven by chemical products, which remained strong in all areas. In Japan, main driver was CAD/CAM resin block PEEK. Overseas sales were driven by filling and restorative materials as well as composite resins for dental crowns.

In the chemical products business, supply constraints were largely resolved through diversification of raw material procurement channels and establishment of a system to increase production. We have resumed aggressive promotion, especially overseas.

CAD/CAM resin block PEEK was included in the coverage of health insurance in last December for all molars, back teeth, which means that treatment with CAD/CAM materials can be covered by insurance for all parts. According to the most recent statistics by dental practice, the overall conversion rate to CAD/CAM is about 20%, so we believe that there is a lot of room for growth in this area.

Other topics are as noted.

Net sales by region (YoY)



(¥mn)

	FY3/24		Change YoY(%)	
	Actual	Composition	¥ basis	Local currency basis
Japan	14,892	42.5%	104.3%	104.3%
Overseas	20,188	57.5%	116.0%	108.7%
North & Latin America	4,316	12.3%	107.1%	100.1%
Europe	7,231	20.6%	118.5%	106.8%
China	4,769	13.6%	120.2%	117.7%
Asia ex-China & Oceania	3,870	11.0%	117.3%	112.2%
Total	35,080	100.0%	110.7%	106.7%

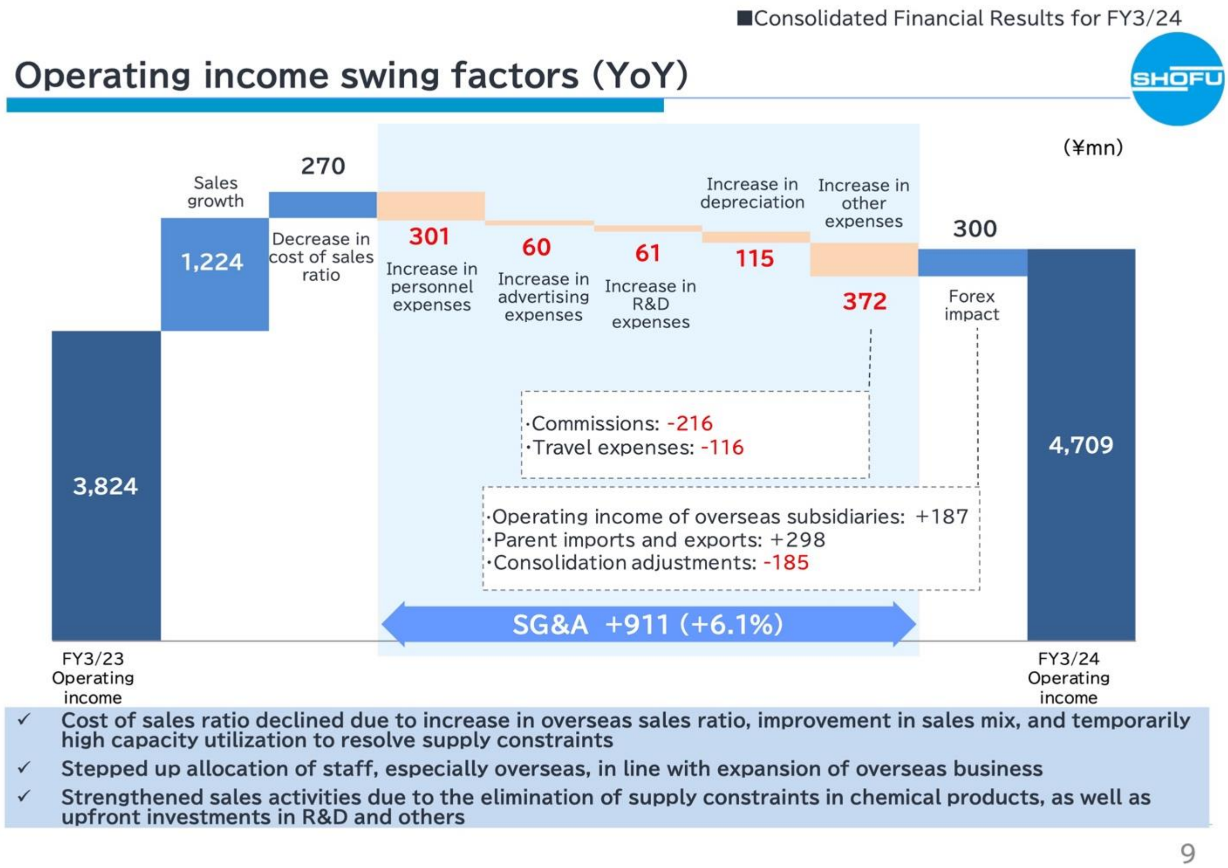
*Europe：Includes Middle East and Africa

- ✓ Japan : Increased demand for *SHOFU Block PEEK* and peripheral materials and machinery and equipment
- ✓ Europe : Focus on new business development in the Middle East. Increased demand for initial inventory.
- ✓ China : Strong demand for products. Substantial YoY increase due to the lifting of supply restrictions on filling and restorative materials (chemical products).
- ✓ India : Exports from Japan resumed from Q3 following completion of regulatory approval procedures.
- ✓ Exports had been temporarily suspended since the start of FY3/24.

8

Please see page eight for net sales by region. Topics for each region are as noted. In North America and Latin America, sales of filling and restoration materials under chemical products business were strong due to the resolution of supply constraints, but overall sales remained almost flat due to the impact of inventory adjustments in the distribution of abrasives and other materials.

Europe and Asia ex China & Oceania include shipments to Middle East and Africa. The total size of sales in this region is JPY744 million. Although initial inventory from new customers is included, sales increased by about 22% on a local currency basis compared to the previous year.

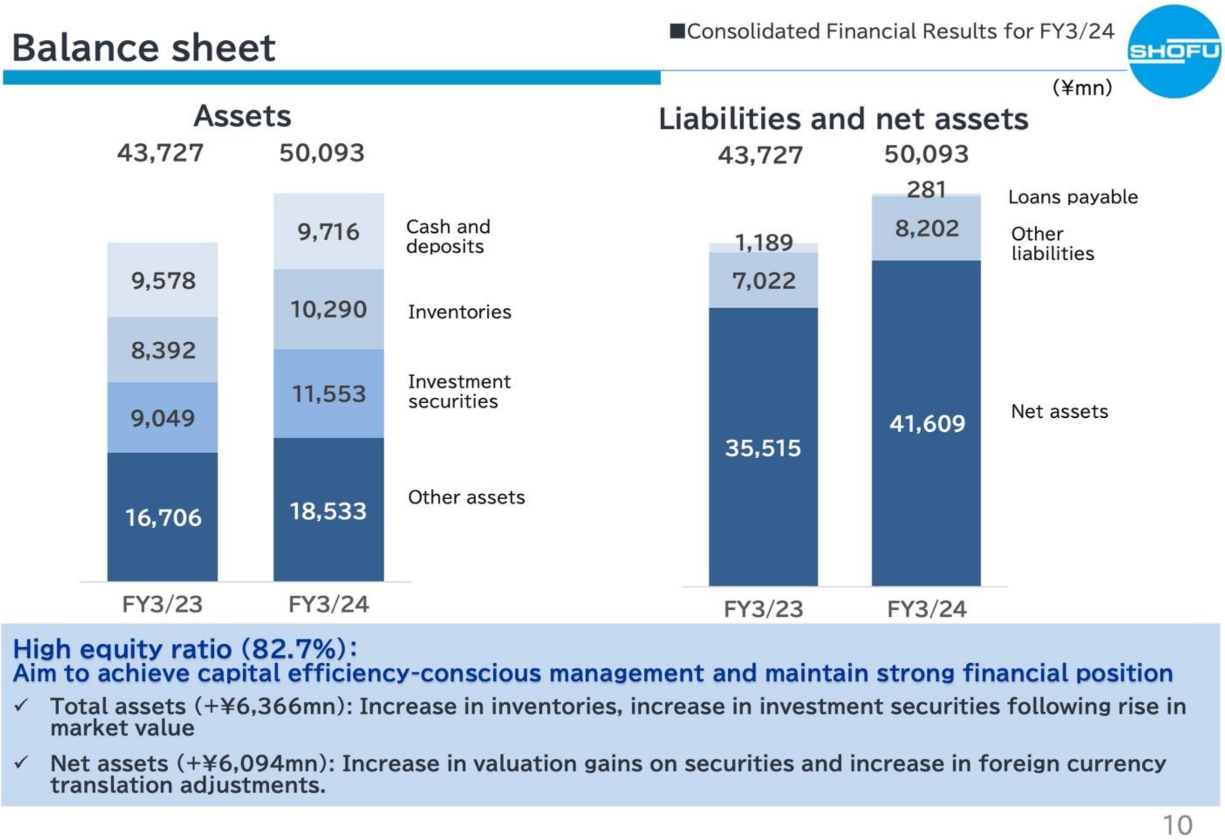


See page nine for operating income swing factors. Positive factors include the effect of increased revenue, lower cost of sales ratio, and the impact of foreign exchange rate fluctuations. The decline in the cost of sales ratio was due to an increase in the ratio of overseas sales, an improvement in the sales mix such as higher sales of chemical products, and a high level of production capacity utilization.

Negative factors include an increase in SG&A expenses, but this was absorbed by higher sales and gross profit, resulting in a 23.1% increase in operating income.

Of the increase in SG&A expenses, personnel expenses increased 4.2% overall, mainly due to the head office's R&D and international divisions, as well as the strengthening of overseas sales organizations.

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. Because these are the deductible earnings other than the movement of goods, they had a negative impact on profit.



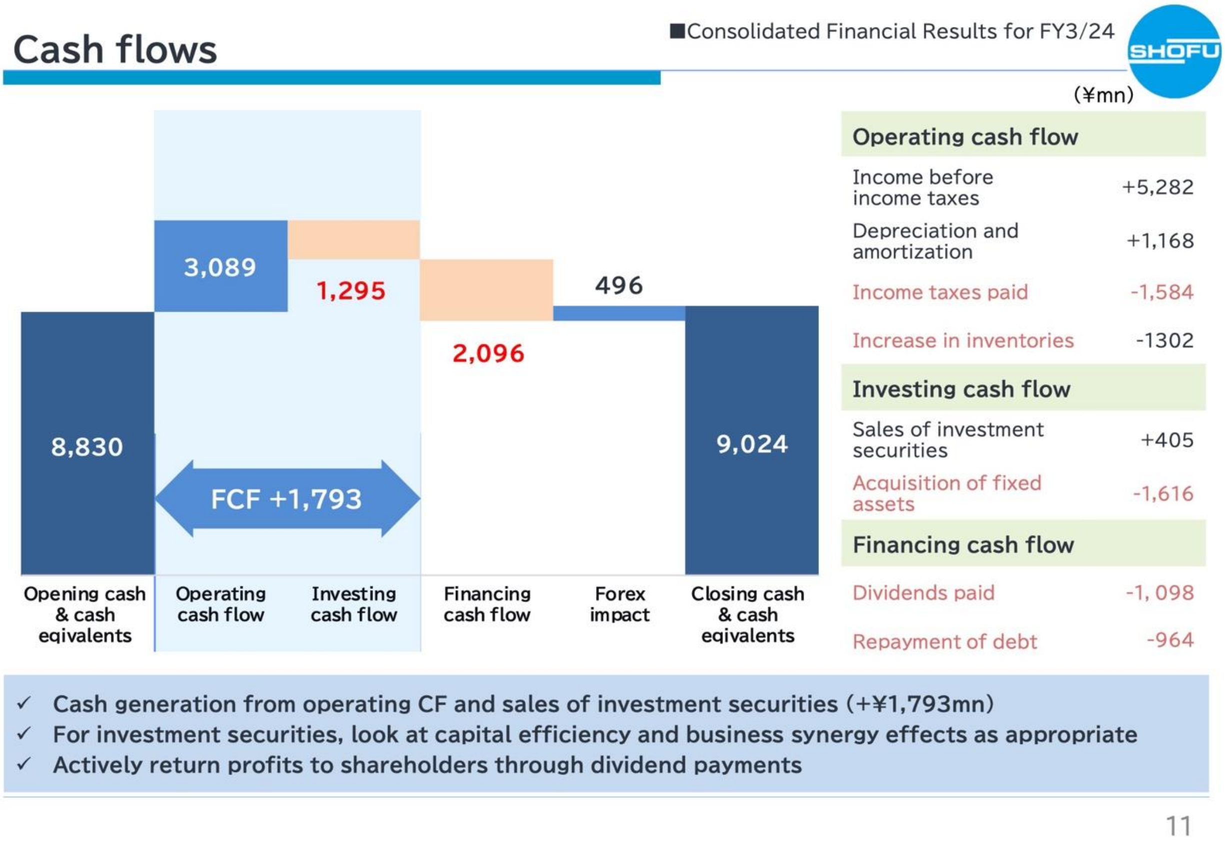
Moving on page 10 for the balance sheet.

The increase in assets was mainly due to an increase in inventories, investment securities due to higher stock prices, and pension assets related to retirement benefits.

The increase in inventories is due to stockpiling for the resumption of aggressive promotions with the elimination of supply constraints at overseas locations. Among investment securities, strategic shareholdings increased by JPY2,605 million from the previous year to JPY8,899 million due to the rise in stock prices, which exceeded the sale of three issues in the period under review.

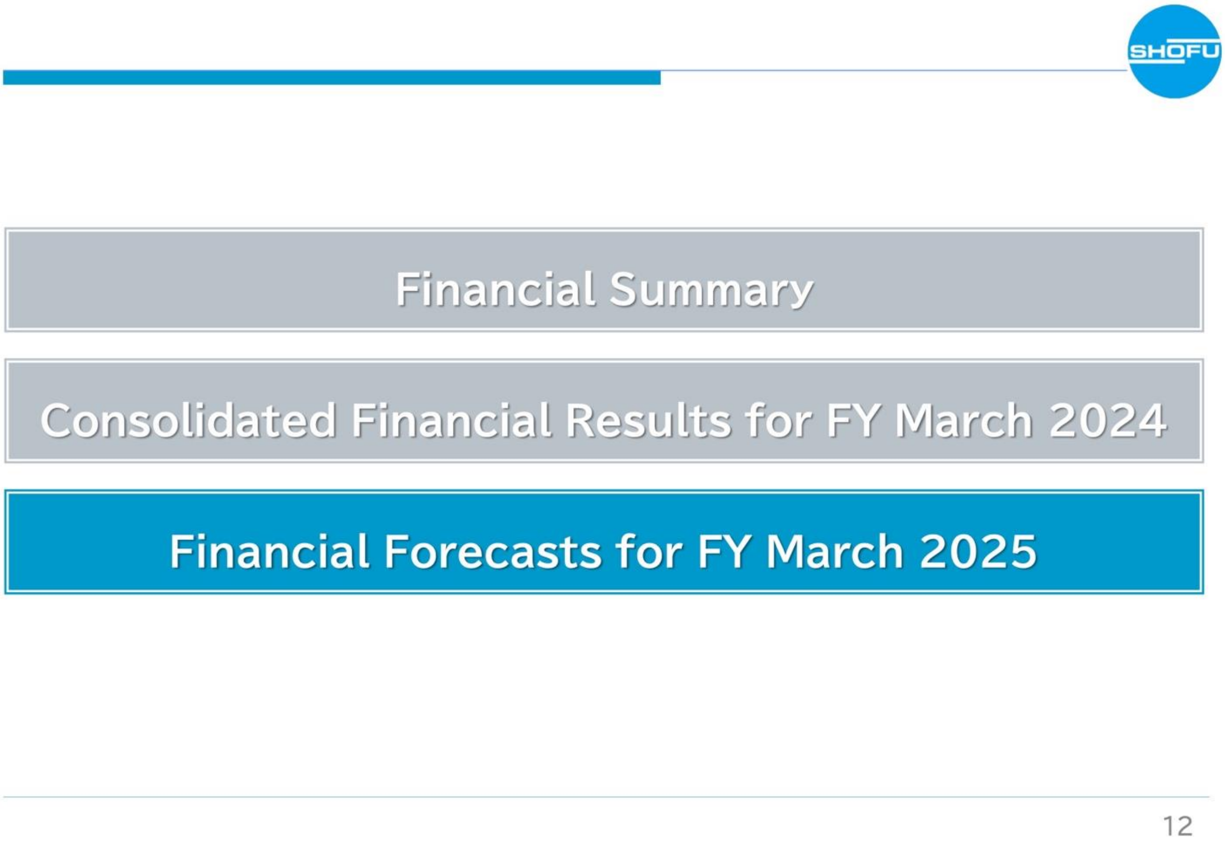
For liabilities, there was an increase in deferred tax liabilities related to unrealized gains on securities. Meanwhile, borrowings are being repaid.

The increase in net assets was due to net income as well as an increase in unrealized gains on investment securities and foreign currency translation adjustments. Due partly to the repayment of debt, equity ratio rose from 80.8% to 82.7% from the previous year.



Page 11 shows the status of cash flow. Although inventories increased relative to after-tax operating income, depreciation and amortization also increased, resulting in operating cash flow that was generally in line with after-tax operating income.

The Company has sold all three of its strategic shareholdings, two of which have been sold in their entirety. Proceeds are being used to fund a portion of capital expenditures and to repay debt. The ratio of shareholder return to free cash flow was 61.2%.



Next, let me explain our forecast for the fiscal year ending March 2025.

Summary of full-year forecasts

SHOFU

- Expand overseas business, especially in emerging countries, where strong demand is expected
- Aim to expand business in all product categories with a focus on chemical products
- Due to sharp exchange rate fluctuations in FY3/24, uncertainties remain in the FY3/25 outlook

→ **Net sales, operating income, and net income are expected to increase for the fourth consecutive year and hit new record highs.**

- Active investment in human resource development and facilities to enhance corporate value
- Improve sales activities in Japan & overseas after eliminating bottlenecks in existing product supply
- Focus on cultivating new business areas and accompanying new product development (R&D)

→ **Bold and continuous investment for future enhancement of corporate value and business growth**

- Improve production efficiency in light of opportunity losses due to supply constraints in FY3/24
- Establish a production system capable of speedily increasing production when demand surges
- Establish an organization that is able to flexibly respond to changes in pharmaceutical regulations and policies in various countries and regions, and avoid gaps in business periods

→**Establish a system and structure that can respond to future increases in demand and business risks**

13

Page 13 summarizes the qualitative factors underlying the full-year forecast and descriptions of key factors.

Net sales, operating income, and net income are expected to increase for the fourth consecutive year and reach record highs. In addition, the Company will develop a system and capability that can respond quickly and flexibly to enhance our corporate value, investment for business growth, accommodate the demand increase and address any business risks.

In particular, our greatest regret in the previous medium-term plan was the opportunity loss caused by insufficient supply capacity. We will therefore promote to rebuild our production system. This will be explained later in the part of medium-term plan.

In addition, on May 1, we officially announced our medium-term management plan for the four-year period beginning with the current fiscal year, in which we decided on a two-for-one stock split with a base date of September 30 of this year. Please note that the earnings per share and dividends shown in this material take this into account.

■Financial Forecasts for FY3/25

Comparison of key metrics

(¥mn, %)

	FY3/24 Actual	(% of sales)	FY3/25 Forecast	(% of sales)	Change YoY	(% change)
Net sales	35,080	(100.0)	37,721	(100.0)	2,641	(7.5)
(Domestic sales)	14,892	(42.5)	16,170	(42.9)	1,278	(8.6)
(Overseas sales)	20,188	(57.5)	21,551	(57.1)	1,363	(6.8)
Gross profit	20,995	(59.8)	22,160	(58.7)	1,165	(5.5)
(SG&A)	16,286	(46.4)	17,360	(46.0)	1,074	(6.6)
Operating income	4,709	(13.4)	4,800	(12.7)	90	(1.9)
Ordinary income	5,118	(14.6)	4,894	(13.0)	-224	(-4.4)
Net income	3,655	(10.4)	3,838	(10.2)	182	(5.0)
EPS	206.18		148.04		-58.15	
ROE	9.5%		9.1%		USD	
Forex						
$	144.40		140.00		-4.40	
€	156.80		150.00		-6.80	
RMB	19.80		19.00		-0.80	

Effect of forex fluctuations (YoY): Net sales -¥977mn
Net income = net income attributable to owners of parent
FY3/25 EPS forecast on a pre-stock-split basis would be ¥216.36

14

Page 14 shows comparison of key metrics.

Sales are expected to be negative JPY977 million due to foreign exchange assumptions. Therefore, growth seems somewhat low, but we plan for strong sales both in Japan and overseas.

The gross profit margin is expected to decline 1.1 percentage points from the previous year, and SG&A expenses are planned to increase by JPY1,074 million. Therefore, operating income is expected to increase only slightly by 1.9% from the previous year, partly due to the negative impact of exchange rate fluctuations, and the operating income margin is expected to decline to 12.7% from the previous year.

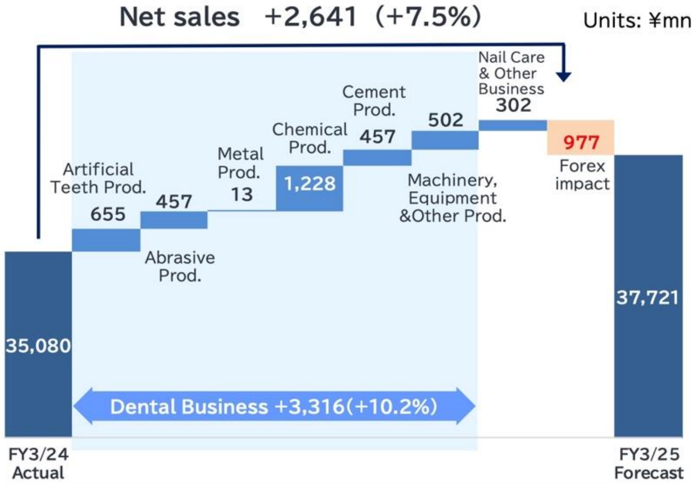
However, excluding the impact of exchange rate fluctuations on net sales and operating income, the operating income margin is expected to remain almost unchanged from the previous year.

Ordinary income will decrease by 4.4% due to the absence of the foreign exchange gain of JPY225 million that was included in non-operating income in the previous fiscal year.

Net income is expected to increase by 5% due to an extraordinary gain of JPY531 million from the sale of investment securities.

■Financial Forecasts for FY3/25

Net sales by product category (YoY)



	FY3/25		Change YoY	
	Forecast	Composition	¥ basis	Local currency basis
Artificial Teeth Products	7,254	19.2%	106.0%	109.6%
Abrasive Products	5,595	14.8%	106.3%	108.7%
Metal Products	173	0.5%	108.3%	108.3%
Chemical Products	11,493	30.5%	108.5%	111.6%
Cement Products	3,456	9.2%	111.7%	114.8%
Machinery, Equipment & Other Products	7,106	18.8%	106.6%	107.5%
Dental Business total	35,079	93.0%	107.5%	110.2%
Nail Care & Other Business	2,641	7.0%	107.6%	112.3%
Total	37,721	100.0%	107.5%	110.3%

- ✓ 10% growth forecast in real terms (excluding forex) in all businesses and product categories
- ✓ Full-scale integrated production for the Diamond Point series, a mainstay abrasive product, at a production subsidiary in Vietnam. Shipments to the U.S. and Asia, where demand is expected to recover after the completion of distribution inventory adjustments.
- ✓ Expect sales expansion of machinery and equipment (*SHOFU S-WAVE* CAD/CAM system) following broadening of the scope of CAD/CAM crown insurance coverage in FY3/24

15

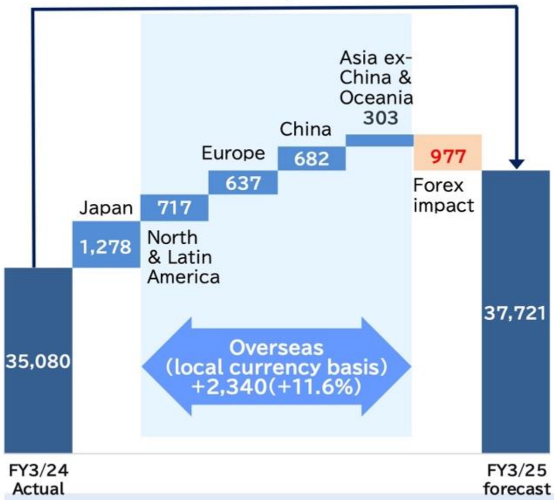
Page 15 shows net sales forecast by product category.

Although chemical products will continue to be the largest contributor to revenue growth, we expect growth in all businesses and product categories. 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.

■Financial Forecasts for FY3/25

Net sales by region (YoY)

Net sales +2,641 (+7.5%)



Units: ¥mn

	FY3/25		Change YoY(%)	
	forecast	Composition	¥ basis	Local currency basis
Japan	16,170	42.9%	108.6%	108.6%
Overseas	21,551	57.1%	106.8%	111.6%
North & Latin America	4,868	12.9%	112.8%	116.6%
Europe	7,511	19.9%	103.9%	108.8%
China	5,231	13.9%	109.7%	114.3%
Asia ex-China & Oceania	3,938	10.4%	101.8%	107.8%
Total	37,721	100.0%	107.5%	110.3%

*Europe：Includes Middle East and Africa

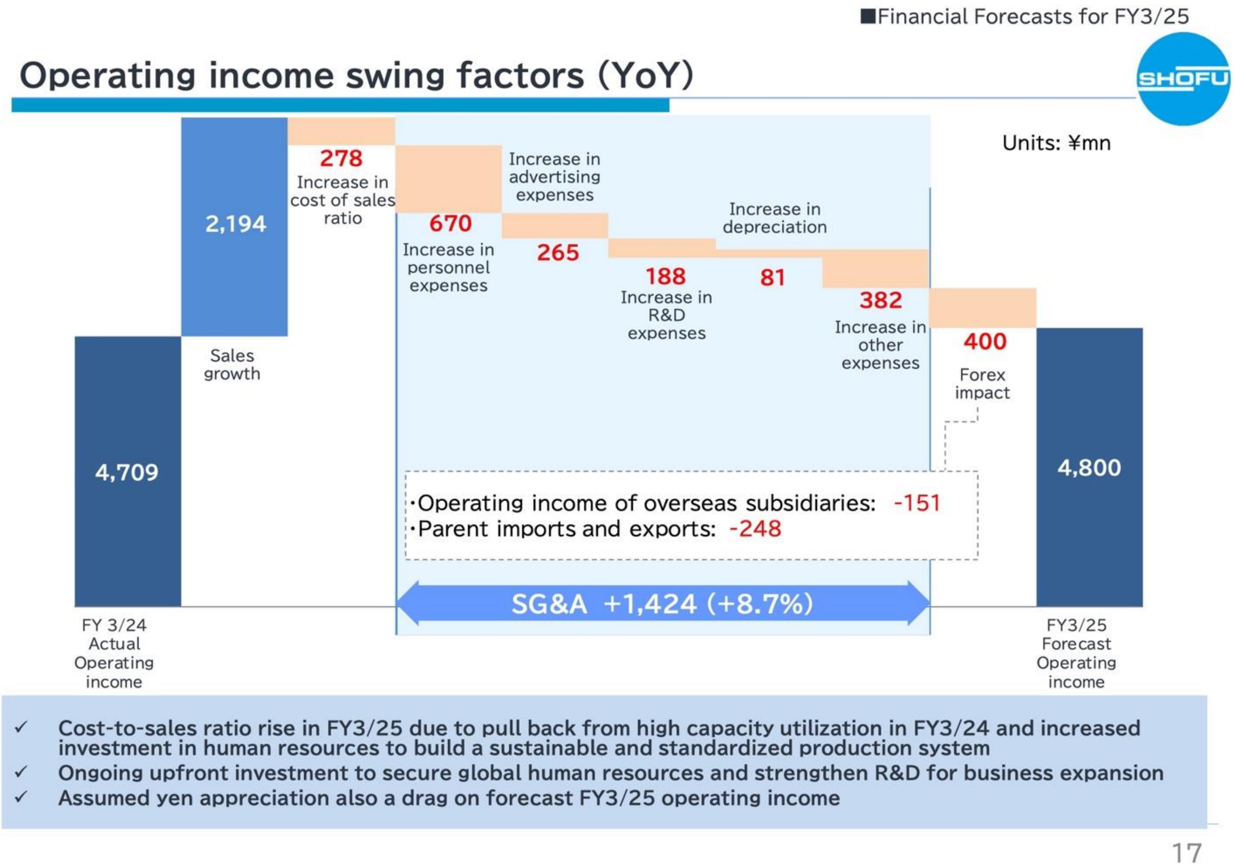
- ✓ Japan: Higher demand for *SHOFU Block PEEK* (CAD/CAM crowns for all molars) and related demand for peripheral materials and instruments is expected to remain high, as in FY3/24
- ✓ North & Latin America: Expect an increase in new demand for abrasive materials as distribution inventory adjustments come to an end.
- ✓ China: High demand, mainly for filling and restoration materials, is expected to continue in FY3/25 against a backdrop of high market growth rates.

16

Page 16 shows net sales forecast by region.

In Japan, we expect demand for CAD/CAM resin block PEEK for molars to expand, as well as for peripheral materials such as adhesive systems.

For overseas, in Europe and Asia ex China & Oceania, we expect some adjustments of initial inventory in the previous fiscal year for Middle East and Africa. In North America and Latin America, we are now in a position to actively promote chemical products while the impact of distribution inventory adjustments will disappear. In China, we expect steady growth to continue, especially in chemical products. We are currently unaffected by the economic slowdown in China and the preferential policies for made-in-China products.



Page 17 shows the factors contributing to the change in operating income.

Negative factors include an increase in the cost of sales ratio, an upward trend in expenses except for depreciation and amortization, and the negative impact of exchange rate fluctuations, which are expected to be absorbed by the effect of increased sales.

The increase in the cost of sales ratio is due to the normalization of high capacity utilization rate after recovery from product shortages in the previous fiscal year, as well as increased investment in human resources to build a solid production system.

As for the decrease in depreciation, due to a change in accounting policy, the depreciation method will be changed from the declining-balance method to the straight-line method starting this fiscal year. The impact of this change is about JPY200 million, and depreciation and amortization expenses will decrease by this amount.

Of the increase in SG&A expenses, main factor in personnel expenses is strengthening of the sales structure in the US, China, and other regions. Overall, we expect 8.7% increase in these expenses.

■Financial Forecasts for FY3/25

Forex impact

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Units: ¥mn

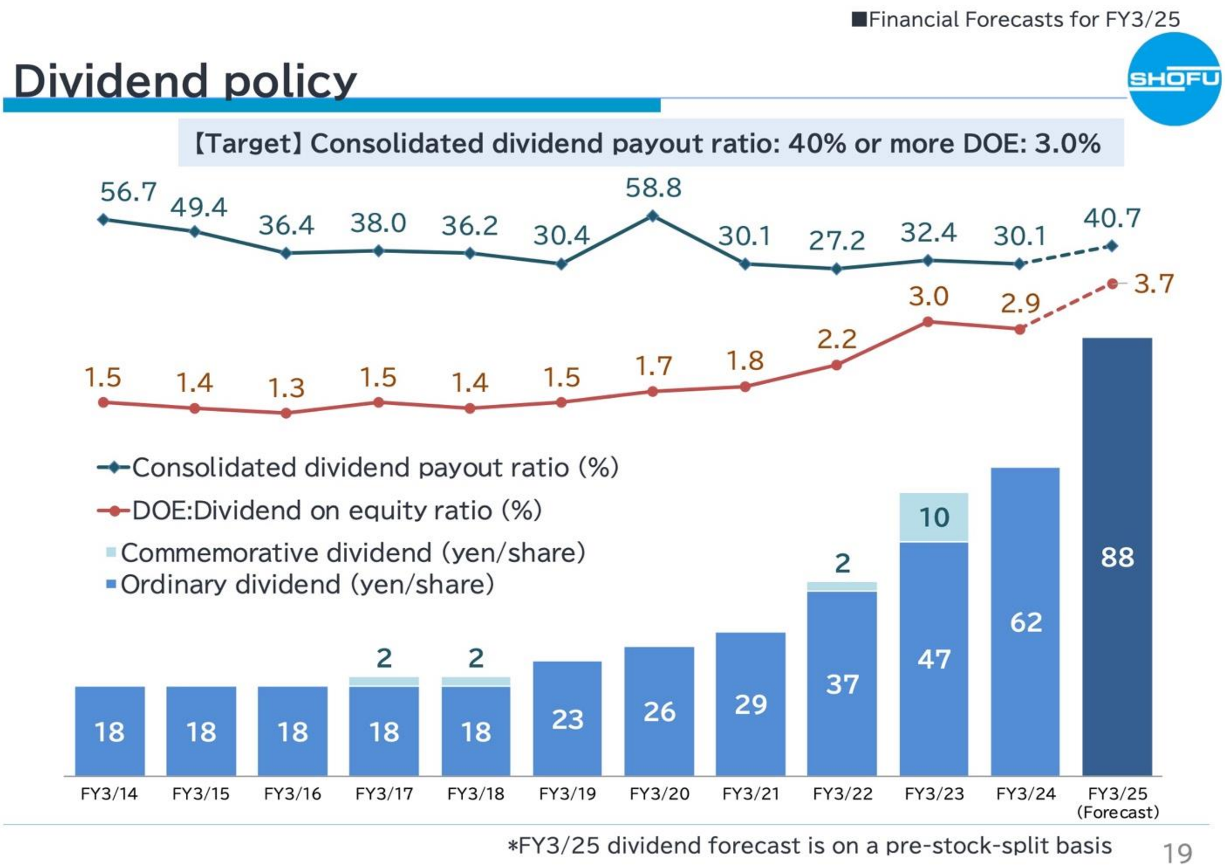
	Forex rate		Consolidated earnings impact		Per ¥1 of yen strength	
	FY3/24	FY3/25 Forecast	Sales	Operating income	Sales	Operating income
$	144.40	140.00	-194	-69	-44	-20
€	156.80	150.00	-306	-84	-45	-17
RMB	19.80	19.00	-220	-178	-275	-173

- ✓ FY3/25 forex assumptions are for YoY appreciation ($: ¥4.40 appreciation YoY)
- ✓ Overseas sales ratio is on an upward trend; yen appreciation will have a negative impact on performance
($: Every ¥1 of yen appreciation against the yen drags down sales by ¥44 million and operating income by ¥20 million)

18

Page 18 shows the impact of exchange rate fluctuations. The exchange rate assumptions for the current year are set at JPY140 to the dollar, JPY150 to the euro, and JPY19 to the yuan. The overall impact on operating income shown here is expected to be JPY400 million, including JPY333 million from these three currencies.

The appreciation of the yen is a negative factor in our earnings structure, and the impact and sensitivity of a one-yen appreciation on net sales and operating income are shown in the table.



I would like to conclude the first half of the presentation by explaining our dividend policy.

First, we have decided to change the target dividend payout ratio from 30% to 40% and the target DOE from 1.7% to 3%, effective this fiscal year. For FY3/24, we plan to increase the dividend by JPY5 compared to the previous year to JPY62. For FY3/25, which is the current year, we plan to pay JPY88 with a dividend payout ratio of 40%.

This is the equivalent amount prior to the stock split. The actual interim dividend will be JPY36 before the stock split, and the year-end dividend will be JPY26 after the stock split.

We are not considering share repurchases, which are frequently asked by investors. The first reason is that the liquidity of the Company's shares in the market is low, and the Company believes that it is not appropriate to acquire treasury stock by the method of buying it up from the market. The other factor is that, as we will explain in the part of medium-term management plan, we intend to make aggressive investments for growth, and we are not currently considering share repurchases due to the funding needs for growth-oriented investment.

This concludes the first part. Thank you very much for your attention. Next, President Takami will explain the next medium-term management plan, the fifth medium-term management plan.

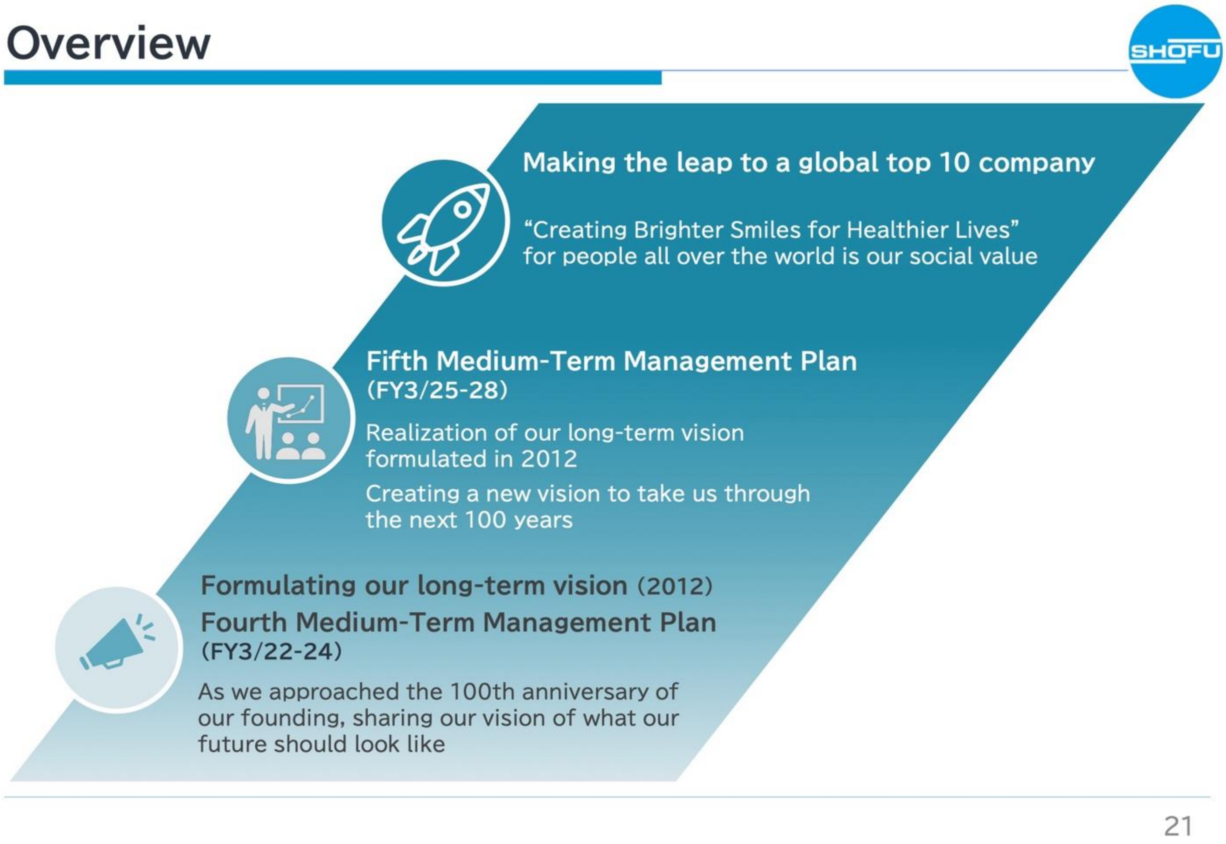
SHOFU

SHOFU Group
Fifth Medium-Term Management Plan

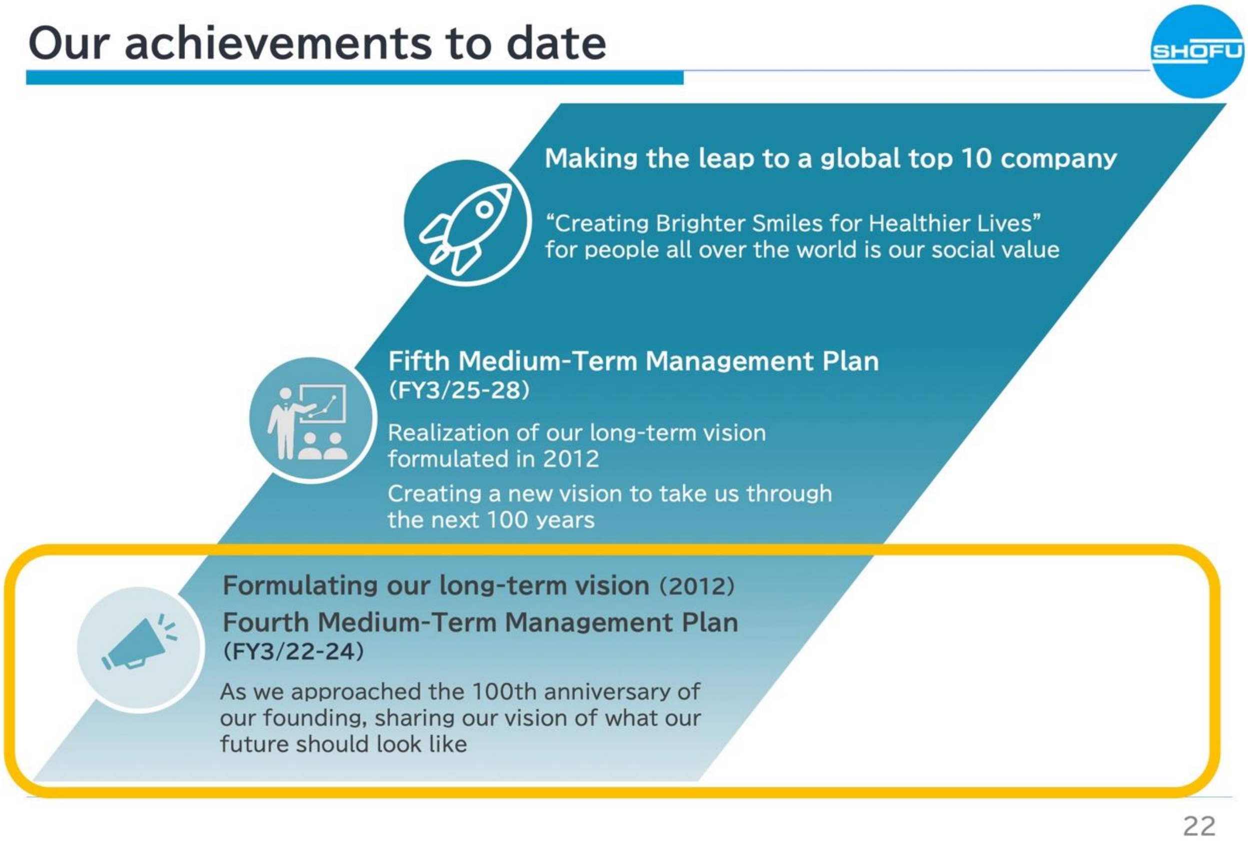
Representative Director,
President & COO
Tetsuo Takami

20

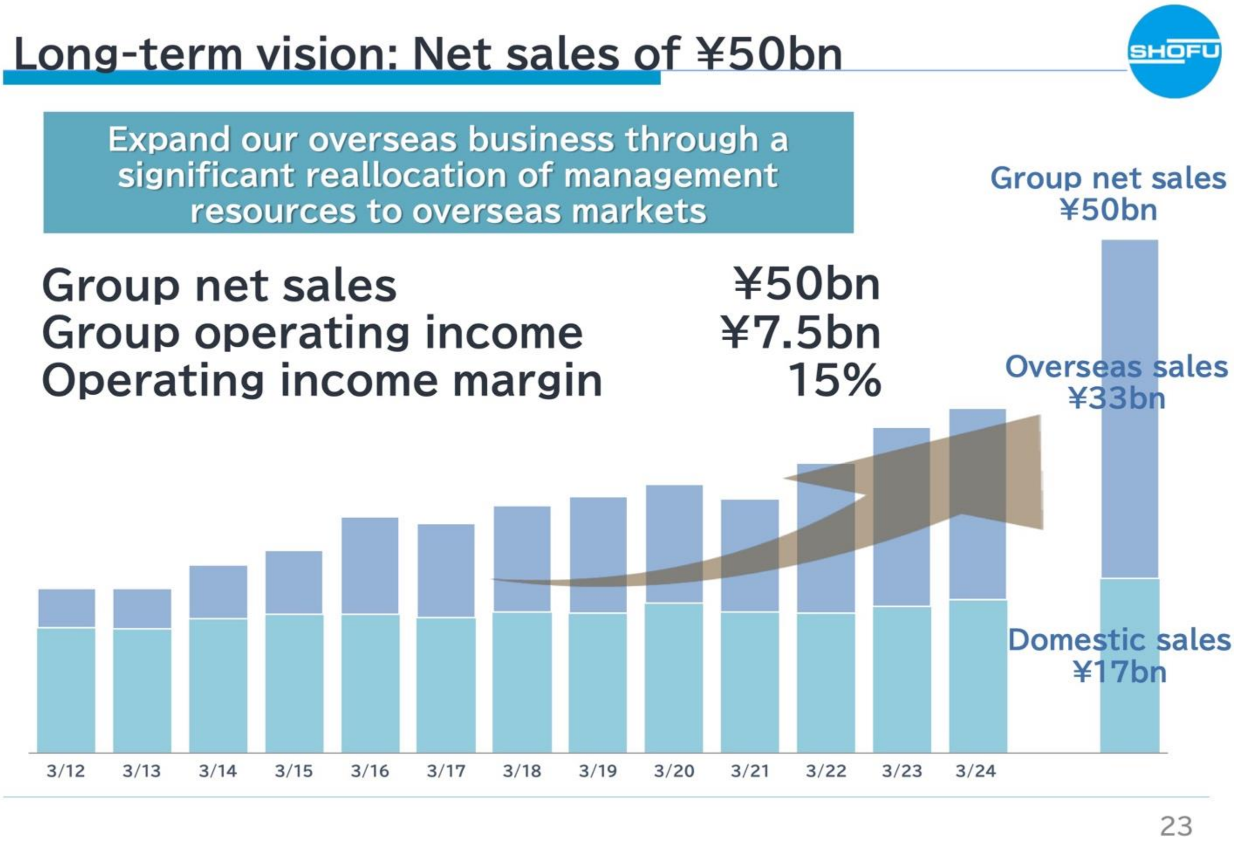
Takami: Thank you. Let me introduce myself again. I am Takami, Representative Director, President & COO of the Company. Thank you very much for attending our financial result briefing for FY3/24. I would like to explain the fifth mid-term management plan of the SHOFU Group, which was announced on May 1.



My presentation will include a review of the past plans, details of the new mid-term plan we just announced, and our long-term vision.



First, I would like to review our past management plans, especially the long-term vision formulated in 2012 and the most recent plan, the fourth mid-term management plan.



In May 2012, just before our 90th anniversary, we announced our 10-year plan. We have set a goal of achieving group sales of JPY50 billion, of which domestic sales accounting for JPY17 billion and overseas sales of JPY33 billion, operating income of JPY7.5 billion, and operating profit margin of 15% in the fiscal year ended March 31, 2022, which marks the 100th anniversary of our founding.

Since the Company's sales for FY3/12 were JPY15.9 billion with overseas sales of JPY3.7 billion, there were many skeptics at the time as to the probability of achieving this goal.

As a result, 10 years after the plan was formulated, we were not able to meet our initial target for the fiscal year ended March 31, 2022. However, we are steadily progressing toward the target, with group sales of JPY35 billion, of which overseas sales were JPY20.1 billion for FY3/24, as explained earlier.

Review of Fourth Medium-Term Management Plan (FY3/22-24)

SHOFU

Business performance

(¥mn)

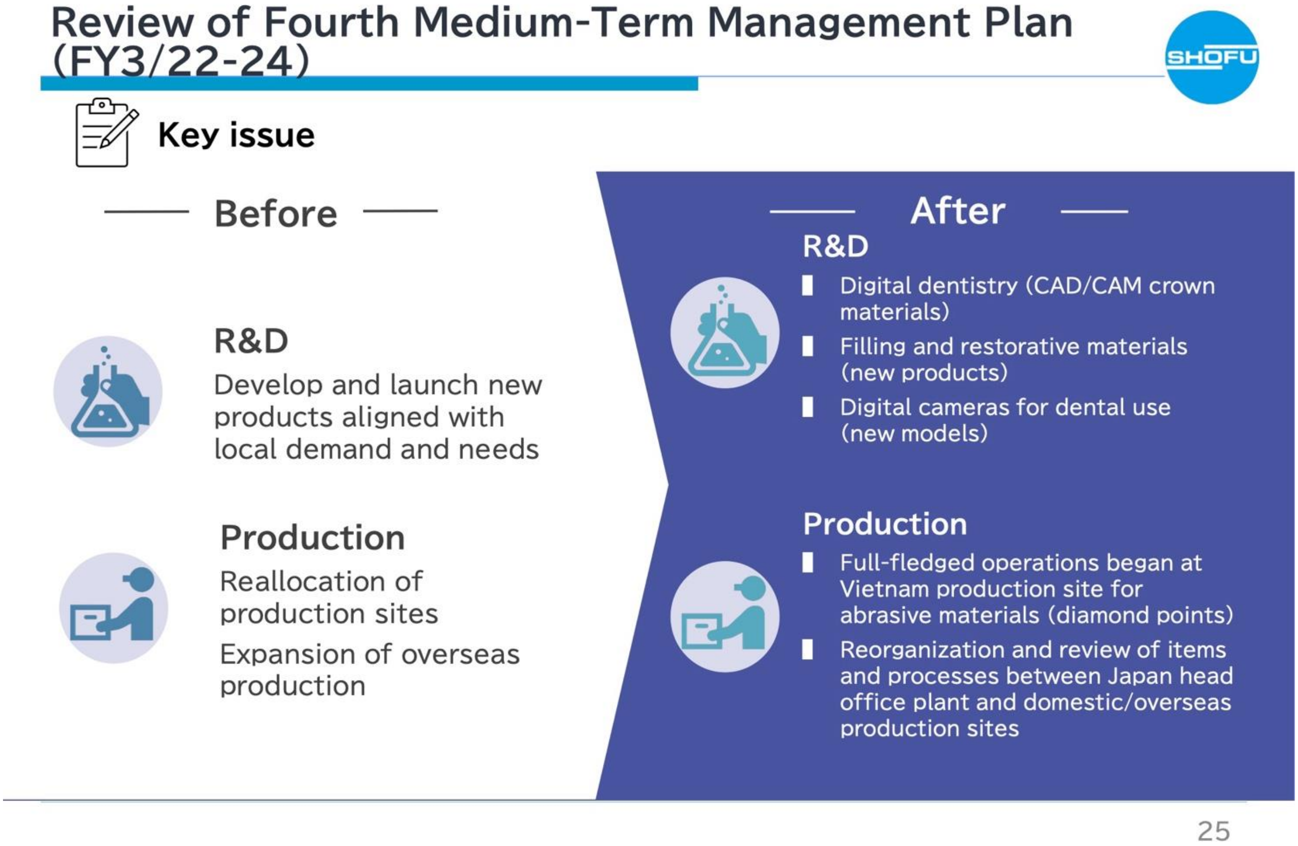
	FY3/22		Vs plan	FY3/23		Vs plan	FY3/24		Vs plan
	Plan	Actual		Plan	Actual		Plan	Actual	
Group net sales	26,105	28,137	↗	29,314	31,678	↗	33,550	35,080	↗
Overseas sales	47.8%	51.8%	↗	51.6%	54.9%	↗	55.6%	57.5%	↗
Group operating income	1,799	3,217	↗	2,732	3,824	↗	3,820	4,709	↗
Operating income margin	6.9%	11.4%	↗	9.3%	12.1%	↗	11.4%	13.4%	↗
ROE	4.1%	8.1%	↗	5.9%	9.2%	↗	7.7%	9.5%	↗

- Significant beat versus plan for the entire period
- Sales and profit growth for the entire period, hit all-time highs
- ROE improved sharply from initial first year plan of 4.1% to third year actual of 9.5%

24

In light of the progress of our long-term vision, I would like to review our most recent fourth medium-term management plan. First, let me review our business performance. As you can see, we have significantly exceeded the planned figures for the entire period and for all indicators. In addition, we were able to increase net sales and profits every year during the plan period, and record profits were achieved.

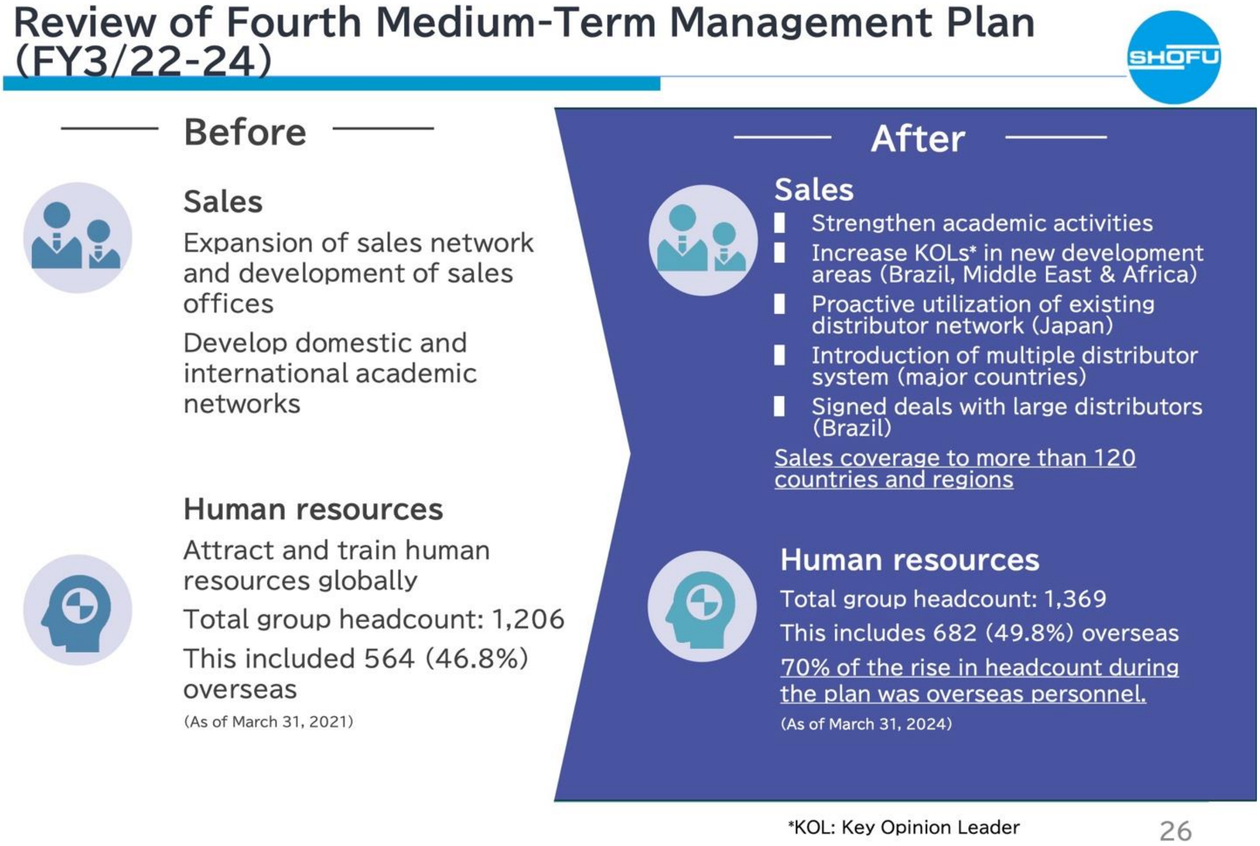
ROE had been expected to be 4.1% in the first year which was FY3/22, but it exceeded 8%. Since then, ROE has continued to rise over the mid-term plan period, reaching 9.5% in the final year, which is the previous fiscal year.



Next, let me review the key issues.

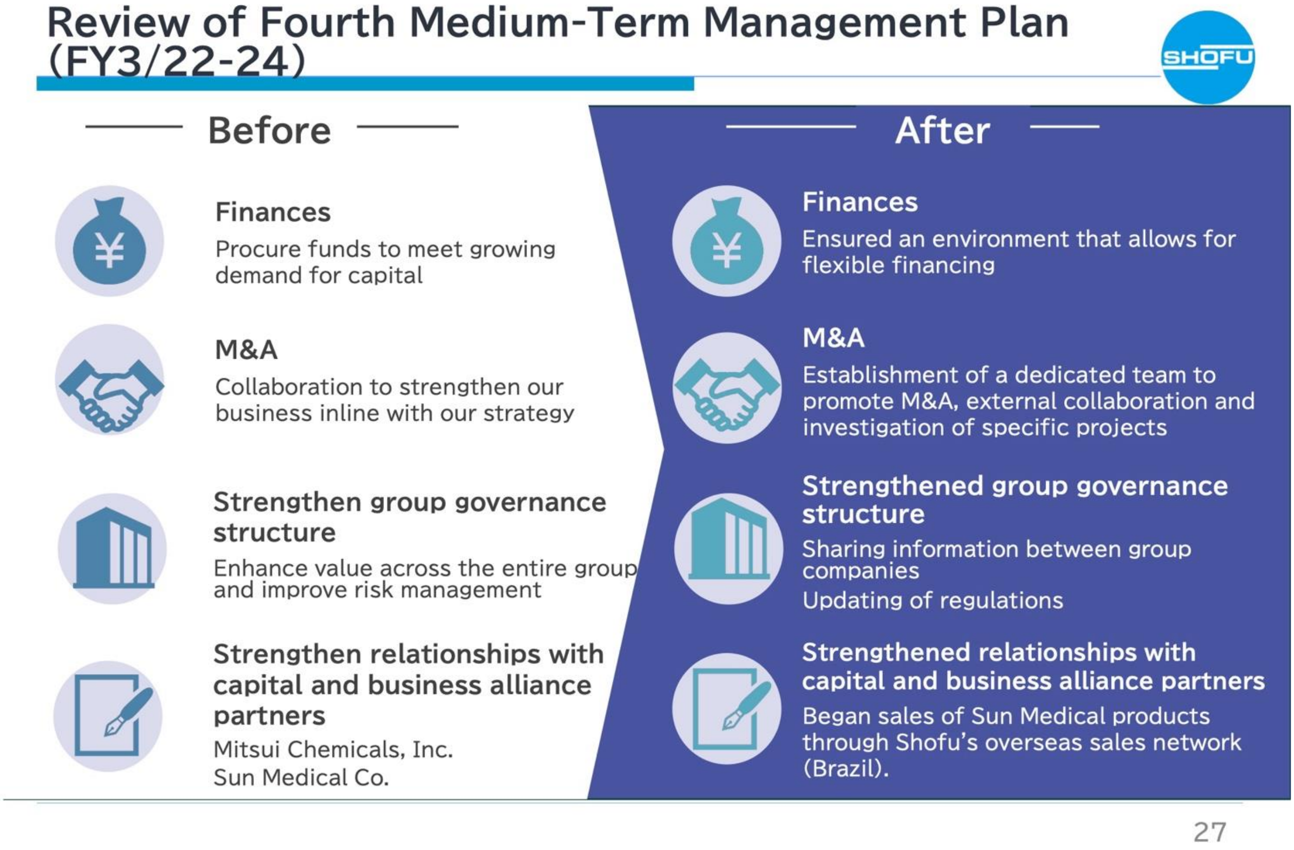
As one of the sources of our corporate value, we have introduced new materials and equipment that respond to the digitalization of dentistry as well as new products such as filling and restorative materials, cements, etc. We have received numerous inquiries about them. As for production, we established a plant in Vietnam and started full-scale operations, including the transfer of some production lines for abrasive materials for export from Japan.

On the other hand, at domestic production sites, supply could not keep up with the rapid increase in demand for chemical products, resulting in a backlog of orders and opportunity losses. Enhancement of production capacity remained as an issue.

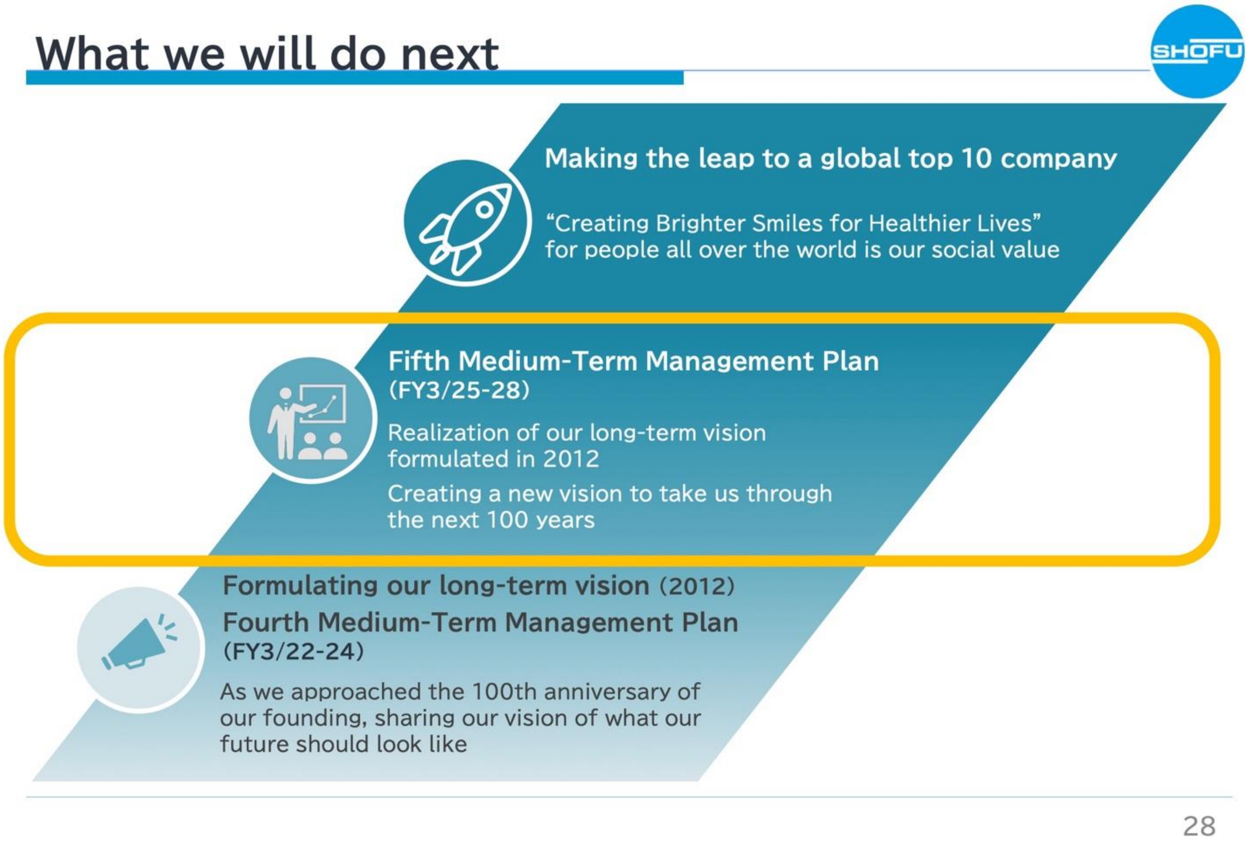


Another major challenge is to increase the awareness of our brand in overseas. We have been expanding our overseas bases and sales network, including active recruitment of human resources globally, and at the same time, we have continued grassroots activities to directly disseminate information to our end customers, dental professionals, by exhibiting at trade shows around the world and holding lectures and hands-on seminars.

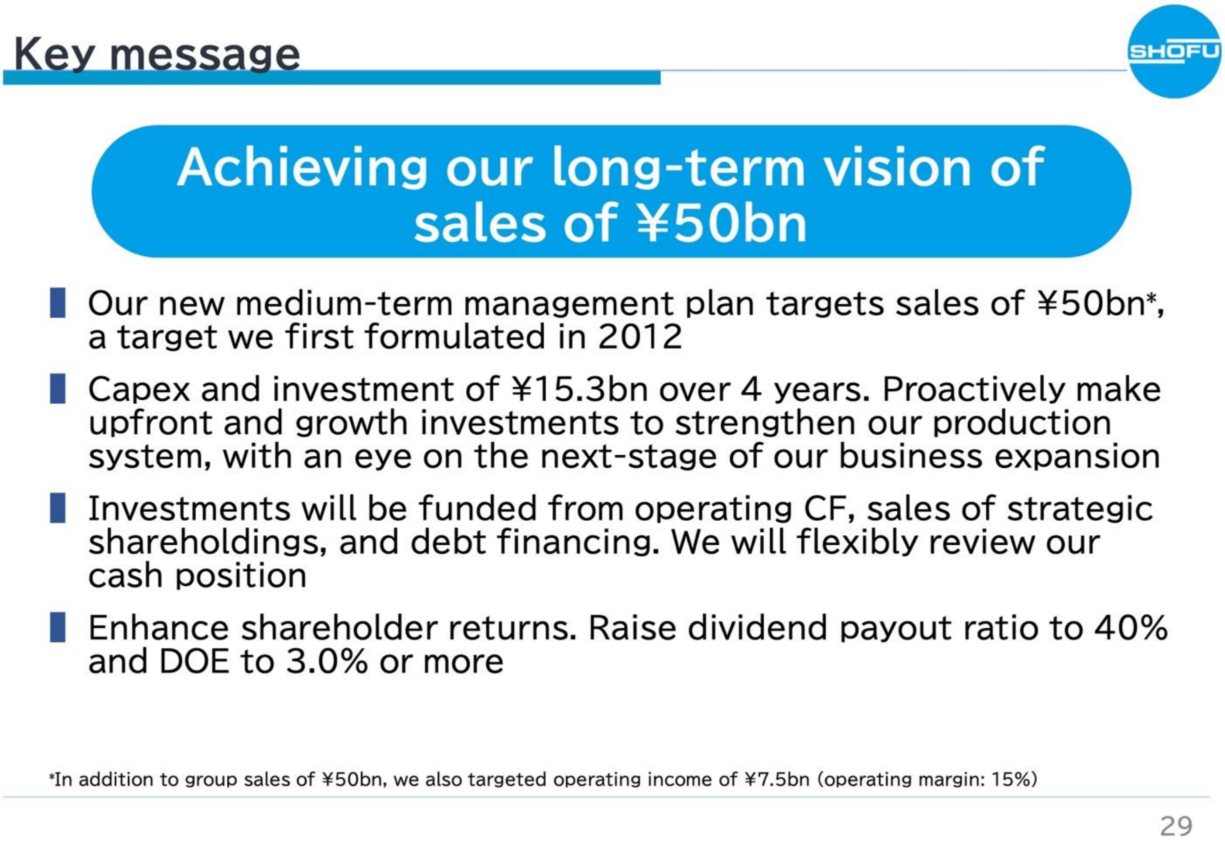
These steady efforts have borne fruit, and our products are now sold in 120 countries and regions, making them available in many parts of the world.



In addition, we have actively collected information, reviewed projects, and strengthened alliances with a view to expanding into new business areas.



Now that I have reviewed the past, I would like to explain what we should do next in line with the fifth medium-term management plan that we have just announced.



This is our key message in this plan. First of all, we expect to achieve our long-term vision of JPY50 billion in group sales in the final year of this plan, as I mentioned earlier.

Although previous mid-term plans were based on the three-year cycles, the new plan is based on a four-year period to ensure we achieve this target. Since the group sales for the previous fiscal year were JPY35 billion, we estimate that sales will increase 1.4 times in four years.

The key factors to increase the likelihood of hitting the goal are the enhancement of production capacity and supply network. In anticipation of future business expansion, we plan to invest JPY15.3 billion over the next four years, one of the largest investments we have ever made, mainly in production facilities. These investments are planned to be funded by cash flow from operations, unwinding strategic shareholdings, and some debt financing.

We recognize that shareholder returns as well as investment are important management issues, and we plan to raise the dividend payout ratio from 30% to 40% and the DOE from 1.7% to 3%.

Key numerical targets

(¥mn)

	FY3/24 Actual	Medium-term management plan FY3/25	FY3/26	FY3/27	FY3/28
Net sales	★ 35,080	★ 37,721	★ 41,039	★ 45,151	★ 50,185
(YoY)	(10.7%)	(7.5%)	(8.8%)	(10.0%)	(11.1%)
(Domestic sales)	★ 14,892	★ 16,170	★ 16,792	★ 17,739	★ 18,733
(YoY)	(4.3%)	(8.6%)	(3.8%)	(5.6%)	(5.6%)
(Overseas sales)	★ 20,188	★ 21,551	★ 24,247	★ 27,411	★ 31,452
(YoY)	(16.0%)	(6.8%)	(12.5%)	(13.0%)	(14.7%)
Operating income	★ 4,709	★ 4,800	★ 5,131	★ 6,325	★ 7,531
(% of sales)	(13.4%)	(12.7%)	(12.5%)	(14.0%)	(15.0%)
Ordinary income	★ 5,118	4,894	★ 5,255	★ 6,450	★ 7,663
(% of sales)	(14.6%)	(13.0%)	(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%)
Dental business overseas sales ratio	★ 58.7%	58.5%	★ 60.4%	★ 62.1%	★ 64.0%

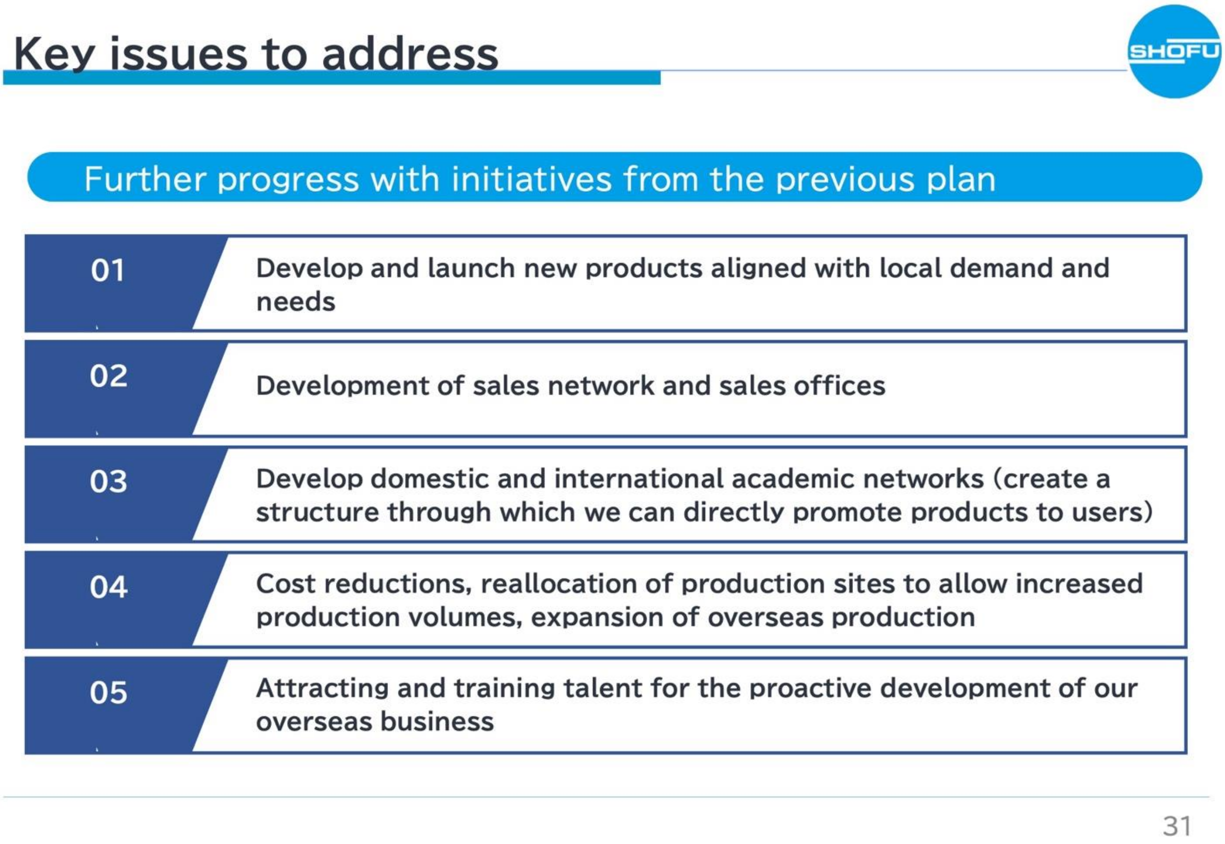
★ Record highs

30

I would like to elaborate on what I just mentioned. This is a summary of the previous year's results and key numerical targets for the next four years. For net sales, we expect average 9% CAGR for the period, while overseas sales are expected to grow at a rate of over 11%.

While overseas sales will continue to be the driver of earnings growth during the next mid-term period, we expect solid growth in Japan as well, based on an enhanced business foundation. Profits and profit margins are expected to have an upward trend.

We expect gross profit to improve and the SG&A ratio to be reduced relative to top-line growth. Operating profit margin is expected to reach 15% in the final year, which is the target of our long-term vision. We expect to continuously renew the record high levels of both revenue and profit throughout the entire period. Without slowing down the pace of growth, we will continue to drive businesses to achieve these targets.



There are challenges that we must overcome in order to achieve the management plan. Looking back at the previous plan, many things still need to be addressed on an ongoing basis, and we have once again identified key issues and measures to address them. As listed here, they include issues related to R&D, sales, production, and human resources.

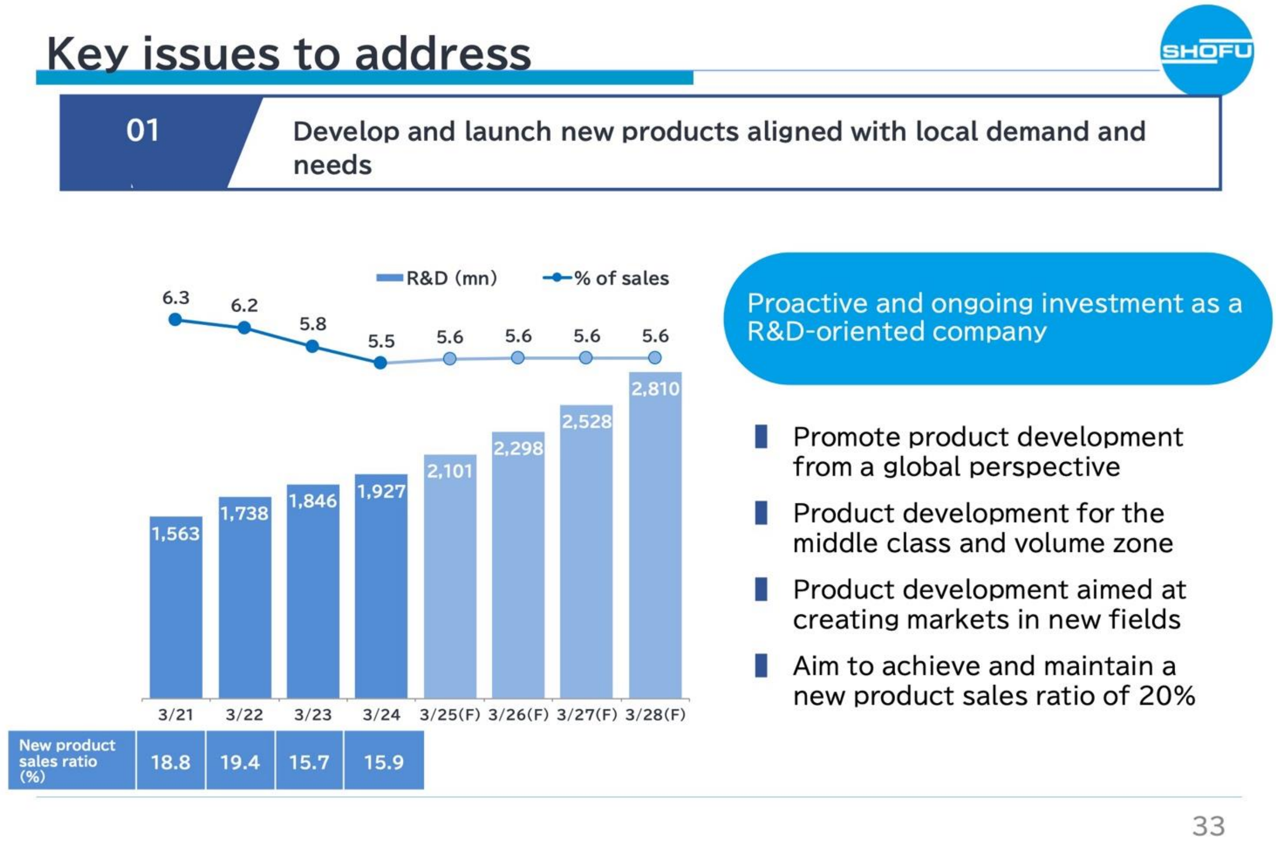
Key issues to address

Adding promotion of sustainability management as a key management issue

06	Financing to meet growing demand for capital
07	M&A (business and technology alliances, business acquisitions)
08	Strengthening the group governance structure
09	Business alliance with Mitsui Chemicals, Inc. and Sun Medical, Inc.
10	Promotion of sustainability management

32

We have also added the promotion of sustainability management as a new key management issue.



Let me explain some of the particularly important issues. First, these are our countermeasures for R&D-related issues. As we have stated in the past, we are an R&D-oriented company who actively and continuously invest in these activities.

In particular, as described here, our policy is to develop products from a global perspective, to develop products for the middle class and volume zone, and to develop products for the purpose of creating markets in new fields. We also actively promote an upgrade and enhancement of existing products.

New products, which we define as products that have been on the market for less than 36 months, include Beauty Bond Xtreme, a dental bonding agent; Beauty Link SA, a self-adhesive resin cement; iSpecial C-5, a digital camera for dental use; and SHOFU Block PEEK, the only CAD/CAM crown material in Japan that is covered by insurance for all molars. We receive many inquiries for them.

The ratio of new product sales to total sales was 15.9% for the previous fiscal year, and we intend to raise this ratio to 20% and maintain high level of new product contribution.

Next, let me review some sales-related issues.

Since we have been operating in the dental materials field in Japan for many years, we are proud that the recognition of the SHOFU brand is reasonably high, especially in artificial teeth and abrasives, where we have the largest market share in Japan. On the other hand, we expect that there is still room for growth in filling and restoration materials and CAD/CAM materials.

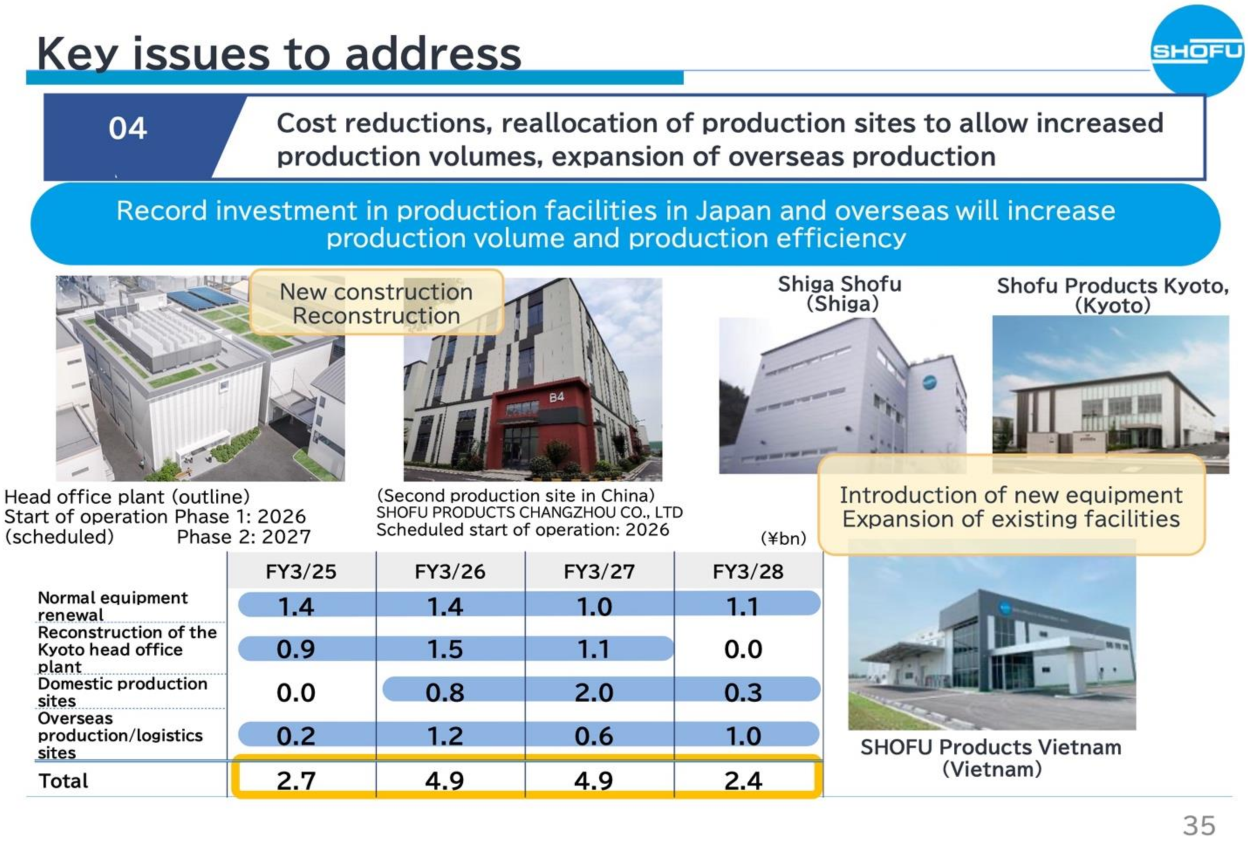
In addition, there is an increasing perception that dentistry is not only about treatment, but also require regular care by visiting dentists as well as daily personal care. The basic policy of Japanese government also clearly states the importance of universal dental checkups.

Although the specifics are still in the early stages of development, we expect the preventive dental care to expand steadily in the future.

Last September, we revamped our existing dental care brand, Merssage, and greatly expanded our toothpaste portfolio, especially for the general public. We hope that this product will be useful for the oral health of the general public through dental clinics, as it can maximize the effectiveness of the product when used under the guidance of a specialist in a dental clinic.

For overseas, we recognize that the awareness level of SHOFU brand is still not sufficient. However, we are confident that our products are not inferior to our competitors' products in terms of service and quality, and we expect a large growth potential for business expansion.

As part of our efforts to increase recognition globally, we plan to establish new bases in key countries and regions and increase the number of personnel engaged in academic and sales activities. In addition, by expanding our distributor network in Europe, the Middle East and Africa, we hope to create an environment that will enable us to deliver our products more promptly to the regions of each country.



	FY3/25	FY3/26	FY3/27	FY3/28
Normal equipment renewal	1.4	1.4	1.0	1.1
Reconstruction of the Kyoto head office plant	0.9	1.5	1.1	0.0
Domestic production sites	0.0	0.8	2.0	0.3
Overseas production/logistics sites	0.2	1.2	0.6	1.0
Total	2.7	4.9	4.9	2.4

Next is about production related issues.

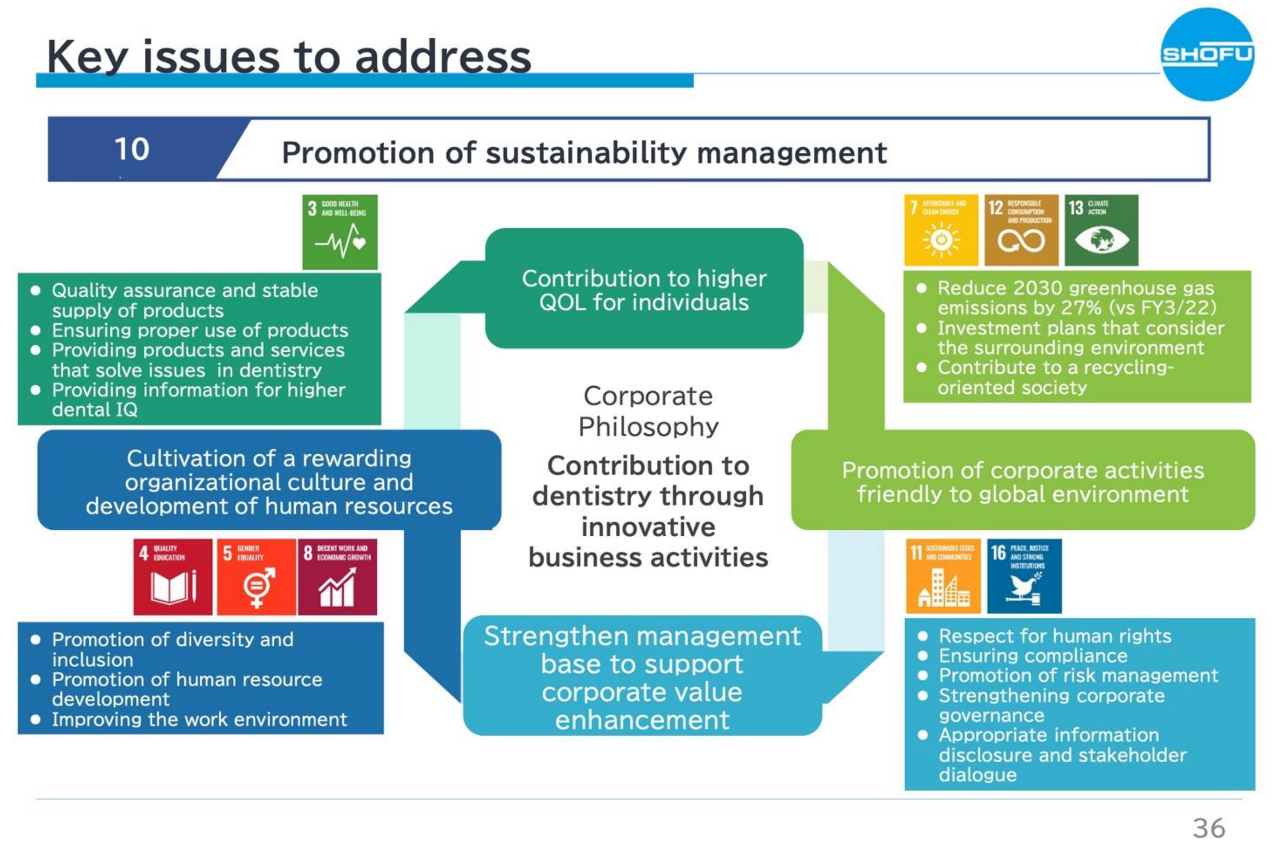
Currently, inquiries for our products are very strong and the demand momentum is favorable. Therefore, it is not an exaggeration to say that the expansion of our business depends on the production and supply capacity. I mentioned earlier that sales will increase 1.4 times over the period of this plan, and the absolute prerequisite for achieving this goal is to increase production capacity, and we intend to aggressively and continuously make capital investments to achieve this target.

Specifically, we will make the largest-ever investments in domestic and overseas production facilities over the next four years, including the current fiscal year. In particular, we will reconstruct two buildings at our headquarters plant in Kyoto to increase production capacity for chemical products. This will double the production capacity of the conventional production system. At the same time, we will promote efficiency and automation to establish a system to ramp up the capacity even further.

In China, a new production site was established in Changzhou, mainly for domestic market in China.

For domestic subsidiaries, we will transfer some products and processes from the headquarters plant. We will install new equipment and expand existing facilities in various locations to create a more efficient production system, including the Vietnam production site.

With these implementations, we will make new investments of JPY9 billion for production facilities and JPY10 billion including investments in logistics bases over the next four years to increase the certainty of reaching the top-line target.



Now, I would like to talk about the promotion of sustainability management, which has been newly listed as a key issue this time. In the past, as part of our commitment to a sustainable society, we have set forth our basic sustainability policy, identified agenda on materiality, and worked to achieve each of them. We will continue to work toward the realization of our management philosophy based on this policy. We will explain the progress on this front as appropriate.

Next, I would like to discuss our thoughts and efforts to achieve cost of capital and share price conscious management.

First, in analyzing the current situation, we recognize that our ROE is above the cost of shareholders' equity, but PBR and PER are not reaching the average in our sector, which is a major problem. This means that there is a large gap between our company and investors with respect to the Group's growth story, and we recognize the importance of closing this gap from the perspective of stock price valuation.

In our conversations with investors, we have frequently received comments about the low liquidity of our stock. We believe that reducing liquidity risk is also important for proper stock price formation.

Cost of capital and share price conscious management

SHOFU

01 Improve return on capital

- Increase return on capital by improving return on sales

ROE	FY3/24 Actual	FY3/25 Plan	FY3/26 Plan	FY3/27 Plan	FY3/28 Plan
	9.5%	9.1%	10.2%	11.8%	13.5%

02 Improve stock liquidity

- Trading value of ¥65mn per day and annual volume turnover of 0.37x in FY3/24 are among the bottom 15% of TSE Prime listed companies
- We see an urgent need to improve liquidity as liquidity risk premium raises our cost of capital
- Against this background, we plan to conduct a stock split as below

Purpose	Methodology	Increase number of shares via stock split	Timeline
Lower price of share-trading units Raise liquidity Expand shareholder base	Conduct a 2:1 stock split for common shares (Record date:9/30/24)	Total number of shares issued: Before stock split 17,894,089 shares After stock split 35,788,178 shares	Notice date: 9/13/24 Record date: 9/30/24 Effective date: 10/1/24

38

To this end, we would like to share our thoughts on the following four items. The first step is to improve return on capital. ROE for the previous fiscal year was 9.5%, and we expect to increase this ratio to 13.5% in the fiscal year ending March 2028.

The policy here is to increase profitability by improving return on capital by expanding return on sales, and we are not thinking about any effect from reduction in equity capital. In addition, we will execute a two-for-one stock split with a record date of September 30, 2024, mainly for the purpose of increasing liquidity in the stock market, as mentioned earlier.

We recognize the urgent need to improve the current situation where a liquidity risk premium is added to the cost of capital, as the daily trading value and annual turnover rate for the fiscal year ended March 31, 2024, were in the bottom 15% of PRIME listed companies.

Currently, the minimum investment amount in our company is not high, but with the start of the new NISA and the influx of individual investors into the stock market, we believe that lowering the minimum investment unit will be an appealing point for retail investors when selecting stocks.

For us, individual investors are also consumers who become more conscious of their dental and oral health by owning our stock and using the oral care products we send as a shareholder gift. One of our goals is to expand the shareholder base through stock splits.

Cost of capital and share price conscious management

SHOFU

03 Improve IR activities

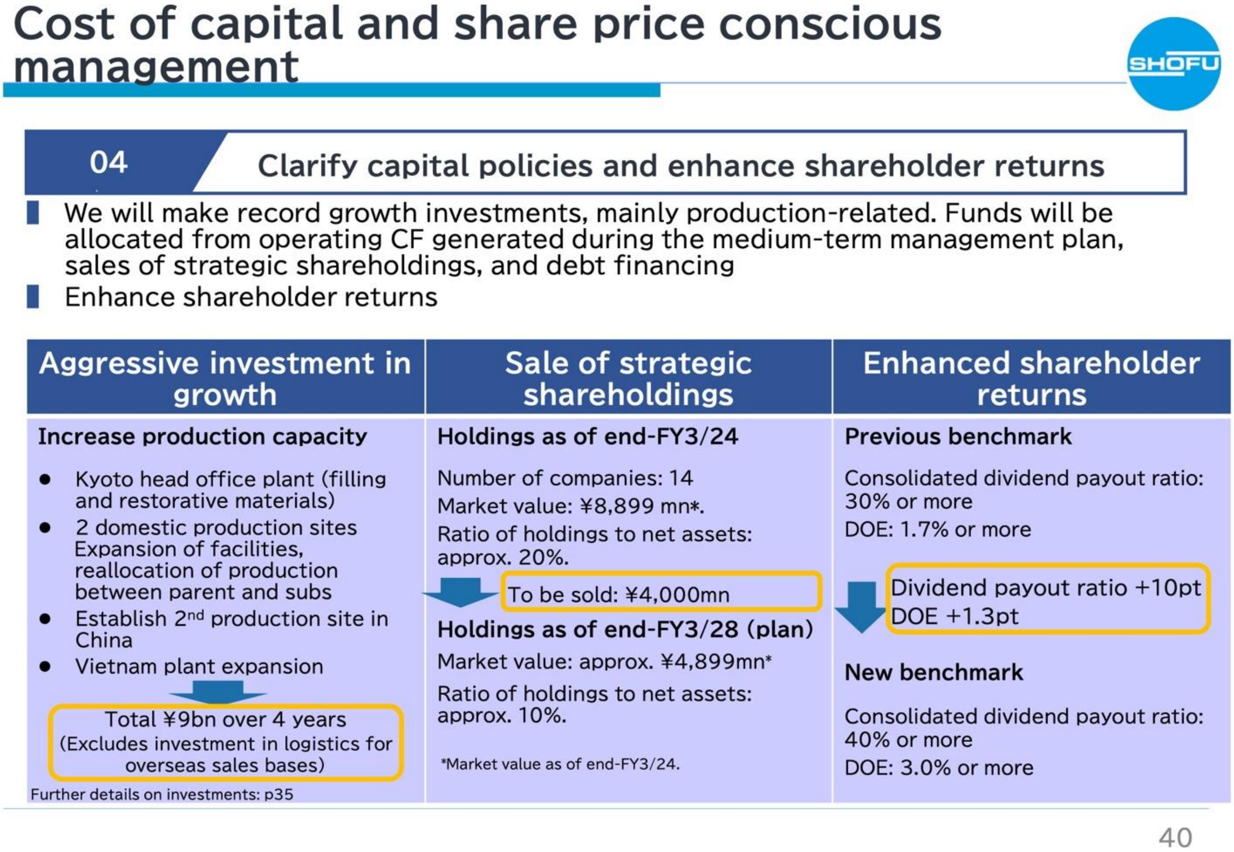
■ Bridge perception gaps with investors by reaching out to a wide range of investors in a timely and accurate manner

Promote dialogue with investors	English IR information
Efforts to date ● Hold results briefings for analysts and institutional investors (twice a year: Q2 and full-year results) ● 1-on-1 meetings are mainly with the executives in charge of Corporate Planning (98 meetings in FY3/24, including 34 with foreign investors) **Future policy** ➢ President & COO to attend more 1-on-1 meetings ➢ Consider participation of outside directors ➢ Strengthen the functions of the department in charge of IR ➢ Strengthen approach to foreign investors by holding overseas road shows, etc. (incl. initiatives listed on the right)	**Initiatives to date (implemented)** ● Notice of Convocation of General Meeting of Shareholders ● Financial results (incl. reference materials) ● Q2 and full-year results briefing materials ● Supplementary materials for Q1 and Q3 results **Plan to implement from FY3/25** ➢ Simultaneous disclosure in English and Japanese of various documents (for documents currently being translated into English) ➢ Simultaneous disclosure of all timely disclosure materials and press releases in English and Japanese ➢ English IR website will reflect identical information as Japanese IR website

39

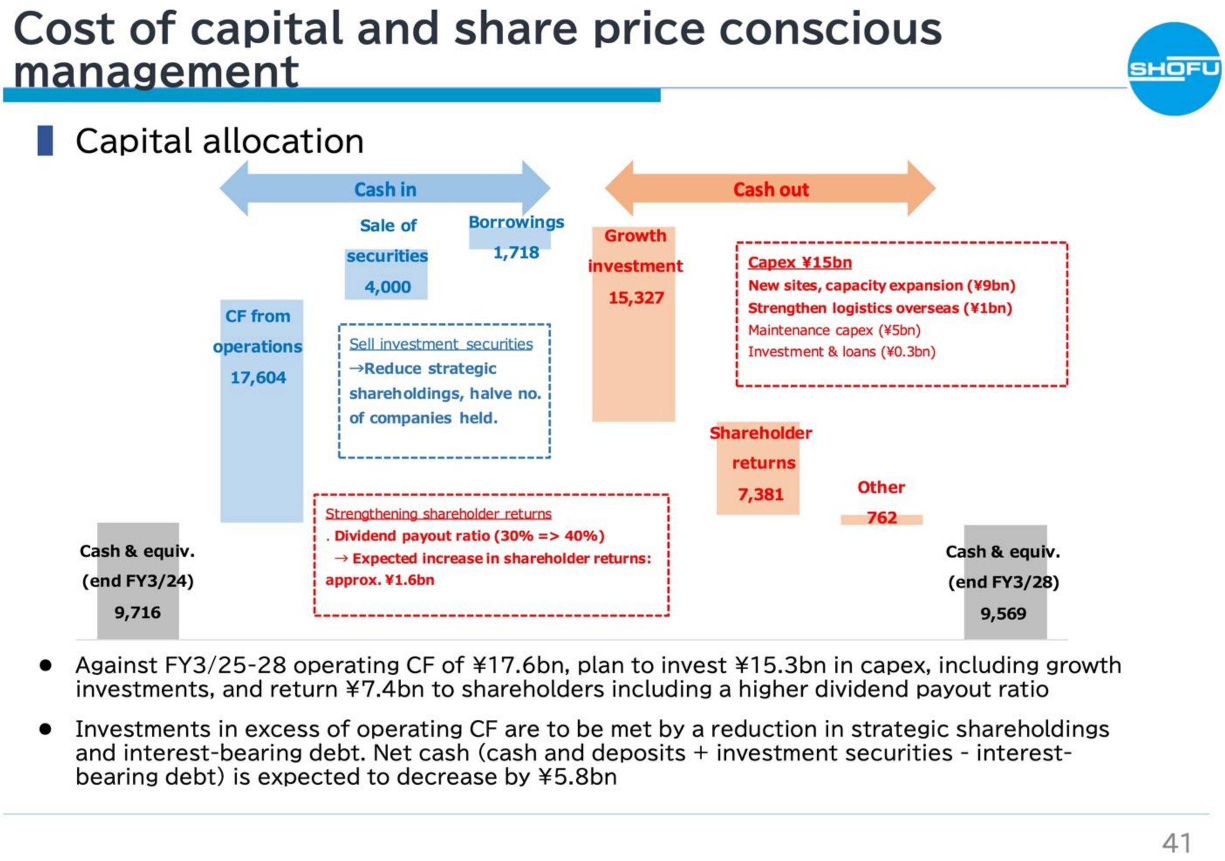
I mentioned earlier that there is a big gap between our company and investors with regard to the Group's growth story. In order to fill this gap, we recognize the importance of disseminating information to all investor groups in a timely and accurate manner. In particular, the current time lag in disclosure between Japanese and global site should be remediated as soon as possible.

In addition, I will actively seek opportunities to lead a dialogue with investors.



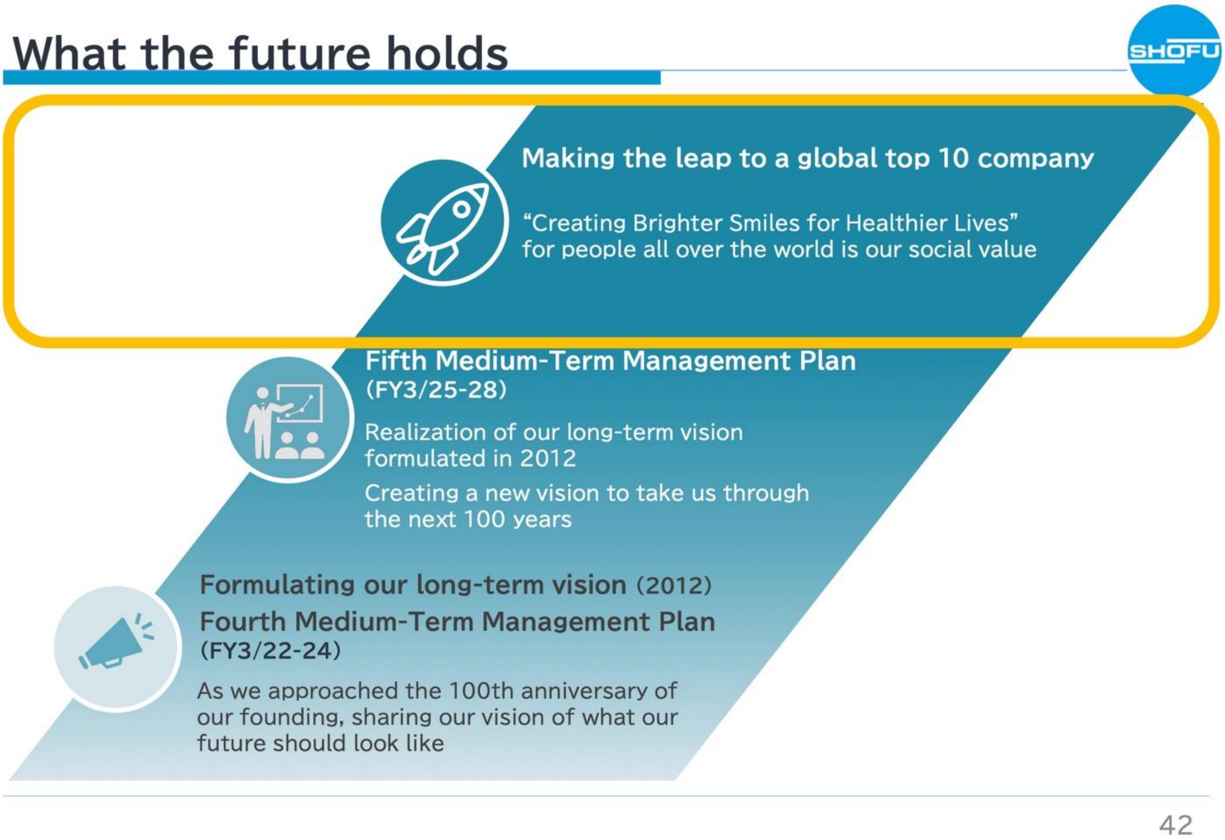
I believe that clarifying our capital policy and increasing shareholder returns will be one of the most important messages we will share with you today. In the past, one of the suggestions we frequently received from investors was to improve the equity part of our balance sheet. We will maintain an optimal capital structure by allocating management resources while striking a balance between investment in growth, shareholder returns, strengthening the management foundation, and improving the soundness of our financial position, and we will strive to sustainably increase corporate value.

We clearly stated in the new mid-term plan that we will invest a total of JPY9 billion in the growth and enhancement of production-related capabilities. We will sell approximately JPY4 billion of strategic shareholdings from the perspective of capital efficiency. We will enhance shareholder returns by raising the dividend payout ratio and DOE to over 40% and 3%, respectively.

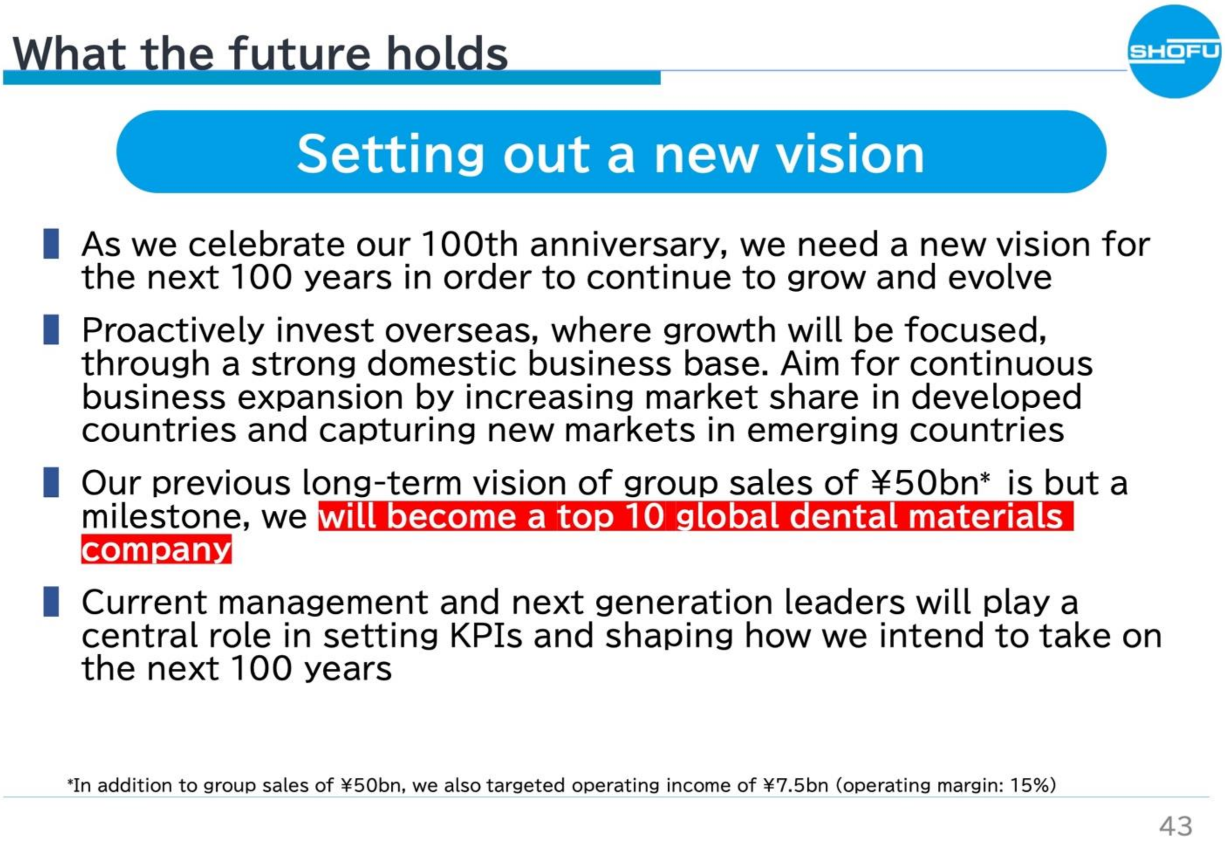


Here is a summary of what I have just said. This is a comparison of net cash at the end of March 2024 and March 2028. Although investment in excess of operating cash flow will be covered by reduction of strategic shareholdings and debt financing, final net cash is expected to decrease by JPY5.8 billion.

Although we have been keeping a fairly comfortable level of cash on hand, we expect to have 2 to 2.5 months of liquidity on hand for the fiscal year ending March 31, 2028, which we hope will contribute to capital efficiency.



Finally, I would like to talk about the vision beyond this fifth medium-term management plan.



Many companies disclose long-term visions, something for the year 2030 and 2050. However, we did not develop or announce any such vision this time. Our first priority is to ensure that the long-term vision established in 2012 is achieved, and that we remain committed on the continuous business expansion.

Meanwhile, as we celebrate the 100th anniversary of our founding, our focus will shift to the next 100 years. One of our major goals is to become one of the top 10 companies in the global dental materials market. The incumbent management team and potential leaders of the next generation will play a central role in clarifying what we should achieve in the future, and we plan to communicate it at the appropriate time, along with the progress of the medium-term management plan.

We appreciate your expectations regarding our business development and growth. At the same time, we would love to engage in a candid dialogue with you on an ongoing basis. This concludes my explanation. Thank you very much for your attention.

Moderator: Thank you.

Question & Answer

Moderator [M]: We will now move on to the question-and-answer session. This financial results briefing will be transcribed and published in full, including the question-and-answer session, via our IR site. Therefore, if you give your name and affiliate when asking a question, it will be disclosed as is. If you wish to remain anonymous, please do not give your name when asking a question. We will now take questions from the audience. If you have any questions, please raise your hand.

Mori [Q]: My name is Mori from Aozora Bank. Thank you for the opportunity. I have about three questions, clarifications for details.

First, I understand that you are planning a considerable increase in domestic sales for this fiscal year. What specific factor are you incorporating as the driver?

Second question is about the mid-term plan. The currency assumption for the current year is JPY140, but from the next year onward, do you expect the exchange rate to remain flat?

Thirdly, regarding the sale of JPY4 billion of strategic shareholdings in the mid-term plan period, how much of the capital gain has been factored into the plan? That's all.

Takami [A]: Thank you. Let me answer the first question regarding domestic sales. The digitalization of dentistry using CAD/CAM materials and other technologies is growing rapidly, not only in Japan but also overseas. Under the circumstance, we have been enhancing our CAD/CAM materials using the technologies we have accumulated.

We are currently the only supplier that offers such material, namely PEEK, which was newly covered by insurance last December. We expect massive, if not 100%, migration to PEEK-based crown compared to the conventional metal crown. Based on the potential for this area, we made an aggressive plan with unprecedent level of YoY increase in domestic sales.

In any case, since digitization trend is expected to continue, we intend to develop corresponding products, especially CAD/CAM-related materials both at home and abroad so that we can capture the market.

For your second question, the exchange rate, we expect it to be flat, or same level, as you mentioned.

For the gains on the sale of strategic shareholding, Mr.Yamazaki will answer your question.

Yamazaki [A]: Thank you for your question. Gains on the sale of strategic shareholdings are included in the profit targets of the mid-term plan. For this fiscal year, we expect JPY531 million. For FY3/26 and FY3/27, we expect JPY885 million, respectively. For FY3/28, the final year of the plan, we expect JPY1,238 million. They are included as positive factors for the increase in ROE. That is all.

Mori [M]: Thank you very much.

Moderator [M]: We will now take the next question.

Participant [Q]: Thank you for your explanation. The mid-term plan is to build a sales network, especially opening new offices in major countries. If you have a specific plan for how many and in which geographic area, I would appreciate it if you could share it with us.

Takami [A]: In terms of specific numbers or areas, I would say that Asia and India are the fastest-growing regions, while the Middle East and Africa have been untapped market for us. Another area where we have made relatively new inroads is Brazil. All of these areas have high growth potential, and we intend to firmly establish sales networks.

Participant [Q]: You explained that you are developing a distributor network in the Middle East and Africa, but are you saying that you will establish your own sales office separately from that?

Takami [A]: We currently have an office in Dubai, which is our foothold in the Middle East and Africa, especially Egypt. We have yet to develop a sales and distributor network in these regions, and we would like to make sure that our products are distributed to every corner of the market.

Moderator [M]: Thank you for your questions. We have received a question from an online participant. Let me read it out. Question from Mr. Nagata, Ichiyoshi Economic Research Institute.

Nagata [Q]: There is a global inventory adjustment for some dental equipment. Is there any possibility that this could affect your demand trends for chemical products, artificial teeth, and abrasives in this fiscal year? Please share with us your insights on the market trend, especially for China where the impact of inventory correction is significant.

Takami [A]: Thank you. Although we may be in an inventory adjustment phase, there are still some areas where sales increased rapidly at one point after the lifting of the pandemic-induced restrictions, and we believe that sales and the market are expanding steadily. Therefore, we expect that sales will continue to grow as they have in the past. Thank you for your question.

Moderator [M]: Thank you. Let me read out the next question.

Participant [Q]: How do you see the external environment to evolve in your mid-term management plan period? How do you incorporate the impact of centralized purchasing in China and the risk of increased competition in the US and European markets? Are there any risk factors that are materialized, which you should be concerned about?

Takami [A]: Thank you. First of all, we are not currently affected by centralized purchasing in China, although we are aware of this trend. We are aware of such risks, but there are no risks in China that have materialized at this point in time.

As for increased competition in Europe, there are already a very large number of players in a very large market there. We are among them, and we have our unique technology, especially in filling and restoration materials. We have entered the market with our proprietary technology, which we call bioactive materials, by adding a filler called S-PRG. We are actively promoting its advantage through hands-on seminars and lectures, as mentioned earlier. This way, we can avoid being dragged into price competition, although price is an important factor. Our intention is to appeal the value of our products, even though it takes time to penetrate in that market. That is all.

Yamazaki [A]: Let me add some comments about the intensified competition in the US. We are aware of the movement of joint procurement through DSO. Such practices are spreading. Currently, about 20% of our trade partners are selling through DSO. This will naturally lead to lower prices, but on the other hand, it will also lead to increased volume or more efficient sales operations, and we expect this to increase gradually. That's all.

Moderator [M]: Thank you. We are very sorry but due to the time constraint, we will accommodate one last question.

Participant [Q]: What is the reason for the significant improvement in the operating profit margin from the fiscal year ending March 31, 2027? On the other hand, operating profit margin is expected to remain flat through the fiscal year ending March 31, 2026. Please also tell us the reason for that.

Yamazaki [A]: Thank you for your question. The period through FY3/25 and FY3/26 will require various upfront investments. We will be making series of investments, including the development of our production system, so the impact of these investments will come first, which is the main factor for flat estimate.

We are planning for consistent sales growth, but we are also planning for various investment projects, upfront investments, R&D, personnel expenses, and capital expenditures to be concentrated in the first half of the mid-term plan, and the effect of them to appear in the latter half. That is the logic behind the plan, simply put it.

Moderator [M]: Thank you. It is now time to wrap up the meeting, so let us stop the question-and-answer session. This concludes the presentation of financial results for the fiscal year ended March 31, 2024, and the mid-term management plan of SHOFU INC. Thank you very much for taking time out of your busy schedule to join us today.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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