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The Shofu Group's Fourth Mid-term Management Plan

The Shofu Group announced today that it has formulated its Fourth Mid-term Management Plan, covering the period from the fiscal year ending March 31, 2022 to the fiscal year ending March 31, 2024. An overview of the plan follows.

In 2012, the year of its 90th anniversary, the Shofu Group established a “50-billion-yen vision,” a long-term vision that looks ahead to how the Group should be in the future.

In brief, the aim of the vision is to achieve Group sales of 50 billion yen (17 billion yen in sales in Japan and 33 billion yen in sales overseas) and operating income of 7.5 billion yen (operating profit margin of 15%) by shifting a large portion of the allocation of management resources overseas, based on the recognition that the Shofu Group has no future if it cannot grow overseas, and in order to increase our contribution to dentistry around the world and our presence in the market.

Since then, nine years has passed since we formulated the first to third mid-term management plans every three years with the aim of achieving our long-term 50-billion-yen vision. During that time, we worked on a number of issues, and from the current fiscal year, which began in April 2021, we will continue making efforts to achieve our vision under the Fourth Mid-term Management Plan.

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- The figures in the “Numerical Targets” and “Dividend Policy” of the Mid-term Management Plan mentioned in this document indicate the direction the company will pursue, and differ in character from earnings forecasts and dividend forecasts. For earnings forecasts and dividend forecasts for the fiscal year ending March 31, 2022, please refer to the details disclosed in the Consolidated Financial Results for the Fiscal Year Ended March 31, 2021 (Japanese Accounting Standards), which was separately announced today (May 14, 2021).
- The forward-looking statements in this document are based on information currently obtained by the Company and certain assumptions that it deems reasonable, and actual results, etc. may vary significantly due to various factors.

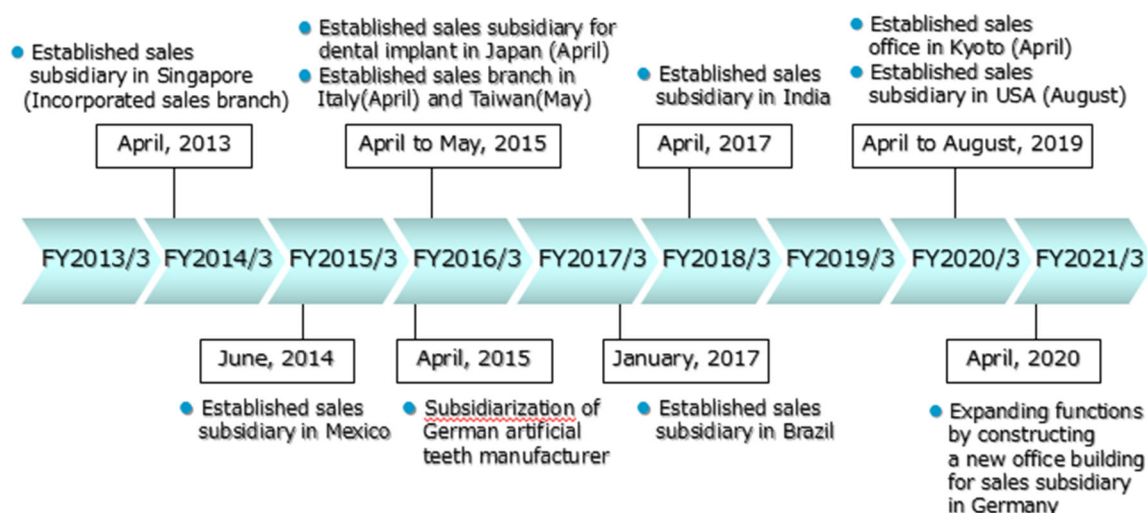
1. Initiatives and results of the First to Third Mid-term Management Plans

1-1. Medium- to long-term priority issues

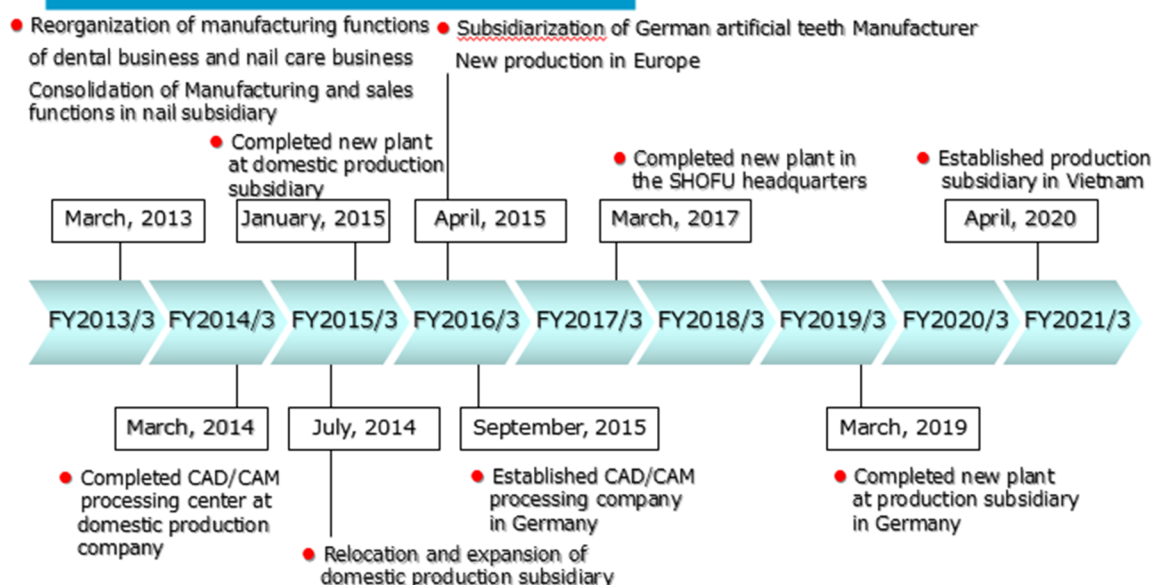
- (1) Development and introduction of new products that match local demands
- (2) Improvement of our sales network / Establishment of sales offices
- (3) Establishment of domestic and international academic networks
(Create a system through which we can promote our products directory to users)
- (4) Relocation of production sites and expansion of offshore production to reduce costs and increase production volume
- (5) Development of human resources and securing of skilled employees to actively promote overseas operation
- (6) Capital procurement in response to increasing investment demands
- (7) Promotion of M&As (business tie-ups, technology partnerships, business acquisitions)

1-2. Main initiatives and results to date

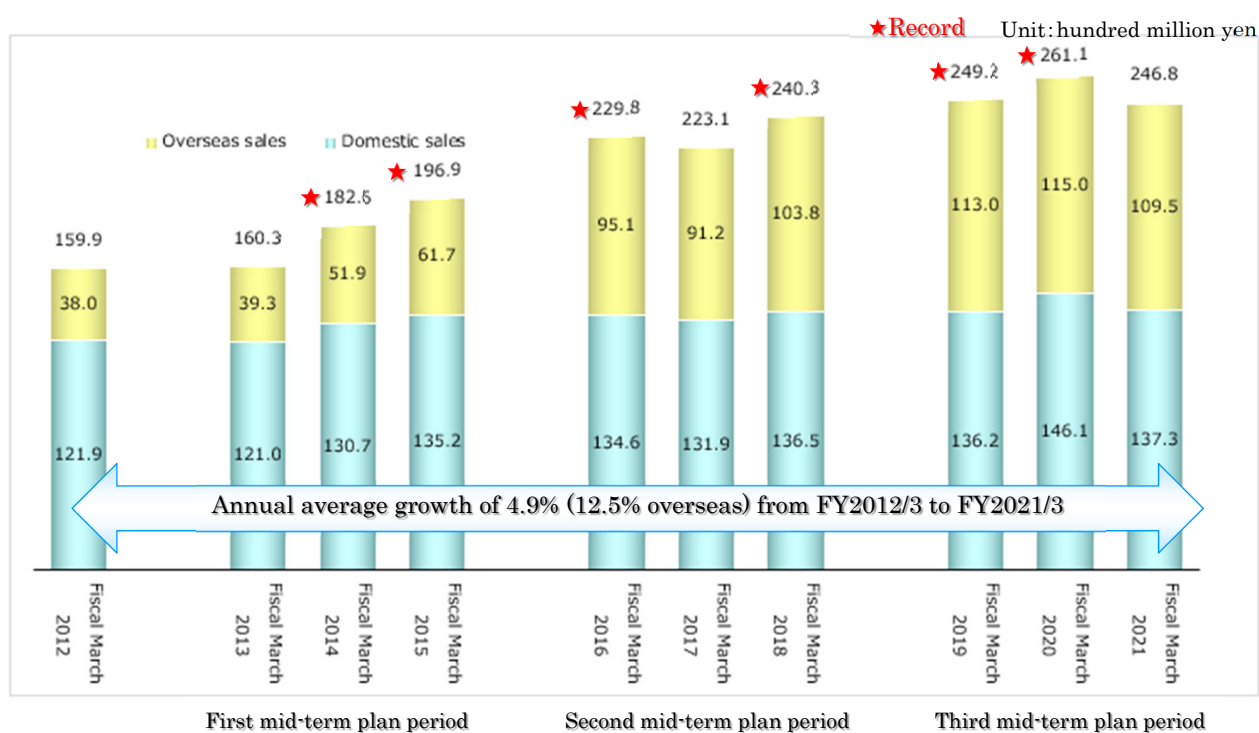
(1) Improvement of our sales network / Establishment of sales offices



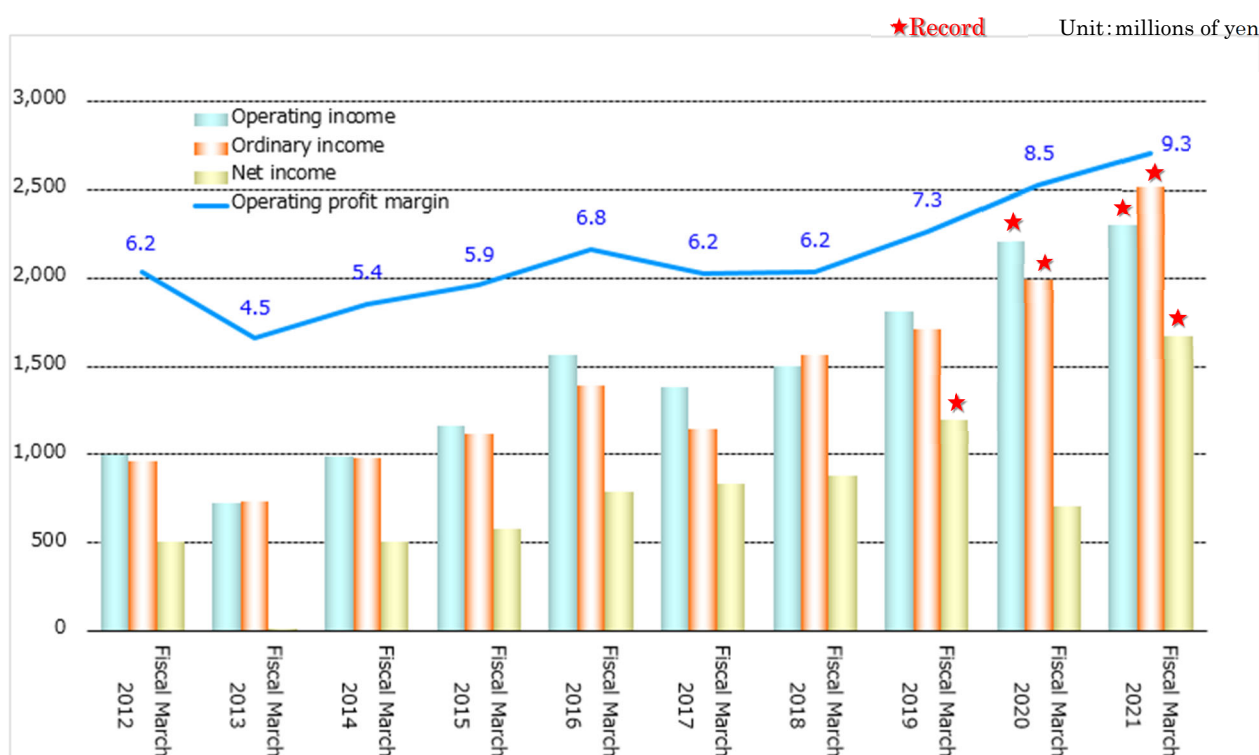
(2) Relocation of production sites and expansion of offshore production



(3) Results: Sales Performance Trends



(4) Results: Operating Income, Ordinary Income, and Net Income



1-3. Third Mid-term Management Plan and results

Red figures: Items that fell short of plan / ★: Record (Sales and Profit)

Unit: millions of yen

Figures in parentheses represent percentage of sales

Item	Business year	Fiscal March 2019		Fiscal March 2020		Fiscal March 2021	
		Forecast	Results	Forecast	Results	Forecast	Results
N e t S a l e s		25,725	★ 24,915	27,419	★ 26,108	29,264	24,680
Domestic Sales		14,453	13,619	15,085	14,608	15,700	13,733
Overseas Sales		11,271	★ 11,295	12,333	★ 11,499	13,563	10,946
Operating income		1,737 (6.8%)	1,814 (7.3%)	2,056 (7.5%)	★ 2,210 (8.5%)	2,341 (8.0%)	★ 2,300 (9.3%)
Ordinary income		1,630 (6.3%)	1,709 (6.9%)	1,946 (7.1%)	★ 1,988 (7.6%)	2,234 (7.6%)	★ 2,523 (10.2%)
N e t i n c o m e		1,109 (4.3%)	★ 1,201 (4.8%)	1,370 (5.0%)	704 (2.7%)	1,596 (5.5%)	★ 1,674 (6.8%)
Net income per share		69.77yen	75.54yen	86.23yen	44.24yen	100.42yen	96.29yen
Return on equity		4.6%	5.0%	5.5%	2.9%	6.1%	6.2%

2. Overview of the Fourth Mid-term Management Plan

2-1. Basic approach

The Shofu Group has changed significantly with the establishment of the 50-billion-yen vision. Many results have been obtained through various initiatives, and we have been able to accumulate insight on many fronts as to what measures are necessary. Accordingly, we will continue to maintain and build on this direction.

Going forward, given that progress has been delayed by two years due to the Covid-19 pandemic, we believe it is necessary to achieve the Fourth Mid-term Management Plan by tackling issues with a greater sense of speed than ever, and to also decide on and implement measures that go beyond extensions of the past.

2-2. Medium- to long-term priority issues (review of the Third Mid-term Management Plan and direction going forward)

(1) Development and introduction of new products that match local demands

We have been and will try to remain a truly global company that emphasizes research and development to produce products that are well-accepted in the global market. While this policy will not change in the future, we will also develop products that meet local demands that vary considerably among countries due to their economic levels, standard of dentistry, and infrastructure development. In particular, we will focus on the demands from the middle-class income group that bears volume consumption.

During the period of the Third Mid-term Management Plan, in the Japanese market, we faced tough times as the competitive environment became more intense, including for our products that have a high market share. Nevertheless, we secured a certain amount of growth by developing and launching new products, focusing on products compatible with digital dentistry, and by achieving results with our efforts to translate changes in the market into growth for our company. On the other hand, in order to launch in-house-developed products that are ahead of those of other companies, measures are needed to speed-up development.

By overseas region, sales have been steadily expanding in the Americas, especially in the field of chemical products such as filling and repair materials, and in China with the release of new products including chemical products and porcelain. The challenge is how to quickly respond to the laws and regulations that are being strengthened year by year in each country, and we will establish a system for that.

(2) Improvement of our sales network / Establishment of sales offices

The Shofu Group has established networks of overseas dealers through its head office sales department and overseas sales bases, and will continue to improve the necessary dealer networks to further raise recognition of the Group's products among dental professionals.

In addition, we will open new offices in important countries and regions in order to (1) improve our customer service, (2) deliver products and services in a timely manner with sufficient stock, (3) enhance academic activities, focusing on disseminating product information to dental professionals, and (4) accelerate and increase the efficiency of product registration work.

During the period of the Third Mid-term Management Plan, we continued to develop our structure for full-scale growth of recently established Indian and Brazilian sales companies. In the U.S., the world's largest market, we established a sales system for rapidly growing digital dental products. At the same time, we also worked on improving our dealer network in each country (moving from exclusive dealers to multiple dealers).

Going forward, we will continue to develop sales networks in important countries and regions. In April 2021, we established a representative office in Dubai, UAE, with the aim of developing the Middle East and African markets.

(3) Establishment of domestic and international academic networks

(Create a system through which we can promote our products directory to users)

We intend to improve our ability to disseminate information to study groups and KOLs (key opinion leaders) who are influential among local dentists in various regions, both in and outside of Japan, to raise recognition of the Shofu Group's products, and to build a customer network.

In addition, in response to the trend of digital dentistry, we intend to establish the Group's presence in this field by exerting comprehensive strength that leverages networks across the Group.

During the period of the Third Mid-term Management Plan, we strengthened academic activities (expansion of academic personnel, enhancement of advertising literature such as clinical results, product briefings, hands-on seminars, etc.) with the cooperation of KOLs. However, since there are many countries subject to jurisdiction and since market conditions differ depending on the area, some regions require longer to penetrate than the United States and China, which are single markets. Further drive and strengthening are therefore necessary.

At the same time, the unprecedented experience of the Covid-19 pandemic on a global scale has accelerated the wave of digitalization in various fields. The environment surrounding the Shofu Group is no exception, and utilization of the Internet increased dramatically, especially in the fiscal year ended March 31, 2021. We believe it is necessary to make use of this knowledge not only to improve the efficiency of operations, but also to expand both the quality and quantity of customer contacts, including both existing and potential customers.

(4) Relocation of production sites and expansion of offshore production to reduce costs and increase production volume

We will further work to enhance price competitiveness by further reducing costs in fields in which we are competitive, such as artificial teeth and abrasives.

In addition, we will realign our production facilities by utilizing existing domestic subsidiaries more effectively and establishing new factories overseas with a view to (1) eliminating production capacity constraints at the head office factory, (2) selecting production items based on required production technology and profitability, (3) avoiding the effects of currency fluctuations, (4) reducing shipping costs for hazardous and heavy goods, (5) providing better delivery service to customers, and (6) avoiding high tariffs.

During the period of the Third Mid-term Management Plan, we established a new production site in Vietnam and prepared for its full-scale operation. During the period of the Fourth Mid-term Management Plan, we plan to start full-scale operation of this Vietnamese production site as a production factory for abrasives mainly for overseas markets, and in the future, we intend to further expand its product line and grow it as one of the Group's main production sites.

(5) Development of human resources and securing of skilled employees to actively promote overseas operation

We will increase the number of personnel at existing local sites, train personnel who can be dispatched from Shofu, Inc., and secure human resources with varying expertise. At the same time, we will radically overhaul our personnel system, including introducing a performance-based pay system, to create an environment that motivates employees to actively take on harder challenges.

During the period of the Third Mid-term Management Plan, we took various approaches to secure human resources. Going forward, we intend to continue to develop global human resources not only in the overseas sales department but also to promote globalization throughout the company.

(6) Capital procurement in response to increasing investment demands

Including by making use of improved fund-raising ability in the capital market, we will secure sufficient financial resources to cover aggressive investments (investments in new businesses, human resources, and capital investment).

We recognize that during the period of the Third Mid-term Management Plan, the Shofu Group's high reliability based on its business competitiveness and financial strength ensured a dynamic fund-raising environment to meet capital requirements.

In December 2020, we received notification from Rating and Investment Information, Inc. that it would raise our credit rating from BBB to BBB+.

Going forward, we intend to continue to secure sufficient funds to cover aggressive investments (investments in new businesses, human resources, and capital investment), including by making use of improved fund-raising ability in the capital market.

(7) Promotion of M&As (business tie-ups, technology partnerships, business acquisitions)

Based on our business strategies for each product field and region (segment stories), we intend to actively promote M&As as a form of collaboration and development with external organizations in order to strengthen our R&D, production, and sales systems.

During the period of the Third Mid-term Management Plan, we established an organizational structure (full-time system) to promote M&As, and we gathered information broadly and considered individual proposals. During the period of the Fourth Mid-term Management Plan, we will shift to active promotion of M&As after clarifying the points to be complemented (fields, regions, and functions), in light of the Shofu Group's core competencies and growth strategy.

Regarding Merz Dental GmbH, which became a subsidiary in 2015, we will promote management improvements and reforms and will work to create synergies, particularly in terms of digital dental initiatives and the establishment of a global production system.

(8) Strengthening the group governance system

This is a new issue as of the Fourth Mid-term Management Plan.

The role of group companies within the Shofu Group is increasing year by year. In this process, the major challenges are how to connect the activities of group companies to the enhancement of corporate value of the entire Group, and at the same time how to control the various related risks that may arise. We will develop a system for this.

(9) Business tie-up with Mitsui Chemicals and Sun Medical

In May 2020, we concluded a capital and business tie-up agreement with Mitsui Chemicals, Inc. and Sun Medical Co., Ltd., and established stronger relationships than ever before, including strengthening capital relationships (Shofu became an equity-method affiliate of Mitsui Chemicals, Inc. and Sun Medical Co., Ltd. became an equity-method affiliate of Shofu).

By combining the three companies' tangible and intangible assets, we aim to "enhance global competitiveness and increase business value in the dental business," which is the purpose of the three-company tie-up, and to translate this into growth for the Shofu Group and the expansion of its corporate value.

2-3. Numerical targets

★: Record (Sales and Profit)

Figures in parentheses represent percentage of sales

Unit: millions of yen

Business year Item	(reference) Fiscal March 2021 Results	Fiscal March 2022 Forecast	Fiscal March 2023 Forecast	Fiscal March 2024 Forecast
N e t S a l e s	24,680	26,105	★ 28,097	★ 30,182
Domestic Sales	13,733	13,627	★ 14,319	★ 14,745
Overseas Sales	10,946	★ 12,478	★ 13,777	★ 15,437
Operating income	★ 2,300 (9.3%)	1,799 (6.9%)	2,017 (7.2%)	★ 2,618 (8.7%)
Ordinary income	★ 2,523 (10.2%)	1,837 (7.0%)	2,064 (7.3%)	★ 2,668 (8.8%)
N e t i n c o m e	★ 1,674 (6.8%)	1,234 (4.7%)	1,379 (4.9%)	★ 1,874 (6.2%)
Net income per share	96.29yen	69.48yen	77.70yen	105.53yen
Return on equity	6.2%	4.1%	4.4%	5.8%

2-4. Capital policy and shareholder returns

Our basic policy is to maintain and continue stable dividends with the aim of increasing long-term corporate value (shareholder value) and returning profits to shareholders. At the same time, while strengthening our management base and improving our financial standing, we also intend to give consideration to enhancing our internal reserves in order to prepare for aggressive business development in the future, such as expanding our overseas businesses and investing in R&D for new product development.

As for specific numerical standards, in the past we targeted a payout ratio of 30% or more on a consolidated basis, but in addition to this, we will add dividends on equity (DOE) as a numerical standard with the aim of enhancing returns to shareholders and implementing returns that take into account capital efficiency. During the period of the Fourth Mid-term Management Plan, dividends on equity (DOE) of 1.7% will be our tentative target.

Dividends on equity (DOE) is the product of return on equity (ROE) and payout ratio. Accordingly, we will aim to improve our DOE by enhancing both profitability and capital efficiency, and in the long term we will aim for ROE of 8% or more and DOE of 2.5% or higher.

Business year Item	Fiscal March 2022	Fiscal March 2023	Fiscal March 2024
Dividend payout ratio	More than 30%		
Ratio of dividends to net assets (DOE)	Tentative target of 1.7%		

[Reference: Key numerical targets related to dividends in the Fourth Mid-term Management Plan]

Return on equity (ROE)	4.1%	4.4%	5.8%
Net income per share	69.48yen	77.70yen	105.53yen