



SHOFU INC.

Financial Results Briefing for the Fiscal Year Ended March 2023

May 26, 2023

Event Summary

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[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	2
	Tetsuo Takami President & COO
	Fumitaka Yamazaki Director, Senior Managing Executive Officer, Production and Corporate Planning

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Presentation

Moderator: We will now begin the financial results briefing of SHOFU INC. for the fiscal year ended March 31, 2023. Thank you for taking the time out of your busy schedule to join us.

There will be time for questions and answers after the presentation. Questions and answers will be accepted in text format.

At approximately 15:40, we will move to the Q&A session, where we will read and answer any questions we receive. Please note that due to time constraints, we may not be able to answer all of your questions.

At this time, I would like to turn the meeting over to Mr. Tetsuo Takami, President & COO, who will report on the financial results for the fiscal year ended March 2023.

Takami: Thank you very much for attending today's financial results meeting of SHOFU. I am Takami, President & COO. Although time is limited, we will explain as much as possible.

Main Products



Dental Business

Artificial Teeth Products

Domestic Share No.1

Porcelain teeth/resin teeth /porcelain powder, CAD/CAM materials (Zirconia)



Resin teeth

Zirconia(disk)

Abrasive Products

Domestic Share No.1

Diamond abrasive, Carborundum abrasive



Diamond abrasive

Chemical Products

Composite resins for fillings, Light-curing bonding materials, CAD/CAM materials (resin)



Composite Resins for Fillings

CAD/CAM materials (resin)

Cement Products

Dental cements

Metal Products

Alloys for casting, Alloys for firing

Machinery, Equipment & Other Products

Tooth Cleaning Ultrasonic Scaler, SHOFU S-WAVE CAD/CAM system (software/hardware)



Tooth Cleaning Ultrasonic Scaler



Oral scanner

Desktop scanner

Processing machine

Dust collector

Software

Nail Care Business

Materials for gel/acrylic nails, Nail machine



Other Businesses

Industrial rubber abrasives



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This page represents an overview of the products we handle. Please use it as a reference.

Today, I plan to give an overview of our full-year results for the fiscal year ended March 31, 2023, our outlook for the fiscal year ending March 31, 2024, our future business environment and medium- to long-term strategy, and topics since the beginning of this fiscal year.

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As one year has passed since I assumed the position of President & COO, I would like to conclude my presentation by reflecting on the year.

■ Summary of Full-Year Results for the Fiscal Year Ended March 31, 2023

Summary of Business Results for the Current Period



- **Domestic sales of CAD/CAM products were strong, following revisions to health insurance rules which resulted in expanded eligibility for CAD/CAM crowns.**
- **Against a backdrop of global demand recovery, strong performance, especially in Asia and Oceania.**
- **Opportunity losses as raw material procurement, personnel, and facilities were unable to keep up with the rapid increase in demand. Ongoing increases in raw material prices and high labor and other costs have emerged as future business risks.**

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I would like to provide an overview of our full-year results for the fiscal year ended March 31, 2023.

For the full year ended March 31, 2023, we were able to increase both sales and profits and achieve a new record high.

Before I present specific figures, let me first discuss the key points of performance for the fiscal year under review.

First, sales of CAD/CAM products in Japan were strong due to the expansion of applicable cases of CAD/CAM crowns following the revisions to health insurance rules.

In Japan, insurance coverage for CAD/CAM crowns was expanded with the April 2022 revisions. Specifically, it relates to lump fillings called inlays. Until now, metal fillings such as gold-silver-palladium alloys have been the norm. The government's policy, the so-called "large-boned policy 2022," states that the government will promote the introduction of dental materials that are not influenced by market prices, and the replacement of metal fillings with CAD/CAM crowns is rapidly advancing.

In the fiscal year under review, demand for capital investment in dental clinics and on the laboratory side remained high, and related products contributed significantly to sales.

Second, against the backdrop of a global recovery in demand, performance was particularly strong in the Asia-Oceania region.

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It goes without saying that the spread of COVID-19 has had a major negative impact on economic activity worldwide, and not just in the area of dental materials. During the COVID-19 pandemic, distributors in various regions tended to keep distribution inventory levels low against a backdrop of dental clinics suspending treatment and patients refraining from treatment. However, against the backdrop of a global recovery in demand due to the easing of action restrictions, a recovery in demand was seen first in Europe and the US since the year before last, and in the fiscal year under review, demand recovered especially in Asia and Oceania, resulting in strong business performance.

The situation by region will be explained in more detail later in this report.

Third, raw material procurement, personnel, and equipment were unable to keep up with the surge in demand, resulting in lost opportunities. It must also be mentioned that the continuous rise in raw material prices and high labor and other costs have emerged as future business risks.

As mentioned in the second point, the mainstream of new coronaviruses has shifted to strains with relatively low risk of severe illness, and the global economy finally showed a recovery trend in the fiscal year under review. In conjunction with this, demand for dental materials, especially our products using resin materials, surged, and during the period, production could not keep pace in terms of raw materials, personnel, and facilities.

Currently, the problem of raw materials has largely been resolved, as we have secured a certain volume of raw materials through expanded procurement channels. In terms of personnel and facilities, we are taking measures such as extending operating hours by hiring more personnel and increasing the production volume per lot, and a resolution of these issues has come in sight.

Responding to high prices is expected to be an ongoing issue in the current fiscal year. Although the gravity of raw materials in our company is not so high, prices of everything are rising, from raw materials to energy, packaging, and other materials.

Personnel expenses are also expected to increase in the future due to business expansion.

We recognize that one of the important issues to be addressed in this fiscal year is to consider measures to avoid these business risks.

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Summary of Business Results for the Current Period

Units: millions of yen, %

	Fiscal March 2022 (Results) (% of sales)	Fiscal March 2023 (Forecast) (% of sales)	Fiscal March 2023 (Results) (% of sales)	Change from Previous Period (% change)	Change from Forecast (% change)
Net sales	28,137 (100.0)	31,294 (100.0)	31,678 (100.0)	3,540 (12.6)	384 (1.2)
(Domestic sales)	13,573 (48.2)	14,152 (45.2)	14,282 (45.1)	709 (5.2)	129 (0.9)
(Overseas sales)	14,564 (51.8)	17,141 (54.8)	17,396 (54.9)	2,831 (19.4)	255 (1.5)
Operating profit	3,217 (11.4)	3,750 (12.0)	3,824 (12.1)	607 (18.9)	74 (2.0)
Ordinary profit	3,658 (13.0)	4,320 (13.8)	4,238 (13.4)	579 (15.8)	-81 (-1.9)
Net income	2,546 (9.1)	3,389 (10.8)	3,135 (9.9)	588 (23.1)	-254 (-7.5)
Net income per share	143.22yen	190.17yen	176.10yen	32.88yen	-14.07yen
Return on equity	8.1%	9.9%	9.2%	1.1P	-0.7P
Foreign exchange rates					
US dollar	112.86	133.46	134.95	22.09	1.49
Euro	131.01	138.79	141.24	10.23	2.45
Renminbi	17.03	18.98	19.38	2.35	0.40

*Fiscal March 2023 forecasts are based on financial result forecasts announced on October 25th, 2022.

*Effect of foreign exchange fluctuations [Change from previous period] : Sales +1,878

[Change from Forecast] : Sales +160

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I will explain specific performance figures.

Net sales totaled JPY31,678 million, up 12.6% from the previous year. Domestic sales increased 5.2% to JPY14,282 million. Overseas sales increased 19.4% to JPY17,396 million.

Domestic sales were generally in line with our expectations. In the mainstay dental business, demand for products was particularly high for dental clinics and the technical side to introduce new CAD/CAM equipment, and our SHOFU S-WAVE CAD/CAM system made a significant contribution to sales.

The world of “living with COVID-19” is being established abroad. Beginning with a recovery in demand in Europe and the United States, sales grew significantly in the Asia-Pacific region, including India, Southeast Asia, South Korea, and Taiwan. As for China, where H1 sales were hit hard by the Shanghai lockdown, performance recovered and grew steadily despite a temporary lockdown in H2.

Our performance was also affected by the positive impact of exchange rate fluctuations due to the overall depreciation of the yen.

In terms of profit, operating profit increased 18.9% to JPY3,824 million due to higher sales and gross profit margin, despite an increase in selling, general and administrative expenses, including personnel costs, advertising expenses associated with participation in international exhibitions, and travel and transportation expenses, due to the recovery in the level of business activities from the COVID-19 pandemic and the need to invest in growth for the future.

Ordinary profit increased 15.8% to JPY4,238 million due to improved non-operating income from increased foreign exchange gains. Net income increased 23.1% to JPY3,135 million due to an improvement in

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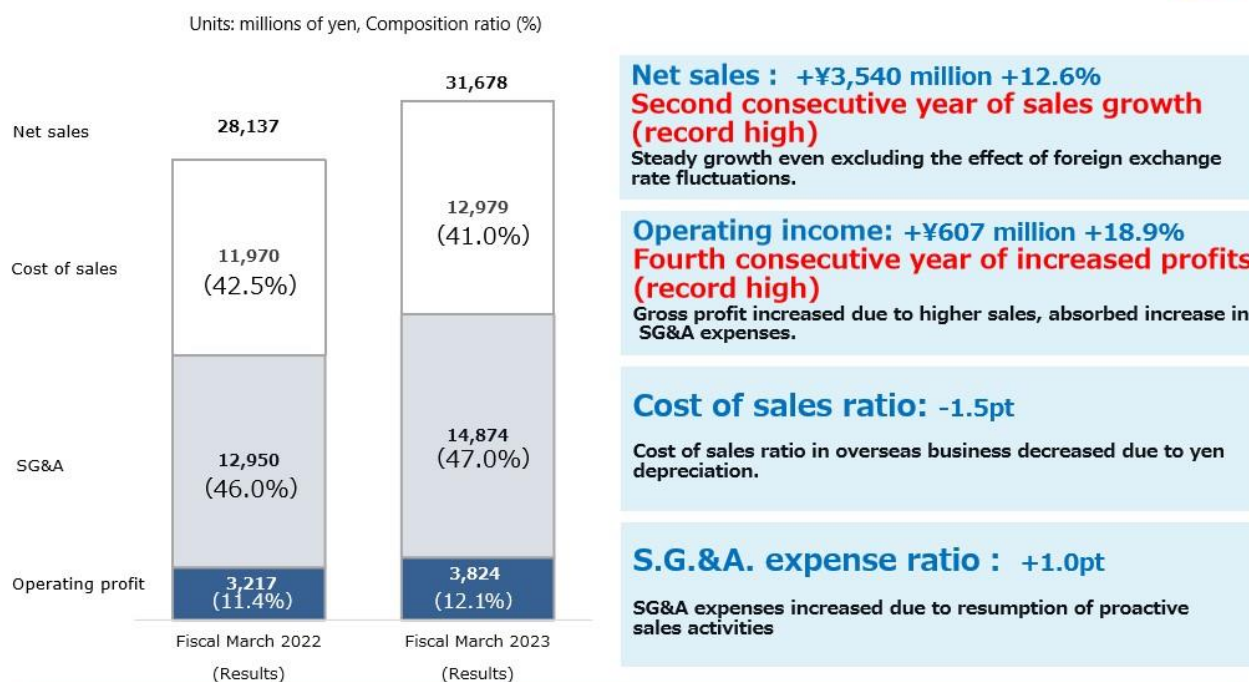
extraordinary income/loss resulting from a settlement payment received and a gain on sales of investment securities.

Net income per share was JPY176.1 and ROE was 9.2%.

■ Summary of Full-Year Results for the Fiscal Year Ended March 31, 2023



Profit Structure <YoY Comparison>



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Once again, we will look at the profit structure. Figures are shown in comparison with the previous period.

Net sales totaled JPY3,540 million, a 12.6% YoY increase. This significant increase in sales was largely due to the significant depreciation of the yen during the period, but even excluding the impact of foreign exchange rates, the Company's sales grew steadily.

In terms of profit, despite the resumed sales activities, etc. and higher SG&A expenses such as personnel costs due to the recovery from the COVID-19 pandemic, operating profit increased by JPY607 million, or 18.9%, for the fourth consecutive year, and also reached a record high, due to sales growth and lower expenses in overseas operations as a result of the weaker yen.

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Sales by Product Category <YoY change>



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This is a product-by-product breakdown of the sales comparison to the previous year.

Of the JPY3.54 billion increase in overall sales, excluding the JPY1.878 billion positive impact of exchange rate fluctuations, on a real basis, sales increased JPY1.597 billion in the dental business, JPY63 million in the nail care business, and JPY2 million in other businesses.

In the dental business, sales were strong in almost all product groups, especially in the chemical products business. The increase in chemical products revenue was mainly due to CAD/CAM resin materials in Japan and filling and restoration materials overseas.

The increase in artificial teeth products sales was mainly due to strong sales of zirconia materials for CAD/CAM in Japan and overseas, as well as ceramic materials overseas.

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Sales by Region <YoY change>



- ✓ **Steady Sales of Machinery and Equipment for CAD/CAM Systems in Japan**
- ✓ **Overseas, increased demand in India contributed significantly to sales**
- ✓ **Demand recovered to the level before the COVID-19 pandemic**

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Next is a regional breakdown of sales compared to the previous year.

The two main regions contributing to sales growth were Japan and the rest of Asia.

We recognize that the contribution of the domestic business was due to the high demand for CAD/CAM-related machinery and equipment. As I mentioned earlier in the overview of the results, the revisions to health insurance rules last April, which expanded insurance coverage for CAD/CAM crown inlays, had a significant impact.

As a result, demand for investment in CAD/CAM equipment remained high on the dental clinic and laboratory side, and related products contributed significantly to sales. In addition, each medical institution is required to notify the Ministry of Health, Labour and Welfare of its facility for CAD/CAM insurance claims. In 2014, CAD/CAM crowns were first applied to bicuspid, followed by first molars, premolars, and inlays. Against this backdrop, both the number and ratio of medical institutions introducing these CAD/CAM systems have been steadily increasing.

According to the latest data released by the Ministry of Health, Labor and Welfare in October last year, approximately 56,000 dental clinics nationwide have already notified the Ministry of Health, Labor and Welfare, a rate of over 83%. Dental treatment using CAD/CAM systems will continue to play a major role in the future.

In addition to related machinery and equipment, positive spillover effects are also being seen in the materials sector.

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Next, overseas. Particularly strong sales growth in the fiscal year under review was seen in the rest of Asia. Specifically, in India. In addition to the organic increase of demand, the fiscal year under review saw changes in pharmaceutical regulations in India and the need for regulatory approvals and other procedures.

Since there were concerns that exports to India would be delayed during the approval process period, we took preliminary steps to build up our distribution inventory with the cooperation of local dealers so that medical institutions, the end users of the product, and ultimately patients, would not be inconvenienced by shortages or other problems. As a result, sales grew significantly.

Sales in North America and Latin America decreased slightly from the previous fiscal year. This is largely due to production constraints, which I mentioned as a risk in the summary of the results for the fiscal year under review.

There have been reports in the US that people are refraining from dental care due to the economic downturn and soaring prices. However, we recognize that a major factor in the business results was that we were unable to conduct aggressive sales activities and promotions for chemical fill-repair materials, which are in particularly great demand in the US, because production was not keeping pace with demand.

In Europe, sales growth in the fiscal year under review appears low due to one-time coronavirus infection prevention-related sales such as masks and testing kits at Merz Dental GmbH, a German subsidiary, in the previous fiscal year, but excluding this factor, sales remained strong. We recognize that the European market is promising going forward, as new customers are steadily increasing, especially in Italy and other regions where we have newly begun to strengthen our sales and marketing activities.

As for China, sales remained lower than the market potential due to the long lockdown caused by the zero-corona policy and sporadic restrictions on economic activity in various regions even after a certain degree of easing. However, China has eased its restrictions since the last Shanghai lockdown last December, and we expect sales to recover and grow in line with original demand in the future.

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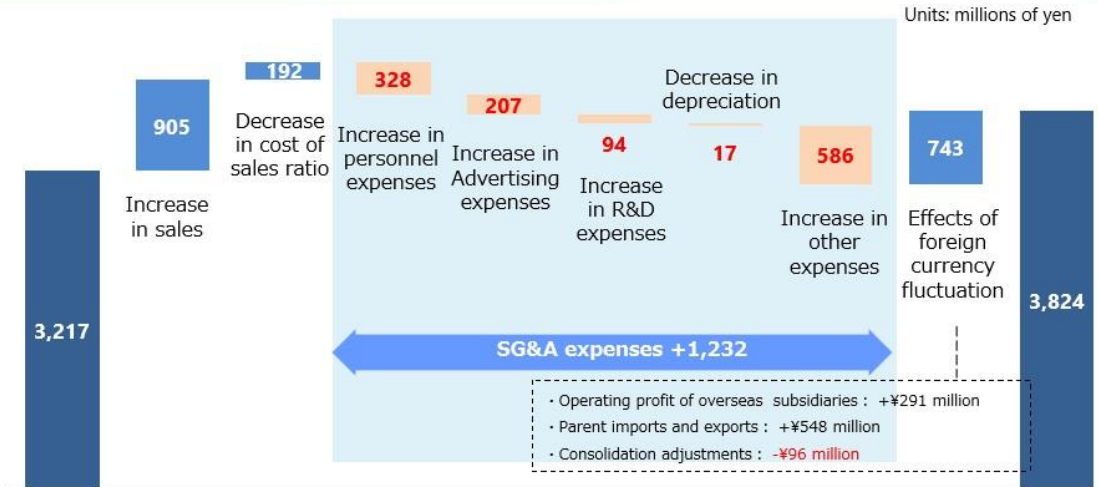
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Contributors to Change in Operating Profit <YoY change>



Increase in sales, decrease in cost of sales ratio and the effect of foreign exchange fluctuation (yen depreciation) absorbed the increase in SG&A expenses.

This page shows the factors behind the change in operating profit compared to the previous fiscal year.

Operating profit increased JPY607 million, or 18.9%, from the previous year. Although selling, general and administrative expenses increased due to aggressive investment for business expansion, including R&D, personnel, advertising, and activity expenses such as travel expenses, higher sales, a lower cost of sales ratio, and foreign exchange effects absorbed the increase in expenses, resulting in a significant increase in operating profit.

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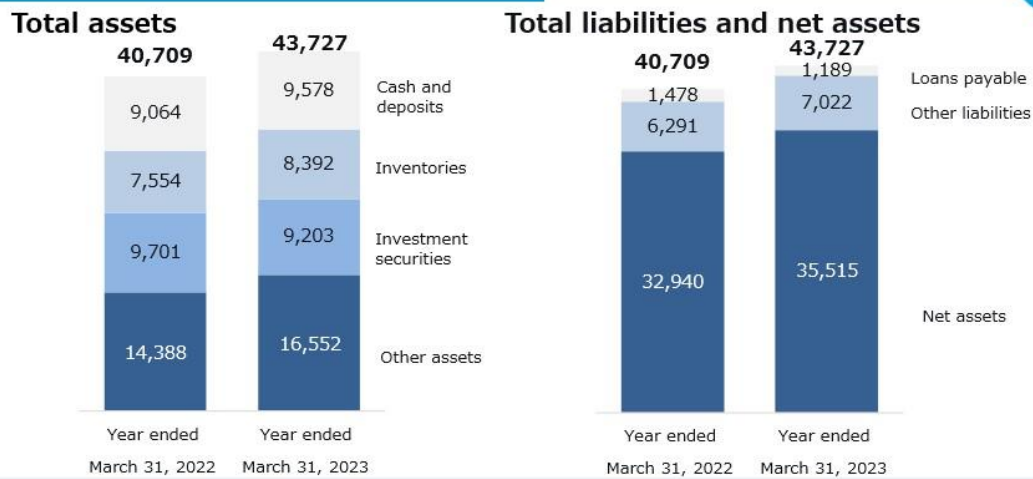
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Balance Sheet

■ Summary of Full-Year Results for the Fiscal Year Ended March 31, 2023

Units: millions of yen



Finances are very sound and high equity is maintained

- ✓ **Total assets (+3,017)** : Tangible fixed assets increased due to construction of new building at Headquarters, inventories increased due to business expansion
- ✓ **Total liabilities (+441)** : Increase in accounts payable-facilities, decrease in loans payable
- ✓ **Net assets (+2,575)** : Increase in retained earnings due to increasing in net income

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Next, I will explain the balance sheet.

In terms of total assets, the major movements were an increase in tangible fixed assets related to the construction of the new head office building and an increase in inventories due to business expansion.

In liabilities, there was an increase in accounts payable facilities and a decrease in loans payable. Net assets increased due to an increase in retained earnings resulting from net income for the period.

The Company's financial soundness is strong, and its capital adequacy ratio remained high at 80.8% as of the end of the previous fiscal year.

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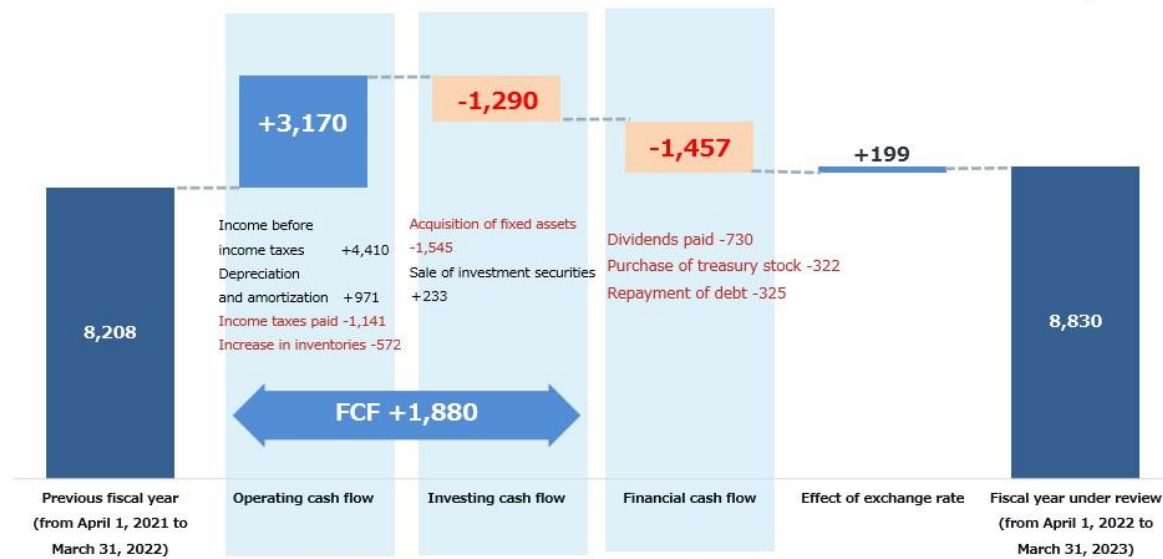


Cash Flows

■ Summary of Full-Year Results for the Fiscal Year Ended March 31, 2023



Units: millions of yen



- ✓ With regard to holding investment securities, confirming capital efficiency and synergy effects on business as appropriate
- ✓ Actively return profits to shareholders through dividend payments and share buybacks

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I will explain about cash flows.

Regarding operating cash flow, cash increased by JPY3.17 billion due to increased revenues and inventories. Regarding investment cash flow, while cash decreased due to the acquisition of fixed assets for the reconstruction of the new head office building, there were sales of investment securities, resulting in a decrease of JPY1.29 billion in cash. Free cash flow, the sum of operating and investing cash flows, increased by JPY1.88 billion.

Regarding financing cash flow, cash decreased by JPY1,457 million due to dividend payments, repurchase of treasury stock, and repayment of debt. As a result, cash and cash equivalents at the end of the period totaled JPY8.83 billion.

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Summary of Full-Year Forecasts

- **Global dental market expansion, strong demand expected mainly in emerging countries**
→ **Sales to reach a record high for the third consecutive year**
- **Aggressive investment in R&D, human resource development, and facilities to enhance corporate value**
- **Strengthening sales activities following normalization of global economic activities**
- **Higher costs due to rising raw material and energy prices**
→ **Decrease in operating profit, ordinary profit and net income**
- **The backlog of orders that arose in the previous fiscal year when production could not cope with the surge in demand is expected to be eliminated in the current fiscal year.**
→ **Establish a structure and system to cope with future demand growth and business risks.**

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Next, I would like to explain our forecasts for the full year ending March 2024.

For the full fiscal year ending March 31, 2024, we expect to achieve a third consecutive year of sales growth and record sales. The dental market is expanding worldwide, and we expect to continue to see strong demand, especially in emerging countries. Against the backdrop of a full-fledged recovery in global economic activity from the COVID-19 pandemic, we will continue to pursue aggressive business development.

On the profit side, however, the business environment is expected to be characterized by the promotion of research and development, human resource development and active recruitment to increase corporate value, planned investment in new facilities and renewal of existing facilities in anticipation of increased demand, strengthened sales activities, and higher costs due to rising raw material and energy prices. On the other hand, we do not expect any one-time positive effects on earnings not attributable to our core business that occurred in the previous year, such as significant exchange rate fluctuations toward a weaker yen, sales of investment securities, and settlements received. As a result, operating profit, ordinary profit, and net income are expected to decrease slightly from the fiscal year under review.

The backlog of orders that failed to respond to the surge in demand in the fiscal year under review is expected to be eliminated early in the current fiscal year due to improved production efficiency. However, demand is expected to continue to grow in the future. We intend to develop mechanisms and systems within the Group to ensure that we do not lose business opportunities due to inability to respond to demand.

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Comparison of Major Indicators

Units: millions of yen, %

	Fiscal March 2023 Business Performance (% of sales)		Fiscal March 2024 Forecast (% of sales)		Change From Previous Period (% change)	
Net sales	31,678	(100.0)	33,550	(100.0)	1,871	(5.9)
(Domestic sales)	14,282	(45.1)	14,897	(44.4)	615	(4.3)
(Overseas sales)	17,396	(54.9)	18,652	(55.6)	1,255	(7.2)
Operating profit	3,824	(12.1)	3,820	(11.4)	- 4.0	(-0.1)
Ordinary profit	4,238	(13.4)	3,938	(11.7)	- 299.0	(-7.1)
Net income	3,135	(9.9)	2,769	(8.3)	- 365.0	(-11.7)
Net income per share	176.10yen		156.46yen		-19.64yen	
Return on shareholders' equity	9.2%		7.7%		-1.6P	
Foreign exchange rates						
US dollar	134.95		130.00		-4.95	
Euro	141.24		140.00		-1.24	
Renminbi	19.38		19.00		-0.38	

*Effect of exchange rate fluctuations (Change from previous period): Sales -462, Operating profit -184.

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I will explain specific performance figures.

Net sales are expected to increase 5.9% YoY to JPY33,550 million. Domestic sales are expected to increase 4.3% to JPY14,897 million and overseas sales 7.2% to JPY18,652 million. Overseas sales as a percentage of total sales are expected to continue to rise to 55.6%.

Operating profit is expected to slightly decrease by 0.1% YoY to JPY3,820 million. A breakdown of the factors contributing to the change in operating profit will be explained later in this report.

Ordinary profit is projected to decrease 7.1% YoY to JPY3,938 million due to the absence of one-time non-operating income recorded in the fiscal year under review. Net income is expected to decrease 11.7% YoY to JPY2,769 million due to the absence of one-time extraordinary gains recorded in the fiscal year under review, such as gains on sales of investment securities and settlement income.

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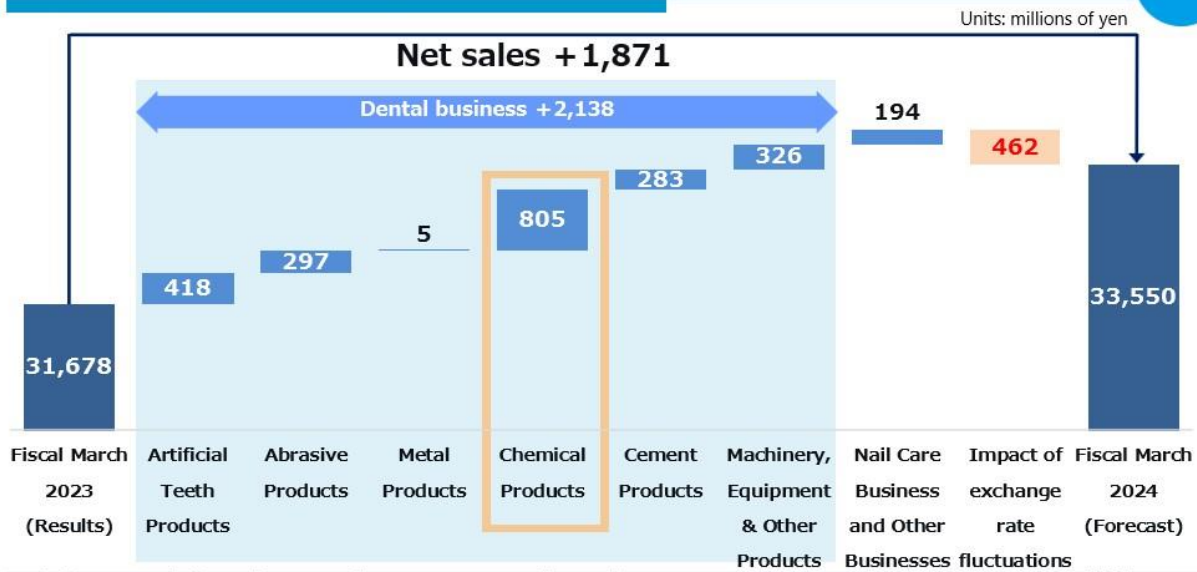
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Sales by Product Category <YoY change>



- ✓ **Dental Business is expected to increase sales by ¥2,138 million (7.3%) yoy.**
- ✓ **Chemical Products is expected to be a strong driver of sales growth with an increase of ¥805 million (9.6%) yoy.**

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Here is a breakdown of this fiscal year's sales forecast by product category.

In light of the current situation where the global economy is steadily recovering from COVID-19, we expect steady sales growth in all product categories, both in Japan and overseas, on the back of our enhanced academic network and aggressive sales activities.

In particular, given the current demand situation, chemical products are expected to grow to become the core of our earnings, with a significant YoY increase in sales. In the chemical products business, as mentioned, we were unable to respond to a sharp increase in demand in the fiscal year under review, and production constraints were a bottleneck to business growth. In order to solve this problem as soon as possible, since the fiscal year under review, the Company has been improving production efficiency, securing personnel, and extending production operation hours by introducing a shift system, thereby establishing a system to increase production to meet demand.

We intend to respond by continuously brushing up our production system and enhancing our facilities.

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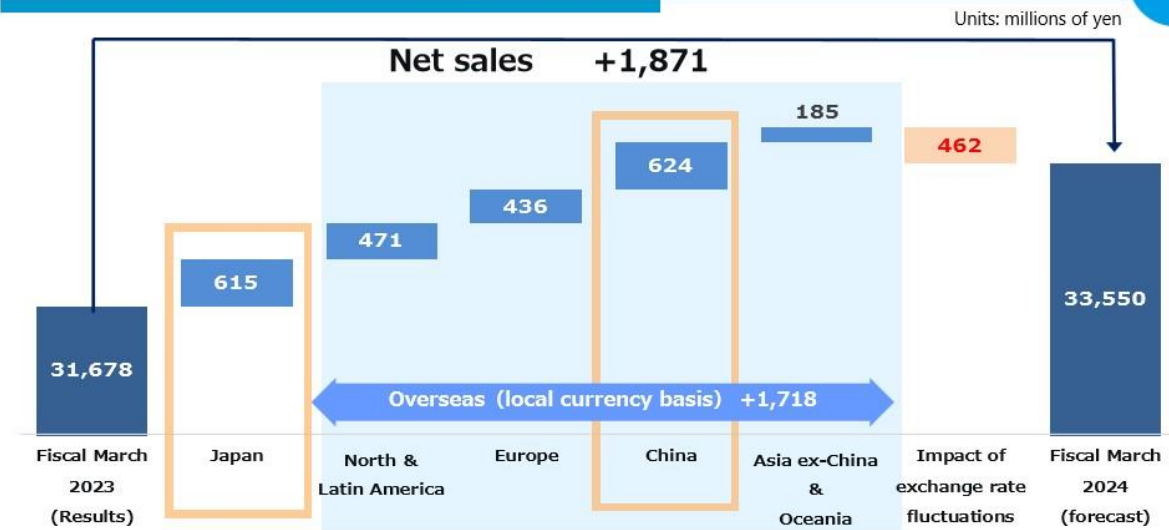
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Sales by Region <YoY change>



- ✓ Domestic sales to remain steady under stable demand
- ✓ Overseas sales to grow organically by ¥1,718 million (9.9%) YOY (excluding exchange rate effects)
- ✓ Recovery of demand in North & Latin America and China to drive overseas sales significantly

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Next is a breakdown of the sales forecast by region.

As explained earlier by product category, a certain level of production increase has been established for chemical products, especially filling and restorative materials, which were unable to meet demand in the fiscal year under review due to production constraints. We expect to be able to conduct aggressive promotion and sales activities in the current fiscal year.

Let's look at this by region. First, in Japan, we expect demand for CAD/CAM products and filling and restorative materials to remain strong, as in the fiscal year under review, and plan to increase sales by JPY615 million YoY.

Overseas, we expect a lull in demand in India, where we temporarily built up distribution inventories in the fiscal year under review.

On the other hand, we expect substantial sales growth in China, where demand has recovered from COVID-19 and inquiries for artificial teeth and chemical products are increasing, as well as in North America and Latin America, where sales activities were restrained in the fiscal year under review due to supply constraints on chemical products.

In addition, the fiscal year under review saw a positive impact from exchange rate fluctuations due to the significant depreciation of the yen. We are taking a cautious view of the impact of exchange rate fluctuations this fiscal year and expect a negative impact of JPY462 million from exchange rate fluctuations.

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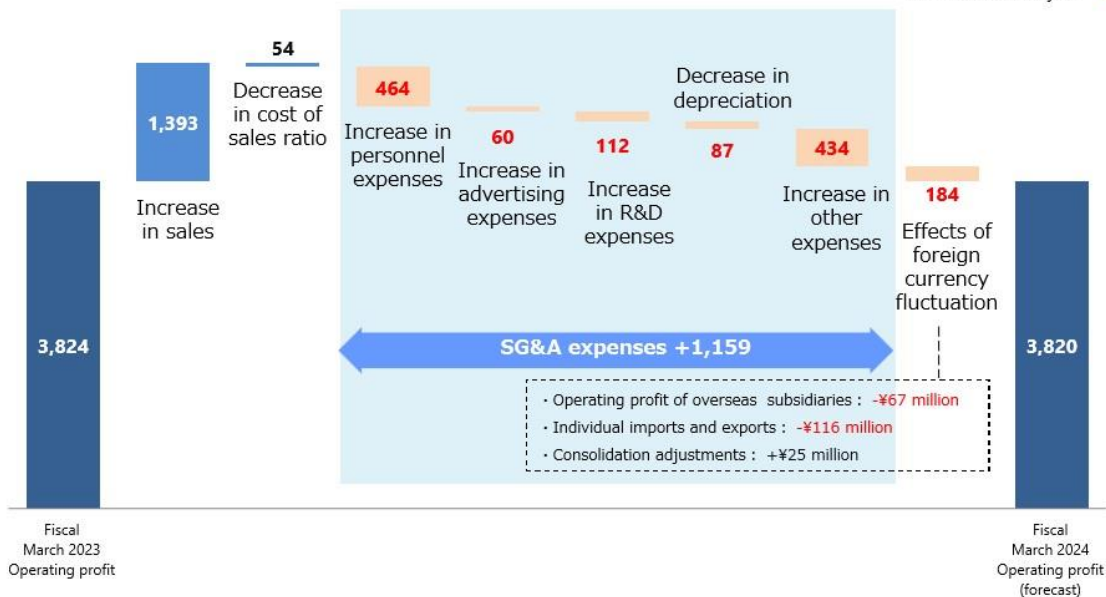
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Contributors to Change in Operating Income <YoY change>

Units: millions of yen



Increase in SG&A expenses due to upfront investments in personnel, sales activities and R&D etc. for business expansion

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This section looks at the variable factors in the operating profit forecast for the current fiscal year.

Although we expect a steady increase in revenue, SG&A expenses are expected to increase due to up-front investments in personnel, strengthening of sales activities, and research and development for business expansion.

We also recognize that higher cost of sales ratio due to higher prices and energy prices will also affect our earnings. However, the current business environment indicates that the demand for CAD/CAM products and filling and restorative materials will continue to grow in the dental market. We recognize the importance of speedy implementation of upfront investment and system development to avoid business opportunity losses.

We also intend to respond to rising energy prices and higher prices by promoting initiatives to absorb costs by improving production efficiency and other measures.

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Impact of Exchange Rate Fluctuations

Forecast for Fiscal March 2024 (Unit: millions of yen)

	Foreign exchange rate		Impact on consolidated business performance		Per yen of yen strength	
	Fiscal March 2023 result	Fiscal March 2024 forecast	Sales	Operating profit	Sales	Operating profit
US dollar	134.95	130.00	-207	-71	-41	-17
Euro	141.24	140.00	-52	-16	-42	-14
RMB	19.38	19.00	-89	-95	-236	-154

✓ Forecasting a slight appreciation of the yen compared to the previous fiscal year

This page shows the impact of exchange rate fluctuations on the forecast for the current fiscal year by major currency.

The projected exchange rates for the fiscal year ending March 31, 2024 are assumed to be JPY130 to the US dollar, JPY140 to the euro, and JPY19 to the Chinese yuan, a slight appreciation of the yen compared to the results of the fiscal year under review. While the overseas production ratio is 15%, the overseas sales ratio is over 50% and is on an upward trend. Therefore, when the yen depreciates against the US dollar, our business performance is positively affected.

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Business Environment and Future Prospects



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I will continue with an explanation of the future business environment and our medium- to long-term strategy.

This is a picture of the current business environment and its future potential.

Domestically, there are new roles and expectations for dental care in terms of the relationship between dental health and overall health. However, the domestic dental market as a whole is unlikely to see significant growth in terms of dental care, even if it maintains a certain size, due in part to the decline in population and dental caries.

In Japan, however, dental awareness, or so-called dental IQ, is increasing due to the correlation between oral and general health. In addition, public subsidies for dental checkups and treatment at an early age are significant, and caries are decreasing and becoming less severe due to early treatment.

On the other hand, the percentage of patients with periodontal pockets of 4 mm or more, a high-risk factor for periodontal disease, is increasing in all generations, from the youngest to the oldest. Some reports indicate that the Ministry of Health, Labour and Welfare has begun to support the development of test kits and applications to promote the use of simple periodontal disease tests, based on the belief that early dental checkups and treatment will lead to an increase in healthy life expectancy.

We recognize that there are still many potential business opportunities in the domestic dental market.

Next, let us look at overseas markets. In developed countries, especially in Europe, there is already a huge and steadily growing market. In terms of esthetic services, there has been significant growth in developed countries, where services are one step ahead of dental caries treatment. New services such as cosmetic and

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preventive dentistry have emerged one after another from the conventional treatment of dental caries. We fully expect the dental business area to continue to expand in the future.

In addition, new markets are being formed in emerging countries, where dental care itself has not previously penetrated. In addition, the dental market in these countries and regions is expected to grow significantly, as the demand for high value-added treatments is expected to increase steadily with future economic growth and improved living standards.

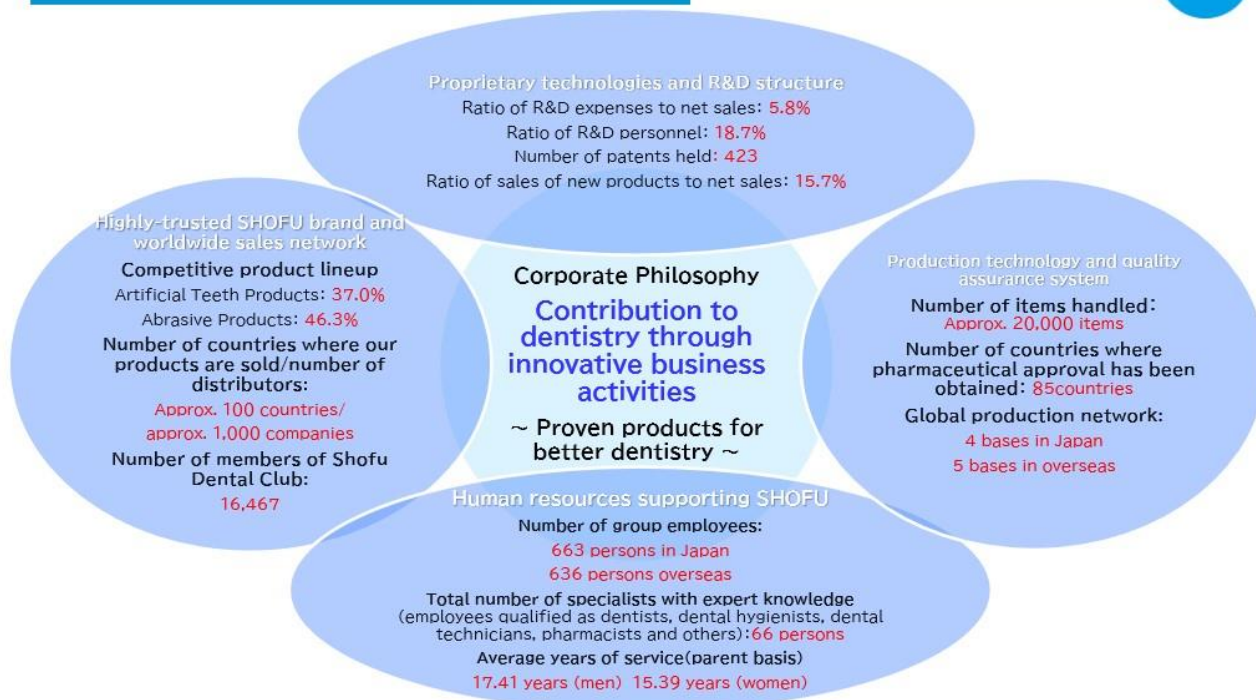
Overseas, the market is currently about 20 times larger than the domestic market. In addition to this, the demand for dental care is expected to grow even more significantly in the future as the economies of various regions grow and living standards improve. In the future, we believe that the global dental market will grow even faster than it is now, even taking into account differences in price levels.

Thus, we recognize that the dental market will continue to grow and develop and will continue to have a positive impact not only on dentistry but also on overall health.

■ Future Business Environment and Medium and Long-term Business Strategies



Sources of Competitiveness and Corporate Value



SHOFU INC.

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As we continue our research and development, academic networking, and marketing activities in the global dental market, we will continue to promote our business with an eye to constantly creating new business opportunities and contribute to global dental care.

In recognition of this business environment and our future prospects, we would like to explain the sources of our competitiveness and corporate value.

In order to embody our management philosophy of "contribution to global dentistry through innovative corporate activities," we have enhanced our corporate value to date with 4 major strengths.

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One is our proprietary technologies and R&D structure. Through continuous and aggressive research and development, we have introduced many products under our many proprietary technologies.

The second is the sales network that ensures that products created through research and development activities penetrate the market, and the trustworthiness of the SHOFU brand, which bears our 100-year track record of achievement. The vast amount of clinical data and achievements of SHOFU's prostheses and grinding materials, which have the largest market share in Japan, have increased the reliability of SHOFU, which is used by many dental professionals.

What is needed to maintain and improve the reliability of these products is the third, production technology and quality assurance system. Our company handles approximately 20,000 products, which are sold in more than 100 countries and regions under regulatory approval in 85 countries around the world. Dental materials are used in the oral cavity and there is a strong demand for safe, high-quality products. We have passed strict regulatory inspections in each country where we operate and have put in place a system that allows us to provide safe, reliable, and high-quality products at all times.

The fourth and final point is the human resources that support SHOFU. The three pillars I have discussed so far are all sourced and supported by human resources. We are actively seeking highly motivated individuals who share our management philosophy, namely, the desire to provide better dental care to the world. Specialist personnel such as dentists, dental hygienists, dental technicians, and pharmacists are also active in Japan and abroad.

In addition, we are actively working to create a system that allows each and every employee to work with vigor and experience personal growth through time-consuming human resource development and the provision and support of an environment that allows for self-improvement.

All of this is helping us to further expand our corporate value.

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Vision for Our Company: Medium-to Long-term Basic Policy

■ Future Business Environment and
Medium and Long-term Business Strategies



Strive to expand the overseas business by significantly shifting the allocation of management resources to overseas markets.

Group net sales: ¥50 billion
<Domestic sales: ¥17 billion;
overseas sales: ¥33 billion>

Group operating profit: ¥7.5 billion
(Operating profit margin: 15%)

Pursue globalization in every department, function (R&D, production, and sales), personnel, and by extension the company's overall management.

SHOFU INC.

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Based on the above business environment and our corporate value, I would like to talk about our medium-to long-term goals and what we should be.

We promote our corporate activities based on our management philosophy of "contribution to global dentistry through innovative corporate activities." However, the Company's contribution and presence to date have not been sufficient in a market that is approximately 20 times larger overseas than in Japan.

We believe that the barometer of our contribution is sales, and the barometer of our presence is being among the top 10 in the world.

It is possible that in the future the world's top companies will grow even more significantly as they capture the growth of the industry as a whole, and the scale of sales required to position us within the world's top 10 will be even greater. However, first of all, we would like to achieve group sales of JPY50 billion and operating profit of JPY7.5 billion and increase our contribution and presence in the global dental community.

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Fiscal 2021 to 2023 Medium-term Management Plan

Company-wide targets in the fiscal year ending March 2024

Group net sales	¥33.5 billion	+¥2.0 billion *
Overseas dental sales ratio	55.6%	+1.2pt *
Group operating income	¥3.82 billion	+¥30 million *
Operating profit margin	12.0%	
ROE	8.0%	

Key issues to achieve goals

*compared with the target of the Medium-term Management Plan

R&D	Development and introduction of new products that match local demand	<ul style="list-style-type: none"> • Synergies from business tie-up with Mitsui Chemicals and Sun Medical • Promotion of M&A • Establishment of group governance system
Production	Reallocation of production sites and expansion of overseas production	
Sales	Improvement of our sales network/ realignment of sales offices Establishment of domestic and international academic networks	
HR	Development of and securing of global talent	
Finance	Capital procurement in response to increasing investment demands	

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Here we show the company-wide goals of our medium-term management plan, which began in the fiscal year ended March 31, 2022.

In light of the progress made in addressing our key issues and the recovery of demand from COVID-19 in the dental industry, we announced an upward revision to our plan on May 11, 2022. For the final year of the plan, the fiscal year ending March 31, 2024, we had set targets to achieve consolidated net sales of JPY31.5 billion, consolidated operating profit of JPY3.79 billion, operating margin of 12%, and ROE of 8%. We have already achieved the targets for consolidated net sales and operating profit in the fiscal year under review.

Therefore, the company-wide targets for the fiscal year ending March 31, 2024 are the same as the forecast figures for the current fiscal year: net sales of JPY33.5 billion, an increase of JPY2 billion from the medium-term management plan target, and operating profit of JPY3.82 billion, an increase of JPY30 million from the medium-term management plan target.

To achieve these numerical targets, we are working with greater speed on the priority issues listed on this slide, including R&D, production, and sales. In order to further accelerate our growth, we intend to work proactively in cooperation with external parties, including business alliances with Mitsui Chemicals, Inc. and SUN MEDICAL CO., LTD., promote M&A, and strengthen the group governance system.

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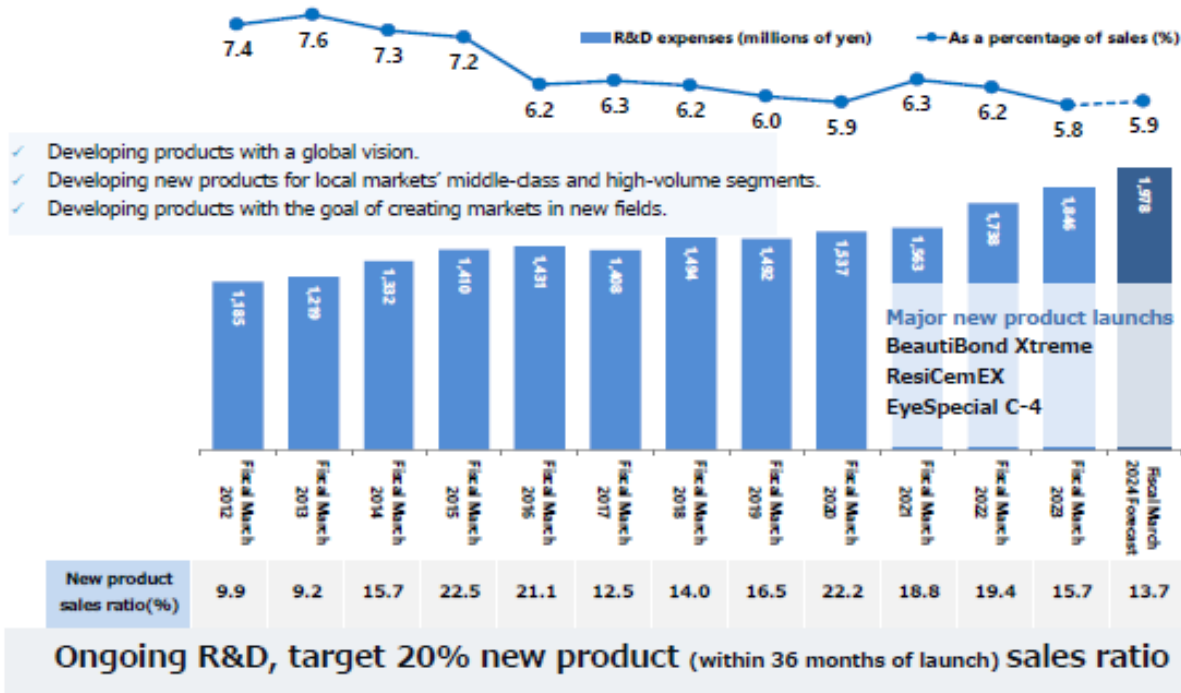
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Specific Initiatives – R&D



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I would like to explain some of the key issues in our medium-term management plan.

First, let's look at some specific R&D efforts.

As an R&D-oriented company, we are committed to global growth and will continue to promote product development from a global perspective.

In addition, we intend to develop locally adapted products in response to the differences in economic levels and dental care standards around the world.

Furthermore, we intend to focus on research and development to create new markets and areas that we have not yet fully addressed in dentistry. The research and development of our dental treatment materials requires a wide range of technical areas, including organic chemistry, inorganic chemistry, metals, mechanics, electricity, electronics, and biotechnology. Our strength lies in our superior ability to develop new products through the accumulation and optimal integration of these technologies.

We will continue to actively invest in R&D activities to further strengthen our technological capabilities, which is one of our strengths.

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Specific Initiatives – Production

Aiming to strengthen international competitiveness by improving production and sales efficiency



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Next, I would like to discuss specific initiatives related to production.

The challenges on the production side are to increase production capacity and to improve price competitiveness, i.e., cost reduction. To achieve this, we are reallocating our production bases, including effective utilization of domestic subsidiaries and expansion of overseas production.

With regard to overseas production, we are increasing the utilization of the German production company acquired seven years ago, while also moving forward with the establishment of production bases in other regions. Most recently, a production company was established in Vietnam the year before last, and full-scale production began at the end of last year.

Currently, overseas production accounts for about 15% of the total, and 85% is made in Japan. The advantage of made-in-Japan products is still strong, but with the ratio of overseas sales exceeding 50%, this gap has become costly in many ways. We intend to shift to overseas production while keeping an eye on the balance between the two.

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Specific Initiatives – Sales

Raise awareness of our products in the dental industry in Japan and overseas.

- Expansion sales network & Development of sales base
- Building domestic and overseas academic networks
- Holding seminars and participating in various exhibitions

Shofu Digital Denture Conferences 2023 (Feb. 2023 Tokyo)



IDS 2023 (March 2023 Germany)



SHOFU INC.

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Next are specific initiatives related to sales.

The most important challenge, both domestically and internationally, is to ensure that our products, their characteristics, and their clinical advantages are well known by our customers, the dental profession. Especially in overseas markets, although we are proud of our quality competitiveness compared to competitors' products, it is necessary to enhance this competitiveness in order to avoid price competition due to insufficient name recognition and brand power.

To this end, we are actively working on the following two points in particular.

First, we will develop sales bases and expand our sales network. This is both time-consuming and costly, as it requires not only business expansion at existing locations, but also the establishment of new locations and additional personnel. However, we believe that the effects of these efforts have been steadily manifested in the acquisition of new customers and sales growth in new markets. We will continue to gradually develop our sales network in important countries and regions.

Second, we are actively building an academic network by hosting our own seminars with influential doctors in the field of dentistry, called KOL (Key Opinion Leader), introducing our products at domestic and international exhibitions, and conducting hands-on seminars.

Through these efforts, we hope to expand our business and contribute to global dental care by increasing our visibility in the dental care industry in Japan and abroad.

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Enhancement of Business and Capital Tie-up with Mitsui Chemicals and Sun Medical

Future Business Environment and Medium and Long-term Business Strategies



- Capital tie-up
 - Shofu issued 1,780,000 new shares in a third-party allocation Mitsui Chemicals (MCI) received these charges (total value of ¥2,988 million)
 - MCI's shareholdings increased from 11.17% to 20.01% (Shofu became an equity-method affiliate)
 - Shofu acquired 20% of MCI's 70% shareholding in Sun Medical
 - MCI's shareholding: 70.0%⇒50.0%
 - Shofu's shareholding: 0.0%⇒20.0% (Sun Medical became Shofu's equity-method affiliate)
- Business tie-up
 - New product development
 - Expansion of product lineup
 - Use of sales networks in Japan and overseas
 - Augmentation and sharing of manufacturing functions
- Exchange of personnel
 - MCI dispatched one non-executive director to Shofu's board
 - Shofu dispatched one non-executive director to Sun Medical's board

The following page provides an overview of the strengthening of the capital and business alliance with Mitsui Chemicals and SUN MEDICAL.

In May 2020, we signed a capital and business alliance agreement with Mitsui Chemicals and its subsidiary, SUN MEDICAL, a dental materials manufacturer. The Company became an equity method affiliate of Mitsui Chemicals, and SUN MEDICAL became an equity method affiliate of the Company, creating a stronger relationship than ever before, including a stronger capital relationship.

Through this, project teams have been formed among the three companies to select specific themes for promoting new product development, complementing and sharing production functions, utilizing domestic and overseas sales networks, and expanding product lineups, taking advantage of each company's respective areas of expertise. The results will be reported to the public through disclosure and other means as they become available.

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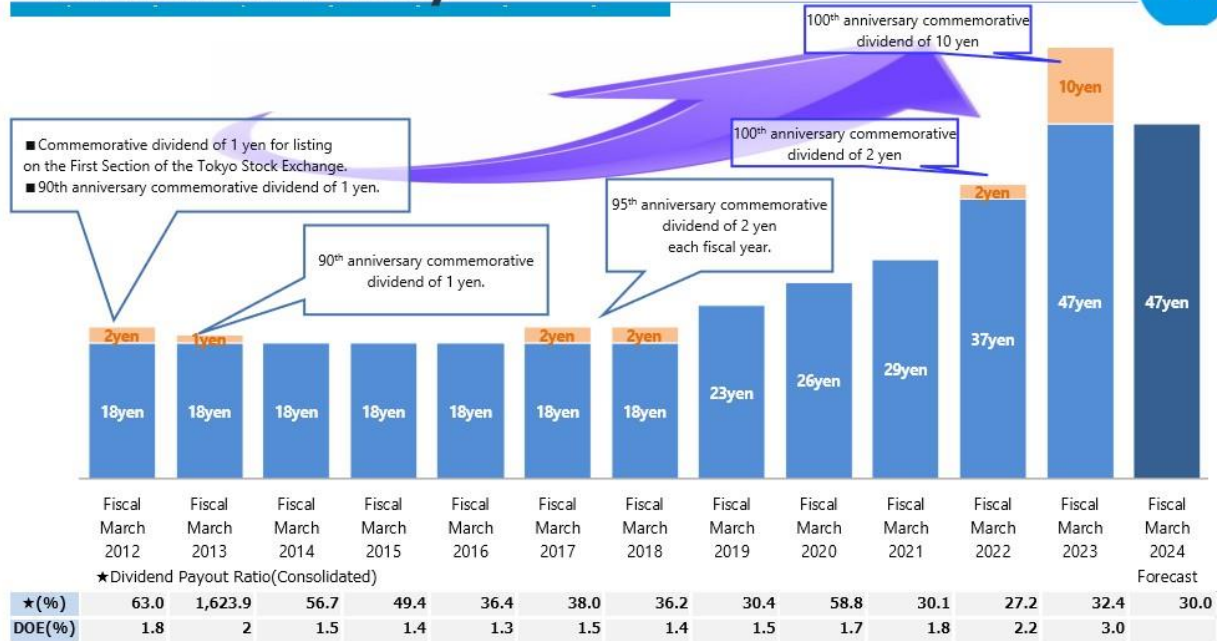
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Dividend Policy



[Target] Consolidated dividend payout ratio: 30% or more DOE: 1.7%

Next is the dividend policy.

Our dividend policy is to maintain a dividend payout ratio of at least 30% on a consolidated basis and a ratio of dividends to net assets of approximately 1.7%.

The ratio of dividends to net assets has been added since the year before last. This is based on the policy of increasing capital efficiency, specifically ROE, as well as profitability. In addition to the regular dividend, the Company has paid a commemorative dividend every five years for two fiscal years.

Regarding the year-end dividend for the fiscal year ended March 31, 2023, a revised dividend forecast was disclosed on May 10. In light of our record performance, we have decided to pay an ordinary dividend of JPY32 per share, plus a commemorative dividend of JPY10 per share to celebrate our 100th anniversary, for a total of JPY42 per share. As a result, the annual dividend is expected to be JPY57 per share, including the interim dividend of JPY15 per share already paid.

For the fiscal year ending March 31, 2024, the Company plans to maintain the regular dividend amount of JPY47 per share.

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Shofu's Sustainability

Based on its corporate philosophy of "Contribution to dentistry through innovative business activities," the Shofu Group, in collaboration with its stakeholders, will work to solve social issues through its corporate activities and aim to achieve both the medium- to long-term enhancement of its corporate value and the realization of sustainable society.

Key theme	Material issues	Related SDGs
1. Contribution to people's higher QOL	<ul style="list-style-type: none"> ■ Quality assurance and stable supply of products ■ Ensuring proper use of products ■ Providing products and services that solve issues in dentistry ■ Providing information for higher dental IQ 	
2. Promotion of corporate activities friendly to global environment	<ul style="list-style-type: none"> ■ Contribution to a recycling-based society ■ Addressing climate change and contributing to a decarbonized society ■ Preventing environmental pollution 	
3. Strengthening of the management base to support corporate value enhancement	<ul style="list-style-type: none"> ■ Respecting human rights ■ Enforcing thorough compliance ■ Promotion of risk management ■ Strengthening corporate governance ■ Disclosing information appropriately and having dialogue with stakeholders 	
4. Cultivation of a rewarding organizational culture and development of human resources	<ul style="list-style-type: none"> ■ Enhancing employees' health and ensuring safety in work environment ■ Promotion of human resource development ■ Promoting diversity and inclusion ■ Realizing work-life balance 	

This page shows our key sustainability themes, which were established in June last year, and issues to be addressed.

The origin of our company's foundation lies in our mission to create teeth for the Japanese people, and in our management stance of using technology to solve social problems and contribute to society. Since our establishment, we have been contributing to the development of dental care through product development in cooperation with dental professionals. For this reason, we have always believed that responding to society's needs through dental care is our raison d'etre and the source of our corporate value.

We will further evolve this philosophy and, under our management philosophy of "contribution to dentistry through innovative business activities," we will work together with our stakeholders to solve social issues through our corporate activities, aiming for both medium- and long-term improvements in corporate value and the realization of a sustainable society.

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Completion of New Company Building [Ayumi Terrace]

Creating opportunities for business negotiations and interaction through new showroom



Showroom Entrance

- **Showroom**
 - Display and experience products handled
 - Historical exhibits and collection of dental materials
- Employee welfare facilities
- Office floor



Historical Exhibits



Displays of our products



CAD/CAM related products area

I would like to talk about recent topics.

After about a year of construction since last March, the new building, Ayumi Terrace, was completed.

Inside is an office floor with employee welfare facilities and administrative offices. A large showroom is newly opened on the first floor.

The showroom is equipped with products we offer and facilities that simulate actual dental treatment rooms, some of which are available for hands-on experience. In addition, as an introduction to our company's 100-year history, our artificial teeth and other valuable dental-related items from our collection are also on display to provide visitors with a glimpse into the history of dental development in Japan.

This showroom is used not only as a place to discuss our products with customers, but also as a place to provide and exchange information with people engaged in dental care. In the future, we hope to make the best use of this place to promote interest in dentistry among the general public and children in the community, and to convey the importance of dental care to them.

We hope that you will stop by our booth when you are in the neighborhood and deepen your understanding of our company.

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Press Release

Super-Bond™ Dental Adhesive to Launch in Brazil

Three-way business partnership between SHOFU, SUN MEDICAL and Mitsui Chemicals

- Shofu Dental Brasil Comercio de Produtos Odontologicos Ltda. a sales subsidiary of SHOFU, will launch Brazilian sales of SUN MEDICAL’s Super-Bond™ dental adhesive.
- Starting with an exhibition at CIOCE 2023 – an international dentistry conference set to be held in Fortaleza over May 6–9, 2023 – efforts will be made to gradually introduce the product across the country via marketing at seminars and other such venues.



※Product Photo Examples

Changes of Directors and Executive Officers

Next, I would like to discuss our most recent press releases.

The first is the April 26, 2023 press release regarding the launch of Super-Bond, a dental adhesive material, in Brazil.

The Company, SUN MEDICAL, and Mitsui Chemicals have entered into a capital and business alliance agreement. By taking advantage of their respective areas of expertise, we are working to strengthen our research and development, sales and marketing, and production functions in the materials field, thereby increasing our presence in the dental materials market and enhancing our corporate value.

As one of the results of these efforts, SHOFU's Brazilian sales subsidiary has begun selling Super-Bond, a dental adhesive manufactured by SUN MEDICAL, in Brazil. Starting with an exhibition at CIOCE2023, an international dental conference held in Fortaleza, Brazil, the Company will gradually introduce the product to its customers through seminars and other events.

The second is a notice regarding changes in representative directors and personnel changes in directors and other officers. The decision will be made at the annual shareholders' meeting scheduled for June 27, 2023, as well as at an extraordinary meeting of the Board of Directors and the Board of Corporate Auditors to be held after the shareholders' meeting.

In this context, we are planning to appoint Yoko Yamada as an external auditor. Although it has always been our policy to actively promote excellent human resources regardless of gender to expand our corporate value, we have never had a female board member. We look forward to her expertise in corporate

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accounting and management and to her appointment as part of our efforts to realize a virtuous cycle of women's activities and economic growth.

This is the end of my presentation.

We place great importance on dialogue with our investors, and through more than 100 meetings with institutional investors and company information sessions a year, we receive a great deal of suggestions from individual investors. We will take these suggestions seriously and apply them to the formulation of future management strategies and plans, as well as to the enhancement of IR activities.

We look forward to continuing to actively engage in dialogue with you.

Last but not least, it has been almost a year since I assumed the position of president of our company in June last year. Looking back on the year, I would like to say a few words.

The fiscal year under review was the 100th anniversary of our founding, which we celebrated during the COVID-19 pandemic, and it was against this backdrop that I assumed the position of president. Thanks to your support, we were able to achieve record results in this memorable year. We would like to thank our many stakeholders for their support.

In addition, while we see this achievement as the result of our corporate efforts, we also see it as a social demand for dental care and a social mission for our company. In this sense, I once again feel a strong sense of responsibility as a person involved in dental care.

We will continue to make every effort to fulfill our corporate responsibility to fulfill our corporate message, "support chewing, laughing, and living."

I know there were some points that were difficult to hear but thank you very much for listening to me to the end.

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Question & Answer

Moderator [M]: We will now begin the question-and-answer session.

I will now read out the questions. "Again, looking back on the term that just ended, what were the good and bad parts of the full year?"

Takami [A]: What was good was that even excluding the positive impact of foreign exchange rates, our domestic and overseas dental business increased revenues.

On the other hand, however, overseas sales grew 6.5% excluding the effect of exchange rates. We recognize that, despite the absence of COVID-19 influence, the growth of overseas sales has been insufficient compared to the past.

Especially in the United States. The fact that it was negative in real terms is a point of reflection. The reason for the slump in the US was that production, especially of composite resins, did not keep pace with demand. As a result, sales activities were not sufficient.

Although our overall performance in the fiscal year under review was good, there were still areas where we could improve, which is something we regret. Various restrictions on production have put the brakes on sales. In order to prevent a similar situation from repeating itself in the future, we will consider measures such as improving the accuracy of the supply-demand forecast and strengthening the production system and will implement them as soon as possible.

Moderator [Q]: Thank you very much. I will now move on to the next question. "How do you look back internally on the poor performance in the US in the fiscal year under review? Also, what are your thoughts on measures for this fiscal year and beyond?"

Takami [A]: We recognize that a drastic expansion of production capacity is extremely important. We are currently in the process of hiring personnel for the production department, extending operating hours, and backing up production personnel from other departments, especially the R&D department.

We are also in the process of increasing production per batch at the same time. However, it is also necessary to proceed with verification that changing production volume will not cause quality problems. So, it may take some time to increase production. We are making preparations in parallel with the increase in personnel I mentioned earlier.

We are also preparing to introduce machines, but it is running behind schedule due to parts supply problems. However, it is expected to be completed in H2.

In addition, reconstruction of the plant is currently being planned.

With these efforts, we plan to steadily increase sales in North America or Latin America in the current fiscal year.

Moderator [Q]: Thank you very much. I will now read out the next question. "Your company has always followed a strategy of expanding its business overseas. How will you make decisions about investments in

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the future? As an investor, I think that if this kind of production and supply problem was going to occur, you should have taken action long ago."

Takami [A]: Until now, our investments have been focused on sales, such as establishing sales offices and building sales networks. We should have promoted the strengthening of the supply side in conjunction with the sales strategy, but we were not able to do so sufficiently, which is a major point of regret.

From now on, we would like to strengthen the production side in conjunction with sales under the company-wide policy and decision-making.

Moderator [Q]: Thank you very much. Now, let us move on to the next question. "I would like to know the exchange rate sensitivity. How much of a positive impact would a JPY1 depreciation against the US dollar or euro have?"

Takami [M]: This point will be answered by Mr. Yamazaki, Director and Senior Managing Executive Officer.

Yamazaki [A]: My name is Yamazaki. Thank you for your question. This is also included on page 19 of the document. In the plan for this fiscal year, the exchange rates are set at JPY130 to the US dollar, JPY140 to the euro, and JPY19 to the Chinese yuan.

Based on this, in terms of profit, a JPY1 appreciation would have a negative impact of JPY17 million in US dollars. The impact in euros would be negative JPY14 million and in yuan JPY154 million. I hope you will check it later.

Takami [M]: Thank you very much.

Moderator [Q]: Thank you very much. Now, let's move on to the next question. "Regarding the financial results, the landing was favorable, but the plan for the current term is almost unchanged. I don't understand the gap between sales and profit. How would you explain this?"

Takami [A]: We believe that foreign exchange rates have a significant impact. The upswing in operating profit in the fiscal year under review was largely due to the impact of foreign exchange rates. The foreign exchange impact was JPY743 million. Although we believe that profit will increase in real terms in the current fiscal year, the yen is expected to appreciate slightly compared to the previous fiscal year, so profit is apparently flat.

We have also factored in increased expenses associated with business expansion. This is one of the factors behind the operating profit forecast.

In the current fiscal year, we expect particularly strong growth in overseas sales. As noted in the sales forecast by region, we forecast an increase of JPY1,718 million from the previous year on a local currency basis, and it was an increase of JPY954 million from the previous year for the period just ended. Therefore, in terms of organic growth, we believe that this fiscal year will be stronger than the fiscal year under review.

Moderator [Q]: Thank you very much. Let me read out the next question. "Please tell us about your current perception, evaluation and goals for ROE and ROIC."

Takami [M]: This question will also be answered by Mr. Yamazaki.

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Yamazaki [A]: First, regarding ROE, the previous medium-term management plan, which covered the period from FY2021 to FY2023, set an ROE target of 8% for the final year of the plan. We have aimed for this to be in line with the ROE improvement targets in the recommendations of the Ito Report.

The fiscal year under review, ended March 31, 2023, it was 9.2%, which is better than planned. For the current fiscal year, we expect a decrease in profit, and ROE is projected to be 7.7%. We intend to continue to maintain ROE of 8% or higher by increasing profitability targets rather than through financial policy.

ROIC is on an upward trend from 3.5% to 8.9% from the fiscal year ended March 31, 2021 to the fiscal year ended March 31, 2023. We recognize the need to continue to show and consider asset allocation from the perspective of capital efficiency.

In our next medium-term management plan, we will consider and disclose our effective capital policy based on this perspective.

Moderator [M]: Thank you. Thank you very much for your many questions. Due to time constraints, we are unable to answer all questions. We are very sorry, but this concludes the question-and-answer session. Thank you very much.

We will continue to accept your messages via the survey, so please take advantage of this opportunity.

Finally, Mr. Takami would like to extend his greetings to all of you.

Takami [M]: Thank you very much for participating in today's financial results briefing.

We look forward to your continued support.

Moderator [M]: This concludes the financial results briefing of SHOFU INC. for the fiscal year ended March 2023.

Thank you everyone for staying with us until the end of the event.

Takami [M]: Thank you very much.

[END]

Document Notes

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