Fiscal Year Ending March 2017
(145th Business Year)

2nd Quarter Financial Analyst Meeting

November 21, 2016

Proven Products for Better Dentistry
SHOFU INC.

Contents of Today's Presentation

- Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2017
- Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2017
- Future Business Environment and Medium- and Long-term Business Strategies

Noriyuki Negoro, President and CEO

Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2017

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2017

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

Summary of 2nd Quarter Business Performance

Positive factors Negative factors

P/L

➲ Sales totaled 11,052 million yen (a decrease of 4.7%)

Domestic sales totaled 6,636 million yen (a decrease of 2.5%)

- Domestic sales in the dental business decreased by 1.5% due to intensifying competition in the market, despite solid sales of chemical products and contributions of new CAD/CAM-related products to sales.
- Domestic sales in the nail care business decreased by 12.8% as the Company was unable to escape from the effects of the voluntary recall of gel products in 2015 amidst intensifying price competition and continued harsh market conditions.

Overseas sales totaled 4,416 million yen (a decrease of 7.8%)

- Overseas sales in the dental business decreased by 8.6% due to the effects of foreign exchange resulting from a stronger yen, despite solid sales performance mainly in North America, Central and South America, and China.
- Overseas sales in the nail care business increased by 2.8% due to favorable sales of gel products in America and Taiwan, despite the impact of exchange rates.

➲ Operating income totaled 800 million yen.

- Selling, general and administrative expenses decreased by 25 million yen year on year, but a reduction in net sales largely affected and caused a 5.0% decrease in operating income.

➲ Ordinary income totaled 509 million yen, and net income was 301 million yen.

- The impact of exchange rates had a negative effect on non-operating income, resulting in a 38.3% decrease in ordinary income year on year.
- Net income decreased by 39.3% year on year.

Summary of 2nd Quarter Business Performance

SHOFU

➲ Sales and profits decreased compared to the previous period/ Sales and profits decreased compared to the forecast.

Units: millions of yen, %

	Fiscal March 2016 (2Q Results) (% of sales)	Fiscal March 2017 (2Q Forecast) (% of sales)	Fiscal March 2017 (2Q Results) (% of sales)	Change from Previous Period (% change)	Change from Forecast (% change)
Sales	11,600 (100.0)	12,111 (100.0)	11,052 (100.0)	-548 (-4.7)	-1,058 (-8.7)
(Domestic sales)	6,808 (58.7)	7,064 (58.3)	6,636 (60.0)	-172 (-2.5)	-428 (-6.1)
(Overseas sales)	4,791 (41.3)	5,046 (41.7)	4,416 (40.0)	-375 (-7.8)	-630 (-12.5)
Operating profit	842 (7.3)	786 (6.5)	800 (7.2)	-42 (-5.0)	13 (1.8)
Ordinary profit	825 (7.1)	719 (5.9)	509 (4.6)	-316 (-38.3)	-210 (-29.2)
Net profit	495 (4.3)	506 (4.2)	301 (2.7)	-194 (-39.3)	-205 (-40.5)
Net profit per share	31.05yen	31.67yen	18.91yen	-12.15yen	-12.77yen
Return on equity	2.3%	—	1.4%	-0.8P	—

* Based on the results of the first half ended on September 30, 2016, diluted net income per share for the fiscal year ending March 2017 was 18.78 yen.

* "Net income" figures are figures for "Net income attributable to owners of parent" after the application of the Accounting Standard for Business Combinations, etc.

Sales by Product Category (Comparison with Previous Period)

Unit: millions of yen

Figures in parentheses represent percentage changes; unit: %

	Fiscal March 2016 (2Q Results)	Fiscal March 2017 (2Q Results)	Cange from previous period			
					Domestic	Overseas
Artificial teeth	2,045	1,895	-149	(-7.3)	-39	-110
Abrasives	2,106	1,997	-108	(-5.2)	0	-109
Metal products	168	134	-34	(-20.4)	-33	-0
Chemical products	2,206	2,162	-43	(-2.0)	59	-103
Cements and others	999	1,006	7	(0.7)	6	0
Equipment and others	3,045	2,899	-145	(-4.8)	-83	-62
Dental business total	10,570	10,095	-474	(-4.5)	-90	-384
Nail care business	990	913	-77	(-7.8)	-85	8
Other	39	43	3	(10.2)	3	—
Total	11,600	11,052	-548	(-4.7)	-172	-375

*The effect of foreign currency fluctuations (U.S. dollar (USD), Euro (EUR), British pound (GBP) and Chinese yuan (CNY)) on overseas net sales was -573 million yen. (Dental business -533 million yen, Nail care business -39 million yen)

Sales by Product Category (Comparison with Forecast)

Unit: millions of yen

Figures in parentheses represent percentage changes; unit: %

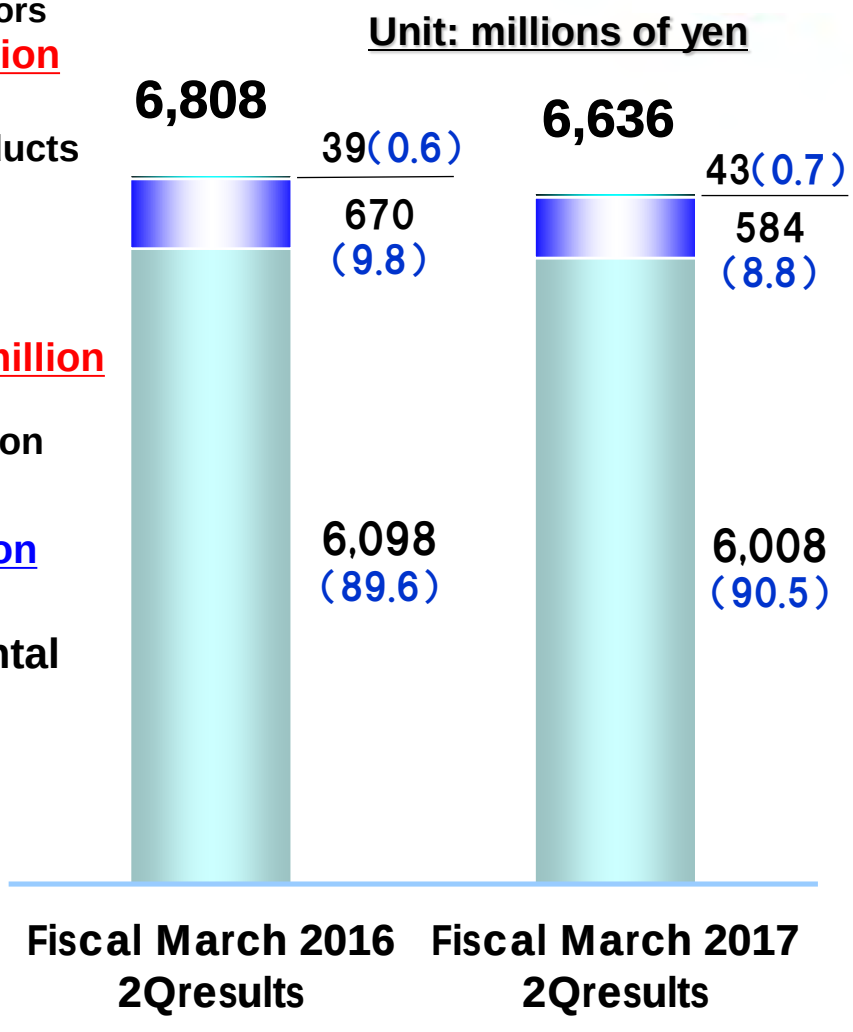
	Fiscal March 2017 (2Q Forecast)	Fiscal March 2017 (2Q Results)	Cange from Forecast			
					Domestic	Overseas
Artificial teeth	2,174	1,895	-278	(-12.8)	-80	-198
Abrasives	2,039	1,997	-41	(-2.0)	14	-55
Metal products	137	134	-3	(-2.4)	-2	-0
Chemical products	2,352	2,162	-189	(-8.1)	10	-200
Cements and others	1,138	1,006	-132	(-11.6)	-38	-93
Equipment and others	3,154	2,899	-255	(-8.1)	-130	-124
Dental business total	10,996	10,095	-900	(-8.2)	-227	-673
Nail care business	1,071	913	-157	(-14.7)	-201	43
Other	43	43	0	(0.2)	0	—
Total	12,111	11,052	-1,058	(-8.7)	-428	-630

- The effect of foreign currency fluctuations (U.S. dollar (USD), Euro (EUR), British pound (GBP) and Chinese yuan (CNY)) on overseas net sales was -428 million yen. (Dental business -393 million yen, Nail care business -34 million yen)

Domestic Sales

Positive factors　Negative factors

- Dental business: Year on year decrease of 90 million yen (-1.5%)
  - Chemical products and new CAD/CAM-related products contributed to domestic sales.
  - Sales of artificial teeth, and equipment and others decreased.
- Nail care business: Year on year decrease of 85 million yen (-12.8%)
  - Sales decreased due to intensifying price competition and continued harsh market conditions.
- Other businesses: Year on year increase of 3million yen (+10.2%)
- Major new products launched this quarter (dental business)
  - Dental filling composite resin
    BEAUTIFIL II LS　（Chemical products）
  - Dental adhesive resin cement
    Block HC Sem　（Cements and others）
  - Dental curing light
    PEN Bright　（Equipment and others）



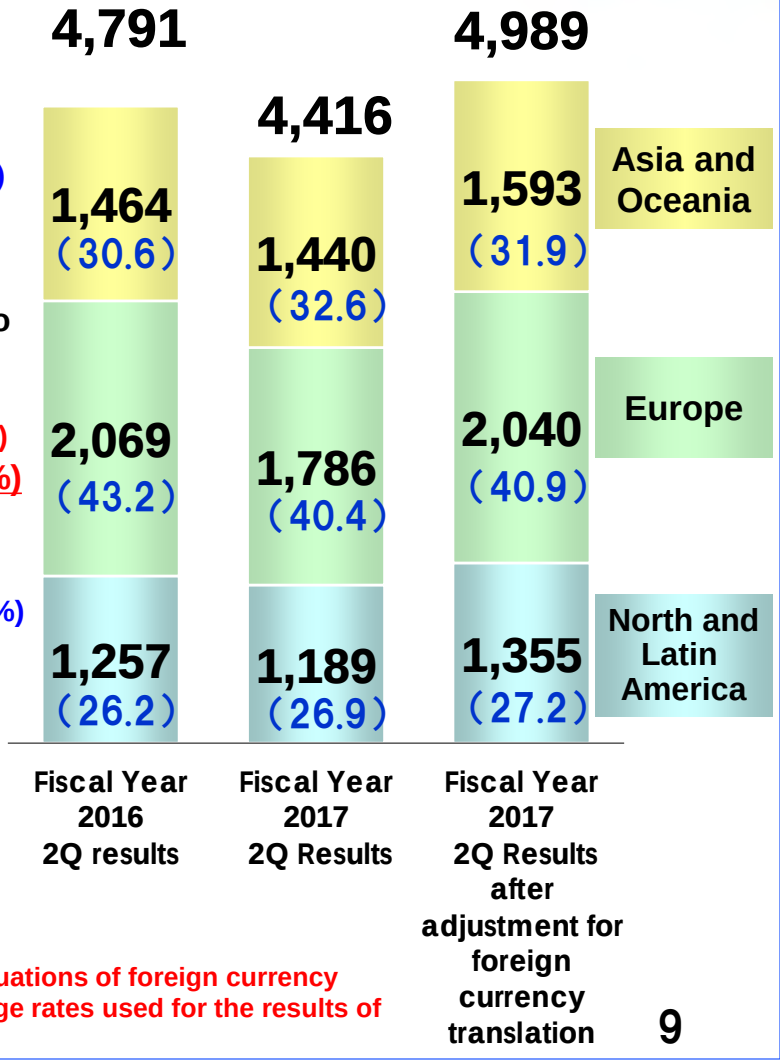
Overseas Sales

Positive factors Negative factors

- **North America and Latin America: Year-on-year decrease of 68 million yen (-5.4%)**
  - Sales of abrasives, chemical products and equipment, and equipment and others remained robust.
  - Negative effects from foreign currency fluctuations.
    - Local currency basis: Year on year increase of 97 million yen (+7.8%)
- **Europe: Year-on-year decrease of 283 million yen (-13.7%)**
  - Sales of abrasives and cement products remained robust.
  - Negative effects from foreign currency fluctuations in addition to a slowdown in sales of artificial teeth, chemical products and equipment and others.
    - Local currency basis: Year on year decrease of 29 million yen (-1.4%)
- **Asia and Oceania: Year-on-year decrease of 23 million yen (-1.6%)**
  - The flagship artificial teeth remained robust in China.
  - Negative effects from foreign currency fluctuations.
    - Local currency basis: Year on year increase of 129 million yen (+8.8%)
    - China: Year on year increase of 41 million yen (+5.6%)
    - Elsewhere in Asia: Year on year decrease of 65 million yen (-9.1%)
- **(Dental business) Overseas sales ratio of 40.5%**

  (42.3% for the same quarter of the previous fiscal year; 43.5% after adjustment for fluctuations of foreign currency exchange rates)

Unit: millions of yen



* The results of the quarter under review after adjustment for fluctuations of foreign currency exchange rates have been calculated based on the same exchange rates used for the results of the fiscal year ended March 2016.

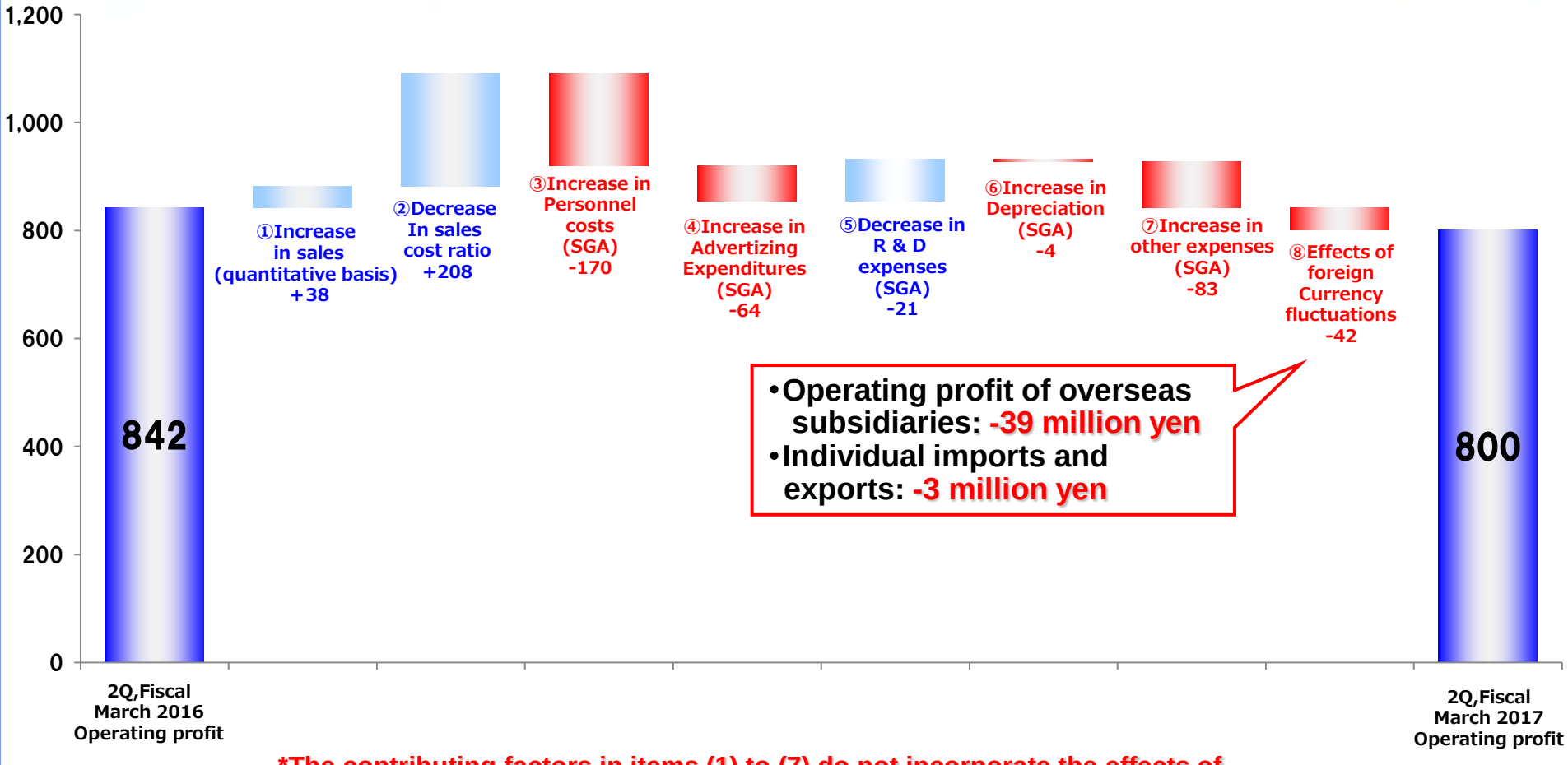
Performance by Segment (Sales and Operating Profits)

Unit: millions of yen. Figures in parentheses represent percentage of sales and percentage changes (unit: %)

		Fiscal March 2016 (2Q Results) Amount (% of sales)	Fiscal March 2017 (2Q Forecast) Amount (% of sales)	Fiscal March 2017 (2Q Results) Amount (% of sales)	Change from Previous Period	Change from Forecast
Dental	Sales	10,570	10,996	10,096	-474	-900
	Operating expenses	9,778	10,253	9,283	-494	-969
	Operating profit	792	743	812	19	69
	(operating profit margin)	(7.5)	(6.8)	(8.0)		
Nail care	Sales	990	1,071	913	-76	-157
	Operating expenses	958	1,030	940	-17	-90
	Operating profit	32	41	-26	-59	-67
	(operating profit margin)	(3.3)	(3.8)	(-2.9)		
Other	Sales	42	43	46	4	3
	Operating expenses	29	40	34	4	-6
	Operating profit	12	2	12	0	9
	(operating profit margin)	(30.2)	(5.9)	(25.8)		
Total before consolidation adjustment	Sales	11,603	12,111	11,056	-547	-1,054
	Operating expenses	10,765	11,324	10,258	-507	-1,066
	Operating profit	838	786	798	-39	11
	(operating profit margin)	(7.2)	(6.5)	(7.2)		
Consolidated	Sales	11,600	12,111	11,052	-548	-1,058
	Operating expenses	10,757	11,324	10,251	-505	-1,072
	Operating profit	842	786	800	-42	13
	(operating profit margin)	(7.3)	(6.5)	(7.2)		

Contributors to Change in Operating Profit

Unit: millions of yen



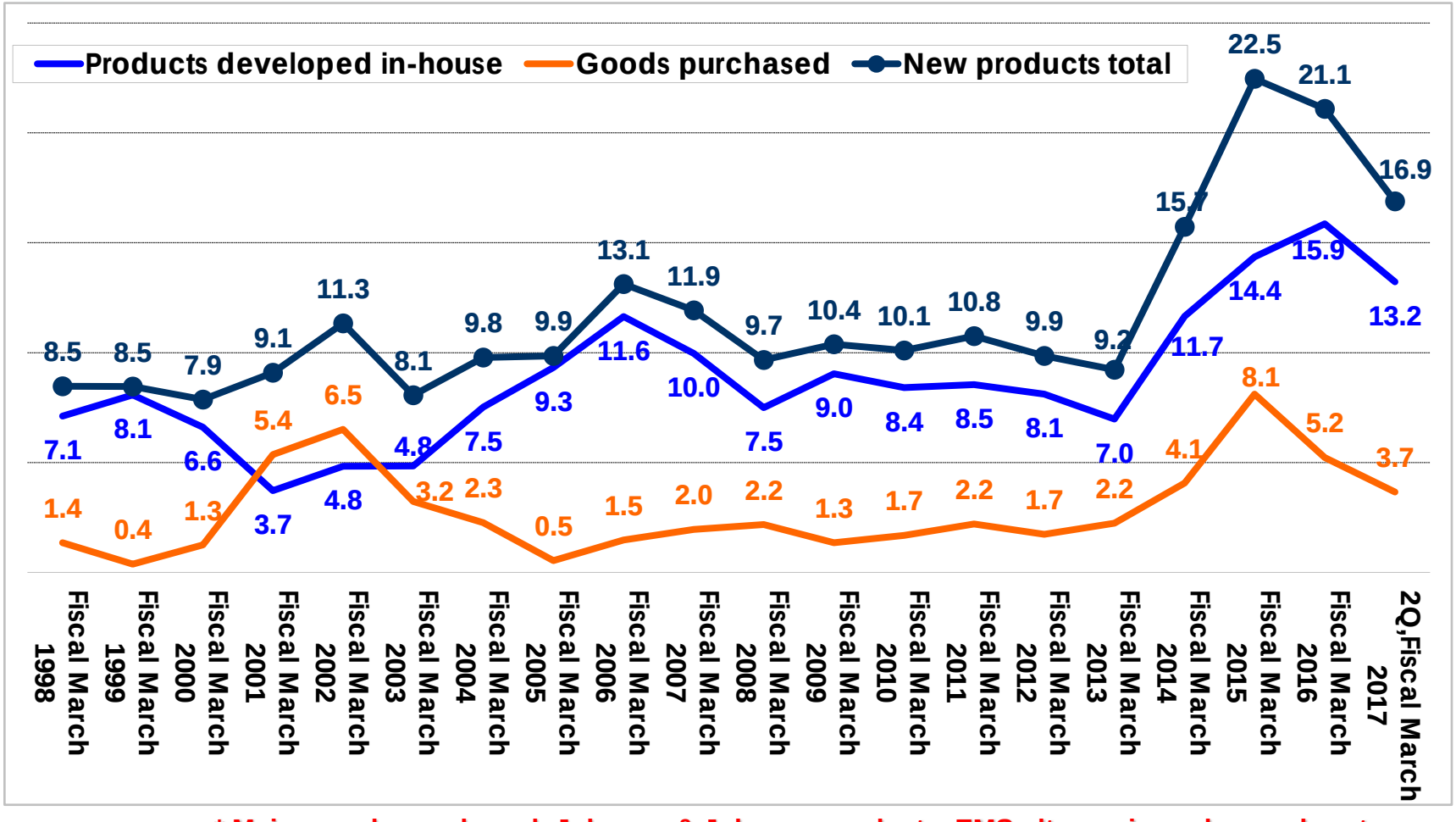
- Operating profit of overseas subsidiaries: -39 million yen
- Individual imports and exports: -3 million yen

*The contributing factors in items (1) to (7) do not incorporate the effects of fluctuations of foreign currency exchange rates.

Sales Trends for New Products

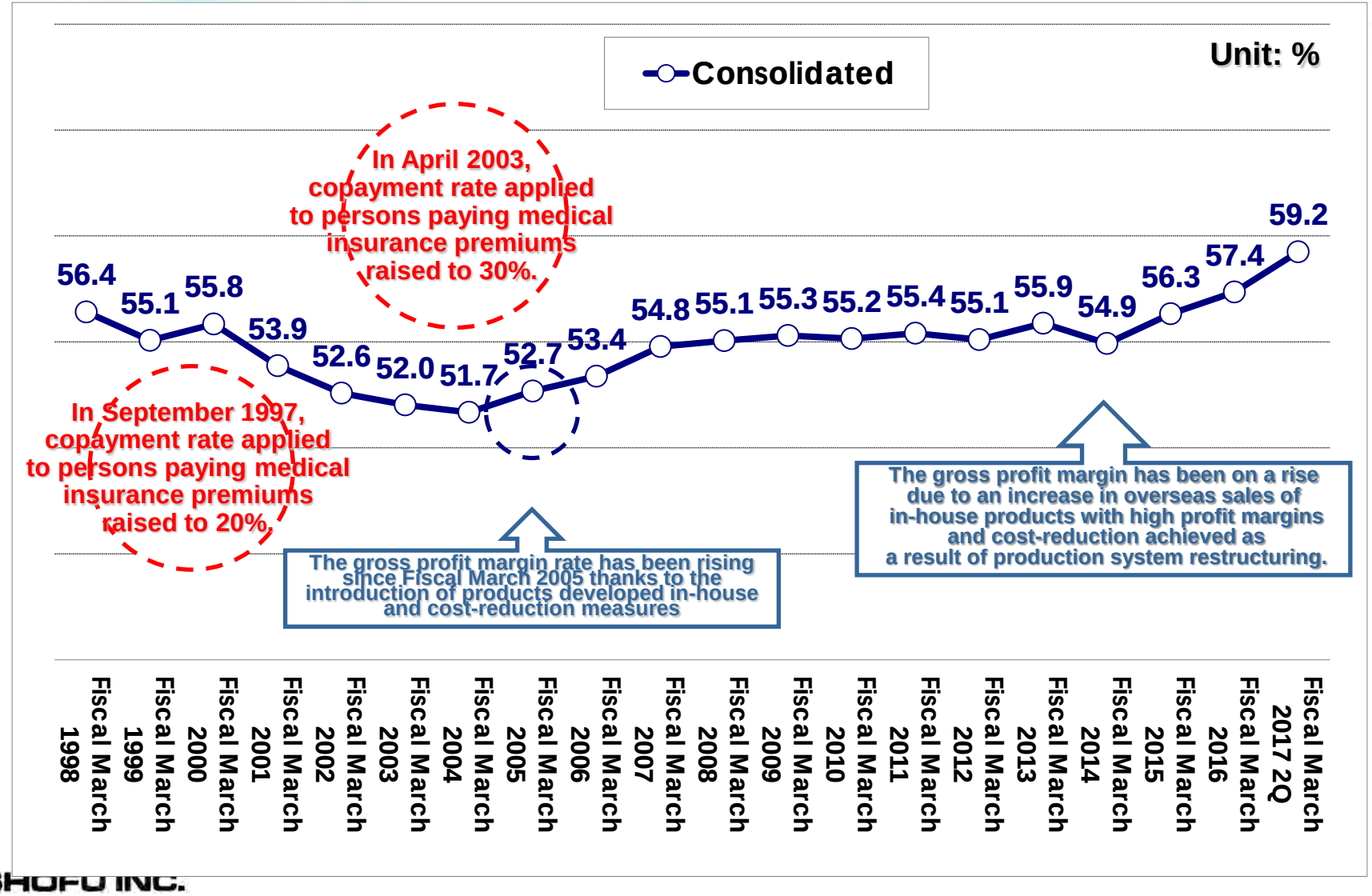
Ratio of sales of new products to total sales (products developed in-house or purchased) (Non-consolidated basis)

Unit: %

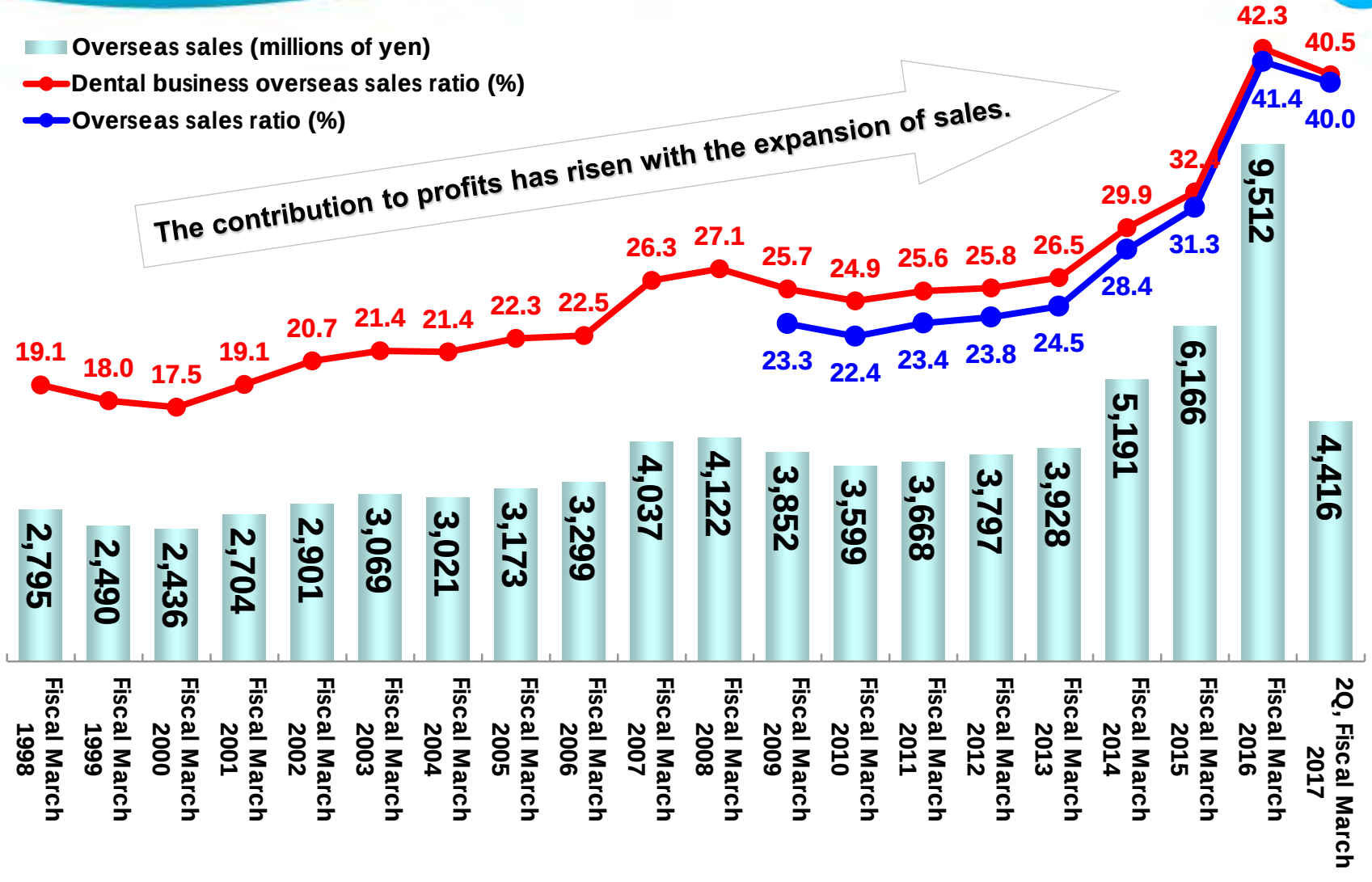


* Major goods purchased: Johnson & Johnson products, EMS ultrasonic scalers and root canal treatment equipment (reamers/files)

Gross Profit Margin Rates



Overseas Sales and Overseas Sales Ratios



Financial Condition: Major Balance Sheet Accounts

Unit: millions of yen

	Fiscal March 2016	2Q,Fiscal March 2017	Change	Major contributors to changes, special notes
Cash and deposits	4,413	4,449	35	Increase in cash and deposits
Notes and bills receivable, trade accounts receivable	3,185	2,907	-277	Decrease in accounts receivable - trade
Inventory	5,620	5,481	-139	Decrease in merchandises, increase in finished goods
Securities, investment securities	4,588	4,819	231	Increase in investment securities
Others	10,496	9,828	-668	Decrease in accounts receivable - other, decrease in buildings and machinery
Assets	28,305	27,486	-818	
Long-term and short-term borrowings	2,115	1,984	-131	Decrease in long-term loans payable and short-term loans payable (including current portion of long-term loans payable)
Reserve for retirement benefits and directors' retirement benefits	181	176	-4	
Others	4,508	4,274	-233	Decrease in accounts payable - trade, decrease in accounts payable - other
Liabilities	6,804	6,435	-369	
Net worth	21,500	21,051	-448	Decrease in foreign currency translation adjustment
Total liabilities and net worth	28,305	27,486	-818	
Capital adequacy ratio	75.7%	76.2%	0.6P	
Net worth per share	1,340yen	1,319yen	-21yen	

Capital Expenditures, Depreciation Costs, R&D Expenses, etc.

Unit: millions of yen

	Fiscal March 2016 (2Q Results)	Fiscal March 2017 (2Q Forecast)	Fiscal March 2017 (2Q Results)
Capital expenditures	261	646	350
Depreciation costs	511	508	452
R&D expenses	735	799	658
Foreign exchange rates			
US dollar	121.50	120.00	106.43
Euro	134.60	127.00	119.12
Pound sterling	186.62	185.00	146.56
Renminbi	19.36	19.00	17.21

* The foreign exchange rates given are those in effect at the average of each term.

Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2017

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2017

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

Overview of Forecast of Business Performance for the Year

➲ Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2017

Units: millions of yen, %

Based on the trend of our recent business results, we have made a revision to the initial forecast for the consolidated fiscal year ending March 31, 2017(announced on May 13, 2016).

	Fiscal March 2016 Results (% of sales)	Fiscal March 2017 Yearly Forecast (% of sales)	Fiscal March 2017 Yearly Forecast (% of sales)	Year-on-year Change (% change)	Year-on-year Change (% change)
Sales	22,975 (100.0)	24,649 (100.0)	22,304 (100.0)	-671 (-2.9)	-2,345 (-9.5)
(Domestic sales)	13,463 (58.6)	14,243 (57.8)	13,332 (59.8)	-130 (-1.0)	-910 (-6.4)
(Overseas sales)	9,512 (41.4)	10,405 (42.2)	8,971 (40.2)	-541 (-5.7)	-1,434 (-13.8)
Operating profit	1,568 (6.8)	1,669 (6.8)	1,514 (6.8)	-54 (-3.5)	-154 (-9.3)
Ordinary profit	1,393 (6.1)	1,520 (6.2)	1,164 (5.2)	-228 (-16.4)	-355 (-23.4)
Net profit	789 (3.4)	1,084 (4.4)	788 (3.5)	-0 (-0.1)	-295 (-27.2)
Net profit per share	49.43yen	67.86yen	49.54yen	0.11yen	-18.32yen
Return on equity	3.7%	4.8%	3.5%	-0.1P	-1.3P
Foreign exchange rates					
US dollar	120.17	120.00	103.98	−16.19	−16.02
Euro	132.35	127.00	116.46	−15.89	−10.54
Pound sterling	180.66	185.00	139.38	−41.28	−45.62
Renminbi	19.21	19.00	16.32	−2.89	−2.68

* "Net income" figures are figures for "Net income attributable to owners of parent" after the application of the Accounting Standard for Business Combinations, etc.

Overview of Forecast of Business Performance for the Year (1)

Based on the trend of our recent business results, we have made a revision to the initial forecast for the consolidated fiscal year ending March 31, 2017(announced on May 13, 2016).

Positive factors　Negative factors

P/L

➲ Net sales projected to total 22,304 million yen (a decrease of 2.9%)

Domestic net sales of 13,332 million yen expected (a decrease of 1.0%)

- In the dental business, we expect sales to fall by 1.0% due to intensified competition as a result of the activation of the market for insurance-covered CAD/CAM crowns, despite the efforts to expand sales of new CAD/CAM-related products and chemical products.
- In the nail care business, we expect sales to fall by 1.1% due to the harsh market environment caused by intensifying price competition, despite striving to recover from the effects of the voluntary recall in 2015.

Overseas net sales of 8,971 million yen expected (a decrease of 5.7%)

- In the dental business, sales are expected to fall by 6.2% overall due to the effects of foreign exchange resulting from a stronger yen (-1,224 million yen), despite sales growth in all regions on a local currency basis.
- In the nail care business, sales are expected to rise by 1.6% overall mainly led by the strong sales in the Asian region, where overseas sales are favorable, despite the impact from foreign currency fluctuations (-68 million yen).

Overview of Forecast of Business Performance for the Year (2)

Positive factors　Negative factors

P/L

➲ Operating income of 1,514 million yen projected (a decrease of 3.5%)

- Despite continuous proactive investment in sales activities, selling, general and administrative expenses are expected to decrease by 608 million yen due to the favorable effects of foreign currency fluctuations, to a year-on-year decrease of 59 million yen.
- Operating income is expected to **fall by 3.5%** affected by a decrease in net sales.

➲ Ordinary income of 1,164 million yen projected (a decrease of 16.4%)
➲ Net income of 788 million yen projected (a decrease of 0.1%)

- Non-operating income will decrease due to factors such as foreign exchange losses (263 million yen), and ordinary income is expected to **decrease by 16.4%**.

  Profit is expected to **decrease by 0.1%.**

＊ "Net income" figures are figures for "Net income attributable to owners of parent" after the application of the Accounting Standard for Business Combinations, etc.

(Full- year Outlook) Comparison of Major Statistics

➲ Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2017

Units: millions of yen, %

➲ Sales and profits decreased compared to fiscal March 2016

	Fiscal March 2016 Results (% of sales)	Fiscal March 2017 Forecast		Year-on-year Change (% change)	Year-on-year Change (% change)
		2Q Results (% of sales)	Yearly Forecast (% of sales)		
Sales	22,975 (100.0)	11,052 (100.0)	22,304 (100.0)	-2,345 (-9.5)	-671 (-2.9)
(Domestic sales)	13,463 (58.6)	6,636 (60.0)	13,332 (59.8)	-910 (-6.4)	-130 (-1.0)
(Overseas sales)	9,512 (41.4)	4,416 (40.0)	8,971 (40.2)	-1,434 (-13.8)	-541 (-5.7)
Operating profit	1,568 (6.8)	800 (7.2)	1,514 (6.8)	-154 (-9.3)	-54 (-3.5)
Ordinary profit	1,393 (6.1)	509 (4.6)	1,164 (5.2)	-355 (-23.4)	-228 (-16.4)
Net profit	789 (3.4)	301 (2.7)	788 (3.5)	-295 (-27.2)	-0 (-0.1)
Net profit per share	49.43yen	18.91yen	49.54yen	-18.32yen	0.11yen
Return on equity	3.7%	1.4%	3.5%	-1.3P	-0.1P

* The impact of fluctuations of foreign currency exchange rates on overseas net sales was -1,125 million yen compared to initial projection and -1,293 million yen year on year . (U.S. dollar (USD), Euro (EUR), British pound (GBP) and Chinese yuan (CNY)).

* "Net income" figures are figures for "Net income attributable to owners of parent" after the application of the Accounting Standard for Business Combinations, etc.

Domestic Sales

✧ **Dental business: Year on year decrease of 126 million yen (-1.0%)**

- We will make efforts to expand sales of new CAD/CAM-related products and chemical products.

✧ **Nail care business: Year on year decrease of 14 million yen (-1.1%)**

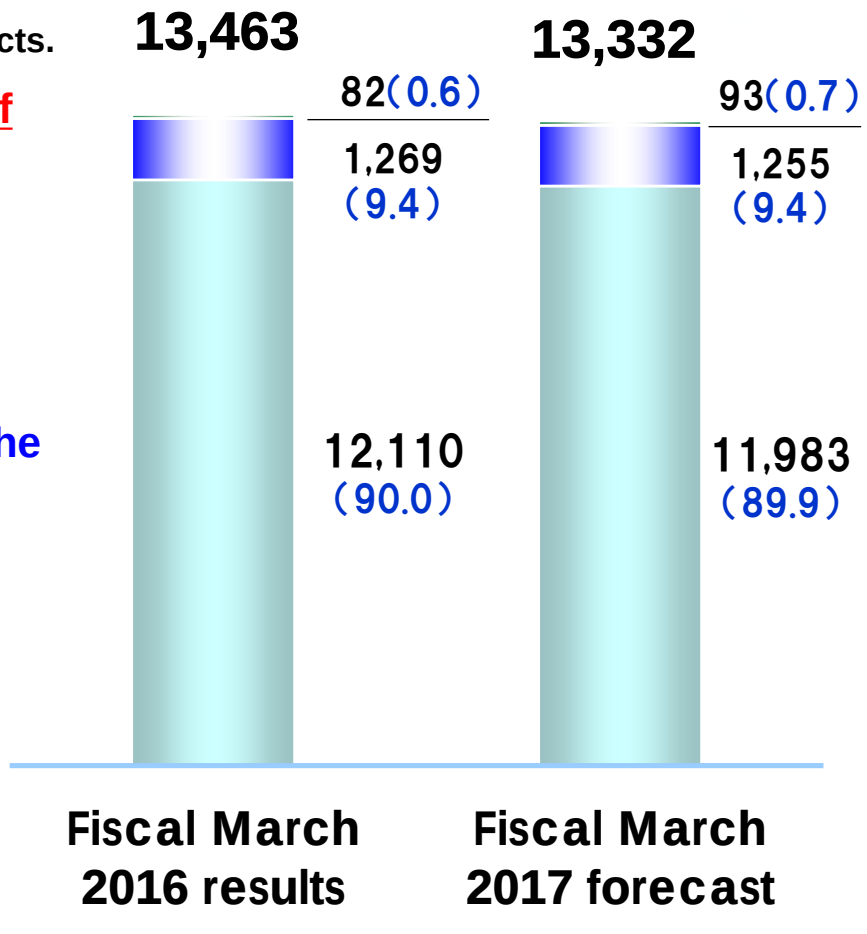
- We will strive to recover from the impact of the voluntary recall in 2015.

✧ **Other businesses: Year on year increase of 10 million yen (+13.0%)**

✧ **Major new products to be released during the fiscal year ending March 2017**

- Dental filling composite resin
  BEAUTIFIL II LS （Chemical products）
- Dental adhesive resin cement
  Block HC Sem （Cements and others）
- Dental curing light
  PEN Bright （Equipment and others）
- Intraoral scanner （Equipment and others）

Unit: millions of yen; figures in parentheses represent component ratio (%)



Overseas Sales

Unit: millions of yen; figures in parentheses represent component ratio (%)

✧ Summary

- Despite a strong performance in all regions, net sales are expected to decrease by 5.7% due to the negative effects of foreign currency fluctuations.

- Growth rates by region (Figures in parentheses indicate the growth rate on a local currency basis.)

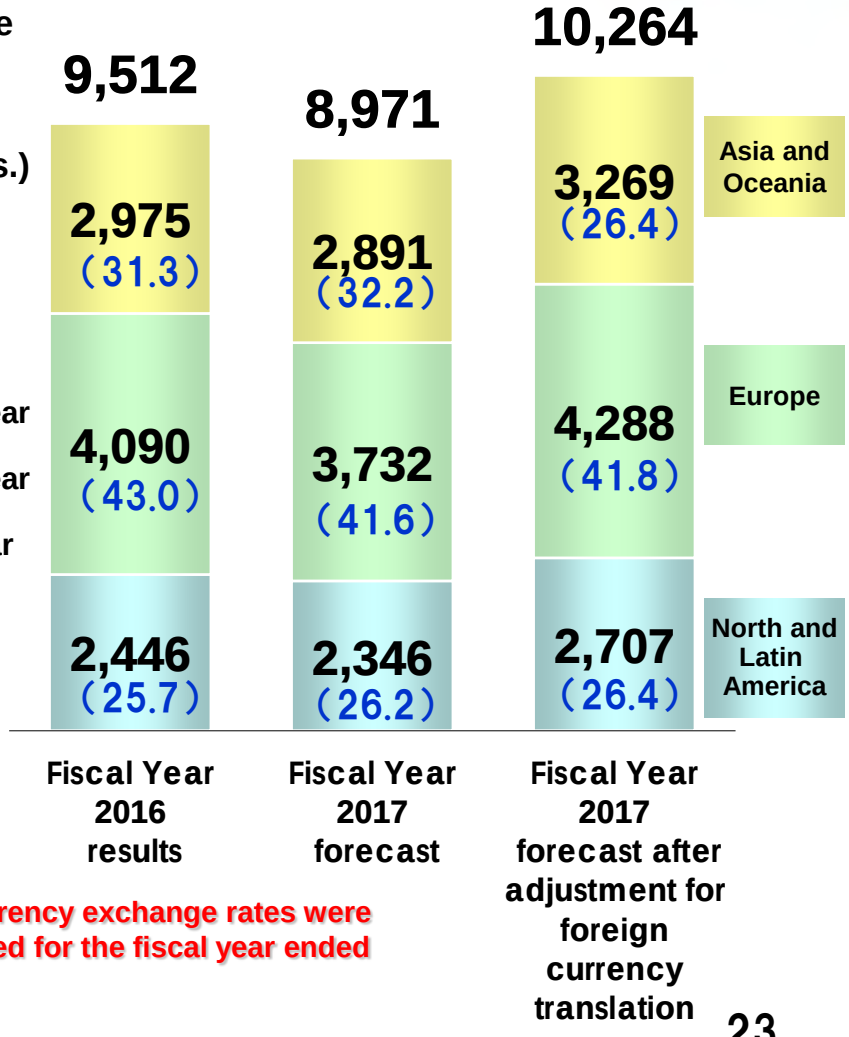
North America, Central and South America	-4.1%	(+10.6%)
Europe	-8.7%	(+ 4.8%)
China	-0.8%	(+15.4%)
Asia (Other)	-4.9%	(+ 4.2%)

✧ Foreign currency exchange rates

- USD1 = JPY103.98 JPY120.17 for the previous fiscal year (Effect: -493 million yen)
- EUR1 = JPY116.46 JPY132.35 for the previous fiscal year (Effect: -555 million yen)
- CNY1 = JPY16.32 JPY19.21 for the previous fiscal year (Effect: -244 million yen)

✧ (Dental business) Overseas sales ratio: 41.0%

- (42.3% for the previous fiscal year; 44.3% after adjustment for fluctuations of foreign currency exchange rates)



* The projections after adjustment for fluctuations of foreign currency exchange rates were calculated using the same foreign currency exchange rates used for the fiscal year ended March 2016.

Impact of Foreign Exchange Fluctuations

Forecast for Fiscal March 2017

(Unit: millions of yen)

	Foreign exchange rate		Impact on consolidated business performance		Per yen of yen strength	
	Fiscal March 2016 actual	Fiscal March 2017 estimate (second half of the fiscal year)	Sales	Operating profits	Sales	Operating profits
US Dollar	120.17	103.98 (101.58)	-435	-139	-27	-9
Euro	132.35	116.46 (114.14)	-473	-74	-29	-5
GBP	180.66	139.38 (132.06)	-82	17	-2	0
RMB	19.21	16.32 (15.35)	-242	-6	-84	-1

* The foreign currency exchange rates used for the forecast for the consolidated fiscal year ending March 31, 2017, were revised when the revisions to the forecast were announced on October 28, 2016.

Medium-term Management Plan – Principle Targets

➲ Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2017

★•••Record Unit: Millions of yen, %

	Fiscal March 2015 (Results)	Mid-term Management Plan			Fiscal March 2016 (Results)	Fiscal March 2017 (Forecast)
		Fiscal March 2016	Fiscal March 2017	Fiscal March 2018		
Net sales	★ 19,688	★ 23,526	★ 25,756	★ 28,471	★ 22,975	22,304
(Change from Previous Period)	(7.8%)	(19.5%)	(9.5%)	(10.5%)	(16.7%)	(-2.9%)
(Domestic sales)	★ 13,521	★ 14,158	★ 15,061	★ 16,024	13,463	13,332
(Change from Previous Period)	(3.5%)	(4.7%)	(6.4%)	(6.4%)	(-0.4%)	(-1.0%)
(Overseas sales)	★ 6,166	★ 9,367	★ 10,695	★ 12,446	★ 9,512	8,971
(Change from Previous Period)	(18.8%)	(51.9%)	(14.2%)	(16.4%)	(54.3%)	(-5.7%)
Operating income	1,159	1,418	★ 1,999	★ 2,978	1,568	1,514
(Persentage of sales)	(5.9%)	(6.0%)	(7.8%)	(10.5%)	(6.8%)	(6.8%)
Ordinary income	1,114	1,246	★ 1,854	★ 2,805	1,393	1,164
(Persentage of sales)	(5.7%)	(5.3%)	(7.2%)	(9.9%)	(6.1%)	(5.2%)
Net income	581	608	★ 1,284	★ 1,984	789	788
(Persentage of sales)	(3.0%)	(2.6%)	(5.0%)	(7.0%)	(3.4%)	(3.5%)
Dental business Overseas sales ratio	★ 32.4%	★ 41.7%	★ 43.4%	★ 45.4%	★ 42.3%	★ 41.0%

* "Net income" figures for Fiscal March 2016 forecasts are figures for "Net income attributable to owners of parent" after the application of the Accounting Standard for Business Combinations, etc.

Medium-term Management Plan by Segment (Sales and Operating Profits)

SHOFU

Unit: Millions of yen, %

	Fiscal March 2015 (Results)		Mid-Term Management Plan						Fiscal March 2016 (Results)		Fiscal March 2017 (Forecast)	
			Fiscal March 2016		Fiscal March 2017		Fiscal March 2018					
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Dental business	17,850	90.7	21,473	91.3	23,465	91.1	25,861	90.8	20,999	91.4	20,321	91.1
Nail care business	1,750	8.9	1,957	8.3	2,180	8.5	2,490	8.7	1,894	8.2	1,888	8.5
Other businesses	87	0.4	94	0.4	110	0.4	120	0.4	88	0.4	93	0.4
Net sales	19,688	100.0	23,526	100.0	25,756	100.0	28,471	100.0	22,981	100.0	22,304	100.0
Dental business	1,153	6.5	1,322	6.2	1,862	7.9	2,785	10.8	1,515	7.2	-	-
Nail care business	-24	-1.4	88	4.5	128	5.9	183	7.4	22	1.2	-	-
Other businesses	22	25.8	7	7.9	8	7.9	9	7.9	22	25.6	-	-
Operating income	1,150	5.8	1,418	6.0	1,999	7.8	2,978	10.5	1,559	6.8	-	-

* The foreign exchange rates given are those in effect at the average of each term.

Medium-term Management Plan Capital Expenditures, Depreciation Costs, R&D Expenses

Unit: Millions of yen

	Fiscal March 2015 (Results)	Mid-Term Management Plan			Fiscal March 2016 (Results)	Fiscal March 2017 (Forecast)
		Ficsal March 2016	Ficsal March 2017	Ficsal March 2018		
Capital investment	1,650	865	837	869	713	954
Depreciation expenses	783	1,092	1,093	1,097	1,063	936
(of which goodwill amortization)	0	147	147	147	110	97
R&D expenses	1,410	1,616	1,618	1,690	1,431	1,485

* The foreign exchange rates given are those in effect at the average of each term.

Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2017

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2017

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

Business Environment Awareness

Domestic dental market

- Rising demand in aesthetic and preventive operations
- Decrease in population and occurrence of cavities
- Maintenance of a certain market scale
- Significant growth is unlikely

Overseas dental market

- Existence of enormous market centered on developed nations
- Economic growth and rising living standards in regions worldwide, particularly developing nations
- Demand for dental care increasing dramatically

10 years vision: Fundamental Principles

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

Company-wide targets for fiscal March 2022

- **Group sales: 50 billion yen**
  <Domestic sales: 17 billion yen; overseas sales: 33 billion yen>
- **Group operating profits: 7.5 billion yen**
  (Operating profit margin: 15%)

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

Fiscal 2015 to 2017 Medium-term Management Plan : Company-wide targets

Company-wide targets for fiscal March 2017

- **Group sales: 28.5 billion yen**
  <Domestic sales:14.1 billion yen; overseas sales:11.7 billion yen; Nail care business sales:2.5 billion yen>
  <Overseas sales ratio in the dental business : 50%>
- **Group operating profits: 2.98 billion yen**
  (Operating profit margin: 10.5%)
- **ROE* 8.5%**

*ROE : Return on equity

Key issues in order to achieve goals

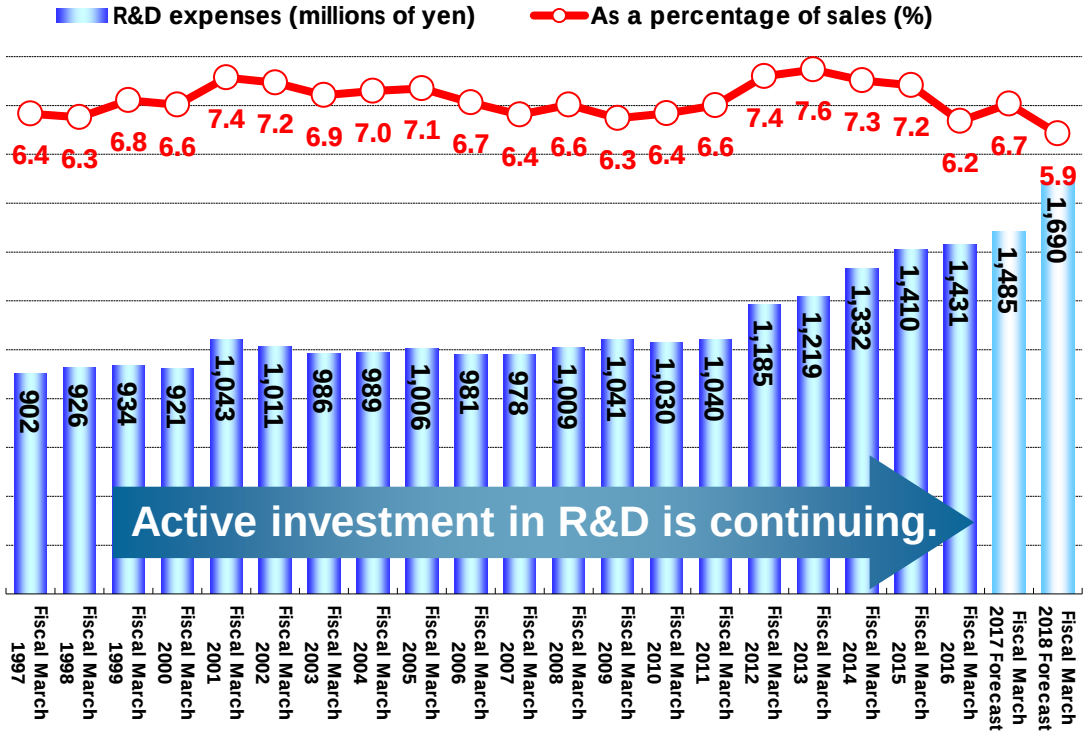
【Research and Development】
✧Development and introduction of new products that match the local demands
【Production】
✧Relocation of production base and expansion of offshore production
【Sales】
✧Improvement of our sales network / Realignment of sales offices
✧Establishment of domestic and international academic networks
【Human resources】
✧Development of human resources and securing the skilled employees

Specific Efforts – Research and Development

✧Development and introduction of new products that match the local demands

- Developing products with a worldwide vision
- Developing new products for regions' middle-class and high-volume segments
- Developing products with the goal of creating markets in new fields

Trend in R&D investment



Specific Efforts – Production

✧ Relocation of production base and expansion of offshore production

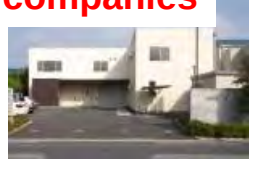
Further expand the market share of our time-honored specialties such as artificial teeth and abrasives by enhancing price competitiveness and reducing costs.

➲ Effectively utilizing existing domestic factories

Domestic manufacturing Group companies

Shiga Shofu (Shiga)

Shofu products kyoto (Kyoto)



Nail Labo (Saitama)

Principal issues and purpose of repositioning of production

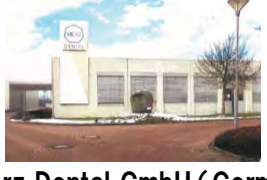
1) limited productions capacity of SHOFU Headquarters
2) high production costs in Japan
3) currency fluctuations
4) high shipping costs for hazardous and heavy goods
5) better delivery service to users
6) high tariff

➲ Expanding overseas production

Overseas manufacturing Group companies

Shanghai Shofu Dental Materials Co., Ltd. (China)

Advanced Healthcare Ltd. (UK)



Merz Dental GmbH.（Germany）

Specific Efforts – Sales

✧Improvement of our sales network

- Develop a network of overseas distributors.

✧Realignment of sales offices

- Enhance the functions of the Singapore subsidiary.
- Establish new overseas sales bases.

✧Establishment of domestic and international academic networks

- Build an organization that can advertise the company's products and services directly to users.
- Enhance and expand MDR* activities. *Medical dental representative

Overseas sales Group companies (bases)

Shofu Dental Corporation (U.S.A.)

Shofu Dental GMBH (Germany)

Shofu UK (Sales Office) (UK)

Shofu Dental Trading (Shanghai) Co., Ltd., (China)

Shofu Dental Asia-Pacific Pte. Ltd. (Singapore)

Merz Dental GmbH.(Germany)

➢Improve our customer service

➢Enhance academic activities

➢Speed up the product registration work

Specific Efforts – MiCD Project

Official partner

Minimally Invasive Cosmetic Dentistry

MiCD Project
(Minimally Invasive Cosmetic Dentistry)

Supporting the development of cosmetic dental treatment that delivers cosmetic results while minimizing surgical intervention of cavity lesion

Increasing sales of filling and restorative dental materials

Improved cost effectiveness

Enhance image as a company that promotes state-of-the-art medicine

- **Providing training programs**
- **Holding study groups**
- **Developing and supplying MiCD products**
- **Promoting products and services to patients**

Specific Efforts – Nail Care Business

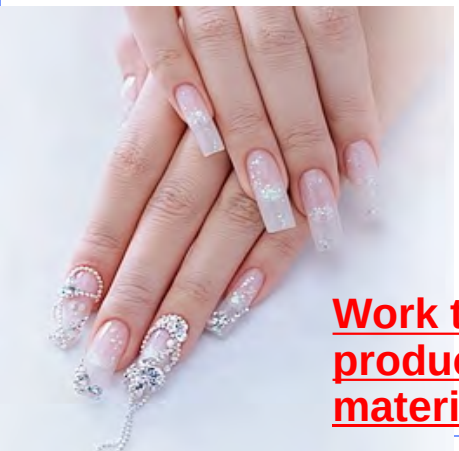
- ✧ Capturing share in the LED gel market with improved Presto
- ✧ Improving competitiveness and profitability by integrating operations from product planning and manufacture to sales

⇒
- •June 2013: Establishment of Nail Care Division at the Head Office
- •August 2014: Released "by Nail Labo", the gel nail system for general consumers
- •December: Established joint venture in Taiwan, began operations in January 2015
- •Established joint venture in Taiwan, began operations in January 2016

- ✧ Expanding sales channels in overseas markets – U.S., Europe, Taiwan, South Korea, China

■ Presto

■ by Nail Labo



Key Goal Indicator

Fiscal March 2016 results: Sales of 1.89 billion yen

<Domestic 1.26 billion yen; Overseas 0.62 billion yen>

⇒Fiscal March 2018 forecast: Sales of 2.5 billion yen

<Domestic 1.79 billion yen; Overseas 0.71 billion yen>

<Ratio of sales of products developed in-house (consolidated) 64.7%>

Work to expand the nail care business by taking advantage of the R&D and production engineering capabilities the company has developed in the dental materials business.

Specific Efforts – Acquisition of Merz Dental GmbH

*Consolidated from April 1, 2015

✧Acquired leading German artificial teeth manufacturer

Creating synergies in many areas, including R&D capabilities, production, and sales

➲ R&D

- Development of high-quality artificial teeth that can be expanded worldwide

➲ Production

- Expansion of production capabilities and volume in Europe
- Rapid response to customer needs across the European region

➲ Sales

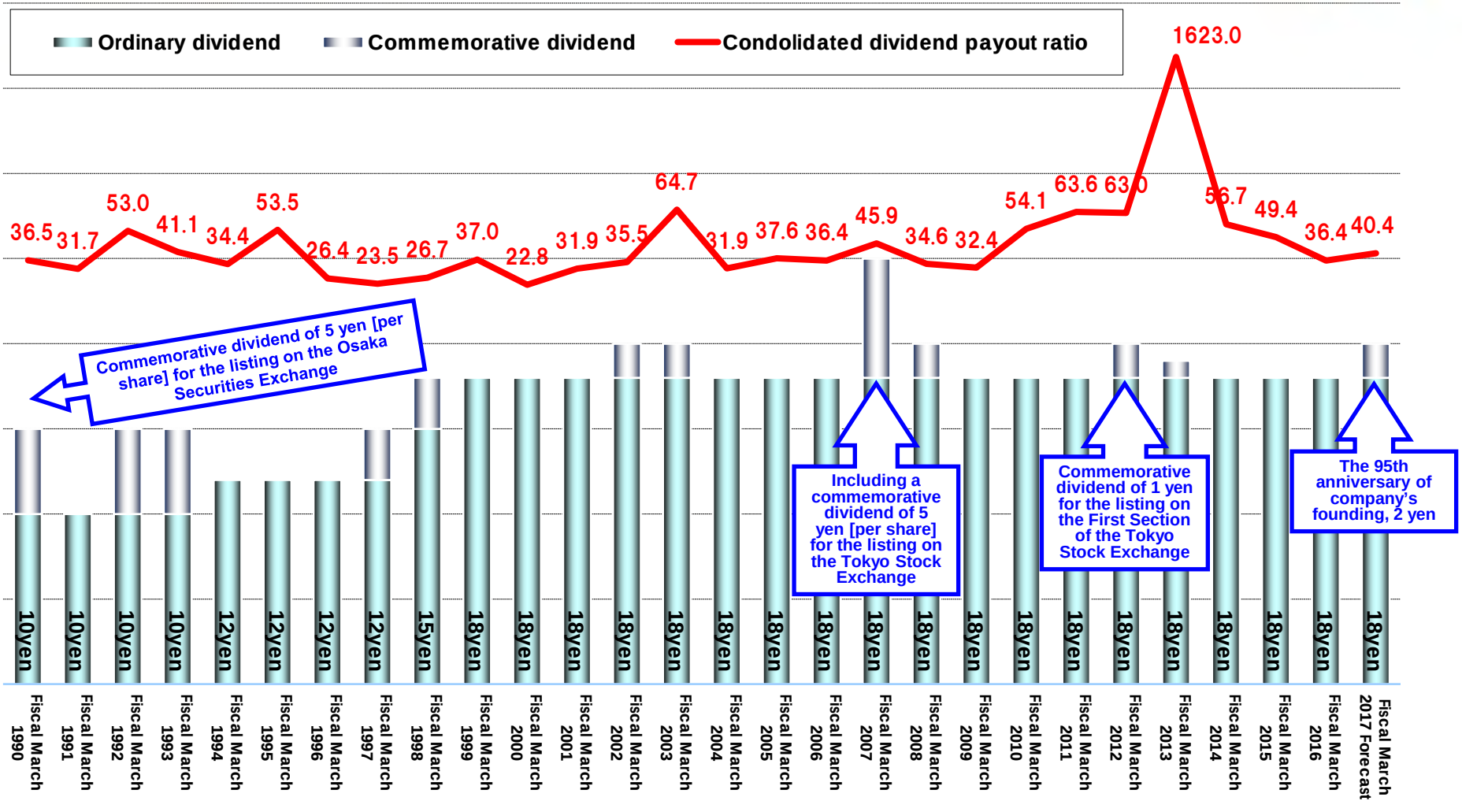
- Utilize Merz Dental's sales channel to enhance academic activities
- Expand sales of Merz Dental products outside of Germany

Basic Information (As of March 31, 2016)

Name	: Merz Dental GmbH.
Location	: Lütjenburg (Germany)
Net sales	: 16 million euro
Employees	: 171
Business	: Manufacture and sales of artificial teeth and dental equipment

Dividend Policy

- Target dividend payout ratio: More than 30%
- Average consolidated dividend payout ratio since listing: 40.6%
  (Weighted average from Fiscal March 1990 to March 2016)



Forecasts in this document are based on information and data available at the time of release as well as on assumptions concerning uncertain factors that might affect the company's future business performance. Depending on various factors, actual business performance could differ substantially from the forecasts contained in this document.

SHOFU INC.

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E-mail: ir@shofu.co.jp

Contact: Corporate Planning Department

The pages below are provided only for your reference. The information on these pages will not be covered in the financial analysis meeting.

SHOFU and Its Operations (Summary of the Company Profile and Its Businesses)

Company Profile

(As of September 30, 2016)

Company name	SHOFU Inc.
Representative	Noriyuki Negoro, President and CEO
Address	11 Kamitakamatsu-cho, Fukuine, Higashiyama-ku, Kyoto 605-0983, Japan
Date of establishment	May 15, 1922
Capital	4,474,646,614 yen
Listed exchanges	First Section of Tokyo Stock Exchange (date listed: March 29, 2012)
Number of employees	437 (entire group: 1,103 , including 500 in overseas subsidiaries)
Business	Manufacture and sale of dental materials and equipment
Main customers	Dental institutions (via sales agencies)
Number of group companies	15 (four in Japan, eleven overseas) Dental companies: 12 (three in Japan, nine overseas) Nail care companies: 3 (one in Japan, two overseas)

Main Products

The company manufactures and markets a wide range of dental materials and equipment.

Artificial teeth

Artificial tooth and implant materials

- Porcelain teeth, porcelain powder, resin teeth

Abrasives

Materials for removing diseased areas and polishing crowns

- Diamond abrasive
- Carborundum abrasive
- Silicon polisher
- Other carving and polishing materials
- Industrial grinding and polishing materials

Metal products

Materials for use as dental crowns and as the base for implants

- Alloys for casting, silver alloys
- Other metals

Chemical products

Materials for use in a variety of applications, including implants, diseased area fillings, gums for artificial teeth, etc.

- Synthetic resins
- Impression materials
- Waxes

Cements

Materials for use in the adhesion of implants, fillings, etc.

- Dental cements
- Dental stones and investments

Equipment and appliances

Equipment and appliances for dental treatment and procedures

- Dental equipment
- Products for oral care and infection prevention
- Orthodontic materials
- Health and beauty equipment
- Other equipment and appliances

Please refer to "Product Profiles" attached to this document.

The company's products are designed for use in dental care and treatment.

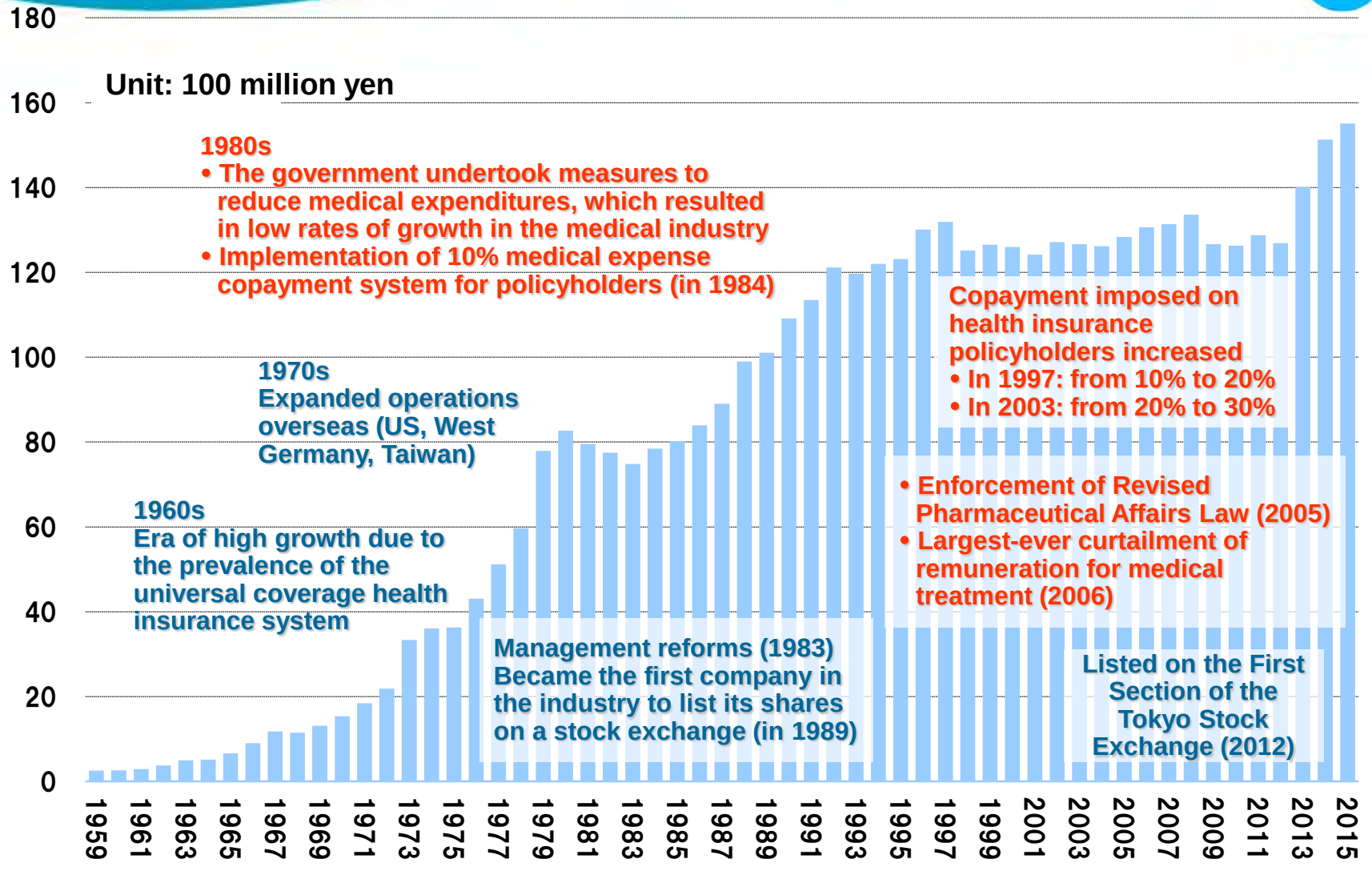
Corporate History

• 1922	Shofu Dental Manufacturing Co., Ltd. founded and commenced the manufacture and sale of Japan's first artificial teeth.
• 1963	Shofu shares listed on the over-the-counter market.
• 1971～1978	Established sales subsidiaries in the U.S. and West Germany. Started overseas production (in Taiwan). Established Shiga Shofu Inc. as a manufacturing facility for resin teeth.
• 1983	Changed the company name to SHOFU Inc. Commenced management reforms.
• 1989	Shofu's shares listed on the Second Section of the Osaka Securities Exchange (in November).
• 1990～1997	Purchased a British research & development and manufacturing company. Founded a sales subsidiary in the U.K. Obtained the UK GMP (Good Manufacturing Practice) Certificate. Acquired a CE marking certificate.
• 1996	Founded Promech Inc. Established Liaison Office in Shanghai, China.
• 1997	Established the industry's largest research facility as a part of a project to commemorate Shofu's 75th anniversary.
• 2002～2003	Celebrated the company's 80th anniversary (in May 2002). Established Liaison Office in Beijing, China.
	Obtained ISO 14001 (Environmental Management System) certification (both for the headquarters and all group companies).
	Established Shanghai Shofu Dental Materials Co., Ltd., a production facility in China.

Corporate History

• 2005	Acquired Shoken Inc.(SHOFU PRODUCTS KYOTO INC.) as a wholly owned subsidiary through a share exchange.
	Established Shofu Dental Supplies (Shanghai) Co., Ltd., a sales facility in China.
• 2006	Training Center designed to promote customers service completed (in August).
• 2007	Celebrated the company's 85th anniversary. Shofu's shares listed on the Second Section of the Tokyo Stock Exchange (in February).
• 2008	Acquired and turned Nail Labo Co., Ltd. into a subsidiary.
	Acquired 1.6 million of the company's own shares in accordance with the purchase of the company's own shares scheme in the J-NET market of the Osaka Securities Exchange.
• 2009	Reached basic agreement concerning business and capital partnership with Mitsui Chemicals, Inc., and Sunmedical Co., Ltd.
	Transferred 1.8 million shares of treasury stock to Mitsui Chemicals, Inc., through a third-party allocation.
• 2010	Shofu Dental Trading (Shanghai) Co., Ltd., is established in China.
• 2012	Celebrated the 90th anniversary of its founding. Listed on the First Section of the Tokyo Stock Exchange.
• 2013	Promech Inc. is split up, with Shoken Inc.(SHOFU PRODUCTS KYOTO INC.) taking over its dental businesses and Nail Labo Co,. Ltd., absorbing the company and its remaining operations.
	The Singapore Sales Office is incorporated as the local corporation SHOFU Dental ASIA-Pacific Pte.Ltd.
•2014	Established joint venture in Taiwan between Nail Labo Co., Ltd. and a local sales distributor.
•2015	Acquired shares and made Merz Dental GmbH. a subsidiary. Established SHOFU BIOFIX INC.

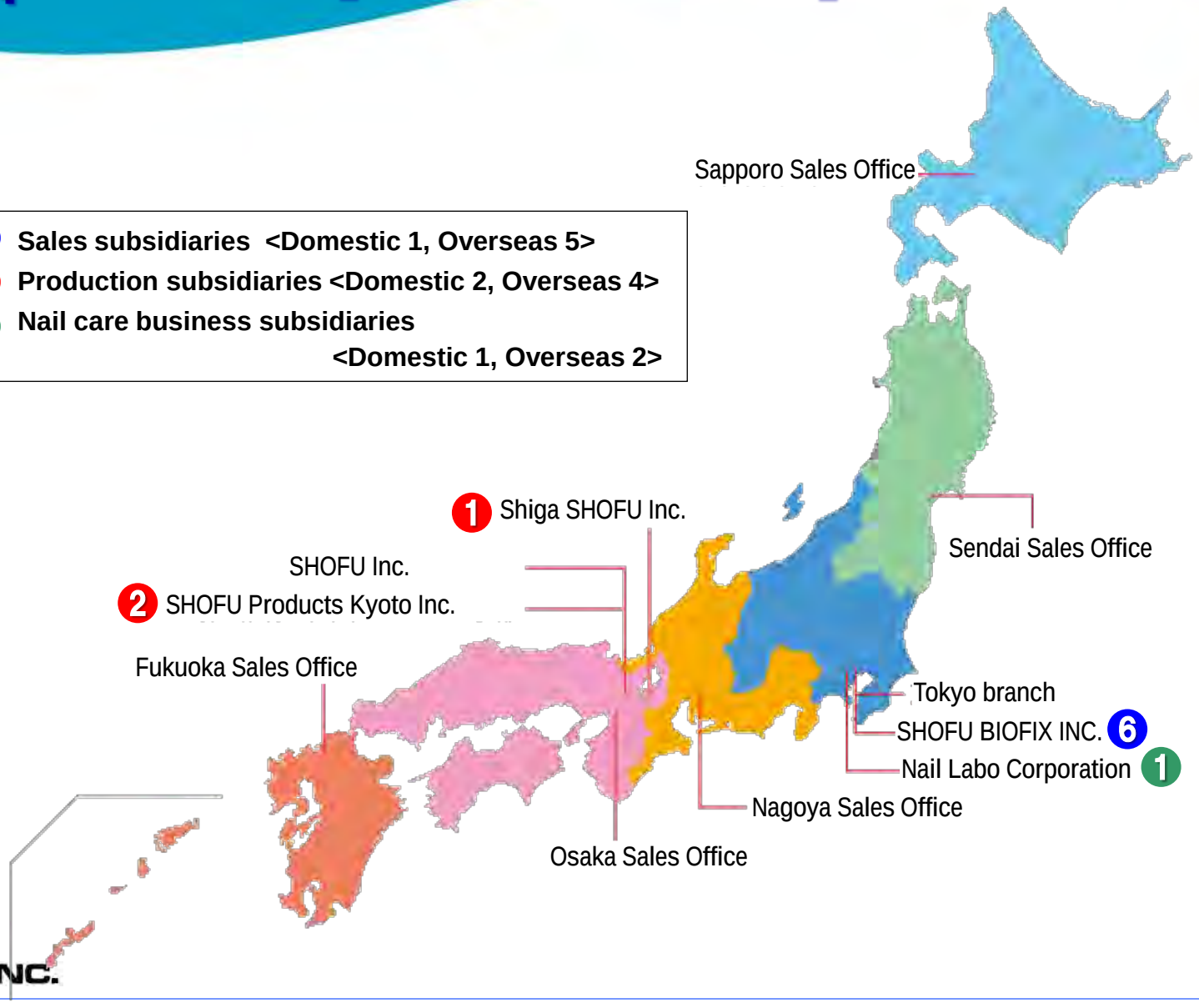
Corporate History - Sales



(Note) Figures shown in the graph are non-consolidated sales.

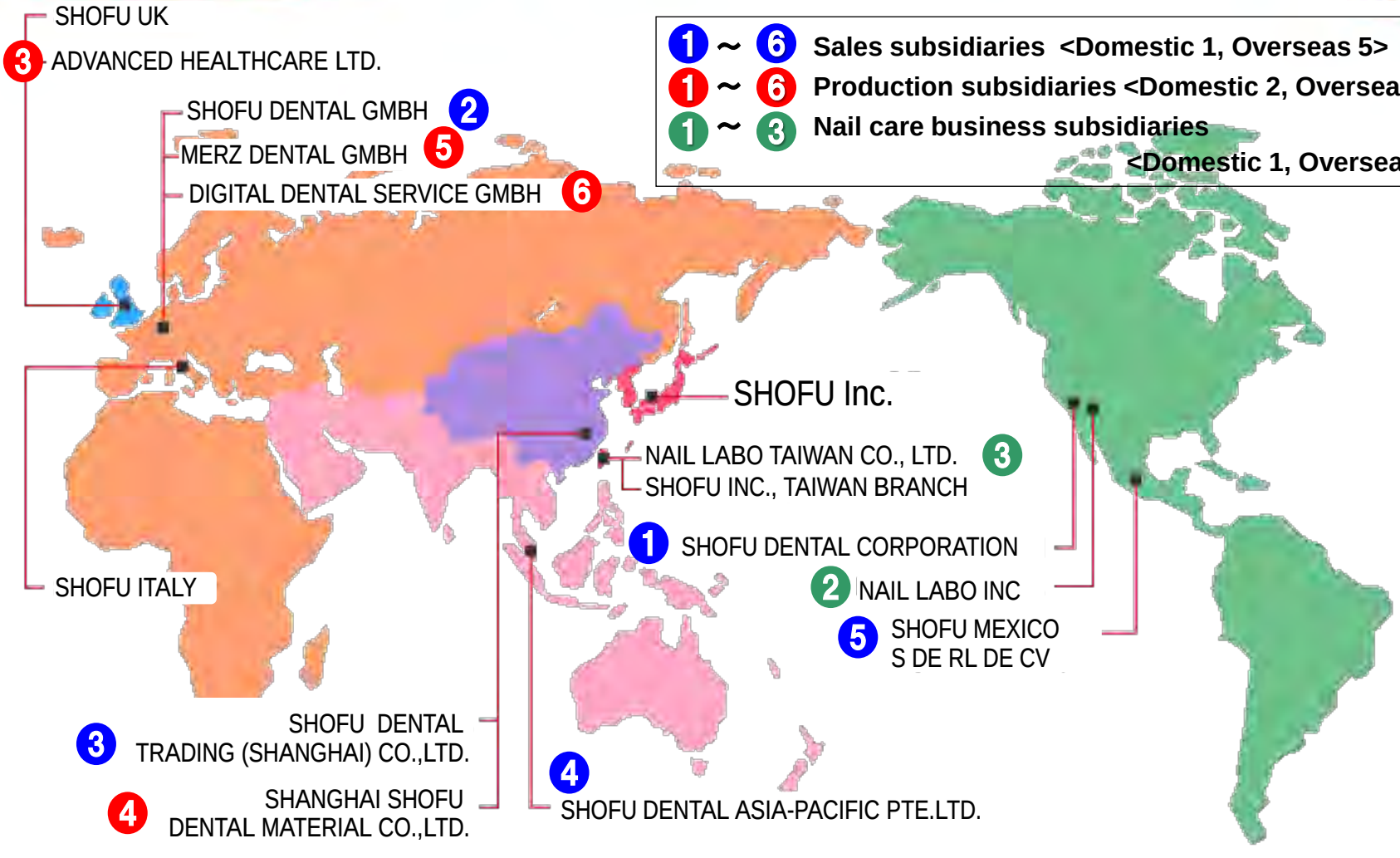
Group Overview[Domestic base]

1 ~ 6 Sales subsidiaries <Domestic 1, Overseas 5>
1 ~ 6 Production subsidiaries <Domestic 2, Overseas 4>
1 ~ 3 Nail care business subsidiaries <Domestic 1, Overseas 2>

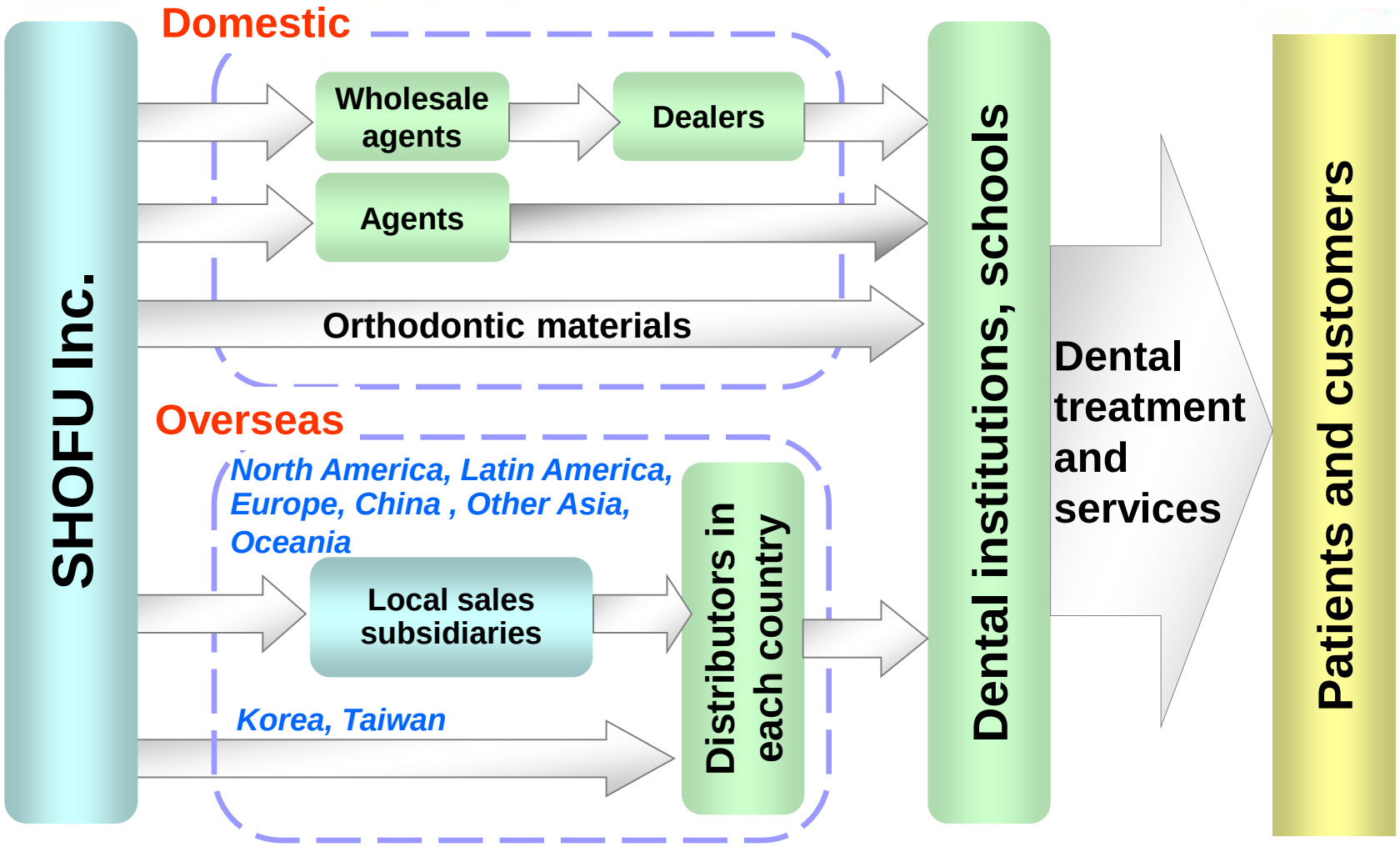


Group Overview[Overseas base]

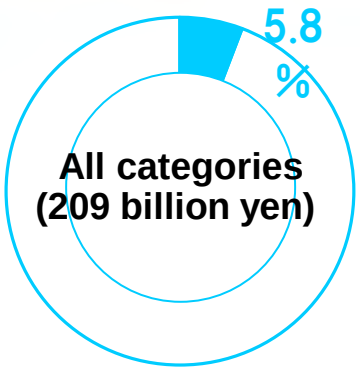
1 ~ 6 Sales subsidiaries <Domestic 1, Overseas 5>
1 ~ 6 Production subsidiaries <Domestic 2, Overseas 4>
1 ~ 3 Nail care business subsidiaries <Domestic 1, Overseas 2>

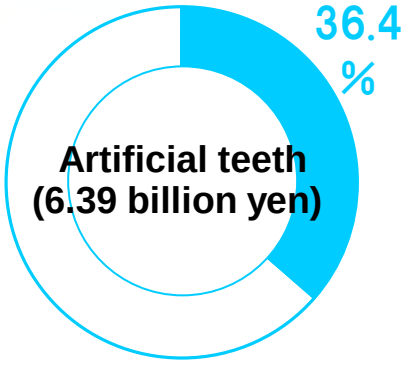


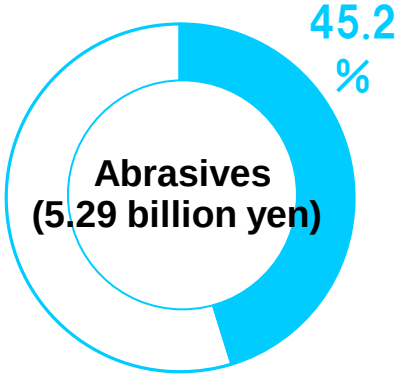
Sales Channels

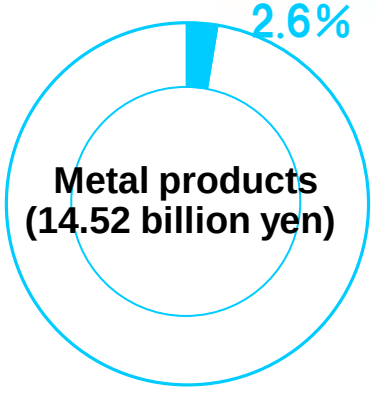


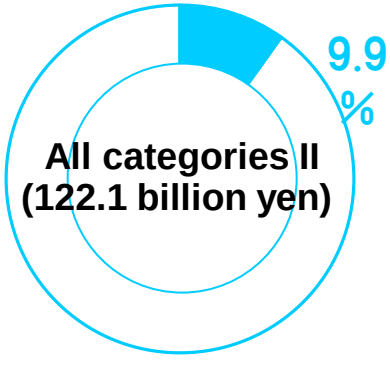
Market share by product category

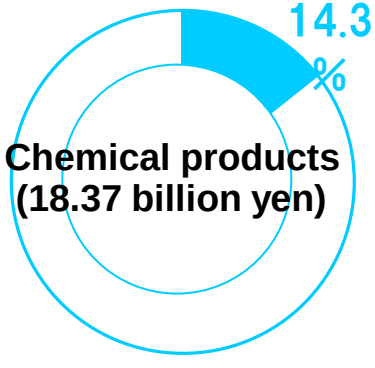


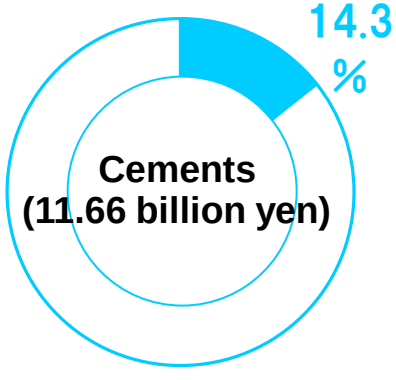


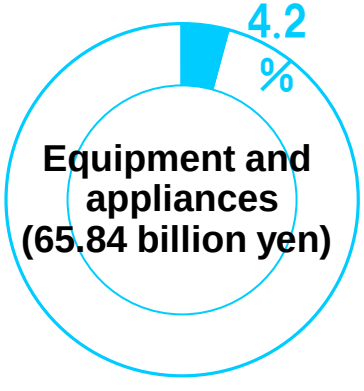












"All categories" includes "gold-silver-palladium alloy" and "machines and equipment for dental clinics." "All categories II" and other categories do not include "gold-silver-palladium alloy" and "machines and equipment for dental clinics."

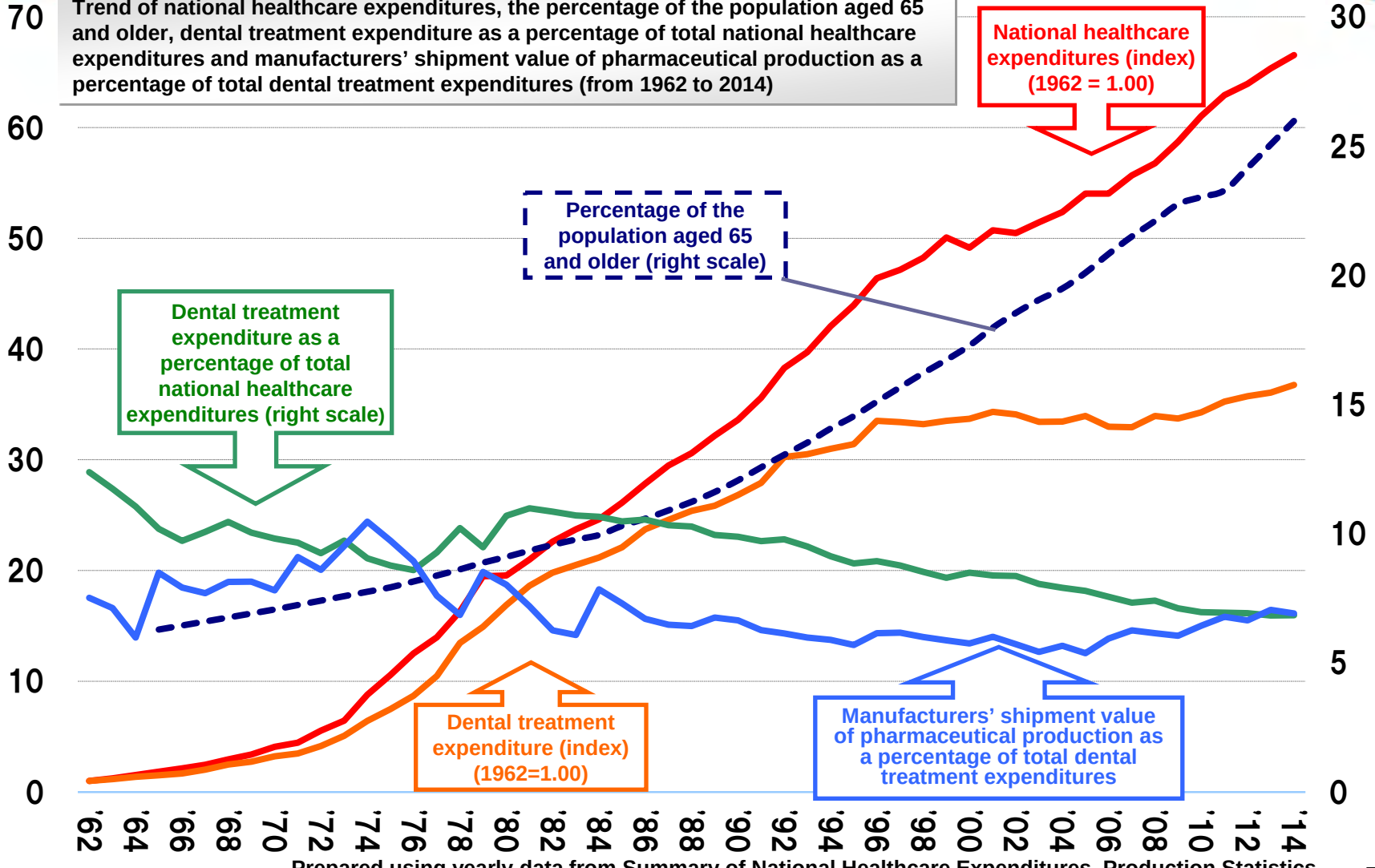
Source: Production Statistics issued by the Pharmaceutical Industry (Manufacturers' shipment values), Ministry of Health, Labour and Welfare (Domestic data, Calendar Year 2014)
Figures in parentheses represent market size. (Figures rounded down to the nearest ten million yen)

Reference <Dentistry Data>

Long-term Trend of Dentistry-Related Statistics

➲ Reference <Dentistry Data>

Trend of national healthcare expenditures, the percentage of the population aged 65 and older, dental treatment expenditure as a percentage of total national healthcare expenditures and manufacturers' shipment value of pharmaceutical production as a percentage of total dental treatment expenditures (from 1962 to 2014)

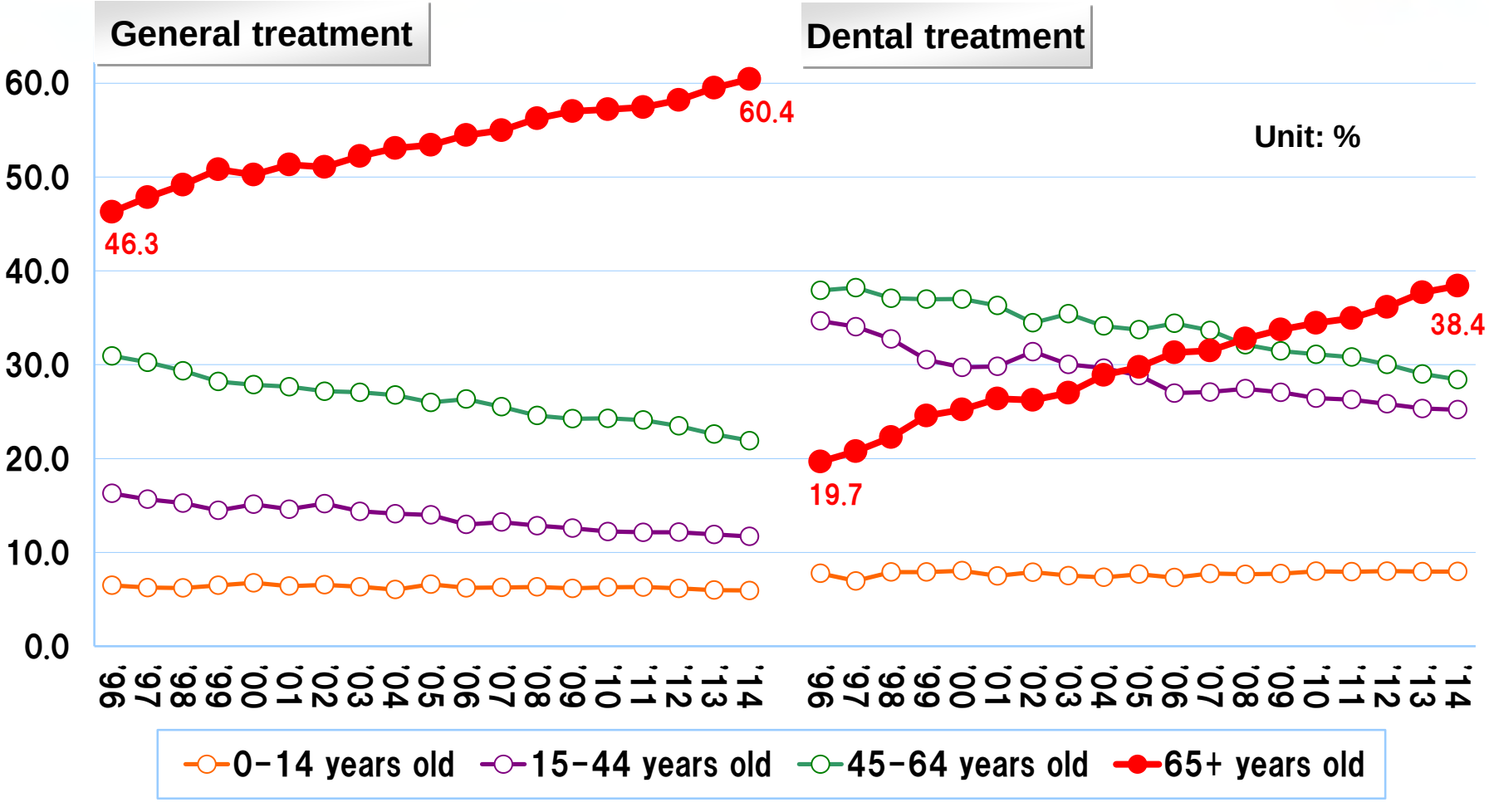


Prepared using yearly data from Summary of National Healthcare Expenditures, Production Statistics issued by the Pharmaceutical Industry (Ministry of Health, Labour and Welfare)

Healthcare Expenditures by Age Group (Component Ratio)

➲ Reference <Dentistry Data>

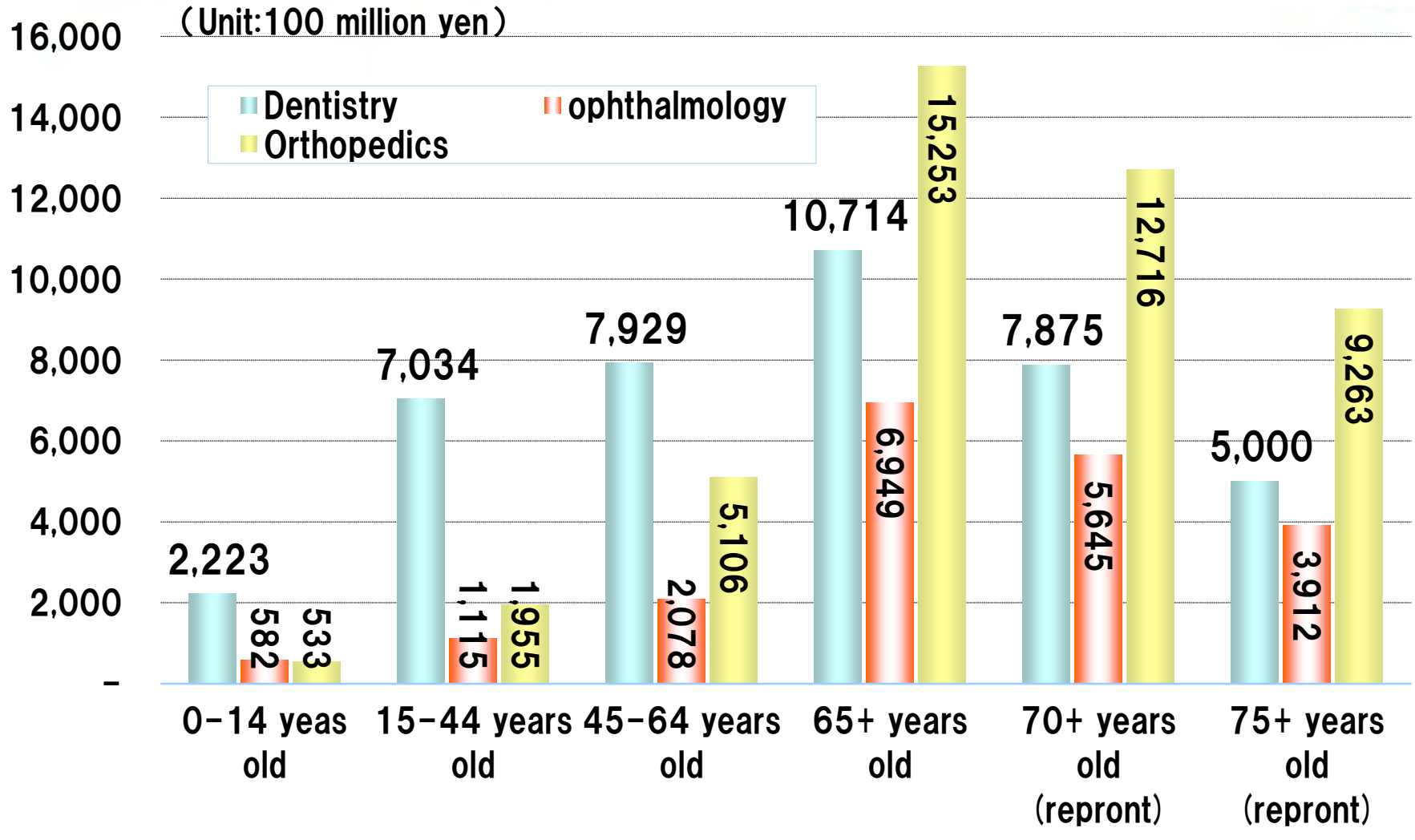
People aged 65 years and older tend to place less importance on dental treatment than general medical treatment.



Prepared using yearly data from Summary of National Healthcare Expenditures (Ministry of Health, Labour and Welfare)

Comparison of Healthcare Expenditures by Age Group - Dentistry, Ophthalmology and Orthopedics

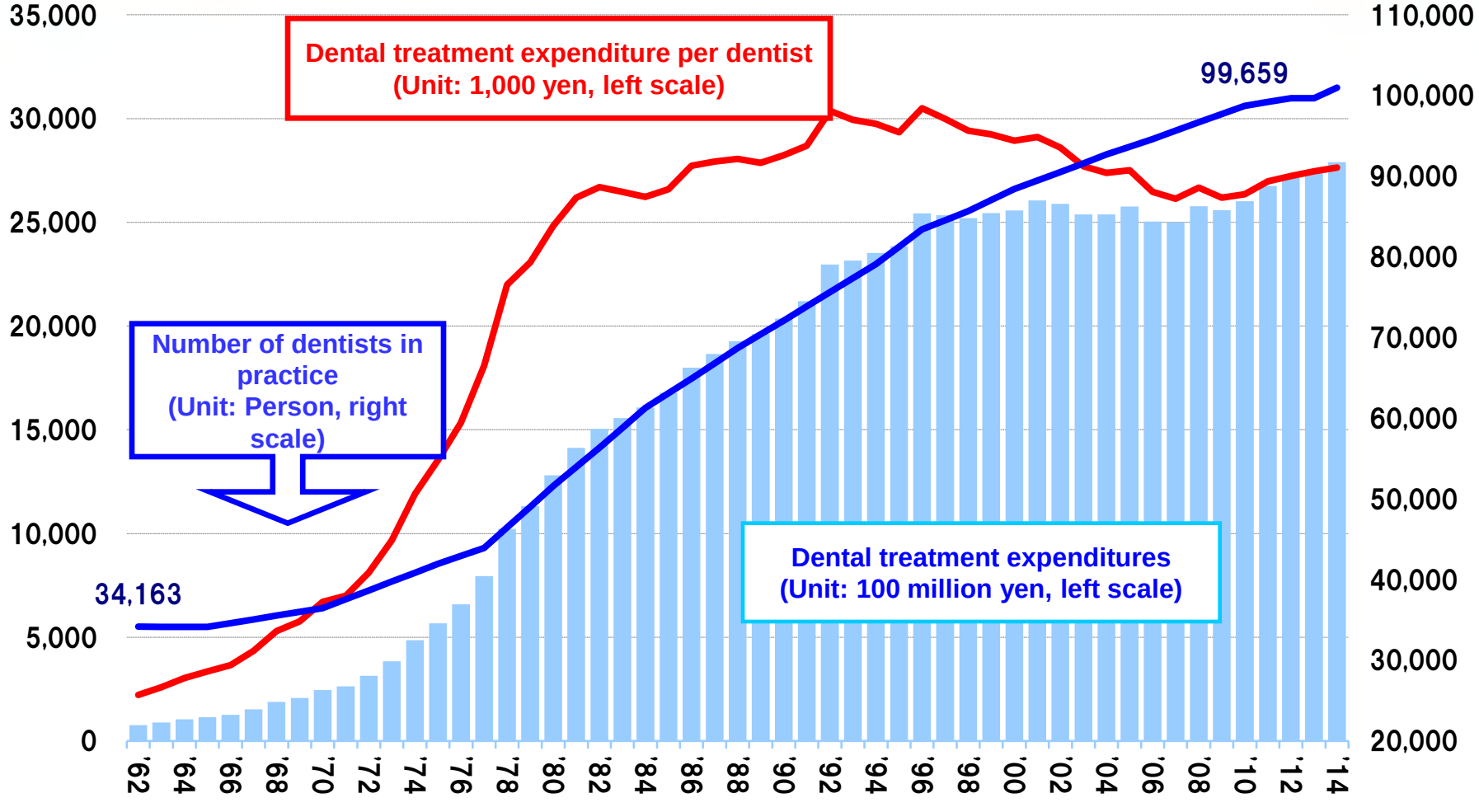
➲ Reference <Dentistry Data>



Prepared using Summary of National Healthcare Expenditures in Fiscal Year 2014 (Ministry of Health, Labour and Welfare)

Trend of the Number of Dentists and Dental Treatment Expenditure

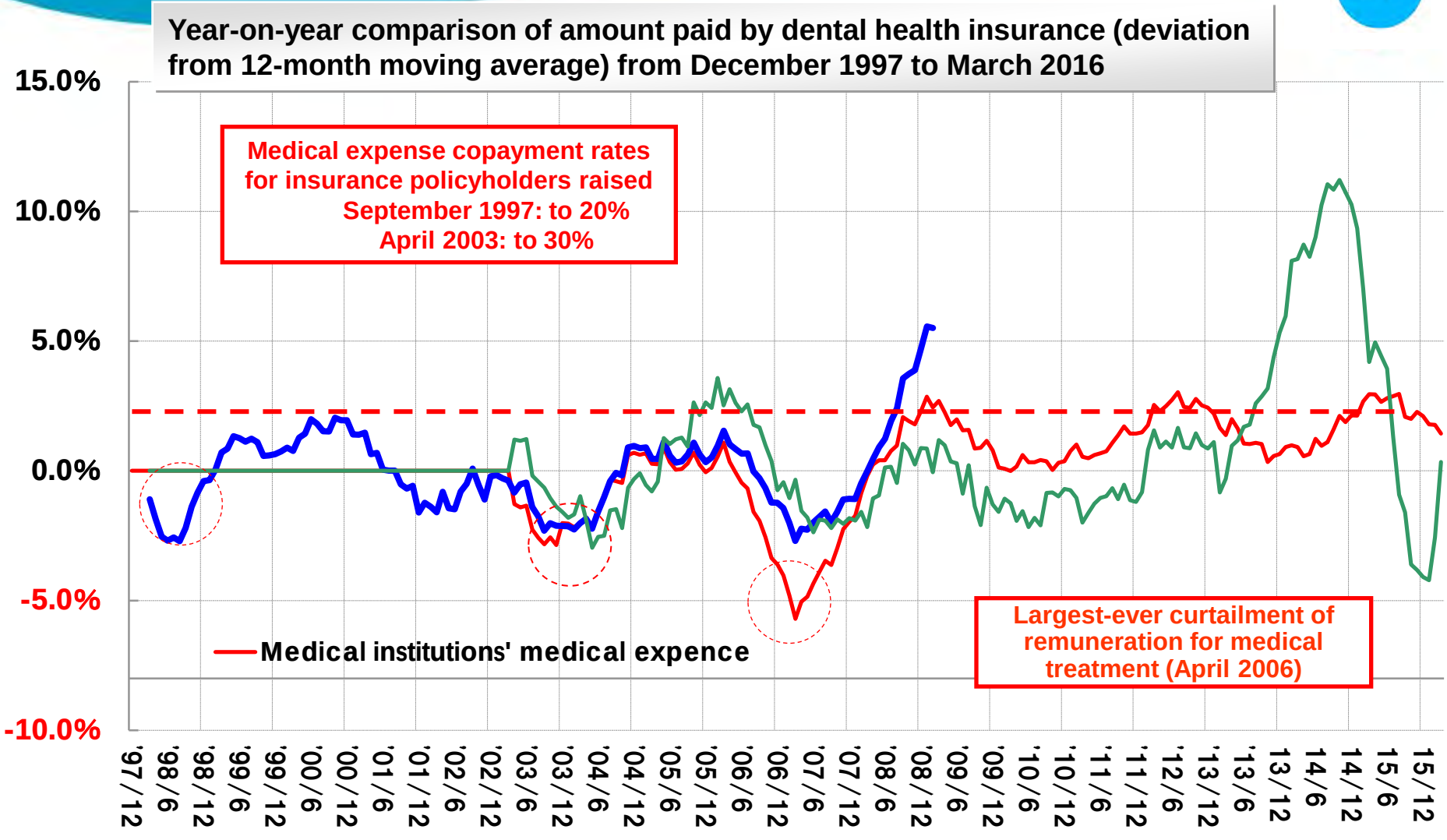
➲ Reference <Dentistry Data>



Prepared using yearly data from Summary of National Healthcare Expenditures, Survey on Doctors, Dentists and Pharmacists (Ministry of Health, Labour and Welfare)

Dental Treatment Expenditures

➲ Reference <Dentistry Data>

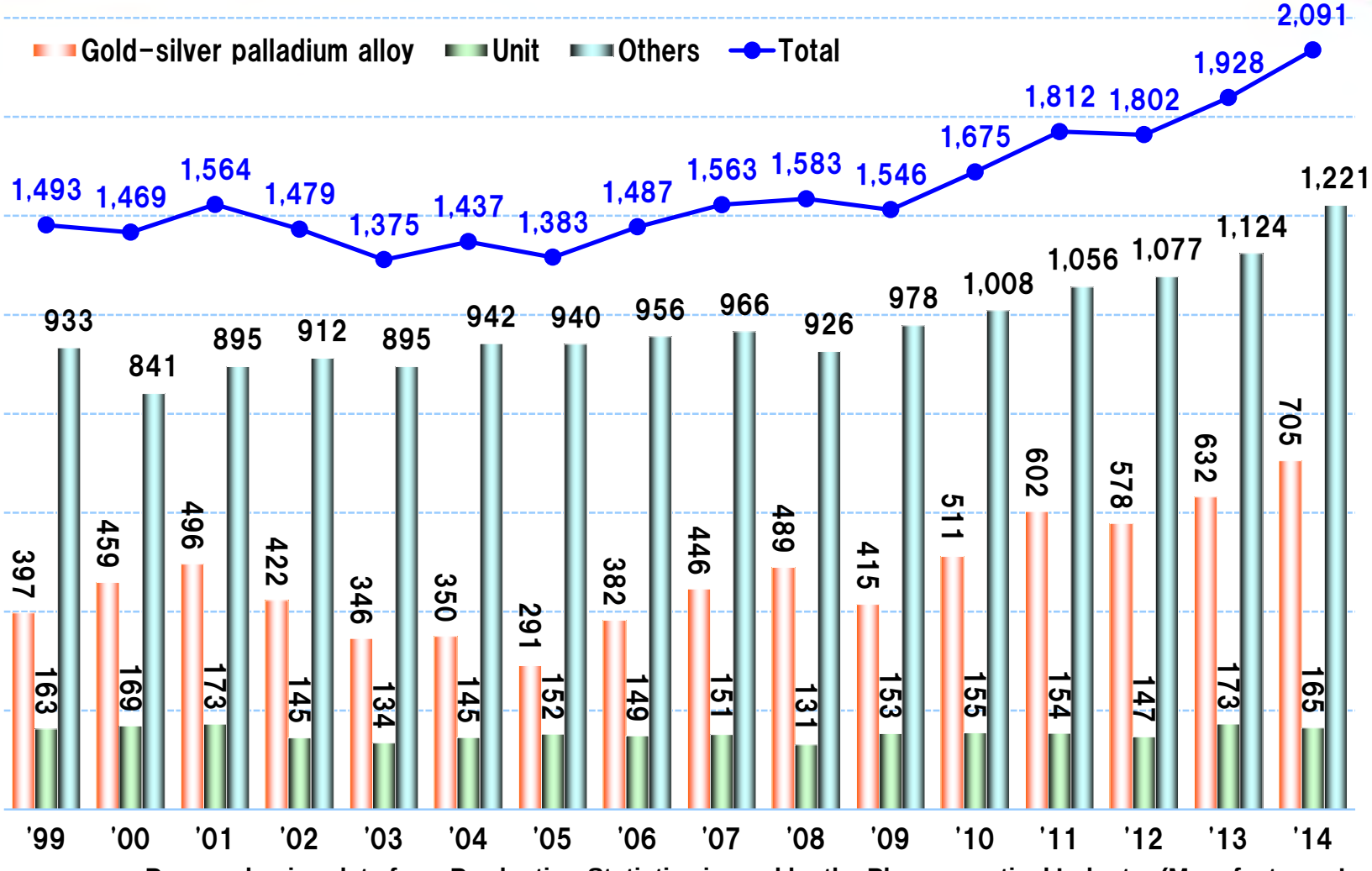


Prepared using data from the Social Insurance Medical Fee Payment Fund and from the "Trend of National Health Insurance Expenditures" issued by the All-Japan Federation of National Health Insurance Organizations

Trend of Shipment Value of Pharmaceutical Industry Production

➲ Reference <Dentistry Data>

Shipment value, Unit: 100 million yen



Prepared using data from Production Statistics issued by the Pharmaceutical Industry (Manufacturers' shipment values), (Year Book for each year), released by the Ministry of Health, Labour and Welfare

Systemic Diseases Caused by Caries and Periodontal Disease

➲ Reference <Dentistry Data>

SHOFU

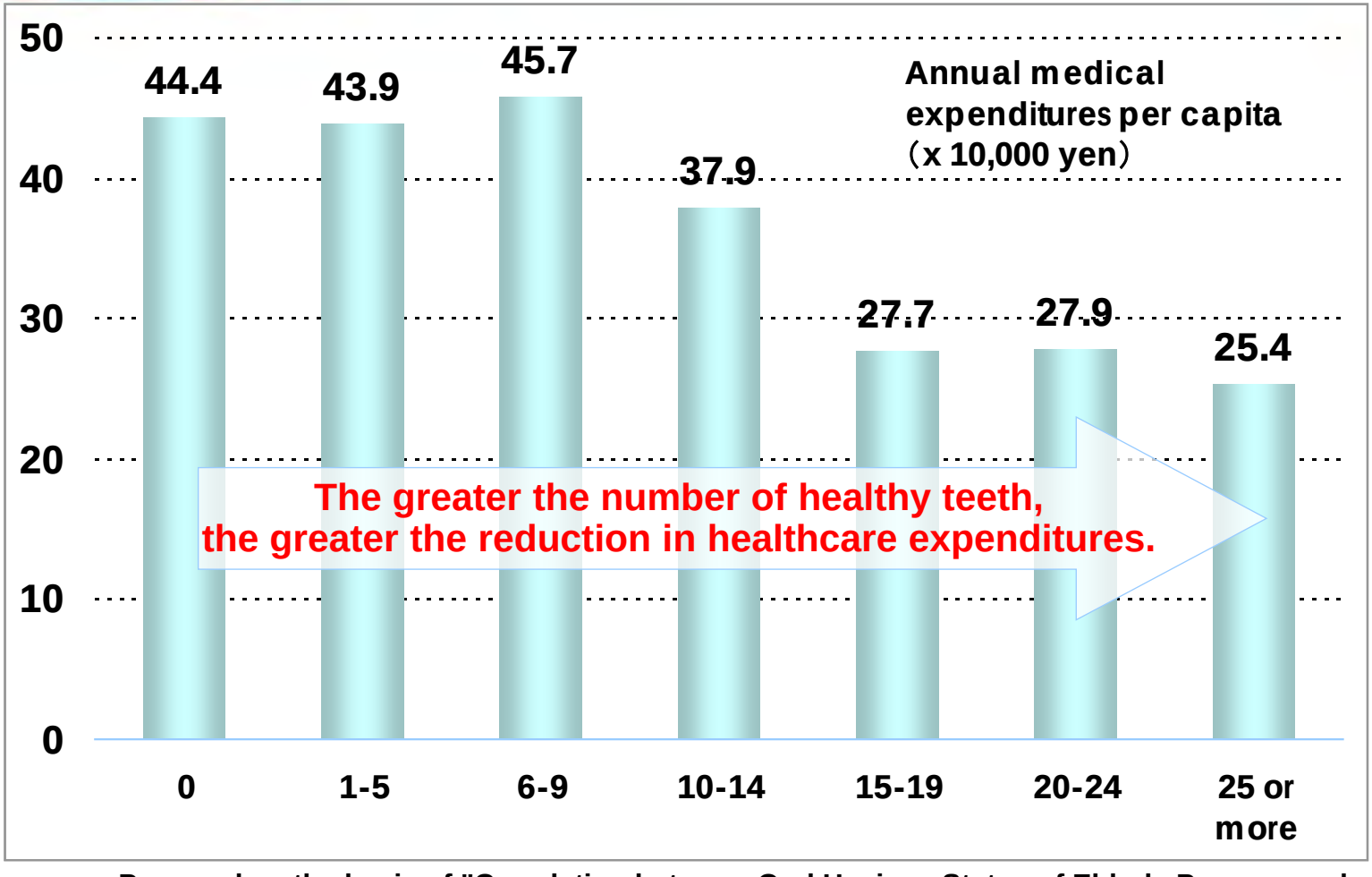
Dental and oral diseases

Entire body	Septicemia, Headache, Stiff shoulders, Malfunction of internal organs, Nutrition disorder
Pregnancy-related problems	Premature birth, Delivery of low birth weight babies
Diseases of the digestive and respiratory systems	Gastritis, Gastric ulcer, Aspiration pneumonia
Diseases of the circulatory system	Endocarditis, Myocarditis, Arteriosclerosis
Skin diseases	Dermatitis
Diseases related to metabolic disorder	Diabetes

(Reprinted from the "Archive of the 8020 and Enjoy Healthy Life" issued by Social Insurance Research Institute)

Correlation between Number of Healthy Teeth and Healthcare Expenditures

➲ Reference <Dentistry Data>

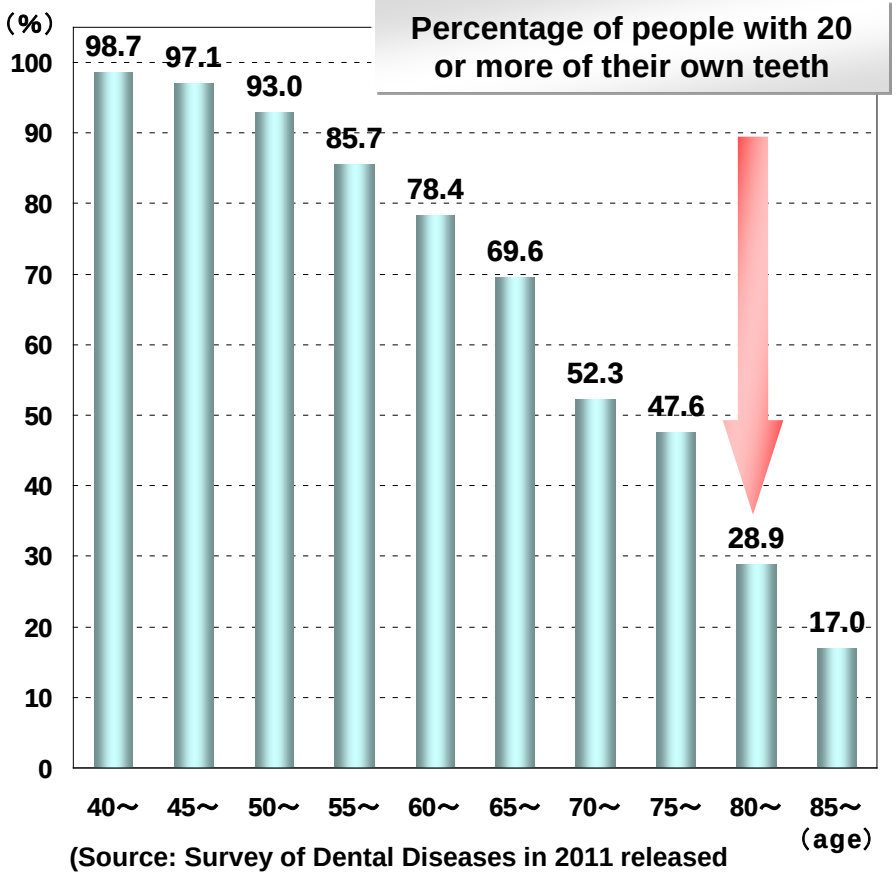


Prepared on the basis of "Correlation between Oral Hygiene Status of Elderly Persons and Healthcare Expenditures," a paper published in 2003 by Kazumune Arikawa, a full-time instructor at the Nihon University School of Dentistry at Matsudo
Subjects surveyed: 954 persons aged 80 living independently (392 men, 562 women)

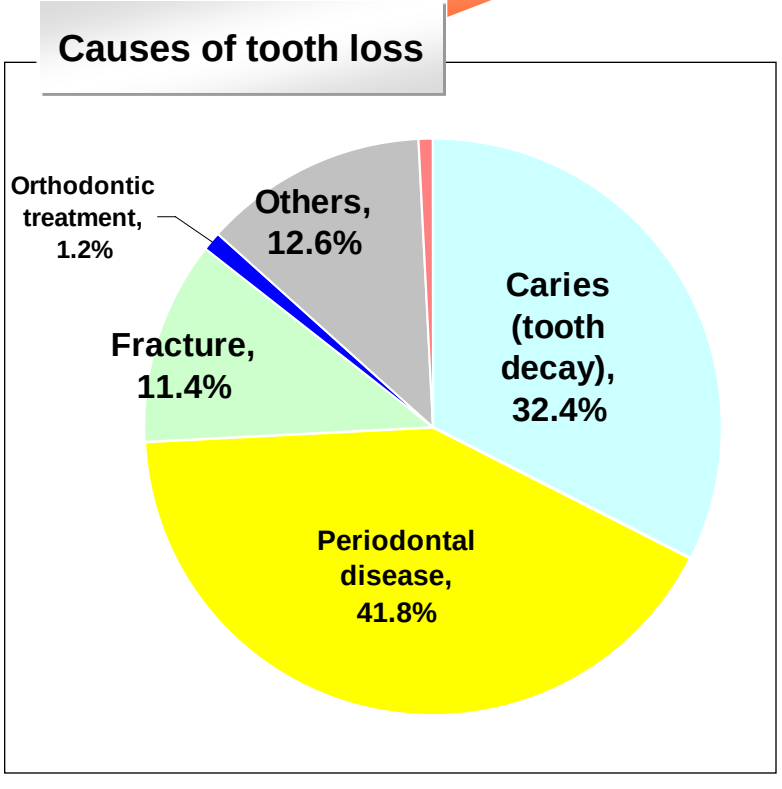
The 8020 Movement and Changes in Dental Diseases

➲ Reference <Dentistry Data>

The primary target of "20% of the population achieving 8020" was reached in 2006.



(Source: Survey of Dental Diseases in 2011 released by the Ministry of Health, Labour and Welfare)



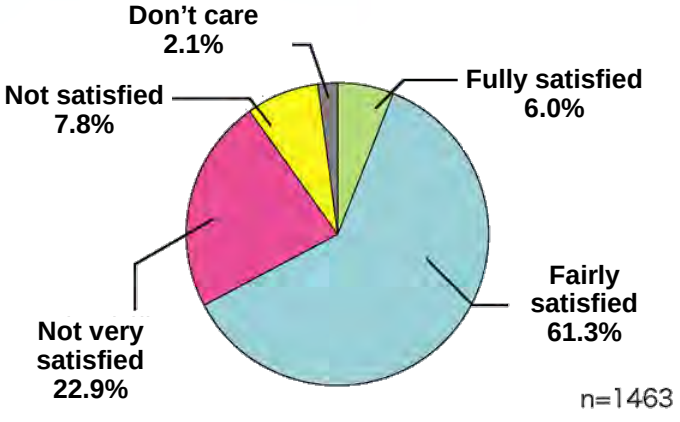
(Survey by the 8020 Promotion Foundation in 2005)

Perception of Dental and Oral Health

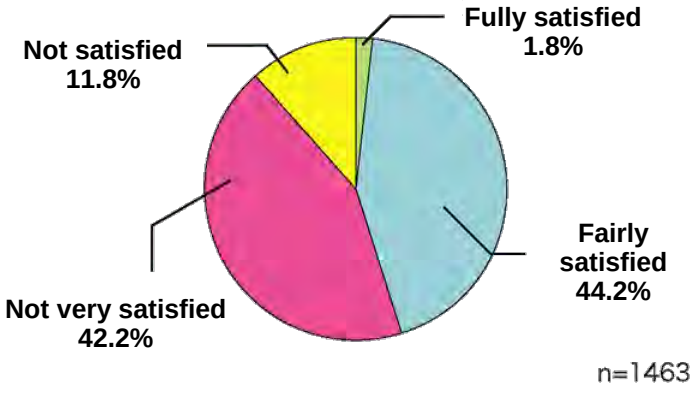
➲ Reference <Dentistry Data>

Source: Fiscal 2007's Dental Equipment Industry Vision (References)

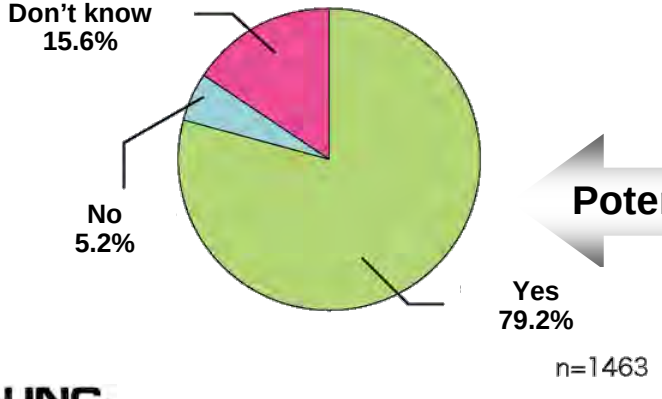
Are you satisfied with your physical health?



Are you satisfied with your oral health?

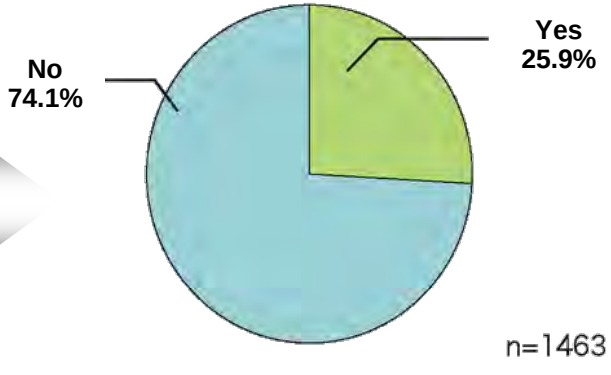


Do you think it necessary to receive regular dental care (checkup and cleaning) at a dental clinic?



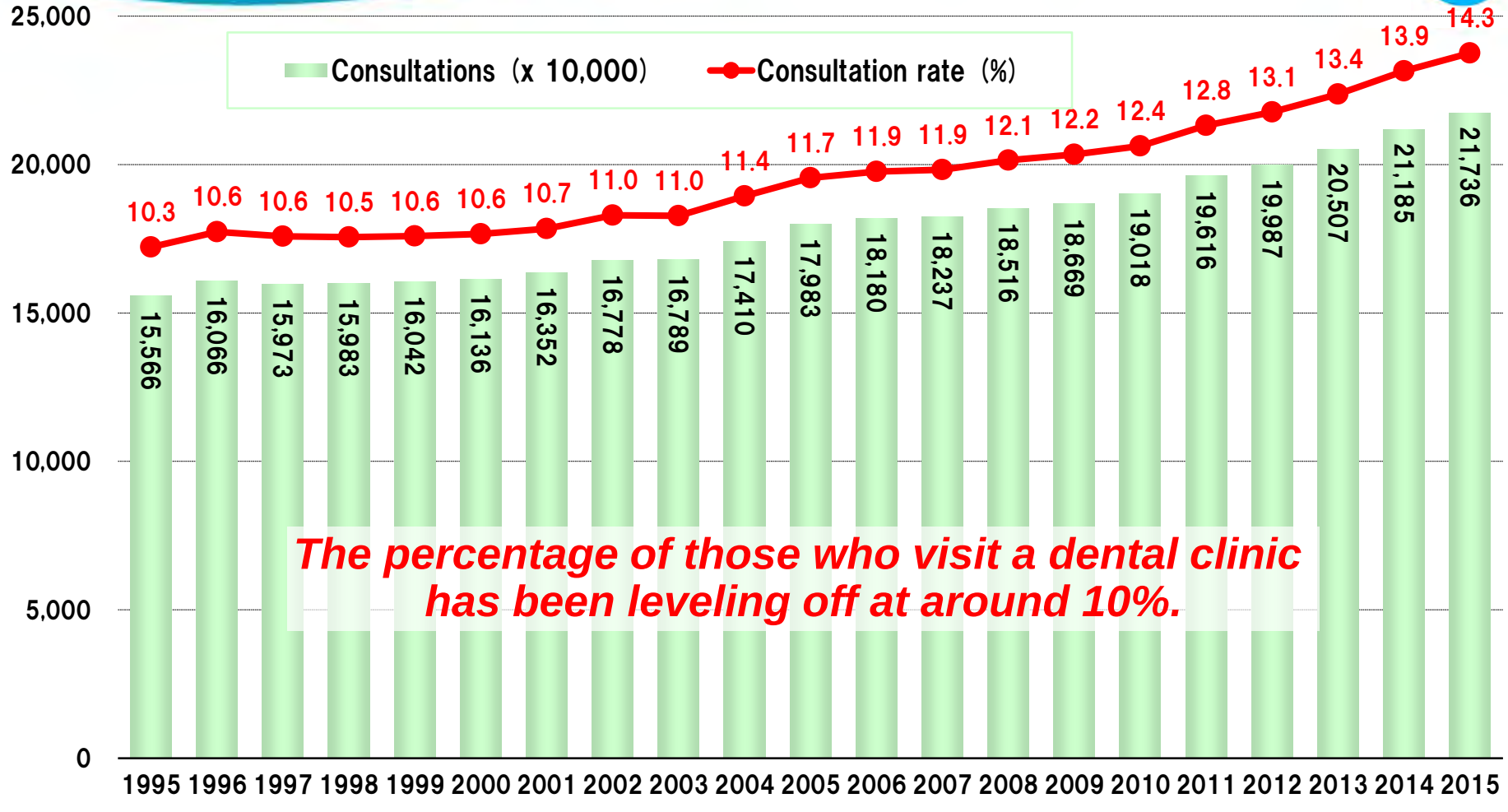
Potential demand

Do you actually receive regular dental care?



Dental Clinic Consultation Rates

➲ Reference <Dentistry Data>



The percentage of those who visit a dental clinic has been leveling off at around 10%.

＊ Consultation rate: ratio of persons receiving monthly dental treatment or examinations (12 times yearly)

Prepared using annual data from "Recent Trends in Healthcare Expenditures (MEDIAS)" issued by the Ministry of Health, Labour and Welfare

Trend in the North American Market

➲ Reference <Dentistry Data>

The public developed the habit of paying regular visits to dental clinics. → Shortage of dentists

Increase in regular visits to dental clinics
→ Solution to the problem of oversupply of dentists

	North America	Japan
Percentage of those who make regular visits to dental clinics	54%	16%
Number of dentists (per 1,000 persons)	0.6 person	0.7 person
Population (per dentist)	1,670 person	1,430 person

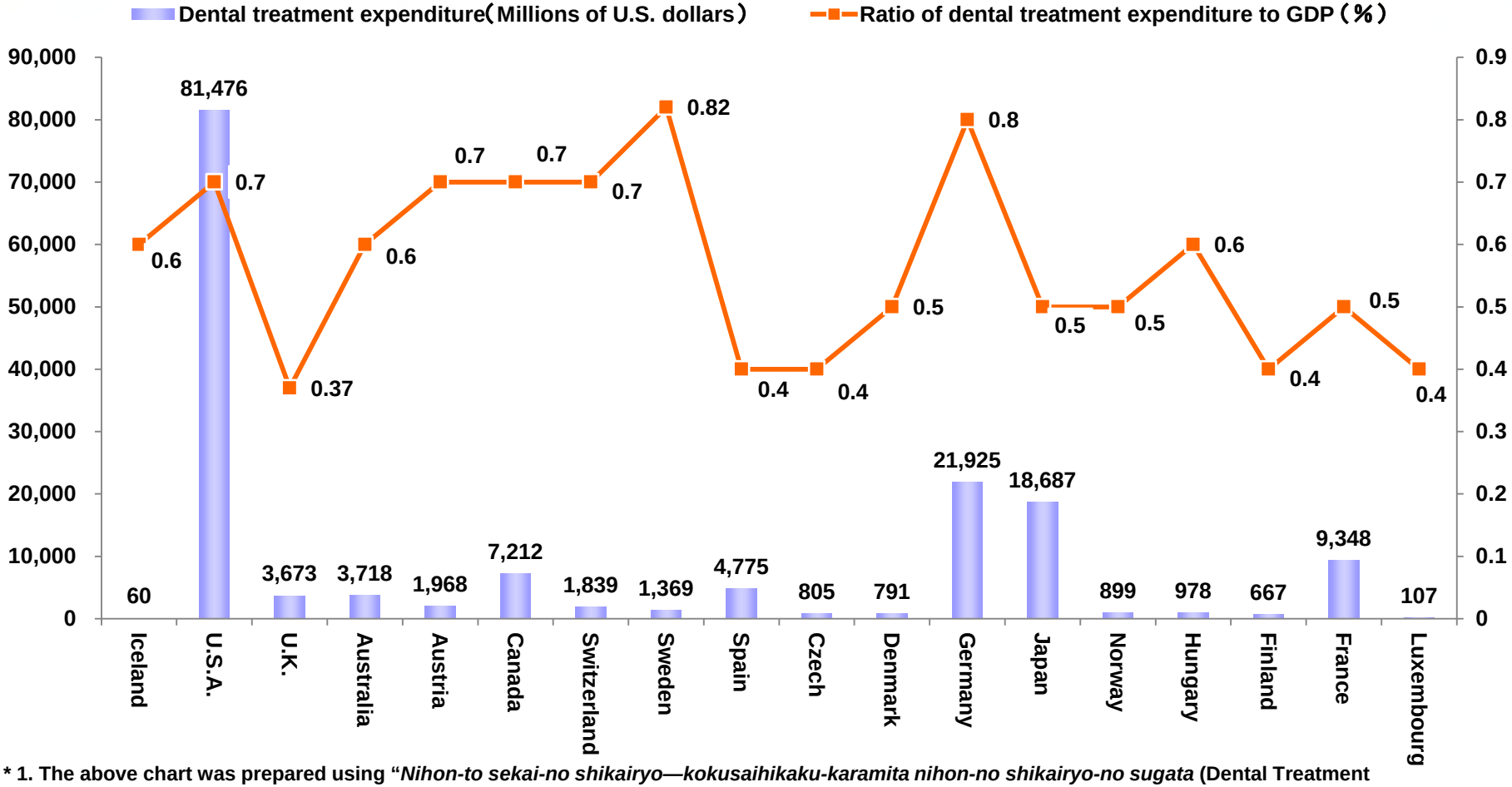
WHO says that one dentist per 2,000 persons is the appropriate ratio.

Source:
* Health and Welfare Survey in 1999 conducted by the Ministry of Health, Labour and Welfare and a survey conducted by Colgate-Palmolive Company
* Consulted an article titled "Reasons for the Success of the Canadian Dental Community" (DH Style, September 2007) by Ken Yaegaki DDS Ph.D., Professor and head of the Department of Oral Health, Nippon Dental University School of Life Dentistry)

Relation between Dental Treatment Expenditure and GDP

➲ Reference <Dentistry Data>

Although Japan's dental treatment expenditure is at a high level in international comparison, the ratio of Japan's dental treatment expenditure to GDP is in the middle range in international comparison.



* 1. The above chart was prepared using "*Nihon-to sekai-no shikairyo—kokusaihikaku-karamita nihon-no shikairyo-no sugata* (Dental Treatment in Japan and in the Rest of the World—Dental Treatment in Japan from the Perspective of International Comparison)," by Kento Taira (medical corporation Seiryokai) as reference.

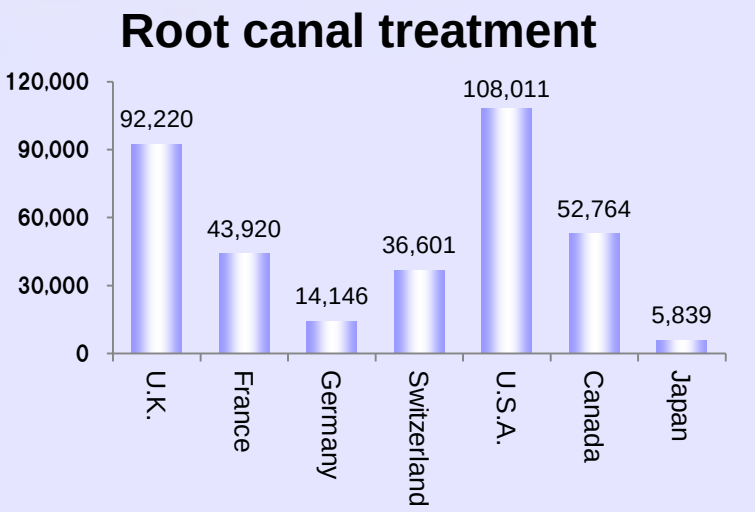
2. The above data for each country is as of 2004 except for Sweden's data, which is as of 1992.

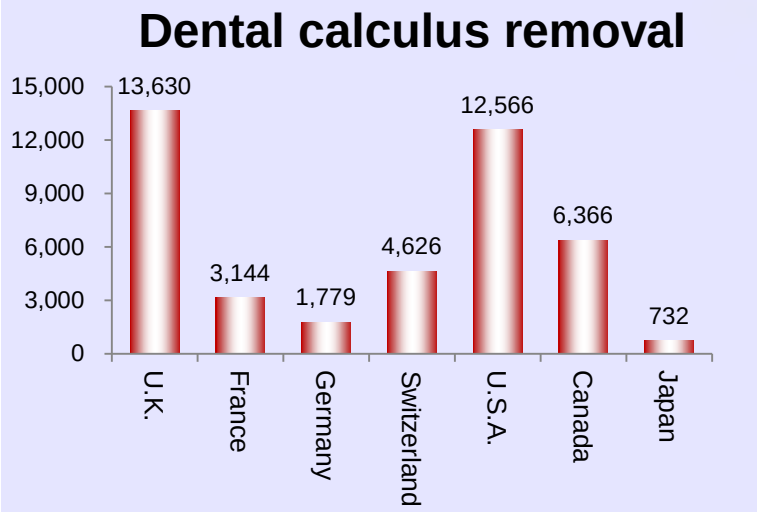
International Comparison of Dental Treatment Expenditure (Unit Price of a Treatment Session)

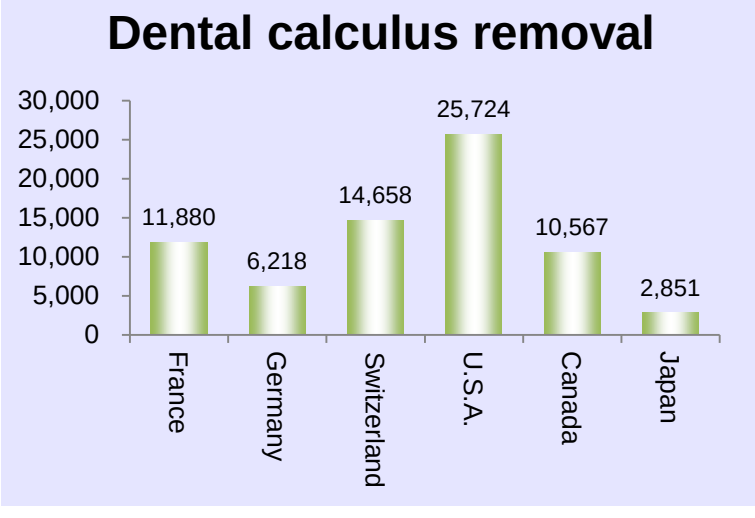
➲ Reference <Dentistry Data>

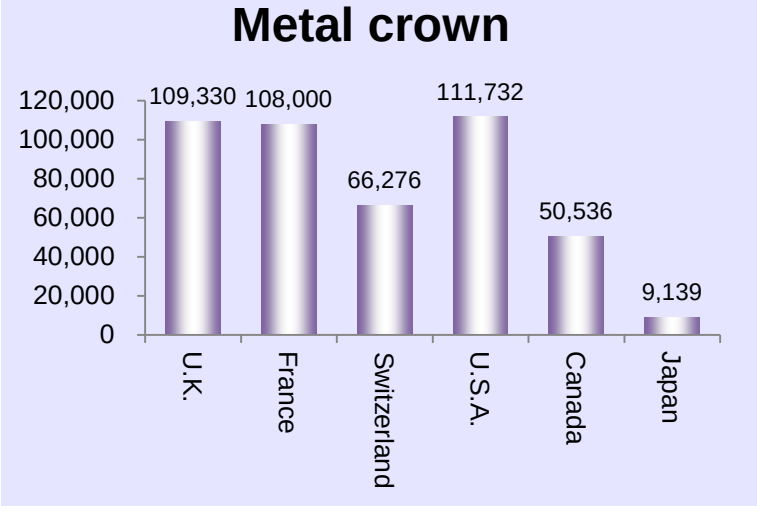
Unit: yen

*Japan：Unit price for a treatment session according to public healthcare insurance (⇒ The patient's payment obligation is 30% of the amounts below.)









* The above chart was prepared using material from "*Iryo, kaigokyufuhi suikei-ni-tsuite* (On the Estimate of Medical and Nursing Care Benefit Expenses)" by Professor Kawabuchi of the Graduate School of Tokyo Medical and Dental University (submitted to the 6th meeting of the Social Security Council of Japan on July 31, 2008).

International Comparison in the Ratio of Persons with Dental Caries (at age 12)

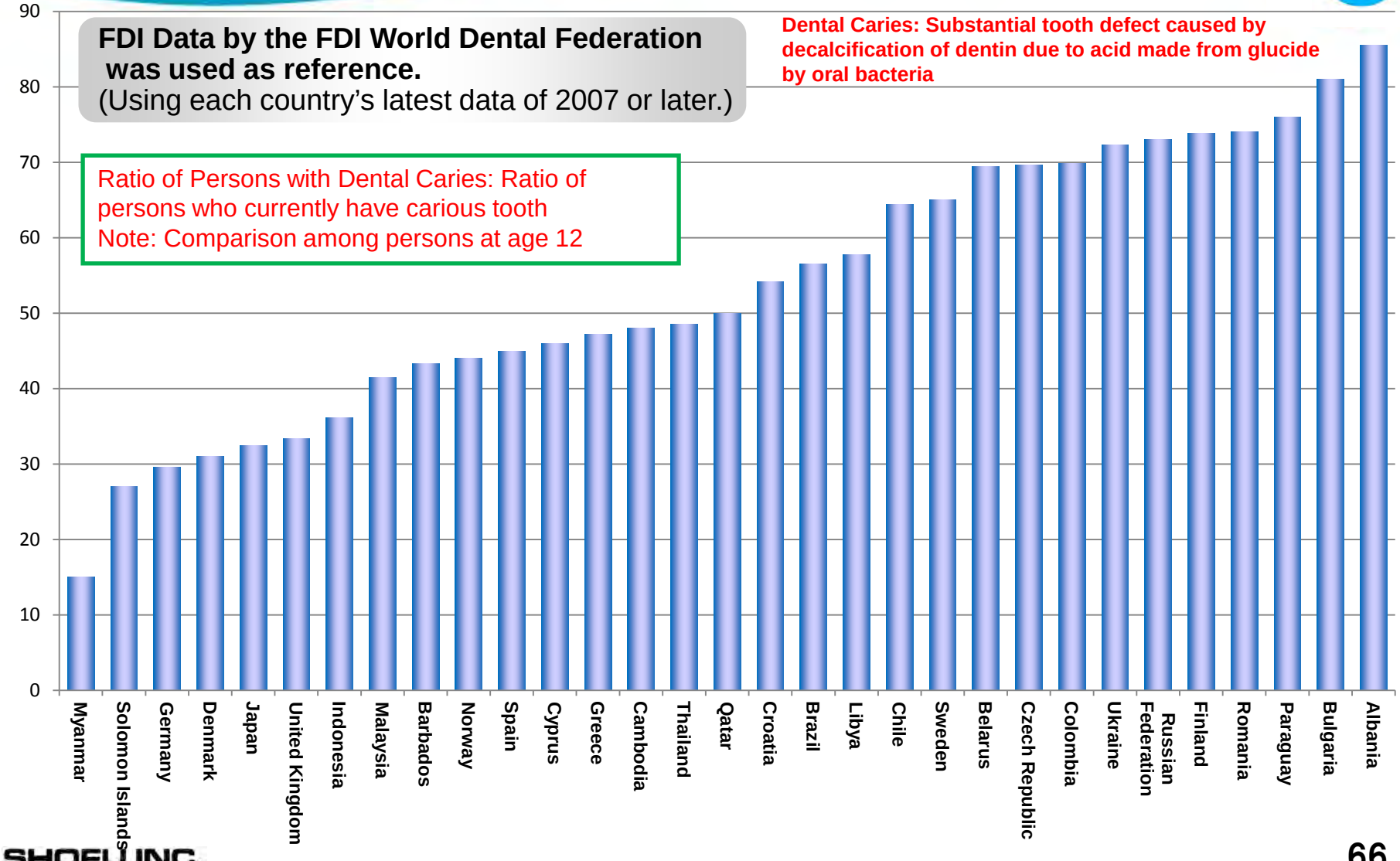
➲ Reference <Dentistry Data>

Unit: %

FDI Data by the FDI World Dental Federation was used as reference.
(Using each country's latest data of 2007 or later.)

Dental Caries: Substantial tooth defect caused by decalcification of dentin due to acid made from glucide by oral bacteria

Ratio of Persons with Dental Caries: Ratio of persons who currently have carious tooth
Note: Comparison among persons at age 12



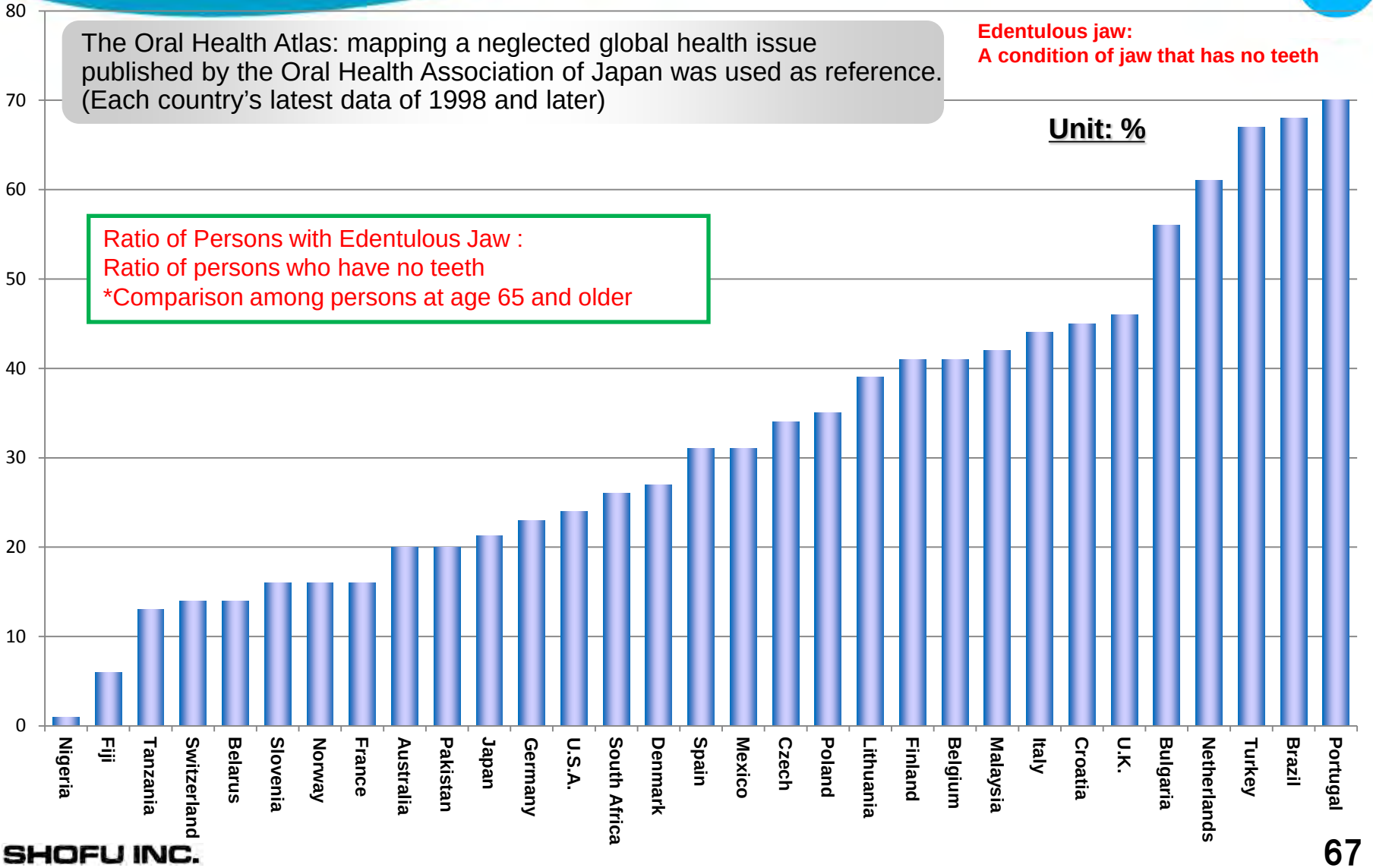
International Comparison in the Ratio of Persons with Edentulous Jaw (at age 65 and older)

➲ Reference <Dentistry Data>

The Oral Health Atlas: mapping a neglected global health issue published by the Oral Health Association of Japan was used as reference. (Each country's latest data of 1998 and later)

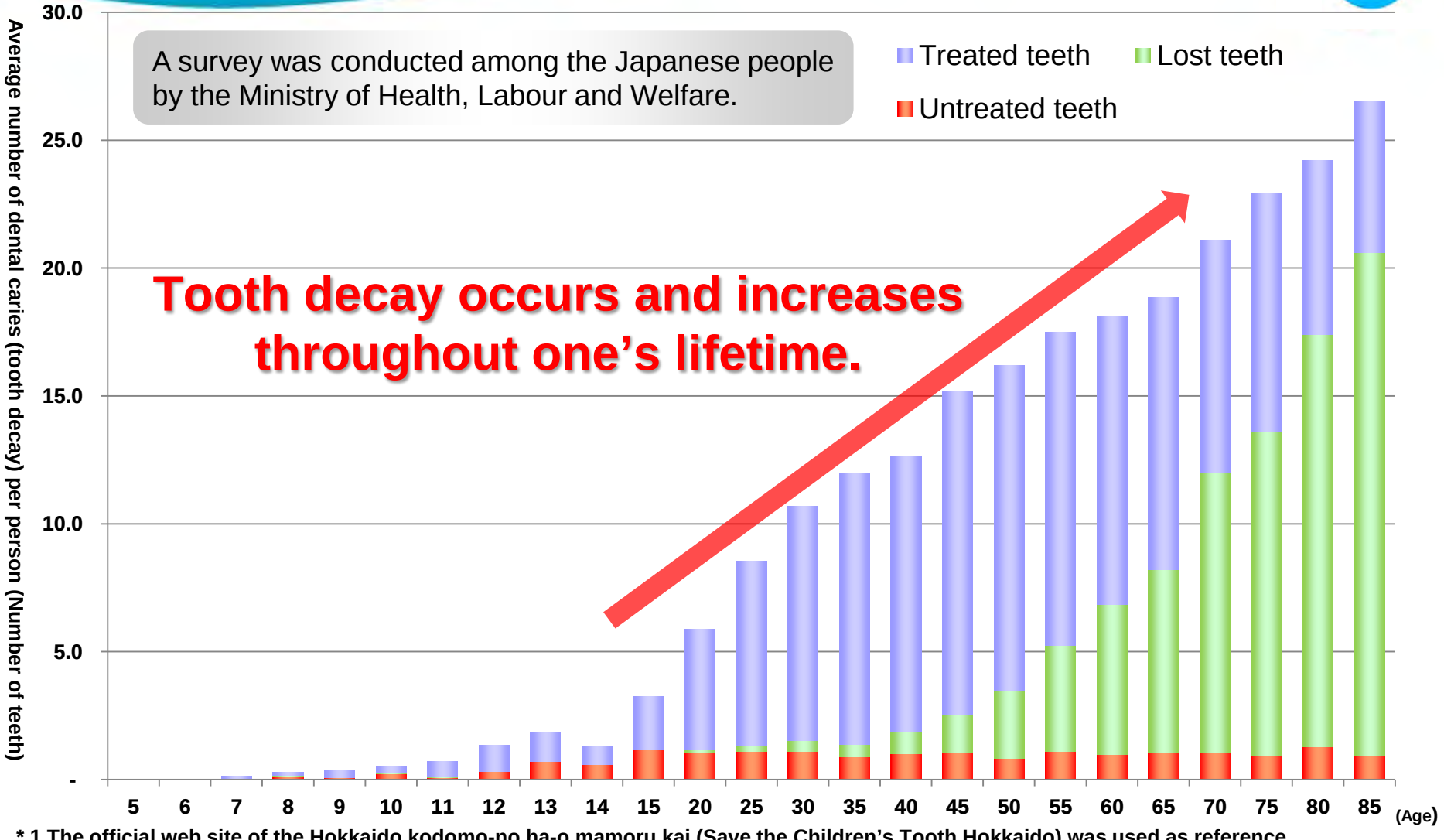
Edentulous jaw:
A condition of jaw that has no teeth

Ratio of Persons with Edentulous Jaw :
Ratio of persons who have no teeth
*Comparison among persons at age 65 and older



Factual Survey of Dental Diseases

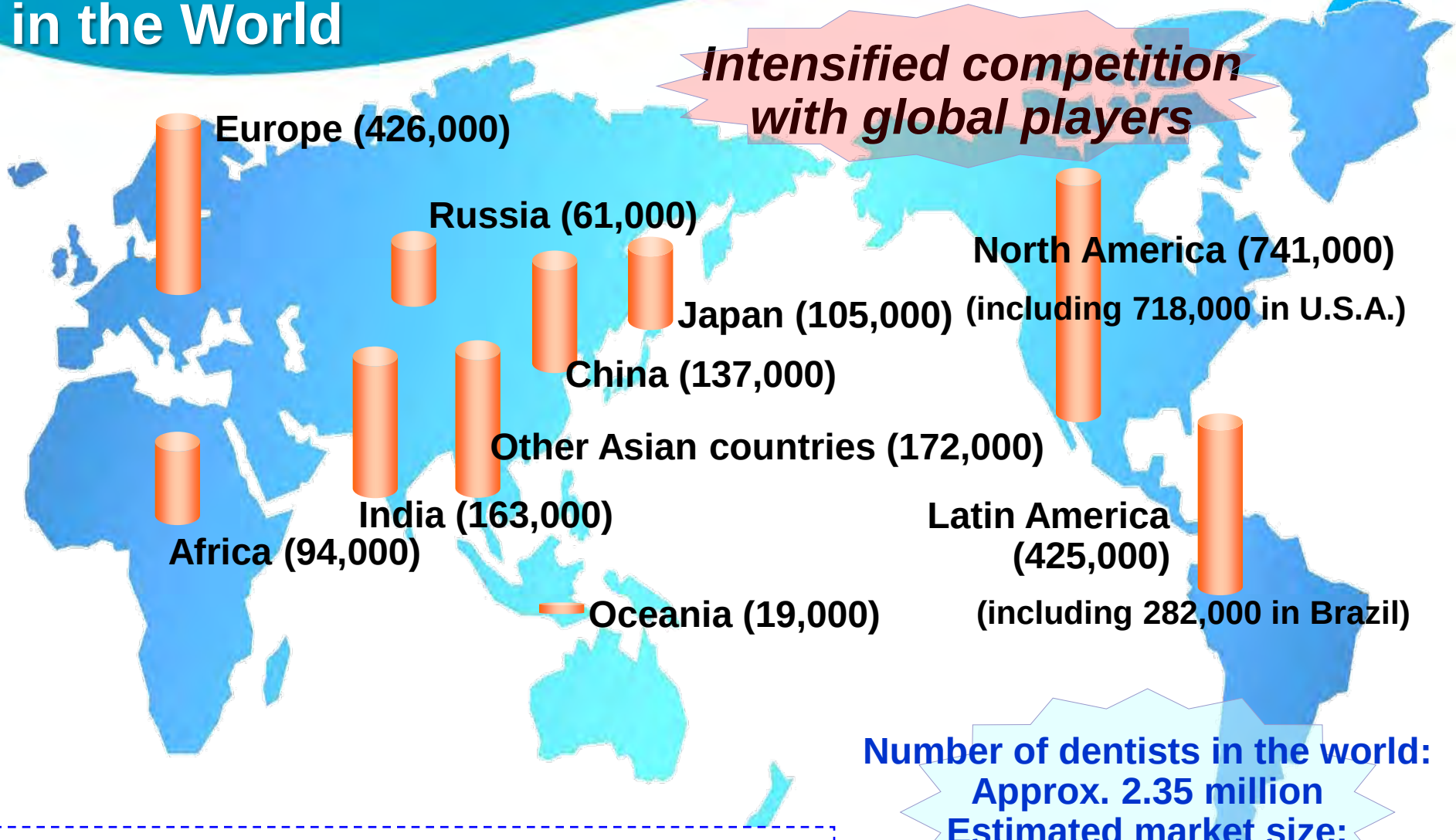
➲ Reference <Dentistry Data>



* 1.The official web site of the Hokkaido kodomo-no ha-o mamoru kai (Save the Children's Tooth Hokkaido) was used as reference
* 2. Source: Results of the Survey of Dental Diseases in 2011 released by the Ministry of Health, Labour and Welfare

Number of Dentists in the World

➲ Reference <Dentistry Data>



Number of dentists in the world: Approx. 2.35 million
Estimated market size: Approx. 2.6 trillion yen

◆Source:
Number of dentists & Estimated market size
–"The World Medical Markets Factbook 2015 " (BMIResearch)

Glossary (1)

➲ Reference <Dentistry Data>

Term	Meaning
Impression	An imprint of teeth and other intraoral areas, created with impression material. Based on the impression mould, plaster model can be produced, onto which prosthesis is fabricated. → Dental prosthetic (page 71)
Implant (treatment)	A treatment method to replace missing tooth. An artificial root is implanted into the bone, upon which a variety of dental prostheses can be placed. In addition to conventional prosthetic treatment, implant is a new option to restore mastication and esthetics.
Caries	Tooth decay.
Occlusion	The position of the teeth when the jaws are closed.
Composite resin	Synthetic resin to fill cavity and lesion, available in a variety of shades to make the restored area harmonious with surrounding teeth of each patient. It is often used to treat decay. → Resin (page 71)
Filling	To fill resin or cement after removing a decay to restore the affected area.
Aesthetic dentistry	A variety of treatment to enhance patient's esthetic appearance, including orthodontics and whitening.
Scaler	An instrument used to remove plaque and tartar accumulated on the tooth surface.
Dental floss	A thread used to remove plaque from the spaces between teeth.
Handpiece	A handheld device to which small instruments for removing tooth decay, plaque, and tartar are attached. → Plaque (page 71)

Glossary (2)

Term	Meaning
Nail care	Care for fingernails and the surrounding area, including attachment of artificial nails. Nail care is widely considered an import part of personal grooming in many parts of the world, and it is also growingly popular among young women in Japan, which leads to a rapid growth of the market.
PMTC	PMTC stands for Professional Mechanical Tooth Cleaning. In PMTC, a dentist or hygienist uses machines and instruments to remove plaque, tartar (calcified plaque), and other dental deposits (caused by smoking, etc).
Fluoride	A substance that accelerates re-calcification of the tooth surface and strengthens tooth structure (especially for enamel).
Plaque	Calculus deposits. Bacteria living in plaque create acids and toxins, which cause decay and periodontal disease. Thus, removing plaque helps prevent dental disease and enhance oral health.
Dental prosthetic	An artificial replacement of defective area. It includes fillings and crowns that restore patient's oral function and esthetic appearance.
Bonding (material)	A material to bond composites to natural tooth (enamel and dentin). → Composite resin (page 70)
Resin	Synthetic high polymer. Resins are popularly used for dental restoratives.