



**Fiscal Year Ended March 2018  
(146th Business Year)**

**Financial Analyst Meeting**

May 23, 2018





## **Contents of Today's Presentation**

- ➔ **Summary of Consolidated Business Performance for Fiscal Year Ended March 31, 2018**
- ➔ **Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019**
- ➔ **Future Business Environment and Medium- and Long-term Business Strategies**

**Noriyuki Negoro, President and CEO**

A faint, stylized outline of a world map is visible in the background, with some regions highlighted in a light blue color.

## Summary of Consolidated Business Performance for Fiscal Year Ended March 31, 2018

## Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019

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

# Sales by Business

Summary of Consolidated Business Performance for  
Fiscal Year Ended March 31, 2018



**Fiscal Year ended March 31, 2018**

**Net Sales: 24.0 billion yen**

Units: billions of yen, %

|                    | Net Sales | Composition ratio |
|--------------------|-----------|-------------------|
| Dental business    | 21.45     | 89.3              |
| Nail care business | 2.49      | 10.3              |
| Other business     | 0.10      | 0.4               |

※ Manufacture and sell industrial abrasives in other business.

# Summary of Business Performance (Comparison with Previous Period)

Summary of Consolidated Business Performance for  
Fiscal Year Ended March 31, 2018



■ Positive factors ■ Negative factors

P/L

⇒ Net Sales totaled 24,031 million yen (an increase of 7.7%)

Domestic net sales totaled 13,852 million yen (an increase of 3.5%)

- Domestic sales in the dental business increased by 1.8% due to new products that contributed to sales and increase of sales for equipment and others such as CAD/CAM-related products.
- Domestic sales in the nail care business increased by 20.6% due to favorable sales performance of flagship products from the enhanced brand strength of in-house products as a result of introduction of new brand of gel nail products.

Overseas net sales totaled 10,378 million yen (an increase of 13.8%)

- Overseas sales in the dental business increased by 11.6% due to an increase in sales in all regions and a positive foreign exchange effect linked to the depreciation of the yen.
- Overseas sales in the nail care business increased by 39.5% due to a steady increase in sales mainly in America and Taiwan.

⇒ Operating income totaled 1,497 million yen

- Owing to the effect of increase in sales, operating income increased 8.3% despite an increase in the cost of sales ratio and an increase in selling, general and administrative expenses due to active investment in R&D and sales promotion activities.

⇒ Ordinary income totaled 1,565 million yen, and current income totaled 877 million yen

- The increase in non-operating income due to a positive foreign exchange effect resulted in a 37.2% increase in ordinary income.
- Net income increased 4.8% as a result of posting extraordinary losses as impairment of goodwill which was recorded at the acquisition of Merz Dental GmbH shares.

# Summary of Business Performance for the Current Fiscal Year

Summary of Consolidated Business Performance for  
Fiscal Year Ended March 31, 2018



⇒ Sales and profits increased compared to the previous period/ Net sales increased and net income decreased compared to the forecast.

Units: millions  
of yen, %

|                                | Fiscal March 2017<br>(Results)<br>(% of sales) | Fiscal March 2018<br>(Forecast)<br>(% of sales) | Fiscal March 2018<br>(Results)<br>(% of sales) | Change from<br>Previous Period<br>(% change) | Change from<br>Forecast<br>(% change) |
|--------------------------------|--|---|--|--|---------------------------------------|
| Net sales                      | 22,305<br>(100.0)                              | 23,970<br>(100.0)                               | 24,031<br>(100.0)                              | 1,725<br>(7.7)                               | 60<br>(0.3)                           |
| (Domestic sales)               | 13,189<br>(59.1)                               | 13,869<br>(57.9)                                | 13,652<br>(56.8)                               | 463<br>(3.5)                                 | -216<br>(-1.6)                        |
| (Overseas sales)               | 9,116<br>(40.9)                                | 10,101<br>(42.1)                                | 10,378<br>(43.2)                               | 1,262<br>(13.8)                              | 277<br>(2.7)                          |
| Operating income               | 1,382<br>(6.2)                                 | 1,488<br>(6.2)                                  | 1,497<br>(6.2)                                 | 115<br>(8.3)                                 | 8<br>(0.6)                            |
| Ordinary income                | 1,141<br>(5.1)                                 | 1,403<br>(5.9)                                  | 1,565<br>(6.5)                                 | 424<br>(37.2)                                | 162<br>(11.5)                         |
| Net income                     | 836<br>(3.8)                                   | 959<br>(4.0)                                    | 877<br>(3.7)                                   | 40<br>(4.8)                                  | -81<br>(-8.5)                         |
| Net income per share           | 52.61yen                                       | 60.38yen  | 55.20yen                                       | 2.59yen                                      | -5.18yen                              |
| Return on shareholders' equity | 3.8%   | 4.2%  | 3.8%   | Δ0.0P  | -0.4P                                 |
| Foreign exchange rates         |  |   |  |  |                                       |
| US dollar                      | 109.03   | 108.00  | 110.81   | 1.78   | 2.81                                  |
| Euro                           | 119.37   | 119.00  | 129.45   | 10.08  | 10.45                                 |
| Pound sterling                 | 143.04   | 145.00  | 147.27   | 4.23   | 2.27                                  |
| Renminbi                       | 16.56  | 16.20   | 16.64  | 0.08   | 0.44                                  |

**SHOFU INC.** \*Diluted earnings per shares for fiscal March 2018 results is 54.83 yen.

# Sales by Product Category (Comparison with Previous Period)

Summary of Consolidated Business Performance for  
Fiscal Year Ended March 31, 2018



Unit: millions of yen

Figures in parentheses represent percentage changes; unit: %

|                       | Fiscal March<br>2017<br>(Results) | Fiscal March<br>2018<br>(Results) | Change from previous period |            |              |
|-----------------------|-----------------------------------|-----------------------------------|-----------------------------|------------|--------------|
|                       |                                   |                                   |                             | Domestic   | Overseas     |
| Artificial teeth      | 3,818                             | 4,077                             | 259 (6.8)                   | -49        | 309          |
| Abrasives             | 3,900                             | 4,006                             | 105 (2.7)                   | -33        | 138          |
| Metal products        | 258                               | 247                               | -11 (-4.3)                  | -10        | 0            |
| Chemical products     | 4,410                             | 4,770                             | 360 (8.2)                   | -56        | 416          |
| Cements and others    | 2,055                             | 2,044                             | -10 (-0.5)                  | -71        | 60           |
| Equipment and others  | 5,823                             | 6,300                             | 476 (8.2)                   | 433        | 42           |
| Dental business total | 20,267                            | 21,446                            | 1,179 (5.8)                 | 212        | 967          |
| Nail care business    | 1,944                             | 2,485                             | 541 (27.8)                  | 246        | 295          |
| Other                 | 93                                | 98                                | 5 (5.5)                     | 5          | -            |
| <b>Total</b>          | <b>22,305</b>                     | <b>24,031</b>                     | <b>1,725 (7.7)</b>          | <b>463</b> | <b>1,262</b> |

\*The effect of foreign currency fluctuations (U.S. dollar (USD), Euro (EUR), British pound (GBP), Chinese yuan (CNY) and New Taiwan dollar (NTD)) on overseas net sales was +412 million yen.  
(Dental business +362 million yen, Nail care business +50 million yen)

# Sales by Product Category (Comparison with Forecast)

Summary of Consolidated Business Performance for  
Fiscal Year Ended March 31, 2018



Unit: millions of yen

Figures in parentheses represent percentage changes; unit: %

|                       | Fiscal March<br>2018<br>(Forecast) | Fiscal March<br>2018<br>(Results) | Cange from Forecast |             |            |
|-----------------------|------------------------------------|-----------------------------------|---------------------|-------------|------------|
|                       |                                    |                                   |                     | Domestic    | Overseas   |
| Artificial teeth      | 4,065                              | 4,077                             | 12 (0.3)            | -113        | 126        |
| Abrasives             | 3,991                              | 4,006                             | 14 (0.4)            | -39         | 54         |
| Metal products        | 258                                | 247                               | -10 (-4.2)          | -11         | 0          |
| Chemical products     | 4,808                              | 4,770                             | -38 (-0.8)          | -142        | 104        |
| Cements and others    | 2,157                              | 2,044                             | -112 (-5.2)         | -68         | -43        |
| Equipment and others  | 6,448                              | 6,300                             | -147 (-2.3)         | -27         | -120       |
| Dental business total | 21,729                             | 21,446                            | -282 (-1.3)         | -403        | 121        |
| Nail care business    | 2,137                              | 2,485                             | 347 (16.3)          | 191         | 156        |
| Other                 | 103                                | 98                                | -5 (-5.2)           | -5          | 0          |
| <b>Total</b>          | <b>23,970</b>                      | <b>24,031</b>                     | <b>60 (0.3)</b>     | <b>-216</b> | <b>277</b> |

\*The effect of foreign currency fluctuations (U.S. dollar (USD), Euro (EUR), British pound (GBP), Chinese yuan (CNY), New Taiwan dollar (NTD) and Indian Rupee (INR)) on overseas net sales was +473 million yen.

**SHOFU INC.** (Dental business +432 million yen, Nail care business +40 million yen)

# Domestic Sales

Summary of Consolidated Business Performance for Fiscal Year Ended March 31, 2018



■ Positive factors ■ Negative factors

- **Dental business: Year on year increase of 212 million yen (+1.8%)**

- Equipment and others including the new dental digital camera and CAD/CAM-related products contributed to domestic sales.

- Sales of artificial teeth, chemical products and other existing flagship products decreased.

- **Nail care business: Year on year increase of 246 million yen (+20.6%)**

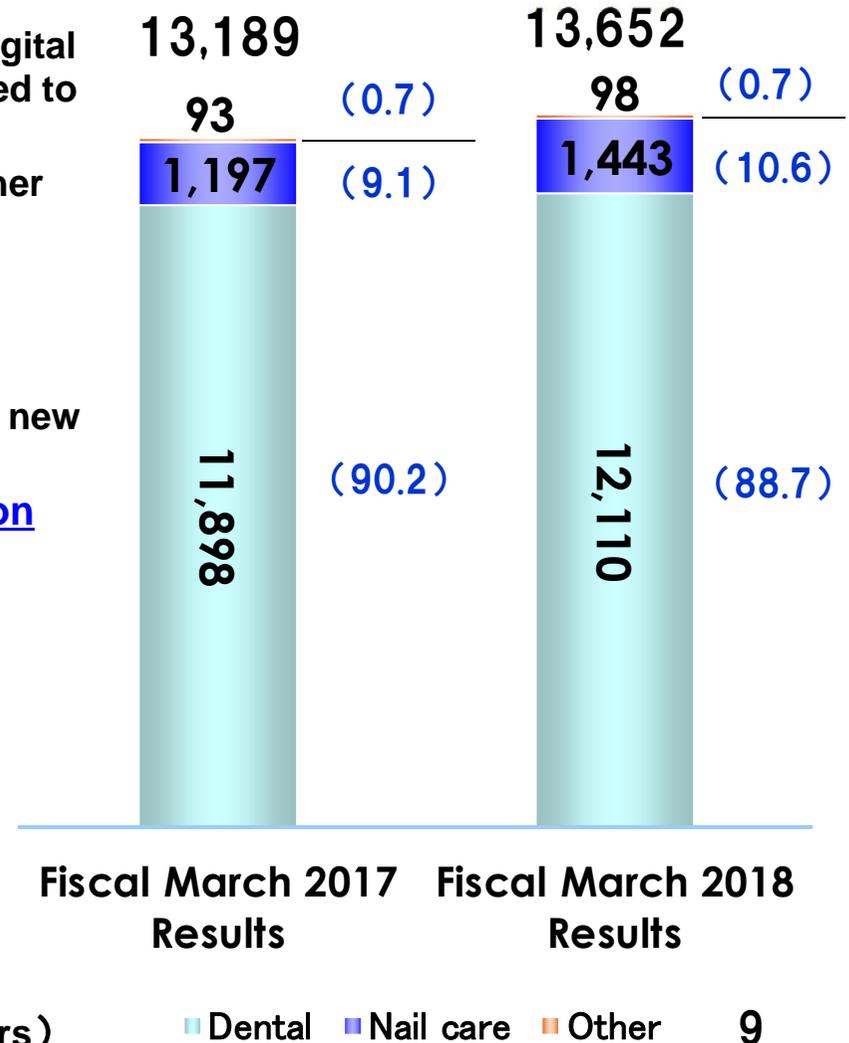
- Flagship product lines were favorable due to enhanced brand strength from the introduction of new brand of gel nail products.

- **Other businesses: Year on year increase of 5 million yen (+5.5%)**

- **Principal new products launched this FY (dental business)**

- Dental filling composite resin  
**BEAUTIFUL Flow Plus X** (Chemical products)
  - Digital oral imaging device  
**EyeSpecial C-III** (Equipment and others)
  - Digital impression molding device  
**TRIOS3 oral scanner** (Equipment and others)
  - Resin material for dental cutting processing  
**SHOFU BLOCK HC HARD** (Equipment and others)

Unit: Millions of yen; figures in parentheses represent the percentage of the total



# Overseas Sales

Summary of Consolidated Business Performance for Fiscal Year Ended March 31, 2018



Positive factors Negative factors

■ North America and Latin America: **Year-on-year increase of 256 million yen (+10.8%)**

■ Flagship chemical products, abrasives and nail care business remained strong.  
Local currency basis: Year on year increase of 214 million yen (+9.0%)

■ Europe: **Year-on-year increase of 478 million yen (+13.0%)**

■ Chemical products and artificial teeth remained robust.  
Local currency basis: Year on year increase of 174 million yen (+4.7%)

■ Asia and Oceania: **Year-on-year increase of 527 million yen (+17.2%)**

■ In China, flagship artificial teeth contributed to sales, and chemical products were strong.  
■ In other Asian markets, artificial teeth were strong. Sales in nail care business grew drastically, mainly in Taiwan.

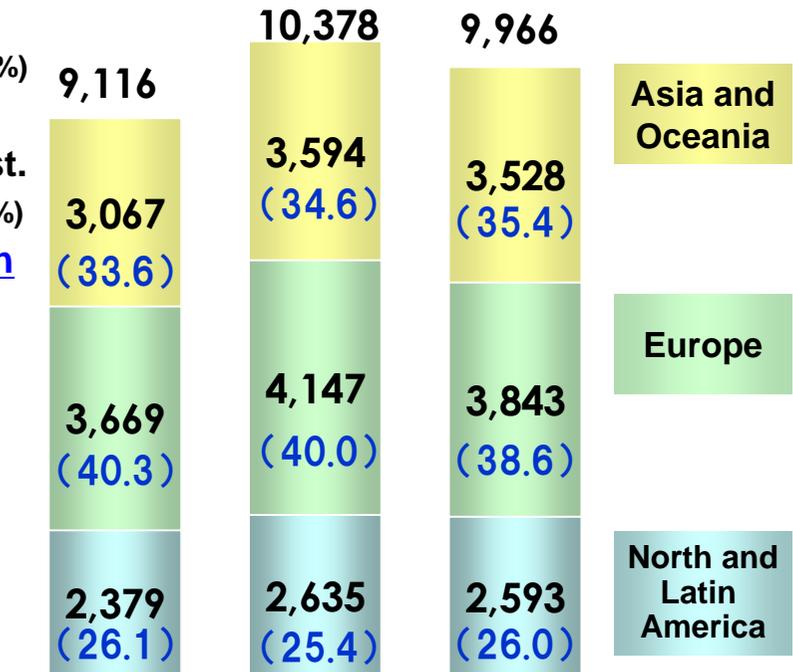
Local currency basis: Year on year increase of 461 million yen (+15.0%)

China: **Year on year increase of 237 million yen (+15.4%)**

Elsewhere in Asia: **Year on year increase of 289 million yen (+18.9%)**

■ **(Dental business) Overseas sales ratio of 43.5%**  
(41.3% for the same quarter of the previous fiscal year; 42.6% after adjustment for fluctuations of foreign currency exchange rates)

**Unit: Millions of yen; figures in parentheses represent the percentage of the total**



\* 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 2017.

# Performance by Segment (Sales and Operating Income)

Summary of Consolidated Business Performance for  
Fiscal Year Ended March 31, 2018



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

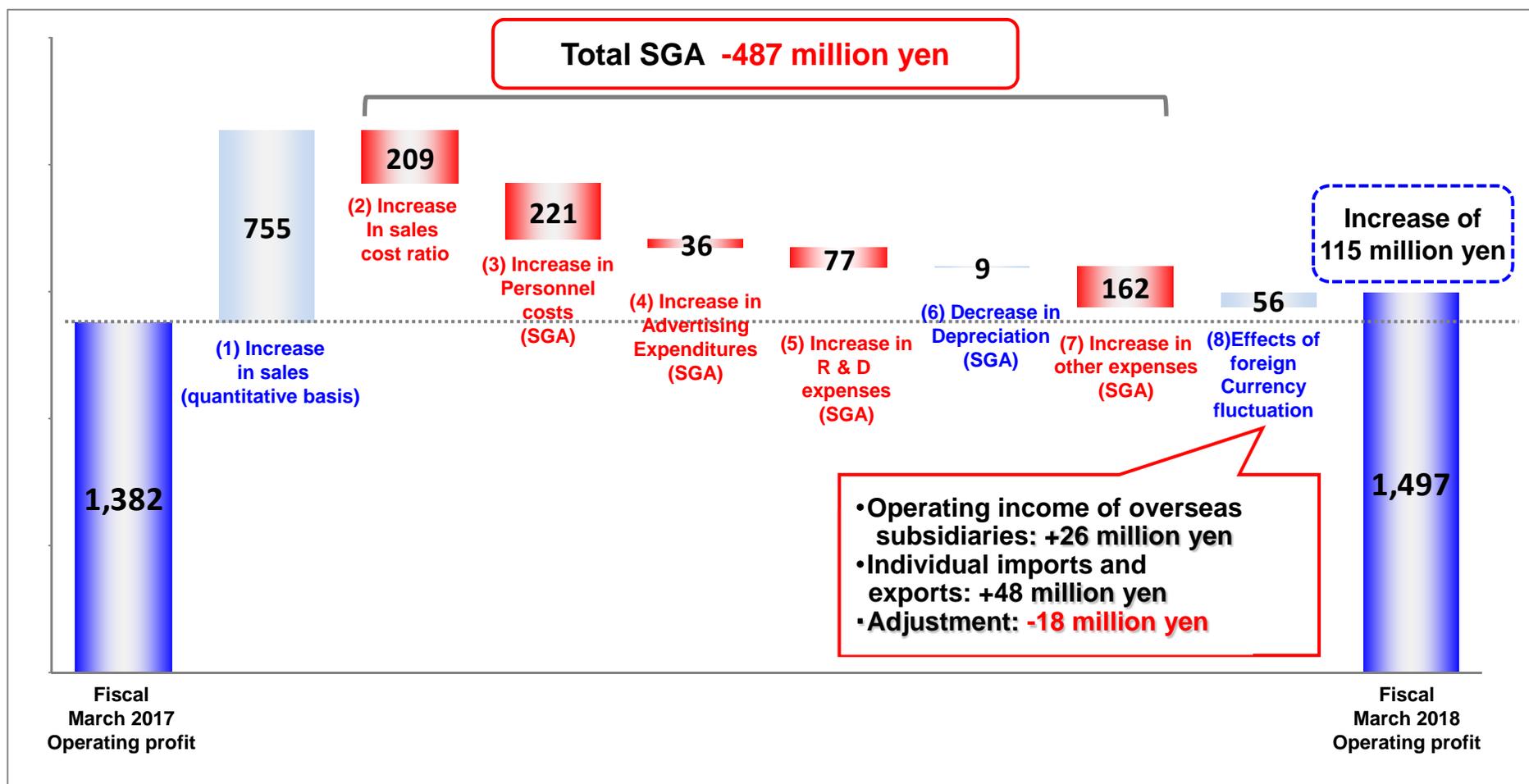
|   |   | Fiscal March 2017<br>(Results) | Fiscal March 2013<br>(Forecast) | Fiscal March 2018<br>(Results) | Change from<br>Previous Period | Change from<br>Forecast |
|---|---|--------------------------------|---------------------------------|--------------------------------|--------------------------------|-------------------------|
|   |   | Amount<br>(% of sales)         | Amount<br>(% of sales)          | Amount<br>(% of sales)         |                                |                         |
| Dental                                      | <b>Net Sales</b>                              | <b>20,267</b>                  | <b>21,729</b>                   | <b>21,447</b>                  | <b>1,179</b>                   | <b>-281</b>             |
|   | Operating expenses                            | <b>18,887</b>                  | <b>20,283</b>                   | <b>20,037</b>                  | <b>1,149</b>                   | <b>-246</b>             |
|   | Operating income<br>(operating income margin) | <b>1,380</b><br>( 6.8)         | <b>1,445</b><br>( 6.7)          | <b>1,410</b><br>( 6.6)         | <b>30</b>                      | <b>-35</b>              |
| Nail care                                   | <b>Net Sales</b>                              | <b>1,944</b>                   | <b>2,137</b>                    | <b>2,486</b>                   | <b>541</b>                     | <b>348</b>              |
|   | Operating expenses                            | <b>1,970</b>                   | <b>2,105</b>                    | <b>2,422</b>                   | <b>452</b>                     | <b>316</b>              |
|   | Operating income<br>(operating income margin) | <b>-25</b><br>(-1.3)           | <b>31</b><br>( 1.5)             | <b>63</b><br>( 2.5)            | <b>88</b>                      | <b>31</b>               |
| Other                                       | <b>Net Sales</b>                              | <b>100</b>                     | <b>103</b>                      | <b>105</b>                     | <b>5</b>                       | <b>1</b>                |
|   | Operating expenses                            | <b>77</b>                      | <b>92</b>                       | <b>87</b>                      | <b>9</b>                       | <b>-4</b>               |
|   | Operating income<br>(operating income margin) | <b>22</b><br>( 22.3)           | <b>11</b><br>( 11.2)            | <b>17</b><br>( 16.8)           | <b>-4</b>                      | <b>6</b>                |
| Total before<br>consolidation<br>adjustment | <b>Net Sales</b>                              | <b>22,312</b>                  | <b>23,970</b>                   | <b>24,038</b>                  | <b>1,725</b>                   | <b>67</b>               |
|   | Operating expenses                            | <b>20,935</b>                  | <b>22,481</b>                   | <b>22,547</b>                  | <b>1,611</b>                   | <b>65</b>               |
|   | Operating income<br>(operating income margin) | <b>1,376</b><br>( 6.2)         | <b>1,488</b><br>( 6.2)          | <b>1,491</b><br>( 6.2)         | <b>114</b>                     | <b>2</b>                |
| Consolidated                                | <b>Net Sales</b>                              | <b>22,305</b>                  | <b>23,970</b>                   | <b>24,031</b>                  | <b>1,725</b>                   | <b>60</b>               |
|   | Operating expenses                            | <b>20,922</b>                  | <b>22,481</b>                   | <b>22,533</b>                  | <b>1,610</b>                   | <b>51</b>               |
|   | Operating income<br>(operating income margin) | <b>1,382</b><br>( 6.2)         | <b>1,488</b><br>( 6.2)          | <b>1,497</b><br>( 6.2)         | <b>115</b>                     | <b>8</b>                |

# Contributors to Change in Operating Income

Summary of Consolidated Business Performance for Fiscal Year Ended March 31, 2018



Unit: millions of yen



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

# Financial Condition: Major Balance Sheet Accounts

Summary of Consolidated Business Performance for  
Fiscal Year Ended March 31, 2018



Unit: millions of yen

|   | Fiscal March<br>2017 | Fiscal March<br>2018 | Change       | Major contributors to changes, special notes  |
|---|----------------------|----------------------|--------------|---|
| Cash and cash in banks  | 4,997                | 5,733                | 736          | Increase in time deposits   |
| Notes and accounts receivable   | 3,138                | 3,285                | 147          | Increase in accounts receivable-trade   |
| Inventories   | 5,367                | 5,871                | 504          | Increase in merchandises, raw materials<br>and supplies                                     |
| Marketable securities and Investment in<br>securities                                 | 5,273                | 6,632                | 1,358        | Increase in valuation of investment securities  |
| Others  | 10,076               | 9,834                | -242         | Decrease in intangible assets due to<br>impairment loss of goodwill                         |
| <b>Total Assets</b>   | <b>28,853</b>        | <b>31,357</b>        | <b>2,504</b> |   |
| Short-term loans payable and Long-term<br>debt  | 1,730                | 1,486                | -244         | Decrease in long-term loans payable   |
| Net defined benefit liability and Retirements<br>allowance for directors and auditors | 202                  | 221                  | 18           |   |
| Others  | 4,624                | 5,493                | 869          | Increase in deferred tax liabilities, income<br>taxes payable                               |
| <b>Total Liabilities</b>  | <b>6,556</b>         | <b>7,200</b>         | <b>643</b>   |   |
| <b>Total net assets</b>   | <b>22,296</b>        | <b>24,157</b>        | <b>1,860</b> | Increase in valuation difference on available-<br>for-sale securities and retained earnings |
| <b>Total Liabilities and net assets</b>   | <b>28,853</b>        | <b>31,357</b>        | <b>2,504</b> |   |
| Shareholders' equity ratio  | 76.9%                | 76.7%                | -0.2P        |   |
| Shareholders' equity per share  | 1,397yen             | 1,512yen             | 115yen       |   |

# Capital Investments, Depreciation Expenses, R&D Expenses, etc.

Summary of Consolidated Business Performance for Fiscal Year Ended March 31, 2018



金額単位：百万円

|                                     | Fiscal March 2017 (Results) | Fiscal March 2018 (Forecast) | Fiscal March 2018 (Results) | Change from Previous Period | Change from Forecast |
|-------------------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------|----------------------|
| Capital investment                  | 875                         | 780                          | 710                         | -164                        | -69                  |
| Depreciation expenses               | 939                         | 1,010                        | 975                         | 36                          | -35                  |
| (of which amortization of goodwill) | 99                          | 99                           | 108                         | 8                           | 8                    |
| R&D expenses                        | 1,408                       | 1,604                        | 1,494                       | 85                          | -109                 |
| Foreign exchange rates              |                             |                              |                             |                             |                      |
| US dollar                           | 109.03                      | 108.00                       | 110.81                      | 1.78                        | 2.81                 |
| Euro                                | 119.37                      | 119.00                       | 129.45                      | 10.08                       | 10.45                |
| Pound sterling                      | 143.04                      | 145.00                       | 147.27                      | 4.23                        | 2.27                 |
| Renminbi                            | 16.56                       | 16.20                        | 16.64                       | 0.08                        | 0.44                 |

• The foreign exchange rates given are those in effect at the average of each term;

SHOFU INC. conversions of items in the financial statements of overseas subsidiaries all use average rates. 14



**Summary of Consolidated Business Performance  
for Fiscal Year Ended March 31, 2018**

**Forecast of Consolidated Business Performance  
for Fiscal Year Ending March 31, 2019**

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

# Overview of the Next Fiscal Year

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019



■ Positive factors ■ Negative factors

P/L

⇒ Net sales will total 25,725 million yen (an increase of 7.1%)

Domestic net sales will total 14,453 million yen (an increase of 5.9%)

- In the dental business, we expect sales to **increase by 4.4% (+531 million yen)** due to the development of activities to supply information to dental care workers, as well as the promotion of sales activities focused on flagship areas.

**<New product sales: 3,019 million yen, or 18.1% of non-consolidated net sales>**

- In the nail care business, we expect sales to **increase by 17.3% (+250 million yen)** due to the promotion for increase of sales centered on new brand which was introduced to the market in the previous fiscal year, and flagship product line of gel nail products.

Overseas net sales will total 11,271 million yen (an increase of 8.6%)

- In the dental business, sales are expected to **increase by 8.8% (+822 million yen)** due to the continued expansion of our sales network, strengthened partnerships with other companies, and accelerated business development overseas.
- In the nail care business, sales are expected to **increase by 6.8% (+71 million yen)** as we strengthen sales activities in the American and Taiwan markets.

⇒ Operating income will total 1,737 million yen (an increase of 16.0%).  
Ordinary income will total 1,630 million yen (an increase of 4.2%).  
Net income will total 1,109 million yen (an increase of 26.4%).

- Although selling, general and administrative expenses will increase due to proactive investment of sales activities, effects of higher sales are expected to cause operating income to **increase by 16.0%**.
- With the absence of effect of foreign exchange profit and impairment loss of goodwill which occurred in the previous fiscal year, ordinary income **increased by 4.2%** and net income **increased by 26.4%**.

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

# Comparison of Major Statistics

Forecast of Consolidated Business Performance for  
Fiscal Year Ending March 31, 2019



⇒ Net sales and Net income increased compared to fiscal March 2018

Units: millions of yen, %

|                                | Fiscal March 2018<br>Business Performance<br>(% of sales) | Fiscal March 2019<br>Forecast<br>(% of sales) | Change From<br>Previous Period<br>(% change) |
|--------------------------------|---|---|--|
| <b>Net sales</b>               | <b>24,031 ( 100.0)</b>                                    | <b>25,725 ( 100.0)</b>                        | <b>1,694 ( 7.1)</b>                          |
| (Domestic sales)               | 13,652 ( 56.8)  | 14,453 ( 56.2)                                | 800 ( 5.9)                                   |
| (Overseas sales)               | 10,378 ( 43.2)  | 11,271 ( 43.8)                                | 893 ( 8.6)                                   |
| <b>Operating income</b>        | <b>1,497 ( 6.2)</b>                                       | <b>1,737 ( 6.8)</b>                           | <b>240 ( 16.0)</b>                           |
| <b>Ordinary income</b>         | <b>1,565 ( 6.5)</b>                                       | <b>1,630 ( 6.3)</b>                           | <b>65 ( 4.2)</b>                             |
| <b>Net income</b>              | <b>877 ( 3.7)</b>   | <b>1,109 ( 4.3)</b>                           | <b>231 ( 26.4)</b>                           |
| Net income per share           | 55.20yen  | 69.77yen                                      | 14.57yen                                     |
| Return on shareholders' equity | 3.8%  | 4.6%  | 0.8P   |
| Foreign exchange rates         |   |   |  |
| US dollar                      | 110.81  | 105.00  | -5.81  |
| Euro                           | 129.45  | 130.00  | 0.55   |
| Pound sterling                 | 147.27  | 150.00  | 2.73   |
| Renminbi                       | 16.64   | 16.50   | -0.14  |

\* "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

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019



Unit: millions of yen

Figures in parentheses represent percentage changes; unit: %

|                       | Fiscal March 2018<br>(Results) | Fiscal March 2019<br>(Forecast) | Change from previous period |            |            |
|-----------------------|--------------------------------|---------------------------------|-----------------------------|------------|------------|
|                       |                                |                                 |                             | Domestic   | Overseas   |
| Artificial teeth      | 4,077                          | 4,352                           | 274 (6.7)                   | 50         | 223        |
| Abrasives             | 4,006                          | 4,114                           | 108 (2.7)                   | 43         | 65         |
| Metal products        | 247                            | 271                             | 24 (9.7)                    | 23         | 0          |
| Chemical products     | 4,770                          | 5,163                           | 393 (8.2)                   | 105        | 287        |
| Cements and others    | 2,044                          | 2,170                           | 126 (6.2)                   | 71         | 54         |
| Equipment and others  | 6,300                          | 6,728                           | 427 (6.8)                   | 236        | 191        |
| Dental business total | 21,446                         | 22,800                          | 1,353 (6.3)                 | 531        | 822        |
| Nail care business    | 2,485                          | 2,806                           | 321 (12.9)                  | 250        | 71         |
| Other                 | 98                             | 117                             | 18 (19.2)                   | 18         | —          |
| <b>Total</b>          | <b>24,031</b>                  | <b>25,725</b>                   | <b>1,694 (7.1)</b>          | <b>800</b> | <b>893</b> |

- Overseas sales decreased by 154 million yen due to the effect of foreign currency fluctuations (US dollar, euro, pound sterling, renminbi, New Taiwan dollar, Indian Rupee). (Dental business -144 million yen, Nail care business -10 million yen)

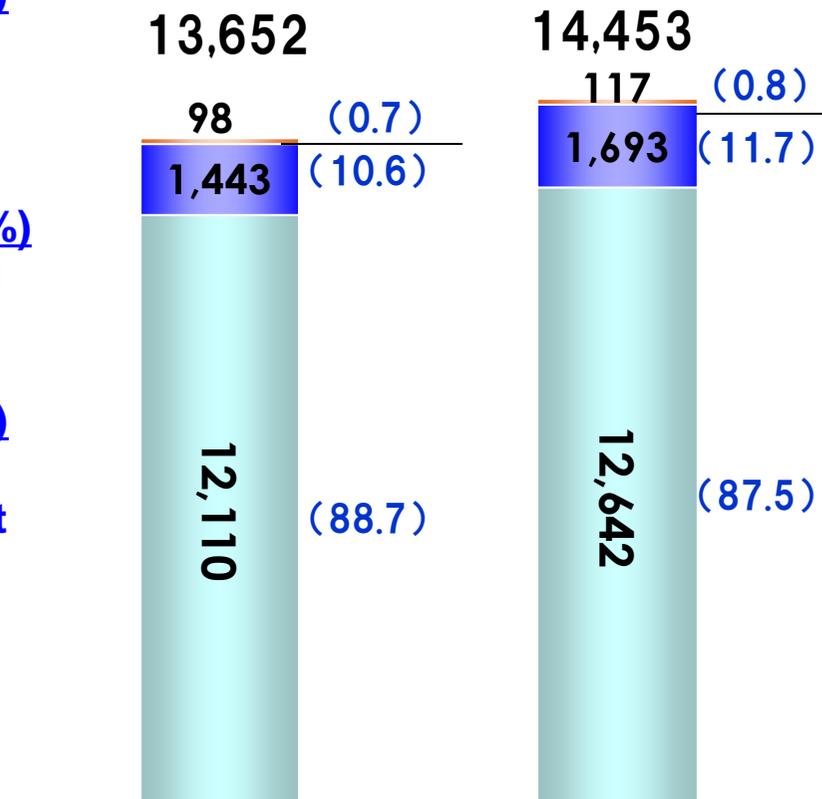
# Domestic Net Sales

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019



Unit: Millions of yen; figures in parentheses represent the percentage of the total

- ◇ **Dental business:**  
Year-on-year increase of 531 million yen (4.4%)
  - we will enhance our sales promotion activities in our major focus areas and provide information activities towards dental professionals.
- ◇ **Nail care business:**  
Year-on-year increase of 250 million yen (17.3%)
  - we will promote sales increase of new brand and flagship product lines of gel nail products.
- ◇ **Other businesses:**  
Year-on-year increase of 18 million yen (19.2%)
- ◇ **Principal new products launched during recent fiscal year.**
  - Dental filling composite resin  
BEAUTIFUL Flow Plus X (Chemical products)
  - Digital oral imaging device  
EyeSpecial C-III (Equipment and others)
  - Digital impression molding device  
TRIOS3 oral scanner (Equipment and others)
  - Resin material for dental cutting processing  
SHOFU BLOCK HC HARD (Equipment and others)



Fiscal March 2018 Results      Fiscal March 2019 Forecast

■ Dental   ■ Nail care   ■ Other

# Overseas Net Sales

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019



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

## Summary

- Despite the negative effects of foreign currency fluctuations (-154 million yen), net sales overall are expected to increase by 8.6% due to strong performances in all regions.

### Growth rates by region

\*Figures in parentheses indicate the growth rate on local currency basis.

|                         |        |          |
|-------------------------|--------|----------|
| North and Latin America | +0.6%  | (+ 6.0%) |
| Europe                  | +9.7%  | (+ 9.1%) |
| China                   | +11.9% | (+12.9%) |
| Asia (Other)            | +14.6% | (+15.7%) |

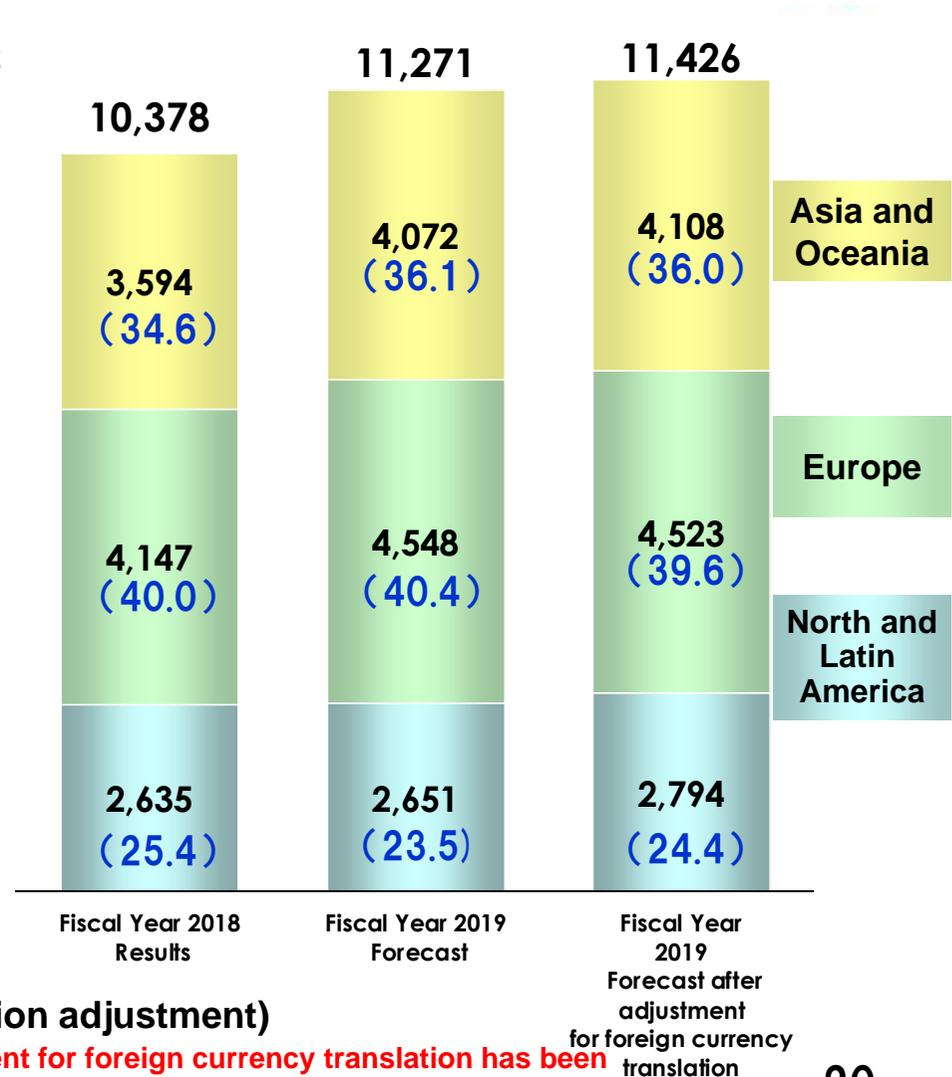
## Foreign exchange rates

- USD1=JPY105.00  
(JPY110.81 in the previous fiscal year)  
(Effect: -171 million yen)
- EUR1=JPY130.00  
(JPY129.45 in the previous fiscal year)  
(Effect: +17 million yen)
- RMB1=JPY16.50  
(JPY16.64 in the previous fiscal year)  
(Effect: -16 million yen)

## (Dental business) Overseas sales ratio

44.6% (43.5% in the previous fiscal year)  
(44.9% after foreign currency translation adjustment)

\* The fiscal March 2019 forecast after adjustment for foreign currency translation has been calculated based on the same foreign exchange rates used for the fiscal March 2018 results.



# Performance by Segment (Net Sales and Operating Income)

⇒ Forecast of Consolidated Business Performance for  
Fiscal Year Ending March 31, 2019



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

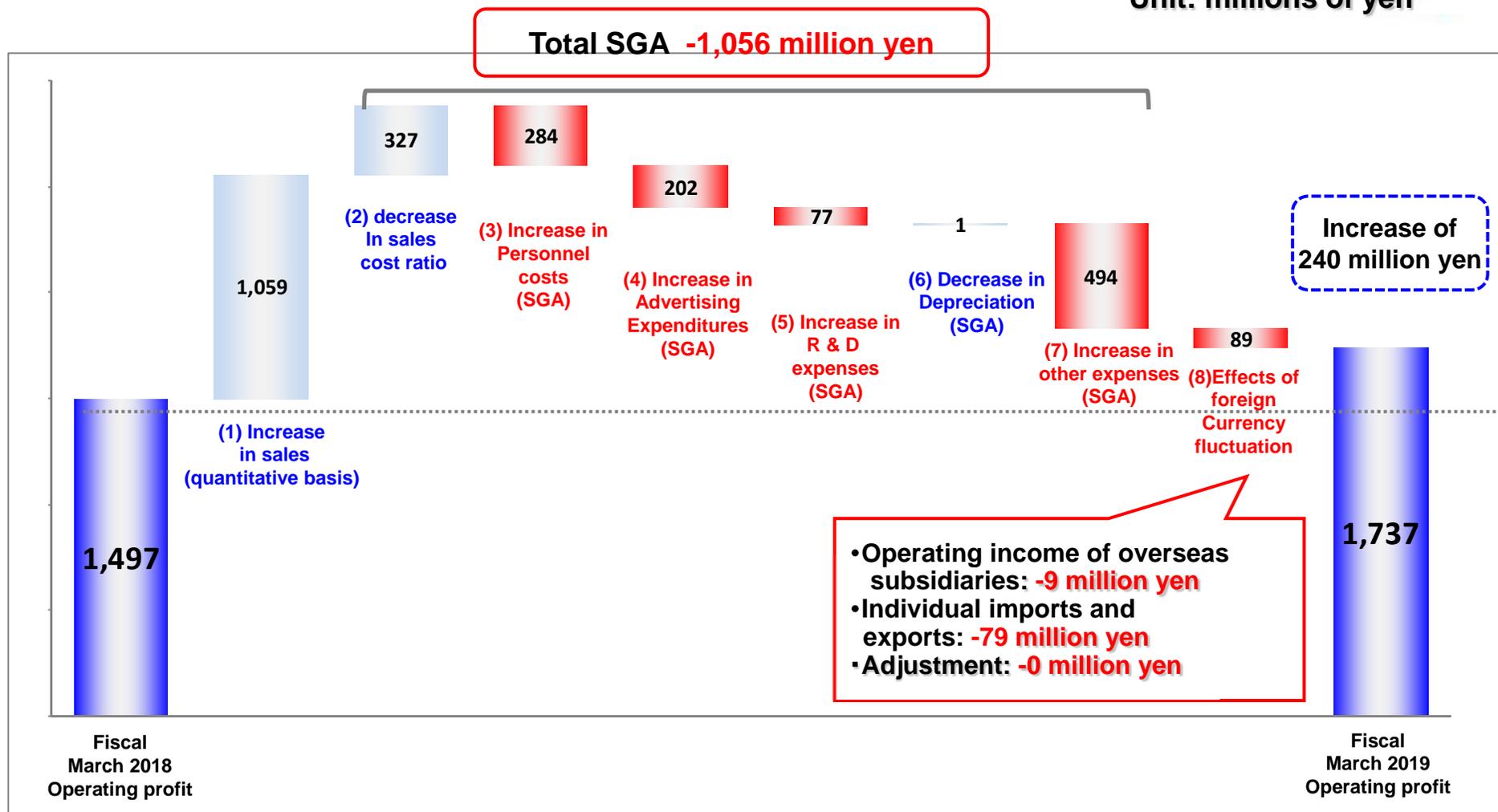
|   |   | Fiscal March 2018<br>(Results) | Fiscal March 2019<br>(Forecast) | Change from<br>Previous Period |
|---|---|--------------------------------|---------------------------------|--------------------------------|
|   |   | Amount<br>(% of sales)         | Amount<br>(% of sales)          |                                |
| Dental                                      | <b>Net Sales</b>                              | <b>21,447</b>                  | <b>22,800</b>                   | <b>1,353</b>                   |
|   | Operating expenses                            | <b>20,037</b>                  | <b>21,224</b>                   | <b>1,187</b>                   |
|   | Operating income<br>(operating income margin) | <b>1,410</b><br>( 6.6)         | <b>1,575</b><br>( 6.9)          | <b>165</b>                     |
| Nail care                                   | <b>Net Sales</b>                              | <b>2,486</b>                   | <b>2,806</b>                    | <b>320</b>                     |
|   | Operating expenses                            | <b>2,422</b>                   | <b>2,661</b>                    | <b>238</b>                     |
|   | Operating income<br>(operating income margin) | <b>63</b><br>( 2.5)            | <b>145</b><br>( 5.2)            | <b>82</b>                      |
| Other                                       | <b>Net Sales</b>                              | <b>105</b>                     | <b>117</b>                      | <b>12</b>                      |
|   | Operating expenses                            | <b>87</b>                      | <b>101</b>                      | <b>13</b>                      |
|   | Operating income<br>(operating income margin) | <b>17</b><br>( 16.8)           | <b>16</b><br>( 13.7)            | <b>-1</b>                      |
| Total before<br>consolidation<br>adjustment | <b>Net Sales</b>                              | <b>24,038</b>                  | <b>25,725</b>                   | <b>1,686</b>                   |
|   | Operating expenses                            | <b>22,547</b>                  | <b>23,987</b>                   | <b>1,439</b>                   |
|   | Operating income<br>(operating income margin) | <b>1,491</b><br>( 6.2)         | <b>1,737</b><br>( 6.8)          | <b>246</b>                     |
| Consolidated                                | <b>Net Sales</b>                              | <b>24,031</b>                  | <b>25,725</b>                   | <b>1,694</b>                   |
|   | Operating expenses                            | <b>22,533</b>                  | <b>23,987</b>                   | <b>1,454</b>                   |
|   | Operating income<br>(operating income margin) | <b>1,497</b><br>( 6.2)         | <b>1,737</b><br>( 6.8)          | <b>240</b>                     |

# Contributors to Change in Operating Income

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019



Unit: millions of yen



**\* The figures in items (1) to (7) do not incorporate the effects of foreign currency fluctuations.**

# Impact of Foreign Exchange Fluctuations

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019



## Forecast for Fiscal March 2019

(Unit: millions of yen)

|           | Foreign exchange rate    |                            | Impact on consolidated business performance |                  | Per yen of yen strength |                  |
|-----------|--------------------------|----------------------------|---|------------------|-------------------------|------------------|
|           | Fiscal March 2018 actual | Fiscal March 2019 estimate | Sales                                       | Operating income | Sales                   | Operating income |
| US Dollar | 110.81                   | 105.00                     | -171  | -78              | -29                     | -12              |
| Euro      | 129.45                   | 130.00                     | 17  | 4                | -32                     | -5               |
| GBP       | 147.27                   | 150.00                     | 7   | 0                | -2                      | 0                |
| RMB       | 16.64                    | 16.50                      | -16   | -15              | -117                    | -59              |

• The foreign exchange rates given are those in effect at the average of each term;

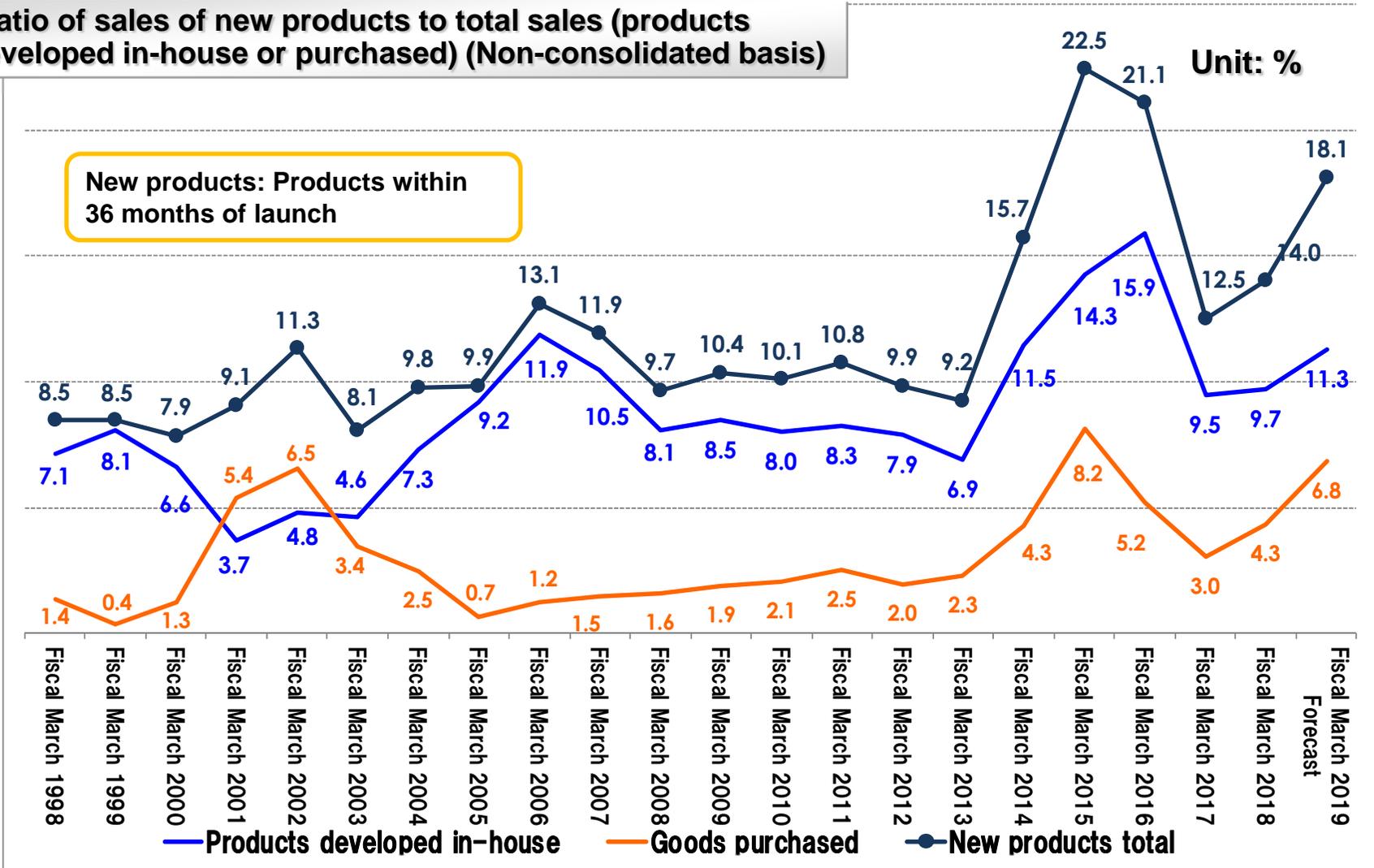
SHOFU INC. conversions of items in the financial statements of overseas subsidiaries all use average rates. 23

# Trends for Sales Ratio of New Products

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019



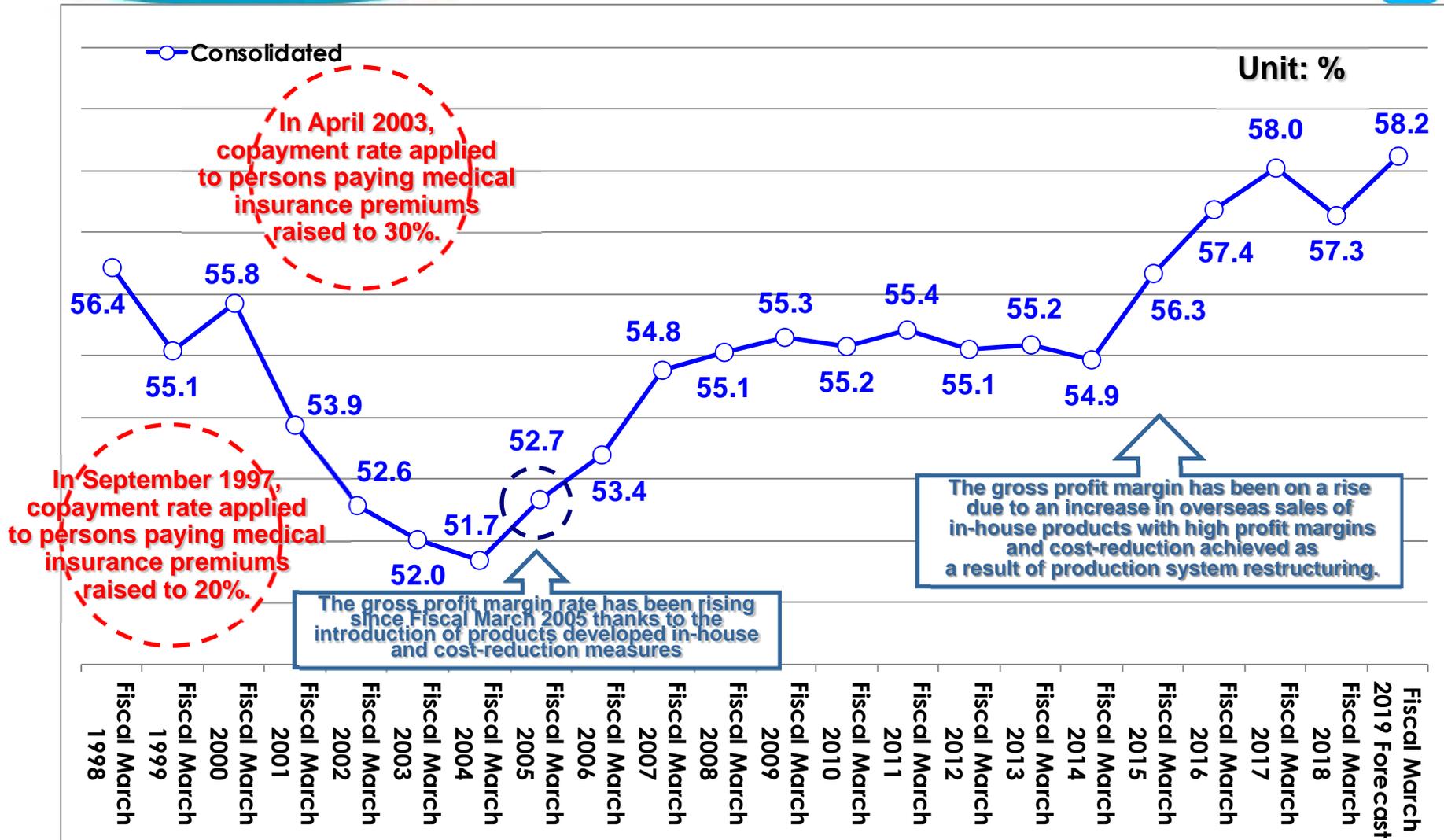
Ratio of sales of new products to total sales (products developed in-house or purchased) (Non-consolidated basis)



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

# Trends for Gross Profit Margin Rates

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019



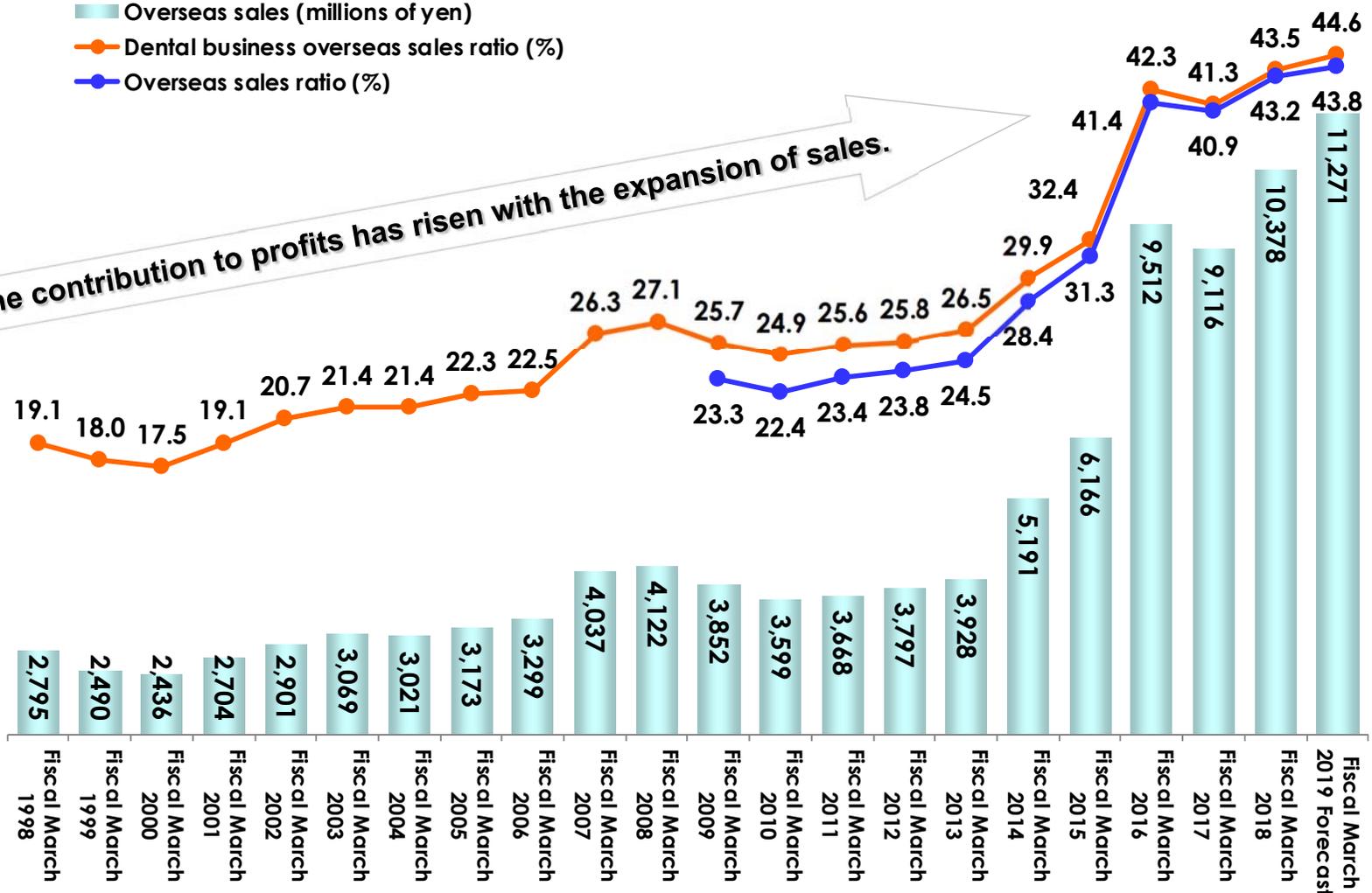
# Trends for Overseas Sales and Overseas Sales Ratios

Forecast of Consolidated Business Performance for Fiscal Year Ending March 31, 2019



- Overseas sales (millions of yen)
- Dental business overseas sales ratio (%)
- Overseas sales ratio (%)

The contribution to profits has risen with the expansion of sales.





**Summary of Consolidated Business Performance  
for Fiscal Year Ended March 31, 2018**

**Forecast of Consolidated Business Performance  
for Fiscal Year Ending March 31, 2019**

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

## Domestic dental market

- Rising demand in aesthetic and preventive fields
- 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

# 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 dramatically shifting the allocation of management resources to overseas markets.**



- **Group net sales: 50 billion yen**  
<Domestic sales: 17 billion yen;  
overseas sales: 33 billion yen>
- **Group operating income: 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: Review of Medium-term Management Plan

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



Unit: millions of yen

|                  | Fiscal March 2018<br>Mid-term plan<br>(% of Sales) | Fiscal March 2018<br>results<br>(% of Sales) | Change from<br>Mid-term plan<br>(% change) | Change from<br>Fiscal year 2012<br>(CAGR) |
|------------------|--|--|--|---|
| Net sales        | 28,471   | 24,031                                       | -4,440<br>(Δ15.6%)                         | 8,045<br>(7.0%)                           |
| (Domestic sales) | 16,024<br>(56.3%)                                  | 13,652<br>(56.8%)                            | -2,372<br>(Δ14.8%)                         | 1,464<br>(1.9%)                           |
| (Overseas sales) | 12,446<br>(43.7%)                                  | 10,378<br>(43.2%)                            | -2,068<br>(Δ16.6%)                         | 6,581<br>(18.2%)                          |
| Operating income | 2,978<br>(10.5%)                                   | 1,497<br>(6.2%)                              | -1,480<br>(Δ49.7%)                         | 500<br>(7.0%)                             |

Divergence factor between fiscal March 2018 and Medium-term Plan

- ✓ Insufficient speed in responding to market needs and growth opportunities in growth fields
- ✓ Delays in improving our sales network and handling product registration
- ✓ Lack of progress in price competitiveness improvements

# Specific Efforts – Production

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



## ✧ Relocation of production base and expansion of offshore production

Split up Promech's dental business to Shoken

Nail Labo absorbed Promech

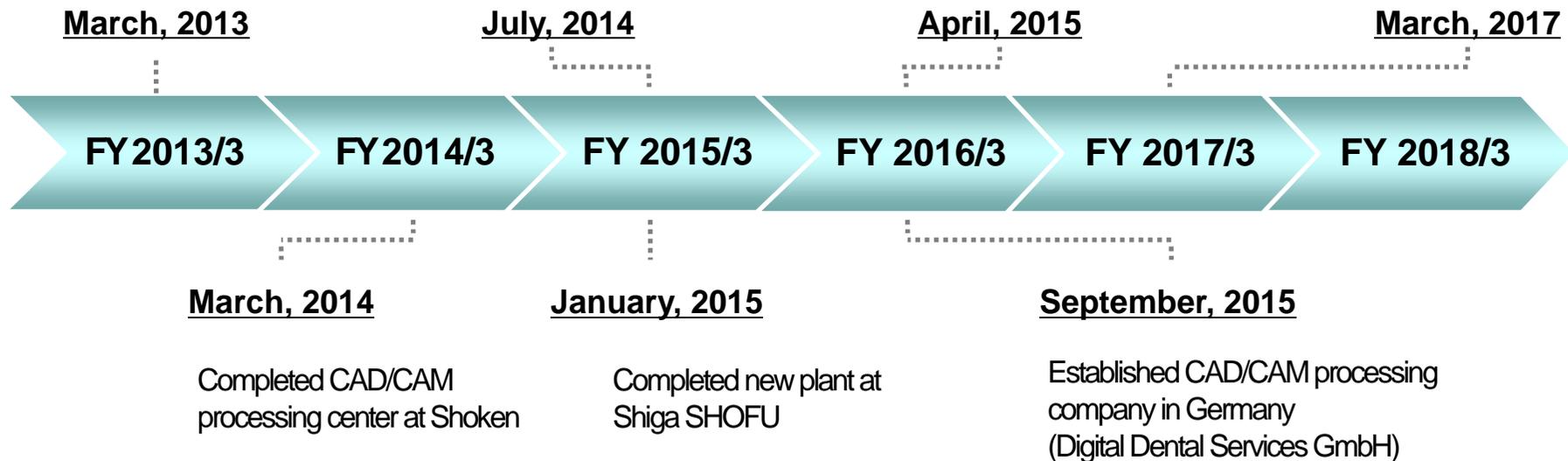
Aimed for stabilization of management base and business efficiency

Relocation and expansion of Shoken  
Changed the company name to SHOFU PRODUCTS KYOTO INC.

Subsidiarization of Merz Dental GmbH, a German artificial teeth Manufacturer

New production base in Europe

Completed new plant in the SHOFU headquarters

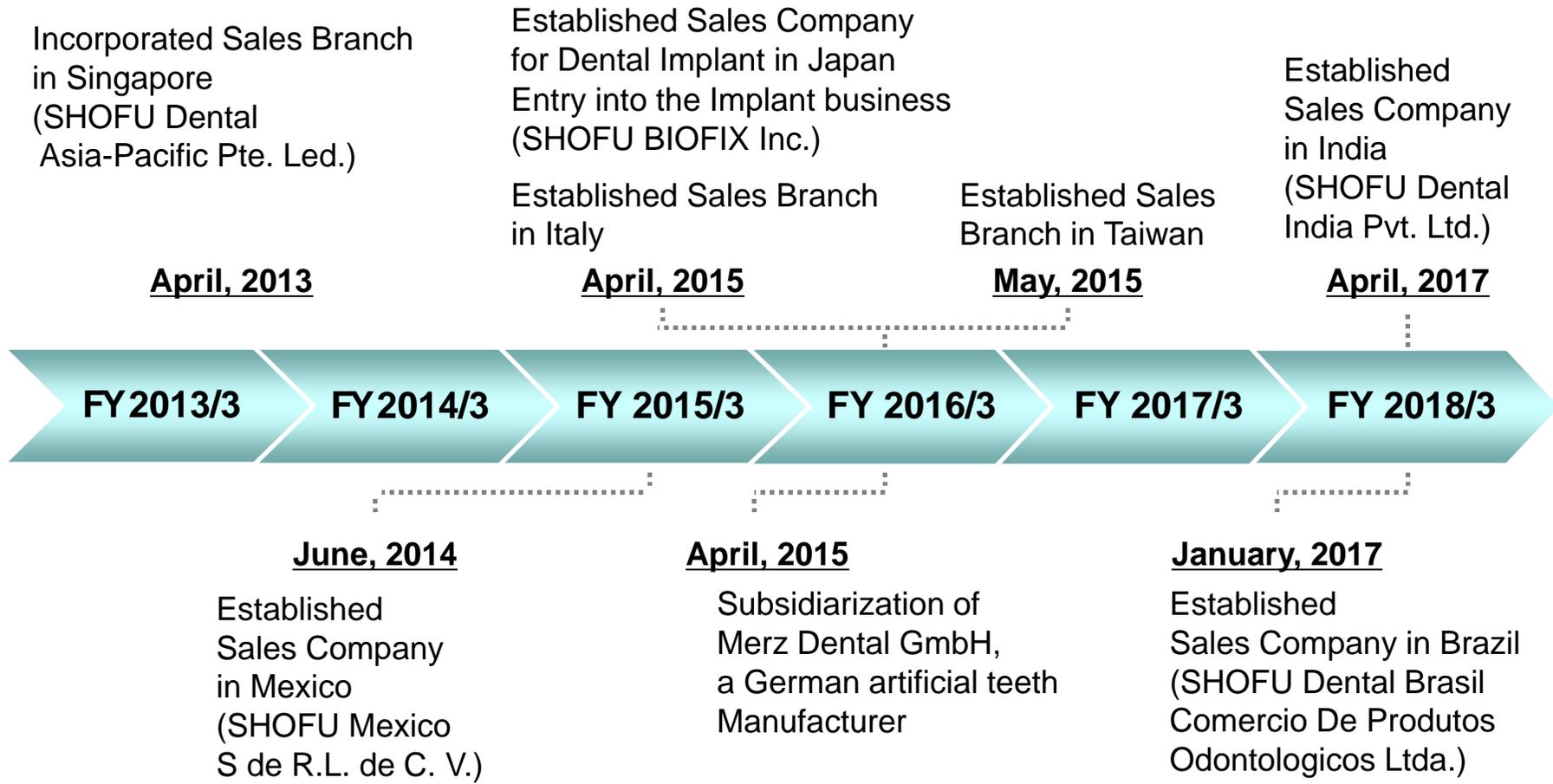


# Specific Efforts – Sales

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



## ✧ Realignment of sales offices



\* We are planning to establish sales bases in other important countries / regions.

# Trends for Sales by Region

## – North and Latin America, Europe

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



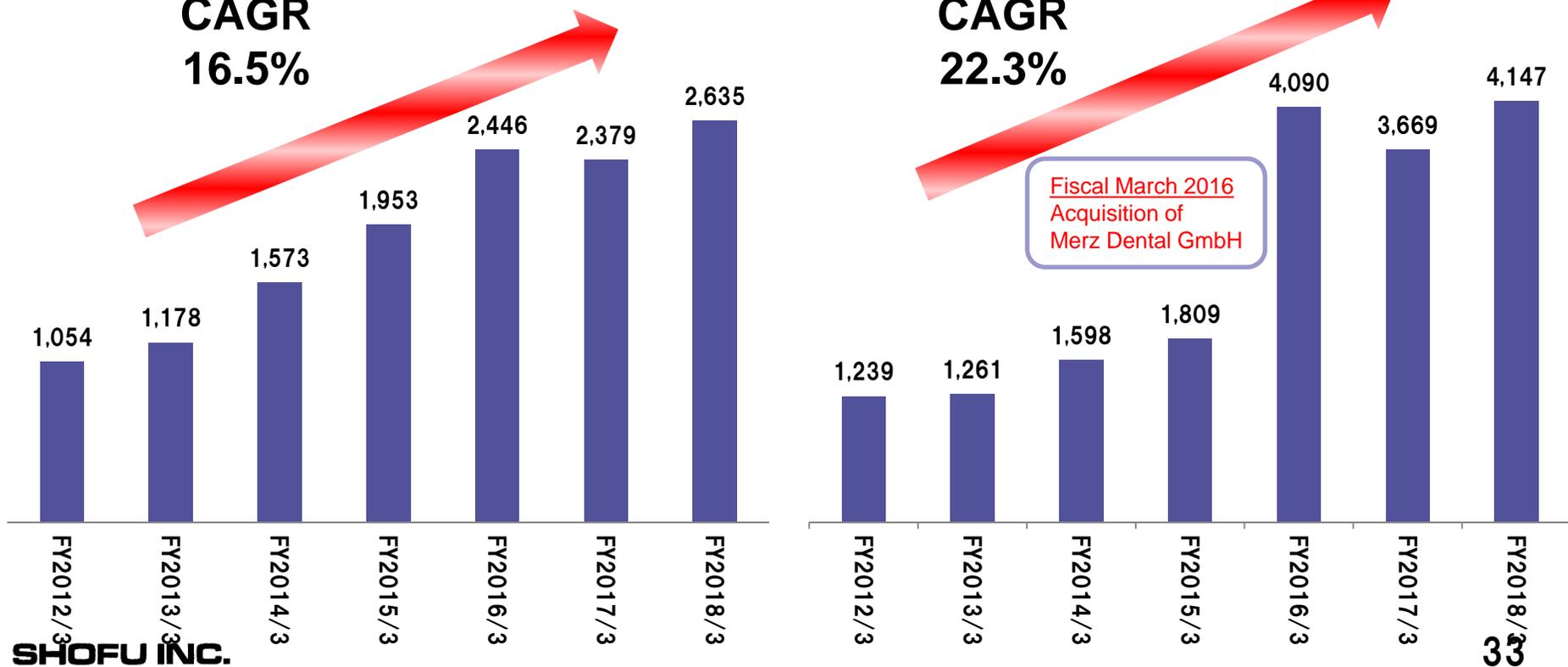
Unit: millions of yen

### North & Latin America Sales

### Europe Sales

**CAGR**  
**16.5%**

**CAGR**  
**22.3%**



# Trends for Sales by Region – China, Elsewhere in Asia

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



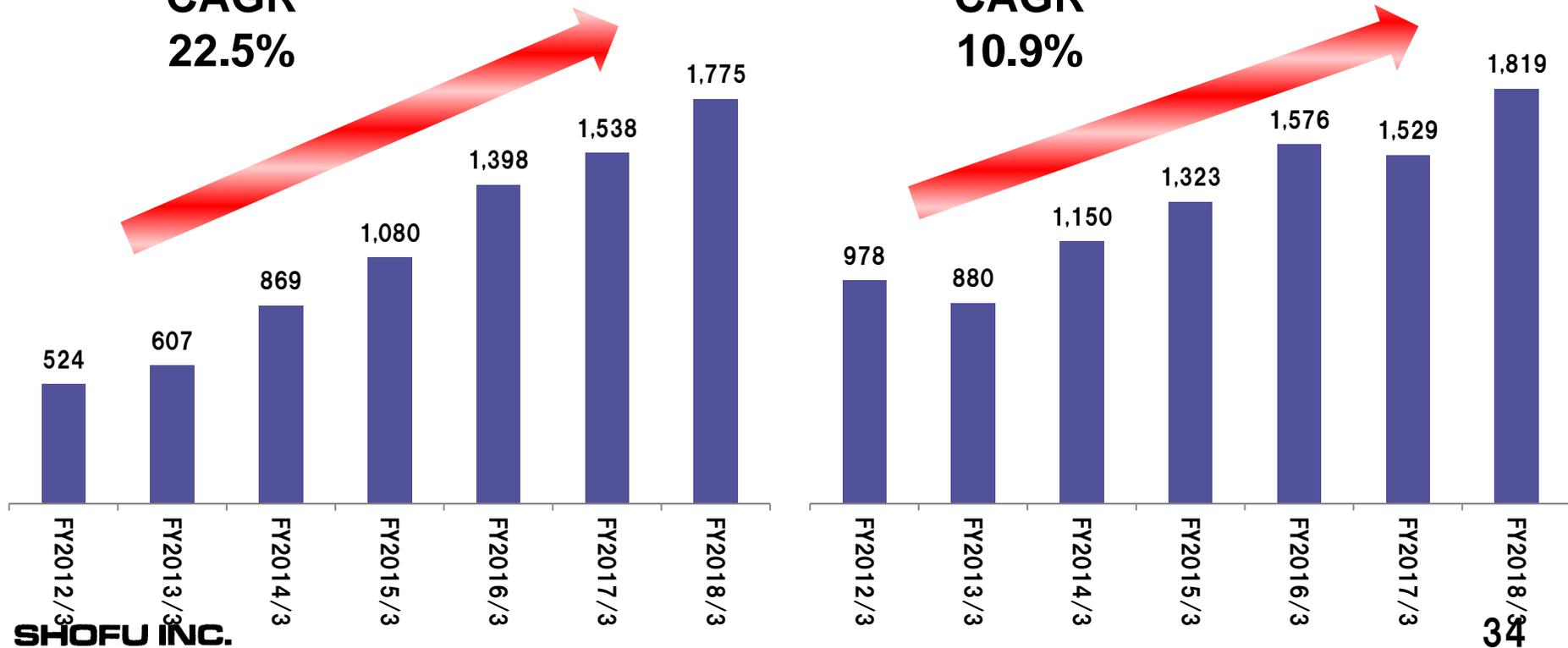
Unit: millions of yen

## China Sales

## Elsewhere in Asia Sales

CAGR  
22.5%

CAGR  
10.9%



# Fiscal 2018 to 2020 Medium-term Management Plan : Company-wide targets

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



**Company-wide targets for fiscal March 2021**

- **Group net sales: 29.2 billion yen**  
 <Domestic sales:13.5billion yen; overseas sales:12.2 billion yen; Nail care business sales:3.3 billion yen>  
 <Overseas sales ratio in the dental business : 50%>
- **Group operating income: 2.34 billion yen**  
 (Operating profit margin: 8.0%)
- **ROE\* 6.0%**

## Key issues in order to achieve goals

|            |  |  |
|------------|--|--|
| R&D        | ✓ Development and introduction of new products that match the local demands  | <b>Promotion of M&amp;As</b><br>(business tie-ups, technology partnerships, business acquisitions) |
| Production | ✓ Relocation of production base and expansion of offshore production   |  |
| Sales      | ✓ Improvement of our sales network / Realignment of sales offices<br>✓ Establishment of domestic and international academic networks |  |
| HR         | ✓ Development of human resources and securing the skilled employees  |  |

# Specific Efforts – Research and Development

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



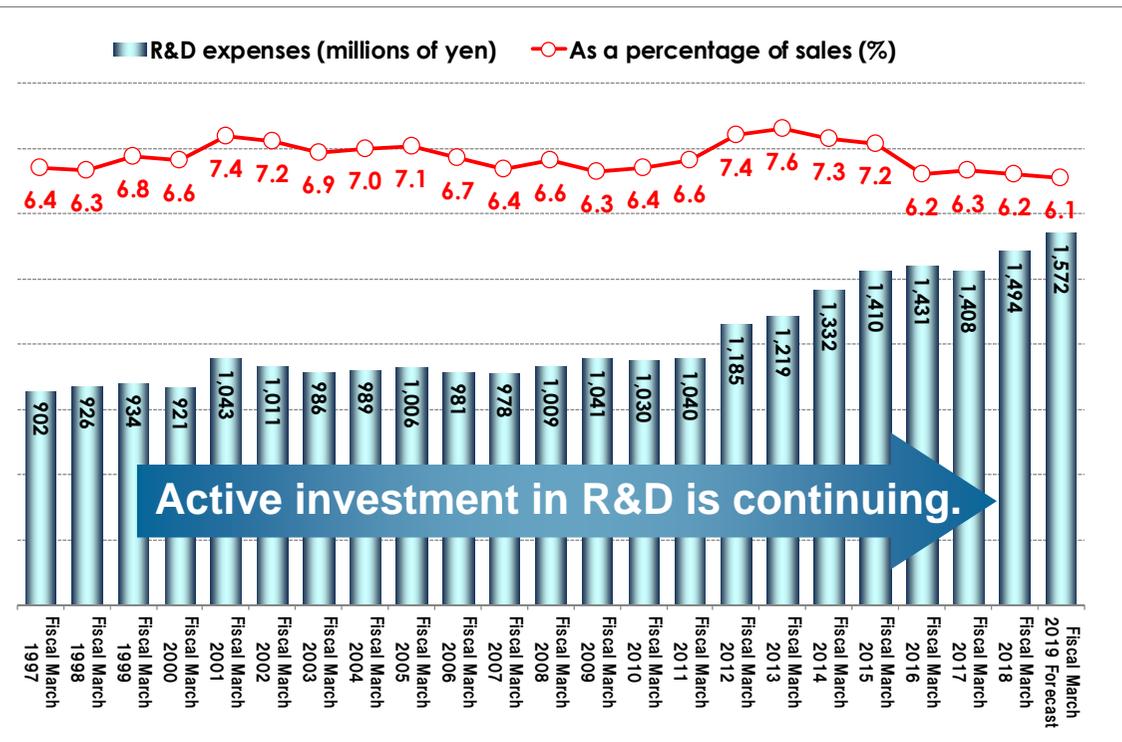
## ✧ Development and introduction of new products that match the local demands

➤ 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

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



## ✧ 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

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



## ◆ Improvement of our sales network

- Develop a network of overseas distributors.

## ◆ Realignment of sales offices

- 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



➤ Improve our customer service

➤ Enhance academic activities

➤ Speed up the product registration work

### [ Overseas sales Group companies ]



Shofu Dental Corporation (U.S.A.)



Shofu Dental GMBH (Germany)



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



Shofu Dental Asia-Pacific PTE (Singapore)



Merz Dental GmbH.(Germany)

### [ Other overseas bases ]

Sales company: Mexico, Brazil, India

Sales base : England, Taiwan, Italy

# Specific Efforts – MiCD Project

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



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

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



## Basic Policy

- 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.
- Ensuring profitability by improvement of in-house products ratio
- Expanding sales channels in overseas markets
  - U.S., Europe, Taiwan, South Korea, China



## Specific Efforts

- Capturing share in the LED gel market with improved Presto
- Improving competitiveness and profitability by integrating operations from product planning to sales
- Released self nail gel nail “by Nail Labo” (August 2014)
- Established joint venture in Taiwan (December 2014), began operation in January 2015
- Launched new “ageha Gel” brand of gel nail products for nail salons



# Progress of Specific Efforts (Summary 1)



| Key issues   | Progress of specific efforts   |
|--|--|
| <p><b>【Research and Development】</b><br/>Development and introduction of new products that match the local demands</p> | <ul style="list-style-type: none"> <li>① Developing products with a worldwide vision               <ul style="list-style-type: none"> <li>✓ Expand product range of LITE-FIL(chemical products) (Sequential expansion)</li> <li>✓ Further expand market share of dental digital cameras (Domestic: May 2017, Overseas: August 2017)</li> </ul> </li> <li>② Developing new products for regions' high-volume segments               <ul style="list-style-type: none"> <li>✓ Introduce acrylic artificial teeth to Asian markets (June 2015)</li> </ul> </li> <li>③ Developing products with the goal of creating markets in new fields               <ul style="list-style-type: none"> <li>✓ Proactively expand the latest CAD/CAM equipment and systems (Developing from May 2013)</li> <li>✓ Entering into the implant business (April 2015)</li> </ul> </li> </ul> |
| <p><b>【Production】</b><br/>Relocation of production base and expansion of offshore production</p>                      | <ul style="list-style-type: none"> <li>① Effectively utilizing existing domestic factories               <ul style="list-style-type: none"> <li>✓ Transfer manufacturing to domestic subsidiaries (Shofu products kyoto established: July 2014) (New plant of Shiga Shofu: January 2015)</li> <li>✓ Outsource domestic logistics functions (Eastern Japan: July 2012, West Japan: November 2015)</li> <li>✓ Restructure Head Office production system (Construction of a new factory in the head office: March 2017)</li> </ul> </li> <li>② Expanding offshore production               <ul style="list-style-type: none"> <li>✓ Expand production capabilities in Europe through the acquisition of Merz Dental GmbH (April 2015)</li> </ul> </li> </ul>  |

# Progress of Specific Efforts (Summary 2)



| Key issues  | Progress of specific efforts   |
|---|--|
| <p><b>【Sales】</b><br/>Improvement of sales network and sales offices, establishment of academic networks</p>  | <p>① Improve sales network and sales offices</p> <ul style="list-style-type: none"> <li>✓ Increase sales staff (Sequential enhancement)</li> <li>✓ Switch to a multiple agency structure (Europe / Asia Sequential development)</li> <li>✓ Develop new agencies (Latin America / China Sequential development)</li> <li>✓ Establish local corporations (Mexico: September 2014, Brazil: January 2017, India: April 2017)</li> <li>✓ Establish branches (Italy: April 2015, Taiwan: May 2015)</li> </ul> <p>② Establish academic networks</p> <ul style="list-style-type: none"> <li>✓ Increase KOL (Sequential enhancement)</li> <li>✓ proactively expand workshops and seminars (Sequential development)</li> </ul> |
| <p><b>【Acquisition of Merz Dental GmbH】</b><br/>Creating synergies in many areas, including R&amp;D capabilities, production and sales</p>  | <p>① Product development taking advantage of the quality and technological capabilities of SHOFU and the brand strengths of Merz Dental</p> <ul style="list-style-type: none"> <li>✓ Photopolymerized hard resins for crowns (March 2017)</li> <li>✓ Resin teeth (June 2017)</li> </ul>  |
| <p><b>【Nail care business】</b><br/>Work to expand the nail care business by taking advantage of the R&amp;D and production engineering capabilities the Company has developed in the dental materials business.</p> | <p>① Broaden lineup by releasing new in-house products (Sequential expansion)</p> <p>② Expand sales routes by developing and releasing “by Nail Labo”, the gel nail system for general consumers (August 2014)</p> <p>③ Expand overseas business (America, Asia) (Taiwan: December 2014)</p>   |

# Medium-term Management Plan – Principle Targets

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



★...Record Unit: Millions of yen, %

|   | Fiscal March 2018 (Results) | Mid-term Management Plan |                   |                   |
|---|-----------------------------|--------------------------|-------------------|-------------------|
|   |                             | Fiscal March 2019        | Fiscal March 2020 | Fiscal March 2021 |
| <b>Net sales</b>                            | ★ 24,031                    | ★ 25,725                 | ★ 27,419          | ★ 29,264          |
| (Change from Previous Period)               | (7.7%)                      | (7.1%)                   | (6.6%)            | (6.7%)            |
| <b>(Domestic sales)</b>                     | ★ 13,652                    | ★ 14,453                 | ★ 15,085          | ★ 15,700          |
| (Change from Previous Period)               | (3.5%)                      | (5.9%)                   | (4.4%)            | (4.1%)            |
| <b>(Overseas sales)</b>                     | ★ 10,378                    | ★ 11,271                 | ★ 12,333          | ★ 13,563          |
| (Change from Previous Period)               | (13.8%)                     | (8.6%)                   | (9.4%)            | (10.0%)           |
| <b>Operating income</b>                     | 1,497                       | 1,737                    | ★ 2,056           | ★ 2,341           |
| (Percentage of sales)                       | (6.2%)                      | (6.8%)                   | (7.5%)            | (8.0%)            |
| <b>Ordinary income</b>                      | 1,565                       | 1,630                    | ★ 1,946           | ★ 2,234           |
| (Percentage of sales)                       | (6.5%)                      | (6.3%)                   | (7.1%)            | (7.6%)            |
| <b>Net income</b>                           | 877                         | ★ 1,109                  | ★ 1,370           | ★ 1,596           |
| (Percentage of sales)                       | (3.7%)                      | (4.3%)                   | (5.0%)            | (5.5%)            |
| <b>Dental business Overseas sales ratio</b> | ★ 43.5%                     | ★ 44.6%                  | ★ 46.0%           | ★ 47.6%           |

\* "Net income" figures 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 Income)

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



Unit: Millions of yen, %

|                    | Fiscal March 2018 (Results) |              | Mid-Term Management Plan |              |                   |              |                   |              |
|--------------------|-----------------------------|--------------|--------------------------|--------------|-------------------|--------------|-------------------|--------------|
|                    |                             |              | Fiscal March 2019        |              | Fiscal March 2020 |              | Fiscal March 2021 |              |
|                    | Amount                      | %            | Amount                   | %            | Amount            | %            | Amount            | %            |
| Dental business    | 21,447                      | 89.2         | 22,800                   | 88.6         | 24,227            | 88.4         | 25,787            | 88.1         |
| Nail care business | 2,486                       | 10.3         | 2,806                    | 10.9         | 3,068             | 11.2         | 3,343             | 11.4         |
| Other businesses   | 105                         | 0.4          | 117                      | 0.5          | 123               | 0.5          | 133               | 0.5          |
| <b>Net sales</b>   | <b>24,038</b>               | <b>100.0</b> | <b>25,725</b>            | <b>100.0</b> | <b>27,419</b>     | <b>100.0</b> | <b>29,264</b>     | <b>100.0</b> |

|                         |              |            |              |            |              |            |              |            |
|-------------------------|--------------|------------|--------------|------------|--------------|------------|--------------|------------|
| Dental business         | 1,410        | 6.6        | 1,575        | 6.9        | 1,867        | 7.7        | 2,070        | 8.0        |
| Nail care business      | 63           | 2.5        | 145          | 5.2        | 169          | 5.5        | 243          | 7.3        |
| Other businesses        | 17           | 16.8       | 16           | 13.7       | 18           | 15.3       | 27           | 20.5       |
| <b>Operating income</b> | <b>1,491</b> | <b>6.2</b> | <b>1,737</b> | <b>6.8</b> | <b>2,056</b> | <b>7.5</b> | <b>2,341</b> | <b>8.0</b> |

# Medium-term Management Plan Capital Investments, Depreciation Expenses, R&D Expenses

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



Unit: Millions of yen

|                                     | Fiscal<br>March<br>2018<br>(Results) | Mid-Term Management Plan |                         |                         |
|-------------------------------------|--------------------------------------|--------------------------|-------------------------|-------------------------|
|                                     |                                      | Fiscal<br>March<br>2019  | Fiscal<br>March<br>2020 | Fiscal<br>March<br>2021 |
| Capital investment                  | 710                                  | 1,080                    | 967                     | 967                     |
| Depreciation expenses               | 975                                  | 1,003                    | 1,003                   | 1,003                   |
| (of which goodwill<br>amortization) | 108                                  | 108                      | 108                     | 108                     |
| R&D expenses                        | 1,494                                | 1,572                    | 1,596                   | 1,604                   |

• The foreign exchange rates given are those in effect at the average of each term;  
conversions of items in the financial statements of overseas subsidiaries all use average rates.

\*Capital investment, depreciation expenses and R&D expenses above are recorded only for those realized  
at this moment. Profit plan includes certain strategy investment expenses.

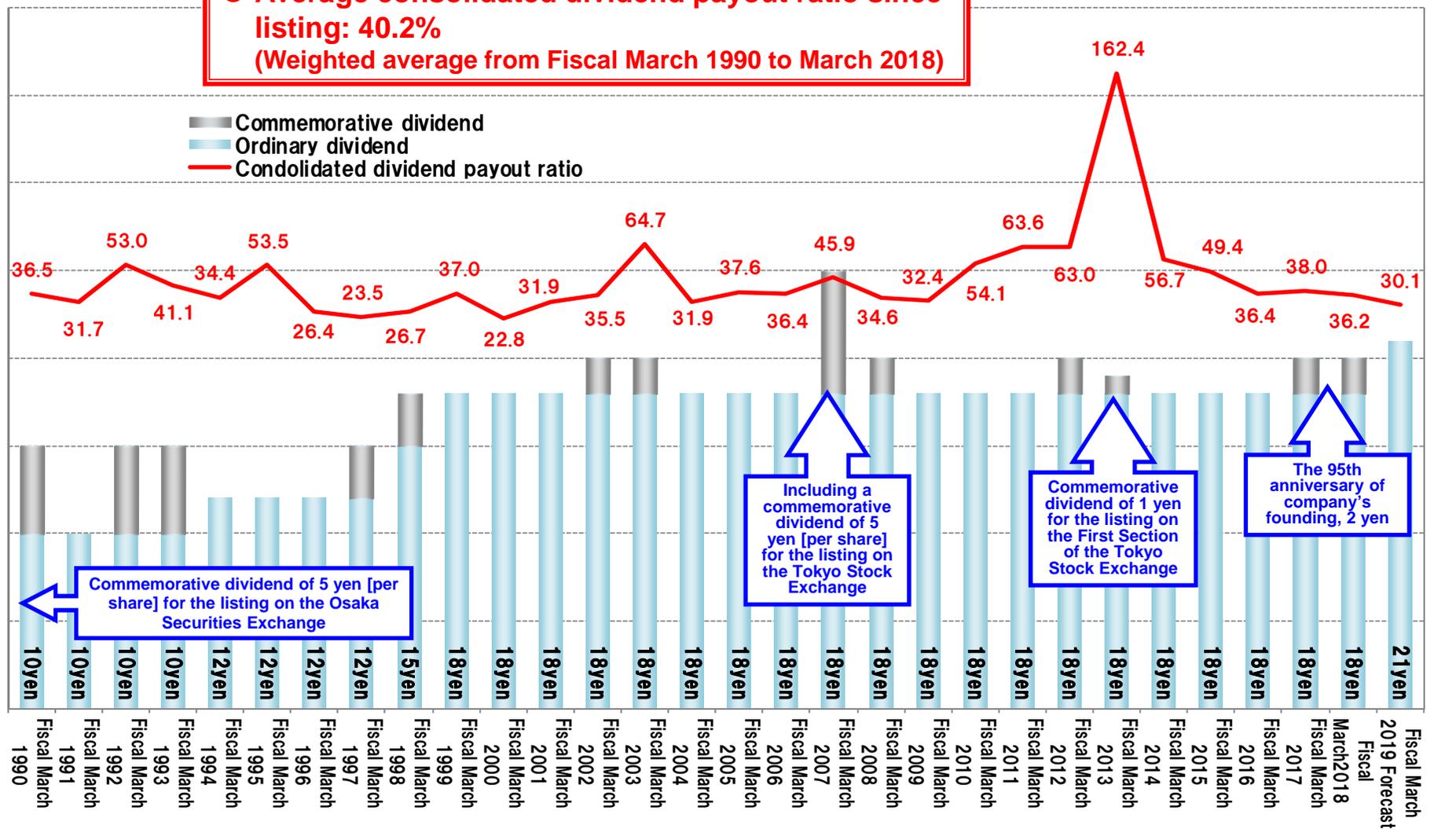
# Dividend Policy

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



➤ Target dividend payout ratio: More than 30%

➤ Average consolidated dividend payout ratio since listing: 40.2%  
(Weighted average from Fiscal March 1990 to March 2018)





**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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Higashiyama-ku, Kyoto 605-0983, Japan**

**Phone: +81-75-561-1112**

**Fax: +81-75-561-1227**

**URL: <http://www.shofu.co.jp>**

**E-mail: [ir@shofu.co.jp](mailto: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

Company and Business Profiles



|                             |  |                        |
|-----------------------------|--|------------------------|
| ■ Company name              | SHOFU Inc.   | (As of March 31, 2018) |
| ■ 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  |                        |
| ■ Number of employees       | 435 (entire group: 1124, including 522 in overseas subsidiaries)   |                        |
| ■ Business                  | Manufacture and sale of dental materials and equipment   |                        |
| ■ Main customers            | Dental institutions (via sales agencies)   |                        |
| ■ Number of group companies | 17 (four in Japan, thirteen overseas)<br>Dental companies: 14 (three in Japan, eleven overseas)<br>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 products

Artificial tooth and implant materials

- Porcelain teeth, porcelain powder, resin teeth



## Abrasives products

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



## Cement products ,other

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

- Dental cements
- Dental stones and investments



## Machinery ,equipment & other products

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 (1)

⇒ Company and Business Profiles



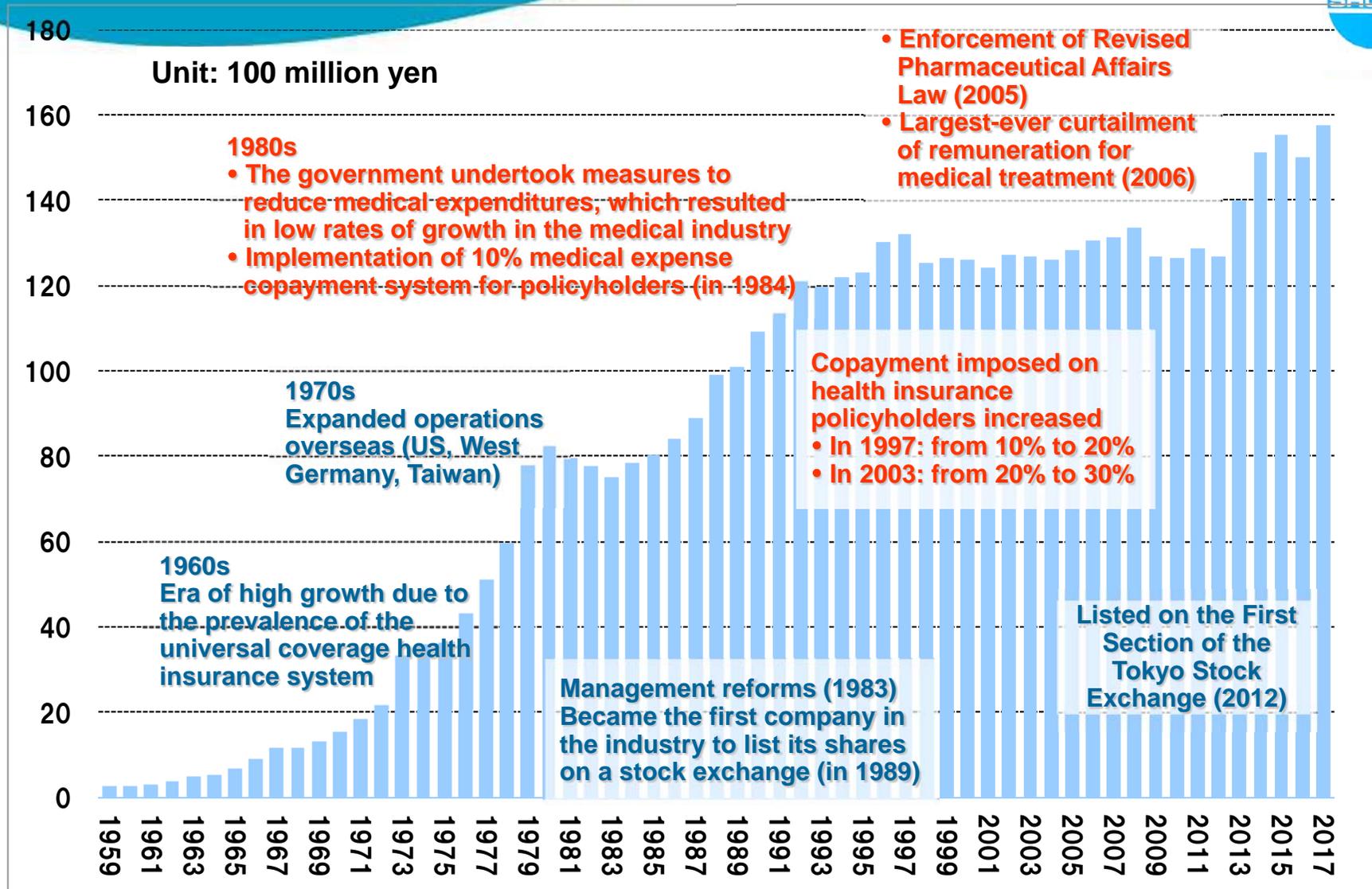
- **1922** Shofu Dental Manufacturing Co., Ltd. founded and commenced the manufacture and sale of Japan's first artificial teeth.
- **1963** Shofu shares listed on the over-the-counter market.
- **1971~1978** Established sales subsidiaries in the U.S. and West Germany. Started overseas production (in 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. Obtained 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 80th anniversary of its founding. 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.
- **2005** Acquired Shoken Inc. as a wholly owned subsidiary through a share exchange. Established Shofu Dental Supplies (Shanghai) Co., Ltd., a sales facility in China.

# Corporate History (2)



- 2006** Training Center designed to promote customers service completed (in August).
- 2007** Celebrated the 85th anniversary of its founding. 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. 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.
- 2017** Established a subsidiary in Brazil  
Established a subsidiary in India

# Corporate History - Sales

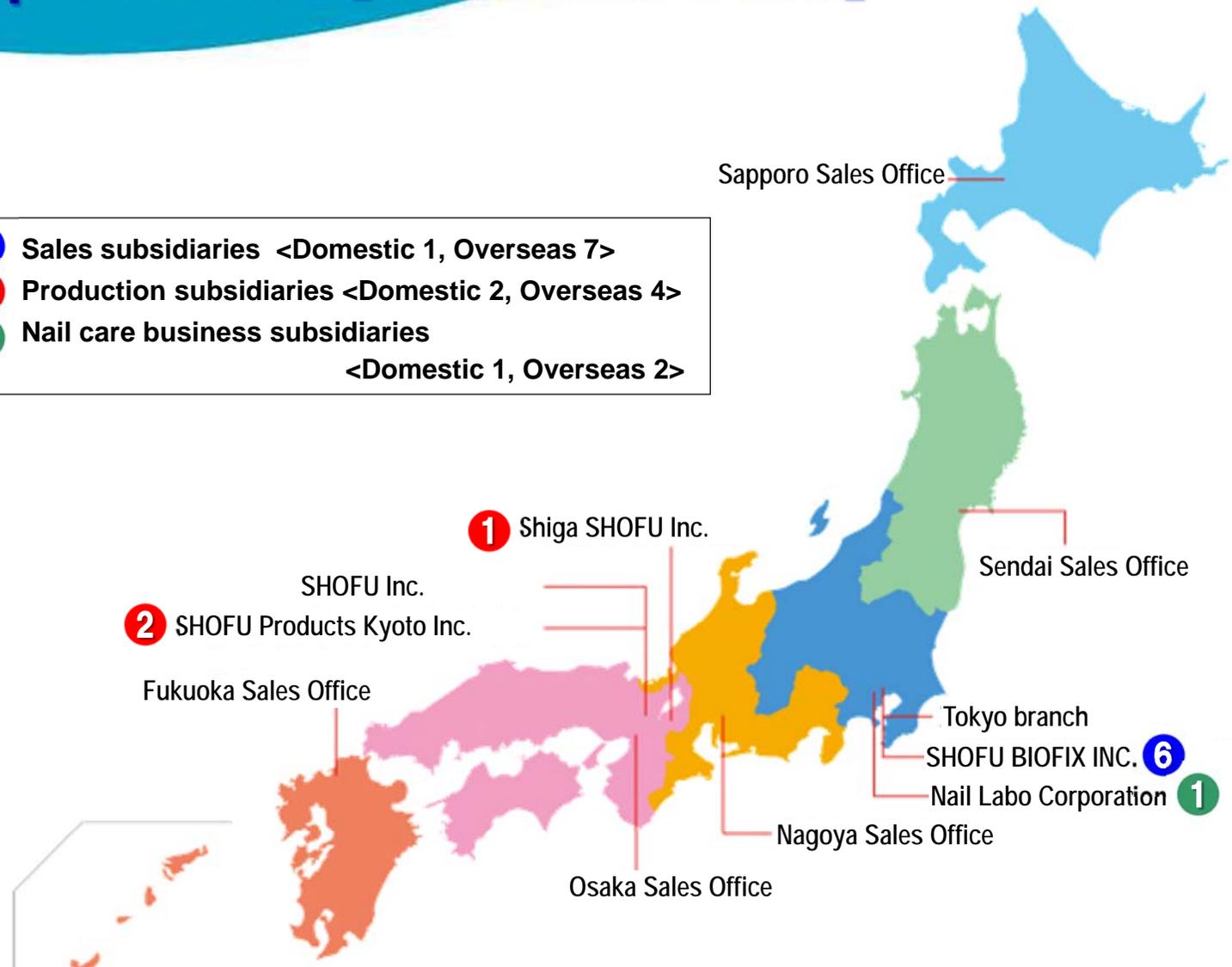


# Group Overview [Domestic base]

Company and Business Profiles

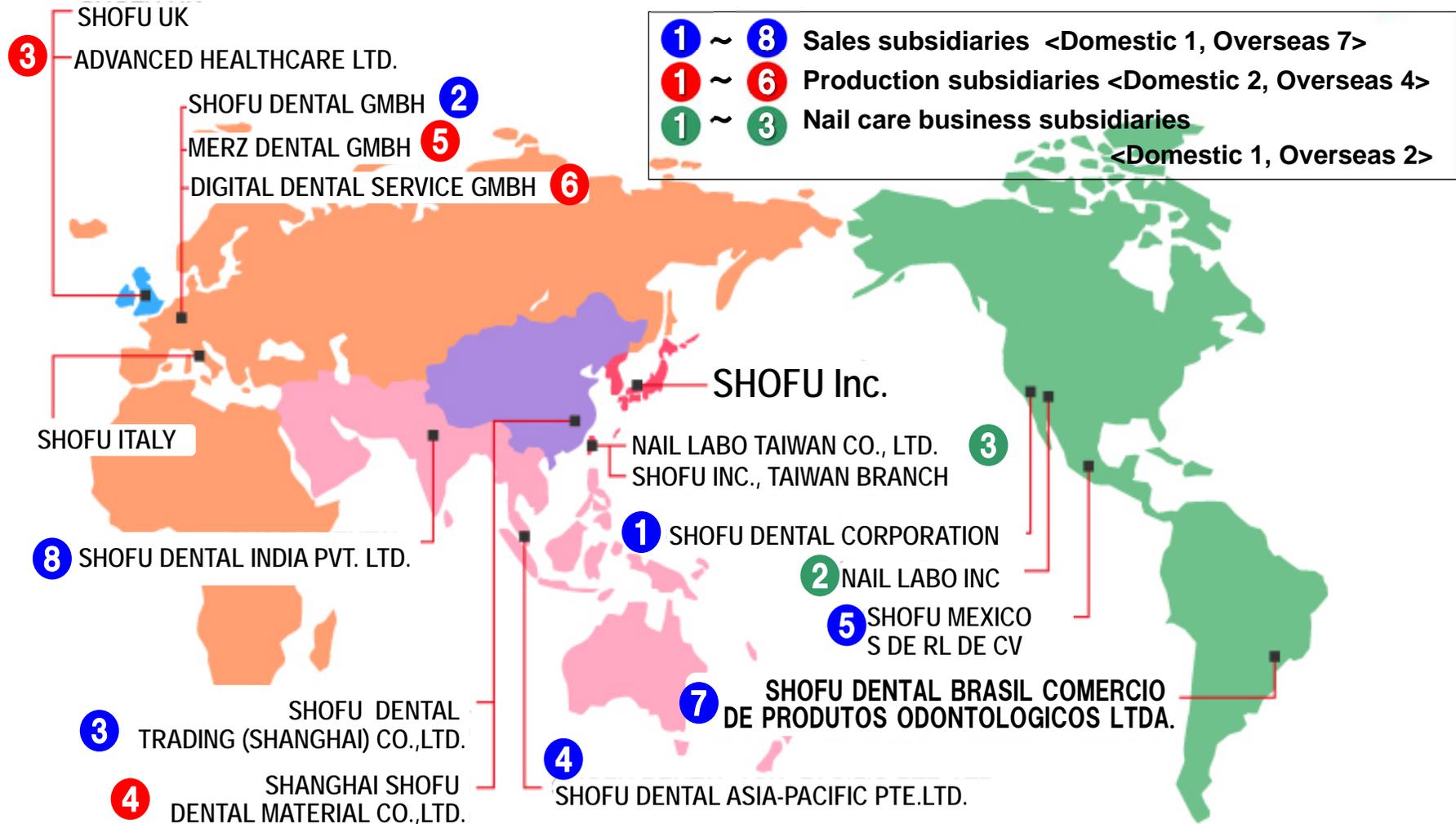


- ① ~ ⑧ Sales subsidiaries <Domestic 1, Overseas 7>
- ① ~ ⑥ Production subsidiaries <Domestic 2, Overseas 4>
- ① ~ ③ Nail care business subsidiaries  
<Domestic 1, Overseas 2>

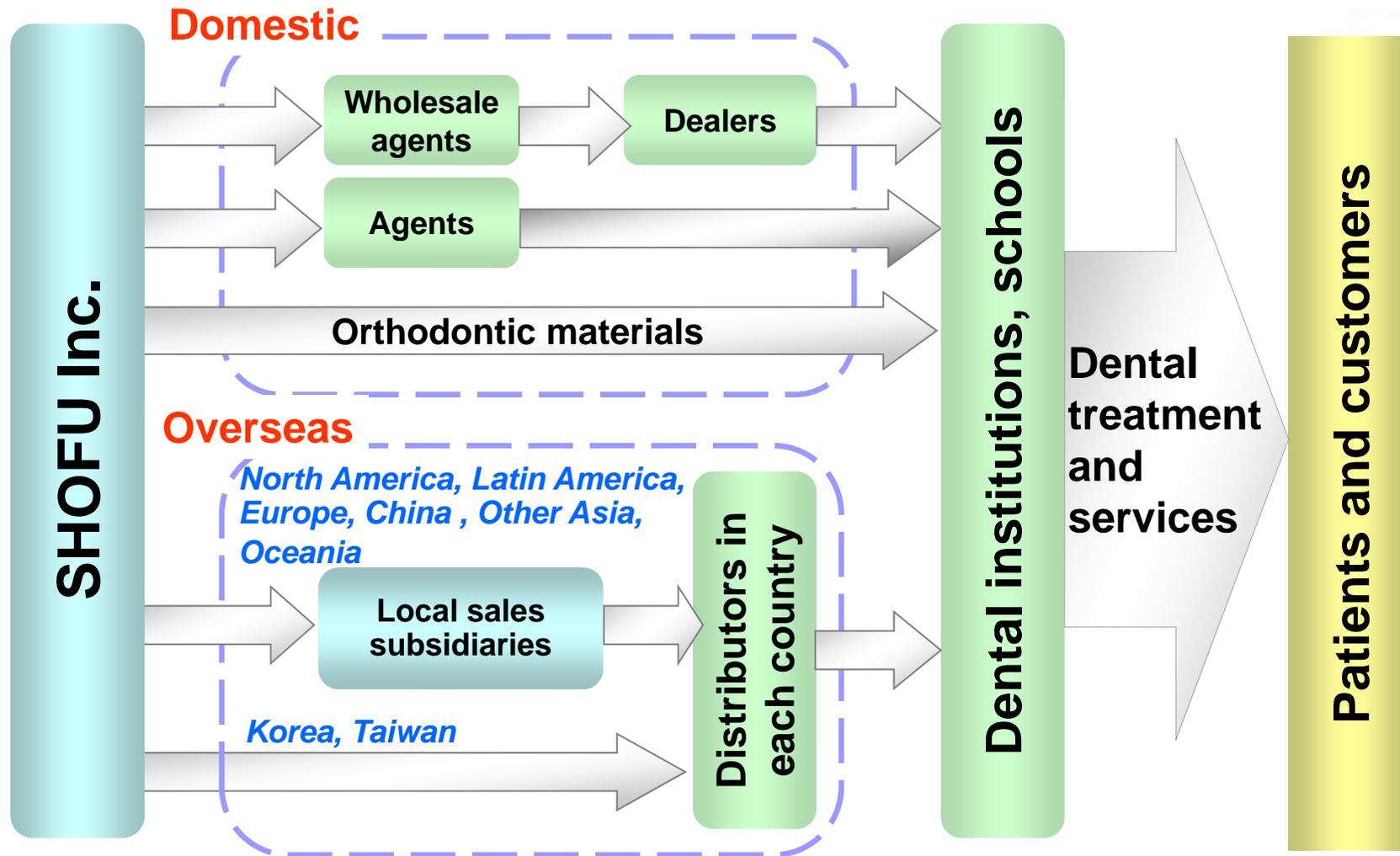


# Group Overview [Overseas base]

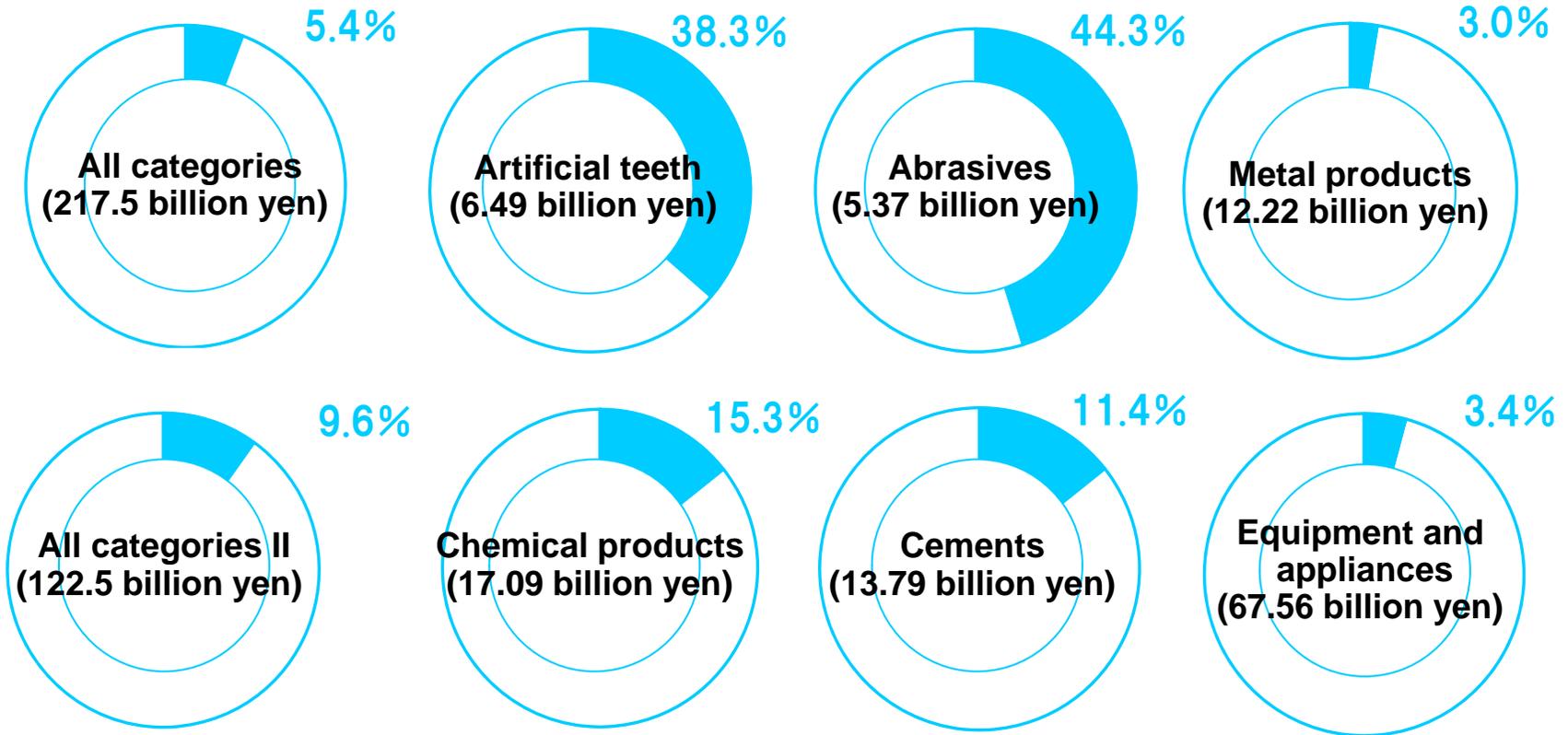
Company and Business Profiles



# 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 2015)

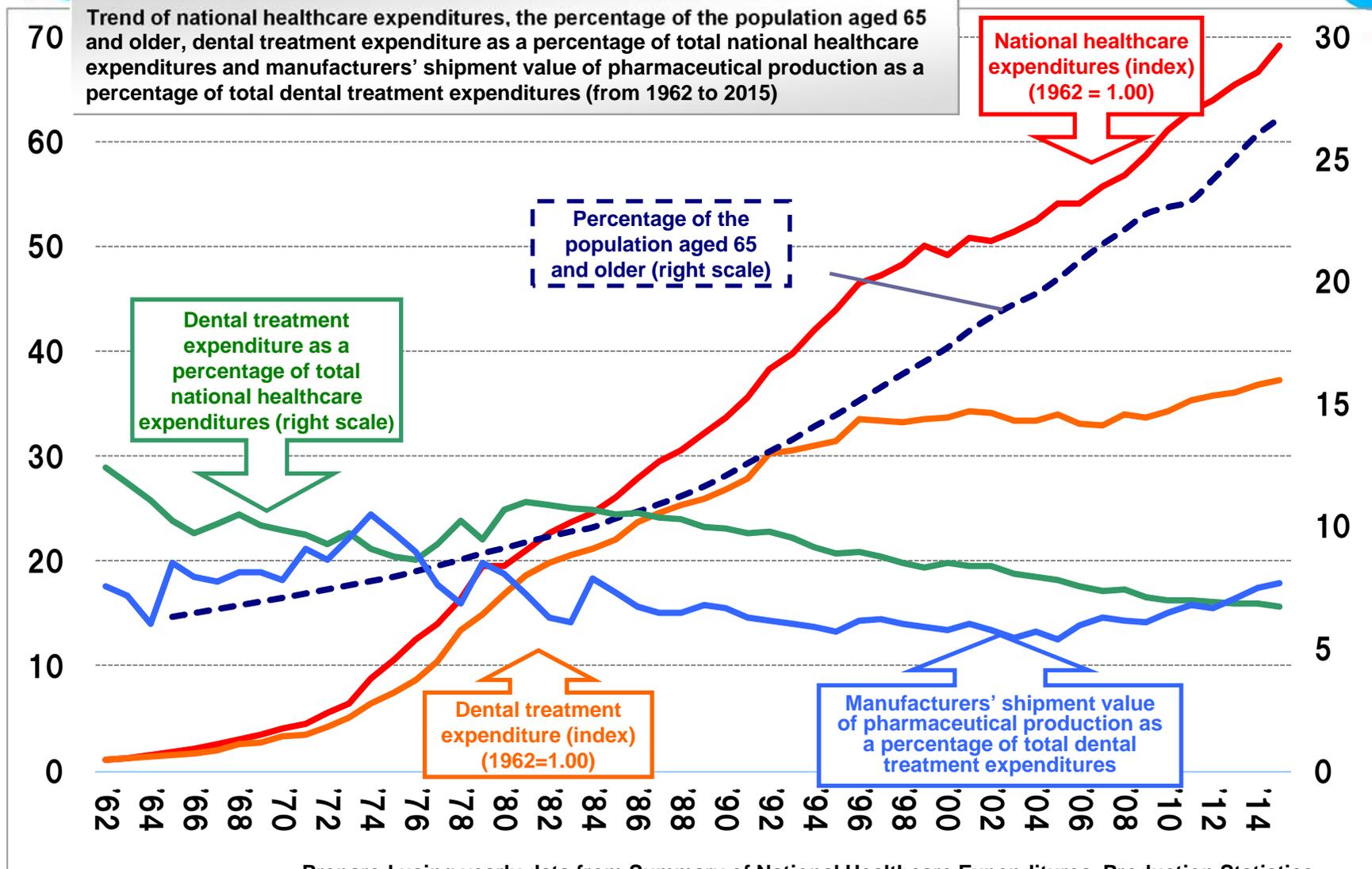
Figures in parentheses represent market size. (Figures rounded down to the nearest ten million yen)



**Reference <Dentistry Data>**

# Long-term Trend of Dentistry-Related Statistics

Reference <Dentistry Data>

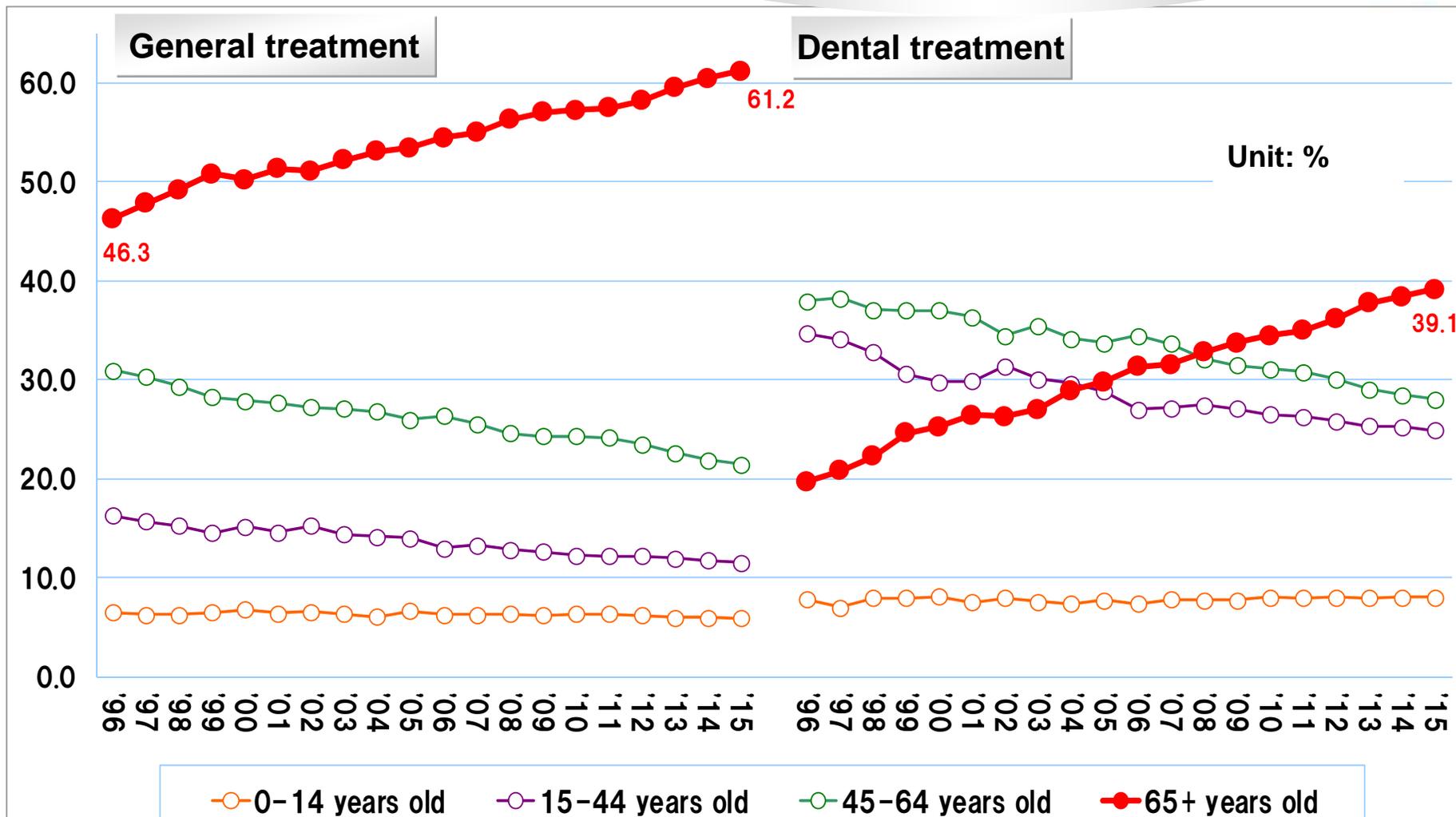


# Healthcare Expenditures by Age Group (Component Ratio)

Reference <Dentistry Data>



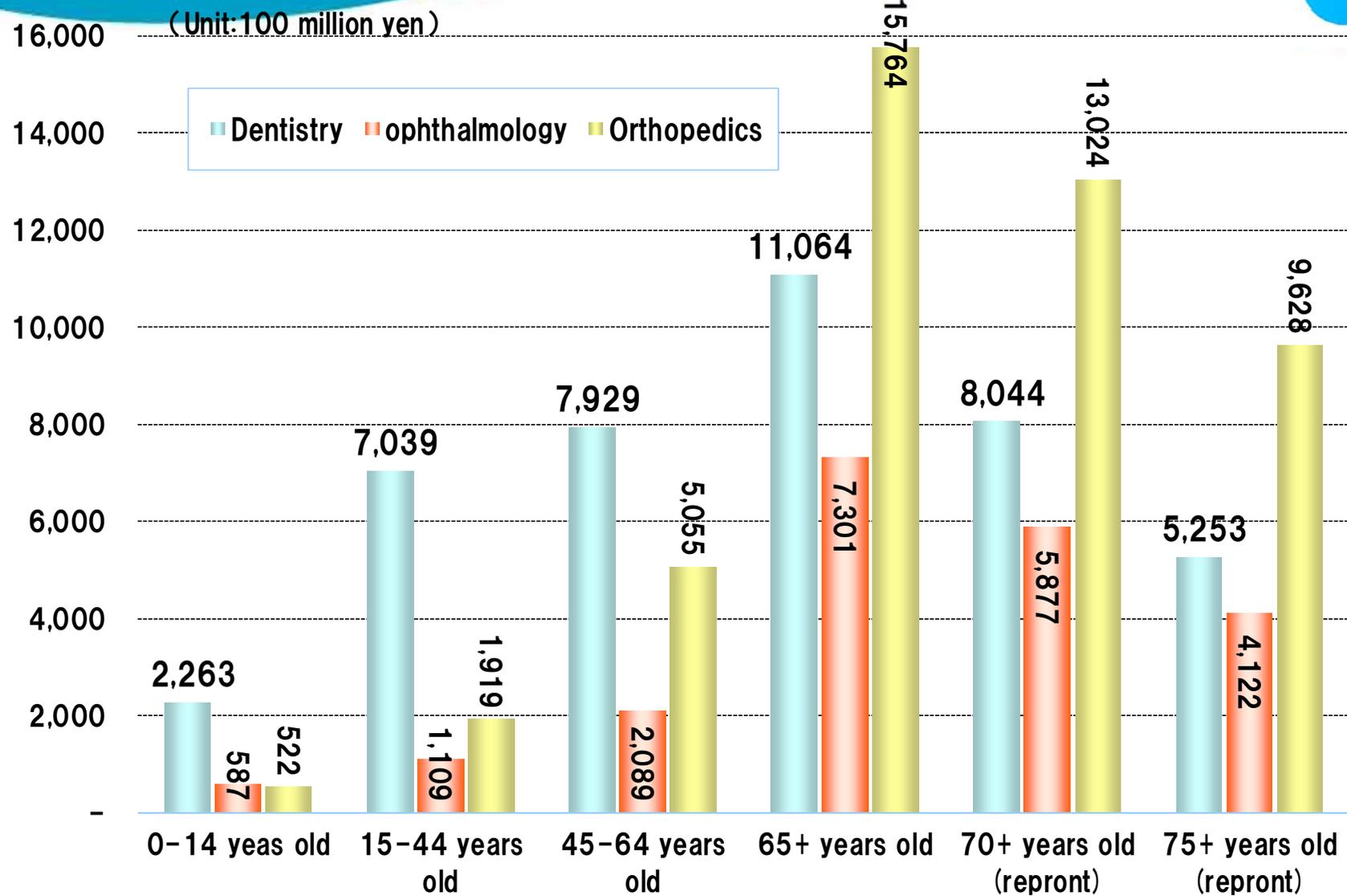
People aged 65 years and older tend to place less importance on dental treatment than general medical treatment.



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

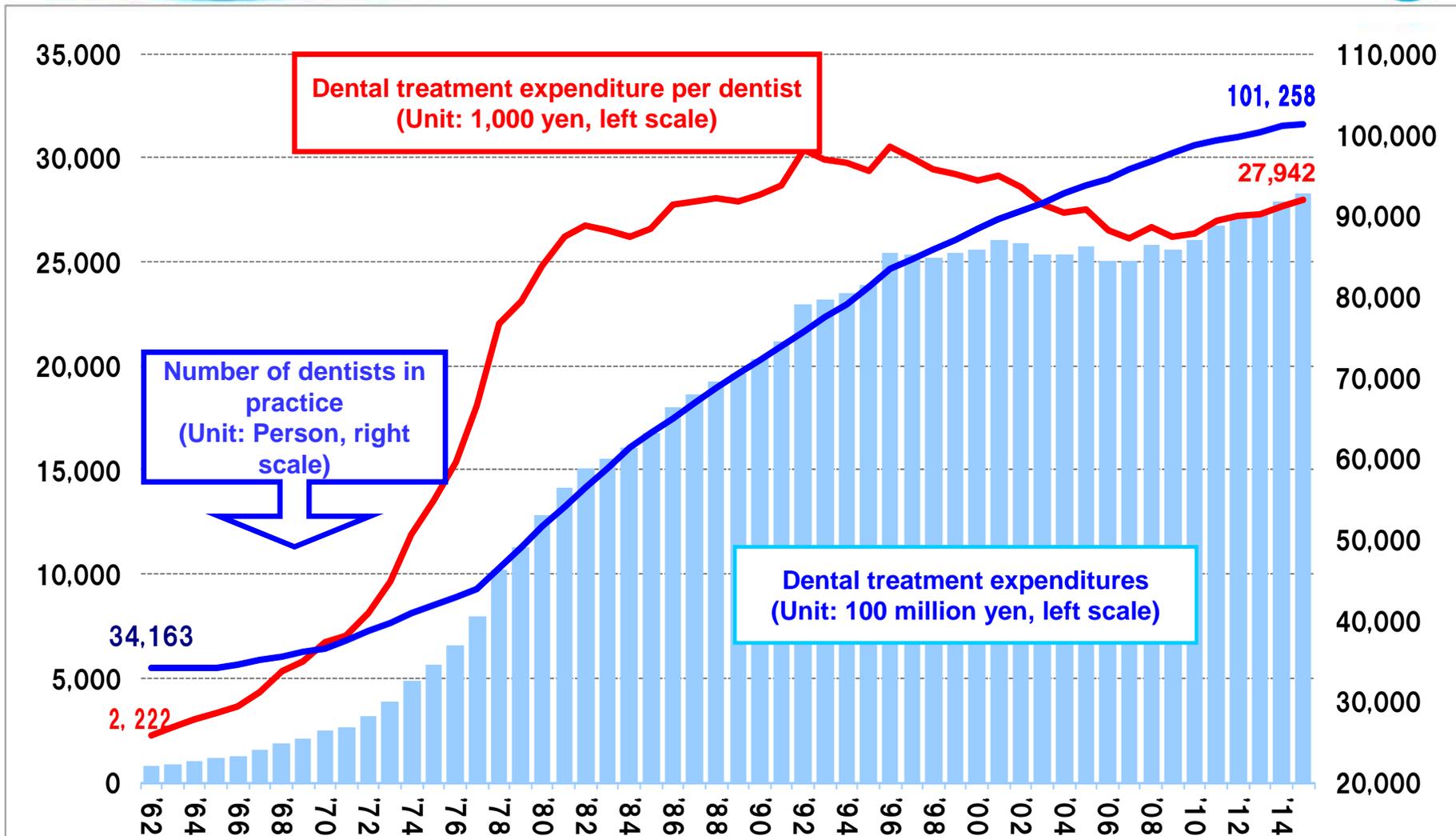
# Comparison of Healthcare Expenditures by Age Group - Dentistry, Ophthalmology and Orthopedics

Reference <Dentistry Data>



# Trend of the Number of Dentists and Dental Treatment Expenditure

Reference <Dentistry Data>



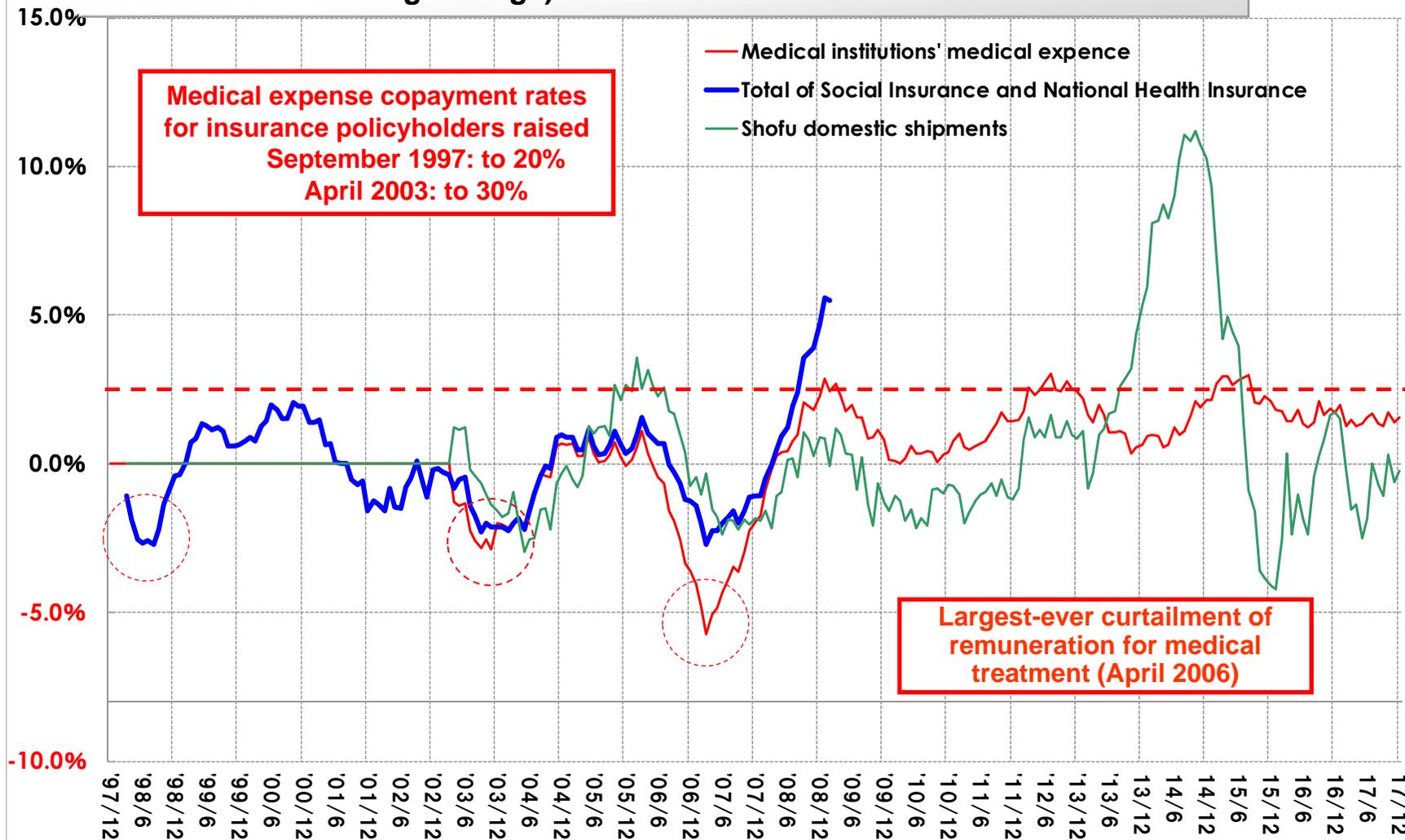
Prepared using yearly data from Summary of National Healthcare Expenditures, Survey on Doctors, Dentists and Pharmacists (Ministry of Health, Labour and Welfare)

# Dental Treatment Expenditures

Reference <Dentistry Data>



Year-on-year comparison of amount paid by dental health insurance (deviation from 12-month moving average) from December 1997 to December 2017

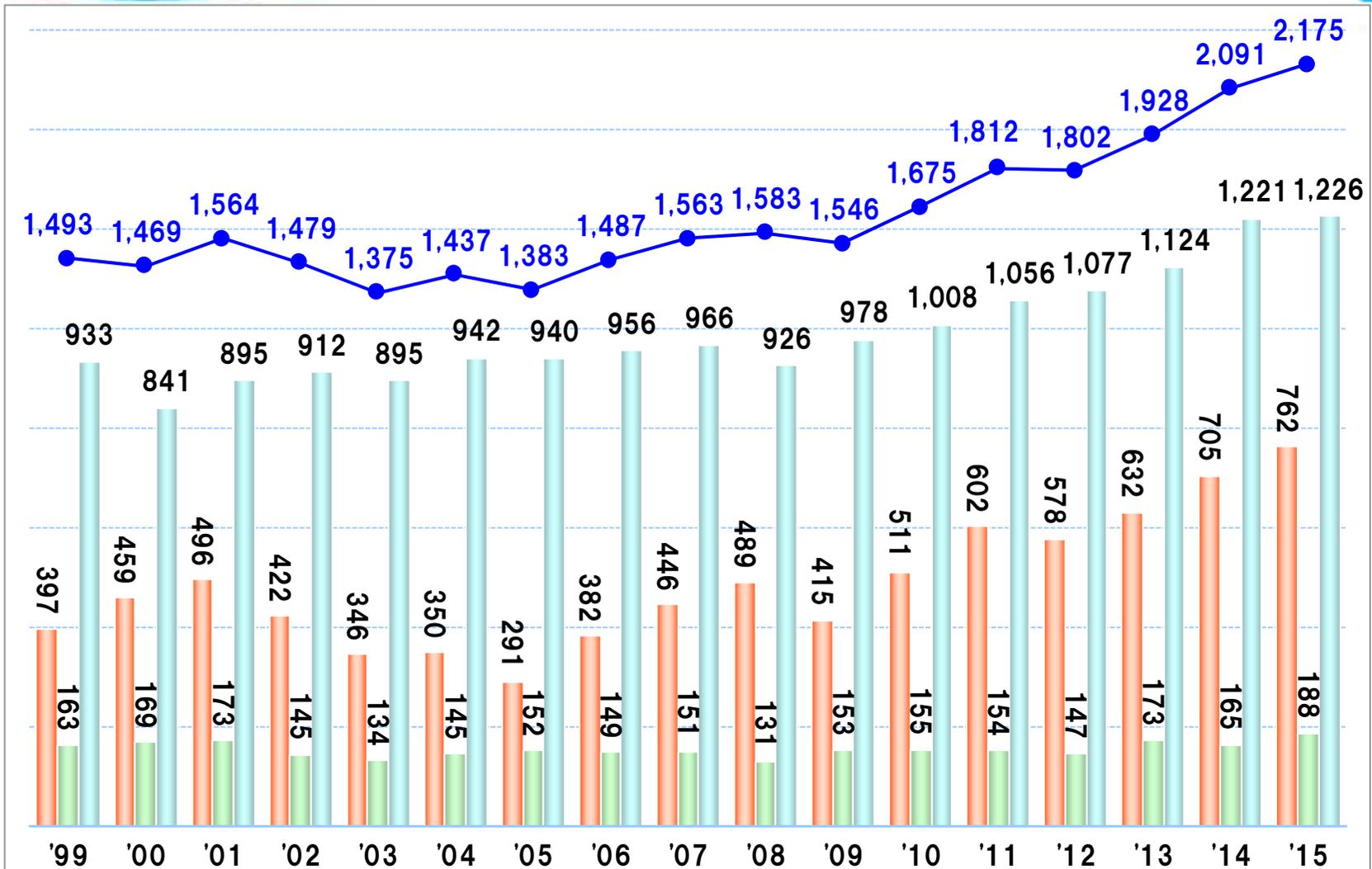


# Trend of Shipment Value of Pharmaceutical Industry Production

Reference <Dentistry Data>



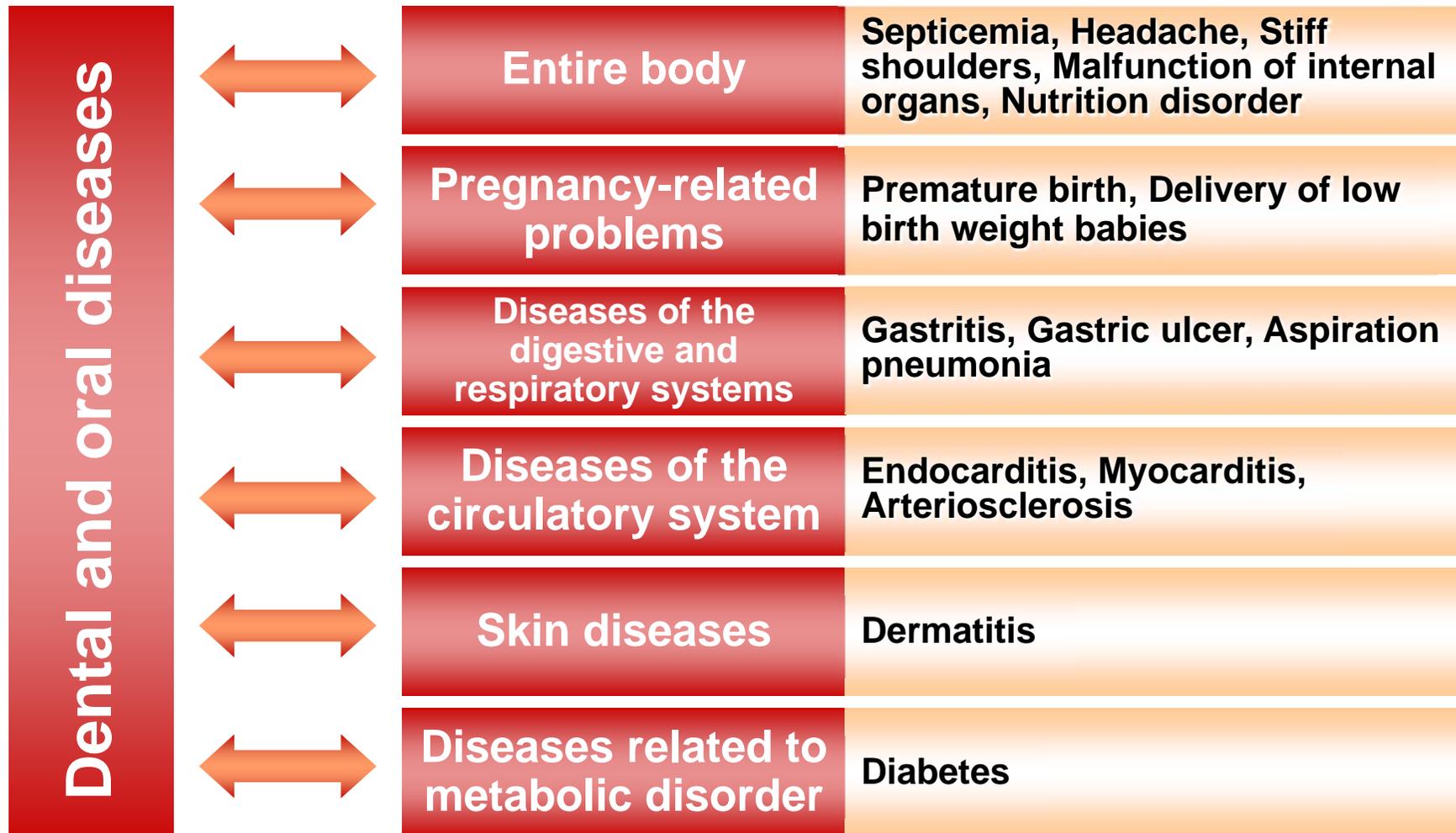
Shipment value, Unit: 100 million yen



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

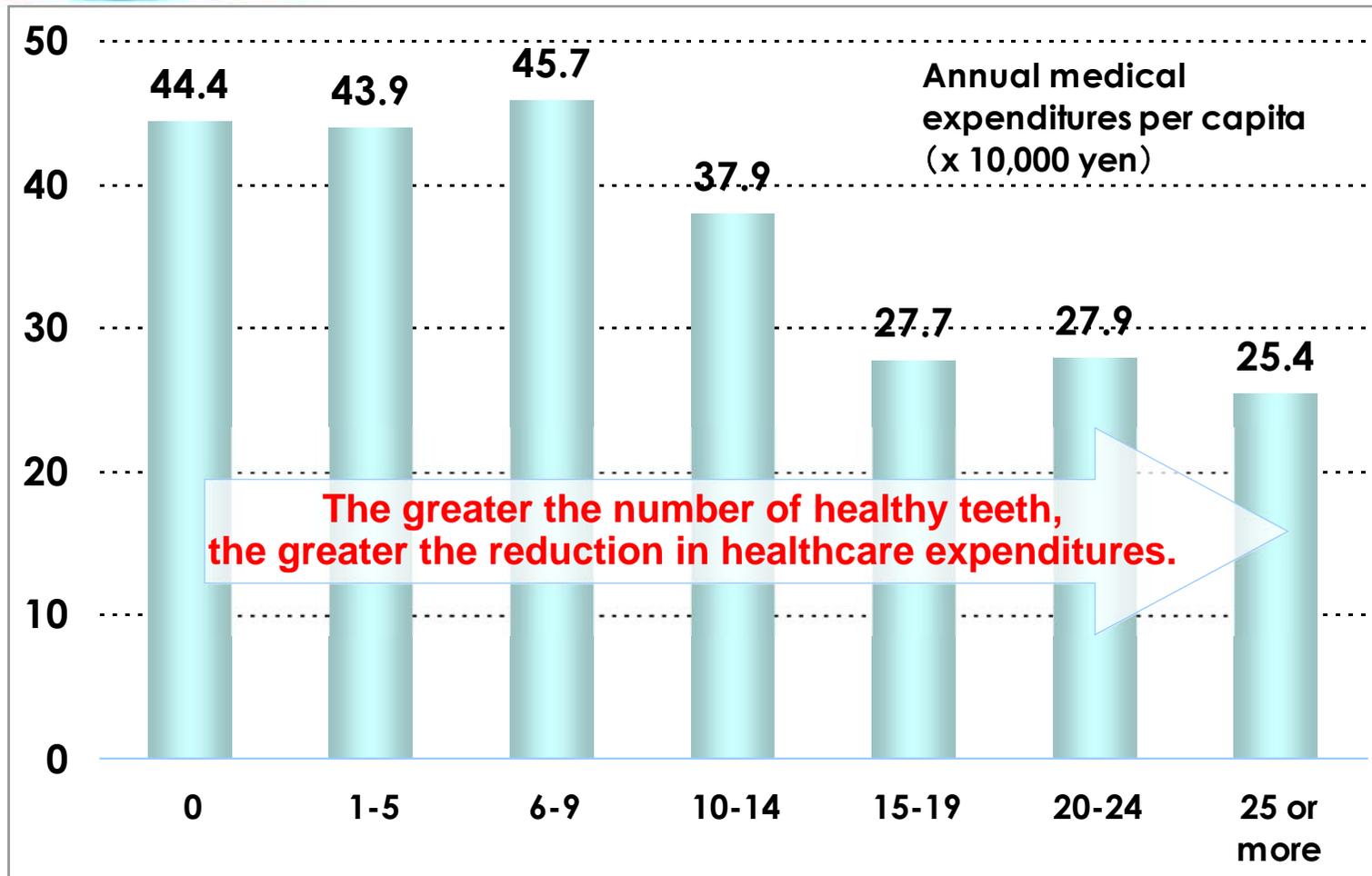
Reference <Dentistry Data>



(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

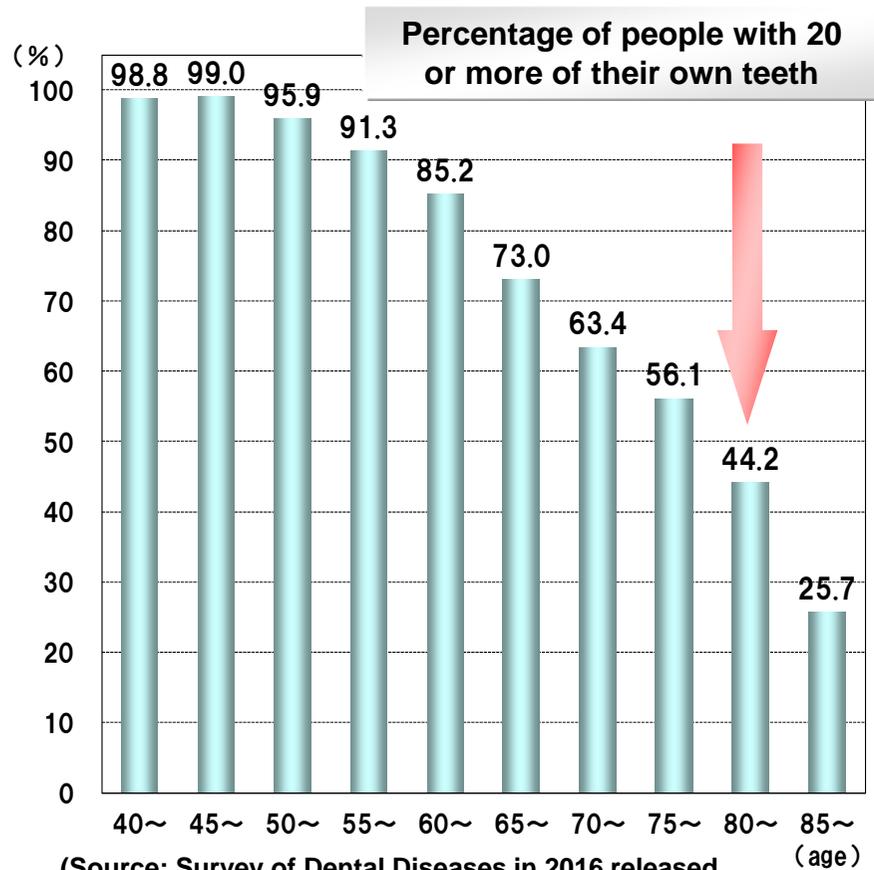
Subjects surveyed: 954 persons aged 80 living independently (392 men, 562 women)

# The 8020 Movement and Changes in Dental Diseases

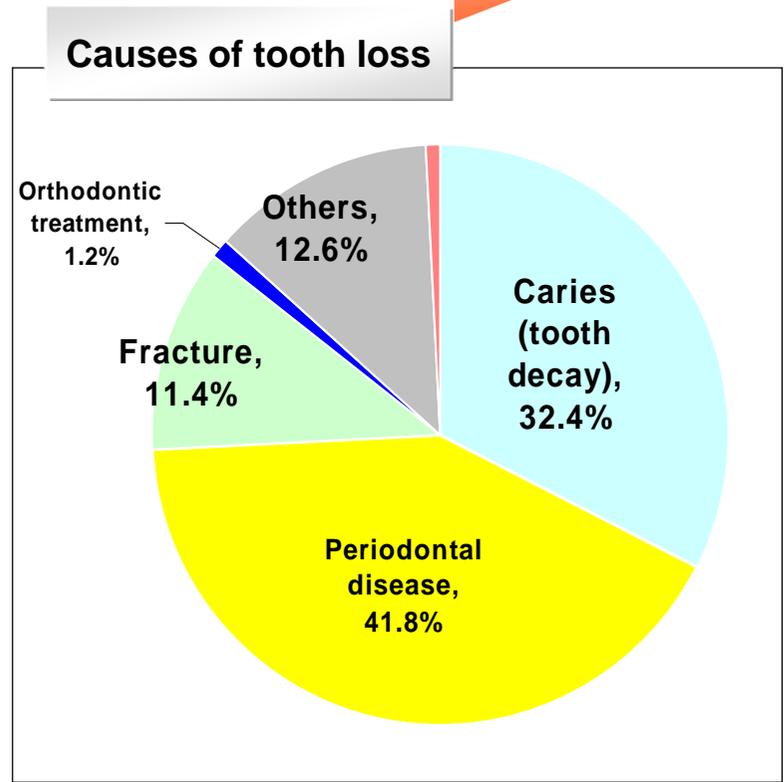
☞ Reference <Dentistry Data>



**The primary target of “20% of the population achieving 8020” was reached in 2006.**



(Source: Survey of Dental Diseases in 2016 released by the Ministry of Health, Labour and Welfare)



(Survey by the 8020 Promotion Foundation in 2005)

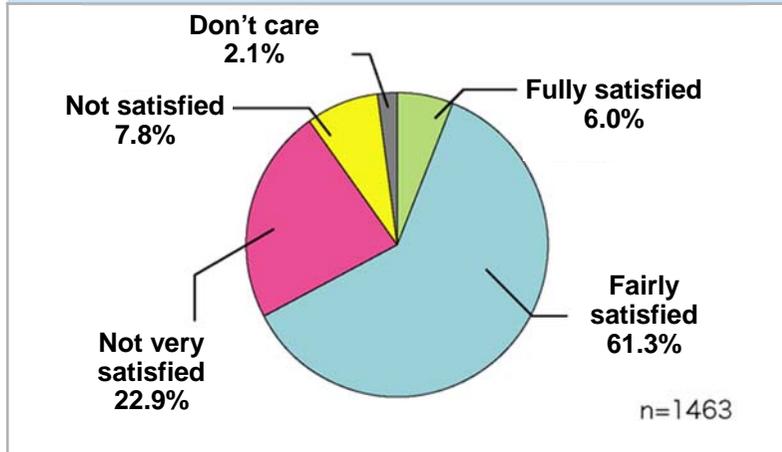
# Perception of Dental and Oral Health

Reference <Dentistry Data>

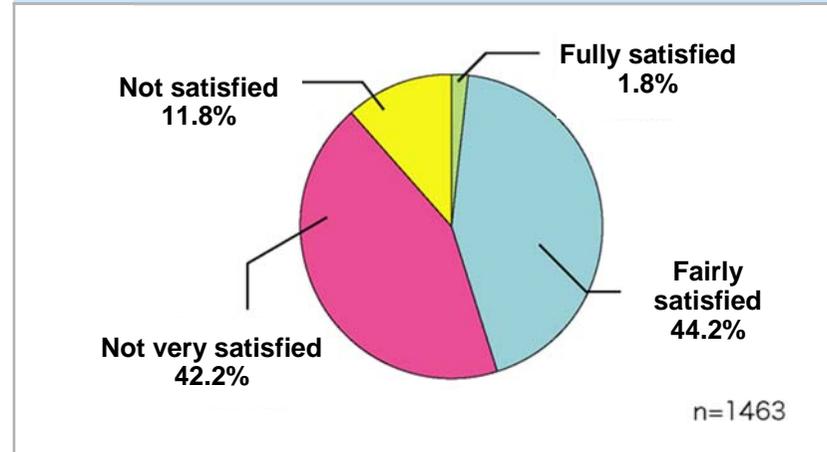


Source: Fiscal 2007's Dental Equipment Industry Vision (References)

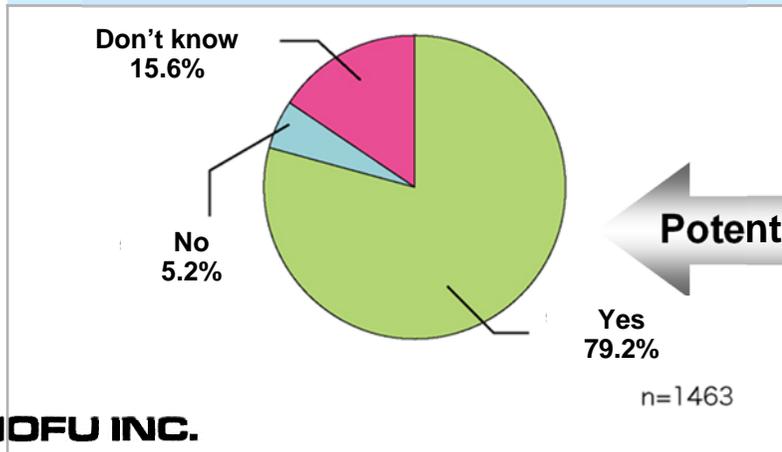
## Are you satisfied with your physical health?



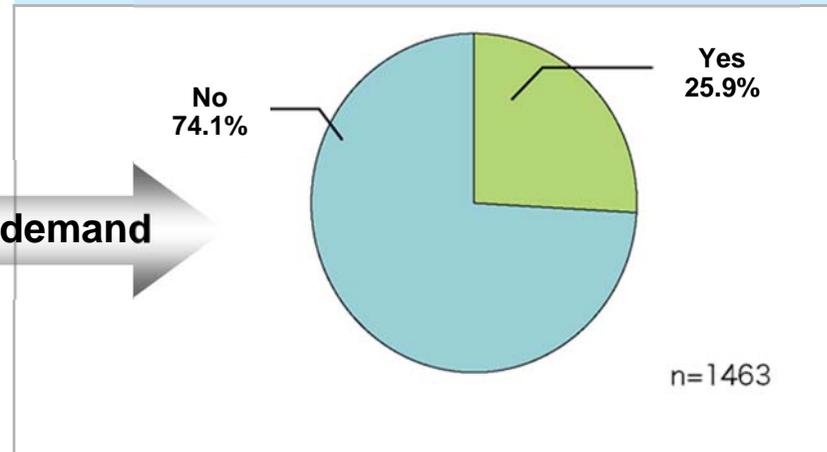
## Are you satisfied with your oral health?



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

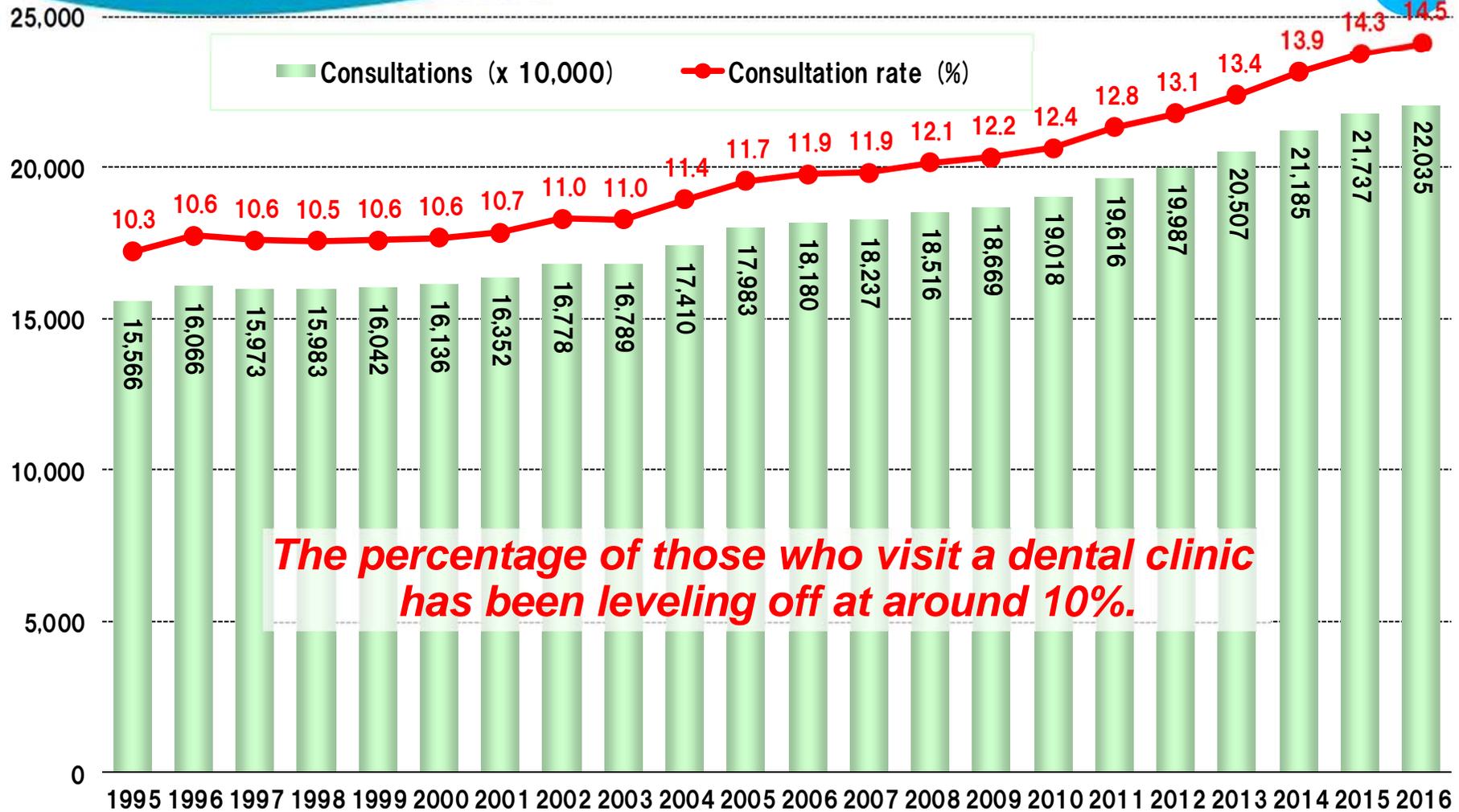


## Do you actually receive regular dental care?



# 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)

# 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

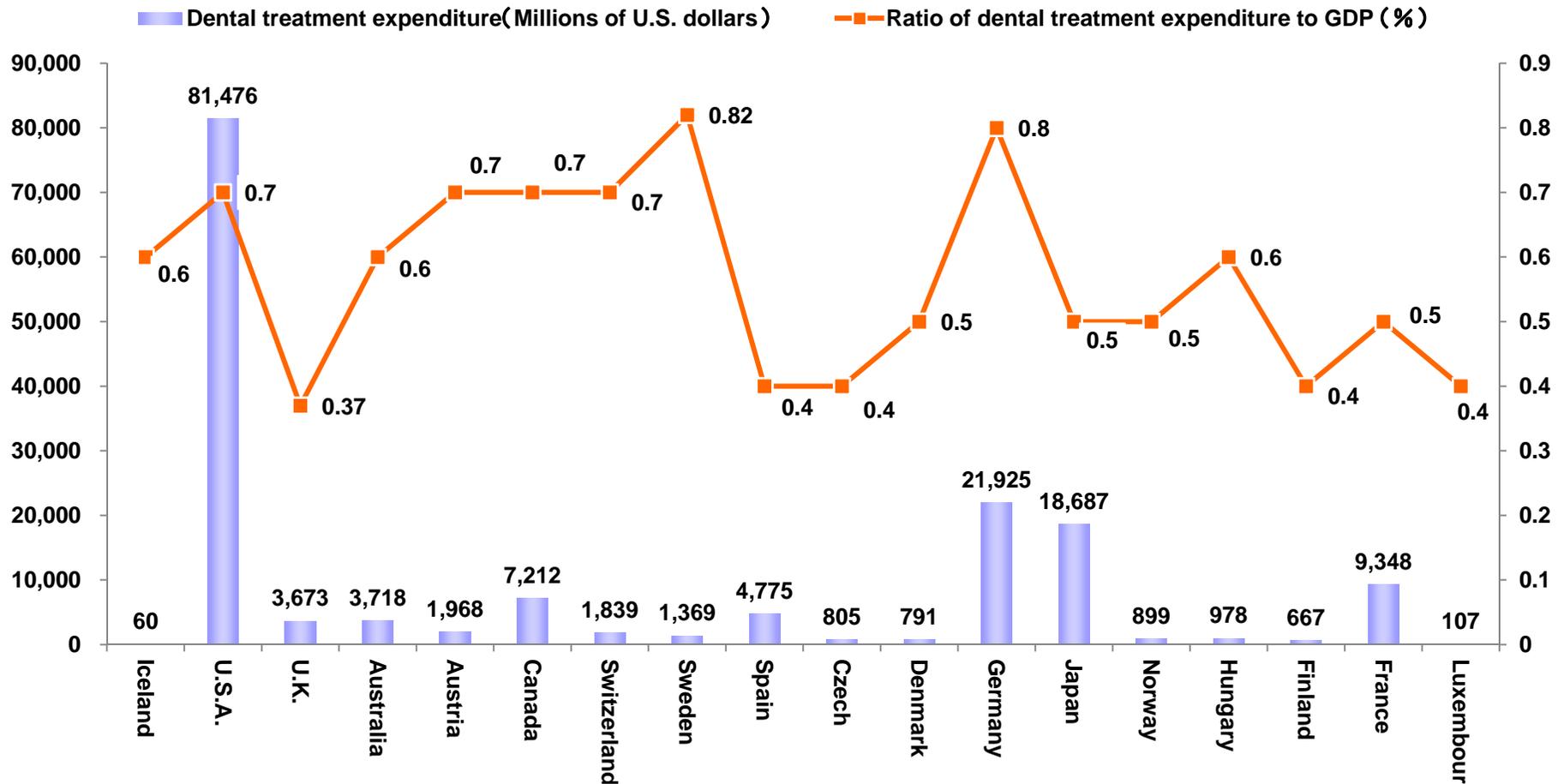
\* Consulted an article titled "Reasons for the Success of the Canadian Dental Community" (DH Style, September 2007) by Ken Yaegaki DDS Ph.D., Professor and head of the Department of Oral Health, Nippon Dental

# 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.

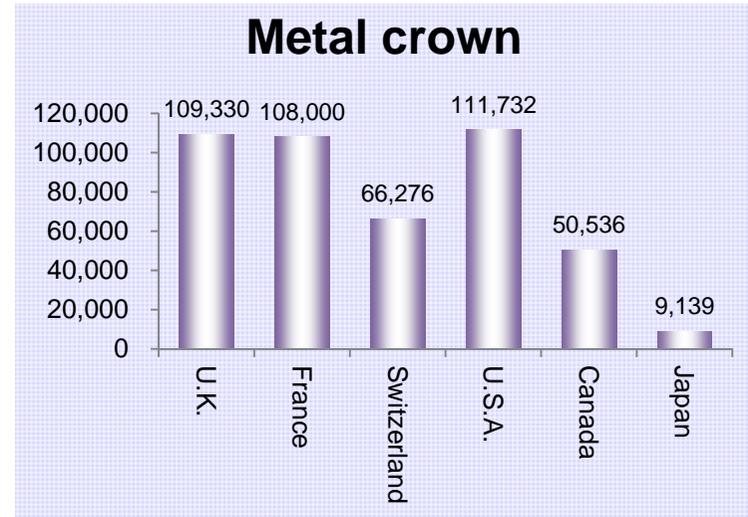
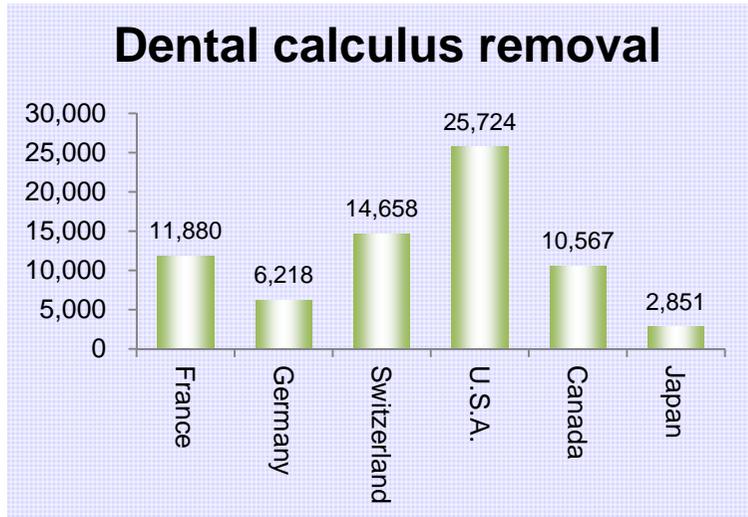
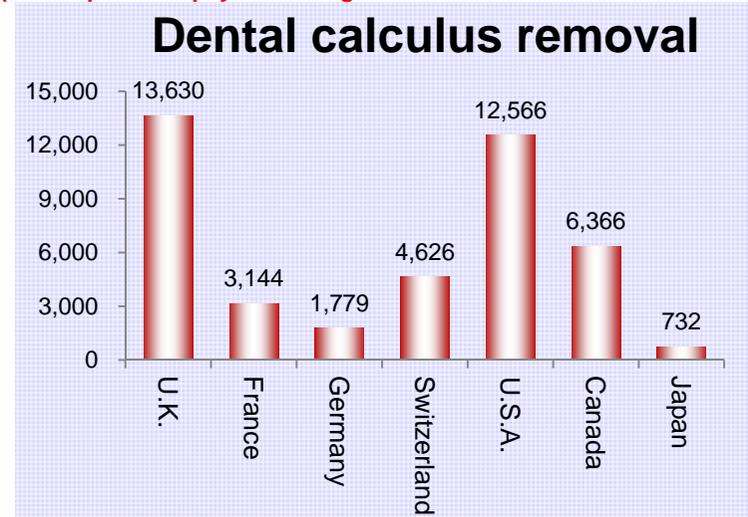
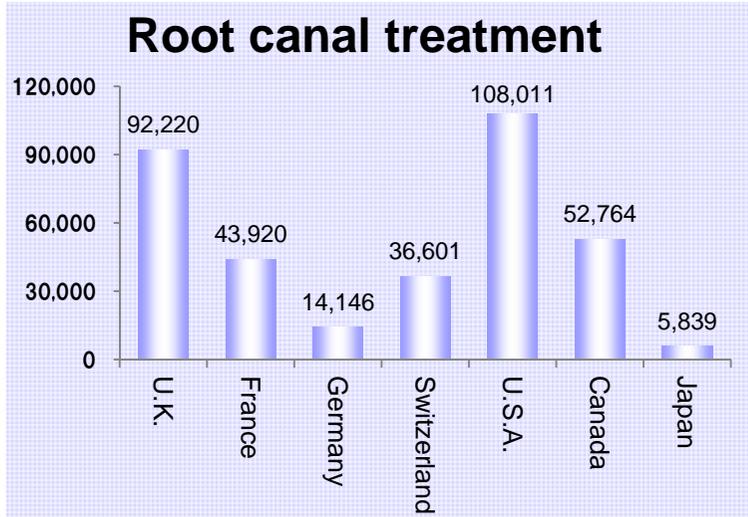
2. The above data for each country is as of 2004 except for Sweden's data, which is as of 1992.

# 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>

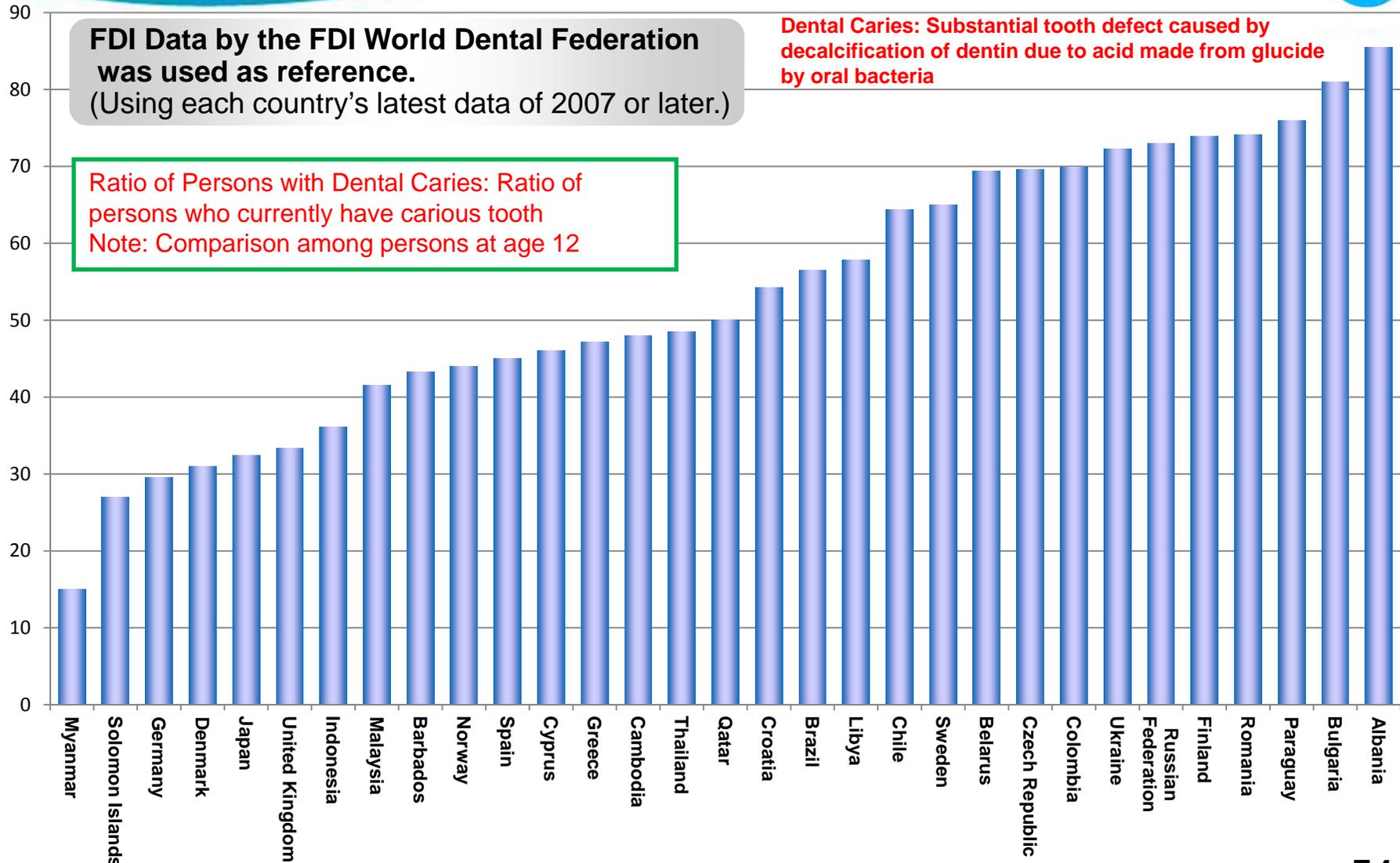
Unit: %



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>

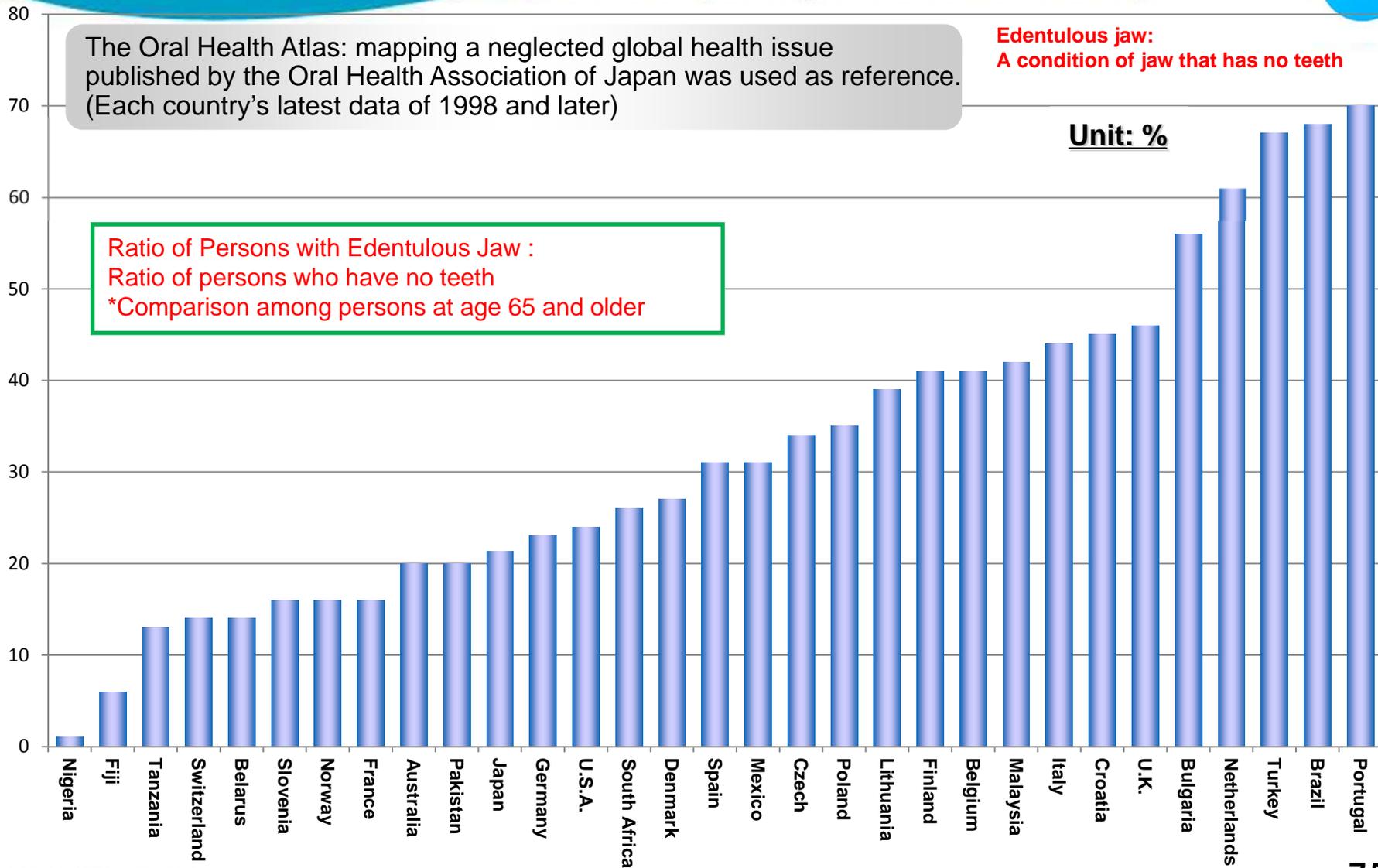


The Oral Health Atlas: mapping a neglected global health issue published by the Oral Health Association of Japan was used as reference. (Each country's latest data of 1998 and later)

**Edentulous jaw:**  
A condition of jaw that has no teeth

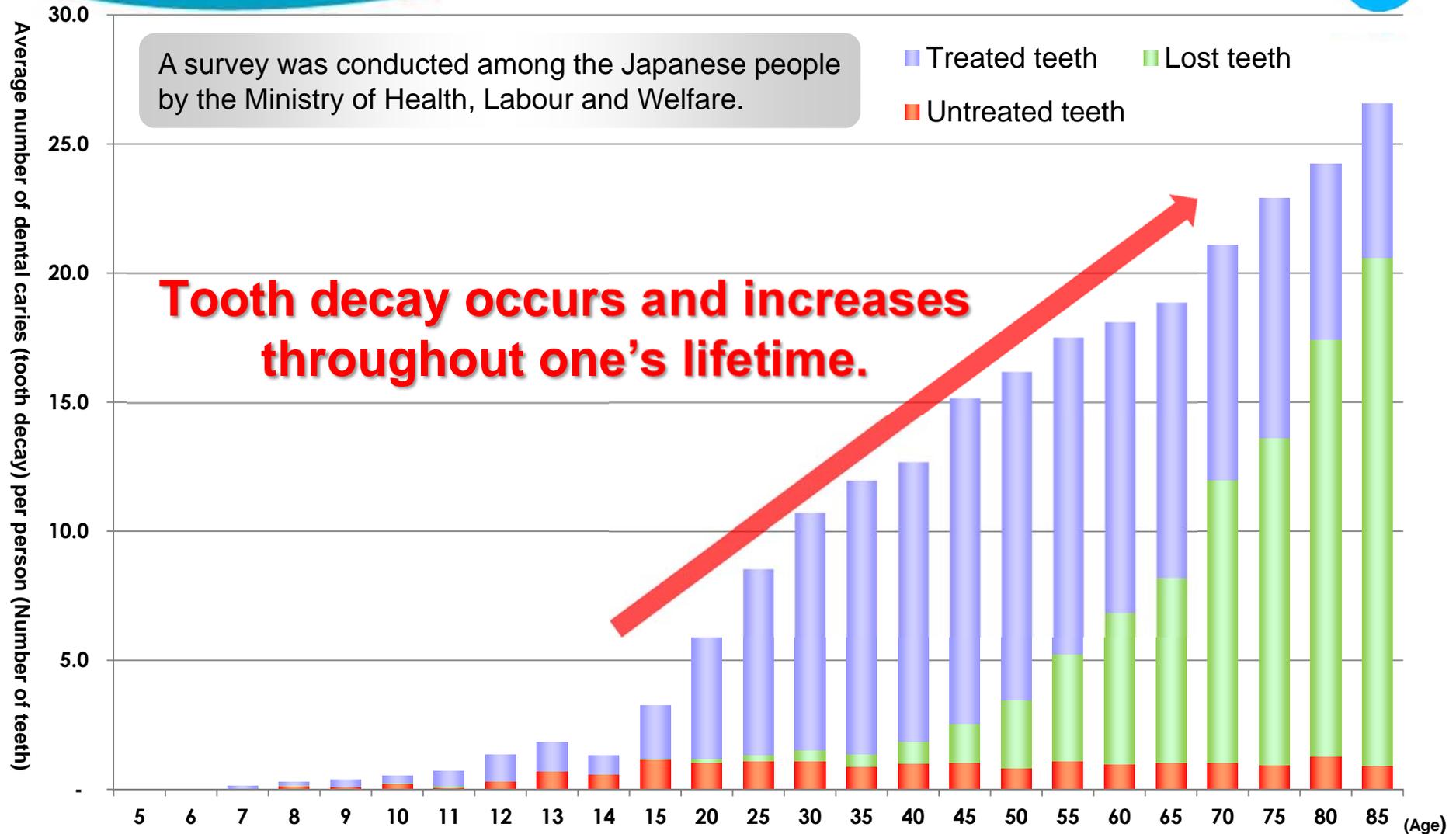
**Unit: %**

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>

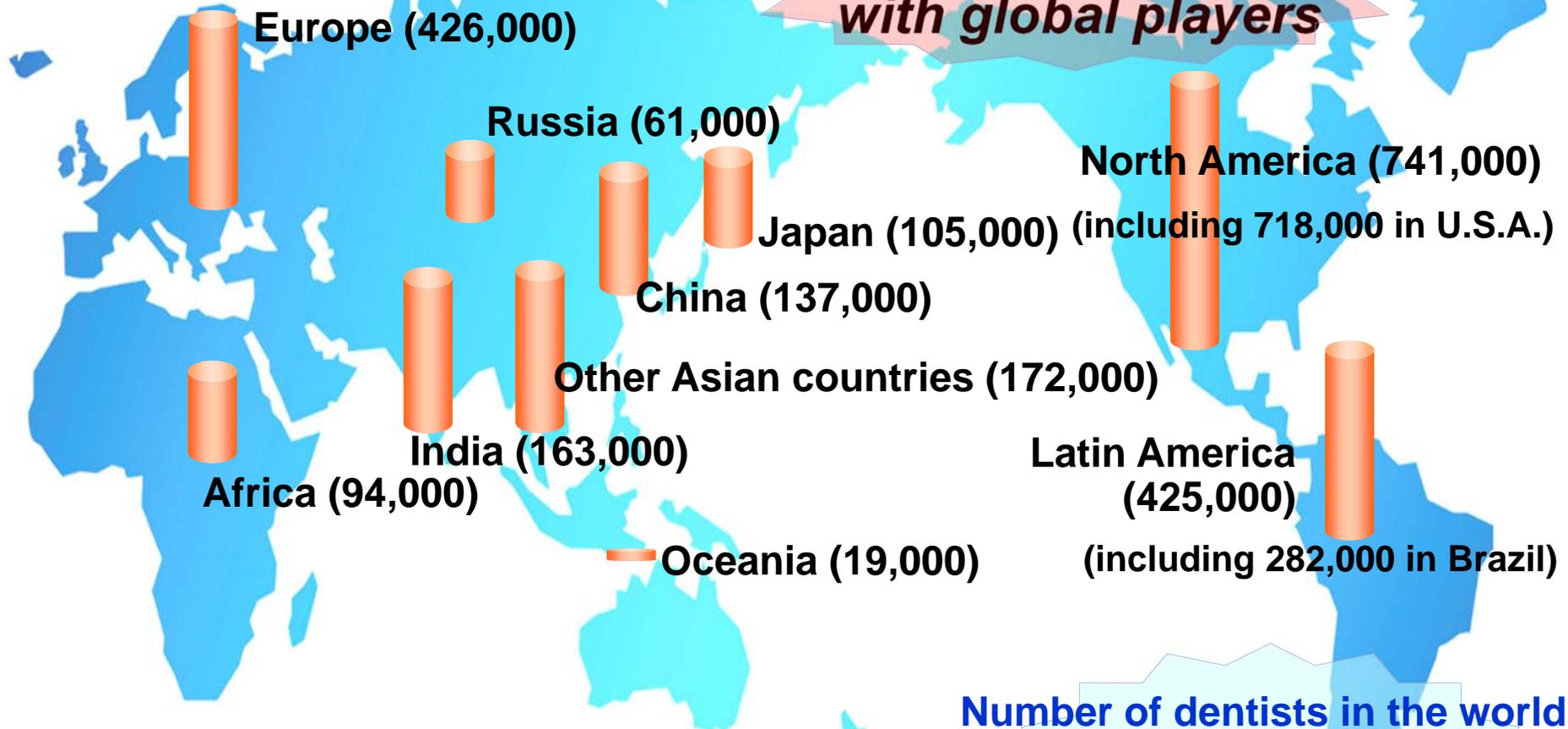


\* 1. The official web site of the Hokkaido kodomo-no ha-o mamoru kai (Save the Children's Tooth Hokkaido) was used as reference  
 \* 2. Source: Results of the Survey of Dental Diseases in 2011 released by the Ministry of Health, Labour and Welfare

# Number of Dentists in the World

Reference <Dentistry Data>

*Intensified competition with global players*



**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. → <b>Dental prosthetic (page 79)</b>   |
| 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. → <b>Resin (page 79)</b>   |
| 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<br><b>SHOFU INC.</b> | A handheld device to which small instruments for removing tooth decay, plaque, and tartar are attached. → <b>Plaque (page 79)</b>  |

# Glossary (2)



| Term               | Meaning  |
|--------------------|--|
| Nail care          | Care for fingernails and the surrounding area, including attachment of artificial nails. Nail care is widely considered an important 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).<br>→ <b>Composite resin (page 78)</b>  |
| Resin              | Synthetic high polymer. Resins are popularly used for dental restoratives.   |