



**Fiscal Year Ending March 2019
(147th Business Year)
2Q Quarter Financial
Analyst Meeting**

November 20, 2018





Contents of Today's Presentation

- **Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2019**
- **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



Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2019

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

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

Summary of 2nd Quarter Business Performance

Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2019

Positive factors **Negative factors**

P/L

- Net Sales totaled 12,179 million yen (an increase of 4.1%)
 - Domestic net sales totaled 6,679 million yen (a decrease of 1.4%)
 - Domestic sales in the dental business decreased by 2.5% due to sluggish sales of all product lines resulting from the intensified competition in the market, despite sales contribution from the new product that was introduced to the market during the previous fiscal year.
 - Domestic sales in the nail care business increased by 7.4% due to sales driven by existing flagship brands of gel nail products, the new brand and the brand for general consumers.
 - Overseas net sales totaled 5,500 million yen (an increase of 11.6%)
 - Overseas sales in the dental business increased by 14.4% 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 decreased by 13.2% due to a sharp decrease in sales in Taiwan where competitors are taking increasingly aggressive actions, despite favorable sales in America.
- Operating income totaled 784 million yen
 - Owing to the effect of an increase in sales and an improvement in the cost of sales ratio, operating income increased by 5.7%, despite an increase in selling, general and administrative expenses resulting from active investment in R&D and sales promotion activities.
- Ordinary income totaled 782 million yen, and current income totaled 546 million yen
 - Ordinary income decreased by 8.3% YoY due to a negative foreign exchange effect. Net income, after deducting tax expenses, decreased by 14.1%.

SHOFU INC. * "Net income" figures are figures for "Net income attributable to owners of parent" after the application of the Accounting Standard for Business Combinations, etc. 4

The consolidated business performance for the second quarter of the fiscal year ending March 31, 2019 resulted in an increase in sales and a decrease in profit (an increase in operating income) year on year, and a decrease in sales and an increase in profit compared to the forecasts.

Slide No. 4 shows the factors behind the year-on-year changes.

Net sales amounted to 12,179 million yen, an increase of 4.1%. Domestic Sales accounted for 6,679 million yen, a decrease of 1.4%, and overseas sales accounted for 5,500 million yen, an increase of 11.6%.

In the domestic dental business, the "BEAUTIFUL Flow Plus X," a dental filing composite resin, which was introduced to the market during the previous fiscal year, and new CAD/CAM-related products, etc. contributed to sales. However, due to a decrease in sales of all product lines resulting from the intensified competition in the market, sales decreased by 2.5%.

In the domestic nail care business, with sales driven by our existing flagship brands of LED gel "Presto" and "by Nail Labo" gel nail system for general consumers, the new "ageha" brand which was introduced to the market during the previous fiscal year and other gel nail products, sales increased by 7.4%.

In the overseas dental business, due to successful implementation of the active sales expansion strategy, strong sales in all regions and the positive foreign exchange effect of 68 million yen, sales increased by 14.4%.

In the overseas nail care business, although sales remained robust in America, due to a sharp decrease in sales in Taiwan where competitors are taking increasingly aggressive actions, sales decreased by 13.2%.

Concerning profits, owing to the effect of an increase in sales and an improvement in the cost of sales ratio, operating income increased by 5.7%, despite an increase in selling, general and administrative expenses resulting from active investment in R&D and sales promotion activities.

However, as the positive impact of exchange rates diminished compared to the previous period, both ordinary income and net income decreased by 8.3% and 14.1%, respectively.

Summary of 2nd Quarter Business Performance

Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2019

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Units: millions of yen, %

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

	Fiscal March 2018 (2Q Results) (% of sales)	Fiscal March 2019 (2Q Forecast) (% of sales)	Fiscal March 2019 (2Q Results) (% of sales)	Change from Previous Period (% change)	Change from Forecast (% change)
Sales	11,701 (100.0)	12,550 (100.0)	12,179 (100.0)	478 (4.1)	-370 (-3.0)
(Domestic sales)	6,773 (57.9)	7,179 (57.2)	6,679 (54.8)	-94 (-1.4)	-500 (-7.0)
(Overseas sales)	4,927 (42.1)	5,370 (42.8)	5,500 (45.2)	572 (11.6)	130 (2.4)
Operating income	742 (6.3)	639 (5.1)	784 (6.4)	42 (5.7)	145 (22.8)
Ordinary income	853 (7.3)	589 (4.7)	782 (6.4)	-71 (-8.3)	192 (32.6)
Net income	635 (5.4)	346 (2.8)	546 (4.5)	-89 (-14.1)	199 (57.6)
Net income per share	40.01yen	21.80yen	34.35yen	-5.66yen	12.55yen
Return on equity	2.8%	—	2.3%	-0.5P	—
Foreign exchange rates					
US dollar	111.42	105.00	110.07	-1.35	5.07
Euro	126.63	130.00	129.88	3.25	-0.12
Pound sterling	144.38	150.00	146.49	2.11	-3.51
Renminbi	16.42	16.50	17.05	0.63	0.55

* Based on the results of the first half ended on September 30, 2019, diluted net income per share for the fiscal year ending March 2019 was 34.12 yen.

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Slide No. 5 shows major items of profit and loss in comparison to the previous period and the forecasts.

In this slide, we explain the comparison to the forecasts.

Net sales decreased by 370 million yen or 3.0% from the forecasts.

Concerning domestic sales, sales in the dental business decreased by 418 million yen due to sluggish sales of all product lines, resulting from the intensified competition in the market. While sales in the nail care business increased compared to the previous period, they decreased by 78 million yen in comparison to the forecasts. As a result, domestic sales overall decreased by 500 million yen or 7.0%.

As for overseas sales, although sales in the nail care business decreased, sales in the dental business exceeded the forecasts in all regions excluding Europe. Due to a positive foreign exchange effect of 91 million yen in addition to the favorable sales in dental business, overseas sales increased by 130 million yen or 2.4%.

Concerning profits, although net sales decreased, operating income, ordinary income and net income increased by 145 million yen or 22.8%, 192 million yen or 32.6% and 199 million yen or 57.6%, respectively, due to an improvement in the cost of sales ratio and a decrease in selling, general and administrative expenses.

Sales by Product Category (Comparison with Previous Period)

Summary of 2nd Quarter Consolidated Business
Performance for Fiscal Year Ending March 31, 2019



Unit: millions of yen

Figures in parentheses represent percentage changes; unit: %

	Fiscal March 2018 (2Q Results)	Fiscal March 2019 (2Q Results)	Change from previous period		
				Domestic	Overseas
Artificial teeth	1,948	2,150	201 (10.3)	-38	239
Abrasives	1,983	2,072	88 (4.5)	-12	101
Metal products	123	120	-2 (-2.3)	-2	-0
Chemical products	2,326	2,500	173 (7.5)	-25	198
Cements and others	988	1,072	84 (8.5)	-16	100
Equipment and others	3,071	3,013	-57 (-1.9)	-55	-2
Dental business total	10,441	10,929	487 (4.7)	-149	637
Nail care business	1,210	1,198	-12 (-1.0)	53	-65
Other	49	51	2 (4.9)	2	0
Total	11,701	12,179	478 (4.1)	-94	572

*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 +64 million yen. (Dental business +68 million yen, Nail care business -3 million yen)

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Slide No. 6 shows net sales by product category in comparison to the previous period.

Of 478 million yen increase in sales, sales in the dental business increased by 487 million yen, and sales in the nail care business decreased by 12 million yen.

In the domestic dental business, sales decreased by 149 million yen due to generally sluggish sales of our flagship product lines such as equipment and others, artificial teeth and chemical products resulting from the intensified competition in the market, despite sales contribution from the new products.

In the overseas dental business, sales increased by 637 million yen due to the positive foreign exchange effect of 68 million yen in addition to strong sales of each region's flagship products lines such as chemical products, artificial teeth, which exceeded the results for the previous period.

In the domestic nail care business, with sales driven by each brand of gel nail products, sales increased by 53 million yen.

In the overseas nail care business, although sales continued to remain robust in America, sales decreased by 65 million yen due to a sharp decrease in sales in Taiwan where competitors are taking increasingly aggressive actions.

Sales by Product Category (Comparison with Forecast)

Summary of 2nd Quarter Consolidated Business
Performance for Fiscal Year Ending March 31, 2019

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Unit: millions of yen

Figures in parentheses represent percentage changes; unit: %

	Fiscal March 2019 (2Q Forecast)	Fiscal March 2019 (2Q Results)	Cange from Forecast		
				Domestic	Overseas
Artificial teeth	2,095	2,150	54 (2.6)	-57	112
Abrasives	1,980	2,072	92 (4.6)	-26	118
Metal products	135	120	-14 (-11.0)	-14	-0
Chemical products	2,513	2,500	-13 (-0.5)	-75	62
Cements and others	1,059	1,072	12 (1.2)	-36	48
Equipment and others	3,328	3,013	-315 (-9.5)	-207	-107
Dental business total	11,114	10,929	-184 (-1.7)	-418	234
Nail care business	1,380	1,198	-182 (-13.2)	-78	-104
Other	55	51	-4 (-7.6)	-4	0
Total	12,550	12,179	-370 (-3.0)	-500	130

*The effect of foreign currency fluctuations (U.S. dollar (USD), Euro (EUR), British pound (GBP), Chinese yuan (CNY), Indian Rupee (INR) and New Taiwan dollar (NTD)) on overseas net sales was +91 million yen.

SHOFU INC. (Dental business +90 million yen, Nail care business +1 million yen)

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Domestic Sales

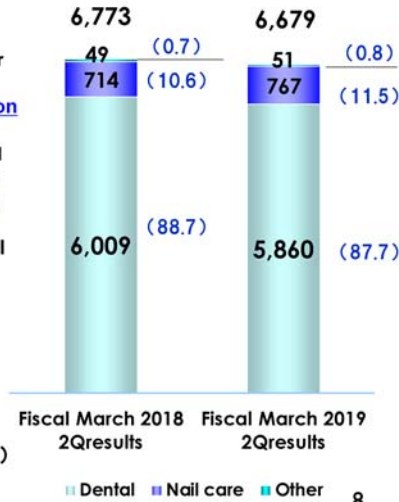
Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2019

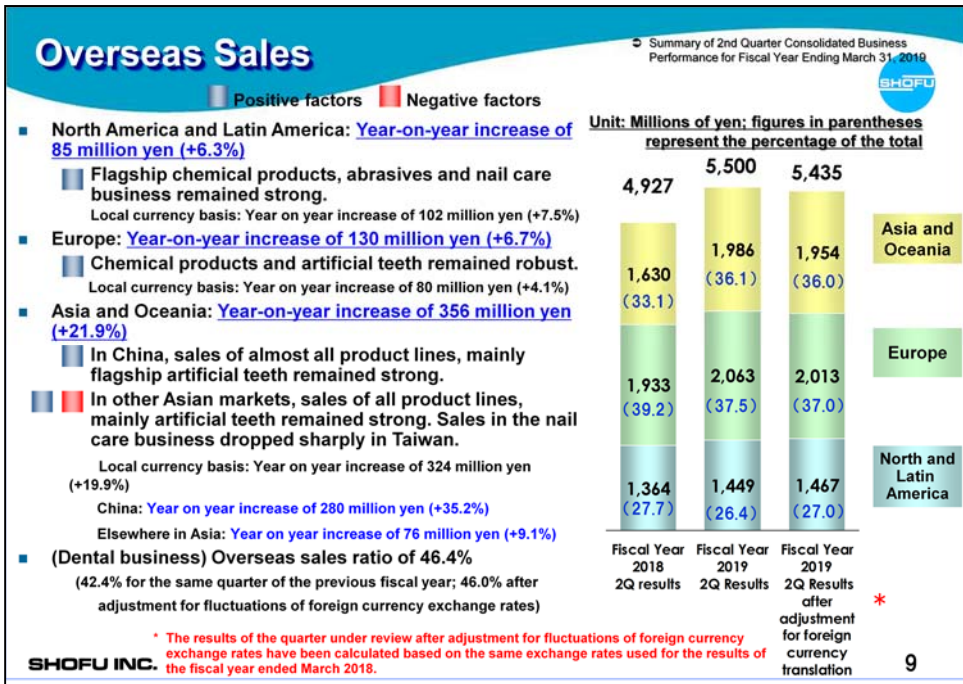


Positive factors Negative factors

- **Dental business: Year on year decrease of 149 million yen (-2.5%)**
 - Dental filling composite resin and new CAD/CAM-related products contributed to sales.
 - Sales of artificial teeth, chemical products and other existing flagship products decreased.
- **Nail care business: Year on year increase of 53 million yen (+7.4%)**
 - Sales were driven by existing and new brands of gel nail products and the brand for general consumers.
- **Other businesses: Year on year increase of 2 million yen (+4.9%)**
- **Principal new products launched during recent fiscal year (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





Slide No. 9 shows the status of overseas net sales by region in comparison to the previous period.

In North America and Latin America, despite a negative foreign exchange effect, sales increased by 85 million yen or 6.3% due to strong sales of our flagship chemical products, abrasives and nail care business.

In Europe, sales increased by 130 million yen or 6.7% due to a positive foreign exchange effect in addition to robust sales of our flagship product lines, mainly chemical products and cement products.

In Asia and Oceania, sales overall increased by 356 million yen or 21.9%.

Of these, sales in China increased by 280 million yen or 35.2% due to a positive exchange effect in addition to strong sales of almost all product lines, mainly our flagship artificial teeth.

Sales in other Asian markets also increased by 76 million yen or 9.1% due to strong sales of all product lines, mainly our flagship artificial teeth, despite a drop in sales in the nail care business and a negative foreign exchange effect.

Performance by Segment (Sales and Operating Income)

Summary of 2nd Quarter 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 (2Q Results) Amount (% of sales)	Fiscal March 2019 (2Q Forecast) Amount (% of sales)	Fiscal March 2019 (2Q Results) Amount (% of sales)	Change from Previous Period	Change from Forecast	
Dental	Net Sales	10,442	11,114	10,929	487	-184
	Operating expenses	9,724	10,524	10,126	402	-397
	Operating income (operating income margin)	717 (6.9)	589 (5.3)	802 (7.3)	85	213
Nail care	Net Sales	1,210	1,380	1,198	-12	-181
	Operating expenses	1,196	1,337	1,228	31	-109
	Operating income (operating income margin)	13 (1.1)	42 (3.1)	-29 (-2.5)	-43	-72
Other	Net Sales	52	55	55	3	0
	Operating expenses	43	48	46	2	-1
	Operating income (operating income margin)	8 (16.8)	7 (13.4)	9 (16.2)	0	1
Total before consolidation adjustment	Net Sales	11,705	12,550	12,183	478	-366
	Operating expenses	10,965	11,910	11,401	436	-509
	Operating income (operating income margin)	739 (6.3)	639 (5.1)	781 (6.4)	42	142
Consolidated	Net Sales	11,701	12,550	12,179	478	-370
	Operating expenses	10,958	11,910	11,394	436	-516
	Operating income (operating income margin)	742 (6.3)	639 (5.1)	784 (6.4)	42	145

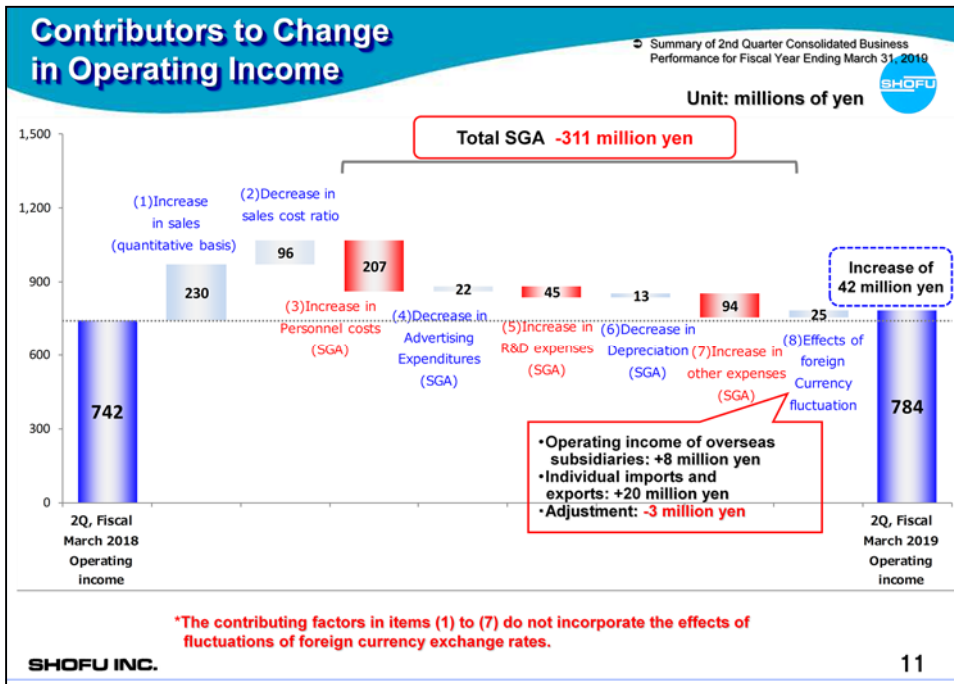
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Slide No. 10 shows net sales and operating income by segment in comparison to the previous period and the forecasts.

Net sales are as described before. Operating income increased by 42 million yen year on year, and increased by 145 million yen from the forecasts.

A year-on-year increase in operating income is due mainly to an increase in sales in the dental business and an improvement in the cost of sales ratio. An increase in operating income in comparison to the forecasts is due mainly to an improvement in the cost of sales ratio in the dental business and a decrease in selling, general and administrative expenses.



Slide No. 11 shows the contributors to change in operating income in comparison to the previous period.

Operating income increased by 42 million yen or 5.7%.

This is mainly due to an increase in net sales and an improvement in the cost of sales ratio, which were led by active investment in R&D and sales promotion activities, although these activities pushed up selling, general and administrative expenses.

Financial Condition: Major Balance Sheet Accounts

Summary of 2nd Quarter Consolidated Business
Performance for Fiscal Year Ending March 31, 2019



Unit: millions of yen

	Fiscal March 2018	2Q,Fiscal March 2019	Change	Major contributors to changes, special notes
Cash and deposits	5,733	5,380	-352	Decrease in cash and deposits
Notes and bills receivable, trade accounts receivable	3,285	3,116	-169	Increase in accounts receivable - trade
Inventory	5,871	6,470	598	Increase in merchandises
Securities, investment securities	6,669	6,647	-22	Decrease in investment securities due to market value fluctuations
Others	9,330	9,319	-10	
Total Assets	30,890	30,933	42	
Long-term and short-term borrowings	1,486	1,239	-246	Decrease in long-term loans payable
Reserve for retirement benefits and directors' retirement benefits	221	227	6	
Others	5,026	4,890	-135	Decrease in deferred tax liabilities and income taxes payable
Total Liabilities	6,733	6,357	-376	
Total net assets	24,157	24,576	419	Increase in foreign currency translation adjustment and retained earnings
Total Liabilities and net assets	30,890	30,933	42	
Shareholders' equity ratio	77.8%	79.1%	1.3P	
Shareholders' equity per share	1,512yen	1,538yen	26yen	

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Slide No. 12 shows major balance sheet accounts in comparison to the end of the previous fiscal year.

Total assets increased by 42 million yen to 30,933 million yen.

Total net assets increased by 419 million yen to 24,576 million yen. As a result, the shareholders' equity ratio rose 1.3 points, to 79.1%, from the end of the previous period.

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

Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2019



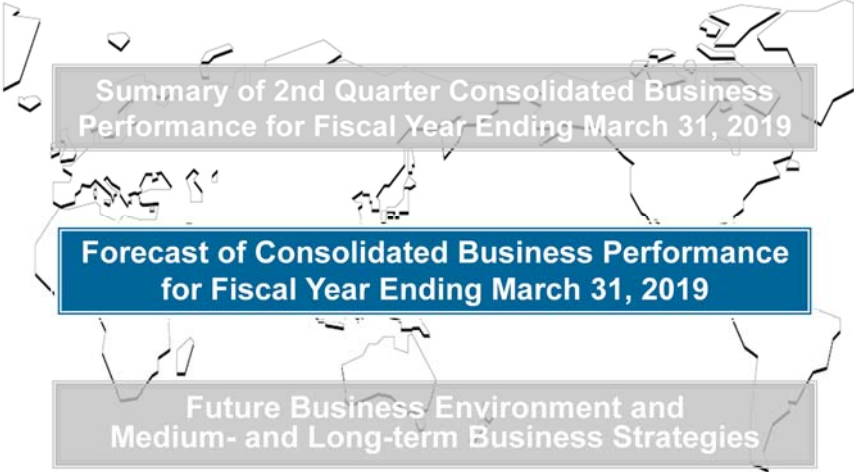
Unit: millions of yen

	Fiscal March 2018 (2Q Results)	Fiscal March 2019 (2Q Forecast)	Fiscal March 2019 (2Q Results)	Change from Previous Period	Change from Forecast
Capital investment	321	644	511	189	-133
Depreciation expenses (of which amortization of goodwill)	465 52	471 54	425 42	-40 -10	-46 -12
R&D expenses	692	822	739	47	-83
Foreign exchange rates					
US dollar	111.42	105.00	110.07	-1.35	5.07
Euro	126.63	130.00	129.88	3.25	-0.12
Pound sterling	144.38	150.00	146.99	2.61	-3.01
Renminbi	16.42	16.50	17.05	0.63	0.55

• 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.

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Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2019

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

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, 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%)
 - 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.

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Slide No. 15 shows the business forecast for the fiscal year ending March 2019, compared to the previous period.

Concerning the full-year forecasts, we have made no revision to the forecast figures announced on May 10, 2018.

We anticipate net sales to increase 7.1% year on year, to 25,725 million yen.

Broken down, domestic net sales will be 14,453 million yen, an increase of 5.9%, and overseas net sales will be 11,271 million yen, an increase of 8.6%.

In our domestic dental business, we will develop activities to provide information to dental professionals and promote sales activities focused on flagship areas.

In our domestic nail care business, we will strive to further promote sales of ageha, a new brand that we launched in the previous period, and gel nail products such as L•E•D Gel Presto.

In the overseas dental business, we will continue expansion of our sales network, strengthen partnerships with other companies, and accelerate business development overseas.

In our overseas nail care business, we will continue to strengthen sales activities, especially in the American and Taiwanese markets.

In terms of income, although we will step up investment for future growth, including personnel costs, and although selling, general and administrative expenses will increase due to proactive investment in sales activities, the effect of higher sales plus improvement in the cost of sales ratio is expected to cause operating income to increase by 16.0%.

Also, we expect ordinary income to increase by no more than 4.2% due to the absence of the effect of foreign exchange profit, which occurred in the previous period. In addition, with the absence of effect of impairment loss of goodwill related to Merz Dental GmbH, which also occurred in the previous period, we project net income to increase by 26.4%.

Comparison of Major Statistics

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

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

Units: millions of yen, %

	Fiscal March 2018 Business Performance (% of sales)	Fiscal March 2019 Forecast (% of sales)	Change From Previous Period (% change)
Net sales	24,031 (100.0)	25,725 (100.0)	1,694 (7.1)
(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)
Operating income	1,497 (6.2)	1,737 (6.8)	240 (16.0)
Ordinary income	1,565 (6.5)	1,630 (6.3)	65 (4.2)
Net income	877 (3.7)	1,109 (4.3)	231 (26.4)
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

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

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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 (Results)	Fiscal March 2019 (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	—
Total	24,031	25,725	1,694 (7.1)	800	893

• 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)

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Slide No. 17 shows sales by product category compared to the fiscal year ended March 2018.

Overall, we forecast sales to increase by 1,694 million yen. Of this, we expect 1,353 million yen to be in the dental business and 321 million yen to be in the nail care business.

In both the domestic and overseas dental business, we will aim to expand sales, focusing on equipment, including digital cameras for dentistry and CAD/CAM-related products, as well as our flagship chemical products and artificial teeth.

In the nail care business, we anticipate sales to increase both in the domestic and overseas markets.

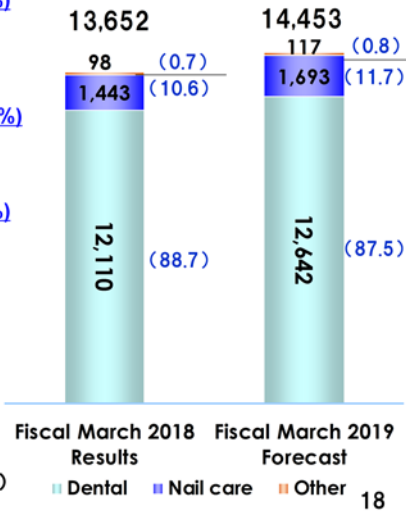
Domestic Net Sales

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)



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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%)

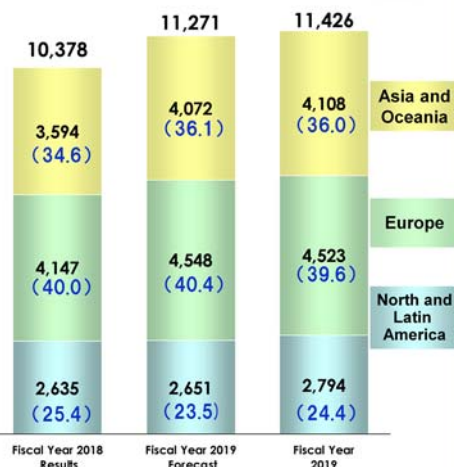
Foreign exchange rates

- 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.



SHOFU INC.

Performance by Segment (Net Sales and Operating Income)

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

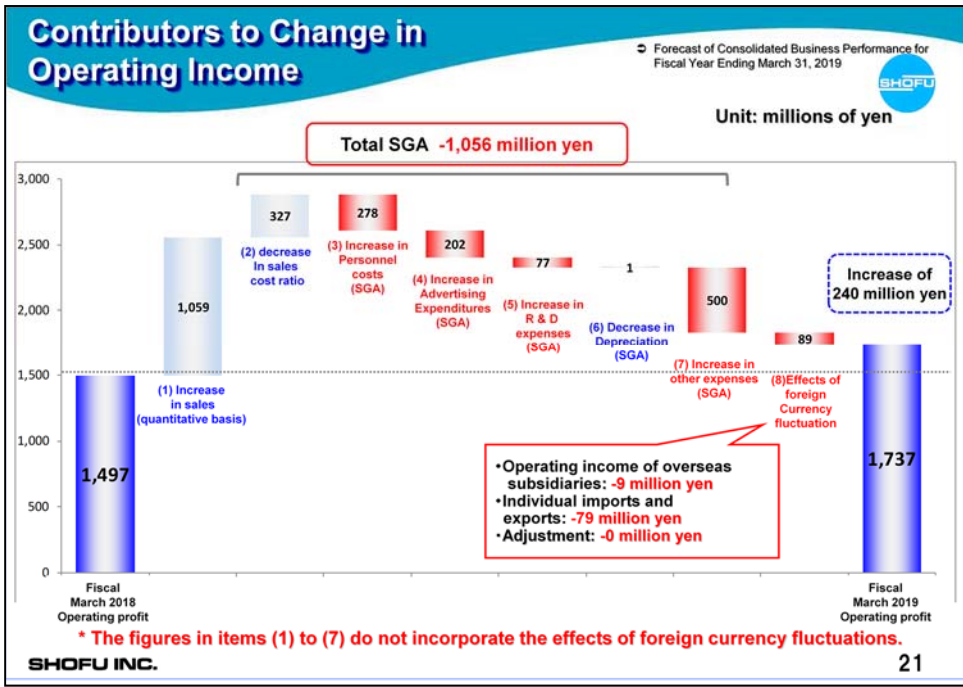


Unit: millions of yen. Figures in parentheses represent
percentage of sales and percentage changes (unit: %)

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

SHOFU INC.

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Slide No. 21 shows contributors to the change in operating income compared to the fiscal year ended March 2018.

Although selling, general and administrative expenses will increase greatly due to increases in personnel costs, advertising expenditures, R&D expenses and others, we forecast the upside factors of an increase in sales and improvement in the cost of sales ratio to increase operating income by 240 million yen.

Impact of Foreign Exchange Fluctuations

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



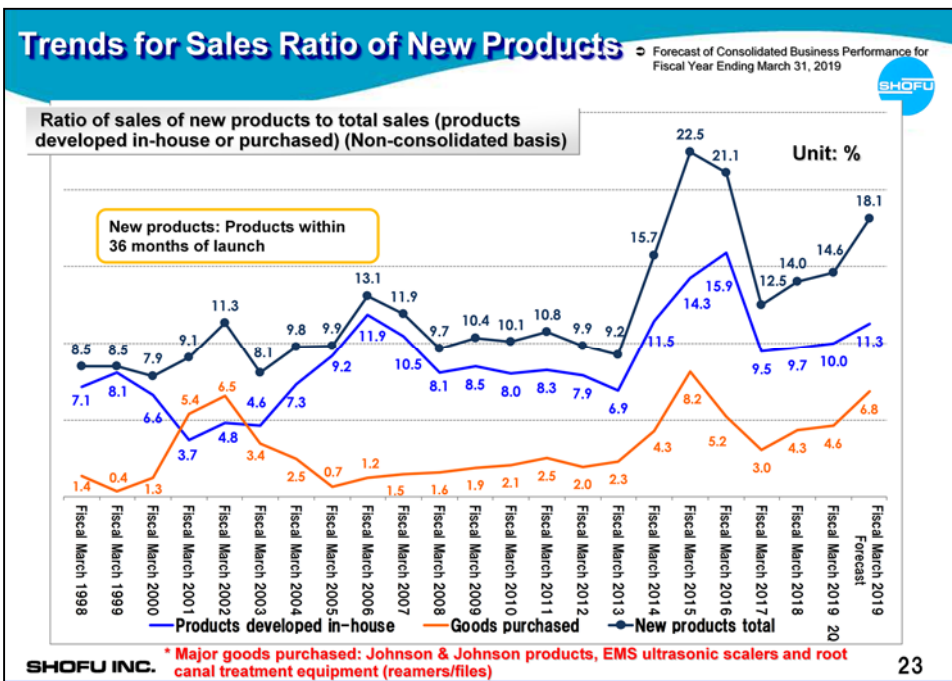
Forecast for Fiscal March 2019

(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; conversions of items in the financial statements of overseas subsidiaries all use average rates. 22

Slide No. 22 shows the anticipated impact of foreign exchange fluctuations of major currencies such as the US dollar and euro in the fiscal year ending March 2019.



Slide No. 23 shows trends for the sales ratio of new products.

Shofu defines new products as products launched within the past three years. Our aim is for the sales ratio of new products to be 15% of total sales.

We attach importance to the expansion of new product sales as an indicator of the company's collective strength, including R&D capabilities and sales ability.

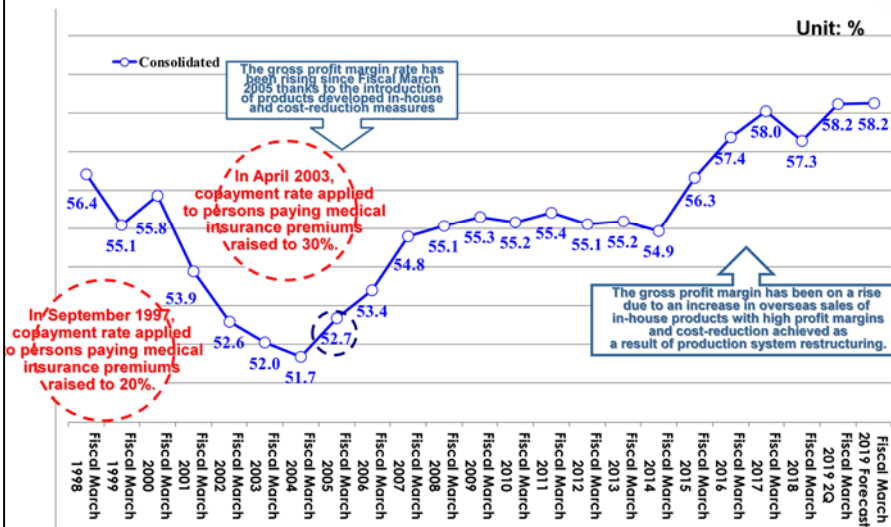
After the sales ratio of new products had exceeded the target of 15% for three years since the fiscal year ended March 2014, it fell short of the target in the fiscal year ended March 31, 2017 and the fiscal year ended March 31, 2018. However, it recovered and nearly reached 15% during the second quarter of the fiscal year ending March 31, 2019.

In the fiscal year ending March 2019, we expect to reach 18.1% thanks to the contribution to sales throughout the year of new products launched in the previous period, plus the effect of new products launched in the current fiscal year.

Going forward, we will strive to maintain a ratio of 15% or higher by increasing sales of new products, especially new products developed in-house.

Trends for Gross Profit Margin Rates

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

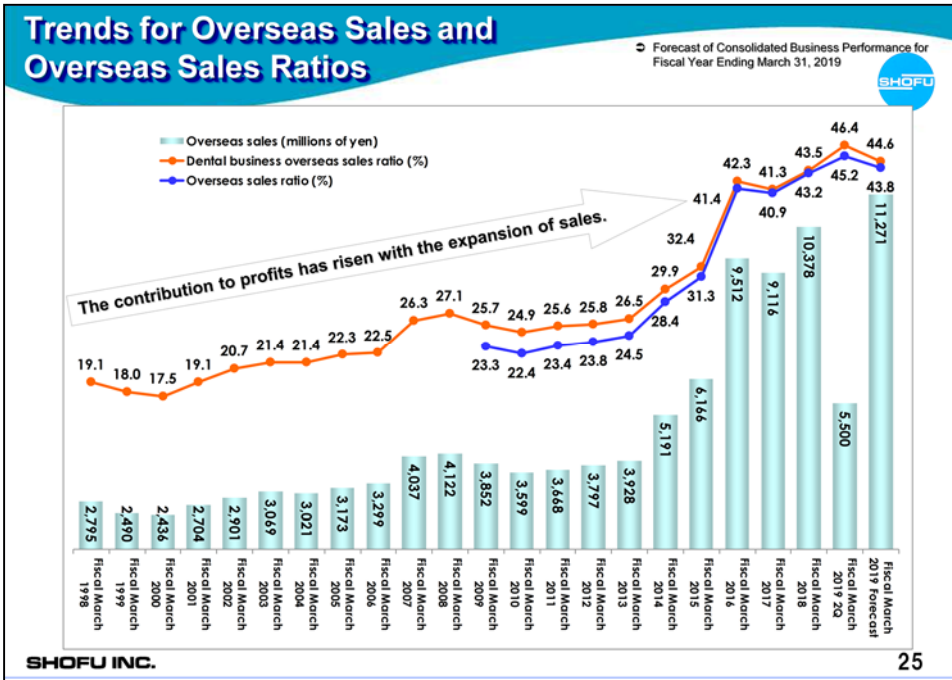


SHOFU INC.

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Slide No. 24 shows trends for gross profit margin rates.

We will pursue a higher profit margin from volume effects and by reducing costs through production relocation.



Slide No. 25 shows trends for overseas sales and overseas sales ratios.

Overseas sales have increased every year since the fiscal year ended March 2010. Going forward, we will continue to shift the allocation of management resources to overseas markets to a large extent with the aim of further expanding overseas sales. This graph emphasizes the dental business overseas sales ratio, shown in orange.



Summary of 2nd Quarter Consolidated Business Performance for Fiscal Year Ending March 31, 2019

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

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

Business Environment Awareness 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

SHOFU INC. 27

Slide No. 27 shows business environment awareness in the domestic and overseas markets.

Considering the domestic market first, the present situation for dentistry is that even though the elderly population is increasing, this does not necessarily translate into increases in medical charges.

Looking ahead, rising awareness of oral health is expected to foster the spread of the aesthetic, preventive, and oral health fields and to increase demand related to periodontal disease. With the decrease in population and the occurrence of cavities, however, even if the domestic dental market were to maintain a certain market scale, significant growth is unlikely.

Overseas, however, there is a market that is currently around 13 times the size of the domestic market. In addition to this, when considering the economic growth and rising living standards in regions worldwide, including developing nations, demand for dental care is anticipated to increase dramatically.

Even accounting for the differences in price level, Shofu believes that in 10 years, the global dental market could grow to 20 times or more the size of the Japanese dental market.

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.

Company-wide targets

- **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.

SHOFU INC.

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Slide No. 28 shows the vision for our company to pursue over the medium- to long-term.

Since its establishment, Shofu has pursued its business as a comprehensive manufacturer of dental materials and equipment in line with its Corporate Philosophy of “Contribution to dentistry through innovative business activities.” However, with an overseas market at least 13 times the size of the domestic Japanese market, Shofu’s contribution and presence to date has been insufficient.

There are a variety of opinions on how to define “contribution” and “presence.” Shofu takes net sales as the barometer of “contribution” and considers “presence” as being among the top 10 in the world.

Accordingly, while maintaining and expanding our business base in Japan, we will strive to expand our overseas business by dramatically shifting the allocation of management resources to overseas markets. By so doing, we aim to achieve group net sales of 50 billion yen and operating income of 7.5 billion yen and to raise our contribution to and presence in dentistry worldwide.

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

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

SHOFU

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	Promotion of M&As (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 ✓ Establishment of domestic and international academic networks	
HR	✓ Development of human resources and securing the skilled employees	

SHOFU INC. 29

Based on that view, we formulated the Third Medium-term Management Plan, which covers the period up through the fiscal year ending March 2021. Slide No. 29 shows an overview of the plan.

In the fiscal year ending March 2021, the last year of the plan, our main goals are to achieve Group net sales of 29.2 billion yen, an operating profit margin of 8.0%, and an ROE of 6%.

Toward the achievement of these goals, we will principally focus on carrying out our key issues with greater speed over the next three years. As I just mentioned, we intend to actively make use of M&As and cooperation with outside organizations to increase speed.

I will now explain the specific efforts that we will make with respect to each issue.

Specific Efforts – Research and Development

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



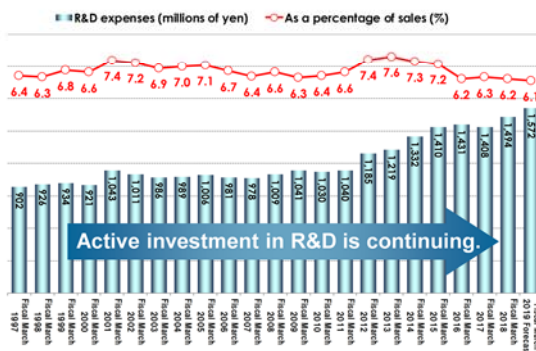
Development and introduction of new products that match the local demands

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



SHOFU INC.

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Slide No. 30 shows priority efforts related to research and development.

Shofu aims to pursue global growth as an R&D-driven company. Going forward, we will continue to develop products with a worldwide vision.

In addition to that, from here on we will also develop new products that match local demands, targeting the middle-class and high-volume segments.

Furthermore, as well as opening up new business fields related to CAD/CAM, we have also begun selling implants developed in-house and produced in Japan.

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)

SHOFU 31

Slide No. 31 shows priority efforts related to production.

With respect to production, we will relocate production bases by effectively utilizing existing domestic factories and expanding overseas production in an effort to enhance price competitiveness through increased production volume and cost reductions.

Specifically, at our domestic manufacturing subsidiaries, we will transition away from production at the Shofu headquarters through technology transfers and facilities enlargement as well as construction of new factories.

Overseas, meanwhile, since the acquisition of the German artificial teeth manufacturer Merz Dental has given us a relatively large production base in Europe, we will increase its utilization while also considering the establishment of production bases in other regions.

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

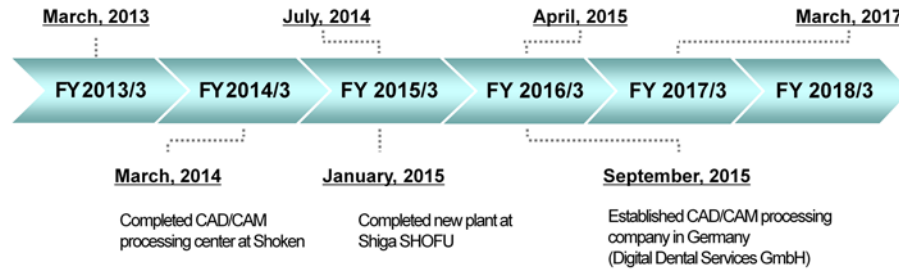
Aimed for stabilization of management base and business efficiency

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



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※We are gradually developing production bases in other important countries and regions.

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Specific Efforts – Sales

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

SHOFU

◆ **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

[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

➤ **Improve our customer service**

➤ **Enhance academic activities**

➤ **Speed up the product registration work**

SHOFU INC. 33

Slide No. 33 shows priority efforts related to sales.

The most important challenge both in the domestic and overseas markets, is the need to establish a system for Shofu's products to earn firm recognition among the dental professionals who are our end customers.

Specific efforts overseas include the establishment of a local subsidiary in Singapore and the establishment of bases in Mexico, Italy, and Taiwan in order to strengthen sales activities in each of those regions. We will also increase utilization of Merz Dental's sales network.

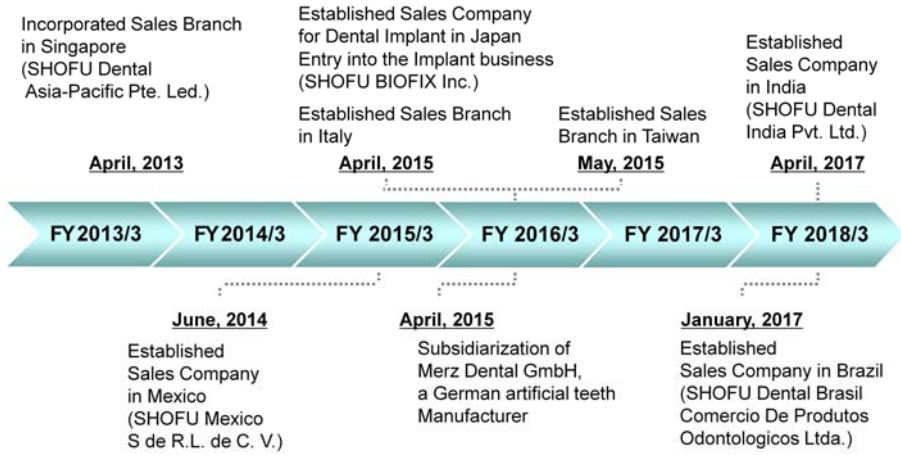
Furthermore, last year we established sales companies in Brazil and India. Going forward, we will gradually develop and enhance our sales network in key countries and regions.

Specific Efforts – Sales

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



◇ Realignment of sales offices



SHOFU INC.

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

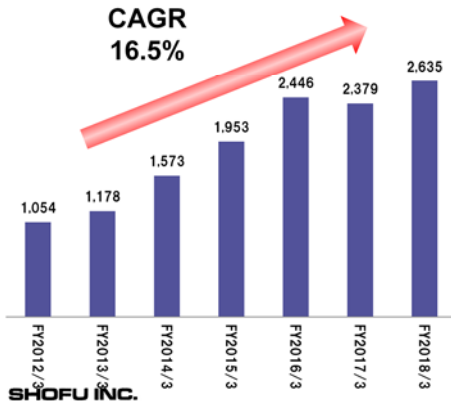
Trends for Sales by Region — North and Latin America, Europe

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

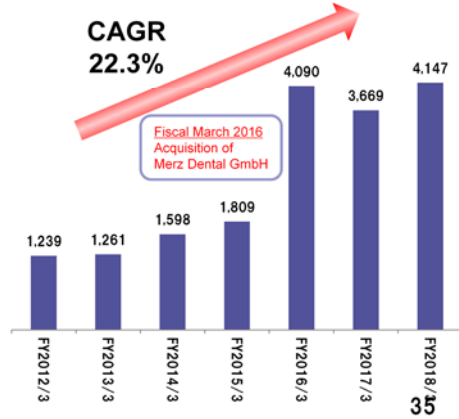


Unit: millions of yen

North & Latin America Sales



Europe Sales



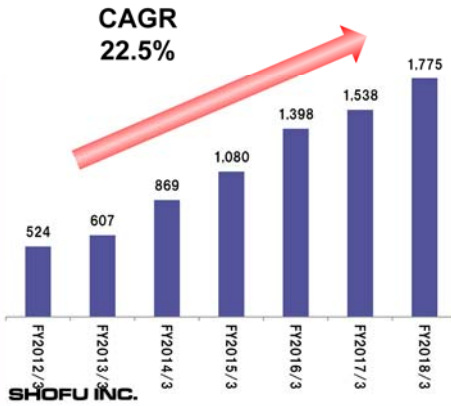
Trends for Sales by Region — China, Elsewhere in Asia

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

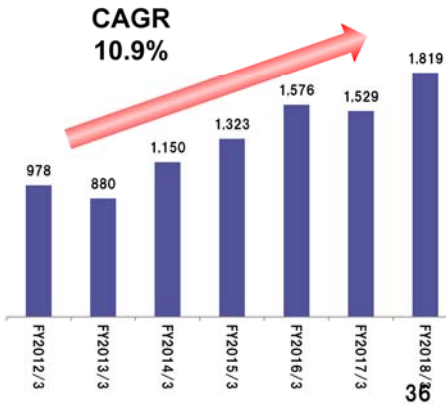


Unit: millions of yen

China Sales

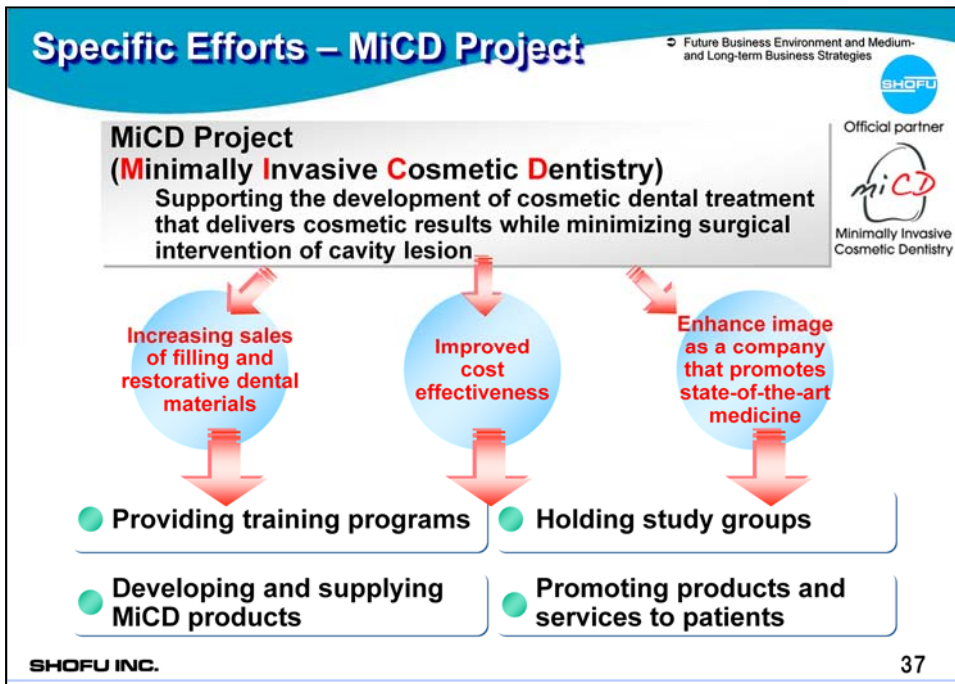


Elsewhere in Asia Sales



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Slide No. 37 shows the MiCD Project, through which we are pushing sales activities hard in and outside Japan.

MiCD stands for Minimally Invasive Cosmetic Dentistry, and refers to cosmetic dental treatment focused on patients’ emotional, health, and aesthetic requests “to have a more beautiful smile with the least drilling possible.”

Shofu doesn’t just support the spread of the MiCD concept; by applying its own technology, it will also strive to “increase sales of filling and restorative dental materials,” “achieve differentiation and superiority by making a wide range of product lines compatible with the MiCD concept,” and “enhance its image as a company that promotes state-of-the-art dentistry”

Specific Efforts – Nail Care Business

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

SHOFU

◆ **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

SHOFU INC.





ageha Gel

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Slide No. 38 shows our basic policy and priority efforts related to the nail care business.

Price competition is becoming increasingly intense in today’s business environment compared to when we entered the nail care business in earnest in 2008. While the business has not reached the scale we had initially imagined, we have built an integrated system for working on everything from product development to manufacturing and sales, and we are striving to stabilize our management base and streamline operations.

Moreover, in addition to offering products to professional manicurists, we are developing products for general consumers, and have established a joint venture in Taiwan, launched a collaboration with a noted manicurist, and are making other efforts to develop the market from both the product development and sales angles.

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
Net sales	★ 24,031	★ 25,725	★ 27,419	★ 29,264
(Change from Previous Period)	(7.7%)	(7.1%)	(6.6%)	(6.7%)
(Domestic sales)	★ 13,652	★ 14,453	★ 15,085	★ 15,700
(Change from Previous Period)	(3.5%)	(5.9%)	(4.4%)	(4.1%)
(Overseas sales)	★ 10,378	★ 11,271	★ 12,333	★ 13,563
(Change from Previous Period)	(13.8%)	(8.6%)	(9.4%)	(10.0%)
Operating income	1,497	1,737	★ 2,056	★ 2,341
(Percentage of sales)	(6.2%)	(6.8%)	(7.5%)	(8.0%)
Ordinary income	1,565	1,630	★ 1,946	★ 2,234
(Percentage of sales)	(6.5%)	(6.3%)	(7.1%)	(7.6%)
Net income	877	★ 1,109	★ 1,370	★ 1,596
(Percentage of sales)	(3.7%)	(4.3%)	(5.0%)	(5.5%)
Dental business Overseas sales ratio	★ 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.

SHOFU INC.

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Slide No. 39 shows principle targets under the Medium-term Management Plan for fiscal year 2018 – 2020.

We expect to continue posting record net sales from the fiscal year ending March 2019 forward and anticipate record income performance from the fiscal year ending 2020 onward.

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
Net sales	24,038	100.0	25,725	100.0	27,419	100.0	29,264	100.0
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
Operating income	1,491	6.2	1,737	6.8	2,056	7.5	2,341	8.0

SHOFU INC.

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

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

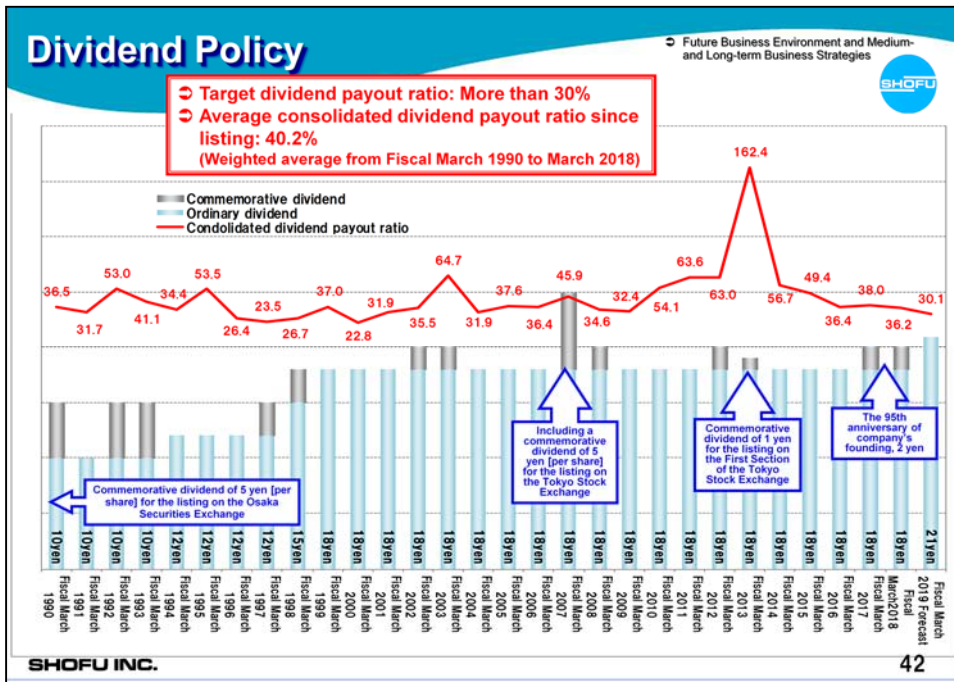


Unit: Millions of yen

	Fiscal March 2018 (Results)	Mid-Term Management Plan		
		Fiscal March 2019	Fiscal March 2020	Fiscal March 2021
Capital investment	710	1,080	967	967
Depreciation expenses	975	1,003	1,003	1,003
(of which goodwill 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.



Slide No. 42 shows our dividend policy.

Our basic dividend policy is to maintain a dividend payout ratio of at least 30% on a consolidated basis with a lower limit of 18 yen per share.

In the current fiscal year ending March 2019, with an increase in profitability, we are planning to go above the past 18-yen-per-share dividend and issue an ordinary dividend of 21 yen per share.



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.

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