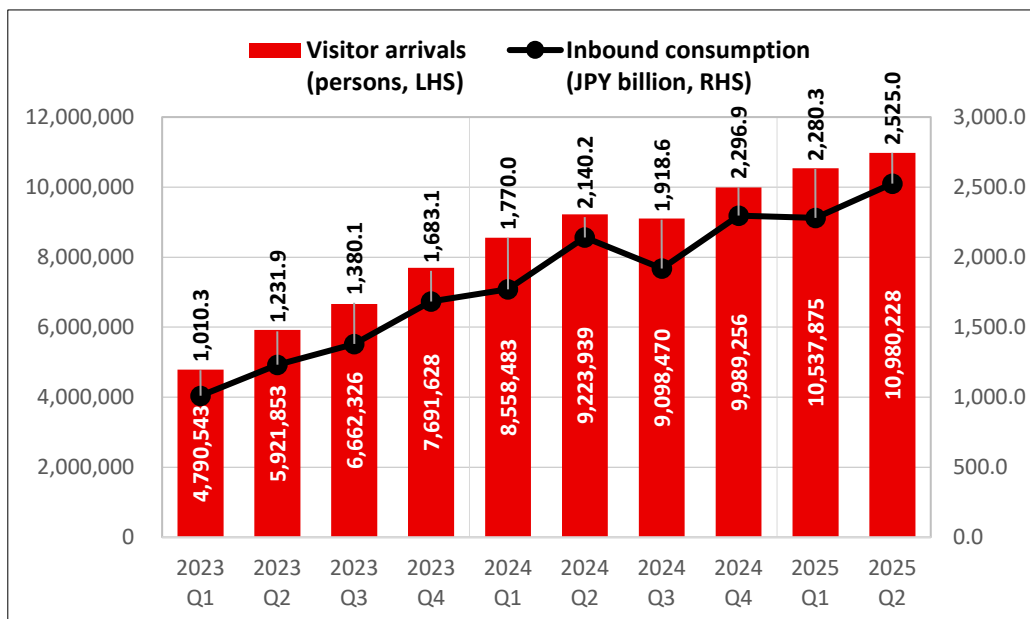


FY26/3 is off to a solid start Pioneering environmentally friendly products a key focus

SUMMARY

- Since this is the final year of the current 5-year MTP, **focus growth initiatives for FY26/3 are shifting out with a view toward the next MTP.** Regarding cash allocation for investments and shareholder returns, in addition to FY26/3 capex plans for IT investment in various key systems, as well as renovation work on the Company's head office, management announced a new 3-year plan to construct a new mother distribution center in Hyogo Prefecture to cover Western Japan at a total estimated cost of JPY 15bn (internal funds plus bank loans). At the same time, it added DOE > 3.0% in addition to targeting a consolidated payout ratio of ≥ 50% to its policy on shareholder returns. SHIMOJIMA Group earnings have clearly entered a new growth phase, and **SIR believes that under its unique omnichannel model, by focusing on the customer instead of the platform, SHIMOJIMA has a competitive advantage that can drive higher sales and better retention rates, as well as building an easily identifiable brand image.**
- We examined 4 key structural growth drivers in SIR's [SHIMOJIMA Initiation Report](#) dated December 25, 2024: 1) ongoing strong growth in B2C E-commerce (merchandising sector), 2) explosive growth in home delivery of restaurant meals and groceries, 3) Japan national policy promoting inbound and domestic regional tourism, and 4) the urgency to develop environmentally friendly packaging products and solutions. Regarding point 3), as can be seen from the graph below, despite the yen's recent appreciation (see left-hand graph on P2), visitor arrivals (Q2 +19.0%) and inbound consumption (Q2 +18.0%) continue to post robust double-digit growth.

Inbound demand continues to grow despite the yen's reversal ➔ Special boost this year from the Osaka Kansai EXPO 2025



Source: compiled by SIR from JNTO Tourism Statistics and Japan Tourism Agency's Survey on Inbound Consumption.

Q1 Follow-up



Focus Points:

Unique wholesale model for paper and plastic packaging materials, store supplies, etc., featuring multi-channel distribution through direct sales, directly managed and FC stores and online websites.

Key Indicators

Share price (8/27)	1,284
YH (25/5/12)	1,375
YL (25/4/7)	1,065
10YH (20/9/29)	1,545
10YL (22/4/13)	886
Shrs out. (mn shrs)	23.648
Mkt cap (JPY bn)	30.363
EV (JPY bn)	23.062
Equity ratio (6/30)	82.0%
26.3 P/E (CE)	12.0x
26.3 EV/EBITDA (CE)	4.9x
25.3 ROE (act)	6.0%
25.3 P/B (act)	0.86x
26.3 DY (CE)	4.21%

6M daily share price trend



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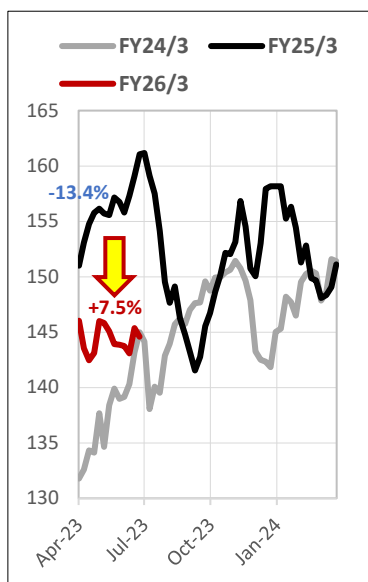


This report was prepared by Sessa Partners on behalf of Shimajima Co., Ltd. Please refer to the legal disclaimer at the end for details.

2H FY25/3 OP recovery continuing in Q1 FY26/3

Osaka Kansai EXPO 2025 is boosting inbound demand

Weekly trend of USD-JPY



Source: compiled by SIR from SPEEDA database.

RESULTS SUMMARY

- SHIMOJIMA reported Q1 FY26/3 results after the close on 8/8. Headline numbers are: net sales +4.9% YoY, OP +18.3% and profit attributable to owners of parent +42.3%, continuing the profit recovery from the 2H of last term. The negative impact from the yen's sharp -13.4% depreciation in Q1 FY25/3 (see left-hand chart) on the cost of imported raw materials, etc. reversed to the yen appreciating +7.5% in Q1 FY26/3, and together with price hikes implemented from the 2H, GPM rose from 32.0% → 32.5%. Since SG&A expenses continued to be successfully controlled (ratio to sales flat), OPM rose from 3.8% → 4.3%. Ordinary profit rose +35.6% YoY as the foreign exchange loss of JPY 57mn last term disappeared. As can be seen from the table below, progress ratios of all levels of Q1 profit came in nicely ahead of their respective Q1 5-year averages. It should be noted that Q1 has the lowest seasonal contribution to earnings.
- By sales channel, Marketing and Sales focused on expanding sales of core existing products, as well as securing orders for custom-made products amid continued signs of a gradual recovery in the Japanese economy, additionally achieving increased net sales on growing demand for high value-added environmentally friendly products. Store Sales saw sales growth driven by event-related demand and inbound tourism demand. In particular, stores in the Kansai region experienced increased demand related to the Osaka Kansai EXPO 2025. Efforts to develop business outside of stores were successful in winning orders for custom-made products. Online (EC) Sales saw net sales decrease slightly due to the exclusion of Globalbrand Inc. (Aichi, Nagoya) from the scope of consolidation. However, the underlying trend remains favorable against the backdrop of SHIMOJIMA Online Shop SKU's reaching 1.31 million listed items as of March 31, 2025, and strengthened internet advertising aimed at directing new customers to the site.

SHIMOJIMA Q1 FY26/3 Consolidated Financial Results Summary

JPY mn, %	Q1 FY25/3	Q1 FY26/3	5Y AVG	Q1 FY26/3	FY25/3	FY26/3
[J-GAAP]	act	act	Q1 progress ratios		act	init CE
Net sales	14,464	15,167	24.1%	23.9%	60,680	63,500
YoY	2.0	4.9			5.0	4.6
Gross profit	4,630	4,934	23.7%	—	19,436	—
YoY	(0.5)	6.6			1.4	
GPM	32.0%	32.5%			32.0%	
SG&A expenses	4,074	4,276	24.8%	—	16,449	—
YoY	6.1	5.0			3.4	
ratio to sales	28.2%	28.2%			27.1%	
Operating profit	556	658	14.4%	18.4%	2,986	3,575
YoY	(31.4)	18.3			(8.5)	19.7
OPM	3.8%	4.3%			4.9%	5.6%
Ordinary Profit	571	774	15.1%	20.4%	3,303	3,800
YoY	(36.6)	35.6			(8.8)	15.0
Profit attributable to owners of parent	366	521	16.6%	20.8%	2,088	2,500
YoY	(38.3)	42.3			(12.0)	19.7

Source: compiled by SIR from Q1 Financial Results Summaries (TANSHIN financial statements).

Note: 5-year average progress ratios are calculated by SIR from SPEEDA historical earnings database.

*YoY figures are calculated by SIR from results published in JPY mn, and may differ slightly from IR disclosures.

TOPICS ①

Obtained “METI DX Certified Business Operator” KPIs established to evaluate the progress and effects of DX

SUMMARY

- SHIMOJIMA announced that as of May 1, 2025, it has obtained certification as a “DX Certified Business Operator” under the DX (Digital Transformation) Certification System established by the Ministry of Economy, Trade and Industry (METI). In order to establish sustainable competitive advantage, the Company is promoting the improvement of business processes and the transformation of business models through the use of digital technology, and is pursuing business development from the two perspectives of business promotion and productivity improvement.
- To quantitatively evaluate the progress and effects of DX, it has set KPIs (see table below) for the fiscal year ending March 31, 2026 in the 3 areas of “Business Promotion Type (enhancing customer experience),” “Productivity Improvement Type (business efficiency and employee experience value enhancement),” and “DX HR Development,” and it is advancing and improving its DX initiatives. DX certification is a system under which METI certifies companies that meet the basic requirements specified in the “Digital Governance Code” established by METI and are ready to promote digital transformation in accordance with the “Act on Facilitation of Information Processing.” The Information-Technology Promotion Agency (IPA), an independent administrative agency, serves as the “DX Certification System Secretariat” for this program, handling various consultations, inquiries, and certification review procedures.
- The benefits of implementing internet EDI (Electronic Data Interchange) include: 1) streamlining transaction operations efficiency (eliminating manual processing and reducing the risk of input errors), 2) reduction in transaction costs (reduces the time and costs associated with printing and mailing), 3) enhanced utilization of business data (automatically processed data can be used for demand forecasting, inventory management, and sales strategy development) and 4) strengthening internal controls (improved data consistency and reliability, and by digitizing data into a standardized format, traceability is enhanced for audits). Successful implementation must include robust security measures (vary depending on whether on-premise or cloud-based) and confirming in advance whether data can be integrated with the company's core systems (e.g., sales management system, inventory management system, etc.), as well as what is required for customers (ensure compliance with industry standards such as Japan Chain Stores Association (JCA) procedures and the Japan Bankers Association (JBA) Standard Communication Protocol).

SHIMOJIMA DX KPIs and Progress Ratios



		FY26/3 KPIs	2025-03-31	Progress ratio
Business promotion type (Improve customer experience)	No. of items handled	1 million SKUs	1,308 mn SKUs	130.8%
	No. of registered members	1 million	881k	88.1%
Productivity enhancement type (Improve operational efficiency, raise employee experience value)	Orders EDI ratio	80.0%	78.1%	97.6%
	Purchasing EDI ratio	54.0%	46.2%	85.5%
DX HR training	No. of MOS certified* staff	200	78	39.0%
	Job rotation	28	21	75.0%

Source: Company press release "Obtained METI DX Certified Business Operator," May 16, 2025.

*Microsoft Office Specialist certification.

TOPICS 2



Osaka Kansai EXPO 2025

Strong inbound demand continues to be a key growth driver

SUMMARY

- The Osaka Kansai EXPO 2025 is open to the public from April 13, 2025, and runs until October 13, 2025 (184 days). The venue is Yumeshima, an island of reclaimed land in the Osaka Bay, and the EXPO is open every day from 9:00am until 10:00pm, 7 days a week for its 6-month duration. The Japan Association for the 2025 World Exposition announced that it achieved 1 million visitors in the first 11 days, reaching 15 million as of August 6. Goals of Osaka Kansai EXPO 2025 include contributing to the achievement of the United Nations Sustainable Development Goals (SDGs) by 2030, and showcasing the objectives of Japan’s national strategy “Society 5.0,” which aims to resolve social issues on a global scale through technological innovation including IoT, AI, robotics, big data, energy saving, biotechnology, etc.
- The economic ripple effect from Osaka Kansai EXPO 2025 is estimated at JPY 2 trillion, including revitalizing the Kansai regional economy as well as SMEs. The significance of Kansai and Osaka hosting technological innovations from around the world includes the long history and rich culture of Kansai and Osaka as a hub for pursuing exchange with different foreign cultures, as well as being renowned worldwide for the concentration of life sciences and biomedicine, which is aligned with the theme of the EXPO.
- As can be seen from the graph on P1, despite the yen’s recent appreciation (see left-hand graph on P2), visitor arrivals (Q2 +19.0%) and inbound consumption (Q2 +18.0%) continue to post robust double-digit growth. The breakdown of Apr-Jun Q2 inbound consumption of JPY 2,525.0 bn (+18.0% YoY) by the top 5 countries is: China JPY 516.0bn, +17.6% YoY, USA JPY 356.6bn, +27.3%, Taiwan JPY 291.5bn, +10.8%, South Korea JPY 231.2bn, +2.1% and Hong Kong JPY 135.8bn, -21.1%. The breakdown by expenditure category is: accommodation JPY 971.4bn, 38.5% of total, shopping JPY 662.3bn, 26.2%, food and beverages JPY 530.9bn, 21.0%, transportation expenses JPY 255.4bn, 10.1%, and entertainment and other services JPY 102.5bn, 4.1% (JTA survey).



Source: Japan Association for the 2025 World Exposition official website. <https://www.expo2025.or.jp/en/>



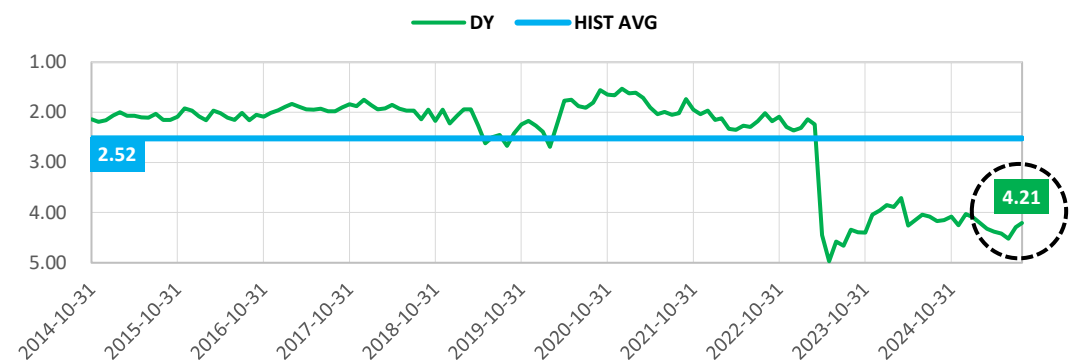
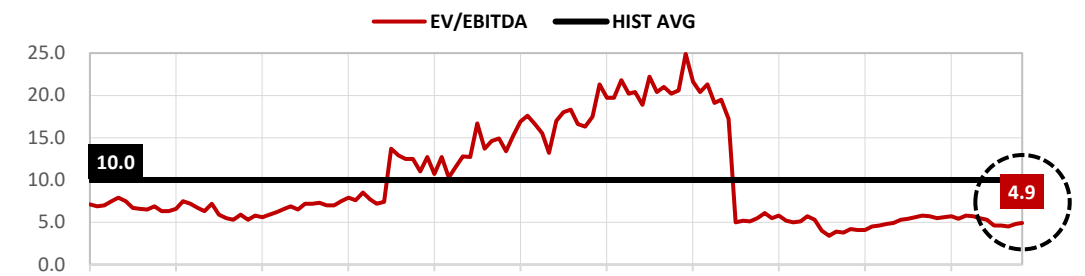
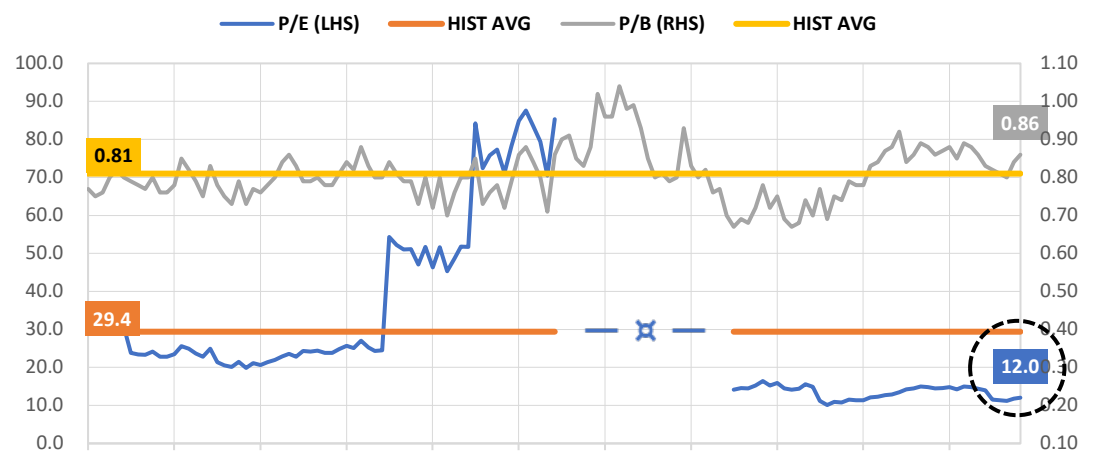
Performance and Valuations: SESSA Smart Charts

- ✓ The current P/E of 12.0x is trading 59% below its historical average, reflecting the sharp recovery in profitability. The P/B is trading above its historical average as management is making efforts to address a P/B below 1x.
- ✓ EV/EBITDA 51% below its historical average further reflects the marked improvement in profitability in the last two terms, and the DY of 4.21% trading 66% above its historical average, together with historically low P/E and EV/EBITDA, present an attractive investment case on compelling valuations in our view.



Analyst's view

10-Year Monthly Share Price, 6M/12M/24M MA, Volume and Valuations Trend



Source: compiled by SIR from SPEEDA historical earnings and price data. Valuations calculated based on LTM and CE.
 *Note: the P/E data for FY21/3 and FY22/3 have been omitted for visual clarity, removing the outliers from the net loss recorded in FY21/3 and negligible profit attributable to owners of parent recorded in FY22/3.

SHIMOJIMA Group earnings clearly in a new growth phase

- The 10-year trend shown in the table below demonstrates the changing nature of the Group's sales growth and profitability, having entered a new growth phase post-COVID. During the first 5 years from FY14/3 – FY19/3, net sales declined 3 out of the 5 years for 5Y CAGR -0.7%, and OP also declined 3 out of the 5 years for 5Y CAGR of -19.6%. During the next 5 years from FY19/3 – FY24/3, net sales only declined during FY21/3 (COVID outbreak), for **5Y CAGR of 3.9%**, and **OP 5Y CAGR of 37.2%**. 5Y CAGR for total cash divs in the first 5 years was 0.1%, vs. **18.4%** subsequently.

SHIMOJIMA Consolidated Financial Highlights and Key Indicators – new growth phase

JPY mn, % [J-GAAP]	FY15/3 act	FY16/3 act	FY17/3 act	FY18/3 act	FY19/3 act	FY20/3 act	FY21/3 act	FY22/3 act	FY23/3 act	FY24/3 act	1ST 5Y CAGR	2ND 5Y CAGR	FY25/3 act	FY26/3 init CE
Net sales	47,431	48,278	46,996	46,965	47,696	48,254	47,100	48,063	55,028	57,794			60,680	63,500
YoY	(3.9)	1.8	(2.7)	(0.1)	1.6	1.2	(2.4)	2.0	14.5	5.0	(0.7)	3.9	5.0	4.6
<i>by Sales Channel</i>														
• Marketing and Sales	34,307	35,242	33,959	34,423	35,475	35,991	34,117	34,322	38,708	40,580			42,703	
YoY	(1.5)	2.7	(3.6)	1.4	3.1	1.5	(5.2)	0.6	12.8	4.8	0.4	2.7	5.2	
• Store Sales	13,124	13,036	13,037	12,587	12,245	11,968	11,163	10,834	11,315	11,362			11,435	
YoY	(9.7)	(0.7)	0.0	(3.5)	(2.7)	(2.3)	(6.7)	(2.9)	4.4	0.4	(3.4)	(1.5)	0.6	
• Online (EC) Sales	—	—	—	—	—	—	1,971	2,906	5,005	5,851			6,541	
YoY							—	47.4	72.2	16.9			11.8	
<i>by Product Segment</i>														
• Plastic Products and Pkg. Materials	25,160	25,775	25,076	25,385	25,941	26,408	25,545	26,948	31,836	34,166			36,494	
YoY	(2.1)	2.4	(2.7)	1.2	2.2	1.8	(3.3)	5.5	18.1	7.3	0.2	5.7	6.8	
• In-Store Equipment and Supplies	12,959	12,898	12,438	12,141	12,449	12,494	13,248	12,084	13,193	13,475			14,188	
YoY	(6.7)	(0.5)	(3.6)	(2.4)	2.5	0.4	6.0	(8.8)	9.2	2.1	(2.2)	1.6	5.3	
• Paper Products	9,311	9,603	9,481	9,438	9,306	9,351	8,306	9,030	9,998	10,153			9,997	
YoY	(4.6)	3.1	(1.3)	(0.5)	(1.4)	0.5	(11.2)	8.7	10.7	1.6	(0.9)	1.8	(1.5)	
Gross profit	14,586	15,056	15,259	15,260	14,807	15,313	15,061	14,971	17,543	19,173	(0.6)	5.3	19,436	
GPM %	30.8%	31.2%	32.5%	32.5%	31.0%	31.7%	32.0%	31.1%	31.9%	33.2%			32.0%	
SG&A expenses	13,233	13,468	13,402	13,725	14,137	14,807	14,786	14,927	15,531	15,910	1.2	2.4	16,449	
% net sales	27.9%	27.9%	28.5%	29.2%	29.6%	30.7%	31.4%	31.1%	28.2%	27.5%			27.1%	
Depreciation and amortization	977	931	837	751	708	770	942	923	1,037	1,078			1,131	
EBITDA (OP + depreciation & amort.)	2,330	2,518	2,693	2,285	1,378	1,275	1,217	967	3,048	4,340	(14.5)	25.8	4,117	
Operating profit	1,353	1,587	1,856	1,534	670	505	275	44	2,011	3,262			2,986	3,575
YoY	(32.0)	17.3	17.0	(17.3)	(56.3)	(24.6)	(45.5)	(84.0)	45.7x	62.2	(19.6)	37.2	(8.5)	19.7
OPM %	2.9%	3.3%	3.9%	3.3%	1.4%	1.0%	0.6%	0.1%	3.7%	5.6%			4.9%	5.6%
Ordinary Profit	1,653	1,690	2,059	1,785	872	732	552	380	2,388	3,623	(16.3)	33.0	3,303	3,800
Total income taxes	666	679	658	615	333	339	26	167	898	1,154			938	2,500
Profit ATOP	813	1,051	1,197	1,094	513	331	(331)	86	1,542	2,372	(16.6)	35.8	2,088	
<i>JPY mn, %</i>														
[J-GAAP]	act	act	act	act	act	act	act	act	act	act	10-year	5-year	FY25/3	FY26/3
Total assets	38,042	38,461	39,370	39,971	39,595	39,365	38,293	37,756	40,023	43,407	0.8	1.9	41,843	
Total shareholders' equity	31,395	31,691	32,691	33,420	33,039	32,812	32,173	31,565	32,616	34,690	1.3	1.0	35,109	
Shareholders' equity ratio	82.5%	82.4%	83.0%	83.6%	83.4%	83.4%	84.0%	83.6%	81.5%	79.9%			83.9%	
Total cash dividends	523	515	515	516	511	627	511	511	512	1,190	0.1	18.4	1,261	
DOE (Divs paid / avg. total SE)	1.7%	1.6%	1.6%	1.6%	1.5%	1.9%	1.6%	1.6%	1.6%	3.5%			3.6%	
Net profit	813	1,051	1,197	1,094	513	331	(331)	86	1,542	2,372	(16.6)	35.8	2,088	
Payout ratio	64.3%	49.0%	43.0%	47.2%	99.6%	189.4%	NM	594.2%	33.2%	50.2%			60.4%	50.5%
ROE (Profit ATOP / avg. total SE)	2.6%	3.3%	3.7%	3.3%	1.5%	1.0%	-1.0%	0.3%	4.8%	7.0%			6.0%	
NOPAT (OP - income taxes)	687	908	1,198	919	337	166	249	(123)	1,113	2,108	(20.3)	44.3	2,048	
Invested capital (IBD + net assets)	32,155	32,470	33,410	34,151	33,673	33,609	32,839	32,221	33,104	35,180	1.2	0.9	35,718	
• Interest-bearing debt	738	731	649	646	531	681	614	599	425	424	(6.4)	(4.4)	540	
• Net assets	31,417	31,739	32,761	33,505	33,142	32,928	32,225	31,622	32,679	34,756	1.3	1.0	35,178	
ROIC (NOPAT / avg. invested capital)	2.1%	2.8%	3.6%	2.7%	1.0%	0.5%	0.7%	-0.4%	3.4%	6.2%			5.8%	

Source: compiled by SIR from TANSBIN Financial Results Summaries, YUHO Annual Securities Reports, and IR results briefing materials.

Note: profit ATOP = profit attributable to owners of parent.

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