Shareholder Proposal to SHIMAMURA Co.,Ltd. (8227)

TOKYO, April 14, 2025 – Japan Catalyst, Inc. (hereinafter referred to as "JCI") implements an engagement strategy with Japanese listed companies through two investment vehicles under its advisory: the Monex Activist Mother Fund ("MAMF", a Japan-registered mutual fund) and the Japan Catalyst Fund ("JCF", a Cayman-registered corporate-type investment fund).

As part of our ongoing engagement with SHIMAMURA Co., Ltd. ("SHIMAMURA"), a key holding of MAMF and JCF, MAMF has submitted a shareholder proposal for SHIMAMURA's 72nd Annual General Meeting of Shareholders, scheduled for May 2025. The proposal is based on the policy outlined below, and a summary of the proposal is provided in the attached appendix.

SHIMAMURA has achieved consistent growth through a distinctive business model that is difficult for peers to replicate, combining strong product development capabilities with effective sales execution. Supported by a strong business foundation, the company has also demonstrated strong cash generation.

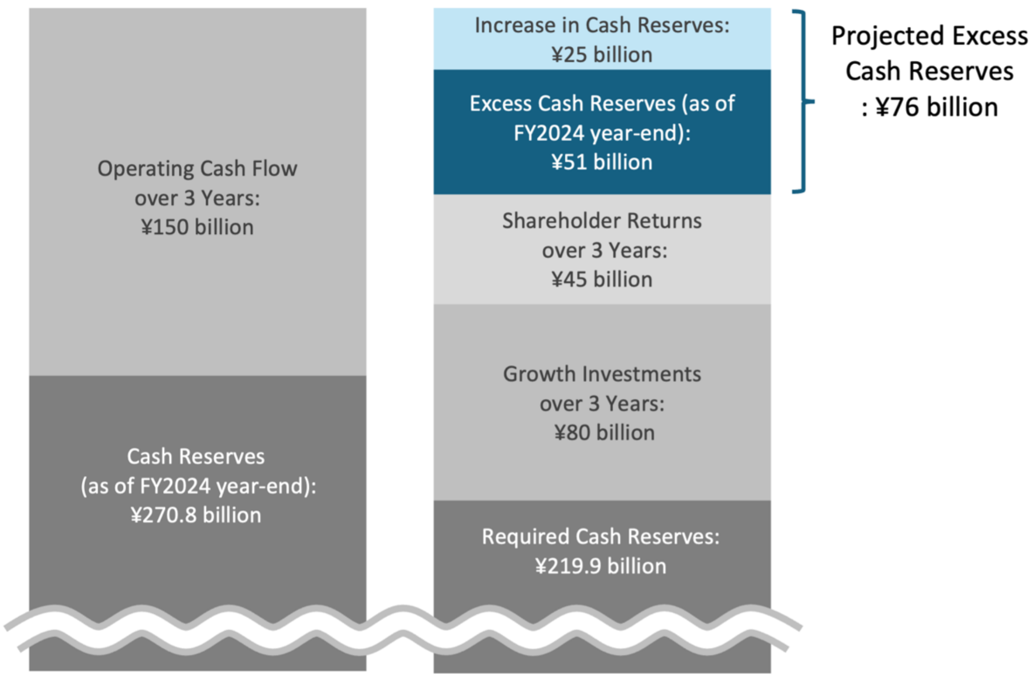
In the course of discussions with SHIMAMURA's management regarding an increase in the Dividend on Equity (DOE), MAMF submitted a shareholder proposal at the 71st AGM in May 2024, to introduce a DOE policy targeting 5.0% into SHIMAMURA's Articles of Incorporation. Subsequently, SHIMAMURA announced its Mid-Term Management Plan 2027, in which the shareholder return policy was revised to raise its DOE target from approximately 2.0% to around 3.0%. While this was a welcome development, we believe that the revised level remains insufficient, considering the company's substantial and growing cash reserves. As a result, we have continued our engagement with management.

When Shimamura announced its Mid-Term Management Plan 2027, it initially stated that it would require cash reserves equivalent to up to 6 months of sales. However, this was later revised to 4 months. We view this revision as a clear sign that management carefully reassessed its excess cash position and concluded that further accumulation was no longer necessary. This willingness to adjust its policy in response to feedback from the capital markets—and to pursue optimal decision-making—reflects the strength of SHIMAMURA's management.

However, it is worth noting that SHIMAMURA's cash holdings had never reached the equivalent of 4 months of sales before FY2019. Even during the unprecedented COVID-19 crisis, its cash position continued to grow. These facts suggest that a 4-month reserve may still be excessive. Nonetheless, out of respect for management's current view, our proposal is based on SHIMAMURA's stated assumption that a 4-month cash reserve is necessary.

As of the end of Q3 FY2025, SHIMAMURA held cash equivalent to 5 months of sales, translating to approximately ¥56 billion in excess cash. While the company has announced plans to invest ¥80 billion in growth initiatives over the 3 years under its Mid-Term Management Plan 2027, we believe this can be fully financed through internally generated operating cash flow. Without a revision to its current shareholder return policy, SHIMAMURA's cash reserves are likely to accumulate further.

(*Figure 1: Projected Excess Cash at SHIMAMURA*)



Prepared by JCI based on company disclosures.
Note: Required cash reserves calculated as 4 months of sales using company forecasts.

Given SHIMAMURA's strong cash generation and management's acknowledgment of the issue, we believe that further accumulation of cash reserves is no longer necessary. At a minimum, we consider a total shareholder return ratio of 100% to be appropriate. Specifically, we propose a stable dividend payout ratio of 60%, coupled with share buybacks equivalent to 40% of net income.

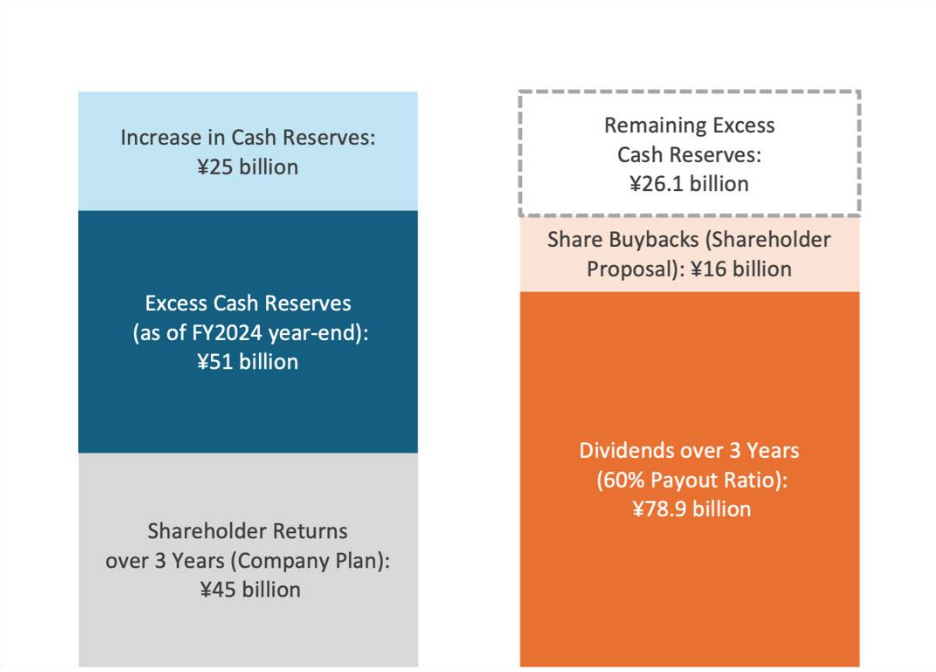
At the FY2025 year-end financial results briefing—held after our proposal was submitted—SHIMAMURA announced that it would raise its ROE target from "around 8.0%" to "above 9.0%" under the Mid-Term Management Plan. This upward revision was made in direct response to feedback from the capital markets that SHIMAMURA should set a more ambitious target, given that its actual ROE had already exceeded

8.0%. This revision during the execution of the Mid-Term Plan, in response to market feedback, demonstrates management's flexibility and considered judgment.

To achieve an ROE of 9.0% based on the company's operating profit target of ¥66.5 billion in FY2027, we estimate that total shareholder returns exceeding ¥80 billion over the 3-year period will be required. However, SHIMAMURA's current plan provides only for ¥45 billion in shareholder returns, making the 9.0% ROE target difficult to achieve under existing policy. Under our proposed policy—60% dividend payout ratio and ¥16 billion in share buybacks—ROE in FY2027 is projected to reach 9.2%, consistent with the company's revised target.

It is important to note that the proposed 60% dividend payout and 40% share buyback alone would not be sufficient to fully address SHIMAMURA's excess cash holdings. In our view, shareholder returns exceeding a total payout ratio of 100% will ultimately be necessary. We hope this proposal will serve as a catalyst for a more comprehensive review and enhancement of the company's capital policy by management.

(*Figure 2: SHIMAMURA's Excess Cash and Shareholder Returns under the Shareholder Proposal*)
Assuming dividends are paid at a 60% payout ratio over the next 3 years and an additional ¥16 billion in share buybacks is executed, SHIMAMURA would still retain approximately ¥26.1 billion in excess cash.



Prepared by JCI based on company disclosures.
Note: Net income estimates derived from company forecasts.

Through ongoing constructive dialogue with stakeholders, JCI is committed to promoting genuine corporate governance reform in Japan—advancing the capital markets, improving enterprise and shareholder value, and contributing to the overall productivity of Japanese companies.

**This shareholder proposal was submitted by Monex Asset Management, Inc. ("MAM"), acting as the proxy agent for the Monex Activist Mother Fund. Japan Catalyst, Inc. has provided support to MAM in connection with the submission of this proposal.*

Appendix

*In this shareholder proposal, "the Proposing Shareholder" refers to Monex Asset Management, Inc., and "the Company" refers to SHIMAMURA Co., Ltd.

All figures referenced in the following proposals (1 and 2) are based on consolidated financial statements.

Shareholder Proposal (Summary)

1. Proposal: Appropriation of Surplus

(1) Overview of the Proposal:

We propose that retained earnings be appropriated as follows to ensure that total annual dividends correspond to a dividend payout ratio of 60%.

- **Type of dividend**: Cash
- **Amount of dividend per share**: ¥233 minus the amount of dividend per share proposed by the Board of Directors and approved at the AGM. If the amount calculated as 60% of net income per share for the 72nd fiscal year minus ¥95 differs from ¥233, the figure of ¥233 shall be replaced with the amount equivalent to a 60% dividend payout ratio.

(2) Reason for the Proposal:

This proposal is intended to implement an annual dividend of ¥24 billion, equivalent to a 60% dividend payout ratio. Together with the proposal for share buybacks, it is designed to achieve a total shareholder return ratio of 100%.

The Company has stated that the necessary cash and deposits for operations correspond to 4 months of sales. However, as of Q3 FY2025, the Company held cash and deposits equivalent to 5 months of sales, resulting in approximately ¥56 billion in excess funds.

Under its Mid-Term Management Plan 2027, the Company expects to generate ¥150 billion in operating cash flows over the 3 years through FY2027, and invest ¥80 billion in growth initiatives. Without a revision to its current shareholder return policy, further accumulation of cash is expected.

Given the Company's strong cash-generating capacity, we believe that further accumulation of cash is unnecessary, and that a 60% payout ratio represents an appropriate minimum level of shareholder return.

2. Proposal: Acquisition of Treasury Shares

(1) Overview of the Proposal:

Pursuant to Article 156, Paragraph 1 of the Companies Act, we propose that the Company acquire its common shares by means of monetary payment, within 1 year following the conclusion of this Annual General Meeting, up to a total of 2.5 million shares and a maximum amount of ¥16 billion.

(2) Reason for the Proposal:

This proposal is intended to implement a share buyback of ¥16 billion, equivalent to 40% of net income attributable to owners of the parent. Together with the dividend proposal above, it is designed to achieve a total shareholder return ratio of 100%.

The Company has stated that the necessary cash and deposits for operations are equivalent to 4 months of sales. However, as of Q3 FY2025, the Company held cash and deposits equivalent to 5 months of sales, resulting in approximately ¥56 billion in excess funds.

Given the Company's strong cash flow generation capabilities, we believe there is no further need to accumulate cash. In addition to a 60% dividend payout ratio, we consider it appropriate to execute share buybacks equivalent to 40% of net income.

It should be noted that fully addressing the Company's excessive cash position would require shareholder returns exceeding a total payout ratio of 100%.
