

(English Translation of the Japanese Press Release)



October 12, 2018

To all related parties:

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### **Notice Concerning Establishment of Medium-Term Management Plan 2021**

SHIMACHU CO., LTD. (the “Company”) hereby gives notice that it has established the Medium-Term Management Plan 2021 today which runs for three years from the fiscal year ending August 31, 2019 to fiscal year ending August 31, 2021. The details are as follows.

The business environment in which the Company operates continues to change at a dizzying pace due to shifts in consumer behavior following changes in customers’ lifestyles, and intensified competition in the retail industry that goes beyond the conventional boundaries of business fields and business formats. This trend is expected to continue going forward, and the expansion of consumption that doesn’t involve physical stores, such as e-commerce and second-hand sales among individuals, is expected to accelerate further.

These changes in the business environment are having a significant impact on the Company’s sales businesses for furniture, home fashion supplies (hereinafter, “HF”), and home center supplies (hereinafter, “HC”), which are the Company’s core businesses. The Company’s previous store format (HC on the first floor, furniture and HF on the second floor) has become outdated and, as a result, the Company’s stores have been unable to satisfy customers. Even when new stores are launched they struggle with revenue, as is the case with existing stores. This is the result of insufficient growth investment for the future, and having failed to implement new store operations that consumers approve of along with new formats.

Under these circumstances, the Company established the Medium-Term Management Plan 2021, setting a three year period for putting future increased sales and profits on track and building the foundation needed to reform the corporate structure so that ROE exceeds capital cost. This plan involves improving the strategy for enhancing the Company’s ability to attract more customers, which was carried out as part of the efforts for the fiscal year ended August 31, 2018, executing five measures that focus on reforming the Company’s core businesses (Furniture/HF/HC), executing shareholder returns, and achieving an operating profit of ¥14.0 billion and an ROE of 5% by the fiscal year ending August 31, 2021.

Management goals for the medium-term management plan (Fiscal year ending August 31, 2021)

	Actual results for the fiscal year ended August 31, 2018	Goals for the fiscal year ending August 31, 2021	Comparison
Operating revenue	¥146.2 billion	¥150.0 billion	+¥3.8 billion
Operating profit	¥9.8 billion	¥14.0 billion	+¥4.2 billion
ROE	2.2%	5.0%	+¥2.8 pt

■Medium-Term Management Plan 2021 (from fiscal year ending August 31, 2019 to fiscal year ending August 31, 2021)

1. Five types of reform related to the Company's core businesses, "Furniture/HF/HC"

1. Store development	<ul style="list-style-type: none"> <li>• Renovate existing stores and proactively increase floor space.</li> <li>• Reduce the number of old-format stores and proactively open Shop in Shop locations.</li> </ul>
2. Format development	<ul style="list-style-type: none"> <li>• Proactive development of sales spaces that propose new lifestyles.</li> <li>• Improve the ability to attract more customers by bringing in new tenants and franchises.</li> <li>• Develop an e-commerce system for interior products.</li> </ul>
3. Cost structure reform	<ul style="list-style-type: none"> <li>• Improve the gross profit margin primarily by implementing predicative ordering and aggregating the frequency of product deliveries.</li> <li>• Reduce SG&amp;A expenses mainly through revolutionized logistics and labor-saving initiatives.</li> </ul>
4. Management infrastructure development	<ul style="list-style-type: none"> <li>• Review the personnel system.</li> <li>• Update information systems mainly to optimize operations and improve security.</li> <li>• Creation of marketing that utilizes a T-Point database.</li> <li>• Reconstruction of brand management.</li> </ul>
5. Other	<ul style="list-style-type: none"> <li>• Proactive pursuit of M&amp;A, and more.</li> </ul>

2. Shareholder return

Shareholder return	<ul style="list-style-type: none"> <li>• The Company's policy is to maintain a total return ratio, which is the ratio of dividends and share buybacks in total to profit, of</li> </ul>
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	<p>over 100% through stable dividends and the flexible implementation of share buybacks.</p> <ul style="list-style-type: none"> <li>• As for its policy on holding treasury stock, the Company sets a maximum for holding treasury stock at around 5% of the total number of issued shares and intends to retire any shares that exceed that amount.</li> </ul>
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