

# 2Q of FY2023 Presentation Materials



H2O RETAILING CORPORATION

I . Consolidated Financial Results

II . Forecast of FY2023

III . Supermarket business as a second core

IV . Capital efficiency and shareholder returns

- 1 . Consolidated Financial Results
- 2 . Results by segment
- 3 . Department store business
- 4 . Supermarket business
- 5 . Extraordinary income and losses
- 6 . Capital Investment

# I – 1 . Consolidated Financial Results

- ▶ Sales increased especially in department store business despite the impact of the seventh wave of COVID-19 infection spread
- ▶ Operating profit returned to the black due to sales recovery, and exceeded the forecast due to controlled SG&A expenses.
- ▶ Net income exceeded the forecast despite a decrease compared to the previous year due to a decrease in extraordinary income, including a large gain on sales of fixed assets recorded in the previous fiscal year.

(billions of yen)	Amount	Amount		YoY	Versus forecast
		1Q	2Q		
Gross sales	461.5	227.9	233.6	34.1% +117.5	(2.6)% (12.5)
Net Sales	304.4	149.4	155.1	28.4% +67.4	(4.9)% (15.6)
Operating Profit	1.1	0.7	0.5	+6.3	+2.1
Ordinary Profit	2.8	1.9	1.0	+7.0	+4.3
Extraordinary income	5.0	0.0	5.0	/	
Extraordinary losses	3.1	0.7	2.4		
Profit	2.8	0.7	2.1	(5.3)	+2.8

# I – 2 . Results by segment

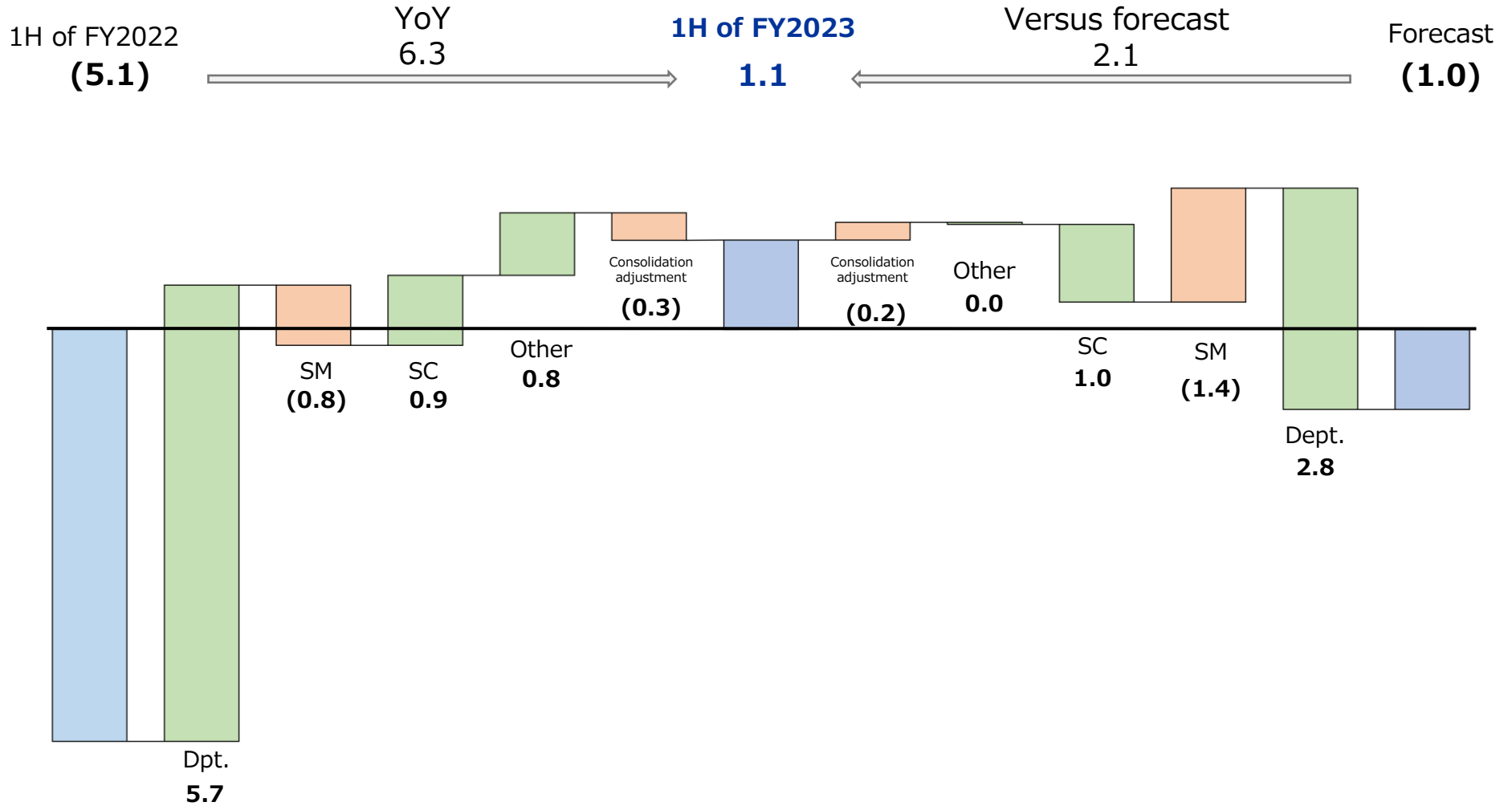
- ▶ Department store : Profit recovery due to significant sales growth, exceeding forecasts
- ▶ Supermarket : Despite sales increase due to newly consolidated Kansai Supermarket, operating profit decreased due to the reaction to the previous year's eating at home demand, higher procurement costs, and higher utility costs.
- ▶ Shopping center : Profit increased due to cost reduction in H2OSC Development and improved occupancy rate in hotel (Oi Development).

(billions of yen)	Gross Sales			Operating Profit		
	Amount	YoY	Versus forecast	Amount	YoY	Versus forecast
Department store	220.5	42.9%	1.0%	1.6	5.7	2.8
Supermarket	205.8	37.9%	(4.5)%	1.6	(0.8)	(1.4)
Shopping Center	17.5	(28.8)%	(11.2)%	0.9	0.9	1.0
Other	17.7	11.0%	(13.8)%	(1.6)	0.8	0.0
Consolidation adjustment				(1.5)	(0.3)	(0.2)
Consolidated	461.5	34.1%	(2.6)%	1.1	6.3	2.1

# I – 2. Results by segment

## Factors of Increase/Decrease in Operating Profit (YoY, versus forecast)

(billions of yen)



# I – 3 . Department store business

- ▶ Sales growth at urban area stores due to easing of the impact of the COVID-19 infection spread (previous year, temporary closure for about 1.5 months)  
Sales also exceeded forecasts, despite the impact of the re-expansion of infection that began in late July
- ▶ Decrease in amount transferred to extraordinary loss related to COVID-19 in the previous year (3.3 billion yen) and the opening of Hanshin Umeda main store resulted in the increase in SG & A.
- ▶ In addition to higher sales, cost control ((2.3) billion yen vs. forecast) contributed to higher profits than forecast.

## Hankyu Hanshin Department stores

(billions of yen)	Amount	Amount		YoY	Versus forecast
		1Q	2Q		
Gross Sales	219.2	108.0	111.2	43.1% 66.0	1.2% 2.5
Gross profit	49.2	24.4	24.8	14.6	/
Gross profit / Gross Sales	22.44%	22.60%	22.28%	(0.12)%	
Other operating revenue	1.5	0.8	0.8	0.1	
SG & A	49.2	24.0	25.2	9.0	
Operating profit	1.6	1.2	0.4	5.7	

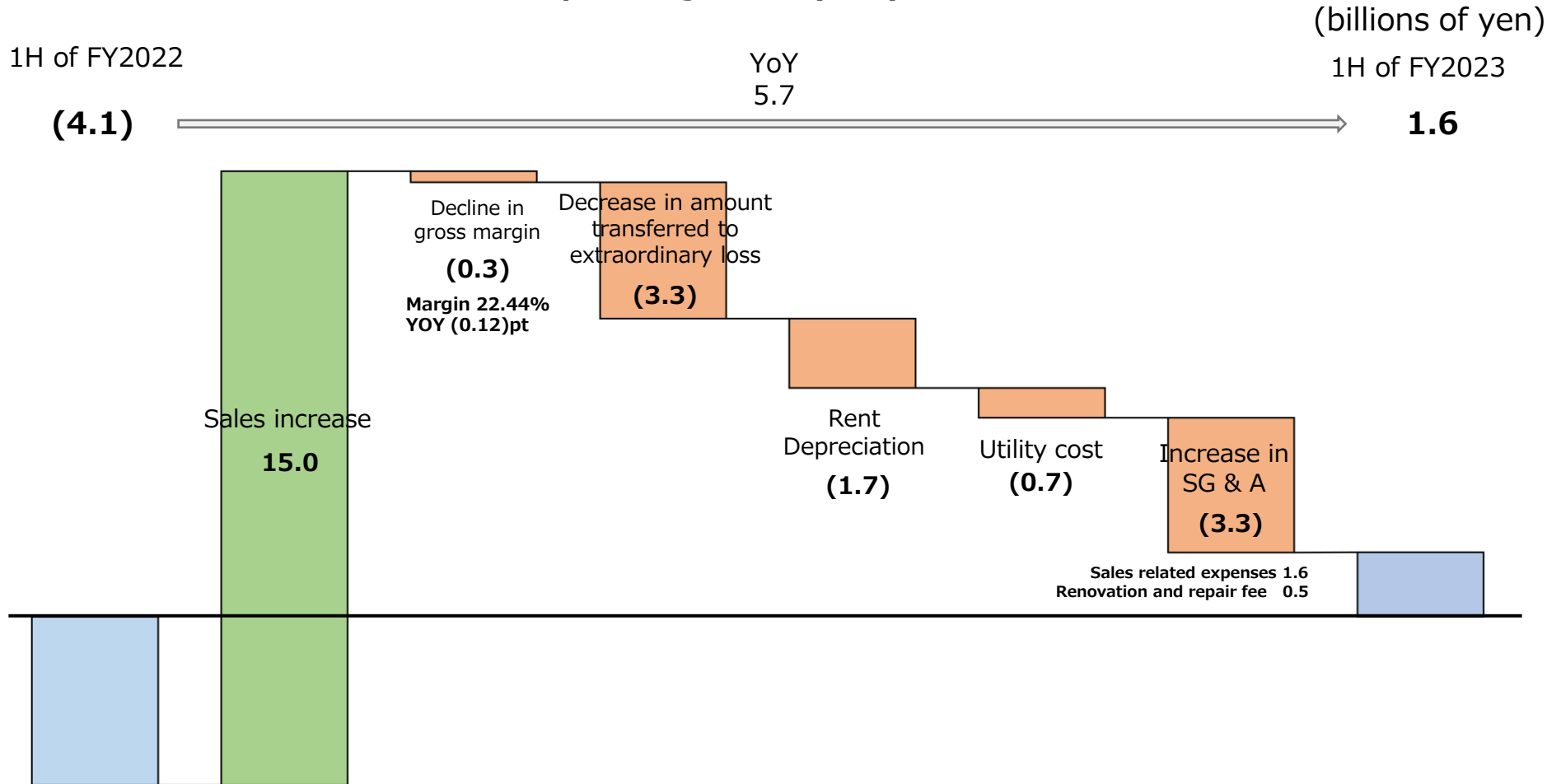
Sales by store	YoY
Hankyu main store	51%
Hanshin Umeda main store	176%
Other stores	16%

SG & A	YoY
decrease in amount transferred to extraordinary loss	3.3
Increase in rent and depreciation (ex. Hanshin Umeda main store)	1.7
Increase in utility cost	0.7
Increase in sales related expenses	1.6

# I – 3 . Department store business

► Increase in gross profit due to higher sales exceeded increase in expenses

## Factors of Increase/Decrease in Operating Profit (YoY)



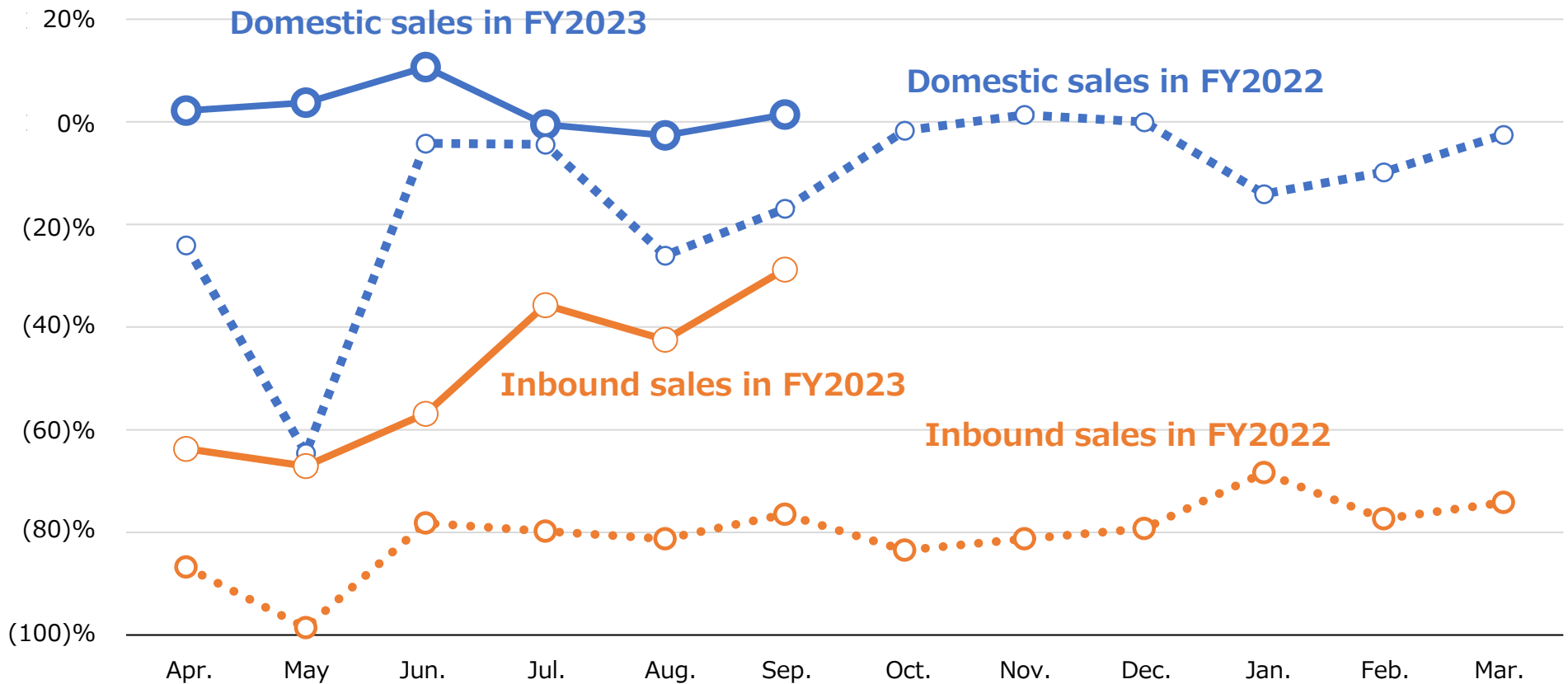


# I – 3 . Department store business

- ▶ Since the beginning of the period, domestic sales at existing stores have generally remained at before COVID-19 levels (versus FY2019)
- ▶ Sales trend fell due to the rapid re-expansion of the infection from July, but the impact was not as strong as last fiscal year (Domestic sales of Hankyu main store in 2Q totaled 109%, surpassing before COVID-19 sales)
- ▶ Inbound sales recovered to 50% level compared to FY2019

Existing store sales versus FY2019

(Excluding Hanshin Umeda Main Store, Kobe, Takatsuki and Sanda Hankyu)



# I – 4 . Supermarket business

- ▶ Supermarket : Sales increased and profit decreased
- Sales increased from newly consolidated Kansai Supermarket and existing store sales decreased.
- SG&A expenses were controlled through cost reductions (1% reduction of the previous year) despite cost increase factors such as higher procurement costs, higher utility costs, and higher unit labor costs.
- ▶ Food manufacturing companies (Hankyu Delica i, etc.) increased sales and OP due to recovery in wholesale sales to supermarkets and specialty store sales.

(billions of yen)	Gross Sales	Versus forecast		OP	Versus forecast	
		YoY			YoY	
Supermarket	199.4	39.8%	(4.0)%	1.7	(0.9)	(1.3)
Izumiya, Hankyu Oasis, Qanat	136.5	(4.8)%	(4.4)%	0.7	(1.9)	(0.9)
Kansai Super Market	63.9	—	(3.4)%	1.1	—	(0.3)
Food Manufacturing	17.0	0.4%	(3.6)%	(0.1)	0.1	(0.1)

	Existing stores sales	Versus forecast	
		Number of customers	Average amount of customer
Izumiya	(5.1)%	(5.3)%	0.2%
Hankyu Oasis	(9.0)%	(6.0)%	(3.2)%
Kansai Super Market	(3.5)%	(3.1)%	(0.4)%

# I – 5 . Extraordinary income and losses

- ▶ Completed relocation of H2O and Hankyu Hanshin Department Store headquarters office in September 2022  
Sold the former headquarters office and recorded a gain of 5.0 billion yen on the sale

		Amount	Major contents
Extraordinary income	Gain on sales of non-current assets	5.0	former headquarters office
Extraordinary losses	Loss on closing of stores and others	1.4	H2O Shopping Center Development
	Loss on retirement of noncurrent assets	0.7	Hankyu Hanshin Department stores

# I – 6 . Capital Investment

- ▶ Upfront investments in IT infrastructure and growth with funds generated through earnings recovery and asset sales
- ▶ Stores and major facilities … Renovation of Kobe Hankyu, rebuilding of Hanshin Umeda main store, supermarket opening and renovation
- ▶ IT/DX investment … Infrastructure building such as POS, information infrastructure renewal, and next-generation IT concept. Part of this will be done in the next fiscal year or later.

(billions of yen)	Amount	Major contents
Department stores	6.5	Renovation of Kobe Hankyu, Rebuilding of Hanshin Umeda main store, Renovation of Hankyu main store
Supermarket	2.4	New opening of store of Hankyu Oasis, Renovation of supermarket stores
Shopping center	0.6	H2O Shopping Center Development Renovation and maintenance of shopping centers
Other	9.5	Land and building of logistics center [In operation in FY21, acquired in FY22] Groupwide IT/DX investment [infrastructure building and work environment improvement]
Total	19.0	

\* After adjustment

## II . Forecast of FY2023

- ▶ Revised forecast of operating profit upward based on progress in 1Q and 2Q results
- ▶ Net profit has also been revised upward, taking into account the sale of Takashimaya shares.

(billions of yen)	1H		2H		FY2023		
	Amount	YoY	Forecast	YoY	Forecast	YoY	Versus forecast in May
Gross sales	461.5	34.1% 117.5	518.5	16.8% 74.4	980.0	24.3% 191.9	(2.0)% (20.0)
Net sales	304.4	28.4%	335.6	19.2%	640.0	23.4%	(3.0)%
Operating profit	1.1	6.3	7.9	2.0	9.0	8.3	1.0
Ordinary profit	2.8	7.0	7.2	0.6	10.0	7.7	3.0
Profit	2.8	(5.3)	8.2	6.4	11.0	1.1	3.0

## II . Forecasts of FY2023 by segment

- ▶ Department store : revise upward for the full year based on progress through 2Q
- ▶ Supermarket : revise downward due to lower-than-expected results, but expect profit improvement in 3Q/4Q due to thorough chain operations.
- ▶ Shopping center : expect to improve steadily in 3Q/4Q based on favorable progress in actual results.

(billions of yen)	Gross Sales			OP		
	Amount	YoY	Versus forecast in May	Amount	YoY	Versus forecast in May
Department stores	486.0	26.2%	0.4%	7.4	6.5	1.4
Supermarket	415.0	26.8%	(4.0)%	6.4	1.1	(1.8)
Shopping center	37.5	(12.5)%	(4.1)%	1.6	1.2	1.1
Other	41.5	26.0%	(6.9)%	(3.8)	(0.3)	0.1
Consolidation adjustment				(2.7)	(0.2)	0.2
Total	980.0	24.3%	(2.0)%	9.0	8.3	1.0

## II . Forecast of FY2023 - Capital Investment

- ▶ As planned at the beginning of the term, invest aggressively in high-priority projects
- ▶ Stores and major facilities … Remodel of Kobe Hankyu and Takatsuki Hankyu, acquisition of new logistics center for department stores, renovation of supermarkets
- ▶ IT/DX investment … In addition to infrastructure building, promote investments in OMO, work environment improvement, etc.

(billions of yen)	Amount	Major contents
Department store	12.7	Kobe Hankyu remodel ¥5.6bn. , Takatsuki Hankyu remodel ¥0.8bn. Rebuilding of Hanshin Umeda main store ¥1.8bn.
Supermarket	6.4	Renovation and maintenance of SM [Izumiya ¥1.6bn., Hankyu Oasis ¥1.8bn., Kansai Super Market ¥1.7bn.]
Shopping Center	2.1	H2O Shopping Center Development Renovation and maintenance of shopping centers
Other	20.8	Land and building of logistics center [In operation in FY21, acquired in FY22] ¥6.4bn. Groupwide IT/DX investment [infrastructure building and work environment improvement] ¥11.0bn.
Total	42.0	

# III . Supermarket business as a second core

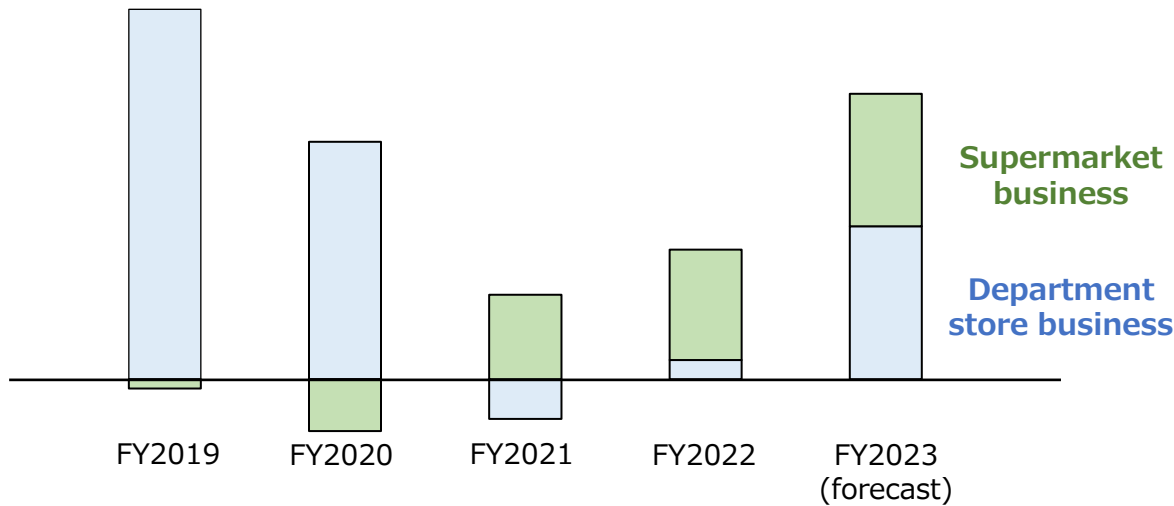
- 1 . Mid and long term strategy of supermarket business as a second core
- 2 . Profit improvement by thorough chain operations
- 3 . Integration of Izumiya and Hankyu Oasis
- 4 . Long-term policy of Supermarket business



## Supermarket business as a second core

- On track to become a "second core business" in terms of both sales and OP through integration of Kansai Super Market.

### Operating Profit



- Mid- and long-term Strategy to FY2026

- Profit improvement by thorough chain operations
- Improve management efficiency, and unify operations through integration of IZ and OA (FY2024)

⇒Aiming for sales of 400 billion yen and an operating margin of over 3%

## ▶ Gross Profit Improvement

Increase sales and improve gross profit margin by restructuring merchandising

- Optimal store design and product lineup for the market and sales area  
After verifying the effect in pilot stores, rolling out to all stores
  - Improve sales and profit margin by reviewing products and pricing policies
  - Standardization of store facilities and equipment for common product development

Improvement of gross profit margin through integration of procurement

- Unification of product suppliers
- Review of center fees

## ▶ SG&A reduction

Reduction of labor costs by reviewing store operations

- Increased labor efficiency by ensuring work rules
- Introduction of fixtures and equipment to promote efficiency
- Optimization of personnel structure based on data verification

Review of expenses

- Review of systems and logistics
- Reduction of consumables expenses
- Rationalization of sales promotion measures

Plan of profit increase

Total 144 measures  
**¥1.2 billions** in 2H  
(forecast of 3Q/4Q is ¥0.5 billion, 40% of plan)

Total 52 measures  
**¥0.7 billions** in 2H

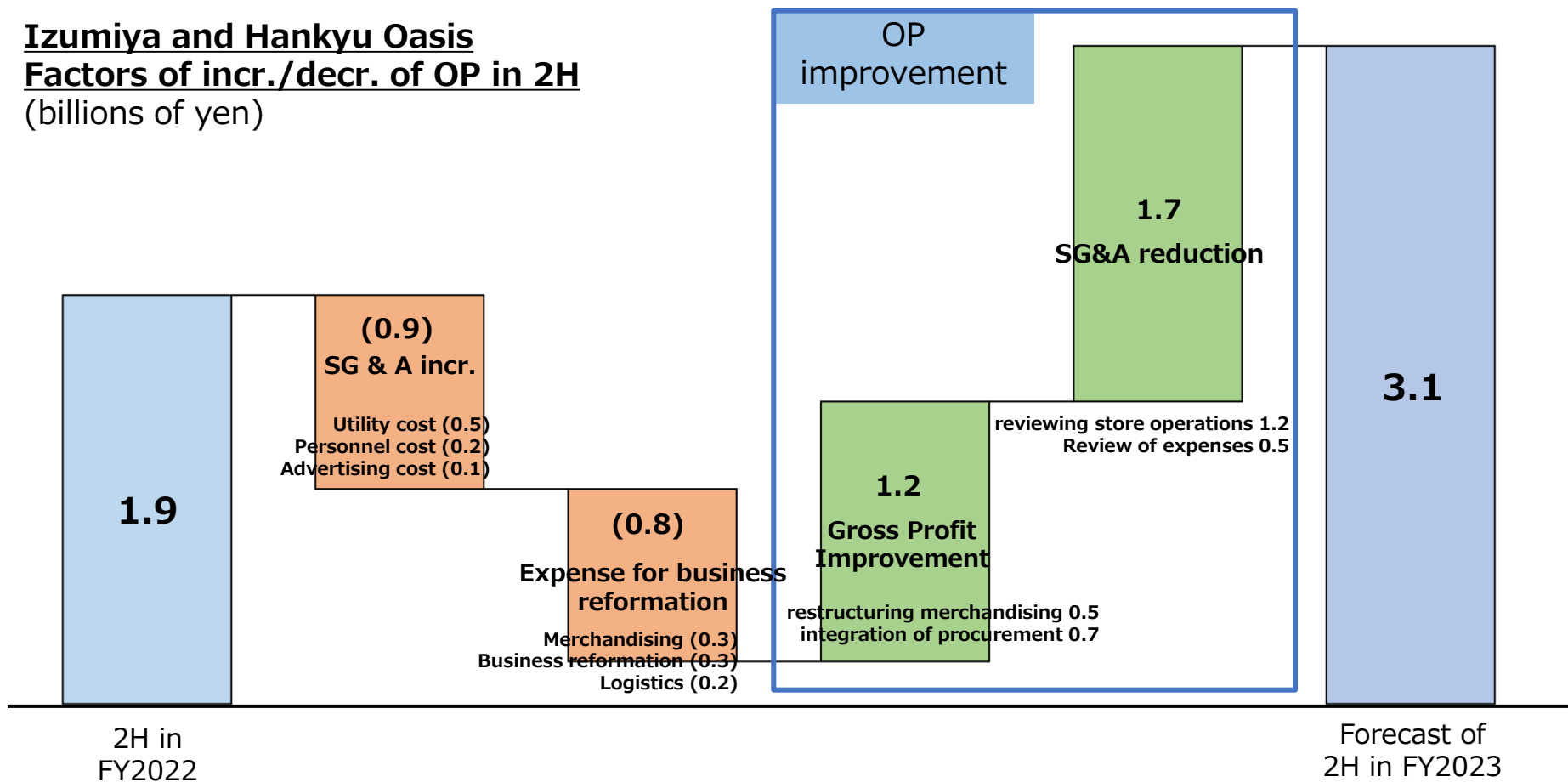
Total 24 measures  
**¥1.2 billions** in 2H

Total 51 measures  
**¥0.5 billions** in 2H

# III – 2 . Profit improvement by thorough chain operations

► Despite an increase in SG&A expenses due to higher utility costs, chain operations (gross profit improvement and SG&A cost reduction) to improve profit margin generate 2.9 billion yen of profit in 2H.

**Izumiya and Hankyu Oasis**  
**Factors of incr./decr. of OP in 2H**  
 (billions of yen)



# III – 3 . Integration of Izumiya and Hankyu Oasis

- ▶ Until FY2023 : Promote common organization and structure for integration
- ▶ From FY2024 : Operate as “One company” after integration

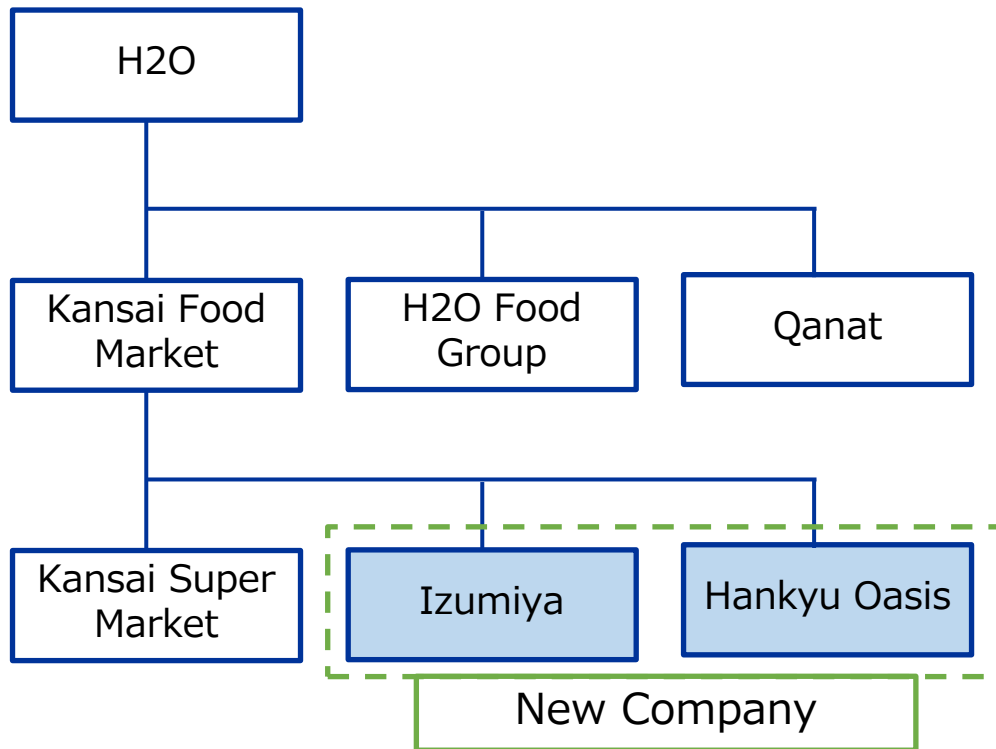
	~FY2023
	Preparation for Integration
Organization Management	<ul style="list-style-type: none"> <li>● SM strategic functions consolidated in H2O Food Group</li> <li>● Manage budgets in common</li> </ul>
Store	<ul style="list-style-type: none"> <li>● Implement store format plan</li> <li>● Implement chain operations</li> <li>● Common store operating rules</li> </ul>
MD	<ul style="list-style-type: none"> <li>● Common sales plans and product policies</li> <li>● Modify product MD by store format</li> <li>● Common sales plans and MD</li> </ul>
System	<ul style="list-style-type: none"> <li>● Parallel operation of systems</li> </ul>



FY2024~
Integration
“One Company”

# III – 3 . Integration of Izumiya and Hankyu Oasis

As “One company,” further speed up management decision-making and further improve management efficiency



## ■ Effect of integration

- ① Governance and Decision making
  - Organizational unification
- ② Personnel unification
  - Proper allocation of personnel
- ③ Store operations unification
  - Area-based operations
- ④ Rationalization of administrative operations
  - Reduction of practical tasks such as health insurance, payroll calculation, etc.

# III – 4 . Long-term policy of Supermarket business

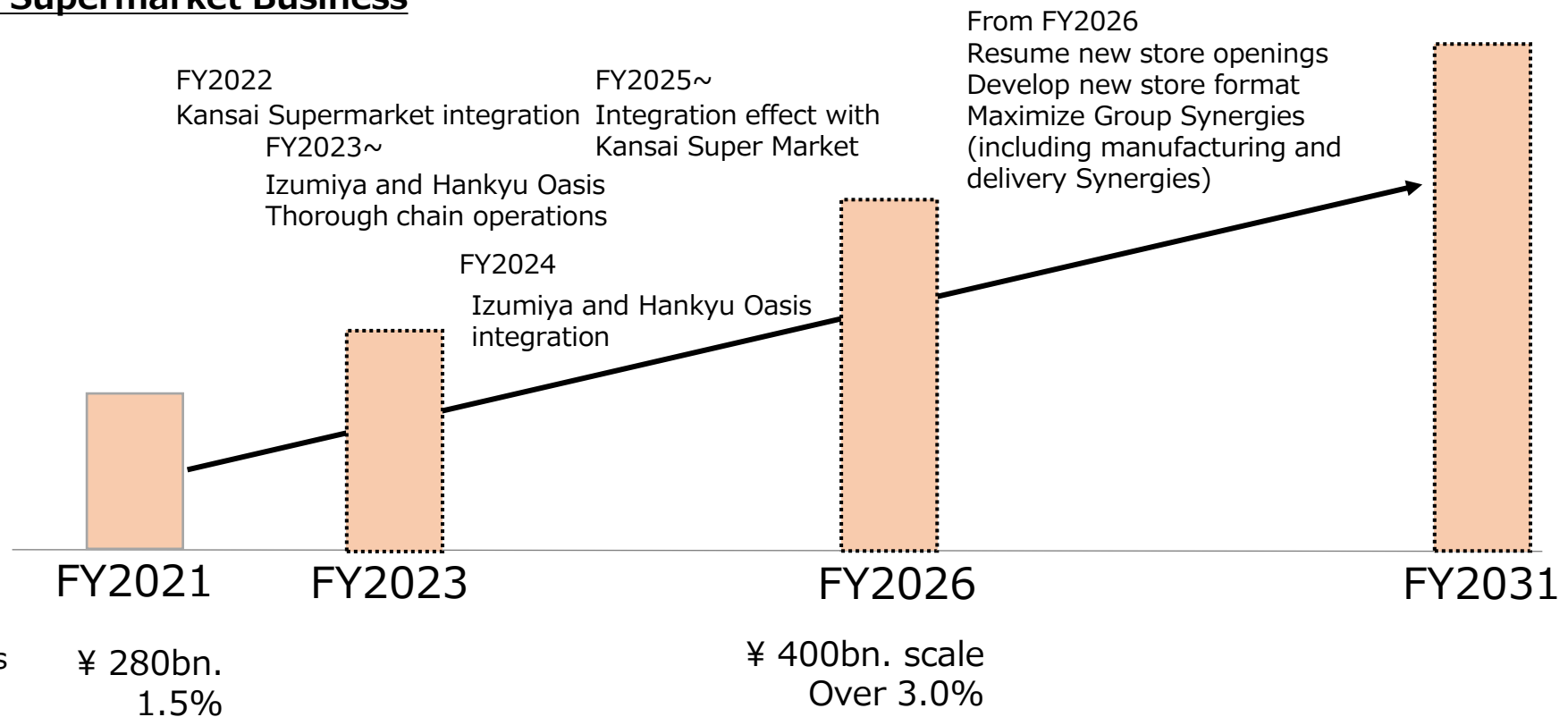
Until FY2026 **Profit margin to 3% level**

Integration of Kansai Supermarket, thorough chain operations, integration of Izumiya and Hankyu Oasis, group synergies of supermarket business

From FY2031 **Expand sales and maintain profit margin to 3% level**

Resume new store opening, develop new store format, maximizing group synergies, etc.

## OP of Supermarket Business



# IV. Capital efficiency and shareholder returns

- ▶ Improve capital efficiency and execute major investment in mid-term Management Plan
  - Real estate sale : Sale of properties less efficient, mainly non-store ⇨ 3-years amount : ¥30 bn.
  - Stock sale : Gain of ¥ 6.5bn. Recorded in FY2022
  - Major investment : Maintain interest-bearing debt levels by using operating cash flow and cash inflows from asset sales ⇨3-years investment amount: ¥ 95 bn.
- ▶ Nov.2022 Dissolved capital alliance and continue business alliance with Takashimaya.  
Due to the trend to reduce policy shareholdings and environment changes for both companies.  
Strengthening relationships by initiating collaboration in sustainability-related field.  
⇨Increase in corporate value by capital efficiency improvement and business alliance.

## <Sale of Takashimaya shares>

Sale of 8.89 million shares(equivalent to 5%) of Takashimaya shares

⇨ Gain on sale ¥ 3.8 bn. expected in FY 2023

## < Buy-back shares >

Acquisition of 6.26 million shares (equivalent to 5%) of the Company's shares held by Takashimaya

⇨ Buy-back of 8.1 million shares for 13 billion yen maximum on November 4



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