

FY2023 Presentation Materials



H2O RETAILING CORPORATION

- ▶ Each of the consolidated profits exceeded the forecast.
Profit of ¥16.4 reached a record high due to sale of less efficient properties and investment securities and review of tax effects associated with recovery of profitability.(ROE 6.7%)
- ▶ Operating profit results by segment
 - [Department Store] Exceeded forecast
 - recovery in both domestic and inbound sales centered on urban stores
 - [Supermarket] Exceeded the previous year but lower than expected
 - impact of price hike was more than cost reduction.
 - [Shopping Center] Exceeded forecast
 - strengthened sales force and cost reduction in H2OSC Development and improved occupancy rate of business hotel in Oi Development.
- ▶ Invest aggressively in high-priority projects. IT/DX investment was lower than forecast due to the gap in the recording period and delay.
- ▶ Forecast of FY2024 is ¥17.0 billion in operating profit as planned on mid-term plan
Plans to increase profit due to sales growth in department store business and the effect of operational improvement in supermarket business.
- ▶ Capital investment in FY2024 will focus on large store remodels and IT/DX investments.
Total capital investment during 3 years of the mid-term plan is expected to be 91.3 billion yen (planned: 95 billion yen)

I. Consolidated Financial Results

II. Forecast of FY2024

III. Progress and review of Mid-term management plan

I. Consolidated Financial Results



1. Consolidated Financial Results
2. Results by segment
3. Department Store business
4. Supermarket business
5. Shopping Center business
6. Extraordinary income and losses
7. Capital Investment

I-1. Consolidated Financial Results

- ▶ Sales continued to recover particularly in department store business and increased significantly from the previous year.
- ▶ Gross profit and operating profit increased due to sales recovery though SG&A expenses including external factors like higher utility costs increased. Operating profit and ordinary profit exceeded the full-year forecast as a result of cost control efforts mainly in department stores.
- ▶ Profit exceeded the full-year forecast and reached a record high.(ROE 6.7%)

(billions of yen)	FY2023			4Q (Jan.-Mar.)	
	Amount	YoY	Versus forecast	Amount	YoY
Gross sales	979.7	24.3% 191.6	(0.0)% (0.3)	244.9	10.9% 24.0
Net sales	628.1	21.1% 109.6	(1.9)% (11.9)	153.2	4.1% 6.0
Operating Profit	11.4	10.6	2.4	1.9	1.9
Ordinary Profit	13.0	10.7	3.0	1.4	1.0
Extraordinary income	17.6	(9.5)	—	8.7	4.3
Extraordinary losses	9.4	(4.4)	—	5.5	0.5
Profit	16.4	6.5	5.4	5.4	8.5

I-1. Consolidated Financial Results

- ▶ Significant increase in profit was due to an increase in operating profit from sales recovery and additional deferred tax assets.
- ▶ In estimating future business plans, tax effects of profitability recovery was reviewed.
(From FY2024 onward, income taxes will be expected to be recorded equivalent to the theoretical tax rate basically.)

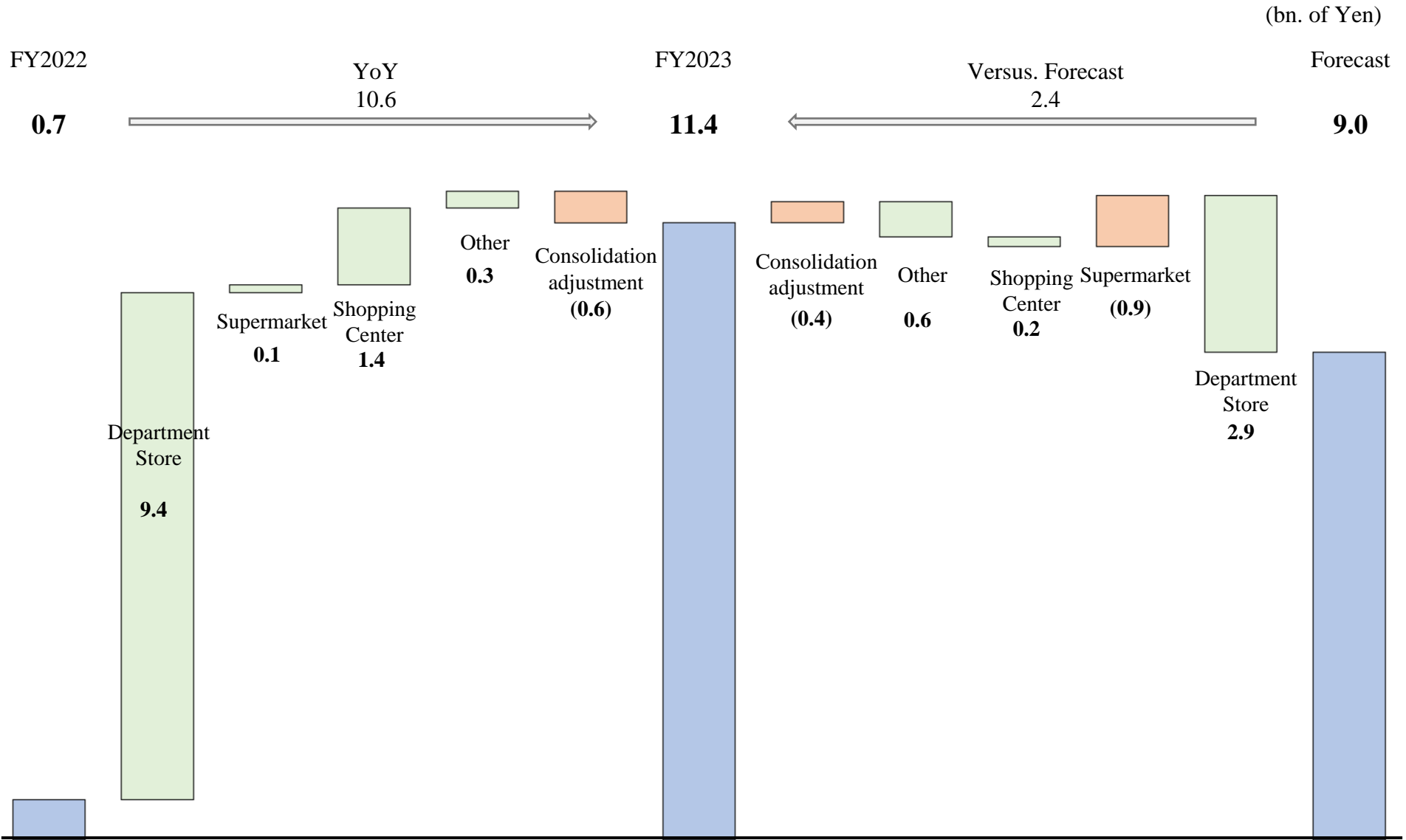
(billions of yen)	FY2023		Breakdown of total income taxes	Amount
	Amount	YoY		
Profit before income taxes	21.1	5.6		
Total income taxes	3.1	(2.4)	Income taxes - current	5.9
Tax rate (Total income taxes/ Profit before income taxes)	14.9%	(20.8)pt	Income taxes - deferred	(2.7)
Profit (attributable to non-controlling interests and owners of parent)	18.0	8.0		
Profit attributable to non-controlling interests	1.6	1.5		
Profit attributable to owners of parent	16.4	6.5		

I-2. Results by segment

- ▶ Department store : Continued sales recovery, increased sales and operating profit
- ▶ Supermarket : Increased sales and operating profit due to new consolidation of Kansai Super Market
- ▶ Shopping center : Increased profit due to strengthened sales force and cost reduction in H2O SC and improved occupancy rate of business hotel (Oi Development)

(billions of yen)	FY2024						4Q (Jan.-March.)			
	Gross Sales			Operating Profit			Gross Sales		Operating Profit	
	Amount	YoY	Versus forecast	Amount	YoY	Versus forecast	Amount	YoY	Amount	YoY
Department store	491.8	27.7%	1.2%	10.3	9.4	2.9	126.7	23.5%	2.4	2.6
Supermarket	416.1	27.2%	0.3%	5.5	0.1	(0.9)	100.6	(0.8)%	0.9	(0.5)
Shopping Center	35.6	(17.0)%	(5.1)%	1.8	1.4	0.2	8.1	(0.6)%	0.1	0.1
Other	36.2	9.8%	(12.8)%	(3.1)	0.3	0.6	9.5	7.9%	(0.8)	0.0
Consolidation adjustment				(3.1)	(0.6)	(0.4)			(0.8)	(0.3)
Consolidated	979.7	24.3%	(0.0)%	11.4	10.6	2.4	244.9	10.9%	1.9	1.9

I-3. Result by Segment- Factors of OP Increase/Decrease



I-3. Department store business-Summary of results

- ▶ Urban store sales increased due to sales of high-end items such as jewelry, watches and luxury brand, etc.
Hankyu Main Store achieved record sales of over ¥260 bn, a significant increase from the previous year.
- ▶ SG&A expenses increased from the previous year due to a decrease in the amount transferred to COVID-19 extraordinary losses and the opening of the Hanshin Umeda Main Store.
- ▶ Operating profit exceeded forecast due to controlled cost increase despite upward revision of utility expenses.

Hankyu Hanshin Department stores

(billions of yen)	FY2023			4Q (Jan.-Mar.)	
	Amount	YoY	Versus forecast	Amount	YoY
Gross Sales	489.4	27.9% 106.7	1.3% 6.4	126.3	23.7% 24.2
Gross profit	109.4	23.0		27.6	5.1
Gross profit / Gross Sales	22.36%	(0.22)%		21.88%	(0.19)%
Other operating revenue	3.4	0.3	(0.4)	0.9	0.2
SG & A	102.5	14.1		26.0	2.8
Operating profit	10.3	9.2	2.8	2.6	2.5

Sales by store	YoY
Urban stores	34%
Hankyu main store Hanshin Umeda main store	30% 96%
Suburban store	6%

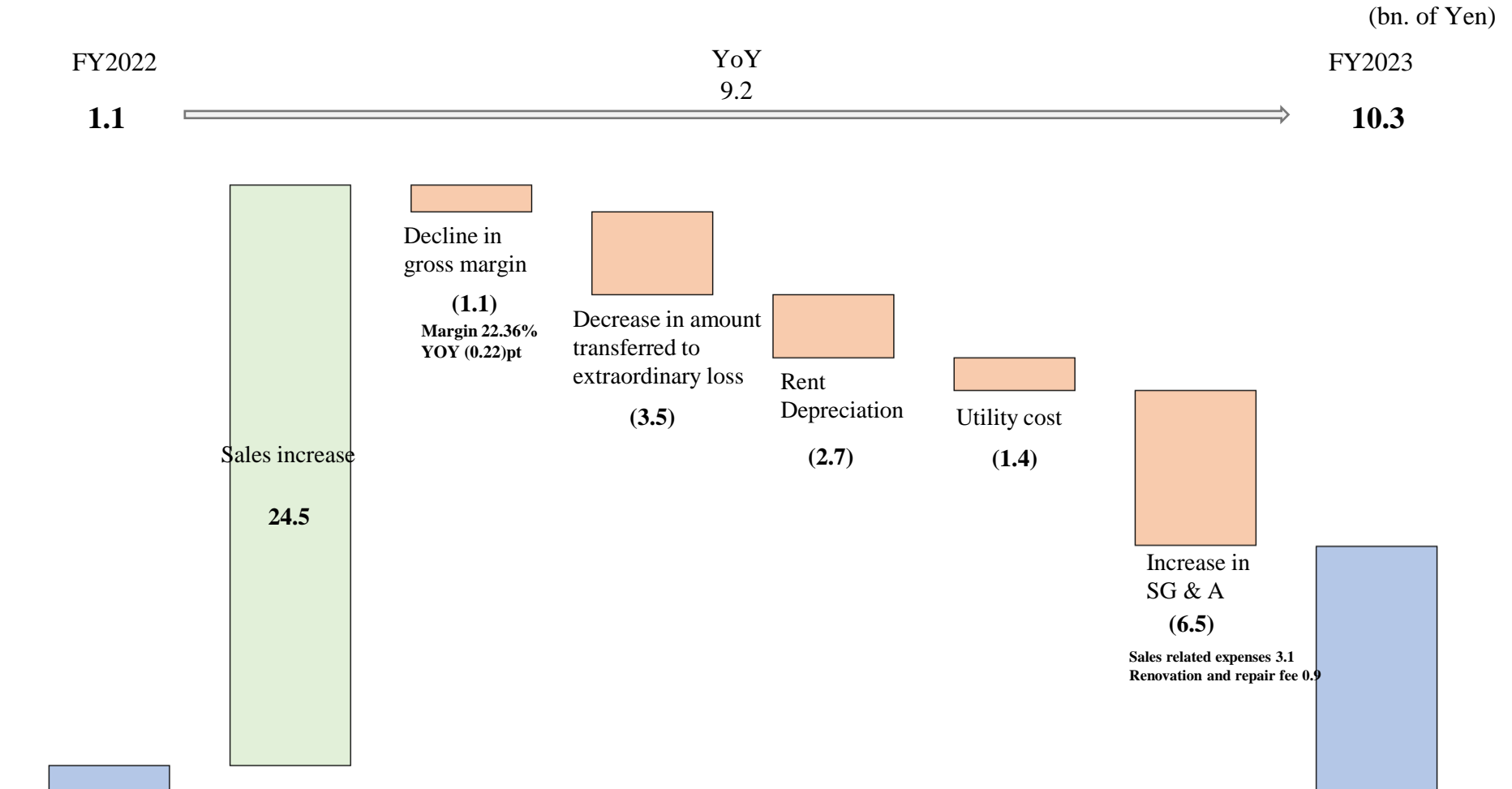
SG & A	YoY
decrease in amount transferred to extraordinary loss	3.5
Increase in rent and depreciation (ex. Hanshin Umeda main store)	2.7
Increase in utility cost	1.4
Increase in sales related expenses	3.1

* Non-consolidated results shown above are reclassified on the basis before the application of "Accounting Standards for Revenue Recognition".

I-3. Department store business-Factors of OP Increase/Decrease

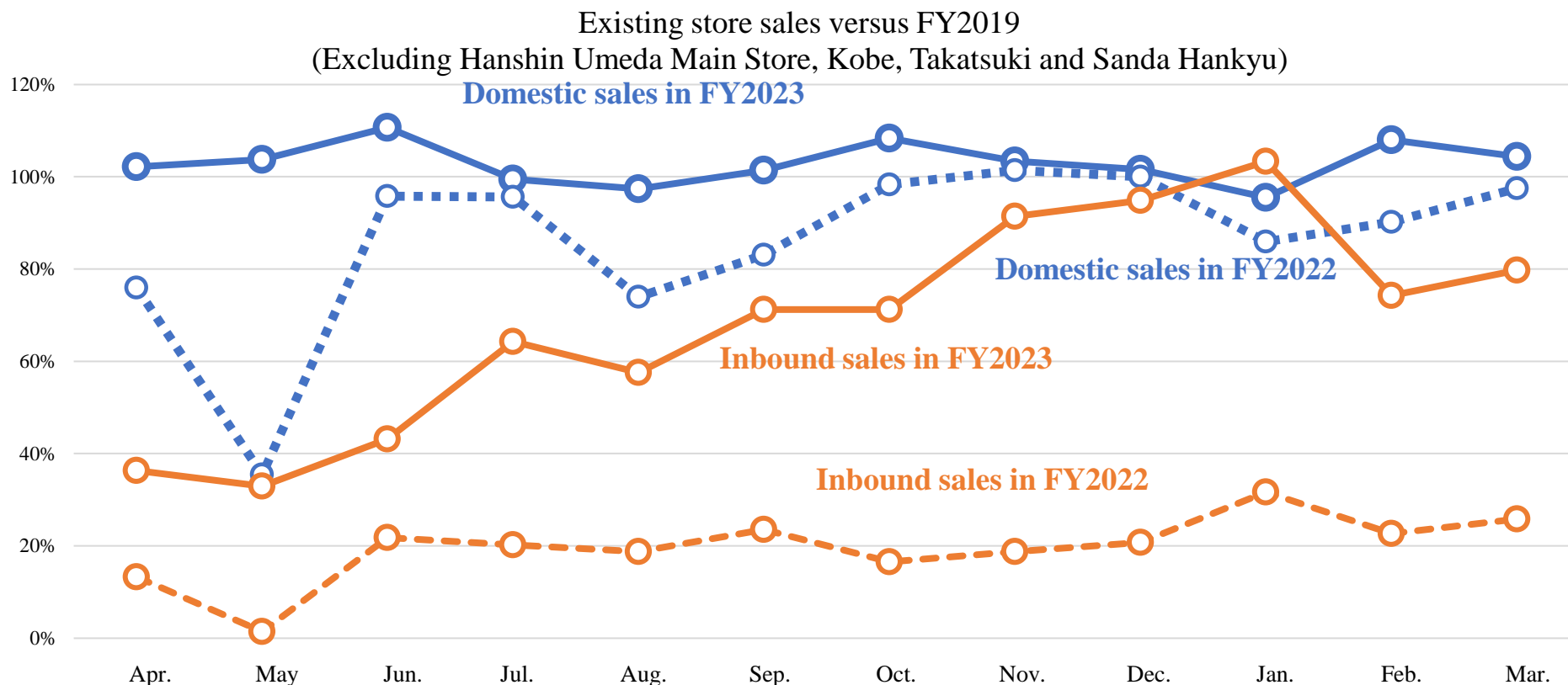
▶ Operating profit increased by ¥9.2 bn. due to increased gross profit, which offset increased costs such as utility expenses.

Factors of Increase/Decrease in Operating Profit (YoY)



I-3. Department store business-Existing store sales (versus pre-COVID-19)

- ▶ Existing store sales of FY2023 were 99% of FY2019. Sales of Hankyu Main Store were 104%, a record high of over ¥260.0 bn.
- ▶ Domestic sales exceeded the pre-COVID-19 level throughout the period due to the easing of the COVID-19 impact (Full-year domestic sales of existing-store : 103%).
- ▶ After the relaxation of entry restrictions in October, the number of foreign customers grew significantly, exceeded 90% of the pre-COVID-19 level in November and December. Trend in January to March remained (86% in October to December, 85% in January to March), though the Chinese New Year holiday period deferred from the previous year.

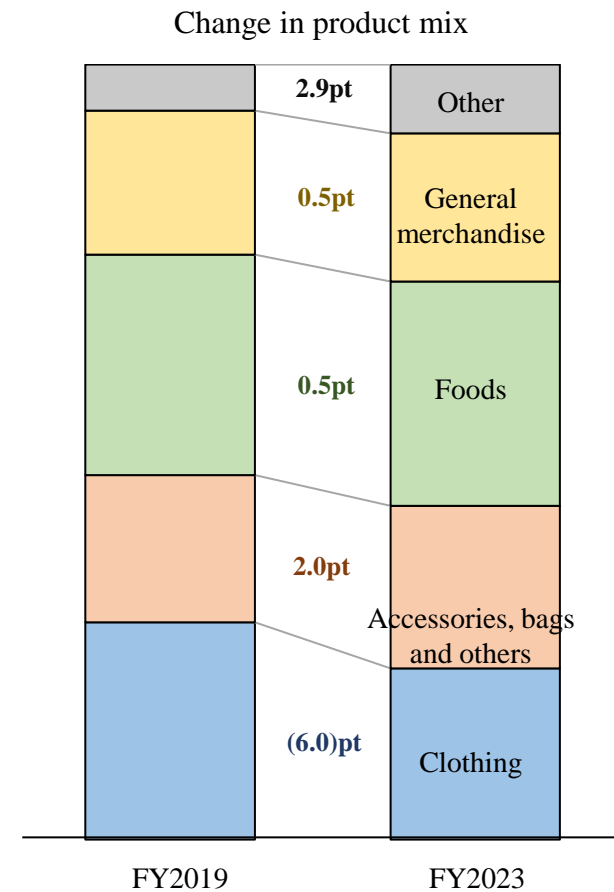


I-3. Department store business-Sales of each category (versus pre-COVID-19)

- ▶ Sales of accessories, bags and others, which include luxury brands, grew significantly and expanded their share.
- ▶ Clothing composition declined due to slow recovery.
- ▶ Increase in sales and expansion of share in "Others," which includes specialty stores sales such as in Kobe Hankyu and Takatsuki Hankyu.

Sales of each category

(billions of yen)	Amount	Versus FY2019	Share	Versus FY2019
Clothing	111.9	(11.6)%	22.1%	(6.0)pt
Accessories, bags and others	106.3	23.9%	21.0%	2.0pt
Household merchandise	12.6	(5.7)%	2.5%	(0.5)pt
Foods	146.8	14.3%	29.0%	0.5pt
Restaurants & cafes	11.5	17.7%	2.3%	0.1pt
General merchandise	97.0	15.4%	19.1%	0.5pt
Service	2.0	(8.9)%	0.4%	(0.1)pt
Other	18.9	—	3.7%	3.4pt
Total	506.9	12.2%	100.0%	—



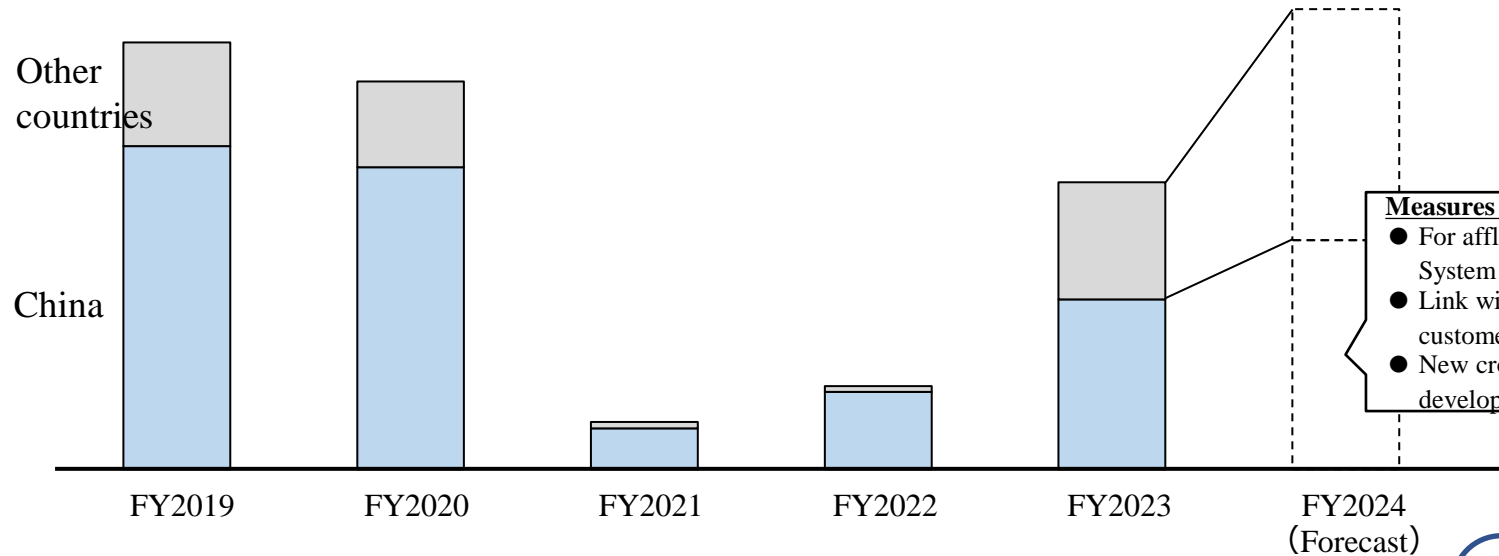
*FY2019 results do not include Kobe Hankyu and Takatsuki Hankyu results before the store name change.

I-3. Department store business-Inbound sales trends

- ▶ Pre-COVID-19, FY2019 inbound sales were about ¥40 bn., of which China accounted for about 80% share.
- ▶ After relaxation of entry restrictions on October, South Korea, Hong Kong, and Taiwan exceeded pre-COVID-19 levels, while China only recovered by about 50%.
- ▶ In FY2024, inbound sales are expected to exceed FY2019 sales level due to recovery in China inbound sales.
(assumed to be 70% of pre-COVID-19 level)

• Rapid sales increase in Korea, Hong Kong and Taiwan
 • Large potential for expansion of inbound demand in Kansai Area
 (Currently, there is a delay in the recovery of KIX flights.)

Inbound sales of all stores



Measures to increase inbound sales

- For affluent customers
System and content development
- Link with Ningbo Hankyu VIP customers
- New cross-border EC business development

Inbound share	FY2019	FY2020	FY2021	FY2022	FY2023	3-4Q
China	76%	78%	87%	93%	59%	43%
Other countries	24%	22%	13%	7%	41%	57%

Total	(15)%
China	(51)%
Other countries	92%

I-4. Supermarket business-Summary of results

- ▶ Sales and profit increased due to new consolidation of Kansai Super Market (PL consolidated from January 2022).
- ▶ Existing store sales struggled in 1Q and 2Q due to the downturn after the previous year's demand increase. However, from 3Q, it's trend recovered at the same level as the previous year. The number of customers decreased since the impact of COVID-19 eased and the awareness of defensive spending patterns rised because of price hike. On the other hand sales unit price increased.
- ▶ From 3Q, integration of business operations between Izumiya and Hankyu Oasis and chain operations reform started. Operating profit increased in second half of the year, specifically by controlling labor costs, including those of part-time workers. It was realized through standardization and improvement of work efficiency.
- ▶ Kansai supermarkets responded to changes in the business environment with steady performance trends.
- ▶ Food manufacturing companies increased profit due to recovery in sales of prepared foods and bakery products and cost reductions.

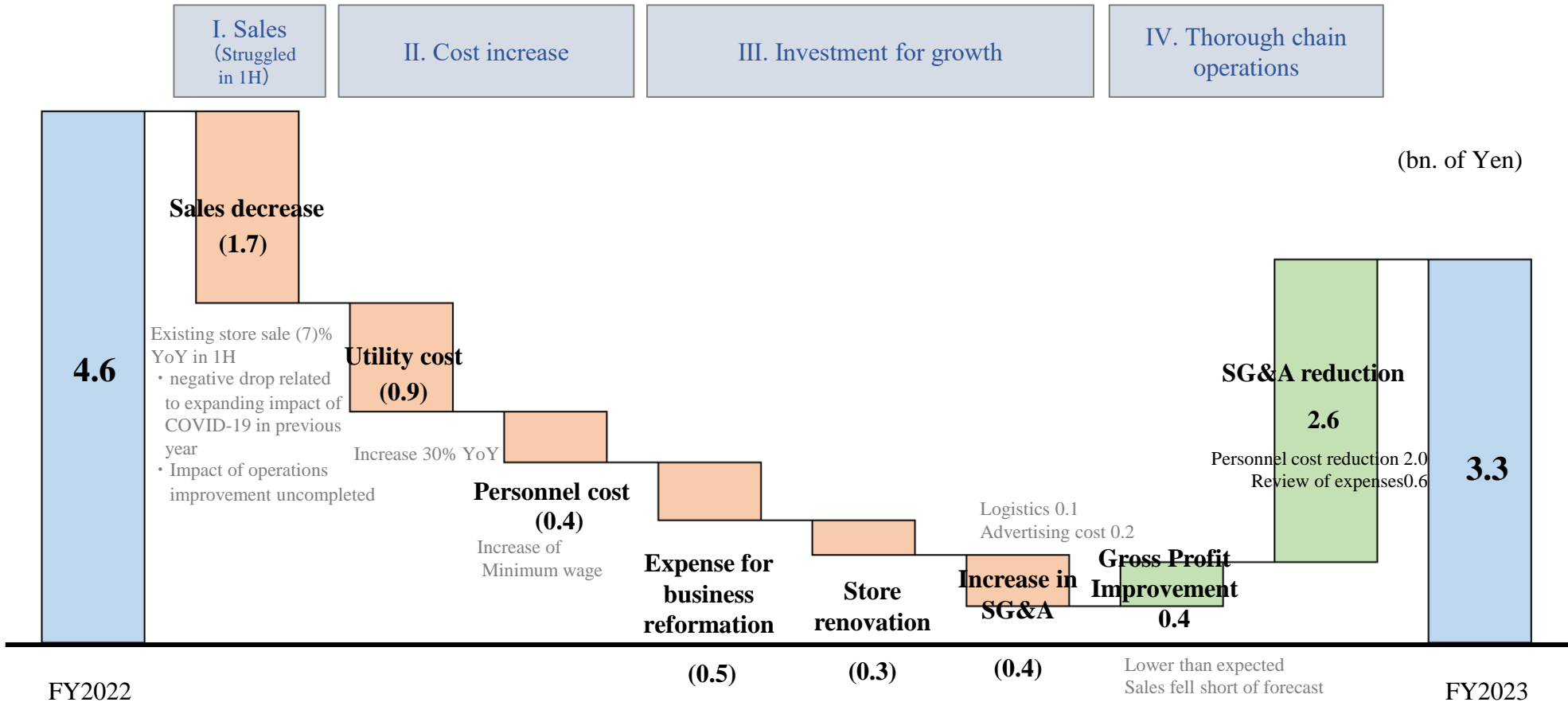
(billions of yen)	FY2024						Existing store sales	YoY	Number of customers	Spend per customer
	Gross Sales	YoY	Versus forecast	Operating Profit	YoY	Versus Forecast				
Supermarket	388.6	31%	(0)%	6.2	0.3	(0.6)	Izumiya	(2.9)%	(4.0)%	1.1%
Izumiya, Hankyu Oasis	259.0	(3)%	(1)%	3.3	(1.3)	(0.6)	Hankyu Oasis	(5.7)%	(4.9)%	(0.9)%
Kansai Super Market	129.6	- * [(1)%]	1%	2.9	1.8 * [0.4]	0.1	Kansai Super Market	(1.0)%	(1.7)%	0.7%
Food Manufacturing	33.7	(1)%	2%	(0.1)	0.4	(0.1)	Total	(3.1)%	(3.4)%	0.3%

※ Comparison with the company's previous year's results
Results for the previous year are for reference, as 1-3Q results were not included in the consolidated results.

I-4. Supermarket business-Results of Izumiya and Hankyu Oasis

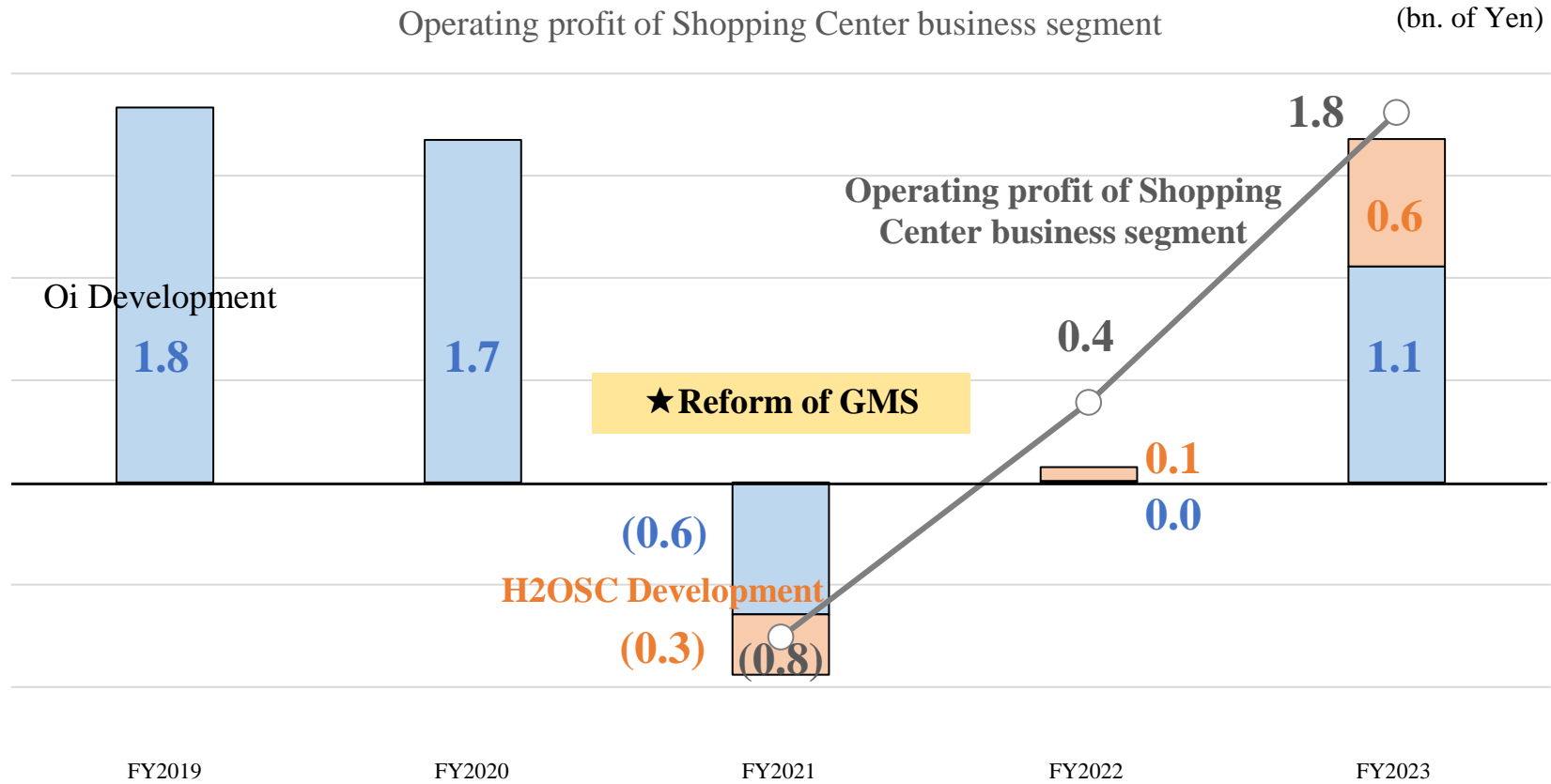
- ▶ ¥3.0 bn. of operating profit was generated mainly due to a decrease in personnel cost, improving productivity through standardization of operations and labor-saving measures through chain operations.
- ▶ Utility cost and personnel cost from higher minimum wages increased.
In addition, sales struggled in 1H due to the downturn after the previous year's demand increase and operations improvement uncompleted. Therefore, gross profit decreased.

Factors of Increase/Decrease in Operating Profit (YoY) of Izumiya and Hankyu Oasis FY2023



I-5. Shopping Center business-Summary of results

- ▶ 2 major companies increased operating profits, resulting in an increase of ¥1.4 bn. compared to the previous year.
- ▶ Business hotels operated by Oi Development exceeded 90% occupancy rate in 2H (75% for the full-year) and returned to 60% level of profit before COVID-19.
- ▶ H2OSC Development, which promoted Non-food category business in reforming general merchandise store turned to black. Specifically, promoted effective use of vacant tenant lots, reorganization of direct operation area and cost reduction by operational efficiency and operating profit exceeded forecast.



※ H2OSC Development in FY2021 includes H2O Asset Management results.

I-6. Extraordinary income and losses

▶ Recorded gain on sales of non-current assets of former head office and logistics center

(billions of yen)	Major items	Amount	Major contents
Extraordinary income	Gain on sales of non-current assets	13.5	logistics center 8.6
			former head office 5.0
	Gain on sales of investment securities	3.8	Takashimaya stock
Extraordinary losses	Impairment losses	3.9	
	Loss on store closings and others	1.7	
	Loss on retirement of non-current assets	1.6	Hankyu Hanshin Department stores

I-7. Capital Investment

- ▶ Implement upfront investments for IT infrastructure building and growth using cash generated through earnings recovery and asset sales. Lower than forecast due to delay in progress of IT/DX investments, etc.
- ▶ Stores and major facilities ... Remodel of Kobe Hankyu, Rebuilding of Hanshin Umeda Main Store, SM renovation
- ▶ IT/DX investment ... Promote investments in OMO, work environment improvement, in addition to infrastructure building

(billions of yen)	Amount	Versus forecast	Major contents
Department store	10.5	(2.3)	Remodel of Kobe Hankyu, Rebuilding of Hanshin Umeda Main Store Renovation of Hankyu Umeda Main Store Timing gap of investment for Kobe Hankyu remodel
Supermarket	4.9	(1.5)	New store opening of Hankyu Oasis, Store renovation of each company Timing gap of investment for new center for home delivery business
Shopping Center	1.1	(1.0)	Renovation and maintenance of shopping center of H2OSC Development Timing gap of investment for new center for home delivery business
Other	14.8	(6.0)	Land and building of logistics center [In operation in FY2022, acquired in FY2023] Groupwide IT/DX investment [infrastructure building and work environment improvement] IT investment new project and implementation timing gap Timing gap of investment for new project and implementation
Total	31.2	(10.8)	

* After adjustment

II-1. Forecast of FY2024

- ▶ Expect sales growth as the impact of COVID-19 fades and economic activity normalizes
- ▶ Operating profit of ¥17.0 bn. is expected as planned in the mid-term management plan, through sales growth and cost reductions.
- ▶ Profit is expected to decrease due to the absence of large gains on sales of assets.
- ▶ Though operating profit is expected to recover to a certain degree, profit will not reach a stable level. Therefore, the dividend will remain unchanged.

(billions of yen)	1H		2H		FY2024	
	Forecast	YoY	Forecast	YoY	Forecast	YoY
Gross sales	496.0	7.5% 34.5	544.0	5.0% 25.8	1,040.0	6.2% 60.3
Net sales	322.0	5.8%	353.0	9.1%	675.0	7.5%
Operating profit	4.8	3.7	12.2	1.9	17.0	5.6
Ordinary profit	4.5	1.7	12.0	1.8	16.5	3.5
Profit	0.5	(2.3)	7.5	(6.1)	8.0	(8.4)

II-2. Forecast of FY2024

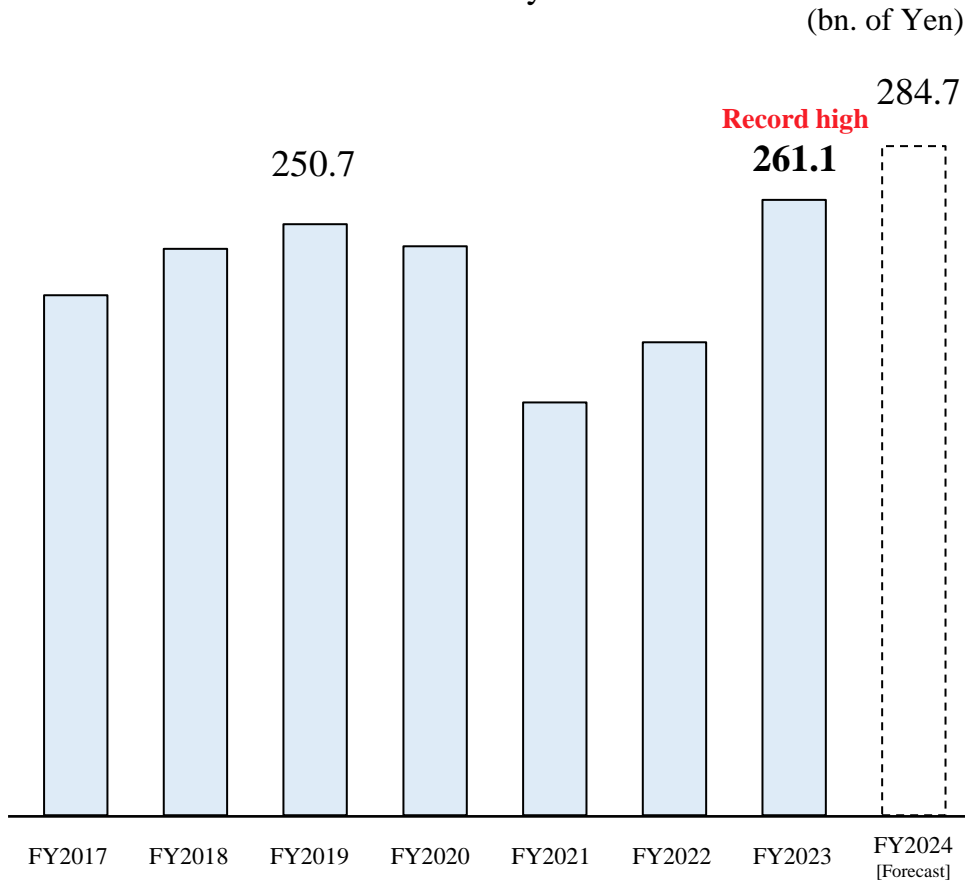
- ▶ Dept. : Operating profit increase due to sales growth. Forecasts are slightly below the mid-term plan due to changes in the income/expense structure resulting from changes in the product mix.
- ▶ SM : Sales and Operating profit increase and exceed forecast of Mid-term plan due to consolidation of Kansai Super Market and profitability improvement of Izumiya ・ Hankyu Oasis despite cost increase and despite increasing of cost and severer business environment compared with the time of Mid-term management plan.
- ▶ SC : Profit increase due to high occupancy rate of business hotel in Oi Development and recovery of profitability in H2OSC Development
- ▶ Other : Negative impact of aggressive IT/DX investment in the Company

(billions of yen)	Gross Sales			Operating Profit		
	Forecast	YoY	Versus Mid-term plan	Forecast	YoY	Versus Mid-term plan
Department store	545.0	10.8%	2.8%	12.3	2.0	(1.2)
Supermarket	422.0	1.4%	38.4%	8.4	2.9	2.2
Shopping Center	37.0	4.0%	(17.8)%	2.4	0.6	0.6
Other	36.0	(0.5)%	(28.0)%	(1.6)	1.5	0.5
Consolidation adjustment				(4.5)	(1.4)	(2.0)
Consolidated	1,040.0	6.2%	11.8%	17.0	5.6	0.0

II-2. Forecast of FY2024-Department Store Business

- ▶ Hankyu Main Store, capable of capturing demand from affluent customers in Japan and overseas, is expected to significantly surpass its previous record sales.
Sales increase at urban stores, including large-scale investment stores such as Hanshin Umeda Main Store and Kobe Hankyu.

Sales trends- Hankyu Main Store



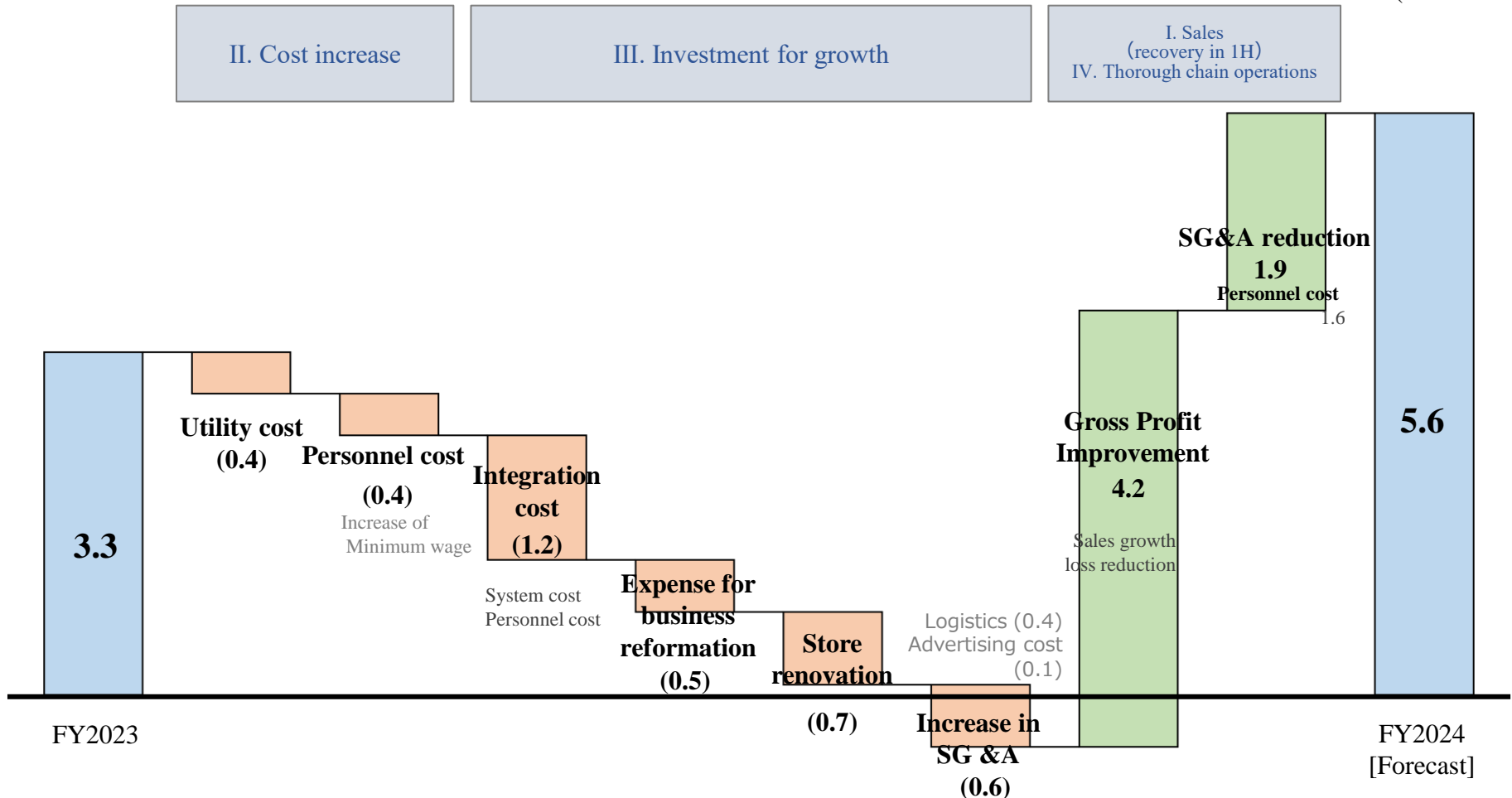
Gross sales forecast by stores (billions of yen)	FY2024 Forecast	YoY
Hankyu Main Store	284.7	9.1%
Hanshin Umeda Main Store	68.8	24.4%
Hakata Hankyu	55.5	9.7%
Kobe Hankyu	44.0	32.5%
Hankyu Men's Tokyo	13.2	10.1%
Urban stores	466.3	13.1%
Suburban store	96.3	1.7%
Total	562.6	11.0%

II-3. Forecast of FY2024-Supermarket Business

- ▶ Of the ¥2.9 bn. increase in operating profit from Supermarket Business, ¥2.3 bn. increase is planned for Izumiya · Hankyu Oasis. In addition to reductions in SG&A expenses through thorough chain operations, an increase in gross profit is expected due to sales growth and loss reductions in 1H as a result of optimization of operations. Increase in profit by absorbing cost increases in utilities, integration costs, etc.

Factors of Increase/Decrease in Operating Profit (YoY) of Izumiya · Hankyu Oasis FY2024

(bn. of Yen)



II-4. Forecast of FY2024 -Capital Investment

- ▶ Aggressive investment in high priority projects, in accordance with the mid-term management plan
Total investment from FY2022 to FY2024: ¥91.3 bn. [the mid-term management plan: ¥95.0 bn.]
- ▶ Stores and major facilities... Remodel of Kobe Hankyu and Takatsuki Hankyu, starting operation of new center of home delivery company.
- ▶ IT/DX investment... Groupwide system infrastructure building

(billions of yen)	Forecast	Major contents
Department store	8.8	[Remodel] Kobe Hankyu ¥2.6 bn. Takatsuki Hankyu ¥1.0 bn. Floor renovation of Hankyu Main Store ¥0.8 bn.
Supermarket	8.2	New center of home delivery company ¥1.4 bn. SM renovation and maintenance
Shopping Center	2.1	H2OSC Development Renovation and maintenance of shopping centers Oi development Maintenance of business hotel
Other	15.8	Consolidation of Supermarket Business head office ¥1.9 bn. Software renewal of merchandise and operational system ¥2.0 bn. POS reconstruction ¥1.9 bn.
Consolidated	34.9	

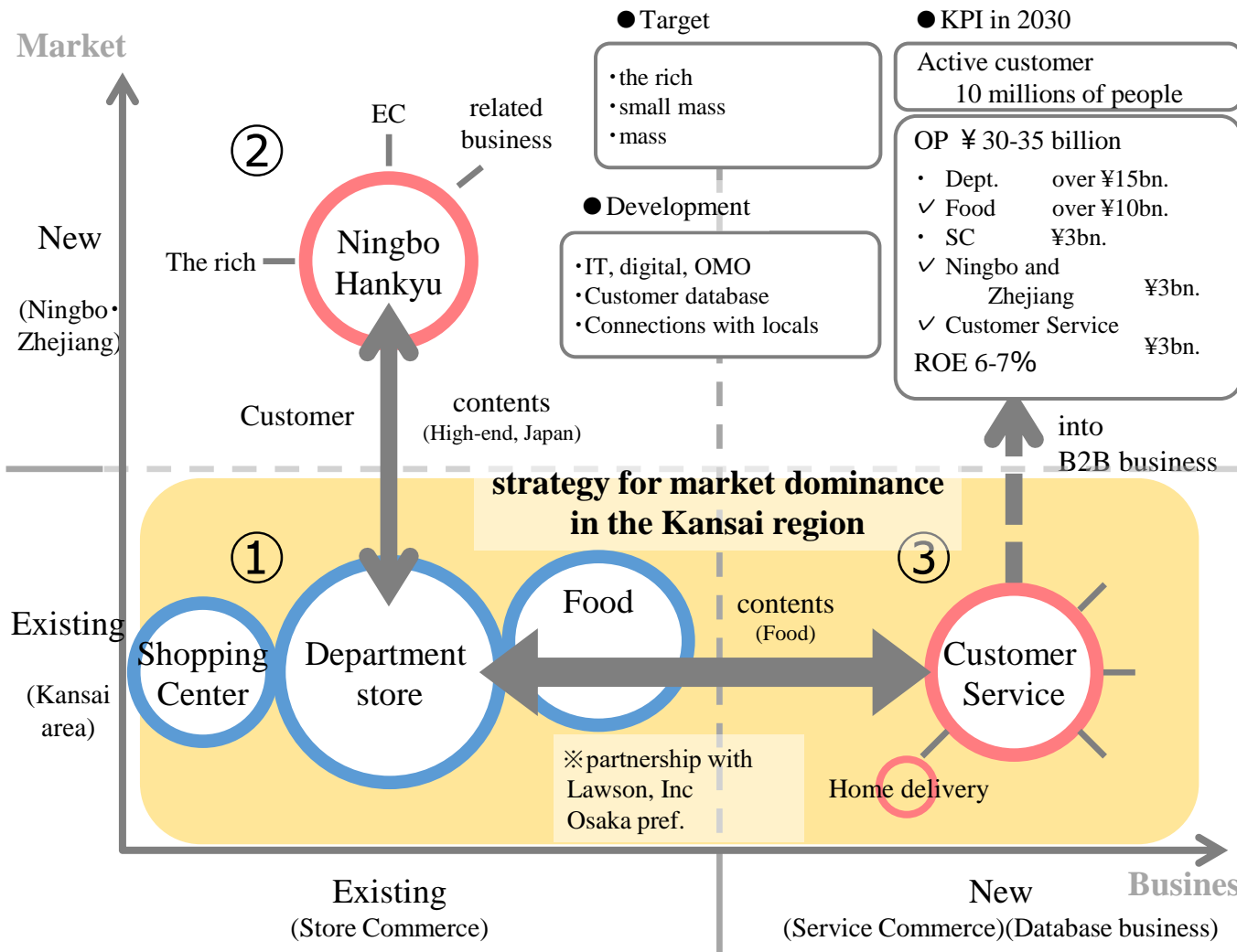
III. Progress of Mid-term management plan

1. Long-term business plan for 2030
Position of mid-term management plan for 2030
2. Review of mid-term management plan in FY2023
3. Challenges for new business model
4. Large-scale investment project
5. Business Strategy
6. Sustainability Management
7. Corporate Strategy
8. Financial and Capital Planning
9. Summary (for the increase of capital efficiency)

▶ to become a "Communication Retailer"

Develop direct communication with customers and deepen relationship

< Approach Strategies >



① Rebuild existing businesses

- Rebuild Department store business
- Make Food business as second core

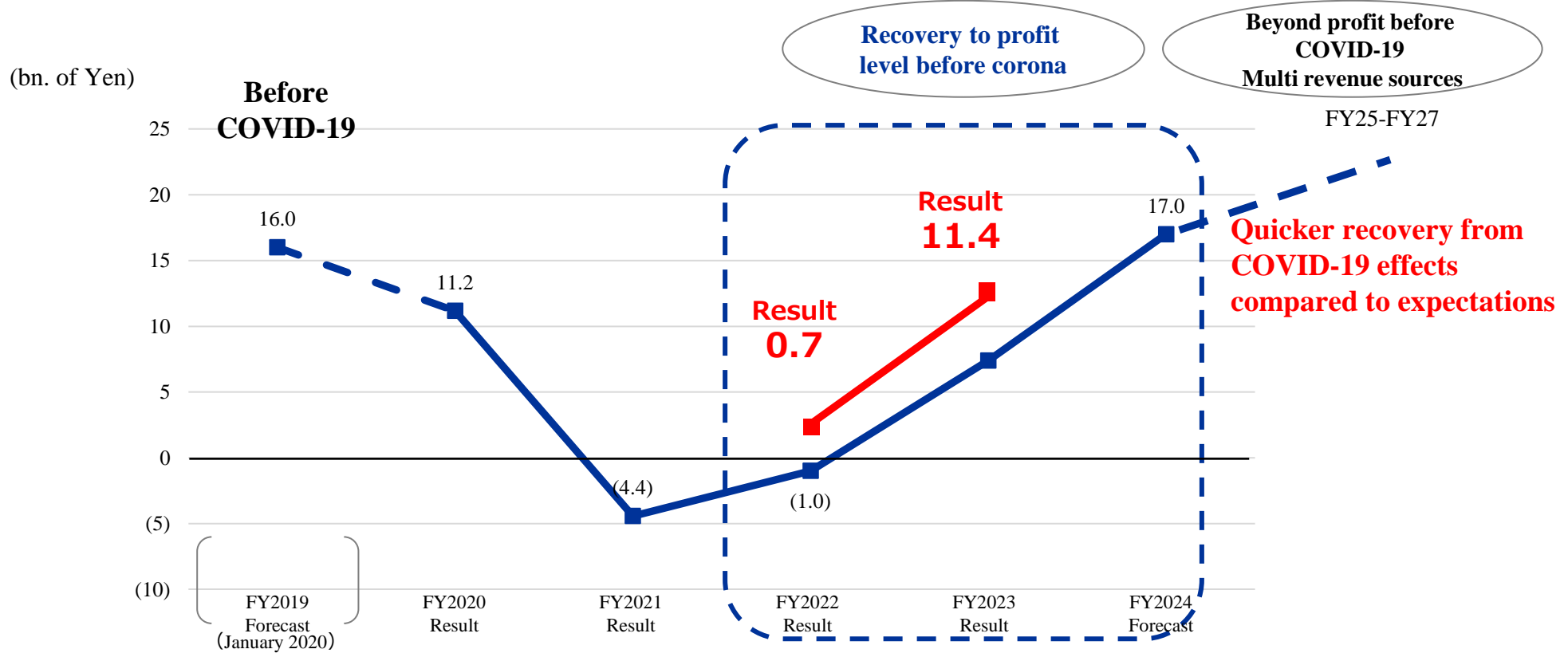
② Challenges for new market

- Success of Ningbo Hankyu business
- Expand business into Ningbo and Zhejiang prefecture (the rich, EC) (working together with Hankyu Main store)

③ Challenges for new business model

- Kansai region × Online × Service
 - Service contents development
 - Digital and Real stores
 - Networking with alliance members
- Develop B2B business
 - Build and utilize customer database platform

III-1. Position of mid-term management plan for 2030



Key Initiatives for FY2022-2024

- Rebuild Department store business ➡ **Restructure cost proportion & promote OMO business style**
- Make Food business as second core ➡ **Restructure SM business, Integrate manufacturing and Sales**
Strengthen business capabilities through alliances
- Business development for future growth ➡ **Promote Ningbo and related business**
➡ Online customer service business
- Digitization

III-2. Review of mid-term management plan in FY2023

		FY23	FY23			FY23	FY23
(bn. of Yen)		Forecast	Results	(bn. Of Yen)		Forecast	Results
Department Store	Sales	486.0	491.8	Operating Profit (OP)	9.0	11.4	
	OP	7.4	10.3				
Supermarket	Sales	415.0	416.1	Ordinary Profit	10.0	13.0	
	OP	6.4	5.5				
Shopping Center	Sales	37.5	35.6	ROE	—	6.7%	
	OP	1.6	1.8				
Other	Sales	41.5	36.2	ROIC	—	2.1%	
	OP	(3.8)	(3.1)				
Total	Sales	980.0	979.7				
	OP	9.0	11.4				

- Maintained the same level of cost reduction as the previous year in each business segment and continued to execute asset sales
- Continued investment in IT/DX for growth and department store remodeling
- Dept.: Strong performance due to demand for high-end products and recovery of inbound demand
On the other hand, there is urgent necessity to respond to changes in the income/expense structure.
- SM : Though reforms in chain operations have had some success, the impact of the rebounded demand after previous year and price and utility cost increases are significant.
- FY23 ROE of 6.7% exceeded the FY24 target [2.6%] of the mid-term management plan.

III-3. Challenges for new business model

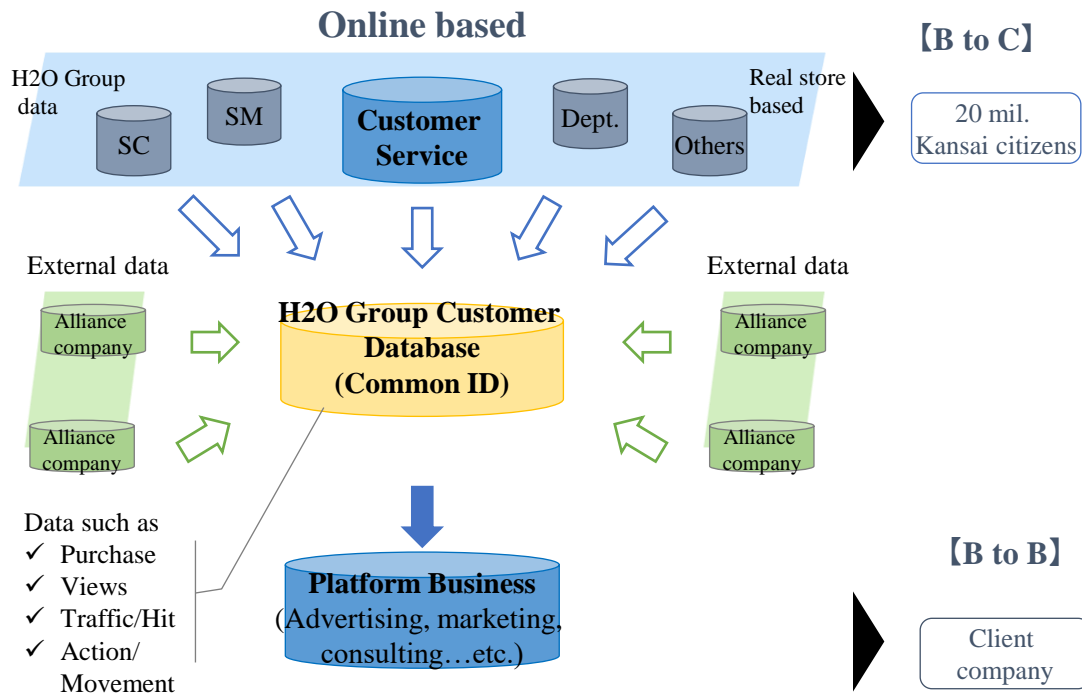
▶ Promote Challenges for new business model

Develop customer service business

Establish organization formulating policies for utilizing customer base and data

▶ H2O Communication NEXT Corp. established to start customer service business (Feb. 2023)

- Customer service business : Development and operation of services through food-related B to C applications and provision of payment services for small and medium-sized stores
- Platform business : Aiming to have the majority of 20 million people in Kansai area become members of the app.
Utilize customer base and data to monetize B to B business such as advertising and marketing.



Intellectual capital which we had archived from our business

We determine the first project in the field of “food”.

Introducing the multi “Food” service via online

Release the smartphone application “Machi-Uma” as the first trial
(Start in Takatsuki area on May 15, 2023)

III-4. Large-scale investment project – Hanshin Umeda Main Store

One year after grand opening (Apr. 2022)

Sales in FY2023: ¥55.3 bn. ➡ Sales target for FY2024: ¥68.8 bn.

Decline in middle-class consumption and impact of the seventh wave of COVID-19 infections

In the 2H of the year and beyond, reviving popular events and expanding customer contact points

➡ Sales growth rate increased further from January onward due to an increase in the number of customers visiting the store (30% increased level practically compared to the previous year).

▶ **Brushed and powered up food contents**

- Developing original experience-based content to attract new customers and promote customers to become fans of us.
- Started "Hanshin's Subscription Service", a monthly delivery of food selected by department store staff

▶ **Enhancement of events to attract more customers to the store**

Continued to take on challenges of developing new market and revived popular events (Hokkaido Market, etc.) to attract a wide range of customers

▶ **Strengthen customer-based sales activities (fashion, lifestyle)**

- Personalized measures to make customer lifetime value better Order events, attendant services, etc.
- Build ongoing relationships through customer-participation events and SNS

▶ **Strengthening touchpoints and deepening relationships with customers**

“Hanshin Clover Score”

Launched a loyalty program in which customers accumulate scores based on their actions.

Kobe Hankyu

Creating a store with unique appeal by enhancing the attractiveness as an urban station-front department store and working together with local people, items, and companies

(Grand opening scheduled for fall of 2023)

- New opened “Hankyu Mode Kobe” , and “International Boutiques”
- “KOBE HANKYU BEAUTY WORLD” , the largest cosmetics sales floor in Kobe area
- Newly open a unique, community-based and life-proposing floor
- Enhance enjoyable proposals by placing event space on each floor

Takatsuki Hankyu

Remodeling to be a department mall offering “fashionable,” “fun” and “convenient” living in Takatsuki

(Grand opening scheduled for fall of 2023)

Changed the store name to “Takatsuki Hankyu Square”

Efficient store operations through a mixture of different business, combining style of specialty store necessary for suburban living with style of department store

- Expansion of large specialty stores necessary for suburban living, such as “Bic Camera,” “Seria,”and “GU”
- Cosmetics sales floor relocated and expanded to become the No. 1 store in the Takatsuki area.
- Opened a plaza to provide events for three generations and community collaboration events.

III-4. Large-scale investment project – Hankyu Main Store

Hankyu Main Store opens **“GREEN AGE” (April 12, 2023)**

Based on the concept of “Living in harmony with nature” its core target for the millennial generation

► **Proposing a new lifestyle**

- Combination of brands from different categories
- Lined up the world’s first concept stores of luxury brands
- Proposals for seamless enjoyment of life in harmony with nature
- Circular services such as rental and recycling

► **Considering the global environment by using materials with low environmental impact**

Developed in-store decorations and store fixtures using wood as part of “Osaka Forest Circulation Promotion Project” from Osaka Prefecture and upcycled materials



▶ Established of OMO (Online Merges with Offline) business style

- E-commerce sales were at the same level as the previous year due to the trend of returning to in-store sales.
- HP and EC integrated and UI/UX renewed (Men's Fashion)
Men's app renewed at the same time to strengthen touch points
- New measures using digital tools
 - Online customer service by sales staff
 - NPS (Net Promoter Score) to improve customer service through listening to their opinions

▶ Continued cost reduction

- Reduce cost by redesign operation and decrease outsourcing, redefine action plan to reduce advertising cost, business trip expenses
Reduction of ¥6.7 bn. from FY2020
- Labor saving and reducing conventional duties by using digital data

▶ Strengthen approach for the wealthy market in Kansai area and overseas

Establish a team to design an all-in-one system for 1-to-1 support and contents for loyal customers

▶ **Integration of Izumiya and Hankyu Oasis**

Accelerate management decision-making and further improve management efficiency

▶ **Business reform of SM**

- Improve productivity through standardization of store operations
- Promote operational efficiency through infrastructure integration

Introduction of a new core IT system

Establishment and gradual integration of logistics system

Centralization of personnel policy through the introduction of a new personnel system

- Improvement of gross profit margin through integration of procurement
- Start and promote PB restructuring and development
- Strengthen development of specialized products through SPA with group manufacturing companies (prepared foods and breads)

▶ **Optimize store format suitable for each area**

Development and construction of several store formats suitable for each area in MD and sales marketing

▶ **Promote alliance**

- Promote collaborative product development with LAWSON, Inc. and continue to sell our PB frozen foods at LAWSON stores.
- Establish joint venture with Mandai Co., Ltd. to enhance product lineup and reduce procurement costs

▶ **Review MD and relocate to new center to expand home delivery business (June 2023)**

Key Themes of sustainability management - Deepening the bonds of the community

March 30, 2023, **new facility “1000RE SCENES” open [Senri Central Park in Osaka]**

▶ **Co-creation through communication with local residents and public-private partnerships**

- Listening to the voices of local residents, thinking together, and working together to promote the creation of attractive parks
- Collaborating with Toyonaka City, conductors of public offering, to revitalize the park and the community
- Promote sustainability activities with the participation of Group employees

▶ **Voluntary participation of many businesses and local residents**

- Project partners who sympathize with the project participate in cafes, mini-shops, sales of park goods, and installation of bookshelves and kitchens.
- Established a new management company, with “park communicators” who manage the communication center and the park's overall revitalization project stay at the park. Encourage dialogue with local residents, businesses, and government to promote the revitalization of the park and the local community



– Major Initiatives in Key Themes –

▶ **Comprehensive cooperation agreement with Kawanishi City in March 17, 2023**

- “Food Loss Zero Area Project,” a model project adopted by the Ministry of the Environment and undertaken by companies, local government, and academia.
- ”Food Loss Zero Challenge Days” to add more flowers and plants by composting food waste from households
- Contest for elementary and junior high school students to encourage them to share their ideas for reducing food loss

▶ **Comprehensive cooperation agreement with Takarazuka City in July 26, 2022**

“Tsugu.” project, in which local residents make use of retired fixtures in department stores.

▶ **“Osaka Forest Circulation Project” based on the comprehensive cooperation agreement with Osaka Prefecture**

Create demand and a related population involving the entire supply chain

Through employees' hands-on learning experience, desks made from the forests of Senshu, Osaka, were made and installed in the new head office.

▶ **Selected as a special program for participation in Expo 2025 Osaka Kansai**

“A bench that reminds us - The circle of life”, a project to create benches using wood from forests in Osaka

▶ **“GREENable,” a project to expand a lifestyle where people and nature coexist in Hiruzen Kogen Plateau**

First department store to be certified as an “Official Partner of National Parks” by the Ministry of the Environment

Providing experience programs to enjoy nature and developing products that promotes resource recycling

– Major Initiatives in Basic Themes –

▶ **Disclosure of Mid- and Long-Term Targets in Integrated Report published in November, 2022**

Set KPIs to promote initiatives about GHG emission reduction, Food Recycling Rate, reduction of products using specified plastics provided and ratio of Female Managers

- Amount of products using specified plastics provided in 2030 :
60% reduction in basic unit (compared to FY2022)

- Ratio of female managers in 2030

Hankyu Hanshin Department Stores, Inc. : 35%

Supermarket : 20%, H2O SC Development : 35%

▶ **Disclosure of Group human rights policy**

Establish a system to promote human rights due diligence to identify, avoid and mitigate negative impacts on human rights through business activities and supply chains

▶ **Disclosure of CSR procurement policy**

Build good partnerships with suppliers and consider dialogue such as briefing sessions to promote understanding and penetration of our initiatives

▶ **Disclosure in line with TCFD recommendations**

Disclosure of information on climate-related issues in line with four disclosure items: governance, risk management, strategy, and indicators and targets.

Capex of IT/DX ¥10.7 bn. in FY2022-2023, ¥13.0 bn. in forecast of FY2024 (¥26.0 bn. in mid-term management plan)

▶ **Building a foundation for becoming “communication retailer”**

- Building the Group's customer data platform and centralized data management
- Investments related to digitalization such as OMO measures for department stores

▶ **Acceleration of business reform**

- Work environment with a zero-trust environment new network and standard PCs and GWS in the head office
Realize a location-independent work style through shifted business systems to SaaS service and introduction of PBX for cloud computing of telephone network (elimination of fixed-line phones)
- Utilize SaaS service, such as expense settlement system, HR and labor software, and digitization of contract documents, fully in group-wide to promote BPR and paperless office environment.

▶ **Dealing with system risks and issues**

Integration of the merchandise and core operating system of Izumiya, Hankyu Oasis and Qanat scheduled for 1H of FY2024

▶ **Staffing to build and operate IT infrastructure, and develop internal digital human resources**

- Promote external directors, recruit experienced personnel, assign young employees, and train data scientists
- Promote digital domain education for employees

▶ **Acquire certification as a “DX Certified Business Operator” from the Ministry of Economy, Trade and Industry in April 2022**

Promoting open innovation to create social and economic value at the same time

▶ Comprehensive cooperation agreement with Kobe University in March 2, 2023

- Realization of a carbon-neutral society
- Human resource exchange through reskilling courses, etc., to develop professional human resources.



▶ Both parties establish a new company to promote the business in April 2023

- Investment ratio: 80% by the Company, 20% by Kobe University Capital
- Business development of the "AI Smart Air Conditioning System," which promotes significant reductions in energy consumption and costs for air conditioning used in Group stores.

▶ Targeting 40% reduction in air-conditioning energy costs by FY2031

- Experimental results at the Hankyu Department Store, 50% reduction in air-conditioning energy consumption
- Scheduled to be installed in Hankyu main store from July 2023.
- Plans to expand to department stores and food supermarkets in the group in subsequent years

▶ Real Estate Sales

- Sale of former head office building (September 2022) Gain on sale ¥5.0 bn.
 - Sale of distribution center (March 2023) Gain on sale ¥8.6 bn.
- ⇒ Gain on sale ¥27.2 in FY2022-2023 (¥30.0 bn. in mid-term management plan)

▶ Sale of stocks

- Sale of Takashimaya stock (November 2022)
- Sale of Umenohana stock (March 2023)

▶ Consolidation of group company offices using unutilized assets

- Consolidation of supermarket business-related functions through effective use of vacant lots at the Juso Center
 - Improving area efficiency by changing the way of working and sharing facilities
 - Improve the working environment, such as eating, drinking, and resting, to retain human resources.

▶ Promote efficiency in accounting and human resource operations for the entire group

Accelerate restructuring of shared services and DX of administrative operations (new cross-group organization)

III-8. Financial and Capital Planning – Debt reduction

Interest-bearing debt is on a downward trend due to increased operating cash flow and funds from asset sales, despite continuing large investment projects.

(bn. of Yen)	FY2021	FY2022	FY2023
Operating profit	(4.4)	0.7	11.4
Operating Cash Flow	12.8	6.5	30.3
Investment Cash Flow	(20.8)	(5.2)	5.8
Financial Cash Flow	31.9	(28.6)	(12.5)
Cash and deposits	50.0	* 34.7	58.7
Interest-bearing debt	188.5	175.3	179.2
Net interest-bearing debt	138.5	140.6	120.5

* ¥9.7 bn. of the increase is due to the Kansai Super Market share exchange.

III-9. Summary of mid-term management plan (for the increase of capital efficiency)

Initiatives in FY2022-FY2023

asset efficiency	Sale of unutilized assets, low-profit assets, and policy stock holdings, buyback of stock, reorganization of group company offices		<ul style="list-style-type: none"> - Sale of land and real estates ¥33.7 bn. - Sale of policy stock holdings ¥26.2 bn. - Buyback of 6.87 million stocks (5.57%, Nov. 2022)
Improvement in profitability	Existing Business Efficiency		<ul style="list-style-type: none"> - Remodel of Kobe Hankyu, Takatsuki Hankyu and Hankyu main store - Consolidation of logistics centers of department stores - M&A (Kansai Super Market) - IT/DX investment (¥10.7 bn.)
	Group	Strategy for market dominance in the Kansai region IT investment for digitization, withdrawal of unprofitable business	
	Dpt.	OMO with digital, remodel of existing stores, cost reduction	
	SM	Chain operation reform of Izumiya and Hankyu Oasis, management integration of SM companies	
For future growth	Strengthen the business foundation of IT/DX for customer-driven business and services for affluent and inbound customers(department stores) Development of service business using digital technology		
Strengthen the business foundation	Enhancement of sustainability management and governance structure		Set KPIs for sustainability management Performance-linked stock options [consolidated ordinary profit and ROIC]

Capital efficiency index results for FY2023

capital cost	return on capital	market valuation as of May 9, 2023		KPIs in FY2024	
WACC : 5.0%	ROIC : 2.1%	stock price : ¥1,607 market cap : ¥201.2bn.	PBR : 0.76x PER : 17.80x	OP	¥17.0bn.
Capital cost : 6.7%	ROE : 6.7%	※as of March 31, 2021 stock price : ¥916 market cap : ¥114.7bn.	※as of March 31, 2021 PBR : 0.50x PER : - [Net loss]	Ordinary profit	¥14.0bn.
				ROIC	3.0%
				ROE	2.6%

To achieve Medium-Term Management Plan Targets and P/B ratio of 1x or more

(1) Improve profitability, (2) Increase efficiency of assets and capital, (3) Promote investment and strengthen HR development for future growth

▶ Continuous promotion from FY2023



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