

To Achieve Management Conscious of Cost of Capital and Stock Price

May. 15, 2024



H2O RETAILING CORPORATION

Analysis of Current Status and Direction of Initiatives

Current issues (PBR is below 1.0x)

- PBR continues to be below 1.0x despite an improving trend, due to PER which are lower than sector levels.
- ROE (8.5%) > Cost of shareholders' equity (6.6%)
ROIC (4.7%) > WACC (4.0%) *FY2024
 - ROE is above cost of shareholders' capital, but below in actual, and further ROE improvement is needed in the future.
 - Aim to secure stable ROIC above WACC by promoting the utilization of non-business assets with low profitability, which has been an issue for the company.

Direction of Initiatives (PBR to remain 1.0x over)

- Gain market credibility by formulating growth strategies, enhancing shareholder returns, and strengthening IR communications.
 - (i) Clarify growth strategy **PER**
 - (ii) Enhancing shareholder returns
 - (iii) Expand the shareholder/investor base and improve IR communication
- Practices management conscious of cost of capital **ROE**
 - (iv) Control of total assets and equity
 - (v) Concentrated Investment in high-growth/high-profit businesses

Current

PBR **0.85 X**

= ROE 8.5%* × PER10 X

* Actual ROE excluding extraordinary gains from asset sales and other special gains and tax effects: 5.1%.

Future

PBR **1.2 X over**

= **ROE 8% over** × **PER 15 times over**

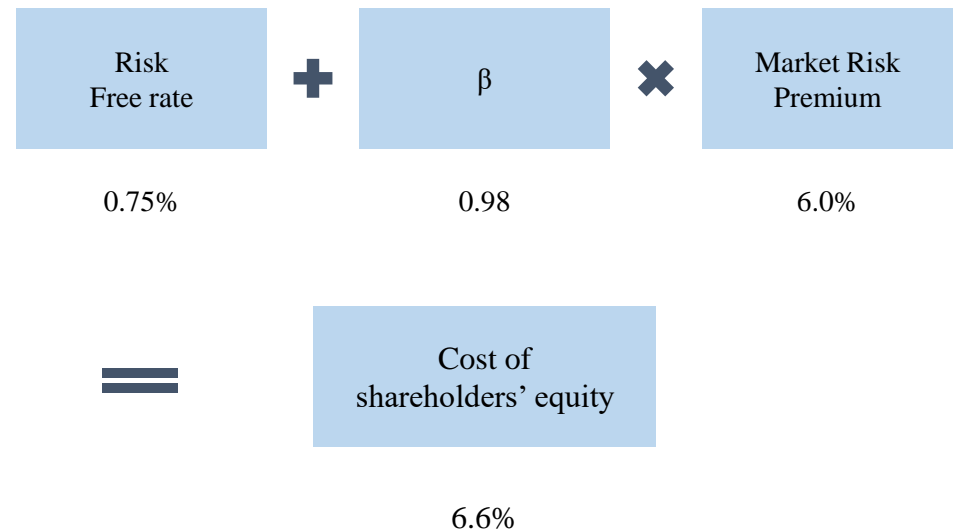
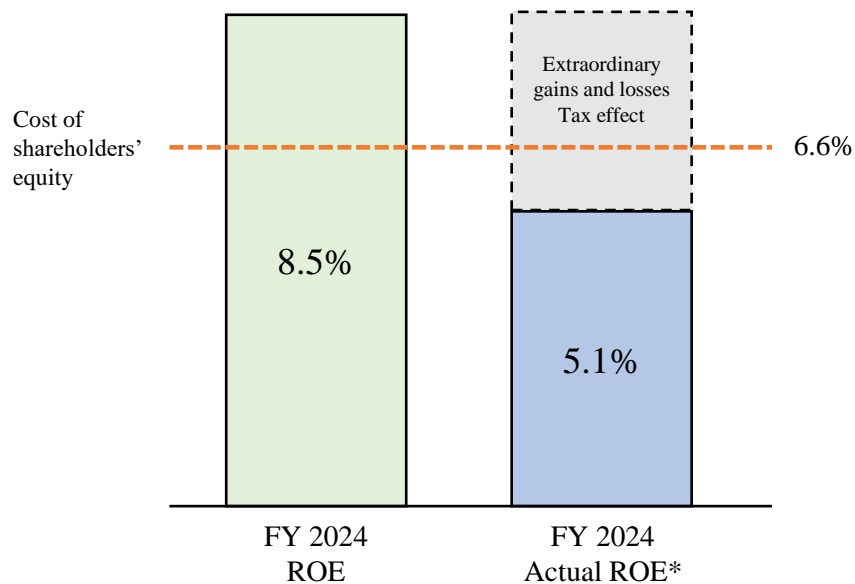
- (iv) Control of total assets and equity
- (v) Concentrated investment in high-growth/high-profit businesses

- (i) Clarify growth strategy
- (ii) Enhancing shareholder returns
- (iii) Expand the shareholder/investor base and improve communication

ROE recovered due to improved profitability, but actual ROE in FY2024 was still lower than shareholders' equity.

■ Cost of shareholders' equity

■ Assumptions for calculating cost of shareholders' equity

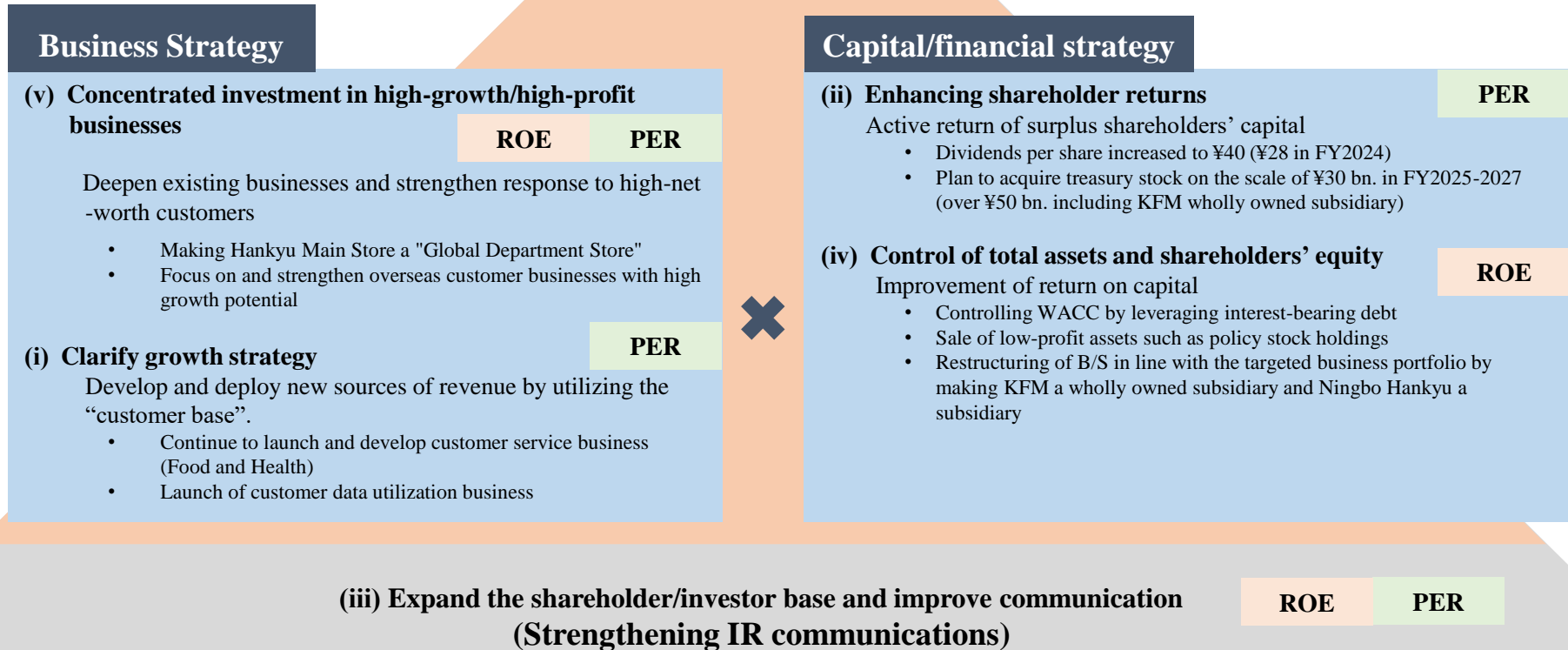


WACC=4.0% (D/E ratio 0.73, cost of shareholders' equity 6.6%, cost of debt 0.54%)

*Excluding extraordinary gains such as asset sales and tax effects

Aim to achieve and sustain PBR of 1.0x as soon as possible by executing business strategies and aggressively promoting capital and financial strategies that will be fully implemented in FY2025.

KPI	FY2025-2027	FY2024
ROE	Over 6.6% (FY27)	5.1% (actual)
ROIC	5.9% (FY27)	4.7%
EBITDA-Interest-Bearing-Debt-Ratio	2.0 X	2.3 X
Total payout ratio	Approximately 60%	22%
Dividends	¥40 per share	¥28 per share



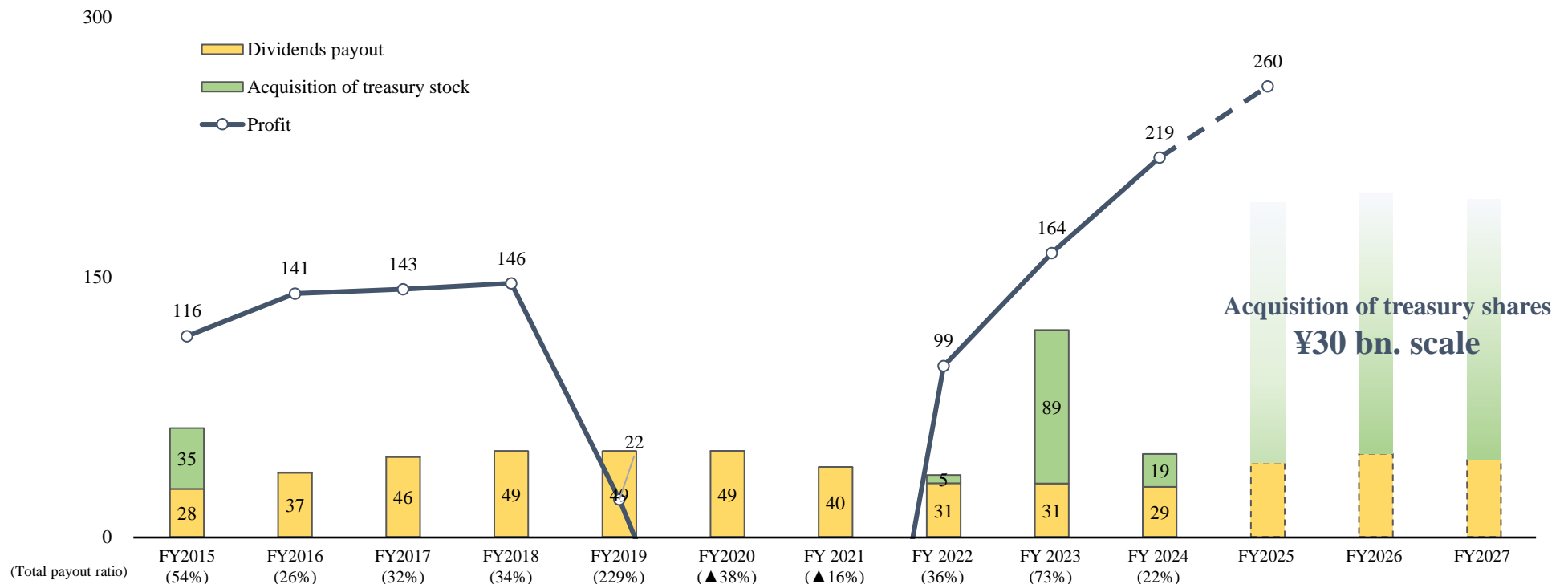
Shareholder Returns Plan for FY2025-2027

In principle, the Company will pay out dividends based on a DOE of over 1.8% and will flexibly return profits to shareholders in accordance with business performance.

- Dividends: Increased to ¥40 per share (started from FY2025)
 - Acquisition of treasury stock: Scale of ¥30 bn. in 3 years
- Total payout ratio (including acquisition of treasury stock) to be approximately 60% for cumulative period.

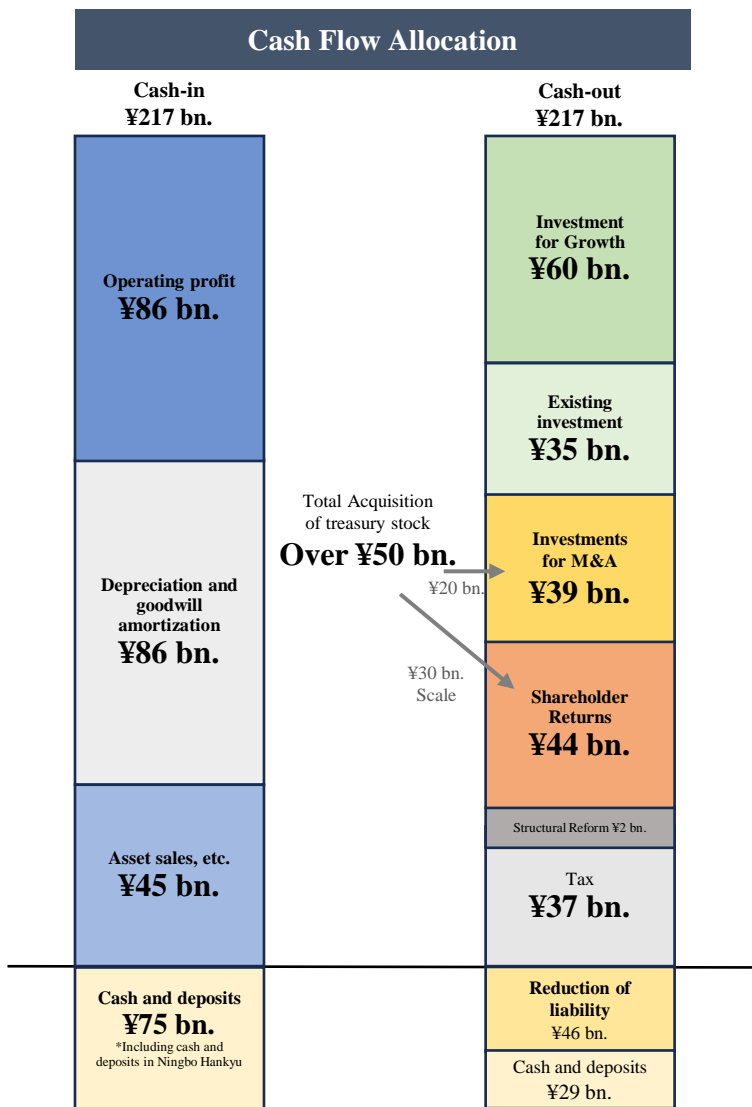
(100 millions of yen)

Shareholder Returns/Changes in profit



Cash Flow Allocation (FY2025-2027)

Cash Flow Allocation



- Focus investment on growth of highly profitable businesses, deepen existing businesses and establish new business area.
 - ✓ Active investment in Hankyu Main Store, remodeling of Ningbo Hankyu, resumption of supermarket store openings.
 - ✓ Application development for customer service business, development of Business Infrastructure
- Strengthening business foundations
- Utilize cash generated from asset sales, etc. for M&A, etc. Build B/S in line with the targeted business portfolio and maximize synergies.
 - ✓ Made Kansai Food Market a wholly owned subsidiary (¥22 bn.)
 - ✓ Made Ningbo Hankyu a subsidiary (¥16.5 bn.)
- Based on stable dividends, aimed at enhancing corporate value and capital efficiency by acquiring treasury stock
 - ✓ Dividends of ¥40 per share,
 - ✓ Acquisition of treasury stock ¥30 bn.

Total payout ratio (including acquisition of treasury stock) to be approximately 60% for cumulative period.
- Secure financial soundness with a target EBITDA interest-bearing debt ratio of 2x.

Aggressive capital and financial strategy to generate cash, and aim to exceed 1x PBR as soon as possible by strengthening business investment and returns to shareholders

Balance Sheet Changes

End of FY2021
Total assets ¥630 bn.

【Current assets】 ¥140 bn.	【Liabilities】 ¥400 bn.
【Non-current assets】 ¥490 bn.	<ul style="list-style-type: none"> Interest-bearing debt ¥170 bn.
【Net assets】 ¥230 bn.	

Profit ▲¥24.8 bn.
ROE ▲10.5%

End of FY2024
Total assets ¥710 bn.

【Current assets】 ¥180 bn.	【Liabilities】 ¥420 bn.
【Non-current assets】 ¥530 bn.	<ul style="list-style-type: none"> Interest-bearing debt ¥170 bn.
【Net assets】 ¥290 bn.	

Change in non-current assets

- Kansai Super Market management integration ¥40 bn.
- Sale of policy stock holdings, sale of land, etc. ¥40 bn.

Profit ¥21.9 bn.
ROE 8.5 % (actual ROE5.1 %)

End of FY2027
Total assets ¥670 bn.

【Current assets】 ¥150 bn.	【Liabilities】 ¥390 bn.
【Non-current assets】 ¥520 bn.	<ul style="list-style-type: none"> Interest-bearing debt ¥130 bn.
【Net assets】 ¥280 bn.	

Change non-current assets

- Kansai Food Market made a wholly owned subsidiary ±0
- Ningbo Hankyu Made a subsidiary ¥32.5 bn.
- Sale of policy stock holdings, sale of land, etc. ¥45 bn.

Secure financial soundness with a target EBITDA interest-bearing debt ratio of 2x

Control through dividends and acquisition of treasury stock

- ¥30 bn. in treasury stock (Consider retirement)

ROE over 6.6%

To maintain B/S at an appropriate size while aggressively investing in high-growth, highly profitable businesses, promote asset efficiency by selling low-profit assets, etc., which will lead to ROE improvement along with an improved profit level

Engaging in more active communication with capital markets and reflecting this communication in management to enhance corporate value.

To expand the investor base, improve the convenience of shareholder benefits and implement measures to increase the number of fan shareholders.

■ Promoting Dialogue with the capital market

- Disclosure of financial and capital strategies of high interest by investors
- Continuous information provision and enhanced interactive communication by the president and executive officers.

■ Enhancement of shareholder benefits and introduction of selection system

- Under consideration of the following
 - ✓ Enhanced shareholder benefits at supermarkets, etc. (e.g., point redemption)
 - ✓ Improve convenience of department store shareholder benefits (e.g., apps)
 - ✓ Distribution of rice and other goods

■ Implementation of measures to expand fan shareholders

- Holding briefings for individual shareholders and holding fan meetings, tours, and hands-on events using stores
- Enhancement of information provision, including upgrading of the website for individual investors



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