

FY2020 Presentation Materials



H2O RETAILING CORPORATION

- I Results of FY2020
- II Impact of COVID-19 outbreak
- III Business Plan GP10 Stage II Phase 2

I . Results of FY2020

- 1 . Consolidated Financial Results
- 2 . Results by segment
- 3 . Department store business
- 4 . Supermarket business
- 5 . Extraordinary losses

I – 1 Consolidated Financial Results

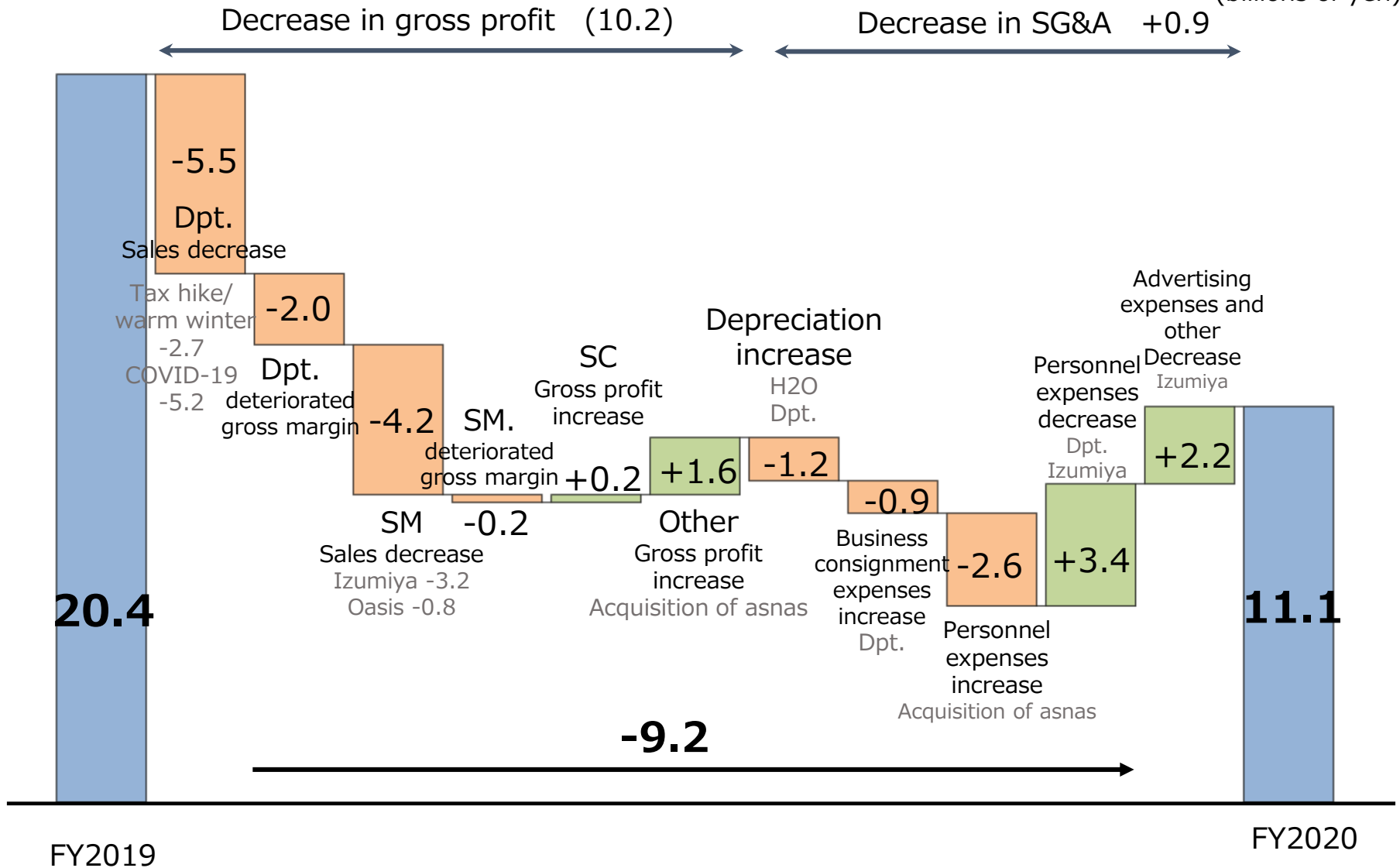
- ▶ Sales decrease due to the tax hike, warm winter and COVID-19 outbreak
- ▶ recorded extraordinary losses including impairment losses on stores of ¥14.1 billion and business restructuring expenses on Izumiya of ¥3.8 billion

(billions of yen)	Amount	YOY		Versus forecast Disclosed on 29 Jan., 2020	
Sales	897.2	(29.5)	96.8%	(30.7)	96.7%
Operating Profit	11.1	(9.2)	54.7%	(4.8)	69.8%
Ordinary Profit	11.8	(9.5)	55.3%	(4.3)	73.0%
Extraordinary income	1.7				
Extraordinary losses	22.8				
Profit	(13.1)	(15.3)	–	(18.1)	–

I - 1 Consolidated Financial Results — Factors affecting OP



(billions of yen)



I – 2 Results by segment

(billions of yen)	Sales			Operating Profit	
	Amount	YOY		Amount	YOY
Department store	473.2	(21.3)	95.7%	11.4	(6.4)
Supermarket	354.1	(13.4)	96.3%	(2.5)	(2.0)
Shopping Center	8.7	(0.0)	99.9%	4.1	(0.1)
Other	61.2	+5.2	109.4%	2.9	(2.1)
		Acquisition of asnas and Hankyu Freds			H2O: dividends received from subsidiaries decreased
consolidation adjustment				(4.8)	+1.5

I – 3 Department store business

- ▶ Sales decrease due to the tax hike, warm winter and COVID-19 outbreak
- ▶ Deteriorated gross margin owing to sluggish sales of A/W apparel

Hankyu Hanshin department store + Kobe · Takatsuki (H2O Asset Management)

(billions of yen)	Amount	YOY	
Net Sales	470.3	(21.4)	95.6%
Gross Profit	110.9	(7.3)	93.8%
Gross Profit margin	23.59%	(0.47)%	
Other operating revenue	3.4	+0.1	106.1%
SG & A	102.9	(1.0)	99.0%
Operating profit	11.4	(6.1)	65.0%

I – 3 Department store business

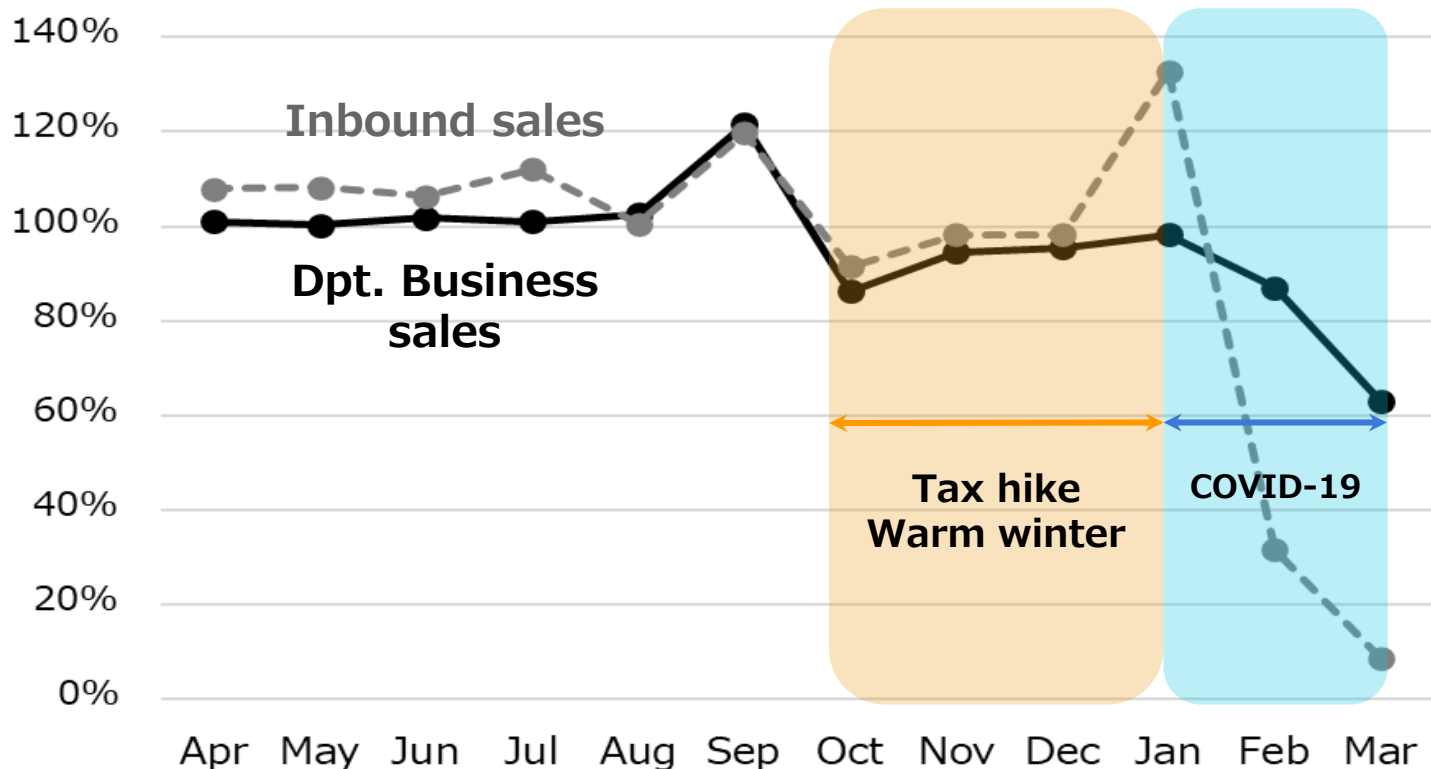
► External factors lowered operating profit

Oct.- Jan. : downturn in consumer sentiment after the consumption tax hike and warm winter

Sales ¥-11.5bn, OP ¥-2.0bn

Feb. Mar. : COVID-19 outbreak *shortened opening hours, Immigration restrictions

Sales ¥-22.0bn, OP ¥-3.8bn



I – 4 Supermarket Business

- ▶ Overall : OP ¥-2.5bn, YOY difference ¥-2.0bn
- ▶ Izumiya : OP YOY difference
Apparel/Home products ¥-1.0bn, Grocery ¥-0.9bn
- ▶ Hankyu Oasis : decrease in sales, increase in gross profit margin due to the review of pricing policy
- ▶ Impact of COVID-19 : Izumiya (Grocery) Feb. 102% Mar. 104%
Hankyu Oasis Feb. 103% Mar. 105%

(billions of yen)	Izumiya			Hankyu Oasis		
	Amount	YOY [Existing stores]		Amount	YOY [Existing stores]	
Net Sales	210.9	(7.3)	96.6% [93.4%]	109.4	(3.1)	97.2% [95.2%]
Gross Profit	54.4	(3.6)	93.7%	28.8	(0.1)	99.6%
Gross Profit margin	25.84%	(0.82)%	Decrease in apparel sales, decrease in home products gross profit margin(2.5)pt	26.36%	+0.64%	
Other operating revenue	14.5	(0.1)	98.8%	7.0	+0.3	105.2%
SG & A	72.1	(1.9)	97.4%	35.8	+0.6	101.9%
Operating profit	(3.1)	(1.9)	–	0.0	(0.4)	–

▶ Grocery contributed to profit
(accounts for 70% of sales)



- Sales and profit growth through the integrated operation with Hankyu Oasis

▶ Apparel/Home products
damaged profit
(occupies 70% of sales area)



- Introduction of tenants (Decrease the direct operation area of non-food section)
- utilizing CFIZ※ (Medicine, Health & Beauty care)

※joint venture with *cocokara fine*

	Sales area (m ²)	Sales (billions of yen)	OP (billions of yen)
Grocery	140,000	145.9	2.4
Apparel/Home products	350,000	52.0	(5.5)

I – 5 Extraordinary losses

- ▶ Early retirement bonus, valuation loss on goods (Izumiya)
- ▶ Impairment loss on fixed assets of stores opened within past 5 years (Hankyu Oasis and Izumiya)
- ▶ Impairment loss on fixed asset of Hankyu Men's Tokyo (Hankyu Hanshin department stores)

	Amount (billions of yen)	Contents (billions of yen)	
Izumiya: Business restructuring / Impairment losses on stores	11.6	<ul style="list-style-type: none"> • Impairment losses 6.9 • Outplacement expenses 3.3 • Loss on sales of stores 0.9 • Valuation loss on inventories 0.5 	SuC※3stores, newly opened 4stores <small>※Super center</small> Early retirement bonus Land and property of Daito Apparel and other
Hankyu Oasis: Impairment losses on stores	4.7	<ul style="list-style-type: none"> • Impairment losses 3.5 • Other 1.2 	8stores opened in FY15-FY19 Other stores
Hankyu Hanshin Dept: Impairment losses	2.2	<ul style="list-style-type: none"> • Hankyu Men's Tokyo 2.2 	Despite the drastic renovation implemented, it took too long to get target customers, and the existing customer churn was severer than expected.
Restructuring subsidiaries	1.3	<ul style="list-style-type: none"> • Sales/Liquidation of business 0.8 • Loss on share exchanges 0.5 	Kitchen Yell Kyushu, Carne and other Kazokutei and Sun Laurie

II . Impact of COVID-19 outbreak

- 1 . Current situation and forecast of FY2021
- 2 . Action taken amid COVID-19 impact
- 3 . Financial Plan

Current situation under COVID-19 pandemic

- April 7, 2020 The declaration of the state of emergency
Closure of stores/shortened opening hours in response to an administrative request
 - 【Department stores】 closed (Food halls of some stores are open)
 - 【Izumiya/Hankyu Oasis】 Shortening opening hours
 - 【Other retailing stores】 closed/shortening opening hours(YOY differences of April)
 - 【Department stores】 Existing stores 20%
 - 【Izumiya】 Grocery 107%
 - 【former Izumiya】
 - Apparel 35%, Home products 73%
 - 【Hankyu Oasis】 108%

- May 21, 2020 Lifting of the state of emergency, Re-opened stores

【Uncertain environment】

Although the state of emergency and the administrative request for closing stores has lifted once, the trend of domestic customer spending and the recovery pace of sales are uncertain since people still continue quarantine and new normal. Also, the continuous restriction of immigration makes it difficult to estimate inbound sales.

⇒**The forecast of FY2021 yet to be determined since it is difficult to estimate the result at this time**

⇒**The company will disclose them as soon as it becomes possible to reasonably forecast.**

II – 2 Actions taken amid COVID-19 impact

Basic Philosophy :

To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents

The fundamental policies to deal with COVID-19 pandemic

1. Continue to operate an essential business to maintain social functions
2. Suspend and restraint non-essential businesses to prevent COVID-19 spread

Measures we take

■ Ensure infection control of customers and employees

- Customers : secure intervals in a queue, entrance restriction and thermometry, disinfection of store equipment, closure of eat-in space
- Shops : health check, masks/face shields, hands disinfection, clear screens at checkouts
- Employees : remote working, staggered work shift

■ Operate essential businesses centered on supermarkets

- establish a safe and healthy working system
- utilize EC/home delivery businesses

■ Restrained operation to reduce contacts

- restrained operation of department stores
- suspend activities to attract customers (events, distributing flyers and vouchers)

■ Establish a system to maintain management functions

- Clarify the business execution priority
- maintain back-office function by utilizing ICT

- Cash and cash equivalents : ¥26.0bn (as of March 2020)

- take all possible measures to continue business
 - secure liquidity on hand to prepare for prolonged COVID-19 pandemic in case

- ① Expand working capital borrowing limit by increasing commitment line (¥60.0bn ⇒ **¥90.0bn**) ※including existing borrowing limit

- ② Increase long-term borrowings utilizing a low interest rate (for future capital investment (※))
 - ※ Rebuilding of Hanshin Umeda main store, Ningbo Hankyu and etc.,

III. Business Plan GP10 Stage II Phase 2

1. Progress
2. New group vision and point of view owing to the changing in the times
3. GP10- II Phase 2 Updates

III – 1 Progress of GP10- II Phase 2

Key measures	Contents	Progress/Assessment	
I Strengthen Stores in Urban areas	Rebuilding Hanshin Umeda main store	○	As scheduled
	New start of Kobe Hankyu and Takatsuki Hankyu	○	As scheduled
	Redevelopment of Senri Hankyu and SELCY	○	On-going
II Establish platform of Supermarket operation	Izumiya restructuring (splitting supermarket business out)	○	As scheduled
	Establish a common platform for supermarket operation	○	Integrate system from FY2021 ⇒centralized purchasing
III Business model conversion of Izumiya GMS stores	Izumiya restructuring (non-food/PM)	○	As scheduled
	Izumiya restructuring (CFIZ)	○	As scheduled
IV Establish Business ecosystem	Expanding S point program (members/member stores)	○	
	Alliance with outside partners	○	Sales of restaurant business to SRSHD
Capital efficiency	Improvement of ROE	✗	Worsen (due to COVID-19 and other)
Approach to ESG tasks	Safety and Peace of Mind, HR development, H2O Santa, H2O nursery	○	Opened two H2O nurseries <ul style="list-style-type: none"> • Izumiya Izumifuchu • Hankyu Oasis Kisela Kawanishi
Performance	FY2022 Consolidated operating profit: ¥25.0bn	✗	FY2020 targets not achieved (sales decreased after tax hike, sluggish sales in SM, COVID-19)

Ⅲ – 2 New perspective through group vision and the changing in the times

(Group vision)

To be a customer's lifestyle partner to enrich their hearts through offering "fun, happy and tasty" experiences.

~contributing to the future of the local community, children and our planet~

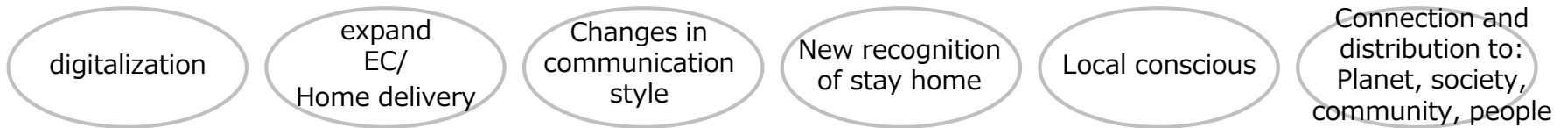
(Directions)

① Establish business model and new customer relations, utilizing the feature which we have various touchpoints with customers

② Strengthen "Stores in Urban areas" and "Supermarket Business" as its core

(stores in urban area) Construction of highly unique store model – new development – existing stores
 (SM business) Split Izumiya (April,2020) and re-construction of supermarket business

(How we grasp a "new normal" life)



(Perspective)

① Develop new business model "OMO model" (online merges with Offline)

- (1) store sales × online connection
- (2) store/goods focused ▶ customer communication focused
- (3) development of group-wide contents
- (4) improvement of digital infrastructure
(online communication, customer service, payment)

② conversion to "vision conscious" workstyle

- (1) digitalizing routine works
- (2) shift to value creation works

III – 3 GP10- II Phase 2 Updates

Key measures	Challenges	Actions
I Strengthen Stores in Urban areas	Rebuilding Hanshin Umeda main store ▶ applying OMO model	New type of department store: store contents/goods and customers are connected across both stores and online
	Remodeling Kobe Hankyu/Takatsuki Hankyu	will implement in 2021-22
	Redevelopment of Senri-chuo	Project planning
	Reviewing the cost structure of Department stores	Cost reduction through digitalization and renovating operation
II Split Izumiya (implemented in April 2020) and reconstructing SM business	Izumiya, Hankyu Oasis: Integration of organization, procurement and operation	
	Standardization, cost-saving and enhancing market responsiveness by store model restructuring	
III Business model conversion of Izumiya GMS stores	Accelerate tenants introduction to former Izumiya stores	Efficient use of sales area as SC Continuous profit improvement based on a 3-year business plan
IV Establish Business ecosystem	New customer relations and business model which merges real stores and online (OMO model)	Project Planning and implementation
Capital efficiency	Improvement of ROE	
Approach to ESG tasks	Full-scale corporate sustainability which instilling in operation and employee behavior	
Performance	FY2022 Consolidated operating profit: ¥25.0bn	

We put up a slogan "fun, happy and tasty" as a city landmark and lifeline.

We strive to create new value through close customer relations.



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