

# FY2021 Presentation Materials



H2O RETAILING CORPORATION

I . Results of FY2021

II . Actions in progress

III . FY2022 - Current situation with COVID-19

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

# I – 1. Consolidated Financial Results

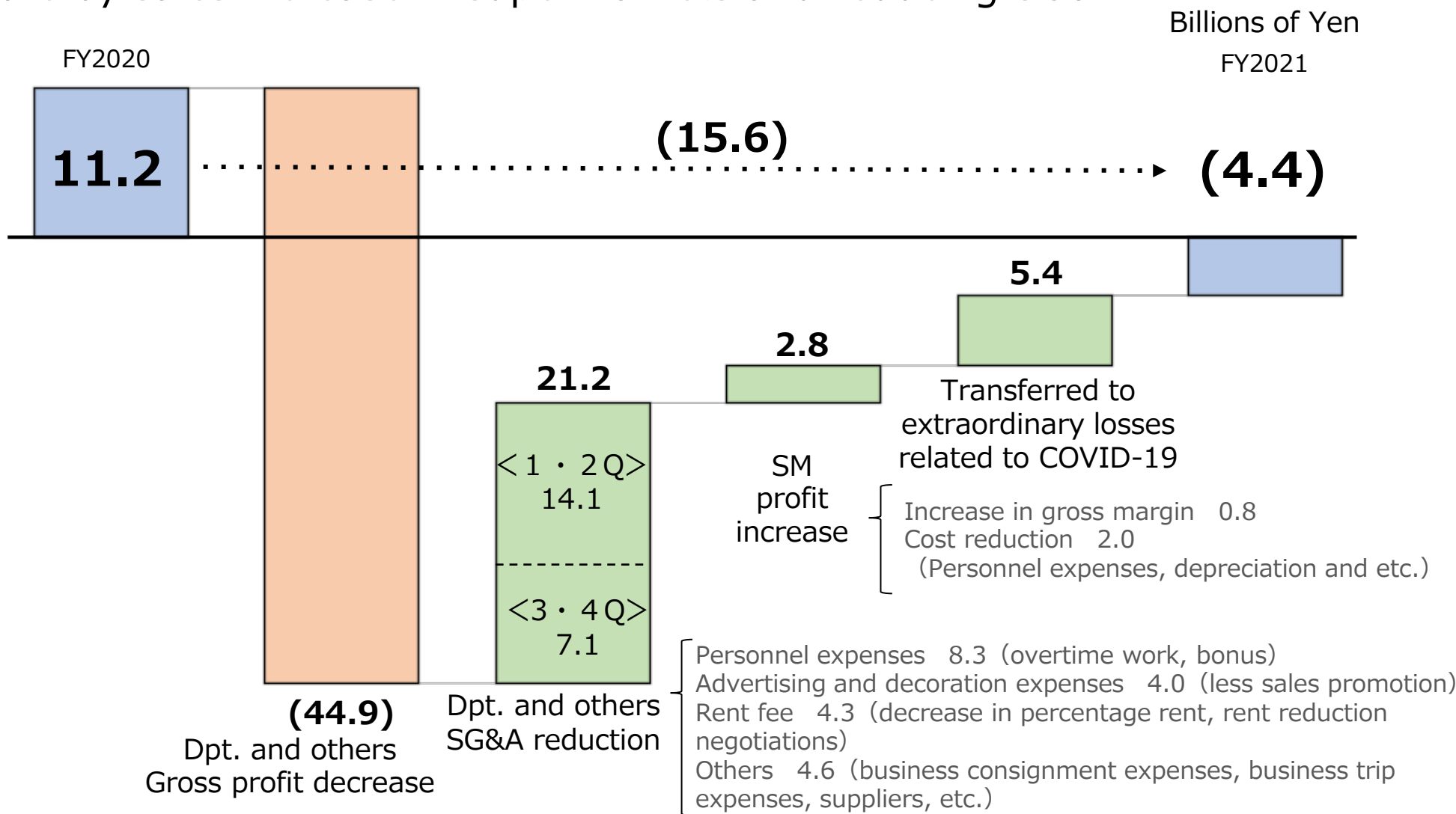
- ▶ Sales and profit decreased under COVID-19 outbreak, but results better than expected thanks primarily to cost reduction.
- ▶ Recorded loss related to COVID-19 of ¥ 5.4 billion, impairment losses of ¥ 14.8 billion as extraordinary losses.

(billions of Yen)	Amount	Amount		YOY	Versus forecast
		1 · 2Q	3 · 4Q		
Sales	739.2	335.6	403.6	(17.6)% (158.1)	1.3% +9.2
Operating Profit	(4.4)	(4.4) <small>Incl. loss related to Covid-19 (9.4)</small>	(0)	(15.6)	+5.6
Ordinary Profit	(2.9)	(4.4)	1.5	(14.7)	+7.1
Extraordinary income	3.0	2.4	0.7		
Extraordinary losses	24.2	11.5	12.7		
Profit	(24.8)	(10.1)	(14.7)	(11.6)	(2.8)

# I – 1. Consolidated Financial Results – Factors affecting OP



▶ Mitigating the impact of a decrease in gross profit of department store by sales increase in supermarkets and reducing SG&A



# I – 2. Results by segment

- ▶ Large decline in department store sales caused operating losses.
- ▶ “Eating-at-home” demand increased the sales in supermarket.

(Actual YOY 0.6%)

※ Influences on supermarket segment by splitting up Izumiya Sales (74.8), OP +5.2

(billions of Yen)	Sales			OP	
	Amount	YOY		Amount	YOY
Department store	347.8	(125.5)	(26.5)%	(1.9)	(13.4)
Supermarket	281.1	(73.0)	(20.6)%	4.2	+6.7 → <b>Actual +1.5</b>
		Izumiya, Hankyu Oasis, Qanat 4.7 (+7.9)			
		Food manufacturing and processing (0.5) (-1.3)			
Shopping center	63.3	+54.5	625.1%	(0.1)	(4.3) → <b>Actual +0.9</b>
Other	47.1	(14.2)	(23.1)%	(2.7)	(5.6)
Consolidation adjustment				(3.9)	+1.0
Consolidated	739.2	(158.1)	(17.6)%	(4.4)	(15.6)

# I – 3. Department store business

- ▶ Declaration of a state of emergency in Jan. decreased the number of customers, but results better than expected thanks primarily to sales in luxury brands.
- ▶ Reduced costs due to less promotion and the revision of each spending.  
(cost transferred to loss related to COVID-19 is ¥ 4.3 billion)

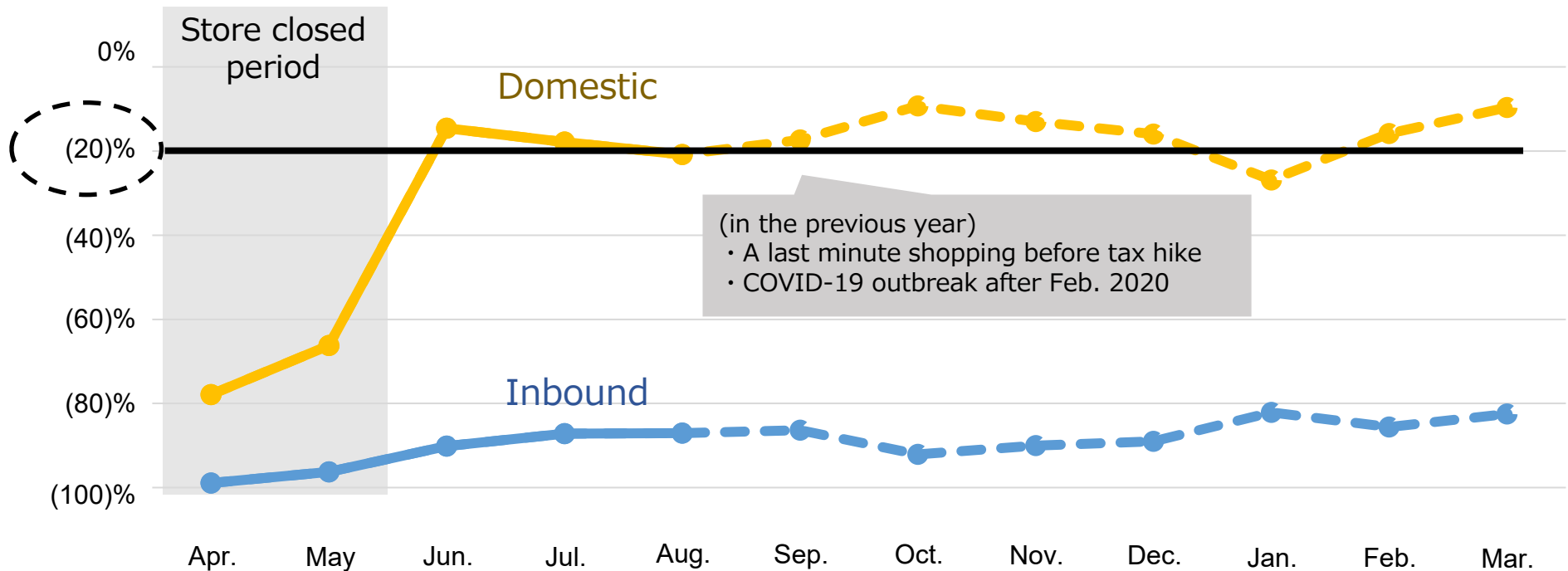
## Hankyu Hanshin Department store Inc. + Kobe/Takatsuki business

(billions of Yen)	Amount	Amount				Inc./Dec.	YOY
		1 Q	2 Q	3Q	4 Q		
Net Sales	345.5	48.1	89.1	113.9	94.4	(124.8)	(26.5)%
Gross Profit	78.6	11.0	20.3	26.5	20.8	(32.4)	(29.2)%
Gross Profit margin	22.74%	23.0%	22.8%	23.2%	22.0%	(0.85)%	—
Other operating revenue	2.9	0.5	0.8	0.8	0.8	(0.5)	(14.7)%
SG&A	83.2	14.4	21.6	24.7	22.5	(19.8)	(19.2)%
Operating Profit	(1.7)	(2.8)	(0.5)	2.5	(0.9)	(13.1)	—
		Incl. loss related to COVID-19 (7.0)					

# I – 3. Department store business

- ▶ Sales trend of domestic customers were beyond forecast from Oct. to Mar. (Forecast: 20% decrease from the same period of FY2019)
- ▶ Another wave of infections decrease sales and the number of customers, resulting in the difficulties in forecasting sales
- ▶ Inbound sales have fallen by 88%.

Existing store sales versus those of FY2020 and FY2019 (domestic/inbound)  
(solid line: FY2020, dotted line: FY2019)



(in the previous year)  
• A last minute shopping before tax hike  
• COVID-19 outbreak after Feb. 2020



# I – 4. Supermarket business

- ▶ OP in supermarket companies significantly rose by the high demand for eating at home, and the effect of Izumiya restructuring.
- ▶ Low demand of instant meal decrease OP in food manufacturing and processing.

(billions of Yen)	Sales	YOY [existing stores]		OP	Inc./Dec.
3 companies of SM	281.7	Izumiya	1.7%	4.7	+7.9
		Hankyu Oasis	0.6%		
		Qanat	0.2%		
4 companies of food manufacturing and processing	32.3		(3.4)%	(0.5)	(0.5)

Incl. effect of Izumiya restructuring +5.2

# I – 5 . Extraordinary income and losses

▶ Recorded extraordinary losses of ¥ 5.4 billion due to COVID-19 outbreak (complementary subsidy income of ¥ 2.7 billion)

▶ Impairment losses of ¥ 14.8 billion including Kobe Hankyu, Takatsuki Hankyu, Izumiya GMS and SC

⇒ Major impairment in each business completed

(billions of Yen)		Amount	Contents	
Extraordinary income	Subsidy income related to COVID-19	2.7	Hankyu Hanshin Dept	1.9
			Other 28 companies	0.8
Extraordinary losses	Impairment losses	14.8	Dept. segment	6.0
			SM segment	2.4
			SC segment	5.0
	Loss related to COVID-19	5.4	Hankyu Hanshin Dept	4.3
			Other 32 companies	1.1
	Loss on store closings and others	2.1	SC segment	1.4
			SM segment	0.4

- 1 . Business reform
- 2 . Capital efficiency
- 3 . Restructuring of business and group organization
- 4 . New challenges

Driving drastic actions to tasks in each business

▶ **Whole group : Reorganization and withdrawal from unprofitable store and business**

⇒ Recording impairment losses in FY2021, reducing cost in FY 2022

- Recording impairment losses of Kobe Hankyu, Takatsuki Hankyu, GMS, and SC together with impairment losses resulting from the withdrawal from unprofitable business in FY 2021
- 5 unprofitable SM stores have closed in FY2021, followed by closure of Sanda Hankyu and other stores in FY2022

▶ **Department store : Cost reorganization**

- Continuous cost revision in consignment, outsourcing, promotion, personnel expenses and business trip ( ¥ 2.5) billion versus FY2020
- Considering urgent cost reduction to cope with temporary store closure following the declaration of state of emergency ( ¥ 2.5) billion in FY2022

Driving drastic actions to tasks in each business

### ▶ **Supermarket : integrating operation**

- integrating operation of 3 SM companies in order to reduce cost and strengthen profitability
- establishing strong SM business model
- uniting manufacturing and sales functions to strengthen sales force and profitability
- reorganizing the chain operation through standardization, rule making, and thoroughness

⇒ **results will be out in FY2023 or later**

### ▶ **Shopping center : promoting conversion from GMS to SC**

- Finishing the conversion of all 36 Izumiya GMS to SC by efficient operation of sales area and introducing new tenants including CFIZ  
FY2021- 21 stores and 20 CFIZ stores  
FY2022- conversion and new tenants to space affected by COVID-19

⇒ **Increasing profit by the above and closure of unprofitable store before FY2023 + ¥ 2.0 billion versus FY2020**

Improving and stabilizing financial condition by the sales of idle assets

### ▶ Sales of real estate

- promoting sale of inefficient real estate focusing on non-store property
  - announced in Mar. 2021, Nakatsu-Osaka, land for lease, ¥ 4.7 billion profit
  - announced in Apr. 2021, Oyodo-Osaka, land for lease, ¥ 3.9 billion profit

### ▶ Sales of stock

- reducing policy-holding shares
  - announced in Apr. 2021, TOHO share, ¥ 5.7 billion sales, ¥ 4.5 billion profit (plan)
  - Other 6 kinds of share (Apr: five, May: one) to be sold

⇒ Sales profit will be recorded in FY2022.

Reorganizing the group to create value for innovation

- ▶ **Department store : value creation focusing on customer and promoting new business system**
  - unifying IT/DX division and BPR division with H2O retailing
  - integrating merchandising division with sales division in main stores
  - establishing OMO promoting division and OMO sales division (OMO: Online Merges with Offline)
  
- ▶ **Supermarket : promoting the unified operation and standardization**
  - unifying the management of Hankyu Oasis and Izumiya (procurement, operation and headquarters)
  - improving productivity and profitability due to standardizing operation and rebuilding chain operation system
  - unifying manufacturing functions in subsidiaries of prepared food, bread and process of fresh food with sales functions in supermarket subsidiaries
  - merger of Hankyu Bakery, Hankyu B&C planning, and Hankyu Freds

New challenges and trials in each segment

### ▶ **Department store**

- Promoting OMO (Online Merges with Offline) model
  - development of new OMO shopping process for customers
    - ✓ **Add more items to EC site and increase members –sales of ¥8.4 bil. [YOY 86%]**
    - ✓ **“Remo Order” (Web payment) - reached sales of ¥100 mil./month in both Dec. 2020 and Jan. 2021**
    - ⇒ **expecting to triple sales of EC and Remo Order in 3 years**
    - ✓ **approach in SNS, uploading more items to web catalog, expansion of remote shopping**
    - ✓ **“Hankyu Cake Delivery” “CAKE LINK” refrigerated/frozen cake delivery service**
      - **reached 20 thou. purchase in Mar. 2021, started “TOKYO CAKE DIARY” in Apr. 2021**
  - producing a synergy effect of offline and online contents
    - ✓ **large events in Hankyu and Hanshin flagship store with online seminar and EC contents**

### ▶ **Supermarket**

- Promoting smart-shopping and efficient store operation
  - Started test marketing of AI shopping cart which recognize items by image sensor co-developed by Imagr Limited (NZ) and Toshiba Tec Corporation

### ▶ **Shopping center**

- Neighborhood shopping centers which link people and local community
  - Established local community space “Izumiya YUI-terrace Kawachinagano” by public-private collaboration.



## II – 4 . New challenges –new store-

Apr. 2021 Opened Ningbo Hankyu in China  
approach to middle- to upper-income groups in Zhejiang prefecture

### Ningbo Hankyu

“Department-mall”

hybrid of Department store and SC

- 4 strength
- ① high-end/edged fashion
  - ② high-quality/enjoyable SM, Izumiya
  - ③ experience and entertainment
  - ④ cool-Japan contents

Producing synergy with Hankyu Umeda flagship store  
in sales promotion contents and customer service

**Started well thanks primarily to sales of luxury brands purchased by upper-income group and high-end customer, together with high reputation for cool-Japan contents**

⇒ Number of customer: 1.7 million

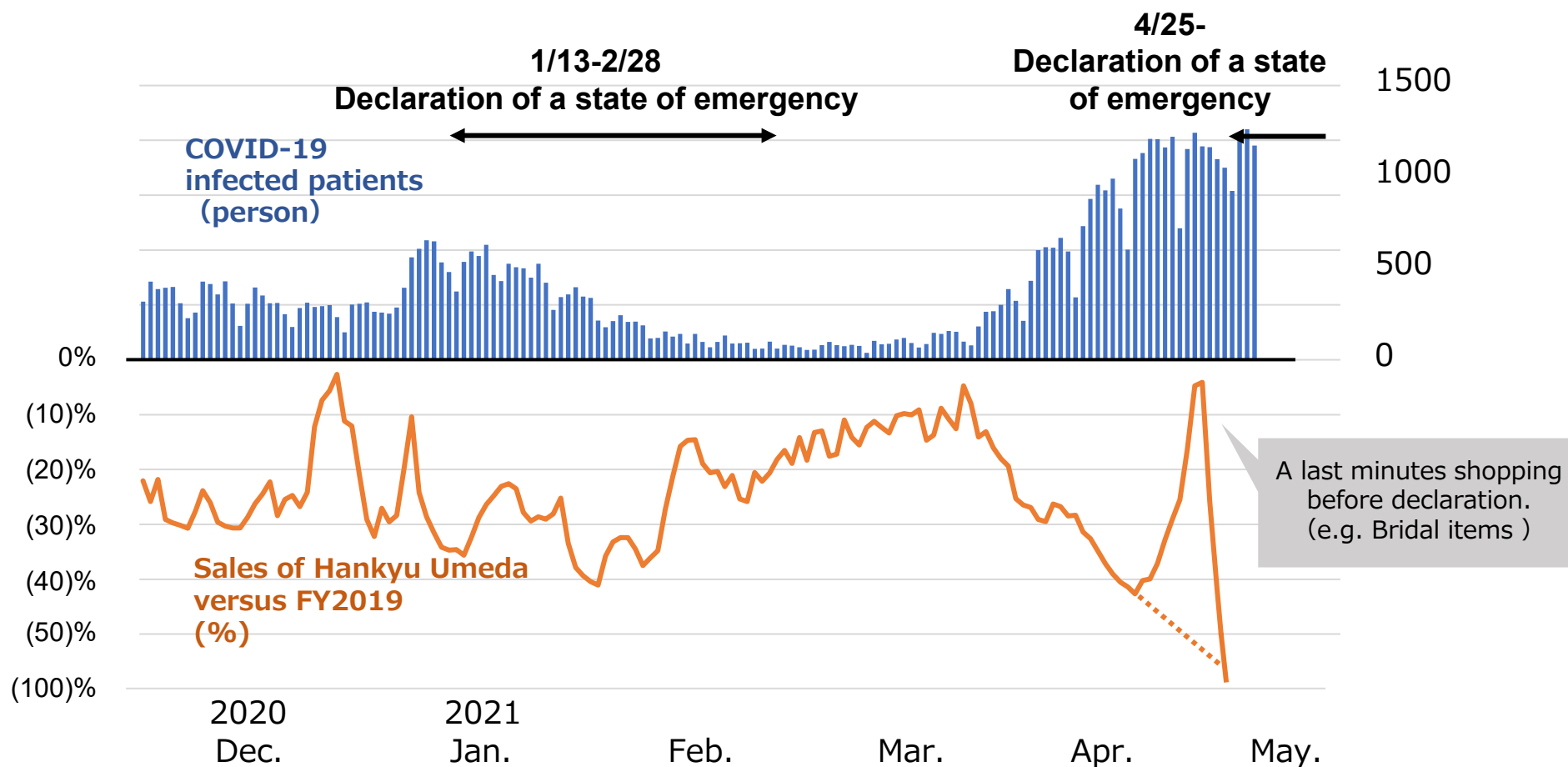
Sales: 0.4 billion of CNY, +50% versus expectation  
in 1 month (practically 3 weeks after full opening)



# III. FY2022 - Current situation with COVID-19

## ► Transition of COVID-19 infected patients and Sales

- Line graph: Sales of Hankyu Umeda flagship store (versus FY2019, moving average in 5 days)  
Bar graph: number of COVID-19 infected patients each day in Osaka



- ▶ **Current operation following the declaration of state of emergency**
  - **Department Store business: Closed (except for food hall and Hakata)**  
Sales (existing stores, versus FY2020) Apr.1~24 (26)%, Apr.25~30 (74)%  
⇒ **urgent cost reduction to cope with large sales decline**
  - Izumiya, Hankyu Oasis, convenient stores, and other retail stores  
Shortened opening hours / closure of stores

- ▶ **7<sup>th</sup> May 2021: state of emergency to be extended until 31<sup>st</sup> May**  
**Closure of department stores also to be extended**  
**(shortened opening hours in some stores)**

Few effective methods of preventing infection and continuing administrative request for sales restraints

The trend of domestic customer spending and the recovery pace of sales are quite uncertain.

⇒ **The forecast of FY2022 and mid-term plan starting from FY2022 yet to be disclosed** since it is difficult to estimate the business results.

The company will disclose them as soon as it becomes possible to reasonably forecast the influence of COVID-19 re-outbreak on our business.



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