

Financial Results 1st Quarter of FY2019



H2O RETAILING CORPORATION

July 31, 2018

I . Consolidated Financial Results

Overview

(100 millions of yen)

	June 30, 2016	June 30, 2017	June 30, 2018	YoY	Inc./Dec.
Net Sales	2,139.5	2,123.1	2,192.8	+3.3%	+ 69.6
Operating Profit	30.0	36.0	33.6	-6.7%	- 2.4
Ordinary Profit	21.1	46.4	38.5	-17.0%	- 7.8
Profit	31.0	40.2	2.7	-93.1%	- 37.5

▶ Increase in sales : Department store business, newly consolidated of Kobe/Takatsuki business since Oct. 2017

▶ Decrease in ordinary profit : gain on valuation forward exchange contracts in the previous year

▶ Decrease in profit : extraordinary losses of the rebuilding of Hanshin Umeda main store Wing I

Segment information

(100 millions of yen)

	Net Sales		Operating Profit		
	Amount	YoY	Amount	YoY	Inc./Dec.
Department Store	1,026.9	+ 3.0%	34.2	+ 3.1%	+ 1.0
Kobe/Takatsuki	99.5	-	- 0.5	-	- 0.5
Supermarket	905.8	- 6.1%	- 7.6	-	- 0.6
Shopping Center	23.8	- 27.9%	11.6	- 24.9%	- 3.8
Other	136.6	+ 6.5%	37.6	+ 48.9%	+ 12.3
consolidation adjustment	-	-	- 41.6	-	- 10.7
Total	2,192.8	+ 3.3%	33.6	- 6.7%	- 2.4

▶ Dpt : increase in sales of Hankyu main store

▶ Kobe/Takatsuki : no record of the previous year (acquired business on October, 2017)

▶ SM : decrease in number of stores and decline in vegetable market price

▶ SC : Izumiya restructuring and tenants of Selcy located in SenriChuo decreasing

II. Selling, general and administrative expenses

	(100 millions of yen)		
	Amount	YoY	Inc./Dec.
Personnel expenses	238.7	+1.2%	+ 2.7
Rent expenses	98.9	+8.3%	+ 7.5
Advertising and decoration expenses	34.5	+4.3%	+ 1.4
Depreciation	38.0	+5.2%	+ 1.8
Business consignment expenses	47.6	+2.1%	+ 0.9
Sales commission	31.2	+0.3%	+ 0.1
Transportation costs	35.4	+2.9%	+ 0.9
Others	79.7	+1.7%	+ 1.3
Total	604.4	+2.9%	+ 17.0

- ▶ Increase by 2.7 billion yen at Kobe/Takatsuki business
- ▶ Decrease by 0.9 billion yen at Izumiya : store restructuring

III. Non-operating Income and Expenses

	(100 millions of yen)				(100 millions of yen)		
	Amount	YoY	Inc./Dec.		Amount	YoY	Inc./Dec.
Non-operating income	14.7	-16.8%	- 2.9	Non-operating expenses	9.7	+34.5%	+ 2.5
Interest income	0.1	-54.3%	- 0.2	Interest expenses	2.2	-9.4%	- 0.2
Dividend income	7.7	+1.9%	+ 0.1	Loss on provision for redemption of gift certificates	3.2	+25.4%	+ 0.6
Gain on adjustment of accounts payable	4.0	+16.8%	+ 0.5	Other	4.2	+97.4%	+ 2.0
Gain on valuation forward exchange contracts	-	-	- 1.3				
Other	2.7	-44.1%	- 2.1				

IV. Extraordinary Income and Losses

	(100 millions of yen)	
	Amount	Main contents
Extraordinary income	-	(previous 1Q : 25.1)
Extraordinary losses	21.6	(previous 1Q : 7.8)
Outplacement expenses	6.7	Hankyu Hanshin Department Stores
Expenses for opening new stores	4.7	Hanshin Umeda main store
Loss on retirement of non-current assets	3.3	Hankyu Hanshin Department Stores
Impairment losses	2.9	Izumiya
Loss on closing of stores and others	2.8	Izumiya, Hanshin Umeda main store
Loss on disaster	1.0	Hankyu Oasis, Izumiya

- ▶ Loss on Northern Osaka earthquake occurred on June 18.
We are expecting losses of around 400 million yen for the full term.

V. Consolidated Balance Sheet

				(100 millions of yen)			
	March 31, 2018	June 30, 2018	Inc./Dec.		March 31, 2018	June 30, 2018	Inc./Dec.
Cash and deposits	671	425	△ 245	Accounts payable-trade	627	570	△ 57
Accounts receivable-trade	469	507	+ 38	Interest-bearing debt	1,494	1,493	△ 1
Inventory	352	359	+ 6	Total liabilities	3,787	3,709	△ 78
Total current assets	1,601	1,409	△ 192	Shareholders' equity	2,423	2,402	△ 21
Total non-current assets	4,994	5,109	+ 114	Total net assets	2,808	2,809	+ 0
Total assets	6,595	6,518	△ 77	Total liabilities and net assets	6,595	6,518	△ 77

- ▶ Decrease in cash and deposit : purchase of non-current asset, payment of taxes and dividends
- ▶ Increase in non-current asset : opening Hanshin Umeda main store Wing I
- ▶ Decrease in shareholders' equity : payment of dividends

VI. Department store business

Hankyu Hanshin Department Stores, Inc.

	(100 millions of yen)			Inc./Dec. of major stores
	Amount	YoY	Inc./Dec.	
Net Sales	1,026.1	+ 3.0%	+ 29.5	Hankyu Main Store +40
Gross Profit	253.4	+ 2.5%	+ 6.0	Hakata Hankyu +14
Gross profit / Net Sales	24.70%	-	-0.12pt	Hanshin Umeda Main Store +1
Other operating revenue	1.4	- 17.9%	- 0.3	Sakai Kita-Hanada Hankyu -23 ※closed on July 31,2017
SG & A	220.7	+ 2.2%	+ 4.7	
SG & A/ Net Sales	21.52%	-	-0.16pt	
Operating profit	34.1	+ 3.1%	+ 1.0	
Operating profit / Net Sales	3.33%	-	+0.00pt	

- ▶Hankyu main store : inbound sales were up about 52%, sales composition ratio reached 15%
- ▶Hanshin Umeda main store: Reconstructed Wing I opened on July 1. We increased sales over last year although store area shrinks by about 20%.
- ▶Northern Osaka earthquake on June 18 : closed 6 stores including main stores on the day.

Sales, Number of customers (millions of yen, thousands of people)

	Sales	YoY	Number of customers	YoY
Hankyu Main Store ※1	55,954	7.7%	11,816	0.2%
Hanshin Umeda Main Store	12,763	1.1%	8,041	19.4%
Senri Hankyu	3,615	-2.5%	1,191	-1.3%
Kawanishi Hankyu	3,513	-3.2%	1,476	-3.4%
Takarazuka Hankyu	1,730	-1.8%	※2 -	-
Nishinomiya Hankyu	5,730	-2.1%	3,110	0.1%
Sanda Hankyu	277	-4.3%	※2 -	-
Hakata Hankyu	11,796	13.9%	6,590	2.1%
Hankyu Men's Tokyo	3,359	8.1%	585	-3.4%
Oi Hankyu Food Hall	1,023	-3.3%	1,332	-2.7%
Tsuzuki Hankyu	1,066	-8.3%	882	-5.8%
Amagasaki Hanshin	635	-0.1%	※2 -	-
Hanshin Nishinomiya	1,025	0.6%	960	-0.2%
Hanshin Mikage	120	0.2%	1,200	-5.3%
Total of branch stores	33,896	-3.4%	17,326	-7.7%
Total stores	102,614	3.0%	37,183	-0.3%
Exsiting stores ※3	102,614	5.5%	37,183	3.4%

Monthly Sales

	April	May	June
Hankyu Main Store ※1	+10.8%	+7.8%	+4.5%
Hanshin Main Store	+6.8%	-16.6%	+15.1%
Total of branch stores	-1.5%	-6.7%	-1.7%
Total	+6.0%	-0.5%	+3.6%
Exsiting stores ※3	+8.0%	+2.3%	+6.4%

※1. including Hankyu Men's Osaka

※2. not counting the number of customers

※3. not including Sakai Kitahanada Hankyu(closed on July 31, 2017)

VI. Department store business

Sales of each category (millions of yen)

	Sales	YoY	Share
Men's clothing	9,155	3.9%	8.9%
Women's clothing	14,905	-2.7%	14.5%
Children's clothing	2,336	-4.8%	2.3%
Other clothing	2,796	-5.3%	2.7%
Clothing	29,193	-1.2%	28.4%
Accessories, bags and others	20,216	7.8%	19.7%
Household merchandise	3,527	6.6%	3.4%
Foods	26,428	-4.5%	25.8%
Restaurants & cafes	2,321	4.9%	2.3%
General merchandise	19,992	15.5%	19.5%
Service	557	21.0%	0.5%
Other	376	-7.2%	0.4%
Total	102,614	3.0%	100.0%

VII. Supermarket business

Izumiya Co., Ltd.

	(100 millions of yen)		
	Amount	YoY	Inc./Dec.
Net Sales	530.8	-9.2%	- 53.5
Gross Profit	142.6	-7.3%	- 11.2
Gross profit / Net Sales	26.87%	-	+ 0.54pt
Other operating revenue	36.3	1.5%	+ 0.5
SG & A	184.8	-4.8%	- 9.3
SG & A/ Net Sales	34.82%	-	+ 1.59pt
Operating profit	△ 5.8	-	- 1.3
Operating profit / Net Sales	-	-	-

Store sales (YoY)	
	Existing stores
Foods	- 4.6%
Clothing	- 8.1%
Household goods	- 13.3%
Total	- 6.5%

Numbers of stores	
	Number of stores
Total	83
YoY difference	- 1

▶4 GMS stores are under reconstruction

▶Decreased in sales of household goods : switch sales area from directly operation to tenant

Opening	Kishinosato (Osaka)
Closing	Daito (Osaka)

Monthly sales(YoY)

	April	May	June
Total	-11.2%	-11.2%	-6.6%
Existing stores	-7.0%	-8.4%	-3.7%

Hankyu Oasis Co., Ltd.

	(100 millions of yen)		
	Amount	YoY	Inc./Dec.
Net Sales	283.3	-2.9%	- 8.4
Gross Profit	70.0	-3.7%	- 2.6
Gross profit / Net Sales	24.73%	-	-0.21pt
Other operating revenue	16.5	-0.3%	+ 0.0
SG & A	89.2	-2.4%	- 2.1
SG & A/ Net Sales	31.51%	-	+ 0.17pt
Operating profit	△ 2.6	-	- 0.5
Operating profit / Net Sales	-	-	-

Store sales (YoY)	
	Existing stores
Total	- 3.2%

Number of stores	
	Number of stores
Total	79
YoY difference	- 5

▶Decrease in sales : number of stores decreased by 5

▶Decrease in gross profit margin and in SG&A : switch some stores' meat and fish category from directly operation to tenant

Opening	Kitchen & Market Lucua Osaka (Osaka), Nakanoshima (Osaka)
Closing	Fushimi (Kyoto) ※ Qanat Co., Ltd. acquired business

Monthly sales(YoY)

	April	May	June
Total	-2.6%	-3.6%	-2.4%
Existing stores	-4.5%	-3.3%	-0.6%