

# Medium-Term Management Plan FY2025-2027

May. 15, 2024



H2O RETAILING CORPORATION

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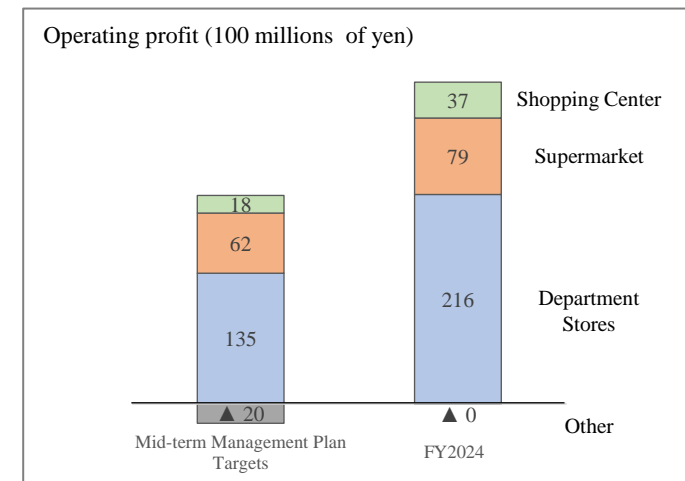
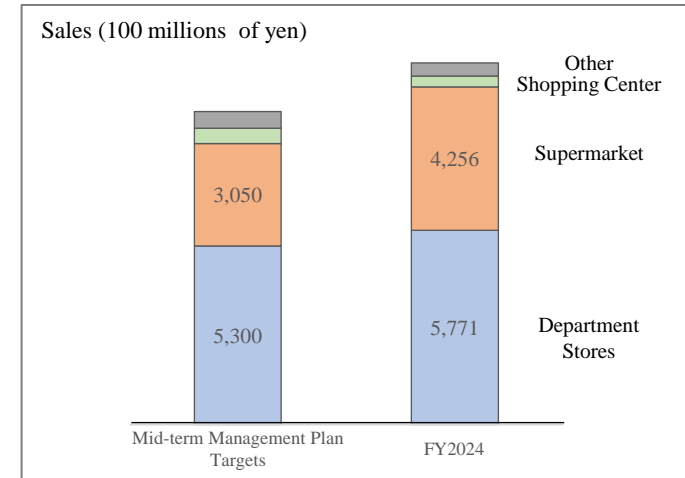
1. Policies and Key Initiatives
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  - i. Deepen existing businesses "domestic customers and store business"
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# I. Review of Mid-term Management Plan FY2022-2024

## -1. Achieved of Targets

- Significantly exceeded all set indicators
- Restructuring of the Department Store Business and turning the Supermarket Business into a second pillar of the business are on the horizon, resulting in significant growth in sales and operating profit.

(Unit: 100 million yen)	Mid-term Management Plan Target	FY2024 Amount	Vs. target
Gross sales	9,300	10,739	+15%
Operating profit	170	262	+92
Ordinary profit	140	279	+139
Profit	—	219	—
ROE	2.6%	8.5%	+5.9pt
ROIC	3.0%	4.7%	+1.7pt



**Achieved above-planned results on a consolidated total,  
building a solid business foundation, centered on the restructuring of existing businesses**

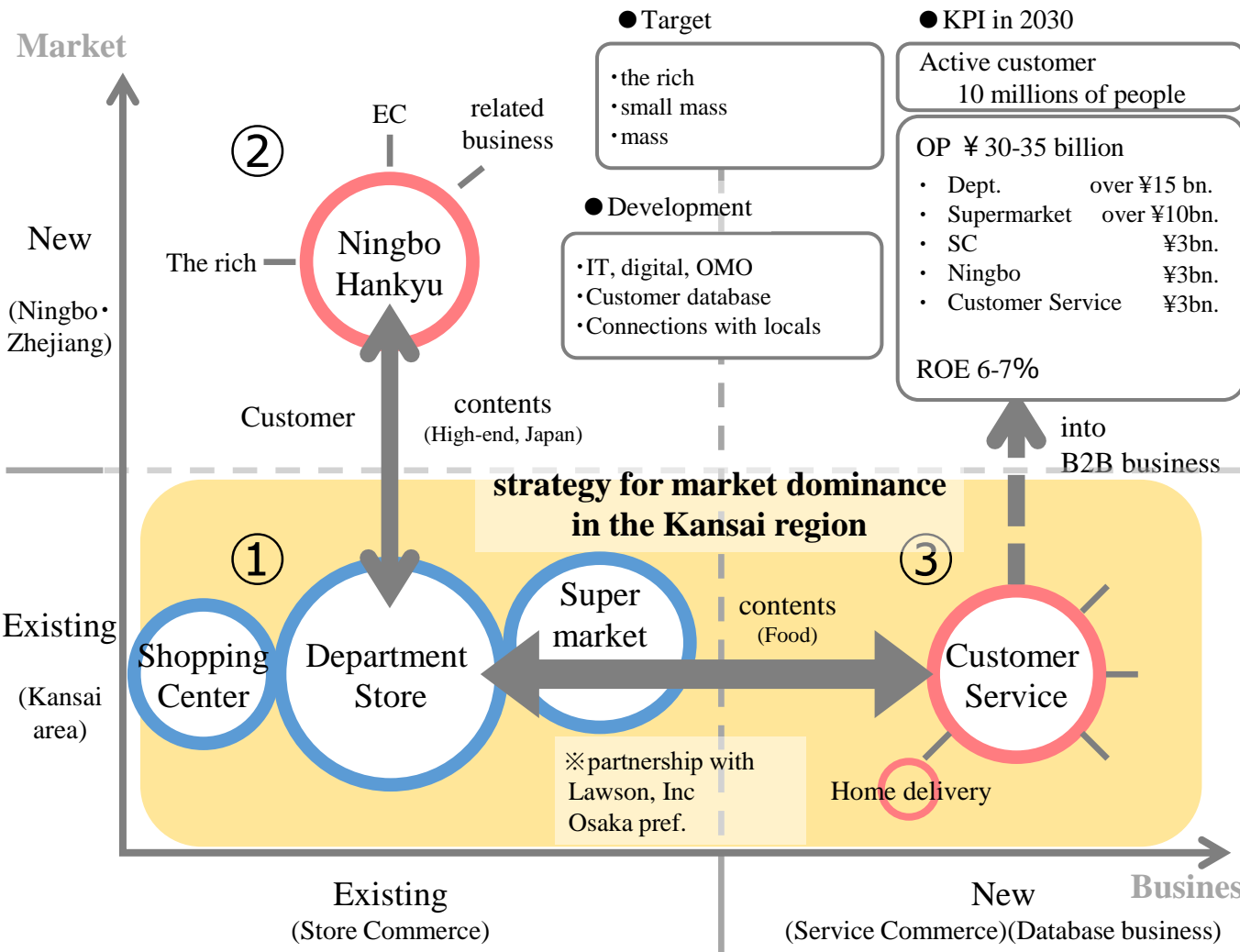
Key Initiatives	Review
1. Restructuring of Department Store Business	<ul style="list-style-type: none"><li>• Performance far exceeded planed, including a return to over-the-counter due to the COVID-19 convergence, an active domestic upper market due to soaring asset prices, and record-high inbound sales due to tourism promotion and a depreciating yen.</li><li>• Progress in building a foundation (corporate culture, organization, structure, IT) to evolve into a customer-based business model that continuously connects with customers through OMO</li></ul> <p>→ The challenge is to realize the next growth strategy and a new business model in response to market changes.</p>
2. Turning the Supermarket Business into a second pillar of the business	<ul style="list-style-type: none"><li>• Expanded to become one of the largest supermarket groups in Kansai area through business integration with Kansai Super Market.</li><li>• Strongly promoted business reforms at Izumiya and Hankyu Oasis and achieved profit improvement results</li></ul> <p>→ The “second pillar” of Supermarket Business are on the horizon, next step is to pursuit the effect of integrating the operations of four supermarkets.</p>
3. Challenge to a new business model for future growth	<ul style="list-style-type: none"><li>• Ningbo Hankyu holds the position of the best store in Ningbo area, further strengthening measures by making Ningbo Hankyu a subsidiary</li><li>• Launched a food service application in the Takatsuki area as the first step in online customer service and started collecting customer data as the next step.</li></ul> <p>→ To materialize customer service business and customer data utilization business</p>
4. Promote IT and digitalization as a foundation	<ul style="list-style-type: none"><li>• IT and digital infrastructure development and enhancement is 80% completed (customer data infrastructure, new work environment, security and governance system, etc.)</li></ul> <p>→ To the stage of business utilization at operating companies using the platform (application, data utilization, etc.)</p>

# II. Toward Achieving Long-term Business Plan 2030

## -1. Long-term Business Plan 2030 (Ver.1)

▶ to become a "Communication Retailer"

Develop direct communication with customers and deepen relationship



### 〈 Approach Strategies 〉

#### ① Rebuild existing businesses

- Rebuild Department Store Business
- Make Supermarket Business as second pillar

#### 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

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

# II. Toward Achieving Long-term Business Plan 2030

## -2. Business Environment Changes and Awareness of Issues

Business Environment Changes		Awareness of the Issues
<ul style="list-style-type: none"> <li>• Price hiking and high-cost environment continues</li> <li>• Significant wage increases continue</li> <li>• Toward a positive cycle of price hikes and wage increases</li> </ul>	1. Possible transition to an inflation-based economy	i. Expectations of a positive impact on consumption ii. Creating added value that can absorb increased costs iii. Need for continuous cost efficiency
<ul style="list-style-type: none"> <li>• Concern regarding market contraction due to declining population</li> <li>• Labor shortage and rising labor costs</li> </ul>	2. Gradual transition to a society with a declining population	iv. Preparation and development of new business areas and models v. Efforts to improve productivity and preparation for labor and labor savings
<ul style="list-style-type: none"> <li>• Technological innovation and COVID-19 effects</li> </ul>	3. Rooting of digitally-based lifestyles and communication	vi. Establishment of a business style that merges real and digital vii. Business environment corresponding to new lifestyles
<ul style="list-style-type: none"> <li>• Asset effect → Expansion of affluent market</li> <li>• Inflation Effect → Continued budget-minded</li> </ul>	4. Polarization of the consumer market	viii. Work on two polarized markets simultaneously
<ul style="list-style-type: none"> <li>• The depreciation of the yen and the establishment of Japan as a tourism nation</li> </ul>	5. Rapid expansion of inbound consumption	ix. Strengthen mid- to long-term initiatives, viewing overseas customer demand, which is expected to expand, as a growth market
<ul style="list-style-type: none"> <li>• High tourism potential of the Kansai area and closeness to Asia</li> <li>• Raise awareness of Osaka through Expo/IR</li> <li>• Grand Green Osaka opens; opening of Naniwa-suji Line → Improvement of Umeda's location advantage</li> </ul>	6. Expansion of domestic and overseas tourism demand and advantages in the Kansai area	
<ul style="list-style-type: none"> <li>• Management with SDGs in mind</li> <li>• Management with human capital in mind</li> <li>• Management Conscious of Cost of Capital and Stock Price</li> </ul>	7. Increased demand from capital markets and stakeholders	x. Continue SDGs initiatives with clear KPI xi. Pursuit of synergies between corporate growth and individual growth x. Clarification of Growth Strategy, Capital Policy, and Shareholders' Return Policy

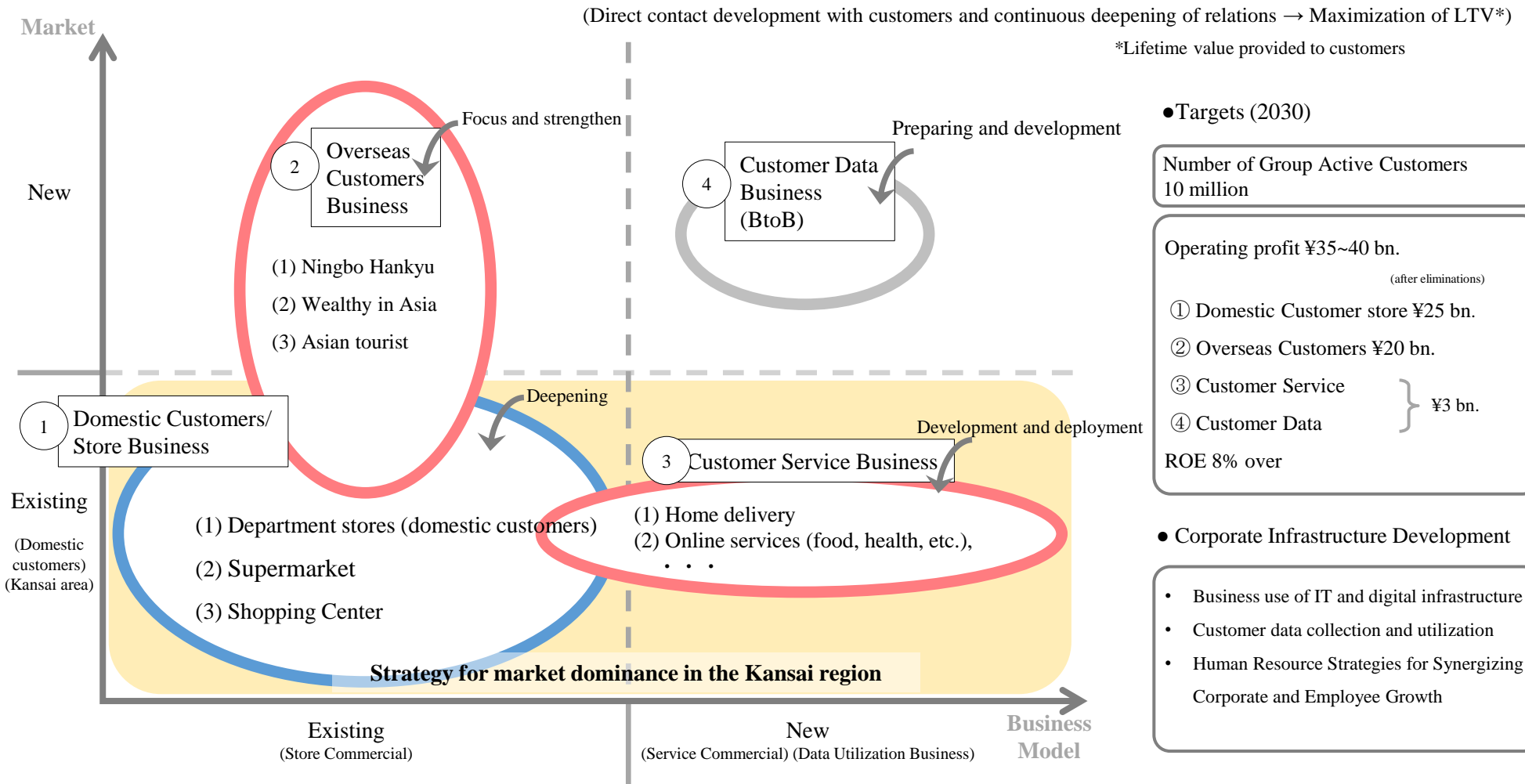
### Status of the Company and Customers

- Hankyu Main Store Ranked No. 1 in Japan in inbound sales. (FY2024)
- Expansion of the scale of supermarkets through business integration
- While demand for high-value products and experience value is increasing, the daily lives of consumers continue to be deeply rooted in the desire for budget-minded.
- Signs of labor shortage in both value-added personnel and operations personnel
- PBR falls below 1x due to delays in Capital Strategy and other factors

# II. Toward Achieving Long-term Business Plan 2030

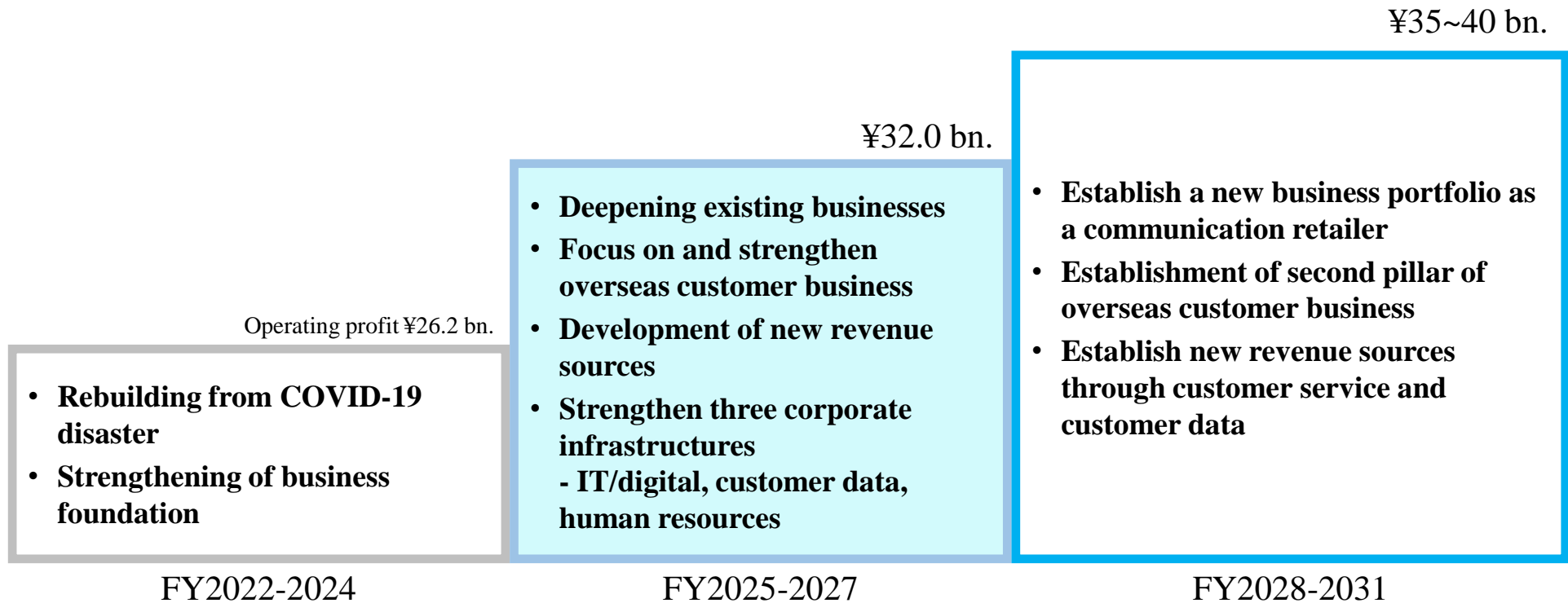
## -3. Long-term Business Plan 2030 Ver.2

- Restructure Growth-Strategy ▶ Customers are the company's most important asset; restructuring the business from the customer's point of view.
- The Group's Target Business Model: ▶ to become a "Communications Retailer"



# II. Toward Achieving Long-term Business Plan 2030

## -4. Positioning of Mid-term Management Plan FY2025-2027



Operating profit ¥26.2 bn.	Operating profit ¥32 bn.	Operating profit: ¥35~40 bn. ROE 8% over
Restructure of existing businesses	Expand into new markets and new business models	Establish a new business structure from the customer's point of view



# III. Mid-term Management Plan FY2025-2027

## -1. Policies and Key Initiatives

Policy	Key Initiatives	
i. Deepening of existing business “Domestic Customer and Store Business”	Department Store Business (Domestic customers)	<ul style="list-style-type: none"> <li>• Maximize LTV by developing points of contact and content through digital and real communication utilizing customer data, centered on affluent customers (communication retailer model)</li> <li>• Hankyu Main Store → Upscaling and remodeling to become a "global department store" that serves as a destination for customers in a wide area both domestic and overseas.</li> <li>• Strengthen ability to attract customers and review business structure →Hanshin Umeda Main Store Revision and Renovation and Kawanishi Hankyu Remodel</li> <li>• Business aimed at expanding customer contact points and developing markets by utilizing the strengths of department stores</li> </ul>
	Supermarket Business	<ul style="list-style-type: none"> <li>• Making Kansai Food Market a wholly owned subsidiary to promote business integration and realize effects at 4 supermarkets</li> <li>• Organization of store positions and roles of 240 supermarkets, and development of price-appealing supermarkets</li> </ul>
	Shopping Center Business	<ul style="list-style-type: none"> <li>• Strengthen activities to connect with local communities and continue capital investment</li> <li>• Hotel renovation of Oi Development</li> </ul>
	Management Efficiency and Productivity Improvement	<ul style="list-style-type: none"> <li>• Preparation and deployment of labor-saving and energy-saving</li> </ul>
ii. Focus on and strengthen “Overseas Customer Business” with high growth potential	Focus on overseas wealthy customers (Department Stores)	<ul style="list-style-type: none"> <li>• Full-scale efforts to realize the cycle of customer cultivation x personal communication x content development, reinforcement of organization and human resources, and strengthening of the network (To triple sales of wealthy customers and 1.5 times sales of regular tourists in FY2027)</li> </ul>
	Ningbo Hankyu (Made a subsidiary)	<ul style="list-style-type: none"> <li>• Remodeling to strengthen response to affluent customers to establish the No.1 store in the area</li> </ul>
iii. Development of new revenue sources	Customer Service Business Customer Data Business	<ul style="list-style-type: none"> <li>• Continue to launch and develop service business ( through online) in the Kansai area with food and health theme.</li> <li>• Startup of customer data business (Increase in human resources and development of IT infrastructure)</li> </ul>

# III. Mid-term Management Plan FY2025-2027

## -1. Policies and Key Initiatives

Policy	Key Initiatives	
iv. Development and use of Group infrastructure to support business	Continue investing in IT/DX	<ul style="list-style-type: none"> <li>Implementation and utilization of the developed IT and digital infrastructure to transform and improve the business model of each business</li> </ul>
	Human resource development, development, and investment	<ul style="list-style-type: none"> <li>Relationship between a company and an employee = "co-creation partners who enhance value and grow together"</li> <li>Established three policies for human resources strategy                             <ul style="list-style-type: none"> <li>(i) Optimizing Organizational Performance</li> <li>(ii) Activating Employee Engagement</li> <li>(iii) Strengthen HR infrastructure</li> </ul>                             →Pursue synergies between Corporate and Employee Growth by strengthening human resource training and development                         </li> <li>¥6 bn. invested in 3 years for human resource</li> </ul>
	Sustainability Management	<ul style="list-style-type: none"> <li>Concrete promotion of environmental measures to achieve KPIs</li> <li>Strengthened CSR structure and promoted human rights DD, D&amp;I, and health management</li> <li>Reinforcing and further promoting the system of regional co-creation activities</li> <li>Quantitative monitoring of the results of initiatives and disclosure of information to improve the level of initiatives</li> </ul>
v. Strengthen initiatives for "Management Conscious of Cost of Capital and Stock Price"	Target of cost of shareholders' equity and ROE	<ul style="list-style-type: none"> <li>cost of shareholders' equity: 6.6%, ROE: FY2027 6.6% over, FY2031 8% over</li> </ul>
	Shareholder returns	<ul style="list-style-type: none"> <li>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</li> <li>Dividends: Increased to ¥40 per share (started from FY2025)</li> <li>Acquisition of treasury stock: Scale of ¥30 bn. in 3 years</li> <li>Total payout ratio (including acquisition of treasury stock) to be approximately 60% for cumulative period</li> </ul>
	C/F Allocation	<ul style="list-style-type: none"> <li>Utilize cash generated from asset sales, etc. for M&amp;A, etc.</li> <li>Build B/S in line with the targeted business portfolio and maximize synergies</li> </ul>
	Expand the shareholder/investor base and improve communication	<ul style="list-style-type: none"> <li>Promoting Dialogue with the capital market</li> <li>Enhancement of shareholder benefits and introduction of selection system</li> <li>Implementation of measures to expand fan shareholders</li> </ul>

# III. Mid-term Management Plan FY2025-2027

## -2. Targets

▶ Aiming for operating profit of ¥32 bn. and ROE 6.6% over in FY2027

		FY2024 Amount	FY2025 Forecast	FY2027 Target	Consolidated	FY2024 Amount	FY2025 Forecast	FY2027 Target
(Unit: 100 million yen)								
Department Stores Business	Gross sales	5,771	6,142	6,600	Operating profit	262	265	320
	Operating profit	196	223	250				
Supermarket Business	Gross sales	4,256	4,449	4,530	ROE	8.5%	9.6%	6.6% over
	Operating profit	71	98	115				
Shopping Center Business	Gross sales	321	380	370	ROE (Actual*)	5.1%	5.1%	-
	Operating profit	32	33	25				
Other	Gross sales	390	655	860	ROIC	4.7%	4.7%	5.9%
	Operating profit	▲0	▲3	10				
Total	Gross sales	10,739	11,625	12,360	*Excluding extraordinary gains such as asset sales and tax effects			
	Operating profit	262	265	320				

※Operating profit by segment under the new standard (revised recording of management guidance fees paid by subsidiaries to the Company)

### Continue to invest in growth, focusing on growth areas and planting seeds for the future

#### ■ Priority of investments

##### ① Stores and business facilities

Active investment in Hankyu Main Store, focused investment in department store remodeling, remodeling of food supermarkets and resumption of store openings

##### ② IT/DX

Investments focused on business applications such as customer communication, customer data utilization, and business efficiency

##### ③ R&D

Upfront investment in labor savings and development of new revenue sources

##### ④ Renewal investment

Minimal investment in equipment, system upgrades, and repairs

\* Invest an amount in line with operating cash flow within a range based on EBITDA interest-bearing debt ratio of 2x for each fiscal year

#### ■ Investment plan: ¥95 bn. in 3 years (FY2025: approx. ¥32 billion, FY2026: ¥38 billion, FY2027: ¥25 billion)

Domestic Customers and Store Business	Hankyu Main Store remodeling, etc. ¥10.3 bn. Hanshin Umeda Main Store revision renovation ¥2.2 bn., Kawanishi Hankyu remodeling ¥0.8 bn. Renovation of existing supermarkets ¥7.0 bn., opening of new supermarket stores ¥1.7 bn. SC renovation ¥2.4 bn., SC rebuilding start ¥1.2 bn., Hotel renovation in Oi Development ¥1.7 bn. Cart POS demonstration test ¥0.05 bn.	
Overseas Customer Business	Ningbo Hankyu remodeling ¥8.7 bn.	Increase in personnel, etc. ¥3.0 bn.
Development of new revenue sources	Expansion and development of Customer service application ¥1.4 bn.	
IT/DX	OMO Digitals (Department Store apps, media & commerce, MD management system, etc.) ¥3.6 bn. Department store MD system and POS etc. ¥2.2 bn., Supermarket POS renovation ¥1.5 bn. Establishment of next-generation network and cloud environment ¥2.1 bn. Utilization of customer data and strengthening of contact points ¥1.0 bn.	

- i. Deepen existing business “Domestic Customers and Store Business”
- ii. Focus on and strengthen Overseas Customer Businesses with high growth potential
- iii. Development of new revenue sources
- iv. Development and use of Group infrastructure to support business
- v. Strengthen initiatives for "Management Conscious of Cost of Capital and Stock Price"

# III-4-i. Department Store Business -Strategies for Key Customers and Hankyu Main Store Remodel

**Expansion of overseas and domestic wealthy customers and domestic prime customers,  
Maximization of lifetime value**

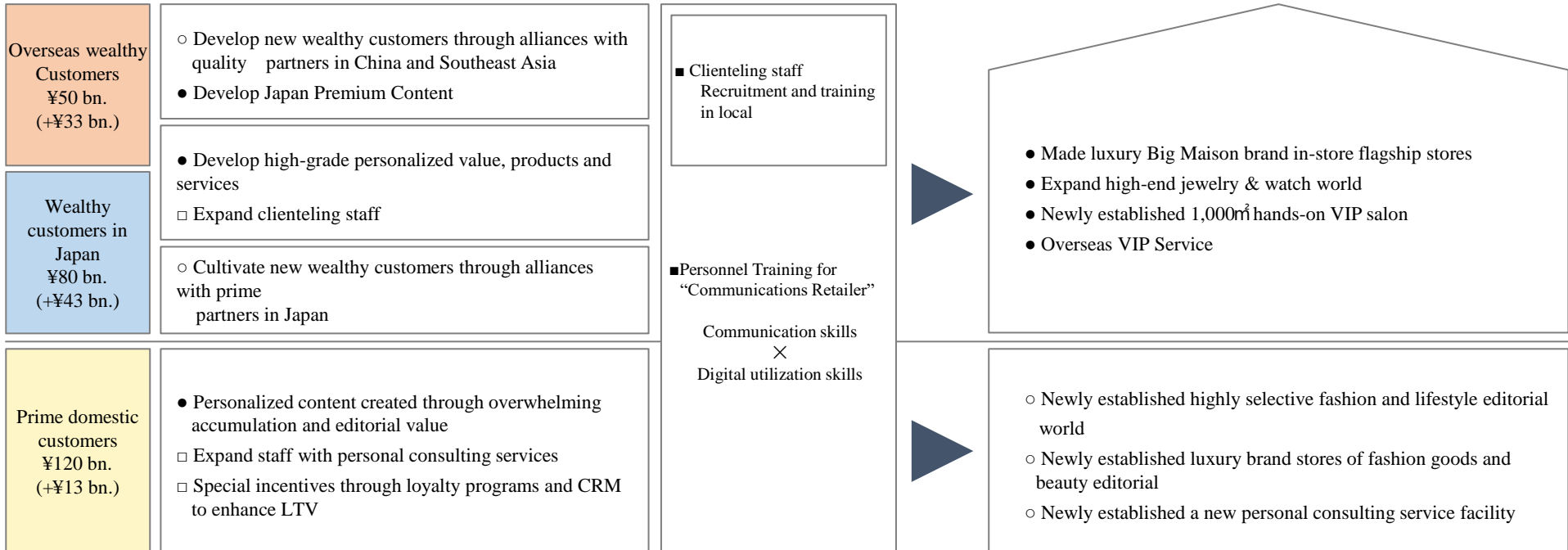
- **Cultivation and customerization of wealthy customers in Japan and overseas, and promotion of content development**
- **Remodel Hankyu Main Store into a “Global Department Store”**

**-Customer Strategy-**  
Maximize LTV of key customers  
(Expansion of overseas and domestic wealthy customers and domestic prime customers)

- Customer cultivation      ● Content development
- Personal Communication    ■ Human resource development

**-Key Initiatives-**  
Remodel Hankyu Main Store for upscaling into a “Global Department Store”

Sales ¥400 bn. (+¥86 bn.)  
Total investment: ¥12 bn. by FY2027



Department Store Sales ¥692 bn. (+¥97 bn.) = Domestic sales ¥550 bn. (+¥36 bn.) + Overseas ¥142 bn. (+¥62 bn.) \* Amounts indicated are sales targets for FY2027 (compared to FY2024)

# III-4-i. Department Store Business -Customer Strategy for Communication Retailer

## Develop contact points and contents and maximize lifetime value through digital and real communication using customer data

### ■ Implementation and materialization of customer strategies

#### Deepen relationships with customers through communication

- Developing our own unique and attractive contents
- Utilization of infrastructure such as new reservation system (2024) and department store applications (2025)  
(Target number of identified customers for FY2027: 3.3 million; target number of app customers for FY2027: 1 million)
- Launch a new loyalty and CRM program exclusively for app customers

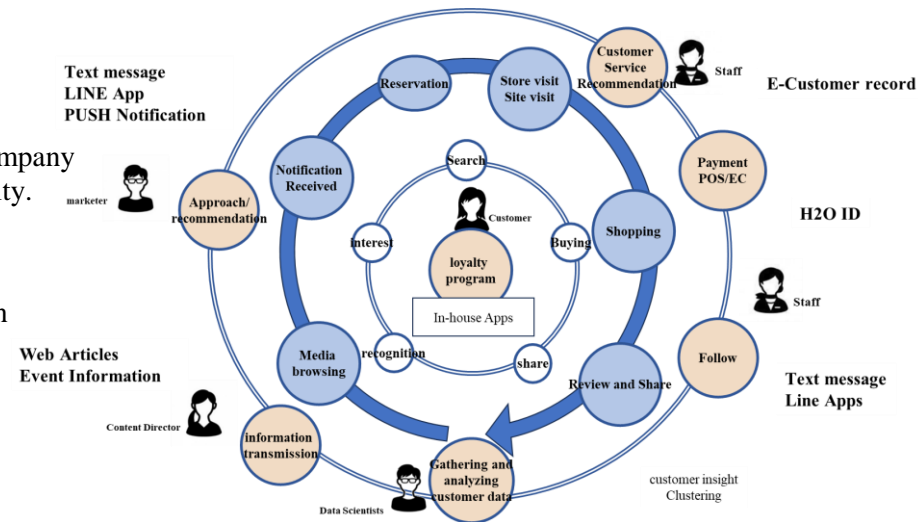
#### Promoting engagement sales

- Gain a deeper understanding of customers by acquiring buying and behavior data and combining it with psychological data to provide personalized proposals tailored to each individual customer.
- Developing various services and experiences in addition to proposing goods

### ■ Construction of customer data utilization system

Establish a system to utilize customer data to keep customers connected with the company through various contact points, not only in the stores, and to increase customer loyalty.

- "E-Customer record"  
Provide a personalized customer experience beyond the store or sales floor by inputting customer data, such as preferences and other qualitative information obtained during customer service, based on the customer data centralized by the integrated customer base.
- Other systems such as Voice of the Customer (VoC) utilization systems, etc.



## Increase store profitability by strengthening ability to attract customers and reviewing business structure

### ■ Hanshin Umeda Main Store Revision and Renovation

Maximize earnings in Umeda, Osaka by strengthening customer attraction and reviewing the business structure, coexisting with Hankyu Main Store

- Improve Food World on the 1st floor, which is highly favored by customers, centered on the “Food Festival Terrace Terrace”, to create a buzz and attract more customers.
- Introduce large-scale specialty stores with high customer attraction power to improve profitability and promote store-wide buying behavior
- Increased profitability by converting the backyard into a sales floor and introducing several stores specializing in health and beauty services that customers are highly attracted to
- Significant reduction of in-house sales floor, Conversion to a small-staff operation model through the introduction of specialty stores, Expanded customer service across brands and categories
- Total investment in FY2026 ¥2.5 bn.

### ■ Remodeling to Kawanishi Hankyu Square

Restructure stores to target families in 30s and 40s, and shift to a business structure that will continue to earn stable profits

- Combine Department Store elements with specialty stores that can attract customers and improve competitiveness in collaboration with neighboring commercial facilities.
- Reviewed store operation model by conducting low-cost operations and attracting top-quality specialty stores, including drastically reducing the size of in-house sales areas and eliminating events
  - ▶ “Remodeling to Square”
- Creating a place for gathering and liveliness by making a park in front of the station in collaboration with the local government.
- Total investment in FY2026 ¥1.2 bn.



ASTE Kawanishi 1st floor plaza: Image of the renovated plaza



## Expanding customer contact points by leveraging the strengths of Department Store service initiatives aimed at market development

- ▶ To diversify earnings, cultivate revenue sources not limited to sales margins by leveraging the resources of existing businesses
- ▶ Consolidating knowledge through a new cross-functional organizational structure. Support and promote the project.

### ■ Sweet Moving Sales

- Mobile vending trucks offer approximately 30 brands of sweets from the department stores to customers who cannot visit department stores due to time and distance limitations
- Received high support from senior care facilities and suburbs, etc., strengthening content and expanding sales channels
- Long-term goal is to develop franchises nationwide  
Targets: sales volume of ¥8.0 bn, profit of ¥0.4 bn, and 200 vehicles



### ■ Cake delivery

- Manufacturing and retail frozen cake delivery service that delivers nationwide is expanding its sales channels by developing its own products and services.
- Target to return to profitability by the end of FY2027, with long-term goals of ¥7 bn in sales and ¥ 1.0 bn. in profit.

Other new services (retail media, dress rental, condominium concierge) to be launched

# III-4-i. Supermarket Business

## Establish a solid business foundation through business integration and business reforms

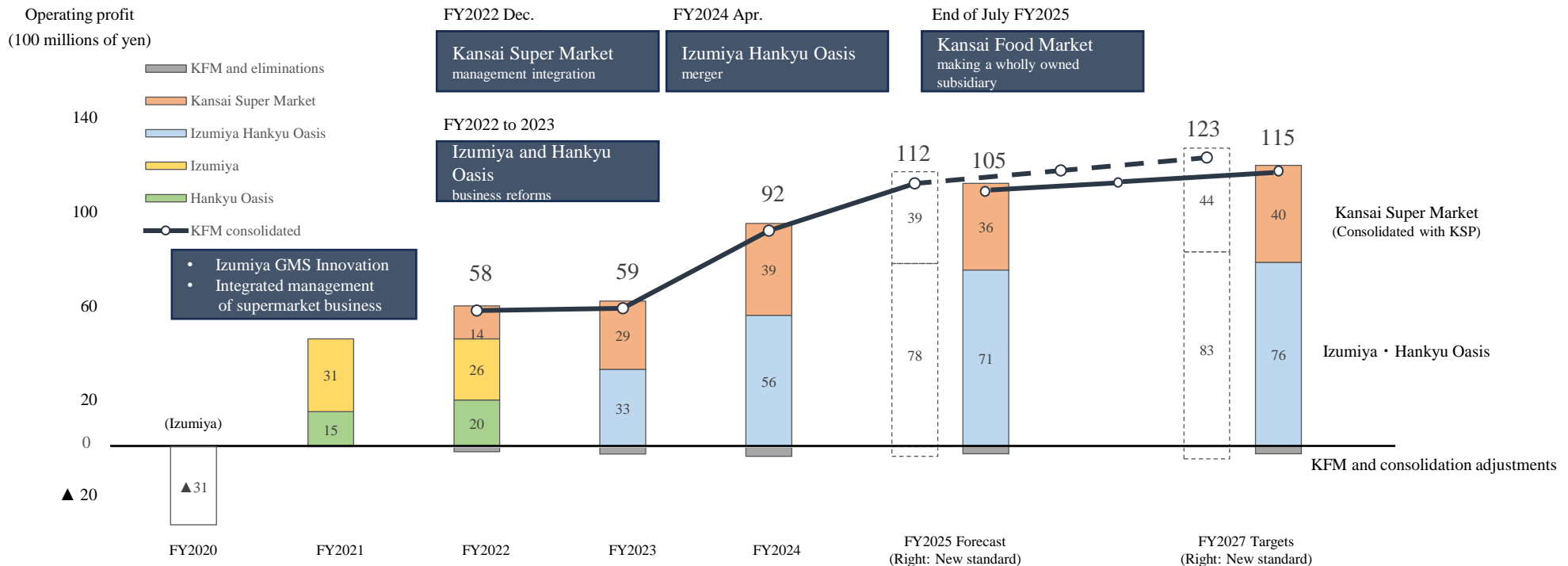
### Promote business integration of four supermarkets, reap the benefits, and strengthen competitiveness in the area

#### Building Foundations

- Expanded to become one of the largest supermarket groups in the Kansai region through business integration with Kansai Super Market
- Strongly promote business reforms at Izumiya • Hankyu Oasis to improve profits; merger of Izumiya and Hankyu Oasis
- Business integration with Kansai Super Market starts


#### Realization of synergies among the 4 food supermarkets

- Made Kansai Food Market a wholly owned subsidiary
- Accelerate integrated management and maximize synergies
  - Promote business integration and reap benefits at 4 food supermarkets
  - Organize store positions and roles of 240 supermarkets, and develop price-appealing supermarkets



※New standard = Revised recording of management guidance fees paid by subsidiaries to H2O Retailing

- ▶ Continued to expand business reforms, such as standardization of operations and integrated management of four food supermarkets including Kansai Super Market.

<ul style="list-style-type: none"> <li>• Izumiya</li> <li>• Hankyu Oasis</li> <li>• Qanat</li> <li>• H2O food Group</li> </ul>	<ul style="list-style-type: none"> <li>• Integration of Merchandise Buying / Integration of sales planning / Establishment of a logistics system linked to the efficiency of store operations and the efficiency of center operations / Standardization of store shelf allocation / Integration of MD core systems / Review of labor cost structure → Significant profit improvement through reductions in store labor hours and review of work styles</li> <li>• Integration of sales headquarters and head office functions in Apr. 2021; merger of IZUMIYA and Hankyu Oasis in Apr. 2023; system integration in Oct. 2023</li> </ul>
<ul style="list-style-type: none"> <li>• Kansai Super Market</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to improve competitiveness and productivity of stores</li> <li>• To integrate business operations, start considering the comparison and analysis of business contents, unification of product buying and logistics, strengthening SPA, joint planning and sales promotion, joint bidding for consumption goods, sharing of education and training systems, etc. from FY2024</li> </ul>
	
<p>4 supermarkets</p>	<ul style="list-style-type: none"> <li>• Reorganized the positions and roles of 240 supermarkets and starting development with a new store format, developing price-appealing supermarkets and strengthening PB products</li> <li>• Integration of sales headquarters and head office functions has been completed; systems will be integrated by FY2027, and an integrated logistics plan will be developed</li> </ul>

- ▶ Manufacturing companies : Further strengthening of functions as a group SPA supporting supermarkets
  - Strengthen competitiveness through joint development of original products in manufacturing and sales
  - Enhancing the scale and production management system as a manufacturing business through business integration



- Further business expansion
- Utilize central kitchen function of manufacturing to improve store productivity  
(Strengthen delivery of semi-processed products, out-packaged products, and baked bread)

- ▶ Delivery companies: After moving to the new center, the target was not achieved, so member services, delivery system, etc. were reviewed.

## Establish a profitable structure by quickly exiting the former GMS Strengthening activities to connect with local communities and implementing steady capital investment

### — Situation of the Company —

- Split off from Izumiya in 2020, and convert directly-operated sales areas such as apparel and housing into tenants within two years to complete the conversion to a shopping center
- At the same time, promote closure of unprofitable stores to establish a profitable structure

### ■ Basic Policy and Business Strategy: Actively engage in activities that connect with local residents under the theme of living with flowers, music, and festivals

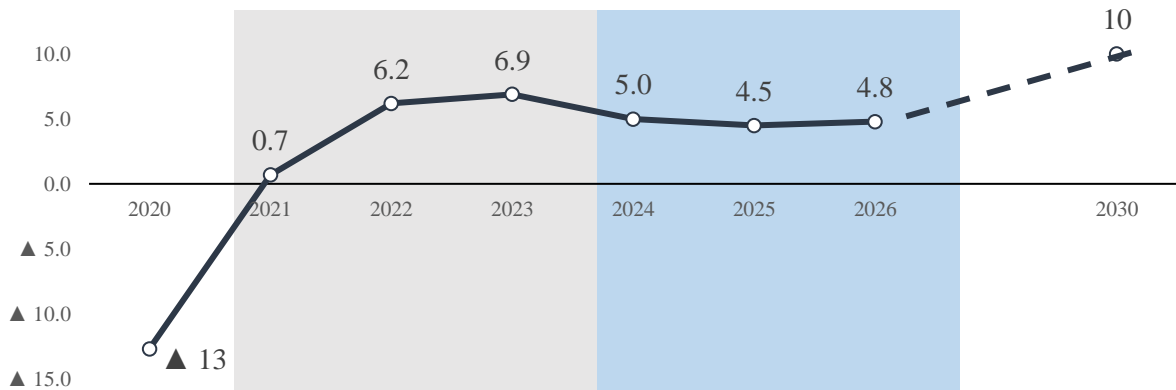
<p><b>Tenant and real estate business</b></p> <p>Improved occupancy rates by strengthening tenant attraction through a cross-group leasing structure</p>	<p><b>Speciality store business</b></p> <p>“i-closet” (directly- managed clothing sales floor) shifted from price to value appeal, moving away from the old GMS-type sales floor.</p>	<p><b>Events and events business</b></p> <p>Improved plot occupancy rates by holding local product exhibitions and other events in collaboration with local governments</p>	<p><b>New businesses</b></p> <p>Food truck business aims to have a total of 300 trucks (10 in-house and 290 by subcontractors)</p>
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### ■ Investment plan

Investment from FY2025 to 2027 ¥5.6 bn.

- Investment for renovation ¥0.3bn  
Investment for repair ¥1.0bn in each fiscal year
- ¥0.2 bn. in FY2026 and ¥1.0 bn. in FY2027 are planned as investment for rebuilding aging stores that have high potential to sustain as commercial stores

Operating profit (100 millions of yen)



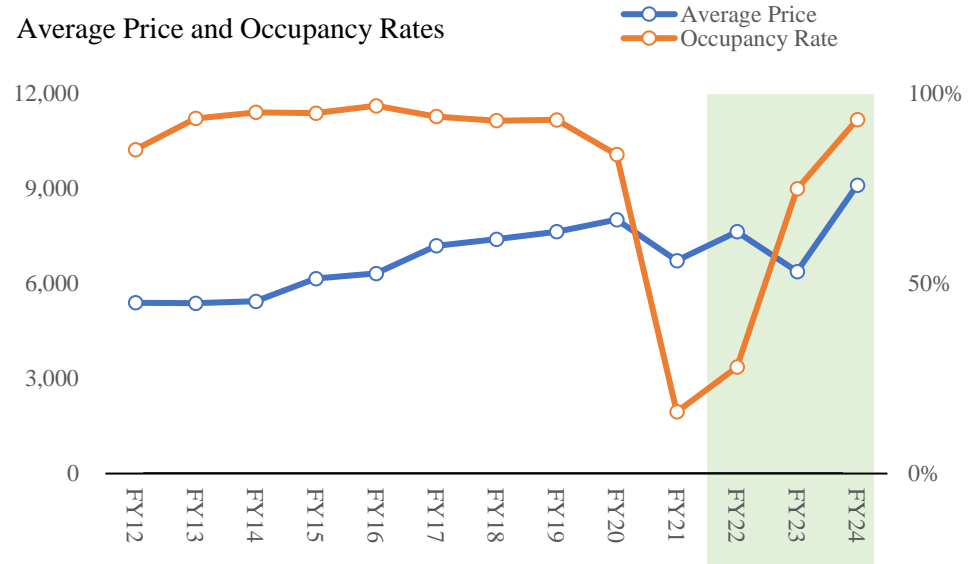
**Established as a profitable business earning over ¥2.0 bn. through dynamic pricing and labor-saving measures**  
**Continued to implement measures to improve competitiveness and invest in refreshment**

— Business Environment —

- Room rates exceeded the pre-COVID-19 level due to soaring labor costs and rising prices.
- Occupancy rates approach pre-COVID-19 levels as business, domestic tourism, and inbound demand recover

— Company's situation —

- Operating profit reached a record high of ¥2.7 bn.(FY2024)
- Shift to web-based reservations by travel agencies, etc., increasing sales channels to various customer and increasing occupancy rates
- Change from fixed price system to dynamic pricing (variable price system), and room rate will exceed the pre-COVID-19 level
- Integrated the front desks of the single and twin pavilions, and introduced a self check-in machine and self cloakroom to save labor



■ Investment plan

Planned renovation, maintenance and repair of buildings and facilities in response to changes in the internal and external environment

- Investment of ¥2.7 bn. from FY2025 to FY2027, repairs of exterior walls, renovation of guest rooms at single buildings, etc.
- Analyze market needs and plan for renovation of the twin pavilions in FY2028 and beyond

## Promoting labor-saving and energy-saving through alliances and open innovation

▶ Promoting initiatives to utilize digital and AI technologies to resolve labor shortages in store operations, etc.

### ■ CART POS “Skip Cart ®”

- Customers can make purchases without waiting in line at the cash register, and stores can reduce
  - the amount of time spent at the cash register.
  - Demonstration test at two supermarkets from Sep. 2024, aiming to introduce the system to multiple stores.
  - Investment ¥0.1 bn., in cooperation with Retail AI, Inc. and Toshiba Tec Corporation
- \* Considering digital marketing with cart-mounted displays, etc.



### ■ E-shelf tag system

- Elimination of paper shelf tag replacement work reduces operational time and the risk of mislabeling
- Demonstration test to begin in fall 2024, aiming to expand to all food supermarkets.
- Improved effectiveness of sales planning by improving the accuracy of chain operations

### ■ Generative AI

Identified applicable operations and began trial implementation, such as utilization for meeting records and event planning and design

▶ H2O KU Carbon Neutral Design contributes to energy conservation

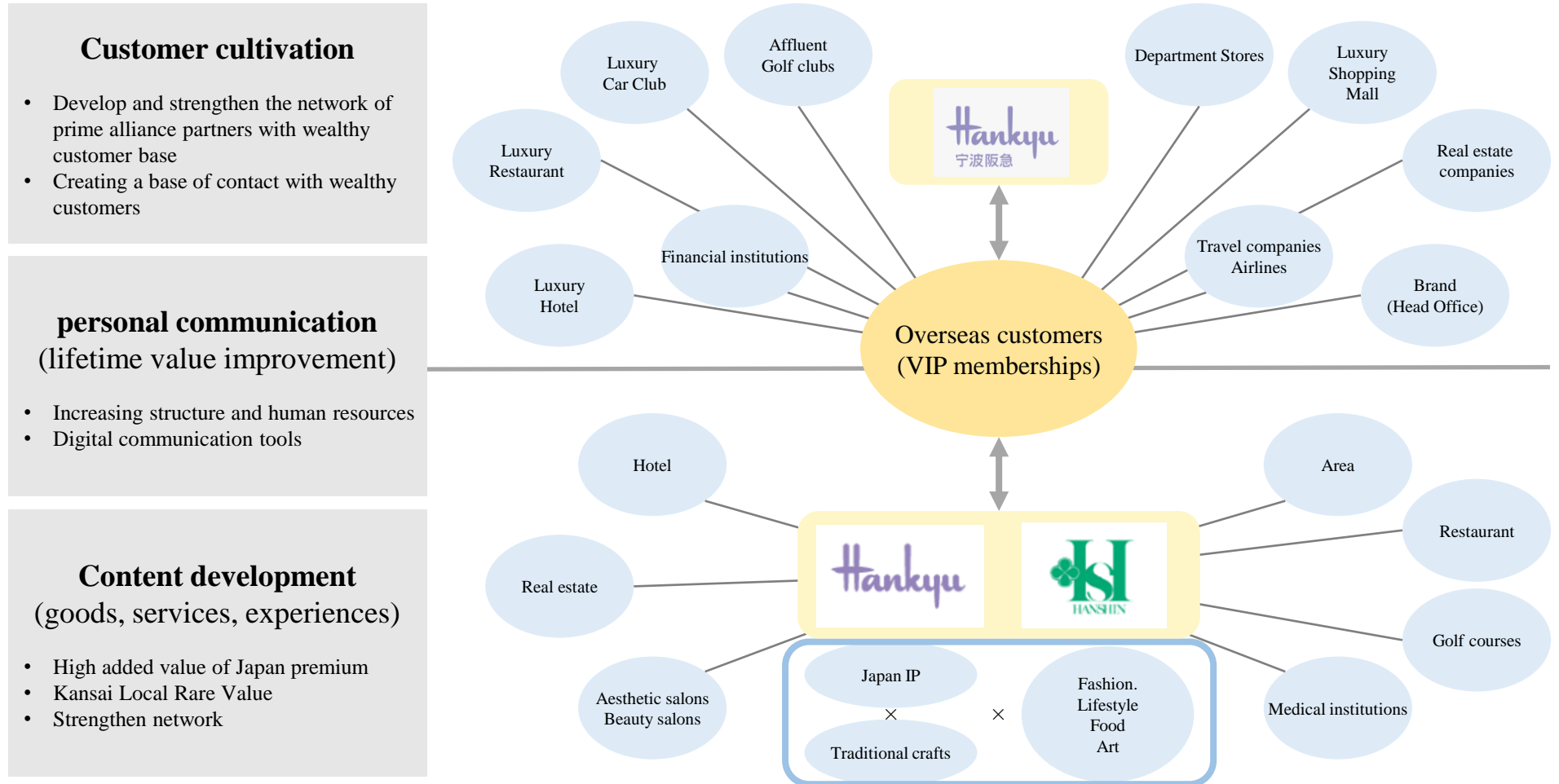
- Air conditioning energy management business utilizing the "Smart Air Conditioning" theory, human resource development through attendance at the reskilling program
- Combination of methods to achieve large energy savings by installing AI Smart Air Conditioning System and methods to achieve savings with little investment, such as manual operational improvements and modification of existing facilities.
- Expand consulting business to Department , Supermarket, and Shopping Centers to reduce energy costs with a target of ¥0.7 bn. per year by 2030

\* Expand business to commercial stores outside the group

- i. Deepen existing business “Domestic Customers and Store Business”
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# III-4-ii. Focus on and strengthen overseas customer businesses with high growth potential

- Strengthening of the organization, human resources, and network to realize a cycle of customer cultivation, personal communication, and content development.
- Targets: FY2027 Sales of wealthy 3x (¥17.0 bn. → ¥50.0 bn.) and Sales of regular tourists (¥63.0 bn. → ¥92.0 bn.)





## III-4-ii. Focus on and strengthen Overseas Customer Business

### ► Strengthening initiatives in the areas of customer cultivation x personal communication x content development

<p>Customer cultivation</p>	<ul style="list-style-type: none"><li>• Target: Overseas VIP memberships 3x in FY2027 (20,000 → 60,000)</li><li>• Developing prime alliance partners with wealthy customer base (Financial institutions, luxury car clubs, travel agencies, airlines, etc.)</li><li>• Develop new department stores and high-end shopping malls holding VIP membership organizations and establish a system for reciprocal customer transfers</li><li>• Enclose VIP customers through introducing them from existing overseas VIP customers and in cooperation with Ningbo Hankyu.</li><li>• Creating a base of contact with wealthy customers</li></ul>
<p>Personal communication (lifetime value improvement)</p>	<ul style="list-style-type: none"><li>• Significantly increase the number of staff attending to overseas VIP customers (Human resources training, development, and recruitment)</li><li>• Development of personal communication tools with Southeast Asian customers (Digital VIP Cards, Major SNS Linkages in each country, Concierge systems)</li></ul>
<p>Content development (goods, services, experiences)</p>	<ul style="list-style-type: none"><li>• Develop special branded products, attractive regional products, and original products utilizing Japan IP</li><li>• Development of experiential content in collaboration with local communities (Kyoto, Osaka, Nara, Senshu area, Awaji Island, Seto Inland Sea area, Kanazawa, Maniwa)</li><li>• Service development in collaboration with local Kansai restaurants, nearby hotels, real estate, medical institutions, etc.</li></ul>

## Ningbo Hankyu became a subsidiary and fully utilized as a business base for overseas customers.

### — Status of Ningbo Hankyu —

- Opened in April 2021, the store is off to a much more favorable start than expected, and is securing its position as the No.1 store in the Ningbo area.
- Luxury brands on the 1st floor performed well with approximately 70% share of total store sales
- Local fashion and accessories fell short than expected, but cosmetics, restaurant, and food were strong
- Consumption, especially among upper class, is currently slowing down due to the sluggish Chinese economy since 2H of FY2024



### ■ Making Ningbo Hankyu a Subsidiary

- Becoming a subsidiary from July 2024, with positive effects expected from FY2027 forward due to goodwill and current consumption conditions.
- Remodeling to strengthen response to affluent customers to establish the No.1 store in the area (to accommodate the completion of the nearby large facility in 2026)  
Expansion of luxury brands, jewelry, and mode fashion, upgrading of restaurants, establishment of VIP lounges, etc.
- Investment FY2025 to 2027: 430 million yuan

### ■ Future Development in China

- High expectations from the Chinese affluent for the brand value of the Hankyu Main Store, which is highly recognized in Zhejiang Province, based on the attractiveness of the Japanese product lineup and services, and Japanese content.
- The world's affluent population is growing, especially in China, and there is potential for growth in the future.

→ Considering business development adapting the department store's brand and content to the needs of Ningbo Hankyu's affluent and prime customers

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## Frequent contact with consumers and collection of data through food and health-themed apps

### ▶ Continue to launch and develop customer service business

Develop and deploy online-based services that are closely connected to the lives of many people in the Kansai area using these services frequently

#### ■ Food service app “Machi-Uma”

- Test service started in Takatsuki area in May 2023
- Seamlessly connect various experiences such as quickly and conveniently searching for restaurants, viewing and enjoying information, and earning points for visiting restaurants.
- Achieved target with 500 franchised stores and 60,000 registered members (Takatsuki City population of about 350,000)

May 2023



• Testing in Takatsuki area • App improvements and enhancements • Expansion of coverage area

Target for 2030

**Food service app**  
Number of franchised stores  
30,000  
registered members  
3,000,000  
Operating profit  
¥0.8 bn.

#### ■ Health management services

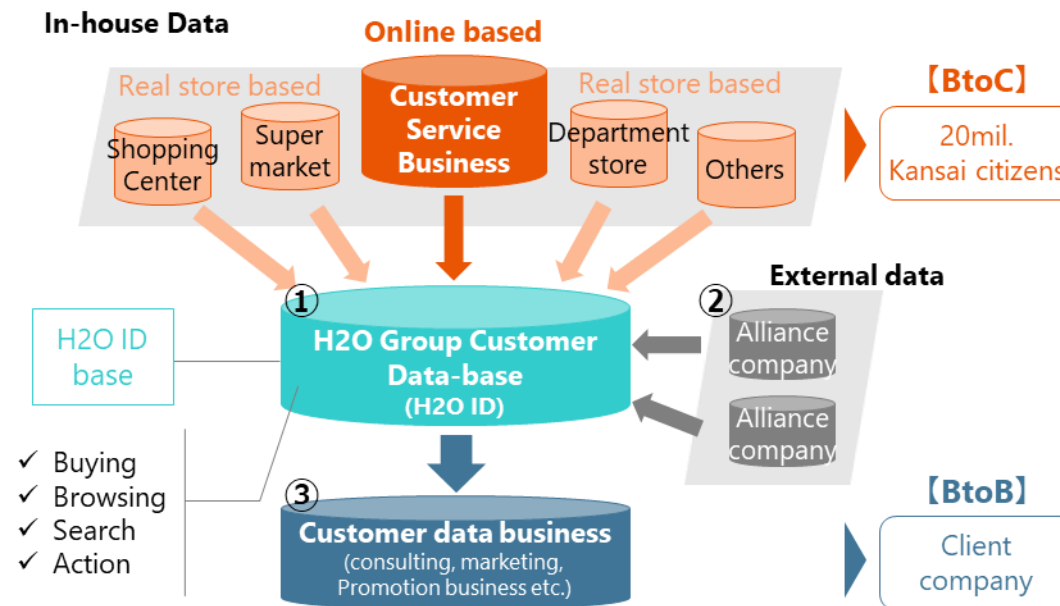
- Planning health management services based on prevention and improvement of lifestyle-related diseases in health care
- Aiming to launch services in 2025

## Aiming to develop business using customer data as a new revenue sources

### ► Launch of Customer Data Business

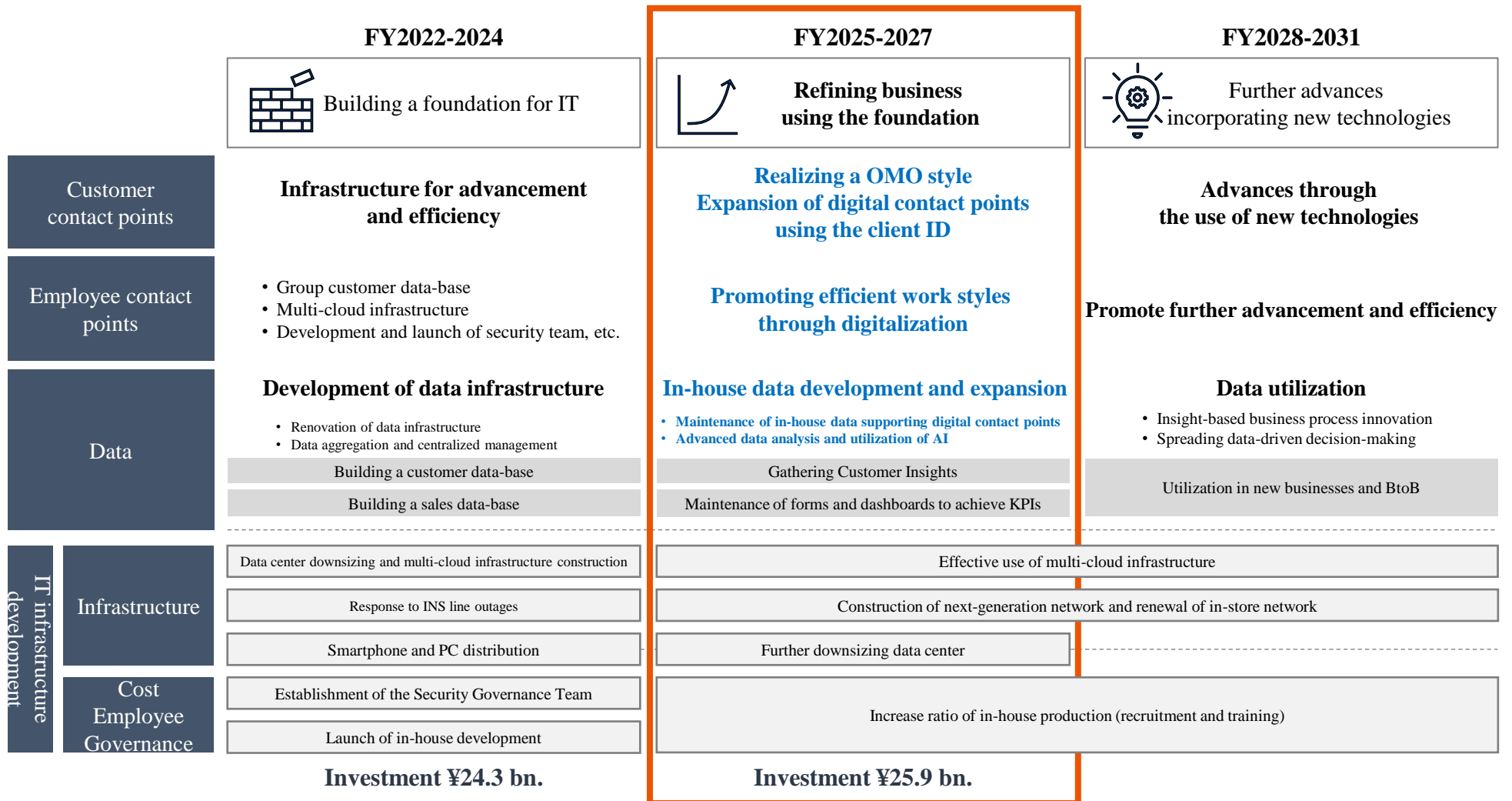
Develop a business that leverages the multifaceted and active customer data obtained from the app, including browsing, search, and actions.

- ① Centralized management and utilizing of all data, including various data obtained from food and health services and buying data at existing stores.
- ② Multiply customer data from external partner companies to increase understanding of individual customers
- ③ Develop data-driven consulting, marketing, and promotion business both internally and externally



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## Implementation and utilization of the developed IT and digital infrastructure to transform and improve the business model of each business



▶ By FY2024, the IT infrastructure has progressed to 80%. Implementation and utilization in business operations will be promoted accordingly.

Theme	Benefits
<p><u>Department Store Business</u></p> <ul style="list-style-type: none"> <li>Establishing a OMO style</li> <li>Customer expansion and content development</li> <li>Promoting understanding of customers</li> <li>Clarify the roles and DX of stores</li> </ul>	<ul style="list-style-type: none"> <li>App provides OMO services, tailored content for customers, loyalty programs, etc.</li> <li>Propose products and services tailored to customers both online and offline through CRM</li> <li>Gathering data through in-store customer service by means of E-Customer record</li> <li>Collect and analyze customer data at multiple points of contact to visualize customer psychology.</li> <li>Expanding the quality and quantity of data and improving the freshness of data by continuing to utilize customer data</li> </ul>
<p><u>Supermarket Business</u></p> <ul style="list-style-type: none"> <li>Strengthening digital contacts</li> <li>Efficiency of store operations</li> <li>Business integration with Kansai Super Market</li> <li>Efficiency of sales headquarters operations</li> </ul>	<ul style="list-style-type: none"> <li>Utilize apps to provide information, link to litta and S-Points to promote usage and expand customer data.</li> <li>Improve the accuracy of target marketing by analyzing and grasping customer preferences and needs</li> <li>Expanding and establishing the renewed MD core system in 2023 to promote operational efficiency and commonality in preparation for business integration with Kansai Super Market.</li> <li>Cost reduction and operation improvement through the expansion of handheld terminals and automated ordering categories using smartphones</li> <li>Build a high-level master and incorporate external data, etc. to improve management and operational efficiency and for analysis.</li> <li>Automatically link data necessary for business operations in the shortest possible time by utilizing data infrastructure</li> </ul>

▶ In the area of data collection and utilization, we will enhance the sophistication of business operations, customer experience and contact points, and management decision-making, and promote the use of AI to search for new insights and improve the efficiency of analytical operations (data quality assurance, data model reconstruction, data governance development, human resource development, etc.)

▶ Strengthen management functions and improve back-office efficiency of the entire group to support business and increase operational efficiency

▶ Reinforced infrastructure, including network and security measures for store digitization, distribution of standard PCs and promotion of zero-trust



## Aiming for a relationship between a company and an employee = “co-creation partners who enhance value and grow together”

- ◆ Formulate a group-wide human resource strategy to support the realization of the Vision and Long-Term Business Plan2030 from the human resource and organizational perspectives

Based on this strategy, implement a variety of human resource measures in a group-wide united manner.

Organizational performance optimization	<ul style="list-style-type: none"> <li>• Training and recruiting of human resources for business development for overseas affluent customers</li> <li>• Training and recruiting of human resources for IT and new businesses</li> <li>• Shift of human resources between and outside of group companies in line with efficiency improvements in existing businesses</li> </ul>
Employees engagement revitalization	<ul style="list-style-type: none"> <li>• Measures to improve engagement in both work (job satisfaction) and life (comfort of work)</li> <li>• Introduce measures that emphasize dialogue to get to know the company and its employees</li> <li>• Development and group application of various systems that enable independent career options for employee</li> <li>• Development of group-wide education menu and system</li> <li>• Various systems that enable diverse employees to work and play an active role, and initiatives to promote the Group's health management</li> </ul> <p>*Promote in combination with Diversity &amp; Inclusion and other sustainability management initiatives</p>
HR infrastructure strengthening	<ul style="list-style-type: none"> <li>• Develop and utilize a cross-group human resources data platform (talent management)</li> <li>• Implement measures to promote intra-group information sharing and communication</li> <li>• Compliance, Expansion of anti-harassment measures</li> </ul>

- **Investment in human capital of ¥6.0 bn. over 3 years (human resources development of ¥4.3 bn, human resources recruitment of ¥0.3 bn, personnel infrastructure development of ¥1.4 bn.)**

## Strengthening the foundation of Sustainability Management and promoting activities unique to the Group Aiming to further promote co-creation activities in areas and enhance sustainability management

### Review of FY2022-2024

- In Apr. 2021, we established the Sustainability Management Promotion Committee, which includes experts, and dedicated departments in each business to rapidly establish the foundation for sustainability management.
- Establishment of Sustainability Management Policy and Materiality
- Formulation and disclosure of human rights policy and CSR procurement policy
- Full-scale operation of area co-creation activities (Senri Central Park, Osaka Forest Circulation Project, Promoting of Food Loss Zero Area Project in Kawanishi)  
Model areas: Kawanishi and Toyono, Senri, and Kawachi Nagano areas  
Comprehensive co-operation agreement: Osaka pref., Kobe, Kawanishi, and Takarazuka in Hyogo pref.
- Climate change, disclosure in line with TCFD
- Set KPIs related to environmental action and diversity



### Plan of FY2025-2027

- Promoting specific environmental actions to achieve KPIs
- Strengthening CSR promotion system and promoting full-scale initiatives integrated with human resource strategies (human rights due diligence, diversity and inclusion, health management)
- Strengthen and further promote the system of area co-creation activities and commercialize from the promotion of sustainability management.
- Dialogue with the area and enhanced communication to the area
- Actively disclose information to quantitatively understand the results of initiatives and improve the level of initiatives
- Joined CGF\* Japan Sustainability Local Group to promote problem solving through partnership building  
\*CGF=The Consumer Goods Forum

► Concrete promotion of environmental measures to achieve KPI

<p>The GHG emission Reduction</p>	<ul style="list-style-type: none"> <li>Promote energy conservation through the use of LEDs and the introduction of AI Smart Air Conditioning, and systematic energy re-generation in each project</li> <li>20% reduction compared to 2019 by 2026, 2030 target: 30% reduction compared to 2019</li> </ul>
<p>► Strengthened CSR promotion system and promoted full-scale human rights DD, D&amp;I, and health management initiatives in line with human resource strategy</p>	
<p>Human rights Due Diligence</p>	<ul style="list-style-type: none"> <li>Identifying Supply Chain Risks (Risk Map)</li> <li>Inform employees, request cooperation from business partners, and produce and utilize videos</li> </ul>
<p>Diversity &amp; Inclusion</p>	<ul style="list-style-type: none"> <li>Promote initiatives for women's activities and create a comfortable work environment</li> <li>Actively accept and promote foreign workers in anticipation of system changes (Supermarket Business)</li> <li>Maintain and improve the employment ratio of persons with disabilities (2.84% in FY2024) (Group companies will secure at least 2.7% of employees with disabilities by FY2027 as required by law)</li> <li>Considering LGBTQ-responsive initiatives</li> </ul>
<p>Health management</p>	<ul style="list-style-type: none"> <li>Ensure 100% health check-up rate (Establish a support system that provides an environment conducive to receiving medical check-up and a period during which medical check-up are available)</li> <li>Expanded coverage of medical examinations for contract and part-time employees beyond what is legally required.</li> <li>Strengthen efforts to support women's life cycle and health (expand health check-up and other items that lead to the early detection of cervical cancer, breast cancer, etc.)</li> </ul>

▶ Regional co-creation activities: Strengthen and further promote the system for activities in Kawanishi and Takarazuka

In the area surrounding Kisera Kawanishi, achieve zero food waste in stores, events, and homes, and build momentum among consumers.

- Challenge Days" is an initiative to increase greenery in the community and think about resource recycling by composting food scraps with composting bags.  
→ In FY2024, the project will expand to Takarazuka City, and furthermore, in collaboration with the Hanshin Umeda Main Store, hold tours where visitors can learn about and experience greenery in the urban area.
- Good! Neighbor! Meetings!" was a "Salvage Party," an opportunity to interact with people in the community by bringing food that is about to expire and improvising recipes to cook with.



▶ Commercialization from the promotion of sustainability management: Senri Central Park Management

Promoting “Deepening Local Community Bonds” as one of the important issues for sustainability management through the Park Business

- Joint venture by participating companies\* in addition to our company to promote new activities and park revitalization by leveraging the strengths of each company.  
\*Lawson Inc., Nomura Co., Ltd., Operation Factory Inc., Urban Research Co., Ltd., Stylem Takisada-Osaka Co., Ltd.
- Highly evaluated by governments and companies for achievements in diverse activities based not on hardware but on software (people and networks)
- Leveraging our know-how and the strengths of our group, create mechanisms for proactive participation by community players using the Senri Central Park as a model, and develop the role of implementing these mechanisms into a business on consignment



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# III-4-v. Strengthen initiatives for “Management Conscious of Cost of Capital and Stock Price” –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

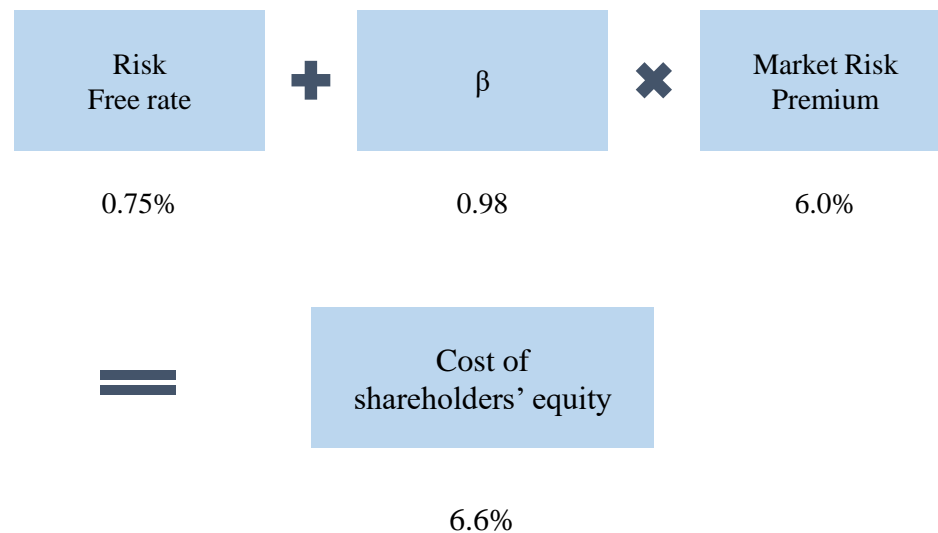
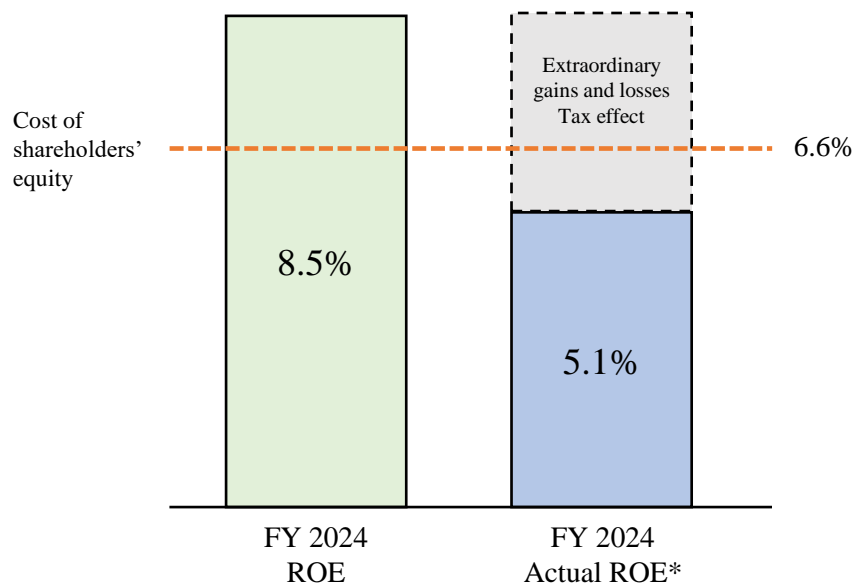
- (i) Clarify growth strategy
- (ii) Enhancing shareholder returns
- (iii) Expand the shareholder/investor base and improve communication

# III-4-v. Strengthen initiatives for “Management Conscious of Cost of Capital and Stock Price” –ROE and cost of shareholders’ equity

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



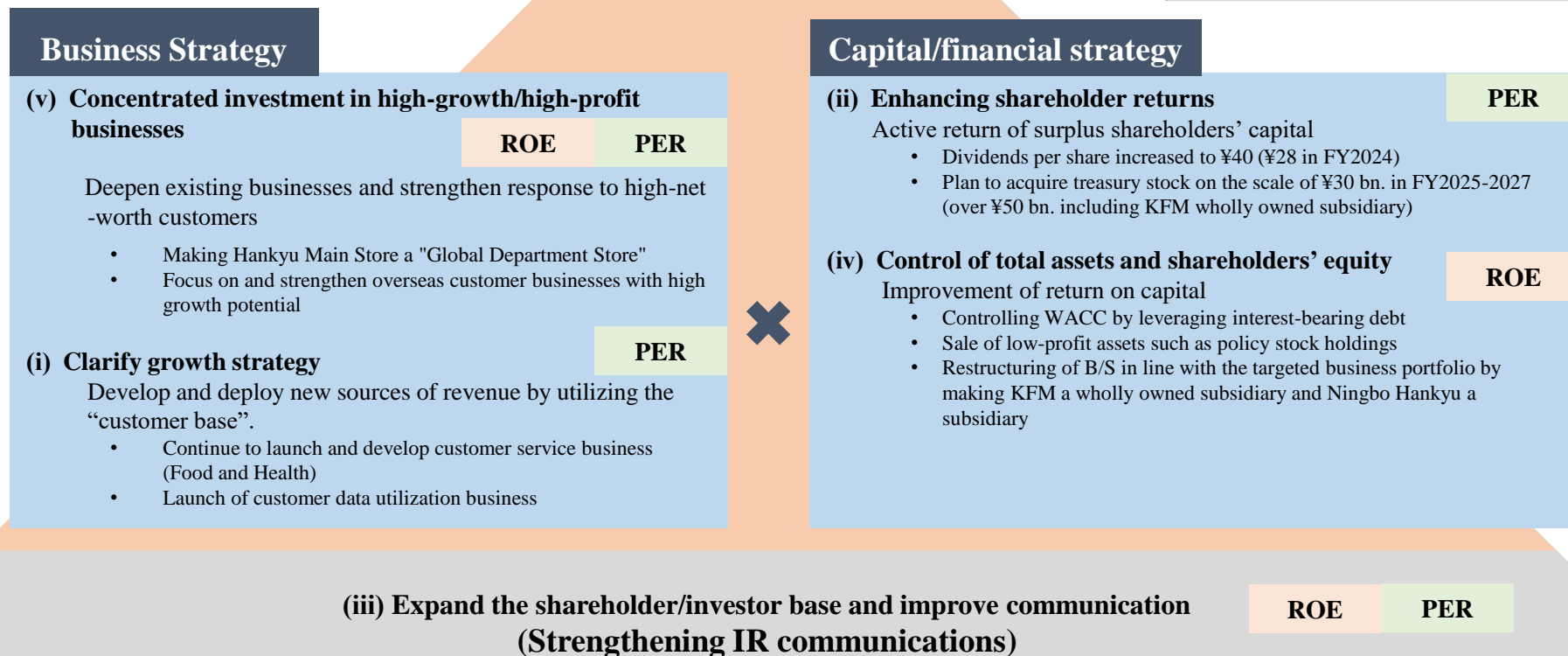
WACC=4.0% (D/E ratio 0.73, cost of shareholders’ equity 6.6%, cost of debt 0.54%)

\*Excluding extraordinary gains such as asset sales and tax effects

# III-4-v. Strengthen initiatives for “Management Conscious of Cost of Capital and Stock Price” –Enhancing Corporate Value and Equity Value

**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





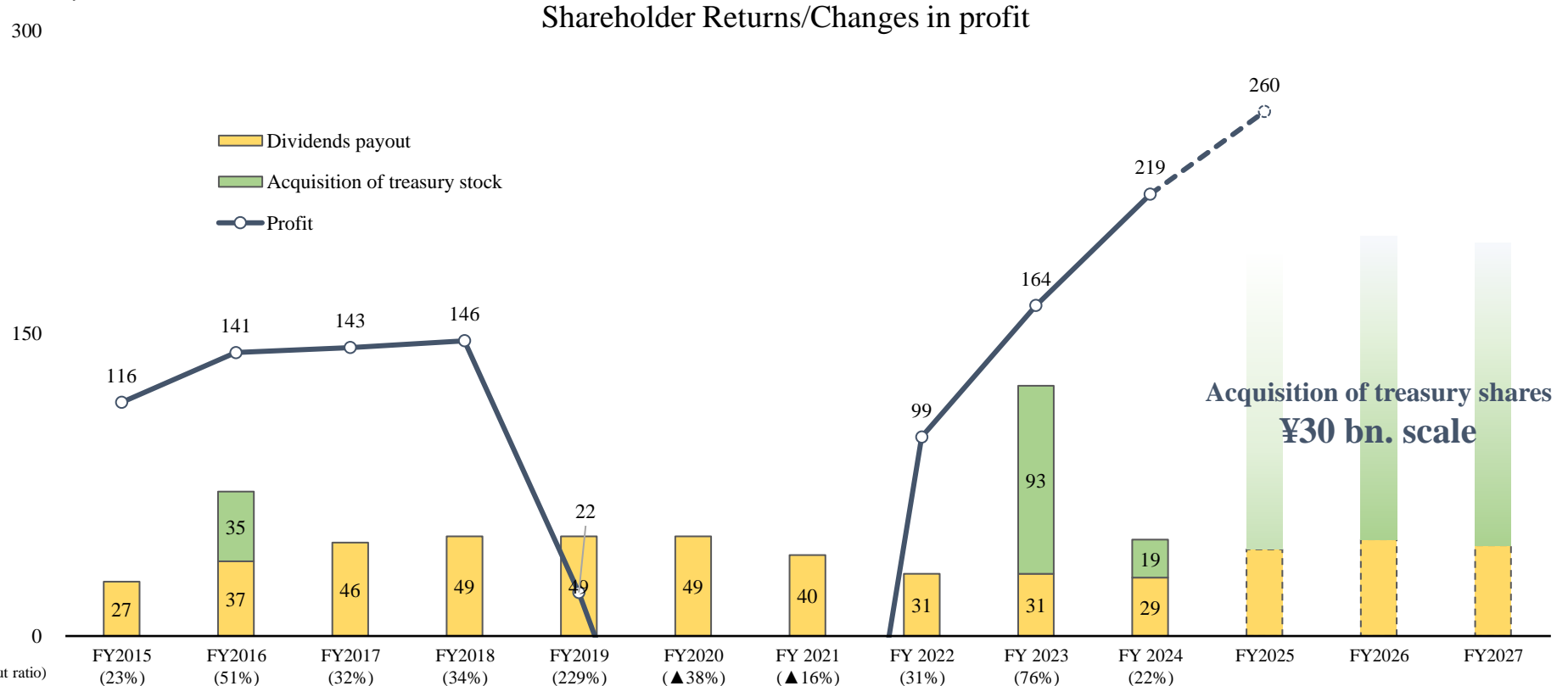
# III-4-v. Strengthen initiatives for “Management Conscious of Cost of Capital and Stock Price” –Shareholder Returns Plan for FY2025-2027

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

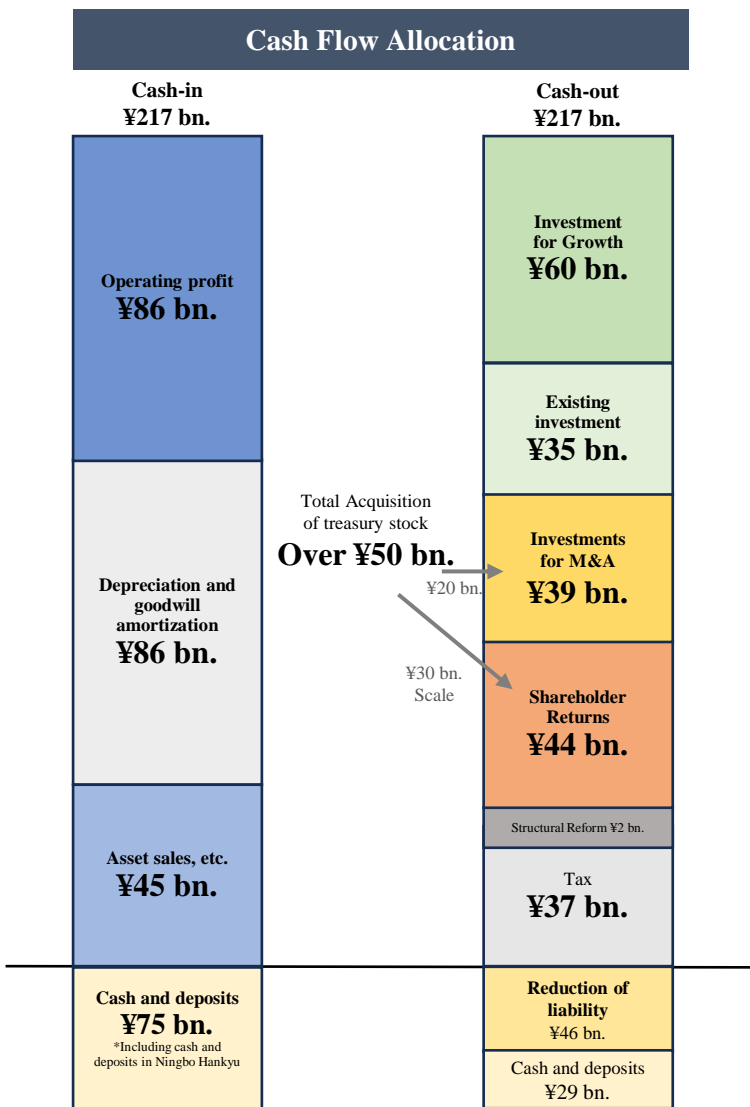
Total payout ratio (including acquisition of treasury stock) to be approximately 60% for cumulative period.

(100 millions of yen)



# III-4-v. Strengthen initiatives for “Management Conscious of Cost of Capital and Stock Price” –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

# III-4-v. Strengthen initiatives for “Management Conscious of Cost of Capital and Stock Price” –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"> <li>Interest-bearing debt ¥170 bn.</li> </ul>
	【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"> <li>Interest-bearing debt ¥170 bn.</li> </ul>
<ul style="list-style-type: none"> <li>Property, plant and equipment ¥290 bn.</li> <li>Intangible assets · Investments and other assets ¥240 bn.</li> </ul>	【Net assets】 ¥290 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"> <li>Interest-bearing debt ¥130 bn.</li> </ul> <p>Secure financial soundness with a target EBITDA interest-bearing debt ratio of 2x</p>
<ul style="list-style-type: none"> <li>Property, plant and equipment ¥320 bn. (+¥30 bn.)</li> <li>Intangible assets · Investments and other assets ¥200 bn. (▲ ¥40 bn.)</li> </ul>	【Net assets】 ¥280 bn. (▲ ¥10 bn.)
	<p>Control through dividends and acquisition of treasury stock</p> <ul style="list-style-type: none"> <li>¥30 bn. in treasury stock (Consider retirement)</li> </ul>

ROE over 6.6%

**Change in non-current assets**

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

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

## III-4-v. Strengthen initiatives for “Management Conscious of Cost of Capital and Stock Price” –Expand the shareholder/investor base and improve communication

**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

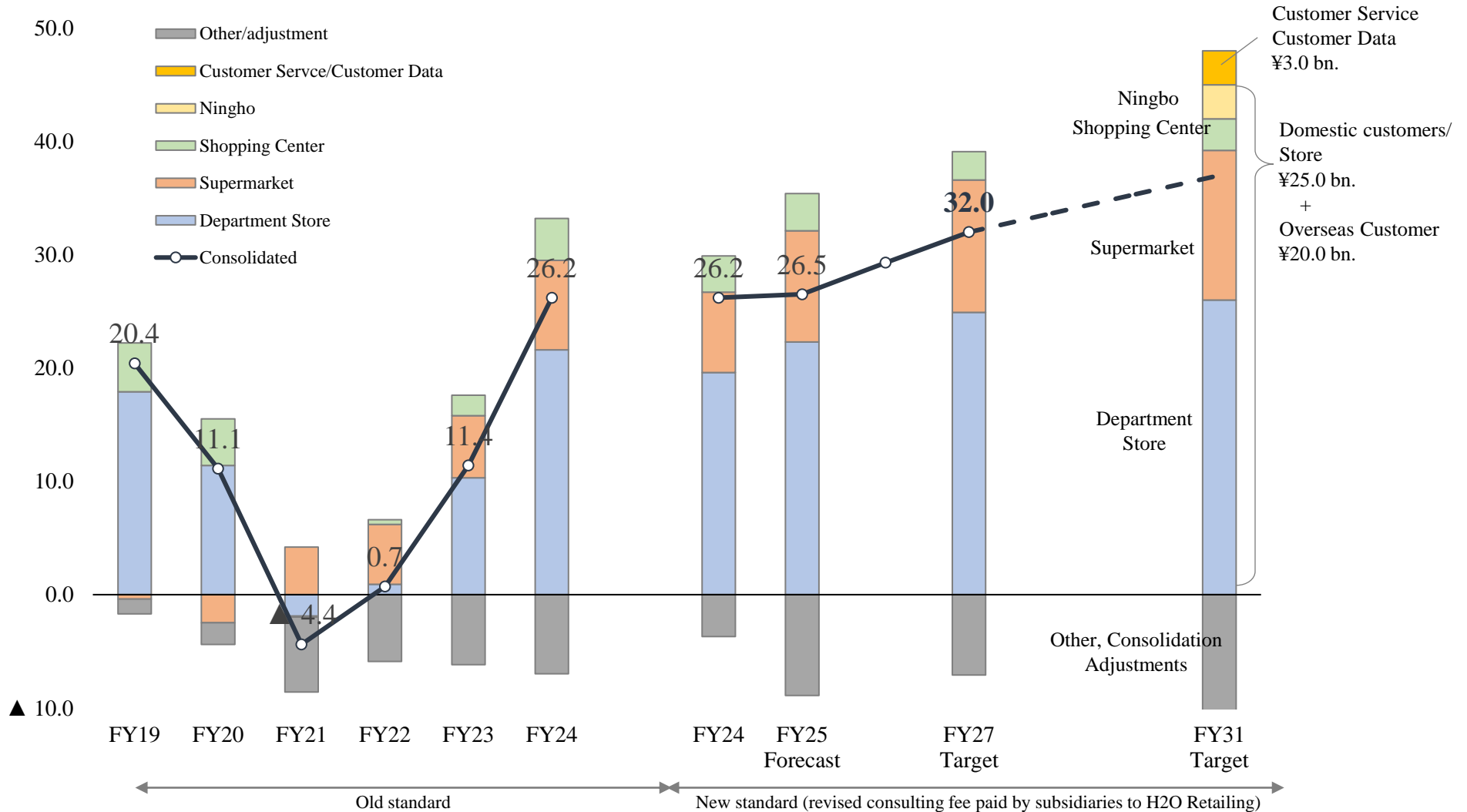
### ■ **Implementation of measures to expand fan shareholders**

- 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

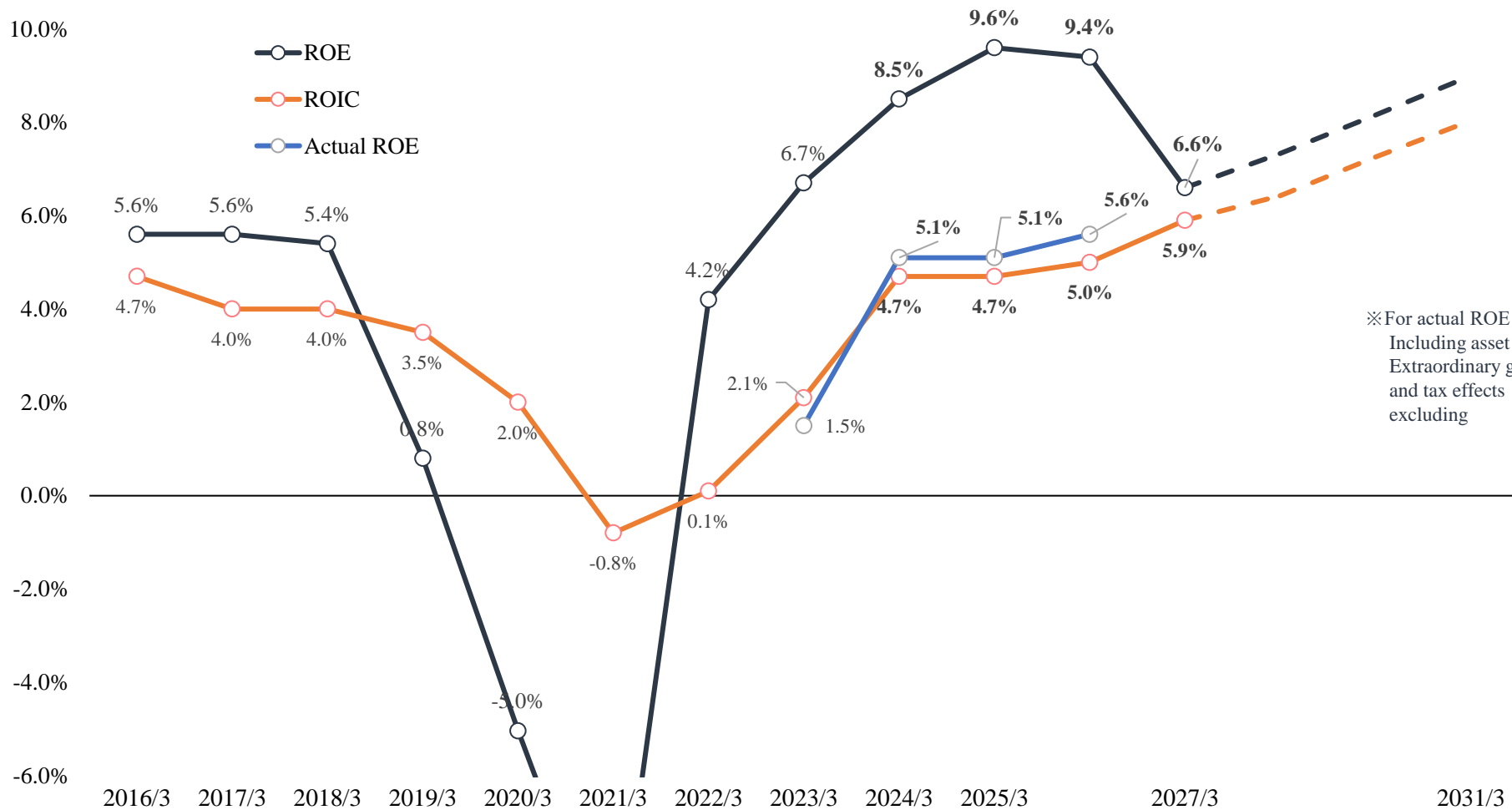
# Targets

▶ Aiming for operating profit of ¥32.0 bn. in FY2027 and of ¥35.0-40.0 bn. in FY2031

(Billions of yen)



▶ Aiming for ROE 6.6% over in Mar. in FY2027 and ROE 8% over in Mar. in FY2031





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