

2Q of FY2021 Presentation Materials



H2O RETAILING CORPORATION

I . Consolidated Financial Results

II . New business structure targeting post-Covid-19 era
~The revision of Business Plan GP10 Stage II Phase 2~

- 1 . Consolidated Financial Results
- 2 . Results by segment
- 3 . Department store business
- 4 . Supermarket business
- 5 . Extraordinary income/losses
- 6 . Forecast of FY2021

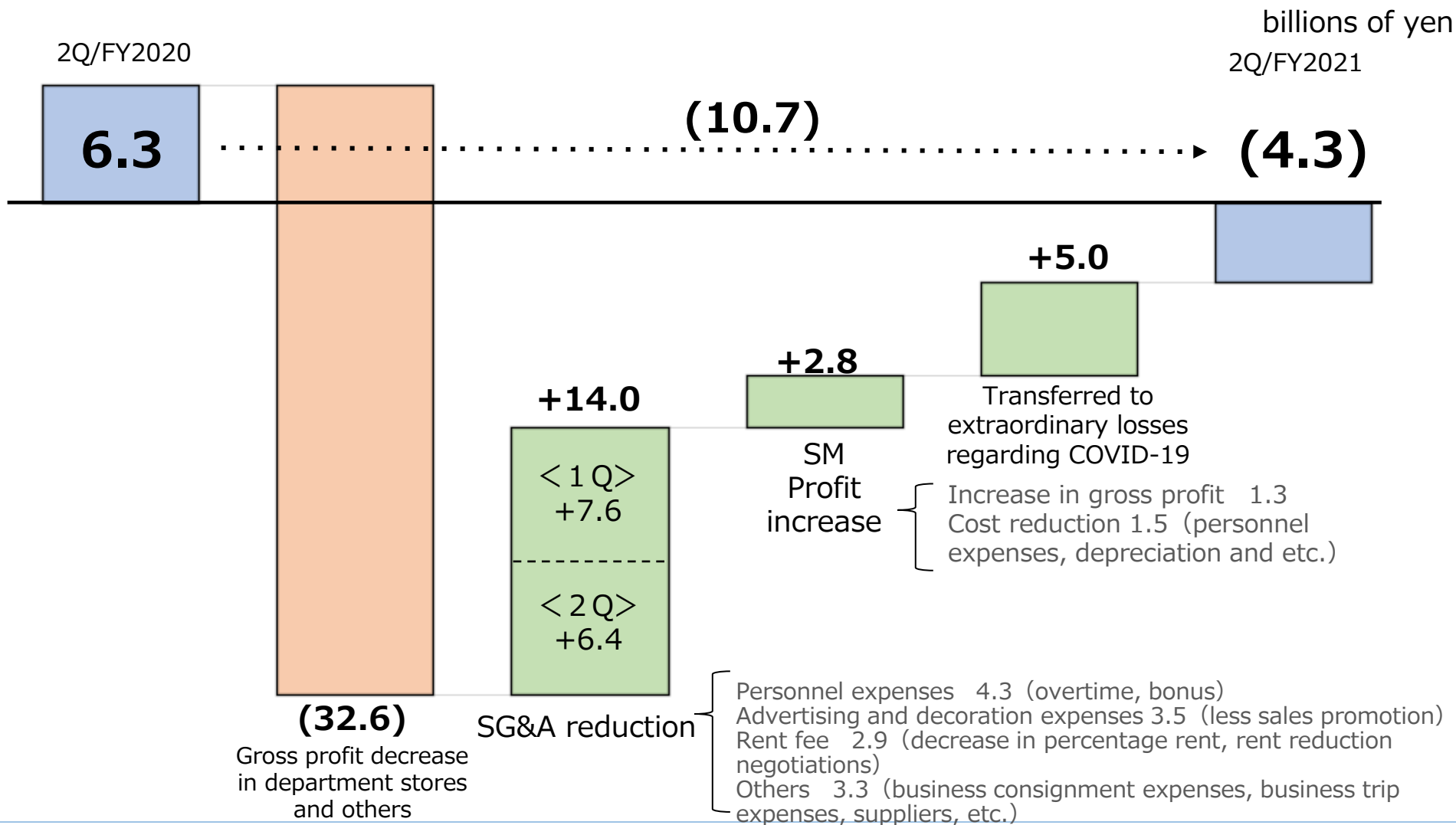
I – 1. Consolidated Financial Results

- ▶ profit decrease rate slowed in 2Q due to sales recovery of department store which reopened at the end of May
- ▶ recorded loss related to COVID-19 of ¥5.0 billion, Impairment losses of ¥5.8 billion, etc. as extraordinary losses

(billions of yen)	Amount	Inc./Dec.			YOY
			1 Q	2 Q	
Sales	335.6	(115.1)	(71.2)	(43.9)	(25.5)%
Operating profit	(4.4)	(10.7)	(6.1) <small>Incl. loss related to Covid-19 (11.0)</small>	(4.6)	—
Ordinary Profit	(4.4)	(11.0)	(6.5)	(4.6)	—
Extraordinary income	(2.4)	1 Q : 0 / 2 Q : 2.4			
Extraordinary losses	(11.5)	1 Q : 5.2 / 2 Q : 6.2			
Profit	(10.1)	(11.6)	(7.7)	(3.9)	—

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

- ▶ YOY of sales started to recover due to the reopening of department stores
- ▶ strong sales in SM business led by heightened eating-at-home demand
- ▶ Amount affected by Izumiya restructuring in SM and SC business segment
Sales ¥39.0 billion, OP ¥(2.4) billion

(billions of yen)	Sales		OP		
	Amount	YOY	Amount	YOY	
Department store	138.2	(101.5) (42.3)%	(3.5)	(9.8)	
Supermarket	141.8	(36.2) (20.3)%	2.9	+4.6	↓ Actual +2.2 <small>3 companies of SM 3.2[+5.2] Food manufacturing and other (0.3)[(0.6)]</small>
Shopping center	33.3	+29.1 701.1%	(0.3)	(2.5)	↓ Actual (0.1)
Other	22.4	(6.5) (22.5)%	(1.4)	(4.7)	
Consolidation adjustment			(2.1)	+1.7	
Consolidated	335.6	(115.1) (25.5)%	(4.4)	(10.7)	

I – 3. Department store business

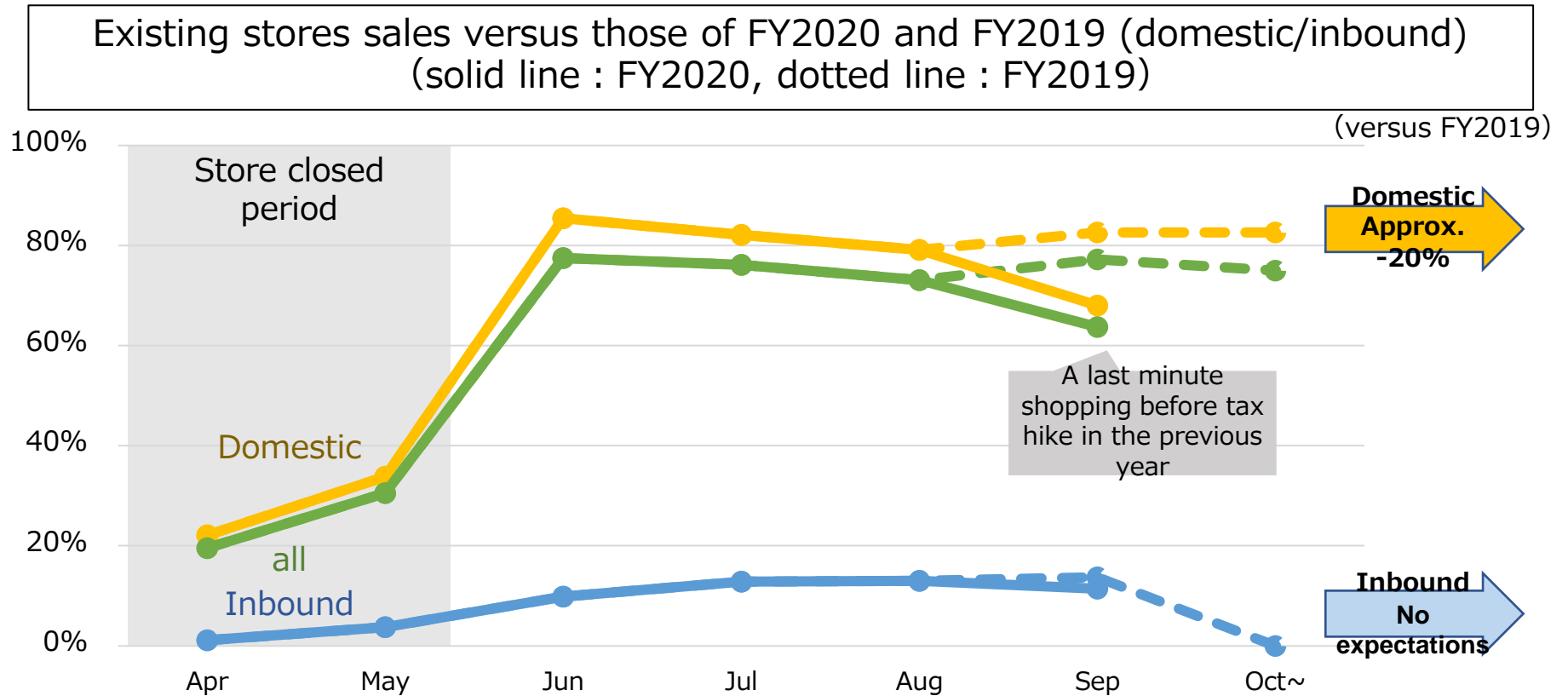
- ▶ reopened all stores at the end of May, made stores' opening hours back to normal in July, and started to hold events at two main stores at the end of Sept.
- ▶ reduced costs due to less promotion and the revision of each spending
(cost transferred to loss related to COVID-19 is ¥4.1 billion)

Hankyu Hanshin Department stores Inc. + Kobe/Takatsuki business

(billions of yen)	Amount	Inc./Dec.			YOY
			1 Q	2 Q	
Net Sales	137.2	(101.1)	(64.8)	(36.2)	(42.4)%
Gross Profit	31.3	(25.3)	(16.3)	(9.1)	(41.7)%
Gross Profit margin	23.81%	(0.95)%	(1.22)%	(0.66)%	—
Other operating revenue	1.3	(0.3)	(0.3)	(0.1)	(19.8)%
SG & A	36.0	(16.0)	(10.9)	(5.2)	(30.9)%
Operating profit	(3.3)	(9.6)	(5.6)	(4.0)	—
			Incl. loss related to Covid-19 (9.7)		

I - 3. Department store business

- ▶ After re-opening stores, the level of domestic sales has been about 20% lower than for the previous year. Inbound sales have fallen by about 90%.
- ▶ Sales in Sep. declined 16% for domestic customers and 86% for inbound customers from the same month of FY2019.
- ▶ Anticipating 15% YOY decrease in 3Q and 4Q. (26% decrease from same period of FY2019. (Domestic: approx. 20% decrease, Inbound: no expectations)



I – 4. Supermarket business

▶ OP in supermarket companies significantly rose by the high demand for eating at home, and the effect of IZ restructuring.

- Izumiya : Actual OP growth excluding the effect of restructuring ¥1.2 billion

- OP increase led by sales increase ¥0.4 billion
 - decrease in personnel expenses due to restructuring in FY2020 ¥0.69 billion
 - decrease in depreciation due to impairment losses in FY2020 ¥0.12 billion

- Oasis : OP growth ¥1.4 billion

- OP increase led by sales increase ¥1.1billion
 - decrease in depreciation due to impairment losses in FY2020 ¥0.26 billion

(billions of yen)	Operating revenue		OP	
	Amount	YOY [existing stores]	Amount	YOY [existing stores]
Izumiya	72.9	(41.4) Effect of restructuring (39.0) (36.2)% [3.6%]	2.0	+3.6 Effect of restructuring +2.4 -
Hankyu Oasis	59.5	+2.2 3.7% [2.2%]	1.1	+1.4 -

I – 5. Extraordinary income/losses

- ▶ recorded most of employment adjustment subsidies in 2Q
- ▶ impairment losses regarding Kobe Hankyu and Takatsuki Hankyu
 - lower profitability of non-food section, tenant closings triggered by COVID-19

		Amount (billions of yen)	Contents (billions of yen)	
Extraordinary income	Subsidy income	2.4	Hankyu Hanshin Dept.	1.8
			Other 22 companies	0.5
Extraordinary losses	Loss related to COVID-19	5.0	Hankyu Hanshin Dept.	4.2
			Other 32 companies	0.8
	Impairment losses	5.8	Kobe Hankyu Takatsuki Hankyu	

I – 6. Forecast of FY2021

- ▶ Assumption : seesawing sales situation like July- September will continue after October affected by COVID-19 (anticipating no more temporary store closures)
 - Dept: domestic sales will be 20% lower than those of FY2019
no expectation for inbound sales
 - SM: existing store sales will be the same level YOY
- ▶ Promote further business reconstruction considering the challenging market environment
- ▶ Although basic policy is to provide stable dividends, the company reduces down the annual dividend payment to 25yen per-share(YOY -15yen per-share) since anticipating a substantial decline in financial results under the effect of COVID-19

(billions of yen)	Amount	Inc./Dec.			YOY
			1・2Q	3・4Q	
Sales	730.0	(167.3)	(115.1)	(52.2)	(18.6)%
Operating Profit	(10.0)	(21.2)	(10.7)	(10.4)	—
Ordinary Profit	(10.0)	(21.8)	(11.0)	(10.9)	—
Profit	(22.0)	(8.9)	(11.6)	(2.7)	—

I – 6. Forecast of FY2021 by segment

- ▶ Amount affected by Izumiya restructuring in Supermarket and Shopping Center segment
Sales ¥74.4billion, OP ¥(5.2)billion
- ▶ Other segment : Oi development Co., Ltd expects its hotel's occupancy rate of 20~40%

(billions of yen)	Sales				Operating Profit			
	Amount	YOY	YOY		Amount	YOY	YOY	
			1・2Q	3・4Q			1・2Q	3・4Q
Dpt.	335.0	(29.2)%	(42.3)%	(15.7)%	(6.0)	(17.5)	(9.8)	(7.7)
SM	280.0	(20.9)%	(20.3)%	(21.5)%	4.0	+6.5	+4.6	+1.9
							3 companies of SM 4.1[+7.3] Food manufacturing and other (0.1)[(0.8)]	Actual +1.3
SC	63.0	622.1%	701.2%	550.2%	(1.0)	(5.1)	(2.5)	(2.6)
Other	52.0	(15.1)%	(22.5)%	(8.4)%	(4.0)	(6.9)	(4.7)	(2.2) Actual +0.0
Consolidation adjustment					(3.0)	+1.9	+1.7	+0.2
Consolidated	730.0	(18.6)%	(25.5)%	(11.7)%	(10.0)	(21.2)	(10.7)	(10.4)

Ⅱ . New business structure targeting post-COVID-19 era

~The revision of Business Plan GP10 Stage Ⅱ Phase 2~

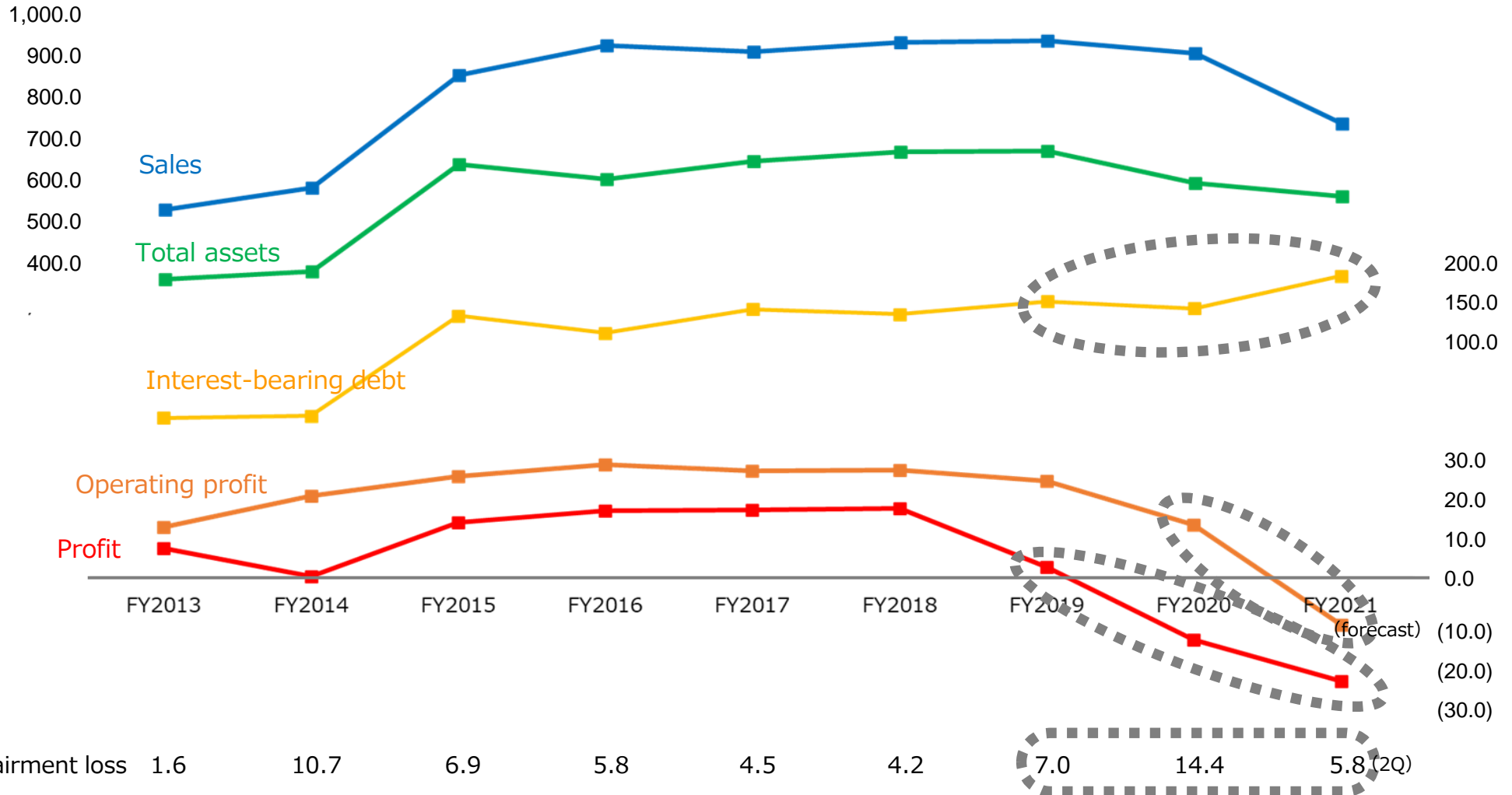
- composing new business structure reflecting present and future social/consumption environment which drastically changed by COVID-19
- withdrawn Business Plan GP10 Stage Ⅱ Phase 2(FY2020-FY2022), will disclose new business Plan (FY2022-FY2024) under the long-term prospect in May 2021.

- 1 . Current situation and prospects
- 2 . Future direction and structure image of H2O group
- 3 . Key points of new business plan

~review of past results~

Nov. 2012 Hankyu Umeda main store Renewal opening
 Jun. 2014 Izumiya integration
 Jul. 2015 Hanshin Umeda main store Reconstruction begins
 Oct. 2017 Kobe/Takatsuki Acquired business
 Jun. 2018 Hanshin Umeda Main store Wing I opening
 Mar. 2020~ COVID-19 outbreak

(billions of yen) Increasing new store opening of Oasis →



II – 1 . Current situation and prospects

< Current challenges of H2O group >

- Department store business
 - the earning structure relies on the struggling apparel industry
 - delays in DX
 - Supermarket Business
 - spending more time and cost of liquidation of asset and stores of Izumiya than initially anticipated
 - delays of SM recovery and GMS/SuC restructuring
 - uncontrolled store roll-outs of Izumiya and Oasis ※SuC= Super center
 - overreached capital investment
 - Others
 - unprecedented idle assets
 - reviewable businesses and subsidiaries
- ⇒ deteriorated by COVID-19

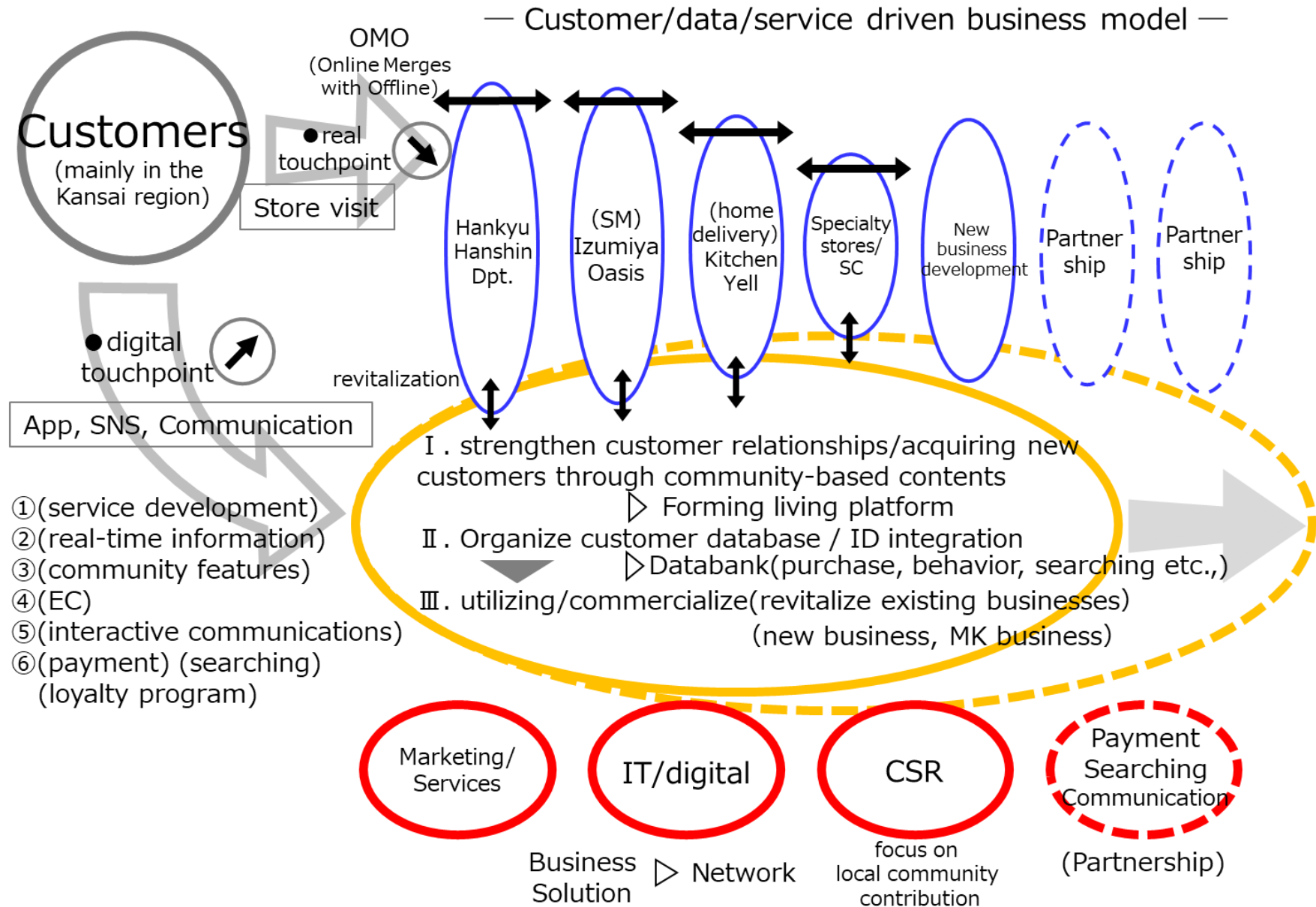
< Recognition of business environment >

- emerging a digital “new normal” (convenient and contactless)
 - less access to metropolitan areas and less traveling
 - Is the metropolitan area still a favorable location?
 - individual-oriented society through one-on-one communication
 - growing importance of local communities
- ⇒ People’s behavior and consumption will not return to how it was before COVID-19
- ▶ the traditional business model may cause a business continuity crisis



Store/item driven business model ▶ Customer/data/service driven business model

II – 2. Future direction and structure image of H2O group



II – 3 . Key points of new business plan

① business restructuring and Financial position improvement

- (1) continuous revision of unprofitable business
- (2) improving productivity and streamlining HR structure through BPR (utilizing digital)
- (3) revision of investment plans (off-line and on-line) and proceeding sales of assets

② Existing business restructuring

- (1) Enhance OMO for marketing activity by DX
 - Hanshin Umeda main store as a model store
 - each company + on consolidated basis
- (2) Kobe Hankyu/ Takatsuki Hankyu refurbishment
- (3) SM business
 - ▶ improve profitability of 3 SM companies by integration of organization/purchasing/ operation

③ composing new group structure by developing/extending/ utilizing customers base in the Kansai

- (1) Acquiring new customers through digital touchpoints
- (2) Customers data banking and utilizing those
- (3) Business development and revitalization by OMO
 - ※ strengthening marketing/service function
 - ※ strengthening IT/digital base
 - ※ CSR activities centering on community contribution



The information contained in this material reflects judgments made by H2O Retailing at the time of preparing this material, and no guarantees are provided concerning the accuracy of the information. The information is also subject to change without prior notice.

H2O and the information providers assume no responsibility for any damage arising from the use of the information.

Also, H2O holds the copyright on this material, and accordingly, any duplication, reprinting or similar act beyond the scope of personal use or any other use permitted by the Copyright Law is prohibited without the prior consent of H2O.