



Our view on business and capital integration between Kansai Super Market and H2O Retailing Corporation

**October 2021
OK Corporation
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Executive Summary

- On August 31, 2021, the business and capital integration among Kansai Super Market ("Kansai Super Market"), and H2O Retailing Corporation ("H2O Retailing"), Izumiya Co., Ltd. ("Izumiya") and Hankyu Oasis Co., Ltd. ("Hankyu Oasis") (H2O Retailing, Izumiya and Hankyu Oasis are collectively referred to as "H2O Group") through stock swap (the "Business Integration") was announced (the "8/31 Press Release"), and an extraordinary general meeting of shareholders is scheduled to be held on October 29, 2021 (the "EGM")
- OK Corporation ("OK") had proposed acquisition and delisting of Kansai Super Market through tender offer, prior to the announcement of the Business Integration. OK, the one who made an offer competing with H2O Retailing as well as an existing shareholder of Kansai Super Market, holds doubts about the Kansai Super Market's decision and process of agreeing with H2O Retailing regarding the Business Integration, from the following standpoints:
 - ✓ We presumed that, given the market capitalization of Kansai Super Market, H2O Retailing found it difficult to acquire entire shares of Kansai Super Market with cash consideration, and had to choose a stock swap with two unlisted subsidiaries and keep Kansai Super Market listed. However, this structure **will impose shareholders material disadvantages through subsidiary listing and massive dilution**, while **Kansai Super Market has not provided sufficient explanation on how to mitigate those issues so far**
 - ✓ While seeking for H2O Retailing as a white knight, Kansai Super Market did not seem to consider our proposal fairly, which **should be a serious issue from the perspective of fair process to protect interests of minority shareholders** (Although Kansai Super Market set up a special committee, no substantive talks have been held, which is definitely a problem)
 - ✓ Kansai Super Market chose the stock swap transaction based on the judgement that the theoretical share price after the Business Integration could be higher than the OK's tender offer price of JPY 2,250; however, considering that **Izumiya and Hankyu Oasis, which Kansai Super Market will acquire, suffered net loss of JPY 29.5 Bn in total for the last five years, such theoretical share price was calculated based on the projections that seem very aggressive, and how the feasibility of the projections was verified has not been explained at all.** Furthermore, the board members of Kansai Super Market, who made such important decision and should be responsible for achievement of targets set in the projections, a major assumption for the decision-making when choosing the transaction with H2O Retailing, will effectively be replaced and almost no one in the incumbent management of Kansai Super Market will take responsibility for the projections
 - ✓ Besides, neither Kansai Super Market nor H2O Group has disclosed sufficient information that are necessary for shareholders to make proper judgement regarding the voting in EGM, including potential change of the market section listed, likeliness that TSE categorizes the transaction as a so-called backdoor listing of the two unlisted subsidiaries and points out the need of "Examination on Potential Delisting Concerning Improper Merger, etc."
- As this Business Integration is **rather likely to be detrimental to the value of Kansai Super Market because of its disrespect of interest of minority shareholders, regardless of the fact that OK made proposal, OK will vote against the Business Integration at the EGM to be held on October 29**
- **If the Business Integration is voted down at the EGM, OK intends to make a tender offer for all of the outstanding shares of Kansai Super Market at JPY 2,250 per share, after having discussion with the management of Kansai Super Market and receiving approval from them**

Comparison between the Business Integration and OK's Proposal

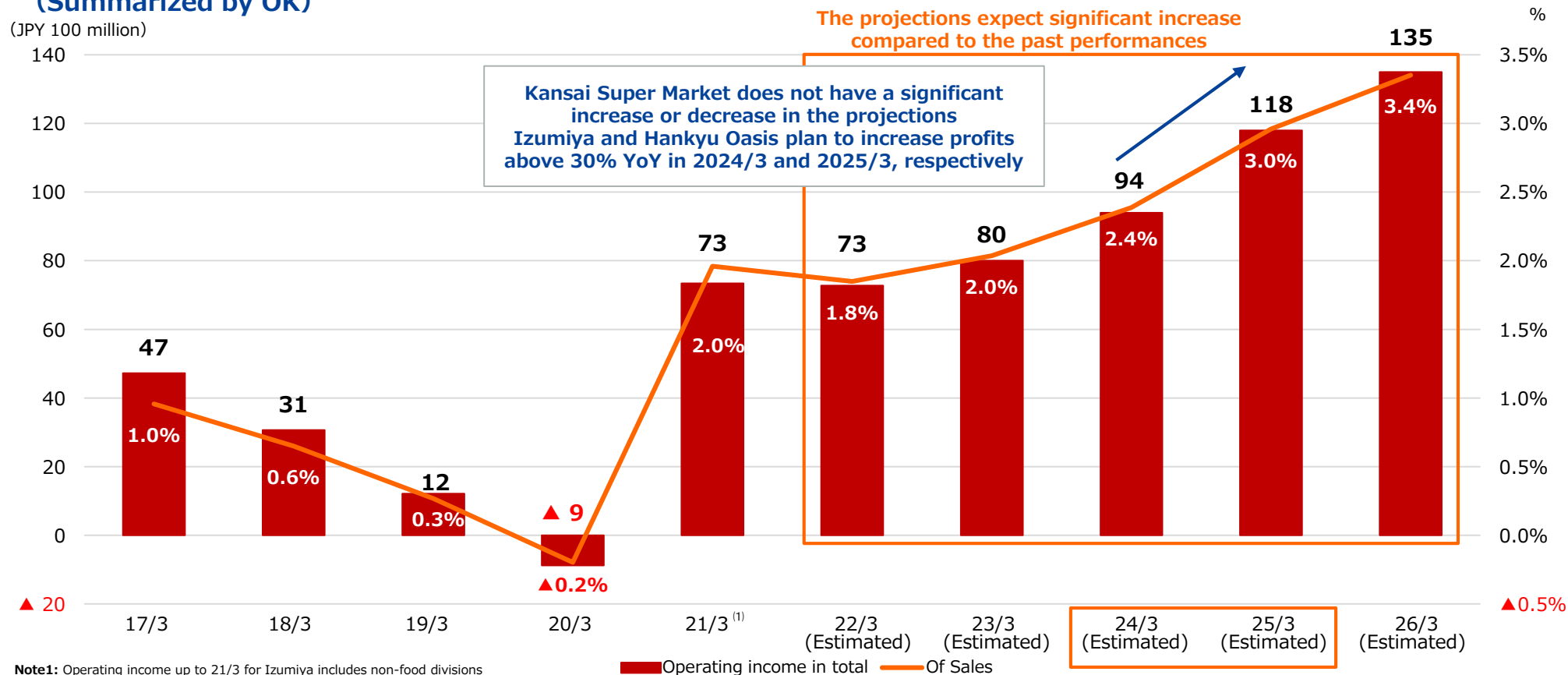
- Under the Business Integration, H2O Retailing will increase its stake in Kansai Super Market up to 58% through stock swap in exchange for the two subsidiaries, Izumiya and Hankyu Oasis, while Kansai Super Market will remain listed after the transaction. Minority shareholders of Kansai Super Market will not receive any consideration with the transaction
- The theoretical share prices are simply results of calculations based on a number of assumptions and there will still be risks of share price decline if three companies combined do not achieve targets set out in the projections. In addition, while Izumiya and Hankyu Oasis have been reporting net loss until recently, according to the press releases of Kansai Super Market, the projections expect substantial increase in profits of Izumiya and Hankyu Oasis in the next few years. Without any explanation on the feasibility of the projections, Kansai Super Market may end up with purchasing these two companies at prices much higher than their intrinsic value and passing on the risks associated with the two companies to its minority shareholders

	Business Integration	OK's Proposal
Structure	<p>Become a sole parent company of Izumiya and Hankyu Oasis through stock swap and a consolidated subsidiary of H2O Retailing, the 58% shareholder and parent.</p>	<p>Become a wholly owned subsidiary of OK</p>
Consideration	Shares of H2O Retailing's unlisted subsidiaries	Cash
Equity value per Share	Theoretical share price by IR Japan: JPY 2,400~3,018 Theoretical share price by Plutus : JPY 1,787~3,128 ※theoretical share price of 3 companies after the transaction	JPY 2,250 per share
Governance post transaction	Out of 9 board members of listed Kansai Super Market (the intermediate holding company), 5 will be from H2O Retailing and 2 will be from current Kansai Super Market	Ask current Chairman and CEO to stay and will decide after discussion with them
Employment condition	Keep conditions (substantially) equal to or better than the current one at least 3years	Made clear that it will not bring any negative change of current condition without further details, due to the lack of information caused by Kansai Super Market's refusal to have substantive talks
Synergy	No quantitative explanation on synergy	Increase in 30% of current revenue per tsubo (3.3 sqm) of Kansai Super Market by introducing OK's policy of "Everyday Low Price"

Operating income in total of three companies

- Kansai Super Market only disclosed combined projections of three companies on September 24, 2021. In the projection, its operating income in the final stage (FY2026) is planned to increase up to eleven times of FY2019(before COVID-19) and twice of FY2021, even though the projections do not include any synergies
- Although COVID-19 temporarily gave a boost to supermarket industry due to increase demands while staying home, we believe competition beyond sub-sectors within retail industry is getting stiffer every year. Kansai Super Market's projections appear very aggressive as it plans to increase income to the level which never reached before in such a tough business environment, but there is no explanation from Kansai Super Market about the feasibility of the projections

Operating income in total of three companies, Kansai Super Market, Izumiya and Hankyu Oasis (2017/3~2026/3) (Summarized by OK)



Reasons Why Kansai Super Market Chose the Business Integration with H2O Group

- The below is the summarized views of Kansai Super Market. Its views are unilaterally formed without any substantive talks with OK, while holding a series of talks with H2O Retailing

	Kansai Super Market's Views Indicated in the 9/24 Press Release		OK's Views
	Business Integration with H2O Group	Kansai Super Market's views of OK's Proposal	
Business category	Supermarket	Discount store	Kansai Super Market and OK is in the same category as OK is an EDLP supermarket; disagree with the idea that OK is in a different category by picking up small differences as competition beyond the category is getting stiffer in the current environment
Customer segment	Neighborhood residents, elderly	Customers within/out of walking distance, relatively younger	These are unilateral conclusions which Kansai Super Market made without giving OK any opportunity for substantive talks
HR policy	Same in the basic policy	Differences in the policy	
Brand	The store name will remain unchanged	The store name will be maintained, and the phrase "High Quality & Everyday Low Price" may be added	
Corporate governance	To remain listed and be included in a highly-transparent and reasonable governance structure as a member of H2O Group, the listed company	To be delisted	Transparency of the governance should be doubted: risks and countermeasures of subsidiary listing status between H2O Retailing and Kansai Super Market after the Business Integration have not been explained
Synergies	Synergies beyond the supermarket business are expected as H2O Group develops a diverse retail businesses	It will be difficult to realize synergies beyond the realm of the supermarket business	Based on its achievements in the Kanto-area, OK is sure to be the best possible owner of Kansai Super Market and will have a good influence. It is estimated that sales per tsubo (3.3 sqm) of Kansai Super Market will increase by 30% through combining strengths of both parties. Meanwhile, Izumiya, a supermarket company, has been struggling as a subsidiary of H2O Retailing, and thus it is doubtful whether Kansai Super Market can generate synergies with H2O Group even in the supermarket business (not to mention from opportunities of diversified retail business as it claims)
Economic value shareholders will gain	The theoretical share price after the Business Integration will be above the OK's offer price: in addition, shareholders will be benefited from rising share price thanks to synergies, etc.	OK proposes the offer price of JPY 2,250 per share, which will not allow shareholders enjoy benefits from rising share price	The feasibility of the theoretical share price based on the aggressive projections is doubtful, while OK's offer will surely bring profit to shareholders. Kansai Super Market's explanation focuses only on the rosy theoretical equity value and does not mention any downside risks of a drop in share price caused by falling short of the projections and expected synergies under the massive dilution

Questions OK Would Like to Pose about the Business Integration

- As Kansai Super Market is lacking accountability for shareholders to vote for the Business Integration at EGM, whether the Business Integration will contribute to improvement in its enterprise value remains unclear

1 Massive dilution for minority shareholders caused by the Business Integration

- ✓ Kansai Super Market will issue new shares in association with the Business Integration, and the number of such new shares will be more than twice of the number of pre-transaction shares outstanding, which result in a massive dilution by 113%. As a consequence, the voting power of its minority shareholders will be reduced by half and EPS will decline significantly; however, those risks have not been explained sufficiently

2 Potential risks and impact of subsidiary listing status etc.

- ✓ There has been no explanation about potential risks regarding subsidiary listing status (in which H2O Retailing will exert greater influence) and reasons why the H2O Retailing's shareholding ratio in Kansai Super Market is set as "58%", less common percentage

3 Fairness regarding the process Kansai Super Market's determining the offer which it pursues further

- ✓ OK has never been given an opportunity for substantive talks and, even worse, was requested by Kansai Super Market to withdraw the proposal at the meeting which was positioned as "informal" by the counterparty in a unilateral manner. If Kansai Super Market had considered interests of minority shareholders, it should have informed OK the contemplated Business Integration as a competing offer, so that it could negotiate OK for better terms. However, it is only when the 8/31 Press Release was published that OK came to know about the proposal by H2O Retailing. OK holds doubts about the fairness of the process of Kansai Super Market's decision-making, in which it held talks only with H2O Retailing and made a judgment on the OK's proposal based on imaginary guess without sincere discussion

4 Dubious valuation of Kansai Super Market, Izumiya and Hankyu Oasis

- ✓ While Kansai Super Market mentioned the theoretical share price after the Business Integration will be above JPY 2,250, no explanation has been made to address doubts over the assumptions of the calculations. Besides, as the board will effectively be replaced, no commitment for realizing the theoretical share price has been provided so far, and rather risks of declining share price is imposed on shareholders

- | | |
|--|---|
| i Feasibility of the disclosed projection of the three companies combined | The projections, which the third party valuator used for calculating the theoretical share price, estimate substantial profit increases at Izumiya and Hankyu Oasis. The rationality of such projections has never been explained |
| ii Quantitative synergies and risks of the Business Integration are unclear | Even though Kansai Super Market boasted that it would be easy to realize synergies with H2O Group, any specific amount of such synergies which compensate for dilution and timing of realization have never been mentioned |
| iii Impact of goodwill to be recorded through the Business Integration | Amortization of goodwill and impairment risks associated with the Business Integration may put pressure on Kansai Super Market's profits; however, such issues have never been mentioned so far |

1 Massive Dilution for Minority Shareholders Caused by the Business Integration

- The Business Integration, as Kansai Super Market will issue new shares that is more than twice of its current outstanding shares, will cause a massive dilution. As a consequence, the voting power of minority shareholders of Kansai Super Market will be reduced by half (A) and EPS will decline significantly (B)
- According to the preliminary simulation based on the latest financial information, etc., the sum of profits of the three companies indicates that interests of Kansai Super Market's minority shareholders will be diluted by approximately 23.6% after the Business Integration, though H2O Retailing and Kansai Super Market explained that potential synergies would compensate dilution and bring great economic benefits. It is the minority shareholders who bear risks regarding whether or not such synergies are realized. If synergies are not realized, interests of the minority shareholders are diluted and damaged along with a drop in the share price (JPY MM)

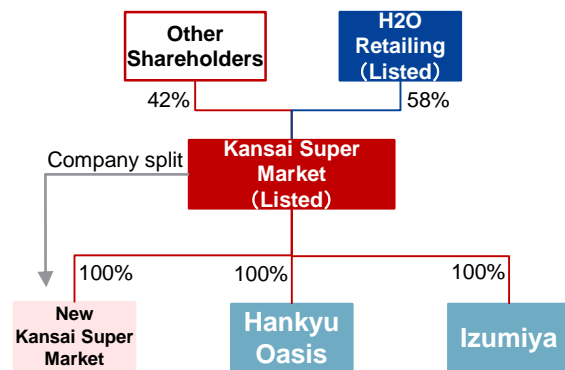
1	Equity value per share of Kansai Super Market after the Business Integration	Assumed Kansai Super Market's claimed theoretical stock price is equal to our proposal price, JPY 2,250	(A) ¥2,250
2	Dilution of voting power after the Business Integration	New stocks 33,834,909 ÷ Number of shares currently outstanding excluding treasury stock (before the transaction) 30,023,954	112.7%
3	Changes in EPS of Kansai Super Market (before considering the amortization of goodwill)		
4	EPS of Kansai Super Market (before the transaction)	Kansai Super Market's Net income(company's forecast of 2022/3) ÷ Number of shares currently outstanding excluding treasury stock (before the transaction)(actual value of 1Q, 2022/3)	¥67.3
5	EPS in total of 3 companies (after the transaction)	(Kansai Super Market's Net income(company's forecast of 2022/3) + Net income of Izumiya, Hankyu Oasis(actual value of 2021/3)) ÷ Number of shares currently outstanding excluding treasury stock(after the transaction)	(B) ¥51.4
6	Change ratio of EPS attributable to minority shareholders	After the Business Integration ÷ before the transaction(▲ indicates a decrease in value)	▲23.6%
7	Changes in EPS of Kansai Super Market (considering the amortization of goodwill)		
8	EPS in total of 3 companies (after the transaction)	(Kansai Super Market's Net income(company's forecast of 2022/3) + Net income of Izumiya, Hankyu Oasis(actual value of 2021/3)- # 11) ÷ Number of shares currently outstanding excluding treasury stock(after the transaction)	(B) ¥▲20.6
9	Change ratio of EPS attributable to minority shareholders	After the Business Integration ÷ before the transaction(▲ indicates a decrease in value)	▲130.6%
10	Amount of goodwill when calculated using theoretical stock	#12 - #15	45,997
11	Amortization of goodwill (annual)	Assumed amortization period:10 years	4,600
12	Total value of Izumiya and Hankyu Oasis's shares and H2O Retailing's capital increase of them	Theoretical stock price × allocated shares 33,834,909 (Assuming that two companies ,Izumiya and Hankyu Oasis, and the new shares of Kansai Super Market are equivalent)	76,129
13	Izumiya's portion	Based on the exchange ratio(1:11,909,5000)	53,617
14	Hankyu Oasis's portion	Based on the exchange ratio(1:11,909,5000)	22,511
15	[Reference] Book value of Net assets (after capital increase)		30,131
16	Izumiya	2021/3: JPY 215 MM + #19	12,477
17	Hankyu Oasis	2021/3: JPY 13,532 MM + #20	17,654
18	H2O Retailing's capital Increase of Izumiya and Hankyu Oasis		16,384
19	Izumiya	Refer to Press release from Kansai Super Market	12,262
20	Hankyu Oasis	Refer to Press release from Kansai Super Market	4,122

2 Risks of Subsidiary Listing/ Reasons of “58%” Ownership of H2O Retailing post Business Integration

- H2O Retailing and Kansai Super Market will be in state of parent-subsidary listing and have a structural conflict of interest between H2O Retailing and minority shareholders after the Business Integration. However, any rationale that Kansai Super Market will remain listed or measures to mitigate such conflict has not been explained so far, which constitutes a problem from the perspective of corporate governance
- It is doubtful that the suggested H2O Retailing’s 58% stake in Kansai Super Market after the Business Integration was determined arbitrarily, because H2O Retailing will increase capital of Izumiya and Hankyu Oasis just before the closing of the Business Integration (capital increase by H2O Retailing is a part of Business Integration to achieve 58% ownership)

No explanation about subsidiary listing status

Post transaction



- As it is suggested that H2O Retailing will hold a 58% stake in Kansai Super Market, the Business Integration will result in subsidiary listing of Kansai Super Market, in which both the parent H2O Retailing and the subsidiary Kansai Super Market remain listed
- Subsidiary listing is seen as a problem because of its structural conflict of interests, in which a parent exerts its influence over a subsidiary and forces it to subordinate interests of its minority shareholders to that of the parent
- However, measures to mitigate such conflict, reasons why Kansai Super Market clings to listing status despite such disadvantages, and reasons why H2O Retailing did not propose delisting have not been explained so far

No explanation about H2O Retailing’s 58% stake in Kansai Super Market after the Business Integration

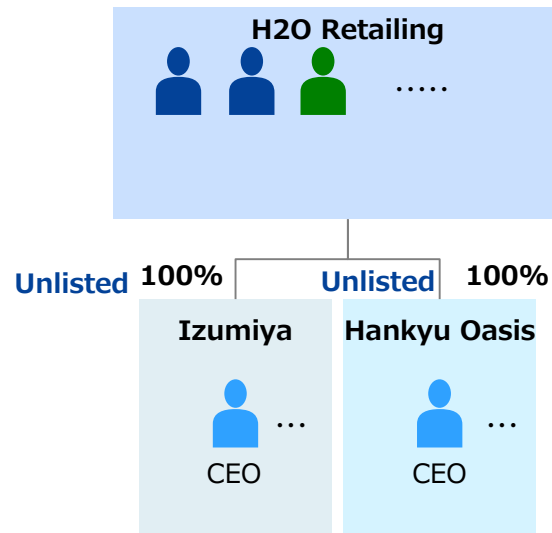
- H2O Retailing will manage to raise the shareholding ratio up to “58%” through capital increase in the two subsidiaries before the Business Integration (the ratio would have been otherwise much lower), which suggests the 58% shareholding ratio reflects some intention of H2O Retailing and/or Kansai Super Market
- As approximately 87%⁽¹⁾ of voting rights were exercised at the past general meetings of shareholders of Kansai Super Market (average of AGMs for the last 10 years), H2O Retailing will virtually hold a two-thirds stake in Kansai Super Market after the Business Integration, considering the ratio of voting rights exercise ($58\% \div 87\% = 66.6\%$), which means H2O Retailing can solely approve any and all resolutions at general meetings of shareholders going forward
 - ✓ In addition, concerns would grow if it is expected that the supplier shareholding association and employee shareholding association will likely agree with the management’s decision
- H2O Retailing needs to explain the reasons why it aims to increase its stake in Kansai Super Market up to rather uncommon “58%” even accompanied with the capital increase, of which necessity is unclear
 - ✓ According to the 9/24 Opinion, “Kansai Super Market urged H2O Retailing to increase capital of the two subsidiaries as part of the deal terms”; however, such capital increase is rather detrimental to Kansai Super Market shareholders because it causes greater dilution and only end up with further increase of the H2O Retailing’s stake

Note1: “largest number of exercised voting rights at each AGM” divided by “total number of voting rights at each AGM”

2 Board Structure of Kansai Super Market

- The parent H2O Group accounts for 80% (4 out of 5) of the management of Kansai Super Market (inside directors who are not an Audit and Supervisory Committee Member) after the Transaction. **This board structure exposes lack of transparency of the corporate governance**, particularly in the subsidiary listing status where extra countermeasures are needed to protect interests of minority shareholders
- Furthermore, the projections of three companies, based on which the decision on the Business Integration was made and to which the management of Kansai Super Market must be committed to achieve their targets, **may be ignored by the management of the holding company (current Kansai Super Market to be renamed to Kansai Food Market), because a majority of the board seats of the holding company is controlled by H2O Group** with only two seats left for Kansai Super Market

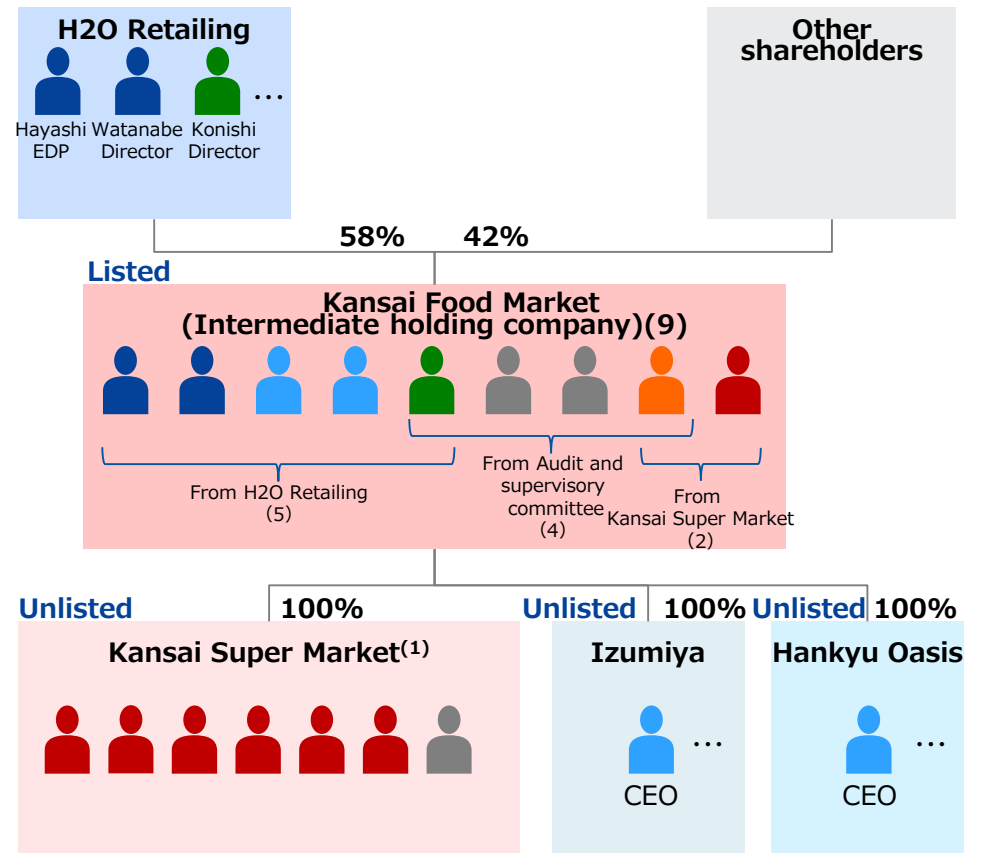
Pre Transaction



Listed



Post Transaction



Note1: All of the inside directors of Kansai Super Market as of 2021/10/11 will remain as directors of wholly owned subsidiary of the intermediate holding company

Source : Kansai Super Market 9/30 Press Release "(Progress of disclosed items) Notice of Absorption-type Split by Transition to Holding Company Structure, Partial Amendments to the Business Name and Articles of incorporation, and Change of Representative Director"

3 Concerns over Fairness of Decision-making Process in Kansai Super Market / Developments of the Discussion from OK's Perspective

- OK made a proposal for acquisition through a friendly tender offer for Kansai Super Market, as there is a background that quite a few OK's employees were sent to Kansai Super Market for training to learn the best-in-class operation at the moment, back in 1980's. Despite requests, Kansai Super Market never gave OK any opportunity for substantive talks, arguing that it had entrusted its decision to the discussion in the special committee. It is when the 8/31 Press Release was published that OK came to know that Kansai Super Market had talked with H2O Retailing and our proposal was turned down
- According to news reports, it was Kansai Super Market who approached H2O Retailing for the potential transaction, which naturally makes OK think that Kansai Super Market relied on H2O Retailing as its white knight. Now, OK has concerns over the fairness of the decision-making process of Kansai Super Market: it seemed Kansai Super Market was unwilling to examine the OK's proposal sincerely, though it should have treated the OK's proposal and the Business Integration fairly and impartially for the purpose of maximizing interests of its shareholders

2021	Chronology of events
6/9	Sent a proposal letter regarding acquisition of Kansai Super Market through a friendly tender offer <ul style="list-style-type: none"> - JPY 2,250 of tender offer price is the historical highest price since Kansai Super Market's IPO
7/3	Kansai Super Market notified OK the establishment of special committee and special committee would consider a proposal from OK. Kansai Super Market board refused to discuss with OK since then
8/2	Interview session between OK and special committee
8/11~17	Special committee members had store tours of OK (held separately as they could not find a time that is suitable for all of them)
8/23	With intention of Kansai Super Market, "unofficial" interview session between OK and Kansai Super Market board members was held <ul style="list-style-type: none"> - Kansai Super Market board members asked OK to withdraw the proposal of acquisition, but OK turned down their asking
8/26	First interview session between OK and Kansai Super Market board members was held although no question on OK's proposal but confirmation of OK's operation
8/31	Press release from Kansai Super Market regarding the transaction <ul style="list-style-type: none"> - Mentioned OK's proposal just as "proposal of acquisition from an anonymous company" in the press release and no other details were described
9/3	Press release from OK and then Kansai Super Market <ul style="list-style-type: none"> - Mentioned the proposal of cash tender offer with tender offer price of JPY 2,250 - Announce an intention to execute a cash tender offer with the price of JPY 2,250 once the transaction with H2O Retailing is voted down at EGM - In the press release, Kansai Super Market mentioned they would announce their opinion on OK's press release
9/24	Press release from Kansai Super Market which explains why they choose the transaction with H2O Retailing
9/28	OK sent a questionnaire since there does not seem to be enough information disclosed by Kansai Super Market for shareholders to vote for the Business Integration at EGM
10/7	OK sent a reminder and additional questionnaire, since there was no response to the questionnaire of 9/28 (deadline set as 10/11, but no response as of 10/11)
10/29(Scheduled)	EGM of shareholders of Kansai Super Market

7/12~8/31
 According to the press release, Kansai Super Market and H2O Retailing had interactive due diligence, discussion on expected synergy through the Business Integration and on governance / management system post transaction

4 Feasibility of Combined Projections of Three Companies as the Basis of Valuation

- As illustrated below, compared with the past, considerable improvement in earnings / margins is estimated in the projections (A). There is not sufficient explanations of the credibility and rationality of financial forecast, i.e. whether or not the feasibility of the projections forecasting substantial increase in profits of rather struggling players, Izumiya and Hankyu Oasis, (B) is verified

Total of Kansai Super Market, Izumiya and Hankyu Oasis (Summarized by OK) ⁽¹⁾

(JPY 100 million)

Fiscal Year	Actual						Projection					
	17/3	18/3	19/3	20/3 ⁽²⁾	21/3	1Q	22/3 2Q-4Q ⁽³⁾	Full-year(predicted)	23/3	24/3	25/3	26/3
Sales (in total)	4,933	4,724	4,545	4,465	3,747	933	3,001	3,934	3,927	3,937	3,988	4,028
Growth rate	▲1.5%	▲4.2%	▲3.8%	▲1.8%	▲16.1%	-	-	5.0%	▲0.2%	0.3%	1.3%	1.0%
Kansai Super Market	1,207	1,227	1,237	1,262	1,309	320	971	1,291	No significant increase in profit			
Growth rate	0.5%	1.7%	0.8%	2.1%	3.8%	-	-	▲1.4%				
Izumiya	2,578	2,329	2,183	2,109	1,330	335	Unprecedented level of profit margins (Average of profit rate for the last 5 years (FY 2017~FY 2021) :0.7%) The projections of each company are not disclosed as of 10/11					
Growth rate	▲4.7%	▲9.7%	▲6.3%	▲3.4%	▲36.9%	-						
Hankyu Oasis	1,149	1,168	1,126	1,094	1,108	279						
Growth rate	4.2%	1.7%	▲3.6%	▲2.8%	1.2%	-						
Operating income (in total)	47	31	12	9	73	20	A 53	73	80	94	118	135
of Sales	1.0%	0.6%	0.3%	▲0.2%	2.0%	2.1%	1.8%	1.8%	2.0%	2.4%	3.0%	3.4%
Kansai Super Market	18	21	20	23	27	7	22	28	No significant increase in profit			
of Sales	1.5%	1.7%	1.6%	1.8%	2.1%	2.1%	2.2%	2.2%				
Izumiya	15	4	B ▲12	▲31	31	7	-	-	Operating income increases above 30% in 25/3 from previous year			
of Sales	0.6%	0.2%	▲0.6%	▲1.5%	2.3%	2.1%	-	-				
Hankyu Oasis	14	6	5	0	15	6	-	-	Operating income increases above 30% in 24/3, 25/3 from previous year			
of Sales	1.2%	0.5%	0.4%	0.0%	1.4%	2.2%	-	-				
EBITDA (in total)	-	-	-	-	-	-	91	-	132	147	173	193
of Sales	-	-	-	-	-	-	3.0%	-	3.4%	3.7%	4.3%	4.8%
Kansai Super Market	31	35	37	40	46	-	-	-	-	-	-	-
of Sales	2.6%	2.9%	3.0%	3.2%	3.5%	-	-	-	-	-	-	-
Izumiya	-	-	-	-	-	-	-	-	-	-	-	-
Hankyu Oasis	-	-	-	-	-	-	-	-	-	-	-	-
Net income/loss (in total)	▲50	▲32	▲34	▲141	33	-	-	-	-	-	-	-
of Sales	▲1.0%	▲0.7%	▲0.7%	▲3.1%	0.9%	-	-	-	-	-	-	-
Kansai Super Market	8	12	14	17	20	5	15	20	-	-	-	-
of Sales	0.6%	1.0%	1.1%	1.3%	1.5%	1.5%	1.6%	1.6%	-	-	-	-
Izumiya	B ▲59	▲28	▲38	▲97	5	-	Net loss in total for the last 5 years Izumiya : JPY ▲21.8 Bn Hankyu Oasis : JPY ▲7.7 Bn					
of Sales	▲2.3%	▲1.2%	▲1.7%	▲4.6%	0.3%	-						
Hankyu Oasis	1	▲16	▲10	▲60	8	-						
of Sales	0.1%	▲1.4%	▲0.9%	▲5.5%	0.7%	-						
Net assets	700	663	620	461	483	-	-	-	-	-	-	-
Kansai Super Market	323	330	335	333	346	-	Izumiya's liabilities exceeded its assets in 2020/3					
Izumiya	161	133	95	▲3	2	-						
Hankyu Oasis	216	200	190	130	135	-						

Notes 1 : Undisclosed information is denoted by - 2 : Izumiya's data through 2020/3 includes non-food divisions 3 : Net sales for 9 months. Figures for Kansai Super Market are calculated based on the Quarterly Financial Reports (Kessan Tanshin)

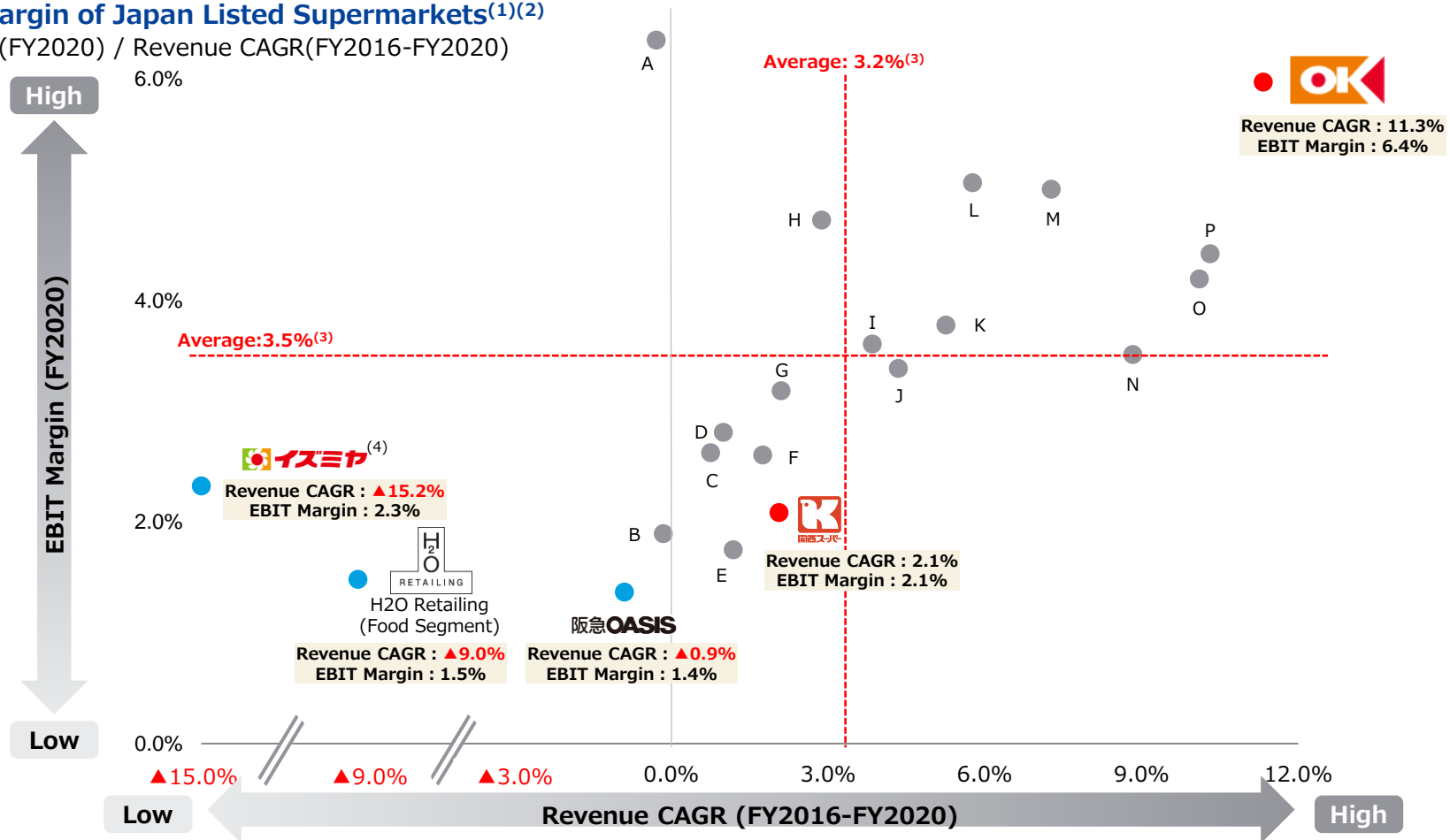
Source : H2O Retailing Annual Securities Report (Yuho), Presentation Materials of Quarterly Financial Report, Supplementary Materials for First Quarterly Financial Results of 2022, Izumiya electronic public note, Hankyu Oasis electronic public note, Kansai Super Market First Quarterly Report of 2022 (Kessan Tanshin), 8/31 Press Release, 9/24 Press Release

4 Growth/Margin of Japan Listed Supermarkets

- The track record of revenue growth and profitability of H2O Group and Kansai Super Market stay far below averages of the supermarket sector in Japan. It is not likely that the merged company will achieve substantial increase in profits exceeding the past results
- OK doubts whether Kansai Super Market ever considered which company (H2O Retailing or OK) would be the best owner to improve its enterprise value, and concerns such important issue might be ignored while Kansai Super Market focused on seeking H2O Retailing as its white knight

Growth/Margin of Japan Listed Supermarkets⁽¹⁾⁽²⁾

EBIT Margin(FY2020) / Revenue CAGR(FY2016-FY2020)



Notes:

1. Industries Segment of Supermarket (Market cap over JPY 20 Bn)
2. Exclude several companies affected by M&A transaction

3. Exclude Izumiya and Hankyu Oasis
4. Izumiya carved out non-food business and property management business from FY2020

4 Comparison of Synergies between Business Integration and OK's Proposal

- The easiness to generate synergies is one of the reasons why they chose the Business Integration though, Kansai Super Market has not given any explanation about specific amounts and timing of expected synergies to be realized. Because of that, shareholders cannot understand by when and how much they would be benefited through the Business Integration
- Some of the synergy items planned by H2O Retailing and Kansai Super Market are rather vague or doubtful in terms of yielding profits. For example, there are questions about (i) reality of “opening a new store” by Kansai Super Market, which maintains a conservative policy of branching (opened only one new store over the past five years), (ii) capabilities of “department store merchandise” to attract supermarket customers on the back of developments of the H2O Retailing’s integration with Izumiya and Hankyu Oasis, which seems to have made unsatisfactory progress so far, and (iii) lack of details of “DX strategy”

Comparison of Synergies between Business Integration and OK's Proposal

	Business Integration with H2O Group	OK's Proposal
Quantitative synergies	No explanation about any numerical targets to be achieved through synergies	Estimate on 30% increase in sales per tsubo (3.3 sqm) of Kansai Super Market
Timing	No explanation	Within several years
Qualitative synergies	<ul style="list-style-type: none"> • Community-based strategy of opening new stores taking advantages of traits of the three brands: Kansai Super Market, Izumiya and Hankyu Oasis • Introduction of Hankyu/Hanshin department store merchandise • Integration of suppliers of national brands and imported goods • Joint purchase of construction materials, store fixtures and consumables • Bundled outsourcing of production of ready-to-eat products • Improvement in logistics efficiency via joint delivery and increase in delivery volume • Shared services of membership cards and exclusive services for members • Co-production of flyers, and recipes and tools for sales promotion • Improvement in efficiency at central kitchen and processing center • Reduction in IT-related costs through system integration • Introduction of common settlement devices • Human resource exchange, joint training and collaboration in benefit programs • DX strategy to bring differentiation at brick-and-mortar stores 	<ul style="list-style-type: none"> • Introduction of the OK Group's policy, “高品質 (High Quality) ・ Everyday Low Price” into Kansai Super Market • Review of the lineup of merchandise in terms of quality and prices • Renovation of stores • Joint procurement to reduce cost of goods purchased • Joint development and sale of private brand goods and limited edition goods • Improvement in efficiency of logistics • Sharing know-how of store operation • Sharing know-how of opening new store including securing store locations

4 Simulation of Impacts of Goodwill Associated with the Business Integration

- Though Kansai Super Market explained that the Business Integration would not cause dilution in economic terms but rather bring huge economic benefits, it may, according to the estimate as below, generate a large amount of goodwill (A) and a considerable amount of profits (B) would be needed for countering EPS dilution, considering amortization of goodwill
- Burdens of goodwill amortization will put pressure on Kansai Super Market's profit post Business Integration, and then affect interests of its minority shareholders; however, any explanation about such concerns has not been given. Also, it will not be realistic to ensure profits (synergies) that will protect shareholders from EPS dilution, even considering the sum of profits expected in the aggressive projections of three companies

		Plutus Theoretical share price		IRJ Theoretical share price	
1	Equity value per share of Kansai Super Market after the transaction	¥1,787	¥3,128	¥2,400	¥3,018
2	Total value of Izumiya and Hankyu Oasis's shares and H2O Retailing's capital increase of them	60,463	105,836	81,204	102,114
3	Izumiya's portion	42,584	74,540	57,192	71,919
4	Hankyu Oasis's portion	17,879	31,296	24,012	30,195
5	Amount of Good will calculated using Kansai Super Market's claimed theoretical stock price of itself	30,332	75,704	51,073	71,983
6	Amortization of goodwill (annual)	3,033	7,570	5,107	7,198
7	Changes in EPS of Kansai Super Market (considering the amortization of goodwill)				
8	EPS of Kansai Super Market (before the transaction)	¥67.3	¥67.3	¥67.3	¥67.3
9	EPS in total of three companies (after the transaction)	¥3.9	¥▲67.1	¥▲28.6	¥▲61.3
10	Change ratio of EPS attributable to minority shareholders	▲94.2%	▲199.8%	▲142.4%	▲191.1%
11	Necessary Net income to avoid dilution (before tax)	5,829	12,367	8,817	11,830
12	Necessary Net income to avoid dilution (after tax)	4,045	8,582	6,119	8,210
13	[Reference] Book value of Net assets (after capital increase)	30,131	30,131	30,131	30,131
14	Izumiya	12,477	12,477	12,477	12,477
15	Hankyu Oasis	17,654	17,654	17,654	17,654
16	H2O Retailing's capital Increase of Izumiya and Hankyu Oasis	16,384	16,384	16,384	16,384
17	Izumiya	12,262	12,262	12,262	12,262
18	Hankyu Oasis	4,122	4,122	4,122	4,122
19	Equity Value of Izumiya + Hankyu Oasis (Assuming no Capital Increase)	44,079	89,451	64,820	85,730
20	Izumiya	30,322	62,278	44,930	59,657
21	Hankyu Oasis	13,757	27,173	19,890	26,073
22	Implied Multiples				
23	Izumiya	Implied PER	65.2x 133.9x	96.6x	128.3x
24	Hankyu Oasis	Implied PBR	141.0x 289.7x	209.0x	277.5x
25	Izumiya	Implied PER	17.2x 34.0x	24.9x	32.6x
26	Hankyu Oasis	Implied PBR	1.0x 2.0x	1.5x	1.9x

Source : Kansai Super Market First Quarterly Report of 2022 (Kessan Tanshin), 8/31 Press Release, 9/24 Press Release

OK's Current Plan for the Coming Events

OK's stance toward the EGM on October 29, 2021

- OK will vote against the Business Integration: as stated in the previous slides, the Business Integration ignores interests of minority shareholders of Kansai Super Market and may damage the value of Kansai Super Market, regardless of the existence of our proposal

OK's response when the resolution on the Business Integration is "voted down" at the EGM

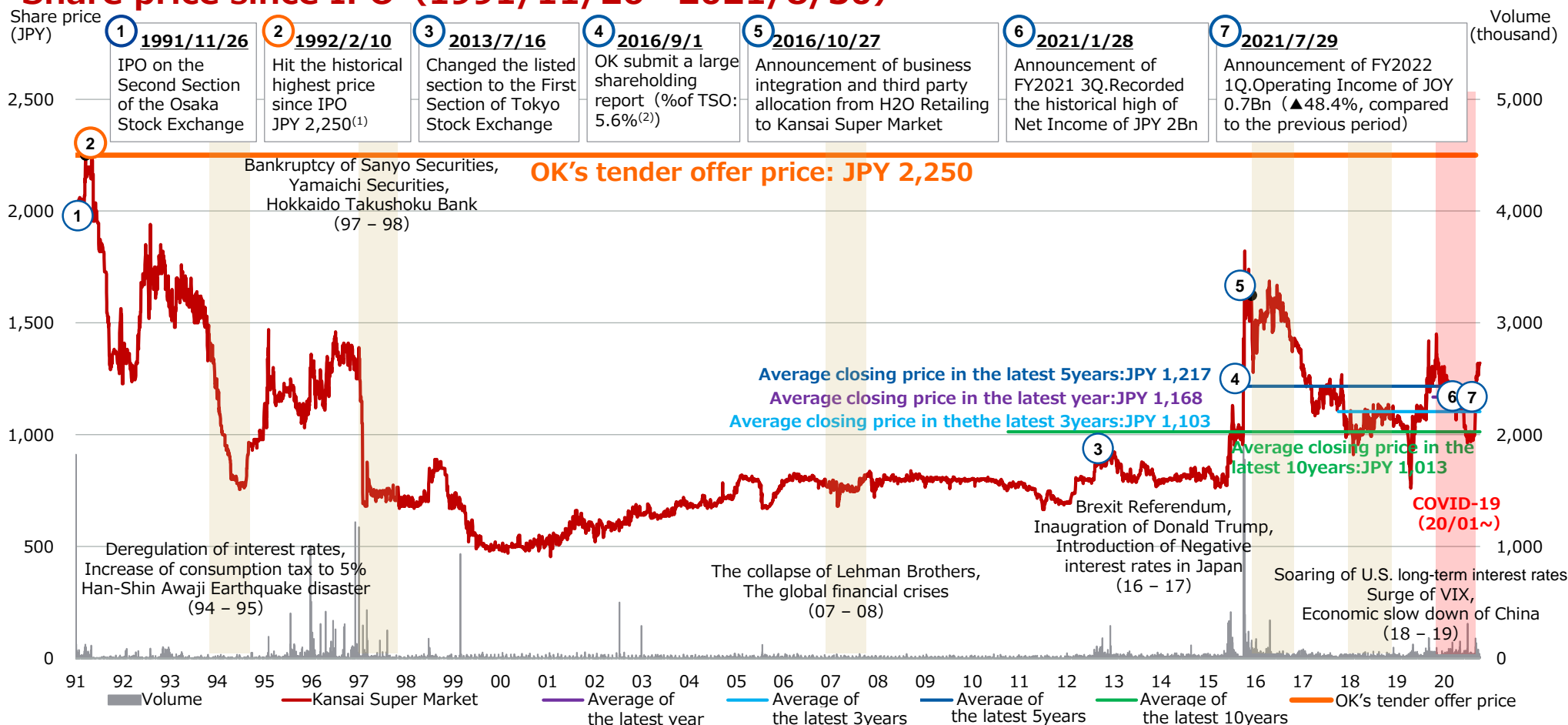
- OK will hold consultations with the management of Kansai Super Market with the best of intentions to gain its approval of the OK's proposal
- OK intends to execute a tender offer at JPY 2,250 per share aiming delisting Kansai Super Market, subject to Kansai Super Market's board approval for
 - The offer price of JPY 2,250 per share, which would be the highest price of Kansai Super Market since its IPO, represents 125.0% premium to the closing price as of June 8, 2021, a day before the date of the OK's proposal, and 70.5% premium to that as of August 30, 2021, a day before the date of the 8/31 Press Release

OK's response when the resolution on the Business Integration is "approved" at the EGM

- OK will accept the result as a decision made by Kansai Super Market shareholders

(Appendix) Share Price of Kansai Super Market Since IPO

Share price since IPO (1991/11/26~2021/8/30)



Premium

Implied Multiple⁽⁵⁾

Our proposal (JPY)	Market cap ⁽³⁾ (JPY MM)	Net debt ⁽⁴⁾ (JPY MM)	Enterprise Value (EV) (JPY MM)	Compared to the closing price of the day before				EV/EBITDA ⁽⁶⁾ (FY3/22) (multiplier)	PER (FY3/22) (multiplier)	PER (FY3/22) (multiplier)	PBR (FY6/22) (multiplier)	
				Compared to the closing price of the day before the proposal (8, June) (%)	Compared to the closing price of the day before Kansai Super Market's announcement (30, August) (%)	1 month average (%)	3 months average (%)					6 months average (%)
2,250	67,554	▲4,618	62,936	125.0%	70.5%	75.2%	104.6%	104.4%	13.4	33.4	33.0	1.9

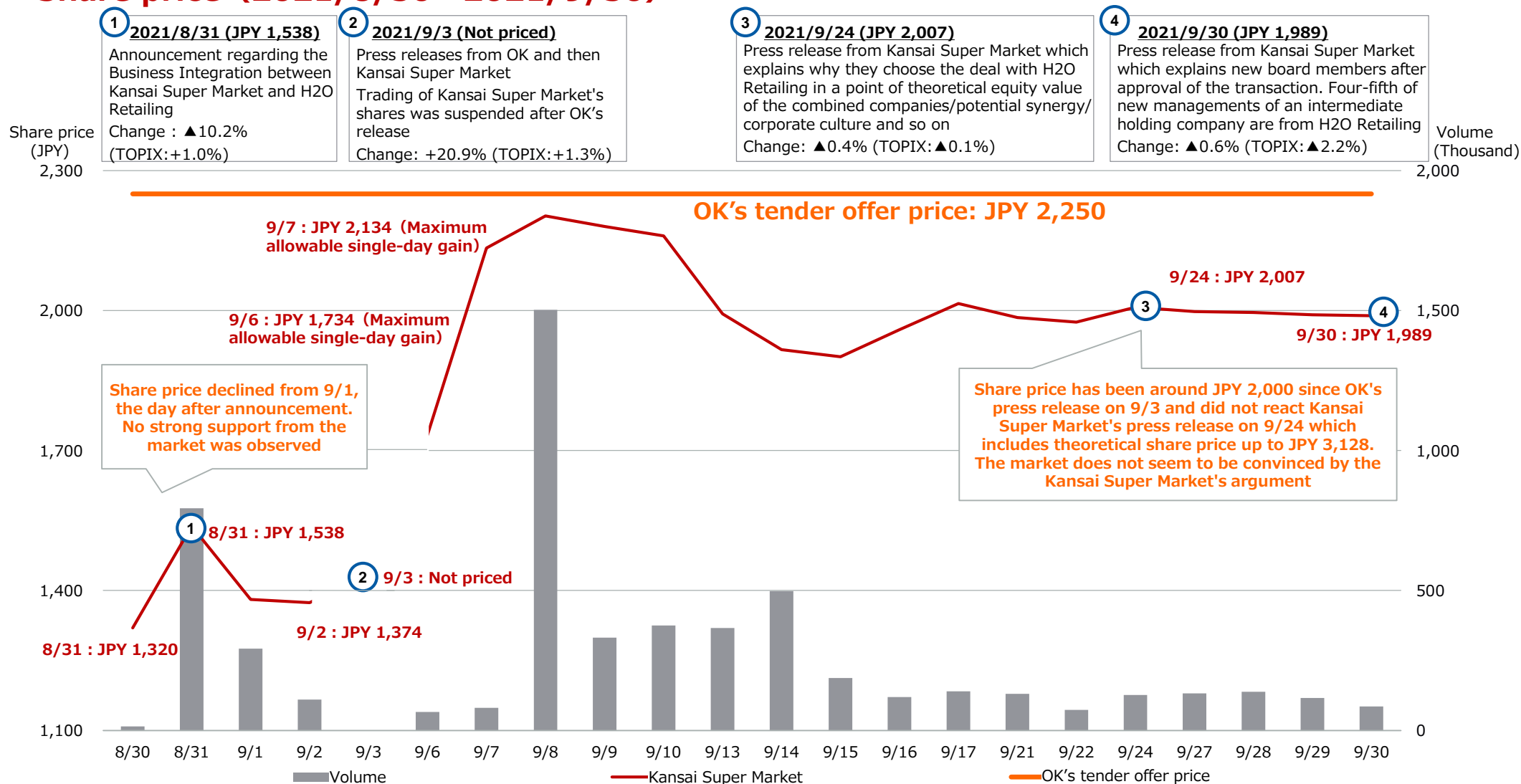
Notes:

- Adjusted to the current share price considering stock split
 - Based on TSO as of 25 August, 2016
 - Based on share price of JPY 2,250, TSO exc. Treasury stock before the transaction
- Source : Public information

- As of FY2022 1Q
- FY2022 for company estimate
- Operating Income (FY2023 Estimate) + DA as of FY2021

(Appendix) Share Price of Kansai Super Market since the Announcement of the Business Integration

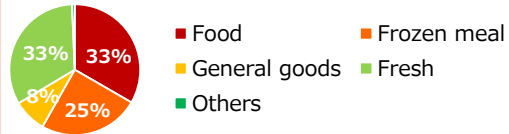
Share price (2021/8/30~2021/9/30)



(Appendix) Overview of OK (1/2)

- OK is a super market operator which sets "High Quality & Everyday Low Price" as the core policy
- Operates 131 stores in greater-Tokyo area (Tokyo, Saitama, Chiba and Kanagawa) and has highly rated reputation/customer satisfaction

Company Profile

Name	OK Corporation
Management	IIDA, Susumu (Chairman) / NINOMIYA, Ryotaro (President)
Address	6-3-6 Minatomirai, Nishi-ku, Yokohama, Kanagawa
Founded /Established	1958/1967
Employees	14,873 (As of March 2021)
Stores	131 stores (As of September 2021)
Mix of Product handled	 <ul style="list-style-type: none"> Food (33%) Frozen meal (25%) General goods (8%) Fresh (33%) Others (3%)

Financials (Latest 5 years)

JPY Bn	17/3	18/3	19/3	20/3	21/3
PL					
Sales	331.3	357.8	394.3	436.0	508.9
of Growth	7.7%	8.0%	10.2%	10.6%	16.7%
EBITDA	18.7	19.6	23.5	29.3	40.2
of Sales	5.6%	5.5%	6.0%	6.7%	7.9%
Operating Income	14.4	14.5	18.2	22.7	32.8
of Sales	4.4%	4.1%	4.6%	5.2%	6.4%
Net Income	9.7	9.2	14.5	16.4	22.5
of Sales	2.9%	2.6%	3.7%	3.8%	4.4%
BS					
Total Assets	213.5	224.8	240.2	292.3	317.9
Net Debt	21.4	20.8	10.2	-4.8	-20.4
Shareholder's capital	81.2	88.5	100.8	114.5	133.3
Net D/E	0.3x	0.2x	0.1x	-0.0x	-0.2x
ROE	12.5%	10.7%	15.2%	15.1%	18.0%

Management Policy

High Quality ...

Out of good quality products, we carefully select and sell valuable, delicious, fresh, healthy and useful products.

Everyday Low Price ...

Everyday Low Price. Every day is a special sales. So there are no special sales days in OK Store. We issue a weekly product information on every Monday, and inform you of new products and price cuts.

Competitive discount against competitors ...

We put up a signboard that says, "Please let us know if you find a higher price than other stores. We will get it down." We try best competitive price for national brand products in the neighborhood. So you will never lose your money buying at OK Store!

Safe and healthy food ...

OK Store foods are safe and healthy. As a general rule, we do not handle products that use synthetic coloring agents. We try not to sell products that include additives known as harmful for human health.



OK in Award and Numbers

TBS Radio Super General Election

No.1 for 3 consecutive years



TBSラジオ「ジェーン・スー 生活はまる」

The number of OK club members

Exceeded 5.93 million

(As of March 2021)



YoY Revenue Growth

34 consecutive years

Sales (JPY Bn)

400

200

0

08 09 10 11 12 13 14 15 16 17 18 19 20 21

Revenue The number of stores (As of end of the year)

Stores 150

100

50

0

(Appendix) Overview of OK (2/2)

- Under the “High Quality & Everyday Low Price” policy, we plan to continue to actively branch stores, while maintaining high satisfaction from customers

Features of OK/Initiatives

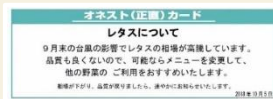
1 Initiatives to realize “High Quality & Everyday Low Price”

- **Realize EDLP through limitation of number of suppliers and maximizing quantity of purchasing products per supplier, which enables our COGS lower**
 - Purchase and process one whole livestock in the meat department
 - As per tunas from Mediterranean, preserve freshness by introducing a cold chain which enable to keep tunas -50°C and realize cost reduction with cutting down of vegetables traditionally packaged with tunas in Japanese super markets
 - Established a business model which generates stable revenue and profit through effort on products' line-up, competitive pricing and increasing sales by branching new stores
- **Improve logistics system with opening of new logistics center in 2019**
 - Opened new logistics centers in Samukawa, Kawaguchi, Nagareyama
 - Restructured an entire logistics system between factories to stores and realize best cost strategy

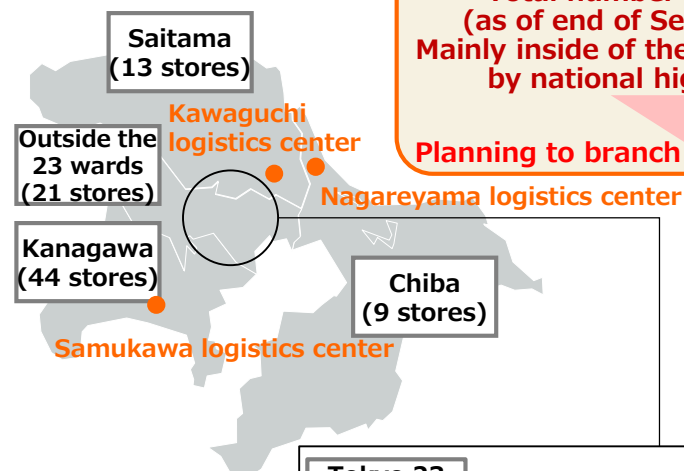


2 Initiatives to get higher customer satisfaction

- **Provide customers with as much accurate and honest product information as possible**
 - Get high customer satisfaction through POP in stores which let OK's costumers know accurate information of products, as well as competitive discount against neighborhood competitors
- **Create a system which let customer's feedback reflect into the store operation promptly**
 - Offer members' discount to the members of OK Club which charges you just a JPY 200 of card issuance fee (the numbers of the member are 5.9 million, 0.5 million people join per year)
 - Launch a dispensing pharmacy business as the first in super market companies
 - Reflect customers' feedback on products/store operation through opinion box installed in stores

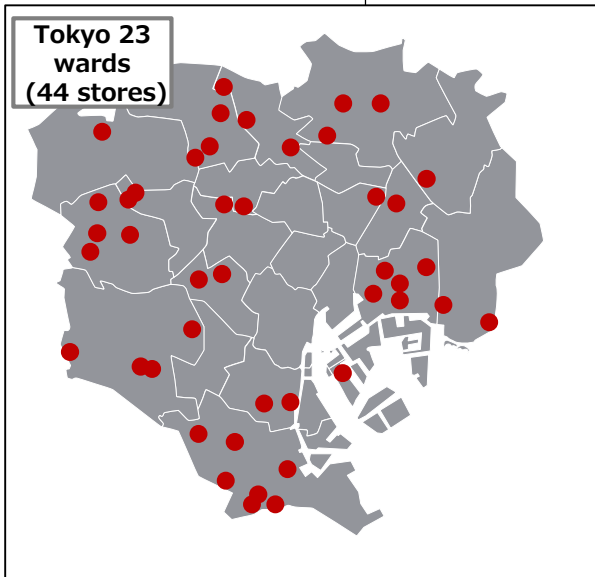


Stores/Logistics



Total number of stores: 131 (as of end of September 2021)
Mainly inside of the circle surrounded by national highway No. 16

Planning to branch 5~10 stores a year



Minatomirai



Shin-yoga