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H2O Retailing Corporation

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Executive summary

Business overview

H2O Retailing Corporation is a retailer that operates department stores (Hankyu Department Stores and Hanshin Department Stores), supermarkets (such as Izumiya and Hankyu Oasis), and shopping centers mainly in the Kansai area. The company operates 16 department stores in Japan, mainly along the Hankyu Railway and Hanshin Electric Railway lines. It also has 151 supermarkets in the Kansai region (as of June 2021). The company follows an area dominance strategy targeting the Kansai region. Kansai has around 20mn consumers and includes the prefectures of Osaka (population of 8.8mn), Hyogo (5.5mn), and Kyoto (2.6mn). H2O's strategy is to have consumers make as many of their everyday purchases as possible at its supermarkets and enjoyable, non-routine shopping at its department stores. While being affected by a structural decline in department store sales amid competition from specialist stores and shopping centers, the company aims to make the retail spaces at its department stores unique. In this way, H2O aims to attract more customers in the Kansai region (primarily through its Hankyu Main Store and Hanshin Umeda Main Store), as well as to increase the number of visitors from other parts of Japan and overseas. To secure a new earnings base during a difficult period for expansion in the domestic department store market, the company opened Ningbo Hankyu (located in Zhejiang, China; company stake of 33.3%), its first overseas department store, in April 2021.

H2O was created through the 2007 merger of Hankyu Department Stores and Hanshin Department Stores. Their respective predecessor companies were the Hankyu Market (now Hankyu Main Store), which opened in Osaka's Umeda district in 1925, and Hanshin Mart (now Hanshin Umeda Main Store), which opened in 1933. Hanshin Electric Railway is H2O's largest shareholder, with an 11.9% stake, followed by Hankyu Hanshin Holdings (TSE1: 9042), which holds an 8.4% stake. Effectively, Hankyu Hanshin Holdings, the parent company of Hanshin Electric Railway, therefore holds a 20.3% stake in H2O (making it an equity-method affiliate). H2O, Hankyu Hanshin Holdings, and Toho (TSE1: 9602) together form the Hankyu Hanshin Toho Group. The group's business interests span urban transport, real estate, hotels, department stores, supermarkets, and entertainment.

H2O has four business segments: the Department Store, Supermarket, Shopping Center, and Other businesses. In FY03/21, the Department Store business accounted for 47.1% of the company's gross sales, while the Supermarket business accounted for 39.6%, the Shopping Center business 8.8%, and the Other business 4.6%. The operating loss in FY03/21 amounted to JPY4.4bn. The Department Store business generated JPY1.9bn in operating loss, while the Supermarket business produced operating profit of JPY4.2bn. Previously, the company had maintained solid performance in the Department Store segment with sales growth driven by its Hankyu Main Store. However, this trend was broken as the company reported an operating loss in the same segment due to impact from the COVID-19 pandemic. On the other hand, the company reported operating profit in the Supermarket segment, in part because it transferred the Izumiya non-food operations, which had generally been generating operating losses, to the Shopping Center business. The company is currently implementing structural reforms, including cost restructuring for its department stores, operational streamlining at supermarkets, and conversion of Izumiya general merchandise stores into shopping centers.

Trends and outlook

FY03/21 results: In FY03/21, the company reported gross sales of JPY739.2bn (-17.6% YoY), an operating loss of JP4.4bn (versus profit of JPY11.2bn in FY03/20), and a net loss (attributable to owners of the parent) of JPY24.8bn (versus a loss of JPY13.2bn in FY03/20). Despite recording operating profit in the Supermarket segment, the company reported overall operating loss due mainly to the sharp downturn at its mainstay department store business, which took an especially hard hit the first half of the year as the measures implemented in the wake of the pandemic forced it to suspend operations at some department stores, reduce operating hours at key stores, and cut back on sales promotion. The company booked extraordinary gains of JPY3.0bn, and extraordinary losses of JPY24.2bn in FY03/21. The extraordinary losses mainly stemmed from JPY14.8bn of impairment losses and JPY5.4bn of pandemic-related losses. The annual dividend for FY03/21 is JPY25 per share.

Company forecast for FY03/22: For FY03/22, the company forecasts gross sales of JPY765.0bn (+3.5% YoY), sales of JPY500.0bn, an operating loss of JPY1.0bn, a recurring loss of JPY2.0bn, and net income attributable to owners of the parent of JPY5.0bn. For the Department Store business, the company forecasts gross sales of JPY390.0bn (+12.1% YoY) and operating profit of JPY500mn (versus an operating loss of JPY1.9bn in FY03/21), while for the Supermarket business it forecasts gross sales of JPY297.0bn (+1.5% YoY) and operating profit of JPY4.5bn (+10.1% YoY). For the Shopping Center business, the company projects gross sales of JPY40.0bn (-38.5% YoY) and an operating loss of JPY500mn. The full-year forecast assumes a fifth wave of COVID-19 cases and a subsequent re-issuing of a state of emergency declaration by the

Japanese government, but not the temporary closure of any stores. The forecast for the Department Store business assumes a gradual recovery in domestic demand from November 2021, but no remarkable recovery in tax-free sales during FY03/22.

Medium-term management plan: The company's new medium-term management plan, covering the years between FY03/22 and FY03/24, is aimed at recovering operating profit to the level seen prior to the spread of COVID-19 and includes the following strategies: rebuild the Department Store business by reforming the cost structure and establishing the OMO business style; establish the Supermarket business as a second earnings pillar by restructuring the business, integrating food manufacturing and processing with sales, and bolstering capacity through alliances; (as part of its effort to establish businesses that will ensure future growth) work to make Ningbo Hankyu the leading department store in the region, develop related businesses, and launch and expand the customer service business centered on online support; and promote the advancement of IT and digitalization.

Strengths and weaknesses

Shared Research believes H2O has three key strengths: 1) an ability to create retail spaces that attract consumers (in Kansai, from outside the region, and from overseas) without relying excessively on retailer tenant revenues; 2) highly convenient, attractive locations; and 3) an ability to make the best use of its Hankyu and Hanshin brand, well known in Kansai region.

We believe its weaknesses are: 1) significant lags between decision-making and results due to the time it takes to build and rebuild department stores; 2) the lack of competitive advantage in the shopping center business format operated under the Shopping Center business; and 3) little experience of business development overseas. (See the Strengths and weaknesses section for details.)

Key financial data

Income statement	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Gross sales	**525,154**	**576,852**	**844,819**	**915,690**	**901,221**	**921,871**	**926,872**	**897,289**	**739,198**	**765,000**
YoY	3.9%	9.8%	46.5%	8.4%	-1.6%	2.3%	0.5%	-3.2%	-17.6%	3.5%
Sales	-	-	-	-	-	-	-	-	-	**500,000**
YoY	-	-	-	-	-	-	-	-	-	
Gross profit	**142,529**	**156,949**	**241,417**	**266,363**	**263,384**	**266,224**	**266,235**	**256,035**	**211,903**	
YoY	2.2%	10.1%	53.8%	10.3%	-1.1%	1.1%	0.0%	-3.8%	-17.2%	
Gross profit margin	27.1%	27.2%	28.6%	29.1%	29.2%	28.9%	28.7%	28.5%	28.7%	
SG&A expenses	**131,859**	**139,636**	**220,059**	**242,538**	**240,842**	**243,459**	**245,813**	**244,864**	**216,341**	
YoY	1.8%	5.9%	57.6%	10.2%	-0.7%	1.1%	1.0%	-0.4%	-11.6%	
SG&A ratio	25.1%	24.2%	26.0%	26.5%	26.7%	26.4%	26.5%	27.3%	29.3%	
Operating profit	**10,670**	**17,313**	**21,358**	**23,825**	**22,542**	**22,765**	**20,422**	**11,171**	**-4,438**	**-1,000**
YoY	7.2%	62.3%	23.4%	11.6%	-5.4%	1.0%	-10.3%	-45.3%	-	-
Operating profit margin	2.0%	3.0%	2.5%	2.6%	2.5%	2.5%	2.2%	1.2%	-0.6%	-
Recurring profit	**11,338**	**18,160**	**21,219**	**23,060**	**21,725**	**24,272**	**21,376**	**11,831**	**-2,907**	**-2,000**
YoY	10.0%	60.2%	16.8%	8.7%	-5.8%	11.7%	-11.9%	-44.7%	-	-
Recurring profit margin	2.2%	3.1%	2.5%	2.5%	2.4%	2.6%	2.3%	1.3%	-0.4%	-
Net income	**6,200**	**295**	**11,586**	**14,053**	**14,298**	**14,636**	**2,162**	**-13,150**	**-24,791**	**5,000**
YoY	486.6%	-95.2%	-	21.3%	1.7%	2.4%	-85.2%	-	-	-
Net margin	1.2%	0.1%	1.4%	1.5%	1.6%	1.6%	0.2%	-1.5%	-3.4%	0.7%
Per-share data (split-adjusted; JPY)										
Shares outstanding (ex. treasury shares; year-end, mn)	388.3	388.3	123.3	123.4	123.5	123.5	123.6	123.6	123.7	
EPS (JPY)	63.9	3.0	98.1	113.9	115.8	118.5	17.5	-106.4	-177.9	40.4
EPS (fully diluted; JPY)	63.7	3.0	97.6	113.4	115.3	117.9	17.4	-	-	
Dividend per share (JPY)	12.5	12.5	25.0	35.0	40.0	40.0	40.0	40.0	25.0	25.0
Book value per share (JPY)	1,903	1,858	2,033	2,039	2,132	2,264	2,252	1,968	1,844	
Balance sheet (JPYmn)										
Cash and cash equivalent	15,135	35,402	44,381	48,521	83,481	67,150	55,229	25,958	49,991	
Total current assets	**65,418**	**92,027**	**139,905**	**145,570**	**178,318**	**160,167**	**150,003**	**112,116**	**139,291**	
Tangible fixed assets	123,312	120,484	255,093	253,461	258,961	280,661	284,860	273,165	261,386	
Investments and other assets	145,834	150,108	217,049	180,280	185,721	200,884	209,710	182,455	208,539	
Intangible assets	24,759	15,097	19,830	17,730	17,543	17,870	18,762	19,168	16,729	
Total assets	**359,323**	**377,716**	**631,877**	**597,041**	**640,543**	**659,582**	**663,335**	**586,904**	**625,945**	
Short-term debt	585	35,488	15,702	11,040	30,260	43,325	28,950	34,010	47,324	
Total current liabilities	**90,700**	**141,603**	**173,826**	**157,225**	**189,202**	**201,569**	**174,092**	**158,139**	**184,531**	
Long-term debt	41,210	5,501	135,666	125,014	126,299	116,106	145,404	132,419	155,016	
Total fixed liabilities	**82,201**	**53,836**	**206,392**	**187,229**	**187,018**	**177,206**	**209,640**	**184,131**	**212,137**	
Total liabilities	**172,901**	**195,439**	**380,218**	**344,454**	**376,220**	**378,775**	**383,732**	**342,270**	**396,668**	
Shareholders' equity	184,746	180,407	250,764	251,556	263,222	279,570	278,364	243,318	228,135	
Total net assets	**186,422**	**182,277**	**251,659**	**252,587**	**264,323**	**280,807**	**279,603**	**244,634**	**229,277**	
Total interest-bearing debt	41,795	40,989	151,368	136,054	156,559	159,431	174,354	166,429	202,340	
Cash flow statement (JPYmn)										
Cash flows from operating activities	24,533	33,415	25,468	24,539	38,742	32,739	15,392	10,039	12,755	
Cash flows from investing activities	-23,925	-9,628	-49,162	5,852	-25,325	-35,492	-36,682	-22,619	-20,761	
Cash flows from financing activities	-3,422	-3,557	24,161	-26,207	21,703	-13,812	9,581	-16,440	31,859	
Financial ratio										
ROA (RP-based)	3.3%	4.9%	4.2%	3.8%	3.5%	3.7%	3.2%	1.9%	-0.5%	
ROE	3.5%	0.2%	5.4%	5.6%	5.6%	5.4%	0.8%	-5.0%	-10.5%	
Equity ratio	51.4%	47.8%	39.7%	42.1%	41.1%	42.4%	42.0%	41.5%	36.4%	

Source: Shared Research based on company data. Per-share data have been adjusted for stock splits.

Notes: Figures may differ from company materials due to differences in rounding methods.

The company conducted a reverse stock split (1-for-2) on September 1, 2014.

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. The full-year FY03/22 forecast in this table is based on the application of this standard. "Sales" through FY03/21 are stated as "gross sales" in the table.

Gross profit margin, SG&A expense ratio, operating profit margin, recurring profit margin, and net margin have been calculated using gross sales as a denominator.

Recent updates

Monthly sales data (flash report) for September 2021

2021-10-01

H2O Retailing Corporation announced monthly sales data (flash report) for September 2021; see the results section for details.

Monthly gross sales

FY03/20	2019									2020		
(YoY)	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Consolidated	-0.2%	-0.3%	-0.7%	-2.2%	0.7%	15.3%	-9.1%	-2.9%	-3.0%	-2.4%	-5.9%	-21.4%
Department Store	1.1%	0.2%	1.8%	1.0%	2.5%	21.6%	-13.7%	-5.5%	-4.5%	-1.7%	-12.9%	-36.9%
Hankyu Hanshin Dept. Stores	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Hankyu Main Store	4.6%	0.4%	7.6%	3.8%	6.7%	29.5%	-15.8%	-5.8%	-5.5%	-1.4%	-18.1%	-41.3%
Hanshin Umeda Main Store	-15.1%	0.5%	-20.9%	-4.1%	-3.4%	21.7%	-15.1%	-6.6%	-5.8%	-2.6%	-19.9%	-42.5%
Total branch stores	1.2%	-0.3%	2.0%	-2.1%	-2.2%	7.2%	24.7%	33.7%	36.1%	32.2%	35.8%	-0.6%
All stores	1.1%	0.2%	1.8%	1.0%	2.5%	21.3%	-2.5%	7.4%	8.0%	10.2%	-1.8%	-28.0%
Comparable stores	-	-	-	-	-	-	-14.5%	-5.4%	-4.6%	-1.8%	-14.3%	-38.0%
All stores ex. Hanshin Umeda Main Store	3.4%	0.1%	5.4%									
Izumiya	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Gross sales												
All stores	-3.6%	-0.5%	-0.4%	-9.6%	-2.1%	1.1%	-11.9%	-6.8%	-7.9%	-8.9%	0.5%	-3.5%
Comparable stores	-5.4%	-2.8%	-3.5%	-12.1%	-4.3%	-0.8%	-13.5%	-6.9%	-9.2%	-9.3%	-0.4%	-2.8%
Hankyu Oasis	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Gross sales												
All stores	-5.6%	-6.4%	-5.3%	-7.3%	-4.4%	-2.8%	-4.5%	-0.8%	-2.0%	-1.9%	3.0%	5.0%
Comparable stores	-3.0%	-5.1%	-5.9%	-8.4%	-7.8%	-6.0%	-7.5%	-4.8%	-5.9%	-5.8%	-0.7%	2.6%
FY03/21	**2020**									**2021**		
(YoY)	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Consolidated	-47.3%	-39.1%	-12.5%	-15.0%	-15.1%	-25.2%	-4.1%	-13.5%	-13.6%	-19.4%	-10.9%	8.8%
Department Store	-79.4%	-68.7%	-22.1%	-23.6%	-26.5%	-36.1%	3.7%	-14.1%	-17.1%	-30.1%	-12.0%	33.5%
Hankyu Hanshin Dept. Stores	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Hankyu Main Store	-85.9%	-74.4%	-21.9%	-24.6%	-29.5%	-38.2%	-1.1%	-13.8%	-17.9%	-29.9%	-7.2%	44.8%
Hanshin Umeda Main Store	-81.0%	-72.7%	-36.1%	-31.9%	-36.9%	-55.8%	-10.4%	-31.4%	-33.7%	-44.6%	-33.1%	9.5%
Total branch stores	-58.5%	-43.9%	15.4%	12.6%	16.7%	8.2%	-3.0%	-9.8%	-10.8%	-26.0%	-11.1%	24.5%
All stores	-76.5%	-64.1%	-10.9%	-13.2%	-15.0%	-27.0%	-2.8%	-13.7%	-16.5%	-29.6%	-11.6%	32.6%
Comparable stores	-80.5%	-69.5%	-22.5%	-23.9%	-26.9%	-36.3%	-	-	-	-	-	-
Izumiya	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Gross sales												
All stores	7.2%	5.4%	-0.9%	2.9%	5.2%	1.0%	3.2%	1.8%	0.6%	5.4%	-2.0%	-7.4%
Comparable stores	6.8%	6.1%	-0.2%	3.5%	5.2%	0.5%	2.0%	-0.4%	1.6%	5.4%	-2.0%	-7.7%
Hankyu Oasis	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Gross sales												
All stores	7.7%	4.3%	0.3%	4.4%	5.7%	-0.3%	-0.1%	-4.7%	1.6%	7.4%	-2.4%	-8.1%
Comparable stores	6.0%	3.3%	-1.4%	1.8%	4.9%	-1.5%	-0.8%	-3.8%	2.9%	8.1%	-2.2%	-8.6%
FY03/22	**2021**									**2022**		
(YoY)	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Consolidated	38.8%	-1.6%	-0.3%	3.8%	-10.7%							
Department Store	216.6%	2.0%	3.2%	11.4%	-15.4%							
Hankyu Hanshin Dept. Stores	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Hankyu Main Store	322.9%	-34.3%	8.6%	18.8%	-13.7%	-3.3%						
Hanshin Umeda Main Store	151.9%	-21.1%	-17.6%	-14.3%	-68.2%	-42.2%						
Total branch stores	158.6%	32.3%	-0.9%	6.8%	-8.6%	-5.1%						
All stores	213.6%	1.3%	2.5%	11.0%	-15.6%	-6.9%						
Comparable stores	-	-	-	-	-	-						
Izumiya	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Gross sales												
All stores	-7.1%	-1.3%	-0.4%	-1.2%	-6.1%	-1.6%						
Comparable stores	-7.1%	-0.6%	0.7%	-0.8%	-5.7%							
Hankyu Oasis	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Gross sales												
All stores	-5.3%	0.9%	5.5%	0.7%	-0.2%	0.5%						
Comparable stores	-5.8%	0.7%	6.3%	2.3%	1.9%							

Source: Shared Research based on company data

Note: The company has been applying the Accounting Standard for Revenue Recognition since the beginning of FY03/22. However, monthly flash reports regarding sales and sales overviews use trading volume (gross sales), the metric applied by the company prior to the application of this standard.

Monthly				2020				2021					
(YoY)	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Consolidated	-25.2%	-4.1%	-13.5%	-13.6%	-19.4%	-10.9%	8.8%	38.8%	-1.6%	-0.3%	3.8%	-10.7%	
Department Store	-36.1%	3.7%	-14.1%	-17.1%	-30.1%	-12.0%	33.5%	216.6%	2.0%	3.2%	11.4%	-15.4%	
Hankyu Hanshin Dept. Stores	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Hankyu Main Store	-38.2%	-1.1%	-13.8%	-17.9%	-29.9%	-7.2%	44.8%	322.9%	-34.3%	8.6%	18.8%	-13.7%	-3.3%
Hanshin Umeda Main Store	-55.8%	-10.4%	-31.4%	-33.7%	-44.6%	-33.1%	9.5%	151.9%	-21.1%	-17.6%	-14.3%	-68.2%	-42.2%
Total branch stores	8.2%	-3.0%	-9.8%	-10.8%	-26.0%	-11.1%	24.5%	158.6%	32.3%	-0.9%	6.8%	-8.6%	-5.1%
All stores	-27.0%	-2.8%	-13.7%	-16.5%	-29.6%	-11.6%	32.6%	213.6%	1.3%	2.5%	11.0%	-15.6%	-6.9%
Comparable stores	-36.3%	-	-	-	-	-	-	-	-	-	-	-	-
All stores ex. Hanshin Umeda Main Store													
Customer count													

All stores	-21.7%	-21.7%	-26.7%	-33.2%	-40.7%	-28.8%	12.8%	114.1%	22.8%	-2.5%	0.3%	-21.4%	
Comparable stores	-36.2%	-	-	-	-	-	-	-	-	-	-	-	-
Branchs tores													
Senri Hankyu	-21.4%	-1.8%	-11.9%	-6.6%	-16.6%	-5.7%	17.9%	82.3%	-16.3%	-2.5%	5.8%	-12.0%	
Takatsuki Hankyu	-	15.9%	-3.7%	-1.3%	-7.9%	-2.9%	17.9%	95.9%	-23.2%	-5.9%	4.1%	-14.2%	
Kawanishi Hankyu	-18.7%	15.9%	-9.5%	-9.9%	-20.5%	-10.3%	10.4%	78.6%	8.0%	-9.2%	-1.8%	-13.2%	
Takarazuka Hankyu	3.1%	-0.3%	-4.8%	-2.4%	-9.0%	-5.3%	22.6%	32.1%	15.6%	6.9%	5.3%	8.5%	
Nishinomiya Hankyu	-19.1%	6.8%	-6.7%	-6.0%	-21.5%	-5.5%	32.2%	158.2%	30.5%	-7.8%	3.3%	-10.2%	
Sanda Hankyu	-12.7%	-3.5%	-18.0%	-4.3%	-17.5%	-14.7%	7.9%	279.7%	53.1%	60.0%	55.7%	-85.9%	
Kobe Hankyu	-	-8.8%	-13.2%	-8.9%	-26.0%	-14.8%	20.3%	193.4%	40.7%	-1.3%	7.4%	-10.7%	
Hakata Hankyu	-34.9%	-9.5%	-7.8%	-17.5%	-37.6%	-17.9%	39.9%	1,017.4%	165.9%	7.3%	15.8%	-3.8%	
Hankyu Men's Tokyo	-31.2%	-3.6%	-19.8%	-21.7%	-41.0%	-21.7%	24.3%	705.1%	170.5%	-5.6%	-0.2%	-14.0%	
Oi Hankyu Food Hall	2.4%	1.1%	-0.4%	0.3%	0.3%	-5.1%	7.7%	-3.7%	-4.1%	3.0%	0.4%	-4.6%	
Tsuzuki Hankyu	-32.9%	-31.5%	-30.2%	-39.4%	-50.7%	3.2%	15.4%	22.5%	27.5%	8.1%	6.1%	2.1%	
Amagasaki Hanshin	-2.3%	1.3%	3.6%	-0.2%	-1.6%	-4.7%	13.7%	23.3%	5.5%	3.1%	1.4%	6.7%	
Hanshin Nishinomiya	-10.1%	-6.6%	-7.4%	-5.2%	-10.9%	-6.7%	15.2%	14.9%	2.1%	3.7%	0.9%	3.8%	
Hanshin Mikage	-2.7%	-1.2%	-0.2%	-7.9%	-6.6%	-10.5%	19.1%	32.3%	16.6%	12.7%	0.8%	2.1%	
All store gross sales by product													
Menswear and goods	-33.9%	1.2%	-23.6%	-24.1%	-39.3%	-21.0%	19.9%	571.3%	-35.3%	-11.2%	4.1%	-21.5%	
Womenswear and goods	-35.8%	-10.4%	-27.2%	-26.2%	-42.6%	-12.2%	33.0%	652.6%	-19.9%	-1.5%	8.1%	-24.1%	
Children's wear and goods	-23.0%	-5.5%	-21.3%	-22.6%	-40.6%	-12.1%	46.5%	432.5%	-25.6%	-10.9%	8.7%	-18.0%	
Other apparel	-33.9%	8.3%	-17.0%	-16.5%	-33.5%	-13.4%	29.0%	493.2%	-35.7%	-7.8%	17.5%	-30.0%	
Apparel	-34.0%	-5.0%	-24.7%	-24.4%	-40.6%	-15.2%	29.6%	584.6%	-27.1%	-6.1%	7.8%	-23.3%	
Personal items	-39.1%	12.3%	-8.3%	-13.6%	-29.5%	-7.4%	63.8%	699.1%	-11.0%	8.6%	13.8%	-11.7%	
Household goods	-35.4%	-1.7%	-3.7%	-14.5%	-20.3%	5.0%	34.8%	420.5%	-24.8%	-0.3%	23.0%	3.4%	
Food	-2.3%	-11.6%	-10.6%	-11.4%	-19.5%	-13.8%	20.0%	32.8%	17.9%	8.3%	5.6%	-15.4%	
Restaurants and cafes	-41.2%	-28.8%	-36.7%	-48.5%	-52.4%	-34.1%	39.8%	538.7%	5.4%	2.7%	9.3%	-36.9%	
Accessories	-44.1%	1.6%	-6.7%	-11.5%	-26.5%	-7.0%	35.2%	319.8%	3.7%	3.2%	26.4%	-11.5%	
Services	-40.0%	-41.1%	-36.5%	-27.1%	-40.6%	-36.1%	0.6%	425.5%	-18.8%	15.2%	10.1%	-30.5%	
Other	-	16.9%	-2.1%	-27.1%	-9.9%	-7.1%	17.6%	143.8%	-7.6%	-7.3%	-0.5%	-16.5%	
Total	-27.0%	-2.9%	-13.7%	-16.5%	-29.4%	-11.7%	32.6%	21.4%	1.3%	2.5%	11.0%	-15.6%	
Izumiya	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Gross sales													
All stores	1.0%	3.2%	1.8%	0.6%	5.4%	-2.0%	-7.4%	-7.1%	-1.3%	-0.4%	-1.2%	-6.1%	-1.6%
Comparable stores	0.5%	2.0%	-0.4%	1.6%	5.4%	-2.0%	-7.7%	-7.1%	-0.6%	0.7%	-0.8%	-5.7%	
HankyuOasis	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Gross sales													
All stores	-0.3%	-0.1%	-4.7%	1.6%	7.4%	-2.4%	-8.1%	-5.3%	0.9%	5.5%	0.7%	-0.2%	0.5%
Comparable stores	-1.5%	-0.8%	-3.8%	2.9%	8.1%	-2.2%	-8.6%	-5.8%	0.7%	6.3%	2.3%	1.9%	

Source: Shared Research based on company data

Note: The company has been applying the Accounting Standard for Revenue Recognition since the beginning of FY03/22. However, monthly flash reports regarding sales and sales overviews use trading volume (gross sales), the metric applied by the company prior to the application of this standard.

Sale of non-current assets and recording of extraordinary gain

2021-09-30

H2O Retailing Corporation announced the sale of non-current assets and the recording of extraordinary gain (gain on sale of non-current assets).

Through a meeting of its Board of Directors held on September 30, 2021, the company reached the decision to sell a portion of its non-current assets. The goals of this sale are to improve the company's asset efficiency by ensuring more effective use of management resources and to strengthen its financial structure. This sale will generate approximately JPY8.5bn in gain on the sale of non-current assets, which the company plans to book as extraordinary gain in Q4 FY03/23.

Summary of asset to be transferred

- Location: 1857-18, 4-50-1, Esaka-cho, Suita, Osaka
- Asset details: 10,905.69sqm of land (registered land area)
- Associated gain: About JPY8.5bn
- Current status of land: Used to accommodate a distribution center
- Buyer: Undisclosed

Transfer schedule

- Date of Board of Directors' decision: September 30, 2021
- Contract conclusion date: September 30, 2021
- Scheduled date of transfer: March 31, 2023

Kansai Super Market announced assessment of the offers it has received from H2O and OK Corporation

2021-09-24

Kansai Super Market Ltd. (TSE1: 9919) announced a press release outlining its assessment of the offers it has received from H2O Retailing Corporation (and its group companies) and OK Corporation, and reiterated its intention to push forward with the planned merger with H2O.

On August 31, 2021, H2O and Kansai Super Market announced that their respective Boards of Directors had voted to approve a merger of the two companies. In early June 2021, Kansai Super Market had received a different offer from OK Corporation, a supermarket operator based in the Kanto region; under that proposal, OK Corporation would make a tender offer for Kansai Super Market shares and the two would form a capital and business alliance. In response to the announcement of the merger agreement between H2O and Kansai Super Market, OK Corporation sent a missive to Kansai Super Market stating that it felt the explanation of the expected synergies from the merger between H2O and Kansai Super Market was lacking and requesting further details. The press release issued by Kansai Super Market on September 24, 2021 represents its response to that request and the questions posed by OK Corporation.

Having received a tender offer of JPY2,250 per share from OK Corporation, Kansai Super Market hired two independent third-party valuation specialists to assess the fairness of the competing offers to its shareholders. According to the calculations of IR Japan, Inc., after the share exchange consummating the merger with H2O, the theoretical fair value of Kansai Super Market shares would be between JPY2,400 and JPY3,018 per share. With Plutus Consulting Co., Ltd. putting fair value between JPY1,787 and JPY3,128 per share, Kansai Super Market concluded that, from the standpoint of shareholders, the offer from H2O is probably superior to the offer from OK Corporation.

The capital and business alliance between OK Corporation and Kansai Super Market based on a tender offer is only valid if Kansai Super Market shareholders will vote to abandon the planned merger between H2O and Kansai Super Market at its extraordinary shareholders meeting scheduled for October or November 2021.

Monthly sales data (overview) for August 2021

2021-09-15

H2O Retailing Corporation announced monthly sales data (overview) for August 2021; see the monthly trends section for details.

Q1 FY03/22 report update

2021-09-10

Shared Research updated the report following interviews with H2O Retailing Corporation.

Monthly sales data (flash report) for August 2021

2021-09-01

H2O Retailing Corporation announced monthly sales data (flash report) for August 2021; see the results section for details.

Integration of the food business by concluding a merger agreement between Kansai Super Market and Izumiya and Hankyu Oasis; share exchange agreement between the three companies; transition to an intermediate holding company structure through a company split of Kansai Super Market; and changes to subsidiaries and second-tier subsidiaries

2021-08-31

H2O Retailing Corporation announced integration of the food business by concluding a merger agreement between Kansai Super Market and consolidated subsidiaries Izumiya and Hankyu Oasis. In addition, it announced a share exchange agreement between the three companies, transition to an intermediate holding company structure through a company split of Kansai Super Market, and changes to subsidiaries and second-tier subsidiaries.

On August 31, 2021, Kansai Super Market (TSE1: 9919) and H2O's consolidated subsidiaries Izumiya and Hankyu Oasis resolved at their respective board of directors' meetings to conclude the merger and other agreements stated above.

Background to merger

In October 2016, H2O and Kansai Super Market signed a business and capital alliance agreement. H2O acquired around 10% of voting rights in Kansai Super Market through a third-party allotment of shares, and the two companies pursued synergies through the business and capital alliance. However, the two companies concluded that synergy effects of a loose business alliance based on a 10% investment were limited amid the competitive environment in the supermarket business. Eventually, they decided to sign the above merger agreement to take their business and capital alliance to the next level.

Effects of merger

The planned merger makes Kansai Super Market a close, strategic partner based on capital ties. This will allow H2O to accelerate effective core business alliance initiatives of its Kansai area dominance strategy such as development of private brand products and initiatives that require policy decisions such as supplier and distribution policies, and management and utilization of information (i.e., joint distribution, improving purchasing costs, and integration of IT systems).

Merger method

Under the share exchange agreement between Kansai Super Market and Izumiya, Kansai Super Market will become a wholly-owning parent company resulting from the share exchange and Izumiya a wholly-owned subsidiary resulting from the share exchange. Under the share exchange agreement between Hankyu Oasis and Kansai Super Market, Kansai Super Market will become a wholly-owning parent company resulting from the share exchange and Hankyu Oasis a wholly-owned subsidiary resulting from the share exchange. As a result of the share exchange, H2O becomes the parent company of Kansai Super Market with a 58.0% share of voting rights, while Izumiya and Hankyu Oasis become the wholly-owned subsidiaries of Kansai Super Market and second-tier subsidiaries of H2O.

Transition to intermediate holding company structure

All businesses run by Kansai Super Market will be transferred to a newly established split-up company (wholly owned by Kansai Super Market) by absorption-type split. Kansai Super Market will become an intermediate holding company, which will hold Izumiya and Hankyu Oasis as wholly-owned subsidiaries. H2O will thus transition to an intermediate holding company structure.

Merger timeline

Description	Date
Resolutions regarding merger at board of directors' meetings of H2O Retailing, Kansai Super Market, Izumiya, and Hankyu Oasis; Resolution to establish split-up company (Kansai Super Market)	August 31, 2021
Conclusion of merger and share exchange agreements	August 31, 2021
Public notice of record date for extraordinary meeting of shareholders (Kansai Super Market)	August 31, 2021 (planned)
Record date for extraordinary general meeting of shareholders (Kansai Super Market)	September 15, 2021 (planned)
Establishment of split-up company (Kansai Super Market)	Late September 2021 (planned)
Board of directors' meeting to approve absorption-type split (Kansai Super Market and split-up company)	Late September 2021 (planned)
Conclusion of absorption-type split agreement (Kansai Super Market and split-up company)	Late September 2021 (planned)
Extraordinary general meeting of shareholders to approve share exchange (Kansai Super Market, Izumiya, and Hankyu Oasis); Extraordinary general meeting of shareholders to approve absorption-type split (Kansai Super Market)	October 29, 2021 (planned)
Effective date of share exchange	December 1, 2021 (planned)
Effective date of absorption-type split	February 1, 2022 (planned)

As of the announcement date, Kansai Super Market is listed on TSE1 and plans to maintain its listing after the share exchange if it passes through. However, in accordance with the delisting criteria of the Tokyo Stock Exchange (First Section), there is a possibility that the listing will be classified as an "issue with a grace period pertaining to substantial viability due to a merger, etc."

Monthly sales data (overview) for July 2021

2021-08-16

H2O Retailing Corporation announced monthly sales data (overview) for July 2021; see the monthly trends section for details.

Monthly sales data (flash report) for July 2021

2021-08-02

H2O Retailing Corporation announced monthly sales data (flash report) for July 2021; see the results section for details.

Q1 FY03/22 flash update; new medium-term management plan; and basic agreement for a comprehensive business alliance with Mandai

2021-07-28

H2O Retailing Corporation announced earnings results for Q1 FY03/22; see the results section for details.

On the same day, the company announced its new medium-term management plan.

Background on the formulation of the medium-term management plan

Amid the inevitable narrowing of the retail market due to structural changes, including a shrinking population and the aging of society as Japan's birth rate declines, the company has focused its efforts on formulating and implementing GP10 (Gran Prix 10 Plan), its long-term business plan, since FY03/06 with a view to continually expanding its market share. As part of GP10 Plan Stage II (GP10-II Second), which was launched in FY03/16, the company's "Kansai dominance strategy" aims to increase market share by building a network of stores that can accommodate customers' daily and non-daily needs. Based on this long-term plan, the company has been promoting the GP10-II Phase 2 medium-term plan since FY03/20.

However, based on its understanding of the current situation and its outlook for the future in regard to rapid changes in the social and consumer environments as a result of the COVID-19 pandemic, the company elected to withdraw its standing medium-term plan in October 2020 and draft a new one.

The company believes that the COVID-19 pandemic has substantially changed society and lifestyles in general in the following ways.

- Rapid digitalization and a shift to online activity: New lifestyles are increasingly common across a wide range of age brackets and social situations.
- Transition to a network-based society with direct connections to consumers and business partners: The transition to a networked society continues to move forward as online access and communication becomes increasingly easy, the younger generation of "digital and social media natives" increases its presence in society, and D2C businesses, where operators sell directly to consumers, continue to expand.
- The advantages of having locations in urban areas begin to fade: The daily volume of people commuting to their jobs and school has decreased as telecommuting has become increasingly prevalent. On the other hand, with consumers focused more on the areas in which they live and narrowing the range of their movement, their use of nearby stores has increased.

Based on these changes, the company plans to adopt the following strategies.

- Building a business style that integrates offline (physical stores) and online operations (online-merge-offline [OMO] style)
- Transforming the business model to one based on direct communication with customers
- Diversifying revenue sources and restructuring the group's earnings structure by shifting away from a model based on attracting customers to urban locations and reducing its dependence on department stores

Long-term business plan for 2030

The company has reassessed its fundamental business practices and has formulated a long-term business plan for 2030 that focuses on rebuilding and optimizing existing businesses, expanding into new markets, and taking on the challenge of creating new business models.

The new business model the group is targeting is that of a "communication retailer." In short, the company aims to build strong and deep ongoing relationships with its customers through direct communication efforts that integrate digital technologies and brick-and-mortar operations. By providing a variety of products and services in this manner, the company aims to grow together with local communities as it promotes lifestyles for its customers that are enjoyable, happy, and full of delicious food.

Classifying its target customers into three categories: "the affluent," "small mass," and "mass," the company is pursuing the following strategies. By 2030, it aims to have some 10mn "group active customers," and targets operating profit of JPY30.0–35.0bn and ROE of 6–7%.

- Rebuild the Department Store business: While focusing on reforming its cost structure, the company will promote OMO through the use of digital technologies and ensure progress in the rebuilding of the Hanshin Umeda Main Store and the remodeling of the Kobe Hankyu and Takatsuki Hankyu locations. Through these efforts, it aims to create the most enjoyable department stores and establish a business model that can reliably produce stable operating profit of JPY15.0bn or more.

- Establishing the Supermarket business as a second earnings pillar: The company will advance reforms to ensure the ability of the business to continually generate operating profit of JPY10.0bn. These reforms include a comprehensive review of operations, efforts to improve productivity, and reducing costs and the cost ratio through the integration of Izumiya and Oasis.

- Ensuring stability in the Shopping Center business: The company will streamline investments and operations to ensure operating profit in the business of JPY3.0bn, with a focus in particular on shopping center and business hotel operations.

- Developing new markets: The company intends to expand into new store-commerce markets and create a business capable of generating operating profit of JPY3.0bn within ten years. To this end, it established the Ningbo Hankyu business, which launched in April 2021, and will provide high-end and Japanese products and services to the affluent consumers in Ningbo, Zhejiang Province as well as operate e-commerce and related businesses in cooperation with the Hankyu Umeda Main Store.

- Taking on the challenge of new business models: Leveraging the customer base and market expertise it has accumulated in the Kansai region, the company will develop its customer service business as part of its business model expansion strategy. The company aims to commercialize new services in the Kansai area by strengthening its delivery business and developing online service content centered on food widely utilized in the mass market, promoting cooperation with brick-and-mortar stores, and creating alliance-based networks, including with Lawson, Inc. and Osaka Prefecture. Through the conversion of customer data obtained and functions developed into a platform, the company aims to grow them into a B2B business and generate operating profit on a combined basis of JPY3.0bn or more.

- Infrastructure development: To help achieve the goal of becoming a "communication retailer," the company will develop IT infrastructure, establish the OMO business style using digital technologies, and create a group customer data base in line with its goal of contributing to local communities through the creation of social and residential bonds.

The new medium-term management plan as a part of the long-term business plan for 2030

The company's new medium-term management plan, covering the years between FY03/22 and FY03/24, includes the following strategies aimed at recovering operating profit to the level seen prior to the arrival and spread of COVID-19.

- Rebuild the Department Store business by reforming the cost structure and establishing the OMO business style

- Establish the Supermarket business as a second earnings pillar by restructuring the business, integrating food manufacturing and processing with sales, and bolstering capacity through alliances

- As part of its effort to establish businesses that will ensure future growth, the company will work to make Ningbo Hankyu the leading department store in the region, develop related businesses, and launch and expand the customer service business centered on online support

- Promote the advancement of IT and digitalization

Over the subsequent three-year period (FY03/25–FY03/27), the company aims to achieve operating profit that exceeds the pre-pandemic level and diversify its revenue sources.

On the same day, the company announced a basic agreement for a comprehensive business alliance with Mandai Co., Ltd.

H2O announced the signing of a basic agreement for a comprehensive business alliance with Mandai.

Reasons and goals for the alliance

The company aims to integrate the operational functions of its supermarkets and restructure chain operations as part of its company-wide goal of making the Supermarket business a second earnings pillar within the group. In addition to these in-house initiatives, the company is focused on creating a network of alliances with other companies to expand its business and strengthen its services in the post-COVID-19 era.

The alliance with Mandai, which operates 156 supermarkets in the Kansai area, will allow the two companies to advance cooperation in a variety of areas by leveraging their strengths in the field of supermarkets as well as the scale of their businesses. H2O expects this to contribute to improved profitability and enhanced competitiveness in the Kansai area, thus bolstering its overall corporate value.

Details of the alliance

Discussions between the two parties will include the following initiatives:

- Joint procurement of products
- Joint development of private brand products
- Mutual use of logistics functions
- Joint development and use of marketing methods based on data utilization
- Joint development of IT systems
- Joint development of settlement and reward-point systems
- Joint development and procurement of materials and equipment
- Mutual education and training programs
- Joint efforts related to decarbonization and achievement of the SDGs

Summary of the alliance partner (as of end-February 2021)

- Name: Mandai Co., Ltd.
- Headquarters: Osaka, Osaka Prefecture
- Business: Management of supermarkets selling food, household goods, and alcoholic beverages (156 stores in July 2021)
- Founded: May 1962
- Sales: JPY379.5bn

Schedule

The basic agreement for a comprehensive business alliance was signed in July 2021. The two parties will discuss details based on the basic agreement and, if necessary, conclude individual agreements in each area of the alliance.

Outlook

The impact of the alliance on the company's performance has not yet been determined.

Monthly sales data (overview) for June 2021

2021-07-15

H2O Retailing Corporation announced monthly sales data (overview) for June 2021.

Conclusion of a comprehensive alliance agreement with Osaka Prefecture

2021-07-07

H2O Retailing Corporation announced the conclusion of a comprehensive alliance agreement with Osaka Prefecture.

On July 7, 2021, the company entered into a comprehensive alliance with Osaka Prefecture to cooperate and collaborate in the seven areas of children and education, regional vitalization, environment, health and welfare, employment promotion, disaster and crime prevention, and government public relations. With the conclusion of this alliance agreement, the company will step up efforts aimed at realizing a unique, attractive regional community together with Osaka Prefecture.

Monthly sales data (flash report) for June 2021

2021-07-01

H2O Retailing Corporation announced monthly sales data (flash report) for June 2021.

Trends and outlook

Quarterly trends and results

Cumulative	FY03/21				FY03/22				FY03/22		FY03/22	
(JPYmn)	Q1	Q1–Q2	Q1–Q3	Q1–Q4	Q1	Q1–Q2	Q1–Q3	Q1–Q4	% of Est.	1H Est.	% of Est.	FY Est.
Gross sales	145,904	335,614	551,568	739,198	161,179				46.7%	345,000	21.1%	765,000
YoY	-32.8%	-25.5%	-20.5%	-17.6%	10.5%					-		-
Sales					114,285				47.6%	240,000	22.9%	500,000
YoY					-					-		-
Gross profit	43,726	97,702	158,782	211,903	46,400							
YoY	-30.6%	-24.3%	-20.0%	-17.2%	-							
Gross profit margin	30.0%	29.1%	28.8%	28.7%	28.8%							
SG&A expenses	47,020	102,108	159,790	216,342	48,445							
YoY	-21.8%	-16.8%	-14.3%	-11.6%	-							
SG&A ratio	32.2%	30.4%	29.0%	29.3%	30.1%							
Operating profit	-3,293	-4,405	-1,008	-4,438	-2,044				-	-5,200	-	-1,000
YoY	-	-	-	-	-					-		-
Operating profit margin	-2.3%	-1.3%	-0.2%	-0.6%	-1.3%					-		-
Recurring profit	-2,996	-4,400	-101	-2,907	-949				-	-5,250	-	-2,000
YoY	-	-	-	-	-					-		-
Recurring profit margin	-2.1%	-1.3%	0.0%	-0.4%	-0.6%					-		-
Net income	-6,111	-10,102	-8,109	-24,791	6,277				205.8%	3,050	125.5%	5,000
YoY	-	-	-	-	-					-		-
Net margin	-4.2%	-3.0%	-1.5%	-3.4%	3.9%					0.9%		0.7%

Quarterly	FY03/21				FY03/22			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross sales	145,904	189,710	215,954	187,630	161,179			
YoY	-32.8%	-18.8%	-11.2%	-7.7%	10.5%			
Sales					161,179			
YoY					-			
Gross profit	43,726	53,976	61,080	53,121	46,400			
YoY	-30.6%	-18.2%	-12.0%	-7.8%	-			
Gross profit margin	30.0%	28.5%	28.3%	28.3%	28.8%			
SG&A expenses	47,020	55,088	57,682	56,552	48,445			
YoY	-21.8%	-11.9%	-9.6%	-3.1%	-			
SG&A ratio	32.2%	29.0%	26.7%	30.1%	30.1%			
Operating profit	-3,293	-1,112	3,397	-3,430	-2,044			
YoY	-	-	-39.0%	-	-			
Operating profit margin	-	-	1.6%	-	-1.3%			
Recurring profit	-2,996	-1,404	4,299	-2,806	-949			
YoY	-	-	-24.9%	-	-			
Recurring profit margin	-	-	-	-	-0.6%			
Net income	-6,111	-3,991	1,993	-16,682	6,277			
YoY	-	-	86.3%	-	-			
Net margin	-	-	-	-	3.9%			

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. FY03/22 figures and forecast in this table are based on the application of this standard. "Sales" through FY03/21 are stated as "gross sales" in the table.

Gross profit margin, SG&A expense ratio, operating profit margin, recurring profit margin, and net margin have been calculated using gross sales as a denominator.

By segment	FY03/21				FY03/22				FY03/22		FY03/22	
Cumulative (JPYmn)	Q1	Q1–Q2	Q1–Q3	Q1–Q4	Q1	Q1–Q2	Q1–Q3	Q1–Q4	% of Est.	1H Est.	% of Est.	FY Est.
Gross sales	145,904	335,614	551,568	739,198	161,179				46.7%	345,000	21.1%	765,000
YoY	-32.8%	-25.5%	-20.5%	-17.6%	10.5%					-		-
Department Store	48,408	138,187	252,727	347,768	66,697				42.2%	158,000	17.1%	390,000
YoY	-58.0%	-43.1%	-31.8%	-26.5%	-					14.3%		12.1%
Supermarket	73,148	141,806		292,611	73,346				50.2%	146,000	24.7%	297,000
YoY	-	-		-	-					3.0%		1.5%
Shopping Center Management	17,073	34,091		65,041	13,025				54.3%	24,000	32.6%	40,000
YoY	-	-		-	-					-29.6%		-38.5%
Other	7,274	15,755		33,658	8,110				47.7%	17,000	21.3%	38,000
YoY	-	-		-	-					7.9%		12.9%
Sales					114,285				33.1%	345,000	14.9%	765,000
YoY					-							
Department Store					23,416							
YoY					-							
Supermarket					70,095							
YoY					-							
Shopping Center Management					12,436							
YoY					-							
Other					7,326							
YoY					-							
Operating profit	-3,293	-4,405	-1,008	-4,438	-2,044				-	-5,200	-	-1,000
YoY	-	-	-	-	-					-		-
Operating profit margin	-	-	-	-	-					-		-
Department Store	-2,945	-3,456	-963	-1,903	-1,846				-	-3,900	-	500
YoY	-	-	-	-	-					-		-
Operating profit margin	-	-	-	-	-					-		0.1%
Supermarket	1,482	2,902		4,087	1,335				78.5%	1,700	29.7%	4,500
YoY	-	-		-	-9.9%					-		-
Operating profit margin	2.0%	2.0%		1.4%	1.9%					1.2%		1.5%
Shopping Center Management	-107				23				-	-400	-	-500
YoY	-				-					-		-
Operating profit margin	-				0.2%					-		-
Other	526				-1,090				-	-1,000	-	-3,000
YoY	-				-					-		-

By segment	FY03/21				FY03/22							
Operating profit margin	-				-					-		-
Adjustments	-2,250				-466				-	-	-	-
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross sales	145,904	189,710	215,954	187,630	161,179							
YoY	-32.8%	-18.8%	-11.2%	-7.7%	-							
Department Store	48,408	89,779	114,540	95,041	66,697							
YoY	-57.4%	-28.8%	-12.5%	-7.4%	-							
Supermarket	73,148	68,658	-	-	73,346							
YoY	-	-	-	-	-							
Shopping Center Management	17,073	17,018	-	-	13,025							
YoY	-	-	-	-	-							
Other	7,274	8,481	-	-	8,110							
YoY	-	-	-	-	-							
Sales					114,285							
YoY					-							
Department Store					23,416							
YoY					-							
Supermarket					70,095							
YoY					-							
Shopping Center Management					12,436							
YoY					-							
Other					7,326							
YoY					-							
Operating profit	-3,293	-1,112	3,397	-3,430	-2,044							
YoY	-	-	-39.0%	-	-							
Operating profit margin	-	-	-	-	-							
Department Store	-2,945	-511	2,493	-940	-1,846							
YoY	-	-	-42.6%	-	-							
Operating profit margin	-	-	2.2%	-	-							
Supermarket	1,482	1,420			1,335							
YoY	-	-		-	-9.9%							
Operating profit margin	2.0%	2.1%			1.9%							
Shopping Center Management	-107				23							
YoY	-				-							
Operating profit margin	-				0.2%							
Other	526				-1,090							
YoY	-				-							
Operating profit margin	-				-							
Adjustments	-2,250				-466							

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. FY03/22 figures and forecast in this table are based on the application of this standard. "Sales" through FY03/21 are stated as "gross sales" in the table.

Operating profit margin has been calculated using gross sales as the denominator.

In Q1 FY03/22, the company changed the name of the Shopping Center Management segment to the Shopping Center segment. Additionally, Hankyu Kitchen Yell Kansai, Inc., EveryD.com, Inc. and Hankyu Sennan Green Farm, which were previously included in the Other business segment, were transferred to the Supermarket segment, and Oi Development Co., Ltd., which was also included in Other business segment, was transferred to the Shopping Center segment. FY03/21 figures have been adjusted to reflect the new reporting segment classifications.

SG&A expenses	FY03/20				FY03/21				FY03/22			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SG&A expenses	60,163	62,521	63,832	58,348	47,020	55,088	57,682	56,552	48,445	-	-	-
YoY	-0.5%	1.3%	0.8%	-3.3%	-21.8%	-11.9%	-9.6%	-3.1%	3.0%	-	-	-
% of sales	27.7%	26.8%	26.2%	28.7%	32.2%	29.0%	26.7%	30.1%	30.1%	-	-	-
Personnel	23,690	23,612	24,263	22,408	18,396	21,094	21,323	20,821	19,275	-	-	-
YoY	-0.8%	-0.3%	1.6%	-4.1%	-22.3%	-10.7%	-12.1%	-7.1%	4.8%	-	-	-
% of sales	10.9%	10.1%	10.0%	11.0%	12.6%	11.1%	9.9%	11.1%	12.0%	-	-	-
Rents	9,876	10,088	10,504	9,818	7,064	9,514	10,039	9,748	8,468	-	-	-
YoY	-0.1%	3.0%	5.7%	1.4%	-28.5%	-5.7%	-4.4%	-0.7%	19.9%	-	-	-
% of sales	4.5%	4.3%	4.3%	4.8%	4.8%	5.0%	4.6%	5.2%	5.3%	-	-	-
Advertising and display	2,976	3,264	2,233	2,360	706	1,301	1,791	2,012	1,254	-	-	-
YoY	-13.7%	-8.4%	-45.5%	-30.1%	-76.3%	-60.1%	-19.8%	-14.7%	77.6%	-	-	-
% of sales	1.4%	1.4%	0.9%	1.2%	0.5%	0.7%	0.8%	1.1%	0.8%	-	-	-
Depreciation and amortization	4,040	4,197	4,563	4,817	3,658	4,217	4,518	4,566	3,536	-	-	-
YoY	6.3%	2.4%	8.4%	11.7%	-9.5%	0.5%	-1.0%	-5.2%	-3.3%	-	-	-
% of sales	1.9%	1.8%	1.9%	2.4%	2.5%	2.2%	2.1%	2.4%	2.2%	-	-	-
Outsourcing	4,912	5,044	5,066	4,930	4,605	3,965	4,526	4,940	4,389	-	-	-
YoY	3.2%	4.7%	3.0%	-3.2%	-6.3%	-21.4%	-10.7%	0.2%	-4.7%	-	-	-
% of sales	2.3%	2.2%	2.1%	2.4%	3.2%	2.1%	2.1%	2.6%	2.7%	-	-	-
Sales commissions	3,113	3,237	4,647	3,126	2,309	3,069	3,725	2,300	1,111	-	-	-
YoY	-0.2%	12.1%	34.0%	9.8%	-25.8%	-5.2%	-19.8%	-26.4%	-51.9%	-	-	-
% of sales	1.4%	1.4%	1.9%	1.5%	1.6%	1.6%	1.7%	1.2%	0.7%	-	-	-
Transportation	3,571	4,101	4,177	3,119	3,474	3,869	3,993	3,069	3,372	-	-	-
YoY	0.9%	0.7%	-8.6%	-4.6%	-2.7%	-5.7%	-4.4%	-1.6%	-2.9%	-	-	-
% of sales	1.6%	1.8%	1.7%	1.5%	2.4%	2.0%	1.8%	1.6%	2.1%	-	-	-
Other	7,979	8,979	8,380	7,768	6,804	8,059	7,769	9,094	7,037	-	-	-
YoY	0.1%	1.7%	1.5%	-7.3%	-14.7%	-10.2%	-7.3%	17.1%	3.4%	-	-	-
% of sales	3.7%	3.8%	3.4%	3.8%	4.7%	4.2%	3.6%	4.8%	4.4%	-	-	-

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Notes: The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22.

With its application of the Accounting Standard for Revenue Recognition, the company began subtracting the monetary value associated with customer point redemptions, which it had previously recorded under "sales commissions," from sales. This change led to a decline in sales commissions in FY03/22.

SG&A expense ratios have been calculated using gross sales as the denominator.

Department Store business

Hankyu Hanshin Dept. Stores	FY03/20				FY03/21				FY03/22			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross sales	103,616	114,728	130,185	101,929	47,992	89,071	113,822	94,364	66,176			
YoY	1.0%	7.7%	1.0%	-10.4%	-53.7%	-22.4%	-12.6%	-7.4%	37.9%			
Gross profit	25,245	27,070	31,109	23,246	10,989	20,258	26,409	20,743	14,960			
YoY	-0.4%	6.4%	-1.8%	-13.7%	-56.5%	-25.2%	-15.1%	-10.8%	36.1%			
Gross profit margin	24.4%	23.6%	23.9%	22.8%	22.9%	22.7%	23.2%	22.0%	22.6%			
Other operating revenue	142	174	853	781	524	806	819	775	685			
YoY	1.4%	24.3%	476.4%	470.1%	269.0%	363.2%	-4.0%	-0.8%	30.7%			
SG&A expenses	22,355	23,641	27,689	23,257	14,349	21,606	24,745	22,489	17,465			
YoY	1.3%	2.0%	13.6%	2.0%	-35.8%	-8.6%	-10.6%	-3.3%	21.7%			
SG&A ratio	21.6%	20.6%	21.3%	22.8%	29.9%	24.3%	21.7%	23.8%	26.4%			
Operating profit	3,033	3,601	4,274	771	-2,835	-542	2,483	-794	-1,820			
YoY	-11.1%	50.7%	-42.8%	-82.0%	-	-	-41.9%	-	-35.8%			
Operating profit margin	2.9%	3.1%	3.3%	0.8%	-5.9%	-0.6%	2.2%	-0.8%	-2.8%			

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. However, non-consolidated financial results do not reflect this standard's application. "Sales" through FY03/21 are stated as "gross sales" in the table.

Gross profit margin, SG&A expense ratio, and operating profit margin have been calculated using gross sales as a denominator.

Sales by store	FY03/20				FY03/21				FY03/22			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All stores	103,616	114,728	135,127	106,067	50,672	93,433	118,878	98,492	69,368	-	-	-
YoY	1.0%	7.7%	4.8%	-6.7%	-51.1%	-18.6%	-12.0%	-7.1%	36.9%	-	-	-
Hankyu Main Store	58,233	66,060	66,447	50,550	22,407	45,643	58,254	48,799	31,047	-	-	-
YoY	4.1%	12.7%	-8.5%	-20.5%	-61.5%	-30.9%	-12.3%	-3.5%	38.6%	-	-	-
Hanshin Umeda Main Store	11,157	12,632	12,709	9,837	4,043	7,267	9,327	7,168	4,533	-	-	-
YoY	-12.6%	4.6%	-8.8%	-21.9%	-63.8%	-42.5%	-26.6%	-27.1%	12.1%	-	-	-
Total branches	34,225	36,036	55,970	45,681	24,220	40,525	51,296	42,525	33,788	-	-	-
YoY	1.0%	0.7%	32.1%	21.8%	-29.2%	12.5%	-8.4%	-6.9%	39.5%	-	-	-
Senri Hankyu	3,564	3,879	4,363	3,401	2,261	3,226	4,054	3,310	2,538	-	-	-
YoY	-1.4%	0.5%	-6.6%	-11.8%	-36.6%	-16.8%	-7.1%	-2.7%	12.3%	-	-	-
Takatsuki Hankyu	-	-	5,601	4,623	3,258	4,705	5,740	4,715	3,599	-	-	-
YoY	-	-	-	-	-	-	2.5%	2.0%	10.5%	-	-	-
Kawanishi Hankyu	3,478	3,823	4,132	3,355	2,140	3,220	3,799	3,091	2,475	-	-	-
YoY	-1.0%	-1.1%	-8.4%	-11.6%	-38.5%	-15.8%	-8.1%	-7.9%	15.7%	-	-	-
Takarazuka Hankyu	1,737	1,885	2,041	1,705	1,302	1,714	1,988	1,730	1,526	-	-	-
YoY	0.4%	0.7%	-2.9%	-8.3%	-25.0%	-9.1%	-2.6%	1.5%	17.2%	-	-	-
Nishinomiya Hankyu	5,922	6,407	6,778	5,875	3,192	5,439	6,588	5,755	4,207	-	-	-
YoY	3.4%	4.7%	-5.9%	-12.2%	-46.1%	-15.1%	-2.8%	-2.0%	31.8%	-	-	-
Kobe Hankyu	-	-	10,465	8,403	3,961	7,418	9,400	7,688	5,742	-	-	-
YoY	-	-	-	-	-	-	-10.2%	-8.5%	45.0%	-	-	-
Sanda Hankyu	279	365	402	318	104	304	365	288	201	-	-	-
YoY	0.7%	2.0%	-2.9%	-7.0%	-62.7%	-16.7%	-9.2%	-9.4%	93.3%	-	-	-
Hakata Hankyu	12,279	12,383	13,507	11,025	3,798	8,526	11,850	9,815	8,404	-	-	-
YoY	4.1%	0.9%	-4.9%	-17.4%	-69.1%	-31.1%	-12.3%	-11.0%	121.3%	-	-	-
Hankyu Men's Tokyo	3,068	3,111	3,770	2,935	995	2,231	3,153	2,313	1,658	-	-	-
YoY	-8.7%	-4.2%	-13.2%	-10.1%	-67.6%	-28.3%	-16.4%	-21.2%	66.6%	-	-	-
Oi Hankyu Food Hall	1,042	1,101	1,306	1,090	1,056	1,123	1,310	1,100	1,039	-	-	-
YoY	1.9%	0.2%	-0.2%	-0.2%	1.3%	2.0%	0.3%	0.9%	-1.6%	-	-	-
Tsuzuki Hankyu	1,056	1,093	1,381	1,030	619	745	899	806	735	-	-	-
YoY	-0.9%	-2.7%	3.2%	-17.5%	-41.4%	-31.8%	-34.9%	-21.7%	18.7%	-	-	-
Amagasaki Hanshin	652	743	823	704	561	731	834	718	617	-	-	-
YoY	2.7%	-0.5%	-2.0%	-4.9%	-14.0%	-1.6%	1.3%	2.0%	10.0%	-	-	-
Hanshin Nishinomiya	1,028	1,111	1,249	1,092	882	1,018	1,172	1,071	940	-	-	-
YoY	0.3%	1.2%	-2.3%	-5.6%	-14.2%	-8.4%	-6.2%	-1.9%	6.6%	-	-	-
Hanshin Mikage	116	134	151	123	83	126	144	124	99	-	-	-
YoY	-3.3%	1.5%	-0.7%	-3.1%	-28.4%	-6.0%	-4.6%	0.8%	19.3%	-	-	-

The company began applying the Accounting Standard for Revenue Recognition at the start of FY03/22. However, "sales by store" figures represent transaction volumes (gross sales), the metric applied by the company prior to the application of this standard.

Sales figures for Kobe Hankyu and Takatsuki Hankyu include both sales from department stores and trading volumes at specialty shops.

Note: Figures may differ from company materials due to differences in rounding methods.

Customer count by store	FY03/20				FY03/21				FY03/22			
Quarterly ('000)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All stores	36,464	38,648	45,451	38,195	16,988	28,833	32,527	29,703	21,950	-	-	-
YoY	-1.9%	-2.0%	12.0%	-3.5%	-53.4%	-25.4%	-28.4%	-22.2%	29.2%	-	-	-
Hankyu Main Store	11,355	12,368	12,097	9,948	3,428	6,509	7,563	7,031	4,233	-	-	-
YoY	-3.9%	-0.7%	-8.3%	-22.5%	-69.8%	-47.4%	-37.5%	-29.3%	23.5%	-	-	-
Hanshin Umeda Main Store	7,472	8,010	7,610	6,068	2,257	4,028	4,421	3,804	2,486	-	-	-
YoY	-7.1%	-7.9%	-9.1%	-22.7%	-69.8%	-49.7%	-41.9%	-37.3%	10.1%	-	-	-
Total branches	17,636	18,269	25,746	22,178	11,301	18,297	20,543	18,868	15,229	-	-	-
YoY	1.8%	-0.2%	35.5%	17.5%	-35.9%	0.2%	-20.2%	-14.9%	34.8%	-	-	-
Senri Hankyu	1,201	1,196	1,209	1,076	832	979	1,005	1,039	857	-	-	-
YoY	0.8%	0.7%	-6.4%	-12.4%	-30.7%	-18.1%	-16.9%	-3.4%	3.0%	-	-	-
Takatsuki Hankyu	-	-	2,354	2,090	1,392	1,966	2,179	1,963	1,568	-	-	-
YoY	-	-	-	-	-	-	-7.4%	-6.1%	12.6%	-	-	-
Kawanishi Hankyu	1,469	1,460	1,501	1,377	825	1,214	1,223	1,246	986	-	-	-
YoY	-0.5%	0.5%	-5.7%	-10.6%	-43.8%	-16.8%	-18.5%	-9.5%	19.5%	-	-	-
Nishinomiya Hankyu	3,231	3,376	3,440	2,999	1,606	2,759	3,002	2,881	1,996	-	-	-
YoY	3.9%	1.1%	-1.3%	-15.5%	-50.3%	-18.3%	-12.7%	-3.9%	24.3%	-	-	-
Kobe Hankyu	-	-	4,976	3,987	1,672	3,322	3,576	3,127	2,191	-	-	-
YoY	-	-	-	-	-	-	-28.1%	-21.6%	31.0%	-	-	-
Hakata Hankyu	6,628	6,998	6,888	5,846	1,754	4,032	5,269	4,454	3,861	-	-	-
YoY	0.6%	-2.2%	-1.7%	-17.6%	-73.5%	-42.4%	-23.5%	-23.8%	120.1%	-	-	-
Hankyu Men's Tokyo	650	657	654	514	97	283	333	257	214	-	-	-
YoY	11.1%	6.0%	-5.5%	-23.4%	-85.1%	-56.9%	-49.1%	-50.0%	120.6%	-	-	-
Oi Hankyu Food Hall	1,312	1,340	1,411	1,340	1,043	1,128	1,220	1,172	1,092	-	-	-
YoY	-1.5%	-1.0%	-1.1%	-3.9%	-20.5%	-15.8%	-13.5%	-12.5%	4.7%	-	-	-
Tsuzuki Hankyu	879	912	957	688	449	517	557	584	538	-	-	-
YoY	-0.3%	-2.0%	-2.6%	-32.2%	-48.9%	-43.3%	-41.8%	-15.1%	19.8%	-	-	-
Hanshin Nishinomiya	1,051	1,107	1,124	1,122	786	959	1,015	1,030	860	-	-	-
YoY	9.5%	7.6%	-10.6%	-7.4%	-25.2%	-13.4%	-9.7%	-8.2%	9.4%	-	-	-
Hanshin Mikage	1,211	1,224	1,229	1,139	839	1,139	1,164	1,115	1,061	-	-	-
YoY	0.9%	-1.1%	-2.8%	-3.4%	-30.7%	-6.9%	-5.3%	-2.1%	26.5%	-	-	-

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Sales by product	FY03/20				FY03/21				FY03/22			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	103,616	114,728	135,127	106,067	50,672	93,433	118,878	98,492	69,368	-	-	-
YoY	1.0%	7.7%	4.8%	-6.7%	-51.1%	-18.6%	-12.0%	-7.1%	36.9%	-	-	-
Apparel	28,754	28,984	35,444	27,642	11,103	20,427	28,705	22,899	14,911	-	-	-
YoY	-1.5%	4.7%	-4.7%	-14.9%	-61.4%	-29.5%	-19.0%	-17.2%	34.3%	-	-	-
Menswear and goods	9,423	9,020	12,218	9,135	3,634	6,483	10,082	7,240	4,622	-	-	-
YoY	2.9%	6.2%	-7.7%	-12.3%	-61.4%	-28.1%	-17.5%	-20.7%	27.2%	-	-	-
Womenswear and goods	14,475	14,739	17,743	14,004	5,382	10,211	13,874	11,702	7,644	-	-	-
YoY	-2.9%	4.0%	-2.3%	-16.3%	-62.8%	-30.7%	-21.8%	-16.4%	42.0%	-	-	-
Children's wear and goods	2,285	2,452	2,724	2,224	1,079	1,800	2,263	1,983	1,367	-	-	-
YoY	-2.2%	5.6%	0.7%	-14.3%	-52.8%	-26.6%	-16.9%	-10.8%	26.7%	-	-	-
Other apparel	2,570	2,772	2,760	2,278	1,005	1,935	2,486	1,973	1,275	-	-	-
YoY	-8.1%	2.5%	-10.8%	-17.0%	-60.9%	-30.2%	-9.9%	-13.4%	26.9%	-	-	-
Personal items	20,987	22,996	21,737	18,478	7,915	16,838	20,609	18,600	12,441	-	-	-
YoY	3.8%	12.9%	-5.8%	-16.7%	-62.3%	-26.8%	-5.2%	0.7%	57.2%	-	-	-
Household goods	3,120	3,600	3,387	2,629	1,206	2,438	3,137	2,739	1,720	-	-	-
YoY	-11.5%	11.9%	-0.7%	-17.7%	-61.3%	-32.3%	-7.4%	4.2%	42.6%	-	-	-
Food	26,596	32,033	43,741	32,809	18,054	30,667	38,823	30,771	22,764	-	-	-
YoY	0.6%	1.0%	13.4%	3.2%	-32.1%	-4.3%	-11.2%	-6.2%	26.1%	-	-	-
Restaurants and cafes	2,365	2,613	2,470	1,851	495	1,371	1,515	1,366	750	-	-	-
YoY	1.9%	0.5%	0.1%	-23.4%	-79.1%	-47.5%	-38.7%	-26.2%	51.5%	-	-	-
Accessories	20,821	24,201	21,666	17,700	8,855	16,641	20,270	17,305	13,052	-	-	-
YoY	4.1%	20.6%	-6.7%	-14.7%	-57.5%	-31.2%	-6.4%	-2.2%	47.4%	-	-	-
Services	590	662	639	499	171	382	381	358	266	-	-	-
YoY	5.9%	30.1%	11.7%	-7.4%	-71.0%	-42.3%	-40.4%	-28.3%	55.6%	-	-	-
Other	380	-361	6,042	4,460	2,868	4,672	5,436	4,455	3,461	-	-	-
YoY	1.1%	-	1,477.5%	1,145.8%	654.7%	-	-10.0%	-0.1%	20.7%	-	-	-

Source: Shared Research based on company data
The company began applying the Accounting Standard for Revenue Recognition at the start of FY03/22. However, "sales by product" figures represent transaction volumes (gross sales), the metric applied by the company prior to the application of this standard.
Sales figures for Kobe Hankyu and Takatsuki Hankyu include both sales from department stores and trading volumes at specialty shops.
Note: Figures may differ from company materials due to differences in rounding methods.

Supermarket business

Izumiya		FY03/20				FY03/21				FY03/22		
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross sales	52,858	54,066	54,846	49,154	33,017	33,999	34,412	31,583	33,498			
YoY	-0.4%	-2.5%	-7.4%	-2.8%	-37.5%	-37.1%	-37.3%	-35.7%	1.5%			
Gross profit	13,997	13,636	14,268	12,594	8,749	8,838	8,964	8,563	8,816			
YoY	-1.8%	-6.4%	-9.3%	-7.6%	-37.5%	-35.2%	-37.2%	-32.0%	0.8%			
Gross profit margin	26.5%	25.2%	26.0%	25.6%	26.5%	26.0%	26.0%	27.1%	26.3%			
Other operating revenue	3,628	3,749	3,724	3,442	2,937	2,967	2,986	2,755	2,748			
YoY	-0.1%	1.2%	-2.9%	-3.2%	-19.0%	-20.9%	-19.8%	-20.0%	-6.4%			
SG&A expenses	18,348	18,254	18,002	17,580	10,686	10,813	10,944	11,222	10,846			
YoY	-0.7%	-2.1%	-4.7%	-2.9%	-41.8%	-40.8%	-39.2%	-36.2%	1.5%			
SG&A ratio	34.7%	33.8%	32.8%	35.8%	32.4%	31.8%	31.8%	35.5%	32.4%			
Operating profit	-722	-869	-10	-1,544	1,000	993	1,004	98	717			
YoY	-	-	-	-	-	-	-	-	-28.3%			
Operating profit margin	-1.4%	-1.6%	-0.0%	-3.1%	3.0%	2.9%	2.9%	0.3%	2.1%			
Comparable store sales		FY03/20				FY03/21				FY03/22		
	Q1	Q1–Q2	Q1–Q3	Q1–Q4	Q1	Q1–Q2	Q1–Q3	Q1–Q4	Q1	Q1–Q2	Q1–Q3	Q1–Q4
Total	-4.0%	-5.0%	-7.1%	-6.6%	4.2%	3.6%	1.1%	1.7%	-2.5%	-	-	-
Store count		FY03/20				FY03/21				FY03/22		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Store count	86	85	85	84	75	74	74	74	75	-	-	
YoY	3.6%	2.4%	0.0%	-1.2%	-12.8%	-12.9%	-12.9%	-11.9%	0.0%	-	-	-
Openings	2	-	1	-	-	-	-	-	-	-	-	
Closures	-1	-1	-1	-1	-	-1	-	-	-	-	-	

Source: Shared Research based on company data
Note: Izumiya was divided into three companies on April 1, 2020: New Izumiya, which focuses on food sales, H2O Shopping Center Development, which manages tenants and sells apparel and household products, and CFIZ, an equity method affiliate that operates stores selling medical items, cosmetics, and daily necessities. Figures through FY03/20 reflect earnings prior to the reorganization and have not been retroactively adjusted.
The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. However, non-consolidated financial results do not reflect this standard's application. "Sales" through FY03/21 are stated as "gross sales" in the table.
Gross profit margin, SG&A expense ratio, and operating profit margin have been calculated using gross sales as the denominator.

HankyuOasis		FY03/20				FY03/21				FY03/22		
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross sales	26,694	27,264	28,811	26,646	27,801	28,148	28,566	26,247	27,863	-	-	-
YoY	-5.8%	-4.9%	-2.4%	2.2%	4.1%	3.2%	-0.9%	-1.5%	0.2%	-	-	-
Gross profit	6,940	7,164	7,474	7,261	7,415	7,626	7,587	7,254	7,620	-	-	-
YoY	-0.9%	-2.6%	-1.6%	3.7%	6.8%	6.4%	1.5%	-0.1%	2.8%	-	-	-
Gross profit margin	26.0%	26.3%	25.9%	27.2%	26.7%	27.1%	26.6%	27.6%	27.3%	-	-	-
Other operating revenue	1,639	1,785	1,856	1,757	1,789	1,795	1,808	1,703	1,797	-	-	-
YoY	-0.7%	3.7%	7.8%	10.2%	9.2%	0.6%	-2.6%	-3.1%	0.4%	-	-	-
SG&A expenses	8,755	9,011	9,208	8,893	8,600	8,887	8,852	9,122	8,817	-	-	-
YoY	-1.8%	0.8%	4.0%	5.0%	-1.8%	-1.4%	-3.9%	2.6%	2.5%	-	-	-
SG&A ratio	32.8%	33.1%	32.0%	33.4%	30.9%	31.6%	31.0%	34.8%	31.6%	-	-	-
Operating profit	-176	-61	123	123	604	535	543	-167	600	-	-	-
YoY	-	-	-73.4%	1.7%	-	-	341.5%	-	-0.7%	-	-	-
Operating profit margin	-0.7%	-0.2%	0.4%	0.5%	2.2%	1.9%	1.9%	-0.6%	2.2%	-	-	-
Comparable store sales		FY03/20				FY03/21				FY03/22		
	Q1	Q1–Q2	Q1–Q3	Q1–Q4	Q1	Q1–Q2	Q1–Q3	Q1–Q4	Q1	Q1–Q2	Q1–Q3	Q1–Q4
Total	-4.6%	-6.0%	-6.0%	-4.8%	2.7%	2.2%	1.3%	0.6%	0.3%	-	-	-
Store count		FY03/20				FY03/21				FY03/22		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Store count	77	77	78	78	78	78	77	77	76	-	-	-
YoY	-2.5%	1.3%	4.0%	2.6%	1.3%	1.3%	-1.3%	-1.3%	-2.6%	-	-	-
Openings	1	1	1	1	-	1	-	-	1	-1	-	-
Closures	-	-1	-1	-	-	-1	-1	-	-2	2	-	-

Source: Shared Research based on company data
The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. However, individual company figures do not reflect this standard's application. "Sales" through FY03/21 are stated as "gross sales" in the table.
Gross profit margin, SG&A expense ratio, and operating profit margin have been calculated using gross sales as the denominator.

Q1 FY03/22 results (out July 28, 2021)

Overview

- Gross sales: JPY161.2bn (+10.5% YoY)
- Sales: JPY114.3bn
- Operating loss: JPY2.0bn (operating loss of JPY3.3bn in Q1 FY03/21)
- Recurring loss: JPY949mn (recurring loss of JPY3.0bn in Q1 FY03/21)
- Net income attributable to owners of the parent: JPY6.3bn (net loss of JPY6.1bn in Q1 FY03/21)

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Figures for FY03/22 and later accounting periods reflect the application of this standard. "Sales" through FY03/21 are equivalent to "gross sales." Gross profit margin, SG&A expense ratio, and operating profit margin have been calculated using gross sales as the denominator.

H2O adopted the Accounting Standard for Revenue Recognition from the beginning of FY03/22 and adjusted the accounting method for sales and other items based on consignment sales contracts. As a result, Q1 sales came to JPY114.3bn. Gross sales, which would be equivalent to sales through FY03/21 excluding the effects from accounting method changes, reached JPY161.2bn, up 10.5% YoY. Sales grew YoY although the Japanese government's declaration of a state of emergency resulted in the company shortening operating hours and temporarily closing some stores just as it did in Q1 FY03/21.

Despite an increase in SG&A expenses caused by growth in variable costs associated with the resumption of business activities at Hankyu Hanshin Department Stores, operating loss and recurring loss shrank along with the rise in gross sales.

The company moved back into the black at the net income level. Despite booking JPY3.8bn in loss related to COVID-19 (JPY4.9bn in Q1 FY03/21) under extraordinary losses, the company produced net income thanks in part to the recording of JPY8.9bn in gain on sale of non-current assets and JPY6.5bn in gain on sale of investment securities as extraordinary gains.

Progress versus the company's 1H forecast

At the end of Q1 FY03/22, gross sales had achieved 46.7% of their corresponding projection in the company's 1H forecast.

Department stores

The company achieved 42.2% of its 1H forecast for gross sales. During a typical year, gross sales in Q2 (July—September) are typically higher than those in Q1 (April—June) because the company holds promotional sales events in Q2 and they receive a boost from demand for traditional mid-year gifts. Shared Research believes that 1H results may fall below the company's projections due in part to temporary selling space closures in Q2 FY03/22, which were implemented when the company discovered that staff at its Hankyu Main Store and Hanshin Umeda Main Store had been infected with COVID-19.

Supermarkets

Gross sales generated through Izumiya achieved 48.5% of their corresponding projection in the company's 1H forecast, while operating profit reached 52.1%. Meanwhile, gross sales at Hankyu Oasis reached 50.3%, and operating profit achieved 57.7%. Gross sales grew thanks to demand for food products stemming from strict behavioral restrictions associated with states of emergency declared by the Japanese government. Both Izumiya and Hankyu Oasis generated operating profit that exceeded 50% of corresponding projections in the company's 1H forecast because reductions in personnel expenses and other expenditures were greater than the company had initially forecast. In 2H, the company projects an OPM of 12.1%, an improvement over the 10.8% it forecasts for 1H. H2O expects that impact from the cost reduction measures it implemented in 1H will emerge in 2H.

Segment earnings

In Q1 FY03/22, the company changed the name of the Shopping Center Management segment to the Shopping Center segment. Additionally, Hankyu Kitchen Yell Kansai, Inc. (sales and home delivery of groceries, delivery subcontracting), EveryD.com, Inc. (home delivery and delivery platform), and Hankyu Sennan Green Farm (production and sale of organic vegetables), which were previously included in the Other business segment, were transferred to the Supermarket segment, and Oi Development Co., Ltd. (operation of hotels), which was also included in the Other business segment, was transferred to the Shopping Center segment. The following section contains YoY comparisons using previous-year results reclassified into the new segmentation.

Department Store business

- Gross sales: JPY66.7bn (+37.8% YoY)
- Sales: JPY23.4bn
- Operating loss: JPY1.8bn (operating loss of JPY2.9bn in Q1 FY03/21)

Gross sales

Gross sales rose 37.8% YoY. Despite incurring COVID-19-related impact in Q1, gross sales increased primarily because negative effects associated with store closures, operational restrictions, and government requests asking residents to remain indoors in response to the pandemic were less pronounced than in Q1 FY03/21. The company observed particularly substantial growth in gross sales from stores in urban areas (Hankyu Main Store, Kobe Hankyu, Hakata Hankyu, and Hankyu Men's Tokyo), which reported significant sales decline in Q1 FY03/21.

The Japanese government again declared a state of emergency in late April 2021, resulting in the temporary closure of some stores, and locations such as the Hankyu and Hanshin main stores limiting operations to only the daily necessities sales floors. The Hankyu and Hanshin main stores resumed full-scale weekday operations on June 1, 2021 and later resumed full-scale weekend operations in late June. In connection with its state of emergency declaration, the Japanese government issued stricter requests for closures and operational restrictions within the Kansai area than it did within the Tokyo metropolitan area. Consequently, the company, which maintains its operational base in the Kansai area, incurred greater impact on its financial results than did other companies in the same industry operating primarily in Tokyo.

As a company operating department stores that symbolize the Kansai region, H2O intends to respond to COVID-19-related requests issued by both the national government and Osaka prefectural government gracefully and earnestly, cooperating with infection prevention measures and preserving the health and welfare of its customers and employees.

Operating loss

Operating loss shrank in Q1. Primary factors contributing to this improvement were an increase in gross profit stemming from the rise in gross sales and a decline in SG&A expenses that occurred as the company made progress with cost structure reforms.

- Gross profit

The company's GPM declined despite an increase in gross profit that accompanied growth in gross sales. GPM fell because the company temporarily operated only selling floors providing daily necessities, and sales of food products, which generate a relatively low GPM, accounted for a higher portion of overall sales as a result. Gross profit margins of individual product categories did not change significantly.

- SG&A expenses

The company cut back on costs primarily by internalizing operations that it had previously outsourced, limiting overtime work and travel expenses, and carefully adjusting its spending on advertising and decorating. With its application of the Accounting Standard for Revenue Recognition, the company began subtracting the monetary value associated with customer point redemptions, which it had previously recorded under "sales commissions," from sales. This change led to a decline in sales commissions in FY03/22. Despite these circumstances, SG&A expenses rose in part because the company reclassified a lower portion of expenses as extraordinary losses, including personnel expenses, rent expenses, and depreciation expenses incurred while implementing closures and operational restrictions during the state of emergency declarations. Also contributing to the increase in SG&A expenses were increases in personnel expenses, utilities expenses, and other variable expenses that stemmed from the resumption of sales activities.

Over the three years spanning from FY03/21 through FY03/23, the company is striving to reduce costs by JPY2.5bn compared to FY03/20. So far, the company has cut back on outsourcing, reduced the use of temporary staff, and adjusted its spending on advertising and business trips. H2O maintains that cost reduction is proceeding according to plan. In FY03/22, the company is also trying to lower costs by JPY2.5bn primarily through negotiations targeting lower rent and reductions in variable costs and event-related costs associated with closures and operational restrictions. Cost savings are accumulating smoothly, and the company expects to receive its cost reduction targets for the year.

Supermarket business

- Gross sales: JPY73.3bn (+0.3% YoY)
- Sales: JPY70.1bn
- Operating profit: JPY1.3bn (-9.9% YoY)

Gross sales generated through the company's supermarkets increased along with a rise in customer count as demand associated with at-home meal consumption grew, primarily among customers of suburban stores, in response to the declaration of a state of emergency in response to COVID-19. However, SG&A expenses increased in reaction to the curbs put in place on sales activities in Q1 FY03/21, and operating profit declined YoY as growth in gross profit failed to fully compensate for this increase. Sales and profit at the food manufacturing and processing subsidiaries increased, aided by higher demand for delicatessen and bakery products at supermarkets.

Izumiya

- Gross sales: JPY33.5bn (+1.5% YoY)
- Operating profit: JPY717mn (-28.3% YoY)

- Gross sales generated through existing stores: -2.5% YoY
- Store count: 75 (no openings or closures)

Gross sales generated through existing stores fell 2.5% YoY in Q1 FY03/21. However, gross sales generated within the category of food products only declined about 1%, remaining nearly level YoY. Since FY03/21, the company has been converting its general merchandise stores into shopping centers, and operating profit was hindered by factors such as temporary closures for remodeling and changes in sales floor structures. Performance also suffered downward impact from a decline in customer counts at shopping centers stemming from the COVID-19 pandemic because about half of Izumiya stores operate as food product sales spaces in large-scale shopping centers that attract customers from many miles away.

Hankyu Oasis

- Gross sales: JPY27.9bn (+0.2% YoY)
- Operating profit: JPY600mn (-0.6% YoY)
- Gross sales generated through existing stores: +0.3% YoY
- Store count: 76 (one opening and two closures)

Gross sales generated through existing stores rose 0.3% YoY in Q1 FY03/22 and were commensurate with the company's projections. Meanwhile, operating profit fell YoY despite reductions in personnel expenses and other expenditures that exceeded the company's expectations because SG&A expenses rose in comparison to Q1 FY03/21, when the company was restricting its sales activities.

Comprehensive business alliance with Mandai Co., Ltd.

The company has concluded a comprehensive business alliance agreement with Mandai, which operates 156 supermarkets in the Kansai area. Demand related to at-home meal consumption has increased since the outbreak of the COVID-19 pandemic in Japan, and the scale of the market associated with supermarkets has expanded accordingly. However, both H2O and Mandai are concerned about the potential for sluggish demand and a rise in preferences for low prices among consumers following the pandemic's conclusion. In view of these circumstances, H2O believes that it can reduce costs related to procurement and administration and overcome the difficult situation to come by forming a business alliance with Mandai, which has earned a favorable reputation for its procurement of low-priced products and fresh foods. The two parties plan to generate mutual benefit primarily through joint product procurement, collaborative development of private-label products, and the mutual sharing of various systems and IT-related capabilities. Mandai also has a business alliance with Seven & i Holdings Co., Ltd. (TSE1: 3382) that it launched in 2015. However, the relationship between these two companies does not seem to be particularly substantial and is unlikely to have impact on the comprehensive business alliance between H2O and Mandai.

Shopping Center business

- Gross sales: JPY13.0bn (-23.7% YoY)
- Sales: JPY12.4bn
- Operating profit: JPY23mn (operating loss of JPY107mn in Q1 FY03/21)

H2O Shopping Center Development Co., Ltd.

H2O Shopping Center Development sells apparel and home products at Izumiya stores while performing tenant management. Gross sales generated through H2O Shopping Center Development declined by 23.7% YoY due to the contraction of directly managed selling spaces, but profit rose thanks to progress in cost reduction.

The company is presently converting Izumiya general merchandise stores into shopping centers. In many cases, tenants selling apparel and home products are not filling selling spaces, and H2O Shopping Center Development continues to directly operate unoccupied selling spaces. Earning power has failed to improve across commercial facilities because these selling spaces have been unprofitable. In FY03/22, the company plans to complete conversions of 23 of the 36 stores that are slated to be transformed into shopping centers. H2O projects that the rest of these conversions will be completed in FY03/23.

In April 2020, the company transferred responsibility for managing tenants of Izumiya Co., Ltd.'s general merchandise stores and shopping centers and administration of directly managed selling floors for apparel and home products to H2O Shopping Center Development Co., Ltd. At the same time, it transferred responsibility for asset management operations associated with Izumiya's general merchandise stores to H2O Asset Management Co., Ltd. Thanks to these moves, Izumiya became able to focus on managing its supermarkets and operating food product selling spaces in general merchandise stores and shopping centers while H2O Shopping Center Development gained the ability to move forward with the conversion of general merchandise stores into shopping centers. Additionally, in April 2021, H2O Shopping Center Development assumed responsibility for Izumiya-related real estate management operations previously conducted by H2O Asset Management Co., Ltd. This move established a system through which H2O Shopping Center Development can centrally manage operations other than those associated with Izumiya's supermarket business.

Hankyu Shopping Center Development Co., Ltd.

Sales and profit rose despite the closure of commercial facilities and the reduction of business hours in response to the declaration of a state of emergency, thanks mainly to the positive effects from the renovation of Mosaic Mall Kohoku (Yokohama, Kanagawa Prefecture) and other factors.

Ningbo Hankyu

Sales generated through Ningbo Hankyu (Zhejiang, China) have been 60% higher than projected when the company formulated its store opening plan. According to the company, sales have outpaced its projections in part because China's economy has achieved a higher rate of growth than expected and in part because the company has successfully captured demand from affluent residents of China who have been unable to shop abroad due to the COVID-19 pandemic. Despite the strong sales, the burden of depreciation expenses has been heavy, and the company expects that it will require about five years before it can generate profit as initially expected.

The company has established a long-term business plan under which, while focusing on Ningbo Hankyu, it will aim to expand e-commerce operations, launch businesses that cater to the affluent class (such as out-of-store sales service), strengthen collaboration with Izumiya, and secure operating profit of at least JPY3.0bn each fiscal year. H2O has a 33% stake in Ningbo Hankyu and accounts for its results using the equity method. The company is considering the possibility of raising its stake to 50% or more when Ningbo Hankyu begins to generate profit. However, sales generated by Ningbo Hankyu have been higher than initially projected, and the company expects that purchasing additional shares will require an accordingly high amount of funds. If the purchase price of these shares is deemed to be too high, the company may not convert Ningbo Hankyu into a subsidiary.

For details on previous results, please refer to the Historical performance section.

Company forecast for FY03/22

Cons.	FY03/20			FY03/21			FY03/22		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Est.	2H Est.	FY Est.
Gross sales	**450,710**	**446,579**	**897,289**	**335,614**	**403,584**	**739,198**	**345,000**	**420,000**	**765,000**
YoY	1.4%	-7.4%	-3.2%	-25.5%	-9.6%	-17.6%	2.8%	4.1%	3.5%
Sales	-	-	-	-	-	-	**240,000**	**260,000**	**500,000**
YoY	-	-	-	-	-	-	-	-	-
Gross profit	**129,004**	**127,031**	**256,035**	**97,702**	**114,201**	**211,903**	-	-	-
YoY	0.6%	-7.9%	-3.8%	-24.3%	-	-17.2%	-	-	-
Gross profit margin	28.6%	28.4%	28.5%	29.1%	28.3%	28.7%	-	-	-
SG&A expenses	122,684	122,180	244,864	102,108	114,234	216,342	-	-	-
YoY	0.4%	-1.2%	-0.4%	-16.8%	-	-11.6%	-	-	-
SG&A ratio	27.2%	27.4%	27.3%	30.4%	28.3%	29.3%	-	-	-
Operating profit	**6,320**	**4,851**	**11,171**	**-4,405**	**-33**	**-4,438**	**-5,200**	**4,200**	**-1,000**
YoY	3.6%	-66.1%	-45.3%	-	-	-	-	-	-
Operating profit margin	1.4%	1.1%	1.2%	-	-	-	-	1.0%	-
Recurring profit	**6,574**	**5,257**	**11,831**	**-4,400**	**1,493**	**-2,907**	**-5,250**	**3,250**	**-2,000**
YoY	1.9%	-64.8%	-44.7%	-	-	-	-	117.7%	-
Recurring profit margin	1.5%	1.2%	1.3%	-	0.4%	-	-	0.8%	-
Net income	**1,463**	**-14,613**	**-13,150**	**-10,102**	**-14,689**	**-24,791**	**3,050**	**1,950**	**5,000**
YoY	952.5%	-	-	-	-	-	-	-	-
Net margin	-	-	-	-	-	-	1.3%	0.8%	0.7%

Source: Shared Research based on company data

Notes: The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. The full-year FY03/22 forecast in this table is based on the application of this standard. "Sales" through FY03/21 are stated as "gross sales" in the table.

Operating profit margin has been calculated using gross sales as the denominator.

Forecast by segment

By segment	FY03/21			FY03/22		
(JPYmn)	1H	2H	FY	1H Est.	2H Est.	FY Est.
Gross sales	335,614	403,584	739,198	345,000	420,000	765,000
YoY	-25.5%	-9.6%	-17.6%	2.8%	4.1%	3.5%
Department Store	138,187	209,581	347,768	158,000	232,000	390,000
YoY	-42.3%	-10.3%	-26.5%	14.3%	10.7%	12.1%
Supermarket	147,624	144,987	292,611	146,000	151,000	297,000
YoY	-17.1%	-17.7%	-17.4%	-1.1%	4.1%	1.5%
Shopping Center Management	34,091	30,950	65,041	24,000	16,000	40,000
YoY	-	-	-	-29.6%	-48.3%	-38.5%
Other	15,755	17,903	33,658	17,000	21,000	38,000
YoY	-	-	-	7.9%	17.3%	12.9%
Sales	-	-	-	240,000	260,000	500,000
YoY	-	-	-	-	-	-
Operating profit	-4,405	-33	-4,438	-5,200	4,200	-1,000
YoY	-	-	-	-	-	-
Operating profit margin	-1.3%	-	-	-	1.0%	-
Department Store	-3,456	1,553	-1,903	-3,900	4,400	500
YoY	-	-69.7%	-	-	183.3%	-
Operating profit margin	-	0.7%	-	-	1.9%	0.1%
Supermarket	2,852	1,235	4,087	1,700	2,800	4,500
YoY	-	-	-	-40.4%	126.7%	10.1%
Operating profit margin	1.9%	0.9%	1.4%	1.2%	1.9%	1.5%
Shopping Center Management	-	-	-	-400	-100	-500
YoY	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-
Other	-	-	-	-1,000	-2,000	-3,000
YoY	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-
Adjustments	-	-	-	-1,600	-900	-2,500

Source: Shared Research based on company data

Note: The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

Note: In FY03/22, the company changed the name of the Shopping Center Management segment to the Shopping Center segment. Additionally, Hankyu Kitchen Yell Kansai, Inc., EveryD.com, Inc. and Hankyu Sennan Green Farm, which were previously included in the Other business segment, were transferred to the Supermarket segment, and Oi Development Co., Ltd., which was also included in Other business segment, was transferred to the Shopping Center segment. FY03/21 figures have been adjusted to reflect the new reporting segment classifications.

In July 2021, H2O announced its full-year FY03/22 forecast alongside the release of Q1 FY03/22 results. When announcing FY03/21 results, the company decided its full-year forecast would be determined at a later date, citing the complications involved in making reasonable estimates amid lingering uncertainty regarding developments related to COVID-19 moving forward.

Full-year FY03/22 forecast

- Gross sales: JPY765.0bn (+3.5% YoY)
- Sales: JPY500.0bn
- Operating loss: JPY1.0bn
- Recurring loss: JPY2.0bn
- Net income attributable to owners of the parent: JPY5.0bn

The full-year forecast assumes a fifth wave of COVID-19 cases and a subsequent re-issuing of a state of emergency declaration by the Japanese government, but not the temporary closure of any stores. H2O projects that consumption in Japan will recover by the end of 2021 as the size of the vaccinated population increases and accordingly anticipates profit in 2H. However, projecting future infection figures and government response remains difficult, and H2O maintains that it is unclear if the company will achieve its targets.

Forecasts and initiatives by segment

Department Store business

- Gross sales: JPY390.0bn (+12.1% YoY)
- Operating profit: JPY500mn

The forecast for the Department Store business assumes a gradual recovery in domestic demand from November 2021, but no remarkable recovery in tax-free sales in FY03/22. H2O plans to close Sanda Hankyu (Sanda, Hyogo Prefecture) in August 2021. Gross sales generated through Sanda Hankyu in FY03/21 were JPY1.1bn, and the company projects that impact on its business results stemming from this closure will be negligible. H2O reached the decision to close Sanda Hankyu because it determined that continuing to operate the store would be difficult given the tough competition with nearby facilities and the spread of COVID-19.

Improving the profitability of domestic department stores

Over the period spanning from FY03/21 through FY03/23, H2O continues to cut back on outsourcing and the use of temporary staff and adjust its spending on advertising and business trips while striving to reduce costs by JPY2.5bn compared to FY03/20. According to the company, these efforts are proceeding according to plan. In FY03/22, the company is implementing cost reduction measures that it projects will generate impact of JPY2.5bn while helping to bring down costs associated with closures and restricted sales activities. These efforts include negotiations targeting reductions in rent and initiatives aimed at reducing variable expenses associated with closures and event-related expenses. H2O's cost reduction measures are proceeding smoothly, and the company expects to achieve its cost reduction targets for FY03/22.

Hanshin Umeda Main Store

Reconstruction of the Hanshin Umeda Main Store has been largely completed after having been underway since 2014, and H2O anticipates a grand opening in autumn 2021 (A portion of the food product sales area on the first basement level remains under construction and is slated to be opened in spring 2022.). Construction has been split into two phases to ensure that the department store can continue to operate. Starting in 2018 or later, the facility has moved into the completed building and is currently operating on a reduced scale with a sales area about half the size of what it was before the construction began (53,395sqm as of end-FY03/14; 27,811sqm starting in FY03/19). H2O expects this sales area to shrink further in FY03/22 and projects this factor will weigh down gross sales for the foreseeable future. The company anticipates incurring frontloaded costs in FY03/22, the first financial year following the store's reopening. Accordingly, it expects the store to begin contributing to profit in FY03/23. Following the grand reopening, the company plans to expand its food hall, the forte of Hanshin Umeda Main Store. This plan is in lock step with the company's aim of using the store's space to provide all-encompassing lifestyle-related proposals through a variety of events while simultaneously focusing on building a sales floor in which customers can shop comfortably and on expanding its product lineup.

Supermarket business

- Gross sales: JPY297.0bn (+1.5% YoY)
- Operating profit: JPY4.5bn

Streamlining and cost reduction associated with food manufacturing and processing subsidiaries

Earnings generated by the company's food manufacturing and processing subsidiaries have deteriorated due to impact from the COVID-19 pandemic. In response, the company has decided to establish collaborative links between these companies and its supermarket companies, thereby establishing centralized management of manufacturing and sales processes, improving competitiveness, and raising operational efficiency. Within the framework of these overall efforts, the company merged three bread manufacturing and sales subsidiaries (Hankyu Bakery, Hankyu B&C Planning, and Hankyu Freds) in April 2021 (with Hankyu Bakery as the surviving company). These three bread manufacturers and sellers had been performing the same functions, so the company's decision to merge them under its process of business integration and acquisition has enabled the company to eliminate overlapping operations within its corporate group, streamline various processes, and reduce costs.

Improving profitability in the Supermarket business

From FY03/21, it has moved Izumiya's non-food operations under the umbrella of the Shopping Center Management business, so that it can concentrate its management resources solely on food operations in the Supermarket business. With regard to Izumiya and Hankyu Oasis, for the time being, the company will focus on improving the efficiency of store operations in an effort to improve earning power (currently JPY4.0—5.0bn in annual operating profit) rather than on expanding corresponding store networks. Additionally, the company will integrate functions and conduct other forms of organizational restructuring at its operating companies. The company indicates that it will carry out these efforts in an attempt to demonstrate synergy.

Shopping Center business

- Gross sales: JPY40.0bn (-38.5% YoY)
- Operating loss: JPY500mn

Since accepting the transfer of Izumiya's general merchandise store operations, H2O Shopping Center Development Co., Ltd. has reduced the size of independently managed areas associated with losses, filled properties with tenants, and facilitated the conversion of facilities into shopping centers. In FY03/22, the company plans to complete its conversion of 23 of the 36 stores that are slated to be modified. It plans to convert the remainder of these stores by the end of FY03/23. Through these conversions, the company projects that it will achieve total profit improvement of about JPY2.0bn compared with FY03/20 in the two-year period spanning from FY03/21 through FY03/22. Efforts aimed at attracting tenants for some stores have been delayed by the COVID-19 pandemic, and the company will speed up this process by enhancing facilitative systems moving forward.

When converting its facilities into shopping centers, the company aims to establish "neighborhood shopping centers" that are closely linked with their surrounding communities and can function as gathering places for local residents. As a model example of this ideal, the company cites Izumiya YUI-Terrace, which opened on the fourth floor of its Izumiya Kawachinagano facility (Kawachinagano, Osaka Prefecture) in April 2021. Within this space, the company has established a welfare activities center that functions as a community base for private and public collaboration, as well as a plaza where local residents can freely associate with each other. The company will contribute as a member of the local community by ensuring that this center is vibrantly active and provides support for community activities.

Capital efficiency

H2O will strive to trim down its balance sheet and increase its liquid assets. Accordingly, the company is in the process of eliminating its intercorporate shares and sold its cross-shareholdings in Toho Co., Ltd. (TSE1: 9602) during April 2021 (selling price of JPY5.8bn; projected sales gain of JPY4.7bn). Focusing on non-store properties, the company is working to sell idle assets with low rates of utilization; during Q1 FY03/22, it sold one rental property in Nakatsu, Kita-ku, Osaka (sales gain of JPY4.7bn) and another in Oyodo, Kita-ku, Osaka (sales gain of JPY3.9bn). In addition to selling shares and idle assets, the company will begin liquidating subsidiaries that were established for the purpose of launching new businesses but are currently demonstrating low growth potential.

Results vs. initial company forecasts

Results vs. Initial Est.	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales (Initial Est.)	530,000	570,000	810,000	900,000	930,000	895,000	945,500	947,300	730,000
Sales (Results)	525,154	576,852	844,819	915,690	901,221	921,871	926,872	897,289	739,198
Results vs. Initial Est.	**-0.9%**	**1.2%**	**4.3%**	**1.7%**	**-3.1%**	**3.0%**	**-2.0%**	**-5.3%**	**1.3%**
Operating profit (Initial Est.)	10,000	15,000	20,000	23,000	25,000	21,000	18,400	18,400	-10,000
Operating profit (Results)	10,670	17,313	21,358	23,825	22,542	22,765	20,422	11,171	-4,438
Results vs. Initial Est.	**6.7%**	**15.4%**	**6.8%**	**3.6%**	**-9.8%**	**8.4%**	**11.0%**	**-39.3%**	**-**
Recurring profit (Initial Est.)	10,400	15,200	20,100	22,600	24,900	20,100	19,200	18,500	-10,000
Recurring profit (Results)	11,338	18,160	21,219	23,060	21,725	24,272	21,376	11,831	-2,907
Results vs. Initial Est.	**9.0%**	**19.5%**	**5.6%**	**2.0%**	**-12.8%**	**20.8%**	**11.3%**	**-36.0%**	**-**
Net income (Initial Est.)	5,400	8,600	-	13,000	14,100	12,000	10,400	7,700	-22,000
Net income (Results)	6,200	295	11,586	14,053	14,298	14,636	2,162	-13,150	-24,791
Results vs. Initial Est.	**14.8%**	**-96.6%**	**-**	**8.1%**	**1.4%**	**22.0%**	**-79.2%**	**-**	**-**

Source: Shared Research based on company data
Note: The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

Medium-term management plan

In response to changes in social conditions and the consumption environment caused by the COVID-19 pandemic, H2O announced a new medium-term management plan (FY03/22–FY03/24) in July 2021.

Response toward environmental changes

The company is responding to societal and lifestyle changes stemming from the COVID-19 pandemic with the following strategies.

Rapid digitalization and a shift to online activity

New lifestyles are increasingly common across a wide range of age brackets and social situations. The company will establish a business style that applies digital technology to brick-and-mortar store operations (online merges with offline, or OMO) and secure additional demand.

Transition to a network-based society with direct connections to consumers and business partners

The transition to a networked society continues to move forward as online communication becomes increasingly easy, the younger generation of "digital and social media natives" increases its presence in society, and D2C businesses, where operators sell directly to consumers, continue to expand. In response to these changes, the company will implement a new business model grounded in communication with customers.

The advantages of having locations in urban areas begin to decline

The daily volume of people commuting to their jobs and school has decreased as telecommuting has become increasingly prevalent. On the other hand, with consumers focused more on the areas in which they live and narrowing the range of their movement, their use of nearby stores has increased. Moving forward, the H2O group will reconstitute its earnings structure, diversifying sources of earnings by shifting away from a model focused on securing customers in urban centers and reducing dependence on department stores.

Long-term business plan for 2030

The company has fundamentally reassessed its business practices in response to environmental changes stemming from the COVID-19 pandemic, thereby formulating a long-term business plan for 2030 that focuses on rebuilding and optimizing existing businesses, expanding into new markets, and taking on the challenge of creating new business models.

Planned course of action moving forward

The group is targeting the business model of a "communication retailer." In short, the company aims to build deep and ongoing relationships with its customers through direct communication efforts that integrate digital technologies and brick-and-mortar operations. By providing products and services through these relationships, the company aims to become a retailer that grows together with local communities as it promotes customer lifestyles and values that are associated with enjoyability, happiness, and delicious food.

Operating profit targets and policies by business

H2O aims to generate JPY30.0–35.0bn (versus projected operating loss of JPY1.0bn in FY03/22) and ROE of 6–7% in 2030. The company's targets for individual businesses can be found below.

- Department Store business: At least JPY15.0bn (versus FY03/22 forecast of JPY500mn)
- Supermarket business: At least JPY10.0bn (JPY4.5bn)
- Shopping Center business: JPY3.0bn (versus projected operating loss of JPY500mn in FY03/22)
- Ningbo Hankyu and auxiliary businesses: JPY3.0bn
- Customer service business: JPY3.0bn

H2O will continue to focus on its strategy for market dominance in the Kansai region as it secures a fundamental source of earnings for its existing businesses. Additionally, the group will intensify its expansion into new markets (including Ningbo Hankyu in China) as it aims to diversify its sources of earnings and, through its customer service business, establish a new business model that leverages its customer base in the Kansai region.

Reconstitution and refinement of existing businesses (existing business models and existing markets)

By reconstituting and refining its Department Store, Supermarket, and Shopping Center businesses, the H2O group will secure fundamental sources of earnings that will allow it to diversify its operations.

- Rebuild the Department Store business: While focusing on reforming its cost structure, the company will promote the combination of online and offline operations (online merges with offline, or OMO) through the use of digital technologies and ensure progress in the rebuilding of the Hanshin Umeda Main Store and the remodeling of the Kobe Hankyu and Takatsuki Hankyu locations. Through these efforts, it aims to create the most enjoyable department stores.

- Establishing the Supermarket business as a second earnings pillar: The company will advance reforms to improve its earning power. These reforms include a review of operations, efforts to improve productivity, and reducing costs and the cost ratio through the integration of Izumiya and Hankyu Oasis.

- Sound operation of the Shopping Center business: The company will streamline investments and operations with a focus on shopping center and business hotel operations.

Expanding into new markets (existing business models and new markets)

H2O aims to expand its operations within new markets in Ningbo (Zhejiang, China) by utilizing the expertise it has accumulated through application of its existing business model of store and shopping center management. In pursuit of this goal, the company established its Ningbo Hankyu business in April 2021. Through this business, the company has established a collaborative relationship between Ningbo Hankyu and the Hankyu Umeda Main Store that it uses to provide high-end Japan content to millennials (a generation of individuals currently in their 20s or 30s who were born in the 1980s or 1990s and are associated with a strong consumer appetite) and affluent residents of Zhejiang. With these efforts, the company aims to establish a reputation for Ningbo Hankyu as the best store in the region. Over the medium- to long-term, the company is considering the development of e-commerce and auxiliary businesses that will operate using the company's department stores as their core base. As of July 2021, the company was accounting for results generated through Ningbo Hankyu using the equity method. However, the company is also considering raising its stake in Ningbo Hankyu and converting it into a consolidated subsidiary if it generates operating profit after five years have passed as projected.

Taking on the challenge of new business models (new business models and existing markets)

The company projects that results generated through store commerce in Japan and Ningbo will reach their peak over the long term. Accordingly, through its customer service business, the company is looking to take on the challenge of implementing a new business model that leverages its customer base in the Kansai market. Although no concrete plans were in place in July 2021, the company is aiming to establish commercial viability for new services in the Kansai area through efforts such as the development of online services focused primarily on food, the enhancement of its home delivery operations, collaboration with brick-and-mortar stores, and the utilization of network links established with entities such as Lawson, Inc. (TSE1: 2651) and the Osaka prefectural government. H2O will convert the customer data and mechanisms accumulated through these efforts, develop them into platforms, and generate a B2B business.

Infrastructure development

To help achieve the goal of becoming a "communication retailer," the company will implement initiatives aimed at developing IT infrastructure, establishing an OMO business style using digital technologies, and creating a group customer database as it endeavors to contribute to local communities through the creation of bonds with surrounding societies and their inhabitants.

Medium-term management plan (FY03/22–FY03/24)

H2O's earnings forecast for FY03/24 is as follows:

- Gross sales: JPY930.0bn (JPY897.3bn in FY03/20; JPY739.2bn in FY03/21)
- Operating profit: JPY17.0bn (JPY11.2bn in FY03/20; operating loss of JPY4.4bn in FY03/21)

Under its medium-term management plan, H2O will aim to restore operating profit to pre-COVID-19 levels and diversify its earnings sources. Meanwhile, it will focus on implementing the following initiatives in accordance with its long-term business plan for 2030:

- Department Store business: Rebuild the business by reforming the cost structure and establishing the OMO business style

- Supermarket business: Establish the business as a second earnings pillar by restructuring operations, integrating food manufacturing and processing with sales, and bolstering capacity through alliances

- New market: As part of its effort to establish businesses that will ensure future growth, the company will work to make Ningbo Hankyu the leading department store in the region and develop related businesses.

- Customer service business: The company will launch and expand a customer service business, centered on Internet-based services

- Promote the advancement of IT and digitalization

To ensure the successful implementation of these measures, the company will invest a total of JPY95.0bn over the three years covered by its medium-term management plan (JPY30.0bn in FY03/22, JPY37.0bn in FY03/23, and JPY28.0bn in FY03/24). This investment will primarily target the following:

- Department Store business: JPY7.5bn for the opening of a logistics center; JPY15.0bn for renovation of the Hanshin Umeda Main Store (additional investment); JPY10.0bn for renovation of Kobe Hankyu and Takatsuki Hankyu

- Supermarket business: JPY3.0bn for renovation of existing stores

- Customer service business: JPY1.0bn in preliminary investment associated with the launch of development efforts

- Implementation of IT and digital transformation: JPY8.0bn for the merging of online and offline processes and operations (OMO), the development of infrastructure for the storage and processing of group customer data, and the construction of working environments; JPY18.0bn for the overhaul of point-of-sale and merchandising systems and the redevelopment of IT infrastructure

Department Store business

H2O projects that it will generate the following results through its Department Store business in FY03/24:

- Gross sales: JPY390.0bn (JPY473.2bn in FY03/20; JPY347.8bn in FY03/21)
- Operating profit: JPY13.5bn (JPY11.5bn in FY03/20; operating loss of JPY1.9bn in FY03/21)

The company's projections for the Department Store business assume that gross sales generated through existing stores will recover to pre-COVID-19 levels. Through this business, the company is conducting reorganization efforts aimed at achieving customer-oriented value creation and implementing new business styles. At major stores, the company will establish a unified commercial sales system that integrates merchandising and sales divisions and aim to build organizations capable of quickly implementing measures based on customer perspectives.

Establishing an OMO style

The company is aiming to generate JPY25.0bn in gross sales through its Remo Order remote shopping service (web-based payment service that enables customers to purchase store products without visiting the physical store) and e-commerce operations (generated JPY8.4bn in FY03/21). Moving forward, the company will endeavor to expand the range of selling spaces covered by Remo Order, conduct out-of-store sales using Zoom, hold events that function as both webinars and e-commerce sales opportunities, and perform home delivery of cakes and other food products. The company will also consider launching cross-border e-commerce operations.

To facilitate OMO implementation, enhance e-commerce operations, and reduce costs, H2O will launch operations at a logistics center (in the Yodogawa-ku, Osaka) that will perform the functions previously covered by delivery centers in Noda (Osaka, Osaka Prefecture) and Esaka (Suita, Osaka Prefecture) in autumn 2021. By establishing traffic lines that connect physical stores, logistics center, and customers, the company aims to improve the efficiency of deliveries associated with its e-commerce operations and its merging of online and offline business elements (OMO).

Hanshin Umeda Main Store

H2O will conduct a grand opening of its Hanshin Umeda Main Store, which had been under reconstruction since 2014, in autumn 2021. In FY03/22, the company plans to invest another JPY15.0bn to expand the food product sales area on the first basement level of the store and hold a full-scale opening of this area in spring 2022. H2O projects that its Hanshin Umeda Main Store will generate full-year gross sales of JPY70.0–80.0bn in FY03/24 (versus JPY46.3bn in FY03/20 and JPY27.8bn in FY03/21). Since FY03/19, the Hanshin Umeda Main Store had been operating on a reduced scale due to the reconstruction efforts mentioned above (total sales area of 53,395sqm as of end-FY03/24 versus 27,811sqm starting in FY03/19). The company projects an increase gross sales generated through this store thanks to factors such as its newly expanded sales area and the intensification of OMO-related initiatives.

Kobe Hankyu and Takatsuki Hankyu

H2O has decided to prioritize investment in its Kobe Hankyu and Takatsuki Hankyu department stores and will spend JPY10.0bn on the renovation of both of these stores over FY03/23 and FY03/24. The company will strive to enrich the product lineup of its Kobe Hankyu store by furnishing it with goods that are typically offered by urban department stores and establishing distinctive sales floors that capture the uniqueness of Kobe. Meanwhile, H2O will transform its Takatsuki Hankyu store into a brand-new model for its suburban stores by converting into a facility that provides the advantages of both a department store and shopping center. The company projects that these efforts will enable these stores to generate a combined operating profit in FY03/25 that is JPY5.0–10.0bn higher than in FY03/19.

Gross sales generated through existing stores

In comparison to FY03/19, H2O projects a 1–2% increase in gross sales generated through existing department stores other than its Hanshin Umeda Main Store and its Kobe Hankyu and Takatsuki Hankyu stores. The company projects that factors such as OMO and other measures aimed at combining online operations with operations at brick-and-mortar stores will drive up sales. H2O anticipates that tax-exempt sales to inbound travelers will only amount to 40–50% of their level in FY03/19 (before the onset of the COVID-19 pandemic in Japan) during the first half of its medium-term management plan. However, the company projects that these tax-exempt sales will recover to about 5–10% below this level starting in FY03/24. H2O will adjust its lineup of products and services to respond to maturation of the consumer behavior exhibited by Chinese customers.

Cost structure reform

H2O aims to reduce costs by JPY2.5bn compared to FY03/20. The company plans to accomplish this goal primarily by improving productivity through digitalization and business process re-engineering; restructuring internal organizations and systems; conducting operational adjustments and reducing external costs incurred through outsourcing and the use of temporary staff; and reviewing spending related to advertising, business trips, and overtime compensation. In FY03/22, the company will strive to cut costs by an additional JPY2.5bn in response to a state of emergency declaration issued amid the COVID-19 pandemic.

Supermarket business

H2O's projections for the Supermarket business in FY03/24 are as follows:

- Gross sales: JPY305.0bn (JPY354.1bn in FY03/20; JPY28.1bn in FY03/21)
- Operating profit: JPY6.2bn (operating loss of JPY2.5bn in FY03/20; operating profit of JPY4.2bn in FY03/21)

Renovations

Under its medium-term management plan, H2O will suspend its opening of supermarkets and focus primarily on renovating existing stores and reviewing function of its head office. The company plans to spend a total of JPY3.0bn on the renovation of about 70 stores, with several tens of millions of yen going to each individual store. With these efforts, H2O will rearrange furniture and fixtures to facilitate movement within its stores, reformat its stores to reflect demand associated with their respective areas of business, and replace aging equipment while striving to reduce costs and standardize operations.

Cost reduction

H2O is aiming to achieve a modest YoY increase in gross sales generated through its existing stores primarily through adjustments to its product lineup. At the same time, the company is striving to improve profitability as it enhances its inventory management; standardizes store operations; conducts centralized management of all companies categorized under its Supermarket business; integrates head office functions of Izumiya and Hankyu Oasis; and consolidates food manufacturing and sales operations, which have been managed separately. H2O anticipates that these results will bear fruit after about two to three years.

Shopping Center business

H2O's projections for the Shopping Center business in FY03/24 are as follows:

- Gross sales: JPY45.0bn
- Operating profit: JPY1.8bn

Izumiya

H2O projects that it will have completed its conversion of Izumiya general merchandise stores into shopping centers (a process it began in FY03/21) by the end of FY03/23. In the meantime, the company is reducing the size of directly operated sales areas and introducing new tenants including Cocokara Fine Plus Izumiya drugstores and 100-yen shops. H2O projects that it will generate improved profit thanks to its efforts to consolidate unprofitable stores or convert them into shopping centers.

Hotels

Oi Development Co., Ltd., which operates the Ours Inn Hankyu business hotel, is striving to improve occupancy rates by enhancing its corporate sales and proposing new plans. Meanwhile, it is also targeting improvement in earnings through low-cost operations made possible by manpower reduction and the implementation of a new property management system.

New markets

H2O will begin developing auxiliary businesses related to Ningbo Hankyu, including an e-commerce business, a high-end supermarket business, and a service business. In addition, the company will establish a relationship between Ningbo Hankyu and its Hankyu Main Store that allows for collaboration related to products and content provided, strive to establish cross-border e-commerce operations, and acquire customers in new markets targeting affluent residents of Zhejiang.

New business model

Moving forward, H2O will begin developing a customer service business that integrates and leverages its IT, brick-and-mortar stores, and services. The company will kick off these efforts by developing an online service focused on providing food that is deeply connected with regional lifestyles and later aim to expand service areas, introduce operations involving the use of customer databases, and establish a B2B business while appropriately leveraging alliances and other advantages.

Initially, H2O will establish infrastructure for a customer database. This will involve preparing data concerning five million individuals (primarily customers of the Hankyu and Hanshin department stores) and establishing a foundational infrastructure that enables central management of customer data for the entire group. Additionally, the company will increase points of customer contact; accumulate consumer information concerning online search histories and topics such as purchasing behavior displayed at department stores and supermarkets; and conduct sales promotions that target the interests and tastes of its customers. Over the medium- to long-term, H2O aims to acquire 10 million active customers in the Kansai region (about 50% of the region's population) and realize its strategy for market dominance in the Kansai region by achieving supremacy in both brick-and-mortar stores and digital operations.

Companywide strategy

H2O will facilitate the success of its individual business strategies by ensuring that the following elements of its business are prioritized on a companywide basis.

Implementation of IT and digital transformation

H2O will construct new IT infrastructure while simultaneously modernizing its current systems. Meanwhile, the company will spend JPY8.0bn on the construction of infrastructure for a groupwide customer database, the arrangement of tools for online customer service, and the establishment of new work environments. Additionally, the company will invest JPY18.0bn in the redevelopment of point-of-sale and merchandising systems, the overhaul of its IT infrastructure, and security enhancement.

Enhancement of business capabilities through the leveraging of alliances

H2O will strengthen alliances with entities such as business partners, payment settlement service providers, logistics operators, and startups while aiming to build new models for providing value.

- Mandai: In July 2021, H2O concluded a comprehensive business alliance agreement with Mandai (an operator of 156 supermarkets in the Kansai area). The company projects that this business alliance will strengthen its ability to negotiate with manufacturers and trading companies. The company has not factored the effect of the alliance into its medium-term management plan as it expects to see the contribution in the years to follow. Moving forward, H2O plans to increase its number of partners as it strives to further reduce procurement costs through economies of scale.

- Lawson, Inc. (TSE1: 2651): H2O will develop new services and businesses in the Kansai region. Since July 2021, the company has been converting all 98 of its asnas stores into Lawson franchise stores. The company projects that profit generated through these stores will improve by about JPY500mn compared to pre-conversion levels thanks to enhanced merchandising and operational upgrades. In 2H FY03/22, the company will begin allowing customers to pick up department store e-commerce purchases at Lawson stores.

- Osaka Prefecture: In July 2021, H2O concluded a comprehensive cooperation agreement with Osaka Prefecture. The fundamental idea behind this agreement centers on establishing a unique and attractive local community through the combined efforts of H2O and Osaka Prefecture. Through the formation of this agreement, the company is adopting an approach through which it aims to achieve the highest market share in the Kansai area while also becoming the company which consumers in the region view most favorably.

Financial improvement

To trim down its balance sheet and increase its liquid assets, H2O will closely examine its asset holdings while selling off real estate and shareholdings. The company plans to continue investing while establishing funds it can use to pay off borrowings through cash provided by operating activities and the sale of assets, thereby reducing its debt.

- Real estate: H2O will sell head office buildings and all other properties that are being utilized at low rates of efficiency. The company plans to sell about 15 properties and expects to record about JPY30.0bn in corresponding gains. During Q1 FY03/22, the company sold rental properties in Nakatsu, Kita-ku, Osaka (sales gain of JPY4.7bn) and Oyodo, Kita-ku, Osaka (sales gain of JPY3.9bn).

- Shareholdings: H2O has decided to reduce its cross-shareholdings. In April 2021, it sold a portion of its cross-shareholdings in Toho Co., Ltd. (TSE1: 9602) for a total price of JPY5.8bn, generating a projected gain of JPY4.7bn. In FY03/22, the company has sold shares under eight different trading names and for a total price of JPY9.4bn, generating JPY6.5bn in gains.

Restructuring of unprofitable businesses and stores

H2O operates some businesses that are unprofitable or produce only meager profits, as well as companies and businesses that do not generate sufficient synergy within its corporate group. The company has already begun to consolidate or withdraw from these businesses, deciding to close its Sanda Hankyu store in August 2021 and establishing plans to close unprofitable general merchandise stores and supermarkets in FY03/22.

Business

Business model

The company operates department stores (Hankyu Department Stores and Hanshin Department Stores), supermarkets (such as Izumiya and Hankyu Oasis), shopping centers, specialty retail stores, and convenience stores mainly in the Kansai region. This commercial area, which includes Osaka, Hyogo, and Kyoto prefectures, has a population of around 20mn.

H2O was created through the 2007 merger of Hankyu Department Stores and Hanshin Department Stores. Their respective predecessor companies were Hankyu Market (now Hankyu Main Store), which opened in Osaka's Umeda district in 1925, and Hanshin Mart (now Hanshin Umeda Main Store), which opened in 1933. Both companies are spinoffs from railway operators' (Hankyu Railway and Hanshin Electric Railway) retail businesses at terminal stations.

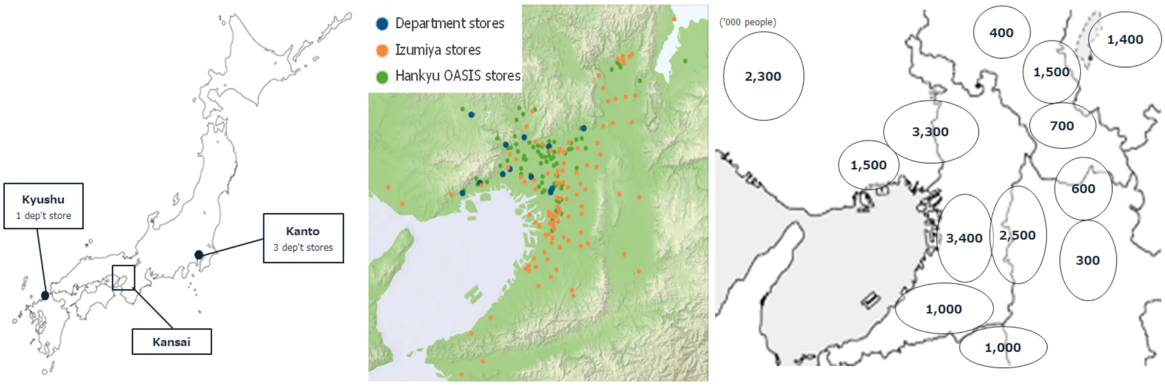
As of March 31, 2021, Hanshin Electric Railway was H2O's largest shareholder, with an 11.9% stake, followed by Hankyu Hanshin Holdings (TSE1: 9042), which held an 8.4% stake. Effectively, Hankyu Hanshin Holdings, the parent company of Hanshin Electric Railway, therefore holds a 20.3% stake in H2O (making it an equity-method affiliate). Also, H2O is the third-largest shareholder of Toho (TSE1: 9602) with a 7.6% stake. Toho's largest shareholder is Hankyu Hanshin Holdings (12.7%) and its second-largest is Hankyu Hanshin Properties, a wholly owned subsidiary of Hankyu Hanshin Holdings (8.4%).

H2O, Hankyu Hanshin Holdings, and Toho are the main members of the Hankyu Hanshin Toho Group. (Ichizo Kobayashi was central to the formation of these businesses, as Hankyu Railway, Hankyu Department Stores, and Toho.) The group's business interests span urban transport, real estate, hotels, department stores, supermarkets, and entertainment. The businesses are connected. For example, H2O leases buildings and other property for Hankyu Main Store, Hanshin Umeda Main Store, and Hankyu Men's Tokyo from companies in the Hankyu Hanshin Toho Group. The companies also share S-points, which can be used in the Kansai region.

Ichizo Kobayashi (1873–1957): Born in Yamanashi Prefecture, Kobayashi was a businessman and politician. Upon graduation from Keio University, he joined Mitsui Bank. Leaving the bank, he established the Minoo Arima Electric Tramway Company (now Hankyu Railway) in 1907. In 1910, he began developing the land along railway lines and selling homes there. (He was the first in Japan to offer installment sales of homes.) In 1913, he organized the Takarazuka Chorus Group (now the Takarazuka Revue Company). In 1920, construction was completed on the Hankyu Building, in Umeda, Osaka. In 1925, Hankyu Market opened in the building, becoming the world's first terminal-station department store. In 1932, he established the Tokyo Takarazuka Theater. He founded Toho Pictures in 1937. Kobayashi was appointed Minister of Commerce and Industry in1940. He was also involved in the management of Denentoshi Co., Ltd, the parent of Tokyo Dento (now Tokyo Electric Power Company) and Tokyu Corporation.

H2O has four business segments: the Department Store, Supermarket, Shopping Center, and Other businesses. In FY03/21, the Department Store business accounted for 47.1% of gross sales, the Supermarket business for 39.6%, the Shopping Center business 8.8%, and the Other business 4.6%. Meanwhile, the operating loss amounted to JPY4.4bn (versus operating profit of JPY11.2bn in FY03/20). The Department Store business generated JPY1.9bn in operating loss, while the Supermarket business produced operating profit of JPY4.2bn.

Store locations and population distributions: Overview of store locations (left), distribution of stores in the Kansai area (center), population distribution in the main Kansai area (around 20mn people)



Source: Shared Research from company data

By segment	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Gross sales	505,588	525,154	576,852	844,819	915,690	901,221	921,871	926,872	897,289	739,198
YoY	8.7%	3.9%	9.8%	46.5%	8.4%	-1.6%	2.3%	0.5%	-3.2%	-17.6%
Department Store	375,304	383,318	427,266	421,008	431,178	427,644	446,225	451,840	473,225	347,768
YoY	7.1%	2.1%	11.5%	-1.5%	2.4%	-0.8%	4.3%	1.3%	4.7%	-26.5%
Kobe/Takatsuki	-	-	-	-	-	-	23,379	42,767	-	-
YoY	-	-	-	-	-	-	-	82.9%	-	-
Supermarket	91,627	93,328	100,223	379,405	436,901	409,454	386,552	367,580	354,115	281,116
YoY	0.8%	1.9%	7.4%	278.6%	15.2%	-6.3%	-5.6%	-4.9%	-3.7%	-20.6%
Supermarkets	91,627	93,328	100,223	108,674	118,326	-	-	-	-	-
YoY	0.8%	1.9%	7.4%	8.4%	8.9%	-	-	-	-	-
Izumiya	-	-	-	270,731	318,575	-	-	-	-	-
YoY	-	-	-	-	17.7%	-	-	-	-	-
Shopping Center Management	13,048	13,770	12,924	-	-	9,970	10,367	8,736	8,725	63,262
YoY	-3.3%	5.5%	-6.1%	-	-	-	4.0%	-15.7%	-0.1%	625.1%
Other	25,608	34,737	36,436	44,405	47,609	54,151	55,346	55,948	61,222	47,051
YoY	149.8%	35.6%	4.9%	21.9%	7.2%	13.7%	2.2%	1.1%	9.4%	-23.1%
Operating profit	9,957	10,670	17,313	21,358	23,825	22,542	22,765	20,422	11,171	-4,438
YoY	-5.7%	7.2%	62.3%	23.4%	11.6%	-5.4%	1.0%	-10.3%	-45.3%	-
Operating profit margin	2.0%	2.0%	3.0%	2.5%	2.6%	2.5%	2.5%	2.2%	1.2%	-0.6%
Department Store	5,761	7,842	13,246	15,734	16,625	15,993	18,020	17,582	11,486	-1,903
YoY	-30.0%	36.1%	68.9%	18.8%	5.7%	-3.8%	12.7%	-2.4%	-34.7%	-
Operating profit margin	1.5%	2.0%	3.1%	3.7%	3.9%	3.7%	4.0%	3.9%	2.4%	-0.5%
Kobe/Takatsuki	-	-	-	-	-	-	603	301	-	-
YoY	-	-	-	-	-	-	-	-50.1%	-	-
Operating profit margin	-	-	-	-	-	-	2.6%	0.7%	-	-
Supermarket	1,798	1,811	2,127	5,541	7,023	3,977	1,104	-438	-2,503	4,170
YoY	3.5%	0.7%	17.4%	160.5%	26.7%	-43.4%	-72.2%	-	-	-
Operating profit margin	2.0%	1.9%	2.1%	1.5%	1.6%	1.0%	0.3%	-0.1%	-0.7%	1.5%
Supermarkets	1,798	1,811	2,127	2,396	2,282	-	-	-	-	-
YoY	3.5%	0.7%	17.4%	12.6%	-4.8%	-	-	-	-	-
Operating profit margin	2.0%	1.9%	2.1%	2.2%	1.9%	-	-	-	-	-
Izumiya	-	-	-	3,145	4,741	-	-	-	-	-
YoY	-	-	-	-	50.7%	-	-	-	-	-
Operating profit margin	-	-	-	1.2%	1.5%	-	-	-	-	-
Shopping Center Management	1,740	1,594	1,394	-	-	5,038	4,985	4,281	4,141	-113
YoY	178.8%	-8.4%	-12.5%	-	-	-	-1.1%	-14.1%	-3.3%	-
Operating profit margin	13.3%	11.6%	10.8%	-	-	50.5%	48.1%	49.0%	47.5%	-
Other	1,554	618	3,541	2,355	3,317	2,863	3,098	5,030	2,903	-2,690
YoY	-12.2%	-60.2%	473.0%	-33.5%	40.8%	-13.7%	8.2%	62.4%	-42.3%	-
Operating profit margin	6.1%	1.8%	9.7%	5.3%	7.0%	5.3%	5.6%	9.0%	4.7%	-
Adjustments	-897	-1,196	-2,279	-2,273	-3,142	-5,330	-5,047	-6,335	-4,856	-3,901

Source: Shared Research based on company data

Note: Figures for the Supermarket business through FY03/16 are totals of the supermarket and Izumiya businesses. Figures for the Shopping Center Management business through FY03/14 are those for the PM business.

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

Gross profit margin, SG&A expense ratio, operating profit margin, recurring profit margin, and net margin have been calculated using gross sales as a denominator.

Department Store business

The Department Store business is the company's mainstay, generating 47.1% of gross sales in FY03/21. In this business, H2O has two flagship stores, Hankyu Main Store and Hanshin Umeda Main Store, and a total of 16 stores (including flagship stores), most along Hankyu Railway and Hanshin Electric Railway lines. Twelve stores bear the Hankyu brand, and four are branded Hanshin. We understand that the strength of the Hankyu brand lies in its apparel and accessories, while Hanshin is known for its strength in food products.

Earnings at Hankyu Hanshin Department Stores, Inc. comprise a majority of the Department Store business. In FY03/21, Hankyu Hanshin Department Stores generated gross sales of JPY345.2bn and operating loss of JPY1.9bn (GPM of 22.7%; SG&A expense ratio of 24.1%; other operating revenue from leases and other sources accounted for 0.8% of overall sales). In 2H FY03/20, Kobe Hankyu (formerly "Sogo Kobe") and Takatsuki Hankyu (formerly "Seibu Takatsuki") became part of Hankyu Hanshin Department Stores, Inc. In April 2021, the launched operations at Ningbo Hankyu, its first overseas department store, in Zhejiang, China.

Department Store	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Gross sales	375,304	383,318	427,266	421,008	431,178	427,644	469,604	494,607	473,225	347,768
YoY	7.1%	2.1%	11.5%	-1.5%	2.4%	-0.8%	9.8%	5.3%	-4.3%	-26.5%
Operating profit	5,761	7,842	13,246	15,734	16,625	15,993	18,623	17,883	11,486	-1,903
YoY	-30.0%	36.1%	68.9%	18.8%	5.7%	-3.8%	16.4%	-4.0%	-35.8%	-
Operating profit margin	1.5%	2.0%	3.1%	3.7%	3.9%	3.7%	4.0%	3.6%	2.4%	-0.5%
Capital expenditures	7,366	22,790	1,457	6,237	3,769	3,372	9,878	11,531	8,508	10,305
YoY	-62.2%	209.4%	-93.6%	328.1%	-39.6%	-10.5%	192.9%	16.7%	-26.2%	21.1%
Depreciation and amortization	6,807	7,145	7,147	4,704	4,758	4,561	4,386	5,477	6,063	5,930
YoY	34.3%	5.0%	0.0%	-34.2%	1.1%	-4.1%	-3.8%	24.9%	10.7%	-2.2%
EBITDA	12,568	14,987	20,393	20,438	21,383	20,554	23,009	23,360	17,549	4,027
YoY	-5.5%	19.2%	36.1%	0.2%	4.6%	-3.9%	11.9%	1.5%	-24.9%	-77.1%
EBITDA margin	3.3%	3.9%	4.8%	4.9%	5.0%	4.8%	4.9%	4.7%	3.7%	1.2%

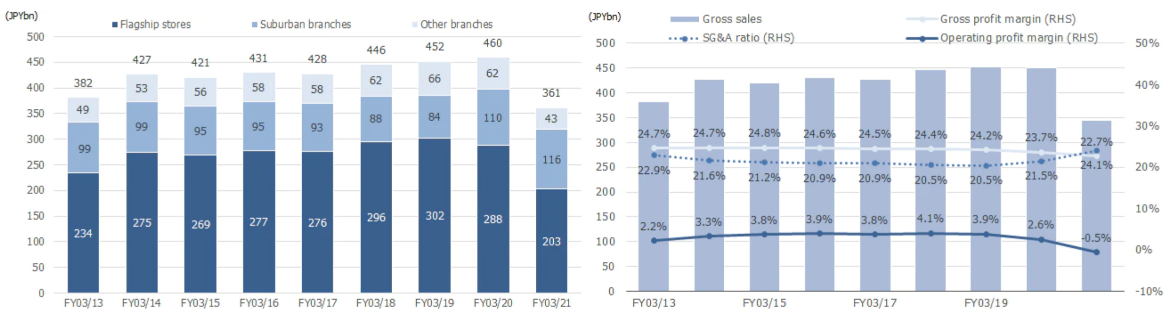
Source: Shared Research based on company data
Note: Figures for FY03/18 and FY03/19 are totals for the Department Store business and the Kobe/Takatsuki business.
The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.
Gross profit margin, SG&A expense ratio, operating profit margin, recurring profit margin, and net margin have been calculated using gross sales as a denominator.

Hankyu Hanshin Dept. Stores	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Gross sales	373,903	381,925	426,838	420,612	430,731	427,534	446,070	451,708	450,458	345,249
YoY	7.1%	2.1%	11.8%	-1.5%	2.4%	-0.7%	4.3%	1.3%	-0.3%	-23.4%
Gross profit	91,817	94,154	105,505	104,149	106,014	104,772	108,881	109,408	106,670	78,399
YoY	5.6%	2.5%	12.1%	-1.3%	1.8%	-1.2%	3.9%	0.5%	-2.5%	-26.5%
Gross profit margin	24.6%	24.7%	24.7%	24.8%	24.6%	24.5%	24.4%	24.2%	23.7%	22.7%
Other operating revenue	1,608	1,747	894	858	910	640	689	565	1,950	2,924
YoY	1.1%	8.6%	-48.8%	-4.0%	6.1%	-29.7%	7.7%	-18.0%	245.1%	49.9%
SG&A expenses	87,107	87,379	92,325	89,081	90,103	89,339	91,337	92,416	96,942	83,189
YoY	9.2%	0.3%	5.7%	-3.5%	1.1%	-0.8%	2.2%	1.2%	4.9%	-14.2%
SG&A ratio	23.3%	22.9%	21.6%	21.2%	20.9%	20.9%	20.5%	20.5%	21.5%	24.1%
Operating profit	6,319	8,522	14,074	15,926	16,822	16,072	18,232	17,557	11,679	-1,866
YoY	-27.6%	34.9%	65.1%	13.2%	5.6%	-4.5%	13.4%	-3.7%	-33.5%	-
Operating profit margin	1.7%	2.2%	3.3%	3.8%	3.9%	3.8%	4.1%	3.9%	2.6%	-0.5%

Source: Shared Research based on company data
The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.
Gross profit margin, SG&A expense ratio, operating profit margin, recurring profit margin, and net margin have been calculated using gross sales as a denominator.

The company has three principal types of department store. The first is flagship stores, which are large stores at Osaka Umeda Station (JR Osaka Station), the terminal station on the Hankyu Railway and Hanshin Electric Railway lines. The second type is suburban branch stores, located at other stations along the Hankyu Railway and Hanshin Electric Railway lines. The third type of stores, which operate outside this area, include Hakata Hankyu and Hankyu Men's Tokyo.

Performance at Hankyu Hanshin Department Stores

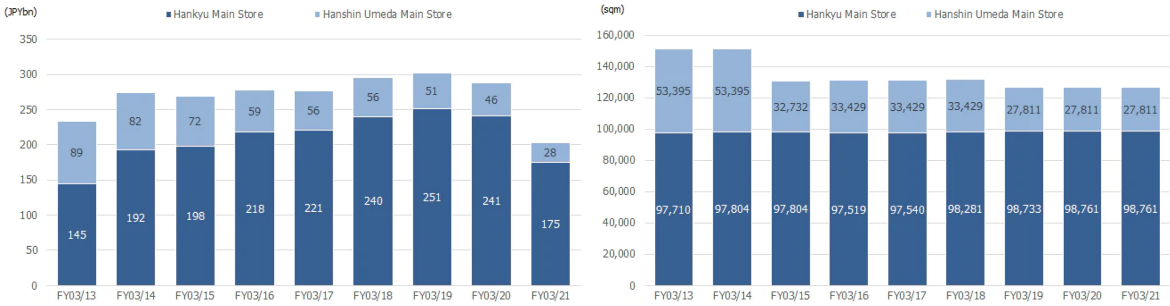


Source: Shared Research based on company data
Note: Hankyu Main Store and Hanshin Umeda Main Store are flagship stores. Other major stores include Hankyu Men's Tokyo and Hakata Hankyu.
Gross profit margin, SG&A expense ratio, and operating profit margin have been calculated using gross sales as the denominator.

Flagship stores

Hankyu Main Store and Hanshin Umeda Main Store are the company's flagship stores. Hankyu Main Store (including Hankyu Men's Osaka) is the larger, with sales of JPY175.1bn in FY03/21. It is also Japan's second-largest department store by sales, after the Isetan Shinjuku Main Store.

Gross sales (left) and floor space (right) of Hankyu Main Store and Hanshin Umeda Main Store



Source: Shared Research based on company data

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

Hankyu Main Store

Hankyu Main Store is a long-established department store that started out in 1925 as Hankyu Market. This store was the purported start of department stores at terminal train stations. The current structure had its grand reopening in 2012 after two phases of reconstruction (phase one on the south side from 2005 to 2009 and phase two on the north side from 2009 to 2012). The main building is 15 stories, with 13 above ground and two below. Professing to be a "theater-style department store," the ninth floor features an expansive event space and an open atrium that reaches from there up to the 12th floor. Hankyu Men's Osaka occupies the building next door. (Hankyu Main Store gross sales include those of Hankyu Men's Osaka.) The sales floor area is 98,761sqm (end-FY03/21).

Hankyu Main Store has a reputation for apparel, with track records in attracting multiple apparel brands for whom Hankyu Main Store was their first foray into department stores in Kansai or in Japan. As of August 2021, the store was arranged as B2F and B1F: food products; 1F: handbags and fashion jewelry; 2F: cosmetics and bags; 3F: women's apparel (mode); 4F: women's apparel (contemporary, dresses and gowns, footwear); 5F: luxury items and fine jewelry; 6F: womenswear (premium); 7F: daily necessities and accessories; 8F: sportswear and menswear; 9F: event space and gallery; 10F: hobby goods; 11F: children's wear; 12F and 13F: restaurants. (Main areas for menswear are at Hankyu Men's Osaka, which carries menswear on all floors, from B1 through 5F. Each floor sells menswear according to a different theme.)

The company designs retail spaces itself, and one distinguishing feature of these areas is their expansiveness. Many department stores simply lease out parceled-out spaces to specific brands or manufacturers. By comparison, H2O designs retail spaces so that brands that evoke a similar taste are congregated together. For instance, the womenswear (contemporary apparel and dresses) retail space on the fourth floor is designed into discrete areas: urban style, weekend style, office style, and party and dress-up. The event space on the ninth-floor hosts various events that attract customers throughout the year. Tie-ups with these events at individual retail spaces help attract customers throughout the store.

Rather than peaking in FY03/14 due to the impact of reconstruction, gross sales at Hankyu Main Store have continued to increase. In FY03/19, store gross sales reached a new record of JPY250.7bn. The company explains that an increase in overseas visitors from China and other countries contributed to the increase, but says sales to Japanese customers (not tax free) contributed approximately the same amount. Many Japanese department stores have been able to take advantage of inbound demand but failed to boost sales among Japanese customers. The company says the solid reputation its retail space designs have earned among consumers give it cachet not just within Kansai, but also attracts consumers from the Kyushu, Chugoku, and Shikoku regions. As a result, sales continue to grow. Gross sales fell to JPY175.1bn in FY03/21. This decline was partly due to store closures and shortened business hours made necessary by the COVID-19 pandemic, which began to impact operations in FY03/20, and also partly due to a decline in demand associated with inbound travelers, which had provided a boost to gross sales in previous fiscal years.

Hanshin Umeda Main Store

Hanshin Umeda Main Store is a department store that started out in 1933 as Hanshin Mart. Hanshin Department Stores are known for their food products, exemplified by Hanshin Shokuhinkan (Hanshin Food Hall). Hanshin Umeda Main Store underpinned the company's department store business while Hankyu Main Store was undergoing reconstruction in the period up to 2012. Now, Hanshin Umeda Main Store is itself undergoing reconstruction. Phase one construction (east side) began in 2015, reducing the store's sales floor area from around 53,000sqm to approximately 33,000sqm. The east side opened in June 2018 after phase one construction was complete, and phase two construction (west side) began. As of March

31, 2021, the store's sales floor area was approximately 28,000sqm. The grand reopening is scheduled for autumn 2021, after phase two construction is complete. The sales floor area is scheduled to be the same as before reconstruction, at around 53,000sqm. After expanding the food product sales area on the first basement level of its Hanshin Umeda Main Store, H2O will conduct a full-scale opening of the area in spring 2022.

As of August 2021, the B1 and 1F areas carried food products. Other floors were arranged as 2F: women's accessories, fashion jewelry, and cosmetics; 3F: women's shoes and handbags; 4F: closed for remodeling; 5F: womenswear; 6F: menswear and men's accessories; 7F: daily necessities, children's wear, watches, and fine jewelry; and 8F: womenswear. Meanwhile, 9F was closed for remodeling. With a product lineup designed to prevent the store from competing directly with Hankyu Department Stores, Hanshin Umeda Main Store has a higher percentage of casual items and tends to focus on lower-priced items. The company says Hanshin Department Stores also leverage Hankyu Department Stores' store design and product selection/display capabilities.

Suburban branch stores

Suburban branch stores include Nishinomiya Hankyu, Senri Hankyu, Kawanishi Hankyu, Takarazuka Hankyu, Amagasaki Hanshin, Hanshin Nishinomiya, and Hanshin Mikage. In 2017, the company took over Sogo Kobe and Seibu Takatsuki and renamed them Kobe Hankyu and Takatsuki Hankyu in October 2019, including them in the Hankyu Department Stores lineup. (In FY03/21, Kobe Hankyu generated JPY28.5bn in gross sales, while Takatsuki Hankyu generated JPY18.4bn). All of the suburban branch stores are located within 50km of central Osaka and operate as satellites of the flagship stores. As people living near branch stores can instead visit flagship stores for special purchases, suburban branch stores tend to carry more convenience-oriented items rather than full department store lineups.

Nishinomiya Hankyu

Nishinomiya Hankyu is an anchor tenant of Hankyu Nishinomiya Gardens (operated by Hankyu Hanshin Building Management, a subsidiary of Hankyu Hanshin Holdings), which opened in 2008 as a redevelopment on the site of the former Nishinomiya baseball stadium. Hankyu Nishinomiya Gardens is a large shopping center housing just under 300 shops, including those operated by group companies such as Nishinomiya Hankyu, Toho Cinemas Nishinomiya OS, and Izumiya. The shopping center is a three-minute walk from Nishinomiya Kitaguchi Station and accessible by car, with parking for around 3,500, so is convenient both for local residents and people in outlying areas.

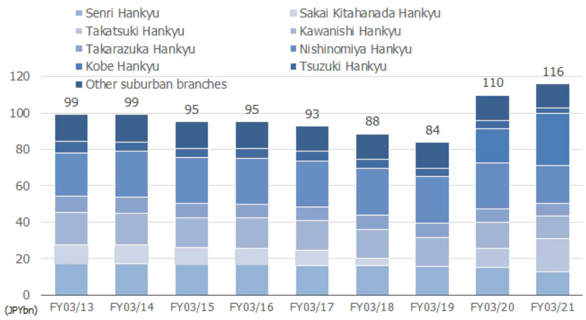
At Nishinomiya Hankyu, 1F stocks foods and household items; 2F and 3F have womenswear and fashion jewelry; and 4F has menswear, children's wear, and accessories. Although it opened more than 10 years ago, the company says the store continues to attract customers and coexists well with other parts of the shopping center. In FY03/19, Nishinomiya Hankyu recorded gross sales of JPY25.7bn. Later, in FY03/21, gross sales fell to JPY21.0bn due primarily to impact from the COVID-19 pandemic.

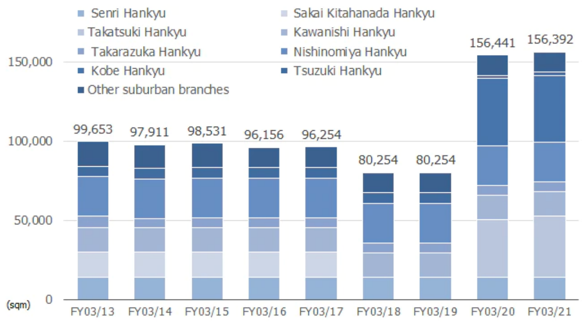
Many other suburban branch stores have experienced gradual declines. Like many other department stores in Japan, the company's suburban branch stores are located in communities with aging populations. Also, younger people are visiting department stores less frequently, and the stores are subject to increasing competition from specialty stores and other competing business formats. To revive them, the company plans to focus on maintaining links with its flagship Hankyu Main Store, conducting efforts targeting younger customers, and merging online and offline business elements.

Against this backdrop, H2O is concentrating on the Senri-chuo area redevelopment, including Senri Hankyu. First opened in 1970, Senri Hankyu (sales area of around 13,902sqm) had become superannuated. In this area, the company is planning a new shopping center based around a department store, with the integrated development of Senri Hankyu and the nearby SELCY shopping center. Although it expects Senri Hankyu's gross sales (JPY12.9bn in FY03/21) to fall temporarily and will incur investment costs, after reopening the company anticipates higher department store sales and real estate leasing revenue.

Senri New Town redevelopment: The first residents of Senri New Town began living there in 1962. This residential area straddles the cities of Toyonaka and Suita, Osaka Prefecture. The population of Senri New Town peaked above 120,000 in around 1975. After that point, the area's problems gradually accumulated, including fewer children and aging residents, as well as building deterioration. Osaka Prefecture and the cities of Toyonaka and Suita responded by formulating the Senri New Town Regeneration Guidelines in 2007. These guidelines called for reconstruction of public rental housing. The housing was later rebuilt again, with public housing giving way to condominiums, providing a supply of new residences. Senri New Town offers good commuting access to central Osaka, encouraging an influx of people into the new housing. In 2010, Senri New Town's population bottomed out (at 89,427).

Suburban branch stores: Gross sales (left) and sales floor area (right)





Source: Shared Research based on company data
Note: Shijokawaramachi Hankyu closed in August 2010, Kobe Hankyu closed in March 2012, and Sakai Kitahanada Hankyu closed in July 2017. Kobe Hankyu and Takatsuki Hankyu opened in October 2019.
The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

Other major branch stores

Other major branch stores include stores outside the Kansai Region, such as Hakata Hankyu and Hankyu Men's Tokyo, as well as Ningbo Hankyu (Zhejiang, China), H2O's first overseas store. The company's main management strategy is to dominate the Kansai region, but these stores provide a degree of balance (a certain amount of regional dispersion). We also understand that the company positions these stores as a way to actively leverage its competitiveness.

Hakata Hankyu

Hakata Hankyu opened in 2011 as core tenant of JR Hakata City, in a building at the Hakata Exit of Hakata Station. The store has a sales floor area of 41,835sqm, making it second in size to Hankyu Main Store. Hakata Hankyu is at the south side of the station building and has one floor below ground and eight above. Hakata Hankyu allows the company to leverage the experience in operating department stores in terminal station buildings that it has accumulated over its years in Umeda. Fast fashion was enjoying an upswelling of popularity around the time this store opened. Taking this trend into consideration, the store features Hakata Sisters, a retail space dedicated to low-priced women's apparel. The store underwent a major renovation in 2017. Although originally targeting customers from the Fukuoka area, the company decided the store had the potential to also attract customers from neighboring Japanese prefectures as well as nearby countries (South Korea and China). While leveraging its capability to design retail spaces, H2O also created a store featuring overseas luxury brands with the power to attract customers from a broader area. The area around Hakata Station has grown more commercial, attracting more customers as a result. Hakata Hankyu has benefited from this trend, with gross sales surpassing JPY50.0bn for the first time in FY03/19 to reach JPY51.6bn. However, gross sales dropped to JPY34.0bn in FY03/21 due to impact from the COVID-19 pandemic.

Hankyu Men's Tokyo

The forerunner to Hankyu Men's Tokyo, in the Yurakucho district, was Yurakucho Hankyu, which opened in the Yurakucho Mullion complex in 1984. Yurakucho Hankyu closed in July 2011. Following renovation, the store reopened as Hankyu Men's Tokyo that October. The Yurakucho area, which is also home to the Marui and Lumine department stores, is considered something of a fashion hub, and the company faces increasing competition from these quarters. In March 2019, it conducted further large-scale renovation at Hankyu Men's Tokyo. Switching out over 60% of its tenants, the company relaunched the store as a "base camp of adventure for the creative-conscious men." In this way, the company sought to sharpen the store's image as a leader of avant-garde fashion.

Ningbo Hankyu

The company categorizes Ningbo Hankyu (opened during April 2021 in Zhejiang, China) as an "outlying" department store, being outside the Kansai region. The store will be part of a large-scale development project led by the Ningbo metropolitan government (Eastern New City Development, spanning a development area of 1,600ha). The new store, which is slated to have total floor space of 176,000sqm, will be in central Ningbo. The facility will be operated by Ningbo Hankyu Co., Ltd., which is 70% held by Ningbo Development Co., Ltd. and 30% held by Ningbo Metropolitan Real Estate Development Co., Ltd. Investors in Ningbo Development Co., Ltd. are H2O (47.6%), Cool Japan Fund (47.6%), Hankyu Hanshin Holdings (4.4%), and Itochu (0.4%). Ningbo Hankyu will be an equity-method affiliate (33% of its profits and losses will be incorporated in H2O's consolidated financial results). Under its long-term business plan, H2O will aim to generate operating profit of at least JPY3.0bn while expanding e-commerce operations centered primarily on Ningbo Hankyu, maintaining businesses such as out-of-store sales targeting members of the affluent class, and strengthening collaboration between Ningbo Hankyu and Izumiya. Ningbo Hankyu will generate a heavy depreciation burden over the next five years, and H2O acknowledges that the store will require some time before it begins producing profit. However, the company is considering the possibility of raising its stake in Ningbo Hankyu to at least 50% once it becomes profitable.

Ningbo is a city with a high average income and is home to many members of China's affluent class, so the company believes it can expect to benefit from high degrees of purchasing power. The company has also identified Ningbo as an area in which awareness regarding the Hankyu brand has spread, in part because it encounters many inbound tourists from the area at its Hankyu Main Store. Targeting the millennial generation (individuals in their twenties and thirties who were born in the 1980s or 1990s and have hearty consumer appetites), Ningbo Hankyu was opened as a department mall that provides an interactive experience while offering extremely trendy products from high-end fashion brands. An Izumiya facility has also been within the department mall's food hall. Sales of luxury-brand and Japanese-brand products have been solid, especially among consumers in the affluent class and among members of the younger, more fashion-conscious generation.

The company will establish a collaborative link between Ningbo Hankyu and the Hankyu Main Store and will utilize this link to conduct joint merchandising, promotional, and e-commerce campaigns and continuously make new proposals. In the medium to long term, the company aims to develop Ningbo Hankyu into flagship store that can generate annual sales of CNY3.0bn (JPY50.0bn) and is considering developing auxiliary businesses to complement core department store operations.

Sales by store	**FY03/12**	**FY03/13**	**FY03/14**	**FY03/15**	**FY03/16**	**FY03/17**	**FY03/18**	**FY03/19**	**FY03/20**	**FY03/21**
(JPYmn)	**Act.**	**Act.**	**Act.**	**Act.**	**Act.**	**Act.**	**Act.**	**Act.**	**Act.**	**Act.**
All stores	373,903	381,925	426,838	420,612	430,731	427,534	446,070	451,708	450,458	345,249
YoY	7.1%	2.1%	11.8%	-1.5%	2.4%	-0.7%	4.3%	1.3%	-0.3%	-23.4%
Hankyu Main Store	124,458	144,698	192,214	197,839	218,358	220,515	240,300	250,747	241,290	175,103
YoY	-5.1%	16.3%	32.8%	2.9%	10.4%	1.0%	9.0%	4.3%	-3.8%	-27.4%
Hanshin Umeda Main Store	92,350	89,239	82,413	71,590	58,919	55,830	55,522	51,383	46,335	27,805
YoY	-3.8%	-3.4%	-7.6%	-13.1%	-17.7%	-5.2%	-0.6%	-7.5%	-9.8%	-40.0%
Total branches	156,954	147,981	152,204	151,175	153,447	151,188	150,248	149,576	171,912	158,566
YoY	30.2%	-5.7%	2.9%	-0.7%	1.5%	-1.5%	-0.6%	-0.4%	14.9%	-7.8%
Senri Hankyu	17,265	17,186	17,390	16,550	16,744	16,398	16,283	15,999	15,207	12,851
YoY	-0.3%	-0.5%	1.2%	-4.8%	1.2%	-2.1%	-0.7%	-1.7%	-5.0%	-15.5%
Sakai Kitahanada Hankyu	10,260	10,286	10,123	9,350	8,856	8,104	3,809	-	-	-
YoY	0.9%	0.3%	-1.6%	-7.6%	-5.3%	-8.5%	-53.0%	-	-	-
Takatsuki Hankyu	-	-	-	-	-	-	-	-	10,224	18,418
YoY	-	-	-	-	-	-	-	-	-	80.1%
Kawanishi Hankyu	18,105	17,711	17,549	16,758	16,633	16,285	16,024	15,682	14,788	12,250
YoY	-1.9%	-2.2%	-0.9%	-4.5%	-0.7%	-2.1%	-1.6%	-2.1%	-5.7%	-17.2%
Takarazuka Hankyu	8,906	8,885	8,690	7,856	7,840	7,740	7,678	7,565	7,368	6,734
YoY	-2.8%	-0.2%	-2.2%	-9.6%	-0.2%	-1.3%	-0.8%	-1.5%	-2.6%	-8.6%
Nishinomiya Hankyu	23,197	24,180	25,116	24,841	25,178	25,279	25,835	25,748	24,982	20,974
YoY	6.6%	4.2%	3.9%	-1.1%	1.4%	0.4%	2.2%	-0.3%	-3.0%	-16.0%
Kobe Hankyu	9,705	-	-	-	-	-	-	-	18,868	28,467
YoY	6.1%	-	-	-	-	-	-	-	-	50.9%
Sanda Hankyu	1,410	1,394	1,392	1,392	1,410	1,422	1,423	1,391	1,364	1,061
YoY	-1.9%	-1.1%	-0.1%	0.0%	1.3%	0.8%	0.1%	-2.2%	-1.9%	-22.2%
Hakata Hankyu	37,259	37,462	40,464	42,293	43,850	44,442	47,410	51,624	49,194	33,989
YoY	768.7%	0.5%	8.0%	4.5%	3.7%	1.4%	6.7%	8.9%	-4.7%	-30.9%
Hankyu Men's Tokyo	9,087	11,468	12,646	13,588	14,520	14,027	14,369	14,218	12,884	8,692
YoY	7.4%	26.2%	10.3%	7.4%	6.9%	-3.4%	2.4%	-1.1%	-9.4%	-32.5%
Oi Hankyu Food Hall	4,745	4,557	4,683	4,690	4,723	4,657	4,578	4,518	4,539	4,589
YoY	1,129.3%	-4.0%	2.8%	0.1%	0.7%	-1.4%	-1.7%	-1.3%	0.5%	1.1%
Tsuzuki Hankyu	7,827	5,987	5,231	5,091	5,021	5,005	4,835	4,776	4,560	3,069
YoY	-2.1%	-23.5%	-12.6%	-2.7%	-1.4%	-0.3%	-3.4%	-1.2%	-4.5%	-32.7%
Amagasaki Hanshin	3,727	3,786	3,818	3,687	3,578	2,782	2,913	2,962	2,922	2,844
YoY	2.6%	1.6%	0.8%	-3.4%	-3.0%	-22.2%	4.7%	1.7%	-1.4%	-2.7%
Hanshin Nishinomiya	4,579	4,506	4,539	4,535	4,535	4,474	4,546	4,558	4,480	4,143
YoY	-1.7%	-1.6%	0.7%	-0.1%	0.0%	-1.3%	1.6%	0.3%	-1.7%	-7.5%
Hanshin Mikage	882	573	563	544	559	556	539	531	524	477
YoY	-34.8%	-35.0%	-1.7%	-3.4%	2.8%	-0.6%	-3.0%	-1.5%	-1.3%	-9.0%

Source: Shared Research based on company data

Note: Sanda Hankyu closed in August 2021. Kobe Hankyu and Takatsuki Hankyu opened in October 2019. Sakai Kitahanada Hankyu closed in July 2017, and Kobe Hankyu closed in March 2012.

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

In FY03/21, Hankyu Hanshin Department Stores derived 23.0% of its sales from apparel, 17.7% from personal items (shoes, bags, and fashion jewelry), 17.4% from accessories (cosmetics, fine jewelry, and watches), and 32.7% from food products. Total sales of apparel, personal items, and accessories are high compared to those generated by other companies in the industry. Recently, many department stores have cut down on their apparel offerings due to the aging of core customers, changing consumer preferences, the rise of fast fashion, and the success of specialty stores. GPM is highest on apparel, followed by accessories (including cosmetics) and personal items. GPM is relatively low on foods, being around 10pp lower than for apparel.

Sales by product	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	373,903	381,925	426,838	420,612	430,731	427,534	446,070	451,708	450,458	345,249
YoY	7.1%	2.1%	11.8%	-1.5%	2.4%	-0.7%	4.3%	1.3%	-0.3%	-23.4%
Apparel	126,647	125,996	135,608	134,720	131,862	126,663	129,158	126,585	120,824	83,134
YoY	5.2%	-0.5%	7.6%	-0.7%	-2.1%	-3.9%	2.0%	-2.0%	-4.6%	-31.2%
Menswear and goods	31,182	34,459	36,754	37,645	38,640	37,873	40,394	41,304	39,796	27,439
YoY	19.3%	10.5%	6.7%	2.4%	2.6%	-2.0%	6.7%	2.3%	-3.7%	-31.1%
Womenswear and goods	69,790	68,208	74,150	72,901	69,569	66,185	65,964	63,980	60,961	41,169
YoY	2.6%	-2.3%	8.7%	-1.7%	-4.6%	-4.9%	-0.3%	-3.0%	-4.7%	-32.5%
Children's wear and goods	12,155	10,432	10,776	10,657	10,721	10,369	10,445	9,960	9,685	7,125
YoY	0.3%	-14.2%	3.3%	-1.1%	0.6%	-3.3%	0.7%	-4.6%	-2.8%	-26.4%
Other apparel	13,519	12,897	13,927	13,516	12,931	12,235	12,353	11,340	10,380	7,399
YoY	-3.9%	-4.6%	8.0%	-3.0%	-4.3%	-5.4%	1.0%	-8.2%	-8.5%	-28.7%
Personal items	57,342	63,214	78,052	77,845	78,412	77,584	82,680	85,834	84,198	63,962
YoY	15.4%	10.2%	23.5%	-0.3%	0.7%	-1.1%	6.6%	3.8%	-1.9%	-24.0%
Household goods	13,340	12,670	14,618	13,456	13,139	13,334	13,713	13,351	12,736	9,520
YoY	2.4%	-5.0%	15.4%	-7.9%	-2.4%	1.5%	2.8%	-2.6%	-4.6%	-25.3%
Food	124,917	125,369	132,128	131,351	130,868	131,399	130,755	128,492	135,179	118,315
YoY	9.5%	0.4%	5.4%	-0.6%	-0.4%	0.4%	-0.5%	-1.7%	5.2%	-12.5%
Restaurants and cafes	7,895	10,126	12,068	10,453	9,278	9,120	9,287	9,805	9,299	4,747
YoY	-1.3%	28.3%	19.2%	-13.4%	-11.2%	-1.7%	1.8%	5.6%	-5.2%	-49.0%
Accessories	39,612	40,693	50,322	48,969	63,813	66,104	77,064	84,023	84,388	63,071
YoY	0.5%	2.7%	23.7%	-2.7%	30.3%	3.6%	16.6%	9.0%	0.4%	-25.3%
Services	2,481	2,265	2,291	2,286	1,852	1,796	1,892	2,177	2,390	1,292
YoY	-10.7%	-8.7%	1.1%	-0.2%	-19.0%	-3.0%	5.3%	15.1%	9.8%	-45.9%
Other	1,666	1,587	1,747	1,528	1,501	1,530	1,518	1,438	10,521	17,431
YoY	4.5%	-4.7%	10.1%	-12.5%	-1.8%	1.9%	-0.8%	-5.3%	631.6%	65.7%

Source: Shared Research based on company data

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

Sales per sqm	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPY'000)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
All stores	1,316	1,340	1,408	1,439	1,531	1,525	1,635	1,720	1,511	1,027
YoY	7.7%	1.8%	5.0%	2.2%	6.4%	-0.4%	7.2%	5.2%	-12.2%	-32.0%
Hankyu Main Store	2,486	1,959	1,966	2,023	2,236	2,261	2,454	2,545	2,444	1,773
YoY	-5.0%	-21.2%	0.4%	2.9%	10.5%	1.1%	8.5%	3.7%	-4.0%	-27.4%
Hanshin Umeda Main Store	1,730	1,671	1,543	1,662	1,781	1,670	1,661	1,678	1,666	1,000
YoY	-3.8%	-3.4%	-7.6%	7.7%	7.1%	-6.2%	-0.6%	1.0%	-0.7%	-40.0%
Total branches	869	938	1,001	998	1,019	1,011	1,062	1,120	1,002	756
YoY	31.3%	8.0%	6.7%	-0.3%	2.1%	-0.7%	5.0%	5.5%	-10.6%	-24.5%
Senri Hankyu	1,251	1,245	1,260	1,199	1,213	1,184	1,171	1,151	1,094	924
YoY	-0.3%	-0.5%	1.2%	-4.8%	1.2%	-2.4%	-1.1%	-1.7%	-5.0%	-15.5%
Takatsuki Hankyu	-	-	-	-	-	-	-	-	279	477
YoY	-	-	-	-	-	-	-	-	-	70.8%
Kawanishi Hankyu	1,166	1,141	1,130	1,079	1,071	1,049	1,032	1,010	952	789
YoY	-1.9%	-2.2%	-0.9%	-4.5%	-0.7%	-2.1%	-1.6%	-2.1%	-5.7%	-17.2%
Takarazuka Hankyu	1,238	1,236	1,366	1,346	1,275	1,259	1,249	1,230	1,198	1,095
YoY	-2.8%	-0.2%	10.6%	-1.5%	-5.2%	-1.3%	-0.8%	-1.5%	-2.6%	-8.6%
Nishinomiya Hankyu	928	967	1,005	994	1,005	1,007	1,029	1,026	995	836
YoY	6.6%	4.2%	3.9%	-1.1%	1.2%	0.2%	2.2%	-0.3%	-3.0%	-16.0%
Kobe Hankyu	583	-	-	-	-	-	-	-	890	672
YoY	-	-	-	-	-	-	-	-	-	-24.5%
Sanda Hankyu	658	650	650	650	658	663	664	649	643	505
YoY	-1.9%	-1.1%	-0.1%	0.0%	1.3%	0.8%	0.1%	-2.2%	-0.9%	-21.4%
Hakata Hankyu	891	895	967	1,011	1,048	1,062	1,133	1,234	1,176	812
YoY	334.4%	0.5%	8.0%	4.5%	3.7%	1.4%	6.7%	8.9%	-4.7%	-30.9%
Hankyu Men's Tokyo	794	1,002	1,105	1,187	1,269	1,226	1,255	1,242	1,127	762
YoY	7.4%	26.2%	10.3%	7.4%	6.9%	-3.4%	2.4%	-1.1%	-9.3%	-32.3%
Oi Hankyu Food Hall	2,280	2,149	2,250	2,297	2,313	2,281	2,242	2,213	2,223	2,247
YoY	503.0%	-5.8%	4.7%	2.1%	0.7%	-1.4%	-1.7%	-1.3%	0.5%	1.1%
Tsuzuki Hankyu	479	519	777	756	745	743	718	709	1,054	1,601
YoY	-2.1%	8.3%	49.7%	-2.7%	-1.4%	-0.3%	-3.4%	-1.2%	48.7%	51.9%
Amagasaki Hanshin	699	710	716	692	874	975	1,020	1,037	1,023	996
YoY	2.6%	1.6%	0.8%	-3.4%	26.4%	11.5%	4.7%	1.7%	-1.4%	-2.7%
Hanshin Nishinomiya	916	902	908	907	907	895	910	912	896	829
YoY	-1.7%	-1.6%	0.7%	-0.1%	0.0%	-1.3%	1.6%	0.3%	-1.7%	-7.5%
Hanshin Mikage	389	713	700	677	695	691	670	660	652	593
YoY	7.2%	83.0%	-1.7%	-3.4%	2.8%	-0.6%	-3.0%	-1.5%	-1.3%	-9.0%

Source: Shared Research based on company data

Note: Sanda Hankyu closed in August 2021. Kobe Hankyu and Takatsuki Hankyu opened in October 2019. Sakai Kitahanada Hankyu closed in July 2017, and Kobe Hankyu closed in March 2012.

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

Customer count by store	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
('000)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
All stores	166,555	163,252	166,844	165,590	155,902	156,379	153,639	156,766	158,758	108,051
YoY	16.4%	-2.0%	2.2%	-0.8%	-5.9%	0.3%	-1.8%	2.0%	1.3%	-31.9%
Hankyu Main Store	34,010	40,027	46,839	48,955	49,003	49,191	50,566	50,297	45,768	24,531
YoY	-9.8%	17.7%	17.0%	4.5%	0.1%	0.4%	2.8%	-0.5%	-9.0%	-46.4%
Hanshin Umeda Main Store	46,003	44,591	41,743	37,726	28,866	28,345	28,014	32,955	29,160	14,510
YoY	0.9%	-3.1%	-6.4%	-9.6%	-23.5%	-1.8%	-1.2%	17.6%	-11.5%	-50.2%
Total branches	86,538	78,629	78,257	78,904	78,026	78,843	75,058	73,512	83,829	69,009
YoY	44.8%	-9.1%	-0.5%	0.8%	-1.1%	1.0%	-4.8%	-2.1%	14.0%	-17.7%
Senri Hankyu	6,025	5,417	5,328	5,648	5,115	5,004	4,974	4,898	4,682	3,855
YoY	-1.5%	-10.1%	-1.6%	6.0%	-9.4%	-2.2%	-0.6%	-1.5%	-4.4%	-17.7%
Takatsuki Hankyu	-	-	-	-	-	-	-	-	4,444	7,500
YoY	-	-	-	-	-	-	-	-	-	68.8%
Kawanishi Hankyu	4,946	5,747	5,889	5,842	6,483	6,332	6,262	6,061	5,807	4,508
YoY	-13.6%	16.2%	2.5%	-0.8%	11.0%	-2.3%	-1.1%	-3.2%	-4.2%	-22.4%
Nishinomiya Hankyu	13,094	13,341	13,394	13,492	13,111	12,996	13,295	13,483	13,046	10,248
YoY	2.0%	1.9%	0.4%	0.7%	-2.8%	-0.9%	2.3%	1.4%	-3.2%	-21.4%
Kobe Hankyu	2,907	-	-	-	-	-	-	-	8,963	11,697
YoY	0.9%	-	-	-	-	-	-	-	-	30.5%
Hakata Hankyu	29,122	24,887	25,164	25,598	25,189	27,567	27,518	27,843	26,360	15,509
YoY	540.2%	-14.5%	1.1%	1.7%	-1.6%	9.4%	-0.2%	1.2%	-5.3%	-41.2%
Hankyu Men's Tokyo	3,261	3,162	2,985	2,905	2,730	2,645	2,575	2,568	2,475	970
YoY	5.5%	-3.0%	-5.6%	-2.7%	-6.0%	-3.1%	-2.6%	-0.3%	-3.6%	-60.8%
Oi Hankyu Food Hall	5,169	4,949	5,346	5,797	5,950	5,739	5,641	5,506	5,403	4,563
YoY	1,133.7%	-4.3%	8.0%	8.4%	2.6%	-3.6%	-1.7%	-2.4%	-1.9%	-15.5%
Tsuzuki Hankyu	5,113	4,200	3,651	3,745	3,875	3,865	3,826	3,811	3,436	2,107
YoY	-3.2%	-17.9%	-13.1%	2.6%	3.5%	-0.3%	-1.0%	-0.4%	-9.8%	-38.7%
Hanshin Nishinomiya	4,281	4,148	4,099	4,069	4,061	4,054	4,074	4,458	4,404	3,790
YoY	-1.8%	-3.1%	-1.2%	-0.7%	-0.2%	-0.2%	0.5%	9.4%	-1.2%	-13.9%
Hanshin Mikage	5,273	5,252	5,157	5,041	5,087	5,138	4,902	4,881	4,803	4,257
YoY	-3.6%	-0.4%	-1.8%	-2.2%	0.9%	1.0%	-4.6%	-0.4%	-1.6%	-11.4%

Source: Shared Research based on company data

Note: Sanda Hankyu closed in August 2021. Kobe Hankyu and Takatsuki Hankyu opened in October 2019. Sakai Kitahanada Hankyu closed in July 2017, and Kobe Hankyu closed in March 2012.

Supermarket business

Supermarket	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Gross sales	91,627	93,328	100,223	379,405	436,901	409,454	386,552	367,580	354,115	281,116
YoY	0.8%	1.9%	7.4%	278.6%	15.2%	-6.3%	-5.6%	-4.9%	-3.7%	-20.6%
Operating profit	1,798	1,811	2,127	5,541	7,023	3,977	1,104	-438	-2,503	4,170
YoY	3.5%	0.7%	17.4%	160.5%	26.7%	-43.4%	-72.2%	-	-	-
Operating profit margin	2.0%	1.9%	2.1%	1.5%	1.6%	1.0%	0.3%	-0.1%	-0.7%	1.5%
Capital expenditures	1,618	3,918	5,281	10,409	12,883	9,724	9,226	9,048	8,655	3,690
YoY	-1.9%	142.2%	34.8%	97.1%	23.8%	-24.5%	-5.1%	-1.9%	-4.3%	-57.4%
Depreciation and amortization	1,782	1,853	1,963	6,068	-	5,858	5,746	5,600	5,748	3,661
YoY	-4.0%	4.0%	5.9%	209.1%	-	-	-1.9%	-2.5%	2.6%	-36.3%
EBITDA	3,580	3,664	4,090	11,609	7,023	9,835	6,850	5,162	3,245	7,831
YoY	-0.4%	2.3%	11.6%	183.8%	-39.5%	40.0%	-30.4%	-24.6%	-37.1%	141.3%
EBITDA margin	3.9%	3.9%	4.1%	3.1%	1.6%	2.4%	1.8%	1.4%	0.9%	2.8%

Source: Shared Research based on company data

Note: Figures through FY03/16 are totals for the supermarket and Izumiya businesses.

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In the Supermarket business, the company operates the Izumiya and Hankyu Oasis supermarkets, food production companies that supply food items to the group's supermarkets and department stores, and a food delivery business. Izumiya and Hankyu Oasis have combined gross sales of JPY243.8bn (FY03/21), making up 87% of gross sales in the Supermarket business segment.

Effective from the beginning of FY03/22, H2O transferred Hankyu Kitchen Yell Kansai, Inc. (grocery sales and home food delivery), EveryD.com, Inc. (home delivery of daily perishable food products), and Hankyu Sennan Green Farm (production and sale of vegetables), which were previously included under the Other business segment, into the Supermarket business.

Izumiya and Hankyu Oasis both have lower GPMs than large supermarket chains, but their SG&A expense ratios are similar to those of supermarket chains, so their OPMs are lower. Large supermarket operators typically have GPM of around 29%; in FY03/21, Izumiya had GPM of 26.4%, and Hankyu Oasis had GPM of 27.0%. These lower margins reflect a reliance on special sales and reward points (which are effectively discounts). Also, store sizes vary significantly, sapping efficiency.

During the three years covered by its medium-term management plan (FY03/22–FY03/24), H2O will suspend store openings and focus primarily on renovating existing stores and reviewing function of its head office. With these efforts, H2O will rearrange furniture and fixtures to facilitate movement within its stores, reformat its stores to reflect demand associated with their respective areas of business, and replace aging equipment while striving to reduce costs and standardize operations. Additionally, the company will aim to improve profit margins as it enhances its inventory management; standardizes store operations; conducts centralized management of all companies categorized under its Supermarket business; integrates head office functions of Izumiya and Hankyu Oasis; and consolidates food manufacturing and sales operations, which have been managed separately.

Izumiya

Izumiya emanated from the Izumiya textile shop that was founded in the Nishinari-ku of the city of Osaka during 1921. It maintains a group of supermarkets primarily in the Kansai area and reached 100 years since its founding in 2021. Izumiya's business is based on the concept of providing safe, secure, and high-quality products at inexpensive prices.

Izumiya became a wholly owned subsidiary in June 2014 through a share exchange. The transaction included the delivery of 53.6mn shares (10.0mn from treasury stock, and the remainder through a new share issuance) and an acquisition price of JPY43.4bn (leading to a gain on negative goodwill of JPY10.0bn in FY03/15). In FY02/14 (immediately before becoming a subsidiary), Izumiya generated JPY331.5bn in gross sales and JPY3.6bn in operating profit with a store count of 93 (86 in Kansai, five in Kanto, and one elsewhere).

When H2O acquired Izumiya, it was operating its core department store business while also aiming to expand its market share in the Kansai region by developing wide variety of different retail business formats, including supermarket business operated by Hankyu Oasis (71 stores and sales of about JPY100.0bn as of end-FY03/14). Hankyu Oasis stores were mostly along the Hankyu Railway line, while Izumiya stores were in other areas of Kansai. Operating both was in line with H2O's strategy for increasing market share in Kansai, and the company expected to generate synergies through the larger market scale.

In FY03/21, Izumiya generated gross sales of JPY133.0bn (-36.9% YoY) and operating profit of JPY3.1bn (versus an operating loss of JPY3.1bn in FY03/20) with a store count of 74 as of March 31, 2021. Since becoming a subsidiary, gross sales generated by Izumiya have fallen by approximately 60% while its operating profit has fallen by only about 10%. Following its conversion of Izumiya into a subsidiary, H2O has conducted a variety of supportive measures, such as the closure of unprofitable stores and general merchandise stores located outside of the Kansai region. Gross sales declined primarily due to a company split in July 2016 that effectively separated Izumiya from the food manufacturing business it was operating at the time of its acquisition and from the Shopping Center Management business through which it had managed and developed store land, buildings, and other real estate. However, the company has limited operating profit decline through joint procurement and sharing of small side dish manufacturing facilities between Izumiya and Hankyu Oasis, as well as various measures aimed at improving profitability, including the remodeling or reconstruction of aging stores.

In FY03/21, H2O targeted higher managerial efficiency by transferring responsibility for the management and development of Izumiya's real estate (such as store land and buildings) to the subsidiary in charge of its Shopping Center Management business (now the Shopping Center business). With this move, the company established a system that allows it to direct its management resources into supermarkets and food product sales areas in shopping centers. For the foreseeable future, the company will improve its earnings power while focusing on improving the efficiency of store operations, rather than on expanding its store network. Moving forward, the company will attempt to demonstrate synergy through structural reorganization involving the merging of operating company functions associated with Izumiya and Hankyu Oasis and an improvement in sales efficiency achieved through integrated product management utilizing the sales system the company previously introduced in FY03/21 and the standardization of store operations.

In April 2020, the company transferred responsibility for managing tenants of Izumiya Co., Ltd.'s general merchandise stores and shopping centers and administration of directly managed selling floors for apparel and home products to H2O Shopping Center Development Co., Ltd. At the same time, it transferred responsibility for asset management operations associated with Izumiya's general merchandise stores to H2O Asset Management Co., Ltd. Thanks to these moves, Izumiya became able to focus on managing its supermarkets and operating food product selling spaces in general merchandise stores and shopping centers while H2O Shopping Center Development gained the ability to move forward with the conversion of general merchandise stores into shopping centers. Additionally, in April 2021, H2O Shopping Center Development assumed responsibility for Izumiya-related real estate management operations previously conducted by H2O Asset Management Co., Ltd. This move established a system through which H2O Shopping Center Development can centrally manage operations other than those associated with Izumiya's Supermarket business.

Izumiya (JPYmn)	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.
Gross sales	232,865	218,278	210,924	133,011
YoY	-9.7%	-6.3%	-3.4%	-36.9%
Gross profit	61,812	58,176	54,495	35,114
YoY	-8.4%	-5.9%	-6.3%	-35.6%
Gross profit margin	26.5%	26.7%	25.8%	26.4%
Other operating revenue	14,726	14,725	14,543	11,645
YoY	-5.6%	-0.0%	-1.2%	-19.9%
SG&A expenses	76,128	74,129	72,184	43,665
YoY	-6.7%	-2.6%	-2.6%	-39.5%
SG&A ratio	32.7%	34.0%	34.2%	32.8%
Operating profit	411	-1,226	-3,145	3,095
YoY	-72.8%	-	-	-
Operating profit margin	0.2%	-0.6%	-1.5%	2.3%

Comparable store sales	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.
Food	-8.5%	-3.8%	-5.3%	-
Apparel	-10.8%	-7.7%	-12.0%	-
Household goods	-14.9%	-10.8%	-7.8%	-
Total	-9.9%	-5.5%	-6.6%	-

Store count	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.
Store count	84	85	84	74
YoY	-2.3%	1.2%	-1.2%	-11.9%
Openings	2	2	3	-
Closures	-4	-2	-4	-2

Source: Shared Research based on company data
The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

Hankyu Oasis

Hankyu Oasis has its origins in Oasis, which was established in 1960; Hankyu Family Store, which was split off from the Hankyu Department Stores' subsidiary Hankyu Kyoei Bussan; Hankyu Freshyell, a food sourcing company split off from Hankyu Kyoei Bussan; and Hankyu Nissho Store, a former subsidiary of Nihon Glass Shoji (now Nipro) that the company acquired. In FY03/21, Hankyu Oasis generated gross sales of JPY110.8bn and operated 77 stores, mostly along the Hankyu Railway line. The company describes its aims as creating a lively market and making lifestyle proposals by providing beneficial food-related information.

Hankyu Oasis (JPYmn)	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.
Gross sales	116,798	112,592	109,415	110,762
YoY	1.7%	-3.6%	-2.8%	1.2%
Gross profit	30,058	28,956	28,839	29,882
YoY	0.8%	-3.7%	-0.4%	3.6%
Gross profit margin	25.7%	25.7%	26.4%	27.0%
Other operating revenue	7,007	6,687	7,037	7,095
YoY	12.9%	-4.6%	5.2%	0.8%
SG&A expenses	36,464	35,187	35,867	35,461
YoY	5.3%	-3.5%	1.9%	-1.1%
SG&A ratio	31.2%	31.3%	32.8%	32.0%
Operating profit	602	455	9	1,515
YoY	-57.1%	-24.4%	-98.0%	16,733.3%
Operating profit margin	0.5%	0.4%	0.0%	1.4%

Comparable store sales	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.
Total	-0.9%	-1.7%	-4.8%	0.6%

Store count	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.
Store count	78	76	78	77
YoY	-6.0%	-2.6%	2.6%	-1.3%
Openings	3	3	4	1
Closures	-8	-4	-2	-2

Source: Shared Research based on company data
The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

Hankyu Oasis' store openings and renovations since 2009 have focused on increasing its "high-quality food specialist stores" (the phrase it uses for stores that create a high-end ambiance through measures such as communicating face to face with customers, selling perishable foods by weight, offering highly specialized lineups, erecting large display cases, and holding cooking lessons). In 2018, the company adopted the new Kitchen & Market business format. The company is targeting "grocerant" (a portmanteau of "grocery" and "restaurant") demand, which is gaining a growing amount of attention. In addition to expanding its offerings of prepared foods and offering dine-in areas, Hankyu Oasis is also providing spaces where people can cook and eat the fresh fish and meat products they purchase in its stores. Stores employing these approaches include Lucua Osaka, which opened in April 2018.

Shopping Center and Other businesses

Shopping Center Management, Other	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Gross sales	38,656	48,507	49,360	44,405	47,609	64,121	65,713	64,684	69,947	110,313
YoY	62.8%	25.5%	1.8%	-10.0%	7.2%	34.7%	2.5%	-1.6%	8.1%	57.7%
Shopping Center Management	13,048	13,770	12,924	-	-	9,970	10,367	8,736	8,725	63,262
YoY	-3.3%	5.5%	-6.1%	-	-	-	4.0%	-15.7%	-0.1%	625.1%
Other	25,608	34,737	36,436	44,405	47,609	54,151	55,346	55,948	61,222	47,051
YoY	149.8%	35.6%	4.9%	21.9%	7.2%	13.7%	2.2%	1.1%	9.4%	-23.1%
Operating profit	3,294	2,212	4,935	2,355	3,317	7,901	8,083	9,311	7,044	-2,803
YoY	37.6%	-32.8%	123.1%	-52.3%	40.8%	138.2%	2.3%	15.2%	-24.3%	-
Operating profit margin	8.5%	4.6%	10.0%	5.3%	7.0%	12.3%	12.3%	14.4%	10.1%	-2.5%
Shopping Center Management	1,740	1,594	1,394	-	-	5,038	4,985	4,281	4,141	-113
YoY	178.8%	-8.4%	-12.5%	-	-	-	-1.1%	-14.1%	-3.3%	-
Operating profit margin	13.3%	11.6%	10.8%	-	-	50.5%	48.1%	49.0%	47.5%	-0.2%
Other	1,554	618	3,541	2,355	3,317	2,863	3,098	5,030	2,903	-2,690
YoY	-12.2%	-60.2%	473.0%	-33.5%	40.8%	-13.7%	8.2%	62.4%	-42.3%	-
Operating profit margin	6.1%	1.8%	9.7%	5.3%	7.0%	5.3%	5.6%	9.0%	4.7%	-5.7%
Capital expenditures	3,882	6,480	6,822	22,302	3,529	16,734	7,431	11,584	18,052	8,781
YoY	-70.7%	66.9%	5.3%	226.9%	-84.2%	374.2%	-55.6%	55.9%	55.8%	-51.4%
Shopping Center Management	237	1,834	4,260	-	-	6,651	1,558	6,727	9,511	2,728
YoY	-97.6%	673.8%	132.3%	-	-	-	-76.6%	331.8%	41.4%	-71.3%
Other	3,645	4,646	2,562	22,302	3,529	10,083	5,873	4,857	8,541	6,053
YoY	5.6%	27.5%	-44.9%	770.5%	-84.2%	185.7%	-41.8%	-17.3%	75.8%	-29.1%
Depreciation and amortization	4,046	4,572	4,525	4,414	4,611	5,512	6,157	6,392	6,757	8,600
YoY	39.7%	13.0%	-1.0%	-2.5%	4.5%	19.5%	11.7%	3.8%	5.7%	27.3%
Shopping Center Management	979	921	955	-	-	2,046	2,254	2,274	1,920	2,889
YoY	105.2%	-5.9%	3.7%	-	-	-	10.2%	0.9%	-15.6%	50.5%
Other	3,067	3,651	3,570	4,414	4,611	3,466	3,903	4,118	4,837	5,711
YoY	26.8%	19.0%	-2.2%	23.6%	4.5%	-24.8%	12.6%	5.5%	17.5%	18.1%
EBITDA	7,340	6,784	9,460	6,769	7,928	13,413	14,240	15,703	13,801	5,797
YoY	38.8%	-7.6%	39.4%	-28.4%	17.1%	69.2%	6.2%	10.3%	-12.1%	-58.0%
EBITDA margin	19.0%	14.0%	19.2%	15.2%	16.7%	20.9%	21.7%	24.3%	19.7%	5.3%
Shopping Center Management	2,719	2,515	2,349	-	-	7,084	7,239	6,555	6,061	2,776
YoY	147.0%	-7.5%	-6.6%	-	-	-	2.2%	-9.4%	-7.5%	-54.2%
EBITDA margin	20.8%	18.3%	18.2%	-	-	71.1%	69.8%	75.0%	69.5%	4.4%
Other	4,621	4,269	7,111	6,769	7,928	6,329	7,001	9,148	7,740	3,021
YoY	10.3%	-7.6%	66.6%	-4.8%	17.1%	-20.2%	10.6%	30.7%	-15.4%	-61.0%
EBITDA margin	18.0%	12.3%	19.5%	15.2%	16.7%	11.7%	12.6%	16.4%	12.6%	6.4%

Source: Shared Research based on company data

Notes: Figures for the Shopping Center Management business through FY03/14 are those for the PM business.

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in FY03/22. Sales through FY03/21 (excluding the effects from accounting method changes) are stated as gross sales in the table.

Effective from the start of FY03/22, the company changed the name of its Shopping Center Management business to Shopping Center business and recategorized segments of some operating companies under this business. These moves have not been reflected in the table above.

Shopping Center business

Effective from the start of Q1 FY03/22, H2O changed the name of its Shopping Center Management business to Shopping Center business. Additionally, the company moved Hankyu Kitchen Yell Kansai (sales and home delivery of groceries, delivery subcontracting), EveryD.com (operates home delivery and delivery platform businesses), and Hankyu Sennan Green Farm (production and sale of organic vegetables), which were previously included under the Other business segment, into the Supermarket business. Furthermore, it transferred Oi Development (primarily manages hotels and shopping centers) to the Shopping Center business.

In FY03/21, gross sales in the Shopping Center business were JPY65.0bn. Since April 2021, H2O Shopping Center Development has been managing real estate and tenants associated with Izumiya's general merchandise stores and shopping centers while also operating directly managed sales areas providing apparel and home products.

Another subsidiary, Hankyu Shopping Center Development, manages Mosaic Mall Kohoku (Yokohama, Kanagawa), Mosaic Box (Kawanishi, Hyogo), Kyoto Avanti (Kyoto, Kyoto Prefecture), and Rakuhoku Hankyu Square (Kyoto, Kyoto Prefecture), and develops shopping centers. Other companies in the Shopping Center business are Kanso, which manages and maintains building equipment and provides security and cleaning services; and Hankyu Maintenance Service, which provides store repairs, cleaning, and security services (mainly for group companies). Oi Development, which runs the Ours Inn Hankyu business hotel in front of the Oimachi train station in Tokyo, was part of the Property Management (PM) segment until FY03/14. In FY03/21, it was included under the Other business before moving to the Shopping Center business effective from the start of FY03/22.

Other business

The main constituents of the Other business are asnas, which operates a convenience store business; F.G.J., which manages Fruit GATHERING, a shop that carriers a selection of cosmetics and general goods marketed under several different brands; and Ningbo Development (equity-method affiliate), which the company created through joint investment with Cool Japan Fund Inc. to establish an entity responsible for the development and operation of Ningbo Hankyu. Other business performance includes dividends H2O Retailing Corporation (non-consolidated basis) receives from subsidiaries. (Typically, a significant amount is recorded in Q1 and eliminated through adjustments.).

Cost structure

Cost of sales

The company's GPM has trended from 27% to just under 30%. In FY03/21, Hankyu Hanshin Department Stores, Inc. (core company of the Department Store segment, which accounted for 47% of gross sales) had a GPM of 22.7%, while Izumiya (core company of the Supermarket segment, which accounted for about 38% of overall sales) had a GPM of 26.4%, and Hankyu Oasis 27.0%.

Consignment sales ("purchase as sold") and outright purchases

In the Department Store business, around 80% of gross sales are of products sourced on a "consignment sales" basis. This means that products on display or in store inventories are recognized as the inventories of the apparel manufacturers or other companies that supply the products rather than as H2O's inventories. Under this arrangement, purchase and sale transactions occur simultaneously when products are sold to consumers. Accordingly, H2O bears no inventory risks (risks of price changes, storage, or obsolescence). By contrast, with "outright purchases," H2O buys products from a supplier and recognizes those items as its own inventories until they are sold. H2O therefore assumes inventory risk. In general, products purchased on this basis have higher GPM to account for this risk.

Effective from the start of FY03/22, H2O began applying the Accounting Standard for Revenue Recognition. Accordingly, it has also changed the method it utilizes to record sales generated through consignment sale agreements. Having implemented this change, the company now records as sales the net revenue (gross profit) from these consignment transactions, rather than the gross revenue (product price + gross profit). The company now categorizes the gross revenue (product price + gross profit) as gross sales.

SG&A expenses

The company's SG&A expense ratio is in the neighborhood of 25 to just under 28%. The largest component of SG&A expenses, personnel expenses, accounts for JPY90.0bn or more per year (more than 10% of gross sales). In FY03/21, the company reduced overtime work and curtailed bonuses while closing stores or reducing operating hours in response to the COVID-19 pandemic, and personnel expenses fell to JPY81.6bn. As of end-FY03/21, the company had 8,983 employees. In addition, 14,961 temporary employees work at the company.

Leasing fees are just under JPY40.0bn (4–5% of gross sales). The company's major department stores (such as Hankyu Main Store and Hanshin Umeda Main Store) lease property from Hankyu Hanshin Toho Group companies, such as Hankyu Railway, Hankyu Hanshin Properties, and Hanshin Electric Railway. (Each year, the company pays nearly JPY10.0bn in leasing fees to Hankyu Railway and around JPY3.0bn to Hanshin Electric Railway). Izumiya leases store real estate from Sumitomo Mitsui Trust Bank and other companies.

Depreciation and amortization expenses and transportation expenses each equate to about 2% of gross sales.

SG&A expenses	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
SG&A expenses	129,509	131,859	139,636	220,059	242,538	240,842	243,459	245,813	244,864	216,341
YoY	9.2%	1.8%	5.9%	57.6%	10.2%	-0.7%	1.1%	1.0%	-0.4%	-11.6%
% of sales	25.6%	25.1%	24.2%	26.0%	26.5%	26.7%	26.4%	26.5%	27.3%	29.3%
Personnel	49,410	49,129	52,368	88,648	95,626	95,351	95,930	94,804	93,973	81,634
YoY	3.1%	-0.6%	6.6%	69.3%	7.9%	-0.3%	0.6%	-1.2%	-0.9%	-13.1%
% of sales	9.8%	9.4%	9.1%	10.5%	10.4%	10.6%	10.4%	10.2%	10.5%	11.0%
Rents	23,192	23,556	25,172	36,152	37,660	37,073	38,210	39,306	40,286	36,365
YoY	9.7%	1.6%	6.9%	43.6%	4.2%	-1.6%	3.1%	2.9%	2.5%	-9.7%
% of sales	4.6%	4.5%	4.4%	4.3%	4.1%	4.1%	4.1%	4.2%	4.5%	4.9%
Advertising and display	8,108	8,673	9,311	16,821	17,382	15,409	14,266	14,483	10,833	5,810
YoY	27.0%	7.0%	7.4%	80.7%	3.3%	-11.4%	-7.4%	1.5%	-25.2%	-46.4%
% of sales	1.6%	1.7%	1.6%	2.0%	1.9%	1.7%	1.5%	1.6%	1.2%	0.8%
Depreciation and amortization	12,183	12,772	12,840	14,272	15,305	14,962	15,251	16,422	17,617	16,959
YoY	26.9%	4.8%	0.5%	11.2%	7.2%	-2.2%	1.9%	7.7%	7.3%	-3.7%
% of sales	2.4%	2.4%	2.2%	1.7%	1.7%	1.7%	1.7%	1.8%	2.0%	2.3%
Outsourcing	7,166	7,832	7,777	17,476	19,607	19,570	19,086	19,593	19,952	18,036
YoY	10.8%	9.3%	-0.7%	124.7%	12.2%	-0.2%	-2.5%	2.7%	1.8%	-9.6%
% of sales	1.4%	1.5%	1.3%	2.1%	2.1%	2.2%	2.1%	2.1%	2.2%	2.4%
Sales commissions	4,487	4,179	4,842	6,023	7,009	9,848	13,229	12,323	14,123	11,403
YoY	11.5%	-6.9%	15.9%	24.4%	16.4%	40.5%	34.3%	-6.8%	14.6%	-19.3%
% of sales	0.9%	0.8%	0.8%	0.7%	0.8%	1.1%	1.4%	1.3%	1.6%	1.5%
Transportation	5,876	6,121	6,375	7,347	13,158	14,459	14,496	15,451	14,968	14,405
YoY	13.9%	4.2%	4.1%	15.2%	79.1%	9.9%	0.3%	6.6%	-3.1%	-3.8%
% of sales	1.2%	1.2%	1.1%	0.9%	1.4%	1.6%	1.6%	1.7%	1.7%	1.9%
Other	19,084	19,593	20,947	33,316	36,787	34,165	32,987	33,428	33,106	31,726
YoY	6.6%	2.7%	6.9%	59.0%	10.4%	-7.1%	-3.4%	1.3%	-1.0%	-4.2%
% of sales	3.8%	3.7%	3.6%	3.9%	4.0%	3.8%	3.6%	3.6%	3.7%	4.3%

Source: Shared Research based on company data

Number of employees	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(persons)										
Consolidated (excl. temporary employees)	5,693	5,542	5,416	8,590	8,456	8,528	8,868	8,793	9,570	8,983
Department Store	3,289	3,163	3,078	3,014	2,917	2,942	3,258	3,180	4,195	4,185
Supermarket	1,003	1,015	995	4,381	3,541	3,593	3,576	3,524	3,399	2,621
Shopping Center Management	177	133	126	-	365	352	347	353	348	695
Other	1,224	1,231	1,217	1,195	1,633	1,641	1,687	1,736	1,628	1,482
Temporary employees (average)	8,750	8,817	9,048	19,485	19,120	18,608	17,792	16,628	15,291	14,961

Source: Shared Research based on company data

Note: In FY03/18 and FY03/19, figures for the Department Store business are totals for the Department Store business and the Kobe/Takatsuki business. Figures for the Supermarket business through FY03/16 are totals for the supermarket and Izumiya businesses. Figures for the Shopping Center Management business through FY03/14 are those for the PM business.

Effective from the start of FY03/22, the company changed the name of its Shopping Center Management business to Shopping Center business and recategorized segments of some operating companies under this business. These moves have not been reflected in the table above.

Principal leased properties (as of March 31, 2021)

Segment	Subsidiary	Location	Lessee	Space (sqm)
Department Store	Hankyu Hanshin Dept. Stores	Hankyu Main Store	Hankyu Railway Hankyu Hanshin Properties	144,262
			Hankyu Hanshin Properties Toho	17,816
		Hanshin Umeda Main Store	Hanshin Electric Railway Hankyu Railway	58,118
		Hankyu Men's Tokyo	Toho	18,049
		Nishinomiya Hankyu	Hankyu Railway	38,643
		Hakata Hankyu	JR Hakata City	54,710
		Kobe Hankyu	Hanshin Electric Railway Muromachi Building, other	64,447
		Takatsuki Hankyu	MUL Property	23,659
	Shinko Management	Takatsuki Hankyu	Nippon Express Muromachi Building, other	4,592
Supermarket	Izumiya	Izumiya Yao	Sumitomo Mitsui Trust Bank	34,198
		Izumiya Senrigaoka	Sumitomo Mitsui Trust Bank	24,399
		Izumiya Hakubaicho	Sumitomo Mitsui Trust Bank	46,751
		Izumiya Nishinomiya Gardens	Hankyu Railway	15,916
Shopping Center Management	Hankyu Shopping Center Development	Mosaic Mall Kohoku	Daiichi Kyodo Kaihatsu	180,765

Source: Shared Research based on company data

Depreciation and amortization	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmm)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Depreciation and amortization	12,637	13,511	13,598	15,149	16,230	15,857	16,223	17,399	18,519	18,141
YoY	28.7%	6.9%	0.6%	11.4%	7.1%	-2.3%	2.3%	7.2%	6.4%	-2.0%
Department Store	6,807	7,145	7,147	4,704	4,758	4,561	4,386	5,477	6,063	5,930
YoY	34.3%	5.0%	0.0%	-34.2%	1.1%	-4.1%	-3.8%	24.9%	10.7%	-2.2%
% of total	53.9%	52.9%	52.6%	31.1%	29.3%	28.8%	27.0%	31.5%	32.7%	32.7%
Supermarket	1,782	1,853	1,963	6,068	6,916	5,858	5,746	5,600	5,748	3,661
YoY	-4.0%	4.0%	5.9%	209.1%	14.0%	-15.3%	-1.9%	-2.5%	2.6%	-36.3%
% of total	14.1%	13.7%	14.4%	40.1%	42.6%	36.9%	35.4%	32.2%	31.0%	20.2%
Shopping Center Management	979	921	955	-	-	2,046	2,254	2,274	1,920	2,889
YoY	105.2%	-5.9%	3.7%	-	-	-	10.2%	0.9%	-15.6%	50.5%
% of total	7.7%	6.8%	7.0%	-	-	12.9%	13.9%	13.1%	10.4%	15.9%
Other	3,067	3,651	3,570	4,414	4,611	3,466	3,903	4,118	4,837	5,711
YoY	26.8%	19.0%	-2.2%	23.6%	4.5%	-24.8%	12.6%	5.5%	17.5%	18.1%
% of total	24.3%	27.0%	26.3%	29.1%	28.4%	21.9%	24.1%	23.7%	26.1%	31.5%
Adjustments	-	-60	-38	-37	-56	-76	-67	-71	-50	-51

Source: Shared Research based on company data
Note: In FY03/18 and FY03/19, figures for the Department Store business are totals for the Department Store business and the Kobe/Takatsuki business. Figures for the Supermarket business through FY03/16 are totals for the supermarket and Izumiya businesses. Figures for the Shopping Center Management business through FY03/14 are those for the PM business.
Effective from the start of FY03/22, the company changed the name of its Shopping Center Management business to Shopping Center business and recategorized segments of some operating companies under this business. These moves have not been reflected in the table above.

Capital expenditures	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmm)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Capital expenditures	12,869	33,084	13,532	38,914	20,110	28,060	26,443	32,039	35,125	22,699
YoY	-62.5%	157.1%	-59.1%	187.6%	-48.3%	39.5%	-5.8%	21.2%	9.6%	-35.4%
Department Store	7,366	22,790	1,457	6,237	3,769	3,372	9,878	11,531	8,508	10,305
YoY	-62.2%	209.4%	-93.6%	328.1%	-39.6%	-10.5%	192.9%	16.7%	-26.2%	21.1%
% of total	57.2%	68.9%	10.8%	16.0%	18.7%	12.0%	37.4%	36.0%	24.2%	45.4%
Supermarket	1,618	3,918	5,281	10,409	12,883	9,724	9,226	9,048	8,655	3,690
YoY	-1.9%	142.2%	34.8%	97.1%	23.8%	-24.5%	-5.1%	-1.9%	-4.3%	-57.4%
% of total	12.6%	11.8%	39.0%	26.7%	64.1%	34.7%	34.9%	28.2%	24.6%	16.3%
Shopping Center Management	237	1,834	4,260	-	-	6,651	1,558	6,727	9,511	2,728
YoY	-97.6%	673.8%	132.3%	-	-	-	-76.6%	331.8%	41.4%	-71.3%
% of total	1.8%	5.5%	31.5%	-	-	23.7%	5.9%	21.0%	27.1%	12.0%
Other	3,645	4,646	2,562	22,302	3,529	10,083	5,873	4,857	8,541	6,053
YoY	5.6%	27.5%	-44.9%	770.5%	-84.2%	185.7%	-41.8%	-17.3%	75.8%	-29.1%
% of total	28.3%	14.0%	18.9%	57.3%	17.5%	35.9%	22.2%	15.2%	24.3%	26.7%
Adjustments	-	-106	-29	-35	-72	-1,771	-95	-125	-92	-78

Source: Shared Research based on company data
Note: In FY03/18 and FY03/19, figures for the Department Store business are totals for the Department Store business and the Kobe/Takatsuki business. Figures for the Supermarket business through FY03/16 are totals for the supermarket and Izumiya businesses. Figures for the Shopping Center Management business through FY03/14 are those for the PM business.
Effective from the start of FY03/22, the company changed the name of its Shopping Center Management business to Shopping Center business and recategorized segments of some operating companies under this business. These moves have not been reflected in the table above.

Business tie-ups

H2O strives to make active use of external resources and proactively enters into alliances with other companies. Key business alliances are outlined in detail below.

Mandai

In July 2021, H2O announced a comprehensive business alliance agreement with Mandai Co., Ltd., which operates 156 supermarkets in the Kansai region. Through this alliance with Mandai, H2O will leverage the supermarket-related strengths and business scales of both companies as it aims to increase profitability, enhance its competitiveness in the Kansai region, and improve its corporate value. The alliance will give both companies the opportunity to 1) jointly procure products; 2) jointly develop private-label products; 3) share logistical capabilities; 4) jointly develop and utilize marketing methods by sharing and utilizing their respective repositories of data; 5) collaboratively develop IT systems; 6) cooperatively develop payment and reward point systems; 7) conduct collaborative development and procurement of equipment; 8) share and jointly implement education and training methods; and 9) participate in mutual efforts targeting decarbonization and achievement of Sustainable Development Goals (SDGs).

Osaka Prefecture

In July, 2021, the company entered into a comprehensive alliance with Osaka Prefecture to cooperate and collaborate in the seven areas of children and education, regional vitalization, environment, health and welfare, employment promotion, disaster and crime prevention, and government public relations. With the conclusion of this alliance agreement, the company will step up efforts aimed at realizing a unique, attractive regional community together with Osaka Prefecture.

Lawson (TSE1: 2651)

In June, 2021, the company announced a comprehensive business alliance agreement with Lawson, Inc. Lawson was originally established in the Kansai region and operates a variety of businesses anchored by its core chain of convenience stores, which includes about 15,000 units throughout Japan. Through this alliance, H2O will integrate its management resources and services with those of Lawson while developing new services and expanding its business in the Kansai region. Primary activities associated with this alliance will include 1) collaborative store development (includes transformation of asnas stores into Lawson franchise stores); 2) collaboration related to products and physical distribution; 3) cooperation in the field of marketing; 4) utilization of shared data and collaborative development of new services; and 5) cooperative efforts targeting sustainability. Additionally, the two parties have already agreed to 1) transform 98 stores operated by group company asnas (train station sales kiosks and convenience stores) into Lawson franchise stores (conversion began in July 2021) and 2) allow customers to pick up e-commerce orders from H2O's department stores at Lawson stores (launch planned for 2H FY03/22).

Cocokara Fine (TSE1: 3098)

In May 2019, H2O announced the establishment of a joint venture and a memorandum of understanding on a business alliance with Cocokara Fine, a major drugstore operator. The agreement had four elements. First, Cocokara Fine would invest in a company split off from Izumiya to sell household-related products. Second, Cocokara Fine would supply health and beauty products to a food product sales company split off from Izumiya. Third, Cocokara Fine would introduce the S-point loyalty program at its stores in the Kansai region (around 400 out of 1,300 stores nationwide). Fourth, the food product sales company split off from Izumiya would supply food products to Cocokara Fine. In December 2019, the two companies set up a joint venture called CFIZ (49% held by H2O, 51% by Cocokara Fine) to create more attractive retail spaces for drugs and cosmetics at Izumiya. In May 2021, this joint venture operated 26 stores.

SRS Holdings (TSE1: 8163)

In May 2019, H2O unveiled a capital and business alliance with SRS Holdings, which runs eating and drinking establishments, principally in the Kansai region. This alliance had four main elements: adoption of the S-point loyalty program at SRS group restaurants; consideration of joint purchasing and logistics in the restaurant business; opening restaurants operated by the SRS group in H2O's shopping centers; joint business using vegetables, rice, and deli items produced and prepared by the H2O group. H2O acquired around 3% of SRS' outstanding shares. In November 2019, H2O announced a transfer of its Kazokutei and Sun Laurie restaurant operators to the SRS Holdings group through a share exchange. H2O considers SRS a strategic business partner. Through the ongoing holding of SRS' shares, H2O aims to strengthen its relationship with SRS to "build an integrated lifestyle industry."

Kansai Super Market (TSE1: 9919)

In October 2016, H2O announced a capital and business alliance with Kansai Super Market, which operates 65 supermarkets in the Kansai region. H2O believes the two companies have strong business affinity due to their having the same business bases and regions of operation. In addition to joint purchasing and other product-related measures, Kansai Super Market has introduced the S-point loyalty program, and the companies are working on initiatives they think their combined scale in the Kansai region should enable them to achieve. H2O accepted a third-party allocation of new shares from Kansai Super Market (10.02% of issued shares). The companies have also agreed on a basic framework covering five areas: Kansai Super Market's stores' handling of H2O's products, joint purchasing of products to be sold in both companies' stores, the introduction of the S-point loyalty program at Kansai Super Market's stores, the joint development of a next-generation sales register for use at both companies' supermarkets, and sales of mid-year and year-end gifts provided by Hankyu Hanshin Department Stores at Kansai Super Market's stores.

Takashimaya (TSE1: 8233)

In October 2008, H2O and Takashimaya announced an agreement to forge a business and capital alliance with a view to a merger. The stated aim was to mutually benefit from sharing Takashimaya's "management resources and expertise in the creation of a large store network and development of commercial facilities" and H2O's "management resources and expertise related to the diversification and cultivation of retail businesses centered on department stores in the Kansai region." On this basis, the two companies each held around 10% of the other's outstanding shares. However, in March 2010 the companies announced that they had abandoned merger plans and instead formed a new business alliance. The new agreement was limited to joint product development, joint purchasing of equipment and materials, collaboration in the mid-year and year-end gift businesses, and the joint development of retail spaces. In March 2015, the companies announced a reduction in their mutual shareholdings from 10% to 5% (As of March 31, 2021, each were maintaining holdings of 5%).

Market trends

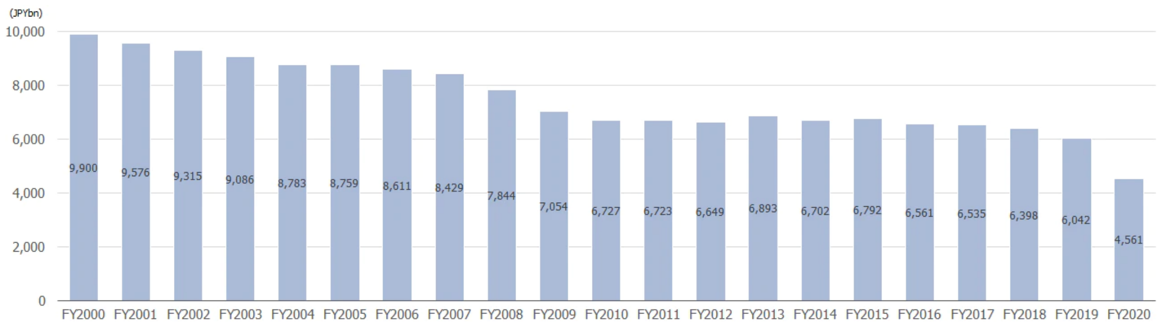
Department store industry

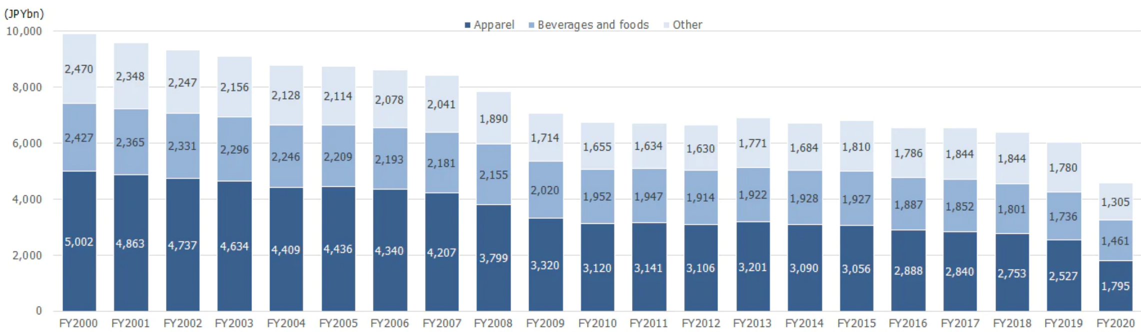
According to the "Current Survey of Commerce" by the Ministry of Economy, Trade and Industry (METI), the size of Japan's department store market peaked at JPY9tn in the 1990s and is now decreasing in size after incurring impact from damaging events such as the collapse of Japan's bubble economy and the 2008 global financial crisis. Over the period spanning from FY2010—FY2020, the size of the market remained between JPY6tn and JPY7tn. The various reasons for the declining size of the market include an aging main customer base; a shrinking population in Japan (particularly in regional areas); the rising prominence of facilities such as specialty apparel shops, drugstores, convenience stores, and shopping centers; changes in consumer preferences, such as the spread of casual fashion; and slow implementation of e-commerce services among department stores.

Under these circumstances, in FY2020 the size of the department store market fell to JPY4.6bn (-24.5% YoY) after hit by the COVID-19 pandemic. Department store companies were forced to close temporarily or curtail operations following the state of emergency declarations issued by the Japanese government, and demand associated with inbound travelers, which had previously boosted sales, dissipated. Meanwhile, the market incurred further downward impact from sluggish demand for apparel and other products that stemmed from a decrease in opportunities for consumers to venture outdoors. The business environment surrounding department stores could become even tougher as the COVID-19 pandemic causes a market shift away from brick-and-mortar stores and toward e-commerce services, generates a decline in the competitive advantage of department stores located in urban areas, and accelerates downward trends, such as sluggish apparel demand stemming primarily from the spread of teleworking.

METI's department store statistics are for "retailers with sales floor area of 3,000sqm or more in 23 wards of Tokyo and cities designated by government ordinance, or with sales floor area of 1,500sqm or more in other areas, with 50% or less of this sales floor area dedicated to self-service formats, and with apparel, food products, and housing items each accounting for 50% or less of sales."

Size of the department store market in Japan





Source: Shared Research based on METI's "Current Survey of Commerce"

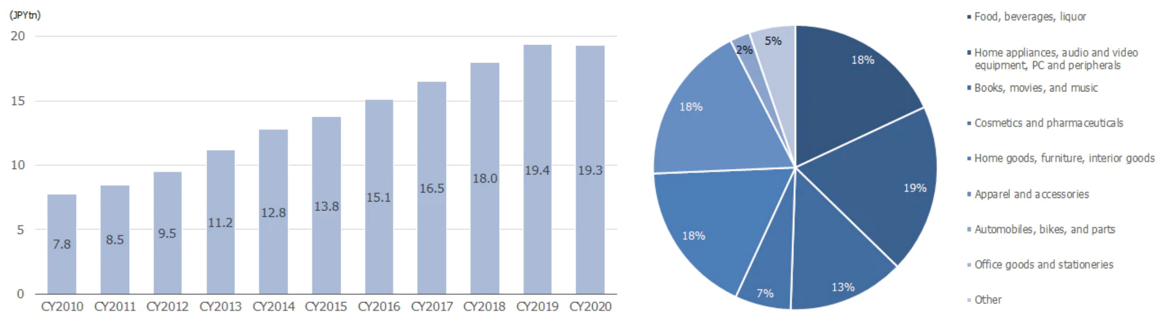
Apparel sales have fallen by 64% from their FY2000 level, to JPY1.8tn. This decline was due in part to impact from the COVID-19 pandemic, which hit at a time when many department stores were already demonstrating a lack of ability to respond to changes in customer preferences and were therefore losing ground to specialty stores utilizing an SPA (specialty-store retailers of private-label apparel) business model. This combination of conditions expedited shrinkage in the market. Food and beverage product sales also dropped to JPY1.5tn, down about 40% compared to FY2000. Sales of other products also shrank about 47%, demonstrating the severity of the prevailing conditions.

A 1991 revision to the Large-Scale Retail Store Law (which was enacted in 1974) lent significant influence to the department store business. Until the revision, Large-Scale Retail Stores Council could dictate opening dates, total floor spaces, store closing hours, and number of holidays at department stores, volume retailers, and other large stores. (The rationale was that this oversight allowed the council to appropriately protect business opportunities for small and medium-sized retailers.) The ability to dictate total floor spaces was particularly hobbling to large retailers' efforts to open new stores. Amid mounting criticism that these rules amounted to non-tariff barriers, the law was revised in 1991. The Commercial Activities Adjustments Board, which had been located in the Chamber of Commerce and Industry and been involved in the opening of large stores, was disbanded. These revisions paved the way for opening large shopping centers centered in suburban areas, and demand that had previously centered around stations and in urban areas moved to the suburbs. The impact of the legislative revisions was particularly profound in outlying regions.

According to materials from the Japan Department Stores Association, the drop in department store sales in Tokyo, Nagoya, and Osaka has been limited to slightly about 15% in the decade since 2008. In other regions, the sales decline has been around 30%. In addition to shrinking rural populations, the demand shift from metropolitan to suburban areas has had a major impact on department store sales.

Because department stores handle a wide range of items, they compete with drugstores, as well as apparel, furniture, supermarket, and other specialty stores. Shared Research thinks that, as they cannot compete on price with low-cost competitors moving large volumes of national brand products, department stores must create a certain cachet through sourcing capabilities and sophisticated product lineups. The recent popularization of e-commerce has increased opportunities for consumers to purchase products in small quantities directly from manufacturers. To compete in this environment, department stores themselves are actively engaging in e-commerce initiatives. We think that department stores are being called on to organically link offline and online shopping, offering physical displays and purchasing experiences at their stores, as well as virtual displays, product introductions, and ease of purchase through e-commerce.

Scale of the B2C online market (left) and B2C online product sales, by product (right, 2019, market size of JPY10.1tn)



Source: Shared Research based on METI materials

Barriers to entry

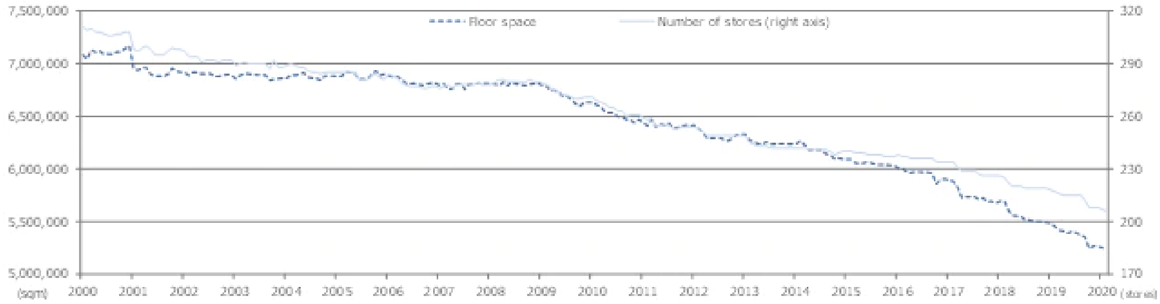
High barriers. When limiting the analysis to the department store industry, barriers to entry are formidable: department stores must open in city centers so as to attract customers and it is not easy to find sites in these locations with the required area more than 50,000sqm. Brand power is vital. With these formidable barriers, in the last few decades there have been no new entrants into the department store market. However, barriers to entry are considerably lower if alternative forms of retailers or specialty stores are included. In recent years, these specialty stores have been competing against department stores.

Department store competitors

The company's main competitors in the Department Store business are J. Front Retailing (TSE1: 3086), Isetan Mitsukoshi Holdings (TSE1: 3099), and Takashimaya (TSE1: 8233).

Department store operators began restructuring one after another in the 2000s in order to survive. In September 2007, Matsuzakaya Holdings and Daimaru merged to form J. Front Retailing (TSE1: 3086), and the next month, in October 2007, Hanshin Department Stores and Hankyu Department Stores merged to form H2O Retailing. Then, in April 2008, Isetan Mitsukoshi Holdings (TSE1: 3099) was born from a merger of Mitsukoshi and Isetan. Isetan Mitsukoshi Holdings, which became the leading company in the industry by size, provided support to the now bankrupt Marui Imai of Hokkaido and also, in October 2009, acquired Iwataya Department Stores, a medium-sized chain. Isetan Mitsukoshi Holdings closed six unprofitable stores, including Mitsukoshi Ikebukuro. Takashimaya announced a capital and business tie-up with H2O Retailing in 2008. This was widely expected to be a prelude to a full-blown merger but in March 2010 negotiations stopped and the relationship continues to be limited although the parties still own stakes in each other (around 5%).

Total store space and number of stores



Source: Shared Research based on data from Japan Department Stores Association

J. Front Retailing

J. Front Retailing was formed in 2007 through a merger between Daimaru and Matsuzakaya. Daimaru traces its roots back to the formation of a kimono fabric store called Daimonjiya in 1717. Matsuzakaya originated with a store founded in 1611 selling kimono fabric and accessories. Daimaru's flagship stores are in Shinsaibashi (Osaka), Umeda (Osaka), Tokyo, Kobe, and Sapporo. Matsuzakaya has flagship stores in Nagoya and Ueno. J. Front Retailing also has a Real Estate segment, operating the GINZA SIX shopping complex, which it opened on the site of the former Matsuzakaya Ginza store. In December 2019, J. Front Retailing announced a tender offer for its subsidiary PARCO with the aim of making it a wholly owned subsidiary, and PARCO was delisted in March 2020.

Isetan Mitsukoshi Holdings

Isetan Mitsukoshi Holdings was formed in 2008 through a merger between Mitsukoshi and Isetan. Mitsukoshi originated with the founding of Echigoya, a kimono fabrics dealer, in 1673. Isetan's origins date back to 1886 and the opening of the Iseya Tanji Kimono Store. Six stores bear the Isetan name in Japan, including the Shinjuku Main Store, which is a flagship store in Japan and stores in Tachikawa and Urawa. Ten stores bear the Mitsukoshi name in Japan, including the Nihombashi Main Store, Ginza store, Nagoya Sakae store, Fukuoka, and Sapporo. Isetan Mitsukoshi Holdings also has 31 stores operated by 12 different companies overseas in China (Shanghai, Tianjin, and Chengdu), Singapore, Thailand, and Italy. Mitsukoshi had a business alliance in place with Isetan from July 1996 through December 2007.

Takashimaya

Takashimaya was founded in 1831 as a secondhand clothing and cotton cloth store. The company has three subsidiaries and operates 12 stores in areas including Nihombashi, Yokohama, Osaka, Kyoto, and Shinjuku. JR Nagoya Takashimaya is a joint venture with the Central Japan Railway Company (TSE1: 9022), with Takashimaya holding a 33.4% stake. Overseas, Takashimaya has four stores in Singapore, China (Shanghai), Vietnam (Ho Chi Minh City), and Thailand (Bangkok). H2O has a capital and business alliance with Takashimaya, and the two companies hold 5% of each other's outstanding shares.

Department store competitors in Japan

Ticker	Company	Latest full-year results (JPYmn)			Description
		Sales (JPYmn)	3-year CAGR	Operating profit	
8242	H2O Retailing	739,198	-7.1%	-4,438	Hankyu Department Stores and Hanshin Department Stores merged in 2007; also operates supermarket chains Oasis and GMS Izumiya
3086	J. Front Retailing	319,079	-12.1%	-24,265	Two department stores Daimaru and Matsuzakaya merged in 2007; has PARCO as a subsidiary; opened a large-scale complex GINZA SIX in April 2017
3099	Isetan Mitsukoshi Holdings	816,009	-13.4%	-20,976	Established through a merger between Isetan and Mitsukoshi; the flagship stores Isetan Shinjuku and Nihombashi Mitsukoshi boast leading sales in Japan
8233	Takashimaya	680,899	-9.1%	-13,496	A long-standing department store operating in Tokyo, Osaka, and other cities nationwide; its Singapore store and subsidiary Toshin Development (operating malls) make large contributions to the group

Source: Shared Research based on individual companies' materials
Note: Sales at J. Front Retailing and Takashimaya, which have implemented IFRS-based accounting, refer to sales revenue.

Japanese-affiliated department store competitors overseas

Ticker	Company	Overseas department store business		Description
		Sales	% of total sales	
		(JPYmn)		
3099	Isetan Mitsukoshi Holdings	61,018	5.5%	Has total of 34 stores in China, Singapore, Malaysia, Thailand, Italy, US, and other; Mitsukoshi Paris, the first overseas store for the company, was opened in 1971 in France (closed in 2010); opened Isetan Singapore in 1972, Mitsukoshi Rome (Italy) in 1975, Isetan Kuala Lumpur (Malaysia) in 1990, Shin Kong Mitsukoshi first store (Taipei) in 1991, Isetan Bangkok (Thailand) in 1992, Isetan Tianjin (China) in 1993; China and Southeast Asia represent the majority of overseas sales
8233	Takashimaya	23,751	2.8%	Has four overseas stores in Singapore, China, Vietnam, and Thailand; aiming to expand business areas centering on ASEAN; opened Takashimaya New York, the first Japanese department store overseas, in 1958 (closed in 2010); opened store in Singapore (1993), Taipei (1994), China (2012), Vietnam (2016), and Thailand (2018)

Source: Shared Research based on individual companies' materials

Sales rankings by stores of major department store operators

Sales rankings by store									CAGR	
(JPYmn)	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	5-year	3-year
1 Isetan Shinjuku	265,451	258,497	272,465	268,597	274,149	288,879	274,066	207,037	-5.3%	-5.5%
2 Hankyu Main Store	192,214	197,839	218,358	220,515	240,300	250,747	241,290	175,103	-4.3%	-6.1%
3 Seibu Ikebukuro	184,453	187,330	190,018	186,597	185,149	184,091	182,369	138,582	-6.1%	-5.6%
4 JR Nagoya Takashimaya				128,632	155,760	162,715	165,312	114,600	-	-6.0%
5 Nihombashi Takashimaya	129,901	129,843	136,631	132,908	134,241	129,308	130,790	112,794	-3.8%	-3.4%
6 Nihombashi Mitsukoshi	173,640	165,560	168,316	165,127	155,357	144,775	133,013	101,297	-9.7%	-8.2%
7 Takashimaya Osaka	120,685	122,526	127,630	129,952	141,450	147,271	149,561	96,955	-5.3%	-7.3%
8 Takashimaya Yokohama	135,370	134,848	132,035	129,431	131,649	132,528	129,502	96,522	-6.1%	-6.0%
9 Kintetsu Abeno Harukas	91,643	103,645	102,630	102,317	117,673	124,575	124,576	88,557	-2.9%	-5.5%
10 Matsuzakaya Nagoya	124,149	125,625	124,834	120,685	117,646	119,170	116,317	86,489	-7.1%	-6.0%

Source: Shared Research based on individual companies' materials and data from WWD Japan

Tax-free sales

Tax-free sales (JPYmn)	2013	2014	2015	2016	2017	2018	2019	2020
Japan Department Stores Association (member companies)								
Sales			6,174,279	5,978,014	5,953,256	5,887,003	5,757,715	4,220,425
Tax-free sales			194,300	184,300	270,400	339,600	346,100	68,620
% of total			3.1%	3.1%	4.5%	5.8%	6.0%	1.6%
H2O Retailing	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Hankyu Main Store: Total sales	192,214	197,839	218,358	220,515	240,300	250,747	241,290	175,103
Tax-free sales	2,346	6,490	16,455	16,655	26,800	30,981	28,812	-
% of total	1.2%	3.3%	7.5%	7.6%	11.2%	12.4%	11.9%	-
J. Front Retailing								
Daimaru Matsuzakaya department stores: Total sales	678,286	671,767	677,511	646,990	659,608	663,523	638,569	424,374
Tax-free sales	6,442	15,156	33,860	29,415	47,902	58,890	60,138	2,365
% of total	0.9%	2.3%	5.0%	4.5%	7.3%	8.9%	9.4%	0.6%
Isetan Mitsukoshi Holdings								
Department stores: Total sales			1,094,430	1,065,125	1,054,154	1,036,797	961,071	727,857
Tax-free sales			60,266	52,272	67,511	75,554	64,687	5,095
% of total			5.5%	4.9%	6.4%	7.3%	6.7%	0.7%
Takashimaya								
Domestic dept. stores (parent + four subsidiaries): Total sales	747,812	745,039	755,041	745,146	765,037	768,448	760,284	568,756
Tax-free sales	8,300	14,000	29,900	34,400	48,700	54,700	49,600	4,315
% of total	1.1%	1.9%	4.0%	4.6%	6.4%	7.1%	6.5%	0.8%

Source: Shared Research based on individual companies' materials

Note: Figures may differ from company materials due to differences in rounding methods.

Performance at major department stores

Competitors (JPYmn)	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
H2O Retailing								
Consolidated sales	576,852	844,819	915,690	901,221	921,871	926,872	897,289	739,198
Gross profit	156,949	241,417	266,363	263,384	266,224	266,235	256,035	211,903
Gross profit margin	27.2%	28.6%	29.1%	29.2%	28.9%	28.7%	28.5%	28.7%
SG&A expenses	139,636	220,059	242,538	240,842	243,459	245,813	244,864	216,341
SG&A ratio	24.2%	26.0%	26.5%	26.7%	26.4%	26.5%	27.3%	29.3%
Operating profit	17,313	21,358	23,825	22,542	22,765	20,422	11,171	-4,438
Operating profit margin	3.0%	2.5%	2.6%	2.5%	2.5%	2.2%	1.2%	-0.6%
Recurring profit	18,160	21,219	23,060	21,725	24,272	21,376	11,831	-2,907
Recurring profit margin	3.1%	2.5%	2.5%	2.4%	2.6%	2.3%	1.3%	-0.4%
ROE	0.2%	5.4%	5.6%	5.6%	5.4%	0.8%	-5.0%	-10.5%
ROA (RP-based)	4.9%	4.2%	3.8%	3.5%	3.7%	3.2%	1.9%	-0.5%
J. Front Retailing								
Revenue	1,146,319	1,149,529	1,163,564	452,505	469,915	459,840	480,621	319,079
Gross profit	244,130	243,663	245,532	212,567	212,935	212,396	206,953	134,368
Gross profit margin	21.3%	21.2%	21.1%	47.0%	45.3%	46.2%	43.1%	42.1%
SG&A expenses	202,313	201,572	197,494	167,668	166,688	166,882	161,590	132,001
SG&A ratio	17.6%	17.5%	17.0%	37.1%	35.5%	36.3%	33.6%	41.4%
Operating profit	41,816	42,091	48,038	41,727	49,546	40,891	40,286	-24,265
Operating profit margin	3.6%	3.7%	4.1%	9.2%	10.5%	8.9%	8.4%	-7.6%
Recurring profit	40,502	40,404	47,910	42,608	48,271	42,126	37,161	-28,672
Recurring profit margin	3.5%	3.5%	4.1%	9.4%	10.3%	9.2%	7.7%	-
ROE	8.9%	5.3%	6.9%	7.6%	7.5%	6.8%	5.4%	-7.1%
ROA (RP-based)	4.2%	4.2%	4.7%	4.2%	4.9%	4.0%	3.2%	-1.9%
Isetan Mitsukoshi Holdings								
Consolidated sales	1,321,512	1,272,130	1,287,253	1,253,457	1,256,386	1,196,803	1,119,191	816,009
Gross profit	370,022	355,456	361,868	365,609	367,282	348,282	322,702	227,565
Gross profit margin	28.0%	27.9%	28.1%	29.2%	29.2%	29.1%	28.8%	27.9%
SG&A expenses	335,376	322,373	328,761	341,674	342,869	319,053	307,023	248,542
SG&A ratio	25.4%	25.3%	25.5%	27.3%	27.3%	26.7%	27.4%	30.5%
Operating profit	34,646	33,083	33,107	23,935	24,413	29,229	15,679	-20,976
Operating profit margin	2.6%	2.6%	2.6%	1.9%	1.9%	2.4%	1.4%	-2.6%
Recurring profit	38,440	34,563	36,704	27,418	27,325	31,995	19,771	-17,171
Recurring profit margin	2.9%	2.7%	2.9%	2.2%	2.2%	2.7%	1.8%	-2.1%
ROE	4.2%	5.5%	4.7%	2.6%	-0.2%	2.3%	-2.0%	-7.9%
ROA (RP-based)	2.8%	2.6%	2.6%	1.8%	1.9%	2.3%	1.3%	-5.8%
Takashimaya								
Revenue	904,180	912,523	929,588	923,601	907,805	912,848	919,094	680,899
Gross profit	214,673	214,492	214,878	211,996	218,405	217,403	215,125	149,265
Gross profit margin	25.4%	25.2%	24.8%	24.6%	25.8%	25.7%	25.4%	24.0%
SG&A expenses	243,969	243,618	245,605	240,835	245,957	256,695	260,142	222,775
SG&A ratio	28.8%	28.6%	28.4%	28.0%	29.1%	30.3%	30.7%	35.9%
Operating profit	29,099	32,022	32,972	34,000	35,318	26,661	25,582	-13,496
Operating profit margin	3.4%	3.8%	3.8%	3.9%	4.2%	3.1%	3.0%	-2.2%
Recurring profit	33,350	35,904	37,785	37,215	38,606	31,234	2,320	-13,637
Recurring profit margin	3.9%	4.2%	4.4%	4.3%	4.6%	3.7%	0.3%	-2.2%
ROE	5.4%	5.9%	6.0%	5.1%	5.6%	3.7%	3.6%	-8.2%
ROA (RP-based)	3.9%	3.8%	3.9%	3.8%	3.8%	3.0%	2.1%	-1.2%

Source: Shared Research based on individual companies' materials

Note: Figures may differ from company materials due to differences in rounding methods.

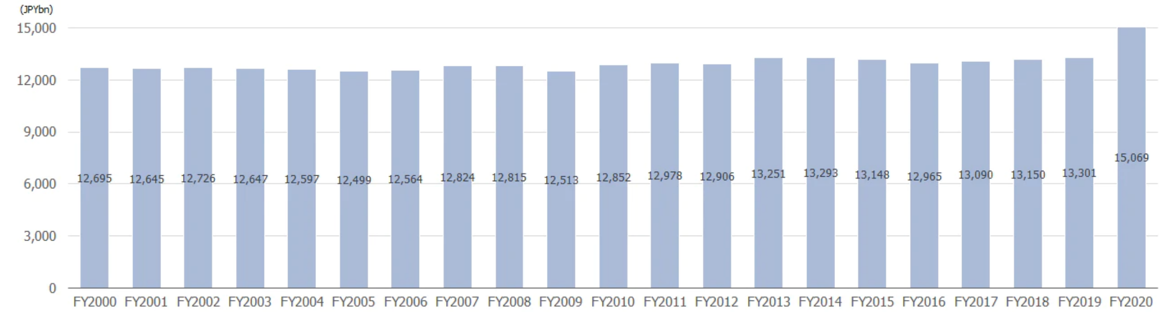
Note: J. Front Retailing adopted IFRS in FY2016. Figures through FY2015 are according to J-GAAP.

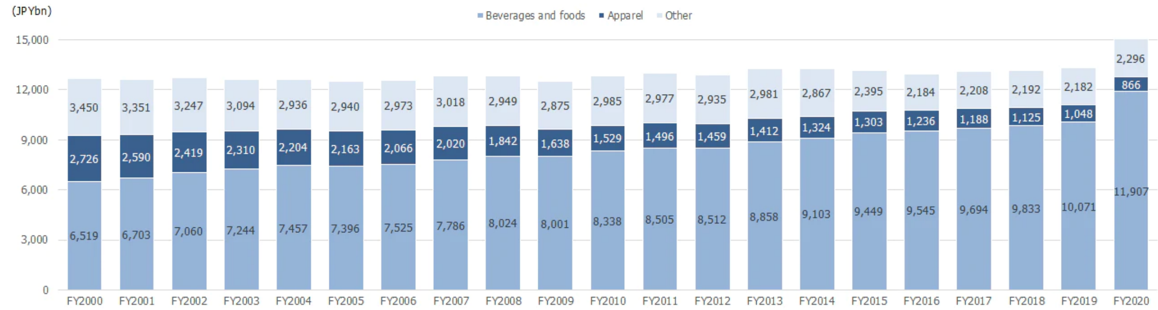
Supermarket industry

According to METI's statistics, sales in the supermarket industry have been stable at around JPY12–13tn since FY2000. Whereas department store sales are sensitive to economic fluctuations and consumer sentiment, supermarkets remain relatively stable in the face of such factors, as they mainly provide foods and other daily necessities. In FY2020, sales in the supermarket industry rose 13.3% YoY to JPY15tn due in part to special demand associated home-cooked meals that occurred as consumers refrained from outings in response to the COVID-19 pandemic.

The sales mix has changed. Food and beverage products generated sales of JPY11.9tn in FY2020, up 82.7% compared to FY2000. In contrast, apparel sales fell to JPY0.9tn, down 68.2%, and other product sales (such as personal items, furniture, home appliances, daily necessities) amounted to JPY2.3tn, falling 33.4%. Competitiveness in the food and beverage category has been raised or maintained overall, but demand for apparel and other items has been partly ceded to specialty stores over this period.

Supermarket sales





Source: Shared Research based on METI's "Current Survey of Commerce"

Supermarket competitors

Main supermarket competitors

Ticker	Company	Latest full-year results (JPYmn)			Description
		Sales (JPYmn)	3-year CAGR	Operating profit	
8242	H2O Retailing	739,198	-7.1%	-4,438	Hankyu Department Stores and Hanshin Department Stores merged in 2007; also operates supermarket chains Oasis and GMS Izumiya
3222	United Super Markets Holdings	718,904	2.0%	19,124	The largest supermarket chain in the Tokyo Metropolitan area, under the Aeon group; has Maruetsu, Kasumi, MaxValu Kanto among others
8182	Inageya	265,917	2.6%	6,982	Supermarket chain in the Tama area in Tokyo; has drugstore chain subsidiary; also operates high-end supermarkets; has business ties with Aeon
8194	Life	736,346	3.8%	27,388	One of the leading supermarket operators in Japan; focuses on the Tokyo Metropolitan area and the Kinki region; an equity-method affiliate of Mitsubishi Corporation; a Nichiryu group company
9974	Belc	281,656	10.5%	11,932	Operates supermarkets mainly in Saitama Prefecture; strong in standardizing store operations and its own logistics structure; highly profitable; has ties with Aeon

Source: Shared Research based on individual companies' materials

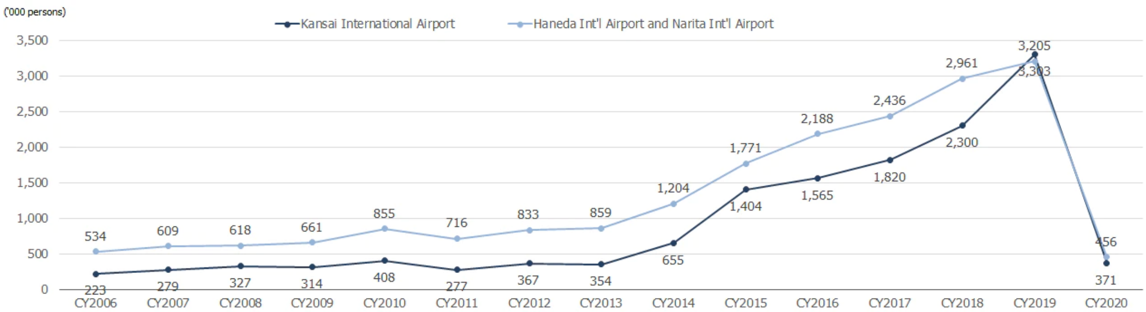
Performance at major supermarkets

Competitors (JPYmn)	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
H2O Retailing										
Consolidated sales	505,588	525,154	576,852	844,819	915,690	901,221	921,871	926,872	897,289	739,198
Gross profit	139,466	142,529	156,949	241,417	266,363	263,384	266,224	266,235	256,035	211,903
Gross profit margin	27.6%	27.1%	27.2%	28.6%	29.1%	29.2%	28.9%	28.7%	28.5%	28.7%
SG&A expenses	129,509	131,859	139,636	220,059	242,538	240,842	243,459	245,813	244,864	216,341
SG&A ratio	25.6%	25.1%	24.2%	26.0%	26.5%	26.7%	26.4%	26.5%	27.3%	29.3%
Operating profit	9,957	10,670	17,313	21,358	23,825	22,542	22,765	20,422	11,171	-4,438
Operating profit margin	2.0%	2.0%	3.0%	2.5%	2.6%	2.5%	2.5%	2.2%	1.2%	-0.6%
Recurring profit	10,309	11,338	18,160	21,219	23,060	21,725	24,272	21,376	11,831	-2,907
Recurring profit margin	2.0%	2.2%	3.1%	2.5%	2.5%	2.4%	2.6%	2.3%	1.3%	-0.4%
ROE	0.7%	3.5%	0.2%	5.4%	5.6%	5.6%	5.4%	0.8%	-5.0%	-10.5%
ROA (RP-based)	3.0%	3.3%	4.9%	4.2%	3.8%	3.5%	3.7%	3.2%	1.9%	-0.5%
United Super Markets Holdings										
Consolidated sales	-	-	-	-	649,539	670,475	677,557	679,276	676,336	718,904
Gross profit	-	-	-	-	183,194	189,124	192,269	194,674	193,750	207,093
Gross profit margin	-	-	-	-	28.2%	28.2%	28.4%	28.7%	28.6%	28.8%
SG&A expenses	-	-	-	-	183,430	189,136	192,892	197,910	199,717	202,913
SG&A ratio	-	-	-	-	28.2%	28.2%	28.5%	29.1%	29.5%	28.2%
Operating profit	-	-	-	-	14,024	14,320	14,068	11,811	9,357	19,124
Operating profit margin	-	-	-	-	2.2%	2.1%	2.1%	1.7%	1.4%	2.7%
Recurring profit	-	-	-	-	13,862	14,185	14,188	12,253	9,627	19,433
Recurring profit margin	-	-	-	-	2.1%	2.1%	2.1%	1.8%	1.4%	2.7%
ROE	-	-	-	-	4.1%	5.5%	5.4%	3.8%	1.2%	6.1%
ROA (RP-based)	-	-	-	-	5.5%	5.6%	5.5%	4.7%	3.7%	7.1%
Inageya										
Consolidated sales	211,157	212,980	222,403	232,081	248,571	249,132	245,932	242,967	255,443	265,917
Gross profit	58,089	58,811	62,036	65,701	69,928	69,860	70,135	70,169	69,170	72,868
Gross profit margin	27.5%	27.6%	27.9%	28.3%	28.1%	28.0%	28.5%	28.9%	27.1%	27.4%
SG&A expenses	62,162	63,189	67,368	70,699	75,422	76,460	75,480	76,577	76,839	76,165
SG&A ratio	29.4%	29.7%	30.3%	30.5%	30.3%	30.7%	30.7%	31.5%	30.1%	28.6%
Operating profit	3,934	3,498	2,676	3,254	3,320	2,396	3,597	2,279	2,329	6,982

Operating profit margin	1.9%	1.6%	1.2%	1.4%	1.3%	1.0%	1.5%	0.9%	0.9%	2.6%
Recurring profit	4,138	3,846	3,074	3,622	3,682	2,653	3,844	2,583	2,622	7,290
Recurring profit margin	2.0%	1.8%	1.4%	1.6%	1.5%	1.1%	1.6%	1.1%	1.0%	2.7%
ROE	2.7%	5.8%	2.5%	2.3%	1.9%	1.3%	2.2%	-2.5%	1.3%	7.8%
ROA (RP-based)	4.8%	4.1%	3.4%	4.0%	3.8%	2.7%	3.9%	2.6%	2.7%	7.5%
Life										
Consolidated sales	488,235	505,004	519,953	568,717	612,458	634,643	658,274	678,211	693,062	736,346
Gross profit	131,409	136,212	141,212	155,049	169,716	176,855	185,005	195,185	204,142	225,664
Gross profit margin	26.9%	27.0%	27.2%	27.3%	27.7%	27.9%	28.1%	28.8%	29.5%	30.6%
SG&A expenses	135,214	143,747	148,548	161,279	174,412	182,522	192,383	203,382	211,885	221,075
SG&A ratio	27.7%	28.5%	28.6%	28.4%	28.5%	28.8%	29.2%	30.0%	30.6%	30.0%
Operating profit	11,065	7,402	7,634	10,823	12,831	12,664	12,094	12,285	13,879	27,388
Operating profit margin	2.3%	1.5%	1.5%	1.9%	2.1%	2.0%	1.8%	1.8%	2.0%	3.7%
Recurring profit	10,873	7,308	7,702	10,928	12,982	12,834	12,550	12,831	14,558	28,156
Recurring profit margin	2.2%	1.4%	1.5%	1.9%	2.1%	2.0%	1.9%	1.9%	2.1%	3.8%
ROE	8.5%	5.8%	7.0%	10.0%	14.5%	13.6%	9.9%	10.2%	10.0%	19.9%
ROA (RP-based)	6.5%	4.2%	4.2%	5.6%	6.2%	5.9%	5.6%	5.4%	5.7%	10.6%
Belc										
Consolidated sales	121,692	130,822	142,405	158,866	178,639	191,164	208,730	222,880	236,904	281,656
Gross profit	31,473	33,581	36,646	41,342	46,251	49,189	54,062	57,566	61,623	71,704
Gross profit margin	25.9%	25.7%	25.7%	26.0%	25.9%	25.7%	25.9%	25.8%	26.0%	25.5%
SG&A expenses	26,919	28,929	31,649	35,511	39,409	41,538	46,285	49,394	52,404	61,370
SG&A ratio	22.1%	22.1%	22.2%	22.4%	22.1%	21.7%	22.2%	22.2%	22.1%	21.8%
Operating profit	6,250	6,375	6,887	7,283	8,409	9,164	9,521	9,818	10,463	11,932
Operating profit margin	5.1%	4.9%	4.8%	4.6%	4.7%	4.8%	4.6%	4.4%	4.4%	4.2%
Recurring profit	6,464	6,608	7,134	7,541	8,788	9,562	9,963	10,370	11,077	12,675
Recurring profit margin	5.3%	5.1%	5.0%	4.7%	4.9%	5.0%	4.8%	4.7%	4.7%	4.5%
ROE	10.4%	9.6%	10.4%	10.7%	11.5%	12.3%	12.3%	10.8%	11.0%	12.1%
ROA (RP-based)	10.8%	10.0%	9.7%	9.2%	9.7%	9.9%	9.7%	9.3%	9.2%	9.6%

Source: Shared Research based on individual companies' materials
Note: Figures may differ from company materials due to differences in rounding methods.

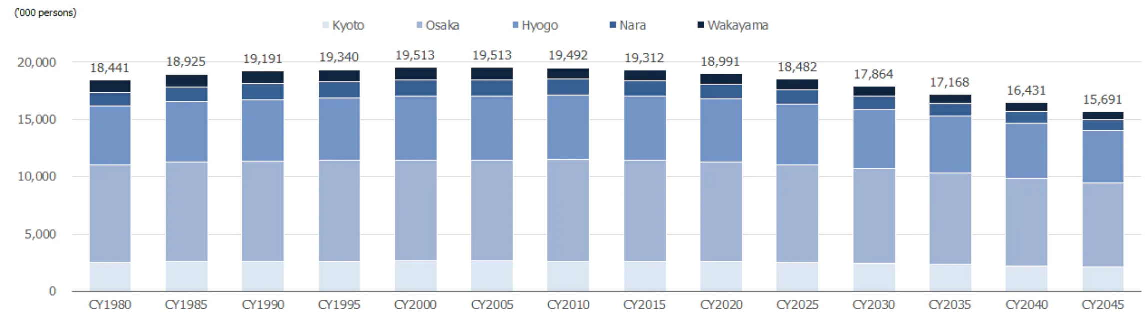
Chinese visitors to Japan, by airport



Source: Shared Research based on "Statistical Survey on Legal Migrants" (Ministry of Justice)

Since 2014, Kansai Airport has become a major point of entry to Japan for overseas visitors, particularly visitors from China. Whereas department store sales were formerly driven by internal demand, more recently department stores have targeted and captured demand from overseas visitors. However, the number of overseas visitors declined dramatically during FY2020 in the wake of the COVID-19 outbreak, and a recovery will take a certain amount of time.

Population trends and future estimates in the Kansai region



Source: Shared Research based on "Population Statistics" (Ministry of Internal Affairs and Communications) and "Regional Population Projection for Japan" (National Institute of Population and Social Security Research)

Like other parts of Japan, the Kansai region is experiencing falling rates of childbirth and graying population, and the population is forecast to shrink over the medium to long term. To sustain performance in this environment, companies need to raise their share of consumption per person (increase regional market share) or capture more demand from outside the region (including from overseas).

Strengths and weaknesses

Strengths

Ability to create retail spaces that attract consumers (in Kansai, from outside the region, and from overseas) without relying excessively on retailer tenant revenues:

Many retail spaces in the company's department stores are designed to project a specific taste by combining products selected from multiple manufacturers and brands. Other department stores, by contrast, often leave the design of retail spaces entirely at tenants' discretion (a business model focused on leasing space). H2O says consumers in Kansai and other regions applaud the design of its retail space designs. Such spaces help attract overseas customers and boost sales from Japanese and inbound consumers alike. Marketwide, the department store industry is shrinking, with sales having fallen more than 30% since 2000. H2O's Department Store segment, meanwhile, has maintained high sales.

Highly convenient, attractive locations:

The company's Hankyu Main Store, Hanshin Umeda Main Store, and other department stores are situated near terminal stations in large cities. Branch stores are also in good locations, typically at stations along the Hankyu Railway and Hanshin Electric Railway lines. These locations hark back to the retailers' origins as spinoffs from railway operators. While the company does operate some department stores in other areas, such as Hakata Hankyu and Hankyu Men's Tokyo, the company says these stores are located in prime commercial locations and enjoy a competitive advantage compared with retailers that emerged later.

The Hankyu and Hanshin brands:

In addition to H2O, the Hankyu Hanshin Toho Group includes Hankyu Hanshin Holdings (TSE1: 9042) and Toho (TSE1: 9602). In addition to department stores and supermarkets, the group is active in the real estate, hotel, and entertainment businesses, with close ties to the Kansai region. Hankyu and Hanshin are among Kansai's best-known brands. The S-point loyalty program, which is used throughout the group, has around 7.5mn members, more than one-third the Kansai region's population (of approximately 20.0mn).

Weaknesses

Significant lags between decision-making and results due to the time it takes to build and rebuild department stores:

The Hanshin Umeda Main Store is under redevelopment. Phase one construction started in spring 2015, and the company plans a grand reopening in autumn 2021, once phase two construction is complete. In 2014, the company announced plans to open Ningbo Hankyu in China, and finally opened the facility in April 2021. Makeovers of Izumiya's GMSs typically take one to two years, as the process requires rebuilding or renovation. Shared Research thinks the company's business format is the reason both forward-looking and retrospective measures take time. We think such time lags may lead to lost opportunities stemming from changes in the business environment, changing trends in customer preferences, and technological advances. (In the past, the company has fallen short of targets set in its medium-term management plans.) The company may have less executional agility than companies that can open stores more easily, such as drugstores, apparel retailers, and other companies adopting different business formats, as well as online retailers.

Lack of competitive advantage in the general merchandise store business format operated by the Shopping Center Management segment:

Sales generated by Izumiya's general merchandise stores are declining as they cede demand to drugstores, specialty stores operated by apparel manufacturers who have adopted SPA (specialty-store retailers of private-label apparel) business models and shopping centers. In April 2020, the company moved Izumiya's general merchandise stores from the grocery division into the Shopping Center Management segment and has since been conducting structural reforms targeting Izumiya. However, eliminating associated losses will apparently require both time and investment.

Little experience of business development overseas:

Ningbo Hankyu (Zhejiang Province, China), which opened in April 2021, is the company's first overseas department store. Peer companies Takashimaya (TSE1: 8233) and Isetan Mitsukoshi Holdings (TSE1: 3099) have already forayed overseas, so they enjoy some degree of name recognition and have built up customer bases and experience outside Japan. H2O has not amassed such expertise. Responding to local demand will take time and may result in unexpected losses.

Historical performance and financial statements

Income statement

Income statement	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	**525,154**	**576,852**	**844,819**	**915,690**	**901,221**	**921,871**	**926,872**	**897,289**	**739,198**
YoY	3.9%	9.8%	46.5%	8.4%	-1.6%	2.3%	0.5%	-3.2%	-17.6%
Cost of sales	382,625	419,903	603,402	649,327	637,837	655,647	660,637	641,254	527,294
Gross profit	**142,529**	**156,949**	**241,417**	**266,363**	**263,384**	**266,224**	**266,235**	**256,035**	**211,903**
YoY	2.2%	10.1%	53.8%	10.3%	-1.1%	1.1%	0.0%	-3.8%	-17.2%
Gross profit margin	27.1%	27.2%	28.6%	29.1%	29.2%	28.9%	28.7%	28.5%	28.7%
SG&A expenses	131,859	139,636	220,059	242,538	240,842	243,459	245,813	244,864	216,341
YoY	1.8%	5.9%	57.6%	10.2%	-0.7%	1.1%	1.0%	-0.4%	-11.6%
SG&A ratio	25.1%	24.2%	26.0%	26.5%	26.7%	26.4%	26.5%	27.3%	29.3%
Operating profit	**10,670**	**17,313**	**21,358**	**23,825**	**22,542**	**22,765**	**20,422**	**11,171**	**-4,438**
YoY	7.2%	62.3%	23.4%	11.6%	-5.4%	1.0%	-10.3%	-45.3%	-
Operating profit margin	2.0%	3.0%	2.5%	2.6%	2.5%	2.5%	2.2%	1.2%	-
Non-operating income	2,981	3,181	3,720	3,169	3,018	4,508	3,887	3,855	5,062
Non-operating expenses	-2,313	-2,334	-3,859	-3,934	-3,835	-3,001	-2,933	-3,195	-3,531
Interest income	71	64	86	102	91	198	80	169	371
Dividend income	826	982	960	1,177	949	1,230	1,326	1,314	1,418
Interest expenses	439	452	1,201	1,244	1,081	1,003	728	772	848
Equity in earnings of affiliates	7	104	54	68	-34	195	-179	-226	-561
Gains on foreign exchange	-	-	-	-58	-159	485	-	-	-
Recurring profit	**11,338**	**18,160**	**21,219**	**23,060**	**21,725**	**24,272**	**21,376**	**11,831**	**-2,907**
YoY	10.0%	60.2%	16.8%	8.7%	-5.8%	11.7%	-11.9%	-44.7%	-
Recurring profit margin	2.2%	3.1%	2.5%	2.5%	2.4%	2.6%	2.3%	1.3%	-
Extraordinary gains	7,159	126	10,846	9,251	4,561	5,243	895	1,707	3,049
Gain on sale of fixed assets	158	-	110	113	4,295	1,787	-	997	-
Other	7,001	126	10,736	9,138	266	3,456	895	710	3,049
Extraordinary losses	7,204	11,462	14,483	7,937	6,281	6,296	14,221	22,875	24,172
Impairment losses	621	1,295	2,333	3,836	2,300	3,479	2,592	14,196	14,771
Loss on store closures	1,642	-	7,872	2,855	2,921	1,639	7,228	747	2,103
Loss on store renovations	-	9,411	3,204	-	-	-	-	-	-
Other	4,941	756	1,074	1,246	1,060	1,178	4,401	7,932	7,298
Income taxes	5,133	6,502	6,021	10,321	5,706	8,583	5,888	3,813	761
Implied tax rate	45.5%	95.3%	34.2%	42.3%	28.5%	37.0%	73.1%	-40.8%	-3.2%
Net income attributable to non-controlling interests	-40	26	-25	-	-	-	-	-	-
Net income attributable to owners of the parent	**6,200**	**295**	**11,586**	**14,053**	**14,298**	**14,636**	**2,162**	**-13,150**	**-24,791**
YoY	486.6%	-95.2%	-	21.3%	1.7%	2.4%	-85.2%	-	-
Net margin	1.2%	0.1%	1.4%	1.5%	1.6%	1.6%	0.2%	-1.5%	-3.4%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Balance sheet

Balance sheet	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Assets									
Cash and deposits	15,135	35,402	44,381	48,521	83,481	67,150	55,229	25,958	49,991
Notes and accounts receivable	22,960	30,987	39,158	46,785	43,588	46,939	49,886	44,445	54,385
Inventories	16,078	16,507	37,025	35,506	35,292	35,295	33,919	29,687	23,337
Deferred tax assets	6,116	3,936	5,701	4,910	4,146	-	-	-	-
Other	5,129	5,195	13,640	9,848	11,811	10,783	10,969	12,026	11,578
Total current assets	**65,418**	**92,027**	**139,905**	**145,570**	**178,318**	**160,167**	**150,003**	**112,116**	**139,291**
Buildings and structures	76,299	74,296	116,951	113,755	108,262	108,692	115,608	117,976	101,873
Land	35,730	37,460	124,406	124,341	134,591	149,550	147,281	139,351	139,126
Other	11,283	8,728	13,736	15,365	16,108	22,419	21,971	15,838	20,387
Total tangible fixed assets	**123,312**	**120,484**	**255,093**	**253,461**	**258,961**	**280,661**	**284,860**	**273,165**	**261,386**
Goodwill	16,019	7,942	7,127	5,997	5,217	4,647	4,076	3,305	2,704
Other	8,740	7,155	12,703	11,733	12,326	13,223	14,686	15,863	14,025
Total intangible assets	**24,759**	**15,097**	**19,830**	**17,730**	**17,543**	**17,870**	**18,762**	**19,168**	**16,729**
Investment securities	87,639	88,949	127,086	97,513	103,031	114,544	121,149	95,841	114,784
Deferred tax assets	6,736	9,862	10,184	8,945	9,960	12,649	11,942	10,008	11,453
Other	51,459	51,297	79,779	73,822	72,730	73,691	76,619	76,606	82,302
Investments and other assets	**145,834**	**150,108**	**217,049**	**180,280**	**185,721**	**200,884**	**209,710**	**182,455**	**208,539**
Total fixed assets	**293,905**	**285,689**	**491,972**	**451,471**	**462,225**	**499,415**	**513,332**	**474,788**	**486,654**
Total assets	**359,323**	**377,716**	**631,877**	**597,041**	**640,543**	**659,582**	**663,335**	**586,904**	**625,945**
Liabilities									
Notes and accounts payable	35,960	44,213	61,921	62,235	59,394	62,794	59,732	43,917	48,996
Short-term debt	585	35,488	15,702	11,040	30,260	43,325	28,950	34,010	47,324
Other	46,870	53,545	79,064	70,279	85,219	76,288	65,755	58,236	61,321
Total current liabilities	**90,700**	**141,603**	**173,826**	**157,225**	**189,202**	**201,569**	**174,092**	**158,139**	**184,531**
Long-term debt	41,210	5,501	135,666	125,014	126,299	116,106	145,404	132,419	155,016
Other	23,454	29,996	44,050	41,593	39,198	36,367	38,084	34,604	33,316
Total fixed liabilities	**82,201**	**53,836**	**206,392**	**187,229**	**187,018**	**177,206**	**209,640**	**184,131**	**212,137**
Total liabilities	**172,901**	**195,439**	**380,218**	**344,454**	**376,220**	**378,775**	**383,732**	**342,270**	**396,668**
Net assets									
Shareholder's equity	164,957	162,817	213,134	223,013	232,786	242,390	239,755	221,732	192,763
Accumulated other comprehensive income	19,787	17,589	37,627	28,541	30,434	37,178	38,608	21,584	35,370
Share subscription rights	531	676	892	1,028	1,098	1,234	1,235	1,312	1,138
Non-controlling interests	1,145	1,194	3	3	3	3	4	4	4
Total net assets	**186,422**	**182,277**	**251,659**	**252,587**	**264,323**	**280,807**	**279,603**	**244,634**	**229,277**
Working capital	3,078	3,281	14,262	20,056	19,486	19,440	24,073	30,215	28,726
Total interest-bearing debt	41,795	40,989	151,368	136,054	156,559	159,431	174,354	166,429	202,340
Net debt	26,660	5,587	106,987	87,533	73,078	92,281	119,125	140,471	152,349

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Tangible fixed assets were JPY120.5bn in FY03/14, before Izumiya became a subsidiary. After the resulting acquisition of buildings, structures, and land, tangible fixed assets rose to JPY255.1bn in FY03/15.

In FY03/21, investment securities amounted to JPY114.8bn. Cross-shareholdings accounted for JPY88.0bn of this amount. In addition to holdings in Toho (JPY61.4bn), another member of the Hankyu Hanshin Toho Group, H2O holds shares as part of capital and business alliances with Takashimaya (JPY10.5bn) and Kansai Super Market (JPY3.6bn).

As of end-FY03/21, total assets amounted to JPY625.9bn (+JPY39.0 YoY). The primary factors contributing to this increase were a rise of JPY24.0bn in cash and deposits that was caused mostly by an uptick in loans payable and growth of JPY18.9bn in investment securities that resulted mainly from an upturn in unrealized gains. Meanwhile, liabilities came to JPY396.7bn (+JPY54.4bn YoY). The primary factor contributing to this increase was growth of JPY36.8bn in loans payable. Net assets were JPY229.3bn (-JPY15.4bn YoY). The decline in net assets was mainly because a JPY24.8bn decline in retained earnings caused by the recording of net loss offset growth of JPY13.2bn in valuation difference on available-for-sale securities.

The company is striving to trim down its balance sheet and improve its financial condition through the sale of idle assets. In support of these efforts, it is eliminating its strategic cross-shareholdings. In April 2021, it accordingly sold its shares in Toho Co., Ltd. (TSE1:9602) for a total sale price of JPY5.8bn (generating proceeds of JPY4.7bn). The company is progressing in its sale of idle assets and has finalized sales of land for lease in both Nakatsu, Kita-ku, Osaka (sales gain of JPY4.7bn) and Oyodo, Kita-ku, Osaka (sales gain of JPY3.9bn).

Cash flow statement

Cashflow statement	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities (1)	24,533	33,415	25,468	24,539	38,742	32,739	15,392	10,039	12,755
Pre-tax profit	11,293	6,824	17,582	24,374	20,005	23,219	8,050	-9,337	-24,030
Depreciation and amortization	13,511	13,598	15,149	16,230	15,857	16,223	17,399	18,519	18,141
Impairment losses	621	1,295	2,333	3,836	2,300	3,479	2,592	14,196	14,771
Amortization of goodwill	1,221	1,246	686	612	612	570	570	581	546
Gains on negative goodwill	-	-	-10,030	-	-	-2,010	-	-	-
Change in working capital	22	-221	-5,654	-7,438	362	381	-4,298	-6,315	1,209
Change in accounts receivable	-2,809	-8,043	3,586	-7,763	3,196	-2,248	-3,017	4,857	-10,365
Change in inventories	-562	-428	-125	-528	199	1,796	968	3,783	6,248
Change in accounts payable	3,393	8,250	-9,115	853	-3,033	833	-2,249	-14,955	5,326
Income taxes	-1,722	-341	-6,787	-8,455	-8,266	-5,721	-7,304	-5,525	-1,858
Other	-435	11,235	17,843	2,818	7,510	-3,783	2,681	4,235	2,767
Cash flows from investing activities (2)	-23,925	-9,628	-49,162	5,852	-25,325	-35,492	-36,682	-22,619	-20,761
Purchase of tangible fixed assets	-29,865	-9,891	-32,931	-18,803	-23,983	-19,197	-30,289	-26,535	-13,952
Purchase of intangible assets	-1,924	-1,511	-2,517	-2,249	-3,340	-4,009	-3,713	-6,938	-4,087
Proceeds from sale of intangible/tangible fixed assets	1,106	102	250	1,272	5,827	4,760	1,412	8,828	1,429
Other	6,758	1,672	-13,964	25,632	-3,829	-17,046	-4,092	2,026	-4,151
Free cash flow (1+2)	608	23,787	-23,694	30,391	13,417	-2,753	-21,290	-12,580	-8,006
Cash flows from financing activities	-3,422	-3,557	24,161	-26,207	21,703	-13,812	9,581	-16,440	31,859
Net increase in short-term borrowings	-40	-	84	-6,500	2,000	-2,000	8,000	7,000	-15,000
Net increase in long-term borrowings	-651	-812	21,623	-14,813	27,223	572	-2,584	-20,277	51,825
Proceeds from issuance and redemption of bonds	-35	-34	9,838	-100	-2,100	-6,600	9,946	-	-
Issuance of bonds	-	-	9,938	-	-	-	9,946	-	-
Redemption of bonds	-35	-34	-100	-100	-2,100	-6,600	-	-	-
Acquisition and disposal of treasury shares	-11	-22	-3,486	-13	-4	-6	-3	-2	-1
Dividends paid	-2,427	-2,426	-2,773	-3,700	-4,628	-4,938	-4,941	-4,944	-4,018
Other	-223	-229	-10,963	-981	1,312	5,760	-10,783	1,783	-947
Other	127	70	109	-26	-150	253	-213	-249	179
Change in cash and cash equivalents	-2,687	20,300	8,950	4,158	34,970	-16,312	-11,922	-29,269	24,032
Cash and cash equivalents (year-end)	15,082	35,383	44,334	48,492	83,462	67,150	55,229	25,958	49,991
Depreciation and amortization (A)	13,511	13,598	15,149	16,230	15,857	16,223	17,399	18,519	18,141
Capital expenditures (B)	-28,759	-9,789	-32,681	-17,531	-18,156	-14,437	-28,877	-17,707	-12,523
Change in working capital (C)	22	-221	-5,654	-7,438	362	381	-4,298	-6,315	1,209
Simple FCF (NI + A + B - C)	-3,933	10,412	-5,604	15,635	18,068	25,386	-7,726	-14,840	-17,203

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Profitability analysis

Profit margins	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Gross profit	142,529	156,949	241,417	266,363	263,384	266,224	266,235	256,035	211,903
Gross profit margin	27.1%	27.2%	28.6%	29.1%	29.2%	28.9%	28.7%	28.5%	28.7%
Operating profit	10,670	17,313	21,358	23,825	22,542	22,765	20,422	11,171	-4,438
Operating profit margin	2.0%	3.0%	2.5%	2.6%	2.5%	2.5%	2.2%	1.2%	-
EBITDA	24,181	30,911	36,507	40,055	38,399	38,988	37,821	29,690	13,703
EBITDA margin	4.6%	5.4%	4.3%	4.4%	4.3%	4.2%	4.1%	3.3%	1.9%
Net margin	1.2%	0.1%	1.4%	1.5%	1.6%	1.6%	0.2%	-1.5%	-3.4%
Financial ratio									
ROA (RP-based)	3.3%	4.9%	4.2%	3.8%	3.5%	3.7%	3.2%	1.9%	-0.5%
ROE	3.5%	0.2%	5.4%	5.6%	5.6%	5.4%	0.8%	-5.0%	-10.5%
Total asset turnover	154.6%	166.1%	229.2%	181.4%	146.7%	149.0%	142.6%	135.7%	118.2%
Working capital (JPYmn)	3,078	3,281	14,262	20,056	19,486	19,440	24,073	30,215	28,726
Current ratio	72.1%	65.0%	80.5%	92.6%	94.2%	79.5%	86.2%	70.9%	75.5%
Quick ratio	48.7%	49.7%	51.3%	63.7%	69.4%	56.6%	60.4%	44.5%	56.6%
OCF / Current liabilities	27.3%	28.8%	16.1%	14.8%	22.4%	16.8%	8.2%	6.0%	7.4%
OCF / Total liabilities	14.2%	17.1%	6.7%	7.1%	10.3%	8.6%	4.0%	2.9%	3.2%
Cash conversion cycle (days)	-2.66	-3.62	-0.76	2.62	3.76	3.56	4.34	7.79	10.59
Change in working capital	85	203	10,981	5,794	-570	-46	4,633	6,142	-1,489

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Historical performance

Full-year FY03/21 results (out May 11, 2021)

Overview

Full-year results: For FY03/21, the company reported full-year consolidated sales of JPY739.2bn (-17.6% YoY), an operating loss of JPY4.4bn (versus profit of JPY11.2bn in FY03/20), and a net loss (attributable to owners of the parent) of JPY24.8bn (versus a loss of JPY13.2bn in FY03/20). While Supermarket business was generating steady profits, the company recorded operating loss due mainly to the sharp downturn at its mainstay department store business, which took an especially hard hit the first half of the year as the measures implemented in the wake of the pandemic forced it to suspend operations at some department stores, reduce operating hours at key stores, and cut back on sales promotion. Annual dividend in FY03/21 was JPY25 per share.

In FY03/21, the company recorded JPY2.7bn in subsidy income consisting primarily of subsidies for employment adjustment (for personnel expenses incurred during closures) as extraordinary income. Meanwhile, the company reported JPY5.4bn in loss related to COVID-19 (personnel expenses, depreciation, rent, and other expenses incurred amid full-scale department store closures implemented during the state of emergency declared in April 2020) and JPY14.8bn in impairment losses as extraordinary loss. Of the JPY14.8bn in impairment losses, JPY6.0bn was recorded in the Department Store segment (Kobe Hankyu and Takatsuki Hankyu), JPY5.0bn in the Shopping Center Management segment (Izumiya general merchandise stores and shopping centers), and JPY2.4bn in the Supermarket segment (Izumiya and Hankyu Oasis supermarkets, etc.).

Q4 results: For Q4 FY03/21 (January—March 2021), the company reported consolidated sales of JPY187.6bn (-7.7% YoY), an operating loss of JPY3.4bn (versus a loss of JPY720mn in Q4 FY03/20), and a net loss of JPY16.7bn (versus a loss of JPY15.7bn in Q4 FY03/20). On a quarterly basis, the company reported operating losses for three consecutive quarters spanning from Q4 FY03/20 through Q2 FY03/21, and then moved into the black in Q3 FY03/21 before slipping back into the red in Q4 FY03/21 as another state of emergency was declared by the government in January 2021, once again impacting its mainstay department store business.

Department Store business

For FY03/21, the company reported full-year sales of JPY347.8bn (-26.5% YoY) and an operating loss of JPY1.9bn (versus profit of JPY11.5bn in FY03/20). In the wake of the state of emergency declaration in April 2020 and related administrative guidance, performance was negatively impacted as the company was forced to suspend operations at some stores and limit operating hours on food floors at other stores, including both its Hankyu and Hanshin department stores. Performance from suburban stores was higher than performance from urban stores, but the company's suburban stores generate sales on a small scale and made only limited contributions to overall performance. While things started looking better from Q2 (July-September) when the company was able to change operating hours and resume special and promotional events, the store traffic was affected by the "second wave" of upsurge in cases in July, "third wave" in December, and another state of emergency declaration in January 2021. Decreased customer traffic resulted in the drop in sales. GPM fell to 21.7% (down 0.97pp from FY03/20), primarily due to a deterioration in the company's product mix resulting from sluggish sales of high-margin apparel. The company worked to cut spending, including advertising/promotional spending and outsourcing fees, but still suffered the operating losses.

Sales in the Department Store segment amounted to JPY95.0bn (-7.4% YoY) in Q4 FY03/21 while segment operating loss came to JPY940mn (versus operating profit of JPY790mn in Q4 FY03/20). The company expected a YoY decline of 20% in Q4 segment sales (excluding impact associated with inbound tourist consumption), but the decrease was lower than projected thanks primarily to luxury product sales that were especially strong among affluent consumers. Monthly comparable store sales in January 2021 fell 29.4% YoY following a state of emergency declared during the same month in response to a third wave of COVID-19 infections that began in late December 2020. In mid-February 2021, the rise in cases abated, and the YoY decline in monthly comparable store sales for February narrowed to 11.7%. In March 2021, monthly comparable store sales rose 32.6% YoY as comparable store sales declined 28% YoY in March 2020 because of shorter business hours implemented.

Slumping apparel sales

Apparel sales (23.0% of overall sales in FY03/21) fell 31.2% YoY, in part because the company had no opportunities to sell some seasonal apparel products due to mandatory store closures and operating hour curtailments. Demand for apparel has continued to be sluggish following store re-openings as consumers find fewer opportunities to leave their homes amid the pandemic. Particularly stagnant were demand associated with wedding ceremonies, coming-of-age ceremonies, graduation ceremonies, and other major life events and demand associated with business-related products, which dropped off due to the spread of teleworking.

Cost reduction measures

The company cut full-year SG&A expenses by JPY21.2bn (JPY14.1bn in 1H and JPY7.1bn in 2H). This decline in SG&A expenses consisted of a JPY8.3bn decrease in personnel expenses (JPY4.3bn in 1H and JPY4.0bn in 2H) resulting from overtime cutbacks and bonus reductions; a JPY4.0bn decrease in advertising and decoration expenses (JPY3.5bn in 1H and JPY500mn in 2H) achieved through curtailments to promotional activities; rent fee reduction of JPY4.3bn (JPY2.9bn in 1H and JPY1.4bn in 2H) consisting of downward ticks in both percentage rent and fixed rent; and a decline of JPY4.6bn (JPY3.3bn in 1H and JPY1.3bn in 2H) in other expenses, including business consignment and business trip expenses.

Advertising and decoration expenses decreased because the company refrained from advertising activities to avoid attracting customers through large-scale advertising for the prevention of the spread of the COVID-19 and reduced the frequency of updates made to store interiors and show windows during mandatory store closures and business hour curtailments.

Promotion of an Online Merge Offline (OMO) model

The company is promoting an OMO business model as it strives to develop new sales channels. As part of this overall effort, the company is strengthening sales through its e-commerce site, which grew to JPY8.4bn (+86% YoY), as the numbers of available brands and products increased, corresponding brand recognition grew, and the convenience of purchasing through the e-commerce site improved. E-commerce sales expanded in 2H, when orders and reservation-based sales made through the e-commerce site for items such as year-end gifts, Christmas cakes, traditional New Year's holiday food, lucky grab bags, and Valentine's Day chocolates increased.

External sales for wealthy and large institutional customers grew as the company utilized Zoom and other remote systems. External sales constitute an important sales channel for the Hankyu Main Store, where they account for 20% of overall sales. Many of the wealthy and large institutional customers targeted by these sales were regarded as important customers prior to the outbreak of the COIVD-19 pandemic. Accordingly, the stores that serve them are aware of their preferences. Thanks to these conditions, the company was able to make product proposals that fit customer preferences, thereby achieving a purchase closing rate of just under 80% and an average single purchase amount of just under JPY1mn.

Elsewhere, the company is focusing on Remo Order, a remote shopping service that allows customers to purchase products available at the Hankyu Department Store using their smartphones. Distributing product information through online catalogs and the Instagram platform, the company has expanded monthly sales made through Remo Order to a scale of JPY100mn and achieved an average purchase price of about JPY40,000. Out of the company's customers who are using Remo Order, 60% are previously existing customers of the company while 40% are new customers. About 30% of these new customers are currently repeat customers.

Supermarket business

Supermarket business: For FY03/21, the company reported full-year sales of JPY281.1bn (-20.6% YoY) and an operating profit of JPY4.2bn (versus a loss of JPY2.5bn in FY03/20). Restructuring involving Izumiya (transfer of the non-food operations to the Shopping Center Management segment) lowered segment sales by about JPY74.8bn and had an upward impact of approximately JPY5.2bn on segment operating profit. Excluding impact associated with restructuring related to Izumiya, sales in the Supermarket business rose 0.6% YoY and operating profit increased by about JPY1.5bn. In the supermarket category, demand for home-cooked meals increased as customers tended to remain indoors in response to the COVID-19 pandemic. Accordingly, comparable store sales increased YoY and corresponding operating profit amounted to about JPY4.7bn (+JPY7.9bn YoY; +JPY5.2bn YoY excluding impact associated with restructuring involving Izumiya). On the other hand, food manufacturing and processing subsidiaries were impacted by closures affecting wholesale merchants and a decline in demand for read-to-eat meals, and recorded sales of about JPY32.3bn (-3.4% YoY), and operating loss of roughly JPY500mn (near the break-even point in FY03/20).

Sales generated in the Supermarket segment during Q4 were JPY66.6bn (-20.2% YoY) and operating loss was JPY323mn (versus an operating loss of JPY1.4bn in Q4 FY03/20). Meanwhile, monthly sales from Izumiya comparable stores rose 5.4% YoY in January 2021, fell 2.0% YoY in February, and declined 7.7% YoY in March. Monthly sales from Hankyu Oasis comparable stores increased 8.1% YoY in January, fell 2.2% YoY in February, and dropped 8.6% YoY in March.

Izumiya

Izumiya sales in FY03/21 amounted to JPY133.0bn (-36.9% YoY) and corresponding operating profit was JPY3.1bn (versus an operating loss of JPY3.1bn in FY03/20). The transfer of the non-food operations and the closure of unprofitable stores were major sources of downward impact on sales, but these were partially offset by comparable store sales that grew 1.7% YoY. The sluggish performance in terms of sales becomes clear when considering the substantial YoY decline occurred despite favorable conditions for supermarkets; demand for home-cooked meals was high due to a tendency for consumers to remain indoors amid the COVID-19 pandemic. The number of Izumiya stores at the end of FY03/21 amounted to 74, with two closures occurring during the period.

With personnel expenses reduced due to restructuring and lower depreciation costs following the booking of impairment loss in FY03/20, the business is in a position to generate stable profits. The success of a supermarket in terms of sales has a lot to do with its location. Stores that attracted many customers in the past may be impacted by declines in their surrounding populations or aging of the same. The company believes that investment in store remodeling will have only limited effect in such cases. Many Izumiya are currently unprofitable due to populational compositions that have become less advantageous. The company is focusing on restoring the profitability of these stores through personnel cost reductions and other cost structure reforms rather than through investment in store remodeling aimed at attracting more customers. It plans to gradually close unprofitable stores that do not improve in terms of profitability due to limited impact from these cost structure reforms.

Hankyu Oasis

Hankyu Oasis sales in FY03/21 were JPY110.8bn (+1.2% YoY), and corresponding operating profit was JPY1.5bn (versus an operating loss of JPY9mn in FY03/20). Hankyu Oasis comparable store sales rose 0.6% YoY and store count was 77 at the end of FY03/21 (with one opening and two closures during the period). Sluggish comparable store sales become clear when considering the favorable conditions for supermarkets; higher demand for home-cooked meals as consumers stay indoors amid the COVID-19 pandemic. GPM rose 0.6pp YoY to 27.0% due in part to the trimming of unnecessary promotional sales and its depreciation burden lessened thanks to impairment loss recorded in previous financial years.

Shopping Center Management business

For FY03/21, the company reported full-year sales of JPY63.3bn (7.3 x the sales in FY03/20) and an operating loss of JPY113mn (versus profit of JPY4.1bn in FY03/20). Excluding impact associated with reorganization involving Izumiya (the transfer of general merchandise store operations into the Shopping Center Management business), subsidiary Hankyu Shopping Center Development Company also reported a drop in profit as commercial property rental income from tenants fell in the wake of temporary shopping center closures and shorten operating hours. Personnel costs and other costs in the Shopping Center Management business have fallen, and loss associated with general merchandise stores has narrowed as the company has reduced the size of the area independently managed by Izumiya, which has been generating losses, and filled properties with tenants.

Other businesses/adjustments

Total operating loss associated with other businesses and adjustments in FY03/21 amounted to JPY6.6bn (versus JPY2.0bn in FY03/20). Consolidated subsidiary Oi Development operating *Ours Inn Hankyu* business hotel recorded a decrease in profits as it suffered from the sharp drop in recreational and business travel. Dividend income received from its various equity-method subsidiaries also decreased. Oi Development breaks even in terms of profit and loss when maintaining an occupancy rate of 60–70%, but its occupancy rate was only about 20% in FY03/21 (versus about 95% prior to the COVID-19 pandemic). Despite efforts to streamline check-in processes, improve guest room management systems, and reduce part-time labor, Oi Development reported operating loss due in part to high depreciation.

Q3 FY03/21 results (out January 28, 2021)

Overview

H2O reported cumulative Q3 FY03/21 sales of JPY551.6bn (-20.5% YoY), an operating loss of JPY1.0bn (versus operating profit of JPY11.9bn in cumulative Q3 FY03/20), and a net loss attributable to owners of the parent of JPY8.1bn (versus net income of JPY2.5bn in cumulative Q3 FY03/20). Although the Supermarket and Shopping Center Management businesses remained steady, the company posted a loss due to such factors seen in its mainstay Department Store business through 1H FY03/21 as the full closure of some stores, scaled-down operations at mainstay stores, and voluntary restraint in sales promotion activities aimed at preventing the spread of COVID-19.

Q3 results were sales of JPY216.0bn (-11.2% YoY), an operating profit of JPY3.4bn (-39.0% YoY), and a net income of JPY2.0bn (+86.3% YoY). The company recorded operating losses from Q4 FY03/20 to Q2 FY03/21, but returned to profitability as a result of sales recovery in the Department Store business, curtailed SG&A expenses, and earnings contributions from peripheral businesses such as the Supermarket and Shopping Center Management businesses.

FY03/21 earnings forecast: The company maintained its full-year FY03/21 earnings forecast. The forecast includes sales of JPY730.0bn (-18.6% YoY), an operating loss of JPY10.0bn (versus operating profit of JPY11.2bn in FY03/20), and a net loss of JPY22.0bn (versus a net loss of JPY13.2bn in FY03/20). The Q4 forecast, calculated by subtracting cumulative Q3 results from the full-year forecast, calls for sales of JPY178.4bn (-12.2% YoY), an operating loss of JPY9.0bn (versus an operating loss of JPY720mn in Q4 FY03/20), and a net loss of JPY13.9bn (versus a net loss of JPY15.7bn in Q4 FY03/20). Shared Research believes the company maintained its full-year forecast due to the difficulty in preparing a new forecast given the increased uncertainty in sales following the declaration of a state of emergency on January 14 in the company's core markets of Osaka, Kyoto, and Hyogo prefectures in response to the third wave of COVID-19. The company also maintained its dividend forecast and plans to distribute an annual dividend of JPY25.0 per share (JPY40.0 per share in FY03/20).

Department Store business

In Q3 FY03/21, the Department Store business posted sales of JPY114.5bn (-12.5% YoY) and operating profit of JPY2.5bn (-42.6% YoY). Sales at mainstay Hankyu Hanshin Department Stores were down 53.7% YoY in Q1, down 22.4% YoY in Q2, and down 12.6% YoY in Q3 as the pace of decline moderated. The company had expected domestic sales (excluding sales to inbound tourists) to fall 20% versus FY03/19 in Q3 and Q4, but the 13% YoY decline in Q3 exceeded company expectations. Sales to the inbound market (tax-free sales to international visitors to Japan) were down 90% YoY as conditions remained tough.

The COVID-19 pandemic spread was relatively contained until mid-November 2020. Another factor in the improved external environment compared to Q1 and Q2 was the government-led Go To campaign to stimulate consumption. The company resumed holding events to attract customers (including virtual reality events for online traffic). On individual sales floors it ran aggressive promotions including gifts targeting families and other small groups for year-end and Christmas parties, which aided the sales recovery. The affluent demographic who was forced to cancel overseas travel plans due to the pandemic had a strong propensity to spend. Combined with renovated retail spaces, this led to strong spending on watches and other luxury items for the company. Furthermore, although small in scale, sales to high-net-worth customers using Zoom and other remote systems showed moderate growth. The company said that its salespeople were becoming proficient in selling using such systems.

E-commerce sales were roughly JPY3.0bn (1.6x increase YoY). The company is still looking for an e-commerce approach that will make best use of its department stores' standout features. In the meantime, several factors helped drive sales growth: an increase in number of brands carried; a proactive stance on online orders for year-end presents; expanded preorders for Christmas cake and New Year's foods; and lucky grab bags (with heavily discounted items) available online to avoid store overcrowding in the New Year. Partly due to the success of its online offerings, sales (including in-store) of Christmas cake were 1.5x and New Year's foods were 1.2x those of the previous year's levels. Demand for its New Year's food outstripped company expectations and items available by preorder sold out comparatively quickly.

The segment mainstay Hankyu Hanshin Department Stores posted sales of JPY113.8bn (-12.6% YoY) and operating profit of JPY2.5bn (-41.9%). Due to a slump in apparel sales, the GPM was 23.2% (down from 23.9% in Q3 FY03/20) but gross profit was JPY26.4bn (-15.1% YoY). The company cut SG&A expenses by 10.6% YoY to JPY24.7bn by reducing advertising and personnel expenses. Although profit declined, the company kept operating profit in the black.

An increase in the number of new COVID-19 cases and renewed declaration of state of emergency saw 2021 get off to a tough start with sales down 29.6% YoY in January (inbound: -86% YoY, domestic: -24% YoY).

Supermarket business

In Q3 FY03/21, the Supermarket business posted sales of JPY72.7bn (-21.5% YoY) and operating profit of JPY1.6bn (2.6x increase YoY). Restructuring at Izumiya (transfer of non-food operations to Shopping Center Management segment) reduced sales by about JPY19.6bn YoY, but boosted operating profit by about JPY900mn YoY.

Izumiya recorded sales of JPY34.4bn (-37.3% YoY) and operating profit of JPY1.0bn (loss of JPY10mn in Q3 FY03/20). The transfer of non-food operations and closure of unprofitable stores reduced sales significantly, but comparable store sales at supermarkets were solid. With personnel expenses reduced due to restructuring and lower depreciation costs following the booking of impairment loss in FY03/20, the business is in a position to generate stable profits. Although it has been delayed, it appears that the company is now able to start spending on updating facilities and fixtures in a bid to attract more customers.

In Q3, Hankyu Oasis posted sales of JPY28.6bn (-0.9% YoY) and operating profit of JPY543mn (4.4x increase YoY). There were 77 stores at end-Q3 FY03/21 (-1 YoY), and comparable store sales were down 0.3% YoY as the company closed all stores for one day, leading to a small YoY fall in sales. Still, gross profit was JPY7.6bn (+1.5% YoY) and GPM was 26.6% (25.9% in Q3 FY03/20) as the company refrained from excessive discounting. A cut in SG&A expenses to JPY8.9bn (-3.9% YoY), aided by lower depreciation costs following prior-year impairment losses, contributed to operating profit growth.

Earnings were lackluster at the processing subsidiaries that make prepared foods and baked goods due to closures at wholesalers and a slump in demand for ready-to-eat meals. The company said that bento (lunchbox) sales were strong but prepared foods were sluggish.

In February 2021, the company announced the merger of bread manufacturing and sales subsidiaries Hankyu Bakery, Hankyu B&C Planning, and Hankyu Freds (surviving company will be Hankyu Bakery; effective April 1, 2021). The aim is to better organize overlapping businesses, strengthen food-related functions within the group, and restructure the SPA business model.

Shopping Center Management

In Q3 FY03/21, the Shopping Center Management business booked sales of JPY16.8bn (8.3x increase YoY) and operating profit of JPY651mn (-34.0% YoY). The transfer of Izumiya's GMS business boosted sales by roughly JPY19.6bn, but reduced operating profit by about JPY900mn. Sales are falling as the company is reducing the floor space it occupies itself and recruiting tenants, but it said that GMS related losses are also shrinking as personnel and other costs decline.

Other business and adjustments to operating profit

In Q3, the company recorded an aggregate operating loss of JPY1.3bn (loss of JPY356mn in Q3 FY03/20) in the Other business and adjustments to operating profit. The food home delivery business grew on increased demand, but a deteriorating performance at Oi Development, which runs the Ours Inn Hankyu business hotel, had a negative impact.

1H FY03/21 results (out October 30, 2020)

Overview

H2O reported 1H FY03/21 sales of JPY335.6bn (-25.5% YoY), operating loss of JPY4.4bn (versus operating profit of JPY6.3bn in 1H FY03/20), pre-tax loss of JPY13.5bn (versus pre-tax profit of JPY4.8bn in 1H FY03/20), and net loss attributable to owners of the parent of JPY10.1bn (versus net income of JPY1.5bn in 1H FY03/20). Q2 results were sales of JPY189.7bn (-18.8% YoY), operating loss of JPY1.1bn, pre-tax loss of JPY5.2bn, and net loss of JPY4.0bn. The second straight quarter of negative profits mainly reflects the decline in sales at the Department Store business. In Q2, the company booked extraordinary gain of JPY2.4bn on the receipt of COVID-19 related government subsidies and extraordinary loss of JPY6.2bn, with the latter including impairment loss totaling JPY5.8bn at Kobe Hankyu and Takasaki Hankyu non-food sales floors.

FY03/21 earnings forecast: The forecast calls for sales of JPY730.0bn (-18.6% YoY), operating loss of JPY10.0bn (versus operating profit of JPY11.2bn in FY03/20), and net loss of JPY22.0bn (versus a net loss of JPY13.2bn in FY03/20). H2O had left its forecast pending at the beginning of the fiscal year, but announced this forecast along with its Q2 results. It anticipates substantial loss mainly due to a decline in customer traffic in the Department Store business. Its 2H forecast of operating loss of JPY5.6bn represents a JPY10.4bn deterioration from 2H FY03/20. In the Department Store business, the company expects sales to fall 15% YoY in 2H, resulting in a segment operating loss of JPY2.5bn, a JPY7.7bn YoY deterioration. The company anticipates the Other business segment to generate operating loss of JPY2.6bn in 2H, a YoY deterioration of JPY2.2bn, mainly owing to a lower occupancy rate at the Ours Inn Hankyu. It expects the Supermarket and Shopping Center Management businesses to perform relatively solidly, but for deterioration in the Department Store and hotel businesses to weigh down overall results. The company plans to distribute an annual dividend of JPY25.0 per share (JPY40.0 per share in FY03/20).

Medium-term business plan: H2O has withdrawn the medium-term business plan GP10 Stage II Phase 2 it announced in May 2019. It plans to announce a new medium-term plan in May 2021 that reflects the impact of the COVID-19 pandemic on its medium-term outlook. The new plan will focus on three key areas. The first is business restructuring and financial position improvement, which will include continued revisions to unprofitable businesses, using digital technologies to improve productivity and streamline its HR structure through business process re-engineering, and revisions to investment plans and the continued sell-off of assets. The second key area is the restructuring of existing businesses, which the company says will focus on using digital transformation to promote the use of online merge offline (OMO) in its marketing activities; rejuvenating Kobe Hankyu and Takatsuki Hankyu, which the company thinks still have room for growth; and strengthening the profit structure of the supermarket business by better integrating its organization, purchasing function, and operations. The third key area is the effort to create a new group structure by developing, extending, and utilizing the company's customer base in the Kansai region, which the company expects will include acquiring new customers by strengthening and increasing digital touchpoints, building and utilizing customer databases, and using OMO to rejuvenate existing businesses and expand into new business areas.

Department Store business

In Q2 FY03/21, the Department Store business posted sales of JPY89.8bn (-28.8% YoY) and operating loss of JPY511mn (profit of JPY3.5bn in Q2 FY03/20). All stores reopened after the government's emergency declaration was lifted, so the sales decline narrowed from the sizeable 57.4% YoY drop seen in Q1, but with more workers telecommuting, a trend of seniors and families curbing their outings to the city center on weekends, restrictions on events to avoid crowding, and a decline in inbound tourists, stores in the city center have not seen an adequate rebound in customer traffic. Sales were down 30.9% YoY at the Hankyu Main Store, 42.5% YoY at the Hanshin Umeda Main Store, 31.1% YoY at Hakata Hankyu, and 28.3% YoY at Hankyu Men's Tokyo. The Hankyu Main Store posted tax-free sales of about JPY900mn (-88% YoY). The decline in sales was smaller at suburban stores that rely more on food sales.

Hankyu Hanshin Department Stores generated sales of JPY89.1bn (-22.4% YoY). Through 1H FY03/20, Hankyu Hanshin Department Stores did not yet include Takatsuki Hankyu and Kobe Hankyu, so the rate of decline was narrower than for the Department Store segment as a whole, and that effect has persisted even into Q3. Hankyu Hanshin Department Stores recorded GPM of 22.7%, down from 23.6% in 1H FY03/20. Sales of lower-margin foods declined just 4.3% YoY, whereas sales of higher-margin apparel fell 29.5% YoY, personal items 26.8% YoY, and accessories 31.2% YoY, resulting in deterioration of the sales mix. The margins for individual product categories showed little change.

Hankyu Hanshin Department Stores' Q2 SG&A expenses were JPY21.6bn (-8.6% YoY). Personnel expenses were down on reductions in overtime and bonuses, advertising and decorating costs declined due to curtailment of events, outsourcing costs fell, and rents declined (percentage rents and temporary rent reductions).

Although the scale is still small, the company made progress on online merge offline (OMO) initiatives leveraging digital technologies. Specifically, it expanded the floor area eligible for the Remo Order online payment service that allows customers to purchase products from a store without actually visiting the store. The company also promoted initiatives including virtual visits to customers using Zoom, Instagram Live events showing viewers around sales floors, and online ordering events linking to overseas sales floors.

Supermarket business

In Q2 FY03/21, the Supermarket business posted sales of JPY71.6bn (-20.5% YoY) and operating profit of JPY1.4bn (loss of JPY898mn in Q2 FY03/20). Restructuring at Izumiya (transfer of non-food operations to the Shopping Center Management segment) reduced sales by about JPY19.5bn YoY, but boosted operating profit by about JPY1.4bn YoY. Excluding the impact of restructuring, the segment saw higher sales and profit in real terms.

In Q2, Izumiya recorded sales of JPY34.0bn (-37.1% or -JPY20.1bn YoY) and operating profit of JPY993mn (loss of JPY869mn in Q2 FY03/20). Transfer of non-food operations to Shopping Center Management reduced sales by about JPY19.5bn YoY, but the food operations generated higher sales YoY. Customers have been purchasing more at supermarkets due to restraints on eating out, and Izumiya's comparable store sales were up 3.5% YoY in July, 5.2% YoY in August, and 0.5% in September. The operating profit/loss position improved JPY1.9bn YoY. Restructuring boosted operating profit by JPY1.4bn, while increased food sales contributed about JPY100mn, reduced personnel costs accompanying restructuring conducted in FY03/20 contributed about JPY340mn, and lower depreciation costs accompanying impairment loss booked at end-FY03/20 contributed about JPY60mn.

In Q2, Hankyu Oasis posted sales of JPY28.1bn (+3.2% YoY) and operating profit of JPY535mn (loss of JPY61mn in Q2 FY03/20). There were 78 stores at end-Q2 FY03/21 (+1 YoY), and comparable store sales were up 1.8% YoY in July and 4.9% YoY in August, but down 1.5% YoY in September. Higher sales boosted operating profit by about JPY450mn and depreciation costs fell by about JPY130mn on booking of impairment loss in FY03/20.

Shopping Center Management business

In Q2 FY03/21, the Shopping Center Management business booked sales of JPY16.6bn (8.2x YoY) and operating loss of JPY389mn (profit of JPY1.0bn in Q2 FY03/20). Transfer of Izumiya's non-food operations to this segment caused sales growth, but resulted in operating loss for the segment. Excluding the impact of restructuring, operating profit would have been essentially flat YoY. With the impact of rent reductions or exemptions in Q1, excluding the Izumiya impact, operating profit declined in Q1, but then improved in Q2.

Other business and adjustments to operating profit

In Q2, the company recorded operating loss totaling JPY1.6bn (loss of JPY136mn in Q2 FY03/20) associated with the Other business and adjustments to operating profit. Deterioration in the performance of Oi Development, which runs the Ours Inn Hankyu business hotel, had a particularly large negative impact. Hankyu Kitchen Yell Kansai, a home delivery business focused on food, secured a profit on increased membership and improved rate of operation.

Q1 FY03/21 results (out July 29, 2020)

Overview

H2O reported Q1 FY03/21 sales of JPY145.9bn (-32.8% YoY), operating loss of JPY3.3bn (versus operating profit of JPY2.9bn in Q1 FY03/20), a pre-tax loss of JPY8.2bn (versus pre-tax profit of JPY3.3bn in Q1 FY03/20), and net loss attributable to owners of the parent of JPY6.1bn (versus net income of JPY1.6bn in Q1 FY03/20). Operating profit declined JPY5.8bn YoY in the Department Store business, JPY1.1bn YoY in the Shopping Center Management business, and JPY1.5bn YoY in the Other business/adjustments to operating profit (elimination of intra-segment transactions), but was supported to some extent by a JPY2.3bn YoY improvement in the Supermarket business. The company booked extraordinary loss of JPY4.9bn (breaking down into JPY4.1bn for the Department Store business, JPY100mn for the Supermarket business, JPY100mn for the Shopping Center Management business, and JPY400mn for the Other business) associated with efforts to slow the spread of COVID-19. Rent relief and reduction (including lower rent and sales commission payments) saved JPY1.1bn in expenses.

FY03/21 earnings forecast will be determined at a later date: Department stores, which were all temporarily closed (excluding some food hall locations) in line with the government's declaration of a state of emergency, have been reopened from late May. Supermarkets remain in operation. That said, with signs of a resurgence in new COVID-19 cases at the end of July, consumer sentiment deteriorated sharply, as reflected in a decline in customer traffic. It has become increasingly difficult for the company to forecast trends moving forward, including in regard to how they will impact consumption and spending. Given the complications involved in making reasonable estimates regarding a recovery in earnings, the company decided that FY03/21 earnings forecast would be determined at a later date. H2O plans to disclose its forecast as soon as it is able to make reasonable estimates.

Department Store business

Department Store business: Q1 sales were JPY48.4bn (-57.4% YoY), and operating loss was JPY2.9bn (versus operating profit in Q1 FY03/20 of JPY2.9bn). The segment accounted for JPY4.1bn of the JPY4.9bn in extraordinary loss associated with efforts to slow the spread of COVID-19. The temporarily closure of its stores (with the exception of some food halls) in line with the government's declaration of a state of emergency on April 7, 2020 resulted in April sales dropping 79.4% YoY. Most department stores resumed operations from May 21, when the government lifted the state of emergency, with all stores back in operation following the May 29 reopening of Hankyu Men's Tokyo. Sales in May were down 68.7% YoY. The decline in sales narrowed to 22.1% YoY in June thanks to store reopening, coronavirus-relief special cash payments from the government that contributed to enhanced consumer spending, and the implementation of clearance sales ahead of schedule (held in stages with scaled-back promotion to avoid store overcrowding). Sales trends were volatile in Q1 due to the impact of COVID-19.

The pandemic had a bigger impact on city center stores. Hankyu Main Store recorded YoY sales declines of 85.9% in April 2020, 74.4% in May, and 21.9% in June. In Q1 FY03/20, tax-free sales made to foreign visitors to Japan accounted for 15.8% of the total, but only 1.6% in Q1 FY03/21 (a 96% YoY decline), which had a negative impact on overall sales. Sales at branch stores fell 58.5% YoY in April, 43.9% YoY in May, and 15.4% YoY in June. Branch store sales were underpinned by a large share of food sales as well as limited dependence on inbound demand.

With an apparent increase in the sales weighting for relatively low margin food products, the gross profit margin at Hankyu Hanshin Department Stores deteriorated 1.5pp YoY to 22.9% in Q1. Handling volume by product category was down 61.4% YoY for apparel (21.9% sales share), down 62.3% YoY for personal items (15.6% share), and down 57.5% YoY for household goods (17.5% share), whereas handling volume of food (35.6% share) was down only 32.1% YoY.

SG&A expenses at Hankyu Hanshin Department Stores totaled JPY14.3bn (-35.8% YoY) in Q1. Personnel expenses, rent, and depreciation during the period that stores were closed were booked as extraordinary loss (JPY4.2bn for Hankyu Hanshin Department Stores). The company also cut expenses for advertising and decorations and outsourcing costs and recorded lower commissions due to the drop in sales. On a consolidated basis, the company slashed advertising and decoration expenses to JPY706mn (a reduction of JPY2.3bn, down 76.3% YoY). The company kept expenses to a minimum by only changing essential displays and refrained from holding events to prevent overcrowding at stores, which contributed to advertising and decoration cost savings.

Supermarket business

Supermarket business: Q1 sales were JPY70.2bn (-20.2% YoY) and operating profit was JPY1.5bn (loss of JPY803mn in Q1 FY03/20). The Izumiya restructuring (making the new Izumiya a food supermarket and transferring non-food business) lowered sales by JPY19.5bn, but added JPY1.0bn to operating profit. We can say that the Supermarket business generated actual growth in sales and profit. Izumiya's Q1 sales were JPY33.0bn (-37.5% YoY) and operating profit was JPY1.0bn (loss of JPY722mn in Q1 FY03/20). In Izumiya's food supermarket business only, sales grew 2.4% YoY and operating profit increased 290% YoY. Consumers preferred to shop locally because of COVID-19, which led to a solid 4.2% YoY comparable store sales increase, while lower personnel and depreciation expenses resulting from structural reforms implemented in FY03/20 and the booking of impairment loss also contributed to profit growth.

In Q1 FY03/21, Hankyu Oasis recorded sales of JPY27.8bn (+4.1% YoY) and operating profit of JPY604mn (loss of JPY176mn in Q1 FY03/20). Comparable store sales were up 2.7% YoY, helped by consumers preferring to shop locally due to COVID-19. Curtailed loyalty point redemption and advertising expenses also contributed to improved profitability.

The new Izumiya's transformation into a food supermarket has helped Izumiya and Hankyu Oasis run integrated operations. Collaboration between the two companies in merchandising, product displays, and systems is expected to have a positive earnings impact.

Shopping Center Management business

Shopping Center Management business: Q1 sales were JPY16.7bn (7.8×, +JPY14.6bn) and operating profit was JPY71mn (-93.9% YoY, -JPY1.1bn). The restructuring of Izumiya (transfer of non-food business) added a business with a scale of around JPY19.5bn (Q1 FY03/20), but non-food sales (apparel and household-related) sales declined by approximately JPY3.0bn YoY due to sales activity curtailment and strategic sales floor reduction. As a result, the Izumiya restructuring had a modest positive impact of only JPY16.5bn on sales. Lease revenue of the existing Shopping Center Management business fell by around JPY2.0bn due to closures and shortened opening hours of shopping centers and rent reductions offered to tenants because of COVID-19. The segment's operating profit fell sharply, because lower lease revenue had a severe impact. The segment accounted for less than JPY100mn of the total extraordinary loss associated with efforts to slow the spread of COVID-19.

Other business and adjustments

Other business: The company recorded JPY1.9bn in operating loss (an increase of JPY1.5bn YoY) associated with the Other business and total adjustments. Some businesses performed well, such as Hankyu Kitchen Yell Kansai, a home delivery business focused on food, which generated a 64.7% YoY sales increase, but they made limited contributions to profit. Oi Development, which runs the Ours Inn Hankyu business hotel, suffered a sharp drop in occupancy rates, because tourism and business travel dried up, while F.G.J. Co., Ltd., which runs the Fruit Gathering cosmetics stores, was affected by temporary shopping center closures. Persona Co., Ltd., which runs the Persona Card business, recorded lower profits due to a decline in Persona handling volume and increased marketing costs. The Other segment accounted for around JPY400mn of the total extraordinary loss associated with efforts to slow the spread of COVID-19. Profit in this segment includes dividends from subsidiaries, which are offset by adjustments.

Other information

History

Year	Month	
1929	Apr	Hanshin Kyuko Dentetsu Kabushiki-gaisha (now Hankyu Hanshin Holdings, Inc.) established a department store (a division) in Osaka's Umeda district
1947	Mar	Keihanshin Kyuko Dentetsu Kabushiki-gaisha (now Hankyu Hanshin Holdings, Inc.) spun out the department store division, establishing Hankyu Department Stores, Inc.
1949	May	Hankyu Department Stores, Inc. listed on the First Section of the Osaka Securities Exchange
1960	Oct	Established Hankyu Oasis Co., Ltd. (subsidiary)
1962	Sep	Hankyu Department Stores, Inc. listed on the First Section of the Tokyo Stock Exchange
1992	Oct	Established HD Development Co., Ltd. (now Hankyu Shopping Center Development Co., Ltd. [subsidiary])
2002	May	Established Hankyu Kitchen Yell Co., Ltd. (subsidiary)
2004	Mar	Made Hankyu Foods Industry Co., Ltd. a wholly owned subsidiary through a share exchange
2006	Jun	In a company split, Hankyu Foods Industry Co., Ltd. transferred business to Hankyu Foods Co., Ltd. and two other companies (subsidiaries)
	Jul	Acquired shares in Nissho Corporation (renamed Hankyu Nissho Store Co., Ltd.) and made it a subsidiary
	Sep	Established Hanshoku Co., Ltd. (subsidiary)
2007	Oct	Made Hanshin Department Stores, Ltd. a subsidiary through a share exchange and merged operations
		Renamed to H2O Retailing Corporation and transitioned to a holding company structure
		Established Hankyu Department Stores, Inc. (subsidiary) through a company split
		Established Oi Development Co., Ltd. (subsidiary)
2008	Mar	Merged with Hankyu Food Industry Co., Ltd. in an absorption-type merger
	Oct	Hankyu Department Stores, Inc. and Hanshin Department Stores, Ltd. merged to form Hankyu Hanshin Department Stores, Inc.
		Hanshoku Co., Ltd., Hankyu Oasis Co., Ltd., Hankyu Nissho Store Co., Ltd., Hankyu Family Store Co., Ltd., and Hankyu Fresh Yell Co., Ltd. merged
2009	Feb	Merged with Mosaic Realty Co., Ltd. (subsidiary) in an absorption-type merger
2011	Apr	Acquired shares in e-veryD.com Inc. and made it a subsidiary
	Sep	Acquired shares in Kazokutei Co., Ltd. and made it a subsidiary
2012	Nov	Grand opening of Hankyu Umeda Main Store following reconstruction
2014	Jun	Made Izumiya Co., Ltd. a subsidiary through a share exchange and merged operations
2016	Apr	Established H2O Foods Group Co., Ltd. (subsidiary)
	Jul	Transferred operations of the former Izumiya Co., Ltd. to the new Izumiya Co., Ltd. (subsidiary, formed through a company split), renamed H2O Asset Management Co., Ltd.
2017	Oct	H2O took over the Sogo Kobe and Seibu Takatsuki stores from Sogo & Seibu Co., Ltd.
2018	Jun	Opened Wing I at the Hanshin Umeda Main Store following reconstruction
2019	Sep	Sogo Kobe and Seibu Takatsuki stores renamed as the Kobe Hankyu and Takatsuki Hankyu stores, respectively
2020	Feb	Transferred Kazokutei Co., Ltd. and Sun Laurie Co., Ltd. to SRS Holdings Co., Ltd. through a share exchange
2021	Apr	Opened Ningbo Hankyu (Zhejiang, China), its first overseas department store
		Transferred Izumiya Co., Ltd.'s Shopping Center Management business and apparel and home product sales business to H2O Shopping Center Development Co., Ltd.

Source: Shared Research based on company data

Background for the launch of H2O Retailing: As of September 2005, although Hanshin Department Stores was listed on the Osaka Securities Exchange, the department store operator was a subsidiary of Hanshin Electric Railway, which owned more than 50% of its outstanding shares. In an October 2005 restructuring of the railway group, Hanshin Department Stores became a wholly owned subsidiary through a share exchange. A fund led by Yoshiaki Murakami (a former bureaucrat at the Ministry of International Trade and Industry) then purchased a large number of Hanshin Electric Railway's shares. Focusing on the value of its real estate holdings and content related to the Hanshin Tigers (a Japanese professional baseball team), the Murakami fund believed Hanshin Electric Railway's shares were undervalued. In addition to purchasing Hanshin Electric Railway's shares outright, the fund managed to amass a significant stake (at one point holding more than 38% of Hanshin Electric Railway) by also buying convertible bonds and shares in Hanshin Department Stores.

Hankyu Holdings also thought Hanshin Electric Railway's real estate assets near Umeda Station were attractively valued. Accordingly, in May 2006 Hankyu came in as a white knight investor, making a tender offer for Hanshin Electric Railway. Initially, there was a gap between the offer price and the fund's desired purchase price. However, in June 2006 the Tokyo District Public Prosecutors Office instigated a compulsory investigation of the fund, requiring the fund to quickly liquidate its holdings, and the fund acceded to the tender offer. As a result, Hanshin Electric Railway became a subsidiary of Hankyu Holdings.

For Hankyu Department Stores, the plan to integrate with Hanshin Department Stores was attractive because it could help to offset the drop in sales that would occur while Hankyu Main Store was being rebuilt. The merger negotiations took time, however, because the two Umeda-centered stores had been competitors for some time, and Hankyu Department Stores had not been a Hankyu Holdings subsidiary. In late September 2006, Hankyu Department Stores and Hanshin Department Stores agreed to a comprehensive business alliance that led to the launch of Hankyu Hanshin Holdings (on October 1, 2006). Following due diligence procedures, Hankyu Department Stores and Hanshin Department Stores merged in March 2007.

Major subsidiaries

By segment	Company	Stake	Business description
Department Store	Hankyu Hanshin Department Stores, Inc.	100.00%	Hankyu Department stores (10 stores), Hanshin Department Stores (4 stores)
Supermarket	H2O Foods Group Co., Ltd.	100.00%	Planning and management of foods business
	Izumiya Co., Ltd.	100.00%	Supermarket and GMS operations
	Hankyu Oasis Co., Ltd.	100.00%	Supermarket operations
	Qanat Co., Ltd.	100.00%	Supermarket operations
	Hankyu delica I, Inc.	100.00%	Supermarket operations
	Hankyu Bakery Co., Ltd.	100.00%	Manufacture and sale of bakery products
	Hankyu Foods, Inc.	100.00%	Manufacture and sale of bakery products
	Hankyu Food Process Co., Ltd.	100.00%	Processing and sale of fresh food
	Yamanami Co., Ltd.	100.00%	Manufacture and processing of foods
Shopping Center Management	H2O Asset Management Co., Ltd.	100.00%	Property development and management; department store operation
	Kanso Co., Ltd.	100.00%	Comprehensive building maintenance services
	Kanso Sakai Co., Ltd.	100.00%	Comprehensive building maintenance services
	Hankyu Shopping Center Development Co., Ltd.	100.00%	Commercial facility operations
	Hankyu Maintenance Service Co., Ltd.	100.00%	Comprehensive building maintenance services
Other	Oi Development Co., Ltd.	100.00%	Management of budget hotels
	Hankyu Hanshin Department Stores Tomonokai Co., Ltd.	100.00%	Various services for funding system with special benefits
	F.G.J. Co., Ltd.	80.00%	Operation of personal care products shops
	e-veryD.com, Inc.	100.00%	Provision of systems and expertise for home delivery business
	Suzhou Izumiya Department Store Co., Ltd.	100.00%	Management of Suzhou Izumiya Dept. Store in China
	Heart Dining, Inc.	100.00%	Operation of cafes, restaurants, and company cafeterias
	Hankyu Act For Co., Ltd.	100.00%	Outsourcing of accounting and wage calculation
	Hankyu Wedding Co., Ltd.	100.00%	Wedding dress rentals
	Hankyu Kitchen Yell Kansai, Inc.	100.00%	Membership-based home delivery service of foods and household goods (Kansai region)
	Hankyu Quality Support Co., Ltd.	100.00%	Management and consulting services on quality control
	Hankyu Kenso Co., Ltd.	100.00%	Interior design and construction for commercial facilities
	Hankyu Job Yell Co., Ltd.	100.00%	Personnel dispatching and placement services
	Hankyu Design Systems Co., Ltd.	100.00%	Commercial designs, planning and production of websites, photographing, and printing
	Hankyu Hello Dog Co., Ltd.	100.00%	Beauty care and accessories for pets
	Hanky B&C Planning Co., Ltd.	100.00%	Sales of 100-yen bread and operation of cafes
	Hankyu Dept. Stores Uniform Co., Ltd.	100.00%	Planning and sales of uniforms for students and companies
	Hankyu Home Styling Co., Ltd.	100.00%	Sales of furniture and interior goods
	Persona Co., Ltd.	100.00%	Credit card, insurance agency, travel agency, electronic money business operations
	asnas Co., Ltd.	100.00%	Operation of convenience stores
	H2O (China) Investment Co., Ltd.	100.00%	Borrowing of funds from the company

Source: Shared Research based on company data as of FY03/21

Note: Effective from the start of FY03/22, the company changed the name of its Shopping Center Management business to Shopping Center business. Additionally, Hankyu Kitchen Yell Kansai, Inc., EveryD.com, Inc. and Hankyu Sennan Green Farm, which were previously included in the Other business segment, were transferred to the Supermarket segment, and Oi Development Co., Ltd., which was also included in Other business segment, was transferred to the Shopping Center segment. In April 2021, Hankyu Bakery (as surviving company) absorbed Hankyu B&C Planning and Hankyu Freds, thereby eliminating them from H2O's lineup of subsidiaries.

Corporate governance and top management

Corporate governance

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Committee
Controlling shareholder	N
Directors and Audit & Supervisory Board members	
Number of directors per Articles of Incorporation	15
Number of directors	10
Directors' terms per Articles of Incorporation	1
Chairperson of the Board of Directors	Chairperson (except when also serving as president)
Number of outside directors	4
Number of independent outside directors	4
Number of members of Audit & Supervisor Committee	5
Number of outside members of Audit & Supervisory Committee	4
Number of independent outside members of Audit & Supervisory Committee	4
Other	
Participation in electronic voting platform	Y
Providing convocation notice in English	Y
Implementation of measures regarding director incentives	Stock option plan
Eligible for stock option	Inside directors, outside directors, directors of subsidiaries, members of the Audit & Supervisory Committee of subsidiaries, other
Disclosure of individual director's compensation	N
Policy on determining amount of compensation and calculation methodology	Y
Corporate takeover defenses	N

Source: Shared Research based on company data as of July 2021

Top management

Atsushi Suzuki (born April 5, 1956), Chairman of the Board, in charge of the overseas business promotion office

Mr. Suzuki joined Hankyu Department Stores, Inc. in 1980. In 2000, he became executive manager of the SC Division. In 2003, he was appointed representative director and senior managing executive officer of Hankyu Shopping Center Development Co., Ltd. He became executive officer in 2006. In March 2014, he became a director of H2O Retailing. In April 2014, he was appointed president and representative director. In April 2020, he became the company's chairman.

Naoya Araki (born May 14, 1957), President and Representative Director, in charge of the IT promotion office

Mr. Araki joined Hankyu Department Stores, Inc. in 1981. In 2003, he became general manager of the Suburban Store Development Office. He was appointed executive officer in 2004. In 2012, he became president and representative director of Hankyu Hanshin Department Stores, Inc. (current position). In June 2012, he assumed the position of representative director of H2O Retailing. In April 2020, he became president and representative director of H2O Retailing and chairman and representative director of Hankyu Hanshin Department Stores, Inc.

Policy on shareholder returns

Per-share data (split-adjusted; JPY)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Shares outstanding (ex. treasury shares; year-end, mn)	388.3	388.3	123.3	123.4	123.5	123.5	123.6	123.6	123.7
EPS	63.9	3.0	98.1	113.9	115.8	118.5	17.5	-106.4	-177.9
EPS (fully diluted)	63.7	3.0	97.6	113.4	115.3	117.9	17.4	-	-
Dividend per share	12.5	12.5	25.0	35.0	40.0	40.0	40.0	40.0	25.0
Payout ratio	19.6%	411.2%	25.5%	30.7%	34.5%	33.7%	228.6%	-37.6%	-14.1%
Book value per share	1,903	1,858	2,033	2,039	2,132	2,264	2,252	1,968	1,844

Source: Shared Research based on company data
Note: The company conducted a reverse stock split (1-for-2) on September 1, 2014.

The company's fundamental stance on shareholder returns is to provide stable dividends based on annual performance, taking into consideration the cash flow needed to build an appropriate financial structure for the medium to long term and to invest in growth. Specifically, the company seeks to optimize the distribution of profits, taking medium- to long-term forecasts of net income, net assets, and cash flows into consideration.

Major shareholders

Top shareholders	Shares held('000)	Shareholding ratio
Hanshin Electric Railway Co., Ltd.	14,749	11.9%
Hankyu Hanshin Holdings, Inc.	10,336	8.4%
The Master Trust Bank of Japan, Ltd. (Trust account)	7,291	5.9%
Takashimaya Co., Ltd.	6,259	5.1%
Custody Bank of Japan, Ltd. (Trust account)	4,256	3.4%
Izumiya Kyowakai	2,824	2.3%
NORTHERN TRUST GLOBAL SERVICES SE, LUXEMBOURG RE LUDU RE: UCITSCLIENTS 15.315 PCT NON TREATY ACCOUNT (Standing proxy: The Hong Kong and Shanghai Banking Corporation Limited, Tokyo Branch)	1,855	1.5%
H2O Retailing Group Employees Shareholding Association	1,785	1.4%
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,438	1.2%
MUFG Bank, Ltd.	1,365	1.1%
SUM	52,162	42.2%

Source: Shared Research based on company data (as of end-March 2021)

News and topics

Comprehensive business alliance agreement with Lawson, Inc.

2021-06-24

H2O Retailing Corporation announced a comprehensive business alliance agreement with Lawson, Inc.

Targets and motivations associated with the comprehensive business alliance agreement

Through this alliance, the company will aim to give shape to its "strategy for ensuring market dominance in the Kansai region," through which it is striving to broaden its market shares in the region under the categories of consumption and services, and transition from its previous business model, which was rooted in its stores and products, to a new customer-centric business model. The company will also fuse its management resources with those of Lawson, which originated in Kansai and operates a variety of businesses centrally anchored by its nationwide chain of about 15,000 convenience stores, and develop new services and businesses that will help it achieve dominance in the Kansai region.

Details of the comprehensive business alliance agreement

Included below are details concerning the primary initiatives associated with this business alliance. Moving forward, both companies who are party to this agreement will establish a joint subcommittee and proceed to conduct relevant discussions and negotiations.

- Initiatives related to collaboration between the two companies in the category of store development (including the conversion of the asnas-branded stores to Lawson-branded stores)
- Activities associated with collaboration between the two companies in the categories of products and distribution
- Initiatives related to collaboration between the two companies in the field of marketing
- Collaborative data application and new service development to be conducted between the two companies
- Initiatives associated with sustainability-related collaboration between the two companies

The current terms of the agreement are as follows:

- Complete conversion of the company's chain of 98 "asnas" train station shops and convenience stores (operated by group company asnas Co., Ltd.) into Lawson stores (gradual conversion will commence on July 26)
- Pickup of e-commerce products ordered from department stores at Lawson stores (the companies are targeting a launch during 2H FY2021)

Postponing the release of new medium-term plan and earnings forecast for FY03/22

2021-04-30

H2O Retailing Corporation announced that it was postponing the release of its new medium-term plan and earnings forecast for FY03/22.

The company planned to release the new medium-term plan (FY03/22–FY03/24) and its earnings forecast for FY03/22 in May 2021, but it has decided to postpone the announcement.

Reason for the postponement

Responding to the resurgence in COVID-19 cases, the Japanese government declared a third state of emergency on April 25, 2021, in Osaka, Hyogo, Kyoto, and Tokyo, and asked the company to curtail operations at its stores. Complying with this request, the company decided to suspend or continue shortened hours of operations only for daily necessities, such as groceries, until May 11. The situation beyond that date remains uncertain.

The company considers it premature and difficult to give a reasonable forecast on FY03/22 earnings results amid the current situation, and it has thus decided not to make earnings and dividend forecasts for FY03/22 at its announcement of full-year FY03/21 results scheduled in May. Management has also postponed the announcement of the new medium-term plan, initially scheduled on the same day of disclosing results.

Future plan

The company has said it will announce its forecast and plan as soon as the times comes when it can reasonably assess the impact of the latest surge in COVID-19 cases on business activities.

Sale of non-current assets and recording of extraordinary gain

2021-04-26

H2O Retailing Corporation announced the sale of non-current assets and the recording of extraordinary gain (gain on sale of non-current assets).

The company resolved to transfer non-current assets held by Hankyu Hanshin Department Stores, Inc., its consolidated subsidiary, and accordingly expects to record extraordinary gain (gain on sale of non-current assets) in Q1 FY03/22 (April–June 2021).

The company commented that the purposes of the transfer are to enhance asset efficiency through effective utilization of management resources and to strengthen its financial position. The transfer is scheduled to take place on May 31, 2021 and the transfer price, book value, and transferee will not be disclosed.

Summary of asset to be transferred

- Location: Kita-ku, Osaka
- Asset details: 1,590.40sqm of land
- Associated gain: JPY3.9bn
- Current status of land: Real estate for rent

Opening of the Hankyu Oasis Kobe Sannomiya branch

2021-04-16

H2O Retailing Corporation announced the opening of the Hankyu Oasis Kobe Sannomiya branch.

The company will be opening the Hankyu Oasis Kobe Sannomiya branch in the City of Kobe's Chuo Ward on April 26, 2021. The store will serve as the nexus of the EKIZO Kobe Sannomiya shopping mall, which will also open on the same day within the Kobe Sannomiya Hankyu Building. B1F will consist of the company's first Kitchen & Market food market in Hyogo, while B2F will feature Hankyu Oasis, an urban grocery supermarket.

Summary of Hankyu Oasis Kobe Sannomiya branch

- Store name: Hankyu Oasis Kobe Sannomiya branch
- Location: Chuo Ward, City of Kobe
- Opening date: April 26, 2021
- Size: Sale department floor space of 1,464 sqm (443 tsubo)
- Annual sales target: Approximately JPY2.2bn
- Personnel: Staff of 127 (22 full-time employees, 105 part-time workers).

Gains on the sale of shares tendered into Toho's stock buy-back offer

2021-04-13

H2O Retailing Corporation announced gains (extraordinary income) on the sale of shares tendered into Toho Co., Ltd.'s stock buy-back offer.

The company has decided to participate in the tender offer by Toho Co., Ltd. for a portion of its holding of Toho common stock.

Outline of participation in tender offer

- Number of shares to be tendered: 1,366,000 shares
- Tender offer price: JPY4,208 per share (total sale value of JPY5.8bn)

Shares owned before and after participation in the tender offer (if all shares tendered by the company are purchased)

- Before the tender offer: 13,664,000 shares owned (7.7% of total number of shares in issue)
- Number of shares to be tendered: 1,366,000 (0.8%)
- After the tender offer: 12,298,000 shares owned (7.0%)

Timetable of the tender offer (scheduled)

- Tender offer start date: April 14, 2021
- Tender offer period: April 14, 2021 to May 17, 2021
- Settlement date: June 8, 2021

Impact on performance

If all of the shares tendered by H2O are purchased, the company is expected to record gains on sale of approximately JPY4.5bn as extraordinary profit in Q1 FY03/22 (April–June 2021).

Sale of non-current assets and recording of extraordinary gain

2021-03-30

H2O Retailing Corporation announced the sale of non-current assets and the recording of extraordinary gain (gain on sale of non-current assets).

The company resolved to sell a portion of its non-current assets, and accordingly expects to record extraordinary gain (gain on sale of non-current assets) in Q1 FY03/22 (April–June 2021).

The company commented that the purposes of the transfer are to enhance asset efficiency through effective utilization of management resources and to strengthen its financial position. The transfer is scheduled to take place on May 31, 2021.

Summary of asset to be transferred

- Location: Kita-ku, Osaka
- Asset details: 1,706.70sqm of land
- Associated gain: JPY4.7bn
- Current status of land: Real estate for rent

Opening date for the Ningbo Hankyu department store

2021-03-17

H2O Retailing Corporation announced the opening date for the Ningbo Hankyu department store.

The company announced that the opening date of the new Ningbo Hankyu development in Ningbo City, Zhejiang Province, China will be April 16, 2021. This will be one of the largest commercial facilities in the region; the management believes Ningbo has significant potential for economic development, with a growing wealthy and upper middle class. The store will be an "experience-based department mall," attracting customers from across the region. The target customer base is "Intelligent New China," namely consumers with high purchasing power, mainly born in the 1980s and 1990s. The four pillars of the store concept are; 1) high-end, trend-sensitive fashion, 2) high-quality and fun food offering, 3) experience and entertainment, and 4) Japanese style and details.

Facility overview: 1) Store name: Ningbo Hankyu, 2) Location: 189 Haiyan North Road, Ningbo City, Zhejiang Province, China, 3) Total commercial floor area: 176,000 sqm (6 floors above ground, 1 basement), 4) Number of tenants: 380 stores, 5) Operating company: Ningbo Hankyu Commercial Co., Ltd., 6) Total investment: CNY 3.0bn.

Restructuring of its group, focusing on the Supermarket and Shopping Center Management businesses

2021-02-12

H2O Retailing Corporation announced the restructuring of its group, focusing on the Supermarket and Shopping Center Management businesses.

The company announced a group restructuring, with a focus on simplification and streamlining of the group in consideration of the dramatic changes to the social environment and to trends in consumption. The impact of the group reorganization on short-term results will be minor.

1) Absorption-type split of an intermediate holding company in the Supermarket business: The company will absorb H2O Foods Group Co., Ltd., a subsidiary operating in the supermarket and food product manufacturing businesses, succeeding to its business. As a result, the company will directly hold the shares of subsidiaries concerned with the Supermarket business.

2) Merger of bread business subsidiaries: Previously, there have been three companies operating in the bread manufacture and sale business; these are Hankyu Bakery Co., Ltd. (bread manufacture and sale), Hankyu B&C Planning Co., Ltd. (sale of JPY100 bread and cafe management), and Hankyu Freds (sale of bread and cafe management). The company plans for this merger to better organize overlapping businesses, strengthen relationships with supermarkets, and restructure the SPA business model, as well as creating a system for unified management and promoting the sharing of human resources and expertise.

3) Integration of former Izumiya non-supermarket business: H2O Shopping Center Development Co., Ltd., which operates the former Izumiya GMS business (operation of shopping centers, and the sale of apparel and household products) will inherit businesses related to former Izumiya from H2O Asset Management Co., Ltd., which operates a real estate management business related to former Izumiya, as well as Kobe Hankyu and Takatsuki Hankyu. The company will create a system to operate the GMS business and real estate management together.

4) Transfer of the Kobe/Takatsuki Hankyu real estate business to the Department Store business: Hankyu Hanshin Department Stores, Inc. will absorb H2O Asset Management in a merger. As a result, the real estate management of Kobe Hankyu and Takatsuki Hankyu will become part of the Department Store business, in a similar manner to the management of other branches.

Closure of Sanda Hankyu

2020-12-18

H2O Retailing Corporation announced the closure of Sanda Hankyu.

The company resolved to close Sanda Hankyu (Hyogo Prefecture) under the umbrella of Hankyu Hanshin Department Stores. H2O said that it became difficult to continue operations of the department store due to the devastating impact of the COVID-19 pandemic, which came on top of intensifying competition with surrounding facilities. The closure is planned for some time between summer and fall 2021. The company said the impact of the closure on its consolidated earnings is only minor. In FY03/20, Sanda Hankyu posted sales of JPY1.4bn. The store had 51 employees as of December 1, 2020.

Profile

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Exchange Listing

1949-05-14

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