

# Mid-term Management Plan FY2022-FY2024



H2O RETAILING CORPORATION

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- Awareness of changes accelerated by COVID-19 -

## ● **Rapid digitalization**

New lifestyles among a wide range of generations and situation

⇒ **Build a business style that integrates offline and online (OMO style)**

## ● **Transition to a networked society**

**- direct connections to consumers and business partners**

- Easier and more active online access and communication
- Rise of a younger generation of digital and social natives
- Expansion of D2C business where manufacturers sell directly

⇒ **Business model transformation based on direct communication with customers**

## ● **Decline in advantages of urban locations**

- Decrease in the number of commuters due to the shift to telework
- Increase in the interest in the area where they live
- Increase in the frequency of use of nearby stores due to reduced areas of activity

⇒ **reduce dependence on department stores**

▶ **Diversify revenue sources and restructure the Group's profit structure**

## II . Realization of the Group's Vision

### the Group's Vision

To be a customer's lifestyle partner to enrich their hearts through offering "fun, happy and tasty" experiences, contributing to the future of the local community, children and our planet.

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### Strength of the Group

Trust, network and connection with customers and local communities

Strong brand loyalty and various touchpoints with customers



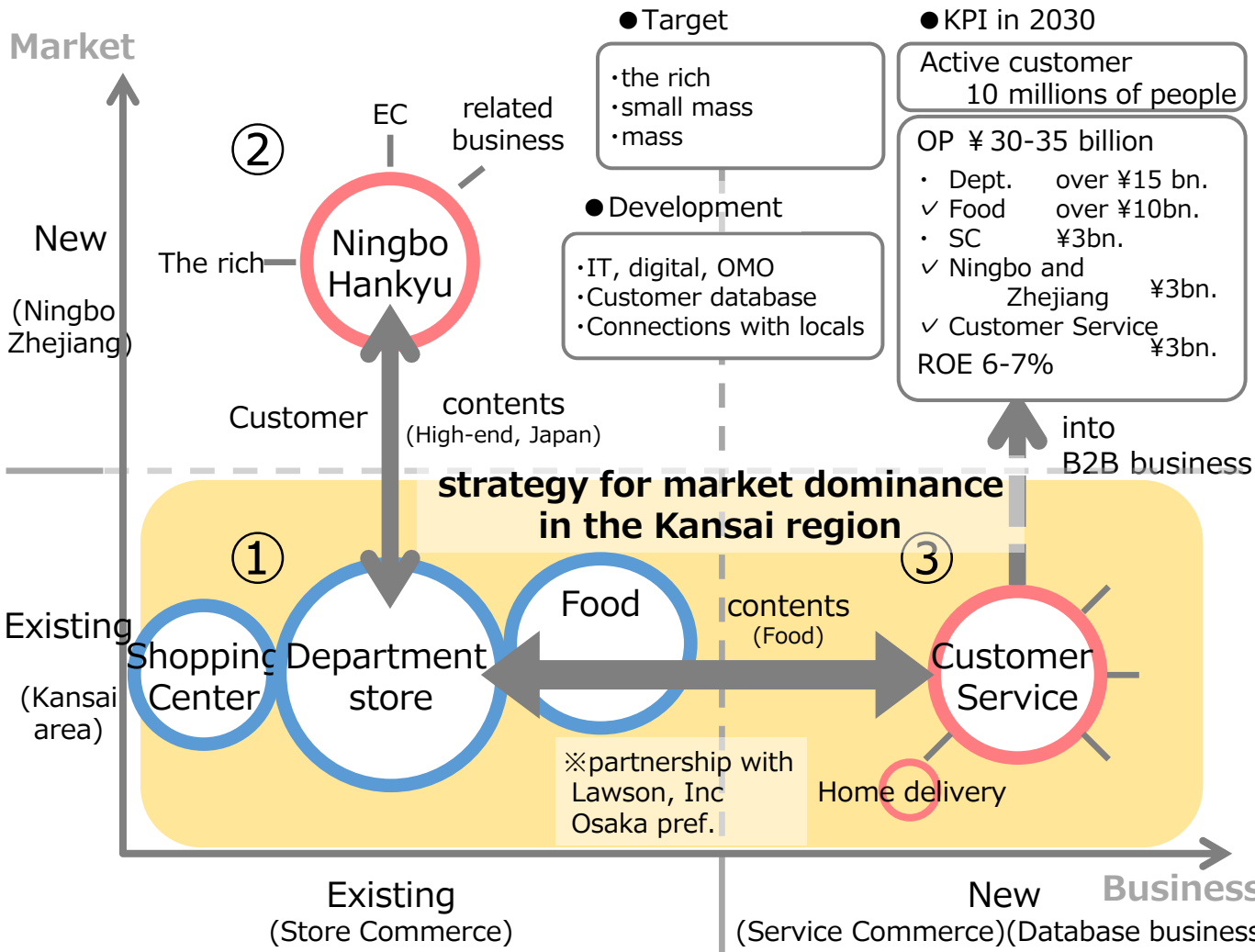
- **The "strategy for market dominance in the Kansai region," the keystone of the Group**
- **Sustainability management to deepen relationships with stakeholders, especially local communities and residents.**

Through these two strategies,  
we aim to achieve both the No. 1 mindshare and the No. 1 market share.

# III. Long-term business plan for 2030

▶ to become a "Communication Retailer"

Develop direct communication with customers and deepen relationship



## 〈 Approach Strategies〉

### ① Rebuild existing businesses

- Rebuild Department store business
- Make Food business as second core

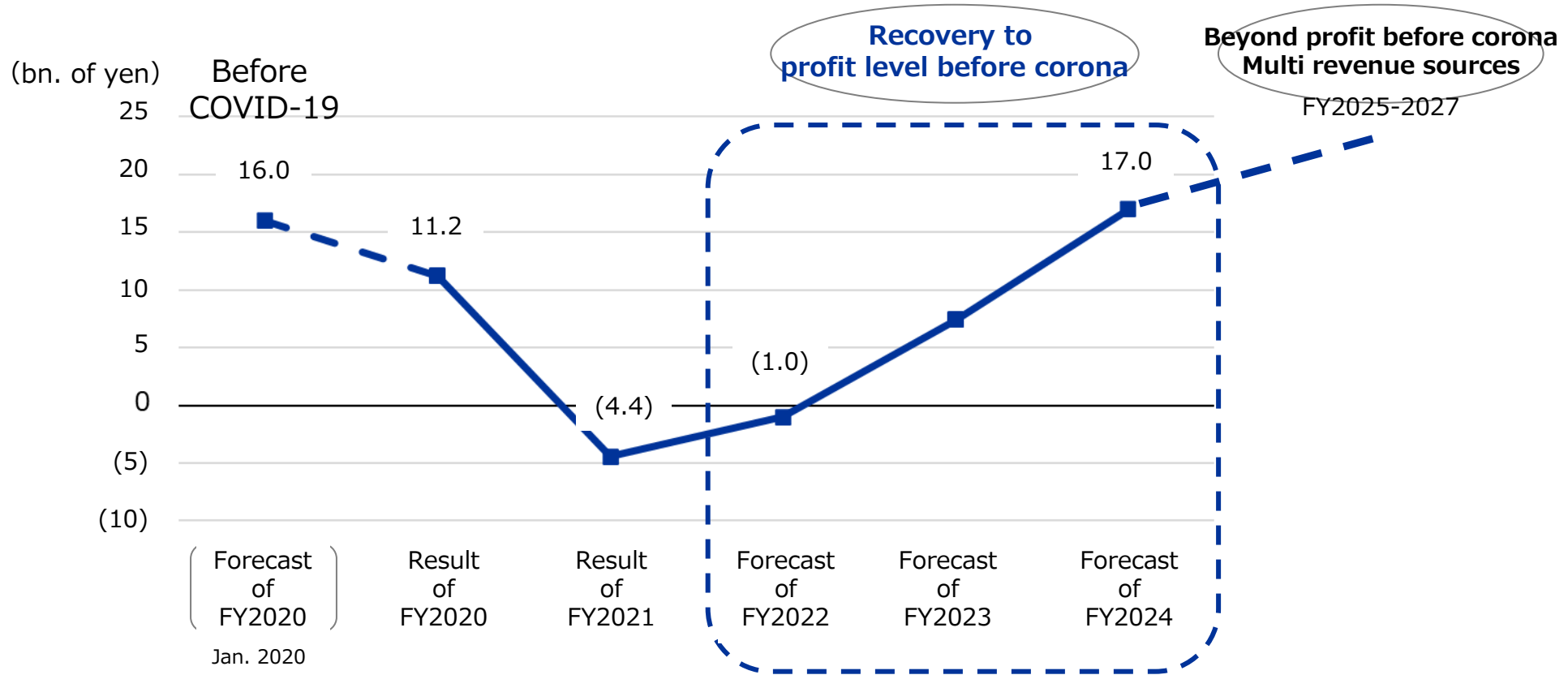
### ② Challenges for new market

- Success of Ningbo Hankyu business
- Expand business into Ningbo and Zhejiang prefecture (the rich, EC) (working together with Hankyu Main store)

### ③ Challenges for new business model

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

# IV. Position of mid-term management plan for 2030



## Key Initiatives for FY2022-2024

- Rebuild Department store business ➡ **Restructure cost proportion & promote OMO business style**
- Make Food business as second core ➡ **Restructure SM business & Integrate manufacturing and sales & Utilize alliance**
- Business development for future growth ➡ **Promote Ningbo and related business**  
➡ **Online customer service business**
- Digitization

# IV-(1) Challenges for new business model

Strong ties and trust with customers and local communities that we have built up over the years  
Integrate and utilize IT/digital and existing real stores/services

**Start development of service business  
to acquire 10 million active customers in the Kansai region**

**I**  
Build close relationships with  
customers in the Kansai region  
through new services

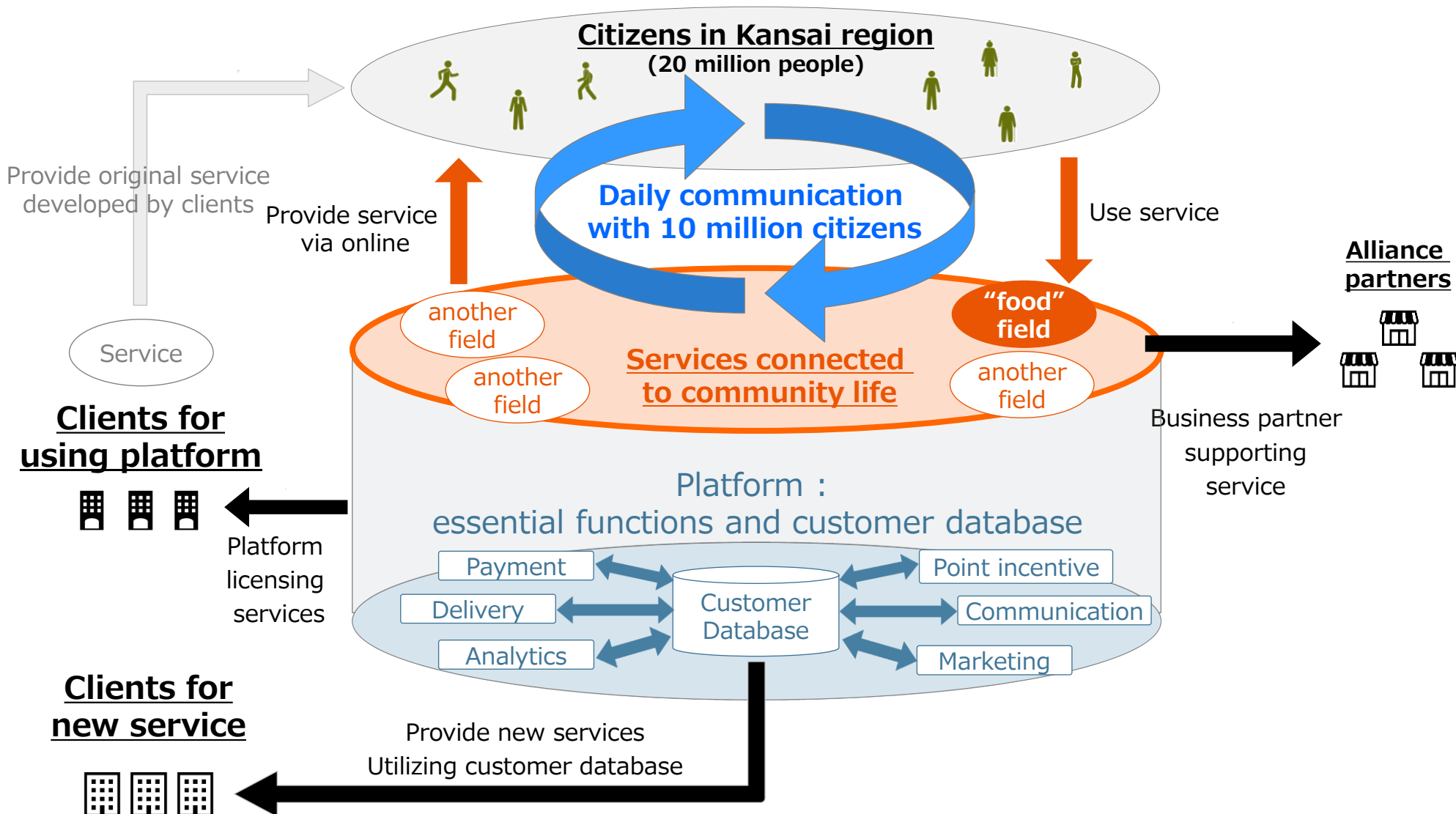


**II**  
Develop new service utilizing  
customer data platform and  
service platform

- Develop online services that many consumers use frequently
- The "food" field where we have enough knowledge
- Collaborate with store commerce (group companies and alliance partners) for synergies
- Build relationships with 10 million customers for constant connection and communication
- customer data platform and service platform
- Create B2B business by providing customer data platform and service platform
  - provide platform functions
  - create new business utilizing customers database

# IV-(1) Challenges for new business model

~ Overview of customer service business ~





Build new IT/DX infrastructure and address present risks and issues

Capital investment ¥26 bn.(FY2022-2024)

## ▶ **Build infrastructure to become communication retailer**

- Build group's customer database infrastructure
- Build group's EC/OMO infrastructure
- Trials for OMO business model by strengthen present system platform

## ▶ **Accelerate business process reengineering**

- Redesign working environment and reduce head office space by 40%
- Reform IT infrastructure (ex. network and security based on zero trust model, ...)
- Improve efficiency through BPR and cloud service
  - Maximum use of smart phones and others (sales, communication, education and training)
  - Shift to paperless work and business process standardization  
(Contracts, billing documents, procedures)

## ▶ **Address system risks and issue**

- Reorganize and standardize system infrastructure for each business

## ▶ **Recruit specialists to operate IT/DX infrastructure and develop in-house digital talent**

## ▶ Comprehensive business alliance with Lawson, Inc.

Promote new service and business development in the Kansai region through integrating management resources and service between two companies

- Start Transforming asnas into Lawson franchise store (all 98 convenience stores) from July 26, 2021
- FY2022 target, receipt of department store EC products available at LAWSON stores
- Establish subcommittees to discuss about each theme
  - ▶ Med-term and long-term collaboration with Quick Win



## ▶ Co-development with Imagr Limited(NZ) and Toshiba Tec Corp.

Demonstration experiments of AI image recognition shopping carts from April 2021  
Promote smart shopping and store management efficiency in food supermarkets



**➡ Strengthen alliances with business partners, payment, logistics, startups, etc. to build a new value creation model**

## Success of Ningbo Hankyu business Expand business for the rich and the upper with high purchase motivation and power in Ningbo and Zhejiang prefecture

Ningbo Hankyu

Opened in April, 2021

“Department-mall”  
hybrid of Department store and SC

- 4 strength
- ① high-end/edged fashion
  - ② high-quality/enjoyable food contents
  - ③ experience and entertainment
  - ④ cool-Japan contents

⇒ +60% versus expectation (Apr. – June)

Future expansion

- Ningbo Hankyu as a core, develop related businesses such as e-commerce, high-end food supermarkets, and service businesses.
  - Products, contents and customer tie-up with Hankyu Umeda Main Store, cross-border EC
- ⇒ Develop customers in the new market of Zhejiang, China



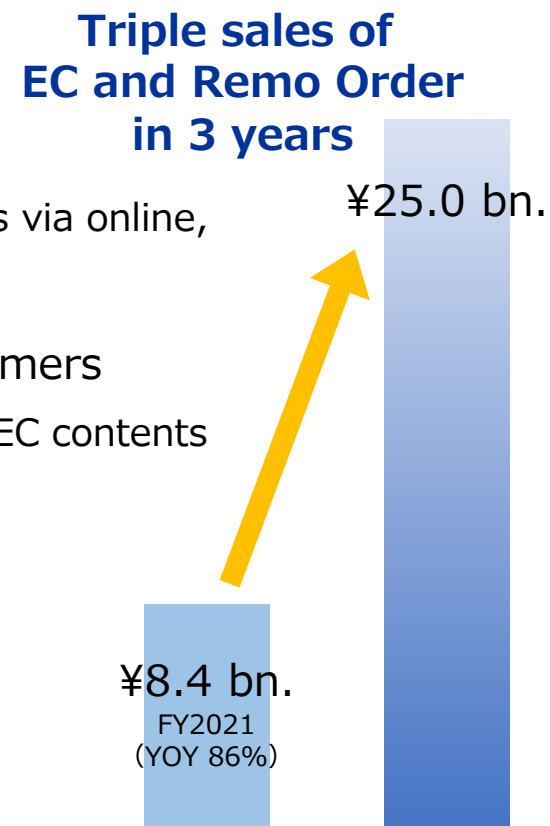
- Environment -
- Continuous decline in sales, non-recovery in inbound sales.
  - Change of consumer lifestyle, “New normal” lifestyle under COVID-19.

## ▶ Established of OMO (Online Merges with Offline) business style

- Development of new OMO shopping process
  - “Remo Order” (web payment) reached sales of ¥ 100 mil./month, target toward ¥5 bn./year
  - upload more items to web catalog, communicate more with customers via online, arrange tools for online customer service
- Create unique contents, reach toward online and offline customers
  - events in Hankyu and Hanshin flagship store with online seminar and EC contents
  - refrigerated/frozen cake delivery service  
“Hankyu Cake Delivery” “CAKE LINK” “TOKYO CAKE DIARY”
  - expansion of EC item lineup, video streaming promotion

## ▶ Opening of new logistics center (Fall 2021)

- Improve logistic efficiency and store-stock operation by controlling centrally



## ▶ Hanshin main store reconstruction

- Grand opening in fall 2021

“Department store that brings happiness to daily life”

- brushed and powered up food contents
- sympathetic contents toward small-mass market
- OMO business style store

Making fan communities which discover new attractive contents

Investment ¥15 bn.

- Remodel of Kobe Hankyu and Takatsuki Hankyu

- Kobe Hankyu : Urban style department store with Kobe essence
- Takatsuki Hankyu : New suburban style department store  
(mixture of department store and SC)

Total investment ¥10 bn. (FY 2023-2024)



## ▶ Cost reorganization

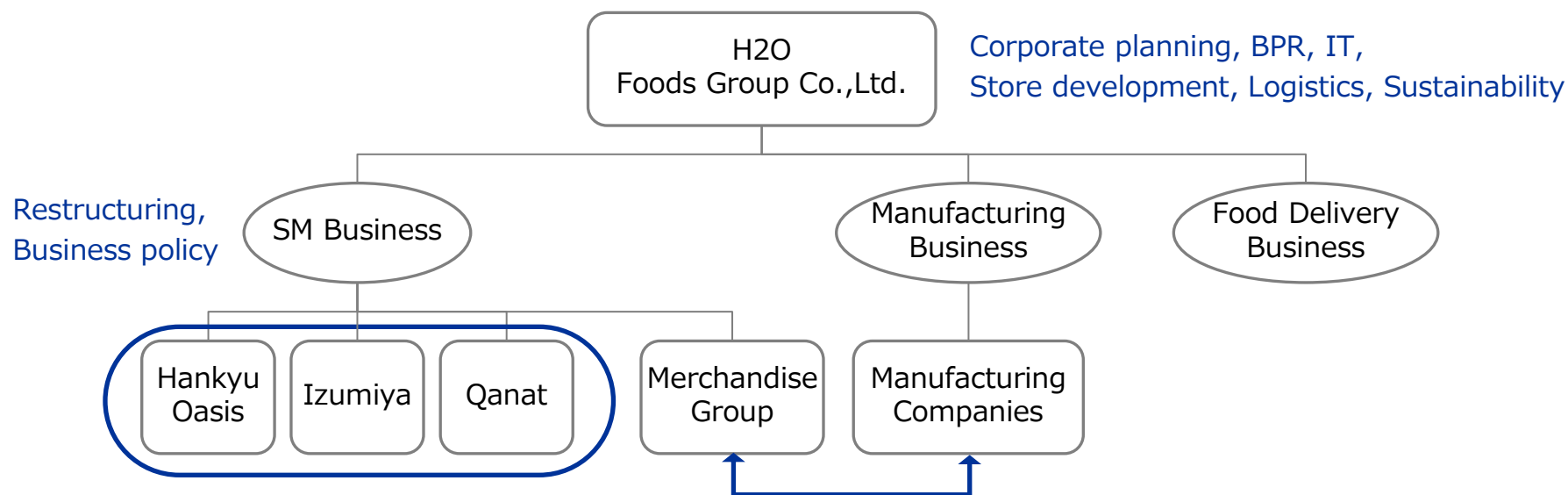
- Improve efficiency and reconstruct organization by digitization and BPR. (Business Process Reengineering)
- Reduce cost by redesign operation and decrease outsourcing  
Redefine action plan to reduce advertising cost, business trip expenses, and overtime work.  
(¥2.5) bn. versus FY2020
- Additional cost reduction with temporary store closure following the declaration of state emergency  
(¥2.5) bn. in FY2022

# VI-(2) Business strategies – Supermarket

- Environment -
- Purchase of processed and prepared food is increasing under population aging and increasing in dual-earner households
  - High demand for eating at home due to COVID-19 outbreak

## ▶ To make supermarket business as a second core, promoting company-wide project for the unified operation and standardization.

- Integrate management of 3 SM companies. (procurement, operation and head office)
- Improve productivity and profitability due to standardizing operation and rebuild chain operation system
- Unify sales and manufacturing functions, such as prepared food, bakery and process of fresh food



## ▶ Optimize store format suitable for each area

Delica



Hankyu Oasis in Minamisenri  
(Jun 2021)

Fish market



Izumiya in Neyagawa  
(Dec 2020)

Sweets of Dept. store



Dairy Qanat Izumiya in Hankyu Rakuho Square  
(Jun 2021)

Investment ¥3 bn. (Remodeling 70 stores, FY2022-2024)

## ▶ Create value and improve efficiency through IT/digitization

- Promote smart-shopping by semi-self register and AI shopping cart etc.
- Connected with customers in application and food delivery business

## ▶ Strengthen alliance

- Comprehensive business alliance agreement with MANDAI Co.,Ltd.  
(28<sup>th</sup> of Jul, 2021)



# VI-(3) Business strategies – Shopping center

- Environment –
- Profitability decline due to lack of convenience and facility deterioration
  - Minimal impact on business performance due to Suburban location and tenant composition centered on daily necessities

## ► Complete conversion of Izumiya from GMS to SC (FY2022)

- Finish the conversion of all 36 Izumiya GMS to SC
    - reduce direct operational sales area and introduce new tenants including CFIZ
- Increase profit by the above and closure of unprofitable store before FY2023.  
**+¥2.0 bn. versus FY2020**
- Improve efficiency (standardize operation, reconsider property management)

## ► Neighborhood shopping centers which link people and local community

Established 2 public-private collaboration space.

- local community space “Izumiya YUI-terrace Kawachinagano”
- support space for kids and parents “Child LOBBY”

## ► Improve profitability of Oi Development (Business hotel)

- Lower cost operation by PMS (Property Management System)
- Improve in occupancy by corporate sales and new attractive plans.



Izumiya YUI-terrace

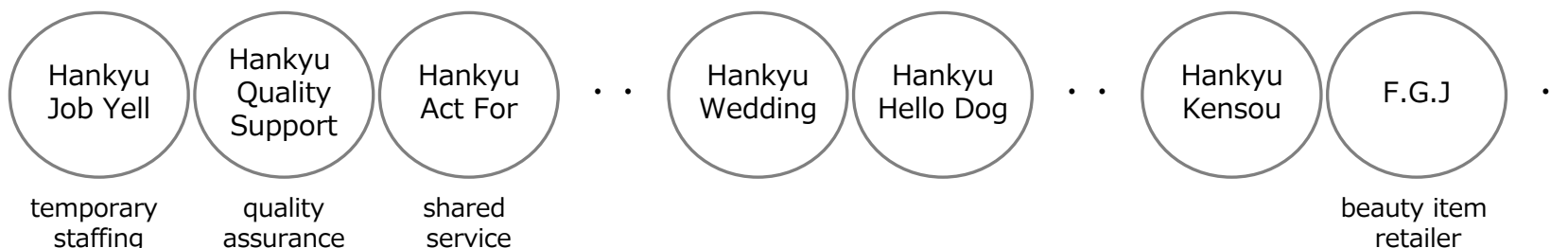


Self check-in device

- Environment –
- Transactions between group companies declined due to COVID-19 outbreak
  - Market has changed.
  - Low profitability mainly affected by personnel expenses

## ▶ Strengthen tie-up with department store and food business

- Business innovation by catching small market changes
- Improve efficiency by integrating IT infrastructure and unifying back-office operations



## ▶ Reorganization and withdrawal from unprofitable business

- Transform asnas into Lawson franchise store (all 98 convenience stores)  
**Profit +¥0.5 bn.** (versus FY2020)
- Absorption merger of Hankyu Hanshin Department Stores and H2O style net (Jul. 2021)
- Withdrawal from H.D. Base Mode (fall 2021)
- Withdrawal from KAETOKU SERVICE (FY2023)

# VI-(5) Business strategies – Forecast by segment

- Assumption –
- Expecting no closure of stores even if another declaration of a state of emergency occur. Seesawing sales situation will continue until Oct., 2021.
  - Department store: domestic demand will gradually recover after Nov., 2021.
  - Department store: inbound sales will not recover in FY2022.

(billions of Yen)		FY2020 results	FY2021 results	*FY2022	*FY2024
Department store	Sales	473.2	347.8	390.0	530.0
	OP	11.5	(1.9)	0.5	13.5
Supermarket	Sales	354.1	281.1	297.0	305.0
	OP	(2.5)	4.2	4.5	6.2
Shopping center	Sales	8.7	63.3	40.0	45.0
	OP	4.1	(0.1)	(0.5)	1.8
Other	Sales	61.2	47.1	38.0	50.0
	OP	2.9	(2.7)	(3.0)	(2.0)
Consolidated	Sales	897.3	739.2	765.0	930.0
	OP	11.2	(4.4)	(1.0)	17.0

\*Gross sales

## ▶ Progress for sustainability management

- Established Sustainability Management Promotion Committee  
Establish company-wide initiatives, chaired by the President and Representative Director
- Sustainability Management Policy  
Set policies for sustainable growth of the Group in response to the Group Vision
- Decide materiality and commitment for them  
Materiality : " Community ties", " Children" and " Natural environment"
- Initiatives for setting and disclosing targets for climate-related issues  
Discussion of mid- and long-term goals for the Japanese government's carbon neutral declaration  
Disclosure of efforts to climate-related issues through responses to CDP (Climate Change)
- Other environmental and social issues  
Project team established to promote environmental actions in department store (some themes are food) business  
**Reduction of food loss, plastic, clothing waste, furniture waste, etc.**



Sustainability Management Policy, commitment for materiality and Mid- and Long-term Targets in Integrated Report in fall 2021.

## ▶ Comprehensive cooperation agreement with Osaka Prefecture (July, 2021)

- Joint efforts in the fields of children and education, community revitalization, and the environment

### Children Education

Contribute to a rich humanity and sound mind.

**Special program held at the HANKYU Children's College event in Hankyu main store**

### Community Revitalization

Sales and promotion support for local branded products

**Development and sales of "Osaka Curry Mon".**

### Environment

Initiatives to reduce food loss in Supermarket and manufacturing

**Participation in the Network for Food Loss Reduction Roundtable.**



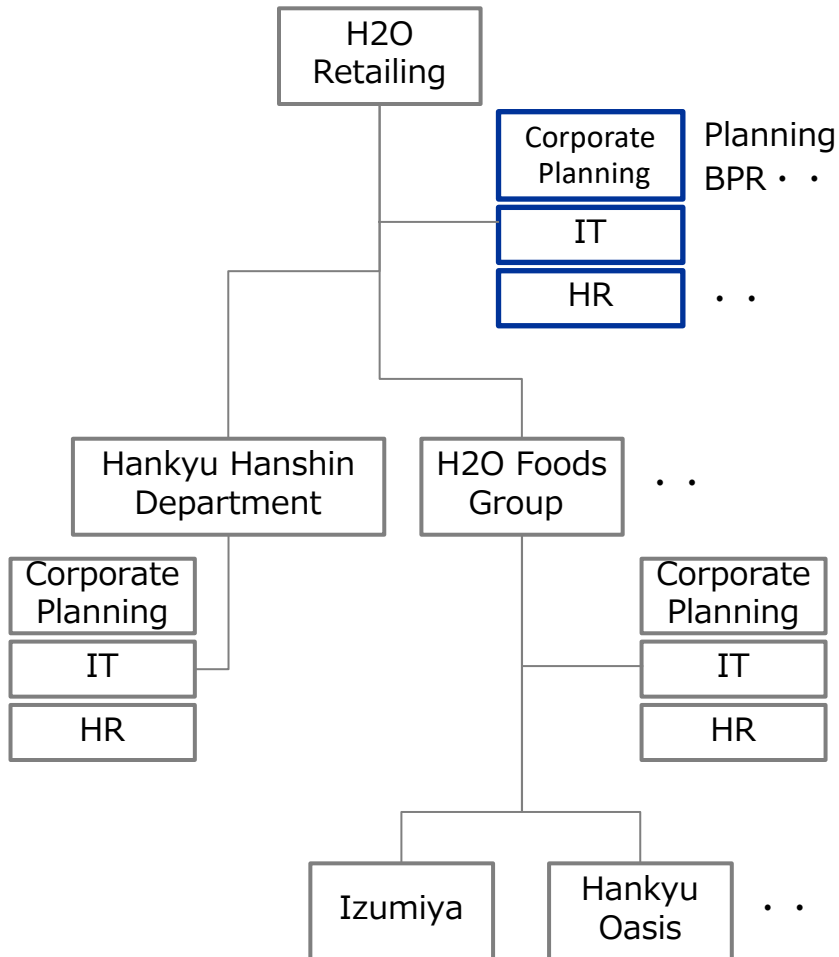
Actions for community issues through various customer contacts

## ▶ Working with local government in stores

- Izumiya YUI-terrace Kawachinagano :  
Relocation of the Council of Social Welfare, Multi-purpose space for multi-generational exchange
- "Child LOBBY" in Izumiya Kadoma store :  
Support centers for children and parents in the city



Revitalize stores and local communities based on the trust of the community



## ▶ IT

- Plan and execute the next generation of IT
- Recruit specialists to operate IT/DX infrastructure
- Develop in-house digital talent
- Strengthen security and compliance

## ▶ HR

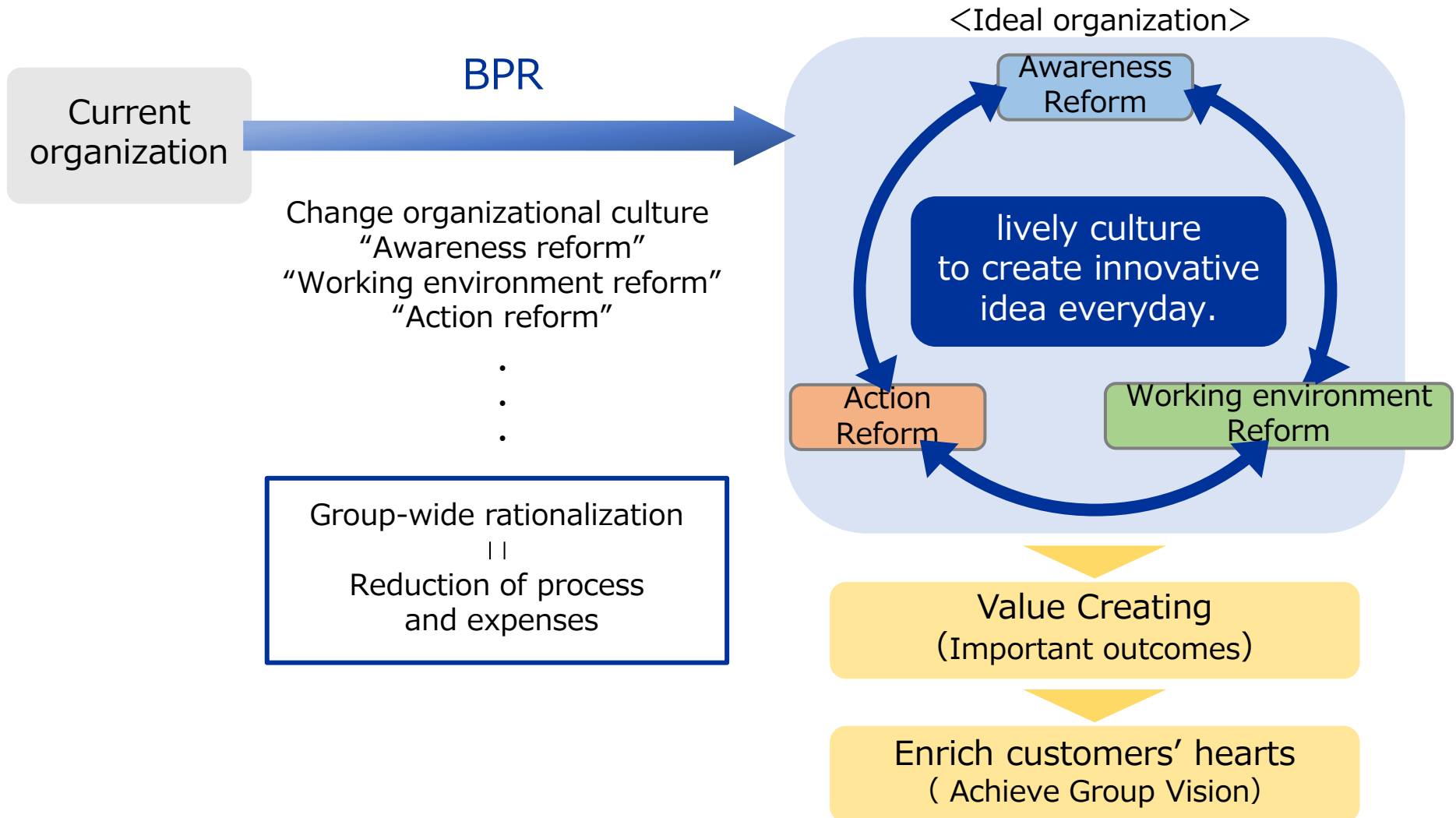
- Develop a group-wide HR system and master data
- Efficient and effective reallocation of personnel
- Plan and build consistent HR policies

## ▶ Planning Management

- Management of mid-term management
- Adequate modifying of plans depending on situations

# VIII-(2) Group head office functions - BPR

**Create value based on group vision**  
**- Reform organizational culture and realize results-driven organization**



Transformation to a value-creating work style as a “communication retailer”

## ▶ Head office relocation in summer 2022

Flexible work style by free address and remote work (telework)

- Collaboration spaces and meeting spots
- Functions and mechanisms for co-creation across departments and companies
- Web conference booths and solo workspaces for diverse work styles
- Healthy and sustainable facilities and environment

\* Reduce office space by 40% by reviewing work styles and going paperless.

## ▶ Improve efficiency by saving labor for routine tasks

- Drastic reduction of tasks through BPR and unifying back-office operations
- Reduce communication costs by providing IT tools  
(Smartphones, PCs, groupware, etc.)



Maximize individual and organizational performance  
Revitalize group human resources

## ▶ **Create highly productive organization**

- Set staffing portfolio
- Redesign job, improve efficiency, internalize tasks and relocate personnel
- Develop management skilled human resources  
Recruit IT and other specialized human resources

## ▶ **Create work environment where each individual is able to perform to the best of his or her ability and identity**

- Development of personnel system like Job-based, multi-line, etc.
- Assign jobs and roles to individual utilizing talent management system
- Promotion of women and seniors to play active roles.
- Work on health and productivity management

## ▶ Improve investment efficiency - clarify investment priorities and rules.

- ① Stores and major facilities
  - Rebuilding of Hanshin Umeda main store, Concentrate on priority stores, Integrate distribution centers, Renovate existing SM stores (stop new SM store openings)
- ② IT/DX investment
  - IT and DX to promote BPR and OMO
- ③ Maintenance Investment
  - Narrow down to a minimum of capital renewal and repair

## ▶ Investment plan : 3 years Investment amount: ¥95 bn.

(FY2022 : ¥30bn., FY2023 : ¥37 bn., FY2024 : ¥28bn. )

Stores and major facilities

- Hanshin Umeda main store reconstruction ¥15 bn.
- Remodel of Kobe Hankyu and Takatsuki Hankyu ¥10 bn.
- Opened new logistics center for department stores ¥7.5 bn.
- Remodel of SM stores (meet the needs of the area): ¥3 bn.

IT/DX investment

- OMO, group customer database, work environment ¥8 bn.
- POS, MD system, renewal of IT infrastructure, etc. ¥18 bn.
- Start developing customer service business ¥1 bn.

Improve and stabilize financial position  
- balance sheet streamlining and capitalization

## ▶ Real Estate Sales

- Selling properties with low utilization efficiency, including head office buildings except stores.

Approx. 15 properties sold, gain on sale approx. ¥ 30 bn.  
in FY2022~FY2024.

## ▶ Sale of stocks

- Reduce policy stock holdings

FY2022 result

Sold 8 stocks

Sale price: ¥ 9.4 bn., Gain on sale: ¥ 6.5 bn.

## ▶ Interest Bearing Debt

- Borrowings increase due to recent large project and unfavorable business condition
- No additional borrowings, in spite of large-scale investment projects, such as reconstruction of Hanshin Umeda main store, remodel of Kobe Hankyu and Takatsuki Hankyu and IT/DX infrastructure development, etc.
- Decrease in investment cash flow, increase in operating cash flow thanks to results of upfront investment  
⇒ Debt reduction

## ▶ Cash flow allocation

Balance upfront investments for growth and solid financial base

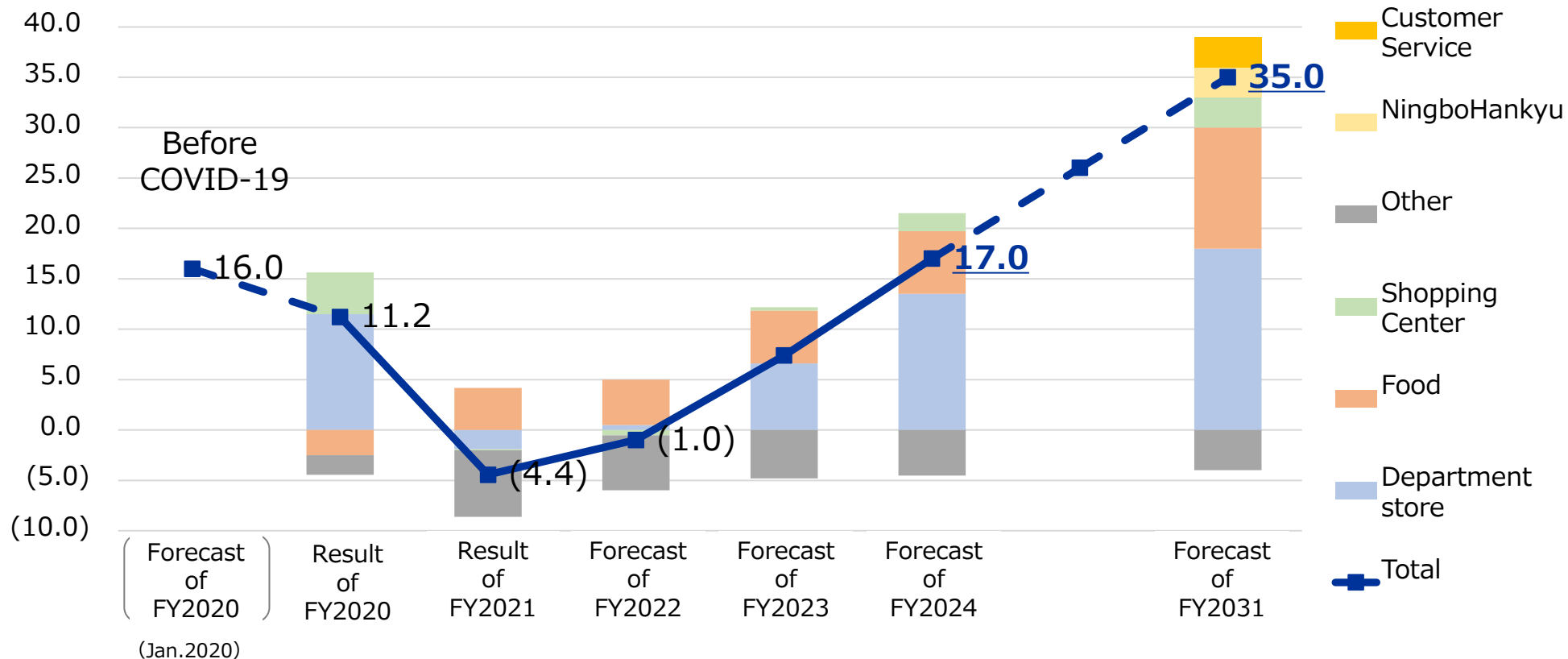
- Secure funding sources for large projects by operating cash flow and investment cash inflow due to asset sales.

Operating CF ¥ 46 bn.	Investment CF ¥ 95 bn.
Investment CF (asset sales) ¥ 70 bn.	
	FCF ¥ 21 bn.

# XII-(1) Operating profit

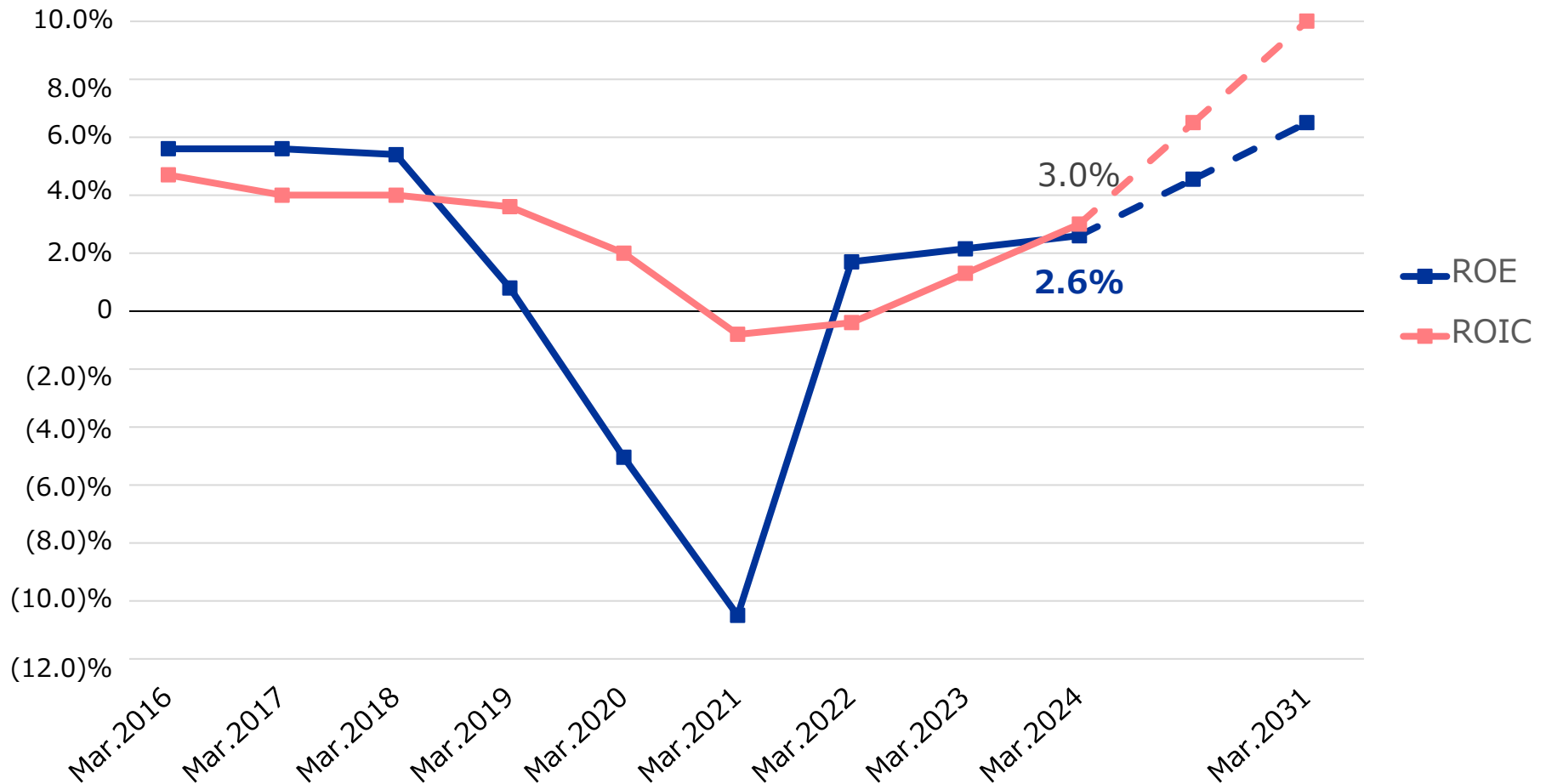
- ▶ Recovery to operating profit level before COVID-19 in FY2024.
- ▶ Aiming for 30 to 35 billion yen in operating profit in FY2031.

(bn. of yen)



# XII-(2) ROE/ROIC

Improve efficiency by streamlining the balance sheet and profit recovery.  
Aim for ROE recovery to 2% level in FY2024 and 6-7% in FY2031.



## Basic Policy

The company's basic policy is to implement stable profit distribution with considering cash flow which is necessary for establishing an appropriate financial base for mid-, long-term, and investment for growth, based on the performance of each fiscal year. The company will implement an appropriate profit distribution under the consideration of an overall mid-, long-term plan, of Profit attributable to owners of parent, consolidated net assets, and consolidated cash flow

⇒ For the time being, until the level of net income recovers,  
keeping annual dividend of 25 yen per share.

Aiming for a dividend payout ratio of 30-40% in the long term.

# XII-(4) Targets and KPI

(billion yen)	FY2019 amount	FY2020 amount	FY2021 amount	FY2022 Forecast	FY2024
Operating Profit	20.4	11.2	(4.4)	(1.0)	17.0
Ordinary Profit	21.4	11.8	(2.9)	(2.0)	14.0
ROE	0.8%	(5.0)%	(10.5)%	2.2%	2.6%
ROIC	3.6%	2.0%	(0.8)%	(0.2)%	3.0%







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