Financial Results
2nd Quarter of FY2018



H2O RETAILING CORPORATION

October 30,2018

I . Consolidated Financial Results

Overview

(millions of yen)

	Sep. 30, 2016	Sep. 30, 2017	Sep. 30, 2018				
	Amount	Amount	Amount	YoY	Inc./Dec.	versus forecast	Inc./Dec.
Net Sales	433,539	432,000	444,408	2.9%	+ 12,407	-1.6%	- 7,391
Operating Profit	6,623	6,978	6,100	-12.6%	- 877	29.8%	+ 1,400
Ordinary Profit	5,121	8,393	6,449	-23.2%	- 1,944	19.4%	+ 1,049
Profiit	6,552	5,739	139	-97.6%	- 5,600	-91.3%	- 1,460

Segment information

(millions of yen)

	Net Sales			Operating Profit				
	Amount	YoY	Versus forecast	Amount	YoY	Inc./Dec.	versus forecast	Inc./Dec.
Department Store	209,159	1.3%	1.8%	5,762	- 6.1%	- 374	28.1%	+ 1,262
Kobe/ Takatsuki	19,831	-	- 1.0%	- 142	-	- 142	-	+ 39
Supermarket	183,911	- 5.1%	- 5.0%	- 1,008	-	+ 68	-	- 571
Shopping Center	4,569	- 19.5%	- 11.6%	2,299	- 17.6%	- 491	18.1%	+ 353
Other	26,937	3.5%	- 2.4%	3,773	44.5%	+ 1,161	18.3%	+ 584
consolidation adjustment	-	-	-	- 4,583	-	- 1,099	-	- 267
Total	444,408	2.9%	- 1.6%	6,100	- 12.6%	- 877	29.8%	+ 1,400

▶ Kobe/Takatsuki : no record of the previous year (acquired business on October, 2017)

Ⅱ. Selling, general and administrative expenses

(millions of yen)

	Amount	YoY	Inc./Dec.
Personnel expenses	47,555	0.0%	+ 19
Rent expenses	19,687	7.5%	+ 1,377
Advertising and decoration expenses	7,014	5.1%	+ 339
Depreciation and amortisation	7,900	7.4%	+ 545
Business consignment expenses	9,579	3.5%	+ 323
Sales commission	6,008	-2.1%	- 130
Transportation costs	7,614	7.6%	+ 534
Others	16,797	1.4%	+ 238
Total	122,158	2.7%	+ 3,247

▶Increase by 5.6 billion yen at Kobe/Takatsuki business

Ⅲ. Non-operating Income and Expenses

(millions of yen)

	Amount	YoY	Inc./Dec.
Non-operating income	1,992	-28.3%	- 787
Interest income	45	-48.1%	- 41
Dividend income	780	2.4%	+ 18
Gain on adjustment of accounts payable	713	15.2%	+ 94
Gain on valuation forward exchange contracts	-	-	- 346
Other	452	-53.0%	- 511
Non-operating expenses	1,643	20.4%	+ 278
Interest expenses	451	-9.7%	- 48
Loss on provision for redemption of gift certificates	561	22.0%	+ 101
Other	630	55.6%	+ 225

Ⅳ. Extraordinary Income and Losses

(millions of yen)

	Amount	Main contents
Extraordinary income	267	(previous 2Q : 3,128)
Insurance income	267	Izumiya, Kazokutei
Extraordinary losses	4,317	(previous 2Q : 1,547)
Loss on closing of stores and others	1,039	Izumiya, Hankyu Oasis
Outplacement expenses	673	Hankyu Hanshin Department Stores
Loss on disaster	665	Loss on Northern Osaka earthquake, typhoon
Loss on retirement of non-current assets	595	Hankyu Hanshin Department Stores
Loss on transfer of business	545	Appareal and sports business of Be-U
Expenses for opening new stores	493	Hanshin Umeda Main Store
Impairment losses	305	Izumiya

V. Consolidated Balance Sheet

(millions of yen)

	Sep. 30, 2017	Mar. 31, 2018	Sep. 30, 2018
Cash and deposits	78,282	67,150	30,821
Accounts receivable-trade	41,218	46,939	43,531
Inventory	33,817	35,295	33,965
Total current assets	163,288	160,167	119,033
Total non-current assets	488,721	499,415	508,585
Total assets	652,009	659,582	627,619
Accounts payable-trade	54,873	62,794	56,124
Interest-bearing debt	150,003	149,493	142,749
Total liabilities	371,120	378,774	349,205
Shareholders' equity	235,931	242,390	240,171
Total net assets	280,888	280,807	278,414
Total liabilities and net assets	652,009	659,582	627,619

VI. Consolidated Cash Flow Statements

(millions of yen)

	Sep. 30, 2016	Sep. 30, 2017	Sep. 30, 2018
Cash flows from operating activities	8,543	12,060	-1,075
Income before income taxes	5,987	9,974	2,399
Depreciation	7,951	7,827	8,384
Decrease (increase) in notes and accounts receivable - trade	5,233	2,369	3,341
Increase (decrease) in notes and accounts payable - trade	-6,665	-3,686	-6,140
Income taxes paid	-6,035	-3,935	-6,115
Cash flows from investing activities	-13,953	-7,813	-25,544
Purchase of property, plant and equipment	-18,993	-9,483	-20,594
Proceeds from sales of property, plant and equipment	5,699	2,677	1,060
Purchase of intangible assets	-1,787	-2,456	-2,100
Cash flows from financing activities	24,893	-9,675	-9,639
Proceeds from long-term loans payable	26,500	150	-
Repayments of long-term loans payable	-2,991	-4,876	-6,749
Cash dividends paid	-2,159	-2,469	-2,469
Total	19,482	-5,428	-36,259
Cash and cash equivalents	67,783	78,263	30,821

Ⅶ.Others

Capital investment

(millions of yen)

	Amount	Major contents
Department Store	8,471	Rebuildong of Hanshin Umeda Main Store
Kobe/Takatsuki	114	
Supermarket	4,298	New stores opening of Hankyu Oasis, Rebuilding of Izumiya stores
Shopping Center	3,453	Rebuilding of Izumiya stores
Other	1,995	Software development
consolidation adjustment	-97	
Total	18,235	

Number of employees

	FY2017		2Q of FY2018	
Department Store	2,938	(1,792)	2,895	(1,778)
Kobe/Takatsuki	320	(443)	314	(444)
Supermarket	3,576	(11,495)	3,589	(10,996)
Shopping Center	347	(1,097)	360	(1,067)
Other	1,687	(2,965)	1,795	(2,609)
Total	8,868	(17,792)	8,953	(16,894)

※1. The number of employees is the operational staff basis (excluding employees seconded to other company, and including employees seconded from other company and operating officers).

※2. ( ) means the average number of temporary employees.

Ⅷ. Forecast of FY2018

Consolidated

(millions of yen)

	1Q/2Q		3Q/4Q		FY2018	
	Amount	YoY	Forecast	YoY	Forecast	YoY
Net Sales	444,408	2.9%	492,591	0.6%	937,000	1.6%
Operating profit	6,100	-12.6%	14,700	-6.9%	20,800	-8.6%
Ordinary profit	6,449	-23.2%	15,051	-5.2%	21,500	-11.4%
Profit	139	-97.6%	9,860	10.8%	10,000	-31.7%

Segment information

(millions of yen)

		1Q/2Q		3Q/4Q		FY2018	
		Amount	YoY	Forecast	YoY	Forecast	YoY
Department Store	Net sales	209,159	1.3%	239,917	0.1%	449,076	0.6%
	OP	5,762	-6.1%	10,037	-15.5%	15,800	-12.3%
Kobe/Takatsuk	Net sales	19,831	-	23,823	1.9%	43,654	86.7%
	OP	-142	-	542	-10.1%	400	-33.7%
Supermarket	Net sales	183,911	-5.1%	194,385	0.9%	378,297	-2.1%
	OP	-1,008	-	2,559	17.3%	1,550	40.3%
Shopping Center	Net sales	4,569	-19.5%	4,786	2.1%	9,355	-9.8%
	OP	2,299	-17.6%	1,600	-27.1%	3,900	-21.8%
Other	Net sales	26,937	3.5%	29,679	1.2%	56,616	2.3%
	OP	3,773	44.5%	1,443	196.7%	5,216	68.4%
consolidation adjustment	Net sales	-	-	-	-	-	-
	OP	-4,583	-	-1,483	-	-6,066	-
Total	Net sales	444,408	2.9%	492,591	0.6%	937,000	1.6%
	OP	6,100	-12.6%	14,700	-6.9%	20,800	-8.6%

※ Net sales refer to sales to external customers.

Capital investment

(millions of yen)

	1Q/2Q	3Q/4Q	FY2018
	Amount	Forecast	Forecast
Department Store	8,471	2,096	10,567
Kobe/Takatsuki	114	72	187
Supermarket	4,298	5,992	10,290
Shopping Center	3,453	3,679	7,132
Other	1,995	3,752	5,748
consolidation adjustment	-97	-	-97
Total	18,235	15,593	33,829

Ⅸ. Department store business

Hankyu Hanshin Department Stores, Inc.

(millions of yen)

	Amount	YoY	Inc./Dec.	versus forecast	Inc./Dec.
Net Sales	209,091	1.3%	+ 2,693	1.9%	+ 3,956
Gross Profit	50,771	0.7%	+ 354		
Gross profit/ Net Sales	24.28%	-	-0.15pt		
Other operating revenue	280	- 19.3%	- 67		
SG & A	45,251	1.5%	+ 663		
SG & A/ Net Sales	21.64%	-	+0.04pt		
Operating profit	5,800	- 6.1%	- 376	28.9%	+ 1,300
Operating profit/ Net Sales	2.77%	-	-0.22pt	-	+0.58pt

▶ Hankyu main store : inbound sales were up about 27%, sales composition ratio reached 13%
▶ Hanshin Umeda main store: Reconstructed Wing Ⅰ opened on July 1.
The sales were over our expectation.

Sales, Number of customers

(millions of yen, thousands of people, square meters)

	Sales	YoY	Number of customers	YoY	Sales area
Hankyu Main Store ※1	114,552	5.1%	24,265	-0.6%	98,593
Hanshin Umeda Main Store	24,842	-5.3%	16,740	20.3%	27,811
Senri Hankyu	7,475	-2.6%	2,379	-2.2%	13,902
Kawanishi Hankyu	7,377	-2.8%	2,929	-4.7%	15,528
Takarazuka Hankyu	3,602	-1.9%	※2 -	-	6,148
Nishinomiya Hankyu	11,852	-1.9%	6,449	-0.3%	25,099
Sanda Hankyu	635	-3.3%	※2 -	-	2,143
Hakata Hankyu	24,073	13.9%	13,745	2.0%	41,835
MANKYU MEN'S TOKYO	6,608	4.6%	1,205	-3.9%	11,445
Oi Hankyu Food Hall	2,122	-2.1%	2,685	-2.5%	2,042
Tsuzuki Hankyu	2,189	-5.1%	1,813	-4.2%	6,736
Amagasaki Hanshin	1,382	0.9%	※2 -	-	2,855
Hanshin Nishinomiya	2,123	-0.2%	1,989	0.2%	4,998
Hanshin Mikage	252	-1.0%	2,437	-3.0%	804
Total of branch stores	69,695	-2.1%	35,632	-5.8%	133,534
Total stores	209,091	1.3%	76,636	0.6%	259,938
Exsiting stores ※3	209,091	3.2%	76,636	3.3%	

Monthly sales

	April	May	June	July	August	September
Hankyu Main Store	10.8%	7.8%	4.5%	0.0%	8.7%	0.6%
Hanshin Main Store	6.8%	-16.6%	15.1%	-12.4%	-3.9%	-16.0%
Total of branch stores	-1.5%	-6.7%	-1.7%	-10.5%	7.0%	5.7%
Total	6.0%	-0.5%	3.6%	-5.2%	6.6%	-0.2%
Exsiting stores	8.0%	2.3%	6.4%	-2.0%		
Total (not including Hanshin Umeda Main Store)					8.0%	2.4%

※1. including HANKYU MEN'S OSAKA
※2. not counting the number of customers
※3. not including Sakai Kitahanada Hankyu(closed on July 31, 2017)

Sales of each category (millions of yen)

	Sales	YoY	Share
Men's clothing	17,651	2.8%	8.4%
Women's clothing	29,072	-4.6%	13.9%
Children's clothing	4,658	-6.5%	2.2%
Other clothing	5,500	-9.1%	2.6%
Clothing	56,882	-3.0%	27.2%
Accessories, bags and others	40,586	4.7%	19.4%
Household merchandise	6,744	-1.2%	3.2%
Foods	58,135	-3.5%	27.8%
Restaurants & cafes	4,922	5.0%	2.4%
General merchandise	40,054	12.9%	19.2%
Service	1,066	11.4%	0.5%
Other	697	-8.4%	0.3%
Total	209,091	1.3%	100.0%

Forecast of FY2018 (millions of yen)

	1Q/2Q		3Q/4Q		FY2018	
	Amount	YoY	Forecast	YoY	Forecast	YoY
Hankyu Main Store ※1	114,552	5.1%	136,632	4.0%	251,185	4.5%
Hanshin Umeda Main Store	24,842	-5.3%	23,423	-20.0%	48,265	-13.1%
Senri Hankyu	7,475	-2.6%	8,608	0.0%	16,084	-1.2%
Kawanishi Hankyu	7,377	-2.8%	8,519	1.0%	15,897	-0.8%
Takarazuka Hankyu	3,602	-1.9%	3,942	-1.6%	7,544	-1.7%
Nishinomiya Hankyu	11,852	-1.9%	13,893	1.0%	25,745	-0.3%
Sanda Hankyu	635	-3.3%	746	-2.5%	1,381	-2.9%
Hakata Hankyu	24,073	13.9%	27,558	4.9%	51,631	8.9%
MANKYU MEN'S TOKYO	6,608	4.6%	7,200	-10.6%	13,809	-3.9%
Oi Hankyu Food Hall	2,122	-2.1%	2,346	-2.7%	4,468	-2.4%
Tsuzuki Hankyu	2,189	-5.1%	2,503	-1.0%	4,692	-3.0%
Amagasaki Hanshin	1,382	0.9%	1,543	0.0%	2,926	0.4%
Hanshin Nishinomiya	2,123	-0.2%	2,470	2.1%	4,594	1.0%
Hanshin Mikage	252	-1.0%	284	0.1%	536	-0.4%
Total of branch stores	69,695	-2.1%	79,617	0.7%	149,312	-0.6%
Total stores	209,091	1.3%	239,672	0.0%	448,763	0.6%
Operating profit	5,800	-6.1%	10,037	-16.7%	15,837	-13.1%

※1. including HANKYU MEN'S OSAKA

X. Supermarket business

Izumiya Co., Ltd.

(millions of yen)

	Amount	YoY	Inc./Dec.	versus forecast	Inc./Dec.
Net Sales	108,505	-7.3%	- 8,490	-4.5%	- 5,115
Gross Profit	28,823	-6.4%	- 1,982		
Gross profit/ Net Sales	26.56%	-	+0.23pt		
Other operating revenue	7,334	2.3%	+ 162		
SG & A	37,123	-4.4%	- 1,692		
SG & A/ Net Sales	34.21%	-	+1.04pt		
Operating profit	- 964	-	- 126	-	- 204
Operating profit/ Net Sales	-	-	-	-	-

▶ 3 GMS stores are under reconstruction

Store sales (YoY)

	Existing stores
Foods	-2.3%
Clothing	-7.3%
Household goods	-12.5%
Total	-4.7%

Opening and closing stores

Opening	Kishinosato (Osaka), Suminodo(Osaka)
Closing	Daitoh (Osaka), Shohnai(Osaka)

Monthly sales

	April	May	June	July	August	Sep.
Total	-11.2%	-11.2%	-6.6%	-6.1%	-7.2%	-4.2%
Existing stores	-7.0%	-8.4%	-3.7%	-3.5%	-4.9%	-1.2%

Numbers of stores

	Number of stores
Total	83
YoY difference	± 0

Forecast of FY2018

(millions of yen)

	1Q/2Q		3Q/4Q		Total	
	Amount	YoY	Forecast	YoY	Forecast	YoY
Net Sales	108,505	-7.3%	115,988	0.1%	224,493	-3.6%
Operating profit	-964	-	1,240	-0.8%	275	-33.1%

Hankyu Oasis Co., Ltd.

(millions of yen)

	Amount	YoY	Inc./Dec.	versus forecast	Inc./Dec.
Net Sales	56,985	-3.1%	- 1,830	-3.9%	- 2,299
Gross Profit	14,359	-3.8%	- 566		
Gross profit/ Net Sales	25.20%	-	-0.18pt		
Other operating revenue	3,371	-0.2%	- 7		
SG & A	17,861	-3.2%	- 587		
SG & A/ Net Sales	31.34%	-	-0.02pt		
Operating profit	-129	-	+ 13	-	- 219
Operating profit/ Net Sales	-	-	-	-	-

▶ Decrease in sales : number of stores decreased by 8

Opening and closing stores

Opening	Kitchen & Market Lucua Osaka (Osaka) Nakanoshima (Osaka)
Closing	Fushimi (Kyoto) ※ Shinpoin(Osaka), Minami-Ibaraki(Osaka)

※ Qanat Co., Ltd. acquired business

Store sales (YoY)

	Existing stores
Total	-1.0%

Monthly sales

	April	May	June	July	August	Sep.
Total	-2.6%	-3.6%	-2.4%	-3.8%	-3.2%	-3.0%
Existing stores	-4.5%	-3.3%	-0.6%	0.3%	1.0%	1.2%

Number of stores

	Number of stores
Total	76
YoY difference	- 8

(excluding Ibaraki Higashi Nara which is temporary closed)

Forecast of FY2018

(millions of yen)

	1Q/2Q		3Q/4Q		Total	
	Amount	YoY	Forecast	YoY	Forecast	YoY
Net Sales	56,985	-3.1%	58,015	0.1%	115,001	-1.5%
Operating profit	-129	-	753	1.0%	623	3.6%