Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2022

(Japanese accounting standards)

November 5, 2021

Corporate Name : H2O Retailing Corporation
Securities Code : 8242 (First Section of the Tokyo Stock Exchange)
URL : http://www.h2o-retailing.co.jp/
Representative : Naoya Araki, President and Representative Director
Contact : Gaku Watanabe, Executive Officer
TEL : +81-6-6365-8120
Scheduled date of filing of the financial report : November 12, 2021
Scheduled date of dividend payment : November 30, 2021
Preparation of supplementary materials : Yes
Briefing session on quarterly financial results : Yes (for institutional investors and analysts)

(Figures are rounded down to the nearest million yen.)

1. Consolidated Business Results of the Fiscal Year ending March 31, 2022 (From April 1, 2021 to September 30, 2021)

(1) Consolidated operating results (Cumulative total) (Percentages indicate year-on-year changes.)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2Q of FY2022	237,020	-	(5,148)	-	(4,189)	-	8,085	-
2Q of FY2021	335,614	(25.5)	(4,405)	-	(4,400)	-	(10,102)	-

Note : Comprehensive income 2Q of FY2022 13,177 million yen, -% , 2Q of FY2021 (1,538) million yen, -%
Note : The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the current fiscal year. The percentage change from the same period of the previous fiscal year in net sales is not shown due to the significant impact on net sales.

	Net Income per Share	Net Income per Share(Diluted)
	Yen	Yen
2Q of FY2022	65.35	64.91
2Q of FY2021	(81.69)	-

Reference : Net income per share-fully diluted for 2Q of FY2021 is not shown in the above table, because net income per share was negative although there are residual shares.

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
2Q of FY2022	620,111	241,532	38.8
FY2021	625,945	229,277	36.4

Reference : Owner's equity 2Q of FY2022 240,364 million yen , FY2021 228,134 million yen

2. Dividends

	Annual Dividends				
	First Quarter	Second Quarter	Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2021	-	12.50	-	12.50	25.00
FY2022	-	12.50			
FY2022(Forecast)			-	12.50	25.00

Revision to recently disclosed dividends forecast : No

3. Forecast of Consolidated Business Results for the Fiscal Year ending March 31, 2022 (From April 1, 2021 to March 31, 2022)

	Net Sales		Operating Income		Ordinary Profit		Profit attributable to owners of parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Year	500,000	-	(1,000)	-	(2,000)	-	5,000	-	40.41

Note : Revision to recently disclosed consolidated business results forecast : No

Note : The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the current fiscal year. The percentage change from the same period of the previous fiscal year in net sales is not shown due to the significant impact on net sales.
Consolidated gross sales, which is equivalent to net sales up to the previous fiscal year excluding the effects of changes in accounting policies, amounted to 765,000 million yen (up 3.5% year on year) for the full year.

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

Notes

(1) Changes in significant subsidiaries during the period
(changes in specified subsidiaries resulting in the change in scope of consolidation) : Yes
Exclusion : H2O Asset Management Co., Ltd.

(2) Adoption of special accounting methods for preparing quarterly consolidated financial statements : No

(3) Changes in accounting policies, changes in accounting estimates or restatements
(a) Changes in accounting policies due to changes in consolidated accounting standards : Yes
(b) Changes other than (a) : No
(c) Changes in accounting estimates : No
(d) Restatements due to correction : No

(4) Number of shares issued and outstanding (common stock)
(a) Number of shares issued at the end of the period (including treasury stock)

2Q of FY2022	125,201,396 shares
FY2021	125,201,396 shares

(b) Number of shares of treasury stock at the end of the period

2Q of FY2022	1,470,979 shares
FY2021	1,469,808 shares

(c) Average number of shares during the period

2Q of FY2022	123,731,021 shares
2Q of FY2021	123,664,803 shares

Note : These consolidated financial results are outside the scope of audit by certified public accountants or auditing firms

Note : Explanation regarding the appropriate use of forecast

The above-mentioned forecast is based on the information available to the company at present, and including a potential risk and uncertainty. Actual achievements may differ from these forecasts due to many factors.

1.Consolidated Financial Results

From the beginning of the first quarter of the current fiscal year,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 Business segment, and Oi Development Co., Ltd, which was also included in Other business segment, was transferred to the Shopping Center Business segment. YoY comparisons are shown based on the results for the previous year, which have been reclassified into the new reporting segments.

▶Sales

The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the current fiscal year.
Consolidated net sales of 2Q of FY2022 was ¥237,020 million.
Consolidated gross sales, which is equivalent to net sales up to the previous fiscal year excluding the effects of changes in accounting policies, amounted to ¥344,072 million yen.
Sales on a real basis increased by 2.5% from the previous fiscal year, despite the closure of stores due to the declaration of the state of emergency and restrict of operations.

▶Operating Profit and Ordinary Profit

As in the previous fiscal year, COVID-19 affected sales and gross profit, operating loss was ¥5,148 million yen (operating loss of ¥4,405 million in the previous fiscal year), and ordinary loss was ¥ 4,189 million (ordinary loss of ¥4,400 million in the previous fiscal year).

(Department store business)
In late April 2021, a state of emergency was declared. Some stores were completely closed, and stores including both Hankyu and Hanshin main stores shifted to operating only in the daily necessities section (43 days at 4 stores in Osaka Prefecture, including both Hankyu and Hanshin main stores and 29 days at 6 stores in Hyogo Prefecture).
From June 1, both main stores resumed full operation on weekdays, and from late June, when the emergency declaration was lifted, they resumed full operation including weekends.
From August 2,a state of emergency declared again as the infection had spread.Some stores were refrained from holding events and restricted entry to the food hall,and both Hankyu and Hanshin main stores temporarily closed part of them due to outbreak of COVID-19 cluster.
Results of above, gross sales was ¥154,306 million, increased by 11.7% YOY and operating loss was ¥4,075 million yen (operating loss of ¥3,456 million in the previous year).
Hankyu Hanshin Department Store recorded an extraordinary loss of ¥3,631 million, including personnel expenses, rent and depreciation expenses during the period of closure.

(Supermarket business)
Gross sales was ¥149,228 million, increased by 1.1% YOY and operating profit was ¥2,396 million, decreased by 16.0% YOY.
Hankyu Oasis Co., Ltd increased in sales and operating profit because sales of existing stores were strong.Although Izumiya Co., Ltd. decreased operating profit due to sluggish sales of super center,which have been converted to shopping center and increase in advertising expenses resuming flyer,exceeded in sales and operating profit compared to the forecast.
Sales of manufacturing subsidiaries increased due to higher demand for delicatessen and bakery products at food supermarkets as wholesale customers.

(Shopping Center business)
Gross sales was ¥24,560 million, decleased by 27.9% YOY and operating loss was ¥6 million (operating loss of ¥669 million in the previous year).
In H2O Shopping Center Development Co., Ltd., which operates management of tenants and sales of apparel and home products at Izumiya stores, gross sales decreased due to closure of direct operation area and operating profit increased because of cost reduction and conversion of tenant business.
Sales and profits of Oi Development Co., Ltd,which operates the business hotel,increased due to improvement of operating ratio compared to the previous year.

(Other business)
Gross sales was ¥15,976 million, increased by 1.4% YOY and operating loss was ¥2,348 million (operating loss of ¥721 million in the previous year).
Operating profits of other business subsidiaries, excluding the Company as the holding company, increased by 849 million from the previous year,becauses sales increased at a specialty retail store subsidiary, mainly due to a reduction in the number and duration of closed stores from the previous year. As a result,operating profit decreased at the Company, the holding company, mainly due to a decrease in dividends received from subsidiaries.

▶Profit attributable to owners of parent

The company recorded extraordinary proifit of ¥19,886 million including gain on sales of non-current assets of ¥11,109 million and gain on sales of investment securities of ¥6,485 million, and extraordinary losses of ¥4,809 million including loss related to COVID-19 of ¥3,941 million. As a result, profit attributable to owners of parent was ¥8,085 million (loss of ¥10,102 million in the previous year).

2. Forecast of FY2022

There is no change in the full-year forecast from the forecast announced on July 28, 2021.
At the extraordinary general meeting of shareholders of Kansai Supermarket Co., Ltd. held on October 29, 2021, the business integration between Kansai Supermarket Co., Ltd. and our group on December 1, 2021 was approved. At this time, it is difficult to estimate the impact of the merger on the consolidated business performance of the Company, so it has not been included in the above business forecast announced today. If necessary, the business forecast for FY2021 will be revised when the estimated impact on our business performance becomes clearer.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	FY2021 (as of March 31, 2021)	2Q of FY2022 (as of September 30, 2021)
Assets		
Current assets		
Cash and deposits	49,991	52,597
Notes and accounts receivable -trade	54,385	47,793
Merchandise and finished goods	21,546	20,547
Work in process	118	306
Raw materials and supplies	1,673	1,506
Accounts receivable - other	7,025	4,445
Other	4,811	5,682
Allowance for doubtful accounts	(261)	(401)
Total current assets	139,291	132,477
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	101,873	98,989
Machinery, equipment and vehicles, net	2,539	2,529
Land	139,126	136,202
Construction in progress	8,684	9,266
Other, net	9,161	9,004
Total property, plant and equipment	261,386	255,992
Intangible assets		
Goodwill	2,704	2,451
Other	14,024	13,220
Total intangible assets	16,729	15,671
Investments and other assets		
Investment securities	114,748	117,934
Long-term loans receivable	11,253	14,291
Guarantee deposits	70,029	69,973
Retirement benefit asset	1,898	2,492
Deferred tax assets	11,453	12,153
Other	2,000	1,943
Allowance for doubtful accounts	(2,845)	(2,819)
Total investments and other assets	208,538	215,970
Total non-current assets	486,653	487,634
Total Assets	625,945	620,111

(Millions of yen)

	FY2021 (as of March 31, 2021)	2Q of FY2022 (as of September 30, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	48,996	39,777
Current portion of long-term borrowings	46,414	46,314
Accounts payable - other	26,890	18,518
Lease obligations	910	918
Income taxes payable	1,678	2,274
Gift certificates	28,077	9,363
Advances received	8,611	33,312
Provision for bonuses	3,284	3,322
Provision for bonuses for directors (and other officers)	23	57
Provision for loss on store closings	348	293
Provision for point card certificates	1,854	-
Asset retirement obligations	940	923
Other	16,502	11,122
Total current liabilities	184,531	166,199
Non-current liabilities		
Bonds payable	20,000	20,000
Long-term borrowings	122,133	121,993
Deferred tax liabilities	23,805	27,255
Deferred tax liabilities related to land revaluation	266	266
Provision for retirement benefits for directors (and other officers)	172	180
Provision for redemption of gift certificates	4,635	2,966
Retirement benefit liability	12,839	12,603
Long-term accounts payable - other	158	319
Lease obligations	12,883	12,423
Long-term guarantee deposited	9,530	9,561
Asset retirement obligations	3,193	3,194
Other	2,517	1,615
Total non-current liabilities	212,136	212,380
Total Liabilities	396,667	378,579
Net Assets		
Shareholders' equity		
Share capital	17,796	17,796
Capital surplus	92,633	92,633
Retained earnings	85,065	92,206
Treasury shares	(2,732)	(2,733)
Total shareholders' equity	192,763	199,903
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	38,668	42,740
Revaluation reserve for land	124	124
Foreign currency translation adjustments	(960)	(128)
Remeasurements of defined benefit plans	(2,462)	(2,274)
Total accumulated other comprehensive income	35,370	40,461
Share acquisition rights	1,138	1,167
Non-controlling interests	4	-
Total net assets	229,277	241,532
Total Liabilities and Net Assets	625,945	620,111

(2) Consolidated Statements of Income (Millions of yen)

	2Q of FY2021 (From April 1, 2020 to September 30, 2020)	2Q of FY2022 (From April 1, 2021 to September 30, 2021)
Net sales	335,614	237,020
Cost of sales	237,911	139,195
Gross profit	97,702	97,824
Selling, general and administrative expenses	102,108	102,973
Operating profit (loss)	(4,405)	(5,148)
Non-operating income		
Interest income	147	249
Dividend income	864	593
Gain on adjustment of accounts payable	886	453
Foreign exchange gains	-	890
Other	376	402
Total non-operating income	2,274	2,588
Non-operating expenses		
Interest expenses	392	475
Loss on provision for redemption of gift certificates	733	362
Share of loss of entities accounted for using equity method	492	483
Other	651	307
Total non-operating expenses	2,269	1,629
Ordinary profit (loss)	(4,400)	(4,189)
Extraordinary income		
Gain on sales of non-current assets	-	11,109
Gain on sales of investment securities	-	6,485
Subsidy income	2,394	2,291
Total extraordinary income	2,394	19,886
Extraordinary losses		
Loss related to COVID-19	5,022	3,941
Loss on retirement of non-current assets	565	532
Loss on store closings and others	69	335
Impairment losses	5,810	-
Total extraordinary losses	11,468	4,809
Profit (loss) before income taxes	(13,474)	10,887
Income taxes - current	845	2,582
Income taxes - deferred	(4,217)	219
Total income taxes	(3,371)	2,801
Profit (loss)	(10,102)	8,085
Profit (loss) attributable to non-controlling interests	0	-
Profit (loss) attributable to owners of parent	(10,102)	8,085

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	2Q of FY2021 (From April 1, 2021 to September 30, 2020)	2Q of FY2022 (From April 1, 2021 to September 30, 2021)
Cash flows from operating activities		
Profit (loss) before income taxes	(13,474)	10,887
Depreciation	8,695	8,486
Impairment losses	5,810	-
Loss on store closing and others	14	265
Amortisation of goodwill	273	253
Loss (gain) on sales of investment securities	(0)	(6,485)
Loss (gain) on sales of non-current assets	0	(11,108)
Increase (decrease) in allowance for doubtful accounts	(87)	113
Increase (decrease) in provision for bonuses	(749)	33
Increase (decrease) in provision for bonuses for directors (and other officers)	(31)	35
Increase (decrease) in retirement benefit liability	(541)	(235)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	16	7
Increase(decrease) in provision for redemption of gift certificates	436	148
Increase(decrease) in provision for loss on store closing and others	(12)	(54)
Increase(decrease) in provision for point card certificates	276	-
Interest and dividend income	(1,011)	(842)
Interest expense	392	475
Foreign exchange losses (gains)	78	(890)
Subsidy income	(2,394)	(2,291)
Loss related to COVID-19	4,535	3,387
Share of loss (profit) of entities accounted for using equity method	492	483
Loss on retirement of non-current assets	190	210
Decrease (increase) in trade receivables	(2,148)	6,605
Decrease (increase) in inventories	3,689	994
Increase (decrease) in trade payables	(2,099)	(9,253)
Increase (decrease) in accrued consumption taxes	430	(3,134)
Increase (decrease) in gift certificates	37	114
Increase (decrease) in advances received	899	1,193
Other, net	(566)	(172)
Sub total	3,149	(771)
Interest and dividend income received	995	763
Interest paid	(389)	(471)
Income taxes paid	(1,157)	(1,521)
Subsidies received	2,394	2,291
Payments for loss on COVID-19	(4,510)	(3,295)
Extra payments for early retirements	(3,279)	-
Net cash provided by (used in) operating activities	(2,796)	(3,005)

(Millions of yen)

	2Q of FY2021 (From April 1, 2020 to September 30, 2020)	2Q of FY2022 (From April 1, 2021 to September 30, 2021)
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,140)	(11,456)
Proceeds from sales of property, plant and equipment	77	14,863
Purchase of intangible assets	(2,282)	(1,145)
Proceeds from sales of intangible assets	-	0
Payments for asset retirement obligations	(20)	(119)
Purchases of investment securities	(129)	(14)
Proceeds from sales and redemption of short-term and long-term investment securities	-	9,386
Long-term loan advances	(1,376)	(2,533)
Collection of long-term loans receivable	94	111
Payments of guarantee deposits	(179)	(236)
Proceeds from refund of guarantee deposits	220	305
Proceeds from sale of businesses	(150)	-
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(47)	-
Net cash provided by (used in) inveseting activities	(10,936)	9,159
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	18,500	-
Repayments of long-term borrowings	(237)	(244)
Proceeds from sales of treasury shares	0	-
Purchase of treasury shares	(0)	(1)
Dividends paid	(2,472)	(1,546)
Repayments of lease obligations	(463)	(437)
Refund of investments in silent partnerships	-	(1,760)
Net cash provided by (used in) financing activities	15,325	(3,989)
Effect of exchange rate change on cash and cash equivalents	(140)	440
Net increase (decrease) in cash and cash equivalents	1,452	2,605
Cash and cash equivalents at beginning of year	25,958	49,991
Cash and cash equivalents	27,410	52,597