

**Consolidated Financial Statements for the Third Quarter
of the Fiscal Year Ending March 31, 2023**
(Japanese accounting standards)

February 6, 2023

Corporate Name : H2O Retailing Corporation
Securities Code : 8242 (Tokyo Stock Exchange)
URL : <http://www.h2o-retailing.co.jp/en>
Representative : Naoya Araki, President and Representative Director
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Scheduled date of filing of the financial report : February 10, 2023
Scheduled date of dividend payment : —
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, 2023
(From April 1, 2022 to December 31, 2022)

(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	%
3Q of FY2023	474,896	27.9	9,481	-	11,642	478.5	10,957	(15.3)
3Q of FY2022	371,303	-	720	-	2,012	-	12,937	-

Note : Comprehensive income 3Q of FY2023 21,089 million yen, 68.8% , 3Q of FY2022 12,490 million yen, 949.3%

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 FY2022. As for 3Q of FY2022, 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
3Q of FY2023	89.93	89.25
3Q of FY2022	104.56	103.84

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
3Q of FY2023	714,346	268,092	34.2
FY2022	654,558	260,938	36.2

Reference : Owner's equity 3Q of FY2023 244,545 million yen, FY2022 236,844 million yen

2. Dividends

	Annual Dividends				
	First Quarter	Second Quarter	Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2022	-	12.50	-	12.50	25.00
FY2023	-	12.50	-	-	-
FY2023(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, 2023
(From April 1, 2022 to March 31, 2023)

	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	640,000	23.4	9,000	-	10,000	326.3	11,000	11.4	89.27

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 FY2022.

Consolidated gross sales, which is equivalent to net sales up to FY2021 excluding the effects of changes in accounting policies, amounted to 980,000 million yen (up 24.3% 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) : No
- (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 : No
(b) Changes other than (a) : Yes
(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)
3Q of FY2023 125,201,396 shares
FY2022 125,201,396 shares
(b) Number of shares of treasury stock at the end of the period
3Q of FY2023 8,828,092 shares
FY2022 1,989,253 shares
(c) Average number of shares during the period
3Q of FY2023 121,851,187 shares
3Q of FY2022 123,730,782 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

Following the business integration through a share exchange with Kansai Super Market Ltd. in December 2021, Kansai Food Market Ltd., Kansai Super Market Ltd., and Kansai Super Premium Co., Ltd. were included in Supermarket Business segment. The consolidated results for the previous year does not include the above three companies, and only their balance sheets as of December 31, 2021 are included in the consolidated balance sheet.

▶Sales

Consolidated net sales of 3Q of FY2023 was ¥474,896 million, increased by 27.9% YOY. Consolidated gross sales, which is equivalent to net sales up to the fiscal year before the application of Accounting Standard for Revenue Recognition, excluding the effects of changes in accounting policies, amounted to ¥734,786 million, increased by 29.6% YOY. In Department store Business segment, sales increased significantly due to a strong performance of Hankyu Main Store. In Supermarket Business segment, consolidated sales increased significantly since the new consolidation of Kansai Super Market Ltd. started from 4Q of FY2022.

▶Operating Profit and Ordinary Profit

As a result of an increase in gross profit due to higher sales and controlling selling, general and administrative expenses less than planned in Department store Business segment, operating profit was ¥9,481 million (operating profit of ¥720 million in the previous fiscal year), more than 13 times YOY, and ordinary profit was ¥11,642 million, increased by 478.5% YOY.

(Department store business)

With the impact of the COVID-19 easing and society returning to pre-COVID-19 levels, domestic sales remained strong throughout the period. Furthermore, due to a recovery in inbound sales, existing store sales in 3Q (October-December) exceeded the pre-COVID-19 level. At Hankyu Main Store, sales of women's fashion, in particular, performed well with the increase in commuting and opportunities to go out. Sales of high-end items such as watches and luxuries also increased. Hanshin Umeda Main Store celebrated its grand opening of entire building in April, 2022. Efforts to strengthen the value of experiences centered on food, which is offered on four floors, resulted in a wide range of customers visiting the store.

Selling, general and administrative expenses increased compared with the previous fiscal year due to the decrease of the transfer to extraordinary losses related to COVID-19 infection, the increase of depreciation cost with the opening of the Hanshin Umeda Main Store and heating and lighting expenses rise. Selling, general and administrative expenses were lower than planned by reducing costs such as advertising expenses while improving efficiency, despite the increase of sales commission cost due to sales increase.

As results of above, gross sales was ¥365,102 million, increased by 29.3% YOY and operating profit was ¥7,854 million, increased by 640.7% YOY.

(Supermarket business)

Gross sales was ¥315,565 million, increased by 39.7% YOY and operating profit was ¥4,555 million, increased by 16.0% YOY.

Existing store sales from October to December for Izumiya Co., Ltd, Hankyu Oasis Co., Ltd. and Kansai Super Market Ltd. remained at the same level as the previous year since the spend per customer increased due to the impact of price increase at three companies in spite of the number of customers decreased from the previous year by easing of the impact of COVID-19.

Regarding stores, one store was opened and six stores were remodeled.

Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd. worked to improve profits through thorough chain-store operation, such as measures to increase sales and improve gross profit margin by restructuring merchandising, improve gross profit margin by purchasing integration, reduce labor costs by reviewing store operations, and review other expenses.

Existing store sales year-on-year for Izumiya Co., Ltd. were 96.8% (95.5% for number of customers and 101.3% for spend per customer), and those for Hankyu Oasis Co., Ltd. were 93.3% (94.6% for number of customers and 98.6% for spend per customer) due to the easing of the impact of COVID-19 infection, the downturn after the previous year's increase in demand for eating at home, and the impact of rising prices on consumer sentiment.

Selling, general and administrative expenses were lower than both the previous year and forecast due to efforts to reduce personnel and other costs in the context of thorough chain-store operation, while utility expenses increased at both companies.

Kansai Super Market Ltd. promoted measures based on three categories, "health management" (health counseling by visiting public health nurses etc.), "productivity improvement" (installation of sliding shelves, expansion of steam convection systems etc.), and "education" (store manager training sessions for head office and all store managers, etc).

Existing store sales year-on-year for the cumulative third quarter were 98.3% (97.6% for number of customers and 100.7% for spend per customer), while existing store sales year-on-year from October to December period were 101.9%. The three stores remodeled during the current fiscal period (Makino store, Keihan Owada store, and Eiwa store) performed well with a year-on-year sales increase by 8.8% for the period from October to December.

Selling, general and administrative expenses were lower than both the previous year and forecast due to a review of expenses for consumables etc., while utility costs soared.

The food manufacturing subsidiaries, HANKYU delica i, Inc. and Hankyu Bakery Co.,Ltd. reported increases in wholesale sales to supermarket companies and specialty store sales, resulting in an increase in profit.

(Shopping Center business)

Gross sales was ¥27,494 million, decreased by 20.9% YOY and operating profit was ¥1,681 million, increased by 341.3% YOY.

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 by operational efficiency.

Oi Development Co., Ltd, which operates the business hotel, increased in gross sales and profit since occupancy rate improved and remained above 90% from October to December as business and travel activities recovered.

(Other business)

Gross sales was ¥26,623 million, increased by 10.5% YOY and operating loss was ¥2,318 million (operating loss of ¥2,618 million in the previous year).

The subsidiaries in the other businesses, excluding the Company as a holding company, posted an operating profit increase of ¥601 million, reflecting an increase in sales due to a reduction in the number and duration of COVID-19 related closed stores compared to the previous year.

► Profit attributable to owners of parent

The Companies recorded extraordinary income of ¥8,857 million including gain on sales of noncurrent assets of ¥4,974 million and gain on sale of investment securities of ¥3,819 million and extraordinary losses of ¥3,906 million including loss on store closings and others of ¥1,405 million and loss on retirement of noncurrent assets of ¥1,085 million. As a result, profit attributable to owners of parent was ¥10,957 million, decreased 15.3% YOY.

2. Forecast of FY2023

There are no changes to the consolidated forecasts for the full year from those announced on November 2, 2022.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	FY2022	3Q of FY2023
	(as of March 31, 2022)	(as of December 31, 2022)
Assets		
Current assets		
Cash and deposits	34,724	65,474
Notes and accounts receivable -trade	59,906	83,365
Merchandise and finished goods	21,002	22,181
Work in process	231	140
Raw materials and supplies	1,405	1,219
Accounts receivable - other	7,398	6,532
Other	5,368	6,114
Allowance for doubtful accounts	(311)	(474)
Total current assets	129,725	184,554
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	122,490	128,534
Machinery, equipment and vehicles, net	2,903	2,924
Land	162,462	164,876
Construction in progress	2,220	1,329
Other, net	11,167	11,394
Total property, plant and equipment	301,245	309,059
Intangible assets		
Goodwill	2,197	1,817
Other	14,245	16,400
Total intangible assets	16,443	18,217
Investments and other assets		
Investment securities	104,231	102,123
Long-term loans receivable	16,044	13,194
Guarantee deposits	73,074	73,090
Retirement benefit asset	4,156	4,861
Deferred tax assets	10,495	10,274
Other	1,943	1,752
Allowance for doubtful accounts	(2,802)	(2,780)
Total investments and other assets	207,143	202,514
Total non-current assets	524,832	529,792
Total Assets	654,558	714,346

	(Millions of yen)	
	FY2022	3Q of FY2023
	(as of March 31, 2022)	(as of December 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	56,839	92,043
Current portion of long-term borrowings	1,100	10,350
Accounts payable - other	24,764	31,602
Lease obligations	1,267	943
Income taxes payable	3,546	2,485
Gift certificates	9,211	9,533
Advances received	32,320	34,254
Provision for bonuses	4,177	2,502
Provision for bonuses for directors (and other officers)	24	67
Provision for loss on store closings and others	1,457	1,810
Asset retirement obligations	620	429
Other	12,334	16,766
Total current liabilities	147,663	202,788
Non-current liabilities		
Bonds payable	20,000	20,000
Long-term borrowings	154,282	149,003
Deferred tax liabilities	26,938	30,997
Deferred tax liabilities related to land revaluation	266	266
Provision for retirement benefits for directors (and other officers)	228	199
Provision for redemption of gift certificates	3,079	3,268
Retirement benefit liability	13,260	13,221
Long-term accounts payable - other	386	230
Lease obligations	12,248	11,597
Long-term guarantee deposited	10,651	10,550
Asset retirement obligations	3,580	3,560
Other	1,034	569
Total non-current liabilities	245,956	243,465
Total Liabilities	393,620	446,254
Net Assets		
Shareholders' equity		
Share capital	17,796	17,796
Capital surplus	95,086	94,875
Retained earnings	92,299	100,048
Treasury shares	(3,151)	(11,958)
Total shareholders' equity	202,030	200,762
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,881	42,853
Revaluation reserve for land	303	303
Foreign currency translation adjustments	565	2,309
Remeasurements of defined benefit plans	(1,936)	(1,683)
Total accumulated other comprehensive income	34,814	43,782
Share acquisition rights	1,168	1,193
Non-controlling interests	22,924	22,353
Total net assets	260,938	268,092
Total Liabilities and Net Assets	654,558	714,346

(2) Consolidated Statements of Income		(Millions of yen)	
	3Q of FY2022	3Q of FY2023	
	(From April 1, 2021 to December 31, 2021)	(From April 1, 2022 to December 31, 2022)	
Net sales	371,303	474,896	
Cost of sales	212,580	274,704	
Gross profit	158,723	200,191	
Selling, general and administrative expenses	158,003	190,710	
Operating profit (loss)	720	9,481	
Non-operating income			
Interest income	387	414	
Dividend income	1,061	1,114	
Gain on adjustment of accounts payable	740	715	
Foreign exchange gains	997	1,342	
Other	635	629	
Total non-operating income	3,823	4,217	
Non-operating expenses			
Interest expenses	708	734	
Loss on provision for redemption of gift certificates	594	576	
Share of loss of entities accounted for using equity method	648	300	
Other	579	444	
Total non-operating expenses	2,531	2,055	
Ordinary profit (loss)	2,012	11,642	
Extraordinary income			
Gain on sales of non-current assets	13,123	4,974	
Gain on sales of investment securities	6,485	3,819	
Subsidy income	2,823	63	
Gain on bargain purchase	145	-	
Total extraordinary income	22,578	8,857	
Extraordinary losses			
Loss on store closings and others	593	1,405	
Loss on retirement of non-current assets	1,288	1,085	
Loss related to COVID-19	4,040	405	
Head office relocation expenses	-	323	
Loss on valuation of investment securities	-	303	
Loss on withdrawal of system development	-	279	
Expenses for opening new stores	636	102	
Loss on step acquisitions	1,753	-	
Loss on sale of shares of subsidiaries	400	-	
Impairment losses	80	-	
Total extraordinary losses	8,791	3,906	
Profit (loss) before income taxes	15,799	16,594	
Income taxes - current	3,169	3,332	
Income taxes - deferred	(307)	1,137	
Total income taxes	2,861	4,469	
Profit (loss)	12,937	12,124	
Profit (loss) attributable to non-controlling interests	-	1,167	
Profit (loss) attributable to owners of parent	12,937	10,957	