May 19, 2020
Hankyu Hanshin Holdings, Inc.

Supplementary Briefing and the Main Questions and Answers during the Briefing on Earning Results for Fiscal 2020 (Year Ended 31st March 2020)

*Please be aware that this document is not a verbatim account of everything that was said during at the question and answer session held during the briefing. The Company has made additions and modifications, and summarised the content as it judged appropriate.
*Please also note that the information presented here is based on the briefing held on May 19.

1. Supplementary Briefing

<<Results for fiscal 2020, current situation>>

- Although performance was generally strong up to Q3, performance in Q4 fell short of the same period of the previous year due to the impact of COVID-19.

- COVID-19 has substantially impacted five core businesses. The situation in each of these businesses is described below ;

〈Urban Transportation Business〉

- Both Hankyu and Hanshin lines suffered a decline in ridership. In February, non-commuter ridership entered a year-on-year decline. In March, non-commuter ridership was down 30–40%, and commuter ridership was down 5–10%, making a total ridership decline of 20%.
- In April, the state of emergency was declared, which further curbed rail travel. In that month, the Hankyu line experienced a 50% decline in overall ridership, with non-commuter ridership down 70% and commuter ridership down 30%. The Hanshin line experienced a 40% decline in overall ridership, with non-commuter ridership down 60% and commuter ridership down 20%
- During the Golden Week holiday, ridership was down 80% in both rail networks. Since the holiday ended, ridership has steadily picked up.

〈Real Estate Business〉

- In March, our shopping facilities reduced their opening hours. After the state of emergency was declared in April, we significantly curtailed operations by completely closing the principal shopping facilities, except for a few stores, in Umeda and elsewhere.
- With restrictions being eased from late May onward, we plan to gradually resume operations in tandem with the easing.

〈Entertainment Business〉

- In the sports business, the professional baseball season was postponed.
- In the stage business, Takarazuka Revue suspended a succession of performances in late February and March. In Q1 FY 2021, all shows were cancelled.

〈Travel Business〉

- In February, many customers cancelled their travel plans. Cancelations then surged in March, forcing the suspension of domestic and international tours.
- With the situation remaining unchanged in FY 2021, we expect mass suspensions of tours in June.

〈Hotels Business〉
- Inbound tourist demand fell in February. In March, domestic tourist demand fell as people cancelled business trips and other outings. Consequently, the major hotel brands saw a 30% YoY decline in occupancy rate for March. Since the start of FY 2021, the rate is down 10% YoY.
- Consequently, Hankyu Hanshin Hotels has temporarily closed seven of its 21 hotels it operates.

- Over one month of voluntary restraint has proven effective in combating COVID-19, and the Kansai area is beginning to show some hopeful signs.

<<Scenario for resumption of business activities>>
- We have envisaged a scenario for the phased resumption of business activities across the group. The scenario consists of three broad phases.

[Phase 1]
- The government cancels the state of emergency or eases the shutdown requests. The public gradually resume local travel.
- In tandem with the resumption in local travel, operations resume to some extent in the group business that are closely connected with people's lives: the urban transportation, real estate, and entertainment businesses.

- Once local travel has more or less returned, the public starts traveling longer distances, leading to renewed demand for domestic travel and business trips. At this point, the travel and hotels businesses see some uptick, but only to a limited extent.

[Phase 2]
- At this phase, travel resumes both in Japan and across the globe.
- International travel resumes (e.g. foreign tourists travel to Japan, Japanese travel abroad). Reflecting this trend, the travel and hotels businesses start recovering.

[Phase 3]
- Business activities in Japan and other countries recover to a significant extent. At this point, the COVID-19 crisis has largely abated.
- COVID-19 leaves a lasting socioeconomic impact, with a shift to new lifestyles and business practices (e.g. more e-commerce, more telework). Though the crisis has abated, there is no complete return to the pre-COVID-19 normal.
- Our task for this phase is to adapt to the new socioeconomic landscape and lead the way to a prosperous future.

<<Fiscal 2021 forecasts>>
- Our group and Japan as a whole currently stand on the threshold of phase 1.
- However, much remains uncertain. It is unclear, for example, how quickly the urban transportation and real estate businesses will recover amid the resumption of travel in phase 1. Similarly, although operations may resume in the entertainment business, it is difficult to predict the effects of physical distancing on these operations. Other uncertainties include the possibility of a second or third wave. Additionally, the duration of phases 1 and 2 will depend to a great extent on the progress in developing a vaccine or other treatments.
- Faced with these uncertainties, we cannot give forecasts for fiscal 2021 at this time. Once we can give reasonable forecasts, we will announce them without delay.
- Suffice it to say, given the circumstances in April and May, we are bracing for a sizeable hit in earnings.

<<Investment strategy and fundability>>

- The above outlook suggests that we will need a recovery package to maintain healthy income and cash flows. We must also keep costs and investment to a minimum.
- That said, we will continue with large investment projects (e.g., Umeda 1-1 Project, rebuilding of Kobe Hankyu Building) as planned.
- We may also find some promising opportunities for M&As and real-estate acquisitions that are only available because of the tough business climate. In line with our existing strategy on growth investing, we will actively explore all such opportunities, examining each one carefully before making an investment decision.
- Accordingly, the main investment cuts will be in maintenance and renewal of existing infrastructure. In determining the cuts, we will review the necessity of each investment and consider whether the investment can be postponed.
- We have no concerns about fundability for the time being. We have backup credit lines, including a committed credit line.

<<Progress in Medium-Term Management Plan>>

- During the FY2019–FY2022 term, we have worked on four strategies aiming to get operating income consistently at the ¥110 billion level by fiscal 2022. Progress has generally gone as planned. Although operating income in fiscal 2020 was ¥95.2 billion, short of the ¥107 billion forecast announced in May 2019, we would have exceeded the forecast if not for the ¥15.4 billion income hit from COVID-19. We are also well on track to achieving our goals for fiscal 2022, the target year. For example, we have made reasonably good progress in acquiring land for condominiums.
- Despite the steady progress thus far, the road ahead may prove challenging. COVID-19 has severely shrouded the economic outlook, making it impossible to reasonably forecast results for fiscal 2022. Thus, as we go ahead, we may need to adjust our strategy to adapt to the changing circumstances.

<<Long-term vision (fiscal 2026)>>

- Despite present adversities, we remain committed to achieving our long-term vision for fiscal 2026.
- As mentioned earlier, phase 3 of our business-resumption scenario assumes that there will be a shift in lifestyles and business practices. Our long-term vision already anticipates that such a change will eventually occur, and sets the goal of adapting to such change and achieving sustainable growth for the group. COVID-19 has accelerated the shift. By the same measure, we must accelerate our efforts to achieve the vision.

2. Questions about the Company in general

< COVID-19 impact>

Q Your businesses have been hit hard by COVID-19. In response, you are curbing spending on maintenance and renewal of existing infrastructure. What other cost areas are you looking at?

A. There is a limit to how far we can go with cost-cutting, as many of our businesses—railways, for example—have a high rate of fixed costs. That said, in businesses that have taken a large revenue hit, we are aiming to control costs by scaling down the provision of products and services to reflect the reduced demand, to the extent feasible. Take the bus business, for example. For transit buses, weekend timetables have been adopted for weekdays. For long-distance buses (highway buses, airport shuttle services), for which demand has plunged, services have been drastically reduced. The hotels business is another example. We have closed some hotels, consolidating operations into hotels located nearby. Alongside these measures, we are of course stepping up efforts to cut non-urgent expenditure in each business.

As for payroll, we do want to maintain the present workforce so that we can swiftly resume services when the time is right. However, as with other cost areas, we also want to keep personnel expenses as low as possible. We can do so by using the government's 'employment adjustment subsidy' (a wage subsidy to help employers retain workers). The reduction in work volume also helps here, as we end up spending less in extra wages.

Q. Has the COVID-19 impact prompted you to rethink your business portfolio or your long-term vision?

A. We feel there is no need at this time to change our portfolio. Yes, COVID-19 has impacted many of our businesses, but the effects will be short-lived in the long run. The knock-on effects—the changing lifestyles and business practices—will be more durable by comparison, but our long-term vision fiscal 2026 already envisages such changes. COVID-19 has accelerated the shift in lifestyles and business practices. By the same measure, we must accelerate our efforts to achieve the vision.