November, 2021
Hankyu Hanshin Holdings, Inc.

Main Questions and Answers during the Briefing on Earning Results for the First Half of Fiscal 2022 (Year Ended 31st March 2022)

*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 November 5.

[Questions about the Company in general]

<< Current Performance >>

Q. Is your railway operation business and your Travel and Hotel Businesses performing as you expected they would when you made your latest full-year forecasts?

A. To start with the railway operation, transportation revenue has traced a recovery path since the start of October, following the ending of the state of emergency ended. This is pretty much in line with our expectations. Our latest full-year forecast assumes that travel demand will pick up from next January, leading to a much stronger record in transportation revenue. We will have to wait and see whether this proves correct.

Regarding the Travel Business, during the August–September state of emergency, we had to cut back marketing the travel packages from the autumn and beyond, which impeded our efforts to attract customers in October and November, the peak season (the full-year forecasts account for this impact). We are now working at full steam to attract bookings. For instance, we are leveraging promotional campaigns by local governments, including discounts for prefectural residents. Thanks to these efforts, bookings are now getting close to the level we envisaged.

As for the Hotels Business, this too is performing close to how we assumed it would, especially in view of the bounce-back in occupancy rate. While keeping an eye on the demand-supply balance, the Hotels will keep working to inch up their average daily rates in order to maximize the recovery.

<< Cutting Costs >>

Q. Will your efforts to cut costs contribute to earnings in the next year and beyond, in addition to improving profit and loss in the immediate term?

A. In the current fiscal year, we continue to experience a severe fallout from the pandemic. Against this backdrop, we are aiming to achieve a swift recovery in performance, and as part of this, we are continuing our program of cutting costs, which we began in the previous year. The current focus in this program, as it was in the previous year, is to cut or defer costs in order to improve short-term financial health.

As you know, our policy for this fiscal year is to reduce fixed expenses or convert them into variable expenses, and in each business we are moving forward speedily in developing plans to streamline and save labor. However, please be aware that it will still take time until these efforts start bearing fruit, no matter how fast we act.

<< Medium- to Long-Term Strategy >>

Q. How are you going to improve your profit level next year and beyond?

A. Right now, our top priority is to recover from the effects of the pandemic, so our first task is to press ahead with measures to that effect. We are absolutely determined to get our operating income back to the pre-Covid level of 100 billion yen as soon as possible.

Alongside this, we are also taking steps to adapt to the new normal. I talked about this at the previous meeting but in the case of the railway operation business, for example, we project that transportation revenue will decline as the new normal sets in (as more people will shop or work online). The key to covering this decline is to make our line-side communities as attractive as possible so that more people will want to live there or visit there. That is where our focus will lie in the years ahead.

However, this is a long term project that will take a long time to accomplish, so we also need shorter term action if we are to sustain and grow our earnings in the new normal. Specifically, we need to act swiftly to build a stronger revenue structure. To increase revenue, for example, we are thinking about introducing premium seating (seats reserved for a surcharge). Additionally, as part of our digital transformation strategy, we will use customer data for digital marketing and thereby generate new travel demand that will help improve our profitability. As for costs, we will use robotics and IoT-driven technology to boost the productivity of our station operations and maintenance work. These actions will help raise our operating income margin and lower the break-even point.

Q. As you go into the new normal, will your policy for capital investment change in any major way?

A. Our aim for achieving sustainable corporate development will remain unchanged. We will maintain our growth investment in our each business, especially in Urban Transportation and Real Estate segments, in a manner commensurate with the characteristics of each business. We will also actively invest in projects to adapt to the new normal, including digital transformation and SDG-related initiatives. On this basis, we are updating the Long-Term Vision for 2025 (fiscal 2026). The updated vision will be unveiled next spring, so you will find out more about our capital investment strategy then.

[Business-specific questions]

<< International Transportation >>

Q. You revised your forecasts for International Transportation. How did your assumptions change?

A. We upgraded our performance forecasts for the International Transportation segment for two main reasons. First, handling volume exceeded what we had envisaged at the time of the previous forecast (in July). Added to this, it seems that demand will continue to outstrip supply in air and ocean transportation for the time being.

Q. Freight rates for air and ocean transportation seem as high as ever. How do you think they will trend in the future?

A. As I said before, given that demand will continue to outstrip supply for the time being, freight rates should remain high too. That said, competition is heating up. For example, rivals aiming to win more customers are working to make chartered cargo flights to gain traction in this market. We took this factor into account when producing the latest full-year performance forecasts.