November 8, 2019
Hankyu Hanshin Holdings, Inc.

# The Main Questions and Answers during the Briefing on Earning Results for the First Half of Fiscal 2020 (Year Ending 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.

## 【Questions about the Company in general】

### 〈Medium-Term Management Plan〉

**Q Your Medium-Term Management Plan for fiscal 2019–2022 includes a commitment to strengthen your flow businesses. Two years have passed since you made this commitment. Could you tell us when you intend to evaluate outcomes of your measures and changes accordingly?**

A Over the four-year period, we want to see the flow businesses drive us towards increased profit. We're generally on track to achieving this goal. The next step is to review progress and outcomes, and to use this data to shape the next Medium-Term Management Plan. Take the Travel Business, for example. As part of our programme to restructure the Travel Business segment, we are trying to make our core brand travel packages more competitive and to bolster travel to non-European destinations. Some of these efforts have paid off, while others require a rethink. We need to review each action and evaluate whether it is worth continuing. To give another example, we are trying to diversify our condominium business. We are, for instance, engaging much more in property development. Here too, we will review how successful our actions have been and incorporate the findings into our next Medium-Term Management Plan.

**Q Recently, you acquired rental properties in Indonesia. These overseas acquisitions seem to signal a new phase of growth investing. Have you changed your growth investment strategy?**

A Our stock is concentrated in the Kansai area. We need to change this situation because the Kansai population is set to decline. That's why the second strategy of our Long-Term Management Vision for 2025 is to construct a stable revenue base in the Tokyo metropolitan area and overseas markets. Of the two, we focused initially on the Tokyo metropolitan area. We planned to develop a rental portfolio in that market to match the stock we hold in Kansai. However, rising property prices in the region forced us to rethink. We decided to hold back for the time being.

On the other hand, we were cautious about investing in overseas properties. We saw such investment as a very risky as we lacked local market intelligence, including on local practices and regulatory environments. Hence, it was in the relatively low-risk sector of residential real estate sales where we made our start in fiscal 2016. The situation changed in fiscal 2018, when the ASEAN rental market exploded. We gained much more, and much better, market intelligence, enabling us to acquire the properties in question. With these acquisitions, we can get even better intelligence.

In summary, we have recalibrated the second strategy of the Long-Term Management Vision: We are now holding back in the Tokyo metropolitan area, as it currently holds few properties that represent a viable investment for us. By contrast, we are pressing ahead in overseas markets, carefully examining each prospective acquisition.

**【Questions about individual business segments】**

**〈Urban Transportation Business〉**

**Q I have a question about the planned Naniwasuji Connection Line and Shin-Osaka Connection Line. It was reported that Hankyu Railway, JR-West, and Nankai Railway have signed a memorandum of understanding agreeing to get preparations underway. As you know, the Naniwasuji Line is set to open in spring 2031. How will the construction schedule and other aspects of this project impact the group? What do you see as the best scenario?**

A Naniwasuji Line is indeed scheduled to open in spring 2031. I am particularly excited by how this line will be integrated with our Naniwasuji Connection Line and Shin-Osaka Connection Line. The integration of these three lines will improve Hankyu rail network's connections with Kansai International Airport and downtown Osaka. These enhanced connections will bring further inbound tourist demand.

The three parties signed the agreement because we all saw the advantages of coordinating Naniwasuji Line with the Hankyu's Naniwasuji Connection Line and Shin-Osaka Connection Line. Such coordination will solve the problems associated with developing Naniwasuji Line independently. Moreover, three-way synergy will enhance profitability and convenience for each line. Indeed, a 2017 survey by the Ministry of Land, Infrastructure, Transport and Tourism found that this coordinated approach will deliver better cost performance and profitability.

We will hold in-depth dialogues with our partners and stakeholders to ensure that the project proceeds according to the initial plan. I'm afraid I can't say much more for now, as the project is still in its early days and we are yet to finalise the schedule and other finer details.

**〈International Transportation Business〉**

**Q The volume of air freight exports you handle seems to be down significantly. How is the outlook?**

A Our International Transportation Business is struggling right now. Hence, we downwardly revised the full-year forecast. We will gain more precise details as we progress further in our rolling-wave planning; but for now at least, the situation looks unlikely to improve anytime soon.

**Q Given the unfavourable performance of the International Transportation Business segment, will you review your investing plans and other aspects of your growth strategy for the segment?**

A There were three main reasons why the segment performed poorly in 1H. The first was a reactionary drop in auto-related orders from the levels in fiscal 2018 and 2019, which were bumper years. The second reason was that air transport declined. This decline severely impacted segment performance because, of the three modes of international transportation we offer (air, ocean, and road/logistics), air produces the lion's share of sales. The third reason was a decline in the volume of Japan-China orders. This decline hurt the segment because the bulk of transportation orders have Japan as the origin or destination. It was a perfect storm of these factors that underlay the poor segment performance.

Our current growth strategy for the segment has two components. First, while retaining the competitiveness of air, we aim to shift the balance more toward the other two modes, ocean and road/logistics. Second, whereas the bulk of orders we handle have Japan as the origin or destination, we aim to increase the proportion of orders to and from other locations in Asia. We intend to stick to this broad strategic direction. If we steadily bring this strategy to fruition and put the segment on a fresh business footing, then the segment will become more resilient, such as that it will stably produce revenue even if these kinds of circumstances reoccur.

〈Hotels Business〉

**Q Your hotels in the Kansai area experienced a year-on-year decrease in average daily rates (ADR). Will the ADR continue to decline in 2H and beyond?**

A A major factor behind the decline is a year-on-year slowdown in the number of inbound tourist guests, which itself is the result of a spate of natural disasters in 2018, such as Osaka earthquake in June. Another factor is that over the 2017– 2019 period, many new hotels have opened in Osaka, such that supply now outstrips demand. Our hotels also face competition from vacation rental services. Online listings of vacation rentals in Osaka plunged in response to the passing of the Residential Accommodation Business Act in June last year, but they seem to be bouncing back. Given these circumstances, the segment will probably struggle to improve ADR anytime soon.

**Q Given the unfavourable performance of the Hotel Business segment, will you review your investing plans and other aspects of your growth strategy for the segment?**

A The slowdown in inbound demand and the over-supply of accommodation services will continue to hurt the segment. But we can soften the blows by making our hotels more profitable. We are already taking measures to maximise ADR. For example, we are upgrading rooms and reconfiguring their fixtures in order to increase capacity. On top of these measures, we will tighten up revenue management, work closer with brick-and-mortar travel agencies in Japan and abroad, and work to retain hotel membership.

Alongside these efforts, we will consider ideas for restructuring the segment in the medium and long term. For example, we are looking to increase our stock of no-frills hotels, which are more profitable than full-service hotels. Another plan is to rationalise our hotel assets in the Umeda area. These hotels boast an outstanding location, and we should do much more to capitalise on this advantage. These changes won't happen overnight, but if we continue to advance these measures steadily, they should deliver growth for the segment.