

JCR Affirmed AA+/Stable Rating on Seven & i Holdings, Seven-Eleven Japan

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

Rationale

<Seven & i Holdings Co., Ltd.>

- (1) Seven & i Holdings Co., Ltd. is Japan's largest retailing group operating in seven core business segments of convenience stores, general merchandising stores, grocery stores, department stores, food service, financial service, and IT/service with the slogan of "a New, Comprehensive Lifestyle Industry."
- (2) The Company has shifted the business model of its core domestic convenience store (CVS) operation to "close by convenient stores" to adapt to the changing social structure, and that led to stronger earnings. The CVS segment is expected to remain the leading forth of the group's growth. This segment's earnings are faring well also in the U.S., where the Company has expanded fast food items. JCR sees the Company has room for business base expansion in the U.S., where its market share is still small, through active M&A approaches.
- (3) The Lehman Shock threw general merchandising store and department store operations in a severe situation. In particular, general merchandising store segment's earnings have significantly dropped due to structural slump of apparel goods. The Company's apparel merchandising reform approaches were slow in showing results until recently when newly launched brands sell well and help gross profit margin rate improve. Other ongoing efforts include sales floor reforms by using affiliated specialty shops, closure of unprofitable stores and earnings base improvement through cost reduction. As for department store segment, remodeling of the flagship store of Sogo & Seibu Co., Ltd. in Ikebukuro, Tokyo will likely help recover earnings, while the Company has also closed unprofitable stores and transformed some department stores into shopping centers.
- (4) As for the financial service segment, factors for sales decrease include lower commission earned of Seven Bank, Ltd. and the reduction in the number of cashing transactions at partners due to amendments to the Money Lending Business Act. On the other hand, stable earnings are expected as the Company is installing more ATMs. Meanwhile, the Company made a joint venture card company with Credit Saison Co., Ltd. its consolidated subsidiary in April 2011 to enhance the base of its card business. Centered on the "nanaco" electronic money card, the Company will share points within the Group, which will expand electronic money services.
- (5) The Company expects operating profit to show a double-digit growth and hit a record in the current fiscal year ending this month as the CVS business has grown and other businesses' earnings recovered. The mid- to long-term prospect for consumption environment in Japan doesn't allow much room for optimism due to falling population and aging of society. That said, JCR sees the Company as a group can maintain its strong cash flow generation ability, helped by growth of CVS, financial service and IT/service business segments and earnings improvement of general merchandising store and department store segments.
- (6) Despite its solid financial base, the Company's equity capital ratio has been lowering as it bought back own shares and securitized real estate properties. The ratio further declined in the current fiscal year as Seven CS Card Service Co., Ltd. joined as a consolidated subsidiary, enlarging the Company's total assets. On the other hand, interest-bearing debts excluding those of the financial service segment have been decreasing, which indicates the Company maintains substantial financial soundness. JCR assumes the Company needs to improve efficiency of assets, in addition to its ongoing approaches for centralized management of funds.

<Seven-Eleven Japan Co., Ltd.>

- (1) Seven-Eleven Japan Co., Ltd. is Japan's largest convenience store (CVS) operator. It has achieved sales of over 3 trillion yen as the first single chain retailer to do so. Being the core company of Seven & i Group, the Company is considered to be combined with the Group's creditworthiness for JCR's ratings on it.
- (2) CVS's same-store sales have been faring strongly thanks to special demand after the Great East Japan Earthquake, effect of cigarette tax hike, and wider lineup of goods targeting the elderly and housewives, such as prepared dishes and desserts. Meanwhile, public awareness of CVS as social infrastructure has been heightening in the wake of the earthquake. On top of this, their role as close and convenient places to shop has been growing as the number of small and mid-sized retailers is decreasing. On the other hand, the business is now more and more saturated with over 44,000 stores. While strong major chain operators are accelerating new store openings, financially weak smaller operators are struggling, resulting in market reorganization and an oligopoly situation by large operators.
- (3) Aiming at being "close by convenient stores," the Company has been enhancing the meal solution. Concretely speaking, it has increased the product lineup for prepared dishes, vegetables, fried foods and other foods popular among home diners, and also expanded the lineup of chilled prepared dishes as well as its "Seven Premium" private brand products. It is also improving other services such as online shopping and a tie-up with Ticket Pia. These efforts enabled the Company to shift to a new business model with wider customer bases including women and the elderly. Meanwhile, there are still areas and regions left without the Company's stores. The Company used to have difficulties in finding franchise owners, but the situation is now improving. Under these circumstances, the Company plans to accelerate new store openings, which will further increase its market share. JCR assumes the Company can maintain its strong cash flow generation ability.

Rating

Issuer: Seven & i Holdings Co., Ltd. (security code: 3382)

<Affirmation>

Senior debts: AA+ Outlook: Stable

Issuer: Seven-Eleven Japan Co., Ltd.

<Affirmation>

Senior debts: AA+ Outlook: Stable

Outline of the method for the determination of the credit rating is posted as "Rating Methodology (Corporate)" on JCR's home page (<http://www.jcr.co.jp>). The rating methodology is subject to additions and changes. In such cases, however, these additions and changes are shown in chronological order. Please check the release date of this press release against that of the rating methodology (i.e., the date when such methodology became effective) and then refer to the rating methodology above.

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