

Highlights of Major Retail Groups' Financial Results for Fiscal Year Ended February 2021

The following is Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended February 2021 (FY2020) and earnings forecasts for FY2021 of Japan's two major retail groups: AEON CO., LTD. ("AEON"; security code: 8267) and Seven & i Holdings Co., Ltd. ("Seven & i"; security code: 3382).

1. Industry Trend

According to Japan Chain Store Association, same-store sales increased the first time in five years for FY2020, up 0.7% from a year earlier (down 1.2% over the year for FY2019). By product, foods increased 4.0% on year with a reason behind of increased home meal demand caused by voluntary restraint on going out in relation to COVID-19 pandemic and others. Apparel saw a substantial decrease of 16.1% on year due partly to voluntary restraint on operating stores responding to the state emergency declaration. Housing-related products were almost flat from the previous year of a 0.5% decrease. Although severe situation continued for cosmetics sales, furniture / interior decoration goods and home appliances were steady. Currently trend in voluntary restraint on going out still continues; therefore, it is difficult to expect prompt recovery of consumer sentiments.

The COVID-19 pandemic has given impacts on the retail industry broadly, and trends in business performance differ according to business type. Business performance of department stores and shopping malls were adversely affected significantly by temporary closing and voluntary restraint on going out in responding to the state emergency declaration. The Convenience store ("CVS") has also affected by the decline in the number of customers. Mixed results were seen by locations as shown that stores located in residential areas increased revenue but these located in resort and business areas decreased revenue as they faced difficulties in attracting customers, etc. Mixed results were also seen in the General Merchandise store ("GMS") by department as revenue was steady for its mainstay of foods but that of apparel was weak. Business performance of Super market ("SM") was strong as sales per customer increased due to customers' bulk purchase of foods, etc. Business performance of the Drugstores was steady in general but faced the same situation as CVS that stores located in downtown struggled to attract customers.

Both AEON and Seven & i have been pursuing group-wide strategies to strengthen the earnings capacities. AEON was working to integrate the management of GMS and SM in each area of Hokkaido, Tohoku, Tokai/Chubu, Kinki, Chugoku/Shikoku and Kyushu, and it completed the initiative at last after completing the integration in Kyushu in September 2020. In March 2021, BIG-A CO., LTD., which operates discount store business, integrated the management with A-Colle. AEON has also pursuing strategically liquidating and consolidating group companies as shown that it disposed entire shares of ZWEI in April 2020 and others. In May 2021, Seven & i acquired shares and other interest of multiple companies, which operate CVS business, etc. primarily under the brand of Speedway from a US-based company, Marathon Petroleum Corporation. Seven Eleven Japan Co., Ltd. ("SEJ") has been strengthening earnings capacity through expanding the number of stores providing Seven-Eleven on-line Convenience Store services. Ito-Yokado Co, Ltd. ("Ito-Yokado") and Sogo & Seibu Co., Ltd. are continuously reviewing the store network and manpower allocation.

2. Financial Results

For FY2020, both AEON and Seven & i decreased revenue and income. AEON decreased operating income 30.1% from a year earlier to 150.5 billion yen and reported a net loss of 71.0 billion yen (a net income of 26.8 billion yen a year earlier) due to increased extraordinary loss in relation to recording an impairment loss and losses incurred by COVID-19 pandemic, etc. By segment, the SM and Health & Wellness businesses increased income with reasons behind of increased same-store sales caused by increased home meal demand for the SM, and increased sales of products for preventing infection, foods, etc. for the Health & Wellness. On the other hand, the GMS and Service and Specialty Store reported an operating loss, and the Financial Services, Development and International decreased income. AEON Retail Co., Ltd., which is the core company of the GMS business, reported an operating loss due partly to temporary suspended operation of the areas where tenants occupied, decreased same-store sales caused by voluntary restraint on going out. The Development, Services and Specialty Store were largely affected by the effect of temporary closing in the first quarter.

Seven & i reported an operating income of 366.3 billion yen, down 13.7% from a year earlier. BY segment, the Superstore business, which includes GMS and SM, increased income but the Department Store and Specialty Store businesses reported an operating loss, and Domestic and Overseas CVS and Financial Services-related businesses decreased income. SEJ, which operates Domestic CVS, decreased income due to an effect of decreased number of customers caused by expansion of voluntary restraint on going out and working from home. 7-Eleven, Inc., which operates Overseas CVS, increased income on a U.S. dollar basis due to improved gross profit of gasoline but decrease income due to a currency translation effect. Ito-Yokado was able to increase income through separating stores of Shokuhinkan and THE PRICE, and improving profitability of stores under the structural reforms and other factors. On the other hand, Department store reported an operating loss as it was largely affected by temporary closing.

Financial conditions as of the end of FY2020, AEON's equity ratio declined to 8.5% from 9.6% a year earlier due partly to a decrease in equity capital caused by the net loss reported and an increase in interest bearing debt (long-term and short-term borrowings, CPs, corporate bonds, lease obligations and installment purchase payable, etc.) excluding the Financial Services, and others. Equity ratio of Seven & i decreased to 38.4% from 43.4% a year earlier as it procured a part of funds required for acquiring Speedway.

Capital investment for FY2020, AEON decreased the amount while Seven & i increased. AEON decreased 116.5 billion yen from a year earlier to 301.2 billion yen as it was largely impacted by a decrease of 66.6 billion yen in the GMS. By region, it decreased the amount both in Japan and abroad. On the other hand, Seven & i increased 16.3 billion yen from a year earlier to 377.2 billion yen. By business segment, it has still been investing primarily in the Domestic and Overseas CVS. Both businesses together accounted for 73% of the entire capital investment.

3. Highlights for Rating

At present, a constraint on sales activities is continuing by voluntary restraint on going out in relation to COVID-19 pandemic; therefore, same-store sales and business performance of each business segment for both groups, AEON and Seven & i, should still be monitored.

For FY2021, AEON projects to increase both revenues and income. The group expects to improve performance of GMS, Development, Services & Specialty Stores and International businesses. It expects operating income of between 200 billion yen and 220 billion yen, up between 32.8% and 46.1% from a year earlier. It also indicates its projection for ordinary income and net income in range it expects without specifying because it has reflected the infection status hereafter and possibility of change in regulations and measures of each country in responding to the infection status.

On the other hand, Seven & i completed the acquisition of Speedway. However, since some committee members of the Federal Trade Commission have made a statement of objection, it postponed announcing the performance projection considering a process of the future discussions with the related government agencies. JCR assumes that Seven & i's business performance will improve led primarily by its core business of Domestic CVS, and Overseas CVS, for which business base is strengthening. JCR will watch the synergy effect arising from acquisition of Speedway in light of the discussions with the related government agencies and the impact given to the profit and loss, etc. JCR also pays attention to the medium-term management plan, for which the announcement was postponed.

Rebuilding the GMS business continues to be an important issue for both groups of AEON and Seven & i. Looking at the operating income of core companies in this segment for FY2020, Aeon Retail reported an operating loss of 21.8 billion yen (an operating income of 5.6 billion yen a year earlier), and Ito-Yokado reported an operating income of 7.7 billion yen, up 19.3% from a year earlier. Although Ito-Yokado increased income, the operating income margin (relative to operating revenue) stood at 0.7%. JCR views that initiatives for recovering same-store sales are still important together with continuing cost reductions for both companies.

JCR views that initiatives for integration of stores and internet, and digitalization will accelerate in the future. AEON entered into an exclusive partnership agreement in Japan with Ocado Solutions, a subsidiary of Ocado Group plc, a UK-based company operating on-line supermarket business. In 2023, its customer fulfillment center (Chiba City, Chiba Prefecture) operated by using the latest AI and robotics function, will be in operation. It also intends to improve operation efficiency through digitalization. As mentioned before, Seven & i is striving for expanding the store network, which can handles Seven-Eleven on-line Convenience Store services. JCR will pay attention to development status of these measures and the contribution to the performance.

Although AEON and Seven & i both have not disclosed the capital investment projection for FY2021, JCR views that both will focus on investing in business areas with growth potential. In the medium-term management plan, AEON indicates its intention to shift the investment focus to digital, product and supply chain, and overseas from the domestic store- related investment. Seven & i will likely invest primarily in the Domestic and Overseas CVS in the future as well. Both AEON and Seven & i will continue the growth investments over medium term.

Hiroyuki Chikusa, Hiroyoshi Otsuka

(Chart 1) Consolidated Financial Results of Two Major Retail Groups

(Unit: JPY100mn)

Company	FY	Operating Revenue	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent
AEON (8267)	2019	86,042	2,155	2,058	268
	2020	86,039	1,505	1,388	-710
	2021 (forecast)	86,200	2,000-2,200	1,900-2,100	200-300
Seven & i (3382)	2019	66,443	4,242	4,178	2,181
	2020	57,667	3,663	3,573	1,792
	2021 (forecast)	-	-	-	-

(Source: Chart 1 through 4 were Prepared by JCR based on financial materials of above companies)

* Seven & i's business performance forecast for FY2021 has not been finalized.

(Chart 2) Operating Income of Two Major Retail Groups by Segment

(Unit: JPY 100 mn)

	AEON (8267)		Seven & i (3382)	
	FY2019	FY2020	FY2019	FY2020
GMS	72	-156	213	296
CVS	-	-	3,586	3,323
SM	215	506	-	-
Financial Services	704	426	536	480
Development	632	357	-	-
Services and Specialty Store	45	-176	46	-135
Department Store	-	-	7	-62
Health & Wellness	356	415	-	-
International	107	60	-	-
Others	15	23	15	19
Adjustment	5	49	-162	-259
Total	2,155	1,505	4,242	3,663

(Chart 3) Consolidated Financial Position of Two Major Retail Groups

(Unit: JPY 100 mn, %)

Company	FY-end	Equity Capital	Interest-bearing debt*	Equity Ratio (%)
AEON (8267)	2019	10,645	30,066	9.6
	2020	9,703	31,457	8.5
Seven & i (3382)	2019	26,015	9,829	43.4
	2020	26,689	17,612	38.4

* Total of long- and short-term borrowings, corporate bonds, CP, lease obligations, accounts payable-installment purchase, etc. for AEON; Total of long- and short-term borrowings and corporate bonds for Seven & i.

(Chart 4) Capital Expenditures of Two Major Retail Groups

(Unit: JPY 100 mn)

Company	FY	Capital Expenditure
AEON (8267)	2019	4,177
	2020	3,012
Seven & i (3382)	2019	3,609
	2020	3,772

<Reference>

Issuer: Seven & i Holdings Co., Ltd.

Long-term Issuer Rating: #AA+/Negative

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