

Highlights of Major Retail Groups' Financial Results for Fiscal Year Ended February 2022

The following are 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 2022 (FY2021) and earnings forecasts for FY2022 of Japan's two major retail groups: Seven & i Holdings Co., Ltd. ("Seven & i"; security code: 3382) and AEON CO., LTD. ("AEON"; security code: 8267).

1. Industry Trend

According to Japan Chain Store Association, same-store sales increased two years in a row, a year-on-year increase of 3.1% and 0.7% for FY2021 and FY2020 respectively. By product, foods increased 2.0% on year with a reason behind of solid home meal demand partly because people voluntarily avoided outings due to expansion of the COVID-19 infection. Apparel remained at a 0.1% decrease, almost flat from the previous fiscal year with a substantial year-on-year decrease of 16.1%, due to people's voluntary restraint on going out and an impact of unseasonable weather. Housing-related products increased 4.3% on year, the first increase in six years, led by daily necessities. At present product and energy prices are rising, and deterioration in consumer confidence is concerned.

The impact of COVID-19 pandemic on the retail industry decreased compared to that in FY2020 but continued throughout FY2021. Department stores and shopping malls were adversely affected in terms of attracting customers due to penetration of people's self-restraint on going out in responding to the state emergency declaration and implementation of priority measures to prevent the spread of COVID infection. The average daily sales has not recovered to the pre-pandemic level for convenience stores ("CVS"). In general merchandize stores ("GMS"), its mainstay foods was strong but apparel was still weak. As a whole, they have still been facing difficulties. On the other hand, in supermarkets ("SM"), customers' bulk purchase of foods, which were observed in FY2020, have settled down but net sales exceeded the pre-pandemic level as a whole. In the drugstores, there also was a backlash against the upswing of demand for anti-infection products in FY2020, while sales of prescription drugs have been increasing as people are gradually seeing doctors and visiting hospitals.

Both Seven & i and AEON have been promoting group-wide strategies eyeing on the future growth. Seven & i has been working to maximize the synergy with the US-based Speedway business acquired in May 2021. 7-Eleven International LLC, a joint venture between Seven Eleven Japan Co., Ltd. ("SEJ") and 7-Eleven, Inc. ("SEI"), is trying to embark on businesses in new countries and others. On the other hand, Seven & i is reviewing the business portfolio. With respect to Sogo & Seibu Co., Ltd. ("Sogo & Seibu"), Seven & i has been engaging in a strategic review by hiring financial advisors. AEON has indicated acceleration and evolution of the digital shift as its growth strategy. In 2023, it plans to launch a next-generation online supermarket business and is now constructing Japan's first customer fulfillment center (CFC) with cutting-edge AI and robotics functions in Chiba-City, Chiba Prefecture. AEON Mall Co., Ltd. is scheduled to open a compound commercial facility with CFC in Hachioji-City, Tokyo. As part of creation of the community-based AEON Living Zone, it integrated the management of FUJI CO., LTD., which operates regional shopping centers ("SC"), and neighborhood SC / independent SM, etc. in Chugoku and Shikoku regions, and AEON's consolidated subsidiary of Maxvalu Nishinihon Co., Ltd., which operates SM and discount stores ("DS") mainly in the same region as with FUJI and western part of Hyogo Prefecture, in March 2022.

2. Financial Results

For FY2021, both Seven & i and AEON increased revenue and income.

Seven & i increased the operating income 5.8% from the previous fiscal year to 387.6 billion yen. It is the first increase in two fiscal years. By segment, the domestic CVS, superstore business and financial services-related businesses decreased income; however, it increased income as the entire group due to the expansion of income by the overseas CVS business. SEJ in the domestic CVS business increased the same-store sales as the impact of people's voluntary restraint on going out became smaller compared

to that of the previous fiscal year and others. Despite the fact, the operating income decreased due to declining gross profit margin ratio and increased SG&A expenses. The decrease was partly attributable to increased sales composition ratio of non-foods division with relatively low gross profit margin ratio and increased personnel and utility expenses. SEI in the overseas CVS business led the entire group's performance showing that it increased operating income due partly to acquiring the revenue of the Speedway business and increased net sales of merchandize in the existing stores. Ito-Yokado Co, Ltd. ("Ito-Yokado") decreased operating income due to a decrease in net sales of merchandize in the existing stores and declined gross profit margin ratio. The impact of temporary closing became smaller compared to that of the previous fiscal year for Sogo & Seibu; however, it reported an operating loss for two fiscal years in a row.

AEON turned profitable. It also increased the operating income for the first time in two fiscal years to 174.3 billion yen, up 15.8% from the previous, and reported a net profit of 6.5 billion yen, a net loss of 71 billion yen for the previous fiscal year. By segment, businesses such as the financial services, service and specialty store, GMS and shopping center development increased income. Impacts of temporary closing and others became smaller compare to these of previous fiscal year worked positively for the service and specialty store and GMS businesses; however, the performance did not turn profitable. The shopping center development also increased income; however, the pace of performance recovery is slow due to the impact of people's voluntary restraint on going out. On the other hand, the SM business decreased income due partly to decreased same-store sales of major companies, among others; however, the operating income exceeded that of FY2019.

Financial conditions at the end of FY2021, equity ratio of Seven & i declined to 34.1% from 38.4% at the end of the previous fiscal year due partly to increased interest-bearing debt in relation to the acquisition of the Speedway business. AEON's equity ratio was 8.2%, 8.5% at the end of the previous fiscal year, and where the financial services is excluded, it was 14.9%, 15.3% at the end of the previous fiscal year. The main factors causing the decline were that the equity capital decreased due to the unfavorable net profit reported, and interest-bearing debt (long-term and short-term borrowings, CPs, corporate bonds, lease obligations and installment purchase payable, etc.) excluding the financial services increased.

Both Seven & i and AEON increased capital investment for FY2021. The amount increased in the overseas CVS business and others for Seven & i, reached 439.6 billion yen, an increase of 62.3 billion yen from the previous fiscal year. The overseas and domestic CVS businesses, which Seven & i defines growth areas, accounted for 63.3% of the entire amount. AEON reported 352.5 billion yen, an increase of 51.2 billion yen from the previous fiscal year. The main factor causing the increase was a reason of cutoff date of the previous fiscal year and others (an increase of 495 billion yen from the previous fiscal year) in the Shopping Mall Development.

3. Highlights for Rating

Both Seven & i and AEON project to increase revenue and income for FY2022.

Seven & i expects the record-high operating income of 430 billion yen, up 10.9% from the previous fiscal year, led by the overseas CVS business. Seven & i expects full year contribution of and realization of synergy effects from the Speedway business, expansion of merchandize sales of existing stores, among others in the overseas CVS business. As for the domestic CVS business, it expect to increase the same-store sales through expansion of high value-added products, enhancement of product line-up by location, expansion of the store network, which can handles on-line convenience store services. It also incorporates a performance improvement through structural reforms of Ito-Yokado, and others in the superstore business.

AEON expects operating income of between 210 billion yen and 220 billion yen, up between 20.5% and 26.2% from the previous fiscal year. It also indicates its projection for ordinary income and net income in range considering uncertainties in the future including rising costs. Premised on the alleviation of the impact of COVID-19 pandemic, AEON projects to increase income for all the segments, and turn the operating income black for GMS and services & specialty stores businesses.

Actions taken for increasing costs including rising raw material prices are the issues to be addressed. Declining profitability and deteriorated consumer confidence are concerned hereafter. Seven & i is promoting upgrading of the products under its private brand ("PB") of Seven Premium and striving for the quality improvements. It intends to review the prices after adding values meeting the customer needs to the products. AEON announced that it would hold the prices of approximately 5,000 items of TOPVALU PB products until the end of June 2022. It is also working on re-branding of TOPVALU and also expanding

local PB products. JCR will keep an eye on the outcome of various measures including the initiative toward increasing productivity.

Initiatives for integration of stores and internet, and digitalization are important for capturing demand in the future. Seven & i is accelerating its initiative to expand the number of stores that can handle the on-line convenience store service of 7NOW aiming to offer the service nation-wide in FY2024, one year earlier than the initial plan. In 2019, 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. As mentioned above, it is scheduled to commence the next-generation on-line supermarket business in 2023. It has also started providing integrated APP services of iAEON. JCR will monitor the status of contribution of these initiatives to the performance.

For FY2022, both Seven & i and AEON project to increase capital investment to 510.7 billion yen, an increase of 71 billion yen from the previous fiscal year, and between 450 billion yen and 500 billion yen, an increase of between 97.4 billion yen and 147.4 billion yen from the previous fiscal year, respectively. Seven & i intends to advance the investments relating to the group-wide strategies centering on the overseas CVS business (an increase of 40.7 billion yen from the previous fiscal year). AEON plans to shift its investment more to the strategic areas such as new stores in Vietnam, next generation on-line supermarket business, SM logistics center. Both companies will likely continue growth strategies over the medium term.

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(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
Seven & i (3382)	2020	57,667	3,663	3,573	1,792
	2021	87,497	3,876	3,585	2,107
	2022 (forecast)	96,530	4,300	4,020	2,400
AEON (8267)	2020	86,039	1,505	1,388	-710
	2021	87,159	1,743	1,670	65
	2022 (forecast)	90,000	2,100-2,200	2,000-2,100	250-300

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

* Figures for FY2022 (forecast) are the figures after adoption of the accounting standards for revenue recognition.

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

(Unit: JPY 100 mn)

	Seven & i (3382)		AEON (8267)	
	FY2020	FY2021	FY2020	FY2021
GMS*	296	187	-111	-23
CVS	3,323	3,832	-	-
SM	-	-	416	305
DS	-	-	44	27
Financial Services	480	375	426	617
Development	-	-	357	388
Department Store / Specialty Store**	-174	-81	-176	-27
Health & Wellness	-	-	415	419
International	-	-	60	55
Others	-5	-1	23	-5
Adjustment	-257	-436	48	-15
Total	3,663	3,876	1,505	1,743

* The superstore business (including SM and others) for Seven & i

** The services and specialty store for AEON

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

(Unit: JPY 100 mn, %)

Company	FY-end	Equity Capital	Interest-bearing debt*	Equity Ratio (%)
Seven & i (3382)	2020	26,689	17,612	38.4
	2021	29,809	28,987	34.1
AEON (8267)	2020	9,703	31,457	8.5
	2021	9,574	32,909	8.2

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

(Chart 4) Capital Expenditures of Two Major Retail Groups

(Unit: JPY 100 mn)

Company	FY	Capital Expenditure
Seven & i (3382)	2020	3,772
	2021	4,396
AEON (8267)	2020	3,012
	2021	3,525

<Reference>

Issuer: Seven & i Holdings Co., Ltd.

Long-term Issuer Rating: AA/Stable

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