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Highlights of Supermarket Chain Operators' Financial Results for Fiscal Year Ended February/March 2023

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/March 2023 (FY2022) and earnings forecasts for FY2023 of the following 12 supermarket chain operators (collectively, the "Companies"): LIFE CORPORATION ("LIFE"), United Super Markets Holdings Inc. ("U.S.M.H"), ARCS COMPANY, LIMITED ("ARCS"), York-Benimaru Co., Ltd. ("York-Benimaru"), Maxvalu Tokai Co., Ltd. ("Maxvalu Tokai"), Belc CO., LTD. ("Belc"), OKUWA CO., LTD. ("OKUWA") and RETAIL PARTNERS Co., Ltd. ("RETAIL PARTNERS") with a fiscal year-end in February, and VALOR HOLDINGS CO., LTD. ("VALOR HD"), YAOKO CO., LTD. ("YAOKO"), Axial Retailing Inc. ("Axial Retailing") and INAGEYA CO., LTD. ("INAGEYA") with a fiscal year-end in March.

1. Industry Trend

In FY2022, same-store sales of food and beverage products at supermarkets (SM) (according to the "Current Survey of Commerce" by the Ministry of Economy, Trade and Industry) decreased 0.1% year on year (down 0.3% year on year in FY2021). Because demand for eating at home declined due to an increase in opportunities to go out as a result of the easing of restrictions on activities, same-store sales fell year on year in the first half of the fiscal year, but increased year on year in the second half thanks to progress in upward sales price revisions.

Competitions with peers and stores in other business categories remain intense. Drugstores (DgS) and discount stores (DS) continue to expand their food product lineups, and convenience stores are also working to differentiate themselves by developing and expanding sales of private brand (PB) products. In response to these trends, SMs are continuing to open new stores and renovate existing stores, as well as improve the freshness of fresh food, expand the lineup of prepared food, and develop PB products.

All Companies are affected by continuing rises in raw materials prices and energy costs. In addition to higher procurement costs due to price hikes by food manufacturers, the intensifying savings-oriented lifestyle of consumers led to a decrease in the number of items purchased. In addition, the business environment is becoming more difficult as rising utility costs put pressure on profits. Under these circumstances, the Companies are developing and expanding sales of relatively profitable PB products, while pursuing a well-focused pricing strategy by maintaining some product prices unchanged with an attempt to increase sales volume. Many of the Companies are working on measures to improve operational efficiency in order to strengthen cost control.

In recent years, there have been moves toward industry restructuring, such as business alliances with major distribution groups, management integration of general merchandise stores and SMs within a group, and management integration with different business categories such as DgS. In April 2023, AEON CO., LTD. ("AEON") announced that it had made INAGEYA, which operates SMs and others in the Tokyo metropolitan area, a subsidiary, and plans to merge INAGEYA with U.S.M.H., an AEON subsidiary, in November 2024. In addition, KUSURI NO AOKI HOLDINGS CO., LTD . (Ishikawa Prefecture), a DgS operator, acquired the SM business from Misaki Store (Ishikawa Prefecture) in December 2022 and from Sanei (Niigata Prefecture) in March 2023, and other M&As with different business categories are also seen. Such movements of industry restructuring are expected to continue going forward.

2. Financial Results

In FY2022, the total operating revenue of the 8 Companies with a fiscal year-end in February was 3,653.9 billion yen (after the application of the revenue recognition standard; the same applies hereafter) and the total operating income was 90.9 billion yen. Compared to the figures prior to the adoption, revenue increased and income decreased year on year. The total operating revenue of the 4 Companies with a fiscal year-end in March was 1,827.9 billion yen (up 3.5% year on year), and the total operating income was 58.6 billion yen (down 0.8% year on year). While product price hikes and the effect of store openings seem to have contributed to the increase in revenue, many of the Companies saw a decline in income due to the impact of higher SG&A expenses, such as a steep rise in electricity costs.

Excluding undisclosed York-Benimaru, the total shareholders' equity of the 11 Companies increased to 1,189.0 billion yen at the end of FY2022 (up 4.5% year on year), and the combined equity ratio improved to 51.2% (50.4% at end-FY2021). Looking at free cash flow, 8 of the 11 Companies were positive and 3 were negative (5 were positive and 6 were negative in FY2021). The Companies are investing in systems to improve operational efficiency, such as new store openings, store renovation and introduction of self-checkout machines, but these investments are generally within the scope of operating cash flow.

3. Highlights for Rating

Regarding the Companies' FY2023 plans, the total operating revenue of the 12 Companies is forecast to increase to 5,641.3 billion yen (up 2.9% year on year) and the operating income is forecast to increase to 152.3 billion yen (up 1.9% year on year). Other than by opening new stores and renovating existing stores, the Companies are likely to see increased revenue by strengthening its product lineup, such as fresh and prepared foods, and expanding sales of PB products. In terms of costs, utilities expenses are expected to rise, but the negative impact can be mitigated to a certain extent by focusing on streamlining operations through DX utilization. However, in the future, in addition to rising raw materials prices and energy costs, personnel costs are also assumed to continue to increase. JCR hence believes that the importance of each Company's efforts to curb SG&A expenses will increase further.

As noted above, competition is becoming even more intense, not only in the same industry but also with other business categories such as DgS and DS. Therefore, in order to differentiate themselves from their competitors, the Companies needs to take steps to increase the number of regular customers, by, for example, distinguishing themselves with SM strengths to reinforce its lineup of fresh and prepared foods. In addition, while it seems unavoidable to increase purchasing costs from manufacturers in the future, JCR sees that it is important to maintain and increase gross profit by developing and expanding sales of relatively profitable PB products.

Because the favorable locations are scarce due to an increase in the number of stores including those in different business categories, it is becoming difficult to aggressively open new stores. Therefore, the results of the revitalization of existing stores through store renovations and initiatives for Internet supermarkets will be watched closely. Moreover, M&A has become one of the key options for expanding the business base. Going forward, M&A may be more active due to the intensifying competition environment. In order to respond to the opportunities in a flexible manner, strengthening the financial base will be indispensable, in JCR's view.

Hiroyoshi Otsuka, Mai Kanai

(Chart 1) Financial Results of 12 Supermarket Chain Operators

(JPY mn, %)

Company	Closing Month	FY2022				FY2023 (Forecast)			
		Operating Revenue		Operating Income		Operating Revenue		Operating Income	
			YoY		YoY		YoY		YoY
LIFE (8194)	Feb.	765,426	-	19,148	-16.5	801,000	4.6	19,800	3.4
VALOR HD (9956)	Mar.	759,977	3.7	20,062	-5.4	772,000	1.6	20,500	2.2
U.S.M.H (3222)	Feb.	708,690	-	6,384	-47.5	733,800	3.5	9,200	44.1
ARCS (9948)	Feb.	566,209	-	14,835	-	582,000	2.8	14,800	-0.2
YAOKO (8279)	Mar.	564,487	5.3	26,235	8.9	574,000	1.7	26,300	0.2
York-Benimaru (–)	Feb.	469,994	-	18,013	-4.2	488,600	4.0	18,200	1.0
Maxvalu Tokai (8198)	Feb.	351,107	-	10,302	-8.8	360,000	2.5	10,600	2.9
Belc (9974)	Feb.	310,826	-	14,018	-	327,381	5.3	13,677	-2.4
Axial Retailing (8255)	Mar.	254,966	3.5	10,443	1.3	256,000	0.4	8,900	-14.8
INAGEYA (8182)	Mar.	248,546	-1.1	1,899	-46.1	252,600	1.6	1,500	-21.0
OKUWA (8217)	Feb.	246,877	-	2,927	-44.1	253,000	2.5	3,400	16.1
RETAIL PARTNERS (8167)	Feb.	234,793	-	5,283	-1.7	241,000	2.6	5,500	4.1
Total of 8 Companies with fiscal year-end in February		3,653,922	-	90,910	-	3,786,781	3.6	95,177	4.7
Total of 4 Companies with fiscal year-end in March		1,827,976	3.5	58,639	-0.8	1,854,600	1.5	57,200	-2.5
Total of 12 Companies		5,481,898	-	149,549	-	5,641,381	2.9	152,377	1.9

Notes: Year-on-year increases / decreases are not stated for some items of LIFE, U.S.M.H, ARCS, York-Benimaru, Maxvalu Tokai, Belc, OKUWA and RETAIL PARTNERS for FY2022, as the accounting treatments used for the comparison are different due to adoption of Accounting Standard for Revenue Recognition, ASBJ Statement No. 29.

Source: Prepared by JCR based on financial materials of above Companies

(Chart 2) Financial Results of the Operators Subject to JCR's Rating

(JPY mn, %)

		Operating Revenue	Operating Income	Operating Income Margin	Net Income Attributable to Owners of Parent	EBITDA	Equity Capital	Interest-bearing Debt	Equity Ratio
U.S.M.H (3222)	FY2021	716,407	12,155	1.7	5,374	26,047	151,473	40,564	54.0
	FY2022	708,690	6,384	0.9	1,336	20,909	149,795	43,246	53.7
	FY2023F	733,800	9,200	1.3	2,000	-	-	-	-
RETAIL PATNERS (8167)	FY2021	239,519	5,372	2.2	3,371	9,614	74,114	14,912	64.8
	FY2022	234,793	5,283	2.3	2,917	9,488	75,158	15,690	64.1
	FY2023F	241,000	5,500	2.3	3,500	-	-	-	-
VALOR HD (9956)	FY2021	732,519	21,205	2.9	9,014	42,401	148,587	125,454	36.2
	FY2022	759,977	20,062	2.6	7,603	41,780	152,733	118,779	36.6
	FY2023F	772,000	20,500	2.7	9,300	-	-	-	-

Source: Prepared by JCR based on financial materials of above Companies

<Reference>
Issuer: United Super Markets Holdings Inc.
Long-term Issuer Rating: A Outlook: Stable

Issuer: RETAIL PARTNERS Co., Ltd.
Long-term Issuer Rating: BBB+ Outlook: Stable

Issuer: VALOR HOLDINGS CO., LTD.
Long-term Issuer Rating: A- Outlook: Stable

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