

## Highlights of Supermarket Chain Operators' Financial Results for Fiscal Year Ended February/March 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/March 2021 (FY2020) and earnings forecasts for FY2021 of the following 13 supermarket chain operators ("SM operators"; collectively, the "Companies"): LIFE CORPORATION ("LIFE"), United Super Markets Holdings Inc. ("USMH"), ARCS COMPANY, LIMITED ("ARCS"), Maxvalu Nishinohon Co., Ltd. ("Maxvalu Nishinohon"), 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 the fiscal year-end in February, and VALOR HOLDINGS CO., LTD. ("VALOR HD"), YAOKO CO., LTD. ("YAOKO"), INAGEYA CO., LTD. ("INAGEYA") and Axial Retailing Inc. ("Axial Retailing") with the fiscal year-end in March.

### 1. Industry Trend

For FY2020, same-store food sales of chain store operators (Japan Chain Stores Association) increased 4.0% on year (a 0.0% change on year for FY2019). Sales of all product items were steady underpinned by increased demand for home meals due to COVID-19 pandemic. Although same-store sales decreased from the same month a year earlier, total amount of food sales has increased compared to the pre-pandemic level. Despite the fact, it is necessary to watch how the consumer behavior changes in the post-pandemic period.

Competition is still intense not only with peers but also with stores in other business formats. Leading SM operators are opening new stores continuously to reinforce their business bases. As for trends in other business formats, convenience stores have been expanding merchandise mix for frozen foods and daily fresh foods, and drugstores and discount stores are also increasing the number of food items. In response to these movements, SM operators are increasing freshness of perishables, reinforcing variety of prepared foods, developing private branded products (PB products), etc.

Personnel costs are on an uptrend because of higher hourly wages and improved employee benefits for part-time workers among others. For FY2020, some operators provided employees working at stores with special allowance. Under such circumstances, each of the Companies is working for work-/labor-saving through introducing self-/semi-self-checkouts and automatic order placement systems, improving efficiency of in-store operations by using process centers and others. Since personnel costs are expected to increase continuously hereafter, JCR views that they will focus on the measures to hold down costs in addition to improving gross profit margin through loss reduction, etc.

Consumers' needs for foods are becoming diversified year by year. While saving-oriented mindset continues among consumers, they sometimes choose products with better quality/taste even these products are priced slightly higher. Along with increasing elderly population, consumers' health-consciousness in choosing foods will likely increase. Due to change in demographics and consumer lifestyles, consumers' needs for foods are expected to become more diverse in the future as well.

### 2. Financial Results

For FY2020, the Companies' total operating revenue and operating income stood at 6,012.5 billion yen, up 8.2% from a year earlier, and 196.4 billion yen, up 58.6% from a year earlier, respectively, marking increases in both revenue and income for the Companies. This was because the Companies' same-store sales were steady due to increased demand for home meals. The Companies' total operating income margin (versus operating revenue) increased 1.0 percentage point on year. Majority of the Companies improved operating income margin as they voluntarily suspended distributing flyers or holding special sale among others to avoid three Cs in addition to increased revenue.

An increase in same-store sales largely depends on an increase in average spending per customer. Due to expansion of the infection, majority of the Companies saw a decrease in the number of customers visiting their stores on year since customers have strengthened their tendency to avoid

close-contact with others. On the other hand, they continued to buy a large amount of goods at a time, and the average spending per customer substantially increased across the Companies.

Without large-scale investments such as a large number of store openings and M&A transactions, there are not many cases in which total investments exceed operating cash flow for SM operators. Some companies accelerated opening new stores or refurbishing existing stores, but all the Companies had positive free cash flows except for York-Benimaru, which does not disclose the free cash flow. In relation to the intensified competitions, industrial reorganizations were seen until FY2019, such as forming business alliances with large distribution groups, management integration of general merchandize stores and SM operators within the same group, forming cross-area alliances among local major SM operators, etc. However, due partly to improved business environment caused by increased demand for home meals, reorganizations, such as M&As, slowed down for FY2020.

### 3. Highlights for Rating

According to the Companies' projection for FY2021, the 12 Companies, excluding York-Benimaru, which has not determined the projection yet, project to decrease revenue and operating income. The reasons behind seemed to be settling down of the increased home meal demand, intensified competitions among stores including those operated under other business formats, and others. The total operating income of the 12 Companies is projected to be 144.6 billion yen, down 19.6% from a year earlier. All plans to decrease income. In addition to a decrease in revenue, rising personnel costs and others will likely be the negative factors. However, since demand for foods is relatively insensitive to economic trends, each of the Companies is likely to maintain a certain level of profitability by continuing to respond to diversifying consumer needs and strengthening cost control through work-/labor-saving measures.

Operating income margin is also expected to decrease for all the 12 Companies. Each of the Companies are pursuing initiatives to increase operation efficiency including joint procurement of materials and products, introducing automatic order placement systems and self-/semi-self-checkouts in addition to improving gross profit margin through loss reduction and sales expansion of PB products while personnel costs are expected to rise continuously in the future as mentioned above. Seeing that these measures will become increasingly important, JCR will continue to confirm the progress of the various measures and their outcome.

The Companies need to differentiate themselves from other companies and expand the number of regular customers by, for example, promoting their own characteristics in the lineups of perishables and prepared foods. Regarding store strategies, it is necessary to take a cautious approach to new store openings, given an increase in the number of competitors including those in other business formats, higher wages for part-time workers, etc. JCR will pay attention to the measures including reviewing floor plan through renovating stores, digitalization of stores and initiatives for on-line supermarkets in response to consumers' needs for contactless shopping, and their outcome. Moreover, M&A has become one of the major options for expanding the business base. M&A activities may become more accelerated in the future due to the intensifying competition environment. In order to respond the opportunities flexibly, the financial base should be strengthened.

Hiro Yoshi Otsuka, Mai Kanai

### (Chart 1) Financial Results of 13 Supermarket Chain Operators

(JPY mn, %, points)

Company	Closing Month	FY2020						FY2021 (Forecast)					
		Operating Revenue		Operating Income		Operating Income Margin		Operating Revenue		Operating Income		Operating Income Margin	
			YoY		YoY		YoY		YoY		YoY		YoY
LIFE (8194)	Feb.	759,146	6.2	27,388	97.3	3.6	1.7	760,000	0.1	19,000	-30.6	2.5	-1.1
USMH (3222)	Feb.	733,850	6.1	19,124	2.0x	2.6	1.3	727,000	-0.9	13,000	-32.0	1.8	-0.8
VALOR HD (9956)	Mar.	730,168	7.7	25,648	65.3	3.5	1.2	732,000	-	23,000	-10.3	3.1	-0.4
ARCS (9948)	Feb.	556,946	7.3	17,748	46.4	3.2	0.9	572,000	2.7	16,200	-8.7	2.8	-0.4
Maxvalu Nishinohon (8287)	Feb.	563,218	3.7	8,575	3.1x	1.5	1.0	550,000	-2.3	6,000	-30.0	1.1	-0.4
YAOKO (8279)	Mar.	507,862	10.3	22,458	13.0	4.4	0.1	508,600	0.1	22,300	-0.7	4.4	-0.0
York-Benimaru (-)	Feb.	477,633	6.9	16,548	26.3	3.5	0.5	-	-	-	-	-	-
Maxvalu Tokai (8198)	Feb.	355,904	31.1	11,726	64.0	3.3	0.7	346,000	-2.8	9,600	-18.1	2.8	-0.5
Belc (9974)	Feb.	284,460	18.8	11,932	14.0	4.2	-0.2	283,597	-0.3	11,308	-5.2	4.0	-0.2
OKUWA (8217)	Feb.	279,217	5.2	7,845	2.3x	2.8	1.5	270,000	-3.3	4,800	-38.8	1.8	-1.0
INAGEYA (8182)	Mar.	265,917	4.1	6,982	3.0x	2.6	1.7	260,000	-2.2	4,000	-42.7	1.5	-1.1
Axial Retailing (8255)	Mar.	256,351	6.4	12,114	28.0	4.7	0.8	238,000	-	9,900	-18.3	4.2	-0.6
RETAIL PARTNERS (8167)	Feb.	241,844	5.7	8,384	87.7	3.5	1.5	236,600	-0.2	5,500	-34.4	2.3	-1.1
Total of 13 Companies		6,012,516	8.2	196,472	58.6	3.3	1.0	-	-	-	-	-	-
Total of 12 Companies excluding York-Benimaru		5,534,883	8.3	179,924	62.4	3.3	1.1	5,483,797	-0.9	144,608	-19.6	2.6	-0.6

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

Notes:

- Figures of York-Benimaru exclude those of its subsidiary Life Foods Co., Ltd. It has not determined the performance forecast for FY2020 yet.
- Due to adoption of Accounting Standards for Revenue Recognition, Corporate Accounting Standards No. 29, accounting treatment methods used for current fiscal year and the comparative year are different for VALOR HD and Axial Retailing; therefore, year-on-year increase or decrease in operating revenue for FY2021 is not indicated.

### (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
USMH (3222)	FY2019	691,660	9,357	1.4	1,636	21,814	141,136	29,635	54.0
	FY2020	733,849	19,124	2.6	8,845	32,228	148,164	35,828	52.0
	FY2021F	727,000	13,000	1.8	4,500	-	-	-	-
RETAIL PARTNERS (8167)	FY2019	228,814	4,466	2.0	2,240	8,118	65,705	13,974	62.7
	FY2020	241,844	8,384	3.5	4,932	12,088	71,538	14,920	62.6
	FY2021F	236,600	5,500	2.3	3,400	-	-	-	-
VALOR HD (9956)	FY2019	678,096	15,515	2.3	6,477	33,927	130,749	124,870	34.1
	FY2020	730,168	25,648	3.5	12,592	44,635	142,862	120,881	35.3
	FY2021F	732,000	23,000	3.1	12,000	-	-	-	-

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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