

## Highlights of Major Retail Groups' Financial Results for Fiscal Year Ended February 2024

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 2024 (FY2023) and earnings forecasts for FY2024 of Japan's two major retail groups (the "Two 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 Stores Association, same-store sales of chain stores improved for the fourth consecutive year in FY2023 with year-on-year growth of 3.7% (1.0% for FY2022). By product category, they improved 5.0% for foods thanks to growth in average unit retail driven by price hikes, despite a decrease in the number of items purchased due to budget-minded consumer spending. For apparel on the other hand, they were sluggish, falling 0.7% because of unusual weather. Housing-related products achieved 3.7% growth, remaining strong throughout the year thanks in part to a rise in outing demand.

Business performance has been strong for retail companies on the whole. For convenience stores (CVS), both the number of customers and average customer spend have increased with recovery in the flow of people, price hikes triggered by surging raw material prices, etc., consequently pushing up average daily sales. For general merchandise stores (GMS) and supermarkets (SM), too, many companies have improved same-store sales thanks mainly to a rise in average customer spend, despite constant growth in personnel and other costs. Overall performance is tending to improve for shopping centers partly because of an increase in outing demand.

Both Seven & I and AEON are implementing group strategies with an eye to future growth. Seven & i has formulated a policy to strengthen the overseas CVS operations. In the North America CVS business, it is working to enhance original products, generate synergies from the integration of 7-Eleven, Inc. ("SEI") and Speedway LLC, execute M&A deals, etc. In the global CVS business, too, it is taking measures like entering new markets and supporting existing market growth so as to achieve 50,000 stores by FY2025 in countries/regions other than Japan and North America and to open stores in over 30 countries/regions worldwide, including Japan and North America, by FY2030. In the domestic CVS operations, it launched a SIP store, a new store format with larger sales floor and merchandise assortment than a conventional CVS, in February 2024. It plans to deploy the products proven successful to existing stores to achieve further growth. Meanwhile, Ito-Yokado Co, Ltd. ("IY") is taking steps to improve profitability by, for instance, completely withdrawing from its own apparel business and closing stores. As regards the superstore operations including IY, Seven & i has announced that it began considering an IPO at the practically earliest timing as one of the most viable options for sustainable growth.

AEON announced in February 2024 that it has agreed with TSURUHA HOLDINGS INC. and WELCIA HOLDINGS CO., LTD. to commence discussions on business integration and enter into a capital and business alliance agreement. It aims to complete the business integration by the end of December 2027, and, once completed, Health & Wellness Business will become even more important within the AEON Group and will be positioned as a core segment. Moreover, to strengthen the foundation of its SM operations in the Tokyo metropolitan area, AEON in April 2023 concluded a basic agreement with its equity-method affiliate Inageya Co., Ltd. and consolidated subsidiary United Supermarket Holdings Inc. (U.S.M.H) for business integration to realize the "1 trillion yen SM concept in the Kanto region." It made Inageya a consolidated subsidiary through a tender offer to acquire up to 51% of voting rights in the latter. The business integration with U.S.M.H and Inageya is slated to complete at the end of November 2024.

### 2. Financial Results

For FY2023, Seven & I reported lower operating revenue but higher income, while AEON achieved growth in both revenue and income. In any case, both marked a new high for operating income.

For Seven & I, operating revenue fell for the first time in three years to 11,471.7 billion yen, down 2.9% from the previous year due in part to a decline in gasoline prices in the overseas CVS operations. Yet, it achieved the third consecutive year-on-year growth in operating income, rising 5.5% to 534.2 billion

yen to mark a new high for two years in a row. By segment, the domestic and overseas CVS operations, superstore operations and financial services all achieved income growth. Seven Eleven Japan Co., Ltd. (“SEJ”) in the domestic CVS operations improved income for two years straight. Contributing factors here include a rise in outing demand and proactive implementation of various campaigns to encourage customers to visit stores. For SEI in the overseas CVS operations, the income shrank in dollar terms due to factors like a drop in gasoline prices and sales volume but improved in yen terms because of the yen’s depreciation. IY on the other hand reported operating loss due to an increase in costs associated with the development of strategic investment infrastructures, including process centers and central kitchens, despite the execution of profitability improvement measures such as merger with York, Co., Ltd.

AEON achieved growth in both operating revenue and income for the third consecutive year to 9,553.5 billion yen and 250.8 billion yen with year-on-year growth of 4.8% and 19.6%, respectively, and operating income reached a new high after four years. By segment, the GMS and SM businesses helped boost overall results. Aeon Retail Co., Ltd. at the core of the GMS business reported income growth thanks in part to an increase in the sales of Topvalu private brand products and productivity improvement with the use of digital technologies. The SM business, too, achieved income growth after three years by absorbing cost increases with growth in sales of Topvalu products, improved operational efficiency thanks to the introduction of an automated ordering system and so forth.

Looking at the financial position at the end of FY2023, Seven & i’s equity ratio rose to 35.1% from 32.9% a year before thanks in part to a decrease in long- and short-term borrowings and corporate bonds. For AEON, the ratio stood at 8.1%, as opposed to 8.0% a year before, and 14.4% when excluding Financial Services Business, as opposed to 14.5% a year before. Interest-bearing debt (long- and short-term borrowings, CP, corporate bonds, lease obligations, accounts payable-installment purchase, etc.) remains on an uptrend, except for Financial Services Business.

In terms of capital expenditures for FY2023, they rose 9.7% over the year to 473.7 billion yen for Seven & I, owing to a 33.9% increase in the domestic CVS operations with growth in investments at existing stores by SEJ. In the overseas CVS operations, spending increased only by 2.2%, thus remaining almost flat from the previous year. For SEI, total expenditures fell 4.4% in dollar terms with a decrease in investments in new stores, etc. but grew 2.2% in yen terms because of the weak yen. The overseas and domestic CVS operations, which are defined as growth areas, account for 67.8% of the total, as opposed to the previous year’s 65.9%. For AEON, total spending grew 6.8% over the year to 396.2 billion yen as investments in overseas stores increased. It is accounted for 53% by domestic stores, 19% by overseas stores and 28% by digital and logistics, as opposed to the previous year’s 56%, 14% and 30%, respectively, which shows that the composition ratio is tending to decline for domestic stores. By region, Japan accounted for 77.6% of the total, followed by ASEAN 14.1% and China 8.3%, as opposed to the previous year’s 84.5%, 11.2% and 4.3%, respectively, which is in line with the growth strategy of shifting focus to Asia set forth in the medium-term management plan.

### 3. Highlights for Rating

For FY2024, Seven & i forecasts lower operating revenue but higher income, and AEON growth in both revenue and income.

Seven & i projects to attain a record-high operating income of 545.0 billion yen, up 2.0% from the previous year. In the overseas CVS operations, while factoring in a drop in gasoline retail prices, it expects higher income by enhancing original products including fresh foods, cutting costs and so forth. In the domestic CVS operations, it plans to boost same-store sales by, for instance, expanding frozen foods, developing new products such as breads and constantly carrying out sales promotion events. In the superstore operations, it expects lower revenue but higher income with the implementation of fundamental reform initiatives by IY, including shutting down some stores.

AEON expects to renew the record high for operating income, which is forecast at 270.0 billion yen, up 7.6% from the previous year. Although it has not disclosed earnings forecast figures by segment, it nevertheless plans to achieve income growth in all segments.

As product prices continue to rise due to soaring raw material prices, consumers may become more defensive about their livelihoods. Also, SG&A expenses including personnel costs are expected to keep rising into the future. The Two Groups have already been implementing various measures aimed at sales growth and cost reductions, and JCR will keep monitoring the outcome of these efforts. At Seven & I, SEJ is working on enhancing the development of original and Seven Premium products. Seven Premium sales improved 5.1% over the year to 1,450.0 billion yen in FY2023. As a productivity improvement measure, SEJ is striving to reduce the burden of store operations by, for instance, expanding self-checkout and

introducing the AI-based ordering system. SEI, too, is working on further cost reductions through the Cost Leadership Committee while enhancing original products. As for AEON, it is focusing on developing and expanding the sales of Topvalu products. By developing value-added Topvalu, price-appealing Topvalu Best Price and eco-friendly Topvalu Gurinai products, it achieved 10.9% year-on-year growth in Topvalu sales to 1,001.0 billion yen in FY2023. To improve productivity, it is reducing the workload of store operations by expanding the introduction of self-checkout systems, utilizing AI technologies and so forth.

The integration of stores and the Internet and efforts aimed at digitalization are essential in pursuit of future growth, and JCR will closely monitor progress in such initiatives and their outcome. At Seven & I, both SEJ and SEI are working to expand the 7NOW delivery services. AEON in July 2023 launched the Green Beans online market and is successfully increasing membership.

Seven & I and AEON both plan to increase capital expenditures in FY2024: 575.7 billion yen for Seven & I and 500 to 550 billion yen for AEON, an increase of 101.9 billion yen and 103.7 to 153.7 billion yen from the previous year, respectively. For Seven & I, the domestic and overseas CVS operations account for 68.1% of the total, and the intensive allocation of investments to these two businesses remains unchanged. Looking at AEON's spending plan, investments in domestic stores account for 50% of the total, followed by overseas stores 25% and digital/logistics 25%, as opposed to the previous year's 53%, 19% and 28%, respectively, and JCR assumes that AEON will accelerate its shift to Asia. Attention will be paid to progress in investments in the overseas business, a priority area for both of the Two Groups, as well as the status of profit contribution.

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

(JPY 100 mn)

Company	FY	Operating Revenue	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent
Seven & I (3382)	2022	118,113	5,065	4,758	2,809
	2023	114,717	5,342	5,070	2,246
	2024 (forecast)	112,460	5,450	5,020	2,930
AEON (8267)	2022	91,168	2,097	2,036	213
	2023	95,535	2,508	2,374	446
	2024 (forecast)	100,000	2,700	2,600	460

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

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

(JPY 100 mn)

	Seven & I (3382)		AEON (8267)	
	FY2022	FY2023	FY2022	FY2023
GMS*	123	135	140	283
Domestic CVS	2,320	2,505	-	-
Overseas CVS	2,897	3,016	-	-
SM	-	-	228	419
DS	-	-	36	84
Health & Wellness	-	-	448	426
Financial Services	371	381	590	512
Developer	-	-	452	473
Services and Specialty Store	-	-	102	172
International	-	-	128	103
Others	25	26	-41	-115
Adjustment	-673	-723	10	147
Total	5,065	5,342	2,097	2,508

\* Superstore operations (including SM and others) for Seven & I

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

(JPY 100 mn, %)

Company	FY-End	Equity Capital	Interest-bearing debt*	Equity Ratio
Seven & i (3382)	2022	34,745	29,757	32.9
	2023	37,165	27,386	35.1
AEON (8267)	2022	9,925	34,831	8.0
	2023	10,541	37,156	8.1

\* 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

(JPY 100 mn)

Company	FY	Capital Expenditures
Seven & i (3382)	2022	4,319
	2023	4,737
AEON (8267)	2022	3,708
	2023	3,962

<Reference>

Issuer: Seven & i Holdings Co., Ltd.

Long-term Issuer Rating: AA      Outlook: Stable

Issuer: AEON CO., LTD.

Long-term Issuer Rating: A      Outlook: Stable

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