22-D-0281
June 22, 2022

Highlights of Supermarket Chain Operators' Financial Results for Fiscal Year Ended February/March 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/March 2022 (FY2021) and earnings forecasts for FY2022 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 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 FY2021, same-store food and beverage sales of supermarkets ("SM") (Current Survey of Commerce, Ministry of Economy, Trade and Industry) slightly decreased over the year, a decrease of 0.3% (an increase of 4.5% over the year for FY2020), due partly to settling down of the consumer behavior of buying goods in bulk caused by expansion of the COVID infection, which was observed in FY2020. It is necessary to watch how the consumer behavior changes in the post-pandemic period.

Competitions with peers and also with stores in other business formats are still intense. Leading SM chains are continuously opening new stores and renovating existing stores to reinforce their business bases. As for other business formats, convenience stores have been expanding merchandize mix for frozen foods and daily fresh foods, and drugstores ("DgS") and discount stores ("DS") are also increasing the number of food items they handle. In response to such movements, SM is increasing freshness of perishables, reinforcing variety of prepared foods, developing private branded products (PB products) and others.

At present, purchase costs are continuously rising as shown that food manufacturers increase product prices due partly to soaring raw material prices. In relation to this, SM has also increased prices of some products. On the other hand, some companies have announced to maintain prices of PB products with a concern for growing consumers' money-saving mindset or increasing a wait-and-see stance in purchasing goods. Product and energy prices have been rising; therefore, deterioration in consumer confidence and negative impacts given to the Companies' performance are concerned.

Amid intensifying competition environment, companies in the industry actively engage in reorganization. In April 2021, ARCS, mainly operates stores in Hokkaido and Tohoku regions, made OTANI, unlisted, based in Tochigi Prefecture, as a wholly owned subsidiary. In March 2022, FUJI RETAILING, which operates general merchandize stores and SM primarily in Ehime Prefecture, and Maxvalu Nishinihon, which was a consolidated subsidiary of AEON, integrated the management. Subsequently, the reorganization as mentioned above will likely continue.

2. Financial Results

For FY2021, the total operating revenue and operating income of the eight companies, with the fiscal year-end in February, stood at 3,701.6 billion yen, up 0.3% over the year, and 100.3 billion yen, down 16.9% over the year respectively. The operating revenue was affected by the rebound of the substantial increase with an increase of 9.2% over the year recorded in the previous fiscal year with an occurrence of consumers' bulk purchases caused by the COVID crisis, and others. It was also suffered from the unseasonal weather in the summer time. Despite the fact, some companies increased operating revenue through M&A, opening new stores and renovating existing stores. On the other hand, operating income decreased due to increased advertising and promotion expenses, which was restrained, and capital expenditures such as opening new stores and renovating existing stores. For FY2020, all the eight companies increased revenue and income; however, for FY2021, majority decreased income as shown that one increased revenue and income, three increased revenue and decreased income and four decreased revenue and income. For the companies with the fiscal year-end in March, many of them decreased income observing from the figures adjusted for the impact of adopting the accounting standard of revenue recognition. Despite the fact, all exceeded the operating income of FY2019, before taking place of full scale expansion of the infection.

For FY2021, many of the Companies decreased the same-store sales over the year. For FY2020, consumers actively purchased a large amount of goods at a time and the average spending per customer substantially increased; however, the situation have come to the end. On the other hand, a pace of recovery in the number of customers visiting stores is slow.

For FY2021, of the 11 companies excluding York-Benimaru, which does not disclose the information, free cash flow was positive for five companies and negative for six companies, all the eleven companies were with positive free cash flow for FY2020. The companies with the fiscal year-end in February decreased the cash flow from operating activities over the year partly because the last day of FY2020 was not a business day of financial institutions. Looking at the cash flow from investment activities, some companies substantially increased the amount of payment. This was because of increased investment toward improving operational efficiency such as introduction of self-/semi-self-checkouts besides opening new stores and renovating existing stores.

With the backdrop of increased number of companies with negative free cash flow for FY2021, interest-bearing debt increased as a whole while equity capital has consistently increased through profit accumulation. Thereby, financial structure has not deteriorated significantly.

3. Highlights for Rating

According to the Companies' projection for FY2022, the total operating revenue and operating income for four comparable companies with the fiscal year-end in March was 1,795.5 billion yen, up 1.6% over the year, and 61.6 billion yen, up 4.2% over the year, respectively. The companies with the fiscal year-end in February, which disclosed the figures adjusted for the impact of adopting the accounting standard for revenue recognition, also expect to increase both revenue and income. In addition to increasing sales through enhancing product mix of perishables in response to customer needs, developing PB products, renovating existing stores, among others, the increases seem to be attributable to the effects of the cost structural reforms such introduction of self-/semi-self-checkouts and others. Despite the fact, present same-store sales have been below the level of the previous fiscal year for many companies since demand for dining out has increased while that for home meals has decreased partly because of relaxation of the restriction on the people's activities, and other factors. JCR will keep an eye on the future trend as there are matters to be concerned such as rising cost of purchases.

In addition to the personnel cost, utilities expense is also increasing; therefore, JCR views the efforts for improving operational efficiency and restraining costs will become more important. The Companies seem to continue placing emphasis on the enhancement of cost control through work-/labor-saving by taking advantage of self-/semi-self-checkouts and automatic order placement systems, and also reviewing logistics, etc. JCR will watch the progress of the various initiatives and the outcome.

As mentioned above, competition is intense not only with peers but also with stores in other business formats including DgS and DS. Therefore, the Companies need to advance the initiatives to increase regular customers by differentiating themselves from other companies, for example, promoting their own characteristics in the lineups of perishables and prepared foods. Development and sales expansion of PB products are also important for differentiation, and the Companies can be able to prevent themselves from falling in extreme price competitions by adding extra value to products, in JCR's view. For the store strategies, a cautious approach should be taken for new store openings given the increased competitors including those in other business formats, higher wages for part-time workers, etc. Key factors are the outcome of 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. Moreover, M&A has become one of the key options for expanding the business base. Going forward, M&A may become more popular due to intensifying competition environment. In order to respond to the opportunities in a flexible manner, strengthening the financial base is indispensable, in JCR's view.

Hiroyoshi Otsuka, Mai Kanai

(Chart 1) Financial Results of 12 Supermarket Chain Operators

(JPY mn, %)

Company	Closing Month	FY2021				FY2022 (Forecast)			
		Operating Revenue		Operating Income		Operating Revenue		Operating Income	
			YoY		YoY		YoY		YoY
LIFE (8194)	Feb.	768,335	1.2	22,932	-16.3	770,000	-	23,200	1.2
VALOR HD (9956)	Mar.	732,519	-	21,205	-	750,000	2.4	22,700	7.0
U.S.M.H (3222)	Feb.	716,407	-2.4	12,155	-36.4	721,000	1.1	15,000	23.4
ARCS (9948)	Feb.	577,568	3.7	15,562	-12.3	563,000	-	15,150	-
YAOKO (8279)	Mar.	536,025	5.5	24,081	7.2	546,000	1.9	25,500	5.9
York-Benimaru (–)	Feb.	478,144	0.1	14,704	-11.1	475,900	2.3	19,000	29.2
Maxvalu Tokai (8198)	Feb.	354,907	-0.3	11,296	-3.7	348,000	-	10,800	-4.4
Belc (9974)	Feb.	300,268	5.6	13,072	9.6	296,166	-	13,193	-
OKUWA (8217)	Feb.	266,532	-4.5	5,233	-33.3	252,000	-	5,400	3.2
INAGEYA (8182)	Mar.	251,417	-5.5	3,525	-49.5	252,000	0.2	3,600	2.1
Axial Retailing (8255)	Mar.	246,450	-	10,310	-14.9	247,500	0.4	9,800	-4.9
RETAIL PARTNERS (8167)	Feb.	239,519	-1.0	5,372	-35.9	232,000	-	5,400	0.5
Total of 8 Companies with fiscal year-end in February		3,701,680	0.3	100,326	-16.9	3,658,066	-	107,143	-
Total of 4 Companies with fiscal year-end in March		1,766,411	-	59,121	-	1,795,500	1.6	61,600	4.2

Notes:

1. Figures of FY2022 (Forecast) of York-Benimaru include those of its subsidiary, Life Foods Co., Ltd., acquired on March 1, 2022.
2. Due to adoption of Accounting Standard for Revenue Recognition, ASBJ Statement No. 29, year-on-year increase or decrease are not stated for some items of VALOR HD and Axial Retailing for FY2021 as the accounting treatments used for the comparison are different.
3. Due to adoption of Accounting Standard for Revenue Recognition, ASBJ Statement No. 29, year-on-year increase or decrease are not stated for some items of LIFE, ARCS, Maxvalu Tokai, Belc, OKUWA and RETAIL PARTNERS for FY2022 (Forecast) as the accounting treatments used for the comparison are different.
4. Year-on-Year increase and decrease of operating revenue for FY2022 (Forecast) of U.S.M.H and York-Benimaru are the comparison with those adjusted for impacts of 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)	FY2020	733,850	19,124	2.6	8,845	32,228	148,162	35,828	52.0
	FY2021	716,407	12,155	1.7	5,374	26,047	151,473	40,564	54.0
	FY2022F	721,000	15,000	2.1	6,000	-	-	-	-
RETAIL PATNERS (8167)	FY2020	241,844	8,384	3.5	4,932	12,088	71,538	14,919	62.6
	FY2021	239,519	5,372	2.2	3,371	9,614	74,114	14,912	64.8
	FY2022F	232,000	5,400	2.3	3,400	-	-	-	-
VALOR HD (9956)	FY2020	730,168	25,648	3.5	12,592	44,635	142,862	120,881	35.3
	FY2021	732,519	21,205	2.9	9,014	42,401	148,587	125,454	36.2
	FY2022F	750,000	22,700	3.0	11,500	-	-	-	-

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

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026