

## Revisions to Rating Methodology by Sector “Foods” and “Land Transportation”

Japan Credit Rating Agency, Ltd. (JCR) hereby announces that it has revised its Rating Methodology by sector “Foods” and “Land Transportation.”

The revisions to “Foods” are the result of JCR’s considerations as announced in the press release “JCR Solicits Public Comments on Revisions to Rating Methodology by Sector ‘Foods’” dated February 9, 2026. The rating methodology has been revised as proposed at the time of solicitation.

The revisions to “Land Transportation” do not alter the framework, concept, treatment or other details of the methodology. Descriptions have been revised to reflect recent trends and other factors in the explanation of characteristics unique to the industry, which form the basis for the rating methodology, or to make the explanation of the concept easier to understand.

There are no individual ratings that require reviews as a result of the revisions.

The revised rating methodologies will be posted on JCR’s website under “Rating Methodologies: Corporates” ([https://www.jcr.co.jp/en/rinfo/meth\\_corp/](https://www.jcr.co.jp/en/rinfo/meth_corp/)).

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

## Rating Methodology by Sector

### **Foods**

In this rating Methodology, a wide range of companies related to processed foods and beverages are targeted, centering on food processors, such as livestock and fishery businesses positioned upstream in the commercial flow, as well as downstream food-related distribution and wholesaling businesses.

#### **1. Business base**

With the matured market and low barriers to entry, sales competition in the domestic food industry is severe. In addition to the ability to develop new and high-value added products, marketing and branding skills significantly affect the earning capacity of each company, and therefore, analyzing such qualitative aspects is important. Besides dealing with food products in multiple categories, a great number of companies also enter non-food businesses such as pharmaceuticals and distribution. Therefore, it is essential to grasp the characteristics of the market and earning sources, roles, risks, and other factors.

##### (1) Characteristics of the industry

###### (i) Market overview

While domestic demand for food products is significantly correlated with the population, demographic change itself is small in Japan. With the exception of some categories such as beer and other beverages, for which demand is considerably affected by changes in weather, the medium-term demand is generally more stable than in other industries. JCR's credit rating for the food industry reflects the stability of performance based on the stable demand.

In the long run, however, a decline in demand caused by the shrinking and aging population is inevitable. Demands in some categories are structurally decreasing due to changes in dietary habits and preferences. Many food companies are expanding their business into new categories or overseas markets, seeking mid-to-long term growth and maintenance of earning capacity. There have also been an increasing number of cases of company acquisition, merger, integration and alliance for business base enhancement. For such investments for earnings growth, JCR focuses on each company's policy and effects on the financial structure, among others.

###### (ii) Competitive situation

Low barriers to entry and the infrequent technological innovation required for food products make sales competition intense. Companies also need to respond to consumers' price sensitivity. For these reasons, JCR places emphasis on each company's efforts for competition and sales expansion, including improvement of brand power, development of high-value-added products, and effective use of marketing budgets. For those

categories going through industrial reorganization due to market shrinkage, JCR pays attention to the progress in reorganization and changes in market shares of the companies, among other factors.

### (iii) Cost structure

The more processed the food, the higher the gross margin tends to be. Yet, highly processed products tend to require a heavier burden of marketing expenses, often resulting in a significant loss at the operating profit level. Also, profitability and the difficulty of passing on costs through pricing are different between business-use products and commercial products. The business-use products include those for processed food manufacturers, home-meal replacement and restaurant industries, and private-labels for retailers. For such products, customers' requirements for products and prices are strict, but marketing expenses are unnecessary. As these products are custom-made, stable sales volumes can be expected once sales commence. It is relatively easy to pass on raw material cost price increases. Meanwhile, regarding private labels for nationwide retailing, there are often bidding for adoption. Because the scale of such business is large, if adoption ends, it has a large impact on the company's earnings. Additionally, major retailers have price negotiation power, resulting in strong downward pressure on prices. Commercial products, on the other hand, are essential for improving the brand power of food companies while requiring a heavy burden of marketing expenses and frequent product modification and discontinuation. JCR evaluates how the income characteristics of each product and portfolio affect the mid-to-long-term earning capacity.

### (iv) Risks related to policies

Some categories are resistant to intense sales competition because of government regulations geared at protecting domestic agriculture, such as grain milling and sugar manufacturing. Along with the requirement to purchase domestic raw materials to protect domestic agriculture, restrictions apply to the quantities of imported raw materials, on which surcharges are imposed for the protection of agriculture. Raw material prices are, thus, set, which limits the room for cost reductions through a company's own initiatives while making price competition rather unlikely. Despite a large number of industry peers, the income of these categories is relatively stable. Because, however, changes to regulations, among others, may create a risk, the possibility of changes made to each framework and the effects resulting from such changes must constantly be analyzed.

## (2) Important factors in market position and competitiveness

### (i) Market position

Products with a large market share in each food category are well recognized by consumers and indispensable in retailing. The more such products a company has, the more stable the sales volumes and the higher the production efficiency it enjoys. These products can also increase the bargaining power in determining supply conditions, such as prices and shelf space. It is fundamental to confirm the market and the number of product lines of each company's products with a large market share.

A large market share also increases the brand power of food companies. Powerful brands promote consumer

trust and a sense of security, which contributes to the sales not only of a company's existing products but of new products. Products of powerful brands tend also to be invulnerable to low-price competition. JCR monitors each company's measures to strengthen its brands.

(ii) Ability to procure raw materials

The recent market prices are exposed to volatility that is higher than the past, owing to frequently occurring unseasonable and extreme weather conditions, epidemics, increasing populations in emerging countries, changes in dietary habits associated with economic growth, the rise of biofuels, inflows of speculative funds, and geopolitical risks. Companies are diversifying their suppliers and procurement methods to control the risks associated with raw material procurement. Together with the trends in the prices of major raw materials, procurement methods must also be verified. Given the large amount of imported raw materials, JCR has a good grasp of the effect of foreign exchange and hedging methods.

(iii) Price pass-through

To maintain earning capacity, it is important to appropriately reflect fluctuations in raw material prices in product prices. In recent years, the increase in distribution and labor costs has also become significant, and it is necessary to pass these costs through according to the situation. Regarding food price increases, consumers react sensitively, greatly affecting demand, and retailers and wholesalers also have strong resistance. Since the sales competition is intense, there are many cases where price revisions are decided by considering the situation of competitors. Therefore, it takes a long time for price pass-through to permeate. In addition, evaluations are conducted with awareness that there are disparities in the difficulty of price pass-through depending on product groups due to competitive conditions. On the other hand, since there are many cases where sales volume declines because of price pass-through, JCR will verify whether there is any impact on medium-term sales volume.

(iv) Cost competitiveness

The food industry, under constant downward pressure on prices, needs continuous rationalization to facilitate production and cost reductions. Improved cost competitiveness allows lower product prices, resulting in increased sale volumes that lead to even better cost competitiveness. JCR monitors each company's measures aimed at rationalization and cost reductions during the entire process, from production to distribution.

(v) Marketing expenses

Marketing expenses for sales promotion and advertising are an absolute necessity to increase consumers' willingness to buy its products and a company's brand power. While effective use of marketing expenses increases sales volume, inadequate use conversely puts pressure on profits. Promotional expenses, in particular, often become funds for retail bargain offers, which tend to increase with sluggish consumption and retail buying power. In addition to monitoring the effect of an increase or decrease in such marketing expenses on

net sales, JCR examines each company's investment policy, method of effectiveness verification, management method, ability to control expenses, and other factors.

#### (vi) Business portfolio and overseas expansion

In addition to food manufacturing, food companies often engage in such businesses as wholesale, distribution, home-meal replacement, restaurant, pharmaceutical and real estate. The profitability of each business and synergy between different businesses must be examined. In response to the shrinking domestic market, many companies are entering overseas markets, seeking growth. JCR monitors the market trends and growth potential of areas companies enter.

Since building a business base from scratch when entering a new category or overseas markets would take very long time, alliances or mergers and acquisitions are used in many cases. JCR investigates the size of investment and effect on financial affairs and monitors future contributions to profits, synergies, and other outcomes of such activities.

#### (vii) Safety and security

The concept of "safety and security" is the basis of a food company, which is a crucial point in assigning credit ratings. JCR confirms the process of manufacturing and distribution, compliance with traceability requirements, and other activities for legal compliance. JCR incorporates the fact that basically there are no problems on safety and security into ratings. Accordingly, when a problem arises in this respect, specific details, measures taken, and effects on the business and performance need to be investigated and incorporated into credit ratings.

## 2. Financial base

### (1) Earning capacity

Operating profit is an indicator of a company's earning capacity, influenced by its brand power and the competitive advantage of its products in the market. Therefore, JCR evaluates the company's business base by confirming the size and stability of operating profit. The gross profit margin is affected by a product's production efficiency, value-added level, and ability to shift the cost of raw materials to the product prices. Meanwhile, the operating profit margin is influenced by the brand power capable of countering consumers' preference for low prices and retail buying power, and the ability to control marketing expenses. Understanding the products and categories that increase profitability and assessing sustainability are also important.

Key financial indicators:

- Operating profit
- Gross profit margin
- Operating profit margin

### (2) Cash flow generation capacity

In the food business, there are many investments aimed at improving production streamlining and labor

reduction to enhance price competitiveness, as well as investments for safety and security. Since these are investments that do not directly lead to an increase in sales, it is necessary to monitor both the securing of cash flow and the progress of investment recovery. Additionally, although an increasing number of companies are expanding investments in overseas markets with growth potential, it takes time for market penetration due to differences in food culture and dietary habits. To support these medium- to long-term investments, cash flow generation capacity is important, and JCR will check the level and trend of EBITDA. Also, to understand the balance between the planned investments and the cash flow generation capacity, the trend of the ratio of interest-bearing debt to EBITDA will be examined from a long-term perspective.

Key financial indicators:

- EBITDA
- Ratio of interest-bearing debt to EBITDA

### (3) Safety

Considering the long-term business environment, including a future decline in domestic demand, companies are likely to make more active efforts to maintain and improve their performances by advancing into global markets and new categories or by industry reorganization. Mergers and acquisitions are also expected to be pursued aggressively, which will require investment capacity to obtain acquisition funds. In addition, capital investments are more required for labor reduction and automation to cut personnel costs and labor load. Therefore, JCR will confirm the current status and outlook of the financial structure by the size of equity, the equity ratio and the debt/equity ratio. The financial structure of food companies is basically favorable with a stable earning structure, and, therefore, the companies are considered to maintain some investment capacity. Those companies that are eager to make investments, however, must be monitored for their financial resistance to an increase in interest-bearing debt and goodwill.

On the other hand, it is also necessary to check the inventory status of raw materials and products. Especially in cases where companies also engage in food wholesale such as fisheries and livestock, fluctuations in market conditions and economic changes can lead to inventory losses in stock and loan loss allowances for sales receivables, posing potential instability factors for profits. JCR will assess the soundness of the financial position, paying attention to the proportion of working capital within interest-bearing debt, and examining the inventory turnover period and working capital turnover period to determine whether inventory is being properly managed

Key financial indicators:

- Equity capital
- Equity ratio
- Debt/equity ratio
- Inventory turnover period
- Working capital turnover period

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## Rating Methodology by Sector **Land Transportation**

This rating method (the “Rating Method”) applies to land transportation companies that mainly operate the following businesses in Japan: i) Business-to-Business Logistics (“special loading motor truck transportation”); ii) door-to-door delivery; and iii) third-party logistics (“3PL”). Along with their respective businesses, many land transportation companies also operate other businesses. For this reason, the following mainly indicates the common concepts while appropriately addressing the points that should be focused according to the characteristics of respective businesses.

### **1. Business base**

Many land transportation companies mainly operate businesses in Japan. Some companies operate businesses overseas, but many of their businesses are from overseas operations of customers who have business transactions with them in Japan. In general, logistics is a non-core business that does not create value for customers and is easily targeted for improving efficiency. Therefore, it is important for land transportation companies to ensure the proposal ability to optimize the customers’ logistics that contribute to an improvement in efficiency of the entire supply chain, and to secure information systems and logistics networks to execute those proposals.

#### (1) Characteristics of the industry

##### (i) Market overview

Land transportation business is basically a domestic demand-oriented industry and is often highly linked to domestic economic conditions. However, it is important to understand the characteristics of the industry to which customers belong, and then to monitor the trends along with the macroeconomics. For the land transportation companies mainly engaging in special loading motor truck transportation business that consolidate cargos collected from numerous unspecified shippers onto a single truck, the impact on the cargo handling volume and others caused by fluctuations in customers’ business performance and other factors are checked. For companies mainly engaging in 3PL business that take on contract work and comprehensive logistics operation of customers often have stronger ties with customers compared to operators of special loading motor truck transportation and door-to-door delivery. Therefore, JCR will pay attention to the impact of customers’ performance trends and management policies on land transportation companies in particular. In order to improve logistics quality and transportation efficiency, an advantage in the system perspective is also important to handle overall operations of customers. Therefore, JCR will also check the system-related investment status. For companies engaging in door-to-door delivery business, the most delivery destinations are individual residences. For this reason, it is more important to check the status of transportation efficiency

compared to that of operators of special loading motor truck transportation and 3PL.

(ii) Competitive situation

In any of special loading motor truck transportation, door-to-door delivery and 3PL businesses, there are limited number of operators that can flexibly and promptly respond to logistics needs of major customers on a nationwide basis. Since competitions within this situation are unavoidable, competitive situation and the changes are checked through understanding business relationship with customers and others. In 3PL, there is a tendency to maintain long-term stable business relationships with specific customers, and this creates relatively high entry barriers. Since differences in abilities of making proposals to customers often influence acquisition of new customers and receiving new business from existing customers, JCR ensures the situation of development of new customers and entry of other companies to existing customers' business through understanding the logistics operations offered and system investment status of each company.

(iii) Cost structure

The land transportation industry is a process industry and also a labor-intensive, and proportion of fixed costs tends to be high. The main costs are labor, vehicle hiring, and fuel costs. Vehicle hiring costs are variable costs to cover seasonal fluctuations in freight transportation volumes through outsourcing, but in reality, companies tend to carry excess capacity in off-peak periods securing a transportation capacity in line with busy seasons. Therefore, it has strong nature of a fixed cost. With respect to labor costs, JCR will also examine the impact on costs associated with improving working conditions to secure drivers.

(2) Important factors in market position and competitiveness

(i) Market position

Companies operating special loading motor truck transportation that have established own nationwide logistics network have increased the density of their logistics networks through cooperating with companies for hiring vehicles and concluding business partnerships with peers. This helps to mitigate the impact of seasonal fluctuations and improve transportation quality, such as increasing the on-time delivery rate. Door-to-Door delivery requires an even finer logistics network than that for special loading motor truck transportation, but the market is in a state of oligopoly since only a limited number of companies can operate the business on a nationwide basis. However, since some e-commerce operating companies organize small-scale logistics companies and carry out part of the delivery services, JCR will check the impact of these. As for outsourcing and 3PL, the entry barriers are high, and the share for each major customer is relatively stable. However, there are cases where companies mainly operating special loading motor truck transportation business and door-to-door delivery offer proposals combing their businesses with 3PL services to customers. Therefore, it is important to grasp the fluctuations in shares within a customer and the status of acquiring new business to understand any changes in the competitive status.

#### (ii) Customer base

To grasp the situation of the customer base, JCR monitors the customers, transaction status and revenue contribution on a continuing basis, not only for outsourcing and 3PL business operators where the relationship with the customers is relatively strong, but for operators of the special loading motor truck transportation and door-to-door delivery, to check the stability of transactions with customers. Where the degree of dependency on specific customers is high, JCR also checks the impact of fluctuations in the customers' business performance and changes in their management policies. Furthermore, JCR understands the status of expansion of customer bases through acquisition of new customers and the receiving new projects from existing customers.

#### (iii) Transportation quality

Transportation quality primarily indicates the ability to respond to diversifying and becoming more complex needs of customers including overseas development such as punctuality in delivery, cargo security, flexible responses to the nature and amount of goods, and other factors. Believing that maintaining high transportation quality would win confidence of customers and secure competitive advantages over industry peers. JCR checks measures of respective companies for increasing transportation quality, their progress and outcomes.

#### (iv) Infrastructure

The infrastructure broadly consists of a logistics network (logistics bases and transportation / delivery routes) and a information system. Drivers including those in subcontracted transportation service providers are also included in infrastructure. Since not all infrastructure needs to be owned by a company itself where transportation quality required by the customer is satisfied and maintained, JCR checks situation of logistics network construction including usage of subcontracted transportation service providers and collaboration with peers who operate in other areas and their effectiveness. Information system is significant infrastructure to maintain transportation quality and increasing customers' logistics efficiency. For this reason, JCR checks situation of costs required for maintaining and expanding logistics network and the future outlook as well as status of strengthening the system.

#### (V) Cost competitiveness

While it is considered difficult to continuously reduce labor costs related to drivers and vehicle hiring cost in the situation where maintaining/expanding logistics network is required in order to secure transportation quality, JCR will pay attention to the initiatives that absorb cost increases through improving transportation efficiency and advancing automation of logistics facilities as well as their outcomes. As for transport efficiency, JCR will check not only efforts made by a company, but also joint efforts made with peers such as joint transportation. It is also important to understand the cost reduction situation in indirect departments through promoting an improvement in operational efficiency.

## 2. Financial base

### (1) Earning capacity

To understand the order intake situation, a trend in net sales is checked. At that time, it is necessary to understand factors causing increase and decrease in net sales by analyzing the following situations: acquisition of new customers, expansion of domains where orders come from existing customers and price revisions. To grasp the progress in improvements in transportation efficiency and operational efficiency including indirect departments, ensure increase and decrease in major items under operating expense as well as the factors causing such situation at the same time of paying attention to the levels and changes in operating profit and operating profit margin.

Key financial indicators:

- Net sales
- Operating income
- Operating profit margin

### (2) Cash flow generation capacity

Land transportation companies continuously implement measures such as strengthening logistics networks and system investments to enhance their responsiveness to customer needs. To understand the status of returns on past capital investments and M&As, EBITDA, which indicates cash flow generation capability, is checked. Furthermore, by grasping free cash flow, the difference between operating cash flow and investment cash flow, the presence or absence of external financing associated with investments is ensured. To conclude the following items, JCR checks the trend in interest-bearing debt/EBITDA ratio and the outlook: whether the interest-bearing debt at present is excessive compared to EBITDA, which indicates cash flow generation capability, whether a company is making progress in reducing a financial burden relative to cash flow through gaining the initially anticipated EBITDA, and the balance between future investment plans and cash flow generation capacity.

Key financial indicators:

- Cash flow from operating activities
- Free cash flow
- EBITDA
- Ratio of interest-bearing debt to EBITDA

### (3) Safety

An investment burden increases to respond to the needs of customers, resulting in a possibility of creation of a higher burden on financials. In addition, there may be a situation where asset value of logistics facilities may decline or loss may need to be recorded in relation to renovation of existing logistics facility. Therefore, a considerable financial resilience will probably be required. For this reason, the sizes and trends in interest-bearing debt and equity capital are checked together with conducting analysis on the levels and trends in debt-

equity ratio and equity ratio to ensure the current situation of the financial structure and outlook. Furthermore, JCR will also check the status of lease-related obligations.

Key financial indicators:

- Interest-bearing debt
- Shareholders' equity
- Debt equity ratio
- Equity ratio

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