Retail Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
The analysis covers comprehensive assessments on the company’s competitive market position, which could be quantitatively and qualitatively determined using the company's market share, size in terms of sales value and coverage, brand recognition, as well as its growth history and anticipated growth prospect going forward. The analysis also cover the assessments on the company's ability in providing good services and quality merchandises with competitive prices, which would satisfy customer demand and positively affect the company's performance in both business and financial sides. Moreover, the company's strategy to address the challenges in response to changes and potential changes in the marketplace is highly considered, since inability to successfully identify and exploit new markets or opportunities would negatively influence its future operating results. In addition, types of retailing activities are taken into account, as different types of retailing vary in terms of barriers to entry, fashion and obsolescence risks, cyclicality and seasonality. The company’s customer base, store concept/format and pricing policy are also considered in the rating assessments.

Marketing and Distribution Channel
The analysis covers diligent reviews on the company's marketing policy, strategy, and distribution network in an effort to attract customers and provide good shopping experiences and conveniences for customers. In general, good and innovative marketing and merchandising, as well as store/layout remodeling and renovation programs can stimulate sales. The assessments also consider the development of a strong private-label business as a value alternative for consumers, which could retain customer loyalty and provide better margins. Moreover, the company’s number of outlets and other supporting facilities in strategic locations in order to come closer to customers, and the company's market expansion strategy (aggressive vs. conservative) are also incorporated in the rating consideration.

Diversification
The analysis includes risk assessments on the company's diversification strategy and policy in terms of products, store formats, target customers and geographic coverage in an effort to maintain steady revenue stream. In general, excellent strategy of product mix/merchandise assortments to fulfill its target market's necessities, appropriate store formats to cater different customers' segments and sufficient geographic diversity of the company's outlets to improve sales are important factors in retail industry to successfully do business.

Operating Management
The analysis include thorough reviews on how well the company manages its daily business operation, as a failure to effectively and efficiently manage the operation would adversely affect the company's future operating results. The company's cost control strategy and policy is also diligently assessed, as the company's strong ability to control costs is crucial, particularly in the fiercer competition business environment. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company’s ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company’s competitiveness. The analysis is helpful to measure operating efficiency and the company’s flexibility in adjusting selling price. The company's inventory strategy and policy is also analyzed, as a good inventory management will minimize slow moving and/or obsolete inventory so that there will be lower inventory costs, thus lead to lower and competitive merchandise prices. The use of information technology especially in inventory management to monitor flow of goods in order to have more efficient operation in terms of time and cost and the company's purchasing power with respect to suppliers are also incorporated in the rating consideration. Generally, larger players have
competitive advantages, as they have stronger bargaining power and economies of scale in transportation, logistics, purchasing and advertising.

FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management's philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

Capital Structure
The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

Cash Flow Protection And Liquidity
The analysis covers thorough reviews of the company's cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt-servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

Financial Flexibility
The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.
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