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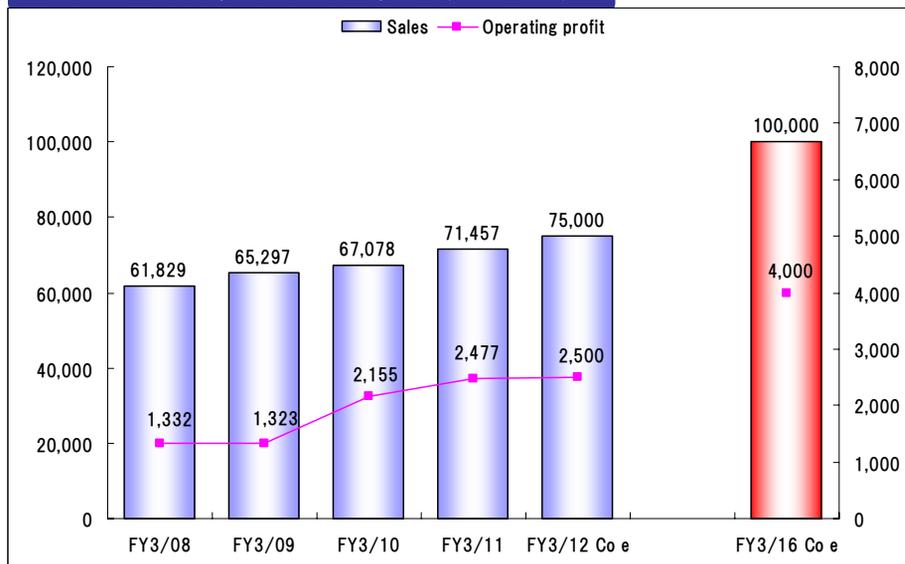
■ Expanding two main businesses while building a third

The two main businesses of G-7 Holdings are the sale automobile parts and supplies and the operation of “business supermarkets”. The first business is conducted by subsidiary Auto Seven Co., a franchisee of Autobacs Seven (9832). The second business is conducted by subsidiary Sunseven Co., a franchisee of Kobe Bussan (3038) These subsidiaries operate more stores of both franchises than any other franchisee in Japan.

As its third main business in Japan, G-7 Holdings is developing Megumi no Sato stores, which sell produce grown by local farmers and picked the day it is sold. Reflecting heavy initial investment costs, this business is still unprofitable, but it will be instrumental in helping G-7 Holdings to achieve its mid-term targets for FY3/2016, of consolidated sales of ¥100 billion and operating profit of ¥4 billion. It will also undertake the important social mission of indirectly supporting and developing Japan’s agricultural sector, which is threatened by a decline in Japan’s food self-sufficiency ratio.

On 9 November, G-7 Holdings announced its results for the first half of the fiscal year through March 2012 (H1 FY3/12). Consolidated sales grew by 5.8% year-on-year (YOY), and consolidated operating profit increased by 2.4% YOY. The Megumi no Sato business was unprofitable, but operating profit in the Autobacs and other automotive business and in the “business supermarkets” business rose enough to boost overall operating profit. Full-year results will depend significantly on sales of winter tires by the Autobacs franchises, but the company does not foresee major problems in attaining its original sales and profit forecasts for the fiscal year.

Business results, FY3/2008-2011, and company forecasts for FY3/2012 and FY3/2016(Units: ¥mn)



■ Points

- Profits from Autobacs and “business supermarket” franchises grow steadily
- Offsetting costs of developing Megumi no Sato business, which indirectly supports and nourishes Japan’s agricultural sector
- FY3/2016 goals: ¥100bn of sales, ¥4bn of operating profit

■ Main business lines

Expected to revitalize Japanese agriculture

Megumi no Sato markets

G-7 Holdings is now focusing on building up its Megumi no Sato markets business. Since the company bought this business in December 2009, it has opened 22 markets: 14 in Hyogo Prefecture, 3 in Nara Prefecture, 2 in Chiba Prefecture, and 1 each in Osaka, Ibaraki and Tokushima prefectures.

At Megumi no Sato market, farmers sell their fruits, vegetables, and flowers picked in the morning directly to consumers at low prices, since middlemen are not involved in distribution. This produce is much fresher than produce sold in normal supermarkets, which may take four or five days to arrive at the supermarkets. It is also safer than produce shipped a long distance, and the Japanese have become increasingly concerned about food safety since the huge earthquake and tsunami of 11 March 2011 destroyed a nuclear power plant, contaminating many crops in northeastern Japan with radioactive emissions. This system of distribution motivates farmers and ensures a steady income for them, which is important in Japan, as the country produces less than 40% of the food it consumes.

The company expects the Megumi no Sato market business to generate about ¥3 billion of sales in FY3/2012, including about ¥600 million of sales commissions. However, the business is projected to remain unprofitable this fiscal year. It took about three years for the “business supermarkets” line to turn profitable, and the company planned from the start to take about the same amount of time to make the Megumi no Sato business profitable. As the company continues to open more new Megumi no Sato markets, sales by these markets should grow, reducing the cost of new markets relative to sales, and leading to profitability for the business. By FY3/2016, the company targets sales of ¥10 billion for this business.

In coming years, the company plans to build a nationwide network of these markets capable of supplying each other, when needed, to overcome temporary shortages.

Thus, for example, if a market were to run short of tomatoes, it could order some from farmers supplying a nearby market, have them shipped in the evening, and sell them the next morning. On 5 October 2011, the company opened its first Megumi no Sato market in Tokushima Prefecture to establish strong business ties with the farmers in that prefecture, thereby increasing the range of indigenous produce, such as sweet potatoes (*Naruto Kintoki*), lotus roots, carrots, eggplants and rice, supplied to Megumi no Sato markets in nearby prefectures, especially Hyogo Prefecture, and the reliability of delivery.



■ Main business lines

To attract more customers, Megumi no Sato markets have begun to incorporate other kinds of stores, including supermarkets that sell low-priced goods, stores that sell prepared foods, bakeries that serve freshly made bread, and restaurants. These stores do not have to make an initial investment, nor pay fixed rent, but they pay a portion of their sales to Megumi no Sato for the use of the market. Six Megumi no Sato markets have been converted to this multi-store format so far, and the company plans to make all new Megumi no Sato markets in this format hereafter.

In September 2011, a Megumi no Sato market opened a *Teppan* Buffet “Green’s K” restaurant, the first such undertaking by this business. The *Teppan* Buffet “Green’s K” restaurant chain serves *okonomiyaki* (fried stuffed pancakes) and *yakisoba* (fried noodles) franchised from Kobecook, subsidiary of Kobe Bussan, and is well known for offering all-you-can-eat lunches for ¥650 for men and ¥500 for women and all-you-can-eat dinners for ¥850 for men and ¥650 for women. Since September, three other Megumi no Sato markets have opened *Teppan* Buffet “Green’s K” restaurants, and the company plans to have 10 such combinations by the end of March 2012 and 100 by the end of March 2016. These restaurants are quite popular; customers often line up to enter them before they open, at 11 am. G-7 Holdings expects these restaurants to generate average sales of ¥100 million per year.

Megumi no Sato is taking steps to ensure a stable supply of fresh produce. In March 2011, it established a business relationship with Suzuki Noen, an agricultural corporation in Fukui Prefecture, and in July, it set up a similar relationship with Natural Art, a producer and processor of agricultural and livestock products headquartered in Tokyo. In June, in cooperation with a farmer in Chiba City, the company established the Megumi no Sato Farm Chiba, which will supply fresh fruits and vegetables to Megumi no Sato stores in Chiba Prefecture and nearby areas. This farm will concentrate on growing produce which tends to be in short supply. Megumi no Sato recently purchased 6,000 *tsubo* (19,830 square meters) of agricultural land in Inzai City, Chiba Prefecture. It plans to consign crop production on this land to local agricultural cooperatives. Adjacent to this purchased agricultural land, Megumi no Sato has leased land, on which it plans to construct a Megumi no Sato market, a restaurant, and an agricultural training center where people interested in agriculture but lacking experience in it can learn and apply fundamental agricultural practices for three years in preparation to undertake commercial farming. In the future, Megumi no Sato may set up farms in Southeast Asia.

Megumi no Sato market and bakery in Ikawadani, Kobe City



Megumi no Sato market combined with low-cost food supermarket and Green’s K teppanyaki buffet restaurant in Tsuchiura City



■ Main business lines

Interior of Green's K teppan buffet restaurant in Edayoshi, Kobe City



Megumi no Sato Farm Chiba



Fruits and vegetables harvested in the morning of the day



Select processed foods



Freshly cut flowers and plants



Planning to resume aggressive expansion next fiscal year with 10 new stores

Autobacs and other automotive business

This was the company's original business and remains its largest. Most of this business is carried out by subsidiary Auto Seven, which operates Autobacs stores that sell automotive parts and supplies and provide maintenance services. Auto Seven operates 51 Autobacs stores, the most of any Autobacs Seven franchisee in Japan.

■ Main business lines

The main strength of Auto Seven is its ability to operate effectively. The company's strategy is to constantly improve operational efficiency, from the receipt and placement of orders to inventory control, while providing high-quality customer service, including after-sale care. The Japanese market for automotive supplies has matured, so the ability to attract customers is vital to the survival of sellers of such supplies. Auto Seven has improved its ability to attract customers by strengthening its total automotive maintenance business earlier than competitors. This business includes automobile inspection, sheet metal painting, and car washing and waxing. As a result of concentrating on such maintenance service, Auto Seven has achieved superior sales growth and profitability. Currently, car maintenance services account for about 20% of Auto Seven's total sales. Until recently, revenues from car maintenance services had been growing by more than 10% annually. Now, these revenues are growing at less than 10% annually, but they continue to expand, and Auto Seven plans to raise their sales weight to 25%. Auto Seven also operates three BP Centers, which paint sheet metal. These centers now contribute only 2-3% of Auto Seven's total sales and are not profitable, but the company aims to make them profitable by FY3/2014.

Auto Seven will open only two new Autobacs stores in FY3/2012, but it plans to open 10 in FY3/2013, mainly in Chiba, Fukui, Hyogo and Hiroshima prefectures. The company often sets up new Autobacs stores in furnished buildings, thereby limiting its opening cost to ¥70-80 million per store. Even so, to open 10 new stores in FY3/2013, it would need to invest at least several hundred million yen. The company is also open to increasing its car maintenance business and market share through mergers and acquisitions.

G-7 mall at Chiba New Town



BP Center



Left : G-7 Mall, which incorporates the company's businesses, primarily the Autobacs business.

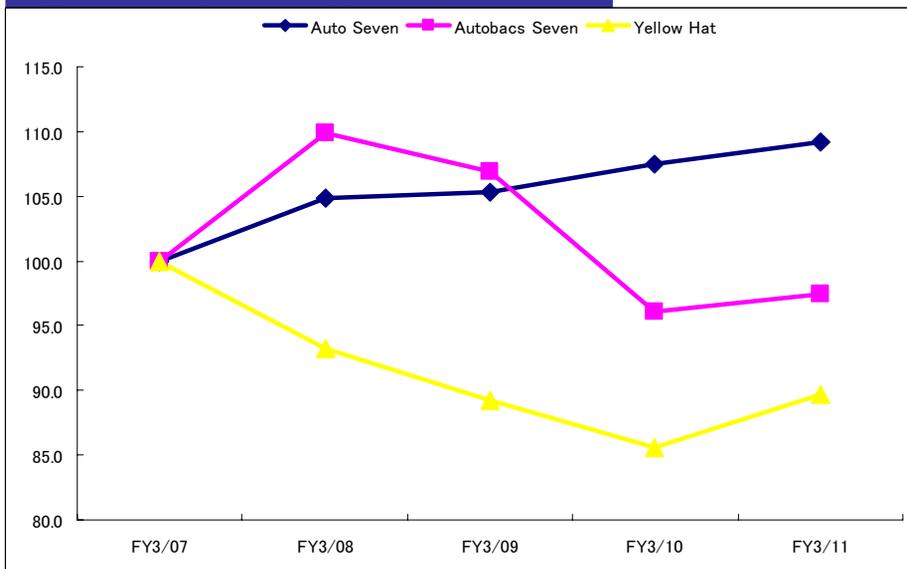
Right : BP Center, which paints sheet metal.

■ Main business lines

By improving its total maintenance service, Auto Seven has attracted more customers. Thus, it has grown faster than Japan's two leading aftermarket suppliers of auto parts and supplies since FY3/2007 and has remained more profitable.

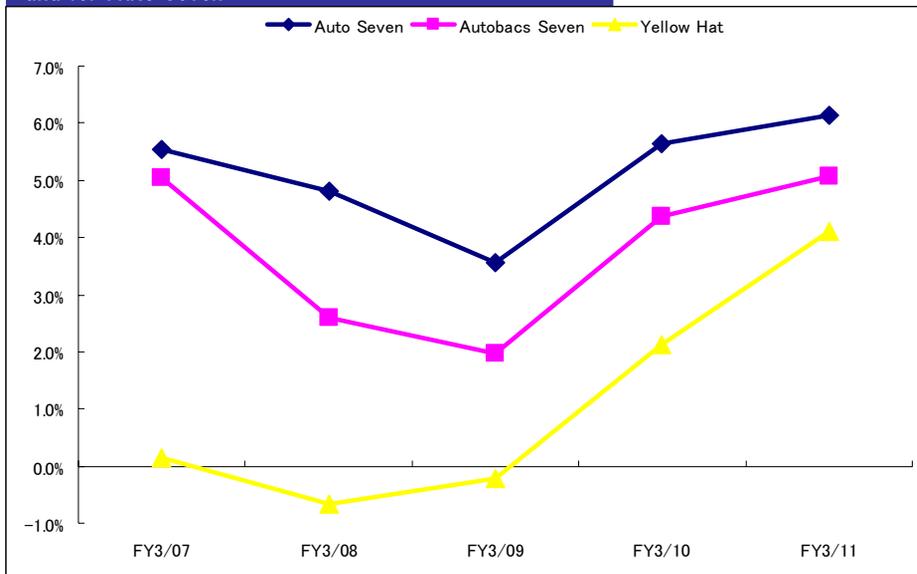
Profitability ratios were adversely affected by Japan's recession in FY3/2008 and FY3/2009, but they have rebounded since then.

Sales indices for Japan's two leading aftermarket suppliers of auto parts and supplies and for Auto Seven



※FY3/2007 = 100

Consolidated operating profit ratios for Japan's two leading aftermarket suppliers of auto parts and supplies and for Auto Seven



※For Auto Seven, the graph shows the consolidated recurring profit ratio. For Yellow Hat, the graph shows the consolidated operating profit ratio for the automobile supplies division.



Aiming for 150 supermarkets by FY3/2016, mainly in Greater Tokyo and Chubu district

“Business supermarkets”

Since 2002, subsidiary Sunseven has been operating “business supermarkets” franchised from Kobe Bussan. These supermarkets sell produce and goods purchased directly from their makers/growers, avoiding wholesalers. Thus, the supermarkets sell at low prices to restaurants and individual consumers. This relatively new type of supermarket is thriving in Japan, which has been plagued by deflation for many years as consumers have sought lower prices. The “business supermarkets” procure low-cost goods from Kobe Bussan’s domestic and overseas network of producers. Thus, their success depends on convenient location and low-cost operation.

Taking advantage of Auto Seven’s knowhow in store operation, Sunseven is thoroughly raising its sales efficiency and lowering its operating costs to increase sales and profits while selling low-priced goods. For example, the company uses specially ordered shelves that allow the “business supermarkets” to display a large number of items in a limited space and to restock the shelves quickly. “Business supermarkets” with annual sales of about ¥400 million can be run by experienced part-time employees, allowing store managers to oversee two such supermarkets in some areas.

The key to increasing store sales is the selection of goods for sale. The managers of “business supermarkets” are given complete discretion in deciding what items to stock. To help the managers make wise decisions, Auto Seven provides a computer information system listing the 50 best-selling items at each of its “business supermarkets”. Thus, a manager can identify items selling well at other stores which he/she may not stock in his/her store, and decide whether or not to purchase those items. Managers are expected to rely on data to decide, not on intuition, experience, or guts.

The company’s computer system provides real-time data for each “business supermarket”, including discount amounts, wastage costs, and labor cost ratios. A store manager can also see the performance of his/her store to date and adjust his/her business approach accordingly. Managers are largely responsible for operating their “business supermarkets” profitably, and good managers can generally increase the number of customers and sales even at supermarkets that have been operating for some time. Area managers oversee supermarket managers to respond rapidly to any problems that may arise.

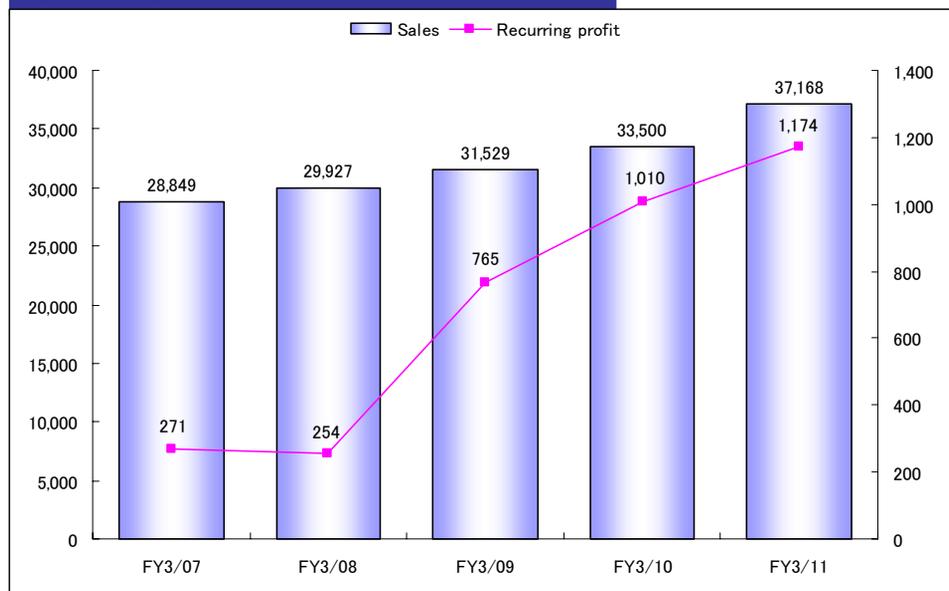
The “business supermarkets” maintain a gross profit margin of slightly more than 16% and a ratio of selling, general and administrative (SGA) costs to sales of about 13%, so their operating profit margin is roughly 3%. It would be difficult to lower the ratio of SGA costs to sales significantly, so the operating profit margin will probably not rise much. To increase profits, therefore, Sunseven has to open more “business supermarkets” and (better as and/or since either action would increase profits) increase the sales per supermarket. It currently operates 96 “business supermarkets” and aims to have 100 in operation by the end of March 2012 and 150 by the end of March 2016. It plans to concentrate on opening new supermarkets in areas where it currently has few, i.e., in Greater Tokyo and the Chubu region.

■ Main business lines

“Business supermarket”



Business results for Sunseven, FY3/2007-2011
(Units: ¥mn)



Sunseven operates “business supermarkets” and purveyors of select foods. Until FY3/2008, the company’s profitability was hindered by the costs of a rapid increase in the number of stores. Since then, profitability has improved.



■ Business results in H1 FY3/2012

Profit growth from two main businesses offset expansion costs of third

On 9 November, G-7 Holdings announced its results in the first half of FY3/2012, i.e., for April-September 2011. Sales grew by 5.8% YOY, to ¥36,479 million, operating profit increased by 2.4%, to ¥1,037 million, current profit declined by 1.9%, to ¥1,048 million, and net profit increased by 37.0%, to ¥564 million. These results were in line with the company's forecasts at the start of the fiscal year: sales of ¥36,000 million, operating profit of ¥1,050 million, current profit of ¥900 million, and net profit of ¥450 million.

Although the Megumi no Sato subsidiary suffered an operating loss due to its heavy investment in new markets, the Autobacs business and the “business supermarkets” business increased their operating profit enough to offset the loss at the Megumi no Sato unit. An increase in other non-operating costs caused current profit to decline slightly, but net profit increased sharply, because in H1 FY3/11, the company claimed an extraordinary loss of ¥232 million resulting from a change in accounting standard, but in H1 FY3/12, it had no such loss.

For FY3/12, the company maintained its original forecasts, projecting a 5% rise in sales, to ¥75,000 million, a 0.9% increase in operating profit, to ¥2,500 million, a 15.1% drop in current profit, to ¥2,200 million, and a 28.8% fall in net profit, to ¥500 million. Full-year results will depend significantly on Autobacs sales of winter tires, but to date, overall business is progressing on schedule. The company projects a lower full-year net profit than it earned in the first half because it foresees some write-downs in the second half.

Company results, FY3/2008-3/2012E (¥mn, ¥)

Fiscal Year	sales	yoy(%)	Op. profit	yoy(%)	Rec. profit	yoy(%)	Net Profit	yoy(%)	EPS (¥)	Div./share(¥)
FY3/08	61,829	3.8%	1,332	-11.0%	1,308	-16.4%	391	-49.8%	29.38	10.00
FY3/09	65,297	5.6%	1,323	-0.7%	1,344	2.7%	259	-33.7%	19.57	10.00
FY3/10	67,078	2.7%	2,155	62.9%	2,247	67.2%	871	236.3%	66.47	22.00
FY3/11	71,457	6.5%	2,477	14.9%	2,591	15.3%	701	-19.4%	56.94	13.00
FY3/12 Core	75,000	5.0%	2,500	0.9%	2,200	-15.1%	500	-28.8%	41.08	14.00
H1 FY3/11	34,494	5.0%	1,013	-8.4%	1,068	-6.7%	411	-31.4%	33.08	6.00
H1 FY3/12	36,479	5.8%	1,037	2.4%	1,048	-1.9%	564	37.0%	46.34	7.00

Quarterly sales and recurring profit, FY3/2010 - H1 FY3/2012 (¥mn)

	Sales					Recurring profit				
	FY3/10	FY3/11	yoy	FY3/12	yoy	FY3/10	FY3/11	yoy	FY3/12	yoy
1Q	16,309	17,058	4.6%	18,119	6.2%	563	584	3.70%	485	-17.0%
2Q	16,551	17,436	5.4%	18,360	5.3%	582	484	-16.80%	563	16.3%
3Q	18,216	19,390	6.4%	-	-	755	1,063	40.80%	-	-
4Q	16,002	17,573	9.8%	-	-	347	460	32.60%	-	-



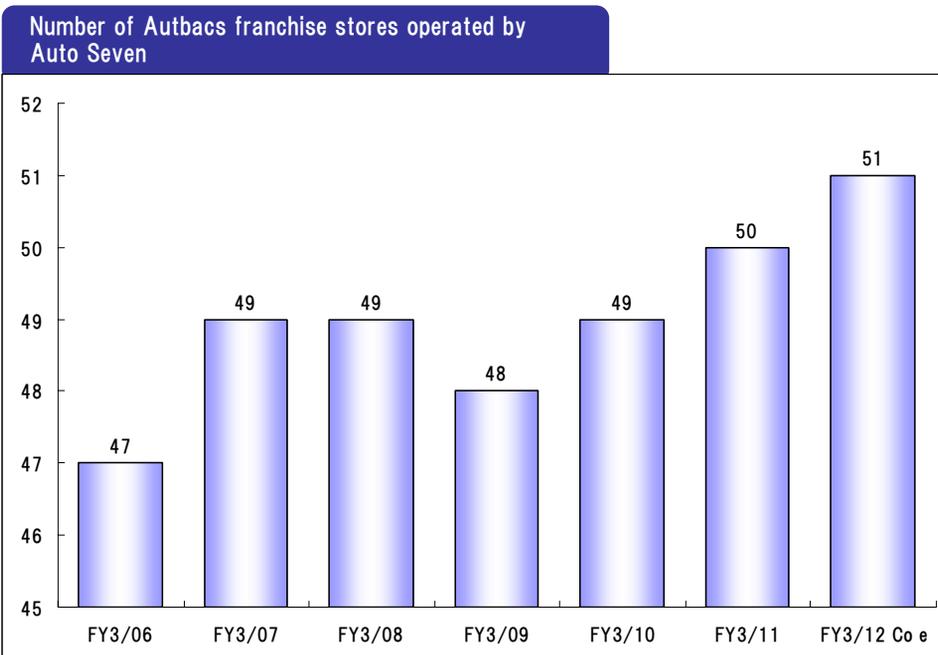
December business determines full-year results

H1 FY3/12 results by division are summarized below.

Autobacs and other automotive business

Division sales grew by 0.8% YOY, to ¥14,279 million, reflecting an increase in sales of automotive digital tuners following the digitization of all broadcasts in Japan, rush demand for tires before scheduled price rises, and the impact of store renovation. Division operating profit rose by 16.6%, to ¥624 million, because the product mix improved, as did the profitability of maintenance operations.

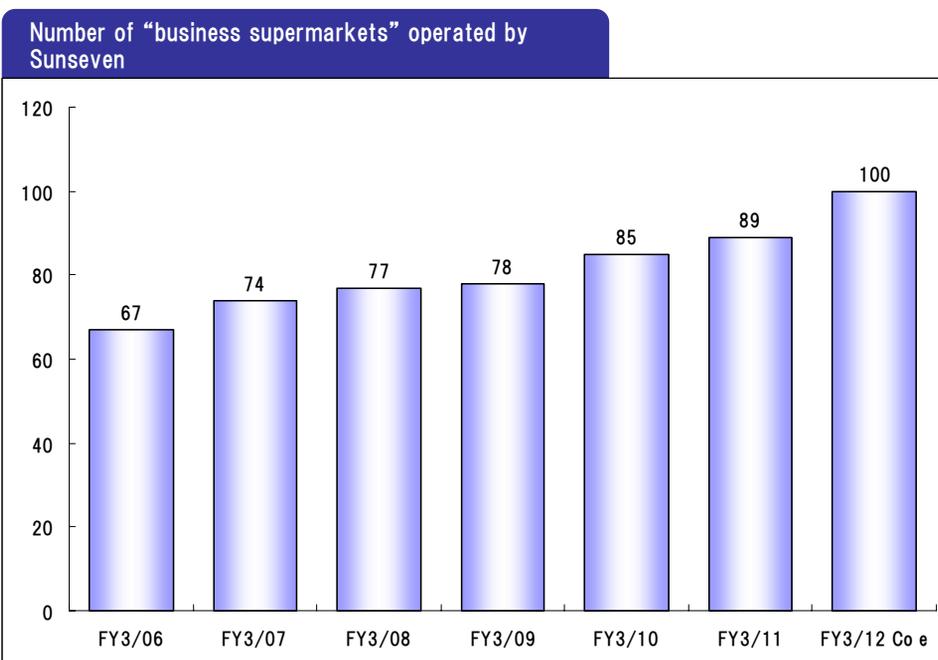
Division sales were weak from August through October, but they have picked up since mid-November on stronger sales of tires and engine oil. Some makers of car audio equipment have recently reported a shortage of components because of flood damage to their plants in Thailand, and this may adversely affect division sales of car audio equipment in December, but this bottleneck will probably be overcome by February. Usually, this division earns almost half of its annual operating profit in December from the sale of winter tires. Thus, one of the most critical factors for division profitability is weather conditions in December.



On schedule for 100 Business supermarket in operation by March 2012

“Business supermarkets” and select foods

Division sales increased by 7.4% YOY, to ¥21,067 million, and division operating profit grew by 29.1%, to ¥685 million. In H1 FY3/2012, the division opened three new “business supermarkets”, mainly in the Greater Tokyo area. Sales at these new supermarkets and at previously established supermarkets rose, in part, because of an increased tendency among Japanese consumers to eat more meals at home and to spend less on food since the earthquake and tsunami that destroyed large portions of Japan’s northeastern coast on 11 March. Sales by “business supermarkets” have remained brisk since September, and this division continues to open new supermarkets, with the aim of having 100 in operation by the end of next March. The company expects steady revenue and profit growth from this division in future fiscal years.



Green’s K *teppan* buffet restaurant chain contributes to sales growth

Other business

Subsidiary Seven Planning engages in real estate development, restaurant operations, the recycling of various goods, and care for the elderly. Subsidiary Megumi no Sato markets fresh produce, grows some of its own at the Megumi no Sato Farm Chiba, and operates Teppan Buffet “Green’s K” restaurants. In H1 FY3/12, these two subsidiaries increased their combined sales by 55.6% YOY, to ¥1,132 million, but they suffered a combined operating loss of ¥200 million, compared with an operating loss of ¥8 million in H1 FY3/11.

■ Business results in
H1 FY3/2012

The operating loss increased year-on-year because Megumi no Sato opened seven new markets in H1 FY3/12. However, this subsidiary and its restaurants contributed substantially to sales growth. As highlighted above, G-7 Holdings plans to continue to expand the Megumi no Sato business, so the company expects this subsidiary's sales to grow by double digits but to continue to suffer operating losses for a while. It aims to turn the subsidiary profitable in its third year of operations.

Shooting for consolidated sales of ¥100 billion, operating profit of ¥4 billion in FY3/2016

Japan's economy remains weak, but G-7 Holdings continues to open new "business supermarkets" and Megumi no Sato markets. Consequently, its profit growth has slowed temporarily, but it is sowing the seeds for growth in the medium-to-long term. Japan is considering joining the Trans-Pacific Partnership, so the environment for its agricultural sector is in flux and its future is difficult to predict. However, there appears to be ample opportunities for private companies, including G-7 Holdings, to expand. It continues to target consolidated sales of ¥100 billion and consolidated operating profit of ¥4 billion in FY3/2016.

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