

**G-7 HOLDINGS INC.**7508 Tokyo Stock Exchange  
First Section

6-Jul.-15

Important disclosures  
and disclaimers appear  
at the end of this document.FISCO Ltd. Analyst  
Yuzuru Sato**■ Core business in franchise store operation, promoting direct sales of agricultural products and overseas expansion**

G-7 HOLDINGS INC. (hereafter, “G-7” or “the Group”) is a holding company that owns subsidiaries operating the largest franchisee of AUTOBACS stores and Business Supermarkets in Japan. It is also promoting the development of agricultural, foodstuffs and restaurant businesses, as well as overseas businesses, utilizing M&A to promote operational expansion.

Consolidated FY3/15 results showed higher revenues but lower earnings, with net sales up 0.1% YoY to ¥88,261 mn, while ordinary income declined 20.0% to ¥2,512 mn. Despite Business Supermarket and quality food businesses showing an increase in both revenues and earnings, the impact of the hike in consumption tax lingered and, apart from lower revenues and earnings in AUTOBACS and car-related businesses, factors such as increased upfront investment costs were behind profit declines.

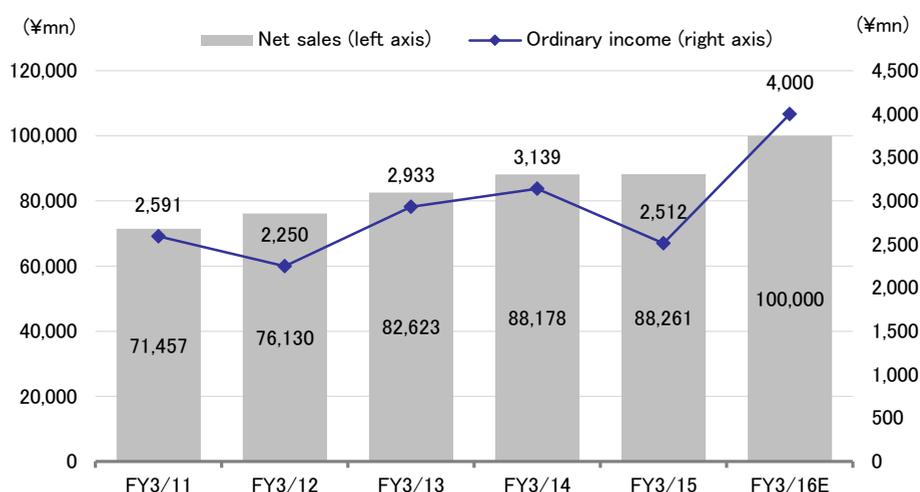
In FY3/16 the Group is aiming for net sales to increase 13.3% YoY to ¥100,000 mn and ordinary income to increase 59.2% YoY to ¥4,000 mn. Apart from opening 15 new AUTOBACS and car-related business locations and around 10 new Business Supermarkets locations, it is promoting a strengthening of profitability at existing stores by putting into practice “cost reductions, improved per capita productivity and appropriate inventory (levels).” In respect of the start from April, G-7 appears to be performing soundly overall, with, for example, net sales exceeding those of two years ago and an improvement in the consumer mindset.

In overseas business, apart from planning to open new restaurants in Indonesia, under a plan to expand operations to countries including Taiwan, the Philippines, Laos and Cambodia, the Group is aiming for net sales from overseas operations of ¥10,000 mn in five years’ time. Given that, for the time being, the investment phase is continuing, their contribution to earnings is still some way off, however, it is hoped in the long-term that they will grow into businesses that drive the Group’s (overall) results.

**■ Check Point**

- Higher revenues but lower earnings in FY3/15, Business Supermarket and quality food businesses drive results
- AUTOBACS-related net sales sound in April, significant growth in both revenue and earnings targeted in FY3/16
- Establishing operations in multiple countries to take advantage of economic growth in Southeast Asia

**Net Sales and Ordinary Income**



## ■ Business Overview

### AUTOBACS and Business Supermarket franchise operations form the Group's core

The Group's operations are disclosed in three operating segments: AUTOBACS and car-related businesses, Business Supermarkets and quality food businesses, and other businesses. Looking at the FY3/15 composition of net sales by business segment, we see that AUTOBACS and car-related businesses represented 37.5% and Business Supermarkets and quality food businesses 59.4%, with these two business segments representing 96.9% of overall operations.

#### ○AUTOBACS and Car-related Businesses

The Group's AUTOBACS franchise business consists of activities including car product sales and maintenance developed by G-7 AUTO SERVICE CO., LTD., and motorcycle product sales and maintenance developed by G-7 MOTORS CO., LTD. AUTOBACS-related (sales) represent approximately 90% of net sales (in this segment), with 67 AUTOBACS-related stores as of end-March 2015 giving it the largest scale within (the 586) AUTOBACS Group stores; and with a key feature being that it enjoys the highest profitability among the Group's stores. On the other hand, Bike SEVEN, which engages in direct sales of motorcycle products, operates 11 stores domestically and in Malaysia.

#### ○Business Supermarket and Quality Food Businesses

These consist of Business Supermarket franchisee (operations) developed by G-7 SUPER MART CO., LTD., and food product and restaurant operations developed by G7 JAPAN FOOD SERVICE CO., LTD. G-7 SUPER MART CO., LTD. represents more than 90% of net sales, with its 112 supermarket outlets as of end-March 2015 giving it the largest scale within (the 693) Business Supermarket Group stores.

On the other hand, in April 2015, G7 JAPAN FOOD SERVICE CO., LTD., as well as acquiring what was before G-7 FOOD SYSTEM CO., LTD. (which had operations including its quality food business, and the former UENO-SHOKUHIN and former Cold Family businesses), integrated them with its domestic restaurant business, private label food product development business, export/import, online sales and other businesses, seeking to strengthen organizational structures.

### Other Businesses

Apart from G-7 AGRI JAPAN CO., LTD., that operates the Megumi no Sato farmers' market chain, the Group's main other business consist of multiple operations including recycling stores, DAISO [4046] discount (100 yen shop) stores, and real estate leasing developed by G-7 DEVELOPMENT CO., LTD., as well as overseas operations undertaken by G7 INTERNATIONAL PTE. LTD. (except for AUTOBACS and BIKE SEVEN operations in Malaysia).

## Results Trends

### Higher revenues but lower earnings in FY3/15, Business Supermarket and quality food businesses drive results

#### (1) FY3/15 Results Overview

In the Group's consolidated FY3/15 results announced on May 11, there was an increase in net sales but declines in earnings, with net sales up 0.1% YoY to ¥88,261 mn, while operating income declined 20.5% YoY to ¥2,306 mn, ordinary income declined 20.0% YoY to ¥2,512 mn and net income was down 17.4% YoY to ¥1,272 mn; also coming in under the Company Plan. While core Business Supermarket and quality food businesses maintained revenue and earnings growth, the reason for lower earnings was deterioration in income from its AUTOBACS and car-related and Other businesses. Trends by business are as set out below.

#### FY3/15 consolidated operating results

(Unit: ¥mn)

	FY3/14		Company plan	FY3/15			
	Results	vs. Sales		Results	vs. Sales	YoY	vs plan
Net sales	88,178	-	93,000	88,261	-	0.1%	-5.1%
Cost of goods sold	64,487	73.1%	-	65,372	74.1%	1.4%	-
SG&A expenses	20,790	23.6%	-	20,583	23.3%	-1.0%	-
Operating income	2,900	3.3%	3,000	2,306	2.6%	-20.5%	-23.1%
Ordinary income	3,139	3.6%	3,200	2,512	2.8%	-20.0%	-21.5%
Extraordinary gains/losses	-221	-0.3%	-	-129	-0.1%	-	-
Net income	1,541	1.7%	1,600	1,272	1.4%	-17.4%	-20.5%

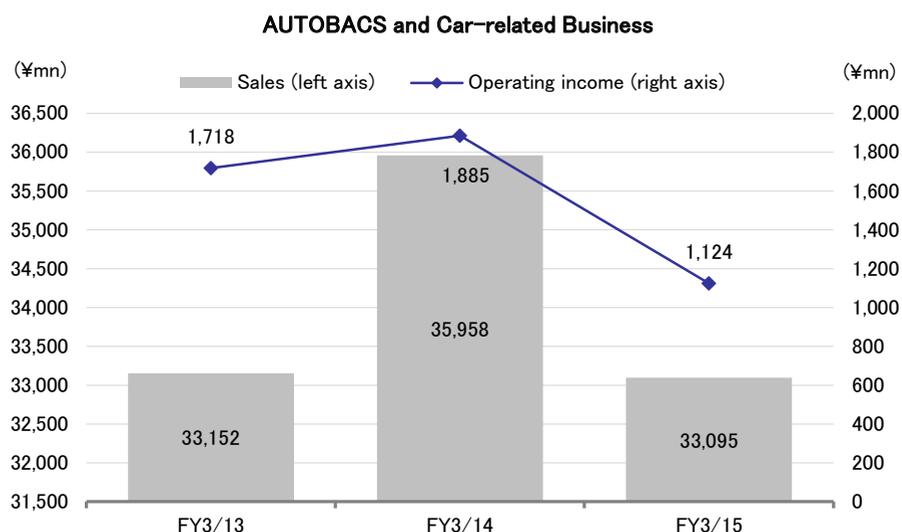
#### AUTOBACS and Car-related Business

Net sales declined 8.0% YoY to ¥33,095mn, and operating income fell 40.4% YoY to ¥1,124mn. Depressed sales, as a result of the impact from the hike in consumption tax, have lingered longer than expected, with both AUTOBACS and BIKE SEVEN suffering declines in revenues and earnings.

Looking at the status of sales by category in its AUTOBACS businesses, we can see declines in all categories, including year-on-year declines of 2.9% in tires and wheels, 22.7% in car electronics, 10.7% in accessories and 4.6% for services such as statutory inspections and body and paint jobs. In respect of tires and wheels, low priced Chinese made products entering the market and a lower number of days with snowfalls compared to last year were among the reasons behind revenue declines. In the car electronics category, although affected by sluggishness in car navigation, sales in some areas such as drive recorders and radars expanded. In addition, in the category of services, an underlying increase in revenues from statutory inspections continued.

The number of new store openings, being three for AUTOBACS (two in Chiba, one in Okayama), and two for BIKE SEVEN (one in Chiba, one in Malaysia) was an overall increase of five stores compared with the end of the previous period, making 104 stores.

Moreover, in respect of Malaysia, the Group commenced AUTOBACS operations in 2012 (with two stores currently) and BIKE SEVEN in 2013 (also with two stores currently), and while the scale of sales is small at less than 1% of the overall, they are expanding steadily with AUTOBACS growth in the 10% to 20% range and BIKE SEVEN over the 20% mark. In respect of AUTOBACS, the demand for maintenance is robust, representing approximately half of net sales. In addition, in respect of BIKE SEVEN, with an ample product line-up for items such as parts and accessories, and customer traffic that has been sound since opening it is expanding steadily. However, the upfront investment, including new store opening costs, is high and, on a profit basis, losses are continuing on par with FY3/14.

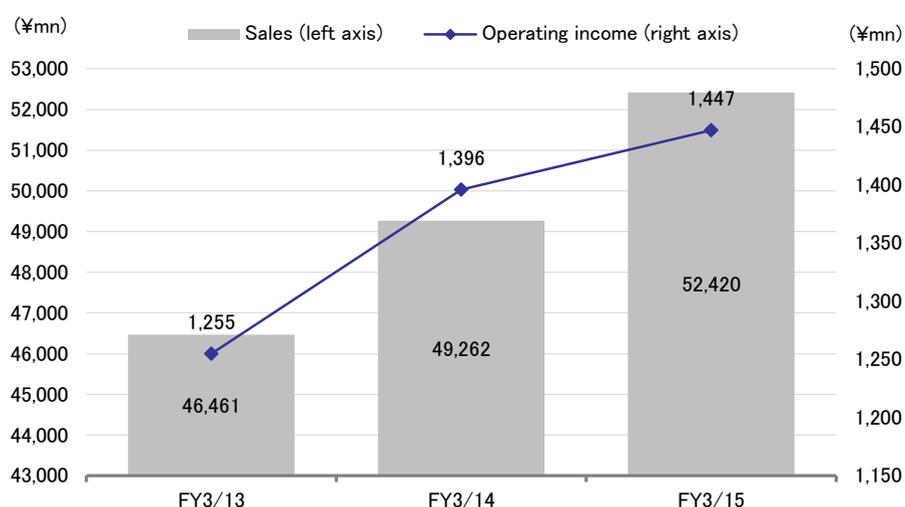


#### ○Business Supermarket and Quality Food Businesses

FY3/15 net sales increased 6.4% YoY to ¥52,420mn, with operating income up 3.7% YoY to ¥1,447mn. Within this business, apart from Business Supermarket sales, which represent more than 90% of the overall, performing soundly, rising 5.1% YoY to ¥47,177mn, the quality food products business performed well, rising 9.8% YoY to ¥4,673mn.

In respect of Business Supermarkets, due to a continuing consumer budget consciousness, as a result of the impact of a hike in consumption tax, net sales on an existing store basis rose year-on-year. Further, compared to end of the previous period the total number of stores increased by 6 to 112, with the number of new store openings including three in Hokkaido, and one each in Hyogo, Kanagawa and Saitama prefectures. In the plan at the beginning of the period around 10 new store openings had been planned, however, identifying properties for candidate store sites became challenging, and the store opening pace slightly lower than initially expected.

### Business Supermarket and Quality Food Businesses



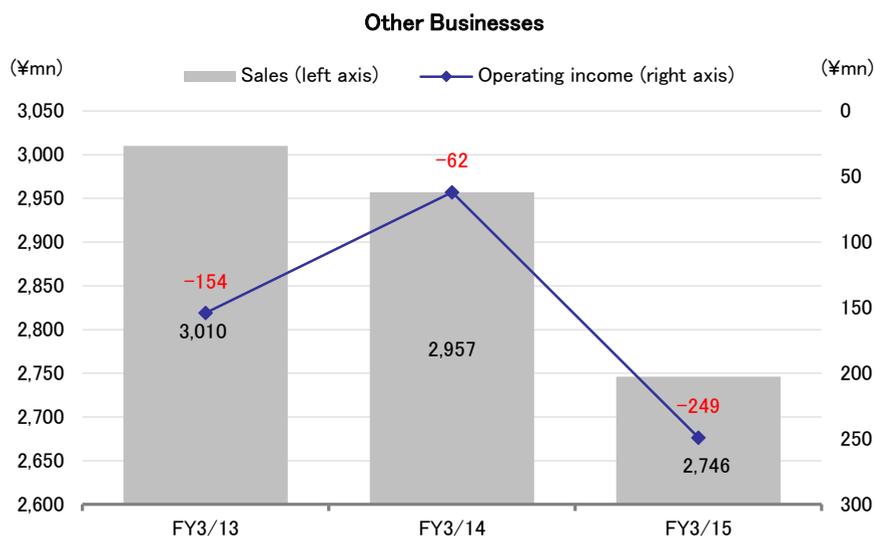
On the other hand, in the quality food business, the acquisition of new accounts and unearthing of new products, focusing on Eastern Japan, proceeded, with both sales and profits performing soundly. Further, both the former UENO-SHOKUHIN and former Cold Family businesses, which have struggled in the first half of FY3/15 recovered in the second half of the year.

#### ○Other Businesses

FY3/15 net sales decreased 7.1% YoY to ¥2,746 mn, while operating losses were ¥249 mn (compared to a loss of ¥62mn in the previous period). Within this, in respect of the Megumi no Sato farmers' market chain, including the impact of a surge in vegetable prices, net sales performed soundly, and from a profit perspective also, as a result of a revision of commission rates and other factors, there was a shift, albeit slight, into the black.

On the other hand, in respect of its recycling, restaurant and other businesses, sales were sluggish due to the impact from the consumption tax hike, (with these operations) posting losses. Further, its agri businesses being developed in Vietnam and Myanmar, and restaurant businesses being developed in Malaysia and Vietnam are in the investment phase, and continued to post operating losses.

In Vietnam, the Group is currently undertaking the production of chrysanthemums at a scale of around 400,000 plants per annum, and selling them through the Megumi no Sato farmers' market chain. Further, in Myanmar it is undertaking the cultivation of strawberries, and is currently at the stage where it is aiming to tackle the establishment of the means of transportation to distribute from the agricultural production sites to urban areas that have supermarkets and other facilities.



## AUTOBACS-related business sound in April, significant revenue and earnings increases are targeted in FY3/16

### (2) FY3/16 Results Outlook

FY3/16 consolidated results anticipate net sales up 13.3% YoY to ¥100,000 mn, operating income up 60.4% YoY to ¥3,700 mn, ordinary income up 59.2% YoY to ¥4,000 mn and net income up 65.0% YoY to ¥2,100 mn. These figures are at the same levels as those targeted in the Mid-term Management Plan. Holding the key to achieving the plan are its core AUTOBACS and Business Supermarket businesses. The outlook by business is as set out below.

#### ○AUTOBACS and Car-related Businesses

It is planned that FY3/16 net sales from AUTOBACS and car-related businesses will show double-digit revenue growth of 17.8% YoY to ¥39,000 mn. The main reason for this is that new AUTOBACS-related store openings will be in the order of 15, a significant increase over the three in the previous period. Apart from AUTOBACS, the Group will expand the number of AUTOBACS Express gasoline stands, BP body works and paint job centers and other bases. Currently, three AUTOBACS Express sites have been decided, while, in respect of the remaining 12 sites, they are planned to be identified going forward, including M&A.

From a profit perspective, while there are cost increases associated with new store openings, increased profits are expected as a result of strengthening profitability at existing stores. Apart from continuing to put into practice “cost reductions, improvements in per capita productivity and appropriate inventory levels”, by proactively holding Thanks Fairs, G-7 Mall Festivals and other events, the Group will expand net sales. Further, apart from continuing to also tackle maintaining selling prices, by raising the ratio of sales for high-value-added services (such as statutory inspections, body works and paint jobs) from the current 20%, the Group is promoting (other) improvements in profitability. In respect of the April start, it appears that the Group is performing soundly, with indications including improvement in the consumer mindset and net sales exceeding levels of two years ago.

Moreover, overseas the plan is to open one AUTOBACS and one BIKE SEVEN store each in Malaysia in Q4 (Jan-Mar 2016). The Group also intends to enter Vietnam if it can secure good locations, with a plan to promote store development from 2016 onwards.

### **OBusiness Supermarket and Quality Food Businesses**

Net sales from Business Supermarkets and the quality food businesses are expected to rise 10.6% YoY to ¥58,000 mn. Within this, the outlook is for core Business Supermarket business net sales to rise 12.3% YoY to ¥53,000 mn. Apart from the fact that the pace of new store openings will accelerate from six in the previous period to 10, it is premised on net sales at existing stores performing soundly with a 2% YoY rise.

On the other hand, from FY3/16 net sales at G7 Japan Food Services, which will integrate food and domestic restaurant businesses, are expected to be ¥5,000 mn. It is expected that revenue will continue to expand due to ongoing expansion in quality food accounts and the unearthing of new products. Further, the Group intends to tackle exports to Asia also of agricultural, fisheries and livestock products, and has positioned FY3/16 as a year for focusing on acquiring (new) sales channel.

### **OOther Businesses**

Revenue and earnings growth are expected in respect of other businesses. In respect of its Megumi no Sato business, apart from opening several new stores in the Kansai region, nationally the Group's policy is for mass store deployment via partnership contracts. Given that these are not franchise agreements, but only gain membership income at the time of contract, the direct impact on results will be slight. However, by expanding its procurement network nationwide, it may reduce the risk of stock shortages for products in Megumi no Sato stores, where concerns arise in instances of, for example, unseasonable weather.

As the counterparty for its first round of licensing agreements, it has concluded a contract with Furusato Farms K.K. of Miyagi Prefecture. Apart from plans to open Megumi no Sato stores within Miyagi Prefecture, it is considering supplying fresh, safe fruit and vegetables to Megumi no Sato stores in the Kansai area from the Tohoku area. Further, in the Kanto area also, the Group is moving ahead on partnership agreement negotiations with multiple companies, and it is expected that the number of partnership agreement counterparties will keep increasing.

Further, in respect of overseas operations (restaurants, imports and exports of food products, agri business etc.), despite expecting 15-20% growth in net sales it is expected that operating losses will continue, due to an increase in upfront capital costs, such as new store openings.

Tropical fruit known also as pitaya. On its surface, it has protuberances that are a green color like that peculiar to the leaves of cactus fruits. The skin is typically a brilliant, glossy red. However, because the surface looks like the scales of a dragon, it is called dragon fruit.

Halal is a generic term for "healthy foods and activities" allowed by the teachings of Islam (Sharia Law and the tenets of Islam). Muslims must avoid all foods and beverages apart from those officially recognized as halal products. Halal denotes guidelines for indicating a safe lifestyle, and are for Muslims essential standards that are applied in cosmetics, pharmaceuticals, nursing care equipment, as well as finance and a range of services.

## ■ Overseas Business Strategy

### Establishing businesses in multiple countries to achieve economic growth in Southeast Asia

Domestically, the Group has continued to grow by promoting mass store development as an AUTOBACS and Business Supermarkets franchisee, however, in the long-term, to continue sustainable growth expansion, it feels it is crucial to create a new earnings channel, and is beginning to focus on overseas businesses as one such channel.

As noted above, the Group has begun to establish, simultaneously and in parallel, operations including AUTOBACS and car-related businesses, agri businesses, imports and exports of food products and restaurants in multiple countries. Going forward, it also plans to expand to Indonesia, Taiwan, the Philippines, Laos, Cambodia and other countries, the strategy being to engage with economic growth in Southeast Asia. The Group has cited net sales of ¥10,000 mn in five years' time in FY3/20 as a numerical business target. Given that going forward investment at a pace of around ¥400-500 mn will continue annually, a contribution from a profit perspective will be some way off, however, looking at the long-term it will be a focus of attention as it grows into a business that drives (overall) Group results expansion.

Following Malaysia the Group plans to expand its AUTOBACS and car-related businesses to Vietnam, with a policy of promoting mass store expansion. Further, it is also considering expansion into other countries where the automobile and motorcycle markets are expected to expand.

In its agri businesses, it is expected that means of transportation, which became an issue in its strawberry cultivation in Myanmar, will be established. In FY3/16, by introducing 2-3 refrigerated trucks and seeking to expand possible transport time from growing areas, it plans to start shipping to CityMart affiliated stores in urban areas. Further, the Group is engaged in chrysanthemum cultivation in Vietnam, and in FY3/16 will commence cultivation of dragon fruit in collaboration with a local fruit producer. It plans to sell the fruit harvested at Megumi no Sato stores.

In its restaurant operations, following on from its Malaysian ramen shop and Vietnamese curry house, the company plans to open one ramen shop in Indonesia in FY3/16. In Indonesia also it will not be halal compliant, but have Chinese and Japanese as its target customer group. In the future also it is considering entering into licensing agreements and expanding stores into Asia in respect of those types of businesses where demand is expected.

Moreover, in respect of restaurant operations, its policy is to open one or two directly held shops in each country, and after that expand by entering into a franchise agreement with a local company.

Further, in respect of its food product exporting businesses, it is already exporting, albeit on a small scale, kamameshi (pots with rice, meat and vegetable) and meat products to Singapore, Hong Kong and other locations. From FY3/16 apart from concentrating on developing cost competitive private label products, it will strengthen exports of agricultural, fisheries and livestock products. In respect of agricultural, fisheries and livestock products, apart from proceeding with acquiring suppliers by itself, it has positioned FY3/16 as a year to focus on expanding new routes for gaining accounts in relation to sales channels.

Additionally, in respect of its M&A strategy, there is no change in the policy adopted to date that it will proactively consider in all of its businesses any deal where it is expected that it will bring synergistic benefits.

## ■ Shareholder Returns Policy

### Underlying Group policy of stable dividends, with a payout ratio of 30% as the yardstick

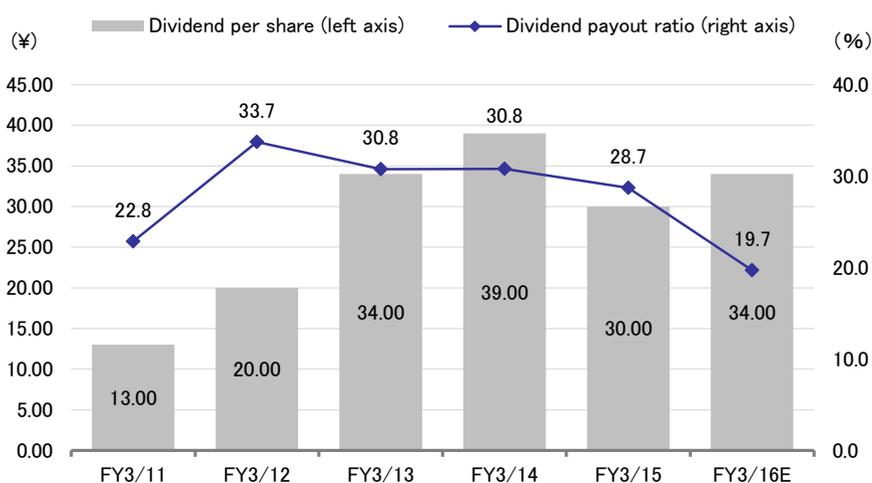
The Company's underlying policy is to return profits to shareholders in accordance with business performance, premised on maintaining stable dividends, making a comprehensive determination, while taking into consideration factors including capital required for future business expansion and its financial condition. The company generally aims to maintain a dividend payout ratio of around 30%. For FY3/16 the dividend has been set at ¥34.0 per share, yielding a dividend payout ratio of 19.7%, with it expected that this will be topped up by way of a special dividend, if results achieve the Group's its planned targets.

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**Dividend per Share and Dividend Payout Ratio**



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