

G-7 HOLDINGS INC.

7508

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■ Index

■ Summary	01
1. Posted higher sales and profits in 1H FY3/18	01
2. Likely to set all-time highs again in FY3/18	01
3. Rebooting overseas efforts other than AUTOBACS and car-related business and some restaurant and food businesses	01
4. Medium-term business plan targets ¥170bn in net sales and ¥7bn in ordinary income in FY3/21	01
■ Business overview	02
1. AUTOBACS and car-related business	03
2. Business Supermarket and quality food business	03
3. Other Businesses	04
■ Results trends	05
1. Overview of 1H FY3/18 results	05
2. Performance trends by business segment	06
3. Financial condition and key financial indicators	08
■ Business outlook	09
1. Forecast for FY3/18	09
2. Segment outlook	10
■ Medium to long-term growth strategy	11
■ Shareholder return policy	12

■ Summary

Likely to continue expanding business performance led by mainstay AUTOBACS and Business Supermarket operations

G-7 HOLDINGS INC. <7508> is a holding company that owns subsidiaries operating the largest franchises of AUTOBACS and Business Supermarket stores in Japan. It excels at store profitability with emphasis on productivity per employee and other indicators. It is also promoting development of the foodstuffs and restaurant businesses, agricultural as well as the overseas businesses. The Company is also promoting growth strategies using M&As.

1. Posted higher sales and profits in 1H FY3/18

The Company reported 1H FY3/18 (Apr-Sep 2017) consolidated results with ¥57,160mn in net sales (+7.9% YoY) and ¥1,729mn in ordinary income (+8.7%), setting all-time highs on a half-year basis. Main drivers were sharp earnings recovery in the mainstay AUTOBACS business on last-minute demand prior to tire price hikes and healthy expansion of Business Supermarket earnings with a rise in same-store sales and additions from new openings.

2. Likely to set all-time highs again in FY3/18

The Company retained its FY3/18 initial forecast of ¥117,700mn in net sales (+6.6% YoY) and ¥4,300mn in ordinary income (+5.9%). Progress through 1H was roughly on track with the plan, and earnings might even exceed targets depending on snowfall conditions in the winter season. Furthermore, dashboard camera (dashcam) sales have climbed sharply since October and customers are waiting for product shipments. Continuation of this boom would provide a tailwind.

3. Rebooting overseas efforts other than AUTOBACS and car-related business and some restaurant and food businesses

In overseas initiatives, meanwhile, the Company intends to reboot activities by around March 2018, other than the AUTOBACS and car-related business and some restaurant and food businesses. While it had been pursuing the agricultural business and restaurant operations in Southeast Asian countries in recent years, management concluded that it is likely to take a while until these efforts become profitable. The Company plans to sell or consign operations to local companies. Nevertheless, it still views capitalizing on economic growth in Southeast Asia as an important aspect of its earnings growth strategy over the long term and wants to reenter this region after making sufficient preparations, such as cultivating human resources. There should not be much impact on FY3/18 results due to the modest scale of these operations. In earnings, meanwhile, the decision is likely to favorably affect FY3/19 thanks to removal of losses.

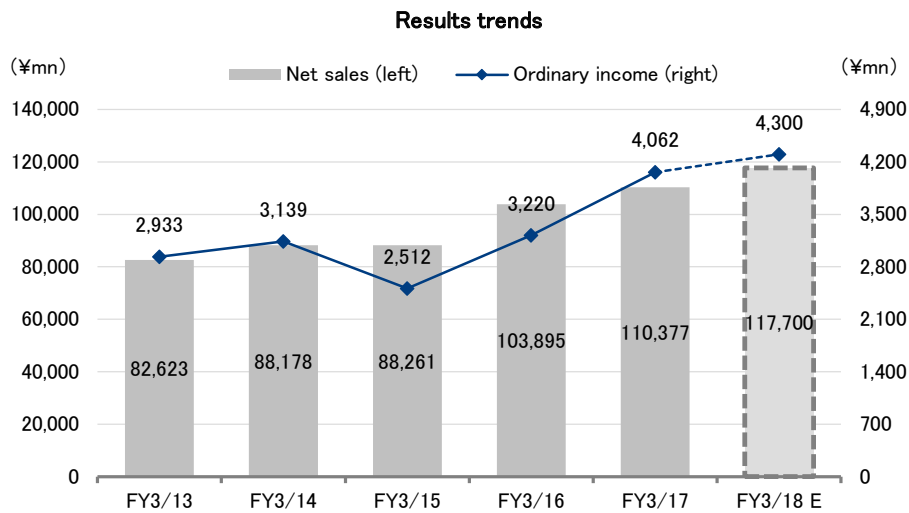
4. Medium-term business plan targets ¥170bn in net sales and ¥7bn in ordinary income in FY3/21

Company goals for FY3/21, the final year of the medium-term business plan, are ¥170bn in net sales and ¥7bn in ordinary income. For the AUTOBACS and car-related business, it hopes to expand sales from FY3/17's ¥54.6bn to ¥65bn by strengthening car inspection, body repair, insurance, and other service businesses and cultivating new products and services besides car products. For the Business Supermarket and quality food business, it aims to increase sales from FY3/17's ¥70.2bn to ¥85bn mainly through expansion of the store network. While the overseas business is headed for a temporary retreat, the Company is still seeking to attain targets through aggressive promotion of M&A deals in Japan.

Summary

Key Points

- Primarily generates earnings from AUTOBACS and car-related business and Business Supermarket and quality food business
- Likely to set all-time highs again in FY3/18
- Aiming for ¥170bn in FY3/21 net sales including M&A additions



Source: Prepared by FISCO from the Company's financial results

Business overview

Primarily generates income from AUTOBACS and car-related business and Business Supermarket and quality food business

The Company's operations consist of three operating segments: AUTOBACS and car-related business, Business Supermarket and quality food business, and Other Businesses. Looking at the 1H FY3/18 composition of net sales by business segment, we see that the AUTOBACS and car-related business represented 29.5% and the Business Supermarket and quality food business 64.8%, with these two business segments accounting for more than 90% of overall operations.

Business overview

1. AUTOBACS and car-related business

This segment mainly consists of AUTOBACS franchise activities including car product sales and maintenance handled by G-7 AUTO SERVICE CO., LTD., motorcycle product sales and maintenance handled by G-7 BIKE WORLD CO., LTD. and the overseas car-related business.

AUTOBACS-related sales represent approximately 90% of segment sales, with 73 AUTOBACS-related stores in Japan (62 AUTOBACS stores, seven AUTOBACS Express stores, two Super AUTOBACS stores, two AUTOBACS Secohan Ichiba stores, and one AUTOBACS Cars store) and two AUTOBACS stores in Malaysia as of the end of September 2017, giving it the largest scale within the 601 AUTOBACS group stores. Stores are located predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki prefectures. Hyogo is particularly important with 40 stores, or just under 60% of the Company's entire network. Store management places strong emphasis on productivity per employee and inventory turnover rates, and the franchise business is notable for maintaining the highest profitability within the AUTOBACS group. Other car-related businesses (the Company's own initiatives) include seven CRYSTAL SEVEN stores offering carwash and coating services, one TIRE SENMONKAN tire specialty store, seven body repair BP centers, and one Suzuki Cars Osaka store.

Additionally, BIKE WORLD, which engages in direct sales of motorcycle products, operates a total of 15 stores with 12 stores in Japan, two stores in Malaysia, and one store in Thailand as of the end of September 2017.

2. Business Supermarket and quality food business

This segment consists of Business Supermarket franchise operations developed by G-7 SUPER MART CO., LTD., food product and restaurant operations developed by G7 JAPAN FOOD SERVICE CO., LTD., and G-7 MEAT TERABAYASHI CO., LTD., a meat retailer, which was consolidated as a subsidiary in June 2015.

G-7 SUPER MART represents roughly 80% of segment sales, with its 134 supermarket outlets as of the end of September 2017, giving it the largest scale among the 777 Business Supermarket group stores. Store rollouts are predominantly centered in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions.

G7 JAPAN FOOD SERVICE, which accounts for just under 10% of sales, discovers local delicacies and unique local products and handles wholesale supply to department stores and other retailers as quality foods. It also develops, manufactures, and sells private-brand foods, handles export/import business, engages in online sales, and operates restaurants and sweets business (booked in the Other Businesses segment) in Japan.

G-7 MEAT TERABAYASHI, which provides just over 10% of sales, had 102 retail butcher shops as of the end of September 2017. Roughly 60% of these stores are set up as tenants at Business Supermarket and Megumi no Sato sites, and the others are primarily located at department stores and shopping malls.

Business overview

3. Other Businesses

The Other Businesses consist of G-7 AGRI JAPAN CO., LTD., which operates the Megumi no Sato farmers' market chain, G-7 RETAIL JAPAN CO., LTD., which manages real estate, DAISO discount stores (100 yen shops), thrift stores, fitness clubs and golf schools and G7 INTERNATIONAL PTE. LTD. (Singapore), which handles overseas operations (except for AUTOBACS and BIKE WORLD), a coin laundry service, and a sweets business as new businesses.

For Megumi no Sato, there are 26 stores (18 in Hyogo, two in Osaka, four in Nara, one in Kyoto, and one in Chiba) as of the end of September 2017. This business changed the sales format from consignment sales (booking about 20% of the sales price as fee income under sales) to purchase-based sales from June 2015.

The Company has been steadily developing the overseas business in Southeast Asia and Taiwan. The agricultural business has started producing strawberries in Myanmar for sale at local stores. In the restaurant business, the Company operates one Ramen KANBE store in Indonesia and a Kushikatsu Daruma store in Taiwan. The Company also opened a Business Supermarket in Singapore through a joint venture created with a local company (G-7 holds a 30% stake) in April 2016. It exports all food items from Japan and book export sales of these items (under the Business Supermarket and quality food business). The Company has established overseas subsidiaries in Singapore, Malaysia, Vietnam, Indonesia, Myanmar, Thailand, Cambodia, Taiwan, and Hong Kong.

As a new business, the Company started a coin laundry service as a franchisee of mammaciao large coin laundry shops with over 300 sites nationwide under mammaciao Co., Ltd. It had four sites at G-7 Malls with multiple Group stores as of the end of September 2017. In the sweets business, the Company operates four BAKE CHEESE TART cheese-tart shops as a franchisee (one in Kyoto, two in Osaka and one in Hyogo) as of the end of September 2017. Additionally, the Company opened four Yamaya Honpo shops, which makes taiyaki (fish-shaped pancakes filled with bean jam), in Hyogo.

Major consolidated subsidiaries

Business segment	Company name	Capital contribution ratio	Business description
AUTOBACS and car-related business	G-7 AUTO SERVICE CO., LTD.	100.0%	Operator of AUTOBACS, etc.
	G-7 BIKE WORLD CO., LTD.	100.0%	Operator of BIKE WORLD, etc.
Business Supermarket and quality food business	G-7 SUPER MART CO., LTD.	100.0%	Operator of Business Supermarket, etc.
	G7 JAPAN FOOD SERVICE CO., LTD.	100.0%	Food wholesale and retail sales, sweets business, restaurant operations, etc.
	G-7 MEAT TERABAYASHI CO., LTD.	85.58%	Retail sales of meats and processed livestock products
Other Businesses	G-7 RETAIL JAPAN CO., LTD.	100.0%	Handles real estate development for the Group and operates recycling shops, 100 yen shops, fitness clubs, and indoor golf schools
	G-7 AGRI JAPAN CO., LTD.	100.0%	Operator of Megumi no Sato, etc.
	G7 INTERNATIONAL PTE. LTD.	100.0%	Holding company for overseas subsidiaries

Source: Prepared by FISCO from Company materials

Results trends

Likely to sustain sales and earnings growth led by healthy expansion of core AUTOBACS and Business Supermarket operations

1. Overview of 1H FY3/18 results

The Company reported 1H FY3/18 consolidated results with ¥57,160mn in net sales (+7.9% YoY), ¥1,624mn in operating income (+12.7%), ¥1,729mn in ordinary income (+8.7%), and ¥1,074mn in net income attributable to owners of parent (+25.5%), continuing gains in sales and earnings and setting all-time highs for a half-year basis. Main drivers were sharp recovery in earnings in the mainstay AUTOBACS business, which stalled in the previous year, on last-minute demand prior to tire price hikes and healthy expansion of the Business Supermarket earnings with additions from new openings and other positive trends. While the Company does not disclose its 1H forecast, we think both sales and earnings were roughly on track with the plan.

By quarter, operating income was ¥852mn in 1Q and ¥772mn in 2Q, though the decline in 2Q mainly reflects backlash from last-minute demand for tires in the AUTOBACS business in 1Q.

Consolidated results for 1H FY3/18

	1H FY3/16		1H FY3/17		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	52,964	-	57,160	-	7.9%
Cost of sales	39,504	74.6%	42,766	74.8%	8.3%
SG&A expenses	12,017	22.7%	12,769	22.3%	6.3%
Operating income	1,441	2.7%	1,624	2.8%	12.7%
Ordinary income	1,591	3.0%	1,729	3.0%	8.7%
Extraordinary gains/losses	-39	-0.1%	-	-	-
Net income attributable to owners of parent	856	1.6%	1,074	1.9%	25.5%

Source: Prepared by FISCO from the Company's financial results

Recovering in AUTOBACS business earnings and ongoing stable growth in Business Supermarket operations

2. Performance trends by business segment

(1) AUTOBACS and car-related business

The AUTOBACS and car-related business delivered ¥16,842mn in net sales (+8.4% YoY) and ¥349mn in operating income (+135.3%) in 1H. G-7 AUTO SERVICE, which mainly handles the AUTOBACS business, recovered sharply with a 2.5% YoY rise in sales and 220.4% increase in operating income. This entity provided a majority of the segment's profit addition. Domestic sites remained at 73 locations, but higher same-store activity lifted sales. Upbeat tire sales, with relatively high profitability, contributed to the steep improvement in earnings.

Sales growth rates (YoY) by categories were tires and wheels at +10.2%, car batteries at +4.8%, oil at +3.1%, and services (car inspections, body repair, coating, etc.) at +2.7%, reflecting healthy momentum in major businesses. While car audiovisual equipment was the one weak spot at -7.5% because of the slump in car navigation systems, we expect dashcams, which were flat in 1H, to provide a boost to sales from 2H given current conditions with customers waiting for shipments in reaction to media coverage in October.

Same-store sales for the entire AUTOBACS group increased 2.6% YoY in 1H, highlighting continuation of the Company's robust sales capabilities within the group.

G-7 BIKE WORLD returned to positive sales growth with a 3.5% YoY gain and reduced the operating loss by a few ten million yen. This business stayed at 12 stores in Japan, but benefited from narrowing the product line-up to strong-selling items and also achieved success in measures that addressed rival stores from 2Q. It only has a modest operating loss at this point and is within range of recording a profit at the full-year level. The Company started a business alliance with BIKE O & COMPANY Ltd. <3377>, which purchases and sells motorcycles, in November 2016. The alliance covers mutual customer introductions for their products and services, expansion of adjacent BIKE WORLD and BIKE O stores, and promotion of people interactions and information sharing. We will be looking for positive contributions from the alliance.

For overseas stores, the Company operates two AUTOBACS stores and two BIKE WORLD stores in Malaysia and one BIKE WORLD store in Thailand. This is the sixth year of operations in Malaysia, and sales continue to grow at a healthy pace. AUTOBACS customer traffic is growing, and this business is likely to achieve profitability.

(2) Business Supermarket and quality food business

The Business Supermarket and quality food business recorded ¥37,071mn in net sales (+7.5% YoY) and ¥1,231mn in operating income (+0.7%) in 1H. Sales at G-7 SUPER MART, which operates mainstay Business Supermarket stores, increased 7.7% YoY, and its operating income rose 0.1%. Same-store sales grew by a healthy 2.2% YoY and new stores (addition of 11 stores from a year earlier to 134 stores at the end of September) boosted sales too. The business opened seven new stores in 1H, compared to four in the previous year. While profit was only slightly higher because of increased spending accompanying the store openings, it exceeded its forecast.

G-7 MEAT TERABAYASHI performed well with increases of 11.8% YoY in net sales and 4.1% in operating income. It expanded store count by nine from a year earlier to 102 stores at the end of September, including joint openings with Business Supermarket, lifting sales and profits. In 1H, this business opened eight new stores (vs. four a year ago) and had one closure.

Results trends

G7 JAPAN FOOD SERVICE reported higher net sales at a 2.0% gain coupled with a 32.5% decline in operating income. The quality food business continued healthy growth, but earnings slipped due to lower sales in the sweets business (the Company books income from the sweets business in the Other Businesses segment).

(3) Other Businesses

In the Other Businesses, net sales climbed 9.8% YoY to ¥3,245mn and the operating loss was ¥73mn (versus a ¥17mn loss in the previous year). G-7 AGRI JAPAN, which operates Megumi no Sato stores, realized double-digit sales growth with an 11.6% YoY gain, but the operating loss slightly expanded due to increase in product inventory disposal losses, an issue since the previous fiscal year. Megumi no Sato store count increased by two YoY to 25 stores at the end of September. The Company also converted supermarkets run by Kawase Shokuhin Co., Ltd., which it acquired as a subsidiary in May, to “Gekiyasu Supermarket Megumi no Sato” and put G-7 AGRI JAPAN in charge of sales. This business has not reached profitability yet. Kawase Shokuhin posted about ¥1.8bn in net sales in FY2016 and goodwill amounts to ¥90mn (slated for fixed-sum amortization over five years).

The coin laundry service business, which the Company started in FY3/17, is steadily growing. The shops have been well received because they have machines for washing and drying not only clothes, but also futons, carpets, and other items that cannot be easily washed at home. This year’s rainy weather has also contributed to upbeat customer traffic. Store count rose by two from the end of FY3/17 to four stores at the end of September. The initial investment in washing machines, dryers, and other facilities is roughly ¥20mn, but because of low cost of sales this is a profitable business model once depreciation costs are recovered. Monthly sales average around ¥500,000-700,000, though flourishing shops can reach ¥1.2mn. While the income contribution is minor, the Company plans to continue opening stores at G-7 Malls with AUTOBACS and other Group stores. Targets are 50 stores by 2020 and 100 stores in the future.

For sweets, the BAKE CHEESE TART cheese-tart shop business opened a new site in Hyogo and had four stores at the end of September. While monthly sales are low as a take-out store, the sites quickly reach profitability because they are operated with 1-2 employees. However, same-store sales are dropping, including some settling from the boom, and profit fell YoY in 1H. The Company opened two Z CROQUANTCHOU ZAKUZAKU stores, which sell stick-type cream puffs, and one RINGO store, which specializes in freshly baked custard apple pies, as well.

In overseas, the agricultural business in Myanmar did not advance much. For restaurants, the Company directly operates one store each of Ramen KANBE in Indonesia and Kushikatsu Daruma in Taiwan (FC contracts), but both struggled. Employee retention is low, and store operational challenges have not been resolved. The Company plans to reverse course in the Ramen KANBE business by March 2018, either selling or consigning operations to a local company.

At Crown Trading Co., Ltd. (the Company owns 51%), which handles export sales of used cars and was acquired as a subsidiary in May 2017, while sales were solid, operating income incurred a modest loss. This company generates about ¥2.1bn in annual sales and goodwill amounts to ¥111mn (fixed-sum amortization over five years). The Company plans to make an additional investment to acquire Crown Trading as a wholly owned subsidiary in March 2018. The purchase cost totals about ¥250mn.

Further decline in the interest-bearing debt ratio improved financial health

3. Financial condition and key financial indicators

Looking at the Company's financial status at the end of September 2017, total assets were up ¥2,525mn from the end of FY3/17 to ¥40,144mn. This reflects increases of ¥798mn in cash and deposits, ¥726mn in merchandise and finished goods in current assets and gains of ¥341mn in tangible fixed assets, ¥178mn in goodwill, and ¥279mn in investments and other assets in fixed assets. New consolidated subsidiaries were the main source of additions to these items.

Liabilities, meanwhile, rose by ¥1,774mn from the end of FY3/17 to ¥23,735mn, primarily because of a ¥1,788mn increase in accounts payable. Interest-bearing debt climbed by ¥70mn. Net assets expanded by ¥750mn YoY to ¥16,409mn with a ¥658mn increase in retained earnings as the main driver.

In management indicators for soundness, the equity ratio slightly eased from 40.8% at the end of FY3/17 to 40.1%, though remains stable. The Company's interest-bearing debt ratio, meanwhile, dropped 2.1ppt from the end of FY3/17 to 52.8%, continuing the downward trend seen in recent years. Although the interest-bearing debt level itself is flat, sustained growth in net assets is contributing to reduction of the interest-bearing debt ratio. The Company intends to continue its aggressive pursuit of M&A strategy, though plans to mainly cover acquisition deals with surplus cash. We expect further decline in the interest-bearing debt ratio absent a major M&A deal.

Consolidated balance sheet and key financial indicators

	(¥mn)				
	FY3/15	FY3/16	FY3/17	1H FY3/18	Change
Current assets	15,018	17,111	18,542	20,258	1,716
(Cash and deposits)	6,952	8,242	9,395	10,193	798
(Merchandise and finished goods)	5,198	5,341	5,597	6,323	726
Fixed assets	17,321	19,042	19,076	19,886	810
Total assets	32,339	36,154	37,618	40,144	2,525
Total liabilities	19,934	21,971	21,960	23,735	1,774
(Interest-bearing debt)	8,458	8,342	8,426	8,496	70
Net assets	12,404	14,183	15,658	16,409	750
Key financial indicators					
(Financial strength)					
Equity ratio	38.4%	38.1%	40.8%	40.1%	
Interest-bearing debt ratio	68.2%	60.5%	54.9%	52.8%	

Source: Prepared by FISCO from the Company's financial results

■ Business outlook

Likely to set all-time highs again in FY3/18

1. Forecast for FY3/18

The Company retained its FY3/18 initial forecast of ¥117,700mn in net sales (+6.6% YoY), ¥4,100mn in operating income (+5.2%), ¥4,300mn in ordinary income (+5.9%), and ¥2,200mn in net income attributable to owners of parent (+5.8%). It expects consecutive all-time highs. Fulfillment rates versus full-year targets through 1H are 48.5% in net sales and 39.6% in operating income, outpacing average progress in the past five years (47.7% and 36.6% respectively). The overseas business is somewhat sluggish, but AUTOBACS, Business Supermarket, and other main domestic businesses are healthy, and we think the Company is capable of attaining its targets unless the market environment changes significantly. In particular, the AUTOBACS business is exhibiting an upbeat start with winter tire inquiries in some regions and is likely to post higher dashcam sales. We also see a possibility of earnings beating its forecast depending the extent of snowfall in the winter season.

Kawase Shokuhin and Crown Trading, the two companies acquired as subsidiaries in May 2017, add just over ¥3bn in combined sales, but have a negative impact on earnings, including amortization of goodwill (about ¥30mn for the two companies). The Company aims to realize profitability fairly soon for Kawase Shokuhin through utilization of store operational knowhow and Crown Trading by leveraging synergies with the overseas auto-related business. It also intends to actively pursue M&A deals in areas related to the two main businesses.

Consolidated forecast for FY3/18

	FY3/17		FY3/18			
	Results	vs. net sales	Forecast	vs. net sales	YoY	1H progress rate
Net sales	110,377	-	117,700	-	6.6%	48.5%
Operating income	3,897	3.5%	4,100	3.5%	5.2%	39.6%
Ordinary income	4,062	3.7%	4,300	3.7%	5.9%	40.2%
Net income attributable to owners of parent	2,080	1.9%	2,200	1.9%	5.8%	48.8%
Earnings per share	171.76		181.66			

Source: Prepared by FISCO from the Company's financial results

Aiming for higher sales and profits in all segments

2. Segment outlook

(1) AUTOBACS and car-related business

The Company is planning higher sales and profits in the AUTOBACS and car-related business in FY3/18. It projects a roughly 5% YoY sales gain at mainstay G-7 AUTO SERVICE. While the Company does not plan to open new AUTOBACS stores, it announced the transfer of two AUTOBACS stores (Hyogo and Kyoto) from Autoplus Co., Ltd. in November 2017, lifting total store count to 75 locations. By category, it intends to continue strengthening tires, service, and car sales initiatives and expand dashcam sales. Dashcam sales doubled YoY in October 2017 in response to media coverage, and customers are currently waiting for product shipments. We expect increase in the installation rate for security reasons and think this business could serve as a major catalyst for car audiovisual equipment that has been slumping.

G-7 BIKE WORLD, meanwhile, is not opening new stores and instead putting top priority on attaining an operating income in FY3/18. Sales of wear that gives protection from cold weather has been upbeat amid low temperatures in the fall season. Additionally, the Company expects synergies from its alliance with BIKE O & COMPANY. In overseas business, the Company forecasts continuing growth by the motorcycle business in Malaysia and early profitability in the AUTOBACS business by promoting initiatives that improve customer draw.

(2) Business Supermarket and quality food business

The Company projects continuation of sales and earnings growth in the Business Supermarket and quality foods business. It plans to open about 10 new stores in the mainstay Business Supermarket business and increase sales by 6% YoY. It already opened seven stores through 1H and added one store in Fukuoka in October and planning one store in the Kanto area in November. G-7 MEAT TERABAYASHI, which operates butcher shops, will be opening new stores at a similar pace with a goal of surpassing ¥10bn in sales.

G7 JAPAN FOOD SERVICE will continue to discover local delicacies and develop private-brand products and also recruit sales sites in Japan. It also plans to bolster exports to Southeast Asia and Hong Kong, Taiwan, and other Asian countries, mainly selling meats, fruits, seasonings, and other Japanese products to local restaurant operators, hotels, and wholesalers.

(3) Other Businesses

The Company expects to generate higher sales and profits in the Other Businesses. For the Megumi no Sato operations, it is temporarily halting store openings and taking steps to bolster profitability at existing stores. This business needs to reduce inventory disposal losses after the shift to an operating approach of outright purchases and sales. The Company seeks to promptly realize profitability by cultivating human resources and improving systems to manage procurement and sales prices.

Business outlook

In the coin laundry business, the Company plans to open five new stores in 2H and reach a total of nine locations at the end of FY3/18. While this business should add an extra few tens of million yen to sales, the impact on earnings is likely to be minor because of depreciation costs for equipment. Expansion of the location network, however, should contribute to profit over time. In the sweets business, sales momentum slowed at BAKE CHEESE TART shops and the Company is taking a cautious stance toward new openings. The Company has opened four Yamaya Honpo shops, which sell taiyaki Japanese fish-shaped cakes, since the end of FY3/17. It will assess activity over about half a year and proceed with a multi-store rollout if the shops are profitable. In the reuse business, the Company had operated three reuse shops in Okayama (two shops) and Chiba (one shop) and opened another two shops (Aichi and Hyogo) by the end of September 2017. While this business is still incurring losses, the Company aims to improve earnings by raising overall handling volume with store additions.

■ Medium to long-term growth strategy

Aiming for ¥170bn in FY3/21 net sales including M&A additions

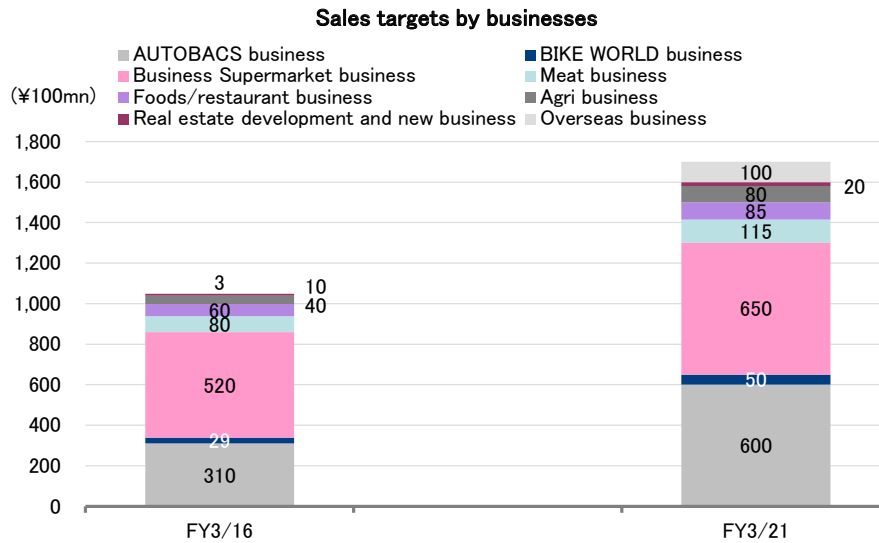
The Company's medium-term business plan that lasts through FY3/21 presents final-year goals of ¥170bn in net sales and ¥7bn in ordinary income. These goals represent a roughly 1.5 times in net sales and almost 1.7 times in ordinary income compared to FY3/17 results, and the Company intends to expand all businesses. For the AUTOBACS business (G-7 AUTO SERVICE), it expects a sharp gain with sales roughly doubling from the FY3/17 level to ¥60bn. This goal works out to a 18% average annual growth rate. The Company believes it can attain the goal through expansion of domestic store network, including M&A, and efforts to broaden new products and services, such as the aforementioned coin laundry service.

For the Business Supermarket business (G-7 SUPER MART), it targets a 27% increase in net sales from the FY3/17 level to ¥65bn. The goal corresponds to a 4% increase pace as an annual average, and the Company should be able to reach its target by expanding store network at a pace of 5-10 stores per year. The Company also intends to achieve goals for BIKE WORLD, meat, and agricultural businesses by steadily increasing the number of stores. For G7 JAPAN FOOD SERVICE, it aims for a 30% increase from the FY3/17 level to ¥8.5bn, led by expansion of the quality food business and food exports as well as gains in development and sales of private-brand products through collaboration with Megumi no Sato.

In the overseas business, meanwhile, the Company intends to reboot activities other than the AUTOBACS and car-related business and some restaurant and food businesses and might revise the current goal of ¥10bn in FY3/21 (sales were a few hundred million yen in FY3/17). Sales should expand in the AUTOBACS and car-related business with the addition of Crown Trading, which exports used cars. However, other businesses face challenges in cultivation of human resources and the Company is putting efforts into training people as a priority strategy for the medium-term business plan. Three years ago it started the Next Cabinet (NC) Club, a study group that consists of about 10 next-generation executive candidates, and the NC Training School, a study group that brings together about 15 executive candidates and periodically holds meeting. We expect better visibility for the Company's attainment of medium-term business goals if it strengthens management capabilities at Group companies through this type of cultivation of human resources.

Additionally, the Company is likely to actively pursue M&A opportunities in order to realize medium-term targets. It has outlined a stance of assessing companies and businesses related to the two core businesses and investing in deals that offer synergy potential within the scope of cash flow.

Medium to long-term growth strategy



Source: Prepared by FISCO from Company materials

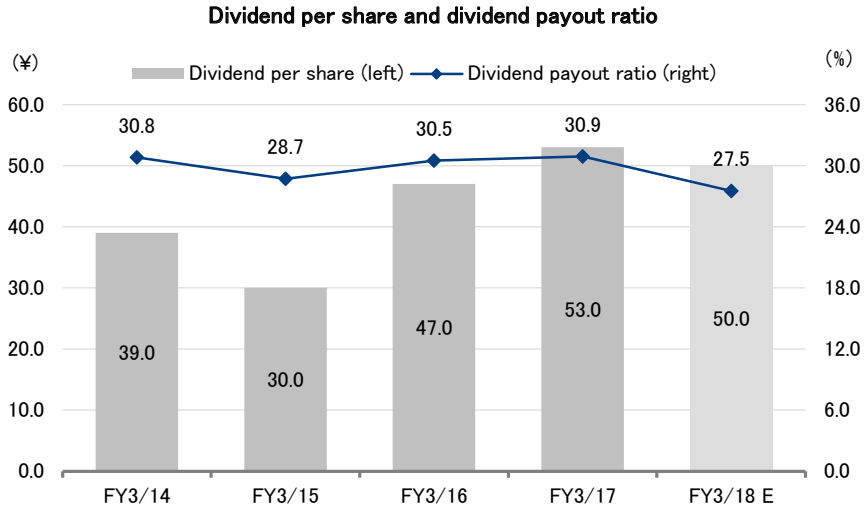
Shareholder return policy

Possibility of sustaining dividend hikes with a 30% payout ratio goal

The Company's dividend 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. Dividend results over the past few years indicate that the Company is aiming for a dividend payout ratio of about 30%. This level appears to be a target.

The Company plans to pay a dividend of ¥50.0 per share, which yields a 27.5% dividend payout ratio, in FY3/18. It paid a ¥53.0 dividend (30.9% payout ratio), which consisted of a ¥40.0 ordinary dividend and a ¥13.0 special dividend at period-end, in FY3/17. If earnings meet its forecast, we think the Company might pay a special dividend at the period end for FY3/18, just as last year, targeting a 30% payout ratio.

Shareholder return policy



Source: Prepared by FISCO from the Company's financial results



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