

G-7 HOLDINGS INC.

7508

Tokyo Stock Exchange First Section

4-Jul.-2018

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Summary

Likely to continue setting all-time high results driven by AUTOBACS and Business Supermarket businesses

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 inventory turnover rates. It is also promoting development of the agricultural business and foodstuffs and restaurant businesses, as well as the overseas businesses. The Company is also promoting growth strategies using M&As.

1. FY3/18 results

The Company reported FY3/18 consolidated results with all-time highs for a third year running, with ¥119,816mn in net sales (+8.6% YoY) and ¥4,568mn in ordinary income (+12.5%). These results also exceeded guidance (¥117,700mn in net sales and ¥4,300mn in ordinary income). Key drivers were a double-digit profit increase on higher tire sales in the mainstay AUTOBACS business and ongoing sales and profit gains by Business Supermarket with same-store sales growth and new store additions. Group domestic store volume rose by 31 stores versus the previous period-end to 400 stores thanks to aggressive openings of Business Supermarket and MEAT TERABAYASHI locations.

2. Forecast for FY3/19

In FY3/19, the Company guides for ¥130,000mn in net sales (+8.5% YoY) and ¥5,500mn in ordinary income (+20.4%), setting all-time results in a fourth straight year. It expects double-digit sales and profit increases in AUTOBACS and Business Supermarket, driving overall growth. As new openings, it plans to add seven AUTOBACS stores and 10 Business Supermarket stores and raise group domestic store volume by 36 stores to 436 stores. The Company hopes to boost store traffic and the number of items purchased by customers and further increase profitability per store in the AUTOBACS business by focusing on consumables and service (car inspections, metalworking and coating, and others) sales, customer draw measures using SNS, and revamping retail floors. In Business Supermarket operations, the Company intends to open new stores in metro Tokyo as well as Kyushu and Hokkaido. The Company aims to lift ordinary margin by 0.4ppt YoY to 4.2%, the highest level in the past 10 years, by promoting profit improvement measures in money-losing businesses, such as BIKE WORLD and Megumi no Sato.

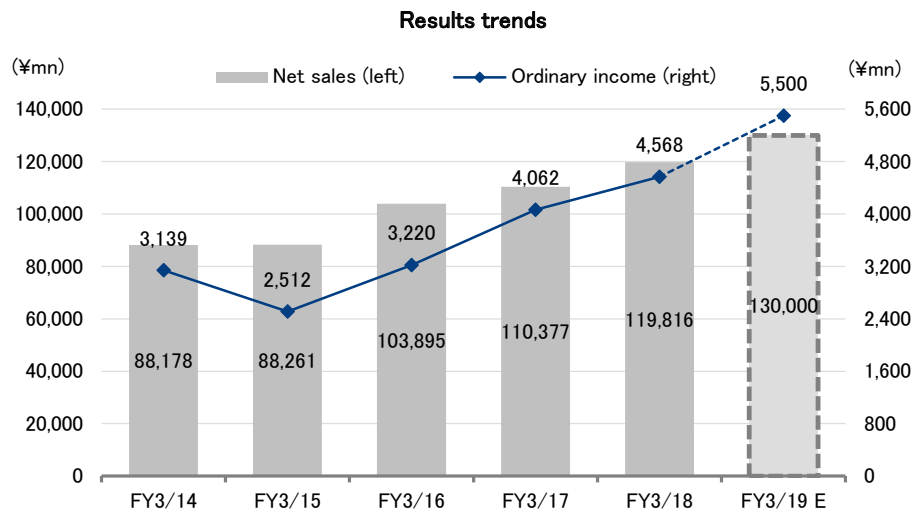
3. Medium-term business plan and long-term vision

The medium-term business plan targets ¥170bn in net sales and ¥7bn in ordinary profit in FY3/21, the final fiscal year. While this means adding roughly ¥50bn in sales versus the FY3/18 level, the Company intends to reach the goal by expanding mainstay AUTOBACS and car-related business and Business Supermarket business and aggressively promoting M&A strategy. As a long-term vision of a “company that can continue growing for 100 more years,” the Company also presented goals for FY 2075, the 100th year of its founding, of ¥700bn in sales and ¥30bn in ordinary profit. It launched the “founder’s seminar” in spring 2018 with the aim of cultivating future executives in order to realize the vision. The Company plans to develop and unearth new businesses and actively promote M&A and reenter overseas business once operations are ready and become a global firm.

Summary

Key Points

- Primarily generates earnings from AUTOBACS and car-related business and Business Supermarket and quality food business
- Aims to increase profitability and post all-time high results again in FY3/19
- Targets ¥170bn in net sales and ¥7bn in ordinary income in FY3/21



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

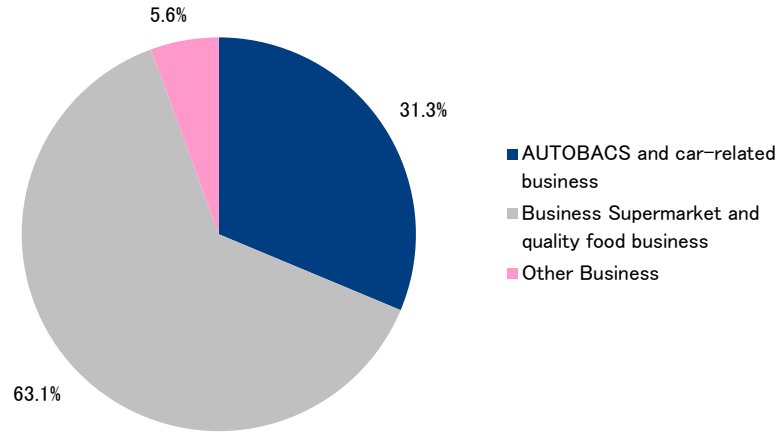
Business overview

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 FY3/18 composition of net sales by business segment, we see that the AUTOBACS and car-related business represented 31.3% and the Business Supermarket and quality food business 63.1%, with these two business segments accounting for more than 90% of overall operations.

Business overview

Sales by business segments (FY3/18)



Source: Prepared by FISCO from Company materials

1. AUTOBACS and car-related business

The AUTOBACS and car-related business 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., as well as car-related business in Malaysia and Thailand, and export sale of cars handled by G-7 Crown Trading Co., Ltd. which was acquired as a subsidiary in May 2017.

AUTOBACS-related sales represent approximately 90% of segment sales, with 75 AUTOBACS-related stores in Japan (68 AUTOBACS stores and seven AUTOBACS Express stores) and two AUTOBACS stores in Malaysia as of the end of March 2018, making it the largest franchisee within the 603 AUTOBACS group stores. Stores are located predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki prefectures. Hyogo is particularly important with 41 stores, or 60% of the Company’s entire network. Store management places strong emphasis on productivity per employee, gross profit margin 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 six CRYSTAL SEVEN stores offering carwash and coating services, one TIRE SENMONKAN tire specialty store, seven BP centers (body repair and coating), 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 March 2018.

Business overview

2. Business Supermarket and quality food business

The Business Supermarket and quality food business consists of G-7 SUPER MART Co., Ltd., which has a Business Supermarket franchisee operation, G-7 MEAT TERABAYASHI Co., Ltd., which mainly runs a fresh meat retail business, and G-7 Japan Food Service Co., Ltd., which operates food and restaurant businesses.

G-7 SUPER MART is a mega-franchisee of Business Supermarket representing roughly 80% of segment sales, with its 136 supermarket outlets as of the end of March 2018, giving it the largest scale among the 801 Business Supermarket group stores. Store rollouts are predominantly centered in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions.

G-7 MEAT TERABAYASHI, which provides just over 10% of sales, had 103 TERABAYASHI retail butcher shops as of the end of March 2018. 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.

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 (restaurants and sweets business is booked in the Other Businesses segment) in Japan.

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 22 stores (16 in Hyogo, three in Nara, one in Osaka, one in Kyoto, and one in Chiba) as of the end of March 2018. This business had 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 although in April 2018, the Company has changed back to consignment sales format in order to improve store profitability.

The coin laundry service business locates mammaciao stores (mammaciao Co., Ltd.) at AUTOBACS sites and had five stores at the end of March 2018. The sweets business consists of four stores each of BAKE CHEESE TART (BAKE Inc.), a cheese tart specialty shop, and Yamaya Honpo (Yamaya Taiyaki Honpo Co., Ltd.), a taiyaki (fish-shaped sweet) specialty shop, and one shop each of a cream-puff store and a custard apple pie store. These are take-out specialty shops and still do not have much impact on earnings.

Business overview

In overseas business (excluding AUTOBACS and car-related business), the Company had been pursuing restaurant operations in Southeast Asia and Taiwan and agricultural business (farming operations) in Vietnam and Myanmar. However, it realized that additional time is needed until reaching profitability and decided to temporarily withdraw from these initiatives. Yet the Company still views overseas business as a longer-term growth strategy and intends to pursue opportunities again once operations are ready.

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.
	G-7 SUPER MART CO., LTD.	100.0%	Operator of Business Supermarket, etc.
Business Supermarket and quality food business	G7 JAPAN FOOD SERVICE CO., LTD.	100.0%	Manufacturing, sales and import and export of food products and beverages, operator of restaurants, 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

Posted sales and profits exceeding guidance in FY3/18 on upbeat activity in the two main businesses

1. Overview of FY3/18 results

The Company reported FY3/18 consolidated results with ¥119,816mn in net sales (+8.6% YoY), ¥4,324mn in operating income (+11.0%), ¥4,568mn in ordinary income (+12.5%), and ¥2,648mn in net income attributable to owners of parent (+27.3%). These results beat guidance and set all-time highs in a third straight fiscal year. The main factor was higher sales and profits in core AUTOBACS and Business Supermarket businesses. AUTOBACS business, in particular, led profit gains with healthy sales of high-margin tires. Group domestic store volume rose by 31 stores versus the previous period-end to 400 stores thanks to aggressive openings of Business Supermarket and MEAT TERABAYASHI locations.

In 4Q (Jan-Mar 2018), profit fell on higher sales with an 8.3% rise in sales and 7.8% decline in operating income. However, profits came under pressure from booking fiscal year-end bonuses, which was not granted in the previous fiscal year, because earnings beat guidance.

Results trends

Consolidated results for FY3/18

	FY3/17		Forecast	FY3/18			
	Results	vs. net sales		Results	vs. net sales	YoY	vs. forecast
Net sales	110,377	-	117,700	119,816	-	8.6%	1.8%
Cost of sales	81,741	74.1%	-	89,022	74.3%	8.9%	-
SG&A expenses	24,739	22.4%	-	26,469	22.1%	7.0%	-
Operating income	3,897	3.5%	4,100	4,324	3.6%	11.0%	5.5%
Ordinary income	4,062	3.7%	4,300	4,568	3.8%	12.5%	6.2%
Extraordinary gains/losses	-529	-0.5%	-	-743	-0.6%	-	-
Net income attributable to owners of parent	2,080	1.9%	2,200	2,648	2.2%	27.3%	20.4%

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

2. Performance trends by business segment

(1) AUTOBACS and car-related business

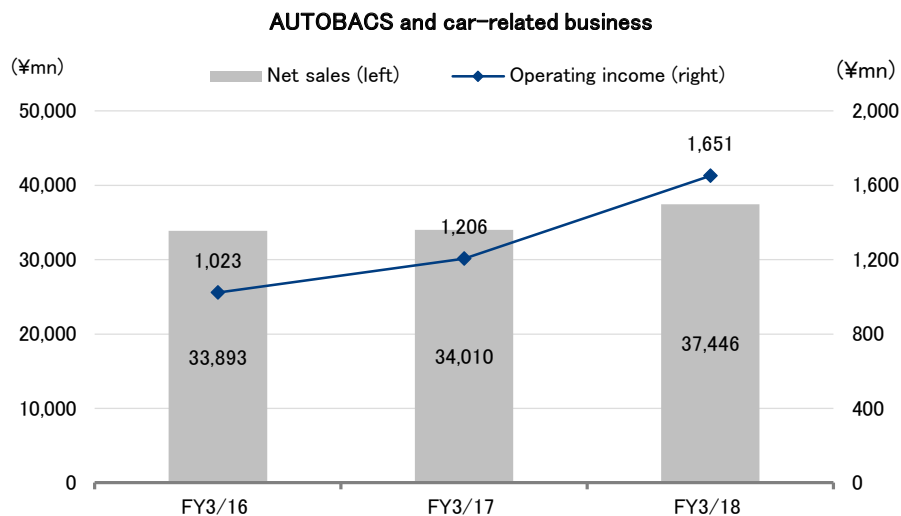
The AUTOBACS and car-related business delivered ¥37,446mn in net sales (+10.1% YoY) and ¥1,651mn in operating income (+36.8%) in FY3/18. G-7 Auto Service, which mainly consists of AUTOBACS-related business, reported a 3.5% YoY increase in sales and 33.0% rise in operating income and provided the bulk of the profit gain. Looking at sales trends by major categories, tires had a 12.0% YoY increase, the first advance in four years, due to last-minute demand prior to across-the-board price hikes in June 2017 and growth in winter tire sales thanks to snowfall in the winter season, and other areas performed well with batteries up 3.9%, car electronics rising 1.9%, and car inspections and metalworking and coating services up 1.7%. Car electronics sales benefited from a success with driver recorder products.

In earnings, improved profitability was a key factor with boosts from healthy sales of high-margin tires and initiatives in store-level inventory control and spending control. While sales modestly undershot guidance (+4.7% in sales, +17.3% in operating income), the shortfall can primarily be attributed to sluggishness at stores in Hyogo Prefecture during the winter season due to difficulty acquiring products and temporary interruption of logistics and forced closures at some stores in Fukui Prefecture because of heavy snowfall in January. AUTOBACS store volume at the end of FY3/18 increased by two stores from the end of the previous fiscal year (through a business transfer in November 2017) to 68 stores. Store count, including related stores, climbed by two stores to 75 stores. Domestic sales for the entire AUTOBACS group rose by 1.3% YoY in FY3/18. The Company modestly expanded sales share within the group.

G-7 BIKE WORLD, meanwhile, narrowed its operating loss on an increase in sales. Income improved because of efforts to control inventories, such as curtailing product line-ups to top-selling items, and spending amid continuation of a slump and tougher competition in the domestic motorcycle market and gradual emergence of benefits from collaborating with BIKE O & COMPANY Ltd. (3377), a business alliance partner since November 2016. BIKE WORLD store volume was flat YoY at 12 stores.

Results trends

In overseas stores, the Company runs two AUTOBACS stores and two BIKE WORLD stores in Malaysia and one BIKE WORLD store in Thailand. This was the sixth year since entering the Malaysian market, and the Company is steadily expanding sales, though they remain at a low level. The overseas operations are still incurring modest losses. At the store level, meanwhile, one of the BIKE WORLD stores has achieved a profit and the AUTOBACS stores are reducing losses in Malaysia. G-7 Crown Trading Co., Ltd., a subsidiary since May 2017, posted about ¥2.2bn in sales and appears to have generated an operating profit of a few ten million yen.



Source: Prepared by FISCO from Company materials

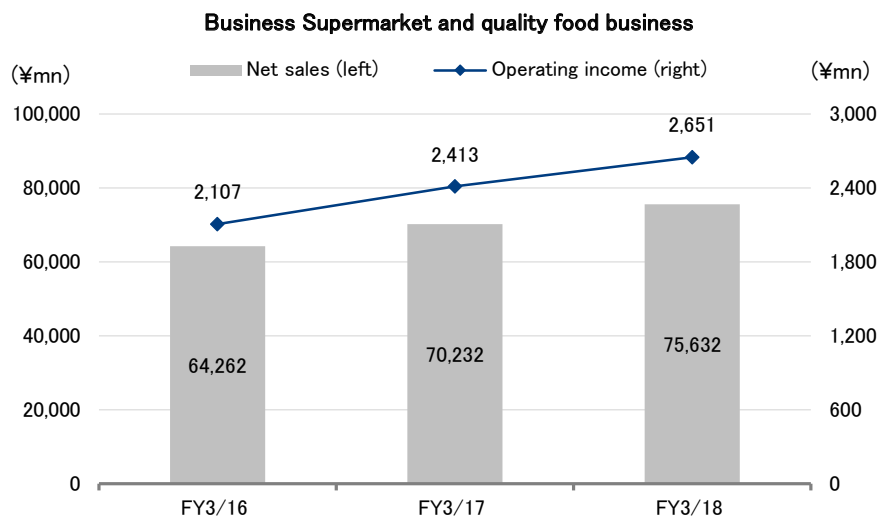
(2) Business Supermarket and quality food business

The Business Supermarket and quality food business recorded ¥75,632mn in net sales (+7.7% YoY) and ¥2,651mn in operating income (+9.9%) in FY3/18. G-7 SUPER MART, which operates mainstay Business Supermarket, booked increases of 7.6% YoY in sales and 5.7% in operating income. Store volume at period-end rose by nine stores (YoY) to 136 stores. While profit slightly missed guidance (+6.0% in sales, +10.9% in operating income) because of higher store opening and store renovation costs, both sales and operating income set all-time highs. Sales improved on a healthy 2% YoY increase in same-store sales and upbeat ramp-up of newly opened stores.

G-7 MEAT TERABAYASHI had a strong showing in FY3/18 with gains of 11.0% in sales and 17.0% in operating income. Positives were expansion of the store network by eight sites versus the previous fiscal year-end to 103 stores due to joint openings with Business Supermarket and other activities and higher sales at existing stores.

G7 Japan Food Service reported lower profits on an increase in sales. While the quality food business sustained higher sales and profits due to steadily acquiring new customers, profits slipped in the sweets business because of a rise in new opening costs (sweets business comes under the others business segment).

Results trends



Source: Prepared by FISCO from Company materials

(3) Other Businesses

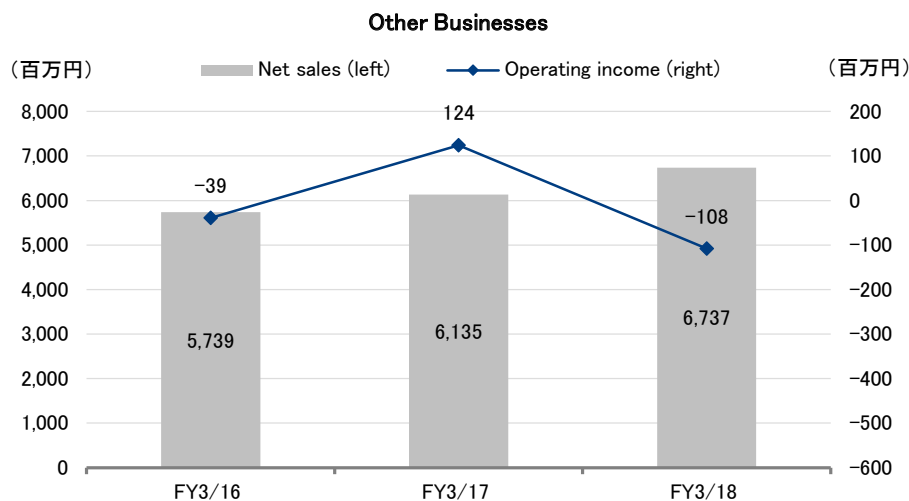
The others business segment recorded ¥6,737mn in sales (+9.8% YoY) and a ¥108mn operating loss (vs. a ¥124mn profit in the previous fiscal year). G7 AGRI JAPAN Co., Ltd., which operates agricultural produce direct-sale business Megumi no Sato, delivered a 15.0% YoY increase in sales, but the operating loss modestly widened. The main setback was a lack of progress in improvement of the disposal loss problem in product inventory, which had been a business issue. Megumi no Sato store volume was down by one site from the previous fiscal year-end to 22 stores at end-FY3/18.

The coin laundry service business started in FY3/17 opened three new stores and reached a total of five stores at period-end as a mammaciao franchisee. These 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 and are steadily increasing sales. The initial investment in washing machines, dryers, and other facilities is roughly ¥20mn, but this is a profitable business model once depreciation costs are recovered because of low COGS. Income contribution to overall results is still minor with monthly sales at around ¥500,000-700,000.

For sweets, profits slipped because of new store opening costs, including additions of one BAKE CHEESE TART cheese-tart shop to four stores and three Yamaya Honpo taiyaki specialty shops to four stores and one new opening each of a Z CROQUANTCHOU ZAKUZAKU store, which sell cream puffs, and one RINGO store (BAKE), which specializes in freshly baked custard apple pies. In reuse business, the Company increased total stores by one site from the previous fiscal year-end to five stores with the closure of one Ryohin Kaikan (Bestbuy Co., Ltd.) and opening of three Reuse Kingdom (G7 Retail Japan) stores. This business continues to incur modest losses.

In overseas business (restaurant and agricultural), the Company realized that additional time is needed until reaching profitability and decided to temporarily withdraw from these initiatives. For restaurants, it only runs one Kushikatsu Daruma store in Taiwan (FC contract) and plans to exit this Taiwanese business once it finds a party to acquire this operation. For agriculture, it continues to just cultivate strawberries in Myanmar. Losses from exiting these businesses have been minor.

Results trends



Source: Prepared by FISCO from Company materials

Significant improvement in financial soundness thanks to income gains

3. Financial condition and key financial indicators

Looking at the Company's financial status at the end of March 2018, total assets were up ¥3,976mn from the end of FY3/17 to ¥41,594mn. This reflects increases of ¥1,884mn in cash and deposits, ¥749mn in notes and accounts receivable – trade, ¥220mn in merchandise and finished goods in current assets and gains of ¥358mn in tangible fixed assets, ¥168mn in goodwill, and ¥474mn in investments and other assets in fixed assets. New consolidated subsidiaries were the main source of additions to these items in addition to increased earnings.

Liabilities, meanwhile, rose by ¥1,901mn from the end of FY3/17 to ¥23,861mn. Interest-bearing debt decreased by ¥120mn although the Company posted increases of ¥601mn in accounts payable and ¥843mn in asset retirement obligations. Net assets increased by ¥2,074mn YoY to ¥17,732mn. Retained earnings increased ¥1,938mn with the recording of net income attributable to owners of parent.

Results trends

In management indicators for soundness, the equity ratio rose 0.9pp from the end of FY3/17 to 41.7%. The Company's interest-bearing debt ratio, meanwhile, dropped 7.1ppt from the end of FY3/17 to 47.8%. Net cash (cash and deposits – interest-bearing debt) increased by ¥2,004mn YoY to ¥2,973mn. Profitability continued to move upward with ROE at 16.2%, ROA at 11.5%, and operating margin at 3.6%. We believe the Company's financial soundness has significantly improved thanks to gains in income and profitability over the past few years. While the Company intends to continue active pursuit of M&A deals, it will keep investment scale within the scope of cash flow. We expect ongoing expansion of results and reinforcement of the financial base.

Consolidated balance sheet and key financial indicators

	(¥mn)				
	FY3/15	FY3/16	FY3/17	FY3/18	Change
Current assets	15,018	17,111	18,542	21,512	2,970
(Cash and deposits)	6,952	8,242	9,395	11,279	1,884
(Merchandise and finished goods)	5,198	5,341	5,597	5,817	220
Fixed assets	17,321	19,042	19,076	20,081	1,005
Total assets	32,339	36,154	37,618	41,594	3,976
Total liabilities	19,934	21,971	21,960	23,861	1,901
(Interest-bearing debt)	8,458	8,342	8,426	8,306	-120
Net assets	12,404	14,183	15,658	17,732	2,074
Key financial indicators					
(Financial strength)					
Equity ratio	38.4%	38.1%	40.8%	41.7%	+0.9pt
Interest-bearing debt ratio	68.2%	60.5%	54.9%	47.8%	-7.1pt
Net cash (¥mn)	-1,506	-100	969	2,973	2,004
Profitability					
ROE (return on equity)	10.6%	14.3%	14.3%	16.2%	+1.9pt
ROA (ratio of ordinary income to total assets)	7.8%	9.4%	11.0%	11.5%	+0.5pt
Operating income margin	2.6%	2.9%	3.5%	3.6%	+0.1pt

Source: Prepared by FISCO from the Company materials

Business outlook

Aiming for higher profitability and all-time high results again in FY3/19

1. Forecast for FY3/19

The FY3/19 consolidated forecast calls for all-time high results for a fourth straight fiscal year with a 8.5% YoY rise in net sales to ¥130,000mn and increases of 15.6% in operating income to ¥5,000mn, 20.4% in ordinary income to ¥5,500mn, and 5.7% in net income attributable to owners of parent of ¥2,800mn.

Business outlook

The Company projects double-digit sales and profit increases in mainstay AUTOBACS and Business Supermarket businesses, including support from new openings, as primary drivers. It also aims to achieve profitability with income enhancement measures at BIKE WORLD, Megumi no Sato, and Kawase Shokuhin. It plans to actively open new stores, thereby widening the group network by 36 stores versus the previous fiscal year-end to 436 stores. Additionally, it hopes to lift ordinary margin by 0.4ppt YoY to 4.2% via efforts in store-level inventory and cost controls, raising gross margin, and bolstering employee productivity. In M&A, just as previously, it remains committed to actively reviewing opportunities that offer synergies with existing business.

Consolidated forecast for FY3/19

	FY3/18		FY3/19		
	Results	vs. net sales	Forecast	vs. net sales	YoY
Net sales	119,816	-	130,000	-	8.5%
Operating income	4,324	3.6%	5,000	3.8%	15.6%
Ordinary income	4,568	3.8%	5,500	4.2%	20.4%
Net income attributable to owners of parent	2,648	2.2%	2,800	2.2%	5.7%
Earnings per share	218.73		231.20		

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

Targeting double-digit sales and profit increases in AUTOBACS and Business Supermarket businesses

2. Segment outlook

(1) AUTOBACS and car-related business

The Company expects higher sales and profits in its AUTOBACS and car-related business in FY3/19. Mainstay G-7 Auto Service targets increases of 11.7% YoY in sales and 28.0% in operating income. It plans to add seven new AUTOBACS stores, expanding operations to 75 stores at period-end. Sales guidance, meanwhile, relies on higher same-store sales and does not factor in additions from new openings. Key initiatives to realize plan targets are boosting store traffic, raising traffic of customers who make purchases, and expanding sales of tires, batteries, and other high value-added consumption goods and services (car inspections and metalworking and coating).

The Company plans to let individual stores implement customer draw measures using SNS in efforts to raise store traffic. Specifically, it hopes to boost customer volume by providing new product and bargain information, car inspection reservation levels, and other items via SNS. It intends to design sales floors that help consumers select products, such as adjustments in product-shelving methods, as a way of increasing the number of visitors who make purchases. The Company realized some effect after major renovations at seven stores out of the unprofitable store group in FY3/18 with a rise in visitors who make purchases and attainment of profitability at some sites. It intends to continue similar initiatives in FY3/19.

Business outlook

The Company wants to further improve profitability through expansion of sales per store with these measures as well as higher gross margin and inventory and spending controls. It created a project team on stimulating its stores (the team has seven members) to support these initiatives. It also formed a store and personnel development office (three people) to focus on finding properties for new store openings and hiring and cultivating personnel and intends to expand openings at a pace of a few stores a year.

The Company plans to promote initiatives for realizing profitability in the BIKE WORLD business, including collaboration with BIKE O & COMPANY. In overseas business, it envisions profitability at a second BIKE WORLD store and a first AUTOBACS store in Malaysia.

The Crown Trading outlook calls for strengthening collaboration with G-7 AUTO SERVICE and expansion of automobile export sales. While exports to Malaysia accounted for just over 70% of sales through FY3/18, management hopes to broaden exports to Africa and other Asian countries and raise sales to ¥2.5-3bn. Profitability enhancement measures seek to restrict inventories to one-third of the previous fiscal year-end level and increase gross profit per vehicle by raising the inventory turnover rate. In used cars, shortening the ownership period directly raises profitability because sales pricing declines as this period lengthens (lowering profitability).

(2) Business Supermarket and quality food business

The Company projects further sales and profit increases in the Business Supermarket and quality food business segment. It anticipates double-digit sales and profit gains at G-7 SUPER MART, which runs mainstay Business Supermarket operations, at a 12.0% rise in sales and 26.4% increase in operating income. The FY3/19 plan targets 10 new openings, including in Hokkaido, Kyushu, and metro Tokyo. It also factors in continued roughly 2-3% growth in same-store sales. The Company expects gross margin to stay at the previous fiscal-year level and intends to strengthen profitability via curtailment of SG&A expenses and higher sales effect.

The Company forecasts double-digit sales and profit growth at G-7 MEAT TERABAYSHI too with increases of 11.2% in sales and 10.9% in operating income. It plans to open eight new stores and achieve higher same-store sales, sustaining a healthy trend. Furthermore, the G7 Japan Food Service outlook projects higher sales and profits in quality food business. The Company also intends to pursue franchise development of a new restaurant business format in FY3/19.

(3) Other Businesses

The others business segment targets higher sales and realization of a profit in operating income. In April 2018, Megumi no Sato switched its procurement model from outright purchase sales to consignment sales (receiving sales commission income) in order to eliminate the problem of product disposal losses. This change is likely to improve earnings. While it means that producers incur inventory risk, the producer side benefits from being able to set sales prices. The Company has not seen any impact on procurement recently. In May 2018, G7 AGRI JAPAN launched collection site at its headquarters and has started wholesale business with food supermarkets, roadside stations, and other locations. It aims to attain full-year profits through expansion of distribution volume with retail and wholesale business. The FY3/19 plan also calls for opening five new Megumi no Sato stores.

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Business outlook

The coin laundry service business has outlined a strategy of putting priority on attaining profitability at existing stores and resuming new openings after profitability has been reached. In the sweets business store openings as well, besides the plan to open one cream-puff CROQUANTCHOU ZAKUZAKU store, the Company is placing emphasis on profitability at existing stores. Separately, the Company plans to open three Curves fitness clubs for women (franchise contract with Curves Japan Co., Ltd.), expanding its network to 20 stores, in FY3/19.

Period-end domestic store volume and openings and closures

	FY3/18		As of March 31, 2018	FY3/19 plan	As of March 31, 2019 forecast
	Openings	Closures			
AUTOBACS	2	0	68	7	75
AUTOBACS Express	0	0	7	0	7
BIKE WORLD	0	0	12	0	12
Business Supermarket	9	0	136	10	146
TERABAYASHI	10	-2	103	8	111
Megumi no Sato	4	-5	22	5	27
Gekiyasu Supermarket Megumi no Sato	4	-1	3	0	3
Green's KTeppan Buffet	0	0	2	0	2
All-you-can-eat Restaurant Megumi no Sato	0	-1	1	0	1
BAKE	1	0	4	0	4
Z CROQUANTCHOU ZAKUZAKU	2	-1	1	0	1
CROQUANTCHOU ZAKUZAKU	-	-	-	1	1
RINGO	1	0	1	0	1
mammaciao	4	-1	5	0	5
Mega Recycle Kingdom	0	0	1	0	1
Reuse Kingdom	3	0	3	2	5
Ryohin Kaikan	0	-1	1	0	1
Curves	0	0	17	3	20
Step Golf	1	0	3	0	3
Nanatsu no Tsubo	0	0	2	0	2
Daiso	0	0	2	0	2
Souzai Shop Green's K	0	-1	2	0	2
Taiyaki Speciality Store Yamaya Honpo	3	0	4	0	4
Total	44	-13	400	36	436

Source: Prepared by FISCO from Company materials

■ Medium to long-term growth strategy

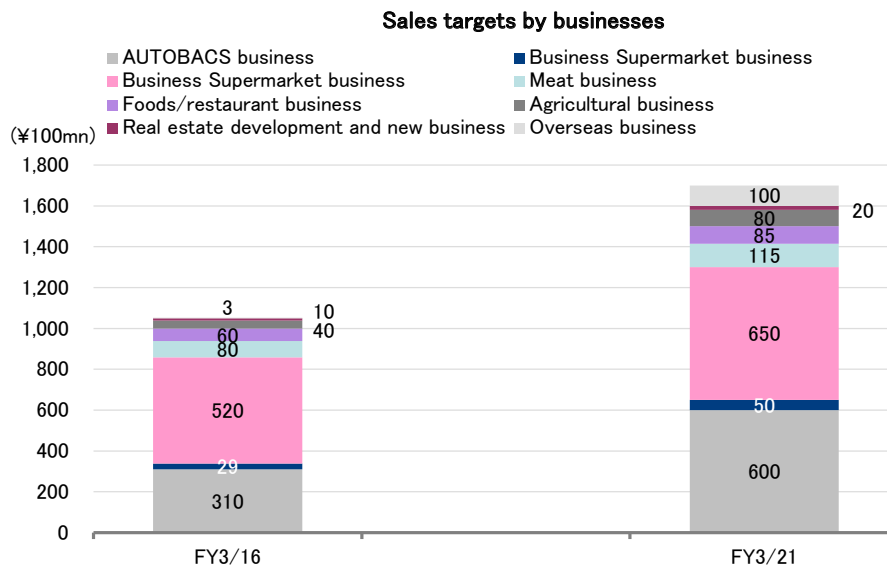
Targets ¥170bn in net sales and ¥7bn in ordinary income in FY3/21

1. Medium-term business plan

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. Based on FY3/18 results, the Company needs to add about ¥50bn in sales and ¥2.4bn in ordinary income. Initial goals in the medium-term business plan announced in 2016 were AUTOBACS business at ¥60bn, Business Supermarket at ¥65bn, meat business at ¥11.5bn, and overseas business at ¥10bn. The FY3/18 results, meanwhile, amounted to about ¥32bn from AUTOBACS, ¥58.8bn from Business Supermarket, ¥9.7bn in meat business, and ¥2-3bn in overseas business. Progress situations differed by the various businesses.

Business Supermarket and meat business are exhibiting robust progress toward the goals and could reach them ahead of time in FY3/19. AUTOBACS progress, however, is lagging due to stagnation in the domestic automobile goods market and a sluggish store expansion pace. The Company hopes to attain the goal by actively pursuing M&A opportunities if they arise. The overseas business goal of ¥10bn is likely to be delayed for a while, including the impact of exiting some businesses. While positives and negatives exist at this point, the Company is still committed to attaining the medium-term goals on an overall basis, including continued strengthening of profitability growth through store openings in existing businesses, new business and format developments, and active pursuit of M&A deals.

The Company is taking steps to strengthen internal personnel cultivation for the purpose of realizing future growth. 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. We will be looking for positive outcomes from these efforts to strengthen management capabilities at group firms.



Source: Prepared by FISCO from Company materials

Medium to long-term growth strategy

Business strategies in the medium-term business plan

- 1. Strengthening organizational and human capabilities**
 The Company aims to integrate sentiment within the group by bolstering collaboration of people, goods, and money among companies and achieving growth. It wants to unify the authority structure and enhance human capabilities through clarification of evaluation standards for individuals
- 2. Creation of a growth strategy office for development of new businesses and formats**
 The Company intends to pursue further activities in the sweets business and other areas and develop new businesses and formats in Japan and other countries
- 3. Holding founder's seminar and Next Cabinet training seminars**
 The Company's seminars to cultivate directors and executives aimed at training the next generation of leaders arrange the founder, current directors, and external speakers to foster managerial knowhow and develop human resources who will shoulder the group's future
- 4. Promoting M&A**
 The Company plans to make investments to reinforce domestic and overseas initiatives in Japan and other countries within the scope of cash flow
- 5. Bolstering site development**
 The Company intends to work on openings that factor in detailed market surveys and investment efficiency so that it is capable of adding 30-40 stores a year
- 6. Reinforcing overseas business in the Asian and ASEAN region**
 The Company is securing human resources from Southeast Asia. It has contracts with local schools to promote acceptance of students as technical trainees. These efforts aim to expand existing businesses
- 7. Securing human resources**
 The Company wants to hire more seniors (60-80 years old) and women. It is not restricting itself to existing normal-hour practices and introducing jobs that allow for selection of flexible working hours

Source: Prepared by FISCO from Company materials

Aiming to be “a company that can continue growing for 100 more years” as a long-term vision

2. Long-term vision

As a long-term vision of a “company that can continue growing for 100 more years,” the Company has presented goals for FY3/76, the 100th year of its founding, of ¥700bn in sales and ¥30bn in ordinary profit. It launched the “founder’s seminar” in spring 2018 with the aim of cultivating future executives in order to realize the vision. The Company plans to develop and unearth new businesses and actively promote M&A and reenter overseas business once operations are ready. It wants to grow as a global firm with operations in Asia and ASEAN countries too.

The “founder’s seminar” started in spring 2018. The Company plans to hold the seminar once a month as an educational forum on executive practices, including experiences and views, by the founder himself for a group of 18 new presidents and directors at group subsidiaries and other next-generation management in their 40s-50s.

The business strategy calls for increased customer traffic and spending per customer in existing businesses by refining business models to meet trends and factoring in consumer convenience. For openings, the Company presents a basic policy of adding new stores at a pace of 30-40 stores a year at sites with attractive conditions in markets that offer growth.

Medium to long-term growth strategy

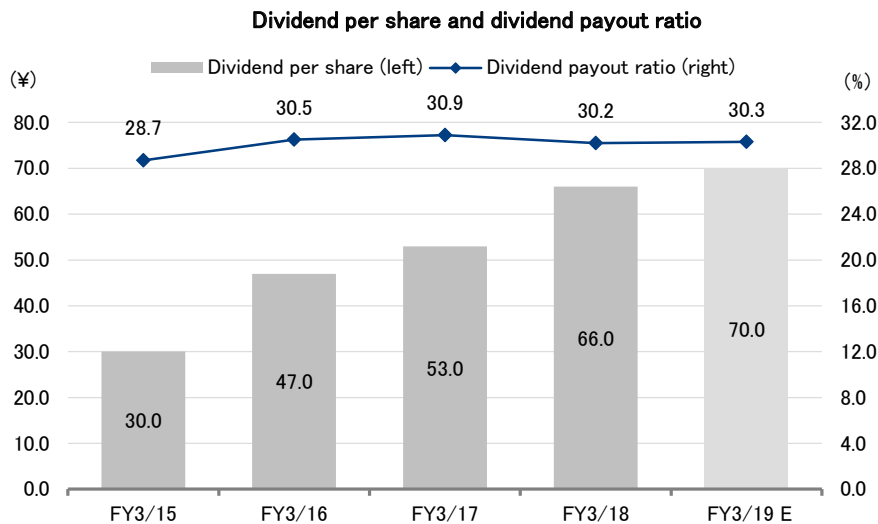
The Company has started new initiatives to secure manpower in FY3/19 ahead of future decline in the domestic workforce population. Specifically, it is beginning recruitment of seniors aged 60 or older who have specialized skills (such as plan developers, consultants, mechanics, inspectors, and buyers) with a flexible-time program. It is also considering other programs, such as adoption of flexible time to improve hiring of women and hiring foreigners. It intends to secure human resources needed to achieve growth in the various businesses.

Shareholder return policy

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 dividend of FY3/19 was ¥66.0 per share (30.2% payout ratio), an increase of ¥13.0 YoY. This was the third straight annual dividend hike. It plans to pay a ¥70.0 dividend (30.3% payout ratio), an additional ¥4.0, in FY3/19, thanks to profit expansion.



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



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