

# **G-7 HOLDINGS INC.**

**7508**

Tokyo Stock Exchange First Section

20-Dec.-2018

FISCO Ltd. Analyst

**Yuzuru Sato**



FISCO Ltd.

<http://www.fisco.co.jp>

## ■ Index

<b>■ Summary</b>	<b>01</b>
1. 1H FY3/19 results	01
2. Forecast for FY3/19	01
3. Medium-term business plan and long-term vision	01
<b>■ Business overview</b>	<b>02</b>
1. AUTOBACS and car-related business	03
2. Business Supermarket and quality food business	03
3. Other Businesses	04
<b>■ Results trends</b>	<b>05</b>
1. Overview of 1H FY3/19 results	05
2. Performance trends by business segment	06
3. Financial condition and key financial indicators	09
<b>■ Business outlook</b>	<b>10</b>
1. Forecast for FY3/19	10
2. Segment outlook	12
<b>■ Medium to long-term growth strategy</b>	<b>13</b>
1. Medium-term business plan	13
2. Long-term vision	15
<b>■ Shareholder return policy</b>	<b>16</b>

## Summary

### Headed for all-time high results for a fourth straight year driven by Business Supermarket and quality food business

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 foods and restaurant business, as well as the overseas businesses. The Company is also promoting growth strategies using M&As.

#### 1. 1H FY3/19 results

The Company reported 1H FY3/19 (Apr-Sep 2018) consolidated results with ¥59,145mn in net sales (+3.5% YoY) and ¥1,923mn in ordinary income (+11.2%), setting all-time highs for half-year values. While profit fell in the AUTOBACS business due to weaker tire sales, Business Supermarket and quality food business delivered a robust double-digit profit increase and fueled profit expansion. Furthermore, BIKE WORLD and Megumi no Sato contributed to higher profit by posting operating income and restoring profitability in 1H. Existing-store sales were healthy with a 1.6% YoY increase for AUTOBACS business and a 3.3% increase for Business Supermarket business.

#### 2. Forecast for FY3/19

The Company retained FY3/19 period-start guidance of ¥130,000mn in net sales (+8.5% YoY) and ¥5,500mn in ordinary income (+20.4%), aiming for all-time high results for a fourth straight year. While sales might undershoot in the AUTOBACS business, which had been slated to open seven new stores in FY3/19, because of difficulty finding candidate sites, the Company intends to reach the profit target by enhancing store profitability with improved productivity and cost reductions. The FY3/19 plan calls for lifting domestic group store volume by 25 sites from 400 stores at the end of the previous fiscal year to 425 stores at the end of FY3/19 (the group had 398 stores at the end of 1H), including seven Business Supermarket, five MEAT TERABAYASHI, and six AUTOBACS stores. For IKINARI STEAK business, which it newly added, the Company opened two roadside stores through the end of 1H and is making a smooth start. Additionally, the Company decided to exit all overseas operations, besides AUTOBACS BIKE and Myanmar agricultural business, during FY3/19. It is likely to reconsider overseas opportunities once it has established a business foundation that can sustain an expansion. Losses associated with the exit should not have much impact on overall business results.

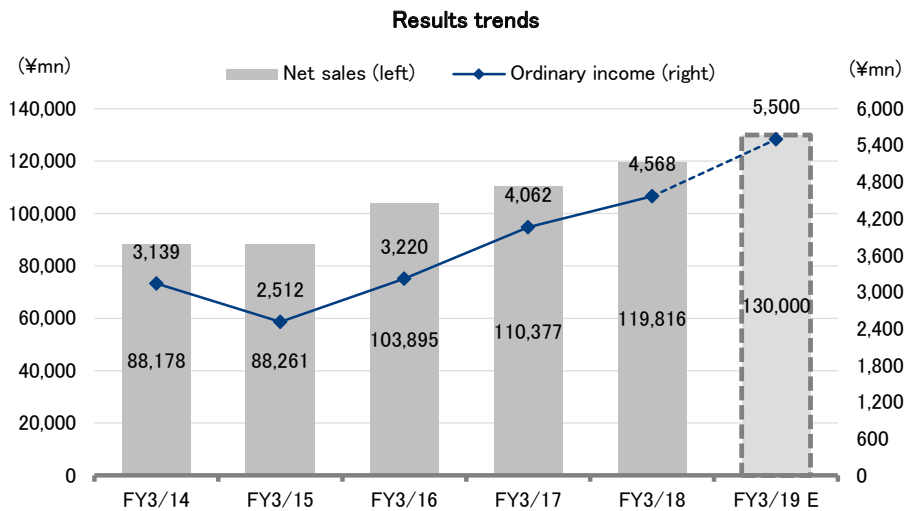
#### 3. Medium-term business plan and long-term vision

The medium-term business plan targets ¥170bn in net sales and ¥7bn in ordinary income in FY3/21, the final fiscal year. While this means adding roughly ¥50bn in net sales versus the FY3/18 level, the Company intends to add ¥30bn through acquisitions. It is looking at not only existing businesses and related areas, but also in new areas, and has budgeted about ¥5bn for acquisition. As a long-term vision of “a company that can continue growing for 100 more years,” the Company also presented goals for FY3/76, the 100th year of its founding, of ¥700bn in net sales and ¥30bn in ordinary income. It formed the “Growth Strategy Promotion Office” and launched the “founder’s seminar” in spring 2018 with the aim of cultivating future executives in order to realize the vision. The Company is committed to building a growth foundation.

Summary

**Key Points**

- Primarily generates earnings from AUTOBACS and car-related business and Business Supermarket and quality food business
- New store openings are undershooting the target, but the Company continues to post higher profits by strengthening profitability at existing stores and making improvements in unprofitable businesses
- Targets ¥170bn in net sales and ¥7bn in ordinary income in FY3/21



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

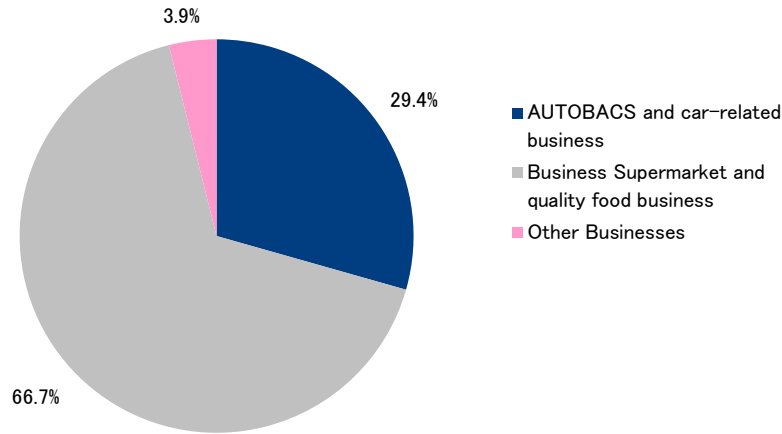
## Business overview

### Primarily generates earnings from AUTOBACS and car-related business and Business Supermarket and quality

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 FY3/19 composition of net sales by business segment, we see that the AUTOBACS and car-related business represented 29.4% and the Business Supermarket and quality food business 66.7%, with these two business segments accounting for more than 90% of overall operations.

Business overview

**Sales by business segments (1H FY3/19)**



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 74 AUTOBACS-related stores in Japan (67 AUTOBACS stores and seven AUTOBACS Express stores) and two AUTOBACS stores in Malaysia as of the end of September 2018, making it the largest franchisee within the AUTOBACS group stores (597 domestic stores and 45 overseas stores). Stores are located predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki prefectures. Hyogo is particularly important with 41 stores, or just under 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 three 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 September 2018.

**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 G7 JAPAN FOOD SERVICE CO., LTD., which operates food and restaurant businesses.

We encourage readers to review our complete legal statement on "Disclaimer" page.

#### Business overview

G-7 SUPER MART is a mega-franchisee of Business Supermarket representing just under 80% of segment sales, with its 136 supermarket outlets as of the end of September 2018, giving it the largest scale among the 810 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 September 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 businesses (restaurants and sweets businesses are booked under 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 21 stores (15 in Hyogo, three in Nara, one in Osaka, one in Kyoto, and one in Chiba) as of the end of September 2018. This business had changed the procurement model from consignment sales (booking about 20% of the sales price as fee income under sales) to outright purchase sales from June 2015 although in April 2018, the Company has changed back to a consignment sales model in order to improve store profitability.

The coin laundry service business locates mammaciao stores (mammaciao Co., Ltd.) at AUTOBACS sites and had five stores as of the end of September 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 results.

In overseas business (excluding AUTOBACS and car-related business), the Company had been pursuing restaurant operations in Southeast Asia and Taiwan and agricultural business (farm operations) in Vietnam and Myanmar. However, it realized that more time is needed to reach profitability and decided to temporarily withdraw from these initiatives other than the Myanmar agricultural business receiving assistance from City Mart Holdings Co. Ltd., a major local distributor. Yet the Company still views overseas business as a longer-term growth strategy and intends to pursue opportunities again once operations are ready. It has overseas subsidiaries in Singapore, Malaysia, Vietnam, Indonesia, Myanmar, Thailand, Cambodia, Taiwan, and Hong Kong, but is pursuing liquidation or transfers of local entities in areas where it has decided to withdraw businesses.

## Business overview

## 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 Crown Trading Co., Ltd.	51.0%	New vehicle and used vehicle export sales
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%	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

### Reported higher sales and profits in 1H FY3/19 driven by Business Supermarket and quality food business

#### 1. Overview of 1H FY3/19 results

The Company reported 1H FY3/19 (Apr-Sep 2018) consolidated results with ¥59,145mn in net sales (+3.5% YoY), ¥1,943mn in operating income (+19.7%), ¥1,923mn in ordinary income (+11.2%), and ¥1,195mn in net income attributable to owners of parent (+11.2%), setting all-time highs for half-year values again. Business Supermarket and quality food business performed well, primarily in Business Supermarket operations, and fueled profit expansion. While multiple natural disasters, including July's torrential rains in western Japan and September's typhoons and Hokkaido Earthquake, suspended business at some stores and sales modestly missed guidance, profit stayed on track by withdrawing unprofitable stores and restoring profitability at BIKE WORLD and Megumi no Sato, which had been posting losses. Group domestic store volume dropped by three stores from the end of the previous fiscal year to 398 stores (with 12 new openings and 15 closures).

#### Consolidated results for 1H FY3/19

	1H FY3/18		1H FY3/19		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	57,160	-	59,145	-	3.5%
Cost of sales	42,766	74.8%	43,948	74.3%	2.8%
SG&A expenses	12,769	22.3%	13,253	22.4%	3.8%
Operating income	1,624	2.8%	1,943	3.3%	19.7%
Ordinary income	1,729	3.0%	1,923	3.3%	11.2%
Net income attributable to owners of parent	1,074	1.9%	1,195	2.0%	11.2%

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

## Results trends

**2. Performance trends by business segment****(1) AUTOBACS and car-related business**

AUTOBACS and car-related business posted ¥17,388mn in net sales (+3.2% YoY) and ¥343mn in operating income (-1.7%). G-7 AUTO SERVICE, which mainly consists of domestic AUTOBACS business, recorded weaker profits on higher sales with a 2.3% YoY increase in sales and 17.2% decline in ordinary income. It did not open any new stores in 1H and was running 74 stores at the end of 1H, a decline of one store from the end of FY3/18 (up one store from the end of 1H FY3/18). Existing-store sales rose 1.6% YoY, outpacing the 0.2% increase in domestic existing-store sales growth for the AUTOBACS Group in the same period. This business sustained strong sales capabilities within the group.

Looking at sales trends by major categories, while tires and wheels dropped 4.0% due to the absence of higher demand prior to price hikes in June 2017, car electronics rose 4.2% with upbeat sales of driving recorders, oil climbed 9.8%, and batteries were up 8.9%. Car inspections and metalworking and coating services remained firm too with a 0.4% increase. Profit had a double-digit setback mainly because of lower sales of highly profitable tires and typhoon disruptions of some store operations.

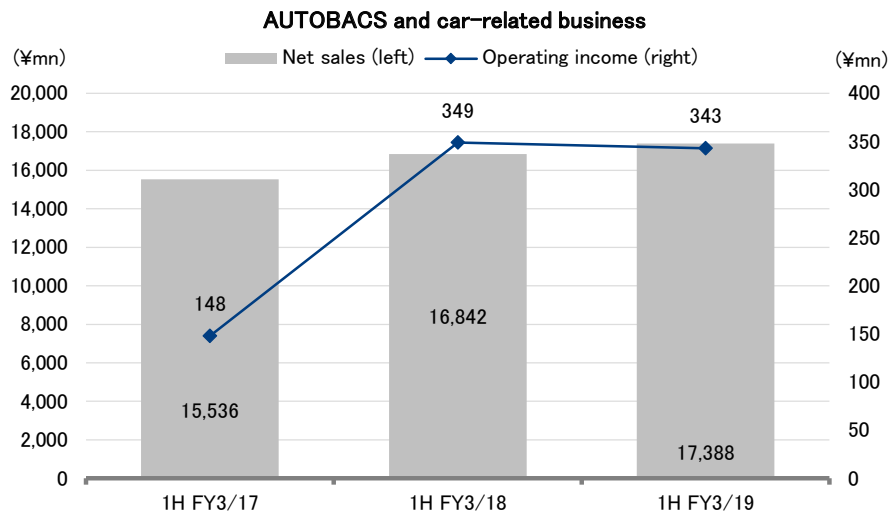
G-7 BIKE WORLD, meanwhile, restored an operating income for the first time in four years, despite sales decline due to the impact of steady narrowing of the product line-up amid continued weakness and tougher competition in the domestic motorcycle market, thanks to efforts toward improving gross margin and controlling expenses and benefits from collaborating with BIKE O & COMPANY Ltd. <3377>. BIKE WORLD store volume was flat versus the end of FY3/18 (and also flat YoY) at 12 stores.

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 in 2012, and though it does not have much impact on overall results yet, the business is steadily expanding sales and profits are continuing to improve. Combined sales for the four Malaysian stores rose 4.3% YoY. The one BIKE WORLD store reached a profit, while the other three stores narrowed losses.

G-7 Crown Trading, which was acquired as a subsidiary in May 2017, booked lower sales, due to halving inventories from the end of FY3/18 level with the aim of strengthening profitability, and a modest loss.



## Results trends



Source: Prepared by FISCO from Company materials

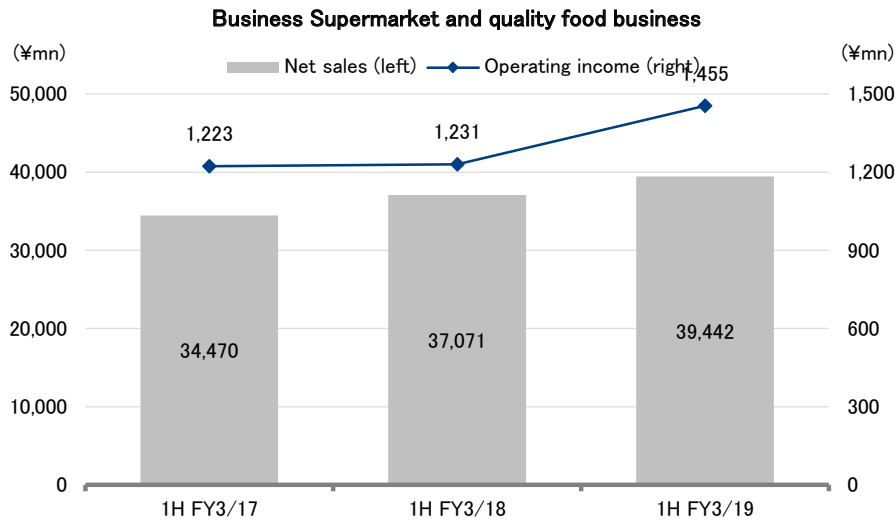
## (2) Business Supermarket and quality food business

Business Supermarket and quality food business reported ¥39,442mn in net sales (+6.4% YoY) and ¥1,455mn in operating income (+18.2%). G-7 SUPER MART, which operates mainstay Business Supermarket, booked increases of 6.7% YoY in sales and 13.9% in ordinary income. Store volume at the end of 1H was unchanged from the end of FY3/18 at 136 stores (up by two stores YoY) with three new openings and three closures (renewals involving a move). Existing-store sales remained healthy at a 3.3% increase even with suspensions at some stores due to impacts from typhoons in September and the Hokkaido Earthquake. Profitability improved thanks to higher sales supported by strong customer draw and product capabilities as well as enhanced productivity at individual stores and reduced costs.

G-7 MEAT TERABAYASHI reported a 5.9% gain in sales and steep 46.7% rise in ordinary income. Store volume at the end of 1H was unchanged from the end of FY3/18 at 103 stores (up by one store YoY) based on joint openings with Business Supermarket and closures. Higher sales at existing stores drove strong performance.

G7 JAPAN FOOD SERVICE reported a 4.3% increase in sales and a 25.3% rise in ordinary income, the first profit gain in two years. Quality food business sustained higher sales and profits due to steadily acquiring new customers. The restaurant business opened two IKINARI STEAK stores (Hyogo Prefecture), as a new initiative. The first site opened on the premises of the AUTOBACS Gakuen Minami store (remodeled Nanatsu No Tsubo restaurant) in June 2018. It is booking just under ¥30mn in monthly sales and already contributing to profits. The second site is a roadside store that opened in late September and is likely to make contributions too. The sweets business operated at roughly the same level as a year ago, including store renewals, with four BAKE stores, one Z CROQUANTCHOU ZAKUZAKU store, and one RINGO store. Profit improved to the breakeven point on decline in new store opening costs and other expenses (restaurants and sweets businesses are booked under the Other Businesses segment).

Results trends



Source: Prepared by FISCO from Company materials

**(3) Other Businesses**

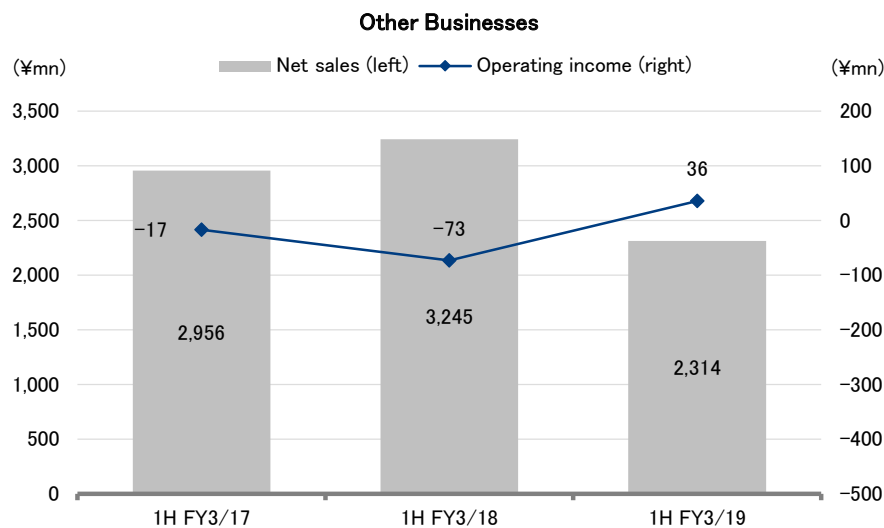
The Other Businesses segment recorded ¥2,314mn in net sales (-28.7% YoY) and ¥36mn in operating income (compare to an operating loss of ¥73mn). G-7 AGRI JAPAN, which operates Megumi no Sato direct-sale agricultural produce sites, posted lower sales because of a change in procurement model from outright purchase sales to consignment sales. However, it restored profitability on elimination of product disposal losses that had undermined profitability through the previous fiscal year. Megumi no Sato store volume was down by one store from the end of the previous fiscal year to 21 stores at the end of 1H FY3/19 (down four stores from the end of 1H FY3/18).

The coin laundry service business started in FY3/17 had five mammaciao stores, the same level as at the end of FY3/18 and the end of 1H FY3/18, but sales are steadily rising and earnings continues to improve. During 1H, two of the stores achieved profitability and one store reached the breakeven line. All stores are likely to become profitable as depreciation costs shrink. These stores 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. 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 cost of sales. While this business still does not have much impact on overall results with the sales plan only targeting about ¥60mn in annual sales, the Company is considering deployment of cashless payments and we expect expansion of store volume as suitable locations are found.

The sweets business saw earnings improve to the breakeven line as mentioned earlier, and restaurant business is smoothly ramping up IKINARI STEAK operations. In reuse business, the Company operates stores with three brands – Ryohin Kaikan, Mega Recycle Kingdom, and Reuse Kingdom. It had a total of four stores as of the end of 1H FY3/19, which is one less from the end of FY3/18 and the end of 1H FY3/18. This business continues to incur modest losses.

Results trends

In overseas business (restaurant and agricultural), the Company realized that more time is needed to reach profitability and decided to temporarily withdraw from these initiatives in FY3/17. It is currently selling and making other arrangements for operations. In restaurant business, it only runs one Kushikatsu Daruma store in Taiwan (franchise contract) and plans to exit this business once it finds a party to acquire this operation. In agricultural business, it decided to sell the chrysanthemum cultivation business that it operated in Vietnam. It intends to continue cultivating strawberries and lettuce in Myanmar after receiving a request and assistance from City Mart Holding, a major local distributor. Following these business withdrawals, losses appear to have contracted compared to a year ago.



Source: Prepared by FISCO from Company materials

## Improvement in financial soundness year by year thanks to income gains

### 3. Financial condition and key financial indicators

Looking at financial conditions at the end of 1H FY3/19, total assets dropped ¥431mn from the end of FY3/18 to ¥41,163mn. Main changes were an increase of ¥180mn in cash and deposits and decreases of ¥447mn in notes and accounts receivable – trade and ¥219mn in merchandise and finished goods under current assets and a decrease of ¥139mn in tangible fixed assets and an increase of ¥118mn in investment securities under fixed assets.

Total liabilities were down ¥1,049mn from the end of FY3/18 to ¥22,812mn, mainly due to decreases of ¥336mn in accounts payable, ¥124mn in income taxes payable, ¥184mn in bonus allowances, and ¥57mn in interest-bearing debt. Net assets increased ¥619mn from the end of FY3/18 to ¥18,351mn. This mainly reflects a ¥699mn increase in retained earnings with the recording of net income attributable to owners of parent and dividends paid.

Results trends

In financial indicators, the equity ratio, which reflects soundness, climbed by 1.9ppt from the end of FY3/18 to 43.6% thanks to an increase in profit and decline in liabilities. The interest-bearing debt ratio, meanwhile, fell by 1.9ppt to 45.9%. Financial health continues to improve with rising profits. Net cash (cash and deposits – interest-bearing debt) increased by ¥237mn from the end of FY3/18 to ¥3,210mn. The Company intends to continue active pursuit of an M&A strategy and is budgeting about ¥5bn each year to fund these initiatives. It will utilize in-hand cash for such outlays as its level of cash and deposits exceeds ¥11bn.

**Consolidated balance sheet and key financial indicators**

	(¥mn)					
	FY3/15	FY3/16	FY3/17	FY3/18	1H FY3/19	Change
<b>Current assets</b>	15,018	17,111	18,542	21,089	20,680	-409
(Cash and deposits)	6,952	8,242	9,395	11,279	11,459	+180
(Merchandise and finished goods)	5,198	5,341	5,597	5,817	5,598	-219
<b>Fixed assets</b>	17,321	19,042	19,076	20,505	20,482	-23
<b>Total assets</b>	32,339	36,154	37,618	41,594	41,163	-431
<b>Total liabilities</b>	19,934	21,971	21,960	23,861	22,812	-1,049
(Interest-bearing debt)	8,458	8,342	8,426	8,306	8,249	-57
<b>Net assets</b>	12,404	14,183	15,658	17,732	18,351	+619
<b>Key financial indicators</b>						
(Financial strength)						
Equity ratio	38.4%	38.1%	40.8%	41.7%	43.6%	+1.9pt
Interest-bearing debt ratio	68.2%	60.5%	54.9%	47.8%	45.9%	-1.9pt
Net cash	-1,506	-100	+969	+2,973	+3,210	+237

Source: Prepared by FISCO from the Company materials

## Business outlook

### Retained FY3/19 period-start guidance, aiming for all-time high results for a fourth straight year

#### 1. Forecast for FY3/19

The Company retained FY3/19 period-start guidance of ¥130,000mn in net sales (+8.5% YoY), ¥5,000mn in operating income (+15.6%), ¥5,500mn in ordinary income (+20.4%), and ¥2,800mn in net income attributable to owners of parent (+5.7%), aiming for all-time high results for a fourth straight year. Progress rates toward FY3/19 guidance through 1H were net sales at 45.5% and operating income at 38.9%. Compared to past five-year averages (47.5% and 35.6%, respectively), net sales modestly lagged, while operating income outpaced with healthy progress. Results fall more heavily in 2H because AUTOBACS earnings normally peak in 3Q when winter tire sales increase.

**G-7 HOLDINGS INC.** | 20-Dec.-2018  
 7508 Tokyo Stock Exchange First Section | <http://www.g-7holdings.com/>

Business outlook

The Company projects double-digit sales and profit increases in mainstay AUTOBACS and Business Supermarket businesses with support from new openings and also expects to achieve profitability at BIKE WORLD and Megumi no Sato. AUTOBACS and Business Supermarket businesses might miss sales targets due to shortfalls in store openings given the inability to find new store candidate sites at this stage. However, we think Business Supermarket should attain the profit target due to the absence of new store opening costs. AUTOBACS results, meanwhile, depend on snowfall in the winter season. While the Company's overall net sales might slightly miss the plan, we expect fulfillment of profit guidance by reducing unprofitable stores, controlling store-level inventory, controlling expenses, raising gross margin, and bolstering employee productivity. The Company hopes to increase domestic group store volume by 25 sites versus the previous fiscal year-end to 425 stores at the end of FY3/19. In M&A, it remains committed to actively reviewing opportunities.

**Consolidated forecast for FY3/19**

	FY3/18		FY3/19			1H progress rate
	Results	vs. net sales	Forecast	vs. net sales	YoY	
Net sales	119,816	-	130,000	-	8.5%	45.5%
Operating income	4,324	3.6%	5,000	3.8%	15.6%	38.9%
Ordinary income	4,568	3.8%	5,500	4.2%	20.4%	35.0%
Net income attributable to owners of parent	2,648	2.2%	2,800	2.2%	5.7%	42.7%
Earnings per share	218.73		231.20			

Source: Prepared by FISCO from the Company materials

**Period-end domestic store volume and openings and closures**

	As of March 31, 2018	1H FY3/19		As of September 31, 2018	As of March 31, 2019 forecast
		Openings	Closures		
AUTOBACS	68		1	67	74
AUTOBACS Express	7			7	7
BIKE WORLD	12			12	12
Business Supermarket	136	3	3	136	143
Megumi no Sato	22		1	21	26
TERABAYASHI	103	3	3	103	108
Gekiyasu Supermarket Megumi no Sato	3		1	2	2
Green's KTeppan Buffet	2			2	2
All-you-can-eat Restaurant Megumi no Sato	1			1	1
BAKE	4	1	1	4	4
Z CROQUANTCHOU ZAKUZAKU	1		1	0	0
CROQUANTCHOU ZAKUZAKU	0	1		1	1
RINGO	1			1	1
mammaciao	5			5	5
Mega Recycle Kingdom	1			1	1
Reuse Kingdom	3		2	1	3
Ryuhin Kaikan	1	2	1	2	2
Curves	17	1		18	20
Step Golf	3			3	3
Nanatsu no Tsubo	2		1	1	1
IKINARI STEAK	0	2		2	2
Daiso	2			2	2
Souzai Shop Green's K	2			2	2
Taiyaki Specialty Store Yamaya Honpo	4			4	4
<b>Total</b>	<b>400</b>	<b>13</b>	<b>15</b>	<b>398</b>	<b>426</b>

Source: Prepared by FISCO from Company materials

## **New store openings are undershooting the target, but the Company continues to post higher profits by strengthening profitability at existing stores and making improvements in unprofitable 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. While it ambitiously planned to add six new AUTOBACS stores, expanding operations to 74 stores by the end of FY3/19, the inability to finalize store candidate sites at this stage might result in sales missing guidance. Given this environment, key initiatives to achieve targets are boosting store traffic, raising traffic of customers who make purchases, and expanding sales of tires, batteries, and other high value-added consumables and services (car inspections and metalworking and coating).

The Company lets individual stores implement customer draw measures using SNS in efforts to raise store traffic. Specifically, measures include providing new product and bargain information, car inspection reservation levels, and other information via SNS. It intends to design sales floors that make it easier for consumers select products, such as adjustments in product-shelving methods, as a way of increasing traffic of customers who make purchases. The Company is aiming for profit recovery from 2H by expanding sales per store with these measures and by raising gross margin and controlling inventories and expenses.

For the BIKE WORLD business, the Company continues to promote initiatives that emphasize profitability and aims to steadily achieve profitability. In overseas business, it envisions profitability at two BIKE WORLD store and one AUTOBACS store out of its four stores in Malaysia. At G-7 Crown Trading, management plans to strengthen procurement and broaden exports beyond just Malaysia to Africa and other Asian countries, to raise sales from about ¥2bn in FY3/18 to ¥2.5-3bn.

#### **(2) Business Supermarket and quality food business**

The Company projects further sales and profit increases in the Business Supermarket and quality food business segment in FY3/19. At G-7 SUPER MART, which runs mainstay Business Supermarket operations, it targets a 12.0% rise in sales and 26.4% increase in operating income as well as an addition of seven sites from the end of FY3/18 to 143 stores at the end of FY3/19. The sales outlook relies heavily on new openings because it assumes 3% growth in existing-store sales. We think sales are likely to modestly miss guidance due to difficulty finding store candidate sites that meet conditions amid tougher competition. However, this segment is maintaining gross margin and raising profitability through curtailment of SG&A expenses and remains within the reach of achieving its operating income target.

At G-7 MEAT TERABAYSHI, the Company targets increases of 11.2% in sales and 10.9% in operating income and 108 stores at the end of FY3/19 (an addition of five stores from the end of FY3/18). New openings, however, rely on openings by Business Supermarket because these stores are located inside Business Supermarket sites. Profits exceeded the guidance in 1H, and we think this business is capable of achieving FY3/19 full year targets. Furthermore, the G7 JAPAN FOOD SERVICE outlook projects higher sales and profits with the expansion of the quality food business.

## Business outlook

**(3) Other Businesses**

The Others Businesses segment projects achieving operating income in the black. This outlook relies on earnings improvements in overseas business and at Megumi no Sato. While Megumi no Sato is headed for lower sales after switching its procurement model from outright purchase sales to consignment sales (receiving sales commission income) in April 2018, management expects to achieve a profit thanks to the elimination of product disposal losses. The plan calls for an addition of five stores from the end of FY3/18 to 26 stores at the end of FY3/19, but the Company still intends to carefully review openings with emphasis on profitability.

The outlook for coin laundry service and sweets businesses assumes flat store volumes from the end of FY3/18 due to priority on attaining profitability at existing stores. Separately, the Company plans to expand the network of Curves fitness clubs for women (franchise contract) by three stores from the end of FY3/18 to 20 stores.

## ■ Medium to long-term growth strategy

### Targets ¥170bn in net sales and ¥7bn in ordinary income in FY3/21 including M&A additions

#### 1. Medium-term business plan

The Company is currently implementing a five-year medium-term business plan that lasts through FY3/21 and targets ¥170bn in consolidated net sales and ¥7bn in ordinary income for the final fiscal year. Based on FY3/18 results, it needs to add about ¥50bn in net sales and ¥2.4bn in ordinary income. For net sales, it is increasing sales in existing businesses at a pace of ¥10bn a year and intends to add the other ¥30bn through M&A deals.

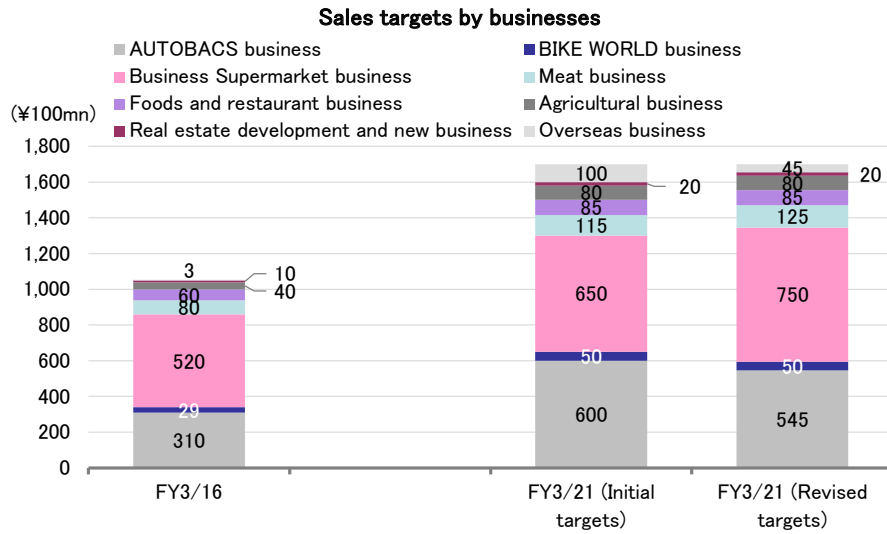
The Company has partially revised FY3/21 sales targets for individual businesses in light of recent progress. Specifically, it lowered the sale target for AUTOBACS business, which has fallen behind in the store-opening pace, from ¥60bn to ¥54.5bn and cut the sales target for overseas business from ¥10bn to ¥4.5bn because of the strategic decision to temporarily withdraw from a majority of these initiatives as explained earlier. On the other hand, it raised sales target for Business Supermarket business, which is steadily adding new stores, from ¥65bn to ¥75bn and meat business from ¥11.5bn to ¥12.5bn.

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.

For M&A, the Company is considering pursuit of human resource services and other new businesses, in addition to existing businesses and related areas, and is conducting the search and review of M&A candidates at the Growth Strategy Promotion Office. It created the Growth Strategy Promotion Office in April 2016, and a team of nine people is mainly engaged in M&A-related operations, including investments in startup companies. This team looks for new businesses and new business formats, collects information on new store candidate sites, and gathers information to recruit experienced personnel. The Company wants to accelerate new store opening and M&A initiatives that have slowed somewhat via the Growth Strategy Promotion Office.

Medium to long-term growth strategy

While it has a mix of positive and negative impacts in efforts to attain medium-term business plan goals, the Company still intends to reach the goals via expansion of growth in existing businesses with enhanced profitability and store openings, new business and format developments, and active pursuit of M&A deals. An issue is recruitment and cultivation of personnel to support addition of 30-40 stores a year. As measures, the Company is boosting acceptance of technical trainees from Southeast Asia and implementing work style reforms that allow for selection of flexible working hours without restriction to standard hours in order to utilize a broader range of people, including seniors and women, with specialized skills (plan development, consultants, mechanics, inspectors, procurement buyers, etc.).



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 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

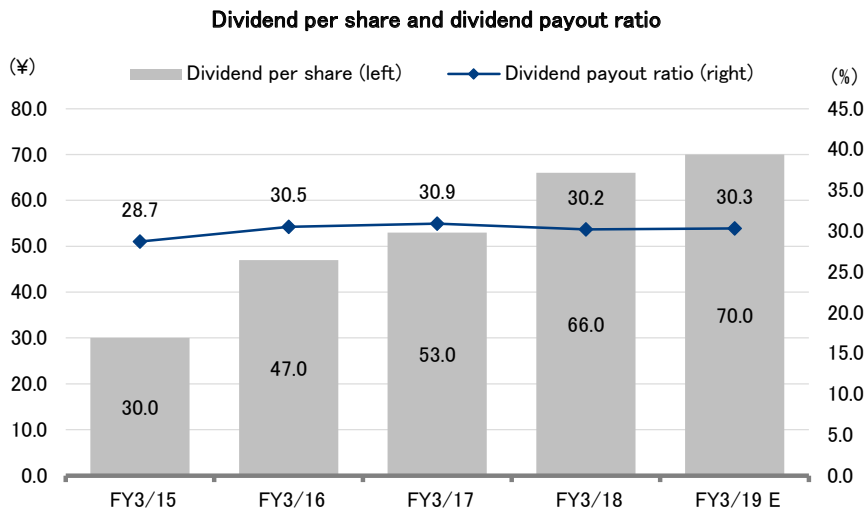
### 2. Long-term vision

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 net sales and ¥30bn in ordinary income. It launched the "founder's seminar" in April 2018 with the aim of cultivating future executives in order to realize the vision. The "founder's seminar" program holds seminars 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 Company has already switched presidents of a majority of group companies to younger people in their 40s and intends to shift to younger executives for all group presidents and directors by 2020. 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 with high economic growth rates.

## 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. The Company has been paying dividends at a payout ratio of about 30% in the past few years. We think this level is an indicator. It plans to pay a dividend of ¥70.0 per share (30.3% payout ratio), an additional ¥4.0 YoY, in FY3/19, raising the dividend for a fourth straight year.



Source: Prepared by FISCO from the Company materials



## Disclaimer

FISCO Ltd. (the terms “FISCO”, “we”, mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “JASDAQ INDEX” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.