

G-7 HOLDINGS INC.

7508

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■ Summary

Aiming to once again achieve record-high results in FY3/21 based on strong performances from the Gyomu Super and meat businesses and the effects of M&A

G-7 HOLDINGS INC. <7508> is a holding company that owns subsidiaries operating the largest franchises of AUTOBACS and Gyomu Super stores in Japan. It excels at store profitability with emphasis on productivity per employee and inventory turnover rates. In the meat business, it is accelerating store openings in the form of joint facilities in Gyomu Super stores of Oniku no Terabayashi and the Megumi no Sato farmers' market chain. In addition, from FY3/21, it has been actively conducting M&A and expanding its business scale, including conducting absorption mergers and making Group companies of 99ICHIHA Co., Ltd., which manages the mini PIAGO mini supermarkets, and Andesfoods Co., Ltd., a meat wholesaler.

1. Overview of 1H FY3/21 results

In the 1H FY3/21 (April to September 2020) consolidated results, net sales increased 24.3% year on year (YoY) to ¥79,848mn and ordinary income rose 13.0% to ¥3,594mn, which greatly contributed to the record-high results on a 1H basis. In the AUTOBACS and car-related business, sales and profits declined as the number of store visitors dropped due to the novel coronavirus pandemic (hereafter, the coronavirus) and a ricochet decline in tire sales resulting from temporary demand in advance of the consumption tax hike during the same period in the previous fiscal year. But record highs were still achieved, mainly because earnings grew significantly in the Gyomu Super business and the meat business. Benefiting from the growth in demand for eating at home as consumers refrained from going out, existing stores' net sales increased by double digits YoY, while the Company also actively opened new stores. As a result, the number of Gyomu Super stores increased by 10 compared to the end of the previous fiscal period to 155 stores, while the number of Oniku no Terabayashi stores increased by 14 to 127 stores, which were the main reasons for the higher sales and profits. In other businesses also, sales were strong in the Megumi no Sato farmers' market chain and the mini PIAGO mini supermarkets, which joined the Group in April 2020, and they contributed to the higher earnings. The number of Group stores increased by 125 compared to the end of the previous fiscal period to 566 stores, including the addition of 73 mini PIAGO stores.

2. Forecasts for FY3/21

For the FY3/21 results, the Company has left the initial forecasts of net sales to increase 28.2% YoY to ¥170,000mn and ordinary income to rise 16.7% to ¥7,000mn unchanged. At the end of 1H, the rates of progress toward the full-year forecasts were 47.0% for net sales and 51.3% for ordinary income. In a typical year, ordinary income is mainly recorded in 2H, as it peaks in 3Q from the growth in sales of winter tires. But tire sales slumped during this period in the previous fiscal year due to the warm winter, so at FISCO, we think it is fully possible that the Company will achieve its forecasts if weather conditions are the same as in a typical year. The forecast number of stores at the end of the fiscal period is 592 stores, with store openings scheduled mainly for Gyomu Super, Oniku no Terabayashi, and Megumi no Sato, while it also plans to acquire multiple Curves clubs, which are workout and training clubs for women. Conversely, in the restaurant and sweets businesses, which are experiencing severe earnings environments, the Company has resolved to close most of its 14 existing stores, with the exception of 2 IKINARI! STEAK restaurants, by the end of FY3/21 (effects on results will be negligible). It is expected that the effects on consolidated results from 99ICHIHA and Andesfoods being made Group companies will be to add approximately ¥20bn to net sales (the effect on profits will be to add ¥100mn to ¥200mn to ordinary income).

Summary

3. Growth strategy

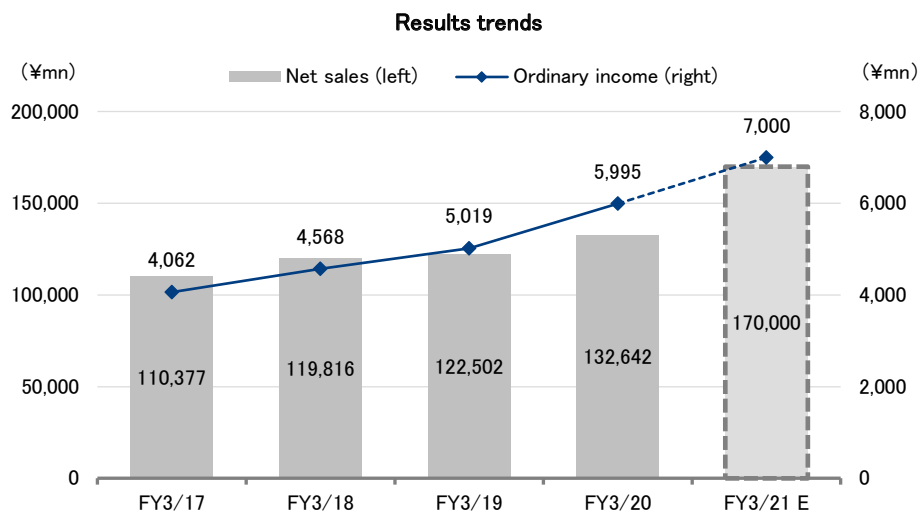
As its medium- to long-term growth strategy, the Company will expand business scale and diversify its businesses through developing new businesses and business formats that have high investment efficiency and implementing an M&A strategy. In addition, it will strengthen profitability through various measures, including improving net sales per customer and gross profit, and eliminating unprofitable stores, while aiming for stable earnings growth resistant to market changes and the profitability of all Group companies. Furthermore, the Company intends to realize effective growth by strengthening collaborations between Group companies. Successful examples of this are starting to appear, as new Oniku no Terabayashi and Megumi no Sato stores opened within Gyomu Super stores are realizing profitability at an early stage. In the AUTOBACS and car-related business, FIELD SEVEN, which is a new business format for outdoor goods specialty stores, opened a new store in March 2020 in the AUTOBACS Akashi store, which is generating synergies by capturing new customer groups in the AUTOBACS store. Also, the Company considers human resources to be an essential element in realizing sustainable growth, so its policy is to continue recruiting and training human resources as its most important management issue.

4. Shareholder return policy

In light of healthy profit expansion, the Company plans to increase the dividend per share by ¥5.0 YoY for an annual dividend of ¥50.0 (30.3% dividend payout ratio) in FY3/21, marking a sixth consecutive year of increases. It targets a dividend payout ratio of about 30%. We expect further dividend hikes if profits continue to grow.

Key Points

- In the 1H FY3/21 results, achieved significant increases in sales and profits
- Sales and profits from Gyomu Super and Oniku no Terabayashi increased greatly due to expanded demand for eating at home and the effects of new store openings
- Increasing growth potential and stability by strengthening collaborations within the Group, while aiming for sustainable growth through human resource development and progressing M&A



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

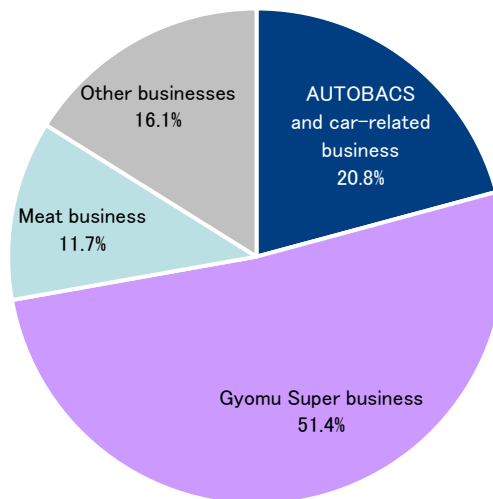
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Business overview

AUTOBACS, Gyomu Super, and the meat business are the main pillars of earnings

Since FY3/21, the Company has disclosed information on four business segments: AUTOBACS and car-related business, Gyomu Super business, meat business, and other businesses. Up to FY3/20, it disclosed on three segments: AUTOBACS and car-related business, Gyomu Super and quality food business, and other businesses, but it separated and made independent the meat business, which had been included in the Gyomu Super and quality food business due to its rapid growth. Also, the quality food business is now included in other businesses. Looking at the percentages of total net sales by business in 1H FY3/21, the AUTOBACS and car-related business provided 20.8%, Gyomu Super business 51.4%, and meat business 11.7%, so these three businesses provided 83.9% of total net sales.

Sales by business segment (1H FY3/21)



Source: Prepared by FISCO from the Company's quarterly report

1. AUTOBACS and car-related business

The AUTOBACS and car-related business consists of AUTOBACS franchise activities, including car product sales and maintenance mainly handled by G-7 AUTO SERVICE CO., LTD., motorcycle product sales and maintenance handled by G-7 BIKE WORLD CO., LTD., car-related businesses handled by subsidiaries in Malaysia and Thailand (management of AUTOBACS and BIKE WORLD stores), export sales of cars handled by G-7 Crown Trading Co., Ltd., and two other franchisees.

Business overview

More than 80% of sales are provided by AUTOBACS-related stores, and as of the end of September 2020, the number of AUTOBACS-related stores was 75 domestic stores (68 AUTOBACS stores and 7 AUTOBACS Express stores) and 3 stores in Malaysia (3 AUTOBACS stores), and the Company is the largest franchisee within the AUTOBACS Group (582 domestic stores and 44 overseas stores). Stores are located predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki Prefectures. Hyogo is particularly important with 39 stores, or around 50% 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 2 CRYSTAL SEVEN stores offering carwash and coating services, 7 BP centers (body repair and coating), and 1 Suzuki Cars store for buying and selling new and used cars in Osaka. Also, as a new business format, the Company has newly opened a FIELD SEVEN outdoor goods store within the AUTOBACS Akashi store, and plans to expand the network of these stores after establishing an earnings model.

The BIKE WORLD business consisted of 15 stores at the end of September 2020 with 11 domestic stores, 3 stores in Malaysia, and 1 store in Thailand. G-7 Crown Trading, which was made a subsidiary in 2017, conducts export sales of automobiles mainly in Southeast Asia. Sales composition ratios for each of these businesses are just under 10%.

Moreover, outside of these businesses are 3 Yamaya Honpo taiyaki specialty stores (Yamaya Taiyaki Honpo Co, Ltd.) and 5 mammaciao stores, which are coin operated laundries (MIS Co., Ltd.).

2. Gyomu Super business

The Gyomu Super business is operated by G-7 SUPER MART CO., LTD., which develops the Gyomu Super franchise. Store openings took place in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions, reaching 155 stores at the end of September 2020, the largest number within the Gyomu Super group (874 stores). Looking at store numbers by region, Kanto, an area targeted for active expansion in recent years, has the most with 64 stores (18 in Tokyo, 16 in Kanagawa, 16 in Saitama, and 14 in Chiba), followed by Chubu with 36 stores (25 in Aichi, 8 in Mie, and 3 in Gifu), Kansai with 33 stores (22 in Hyogo and 11 in Osaka), Kyushu with 13 stores (10 in Fukuoka, 2 in Kumamoto, and 1 in Nagasaki), and Hokkaido with 9 stores.

3. Meat business

The meat business is operated by G-7 MEAT TERABAYASHI CO., LTD. (formerly Terabayashi Co., Ltd.), which was made a subsidiary in 2015, and it operates Oniku no Terabayashi retail butcher stores across the country. Since it was made a subsidiary, it has actively opened stores as a tenant of Gyomu Super and Megumi no Sato. Also, in July 2020, the Company conducted an absorption-type merger of Andesfoods (currently the Andesfoods business division), which engages in wholesale and retail sale of meat. Andesfoods mainly wholesales to the restaurant and other food services and prepared food industries and conducts some retail sales.

Store numbers at the end of September 2020 were 127 Oniku no Terabayashi stores and 17 Andesfoods stores, for a total of 144 stores. By region, Kanto had the most with 72 stores. Around 90% of the total number of Oniku no Terabayashi store openings are within Group stores, such as Gyomu Super and Megumi no Sato stores.

Business overview

4. Other businesses

Other businesses consist of the businesses of G7 AGRI JAPAN CO., LTD., which manages the Megumi no Sato farmers' market chain; G7 JAPAN FOOD SERVICE CO., LTD., which operates food and restaurant businesses; and G7 RETAIL JAPAN CO., LTD., which develops real estate and manages properties such as fitness clubs, secondhand shops and indoor golf schools. It also includes the mini PIAGO mini supermarkets business conducted in Tokyo and Kanagawa (59 stores in Tokyo and 14 stores in Kanagawa, for a total of 73 stores) by 99ICHIBA, which was made a subsidiary in April 2020.

At the end of September 2020, 45 Megumi no Sato stores had been opened. By region, Kansai has 23 stores (15 in Hyogo, 5 in Osaka, and 3 in Nara), Kanto has 16 stores (7 in Tokyo, 4 in Chiba, 3 in Saitama, and 2 in Kanagawa), and Chubu has 6 stores (5 in Aichi and 1 in Gifu). Among all the stores, 24 stores have been opened within a Gyomu Super store. Moreover, the business uses consignment sales (around 20% of the sales amount is recorded as commission income) as its sales method to reduce business risk.

In the food and restaurant businesses, the food business discovers local, well-known and specialty products and sells them, including in department stores and specialty stores and on EC websites, while it also develops, manufactures and sells various private-brand (PB) products, mainly frozen foods. The restaurant business manages 8 restaurants in Japan and 1 restaurant in Taiwan as a franchisee of IKINARI!! STEAK (Pepper Food Service Co., Ltd.), while it has also opened 1 okonomiyaki restaurant. In addition, it has opened 1 cream puff specialty store and 1 custard apple pie specialty store. Other than these, as a franchisee, it has opened 20 Curves clubs (Curves Japan Co., Ltd.), which are workout and training clubs for women; 3 Step Golf indoor golf schools (stepgolf Inc.); and 2 secondhand shops (1 store each for Ryohin Kaikan and Kingram).

The Company's investment ratio for 99ICHIBA is 80.0%, but it plans to acquire the remaining 20% for ¥250mn from Pan Pacific International Holdings Corporation <7532> in April 2022 and make it a wholly owned subsidiary.

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
Gyomu Super business	G-7 SUPER MART CO., LTD.	100.0%	Operator of Gyomu Super, etc.
Meat business	G-7 MEAT TERABAYASHI CO., LTD.	100.0%	Retail sales of meats and processed livestock products
	G7 AGRI JAPAN CO., LTD.	100.0%	Operator of Megumi no Sato, etc.
Other businesses	G7 JAPAN FOOD SERVICE CO., LTD.	100.0%	Manufacturing and wholesale of food products and beverages, operator of restaurants, etc.
	G7 RETAIL JAPAN CO., LTD.	100.0%	Handles real estate development for the Group and operates secondhand shops, fitness clubs, and indoor golf schools
	99ICHIBA	80.0%	Manages mini PIAGO mini supermarkets

Source: Prepared by FISCO from materials provided by the Company

Results trends

In the 1H FY3/21 results, achieved major increases in sales and profits, driven by the Gyomu Super and meat businesses

1. Overview of 1H FY3/21 results

In the 1H FY3/21 consolidated results, net sales increased 24.3% YoY to ¥79,848mn, operating income rose 11.9% to ¥3,452mn, ordinary income grew 13.0% to ¥3,594mn, and profit attributable to owners of parent climbed 20.1% to ¥2,512mn. So sales and profits increased by double digits for record-high results on a 1H basis.

In the AUTOBACS and car-related business, sales and profits decreased due to the strengthened impacts of consumers refraining from going out and shortened business hours due to the coronavirus. However, results were driven by the major growth in earnings in the Gyomu Super and meat businesses resulting from increased demand for eating at home and the effects of new store openings. In addition, the effects of opening new Megumi no Sato stores contributed to the higher earnings. 99ICHIBA's mini PIAGO mini supermarkets also benefitted from the growth in consumption resulting from people staying at home and sales at existing stores were strong, which seems to have had a positive impact on sales of more than ¥7bn.

At the end of September 2020, the number of Group stores had risen by 125 compared to the end of the previous fiscal period to 566 stores (41 store openings, 6 store closures, and the additions of 73 mini PIAGO stores and 17 Andesfoods stores).

Consolidated results for 1H FY3/21

(¥mn)

	1H FY3/20		1H FY3/21		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	64,261	-	79,848	-	24.3%
Cost of sales	47,532	74.0%	59,697	74.8%	25.6%
SG&A expenses	13,643	21.2%	16,698	20.9%	22.4%
Operating income	3,085	4.8%	3,452	4.3%	11.9%
Ordinary income	3,182	5.0%	3,594	4.5%	13.0%
Profit attributable to owners of parent	2,092	3.3%	2,512	3.1%	20.1%

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

Results by business segment

(¥mn)

	Net sales			Ordinary income		
	1H FY3/20	1H FY3/21	YoY	1H FY3/20	1H FY3/21	YoY
AUTOBACS and car-related business	18,914	16,591	-12.3%	1,150	580	-49.5%
Gyomu Super business	34,567	41,067	18.8%	1,609	2,045	27.1%
Meat business	5,698	9,330	63.7%	276	520	88.2%
Other businesses	5,081	12,859	153.1%	102	277	170.4%
Total	64,261	79,848	24.3%	3,182	3,594	13.0%

Source: Prepared by FISCO from the Company's quarterly report

Results trends

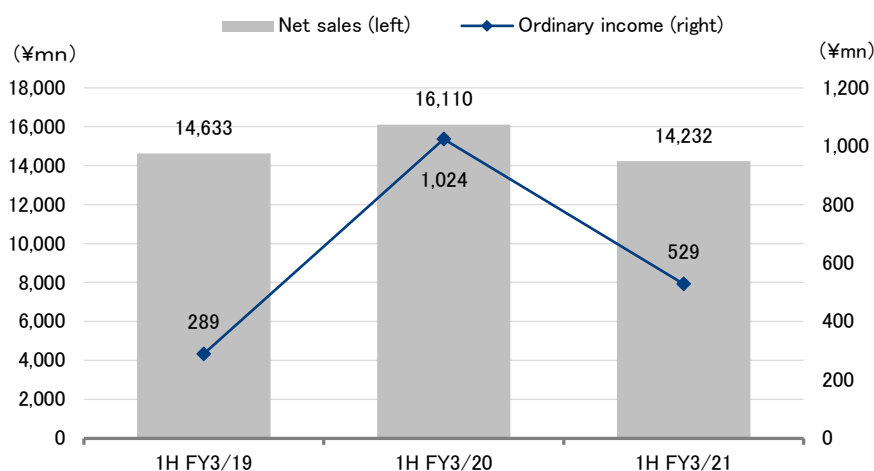
Sales and profits from Gyomu Super and Oniku no Terabayashi increased greatly due to expanded demand for eating at home and the effects of new store openings

2. Performance trends by business segment

(1) AUTOBACS and car-related business

In the AUTOBACS and car-related business, sales and profits decreased, with net sales declining 12.3% YoY to ¥16,591mn and ordinary income falling 49.5% to ¥580mn. However, these figures were basically in line with the Company's forecasts. Within these results, for the mainstay G-7 AUTO SERVICE, net sales decreased 11.7% YoY to ¥14,232mn and ordinary income declined 48.3% to ¥529mn. Influencing factors included the strengthening of the movement to refrain from going out following the government issuing a declaration of a state of emergency due to the coronavirus, and the number of store visitors declining greatly in April and May due to shortened business hours. In addition, in the same period in the previous fiscal year, sales grew greatly in September due to temporary demand in advance of the consumption tax hike, and the ensuing ricochet decrease also contributed to the decreases in sales and profits. Looking at monthly net sales, the growth rate declined by around 10% in April and May compared to the same months in the previous fiscal year, and although it recovered in the summer to around the same level as in the same months in the previous fiscal year, it fell greatly, down 27%, in September, a clear factor in the deterioration of earnings. When comparing net sales of existing AUTOBACS stores, the same trends could be seen. However, points worth noting are that the gross profit margin improved by around 0.5 of a percentage point (pp) YoY, as there were no excessive price reductions and the Company worked to reduce costs through such means as minimizing flyer advertisements, and the ordinary income margin also increased to 3.7%, an improvement compared to two years ago (2.0%).

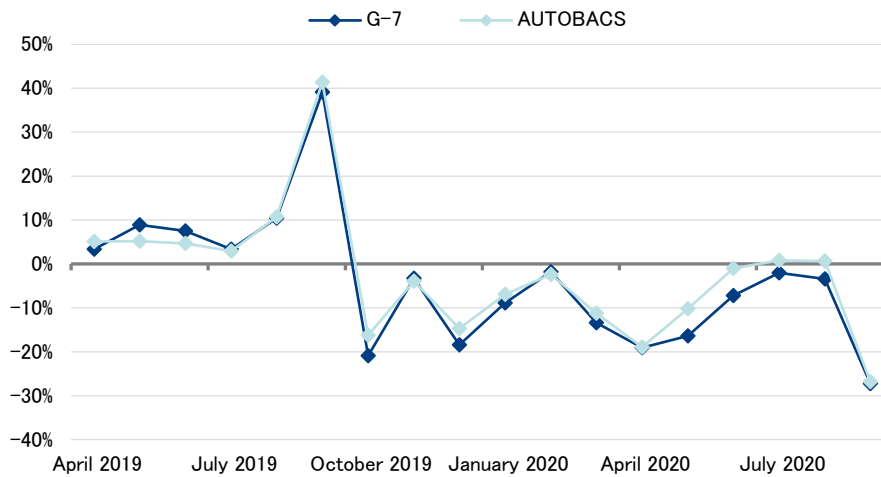
G-7 AUTO SERVICE results trends



Source: Estimated and prepared by FISCO from materials provided by the Company

Results trends

Sales growth rate of existing AUTOBACS stores (YoY)



Source: Prepared by FISCO from materials provided by the Company

Looking at the trends in sales (YoY) in the main categories, tires declined 15.1% as a result of a ricochet decrease from temporary demand in advance of the consumption tax hike in the previous year, while car electronics fell 17.1%, including due to a temporary slowdown in demand for drive recorders, which became an explosive hit in the same period in the previous fiscal year. Other categories also trended at low levels, with oil declining 4.9% and services decreasing 4.2%. Within services, body repair and coating was affected by a decrease in the number of vehicular accidents due to consumers refraining from going out, while vehicle inspection services were also affected by a decline in the number of store visitors. On the other hand, sales of batteries increased 6.1%, and car repair (car washing goods) rose 14.5%. It seems the factor behind the increase in car repair sales was a rise in opportunities for car washing as consumers refrained from going out. During 1H FY3/21, there were no openings or closures of AUTOBACS-related stores, so the number of stores in Japan increased by 2 compared to the end of the same period in the previous fiscal year to 75 stores.

Also, as a new business format, in March 2020, the Company newly opened the first FIELD SEVEN store, which is an outdoor goods store that “provides an abundance of enjoyment for your car life,” within the AUTOBACS Akashi store. Due to the impact of the coronavirus, the number of store visitors temporarily fell but recovered from June onwards, and synergies were also confirmed, including the FIELD SEVEN store opening leading to an increase in sales at the AUTOBACS store. Therefore, it has been decided to open a second FIELD SEVEN store within an AUTOBACS store in Hyogo Prefecture.

As the bike market in Japan continues to slump, G-7 BIKE WORLD is succeeding with a strategy of prioritizing strengthening profitability, and it achieved an increase in profits even as sales did not grow. This is due to the effects of narrowing the product lineup to only best sellers and efforts to improve the inventory turnover rate, in addition to measures such as minimizing discount sales and flyer advertisements. During 1H FY3/21, the number of BIKE WORLD stores in Japan decreased by 1 store compared to the end of the same period in the previous fiscal year to 11 stores, due to the closure of 1 store.

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Results trends

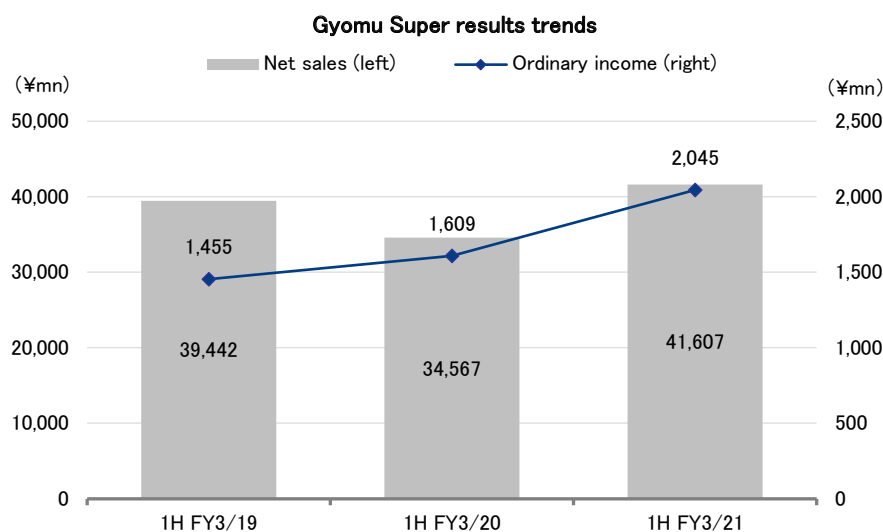
For the overseas AUTOBACS and BIKE WORLD businesses, in Malaysia, where there are stores, the government issued a curfew order from March 2020 (currently only in effect in some regions) and stores were forced to temporarily close, so sales declined YoY and loss increased slightly. At the end of September 2020, there were 3 AUTOBACS stores in Malaysia and a total of 4 BIKE WORLD stores (3 in Malaysia and 1 in Thailand). Their effect on results as a whole was negligible.

G-7 Crown Trading conducts car export sales, mainly to Malaysia that provides 70% of its net sales, and it temporarily had to stop exports due to the coronavirus. As a result, net sales decreased significantly and the profit-loss result also worsened.

(2) Gyomu Super business

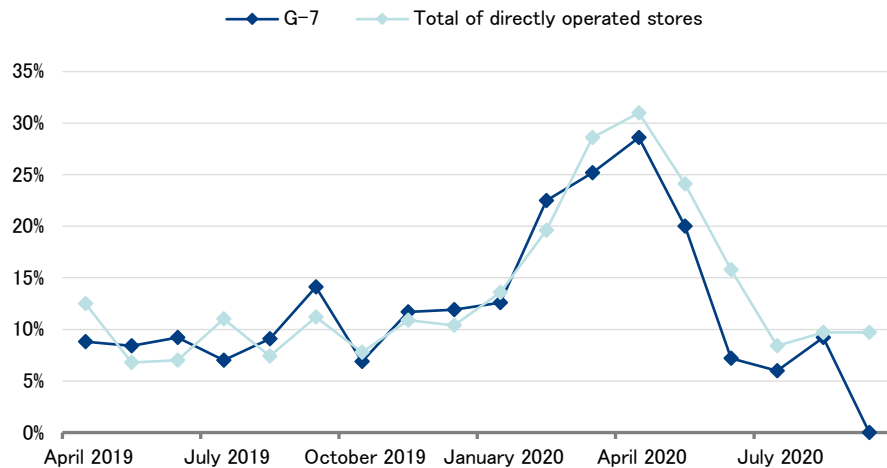
In the Gyomu Super business, which is conducted by G-7 SUPER MART, net sales grew 18.8% YoY to ¥41,067mn and ordinary income rose 27.1% to ¥2,045mn, so double-digit increases in sales and profits continued. This was mainly because demand for eating at home grew as consumers refrained from going out and the number of people working from home increased due to the coronavirus, and net sales at existing Gyomu Super stores were strong, rising around 12% YoY, due to the increase in the number of store visitors. Also, during 1H FY3/21, 11 new stores were opened, mainly in the Kyushu area (2 stores in each of Fukuoka, Kumamoto, and Tokyo, and 1 store in each of Nagasaki, Chiba, Saitama, Aichi, and Hyogo), and the number of stores increased by 16 compared to the end of the same period in the previous fiscal year to 155 stores, which was also a factor behind the higher sales. In general, profit margins decline during periods with many new store openings because of the burden of up-front investment, which was absorbed mainly by strong sales of highly profitable PB products, improvement in the product turnover rate, and minimizing discount sales and flyer advertisements in this case. As a result, the ordinary income margin also improved, from 4.7% in the same period in the previous fiscal year to 4.9%.

Looking at monthly net sales (comparison to the same month in the previous fiscal year) for existing Gyomu Super stores, the growth rate peaked in April and May and then slowed, falling to basically unchanged YoY in September as a ricochet to the temporary demand in the same month in the previous year in advance of the consumption tax hike. Except for in September, sales in the Company's existing stores trended basically the same as in the directly managed stores of Kobe Bussan Co., Ltd. <3038>.



Source: Prepared by FISCO from the Company's quarterly report

Results trends

Sales growth rate of existing Gyomu Super stores (YoY)


Source: Prepared by FISCO from materials provided by the Company

(3) Meat business

In the meat business conducted by G-7 MEAT TERABAYASHI, sales and profits increased significantly, with net sales rising 63.7% YoY to ¥9,330mn and ordinary income growing 88.2% to ¥520mn. As seen with Gyomu Super, this business benefitted from the growth in demand for eating at home due to the coronavirus. As a result of opening new Oniku no Terabayashi stores at the same time as opening Gyomu Super stores, it now has 15 stores (7 in Kinki, 4 in Kyushu, 3 in Kanto, and 1 in Chubu). This is the most stores it has had since it was made a subsidiary, and this progress in actively opening stores has led to its high growth. In 1H FY3/21, the number of stores increased by 22 compared to the end of the same period in the previous fiscal year to 127 stores.

The addition of Andesfoods to the Group from April 2020 was a factor behind the sales increase, but when looking at earnings conditions alone, it appears the situation was severe due to major declines in sales to its main customers, the restaurant and hotel industries, which are being affected by the coronavirus (Andesfoods' net sales in FY9/19 were ¥5,058mn).

(4) Other businesses

In other businesses, net sales increased 153.1% YoY to ¥12,859mn and ordinary income rose 170.4% to ¥277mn. It seems that making 99ICHIBA a subsidiary was a main factor behind net sales increasing by more than ¥7bn and ordinary income by more than ¥100mn, in addition to contributions from the higher earnings of Megumi no Sato from the effects of new store openings. Furthermore, conditions surrounding G7 JAPAN FOOD SERVICE in the restaurant business were severe, but sales and profits increased in the food business due to the rise in the number of customers, including for quality food.

As seen with Gyomu Super, 99ICHIBA's mini PIAGO stores is benefitting from the growth in demand for eating at home, and its net sales were strong. As a result, the ordinary income margin, which has been around 1%, rose to approximately 2%, a strong performance that exceeded the full-year forecast for ordinary income. During 1H FY3/21, there was 1 store opening and 1 store closure, for a total of 73 stores.

Results trends

For Megumi no Sato, the number of stores opened as joint facilities with Gyomu Super in the metropolitan Tokyo and Chubu regions has increased, and in 1H FY3/21, there were 14 new store openings (9 in metropolitan Tokyo, 4 in Aichi, and 1 in Hyogo). This was the highest number ever, and the number of stores increased by 21 compared to the end of the same period in the previous fiscal year to 45 stores.

In the restaurant and sweets businesses, there were no developments in terms of store numbers, but the Company has resolved to close all stores and restaurants, apart from 2 IKINARI! STEAK restaurants, by the end of FY3/21. While the impact on results will be negligible, it will be difficult for these markets to recover and the Company will allocate the management resources to growth businesses. Other than these, in the secondhand business, it closed 1 Mega Recycle Kingdom store, and now operates 1 store for each of Ryohin Kaikan and Kingram. It also closed 1 Daiso store and continues to progress the arrangement of these businesses.

The level of cash and deposits declined slightly due to the acquisition of treasury shares, but the financial condition was maintained at a sound level

3. Financial condition and key financial indicators

At the end of 1H FY3/21, total assets were down ¥1,320mn compared to the end of the previous fiscal period to ¥46,565mn. Looking at the main factors, in current assets, due to the business expansion, there were increases in notes and accounts receivable-trade of ¥411mn and merchandise and products of ¥1,031mn. But cash and deposits declined ¥4,097mn due to the acquisition of treasury shares. In non-current assets, property, plant and equipment increased ¥1,226mn, mainly due to the implementation of M&A, while there were also increases in goodwill of ¥493mn and leasehold and guarantee deposits of ¥588mn.

Total liabilities were up ¥1,343mn compared to the end of the previous fiscal period to ¥27,212mn. Allowance Provision for bonuses decreased ¥359mn, but there were increases in accounts payable-trade of ¥814mn, income taxes payable of ¥499mn, and asset retirement obligations of ¥374mn. Net assets were down ¥2,664mn to ¥19,353mn, because although retained earnings increased ¥1,943mn, which was mainly due to the recording of profit attributable to owners of parent, treasury shares increased ¥4,793mn (a decreasing factor).

Looking at the financial indicators, the equity ratio, which indicates financial stability, fell 4.6pp compared to the end of the previous fiscal period to 41.3% due to a decrease in shareholders' equity, while the interest-bearing debt ratio rose 6.1pp to 48.6%. Net cash (cash and deposits - interest-bearing debt) declined ¥3,023mn compared to the end of the previous fiscal period to ¥4,094mn, but this was a temporary decrease due to the acquisition of treasury shares, and it can be judged that the financial condition continues to remain sound as the main businesses are performing steadily.

Results trends

As for the acquisition of treasury shares, the Company acquired 2,189,000 shares (8.21% of issued shares) for ¥4,792mn (¥2,189 per share) in September 2020 from K-1 Global Network Co., Ltd., the founder's asset management company. Through this acquisition, the Company's holding rate of treasury shares increased to 17.4%, and its policy for handling treasury shares is to actively utilize them, such as when conducting M&A in the future. Regarding revisions to the tax system* in FY2021, discussions are progressing toward M&A using treasury shares with the expectation that M&A via share exchanges will be easier than before, widening the Company's options to progress an M&A strategy.

* Currently, the system allows for preferential tax treatment (tax deferrals) for shareholders of the company to be acquired through share exchange only of deals certified by the government based on the Industrial Competitiveness Enhancement Act, but this requires an application in advance and a detailed investigation. In the upcoming revisions, this regulation will be abolished and preferential tax treatment can be received even without the government's certification, so M&A deals seem likely to increase.

Consolidated balance sheet

	(¥mn)				
	FY3/18	FY3/19	FY3/20	1H FY3/21	Change
Current assets	21,089	24,575	27,040	23,463	-3,577
(Cash and deposits)	11,279	14,518	16,465	12,368	-4,097
(Merchandise and products)	5,817	5,767	5,602	6,633	1,031
Non-current assets	20,505	20,115	20,846	23,102	2,256
(Goodwill)	179	150	67	560	493
Total assets	41,594	44,691	47,886	46,565	-1,320
Total liabilities	23,861	25,188	25,868	27,212	1,343
(Interest-bearing debt)	8,306	8,804	9,348	9,345	-3
Net assets	17,732	19,502	22,018	19,353	-2,664
Key financial indicators					
(Financial strength)					
Equity ratio	41.7%	43.6%	45.9%	41.3%	-4.6pt
Interest-bearing debt ratio	47.8%	45.2%	42.5%	48.6%	6.1pt
Net cash	2,973	5,714	7,117	3,023	-4,094

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

Business outlook

Has left the initial forecasts unchanged for the FY3/21 results, but results are likely to exceed the forecasts on a profit basis

1. Forecast for FY3/21

For the FY3/21 consolidated results, the Company has left the initial forecasts unchanged, including net sales to climb 28.2% YoY to ¥170,000mn, operating income to rise 15.9% to ¥6,700mn, ordinary income to grow 16.7% to ¥7,000mn, and profit attributable to owners of parent to increase 13.5% to ¥4,000mn. At the end of 1H, the rates of progress toward achieving the full-year forecasts were 47.0% for net sales and 51.3% for ordinary income, exceeding the average for the last three years (net sales 48.2% and ordinary income 43.9%).

Business outlook

Consolidated forecast for FY3/21

	FY3/20		FY3/21		YoY	Progress rates up to 1H
	Results	vs. net sales	Forecast	vs. net sales		
Net sales	132,642	-	170,000	-	28.2%	47.0%
Operating income	5,783	4.4%	6,700	3.9%	15.9%	51.5%
Ordinary income	5,995	4.5%	7,000	4.1%	16.7%	51.3%
Profit attributable to owners of parent	3,523	2.7%	4,000	2.4%	13.5%	62.8%
Earnings per share (¥)	145.46		167.67			

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

In 2H FY3/21 as well, results will continue to be driven by the Gyomu Super business and the meat business. In the AUTOBACS and car-related business, a recovery is expected for sales of winter tires, which slumped in the previous fiscal period due to the warm winter, so it is highly possible that profits will change direction and increase in 2H. The M&A of 99ICHIBA and Andesfoods are expected to cause sales and profits to increase, net sales by around ¥20bn and ordinary income by ¥100mn to ¥200mn. Therefore, if winter weather conditions are the same as in an average year, we at FISCO think it is highly likely that results will exceed the Company's forecasts on a profit basis. Its policy is to continue to conduct M&A, and in November 2020, it is scheduled to acquire 5 Curves clubs, which are workout and training clubs for women, in Kanagawa Prefecture.

For the FY3/21 full year, the initial forecast for the number of store openings has not been changed, and at the end of the fiscal period, the number of Group stores is set to have risen by 151 compared to the end of the previous fiscal period to 592 stores. However, at the end of 1H, the rates of progress for Gyomu Super, Oniku no Terabayashi and Megumi no Sato were high, so room remains for the result to exceed this forecast, depending on real estate conditions in the future.

Business outlook

Number of Group stores and number of store openings and closures

Store name	Number of stores at end of 1H FY3/20	Number of stores at end of FY3/20	FY3/21 store opening forecast	1H FY3/21		Number of stores at end of 1H FY3/21	Number of stores at end of FY3/21 (E)
				Openings	Closures		
AUTOBACS (including SA and SH)	66	68	2			68	70
AUTOBACS Express	7	7				7	7
BP centers (body repair and coating)	8	8				8	8
G-7 TSUCHIYAMA CIRCUIT		1				1	1
BIKE WORLD	12	12	5		1	11	16
Gyomu Super	139	145	11	11	1	155	156
Megumi no Sato	24	31	18	14		45	49
Oniku no Terabayashi	105	113	21	15	1	127	134
Andesfoods (from April 2020)		-				17	17
Gekiyasu Super Megumi no Sato	1	1				1	1
mini PIAGO (from April 2020)		-		1	1	73	73
Green's K	1	1				1	1
IKINARI! STEAK	8	8				8	8
Nanatsu no Tsubo	1	1				1	1
BAKE	2	-				-	-
Taiyaki Specialty Store Yamaya Honpo	3	3				3	3
CROQUANT CHOU ZAKUZAKU	1	1				1	1
RINGO	1	1				1	1
mammaciao	5	5				5	5
Mega Recycle Kingdom	1	1			1	0	0
Reuse Kingdom	1	-				-	-
Ryohin Kaikan	2	1				1	1
Kingram (new business format)	1	1	1			1	2
Curves	20	20	6			20	26
Step Golf	3	3				3	3
Daiso	2	1			1	0	0
Overseas		8				8	8
Total	406	441	64	41	6	566	592

Source: Prepared by FISCO from materials provided by the Company

Aiming for higher sales and profits in all business companies

2. Segment outlook

(1) AUTOBACS and car-related business

In the AUTOBACS and car-related business, for the mainstay G-7 AUTO SERVICE, the initial forecast was for net sales to increase 8% YoY and the plan was to open 2 new AUTOBACS stores. Sales were sluggish in 1H FY3/21, but as previously explained, from 2H onwards, if there is a moderate amount of snow in the winter as in a typical year, sales of products like winter tires and chains will recover, so sales and profits may increase. In addition to the recovery of tire sales, profitability is improving as the Company is working to improve productivity per employee and strengthen sales in the highly profitable service divisions, which include body repairs and processing and vehicle inspection services, and of products with high gross profit margins. In addition, it intends to continue to focus on establishing an earnings model for FIELD SEVEN, a new business format.

After returning to profitability, G-7 BIKE WORLD is shifting its investment focus once again to opening new BIKE WORLD stores. It plans to open 5 new stores and is forecasting higher sales and profits. Conversely, for the overseas AUTOBACS, BIKE WORLD and car export sales businesses, the forecasts are for results to continue to slump as the end of the coronavirus pandemic is not yet in sight.

Business outlook

(2) Gyomu Super business

In the Gyomu Super business, forecasts call for double-digit increases in sales and profits due to the effects of new store openings, and existing stores will trend steadily in 2H. The initial forecast was for net sales to increase 7% YoY to ¥78.4bn, although it seems that they will exceed ¥80.0bn. The forecast number of stores at the end of the fiscal period is 156 stores, but this number was already 156 stores in October and is expected to further rise in the future. The sales growth rate of existing stores is currently sluggish, but consumers have gravitated toward low prices due to the economic downturn, so Gyomu Super, which provides appealing PB products at reasonable prices, is expected to maintain its ability to attract customers. Therefore, the forecast is for sales and profits to continue to increase in 2H.

(3) Meat business

For G-7 MEAT TERABAYASHI, the forecast is for major increases in sales and profits, including from the addition of Andesfoods and the effects of new store openings, and net sales of more than ¥20.0bn are in sight after reaching ¥11.2bn in the previous fiscal period. The forecast number of Oniku no Terabayashi stores at the end of the fiscal period is 134 stores, and as there were 129 stores as of October, it seems store openings will increase going forward, mainly as tenant stores within Gyomu Super stores. In the Andesfoods business division as well, demand from the restaurant and hotel industries is gradually recovering, and results are forecast to change direction and improve from 2H onwards. Wholesale from Andesfoods to Oniku no Terabayashi is scheduled to start from FY3/22, and can be expected to generate further synergies.

(4) Other businesses

The forecasts for other businesses are also for increases in sales and profits. Similar to Gyomu Super, results for mini PIAGO are expected to be solid despite a slowdown in momentum. Results for Megumi no Sato will grow, mainly from store openings as a tenant of Gyomu Super. The forecast number of stores at the end of the fiscal period is 49 stores, and with 45 stores as of October, opening the remaining 4 stores is a level that is fully achievable. On a distribution amount basis, the amount will increase from ¥4bn in the previous fiscal period to ¥5.5bn, of which around 20% will be recorded as commission income.

In G7 JAPAN FOOD SERVICE, the forecasts are for higher sales and profits in the quality food business, as it is continuing to work to acquire new customers and develop products, and in the food manufacturing and sales business, as it is strengthening its development of PB products. As previously explained, the Company intends to basically liquidate the restaurant and sweets businesses by the end of the fiscal period, so profitability is forecast to improve. For Curves clubs, which are workout and training clubs for women, although the number of new members declined due to the impact of the coronavirus, membership is gradually starting to increase and profitability on a single-month basis was achieved in September, so it is expected to contribute to earnings in 2H.

Increasing growth potential and stability by strengthening collaborations within the Group, while aiming for sustainable growth through human resource development and progressing M&A

3. Business strategy and long-term vision

The Company is currently working to achieve the goals of its medium-term business plan that targets ¥170.0bn in consolidated net sales in FY3/21, which will mark the Company's 45th anniversary. Looking at the business strategy, the basic policy for existing businesses is to work to continuously increase sales and profits by improving net sales per employee and gross profit, eliminating unprofitable stores, and making all business companies profitable. For its store opening strategy, it is actively opening new stores in business formats with excellent investment efficiency and developing new businesses, while increasing the number of stores at a pace of 40 to 60 stores a year. The Company's policy is also to continue to position M&A as one growth strategy, and it is thought to be building a stable management base resistant to economic fluctuations in any one particular industry by expanding into peripheral business areas.

In terms of specific measures related to human resource development, since April 2018, the Company has conducted training such as the Founder's Seminars, NC (Next Cabinet) training seminars, and training classes for executives at a pace of around once per month. Students are recruited from throughout the Group and are selected based on the recommendations of the president of each business company. Executive officers of the holding company and presidents of the business companies are invited to be lecturers, in addition to outside lecturers, and they work to train candidates for executive positions in the future. As a result of these efforts, the Group has realized teams of young managers in the Group's subsidiaries and even now it is working to strengthen training. In addition, each business company conducts its own training, including store manager training courses and management training, and they are working to train human resources in order to actively develop stores.

Regarding recruitment, the Company plans to recruit 150 new graduates in the spring of 2021 (113 people joined the Company in April 2020). It is also actively working to recruit a diverse range of human resources, including seniors and those from overseas, and striving to strengthen the management foundation so that a shortage of human resources does not put the brakes on growth. Based on the belief that human resources are the source of growth, the Company's policy going forward is to recruit and train human resources as its most important management issue.

The Company plans to announce a five-year medium-term business plan in June 2021. In the future, with the AUTOBACS and car-related business and Gyomu Super business as the main pillars, its policy is to aim for even further growth through reinforcing and collaborating with these businesses, while utilizing M&A for businesses that are peripheral to them.

In the food-related field, with Gyomu Super as the core business, the Company is creating a virtuous cycle of opening many stores at an early stage and having them become profitable by opening tenant stores such as Oniku no Terabayashi and Megumi no Sato. In the future, by supplying Group products to mini PIAGO stores as well, including PB products, meat, and vegetables, it is aiming to increase the stores' competitiveness, improve the operating income margin that up to the present time has remained at the low level of around 1%, and further expand the business scope. Regarding the Group's products, such as PB products, a contract has been concluded to start supply in the next two years (sales of PB products of UNY Co., Ltd. for two years).

Business outlook

On the other hand, in the car-related field, as described above, the Company has launched FIELD SEVEN, a new business format, in order to capture demand for outdoor goods such as for camping, and it is also aiming to acquire new customer groups for the AUTOBACS stores. Looking to the future, its concepts include providing foods that are consumed outdoors, such as at campsites, and if this is realized, it will also create further synergies between the car-related business and the food-related business.

Consolidated sales goals by business areas (FY3/21)

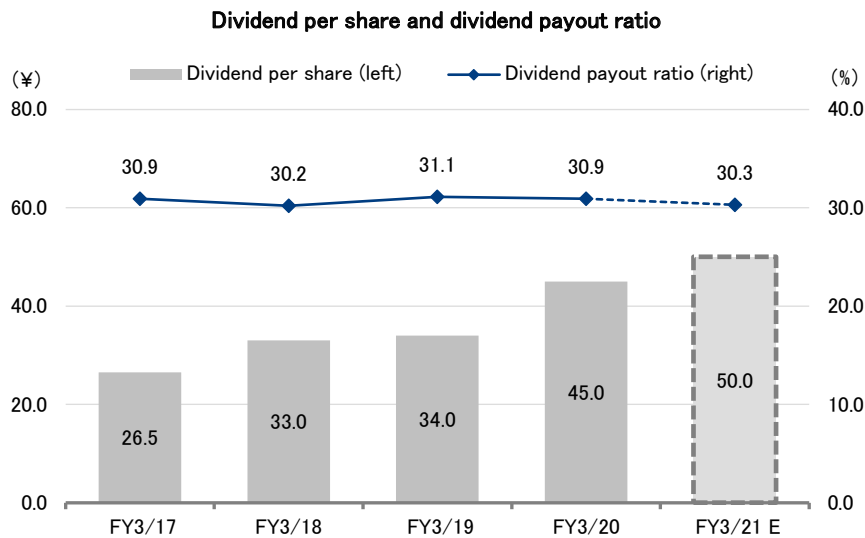


Source: Reprinted from materials provided by the Company

Shareholder return policy

Aims for a dividend payout ratio of 30% and plans to increase the dividend for the sixth consecutive period

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, and taking into consideration factors including capital required for future business expansion and its financial condition. Looking at the dividend in the last few years, it would appear to be aiming for a dividend payout ratio of around 30%, and for FY3/21 as well, it plans to increase the dividend per share by ¥5.0 YoY to ¥50.0 for a dividend payout ratio of 30.3%. This would be the sixth consecutive period of higher dividends, and we can expect continued dividend growth as long as earnings continue to increase going forward.



Note: Paid special dividends of ¥13.0 in FY3/17 and ¥16.0 in FY3/18
 Note: Conducted a 2-for-1 share split in January 2020. Dividend per share amounts have been retroactively adjusted.
 Source: Prepared by FISCO from the Company's financial results



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