COMPANY RESEARCH AND ANALYSIS REPORT

G-7 HOLDINGS INC.

7508

Tokyo Stock Exchange Prime Market

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Index

Summary

Working on rebuilding unprofitable businesses and on M&A as its two mainstay businesseses grew steadily

G-7 HOLDINGS INC. <7508> (hereinafter "the Company") 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. It has been actively conducting M&A and expanding its business scale.

1. Overview of 3Q FY3/23 cumulative results

In 3Q FY3/23 cumulative results, net sales rose by 4.9% year-on-year (YoY) to ¥133,759mn, while ordinary income decreased by 8.6% to ¥5,958mn. Despite a sales increase brought on by the steady growth of net sales in the mainstay Gyomu Super business and car-related business*1, the Company experienced a decrease on the profit front, mainly due to profit downturn in the meat business and the mini-super business, in addition to a YoY increase in utility expenses of ¥660mn due to electricity rate hikes. The number of stores as of the end of 3Q was 595, a decrease of 5 stores from the end of the previous fiscal year. Although the Company opened 17 new stores (5 Gyomu Super stores, 7 Oniku no Terabayashi stores, 5 other stores), it closed 22 stores (4 RICO's*2, 18 Megumi no Sato stores) that had become unprofitable.

*1 The AUTOBACS and car-related business was renamed the car-related business in FY3/23.
*2 In April 2022, the store's name was changed from mini PIAGO to RICO'S.

2. Forecasts for FY3/23

For FY3/23 results, the Company has maintained its initial forecasts, with net sales increasing 6.8% YoY to ¥180,000mn and ordinary income rising 1.6% to ¥8,000mn. Although progress at the end of 3Q was slightly below forecast due to delays in new store openings and further reorganization of unprofitable stores as well as the increased burden of utility costs, its two mainstay businesses have grown steadily, and it intends to achieve the forecast through recovery of the meat business and improvements to profit in the mini-super business. In 4Q, it plans to open 9 new stores and close 6 stores. For Megumi no Sato, the Company will temporarily withdraw from the Tokyo metropolitan area and Chubu region and develop it as a profitable store in the Kansai region only.

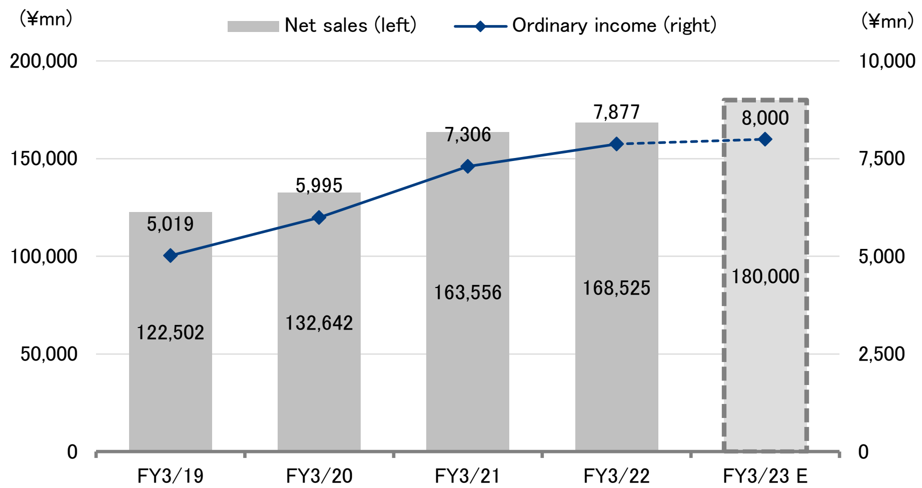
3. Medium-term business plan

Under the five-year medium-term business plan running through FY3/26, the Company is targeting net sales of ¥250bn and ordinary income of ¥10bn for the plan's final year. This means that the compound annual growth rate for net sales will be around 9% over five years, and will be around 6% for ordinary income over the same time frame. Although the Company forecasts that in FY3/23 the speed of growth will be sluggish due in part to the deterioration of market conditions and further reorganization of unprofitable stores, it intends to accelerate growth from FY3/24 onward through the active development of new store openings and an M&A strategy. In regard to M&A, it appears that the number of projects has been increasing recently, and attention will be given to trends going forward. The Company has high expectations for steady growth of the Gyomu Super business and car-related business, as well as the outcomes of profitability improvements in the meat business and mini-super business. In overseas business, the Company will move ahead with considerations for store openings in collaboration with BIKE O & COMPANY Ltd. <3377>, etc. in order to enhance the car-related business being developed in Malaysia. In addition, it will work on things like development and cultivation of new business types, and aims to expand the number of Group stores from 600 at the end of FY3/22 to 1,000 by the end of FY3/26.

Key Points

- Continuing record high net sales cumulative results in 3Q FY3/23 even as profits dipped due to the increased burden of utility costs
- Initial forecasts for FY3/23 results were maintained, and the Company intends to increase sales and profits
- Advances M&A strategy in order to target ¥250bn in net sales and ¥10bn in ordinary income in FY3/26

Results trends



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

Results trends

Continuing record high results in 3Q FY3/23, despite lower profits due to the increased burden of utility costs

1. Overview of 3Q FY3/23 results

In its 3Q FY3/23 cumulative consolidated results, net sales increased 4.9% YoY to ¥133,759mn, while operating income decreased 7.8% to ¥5,705mn and ordinary income declined 8.6% to ¥5,958mn. Profit attributable to owners of parent was down 17.5% to ¥3,871mn.

Cumulative consolidated results for 3Q FY3/23

(¥mn)

	3Q FY3/22		3Q FY3/23		
	Results	vs. net sales	Results	vs. net sales	YoY
Net sales	127,545	-	133,759	-	4.9%
Cost of sales	95,625	75.0%	101,075	75.6%	5.7%
SG&A expenses	25,729	20.2%	26,978	20.2%	4.9%
Operating income	6,190	4.9%	5,705	4.3%	-7.8%
Ordinary income	6,519	5.1%	5,958	4.5%	-8.6%
Extraordinary loss	-33	-	-631	-	-
Profit attributable to owners of parent	4,695	3.7%	3,871	2.9%	-17.5%

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

Although the Company saw record-high net sales for the cumulative 3Q as a result of growth in the mainstay car-related business and Gyomu Super business, profit declined for the first time in eight years. The main setbacks were profit downturns in the meat business and the mini-super business and a YoY increase in utility expenses of ¥660mn due to electricity rate hikes. If the amount of increased utility costs were removed, the Company would have maintained a profit increase. Furthermore, the significant rate of decrease in profit attributable to owners of parent was due to the recording of provision for retirement benefits for directors (and other officers) of ¥500mn and impairment losses of ¥131mn (mini-super business).

During the cumulative 3Q period, there were 17 new store openings, and 22 store closures, bringing the total number of stores to 595, down 5 stores from the end of the previous fiscal year. The Company respectively closed 18 Megumi no Sato stores and 4 RICO'S stores, all of which had been unprofitable.

Number of Group stores and number of store openings and closures

Store name	End of FY3/22 Number of stores	End of FY3/23 Opening plan	3Q FY3/23		End of 3Q Number of stores	End of FY3/23 Number of stores (initial forecasts)
			Opening	Closure		
AUTOBACS (including SA and SH)	69		1		70	69
AUTOBACS Express	7				7	7
BP centers (body repair and coating)	9				9	9
G-7 TSUCHIYAMA CIRCUIT	1				1	1
FIELD SEVEN	4	1	1		5	5
mammaciao	6				6	6
Taiyaki Specialty Store Yamaya Honpo	3				3	3
BIKE WORLD	14	4	1		15	17
Gyomu Super	175	12	5		180	187
Obentoya K	1				1	1
Oniku no Terabayashi	153	5	7		160	158
Andesfoods	14				14	14
Megumi no Sato	44	5		18	26	42
Super Megumi no Sato	1				1	1
RICO’S (formerly mini PIAGO)	69	2		4	65	67
Curves	25	4			25	29
TREASURE CYCLE	1				1	1
Overseas (AUTOBACS, BIKE WORLD)	4	2	2		6	6
Total	600	35	17	22	595	623

Source: Prepared by FISCO from Company’s results briefing materials and materials provided by the Company

Net sales driven by car-related business and Gyomu Super business

2. Performance trends by business segment

Results by business segment

(¥mn)

	Net sales			Ordinary income			Ordinary income margin	
	3Q FY3/22	3Q FY3/23	YoY	3Q FY3/22	3Q FY3/23	YoY	3Q FY3/22	3Q FY3/23
Car-related	27,949	30,781	10.1%	2,133	1,926	-9.7%	7.6%	6.3%
Gyomu Super	67,204	71,837	6.9%	3,330	3,369	1.2%	5.0%	4.7%
Meat	14,660	14,820	1.1%	349	193	-44.8%	2.4%	1.3%
Other	17,731	16,320	-8.0%	297	77	-74.1%	1.7%	0.5%
Total	127,545	133,759	4.9%	6,519	5,958	-8.6%	5.1%	4.5%

Note: Adjustments to ordinary income have been omitted
Source: Prepared by FISCO from the Company’s quarterly securities report

(1) Car-related business

The car-related business posted increased sales and decreased profits as net sales increased by 10.1% to ¥30,781mn and ordinary income declined by 9.7% to ¥1,926mn.

Looking at performance trends by operating company, mainstay G-7 AUTO SERVICE CO., LTD. increased net sales by 3.7% YoY and ordinary income by 5.1%, progressing at a rate that exceeded the Company forecast. This was mainly the result of tire sales, an earnings pillar, which surpassed expectations by growing 9.0% YoY partly as a result of price increases. In terms of sales trends by category, although sales of car AV systems and accessories were lackluster, with sales of the former decreasing 11.8% and the latter 9.3%, net sales from car purchasing and sales were favorable, up 21.2%, partly reflecting higher used vehicle prices following supply shortages for new vehicles, while sales of oil increased 7.0%, batteries 6.4%, and services 4.9%, respectively demonstrating steady progress. As of the end of 3Q, the number of AUTOBACS stores in Japan was 70, up 1 from the end of the previous fiscal year through the acquisition of 1 store (Maizuru store) by M&A in November 2022.

Although G-7 BIKE WORLD CO., LTD. reported a single-digit sales increase YoY, ordinary income decreased. The increase in sales was due to new store openings, and primarily resulted from carrying over 2 stores opened in 2H FY3/22 and 1 store (Toyohashi store) opened in September 2022, bringing the number of stores in Japan at the end of 3Q to 15 stores. On the profit front, profit decreased primarily due to cost increases in conjunction with new store openings, sluggish sales at existing stores, and the increased burden of utility costs. As for net sales at existing stores as of the end of 3Q, sales in 3Q FY3/21 were brisk against the backdrop of an increase in the number of motorcycle commuters in response to the novel coronavirus pandemic (hereinafter, “the COVID-19 pandemic”), but this demand settled down, resulting in a 3% decrease YoY.

In the overseas business, the Company conducts the AUTOBACS and BIKE WORLD businesses in Malaysia. In these businesses, net sales rebounded and the ordinary loss contracted slightly following a return of business hours to a normal schedule. In August 2022, 1 store of each type was opened, bringing the total number of stores to 6. Although the AUTOBACS stores continue to post losses, sales at BIKE WORLD stores have grown steadily, resulting in profitability. G-7.CrownTrading CO., LTD., which conducts the car export sales business, experienced a sharp recovery in net sales, which tripled YoY, due partly to the effect of a weaker yen, as well as a tailwind from soaring used car prices reflecting a supply shortage of new vehicles.

(2) Gyomu Super business

In the Gyomu Super business, which is conducted by G-7 SUPER MART CO., LTD., sales and profits increased and slightly exceeded the Company’s forecast, as net sales rose by 6.9% to ¥71,837mn YoY and ordinary income rose by 1.2% to ¥3,369mn. 5 new stores were opened (2 in Hokkaido, 1 each in the prefectures of Kumamoto, Gifu, and Saitama), increasing the number of stores by 5 YoY to 180 stores. In addition, existing store sales were firm, up 3% YoY. This increase largely resulted from favorable performance of sales of frozen food, deserts, and canned foods, centered on PB products, as well as price hikes, and absorbed the increased burden of utility costs. However, if looking solely at 3Q, although net sales were favorable, rising 7.8% YoY to ¥25,134mn, ordinary income fell 10.5% to ¥1,039mn due to the impact of electricity rate hikes.

(3) Meat business

The meat business conducted by G-7 MEAT TERABAYASHI CO., LTD. posted results below the Company’s forecast, with net sales up 1.1% YoY to ¥14,820mn and ordinary income down 44.8% to ¥193mn. The main factor behind the increased sales was the opening of 7 new Oniku no Terabayashi stores (2 each in Hokkaido and Kumamoto Prefecture, 1 each in the prefectures of Gifu, Saga, and Saitama), which increased the number of stores by 7 YoY to 160. On the other hand, on the profit front, profit declined due largely to sluggish net sales at existing stores, which were affected by factors including a decline in the gross profit margin as a result of surging raw material prices and increased supply costs due to yen depreciation. However, in 3Q results, the Company posted increased sales and profits as net sales rose by 4.8% YoY to ¥5,512mn and ordinary income increased by 49.6% to ¥169mn as a result of price revisions carried out at the same time as a changeover to domestic beef.

(4) Other businesses

In other businesses, net sales decreased by 8.0% to ¥16,320mn, while ordinary income fell by 74.1% to ¥77mn.

By operating company, G-7 RICO'S STORES CO., LTD., which conducts the mini-super business, saw sluggish sales, which decreased 13.4% YoY, and ordinary losses increased as well. The main reasons for the decreased net sales were the reorganizing of unprofitable stores and a decline of roughly 10% in existing store sales due to a recoil decline from stay-at-home demand. The number of stores as of the end of 3Q was 65, down 4 stores YoY. On the profit front, losses increased partly due to a decrease in gross profit caused by declining sales as well as a decrease in the gross profit margin and an increase in utility expenses. At the end of the end of 3Q, net sales from existing stores continued to show signs of decline with a decrease of 5% YoY. Nevertheless, a sense of recovery, albeit a slight one, is beginning to emerge as indicated by a reduction in the rate of decrease, among other factors.

G7 AGRI JAPAN CO., LTD., which conducts the agricultural business, secured a profit with just a slight amount of ordinary income despite seeing a decrease in net sales due to the further reorganizing of unprofitable stores. The Company closed 18 unprofitable stores (6 stores in the Chubu region, 12 stores in the Kanto region), bringing the number of stores as of the end of 3Q to 26, down 18 from the end of the previous fiscal year. Although it had opened stores as tenant stores within Gyomu Super locations in the Chubu and Kanto regions, it struggled to turn a profit due the generation of product disposal losses resulting from the purchase-based sales method, and therefore withdrew from the business temporarily. In the Kansai region, manufacturers employ the consignment sales method, so there is no risk of product disposal loss, making the business profitable.

G7 JAPAN FOOD SERVICE CO., LTD., which conducts the quality food and private brand business, posted a single-digit increase in net sales YoY, as well as an increase in ordinary income. Efforts to expand sales opportunities through travelling sales, such as stalls at events, led to the increased net sales. On the profit front, the main reasons for the increase in ordinary income were the withdrawal from the restaurant and sweets business in FY3/22, in addition to the effect of higher net sales.

G7 RETAIL JAPAN CO., LTD., which operates Curves, a chain of workout and training clubs for women (25 stores), posted a single-digit increase in net sales YoY, as well as an increase in ordinary income. These increases were mainly due to a recovery in the number of Curves members, which had decreased during the COVID-19 pandemic. In addition, sales increased steadily at TREASURE CYCLE (1 store), which was opened in July 2021 as a new business format.

Initial forecasts for FY3/23 results were maintained, and the Company aims to increase sales and profits

3. Forecasts for FY3/23

For its FY3/23 consolidated results, the Company has maintained its initial forecasts. It forecasts net sales to increase 6.8% YoY to ¥180,000mn, operating income to increase 3.4% to ¥7,700mn, ordinary income to increase 1.6% to ¥8,000mn, and profit attributable to owners of parent to increase 2.7% to ¥5,400mn. The progress rates up to 3Q FY3/23 were 74.3% for net sales and 74.1% for operating income. When compared to the average for the past three years (75.3% for net sales, 84.3% for operating income), net sales progressed at a steady rate, but were slightly below average on a profit basis. We at FISCO see a possibility that net sales may fall short of the forecast.

Surging utility costs will continue to have an impact in 4Q as well. However, earnings can be expected to improve because the meat business, where progress had been delayed until the end of 1H, recovered and the Company moved ahead with reorganizing unprofitable stores in the mini-supermarket business and agricultural businesses, so these trends appear to be the key to achieving the forecast.

Consolidated forecasts for FY3/23

(¥mn)

	FY3/22		FY3/23			3Q progress rate
	Results	vs. net sales	Company forecast	vs. net sales	YoY	
Net sales	168,525	-	180,000	-	6.8%	74.3%
Operating income	7,448	4.4%	7,700	4.3%	3.4%	74.1%
Ordinary income	7,877	4.7%	8,000	4.4%	1.6%	74.5%
Profit attributable to owners of parent	5,255	3.1%	5,400	3.0%	2.7%	71.7%
Earnings per share (¥)	119.28		122.55			

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

The Company planned to open 35 stores (including 4 stores through M&A) in FY3/23, but due in part to reevaluations of store opening strategies in the mini-super and agricultural businesses and price hikes for construction materials, electricity rates and other items, it forecasts that this number will be limited to 30 stores (26 not including those acquired through M&A). The Company forecasts that there will be 13 store openings in 4Q, among which 9 stores (5 Oniku no Terabayashi stores, 3 Gyomu Super stores, 1 Châteraisé store) have been finalized. Meanwhile, it plans to close 6 stores (3 Megumi no Sato stores, 2 RICO's stores, 1 AUTOBACS store), so it is possible that the number of stores at end of FY3/23, not including those acquired through M&A, may decrease slightly YoY.

Furthermore, it appears that the number of M&A projects has been increasing recently, so the Company will continue to make considerations with a forward-looking perspective. Among the ¥10bn investment budget for FY3/23, it has set aside an investment line of ¥5bn for M&A.

(1) Car-related business

Within the car-related business, the AUTOBACS business forecasts increases to sales and profit. The Company plans to close 1 AUTOBACS store in February 2023, so it forecasts that the number of AUTOBACS stores in Japan will be 69, which is unchanged from the end of the previous fiscal year. The Company will continue to focus efforts on increasing sales at existing stores.

BIKE WORLD forecasts increased sales and decreased profit for the full year. However, net sales at existing stores are on a path to recovery in FY3/24 against the backdrop of firm demand of motorcycles, and increased sales and profit are projected.

Additionally, within the overseas business, the Company plans to reevaluate the sales strategies for AUTOBACS and BIKE WORLD in Malaysia in FY3/24 to enhance profitability. Specifically, it will reduce the sales floor area of AUTOBACS, which continues to suffer losses, and open a retail store for motorcycles themselves in the available space, thereby significantly enhancing its ability to draw in customers, and increase the earnings of BIKE WORLD, while aiming to turn a profit in FY3/24 by reducing AUTOBACS's losses. In the car export sales business, overseas demand is strong, supported by the tailwind of a weaker yen, and the business is forecasted to increase sales and profits in FY3/24.

In other areas, the Company opened the fifth FIELD SEVEN outdoor goods store (Kakogawa store) in November 2022 on the second floor of the AUTOBACS Kakogawa store. This store has one of the largest sales spaces of any FIELD SEVEN, and appears to be off to a smooth start. Outdoor demand is projected to increase in FY3/24 since the COVID-19 pandemic has run its course, and it is expected that this business will contribute to earnings. For store openings, the Company is considering either attaching stores to new AUTOBACS locations or opening stores in existing stores with leftover space.

(2) Gyomu Super business

In the Gyomu Super business, the Company is forecasting single-digit YoY increases in both sales and profits. In relation to the plan for 12 store openings in the full year, 8 stores (among which 5 opened prior to 3Q) have been finalized, and will open as soon as properties are found. The Company also plans to continue sequentially renovating existing stores. In terms of regions for store openings, it will continue to open stores with a focus on the Kyushu region, Tokyo metropolitan area, and Hokkaido, while also focusing efforts on opening stores in Aichi Prefecture where there are relatively few stores. Additionally, in order to improve customer convenience, it is gradually moving ahead with the implementation of semi-self-operating registers and cashless payments, and will work on improving customer turnover by reducing waiting times at registers and increasing sales.

(3) Meat business

In the meat business, the Company is expecting a single-digit YoY increase in net sales, but profits are expected to decrease owing to the impact of the downturn in profits through 1H. That said, profit has been increasing since 3Q, and this trend will remain unchanged in 4Q. Resuming the procurement of imported beef still seems too early given factors including exchange rate standards, so sales of domestic beef will be the main focus for the time being. In 4Q, the Company plans to open 5 new stores, and its strategy is to expand the scale of business by opening them at the same time as Gyomu Super stores in FY3/24.

(4) Other businesses

Other businesses are forecasting reduced sales and reduced profits due to the impact of reducing RICO's and Megumi no Sato stores.

As for RICO's, the Company plans to close 2 stores in FY3/23, and so it forecasts that the number of stores will come to 63 stores. Profitable stores still remain at more than 30% of total stores, and recovering the net sales of existing stores is becoming an urgent issue. As sales recovery measures, the Company will sequentially introduce a point system based on e-money payments, and plans to sell meat sold within the Group and high-selling PB products, etc. It is also continuing to reevaluate operating hours while taking into consideration the store conditions, and will work to cut down on fixed costs. From FY3/24 onward, the Company will strengthen its business management system by replacing its management personnel, and aim for profitability in FY3/24.

The Company closed 3 Megumi no Sato stores in the Kanto region in January 2023, leaving only the 23 stores in the Kansai region, where it is achieving profitability. In terms of profit and loss, the Company expects improvements.

G7 JAPAN FOOD SERVICE will continue focusing on cultivating sales channels and developing PB products, and forecasts increased sales and profits. For the Curves chain of workout and training clubs for women, net sales from existing stores have continued to increase by single digits YoY, and increased sales and profits are forecast. It planned to acquire 4 clubs in Kanagawa Prefecture through M&A deals, but it appears that these deals have yet to be finalized.

Advances M&A strategy in order to target ¥250bn in net sales and ¥10bn in ordinary income in FY3/26

4. Medium-term business plan

The Company announced a five-year medium-term business plan running through FY3/26, which is the plan's final fiscal year and will mark the Company's 50th founding anniversary. The plan's business targets are net sales of ¥250bn and ordinary income of ¥10bn for FY3/26. Relative to results for FY3/21, the Company aims to increase net sales by 1.53x and ordinary income by 1.37x. In terms of compound annual growth rates, these targets represent firm growth of around 9% in net sales and around 6% in ordinary income.

To achieve these targets, the Company will work to achieve the following 10 priorities as its goals:

- Each operating company will strive to deliver increases in sales and profits and record-high results every fiscal year
- Each operating company must always achieve profit
- Strive to have no unprofitable stores and reduce the total amount of losses to zero
- Aim for year-on-year increases in every two productivity indicators of net sales and gross profit per employee
- Profit growth rates in excess of sales growth rates must always be achieved
- Strive to develop new businesses and business formats with high investment returns
- Strive to open 50 to 70 new stores with high investment returns every fiscal year
- Work to advance M&A deals and capital and business alliances
- Make every effort to strengthen recruitment and nurture and educate human resources
- Promote ESG and SDGs measures

As its sales targets for each mainstay business, the Company is forecasting net sales of ¥100bn and ¥4.5bn in ordinary income in the Gyomu Super business (net sales up 1.19x and ordinary income up 1.13 x from FY3/21), net sales of ¥50bn and ordinary income of ¥2.5bn (net sales up 1.57x and ordinary income up 1.20x) in the AUTOBACS business; and net sales of ¥35bn and ordinary income of ¥1.2bn (net sales up 1.91x and ordinary income up 1.28x) in the meat business

Of these businesses, the Gyomu Super business is aiming to achieve its targets by expanding the number of stores, mainly in the regions of Kyushu, Chubu, metropolitan Tokyo, and Hokkaido. Net sales are calculated at an annual growth rate of 3.5%, so if store openings proceed smoothly, the target can be said to be of a sufficiently achievable level. It plans to open around 12 new stores in FY3/24 as well.

For the AUTOBACS business, meanwhile, the Company has set a challenging target requiring sales at an annual growth rate of 9.4%. The Company seeks to achieve this target by expanding domains into peripheral businesses in categories such as car life. Specifically, the Company will work to nurture the outdoor business (FIELD SEVEN, auto campgrounds, etc.). For FIELD SEVEN, it will continue to increase store openings in order to capture outdoor demand. As for auto campgrounds, the Company is currently in the process of searching for suitable locations. In addition, with regard to AUTOBACS, it will research taking over stores through M&A, as there is limited allowance for store openings in existing areas.

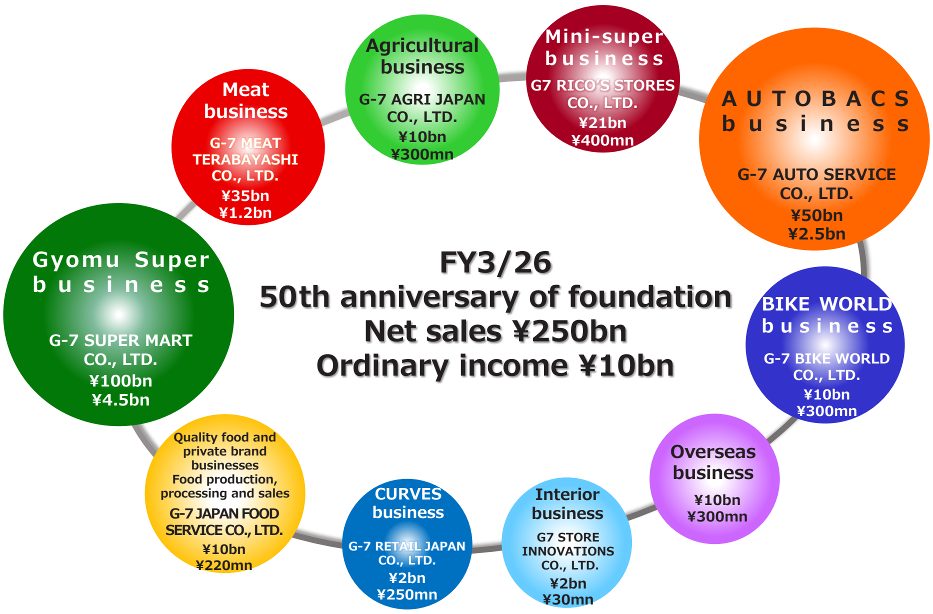
The meat business is forecasting net sales growth at an annual rate of 13.8%. The aim is for double-digit growth through openings in Gyomu Super stores and strengthening the commercial wholesaling business. In FY3/23, the Company predicts that growth will remain low due to the degradation of the market environment, but it is expected that an increase in the number of stores will bring double-digit growth from FY3/24 onward.

The mini-super business has set challenging targets calling for net sales of ¥21bn, up 1.6 x compared to FY3/21, and ordinary income of ¥400mn, which deviates from initial forecasts. However, first of all, as previously stated, the Company will enhance profitability per store by working on sales recovery measures, and intends to increase the number of stores once profitability has become visible. In FY3/24, attention will be given to how much net sales at existing stores will recover as a result of these measures.

The Company is forecasting net sales of ¥10bn and ordinary income of ¥0.2bn -¥0.3bn each in the BIKE WORLD business, quality food and private brand business, agricultural business (Megumi no Sato) and overseas business (The agricultural business is on a distribution amount basis.). In the Curves business and the store interior business (mainly construction of Gyomu Super stores), net sales of ¥2bn is forecast in each business.

In other areas, the Company's policy is to develop new businesses expected to synergize with existing businesses and proactively advance acquisitions through M&A. Notably, the Company's M&A strategy is one of the reasons it has been able to achieve sustained earnings growth to date. The M&A strategy, including the rebuilding of RICO'S, holds the key to achieving the goals of the current medium-term business plan. Therefore, these trends will be closely monitored.

Business targets for each business



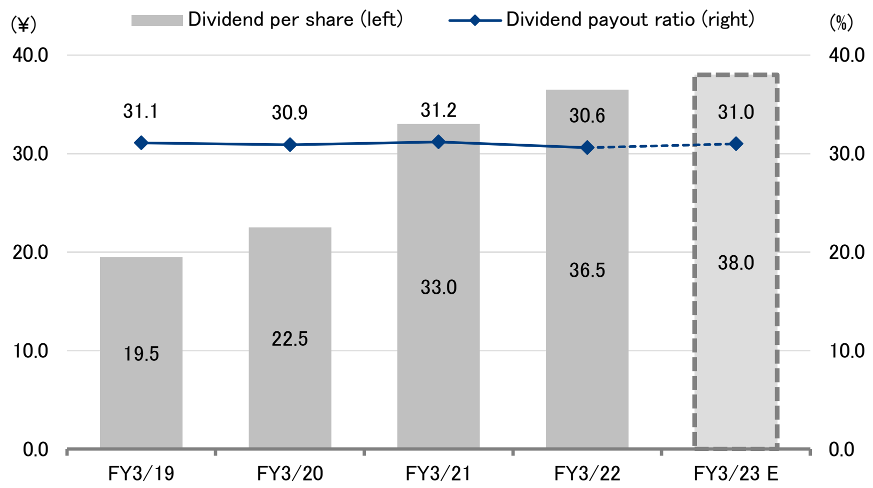
Source: Published from materials provided by the Company

Shareholder return policy

Plans to increase the dividend for the eighth consecutive year, targeting a dividend payout ratio of 30%

Regarding the dividend policy, the Company has stated that it will comprehensively determine the dividend policy based on the fundamental principle of returning profits to shareholders in accordance with business performance, while maintaining stable dividends, and taking into consideration factors including capital required for future business expansion and its financial condition. Looking at the dividend level, the Company seems to be targeting a dividend payout ratio of around 30%. For FY3/23, it plans to increase the dividend per share by ¥1.5 YoY to ¥38.0, representing a dividend payout ratio of 31.0%. This would be the eighth consecutive year of higher dividends. Continued dividend growth can be expected if earnings continue to increase going forward.

Dividend per share and dividend payout ratio



Note 1: The Company paid a special dividend of ¥1.0 in FY3/20, a commemorative dividend ¥8.0 in FY3/21, and a special dividend of ¥1.5 in FY3/22
Note 2: The Company conducted 2-for-1 stock splits in January 2020 and October 2021. The dividend per share amounts have been retroactively adjusted
Source: Prepared by FISCO from the Company's financial results

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