COMPANY RESEARCH AND ANALYSIS REPORT

G-7 HOLDINGS INC.

7508

Tokyo Stock Exchange Prime Market

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Summary

Targeting record-high profit in FY3/24 by strengthening profitability of existing stores

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 FY3/23 results

In the full-year FY3/23 results, net sales rose by 5.0% year-on-year (YoY) to ¥176,922mn, while ordinary income decreased by 13.5% to ¥6,813mn. Despite a continued net sales increase brought on by the steady growth of net sales in the car-related business* and Gyomu Super business, the Company experienced the first profit decline in eight fiscal years, mainly due to profit downturn in the car-related business and Gyomu Super business stemming from the rising cost of opening stores and increase in utility expenses due to electricity rate hikes and worsening profitability of the meat and mini-supermarket businesses. Utility expenses increased 49% YoY (approximately ¥1.0bn) for the whole Group. The number of stores as of the end of FY3/23 was 597, a decrease of 3 stores from the end of the previous fiscal year. Although the Company opened 27 new stores including 8 Gyomu Super stores and 12 Oniku no Terabayashi stores, it closed 30 stores (6 RICO'S, 21 Megumi no Sato stores, and others) that had become unprofitable.

* The AUTOBACS and car-related business segment was renamed the car-related business in FY3/23.

2. Forecasts for FY3/24

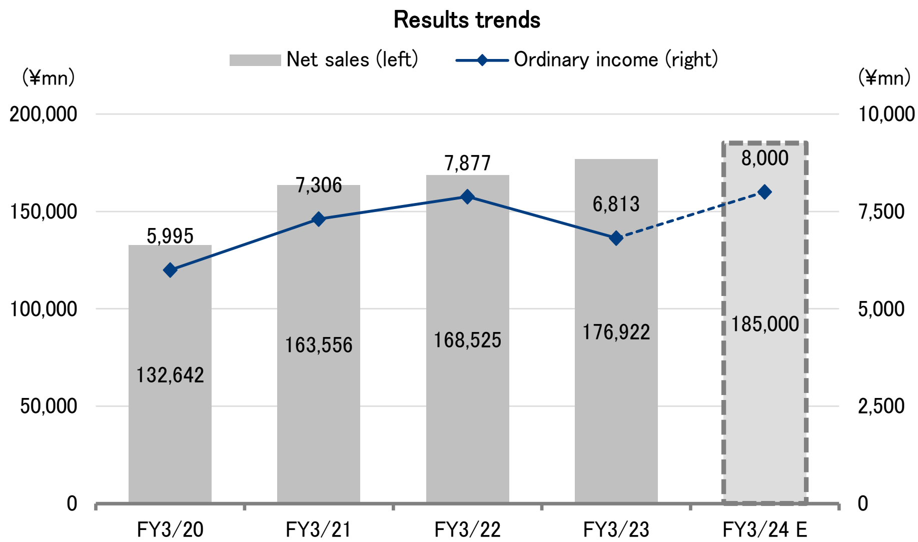
For FY3/24 results, the Company forecasts net sales increasing 4.6% YoY to ¥185,000mn and ordinary income rising 17.4% to ¥8,000mn, another record high. As in FY3/23, the number of planned new stores is on the low side at 29 (including 12 Gyomu Super stores and 8 Oniku no Terabayashi stores) due to construction and infrastructure costs remaining high. The Company aims to increase net sales by focusing on growing sales of existing stores. The Company's forecast factors in a 30% YoY rise in utility expenses, with the aim of resuming profit growth by strengthening profitability of existing stores. It plans to achieve this by improving the gross profit margin and raising productivity as well as reducing the number of unprofitable stores. The mini-supermarket business renewed its management structure in April 2023 to tackle profitability improvement, with the goal of turning profitable on a monthly basis in FY3/24 and on a full-year basis in FY3/25.

3. Medium-term business plan

The Company started a five-year medium-term business plan in FY3/22. Business targets are net sales of ¥250bn and ordinary income of ¥10bn for FY3/26, the plan's final year. In terms of compound annual growth rates, these targets represent growth of around 9% in net sales and around 6% in ordinary income. Although ordinary income declined in FY3/23 due in part to a worsening market environment, the Company aims to resume sales and profit growth in FY3/24, with a turnaround of unprofitable businesses contributing. The Company also plans aggressive store openings if these businesses turn profitable on a full-year basis in FY3/25. It is also actively exploring M&A with a budget of around ¥7bn. The basic strategy is to strengthen profitability of existing stores and promote the development of new business formats while focusing on nurturing and educating human resources that are the source of growth. The Company aims to increase the Group store count from 597 at the end of FY3/23 to 1,000 at the end of FY3/26. We think M&A holds the key to achieving the goals of the current medium-term business plan.

Key Points

- Continuing record high net sales in FY3/23 even as profits dipped
- Resuming sales and profit growth in FY3/24 by strengthening profitability of existing stores and turning around unprofitable businesses
- Advancing M&A strategy, targeting ¥250bn in net sales and ¥10bn in ordinary income in FY3/26



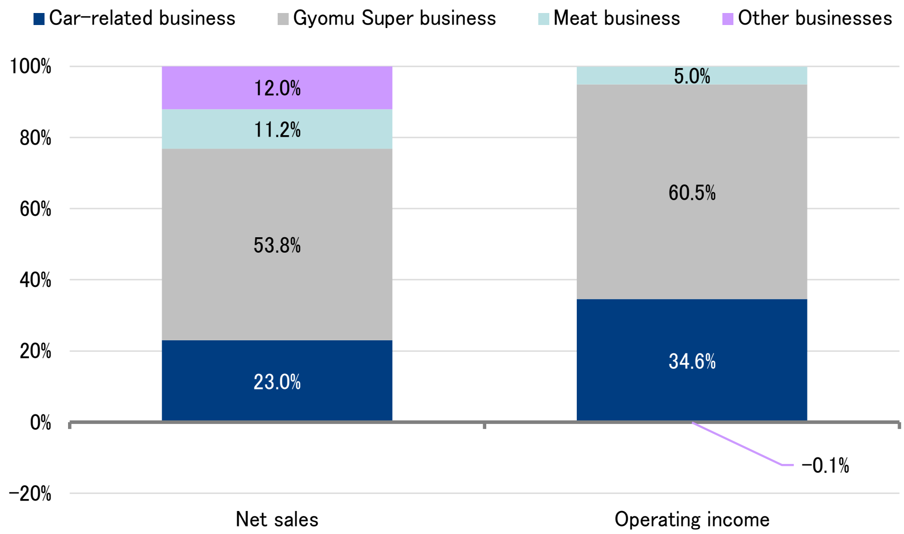
Source: Prepared by FISCO from the Company's financial results

Business overview

Car-related business and Gyomu Super business are the main pillars of earnings

The Company discloses information on four business segments: car-related business, Gyomu Super business, meat business, and other businesses. Looking at the percentages of total net sales by business in FY3/23, the car-related business accounted for 23.0% of net sales and the Gyomu Super business accounted for 53.8% of net sales. By segment income, the car-related business accounted for 34.6% and the Gyomu Super business accounted for 60.5%, making them core businesses. In addition, if you add the sales from the Gyomu Super business, the meat business, quality food and private brand business, mini-supermarket business and agricultural business, which are included in other businesses, nearly 80% of net sales come from food retail businesses.

Percentages of Total Net Sales by Business Segment(FY3/23)



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

1. Car-related business

The car-related business comprises four companies, and 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 stores carried out by BIKE WORLD, which is managed by G-7 BIKE WORLD CO., LTD.; AUTOBACS franchise development and BIKE WORLD management in Malaysia by G7 RETAIL MALAYSIA SDN. BHD.; and export sales of cars in which G-7 CrownTrading Co., Ltd is involved.

More than 80% of sales are provided by AUTOBACS-related stores, and as of the end of March 2023, the number of AUTOBACS-related stores was 76 domestic stores (69 AUTOBACS stores and 7 AUTOBACS Express stores) and 3 stores in Malaysia, and the Company is the largest franchisee within the AUTOBACS Group (588 domestic stores and 79 overseas stores). Stores are located predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki prefectures. Hyogo is particularly important with 38 stores, 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 include 9 BP centers (body repair and coating), and one Suzuki Cars Osaka store for buying and selling new and used cars.

The BIKE WORLD business consisted of 18 stores at the end of March 2023 with 15 domestic stores and 3 stores in Malaysia. In Japan, the Company is moving ahead on collaborative store openings with BIKE O & COMPANY Ltd. <3377>, with which it has entered a capital and business alliance. G-7 CrownTrading, which was made a subsidiary in 2017, conducts export sales of automobiles mainly to Southeast Asia. Sales composition ratios for each of these businesses are just under 10%.

As well, G-7 AUTO SERVICE runs franchise stores on the premises of AUTOBACS and other stores, including 6 Mammaciao laundromats, 2 Yamayahonpo taiyaki (fish-shaped pancakes with bean jam) stores, and 1 Châteraisé confectionery store. It also operates 5 FIELD SEVEN outdoor shops.

2. Gyomu Super Business

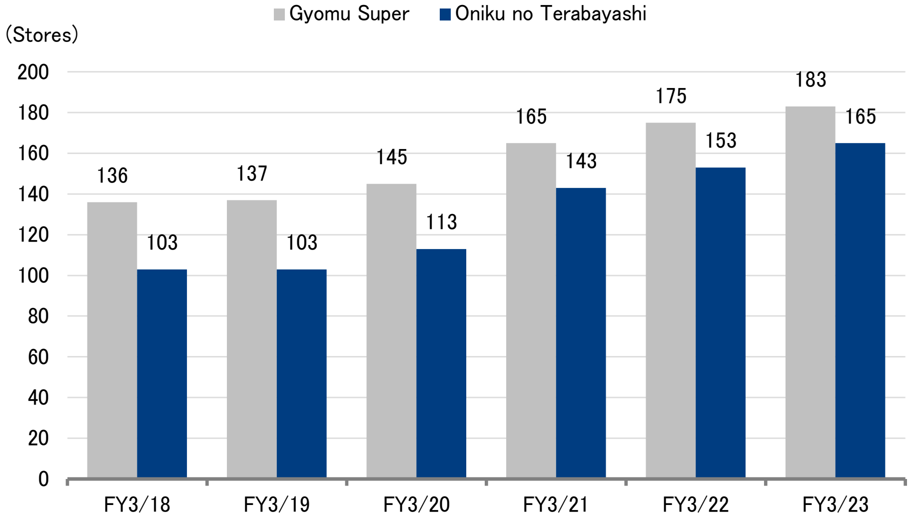
The Gyomu Super business is operated by G-7 SUPER MART CO., LTD., which develops the Gyomu Super franchise. Store openings took place in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions, reaching 183 stores at the end of March 2023, the largest number within the Gyomu Super group (1,018 stores). Looking at store numbers by region, the Kanto area has the most with 70 stores (19 in Tokyo, 17 in Kanagawa, 20 in Saitama, and 14 in Chiba), followed by Chubu with 40 stores (26 in Aichi, 8 in Mie, and 6 in Gifu), Kansai with 34 stores (23 in Hyogo and 11 in Osaka), Kyushu with 25 stores (17 in Fukuoka, 6 in Kumamoto, and 2 in Nagasaki), and Hokkaido with 14 stores. The Company has expanded the number of stores through an emphasis on productivity per employee and inventory turnover rates to strengthen earnings capacity, and in recent years, the Company has accelerated the opening of new stores in Kyushu and Hokkaido and not just the Tokyo metropolitan area.

3. Meat business

The meat business is operated by G-7 MEAT 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, including simultaneous openings with tenant stores. It also has the Andesfoods business division, acquired in an absorption-type merger of Andesfoods Co., Ltd. after having been made a subsidiary in 2020. Andesfoods is a wholesaler that supplies meat and other food products to restaurants, catering, and take-out food services in the Tokyo metropolitan area.

Store numbers at the end of March 2023 were 165 Oniku no Terabayashi stores and 14 Andesfoods stores, for a total of 179 stores. By region, Kanto had the most with 72 stores, followed by Kansai with 36 stores, Tokai with 28 stores, Kyushu with 23 stores and Hokkaido with 13 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.

Number of Gyomu Super and Oniku no Terabayashi stores



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

4. Other businesses

Other businesses consist of the businesses of G7 AGRI JAPAN CO., LTD., which manages the Megumi no Sato farmers' market chain; G-7 RICO'S STORES CO., LTD.*, which operates RICO'S mini-supermarkets; G7 JAPAN FOOD SERVICE CO., LTD., which operates quality food and private brand businesses; and G7 RETAIL JAPAN CO., LTD., which manages Curves clubs (Curves Japan Co., Ltd.), which are workout and training clubs for women and TREASURE CYCLE, which is a bicycle shop.

* Became a subsidiary after the Company acquired an 80.0% stake from UNY Co., Ltd. in April 2020. The Company acquired the remaining 20.0% stake in April 2022 to make it a wholly owned subsidiary and changed the company name to G-7 RICO'S STORES CO., LTD. from 99 ICHIBA, and changed the store name from mini PIAGO to RICO's.

The Company had 23 Megumi no Sato stores as of March 31, 2023. It closed all stores in the Chubu and Kanto areas in FY3/23, with all remaining stores in the Kansai area (17 in Hyogo, 4 in Osaka, and 2 in Nara prefectures), of which 12 are located in Gyomu Super stores. The Company receives around 20% commission on sales value from producers, recorded as net sales. This provides stable revenue with no product disposal loss.

RICO'S mini-supermarkets have opened in Tokyo and Kanagawa Prefecture, and as of the end of March 2023 there were 63 stores (50 stores in Tokyo. 13 in Kanagawa Prefecture). Store sales are of the scale of just under ¥200mn annually per store, which is less than 50% compared with Gyomu Super. Sales have been weak since nesting demand petered out in FY3/22, and recovering profitability remains a priority for the business.

In the quality food and private brand business, the Company discovers regional delicacies and local specialty products and sells them to places such as department and specialty stores or e-commerce shops, as well as develops, produces, and sells various types of PB products centered on frozen and processed foods. It supplies products to more than 6,500 companies and sells through over 2,200 retail stores around the country.

Other than these, as a franchisee, the Company manages 25 Curves clubs (in Kanagawa Prefecture), which are workout and training clubs for women, and opened one TREASURE CYCLE store (in Hyogo Prefecture), which is a bicycle shop and a new business format for the Company, in July 2021.

Major consolidated subsidiaries

Business segment	Company name	Capital contribution ratio	Business description
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.CrownTrading Co., Ltd	100.0%	New vehicle and used vehicle export sales
	G7 RETAIL MALAYSIA SDN.BHD	100.0%	Operator of AUTOBACS and BIKE WORLD, etc.
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
Other businesses	G7 AGRI JAPAN CO., LTD.	100.0%	Operator of Megumi no Sato, etc.
	G7 JAPAN FOOD SERVICE CO., LTD.	100.0%	Manufacturing and wholesale of food products and beverages, etc.
	G7 RETAIL JAPAN CO., LTD.	100.0%	Operator of Curves training clubs for women, TREASURE CYCLE bicycle shop
	G7 RICO'S STORES CO., LTD.	100.0%	Operator of RICO's (formerly mini PIAGO) urban-type mini supermarkets

Source: Prepared by FISCO using the Company's securities report, website and news releases

Results trends

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

1. Overview of FY3/23 results

In its FY3/23 consolidated results, net sales increased 5.0% YoY to ¥176,922mn, while operating income decreased 12.7% to ¥6,504mn and ordinary income declined 13.5% to ¥6,813mn. Profit attributable to owners of parent was down 27.2% to ¥3,824mn.

Consolidated results for FY3/23

(¥mn)

	FY3/22		FY3/23				
	Results	vs. net sales	Forecast	Results	vs. net sales	YoY	vs. forecast
Net sales	168,525	-	180,000	176,922	-	5.0%	-1.7%
Cost of sales	126,215	74.9%	-	133,568	75.5%	5.8%	-
SG&A expenses	34,860	20.7%	-	36,848	20.8%	5.7%	-
Operating income	7,448	4.4%	7,700	6,504	3.7%	-12.7%	-15.5%
Ordinary income	7,877	4.7%	8,000	6,813	3.9%	-13.5%	-14.8%
Extraordinary loss	-407	-	-	-1,265	-	-	-
Profit attributable to owners of parent	5,255	3.1%	5,400	3,824	2.2%	-27.2%	-29.2%

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

Net sales continued to mark record highs on expansion of the core Gyomu Super and car-related businesses, but profit turned down in these and other businesses due to worsening profitability of the meat and mini-supermarket businesses, increase in utility expenses due to electricity rate hikes, and higher cost of opening stores. The Company posted the first profit decline in 8 fiscal years.

Looking at factors affecting SG&A expenses, personnel expenses were down just 0.8% YoY due to a smaller work force* associated with the reduced store count, but utility expenses increased 49% (approximately ¥1.0bn) for the whole Group because of electricity rate hikes, accounting for most of the negative factors for profit. The Company also recorded as extraordinary losses ¥500mn in provision for retirement benefits for directors (and other officers) and ¥765mn impairment loss on fixed assets.

* On a consolidated basis, the number of employees (including temporary employees) was 7,422 at the end of FY3/23, down 299 from the end of FY3/22.

Factors that contributed to undershooting the company net sales forecast were weak performance of the meat and mini-supermarket businesses, and limiting store openings and closing unprofitable stores, resulting in a 1.7% shortfall. Operating income fell 15.5% short of the company forecast due to the worsening profitability of the meat and mini-supermarket businesses and increased utility expenses.

The Company opened 27 stores and closed 30 stores in FY3/23 for a total of 597 stores, 3 fewer than at the end of FY3/22. The initial Company plan called for opening 35 stores (including 5 added by M&A), but the store count was lower, because the Company cut back on openings amid a change in market environment such as the rise in construction costs and worsening inflation, and some M&A deals fell through. The number of closures increased because of the decision to close Megumi no Sato stores in Chubu and Kanto for now and the closure of six RICO'S stores, having concluded that it would be difficult to make them profitable. In March 2023, the Company opened one Châteraisé store, a new business format (confectionery store).

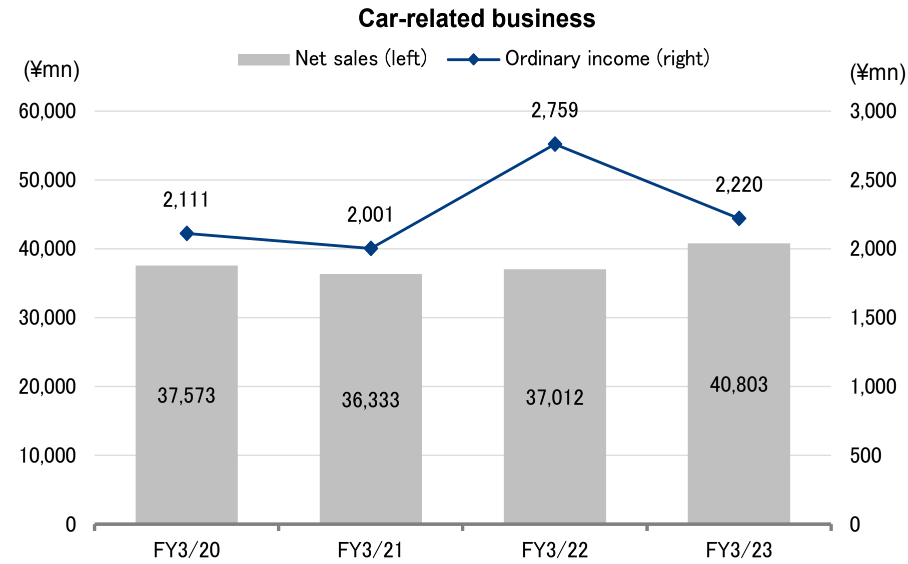
Number of Group stores and number of store openings and closures

Store name	End of FY3/22 Number of stores	FY3/23		End of FY3/23 Number of stores
		Openings	Closures	
AUTOBACS (including SA and SH)	69	2	2	69
AUTOBACS Express	7			7
BP centers (body repair and coating)	9			9
G-7 TSUCHIYAMA CIRCUIT	1			1
FIELD SEVEN	4	1		5
Mammaciao	6			6
Taiyaki Specialty Store Yamaya Honpo	3		1	2
Châteraisé (new business format)	-	1		1
BIKE WORLD	14	1		15
Gyomu Super	175	8		183
Obentoya K	1			1
Oniku no Terabayashi	153	12		165
Andesfoods	14			14
Megumi no Sato	44		21	23
Super Megumi no Sato	1			1
RICO'S (formerly mini PIAGO)	69		6	63
Curves	25			25
TREASURE CYCLE	1			1
Overseas (AUTOBACS, BIKE WORLD)	4	2		6
Total	600	27	30	597

Source: Prepared by FISCO from materials provided by the Company

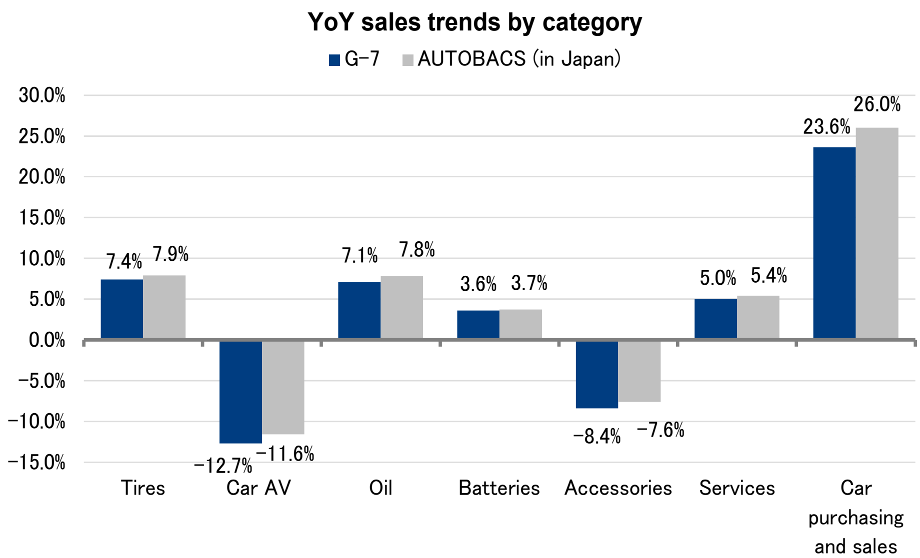
(1) Car-related business

In the car-related business, net sales increased by 10.2% to ¥40,803mn and ordinary income declined by 19.5% to ¥2,220mn. Net sales reached a record high for the first time in three years, but ordinary income declined for the first time in two years.



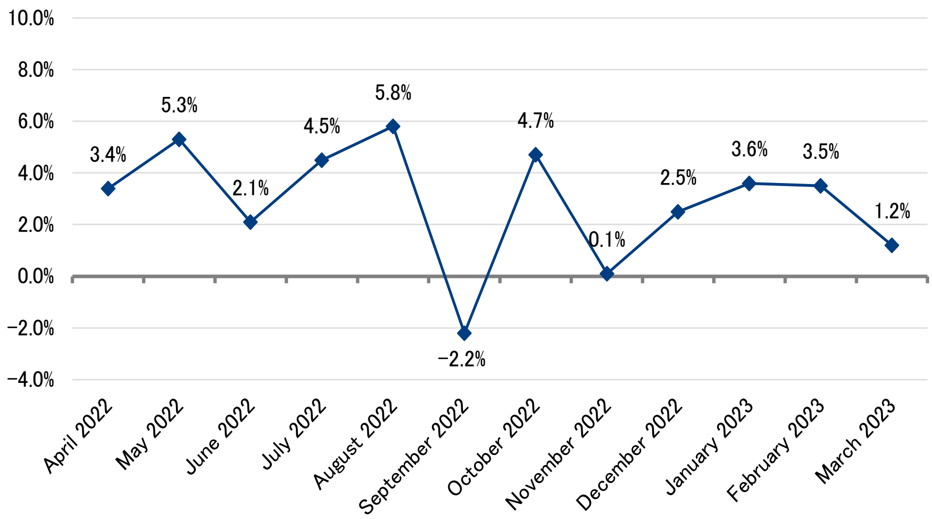
Source: Prepared by FISCO from the Company's financial results

Looking at earnings trends by business, the core G-7 AUTO SERVICE posted 3.7% YoY growth in net sales and 7.1% decline in ordinary income. By category, sales were down 12.7% for car AV, 8.4% for accessories, and 3.9% for maintenance. Sales were up 7.4% YoY for tires, 7.9% for aluminum wheels, 7.1% for oil, 3.6% for batteries, and 5.0% for services. Sales grew a brisk 23.6% YoY for car purchase and sales, due in part to the rise in used car prices because of a supply shortage of new cars. Sales of the AUTOBACS Group's existing stores in Japan grew 4.0% YoY, showing a similar trend. The AUTOBACS store count at the end of FY3/23 was 69 (flat YoY), with one store added by M&A in Kyoto Prefecture in November 2022 and one store in Hyogo Prefecture closed in February 2023.



Note: AUTOBACS sales trends are on an existing-store basis.
Source: Prepared by FISCO from materials provided by the Company

Sales growth rate of existing AUTOBACS stores (YoY)

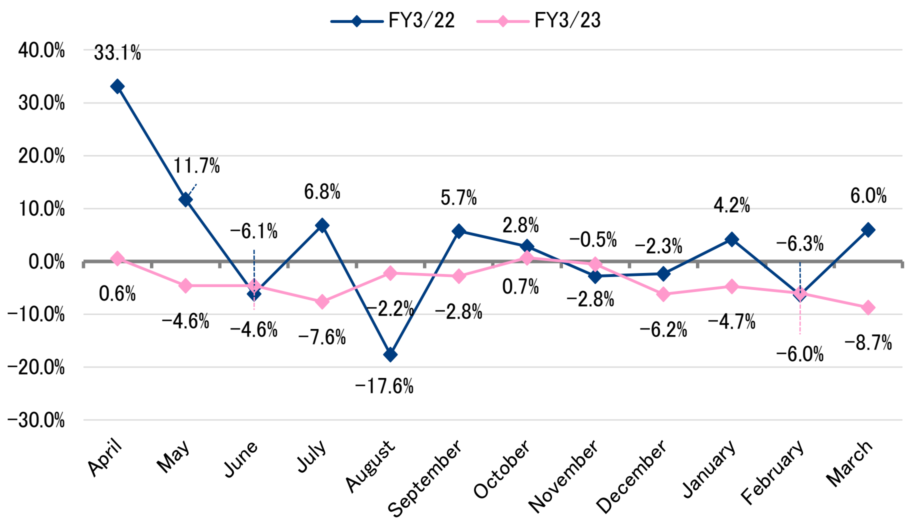


Source: Prepared by FISCO from materials provided by the Company

There were 5 FIELD SEVEN outdoor shops in FY3/23 after opening one store in Hyogo Prefecture in November 2022. Although these stores are yet to turn profitable, due in part to the COVID-19 pandemic, sales are steadily increasing as brand awareness increases. The Company also opened one Châteraisé confectionery shop in Hyogo Prefecture in March 2023, which made a strong start with sales of around ¥20mn in the first month of opening.

G-7 BIKE WORLD posted a YoY net sales increase, but ordinary income declined. Having opened 2 stores in 2H FY3/22 and one in September 2022 in Aichi Prefecture, the new store effect contributed to net sales growth. However, existing store sales were down almost 4% YoY because of brisk sales a year earlier due to a sharp increase in motorcycle commuters. Profit was hurt by cost increases associated with opening stores, weak sales of existing stores, and increase in utility expenses. The domestic store count at the end of FY3/23 was 15, one more than at the end of FY3/22.

Sales growth rate of existing BIKE WORLD stores (YoY)

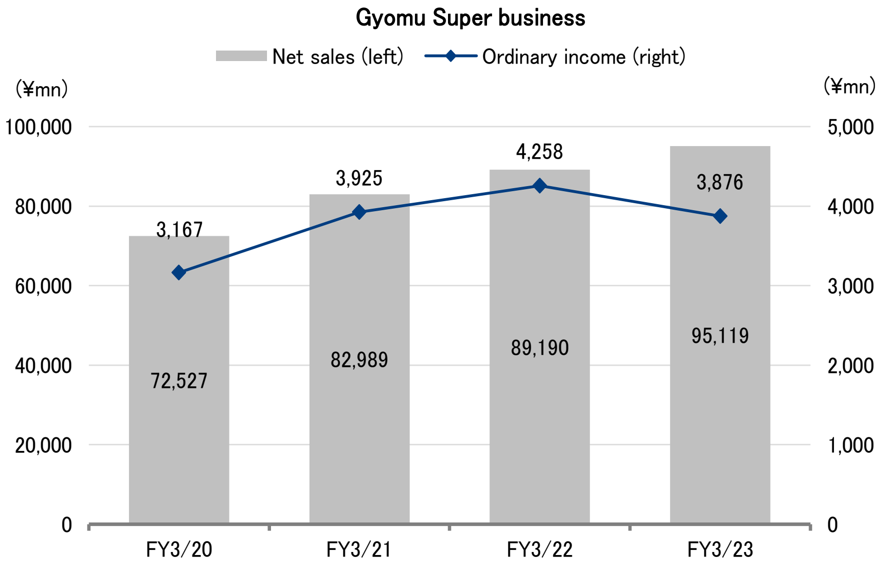


Source: Prepared by FISCO from materials provided by the Company

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, which conducts the car export sales business, experienced a sharp recovery in net sales 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.

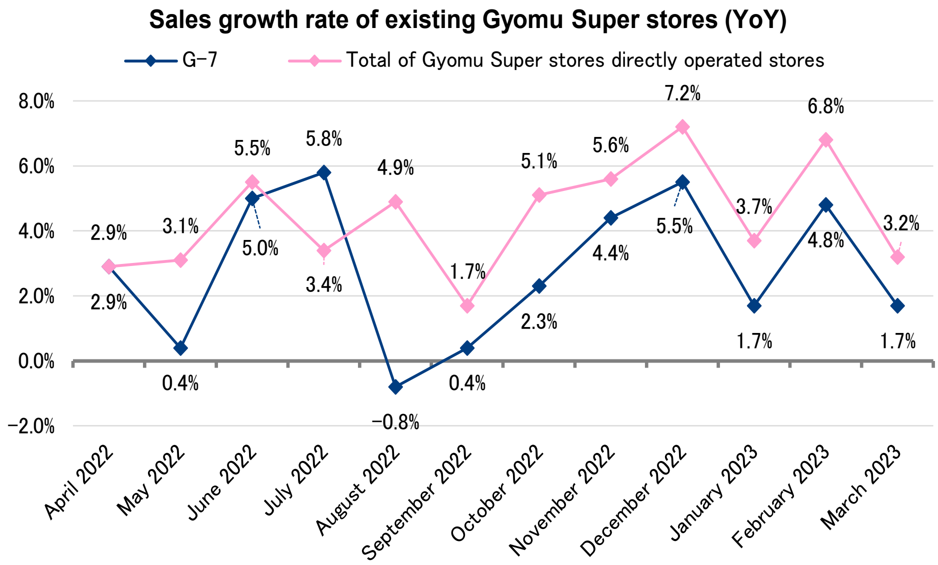
(2) Gyomu Super business

In the Gyomu Super business, net sales were up 6.6% YoY to ¥95,119mn, another record high, but ordinary income turned down, declining 9.0% YoY to ¥3,876mn.



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

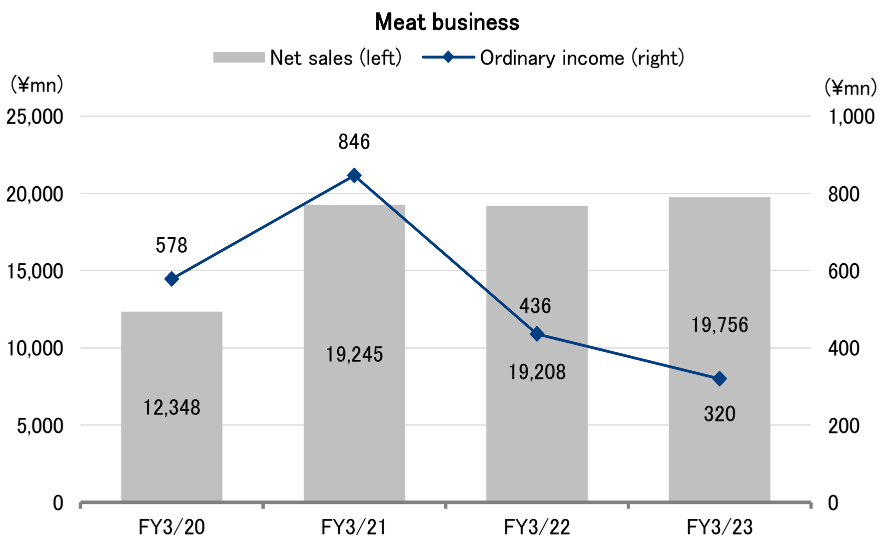
Positive factors for net sales were the effect of opening stores and a solid (approximately 3%) YoY increase in sales of existing stores. The Company opened 8 stores (3 stores in Hokkaido, 1 store in Saitama, 2 stores in Gifu, and 2 stores in Kumamoto prefectures). The store count at the end of FY3/23 came to 183, an increase of 8 from the end of FY3/22. Sales of frozen vegetables and desserts and canned food (mainly private-brand products) were brisk at existing stores, while the price hike effect also likely contributed to sales growth. Increased utility and opening and remodeling expenses were negative factors for profit.



Source: Prepared by FISCO from materials provided by the Company

(3) Meat business

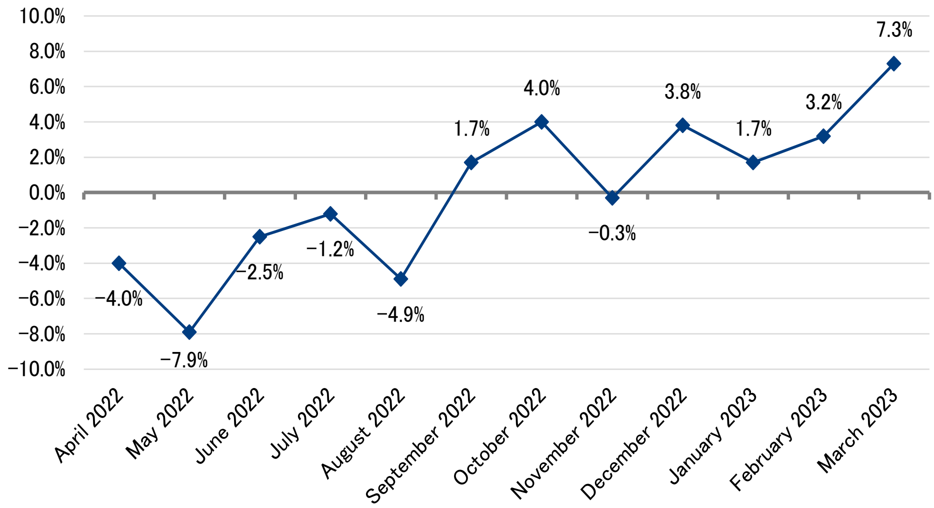
Net sales grew 2.9% YoY to ¥19,756mn, increasing for the first time in two fiscal years, but ordinary income was down 26.7% YoY to ¥320mn for the second consecutive year of declines.



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

Factors contributing to net sales growth were the opening of 12 Oniku no Terabayashi stores (3 stores in Hokkaido, 1 in the Tokyo metropolitan area, 2 in Chubu, and 6 in Kyushu) for an increase of 12 stores in total to 165 at the end of FY3/23. Sales of existing stores were flat, up 0.1% YoY. On the profit front, profit was down YoY because of a lower gross profit margin eroded by the rising cost of raw materials and opening stores due in part to yen depreciation. However, the Company switched from imported U.S. beef (whose purchase price increased sharply) to domestic beef and pushed ahead with price revisions from October 2022 onward, which helped net sales and profit to turn positive from 3Q onward.

Sales growth rate of existing Meat business (Oniku no Terabayashi) stores (YoY)

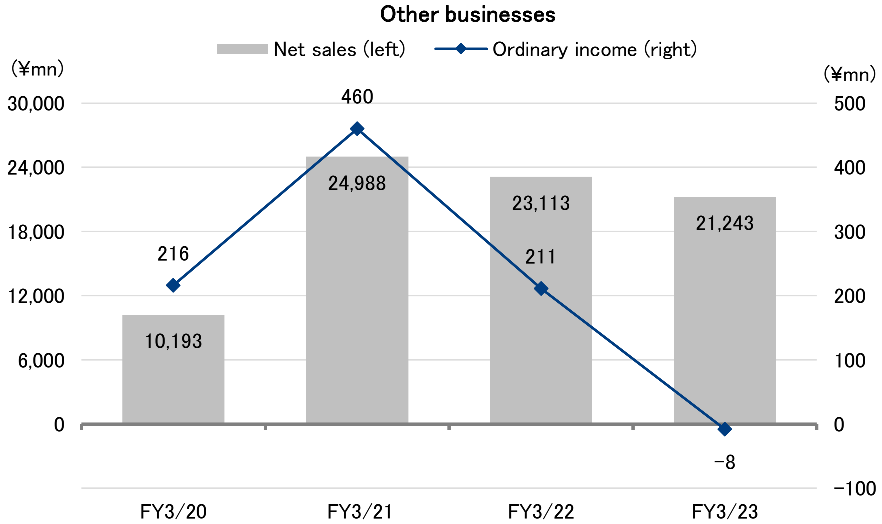


Source: Prepared by FISCO from materials provided by the Company

(4) Other businesses

In other businesses, net sales decreased by 8.1% to ¥21,243mn, while ordinary income fell to ¥8mn (versus ¥211mn profit in FY3/22) for a second consecutive year of declines.

Other businesses



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

Net sales of the mini-supermarket business were hurt by an upper single-digit YoY decline in sales of existing stores because of a drop in customer count in reaction to year-ago nesting demand and slump in consumer spending due to rising prices. The Company also closed six stores, because it concluded they would be difficult to make them profitable. Factors that contributed to a worsening loss were a drop in gross profit stemming from lower net sales, lower gross profit margin, and higher utility expenses. The store count at the end of FY3/23 was 63, down by 6 from the end of FY3/22.

The agricultural business recorded lower net sales, because it closed all stores in the Chubu and Kanto areas, but managed to post a small ordinary income. Having closed 21 struggling stores (6 in Chubu and 15 in Kanto), the store count at the end of FY3/23 was 23, down by 21 from the end of FY3/22. The Company had mainly opened stores within Gyomu Super stores in Chubu and Kanto, but decided to withdraw for now, because it had used the purchase-based sales method and could not resolve the product disposal loss issue.

Net sales of the quality food and private brand business posted a single-digit YoY increase and ordinary income was also up. Aggressive efforts to expand sales opportunities through travelling sales, such as stalls at events, led to the increased net sales. On the profit front, cost reductions helped to increase ordinary income in addition to the effect of higher net sales.

The Company manages 25 Curves clubs, which are workout and training clubs for women. Net sales recorded a double-digit YoY increase and ordinary income also rose on a recovery in membership, which had slumped during the COVID-19 pandemic.

Exploring M&A opportunities within the scope of cash on hand, with a stable financial base

2. Financial condition and key financial indicators

At the end of FY3/23, total assets were up ¥3,056mn from the previous fiscal year-end to ¥57,202mn. The main changes were as follows. In current assets, there was decrease in cash and deposits by ¥1,345mn, while there were increases in merchandise and finished goods of ¥1,128mn and accounts receivable-trade of ¥403mn. In non-current assets, property, plant and equipment increased ¥2,187mn, and an increase of ¥407mn in leasehold and guarantee deposits.

Total liabilities increased by ¥1,046mn from the previous fiscal year-end to ¥30,444mn. The main factors behind this increase were a decrease in provision for retirement benefits for directors (and other officers) of ¥653mn, while there was an increase of ¥1,600mn in asset retirement obligations. Total net assets at the end of FY3/23 increased by ¥2,010mn from the previous fiscal year-end to ¥26,757mn. Retained earnings increased by ¥2,151mn mainly owing to the recording of profit attributable to owners of parent of ¥3,824mn and payment of dividends of ¥1,674mn. Non-controlling interests of ¥152mn was removed, because the Company made G-7 RICO'S STORES a wholly owned subsidiary.

Turning to management indicators, the equity ratio rose 1.4pp from the end of FY3/22 to 46.8% and the ratio of interest-bearing debt fell 3.0pp to 34.8%, showing some improvement in financial condition. Net cash (cash and deposits – interest-bearing debt) decreased, but is over ¥6.0bn, which indicates good financial soundness. The Company intends to use cash on hand to invest in existing businesses and in shareholder return, as well as M&A with a budget of around ¥7.0bn. M&A targets are companies that expand the trade area of existing businesses and peripheral business areas with potential synergies. The Company is actively considering promising M&A deals.

Consolidated balance sheet

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	Change
Current assets	24,575	27,040	27,650	29,498	30,259	761
(Cash and deposits)	14,518	16,465	16,259	17,033	15,688	-1,345
(Merchandise and finished goods)	5,767	5,602	6,517	6,854	7,982	1,128
Non-current assets	20,115	20,846	23,741	24,647	26,943	2,296
(Goodwill)	150	67	516	437	16	-421
Total assets	44,691	47,886	51,391	54,145	57,202	3,056
Total liabilities	25,188	25,868	30,128	29,398	30,444	1,046
(Interest-bearing debt)	8,804	9,348	9,300	9,300	9,300	-
Net assets	19,502	22,018	21,263	24,747	26,757	2,010
[Key financial indicators]						
<Financial strength>						
Equity ratio	43.6%	45.9%	41.1%	45.4%	46.8%	1.4pt
Interest-bearing debt ratio	45.2%	42.5%	44.1%	37.8%	34.8%	-3.0pt
Net cash	5,714	7,117	6,959	7,733	6,388	-1,345
<Profitability>						
ROE (Return on Equity)	16.5%	17.0%	22.5%	23.0%	14.9%	-8.1pt
ROA (Return on Assets)	11.6%	13.0%	14.7%	14.9%	12.2%	-2.7pt
Operating income margin	4.1%	4.4%	4.3%	4.4%	3.7%	-0.7pt

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

Business outlook

Forecasting net sales and profit growth in FY3/24 on strengthened profitability of existing stores and turnaround of unprofitable businesses

1. Forecasts for FY3/24

For its FY3/24 consolidated results, the Company forecasts net sales to increase 4.6% YoY to ¥185,000mn, operating income to increase 18.4% to ¥7,700mn, ordinary income to increase 17.4% to ¥8,000mn, and profit attributable to owners of parent to increase 43.8% to ¥5,500mn, aiming for record high profits and the first increase in profit in two years. Despite deepening economic uncertainty due to rising raw material and energy costs, the Company plans to achieve its medium-term targets by expanding earnings per store while working to develop human resources and rebuilding unprofitable stores. The Company has factored into its plan a 30% increase in utility costs.

Consolidated forecasts for FY3/24

(¥mn)

	FY3/23		FY3/24		
	Results	vs. net sales	Company forecast	vs. net sales	YoY
Net sales	176,922	-	185,000	-	4.6%
Operating income	6,504	3.7%	7,700	4.2%	18.4%
Ordinary income	6,813	3.9%	8,000	4.3%	17.4%
Profit attributable to owners of parent	3,824	2.2%	5,500	3.0%	43.8%
Earnings per share (¥)	86.78		124.82		

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

The Company expects profit growth to resume in the car-related, Gyomu Super, and meat businesses, as well as other businesses due to the mini-supermarket business shrinking its loss. The Company plans to open 29 stores in FY3/24. Assuming there are no closures, the store count will be 626 at the end of FY3/24. The medium-term business plan calls for 50–70 openings per year, but the Company continues to keep the number of new stores relatively low and prioritize profitability improvement at existing stores in FY3/24, because construction and infrastructure costs remain at a high level and the economic outlook is increasingly uncertain.

(1) Car-related business

In the car-related business, the Company does not plan to open any AUTOBACS stores, instead focusing on sales growth and productivity improvement at existing stores. The Company expects car AV sales to remain weak, but plans to compensate for this with sales growth in car purchase and sales, tires and maintenance services. In terms of profit, the Company aims to absorb the continued high levels of utility expenses with the sales growth effect and productivity improvement. In other business formats, the Company plans to open one Châteraisé store.

G-7 BIKE WORLD is forecast to resume sales and profit growth. Two new stores are planned and a recovery (approximately 8% YoY increase) in sales of existing stores. The Company plans to attract more customers by raising its profile through aggressive promotions and focusing on sales from services such as maintenance to raise sales overall.

Overseas, the Company plans to open a BIKE WORLD store in Penang, Malaysia, where inquiries have been brisk. It will prioritize profitability improvement at AUTOBACS and aims to turn profitable for the two businesses combined in FY3/24. Benefiting from yen depreciation, export sales of cars will likely remain strong in FY3/24 and achieve sales and profit growth.

(2) Gyomu Super business

The Company looks for single-digit sales and profit growth YoY for the Gyomu Super business. It plans to open 12 stores, of which it has secured properties for 8 stores. As previously, new stores will mainly be located in Kyushu, Hokkaido, and the Tokyo metropolitan area, but the Company also plans to accelerate openings in Aichi Prefecture, where the number of stores is small. It forecasts around 2% YoY sales growth at existing stores.

For profit, the Company targets around 4.5% ordinary income margin versus 4.1% in FY3/23 by improving the sales mix and inventory turnover ratio to lift the gross profit margin and absorb the rise in utility expenses. It also plans to roll out in stages semi-self-checkouts and cashless payments to improve customer convenience and turnover rate.

(3) Meat business

The Company expects a return to sales and profit growth for the meat business in FY3/24. It plans to open 8 stores and forecasts around 2% YoY sales growth at existing stores as a result of raising sales prices. Domestic beef remains the main beef sold at its stores; the Company will adjust the volume of U.S. beef purchased depending on market prices. The business resumed sales and profit growth in 3Q FY3/23 and looks likely to continue on a recovery trend through FY3/24.

(4) Other businesses

The Company forecasts sales and profit growth in other businesses, with profit growth continuing in the quality food and private brands business and the mini-supermarket and agricultural businesses improving their earnings performance as a result of closing unprofitable stores in FY3/23. The Company plans to open 2 Megumi no Sato and 3 Curves stores in FY3/24.

G-7 RICO'S STORES transitioned to the Company's own management structure in April 2023 after the departure of seven personnel assigned from former parent company UNY in March 2023. A fundamental review of product strategy and personnel deployment is progressing under the new management structure, putting the business in a position to improve earnings going forward. The Company will consider opening and closing stores after monitoring the performance of existing stores.

RICO'S stores are small with a floor space of 165–231m^2, which makes product strategy crucial. Private brand products in particular hold the key to differentiating RICO'S from rival stores. The business has been procuring private brand products from UNY, but the agreement between the two companies ends on March 31, 2024. It will therefore increase the number of the Group's own private brand products in stages. In the meat business, the Company plans to upgrade its delivery centers in FY3/24 to enable procurement from G-7 MEAT TERABAYASHI. Its goal is to draw more customers by selling attractive Group products, thereby increasing sales and improving the gross profit margin. As part of a customer relationship management (CRM) strategy, it also plans to introduce an electronic loyalty points service in stages starting in FY3/24 to encourage existing customers to visit stores more often as well as attract new customers. A challenge for the business is the education of store personnel. Staff retention rates have been poor in the past, because many employees were foreign temporary workers, which meant high hiring and education costs. The Company aims to improve retention rates and productivity by hiring more Japanese employees and strengthening personnel training and education. It aims to turn RICO'S profitable on a monthly basis in FY3/24 and targets full-year profit in FY3/25.

Target ¥250bn in net sales and ¥10bn in ordinary income in FY3/26 as medium-term business targets

2. Medium-term business plan

The Company started 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, from FY3/22. 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 are planned to 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 it has given 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 (store count to increase from 586 at the end of FY3/21 to 1,000 at the end of FY3/26, including G-7 Mall)
- Work to advance M&A deals and capital and business alliances
- Make every effort to strengthen recruitment and nurture and educate human resources (number of employees including temporary employees to increase from 7,746 at the end of FY3/21 to 14,000 in FY3/26)
- 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.

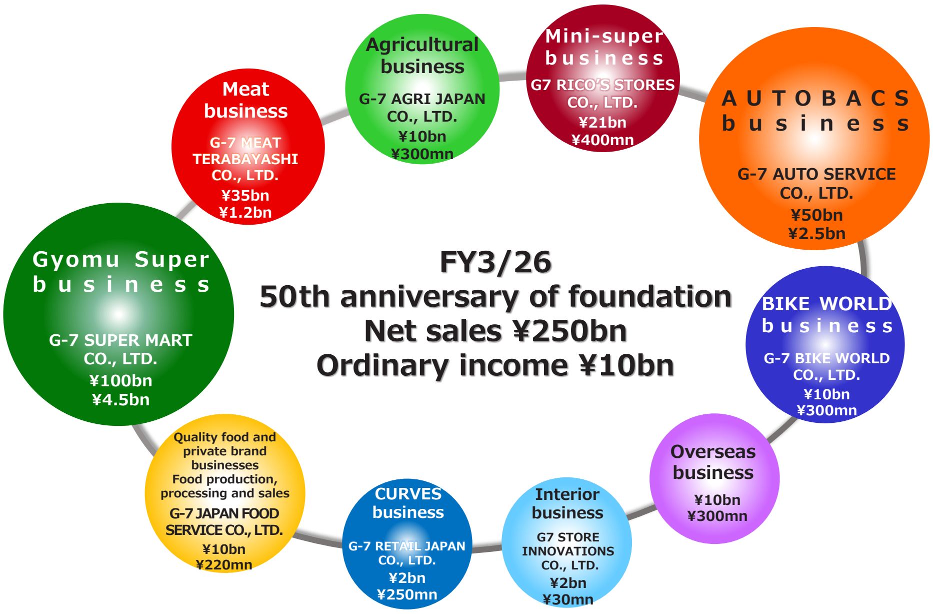
Of these businesses, the Gyomu Super business is aiming to achieve its targets by expanding the number of stores, mainly in the regions of Kyushu, Chubu, metropolitan Tokyo, and Hokkaido. Net sales are calculated at an annual growth rate of 3.5%, and have been growing at a faster rate through FY3/23. 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) and explore expansion into peripheral businesses through M&A.

The meat business is forecasting net sales growth at an annual rate of 13.8%. Although earnings stalled in FY3/23 amid a deteriorating market environment, they have started to recover, and are expected to resume a growth trajectory in FY3/24 by opening stores within Gyomu Super stores and strengthening the commercial wholesaling business. The mini-supermarket business has set challenging targets calling for net sales of ¥21bn and ordinary income of ¥400mn. The Company intends to resume new store openings after improving profitability per store with a view to future expansion into the Chubu area. We expect more store openings if the business is profitable over the full year in FY3/25.

The Company is forecasting net sales of ¥10bn and nurturing 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 has contributed substantially to its sustained growth and is seen to be 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



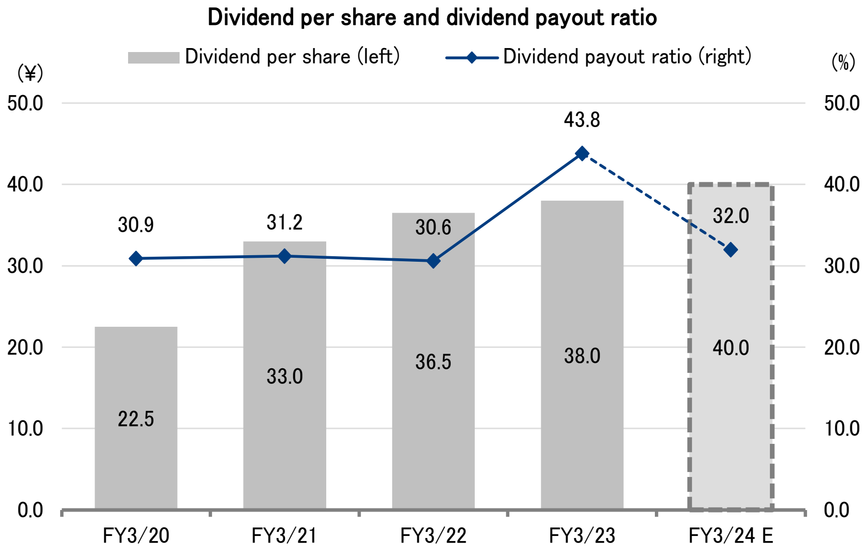
Source: Published from materials provided by the Company

Shareholder return policy and sustainability initiatives

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

1. Shareholder return policy

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 increased the dividend per share by ¥1.5 YoY to ¥38.0, representing a dividend payout ratio of 43.8%. It was the eighth consecutive year of higher dividends. The Company plans to increase the dividend per share by ¥2.0 YoY to ¥40.0 in FY3/24, which corresponds to a dividend payout ratio of 32.0%.



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

Practicing sustainability management will lead to improved brand value, business domain cultivation and enhanced employee satisfaction

2. Sustainability initiatives

The Company's basic philosophy on sustainability is "to contribute to society by practicing management aims at improving the satisfaction of customers, shareholders, employees, local communities and other stakeholders through a local, hands-on policy and customer-first policy with respect for human rights as a management foundation," and believes that leveraging the strength of each business to contribute to a sustainable society will lead to the Group's long-term growth. Moreover, as benefits of practicing management, it will lead to improved brand value, business domain cultivation and enhanced employee satisfaction.

Regarding sustainability initiatives, the Company published information on its SDGs measures in the "Sustainability Measures by the G-7 Group" section of its website. The main initiatives are divided from an ESG perspective as follows.

(1) Environment

The Group uses EVs (including fully electric vehicles, fuel cell vehicles, plug-in hybrid and hybrid vehicles) in its fleet as well as converting all store lighting to LED. It also completed the installation of solar panels on the roof of its new head office in 2021 and is committed to decarbonization by utilizing solar power to reduce CO_2 emissions.

In addition, efforts are made to reduce waste products by making store inventory management more sophisticated, and consideration shown to the environment by also conducting proper separation and disposal of waste items. For example, tires for disposal collected from customers visiting AUTOBACS stores are recycled by a specialist company and reused as an energy source, while waste oil, waste batteries and other items are separated by material, which leads to their reuse as resources through designated companies.

(2) Society

The Group conducts an annual Food Drive Campaign to donate food, clothing, daily goods and other items to those who are socially vulnerable. Also, G-7 SUPER MART aims for a diverse workplace environment, hiring disabled employees through a company that supports employment of disabled workers to grow vegetables on its farms to supply the Kodomo Shokudo (Children's Cafeterias) project free of charge. By continuing these activities going forward, the intent is to focus even more on health and welfare activities.

(3) Governance

The Group is committed to management that maximizes companies' shareholder value. At the same time, it is aware of the importance of corporate ethics and has established corporate governance, compliance, and risk management structures to enhance the soundness of its management. Under this system, committee meetings are held regularly to monitor the status quo and respond and make improvements to any issues identified.

Furthermore, in order to further enhance its corporate governance structure, the Group transitioned to a Company with an Audit and Supervisory Committee following approval by the general meeting of shareholders held in June 2022.

Disclaimer

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