

G-7 HOLDINGS INC.

7508

Tokyo Stock Exchange Prime Market

9-Dec.-2024

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

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Summary

Acquired Gyomu Super stores via M&A and expanded the business scale even further

G-7 HOLDINGS INC. <7508> (hereafter, also “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 1H FY3/25 results

In the 1H FY3/25 (April–September 2024) results, net sales rose by 8.5% year on year (YoY) to ¥100,994mn, while ordinary income decreased by 2.5% to ¥3,047mn. Although the car-related business saw a double-digit increase in profit due to a recovery in tire sales, and the Gyomu Super business saw an increase in both sales and profit, the decline in profit was due to a deterioration in profit in the meat business and the recording of a one-time expense of ¥174mn associated with the acquisition of Bonne Sante Co., Ltd., which operates Gyomu Super, as a subsidiary in July 2024. Bonne Sante operates 15 stores in the Tokyo metropolitan area, with annual sales of around ¥13.0bn and an ordinary income margin of 4–5%. Goodwill amortization is expected to be ¥417mn per year (10-year straight-line amortization), and it will contribute to profits from the first fiscal year.

2. Forecasts for FY3/25

For FY3/25 results, the Company left its initial forecast unchanged, with net sales increasing 14.0% YoY to ¥220,000mn and ordinary income rising 16.1% YoY to ¥8,500mn. Although business performance through 2Q was slightly below the Company’s forecast, the Company expects a recovery in sales of winter tires, which were sluggish in FY3/24, and expects to make up the gap by working to improve the profitability of unprofitable stores. On October 30, 2024, the Company also acquired all shares of Shinwa Jidosha Co., Ltd., which operates car sales and body repair and coating businesses in the Kyoto-Shiga area. It has annual sales of around ¥2.0bn and operating income of around ¥50mn, and is expected to contribute to the future growth of the car-related business.

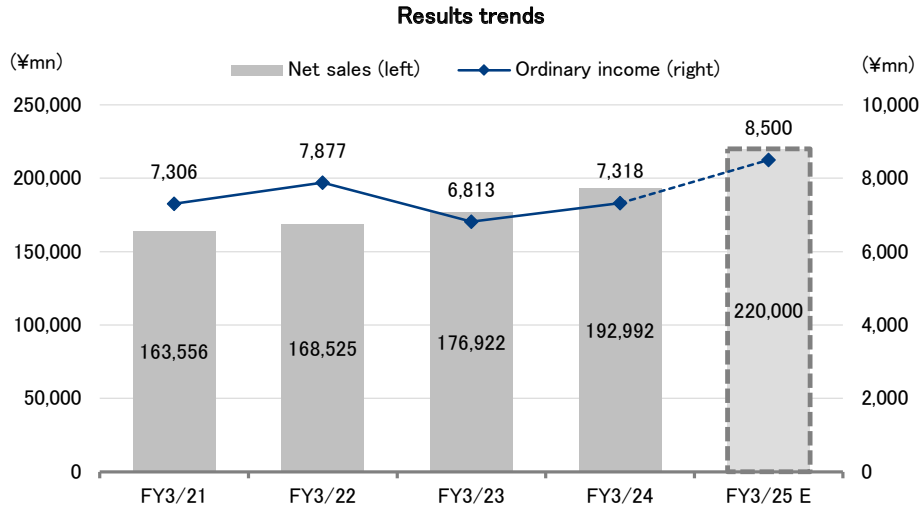
3. Progress of medium-term business plan

The Company started a five-year medium-term business plan in FY3/22. Business targets are net sales of ¥250.0bn and ordinary income of ¥10.0bn for FY3/26, which marks its 50th anniversary. Progress through FY3/24 fell short of the Company’s forecasts, but achieving the targets is now within reach thanks to aggressive M&A and measures to expand earnings in existing businesses. Regarding shareholder returns, the Company has a policy of paying progressive dividends with a consolidated dividend payout ratio of at least 30%, and plans to pay a dividend per share of at least ¥40.0 (dividend payout ratio of 31.4%) for FY3/25.

Key Points

- Posted record high net sales despite the decline in profit in 1H FY3/25
- Aiming to achieve net sales of ¥250.0bn in FY3/26 due to aggressive M&A
- Will increase corporate value through profit growth by maintaining and increasing ROE as well as through proactive growth investment
- Plans to pay a progressive dividend of at least ¥40 per share targeting of a dividend payout ratio of at least 30%

Summary



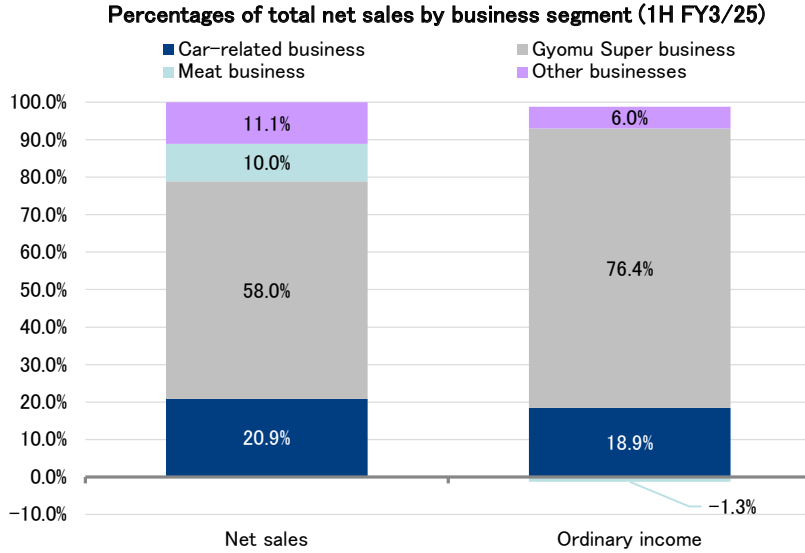
Source: Prepared by FISCO from the Company's financial results

Business overview

Gyomu Super business is main pillar of earnings, accounting for majority share of net sales and ordinary income

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 1H FY3/25, the Gyomu Super business accounted for 58.0% of net sales and 76.4% of ordinary income, making it the core business. In addition, if adding 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, more than 70% of net sales come from food retail businesses.

Business overview



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

1. Car-related business

The car-related business comprises the four companies of G-7 AUTO SERVICE CO., LTD., which is at the core and a franchise of AUTOBACS that offers car product sales and maintenance; G-7 BIKE WORLD CO., LTD.; which runs BIKE WORLD, a seller of motorcycle products and provider of maintenance services; G7 RETAIL MALAYSIA SDN. BHD., which handles AUTOBACS franchisees and runs BIKE WORLD stores in Malaysia; and G-7.CrownTrading Co., Ltd., which is involved in the car export and sales business.

Just over 70% of sales are accounted for by G-7 AUTO SERVICE, and as of the end of September 2024, the number of AUTOBACS-related stores was 76 domestic stores (69 AUTOBACS stores and 7 AUTOBACS Express stores) and 3 stores in Malaysia, bringing the total to 79 stores. Stores in Japan 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. The Company is the largest franchisee within the AUTOBACS group (597 domestic stores and 131 overseas stores). Store management places strong emphasis on productivity per employee, gross profit margin and inventory turnover rates, and due to this store management, the franchise business is notable for maintaining high profitability within the AUTOBACS group. In addition, other car-related businesses include nine BP centers (body repair and coating), and one Suzuki Cars Osaka store for buying and selling new and used cars. Also, G-7 AUTO SERVICE operates five FIELD SEVEN outdoor goods shops, and manages franchise stores on the premises of AUTOBACS and other stores, including, six Mammaciao laundromats, two Yamaya Honpo taiyaki (fish-shaped pancakes with beam jam) stores, and two Châteraisé confectionery stores.

The BIKE WORLD business, which accounts for just under 10% of sales, consisted of 20 stores at the end of September 2024 with 15 domestic stores and 5 stores in Malaysia. In Japan, the Company is moving ahead on collaborative store openings with BIKE O & COMPANY <3377>, with which it has entered a capital and business alliance. G-7.CrownTrading, which accounts for just under 20% of sales, mainly conducts export sales of used automobiles, and the ratio of sales by region was approx. 50% in Malaysia, 10-20% in the Middle and Near East. The Malaysian subsidiary operates five BIKE WORLD stores and three AUTOBACS stores, but sales are still very small at only a few hundred million yen.

Business overview

2. Gyomu Super business

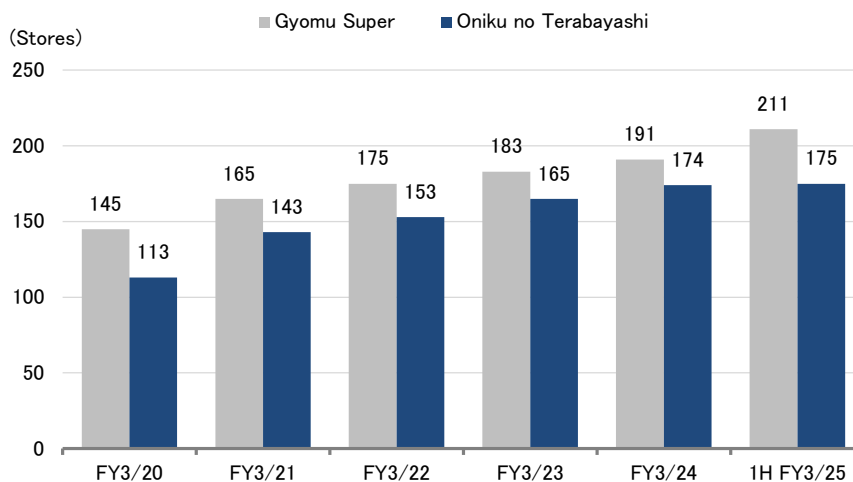
The Gyomu Super business is operated by G-7 SUPER MART CO., LTD., which develops the Gyomu Super franchise. Store openings took place in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions, reaching 211 stores at the end of September 2024, the largest scale within the Gyomu Super group (1,077 stores). Looking at store numbers by region, the Kanto area has the most with 88 stores (23 in Tokyo, 18 in Kanagawa, 30 in Saitama, and 17 in Chiba), followed by Chubu with 46 stores (29 in Aichi, 10 in Mie, and 7 in Gifu), Kansai with 34 stores (23 in Hyogo and 11 in Osaka), Kyushu with 26 stores (17 in Fukuoka, 7 in Kumamoto, and 2 in Nagasaki), and Hokkaido with 17 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 Kanto, Kyushu, and Hokkaido. Going forward, the Company plans to actively expand store openings in the Chubu region as well as these areas.

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 promoted a strategy of simultaneous openings with Gyomu Super 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 September 2024 were 175 Oniku no Terabayashi stores and 13 Andesfoods stores, for a total of 188 stores. By region, Kanto had the most with 71 stores, followed by Kansai with 36 stores, Chubu with 34 stores, Kyushu with 26 stores, and Hokkaido with 14 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, as the business scale has been expanding while increasing Group synergies.

Number of Gyomu Super and Oniku no Terabayashi stores



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

Business overview

4. Other businesses

Other businesses consist of the businesses of 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 (PB) businesses; G7 AGRI JAPAN CO., LTD., which manages the Megumi no Sato farmers' market chain; and G7 RETAIL JAPAN CO., LTD., which develops franchises for Curves workout and training clubs for women, and TREASURE CYCLE, which is a bicycle shop. In 1H FY3/25, the mini-supermarket business accounted for 47% of sales, while the quality food and private brand business accounted for 36% of sales, meaning that both businesses accounted for over 80% of sales.

RICO'S mini-supermarkets have opened in Tokyo and Kanagawa Prefecture, and as of the end of September 2024 there were 58 stores (45 stores in Tokyo, 13 in Kanagawa Prefecture). Average annual sales per store are approximately ¥180 million, which is less than 40% of the level of Gyomu Super. In April 2020, the Company acquired shares of UNY Co., Ltd., making it a subsidiary and resulting in 73 stores, but with sales showing sluggish growth due to the stay-at-home demand having petered out, the Company has gotten rid of unprofitable stores in phases. Since April 2023, profitability is now improving gradually under a new management structure.

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. As for regional delicacies and local specialty products, the Company procures over 60,000 items from more than 7,000 suppliers nationwide. Also, in July 2023, the Company made online liquor store company Mitsuwa Shuhan a subsidiary. Mitsuwa Shuhan has stores on sites such as Rakuten Ichiba, Yahoo! Shopping, and Amazon, and sells local sake nationwide, and possesses know-how for operating online shopping and strengths in product planning. Mitsuwa Shuhan's monthly sales are small at ¥10mn–20mn per month, but the Company is aiming for synergies realized by sharing Mitsuwa Shuhan's know-how within the Group.

As for Megumi no Sato stores, the Company closed all unprofitable stores in the Chubu and Kanto regions in FY3/23. Currently, it operates 20 stores in the Kansai region (17 in Hyogo, 1 in Osaka, and 2 in Nara prefectures), 9 of which are located within 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.

Other than these, as a franchisee, the Company manages 25 Curves clubs (in Kanagawa Prefecture), which are workout and training clubs for women, and operates one TREASURE CYCLE store (in Hyogo Prefecture). In addition, the Company is taking on challenges in new business formats, such as opening one RJ market outlet store in June 2024.

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Business overview

Major consolidated subsidiaries

Business segment	Company name	Capital contribution ratio	Business description
Car-related	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
Gyomu Super	G7 RETAIL MALAYSIA SDN. BHD	100.0%	Operator of AUTOBACS, BIKE WORLD, etc.
	G-7 SUPER MART CO., LTD.	100.0%	Operator of Gyomu Super, etc.
Meat	Bonne Sante Co., Ltd.	100.0%	Operator of Gyomu Super, etc.
	G-7 MEAT TERABAYASHI CO., LTD.	100.0%	Wholesale and retail sales of meats and processed livestock products
	G7 AGRI JAPAN CO., LTD.	100.0%	Operator of Megumi no Sato, etc.
Other	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, and RJ market outlet store
	G7 STORE INNOVATIONS CO., LTD.	100.0%	Store design, interior design and work execution management
	G7 RICO'S STORES CO., LTD.	100.0%	Operator of RICO'S urban-type mini supermarkets

Source: Prepared by FISCO from the Company's securities report and website

Results trends

In 1H FY3/25, net sales were a record high despite a decline in profit

1. Overview of 1H FY3/25 results

In the 1H FY3/25 consolidated results, net sales increased 8.5% YoY to ¥100,994mn, operating income declined 1.9% to ¥2,854mn, ordinary income fell 2.5% to ¥3,047mn, and profit attributable to owners of parent was down 9.4% to ¥2,040mn.

Consolidated results for 1H FY3/25

	1H FY3/24		1H FY3/25		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	93,060	-	100,994	-	8.5%
Cost of sales	71,191	76.5%	76,781	76.0%	7.9%
SG&A expenses	18,958	20.4%	21,358	21.1%	12.7%
Operating income	2,909	3.1%	2,854	2.8%	-1.9%
Ordinary income	3,123	3.4%	3,047	3.0%	-2.5%
Extraordinary income/losses	115	0.1%	-82	-	-
Profit attributable to owners of parent	2,253	2.4%	2,040	2.0%	-9.4%

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

Net sales set a record high once again for the interim period, as all segments except the meat business posted increases in net sales. Meanwhile, the decline in profit was due to the increases in personnel expenses and store renovation costs, the decline in gross margin in the meat business in conjunction with the deterioration in the market environment, as well as the one time cost of ¥174mn associated with making Bonne Sante a subsidiary*. The Company's forecasts were not disclosed, but it seems that its own brand business formats struggled, and both net sales and all profit lines were a few percent lower than forecasted.

* In July 2024, the Company acquired all shares for ¥4,735mn. Goodwill is ¥4,177mn (10-year straight-line amortization).

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Results trends

Bonne Sante was added to the scope of consolidation from 2Q, and net sales were approximately ¥3,200mn and ordinary income was just over ¥100mn. Goodwill amortization was ¥104mn in the quarter, and it contributed slightly to profit, even after goodwill amortization.

The Company opened 24 stores (including 15 stores of Bonne Sante) and closed 2 stores for a total of 630 at the end of 1H FY3/25, an increase of 22 stores from the end of FY3/24 (the Company opened 15 stores and closed 2 in the same period of the previous fiscal year). A breakdown of the new store openings includes 20 Gyomu Super stores, 3 Oniku no Terabayashi stores, and 1 RJ market outlet store, which is a new business format for the Company.

Number of Group stores and number of store openings and closures

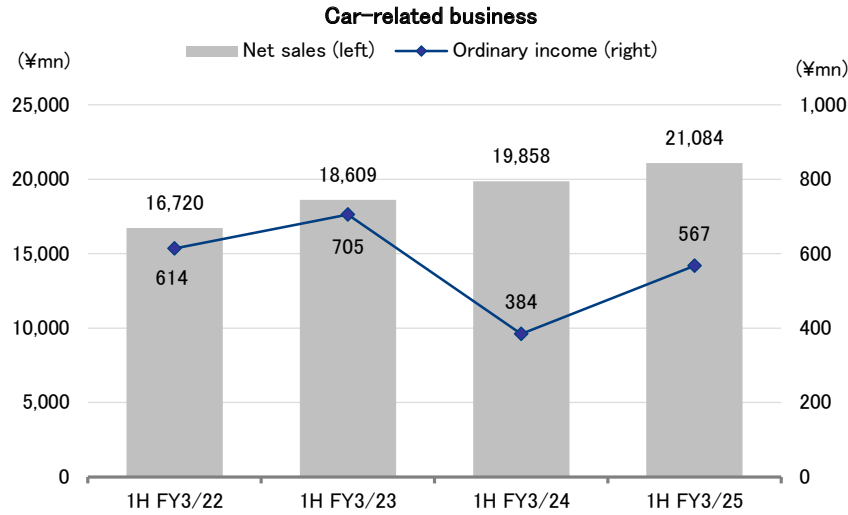
Store name	End of FY3/24 Number of stores	Plan for store openings at the beginning of FY3/25	1H FY3/25		End of 1H FY3/25 Number of stores
			Openings	Closures	
AUTOBACS (including SA and SH)	69				69
AUTOBACS Express	7				7
BP centers (body repair and coating)	9				9
G-7 TSUCHIYAMA CIRCUIT	1				1
FIELD SEVEN	5				5
Mammaciao	6				6
Taiyaki Specialty Store Yamaya Honpo	2				2
Châteraisé	2				2
BIKE WORLD	15	1			15
Gyomu Super	191	12	20		211
Obentoya K	1				1
Oniku no Terabayashi	174	12	3	2	175
Andesfoods	13				13
Megumi no Sato	20				20
Super Megumi no Sato	1				1
RICO'S	58				58
Curves	25	2			25
RJ market (new business format)		1	1		1
TREASURE CYCLE	1				1
Overseas (AUTOBACS, BIKE WORLD)	8				8
Total	608	28	24	2	630

Source: Prepared by FISCO from materials provided by the Company

(1) Car-related business

In the car-related business, net sales increased by 6.2% YoY to ¥21,084mn, marking a record high, while ordinary income rose by 47.6% YoY to ¥567mn, achieving its first YoY increase in two fiscal years. By company, other than net sales declining slightly for G-7 AUTO SERVICE, net sales increased for all subsidiaries. Meanwhile, in terms of profit, although G-7 BIKE WORLD saw a slight decline in profit, other subsidiaries saw an increase in profit (or a contraction in loss).

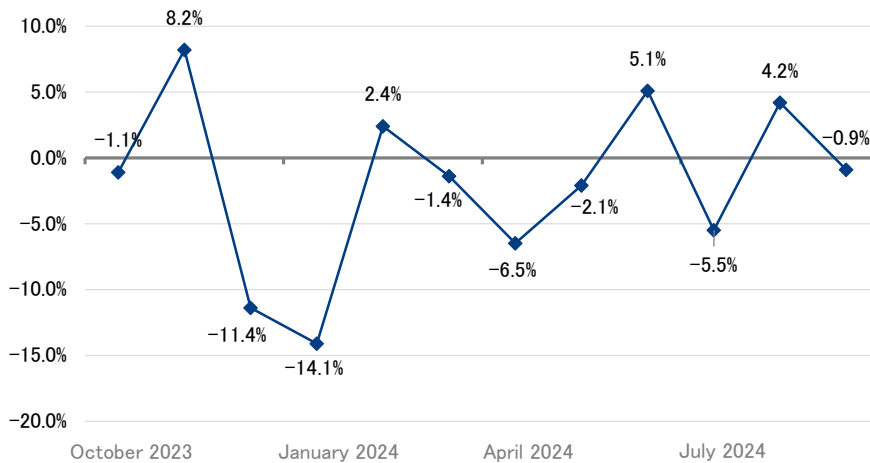
Results trends



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

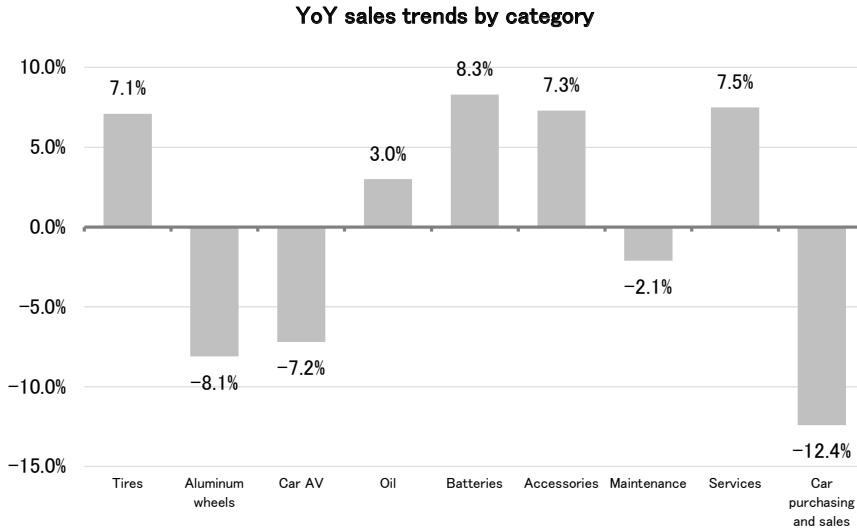
G-7 AUTO SERVICE saw a decrease in net sales of approximately 1% YoY and a double-digit YoY decrease in ordinary income. This was the result of a 2.6% YoY downturn in the number of new vehicle sales in Japan in the period, the first such decline in two years, as well as the impact of factors such as people's rising interest in economizing due to inflation. Looking at monthly existing store sales, sales continued to seesaw from April 2024, and there was a 1.4% decline in 1H FY3/25. By category, net sales were up 7.1% YoY for tires, up 7.5% for services centered on tire installations, up 8.3% for batteries, and up 7.3% for accessories. In contrast, car AV sales were down 7.2% along with a 12.4% decline in car purchasing and sales. These were the causes for the overall sluggishness in sales. Profit increased due to growth in highly-profitable tire sales and service revenue. There were no store openings or closings, so the domestic AUTOBACS store count at the end of 1H FY3/25 was 69 (flat YoY).

Net sales growth rate of existing G-7 AUTO SERVICE stores (YoY)



Source: Prepared by FISCO from materials provided by the Company

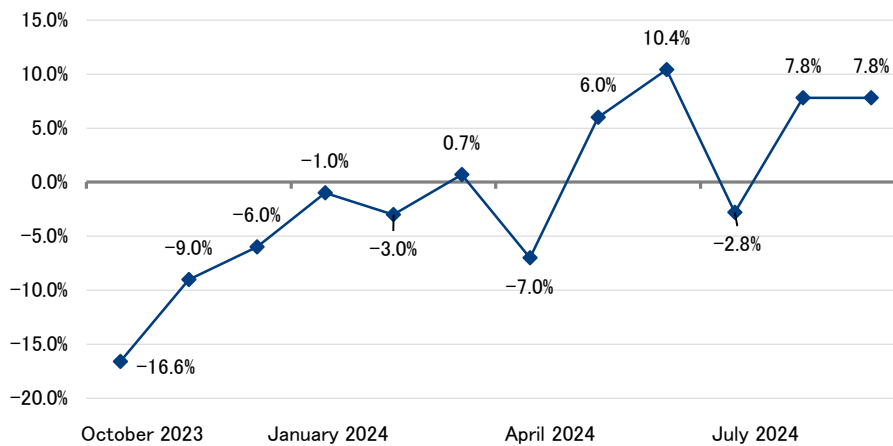
Results trends



Source: Prepared by FISCO from materials provided by the Company

G-7 BIKE WORLD posted a 3.7% YoY increase in existing store net sales, the first recovery in three years, but there was a slight decline in profit. The decline in profit was due to the small drop in gross margin due to sales at discounted prices as well as higher personnel expenses due to the hiring of 13 new graduates. The store count at the end of 1H FY3/25 was 15, unchanged YoY.

Net sales growth rate of existing G-7 BIKE WORLD stores (YoY)



Source: Prepared by FISCO from materials provided by the Company

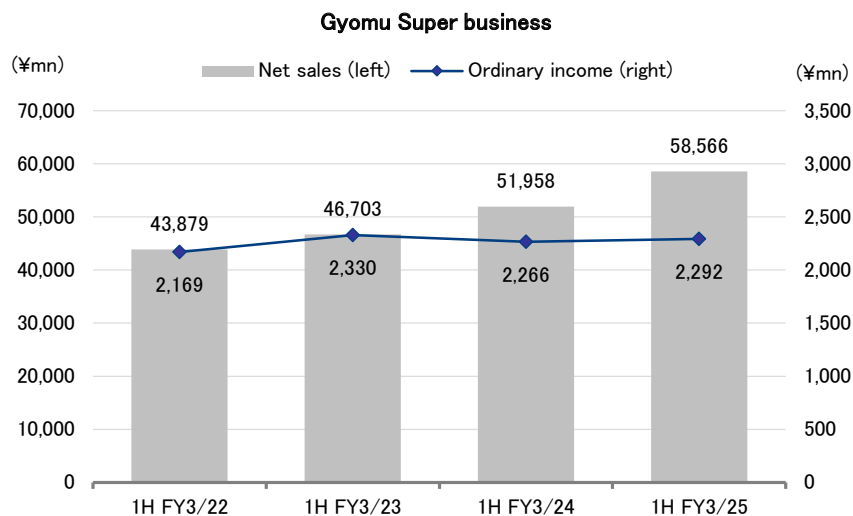
Results trends

In the overseas business, G-7.CrownTrading, which is engaged in the car export sales business, posted an increase in net sales of 40% YoY, continuing the strong growth, due to the tailwind provided by the yen's depreciation, but profit growth was only in the single digits. Profit was impacted by the hike in tariff rates on imported vehicles in China as well as the change to a strengthening yen from August onward. Meanwhile, the Malaysian subsidiary posted higher net sales and profit (contraction in loss). BIKE WORLD performed well, and is now at the stage of searching for new properties for opening new stores. As of the end of 1H FY3/25, there were five BIKE WORLD stores, an increase of one YoY, while the number of AUTOBACS stores remained unchanged at three.

(2) Gyomu Super business

In the Gyomu Super business, net sales were up 12.7% YoY to ¥58,566mn and ordinary income was up 1.2% to ¥2,292mn. Net sales at existing stores increased 2.7% against a backdrop of increased economizing, while G-7 Supermart posted a 6.4% increase in sales due to the opening of five new stores. In addition, sales were boosted by the consolidation of Bonne Sante from July 2024, which operates 15 stores in the Tokyo metropolitan area.

In terms of profits, personnel expenses increased 15% due to improvements in employee compensation and benefits (salary revisions and increased bonuses), an increase in store renovation costs (renovated 10 stores), and the posting of goodwill amortization for Bonne Sante, but the increase in gross profit due to increased sales ensured an increase in profits. Of the 5 new stores, 2 were in Hokkaido and 3 in Chubu, with the total number of stores at the end of 1H FY3/25 sitting at 211, a YoY increase of 23 stores.

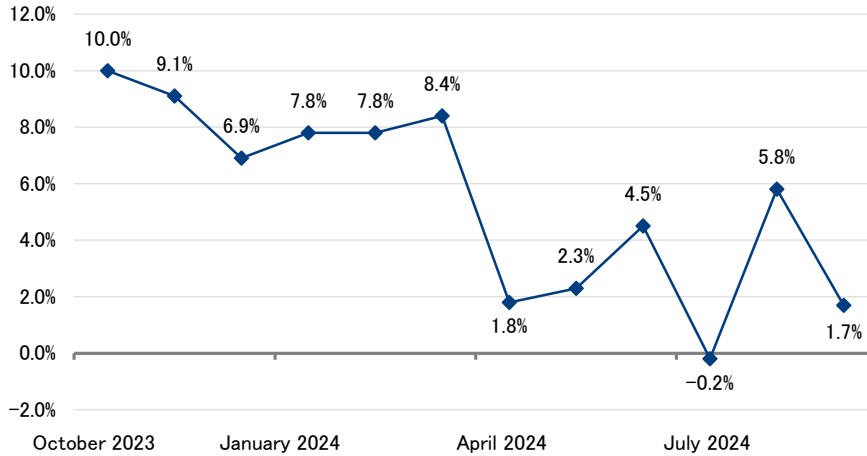


Source: Prepared by FISCO from the Company's financial results

The monthly net sales growth (YoY) for existing stores remained solid throughout the period, despite dulling slightly from FY3/24 when the effects of price increases were seen. Also, the sales growth rate of existing stores for Kobe Bussan's overall area showed a similar overall trend, so it can be said that the Gyomu Super business performed strongly nationwide.

Results trends

Net sales growth rate of existing Gyomu Super stores (YoY)

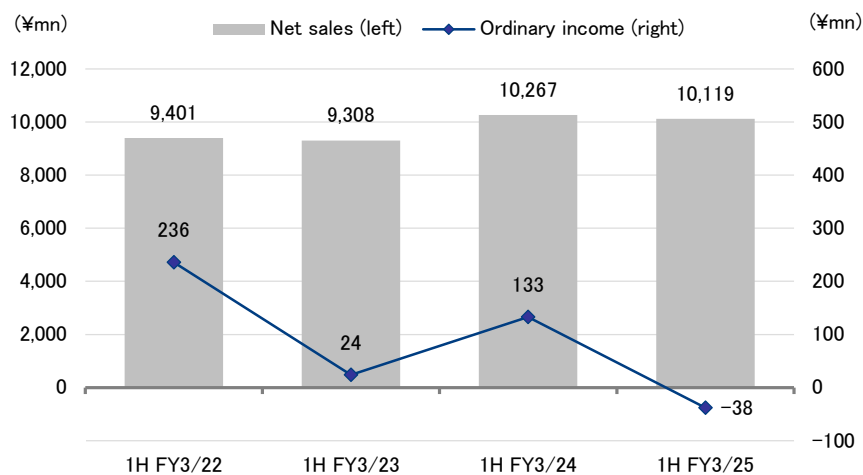


Source: Prepared by FISCO from materials provided by the Company

(3) Meat business

The meat business saw net sales decrease by 1.4% YoY to ¥10,119mn, while ordinary loss was ¥38mn (versus ordinary income of ¥133mn in the same period of the previous fiscal year). In addition to the increase in raw materials prices since the previous year, market prices for imported meat soared overall due to the impact of the yen's depreciation, so the Company revised sales prices and switched to domestically-produced products. However, the gross margin fell by one percentage point (pp) due to continued consumer preference for low prices, as well as a decrease in demand for outdoor barbeques due to the extreme heat, which led to the decline in profits.

Meat business

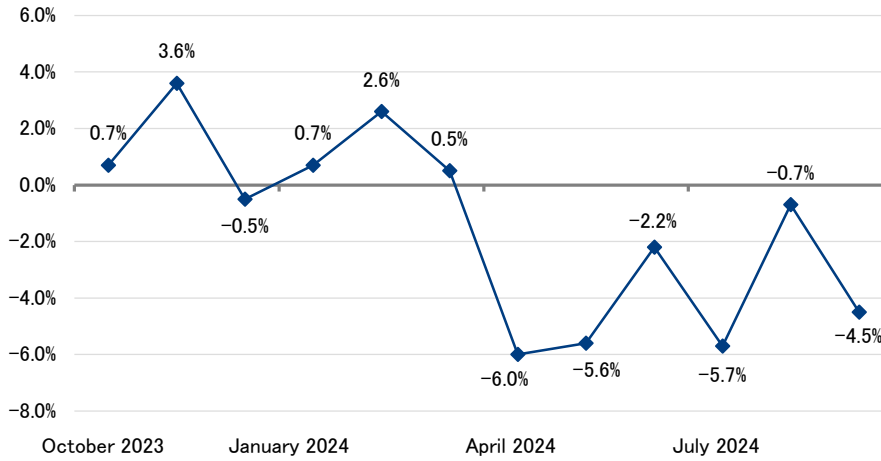


Source: Prepared by FISCO from the Company's financial results

Results trends

Regarding the monthly sales trend at existing stores, sales have been declining since April 2024, and 1H sales were 4.1% lower than in the same period of the previous fiscal year. The Company opened 3 stores (in Chubu) and closed 2 stores for a total store count of 175 at the end of 1H FY3/25, up 3 YoY.

Net sales growth rate of existing meat business (Oniku no Terabayashi) stores (YoY)

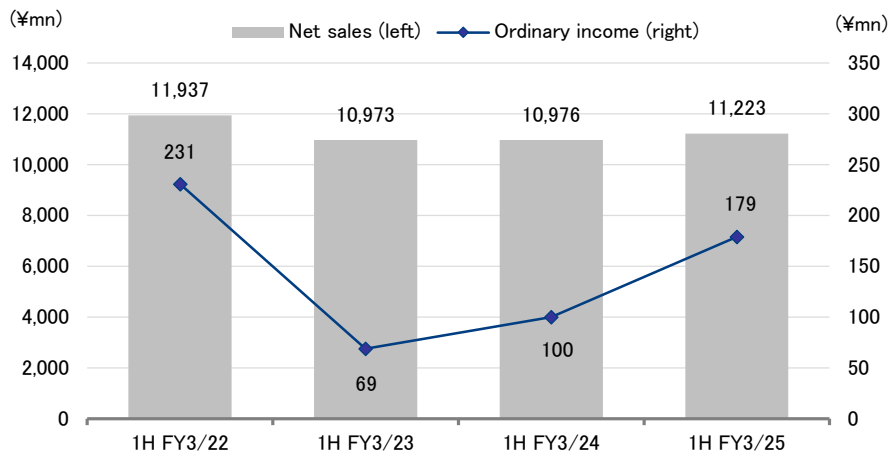


Source: Prepared by FISCO from materials provided by the Company

(4) Other businesses

In other businesses, net sales increased by 2.3% to ¥11,223mn, and ordinary income increased by 77.7% to ¥179mn, continuing the upward trend in both sales and profit.

Other businesses

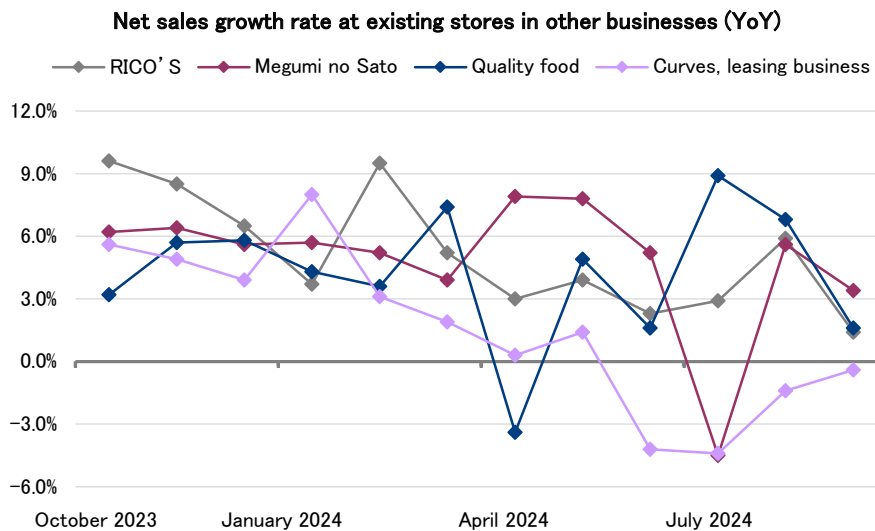


Source: Prepared by FISCO from the Company's financial results

Results trends

Looking at performance by business, the mini-supermarket business saw a 2.1% YoY decline in net sales due to the impact of efforts to shed unprofitable stores, but net sales increased 3.2% on an existing store basis. Sales price revisions and sales promotion measures, including holding fairs such as those for products limited to certain regions, led to a recovery in sales. The Company had 58 stores (down by 5 YoY) at the end of 1H FY3/25. Of these stores, around 70% are still making a loss, but the loss amounts appear to have contracted significantly.

The agricultural business performed solidly, with existing store net sales up 4% YoY, while both sales and profit increased partly due to the impact of closing three unprofitable stores in the Kansai region in 2H of the previous fiscal year. The store count was 20, down by 3 stores from the same period of the previous fiscal year. Also, sales and profit increased in the quality food and private brand business, due to efforts to cultivate new customers and discover products. As a new product, the Company has begun handling pet food. In addition, G7 Retail Japan saw an increase in the number of members of Curves, its workout and training clubs for women (25 stores), but profits fell due to increased expenses including the relocation and renovation of 2 stores and the opening of 1 RJ market outlet store for cosmetics and daily necessities as a new business format. RJ market seems to have struggled to get off the ground due in part to a lack of recognition, so promotional activities will need to be strengthened going forward.



Source: Prepared by FISCO from materials provided by the Company

The Company has maintained a solid financial position despite using borrowings to fund M&A

2. Financial condition and key financial indicators

At the end of 1H FY3/25, total assets were up ¥5,089mn from the previous fiscal year-end to ¥66,961mn. In current assets, there was an increase in inventories of ¥903mn, while there was a decrease of cash and deposits of ¥842mn, and a ¥271mn decline in accounts receivable – trade. In non-current assets, mainly due to the consolidation of Bonne Sante, property, plant and equipment increased ¥1,270mn, goodwill rose ¥4,065mn, and investments and other assets increased ¥519mn.

Results trends

Total liabilities increased by ¥4,417mn from the previous fiscal year-end to ¥36,315mn. Due to the funds for acquiring Bonne Sante shares, interest-bearing debt increased ¥4,970mn, while income taxes payable declined ¥334mn. Total net assets increased ¥672mn to ¥30,645mn. Retained earnings increased by ¥1,160mn mainly owing to the recording of ¥2,040mn in profit attributable to owners of parent and the payment of ¥881mn in dividends. The Company purchased ¥643mn of treasury shares.

Turning to key financial indicators, the equity ratio fell 2.6 pp from the end of FY3/24 to 45.8% and the ratio of interest-bearing debt rose 15.5 pp to 46.1%, as the financial condition deteriorated slightly due to the consolidation of Bonne Sante. Net cash (cash and deposits – interest-bearing debt) was ¥2,156mn, remaining positive, and we evaluate the Company as having maintained its financial soundness.

Consolidated balance sheet and key financial indicators

	(¥mn)				
	FY3/22	FY3/23	FY3/24	1H FY3/25	Change
Current assets	29,498	30,259	33,360	32,581	-779
Cash and deposits	17,033	15,688	17,138	16,296	-842
Inventories	6,854	7,982	8,067	8,970	903
Non-current assets	24,647	26,943	28,511	34,379	5,868
Goodwill	437	16	62	4,127	4,065
Total assets	54,145	57,202	61,872	66,961	5,089
Total liabilities	29,398	30,444	31,898	36,315	4,417
Interest-bearing debt	9,300	9,300	9,170	14,140	4,970
Net assets	24,747	26,757	29,973	30,645	672
Key financial indicators					
Financial strength					
Equity ratio	45.4%	46.8%	48.4%	45.8%	-2.6 pp
Interest-bearing debt ratio	37.8%	34.8%	30.6%	46.1%	15.5 pp
Net cash	7,733	6,388	7,968	2,156	-5,812

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

Business outlook

Kept FY3/25 forecasts unchanged from the initial forecasts, aiming for record high profit for the first time in three fiscal years

1. Forecasts for FY3/25

For its FY3/25 consolidated results, the Company forecasts net sales to increase by 14.0% YoY to ¥220,000mn, operating income to rise by 18.5% to ¥8,200mn, ordinary income to grow by 16.1% to ¥8,500mn, and profit attributable to owners of the parent to increase by 8.2% to ¥5,600mn. The Company has maintained its initial forecast and expects all profit lines to reach new record highs for the first time in three fiscal years.

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Business outlook

Consolidated forecasts for FY3/25

	FY3/24		FY3/25			1H progress rate	Average progress rate over three years*
	Results	vs. net sales	Company forecast	vs. net sales	YoY		
Net sales	192,992	-	220,000	-	14.0%	45.9%	48.4%
Operating income	6,920	3.6%	8,200	3.7%	18.5%	34.8%	44.9%
Ordinary income	7,318	3.8%	8,500	3.9%	16.1%	35.8%	45.3%
Profit attributable to owners of parent	5,175	2.7%	5,600	2.5%	8.2%	36.4%	48.4%
Earnings per share (¥)	117.46		127.44				

* Average progress rate over three years = Total of 1H results for FY3/22 through FY3/24 ÷ full-year results

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

The progress rates through 1H were 45.9% for net sales and 34.8% for operating income, which were below the most recent three-year averages (net sales = 48.4%; operating income = 44.9%), but the Company is aiming to achieve its forecasts by realizing a recovery in sales of winter tires, which were weak in FY3/24, and by improving the profitability of unprofitable stores. On October 30, 2024, the Company also acquired all shares of Shinwa Jidosha. Shinwa Jidosha operates car sales and body repair and coating businesses in the Kyoto-Shiga area. It has annual sales of around ¥2.0bn and operating income of around ¥50mn,

The Company plans to open 18 new stores during 2H. This includes 6 new Gyomu Super stores, 9 new Oniku no Terabayashi stores, 2 new Curves gyms, and 1 new BIKE WORLD. On the other hand, the Company decided to close 1 AUTOBACS store in Malaysia. As a result, the total number of Group stores at the end of FY3/25 is expected to be 647 stores, an increase of 39 stores YoY (excluding Shinwa Jidosha).

Number of Group stores and number of store openings and closures

Store name	End of FY3/24 Number of stores	End of 1H FY3/25 Number of stores	2H FY3/25		End of FY 3/25 Store count forecast
			Openings	Closures	
AUTOBACS (including SA and SH)	69	69			69
AUTOBACS Express	7	7			7
BP centers (body repair and coating)	9	9			9
G-7 TSUCHIYAMA CIRCUIT	1	1			1
FIELD SEVEN	5	5			5
Mammaciao	6	6			6
Taiyaki Specialty Store Yamaya Honpo	2	2			2
Châteraisé	2	2			2
BIKE WORLD	15	15	1		16
Gyomu Super	191	211	6		217
Obentoya K	1	1			1
Oniku no Terabayashi	174	175	9		184
Andesfoods	13	13			13
Megumi no Sato	20	20			20
Super Megumi no Sato	1	1			1
RICO'S	58	58			58
Curves	25	25	2		27
RJ market (new business format)		1			1
TREASURE CYCLE	1	1			1
Overseas (AUTOBACS, BIKE WORLD)	8	8		1	7
Total	608	630	18	1	647

Source: Prepared by FISCO from materials provided by the Company

Business outlook

Also, the Company will open its new Tokyo office in December 2024. It will serve as the Group's administrative headquarters in the Kanto region, and several employees from the Human Resources Department and the Growth Strategy Office involved in M&A and other matters will be based there, with full-scale operations scheduled to begin in April 2025.

(1) Car-related business

Within the car-related business, for G-7 AUTO SERVICE, the Company is expecting a recovery in winter tire sales in 2H FY3/25, and it is forecasting a small increase in sales for the full fiscal year, and double-digit growth in ordinary income. The Company has no plans to open new AUTOBACS stores, and will aim for higher sales and profit by focusing on increasing sales at existing stores and improving productivity.

The Company forecasts net sales and profit growth at G-7 BIKE WORLD. In addition to an increase in sales at existing stores, productivity is forecast to increase due to contributions from new graduates joining the Company. The Company is planning to open one new store in 2H, but a candidate property has not yet been found.

In the overseas business, the Company expects an increase in sales and profit (contraction in loss) at its Malaysian subsidiary. AUTOBACS is struggling to grow, but is being covered by the strong performance by BIKE WORLD. Currently, the Company is looking into opening new stores, and would like to open a new store as soon as it finds a candidate property. The Company also projects continued increases in sales and profit in the car export sales business. Sales to Malaysia are expected to temporarily decline until November 2024 due to import restrictions, but sales are expected to pick up again after December when the restrictions are lifted. The Company is currently bolstering procurement in order to expand sales from this December onward.

(2) Gyomu Super business

The Gyomu Super business is expected to see a double-digit increase in sales thanks to the effects of M&A, but ordinary income is expected to only see a single-digit increase due to rising personnel expenses and the recording of goodwill amortization, along with other factors. Existing store sales are expected to remain strong in 2H. The Company plans to open six new stores, two of which were opened in October (one in Aichi Prefecture and one in Hokkaido). Going forward, the Company plans to continue opening new stores mainly in the Kanto, Chubu, Kyushu, and Hokkaido regions, and will in particular strengthen its search for properties in the Nagoya area, where it has not focused much on until now. In addition, as a measure to improve productivity, the Company is gradually introducing semi-self-service registers and cashless payment systems in addition to renovating stores (one store renovation planned for FY3/25.)

Bonne Sante is expected to add about ¥10.0bn in net sales to the Company's results. Ordinary income is in the 4% range, but the impact will only be minor after deducting goodwill amortization. Bonne Sante's gross margin, inventory turnover rate, and ordinary income margin are roughly the same as those of G-7 SUPER MART, but the Company sees room for some revisions to its procurement methods and is working to make improvements.

(3) Meat business

The meat business had initially expected to see increased sales and profit, but if the current market environment continues, there is a high possibility that both will end up being lower than expected. The Company plans to open nine new stores in 2H FY3/25, two of which were opened in October at the same time as Gyomu Super stores. The majority of the remaining stores are expected to be opened at the same time as Gyomu Super stores are opened.

Business outlook

(4) Other businesses

Other businesses are expected to see increased sales and profit. In the mini-supermarket business, in addition to continuing training for store staff and promotional measures using social media, the effects of reviewing logistics costs (some changes in logistics companies) are expected to be seen from 2H. The Company aims to turn the business profitable in FY3/26 by reducing the ratio of unprofitable stores, which currently account for just under 70% of all stores, to around 30%.

In the agricultural business, there are no plans to open new stores, and sales and profit are expected to increase due to increased sales at existing stores and the non-recurrence of the ¥20mn in system renovation costs recorded in the previous fiscal year. In the quality food and private brand business, sales and profit are expected to increase by continuing to discover attractive products and exhibit at trade fairs. In addition, for Curves, on top of increasing the number of members at existing locations, the Company plans to open two stores, including a new format, in 2H FY3/25.

Aiming to achieve net sales of ¥250.0bn in FY3/26 through aggressive M&A

2. Progress of medium-term business plan

(1) Overview of medium-term business plan and status of progress

In FY3/22, 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 anniversary of its founding. The plan's business targets were for net sales of ¥250.0bn and ordinary income of ¥10.0bn for FY3/26. In addition, in the "Response to Realize Management with Consideration of Capital Costs and Stock Price" announced on October 30, 2024, the Company added new targets for ROE and capital policy. The Company aims to maintain and increase ROE at the level of FY3/24 (18.3%), and has set a target of 40% range for the equity ratio. In addition, the Company plans to invest ¥22.0bn (including M&A) over the two fiscal years from FY3/25 to FY3/26, of which ¥12.0bn (including the cost of acquiring shares of Bonne Sante and Shinwa Jidosha) has been set as the budget for M&A.

Key financial indicators for increasing corporate value

		FY3/24	FY3/25
Results target	Net sales	¥193.0bn	¥250.0bn
	Ordinary income	¥7.3bn	¥10.0bn
Return on equity	ROE	18.3%	Maintain and increase the current ROE level
Capital structure	Equity ratio	48.4%	Target the 40% range
Investment amount		¥4.1bn (capital investment amount)	¥22.0bn (total for FY3/25-FY3/26, including M&A)
Shareholder returns	Dividend payout ratio	34.1%	At least 30.0%
	Dividend per share	¥40	Progressive dividends At least ¥40

Source: Prepared by FISCO from the Company's "Response to Realize Management with Consideration of Capital Costs and Stock Price"

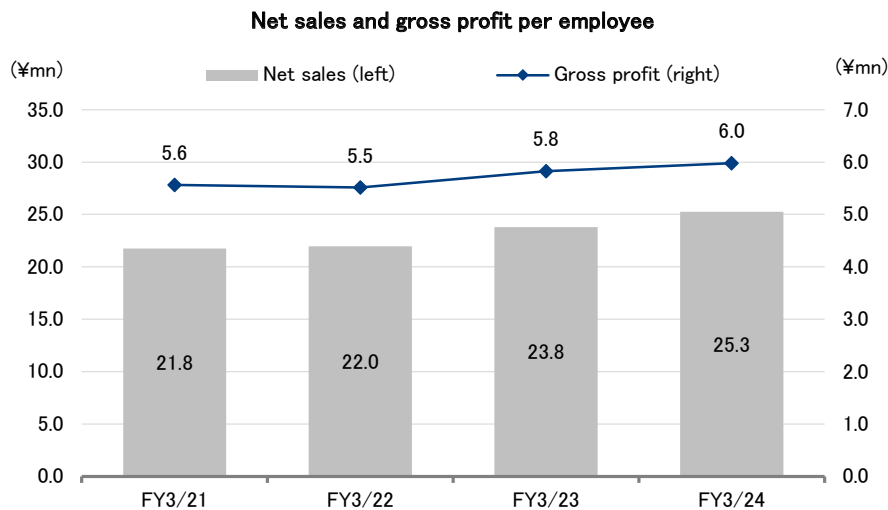
However, progress in the three fiscal years through FY3/24 in ordinary income was a little below the forecast due to higher store opening costs and utilities costs due to inflation, as well as the sluggish performance in the mini-supermarket business due to the petering out of stay-at-home demand. However, the Company made a company with annual sales of around ¥13.0bn a subsidiary in the Gyomu Super business, and made a company with sales of around ¥2.0bn a subsidiary in the car-related business, so the goal is now within reach.

Business outlook

To achieve growth, the Company is working on the following 10 priorities it has given as its goals:

- 1) Each operating company will strive to deliver increases in sales and profits and record-high results every fiscal year
- 2) Each operating company must always achieve profit
- 3) Strive to have no unprofitable stores and reduce the total amount of losses to zero
- 4) Aim for year-on-year increases in every two productivity indicators of net sales and gross profit per employee
- 5) Profit growth rates in excess of sales growth rates must always be achieved
- 6) Strive to develop new businesses and business formats with high investment returns
- 7) 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)
- 8) Work to advance M&A deals and capital and business alliances
- 9) 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)
- 10) Promote ESG and SDGs measures

Of these, for 2), G-7 RICO'S STORES and the Malaysian subsidiary posted losses in FY3/24, but FISCO believes there is a good chance they will be able to turn a profit by FY3/26. For 3), improvement has been slow, as just over 30% of all stores (558 stores that have been open for four years or more) posted losses in 1H FY3/25. Going forward, the Company intends to reduce the number of unprofitable stores by enhancing store management productivity, improving inventory turnover, and revising its product strategy. For 4), productivity indicators are showing an upward trend in both net sales and gross profit. This is largely due to the growth of the Gyomu Super business, but going forward, the Company aims to achieve year-on-year increases in all businesses.



Note: The number of employees is calculated as the sum of the average number of regular employees (calculated from the end of previous fiscal year and end of current fiscal year) + the average number of non-permanent hires
 Source: Prepared by FISCO from the Company's securities report and materials provided by the Company

Regarding 6), the development of new businesses and new store formats with high investment efficiency, the Company began the outlet store business in FY3/25, and is planning to try new initiatives going forward. Regarding the store opening plan in 7), due to the increase in store opening costs resulting from inflation, the number of store openings is only about half of the target of 50–70 stores, with 34 stores in FY3/22, 27 stores in FY3/23, and 24 stores in FY3/24. For FY3/25, the Company is planning to open 42 new stores including from the impacts of M&A, but the hurdle to achieve the target of 1,000 stores has gotten higher.

Business outlook

Regarding 9), personnel hiring and training, the Company plans to continue strengthening these based on the belief that personnel are the source of a company's growth, and in April 2024 the Group hired 104 new graduates, maintaining the same level as the previous fiscal year. The Company's plan for spring 2025 hiring is to hire 200 people, the same as the previous year. As for personnel training, in addition to continuing regular training to develop and promote young executives, the Company is strengthening its human capital management by reviewing personnel evaluations to improve the skills and motivation of individual employees.

(2) Earnings targets by business

As its targets for each mainstay business, the Company is forecasting net sales of ¥100.0bn and ¥4.5bn in ordinary income in the Gyomu Super business (net sales up 1.19x and ordinary income up 1.13x from FY3/21), net sales of ¥50.0bn and ordinary income of ¥2.5bn in the AUTOBACS business (net sales up 1.57x and ordinary income up 1.20x); and net sales of ¥35.0bn and ordinary income of ¥1.2bn (net sales up 1.91x and ordinary income up 1.28x) in the meat business.

In the Gyomu Super business, the Company achieved its targets two years ahead of schedule in FY3/24 and aims for further growth from FY3/25 onward, including the effects of M&A. Regarding its store opening strategy, the Company plans to accelerate store openings, primarily in the Kanto, Chubu, and Kyushu regions, while also working to enhance productivity through the renovation of existing stores.

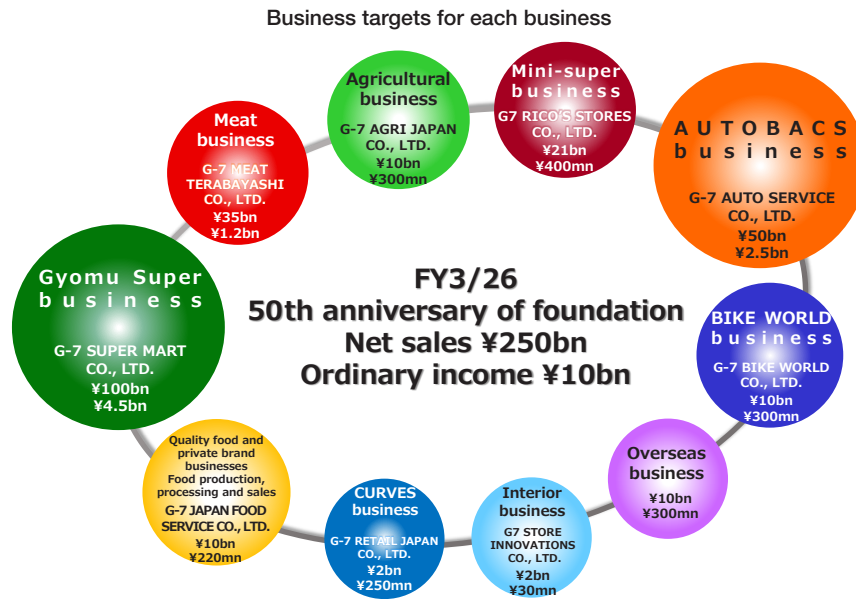
However, the Company has set ambitious targets for the AUTOBACS business, aiming to increase net sales by 1.5x and ordinary income by 1.9x over the next two fiscal years. To achieve this growth, the Company plans to enhance the sales composition of services such as regulatory vehicle inspections to boost net sales and profitability at existing stores, while also expanding into peripheral businesses in the car life category, partly through M&A.

The meat business also needs to increase net sales by 1.7x and ordinary income by 3x over the next two fiscal years, and like the AUTOBACS business, the hurdle is somewhat high. To achieve the net sales target, the Company plans to continue proactive store openings alongside Gyomu Super stores, which are strong customer draws. To enhance profitability, the Company aims to offset rising costs of imported meat through productivity improvements.

The Company has set ambitious targets for the mini-supermarket business of ¥21.0bn in net sales, double the FY3/25 estimate, and ¥400mn in ordinary income, but in the near term the Company will work on making existing stores profitable as the top priority, and once profitability is in sight, it appears that the Company will implement a growth strategy. The keys to achieving profitability will be how well the Company can capture the growing need for individual meals along with the change in social patterns, as well as increasing productivity.

The Company is forecasting net sales of ¥10.0bn and nurturing ordinary income of ¥0.2bn–¥0.3bn each in the BIKE WORLD business, quality food and private brand (PB) 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 ¥2.0bn is forecast in each business. Although there are some deviations from the initial targets, the Company is fundamentally aiming to expand all businesses and achieve sustained growth in the medium to long term by proactively conducting M&A.

Business outlook



Source: The Company's website

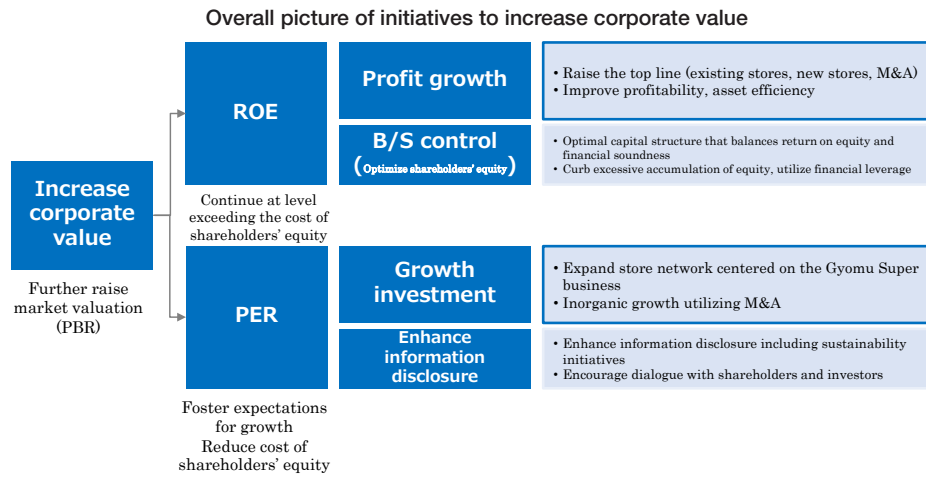
Initiatives to increase corporate value

Increase corporate value through profit growth by maintaining and improving ROE along with aggressive growth investment

1. Measures to increase corporate value

As measures to improve corporate value, the Company aims to maintain and increase its ROE level and accelerate profit growth through aggressive growth investments. It also aims to foster growth expectations by enhancing information disclosure, including on sustainability initiatives, thereby improving its market valuation (PER). The Company's ROE level is already steadily exceeding its cost of shareholders' equity (5–8%) and its PBR has been trending at above 1x, but its PER has been trending at between 10–16x range, and the Company recognizes that increasing its profit growth rate is important for improving its corporate value.

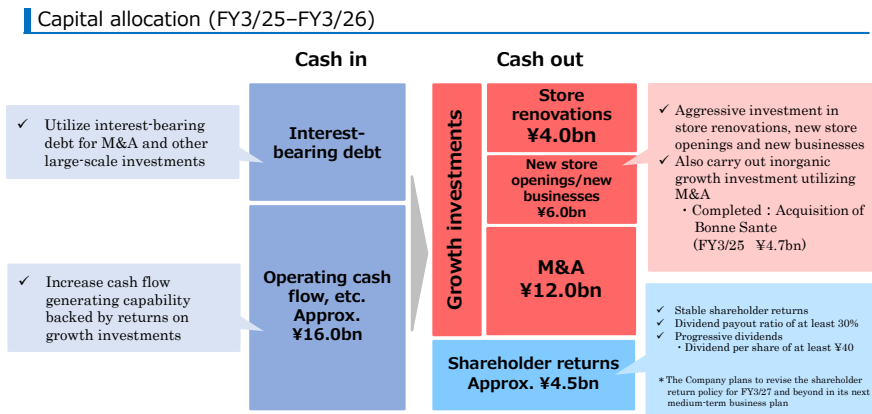
Initiatives to increase corporate value



Source: The Company's "Response to Realize Management with Consideration of Capital Costs and Stock Price"

In addition, with regard to the capital allocation approach for the two fiscal years from FY3/25 through FY3/26, the Company expects to spend ¥22.0bn on growth investments (of which ¥12.0bn will be for M&A, ¥6.0bn will be for new store openings and new businesses, and ¥4.0bn will be for store renovations), and to return approximately ¥4.5bn to shareholders. However, the operating cash flow to be generated over the two fiscal years will be approximately ¥16.0bn, and the shortfall will be covered by interest-bearing debt. Regarding M&A, the Company has spent around ¥5.0bn on the two companies mentioned above, and the remaining budget of ¥7.0bn will be used to fund new M&A.

Capital allocation (FY3/25–FY3/26)



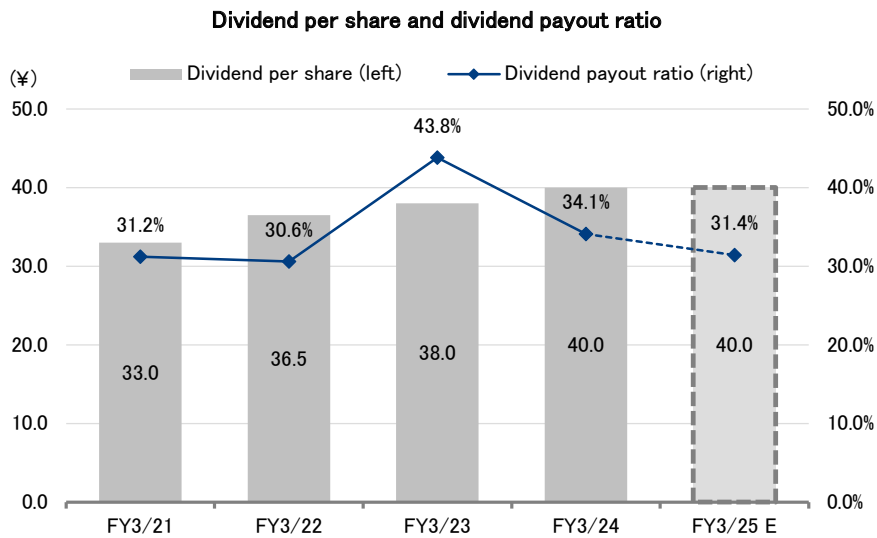
Source: The Company's "Response to Realize Management with Consideration of Capital Costs and Stock Price"

Initiatives to increase corporate value

Plans to pay a progressive dividend of at least ¥40 per share with a target dividend payout ratio of at least 30%

2. Shareholder return policy

With respect to its dividend policy for FY3/26, the Company has indicated its policy of paying a progressive dividend (at least ¥40 per share) with a target dividend payout ratio of at least 30%. The Company plans to pay the same per share dividend of ¥40.0 (dividend payout ratio of 31.4%) in FY3/25, but given the fact that in FY3/24 it increased its dividend for the 9th consecutive year and it plans to provide shareholder returns of approximately ¥4.5bn over the next two fiscal years (approximately ¥50 per share in dividends per year), there is a decent possibility that the Company will increase the dividend if its results are solid.



Note: The Company carried out a 2-for-1 stock split in October 2021. Per share dividend amounts have been corrected retroactively.

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



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