

# **G-7 HOLDINGS INC.**

**7508**

Tokyo Stock Exchange First Section

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FISCO Ltd.

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

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## Summary

### Continues to deliver all-time high results led by Business Supermarket and AUTOBACS businesses

G-7 HOLDINGS INC. <7508> is a holding company that owns subsidiaries operating the largest franchises of AUTOBACS and Business Supermarket stores in Japan. It excels at store profitability with emphasis on productivity per employee and inventory turnover rates. It is also promoting development of the agricultural business and foods and restaurant business, as well as the overseas businesses. The Company is also promoting growth strategies using M&As.

#### 1. FY3/19 results

The Company reported FY3/19 results with ¥122,502mn in net sales (+2.2% YoY) and ¥5,019mn in ordinary profit (+9.9%), attaining all-time highs in a fourth straight year. Positive contributions were higher sales and profits in AUTOBACS and Business Supermarket businesses, success with income improvement measures and restoration of profits in BIKE WORLD and Megumi no Sato businesses that booked losses through the previous fiscal year, and revisions to overseas business that had been unprofitable. Group domestic store volume dropped by six stores from the end of the previous fiscal year to 394 stores (21 new openings and move renewals and 27 closures).

#### 2. Forecast for FY3/20

The Company's FY3/20 guidance aims for ¥140,000mn in net sales (+14.3%) and ¥5,500mn in ordinary profit (+9.6%). It expects continuation of solid growth with AUTOBACS and Business Supermarket businesses as main drivers. It plans to open 35 new stores in Japan with 11 stores each for Business Supermarket and meat retailer TERABAYASHI, five IKINARI STEAK stores, a business it entered in FY3/19, three agricultural Megumi no Sato farmers' markets, and two AUTOBACS stores. While profit margin is likely to be slightly lower due to new store costs and higher personnel costs, the Company forecasts higher sales and profits in all of its business segments.

#### 3. Medium-term business plan

The Company's medium-term management plan aims for ¥170bn in sales and ¥7bn in ordinary profit in FY3/21, the final fiscal year. This includes an M&A effect of about ¥30bn. In M&A, the Company is considering opportunities in not only existing businesses and peripheral businesses, but also entry into new areas. The Company is putting efforts into cultivation of human resources to handle next-generation management from the standpoint of ensuring continuous growth over the longer term and intends to actively promote hiring of foreign workers and utilization of seniors in order to address manpower shortages.

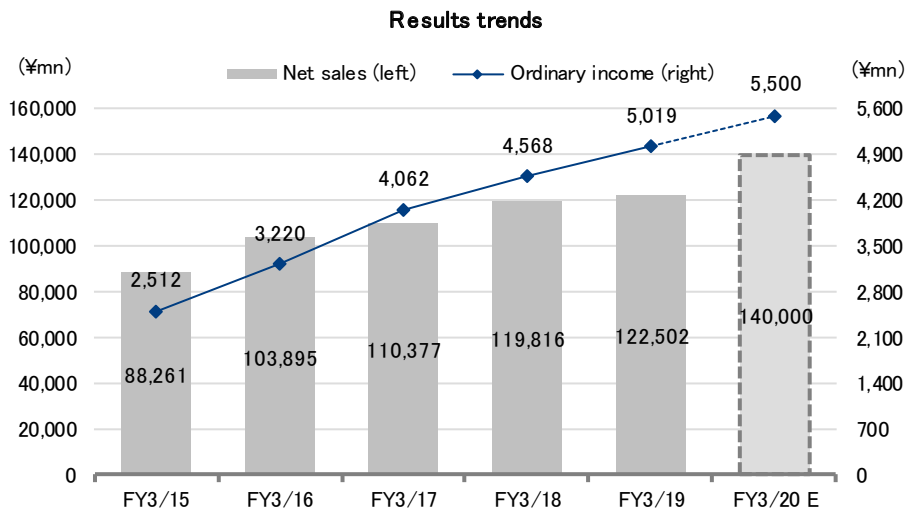
#### 4. Shareholder return policy

In light of healthy profit expansion, the Company plans to increase the dividend in a fifth straight year with an ¥86.0 dividend in FY3/20 (31.1% dividend payout ratio), an increase of ¥8.0 YoY. It targets a dividend payout ratio of about 30%. We expect further dividend hikes if profits continue to grow.

Summary

**Key Points**

- Primarily generates earnings from AUTOBACS and car-related business and Business Supermarket and quality food business
- Posted all-time high results in a fourth straight year in FY3/19 led by the two main businesses
- Targets ¥170bn in net sales and ¥7bn in ordinary income in FY3/21



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

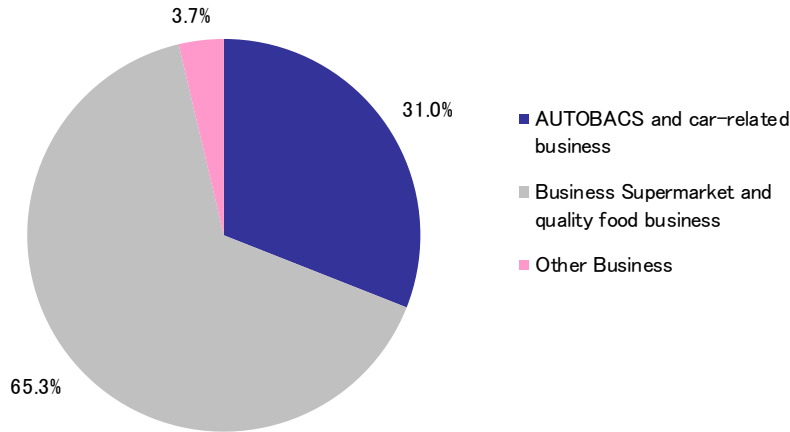
## Business overview

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

The Company's operations consist of three operating segments: AUTOBACS and car-related business, Business Supermarket and quality food business, and Other Businesses. Looking at the FY3/19 composition of net sales by business segment, we see that the AUTOBACS and car-related business represented 31.0% and the Business Supermarket and quality food business 65.3%, with these two business segments accounting for more than 90% of overall operations.

Business overview

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



Source: Prepared by FISCO from Company materials

**1. AUTOBACS and car-related business**

The AUTOBACS and car-related business segment mainly consists of AUTOBACS franchise activities including car product sales and maintenance handled by G-7 AUTO SERVICE CO., LTD., motorcycle product sales and maintenance handled by G-7 BIKE WORLD CO., LTD., as well as car-related business in Malaysia and Thailand, and export sale of cars handled by G-7 Crown Trading Co., Ltd.

AUTOBACS-related sales represent approximately 80-90% of segment sales, with 73 AUTOBACS-related stores in Japan (66 AUTOBACS stores and seven AUTOBACS Express stores) and two AUTOBACS stores in Malaysia as of the end of March 2019, making it the largest franchisee within the AUTOBACS group stores (593 domestic stores and 46 overseas stores). Stores are located predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki prefectures. Hyogo is particularly important with 39 stores, or just under 60% of the Company’s entire network. Store management places strong emphasis on productivity per employee, gross profit margin and inventory turnover rates, and the franchise business is notable for maintaining the highest profitability within the AUTOBACS group. Other car-related businesses (the Company’s own initiatives) include two CRYSTAL SEVEN stores offering carwash and coating services, one TIRE SENMONKAN tire specialty store, seven BP centers (body repair and coating), and one Suzuki Cars store for new cars and buying and selling used cars in Osaka.

The BIKE WORLD business consisted of 15 stores at the end of March 2019 with 12 stores in Japan, two stores in Malaysia, and one store in Thailand. G-7 Crown Trading conducts export sales of automobiles mainly in Southeast Asia. Sales ratios are just under 10% respectively.

**2. Business Supermarket and quality food business**

The Business Supermarket and quality food business consists of G-7 SUPER MART Co., Ltd., which has a Business Supermarket franchisee operation, G-7 MEAT TERABAYASHI Co., Ltd., which mainly runs a fresh meat retail business, and G7 JAPAN FOOD SERVICE CO., LTD., which operates food and restaurant businesses.

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#### Business overview

G-7 SUPER MART is a mega-franchisee of Business Supermarket representing 80% of segment sales, with its 137 supermarket outlets as of the end of March 2019, giving it the largest scale among the 820 Business Supermarket group stores. Store rollouts are predominantly centered in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions.

G-7 MEAT TERABAYASHI, which provides just over 10% of sales, had 103 TERABAYASHI retail butcher shops as of the end of March 2019. Roughly 60% of these stores are set up as tenants at Business Supermarket and Megumi no Sato sites, and the others are primarily located at department stores and shopping malls.

G7 JAPAN FOOD SERVICE, which accounts for just under 10% of sales, discovers local delicacies and unique local products and handles wholesale supply to department stores and other retailers as quality foods. It also develops, manufactures, and sells private-brand foods, handles export/import business, engages in online sales, and operates restaurants and sweets businesses (restaurants and sweets businesses are booked under the Other Businesses segment).

### 3. Other Businesses

Other Businesses includes G-7 AGRI JAPAN CO., LTD., which operates the Megumi no Sato farmers' market chain, G-7 RETAIL JAPAN CO., LTD., which manages real estate, DAISO discount stores (100 yen shops), reuse stores, fitness clubs and golf schools, restaurant business, sweets business, coin laundry service business, and overseas business (excluding AUTOBACS and BIKE WORLD businesses).

For Megumi no Sato, there are 19 stores (14 in Hyogo, three in Nara, one in Osaka and one in Chiba) as of the end of March 2019. This business changed its format from outright purchase sales to consignment sales (booking about 20% of the sales price as fee income under sales) from April 2018.

The coin laundry service business locates mammaciao stores (mammaciao Co., Ltd.) at AUTOBACS sites and had five stores at the end of September 2019. In restaurant business, the Company began IKINARI STEAK (Pepper Food Service Co., Ltd.) and has six roadside-type stores. The sweets business consists of three stores each of BAKE CHEESE TART (BAKE Inc.), a cheese tart specialty shop, and Yamaya Honpo (Yamaya Taiyaki Honpo Co., Ltd.), a taiyaki (fish-shaped sweet) specialty shop, and one shop each of a cream-puff store and a custard apple pie store. These are take-out specialty shops. Other businesses include 19 sites for Curves (Curves Japan Co., Ltd.), a workout and training club for women, three sites for golf lesson school Step Golf (stepgolf Inc.), three stores for reuse shop business, and two stores for 100 Yen shop Daiso (Daiso-sangyo Inc.). This segment covers a wide range of businesses.

In overseas business (excluding AUTOBACS and car-related business), the Company closed down restaurant operations in Southeast Asia and Taiwan through March 2019 and only operates agricultural business (farm operations) in Myanmar at this point. It receives assistance from City Mart, a major local distributor, and handles strawberry and lettuce cultivation and sales, albeit on a small scale. Yet the Company still positions expansion of overseas business as an important component of growth strategy over the longer term and intends to pursue opportunities again once operations are ready. It has overseas subsidiaries in Malaysia, Myanmar, Thailand, Cambodia, and Taiwan.

## Business overview

## Major consolidated subsidiaries

Business segment	Company name	Capital contribution ratio	Business description
AUTOBACS and car-related business	G-7 AUTO SERVICE CO., LTD.	100.0%	Operator of AUTOBACS, etc.
	G-7 BIKE WORLD CO., LTD.	100.0%	Operator of BIKE WORLD, etc.
	G-7 Crown Trading Co., Ltd.	51.0%	New vehicle and used vehicle export sales
Business Supermarket and quality food business	G-7 SUPER MART CO., LTD.	100.0%	Operator of Business Supermarket, etc.
	G7 JAPAN FOOD SERVICE CO., LTD.	100.0%	Manufacturing, sales and import and export of food products and beverages, operator of restaurants, etc.
	G-7 MEAT TERABAYASHI CO., LTD.	100.0%	Retail sales of meats and processed livestock products
Other Businesses	G-7 RETAIL JAPAN CO., LTD.	100.0%	Handles real estate development for the Group and operates recycling shops, 100-yen shops, fitness clubs, and indoor golf schools
	G-7 AGRI JAPAN CO., LTD.	100.0%	Operator of Megumi no Sato, etc.

Source: Prepared by FISCO from Company materials

## Results trends

### Posted all-time high results in a fourth straight fiscal year in FY3/19 with the two main businesses as drivers

#### 1. Overview of 3/19 results

The Company reported FY3/19 results with ¥122,502mn in net sales (+2.2% YoY), ¥5,017mn in operating profit (+16.0%), ¥5,019mn in ordinary profit (+9.9%), and ¥3,041mn in net profit attributable to parent shareholders, attaining all-time highs in a fourth straight year. Positive contributions were income expansion in mainstay Business Supermarket and AUTOBACS businesses, success with income improvement measures and restoration of profits in BIKE WORLD and Megumi no Sato businesses that booked losses through the previous fiscal year, and closure and improvements for unprofitable stores in Other Businesses. The Company also actively held events that transcended Group boundaries, such as the G-7 Mall Festival and an appreciation event, and its initiative with sales reinforcement measures leveraging group synergies supported stronger income results too.

Sales missed guidance by 5.8%, primarily because of shortfall in new store openings for Business Supermarket, AUTOBACS, and other businesses and unprofitable store closures. Group store volume in Japan at end-FY3/19 was down by six stores YoY to 394 stores (20 openings, 26 closures), undershooting 425 stores in guidance. Nevertheless, resulting reduction of unprofitable stores by about 30% provided a lift to profit margin. Operating profit was roughly on par with the plan, but ordinary profit had an 8.7% shortfall because of a ¥180mn setback in forex income under non-operating income and a ¥140mn increase in provisions to the bad credit allowance. Net profit attributable to parent shareholders, meanwhile, exceeded guidance by 8.6% due to booking fixed asset sale profits and insurance payments in extraordinary profit.

## Results trends

## Consolidated results for FY3/19

	FY3/18		Forecast	FY3/19			
	Results	Ratio to sales		Results	vs. net sales	YoY	vs. forecast
Net sales	119,816	-	130,000	122,502	-	2.2%	-5.8%
Cost of sales	89,022	74.3%	-	90,268	73.7%	1.4%	-
SG&A expenses	26,469	22.1%	-	27,216	22.2%	2.8%	-
Operating income	4,324	3.6%	5,000	5,017	4.1%	16.0%	0.3%
Ordinary income	4,568	3.8%	5,500	5,019	4.1%	9.9%	-8.7%
Extraordinary gains/losses	-743	-0.6%	-	-122	-0.1%	-	-
Net income attributable to owners of parent	2,648	2.2%	2,800	3,041	2.5%	14.8%	8.6%

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

## Achieved all-time high profits in AUTOBACS and Business Supermarket businesses

### 2. Performance trends by business segment

#### (1) AUTOBACS and car-related business

AUTOBACS and car-related business posted ¥37,961mn in net sales (+1.4% YoY) and ¥1,983mn in operating profit (+20.1%). G-7 Auto Service, which mainly consists of domestic AUTOBACS business, recorded increases of 1.3% YoY in sales and 19.2% in ordinary profit and moved to all-time high profit for the first time in five years since FY3/14 when it benefited from rush-demand prior to the consumption tax hike. It did not open any new stores in FY3/19 and was running 73 stores at the end of 1H, a decline of two stores from the end of FY3/18. Same-store sales rose 2.0% YoY, outpacing the 0.5% increase in domestic same-store sales growth for the AUTOBACS Group in the same period. This business again exhibited its strong sales capabilities within the group.

Looking at sales trends by major categories, tires and wheels dropped 3.6% for the first decline in two years due to backlash from rush-demand prior to price hikes in the previous year. Car electronics rose 0.5%, despite ongoing weakness in car navigation and car audio products, thanks to upbeat sales of drive recorders. In consumables, oil was up 2.4% and batteries rose 7.7%, both sustaining solid trends. Car inspections and metalworking and coating services steadily improved too with a 2.8% increase. In other business, tire chain sales rose substantially because some regions with heavy snowfall concerns (13 sections on highways and national roads located in 13 prefectures) required use of tire chains from December 2018. Profit benefited from robust sales of winter tires and tire chains with high margins, absence of new store opening costs, and initiatives to strengthen store profitability.

G-7 BIKE WORLD reported a 0.6% increase in sales and restored a recurring profit for the first time in three years. Positive contributions came from healthier gross margin due to narrowing the product line-up to popular products amid continuation of weakness in the domestic motorcycle market, efforts to control expenses, and benefits from collaborating with BIKE O & COMPANY Ltd. <3377>. BIKE WORLD store volume was flat YoY at 12 stores.

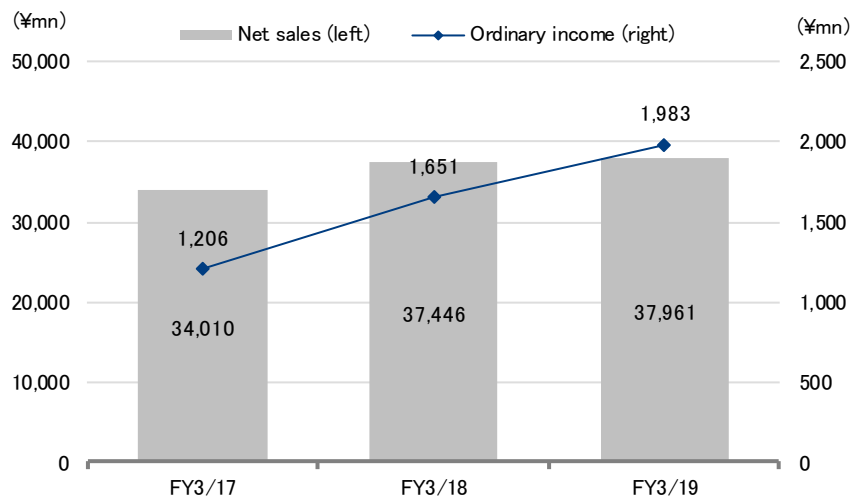
In overseas stores, the Company runs two AUTOBACS stores and two BIKE WORLD stores in Malaysia and one BIKE WORLD store in Thailand. This was the sixth year since entering the Malaysian market in 2012, and the business is steadily expanding sales, though it does not have much impact on overall results. In profits, two BIKE WORLD store reached profitability and the other store narrowed its loss.



Results trends

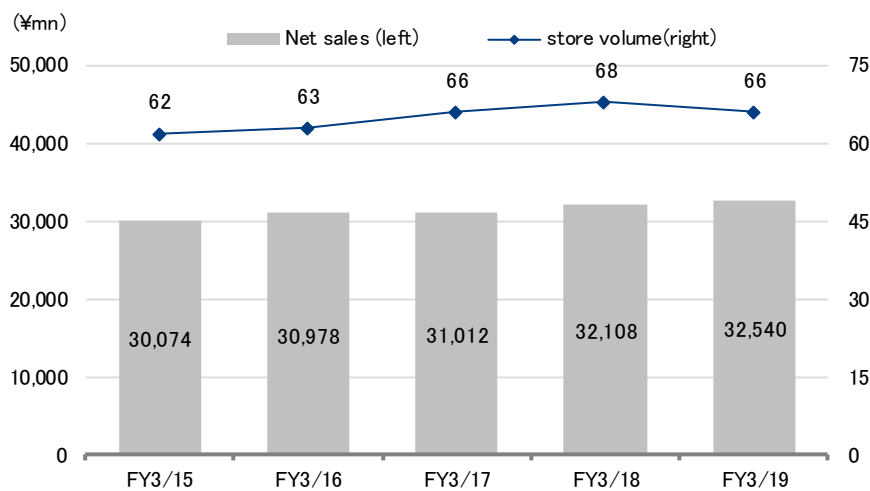
G-7 Crown Trading, which was acquired as a subsidiary in May 2017, booked about ¥2.5bn in sales and a few ten million yen in profits. We think these results were roughly on par with the previous fiscal year.

**AUTOBACS and car-related business**



Source: Prepared by FISCO from Company materials

**G-7 Auto Service sales and store volume**



Source: Prepared by FISCO from Company materials

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

Business Supermarket and quality food business reported ¥80,012mn in net sales (+5.8% YoY) and ¥2,972mn in operating profit (+12.1%). G-7 SUPER MART, which operates mainstay Business Supermarket, booked increases of 6.3% YoY in sales and 9.2% in ordinary profit, setting all-time highs again and driving overall profit expansion.

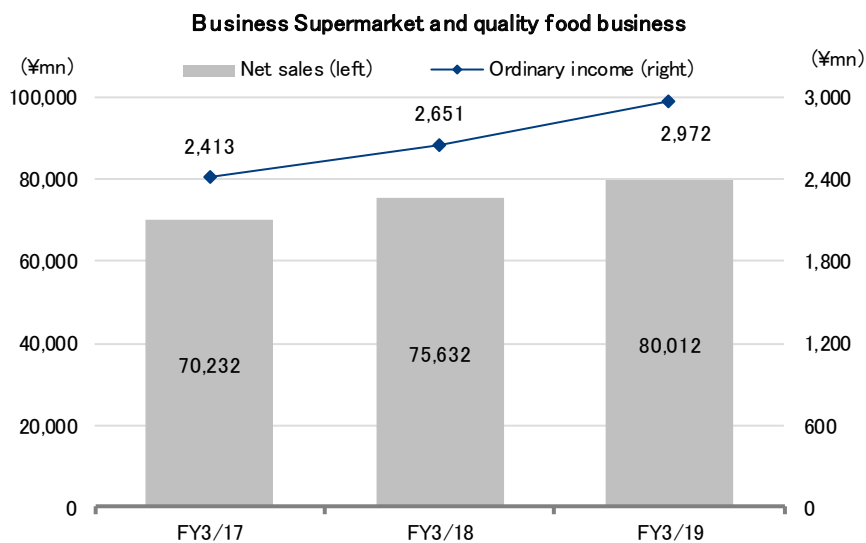
Results trends

Business Supermarket raised period-end store volume by one site YoY to 137 stores with one opening each in Saitama Prefecture (Urawa Kagetsu Store) and Fukuoka Prefecture (Shimemachi Store), move-related renewal openings of two stores in Saitama Prefecture (Kitamoto Store, Kawagoe Store) and one store in Tokyo (Higashi Kurume Store), and one closure. The Company planned to open 10 new stores in FY3/19, but missed its target due to fewer candidates that meet its criteria amid tougher competition. Same-store sales continued to grow at a steady pace with a 3.7% YoY increase. Since food sales only fell 0.4% YoY in the supermarket industry\*, this outcome demonstrated the robust sales capabilities of Business Supermarket again. Profit margin improved too on higher same-store sales and initiatives to lower disposal losses and control expenses.

\* Source: Japan Supermarkets Association

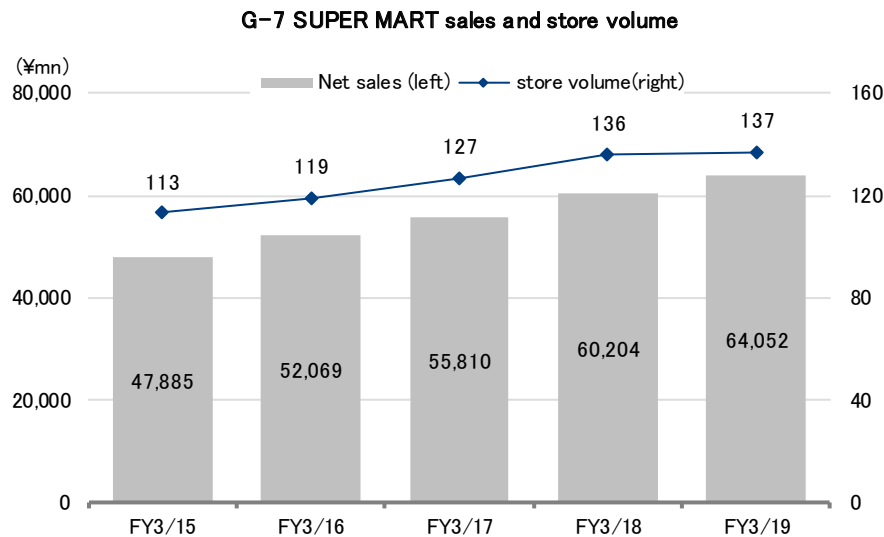
G-7 MEAT TERABAYASHI posted upbeat results with a 4.6% gain in sales and 19.9% rise in ordinary profit. TERABAYASHI store volume at end-FY3/19 was unchanged YoY at 103 stores (up by one store YoY) with one opening each in Saitama Prefecture (Urawa Kagetsu Store) and Tokyo (Higashi Kurume Store), move-related renewal openings of two stores in Saitama Prefecture (Kitamoto Store, Kawagoe Store), and two closures. Increased meat demand and positive effect of joint openings with Business Supermarket lifted profitability.

G7 Japan Food Service reported a 3.4% increase in sales and a modest rise in ordinary profit too. Quality food business sales were healthy thanks to discovery of select products with high added value from various regions throughout Japan.



Source: Prepared by FISCO from Company materials

Results trends



Source: Prepared by FISCO from Company materials

**(3) Other Businesses**

The Other Businesses segment recorded ¥4,527mn in net sales (-32.8% YoY) and ¥41mn in operating income (vs. an operating loss of ¥108mn), restoring a profit for the first time in two years. Positive income trends were improved results at G-7 AGRI JAPAN, which operates Megumi no Sato direct-sale agricultural produce sites, and progress in revisions to overseas business.

Megumi no Sato sales nominally declined because of a change in procurement model from outright purchase sales to consignment sales in April 2018. However, it restored profitability on elimination of product disposal losses that had undermined profitability through the previous fiscal year and closures of money-losing stores. Store volume was down by three stores YoY to 21 stores at the end of FY3/19.

In restaurant and sweets business, the Company opened IKINARI STEAK stores, a steak-chain business that it newly entered in FY3/19, at four sites in Hyogo Prefecture, one site in Chiba Prefecture, and one site in Osaka. While customer draw varies by individual store, some stores have reached profitability at the monthly level. The Company also took action to improve earnings with revisions to unprofitable stores, including closure of three restaurants, including ones with an all-you-can-eat system, one BAKE cheesecake tart store, and one Yamaya Honpo taiyaki specialty shop.

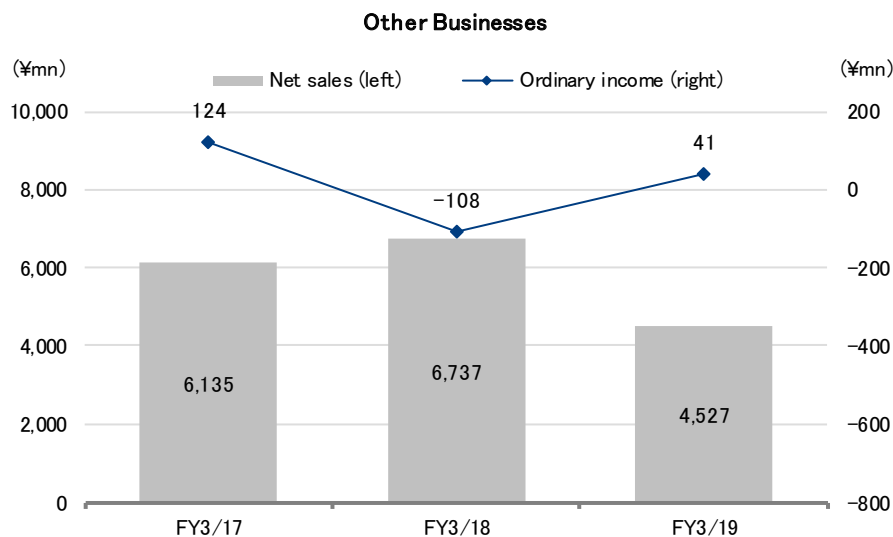
The coin laundry service business (mammaciao) remained at five stores at end-FY3/19 (flat YoY). Sales, meanwhile, are steadily rising and two stores achieved profitability and one store reached the breakeven line. All stores are likely to become profitable as depreciation costs shrink. The Company expects profitability at all of the stores as depreciation costs decline. These stores have been well received because they have machines for washing and drying not only clothes, but also futons, carpets, and other items that cannot be easily washed at home. The initial investment in washing machines, dryers, and other facilities is roughly ¥20mn, but this is a profitable business model once depreciation costs are recovered because of low cost of sales. While this business still does not have much impact on overall results with annual sales plan at about ¥60mn, it should make stable income contributions as a business with recurring income. Improvement in cash collection efficiency is an issue, and managers have submitted a proposal to the operating headquarters for deployment of cashless payment system.

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

Results trends

In reuse business, the Company operates stores with three brands – Ryohin Kaikan (Best Buy Co., Ltd.), Mega Recycle Kingdom, and Reuse Kingdom. Income continues to weaken, and store volume dropped by one store YoY to four stores at end-FY3/19. Demand is growing for Curves, a workout and training club for women, amid heightened health awareness, and store volume increased by two stores YoY to 19 stores at end-FY3/19.

In overseas business (restaurant and agricultural), the Company concluded that more time is needed to reach profitability and decided to temporarily withdraw from these initiatives. It closed all of the restaurant business stores through the end of FY3/19, and sold the chrysanthemum cultivation business that it operated in Vietnam from the agricultural business. At this point, it only operates the Myanmar business for cultivating and selling strawberries and lettuce, but the income impact is small. Losses shrunk YoY following these business withdrawals.



Source: Prepared by FISCO from Company materials

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

### 3. Financial condition and key financial indicators

Total assets at end-FY3/19 rose by ¥3,096mn YoY to ¥44,691mn. Main changes were an increase of ¥3,239mn in cash and deposits on stronger income and ¥109mn in notes and accounts receivable under current assets. Tangible fixed assets fell by ¥754mn because of advances in depreciation, but this was partially countered by increases of ¥184mn in deferred tax assets and ¥87mn in investment securities under fixed assets.

Total liabilities at end-FY3/19 rose by ¥1,326mn YoY to ¥25,188mn, mainly due to increases of ¥498mn in interest-bearing debt, ¥623mn in corporate taxes payable, and ¥190mn in bonus allowances. Net assets at end-FY3/19 increased by ¥1,769mn YoY to ¥19,502mn. This mainly reflects a ¥2,121mn increase in retained earnings with the recording of net income attributable to owners of parent and payment of dividends. Non-controlling shareholder equity dropped by ¥333mn.

## Results trends

In financial indicators, the equity ratio, which reflects soundness, climbed by 1.9ppt YoY to 43.6%. The interest-bearing debt ratio, meanwhile, fell by 2.6ppt to 45.2%. Financial health continues to improve with rising profits. Net cash (cash and deposits – interest-bearing debt) rose by ¥2,741mn YoY to ¥5,714mn, including support from lower capital investments in new openings and other areas. The Company intends to continue active pursuit of M&A as a growth strategy and is budgeting about ¥5bn each year to fund these initiatives. It is likely to utilize in-hand cash for M&A-related outlays as its level of cash and deposits exceeds ¥14bn.

## Consolidated balance sheet

	(¥mn)					
	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	Change
<b>Current assets</b>	15,018	17,111	18,542	21,089	24,575	3,486
(Cash and deposits)	6,952	8,242	9,395	11,279	14,518	3,239
(Merchandise and finished goods)	5,198	5,341	5,597	5,817	5,767	-50
<b>Fixed assets</b>	17,321	19,042	19,076	20,505	20,115	-390
<b>Total assets</b>	32,339	36,154	37,618	41,594	44,691	3,096
<b>Total liabilities</b>	19,934	21,971	21,960	23,861	25,188	1,326
(Interest-bearing debt)	8,458	8,342	8,426	8,306	8,804	498
<b>Total of net assets</b>	12,404	14,183	15,658	17,732	19,502	1,769
<b>Financial indicators</b>						
(Soundness)						
Equity ratio	38.4%	38.1%	40.8%	41.7%	43.6%	+1.9pt
Interest-bearing debt ratio	68.2%	60.5%	54.9%	47.8%	45.2%	-2.6pt
Net cash (¥mn)	-1,506	-100	969	2,973	5,714	2,741
(Profitability)						
ROE (return on equity)	10.6%	14.3%	14.3%	16.2%	16.5%	+0.3pt
ROA (return on assets)	7.8%	9.4%	11.0%	11.5%	11.6%	+0.1pt
Operating margin	2.6%	2.9%	3.5%	3.6%	4.1%	+0.5pt

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

## Business outlook

### Expecting double-digit sales growth in FY3/20 on expansion of new openings

#### 1. Forecast for FY3/20

The Company's FY3/20 guidance aims for ¥140,000mn in net sales (+14.3%), ¥5,300mn in operating profit (+5.6%), ¥5,500mn in ordinary profit (+9.6%), and ¥3,350mn in net profit attributable to parent shareholders (+10.2%). It plans to open 35 new stores in Japan and achieved double-digit sales growth led by store expansion. Profit margin, however, is likely to be slightly lower due to new store costs and higher personnel costs related to ramp ups. While there is risk of sales missing the plan due to lack of progress in opening new stores, just as in the previous fiscal year, the Company intends to steadily realize profit targets by reducing unprofitable stores, controlling inventories per store, controlling costs, raising gross margin, and increasing productivity per employee.

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Business outlook

Consolidated forecast for FY3/20

	FY3/19		FY3/20		YoY
	Results	vs. net sales	Forecast	vs. net sales	
Net sales	122,502	-	140,000	-	14.3%
Operating income	5,017	4.1%	5,300	3.8%	5.6%
Ordinary income	5,019	4.1%	5,500	3.9%	9.6%
Net income attributable to owners of parent	3,041	2.5%	3,350	2.4%	10.2%
Earnings per share (¥)	251.12		276.62		

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

The store-opening plan by store type consists of 11 stores each for Business Supermarket and TERABAYSHI, five stores for IKINARI STEAK, three stores for Megumi no Sato, two stores each for AUTOBACS and Curves, and one store for BIKE WORLD. The Company confirmed three stores (two Kanto stores, one Kyushu store) in June for Business Supermarket, one store (Fukushima Prefecture) in April and one store in June for TERABAYASHI, one store for AUTOBACS, and three stores for Megumi no Sato. It is actively hiring people to support the store expansion and increased group new university graduate hires by 24 people YoY to 115 people. It also plans to hire about 100 mid-career people.

Period-end domestic store volume and openings and closures

Store name	As of March 31, 2018	FY3/19		As of March 31, 2019	FY3/20 plan	As of March 31, 2020 (E)
		Openings	Closures			
AUTOBACS	68		2	66	2	68
AUTOBACS Express	7			7		7
BIKE WORLD	12			12	1	13
Business Supermarket	136	5	4	137	11	148
TERABAYASHI	103	3	3	103	11	114
Gekiyasu Supermarket Megumi no Sato	3		2	1		1
Souzai Shop Green's K	2		1	1		1
Megumi no Sato	22		3	19	3	22
IKINARI STEAK	-	6		6	5	11
Nanatsu no Tsubo	2		1	1		1
BAKE	4	1	2	3		3
Taiyaki Specialty Store Yamaya Honpo	4		1	3		3
CROQUANTCHOU ZAKUZAKU	1	1	1	1		1
RINGO	1			1		1
Green's K Teppan Buffet	2		2	0		0
All-you-can-eat Restaurant Megumi no Sato	1		1	0		0
mammaciao	5			5		5
Mega Recycle Kingdom	1			1		1
Reuse Kingdom	3		2	1		1
Ryohin Kaikan	1	2	1	2		2
Curves	17	2		19	2	21
Step Golf	3			3		3
Daiso	2			2		2
<b>Total</b>	<b>400</b>	<b>20</b>	<b>25</b>	<b>394</b>	<b>35</b>	<b>429</b>

Source: Prepared by FISCO from Company materials

## Outlook for higher sales and profits in all business segments

### 2. Segment outlook

#### (1) AUTOBACS and car-related business

In AUTOBACS and car-related business, the Company expects G-7 AUTO SERVICE, the main business, to deliver ¥35.3bn in sales (+9% YoY), a new all-time high for the first time in six years. The Company hopes to reduce unprofitable stores and expand income by focusing on customer draw measures using SNS (providing new product and bargain information, car inspection reservation levels, and other information), redesign of sales floors to boost product turnover rates, and increased sales of high value-added consumables and services (car inspections, metalworking, and coating). It also appears to be considering a rollout of car-sharing service at car distributors as a new initiative.

BIKE WORLD will continue to operate stores with emphasis on profitability and solidify profits. It aims to open one new store. In overseas business, the Company hopes to reach profitability at one AUTOBACS store, following the achievement of profitability at BIKE WORLD, out of the four stores it operates in Malaysia. G-7 Crown Trading is broadening its export destinations from just Southeast Asia to Africa, the United States, and other regions and wants to double sales YoY to ¥5bn. While profit margin is just 1-2%, it intends to increase profit with expansion of handled vehicle volume.

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

In the Business Supermarket and quality food business segment, G-7 SUPER MART, which runs mainstay Business Supermarket operations, targets double-digit sales growth with a 12% YoY increase. It plans to open 11 new stores as mentioned above and factors in a new store effect in addition to higher sales at existing stores. While it previously opened stores at vacated sites, the FY3/20 plan includes newly built stores too. Profit margin might slightly decline on higher related costs if openings proceed as planned (though this depends on the new openings situation). We think the consumption tax hike scheduled in October 2019 is likely to further clarify the advantages of Business Supermarket stores in providing quality foods at the best price and expect this business to post sales and profit increases again in FY3/20.

G-7 MEAT TERABAYSHI also aims to open 11 stores, including joint openings with Business Supermarket, and targets double-digit sales growth driven by the new store effect. Furthermore, the G7 JAPAN FOOD SERVICE outlook projects steady income growth mainly on expansion of quality food business.

#### (3) Other Businesses

The Company projects higher sales and profits in the Other Businesses segment. It plans to open three Megumi no Sato stores, including joint openings with Business Supermarket. This store format is likely to generate stable profits thanks to removal of disposal losses following the switch to consignment sales. The Company aims to open five IKINARI STEAK stores in the restaurants business. While this format has started to lose momentum since 2018 because of excessive openings, the Company is looking to open stores in areas with an outlook for delivering profits based on careful analysis of commercial zone conditions. It plans to open two Curves sites, which provide training and workout classes for women, as well. The Company does not have any store opening or closure plans in the sweets business and reuse business and will focus on improving profitability per store during this year.

## ■ Medium to long-term growth strategy

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

#### 1. Medium-term business plan

The Company is currently implementing a five-year medium-term business plan that lasts through FY3/21 and targets ¥170bn in consolidated net sales and ¥7bn in ordinary profit for the final fiscal year. Based on FY3/19 results, it needs to add about ¥47.5bn in net sales and ¥2bn in ordinary profit. For net sales, it forecasts about ¥30bn from M&A effect and hence will supplement the remaining portion from expansion of existing businesses.

Looking at sales by business areas, the Company aims to increase mainstay AUTOBACS business from ¥32.5bn in FY3/19 to ¥54.5bn. It needs an M&A deal in domestic market to reach this goal, but this seems somewhat difficult currently and management is likely to pursue realization including peripheral businesses. In the Business Supermarket business, the other core area, the Company hopes to boost sales from ¥64bn in FY3/19 to ¥75bn. It should be within range if openings proceed smoothly and might even overshoot depending on conditions. In overseas business, meanwhile, the ¥4.5bn goal appears to be out of range because of the Company's strategic reset other than in certain businesses. We think M&A activity is a key factor in determining whether the Company attains medium-term plan goals.

The business strategy calls for refining business models in existing businesses to meet trends, while undertaking initiatives that take customer convenience into consideration to increase customer traffic and spending per customer. For openings, the Company presents a basic policy of adding new stores at a pace of 30-40 stores a year at sites with attractive conditions in markets that offer growth.

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

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



Medium to long-term growth strategy

In particular, the Company's policy calls for increase in acceptance of technical interns from Southeast Asia in light of the Revised Immigration Control and Refugee Recognition Act, which aims to expand acceptance of foreign workers, took effect in April 2019. The core AUTOBACS business will accept a few graduates from local universities in the Philippines annually and also begin accepting interns from Cambodia. The Company plans to accept interns from Vietnam, Sri Lanka, Nepal, and other countries as well as it strives to resolve manpower shortages at stores.

Consolidated sales goals by business areas (FY3/21)



Source: Company's website

**Business strategies in the medium-term business plan**

- 1. Strengthening organizational and human capabilities**  
 The Company aims to integrate sentiment within the group by bolstering collaboration of people, goods, and money among companies and achieving growth. It wants to unify the authority structure and enhance human capabilities through clarification of evaluation standards for individuals.
- 2. Creation of a growth strategy office for development of new businesses and formats**  
 The Company intends to pursue further activities in the sweets business and other areas and develop new businesses and formats in Japan and other countries.
- 3. Holding founder's seminar and Next Cabinet training seminars**  
 The Company's seminars to cultivate directors and executives aimed at training the next generation of leaders arrange the founder, current directors, and external speakers to foster managerial knowhow and develop human resources who will shoulder the group's future.
- 4. Promoting M&A**  
 The Company plans to strengthen domestic and overseas initiatives and implement investments within the budget range.
- 5. Bolstering site development**  
 The Company intends to work on openings that factor in detailed market surveys and investment efficiency so that it is capable of adding 30-40 stores a year.
- 6. Reinforcing overseas business in the Asian and ASEAN region**
  - The Company is securing human resources from Southeast Asia. It has contracts with local schools to promote acceptance of students as technical trainees.
  - These efforts aim to expand existing businesses.
- 7. Work style reforms**  
 The Company wants to hire more seniors (60-80 years old) and women. It is not restricting itself to existing normal-hour practices and introducing jobs that allow for selection of flexible working hours.

Source: Prepared by FISCO from Company materials

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Medium to long-term growth strategy

## Aiming to be "a company that can continue growing for 100 more years" as a long-term vision

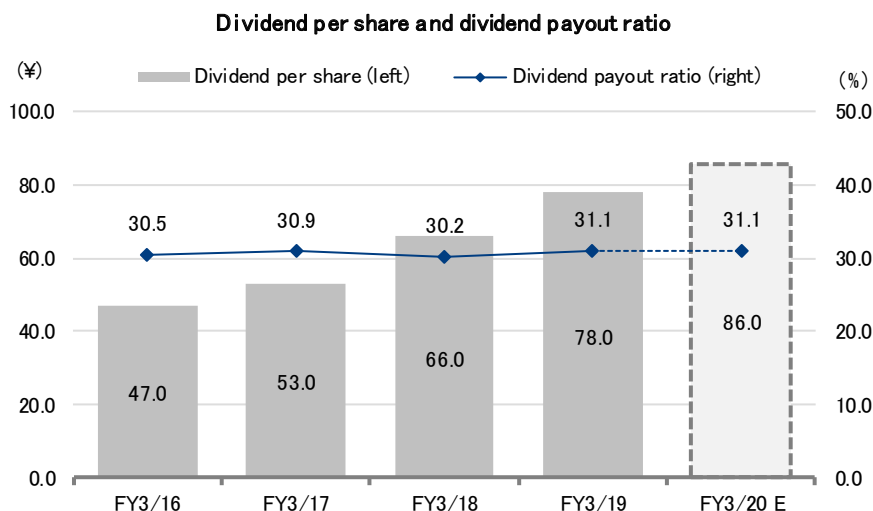
### 2. Long-term vision

As a long-term vision of "a company that can continue growing for 100 more years," the Company has presented goals for FY3/76, the 100th year of its founding, of ¥700bn in net sales and ¥30bn in ordinary income. It launched the "founder's seminar" in April 2018 with the aim of cultivating future executives in order to realize the vision. The "founder's seminar" program holds seminars once a month as an educational forum on executive practices, including experiences and views, by the founder himself for a group of 18 new presidents and directors at group subsidiaries and other next-generation management in their 40s-50s. The Company has already switched presidents of a majority of group companies to younger people in their 40s and intends to shift to younger executives for all group presidents and directors by 2020. The Company plans to develop and unearth new businesses and actively promote M&A and reenter overseas business once operations are ready. It aims to grow as a global firm with operations in Asia and ASEAN countries with high economic growth rates.

## Shareholder return policy

### Sustaining dividend hikes with a 30% payout ratio goal

The Company's dividend policy is to return profits to shareholders in accordance with business performance, premised on maintaining stable dividends, making a comprehensive determination, while taking into consideration factors including capital required for future business expansion and its financial condition. The Company has been paying dividends at a payout ratio of about 30% in the past few years. We think this level is an indicator. It plans to pay a dividend of ¥86.0 dividend in FY3/20, an increase of ¥8.0 YoY for the fifth straight annual hike. Annual dividend yield based on the Company's ¥2,599 share price from May 14, 2019 works out to 3.3%.



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

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