

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

Strong performance in both the AUTOBACS business and the Gyomu Super business, with progress also made in M&A talks

G-7 HOLDINGS INC. <7508> is a holding company that owns subsidiaries operating the largest franchises of AUTOBACS and Gyomu Super stores in Japan. It excels at store profitability with emphasis on productivity per employee and inventory turnover rates. It is also promoting development of the agricultural business and food processing and supplying, restaurant business, as well as international (focusing on Asia) business. The Company is promoting growth strategies using M&As.

1. Overview of 1H FY3/20 results

The Company reported 1H FY3/20 (Apr-Sep 2019) consolidated results with ¥64,261mn in net sales (+8.6% YoY) and ¥3,182mn in ordinary income (+65.5%), setting all-time highs for half-year values. Due to the last-minute demand before the consumption tax hike, the mainstay AUTOBACS and Gyomu Supers businesses performed well and drove overall results. In particular, in the AUTOBACS business, sales of tires and drive recorders increased sharply, and existing-store sales increased 12.0% YoY. In the Gyomu Super business, existing-store sales grew at a high rate of 9.6% due to the tapioca boom and other factors. As of the end of September 2019, the number of domestic group stores increased by 12 compared with the end of FY3/19 (13 new store openings and 1 store closure) to 406 stores, and the improvement in profitability at unprofitable stores also contributed to the increase in profit. As a new business format, in September 2019 the Company opened one store of Kingram, a recycle shop that handles precious metals, designer brand products and other items.

2. Forecast for FY3/20

The Company left its FY3/20 forecast unchanged aiming for ¥140,000mn in net sales (+14.3%) and ¥5,500mn in ordinary profit (+9.6%). Considering the fact that there will be a recoil decline following the consumption tax rate hike, sales are likely to fall slightly, but the Company will likely be able to achieve its profit forecast, and it is expected to again set new record-high earnings. This is because sales of drive recorders in the AUTOBACS business remain strong, and the Gyomu Super business is expected to enjoy strong sales in 2H due the growing preference for low prices among consumers. In addition, in 2H the Company plans to open 2 stores in the AUTOBACS business, 11 stores in the Gyomu Super business, and 22 stores in the Other business category, so the profit margin may decline compared to 1H due to increases in store opening costs and personnel costs.

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. The Company is currently in M&A talks, with the aim of achieving its targets by advancing M&A along with growth in existing businesses. Target fields include those that are strongly-related to existing businesses, such as food supermarkets as well as car-related businesses. The Company is aiming to conclude an agreement during FY3/20, and future developments need to be watched. The Company plans to fund M&A with cash on hand.

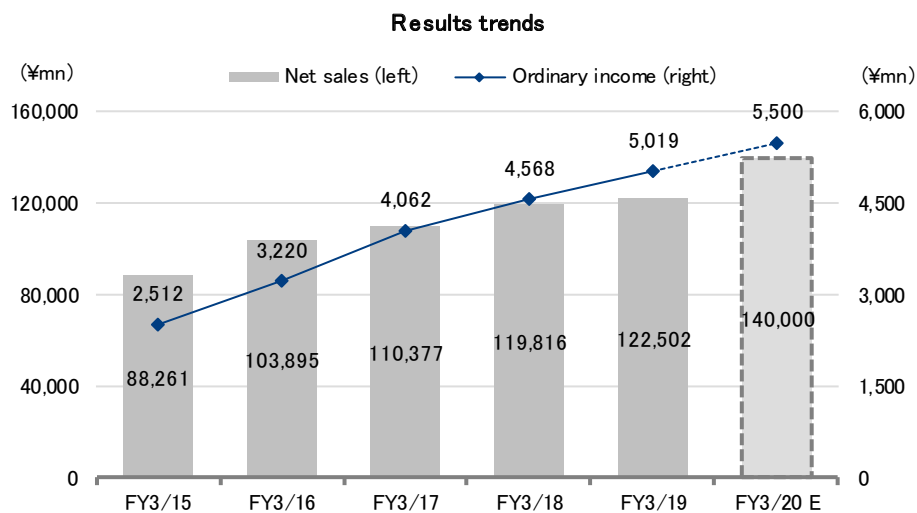
Summary

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.

Key Points

- Primarily generates earnings from the AUTOBACS and car-related business and the Gyomu Super and quality food business
- Both the AUTOBACS business and the Gyomu Super business posted record-high results, partially due to the last-minute rush in demand prior to the consumption tax rate hike
- Advancing M&A talks with a target of ¥170bn in net sales in FY3/21



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

Business overview

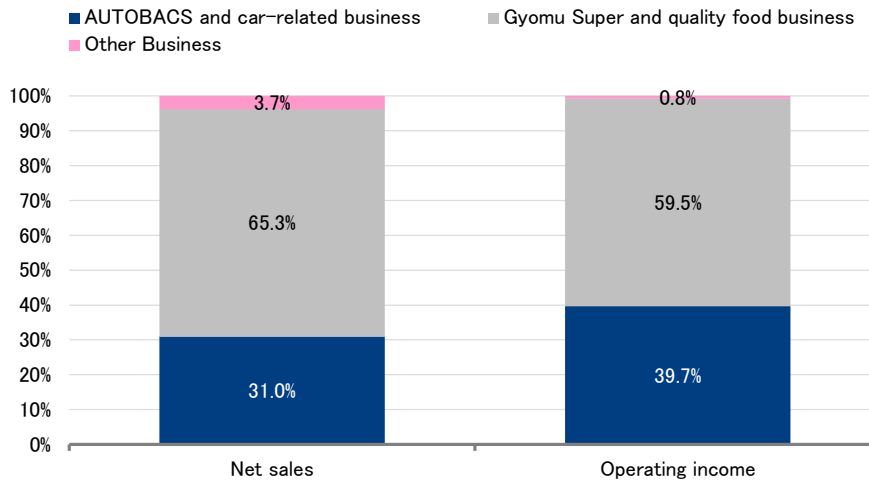
Primarily generates earnings from AUTOBACS and car-related business and Gyomu Super and quality

The Company's operations consist of three operating segments: AUTOBACS and car-related business, Gyomu Super 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 Gyomu Super and quality food business 65.3%, and in profits, they represented 39.7% and 59.5%, respectively, with these two business segments accounting for more than 90% of overall operations.

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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 September 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 September 2019 with 12 stores in Japan, two stores in Malaysia, and one store in Thailand. G-7 Crown Trading that were made into a subsidiary in 2017 conducts export sales of automobiles mainly in Southeast Asia. Sales ratios are just under 10% respectively.

2. Gyomu Super and quality food business

The Gyomu Super and quality food business consists of G-7 SUPER MART Co., Ltd., which has a Gyomu Super 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.

Business overview

G-7 SUPER MART is a mega-franchisee of Gyomu Super representing 80% of segment sales, with its 139 super-market outlets as of the end of September 2019, giving it the largest scale among the 840 Gyomu Super 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 105 TERABAYASHI retail butcher shops as of the end of September 2019. Roughly 90% of these stores are set up as tenants at Gyomu Super 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, 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 G7 AGRI JAPAN CO., LTD., which operates the Megumi no Sato farmers' market chain, G7 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 in Kansai and Tokyo Metropolitan regions as of the end of September 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 (MIS Co., Ltd.) at AUTOBACS sites and had 5 stores at the end of September 2019. In restaurant business, the Company began IKINARI STEAK (Pepper Food Service Co., Ltd.) and has 8 roadside-type stores. The sweets business consists of 3 stores of Yamaya Honpo (Yamaya Taiyaki Honpo Co., Ltd.), 1 taiyaki (fish-shaped sweet) specialty shop, and 1 shop each of a cream-puff store and a custard apple pie store. As of the end of September 2019, it also operates 2 BAKE CHEESE TART (BAKE Inc.), a cheese tart specialty shop, but the Company plans to withdraw from the business in FY3/20. These are take-out specialty shops. Other businesses include 20 sites for Curves (Curves Japan Co., Ltd.), a workout and training club for women, three sites for golf lesson school Step Golf (stepgolf Inc.), 5 stores for reuse shop business (1 Mega Recycle Kingdom, 1 Reuse Kingdom, 2 Ryohin Kaikan, and 1 Kingram), and 2 stores for 100 Yen shop Daiso (Daiso-sangyo Inc.). This segment covers a wide range of businesses.

In the Overseas business (excluding the AUTOBACS and car-related business), the Company opened one new IKINARI STEAK outlet in Taiwan, and exited the small-scale agricultural business (farm operations) in Myanmar and the car-related business in Cambodia.

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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
Gyomu Super and quality food business	G-7 SUPER MART CO., LTD.	100.0%	Operator of Gyomu Super, etc.
	G7 JAPAN FOOD SERVICE CO., LTD.	100.0%	Manufacturing and wholesale 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	G7 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
	G7 AGRI JAPAN CO., LTD.	100.0%	Operator of Megumi no Sato, etc.

Source: Prepared by FISCO from Company materials

Results trends

1H FY3/20 ordinary profit increased considerably by 65.5% YoY

1. Overview of 1H FY3/20 results

The Company reported 1H FY3/20 results with ¥64,261mn in net sales (+8.6% YoY), ¥3,085mn in operating profit (+58.8%), ¥3,182mn in ordinary profit (+65.5%), and ¥2,092mn in profit attributable to owners of parent (+75.0%), setting all-time highs for half-year values again. Results were driven by strong results in the mainstay AUTOBACS and Gyomu Super businesses. The increase in profits was also driven by efforts to control costs and a decline in unprofitable stores and improvement in their profitability.

The Company does not disclose its plans, but net sales were slightly lower than forecast due to delays in opening new stores, however profits exceeded the forecast due to the significant increase in sales of profitable tires in the AUTOBACS business as well as stronger-than-expected existing-store sales in the Gyomu Super business. The number of domestic stores in the group increased by 12 stores from the end of the previous fiscal year to 406 stores (13 openings and 1 closure).

Consolidated results for 1H FY3/20

	1H FY3/19		1H FY3/20		
	Results	vs. net sales	Results	vs. net sales	YoY
Net sales	59,145	-	64,261	-	8.6%
Cost of sales	43,948	74.3%	47,532	74.0%	8.2%
SG&A expenses	13,253	22.4%	13,643	21.2%	2.9%
Operating income	1,943	3.3%	3,085	4.8%	58.8%
Ordinary income	1,923	3.3%	3,182	5.0%	65.5%
Profit attributable to owners of parent	1,195	2.0%	2,092	3.3%	75.0%

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

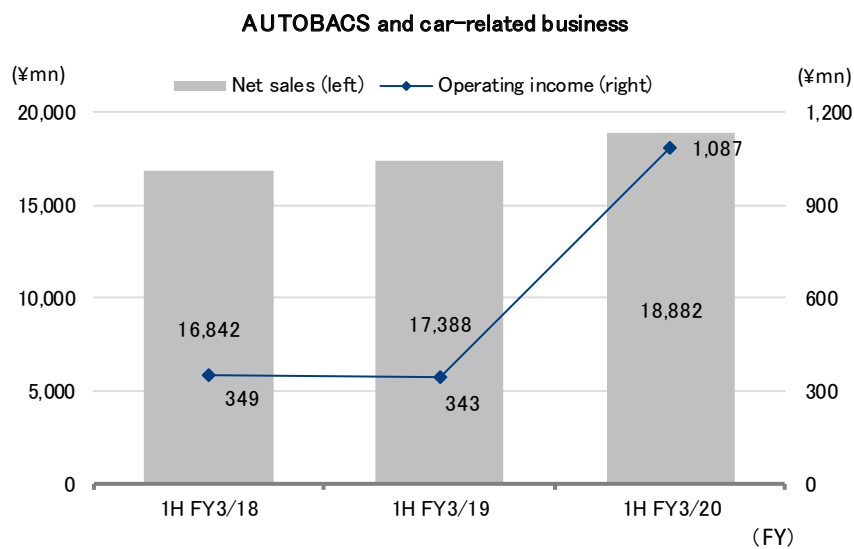
Results trends

Both the AUTOBACS and Gyomu Super businesses posted record-high earnings, partially due to the last-minute rush in demand prior to the consumption tax rate hike

2. Performance trends by business segment

(1) AUTOBACS and car-related business

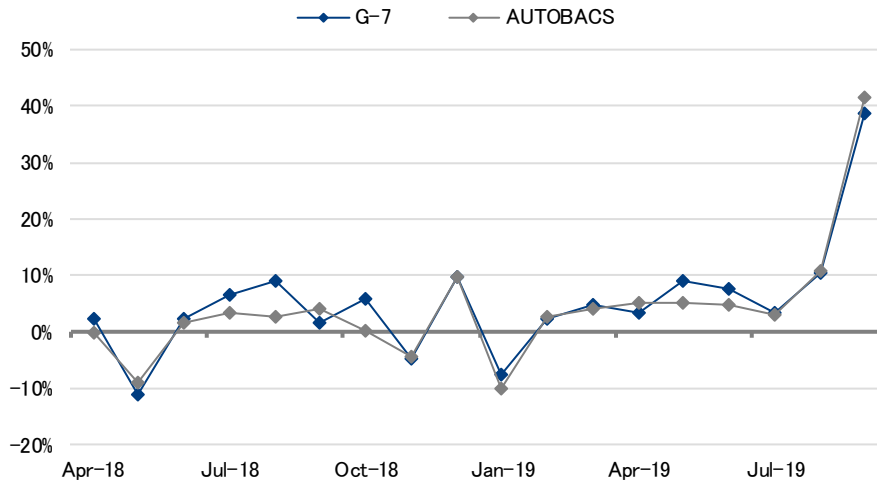
AUTOBACS and car-related business posted ¥18,882mn in net sales (+8.6% YoY) and ¥1,087mn in operating income (+216.9%). G-7 Auto Service, which centers on the domestic AUTOBACS business, recorded a 10.1% YoY growth in net sales and a 255.0% increase in ordinary profit, setting new record highs on a fiscal half-year basis. There were no new store openings or store closures during 1H FY3/20, and the business was operating 73 stores at the end of 1H, a decline of 1 store compared to the end of 1H FY3/19.



Source: Prepared by FISCO from Company materials

Results trends

Growth in the AUTOBACS existing-store sales (YoY)



Source: Prepared by FISCO from Company materials

In the AUTOBACS business, domestic existing-store sales rose 12.0% YoY, slightly outpacing the 11.4% increase in domestic existing-store sales growth for the AUTOBACS Group in the same period, and it achieved net sales above that of the group overall. Looking at sales trends by major categories, all categories posted YoY increases in net sales. Tires sales increased 20.1% YoY, while sales of car electronics increased significantly by 28.4%. Tire sales in September increased five times versus the previous September due to notifications about price increases from October and the rush in demand ahead of the October increase in the consumption tax rate. Sales were also boosted by strong sales of drive recorders with rear cameras, partially due to the impact of higher awareness of safe driving and taigating accidents. In consumables, oil was up 4.2% and batteries rose 4.5%, both sustaining solid trends. The high value-added service division (car inspections and repairs) also posted a strong 9.8% increase in net sales thanks to efforts to increase the ability of stores to draw in customers. Profit increased significantly, largely due to sales of profitable tires and strong performance by the service division.

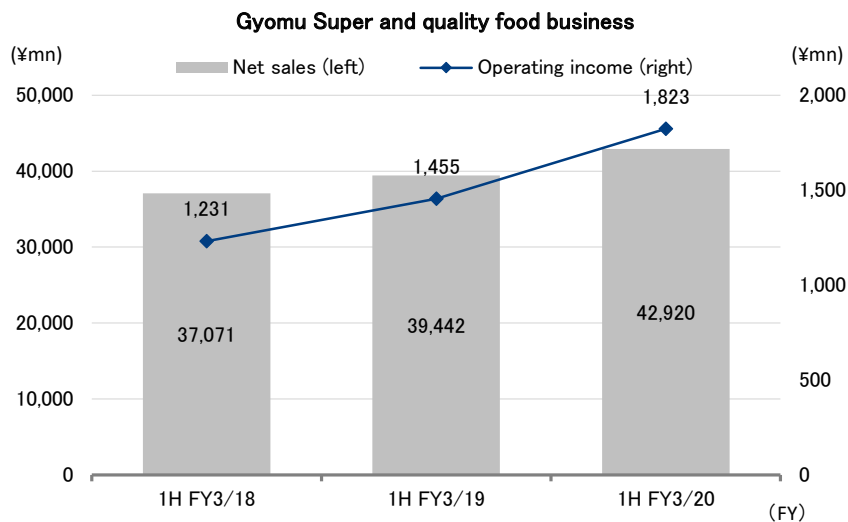
G-7 BIKE WORLD, which posted a profit in FY3/19, reported a slight increase in sales and profit. Positive contributions came from an improved gross margin due to narrowing the product lineup to popular products amid ongoing weakness in the domestic motorcycle market, and ongoing efforts to control expenses. The number of BIKE WORLD stores 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. Although the impact on overall results is still minimal, sales are gradually increasing, with sales increasing 2.2% YoY in Malaysia and 10% YoY in Thailand. In profits, the two BIKE WORLD stores in Malaysia have already become profitable, but the AUTOBACS stores and the BIKE WORLD store in Thailand are still not profitable. G-7 Crown Trading posted a YoY decline in both net sales and profit. Sales to Malaysia, the main export destination, have continued to decline due to the introduction of import regulations following the 2018 regime change, and the decline in purchasing channels also contributed to the drop in sales.

Results trends

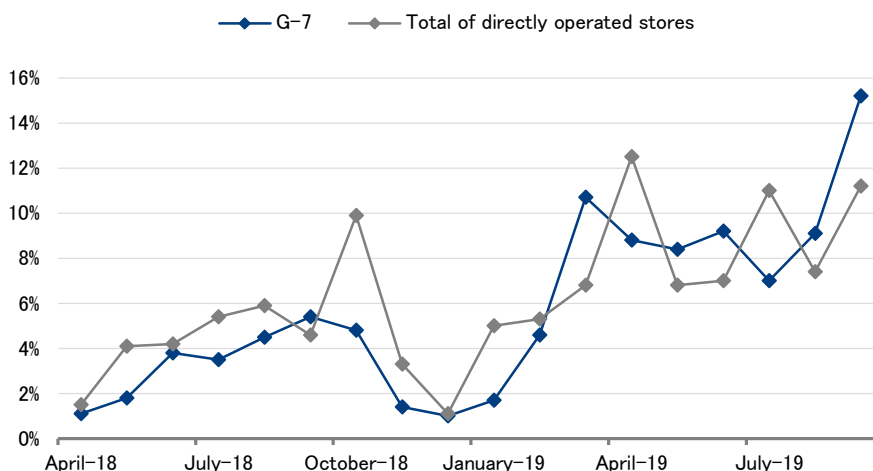
(2) Gyomu Super and quality food business

Gyomu Super and quality food business reported ¥42,920mn in net sales (+8.8% YoY) and ¥1,823mn in operating income (+25.3%). G-7 SUPER MART, which operates the mainstay Gyomu Super, booked increases of 10.5% YoY in sales and 26.0% in ordinary profit, once again setting all-time highs on a fiscal half-year basis and driving overall profit growth. Gyomu Super opened 1 new store in both Tokyo and Kanagawa Prefecture, increasing the number of stores at the end of 1H FY3/20 to 139 stores, which is three more than at the end of 1H FY3/19. The Company plans to open 11 new stores in FY3/20, and although the pace of new store openings is a little behind schedule, existing-store sales grew by 9.6% YoY, partially the result of the increase in customers due to the tapioca boom. Profit margin per store also improved, thanks to the increase in sales as well as efforts to reduce waste losses and control expenses.



Source: Prepared by FISCO from Company materials

Growth in the Gyomu Super existing-store sales (YoY)



Source: Prepared by FISCO from Company materials

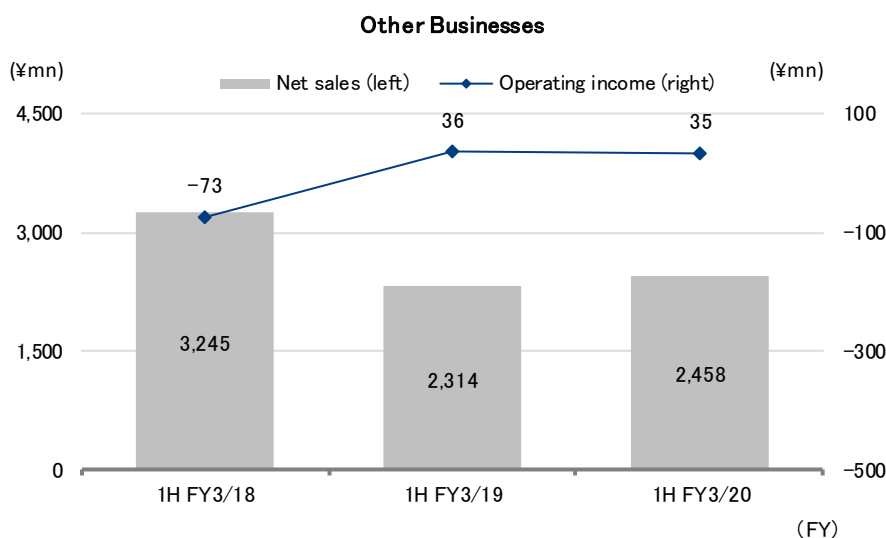
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Results trends

G-7 MEAT TERABAYASHI posted strong results with a 6.1% YoY gain in sales and 31.9% rise in ordinary profit. The number of TERABAYASHI stores at the end of 1H FY3/20 was up 2 stores YoY at 105 stores, with 1 opening each in both Fukushima Prefecture and Tokyo (the Tokyo store was a joint opening with a Gyomu Super store). Increased demand for meat and the positive effect of the joint opening with Gyomu Super lifted the profit margin. Meanwhile, at G7 JAPAN FOOD SERVICE, there was a decline in both sales and profit in the food processing and wholesale businesses. This was mainly the result of the decline in sales of quality foods.

(3) Other Businesses

The Other Businesses segment recorded ¥2,458mn in net sales (+6.2% YoY) and ¥35mn in operating income (-3.3%). Despite the decline in sales at G7 AGRI JAPAN, which operates Megumi no Sato direct-sale agricultural produce sites, due to the calming of vegetable prices which has been soaring in the year-earlier period due to natural disasters and other factors, the improvement in earnings at unprofitable stores led to an increase in profit. The number of Megumi no Sato stores at the end of 1H FY3/20 was up 3 stores YoY at 24 stores, with 4 new store openings in Osaka Prefecture and 1 in Tokyo.



Source: Prepared by FISCO from Company materials

In the restaurant business, the Company started operating IKINARI STEAK stores from FY3/19 and newly opened two stores in Osaka Prefecture, bringing the total number of IKINARI STEAK stores as of the end of 1H FY3/20 to eight (six more than at the end of 1H FY3/19). While customer draw varies by individual store, some stores have reached profitability at the monthly level. Meanwhile, in the sweets business, there were no new store openings, while one BAKE cheesecake tart store was closed.

In the reuse business, the Company operates stores with three brands – Ryohin Kaikan (Best Buy Co., Ltd.), Mega Recycle Kingdom, and Reuse Kingdom. In this business, earnings continues to struggle. As a result, the Company opened one new Kingram (Best Buy) store in Hyogo Prefecture as a new business format as a recycle shop for precious metals and designer brand products. Kingram will procure high-quality reuse products and sell them to Ryohin Kaikan and others to shore up overall sales in the reuse business and aim for profitability. The number of reuse stores was five stores, including Kingram.

Results trends

The coin laundry service business (mammaciao) remained at five stores at the end of 1H FY3/20 (flat YoY). Profitability is gradually improving, as two stores achieved profitability, two stores reached the break-even line, and one store was unprofitable. All stores are likely to become profitable as depreciation costs shrink. 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 easily be washed at home. The membership of Curves, a workout and training club for women, is growing amid heightened health awareness, and the number of sites increased to 20 (2 more compared to the end of 1H FY3/19). In the overseas business (restaurant and agricultural), the Company exited the agricultural business in Myanmar and the car-related business in Cambodia, and currently only operates one IKINARI STEAK outlet in Taiwan.

Financial base has been improving due to expanded earnings

3. Financial condition and key financial indicators

Looking at financial conditions at the end of 1H FY3/20, total assets had increased ¥240mn from the end of FY3/19 to ¥44,931mn. Main changes were a decrease of ¥498mn in cash and deposits and increases of ¥379mn in notes and accounts receivable – trade and ¥251mn in merchandise and finished goods under current assets and increases of ¥112mn in leasehold and guarantee deposits and ¥86mn in investment securities under fixed assets.

Total liabilities at the end of 1H FY3/20 decreased by ¥1,365mn YoY to ¥23,822mn, mainly due to decreases of ¥553mn in interest-bearing debt, ¥597mn in corporate taxes payable, and ¥297mn in bonus allowances. Net assets at the end of 1H FY3/20 increased by ¥1,606mn YoY to ¥21,108mn. This mainly reflects a ¥1,569mn increase in retained earnings with the recording of profit attributable to owners of parent and payment of dividends.

In financial indicators, the equity ratio, which reflects soundness, climbed by 3.3ppt YoY to 46.9%. The interest-bearing debt ratio, meanwhile, fell by 6.1ppt to 39.1%. Financial health continues to improve with rising profits. Net cash (cash and deposits – interest-bearing debt) were mostly unchanged YoY at ¥5,769mn. 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 it holds abundant level of cash and deposits exceeding ¥14bn.

Consolidated balance sheet

	(¥mn)					
	FY3/16	FY3/17	FY3/18	FY3/19	1H FY3/20	Change
Current assets	17,111	18,542	21,089	24,575	24,542	-33
(Cash and deposits)	8,242	9,395	11,279	14,518	14,020	-498
(Merchandise and finished goods)	5,341	5,597	5,817	5,767	6,018	251
Fixed assets	19,042	19,076	20,505	20,115	20,389	274
Total assets	36,154	37,618	41,594	44,691	44,931	240
Total liabilities	21,971	21,960	23,861	25,188	23,822	-1,365
(Interest-bearing debt)	8,342	8,426	8,306	8,804	8,251	-553
Net assets	14,183	15,658	17,732	19,502	21,108	1,606
Key financial indicators						
(Financial strength)						
Equity ratio	38.1%	40.8%	41.7%	43.6%	46.9%	
Interest-bearing debt ratio	60.5%	54.9%	47.8%	45.2%	39.1%	
Net cash	-100	969	2,973	5,714	5,769	

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

■ Business outlook

Aiming to absorb the recoil decline in sales following the consumption tax rate increase and achieve record high profit once again in FY3/20

1. Forecast for FY3/20

The Company left its FY3/20 forecast unchanged aiming 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 profit attributable to owners of parent (+10.2%). In 1H, the Company's net sales were 45.9% of the full fiscal year forecast, while operating profit was 58.2% of the full fiscal year forecast. Both of these were higher than the average over the past three years (net sales, 48.0%; operating profit, 37.8%), but it is possible that full fiscal year net sales will fall short of the Company's forecast due to a number of factors. These factors include concern about a recoil decline in sales from October onward for AUTOBACS due to the last-minute surge in demand in September ahead of the consumption tax rate increase, the fact that earnings tend to peak in 3Q when demand for snow tires is expected, and there is a risk of fluctuation in sales due to weather conditions, and the fact that the Company has ambitious plans to open 35 new stores for the group overall in 2H, compared to 13 new store openings in 1H. However, we believe it is highly likely that the Company will achieve its profit forecast based on the fact that the progress rate through 1H was high, and because in 2H the Company will continue its efforts to increase profit per store (boost ability to draw in customers, control inventories and expenses, etc.)

Consolidated forecast for FY3/20

	FY3/19		FY3/20			1H progress rate
	Results	vs. net sales	Forecast	vs. net sales	YoY	
Net sales	122,502	-	140,000	-	14.3%	45.9%
Operating income	5,017	4.1%	5,300	3.8%	5.6%	58.2%
Ordinary income	5,019	4.1%	5,500	3.9%	9.6%	57.9%
Profit attributable to owners of parent	3,041	2.5%	3,350	2.4%	10.2%	62.4%
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 Gyomu Super and TERABAYSHI, 3 stores for Megumi no Sato, 2 stores for AUTOBACS, 5 stores for IKINARI STEAK, and 2 stores for Curves, bringing the total to 35 stores.

Business outlook

Period-end domestic store volume and openings and closures

Store name	End-FY3/19 Number of stores	1H FY3/20		End-1H FY3/20 Number of stores	2H FY3/20 Number of new store openings	End-FY3/20 Number of stores (forecast)
		Openings	Closures			
AUTOBACS	66			66	2	68
AUTOBACS Express	7			7		7
BIKE WORLD	12			12		13
Gyomu Super	137	2		139	11	150
TERABAYASHI	103	2		105	11	116
Gekiyasu Super Megumi no Sato	1			1		1
Green's K	1			1		1
Megumi no Sato	19	5		24	3	27
IKINARI STEAK	6	2		8	5	13
Nanatsu no Tsubo	1			1		1
BAKE	3		1	2		2
Taiyaki Specialty Store Yamaya Honpo	3			3		3
CROQUANTCHOU ZAKUZAKU	1			1		1
RINGO	1			1		1
mammaciao	5			5		5
Mega Recycle Kingdom	1			1		1
Reuse Kingdom	1			1		1
Ryohin Kaikan	2			2		2
Kingram (new store format)	-	1		1		1
Curves	19	1		20	2	22
Step Golf	3			3		3
Daiso	2			2		2
Total	394	13	1	406	35	441

Source: Prepared by FISCO from Company materials

The plan is to aggressively open Gyomu Super and TERABAYASHI stores

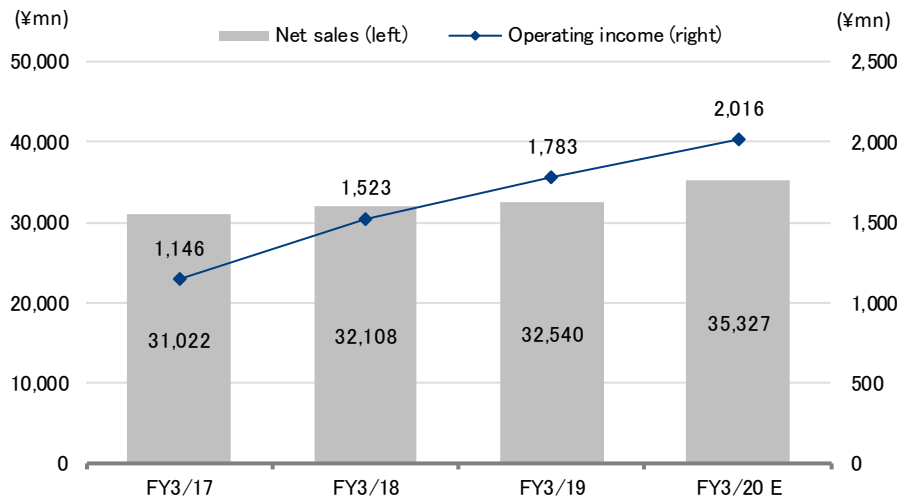
2. Segment outlook

(1) AUTOBACS and car-related business

In AUTOBACS and car-related business, the Company expects G-7 AUTO SERVICE, the main business, to deliver ¥35,327mn in net sales (+8.6% YoY), and ¥2,016mn in operating profit (+13.1%). In order to achieve these forecasts, the Company will need net sales to increase by 7% YoY. This will be a bit challenging considering the expected recoil decline in 3Q FY3/20 following the last-minute rush in demand. Looking at the quarterly sales trend in the AUTOBACS and car-related business before and after the previous consumption tax rate increase (5% → 8% in April 2014), there was a 17.5% YoY increase in sales in 4Q FY3/14 immediately prior to the consumption tax rate increase, but sales fell dramatically immediately after the tax hike, declining 10.5% YoY in 1Q FY3/15, and even thereafter sales remained weak due to the downturn in consumer sentiment.

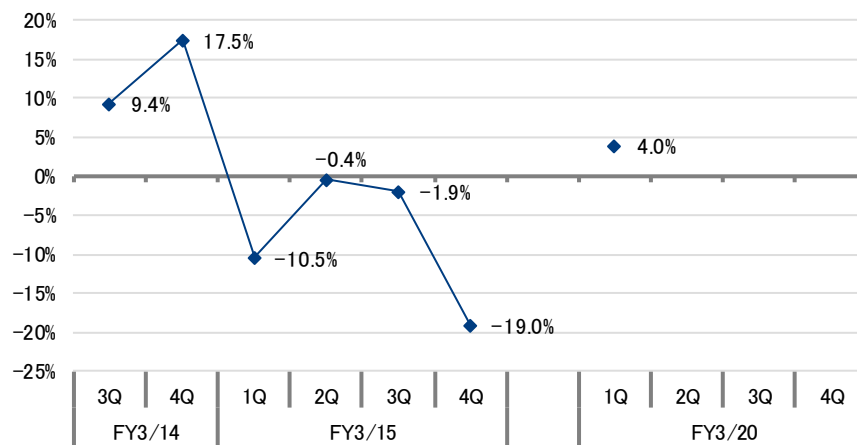
Business outlook

Results trends in the G-7 AUTO SERVICE



Source: Prepared by FISCO from Company materials

Net sales in the AUTOBACS and car-related business (YoY growth rate)



Source: Prepared by FISCO from Company materials

Nonetheless, there is a possibility that the impact of the recoil decline in sales will be small in magnitude, as this time around the tax increase is only a 2%, which is smaller than the previous increase, demand for winter tires fluctuates depending on the weather conditions in winter, and the expansion of the geographic area covered by the December 2018 rule change requiring drivers to install tire chains is expected to result in an increase in sales of tire chains. In terms of profit, the Company's 1H profit was approximately 50% of the full fiscal year forecast, which was much higher than expected, so the Company should be able to hit the forecast even if there is a slight decline in sales. Moreover, the Company is planning to open two new AUTOBACS stores in 2H. One of these stores have opened in October 2019, while the other will open in February 2020. Three stores in Chiba Prefecture were forced to temporarily close due to the repeated typhoon landfalls in October, but they have all reopened and the impact on results has been minimal.

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Business outlook

BIKE WORLD will continue to operate stores with an emphasis on profitability and will aim to solidify profits. In overseas business, out of the four stores it operates in Malaysia, the Company hopes to reach profitability at one AUTOBACS store following the achievement of profitability at BIKE WORLD. G-7 Crown Trading is broadening its export destinations from just Southeast Asia to Africa, the United States, and other regions, with the target of doubling sales YoY to ¥5bn, but the increase in sales is expected to remain small due to the decline in procurement channels and other factors. However, profit margin is just 1-2%, so the negative impact on profits will be minimal.

(2) Gyomu Super and quality food business

In the Gyomu Super and quality food business, G-7 SUPER MART, which runs Gyomu Super operations, targets sales of ¥71,800mn (+12.1% YoY) and operating profit of ¥2,516mn (+6.7%). The business will need to have a 14% YoY increase in sales in 2H in order to achieve its target. The business posted a 10.5% YoY increase in 1H, so this will be challenging, but the aim is to achieve the forecast by opening 11 new stores in 2H. 3 stores have already been opened in October, and another store is set to open in December. The plan is to aggressively open stores if it can find candidate locations that meet its conditions. Profit margin is expected to decline in 2H due to higher costs related to store openings, but there is a high possibility that sales will exceed the forecast if existing-store sales remain strong in 2H. We think the consumption tax hike will be a boon for Gyomu Super if it results in consumers becoming increasingly focused on low prices.

G-7 MEAT TERABAYSHI plans to open 11 stores, including store openings inside Gyomu Super stores, and targets double-digit sales growth driven by the new store effect. 5 stores have already been opened in October (all within Gyomu Super stores), and the plan is to aggressively open more stores going forward. With respect to G7 JAPAN FOOD SERVICE, the aim is to rebuild the quality food business which struggled in 1H by shifting personnel resources from the restaurant business, looking to bolster the sales structure and engineer a recovery in earnings.

(3) Other Businesses

The Company expects an increase in net sales and profit in Other businesses. In 2H, 3 new Megumi no Sato stores, including joint openings with Gyomu Super, were opened, bringing the current total to 27 stores. With the increase in the number of stores, the Company is expecting higher net sales and profit on a full fiscal year basis. In the restaurants business, the Company plans to open five new IKINARI STEAK stores in 2H, but the candidate sites for these stores have not been determined. In the sweets business, the Company plans to close two BAKE stores. Elsewhere, the Company plans to open two Curves sites, which provide training and workout classes for women, while it plans to close one Ryohin Kaikan store in the reuse business and close one DAISO (100 yen shop) store.

■ Medium to long-term growth strategy

Advancing M&A talks with a target of ¥170bn in net sales in FY3/21.

1. Medium-term business plan

The Company is currently working to achieve the goals of its medium-term business plan that targets ¥170bn in consolidated net sales and ¥7bn in ordinary profit in FY3/21, which will mark the Company’s 45th anniversary. The Company’s net sales forecast for FY3/20 is ¥140bn, so it will need to add ¥30bn. It will aim to achieve this target by expanding existing businesses along with finalizing M&A deals that are currently being negotiated. The business strategy calls for evolving business models in existing businesses to meet current trends, while undertaking initiatives that take customer convenience into consideration to increase customer traffic and spending per customer. For openings, the Company has a basic policy of adding new stores at a pace of 30-40 stores per year at sites with attractive conditions in markets where growth is anticipated.

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 Gyomu Super 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. Similarly for the meat business, the target of ¥10.1bn in FY3/19 to ¥12.5bn seems to be achievable. In overseas business, however, the ¥4.5bn goal appears to be out of range because of the Company’s strategic reset other than in certain businesses and the BIKE WORLD business’s goal of ¥5.0bn from ¥3.0bn in FY3/19 seems difficult to achieve as well. We think M&A activity is a key factor in determining whether the Company attains medium-term plan goals.

Consolidated sales goals by business areas (FY3/21)



Source: Company’s website

Medium to long-term growth strategy

In M&A, the Company is considering entering new fields such as human resources services, in addition to existing businesses and related areas. Currently, the Company's Growth Strategy Promotion Office is searching for and screening M&A candidates. In existing businesses, the Company is advancing talks for multiple deals involving Gyomu Super and others, and it seems to want to wrap these up by the end of FY3/20. An issue for achieving the medium-term business plan is securing the personnel needed to maintain the pace of opening 30-40 stores per year. As measures to do so, the Company will accept more technical trainees from Southeast Asia, and is starting to implement work style reforms that allow workers to select flexible working hours without being restricted to standard working hours in order to utilize seniors who possess specialized skills (planning and development, consultants, mechanics, inspectors, buyers, etc.). With respect to technical trainees from Southeast Asia, the Company plans to accept a few graduates from local universities each year to resolve manpower issues at stores, especially in the AUTOBACS business.

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

Medium to long-term growth strategy

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

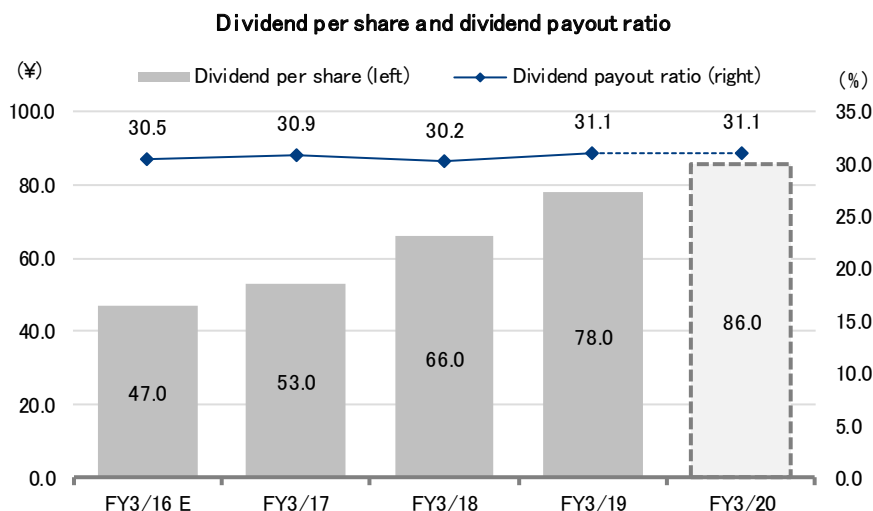
2. Long-term vision

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 (31.1% payout ratio) in FY3/20, an increase of ¥8.0 YoY for the fifth straight annual hike. As a result, future dividend growth can also be expected if earnings continue to increase.



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

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