

G-7 HOLDINGS INC.

7508

Tokyo Stock Exchange First Section

25-Jun.-2021

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

■ Index

■ Summary	01
1. Overview of FY3/21 results	01
2. Forecasts for FY3/22	01
3. Growth strategy	02
4. Shareholder return policy	02
■ Business overview	03
1. AUTOBACS and car-related business	03
2. Gyomu Super business	04
3. Meat business	04
4. Other businesses	05
■ Results trends	06
1. Overview of FY3/21 results	06
2. Performance trends by business segment	07
3. Financial condition and key financial indicators	11
■ Business outlook	13
1. Forecast for FY3/22	13
2. Segment outlook	15
3. Medium-term business plan and 45th anniversary activities	17
■ Shareholder return policy	18

Summary

Expecting sales and profits to continue to increase over the medium term due aggressive store openings in the Gyomu Super and meat businesses

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. In the meat business, it is accelerating store openings in the form of joint facilities in Gyomu Super stores of Oniku no Terabayashi and the Megumi no Sato farmers' market chain. In addition, from FY3/21, it has been actively conducting M&A and expanding its business scale, including conducting absorption mergers and making Group companies of 99 ICHIBA Co., Ltd., which manages the mini PIAGO mini supermarkets, and Andesfoods Co., Ltd., a meat wholesaler.

1. Overview of FY3/21 results

In the FY3/21 consolidated results, net sales increased 23.3% year on year (YoY) to ¥163,556mn and ordinary income rose 21.9% to ¥7,306mn, as both sales and profit increased by double digits and the Company once again posted record high results. Due to the increase in demand for eating at home and the expansion of new store openings, both the Gyomu Super business and the meat business saw large increases in earnings, while due to the impact of the novel coronavirus pandemic (hereafter, the "coronavirus"), the AUTOBACS and car-related business, which struggled in 1H FY3/21, recovered in 2H due to strong sales of winter tires. The number of Group stores at the end of the period was 586 stores, an increase of 145 stores from the end of the previous fiscal year. Specifically, the number of Gyomu Super stores increased by 20 stores YoY to 165 stores, the number of Oniku no Terabayashi stores increased by 30 stores YoY to 143 stores, the number of Megumi no Sato stores increased greatly by 14 stores YoY to 45 stores, and mini PIAGO mini supermarkets, which joined the Group in April 2020, added 72 stores. By opening Oniku no Terabayashi stores and Megumi no Sato stores simultaneously with the opening of Gyomu Super stores, the Group boosted return on investment. Meanwhile, in addition to contracting its restaurant business which continues to face headwinds due to the coronavirus, the Company also withdrew from the secondhand business as part of its effort to re-examine unprofitable businesses.

2. Forecasts for FY3/22

For FY3/22 results, the Company is forecasting sales and profits to continue to increase, projecting net sales to increase 7.0% YoY to ¥175,000mn and ordinary income to rise 5.4% to ¥7,700mn. Despite concerns about the impact of the coronavirus, the Company expects earnings to expand due to aggressive store openings of Gyomu Super and Oniku no Terabayashi stores, as well as an improvement in earnings for mini PIAGO due to the Company's scrap and build strategy, along with firm growth in the AUTOBACS and car-related business. The Company plans to increase the number of Group stores by 49 stores to 635 stores in FY3/22. In addition, the Company continues to consider M&A opportunities, and will work to expand peripheral businesses for which synergies can be expected.

Summary

3. Growth strategy

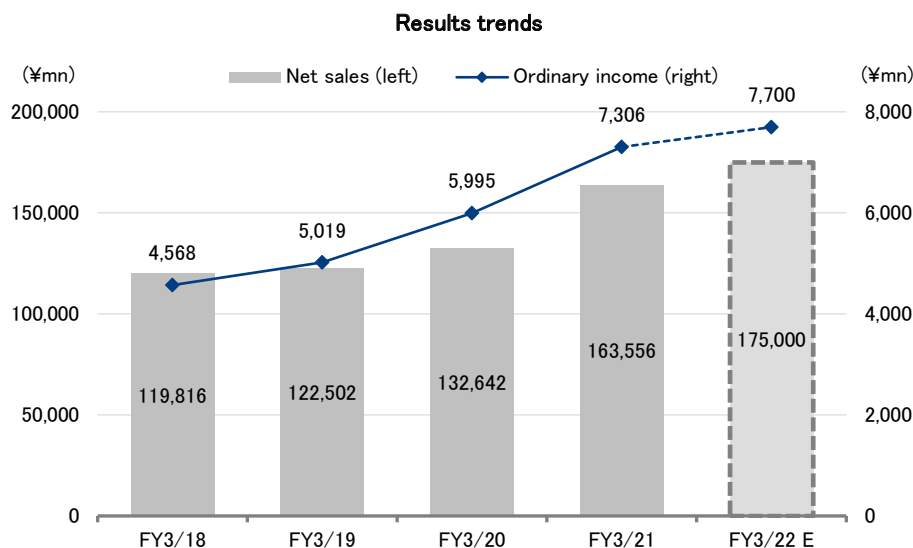
The Company has formulated a new five-year medium-term business plan, and is targeting net sales of ¥250bn and ordinary income of ¥10bn in FY3/26, the final fiscal year of the plan. These targets are around 1.5x the level of FY3/21 results. In addition to bolstering the earnings power of existing stores by improving net sales per employee and gross profit, as well as expanding the opening of new stores, the Company will aim for annualized double-digit growth by developing new businesses and new business formats with high investment efficiency and by promoting its M&A strategy. Cooperation between Group companies has become more active than before as a result of the development of senior management members that the Company has been training over the past few years, and even more synergies are expected to be generated. The Company considers human resources to be the source of growth going forward, and based on this belief the Company's policy is to continue recruiting and training human resources as an important management issue.

4. Shareholder return policy

In light of healthy profit expansion, the Company plans to increase the dividend per share by ¥4.0 YoY for an annual dividend of ¥70.0 (30.8% dividend payout ratio) in FY3/22, marking a seventh consecutive year of increases. It targets a dividend payout ratio of about 30%. We expect further dividend hikes if profits continue to grow.

Key Points

- Driven by the Gyomu Super and meat businesses, sales and profits increased significantly in FY3/21
- Forecasting higher sales and profits for seventh consecutive year in FY3/22
- Announced medium-term business plan targeting net sales of ¥250bn and ordinary income of ¥10bn in FY3/26

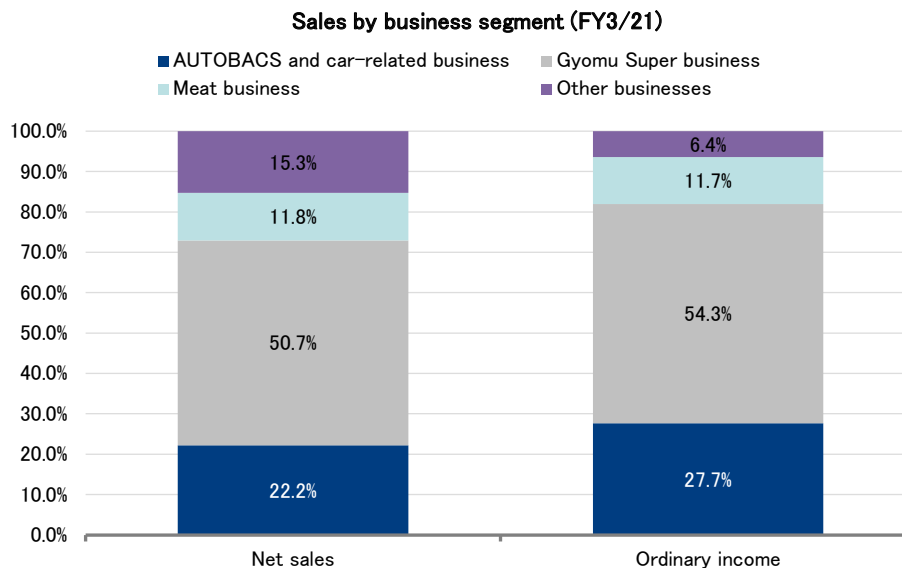


Source: Prepared by FISCO from the Company's financial results

Business overview

AUTOBACS, Gyomu Super, and the meat business are the main pillars of earnings

Since FY3/21, the Company has disclosed information on four business segments: AUTOBACS and car-related business, Gyomu Super business, meat business, and other businesses. Up to FY3/20, it disclosed information on three segments: AUTOBACS and car-related business, Gyomu Super and quality food business and other businesses, but due to their increase in scale it separated and made independent the Gyomu Super business and the meat business, which had been included in the Gyomu Super and quality food business, and disclosed information on them, and also included the quality food business in other businesses. Looking at the percentages of total net sales by business in FY3/21, the AUTOBACS and car-related business accounted for 22.2% of net sales, the Gyomu Super business accounted for 50.7% of net sales, and the meat business accounted for 11.8% of net sales, meaning that these three businesses accounted for over 80% of total net sales, while the breakdown of profits by business was very similar. In addition, if you add the sales from the Gyomu Super business, the meat business, and Megumi no Sato and mini PIAGO which are included in other businesses, approximately 70% of net sales come from food retail businesses.



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

1. AUTOBACS and car-related business

The AUTOBACS and car-related business comprises four companies, and consists of AUTOBACS franchise activities, including car product sales and maintenance mainly handled by G-7 AUTO SERVICE CO., LTD., motorcycle product sales and maintenance handled by G-7 BIKE WORLD CO., LTD., AUTOBACS and BIKE WORLD managed in Malaysia by G7 RETAIL MALAYSIA SDN.BHD., and export sales of cars handled by G-7 Crown Trading Co., Ltd.,

Business overview

More than 80% of sales are provided by AUTOBACS-related stores, and as of the end of March 2021, the number of AUTOBACS-related stores was 75 domestic stores (68 AUTOBACS stores and 7 AUTOBACS Express stores) and 2 stores in Malaysia and the Company is the largest franchisee within the AUTOBACS Group (584 domestic stores and 45 overseas stores). Stores are located predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki Prefectures. Hyogo is particularly important with 39 stores, or around 50% of the Company's entire network. Store management places strong emphasis on productivity per employee, gross profit margin and inventory turnover rates, and the franchise business is notable for maintaining the highest profitability within the AUTOBACS group. Other car-related businesses include 9 BP centers (body repair and coating), and one Suzuki Cars Osaka store for buying and selling new and used cars. Also, as a new business format, the Company launched FIELD SEVEN outdoor goods stores in 2020, and has opened 2 stores within AUTOBACS stores.

The BIKE WORLD business consisted of 14 stores at the end of March 2021 with 12 domestic stores and 2 stores in Malaysia. G-7 Crown Trading, which was made a subsidiary in 2017, conducts export sales of automobiles mainly in Southeast Asia. Sales composition ratios for each of these businesses are just under 10%.

In addition, G-7 AUTO SERVICE has 3 Yamaya Honpo taiyaki specialty stores (Yamaya Taiyaki Honpo Co., Ltd.) and 5 mammaciao stores, which are coin operated laundries (MIS Co., Ltd.), but these businesses have minimal impact on the Company's operating results.

2. Gyomu Super business

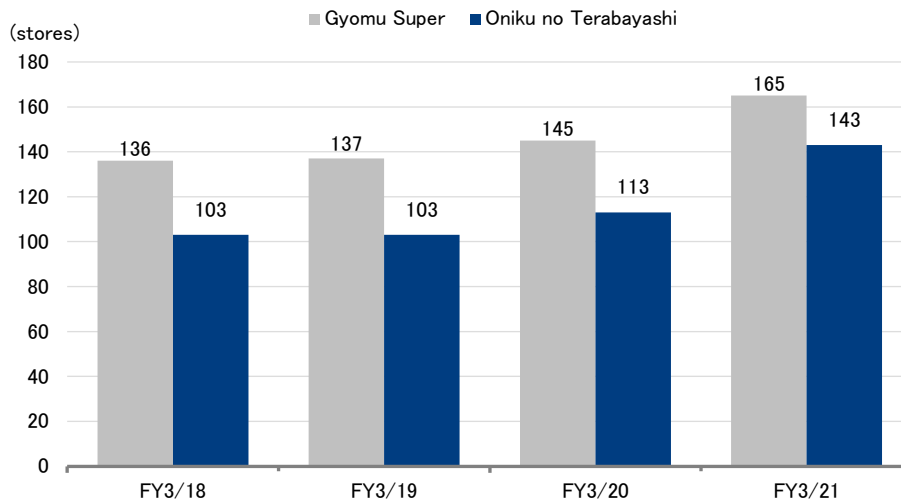
The Gyomu Super business is operated by G-7 SUPER MART CO., LTD., which develops the Gyomu Super franchise. Store openings took place in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions, reaching 165 stores at the end of March 2021, the largest number within the Gyomu Super group (915 stores). Looking at store numbers by region, Kanto, an area has the most with 67 stores (19 in Tokyo, 17 in Kanagawa, 17 in Saitama, and 14 in Chiba), followed by Chubu with 37 stores (26 in Aichi, 8 in Mie, and 3 in Gifu), Kansai with 34 stores (23 in Hyogo and 11 in Osaka), Kyushu with 18 stores (14 in Fukuoka, 3 in Kumamoto, and 1 in Nagasaki), and Hokkaido with 9 stores. In FY3/21, the Company opened 11 new stores in Kyushu, accounting for approximately half of the total new store openings.

3. Meat business

The meat business is operated by G-7 MEAT TERABAYASHI CO., LTD. (formerly Terabayashi Co., Ltd.), which was made a subsidiary in 2015, and it operates Oniku no Terabayashi retail butcher stores across the country. Since it was made a subsidiary, it has actively opened stores as a tenant of Gyomu Super and Megumi no Sato. Also, in April 2020, the Company conducted an absorption-type merger of Andesfoods (currently the Andesfoods business division), which engages in wholesale and retail sale of meat. Andesfoods mainly wholesales to the restaurant and other food services and prepared food industries and conducts some retail sales in the Tokyo metropolitan area.

Store numbers at the end of March 2021 were 143 Oniku no Terabayashi stores and 16 Andesfoods stores, for a total of 159 stores. By region, Kanto had the most with 73 stores, followed by Kansai (Hyogo Prefecture, Osaka Prefecture) with 36 stores, and Tokai (Aichi Prefecture, Mie Prefecture, and Gifu Prefecture) with 25 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.

Business overview

Number of Gyomu Super and Oniku no Terabayashi stores


Source: Prepared by FISCO from materials provided by the Company

4. Other businesses

Other businesses consist of the businesses of G7 AGRI JAPAN CO., LTD., which manages the Megumi no Sato farmers' market chain; G7 JAPAN FOOD SERVICE CO., LTD., which operates food and restaurant businesses; and G7 RETAIL JAPAN CO., LTD., which manages Curves clubs (Curves Japan Co., Ltd.), which are workout and training clubs for women and real estate management. It also includes the mini PIAGO mini supermarkets business conducted by 99 ICHIBA, which was made a subsidiary in April 2020.

At the end of March 2021, 45 Megumi no Sato stores had been opened. By region, Kansai has 23 stores (16 in Hyogo, 5 in Osaka, and 2 in Nara), Kanto has 16 stores (7 in Tokyo, 4 in Chiba, 3 in Saitama, and 2 in Kanagawa), and Chubu has 6 stores (5 in Aichi and 1 in Gifu). Among all the stores, 26 stores have been opened within a Gyomu Super store. Moreover, the business uses consignment sales (around 20% of the sales amount is recorded as commission income) as its sales method to reduce business risk.

In the food and restaurant businesses, the food business discovers local, well-known and specialty products and sells them, including in department stores and specialty stores and on EC websites, while it also develops, manufactures and sells various private-brand (PB) products, mainly frozen foods. The restaurant business manages two restaurants in Japan and one restaurant in Taiwan as a franchisee of IKINARI! STEAK (Pepper Food Service Co., Ltd.), but the Company plans to close the restaurants in Japan at the end of May 2021. In addition, the Company has one custard apple pie specialty store RINGO.

Other than these, as a franchisee, it has opened 25 Curves clubs (Curves Japan Co., Ltd.), which are workout and training clubs for women. Furthermore, in FY3/21, the Company closed each of its three second-hand stores and withdrew from this business.

Business overview

mini PIAGO operates in Tokyo and Kanagawa Prefecture, and as of the end of FY3/21 there are 72 stores (58 stores in Tokyo and 14 stores in Kanagawa). Sales per store are approximately ¥200mn per year, and the profit margin is just over 1%, which are lower than Gyomu Super, and improving the earnings power is a challenge for the Company. The Company's investment ratio for 99 ICHIBA is 80.0%, but it plans to acquire the remaining 20% for ¥250mn from Pan Pacific International Holdings Corporation <7532> in April 2022 and make it a wholly owned subsidiary.

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.	100.0%	New vehicle and used vehicle export sales
	G7 RETAIL MALAYSIA SDN.BHD	100.0%	Operator of AUTOBACS and BIKE WORLD, etc.
Gyomu Super business	G-7 SUPER MART CO., LTD.	100.0%	Operator of Gyomu Super, etc.
Meat business	G-7 MEAT TERABAYASHI CO., LTD.	100.0%	Retail sales of meats and processed livestock products
Other businesses	G7 AGRI JAPAN CO., LTD.	100.0%	Operator of Megumi no Sato, etc.
	G7 JAPAN FOOD SERVICE CO., LTD.	100.0%	Manufacturing and wholesale of food products and beverages, operator of restaurants, etc.
	G7 RETAIL JAPAN CO., LTD.	100.0%	Handles real estate development for the Group and operates fitness clubs
	99 ICHIBA Co., Ltd.	80.0%	Manages mini PIAGO mini supermarkets

Source: Prepared by FISCO using the Company's securities report

Results trends

In the FY3/21 results, achieved major increases in sales and profits, driven by the Gyomu Super and meat businesses

1. Overview of FY3/21 results

In the FY3/21 consolidated results, net sales increased 23.3% YoY to ¥163,556mn, operating income rose 22.0% to ¥7,058mn, ordinary income grew 21.9% to ¥7,306mn, and profit attributable to owners of parent climbed 37.8% to ¥4,855mn. So sales and profits increased by double digits for record-high results on a 1H basis.

In the AUTOBACS and car-related business, sales decreased in 1H due to the impacts of being forced to operate under shortened business hours due to the coronavirus, but the increase in at-home consumption and the effects of new store openings led to double-digit growth in both the Gyomu Super business and the meat business. Also, sales from 99 ICHIBA's mini PIAGO, which joined the Group, and sales from Andesfoods combined to have a positive impact of approximately ¥17,000mn in sales. Meanwhile, in terms of profits, although profit in the AUTOBACS and car-related business declined, this decline was made up for by the increase in profit in both the Gyomu Super and meat businesses. The others business saw an increase in profit due to the increase in earnings by Megumi no Sato and the foods business, as well as contributions to profit from mini PIAGO as well as efforts to clean out unprofitable businesses, along with other efforts.

Results trends

Compared to the initial forecasts, net sales fell slightly short due to sales in the AUTOBACS and car-related business not meeting the forecast, but profits exceeded the initial forecast, mainly due to the strong performance in both the Gyomu Super business and the meat business. At the end of FY3/21, the number of Group stores increased by 145 compared to the end of the previous fiscal period to 586 stores (169 store openings, 24 store closures). Of these, 74 store openings were mini PIAGO stores, while 2 of the store closures were mini PIAGO stores, while there were 17 openings of Andesfoods stores, and 1 store closure of an Andesfoods store).

Consolidated results for FY3/21

	FY3/20			FY3/21			Compared to forecast
	Results	vs. net sales	Company forecast	Results	vs. net sales	YoY	
Net sales	132,642	-	170,000	163,556	-	23.3%	-3.8%
Cost of sales	98,411	74.2%	-	121,715	74.4%	23.7%	-
SG&A expenses	28,447	21.4%	-	34,782	21.3%	22.3%	-
Operating income	5,783	4.4%	6,700	7,058	4.3%	22.0%	5.3%
Ordinary income	5,995	4.5%	7,000	7,306	4.5%	21.9%	4.4%
Extraordinary income/loss	-688	-0.5%	-	-340	-0.2%	-	-
Profit attributable to owners of parent	3,523	2.7%	4,000	4,855	3.0%	37.8%	21.4%

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

Results by business segment

	Net sales			Operating income			Ordinary income margin	
	FY3/20	FY3/21	YoY	FY3/20	FY3/21	YoY	FY3/20	FY3/21
AUTOBACS and car-related business	37,573	36,333	-3.3%	2,111	2,001	-5.2%	5.6%	5.5%
Gyomu Super business	72,527	82,989	14.4%	3,167	3,925	23.9%	4.4%	4.7%
Meat business	12,348	19,245	55.9%	578	846	46.4%	4.7%	4.4%
Other businesses	10,193	24,988	145.1%	216	460	113.0%	2.1%	1.8%
Total	132,642	163,556	23.3%	5,995	7,306	21.9%	4.5%	4.5%

Note: Adjustment amount of ordinary income is omitted

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

Sales and profits from Gyomu Super and Oniku no Terabayashi increased greatly due to expanded demand for eating at home and the effects of new store openings

2. Performance trends by business segment

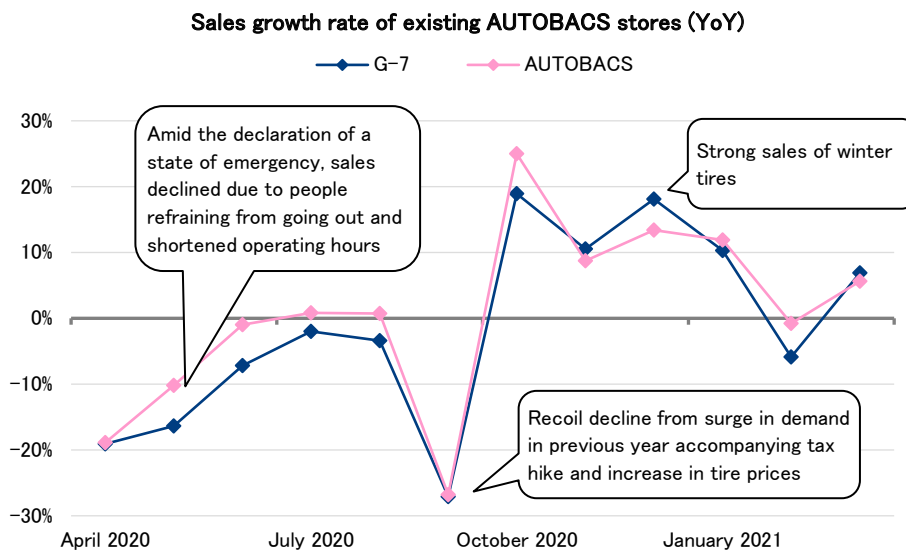
(1) AUTOBACS and car-related business

In the AUTOBACS and car-related business, net sales declined 3.3% YoY to ¥36,333mn, while ordinary income fell 5.2% to ¥2,001mn. Within these results, for the mainstay G-7 AUTO SERVICE, net sales declined 0.4% to ¥31,883mn, and ordinary income increased 13.0% to ¥2,092mn. As a result, there was a profit increase for the first time in two fiscal years despite the small decline in net sales.

Results trends

The number of store visitors declined and there was a large drop in net sales due to the strengthening of the movement to refrain from going out following the government's issuance of a declaration of a state of emergency due to the coronavirus in April and May 2020 as well as shortened operating hours. However, from October onward, customer traffic gradually recovered, and winter tire sales were strong, leading to net sales recovering to about the level of the previous fiscal year. In terms of profits, gross profit margin improved due to the strong sales of winter tires which are highly profitable, while the effort to reduce expenses, including curbing flyer advertisements, helped to boost profit.

Looking at the monthly trend in the sales growth rate for existing stores, the growth rate declined in the 15-20% range YoY in April and May 2020 due to the declaration of a state of emergency, and in September the growth rate declined significantly by 27.1% due to the recoil decline from the last minute surge in demand in the previous September accompanying the consumption tax rate hike and the price increases on tires. From October onward, the net sales growth rate was generally positive, with net sales for the entire fiscal year declining only 1.4% YoY. Comparing the existing store sales growth rate for AUTOBACS stores, the same trends were seen. Also, looking at changes in net sales (YoY) in the main categories, tires increased 6.5%, wheels increased 20.5%, batteries increased 6.9%, while car electronics declined 8.2% due to a pause in demand for drive recorders, and oil declined 0.8%. In services, net sales increased 3.0%, mainly due to the increase in the number of vehicles inspected. With respect to the vehicle inspection service, 6 of the 10 stores in the AUTOBACS Group with the highest number of vehicles inspected are the Company's stores, which is evidence of the strong track record with inspections. Leading the way in focusing on car inspection services in the AUTOBACS Group has led to a strong track record, and has contributed to the improvement in profitability. During FY3/21, there were no new openings or closures of AUTOBACS-related stores, so the number of stores in Japan remained flat at 75 stores.



Source: Prepared by FISCO from materials provided by the Company

Also, as a new business format, in March 2020, the Company newly opened the first FIELD SEVEN store, which is an outdoor goods store that “provides an abundance of enjoyment for your car life,” within the AUTOBACS Akashi store. Although business got off to a slow start due to the impact of the coronavirus, business was strong from June onwards. The Company has opened a second store within an AUTOBACS store in Hyogo Prefecture, and going forward the Company plans to roll out more stores while establishing an earnings model.

Results trends

Regarding G-7 BIKE WORLD, both sales and profits increased amid the positive turn in the market environment, such as the increase in demand for motorcycles as a means of transportation during the coronavirus pandemic. The existing 12 stores are collaborative stores with BIKE O managed by BIKE O & COMPANY Ltd., <3377> and synergies are being enjoyed. Also, the Company narrowed the product lineup to only top sellers in an effort to improve the inventory turnover rate, and implemented measures such as curbing discount sales and flyer advertisements. These efforts resulted in an improvement in profitability. As of the end of FY3/21, the number of BIKE WORLD stores in Japan stood at 12 stores (2 new store openings, 2 store closures), the same number as at the end of the previous fiscal year.

For the overseas AUTOBACS and BIKE WORLD businesses, in Malaysia, where there are stores, the government issued a curfew order from March 2020 and stores were forced to temporarily close (stores have since reopened), so sales declined YoY and the loss amount increased slightly. BIKE WORLD has maintained profitability, but AUTOBACS saw its loss grow. As of the end of FY3/21, there were 2 AUTOBACS stores and 2 BIKE WORLD stores. There were 3 AUTOBACS and 3 BIKE WORLD stores in Malaysia at the end of the previous fiscal year, but both the AUTOBACS store and the BIKE WORLD store in Klang Sentral were closed, and the Company plans relocate and reopen them in June 2021. Concerning the 1 BIKE WORLD store that was operating in Thailand, the store was closed following the determination that a turn to profitability was unlikely in the near term.

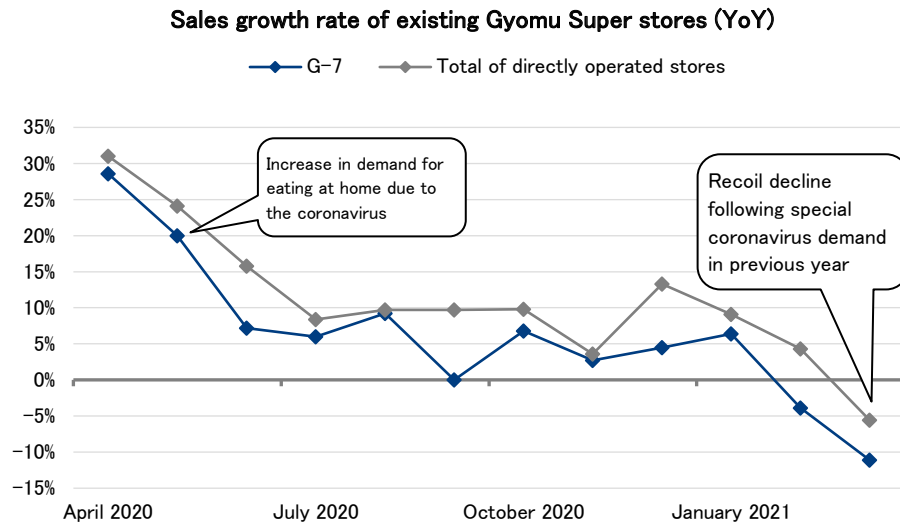
G-7 Crown Trading conducts car export sales, mainly to Malaysia that provides 70% of its net sales, and it temporarily had to stop exports to Malaysia due to the coronavirus. As a result, sales and profit both declined.

(2) Gyomu Super business

In the Gyomu Super business, which is conducted by G-7 SUPER MART, net sales grew 14.4% YoY to ¥82,989mn and ordinary income rose 23.9% to ¥3,925mn, so double-digit increases in sales and profits continued. Existing store net sales were strong, increasing 11.9% YoY, aided by the increase in demand for eating at home due to people refraining from going out and the increase in the number of people working from home due to the coronavirus. In addition, there were 21 stores opened (11 stores in the Kyushu area, 4 stores in the Tokyo metropolitan area, 2 stores in the Kinki area, 2 stores in the Chubu area, and 2 stores in the Tokyo metropolitan area were relocated and reopened), and the total number of stores increased by 20 compared to the end of the previous fiscal year to 165 stores, and this was a factor behind the increase in sales. The number of new store openings doubled from the 10 new store openings in the previous fiscal year, resulting in an increase in store opening expenses, but the gross profit margin improved due to strong sales of highly-profitable PB products and a decrease in product waste loss, and the ordinary income margin improved from 4.4% in the previous fiscal year to 4.7% due to an improvement in the sales, general and administrative expense ratio as a result of efforts including the curbing of flyer advertisements.

Looking at monthly net sales at existing stores, the growth rate peaked in April and May 2020, when there was bulk buying demand due to the coronavirus, and then slowed, and then actually fell to negative growth in February and March 2021, but this decline was due to the high level of sales in the same months of the previous year. The sales trend in the directly managed stores of Kobe Bussan Co., Ltd. <3038> was the same.

Results trends



Source: Prepared by FISCO from materials provided by the Company

(3) Meat business

In the meat business conducted by G-7 MEAT TERABAYASHI, sales and profits increased significantly, with net sales rising 55.9% YoY to ¥19,245mn and ordinary income growing 46.4% to ¥846mn. As seen with Gyomu Super, this business benefitted from the growth in demand for eating at home due to the coronavirus, and as a result of actively opening new stores at the same time as opening Gyomu Super stores, it now has 30 stores (15 in the Kinki area, 10 in the Kyushu area, 3 in the Tokyo metropolitan area, and 2 in the Chubu area), which is the most stores it has had since it was made a subsidiary, and this led to the significant increase in sales. In FY3/21, the number of stores increased by 30 compared to the end of the previous fiscal year to 143 stores.

The addition of Andesfoods to the Group from April 2020 was a factor behind the sales increase of ¥3.0 billion, but when looking at earnings conditions alone, it appears the situation was severe due to major declines in sales to its main customers, the restaurant and hotel industries, which are being affected by the coronavirus (Andesfoods' net sales in FY9/19 were ¥5,058mn). This was a factor for the decline in the profit margin of the meat business from 4.7% in the previous fiscal year to 4.4%.

(4) Other businesses

In other businesses, net sales increased 145.1% YoY to ¥24,988mn and ordinary income rose 113.0% to ¥460mn. Regarding 99 ICHIBA which operates 72 mini PIAGO stores, sales were strong, aided by the increase in demand for eating at home due to the coronavirus pandemic, net sales seem to have been at least ¥13bn, with ordinary income around ¥100mn. As a result, 99 ICHIBA accounted for the majority of the increase in earnings.

With respect to Megumi no Sato which is operated by G7 AGRI JAPAN, by aggressively opening stores as joint facilities with Gyomu Super, there were 15 new store openings (9 in metropolitan Tokyo, 4 in Aichi, and 2 in Hyogo). This was the highest number ever, and the number of stores increased by 14 compared to the end of the previous fiscal year to 45 stores. Also, the product distribution value exceeded the Company's forecast of ¥5.5bn, and both sales and profits increased.

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

Results trends

In the food business operated by G7 JAPAN FOOD SERVICE, customers were cultivated based on the effect of the increase in marketing resources, and both sales and profits increased. Meanwhile, in the restaurant and sweets businesses, there was a large contraction in earnings, partly due to the continued challenging market environment as a result of the coronavirus pandemic. Regarding IKINARI! STEAK restaurants in Japan, there was a decline from 8 restaurants at the end of the previous fiscal year to 2 restaurants (the Company plans to close these 2 restaurants in Japan at the end of May 2021), and in the sweets business the Company similarly reduced the number of stores from 2 stores to 1 store.

The Company acquired 5 Curves clubs, which are workout and training clubs for women, bringing the total number to 25 clubs at the end of FY3/21. Sales fell due to the decline in the number of members caused by the coronavirus, and as a result the business posted a slight loss. In the secondhand business, the Company was operating 1 store each of Mega Recycle Kingdom, Ryohin Kaikan and Kingram, but after determining that earnings growth was unlikely, the Company exited from this business by the end of the fiscal year.

Strengthening the free cash flow financial base

3. Financial condition and key financial indicators

At the end of FY3/21, total assets were up ¥3,505mn compared to the end of the previous fiscal period to ¥51,391mn. Looking at the main factors, in current assets, although cash and deposits declined ¥206mn, inventories increased by ¥915mn due to the expansion of business. In non-current assets, property, plant and equipment increased ¥1,701mn, mainly due to the implementation of M&A, while there were also increases in goodwill of ¥449mn and leasehold and guarantee deposits of ¥805mn.

Total liabilities were up ¥4,260mn compared to the end of the previous fiscal period to ¥30,128mn. Interest-bearing debt declined ¥48mn, but the main factors behind the increase were the increases in accounts payable-trade of ¥1,554mn and income taxes payable of ¥1,396mn. Net assets declined ¥755mn to ¥21,263mn. While profit attributable to owners of parent of ¥4,855mn was posted, the main reasons for the decline in net assets were dividend payments of ¥1,118mn and the acquisition (¥4,816mn) and retirement of treasury shares.

Looking at financial indicators, the equity ratio fell 4.8pp compared to the end of the previous fiscal year to 41.1% due to the decrease in shareholders' equity caused by the acquisition and retirement of treasury shares, while the interest-bearing debt ratio increased 1.6pp to 44.1%. Net cash (cash and deposits – interest-bearing debt) remains ample despite dropping by ¥158mn to ¥6,959mn. It is determined that the Company's financial condition remains sound. Looking at the status of the Company's cash flows, the Company has been consistently posting positive free cash flow each fiscal year, and the Company has maintained a sound financial condition while opening new stores, conducting M&A and other investments, and otherwise expanding its business.

Results trends

Balance sheet and management indicators (Consolidated)

	(¥mn)				
	FY3/18	FY3/19	FY3/20	FY3/21	Change
Current assets	21,089	24,575	27,040	27,650	610
(Cash and deposits)	11,279	14,518	16,465	16,259	-206
(Inventories)	5,817	5,767	5,602	6,517	915
Non-current assets	20,505	20,115	20,846	23,741	2,895
(Goodwill)	179	150	67	516	449
Total assets	41,594	44,691	47,886	51,391	3,505
Total liabilities	23,861	25,188	25,868	30,128	4,260
(Interest-bearing debt)	8,306	8,804	9,348	9,300	-48
Net assets	17,732	19,502	22,018	21,263	-755
Key financial indicators					
(Financial strength)					
Equity ratio	41.7%	43.6%	45.9%	41.1%	-4.8pt
Interest-bearing debt ratio	47.8%	45.2%	42.5%	44.1%	1.6pt
Net cash	2,973	5,714	7,117	6,959	-158
(Profitability)					
ROE (Return on Equity)	16.2%	16.5%	17.0%	22.5%	5.5pt
ROA (Return on Assets)	11.5%	11.6%	13.0%	14.7%	1.7pt
Operating margin	3.6%	4.1%	4.4%	4.3%	-0.1pt

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

Cash Flows

	(¥mn)			
	FY3/18	FY3/19	FY3/20	FY3/21
Cash flows from operating activities	5,204	5,740	5,057	9,314
Cash flows from investing activities	-1,678	-1,700	-2,615	-2,974
(Free cash flow)	3,526	4,040	2,442	6,340
Cash flows from financing activities	-1,638	-803	-506	-6,555
Cash and cash equivalents at end of period	11,279	14,518	16,465	16,254

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

Business outlook

Forecasting increase in sales and profits for seventh consecutive year in FY3/22

1. Forecast for FY3/22

For the FY3/22 consolidated results, the Company is forecasting net sales and profits to continue to increase for the seventh consecutive year. The Company is forecasting net sales to climb 7.0% YoY to ¥175,000mn, operating income to rise 4.8% to ¥7,400mn, ordinary income to increase 5.4% to ¥7,700mn, and profit attributable to owners of parent to increase 3.0% to ¥5,000mn. The impacts of the coronavirus have become prolonged, and although it has become difficult to project the economic future, partly due to the re-issuance of a state of emergency declaration in nine prefectures from late April 2021 in nine prefectures (Osaka, Hyogo, Kyoto, Tokyo, Fukuoka, Aichi, Hokkaido, Okayama, Hiroshima), similar to FY3/21 the Gyomu Super business and the meat business are actively opening stores, and the Company is working to increase productivity at each Group store, and the Company is thus forecasting an increase in sales and profit. For the AUTOBACS and car-related business, the Company is forecasting an increase in sales and profit based on a recovery in sales at existing stores.

The Company plans to open a total of 49 new stores for the Group as a whole. Of these, 12 will be Gyomu Super stores, and 14 will be Oniku no Terabayashi stores. In addition, for mini PIAGO, the Company plans to carry out a scrap and build strategy for unprofitable stores. The Company is aiming to increase the number of Group stores by 49 stores to 635 stores by the end of FY3/22.

Consolidated forecast for FY3/22

	FY3/21		FY3/22		
	Results	vs. net sales	Company forecast	vs. net sales	YoY
Net sales	163,556	-	175,000	-	7.0%
Operating income	7,058	4.3%	7,400	4.2%	4.8%
Ordinary income	7,306	4.5%	7,700	4.4%	5.4%
Profit attributable to owners of parent	4,855	3.0%	5,000	2.9%	3.0%
Earnings per share (¥)	211.64		226.95		

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

G-7 HOLDINGS INC. | 25-Jun.-2021
 7508 Tokyo Stock Exchange First Section | <https://www.g-7holdings.com/investors/>

Business outlook

Number of Group stores and number of store openings and closures

Store name	Number of stores at end of FY3/20	FY3/21		Number of stores at end of FY3/21	FY3/22 store opening forecast	Number of stores at end of FY3/22
		Openings	Closures			
AUTOBACS (including SA and SH)	68			68		68
AUTOBACS Express	7			7		7
BP centers (body repair and coating)	8	1		9		9
G-7 TSUCHIYAMA CIRCUIT	1			1		1
FIELD SEVEN	-	2		2	1	3
mammacio	5			5	1	6
Taiyaki Specialty Store Yamaya Honpo	3			3		3
BIKE WORLD	12	2	2	12	3	15
Gyomu Super	145	21	1	165	12	177
Green's K	1		1	-		-
Obentoya K	-	1		1		1
Oniku no Terabayashi	113	31	1	143	14	157
Andesfoods (from April 2020)	-	17	1	16		16
Megumi no Sato	31	15	1	45	5	50
Gekiyasu Super Megumi no Sato	1			1		1
mini PIAGO (from April 2020)	-	74	2	72	6	78
CROQUANT CHOU ZAKUZAKU	1		1	-		-
RINGO	1			1		1
Mega Recycle Kingdom	1		1	-		-
Ryohin Kaikan	1		1	-		-
Kingram	1		1	-		-
Daiso	1		1	-		-
Curves	20	5		25	5	30
Step Golf	3			3		3
Nanatsu no Tsubo	1		1	-		-
IKINARI! STEAK (including Taiwan)	9		6	3		3
Overseas (AUTOBACS, BIKE WORLD)	7		3	4	2	6
Total	441	169	24	586	49	635

Source: Prepared by FISCO from materials provided by the Company

The Company will continue to aggressively open stores in the Gyomu Super business and the meat business, and will work to improve the profitability of mini PIAGO through a scrap and build strategy

2. Segment outlook

(1) AUTOBACS and car-related business

Within the AUTOBACS and car-related business, for the mainstay G-7 AUTO SERVICE, the Company is forecasting net sales to increase 6.8% YoY and ordinary income to increase by double digits. The Company has no plans to open any new AUTOBACS stores, and will aim to increase both sales and profits through a recovery in sales at existing stores. In FY3/21, the decline in store visitors due to the coronavirus was the main reason for the decline in sales, but comparing FY3/22 to FY3/21, which was impacted by the coronavirus, at FISCO we believe that it is possible for sales and profits to increase, assuming that the negative impacts from the coronavirus (shortening of operating hours, etc.) will not be worse than up until now and that sales of winter tires will be on par with the level of the previous year. The Company plans to improve the profit margin of this business by continuing to strengthen the highly-profitable service divisions, which offer services such as body services, painting, and vehicle inspection services, as well as by working to improve productivity per employee.

As a new initiative, the Company plans to sequentially install EV stations and hydrogen stations on the grounds of AUTOBACS stores. The Company will use subsidies to do this, so the investment burden will not be so large. These services will initially be offered for free, but the Company plans to eventually have customers pay for them. The idea is to attract more customers by installing these stations. Regarding the new business format FIELD SEVEN, the Company will open 1 store in Fukui Prefecture in June 2021, and will then consider expanding to the Kanto area (Chiba Prefecture, Ibaraki Prefecture) once it has firmly established an earnings model. There is deep-rooted demand for camping trips by car, and synergies are expected once the coronavirus pandemic gets under control.

Elsewhere, the Company plans to open 3 G-7 BIKE WORLD stores, and is forecasting higher sales and profits. Also, for the overseas AUTOBACS and BIKE WORLD stores, in Malaysia 1 of each will be opened following renovation in June 2021. The impact on earnings will be minimal, but the Company is building a foundation, with an eye towards capturing the growth in Southeast Asia in the future. For the car export sales business, sales to Malaysia, the key export destination, have been almost non-existent recently, and based on this the Company is working to increase sales to Africa and Oceania, aiming for net sales of approximately ¥3bn.

(2) Gyomu Super business

In the Gyomu Super business, the Company is forecasting an increase in both sales and profits, with the Company expecting a single-digit YoY increase in net sales. The Company plans to aggressively open new stores and renovate existing stores, and expects the number of stores to increase by 12 stores compared to the end of FY3/21 to 177 stores. In addition to Kyushu, where there is still ample room to open stores, the Company plans to open stores in Aichi Prefecture, the Tokyo metropolitan area, and Hokkaido. The Company expects net sales at existing stores to be flat YoY, partly due to the recoil decline versus 1Q FY3/21, when there was particularly high demand related to the coronavirus pandemic.

Business outlook

(3) Meat business

In the meat business, the Company is expecting a single-digit YoY increase in net sales, and forecasting an increase in both sales and profits. The Company plans to open 14 Oniku no Terabayashi stores simultaneous with openings of Gyomu Super stores, thereby increasing the number of stores at the end of FY3/22 to 157 stores. The Company has been bolstering its human resources to support the store-opening strategy, including starting the hiring of new graduates from the spring of 2021. The Andesfoods division saw sluggish results in FY3/21 due to the coronavirus, and in FY3/22 the Company is expecting a recovery from 3Q onwards.

(4) Other businesses

The forecasts for other businesses are also for increases in sales and profits. For 99 ICHIBA's mini PIAGO, just under 40% of the stores are unprofitable, albeit only slightly. The plan is to execute a scrap and build strategy of closing stores in business districts that have little ability to attract customers and opening stores in residential districts, among other things. The forecast number of stores at the end of FY3/22 is 78 stores, which is 6 more stores than at the end of FY3/21. Efforts will be made to reduce product waste loss as a way to improve store profitability. The current waste ratio is approximately 2% of net sales, which is high compared to Gyomu Super, so the aim is to lower the waste ratio to the same level as Gyomu Super. As concrete initiatives, the ordering system will be revised and focus will be placed on training foreign staffers. In addition, going forward the Company is looking at introducing self-check-out systems as a way to reduce the human resources costs per store.

With respect to mini PIAGO, the Company is aiming to quickly build a 100-store network in the Tokyo metropolitan area and increase sales to the ¥20bn level. The Company is currently using UNY Co., Ltd.'s network, but it will not be able to use this network from 2023 onward due to the terms of the contract. The Company thus needs to expand its store network in order to reduce its distribution costs. Sales of PB products that are currently handled will also end at that time, so going forward the Company plans to sell PB products that are developed and manufactured by G7 JAPAN FOOD SERVICE and Group company products (meats, fruits and vegetables), and earnings power is expected to increase further due to synergies. Once a 100-store platform is established in the Tokyo metropolitan area and the earnings power has been improved, the Company will consider entering new areas such as Nagoya.

For Megumi no Sato, the Company plans to open 5 new stores, and these stores will be opened in the Kansai area, Chubu area, and Tokyo metropolitan area simultaneously with Gyomu Super store openings. The distribution networks are not yet developed in Kyushu and Hokkaido, so there are currently no plans to open stores in these regions. The Company is expecting an increase in both sales and profits due to a rise in commissioned sales revenue accompanying the increase in product distribution value.

For G7 JAPAN FOOD SERVICE's food business, the Company is expecting an increase in sales and profits by discovering regional specialty foods and cultivating customers, including department stores. With respect to Curves clubs, which are workout and training clubs for women, the Company plans to acquire 5 new clubs to increase the total number to 30 clubs. Although the situation is currently challenging due to the coronavirus pandemic, the health services market is expected to stably grow over the medium term, and this business is expected to contribute to an increase in earnings at some point. Also, the Company is considering M&A deal candidates, and is aiming to conclude agreements during FY3/22.

Company announced a medium-term business plan targeting net sales of ¥250bn and ordinary income of ¥10bn in FY3/26

3. Medium-term business plan and 45th anniversary activities

(1) Overview of medium-term business plan

The Company has been working under a medium-term business plan targeting net sales of ¥170bn and ordinary income of ¥7bn in FY3/21, the Company's 45th anniversary. As discussed above, the coronavirus pandemic caused net sales to fall a bit short of the target, but ordinary income exceeded the target. In terms of net sales, sales in the AUTOBACS and car-related business as well as the overseas business were below the targets, while the Gyomu Super business and the meat business exceeded targets, resulting in profit exceeding the target.

The newly announced five-year medium-term business plan targets net sales of ¥250bn and ordinary income of ¥10bn in FY3/26, the final year of the plan. This means increasing FY3/21 results by approximately 1.5x, and the Company will aim for annual net sales growth in the 10% range. The basic strategy remains unchanged, and entails increasing store earnings power with an emphasis on productivity and increasing new store openings, hiring and developing the human resources to support these initiatives, developing new businesses and advancing the M&A strategy, among other measures. The overseas business was not included in the plan's key initiatives, largely due to the coronavirus pandemic, and the Company will aim to achieve the plan's targets by growing and expanding domestic businesses.

As a human resources development initiative, since April 2018 the Company has been conducting training such as the Founder's Seminars, NC (Next Cabinet) training seminars, and training classes for executives at a pace of around once per month. As a result of these efforts, the management teams of Group companies have become younger. Partly due to the change in generational change, communication between Group companies is now more robust than before, and a management base that generates Group synergies is taking shape. At FISCO, we believe that the benefits of this will become evident in the Company's operating results from FY3/22 onward.

In addition, each business company is conducting its own training, including store manager training courses and management training, and they are working to develop the human resources necessary to roll out more stores. In spring 2021, the Company hired approximately 200 new graduates, a record high number (the Company hired 113 people in April 2020). Approximately 100 of these hires were by G-7 AUTO SERVICE (around 50 of these were foreign exchange students, etc.). The Company will also continue to utilize seniors and others as it strives to promote diverse working styles. AUTOBACS is hiring seniors as welcome staff, and the Company is also hiring seniors in its real estate business. Based on the idea that the source of a company's growth is its human resources, the Company's policy going forward is to recruit and train human resources as its most important management issue.

We believe that the Company will be able to achieve sustainable growth with Gyomu Super at the core, by continuing to open Oniku no Terabayashi, Megumi no Sato, and other stores at the same time as Gyomu Super stores. In addition to this, we feel that the Company will be able to achieve the targets in its new medium-term business plan by creating synergies with AUTOBACS, FIELD SEVEN and other businesses, and by developing new business formats and advancing its M&A strategy.

Business outlook

(2) 45th anniversary activities

The Company celebrated its 45th anniversary in FY3/21. To mark this milestone, the Company built a new head office and erected a memorial to honor former Group employees who were with the Company since its founding. The new head office was built near the former head office building (Kobe City, Hyogo Prefecture) in order to consolidate the head office corporate divisions of Group companies (G-7 AUTO SERVICE, G-7 BIKE WORLD, G7 RETAIL JAPAN) and to prepare for future increases in human resources, and the Company began operating from the new head office in April 2021. The Company plans to renovate the former head office and use it as a distribution center for Megumi no Sato from June 2021.

Meanwhile, the memorial was built in October 2020 on 450 tsubo (approximately, 1,488m²) of land leased from the founder's family home. So as to not lose the feeling of gratitude towards those founding members who worked hard to build the Company's business from its founding, the Company established October 31, the date that the first AUTO SEVEN store opened, as a commemoration date. The Company has decided that each year, all Group company executives will visit the memorial on this date.

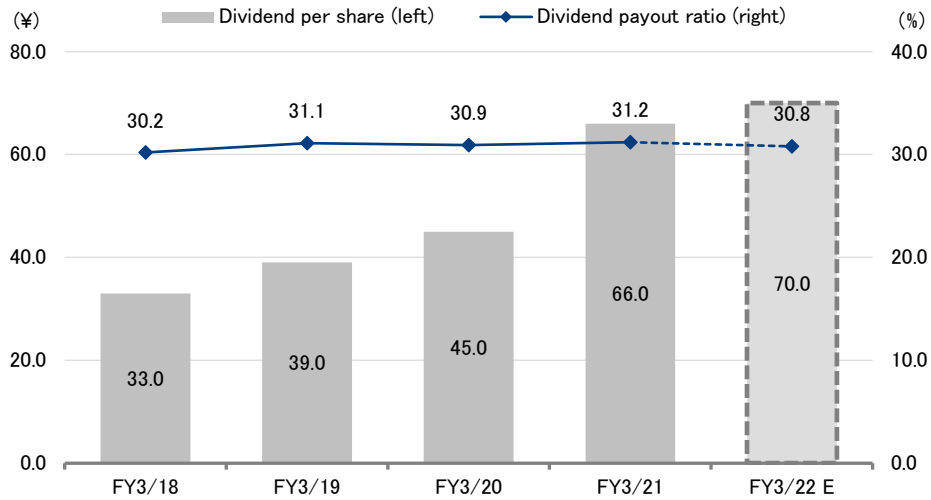
■ Shareholder return policy

Aims for a dividend payout ratio of 30% and plans to increase the dividend for the seventh consecutive period

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, and taking into consideration factors including capital required for future business expansion and its financial condition. Looking at the dividend, it would appear to be aiming for a dividend payout ratio of around 30%, and for FY3/22 as well, it plans to increase the dividend per share by ¥4.0 YoY to ¥70.0 for a dividend payout ratio of 30.8%. This would be the seventh consecutive period of higher dividends, and we can expect continued dividend growth as long as earnings continue to increase going forward.

Shareholder return policy

Dividend per share and dividend payout ratio



Note: Paid special dividends of ¥8.0 in FY3/18, ¥2.0 in FY3/20 and ¥16.0 in FY3/21

Note: Conducted a 2-for-1 share split in January 2020. Dividends for FY3/20 and prior years have been calculated retroactively

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



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp