

G-7 HOLDINGS INC.

7508

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Summary

Targeting record-high results in FY3/22, with performance driven by the Gyomu Super business

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 has been actively conducting M&As and expanding its business scale. In FY3/21, it made Group companies of 99 ICHIBA Co., Ltd., which manages the mini PIAGO mini supermarkets, and Andesfoods Co., Ltd., a meat wholesaler.

1. Overview of 1H FY3/22 results

In its 1H FY3/22 (April to September 2021) consolidated results, the Company posted lower profits on higher sales, with net sales increasing 2.6% year on year (YoY) to ¥81,938mn, and ordinary income decreasing 3.4% YoY to ¥3,473mn. Results were largely in line with the Company's internal forecasts. By business, the AUTOBACS and car-related business and the Gyomu Super business both posted increases in sales and profits, whereas the meat business posted an increase in sales and a decrease in profit due to rising purchasing prices for imported meat and an increase in fixed costs reflecting an increase in store openings. In other businesses, mini PIAGO mini supermarkets and the Megumi no Sato farmers' market chain posted decreases in sales and profits. These results reflected a recoil decline from increased demand for eating at home due to the novel coronavirus pandemic (hereafter, the "COVID-19 pandemic") in the same period of the previous fiscal year. The number of Group stores at the end of September 2021 was 592 stores, an increase of 6 stores from the end of the previous fiscal year. Specifically, the Group opened 15 stores while closing 9 unprofitable stores centered on Gyomu Super stores and Oniku no Terabayashi stores. The Group opened one TREASURE CYCLE store, which is a bicycle shop. TREASURE CYCLE will serve as a new business format for the Group.

2. Forecasts for FY3/22

For FY3/22 results, the Company has kept its initial forecasts unchanged. Net sales are forecast to increase 7.0% YoY to ¥175,000mn and ordinary income to rise 5.4% to ¥7,700mn. The Company expects higher sales and profits to continue in the Gyomu Super business due to active store openings in the second half of the fiscal year (2H FY3/22). The AUTOBACS and car-related business is also expected to post increases in sales and profits based on higher sales of winter tires. Moreover, the Company expects profit in the meat business to start increasing as purchasing prices for imported meat settles down in 2H FY3/22. These positive trends should cover the sluggish performance of mini PIAGO and Megumi no Sato. The Company plans to increase the number of Group stores by 50 stores from the previous fiscal year-end to 636 stores. The Company is highly likely to fall short of this forecast with its existing businesses alone. Accordingly, it is considering M&A deals and other initiatives.

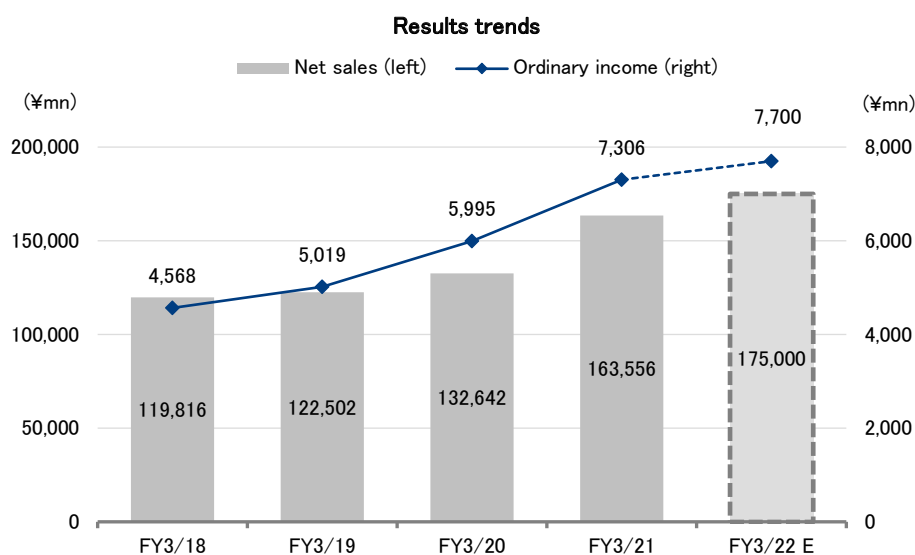
Summary

3. Medium-term business plan

The Company has started a 5-year medium-term business plan running through FY3/26, the plan's final fiscal year. It is targeting net sales of ¥250bn and ordinary income of ¥10bn as its business targets for FY3/26. The Company seeks to achieve its targets through measures to bolster the earnings power of existing stores and improve net sales and gross profit per employee and by stepping up the opening of new stores. In addition, it will strive to reach its targets by undertaking initiatives such as developing and nurturing new business formats and conducting M&As. This plan will put the Company on course to expanding the size of its business 1.5x from the FY3/21 level. Given that the Company has achieved 1.5x growth in its previous 5-year plan, FISCO believes this level of growth is achievable. Furthermore, the Company will work to implement ESG and SDGs measures as management priorities.

Key Points

- Sales increased while profit decreased for 1H FY3/22, but progress was largely in line with internal forecasts.
- Keeping initial forecasts for FY3/22 unchanged, while aiming for higher sales and profits for the seventh consecutive year in FY3/22
- Targeting ¥250bn in net sales and ¥10bn in ordinary income in FY3/26



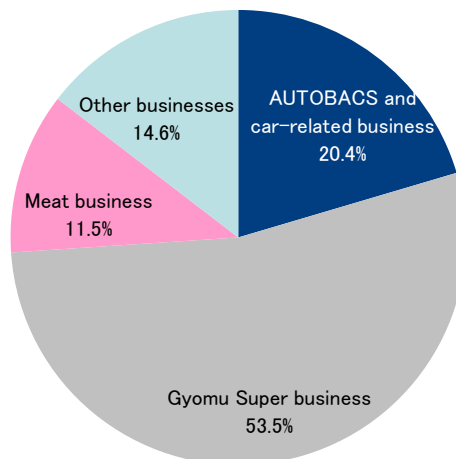
Source: Prepared by FISCO from the Company's financial results

Business overview

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

The Company discloses information on four business segments: AUTOBACS and car-related business, Gyomu Super business, meat business, and other businesses. Looking at the percentages of total net sales by business in 1H FY3/22, the AUTOBACS and car-related business accounted for 20.4% of net sales, the Gyomu Super business accounted for 53.5% of net sales, and the meat business accounted for 11.5% of net sales, meaning that these three businesses accounted for over 80% of total net sales. 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.

**Percentages of Total Net Sales by Business Segment
(1H FY3/22)**



Source: Prepared by FISCO from the Company's earnings presentation materials

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 carried out by BIKE WORLD, which is managed 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.CrownTrading Co., Ltd.

Business overview

More than 80% of sales are provided by AUTOBACS-related stores, and as of the end of September 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 (585 domestic stores and 51 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 3 stores within AUTOBACS stores.

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

In addition, G-7 AUTO SERVICE manages 3 Yamaya Honpo taiyaki specialty stores (Yamaya Taiyaki Honpo Co., Ltd.) and 6 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

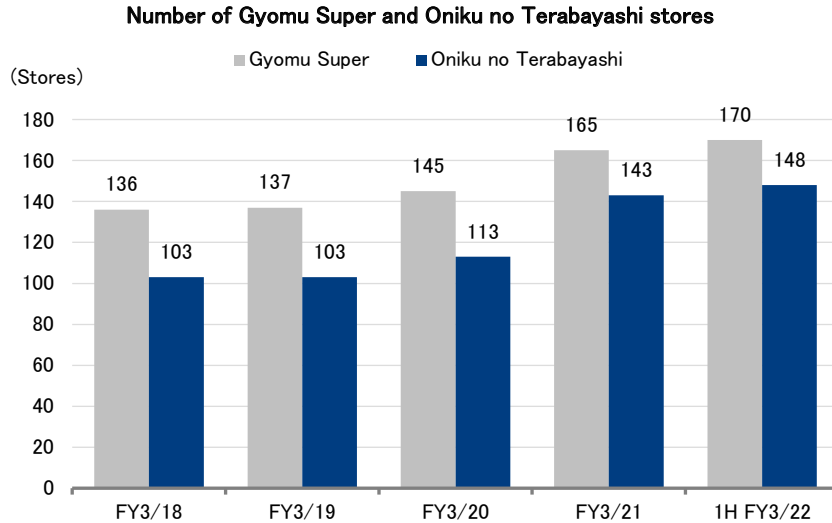
The Gyomu Super business is operated by G-7 SUPER MART CO., LTD., which develops the Gyomu Super franchise. Store openings took place in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions, reaching 170 stores at the end of September 2021, the largest number within the Gyomu Super group (942 stores). Looking at store numbers by region, the Kanto area has the most with 68 stores (19 in Tokyo, 17 in Kanagawa, 18 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 21 stores (15 in Fukuoka, 4 in Kumamoto, and 2 in Nagasaki), and Hokkaido with 10 stores. Notably, from FY3/21 onward, the Company has accelerated the opening of new stores in Kyushu.

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 made Andesfoods a consolidated subsidiary (through an absorption-type merger in July 2020; 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 September 2021 were 148 Oniku no Terabayashi stores and 15 Andesfoods stores, for a total of 163 stores. By region, Kanto had the most with 72 stores, followed by Kansai (Hyogo Prefecture, Osaka Prefecture) with 36 stores, Tokai (Aichi Prefecture, Mie Prefecture, and Gifu Prefecture) with 26 stores, and Kyushu (Fukuoka Prefecture, Kumamoto Prefecture) with 14 stores. Around 90% of the total number of Oniku no Terabayashi store openings are within Group stores, such as Gyomu Super and Megumi no Sato stores.

Business overview



Source: Prepared by FISCO from earnings presentation materials

4. Other businesses

Other businesses consist of the businesses of G7 AGRI JAPAN CO., LTD., which manages the Megumi no Sato farmers' market chain; 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 TREASURE CYCLE, which is a bicycle shop and a new business format for the Company. It also includes the mini PIAGO mini supermarkets business conducted by 99ICHIHARA, which was made a subsidiary in April 2020.

At the end of September 2021, 45 Megumi no Sato stores had been opened. By region, Kansai has 24 stores (17 in Hyogo, 5 in Osaka, and 2 in Nara), Kanto has 15 stores (7 in Tokyo, 3 in Chiba, 3 in Saitama, and 2 in Kanagawa), and Chubu has 6 stores (5 in Aichi and 1 in Gifu). Among all 45 stores, 34 stores have been opened within a Gyomu Super store. Moreover, the sales method varies with the area. In the Kansai area, the business has adopted consignment sales (around 20.0% of the sales amount is recorded as commission income) as its sales method, whereas in the Chubu and Kanto areas, it has adopted the purchase-based sales method (products are purchased from wholesalers and sold to customers). The purchase-based sales method has been adopted in the Chubu and Kanto areas because the Company has not established a network of direct relationships with producers in those areas. This has become a key priority for the Company to address in the future from the perspective of mitigating business risk.

In the food and restaurant businesses, the food business discovers local, well-known and specialty products and sells them at department stores and specialty stores and on EC websites, among other places. The food business also develops, manufactures and sells various private-brand (PB) products, frozen foods. In the restaurant business, the Company has opened 1 restaurant in Taiwan as a franchisee of IKINARI! STEAK (Pepper Food Service Co., Ltd.), but it plans to close the restaurant by the end of March 2022. In addition, the Company also has one custard apple pie specialty store RINGO and plans to close it in January 2022. With these closures, the Company will withdraw from all restaurants in its restaurant business.

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Business overview

Other than these, as a franchisee, the Company manages 25 Curves clubs, which are workout and training clubs for women, and opened one TREASURE CYCLE store, which is a bicycle shop and a new business format for the Company, in July 2021. The Company previously managed three stores of the indoor golf school Step Golf (stepgolf Inc.). It withdrew from business at all 3 stores at the end of July 2021.

mini PIAGO operates in Tokyo and Kanagawa Prefecture, and as of the end of September 2021, there are 71 stores (57 stores in Tokyo and 14 stores in Kanagawa). Sales per store are approximately ¥200mn per year, and the profit margin is just over 1%, both of which are lower than the corresponding figures for Gyomu Super. Therefore, improving the earnings power of mini PIAGO is a priority for the Company. Currently, the Company's investment ratio in 99 ICHIBA is 80.0%. The Company plans to acquire the remaining 20% for ¥250mn from UNY Co., Ltd., which is a subsidiary of Pan Pacific International Holdings Corporation <7532>, in April 2022 and make 99 ICHIBA 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.CrownTrading Co., Ltd	100.0%	New vehicle and used vehicle export sales
	G7 RETAIL MALAYSIA SDN.BHD	100.0%	Operator of AUTOBACS and BIKE WORLD, etc.
Gyomu Super business	G-7 SUPER MART CO., LTD.	100.0%	Operator of Gyomu Super, etc.
Meat business	G-7 MEAT TERABAYASHI CO., LTD.	100.0%	Retail sales of meats and processed livestock products
Other businesses	G7 AGRI JAPAN CO., LTD.	100.0%	Operator of Megumi no Sato, etc.
	G7 JAPAN FOOD SERVICE CO., LTD.	100.0%	Manufacturing and wholesale of food products and beverages, operator of restaurants, etc.
	G7 RETAIL JAPAN CO., LTD.	100.0%	Handles real estate management 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

Sales increased while profit decreased for 1H FY3/22, but progress was largely in line with internal forecasts

1. Overview of 1H FY3/22 results

In its 1H FY3/22 consolidated results, the Company posted lower profits on higher sales. Net sales rose 2.6% YoY to ¥81,938mn, while operating income decreased 5.2% to ¥3,274mn and ordinary income declined 3.4% to ¥3,473mn. Profit attributable to owners of parent was down 2.7% to ¥2,445mn. The shortfalls against internal forecasts were around 2% for net sales and around 1% for ordinary income. However, profit attributable to owners of parent progressed mostly in line with the internal forecast.

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Results trends

Consolidated results for 1H FY3/22

	1H FY3/21		1H FY3/22		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	79,848	-	81,938	-	2.6%
Cost of sales	59,697	74.8%	61,707	75.3%	3.4%
SG&A expenses	16,698	20.9%	16,955	20.7%	1.5%
Operating income	3,452	4.3%	3,274	4.0%	-5.2%
Ordinary income	3,594	4.5%	3,473	4.2%	-3.4%
Profit attributable to owners of parent	2,512	3.1%	2,445	3.0%	-2.7%

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

Net sales reached a record high, supported by sales growth in the AUTOBACS and car-related business, as well as increased sales in the Gyomu Super business and the meat business due to the effects of new store openings, which covered sales declines in the Megumi no Sato and mini PIAGO businesses, which are included in other businesses. Meanwhile, on the profit front, although profits increased in the Gyomu Super business and AUTOBACS and car-related business, this increase was unable to cover the decline in profit in the meat business and other businesses, leading to a slight decrease in overall profit. In comparison with the Company's forecasts, the higher-than-forecast profits in the Gyomu Super business and the food and restaurant businesses, which are included in other businesses, were mostly offset by the shortfalls in profits in the AUTOBACS and car-related business, the meat business, and the Megumi no Sato and mini PIAGO businesses, which are included in other businesses. At the end of September 2021, the number of Group stores increased by 6 stores from the end of the previous fiscal year to 592 stores (15 store openings, 9 store closures).

Results by business segment

	(¥mn)							
	Net sales			Ordinary income			Ordinary income margin	
	1H FY3/21	1H FY3/22	YoY	1H FY3/21	1H FY3/22	YoY	1H FY3/21	1H FY3/22
AUTOBACS and car-related business	16,591	16,720	0.8%	580	614	5.9%	3.5%	3.7%
Gyomu Super business	41,067	43,879	6.9%	2,045	2,169	6.1%	5.0%	4.9%
Meat business	9,330	9,401	0.8%	520	236	-54.5%	5.6%	2.5%
Other businesses	12,859	11,937	-7.2%	277	231	-16.6%	2.2%	1.9%
Total	79,848	81,938	2.6%	3,594	3,473	-3.4%	4.5%	4.2%

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

Sales and profits from Gyomu Super continue to increase due to aggressive new store openings

2. Performance trends by business segment

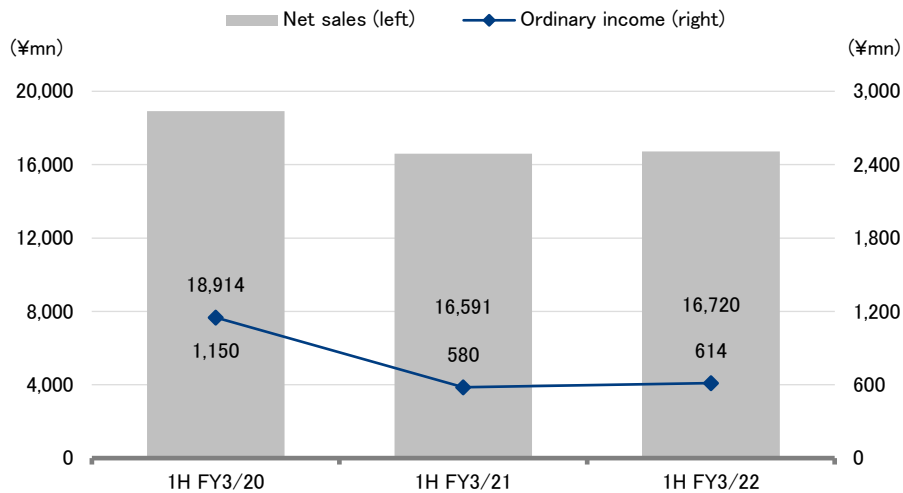
(1) AUTOBACS and car-related business

In the AUTOBACS and car-related business, net sales increased 0.8% YoY to ¥16,720mn and ordinary income rose 5.9% to ¥614mn. Within these results, for the mainstay G-7 AUTO SERVICE, business was heavily impacted by sluggish demand for drive recorders, car navigation systems, and other products, in addition to tires, which are core products. This impact reflected weak growth in the number of store visitors during homecoming trips and the holiday season due to the protracted COVID-19 pandemic.

Results trends

Looking at changes in net sales (YoY) in the main categories, maintenance-related services rose 13.3% YoY and oil increased 3.6% in step with increased car commuting, while tires decreased 2.6%, car electronics products decreased 9.5% and services were down 1.9%. On the profit front, decreased sales of highly profitable tires hit profits hard, leading to a decrease in earnings.

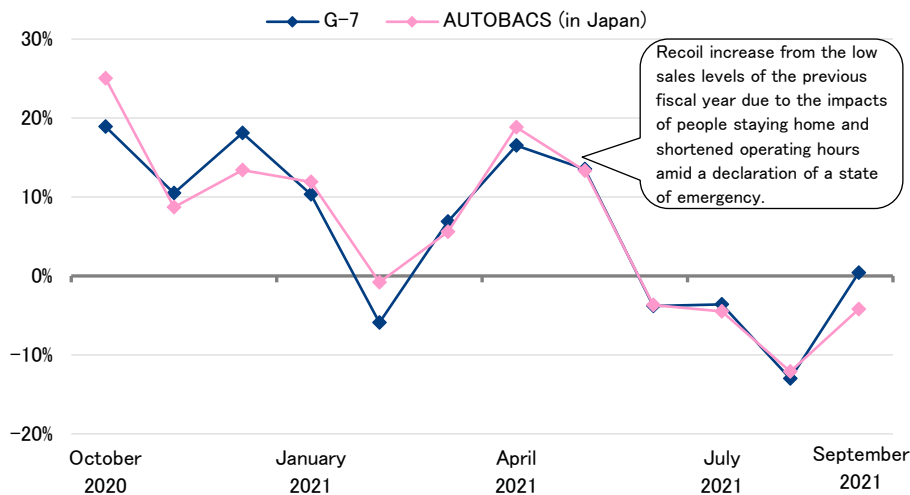
Results trends in the AUTOBACS and car-related business



Source: Prepared by FISCO from earnings presentation materials

Looking at the monthly trend in the sales growth rate on an existing store basis, although double-digit increases were recorded in April and May 2021 due to a recoil from the same months of the previous fiscal year, when growth rates were at low levels, there was a downturn in sales growth rates from June onward. Comparing this trend with the existing store sales growth rates for AUTOBACS, mostly the same trends were seen. The number of AUTOBACS-related stores in Japan remained unchanged at the end of September 2021 in comparison to the previous fiscal year-end, as 1 new store was opened while 1 store was closed.

Sales growth rate of existing AUTOBACS stores (YoY)



Source: Prepared by FISCO from materials provided by the Company

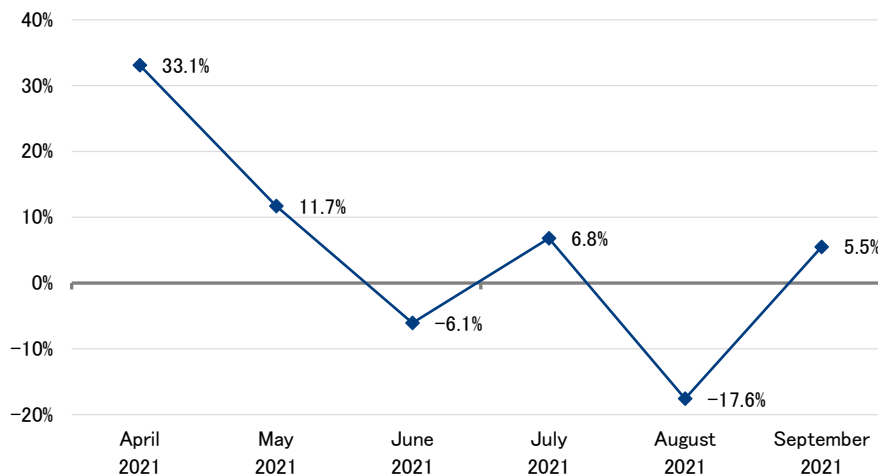
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Results trends

Also, as a new business format, the Company started opening FIELD SEVEN outdoor goods stores in March 2020. With the opening of a new store in the Chubu region, there are now a total of 3 FIELD SEVEN stores. Amid the continuing COVID-19 pandemic, net sales at FIELD SEVEN stores have not yet reached what could be described as an adequate level. However, in anticipation of growth in camping demand after the end of the pandemic, the Company seeks to make FIELD SEVEN stores profitable as it revises product strategies and other aspects of the business. In addition, the Company opened 1 mammaciao coin laundry store in the Kinki region, bringing the total number of these stores to 6.

With G-7 BIKE WORLD, the Company recorded a single-digit YoY increase in sales on an existing store basis. This increase resulted from growth in demand for motorcycles as a means of transportation during the COVID-19 pandemic and the success of measures related to the opening of collaborative stores with BIKE O managed by BIKE O & COMPANY Ltd. <3377>. However, the Company was unable to cover the decline in sales at 1 store (Okayama Kume store) closed in FY3/21 with sales from a store opened in the previous fiscal year (Takamatsu store), leading to an overall decrease in sales. Meanwhile, on the profit front, profit rose by double-digits, reflecting improved profitability in step with sales growth at existing stores. As of the end of September 2021, the number of BIKE WORLD stores in Japan stood at 12 stores, which was unchanged from the end of the previous fiscal year.

Sales growth rate of existing BIKE WORLD stores (YoY)



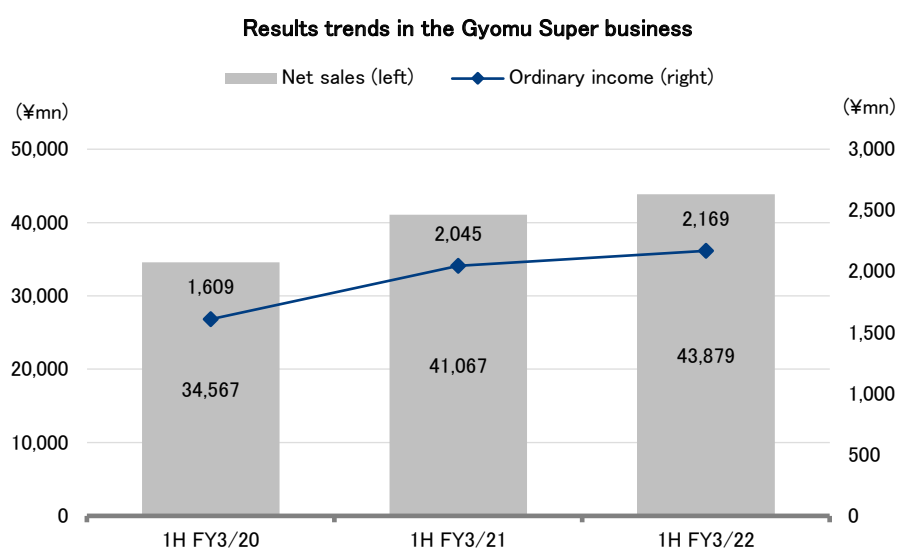
Source: Prepared by FISCO from materials provided by the Company

For the overseas AUTOBACS and BIKE WORLD businesses, in Malaysia, where there are stores, sales decreased due to the impact of the continuing COVID-19 pandemic in the country. However, the amount of losses decreased from the same period of the previous fiscal year because of cost reduction measures. As of the end of September 2021, there were 2 AUTOBACS stores and 2 BIKE WORLD stores, which were unchanged from the previous fiscal year-end. In other areas, G-7.CrownTrading conducts the car export sales business, and this business experienced a continued downtrend in sales due to the impact of the COVID-19 pandemic. However, on the profit front, profitability was restored in the business owing to progress on the collection of accounts receivable.

Results trends

(2) Gyomu Super business

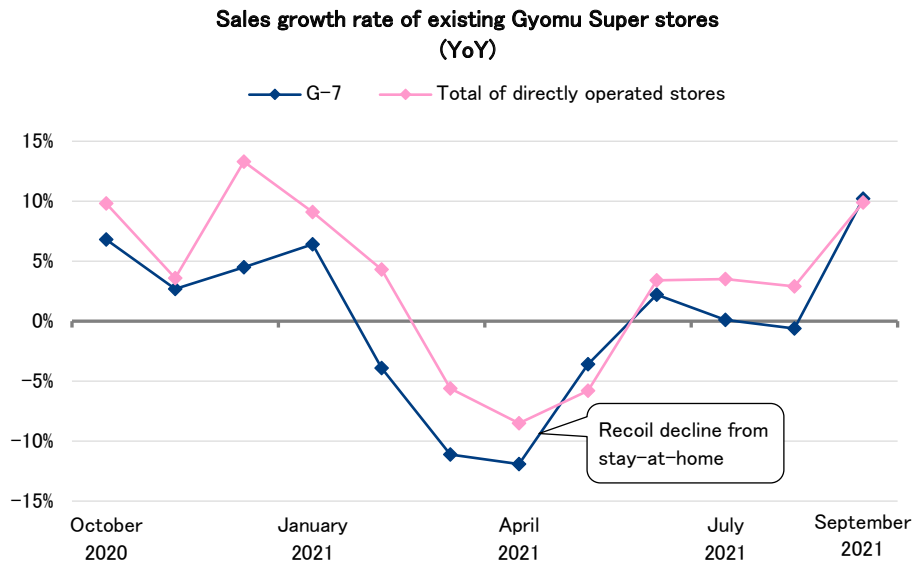
In the Gyomu Super business, which is conducted by G-7 SUPER MART, net sales increased 6.9% YoY to ¥43,879mn and ordinary income rose 6.1% to ¥2,169mn, both of which reached record highs and surpassed the Company's forecasts. Existing store sales decreased 1.1% YoY due to a recoil from the stay-at-home demand seen in the previous year, but this decrease was covered by the beneficial effect of new store openings. As of the end of September 2021, the number of stores had increased by 15 stores YoY, or 10%, to 170 stores. In 1H FY3/22, the Company opened 5 stores (3 stores in the Kyushu area, and 1 store each in the Tokyo metropolitan area and Hokkaido). On the profit front, the positive effect of the increase in sales absorbed increases in store opening and renovation costs and other factors, resulting in an increase in profit.



Source: Prepared by FISCO from earnings presentation materials and quarterly reports

Looking at the monthly trend in the sales growth rate on an existing store basis, there was a downturn in the sales growth rate in April and May 2021 compared with the same months of the previous year, due to the recoil from stay-at-home demand in the previous year. However, the sales growth rate trended firmly from June 2021 onward. Notably, in September 2021 the Company recorded a double-digit increase of 10% in the sales growth rate for the first time in 16 months, due partly to conducting a customer appreciation sale and receiving media coverage. 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 increased while profit decreased, with net sales rising 0.8% YoY to ¥9,401mn and ordinary income decreasing 54.5% YoY to ¥236mn. Net sales were sluggish, down 7.2% YoY on an existing store basis, due to a recoil from stay-at-home demand in the previous year, but this decrease in sales was covered by the beneficial impact of new store openings, allowing an overall increase in sales to be maintained. A strategy of opening new stores at the same time as opening Gyomu Super stores led to a significant increase in the number of stores. As of the end of September 2021, the number of stores had increased by 21 from the previous fiscal year-end to 148.

Meanwhile, on the profit front, there was a triple-digit decrease in profit mainly due to an increase in fixed costs such as tenant rent associated with growth in the number of stores, in addition to a decrease in gross profit margin caused by surging purchasing prices. Imported U.S. beef, which is a main product sold at stores, saw surging prices due to tightening supply-demand caused by global expansion in demand and sluggish growth in production output due to the COVID-19 pandemic. The surging prices for imported U.S. beef put pressure on profits in this business.

In the Andesfood business division, which was formed in July 2020, sales decreased reflecting continued sluggish sales of products for commercial use due to the protracted COVID-19 pandemic. However, profitability improved slightly (contraction in the amount of loss) owing to cost reduction measures, such as the closure of 1 store during the period under review.

Results trends

(4) Other businesses

In other businesses, net sales decreased 7.2% YoY to ¥11,937mn, and ordinary income decreased 16.6% YoY to ¥231mn. Among these businesses, mini PIAGO and Megumi no Sato both posted lower sales and lower profit due to a recoil decrease from the rapid growth in demand for eating at home in the same period of the previous fiscal year, which was caused by the COVID-19 pandemic. Notably, Megumi no Sato incurred product disposal losses at stores in the Chubu and Kanto areas, where it has adopted the purchase-based sales method. These product disposal losses were one reason for the deterioration in profit. In terms of the number of stores as of the end of September 2021, there were 71 mini PIAGO stores, a decrease of 1 store from the previous fiscal year-end, and 45 Megumi no Sato stores, which was unchanged (one store was opened and one store was closed).

In the food business operated by G7 JAPAN FOOD SERVICE, sales and profits both increased. Sales of frozen foods, which are private-brand products, were favorable. In addition, progress was made on developing customers for quality food products primarily in the Tokyo metropolitan area, based on the positive effect of increasing marketing resources. On the profit front, business sites in Tokyo were reduced from 2 sites to 1 site, and progress on the reorganization of the unprofitable restaurant and sweets businesses served as positive factors behind profits. In the restaurant business, particularly IKINARI! STEAK restaurants, two restaurants in Japan were closed at the end of May 2021, and the remaining restaurant in Taiwan is scheduled to be closed in March 2022. Moreover, in the sweets business, plans are in place to close all restaurants in this business with the closure of one RINGO restaurant in January 2022.

G7 RETAIL JAPAN operates Curves, a chain of workout and training clubs for women. At Curves, sales increased and profits also improved. In the same period of the previous year, Curves had to suspend operations temporarily due to the COVID-19 pandemic. In FY3/22, the number of Curves members has been gradually recovering. The number of Curves clubs was 25 as of the end of September 2021, remaining mostly unchanged from the previous fiscal year-end. Regarding Step Golf, which had been experiencing sluggish earnings, the Company withdrew from all 3 stores at the end of July 2021. Moreover, as a new business format, the Company opened its first TREASURE CYCLE specialty bicycle shop in July 2021 on the grounds of a Group store in Hyogo Prefecture. For the time being, the Company plans to implement measures to build an earnings model for TREASURE CYCLE.

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

3. Financial condition and key financial indicators

At the end of 1H FY3/22, total assets were down ¥1,475mn from the previous fiscal year-end to ¥49,916mn. The main changes were as follows. In current assets, cash and deposits decreased by ¥2,505mn while there was an increase in inventories of ¥386mn. In non-current assets, property, plant and equipment increased ¥878mn in connection with new store openings in the Gyomu Super, meat, and other businesses, while there was a decrease in goodwill of ¥40mn.

Total liabilities at the end of 1H FY3/22 decreased by ¥3,022mn from the previous fiscal year-end to ¥27,106mn. The main factors behind this decrease were a decrease in accounts payable-trade of ¥415mn, in addition to decreases of ¥1,072mn in income taxes payable and ¥524mn in provision for bonuses. Net assets at the end of 1H FY3/22 increased by ¥1,547mn from the previous fiscal year-end to ¥22,810mn. Retained earnings increased by ¥1,542mn mainly owing to the recording of profit attributable to owners of parent of ¥2,445mn and payment of dividends of ¥900mn.

Results trends

Looking at financial indicators, the equity ratio rose 4.3pp from the previous fiscal year-end to 45.4%, due to the increase in shareholders' equity and decrease in liabilities. The interest-bearing debt ratio decreased 3.0pp to 41.1%. Net cash (cash and deposits – interest-bearing debt) decreased by ¥2,505mn from the previous fiscal year-end to ¥4,454mn, mainly due to the payment of income taxes and dividends. Nonetheless, it is determined that the Company's financial condition remains sound. While maintaining financial soundness, the Company's strategy is to expand business by continuing to open new stores and make investments such as M&As within the scope of cash in hand.

Consolidated balance sheet

	(¥mn)					
	FY3/18	FY3/19	FY3/20	FY3/21	1H FY3/22	Change
Current assets	21,089	24,575	27,040	27,650	25,256	-2,394
(Cash and deposits)	11,279	14,518	16,465	16,259	13,754	-2,505
(Inventories)	5,817	5,767	5,602	6,517	6,903	386
Non-current assets	20,505	20,115	20,846	23,741	24,660	919
(Goodwill)	179	150	67	516	476	-40
Total assets	41,594	44,691	47,886	51,391	49,916	-1,475
Total liabilities	23,861	25,188	25,868	30,128	27,106	-3,022
(Interest-bearing debt)	8,306	8,804	9,348	9,300	9,300	0
Net assets	17,732	19,502	22,018	21,263	22,810	1,547
Key financial indicators						
(Financial strength)						
Equity ratio	41.7%	43.6%	45.9%	41.1%	45.4%	4.3pt
Interest-bearing debt ratio	47.8%	45.2%	42.5%	44.1%	41.1%	-3.0pt
Net cash	2,973	5,714	7,117	6,959	4,454	-2,505

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

Business outlook

Keeping initial forecasts for FY3/22 unchanged, while aiming for higher sales and profits for the seventh consecutive year in FY3/22

1. Forecast for FY3/22

For the FY3/22 consolidated results, the Company has kept its initial forecasts unchanged. Net sales are forecast to increase 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. If the Company achieves its targets, it will post higher sales and profits for the seventh consecutive year and will achieve consecutive record-high business results over those years.

Business outlook

Consolidated forecast for FY3/22

	FY3/21		FY3/22		YoY	1H progress rate	5-year average 1H progress rate
	Results	vs. net sales	Company forecast	vs. net sales			
Net sales	163,556	-	175,000	-	7.0%	46.8%	48.3%
Operating income	7,058	4.3%	7,400	4.2%	4.8%	44.2%	44.3%
Ordinary income	7,306	4.5%	7,700	4.4%	5.4%	45.1%	44.6%
Profit attributable to owners of parent	4,855	3.0%	5,000	2.9%	3.0%	48.9%	47.9%
Earnings per share (¥)	105.82		113.47				

Note: The Company conducted a 2-for-1 stock split in October 2021. Earnings per share amounts have been retroactively adjusted.
 Source: Prepared by FISCO from the Company's financial results

The progress rates for business results up to 1H against the full-year forecast were 46.8% for net sales and 44.2% for operating income. In comparison with the average progress rate over the past 5 years (48.3% for net sales and 44.3% for operating income), it is believed that the Company is making mostly steady progress. However, for the Company, sales trends for highly profitable winter tires tend to hold the key to profits. Normal snowfall is forecast this season, so winter tire sales are expected to follow a steady trend. If there is a warm winter, this could cause business results to fall short of forecast. Therefore, future sales trends will need to be monitored closely.

On the other hand, the meat business faced challenges on the profit front up to 1H. Purchasing prices for imported beef are expected to improve, so profits are forecast to return to growth in 2H in comparison to the same period of the previous year. Additionally, the Company plans to continue to actively open new Gyomu Super stores, and these new store openings are expected to drive overall profits.

In FY3/22, the Company plans to increase the number of stores by 50 stores from the previous fiscal year-end to 636 stores. That said, as of the end of 1H FY3/22, the Company has increased the number of stores by only 6 from the previous fiscal year-end, so the Company might not reach its full-year forecast.

Business outlook

Number of Group stores and number of store openings and closures

Store name	Number of stores at end of 1H FY3/21	Number of stores at end of FY3/21	Number of stores opened in 1H FY3/22	Closures	Number of stores as of 1H FY3/22	FY3/22 store opening forecast	Number of stores at end of FY3/22 (E)
AUTOBACS (including SA and SH)	68	68	1	1	68		68
AUTOBACS Express	7	7			7		7
BP centers (body repair and coating)	8	9			9		9
G-7 TSUCHIYAMA CIRCUIT	1	1			1		1
FIELD SEVEN		2	1		3	1	3
mammaciao	5	5	1		6	1	6
Taiyaki Specialty Store Yamaya Honpo	3	3			3		3
BIKE WORLD	11	12			12	3	15
Gyomu Super	155	165	5		170	12	177
Green's K	1	0					
Obentoya K		1			1		1
Oniku no Terabayashi	127	143	5		148	14	157
Andesfoods (from April 2020)	17	16		1	15		16
Megumi no Sato	45	45	1	1	45	5	50
Supermarket Megumi no Sato	1	1			1		1
mini PIAGO (from April 2020)	73	72		1	71	6	78
CROQUANTCHOU ZAKUZAKU	1	0					
RINGO	1	1			1		1
Ryohin Kaikan	1	0					
Kingram	1	0					
Curves	20	25			25	5	30
TREASURE CYCLE (new business format)		-	1		1		1
Step Golf	3	3		3	0		3
Nanatsu no Tsubo	1	0					
IKINARII STEAK (including Taiwan)	9	3		2	1		3
Overseas (AUTOBACS, BIKE WORLD)	7	4			4	2	6
Total	566	586	15	9	592	49	636

Source: Prepared by FISCO from earnings presentation materials

The Company will continue to aggressively open stores in the Gyomu Super business and the meat business, while improving profitability will be the priority for Megumi No Sato and mini PIAGO

2. Segment outlook

(1) AUTOBACS and car-related business

Within the AUTOBACS and car-related business, for the mainstay G-7 AUTO SERVICE, although results were slightly below forecast up to 1H FY3/22, sales of winter products are expected to increase based on a cold wave forecast for western Japan. Based on this outlook, G-7 AUTO SERVICE will seek to achieve its full-year forecasts. As for new AUTOBACS store openings, the Company plans to open 1 new store (Fukui Prefecture) in March 2022, but this store will have only a negligible impact on business results.

In addition, as an SDGs-related initiative, the Company plans to sequentially install EV stations and hydrogen stations on the grounds of AUTOBACS stores (EV stations have been installed at one store, the Kisarazu Kaneda store in Chiba Prefecture.). 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 EV stations and related facilities.

Business outlook

Regarding the new business format FIELD SEVEN, the Company plans to open 1 new store on the grounds of the AUTOBACS Kisarazu Kaneda store in November 2021, bringing the total number of FIELD SEVEN stores to 4. The Company is targeting net sales of around ¥200mn from the 4 stores in FY3/21. Elsewhere, the Company plans to open 3 G-7 BIKE WORLD stores in 2H FY3/22. Of these stores, the Company opened 1 store (Mie Prefecture) in October 2021. This area has a lot of foreign laborers who commute to work on motorcycles, so sales have been strong since the store opened. Higher sales and profits are forecast at G-7 BIKE WORLD on a full-year basis.

Regarding overseas AUTOBACS and BIKE WORLD stores, the Company plans to open 1 of each in 2H FY3/22 in Malaysia. The impact on earnings will be minimal, but the Company is steadily building a foundation, with an eye towards capturing demand for automobile and motorcycle products in the Southeast Asian market in the future. For the car export sales business, while sales to the mainstay market Malaysia are sluggish, sales to South Africa have started to grow, and the business is aiming for net sales of approximately ¥3bn.

(2) Gyomu Super business

In the Gyomu Super business, the Company is forecasting single-digit YoY increases in both sales and profits. In 2H FY3/22, the Company plans to continue aggressively opening new stores and renovating existing ones, and expects the number of stores to increase by 12 stores compared to the end of FY3/21 to 177 stores. The Company plans to open stores primarily in the Kyushu and Chubu areas, where there is still ample room to open stores. It had opened 5 stores in 1H FY3/22 and has already finalized plans to open 4 stores in 3Q FY3/22. Apart from this, the Company plans to open even more stores than planned if it can find properties that meet its conditions. In addition, the Company plans to renovate five existing stores in 2H FY3/22.

The Company expects net sales at existing stores to be flat YoY. Based on sales conditions in September 2021, it is estimated that net sales at existing stores are likely to achieve positive YoY growth in 2H FY3/22. FISCO believes that earnings are also highly likely to surpass the Company's forecasts.

(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. Of this number, the Company opened 5 stores during 1H FY3/22, and has finalized plans to open 4 stores in 3Q FY3/22.

The impact of surging purchasing prices has made it somewhat difficult to achieve an increase in profits on a full-year basis. However, looking at 2H FY3/22 alone, profits are expected to increase in the meat business once again. One reason for the surging U.S. beef prices was that production did not increase because of a shortage of meat processing workers due to the COVID-19 pandemic. Recently, production seems to have started to increase as meat processing workers return to the workplace, and the surging prices are expected to settle down during 2H FY3/22. Meanwhile, a recovery in earnings in the Andesfoods business division is expected in 2H FY3/22, supported by an anticipated recovery in demand in the food service industry as state of emergency declarations are lifted.

Business outlook

(4) Other businesses

The forecasts for other businesses are also increases in sales and profits. The priorities will be to improve profits at Megumi No Sato and mini PIAGO. For mini PIAGO, around 40% of the stores are currently unprofitable, although the losses are small. For this reason, the Company plans 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. However, there are no properties for which plans have been finalized at this time. The Company seeks to enhance its profitability while maintaining the level of sales to a certain extent. Plans thus call for carrying out well-balanced closures and openings of stores.

Efforts are being made to reduce product waste loss as one way to improve store profitability. The current waste ratio is approximately 2% of net sales, 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 personnel expenses per store.

With respect to mini PIAGO, the Company aims to achieve sales of ¥20bn by building a 100-store network in the Tokyo metropolitan area at an early stage. 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. For this reason, the Company needs to expand its store network in order to reduce its distribution costs. Meanwhile, the Company currently sells UNY Co., Ltd.'s private brand (PB) products, but the sale of these products will also end at that time. As a replacement for these products, 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). This will lead to growth in sales of the Group's products. The earnings power of mini PIAGO is expected to improve from FY2023 onward through the promotion of Group synergies and the scrap and build strategy. In addition, once a 100-store platform is established in the Tokyo metropolitan area and the earnings power has been improved, the Company will explore entry into new areas such as Nagoya.

For Megumi no Sato, the Company had previously forecast higher sales and profits. However, earnings have been sluggish at stores in the Chubu area and Tokyo metropolitan area, where the purchase-based sales method is in place, so results could fall short of forecasts. The purchase-based sales method is exposed to the risk of product waste loss arising from unsold products. This means that daily purchasing volume and purchasing and sales prices have a direct bearing on earnings. Because the Company does not have a network of relationships with producers in these areas, it cannot introduce the consignment sales method. Currently the Company plans to overcome these issues by nurturing buyers and management personnel. Consequently, it might take slightly more time to improve earnings in the Chubu area and Tokyo metropolitan area. The number of Megumi no Sato stores is forecast to increase by 5 stores from the end of FY3/21 to 50 stores. However, at this time, there are no properties for which plans to open stores have been finalized.

For G7 JAPAN FOOD SERVICE's food business, the Company is expecting an increase in sales and profits by continuing to implement measures such as discovering regional specialty foods, cultivating customers such as department stores and specialty stores, and increasing sales of PB frozen foods. With respect to the number of Curves clubs, which are workout and training clubs for women, the Company had planned to acquire 5 new clubs through an M&A deal, but the deal was discontinued because an agreement could not be reached on conditions. Therefore, the number of Curves clubs is expected to remain unchanged from the current level, at 25. That said, the number of Curves members has continued to improve, and increases in sales and profits are projected. The Company continues to positively consider M&A deals covering existing businesses and related peripheral businesses.

Targeting ¥250bn in net sales and ¥10bn in ordinary income in FY3/26

3. Medium-term business plan and SDGs initiatives

(1) Medium-term business plan

The Company has started a five-year medium-term business plan running through FY3/26, which is the plan's final fiscal year and will mark the Company's 50th founding anniversary. The plan's business targets are net sales of ¥250bn and ordinary income of ¥10bn for FY3/26. Relative to results for FY3/21, the Company aims to increase net sales by 1.53x and ordinary income by 1.37x. In terms of compound annual growth rates, these targets represent firm growth of around 9% in net sales and around 6% in ordinary income. During the five fiscal years covered by the previous medium-term business plan (from FY3/17 to FY3/21), the Company achieved increases of 1.57x in net sales and 2.27x in ordinary income. Therefore, FISCO believes that the business targets of the Company's current plan have been set at achievable levels.

To achieve these targets, the Company will work to achieve the following 10 priorities as its goals:

- Each operating company will strive to deliver increases in sales and profits and record-high results every fiscal year.
- Each operating company must always achieve profitability.
- Strive to have no unprofitable stores and reduce the total amount of losses to zero.
- Aim for year-on-year increases in every productivity indicator, specifically net sales, gross profit and net income per employee.
- Profit growth rates in excess of sales growth rates must always be achieved.
- Strive to develop new businesses and business formats with high investment returns.
- Strive to open 70 to 100 new stores with high investment returns every fiscal year (The number of stores will be increased from 586 at the end of FY3/21 to 1,000 in FY3/26, including G-7 Mall.)
- Work to advance M&A deals and capital and business alliances
- Make every effort to strengthen recruitment and nurture and educate human resources
- Promote ESG and SDGs measures

Moreover, as its sales targets for each business, the Company is forecasting net sales of ¥100bn in the Gyomu Super business (up 1.19x from FY3/21), ¥50bn (up 1.57x) in the AUTOBACS business; ¥35bn in the meat business (up 1.91x); and ¥21bn in the mini-super business (up 1.56x). The Company is also forecasting net sales of ¥10bn each in the BIKE WORLD business, quality food business, agricultural business and overseas business. In the Curves business and the store interior business, net sales of ¥2bn is forecast in each business.

In the Gyomu Super business and meat business, there is still room to open stores primarily in the Kyushu area, Chubu area, Tokyo metropolitan area, and Hokkaido. The Company will need to achieve its targets by increasing the number of stores with a focus on those areas. Additionally, in the AUTOBACS business, the Company finds itself in a difficult environment for opening new AUTOBACS stores and acquiring stores through M&As. Accordingly, it will need to develop and nurture new business formats in peripheral fields, such as specialty stores for outdoor goods, to achieve its forecasts. In the mini-super business, the Company will implement its scrap and build strategy in the Tokyo metropolitan area and work to increase the number of stores as it strives to improve earnings power. Elsewhere, the Company has set out to develop new businesses that offer prospects for synergies with existing businesses and to acquire such businesses through M&As. The Company was able to achieve its targets for the previous medium-term business plan partly because the meat business, which it acquired through an M&A, contributed to net sales and profits. Therefore, the Company intends to replicate this success with similar projects over the next 5 years.

Business outlook

(2) SDGs Measures

In October 2021, the Company published information on its SDGs measures in the “Sustainability Measures by the G-7 Group” section of its website. This website presents the Company’s SDGs measures, specifically those measures that address 8 of the 17 SDGs. The main details are summarized below.

a) Good Health and Well Being

The Group conducts an annual Food Drive Campaign to donate food, clothing, daily goods and other items to those who are socially vulnerable. The Company plans to step up its focus on health and welfare activities even more than before by holding this campaign more frequently. The Company will also continue to hold recreational activities and similar initiatives for child welfare facilities and childcare support facilities.

In order to achieve its goal of reducing traffic accident fatalities by half, the Company also conducts activities such as encouraging drivers to have their vehicles inspected every 12 months, along with encouraging the installation of drive recorders in company vehicles, and promoting the sale of such items in stores. Through these activities, the Company strives to “prevent traffic accidents, facilitate the early resolution of accidents should they occur, and suppress driving behavior that leads to accidents.” Apart from this, the Group has made all indoor areas of its stores non-smoking, as a health maintenance measure.

b) Quality Education

As part of the safety education of children, the Company provides educational experiences involving participation in tasks such as tire changes. In addition, Group training is offered 4 times a year for Group employees who joined the company in the same year. This training builds friendship among colleagues while improving the professional skills of each employee over the long term, thereby helping to form productive and fulfilling workplaces. Moreover, the Company accepts technical interns, striving to develop young people and adults who have technical and professional skills, along with the technical proficiency needed to find employment, carry out fulfilling, decent work and start businesses.

c) Gender Equality

The Group removes the traditional craftsmanship culture from worksites and assigns jobs according to ability. In addition, the Group continuously establishes a gender-equal personnel review system based on assigned job descriptions.

Securing opportunities to promote women’s success in the workplace has been adopted as one of the Group’s targets. Based on the philosophy of gender equality, at each store the Group selects project team leaders and creates an environment for women to succeed as leaders from the bottom up. Furthermore, the Group has appointed 1 female director at an operating company under G-7 HOLDINGS.

d) Affordable and Clean Energy

To increase the use of renewable energy, the Company has installed solar panels on the rooftop of its new Head Office in 2021, thereby improving its solar energy usage rate. Moreover, the Company will rapidly replace its company vehicles with electric vehicles such as battery electric vehicles, fuel cell electric vehicles, and plug-in hybrid vehicles (PHEVs) and hybrid vehicles (HEVs). In addition, the Company will improve energy efficiency by promoting the conversion of in-store lighting equipment to LED lights, as part of efforts to help reduce power consumption and CO₂ emissions. In other initiatives, the Company plans to promote the installation of electric vehicle charging stations that will be available for use by customers at its stores.

Business outlook

e) Decent Work and Economic Growth

The Group has achieved “same work, same pay” without gender disparity. Also, the Group has hired international students and continues to create employment opportunities that offer workers the same wages for work performed under the same conditions regardless of their nationality or status as migrant workers.

Furthermore, to improve the employee retention rate, the Group continuously implements specific measures such as regular personnel meetings (follow-up meetings). The Group has also introduced a personnel system designed to provide stable income through the extension of the retirement age.

f) Sustainable Cities and Communities

As part of efforts to contribute to local communities and improve the living environment, the Group cleans the roads around its stores on AUTOBACS Day. The Group also works to reduce product waste at stores. It strives to ensure proper sorting and separation of waste along with showing consideration for the environment.

g) Responsible Production and Consumption

The Group reduces food waste loss by conducting appropriate product management. At the same time, the Group works together with Kobe City Council of Social Welfare to supply food materials that will expire soon to children’s cafeterias and similar locations. By doing so, the Group achieves both the reduction of waste loss and the protection of the socially vulnerable and contribution to local communities. In other initiatives, the Group works to prevent, reduce, recycle and reuse waste materials. It strives to reduce the use of plastic shopping bags and encourage the use of eco-friendly bags.

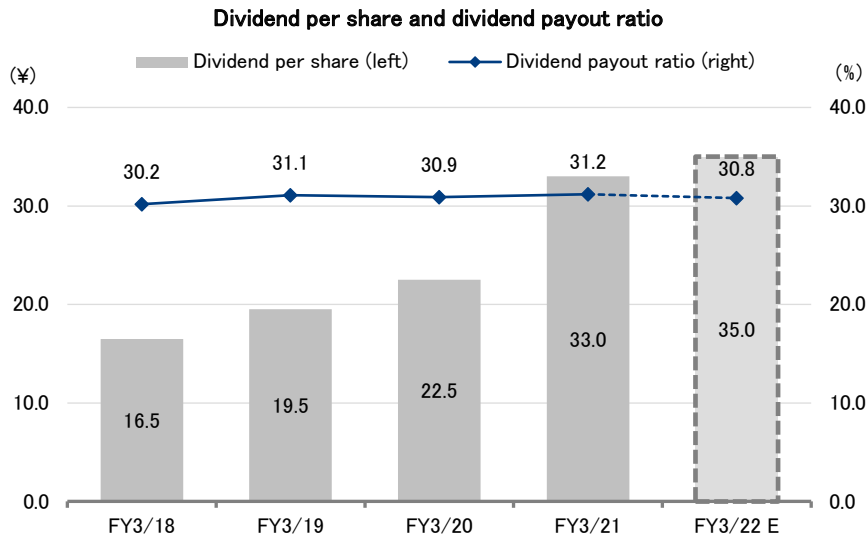
h) Climate Action

The Group strives to mitigate climate-related disasters and the occurrence of natural disasters by contributing to decarbonization through the reduction and mitigation of CO₂ emissions. To do so, the Group is replacing company vehicles with electric vehicles, converting in-store lighting equipment to LED lights, and increasing the use of renewable energy. In addition, the Group has decided to engage in the management of car campsites in the future through the outdoor goods business. The Group will develop its car campsites so that they can be used as evacuation areas during natural disasters and other emergencies.

Shareholder return policy

The Company conducted a 2-for-1 stock split and plans to increase the dividend for the seventh consecutive year, targeting a dividend payout ratio of 30%

Regarding the dividend policy, the Company has stated that it will comprehensively determine the dividend policy based on the fundamental principle of returning profits to shareholders in accordance with business performance, while maintaining stable dividends, and taking into consideration factors including capital required for future business expansion and its financial condition. Looking at the dividend level, the Company seems to be targeting a dividend payout ratio of around 30%. In addition, the Company conducted a 2-for-1 stock split on October 1, 2021. For FY3/22, it plans to increase the dividend per share by ¥2.0 YoY to ¥35.0, representing a dividend payout ratio of 30.8%. This would be the seventh consecutive year of higher dividends. Continued dividend growth can be expected if earnings continue to increase going forward.



Notes 1: The Company paid commemorative dividends of ¥4.0 in FY3/18, ¥1.0 in FY3/20 and ¥8.0 in FY3/21.

Notes 2: The Company conducted 2-for-1 stock splits in January 2020 and October 2021. The dividend per share amounts have been retroactively adjusted.

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



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