

Important disclosures and disclaimers appear at the back of this document.

FISCO Ltd. Analyst
Yuzuru Sato

■ Expediting the opening of new stores to maintain sales and profit growth

G-7 Holdings is the largest franchisee in Japan of Autobacs stores and of gyomu supermarkets (“ business supermarkets ”). It is developing agricultural business and overseas business as new growth areas, with the goals of achieving sales of ¥100bn and operating profit of ¥4bn in the fiscal year through March 2016, i.e., FY3/16.

In H1 FY3/14, its consolidated sales grew by 2.8% year-on-year (y-o-y) to ¥41,344mn, but its consolidated operating profit fell by 6.1% y-o-y to ¥1,002mn. Sales and profits increased in the “business supermarkets” and select food business, but profits declined in the Autobacs and other automotive business due to weak sales of car electronics and to an increase in the cost of opening new stores. Furthermore, the cost of electricity for the entire group increased.

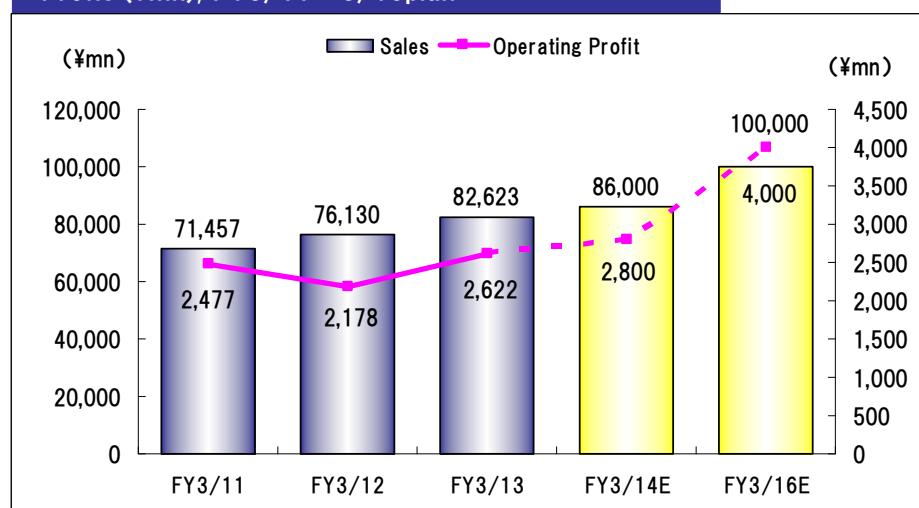
For FY3/14, G-7 Holdings maintained its original forecasts, projecting a 4.1% y-o-y increase in sales to ¥86bn and a 6.8% rise in operating profit to ¥2.8bn. In H2 FY3/14, the company plans to accelerate the pace of new store openings, and it anticipates a surge in demand for its products before April 2014, when the Japanese government will raise the national consumption tax rate from 5% now to 8%.

To achieve its FY3/16 targets of ¥100bn in sales and ¥4bn in operating profit, in October 2013, the company established an office to promote its growth strategies. This office will concentrate on recruiting and training employees to work in new stores and on other operations needed for growth. The company is also building up its overseas operations, expecting them to contribute to profit in two or three years. It has set up two Autobacs stores in Malaysia, and it has begun agricultural business in Myanmar and Vietnam. Southeast Asian countries including these countries are growing rapidly, so the company’s businesses should prosper with development of ASEAN countries.

■ Check Points

- Company plans to improve store profitability in FY3/14 to achieve forecasts
- Company aims to establish a sales channel for food products in Southeast Asia in spring 2014
- With the establishment of an office to promote growth strategy, the management responsibility for this strategy has become clearer

G-7 Holdings' Consolidated Sales and Operating Profit (¥mn), FY3/11 - 3/16plan



Business Trends

Sales grew but profits fell because of increases in costs of opening new stores and of advertising and sales promotion

(1) H1 FY3/14 Results

On November 5, 2013, G-7 Holdings announced its consolidated results for H1 FY3/14. Its sales increased by 2.8% y-o-y, to ¥41,344mn, but its operating profit declined by 6.1% y-o-y, to ¥1,002mn, its recurring profit fell by 9.5% y-o-y, to ¥1,092mn, and its net profit dropped by 8.1% y-o-y, to ¥612mn. Sales and profits increased in the “business supermarkets” and select food business, but profits declined in the Autobacs and other automotive business due to weak sales of car electronics and to an increase in the costs of opening new stores and of advertising and sales promotion. The results by business are described below.

Autobacs and other automotive business

The company's automotive business is conducted by subsidiaries G-7 Auto Service (formerly Auto Seven Co.) and G-7 Motors. G-7 Auto Service operates Autobacs stores, manages Autobacs franchises, and operates BP (body repair and painting) centers, which provide a wide range of automotive maintenance services. G-7 Motors operates Bike Seven motorcycle stores for parts and accessories. G-7 Auto Service generates about 90% of the business' s sales.

In H1 FY3/14, the automotive business raised its sales by 3.1% y-o-y to ¥15,859mn, but its operating profit fell by 31.4% to ¥383mn. During H1 FY3/14, this business opened three new Autobacs stores (two in Japan and one in Malaysia), two new Bike Seven stores (one in Japan and one in Malaysia), and one new BP Center in Japan. Thus, at the end of H1 FY3/14, the business had 85 stores in operation.

Sales of electronic goods for automobiles dropped by 25% y-o-y in H1 FY3/14, mainly because sales of car navigation equipment fell sharply. Sales of other automotive equipment, such as tires and wheels, also weakened y-o-y, but sales of maintenance and other services, such as car inspections and body painting, advanced. Sales of automobiles and sales by Bike Seven each grew by 20% or more. Based on an existing store in operation in H1 FY3/13, sales by G-7 Auto Service decreased by 1.8% y-o-y in H1 FY3/14.

Business Trends

In April 2012, G-7 Holdings opened its first overseas Autobacs store in Malaysia. In H1 FY3/14, this store increased its sales by 140% y-o-y. In August 2013, the company opened its second Autobacs store and its first Bike Seven store in Malaysia.

Second Autobacs Store in Malaysia, in Tebrau City



First Bike Seven Store in Malaysia, in Tebrau City

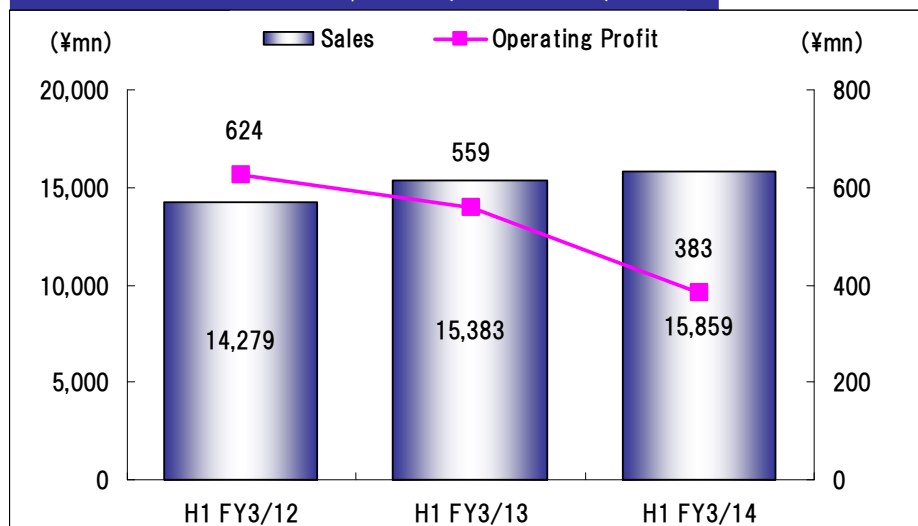


Source: Company

Operating profit in the automotive business decreased y-o-y in H1 FY3/14, mainly because of weak sales of car electronics and an increase in the costs of opening new stores and of advertising and sales promotion. The company also incurred greater costs to open two new stores in Malaysia, so its losses suffered on business in Malaysia increased slightly. However, the first Autobacs store it opened in Malaysia thrived, and the company expects this store to turn profitable in another year.

Autobacs Seven (9832), the company which franchises the Autobacs business, reported an 8% y-o-y drop in consolidated sales in H1 FY3/14 on a same-store basis, reflecting a difficult operating environment for the auto parts industry, including a drop in sales of new autos. This was a greater same-store sales drop than that recorded by G-7 Auto Service, which had enough management skill to minimize its sales decline.

Sales and Operating Profit (¥mn) of the Autobacs and Other Automotive Business, H1 FY3/12 - H1 FY3/14



■ Business Trends

Raised sales and profits by opening new stores

“Business supermarkets” and select food business

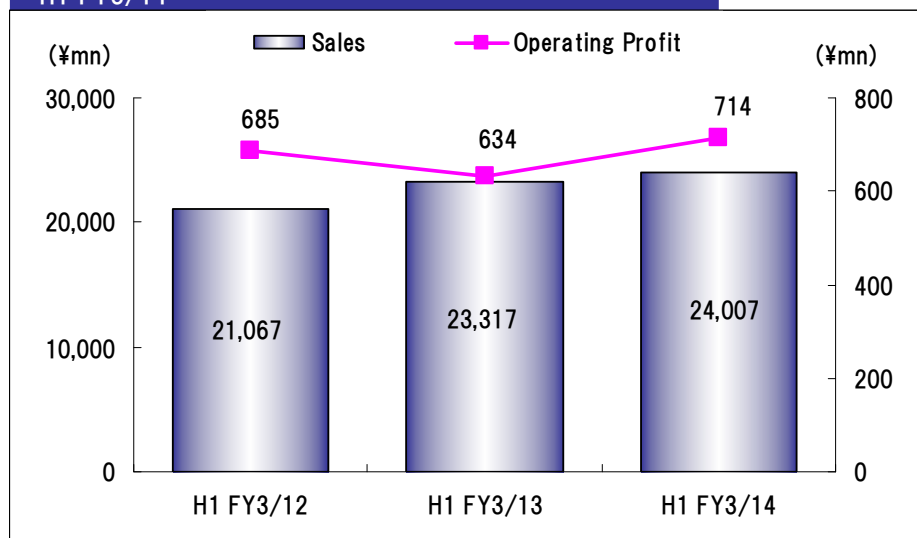
This business is conducted by three subsidiaries, G-7 Super Mart Co. (formerly Sun Seven Co.), G-7 Food System Co., and Ueno Shokuhin Co., purchased in December 2011.

G-7 Super Mart operates the low-priced “business supermarkets”, G-7 Food System operates select food business and the business previously operated by Coldfamily Co., which was purchased on November 1, 2012 and absorbed by G-7 Food System in January 2013. G-7 Super Mart Co. generates about 90% of the business’ s sales. In H1 FY3/14, the total business lifted its sales by 3.0% y-o-y to ¥24,007mn and its operating profit by 12.7% to ¥714mn.

G-7 Super Mart Co. raised its sales by 1.4% y-o-y and its operating profit by 2.1% in H1 FY3/14. On a same-store basis, sales by G-7 Super Mart Co. decreased by 1.7% y-o-y, reflecting intense competition, but contributions by new “business supermarkets” lifted the company’ s overall sales. During the half-year, this subsidiary opened four new “business supermarkets”, two in Tokyo, one in Kanagawa Prefecture, and one in Chiba Prefecture, while closing one store. Thus, at the end of H1 FY3/14, the subsidiary operated 106 “business supermarkets” .

G-7 Food System Co. expanded its sales by 14.1% y-o-y and its operating profit by 227.3% in H1 FY3/14. This impressive growth stemmed mainly from the absorption of Coldfamily Co. in January 2013, but the select food business also improved their sales and profits by increasing the number of customers and developing new select foods. Ueno Shokuhin Co. recorded a 1.2% y-o-y decline in sales in H1 FY3/14, but by cutting costs, it raised its operating profit by 42.0%.

Sales and Operating Profit (¥mn) of the “Business Supermarkets” and Select Food Business, H1 FY3/12 - H1 FY3/14



■ Business Trends

Urban “Business Supermarket” in Sasazuka, Tokyo



Source: Company

Examples of foods sold at select food business



Source: Company

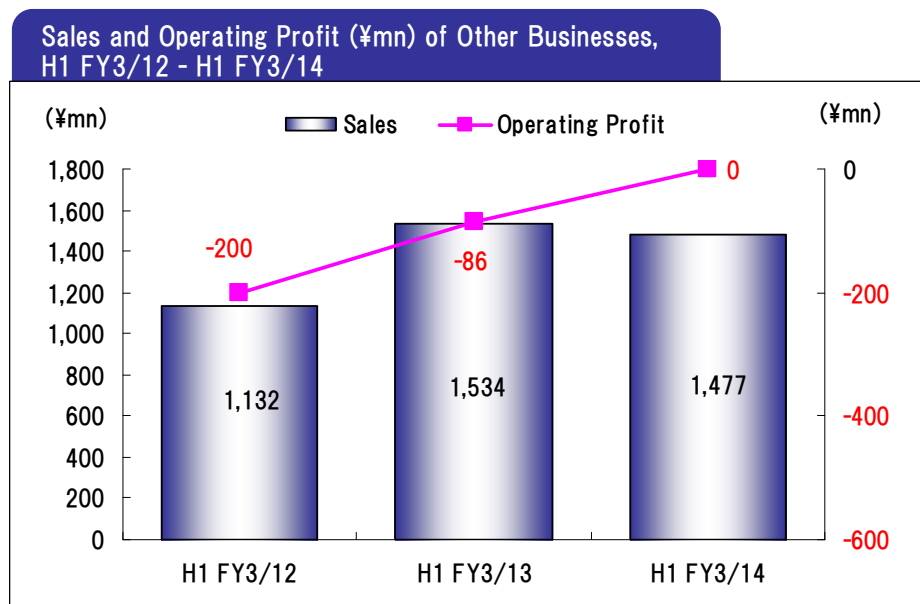
Megumi no Sato market business increased sales

Other Businesses

The company's main other businesses are G-7 Agri Japan, which operates the Megumi no Sato market business, and G-7 Development, which operates the Teppan Buffet “Green's K” restaurant business, the Ryohin Kaikan recycling and reusing business, and the real estate leasing business. G-7 Agri Japan accounts for about 70% of the total sales by other businesses. In H1 FY3/14, these businesses saw their aggregate sales fall by 3.7% y-o-y, to ¥1,477mn, but they broke even at the operating profit level, having suffered an operating loss of ¥86mn in H1 FY3/13.

In H1 FY3/14, G-7 Agri Japan opened no new Megumi no Sato markets, maintaining 18, which was two more than were in operation in H1 FY3/13. On a same-store basis, sales grew by 1.4% y-o-y, and total sales increased by 9.3%. The operating loss suffered by this business shrank by about two-thirds y-o-y to a few million yen. G-7 Development increased its sales by 6.7% y-o-y in H1 FY3/14, led by sales growth at the Ryohin Kaikan recycling and reusing business.

Business Trends



Company aims to improve store profitability to achieve forecasts

(2) Company forecasts for FY3/14

For FY3/14, G-7 Holdings forecasts a 4.1% y-o-y rise in consolidated sales to ¥86bn, a 6.8% increase in operating profit to ¥2.8bn, a 2.3% upturn in recurring profit to ¥3.0bn, and an 11.5% improvement in net profit to ¥1.5bn. If these forecasts are achieved, the company will report record-high sales and profits for the second straight fiscal year. In H1 FY3/14, the company achieved 48% of its full-year sales forecast and 36% of its full-year operating profit forecast. Over the previous three fiscal years, the company achieved 48% of its full-year sales and 43% of its full-year operating profit, on average, in the first half of the fiscal year. Thus, its operating profit in H1 FY3/14 lagged the average achievement rate.

Consolidated Results (¥mn), FY3/09 - FY3/14E

	Sales	y-o-y	Operating profit	y-o-y	Recurring profit	y-o-y	Net profit	y-o-y	EPS (¥)	DPS (¥)
FY3/09	65,297	5.6%	1,323	-0.7%	1,344	2.7%	259	-33.7%	19.57	10.00
FY3/10	67,078	2.7%	2,155	62.9%	2,247	67.2%	871	236.3%	66.47	22.00
FY3/11	71,457	6.5%	2,477	14.9%	2,591	15.3%	701	-19.4%	56.94	13.00
FY3/12	76,130	6.5%	2,178	-12.0%	2,250	-13.2%	722	3.0%	59.38	20.00
FY3/13	82,623	8.5%	2,622	20.4%	2,933	30.3%	1,345	86.1%	110.51	34.00
FY3/14E	86,000	4.1%	2,800	6.8%	3,000	2.3%	1,500	11.5%	123.24	24.00



■ Business Trends

To attain its forecasts, G-7 Holdings plans to improve the profitability of each store, raise productivity, cut administrative costs, and accelerate the pace of opening new stores. In H1 FY3/14, the company opened 10 new stores, 6 in the Autobacs and other automotive business and 4 in the “business supermarkets” and select food business. In H2 FY3/14, the company plans to open 12 new stores, bringing the total number of new stores for FY3/14 to 22. For the full fiscal year, the company aims to open 11 new stores in the Autobacs and other automotive business, 10 new stores in the “business supermarkets” and select food business, and 1 new store in other businesses. In November 2013, the company is scheduled to open a G-7 Mall at Kisarazukaneda in Chiba Prefecture. This mall will house three automotive stores, including a large Autobacs store, and its operation should contribute significantly to sales growth.

In October 2013, G-7 Holdings established an office to promote growth strategies. A major responsibility of this office is to improve the recruitment and training of personnel to manage and work at new stores. In the first four days of November 2013, the company celebrated its 38th year with sales at all of its stores in preparation for peak sales in December.

G-7 Mall Tsuchiyama Festival, held October 11-14, 2013



Source: Company

Expected to recover in H2 FY3/14 for Autobacs and other automotive business

Company forecasts for each main segment of business are as follows.

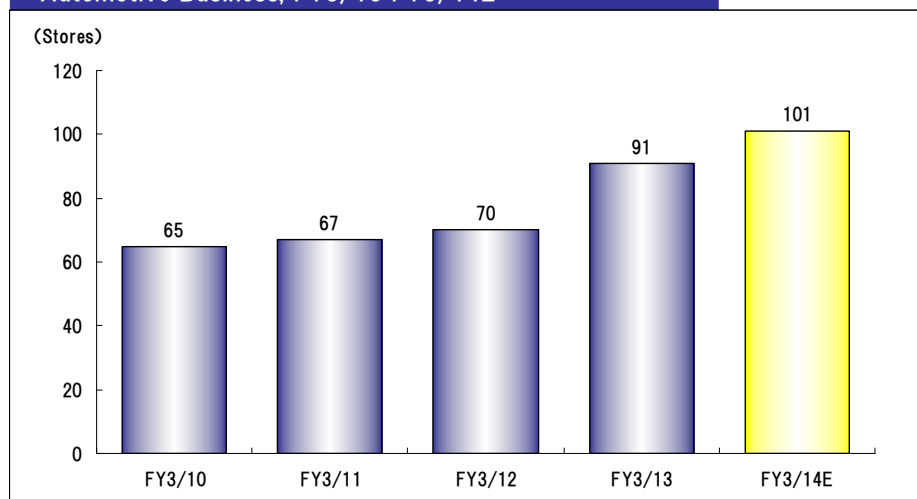
Autobacs and other automotive business

As stated above, this business plans to open 11 new stores in FY3/14. Thus, G-7 Holdings projects sales growth of 10% y-o-y for the business in FY3/14. The cost of opening the new stores will probably weigh on profit growth, so G-7 Holdings forecasts only modest operating profit growth for this business.

■ Business Trends

Although the Autobacs and other automotive business struggled in H1 FY3/14, it could easily compensate for that performance in H2 FY3/14. Snowy weather boosts the company's sales by about ¥1bn per month. In October, the three-month weather forecast by the Japan Meteorological Agency called for a greater number of snowy days than usual in western Japan. Thus, the automotive business should be able to sell many winter tires from November 2013 through January 2014. In April 2014, the Japanese government will raise the national consumption tax rate from 5% now to 8%. Thus, the company is likely to benefit from rush demand in February and March ahead of the tax increase.

Number of Stores in the Autobacs and Other Automotive Business, FY3/10-FY3/14E



Note: These numbers include the number of Bike Seven shops, which sell motorcycle parts and accessories.

In April 2012, this business opened its first overseas store, an Autobacs store in Malaysia. Business at this store has grown strongly, and in June 2013, the company opened its second Autobacs store and its first Bike Seven store in Malaysia. Business at these new stores has been growing faster than the company had projected, particularly at the Bike Seven store. Motorbikes and motorcycles are widely used in Malaysia, and no other store in the country offers the range of goods and services for these machines that Bike Seven provides. Therefore, the Bike Seven store is attracting many customers. The Malaysian economy is growing rapidly, so business at these stores should also increase briskly, and the company expects these stores to contribute to profits in one or two years.

To extend sales routes for select food business into Southeast Asia in spring 2014

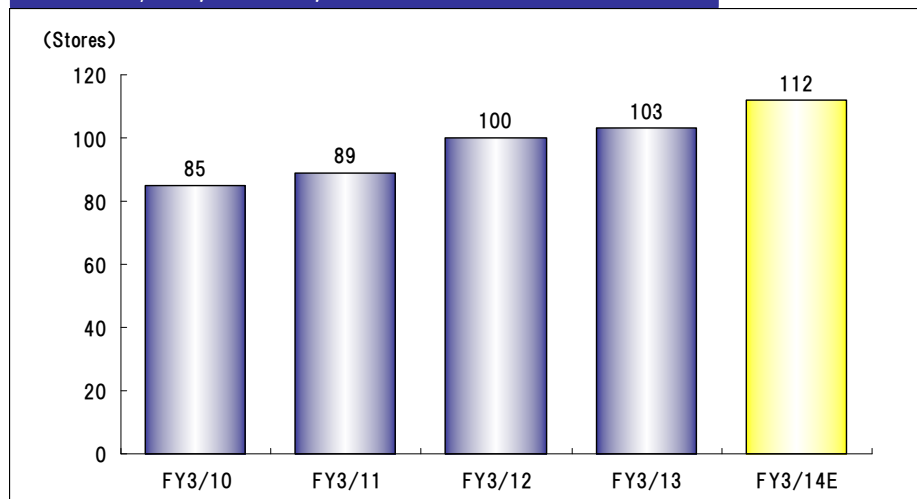
“Business supermarkets” and select food business

The company plans to open 10 new “business supermarkets” in FY3/14, including its first supermarket in Hokkaido, which is to open in December 2013. The openings have been proceeding roughly on schedule. The company expects the new supermarkets to support 10% sales growth for the business in FY3/14. The business will try to raise the profitability of each supermarket by selling more private-brand goods and attracting more customers. Thus, the company also forecasts 10% operating profit growth for the business in FY3/14.

■ Business Trends

As a result of yen depreciation, the cost of goods purchased from Kobe Bussan Co. (3038) may rise, but that is unlikely in FY3/14. The increase in the consumption tax in April 2014 may also impact the costs and prices of “business supermarkets” .

Number of Supermarkets in the “Business Supermarkets” and Select Food Supermarkets Business, FY3/10 - FY3/14E



The select food business aims to grow by attracting more customers and expanding their sales routes. The company plans to extend its sales routes in Southeast Asia in spring 2014. In January 2014, G-7 Food System Co. will absorb Ueno Shokuhin Co., further consolidating operations in the select food business. This should improve the efficiency of management for the business.

To expand operations in Myanmar and Vietnam over the long term

Other Businesses

In FY3/14, G-7 Holdings expects the Megumi no Sato market business to earn a small profit and the other businesses division to be profitable. G-7 Agri Japan, which operates the Megumi no Sato market business, plans to open four new Megumi no Sato markets in FY3/14. One of these new markets will operate experimentally based on a concept that differs from the concept for markets to date. It will offer a higher grade of products, including a wide range of ripe, highly selected vegetables. The farming business of G-7 Holdings, begun on a full scale in FY3/13, is growing. The farm in Nishi Ward, Kobe City, is cultivating shiitake mushrooms and started shipping from this November. The farm in Inami City, near Kobe City, will cultivate strawberries from spring 2014. These products have sold well at Megumi no Sato markets. Particularly popular is the Mori no daio brand of premium shiitake mushroom, which is 2cm thick and 10cm in diameter.

■ Business Trends

Mori no daio shiitake mushrooms



Source: Company
Note: 2cm thick, 10cm in diameter

G-7 Agri Japan has also started agricultural business in Myanmar and Vietnam. In August 2013, the company established a joint venture called CM Japan Agri Myanmar Co. Ltd. in Yangon, Myanmar, with City Mart Holding Co., the largest distribution company in Myanmar. G-7 Agri Japan holds a 40% stake in the joint venture, which has gained approval from the Myanmar government to engage in the cultivation and sale of agricultural products. Since November 2013, CM Japan Agri Myanmar Co. has been constructing greenhouses on land on a plateau 1,000 meters above sea level about a one-hour drive from Mandalay, the second-largest city in Myanmar. Initially, the company plans to enclose 1,152 square meters of land with greenhouses. In these greenhouses, it will plant 2,000 strawberry plants imported from Japan and increase the number of these plants to 10,000. The company plans to start shipping strawberries to hotels and restaurants in Myanmar in November 2014. On farmland not enclosed by greenhouses, the joint venture has begun the experimental cultivation of spinach, komatsuna (Japanese mustard spinach), and other vegetables. After confirming the quality of these vegetables, the company plans to start selling them commercially in spring 2014.

CM Japan Agri Myanmar Field



Source: Company

■ Business Trends

In July 2013, G-7 Agri Japan established a joint venture in Vietnam called G-7 Agri Vietnam, which is 80% owned by G-7 Agri Japan. G-7 Agri Vietnam has acquired 18 hectares of agricultural land, and in the latter part of September 2013, it started cultivating chrysanthemums on 1,536 square meters of land. In the first stage of its development, this joint venture aims to expand its cultivation of chrysanthemums to one hectare (10,000 square meters). Vietnam currently exports almost 40 million chrysanthemums per year to Japan, making it the third-largest supplier of these flowers to Japan, after Myanmar and China. G-7 Agri Vietnam aims to start exporting chrysanthemums to Japan in December 2013. These flowers will be sold at Megumi no Sato markets. The initial sales target is 120,000-160,000 flowers per year.

Greenhouses Producing Chrysanthemums in Dalat, Vietnam



Source: Company

Inside a Greenhouse Producing Chrysanthemums in Dalat, Vietnam



Source: Company

The scale of G-7 Agri Japans agricultural operations in Myanmar and Vietnam is small, and these operations are not expected to contribute to profits for many years, but over the long term, they are likely to support the company' s growth.

■ Medium-term Plan of Operations

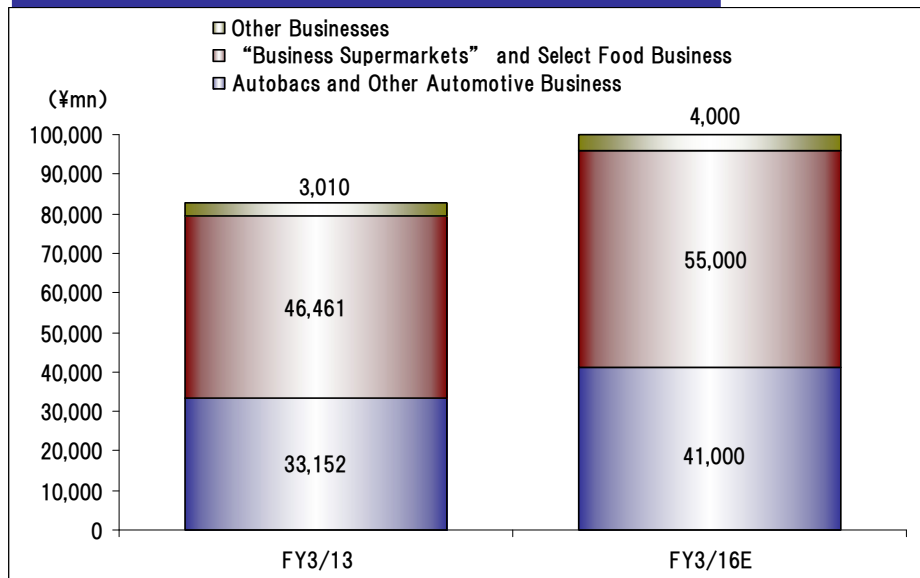
With the establishment of an office to promote growth strategy, the management responsibility for this strategy has become clearer

The current plan of operations for G-7 Holdings for FY3/14 - FY3/16 targets sales of ¥100bn and operating profit of ¥4bn for FY3/16. The company expects its Autobacs and other automotive business to provide ¥41bn of sales in FY3/16, which is 24% more than its sales in FY3/13. The company foresees sales of ¥55bn from its “business supermarkets” and select food business in FY3/16, which would be 18% more than its sales in FY3/13. From other businesses, the company projects ¥4bn in sales in FY3/16, including ¥1bn of overseas sales. This would be 33% more than the sales from other businesses in FY3/13. To reach these objectives, G-7 Holdings intends to pursue the strategies summarized in the table below. As noted earlier, in October 2013, G-7 set up an office to promote growth strategies. This office will clarify management responsibility for the growth strategy of each business and support growth by improving personnel development.

Strategies for Achieving Objectives of Medium-term Plan	
1	G-7 Holdings plans to strengthen its total car life support business. It aims to have 100 stores for this business in operation by FY3/16. Priority will be given to opening small Autobacs stores to serve areas with a limited number of potential customers. The company also plans to expand this business through mergers and acquisitions.
2	The “business supermarkets” business will build more supermarkets in Greater Tokyo and Greater Nagoya. In the 23 wards of Tokyo and in urban areas of Kanagawa Prefecture, the business will construct small supermarkets without parking lots. By the end of FY3/16, the company aims to have 130 “business supermarkets” in operation.
3	The select foods business will strengthen its development of select foods and, in collaboration with G-7 Food System and the Megumi no Sato markets, expand its sales of private brand goods. It will enter into the market in Singapore and Hong Kong, from which, it will build a sales network in Southeast Asia and China.
4	The Ryohin Kaikan reusable goods business will develop more stores in Hyogo Prefecture, Okayama Prefecture and Greater Tokyo. The Teppan Buffet “Green’s K” restaurant chain will open new restaurants in Greater Osaka and Greater Tokyo. More Daiso 100 yen shops will be opened in large facilities housing many G-7 stores, such as malls.
5	The Megumi no Sato markets business will open more markets in Greater Osaka from H2 FY3/14, while in Greater Tokyo, it will open minimarkets. It also plans to acquire unused agricultural land and enter the business of leasing such land. In Myanmar, it will raise vegetables for local hotels and restaurants, and in Vietnam, it will raise chrysanthemums for export to Japan to sell in Megumi no Sato.
6	In Malaysia, G-7 Holdings will promote its concept of total car life to raise its recognition among the local populace and to open more stores in the country. In other Southeast Asian countries, the company will develop businesses in used car sales, automobile repair, food supermarkets, and other areas.
7	The company hopes to develop its Bike Seven business into its third main business. Toward this end, it plans to expedite the opening of new Bike Seven stores in Japan and to develop stores in Malaysia, Taiwan, Vietnam, Myanmar, Thailand, the Philippines, and Bangladesh.
8	In Japan and Southeast Asia, G-7 Holdings intends to grow by merging with, acquiring, or establishing business ties with other companies engaged in businesses similar to those of G-7 Holdings. This approach will be applied in particular in Southeast Asia to rapidly overcome restrictions on business by foreign companies and to expedite the establishment of many kinds of stores.
9	G-7 Holdings will establish more malls, where it can open several stores, obtain lease revenue from tenants, and benefit from the high rate of customer visits to malls.
10	G-7 Holdings also plans to open stores selling Japanese ramen, curry and hamburger stake in Taiwan, Indonesia, Myanmar, Vietnam, Cambodia, Bangladesh, and the Philippines.

■ Medium-term Plan of Operations

Targets for Businesses of G-7 Holdings in FY3/16 versus FY3/13 Results

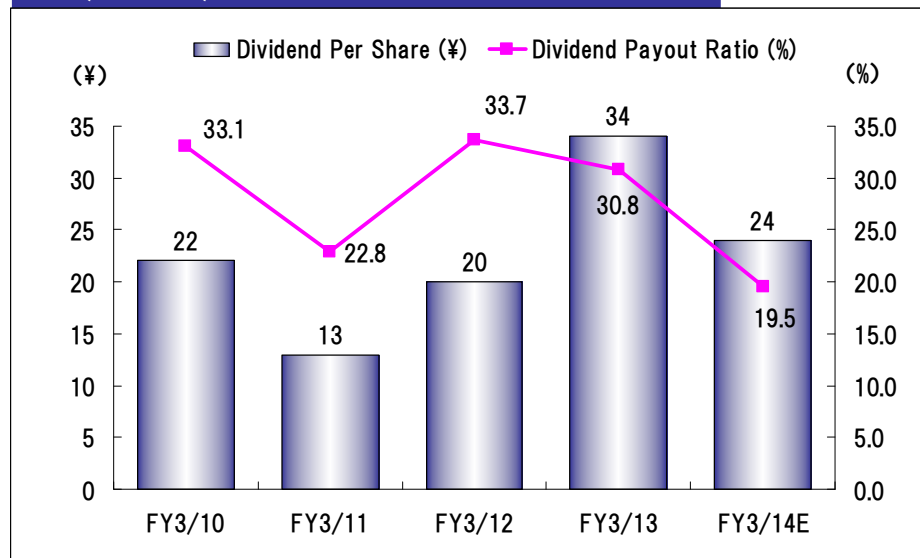


■ Shareholder Return Policy

Likely to increase dividend as profit grows

The company's basic policy is to pay a steady dividend based on its own profits and on considerations of investments required to expand business and improve its financial condition. For FY3/14, the company plans to pay a dividend of ¥34.0 per share, the same as the dividend it paid for FY3/13. However, if it earns a larger net profit than it currently forecasts, it may increase its dividend.

Dividend Per Share (¥) and Dividend Payout Ratio (%), FY3/10 - FY3/14E



Note: The dividend per share for FY3/12 included a special dividend of ¥6, and the dividend per share for FY3/13 included a special dividend of ¥18.



Disclaimer

FISCO Ltd. (the terms “ FISCO ” , “ we ” , mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Securities Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “ JASDAQ INDEX ” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.