

G-7 HOLDINGS INC.

7508

Tokyo Stock Exchange First Section

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FISCO Ltd.

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

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Summary

Aiming for double-digit increases in sales and profits in FY3/21 by expanding business scale through new-store openings and M&A, and measures to improve profitability

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 addition to the Megumi no Sato farmers' market chain and the food processing and wholesales business, it is progressing developments for the Southeast Asian market with an eye to long-term growth. It is also currently expanding its business scale through actively conducting M&A.

1. Overview of FY3/20 results

In the FY3/20 consolidated results, net sales increased 8.3% YoY to ¥132,642mn and ordinary income rose 19.5% to ¥5,995mn, which were once again new record highs. In the AUTOBACS and car-related business, profits declined, including due to the effects of the downturn in consumer confidence following the consumption tax hike in October 2019, the slump in tire sales because of the warm winter, and the decrease in the number of store visitors because of the spread of the novel coronavirus. However, the Gyomu Super and quality food business achieved excellent results, of double-digit increases in sales and profits, through strong sales in Gyomu Super, while profits also increased in Other Businesses due to the improvement in earnings of the Megumi no Sato farmers' market chain, and these increases covered for the fall in the AUTOBACS and car-related business. The number of domestic Group stores rose by 30 on the end of the previous fiscal period to 433 stores due to the active openings of Gyomu Super, Oniku no Terabayashi, and Megumi no Sato stores.

2. Forecast for FY3/21

For the FY3/21 results, the forecasts are that net sales will increase 28.2% year-on-year (YoY) to ¥170,000mn and ordinary income will rise 16.7% to ¥7,000mn, for double-digit increases in sales and profits. Alongside the continuous earnings growth of the existing businesses, contributions are expected from 99 ICHIBA Co., Ltd., and Andesfoods, which have newly been made subsidiaries. The effect of the new subsidiaries on the consolidated results will be to add approximately ¥19bn to net sales (the effect on profits will be minimal). 99 ICHIBA manages 73 mini-super stores in Tokyo and Kanagawa, and going forward, it plans to offer the frozen foods manufactured by the Group subsidiaries and also other produce including meat and vegetables direct from producers, and synergies in the Group are expected. Andesfoods mainly conducts a meat wholesales businesses, and the aim of making it a subsidiary of G-7 MEAT TERABAYASHI CO., LTD., is to further grow the meat business. For the existing businesses, the Company is strengthening profitability by working to improve productivity and the gross profit margin, while it is also actively progressing new-store openings, mainly for Gyomu Super, Oniku no Terabayashi, and Megumi no Sato, and it is targeting increasing the number of Group stores by 64 on the end of the previous fiscal period to 587 stores. Recently, the novel coronavirus has been having a negative impact on the AUTOBACS and car-related business. But the Company still intends to achieve its forecasts, as this impact is being covered by the strong performances of businesses such as Gyomu Super, and also as it is continuing to progress M&A.

Summary

3. Growth strategy

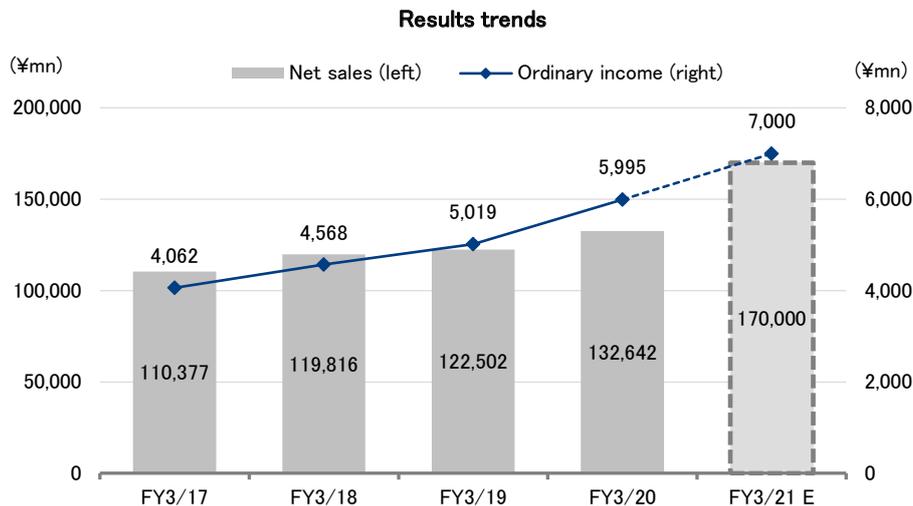
As its medium- to long-term growth strategy, the Company will expand business scale and diversify its businesses through developing new businesses and businesses formats that have high investment efficiency and implementing an M&A strategy. In addition, it will strengthen profitability through various measures, including to improve net sales per customer, profits, and the gross profit margin, while in addition, it is aiming for stable earnings growth that is not affected by market changes and for all Group companies to be profitable. Moreover, in the long-term, it is looking to fully develop its businesses in the Asian market, particularly in ASEAN, and it is also focusing on strengthening organizational capabilities and human-resources training. For developments of new business formats, in March 2020 it newly opened its first FIELD SEVEN outdoor-goods store within the AUTOBACS Akashi store, and it plans to expand the network of these stores while establishing an earnings model.

4. Shareholder return policy

In light of healthy profit expansion, the Company plans to increase the dividend in a sixth straight year with an ¥50.0 dividend in FY3/21 (30.3% dividend payout ratio), an increase of ¥5.0 YoY. It targets a dividend payout ratio of about 30%. We expect further dividend hikes if profits continue to grow.

Key Points

- In FY3/20, the slowdown of AUTOBACS was covered by the strong performances of Gyomu Super and Oniku no Terabayashi
- Steadily enhanced the financial base and improved profitability, and net cash reached a new record-high level
- Aiming to strengthen profitability by improving productivity and eliminating unprofitable stores, and realize sustainable growth while conducting M&A

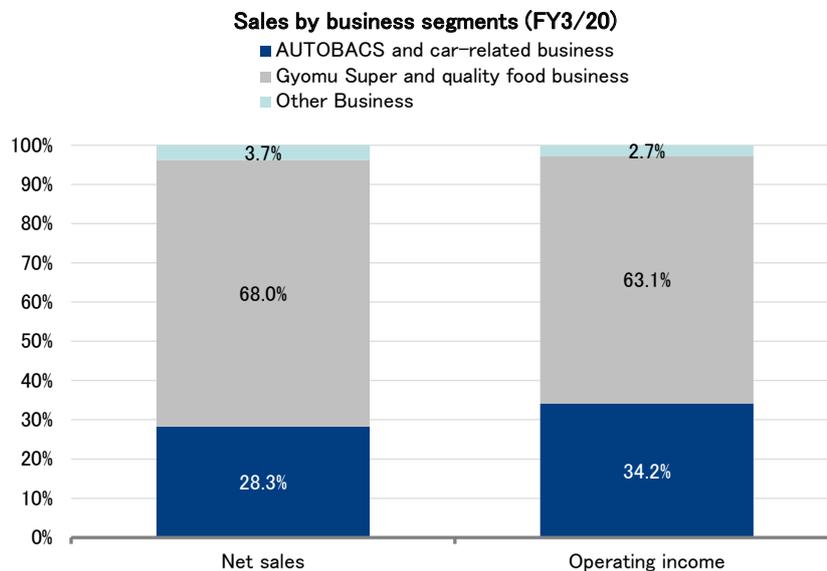


Source: Prepared by FISCO from the Company's financial results

Business overview

The AUTOBACS and Gyomu Super businesses are the two pillars of earnings

The Company's operations consist of three operating segments: AUTOBACS and car-related business, Gyomu Super and quality food business, and Other Businesses. Looking at the FY3/20 composition of net sales by business segment, we see that the AUTOBACS and car-related business represented 28.3% and the Gyomu Super and quality food business 68.0%, and in profits, they represented 34.2% and 63.1%. Of these, AUTOBACS and Gyomu Super are the Company's mainstay businesses.



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

1. AUTOBACS and car-related business

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

Business overview

More than 80% of net sales are provided by AUTOBACS-related stores, and as of the end of March 2020, the number of AUTOBACS-related stores was 75 domestic stores (68 AUTOBACS stores and seven AUTOBACS Express stores) and three stores in Malaysia (three AUTOBACS stores), and it is the largest franchisee within the AUTOBACS Group (585 domestic stores and 46 overseas stores). Stores are located predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki prefectures. Hyogo is particularly important with 39 stores, or 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 (the Company's own initiatives) include two CRYSTAL SEVEN stores offering carwash and coating services, seven BP centers (body repair and coating), and one Suzuki Cars store for new cars and buying and selling used cars in Osaka. Also, in new business formats, the Company has newly opened a FIELD SEVEN outdoor-goods store within the AUTOBACS Akashi store, and the plan is to expand the network of these stores after establishing the earnings model.

The BIKE WORLD business consisted of 16 stores at the end of March 2020 with 12 domestic stores, three stores in Malaysia, and one store in Thailand. G-7.Crown Trading that were made into a subsidiary in 2017 conducts export sales of automobiles mainly in Southeast Asia. Sales ratios are just under 10% respectively.

2. Gyomu Super and quality food business

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

G-7 SUPER MART is a mega-franchisee of Gyomu Super representing 80% of segment sales. Store rollouts are predominantly centered in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions. As of the end of March 2020, it had 145 stores, making it the largest in the Gyomu Super Group (856 stores). In store numbers by regions, it has the most in Kanto at 62 stores, followed by in Chubu, Kansai, Hokkaido, and then Kyushu.

G-7 MEAT TERABAYASHI, which provides slightly more than 10% of sales, had 113 Oniku no Terabayashi retail butcher stores as of the end of March 2020. Since it was made a subsidiary in 2015, it has actively opened stores as a tenant in Gyomu Super and also in Megumi no Sato stores, and currently it accounts for around 90% of store openings in the Group stores.

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

3. Other Businesses

Other Businesses includes G7 AGRI JAPAN CO., LTD., which operates the Megumi no Sato farmers' market chain, G7 RETAIL JAPAN CO., LTD., which manages real estate, DAISO discount stores (100 yen shops), reuse stores, fitness clubs and golf schools, restaurant business, sweets business, coin laundry service business, and overseas business (excluding AUTOBACS and BIKE WORLD businesses and export sale of cars).

For Megumi no Sato, there are 31 stores in the Kansai, metropolitan Tokyo, and Chubu regions as of the end of March 2020. Recently, it has been actively opening tenant stores in Gyomu Super stores, and out of all its stores, 15 have been opened in Gyomu Super stores. For the sales method, it uses consignment sales (in which around 20% of the sales amount is recorded in net sales as commission income) in order to reduce business risk.

Business overview

The restaurant business currently manages eight restaurants domestically and one in Taiwan as an Ikinari!STEAK (Pepper Food Service Co., Ltd.) franchisee, while it has also opened one okonomiyaki restaurant. The sweets business manages three Yamaya Honpo stores (Yamaya Taiyaki Honpo Co., Ltd.), which are taiyaki (fish-shaped sweet) specialty stores, one cream puff store, and one custard apple store. Other than these, as a franchisee, it manages five mammaciao stores (MIS Co., Ltd.), which are coin-operated laundry stores; 20 Curves clubs (Curves Japan Co., Ltd.), which are workout and training clubs for women; three Step Golf schools (steppgolf Inc.); three stores in the reuse shops business (one store for each of Mega Recycle Kingdom, Ryohin Kaikan and Kingram), and one ¥100-shop Daiso store (Daiso-sangyo Inc.). This business is being developed over a wide range of fields.

Major consolidated subsidiaries

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

Source: Prepared by FISCO from Company materials

Results trends

In FY3/20, sales and profits increased and were once again new record highs

1. Overview of FY3/20 results

In the FY3/20 consolidated results, net sales increased 8.3% YoY to ¥132,642mn, operating income rose 15.3% to ¥5,783mn, ordinary income grew 19.5% to ¥5,995mn, and profit attributable to owners of parent climbed 15.8% to ¥3,523mn, for the fifth consecutive period of higher sales and profits. In the AUTOBACS business, results slowed in the 2H due the effects of the consumption tax hike, the warm winter, and the spread of the novel coronavirus. But sales grew greatly in the Gyomu Super and Oniku no Terabayashi businesses, in which the strong sales at existing stores added to the effects of new-store openings, and these businesses drove the results. Also, the Group as a whole worked to eliminate unprofitable stores, and the reduction in the number of unprofitable stores contributed to the improved profitability. Compared to the Company forecasts, net sales were 5.3% below forecast due to the slump in the AUTOBACS business, but the measures to improve profitability proved successful and each profit item was above their respective forecasts. At the end of March 2020, the number of domestic Group stores had increased by 30 (41 store openings and 11 store closures) on the end of the previous fiscal period to 433 stores.

Results trends

Consolidated results for FY3/20

	FY3/19		Forecast	FY3/20			
	Results	vs. net sales		Results	vs. net sales	YoY	vs. forecast
Net sales	122,502	-	140,000	132,642	-	8.3%	-5.3%
Cost of sales	90,268	73.7%	-	98,411	74.2%	9.0%	-
SG&A expenses	27,216	22.2%	-	28,447	21.4%	4.5%	-
Operating income	5,017	4.1%	5,300	5,783	4.4%	15.3%	9.1%
Ordinary income	5,019	4.1%	5,500	5,995	4.5%	19.5%	9.0%
Extraordinary gains/losses	-122	-0.1%	-	-688	-0.5%	-	-
Profit attributable to owners of parent	3,041	2.5%	3,350	3,523	2.7%	15.8%	5.2%

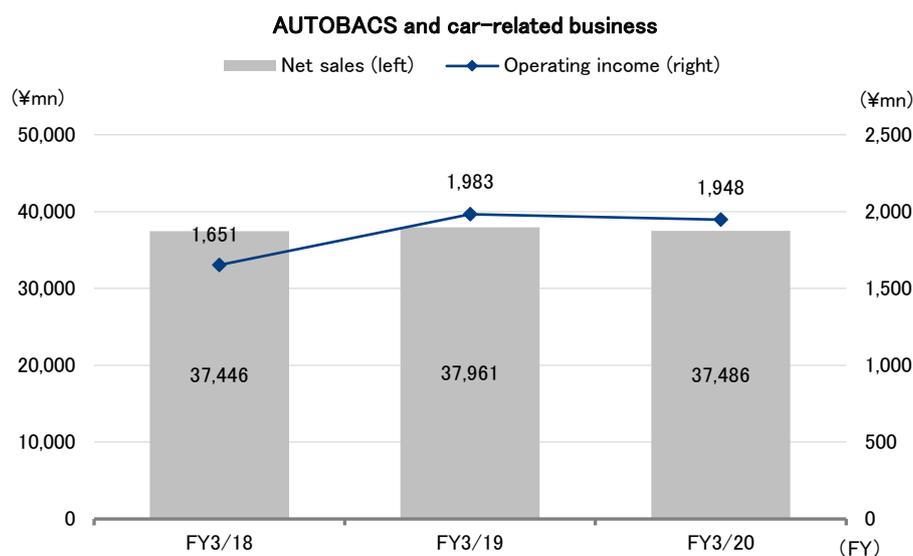
Source: Prepared by FISCO from the Company's financial results

In FY3/20, the slowdown in AUTOBACS was covered by the strong performances of Gyomu Super and Oniku no Terabayashi

2. Performance trends by business segment

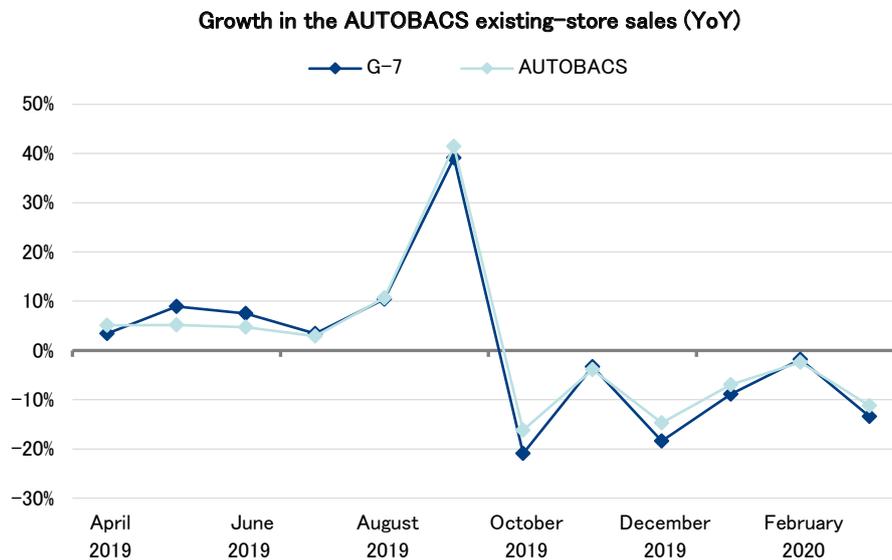
(1) AUTOBACS and car-related business

In the AUTOBACS and car-related business, sales and profits decreased, if only slightly, with net sales declining 1.3% YoY to ¥37,486mn and operating income falling 1.8% to ¥1,948mn. This was mainly because in G-7 AUTO SERVICE, which conducts a business centered on AUTOBACS in Japan, net sales fell 1.6% YoY and ordinary income declined 11.0%, for the first decreases in sales and profits in five fiscal periods. Following the previous consumption tax hike (in April 2014, from 5%→8%), profits had decreased due to the decline in consumer confidence. This time as well, results trended strongly up to the 2Q, but then consumer confidence fell following the consumption tax hike in October 2019. In addition, sales slumped of winter tires, which are highly profitable, due to the warmest winter on record, and then from February 2020, the decline in the number of store visitors because of the spread of the novel coronavirus added the final blow.



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

Results trends



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

AUTOBACS' existing store net sales (domestic) increased 0.5% YoY, exceeding the AUTOBACS Group total (domestic existing stores), which fell slightly by 0.2%. Looking at the sales trends by main categories, sales of tires decreased 3.9% YoY, while sales of aluminum wheels slumped, down 221.0%. Conversely, sales of car electronics grew greatly, up 10.2%. Sales of drive recorders also rapidly increased, including due to the effects of the rise in awareness about driving safely and tailgating accidents, and this was a major factor behind the higher sales. In addition, in consumables, sales of oil rose 1.4% and of batteries increased 0.3%, while sales of high-added value body-repair services were also strong, up 1.9%. In FY3/20, there were two domestic openings of new AUTOBACS-related stores, so the number of stores at the end of the period was up two on the end of the previous fiscal period to 79 stores.

Also, for new business formats, 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. The FIELD SEVEN store sells not only camping equipment and wear, it also provides motorhome sales and rental services. Synergies have been confirmed, as immediately after it was opened, the number of store visitors to the AUTOBACS store rose and its sales increased. Recently, customer numbers have declined due to the impact of the novel coronavirus, but if an earnings model can be established, the plan is to open stores as joint facilities within AUTOBACS stores

In G-7 BIKE WORLD CO., LTD., sales declined because, in a situation in which the domestic bike market continues to slump, it has narrowed down its product lineup to only strong-selling products, while the consumption tax hike has also had an impact. However, it achieved higher profits for the second consecutive period as it worked to improve the gross profit margin and also reduced personnel costs. The number of BIKE WORLD domestic stores was unchanged on the end of the previous fiscal period at 12 stores.

Results trends

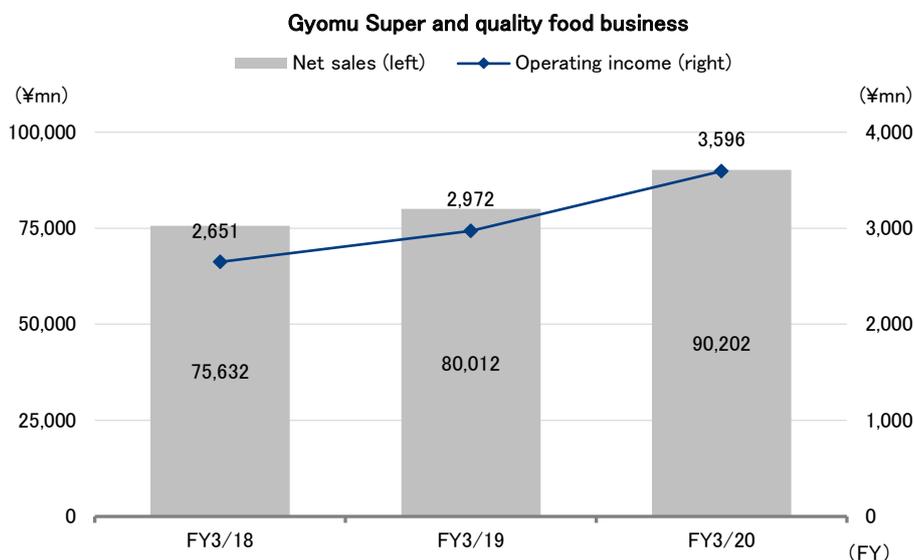
Results had trended steadily in the overseas AUTOBACS and BIKE WORLD businesses. But in Malaysia, the government issued a lockdown on outside movement by citizens on March 18, 2020, due to the impact of the novel coronavirus, so stores were forced to temporarily close and therefore sales declined slightly YoY. In profits, Malaysia's two BIKE WORLD stores are already profitable, but AUTOBACS and BIKE WORLD in Thailand continue to be unprofitable. For new-store openings, in February 2020, one AUTOBACS and one BIKE WORLD store were simultaneously opened in Malaysia (Old Klang Road stores). There are four overseas stores, including three AUTOBACS overseas stores and one BIKE WORLD store in Thailand.

In G-7.Crown Trading Co., Ltd., which conducts export sales of cars, sales and profits increased. This was because sales recovered to Malaysia, which provides more than 70% of total net sales, and also as sales grew to other regions, including the Middle East and Sri Lanka.

(2) Gyomu Super and quality food business

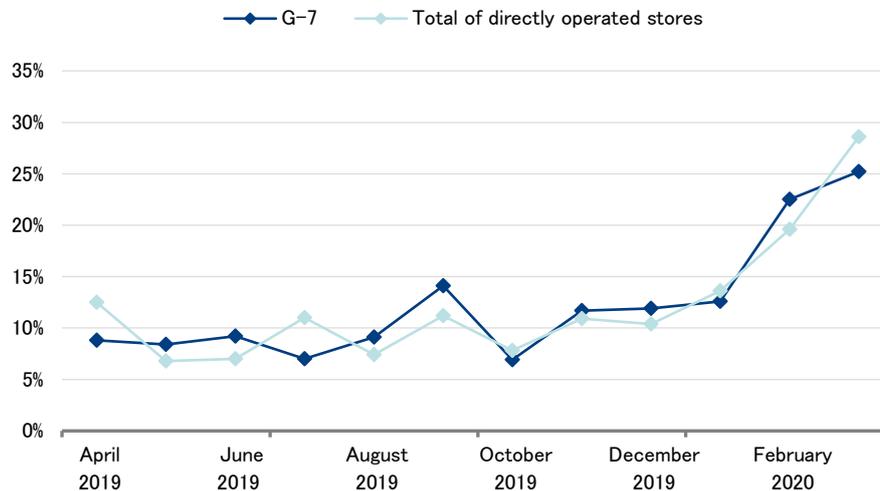
Gyomu Super and quality food business reported ¥90,202mn in net sales (+12.7% YoY) and ¥3,596mn in operating income (+21.0%). This was mainly because in G-7 SUPER MART, which conducts the mainstay Gyomu Super business, net sales increased 14.6% YoY and ordinary income rose 26.7%.

In Gyomu Super, the number of store visitors increased, including due to the TV programs introducing products and the tapioca boom, so existing store net sales grew significantly, up 12.2% YoY. In addition to the effects of the higher sales, sales were strong of highly profitable private-brand products, so profitability per store also improved. The number of new-store openings was six stores in the metropolitan Tokyo region, two stores in the Chubu region, and one store in both of the Kyushu and Hokkaido regions, for a total of 10 stores. As a result, the number of stores at the end of the period was up by eight on the end of the previous fiscal period to 145 stores.



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

Results trends

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


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

Results were also strong in G-7 MEAT TERABAYASHI CO., LTD., which sells meat, with net sales increasing 10.4% YoY and ordinary income rising 18.1%. The higher sales were because sales trended favorably in existing stores due to the increase in the number of visitors to Gyomu Super stores, and also due to the effects of the new-store openings. The number of Oniku no Terabayashi new-store openings was 12 stores, which meant that the number of stores at the end of the period was up by 10 on the end of the previous fiscal period to 113 stores. In addition to the effects of the higher sales, the profit margin rose because of the increases in the percentages of total sales provided by highly profitable products, like chicken and pork.

In G7 JAPAN FOOD SERVICE CO., LTD., results slumped in the food processing and wholesales business due to the closures of large-scale customer stores, so sales and profits decreased.

(3) Other Businesses

In Other Businesses, net sales increased 9.4% YoY to ¥4,954mn, the first increase in two fiscal periods, while operating income continued to rise, up 271.9% to ¥152mn. Within these results, in G7 AGRI JAPAN CO., LTD., which manages the Megumi no Sato farmers' market chain, sales decreased but profits increased. Sales declined slightly because vegetables prices, which had been soaring due to the natural disasters in the previous fiscal period, settled down to the same levels as in a normal year. But profits increased as progress was made in improving the earnings of unprofitable stores. For Megumi no Sato new-store openings, which is centered on a strategy of simultaneous openings with Gyomu Super, four stores were opened in the Kansai region, six in the metropolitan Tokyo region, and two in the Chubu region, for a total of 12 stores. Therefore, the number of stores at the end of the period was up 12 on the end of the previous fiscal period to 31 stores. Previously, the Company had limited store openings to the Kansai region, but since the expansion of the purchasing network in FY3/20, a feature is that it now opens new stores in the metropolitan Tokyo and Chubu regions as well.

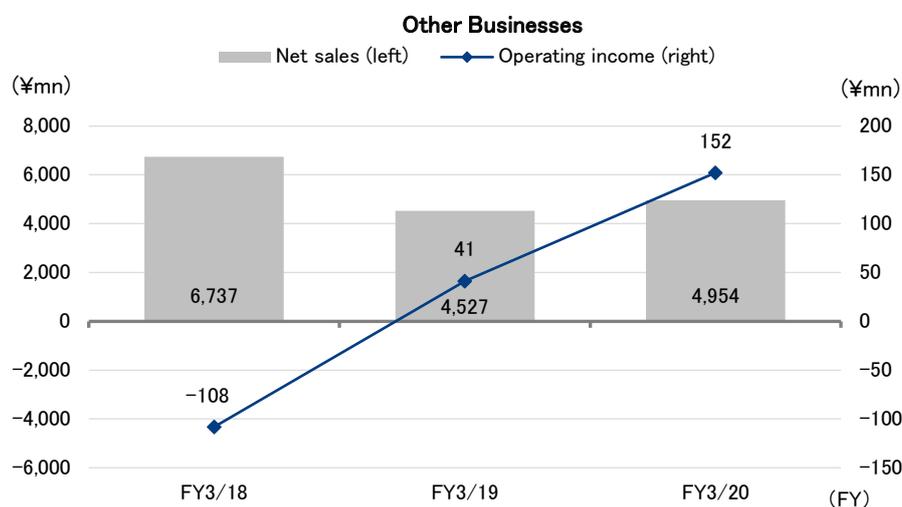
In G7 RETAIL JAPAN, the number of Curves clubs was up one on the end of the previous fiscal period to 20 clubs, while results trended steadily in the real estate leasing business, which includes G-7 Mall. In the reuse business, which continues to be unprofitable, one Ryohin Kaikan store and one Reuse Kingdom store were closed and progress was made in improving earnings. For new business formats, one Kingram store, which is a recycling shop for precious metals and designer brand products, was newly opened in Hyogo Prefecture.

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Results trends

In the restaurant business, two Ikinari!STEAK restaurants, which are steak chain restaurants launched from FY3/19, were opened in Osaka, and one restaurant was opened in Taiwan, for a total of nine restaurants. There seems to be differences between the restaurants in terms of their ability to attract customers, so store development in the future has not yet been decided. Conversely, in the sweets business, all three of the BAKE CHEESE TART stores, which are stores specializing in cheese tarts, were closed, so at the end of the period, it consisted of one store each of RINGO and CROQUANT CHOU ZAKUZAKU, and three Yamaya Honpo stores, which are taiyaki (fish-shaped sweet) specialty stores.

In the coin laundry service business, the number of mammaciao stores was unchanged YoY at five stores. Of these, three stores are profitable and only two stores are unprofitable. These stores have been well received because they have machines for washing and drying not only clothes, but also futons, carpets, and other items that cannot easily be washed at home.



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

Steadily enhanced the financial base and improved profitability, and net cash reached a new record-high level

3. Financial condition and key financial indicators

Looking at financial conditions at the end of FY3/20, total assets had increased ¥3,195mn from the end of FY3/19 to ¥47,886mn. Looking at the main change factors, in current assets, alongside the growth in earnings, cash and deposits increased ¥1,947mn, while notes and accounts receivable – trade rose ¥422mn. In fixed assets, goodwill decreased ¥83mn, but alongside the increase in new-store openings, leaseholds and guarantee deposits rose ¥461mn, while investment securities and deferred tax assets increased ¥110mn and ¥163mn, respectively.

Total liabilities were up ¥679mn on the end of the previous fiscal period to ¥25,868mn. Corporate taxes payable decreased ¥884mn, but interest-bearing debt increased ¥544mn and accounts payable rose ¥611mn. Net assets at the end of FY3/20 increased by ¥2,515mn YoY to ¥22,018mn. This mainly reflects a ¥2,479mn increase in retained earnings with the recording of profit attributable to owners of parent and payment of dividends.

Results trends

Looking at the financial indicators, the equity ratio, which indicates financial stability, rose 2.3 percentage points (pp) on the end of the previous fiscal period to 45.9%, while the interest-bearing debt ratio fell 2.7pp to 42.5%, and in such ways the Company's financial structure is improving every year alongside the earnings growth. For the indicators of profitability, both ROE and ROA have steadily risen each year to levels of above 10%, while the operating profit margin has reached the new record-high level of 4.4%.

Alongside the growth in earnings, net cash (cash and deposits – interest-bearing debt) increased ¥1,403mn on the end of the previous fiscal period to ¥7,117mn, which is a new record-high level. The Company has set an M&A strategy as one growth strategy, and its policy is to utilize some of this net cash as the funds for M&A. Recently, on April 1, 2020, it acquired 80% of the shares of 99 ICHIBA, which conducts a mini-super business, for ¥1,000mn, and made it a subsidiary.

Consolidated balance sheet

	(¥mn)				
	FY3/17	FY3/18	FY3/19	FY3/20	Change
Current assets	18,542	21,089	24,575	27,040	2,465
(Cash and deposits)	9,395	11,279	14,518	16,465	1,947
(Inventory assets)	5,597	5,817	5,767	5,602	-165
Fixed assets	19,076	20,505	20,115	20,846	731
Total assets	37,618	41,594	44,691	47,886	3,195
Total liabilities	21,960	23,861	25,188	25,868	679
(Interest-bearing debt)	8,426	8,306	8,804	9,348	544
Net assets	15,658	17,732	19,502	22,018	2,515
Key financial indicators					
(Financial strength)					
Equity ratio	40.8%	41.7%	43.6%	45.9%	+2.3pt
Interest-bearing debt ratio	54.9%	47.8%	45.2%	42.5%	-2.7pt
Net cash	969	2,973	5,714	7,117	1,403
(Profitability)					
ROE (Return on Equity)	14.3%	16.2%	16.5%	17.0%	+0.5pt
ROA (ratio of ordinary income to total assets)	11.0%	11.5%	11.6%	13.0%	+1.4pt
Operating profit margin	3.5%	3.6%	4.1%	4.4%	+0.3pt

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

Business outlook

Is aiming for double-digit increases in sales and profits in FY3/21 through the effects of M&A and the measures to improve profitability

1. Forecast for FY3/21

The Company's FY3/21 guidance calls for double-digit increases in sales and profits, with net sales at ¥170,000mn (+28.2% YoY), operating income at ¥6,700mn (+15.9%), ordinary income at ¥7,000mn (+16.7%), and profit attributable to owners of parent at ¥4,000mn (+13.5%).

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Business outlook

Consolidated forecast for FY3/21

	FY3/20		FY3/21		YoY
	Results	vs. net sales	Forecast	vs. net sales	
Net sales	132,642	-	170,000	-	28.2%
Operating income	5,783	4.4%	6,700	3.9%	15.9%
Ordinary income	5,995	4.5%	7,000	4.1%	16.7%
Profit attributable to owners of parent	3,523	2.7%	4,000	2.4%	13.5%
Earnings per share (¥)	145.46	-	165.15	-	-

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

The main reasons for the increase in net sales will be the growth of the existing businesses and also from 99 ICHIBA and Andesfoods being newly made subsidiaries. The sales forecasts are approximately ¥13.5bn for 99 ICHIBA and around ¥5.5bn for Andesfoods. Operating income is also expected to increase due to the effects of the higher sales in the existing businesses and the measures to improve profitability. The new subsidiaries' operating income seems to be from ¥100mn to ¥200mn in total, so it is considered that its effects on results will be minimal.

In April 2020, the Company acquired 80% of the shares of 99 ICHIBA from its parent company, UNY Co., Ltd., for ¥1,000mn, and made it a subsidiary (scheduled to acquire the remaining 20% for ¥250mn in April 2022). It manages 73 mini PIAGO stores, which are mini-super stores of 40 to 50 tsubo (1 tsubo is approx. 3.3m²) in size, in Tokyo and Kanagawa. The objective of making it a subsidiary is to increase synergies with the food-related business by expanding the network of stores in the metropolitan Tokyo region. Going forward, in addition to the private-brand foods and meat manufactured, processed, and sold by the Group companies, the aim is to further expand the food-related business by utilizing the Megumi no Sato purchasing network to sell vegetables through mini PIAGO stores. The mini PIAGO ordering system is scheduled to be updated over around three years, while scrap & build is also being progressed for the stores. Currently, 99 ICHIBA's operating profit margin is only around 1%, but the operating profit margin of G-7 SUPER MART, which manages the Gyomu Super stores, is about 4%, so at FISCO we think that it is fully possible that its profit margin will increase in the medium term through Group synergies.

Results of 99 ICHIBA Co., Ltd.

	FY2/19		
	FY2/17	FY2/18	FY2/19
Net sales	13,686	13,727	13,627
Operating income	54	148	143
Ordinary income	113	150	138
Net income	-239	129	116

Source: prepared by FISCO from company press releases

Also, Andesfoods mainly purchases "branded, high-quality marbled wagyu (Japanese beef)" from famous wagyu producing regions, then shapes and cuts it in its own factory, and sells it wholesale to restaurants, hotels, and other food-services and prepared-meals businesses, mainly in the metropolitan Tokyo region, while it also conducts some retail sales. In April 2020, G-7 MEAT TERABAYASHI acquired all its shares and made it a subsidiary. The objective of making it a subsidiary is to further expand the meat business through sharing human resources and business-management expertise. In FY9/19, Andesfoods' net sales were ¥5,058mn and its operating profit margin seems to be around 1%. Due to the impact of the novel coronavirus, companies supplying foods to restaurants, hotels, and other food-service businesses have been dealt a major blow across the board. But as Andesfoods can sell meat via Oniku no Terabayashi, at FISCO we think that this negative impact on it is being minimized.

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Business outlook

After excluding the effects of the M&A, the sales growth rate of the existing businesses is approximately 14%. For new-store openings, 64 stores are scheduled to be opened, mainly Gyomu Super, Oniku no Terabayashi, and Megumi no Sato stores, and it is thought that the existing businesses are growing from the increases in store numbers. The negative impact of the novel coronavirus has appeared for the AUTOBACS and car-related business, such as the reduction in business hours, but the food retail sales business, which includes Gyomu Super, has been maintaining its strong performance even after April. On looking at sales conditions in April, to a certain extent the Company's forecasts incorporate the effects of the novel coronavirus, but the impression is that the hurdle to achieving the sales forecast is somewhat high. However, the Company's policy is to aim to achieve the forecasts while having in sight conducting further M&A.

Number of domestic stores at period-end and openings and closures

Store name	End-FY3/19 Number of stores	FY3/20		End-FY3/20 Number of stores	FY3/21 Openings	End-FY3/21 Number of stores
		Openings	Closures			
AUTOBACS	66	2		68	2	70
AUTOBACS Express	7			7		7
BP centers (body repair and coating)	8			8		8
G-7 TSUCHIYAMA CIRCUIT	1			1		1
BIKE WORLD	12	1	1	12	5	17
Gyomu Super	137	10	2	145	11	156
Oniku no Terabayashi	103	12	2	113	21	134
Andesfoods (from April 2020)	-			-		17
mini PIAGO (from April 2020)	-			-		73
Megumi no Sato	19	12		31	18	49
Gekiyasu Super Megumi no Sato	1			1		1
Green's K	1			1		1
IKINARI STEAK	6	2		8		8
Nanatsu no Tsubo	1			1		1
BAKE	3		3	-		-
Taiyaki Specialty Store Yamaya Honpo	3			3		3
CROQUANTCHOU ZAKUZAKU	1			1		1
RINGO	1			1		1
mammaciao	5			5		5
Mega Recycle Kingdom	1			1		1
Reuse Kingdom	1		1	-		-
Ryohin Kaikan	2		1	1		1
Kingram (new store format)	-	1		1	1	2
Curves	19	1		20	6	26
Step Golf	3			3		3
Daiso	2		1	1		1
Total	403	41	11	433	64	587

Source: Prepared by FISCO from Company materials

Aiming for higher sales and profits in all business companies

2. Segment outlook

(1) AUTOBACS and car-related business

In the AUTOBACS and car-related business, for the mainstay G-7 AUTO SERVICE, the forecast is for net sales to increase 8% YoY, while AUTOBACS is planning two new-store openings. Sales in April and May were affected by the reduction in business hours due to the novel coronavirus and were below the levels in the same months in the previous year, but they are expected to recover from the 2H onwards. For profitability, the Company is improving the profit margin by strengthening sales in the highly profitable services division, which includes body repairs and processing, and vehicle inspection services, and also products with high gross profit margins, and at the same time it is working to improve productivity per employee. Also, for FIELD SEVEN, which is a new business format, the strategy is to increase synergies by progressing new-store openings (of 200 to 300 tsubo in size) in the form of joint facilities in AUTOBACS stores, while ascertaining sales conditions at the first store and the market environment.

G-7 BIKE WORLD CO., LTD., is aiming for double-digit increases in sales and profits from the effects of BIKE WORLD new-store openings. It plans to open five new stores (of which, one store is confirmed).

For the AUTOBACS and BIKE WORLD overseas businesses, the temporary business closures will continue until the lockdown restrictions are lifted in Malaysia and Thailand, so the earnings conditions are severe. However, it will receive some subsidies associated with the lockdown, and as long as the business closures do not become prolonged, it seems that the impact on results as a whole will be minimal. It has not yet decided a store-opening plan, but should the market environment normalize, its intention is to enter-into Vietnam and Indonesia, where demand for two-wheeled vehicles is strong. Other than these, in the export cars sales business, the target is to approximately double net sales to ¥5,000mn by expanding the sales regions to Africa, the Middle East, Australia, and Russia.

(2) Gyomu Super and quality food business

In the Gyomu Super and quality food business, for G-7 SUPER MART, which conducts the Gyomu Super business, the forecast is for net sales to increase 7% YoY. It plans to open 11 new stores (of which, three store openings in April), but this may increase if it finds real estate that satisfy its conditions. The plan is to raise-up the profit margin by improving the gross profit margin through increasing sales of highly profitable private-brand products and improving productivity. If the government lifts the declaration of a state of emergency and the nesting phenomenon (of people living at home while refraining from going outdoors) is eliminated, it is possible that the existing stores' sales growth rate will slow down from double digits to a single digit. But when considering that the customer-attraction capabilities of Gyomu Super, which provides appealing private-brand products at reasonable prices, is being maintained in a situation in which consumers are even more strongly oriented toward low prices due to the deterioration of the economy, the outlook is for the strong results to continue in FY3/21 also.

In G-7 MEAT TERABAYASHI, the forecasts are for net sales to increase 19% YoY and operating income to grow by double digits. It plans 21 new store openings, centered on openings of tenant stores in Gyomu Super stores (of which, six store openings in April). The main factors behind the higher sales will be the new-store openings and also Andesfoods being made a subsidiary.

In G7 JAPAN FOOD SERVICE, the forecasts are for higher sales and profits in the quality food business, as it is continuing to work to acquire new customers and to develop products, and also in the food manufacturing and sales business, as it is strengthening its development of private-brand products.

Business outlook

(3) Other Businesses

The outlook for Other Businesses is for increases in sales and profits. For Megumi no Sato, the plan is to open 18 stores, centered on openings of tenant stores in Gyomu Super stores (of which, three store openings in April). Due to the progress of increasing network suppliers and establishing and maintaining the distribution system, the Company's policy is to actively expand this business, centered on the metropolitan Tokyo region. On a distribution-amount basis, the amount will increase from ¥4bn in the previous fiscal year to ¥5.5bn, of which, approximately 20% will be recorded in sales as consignment-sales commissions.

In Curves, which are workout and training clubs for women, the number of new members is decreasing due to the impact of the novel coronavirus. But the plan is to open six new clubs and a recovery is expected from the fall of 2020 onwards. No store openings are planned for the restaurant business or for the sweets business. For the businesses other than these, the Company intends to improve their earnings structures by progressing the elimination of unprofitable stores and scrap & build.

Aiming to strengthen profitability by improving productivity and eliminating unprofitable stores and to achieve sustainable growth while progressing M&A

3. The business strategy and long-term vision

The Company is currently working to achieve the goals of its medium-term business plan that targets ¥170bn in consolidated net sales in FY3/21, which will mark the Company's 45th anniversary. Looking at the business strategy, the basic policy for the existing businesses is to work to continuously increase sales and profits by improving net sales per employee and gross profit, eliminating unprofitable stores, and making all business companies profitable. For its store-opening strategy, it is actively opening new stores in business formats with excellent investment efficiency and developing new businesses, while increasing the number of stores at a pace of 40 to 60 stores a year. The Company's policy is also to continue to position M&A as one growth strategy, and it is thought to be building a stable management base that is not affected by economic fluctuations in a particular industry by expanding its businesses into peripheral business areas.

For human-resources training, since April 2018, the Company has held the Founder's Seminars and the NC (Next Cabinet) training seminars, and it has worked to develop and to strengthen business managers. As a result, it is rejuvenating the management teams in Group subsidiaries, and even now it is working to further strengthen their development. Also, in order to secure the human resources needed to actively open stores, it is actively recruiting a diverse range of human resources, including senior citizens and from overseas. It has recruited 25 overseas employees, mainly in G-7 AUTO SERVICE. It also continues to actively recruit new graduates, with 113 new graduates joining the Company in April 2020, and it is working to ensure that labor shortages do not become a factor impeding growth.

As a long-term vision of "a company that can continue growing for 100 more years," the Company has presented goals for FY3/76, the 100th year of its founding, of ¥700bn in net sales and ¥30bn in ordinary income. It is not stopping at expanding only the domestic businesses, as it is aiming for growth in the long term as a global company by developing businesses in Asia and ASEAN, where the economic growth rates are high.

Business outlook

Consolidated sales goals by business areas (FY3/21)



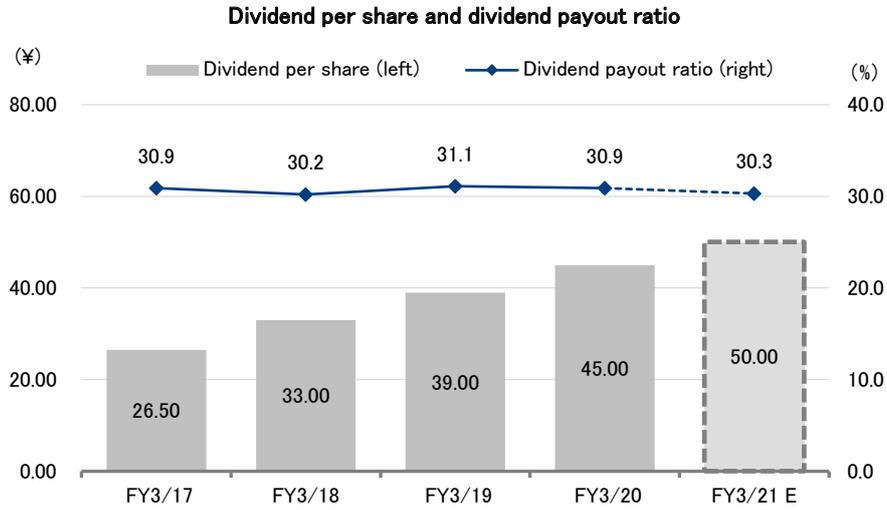
Source: the Company's website

Shareholder return policy

Aims for a dividend payout ratio of 30% and plans to increase the dividend for the sixth 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, while taking into consideration factors including capital required for future business expansion and its financial condition. Looking at the actual dividend in the last few years, it would appear to be aiming for a dividend payout ratio of around 30%, and for FY3/21 as well, it plans to increase the dividend per share by ¥5.0 YoY on an actual basis (it conducted a 2-for-1 share split in January 2020) to ¥50.0. This would be the sixth consecutive period of higher dividends, and going forward also, we can expect dividend growth as long as earnings continue to increase.

Shareholder return policy



Note: paid special dividends of ¥13.00 in FY3/17 and ¥16.0 in FY3/18

Note: conducted a 2-for-1 share split in January 2020. The dividend per share amounts have been retroactively adjusted.

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



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