

G-7 HOLDINGS INC.

7508

Tokyo Stock Exchange Prime Market

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

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Summary

Strive to rebuild unprofitable businesses, with a view to accelerating growth from FY3/24 onward

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.

1. Overview of 1H FY3/23 results

In 1H FY3/23, net sales rose by 4.5% year on year (YoY) to ¥85,595mn, while ordinary income decreased by 2.9% to ¥3,373mn. The mainstay Gyomu Super business and car-related business*¹ achieved steady growth. Meanwhile, net sales in the meat business and the mini-super business remained sluggish. The main reason for the decrease in profits was a YoY increase in utility expenses of just over ¥300mn due to electricity rate hikes. The number of Group stores at the end of September 2022 was 599 stores, a decrease of 1 store from the end of the previous fiscal year. This was mainly due to the opening of 10 stores (3 Gyomu Super stores, 4 Oniku no Terabayashi stores, 2 BIKE WORLD stores, and 1 AUTOBACS store, and the closure of 11 stores (4 RICO'S*² stores and 7 Megumi no Sato stores).

*1 The AUTOBACS and car-related business was renamed as the car-related business in FY3/23.

*2 In April 2022, the store's name was changed from mini PIAGO to RICO'S. The replacement of all store signage, etc. was completed by June 2022.

2. Forecasts for FY3/23

For FY3/23 results, the Company has maintained its initial forecasts, with net sales forecast to increase 6.8% YoY to ¥180,000mn and ordinary income to rise 1.6% to ¥8,000mn. Although progress at the end of 1H was slightly below forecast, procurement costs, which had been weighing down on earnings in the meat business, have started to decrease since the summer. In addition, the Company will seek to generate earnings growth through efforts such as reorganizing unprofitable Megumi no Sato stores. At RICO'S mini supermarkets, whose performance has remained weak, plans call for freezing the opening and closure of stores for the time being to ensure that it can generate net sales. Additionally, products carried and the personnel system at RICO'S are scheduled to be reviewed, with the aim of restoring earnings from FY3/24 onward.

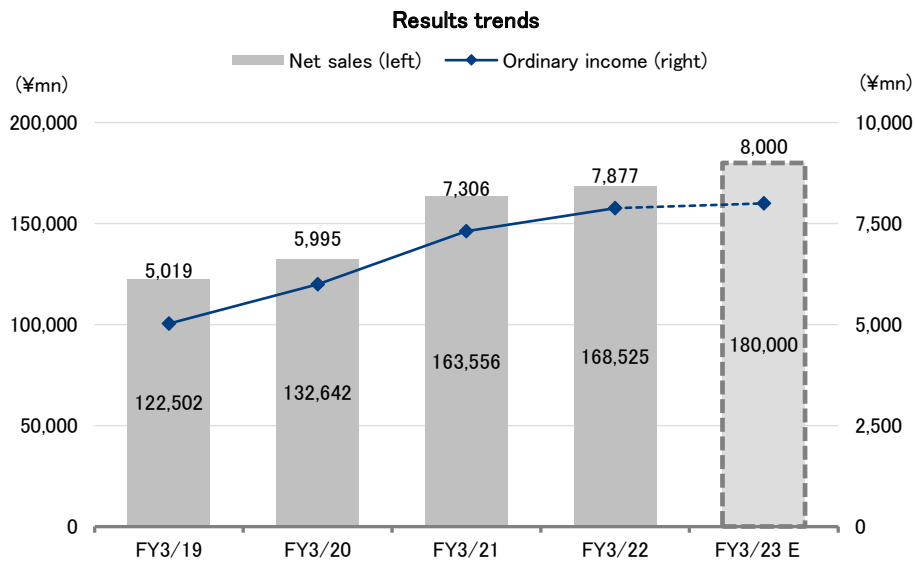
3. Medium-term business plan

Under the 5-year medium-term business plan running through FY3/26, the Company is targeting net sales of ¥250bn and ordinary income of ¥10bn for the plan's final year. This means that the compound annual growth rate for net sales will be around 9% over 5 years, and it will be around 6% for ordinary income over the same time frame. In addition to driving growth in existing businesses by leveraging Group synergies, the Company will develop and nurture new business formats and advance its M&A strategy by harnessing its abundant cash on hand. The number of stores is projected to expand from 600 at the end of FY3/22 to 1,000, marking a 1.6-fold increase. For this reason, the Company plans to continuously strengthen the recruitment and development of human resources. The rebuilding of unprofitable businesses is expected to lead to accelerated growth in FY3/24.

Summary

Key Points

- Continuing record high net sales results in 1H FY3/23 even as profits dipped
- Initial forecasts for FY3/23 results were maintained, but the rebuilding of unprofitable businesses has become a priority
- Advancing M&A strategy, targeting ¥250bn in net sales and ¥10bn in ordinary income in FY3/26



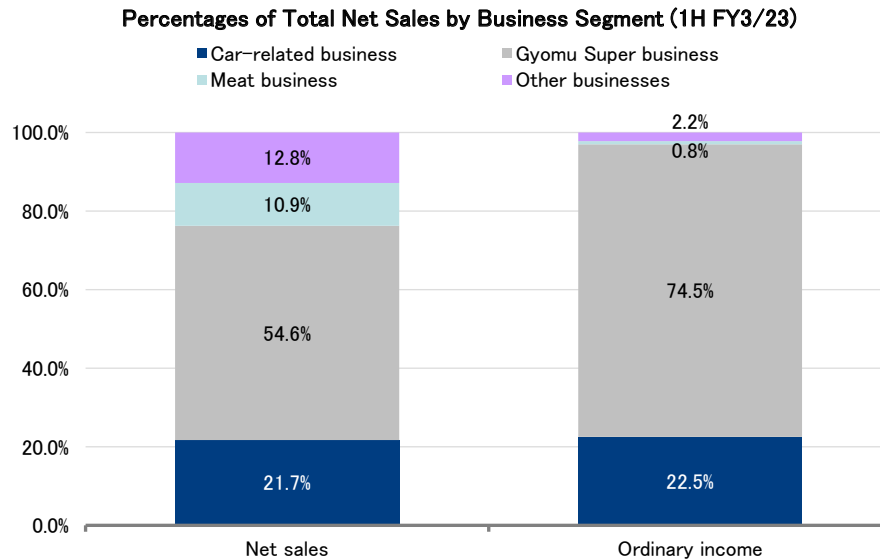
Source: Prepared by FISCO from the Company's financial results

Business overview

Car-related business and Gyomu Super are the main pillars of earnings

The Company discloses information on four business segments: car-related business, Gyomu Super business, meat business, and other businesses. Looking at the percentages of total net sales by business in 1H FY3/23, the car-related business accounted for 21.7% of net sales and the Gyomu Super business accounted for 54.6% of net sales. By segment income, the car-related business accounted for 22.5% of net sales and the Gyomu Super business accounted for 74.5%, meaning that they are mainstay businesses. In addition, if you add the sales from the Gyomu Super business, the meat business, quality food and private brand business, Megumi no Sato and RICO's, which are included in other businesses, under 80% of net sales come from food retail businesses.

Business overview



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

1. Car-related business

The 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 franchise development and BIKE WORLD management in Malaysia by G7 RETAIL MALAYSIA SDN. BHD., and export sales of cars handled by G-7.CrownTrading Co., Ltd.

More than 80% of sales are provided by AUTOBACS-related stores, and as of the end of September 2022, the number of AUTOBACS-related stores was 76 domestic stores (69 AUTOBACS stores and 7 AUTOBACS Express stores) and 3 stores in Malaysia, and the Company is the largest franchisee within the AUTOBACS Group (588 domestic stores and 71 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.

The BIKE WORLD business consisted of 18 stores at the end of September 2022 with 15 domestic stores and 3 stores in Malaysia. In Japan, the Company is moving ahead on collaborative store openings with BIKE O & COMPANY Ltd. <3377>, with which it has entered a capital and business alliance. 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 and 6 mammaciao stores, which are coin operated laundries, while as a new business format, the Company launched FIELD SEVEN outdoor goods stores in 2020, and has opened 4 stores in parallel with AUTOBACS stores.

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Business overview

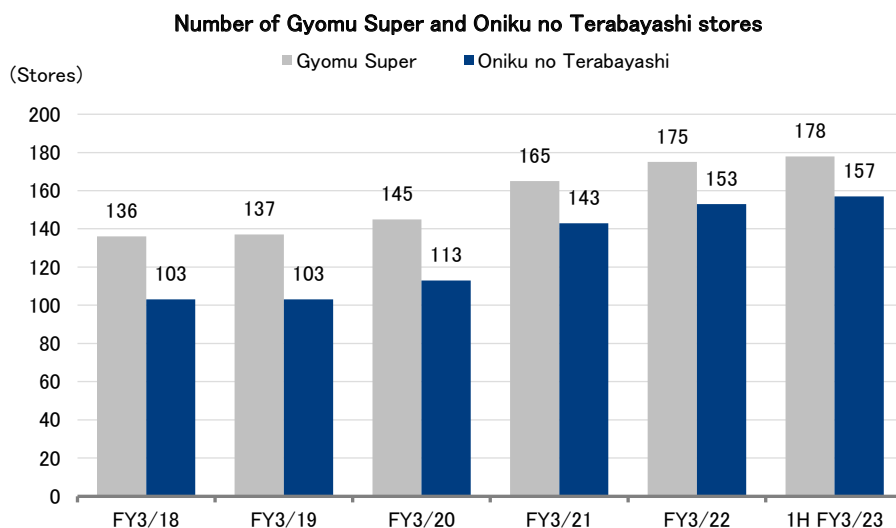
2. Gyomu Super Business

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, reaching 178 stores at the end of September 2022, the largest number within the Gyomu Super group (987 stores). Looking at store numbers by region, the Kanto area has the most with 70 stores (19 in Tokyo, 17 in Kanagawa, 20 in Saitama, and 14 in Chiba), followed by Chubu with 39 stores (26 in Aichi, 8 in Mie, and 5 in Gifu), Kansai with 34 stores (23 in Hyogo and 11 in Osaka), Kyushu with 24 stores (17 in Fukuoka, 5 in Kumamoto, and 2 in Nagasaki), and Hokkaido with 11 stores. The Company has expanded the number of stores through an emphasis on productivity per employee and inventory turnover rates to strengthen earnings capacity, and from 2020 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., 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 Co., Ltd. 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 2022 were 157 Oniku no Terabayashi stores and 14 Andesfoods stores, for a total of 171 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 27 stores, Kyushu (Fukuoka Prefecture, Kumamoto Prefecture, and Saga Prefecture) with 19 stores and Hokkaido with 10 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.



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

Business overview

4. Other businesses

Other businesses include the businesses of G7 AGRI JAPAN CO., LTD., which manages the Megumi no Sato farmers' market chain; G7 RICO'S STORES CO., LTD.*, which operates RICO's urban-type mini supermarkets; G7 JAPAN FOOD SERVICE CO., LTD., which operates quality food and private brand 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.

* In April 2020, the Company acquired 80.0% of the shares of 99 ICHIBA from UNY Co., Ltd., and made 99 ICHIBA a subsidiary. In April 2022, the Company additionally acquired the remaining 20% of the shares, making 99 ICHIBA a wholly owned subsidiary. It took this opportunity to change the name of 99 ICHIBA to G7 RICO'S STORES CO., LTD. The store's name was also changed from mini PIAGO to RICO'S.

At the end of September 2022, 37 Megumi no Sato stores had been opened. By region, Kansai has 23 stores (17 in Hyogo, 4 in Osaka, and 2 in Nara), and Kanto has 14 stores (7 in Tokyo, 3 in Chiba, 3 in Saitama, and 1 in Kanagawa). Among all 37 stores, 27 stores have been opened within a Gyomu Super store. Moreover, the sales method varies, with the Kansai region having adopted consignment sales (around 20.0% of the sales amount is recorded as commission income) as its sales method, whereas Kanto has adopted the purchase-based sales method (products are purchased from wholesalers and sold to customers) as it does not have a network with direct connections to producers.

RICO's mini supermarkets have opened in Tokyo and Kanagawa Prefecture, and as of the end of September 2022 there were 65 stores (52 stores in Tokyo, 13 in Kanagawa Prefecture). Store sales are of the scale of just under ¥200mn annually per store and profit rates are comparatively smaller than Gyomu Super, so raising earnings capabilities is an issue to be challenged.

In the quality food and private brand business, the Company discovers regional delicacies and local specialty products and sells them to places such as department and specialty stores or e-commerce shops, as well as develops, produces, and sells various types of PB products centered on frozen and processed foods.

Other than these, as a franchisee, the Company manages 25 Curves clubs (in Kanagawa Prefecture), which are workout and training clubs for women, and one TREASURE CYCLE store, which is a bicycle shop and a new business format for the Company, in July 2021.

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, etc.
	G7 RETAIL JAPAN CO., LTD.	100.0%	Operator of Curves training clubs for women, TREASURE CYCLE bicycle shop
	G7 RICO'S STORES CO., LTD.	100.0%	Operator of RICO's (formerly mini PIAGO) urban-type mini supermarkets

Source: Prepared by FISCO using the Company's securities report, website and news releases

Results trends

Continuing record high results in 1H FY3/23, despite lower profits

1. Overview of 1H FY3/23 results

In its 1H FY3/23 consolidated results, net sales increased 4.5% YoY to ¥85,595mn, while operating income decreased 2.8% to ¥3,181mn and ordinary income declined 2.9% to ¥3,373mn. Profit attributable to owners of parent was down 10.1% to ¥2,198mn. Sluggish sales in the meat business and mini-super business, as well as a greater utility expense burden (an increase of just over ¥300mn YoY), had a large impact, causing earnings to decline. However, net sales reached a consecutive record high atop growth in the mainstay Gyomu Super business and car-related business. Profit attributable to owners of parent decreased by double digits because the Company recorded retirement benefits for directors (and other officers) of ¥500mn as an extraordinary loss.

Consolidated results for 1H FY3/23

	1H FY3/22		1H FY3/23		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	81,938	-	85,595	-	4.5%
Cost of sales	61,707	75.3%	64,858	75.8%	5.1%
SG&A expenses	16,955	20.7%	17,555	20.5%	3.5%
Operating income	3,274	4.0%	3,181	3.7%	-2.8%
Ordinary income	3,473	4.2%	3,373	3.9%	-2.9%
Extraordinary loss	-11	0.0%	-526	0.6%	-
Profit attributable to owners of parent	2,445	3.0%	2,198	2.6%	-10.1%

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

In comparison to the Company's forecasts (undisclosed), net sales and profits at each level seem to have fallen short of those forecasts, due to shortfalls in revenue in the meat business and mini-super business and an increase in utility expenses. Utility expenses increased by slightly more than ¥100mn versus forecast mainly because of electricity rate hikes. If there had been no increase in utility expenses, FISCO believes that the Company's ordinary income would have increased.

At the end of September 2022, the number of Group stores was 599 stores, down 1 store from the end of the previous fiscal year, while up 7 stores from the end of September 2021. There were 10 store openings and 11 store closures. The Company closed 7 Megumi no Sato stores and 4 RICO'S stores, all of which had been unprofitable.

Results trends

Number of Group stores and number of store openings and closures

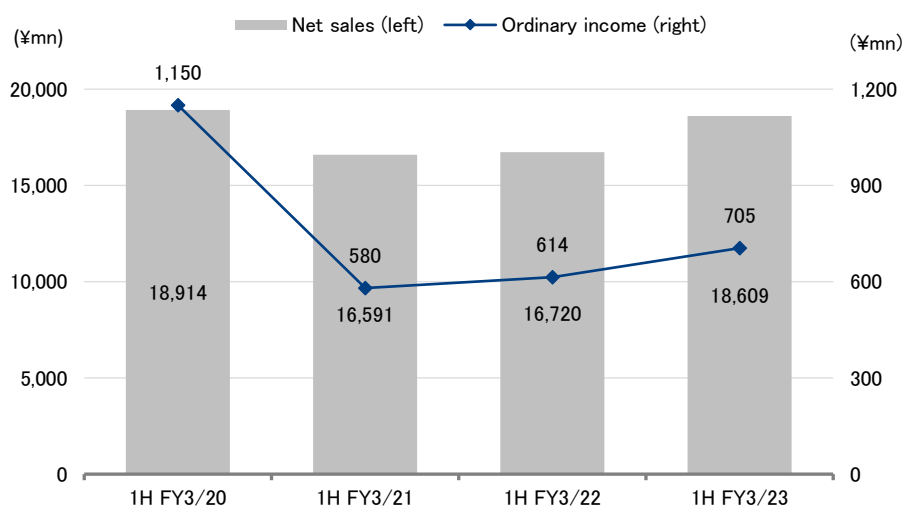
Store name	FY3/22		FY3/23		Number of stores as of end of 1H
	Number of stores as of end of 1H	Number of stores as of end of FY3/22	1H		
			Openings	Closures	
AUTOBACS (including SA and SH)	68	69			69
AUTOBACS Express	7	7			7
BP centers (body repair and coating)	9	9			9
G-7 TSUCHIYAMA CIRCUIT	1	1			1
FIELD SEVEN	3	4			4
mammaciao	6	6			6
Taiyaki Specialty Store Yamaya Honpo	3	3			3
BIKE WORLD	12	14	1		15
Gyomu Super	170	175	3		178
Obentoya K	1	1			1
Oniku no Terabayashi	148	153	4		157
Andesfoods	15	14			14
Megumi no Sato	45	44		7	37
Super Megumi no Sato	1	1			1
RICO'S (formerly mini PIAGO)	71	69		4	65
Curves	25	25			25
TREASURE CYCLE	1	1			1
Overseas (AUTOBACS, BIKE WORLD)	4	4	2		6
Total	592	600	10	11	599

Source: Prepared by FISCO from materials provided by the Company

(1) Car-related business

The car-related business posted increased sales and profits for the second consecutive year as net sales rose 11.3% YoY to ¥18,609mn and ordinary income grew by 14.8% to ¥705mn. It appears that sales and profits were also slightly higher than the Company's forecasts.

Results trends in car-related business

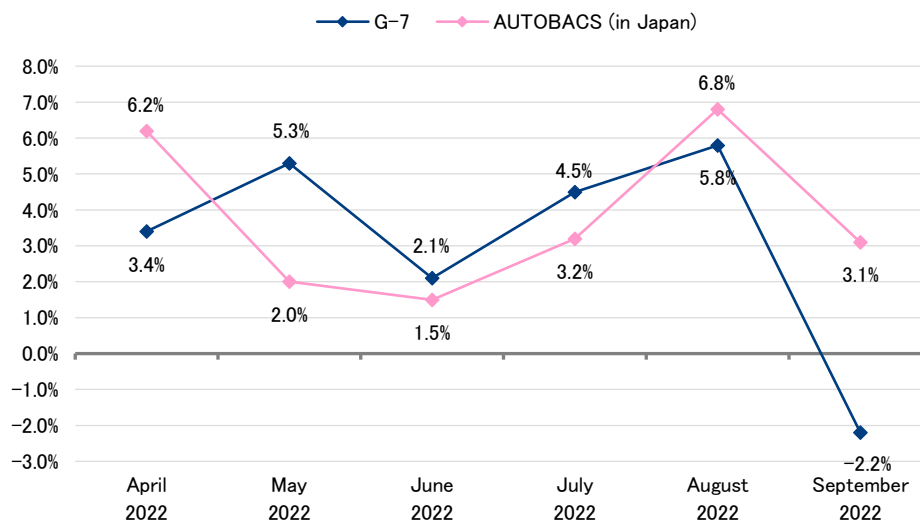


Source: Prepared by FISCO from the Company's results briefing materials and quarterly securities report

Results trends

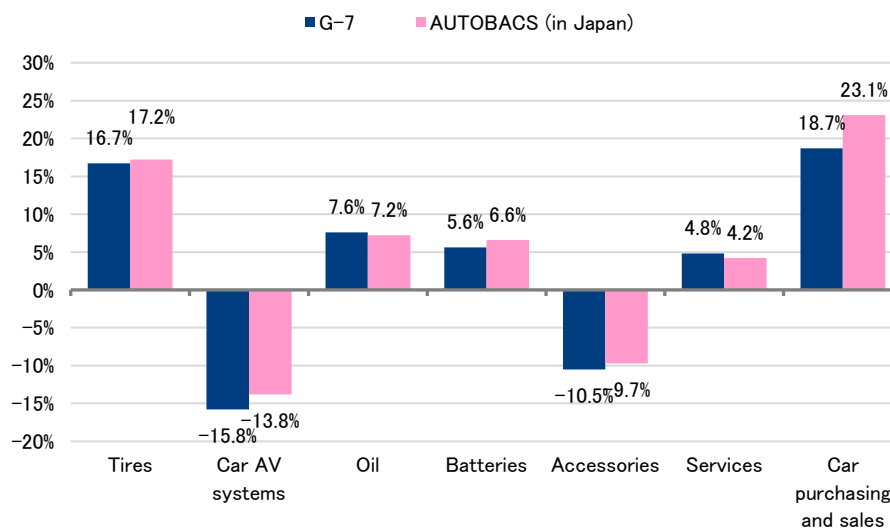
Looking at performance trends by operating company, mainstay G-7 AUTO SERVICE increased net sales 3.9% YoY and ordinary income by 51.9%. Profitable tire sales performed strongly, with very little downturn from price hikes, resulting in a profit margin improvement of around 1 point and surpassing the Company's forecast. In terms of sales trends by category, although sales of car AV systems and accessories were lackluster, with sales of the former decreasing 15.8% and the latter 10.5%, price hikes had the effect of lifting tire sales by 16.7%. In addition, net sales from car purchasing and sales were favorable, up 18.7%, partly reflecting higher used vehicle prices following supply shortages for new vehicles. Looking at monthly sales trends at existing stores, sales posted solid single-digit growth, excluding a drop of 2.2% in September 2022 compared with the same month of the previous year, owing to a pull-back from last-minute demand ahead of the price hikes for tires. These trends mostly mirrored trends for the AUTOBACS Group as a whole. At the end of September 2022, the number of AUTOBACS stores in Japan was 69, mostly unchanged from the end of the previous fiscal year.

Sales growth rate of existing AUTOBACS stores (YoY)



Source: Prepared by FISCO from materials provided by the Company

Net sales by segment (YoY)



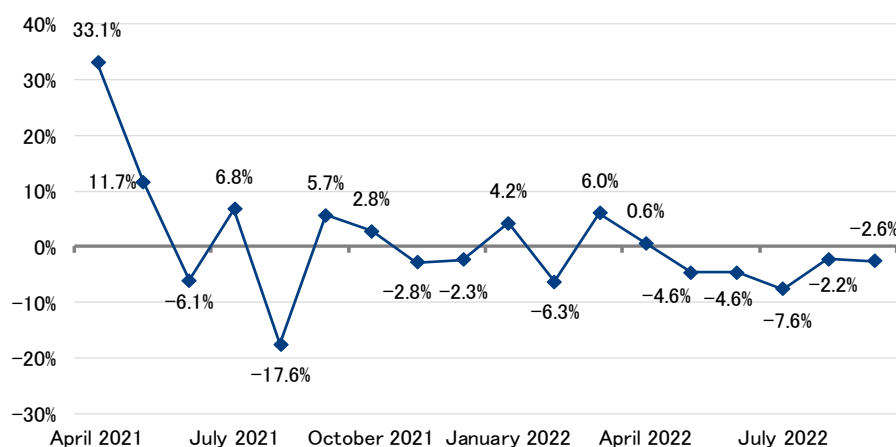
Source: Prepared by FISCO from materials provided by the Company

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Results trends

G-7 BIKE WORLD reported higher sales and lower profits, with net sales up 7.0% YoY and ordinary income down 19.8%. Ordinary income was slightly lower than the Company's forecast. Net sales increased mainly due to the effect of opening stores. In 2H FY3/22, 2 stores were opened, followed by the opening of 1 store (Toyohashi store) on September 23, 2022, bringing the total number of stores to 15. Existing store sales decreased 3.5%, following continuing single-digit declines since May. In the same period of the previous fiscal year, sales of motorcycle-related merchandise were brisk, due partly to an increase in the number of motorcycle commuters in response to the novel coronavirus pandemic (hereafter, "the COVID-19 pandemic"). It now appears that this demand has settled down. On the profit front, the main reason for the decrease in profits was the cost of opening stores.

Sales growth rate of existing BIKE WORLD stores (YoY)



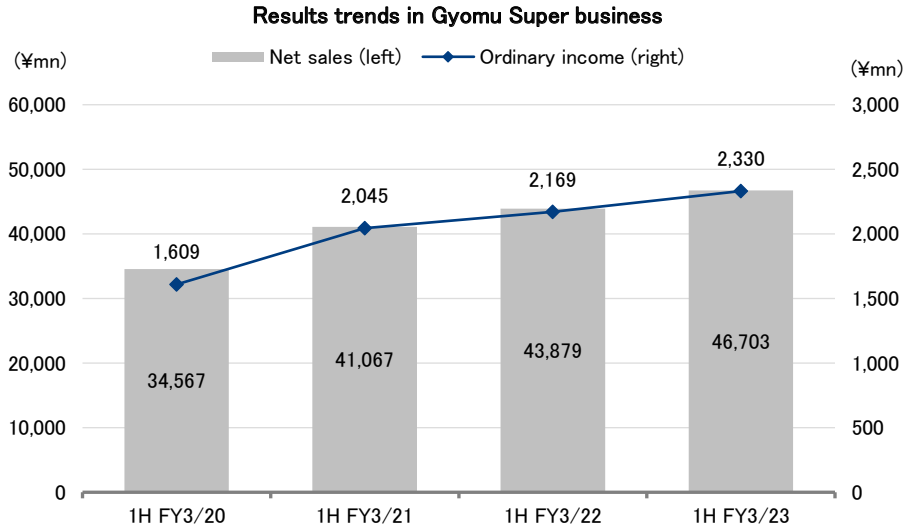
Source: Prepared by FISCO from materials provided by the Company

In the overseas business, the Company conducts the AUTOBACS and BIKE WORLD businesses in Malaysia. In these businesses, following a return of business hours to a normal schedule, net sales rebounded, increasing 166.5% YoY, and the ordinary loss contracted slightly. In August 2022, 1 store of each type was opened, bringing the total number of stores to 6. Although the 3 AUTOBACS stores continue to post losses, business has been growing steadily, with all 3 BIKE WORLD stores attaining profitability. G-7.CrownTrading, which conducts the car export sales business, experienced a sharp recovery in net sales, which rose 184.2% YoY, due partly to a tailwind from soaring used car prices reflecting reduced new vehicle production as well as the effect of the weaker yen. Ordinary income at G-7.CrownTrading decreased by 66.3%.

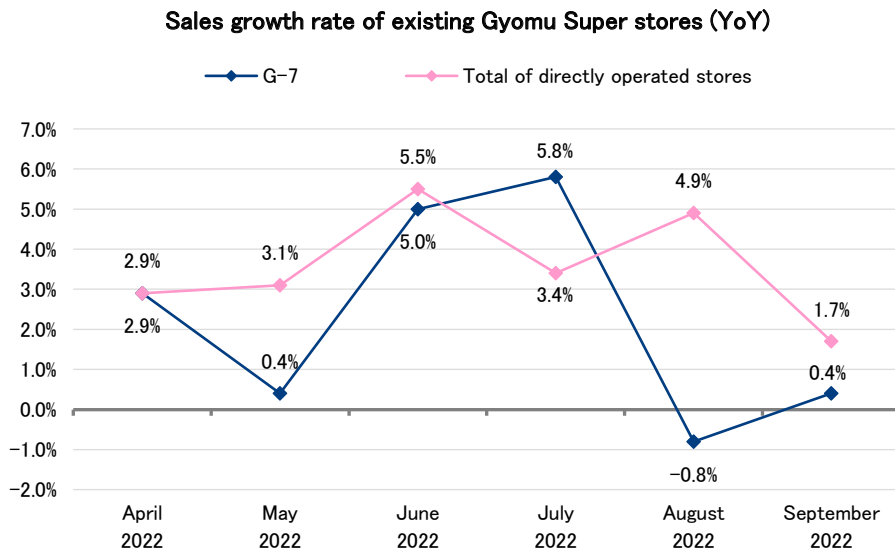
(2) Gyomu Super business

In the Gyomu Super business, which is conducted by G-7 SUPER MART, sales and profits continued to increase. Net sales increased 6.4% YoY to ¥46,703mn and ordinary income rose 7.4% to ¥2,330mn, both of which reached record highs. Both net sales and ordinary income seem to have been slightly above the Company's forecasts. Three new stores were opened (1 each in Kumamoto, Gifu, and Saitama prefectures), and the number of stores increased by 8 stores YoY to 178. In addition, sales of frozen food and PB products continued to perform well, and existing store sales were firm, up 2%. These factors led to the increases in sales and profits in the Gyomu Super business.

Results trends



Source: Prepared by FISCO from the Company's results briefing materials and quarterly securities report



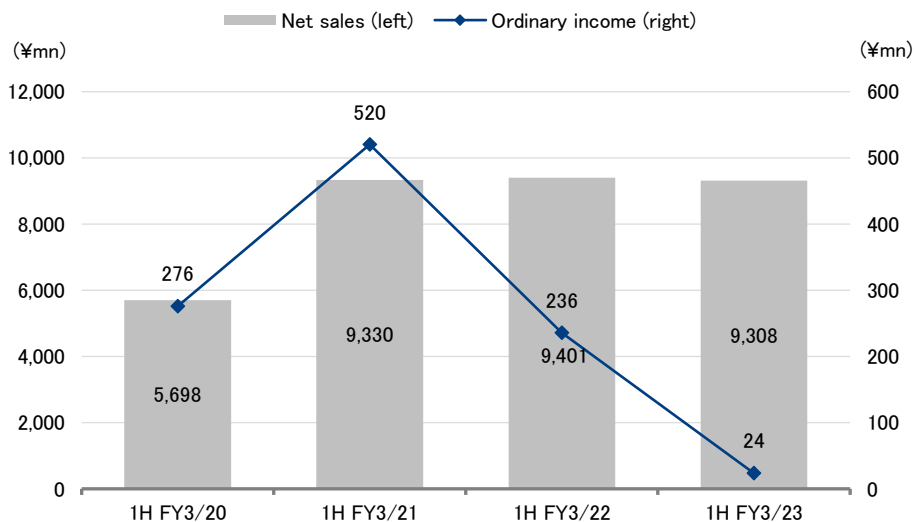
Source: Prepared by FISCO from materials provided by the Company

Results trends

(3) Meat business

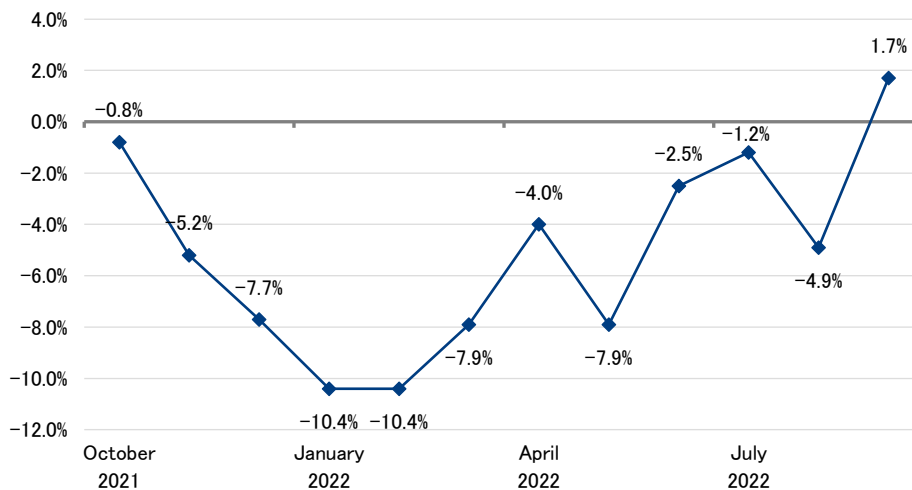
The meat business conducted by G-7 MEAT TERABAYASHI continued to post sluggish results, with net sales down 1.0% YoY to ¥9,308mn and ordinary income down 89.8% to ¥24mn. Results were also below the Company's forecasts. Four new stores were opened (1 each in Kumamoto, Gifu, Saga, and Saitama prefectures), and the number of stores increased by 9 YoY to 157. However, existing store sales were weak, down 3% YoY, leading to lower net sales. On the profit front, the main reason for lower profits was a decrease in the gross profit margin due to rising procurement costs for imported beef and the impact of the weaker yen. However, the meat business has started to see some bright signs, including a return to growth for the first time in 12 months, with existing store sales in September 2022 increasing 1.7% on the same month of the previous year, helped partly by the effect of price hikes as well as beef prices starting to decrease since the summer. In addition, the Andesfoods business division returned to profitability as it posted revenue growth owing to a recovery in commercial demand.

Results trends in meat business



Source: Prepared by FISCO from the Company's results briefing materials and quarterly securities report

Sales growth rate of existing Meat business (Oniku no Terabayashi) stores (YoY)



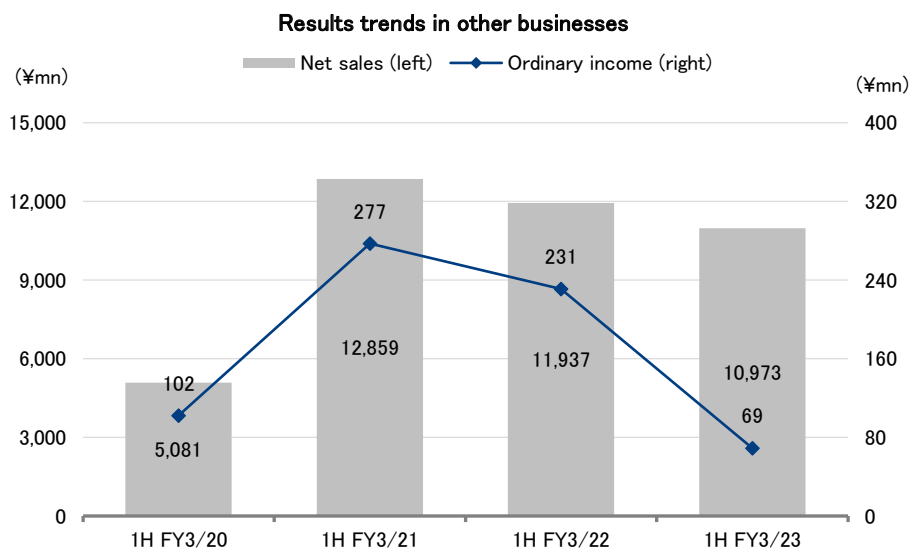
Source: Prepared by FISCO from materials provided by the Company

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Results trends

(4) Other businesses

In other businesses, sales and profits decreased for the second consecutive year, with net sales decreasing 8.1% YoY to ¥10,973mn, and ordinary income decreasing 70.0% to ¥69mn.



Source: Prepared by FISCO from the Company's results briefing materials and quarterly securities report

By operating company, G7 RICO'S STORES, which conducts the mini-super business, saw sluggish net sales, which decreased 15.4% YoY. Net sales were also slightly more than 10% below the Company's forecast. The main reasons for the decreased net sales were the reorganizing of 4 unprofitable stores, as well as a decline of 12% in existing store sales due to a recoil decline from stay-at-home demand. On the profit front, G-7 RICO'S STORES posted a loss due partly to a decrease in the gross profit margin as well as an increase in utility expenses. At the end of September 2022, the number of stores had decreased by 6 YoY to 65.

G7 AGRI JAPAN, which conducts the agricultural business, saw net sales decrease by 6.7% YoY and the ordinary loss increase slightly, with results falling short of the Company's forecasts. The main reasons for the decrease in net sales were the closure of 7 under-profitable stores (6 in the Chubu region, and 1 in the Kanto region), in addition to lackluster existing store sales, which decreased by single digits. At the end of September 2022, the number of stores decreased by 8 YoY to 37. G7 AGRI JAPAN closed all stores in the Chubu region, with plans to close all remaining 14 stores in the Kanto region (all stores are inside Gyomu Super stores) within FY3/23 (5 stores have already been closed as of the end of October). G7 AGRI JAPAN has decided to withdraw for the time being from the Chubu and Kanto regions after judging that monetization would be difficult in these regions, where the purchase-based sales method is used. This method makes monetization difficult because of factors such as product disposal losses. (Product disposal losses are not incurred in the Kansai region because the consignment sales method is used there.) In the future, G7 AGRI JAPAN will explore the possibility of opening standalone roadside stores, an approach that has been successful in the Kansai region.

G7 JAPAN FOOD SERVICE, which conducts the quality food and private brand business, achieved the Company's forecasts, with net sales up 2.2% YoY and ordinary income up 37.1%. Proactive efforts to cultivate sales channels, such as travelling sales, led to the increased net sales. On the profit front, the main reasons for the increase in profit were the withdrawal from the restaurant and sweets business in FY3/22, in addition to the effect of higher net sales.

Results trends

G7 RETAIL JAPAN, which operates Curves, a chain of workout and training clubs (25 stores), posted a 12.4% YoY increase in net sales and a 157.7% increase in ordinary income. These increases were mainly due to a recovery in the number of Curves members, which had decreased during the COVID-19 pandemic. In addition, sales increased steadily at TREASURE CYCLE (1 store), which was opened in July 2021. TREASURE CYCLE operates as new business format.

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

2. Financial condition and key financial indicators

At the end of 1H FY3/23, total assets were down ¥1,925mn from the previous fiscal year-end to ¥52,220mn. The main changes were as follows. In current assets, inventories increased ¥1,008mn, while there were decreases of ¥2,903mn in cash and deposits and ¥216mn in accounts receivable-trade. In non-current assets, goodwill decreased by ¥32mn, while there were increases of ¥218mn in leasehold and guarantee deposits and ¥234mn in deferred tax assets.

Total liabilities at the end of 1H FY3/23 decreased by ¥3,017mn from the previous fiscal year-end to ¥26,381mn. In current liabilities, there were decreases of ¥704mn in accounts payable-trade, ¥553mn in income taxes payable, ¥456mn in provision for bonuses, and ¥653mn in provision for retirement benefits for directors (and other officers). Total net assets at the end of 1H FY3/23 increased by ¥1,091mn to ¥25,838mn. Retained earnings increased by ¥1,363mn mainly owing to the recording of profit attributable to owners of parent of ¥2,198mn and payment of dividends of ¥886mn. Non-controlling interests of ¥152mn were eliminated as a result of the conversion of G7 RICO'S STORES into a wholly owned subsidiary.

Looking at financial indicators, the equity ratio rose 4.1pp from the previous fiscal year-end to 49.5%, while the interest-bearing debt ratio decreased 1.8pp to 36.0%, indicating solid progress on strengthening the Group's financial base. Net cash (cash and deposits – interest-bearing debt) decreased ¥2,903mn from the previous fiscal year-end mainly due to the payment of dividends and income taxes, but increased ¥376mn from the end of 1H FY3/22. Net cash is expected to accumulate further toward the end of FY3/23. As for the uses of this abundant cash, the Company has budgeted for around ¥5 billion to be used for M&As, in addition to using the funds for investments in existing businesses and shareholder returns. The Company envisions using the funds for projects that will pave the way for expanding the business ecosystems of existing businesses, and businesses in peripheral areas where synergies can be expected.

Results trends

Consolidated balance sheet

	FY3/19	FY3/20	FY3/21	FY3/22	1H FY3/23	Change
	(¥mn)					
Current assets	24,575	27,040	27,650	29,498	27,220	-2,278
(Cash and deposits)	14,518	16,465	16,259	17,033	14,130	-2,903
(Inventories)	5,767	5,602	6,517	6,854	7,862	1,008
Non-current assets	20,115	20,846	23,741	24,647	24,999	352
(Goodwill)	150	67	516	437	405	-32
Total assets	44,691	47,886	51,391	54,145	52,220	-1,925
Total liabilities	25,188	25,868	30,128	29,398	26,381	-3,017
(Interest-bearing debt)	8,804	9,348	9,300	9,300	9,300	0
Net assets	19,502	22,018	21,263	24,747	25,838	1,091
<Key financial indicators>						
Equity ratio	43.6%	45.9%	41.1%	45.4%	49.5%	4.1pt
Interest-bearing debt ratio	45.2%	42.5%	44.1%	37.8%	36.0%	-1.8pt
Net cash	5,714	7,117	6,959	7,733	4,830	-2,903

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

Business outlook

Initial forecasts for FY3/23 results were maintained, but the rebuilding of unprofitable businesses has become a priority

1. Forecast for FY3/23

For its FY3/23 consolidated results, the Company has maintained its initial forecasts. It forecasts net sales to increase 6.8% YoY to ¥180,000mn, operating income to increase 3.4% to ¥7,700mn, ordinary income to increase 1.6% to ¥8,000mn, and profit attributable to owners of parent to increase 2.7% to ¥5,400mn. The progress rates in 1H FY3/23 were 47.6% for net sales and 41.3% for operating income, which are slightly below the average for the past three years, which is 48.6% for net sales and 48.4% for operating income. Sales conditions for winter tires and the rebuilding of Oniku no Terabayashi, RICO'S and Megumi no Sato, whose earnings have remained sluggish, seem to hold the key to achieving the Company's forecasts.

Notably, on the profit front, it will not be easy to achieve the Company's forecasts as the increased utility cost burden will continue in 2H. However, the Company plans to increase earnings at the ordinary income level through measures such as growing existing store sales, improving productivity, and reducing expenses. That said, if the Company determines that it will be difficult to increase profits based on conditions in 3Q, it may consider making investments such as store renovations ahead of schedule as one of its options.

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Business outlook

Consolidated forecast for FY3/23

(¥mn)

	FY3/22		FY3/23			
	Results	vs. net sales	Company forecast	vs. net sales	YoY	1H progress rate
Net sales	168,525	-	180,000	-	6.8%	47.6%
Operating income	7,448	4.4%	7,700	4.3%	3.4%	41.3%
Ordinary income	7,877	4.7%	8,000	4.4%	1.6%	42.2%
Profit attributable to owners of parent	5,255	3.1%	5,400	3.0%	2.7%	40.7%
Earnings per share (¥)	119.28		122.55			

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

By business segment, the Company forecasts the Gyomu Super business, car-related business and quality food and private brand business to continue increased sales and profits. On the other hand, reduced sales are expected, for the mini-supermarket and agricultural businesses, partly due to a reduction in the number of stores.

In FY3/23, the Company plans to open 35 stores, of which 25 stores will be opened in 2H, including M&As. The number of stores as of the end of FY3/23 is projected at 623, an increase of 23 stores from the end of FY3/22. That said, the Company plans to move forward cautiously with the opening of stores other than Gyomu Super stores, due partly to price hikes for construction materials, electricity rates and other items. Therefore, the number of store openings could be held to around 20. Meanwhile, the Company plans to close 14 Megumi no Sato stores in the Kanto region in 2H FY3/23. For this reason, barring any major M&A deals going forward, the number of stores at the end of FY3/23 could even fall below the number at the previous fiscal year-end. The investment plan for FY3/23 calls for investment of ¥10 billion. Of this amount, the Company had budgeted ¥5 billion for M&As.

Number of Group stores and number of store openings and closures

Store name	Number of stores at end of FY3/21	Number of stores at end of FY3/22	FY3/23 store opening forecast	Number of stores at end of FY3/23 E
AUTOBACS (including SA and SH)	68	69		69
AUTOBACS Express	7	7		7
BP centers (body repair and coating)	9	9		9
G-7 TSUCHIYAMA CIRCUIT	1	1		1
FIELD SEVEN	2	4	1	5
Mammaciao	5	6		6
Taiyaki Specialty Store Yamaya Honpo	3	3		3
BIKE WORLD	12	14	4	18
Gyomu Super	165	175	12	187
Obentoya K	1	1		1
Oniku no Terabayashi	143	153	5	158
Andesfoods	16	14		14
Megumi no Sato	45	44	5	42
Super Megumi no Sato	1	1		1
RICO'S (formerly mini PIAGO)	72	69	2	67
Curves	25	25	4	29
TREASURE CYCLE	-	1		1
Overseas (AUTOBACS, BIKE WORLD)	4	4	2	6
Total	586	600	35	624

Source: Prepared by FISCO from materials provided by the Company

Business outlook

(1) Car-related business

Within the car-related business, G-7 AUTO SERVICE is forecast to increase sales and profits. Although G-7 AUTO SERVICE had not planned on opening any AUTOBACS stores, it assumed 1 store (Maizuru store) in November 2022. G-7 AUTO SERVICE continues to aim for sales growth at existing stores in 2H, meaning that sales trends for winter tires will be crucial to its success. If weather conditions follow seasonal norms, FISCO believes that it can attain increases in sales and profits.

BIKE WORLD is planning 3 new store openings in 2H, due partly to firm sales of motorcycles. However, the schedule for opening those stores has not yet been determined, and with the rising cost of construction materials, these plans might be postponed. BIKE WORLD aims for increases in sales and profits by implementing sales growth measures at existing stores. Additionally, within the overseas business, AUTOBACS and BIKE WORLD in Malaysia could open 1 store each during FY3/23. This is because many inquiries have been received in sightseeing areas visited by large numbers of Japanese people. However, the schedule for opening those stores has not yet been determined. In the Malaysia business, the goal is to achieve profitability in FY3/24. The car export sales business continues to perform strongly in 2H, supported by the tailwind of a weaker yen, and it expects to achieve increases in sales and profits on a full-year basis.

In other areas, the Company opened the 5th FIELD SEVEN outdoor goods store (Kakogawa store) in November 2022 on the second floor of the AUTOBACS Kakogawa store. With the largest sales space of any FIELD SEVEN store so far, this new store is expected to contribute to sales.

(2) Gyomu Super business

In the Gyomu Super business, the Company is forecasting single-digit YoY increases in both sales and profits. The Company plans 9 new store openings in 2H, of which properties for 3 have already been secured, while the remaining stores will be opened as properties are found. Moreover, the Company plans to renovate 10 existing stores on a full year basis, of which 3 stores were renovated in 1H. The Company policy is to continue opening stores in the Kyushu region, Tokyo metropolitan area and Hokkaido, as well as focus on opening stores in Aichi Prefecture, which has a comparatively fewer number of stores. In addition, it is sequentially introducing self-check-out registers and cashless payments to enhance convenience for customers. These measures seek to enhance the turnover rate for the number of customers by reducing waiting times at registers and to increase sales. Among the stores in the Kanto region, stores that had opened Megumi no Sato sites as tenants will use the vacated space following the closure of Megumi no Sato stores to purchase and sell fruits and vegetables.

(3) Meat business

In the meat business, the Company is expecting a single-digit YoY increase in net sales, but profits are expected to decrease owing to the impact of the downturn in profits through 1H. That said, it appears that the meat business has emerged from the worst period, based on factors such as a return of existing store sales to growth in September 2022 in comparison to the same month of the previous year. From 2H onward, the earnings trend is expected to turn upwards. One new store is scheduled to open in 2H, but the Company's policy is to open stores concurrently with Gyomu Super stores, so new store openings may increase further.

Business outlook

(4) Other businesses

Other businesses are forecasting reduced sales. On the profit front, the outlook will depend on trends in the mini-super business. The Company had closed four unprofitable RICO'S stores by the end of 1H and had planned to open 2 new stores in 2H. However, it has decided to give top priority to generating net sales in 2H and has frozen its plans for new store openings and closures. In March 2023, personnel on assignment from UNY (7 individuals) will leave the organization, and leadership will be fully replaced with the Company's management team from April 2023. Therefore, until then, the Company has decided to implement fundamental reforms in product strategy, personnel structure and other areas, in order to restore the earnings power of stores.

RICO'S stores are small stores with only around 165 m² to 231 m² of floor space. Therefore, the product strategy of these stores is crucial. The Company is exploring ways to increase sales, including carrying more meats, fruits and vegetables, and PB products sold by Group companies. In addition, at stores serving large numbers of non-Japanese customers, the Company is considering carrying food materials from the home countries of those customers. Because these stores employ a large number of non-Japanese part-time staff, a high staff turnover rate has become an issue. The Company will strive to reduce the staff turnover rate and improve productivity by bolstering staff education and training. Furthermore, the Company seeks to establish a flexible structure, including reducing business hours according to local circumstances, with the aim of attaining profitability from FY3/24 onward.

As stated earlier, the Company will close Megumi no Sato stores in the Kanto region. Therefore, unless new stores are opened, the number of stores will decrease by 21 stores from the previous fiscal year-end to 23 stores. Accordingly, although net sales will decrease, profits are expected to improve because there will be no more unprofitable stores.

G7 JAPAN FOOD SERVICE aims to continue increasing sales and profits by focusing on cultivating sales channels and developing PB products. For the Curves chain of workout and training clubs for women, it expects to acquire 4 clubs in Kanagawa Prefecture through M&A deals, but these deals have yet to be finalized. That said, with steady increases in the number of members at existing clubs, it is forecasting increases in sales and profits.

Advancing M&A strategy, targeting ¥250bn in net sales and ¥10bn in ordinary income in FY3/26

2. 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.

Business outlook

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 two productivity indicators of net sales and gross profit 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 50 to 70 new stores with high investment returns every fiscal year
- 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

As its sales targets for each business, the Company is forecasting net sales of ¥100bn and ¥4.5bn in ordinary income in the Gyomu Super business (net sales up 1.19x and ordinary income up 1.13 x from FY3/21), net sales of ¥50bn and ordinary income of ¥2.5bn (net sales up 1.57x and ordinary income up 1.20x) in the AUTOBACS business; and net sales of ¥35bn and ordinary income of ¥1.2bn (net sales up 1.91x and ordinary income up 1.28x) in the meat business.

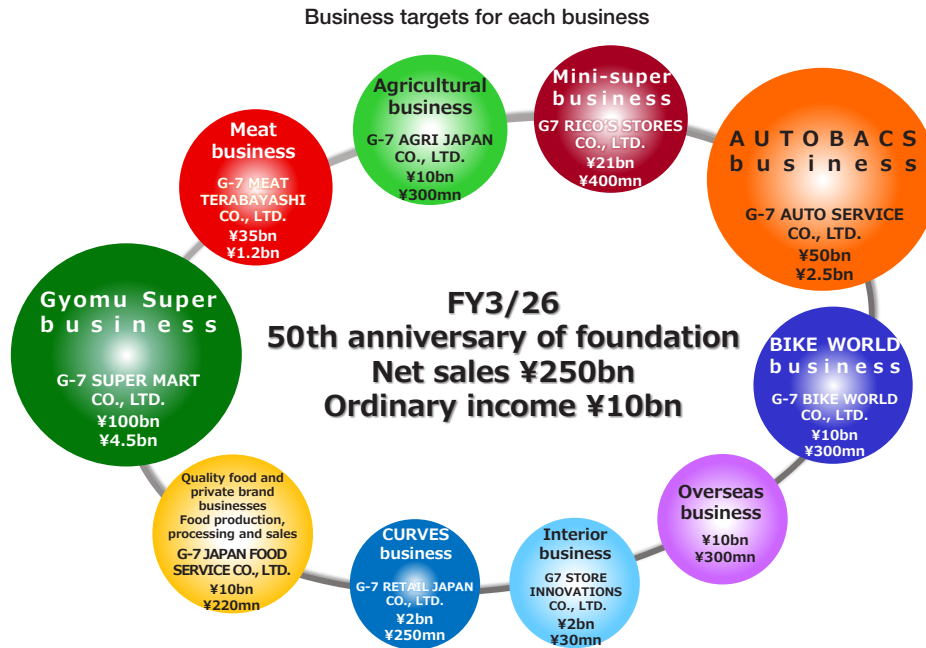
Of these businesses, the Gyomu Super business is aiming to achieve its targets by expanding the number of stores, mainly in the regions of Kyushu, Chubu, metropolitan Tokyo, and Hokkaido. Net sales are calculated at an annual growth rate of 3.5%, so if store openings proceed smoothly, the target can be said to be of a sufficiently achievable level. For the AUTOBACS business, meanwhile, the Company has set a challenging target requiring sales at an annual growth rate of 9.4%. The Company seeks to achieve this target by expanding domains into peripheral businesses in categories such as car life. Specifically, the Company will work to nurture the outdoor business (FIELD SEVEN, auto campgrounds, etc.). That said, there was a national forest at a location that was a promising candidate site for an auto campground. As a result, the Company has cancelled the start of construction, and plans to look for a new candidate site.

The meat business is forecasting net sales growth at an annual rate of 13.8%. The aim is for double-digit growth through openings in Gyomu Super stores and strengthening the commercial wholesaling business. In FY3/23, the meat business faced an uphill struggle due to a worsening market environment, but the market environment is now starting to improve, and growth can be expected from FY3/24 onward. The mini-super business has set ambitious targets, forecasting net sales of ¥21bn, which would be a 1.6-fold increase on FY3/21, and ordinary income of ¥0.4bn. While moving ahead on a scrap and build strategy in the Tokyo metropolitan area, the business' policy is to work to increase its ability to attract customers by offering a full range of the appealing products of Group companies and to improve per store profitability, with a view to restoring growth in the number of stores. FISCO will be monitoring the effects of these measures from FY3/24 onward.

The Company is forecasting net sales of ¥10bn and ordinary income of ¥0.2bn -¥0.3bn each in the BIKE WORLD business, quality food and private brand business, agricultural business (Megumi no Sato) and overseas business (The agricultural business is on a distribution amount basis.). In the Curves business and the store interior business (mainly construction of Gyomu Super stores), net sales of ¥2bn is forecast in each business.

Business outlook

In other areas, the Company’s policy is to develop new businesses expected to synergize with existing businesses and proactively advance acquisitions through M&A. Notably, the Company’s M&A strategy is one of the reasons it has been able to achieve sustained earnings growth to date. The M&A strategy, including the rebuilding of RICO’S, holds the key to achieving the goals of the current medium-term business plan. Therefore, these trends will be closely monitored going forward.



Source: Published from materials provided by the Company

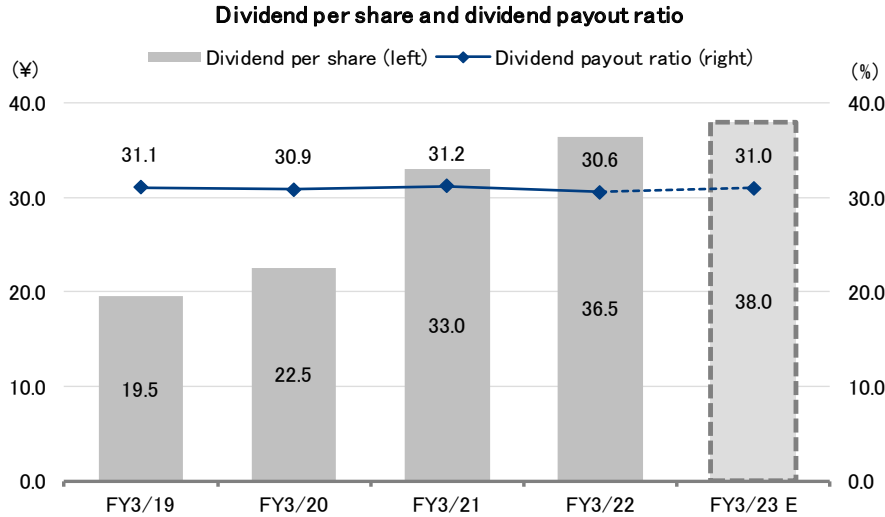
Shareholder return policy and sustainability initiatives

Plans to increase the dividend for the eighth consecutive year, targeting a dividend payout ratio of 30%

1. Shareholder return policy

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%. For FY3/23, it plans to increase the dividend per share by ¥1.5 YoY to ¥38.0, representing a dividend payout ratio of 31.0%. This would be the eighth consecutive year of higher dividends. Continued dividend growth can be expected if earnings continue to increase going forward.

Shareholder return policy and sustainability initiatives



Note 1: The Company paid a special dividend of ¥1.0 in FY3/20, a commemorative dividend ¥8.0 in FY3/21, and a special dividend of ¥1.5 in FY3/22.

Note 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

Practicing sustainability management will lead to improved brand value, business domain expansion, and enhanced employee satisfaction

2. Sustainability initiatives

The Company's basic philosophy on sustainability is "to contribute to society by practicing management aims at improving the satisfaction of customers, shareholders, employees, local communities and other stakeholders through a local, hands-on policy and customer-first policy with respect for human rights as a management foundation," and believes that leveraging the strength of each business to contribute to a sustainable society will lead to the Group's long-term growth. Moreover, as benefits of practicing management, it will lead to improved brand value, business domain expansion, and enhanced employee satisfaction.

Regarding sustainability initiatives, the Company published information on its SDGs measures in its website. The main initiatives are divided from an ESG perspective as follows.

(1) Environment

a) Consideration for climate change and other global environmental issues

The Group will contribute to decarbonization by reducing and suppressing CO₂ emissions by switching its company vehicles to electric vehicles (battery electric vehicles, fuel cell electric vehicles, and plug-in hybrid vehicles (PHEVs) and hybrid vehicles (HEVs), etc.), converting store lighting to LED and prioritizing use of renewable energies, thus addressing climate-related disaster and holding off the outbreak of natural disasters. Autocamp grounds the Company is planning for development going forward will also be made available as evacuation sites at times of disaster.

Shareholder return policy and sustainability initiatives

In addition, efforts are made to reduce waste products by making store inventory management more sophisticated, and consideration shown to the environment by also conducting proper separation and disposal of waste items. For example, tires for disposal collected from customers visiting AUTOBACS stores are recycled by a specialist company and reused as an energy source, while waste oil, waste batteries and other items are separated by material, which leads to their reuse as resources through designated companies.

b) Renewable energy and energy-saving initiatives

To increase the use of renewable energy, the Company installed solar panels on the rooftop of its newly completed Head Office in 2021, thereby increasing its solar energy usage rate. Moreover, the Company will rapidly replace its company vehicles with electric vehicles. In addition, the Company will improve energy efficiency by promoting the conversion of in-store lighting to LED lights, as part of efforts to advance reduced power consumption and CO₂ emissions. In addition, in AUTOBACS stores, the Company plans to move ahead with the installation of electric vehicle charging stations that will be available for use by customers at its stores. (It has currently installed a charging station at the AUTOBACS Kisarazu Kaneda store.)

c) Crisis management for natural disasters

The Group has formulated principles, a basic policy, objectives, and targets related to crisis management for natural disasters. In addition, it is developing a crisis response plan envisaging damage scenarios.

(2) Society

a) Contributing to local communities

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 will also continue to hold recreational activities and similar initiatives for child welfare facilities and childcare support facilities, including the start of provision of ingredients for children's food halls in communities. By increasing the frequency of these activities going forward, the intent is to focus even more on health and welfare activities. 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 and strives to ensure proper sorting and separation of waste according to each community's stipulations.

b) Safe driving initiatives

The SDGs target reducing global traffic accident fatalities by half, and to achieve this target the Group 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." It also provides hands-on workshops such as changing tires as one aspect of safety education for children.

c) Sports support

The Company supports athletes such as the local professional soccer team and golf players as one aspect of its activities contributing to society. By supporting sports, it strives to further strengthen relations with local communities as a company deeply rooted in the region.

(3) Governance

The Group has formulated the Corporate Ethics Committee (Compliance Committee) Regulations and established the Corporate Ethics Committee (Compliance Committee) for the objective of conducting business activities in accordance with social norms and ethics to contribute to society through the promotion of sound management. The Corporate Ethics Committee (comprising the chair, division heads and the president and CEO) meets once a month, and has built a structure that checks whether there have been actions beyond socially norms and ethics and responds promptly in the event of recognizing a problem. In addition, the introduction of a whistle-blowing system has enabled mutual monitoring within the Group, which not only raises awareness of compliance among directors and employees, but also leads to early detection, correction, and prevention of recurrence of legal violations or misconduct that have or may have a significant impact on management.

The Group has also formulated Risk Management Regulations and established a Risk Management Committee to prevent the occurrence of significant risks, minimizing the impact on business of significant risks that do eventuate and preventing recurrence. The Risk Management Committee (comprising the chair and president and CEO) meets monthly and has a unified management structure for each risk encompassing the Group, based on reports received from each committee member. The Committee works to ascertain, analyze, and address the Group's risk information and promptly responds in an appropriate manner to risks through individual risk countermeasure committees and other means. Moreover, risk management in business activities is monitored through internal auditors and reported to representatives of each Group company as appropriate.

Furthermore, in order to further enhance its corporate governance structure, the Group transitioned to a Company with an Audit and Supervisory Committee following approval by the general meeting of shareholders held in June 2022.

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