

G-7 HOLDINGS INC.

7508

Tokyo Stock Exchange Prime Market

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FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

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Summary

Seeking earnings growth by strengthening profitability of existing businesses and M&A strategy

G-7 HOLDINGS INC. <7508> (hereinafter “the Company”) 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&A and expanding its business scale.

1. Overview of 1H FY3/24 results

In the 1H FY3/24 (April–September 2023) results, net sales rose by 8.7% year on year (YoY) to ¥93,060mn, while ordinary income decreased by 7.4% to ¥3,123mn. Net sales reached a record high, because the Gyomu Super and meat businesses performed strongly, posting double-digit growth in net sales due to growth of existing stores and opening new stores. Profit declined, however, because of increases in personnel expenses, cost of opening stores, and utility expenses. Sales of existing stores turned up slightly in the mini-supermarket business, which had presented challenges, but reduced its loss as a result of cost savings under a new management structure. The Group’s store count increased by 13 from the end of FY3/23 to 610, with 5 Gyomu Super, 7 Oniku no Terabayashi, and 1 new BIKE WORLD stores opened.

2. Forecasts for FY3/24

For FY3/24 results, the Company left its initial forecast unchanged, with net sales increasing 4.6% YoY to ¥185,000mn and ordinary income rising 17.4% YoY to ¥8,000mn. Progress versus plan in 1H was on track for net sales, but ordinary income was slightly behind due to weaker-than-expected performance of the car-related business. For this reason, the Company has postponed planned store openings in 2H for BIKE WORLD and Megumi no Sato until FY3/25 or later, as well as taking steps such as expense cuts to achieve its targets. Although the target appears somewhat challenging at this stage, it will depend on sales of profitable winter tires. In M&A, the Company acquired Mitsuwa Shuhan, which runs an online liquor store business, and made it a subsidiary in July 2023. Although Mitsuwa Shuhan’s annual sales are a modest ¥300mn, the Company’s strategy is to acquire online retailing know-how to enhance Group synergies in the quality food and other businesses. The Company will continue to analyze other potential M&A deals.

3. Medium-term business plan

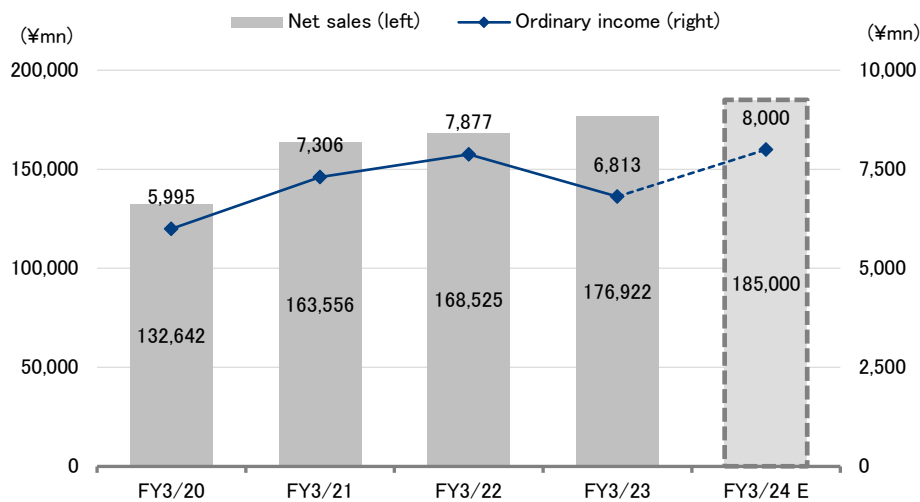
The Company started a five-year medium-term business plan in FY3/22. Business targets are net sales of ¥250bn and ordinary income of ¥10bn for FY3/26. Although these targets have become more challenging due to changes in the operating environment since the plan was formulated, such as rising prices, cost of opening stores, and personnel expenses, the Company expects a turn to net sales and profit growth in FY3/24 onward with a turnaround of unprofitable businesses contributing. The Company also plans to resume aggressive store openings if the market environment improves, as well as developing new business formats and pursuing M&A. Its M&A strategy has a budget of around ¥7.0bn. The Group store count target for the end of FY3/26 is 1,000, up from 610 at the end of 1H FY3/24, which will require closing relatively large-scale M&A deals.

Summary

Key Points

- Continuing record high net sales in 1H FY3/24 even as profits dipped
- Profit may fall short of target in FY3/24, but sales and profit growth likely in FY3/24
- By advancing M&A strategy, will target ¥250bn in net sales and ¥10bn in ordinary income in FY3/26
- Plans to increase the dividend for 9th consecutive year, targeting a dividend payout ratio of 30%

Results trends



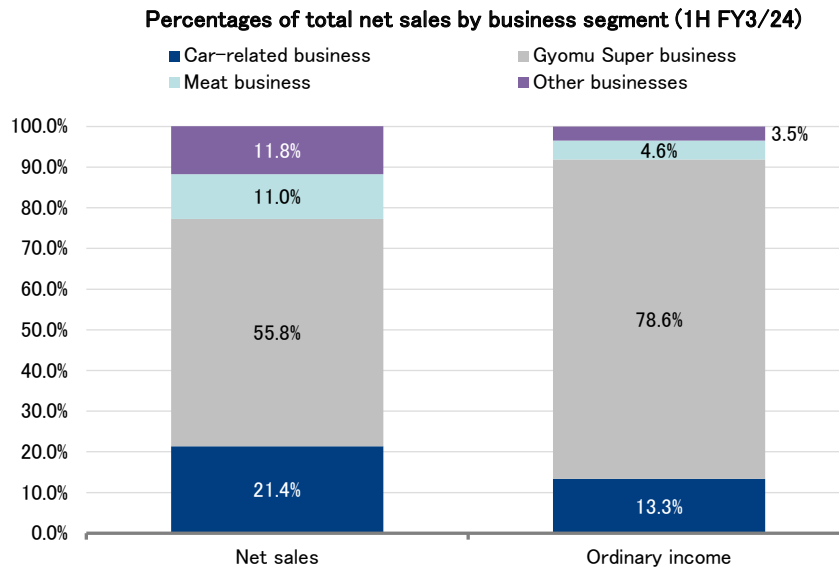
Source: Prepared by FISCO from the Company's financial results

Business overview

Gyomu Super business is main pillar of earnings, accounting for majority share of net sales and 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 FY3/24, the Gyomu Super business accounted for 55.8% of net sales and 78.6% of ordinary income, making it the core business. In addition, if adding the sales from the Gyomu Super business, the meat business, quality food and private brand business, mini-supermarket business and agricultural business, which are included in other businesses, nearly 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 stores 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 in which G-7. CrownTrading Co., Ltd is involved.

More than 80% of sales are provided by AUTOBACS-related stores, and as of the end of September 2023, 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 (589 domestic stores and 91 overseas stores). Stores are located predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki prefectures. Hyogo is particularly important with 38 stores, 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. In addition, 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. As well, G-7 AUTO SERVICE runs franchise stores on the premises of AUTOBACS and other stores, including 6 Mammaciao laundromats, 2 Yamayahonpo taiyaki (fish-shaped pancakes with beam jam) stores, and 1 Châteraisé confectionery store. It also operates 5 FIELD SEVEN outdoor shops.

The BIKE WORLD business consisted of 19 stores at the end of September 2023 with 15 domestic stores and 4 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%.

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Business overview

2. Gyomu Super Business

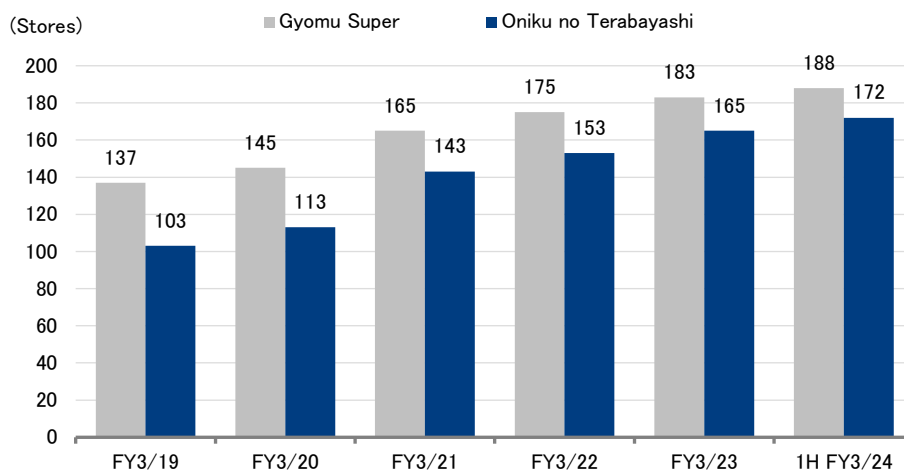
The Gyomu Super business is operated by G-7 SUPER MART CO., LTD., which develops the Gyomu Super franchise. Store openings took place in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions, reaching 188 stores at the end of September 2023, the largest number within the Gyomu Super group (1,038 stores). Looking at store numbers by region, the Kanto area has the most with 72 stores (19 in Tokyo, 17 in Kanagawa, 21 in Saitama, and 15 in Chiba), followed by Chubu with 42 stores (26 in Aichi, 10 in Mie, and 6 in Gifu), Kansai with 34 stores (23 in Hyogo and 11 in Osaka), Kyushu with 25 stores (17 in Fukuoka, 6 in Kumamoto, and 2 in Nagasaki), and Hokkaido with 15 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 in recent years, the Company has accelerated the opening of new stores in Kyushu and Hokkaido and not just the Tokyo metropolitan area.

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 promoted a strategy of simultaneous openings with Gyomu Super. It also has the Andesfoods business division, acquired in an absorption-type merger of Andesfoods Co., Ltd. after having been made a subsidiary in 2020. Andesfoods is a wholesaler that supplies meat and other food products to restaurants, catering, and take-out food services in the Tokyo metropolitan area.

Store numbers at the end of September 2023 were 172 Oniku no Terabayashi stores and 14 Andesfoods stores, for a total of 186 stores. By region, Kanto had the most with 73 stores, followed by Kansai with 36 stores, Chubu with 30 stores, Kyushu with 25 stores and Hokkaido with 14 stores. Around 90% of the total number of Oniku no Terabayashi store openings are within Group stores, such as Gyomu Super and Megumi no Sato stores.

Number of Gyomu Super and Oniku no Terabayashi stores



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

Business overview

4. Other businesses

Other businesses consist of the businesses of G7 AGRI JAPAN CO., LTD., which manages the Megumi no Sato farmers' market chain; G-7 RICO'S STORES CO., LTD., which operates RICO'S mini-supermarkets; G7 JAPAN FOOD SERVICE CO., LTD., which operates quality food and private brand businesses; and G7 RETAIL JAPAN CO., LTD., which develops franchises for Curves workout and training clubs for women, and TREASURE CYCLE, which is a bicycle shop.

The Company had 23 Megumi no Sato stores as of September 30, 2023. It closed all stores in the Chubu and Kanto areas in FY3/23, with all remaining stores in the Kansai area (17 in Hyogo, 4 in Osaka, and 2 in Nara prefectures), of which 12 are located in Gyomu Super stores. The Company receives around 20% commission on sales value from producers, recorded as net sales. This provides stable revenue with no product disposal loss.

RICO'S mini-supermarkets have opened in Tokyo and Kanagawa Prefecture, and as of the end of September 2023 there were 63 stores (50 stores in Tokyo. 13 in Kanagawa Prefecture). Store sales are of the scale of just under ¥200mn annually per store, which is less than 50% compared with Gyomu Super. Sales have been weak since nesting demand petered out in FY3/22, but profitability is beginning to improve under a new management structure put in place in April 2023.

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. The Company has over 6,500 suppliers and sells through over 2,200 retail stores around the country.

Other than these, as a franchisee, the Company manages 25 Curves clubs (in Kanagawa Prefecture), which are workout and training clubs for women, and operates one TREASURE CYCLE store (in Hyogo Prefecture).

Major consolidated subsidiaries

Business segment	Company name	Capital contribution ratio	Business description
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%	Wholesale and 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 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 FY3/24, despite lower profits

1. Overview of 1H FY3/24 results

In the 1H FY3/24 consolidated results, net sales increased 8.7% YoY to ¥93,060mn, operating income declined 8.5% to ¥2,909mn, ordinary income fell 7.4% to ¥3,123mn, and profit attributable to owners of parent was up 2.5% to ¥2,253mn. Net sales continued to mark record highs on expansion of the core Gyomu Super business and meat business in line with the Company's forecast. Profit was negatively impacted by worsening profitability of the car-related business and increases in SG&A expenses such as personnel expenses, cost of opening stores, and utility expenses. The Company has not disclosed its 1H FY3/24 forecast, but we think there was around 7% shortfall in ordinary income. The car-related business fell short of the Company's forecast, although the Gyomu Super and meat businesses were on track.

Consolidated results for 1H FY3/24

	1H FY3/23		1H FY3/24		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	85,595	-	93,060	-	8.7%
Cost of sales	64,858	75.8%	71,191	76.5%	9.8%
SG&A expenses	17,555	20.5%	18,958	20.4%	8.0%
Operating income	3,181	3.7%	2,909	3.1%	-8.5%
Ordinary income	3,373	3.9%	3,123	3.4%	-7.4%
Extraordinary loss	-526	-	115	0.1%	-
Profit attributable to owners of parent	2,198	2.6%	2,253	2.4%	2.5%

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

The cost of sales (CoS) ratio went up 0.7pp YoY, mainly due to a change in the sales mix, while the SG&A expense to net sales ratio fell 0.1pp. Breaking down the increase in SG&A expenses, personnel expenses (approximately 40% of the total) increased 5.3% YoY as a result of optimal deployment of store employees, which improved the SG&A expense to net sales ratio, while other SG&A expenses rose 10.3%. The cost of opening stores went up due to the rise in construction material costs, and increases in utilities, advertising, and leasing expenses contributed to the SG&A expense rise. As a result, the operating margin fell 0.6pp YoY to 3.1%. Profit attributable to owners of parent increased YoY due to the dropout of a ¥500mn provision for retirement benefits for directors (and other officers) and a ¥127mn gain from the sale of investment securities.

The Company opened 15 stores and closed 2 stores for a total of 610 at the end of 1H FY3/24, 13 more than at the end of FY3/23 (the Company opened 10 stores and closed 11 in 1H FY3/23). It opened 6 Gyomu Super stores, 8 Oniku no Terabayashi stores, and 1 BIKE WORLD store in Malaysia.

Results trends

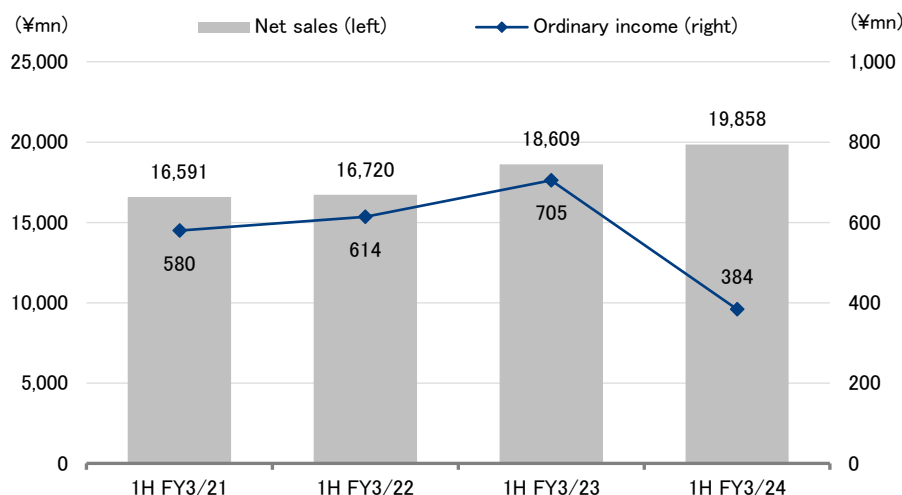
Number of Group stores and number of store openings and closures

Store name	End of 1H FY3/23 Number of stores	End of FY3/23 Number of stores	1H FY3/24		End of 1H FY3/24 Number of stores
			Openings	Closures	
AUTOBACS (including SA and SH)	69	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	4	5			5
Mammaciao	6	6			6
Taiyaki Specialty Store Yamaya Honpo	3	2			2
Châteraisé (new business format)	-	1			1
BIKE WORLD	15	15			15
Gyomu Super	178	183	6	1	188
Obentoya K	1	1			1
Oniku no Terabayashi	157	165	8	1	172
Andesfoods	14	14			14
Megumi no Sato	37	23			23
Super Megumi no Sato	1	1			1
RICO'S	65	63			63
Curves	25	25			25
TREASURE CYCLE	1	1			1
Overseas (AUTOBACS, BIKE WORLD)	6	6	1		7
Total	599	597	15	2	610

Source: Prepared by FISCO from materials provided by the Company

(1) Car-related business

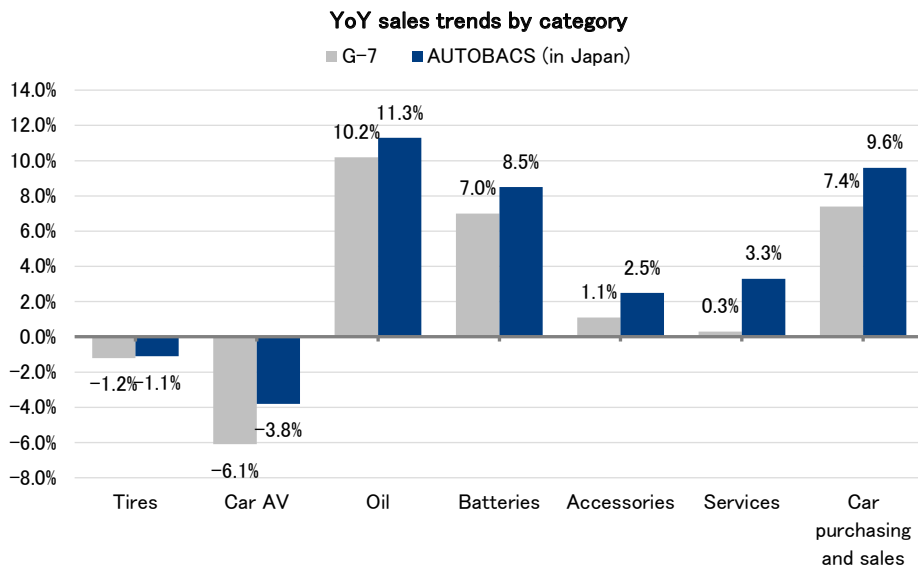
In the car-related business, net sales increased by 6.7% YoY to ¥19,858mn, which was a record high, but ordinary income turned down, falling 45.5% YoY to ¥384mn. This is mainly because ordinary income fell a sharp 50% in the core G-7 AUTO SERVICE, although net sales were up slightly. The gross profit margin was down 0.8pp YoY because of a decline in tire sales, which were boosted by last-minute demand before a price hike a year earlier. Increases in personnel and utility expenses also contributed to the profit decline.

Car-related business


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

Results trends

By category, sales were down 1.2% YoY for tires, 6.5% for aluminum wheels, 6.1% for car AV, and 1.0% for maintenance. In contrast, sales of consumables were robust, increasing 10.2% for oil due to a recovery in demand for driving and 7.0% for batteries. For other products, sales increased 1.1% for accessories, 0.3% for services, and 7.4% for car purchasing and sales. The number of vehicles inspected was strong, rising 3.8% YoY. The domestic AUTOBACS store count at the end of 1H FY3/24 was 69 (flat YoY). Sales of existing stores for the AUTOBACS Group was up 2.5% YoY, showing a similar trend as sales by category.

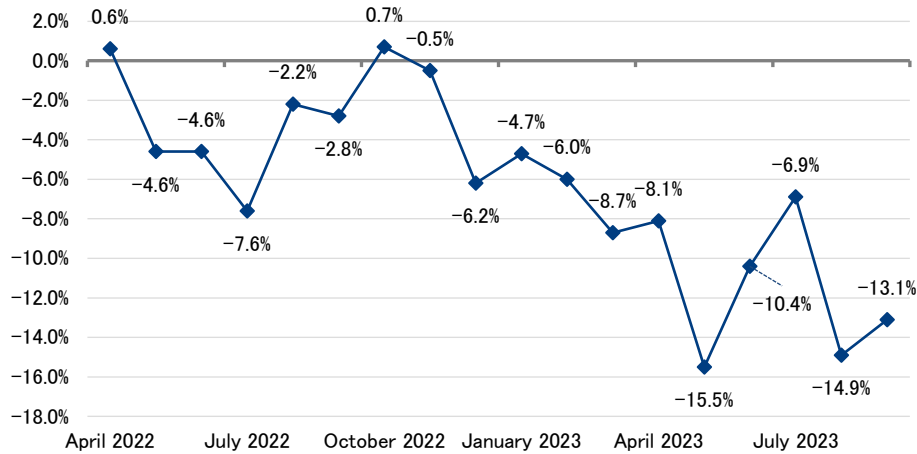


Note: AUTOBACS sales trends are on an existing-store basis
 Source: Prepared by FISCO from materials provided by the Company

G-7 BIKE WORLD posted approximately 10% YoY net sales decline. Net sales of existing stores fell 11 months in a row (since November 2022), due in part to demand peaking out for motorcycle commuting as the COVID-19 pandemic waned and continuous hot summer weather depressing customer traffic. Profit was also down YoY, because gross profit declined on lower sales. The domestic store count at the end of 1H FY3/24 was 15, unchanged YoY.

Results trends

Sales growth rate of G-7 BIKE WORLD (YoY)

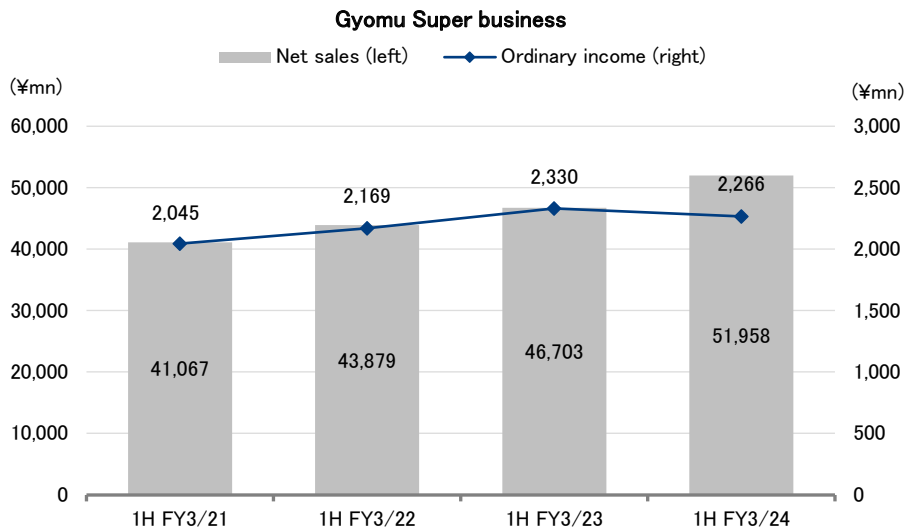


Source: Prepared by FISCO from materials provided by the Company

In the overseas business, G-7. Crown Trading, which conducts the car export sales business, posted around 60% YoY increases in net sales and profit thanks to yen depreciation. It maintained robust performance in September 2023, when it posted record sales. The BIKE WORLD business in Malaysia also recorded steady profit growth and opened its fourth store in Penang in July 2023. The AUTOBACs business in Malaysia posted net sales growth, although slower than expected, and will take more time to become profitable.

(2) Gyomu Super business

In the Gyomu Super business, net sales were up 11.3% YoY to ¥51,958mn, another record high, but ordinary income was down 2.8% to ¥2,266mn. The gross profit margin improved 0.2pp, but increased expenses such as the cost of opening and remodeling stores, and advertising and utility expenses contributed to the profit decline. That being said, progress versus plan was as expected.



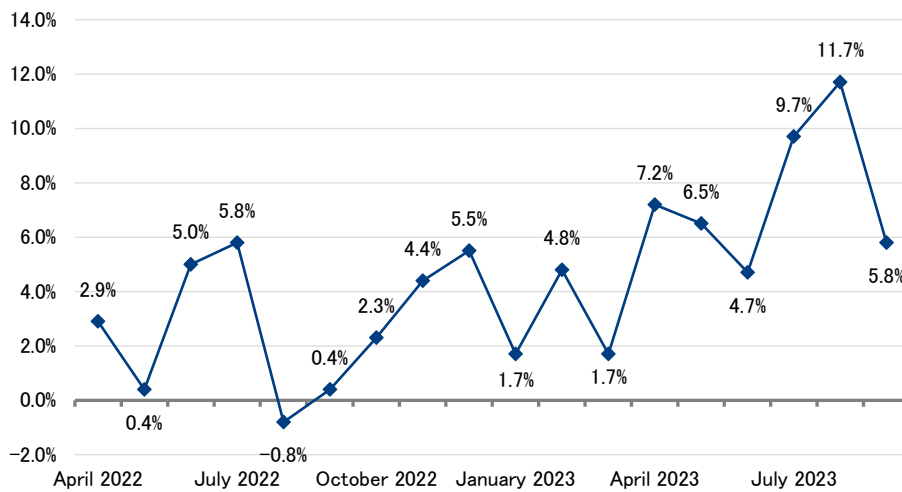
Source: Prepared by FISCO from the Company's quarterly securities report

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Results trends

In addition to the effect of opening new stores, a strong 8% or so YoY increase in sales of existing stores was a factor contributing to net sales growth. The Company opened 6 stores (1 in Hokkaido, 2 in Kanto, and 3 in Chubu) for an increase of 10 stores YoY at the end of September 2023 to 188. Customer traffic increased at existing stores due to customers becoming more budget-conscious, while spend per customer went up as a result of price hikes. Sales were particularly strong in areas such as Kyushu and Hokkaido where the Company has accelerated store openings in recent years.

Net sales growth rate of existing Gyomu Super stores (YoY)

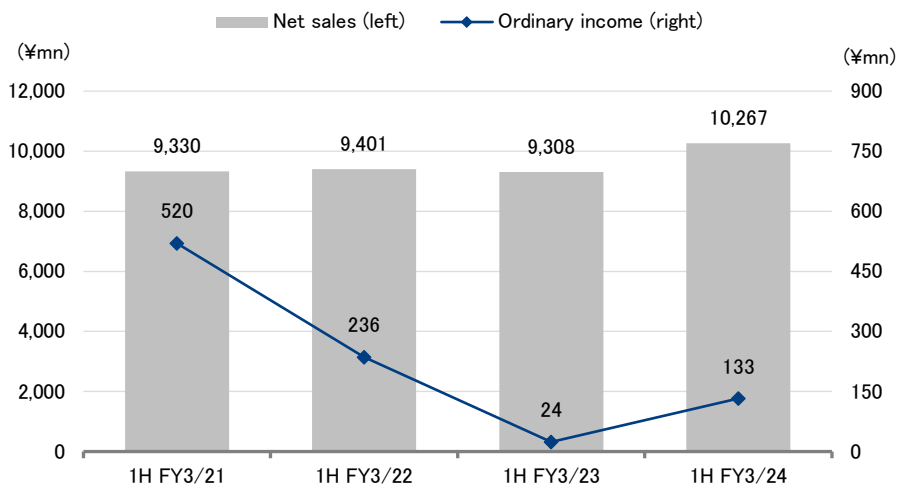


Source: Prepared by FISCO from materials provided by the Company

(3) Meat business

The meat business turned to net sales and profit growth and surpassed the Company's forecast. Net sales increased by 10.3% YoY to ¥10,267mn and ordinary income was up 451.4% to ¥133mn.

Meat business



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

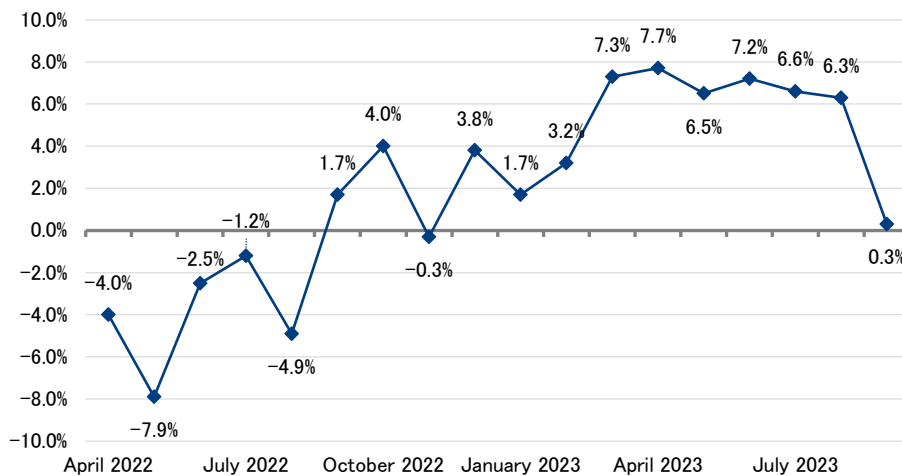
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Results trends

The effect of opening new Oniku no Terabayashi stores and a solid approximately 5% increase in net sales of existing stores due to price hikes starting in fall 2022 were factors contributing to net sales growth. The Company opened 8 stores (1 in Hokkaido, 2 in Kanto, 3 in Chubu, and 2 in Kyushu) for a total store count of 172 at the end of September 2023, up 15 YoY. Andesfoods, a wholesaler that supplies restaurants, also posted net sales growth amid a recovery of the food-service industry.

Profit increased due to the sales growth effect and gross profit margin improvement stemming from price hikes, which absorbed the increase in SG&A expenses. The Company continued to source and sell domestic beef, because the yen remained weak against other currencies.

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

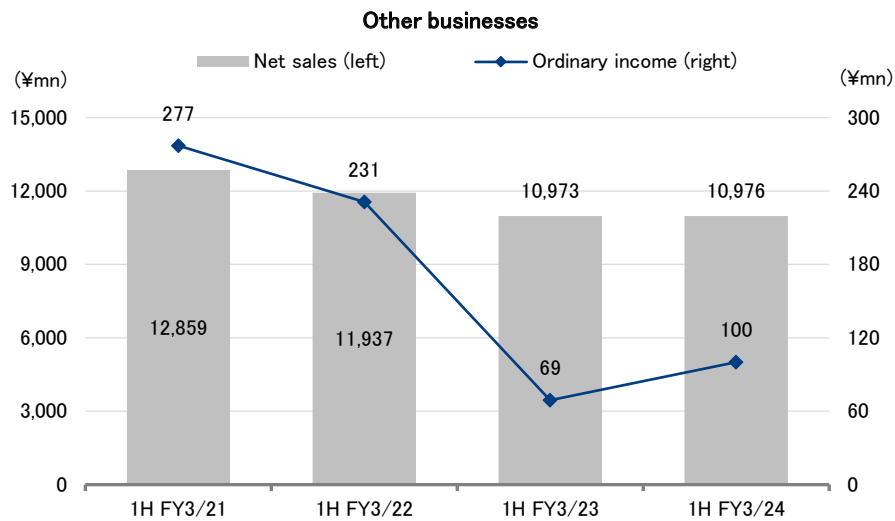


Source: Prepared by FISCO from materials provided by the Company

(4) Other businesses

In other businesses, net sales increased by 0.0% to ¥10,976mn, and ordinary income increased by 45.3% to ¥100mn.

Results trends



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

Looking at performance by business, the mini-supermarket business turned to net sales growth, increasing 1% YoY and shrinking its loss. Sales of existing stores, which had been trending down in reaction to nesting demand a year earlier, also turned positive (up 3% YoY). As well, reducing headquarters costs and streamlining store operations under a new management structure starting in April 2023 helped to improve earnings. New initiatives include a pilot of reselling Costco products at one store and changing one of its two distribution outsourcing companies to a different company to cut distribution costs. There were no store openings or closures in 1H FY3/24 and the Company had 63 stores (down by 2 YoY) at the end of September 2023. It appears that 70% of stores are still making a loss; the Company aims to turn the business profitable in FY3/25 by continuing to expand net sales and reduce costs.

The agricultural business recorded a 26.8% YoY decline in net sales, because it closed 21 struggling stores in Chubu and Kansai in FY3/23. However, existing stores posted a solid 2% YoY increase in net sales and turned profitable. Sales of fresh flowers used in Buddhist holiday festivals such as Obon and Higan were brisk. There were no store openings or closures in 1H FY3/24 and the store count at the end of September 2023 was 23, down by 14 from a year earlier.

Although net sales increased in the quality food and private brand business, profit declined due to making online liquor store company Mitsuwa Shuhan a subsidiary in July 2023, recording expenses of ¥15mn. Mitsuwa Shuhan began selling products on Rakuten Ichiba in 2005, in the early days of online shopping. Since then, it has expanded its sales by opening more stores on sites such as Yahoo! Shopping and Amazon. Its strengths are a network of suppliers for selling locally produced sake from all over Japan and the know-how and product planning capabilities required to run an online shopping business. Mitsuwa Shuhan joined the G-7 JAPAN FOOD SERVICE Group, due in part to increased competition in the online retailing business amid the COVID-19 pandemic. According to materials published by the Company, Mitsuwa Shuhan posted net sales of ¥317mn and a small loss in FY7/22. As a G-7 JAPAN FOOD SERVICE Group company, Mitsuwa Shuhan will sell G-7 JAPAN FOOD SERVICE products at its online stores and strengthen synergies by sharing its online retailing know-how within the Group.

The Company manages 25 Curves clubs, which are workout and training clubs for women. The business posted net sales and profit growth as membership continued to recover.

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Stable financial base, but inventory turnover worsened somewhat

2. Financial condition and key financial indicators

At the end of 1H FY3/24, total assets were up ¥1,255mn from the previous fiscal year-end to ¥58,457mn. In current assets, there was a decrease in cash and deposits of ¥240mn and increases of ¥930mn in inventory (merchandise and finished goods) and ¥344mn in accounts receivable – trade. In non-current assets, property, plant and equipment increased ¥966mn as a result of more stores opening and decrease of ¥276mn in investment securities.

Total liabilities increased by ¥26mn to ¥30,471mn. The main factors behind this increase were decreases of ¥193mn in income taxes payable and ¥298mn in provision for bonuses offset against an increase in other current liabilities. Total net assets at the end of 1H FY3/23 increased by ¥1,228mn from the previous fiscal year-end to ¥27,985mn. Retained earnings increased by ¥1,399mn mainly owing to the recording of profit attributable to owners of parent of ¥2,253mn and payment of dividends of ¥839mn.

Turning to management indicators, the equity ratio rose 1.1pp from the end of FY3/23 to 47.9% and the ratio of interest-bearing debt fell 1.5pp to 33.2%, showing some improvement in financial condition. Net cash (cash and deposits – interest-bearing debt) decreased slightly, but is over ¥6.0bn, which indicates good financial soundness. However, inventory turnover worsened somewhat from 16.5 days in FY3/23 to 17.5 days in 1H FY3/24. This likely played a part in the decline in profitability and presents a challenge going forward. The Company has set a budget of around ¥7.0bn to continue its aggressive M&A strategy. It will consider M&A deals that are likely to expand its trade area in existing businesses and peripheral businesses offering potential for synergies. The Company is keeping an open mind in analyzing prospective M&A deals.

Consolidated balance sheet and key financial indicators

	(¥mn)					
	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24	Change
Current assets	27,040	27,650	29,498	30,259	30,754	495
(Cash and deposits)	16,465	16,259	17,033	15,688	15,448	-240
(Merchandise and finished goods)	5,602	6,517	6,854	7,982	8,912	930
Non-current assets	20,846	23,741	24,647	26,943	27,703	760
(Goodwill)	67	516	437	16	70	54
Total assets	47,886	51,391	54,145	57,202	58,457	1,255
Total liabilities	25,868	30,128	29,398	30,444	30,471	26
(Interest-bearing debt)	9,348	9,300	9,300	9,300	9,300	-
Net assets	22,018	21,263	24,747	26,757	27,985	1,228
[Key financial indicators]						
<Financial strength>						
Equity ratio	45.9%	41.1%	45.4%	46.8%	47.9%	1.1pt
Interest-bearing debt ratio	42.5%	44.1%	37.8%	34.8%	33.2%	-1.5pt
Net cash	7,117	6,959	7,733	6,388	6,148	-240
<Efficiency>						
Inventory turnover (days)	15.4	14.5	14.8	16.5	17.5	1.0

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

Business outlook

Increase in net sales and profit likely in FY3/24, although profit may undershoot Company's forecast

1. Forecasts for FY3/24

For its FY3/24 consolidated results, the Company forecasts net sales to increase 4.6% YoY to ¥185,000mn, operating income to increase 18.4% to ¥7,700mn, ordinary income to increase 17.4% to ¥8,000mn, and profit attributable to owners of parent to increase 43.8% to ¥5,500mn. It left its initial forecast unchanged. The Company expects to post record net sales again and looks for profit growth for the first time in 2 years, also marking a record high.

Consolidated forecasts for FY3/24

	FY3/23		FY3/24				(¥mn)
	Results	vs. net sales	Company forecast	vs. net sales	YoY	1H progress rate	Average progress rate over three years*
Net sales	176,922	-	185,000	-	4.6%	50.3%	48.6%
Operating income	6,504	3.7%	7,700	4.2%	18.4%	37.8%	47.2%
Ordinary income	6,813	3.9%	8,000	4.3%	17.4%	39.0%	47.5%
Profit attributable to owners of parent	3,824	2.2%	5,500	3.0%	43.8%	41.0%	51.3%
Earnings per share (¥)	86.78		124.82				

* Average progress rate over three years = Total of 1H results over three years ÷ full-year results
 Source: Prepared by FISCO from the Company's financial results

As of 1H FY3/24, progress versus the full-year Company forecast was 50.3% for net sales and 37.8% for operating income. Compared with the most recent three-year average progress rates of 48.6% for net sales and 47.2% of operating income, net sales show good progress, but operating income is trailing. As noted earlier, this is due to weak performance of the car-related business. Although the profit target appears challenging at this stage, it may be within reach if sales of profitable winter tires are strong. The Company thinks that profit will increase YoY even if it undershoots its forecast, because the impact of electricity price increases will likely fade and profitability improvement of the previously unprofitable mini-supermarket and agricultural businesses is expected to continue. As well, the Company scaled back its plan to open 14 stores in 2H to 7 stores and aims to strengthen its earnings structure by reducing other expenses. Although the Company will open fewer stores in 2H FY3/24 than in 2H FY3/23 (17 stores) and 1H FY 3/24 (15 stores), the Company is maintaining its policy of resuming an aggressive store opening if market conditions and earnings performance improve.

Business outlook

Number of Group stores and number of store openings and closures

Store name	End of FY3/23 Number of stores	FY3/24 Initial store opening plan	End of 1H FY3/24 Number of stores	Initial store opening plan for 2H FY3/24		End of FY 3/24 Store count forecast
				Openings	Closures	
AUTOBACS (including SA and SH)	69		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	5		5			5
Mammaciao	6		6			6
Taiyaki Specialty Store Yamaya Honpo	2		2			2
Châteraisé (new business format)	1	1	1	1		2
BIKE WORLD	15	2	15	2		17
Gyomu Super	183	12	188	4		192
Obentoya K	1		1			1
Oniku no Terabayashi	165	8	172	2	2	172
Andesfoods	14		14			14
Megumi no Sato	23	2	23	2		25
Super Megumi no Sato	1		1			1
RICO'S	63		63			63
Curves	25	3	25	3		28
TREASURE CYCLE	1		1			1
Overseas (AUTOBACS, BIKE WORLD)	6	1	7			7
Total	597	29	610	14	2	622

Source: Prepared by FISCO from materials provided by the Company

(1) Car-related business

In the car-related business, the Company does not plan to open any AUTOBACS stores, instead focusing on sales growth and productivity improvement at existing stores. The Company expects car AV sales to remain weak, but is thinking to compensate for this with sales growth in car purchase, tires and oil sales, and vehicle inspection services. The Company aims to increase profit on the strengths of the sales growth effect and productivity improvements, but this will depend on how well winter tires sell. We note that the Company opened a second Châteraisé confectionery store in Hyogo Prefecture in October 2023.

The Company had forecast net sales and profit growth at G-7 BIKE WORLD, but the business is expected to struggle over the full year due to weak sales of existing stores. The Company therefore postponed the opening of 2 stores planned in 2H to FY3/25 or later and will focus on earnings recovery of existing stores. Motorcycle product demand may recover amid relatively warm weather since October 2023 onward, which has increased touring opportunities. The Company is focused on sales recovery by improving its ability to attract customers to stores through aggressive promotions such as organizing events.

Overseas, the Company aims to have the AUTOBACS and BIKE WORLD stores in Malaysia turn profitable in total in FY3/24. The car export sales business is forecast to continue its strong performance in 2H thanks to yen depreciation for double-digit growth in net sales and profit for the full year.

(2) Gyomu Super business

The Company looks for net sales and profit growth in the Gyomu Super business. The opening of 4 stores has been confirmed for 2H (5 opened in 2H FY3/23) for a total of 192, an increase of 9 from the end of FY3/23. As previously, new stores will mainly be located in Kyushu, Hokkaido, and the Tokyo metropolitan area. The Company also plans to accelerate openings in Chubu, where the number of stores is small.

Business outlook

For profit, the Company targets a full-year ordinary income margin of 4.5% versus 4.1% in FY3/23. By improving the sales mix and inventory turnover ratio to lift the gross profit margin, it expects a turn to profit growth in 2H when the negative impact of the electricity price hike fades. It also plans to roll out in stages semi-self-checkouts and cashless payments to improve customer convenience and turnover rate.

(3) Meat business

The Company expects a return to sales and profit growth for the meat business in FY3/24. It plans to open 2 stores and close 2 stores in 2H FY3/24 (opened 8 stores in 2H FY3/23). The total store count will be 172, an increase of 7 from the end of FY3/23. The 2 stores that are closing are not tenants of Gyomu Super stores.

Although slower (single-digit) growth in net sales is forecast in 2H, profit is expected to trend up due to lower store opening expenses for double-digit growth in the full year.

(4) Other businesses

The Company forecasts sales and profit growth in other businesses, with strong performance of the quality food and private brands business continuing and the mini-supermarket and agricultural businesses improving their earnings performance as a result of closing unprofitable stores in FY3/23. The Company expects smaller losses in the mini-supermarket business by bringing down the percentage of unprofitable stores to around 30% of the total through cuts in store operating costs and product strategy reviews. The Company does not plan any store openings in 2H for a total of 63 at the end of FY3/24 (unchanged YoY). With regard to product strategy, the Company plans to differentiate itself from competitors by increasing the range of PB products. It previously sourced PB products from Uny Co., Ltd., but will gradually begin selling PB products supplied by its own Group, because the contract with Uny ends on March 31, 2024. In the meat business, the Company will establish a structure for sourcing meat from G-7 MEAT TERABAYASHI Co., Ltd. by upgrading its delivery centers in FY3/24. It aims to attract more customers, expand sales and improve the gross profit margin by selling attractive products supplied by its own Group. As a CRM strategy, the Company is also rolling out an electronic loyalty point service in stages from FY3/24 to encourage customers to visit stores more often, stimulate sales, and attract new customers. Store employee education is a challenge for this business. Previously, most employees were foreign part-time workers with a high staff turnover rate, which meant hiring and education costs were high and customer service had room for improvement. While the Company would prefer to hire more Japanese employees, it aims to turn profitable in FY3/25 by strengthening education and training programs for foreign workers to reduce the staff turnover rate and improve customer service to raise productivity.

The agricultural business turned profitable after the closure of unprofitable stores was completed in 2H FY3/23. The Company forecasts profit growth in FY3/24 on lower sales. Although it had planned to open 2 stores in 2H FY3/24, this was postponed to prioritize profit for the Group as a whole. The store count is therefore unchanged YoY at 23. The Company will also postpone plans to open 3 Curves clubs, with the count unchanged YoY at 25. However, it looks for sales and profit growth driven by an increase in membership at existing clubs.

Target ¥250bn in net sales and ¥10bn in ordinary income in FY3/26 through an M&A strategy

2. Medium-term business plan

The Company 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, from FY3/22. The plan's business targets are net sales of ¥250bn and ordinary income of ¥10bn for FY3/26. Relative to results for FY3/23, the Company aims to increase net sales by 1.41x and ordinary income by 1.47x. In terms of compound annual growth rates, these targets are planned to represent firm growth over 10% of around 12% in net sales and around 14% in ordinary income. Initial targets were around 9% for net sales and 6% for ordinary income, but the bar has been raised somewhat due to a temporary earnings downturn in FY3/23.

To achieve these targets, the Company will work to achieve the following 10 priorities it has given 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 profit
- 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 (store count to increase from 586 at the end of FY3/21 to 1,000 at the end of FY3/26, including G-7 Mall)
- Work to advance M&A deals and capital and business alliances
- Make every effort to strengthen recruitment and nurture and educate human resources (number of employees including temporary employees to increase from 7,746 at the end of FY3/21 to 14,000 in FY3/26)
- Promote ESG and SDGs measures

As its sales targets for each mainstay 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 1.13x 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.

In the Gyomu Super business, attaining targets 2 years early in FY3/24 is within range. However, the Company has set challenging targets for the AUTOBACS business that require average annual growth rates of 14% in net sales and 9% in ordinary income over the next 3 years. The Company seeks to achieve these targets by expanding domains into peripheral business in the car life category. Specifically, the Company will work to nurture the outdoor business (FIELD SEVEN) and explore expansion into peripheral businesses through M&A.

In the meat business, the Company has set targets requiring average annual growth rates of 21% in net sales and 55% in ordinary income over three years. The key to achieving these targets lies in how quickly it can increase the store count.

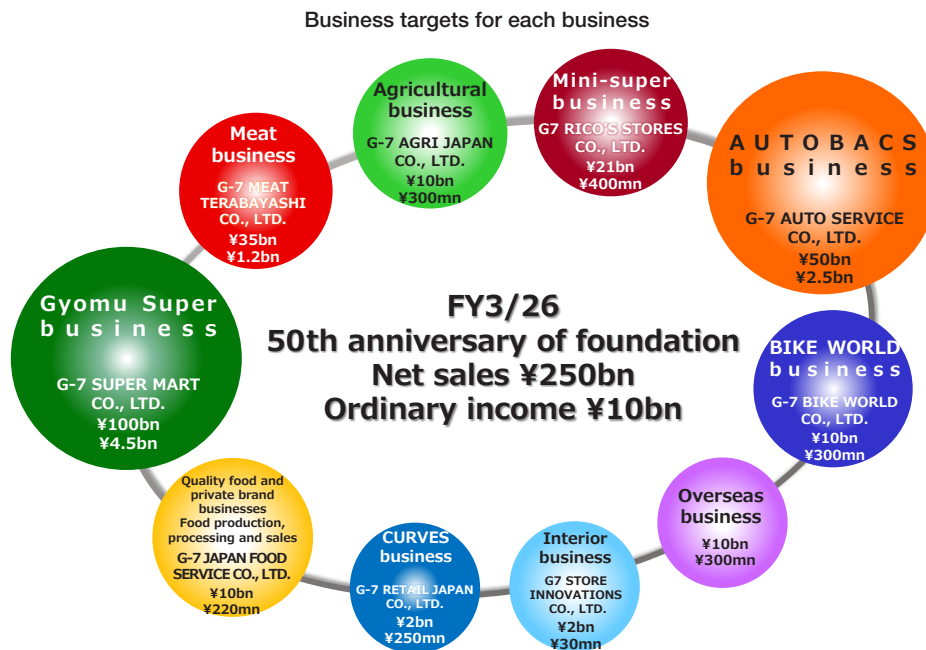
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Business outlook

The Company has challenging targets for the mini-supermarket business of ¥21bn in net sales and ¥400mn in ordinary income. This target may take longer than planned to achieve, because it will resume opening new stores after its measures to improve profitability are successful and the business becomes capable of making stable profits. However, the store count can be increased once it gains traction as a business with stable earnings, because it is relatively easy to open stores. We are keeping a close eye on this business, because it also has strong Group synergy effects.

The Company is forecasting net sales of ¥10bn and nurturing 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.

In other areas, the Company develops new businesses expected to synergize with existing businesses and proactively advance acquisitions through M&A. Notably, the Company's M&A strategy has contributed substantially to its sustained growth and is seen to be the key strategy to achieving the goals of the current medium-term business plan. Therefore, these trends will be closely monitored.



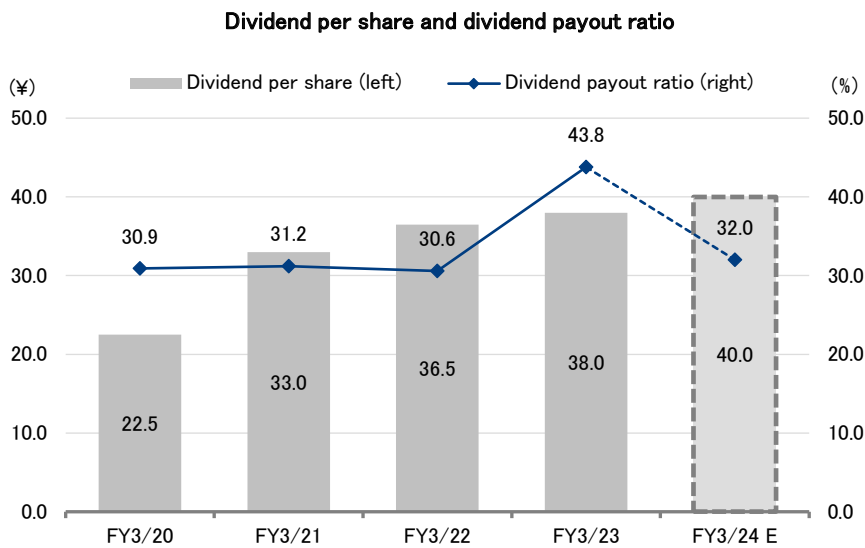
Source: Published from materials provided by the Company

Shareholder return policy and sustainability initiatives

Plans to increase the dividend for 9th 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%. The Company plans to increase the dividend per share by ¥2.0 YoY to ¥40.0 in FY3/24, which corresponds to a dividend payout ratio of 32.0% and 9th consecutive increase in dividend.



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 cultivation 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 cultivation and enhanced employee satisfaction.

Regarding sustainability initiatives, the Company published information on its SDGs measures in the "Sustainability Measures by the G-7 Group" section of its website. The main initiatives are divided from an ESG perspective as follows.

(1) Environment

The Group uses EVs (including fully electric vehicles, fuel cell vehicles, plug-in hybrid and hybrid vehicles) in its fleet as well as converting all store lighting to LED. It also completed the installation of solar panels on the roof of its new head office in 2021 and is committed to decarbonization by utilizing solar power to reduce CO₂ emissions.

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.

(2) Society

The Group conducts an annual Food Drive Campaign to donate food, clothing, daily goods and other items to those who are socially vulnerable. Also, G-7 SUPER MART aims for a diverse workplace environment, hiring disabled employees through a company that supports employment of disabled workers to grow vegetables on its farms to supply harvested produce to the Kodomo Shokudo (Children's Cafeterias) project free of charge. By continuing these activities going forward, the intent is to focus even more on health and welfare activities. The Company is also working on health management, helping to improve employees' health by introducing health equipment at its headquarters in 2023.

(3) Governance

The Group is committed to management that maximizes companies' shareholder value. At the same time, it is aware of the importance of corporate ethics and has established corporate governance, compliance, and risk management structures to enhance the soundness of its management. Under this system, committee meetings are held regularly to monitor the status quo and respond and make improvements to any issues identified.

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■ For inquiry, please contact: ■

FISCO Ltd.

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

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

Email: support@fisco.co.jp