

G-7 HOLDINGS INC.

7508

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■ Index

■ Summary	01
1. Posted all-time high consolidated results for a second straight fiscal year in FY3/17 led theBusiness Supermarket and AUTOBACS	01
2. Aiming for higher sales and profits in all business segments in FY3/18	01
3. Accelerating business growth through aggressive M&A	01
4. Medium-term business plan targets ¥170,000mn in net sales and ¥7,000mn in ordinary income in FY3/21	02
■ Business Overview	03
1. AUTOBACS and car-related businesses	03
2. Business Supermarket and quality food business	04
3. Other Business	04
■ Results trends	05
1. Overview of FY3/17 results	05
2. Performance trends by business segment	06
3. Financial condition and key financial indicators	10
■ Business outlook	11
1. Company forecast for FY3/18	11
2. Segment outlook	11
■ Medium to long-term growth strategy	13
■ Shareholder return policy	15

■ Summary

Aiming for all-time highs again in FY3/18 driven by Business Supermarket and AUTOBACS

G-7 HOLDINGS INC. <7508> (hereafter, “G-7” or “the Group”) is a holding company that owns subsidiaries operating the largest franchises of AUTOBACS stores and Business Supermarket in Japan. It excels at store profitability with emphasis on productivity per employee and other indicators. It is also promoting development of agricultural, foodstuffs and restaurant businesses, as well as overseas businesses. The Group is also promoting growth strategies using M&As.

1. Posted all-time high consolidated results for a second straight fiscal year in FY3/17 led by the Business Supermarket and quality food business

The Group reported FY3/17 consolidated results with all-time highs for a second year running, with ¥110,377mn in net sales (+6.2% YoY) and ¥4,062mn in ordinary income (+26.1%). While sales slightly missed period-start target (¥115,000mn) due to sluggishness in the AUTOBACS and car-related business, earnings were roughly on track with the plan thanks to expansion of Business Supermarket and Quality food business profits and improved income in other businesses.

2. Aiming for higher sales and profits in all business segments in FY3/18

The FY3/18 guidance calls for higher sales and profits with a 6.6% YoY rise in net sales to ¥117,700mn and 5.9% increase in ordinary income to ¥4,300mn. It projects further sales and profit expansion in Business Supermarket and Quality food business accompanying store additions and sales and profit gains in AUTOBACS and car-related business thanks to focus on boosting sales of high value-added services. The Group also intends to expand the coin laundry business started as a new initiative in FY3/17 and realize profits in domestic motorcycle business, agricultural business, and other areas that had losses in FY3/17.

3. Accelerating business growth through aggressive M&A

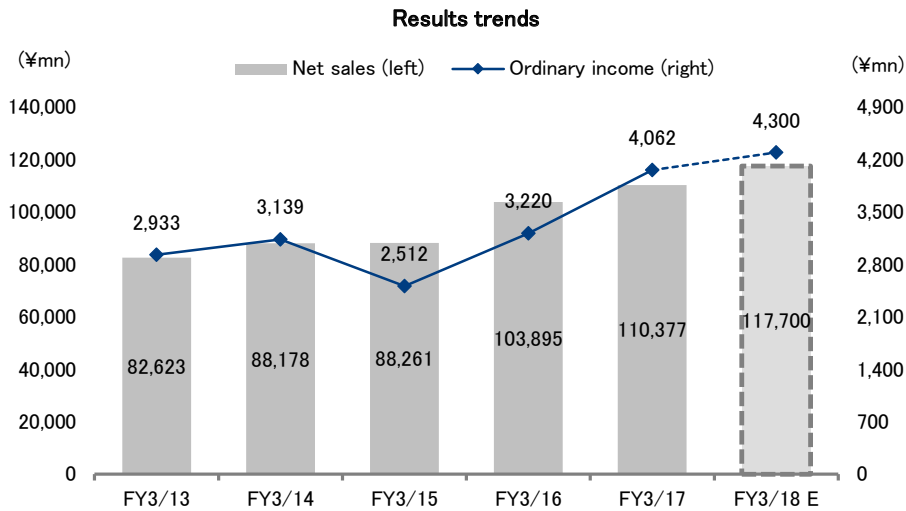
The Group is continuing the M&A strategy. It acquired Kawase Shokuhin Co., Ltd., a food supermarket, and Crown Trading Co., Ltd., which conducts export sales of used cars, as subsidiaries in May 2017. Kawase Shokuhin operates four stores in Hyogo Prefecture and booked ¥1,819mn in annual sales in FY12/16. The Group plans to convert these stores to Business Supermarket or Megumi no Sato business. Crown Trading posted ¥2,165mn in sales in FY1/17. It mainly exports cars to Southeast Asia, and the Group intends to utilize this entity to strengthen its overseas auto-related business. We think the earnings impact from these additions should be minor.

4. Medium-term business plan targets ¥170,000mn in net sales and ¥7,000mn in ordinary income in FY3/21

The Group has set goals of ¥170,000mn in net sales and ¥7bn in ordinary income in FY3/21, the final year of the medium-term business plan. It hopes to expand net sales in the AUTOBACS and car-related business from FY3/17's ¥54,600mn to ¥65,000mn through provision of service businesses, such as car inspections, body repair, and insurance and cultivation of new goods and services besides auto goods. It is also targeting an increase in Business Supermarket and quality food net sales from FY3/17's ¥70,200mn to ¥85,000mn led by store additions. In overseas business, the Group aims to expand net sales from a few hundreds of million yen (FY3/17) to ¥10,000mn by utilizing M&A in pursuit of auto-related businesses, food exports and imports, and restaurant business. While overseas business is likely to continue posting losses for the time being due to the upfront investment period, the Group wants to cultivate it as a future earnings source.

Key Points

- Growing as a mega-franchisee of AUTOBACS and Business Supermarket
- Booked higher sales and profits in all segments and reached all-time highs for a second straight fiscal year in FY3/17
- Focusing on improved profitability at stores and aims to increase sales and profits in all segments again

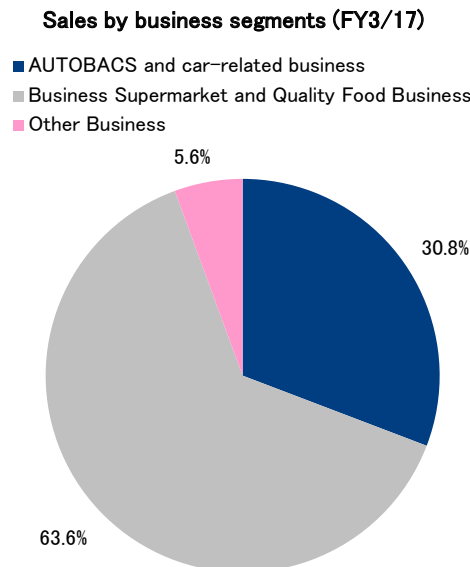


Source: Prepared by FISCO from the Company materials

Business Overview

Growing as a mega-franchisee of AUTOBACS and Business Supermarket

The Group's operations consist of three operating segments: AUTOBACS and car-related business, Business Supermarket and quality food business, and other businesses. Looking at the FY3/17 composition of net sales by business segment, we see that AUTOBACS and car-related business represented 30.8% and Business Supermarket and quality food business 63.6%, with these two business segments accounting for more than 90% of overall operations.



Source: Prepared by FISCO from the Company materials

1. AUTOBACS and car-related businesses

The Group's AUTOBACS franchise business mainly consists of activities including car product sales and maintenance handled by G-7 AUTO SERVICE CO., LTD., motorcycle product sales and maintenance handled by G-7 BIKE WORLD CO., LTD. and overseas car-related business.

AUTOBACS-related sales represent approximately 90% of segment sales, with 73 AUTOBACS-related stores in Japan (61 AUTOBACS stores, seven AUTOBACS Express stores, two Super AUTOBACS stores, two AUTOBACS Secohan Ichiba stores, and one AUTOBACS Cars) and two AUTOBACS stores in Malaysia as of the end of March 2017, giving it the largest scale within the 602 AUTOBACS Group stores. Stores are located predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki prefectures. Hyogo is particularly important with 40 stores, or just under 60% of the Group's entire network. Store management places strong emphasis on productivity per employee and inventory turnover rates, and the franchise business is notable for maintaining the highest profitability within the AUTOBACS Group. Other car-related businesses (the Group's own initiatives) include eight CRYSTAL SEVEN stores offering carwash and coating services, one TIRE SENMONKAN tire specialty store, six body repair BP centers, and one Suzuki Cars Osaka store.

Additionally, BIKE WORLD, which engages in direct sales of motorcycle products, operates a total of 15 stores with 12 stores in Japan, two stores in Malaysia, and one store in Thailand as of the end of March 2017.

2. Business Supermarket and quality food business

This segment consists of Business Supermarket franchise operations developed by G-7 SUPER MART CO., LTD., food product and restaurant operations developed by G7 JAPAN FOOD SERVICE CO., LTD., and G-7 MEAT TERABAYASHI CO., LTD., a meat retailer, which was consolidated as a subsidiary in June 2015.

G-7 SUPER MART represents roughly 80% of segment sales, with its 127 supermarket outlets as of the end of March 2017 giving it the largest scale among the 757 Business Supermarket Group stores. Store rollouts are predominantly centered in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions.

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

G-7 MEAT TERABAYASHI, which provides just over 10% of sales, had 95 retail butcher shops as of the end of March 2017. Roughly 60% of these stores are set up as tenants at Business Supermarket and Megumi no Sato sites, and the others are primarily located at department stores and shopping malls.

3. Other Business

The Group's other businesses consist of G-7 AGRI JAPAN CO., LTD., which operates the Megumi no Sato farmers' market chain, G-7 RETAIL JAPAN CO., LTD., which manages real estate leasing, DAISO discount stores (100 yen shops), recycling stores, fitness clubs and golf schools and G7 INTERNATIONAL PTE. LTD. (Singapore), which handles overseas operations (except for AUTOBACS and BIKE WORLD), a coin laundry service, and a sweets business as new businesses.

For Megumi no Sato, there are 23 stores (14 in Hyogo, three in Osaka, four in Nara, one in Kyoto, and one in Chiba) as of the end of March 2017. This business changed the sales format from consignment sales (booking about 20% of the sales price as fee income under sales) to purchase-based sales from June 2015.

G-7 is also steadily developing overseas business in Southeast Asia and Taiwan. The overseas agricultural business involves cultivation of chrysanthemums in Vietnam for sales at Megumi no Sato stores and production of strawberries in Myanmar for sale at City Mart stores operated by a major local distributor. In the restaurant business, the Group has one Ramen KOBE store each in Indonesia and Malaysia and operates a Kushikatsu Daruma store in Taiwan. It is using a fundamental strategy of opening one direct-operation store in each country to establish the income model and then proceeding to licensing contracts. The Group also opened one store each for Business Supermarket in Singapore through a joint venture created with a local company (G-7 holds a 30% stake) in April 2016. It exports all food items from Japan and book export sales of these items (under the Business Supermarket and quality food business). The Group has established overseas subsidiaries in Singapore, Malaysia, Vietnam, Indonesia, Myanmar, Thailand, Cambodia, Taiwan, and Hong Kong.

As a new business, the Group started a coin laundry service as a franchisee of mammaciao large coin laundry shops with over 200 sites nationwide under mammaciao Co., Ltd. It had two sites at its own AUTOBACS locations (one each in Kyoto and Hyogo prefectures) as of the end of March 2017. In the sweets business, the Group operates three BAKE CHEESE TART cheese-tart shops as a franchisee (one in Kyoto and two in Osaka) as of the end of March 2017. Additionally, the Group opened a Yamaya Honpo site, which makes Japanese fish-shaped cakes, in Hyogo prefecture.

Major 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.
Business Supermarket and quality food business	G-7 SUPER MART CO., LTD.	100.0%	Operator of Business Supermarket, etc.
	G7 JAPAN FOOD SERVICE CO., LTD.	100.0%	Manufacturing, sales and import and export of food products and beverages, operator of restaurants, etc.
	G-7 MEAT TERABAYASHI CO., LTD.	85.58%	Retail sales of meats and processed livestock products
Other Businesses	G-7 RETAIL JAPAN CO., LTD.	100.0%	Handles real estate development for the Group and operates recycling shops, 100 yen shops, fitness clubs, and indoor golf schools
	G-7 AGRI JAPAN CO., LTD.	100.0%	Operator of Megumi no Sato, etc.
	G7 INTERNATIONAL PTE. LTD.	100.0%	Holding company for overseas subsidiaries

Source: Prepared by FISCO from the Company materials

Results trends

Booked higher sales and profits in all segments and reached all-time highs for a second straight fiscal year in FY3/17

1. Overview of FY3/17 results

The Group reported FY3/17 consolidated results with all-time highs for a second straight fiscal year at ¥110,377mn in net sales (+6.2% YoY), ¥3,897mn in operating income (+28.7%), ¥4,062mn in ordinary income (+26.1%), and ¥2,080mn in net income attributable to owners of parent (+11.4%). While sales were somewhat sluggishness in the AUTOBACS and car-related business, all segments achieved higher sales and profits earnings, including upbeat momentum in the Business Supermarket and quality food business segment and reduction of stores with operating losses and improvement of new-business income to a profit in Other Businesses.

The Group slightly exceeded operating and ordinary income targets, despite modest shortfall in net sales on sluggishness in AUTOBACS and car-related business, thanks to curtailment of SG&A expenses and other earnings improvement measures. Net income attributable to owners of parent was slightly under guidance because of booking ¥529mn in extraordinary losses (mainly from ¥390mn in impairment losses), but the Group still raised profit by double digits and earnings are steadily expanding.

Consolidated results for FY3/17

(Unit: ¥mn)

	FY3/16			FY3/17			
	Results	vs. Net sales	Initial forecast	Results	vs. Net sales	YoY	% of plan
Net sales	103,895	-	115,000	110,377	-	6.2%	-4.0%
Cost of sales	77,236	74.3%	-	81,741	74.1%	5.8%	-
SG&A expenses	23,629	22.7%	-	24,739	22.4%	4.7%	-
Operating income	3,028	2.9%	3,700	3,897	3.5%	28.7%	5.3%
Ordinary income	3,220	3.1%	4,000	4,062	3.7%	26.1%	1.6%
Extraordinary gains/losses	95	0.1%	-	-529	-0.5%	-	-
Net income attributable to owners of parent	1,867	1.8%	2,100	2,080	1.9%	11.4%	-1.0%

Source: Prepared by FISCO from the Company materials

Upbeat trends in the Business Supermarket and quality food business and new coin laundry and sweets businesses

2. Performance trends by business segment

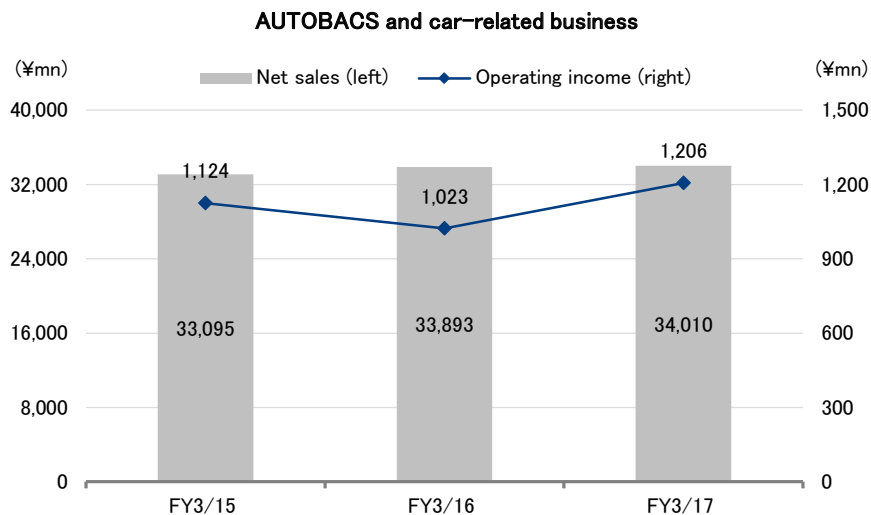
(1) AUTOBACS and car-related business

The AUTOBACS and car-related business segment booked ¥34,010mn in sales (+0.4% YoY) and ¥1,206mn in operating income (+17.9%). While sales were roughly flat at just a 0.1% gain YoY at G-7 AUTO SERVICE, which mainly handles AUTOBACS business, operating income climbed 20%. Sales slowed because of flat store volume versus the end of the previous fiscal year in the absence of new AUTOBACS openings, lackluster replacement demand for winter tires in the first half of the fiscal year, and slumping sales of car audiovisual systems. In earnings, meanwhile, positive trends were healthy momentum in the high value-added services business with car inspection service, body repair and coating service, and other offerings and recovery in winter-tire demand spurred by snowfalls from December 2016.

Category sales growth rates (YoY) were tires and wheels at -3.6%, car audiovisual equipment at -6.3%, batteries at +3.3%, services (car inspections, body repair, coating, etc.) at -0.8%, insurance at +7.5%, and Cars (used car purchases and sales) at +2.8%. While car electronics product sales declined as a whole, ETC devices, driver recorders, and some other items were upbeat. By region, western Japan had sluggish sales due to a large impact from snowfall shortage. Kanto stores, on the other hand, posted higher sales and earnings. Existing store sales for the entire AUTOBACS Group dropped 1.1% YoY in the subject period. G-7 Holdings hence continues to maintain robust sales capabilities within the group.

G-7 BIKE WORLD, meanwhile, reported slightly higher sales, but an operating loss. This outcome can be attributed to tougher competition with rivals amid an ongoing slump in the domestic motorcycle market. The Group opened one new store and closed one store in FY3/17. It announced a business alliance with Bike O & Company Ltd. <3377>, which purchases and sells used cars, in November 2016 aimed at strengthening profitability. The business alliance mainly covers development of a mechanism for mutual customer introductions for their products and services, expansion of adjacent BIKE WORLD and BIKE O stores, and promotion of people interactions and information sharing. The two companies also plan to consider collaboration in overseas initiatives. As part of forming the business alliance, the Group acquired a 0.98% stake (¥32mn) in Bike O & Company.

For overseas stores, the Group operates two AUTOBACS stores and two BIKE WORLD stores in Malaysia and one BIKE WORLD store in Thailand. This is the sixth year of operations in Malaysia, and sales continued to grow at a double-digit pace with a 35% YoY increase. Profits are starting to pick up as well with BIKE WORLD reaching profitability. The Thai store just opened in March 2016 and is still in the launch phase. While it needs more time, we expect healthy income in upcoming years considering robust demand for motorcycle products.



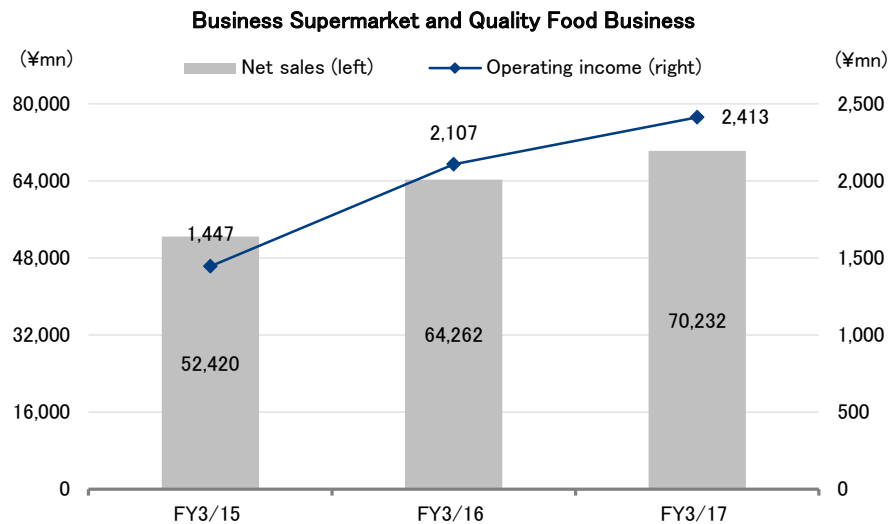
Source: Prepared by FISCO from the Company materials

(2) Business Supermarket and quality food business

Net sales increased 9.3% YoY to ¥70,232mn and operating income rose 14.5% to ¥2,413mn, achieving double-digit gains in sales and profit. While results benefited from a full-year contribution by G-7 MEAT TERABAYASHI (vs. 10 months in FY3/16), sales and profit still improved even without the additions.

Sales at G-7 SUPER MART, which primarily operates Business Supermarket stores, increased 7.1% YoY. Existing store sales grew by a healthy 1.9% YoY amid rising customer volume among restaurant operators faced with upswing in food material costs and general consumers spurred by deflationary sentiment. New store additions (store volume was up by seven sites from the end of the previous fiscal year to 127 stores at the end of March 2017) contributed as well. The Group opened eight stores during the period (one in Tokyo, one in Hyogo, three in Saitama, one in Chiba, one in Kanagawa, and one in Aichi).

G-7 MEAT TERABAYASHI opened eight stores, including joint openings with Business Supermarket, and steadily increased store count to 95 stores at the end of March. Sales and profit expanded with support from full-year contributions. G7 JAPAN FOOD SERVICE boosted sales and profits by recruiting new customers, mainly in Eastern Japan, and reinforcing the product line-up in the quality foods business.



Source: Prepared by FISCO from the Company materials

(3) Other Business

Other Businesses sales climbed 6.9% YoY to ¥6,135mn and operating income recorded a ¥124mn profit (versus FY3/16's ¥39mn loss). Sales have been growing due to the switch from consignment sales to purchase-based sales for farm produce at Megumi No Sato from June 2015 and the additions of coin laundry service and sweets business as new businesses. While sales scale remains small, these businesses are vibrant. The segment reached a profit, even with losses in Megumi No Sato and overseas businesses, thanks to contributions from new businesses, increase in real estate (rental income) business, and reduction of unprofitable stores.

Megumi No Sato opened two stores in Hyogo and one store in Chiba, putting store count at 23 stores at the end of March (up two stores from the end of the previous fiscal year). Sales increased on the switch to the purchase-based format, but this business had an operating loss because of a larger increase in inventory disposal losses than anticipated. Purchasing personnel must carefully manage purchases and purchasing prices in the fresh produce business because sales results vary depending on daily weather conditions and other factors. However, Megumi No Sato has not sufficiently trained human resources at its individual stores and is currently in a trial-and-error phase of trying to optimize the purchasing system. Income temporarily weakened in this environment.

The coin laundry service business, which the Group started in FY3/17, had one store on the grounds of an AUTOBACS store and one store at a G-7 Mall at the end of March 2017. The shops attract many customers because they have machines for washing and drying not only clothes, but also futons, carpets, and other items that cannot be easily washed at home, and sales are healthy at both stores. The initial investment in washing machines, dryers, and other facilities is roughly ¥20mn, but this is a profitable business model once depreciation costs are recovered because of low cost of sales. Monthly sales total around ¥500-700,000, though prosperous shops can reach ¥1mn. While the income contribution is minor, the Group plans to open co-location stores at not only AUTOBACS sites, but also Business Supermarket and G-7 Malls with multiple group stores. Targets are 50 stores by 2020 and 100 stores in the future.

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Mammaciao Kameoka Store

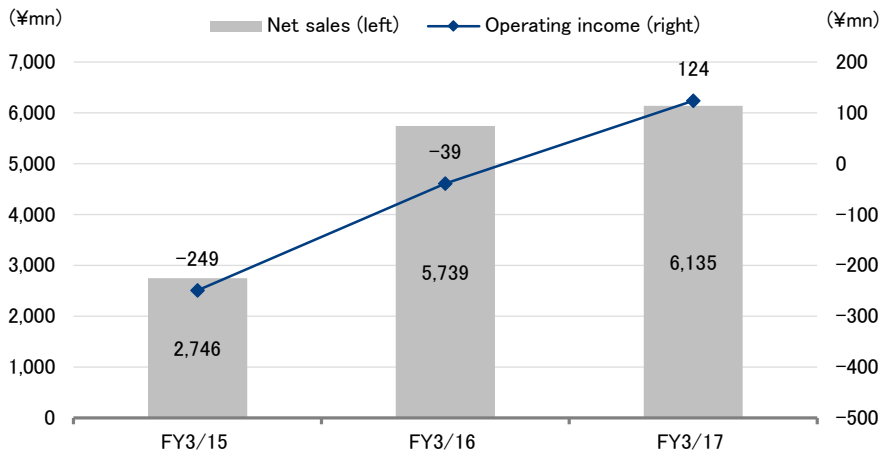


Source: Prepared by FISCO from the Company materials

For sweets, the BAKE CHEESE TART cheese-tart shop business has two stores (Osaka, Kyoto). This is a popular take-out store with monthly sales of ¥20-30mn per site. It attracts lines of customers because of the reasonable pricing and delicious taste. Smaller stores quickly reach profitability because they are operated with 1-2 employees. This business contributes to sales and profit growth despite its small size.

In overseas business, agricultural businesses in Vietnam and Myanmar did not improve much during the year. For restaurants, the Group directly operates one store each of Ramen KANBE in Malaysia and Indonesia and Kushikatsu Daruma in Taiwan (FC contracts). Sales are particularly upbeat at the Kushikatsu Daruma store opened in December 2015. The Group opened a Business Supermarket in Singapore as a joint venture with a local firm in April 2016, but this business has been struggling due to lack of recognition in the local market and difficulty in differentiating itself.

Other Business



Source: Prepared by FISCO from the Company materials

Financial health improving with profit expansion

3. Financial condition and key financial indicators

Looking at the Group's financial status at the end of March 2017, total assets were up ¥1,464mn from the end of the previous fiscal year to ¥37,618mn, based on increases of ¥1,153mn in cash and deposits increases of ¥256mn in products and merchandise in current assets. Liabilities dropped by ¥10mn from the end of the previous fiscal year to ¥21,960mn, despite a rise of ¥84mn in interest-bearing debt, because of declines of ¥101mn in unpaid corporate taxes and ¥99mn in bonus allowance. Net assets rose by ¥1,475mn YoY to ¥15,658mn, even with a setback of ¥604mn from dividend payments, primarily owing to a ¥2,080mn increase in net income attributable to owners of parent.

Looking at management indicators for soundness, the equity ratio rose from 38.1% at the end of the previous fiscal year to 40.8% and the Group's interest-bearing debt ratio improved from 60.5% to 54.9%. We think the Group is making progress in enhancement of financial standing with support from growing profits. In profitability, ROE was unchanged YoY at 14.3%, but the Group realized steady gains with ROA up from 9.4% to 11.0% and OPM climbing from 2.9% to 3.5%.

Consolidated Balance Sheet

	(Unit: ¥mn)				
	FY3/14	FY3/15	FY3/16	FY3/17	Change
Current assets	15,089	15,018	17,111	18,542	1,431
(Cash and deposits)	7,183	6,952	8,242	9,395	1,153
(Merchandise and finished goods)	4,492	5,198	5,341	5,597	256
Fixed assets	16,968	17,321	19,042	19,076	34
Net assets	32,057	32,339	36,154	37,618	1,464
Total liabilities	20,458	19,934	21,971	21,960	-10
(Interest-bearing debt)	8,700	8,458	8,342	8,426	84
Net assets	11,599	12,404	14,183	15,658	1,475
Management indicators					
(Financial strength)					
Equity ratio	36.2%	38.4%	38.1%	40.8%	
Interest-bearing debt ratio	75.0%	68.2%	60.5%	54.9%	
(Profitability)					
ROE (return on equity)	13.9%	10.6%	14.3%	14.3%	
ROA (ratio of ordinary income to total assets)	10.1%	7.8%	9.4%	11.0%	
Operating income margin	3.3%	2.6%	2.9%	3.5%	

Source: Prepared by FISCO from the Company materials

■ Business outlook

Two M&A deals in May 2017, adding just over ¥3,000mn to annual sales

1. Company forecast for FY3/18

The FY3/18 consolidated guidance calls for all-time high results with a 6.6% YoY rise in net sales to ¥117,700mn and increases of 5.2% in operating income to ¥4,100mn, 5.9% in ordinary income to ¥4,300mn, and 5.8% in net income attributable to owners of parent of ¥2,200mn. The Group envisions higher sales and profits in all business segments. It projects further sales and profit expansion in Business Supermarket and quality food business accompanying store additions. It also intends to lift margin and realize profits by enhancing productivity and controlling inventories and spending at stores run by G-7 BIKE WORLD, G-7 Agri Japan, and G-7 Retail Japan that had losses in FY3/17. The Group will continue upfront invest in overseas business, but hopes to narrow losses on increased sales.

The Group acquired two new companies in May 2017. It purchased all shares in Kawase Shokuhin Co., Ltd., a food supermarket with four stores in Hyogo Prefecture (three stores in Akashi and one store in Kobe), and made this company a wholly owned subsidiary. Kawase Shokuhin booked ¥1,819mn in annual sales in FY12/16 and has 30 employees. The Group plans to convert these stores to Business Supermarket or Megumi No Sato brands. The other acquisition was a 51% stake in Crown Trading Co., Ltd., which conducts export sales of used cars. This company posted ¥2,165mn in sales in FY1/17 and has 20 employees. It exports cars to 50 countries with emphasis on Southeast Asia. The Group plans to expand its stake to 100% and expects this acquisition as a subsidiary to yield synergies with other overseas auto-related businesses. We expect the additions to provide just over ¥3,000mn in FY3/18 sales, but think the earnings impact should be minor.

Focus on strengthening store profitability and aiming for higher sales and profits in all segments

2. Segment outlook

(1) AUTOBACS and car-related business

The Group is planning higher sales and profits in the AUTOBACS and car-related business in FY3/18. It projects a roughly 5% YoY sales gain at mainstay G-7 AUTO SERVICE. Guidance envisions sales and profit gains, despite the absence of plans to open new AUTOBACS stores at this point, by increasing sales of auto-related products at existing stores, strengthening initiatives in the services division (car inspections, body repair, coating service, etc.), and holding events such as G-7 Mall Festival. This fiscal year had an upbeat start with April sales apparently stronger than in FY3/17 and guidance mainly led by tire replacement demand (from winter to normal tires).

G-7 BIKE WORLD, meanwhile, will not open new stores and instead put a top priority on attaining an operating income considering the ongoing slump in Japan's motorcycle market. The Group expects synergies from activities with Bike O & Company, its alliance partner since FY3/17. In overseas business, the Group forecasts continuing growth by the motorcycle business in Malaysia and profitability in the AUTOBACS business by bolstering profit margin at existing stores. It is not planning new openings at this stage.

(2) Business Supermarket and quality food business

The Group projects continuation of sales and earnings growth in Business Supermarket and quality foods. It plans to open about 10 new stores in the mainstay Business Supermarket business and increase sales by 6% YoY. It already opened three stores in April (one each in Tokyo, Fukuoka, and Hokkaido), and these stores are exhibiting robust starts. G-7 MEAT TERABAYASHI, which operates butcher shops, will be opening about 15 new stores. It intends to open these stores at not only Business Supermarkets, but also other retail facilities and is aiming for ¥10,000mn in sales.

G7 JAPAN FOOD SERVICE will continue to discover local delicacies and develop private-brand products and also recruit sales sites. It plans to bolster exports to Southeast Asia and Hong Kong, Taiwan, and other Asian countries, mainly selling meats, fruits, seasonings, and other Japanese products to local restaurant operators, hotels, and wholesale firms.

(3) Other Businesses

The Group expects to generate higher sales and profits in Other Businesses. In the Megumi No Sato business, it will reduce inventory disposal losses and develop the procurement network to enhance the product line-up. There are no plans to open new stores, and priority will be given to revitalizing income at existing stores.

In the coin laundry business, the Group aims to open 11 new stores in FY3/18, generating an extra few tens of million yen in sales. In the sweets business, it is reviewing expansion of cheese tart shops with robust sales, but faces a challenge from the difficulty of finding store locations that meet its criteria because of the need for prime sites next to train stations with strong customer draws. The Group has room in the licensing contract to open a total of up to 11 stores in Keihanshin, Nagoya, Okayama, Hiroshima, and Fukuoka. It plans to open stores as suitable locations are discovered. In reuse business, the Group had operated three reuse shops in Okayama and Chiba, but it opened a fourth shop in Nagoya in April 2017. While this business is still incurring losses, the Group wants to improve earnings by raising handling volume with store additions.

In overseas business, the Group wants to reduce losses with benefits from increased sales. In the restaurant business, Kushikatsu Daruma is doing well and the Group will open stores in Malaysia and Vietnam this fiscal year if it finds tenant location that meet criteria. It is directly operating the first store and will promote multi-store deployment by concluding sub-licensing contracts with local firms from the second store. The Group has received multiple inquiries about sublicense contracts in Taiwan and might conclude a contract during FY3/18.

■ Medium to long-term growth strategy

Set goals of ¥170,000mn in sales and ¥7,000mn in ordinary income for the final fiscal year in the medium-term plan

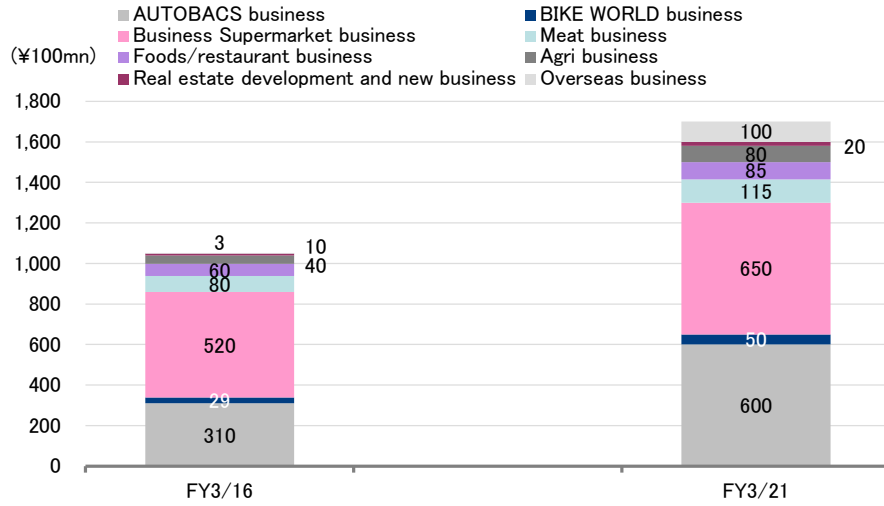
The Group's medium-term business plan that lasts through FY3/21 presents final-year goals of ¥170,000mn in net sales and ¥7,000mn in ordinary income. These goals represent a roughly 1.5 times in net sales and almost 1.7 times in ordinary income compared to FY3/17 results, and the Group intends to expand all businesses. For AUTOBACS business (G-7 AUTO SERVICE), it expects a sharp gain with sales roughly doubling from the FY3/17 level to ¥60,000mn. This goal works out to a 18% average annual growth rate. The Group believes it can attain the goal through expansion of domestic store network, including M&A, and efforts to broaden new products and services, such as the aforementioned coin laundry service.

For the Business Supermarket business (G-7 SUPER MART), it targets a 27% increase in sales from the FY3/17 level to ¥65,000mn. The goal corresponds to a 4% increase pace as an annual average, and the Group should be able to reach its target by expanding store network at a pace of 5-10 stores per year. The Group also intends to achieve goals for BIKE WORLD, meat, and agricultural businesses by steadily increasing the number of stores. For G7 JAPAN FOOD SERVICE, it aims for a 30% increase from the FY3/17 level to ¥8,500mn, led by expansion of quality food business and food exports as well as gains in development and sales of private-brand products through collaboration with Megumi no Sato.

The Group envisions rapid growth in overseas business from sales of a few hundreds of million yen in FY3/17 to ¥10,000mn in FY3/21. The ¥10,000mn includes about 50% from overseas AUTOBACS and BIKE WORLD businesses and roughly 50% from restaurant, food, and agricultural businesses. The Group intends to aggressively make acquisitions even in Southeast Asian countries in order to realize the goal. One example is the purchase of Crown Trading as a subsidiary. Management does not factor in profit contributions for the time being because of upfront investment costs. However, it expects support for profit growth as a core business in future years once it solidifies the income model because of high potential economic growth rates in Southeast Asia.

The Group is taking steps to improve human resource training internally aimed at supporting future growth. Three years ago it started the Next Cabinet (NC) Club, a study group that consists of about 10 next-generation executive candidates, and the NC Training School, a study group that brings together about 15 executive candidates. These activities reflect the pressing need to cultivate human resources in promoting an aggressive business expansion strategy that utilizes M&A and other methods. We expect better visibility for the Group's attainment of medium-term business goals if it strengthens management capabilities at group firms through cultivation of human resources.

Sales targets by businesses



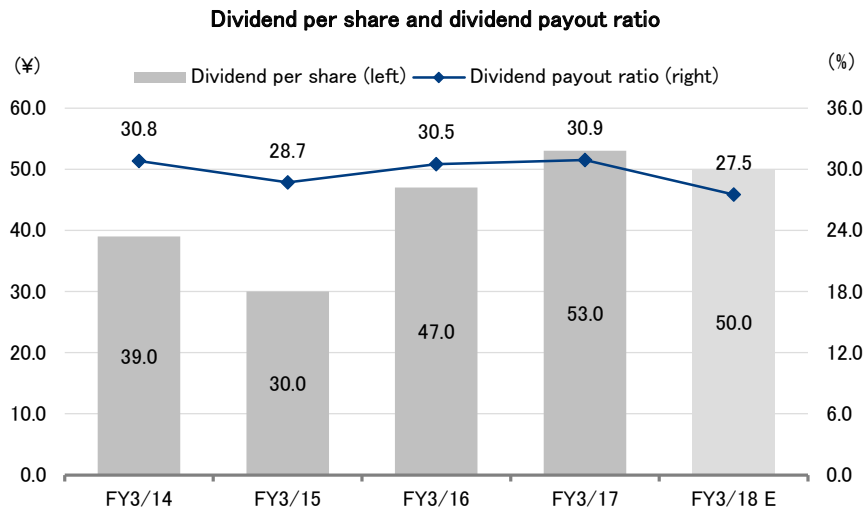
Source: Prepared by FISCO from the Company materials

Shareholder return policy

Pays dividends with a 30% dividend payout ratio target

G-7 is paying out dividends as a measure for returning profits to shareholders. The Group's underlying policy is to return profits to shareholders in accordance with business performance, premised on maintaining stable dividends, making a comprehensive determination, while taking into consideration factors including capital required for future business expansion and its financial condition. It generally aims to maintain a dividend payout ratio of around 30%.

The Group paid a ¥53.0 dividend (30.9% payout ratio) in FY3/17 that included a ¥13 special dividend. For FY3/18, the dividend has been set at ¥50.0 per share yielding a 27.5% dividend payout ratio. We think the Group might raise the dividend if earnings meet guidance because this payout ratio (27.5%) is less than the targeted 30%.



Source: Prepared by FISCO from the Company materials



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