G-7 HOLDINGS INC.

7508 Tokyo Stock Exchange First Section

14-Jan.-16

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FISCO Ltd. Analyst
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New record on a semi-annual basis for the first time in three years

G-7 HOLDINGS INC. (hereafter, "G-7" or "the Group") is a holding company that owns subsidiaries operating the largest franchisee of AUTOBACS stores and Business Supermarkets in Japan. It is also promoting the development of agricultural, foodstuffs and restaurant businesses, as well as overseas businesses, utilizing M&A to open new stores to proactively promote operational expansion.

Consolidated first half results of the fiscal year ending March 2016, (1H FY3/16, April to September 2015), announced on November 4, net sales increased 16.6% year on year (YoY) to ¥49,066mn and ordinary income increased 50.4% YoY to ¥1,211mn. G-7 posted a new record on a semi-annual basis for the first time in three years. This was primarily due to solid performance in the Business Supermarket and quality food business, as well as a recovery in AUTOBACS and car-related business, which had struggled following the impact of last year's hike in the consumption tax. Also, in June the Group made TERABAYASHI CO., LTD., a meat retailer, a consolidated subsidiary, adding about ¥3,000mn to net sales and more than ¥100mn to operating income.

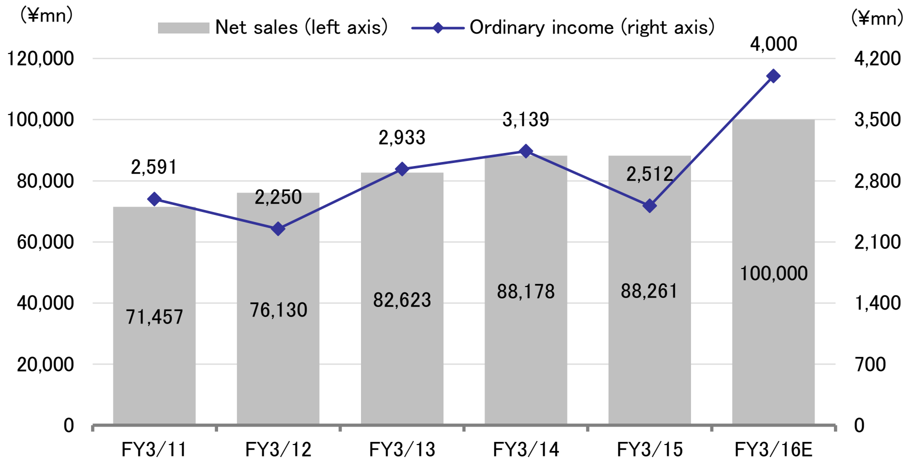
The Group's consolidated FY3/16 business forecasts were left unchanged, with net sales targeting an increase of 13.3% YoY to ¥100,000mn and ordinary income an increase of 59.2% to ¥4,000mn. In terms of rate of progress through Q2, net sales are sound at 49.1%, though ordinary income is somewhat lower at 30.3%. Still, with earnings expected to improve through cost reductions and efforts to enhance per capita productivity in each business, and given that earnings in the AUTOBACS and car-related business could fluctuate significantly depending winter snowfall levels, the Group intends to achieve plan on a profit base as well.

In the medium term, the Group will focus not only on domestic operations, but also on expanding its overseas business. In particular, the past several years have seen an increase in the number of Japanese-owned food service companies moving into Southeast Asia, and to respond to rising local demand for Japanese food products, the Group's policy is to further strengthen food exports, centered primarily on agricultural and livestock products. In 2016, it plans a joint venture in Singapore to roll out supermarkets there. FY3/16 net sales from overseas businesses are expected to be about ¥280mn, but by also utilizing M&A, the Group hopes to develop that into a ¥10,000mn business within five years. While the outlook is for losses to continue for the time being during this period of upfront investment, growth potential is high, and the segment is gaining attention as one that could become a key business in the future.

Check Point

- Strengthening profitability through thorough-going improvements in per capita productivity and appropriate inventory levels.
- With the acquisition of TERABAYASHI it is highly likely that results for related businesses will exceed plan.
- An increase in net assets resulting from expanded revenue will bring solid progress in strengthening the Group's financial base.

Net Sales and Ordinary Income

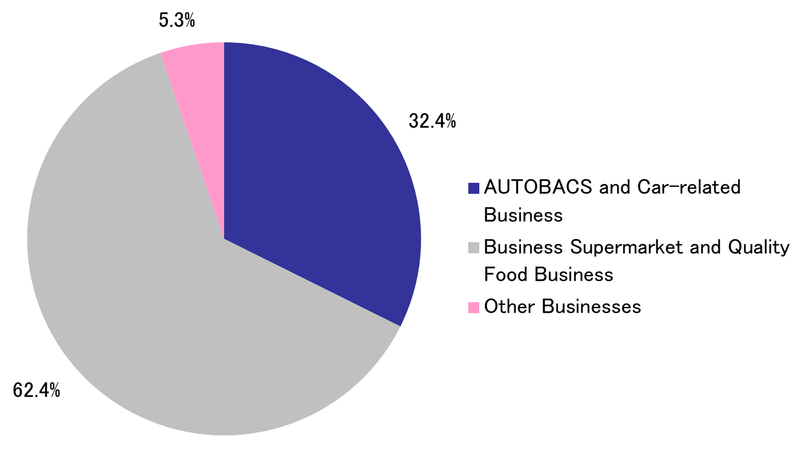


Business Overview

AUTOBACS and Business Supermarket franchise operations

The Group's operations consist of three operating segments: AUTOBACS and car-related business, Business Supermarkets and quality food business, and other businesses. Looking at the 1H FY3/16 composition of net sales by business segment, we see that AUTOBACS and car-related business represented 32.4% and Business Supermarkets and quality food business 62.4%, with these two business segments representing more than 90% of overall operations.

Sales by Business Segment (H1 FY3/16)



○ AUTOBACS and Car-related Business

The Group's AUTOBACS franchise business mainly consists of activities including car product sales and maintenance developed by G-7 AUTO SERVICE CO., LTD., and motorcycle product sales and maintenance developed by G-7 MOTORS CO., LTD. AUTOBACS-related sales represent approximately 90% of net sales, with 70 AUTOBACS-related stores in Japan and two in Malaysia as of end-September 2015 giving it the largest scale within the 591 AUTOBACS Group stores. Store roll-outs are centered predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba and Ibaraki prefectures. Other businesses include six CRYSTAL SEVEN stores offering carwash and coating services, one TIRE SENMONKAN tire specialty store, four body repair specialty centers, and one Suzuki Cars Osaka store. Store management places a strong emphasis on per capita productivity and inventory turnover rates, and the franchise business is notable for maintaining the highest profitability within the AUTOBACS Group.

On the other hand, BIKE WORLD (changed the store name from BIKE SEVEN in April 2015), which engages in direct sales of motorcycle products, operates 10 stores domestically and 2 stores in Malaysia.

○ Business Supermarket and Quality Food Business

These consist of Business Supermarket franchisee operations developed by G-7 SUPER MART CO., LTD., food product and restaurant operations developed by G7 JAPAN FOOD SERVICE CO., LTD., and TERABAYASHI, a meat retailer, which was consolidated in June 2015.

G-7 SUPER MART represents more than 80% of net sales, with its 115 supermarket outlets as of end-September 2015 giving it the largest scale among the 708 Business Supermarket Group stores. Store roll-outs are predominantly centered in the Kanto, Chubu, Kansai, Kyushu and Hokkaido regions.

On the other hand, in April 2015, G7 JAPAN FOOD SERVICE acquired what was before G-7 FOOD SYSTEM CO., LTD. (which had operations including its quality food business, and the former UENO-SHOKUHIN and former Cold Family businesses), and integrated them with its domestic restaurant business, private label food product development business, export/import, online sales and other businesses.

In addition, TERABAYASHI has 84 retail butcher shops, the majority of which are set up as tenants in Business Supermarket and Megumi no Sato locations. In addition to its retail meat operation, the company also has a franchise business that operates 15 Curves fitness centers for women in Kanagawa Prefecture. By making TERABAYASHI a subsidiary, the Group intends to leverage the company's advanced knowledge and expertise in meat purchasing and selection to boost the Group's own food-related businesses, and believes the move will deliver synergies in that respect. The Group has taken a 78.45% equity stake, which it acquired for ¥1,025mn. In FY3/14, TERABAYASHI had net sales of ¥8,627mn and operating income of ¥149mn, and is expected to contribute to consolidated earnings from the initial year of the acquisition.

TERABAYASHI CO., LTD.

(Unit: ¥mn)

	Net sales	Operating income	Ordinary income	Net profit	Total assets	Net assets
FY3/13	8,543	191	237	268	3,841	1,366
FY3/14	8,627	149	226	202	3,427	1,566

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○ **Other Businesses**

Apart from G-7 AGRI JAPAN CO., LTD., that operates the Megumi no Sato farmers' market chain, the Group's main other business consist of multiple operations including recycling stores, DAISO discount stores (100 yen shops), and real estate leasing developed by G-7 DEVELOPMENT CO., LTD., as well as overseas operations undertaken by G-7 INTERNATIONAL PTE. LTD. (except for AUTOBACS and BIKE SEVEN operations in Malaysia). In respect of Megumi no Sato, there are 19 stores (13 in Hyogo Prefecture, 4 in Nara Prefecture and 2 in Osaka) as of September 30, 2015. In the overseas agri business, the Group has begun production of chrysanthemums in Vietnam, which are imported and sold through Megumi no Sato in Japan, and has also begun cultivation of strawberries in Myanmar, which are sold at City Mart stores, a major local distributor.

Major Subsidiaries

Company name	Capital contribution ratio	Business description
G-7 AUTO SERVICE CO., LTD.	100.0%	Operator of AUTOBACS, etc.
G-7 MOTORS CO., LTD.	100.0%	Operator of BIKE WORLD, etc.
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.
TERABAYASHI CO., LTD.	78.45%	Retail sales of meats and processed livestock products, franchise business.
G-7 DEVELOPMENT CO., LTD.	100.0%	Responsible for Group real estate development, recycling business, and new business development.
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

Business Trends

Strengthening profitability through thorough-going improvements in per capita productivity and appropriate inventory levels.

(1) Results for H1 FY3/16

The consolidated results G-7 Holdings announced on November 4, 2015 for 1H FY3/16 showed strong performances with a 16.6% increase YoY in net sales to ¥49,066mn, a 92.8% increase in operating income to ¥1,243mn, a 50.4% increase in ordinary income to ¥1,211mn, and a 96.7% increase in net income attributable to owners of parent to ¥841mn. G-7 posted a new record on a semi-annual basis for the first time in three years. For the Group as a whole, efforts to strengthen profitability by ensuring a policy of cost reductions, improved per capita productivity and appropriate inventories led to this increase in net sales and income.

By business, the Business Supermarket and quality food business performed soundly, and the AUTOBACS and car-related business also recovered after struggling under the impact of last year's consumption tax hike. The acquisition of TERABAYASHI as a consolidated subsidiary in June also contributed, adding ¥3,000mn to net sales and more than ¥100mn to operating income. While the rate of increase in ordinary income was less than that of operating income, this was due to non-operating income exchange rate losses, which worsened by ¥226mn YoY. The Group also posted an extraordinary income of ¥209mn arising from negative goodwill resulting from the acquisition of TERABAYASHI. Trends by business segment are as follows.

Consolidated Results for 1H FY3/16

(Unit: ¥mn)

	1H FY3/15		1H FY3/16		
	Results	vs. Net sales	Results	vs. Net sales	YoY
Net sales	42,092	-	49,066	-	16.6%
Cost of goods sold	31,432	74.7%	36,597	74.6%	16.4%
SG&A expenses	10,015	23.8%	11,224	22.9%	12.1%
Operating income	645	1.5%	1,243	2.5%	92.8%
Ordinary income	805	1.9%	1,211	2.5%	50.4%
Extraordinary gains/losses	-	-	202	0.4%	-
Net income attributable to owners of parent	427	1.0%	841	1.7%	96.7%

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○ **AUTOBACS and Car-related Business**

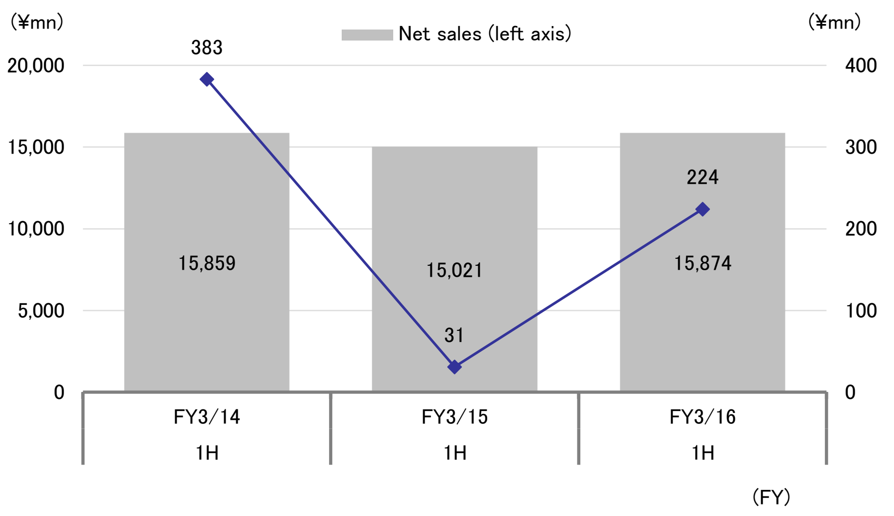
Net sales increased 5.7% YoY to ¥15,874mn and operating income rose 606.5% to ¥224mn. There were four new AUTOBACS-related store openings, including AUTOBACS and AUTOBACS Express in Ayabe, Kyoto in June and an AUTOBACS Express in Noda Umesato, Chiba, that opened in September. As of the end of September, the number of domestic stores increased by four over the previous period, to a total of 70 stores.

Considering that net sales from AUTOBACS-related businesses increased 5.7% YoY, while increasing just 0.7% for the AUTOBACS Group as a whole, indicates the continued notable strength of AUTOBACS within the Group. Looking at sales trends by product category, sales of tires and wheels were sound, increasing 10.4% YoY, while the service division, which includes car inspections and body work, also performed solidly, up by 6.0% YoY. Even the car electronics division, which had seen revenue continue to drop as the market for car navigation systems shrank over the past several years, saw sales grow by 8.6% YoY, its first increase in some time. While growth remains weak in car audio equipment, strong sales of drive recorders were a factor in the increase in net sales. Still, sales fell about 5% below the plan at the beginning of the period. In addition to the small number of new store openings, a sluggish domestic market for new car sales was also a factor.

Meanwhile, both net sales and income declined at G-7 MOTORS, which performed sluggishly. This may reflect the impact of a temporary drop in customers resulting from the change in store name from BIKE SEVEN to BIKE WORLD, which took place in April.

The two AUTOBACS and two BIKE WORLD stores now operating in Malaysia are performing below targets, but existing stores are now at a level where they can be expected to turn a profit in 2H. This may in part be due to efforts to acquire more women customers by setting up sections for ladies in the stores, and to an increase in customers from Singapore, who buy in Malaysia to take advantage of currency depreciation.

AUTOBACS and Car–related Business



○ **Business Supermarket and Quality Food Business**

Net sales increased 19.2% YoY to ¥30,612mn and operating income rose 63.3% to ¥1,037mn. As noted earlier, results from TERABAYASHI added approximately ¥3,000mn in net sales and more than ¥100mn in operating income; excluding this factor, net sales increased by about 8%, while operating income rose 44%.

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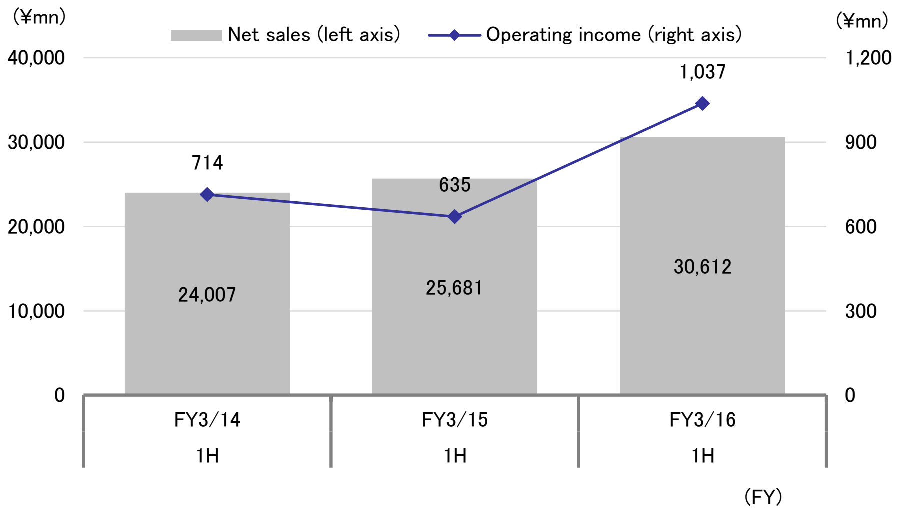
The core Business Supermarket business continued to gather support from restaurant operators struggling with rising food costs and from ordinary consumers, with revenue increasing on an existing store basis. New store openings also had an effect, increasing by four from the end of the previous period to 115 stores, and net sales rose 8.2% YoY, with operating income up by 63.0% YoY. Gross margins also improved by 1.0 points, which along with a shift to profitability among stores with operating losses, led to a significant increase in income.

G7 Japan Food Services also performed soundly, with net sales rising 19.6% YoY, and operating income up by 26.7% YoY. While severe conditions continue in the restaurant business, the quality foods business saw income expand, as efforts to uncover new products and develop new customers progressed smoothly. While the scale of private label products remains small, they are also making a solid contribution to the increase in net sales.

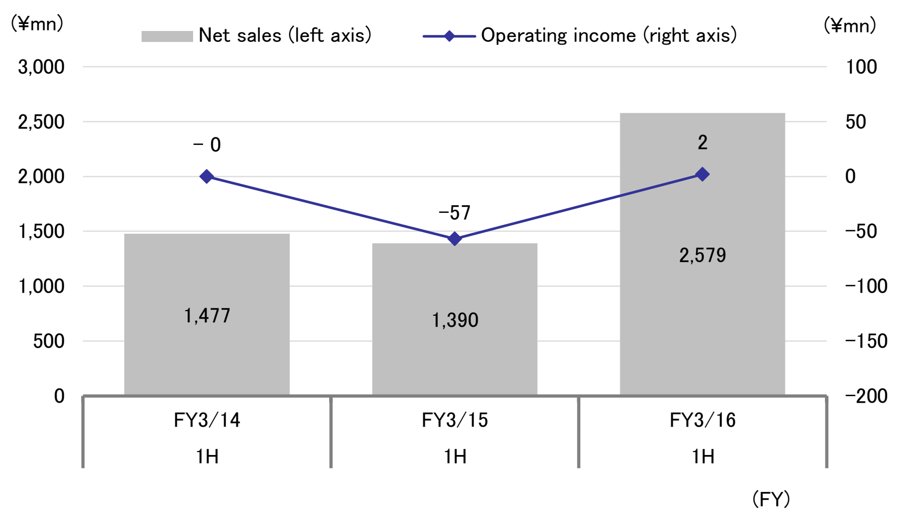
Business Supermarket and Quality Food Business



○ **Other Businesses**

Net sales increased 85.5% YoY to ¥2,579mn and operating income was ¥2mn from operating loss of ¥57mn in the previous fiscal year. In the agri business, net sales increased significantly with a switch in June from consignment to purchase-based sales, but income worsened with increased expenses for upfront investments in overseas restaurant and agri businesses. Note that income in the agri business was just slightly positive.

Other Businesses



With the acquisition of TERABAYASHI, it is highly likely that results for related businesses will exceed plan.

(2) Company forecasts for FY3/16

For FY3/16, G-7 HOLDINGS has maintained its initial consolidated operating forecast of a 13.3% YoY rise in consolidated net sales to ¥100,000mn, a 60.4% increase in operating income to 3,700mn, a 59.2% upturn in ordinary income to ¥4,000mn, and a 65.0% improvement in net income attributable to owners of parent to ¥2,100mn. Looking at the rate of progress through Q2, net sales were more or less as planned, at 49.1%, although operating income, at 33.6%, fell below the trailing five-year average of 38.2%. This was due to income at AUTOBACS and car-related business falling below expectations, but the Group intends to recover in Q3 and beyond through new store openings and through steps to attract customers, including events such as its G-7 Mall Festivals and the like. Also, because trends in tire sales can fluctuate significantly depending on snowfall in the winter season, results for AUTOBACS and car-related business may change depending on the weather. Outlook by business is as follows.

○ **AUTOBACS and Car-related Business**
Double-digit growth is planned in FY3/16 net sales from AUTOBACS and car-related business, with revenue increasing 17.8% YoY to ¥39,000mn (progress rate through Q2 is 40.7%). Plans call for 15 new AUTOBACS-related store openings, including M&As, but without any M&A deals, the outlook is for about 10 new store openings. October saw the opening of the AUTOBACS Cars Narashinodai store, which was followed in November by the opening of the AUTOBACS Express Maniwa store. In addition to AUTOBACS, the Group plans to expand the number of AUTOBACS Express gas stations, BP body works and paint job centers, and other locations.

From a profit perspective, while there are cost increases associated with new store openings, increased profits are expected as a result of strengthening profitability at existing stores. Apart from continuing to put into practice “cost reductions, improvements in per capita productivity and appropriate inventory levels”, by holding Thanks Fairs, G-7 Mall Festivals and other events, the Group will expand net sales. Further, by raising the ratio of sales for high-value-added services (such as statutory inspections, body works and paint jobs) from the current 24%, the Group is promoting other improvements in profitability.

Note that overseas, the Group plans to open one new BIKE WORLD store in Thailand in the spring of 2016. It also plans to open an AUTOBACS and BIKE WORLD on the same premises in Vietnam if it can secure a good location, further advancing its efforts to roll out multiple stores in the Southeast Asia region.

○ **Business Supermarket and Quality Food Business**
Net sales from Business Supermarkets and the quality food business are expected to rise 10.6% YoY to ¥58,000mn (progress rate through Q2 is 52.8%), but with the acquisition of TERABAYASHI, it is highly likely that sales will exceed this plan.

The plan for net sales in the core Business Supermarket business calls for an increase of 12.3% YoY, to ¥53,000mn, with the pace of new store openings accelerating from six in the previous period to ten, and assuming existing stores deliver sound performance with a 2.0% YoY increase in net sales. One new store was opened in October, for a total of six new stores when combined with other openings in 1H. Seven stores are currently finalized, with a search underway for locations for the remaining three stores.

Meanwhile, net sales at G7 Japan Food Services are expected to be ¥5,000mn. Revenue is expected to continue to expand with ongoing expansion in quality food accounts and the unearthing of new food products.

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○ **Other Businesses**

Other businesses are expected to see growth in revenue and earnings. In the Megumi no Sato business, only one new store was opened in the 1H, but profitability has stabilized, and in 2H, plans call for six new store openings in Nara, Osaka and Hyogo. In FY3/17 and beyond, the company intends to strengthen its efforts to roll out multiple small stores in the Kanto region and expand into franchising. Additionally, in September it opened a sales office in Sapporo, and through contracts with farmers in Hokkaido, plans to procure agricultural products for sale at Megumi no Sato stores and for export overseas.

Looking at restaurant operations overseas, in June the Group entered into a new licensing agreement with a subsidiary of ICHIMONKAI CO., LTD., operator of the Kushikatsu Daruma restaurant chain, and will open its first store in Taiwan in December. The Group plans to move forward with the roll-out of both directly owned and licensed locations in Malaysia, Indonesia, Vietnam and elsewhere. In June, it also opened a branch of the Ramen KANBE chain in an AEON Mall in Indonesia. This is the second store, following the 2014 opening of a branch in Malaysia, but the group plans to roll out only these two directly owned locations, and will focus on a franchise-based expansion going forward.

In the overseas agri business, production of chrysanthemums in Vietnam is progressing smoothly, with the project thus far delivering about 400,000 plants to Megumi no Sato stores, and with plans to double the amount it ships in 2016. Production of strawberries in Myanmar has been limited to small-lot shipments to City Mart stores near the farms, but plans call for a gradual increase in shipments beginning in 2016.

The Group intends to escalate its efforts with regards to the export of food products to Asia. Currently, exports amount to only about ¥7-8mn a month in beef and other products to hotels and restaurants in Hong Kong, but the Group believes that by expanding exports to the Southeast Asia region through a base in Singapore, it can quickly increase sales to about ¥30mn a month. In addition, it plans to open its first supermarket in Singapore sometime around February of 2016, and is considering starting wholesale sales of private label products from KOBE BUSSAN CO., LTD. to local hotels and restaurants. Behind this move is the growth in the number of Japanese-owned restaurant companies entering the market, and an increase in local demand for Japanese ingredients.

The outlook for net sales from overseas businesses in FY3/16 is about ¥280mn, but the Group has set a goal for growth to the ¥10,000mn level in five years through M&As and other measures. The breakdown of that ¥10,000mn is expected to be split about half-and-half between the AUTOBACS and car-related business and the restaurant, food products, and agri businesses. While operating losses are expected for the time being, due to the burden of upfront investments in new store openings and other expenses, the growth potential is enormous, and this sector is expected to grow into one of the Group's core businesses.

Financial Status and Shareholder Returns Policy

An increase in net assets resulting from expanded revenue will bring solid progress in strengthening the Group's financial base.

(1) Financial Status

Looking at the Group's financial status as of the end of September 2015, total assets were up ¥1,910mn YoY to ¥34,249mn. This increase was primarily due to the impact of the acquisition of TERABAYASHI. Cash and deposits fell by ¥269mn YoY, but about ¥1,000mn of that went to expenses related to the acquisition of TERABAYASHI shares. Fixed assets increased by ¥1,674mn YoY, of which ¥1,340mn was attributable to an increase in tangible fixed assets.

Meanwhile, an increase in accounts receivable was the primary cause of a ¥922mn YoY increase in liabilities, to ¥20,857mn. Net assets also rose by ¥988mn YoY, to ¥13,392mn, in part due to a ¥659mn increase in earned surplus, as well as to posting of a ¥354mn non-controlling interest in TERABAYASHI.

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Looking at management indicators, while the equity ratio fell slightly YoY, it continues on an upward trend, while the Group's interest-bearing debt ratio is also tending toward improvement. This is due to an expansion in net assets through growth in revenue, although interest-bearing debt levels have not changed significantly, and the Group can be said to be making solid progress in strengthening its financial base.

Consolidated Balance Sheet

(unit: ¥mn)

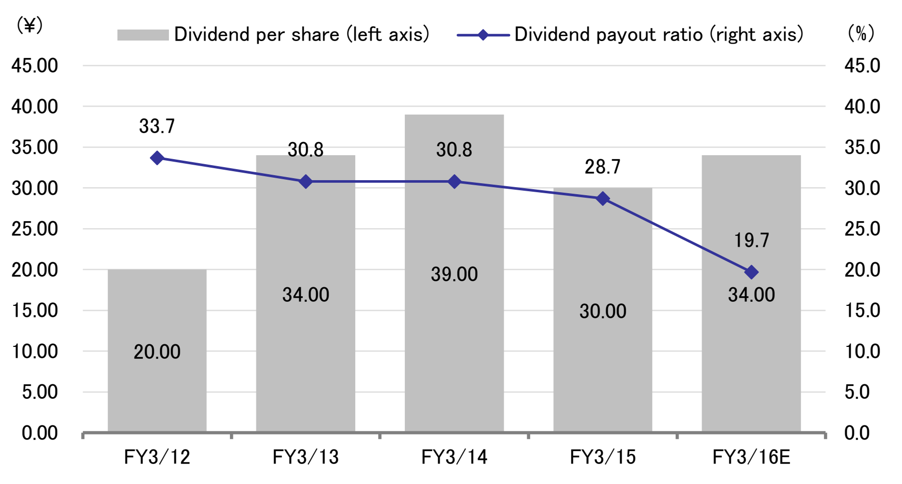
	FY3/13	FY3/14	FY3/15	Q2 FY3/16	Change
Current assets	13,751	15,089	15,018	15,254	236
(Cash and deposits)	6,299	7,183	6,952	6,683	-269
Inventories	4,450	4,492	5,198	5,423	225
Fixed assets	16,650	16,968	17,321	18,995	1,674
Total assets	30,401	32,057	32,339	34,249	1,910
Total liabilities	19,842	20,458	19,934	20,857	922
(Interest-bearing debt)	8,800	8,700	8,458	8,559	101
Net assets	10,558	11,599	12,404	13,392	988
Management indicators					
(Financial strength)					
Equity ratio	34.7%	36.2%	38.4%	38.1%	
Interest-bearing debt ratio	83.3%	75.0%	68.2%	63.9%	
(Profitability)					
ROE (return on equity)	13.4%	13.9%	10.6%	-	
ROA (ratio of recurring profit to total assets)	10.0%	10.1%	7.8%	-	
Operating income margin	3.2%	3.3%	2.6%	-	

A special dividend may be declared if results achieve the Company's plan.

(2) Shareholder return policy

G-7 is paying out dividends as a measure for returning profits to shareholders. The Company'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. The company generally aims to maintain a dividend payout ratio of around 30%. For FY3/16 the dividend has been set at ¥34.0 per share yielding a dividend payout ratio of 19.7%, with it expected that this will be topped up by way of a special dividend, if results achieve the Group's its planned targets.

Dividend per Share and Dividend Payout Ratio



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