

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

Implemented M&A in the Gyomu Super business, forecasting record high profit in FY3/25 for the first time in three fiscal years

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 FY3/24 results

In the FY3/24 results, net sales rose by 9.1% year on year (YoY) to ¥192,992mn, while ordinary income increased by 7.4% to ¥7,318mn. Net sales reached a record high, exceeding the Company’s forecast (¥185,000mn) because the Gyomu Super and meat businesses grew, while the car-related business saw strong sales of used cars to overseas markets. Meanwhile, although profit declined in the car-related business because of sluggish sales of winter tires due to the warm winter and other factors, overall profit rose for the first time in two fiscal years as the increase in sales in both the Gyomu Super business and the meat business, as well as restructuring of unprofitable stores for both RICO’S in the mini-supermarket business and Megumi no Sato farmer’s markets made up for the downturn in the car-related business. The Group’s store count increased by 11 (24 openings, 13 closures) from the end of FY3/23 to 608.

2. Forecasts for FY3/25

For FY3/25 results, the Company is forecasting net sales increasing 14.0% YoY to ¥220,000mn and ordinary income rising 16.1% YoY to ¥8,500mn, both representing double-digit increases, and the Company expects record-high profit for the first time in three fiscal years. The Company plans to open 27 new stores, and will proactively open new Gyomu Super and Oniku no Terabayashi stores, both of which have been performing well. The Company is also expecting an increase in sales and profit in the car-related business, which saw profit decline in FY3/24, due to a recovery in tire sales. Also, in order to further grow the Gyomu Super business, the Company announced that in July 2024 it will acquire all the shares of Bonne Sante Co., Ltd., which operates 15 Gyomu Super stores in the Tokyo metropolitan area, and make the company a subsidiary. This action is already factored into the Company’s FY3/25 forecasts.

3. Progress of medium-term business plan

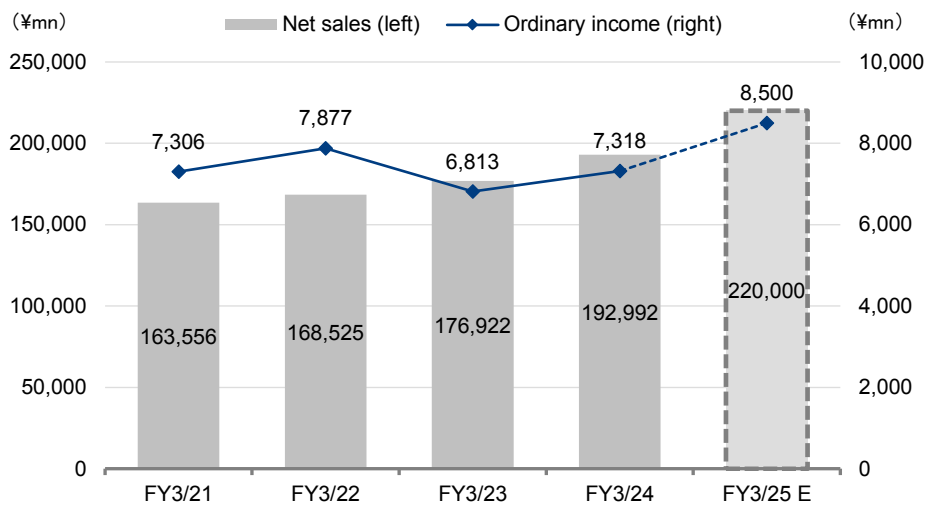
The Company started a five-year medium-term business plan in FY3/22. Business targets are net sales of ¥250bn and ordinary income of ¥10.0bn for FY3/26. Progress through the FY3/24 was below the plan due to rising store opening costs and labor costs, but over the next two fiscal years, the Company aims to achieve its targets by actively investing in strong businesses such as the Gyomu Super business, while also utilizing M&A, and by developing new businesses and new store formats. Regarding shareholder returns, there is no change to the Company’s policy of providing stable and continuous dividends with a consolidated dividend payout ratio of 30% as a target.

Summary

Key Points

- FY3/24 results were driven by the Gyomu Super business and set a record high for net sales, with all profit lines turning higher for the first time in two fiscal years
- For FY3/25, the Company is forecasting double digit growth in sales due to M&A in the Gyomu Super business, and expects record highs for all profit lines for the first time in three fiscal years
- By advancing M&A strategy, will target ¥250bn in net sales and ¥10.0bn in ordinary income in FY3/26
- Increased the dividend for 9th consecutive year, targeting a dividend payout ratio of 30%

Results trends



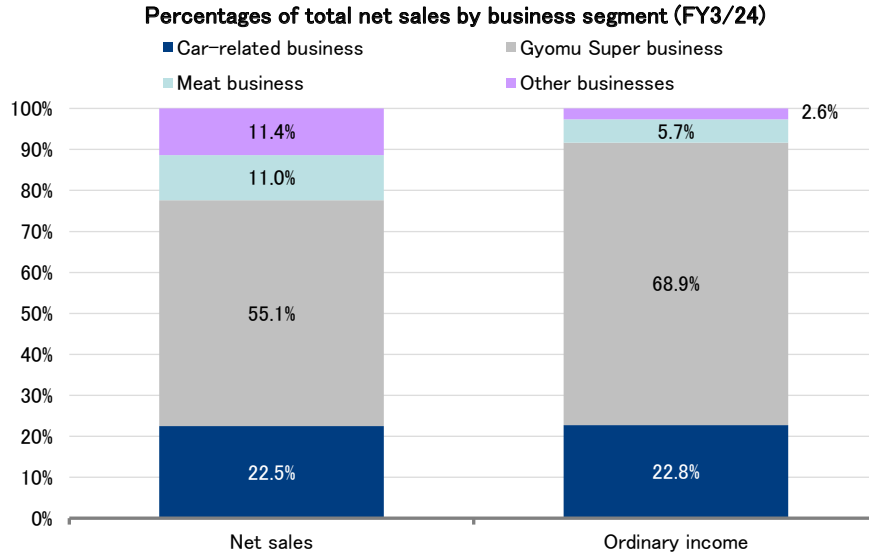
Source: Prepared by FISCO from the Company's financial results

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 FY3/24, the Gyomu Super business accounted for 55.1% of net sales and 66.1% 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, more than 70% of net sales come from food retail businesses.

Business overview



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

1. Car-related business

The car-related business comprises the four companies of G-7 AUTO SERVICE CO., LTD., which is at the core and a franchise of AUTOBACS that offers car product sales; G-7 BIKE WORLD CO., LTD.; which runs BIKE WORLD, a seller of motorcycle products and provider of maintenance services; G7 RETAIL MALAYSIA SDN. BHD., which handles AUTOBACS franchisees and runs BIKE WORLD stores in Malaysia; and G-7. CrownTrading Co., Ltd., which is involved in the car export and sales business.

Roughly 80% of sales are accounted for by G7 AUTO SERVICE, and as of the end of March 2024, the number of AUTOBACS-related stores was 76 domestic stores (69 AUTOBACS stores and 7 AUTOBACS Express stores) and 3 stores in Malaysia, bringing the total to 79 stores. Stores in Japan 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. The Company is the largest franchisee within the AUTOBACS group (590 domestic stores and 109 overseas stores). Store management places strong emphasis on productivity per employee, gross profit margin and inventory turnover rates, and due to this store management, the franchise business is notable for maintaining high 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. Also, G-7 AUTO SERVICE operates five FIELD SEVEN outdoor goods shops, and manages franchise stores on the premises of AUTOBACS and other stores, including, six Mammaciao laundromats, two Yamaya Honpo taiyaki (fish-shaped pancakes with beam jam) stores, and two Châteraisé confectionery stores.

The BIKE WORLD business, which accounts for just under 10% of sales, consisted of 20 stores at the end of March 2024 with 15 domestic stores and 5 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 accounts for over 10% of sales, mainly conducts export sales of used automobiles, and the ratio of sales by region in FY3/24 was 50.2% in Malaysia, 15.7% in the Middle and Near East, and 4.5% in Japan.

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Business overview

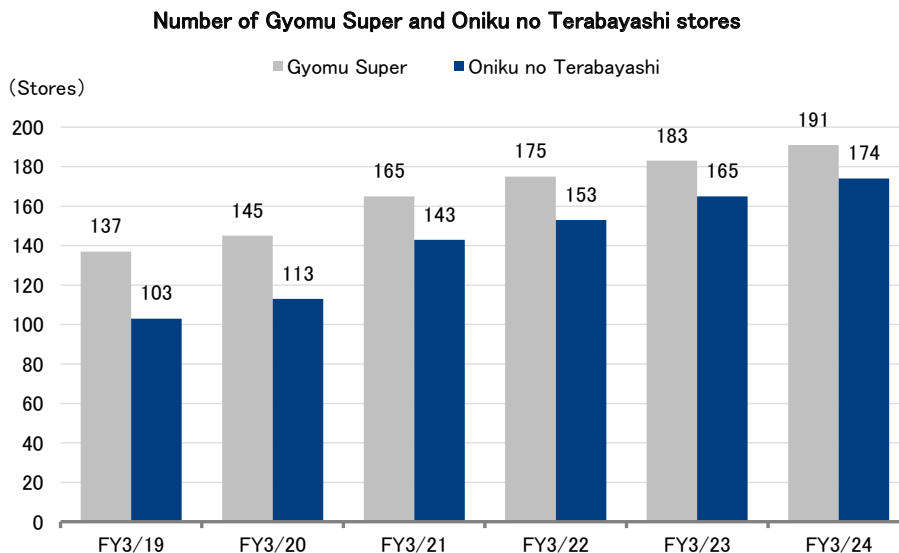
2. Gyomu Super Business

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 191 stores at the end of March 2024, the largest number within the Gyomu Super group (1,058 stores). Looking at store numbers by region, the Kanto area has the most with 73 stores (20 in Tokyo, 17 in Kanagawa, 21 in Saitama, and 15 in Chiba), followed by Chubu with 43 stores (27 in Aichi, 10 in Mie, and 6 in Gifu), Kansai with 34 stores (23 in Hyogo and 11 in Osaka), Kyushu with 26 stores (17 in Fukuoka, 7 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 Kanto 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 stores. 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 March 2024 were 174 Oniku no Terabayashi stores and 13 Andesfoods stores, for a total of 187 stores. By region, Kanto had the most with 73 stores, followed by Kansai with 36 stores, Chubu with 31 stores, Kyushu with 26 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, as the business scale has been expanding while increasing Group synergies.



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 20 Megumi no Sato stores as of the end of March 2024. It closed all stores in the Chubu and Kanto areas in FY3/23, leaving all remaining stores in the Kansai area (17 in Hyogo, 1 in Osaka, and 2 in Nara prefectures), of which 9 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 March 2024 there were 58 stores (45 stores in Tokyo, 13 in Kanagawa Prefecture). Store sales are of the scale of just under ¥200mn annually per store, which is less than 40% compared with Gyomu Super. In April 2020, the Company acquired shares of UNY Co., Ltd., making it a subsidiary and resulting in 73 stores, but with sales showing sluggish growth due to the stay-at-home demand having petered out, since 2022 the Company has gotten rid of unprofitable stores in phases. Since April 2023, profitability is now improving gradually under a new management structure.

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. Also, in July 2023, the Company made online liquor store company Mitsuwa Shuhan a subsidiary. Mitsuwa Shuhan has stores on sites such as Yahoo! Shopping and Amazon, and sells local sake nationwide, and possesses know-how for operating online shopping and strengths in product planning. The company's monthly sales are small at ¥10mn-20mn per month, but the Company is aiming for synergies realized by sharing Mitsuwa Shuhan's know-how within the Group.

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

Company name	Capital contribution ratio	Business description
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.
G-7 SUPER MART CO., LTD.	100.0%	Operator of Gyomu Super, etc.
G-7 MEAT TERABAYASHI CO., LTD.	100.0%	Wholesale and retail sales of meats and processed livestock products
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 STORE INNOVATIONS CO., LTD.	100.0%	Store design, interior design and work execution management
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

FY3/24 results were driven by the Gyomu Super business and set a record high for net sales, with all profit lines turning higher for the first time in two fiscal years

1. Overview of FY3/24 results

In the FY3/24 consolidated results, net sales increased 9.1% YoY to ¥192,992mn, operating income rose 6.4% to ¥6,920mn, ordinary income grew 7.4% to ¥7,318mn, and profit attributable to owners of parent was up 35.3% to ¥5,175mn. Net sales continued to mark record highs on expansion of the core Gyomu Super business and meat business, which exceeded the Company's forecast by 4.3%. Meanwhile, in terms of profit, although there was an impact from the decline in profit in the car-related business because of sluggish sales of winter tires due to the warm winter and other factors, and profit fell short of the Company's forecast, overall profit rose for the first time in two fiscal years due to the increase in sales in other businesses, centered on the Gyomu Super business.

Consolidated results for FY3/24

	FY3/23			FY3/24			
	Results	vs. net sales	Company forecast	Results	vs. net sales	YoY	vs. forecast
Net sales	176,922	-	185,000	192,992	-	9.1%	4.3%
Cost of sales	133,568	75.5%	-	147,303	76.3%	10.3%	-
SG&A expenses	36,848	20.8%	-	38,769	20.1%	5.2%	-
Operating income	6,504	3.7%	7,700	6,920	3.6%	6.4%	-10.1%
Ordinary income	6,813	3.9%	8,000	7,318	3.8%	7.4%	-8.5%
Extraordinary loss	-1,265	-	-	-196	-	-	-
Profit attributable to owners of parent	3,824	2.2%	5,500	5,175	2.7%	35.3%	-5.9%
EBITDA*	8,496	4.8%	-	9,437	4.9%	11.1%	-

*EBITDA = Operating income + depreciation + amortization of goodwill
 Source: Prepared by FISCO from the Company's financial results

The cost of sales (CoS) ratio went up 0.8pp YoY due to a change in the sales mix, while the SG&A expense to net sales ratio fell 0.7pp due to the increase in sales, and the operating margin fell 0.1pp to 3.6%. Breaking down the change in SG&A expenses, while utilities costs declined ¥600mn due to the subsidy system resulting from the spike in electricity prices, personnel expenses increased ¥1.0bn as a result of higher pay and other benefits for employees and education expenses, along with other factors, while depreciation increased by slightly less than ¥600mn as a result of factors including the rise in store opening costs in conjunction with the soaring costs of construction materials. The EBITDA (operating income before depreciation) margin increased 0.1pp YoY. The large increase in profit attributable to owners of parent was mainly due to the dropout of a ¥500mn provision for retirement benefits for directors which was recorded in the prior fiscal year as an extraordinary loss, a ¥455mn decline in impairment losses, and the posting in FY3/24 of a ¥127mn gain from the sale of investment securities.

The Company opened 24 stores and closed 13 stores for a total of 608 at the end of FY3/24, 11 more than at the end of FY3/23 (the Company opened 27 stores and closed 30 in FY3/23). A breakdown of the new store openings was 9 Gyomu Super stores, 12 Oniku no Terabayashi stores, 2 BIKE WORLD stores in Malaysia, and 1 Châteलाई confectionery store.

Results trends

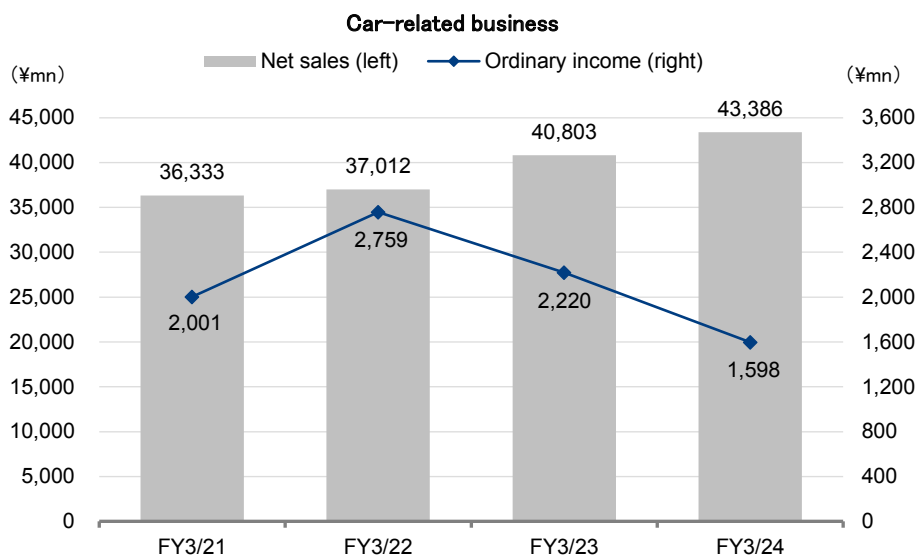
Number of Group stores and number of store openings and closures

Store name	End of FY3/23 Number of stores	FY3/24		End of FY3/24 Number of stores
		Openings	Closures	
AUTOBACS (including SA and SH)	69			69
AUTOBACS Express	7			7
BP centers (body repair and coating)	9			9
G-7 TSUCHIYAMA CIRCUIT	1			1
FIELD SEVEN	5			5
Mammaciao	6			6
Taiyaki Specialty Store Yamaya Honpo	2			2
Châteraisé	1	1		2
BIKE WORLD	15			15
Gyomu Super	183	9	1	191
Obentoya K	1			1
Oniku no Terabayashi	165	12	3	174
Andesfoods	14		1	13
Megumi no Sato	23		3	20
Super Megumi no Sato	1			1
RICO'S	63		5	58
Curves	25			25
TREASURE CYCLE	1			1
Overseas (AUTOBACS, BIKE WORLD)	6	2		8
Total	597	24	13	608

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

(1) Car-related business

In the car-related business, net sales increased by 6.3% YoY to ¥43,386mn, which was a record high for a second consecutive year, but ordinary income fell for the second straight year, falling 28.0% YoY to ¥1,598mn. Net sales increased due to strong sales of used cars to overseas markets by G-7. CrownTrading, while profit was held down by G-7 AUTO SERVICE and G-7 BIKE WORLD.

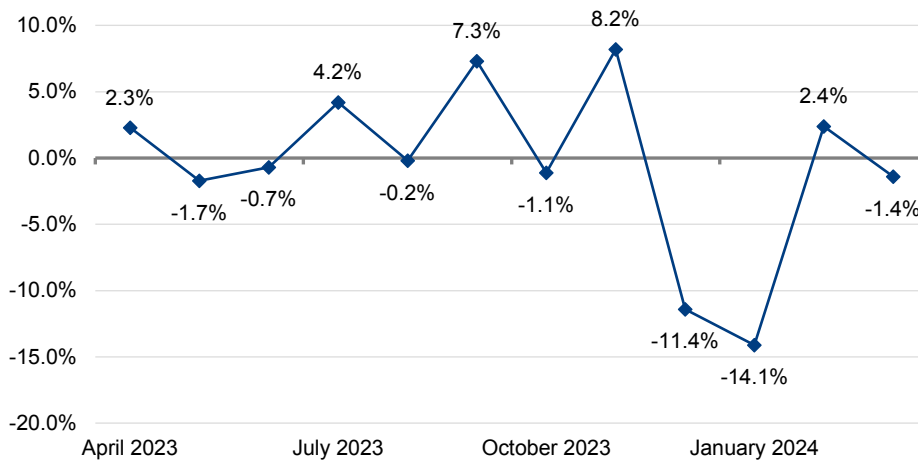


Source: Prepared by FISCO from the Company's financial results

Results trends

G-7 AUTO SERVICE's performance showed a decrease in net sales of approximately 1% YoY and a double-digit YoY decrease in ordinary income. The main reason for this was the sluggish sales of winter products such as profitable winter tires and tire chains due to the warm winter, and the associated decrease in service income such as tire installation fees. The YoY monthly net sales growth rate for December 2023 and January 2024 were down by more than 10% respectively, suggesting that the winter sales season was sluggish.

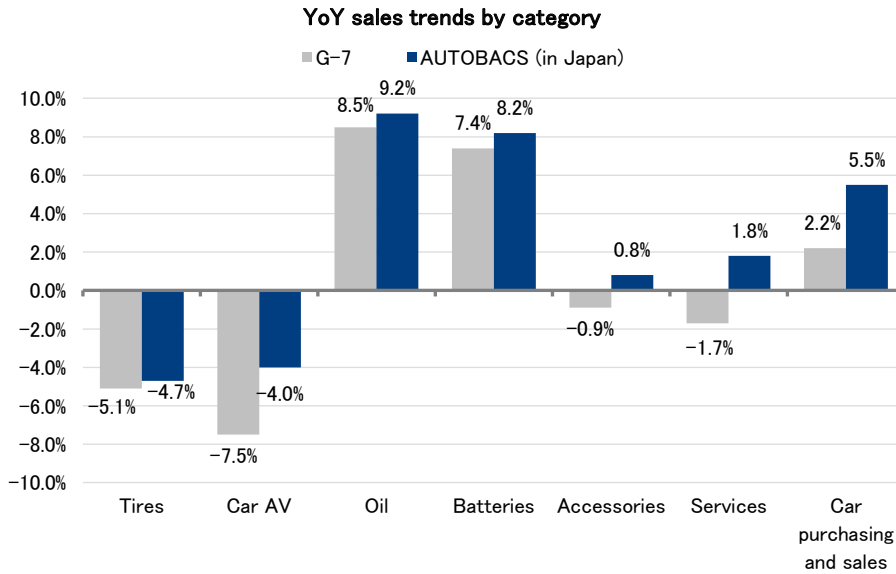
Net sales growth rate of existing G-7 AUTO SERVICE stores (YoY)



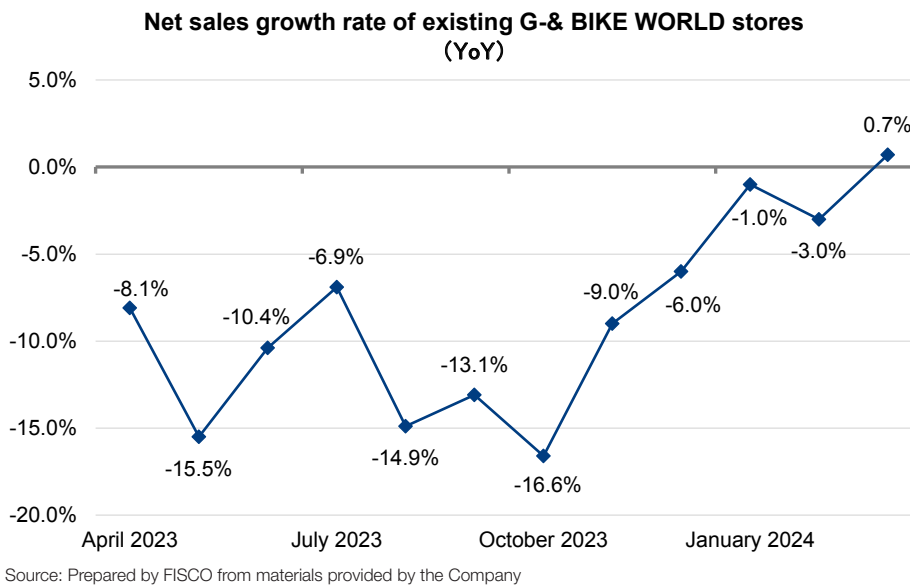
Source: Prepared by FISCO from materials provided by the Company

By category, net sales were down 5.1% YoY for tires, down 7.5% for car AV, 1.7% for services, and down 0.9% for accessories. In contrast, sales of consumables grew, as sales of oil were up 8.5% due to a recovery in demand for driving, and a 7.4% increase for batteries, while there was a 2.2% increase in car purchasing and sales. The domestic AUTOBACS store count at the end of FY3/24 was 69 (flat YoY) as there were no openings or closings. Existing store sales were down 1.1% YoY, showing a similar trend to the existing store sales for the overall AUTOBACS group (down 0.2%). Other than AUTOBACS, confectionery store Châteraisé opened one new store resulting in a total of two stores, but the impact on results was minor.

Results trends



G-7 BIKE WORLD posted a nearly 10% YoY decline in net sales. Profit was also down YoY, because gross profit declined on lower sales. Net sales fell in part to demand peaking out for motorcycle commuting as the COVID-19 pandemic waned and continuous hot summer weather depressing customer traffic. Net sales at existing stores declined 8.7% YoY, while monthly net sales in March 2024 increased 0.7% YoY, marking the first increase in 17 months. This suggests that the decline in net sales seems to have recently ended. The store count at the end of FY3/24 was 15, unchanged YoY.



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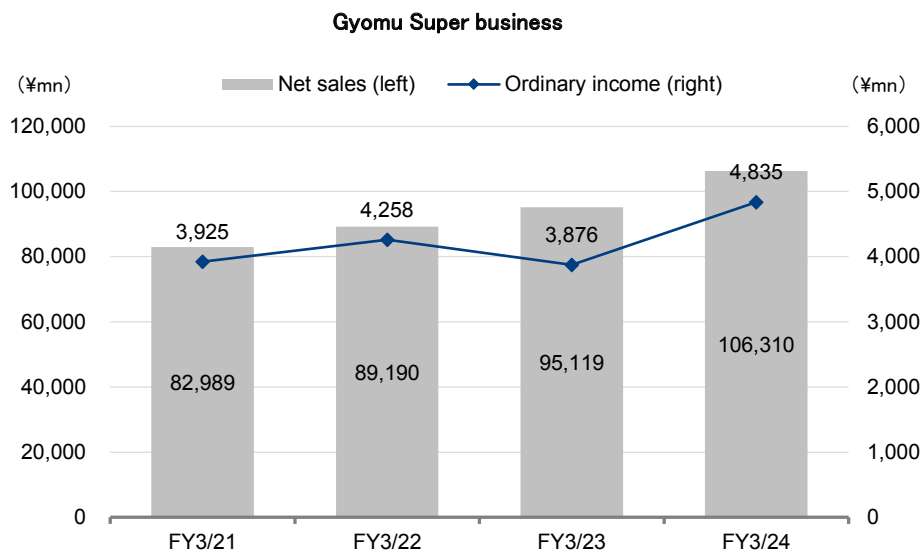
Results trends

In the overseas business, G-7.CrownTrading, which conducts the car export sales business, posted an increase in net sales of around 200% YoY due to the tailwind provided by the yen's depreciation, and profit also increased. The BIKE WORLD business in Malaysia also recorded steady profit growth and opened a store in both July 2023 and March 2024, bringing the number of stores to five. The AUTOBACS business in Malaysia posted net sales growth, although less sharp than expected, and of the three stores, only one store has become profitable.

(2) Gyomu Super business

In the Gyomu Super business, net sales were up 11.8% YoY to ¥106,310mn, and ordinary income was up 24.7% to ¥4,835mn, as both sales and profit increased by double digits, and net sales exceeded the Company's forecast and the business posted record high results. Net sales at existing stores increased 7.9%, which was stronger than expected, as against a backdrop economizing due to inflation, the Gyomu Super business saw an increase in customer traffic along with the impact of price revisions. The opening of nine new stores (one store closing) also contributed to the increase in net sales. Looking at the 9 new store openings, 1 was in Hokkaido, 3 were in Kanto, 4 were in Chubu, and 1 was in Kyushu, and the total number of stores at the end of FY3/24 increased by 8 YoY to 191 stores.

The ordinary income margin increased 0.4pp to 4.5%. This improvement was due to a 0.1pp improvement in the gross margin, primarily brought by the impact of price hikes, and a 0.4pp improvement in the SG&A expense ratio due to the fact that the increase in depreciation was offset by the reduced utilities expenses and the effect of higher sales.

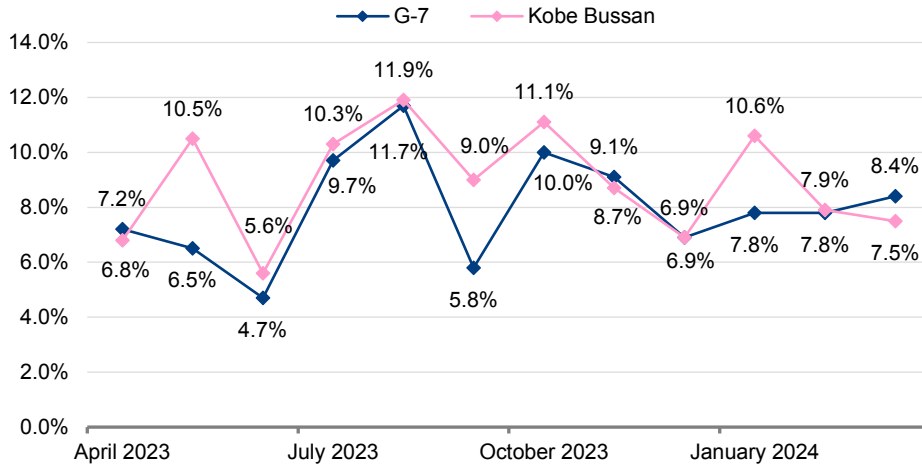


Source: Prepared by FISCO from the Company's financial results

The monthly net sales growth (YoY) for existing stores remained stable throughout the fiscal year, increasing 8.4% in March 2024. Also, since the sales growth rate of existing stores for Kobe Bussan's area showed a similar overall trend, it can be said that the Gyomu Super business performed strongly nationwide.

Results trends

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

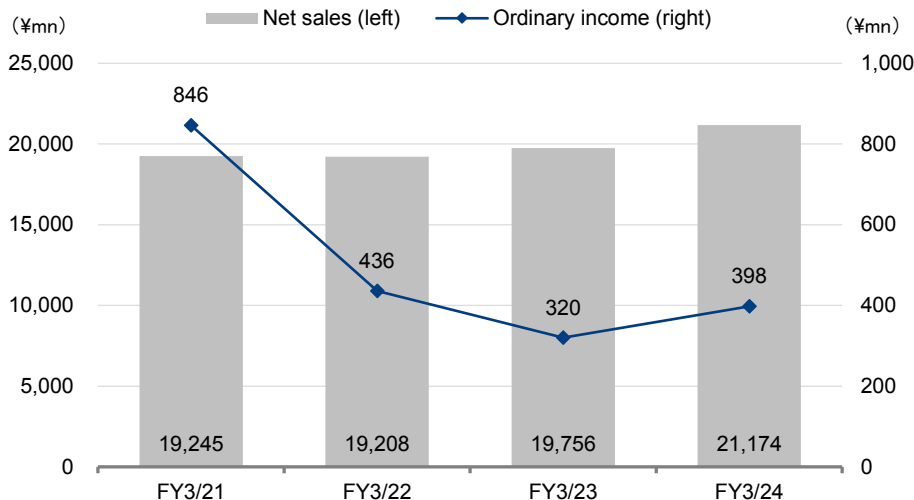


Source: Prepared by FISCO from materials provided by the Company

(3) Meat business

The meat business saw net sales increase by 7.2% YoY to ¥21,174mn, setting a new record once again, while ordinary income was up 24.6% to ¥398mn, increasing for the first time in three years and exceeding the Company's forecasts. In addition to the effect of opening new Oniku no Terabayashi stores, there was also an impact from price revisions and revised product lineups from September 2023, and net sales at the existing stores grew 3.4%. Profit increased due to the sales growth effect and gross profit margin improvement stemming from price revisions, which offset the increase in personnel expenses. However, the ordinary income margin was 1.9%, which was still a low level compared to the 4.0% range in FY3/21, and profit continued to be pressured by higher procurement costs for imported meat due to the weakening of the yen.

Meat business

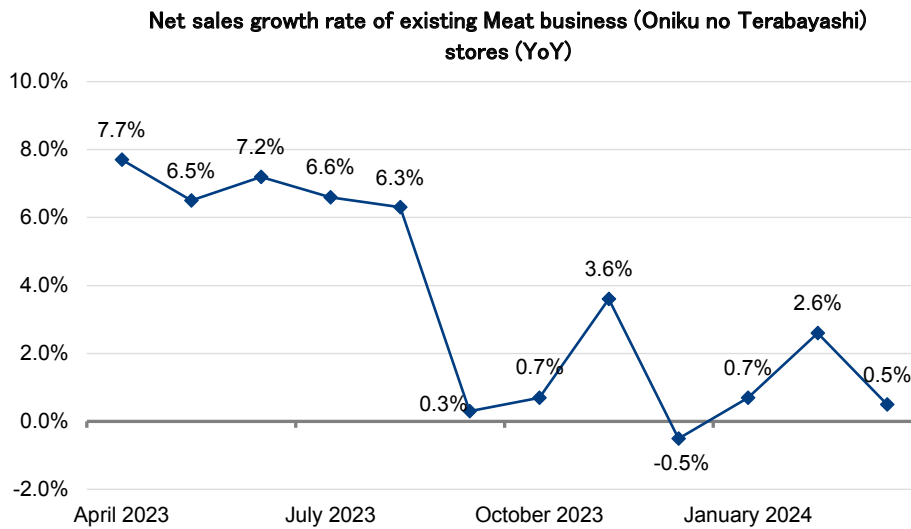


Source: Prepared by FISCO from the Company's financial results

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Results trends

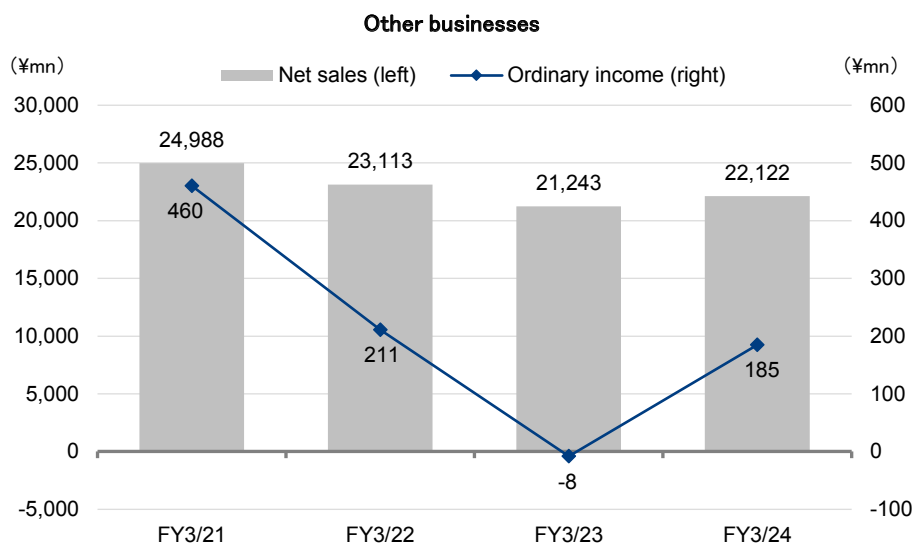
The Company opened 12 stores (1 in Hokkaido, 3 in Kanto, 4 in Chubu, 1 in Kinki and 3 in Kyushu) and closed 3 stores for a total store count of 174 at the end of FY3/24, up 9 YoY. Andesfoods, a wholesaler that supplies restaurants, closed 1 unprofitable store, bringing the number of stores to 13. Regarding the monthly sales trend at existing stores, due to the effects of price increases implemented since the fall of 2022, sales had been growing in the high single digits compared to the same month of the previous year until August 2023. However, since September 2023, when the effects of price increases had run their course, the growth rate has slowed to the low single digits.



Source: Prepared by FISCO from materials provided by the Company

(4) Other businesses

In other businesses, net sales increased by 4.1% to ¥22,122mn, and ordinary income was ¥185mn (¥8mn loss in previous fiscal year), as ordinary income was positive for the first time in two fiscal years.



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

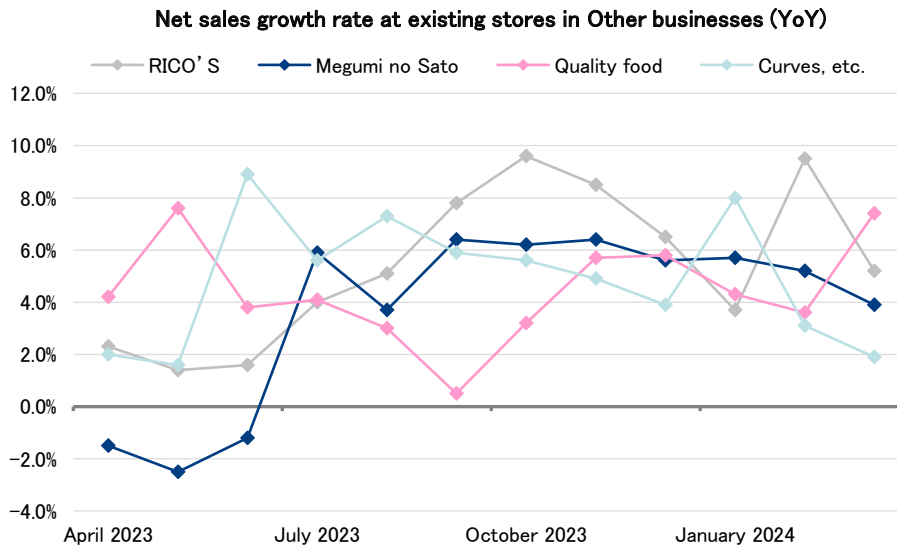
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Results trends

Looking at performance by business, the mini-supermarket business turned to net sales growth, increasing approximately 3% YoY and shrinking its loss. Net sales at existing stores turned higher, increasing 5.4% YoY, as after closing 6 unprofitable stores in FY3/23, the Company continued in FY3/24 by making progress on shedding unprofitable stores, including closing 5 stores in 2H FY3/24, along with the impact of revising the product strategy and price revisions. In addition, the loss was contracted by working to reduce headquarters costs and logistics costs. The Company had 58 stores (down by 5 YoY) at the end of March 2024. The majority of stores are still making a loss, and challenges for the Company are increasing net sales per store and optimizing costs.

The agricultural business shut all (21 stores) unprofitable stores in the Chubu and Kanto regions in FY3/23, and in Q4 of FY3/24 it closed 3 stores (Osaka), resulting in an 8% YoY decline in net sales, but the decline in unprofitable stores and the 3.7% YoY increase in net sales at existing stores allowed it to secure a profit. At existing stores, sales of fresh flowers used in Buddhist holiday festivals such as Obon and Higan were brisk. The store count at the end of March 2024 was 20, down by 3 stores from a year earlier.

Although net sales increased around 4% YoY 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 ¥20mn-¥30mn (profit would have increased without these expenses). The quality food business continued to exhibit at regional food exhibitions and otherwise develop customers, and this is leading to sales. Mitsuwa Shuhan's net sales are just over ¥100mn and it appears to have posted a small ordinary loss. Elsewhere, Curves (25 stores), the workout and training clubs for women, saw a roughly 5% increase in sales as the recovery in membership continued, and it appears to have posted ordinary income of over ¥100mn for the first time ever.



Source: Prepared by FISCO from materials provided by the Company

Results trends

Maintaining a healthy financial situation, net cash of just under ¥8.0bn, a record high level

2. Financial condition and key financial indicators

At the end of FY3/24, total assets were up ¥4,670mn from the previous fiscal year-end to ¥61,872mn. In current assets, there was an increase in cash and deposits of ¥1,450mn, and an increase of ¥1,370mn in accounts receivable – trade. In non-current assets, although investment securities declined by ¥314mn, property, plant and equipment increased ¥1,339mn as a result of store openings, while deferred tax assets increased ¥620mn.

Total liabilities increased by ¥1,454mn to ¥31,898mn. While interest-bearing debt declined ¥130mn, income taxes payable increased ¥584mn and other current liabilities increased. Total net assets at the end of FY3/24 increased by ¥3,216mn from the previous fiscal year-end to ¥29,973mn. Retained earnings increased by ¥3,440mn mainly owing to the recording of profit attributable to owners of parent and payment of dividends of ¥1,719mn, and valuation difference on available-for-sale securities declined ¥191mn.

Turning to management indicators, the equity ratio rose 1.6pp from the end of FY3/23 to 48.4% and the ratio of interest-bearing debt fell 4.2pp to 30.6%, as the improvement in financial condition since FY3/22 continued. Net cash (cash and deposits – interest-bearing debt) increased ¥1,580mn to ¥7,968mn, marking a new record high, which indicates good financial soundness. Regarding inventory turnover, which worsened somewhat in the previous fiscal year, there was improvement, as the number of days contracted by 1.2 days to 15.3 days. The operating income margin was 3.6%, the lowest level in the past five years, but the main reason for this was the decline in profitability in the car-related business due to the sluggish sales of winter goods, and a recovery from FY3/25 onward is expected. ROE was 18.3%, as the Company continued to maintain a level above 10%.

Consolidated balance sheet

	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24	Change
	(¥mn)					
Current assets	27,040	27,650	29,498	30,259	33,360	3,101
(Cash and deposits)	16,465	16,259	17,033	15,688	17,138	1,450
(Inventories)	5,602	6,517	6,854	7,982	8,067	85
Non-current assets	20,846	23,741	24,647	26,943	28,511	1,568
(Goodwill)	67	516	437	16	62	46
Total assets	47,886	51,391	54,145	57,202	61,872	4,670
Total liabilities	25,868	30,128	29,398	30,444	31,898	1,454
(Interest-bearing debt)	9,348	9,300	9,300	9,300	9,170	-130
Net assets	22,018	21,263	24,747	26,757	29,973	3,216
[Key financial indicators]						
<Financial strength>						
Equity ratio	45.9%	41.1%	45.4%	46.8%	48.4%	1.6pt
Interest-bearing debt ratio	42.5%	44.1%	37.8%	34.8%	30.6%	-4.2pt
Net cash	7,117	6,959	7,733	6,388	7,968	1,580
<Efficiency>						
Inventory turnover (days)	15.4	14.5	14.8	16.5	15.3	-1.2
<Profitability>						
ROE	17.0%	22.5%	23.0%	14.9%	18.3%	3.4pt
Operating income margin	4.4%	4.3%	4.4%	3.7%	3.6%	-0.1pt

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

Business outlook

In FY3/25, the Company is expecting double-digit growth in sales due to the effect of M&A in the Gyomu Super business, along with record high profit for all profit lines for the first time in three fiscal years

1. Forecasts for FY3/25

For its FY3/25 consolidated results, the Company forecasts net sales to increase 14.0% YoY to ¥220,000mn, operating income to increase 18.5% to ¥8,200mn, ordinary income to increase 16.1% to ¥8,500mn, and profit attributable to owners of parent to increase 8.2% to ¥5,600mn. The Company expects all profit lines to set new record highs for the first time in three fiscal years.

Consolidated forecasts for FY3/25

	FY3/24		FY3/25		
	Results	vs. net sales	Company forecast	vs. net sales	YoY
Net sales	192,992	-	220,000	-	14.0%
Operating income	6,920	3.6%	8,200	3.7%	18.5%
Ordinary income	7,318	3.8%	8,500	3.9%	16.1%
Profit attributable to owners of parent	5,175	2.7%	5,600	2.5%	8.2%
Earnings per share (¥)	117.46		127.09		

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

The Gyomu Super business will be the driving force behind this, but the Company is also aiming to increase sales and profits in all businesses (reducing losses in loss-making businesses), including the car-related business, which struggled in the previous fiscal year. In addition to rising personnel expenses, the end of the government's electricity subsidy system (for electricity usage until May 2024) may once again lead to increased costs in the form of utility costs, but the Company plans to offset these cost increases through increased sales, improved gross profit margin, and cost reductions achieved by improving operational efficiency.

The Company plans to open 27 stores during FY3/25. This includes 12 new stores each for Gyomu Super and Oniku no Terabayashi, 2 new Curves gyms, and 1 new BIKE WORLD. Regarding Gyomu Super, the Company plans to aggressively open new stores if it finds properties that meet its conditions.

Business outlook

Number of Group stores and number of store openings and closures

Store name	End of FY3/23 Number of stores	End of FY3/24 Number of stores	FY3/25 Initial store opening plan	End of FY 3/25 Store count forecast
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
Mammacio	6	6		6
Taiyaki Specialty Store Yamaya Honpo	2	2		2
Châteraisé	1	2		2
BIKE WORLD	15	15	1	16
Gyomu Super	183	191	12	203
Obentoya K	1	1		1
Oniku no Terabayashi	165	174	12	186
Andesfoods	14	13		13
Megumi no Sato	23	20		20
Super Megumi no Sato	1	1		1
RICO'S	63	58		58
Curves	25	25	2	27
TREASURE CYCLE	1	1		1
Overseas (AUTOBACS, BIKE WORLD)	6	8		8
Total	597	608	27	635

Source: Prepared by FISCO from materials provided by the Company

On May 13, the Company announced that it would acquire all of the shares of Bonne Sante, which operates 15 Gyomu Super stores in the Tokyo metropolitan area (3 in Tokyo, 9 in Saitama, 2 in Chiba, and 1 in Kanagawa), from its parent company Life Intelligent Enterprise Holdings Co., Ltd. <5856> for ¥5,600mn* and make it a subsidiary, in order to further expand the Gyomu Super business. Bonne Sante operates a meat business in addition to the Gyomu Super business, but the meat business will be spun off and only the Gyomu Super business will be transferred to the Company. Bonne Sante performance for FY3/23 was net sales of ¥14,464mn and operating profit of ¥14mn, of which the meat business had net sales of ¥1,996mn and posted a loss. The acquisition date for the shares is scheduled for July 1, 2024, and business results are expected to be included in the consolidated results from 2Q FY3/25. Although the goodwill and the goodwill amortization period have not been decided, Bonne Sante's performance has been factored into the results forecast for FY3/25. It is estimated that this will add just over ¥10.0bn to net sales. With this subsidiary acquisition, the Company believes that it will be able to expand its store network in the Kanto region to 88 stores, and that it will be able to create many synergies in its Gyomu Super business.

* The acquisition price is subject to change due to factors including the careful examination of the assets to be transferred through the company split

Bonne Sante's management figures

	(¥mn)		
	FY3/21	FY3/22	FY3/23
Net sales	11,799	11,940	14,464
Operating income	105	23	14
Ordinary income	99	18	2
Profit attributable to owners of parent	83	11	-36
Net assets	466	478	441
Total assets	1,351	1,369	2,188

Source: Prepared by FISCO using the Company's news releases

Business outlook

(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 as it aims for an increase in sales and profit. Tire sales hold the key, and for FY3/25 the Company forecasts snowfall that is near the annual average, so it assumes that sales of winter tires will recover. The assumption is that overall net sales domestically for the AUTOBACS group will increase by 3.5% YoY, and the Company forecasts a roughly similar growth rate for the AUTOBACS stores that it operates.

In addition, AUTOBACS headquarters announced that it will change the franchise chain package and royalty rate from April 2024. Specifically, the headquarters will lower the wholesale price of products to franchise stores and raise the royalty rate associated with retail sales from 1% to 9%. In addition, with the aim of providing customers with uniform, high-quality services nationwide, the headquarters will promote digital transformation at all stores and introduce unified tools such as membership apps. This will enable the headquarters and franchise companies to work together in a truly integrated manner to increase customer contact points, develop and provide products and services from the customer's perspective, gain customer support, and expand market share, thereby achieving growth. For the Company, royalty costs will increase, but the Company expects purchasing costs to decline by the same amount, and sees the impact on performance as neutral. In the medium term, it is expected that improvements in AUTOBACS products and services will lead to increased store sales.

The Company forecasts net sales and profit growth at G-7 BIKE WORLD. As mentioned above, monthly sales at existing stores turned positive in March 2024, indicating that the situation has bottomed out and that the worst is over. If good weather continues, it is expected that sales of motorcycle-related merchandise will increase as demand for motorcycle touring recovers. The Company is also planning to open one new store, but the location has not yet been determined.

In the overseas business, the Company expects an increase in sales and profit at BIKE WORLD in Malaysia. Regarding AUTOBACS, the Company is aiming to turn a profit in FY3/25, but the business situation is still sluggish, and there is a possibility that sales will remain at the same level as the previous fiscal year. Meanwhile, the Company expects the car export sales business to continue to see an increase in sales and profit thanks to the support provided by the weak yen, and appears to be considering opening new stores overseas with the aim of achieving further growth.

(2) Gyomu Super business

The Company is expecting net sales and profit growth in the Gyomu Super business. Amid continuing food price increases and a continuing trend among customers to be budget-conscious, existing store sales are expected to continue to grow at single digits. The Company also plans to open 12 new stores, of which it appears that properties have been targeted for 4 of these stores. Regionally, the Company plans to open stores mainly in the Kanto, Chubu, and Kyushu regions, and in particular it will strengthen its searches for properties in the Nagoya area, where it has had a weak presence until now.

For profit, the Company is expecting the increase in profit to continue, with the increase in net sales offsetting the increases in store opening costs, personnel expenses, and utilities costs. In order to increase customer convenience and the inventory turnover ratio, it also plans to roll out semi-self-checkout registers and cashless payment in stages.

Business outlook

(3) Meat business

In the meat business, the Company expects solid performance at existing stores, while it also expects to continue to post higher sales and profit due to the effect of new store openings. The Company is planning to open 12 new stores in FY3/25 coinciding with simultaneous store openings with Gyomu Super. Also, there is a possibility that it will open new stores in other commercial facilities if there are properties where the conditions match the Company's requirements. Due to the weak yen, the procurement costs of Brazilian chicken, pork, and other meat are on the rise, and it is likely that the Company will consider price revisions going forward.

(4) Other businesses

The Company expects sales and profit growth in other businesses. In the mini-supermarket business, the company plans to increase the number of repeat customers and expand store sales by reviewing its product strategy and improving service quality through training of store staff. With regard to product strategy, due to the fact that at the end of March 2024 the Company terminated its handling of Uny's PB products, which had accounted for roughly 10% of net sales until then, the Company plans to increase its offering of the Group's own PB products in stages going forward. In the meat business, the Company will establish a structure for sourcing meat from G-7 MEAT TERABAYASHI Co., Ltd., and will expand products including prepared foods and in response to demand for meals for individuals as well as fresh foods. As part of its CRM strategy, the Company has begun regularly distributing digital coupons via LINE, in an effort to increase the frequency of visits by existing customers, promote sales, and acquire new customers. The Company will also flexibly review prices while working to improve its gross profit margin, with the goal of other businesses becoming profitable in FY3/25.

Challenges include improving the service quality of store staff and improving the staff turnover rate. Currently, the staff is primarily composed of foreign nationals and the turnover rate is high, and there is a lot of room for improvement in hiring and training costs. It would be ideal if they could become regular employees and make the store profitable, but the hurdles are high. So for now, the Company is considering revising its personnel evaluation system to maintain and improve the work motivation of non-regular employees. The Company's immediate goal is to reduce the ratio of unprofitable stores to around 30%.

In the agricultural business, the closure of three unprofitable stores in 4Q in the previous fiscal year will be a factor in the decline in net sales, but the Company plans to cover this with increased sales at existing stores. In terms of profit, in addition to the non-recurrence of ¥20mn in system improvement costs booked in the prior fiscal year associated with the introduction of an invoice system, the Company expects an increase in profit due also to the impact of reducing the number of unprofitable stores.

In the quality food and private brand business, the Company expects sales and profit growth by continuing to discover attractive products and exhibit at local product fairs. Furthermore, for Curves, the Company is planning to increase the number of members at existing clubs and open two new clubs, and therefore expects to see increases in both sales and profits. Additionally, the Company appears to be making preparations to launch new businesses, so future developments will attract attention.

Target ¥250.0bn in net sales and ¥10.0bn in ordinary income in FY3/26 through an M&A strategy

2. Progress of medium-term business plan

(1) Overview of medium-term business plan and status of progress

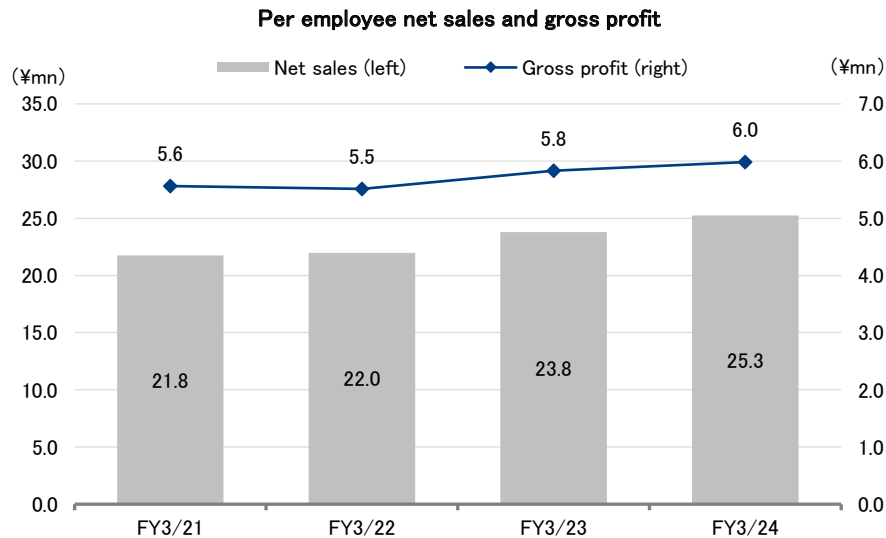
In FY3/22, the Company started a five-year medium-term business plan running through FY3/26, which is the plan's final fiscal year and will mark the Company's 50th anniversary of its founding. The plan's business targets were for net sales of ¥250.0bn and ordinary income of ¥10.0bn for FY3/26. However, progress through FY3/24 in ordinary income was a little below the plan due to higher store opening costs and utilities costs due to inflation, as well as the sluggish performance in the mini-supermarket business due to the petering out of stay-at-home demand. However, with the Company now on track to acquire a subsidiary with annual sales of over ¥12.0bn in the Gyomu Super business, it can be said that the goal is now within reach. The Company's key initiatives will remain unchanged, and it will not only continue to work on growth in its existing businesses, but will also aim to grow earnings by incorporating M&A strategies, so sustained growth is expected in the medium- to long-term.

To achieve growth, the Company will work on the following 10 priorities it has given as its goals:

- 1) Each operating company will strive to deliver increases in sales and profits and record-high results every fiscal year
- 2) Each operating company must always achieve profit
- 3) Strive to have no unprofitable stores and reduce the total amount of losses to zero
- 4) Aim for year-on-year increases in every two productivity indicators of net sales and gross profit per employee
- 5) Profit growth rates in excess of sales growth rates must always be achieved
- 6) Strive to develop new businesses and business formats with high investment returns
- 7) 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)
- 8) Work to advance M&A deals and capital and business alliances
- 9) 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)
- 10) Promote ESG and SDGs measures

Of these, for 2), G-7 RICO'S STORES posted a loss in FY3/24, but we believe there is a good chance it will be able to turn a profit by FY3/26. For 3), improvement has been slow. The Company plans to reduce the number of unprofitable stores by working to improve store management productivity and inventory turnover, and by reviewing its product strategy. For 4), productivity indicators are showing an upward trend in both net sales and gross profit. This is largely due to the growth of the Gyomu Super business, but going forward, the Company aims to achieve year-on-year increases in all businesses.

Business outlook



Note: The number of employees is calculated as the sum of the average number of regular employees (calculated from the end of previous fiscal year and end of current fiscal year) + the average number of non-permanent hires
 Source: Prepared by FISCO using the Company's securities report and materials provided by the Company

Regarding 6), the development of new businesses and new store formats with high investment efficiency, the Company is making preparations to start these in FY3/25. Regarding the store opening plan in 7), due to the increase in store opening costs resulting from inflation, the number of store openings is only about half of the target of 50 to 70 stores, with 34 stores in FY3/22, 27 stores in FY3/23, and 24 stores in FY3/24. The store opening plan for FY3/25 is also solid at 27 stores, and the hurdle of achieving the target of 1,000 stores has become higher. But the Company intends to actively open new stores if the business environment improves. Regarding 9), personnel hiring and training, the Company plans to continue strengthening these based on the belief that personnel are the source of a company's growth, and in April 2024 the Group hired 104 new graduates, maintaining the same level as the previous fiscal year. In addition to continuing regular training to develop and promote young executives, the Company will also strengthen its human capital management by reviewing personnel evaluations to improve the skills and motivation of individual employees.

(2) Earnings targets by business

As its targets for each mainstay business, the Company is forecasting net sales of ¥100.0bn 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 ¥50.0bn and ordinary income of ¥2.5bn in the AUTOBACS business (net sales up 1.57x and ordinary income up 1.20x); and net sales of ¥35.0bn and ordinary income of ¥1.2.0bn (net sales up 1.91x and ordinary income up 1.28x) in the meat business.

Business outlook

In the Gyomu Super business, the Company attained targets two years early in FY3/24, and further growth is expected from FY3/25, partly due to M&A. Regarding the store opening strategy, the Company plans to continue to proactively open stores, centered on Kanto, Chubu and Kyushu regions, where there is significant potential for new locations. However, the Company has set challenging targets for the AUTOBACS business that require net sales to increase 1.5x and ordinary income to rise 1.9x over the next two fiscal years. The Company seeks to achieve growth by expanding its domains into peripheral business in the car life category, as it is difficult to expand stores based on M&A with franchise companies. Currently, the company has opened five FIELD SEVEN stores in its outdoor goods business and is working to develop this business, but growth is sluggish, and it seems that it will need to explore new growth strategies, including M&A, in the future. The meat business also needs to increase net sales by 1.7x and ordinary income by 3x over the next two fiscal years, and like the AUTOBACS business, the hurdle is somewhat high. As sales might increase roughly in tandem with those of Gyomu Super stores given that stores will be opened at the same time, the challenge will be to improve the profit margin, which was only 1.9% in FY3/24.

The Company has challenging targets for the mini-supermarket business of ¥21.0bn in net sales and ¥400mn in ordinary income, but in the near term the Company will work on making existing stores profitable as the top priority, and once profitability is in sight it appears that the Company will implement a growth strategy. As social patterns change and individual meals become more common, it is believed that there will be a certain amount of demand for urban-type mini-supermarkets. In addition, because the stores are small, it is relatively easy to expand into multiple stores. In addition, there are hopes for synergy effects with Group businesses such as private label products and meat, so it is hoped that a revenue model will be established that will lead to profitability in the future.

The Company is forecasting net sales of ¥10.0bn 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 ¥2.0bn is forecast in each business. Although there are some deviations from the initial targets, the Company is fundamentally aiming to expand in all businesses, and we at FISCO expect that it will continue to achieve sustained growth in the medium- to long-term while leveraging its M&A strategies.



Source: Published from materials provided by the Company

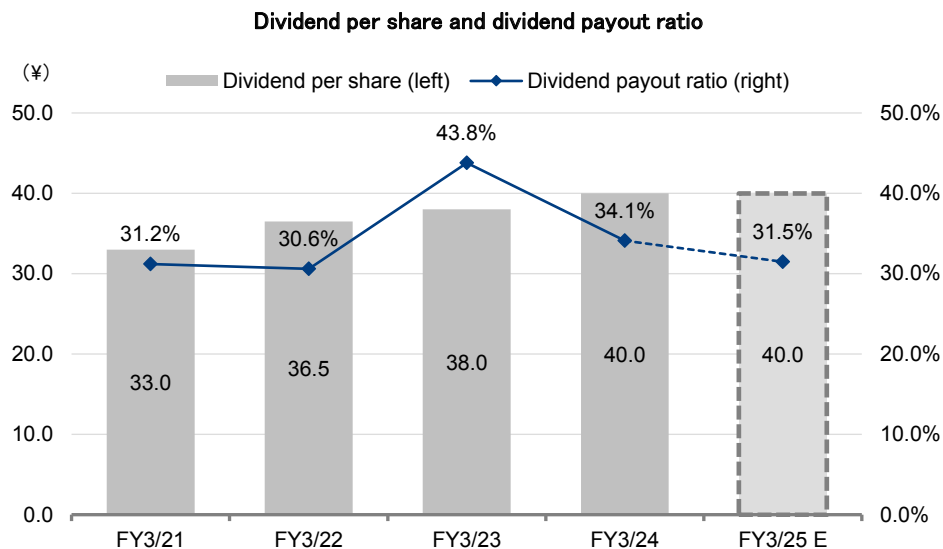
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Shareholder return policy and sustainability initiatives

Increased 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 increased the dividend per share by ¥2.0 YoY to ¥40.0 in FY3/24, which corresponds to a dividend payout ratio of 34.1% and 9th consecutive year of increased dividends. For FY3/25, the Company is planning to pay the same dividend of ¥40.0 (31.5% dividend payout ratio), but another increase in the dividend is expected if results are solid.



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

Practicing sustainability management will lead to improved brand value, expansion of business domains 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