COMPANY RESEARCH AND ANALYSIS REPORT

TOKAI Holdings Corporation

3167

Tokyo Stock Exchange Prime Market

22-Jun.-2022

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Index

Summary

Expecting decreased profit in FY3/23 due to LP gas procurement cost increase, though steady increase in the number of customers underpins the earning foundation

Based in Shizuoka Prefecture, TOKAI Holdings Corporation <3167> (hereafter, also "the Company") is a comprehensive lifestyle infrastructure company that is developing "energy and lifestyle-related business," primarily the provision of liquefied petroleum (LP) gas, and "information and communications services business." Based on its strengths of "customer power" with over 3.19mn customers, "comprehensive capabilities" to provide a wide range of products and service in a one-stop manner, and "mobility" to immediately respond to customer needs, the Company is advancing the ABCIR+S*1 strategy and aims to realize the "Total Life Concierge" (TLC; comprehensive services for living) concept*2.

*1 ABCIR+S: The TOKAI Group's strategy for technological innovation. It is the acronym of AI (A), Big Data (B), Cloud (C), IoT (I), Robotics (R), and Smartphone (S), and the Group will focus on creating and developing new services related to these.

*2 Total Life Concierge concept: A vision that aims to improve customer satisfaction by providing comprehensive and detailed support for customers' comfortable lifestyles through the various services provided by the TOKAI Group.

1. FY3/22 results

The Company reported FY3/22 consolidated results with a fourth consecutive period of higher sales at ¥210,691mn in net sales (up 7.1% YoY) and ¥15,794mn in operating profit (up 3.7%). These results exceeded forecasts (¥207,000mn in net sales, ¥15,240mn in operating profit) as well. Main sales drivers were higher sales from increase in the number of continuing customers, upturn in the sales price of LP gas linked to the procurement cost, expansion of the information and communications business for corporate customers, and M&A effects in the construction equipment and real estate business. In operating profit, meanwhile, despite upturn in the acquisition cost of continuing customers, the Company more than offset the impact with higher CATV business profit led by increase in the number of customers and rise in profits from information and communications business for corporate customers and construction equipment and real estate business and other factors. The number of customers increased by 95,000 customers YoY to 3,194,000 customers at end-FY3/22. The application of the Accounting Standard for Revenue Recognition from FY3/22 did not affect operating profit because the ¥3.6bn decrease in sales was offset by roughly equal reduction of SG&A expenses.

2. Outlook for FY3/23

The outlook for the Company's FY3/23 consolidated results targets ¥223,000mn in net sales (up 5.8% YoY) and ¥14,500mn in operating profit (down 8.2%). While it expects sales to continue rising on accumulation of a continuing increase in the number of customers, increase in the sales price of LP gas, and further expansion of the construction equipment and real estate business, the outlook anticipates a switch to profit decline as profit gains in other businesses are not enough to fully offset the impact of upturn in the LP gas procurement cost (¥5.1bn). The Company assumes an addition of 102,000 continuing customers YoY to 3,295,000 customers.

3. Progress of medium-term management plan, Innovation Plan 2024: "Design the Future Life"

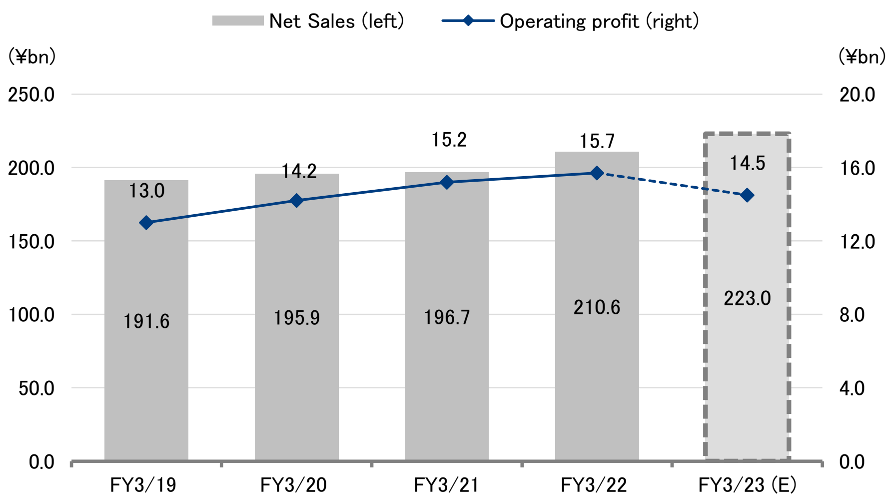
The Innovation Plan 2024 "Design the Future Life" medium-term management plan announced in May 2021 positions the four years until FY3/25 as a "stage for building the base for realizing Life Design" and presented numerical management goals for FY3/25 of ¥245bn in net sales, ¥18.6bn in operating profit, and 3.56mn continuing customers. This outlook projects healthy growth with four-year average growth rates of 5.6% in net sales and 5.2% in operating profit. The Company aims to actively implement upfront investments in the first two years of the plan period and accelerate earnings growth in the latter two years. It intends to steadily accumulate continuing customers, including through M&A, in order to reach the goal of 3.56mn customers. As priority measures, the Company calls for 1) promotion of the LNG strategy*, 2) evolution of Tokyo Life Concierge (TLC), 3) ramp up of the DX strategy, 4) optimal allocation of management resources, and 5) reinforcement of five SDGs initiatives. It wants to realize sustainable growth by promoting these measures. In FY3/23, the second year of the plan, despite the impact of energy price upturn on earnings, this environment might offer opportunities in recruitment of LP gas customers, including M&A. Additionally, the Company is steadily advancing with income expansion in information and communications business for corporate customers, CATV, and construction equipment and real estate businesses. It also intends to raise added value services and improve business efficiency through promotion of DX strategy and to pursue new business creation. These developments should be closely monitored.

* LNG stands for Local (expand market share in existing areas), National (expand to new areas in Japan), and Global (expand overseas).

Key Points

- Achieved higher sales and earnings exceeding the Company's forecasts in FY3/22, hitting a record high for the fourth consecutive period
- Expects profit decline on higher sales in FY3/23 due to upturn in energy business procurement costs, though healthy expansion of other businesses
- Upbeat start to the Innovation Plan 2024 "Design the Future Life" medium-term management plan lasting through FY3/25, targets accelerated earnings growth from FY3/24
- Policy is to pay a dividend targeting a dividend payout ratio of 40% to 50% and also to flexibly acquire treasury shares

Results trends



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

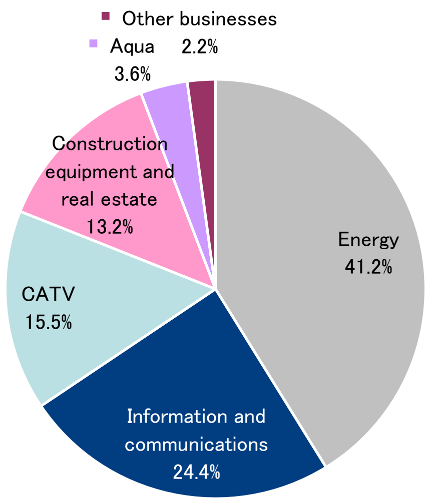
Business overview

Provides various lifestyle-infrastructure services, including LP gas, Information and communications, and CATV services, toward realizing its management vision of the Total Life Concierge concept

Based in Shizuoka Prefecture, Japan, the Company is expanding its two main businesses, "energy and lifestyle-related business," primarily the provision of liquefied petroleum (LP) gas, and "information and communications business," and it is aiming to achieve its management vision of being a "Total Life Concierge" (TLC). It provides a complete range of services for everyday life under a one contract, one stop, and one call-center model and while deepening its connections with its customers, their local communities, society, and the global environment, it is striving to enrich people's lives and to contribute to the development of local communities and to the conservation of the global environment, and also to a grow as a comprehensive provider of life services that represents Japan.

Currently, the Company disclosures results for six business segments: the energy business, the information and communications business, the CATV business, the construction equipment and real estate business, the Aqua business, and other businesses. Looking at the sales structure by segment for FY3/22 results, the Company's original business, the energy business accounted for 41.2% of sales, the information and communications business for 24.4%, and the CATV business for 15.5%. These three mainstay businesses accounted for over 80% of sales.

Ratio of net sales by business segment (FY3/22)



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

1. Energy business

In this business, about 85% of net sales are provided by the LP gas business and about 15% by the city gas business. The mainstay LP gas business is developed by TOKAI Corporation, primarily for homes and businesses. The service areas are mainly in the Shizuoka and Kanto regions, but since 2015 it has also gradually expanded into other areas including the south Tohoku, Chubu/Tokai, Chugoku, and Kyushu areas. As of the end of March 2022, it had 715,000 contracts, and in direct sales, it ranked third after Iwatani Corporation <8088> and Nippon Gas <8174>. In terms of market share, it is the leader in Shizuoka, its home territory, with around 20%, while it has a share of just under 10% in the highly competitive Kanto region, putting it in second place. As there are approximately 20 million households nationwide that use LP gas, its nationwide market share is still at the level of just over 3%, and going forward there remains room for it to grow its share, including by expanding sales areas and conducting M&A. There are many LP gas companies in Japan, approximately 17,000 companies, including medium, small, and micro companies, but this has been on a slowly downward trend in recent years. The Company appears to have a lot of room to expand its market share in the future, as major capital is likely to consolidate its operations.

In the city gas business, TOKAI GAS CORPORATION supplies city gas in Yaizu City, Fujieda City, and Shimada City in Shizuoka Prefecture. In addition, it acquired the city gas businesses operated by the respective local governments of Shimonita Town, Gunma Prefecture, in April 2019, and of Nikaho City, Akita Prefecture, in April 2020, and it has started supplying city gas in these areas. The number of contracts was 70,000 at the end of March 2022. There are 193 operators (175 private, 18 public) nationwide in the city gas operator market, but with the exception of the four largest companies, most are small- to medium-sized operators with limited service areas. Following the liberalization of the retail city gas market in April 2017, the Company has been implementing a strategy of expanding business areas by bringing operators in various regions into the Group through M&A.

2. Information and communications business

The information and communications business, which is conducted by TOKAI Communications Corporation, is comprised of the consumer ISP (Internet service provider) business and mobile business (sales agents of mobile phones), and a business to provide communication lines, data center services, cloud system development support and consigned systems development for corporations. Looking at the percentages of total net sales for FY3/22 results, the percentage of corporate business is trending upward, with an approximately 47% contribution from consumer business and approximately 53% from corporate business (corporate business contributed approximately 35% in FY3/17), the first time the corporate business exceeded the consumer business. In addition, corporate customers now account for approximately 83% of EBITDA (operating profit + depreciation and amortization + goodwill amortization).

The ISP business provides the “@ T COM” service for the nationwide service area and the TOKAI Network Club (TNC) service for the Shizuoka Prefecture service area, and it has the leading share within Shizuoka Prefecture of approximately 20%. In addition, from February 2015 it launched the Hikari Collaboration service (@TCOM Hikari and TNC Hikari services), in which it receives wholesale provision of optical lines from NTT <9432> and provides its own optical (hikari) Internet connection service, as well as currently offering plans that include services from major mobile carriers. Also, in 2017 it also started sales of LIBMO, which is an inexpensive SIM / smartphone that uses MVNO*, and as of the end of March 2022, the Company had 415,000 customers that include using its existing ISP service, 346,000 customers using its Hikari Collaboration service, and 55,000 customers using its LIBMO service.

* MVNO (Mobile Virtual Network Operator): Operators who provide services by borrowing other companies’ wireless communication infrastructure, such as for mobile phones.

The mobile business operates 15 mobile phone stores, mainly within Shizuoka Prefecture, as a sales agency of Softbank Corp. <9434>, and as of the end of March 2022, it had 191,000 customers, continuing the downward trend from the peak of 236,000 customers in FY3/16. It also operates 7 iCracked Store stores, which provide iPhone repair services, in Shizuoka Prefecture.

3. CATV business

In the CATV business, the Company has gradually expanded the service area through its M&A strategy. It provides services in Tokyo and six prefectures: Shizuoka, Kanagawa, Chiba, Nagano, Okayama and Miyagi. Currently, the CATV business is undertaken by nine Group companies. As of the end of March 2022, the number of customers stood at 887,000 for broadcasting services and 344,000 for communications services, bringing the total to 1,231,000 customers, continuing a mild increasing trend. In the CATV industry, the J:COM (Jupiter Telecommunications Co., Ltd.) Group holds a market share of just over 50% based on the number of subscribing households. The second-largest CATV company and smaller players have market shares in the single digits and are locked in a tight race for market share. The Company has around 3% of shares, and its strategy is to continue increasing its market share through proactive M&As going forward.

4. Construction equipment and real estate business

In the construction equipment and real estate business, TOKAI designs and constructs detached houses, collective housing, stores, and office buildings, provides building management services, sells housing equipment and appliances, and develops, buys and sells real estate, while TOKAI and TOKAI GAS are engaged in the renovation business. The Company is also proactively promoting M&A. Starting with making Nissan Tri Star Construction, Inc., a general construction company located in Gifu Prefecture, a subsidiary in September 2019, the Company moved on to make additional moves, including making Chuo Denki Construction Co., Ltd., which is engaged in the electrical equipment construction business in Aichi Prefecture, a subsidiary in August 2020, making Inoue Technica Co., Ltd., which operates a building maintenance business in Shizuoka Prefecture, a subsidiary in November 2020, and making Marco Polo inc., which engages in the large-scale repair and renovation business for buildings in the Tokai area, a subsidiary in April 2021. As a general construction company in the Tokai area, the Company is aiming for further growth while leveraging group synergies.

5. Aqua business

In the Aqua business (bottled water home delivery business), TOKAI launched the Delicious Water Home Delivery returnable (using returnable bottles) service in 2007 in Shizuoka Prefecture, and since 2011, it has been providing its brand name water product Ulunom as a one-way (using disposable bottles) service in areas other than Shizuoka Prefecture. It has two bottle manufacturing plants within Shizuoka Prefecture for Mt. Fuji natural water, and at the end of March 2022, it had 165,000 customers, continuing a gradual increasing trend. At the end of 2021, the number of customers in the industry as a whole was 4.65 million, so the Company's share is around the 4% level (approximately 50% share in Shizuoka Prefecture).

6. Other businesses

Other businesses include a nursing care business operated by TOKAI LIFE PLUS CORPORATION, a wedding ceremony business by TOKAI City Service Corporation, and a shipbuilding and repairs business by Tokaizosen-unyu Corporation. The Company launched the nursing care business in 2011, and as of March 2022, it operated six day-service facilities, a short-stay facility, and a paid-for nursing home in Shizuoka Prefecture. In addition, it has opened two care plan centers. For its wedding ceremony business, it operates one facility in Shizuoka Prefecture.

Result trends

Achieved higher sales and earnings exceeding forecasts in FY3/22, hitting a record high for the fourth consecutive period

1. Review of FY3/22 results

The Company reported FY3/22 consolidated results hitting a record high for the fourth consecutive period at ¥210,691mn in net sales (up 7.1% YoY), ¥15,794mn in operating profit (up 3.7%), ¥15,907mn in recurring profit (up 3.9%), and ¥8,969mn in net income attributable to owners of the parent (up 1.7%), with sales and profit increases exceeding the Company's forecast. The change in accounting standards from FY3/22 had a negative impact on net sales of ¥3.6bn though impact on operating profit was minor because of roughly equal reduction of SG&A expenses.

FY3/22 consolidated results

(¥mn)

	FY3/21		FY3/22				
	Results	% of sales	Forecast	Results	% of sales	YoY	vs. forecast
Net sales	196,726	-	207,000	210,691	-	7.1%	1.8%
Cost of sales	113,856	57.9%	-	125,479	59.6%	10.2%	-
SG&A expenses	67,643	34.4%	-	69,418	32.9%	2.6%	-
Operating profit	15,226	7.7%	15,240	15,794	7.5%	3.7%	3.6%
Recurring profit	15,312	7.8%	15,320	15,907	7.5%	3.9%	3.8%
Net income attributable to owners of the parent	8,815	4.5%	8,830	8,969	4.3%	1.7%	1.6%

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

Main sales drivers were higher monthly-billing revenue from increase in the number of continuing customers, upturn in sales prices linked to procurement costs in the energy business, expansion of the information and communications business for corporate customers, and M&A effect in construction equipment and real estate business. The number of continuing customers increased by 95,000 customers YoY to 3,194,000 customers as of the end of FY3/22, roughly on track with the plan. The Company steadily added customers primarily in LP gas and CATV businesses. The number of members in TLC member services* expanded at a healthy pace with a rise of 107,000 members to 1,086,000 members.

* The TLC Membership Service is a service that users of the TOKAI Group's services can join. TLC members are awarded points according to the amount they use and can receive special perks limited to members.

Number of customers by key service

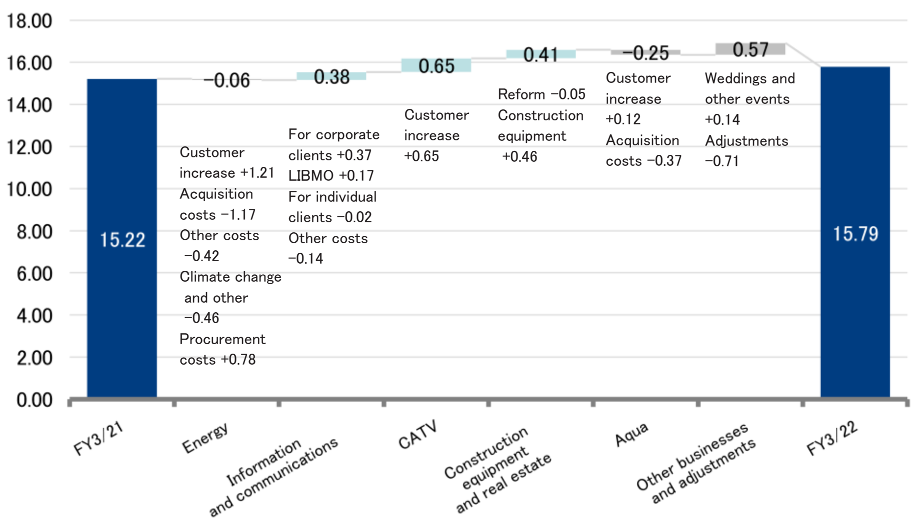
(thousand)

	FY3/19	FY3/20	FY3/21	FY3/22	YoY change
Energy	684	713	744	785	41
LP gas	628	652	681	715	34
City gas	56	61	63	70	7
Information and communications	787	761	785	816	31
Existing ISP and related services	419	389	395	415	20
Hikari Collaboration	327	324	337	346	9
LIBMO	41	48	53	55	2
CATV	1,063	1,154	1,198	1,231	33
Broadcast service	789	862	875	887	12
Communications service	274	292	322	344	22
Aqua	156	161	162	165	3
Mobile	217	212	206	191	-15
Security	17	16	16	16	0
Total	2,902	3,003	3,099	3,194	95
(no. of TLC members)	805	896	979	1,086	107

Note: The number of customers under a thousand are rounded to the nearest thousand. Information and Communications and CATV both offer communications services, and so their numbers are excluded from total figures. Information and communications services (existing ISP and related services) include contracts for ISP add-on services of PC home support service from FY3/21 and PC remote service support from FY3/22.
Source: Prepared by FISCO from "Financial Results for the Fiscal Year Ended March 31, 2022"

From a profit aspect, meanwhile, despite increase in the acquisition cost of continuing customers by just over ¥1.5bn mainly in energy business and aqua business and recognition of just under ¥400mn in costs to establish an environment for work style reform, the Company more than offset these impacts and delivered an earnings gain thanks to higher CATV business profit led by increase in the number of customers and rise in profits from information and communications business for corporate customers and construction equipment and real estate business.

Operating profit factor analysis



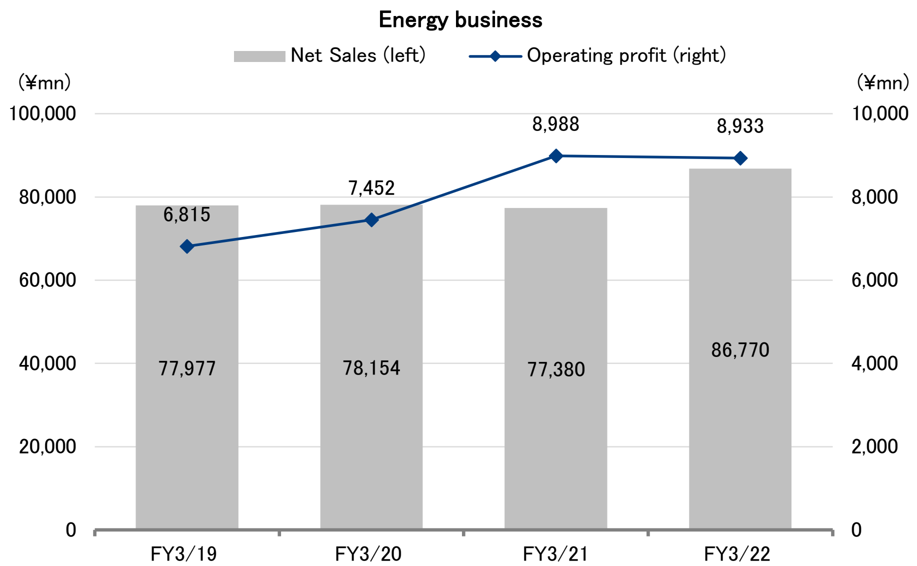
Note: Value changes in operating profit are prior to allocating indirect costs and other costs
Source: Prepared by FISCO from "Financial Results for the Fiscal Year Ended March 31, 2022"

Sales and profits increased in the information and communications business for corporate customers, the CATV business, and Construction equipment and real estate business

2. Trends by business segment

(1) Energy business

In the energy business, net sales increased 12.1% YoY to ¥86,770mn and operating profit (operating profit is prior to the allocation of indirect costs and other costs, which is a different calculation method than that used in the financial results, and applies to values below as well) decreased 0.6% to ¥8,933mn. The impact of the change in the accounting policies on net sales was more than minus ¥2,200mn, and on an actual basis net sales increased by 15%. Factors increasing operating profit were the increase in customers (¥1,210mn) and an improvement in procurement costs (including the amount of sales prices passed along) (¥780mn), while factors decreasing operating profit included higher customer acquisition costs (¥1,170mn), climate change and other (decline in consumption volume per household) (¥460mn), as well as an increase in personnel costs and other costs (¥420mn).



* "Gas and petroleum business" prior to FY3/20
Note: profits are prior to allocating indirect costs and other costs
Source: Prepared by FISCO from "Financial Results for the Fiscal Year Ended March 31, 2022"

LP gas business booked ¥73,769mn in net sales (up 12.4% YoY) and an increase in the number of customers of 34,000 customers YoY to 715,000 customers. Sales improved on increase in sales volume and upturn in the sales price linked to the procurement cost. Sales volume climbed 9.2% YoY with a breakdown of up 2.3% in household business and up 21.6% in industrial business. Regarding sales prices, while the household price fell 1.2% YoY, including the impact of continued strategic pricing, industrial and wholesale prices linked to the procurement cost rose by about 50% respectively and contributed the bulk of the sales increase. By number of customers, the household business added 20,000 customers in existing areas and 14,000 customers in new areas. The Company is making steady progress in development of new areas. In FY3/22, it opened new sales sites that support rise in the number of customers in Kumamoto City (Kumamoto Prefecture) in October 2021 and Fukuyama City (Hiroshima Prefecture) in January 2022. It also acquired 19,000 customers via M&A, a healthy boost though less than in the initial forecasts.

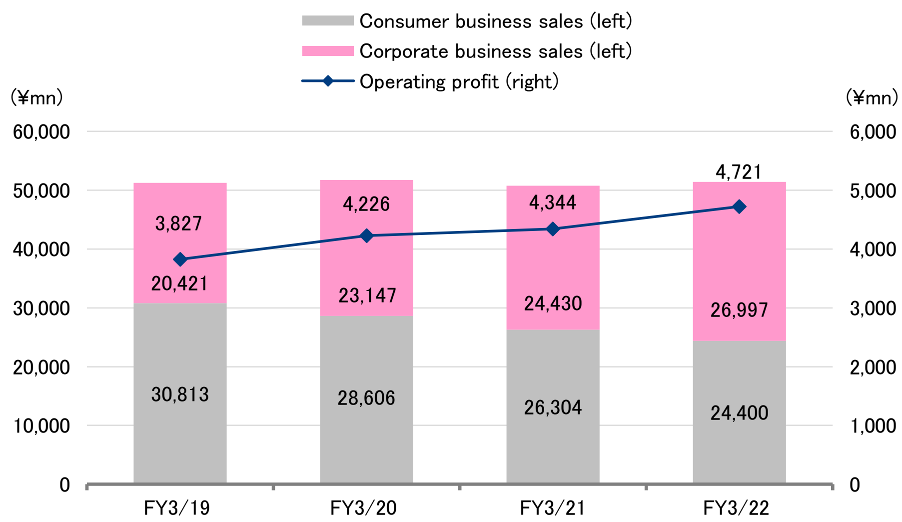
In the city gas business, net sales increased 10.7% YoY to ¥13,000mn, and the number of customers increased by 7,000 versus the end of the previous fiscal period to 70,000 customers. The main factors for the increase in sales were the increases in the sales volume of gas for industrial use and in sales unit prices due to the system to adjust the prices of raw materials. The majority of the increase in the number of customers was due to the increase in the number of contracts* in the Tokai area of T&T Energy Co., Ltd., which is an equity-method affiliate (only book sales commissions as revenue).

* T&T Energy was established in October 2019 as a joint venture with TEPCO Energy Partner, Inc. (the Company owns a 50% stake), and engages in retail sales of city gas in the three Tokai prefectures of Aichi, Gifu, and Mie.

(2) Information and communications business

Information and communications business recorded ¥51,398mn in net sales (up 1.3% YoY) and ¥4,721mn in operating profit (up 8.7%), delivering higher sales and profits for a second consecutive period. In the sales breakdown, while consumer business sales continued to weaken with a 7.2% decline to ¥24,400mn, corporate business sales were upbeat with a 10.5% increase to ¥26,997mn. Operating profit strengthened on gains of ¥370mn in corporate business from sales improvement and ¥20mn in consumer business. In ISP business, profit dropped amid lower sales but this was offset by an improvement in LIBMO earnings.

Information and communications business



* "Information and communications services business" prior to FY3/20.
Note: profits are prior to allocating indirect costs and other costs
Source: Prepared by FISCO from Company's financial results and "Financial Results for the Fiscal Year Ended March 31, 2022"

Looking at the number of customers in the consumer business, exiting ISP service had a gain of 20,000 customers YoY to 415,000 customers, though mainly due to the addition of contracts for PC remote support service, an added service, while the exiting number of customers in ISP continues to weaken*. Hikari Collaboration service, meanwhile, posted an increase of 9,000 customers to 346,000 customers thanks to the success of enhancing the menu through collaboration with major mobile carriers. However, the rise in the number of customers in alliance with mobile carriers reduced ARPU (average revenue per customer) and was a sales decline factor. LIBMO expanded to 55,000 customers with an addition of 2,000 customers due to implementing fee plan revisions and other adjustments.

* PC remote support service reached 36,000 contracts, and the number was down by 16,000 customers excluding this amount.

Orders received for Amazon Web Service (AWS) construction projects and cloud services were solid, while there was also an increase in contracted system development projects. At the end of April 2021, TOKAI Communications Corporation acquired all of the shares of system development company QUERY Co., Ltd., making it a subsidiary. This acquisition contributed to higher income *. QUERY enjoys a strong reputation for its mobile app development capabilities and has many large companies as customers. By integrating both companies' technological strengths, the Company expects to provide customers even more added value and expand the scope of customers

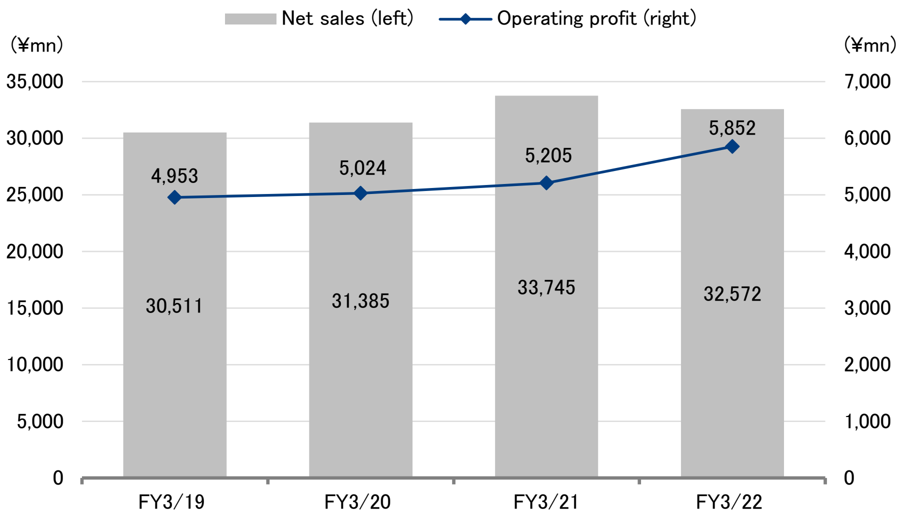
* QUERY posted net sales of ¥355mn and operating profit of ¥39mn in FY12/20 and had 36 employees (as of November 2021).

(3) CATV business

In the CATV business, net sales declined 3.5% YoY to ¥32,572mn, while operating profit increased 12.4% to ¥5,852mn. The change to the new accounting policies (e.g., exclusion of the major mobile carriers' communication service fees that are sold as a set from net sales) had a negative ¥2.2bn impact on net sales, but on an actual basis, net sales increased approximately 3%, continuing an expanding trend. Operating profit reached another all-time high consecutively on increase in monthly-billing revenue driven by customer gains and decline in goodwill amortization by ¥247mn YoY.

The number of customers had increased by 12,000 compared to the end of the previous fiscal period to 887,000 customers for broadcast services, and increased by 22,000 customers to 344,000 customers for communications services. The increase in the number of customers and the rise in ARPU is seen as being due to the Company focusing on community-based program production as well as collaboration with major video distribution companies to enhance broadcast content, along with expanding the areas to which it provides high-speed optical communications services. Regarding the number of contracts for communications services, there are increases, including SENDAI CATV CO., LTD. (Miyagi Prefecture) and TV Tsuyama Inc. (Okayama Prefecture), which are moving ahead on investment into optical conversion.

CATV business



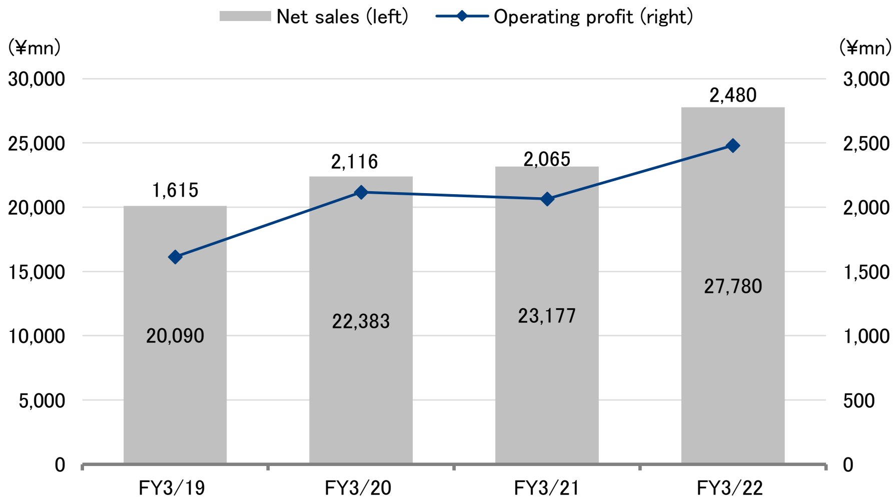
Note: profits are prior to allocating indirect costs and other costs
Source: Prepared by FISCO from "Financial Results for the Fiscal Year Ended March 31, 2022"

(4) Construction equipment and real estate business

In the construction equipment and real estate business, net sales increased 19.9% YoY to ¥27,780mn, and operating profit increased 20.1% to ¥2,480mn. Despite a slump in renovation business, income growth at subsidiaries added to the TOKAI Group since 2019* and other M&A effect provided a large contribution. Specifically, Nissan Tri Star Construction Inc., which handles civil engineering and other work, delivered increases of ¥1bn YoY in net sales and ¥200mn in operating profit, Marco Polo Inc., which was acquired as a subsidiary in April 2021, added its results (roughly ¥2.1bn in net sales and ¥300mn in operating profit). Goodwill amortization rose ¥159mn YoY, including two companies acquired as subsidiaries in 2020 (Chuo Denki Construction Co., Ltd. and Inoue Technica Co., Ltd.). EBITDA (operating profit before amortization) increased 20.9% YoY to ¥3,501mn.

* Chuo Denki Construction Co., Ltd. (a subsidiary since August 2020) engages in the electrical construction business in Aichi Prefecture with just under 30 employees. Inoue Technica Co., Ltd. (a subsidiary since November 2020) provides building maintenance services in the eastern part of Shizuoka Prefecture, and has annual sales of approximately ¥500mn. Marco Polo inc. (a subsidiary since April 2021) engages in large-scale repair work of condominiums and public facilities in Aichi Prefecture.

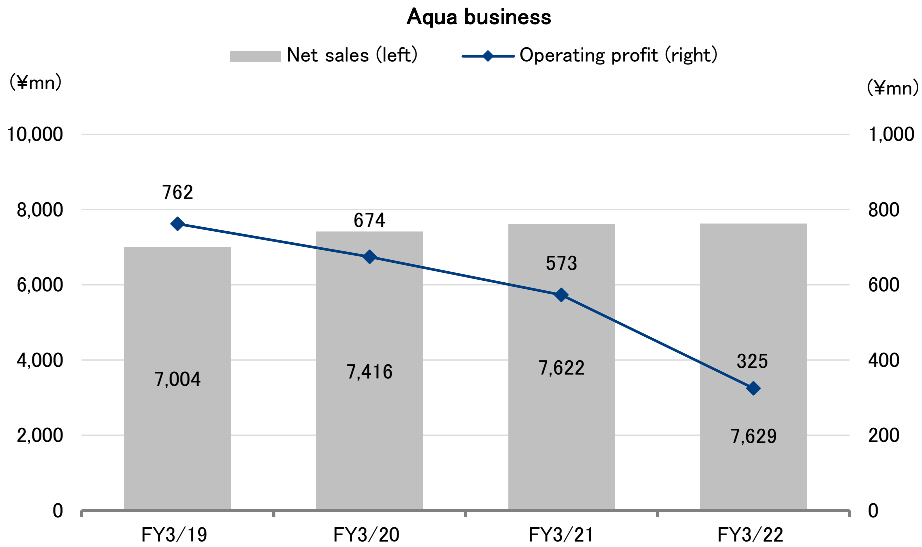
Construction equipment and real estate business



Note 1: "Building and real estate business" prior to FY3/20
Note 2: profits are prior to allocating indirect costs and other costs
Source: Prepared by FISCO from "Financial Results for the Fiscal Year Ended March 31, 2022"

(5) Aqua business

In the Aqua business, net sales increased 0.1% YoY to ¥7,629mn, but operating profit decreased 43.3% to ¥325mn. While the number of customers rose by 3,000 customers YoY to 165,000 customers, consumption volume per household weakened on backlash against stay-at-home consumption and sales were flat. In profits, despite a ¥120mn addition from increase in the number of customers, this was not enough to counter the ¥370mn rise in customer acquisition costs.



Note: profits are prior to allocating indirect costs and other cost
Source: Prepared by FISCO from "Financial Results for the Fiscal Year Ended March 31, 2022"

(6) Other businesses and adjustments

In other businesses, net sales increased 11.7% YoY to ¥4,540mn. By business, the nursing care business saw net sales increase 2.9% to ¥1,353mn due to the increase in the number of users, while net sales in the shipbuilding business increased 11.1% to ¥1,673mn due to the increase in the number of ships repaired. In the wedding and events business, there were slight recoveries in both wedding ceremonies and conferences, and net sales increased 54.9% to ¥646mn, all increases. The segment's operating loss, including internal adjustments, increased ¥569mn YoY to ¥6,518mn. This increase was mainly due to the posting of ¥400mn in costs to establish an environment for work style reform (office renovation costs, IT equipment deployment costs, etc.)

Sustained an equity ratio in the 40% range and plans to allocate cash acquired in sales activities to growth investments, including M&A, and shareholder return

3. Financial position

Looking at financial position at the end of FY3/22, total assets were up ¥5,499mn on the end of the previous fiscal period to ¥184,473mn. The main change factors were declines in cash and deposits by ¥834mn and "other" current assets by ¥1,787mn due to reduction, etc. in derivative valuation versus increases of ¥2,243mn in accounts receivable–trade, ¥4,216mn in property, plant and equipment, ¥811mn in investments and other assets, and ¥306mn in intangible assets.

Total liabilities came to ¥105,527mn, an increase of ¥2,609mn YoY. While "other" current liabilities declined by ¥3,027mn on reduction in guarantee deposits received for hedge transactions, the Company posted increases of ¥2,019mn in interest-bearing debt, ¥1,540mn in "lease obligations" under non-current liabilities, and ¥1,441mn in notes and accounts payable – trade. Total net assets were ¥78,946mn, an increase of ¥2,890mn from the end of the previous fiscal year. This resulted mainly from posting of ¥8,969mn as net income attributable to owners of parent despite ¥4,072mn paid for dividends of surplus and a decrease in deferred gains or losses on hedges by ¥1,918mn.

The Company's equity ratio, which is an indicator of financial soundness, increased by 0.3ppt YoY to 41.9% with the rise in net assets. While reliance on interest-bearing debt climbed modestly from 23.5% to 23.9%, the interest-bearing debt/EBITDA ratio stayed at about the same as the previous fiscal year at 1.39 times. This level is not a concern. Regarding the cash flow situation, despite decline in cash flow from operating activities versus FY3/21 to ¥20,808mn because of increases in accounts receivable–trade and corporate tax and other payments, free cash flow obtained by deducting cash flow from investing activities was ¥6,216mn, holding at a stable surplus. The Company is almost entirely utilizing free cash flow on dividend payments and repayment of interest-bearing debt. Its success in building a stable income foundation that generates a steady FCF surplus annually stands out at a time when a growing number of companies confront weaker financial positions due to the COVID-19 pandemic. The Company intends to continue allocating cash acquired from operating activities on growth investments, including M&A, and shareholder return.

Consolidated balance sheets

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22	YoY
Total assets	167,606	169,972	178,974	184,473	5,499
(Cash and deposits)	4,164	4,629	5,577	4,743	-834
Total liabilities	103,711	103,989	102,917	105,527	2,610
(Interest-bearing debt)	50,604	48,272	42,128	44,147	2,019
Net assets	63,894	65,982	76,056	78,946	2,890
Equity ratio	37.4%	38.0%	41.6%	41.9%	0.3pt
Degree of reliance on interest-bearing debt	30.2%	28.4%	23.5%	23.9%	0.4pt
Interest-bearing debt/EBITDA ratio	179.8%	162.8%	135.8%	139.2%	0.03times

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

Cash flow conditions

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22
Cash flows from operating activities	21,605	22,535	32,223	20,808
Cash flows from investing activities	-12,443	-12,131	-17,068	-14,592
Free cash flow	9,162	10,404	15,155	6,216
Cash flow from financing activities	-8,147	-10,375	-14,064	-6,905

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

Outlook

Expects profit decline on higher sales in FY3/23 due to upturn in energy business procurement costs, though healthy expansion of other businesses

1. Outlook for FY3/23 consolidated performance

The Company's outlook for FY3/23 consolidated results is net sales to increase 5.8% YoY to ¥223,000mn, operating profit to decrease 8.2% to ¥14,500mn, recurring profit to decrease 10.1% to ¥14,300mn, and net income attributable to owners of the parent to decrease 7.5% to ¥8,300mn. Sales are expected to increase due to the rise in the number of continuing customers, expansion of information and communications business for corporate customers and construction equipment and real estate businesses, and increase in energy sales prices. In profits, meanwhile, despite projecting higher profits in all businesses besides energy, the outlook anticipates substantial pressure from profit decline in energy business affected by higher procurement costs. The Company assumes an addition of 102,000 continuing customers YoY to 3,295,000 customers.

Outlook for FY3/23

(¥mn)

	FY3/22		FY3/23		
	Results	% of sales	Forecasts	% of sales	YoY
Net sales	210,691	-	223,000	-	5.8%
Operating profit	15,794	7.5%	14,500	6.5%	-8.2%
Recurring profit	15,907	7.5%	14,300	6.4%	-10.1%
Net income attributable to owners of the parent	8,969	4.3%	8,300	3.7%	-7.5%
Net income per share (¥)	68.49		63.43		
Number of continuing customers (thousands)	3,194		3,295		3.2%

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

Results by business segment

(¥mn)

< Net sales >	FY3/20	FY3/21	FY3/22	FY3/23 (E)	YoY
Energy	78,154	77,380	86,770	91,300	5.2%
Information and communications	51,753	50,735	51,398	53,200	3.5%
CATV	31,385	33,745	32,572	34,400	5.6%
Construction equipment and real estate	22,383	23,177	27,780	31,500	13.4%
Aqua	7,416	7,622	7,629	7,700	0.9%
Other	4,858	4,065	4,540	4,900	7.9%
Total	195,952	196,726	210,691	223,000	5.8%

< Operating profit >	FY3/20	FY3/21	FY3/22	FY3/23 (E)	YoY
Energy	7,452	8,988	8,933	6,520	-27.0%
Information and communications	4,226	4,344	4,721	5,100	8.0%
CATV	5,024	5,205	5,852	6,040	3.2%
Construction equipment and real estate	2,116	2,065	2,480	2,560	3.2%
Aqua	674	573	325	595	83.1%
Other businesses and adjustments	-5,271	-5,949	-6,518	-6,315	-
Total	14,224	15,226	15,794	14,500	-8.2%

Note: Values are prior to allocating indirect costs and other costs
Source: Prepared by FISCO from the Company's results briefing materials and interview with the Company

(1) Energy business

In energy business, the Company projects profit decline on higher sales with a 5.2% YoY increase in net sales and 27.0% setback in operating profit. The outlook assumes customer additions YoY of 42,000 customers to 757,000 customers in LP gas business and 9,000 customers to 79,000 customers in city gas business (provided by T&T Energy). This puts the net rise in LP gas business at an even higher level than FY3/22's 34,000 customers and reflects the Company's intention to accelerate initiatives in FY3/23 after missing the customer acquisition target in FY3/22 due to COVID-19 pandemic-related delays in M&A and alliance negotiations.

Anticipated factors causing a decrease in operating profit are setbacks of ¥5.1bn from upturn in procurement costs, ¥900mn from personnel cost and spending increases, and ¥500mn from decline in consumption volume per household (assuming a 0.2-degree YoY rise in the average annual temperature) versus factors causing an increase in operating profit including boosts of ¥2bn from sales price hikes, ¥800mn from increase in the number of customers, and ¥900mn from decline in customer acquisition and maintenance costs. While impact by procurement cost upturn might seem large, this stems from hedging the residential-use LP gas procurement cost at a level below the actual price in FY3/22. There is a possibility of procurement costs rising even more if the price remains high because the procurement cost assumption is lower than the current price*. Nevertheless, the Company intends to transfer this portion to the sales price.

* The propane FOB price (sales price from Saudi Arabia to importers) was $940/ton in April 2022.

Additionally, the sales price hike effect seems low at ¥2bn, though this is partly due to setting prices strategically to acquire customers in new areas. Projected decline in customer acquisition and maintenance costs, meanwhile, factors in the policy of acquiring customers via M&A and alliances. The Company also plans to open one site in the western portion of Aichi Prefecture as a new sales site in FY3/23.

(2) Information and communications business

In information and communications business, the Company targets increases YoY of 3.5% in net sales and 8.0% in operating profit. For the consumer business, it projects slight YoY decline in sales and a modest YoY rise in operating profit. This outlook's assumptions about the number of customers are a flat level YoY at 760,000 customers in total volume of exiting ISP and Hikari Collaboration services and net increase of 14,000 customers to 69,000 customers in LIBMO. Regarding LIBMO, the Company rolled out a rate plan aimed at enhancing price competitions in February 2022, and the effect already showed up with the acquisition of 2,000 new customers in March. The FY3/23 goal for new customer M&A is 26,000 customers.

For corporate business, meanwhile, the Company expects sales and profit gains in the upper single-digit range (YoY). It intends to address vibrant demand for cloud services and pursue cloud integration business for local operations of Japanese companies in China launched in FY3/22. In contracted system development projects, the Company expects healthy growth considering its extensive orders backlog.

(3) CATV business

In CATV business, the Company forecasts upbeat growth (YoY) with gains of 5.6% in net sales and 3.2% in operating profit. It hopes to steadily increase the number of customers through ongoing optical conversion of the network and content enhancement. This outlook assumes an increase of 42,000 customers YoY to 1,273,000 customers on a combined basis for broadcast and communications services.

(4) Construction equipment and real estate business, aqua business, other

In construction equipment and real estate business, the Company projects higher sales and profits (YoY) with gains of 13.4% in net sales and 3.2% in operating profit. In net sales, it targets double-digit growth by enhancing synergies through customer information sharing and mutual introduction of customers among companies acquired as subsidiaries through M&A. In profits, it expects modestly slower growth partly as backlash from Nissan Tri Star Construction's strong profits in FY3/22.

In aqua business, the Company forecasts increases (YoY) of 0.9% in net sales and 83.1% in operating profit, restoring profit improvement for the first time in four years. This outlook only factors in a slight rise in the number of customers YoY of 1,500 customers to 167,000 customers. Through use of telemarketing, Internet promotions, and other non-face-to-face sales, in addition to face-to-face sales at retail facilities, the Company aims to lower customer acquisition costs (per customer) and improve profitability.

In other business, the Company expects continuation of a sales increase trend at a 7.9% YoY gain. While care service and shipbuilding businesses are likely to be flat, it forecasts a rise in wedding and events business sales.

Upbeat start to the medium-term management plan lasting through FY3/25, targets accelerated earnings growth from FY3/24

2. Progress of medium-term management plan, Innovation Plan 2024: "Design the Future Life"

(1) Management vision and numerical management targets

In the Innovation Plan 2024: "Design the Future Life," a four-year medium-term management plan that started in FY3/22, the Company's aim has been positioned to become a "Life Design Group" (LDG) 10 years from now. Aiming to be a "Company that contributes to solving social issues by designing and suggesting lifestyles desired by customers," the Company will take this approach and continue to work to further enhance its Total Life Concierge (TLC) management vision. This medium-term management plan is positioned as the period to build the management base toward realizing its vision of becoming a "LDG."

As initiatives toward achieving LDG, the Company has launched multiple projects, albeit on a small scale, with leisure, healthcare, and living support themes centered on Shizuoka Prefecture, its home area. In healthcare, it plans to begin fitness club operations at TV Tsuyama. In living support, it began food home delivery service and intends to open a coin laundry at the TOKAI Gas showroom. With the intent of making social contributions, such as building life infrastructure and fostering regional co-existence, in business activities, the Company plans to continue reviewing new projects from living support, disaster prevention, and tourism perspectives and steadily developing services.

The medium-term plan sets numerical management goals for FY3/25 of ¥245bn in net sales, ¥18.6bn in operating profit, and ¥11bn in net profit attributable to owners of the parent. This outlook projects healthy growth with four-year average annual growth rates in the 5% range in sales and operating profit. The Company aims to actively implement upfront investments in the first two years of the plan period and accelerate earnings growth in the latter two years. It achieved an upbeat start in FY3/22, the first year, with results modestly above plan levels. In FY3/23, meanwhile, the Company projects weaker earnings due to pressure from energy price upturn. However, this is likely to be within the range of error.

Medium-term management plan's, Innovation Plan 2024 "Design the Future Life," numerical management targets (announced May 2021)

(¥bn)

	FY3/21	FY3/22		FY3/23		FY3/24	FY3/25	Average
	Results	Initial forecast	Results	Initial forecast	Revised plan	Initial forecast	Initial forecast	annual growth rate
Net sales	196.7	207.0	210.7	221.0	223.0	223.0	245.0	5.6%
Operating profit	15.2	15.2	158.0	15.0	14.5	16.5	18.6	5.2%
Net income attributable to owners of the parent	8.8	8.8	9.0	0.9	8.3	9.5	11.0	5.7%
Cash flow from operating activities*	22.4	21.8	20.8	2.3	21.2	24	2.6	3.8%
Number of continuing customers (ten thousands)	310	320	319	332	330	344	356	3.5%
Dividend payout ratio	44.6%		46.7%		50.5%	40% to 50%		
ROE	12.7%		11.8%		-	-	13% or above	
Equity ratio	41.6%		41.9%		-	-	Around 40%	

* Cash flow from operating activities = operating profit + depreciation – lease payments – tax payments
Note: Uses rounded values
Source: Prepared by FISCO from results briefing materials and Company's financial results

Regarding the number of continuing customers, which underpins the Group's foundation for earnings, despite modest shortfall in LP gas business, the Company intends to catch up from FY3/23 and is adhering to the policy of targeting 3.56mn customers groupwide at the end of FY3/25. FISCO also sees a possibility of upside depending on what happens in concluding future M&A. The Company expects the largest increase in the number of customers over the four years from the end of FY3/21 in energy business with an addition of 210,000 customers to 950,000 customers. It intends to expand market shares in existing areas and new areas while also pursuing M&A and alliances. CATV business is adding customers at a slightly faster pace than expected and may increase net sales above the forecast by the end-FY3/25 goal of 1.29mn customers at the current pace.

ISP business (including Hikari Collaboration), meanwhile, might fall slightly short of the end-FY3/25 goal of 810,000 customers due to continued fierce customer acquisition competition. Aqua business is also facing difficult competition to acquire customers and has stalled recently. This situation is making it tougher to attain 210,000 contracts at the end of FY3/25. The Company expects to increase the number of customers by focusing on the use of telemarketing, Internet promotions, and other non-face-to-face sales, in addition to existing face-to-face sales.

No. of continuing customers by business

(Unit: 10,000 customers)

	FY3/21	FY3/22	FY3/23 (E)	FY3/25 (E)	vs. FY3/21 Change
LP gas, City gas	74	79	84	95	21
ISP, etc. (including Hikari Collaboration)	73	76	76	81	7
LIBMO	5	6	7	9	4
CATV (broadcast, communications)	120	123	127	129	9
Aqua	16	17	17	21	5
Mobile	21	19	19	19	-2
Security	2	2	2	2	0
Total	310	319	330	356	46

Note: Uses rounded values
Source: Prepared by FISCO from an interview with the Company

(2) Key strategies

a) Implementation of the LNG strategy

The LNG strategy stands for Local (expand market share in existing areas), National (expand to new areas in Japan), and Global (expand overseas). It is aiming for growth by steadily expanding the business areas, and at the same time, increasing the number of customers from the viewpoint of "selection and concentration" that prioritizes profitability. In particular, the Company intends to build up the number of customers in its mainstay LP gas business while moving ahead on expanding into new areas.

Also, in the information and communications business for corporate customers, the Company will leverage its strength of being able to provide all processes for AWS, from deployment support to the provision of infrastructure services, in one stop, and will work to expand the cloud services-related business. It has launched cloud integration business in China too, an initiative that is likely to contribute to earnings on a medium-term basis. In the construction equipment and real estate business, through the M&A strategy the Company is solidifying its base as a general construction company (civil engineering work, electrical work, water supply and drainage work, air-conditioning work, large-scale repair work, etc.), and going forward the Company will aim to leverage Group synergies to expand its business scale, especially in Tokai area. During the initial fiscal year, while LP gas business missed in the number of customers, other areas generally advanced smoothly.

b) Evolution of TLC concept

The Company is promoting digital marketing in order to detect customers' latent needs and to design and propose new lifestyles. This involves analysis of customer attributes and other information collected from the TLC member app, member pages of various services, and LP gas smart meters, etc., using the D-sapiens data analysis platform and AI-based customer behavior forecasting. These results facilitate early detection of churn signs and action measures to address the situation and proposal of new services to ideal potential customers at the ideal timing. The Company is likely to realize a further rise in profitability once digital marketing measures utilizing AI are functioning. It wants to increase TLC member app registrations from 290,000 currently to 800,000 at the end of FY3/25.

c) Stepping up the DX strategy

In DX strategy, the Company intends to optimize the existing business model and realize improvements in business efficiency and create high added value in its services by fully utilizing the customer data from its roughly 3.20mn customers and ABCIR+S. It also wants to create new business while collaborating with start-up companies and others who have technologies and knowhow. As a specific example, it announced a plan to conduct real-world testing aimed at realization of new services and solutions in the healthcare field with Life Log Technology, Inc. in May 2022.

The initiative provides access to the Calomeal * health management app developed and operated by Life Log Technology via the Company's TLC member service. Based on usage data and other information, the Company intends to review new services that support member health management. It plans to continue pursuit of LDG while actively implementing this type of project.

* This is a health management app that records and visualizes nutritional value using AI image analysis and automated calculation from input of meal pictures. The app reached 1.4mn downloads as of April 2022 since its release in 2016.

d) Optimal allocation of management resources

In the medium-term management plan, over the next four years the Company expects to generate a total of ¥95.0bn in operating cash flow (management resources), and plans to allocate ¥65.0bn in growth investment in order to expand the business foundation as the optimal allocation. Through the optimal allocation of management resources, it is aiming to both grow the businesses in the future and improve shareholder value. Specifically, it targets at least 9.9% ROIC and at least 13% ROE in FY3/25 and shareholder return of dividends within a 40-50% dividend payout range and dynamic share buybacks.

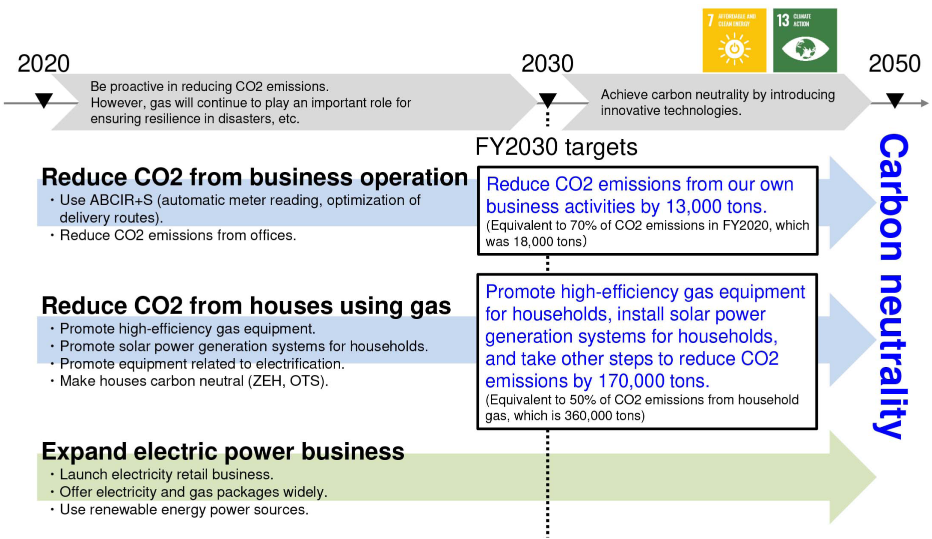
In FY3/22, the first year of the plan period, the Company booked ¥21.8bn in cash flow from operating activities and put ¥16bn into growth investments for the future, including investments in existing businesses and M&A funds, and ¥4.1bn into shareholder dividends. While the allocation ratio to growth investments is higher due to the upfront investment stance in the plan's first two years, the shareholder return ratio is likely to rise along with earnings growth in the latter half.

e) Strengthen SDGs initiatives

As an initiative related to SDGs, in May 2021 the Company released the TOKAI Group "Carbon Neutrality Vision." Under this vision, the Group aims to achieve carbon neutrality by 2050, and will preemptively enact initiatives to reduce CO_2 emissions by 2030. Specifically, in addition to reducing CO_2 emissions through by automatic meter reading of LP gas, delivery route optimization and other initiatives, the Group will contribute to the reduction of household CO_2 emissions by promoting the widespread use of high efficiency gas equipment and solar power systems in homes. In August 2021, in the city gas business the Company utilized the J-Credit Scheme* to offset CO_2 emissions and begin selling "carbon neutral gas" which effectively has zero CO_2 emissions. In addition, from January 2022 the Company is purchasing carbon neutral LPG from Astomos Energy Corporation and is otherwise advancing initiatives aimed at realizing carbon neutrality in the LP gas business as well.

* A system in which the government certifies the amount of CO_2 emissions reduced through the introduction of energy-saving devices or the use of renewable energy, and the amount of CO_2 absorbed by appropriate forest management, as credits.

Carbon Neutrality Vision



Source: The Company's results briefing materials

The Company rolled out a new workstyle policy with telework as the main component in April 2021. For the telework framework, it prepared hardware aspects, introduced a work-from-home allowance, and established a digital workplace. This effort is proceeding smoothly with goals of a 50% office attendance rate and 40% reduction of office floor space. Separately, the Company formulated the “TOKAI Group Health Management Charter” with three main points (health promotion, safety and hygiene, and work-style reforms.) and is promoting healthy operations as a group. In March 2022, METI and TSE selected the Company as one of their joint selections of “Health & Productivity Stock” in favorable recognition of this initiative. The Company intends to continue realization of a flexible work format via workstyle reforms and promotion of an environment that is both conducive to work by employees and enables this to take place in a healthy manner.

Shareholder return policy

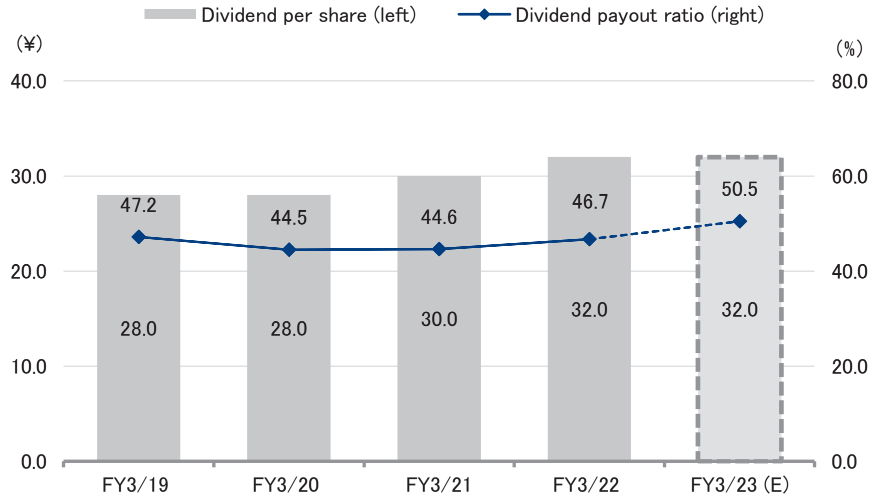
Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%, and also to flexibly acquire treasury shares

Since the past, the Company has actively returned profits to shareholders by paying dividends and providing perks and gifts to shareholders, as well as by acquiring treasury shares depending on the circumstances. It intends to keep this policy unchanged going forward. The Company plans to pay a dividend targeting a dividend payout ratio in the 40-50% range. In FY3/23, the Company plans to pay a dividend per share of ¥32.0 (dividend payout ratio of 50.5%), which is the same amount as the previous fiscal year.

The Company presents gifts to shareholders with 100 or more shares at the end of March and September depending on the number of shares held. Shareholders who hold 100 shares can receive one of the following gifts: an Aqua product worth ¥2,050 (such as the Ulunom “Fuji-no-Tennensui Sarari” (natural water from Mt. Fuji), etc.), a QUO card or QUO card Pay worth ¥500, meal coupons worth ¥1,000, TLC Membership Service points worth ¥1,000, or a ¥2,100 discount on LIBMO usage fees (¥350 a month x 6 months). The total investment yield per share unit, including the gifts to shareholders, in an estimate of the current share price level (closing price of ¥860 on May 20, 2022) is in the range of 4.9% to 8.5% (depending on whether the shareholder selects a QUO card, QUO card Pay, or an Aqua product as the gift).

Shareholder return policy

Dividend per share and dividend payout ratio



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

Shareholder gifts

Shareholders on record at the end of March and September are presented with their choice of one of the following five type of gifts, as well as a 10% discount coupon for a standard wedding service at the Group's wedding halls, plus a discount of ¥100,000 (a maximum discount of ¥200,000) and a dining certificate with 20% discount coupon (a book of 12 certificates) for the Beau Ciel and Aoi restaurants.

Shares held	100-299 shares	300-4,999 shares	Over 5,000 shares
Aqua product	¥2,050 worth	¥4,100 worth	¥8,200 worth
QUO card or QUO card Pay	¥500 worth	¥1,500 worth	¥2,500 worth
A Group restaurant dining certificate	¥1,000 worth	¥3,000 worth	¥5,000 worth
TLC Points	¥1,000 worth	¥2,000 worth	¥4,000 worth
LIMBO monthly usage fee	¥2,100 worth	¥5,100 worth	¥11,280 worth

Source: Prepared by FISCO from the Company website

FISCO

Disclaimer

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