COMPANY RESEARCH AND ANALYSIS REPORT

TOKAI Holdings Corporation

3167

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Index

Summary

Forecasting record-high earnings once again in FY3/22

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 services," primarily the provision of liquefied petroleum (LP) gas, and "information and communications services." Based on its strengths of "customer power" with over 3.10mn 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 1H results overview

In the FY3/22 1H (April – September 2021) consolidated results, net sales increased 6.9% year on year (YoY) to ¥96,060mn and operating profit declined 4.2% to ¥5,223mn. The change in accounting policies had a negative ¥1,100mn impact* on net sales, but net sales still set a new record high for 1H due to higher sales on an increase in continuing customers, the expansion of the information and communications business for corporate customers, and the effects of M&A in the construction equipment and real estate business, along with other factors. Meanwhile, although operating profit was aided by the increase in continuing customers and higher profit in the information and communications business for corporate customers, operating profit declined due to the increase in customer acquisition costs in the LP gas and Aqua businesses, as well as costs associated with establishing an environment for work style reform. Still, both net sales and operating profit appear to have exceeded the Company's forecasts by several hundred million yen. At the end of FY3/22 1H, the number of continuing customers had increased by 26,000 versus the end of FY3/21 to 3,125,000 customers.

* The application of the Accounting Standard for Revenue Recognition from FY3/22 had a minus impact of ¥1,000mn on net sales in the CATV business and ¥900mn in the energy business, while it had a positive impact on net sales of ¥500mn in the construction equipment and real estate business and ¥400mn in other businesses.

2. Outlook for FY3/22

The outlook for the FY3/22 consolidated results was left unchanged from the forecast made at the start of the fiscal year, which is for net sales to increase 5.2% YoY to ¥207,000mn and operating profit to rise 0.1% to ¥15,240mn. Sales are forecast to increase in every business segment except the CATV business. Net sales will decline in the CATV business due to the impact of the change in accounting policies, but on an actual basis sales will increase in the single digits. In 2H, the Company will carry out a price hike for residential-use LP gas which it was not initially planning on, so net sales may slightly exceed the forecast. Meanwhile, operating profit is expected to be as forecast. This is because the Company plans to further increase customer acquisition costs in 2H as it aims to achieve its initial forecast of an increase of 96,000 continuing customers compared to the end of FY3/21 to 3,195,000 continuing customers. It appears that the Company will continue to control costs within a range where it can maintain an increase in operating profit.

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

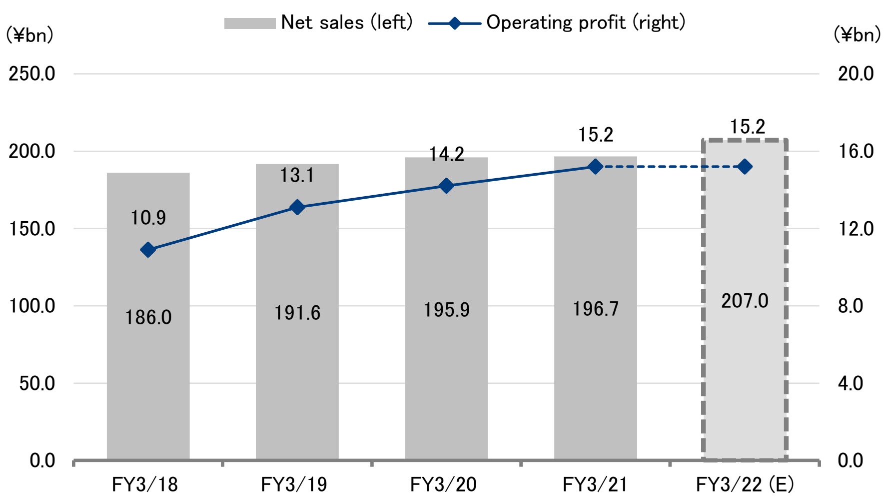
In the medium-term management plan, Innovation Plan 2024: “Design the Future Life” announced in May 2021, the Company has set forth its aim of growing sustainably over the next 10 years and becoming a “Life Design Group” which contributes to solving social issues by designing new lifestyles for customers. The four-year period through FY3/25 is being positioned as the “stage for building the base for realizing Life Design.” The numerical management targets for the plan’s final fiscal year of FY3/25 are net sales of ¥245.0bn, operating profit of ¥18.6bn, and 3.56mn continuing customers. The Company expects average annual growth rates for the next four years to be 5.6% for net sales and 5.2% for operating profit, so steady growth is forecast. During the first two years, the Company will make up-front investments in order to build the growth foundation, while in the latter two years the Company plans to accelerate profit growth. The target is for the number of Group customers to increase 15% to 3.558 million customers. The Company has laid out five key initiatives: 1) Implementation of the LNG strategy*; 2) Evolution of the TLC concept; 3) Stepping up the DX strategy; 4) Optimal allocation of management resources; and 5) Strengthening of SDGs initiatives. The Company will aim for sustainable growth by advancing these initiatives.

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

Key Points

- Although sales increased and profits declined YoY in FY3/22 1H, net sales, operating profit, and recurring profit each exceeded the Company’s initial forecast
- In FY3/22, the Company plans to maintain the increase in sales and profits while focusing on growing the customer base
- Company has positioned the four years through FY3/25 as the “stage for building the base for realizing Life Design”
- 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

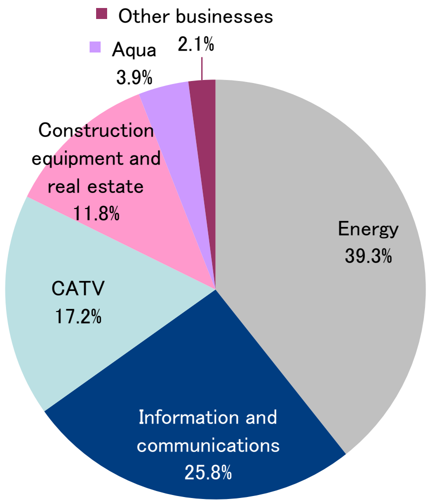
Business overview

Provides life infrastructure services such as LP gas, internet, and CATV. Management vision is to be a "Total Life Concierge"

The Company is engaged in business, mainly the energy and lifestyle-related business centered on LP gas and the information and communications business, primarily in Shizuoka Prefecture. Its management vision is a "Total Life Concierge (TLC)." The Company aims to comprehensively provide all types of services related to living with one contract, one stop, and one call center, to contribute to people's rich lives, development of local communities, and environmental protection while deepening its ties with customers and the communities they live in, society, and the environment, and to grow to become a comprehensive lifestyle services company that is one of Japan's leading companies.

The Company currently discloses information on 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 the others business. In terms of the ratio of net sales by business in FY3/21, the original energy business accounted for 39.3% of net sales, while the information and communications business accounted for 25.8% and the CATV business accounted for 17.2% of net sales. As such, these three businesses account for more than 80% of net sales. The details of each business are described below.

Ratio of net sales by business segment (FY3/21)



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

1. Energy business

In the energy business, the LP gas business accounts for approximately 85% of net sales, while the city gas business accounts for roughly 15% of net sales. In the mainstay LP gas business, TOKAI Corporation sells mainly to residential and industrial customers. The service area is centered on Shizuoka and the Kanto region, but since 2015 the Company has been expanding to other areas, such as southern Tohoku, Chubu and Tokai, Chugoku, and Kyushu, and the Company has intended to increase its number of customers. The Company has 697,000 contracts as of September 30, 2021, and it is the third largest company in terms of direct sales, behind Iwatani Corporation <8088> and Nippon Gas Co., Ltd. <8174>. The Company's market share in its home market of Shizuoka Prefecture is the top at roughly 20%, but it also has the second largest market share (just under 10%) in the Kanto region, where competition is intense. There are approximately 20 million LP gas-using households nationwide, so the Company's nationwide market share is just over 3%, but the Company's strategy is to increase this share by expanding its business area and through M&A. There are many LP gas sales providers in Japan, including small and medium-sized companies (approximately 17,000). However, consolidation by large capital companies is expected to advance going forward, and so at FISCO we think there is plenty of room for the Company to grow its market share.

Meanwhile, in the city gas business, TOKAI GAS CORPORATION sells city gas in the cities of Yaizu, Fujieda, and Shimada in Shizuoka Prefecture. Also, the Company has been selling city gas in Shimonita Town in Gunma Prefecture since April 2019 and in Nikaho City in Akita Prefecture since April 2020 based on an agreement related to the transfer of the gas business operated by each local government. As of September 30, 2021, the business has 67,000 customers. There are 193 city gas providers nationwide (173 privately-operated companies, 20 publicly-operated companies), and with the exception of four major companies, most of these are small- and medium-sized operators in regional areas. With the lifting of the ban on the liberalization of retail gas sales in April 2017, the Company laid out a plan to expand its business area through an M&A strategy.

2. Information and communications business

The information and communications business carried out by TOKAI Communications Corporation is comprised of the ISP (internet service provider) business and mobile business (mobile phone sales agency business) for consumers, and the communication line provision service, the data center service, the cloud system construction service, the consigned system development business and other businesses for corporate customers. In FY3/21, the consumer business accounted for roughly 52% of sales, while the corporate business accounted for around 48% of sales, but the ratio of sales from the corporate business is trending higher (it was approximately 35% in FY3/17).

In the ISP business, the Company has two services: @T COM, which is nationwide, and TOKAI Network Club (TNC) in Shizuoka Prefecture. The Company's market share in Shizuoka Prefecture is approximately 20%, giving it the top market share in the prefecture. In February 2015, the Company assumed the provision of optical line wholesale from NTT <9432>, and began offering @T COM Hikari and TNC Hikari, which are optical collaboration services in which the Company provides its own optical internet connection service as a set. Currently, the Company also offers a plan that combines its service as a set with the service of a major mobile carrier. In 2017, the Company started selling inexpensive SIM/smartphone LIBMO using MVNO*. As of September 30, 2021, the number of customers is 386,000 for the conventional ISP service, etc., 339,000 customers for the optical collaborative service, and 54,000 customers for LIBMO.

* MVNO (Mobile Virtual Network Operator): A provider that borrows mobile phone wireless communications infrastructure from another company to provides service.

In the mobile business, the Company manages 14 mobile phone stores centered on Shizuoka Prefecture as an agent for Softbank <9434>, and has 198,000 customers as of March 31, 2021. The Company also has five iCracked Stores in Shizuoka Prefecture that provide iPhone repair services.

3. CATV business

In the CATV business, the Company has been gradually expanding its service area through its M&A strategy. As of September 30, 2021, nine Group companies provide service in metropolitan Tokyo and six prefectures (Shizuoka, Kanagawa, Chiba, Nagano, Okayama, Miyagi). In terms of the number of customers, there are 881,000 customers for the broadcast service and 333,000 customers for the communications service, which combine for a total of 1,214,000 customers. In the CATV industry, J:COM (JCOM Co., Ltd.) Group has a market share of just over 50% on a viewing household basis, but all of the companies from number two onward have market shares of several percent. Also, the Company's market share is around 3%, but it is aiming to increase its market share through an M&A strategy 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 (water delivery business), in 2007 TOKAI began providing a returnable-bottle service (bottles are collected) "Oishii Mizu no Takuhaibin" (home delivery of fresh drinking water) in Shizuoka Prefecture, and since 2011 it has been offering a one-way bottle service outside of Shizuoka Prefecture (bottles are delivered and then disposed of after use), which it branded as "Oishii Mizu no Okurimono – Ulunom" (fresh drinking water from Mt. Fuji). The Company produces the natural water from the Mt. Fuji area at two factories in Shizuoka Prefecture. As of September 30, 2021, the Company has 165,000 customers. The overall industry had 4,430,000 customers at the end of 2020, and the market is steadily growing. The Company has a market share of just under 4% (approximately 50% in Shizuoka Prefecture).

6. Other businesses

Other businesses include TOKAI Life Plus Corporation's nursing care business, TOKAI City Service Corporation's wedding and events business, and Tokaizosen-unyu Corporation's ship repair business. The nursing care business was launched in 2011, and as of September 30, 2021, it had six day-service facilities, one short-stay facility, one paid-nursing care facility, and two care plan centers in Shizuoka Prefecture. In the wedding and events business, the Company operates one facility in Shizuoka Prefecture.

Result trends

In FY3/22 1H, sales increased while profits declined, but net sales, operating profit and recurring profit all exceeded the Company's forecasts

1. Overview of FY3/22 1H results

In FY3/22 1H consolidated results, sales increased and profits declined, with net sales of ¥96,060mn (up 6.9% YoY), ¥5,223mn in operating profit (down 4.2%), ¥5,284mn in recurring profit (down 3.9%) and ¥2,281mn in net income attributable to owners of the parent (down 30.4%). Still, net sales, operating profit, and recurring profit each appear to have exceeded the Company's internal forecasts by several hundred million yen. Regarding net income attributable to owners of the parent, the percentage decline grew due to the posting of ¥382mn in loss on the retirement of non-current assets, ¥208mn in anniversary business expenses, and ¥498mn*1 in other under extraordinary losses. The change of the accounting policies from FY3/22 resulted in an approximately ¥1.1bn drop in net sales*2, but the impact on operating profit was minor.

*1 A tax inspection carried out by the Nagoya Regional Taxation Bureau revealed fraudulent profits totaling ¥541mn by former employees of its two subsidiaries since 2014, including false invoices and diverting Company funds for personal use. The Company posted ¥498mn in expected amount as related costs.
*2 The main factors behind the decline in net sales were as follows: a ¥1,000mn decline in CATV business, a ¥900mn decline in the energy business, and a ¥100mn decline in the Aqua business. On the other hand, the main factors for the increase in net sales were ¥500mn from construction equipment and real estate business, ¥40mn from the information and communications business, and ¥400mn from other business.

FY3/22 1H results (consolidated)

(¥mn)

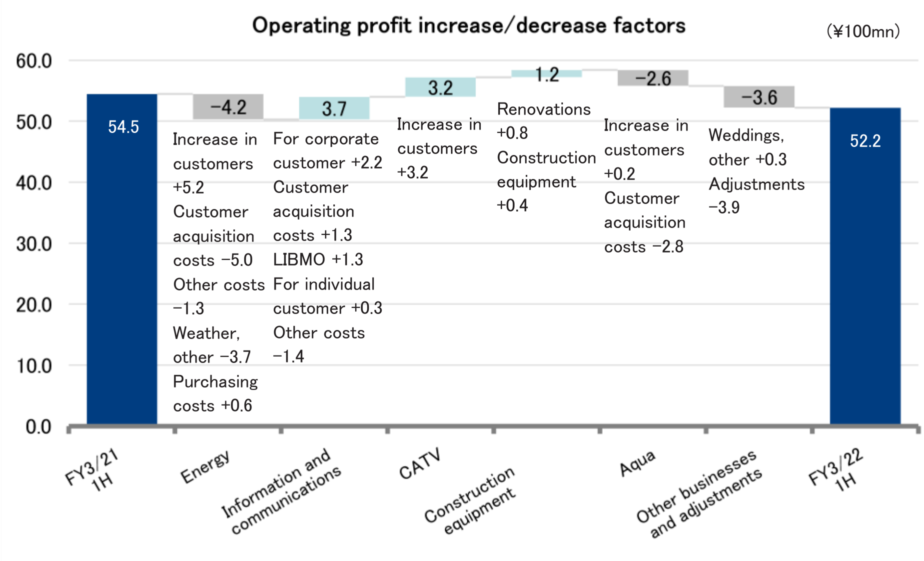
	FY3/21 1H		FY3/22 1H		
	Results	% of sales	Results	% of sales	YoY
Net sales	89,836	-	96,060	-	6.9%
Operating profit	5,452	6.1%	5,223	5.4%	-4.2%
Recurring profit	5,499	6.1%	5,284	5.5%	-3.9%
Extraordinary income/loss	-67	-	-882	-	-
Net income attributable to owners of the parent	3,279	3.6%	2,281	2.4%	-30.4%
Number of continuing customers (thousands)	3,042		3,125	-	2.7%

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

In addition to the increase in monthly-billing revenue accompanying the increase in continuing customers, the expansion of the information and communications business for corporate customers, and the effects of M&A in the construction equipment and real estate business, were factors for the increase in net sales, and net sales set a new record high for 1H for the first time in two fiscal periods. The number of continuing customers at the end of FY3/22 1H was 3,125,000 (up 83,000 YoY), with increases centered on the LP gas business and the CATV business. The number of TLC* members increased steadily by 85,000 to 1,023,000 customers.

* The TLC 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.

The factors behind the decline in operating profit despite the increase in sales include the increase in customer acquisition costs in the energy business and the Aqua business, and the posting of expenses for establishing an environment for work style reform. By business segment, operating profit declined in the energy business, the Aqua business, and the other businesses and adjustments, while operating profit increased in the information and communications business, the CATV business, and the construction equipment and real estate business. Also, operating profit in the energy business, information and communications business and the CATV business exceeded the Company's forecasts. The construction equipment and real estate business, the Aqua business, and other businesses and adjustments each fell slightly short of the Company's forecasts.



Note: Operating profit change values are prior to allocating indirect costs
Source: Prepared by FISCO from the Company's supplementary results briefing materials

Profits increased in the information and communications, CATV, and construction equipment and real estate businesses, but declined in the energy and Aqua businesses due to higher customer acquisition costs

2. Trends by business segment

(1) Energy business

In the energy business, net sales increased 8.1% YoY to ¥36,153mn 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 17.6% to ¥1,963mn. The impact of the change in the accounting policies on net sales was a minus ¥900mn. Factors increasing operating profit were the increase in customers (¥520mn) and a decline in procurement costs (¥60mn), while factors decreasing operating profit included higher customer acquisition costs (¥500mn), a decline in sales volume due to temperature changes and a recoil decline in stay-at-home demand (¥370mn), as well as an increase in personnel costs and other costs (¥130mn).

Still, net sales and operating profit both made progress in excess of the Company's forecasts. Net sales were approximately ¥1.0bn higher than the forecast, mainly due to the rise in sales prices due to linking with procurement and the increase in industrial segment sales volume. Operating profit was several hundred million yen above the Company's forecast overall due to the fact that personnel costs and other expenses were lower than forecast, despite the fact the number of customers and the sales volume per customer in the residential segment were less than forecast, and cancellation prevention costs and procurement costs were higher than expected. The number of LP gas customers increased by 16,000 versus the end of FY3/21, but this was 800 less than the Company's forecast due to the impact of delays in M&A negotiations as a result of the COVID-19 pandemic, among other factors.

In the LP gas business, net sales increased 10.3% YoY to ¥30,712mn, and the number of customers increased by 30,000 versus the end of the previous fiscal year to 697,000. The factors for the increase sales were the rise in sales prices and the increase in sales volume. Residential-use sales prices only rose 1% YoY, but commercial use and industrial use, which are linked to purchase prices, rose 49%, so overall sales prices increased 2-3%. Meanwhile, residential-use sales volume was roughly flat YoY due to the recoil decline in stay-at-home demand, but commercial-use and industrial-use sales volume increased by 35%, and overall sales volume rose 14%. There was hardly any impact on residential-use LP gas profit from the increase in purchase prices, due to the fact that the Company had already completed purchase contracts for the volume it will purchase for FY3/22.

In the city gas business, net sales declined 2.6% YoY to ¥5,440mn, and the number of customers increased by 6,000 versus the end of the previous fiscal period to 67,000 customers. The main factor for the decline in sales was the decrease 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

In the information and communications business, net sales increased 0.7% YoY ¥25,302mn, and operating profit increased 18.1% to ¥2,405mn, as both net sales and operating profit increased for the first time in two fiscal periods. The change in accounting policies had a positive ¥20mn impact on net sales. In the consumer business, net sales were ¥200mn less than the Company's forecast, but net sales in the corporate business were ¥200mn above the Company's forecast. As a result, net sales were generally as forecast. Operating profit exceeded the Company's forecasts in both the corporate and consumer businesses, and ended up several hundred million yen above the forecast overall.

In the consumer business, net sales continued to decrease, falling 6.9% YoY to ¥12,240mn, but operating profit increased ¥150mn, as the ¥130mn decline in customer acquisition costs and the ¥130mn improvement in the profitability of LIBMO (inexpensive smartphones) absorbed the increase in other costs (costs to establish an environment for work style reform). The number of customers rebounded, increasing 17,000 YoY to 779,000 customers. Looking at the breakdown, the number of customers increased 7,000 YoY for conventional ISP services and other services to 386,000 customers*, rose 7,000 for Hikari Collaboration to 339,000 customers, and increased 3,000 for LIBMO to 54,000 customers. Of these, for Hikari Collaboration, the expansion of the menu due to partnerships with major mobile phone carriers led to the increase. However, among Hikari Collaboration contracts there was an increase in contracts tied with mobile phone carriers, so this and other factors caused ARPU (average revenue per user) to decline, which was a factor behind the decline in net sales. Also, revisions to the fee plans for LIBMO led to an improvement in profitability.

* There was an increase due to the fact that supplementary ISP service contracts were added to the conventional ISP services from FY3/21 4Q. Excluding this factor, there was a decline of around 20,000 contracts.

In the corporate business, net sales increased 9.0% YoY to ¥13,061mn, while operating profit increased by ¥220mn. Orders received for Amazon Web Service (AWS) construction projects and contracted system development projects increased more than expected. Also, there were steady increases in recurring revenue businesses such as data communications services and cloud services. 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. By integrating QUERY's 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).

(3) CATV business

In the CATV business, net sales declined 2.5% YoY to ¥16,081mn, while operating profit increased 12.3% to ¥2,957mn. As mentioned above, 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 ¥1bn impact on net sales, but on an actual basis, net sales increased approximately 4%. The steady increase in the number of customers was a main factor for the increase in both sales and profits, and operating profit exceeded the Company's forecast by more than ¥100mn.

The number of customers had increased by 13,000 compared to the end of the previous fiscal period to 881,000 customers for broadcast services, and increased by 22,000 customers to 333,000 customers for communications services. The increase in the number of customers was due to the Company focusing on community-based information dissemination and program production as well as collaboration with major video distribution companies to enhance broadcast content, along with investing in optical conversion to expand the areas to which it provides high-speed communications services.

(4) Construction equipment and real estate business

In the construction equipment and real estate business, net sales increased 36.2% YoY to ¥12,361mn, and operating profit increased 18.8% to ¥738mn. Looking at the breakdown of the increase in net sales, M&A effects accounted for ¥2,000mn, a recovery in existing businesses such as renovation work accounted for ¥800mn, while the change in the accounting policies accounted for ¥500mn. Regarding operating profit, the recovery in the renovation business accounted for a ¥80mn increase, while the effects of M&A accounted for a ¥40mn increase.

In M&A, the Company made subsidiaries of Chuo Denki Construction Co., Ltd. in August 2020, Inoue Technica Co., Ltd. in November 2020, and Marco Polo inc. in April 2021. The net sales of these subsidiaries were added to the Company's sales*. Net sales were approximately ¥300mn higher than the Company's forecasts, while operating profit undercut its forecast by tens of millions of yen. This was due to the fact that the earnings of companies acquired through M&A fell short of expectations. Including civil engineering construction company Nissan Tri Star Construction, which was made a subsidiary in September 2019, the Company is solidifying its base as a general construction and facility construction company in the Tokai area, and going forward the Company's strategy is to pursue further business scale expansion through group synergies.

* Chuo Denki Construction Co., Ltd. engages in the electrical construction business in Aichi Prefecture with just under 30 employees. Inoue Technica Co., Ltd. provides building maintenance services in the eastern part of Shizuoka Prefecture, and has annual sales of approximately ¥500mn. Marco Polo inc. engages in large-scale repair work of condominiums and public facilities, and its sales in FY4/20 were approximately ¥2.2bn.

(5) Aqua business

In the Aqua business, net sales increased 0.9% YoY to ¥3,913mn, but operating profit decreased 58.3% to ¥186mn. The number of customers increased by 4,000 compared to the end of the previous fiscal year to 165,000 customers, but due to the decline in consumption volume per customer caused by the recoil decline following stay-at-home demand, net sales only increased by a small amount. The increase in the number of customers had a positive ¥20mn effect on profit, but operating profit declined due to the ¥280mn increase in customer acquisition costs. Both net sales and operating profit fell slightly short of the Company's forecasts due to the sluggish growth in the number of customers.

(6) Other businesses and adjustments

In other businesses, net sales increased 23.0% YoY to ¥2,248mn. Breaking this down, the effect of the change in accounting policies (application of the percentage-of-completion method in the shipbuilding business) was approximately positive ¥400mn, but excluding this factor net sales were basically flat YoY. By business, the nursing care business saw net sales increase 0.3% to ¥657mn due to the increase in the number of users, while net sales in the shipbuilding business increased 29.5% to ¥854mn due to the increase in the number of ships repaired and the effect of the change in the accounting policies. In the wedding and events business, there were slight recoveries in both wedding ceremonies and conferences, and net sales increased 150.5% to ¥281mn.

The segment's operating loss, including internal adjustments, increased ¥360mn YoY to ¥3,027mn. This was due to the ¥390mn increase in adjustments (expenses), centered on costs to establish an environment to support work style reforms.

Net sales by business segment

(¥mn)

	FY3/19 1H	FY3/20 1H	FY3/21 1H	FY3/22	
				1H	YoY
Energy	33,948	35,766	33,430	36,153	8.1%
Information and communications	25,154	25,911	25,131	25,302	0.7%
CATV	15,135	15,593	16,490	16,081	-2.5%
Construction equipment and real estate	8,987	9,736	9,074	12,361	36.2%
Aqua	3,490	3,752	3,880	3,913	0.9%
Other businesses	2,123	2,255	1,828	2,248	23.0%
Total	88,840	93,015	89,836	96,060	6.9%

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

Operating profit by business segment

(¥mn)

	FY3/19 1H	FY3/20 1H	FY3/21 1H	FY3/22	
				1H	YoY
Energy	1,084	1,966	2,382	1,963	-17.6%
Information and communications	1,608	2,269	2,036	2,405	18.1%
CATV	2,330	2,539	2,633	2,957	12.3%
Construction equipment and real estate	554	843	621	738	18.8%
Aqua	291	400	446	186	-58.3%
Other businesses and adjustments	-2,393	-2,519	-2,667	-3,027	-
Total	3,475	5,500	5,452	5,223	-4.2%

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

Number of customers by key service

(thousand)

	FY3/19 2Q-end	FY3/20 2Q-end	FY3/21 2Q-end	FY3/22 2Q-end	YoY change	Change from previous FY-end
Energy	670	696	728	764	36	20
LP gas	615	639	667	697	30	16
City gas	55	56	61	67	6	4
Information and communications	804	770	762	779	17	-6
Conventional ISP and related services	440	403	379	386	7	-9
Hikari Collaboration	328	324	332	339	7	2
LIBMO	36	43	51	54	3	1
CATV	1,046	1,076	1,179	1,214	35	16
Broadcast service	781	794	868	881	13	5
Communications service	265	282	311	333	22	11
Aqua	156	159	161	165	4	3
Mobile	223	215	209	198	-11	-8
Security	17	16	16	16	0	0
Total	2,893	2,918	3,042	3,125	83	26
(No. of TLC members)	757	852	938	1,023	85	44

Note: Values less than 1,000 have been rounded off. Information and Communications and CATV both offer communications services, and so their numbers are excluded from total figures. Values from FY3/21 4Q include contracts for supplemental ISP services in conventional ISP and related services.
Source: Prepared by FISCO from the Company's financial results and supplementary results briefing materials

Outlook

In FY3/22, the Company plans to maintain the increase in net sales and profits while focusing on growing the customer base

1. Outlook for FY3/22 consolidated performance

The outlook for the FY3/22 consolidated results was left unchanged from the forecast made at the start of the fiscal year. As such, the Company is forecasting that net sales will increase 5.2% YoY to ¥207,000mn, operating profit will rise 0.1% to ¥15,240mn, recurring profit will grow 0.1% to ¥15,320mn, and net income attributable to owners of the parent will increase 0.2% to ¥8,830mn. Sales are expected to increase due to the rise in the number of continuing customers, growth in the corporate information and communications business, and the effects of M&A in the construction equipment and real estate business. However, the outlook is that profits will only increase slightly, as the Company will continue to focus on growing the continuing customer base as well as based on its expectation for costs to establish an environment for work style reforms (approximately ¥500mn) and an increase in depreciation alongside the growth in capital investment (approximately ¥500mn). The progress rate through 1H vis-à-vis the full-year forecasts are 46.4% for net sales and 34.3% for operating profit, and these progress rates are generally the same as the average progress rates over the past three years. The progress rate for net income attributable to owners of the parent was lower at 25.8% due to the posting of extraordinary losses in 2Q as discussed above, but the Company is looking to book extraordinary income in 2H, so the expectation is that net income attributable to owners of the parent will ultimately increase slightly as planned.

Compared to the Company's forecasts, through 1H net sales were approximately ¥1,000mn higher than the forecast, while operating profit was several hundred million yen higher than the forecast. Regarding net sales, in 2H, in the energy business the Company will carry out a price hike for residential-use LP gas and city gas which it was not initially planning on, so at FISCO we think that there is a high likelihood that net sales for the full fiscal year may be even higher than currently forecast. Meanwhile, operating profit is expected to be as forecast. This is because the Company plans to further increase customer acquisition costs in 2H as it aims to achieve its initial forecast of 3,195,000 continuing customers. The change in the accounting policies will have a negative impact of just over ¥3,000mn on net sales, centered on the CATV business and the energy business, but it is expected to have a negligible impact on operating profit.

Outlook for FY3/22

(¥mn)

	FY3/21		FY3/22			2Q progress rate	Average progress rate over the past three years
	Results	% of sales	Forecasts	% of sales	YoY		
Net sales	196,726	-	207,000	-	5.2%	46.4%	46.5%
Operating profit	15,226	7.7%	15,240	7.4%	0.1%	34.3%	33.9%
Recurring profit	15,312	7.8%	15,320	7.4%	0.1%	34.5%	34.1%
Net income attributable to owners of the parent	8,815	4.5%	8,830	4.3%	0.2%	25.8%	34.3%
Net income per share (¥)	67.32		67.42		0.2%		
Number of continuing customers (thousands)	3,099		3,195		3.1%		

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

(1) Energy business

The forecasts for the energy business are for net sales to increase but profits to decrease, with net sales to rise 4.0% YoY and operating profit to fall 5.6%. The assumed sales unit price for residential-use LP gas was expected to be flat YoY, and the Company has been assuming that the annual average temperature will fall 0.1ºC, so price increases in 2H onward will be a factor to help increase results above the forecasts. Purchase prices are soaring, but the Company had already completed advance orders by the previous fiscal year for residential-use LP gas, so the price hikes will be a factor for an increase in profit. However, the Company plans to apply the additional profit to customer acquisition costs, and depending on the scale of these costs, there is a possibility that operating profit will fall short of the forecast. Meanwhile, in the commercial and industrial segments, the purchase price and the sales price are linked to one another, so there will be no impact on profit.

The current issue is increasing the number of LP gas customers. The Company had expected the number of LP gas business customers to increase by 57,000 compared to the end of the previous fiscal period to 738,000 customers, but as of the end of 1H, there had only been an increase of 15,000 customers, so the pace of the acquisition of new customers needs to speed up in 2H. Looking at the breakdown of the full-year forecast, the Company expects 43,000 new customers from new acquisitions, 23,000 customer cancellations, and 36,800 customers to join through M&A and alliances. At the end of 1H, there had been 18,000 new customers acquired, 13,000 cancellations, and 10,000 customers had joined through M&A and alliances, so the Company needs to bolster its efforts to bring in customers through new customer acquisitions and through M&A and alliances. Regarding new acquisitions, in addition to acquiring customers in existing business areas, the Company opened a new sales office in Kumamoto City in October 2021, and it is considering entering the Hiroshima Prefecture market around January 2022. The Company is expecting to acquire new customers in these new areas, and therefore it is projecting an increase in customer acquisition costs as well. Meanwhile, in the city gas business, there will not be a big change in the number of customers, but the Company is expecting full-year net sales to turn higher for the first time in two fiscal periods based on the expected price hikes in 2H.

(2) Information and communications business

In the information and communications business, the outlook is for net sales to increase 3.2% YoY and operating profit to be at the same level. Operating profit in 1H exceeded the Company's forecast by several hundred million yen, but full-year operating profit is expected to end up as forecast due to the fact that the Company will be increasing customer acquisition costs in the consumer business. In the consumer business, the number of customers for ISP services (including Hikari Collaboration) was forecast to be around the same level as at the end of the previous fiscal year at 732,000 customers, while for LIBMO, the customer count was expected to increase by 8,000 to 61,000 customers, but at the end of 1H, the number of ISP customers had declined by 6,000 customers, while there had only been an increase of 1,000 customers for LIBMO, so there has been a delay in progress.

In addition to increasing customer acquisition costs, the Company has expanded its service menu in the ISP service business based on tie-ups with major mobile carriers, while for LIBMO, the Company has partially started offering a service as a set with NTT DOCOMO, Inc.'s "docomo Hikari" at NTT docomo affiliated sales agencies from 2H. The Company expects these initiatives to result in an increase in customers. Meanwhile, in the corporate business, the outlook is for full-year sales and profits to increase based on continued robust demand for contracted system development and cloud construction support projects.

(3) CATV business

The outlook for the CATV business is for sales to decrease but profits to increase, with net sales to decline 3.5% YoY, but operating profit to rise 7.7%. The change in the accounting policies will have a negative impact of ¥2.0bn on sales, but sales are forecast to effectively increase by around 2%. The Company is expecting the number of customers to increase by 25,000 compared to the end of the previous fiscal period to 1,223,000 customers. Of these, they are forecast to increase by 8,000 to 883,000 customers for broadcast services and by 18,000 to 340,000 customers in communications services. At the end of 1H, there was an increase of 16,000 customers (of these, 5,000 customers were in broadcast services and 11,000 customers were in communications services), so progress slightly exceeded expectations, and there is a chance that net sales and operating profit will exceed the forecasts if the Company can acquire customers at this same pace going forward. Also, as a result of progress on optical conversion of the infrastructure, there has been an increase in customers contracting for communications services at the same time as broadcasting services, and there is an expectation for an increase in profitability accompanying the rise in the sales unit price per customer.

(4) Construction equipment and real estate business

The outlook for the construction equipment and real estate business is for sales and profits to increase by double digits, with net sales rising 25.2% YoY and operating profit growing 14.5%. In addition to the recovery in sales in the existing business, including renovation work rebounding following the decline in FY3/21 due to the COVID-19 pandemic, the main factors for the increase in both sales and profits will be the full-fiscal-year contributions of the two companies that were made subsidiaries in FY3/21 (Chuo Denki Construction and Inoue Technica), and the addition of the results of Marco Polo, which was made a subsidiary in April 2021.

(5) Aqua businesses

The outlook for the Aqua business is for net sales to increase 4.3% YoY and operating profit to be basically unchanged. The number of customers is forecast to increase by 9,000 compared to the end of the previous fiscal period to 171,000 customers. The assumption is that average sales per customer will decline slightly in response to nesting demand. At the end of 1H, the number of customers had increased by 3,000 customers compared to the end of the previous fiscal year, which was lower than forecast, and the Company plans to increase customer acquisition costs in 2H. Based on this, there is a chance that both net sales and operating profit will fall short of the forecasts.

(6) Other businesses and adjustments

In other businesses, the outlook is that net sales will increase 14.6% YoY. The negative impact of COVID-19 will come to an end, so results will trend strongly in the nursing care business, while they are also forecast to recover in the wedding and events business. Conversely, the operating loss, including internal adjustments, is forecast to grow by around ¥300mn. In conjunction with work style reforms, the Company plans to incur costs of around ¥400mn for purchasing thin clients compatible with the teleworking environment and to reform offices. The ratio of employees working in the office is around 50% in both the Company and the Tokyo head office, and the Company is gradually contracting its office space. As of the end of 1H, the Company had reduced its office floor space by 20%, and it plans to ultimately reduce its office floor space by approximately 40% compared to the end of the previous fiscal year.

Positioning the four years through FY3/25 as the "stage for building the base for realizing Life Design"

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

(1) Basic concept for the next 10 years

As COVID-19 has caused great changes in lifestyles and measures addressing the SDGs are attracting attention across the whole of society, the Company has set the aim of becoming a "Life Design Group" 10 years from now in its four-year medium-term management plan, Innovation Plan 2024: "Design the Future Life," which starts in FY3/22. 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 TLC (Total Life Concierge) management vision.

Previously, the Company provided lifestyle infrastructure services mainly for within the home (such as gas, communications and broadcasting), and continued to grow by expanding customer bases for each business. However, going forward, it will widen its target markets more than before with "social lifestyles outside the home." The services it will provide will not only be lifestyle infrastructure services, but it will widen the scope to include areas such as services related to the consumption of experiences. By combining these services, the Company is aiming to achieve sustainable growth as a company that provides comprehensive lifestyle services, supporting people's lives and designing and proposing lifestyles to meet their latent needs for an ideal lifestyle. The recently announced medium-term management plan positions these four years as the period to build the management foundation toward realizing its vision of becoming a "Life Design Group."

(2) Numerical management targets

The medium-term management plan's numerical management targets for FY3/25 are net sales of ¥245.0bn, operating profit of ¥18.6bn, and net income attributable to owners of the parent of ¥11.0bn, and the plan is to achieve steady growth with a four-year annual average growth rate of around 5%. In terms of profits, growth will be low in the first two years of the medium-term management plan as the Company will actively conduct upfront investment, but growth is expected to accelerate in the second half of the period as effects of these investments will contribute to profits. Its policy is also to carry out management with an awareness of capital efficiency, and it is aiming to increase ROE from 12.7% in FY3/21 to 13% or above, and similarly to increase ROIC from 9.2% to 9.9% or above. As it will continue to conduct investment, the equity ratio is forecast to be around 40%, which is the same level as in FY3/21.

Medium-term management plan's (IP24) numerical management targets (announced May 2021)

	FY3/21 Results	FY3/22 Target	FY3/23 Target	FY3/24 Target	FY3/25 Target	Average annual growth rate
Net sales (¥bn)	196.7	207.0	221.0	232.0	245.0	5.6%
Operating profit (¥bn)	15.2	15.2	15.6	16.5	18.6	5.2%
Net income attributable to owners of the parent (¥bn)	8.8	8.8	9.0	9.5	11.0	5.7%
Cash flow from operating activities* (¥bn)	22.4	21.8	23.0	24.0	26.0	3.8%
No. of customers (10,000 customers)	310	320	332	344	356	3.5%
Dividend payout ratio	44.6%		40% to 50%			
ROE	12.7%		→		13% or above	
ROIC	9.2%		→		9.9% or above	
Equity ratio	41.6%		→		Around 40%	

* Cash flow from operating activities = operating profit + depreciation – lease payments – tax payments
Source: Prepared by FISCO from results briefing materials

Over the next four years, the Group aims to increase the number of continuing customers approximately 15% from the 3.10mn at the end of FY3/21 to 3.56mn. The plan is to increase the number of customers in the mainstay LP gas business from 680,000 to 880,000 customers, from 730,000 to 800,000 for ISP services (including Hikari Collaboration), and from 50,000 to 90,000 for LIMBO subscribers, and from 870,000 to 900,000 customers for CATV (broadcast service), while the Company is anticipating a small decline from 200,000 to 190,000 customers only in the mobile business (mobile phone sales agency). The keys to achieving this plan are LP gas and the services such as ISP and LIBMO. Attention will focus on the extent to which the Company can increase the number of customers in FY3/22 2H with the increase in customer acquisition costs.

No. of continuing customers

(Unit: 10,000 customers)

	FY3/21	FY3/25	Change	Change %
LP gas	68.1	88.1	20.0	29.2%
City gas	6.3	7.3	1.0	15.9%
ISP, etc. (including Hikari Collaboration)	73.2	80.5	7.3	10.0%
LIBMO	5.3	9.4	4.1	77.4%
CATV (broadcast)	87.5	90.3	2.8	3.2%
CATV (communications)	32.2	38.6	6.4	19.9%
Aqua	16.2	21.4	5.2	32.1%
Mobile	20.6	19.0	-1.6	-7.8%
Security	1.6	1.8	0.2	12.5%
Total	309.9	355.8	45.9	15.0%

Source: Prepared by FISCO from an interview with the Company

(3) Five key strategies

As key strategies in the medium-term management plan, the Company is working on the following five priorities, and currently the Company is generally making solid progress.

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). By growing the market share in existing areas and entering new areas, the Company will work to increase the number of customers, which is the foundation for earnings, particularly in the mainstay gas business, CATV business, and Aqua business. Also, in the corporate information and communications business, the Company will leverage its strength of being able to provide all processes for AWS, from deployment consulting to design, construction, connection lines, and surveillance management service, in one stop, and will work to expand the cloud services-related business. In AWS-related business, based on its deep track record in Japan, from September 2021 the Company began offering AWS China region compatible solution, which supports the AWS usage of Japanese companies with local subsidiaries in China, and going forward the Company has decided to capture overseas demand. In the construction equipment and real estate business, by promoting the M&A strategy as discussed above, the Company is solidifying its base as a general construction company, and going forward the Company will aim to expand its business scale centered on the Tokai area through Group synergies.

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. The Company will utilize its data analysis platform D-sapiens that centrally manages the data of approximately 3.10mn customers, to propose the most optimal services to customers, to offer high added value, and to enhance the customer experience. As a specific initiative in digital marketing, in the Aqua business the Company is using AI analysis to detect signs of customer cancellations, and then enact measures to prevent cancellations. Also, most recently, the Company has constructed an online appreciation event where business negotiations can be carried out remotely, and the Company is using this to drum up new demand. These initiatives have not yet yielded big benefits, but going forward the Company will plan a variety of initiatives, then collect, evaluate, and analyze those data and make improvements. By doing so, the effects of digital marketing initiatives will likely become bigger.

c) Stepping up the DX strategy

Along with the new medium-term management plan, the Company has also formulated a digital transformation strategy (DX strategy). Under the DX strategy, the Company will optimize its existing business models by fully utilizing the customer data from its 3.10mn customers nationwide and ABCIR+S. In addition to achieving improvements in business efficiency and high added value in its services through DX, the Company will take on challenges to create new businesses by collaborating with start-up companies. In April 2021, the Company established TVC&I Inc. as a part of its open innovation strategy targeting new business creation.

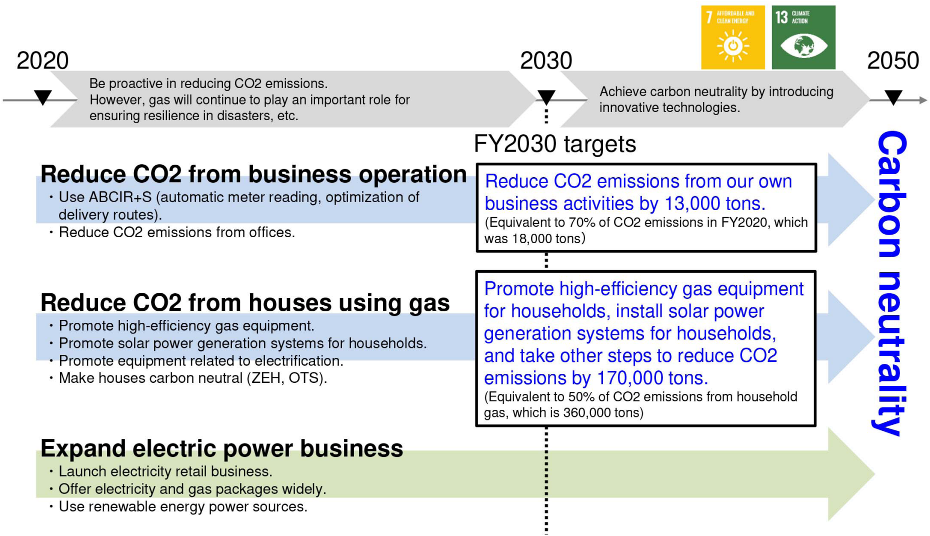
d) Optimal allocation of management resources

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, while allocating the remaining ¥30.0bn to enhance shareholder returns and shareholder value. In FY3/22 1H, of its ¥11.4bn in operating cash flow, the Company allocated ¥9.0bn to growth investment (¥6.3bn to existing businesses, ¥2.7bn to M&A), and allocated the remaining ¥2.1bn to dividends, as the Company made progress as planned on optimal allocation.

e) Strengthen SDG 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, by utilizing ABCIR+S (automatic meter reading of LP gas, delivery route optimization, etc.) the Group will work to reduce CO_2 emissions in its business activities, as well as contribute to the reduction in household CO_2 emissions by promoting the widespread use of high efficiency gas equipment and solar power systems in homes.

Carbon Neutrality Vision



Source: The Company's results briefing materials

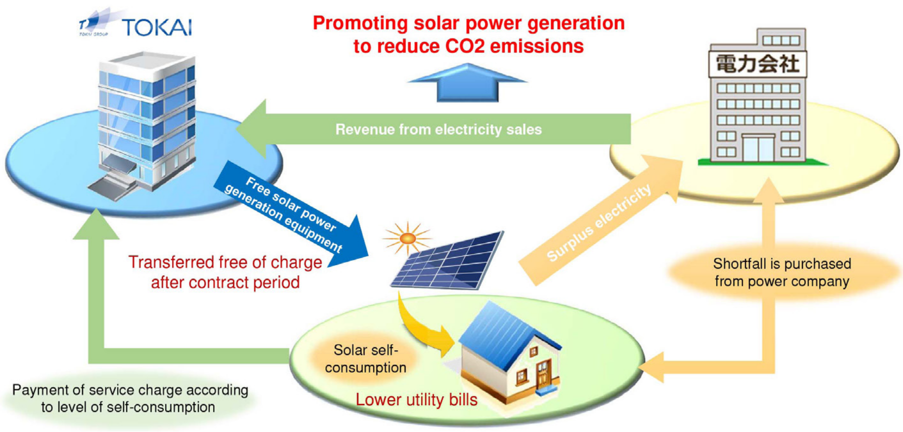
Also, in August 2021, in the city gas business the Company utilized the J-Credit Scheme* to offset CO_2 emissions and begin selling "carbon neutral gas" which effectively has zero CO_2 emissions. The Company is selling this carbon neutral gas to local governments and companies that are taking a proactive stance on SDGs. In August 2021, the Company concluded an "Collaboration Agreement for Realization of Zero Carbon City" with Fujieda City, Shizuoka Prefecture, which has announced its intention to be a "zero carbon city." There is a chance that the Company will undertake more initiatives like these going forward.

* J-Credit Scheme: 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.

In October 2021, the Company began offering TOKAI ZERO SOLAR, which allows solar power generation systems to be installed on homes with zero upfront costs. The Company will bear all of the initial installation costs, and allow users to enjoy the advantage of reducing their utility bills while using the system. Additionally, following the termination of the contract period*, users can acquire the entire system at no cost. Moreover, users can enjoy the advantage of being able to use the generated electricity at no cost. By promoting the widespread use of solar power generation systems for homes, the Company will contribute to the reduction of CO_2 emissions.

* The contract period is 10-15 years, and the power generation capacity will differ depending on factors including the surrounding environment and the installation conditions.

Started offering TOKAI ZERO SOLAR



Source: The Company's results briefing materials

Also, in April 2021 the Company introduced a new work style based mainly on teleworking and in addition to putting in place the hardware aspects (PCs, smartphones) of this new work style, the Company is also offering a work-from-home allowance and establishing a digital workplace. Also, the Company is advancing initiatives related to improving business processes, such as moving to a paperless work flow and introducing an electronic signature/seal system. Going forward, the Company will realize a flexible work style through work style reforms, and it will continue to establish an environment where diverse human resources can play an active role.

The Company is also strengthening its governance framework. In February 2021, the Company established a Nomination and Compensation Committee in order to further strengthen the independence, objectivity, and accountability of the Board of Directors. In order to ensure diversity and expertise, the Nomination and Compensation Committee is composed of at least one-third members who are outside directors, and women directors are also on the Board of Directors.

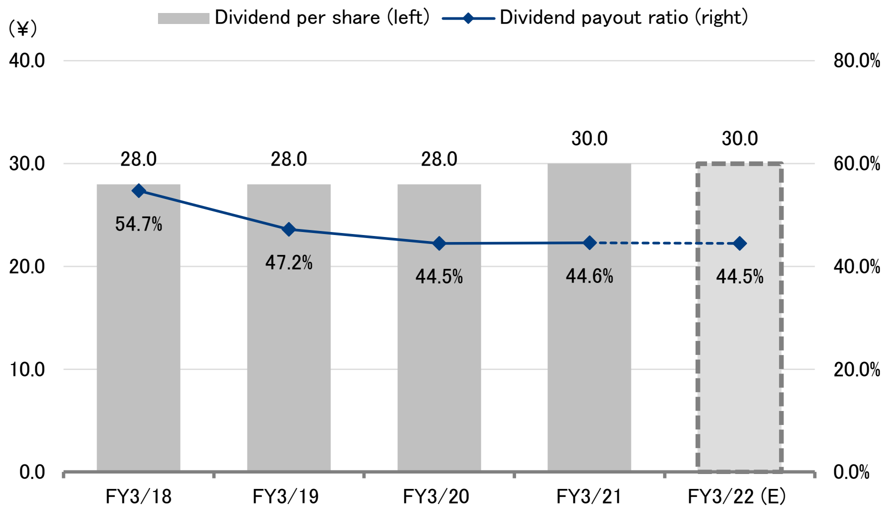
Shareholder return policy

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 FY3/22, the Company plans to pay a dividend per share of ¥30.0 (dividend payout ratio of 44.5%), 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 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 ¥867 on November 9, 2021) is in the range of 4.6% to 8.2% (depending on whether the shareholder selects a QUO card or an Aqua product as the gift).

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	¥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

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