COMPANY RESEARCH AND ANALYSIS REPORT

# TOKAI Holdings Corporation

## 3167

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# Index

**Summary** — 01

1. FY3/22 3Q cumulative results overview ... 01
2. Outlook for FY3/22 ... 01
3. Progress of medium-term management plan, Innovation Plan 2024: “Design the Future Life” ... 02

**Result trends** — 03

1. Overview of FY3/22 3Q cumulative results ... 03
2. Trends by business segment ... 04

**Outlook** — 08

1. Outlook for FY3/22 consolidated performance ... 08
2. Progress of medium-term management plan, Innovation Plan 2024: “Design the Future Life” ... 10

**Shareholder return policy** — 12

# Summary

## Forecasting increase in both sales and profits once again in FY3/22 through growth in the information and communications business for corporate customers and CATV business

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 3.14mn 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 3Q cumulative results overview

In FY3/22 3Q cumulative (April - December 2021) results, net sales increased 6.9% year on year (YoY) to ¥149,420mn and operating profit declined 6.6% to ¥9,248mn. Net sales increased for the first nine-month period in two fiscal periods and set a new record high for the period 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 profit due to the increase in the number of monthly billing accounts accompanying 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. 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 3Q, the number of continuing customers had increased by 43,000 versus the end of FY3/21 to 3,142,000 customers.

Furthermore, the application of the Accounting Standard for Revenue Recognition from FY3/22 had a minus impact of ¥1,400mn on net sales in the CATV business and ¥1,400mn in the energy business, while it had a positive impact on net sales of ¥800mn in the construction equipment and real estate business and ¥300mn in other businesses. However, there was no impact on operating profit due to a decline in SG&A expenses of approximately the same amount.

### 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. Net sales may slightly exceed the forecast due to an increase in sales prices in the energy business and other factors. Meanwhile, the Company is likely to achieve its operating profit forecast due to growth in the CATV business and the information and communications business, although it will depend on to what extent the Company increases customer acquisition costs in 4Q.

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

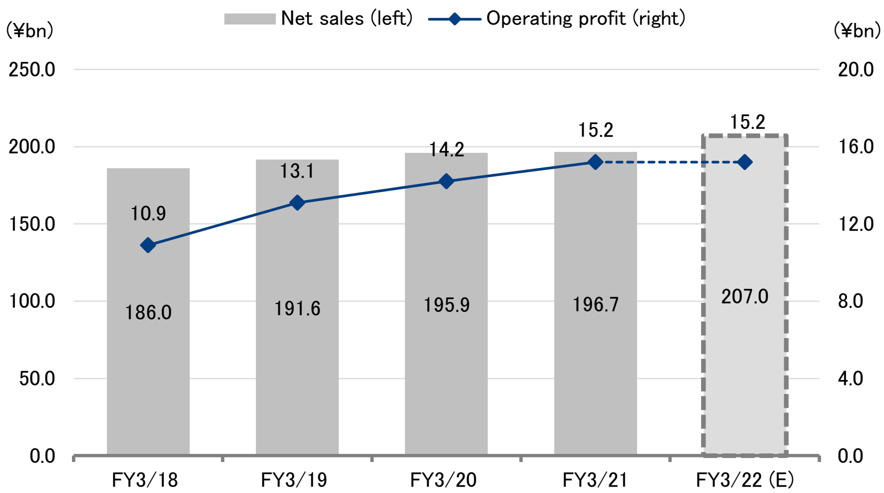
In the medium-term management plan, Innovation Plan 2024: "Design the Future Life" announced in May 2021, the Company has positioned the four years through FY3/25 as the "stage for building the base for realizing Life Design." The numerical management targets for FY3/25 are net sales of ¥245.0bn, operating 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 actively make up-front investments, while it plans to accelerate profit growth in the latter two years. The Company plans to achieve the target of 3.56mn continuing customers (converted into units of 1,000 this is an increase of 459,000 versus the end of the previous fiscal year to 3,558,000 customers) while leveraging M&A and other initiatives. 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. With respect to the status of progress up until this point, the Company is generally making good progress with the exception of the number of continuing customers.

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

### Key Points

- Although cumulative results in FY3/22 3Q saw sales increase and profits decline YoY, net sales and operating profit both exceeded the Company's forecast
- Company expects increase in sales and profits to continue in FY3/22, and forecasts new record highs
- Aiming for annualized earnings growth of 5% through FY3/25
- 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

# Result trends

## Although cumulative results in FY3/22 3Q saw sales increase and profits decline YoY, net sales and operating profit both exceeded the Company's forecast

### 1. Overview of FY3/22 3Q cumulative results

In FY3/22 3Q cumulative results, sales increased and profits declined, with net sales of ¥149,420mn (up 6.9% YoY), ¥9,248mn in operating profit (down 6.6%), ¥9,324mn in recurring profit (down 6.1%) and ¥4,634mn in net income attributable to owners of the parent (down 21.9%). Regarding net income attributable to owners of the parent, the percentage decline grew due to the posting of ¥542mn in loss on the retirement of non-current assets, ¥244mn in anniversary business expenses, and ¥496mn*1 in other under extraordinary losses. However, net sales and operating profit both seemed to exceed the Company's forecasts. The change of the accounting policies from FY3/22 resulted in an approximately ¥1.7bn drop in net sales*2, but the impact on operating profit was minor due to the roughly ¥1.7bn decline in SG&A expenses.

*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 ¥496mn in expected amount as related costs.

*2 The main factors behind the decline in net sales were as follows: a ¥1,400mn decline in CATV business, a ¥1,400mn 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 ¥880mn from construction equipment and real estate business, ¥40mn from the information and communications business, and ¥370mn from other business.

In addition to the increase in monthly-billing revenue accompanying the increase in continuing customers, an increase in sales prices in the energy business, 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 cumulative 3Q results for the first time in two fiscal periods. The number of continuing customers at the end of FY3/22 3Q was 3,142,000 (up 79,000 YoY), while the number of TLC Membership Service* increased steadily by 108,000 to 1,066,000 customers.

* 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.

The decline in operating profit, despite the increase in sales, was mainly due to the increase in customer acquisition costs in the energy business and the Aqua business. 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 each fell slightly short of the Company's forecasts.

FY3/22 3Q cumulative consolidated results

(¥mn)

| | FY3/21 3Q | | FY3/22 3Q | | |
|---|---|---|---|---|---|
| | Results | % of sales | Results | % of sales | YoY |
| Net sales | 139,792 | - | 149,420 | - | 6.9% |
| Cost of sales | 80,147 | 57.3% | 89,321 | 59.8% | 11.4% |
| SG&A expenses | 49,743 | 35.6% | 50,850 | 34.0% | 2.2% |
| Operating profit | 9,901 | 7.1% | 9,248 | 6.2% | -6.6% |
| Recurring profit | 9,929 | 7.1% | 9,324 | 6.2% | -6.1% |
| Extraordinary income/loss | -153 | - | -1,000 | - | - |
| Quarterly net income attributable to owners of the parent | 5,936 | 4.2% | 4,634 | 3.1% | -21.9% |
| Number of continuing customers (3Q-end, in thousands) | 3,063 | | 3,142 | | 2.6% |

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

## Results improved steadily in the information and communications business for corporate customers and the CATV business, while customer acquisitions were steady in the energy business and the Aqua business

### 2. Trends by business segment

Net sales and operating profit by business segment

(¥mn)

| | FY3/19 3Q | FY3/20 3Q | FY3/21 3Q | FY3/22 | |
|---|---|---|---|---|---|
| | | | | 3Q | YoY |
| [Net sales] | | | | | |
| Energy | 54,675 | 55,191 | 53,437 | 58,717 | 9.9% |
| Information and communications | 37,959 | 38,834 | 37,831 | 38,206 | 1.0% |
| CATV | 22,829 | 23,433 | 24,994 | 24,265 | -2.9% |
| Construction equipment and real estate | 13,846 | 14,919 | 14,815 | 19,025 | 28.4% |
| Aqua | 5,279 | 5,603 | 5,778 | 5,811 | 0.6% |
| Other business | 3,352 | 3,575 | 2,934 | 3,395 | 15.7% |
| Total | 137,943 | 141,557 | 139,792 | 149,420 | 6.9% |
| [Operating profit] | | | | | |
| Energy | 2,954 | 3,964 | 5,034 | 4,317 | -14.2% |
| Information and communications | 2,595 | 3,366 | 3,081 | 3,492 | 13.3% |
| CATV | 3,568 | 3,790 | 4,102 | 4,539 | 10.7% |
| Construction equipment and real estate | 915 | 1,242 | 1,094 | 1,126 | 2.9% |
| Aqua | 444 | 597 | 578 | 287 | -50.3% |
| Other businesses and adjustments | -3,442 | -3,682 | -3,988 | -4,514 | - |
| Total | 7,038 | 9,278 | 9,901 | 9,248 | -6.6% |

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

Number of customers by key service

(thousand)

| | FY3/19 3Q-end | FY3/20 3Q-end | FY3/21 3Q-end | FY3/22 3Q-end | YoY change | Change from previous FY-end |
|---|---|---|---|---|---|---|
| Energy | 674 | 703 | 737 | 774 | 37 | 30 |
| LP gas | 620 | 647 | 676 | 705 | 29 | 24 |
| City gas | 55 | 56 | 61 | 68 | 7 | 6 |
| Information and communications | 797 | 766 | 763 | 779 | 16 | -6 |
| ISP | 758 | 720 | 711 | 725 | 14 | -7 |
| Conventional ISP and related services | 430 | 396 | 375 | 382 | 7 | -13 |
| Hikari Collaboration | 328 | 324 | 335 | 342 | 7 | 5 |
| LIBMO | 39 | 45 | 52 | 55 | 3 | 2 |
| CATV | 1,055 | 1,088 | 1,188 | 1,224 | 36 | 26 |
| Broadcast service | 785 | 801 | 871 | 885 | 14 | 10 |
| Communications service | 270 | 287 | 317 | 339 | 22 | 16 |
| Aqua | 157 | 160 | 162 | 166 | 4 | 3 |
| Mobile | 220 | 214 | 209 | 195 | -14 | -11 |
| Security | 17 | 16 | 16 | 16 | 0 | 0 |
| Total | 2,897 | 2,933 | 3,063 | 3,142 | 79 | 43 |
| (No. of TLC members) | 783 | 875 | 958 | 1,066 | 108 | 87 |

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 briefing materials

### (1) Energy business

In the energy business, net sales increased 9.9% YoY to ¥58,717mn 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 14.2% to ¥4,317mn. The impact of the change in the accounting policies on net sales was more than minus ¥1,400mn, and on an actual basis net sales increased by more than 12%. Factors increasing operating profit were the increase in customers (¥740mn) and an improvement in procurement costs (including the amount of sales prices passed along) (¥650mn), while factors decreasing operating profit included higher customer acquisition costs (¥790mn), climate change and other (decline in consumption volume per household) (¥460mn), as well as an increase in personnel costs and other costs (¥860mn).

In the LP gas business, net sales increased 10.7% YoY to ¥49,969mn, and the number of customers increased by 29,000 versus the end of the previous fiscal year to 705,000. The factors for the increase in sales were the rise in sales prices and the increase in sales volume. Residential-use sales volume only increased 1% YoY due to the recoil decline in stay-at-home consumption, but overall sales volume increased 8% YoY due to the recovery in commercial-use and industrial-use LP gas. Sales prices increased 8% YoY due to the increase in commercial use and industrial use, which are linked to purchase prices.

In the city gas business, net sales increased 5.4% YoY to ¥8,747mn, and the number of customers increased by 7,000 versus the end of the previous fiscal period to 68,000 customers. The main factor for the increase in sales was the increase 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 1.0% YoY ¥38,206mn, and operating profit increased 13.3% to ¥3,492mn, as both net sales and operating profit increased for the first time in two fiscal periods. The change in accounting policies had a positive ¥40mn impact on net sales. Also, operating profit exceeded the Company's forecast by roughly ¥400mn due to the strong performance by the business for corporate customers.

In the consumer business, net sales continued to decrease, falling 7.6% YoY to ¥18,303mn, but operating profit increased ¥150mn, as the decline in customer acquisition costs and improvement in the profitability of LIBMO (inexpensive smartphones) absorbed the increase in other costs (¥190mn in 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 related services to 382,000 customers*, rose 7,000 for Hikari Collaboration to 342,000 customers, and increased 3,000 for LIBMO to 55,000 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 10.4% YoY to ¥19,903mn, while operating profit increased by ¥320mn. 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. 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 2.9% YoY to ¥24,265mn, while operating profit increased 10.7% to ¥4,539mn. 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 ¥1,400mn impact on net sales, but on an actual basis, net sales increased approximately 3%. The increase in the number of customers was a main factor for the increase in profits, and operating profit appears to have exceeded the Company's forecast by approximately ¥300mn.

The number of customers had increased by 14,000 compared to the end of the previous fiscal period to 885,000 customers for broadcast services, and increased by 22,000 customers to 339,000 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.

### (4) Construction equipment and real estate business

In the construction equipment and real estate business, net sales increased 28.4% YoY to ¥19,025mn, and operating profit increased 2.9% to ¥1,126mn. Looking at the breakdown of the increase in net sales, M&A effects* accounted for ¥2,600mn, a recovery in existing businesses such as renovation work accounted for ¥700mn, while the change in the accounting policies accounted for ¥880mn. Regarding operating profit, although amortization of goodwill increased by ¥120mn, this was mostly offset by profit from subsidiaries acquired through M&A, while the recovery in the renovation business accounted for a ¥30mn increase in operating profit.

* 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, and its sales in FY04/20 were approximately ¥2.2bn.

### (5) Aqua business

In the Aqua business, net sales increased 0.6% YoY to ¥5,811mn, but operating profit decreased 50.3% to ¥287mn. The number of customers increased by 4,000 compared to the end of the previous fiscal year to 166,000 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. Profit declined due to the ¥260mn increase in customer acquisition costs.

### (6) Other businesses and adjustments

In other businesses, net sales increased 15.7% YoY to ¥3,395mn. By business, the nursing care business saw net sales increase 1.1% to ¥1,006mn due to the increase in the number of users, while net sales in the shipbuilding business increased 22.2% to ¥1,212mn due to the increase in the number of ships repaired and the effect of the change in the accounting policies (primarily due to a ¥370mn sales increase by adopting the percentage of completion method). In the wedding and events business, there were slight recoveries in both wedding ceremonies and conferences, and net sales increased 60.0% to ¥515mn. The segment's operating loss, including internal adjustments, increased ¥526mn YoY to ¥4,514mn. This increase was mainly due to the posting of ¥230mn in costs to establish an environment for work style reform (office renovation costs, IT equipment deployment costs, etc.)

# Outlook

## Outlook is for sales and profits to increase again in FY3/22, setting new record highs

### 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 information and communications business for corporate customers, and the effects of M&A in the construction equipment and real estate business. The outlook is that profits will only increase slightly, as the Company is expecting an increase in customer acquisition costs and costs to establish an environment for work style reforms (approximately ¥500mn), as well as an increase in depreciation alongside the growth in capital investment (approximately ¥500mn).

The progress rate through 3Q vis-à-vis the full-year forecasts are 72.2% for net sales and 60.7% for operating profit, and these progress rates are generally the same as the average progress rates over the past three years. There is a strong possibility that the number of customers in the energy business, information and communications business, and the Aqua business will fall short of the initial forecasts, but this is expected to be absorbed by the effect of price increases for LP gas and city gas fees. Meanwhile, operating profit is progressing at a pace exceeding the Company's forecast by several hundred million yen through 3Q, and the outlook for the forecast to be achieved if there are no major changes to the market environment going forward. The progress rate through 3Q for net income attributable to owners of the parent was a bit low at 52.5% due to the posting of extraordinary losses, but the Company is expecting to book extraordinary income in 4Q, so the expectation is that the Company will be able to achieve its forecast.

Outlook for FY3/22

(¥mn)

| | FY3/21 | | FY3/22 | | | 3Q 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% | 72.2% | 71.8% |
| Operating profit | 15,226 | 7.7% | 15,240 | 7.4% | 0.1% | 60.7% | 61.4% |
| Recurring profit | 15,312 | 7.8% | 15,320 | 7.4% | 0.1% | 60.9% | 61.7% |
| Net income attributable to owners of the parent | 8,815 | 4.5% | 8,830 | 4.3% | 0.2% | 52.5% | 60.1% |
| Net income per share (¥) | 67 | | 67 | | 0.1% | | |
| Number of continuing customers (thousands) | 3,099 | | 3,195 | | 3.1% | | |

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

**(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, so price increases in 3Q and beyond will be a factor to help increase net sales above the forecasts. With respect to the number of LP gas customers, the increase through 3Q was only 24,000 customers compared to the forecast of an increase of 57,000 customers from the end of FY3/21 to 738,000 customers. The COVID-19 pandemic has led M&A and alliance talks becoming prolonged, which has had an impact. The trend in the LP gas industry of a concentration in large capital is not expected to change, and we at FISCO believe that once the COVID-19 pandemic settles down, the pace of customer acquisitions will increase. The Company opened a new sales office in Kumamoto City (Kumamoto Prefecture) in October 2021, and a new sales office in Fukuyama City (Hiroshima Prefecture) in January 2022. The Company is expecting to acquire a total of 2,600 new customers in these areas.

**(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. While there is a strong possibility that net sales will fall slightly below the forecast due to the fact that the number of customers in the consumer business is below expectations, profit is expected to exceed the Company's forecast due to the decline in customer acquisition costs and the strong performance in the corporate 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 3Q, the number of ISP customers had declined by 7,000 customers, while there had only been an increase of 2,000 customers for LIBMO.

In the corporate business, in December 2021 the Company opened connection points for BroadLine, a communications service for carriers and companies provided by TOKAI Communications, within the netXDC Inzai Campus (Inzai City, Chiba Prefecture) which is the SCSK's <9719> data center site, and the Company has started providing communications services for customers using this data center. Also, in November 2021, TOKAI Communications and three audit corporations (GYOSEI & CO., Avantia GP, and RSM Seiwa) established Audit D&I Consortium (ADIC) through a joint investment. ADIC will provide a common IT infrastructure environment that enables the secure use of the electronic audit record system* for small- and medium-sized audit corporations. ADIC has already completed the installation of common IT infrastructure to three companies, and if there is an increase in the adoption of the electronic audit record system for other small- and medium-sized going forward, an increase in IT infrastructure service sales will be expected.

* A system that electronically integrates and manages audit records that an audit corporation is obliged to create, organize and store. In addition to license sales and deployment support for "AQuA," which was developed in-house by Avantia, ADIC will also support provide deployment support for "CaseWare Working Papers" produced by CaseWare International Inc. of Canada.

**(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 3Q, there was an increase of 26,000 customers (of these, 10,000 customers were in broadcast services and 16,000 customers were in communications services), so there is a strong chance full-year sales and profit will exceed the forecasts.

#### (4) Construction equipment and real estate business, Aqua business, and other 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 existing businesses which saw earnings drop in FY3/21 due to the impacts of the COVID-19 pandemic, the Company expects subsidiaries acquired through M&A to contribute to earnings. The Company also expects net sales in the Aqua business to increase 4.3% YoY and for operating profit to basically be 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, but at the end of 3Q, the number of customers had increased by only 3,000 customers, so there is a possibility that the number will fall short of the forecast. In other businesses, the outlook is that net sales will increase 14.6% YoY. The negative impact of the COVID-19 pandemic 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 due to the booking of related costs accompanying work style reforms.

## Aiming for annualized 5% earnings growth through FY3/25

### 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 is to become a “Life Design Group” 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 TLC (Total Life Concierge) management vision. This medium-term management plan is positioned as the period to build the management base toward realizing its vision of becoming a “Life Design Group.”

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%. The Company will proactively carry out upfront investments in the first two years of the period, so it forecasts that profit growth will accelerate in the second half of the period.

**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* | 224 | 218 | 230 | 240 | 260 | 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

No. of continuing customers

(Unit: 10,000 customers)

| | FY3/21-end | FY3/25-end | 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

### (2) Key strategies

#### a) Implementation of the LNG strategy

By growing the market share in existing areas and entering new areas, the Company will work to increase the number of continuing customers, which is the foundation for earnings, particularly in the mainstay energy business, CATV business, and Aqua business. 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. In the construction equipment and real estate business, through the M&A strategy the Company is solidifying its base as a general construction company, and going forward the Company will aim to leverage Group synergies to expand its business scale, especially in Tokai area.

#### 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 3.14mn customers, to propose the most optimal services to customers, to offer high added value, and to enhance the customer experience. Currently, the Company is carrying out a variety of marketing measures through the TLC member app and other initiatives, and the benefits of these efforts are expected to emerge going forward.

#### c) Stepping up the DX strategy

In the DX strategy, the Company is working to achieving improvements in business efficiency and create high added value in its services by fully utilizing the customer data from its roughly 3.14mn customers and ABCIR+S. Also, in order to take on the challenge to create new businesses by collaborating with start-up companies, in April 2021 the Company established TVC & I Inc. and is investing in start-up companies.

#### 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.

**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, 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 starting 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.

# Shareholder return policy

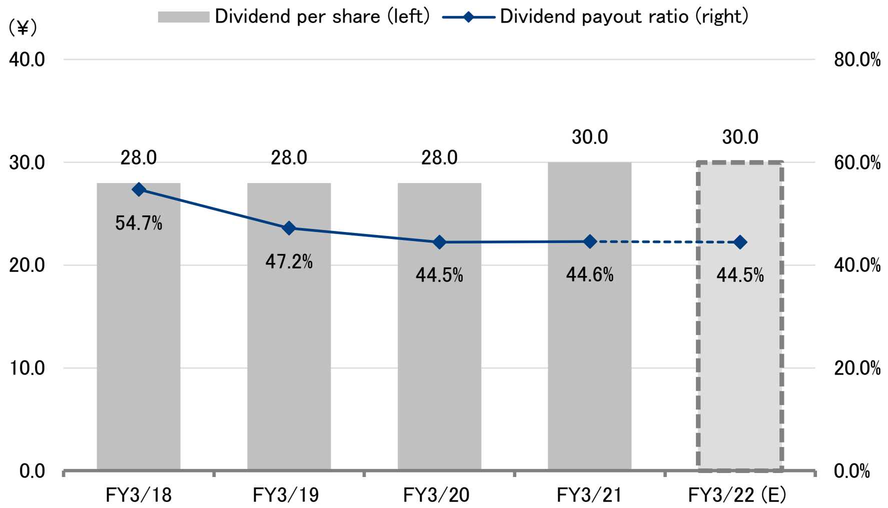
## Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%, and also to flexibly acquire treasury shares

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 ¥894 on February 2, 2022) is in the range of 4.5% to 7.9% (depending on whether the shareholder selects a QUO card 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 | ¥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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