COMPANY RESEARCH AND ANALYSIS REPORT

# TOKAI Holdings Corporation

## 3167

Tokyo Stock Exchange Prime Market

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# Summary

## FY3/23 1Q results got off to an upbeat start, exceeding the Company's forecasts

Based in Shizuoka Prefecture, TOKAI Holdings Corporation <3167> (hereafter, also "the Company") is a comprehensive lifestyle infrastructure company that is developing "energy and lifestyle-related business," primarily the provision of liquefied petroleum (LP) gas, and "information and communications services business." Based on its strengths of "customer power" with over 3.20mn 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. FY3/23 1Q results

In the FY3/23 1Q consolidated results, net sales increased for the second consecutive period to ¥51,803mn (up 7.0% YoY), reaching a new record high, while operating profit increased for the first time in two fiscal periods to ¥3,355mn (up 4.0% YoY). The main reasons for the increase in net sales were the increase in the sales price of LP gas linked to the procurement price, as well as the steady increase in the number of continuing customers by 105,000 to 3,213,000. Meanwhile, the main reasons for the increase in operating profit included the absorption of the increase in LP gas procurement prices through price revisions, the increase in profit due to the growth in the number of continuing customers, as well as the expansion of the information and communications business for corporate customers. Although the construction equipment and real estate business was a little sluggish, other businesses, especially the energy business, performed well, and it appears that net sales were just under ¥400mn higher than the Company's forecast, while operating profit was a little more than ¥500mn higher than the Company's forecast.

### 2. Outlook for FY3/23

The outlook for the FY3/23 consolidated results was left unchanged, targeting ¥223,000mn in net sales (up 5.8% YoY) and ¥14,500mn in operating profit (down 8.2%). While it expects to set a record high in net sales through the accumulation of a continuing increase in the number of customers, increase in the sales price of LP gas, and other factors, the outlook anticipates a switch to profit decline as profit gains in other businesses are not enough to fully offset the negative impact of upturn in the LP gas procurement cost (¥5.1bn). Still, 1Q results progress exceeded the Company's forecast, and going forward it is certainly possible that operating profit could exceed the Company's forecasts assuming there are no further increases in energy prices. The Company forecasts the number of continuing customers to increase by 102,000 customers to 3,295,000 customers, and the Company states that it will aim to achieve its outlook while also carrying out M&A.

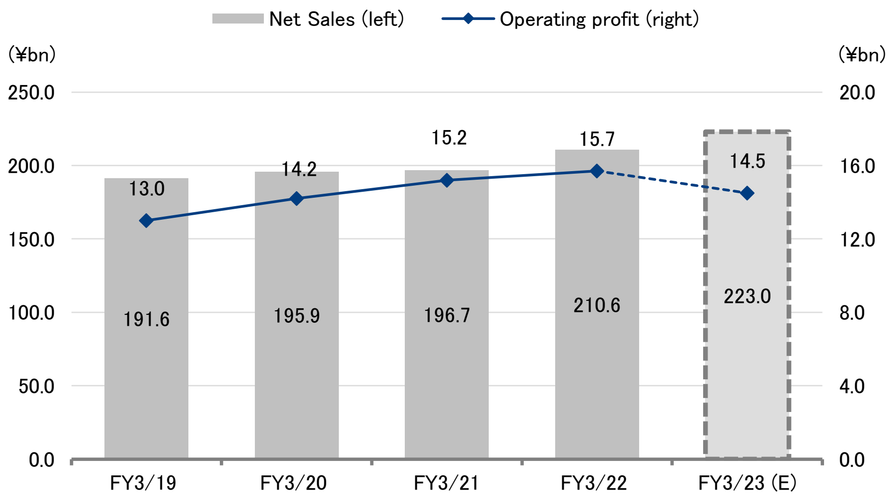
### 3. Progress of medium-term management plan

The Innovation Plan 2024 "Design the Future Life" medium-term management plan announced in May 2021 positions the four years until FY3/25 as a "stage for building the base for realizing Life Design" and presented numerical management goals for FY3/25 of ¥245bn in net sales, ¥18.6bn in operating profit, and 3.56mn continuing customers. This outlook projects healthy growth with four-year average growth rates of around 5% in net sales and operating profit, through a strategy of proactive upfront investment in the first two years and accelerated profit growth in the latter two years. In FY3/23, the second year of the plan, profit is expected to temporarily decline due to the impact of rising energy prices, but the Company's outlook is for profit to start rising from FY3/24 onward as the effects of growth investment emerge. The Company is also making progress on M&A and alliances with an eye toward creating new businesses, and future developments should be closely monitored.

## Key Points

- FY3/23 1Q results were driven by the energy business, and the Company achieved an increase in both net sales and operating profit in excess of its forecasts
- In FY3/23, there is a high likelihood that the Company will set a new record high for net sales, and that profit will reach the level of the Company's forecast
- Upbeat start to the medium-term management plan, targets accelerated earnings growth from FY3/24
- Policy is to pay a dividend targeting a dividend payout ratio of 40% to 50% and also to flexibly acquire treasury shares

Results trends




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

# Result trends

## FY3/23 1Q results were driven by the energy business, and the Company achieved an increase in both net sales and operating profit, exceeding its forecasts

In the FY3/23 1Q consolidated results, net sales increased 7.0% YoY to ¥51,803mn, operating profit increased 4.0% to ¥3,355mn, recurring profit increased 1.1% to ¥3,389mn, and net income attributable to owners of the parent declined 4.0% to ¥1,795mn. Net sales increased for the second consecutive fiscal period, marking a new record high, while operating profit and recurring profit increased for the first time in two fiscal periods. Although quarterly net income attributable to owners of the parent declined due to the booking of valuation loss on investment securities as an extraordinary loss, each item exceeded the Company's forecast as results helped the Company get off to a good start to the fiscal year.

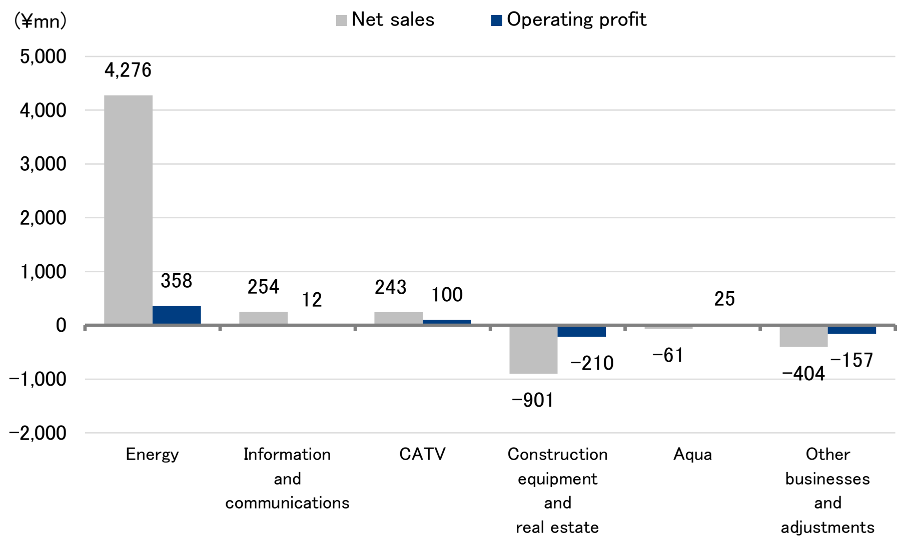
FY3/23 1Q consolidated results

(¥mn)

| | FY3/22 1Q | | FY3/23 1Q | | |
|---|---|---|---|---|---|
| | Result | % of sales | Result | % of sales | YoY |
| Net sales | 48,396 | - | 51,803 | - | 7.0% |
| Cost of sales | 28,677 | 59.3% | 31,267 | 60.4% | 9.0% |
| SG&A expenses | 16,491 | 34.1% | 17,181 | 33.2% | 4.2% |
| Operating profit | 3,226 | 6.7% | 3,355 | 6.5% | 4.0% |
| Recurring profit | 3,353 | 6.9% | 3,389 | 6.5% | 1.1% |
| Extraordinary income/loss | -235 | - | -429 | - | - |
| Quarterly net income attributable to owners of the parent | 1,870 | 3.9% | 1,795 | 3.5% | -4.0% |

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

FY3/23 1Q results by business segment (YoY change)




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

Looking by business segment, although the construction equipment and real estate business saw a decline in both sales and profit, the mainstay energy business saw a large 22.5% YoY increase in net sales due to the increase in sales price linked to LP gas procurement price as well as the increase in customers, while the CATV business also drove overall results, as the trend of increasing sales and profit both continued due to the growth in the number of customers. At the end of 1Q in FY3/23, the number of continuing customers had increased by 105,000 versus the end of FY3/22 1Q to 3,213,000 customers, an increase of 19,000 compared to the end of FY3/22, which was roughly double the pace compared to FY3/22 1Q (an increase of 9,000 customers).

Compared to the Company's forecasts, net sales and operating profit exceeded the forecast by ¥390mn and ¥540mn, respectively. Looking by business segment, net sales in the construction equipment and real estate business were ¥200mn below the forecast, but net sales in the energy business were ¥600mn higher than forecast due to the increase in both commercial-use and wholesale sales prices. Meanwhile, in terms of profit, operating profit in the construction equipment and real estate business was ¥50mn below the forecast, while in the energy business, operating profit exceeded the forecast by ¥330mn, while operating profit also exceeded the Company's forecasts in other businesses by several tens of million yen each.

**Number of customers by key service**

(thousand)

| | FY3/20 1Q-end | FY3/21 1Q-end | FY3/22 1Q-end | FY3/23 1Q-end | YoY change | Change from previous FY-end |
|---|---|---|---|---|---|---|
| Energy | 687 | 718 | 752 | 791 | 39 | 6 |
| LP gas | 631 | 657 | 687 | 720 | 33 | 5 |
| City gas | 56 | 61 | 64 | 71 | 7 | 1 |
| Information and communications | 778 | 760 | 781 | 823 | 42 | 7 |
| ISP | 737 | 711 | - | - | 0 | 0 |
| Conventional ISP and related services | 411 | 383 | 391 | 413 | 22 | -2 |
| Hikari Collaboration | 326 | 328 | 337 | 351 | 14 | 5 |
| LIBMO | 42 | 50 | 53 | 58 | 5 | 3 |
| CATV | 1,069 | 1,161 | 1,206 | 1,240 | 34 | 9 |
| Broadcast service | 791 | 864 | 878 | 891 | 13 | 3 |
| Communications service | 278 | 297 | 328 | 349 | 21 | 5 |
| Aqua | 157 | 159 | 164 | 166 | 2 | 1 |
| Mobile | 214 | 211 | 201 | 187 | -14 | -4 |
| Security | 17 | 16 | 16 | 16 | 0 | 0 |
| Total | 2,907 | 3,012 | 3,108 | 3,213 | 105 | 19 |

Note 1: 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.
Note 2: Information and communications services (existing ISP and related services) include contracts for ISP add-on services of PC home support service from FY3/22 1Q and PC remote service support from FY3/23 1Q.
Source: Prepared by FISCO from the Company's financial results and supplementary financial results materials

**Net sales by segment**

(¥mn)

| | FY3/20 1Q | FY3/21 1Q | FY3/22 1Q | FY3/23 1Q | YoY |
|---|---|---|---|---|---|
| Energy | 18,577 | 17,634 | 18,998 | 23,274 | 22.5% |
| Information and communications | 12,795 | 12,650 | 12,619 | 12,873 | 2.0% |
| CATV | 7,738 | 8,226 | 7,996 | 8,239 | 3.0% |
| Construction equipment and real estate | 3,777 | 3,819 | 5,542 | 4,641 | -16.3% |
| Aqua | 1,798 | 1,896 | 1,921 | 1,860 | -3.2% |
| Other business | 1,116 | 885 | 1,319 | 915 | -30.7% |
| Total | 45,804 | 45,113 | 48,396 | 51,803 | 7.0% |

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

Operating profit by segment

(¥mn)

| | FY3/20 1Q | FY3/21 1Q | FY3/22 1Q | FY3/23 1Q | YoY |
|---|---|---|---|---|---|
| Energy | 1,489 | 1,972 | 1,578 | 1,936 | 22.7% |
| Information and communications | 1,217 | 1,110 | 1,224 | 1,236 | 1.0% |
| CATV | 1,286 | 1,367 | 1,459 | 1,559 | 6.9% |
| Construction equipment and real estate | 213 | 233 | 263 | 53 | -79.8% |
| Aqua | 169 | 271 | 37 | 62 | 67.6% |
| Other businesses and adjustments | -1,145 | -1,171 | -1,337 | -1,494 | - |
| Total | 3,231 | 3,783 | 3,226 | 3,355 | 4.0% |

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

### (1) Energy business

In the energy business, both net sales and operating profit increased by double digits. Net sales increased 22.5% YoY to ¥23,274mn and operating profit (operating profit is shown 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) increased 22.7% to ¥1,936mn.

In the LP gas business, net sales increased 19.4% YoY to ¥19,332mn, and the number of customers increased by 33,000 from the end of the previous fiscal year to 720,000. Although residential use sales volume grew due to the increase in the number of customers, commercial use sales volume declined, resulting in an overall 0.8% decline in sales volume. Meanwhile, sales unit prices increased 69% for commercial use which is linked to the procurement price, while in residential use the Company raised the price in stages, rising 4%, so overall sales price increased 22%. The rate of increase in residential use sales price was small, but is seen as being due to cases in which the Company sold gas at promotional prices in order to acquire customers in new areas.

The number of customers increased by 5,000 compared to the end of the previous fiscal year, but looking at the breakdown, there were 8,200 newly acquired customers (5,700 in the Kanto/Shizuoka area; 2,500 in new areas), 2,600 customers acquired through M&A/alliances, and 5,400 suspensions and cancellations. While the Company steadily works to acquire new customers as well as prevent suspensions and cancellations, M&A and alliances continue to be impacted by the COVID-19 pandemic, and progress fell short of the Company's forecast.

In the city gas business, net sales increased 40.7% YoY to ¥3,941mn, and the number of customers increased by 7,000 versus the end of the previous fiscal period to 71,000 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 2.0% YoY to ¥12,873mn, while operating profit increased 1.0% to ¥1,236mn, as sales increased for the first time in three fiscal periods while profit increased for the second consecutive fiscal period.

In the consumer business, net sales continued to decrease, falling 3.6% YoY to ¥5,961mn, while EBITDA (operating profit + depreciation and amortization) declined 46.5% to ¥232mn. At the end of FY3/23 1Q, the number of customers increased 22,000 YoY for existing ISP services and other services to 413,000 customers, 14,000 for Hikari Collaboration to 351,000 customers, and 5,000 for LIBMO (inexpensive SIM service) to 58,000 customers. Among these, for ISP services and other services, the increase was due to the addition of contracts (36,000 contracts) of PC remote support service from FY3/23 1Q, so there was a decline in customers on an effective basis. Also, for Hikari Collaboration, the increase was due to the partnerships with major mobile phone carriers from October 2021, and the bolstering of customer acquisition via home electronics retailers and mobile phone shops. However, for those customers acquired through major mobile phone carriers, the sales for the optical communications service are excluded, so net sales declined approximately ¥60mn YoY (with no impact on gross profit). The increase in the number of customers resulted in the increase in profit for Hikari Collaboration. For LIBMO, profit declined despite the increase in customers, due to the increase in customer acquisition costs, including digital marketing.

In the corporate business, net sales increased 7.4% YoY to ¥6,911mn, and EBITDA increased 7.8% to ¥1,807mn, as the trend of increases in both sales and profit continued. In addition to the continuation of growth in cloud services, there was solid expansion based on robust incoming orders for contracted systems development.

**(3) CATV business**

In the CATV business, net sales increased 3.0% YoY to ¥8,239mn, while operating profit increased 6.9% to ¥1,559mn. Although sales declined in the same period of the previous fiscal year due to the change in accounting standards, there was an increase in sales on an actual basis, and in FY3/23 1Q, the upward trend in both sales and profit continued due to the increase in customers. At the end of FY3/23 1Q, the number of customers had increased by 13,000 YoY to 891,000 customers for broadcast services, and increased by 21,000 to 349,000 for communications services. The Group focused on community-based information dissemination and program production, while it collaborated with major video distributors to enhance content, and expanded the areas to which it provides high-speed optical communications services. These efforts seem to have led to the increase in the number of customers as well as an increase in ARPU.

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

In the construction equipment and real estate business, net sales decreased 16.3% YoY to ¥4,641mn, and operating profit decreased 79.8% to ¥53mn, as both sales and profit turned lower. The declines in both sales and profit were due to the drop in large equipment construction and stores' new construction projects, as well as slumping sales at Nissan Tri Star Construction, which engages in civil engineering construction.

In May 2022, the Company made Wood Recycle Co., Ltd., which engages in the manufacture and sale of wood chips made from industrial waste materials (branches, leaves and small trees) in Gifu Prefecture. Wood Recycle Co., Ltd. has only a few employees and its impact on results will be minimal in the near term, but wood chips are used as the fuel for wood biomass power generation, and demand is expected to increase going forward. Also, in the future, the Group may look to develop a biomass power generation business, so it plans to invest resources in this business.

**(5) Aqua business**

In the Aqua business, net sales decreased 3.2% YoY to ¥1,860mn, but operating profit increased 67.6% to ¥62mn. The number of customers as of the end of FY3/23 1Q increased by 2,000 YoY to 166,000, so the pace of increase slowed, but progress was as expected. Although sales declined due to the drop in the consumption volume per household, the increase in profit was due to the suppression of customer acquisition costs.

(6) Other businesses and adjustments

In other businesses, net sales decreased 30.7% YoY to ¥915mn. Breaking this down, sales in the nursing care business increased 13.4% to ¥359mn due to the increase in the number of users, while in the wedding ceremony business, a recovery in demand for weddings and parties resulted in sales increasing 34.0% to ¥217mn. Meanwhile, in the shipbuilding business, sales declined considerably, down 78.4% YoY to ¥125mn, due to the decrease in the number of ships repaired. The segment's operating loss, including internal adjustments, increased ¥157mn YoY to ¥1,494mn.

# Outlook

## In FY3/23, there is a high likelihood that the Company will set a new record high for net sales, and for profit to reach the Company's forecast

### 1. Outlook for FY3/23

The Company's outlook for FY3/23 consolidated results was left unchanged, forecasting net sales to increase 5.8% YoY to ¥223,000mn, operating profit to decrease 8.2% to ¥14,500mn, recurring profit to decrease 10.1% to ¥14,300mn, and net income attributable to owners of the parent to decrease 7.5% to ¥8,300mn. Sales are expected to increase due to the rise in the number of continuing customers, expansion of information and communications business for corporate customers and construction equipment and real estate businesses, and increase in energy sales prices. In profits, the Company is expecting an increase in profit in all businesses except for the energy business, but it does not think that will completely make up for the profit decline in the energy business due to the increase in LP gas procurement prices.

Looking at the situation in 1Q, while there is a possibility that the construction equipment and real estate business will fall short of the forecast, at FISCO we think that all other business segments are doing well, and as long as there are no additional increases in procurement prices in the energy business going forward, we think there is a strong likelihood that net sales and profits will exceed the Company's outlook, and that the Company will achieve its forecast for overall results. The number of continuing customers is expected to increase by 102,000 to 3,295,000, and the Company also plans to proactively advance M&A and other initiatives.

Outlook for FY3/23

(¥mn)

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

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

### Net sales by segment

(¥mn)

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

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

### Operating profit by segment

(¥mn)

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

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

#### (1) Energy business

In energy business, the Company projects increased sales and decreased profit from higher sales with a 5.2% YoY increase in net sales and a 27.0% setback in operating profit. The outlook assumes customer additions YoY of 42,000 customers to 757,000 customers in LP gas business and 9,000 customers to 79,000 customers in city gas business (provided by T&T Energy). This puts the net rise in LP gas business at an even higher level than FY3/22's 34,000 customers. The number of customers acquired through M&A and alliances in 1Q was less than the forecast, but the Company plans to make up for lost ground from 2Q onward.

Anticipated factors causing a decrease in operating profit are setbacks of ¥5.1bn from upturn in procurement costs, ¥900mn from personnel costs and spending increases, and ¥500mn from decline in consumption volume per household (assuming a 0.2-degree YoY rise in the average annual temperature, 1Q would have been 0.7 degrees lower) while factors causing an increase in operating profit including boosts of ¥2.0bn from sales price hikes, ¥800mn from increase in the number of customers, and ¥900mn from a decline in customer acquisition and maintenance costs. It appears that the Company's procurement cost assumptions are lower than the $940/ton* FOB price as of April 2022, and the most recent August FOB price was $670/ton, which had fallen to a level on par with the same month of the previous year. It appears that the upward pressure on cost has calmed down for the time being, but with no end to the Ukraine conflict in sight, the future outlook remains unclear. If the FOB price falls below the Company's internally-set price, the Company plans to hedge the residential-use LP gas procurement cost.

* FOB price: The sales price from Saudi Arabia to importers.

The Company expects an increase in profits of ¥2.8bn due to the effect of sales price hikes and an increase in the number of customers. However, this has already resulted in an increase in profit of ¥2.8bn in 1Q due to the fact that the sales price for commercial-use linked to the procurement price increased more than expected, and gross profit also exceeded the Company's forecast due to the gap between the procurement price and the sales price. Going forward, how this gap changes will affect the profit trend, but if there are no major changes in the procurement and sales price, it is highly likely that sales will exceed the forecast. On the other hand, profits are also higher than the forecast, but it is expected that acquisition costs will increase as a result of prioritizing customer acquisitions, so the Company is expected to control such costs while monitoring the progress of overall results. In FY3/23, the Company also plans to open a new sales office in the western part of Aichi Prefecture.

**(2) Information and communications business**

In information and communications business, the Company targets increases YoY of 3.5% in net sales and 8.0% in operating profit. For the consumer business, it projects slight YoY decline in sales and a modest YoY rise in operating profit. This outlook's assumptions about the number of customers are a flat level YoY at 760,000 customers in total volume of existing ISP and Hikari Collaboration services and net increase of 14,000 customers to 69,000 customers in LIBMO. Through 1Q, the status of customer acquisitions has been solid (764,000 for existing ISP and Hikari Collaboration, and 58,000 for LIBMO), and the Company expects to achieve its forecast. Meanwhile, in the corporate business, the Company expects both sales and profit increases in the upper single-digit range YoY. It also expects solid performance from 2Q onward in both cloud services and contracted system development.

**(3) CATV business**

In CATV business, the Company forecasts upbeat growth (YoY) with gains of 5.6% in net sales and 3.2% in operating profit. It hopes to steadily increase the number of customers through ongoing optical conversion of the network and content enhancement. This outlook assumes an increase of 42,000 customers YoY to 1,273,000 customers on a combined basis for broadcast and communications services. The Company is also considering M&A possibilities with a forward-looking stance, so future developments in this area should be closely monitored.

**(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, with net sales rising by 13.4% YoY and operating profit growing by 3.2%. Nissan Tri Star Construction, which is engaged in civil engineering construction and had a strong FY3/22, got off to a slow start in FY3/23, and there is a possibility that results will fall short of the forecast depending on the status of orders received going forward.

In aqua business, the Company forecasts increases (YoY) of 0.9% in net sales and 83.1% in operating profit, restoring profit improvement for the first time in four years. This outlook only factors in a slight rise in the number of customers YoY of 1,500 customers to 167,000 customers. Through bolstering of digital marketing, the Company aims to lower customer acquisition costs (per customer) and improve profitability. In other business, the Company expects the sales increase trend to continue, at 7.9% YoY, centered on nursing care services and the wedding ceremony business.

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

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

### (1) Management vision and numerical management targets

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

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. The plan is for annual average growth rate of around 5%, with proactive upfront investment in the first two years and the benefits of investment reaped in the latter two years. In FY3/23, the Company is expecting profit to temporarily turn lower due to the impact of rising energy prices, but profit is expected to start rising again from FY3/24 onward.

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

(¥bn)

| | FY3/21 | FY3/22 | | FY3/23 | | FY3/24 | FY3/25 | Average |
|---|---|---|---|---|---|---|---|---|
| | Results | Initial forecast | Results | Initial forecast | Revised plan | Initial forecast | Initial forecast | annual growth rate |
| Net sales | 196.7 | 207.0 | 210.7 | 221.0 | 223.0 | 232.0 | 245.0 | 5.6% |
| Operating profit | 15.2 | 15.2 | 15.8 | 15.6 | 14.5 | 16.5 | 18.6 | 5.2% |
| Net income attributable to owners of the parent | 8.8 | 8.8 | 9.0 | 9.0 | 8.3 | 9.5 | 11.0 | 5.7% |
| Cash flow from operating activities* | 22.4 | 21.8 | 20.8 | 23.0 | 21.2 | 24.0 | 26.0 | 3.8% |
| Number of continuing customers (ten thousands) | 310 | 320 | 319 | 332 | 330 | 344 | 356 | 3.5% |
| Dividend payout ratio | 44.6% | | 46.7% | | 50.5% | 40% to 50% | | |
| ROE | 12.7% | | 11.8% | | → | | 13% or above | |
| ROIC | 9.2% | | | → | | | 9.9% or above | |
| Equity ratio | 41.6% | | 41.9% | | → | | Around 40% | |

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

(2) Key strategies

a) Implementation of the LNG strategy

The LNG strategy stands for Local (expand market share in existing areas), National (expand to new areas in Japan), and Global (expand overseas). It is aiming to increase the number of continuing customers while steadily expanding its business area, and at the same time focusing on “selection and concentration” that prioritizes profitability. The Company is aiming to increase the number of continuing customers for the Group overall from 3.19mn at the end of FY3/22 to 3.56mn at the end of FY3/25, and is currently on pace to achieve that goal.

In the information and communications business for corporate customers, further growth is expected in the cloud services-related business. In the construction equipment and real estate business, the Company is solidifying its base as a general construction company (civil engineering work, electrical work, water supply and drainage work, air-conditioning work, large-scale repair work, etc.) through a strategy of M&A, and going forward, the Company will aim to increase Group synergies to expand its business, especially in the Tokai area. Overseas business development has been rather slow due to the impact of the COVID-19 pandemic, but the Company will advance overseas business as a medium-term initiative.

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. Based on customer attributes and other information collected from the TLC member app and LP gas smart meters, etc., the Company aims to maximize LTV (customer lifetime value) through digital marketing utilizing the D-sapiens data analysis platform. The Company is currently at the assessment, analysis, and improvement stage as it executes initiatives on a trial basis.

c) Stepping up the DX strategy

In DX strategy, the Company intends to optimize the existing business model and realize improvements in business efficiency and create high added value in its services by fully utilizing the customer data from its roughly 3.20mn customers and ABCIR+S. It also wants to create new business while collaborating with start-up companies and others who have technologies and knowhow.

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). As the optimal allocation, the Company plans to allocate ¥65.0bn for growth investment and the remainder for strengthening the financial foundation and shareholder returns. Specifically, it targets at least 9.9% ROIC and at least 13% ROE in FY3/25 and shareholder return of dividends within a 40-50% dividend payout range and dynamic share buybacks.

e) Strengthen SDGs initiatives

As an initiative related to SDGs, in May 2021 the Company released the TOKAI Group “Carbon Neutrality Vision.” Under this vision, the Group aims to achieve carbon neutrality by 2050, and will preemptively enact initiatives to reduce $CO_2$ emissions by 2030. Specifically, in addition to reducing $CO_2$ emissions through by automatic meter reading of LP gas, delivery route optimization and other initiatives, the Group will contribute to the reduction of household $CO_2$ emissions by promoting the widespread use of high efficiency gas equipment and solar power systems in homes. In addition, the Company plans to proactively promote the use of renewable energy.

**f) Initiatives in new domains**

In addition to its existing businesses, the Company is advancing efforts in new domains based on the themes of healthcare, agriculture, education, senior services, and EV, in order to realize "LDG." In the healthcare domain, in July 2022, the Company began demonstration testing jointly with Life Log Technology, Inc. to realize new solution services. Specifically, this initiative provides access to the Calomeal* health management app, which is developed and operated by Life Log Technology, to the Company's TLC members. Based on usage data and other information, the Company intends to consider new services that support members' health management. Additionally, in July 2022, the Company opened one 24-hour fitness club through KCT Co., Ltd. (Okayama Prefecture). In the agriculture domain, TOKAI Venture Capital & Incubation Corporation announced that it had made an investment in CREA FARM, a company engaged in olive production and the sale of olive oil and processed products in Shizuoka Prefecture.

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

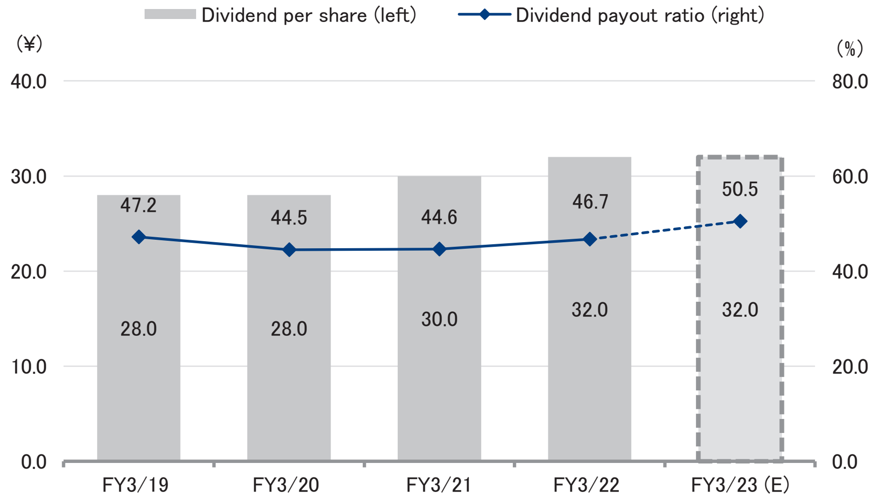
# Shareholder return policy

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

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

The Company also provides gifts to shareholders owning 100 or more shares at the end of March and September, according to how many shares they own. The total investment yield per share unit, including the gifts to shareholders, in an estimate using the current share price level (closing price of ¥870 on August 3, 2022), is in the range of 4.8% to 8.4% (in the case that the shareholder selects a QUO card, QUO card Pay, 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 or QUO card Pay* | ¥500 worth | ¥1,500 worth | ¥2,500 worth |
| A Group restaurant dining certificate | ¥1,000 worth | ¥3,000 worth | ¥5,000 worth |
| TLC Points | ¥1,000 worth | ¥2,000 worth | ¥4,000 worth |
| LIMBO monthly usage fee | ¥2,100 worth | ¥5,100 worth | ¥11,280 worth |

* QUO card Pay can be selected only by online application
Source: Prepared by FISCO from the Company website

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