

TOKAI Holdings Corporation

3167

Tokyo Stock Exchange Prime Market

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■ Index

| | |
|--|-----------|
| ■ Summary | 01 |
| 1. FY3/23 1H results | 01 |
| 2. Outlook for FY3/23 | 01 |
| 3. Progress of medium-term management plan | 02 |
| ■ Business overview | 03 |
| 1. Energy business | 04 |
| 2. Information and communications business | 04 |
| 3. CATV business | 05 |
| 4. Construction equipment and real estate business | 05 |
| 5. Aqua business | 06 |
| 6. Other businesses | 06 |
| ■ Result trends | 06 |
| ■ Outlook | 13 |
| 1. Outlook for FY3/23 | 13 |
| 2. Progress of medium-term management plan, Innovation Plan 2024: “Design the Future Life” | 16 |
| ■ Shareholder return policy | 19 |

Summary

Headwinds offer opportunity to increase LP gas business share

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 digital 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 1H results

In the FY3/23 1H consolidated results, net sales increased for the second consecutive period to ¥104,110mn (up 8.4% YoY), reaching a new record high. The main reasons for the increase in net sales were the increase in the number of continuing customers by 117,000 to 3,242,000 customers, and a 21.9% YoY jump in energy business net sales due to the increase in sales price linked to the procurement price. By contrast, the operating profit decreased 18.6% YoY to ¥4,253mn. Although the operating profit rose in the CATV business and the aqua business, the impact of the higher LP gas procurement price and higher costs to acquire customers were profit decline factors. Recurring profit declined 54.0% YoY to ¥2,432mn due to the booking of a non-operating goodwill impairment loss of ¥1.7bn for its Vietnam affiliate. Net sales exceeded the company forecast by roughly ¥1.1bn, and operating profit by roughly ¥0.7bn. Representative director, president and CEO Kazuhiko Tokita was dismissed for inappropriate use of expenses on September 15, 2022. A special investigation committee released its report on the matter on December 15, 2022, and the company announced reoccurrence prevention measures and penalties on persons concerned on December 23, 2022.

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 operation profit (down 8.2%). The Company expects to set a record high in net sales through the increase in the sales price of LP gas. The Company now expects the negative impact of the upturn in LP gas procurement costs to increase from its initial forecast of ¥5.1bn to ¥6.0bn, resulting in FY3/23 operating profit coming in at the level it had forecast. The Company had originally expected continuing customers to increase 102,000 YoY to 3,295,000 customers, but 2Q figures in the information and communications services business and the CATV business are trending ahead of this pace, making it probable that the full-year figure will beat the forecast.

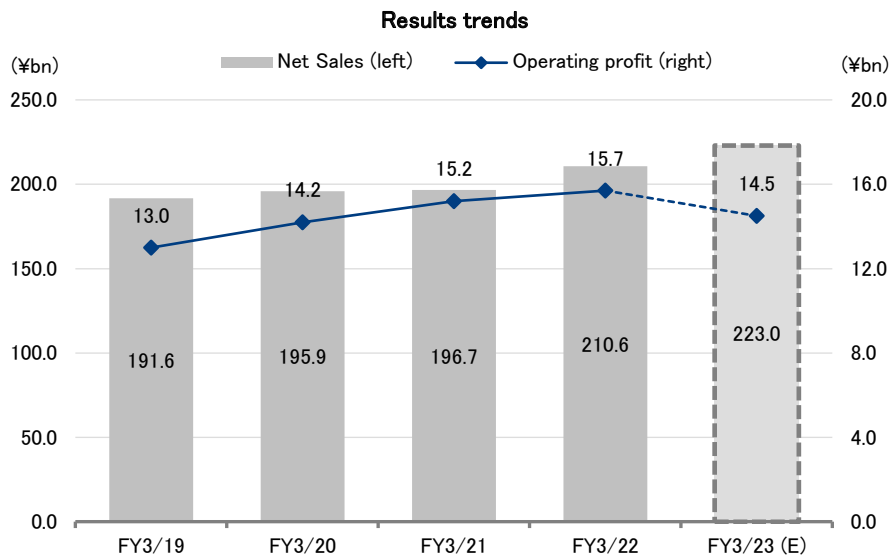
Summary

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 from FY3/22 to FY3/25 as a “stage for building the base for realizing Life Design” and presented numerical management goals for FY3/25 of ¥245.0bn in net sales, ¥18.6bn in operating profit, and 3.56mn continuing customers, for which the Company has taken measures to achieve. The strategy is 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 FISCO views this as an opportunity for the Company to increase its market share in the LP gas industry where the operating environment is increasingly challenging. 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 1H operating profit declined, but the Company set a new record high for net sales
- FY3/23 net sales and operating profit expected to achieve Company forecasts, customer figure likely to beat Company forecast due to information and communications services business and CATV business customer figures trending ahead of plan
- Implements key strategies in 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



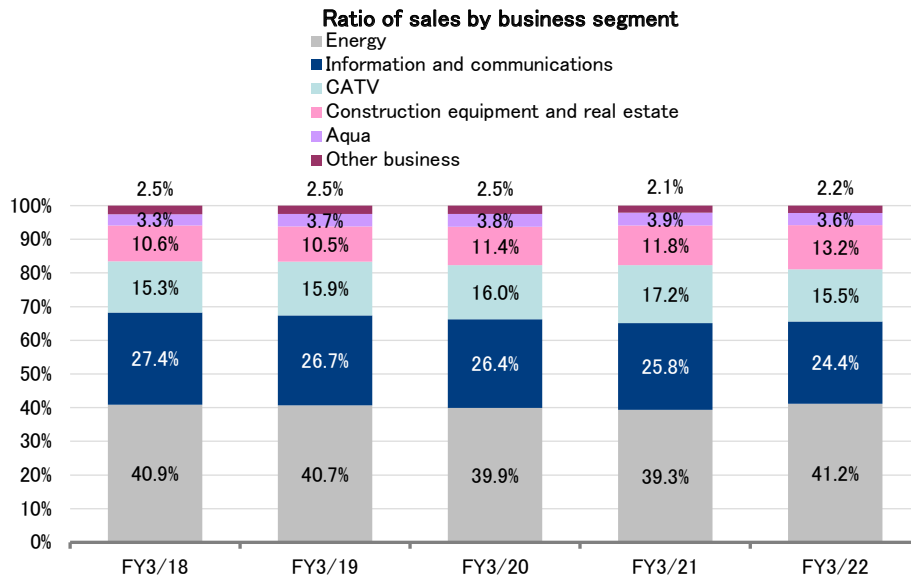
Source: Prepared by FISCO from the Company's financial results

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. There has been no major change in terms of the ratio of net sales by business in 5 years, with the original energy business accounting for roughly 40% of net sales, and together with the information and communications business and the CATV business, these three businesses account for more than 80% of net sales. The details of each business are described below.



Business overview

1. Energy business

Looking at the ratio of sales for FY3/22, 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 731,000 contracts as of September 30, 2022, 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 24 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.

In the city gas business, Tokai Gas Corporation supplies city gas to Yaizu City and Fujieda City in Shizuoka Prefecture and Shimonita-machi in Gunma Prefecture, among others, Nikaho Gas Co., Ltd. supplies Nikaho City in Akita Prefecture, and affiliate Isesaki Gas supplies Isesaki City in Gunma Prefecture. Customers numbered 72,000 as of September 30, 2022, which includes customers in the Tokai area, where equity-method affiliate T&T Energy Co., Ltd.* is engaged (only book sales commissions as revenue). There are 193 city gas operators in Japan (175 privately operated and 18 publicly operated), with the majority excluding the big 4 comprising mostly regional small and medium business operators. The gas retail liberalization in April 2017 has prompted the Company to embark on a policy of expanding its business area through M&A.

* 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

The information and communications business comprises ISP (Internet service provider) business for consumers, mobile business (cell phone sales outlet business and MVNO* business), communication channel provision services to corporations, data center services, cloud system creation support and system development outsourcing business and other business operated by TOKAI Communications Corporation, as well as services such as software development and information processing services at companies that joined the group through M&A. In FY3/22, sales were split approximately 47%/53% between the consumer business and the corporate business, with the corporate business sales percentage showing an upward trend (FY03/17 corporate business accounted for roughly 35%).

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

Business overview

In the ISP business, the Company provides services through two brands: @T COM, which is nationwide, excluding Shizuoka Prefecture and TOKAI Network Club (TNC) and Web Shizuoka 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 Corporation<9432>, and began offering @T COM Hikari and TNC Hikari, which are Hikari 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, 2022, the number of customers is 414,000 for the conventional ISP service, etc., 358,000 customers for the Hikari collaboration service, and 62,000 customers for LIBMO.

In the mobile business, the Company manages 15 mobile phone stores centered on Shizuoka Prefecture as a sales agent for Softbank Corp.<9434>, and has 185,000 customers as of September 30, 2022. The Company also has seven 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, 2022, 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 894,000 customers for the broadcast service and 354,000 customers for the communications service, which combine for a total of 1,247,000 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, 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, and making Wood Recycle Co., Ltd., which engages in the manufacture and sale of wood chips from industrial waste (leaves and branches, small trees) and other materials in Gifu Prefecture, a subsidiary in May 2022. As a general construction company in the Tokai area, the Company is aiming for further growth while leveraging group synergies.

Business overview

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, 2022, the Company has 167,000 customers. The overall industry had 4,650,000 customers at the end of 2021, 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, 2022, 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

FY3/23 1H operating profit declined, but the Company set a new record high for net sales

In the FY3/23 1H consolidated results, net sales increased 8.4% YoY to ¥104,110mn, operating profit decreased 18.6% YoY to ¥4,253mn, recurring profit decreased 54.0% YoY to ¥2,432mn, quarterly net income attributable to owners of the parent declined 93.5% YoY to ¥147mn. Net sales improved for a second consecutive year and achieve a record high, as the number of continuing customers increased, energy business sales rose due to the increase in sales price linked to the procurement price, and the information and communications services business for corporate customers expanded. The number of continuing customers increased by roughly 49,000 YoY to 3,242,000 customers at end-FY3/23 2Q, at a pace to exceed the 26,000 net increase at the end of FY3/22 2Q.

Operating profit declined due to impact of higher LP gas procurement prices and costs to acquire customers. However, it appears that net sales were around ¥1.1bn higher, and operating profit around ¥0.7bn higher, than the Company’s forecast, mainly in the energy business. The significant decline in recurring profit was due to a non-operating goodwill impairment loss of ¥1.7bn caused by its equity-method Vietnam affiliate* that conducts LP gas sales business declaring an impairment loss as a result of lower earnings due to COVID-19. The overall equity-method investment loss was ¥1,963mn, up ¥1,856mn YoY. The Company also booked a valuation loss on investment securities of ¥314mn and a ¥401mn loss on retirement of fixed assets as extraordinary losses, which also pushed down quarterly net income attributable to owners of the parent

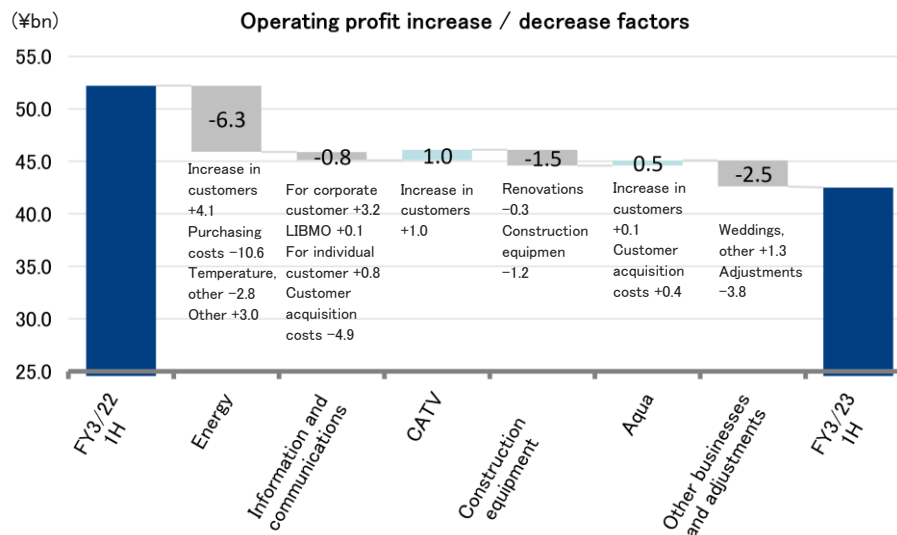
* In June 2020, the Company acquired a 45% stake each (investment amount of roughly ¥2.1bn) in Mien Trung Gas Joint Stock Company (LP gas wholesale business) and V-Gas Petroleum Corporation (LP gas wholesale, container manufacturing business), both subsidiaries of Petro Center Corporation, a leading LP gas distributor in Vietnam.

Result trends

FY3/23 1H results (consolidated)

| | FY3/22 1H | | FY3/23 1H | | YoY |
|---|-----------|------------|-----------|------------|--------|
| | Results | % of sales | Results | % of sales | |
| Net sales | 96,060 | - | 104,110 | - | 8.4% |
| Cost of sales | 57,321 | 59.7% | 64,874 | 62.3% | 13.2% |
| SG&A expenses | 33,516 | 34.9% | 34,982 | 33.6% | 4.4% |
| Operating profit | 5,223 | 5.4% | 4,253 | 4.1% | -18.6% |
| (Equity-method investment loss) | 107 | - | 1,963 | - | - |
| Recurring profit | 5,284 | 5.5% | 2,432 | 2.3% | -54.0% |
| Extraordinary income/loss | -882 | - | -560 | - | - |
| Quarterly net income attributable to owners of the parent | 2,281 | 2.4% | 147 | 0.1% | -93.5% |
| Number of continuing customers (thousands) | 3,125 | | 3,242 | | 3.7% |

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

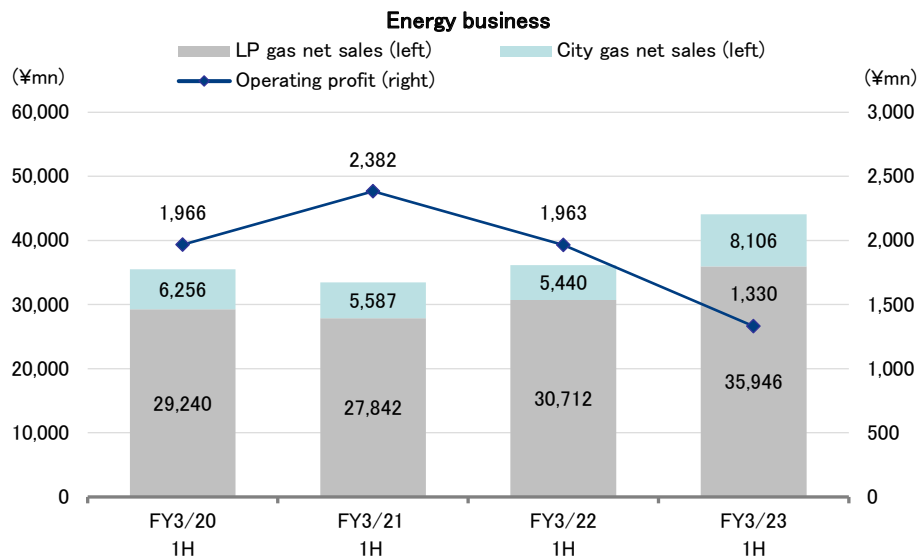


Note: Operating profit change values are prior to allocating indirect costs
 Source: Prepared by FISCO from the Company's supplementary results briefing materials

(1) Energy business

In the energy business, net sales increased by 21.9% YoY to ¥44,053mn, while 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) decreased by 32.2% YoY to ¥1,330mn. It appears that higher energy procurement prices helped net sales and operating profit exceed the Company's forecast by ¥2.2bn and ¥0.6bn, respectively.

Result trends



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

In the LP gas business, net sales increased 17.0% YoY to ¥35,946mn. The main reasons for the increase in net sales were the increase in the number of continuing customers by 34,000 to 731,000 customers, and higher sales prices of industrial gases due to the increase in sales price linked to the procurement price. The number of customers increased by 16,000 compared to the end of the previous fiscal year, maintaining the pace of increase from the previous year. Looking at the breakdown, there were 7,000 newly acquired customers in existing areas and 9,000 newly acquired customers in new areas. The figure was 1,000 customers short of the Company's forecast, due to the number of customers acquired from M&A and alliances falling 2,000 customers short of plan. This was due to COVID-19 lengthening negotiation periods. Compared to the Company's forecast, suspensions and cancellations were in line, while the number of new customers was steady, up 1,000.

Sales volume decreased 3.0% YoY. Although residential use sales volume grew by 1.7% YoY, industrial use sales declined 9.1% YoY as sales to specific customers dropped out. However, these were low-profit transactions, so had a negligible impact on profit. Overall sales unit prices rose by roughly 20% YoY, but the greater part of this was due to a rise in commercial use, and the rate of increase in residential use unit sales price was small, but this was due to the Company selling gas at promotional prices in order to acquire customers in new areas, and other factors.

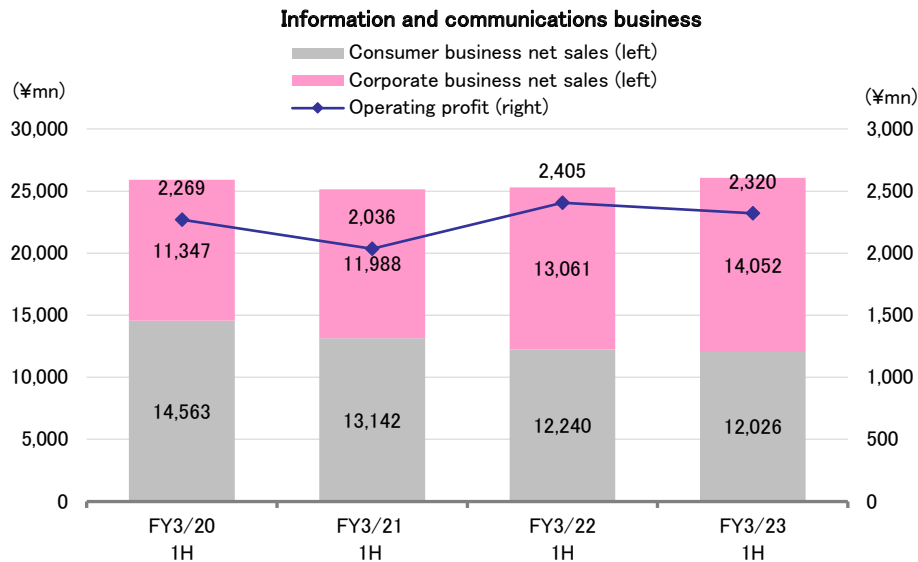
In the city gas business, net sales increased 49.0% YoY to ¥8,106mn, and the number of customers increased by 5,000 to 72,000 customers. The bulk of the increase in the number of customers was due to the number of contracts of T&T Energy Co., Ltd. The main factor for the increase in sales was the increase in sales unit prices due to the system to adjust the prices of raw materials.

Factors causing change in operating profit include ¥410mn from an increase in the number of customers, and ¥300mn from a reduction in other expenses, while factors causing a decrease were a setback of ¥1.06bn (after deducting ¥740mn of price pass through) from higher LP gas procurement prices, and 280mn from the lower sales volume due to a higher average temperature (up 0.2°C YoY). Factors in operating profit exceeding the Company's forecast include household LP gas procurement costs falling short of expectations, and effects from price revisions of retail rates, as well as cost reduction initiatives.

Result trends

(2) Information and communications business

In the information and communications business, net sales increased 3.1% YoY to ¥26,078mn, while operating profit decreased 3.5% to ¥2,320mn, broadly in line with the Company's forecasts..



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

In the consumer business, net sales continued to decrease, falling 1.8% YoY to ¥12,026mn, while EBITDA (operating profit + depreciation and amortization) declined 54.3% to ¥396mn as a result of a temporary increase in customer acquisition costs due to a rise in customer acquisitions. At the end of September 2022, the number of customers increased 28,000 for existing ISP services and other services to 414,000 customers, increased 19,000 for Hikari Collaboration to 358,000 customers, and 8,000 for LIBMO (inexpensive SIM service) to 62,000 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 services from FY3/22 4Q, so there was a decline in customers on an effective basis. For Hikari Collaboration, the increase was due to the partnership with as major mobile phone carrier from October 2021, and the bolstering of customer acquisition via traditional sales channels such as home electronics retailers in addition to mobile phone shops. However, for these customers acquired through mobile phone carriers, the sales for the optical communications service are excluded, so net sales declined (with no impact on gross profit). For LIBMO, customer numbers grew steadily due to the increase in customer acquisition costs, including digital marketing, as well as competitor service communication failures. Looking at 2Q only, net sales in the consumer business turned positive, increasing by 0.2% YoY to ¥6,065mn, arresting the negative net sales trend that had continued since FY3/18.

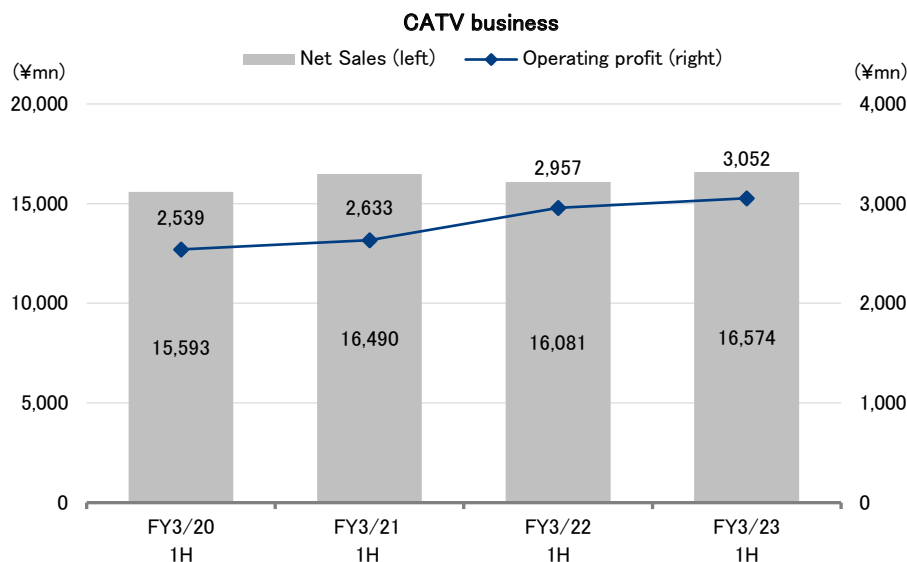
In the corporate business, net sales increased 7.6% YoY to ¥14,052mn, and EBITDA increased 7.8% to ¥3,536mn, as the trend of increases in both sales and profit continued. Net sales were boosted by the continuation of steady growth in cloud services, as well as robust incoming orders for contracted systems development.

Factors causing change in operating profit include ¥320mn from stronger sales in the corporate business, ¥80mn from an increase in customers in the consumer business, and ¥10mn from LIBMO. However, a ¥490mn increase in customer acquisition costs meant a slight decrease in the overall operating profit.

Result trends

(3) CATV business

In the CATV business, net sales increased 3.1% YoY to ¥16,574mn, while operating profit increased 3.2% YoY to ¥3,052mn, in line with the Company's forecast and a record high. Although sales declined in the same period of the previous year due to the change in accounting standards, there was an increase in sales on an actual basis due to an increase in the number of customers, and sales growth remained steady. At the end of FY3/23 2Q, the number of customers had increased by 13,000 to 894,000 customers for broadcast services, and increased by 21,000 to 354,000 customers for communications services. Factors in the improved sales and profit include a focus on community-based information dissemination and program production, collaboration with major video distributors to enhance content, expansion of areas to which it provided high-speed optical communications services, resulting in an increase of broadcast + communication service set contracts. The communications service contract ratio (communications service contracts÷broadcast service contracts) rose from 37.8% in FY3/22 2Q to 39.6%.



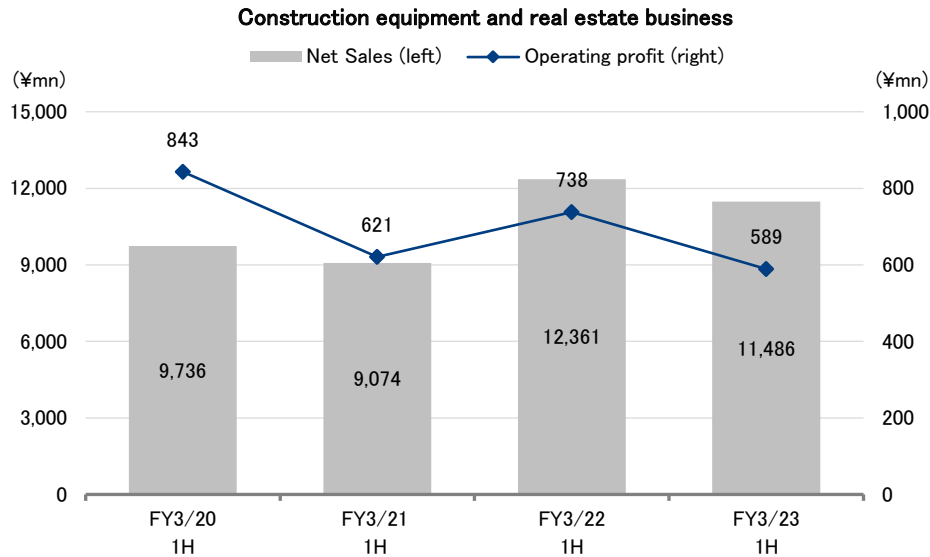
Note: Operating profit values are prior to allocating indirect costs and other cost
 Source: Prepared by FISCO from the Company's supplementary financial results materials

(4) Construction equipment and real estate business

In the construction equipment and real estate business, net sales declined 7.1% YoY to ¥11,486mn, and operating profit decreased 20.2% to ¥589mn, as both sales and profit turned lower. It appears that net sales were roughly ¥1.0bn lower and operating profit almost ¥0.1bn lower than the Company forecast. Looking more closely at net sales, a drop in building and equipment construction and stores' new construction projects and other factors saw building and equipment construction business net sales decline by 12.7% YoY to ¥7,721mn and civil engineering construction business was also sluggish, falling 23.7% YoY to ¥968mn, while real estate sales and management business net sales were flat, decreasing by 0.2% YoY to ¥3,020mn. Operating profit declined mainly at the building and equipment construction business by ¥120mn and the renovation business by ¥30mn.

In May 2022, the Company made Wood Recycle Co., Ltd. into a subsidiary. Although Wood Recycle has only a few employees and its impact on results will be minimal in the near term, wood chips are used as fuel for wood biomass power generation, and demand is expected to increase going forward. The Group may look to develop a biomass power generation business in the future, so it plans to invest resources in this business.

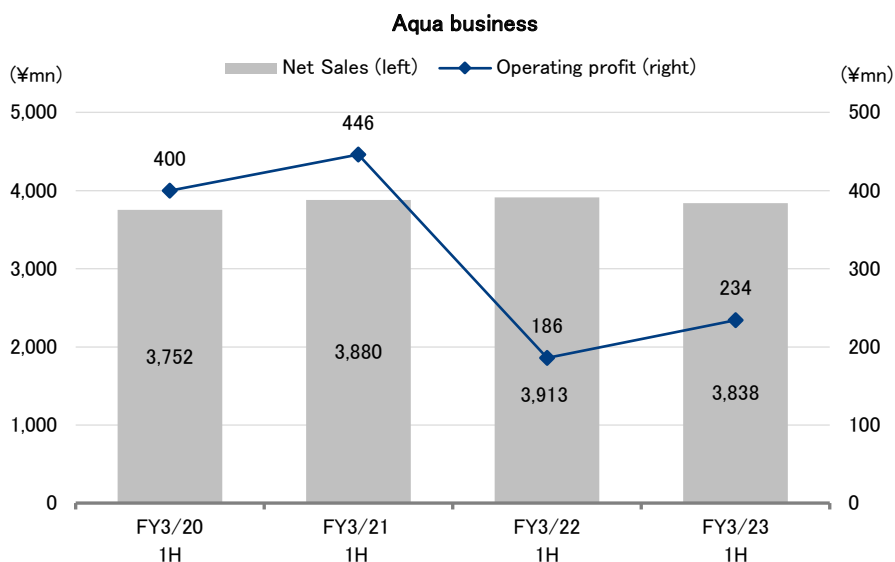
Result trends



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

(5) Aqua business

In the Aqua business, net sales decreased 1.9% YoY to ¥3,838mn, but operating profit increased 25.8% to ¥234mn. The number of customers as of the end of September 2022 increased by 2,000 YoY to 167,000, so the pace of increase slowed, but progress was as expected. Although net sales declined due to the drop in the consumption volume per household, operating profit improved as a result of a ¥10mn uplift from an increase in customers and a ¥40mn boost from suppressing customer acquisition costs.



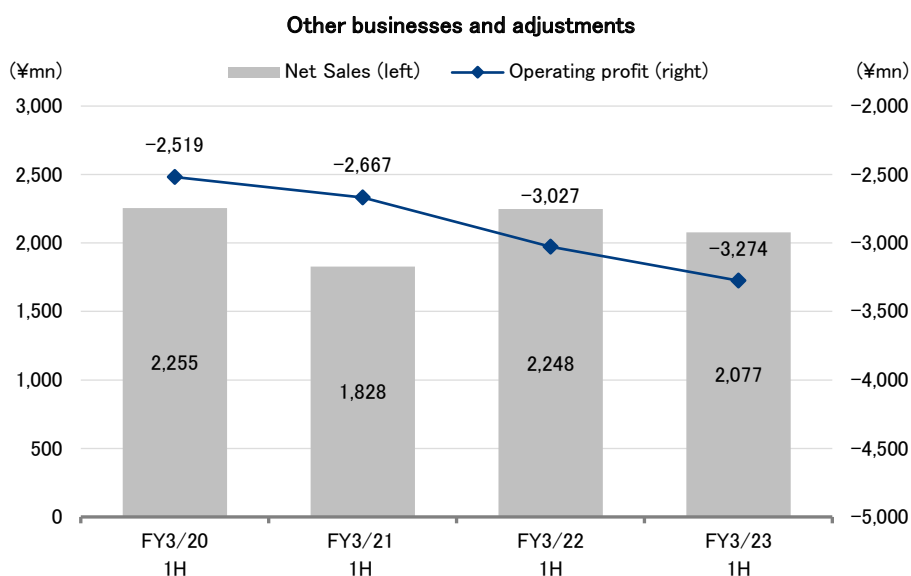
Note: Operating profit values are prior to allocating indirect costs and other cost
 Source: Prepared by FISCO from the Company's supplementary financial results materials

We encourage readers to review our complete legal statement on "Disclaimer" page.

Result trends

(6) Other businesses and adjustments

In other businesses, net sales decreased 7.6% YoY to ¥2,077mn. Breaking this down, sales in the nursing care business increased 5.5% to ¥694mn 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 41.2% to ¥398mn. Meanwhile, in the shipbuilding business, sales declined considerably, down 32.0% YoY to ¥581mn, due to the decrease in the number of ships repaired. The segment's operating loss, including internal adjustments, was ¥3,274mn (¥3,027mn in the same period of previous fiscal year).



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

Number of customers by key service

| | FY3/20 1H-end | FY3/21 1H-end | FY3/22 1H-end | FY3/23 1H-end | YoY change | Change from previous FY-end |
|---------------------------------------|------------------|------------------|------------------|------------------|------------|--------------------------------|
| (thousand) | | | | | | |
| Energy | 696 | 728 | 764 | 804 | 40 | 19 |
| LP gas | 639 | 667 | 697 | 731 | 34 | 16 |
| City gas | 56 | 61 | 67 | 72 | 5 | 3 |
| Information and communications | 770 | 762 | 779 | 834 | 55 | 18 |
| Conventional ISP and related services | 403 | 379 | 386 | 414 | 28 | -1 |
| Hikari Collaboration | 324 | 332 | 339 | 358 | 19 | 12 |
| LIBMO | 43 | 51 | 54 | 62 | 8 | 7 |
| CATV | 1,076 | 1,179 | 1,214 | 1,247 | 33 | 16 |
| Broadcast service | 794 | 868 | 881 | 894 | 13 | 6 |
| Communications service | 282 | 311 | 333 | 354 | 21 | 10 |
| Aqua | 159 | 161 | 165 | 167 | 2 | 2 |
| Mobile | 215 | 209 | 198 | 185 | -13 | -6 |
| Security | 16 | 16 | 16 | 16 | 0 | 0 |
| Total | 2,918 | 3,042 | 3,125 | 3,242 | 117 | 48 |

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. Information and communications services (existing ISP and related services) include contracts for ISP add-on services of PC home support service from FY3/21 4Q and PC remote service support from FY3/22 4Q

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

■ Outlook

FY3/23 net sales and operating profit expected to achieve Company forecasts, customer figure likely to beat Company forecast due to information and communications services business and CATV business customer figures trending ahead of plan

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. The end-FY3/23 Q2 progress rate was 46.7% for net sales, 29.3% for operating profit, and 17.0% for recurring profit. Compared against the past three years (net sales 46.2%, operating profit 35.8%, recurring profit 35.9%), net sales progress is good, but operating profit and recurring profit progress are lagging behind the Company's forecast.

Outlook for FY3/23

| | FY3/22 | | FY3/23 | | YoY | 2Q progress rate | Average progress rate over the past three years |
|---|---------|------------|-----------|------------|--------|------------------|---|
| | Result | % of sales | Forecasts | % of sales | | | |
| Net sales | 210,691 | - | 223,000 | - | 5.8% | 46.7% | 46.2% |
| Operating profit | 15,794 | 7.5% | 14,500 | 6.5% | -8.2% | 29.3% | 35.8% |
| Recurring profit | 15,907 | 7.5% | 14,300 | 6.4% | -10.1% | 17.0% | 35.9% |
| Net income attributable to owners of the parent | 8,969 | 4.3% | 8,300 | 3.7% | -7.5% | 1.8% | 34.8% |
| Net income per share (¥) | 68.49 | | 63.43 | | | | |
| Number of continuing customers (thousand) | 3,194 | | 3,295 | | 3.2% | | |

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

The Company expects to achieve its full-year forecasts based on rising energy prices in 2H meaning net sales are likely to exceed the Company's forecast, and operating profit also trending ahead of projections up to end-FY3/23 2Q. By contrast, recurring profit is highly likely to fall short due to the booking of an equity-method investment loss in 2Q. The Company had originally expected continuing customers to increase 101,000 YoY to 3,295,000 customers, but 2Q figures in the information and communications services business and the CATV business are trending ahead of plan, and FISCO thinks continuing customers may increase to around 3,300,000.

TOKAI Cable Network Corporation engaged in the Group's CATV business made Okinawa Cable Network, Inc. a subsidiary in October 2022 (capital ratio of 70.0%). Okinawa Cable Network has around 100,000 customers, and net sales of around ¥1.6bn and operating profit of around ¥0.1bn, but an increase in depreciation and amortization from optical investment in FY3/22 is expected to pull down operating profit to the break-even level in FY3/23. TOKAI Communication also made logistics warehouse management system developer J-support CO., LTD a subsidiary in October 2022 (capital ratio of 100.0%). In the future, the Group will offer J-support's system to its customer companies in the logistics sector, and also offer TOKAI Group's solutions services to J-support customers. J-support's net sales are a modest ¥0.4bn, but its policy is to incorporate it into the Group and support "people, objects, money" to grow its business scale.

TOKAI Holdings Corporation | 7-Feb.-2023
 3167 Tokyo Stock Exchange Prime Market | <https://www.tokaiholdings.co.jp/english/ir/>

Outlook

Results by segment

| | (¥mn) | | | | | |
|--|----------------|----------------|----------------|----------------|-------------|------------------|
| <Net sales> | FY3/20 | FY3/21 | FY3/22 | FY3/23 (E) | YoY | 2Q progress rate |
| Energy | 78,154 | 77,380 | 86,770 | 91,300 | 5.2% | 48.3% |
| Information and communications | 51,753 | 50,735 | 51,398 | 53,200 | 3.5% | 49.0% |
| CATV | 31,385 | 33,745 | 32,572 | 34,400 | 5.6% | 48.2% |
| Construction equipment and real estate | 22,383 | 23,177 | 27,780 | 31,500 | 13.4% | 36.5% |
| Aqua | 7,416 | 7,622 | 7,629 | 7,700 | 0.9% | 49.8% |
| Other business | 4,858 | 4,065 | 4,540 | 4,900 | 7.9% | 42.4% |
| Total | 195,952 | 196,726 | 210,691 | 223,000 | 5.8% | 46.7% |

| <Operating profit> | FY3/20 | FY3/21 | FY3/22 | FY3/23 (E) | YoY | 2Q progress rate |
|--|---------------|---------------|---------------|---------------|--------------|------------------|
| Energy | 7,452 | 8,988 | 8,933 | 6,520 | -27.0% | 20.4% |
| Information and communications | 4,226 | 4,344 | 4,721 | 5,100 | 8.0% | 45.5% |
| CATV | 5,024 | 5,205 | 5,852 | 6,040 | 3.2% | 50.5% |
| Construction equipment and real estate | 2,116 | 2,065 | 2,480 | 2,560 | 3.2% | 23.0% |
| Aqua | 674 | 573 | 325 | 595 | 83.1% | 39.3% |
| Other business | -5,271 | -5,949 | -6,518 | -6,315 | - | 51.8% |
| Total | 14,224 | 15,226 | 15,794 | 14,500 | -8.2% | 29.3% |

Note: Values are prior to allocating indirect costs and other costs

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

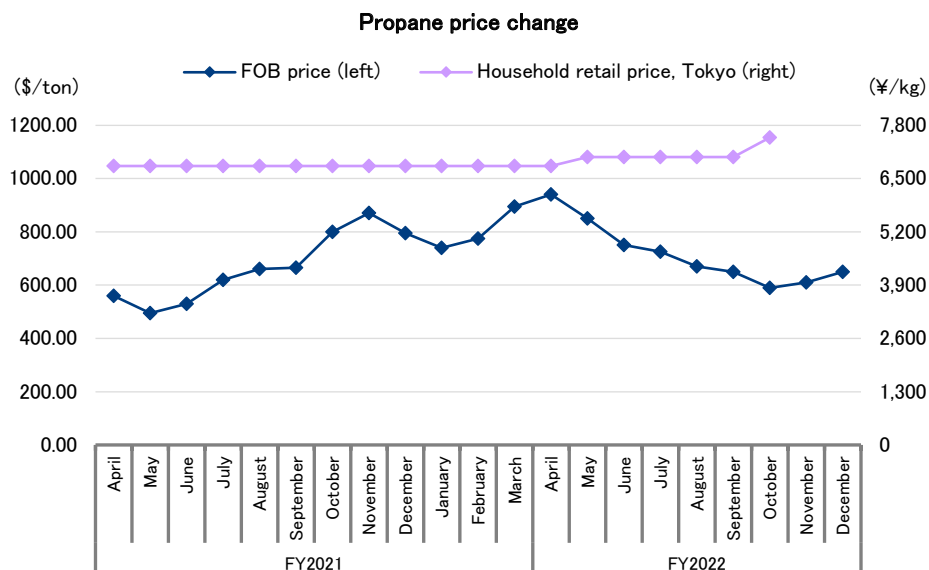
(1) Energy business

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 to 757,000 customers in LP gas business and 9,000 to 79,000 customers in city gas business (provided by T&T energy contracts). 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 up to end-2Q undershot the forecast by around 1,000, but amid an increasingly challenging market environment for LP gas business operators, the Company plans to make up for lost ground in 2H by bolstering its M&A and alliance strategy.

Anticipated factors causing a decrease in operating profit are setbacks of ¥5.1bn from an upturn in procurement costs, ¥900mn from an increase in personnel costs and expenses, and ¥500mn from a decline in consumption volume per household (assuming a 0.2°C YoY rise in the average annual temperature), while factors causing an increase in operating profit include boosts of ¥2.0bn from sales price hikes, ¥800mn from an increase in the number of customers, and ¥900mn from a decline in customer acquisition and maintenance costs. Although the FOB price* that acts as an index for procurement costs has fallen from a peak of \$940/ton in April 2022 to \$650/ton in December, it appears that factors such as yen depreciation make this price higher than the rate in the Company's initial forecasts. This means the impact on procurement costs will rise to around ¥6bn. However, a likely rise in household LP gas prices will mean higher prices will partially offset this amount. For this reason, net sales are highly likely to exceed the Company's forecast, but operating profit will likely fall to the forecast level. The reason for the large impact of the procurement cost is due to the Company having managed to procure gas for FY3/22 at a lower cost than the actual cost. The FY3/22 FOB price was ¥78,000/ton on a yen basis, but the average FY3/21 procurement price was ¥44,000/ton. The April-October 2022 average price was ¥98,000/ton, but fell to ¥85,000/ton in October. Any fall in the FOB price for FY3/24 would be an operating profit increase factor due to the time lag between the procurement and sales price.

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

Outlook



Note: FOB price= The sales price from Saudi Arabia to importers
 Source: Prepared by FISCO from Japan LP Gas Association materials

(2) Information and communications business

In the 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 a slight YoY decline in net sales and modest YoY rise in operating profit. The outlook had assumed the total number of customers at a flat level YoY at 760,000 customers for existing ISP and Hikari Collaboration services, and a net increase of 14,000 customers to 69,000 customers for LIBMO. However, existing ISP and Hikari Collaboration total customers of 772,000 at end-Q2 exceeded the Company outlook, and with LIBMO being offered nationwide in DoCoMo stores from December 21, 2022, the full-year customer figure may exceed the outlook depending on the number of new customers this generates. DoCoMo stores offer services from OCN Mobile One from NTT Communications Corporation and Tone Mobile from FreeBit <3843> as low-cost MVNOs, and LIBMO joins as the third such service, and will appeal to smartphone users who want lower rates than Ahamo. From the above, FISCO believes the net sales forecast will be achieved, but that whether or not the operating profit forecast is achieved will depend on the extent to which customer acquisition costs that increased up to 2Q can be controlled.

Meanwhile, in the corporate business, the Company expects both sales and profit increases in the upper single-digit range YoY. With a long order backlog, including the order backlog increasing by ¥1.5bn YoY in the cloud service and other stock business, and by ¥500mn YoY in the contracted system development business as of end-FY3/23 2Q, the full-year forecast of sales and profit increases is expected to be achieved.

(3) CATV business

In CATV business, the Company forecasts both sales and profit increases (YoY) with gains of 5.6% in net sales and 3.2% in operating profit. The Company had assumed an increase of 42,000 customers YoY to 1,273,000 customers on a combined basis for broadcast and communications services including the contribution from Okinawa Cable Network, Inc., but current customer figures are trending ahead of plan, meaning sales may exceed the forecast by a small margin.

Outlook

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

The outlook for the construction equipment and real estate business was for sales and profit to increase, with net sales rising by 13.4% YoY and operating profit growing by 3.2%. However, in light of the situation up to end-FY3/23 2Q, these forecasts look challenging, and sales and profit may decrease. On a more positive note, the Company's initiatives to utilize resources among Group companies acquired over the past few years through M&A to reduce outsourcing costs are expected to gradually generate synergies in the future.

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 factored in a slight rise in the number of customers YoY of 1,500 customers to 167,000 customers, but this figure was achieved in 2Q, and the Company expects to add to this figure in 2H. The Company's policy is to lower customer acquisition costs and improve profitability through the bolstering of digital marketing in addition to face-to-face sales at commercial premises. 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.

Implements key strategies in 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. The Company also aims to increase continuing customers by 460,000 in four years to 3.56mn customers by the end-FY3/25.

TOKAI Holdings Corporation | 7-Feb.-2023
 3167 Tokyo Stock Exchange Prime Market | <https://www.tokaiholdings.co.jp/english/ir/>

Outlook

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

(¥bn)

| | FY3/21 Results | FY3/22 | | FY3/23 | | FY3/24 Initial forecast | FY3/25 Initial forecast | Average annual growth rate |
|---|-------------------|---------------------|---------|---------------------|-----------------|-------------------------------|-------------------------------|----------------------------------|
| | | Initial forecast | Results | Initial forecast | Revised plan | | | |
| Net sales | 1,967 | 2,070 | 2,107 | 2,210 | 2,230 | 2,320 | 2,450 | 5.6% |
| Operating profit | 152 | 152 | 158 | 156 | 145 | 165 | 186 | 5.2% |
| Net income attributable to owners of the parent | 88 | 88 | 90 | 90 | 83 | 95 | 110 | 5.7% |
| Cash flow from operating activities* | 224 | 218 | 208 | 230 | 212 | 240 | 260 | 3.8% |
| Number of continuing customers (ten thousand) | 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

No. of continuing customers by business

(Unit: 10,000 customers)

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

Note: Uses rounded values

Source: Prepared by FISCO from an interview with the Company

(2) Progress on 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). Its policy is to increase the number of continuing customers while steadily expanding its business area by using M&A, and at the same time focusing on “selection and concentration” that prioritizes profitability.

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 from a medium-term perspective.

Outlook

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.

More recently, the Company announced in December 2022 that it would conduct a demonstration test for data use to achieve smart life with Sharp Corporation<6753> and its group company AloT Cloud Inc. The companies will combine the AloT* COCORO+ household appliances being developed by Sharp with various lifestyle data collected from the Company Group's residential use energy solutions to study how to shape smart life. Services for customers include proposals on efficient usage methods for gas and household appliances, and smart appliance remote control services. The companies also plan to initiate research into CO₂ emission reductions in living environments.

* AloT is a combination of AI and IoT, and describes Sharp's vision of connecting various items to the cloud and giving them AI capabilities to make them people-orientated and user friendly. It is a registered trademark of Sharp.

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 13.0% ROE in FY3/25 and shareholder return of dividends within a 40-50% dividend payout range. It also intends to flexibly implement share buybacks as and when it considers necessary.

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 CO₂ emissions by 2030. Specifically, in addition to reducing CO₂ emissions through by automatic meter reading of LP gas, delivery route optimization and other initiatives, the Group will contribute to the reduction of household CO₂ 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.

Outlook

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. The Company intends to engage in such new fields in the future, and actively carry out investment in areas that will produce future seeds.

* This is a health management app that records and visualizes nutritional value using AI image analysis and automated calculation simply from input of meal pictures. The app reached 1.5mn downloads since its release in 2016.

(3) Dismissal of representative director and announcement of reoccurrence prevention measures

The Company announced on September 15, 2022 that it had dismissed representative director, president and CEO Kazuhiko Tokita for inappropriate use of expenses, and appointed director Katsuo Oguri as his successor. A special investigation committee released its report on the matter on December 15, 2022, and the Company announced reoccurrence prevention measures and penalties on December 23, 2022. These measures include thorough compliance awareness, revision of expenses processing procedure for the company president, strengthening the system of checks on directors, transparency of the decision process of the Nomination and Compensation Committee, and implementation of meetings between internal and outside directors to exchange opinions.

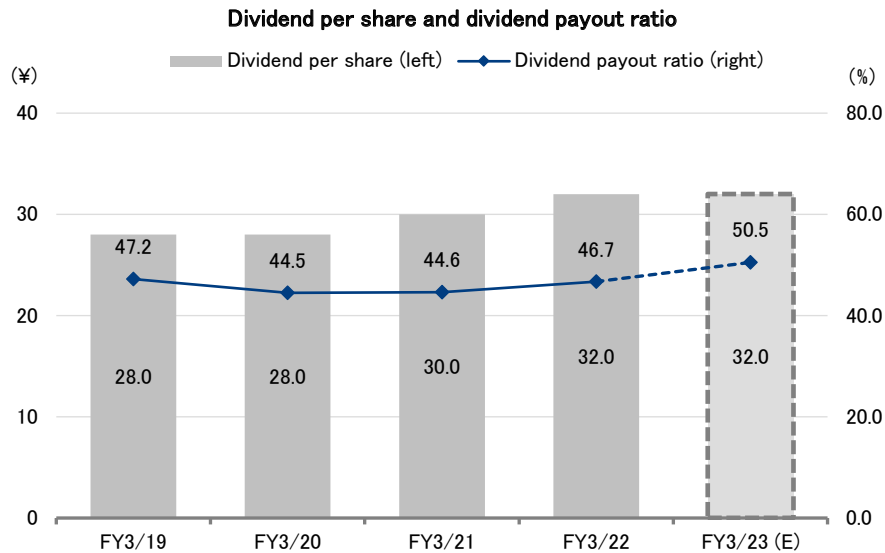
■ Shareholder return policy

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. 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 ¥855 on December 27, 2022), is in the range of 4.9% to 8.5% (in the case that the shareholder selects a QUO card or an Aqua product as the gift).

Shareholder return policy



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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