TOKAI Holdings Corporation

3167

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Summary

Number of continuing customers expanding steadily, forecast to post consecutive record high net sales

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 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 3Q cumulative results overview

In the FY3/23 3Q consolidated results, net sales increased to ¥164,249mn (up 9.9% YoY) and operating profit was ¥8,466mn (down 8.5% YoY). Net sales increased for two consecutive fiscal years, reaching a new record high. In addition to an increase in the number of continuing customers, net sales in the energy business rose sharply by 21.0% YoY due to higher sales prices linked to purchase prices, and the information and communications business for corporate clients also expanded steadily with a 7.9% YoY rise in net sales. Profits were affected by the impact of higher LP gas purchase prices and increased customer acquisition costs in the information and communications business, among other factors. Net sales and operating profit are estimated to have exceeded the Company's forecasts by ¥3.8bn and ¥1.0bn, respectively, mainly in the energy business.

2. Outlook for FY3/23

The outlook for the FY3/23 consolidated net sales is to set a new record high, targeting ¥223,000mn (up 5.8% YoY). The forecast for operating profit of ¥14,500mn (down 8.2%) remains unchanged from the initial forecast. However, the Company has revised downward the forecasts for recurring profit from ¥14,300mn to ¥12,600mn (down 20.8%,) and for net income attributable to owners of the parent from ¥8,300mn to ¥6,300mn (down 29.8%) (effective from February 2, 2023). Recurring profit was revised downward after recording ¥1,746mn in impairment losses of goodwill of an equity-method affiliate in Vietnam under non-operating expenses. The forecast for net income attributable to owners of the parent was revised due to recording ¥312mn special investigation fee under extraordinary losses* in addition to the decrease in recurring profit. Operating profit had been on pace to exceed the forecast until 3Q, but is expected to settle at the same level as the initial forecast for the full year due to an increase in customer acquisition costs in the energy business in 4Q and a likely downturn in earnings in the construction equipment and real estate business due to sluggish orders.

* Special investigation fee is the cost incurred in investigating the facts related to the inappropriate use of expenses by the former representative director, president and CEO.

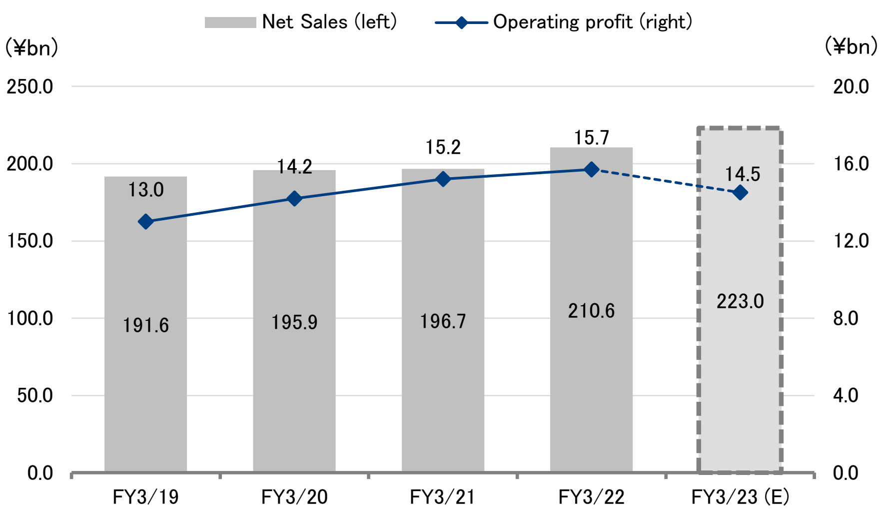
3. Progress of medium-term management plan

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. For FY3/24 onward, the effects of growth investments are expected to become apparent and return to a profitable trend. The Company will continue in the future to accumulate the number of continuing customers while leveraging M&A, centered on the mainstay LP gas and CATV businesses, and aim for stable profit growth while striving for operational efficiency through the promotion of DX.

Key Points

- FY3/23 3Q operating profit declined, but the Company set a new record high for net sales
- FY3/23 net sales and operating profit expected to achieve the initial forecasts
- Implements key strategies in the medium-term management plan, forecast to return to profitable trend from FY3/24

Results trends



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

Result trends

In FY3/23 3Q cumulative results, operating profit declined, but the Company set a new record high for net sales

1. FY3/23 3Q cumulative results overview

In the FY3/23 3Q cumulative consolidated results, net sales increased 9.9% YoY to ¥164,249mn, operating profit decreased 8.5% to ¥8,466mn, recurring profit decreased 28.1% to ¥6,705mn, quarterly net income attributable to owners of the parent declined 39.2% to ¥2,816mn.

FY3/23 3Q cumulative results (consolidated)

(¥mn)

	FY3/22 3Q		FY3/23 3Q		
	Results	% of sales	Results	% of sales	YoY
Net sales	149,420	-	164,249	-	9.9%
Cost of sales	89,321	59.8%	102,720	62.5%	15.0%
SG&A expenses	50,850	34.0%	53,063	32.3%	4.4%
Operating profit	9,248	6.2%	8,466	5.2%	-8.5%
(Equity-method investment profit and loss)	-178	-	-2,001	-	-
Recurring profit	9,324	6.2%	6,705	4.1%	-28.1%
Extraordinary income/loss	-1,000	-	-631	-	-
Quarterly net income attributable to owners of the parent	4,634	3.1%	2,816	1.7%	-39.2%
Number of continuing customers (end of 3Q, thousands)	3,142		3,258		3.7%

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

Net sales improved for a second consecutive year and achieved a record high, as the number of continuing customers increased, energy business sales rose due to the increase in sales price linked to the purchase price, and the information and communications business for corporate clients expanded. The number of continuing customers at end-FY3/23 3Q increased by 64,000 YoY to 3,258,000 customers at a pace to exceed the 43,000 net increase at end-FY3/22 3Q. Operating profit declined due to impact of higher LP gas purchase prices and costs to acquire customers in the information and communications business for consumers. However, net sales and operating profit are estimated to have exceeded the Company's forecasts by ¥3.8bn and ¥1.0bn, respectively, mainly in the energy business.

The significant decline in recurring profit was due mainly to recording in FY3/23 1H of an increase of ¥1,823mn YoY in equity-method investment loss from a non-operating goodwill impairment loss of ¥1,746mn caused by an equity-method Vietnam affiliate*1 that conducts LP gas sales. Moreover, the Company also recorded valuation loss on investment securities of ¥103mn and ¥51mn*2 gain on bargain purchase as extraordinary income, and ¥592mn loss on retirement of non-current assets and ¥312mn special investigation fee under extraordinary losses.

*1 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.

*2 Gain on bargain purchase related to making a subsidiary of Okinawa Cable Network Inc. through a stock acquisition (capital ratio of 70%) in October 2022.

Profit down in energy business due to impact of higher purchase costs, but other main businesses secure increased profit

2. Trends by business segment

Results by segment

(¥mn)

<Net sales>	FY3/20 3Q	FY3/21 3Q	FY3/22 3Q	FY3/23 3Q	YoY
Energy	55,191	53,437	58,717	71,069	21.0%
Information and communications	38,834	37,831	38,206	39,662	3.8%
CATV	23,433	24,994	24,265	25,510	5.1%
Construction equipment and real estate	14,919	14,815	19,025	18,840	-1.0%
Aqua	5,603	5,778	5,811	5,720	-1.6%
Other business	3,575	2,934	3,395	3,446	1.5%
Total	141,557	139,792	149,420	164,249	9.9%

<Operating profit>	FY3/20 3Q	FY3/21 3Q	FY3/22 3Q	FY3/23 3Q	YoY
Energy	3,964	5,034	4,317	3,552	-17.7%
Information and communications	3,366	3,081	3,492	3,563	2.0%
CATV	3,790	4,102	4,539	4,706	3.7%
Construction equipment and real estate	1,242	1,094	1,126	1,195	6.1%
Aqua	597	578	287	394	37.3%
Other business	-3,682	-3,988	-4,514	-4,947	-
Total	9,278	9,901	9,248	8,466	-8.5%

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

Number of customers by key service

(thousand)

	FY3/21 3Q-end	FY3/22 3Q-end	FY3/23 3Q-end	YoY change	Change from previous FY-end
Energy	737	774	811	37	26
LP gas	676	705	737	32	22
City gas	61	68	73	5	4
Information and communications	763	779	838	59	22
Conventional ISP and related services	375	382	411	29	-4
Hikari Collaboration	335	342	362	20	16
LIBMO	52	55	65	10	9
CATV	1,188	1,224	1,255	31	24
Broadcast service	871	885	896	11	9
Communications service	317	339	359	20	15
Aqua	162	166	166	0	1
Mobile	209	195	182	-13	-9
Security	16	16	16	0	0
Total	3,063	3,142	3,258	116	64

Note: Values less than 1,000 have been rounded off. Information and communications and CATV both offer communications service, and so their numbers are excluded from total figures. Information and communications (conventional ISP and related services) includes 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 results briefing materials

(1) Energy business

In the energy business, there was rising sales and lower profit as net sales increased by 21.0% YoY to ¥71,069mn, 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 17.7% to ¥3,552mn. It appears that higher energy purchase prices helped net sales and operating profit exceed the Company's forecast by ¥5.8bn and ¥0.8bn, respectively.

In the mainstay LP gas business, net sales were ¥57,516mn, a 15.1% increase YoY. Although total sales volume decreased 3.1% YoY, average sales unit prices increased 17.6%, and there was an increase in equipment sales, which had been sluggish in FY3/22, which were factors in increased sales. Looking at a breakdown of sales volume, residential and business use remained steady with an increase of 0.5% YoY, but industrial use dropped by 5.8%. Sales contracts for specific customers ending in March 2022 was a factor, but these were low-profit transactions, so had a negligible impact on profit. The increase in average sales unit price was mainly due to rising prices for industrial use and wholesale sales, which were linked to purchase prices, while prices for residential use also rose by 9.3%.

The number of customers at end-FY3/23 3Q was 737,000, an increase of 22,000 YoY. Looking at a breakdown of the change, there were 26,000 new contracts acquired, 14,000 acquired though M&A or alliances and 18,000 terminated or canceled. Moreover, the number of customers increased in all areas, by 10,000 in existing areas (Shizuoka Prefecture and metropolitan Tokyo) and 12,000 in new areas (other regions).

In the city gas business, net sales increased 54.9% YoY to ¥13,552mn, and the number of customers increased by 4,000 to 73,000 customers. The majority of the increase in customers is attributable to contracts with equity-method affiliate T&T Energy Co., Ltd.* Most of the increase in sales was due to higher sales unit prices resulting from the raw material cost adjustment system, while equipment sales, etc. also recovered.

* T&T Energy was established in 2019 as a joint venture between TEPCO Energy Partner, Incorporated and TOKAI CORPORATION. The company operates a city gas retail business in the three prefectures of the Tokai region.

Operating profit in the energy business decreased by ¥765mn YoY. Looking at a breakdown of the factors behind changes, factors increasing profit were ¥600mn from an increase in the number of customers, ¥20mn from a decrease in the cost of acquiring customers and ¥680mn from an increase in sales of business use equipment and others, while factors decreasing profit were ¥1,530mn due to the impact of rising purchase costs (after excluding ¥2,040mn passing along in sales prices) and ¥550mn from the impact of a decrease in sales volume due to a rise in the average temperature (rose 0.2ºC YoY). In addition, reasons for operating profit exceeding the Company's forecast included residential use LP gas purchase costs falling short of expectations, the effects from price revisions of retail rates in addition to an increase in equipment sales.

(2) Information and communications business

In the information and communications business, net sales increased 3.8% YoY to ¥39,662mn, while operating profit increased 2.0% to ¥3,563mn, broadly in line with the Company's forecasts.

In the business for consumers, net sales decreased 0.6% YoY to ¥18,194mn, while EBITDA (operating profit + depreciation and amortization) declined 31.8% to ¥817mn as a result of the increase in customer acquisition costs (up ¥530mn YoY). However, viewing 3Q alone, net sales increased 1.7% to ¥6,168mn and EBITDA was up 27.2% to ¥421mn, reverting to increased sales and profits. At the end of 3Q, compared to the end of FY3/23 1H, the number of customers decreased 4,000 for conventional ISP services and other services to 411,000 customers, increased 16,000 for Hikari Collaboration to 362,000 customers, and increased 9,000 for LIBMO (inexpensive SIM service) to 65,000 customers. Although there was a gradual decrease for conventional ISP services, there was an increase in customer acquisition for Hikari Collaboration through the tie-up with a major mobile carrier, and customer acquisition progressed via traditional home electronics retailers. In addition, digital marketing measures for LIBMO worked well and adoption* as one of NTT DOCOMO, INC.'s low-cost mobile services from December 2022 was a factor in the increase.

* Started handling as an option in the economy MVNO service options at NTT DOCOMO shops throughout Japan from December 21, 2022. LIBMO is the third service to be handled, following OCN Mobile ONE from NTT Communications Corporation and TONE mobile from FreeBit Co., Ltd.<3843>.

Although the number of customers has increased, net sales have not grown because the average net sales per Hikari Collaboration customer has gone down. This is because the optical communication service part of the tie-up agreements with the major mobile carrier is excluded from recording under net sales (and has no impact on gross profit). However, these negative effects appear to have run their course, and it is noteworthy that from 2Q onward there has been a reversion to increased sales, albeit slightly, on a YoY basis.

In the business for corporate clients, net sales increased 7.9% YoY to ¥21,468mn, and EBITDA increased 6.4% to ¥5,182mn, as the trend of increases in both sales and profit continued. Net sales were boosted by the continuation of steady growth in recurring revenue cloud services, as well as robust incoming orders for contracted systems development.

Looking at factors changing operating profit, there was a ¥350mn increase in profit through the effect of increased sales in the business for corporate clients, an increase of ¥250mn in profit through the increase in customers in the consumer business and a ¥530mn decrease due to the increase in customer acquisition costs. Even though LIBMO is not yet profitable, the effect of increased sales, excluding customer acquisition costs, is viewed to have been a factor in the ¥50mn improvement in profitability.

(3) CATV business

In the CATV business, net sales increased 5.1% YoY to ¥25,510mn, while operating profit increased 3.7% to ¥4,706mn, apparently exceeding the Company's forecasts in net sales by about ¥100mn and in operating profit by about ¥200mn. 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. Making a subsidiary of Okinawa Cable Network in October 2022 was a factor that increased net sales by ¥390mn and operating profit by ¥50mn, and gain on bargain purchase of ¥51mn was recorded as extraordinary income.

At the end of FY3/23 3Q, the number of customers compared to the end of the previous fiscal period increased by 9,000 to 896,000 customers for broadcast services, and increased by 15,000 to 359,000 customers for communications services. The number of contracts from Okinawa Cable Network is still being calculated and is not included in the number of customers for end-3Q. The number of fee-paying contracts is about 16,000 for broadcast services and about 10,000 for communications services and these are expected to be added to the total at the end of the fiscal year.

(4) Construction equipment and real estate business

In the construction equipment and real estate business, net sales declined 1.0% YoY to ¥18,840mn, and operating profit increased 6.1% to ¥1,195mn, as sales decreased and profit increased. Compared to the Company forecast, net sales fell short by about ¥1.6bn, and operating profit progressed broadly in line with the projection. Net sales decreased because of decreases in large equipment construction and in new construction projects for stores. From the profit aspect, receiving orders for profitable projects contributed to sales in 3Q, leading to an increase in profits. However, the order backlog at the end of 3Q was ¥1.1bn lower YoY and 4Q performance is forecast to be somewhat difficult.

(5) Aqua business

In the Aqua business, net sales decreased 1.6% YoY to ¥5,720mn, but operating profit increased 37.3% to ¥394mn. The number of customers as of end-FY3/23 3Q increased by 1,000 YoY to 166,000, but despite the slight increase, decrease in average consumption volume per customer due to stay-at-home demand having run its course was a factor in reduced sales. From the profit aspect, holding down the cost of customer acquisition was a factor in increased profits. Net sales are expected to have fallen short of the Company's forecast by about ¥100mn, and operating profit by about ¥40mn.

(6) Other businesses and adjustments

In other businesses, net sales increased 1.5% YoY to ¥3,446mn. Breaking this down, sales in the nursing care business increased 3.3% to ¥1,039mn 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 42.8% to ¥736mn. Meanwhile, in the shipbuilding business, sales declined by 12.5% to ¥1,060mn, due to the decrease in the number of ships repaired. The segment's operating loss, including internal adjustments, was ¥4,947mn (¥4,514mn in the same period of previous fiscal year).

FY3/23 net sales and operating profit expected to achieve the initial forecasts

3. Outlook for FY3/23

The Company's outlook for FY3/23 consolidated results is net sales to increase 5.8% YoY to ¥223,000mn, operating profit to decrease 8.2% to ¥14,500mn, recurring profit to decrease 20.8% to ¥12,600mn, and net income attributable to owners of the parent to decrease 29.8% to ¥6,300mn. Forecasts for net sales and operating profit remain unchanged from the initial plan, but forecasts for recurring profit and net income attributable to owners of the parent have been revised downward. Recording ¥1,746mn in impairment losses of goodwill of an equity-method affiliate in Vietnam under non-operating expenses and ¥312mn special investigation fee under extraordinary losses were factors in the downward revisions of these items.

Outlook for FY3/23

(¥mn)

	FY3/22		FY3/23				
	Results	% of sales	Initial forecasts	Revised forecasts	% of sales	YoY	Revised forecasts amount
Net sales	210,691	-	223,000	223,000	-	5.8%	-
Operating profit	15,794	7.5%	14,500	14,500	6.5%	-8.2%	-
Recurring profit	15,907	7.5%	14,300	12,600	5.7%	-20.8%	-1,700
Net income attributable to owners of the parent	8,969	4.3%	8,300	6,300	2.8%	-29.8%	-2,000
Net income per share (¥)	68.49		63.43	48.12			
Number of continuing customers (thousand)	3,194		3,295	3,295		3.2%	

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

Net sales are highly likely to slightly exceed the Company's forecast as the better than expected energy business performance will cover a shortfall in the construction equipment and real estate business. Likewise in ordinary profit, where the energy business will cover the shortfall in the construction equipment and real estate business and increased burden of internal adjustments, and the forecast is secure the initial plan. Operating profit had been on pace to exceed the forecast by about ¥1.0bn until 3Q, but is expected to be offset by an increase in customer acquisition costs in the energy business in 4Q and other factors including the increased burden of internal adjustments. Furthermore, there is also a high likelihood of the number of continuing customers slightly exceeding the initial forecast of 3,295,000 customers (up 101,000 customers YoY). This is because customer acquisition in the CATV business is forecast to progress steadily and increases are expected in LP gas, Hikari Collaboration and LIBMO.

Results forecasts by segment

(¥mn)

<Net sales>	FY3/20	FY3/21	FY3/22	FY3/23 (E)	YoY	3Q progress rate
Energy	78,154	77,380	86,770	91,300	5.2%	77.8%
Information and communications	51,753	50,735	51,398	53,200	3.5%	74.6%
CATV	31,385	33,745	32,572	34,400	5.6%	74.2%
Construction equipment and real estate	22,383	23,177	27,780	31,500	13.4%	59.8%
Aqua	7,416	7,622	7,629	7,700	0.9%	74.3%
Other business	4,858	4,065	4,540	4,900	7.9%	70.3%
Total	195,952	196,726	210,691	223,000	5.8%	73.7%

<Operating profit>	FY3/20	FY3/21	FY3/22	FY3/23 (E)	YoY	3Q progress rate
Energy	7,452	8,988	8,933	6,520	-27.0%	54.5%
Information and communications	4,226	4,344	4,721	5,100	8.0%	69.9%
CATV	5,024	5,205	5,852	6,040	3.2%	77.9%
Construction equipment and real estate	2,116	2,065	2,480	2,560	3.2%	46.7%
Aqua	674	573	325	595	83.1%	66.2%
Other business	-5,271	-5,949	-6,518	-6,315	-	-
Total	14,224	15,226	15,794	14,500	-8.2%	58.4%

Note: FY3/23 figures are initial forecasts. Operating profit is 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 (on an initial forecast basis. Applies to all figures hereafter). 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). Of these, the LP gas business had been 8,000 customers lower than forecast until end-FY 3/23 3Q, but in 4Q M&A projects will contribute and the accumulation of customer acquisition costs mean the forecast on a fiscal year-end basis is for a YoY increase of 35,000 customers to 750,000 customers.

(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 business for consumers, 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 conventional ISP and Hikari Collaboration services, and a net increase of 14,000 customers to 69,000 customers for LIBMO. Until FY3/23 3Q, conventional ISP and Hikari Collaboration combined had 773,000 customers, which exceeds the forecast, and LIBMO is also progressing steadily with 65,000 customers. Because of this, the outlook for net sales is to achieve the forecast. Operating profit is highly likely to decrease as the cost of customer acquisition is increasing. Having said that, 3Q returned to increased sales and profits YoY, so the earnings trend is upward, which can be taken as a positive point.

The business for corporate clients is forecast to have high single-digit growth YoY toward increased sales and profits. Factors in the increased sales and profits include the accumulation of cloud services and other recurring revenue businesses. The contracted system development business is also forecast to be steady.

(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 forecasts, meaning sales and operating profit are projected to exceed the forecast by a small margin.

(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 performance and order backlog up to end-FY3/23 3Q, these forecasts look challenging, and sales may increase and profit may decrease. The Company has worked to strengthen earnings capabilities over the past few years in such ways as cutting outsourcing expenses through collaboration between Group companies acquired through M&A and the effects of this are expected to materialize from FY3/24 onward.

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. The number of customers is 166,000, an increase of 1,500 YoY and almost within range of the target of 167,000 as of the end of FY3/23 3Q. The Company is not only strengthening face-to-face sales at commercial facilities, but also digital marketing to hold down customer acquisition costs, which is expected to 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.

Implements key strategies in the medium-term management plan, forecast to return to profitable trend from FY3/24

4. 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, with a policy of aiming to be a "Company that contributes to solving social issues by designing and suggesting lifestyles desired by customers." 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, with the two years comprising the first half of the plan for proactive upfront investment, and the two years of the latter half of the plan to reap the rewards of these investments.

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

(¥bn)

	FY3/21 Results	FY3/22		FY3/23		FY3/24 Initial forecasts	FY3/25 Initial forecasts	Average annual growth rate
		Initial forecasts	Results	Initial forecasts	Revised forecasts			
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	6.3	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 thousand)	310	320	319	332	330	344	356	3.5%
Dividend payout ratio	44.6%		46.7%		66.5%		40~50%	
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 and amortization – 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	74.4	78.5	83.6	95.4	21.0
ISP, etc. (including Hikari Collaboration)	73.2	76.1	76.0	80.5	7.3
LIBMO	5.3	5.5	6.9	9.4	4.1
CATV (broadcast / communications)	119.8	123.1	127.3	128.9	9.1
Aqua	16.2	16.5	16.7	21.4	5.2
Mobile	20.6	19.1	19	19.0	-1.6
Security	1.6	1.6	1.6	1.8	0.2
Total	309.9	319.4	329.5	355.8	45.9

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

(2) Key strategies

a) Implementation of the LNG strategy

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

b) Evolution of TLC

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 measures utilizing the D-sapiens data analysis platform.

c) Stepping up the DX strategy

In DX strategy, the Company intends to optimize the existing business model and promote business efficiency and creation of high added value in its services by fully utilizing the customer data from its roughly 3.25mn 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 cash flow from operating activities (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 ratio. 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 CO_2 emissions by 2030. Specifically, in addition to reducing CO_2 emissions through the introduction of 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.

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 to realize "LDG," and will move forward while investing in and working together with start-up companies.

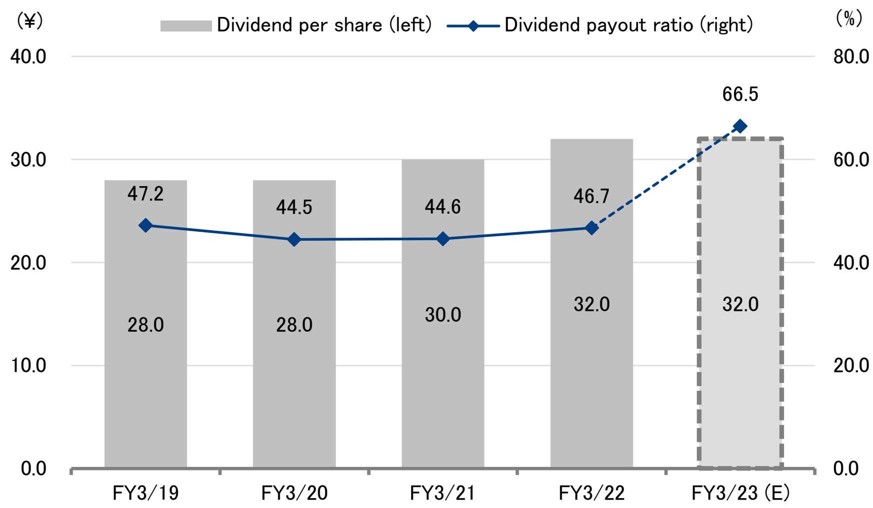
Shareholder return policy

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 66.5%), which is the same amount as the previous fiscal year.

The Company also provides gifts such as QUO cards 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 ¥857 on February 7, 2023), 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).

Dividend per share and dividend payout ratio



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

Shareholder gifts

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

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

Source: Prepared by FISCO from the Company website

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