

TOKAI Holdings Corporation

3167

Tokyo Stock Exchange Prime Market

25-Mar.-2024

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

<https://www.fisco.co.jp>

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Summary

In FY3/24, an increase in profit expected for the first time in two terms as customer numbers increase

TOKAI Holdings Corporation <3167> (hereafter, also “the Company”), based in Shizuoka Prefecture, 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 3.30mn customers, “comprehensive capabilities” to provide a wide range of products and services in a one-stop manner, and “marketing abilities” to immediately address customer needs, it continues to steadily grow.

1. FY3/24 3Q cumulative results overview

In FY3/24 3Q (April–December 2023) consolidated results, net sales increased 0.3% year on year (YoY) to ¥164,676mn, while operating profit increased 3.9% to ¥8,797mn. Net sales set a record high for the third consecutive term thanks to an increase in customers in the CATV business and expansion in the recurring revenue business for corporate customers in the information and communications business. This was despite lower revenue in the energy business caused by lower residential gas sales volumes from high temperatures. With regard to profits, profit increased owing to growth in sales from monthly charges resulting from high customer numbers and to reductions in purchasing costs in the energy business. Compared to the Company’s forecasts, the construction equipment and real estate business was below forecasts but this was more than offset by the information and communications business and energy business, so overall figures were slightly above forecasts. The number of continuing customers at the end of FY3/24 3Q stood at 3,341,000, an increase of 83,000 YoY and 41,000 from the end of FY3/23.

2. Outlook for FY3/24

For consolidated results in FY3/24, the Company has kept its initial forecasts of a 4.3% YoY rise in net sales to ¥240,000mn and a 0.5% increase in operating profit to ¥15,000mn. The energy business is expected to see lower sales as residential gas sales volumes decline and sales prices decrease, but the forecast for profit is achievable because raw material prices were contracted at levels lower than planned. In the construction equipment and real estate business, orders have been slow to recover, but this is covered by a strong performance in the information and communication business for corporate customers, so overall operating profit is expected to achieve the company’s forecast. The number of continuing customers is expected to be 3,384,000, 84,000 more than the end of FY3/23. The 3Q progress rate is 49%, so it is a little behind, but in 4Q, M&A and new contracts are expected to be undertaken in the energy business, and in information and communication services, the Company aims to meet the forecast by increasing customer acquisition costs.

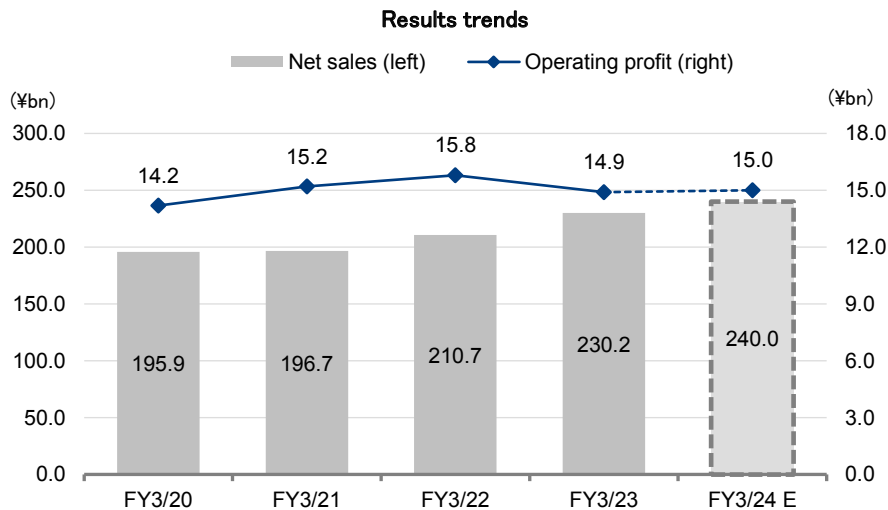
Summary

3. Progress on new medium-term management plan

The Medium-Term Management Plan 2025 announced in May 2023 seeks growth by expanding the customer base while strengthening human capital investment and providing services that allow for diverse lifestyles and contribute to a decarbonized society. Numerical management targets for FY3/26, the final year of the plan, are net sales of ¥260.0bn, operating profit of ¥17.5bn (for average annual growth rates of 4.1% and 5.5%, respectively) and 3,570,000 continuing customers for sustained growth. As for the DX strategy to increase productivity, the Company is converting to smart meters in the LP gas business (targeting 100% installation ratio by the end of March 2026), and is working to increase the number of registrations for its membership app, a tool to strengthen digital marketing measures. For its M&A strategy, in January 2024, it made a subsidiary of UIS Inc. (annual sales of around ¥0.6bn), which develops systems on contract and develops apps, and in this way is strengthening systems to meet rampant demand in the area of information and communications. Going forward, firm growth is expected as a comprehensive lifestyle infrastructure company from building up the customer base in existing businesses and expanding its service domain and service area, including by M&A.

Key Points

- In FY3/24 3Q, set a record high for net sales for the third consecutive term; secured operating profit exceeding the Company's forecast
- In FY3/24, expected to achieve initial plans for profit and an increase in profit for the first time in two fiscal years
- The Company is seeking solid growth, having set goals for FY3/26 of ¥260.0bn for net sales and ¥17.5bn for operating profit
- Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%, combined with perks and gifts to shareholders for a total investment yield level of 4% to 7%



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

Results trends

In FY3/24 3Q, set a record high for net sales for the third consecutive term; secured operating profit exceeding the Company's forecast

1. FY3/24 3Q cumulative results overview

In FY3/24 3Q cumulative consolidated results, net sales increased 0.3% YoY to ¥164,676mn, operating profit increased 3.9% to ¥8,797mn, recurring profit increased 33.8% to ¥8,968mn, and net income attributable to owners of the parent increased 75.2% to ¥4,934mn. Net sales set a new record high for the third consecutive term as declines in the energy business and construction equipment and real estate business were offset by increases in the information and communications business and CATV business. Regarding profit, reduced profits in the construction equipment and real estate business and CATV business were offset by profit increases in the energy business, information and communications business and Aqua businesses, so there was an increase in operating profit, albeit slight. The Company posted a share of loss of entities accounted for using equity method of ¥2,001mn in the same period in the previous fiscal year due to disposal of impairment of goodwill related to an equity-method affiliate in Vietnam, but this amount was only ¥75mn in FY3/24 3Q, so there was a major decrease in share of loss of entities accounted for using equity method, which resulted in double-digit gains for recurring profit and net income attributable to owners of the parent.

Looking at quarterly results, net sales in 3Q declined 1.1% YoY to ¥59,450mn as the energy business and construction equipment and real estate business declined. Operating profit increased 7.8% to ¥4,543mn on improved earnings in the energy business. The number of continuing customers at the end of 3Q was 3,341,000, an increase of 83,000 YoY and an increase of 41,000 from the end of FY3/23, as steady progress has been made. LP gas and CATV increased as did Hikari Collaboration and LIBMO in information and communications.

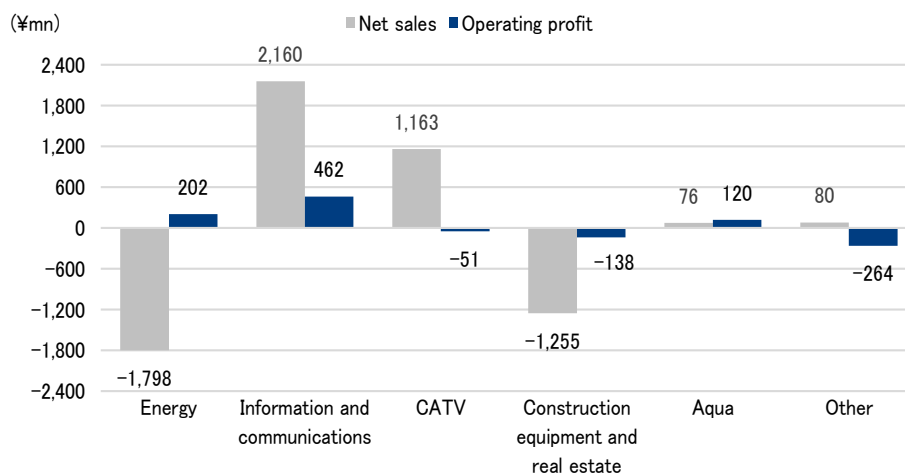
With regard to progress against the Company's forecast, the weakness in the energy business and construction equipment and real estate led net sales to be around several billions of yen below forecasts, while operating profit is seen to be slightly exceeding plans with a shortfall in the construction equipment business being covered by increases in the energy business and information and communication business.

FY3/24 3Q cumulative results (consolidated)

	FY3/23 3Q cumulative		FY3/24 3Q cumulative			FY3/23 3Q	FY3/24 3Q	
	Results	% of sales	Results	% of sales	YoY	Results	Results	YoY
Net sales	164,249	-	164,676	-	0.3%	60,139	59,450	-1.1%
Operating profit	8,466	5.2%	8,797	5.3%	3.9%	4,213	4,543	7.8%
(Equity-method investment profit and loss)	-2,001	-	-75	-	-	-38	-38	-
Recurring profit	6,705	4.1%	8,968	5.4%	33.8%	4,273	4,613	8.0%
Net income attributable to owners of the parent	2,816	1.7%	4,934	3.0%	75.2%	2,669	2,715	1.7%
Number of continuing customers (3Q, thousand)	3,258		3,341		2.5%			

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

Results trends

FY3/24 3Q YoY change by business segment


Note: Operating profit is prior to allocating indirect costs and other expenses

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

Number of customers by key service

	FY3/22 3Q-end	FY3/23 3Q-end	FY3/24 3Q-end	YoY change amount	Change from previous FY-end
(thousand)					
Energy	774	811	842	31	21
LP gas	705	737	767	30	22
City gas	68	73	75	2	0
Information and communications	779	838	844	6	3
Existing ISP and related services	382	411	396	-15	-11
Hikari Collaboration	342	362	372	10	8
LIBMO	55	65	77	12	6
CATV	1,224	1,255	1,307	52	20
Broadcast service	885	896	918	22	4
Communications service	339	359	389	30	16
Aqua	166	166	166	0	2
Mobile	195	182	172	-10	-6
Security	16	16	16	0	1
Total	3,142	3,258	3,341	83	41

Note: The number of customers under a thousand are rounded to the nearest thousand.

Information and Communications and CATV both offer communications services, so their numbers are excluded from total figures.

Information and communications (existing ISP and related services) includes contracts for PC remote service support from FY3/22 4Q.

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Results trends

Results by business segments

Net sales	FY3/22 3Q cumulative	FY3/23 3Q cumulative	FY3/24 3Q cumulative	YoY	(¥mn)		
					FY3/23 3Q	FY3/24 3Q	YoY
Energy	58,717	71,069	69,271	-2.5%	27,016	26,319	-2.6%
Information and communications	38,206	39,662	41,822	5.4%	13,584	14,365	5.7%
CATV	24,265	25,510	26,673	4.6%	8,936	8,941	0.1%
Construction equipment and real estate	19,025	18,840	17,585	-6.7%	7,354	6,642	-9.7%
Aqua	5,811	5,720	5,796	1.3%	1,882	1,913	1.6%
Other business	3,395	3,446	3,526	2.3%	1,369	1,269	-7.3%
Total	149,420	164,249	164,676	0.3%	60,139	59,450	-1.1%

Operating profit	FY3/22 3Q cumulative	FY3/23 3Q cumulative	FY3/24 3Q cumulative	YoY	(¥mn)		
					FY3/23 3Q	FY3/24 3Q	YoY
Energy	4,317	3,552	3,754	5.7%	2,222	2,885	29.8%
Information and communications	3,492	3,563	4,025	13.0%	1,243	1,197	-3.7%
CATV	4,539	4,706	4,655	-1.1%	1,654	1,520	-8.1%
Construction equipment and real estate	1,126	1,195	1,057	-11.5%	606	479	-21.0%
Aqua	287	394	514	30.5%	160	150	-6.3%
Other business	-4,514	-4,947	-5,211	-	-1,673	-1,691	-
Total	9,248	8,466	8,797	3.9%	4,213	4,543	7.8%

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

(1) Energy business

Net sales in the energy business declined 2.5% YoY to ¥69,271mn, and operating profit (operating profit before allocation of indirect costs, which is calculated differently than in the Company's financial results; the same applies below) rose 5.7% to ¥3,754mn. Looking at the factors behind the change in operating profit, profit declined by ¥0.8bn due to a decline in sales volumes caused by high temperatures and declined by ¥0.2bn due to an increase in personnel expenses. At the same time, revenue from monthly charges increased with an increase in the number of customers, which gave profit a boost of ¥0.3bn, and profit increased by ¥0.9bn due to lower purchasing costs for raw materials. Up to 2Q, lower sales volumes were a hindrance that continued to lower profit, but in 3Q, profit increased ¥0.6bn thanks to lower purchase prices, and on a profit basis, the figure came in just above the forecast.

Sales from the LP gas business declined by 1.8% YoY to ¥56,491mn. As of the end of 3Q, customers had increased steadily by 30,000 compared to the end of FY3/23 3Q to 767,000. The decrease in residential gas sales volume due to the high temperatures was 3%, and sales costs also fell linked to purchase prices, which caused net sales to decline. Sales volume for LP gas overall increased slightly by 1% YoY due to an increase for industrial and wholesale use. The number of customers increased by 22,000 from the end of the previous fiscal year, the same pace this quarter as the previous year. Looking at the breakdown, 38,000 were new acquisitions from M&A and alliances. There were 16,000 suspensions and cancellations. By area, customers increased by 10,000 in existing areas (Kanto, Shizuoka) and by 12,000 in new areas, so the increases were steady in both.

In the city gas business, net sales increased by 5.7% YoY to ¥12,780mn, and the number of customers as of the end of FY3/24 3Q had increased by 2,000 to 75,000 customers. Net sales continue to see decreased earnings due to decreases in sales unit prices under the raw material cost adjustment system from 2Q onward. The majority of the increase in customers is attributable to an increase in contracts with equity-method affiliate T&T Energy Co., Ltd.* in the Tokai area (sales commission only recorded as sales), so the impact on profit was negligible.

* T&T Energy was established in October 2019 as a joint venture with TEPCO Energy Partner, Incorporated (an investment ratio of 50%). The company operates a city gas retail business in the three prefectures of the Tokai region (Aichi, Gifu, and Mie prefectures).

Results trends

(2) Information and communications business

In the information and communications business, net sales increased 5.4% YoY to ¥41,822mn, while operating profit increased 13.0% to ¥4,025mn. Both net sales and operating profit set new record highs and operating profit exceeded the Company's forecasts.

Regarding the consumer business, net sales edged up 0.1% YoY to ¥18,220mn, so there was only a slight increase in sales, but operating profit nearly doubled to ¥719mn. Net sales stagnated due to a lower ARPU in the Hikari Collaboration service, but operating profit grew by ¥0.3bn on an increase in customer numbers for Hikari Collaboration. LIBMO and other services and increased by ¥0.1bn from lower customer acquisition costs. Hikari Collaboration's ARPU declined due to an increase in the percentage of new customers acquired via mobile carriers, but this did not impact gross profit and the lower cost of customer acquisition was a plus for profits. However, the Consumer Contract Act was amended in June 2023 and breach of contract payments are no longer binding, which increased the number of cancellations, and overall contract numbers fell short of plans, which will be an issue going forward. Regarding LIBMO, customer numbers steadily increased as a result of expanding the service menu and introduced a set plan with a fixed line, and profits as well returned to the black, albeit slightly. Looking at customer numbers at the end of 3Q, conventional ISP customers declined by 15,000 to 396,000, Hikari Collaboration increased by 10,000 to 372,000, and LIBMO increased by 12,000 to 77,000, so in total there was an increase of 6,000 to 844,000 customers.

Net sales from the corporate business increased by 9.9% YoY to ¥23,601mn, maintaining a strong performance. Sales from recurring revenue businesses like communication line services and cloud services expanded steadily, which helped increase sales. In addition, the system consignment development division performed well against a backdrop of robust orders. Meanwhile, operating profit remained at a parallel level at ¥3,306mn. Profit increased by ¥0.3bn due to increased sales, but personnel expenses increased ¥0.2bn due to wage adjustments and electricity charges increased ¥0.1bn, which led to reduced profits. However, progress meant a slight increase compared to Company forecasts.

(3) CATV business

Net sales in the CATV business increased by 4.6% to ¥26,673 and operating profit fell by 1.1% to 4,655mn, both of which were in line with plans. As a result of making Okinawa Cable Network Inc. into a subsidiary in October 2022, sales rose by ¥0.7bn (decrease in operating profit of around 0.1bn), and when excluding this factor, there were slight increases in both sales and profit.

As a local provider, the Company focused on providing local information and produced local programs while it also worked to enhance content through collaboration with large video streamers. In addition, the Company actively promoted sales activities for high-speed Internet via FTTH. As a result, the number of customers at the end of 3Q for the broadcasting service increased by 22,000 YoY to 918,000 and for communication services, by 30,000 people to 389,000 for a total increase of 52,000 to 1,307,000. Compared to the end of the previous term, customer numbers for broadcasting services increased by 4,000 people and for communication services, by 16,000. Expanding the FTTH service area in particular increased communication service customers. Looking at changes in operating profit, profit increased by ¥0.2bn on the increase in customer numbers, but declined by ¥0.15bn due to an increase in personnel expenses from wage revisions and declined by ¥0.1bn due to increased customer acquisition costs.

Results trends

(4) Construction equipment and real estate business

Net sales in the construction equipment and real estate business declined 6.7% YoY to ¥17,585mn and operating profit decreased by 11.5% to ¥1,057mn. Orders for facilities construction projects in the Chukyo area were firm, but orders continued to sag for facilities construction projects in the Shizuoka area and renovation projects. The decrease was in response to special demand last term for civil engineering projects and an increase in personnel expenses from wage revisions combined to lower both sales and profit.

(5) Aqua business

Net sales in the Aqua business increased 1.3% YoY to ¥5,796mn, and operating profit increased 30.5% to ¥514mn, so progress was generally in line with forecasts. The number of customers at the end of 3Q was flat with FY3/23 3Q at 166,000, but there was a 2,000-customer increase from the end of FY3/23. Shizukuria, water supply-type purified water dispensers that the Company began handling in April 2023, acquired 3,000 customers, the main reason for the increase. Looking at changes in operating profit, profit increased by ¥0.1bn from the increase in new customers, and by ¥0.07bn on a decrease in customer acquisition costs, but this was absorbed by a ¥0.07bn increase in personnel expenses caused by wage revisions.

(6) Other businesses and adjustments

In other businesses, net sales rose by 2.3% to ¥3,526mn. Sales in the nursing care business increased 1.9% to ¥1,058mn due to a recovery in the number of users from 2Q onward, and in the wedding ceremony business, sales increased by 26.5% to ¥931mn owing to a recovery in demand for weddings and parties. In addition, sales in the shipbuilding business decreased 9.2% to ¥962mn, due to a decrease in ship work volume. Operating loss, including internal adjustments, was up ¥264mn YoY to ¥5,211mn. This increase was mainly due to an increase in advertising expenses and an increase in personnel expenses accompanying wage adjustments.

For FY3/24, expecting to achieve initial forecasts on a profit basis, and for profit to increase for the first time in two terms

2. Outlook for FY3/24

For its consolidated results in FY3/24, the Company has kept its initial forecasts of net sales of ¥240,000mn, a YoY increase of 4.3%, operating profit of ¥15,000mn, an increase of 0.5%, ordinary profit of ¥15,000, an increase of 12.9%, and net income attributable to owners of the parent of ¥8,500mn, an increase of 31.5%. Net sales may fall below the forecast slightly because of stagnating sales volumes of LP gas due to high temperatures and the impact of lowering sales unit prices, but on a profit basis, the forecast can be expected to be met due in part to raw material purchase prices being lower than predicted, and this would be the first profit increase in two terms. The number of continuing customers has increased by 41,000 as of the end of 3Q, which is a low rate of progress toward the 84,000 customer increase, to 3,384,000, by the end of the term, which was the initial forecast. But in 4Q, M&A and contract deals are expected to increase, so the Company will aim to achieve its forecast by strengthening measures to acquire customers.

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Results trends

Outlook for FY3/24

	FY3/23		FY3/24		3Q progress rate
	Results	% of sales	Company forecasts	Results	
Net sales	230,190	-	240,000	-	4.3%
Operating profit	14,919	6.5%	15,000	6.3%	0.5%
Recurring profit	13,289	5.8%	15,000	6.3%	12.9%
Net income attributable to owners of the parent	6,465	2.8%	8,500	3.5%	31.5%
Net income per share (¥)	49.41		65.10		
Number of continuing customers (thousand)	3,299		3,384		2.6%

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

Results forecasts by segment

Net sales					
	FY3/22	FY3/23	FY3/24 E	YoY	3Q progress rate
Energy	86,770	102,528	103,000	0.5%	67.3%
Information and communications	51,398	53,945	57,200	6.0%	73.1%
CATV	32,572	34,500	36,000	4.3%	74.1%
Construction equipment and real estate	27,780	26,809	30,600	14.1%	57.5%
Aqua	7,629	7,529	7,800	3.6%	74.3%
Other business	4,540	4,876	5,400	10.7%	65.3%
Total	210,691	230,190	240,000	4.3%	68.6%

Operating profit					
	FY3/22	FY3/23	FY3/24 E	YoY	3Q progress rate
Energy	8,933	7,384	7,500	1.6%	50.1%
Information and communications	4,721	5,270	5,400	2.5%	74.5%
CATV	5,852	6,184	6,000	-3.0%	77.6%
Construction equipment and real estate	2,480	2,043	2,200	7.7%	48.0%
Aqua	325	533	500	-6.2%	102.8%
Other business	-6,518	-6,497	-6,600	-	-
Total	15,794	14,919	15,000	0.5%	58.6%

Note: FY3/24 (E) is based on an interview with the Company

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

(1) Energy business

In the energy business, the Company is projecting net sales to increase by 0.5% YoY and operating profit by 1.6%. The initial forecasts assumed a 2-3% decline YoY in purchase and sales unit prices and for the impact of average temperatures on sales volumes to be equivalent to the previous year, but purchase and sales unit prices have been lower than anticipated, and average temperatures have been 1-2°C higher than the previous year, so net sales is highly likely to fall short of the forecast. However, the purchase margin is improving compared to the forecast, and administrative streamlining via DX promotion is making headway, so on a profit basis, the forecast is expected to be met.

Customer numbers are expected to increase by 42,000 to 862,000 on a combined LP gas and city gas basis. As of the end of 3Q, the figure had increased by 21,000, so the progress rate is low, but negotiations are making steady progress for M&A and contract projects that would add 17,000 customers in 4Q, and there is no change in policy aiming to achieving the plan.

Results trends

(2) Information and communications business

In the information and communications business, net sales is projected to rise by 6.0% YoY and operating profit to increase by 2.5%. The 3Q progress rates are 73.1% for net sales and 74.5% for operating profit. Of these amounts, sales to consumers are expected to increase slightly while operating profit is expected to increase by ¥0.1bn (¥0.3bn increase from increased sales, etc. offset by a ¥0.2bn increase in expenses from increased personnel expenses caused by wage revisions). In the cumulative 3Q, profit was up by ¥0.1bn, but in 4Q the Company is planning to increase customer acquisition costs for Hikari Collaboration, so for the full year, figures are expected to land very close to forecasts.

At the same time, net sales to corporate customers are expected to increase in the 10-19% range YoY centering on recurring revenue businesses, but operating profit is projected to mark time in line with forecasts. Growth is being hindered by increases in personnel expenses from wage revisions and increasing electricity charges. In business for corporate customers, Group company TOKAI Communications Corporation made a subsidiary of UIS* in January 2024, a company that develops systems on contract and develops apps for medical institutions. It was made a subsidiary to strengthen the Group's systems by securing engineers to accommodate rampant demand in the cloud and network fields and to unearth transactions with customers by creating new sales opportunities in both companies' areas of business. Going forward, the Company will promote M&A to expand this business domain.

| * 47 employees; annual sales of around ¥0.6bn, and an operating margin of around 8% as it produces stable results. |

(3) CATV business

In the CATV business, net sales are expected to increase 4.3% YoY and operating profit to decline by 3.0%. The progress rate as of 3Q is 74.1% for net sales and 77.6% for operating profit, so progress is in line with plans. Operating profit is expected to increase by ¥0.1bn on an increase in customer numbers, but decrease by ¥0.2bn overall for the full year due to a ¥0.2bn increase in personnel expenses caused by wage revisions and a ¥0.1bn increase in customer acquisition costs.

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

In the construction equipment and real estate business, net sales is expected to rise by 14.1% YoY and operating profit to increase by 7.7%. Personnel expenses are expected to increase by ¥0.1bn due to wage revisions.

In the Aqua business, the Company forecasts net sales will rise 3.6% YoY, while operating profit will fall 6.2%. Progress rates as of 3Q were 74.3% for net sales and 102.8% for operating profit, so it has already exceeded the forecast on a profit basis. As a result, it will invest in promotions to acquire customers in 4Q. With regard to others, led by the nursing care business and wedding ceremony business, sales are expected to continue to rise.

Results targets for FY3/26 are net sales of ¥260.0bn and operating profit of ¥17.5bn, for solid growth

3. Progress on new medium-term management plan

In May 2023 the Company announced its Medium-Term Management Plan 2025, which covers a three-year period ending in FY3/26. The Company will engage in three key initiatives: “Growth of business earning power (expansion of earnings base and rollout of new services),” “Strengthening of foundations for sustainable growth to realize a decarbonized society,” and “Full energization of human capital and organizations, the source of growth.” Numerical management targets for FY3/26, the last year of the plan, are net sales of ¥260.0bn, operating profit of ¥17.5bn, net income attributable to owners of the parent ¥10.0bn, and continuing customers of 3,570,000. Annual growth rates over the three years are 4.1% for net sales and 5.5% for operating profit. The number of continuing customers is expected to grow 2.7%, a solid pace. Moreover, as a long-term vision, by FY3/30, the Company is striving for net sales of ¥400.0bn, operating profit of ¥30.0bn, and continuing customers of 5,000,000. To achieve these targets, it will need to accelerate its pace of growth in FY3/27 and beyond, and along with organic growth, an M&A strategy is likely to be carried out.

Management numerical targets for the new Medium-Term Management Plan 2025 (Announced in May 2023)

	FY3/23 Results	FY3/24 Forecasts	FY3/25 Forecasts	FY3/26 Forecasts	Average annual growth rate
Net sales	230.2	240.0	250.0	260.0	4.1%
Operating profit	14.9	15.0	16.0	17.5	5.5%
Net income attributable to owners of the parent	6.5	8.5	9.0	10.0	15.4%
Cash flows from operating activities	21.2	21.7	23.0	24.4	4.8%
Number of continuing customers (ten thousand)	330	338	348	357	2.7%
Dividend payout ratio	64.8%	49.2%	40-50%		
ROE	8.2%	10.3%	10.4%	10.8%	
ROIC	8.3%	8.0%	8.2%	8.7%	
Equity ratio	41.5%	Around 40%			

Note: Figures rounded to the nearest unit

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

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Results trends

Strategy by business segment and results targets

	Expansion of earnings base (Area/ No. of customers)	Roll out new services	Results targets			
			FY3/23		FY3/26	
Energy	<ul style="list-style-type: none"> Further develop existing operating areas (raise ARPU via cross-selling) Expand sales capabilities in Western Japan and the Chukyo region Advance M&A and alliances in LP gas and city gas 	<ul style="list-style-type: none"> Roll out new services for regional revitalization Roll out new services for solving social issues (Expand sales of TOKAI ZERO SOLAR based on the power purchase agreement (PPA) model) 	Net sales	¥102.5bn	Net sales	¥108.7bn
			Operating profit	¥7.4bn	Operating profit	¥7.8bn
			No. of customers	0.82mn	No. of customers	0.94mn
For corporate information and communications business	<ul style="list-style-type: none"> Expand business areas in Japan 	<ul style="list-style-type: none"> Expand cloud services overseas 	Net sales	¥29.5bn	Net sales	¥39.0bn
			Operating profit	¥4.7bn	Operating profit	¥5.1bn
			No. of customers	0.84mn	No. of customers	0.93mn
For individual information and communications business	<ul style="list-style-type: none"> Strengthen cooperation among channels to increase the number of customers 	<ul style="list-style-type: none"> Enhance the service lineup 	Net sales	¥24.4bn	Net sales	¥25.9bn
			Operating profit	¥0.6bn	Operating profit	¥1.4bn
			No. of customers	0.84mn	No. of customers	0.93mn
CATV business	<ul style="list-style-type: none"> Accelerate growth of two recent acquisitions (Sendai and Okinawa) 	<ul style="list-style-type: none"> Enhance internet access services and optional services Develop and provide new businesses and new services by further developing regional business 	Net sales	¥34.5bn	Net sales	¥37.9bn
			Operating profit	¥6.2bn	Operating profit	¥6.4bn
			No. of customers	1.29mn	No. of customers	1.35mn
Construction equipment and Real estate business	<ul style="list-style-type: none"> Expand business in the Chukyo region Win combined orders through interdivisional cooperation 	<ul style="list-style-type: none"> Expand the types of work offered (construction, equipment installation, electrical work, civil engineering work, repair and maintenance work) Sell GQ system, an off-grid housing system Implement energy-saving initiatives (solar power, EV charging points, etc.) 	Net sales	¥26.8bn	Net sales	¥37.3bn
			Operating profit	¥2.0bn	Operating profit	¥3.0bn
			No. of customers	0.17mn	No. of customers	0.19mn
Aqua business	<ul style="list-style-type: none"> Strengthen sales in the Shizuoka, Kanto and Chukyo areas (returnable/disposable bottles) 	<ul style="list-style-type: none"> Sell mains-fed purified water dispenser nationwide 	Net sales	¥7.5bn	Net sales	¥8.7bn
			Operating profit	¥0.5bn	Operating profit	¥0.8bn
			No. of customers	0.17mn	No. of customers	0.19mn

Source: The Company's New Medium-Term Management Plan 2025

Initiative results for priority policies in FY3/24 are as follows.

(1) Growing business earning power (expand earnings base + roll out new services)

In the LP gas business, the Company established a new sales office in Ise City, Mie Prefecture, its third office in the prefecture, and worked to expand its customer base. In addition, UIS became a subsidiary in January 2024 to strengthen the Group structure in the information and communications business. In new business, subsidiary TOKAI GAS CORPORATION is preparing to establish two campgrounds in Shizuoka Prefecture. The first is Mt. Bikuishi Quiet Night Campsite. It is part of Fujieda City's efforts to revitalize its hilly areas to realize its vision of the Fujieda Pottery Village concept. It plans to open in March 2024. The other campground is Mori no Miyako Narakoko no Sato, a campground and hot springs resort established by Kakegawa City (74,000 people used the campground and 63,000 used the hot springs facility in FY3/23). This is a business transfer deal. Kakegawa City sought a business transfer partner to privatize the facility and the Company was selected in October 2023, with the handover planned for April 2024. TOKAI Cable Network Corporation, engaged in the Group's CATV business, opened a gym* in Shizuoka City in February 2024.

* RETIO BODY DESIGN, a 24-hour, 365-day fitness gym developed on a franchise basis by KEIAI Link Ltd., opened the RETIO BODY DESIGN Shizuoka Station Aoi Tower. As a Group, KURASHIKI CABLE TELEVISION Inc. opened one store in July 2022, its second store.

Results trends

(2) Strengthening foundations for sustainable growth to realize a decarbonized society

The Company is aiming to achieve carbon neutrality in 2050 and is promoting a green transformation (GX) by increasing energy efficiency and decarbonizing its facilities, and also is expanding sales of solar panels and battery storage systems. As a new initiative, the Company announced in December 2023 that the PULCLE shared cycling station provided by TOKI Cable Network in Shizuoka City (bicycle parking lot in front of the north entrance to Shizuoka Station) upgraded to a renewable energy station for stronger disaster resilience by installing power generation, power storage, and signage. The new solar power and battery storage system that was installed not only recharges bicycles and powers signage, it is also envisioned for use as a disaster preparedness site. Going forward, the Company is expected to develop new city infrastructure (mobility, disaster preparedness) that utilizes renewable energy in this manner.

In addition, the Company is making new investments as a part of its GX promotion. In July 2023, TOKAI CORPORATION participated in the initial public offering of REPOWER ENERGY DEVELOPMENT CORPORATION (REDC), acquiring 65 million shares (10% ownership stake; five Philippine pesos per share) for approximately ¥0.8bn. And, in December 2023, TOKAI Venture Capital & Incubation Corporation invested in Albatross Technology Inc., which is involved in the development of offshore floating vertical axis wind turbines* for electric power generation. The investment in REDC will contribute to the further development of the renewable energy market in the Philippines and to the enhancement of infrastructure and is intended to collect operational know-how on the renewable energy business. Also, the investment in Albatross is for the purpose of collecting information and accumulating expertise in the GX field at the Group level.

* The portion of offshore floating vertical axis wind turbines that floats in the ocean has been made compact, and through innovations in turbine manufacturing methods, manufacturing costs and operating cost are expected to be reduced compared to conventional turbines (horizontal axis). Joint research has already begun with various companies and groups.

(3) Maximizing the vitality of the organization and human resources

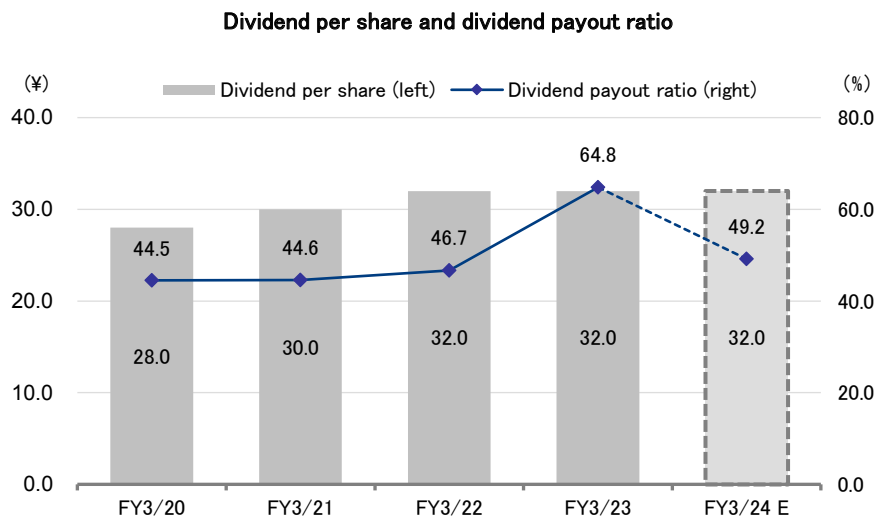
Regarding investment in human capital, in FY3/24 the Company reformed its pay system to increase work motivation, enhanced childcare support measures (started a birth bonus program and temporary childcare support system), and introduced a reskilling program.

Shareholder return policy

Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%, combined with perks and gifts to shareholders for a total investment yield level of 4% to 7%

The Company actively returns 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 continue to pay a dividend targeting a dividend payout ratio in the 40-50% range. In FY3/24, the Company plans to pay a dividend per share of ¥32.0 (dividend payout ratio of 49.2%), 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 ¥1,005 on February 7, 2024), is in the range of 4% to 7% (in the case that the shareholder selects a QUO card or an Aqua product as the gift).



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	¥2,080 worth	¥4,160 worth	¥8,320 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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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp