COMPANY RESEARCH AND ANALYSIS REPORT

TOKAI Holdings Corporation

3167

Tokyo Stock Exchange Prime Market

17-Jul.-2025

FISCO Ltd. Analyst

Yuzuru Sato

FISCO

FISCO Ltd.

https://www.fisco.co.jp

Contents

Summary — 01

1. FY3/25 results overview 01
2. Outlook for FY3/26 01
3. Progress on the 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 05
6. Others 06

Business overview — 06

1. FY3/25 results overview 06
2. Trends by business segment 08
3. Financial position 13

Future outlook — 15

1. Outlook for FY3/26 15
2. Progress on the medium-term management plan 18
3. Initiatives to improve corporate value 19

Shareholder return policy — 22

Summary

Looking to set another record high for earnings in FY3/26 based on expansion of customer base

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 roughly 3.42 million 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. FY3/25 results overview

In the FY3/25 consolidated results, sales and profits grew, with net sales increasing 5.2% year on year (YoY) to ¥243,482mn and operating profit increasing 8.6% to ¥16,841mn, as results set a new record high. The increase in net sales was supported by an increase in the number of Group customers and growth in the information and communications business for corporate customers, as well as steady growth in sales in the construction equipment and real estate business. The increase in profits was due to the rise in monthly billing associated with the increase in the number of customers and the strategic review and reduction of expenses in the energy business, leading to record high profits in all profit categories. Compared to the initial forecast (net sales of ¥244,000mn and operating profit of ¥16,000mn), net sales were roughly on target while operating profit exceeded the initial forecast by 5.3%, as the increase in profit in the energy business made up for the underperformance in the information and communications business. There were 3,423,000 continuing customers at the end of FY3/25, up by 64,000 customers YoY.

2. Outlook for FY3/26

For the consolidated results in FY3/26, the Company forecasts that both sales and profits will continue to rise, with forecasts for net sales to rise 3.9% YoY to ¥253,000mn and operating profit to increase 3.9% to ¥17,500mn. In the energy business, the Company expects results to remain generally flat, but it expects higher profit in both the information and communications business and the CATV business. For the information and communications business, which posted a decline in profit in the previous fiscal year, the Company aims to improve profitability by reviewing sales channels for consumers, and it expects profits turn higher as the upfront investments targeting corporate customers (a high growth segment) have largely run their course. The Company envisions the number of continuing customers growing 39,000 YoY to 3,462,000 at the end of FY3/26.

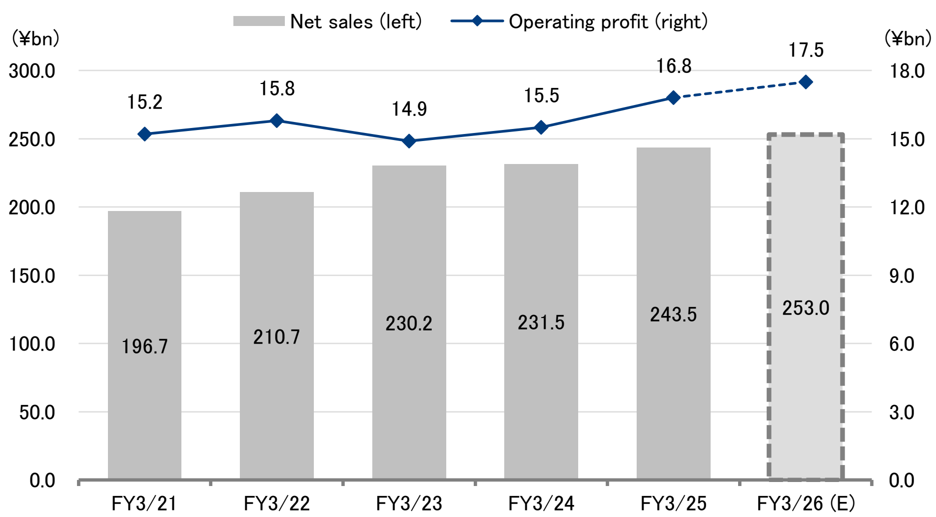
3. Progress on the medium-term management plan

In the Medium-Term Management Plan 2025, which was announced in May 2023, the Company set forth a policy of aiming for sustained growth by expanding the customer base while strengthening human capital investment and by providing services that contribute to diverse lifestyles and the realization of a carbon-free society. The numerical management targets for FY3/26, the last year of the plan, are net sales of ¥260.0bn, operating profit of ¥17.5bn, and continuing customers of 3.57 million. For the two years through FY3/25, net sales and the number of continuing customers grew at a pace below that of the plan, but operating profit progressed at a pace faster the plan, driven by the energy business. FISCO believes that the Company is on track to achieve the numerical management targets in the medium-term management plan on a profit basis, as long as there are no major changes in the market environment going forward. Going forward, the Company will formulate its next medium-term management plan that will start from FY3/27. The basic strategy appears to be to continue on with the policies up until this point, and work to increase ROE (expecting ROE of 10.8% in FY3/26) and growth, while optimally allocating capital. Regarding its policy on shareholder returns, the Company plans to pay a stable, ongoing dividend based on a consolidated payout ratio of around 40–50%. It will also provide shareholder benefits. In FY3/26, the Company plans to pay a dividend per share of ¥34.0 (dividend payout ratio of 44.4%), which is the same amount as in FY3/25. The total investment yield per share unit, including the gifts to shareholders, will be 4–7% (converted based on the closing price on June 2, 2025).

Key Points

- Set new record highs for net sales and profits in FY3/25
- In FY3/26, the Company is likely to see higher net sales and profits again, driven by the information and communications business
- In the Medium-Term Management Plan 2025, the Company expects to achieve its forecasts on a profit basis due to growth in the energy business
- Targeting a dividend payout ratio of 40–50%, leading to a total investment yield (including shareholder gifts) of 4–7%

Results trends



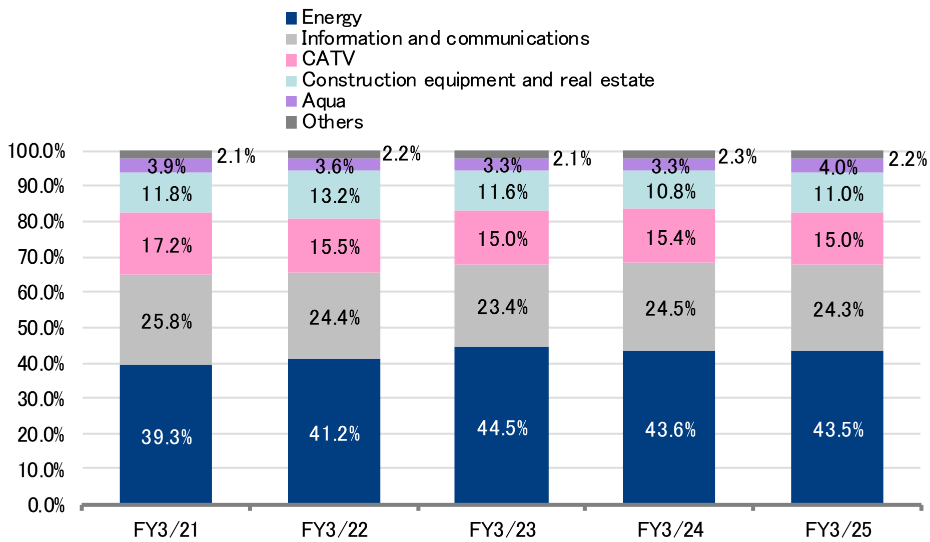
Note: Figures rounded to the nearest unit
Source: Prepared by FISCO from the Company's financial results

Business overview

Engaged in lifestyle and infrastructure services, information and communication services for corporate customers and the construction equipment and real estate business

Based in Shizuoka Prefecture, the Company is engaged in businesses including lifestyle infrastructure services centered on liquefied petroleum (LP) gas, the information and communications business for corporate customers, and the construction equipment and real estate business. Currently, the Company discloses results for 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 other businesses. Looking at the ratio of net sales by business segment for FY3/25 results, the Company's original business, the energy business accounted for 43.5% of net sales, the information and communications business for 24.3%, and the CATV business for 15.0%. These three mainstay businesses accounted for over 80% of net sales, and there have not been significant changes in trends over the past five years.

Ratio of net sales by business segment



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

1. Energy business

In this business, just over 80% of net sales are provided by the LP gas business and just under 20% by the city gas business. The mainstay LP gas business is developed by TOKAI Corporation, primarily for homes and businesses and wholesales some of its products. The service areas are mainly in the Shizuoka and Kanto regions, but since 2015, it has gradually expanded into new areas, including southern Tohoku, Chubu/Tokai, Chugoku, and Kyushu, promoting the expansion of its customer base. As of the end of FY3/25, the number of customers is 807,000 and in terms of its position in the industry, the Company is third in direct sales after Iwatani <8088> and Nippon Gas <8174>. Its market share is the top in its home prefecture of Shizuoka, at approximately 20%, and it is second in the highly competitive Kanto region, at just under 10%. As there are approximately 22 million households nationwide that use LP gas, the nationwide market share is still at the level of just under 4%. However, the Company plans to increase its market share by expanding sales areas and carrying out M&A. As the domestic LP gas distribution industry is dominated by MSMEs, which are increasingly being consolidated by large-cap companies due to labor shortages and lack of successors*, FISCO believes the Company also has a lot of room to expand its market share.

* The number of LP gas providers decreased from around 21,000 in 2012 to around 15,000 in 2024.

For the city gas business, TOKAI GAS CORPORATION sells city gas in Yaizu City, Fujieda City, and Shimada City in Shizuoka Prefecture, and with the full liberalization of gas retail sale in April 2017, the Company has been expanding its sales area, taking over the city gas businesses previously run by municipalities. Specifically, it has taken over and is operating city gas businesses in Shimonita Town, Gunma Prefecture (since April 2019), and Nikaho City, Akita Prefecture (since April 2020). The number of customers was 74,000 as of the end of FY3/25. There are 190 city gas providers (172 private and 18 public) in Japan, and excluding the 4 major companies, most are small to medium-sized regional operators. The Company intends to continue to positively consider M&A opportunities as they arise.

2. Information and communications business

The information and communications business conducted by TOKAI Communications Corporation includes ISP (Internet service provider) services, MVNO* services, and mobile business (mobile phone sales agency) for consumers, as well as communication line services, data center services, cloud system construction support, and system development for corporations. Looking at the percentages of total net sales for FY3/25 results, the percentage of corporate business is trending upward, with an approximately 40% contribution from consumer business and approximately 60% from corporate business. The just over 80% of operating profit also comes from corporate customers.

The ISP business provides the “@T COM” brand for the nationwide service area and the TOKAI Network Club (TNC) brand for the Shizuoka Prefecture service area, and it has the leading share within Shizuoka Prefecture of approximately 20%. In addition, from 2015 it launched the Hikari Collaboration service (@T COM Hikari and TNC Hikari services), in which it receives wholesale provision of optical lines from NTT <9432> and provides its own optical (hikari) Internet connection service, as well as offering plans that include services from major mobile carriers. Also, in 2017 it also started sales of LIBMO, which is an inexpensive SIM / smartphone that uses MVNO. As of the end of FY3/25, the Company had 380,000 customers that include those using its existing ISP service, 387,000 customers using its Hikari Collaboration service, and 79,000 customers using its LIBMO service.

* MVNO (Mobile Virtual Network Operator): Operators who provide services by borrowing other companies’ wireless communication infrastructure, such as for mobile phones.

The mobile business operates 14 mobile phone stores, primarily in Shizuoka Prefecture, as a sales agency for SoftBank <9434>, as well as 7 iCracked Store stores offering iPhone repair services. As of the end of FY3/25, it had 162,000 customers, continuing the gradual decline from its peak of 236,000 customers in FY3/16. It also operates seven iCracked Store stores, which provide iPhone repair services, in Shizuoka Prefecture.

3. CATV business

In the CATV business, the Company has gradually expanded the service area through its M&A strategy. Recently, it made Okinawa Cable Network Inc. into a Group company in October 2022. It provides services in Tokyo and seven prefectures: Shizuoka, Kanagawa, Chiba, Nagano, Okayama, Miyagi, and Okinawa (10 Group companies) as of the end of FY3/25. The number of customers stood at 922,000 for broadcasting services and 413,000 for communications services, bringing the total to 1,335,000 customers as of the end of FY3/25, continuing a mild increasing trend. The number of domestic CATV service contracts is 31.84 million in total (as of the end of March 2025, and is gradually increasing. In the industry, the J:COM (JCOM Co., Ltd.) Group holds a market share of just over 50% based on the number of subscribing households. The second-largest CATV company and other smaller players, including the Company, each hold market shares of only a few percent. Accordingly, the Company aims to further expand its market share through M&A.

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 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 2020, making Inoue Technica Co., Ltd., which operates a building maintenance business in Shizuoka Prefecture, a subsidiary in the same year, and making Marco Polo Inc., which engages in the large-scale repair and renovation business for buildings in the Tokai area, a subsidiary in 2021, and making Wood Recycle Co., Ltd., which is engaged in industrial waste treatment and woodchip manufacturing business in Gifu Prefecture, a subsidiary in 2022. By mobilizing these Group companies' resources, the Company's strategy is to expand its business scale as a general construction company in the Tokai area moving ahead.

5. Aqua business

In the Aqua business (bottled water home delivery business), TOKAI launched the Delicious Water Home Delivery returnable (using returnable bottles) service in 2007 in Shizuoka Prefecture, and since 2011, it has been providing its brand name water product Ulunom as a one-way (using disposable bottles) service in areas other than Shizuoka Prefecture. Additionally, in April 2023, the Company began a new initiative selling "Shizukuclear,"* a water dispenser that purifies tap water using a built-in filter. At the end of FY3/25, the Aqua business had 191,000 customers. The total number of customers in the industry as of the end FY2024 was 5.71 million units, with the Company holding a market share of just above 3% (approximately 50% in Shizuoka Prefecture).

* The water server rental fee is ¥2,640/month or ¥3,300/month (tax included), and filters, which are replaced approximately every half year, are provided free of charge.

6. Others

Other businesses include a nursing care business operated by TOKAI LIFE PLUS CORPORATION, a wedding ceremony business by TOKAI City Service Corporation, and a shipbuilding and repair business by Tokaizosen-unyu Corporation. The Company launched the nursing care business in 2011, and as of the end of FY3/25, the Company operated six day-service facilities, one short-stay facility, one paid-for nursing home in Shizuoka Prefecture. In addition, it has opened one care plan center. In the wedding ceremony business, the Company operates GRANDAIR Bouquet TOKAI in the Aoi Tower in front of JR Shizuoka Station.

Business overview

FY3/25 results set a record high for net sales and all profit lines

1. FY3/25 results overview

In the FY3/25 consolidated results, net sales increased 5.2% YoY to ¥243,482mn, operating profit rose 8.6% to ¥16,841mn, recurring profit grew 11.8% to ¥17,370mn, and net income attributable to owners of the parent increased 8.7% to ¥9,216mn, achieving growth in both net sales and profit. Net sales increased for the eighth consecutive fiscal year and reached a record high. This was supported by an increase in sales attributable to the rise in the number of Group customers, growth in recurring revenue from corporate customers in the information and communications business, as well as solid orders for construction projects in the construction equipment and real estate business. On the profit front, all profit lines increased for the second consecutive fiscal year while a record high profit was set for the first time in three fiscal years. This strong profit performance was due to the rise in monthly billing associated with the rise in the number of customers and the strategic review and reduction of expenses in the energy business, along with other factors. Operating profit improved by approximately ¥500mn YoY, but this was mainly due to the ¥380mn improvement in gains on investments in equity-method affiliates.

Net sales progressed generally in line with the Company's initial forecast, and it appears that all profit lines exceeded the initial forecast. Operating profit was ¥800mn higher than the forecast. By business segment, although the information and communications business was several hundred million yen below the forecast, the energy business was much higher than the initial forecast, resulting in the YoY increase in operating profit.

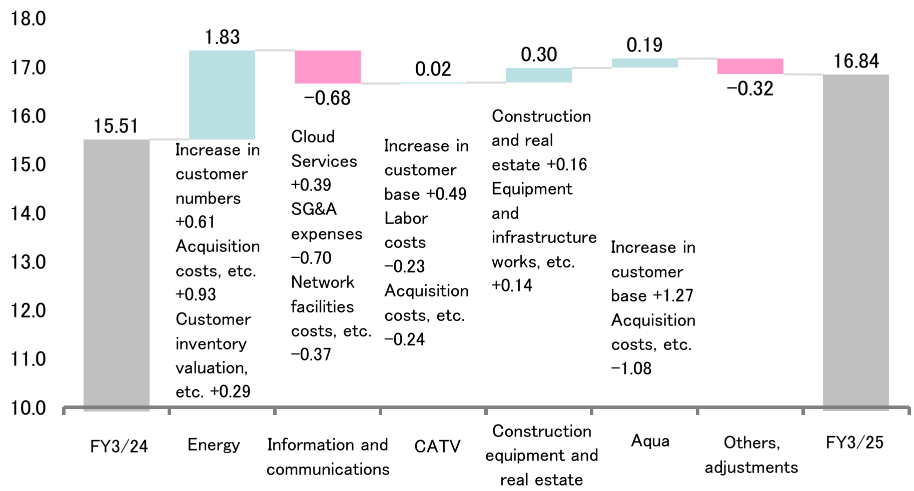
FY3/25 consolidated results

(¥mn)

	FY3/24		FY3/25				
	Results	% of net sales	Company forecasts	Results	% of net sales	YoY	vs. forecast
Net sales	231,513	-	244,000	243,482	-	5.2%	-0.2%
Operating profit	15,511	6.7%	16,000	16,841	6.9%	8.6%	5.3%
Recurring profit	15,531	6.7%	16,000	17,370	7.1%	11.8%	8.6%
Net income attributable to owners of the parent	8,481	3.7%	9,000	9,216	3.8%	8.7%	2.4%
Number of continuing customers (FY-end, thousand)	3,358	-	3,452	3,423	-	1.9%	-0.8%

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

Operating profit increase/decrease factors



Note: Value changes in operating profit are prior to allocating indirect costs and other costs.
Source: Prepared by FISCO from the Company's results briefing materials

There were 3,423,000 continuing customers at the end of FY3/25, an increase of 64,000 from the end of FY3/24. There was an increase of 28,000 customers in the LP gas business, an increase of 22,000 customers in the CATV business, and 24,000 more customers in the Aqua business. For the information and communications business, there was an increase of 14,000 customers for Hikari Collaboration, but in total there was a YoY decline of 1,000 customers due to the drop in existing ISP services. In addition, the number of TLC members* increased 53,000 to 1,267,000 members, as growth was steady.

* When using services provided by the Group, points are awarded according to the amount of usage, which can be used to pay charges and also exchanged for electronic money. Users of multiple services are awarded extra points. There are various other benefits, and getting people to become members has the benefit of preventing cancellations.

Number of customers by key service

(thousand)

	End- FY3/21	End- FY3/22	End- FY3/23	End- FY3/24	End- FY3/25	Change from previous FY-end
Energy	744	785	821	853	880	27
LP gas	681	715	746	778	807	28
City gas	63	70	75	75	74	-1
Information and communications	785	816	841	846	845	-1
Existing ISP and related services	395	415	407	393	380	-13
Hikari Collaboration	337	346	363	373	387	14
LIBMO	53	55	71	80	79	-1
CATV	1,198	1,231	1,287	1,313	1,335	22
Broadcasting service	875	887	914	919	922	3
Communications service	322	344	373	394	413	19
Aqua	162	165	165	167	191	24
Mobile	206	191	179	170	162	-8
Security	16	16	16	16	15	-1
Total number of Group customers	3,099	3,194	3,299	3,358	3,423	64
(Number of TLC members)	979	1,086	1,158	1,214	1,267	53

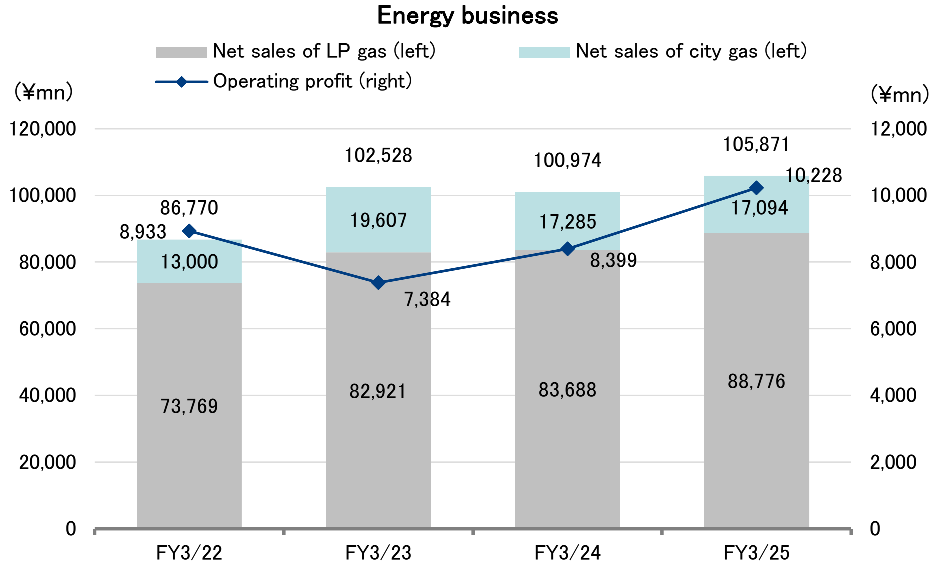
Notes: The number of customers under a thousand are rounded to the nearest thousand. Information and communications and CATV both offer communications services, and so their numbers are excluded from total figures.
Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

Significant increase in profit in the energy business partly due to the impact of cost reductions

2. Trends by business segment

(1) Energy business

Net sales in the energy business increased 4.8% YoY to ¥105,871mn, and operating profit (operating profit before allocation of indirect costs and other costs, which is calculated differently than in the Company's financial results; the same applies below) rose 21.8% to ¥10,228mn, as net sales increased for the first time in two fiscal years and operating profit rose for the second consecutive fiscal year. In addition, the Company's results significantly exceeded its forecasts on a profit basis.



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

Net sales in the LP gas business rose 6.1% YoY to ¥88,776mn. The main reason was the 4% YoY increase in sales volume due to the increase in the number of residential customers and other factors. The number of customers increased 28,000 YoY to 807,000 at the end of FY3/25. Of the net increase of 28,000 customers, 22,000 were due to FUJIPRO CORPORATION becoming a consolidated subsidiary in April 2024. The amount of LP gas used per customer household declined 0.6% YoY. The average temperature in FY3/25 was roughly flat compared to the previous fiscal year, but there seems to have been a slight impact in consumption volume due to customers being increasingly savings-oriented. The residential sales price was flat YoY, and there was a slight rise in industrial-use sales price, which tracks the procurement price.

There was a YoY decline in the number of new customers acquired, but there was a large impact from the enforcement of the revised ministerial ordinance* to correct LP gas business practices in July 2024. Due to the revised ministerial ordinance, it became difficult in effect to replace providers in existing housing complexes, and going forward the Company will work to acquire contracts in newly built properties and expand its sales area (it entered Kagoshima Prefecture in August 2024), as well as increase the number of customers through M&A.

* Under the revised ordinance, excessive sales activities practiced before while acquiring customers from leased condominiums, etc. involving providing goods and cash payments, is limited.

Overview of revised ministerial ordinance to rectify LP gas business practices (promulgated April 2, 2024)

(1) Limitation on excessive sales activities (goes into effect July 2, 2024) • Banned from providing benefits that exceed normal business practices • Banned conditioned contracts that would limit LP gas provider switchover that threaten to impede the choice of provider by consumers
(2) Rigorous enforcement of three-level billing system (goes into effect April 2, 2025) • Rigorous enforcement of three-level billing system consisting of basic charges, metered charges and facilities charges (facilities charges must be displayed separately) • Banned from listing facility expenses unrelated to LP gas, like electric air conditioners and Wi-Fi on LP gas charges • Regarding LP gas charges for leased residences, banned from listing facility expenses for gas implements, etc.
(3) Information provision for LP gas charges, etc. (goes into effect July 2, 2024) • Makes it mandatory of make efforts to provide LP gas charges in advance to prospective residents (provide directly to prospective residents or though the owner, real estate management company, or real estate broker, etc.)

Note: When prospective residents request the LP gas provider to directly provide the information, the provider must respond to the request.
Source: Prepared by FISCO from METI's "Overview of LPG Act Revised Ordinance" (promulgated April 2, 2024)

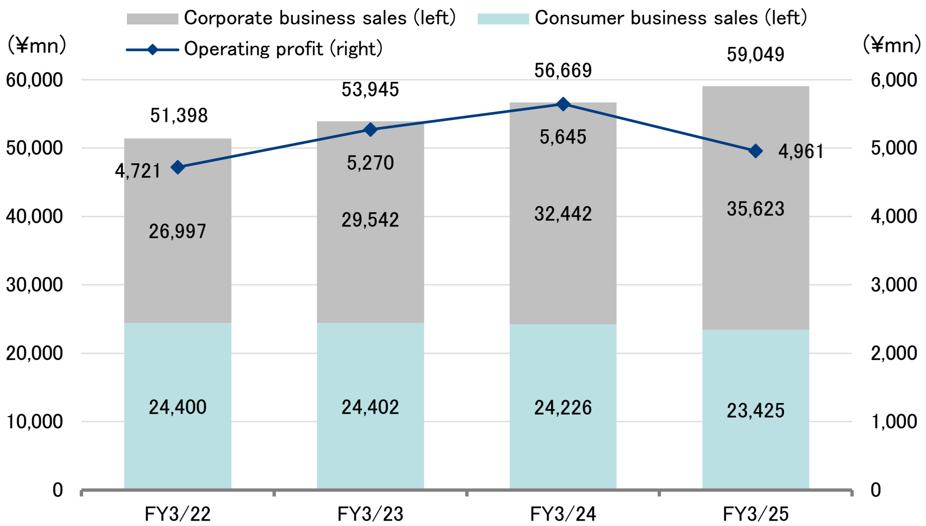
Net sales in the city gas business decreased 1.1% YoY to ¥17,094mn. The number of customers declined by 1,000 to 74,000, staying roughly flat, but a decline in sales prices under the system where raw material costs are adjusted to track procurement costs led to lower sales. However, looking at 2H alone, net sales turned to increase, indicating that the impact of lower sales prices has run its course.

Looking at the factors behind the change in operating profit, an increase in the number of customers in the LP gas business increased profits by ¥610mn, a decrease in customer acquisition costs, etc., increased profits by ¥930mn, and profit increased by ¥290mn due to the impact of valuations of customer inventories. The Company uses the first-in, first-out method to value inventory, and as procurement prices fell toward the end of the fiscal year, it incurred valuation gains.

(2) Information and communications business

In the information and communications business, sales grew but profits fell, with net sales increasing 4.2% YoY to ¥59,049mn and operating profit decreasing 12.1% to ¥4,961mn. Net sales set a record high for consecutive fiscal years, but profit fell for the first time in seven fiscal years due to the increase in upfront investment costs, etc. in the corporate business.

Information and communications business



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

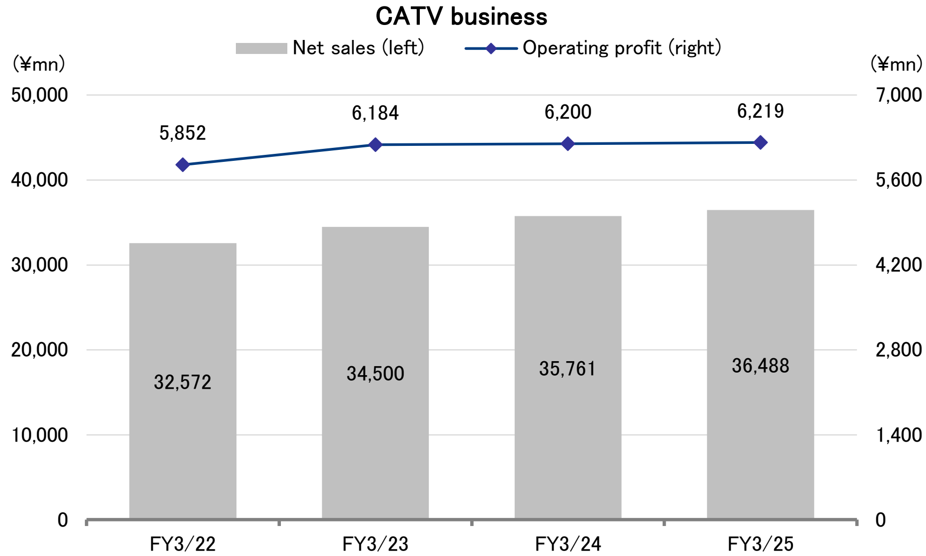
Net sales from the consumer business declined 3.3% YoY to ¥23,425mn and operating profit decreased 1.7% to ¥765mn. The number of customers at the end of FY3/25 increased 14,000 to 387,000 in Hikari Collaboration due to growth in sales via a large mobile carrier, but there was a drop of 13,000 customers in the existing ISP services to 380,000, while LIBMO declined 1,000 to 79,000. In addition to the decline in contracts for existing ISP services and LIBMO, the continued decline in ARPU (due to an increase in the ratio of sales via mobile carriers) for Hikari Collaboration was a factor in the decrease in sales. For LIBMO, DoCoMo shops, which were the main sales channel, bolstered sales of their own service "eximo," which had an impact. Operating profit fell slightly, as the curbing of SG&A expenses partially offset the decline in profit due to the drop in sales to a certain extent.

Net sales from business for corporate customers rose 9.8% YoY to ¥35,623mn, while operating profit declined 13.8% to ¥4,196mn. Net sales remained strong as communication line services and cloud services continued to expand, but profit declined due to higher personnel expenses from revising wages, as well as an increase in expenses accompanying equipment capacity enhancements such as data centers and communications infrastructure. The Company's optical communications network, which ran from northern Kanto to Okayama, has been extended to Kyushu and the existing network has been strengthened. In December 2024, the Company's subsidiary, TOKAI Communications Corporation, acquired all the shares of G&F Co., Ltd.* which provides support for IT infrastructure construction and introducing cloud infrastructure, in order to further strengthen its business structure, and this is expected to contribute to future earnings growth.

* G&F's most recent business results were for FY3/24, with net sales of ¥711mn and operating profit of ¥27mn.

(3) CATV business

In the information and communications business, sales and profits grew slightly, with net sales increasing 2.0% YoY to ¥36,488mn and operating profit increasing 0.3% to ¥6,219mn.



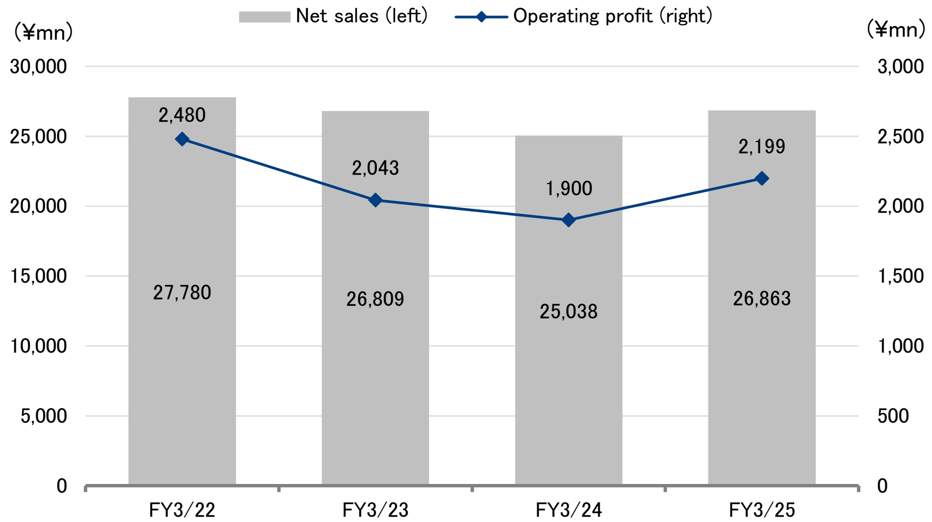
Note: Operating profit values are prior to allocating indirect costs and other costs.
Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

As a provider with close ties to the community, the Company focused on local information provision and program production. It also worked to enhance content, including by partnering with major video streamers. Further, it actively advanced sales activities for high-speed Internet services through investment in fiber optics. These initiatives drove sales and profit growth. At the end of FY3/25, customers for broadcasting services were up 3,000 YoY to 922,000 and for communications services were up 19,000 to 413,000, with more cases of broadcasting service customers newly signing up for communications services, and the effect of investment in fiber optics seems to be becoming apparent. Despite personnel costs increasing ¥230mn due to wage revisions and a ¥240mn increase in customer acquisition costs, profit grew on a boost from higher sales due to growth in the number of customers.

(4) Construction equipment and real estate business

Net sales in the construction equipment and real estate business increased 7.3% YoY to ¥26,863mn and operating profit rose by 15.7% to ¥2,199mn, as both increased for the first time in three fiscal years. Looking at the breakdown of net sales, construction and real estate saw a ¥160mn increase in profit, while net sales in equipment installation and civil engineering projects also grew ¥140mn, due to the growth of a subsidiary in the Chukyo area that was previously made a member of the Group.

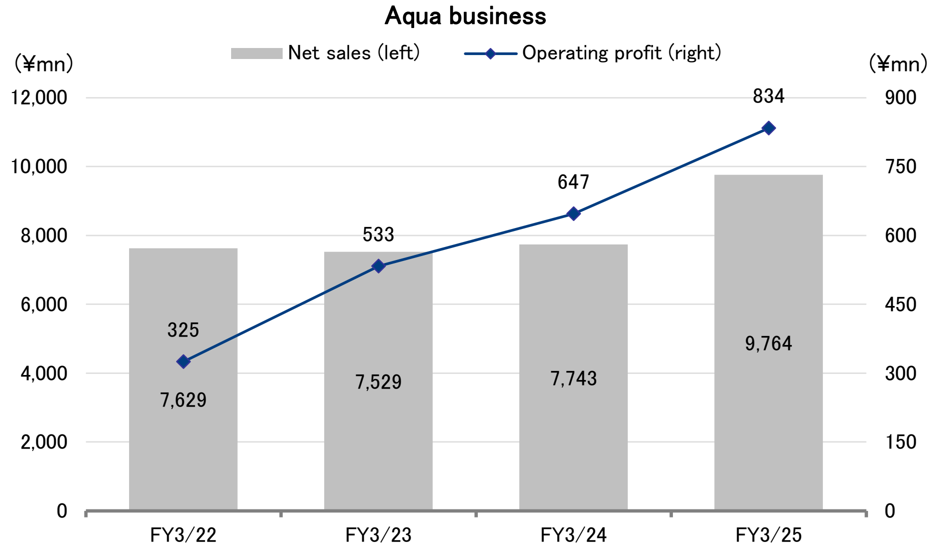
Construction equipment and real estate business



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

(5) Aqua business

In the Aqua business, net sales increased 26.1% YoY to ¥9,764mn, while operating profit increased 28.7% to ¥834mn, and a record high profit was recorded for the first time in six fiscal years. Because of efforts to further expand the customer base through event sales at large commercial facilities, web marketing, and other initiatives, the number of customers increased by 24,000 from the end of FY3/24 to 191,000, a large increase, which helped sales to rise. In particular, the Company acquired 28,000 customers for Shizukuclear, a water dispenser that filters tap water, which the Company began offering in April 2024, and this drove earnings in this business. There were a certain number of cases in which a customer who was considering canceling the existing service switched to Shizukuclear based on the promotion of the attractive pricing. Looking at the factors behind the change in operating profit, profit increased ¥1,270mn due to the increase in customer count, which absorbed the increase of ¥1,080mn in customer acquisition costs.



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

(6) Other businesses and adjustments

In other businesses, net sales rose by 2.2% YoY to ¥5,444mn. The nursing care business saw sales decrease by 0.9% to ¥1,398mn due to a decline in day service users. The shipbuilding and repairs business decreased 6.2% to ¥1,688mn due to a decrease in ship repairs. Meanwhile, the wedding ceremony business increased 3.7% to ¥1,321mn as a result of a recovery in demand for banquets for companies and general users. Including corporate expenses, the operating loss was ¥7,600mn, which was larger than the loss of ¥7,283mn in FY3/24.

Moderate increase in the equity ratio, free cash flow in excess of ¥10.0bn

3. Financial position

Looking at the Company's financial position as of the end of FY3/25, total assets increased ¥5,813mn from the previous year-end to ¥211,114mn. The main factors behind this change were a decrease in cash and deposits of ¥122mn and increases in notes and accounts receivable - trade, and contract assets of ¥3,036mn, intangible assets of ¥2,860mn and investment securities of ¥1,477mn.

Total liabilities amounted to ¥115,259mn, representing an increase of ¥1,258mn compared to the end of FY3/24. There was a ¥2,068mn decrease of notes payable and accounts payable, while interest-bearing debt declined by ¥175mn. Meanwhile, other in non-current liabilities increased by ¥1,561mn due to increases in deferred tax liabilities and asset retirement obligations, and other in current liabilities increased by ¥1,403mn due to increases in accrued consumption taxes and accounts payable-facilities. Total net assets amounted to ¥95,855mn, an increase of ¥4,554mn compared to the end of FY3/24. While dividends paid were ¥4,466mn, the fact that the Company posted ¥9,216mn in net income attributable to owners of the parent resulted in a ¥4,763mn increase in shareholders' equity.

The equity ratio, which indicates financial soundness, rose 0.9 percentage points (pp) from the end of the previous fiscal year to 44.3%, and the dependency on interest-bearing debt fell 0.7pp to 21.8%, showing some improvement in the Company's financial condition and maintaining a sound state. Looking at cash flow, cash flows from operating activities was ¥25,769mn, cash flows from investing activities was ¥15,385mn, and free cash flow was ¥10,384mn. The Company increases the number of continuous customers each fiscal year and accumulates monthly subscription income, generating free cash flow which is used to return money to shareholders and repay interest-bearing debt and lease obligations, and the end-of-term balance of cash and cash equivalents has remained stable at around ¥5.0bn for the past few years.

Consolidated balance sheets

(¥mn)

	End- FY3/21	End- FY3/22	End- FY3/23	End- FY3/24	End- FY3/25	Change from previous FY-end
Net assets	178,974	184,473	193,339	205,301	211,114	5,813
Cash and deposits	5,577	4,743	4,359	5,758	5,636	-122
Total liabilities	102,917	105,527	111,034	114,000	115,259	1,258
Interest-bearing debt	42,128	44,148	46,608	46,295	46,120	-175
Net assets	76,056	78,946	82,304	91,300	95,855	4,554
Equity ratio	41.6%	41.9%	41.5%	43.4%	44.3%	0.9pp
Interest-bearing debt dependency ratio	23.5%	23.9%	24.1%	22.5%	21.8%	-0.7pp
Interest-bearing debt/EBITDA ratio	1.36	1.39	1.50	1.44	1.33	-0.11 times
ROE	12.7%	11.8%	8.2%	10.0%	10.1%	0.1pp

Source: Prepared by FISCO from the Company's financial results, results briefing materials, and "Policy for Initiatives towards Implementing Management Focused on Capital Costs and Stock Prices"

Cash flow conditions

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25
Cash flows from operating activities	32,223	20,808	21,193	30,066	25,769
Cash flows from investing activities	-17,068	-14,592	-14,152	-18,831	-15,385
Free cash flow	15,155	6,216	7,040	11,234	10,384
Cash flows from financing activities	-14,064	-6,905	-7,459	-9,669	-10,534
Cash and cash equivalents at end of period	5,136	4,447	4,028	5,604	5,463

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

Future outlook

In FY3/26, the Company is expecting the information and communications business to drive higher sales and profit once again

1. Outlook for FY3/26

For the consolidated results in FY3/26, the Company has maintained its initial forecasts for net sales to rise 3.9% YoY to ¥253,000mn, operating profit to increase 3.9% to ¥17,500mn, recurring profit to increase 0.7% to ¥17,500mn and net income attributable to owners of the parent to go up 8.5% to ¥10,000mn. Net sales are expected to rise for the ninth consecutive fiscal year and each of the profit levels is expecting to set a new record high for the second straight fiscal year. The Company envisions the number of continuing customers growing 39,000 YoY to 3,462,000 at the end of FY3/26. In addition to increasing monthly subscription income, the Company expects a recovery in the corporate information and communications business, which saw a decline in profit due to upfront investments in FY3/25. There is a possibility that earnings could be even higher depending on whether M&A deals are successfully closed.

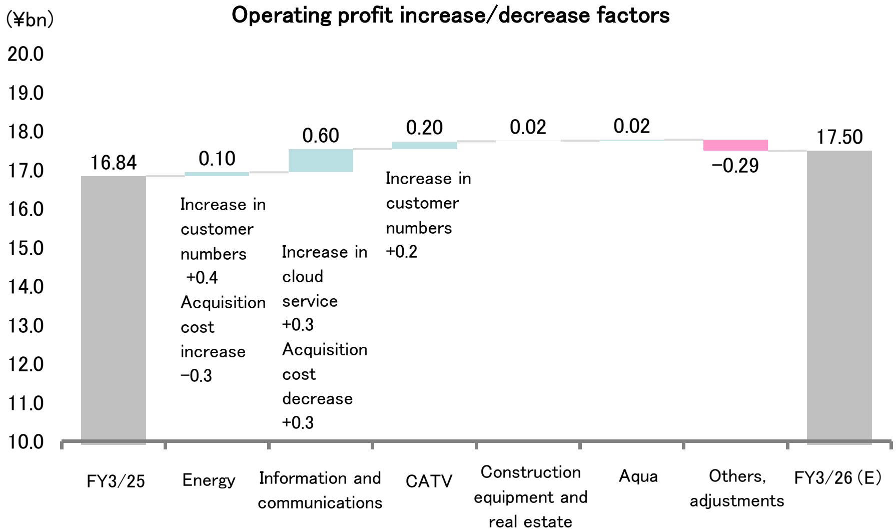
Outlook for FY3/26

(¥mn)

	FY3/25		FY3/26		
	Results	% of net sales	Company forecasts	% of net sales	YoY
Net sales	243,482	-	253,000	-	3.9%
Operating profit	16,841	6.9%	17,500	6.9%	3.9%
Recurring profit	17,370	7.1%	17,500	6.9%	0.7%
Net income attributable to owners of the parent	9,216	3.8%	10,000	4.0%	8.5%
Net income per share (¥)	70.55		76.55		
Number of continuing customers (FY-end, thousand)	3,423		3,462		1.1%

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

Operating profit increase/decrease factors



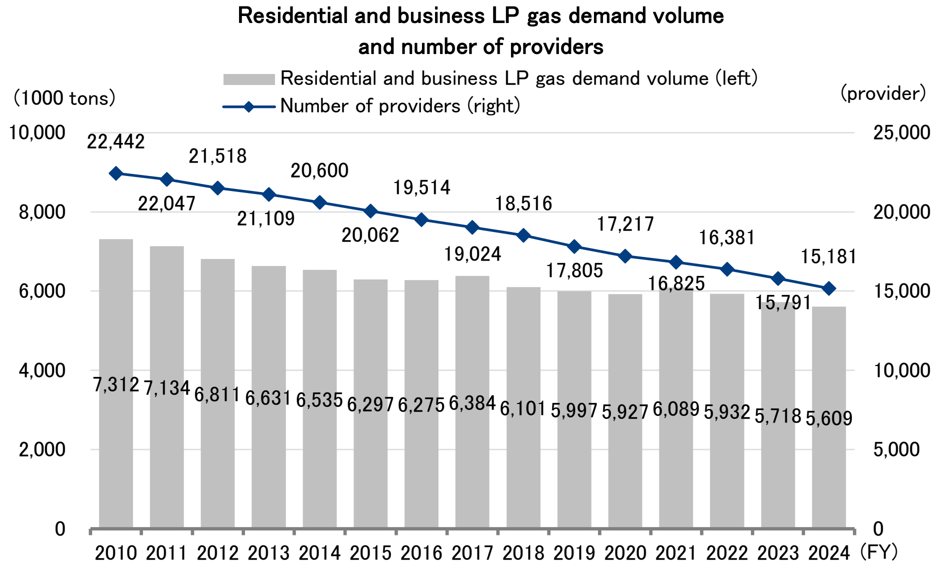
Note: Value changes in operating profit are prior to allocating indirect costs and other costs.
Source: Prepared by FISCO from the Company's results briefing materials

(1) Energy business

In the energy business, net sales are expected to be flat YoY and operating profit to rise by ¥100mn, indicating steady results are anticipated. Net sales in the mainstay LP gas business are expected to increase due to growth in the number of residential contracts (up 2% versus end of FY3/25) and higher sales of gas appliances, however this will be offset by the decline in commercial and wholesale sales, so the level is expected to be flat YoY. Regarding commercial and wholesale sales, the assumption is that sales prices that are linked to procurement prices will decline YoY, so a decline in sales is expected. In terms of sales volume, the average temperature is expected to be on par with FY3/25, and with the number of residential customers increasing 2%, the overall sales volume is forecast to increase 0.6%. Operating profit is expected to increase as the ¥400mn increase resulting from the increase in customers will make up for the ¥300mn increase in customer acquisition costs.

The number of residential contracts is expected to increase by around 16,000, with the increase being due to M&A and trade area purchases, including expansion into new areas. The Company has opened a sales office in Matsuyama City, Ehime Prefecture, a new area for the Company, and it expects to continue to develop customers in the Shikoku region in the future.

Domestic residential and commercial LP gas demand has been declining at an annual rate of 1.9% since 2010 due to a decrease in the number of contracts, more efficient gas appliances, and an increase in all-electric homes, while the number of LP gas business operators has decreased at an annual rate of 2.8%, from 22,442 in 2010 to 15,181 in 2024. The Ministry of Economy, Trade and Industry's forecast for residential and commercial LP gas demand through 2028 also predicts a decline of 1.6% per year. In the future, it is expected that there will be an increase in not only small and medium-sized businesses but also medium-sized deals like FUJIPRO, which was acquired in the previous fiscal year. FISCO believes that this will be an opportunity for the Company to increase its market share to increase its profits.



Note: The calendar year is indicated for the number of providers from 2020 to 2023.
Source: Prepared by Fisco based on METI's "Number of Nationwide Providers and Safety Institutions" and Japan LP Gas Association's "Annual Supply and Demand Trends"

(2) Information and communications business

The Company expects operating profit in the information and communications business to increase ¥600mn YoY. Net sales in the consumer business are expected to be flat, but the Company expects a ¥300mn increase in profit due to the revision of its customer acquisition sales channels. Among sales channels, even if a contract is acquired, the contract period is short, making it impossible to recover the acquisition costs, and by streamlining these sales channels, the Company will work to improve the efficiency of customer acquisition costs. As a result, the number of contracts is expected to increase slightly for LIBMO, but the overall number of contracts, centered on existing ISP and related services, is expected to decrease by 20,000 compared to the end of FY3/25.

On the other hand, in the business for corporate customers, the Company expects operating profit to increase by ¥300mn. Recurring sales, mainly from cloud services, are expected to grow due to the effect of strengthening infrastructure implemented in FY3/25. In addition, system contract development is also expected to remain strong. In terms of profits, profit margins will decline due to increases in fixed costs such as labor costs and depreciation, but this will be absorbed by increased sales. Furthermore, the AWS installation support service and cloud human resource development business, which were launched at a subsidiary (the Company's ownership stake: 60%) established in Indonesia as a joint venture with a local IT company in the previous fiscal year, are off to a good start, and the aim is to achieve profitability soon.

(3) CATV business

In the CATV business, operating profit is expected to continue to stably grow, increasing by ¥200mn. The number of customers is expected to increase by 20,000 in communications services, with the number of customers for broadcasting services remaining flat. Customers in communications services increased by 19,000 in FY3/25, and the Company will increase the number at the same pace. Despite the higher personnel expenses, operating profit is expected to maintain a growth rate in the low single digits, as these higher personnel costs will be absorbed by the increase in sales.

(4) Construction equipment and real estate business

The construction equipment and real estate business is expected to see operating profit increase by ¥20mn, as both sales and profits continue to increase. Synergy is emerging with the subsidiary acquired through M&A in the Tokai area, and further growth in market share in the Tokai area will take place, as orders are tending to be larger than before.

(5) Aqua business

In the Aqua business, the Company is projecting a ¥20mn increase in operating profit. By utilizing the network of group companies, centered on the Shizukuclear water purification server, the Company plans to increase the number of customers by 27,000 compared to the end of FY3/25 to 218,000. Also, as a cost-reduction measure, the Company has begun in-house production of bottle containers to be used in its one-way water delivery system, and it has factored in the initial costs of in-house production.

Outlook is for the Company to achieve the profit targets in the Medium-Term Management Plan 2025 due to growth in the energy business

2. Progress on the 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.

Looking at the progress up to the previous fiscal year, net sales are running slightly below the initial target, mainly due to a decline in the number of continuing customers from the slump in the consumer information and communications business, but operating profit is progressing at a rate higher than the target as the energy business expanded at a faster pace than expected. The results forecast for FY3/26, which was formulated taking into account the progress up to the previous fiscal year and the recent market environment, include net sales ¥7.0bn lower than the initial target, but the initial targets for each profit line item have been maintained.

Management numerical targets and progress of the Medium-Term Management Plan 2025

(¥bn)

	FY3/23 Results	FY3/24		FY3/25		FY3/26	
		Initial forecasts	Results	Initial forecasts	Results	Initial forecasts	Company forecasts
Net sales	230.2	240.0	231.5	250.0	243.5	260.0	253.0
Operating profit	14.9	15.0	15.5	16.0	16.8	17.5	17.5
Net income attributable to owners of the parent	6.5	8.5	8.5	9.0	9.2	10.0	10.0
Number of continuing customers (FY-end, ten thousand)	330	338	336	348	342	357	346
Dividend payout ratio	64.8%	49.2%	50.8%	40–50%	48.2%	40–50%	40–50%
ROE	8.2%	10.3%	10.0%	10.4%	10.1%	10.8%	10.8%
ROIC	8.3%	8.0%	8.2%	8.2%	8.4%	8.7%	8.7%

Note: Figures rounded to the nearest unit
Source: Prepared by FISCO from the Company's results briefing materials

There is a good chance that operating profit will exceed the plan, but in order to further expand the customer base in preparation for the next medium-term management plan starting from FY3/27, it is possible that the excess profit will be allocated to customer acquisition costs.

The Company's long-term vision for FY2030 is to achieve net sales of ¥400.0bn, operating profit of ¥30.0bn, and 5 million continuing customers, and it is expected that from FY3/27 onwards, in addition to organic growth, the Company will also further strengthen its M&A efforts.

Focusing on building a business portfolio to realize overall optimization based on the two axes of capital profitability and growth

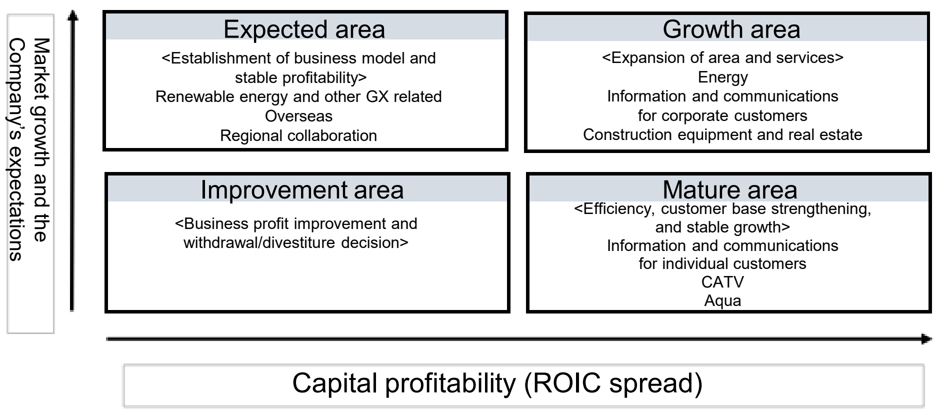
3. Initiatives to improve corporate value

The Company is focusing on three initiatives to enhance corporate value: 1) conduct business portfolio management, 2) expansion and efficiency improvement of each business, and 3) strengthen initiatives towards ESG management.

(1) Business portfolio management

As part of its business portfolio management, the Company will strengthen management by building a portfolio that realizes group-wide optimization while understanding the business portfolio on the two axes of capital profitability and growth potential. Specifically, the Company has divided the business portfolio into four segments: the growth area (energy, corporate information and communications, construction equipment and real estate), an expected area (renewable energy and other GX related, overseas and regional collaboration), the mature area (individual information and communications, CATV, and Aqua business) and the improvement area (business profit improvement or withdrawal/divestiture decision), and the Company will aim to increase ROIC and ROE by promoting expansion and greater efficiency for each business depending on their position in the portfolio. Expected areas include efforts to create new businesses for the sustainable growth of the Group. Also, by strengthening coordination between businesses, the Company will work to generate Group synergies.

Business portfolio



Source: Prepared by FISCO from the Company's "Policy for Initiatives towards Implementing Management Focused on Capital Costs and Stock Prices"

(2) Expansion and efficiency improvement of each business

a) Growth areas

In the energy business, the Company will work for sustained growth by expanding the customer base through M&A and area and service expansion. In addition, to maintain or increase profitability, it will promote cost-cutting measures such as improved business efficiency through DX. As for its DX strategy, it is proceeding to deploy meters with automated meter-reading, aiming to achieve 100% installation by the end of March 2026 (70% installed by the end of March 2024). This will not only reduce the cost of meter reading operations, it will allow the Company to grasp consumption volume by customers in real time to make it possible to conduct sales with the optimal timing. It is also expected to make logistics more efficient. Also, as a measure to strengthen customer contact, the Company is promoting the installation of a smartphone app among TLC members. Utilizing this app makes it possible to provide information to customers at the optimal timing, and it is expected to help reduce the cancellation rate and improve the cross-selling rate. As of the end of March 2024, the number of members who have installed the app has steadily increased to 375,000 out of 1,214,000 TLC members, and the Company aims to have 1,000,000 members install the app by the end of March 2026.

In information and communications for corporate customers, the Company will work to expand the business scale through communications infrastructure investment and increasing capacity at data centers. Along with this, the Company's strategy is to capture rampant DX demand by strengthening human resources specialized in digital through M&A strategy. In addition, in the construction equipment and real estate business, the Company aims to win orders for large-scale projects and expand its market share in the Tokai region by sharing the resources of each Group company, including construction and real estate, civil engineering projects, and equipment installation projects.

b) Areas of expectation

In renewable energy and other green transformation (GX) related businesses, the Company is involved in promoting the spread of solar power (including PPAs) and battery storage systems. The Company has invested in a company involved in the energy creation business and is aiming to be carbon neutral by 2050. Regarding the Company's investments thus far, in 2023, TOKAI acquired shares of REPOWER ENERGY DEVELOPMENT CORPORATION, a hydropower operating company in the Philippines, and in February 2024 the company became an equity-method affiliate (the Company's ownership stake: 20%). Additionally, in December 2023, TOKAI Venture Capital & Incubation Corporation (TVC&I) invested in Albatross Technology Inc., which develops floating vertical axis wind turbines for power generation*. Investment in Albatross Technology is intended for the Group to gather information and knowledge in the GX area. TVC&I was dissolved in FY3/25, and the VC business is being continued by the Startup Promotion Department newly established within the Company.

* 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.

Regarding the overseas business, in the energy business, the Company has made an LP gas-related company in Vietnam and a hydropower company in the Philippines equity-method affiliates, and in the information and communications business, the Company will develop business including AWS installation and support primarily in Indonesia and Taiwan. The impact of the overseas business on short-term results is marginal, but it is being developed with the expectation that it will contribute to earnings over the medium to long term.

c) Collaboration with local communities

Regarding regional collaboration, the Company is promoting locally rooted services and initiatives via public-private coordination through its Group companies. Specifically, a subsidiary that handles the CATV business is operating four fitness gyms and subsidiary Tokai Gas operates two campgrounds in Shizuoka Prefecture.

(3) Initiatives towards ESG management

The Company aims to further improve its P/E ratio by accelerating its ESG initiatives that lead to sustainable growth.

a) Environment

One initiative to achieve carbon neutrality by 2050 is promoting GX for energy used by customers and its own business activities. For customers, the Company is working to promote the spread of energy-saving equipment, sell carbon offset gas, introduce renewable energy, work with local communities to promote low- and decarbonization, and decarbonize raw materials. In addition, with regard to its own business activities, it is working on improving the efficiency of delivery in the LP gas business through DX, automate meter-reading, install solar power systems, and work to transition to renewable energy for the electricity used at business offices.

b) Society

As a measure to strengthen human capital, the Company will maximize human resource and organizational vitality and promote the improvement of employee well-being. Toward realization of the “ideal individual,” the Company has established an autonomous career support system and a reskilling support system, etc. Further, toward realization of the “ideal organization,” the Company is involved in realizing diverse work styles, reforming human resources systems to raise job satisfaction, practicing health and productivity management at a high level, and offering training for managers on the matter of psychological safety and coaching.

c) Governance

In order to strengthen compliance and governance, the Company is working to thoroughly train directors and managers and further raise compliance awareness in the organization.

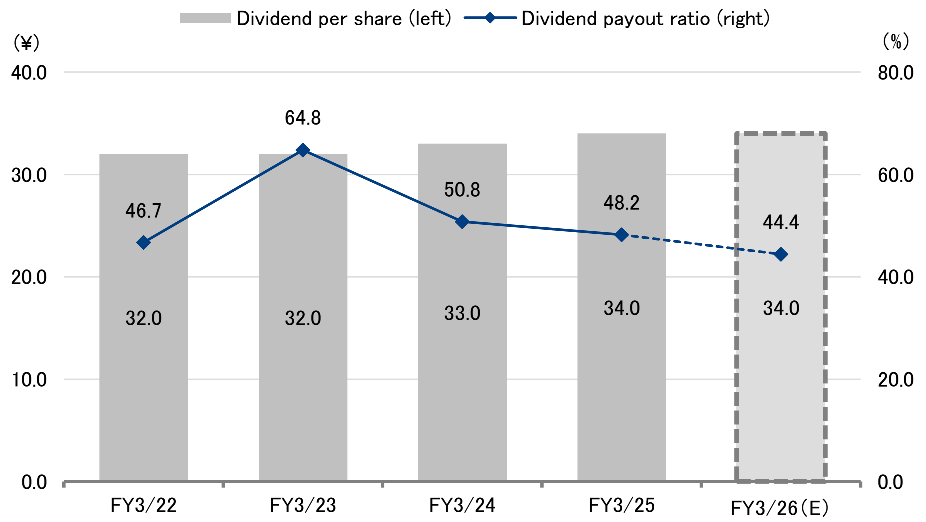
Shareholder return policy

Targeting a dividend payout ratio of 40–50%, with a total investment yield including gifts to shareholders in the 4–7% range

As for the Company's shareholder return policy, it provides dividends and shareholder benefits. In addition, depending on the situation, it buys back its own shares. In this way, it is actively engaged in shareholder returns. Regarding dividends, the basic policy is to pay a stable and ongoing dividend with a target payout ratio of 40–50% while strengthening the management structure and considering future business development. Based on this policy, in FY3/26, the Company plans to pay a dividend of ¥34.0 (dividend payout ratio of 44.4%), 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 annual investment yield per share unit, including the gifts to shareholders, in an estimate using the current share price level (closing price of ¥991 on June 2, 2025), is in the range of 4.4–7.8% (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, if desired, 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	5,000 or more shares
Aqua product	¥2,170 worth	¥4,340 worth	¥8,680 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
LIBMO monthly usage fee	¥2,100 worth	¥5,100 worth	¥11,280 worth

Source: Prepared by FISCO from the Company's website

Disclaimer

■ For inquiries, 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