COMPANY RESEARCH AND ANALYSIS REPORT

TOKAI Holdings Corporation

3167

Tokyo Stock Exchange Prime Market

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Summary

Released new medium-term management plan aiming for ROE of 13% by driving both business growth and enhanced shareholder returns

TOKAI Holdings Corporation <3167> (hereafter, also “the Company”), based in Shizuoka Prefecture, is a comprehensive lifestyle infrastructure company 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 3.47 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. Overview of FY3/26 results

For consolidated FY3/26 results, net sales increased 0.6% year on year (YoY) to ¥244,838mn and operating profit rose 11.0% to ¥18,699mn, marking record-high results for consecutive years. Although the energy business saw a decrease in revenue due to price cuts linked to procurement costs, this was offset by increased revenue from a rise in the number of continuing customers (up 48 thousand from the end of the previous fiscal year to 3,471 thousand accounts) and the expansion of the corporate recurring revenue-based business in the information and communications business, resulting in net sales growth for the ninth consecutive fiscal year. On the profit front, growth was achieved for the third consecutive year due to an increase in the number of continuing customers, higher profits from the corporate information and communications business and the construction, equipment and real estate business, and efforts to reduce customer acquisition costs in the energy and consumer information and communications businesses.

2. Overview of Medium-Term Management Plan 2028

The Company announced a new three-year medium-term management plan to take effect in FY3/27. With the dual focus on stable business profit growth through strengthening the management foundation and enhanced shareholder returns, the Company aims to maximize corporate value while improving capital efficiency. As its growth strategy, the Company is implementing the “Triple Accel” strategy, which aims to expand in three key areas: Area (expansion of regions), Account (increase in customers and contracts), and ARPU (enhancement of service menus and cross-selling–driven increase in revenue per customer). As numerical management targets for FY3/29, the Company set out net sales of ¥274.0bn, operating profit of ¥23.5bn, ROE of 13.0%, and number of continuing customers of 3.6 million. The Company aims for stable growth with an average annual growth rate of about 4% in net sales and about 8% in operating profit. For the energy business, corporate information and communications business, and CATV business designated as growth businesses, the Company plans to actively promote M&A and alliance strategies with an investment budget of about ¥20.0bn. The target number of continuing customers does not include the effects of strategic M&A.

3. FY3/27 forecasts

For consolidated FY3/27 results, net sales are projected to increase 6.2% YoY to ¥260,000mn and operating profit to rise 1.6% to ¥19,000mn, with continued revenue and profit growth expected. Although personnel costs are expected to rise due to wage revisions and expenses will increase with the renewal of HR and accounting systems, they will be absorbed by higher revenues. In the energy business, the Company's core business, although procurement costs remain high, rate revisions for households from the second quarter onward are expected to absorb these costs, resulting in higher sales and profits. Additionally, the information and communications business, where cloud services perform strongly, is expected to maintain its trend of increasing sales and profits. The number of continuing customers is expected to increase by 29 thousand from the end of the previous fiscal year to 3,500 thousand accounts.

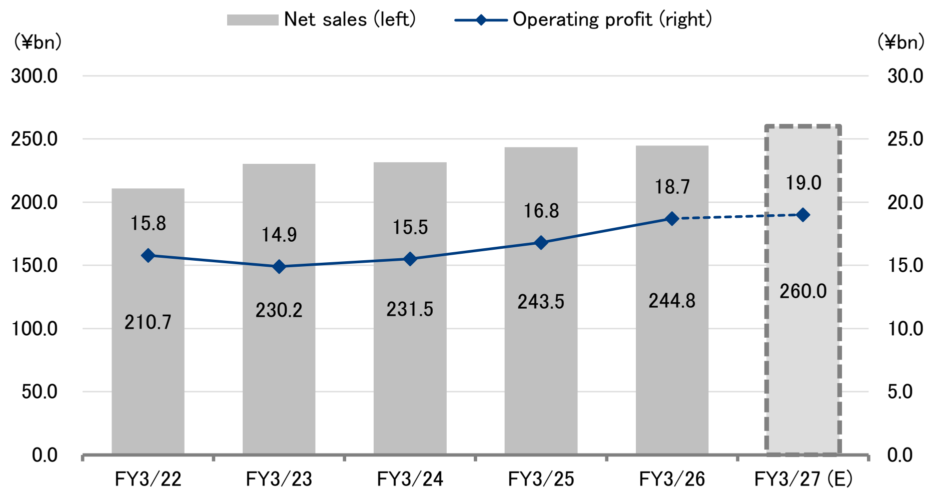
4. Shareholder return policy

As for shareholder returns, the previous basic policy was to provide stable and continuous dividends with a consolidated dividend payout ratio target of 40–50%. While flexible share buybacks have been considered in the past, the current medium-term management plan sets a specific target of a payout ratio above 45% and at least ¥10.0bn in share buybacks, with the policy to further enhance shareholder returns through agile execution. For FY3/26, the Company paid a dividend of ¥36.0 per share, an increase of ¥2.0 YoY (consolidated payout ratio: 43.6%), and plans to pay ¥38.0 per share for FY3/27, an additional ¥2.0 increase (consolidated payout ratio: 45.0%). Shareholder benefits will continue as before.

Key Points

- FY3/26 results marked record highs for consecutive years, with net profit exceeding ¥10.0bn for the first time
- Announced medium-term management plan targeting net profit of ¥13.5bn and ROE of 13% in FY3/29
- In FY3/27, increases in system costs and personnel costs will be absorbed through higher revenue, supporting continued revenue and profit growth
- Revised the payout ratio from 40–50% to 45% or higher and strengthened shareholder returns including share buybacks

Results trends



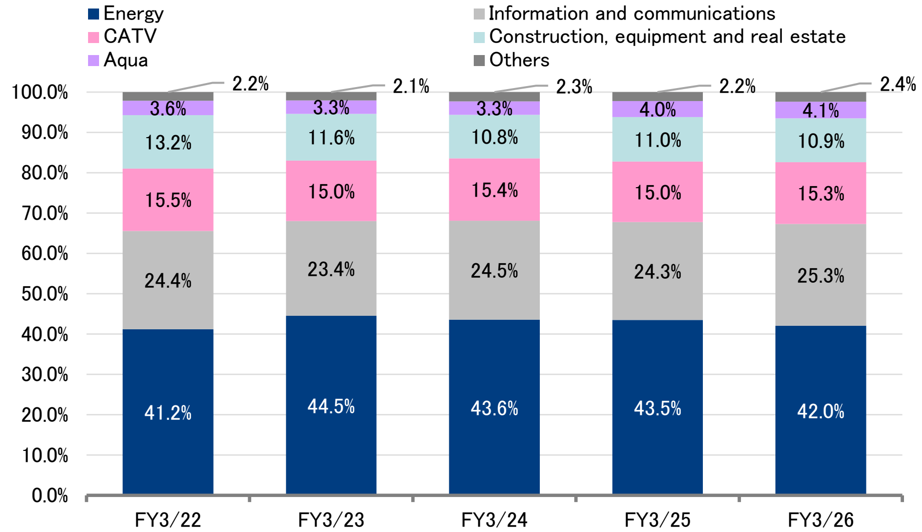
Note: Figures rounded to one decimal place
Source: Prepared by FISCO from the Company's financial results

Business overview

Develops information and communications and construction, equipment and real estate businesses based on a life infrastructure foundation

The Company Group, starting from Shizuoka Prefecture, operates lifestyle infrastructure services centered on LP gas, the corporate information and communications business, and the construction, equipment and real estate business. Currently, the business segments are disclosed in six categories: energy business, information and communications business, CATV business, construction, equipment and real estate business, Aqua business, and others. Looking at the net sales composition by business segment (FY3/26), its foundational energy business accounts for 42.0%, information and communications business 25.3%, and the CATV business 15.3%; these three businesses exceed 80% of the total. There has been no significant change in this sales composition over the past five years.

Net sales composition by business segment



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

1. Energy business

In the energy business, a little over 80% of net sales come from the LP gas business and just under 20% from the city gas business. The core LP gas business is handled by TOKAI CORPORATION, which primarily sells household and industrial use gases, and also engages in some wholesale sales. The main service areas are Shizuoka and the Kanto region, but since 2015, the Company has progressively entered new areas such as southern Tohoku, Chubu, Tokai, Chugoku, Shikoku, and Kyushu, expanding its customer base. As of the end of March 2026, the number of customers was 819 thousand accounts, placing the Company third in direct sales after Iwatani Corporation <8088> and NIPPON GAS CO., LTD. <8174>. Its market share is about 20% and No. 1 in its home base of Shizuoka Prefecture, and just under 10% and No. 2 even in the highly competitive Kanto region. The number of households using LP gas is estimated at about 21 million nationwide; the Company's nationwide share is 4%, but its strategy is to continue expanding sales territories and carry out M&A to increase share. In Japan's LP gas distribution business, many players are small and micro businesses, and amid labor shortages, challenges in finding successors, and tighter sales regulations, further consolidation among major players is underway. The number of sales operators is declining at an annual pace of 3%, from about 20,000 at the end of 2015 to 14,000* anticipated by the end of 2025.

* Based on data from the Ministry of Economy, Trade and Industry.

In the city gas business, TOKAI GAS CORPORATION sells city gas in Yaizu City, Fujieda City, and Shimada City in Shizuoka Prefecture, and since the deregulation of the retail gas market in April 2017, it has expanded its operating area by taking over city gas businesses that had been run by municipalities. Specifically, it took over city gas businesses from Shimonita Town, Gunma Prefecture (since April 2019), and Nikaho City, Akita Prefecture (since April 2020). As of the end of March 2026, the number of customers stood at 74 thousand accounts. There are 190 city gas operators nationwide (172 private, 18 public). Aside from the four major companies, most are small- to medium-sized local operators, and the Company intends to consider M&A opportunities in a positive manner going forward.

2. Information and communications business

In the information and communications business operated by TOKAI Communications Corporation, the Company provides both consumer and corporate services. The Company provides consumer-facing ISP (Internet service provider) business and mobile communications business (mobile phone sales agency business), as well as corporate services including telecommunication line provision service, data center service, cloud system design and implementation support, and contract system development business. Although sales to consumers have been on a gradual decline due to intensifying competition, corporate sales continue to grow on the back of expansion in the cloud services market. In FY3/26, corporate services accounted for a little over 60% of net sales and over 80% of operating profit.

The Internet service provider (ISP) business operates under two brands: @T COM (At T COM), which serves customers nationwide, and TOKAI Network Club (TNC), which serves Shizuoka Prefecture. Within Shizuoka Prefecture, it holds the top share at around 20%. Since 2015, it has procured wholesale optical fiber lines from NTT, Inc. <9432> and launched Hikari collaboration services bundled with its own fiber Internet access services (@T COM Hikari and TNC Hikari). It also offers bundled plans combined with major mobile carriers' services. Since 2017, it has also begun selling the budget SIM/smartphone offering LIBMO, which uses an MVNO*. As of the end of March 2026, the number of customers totaled 664 thousand in the broadband business (including Hikari collaboration services) and 83 thousand for LIBMO.

* MVNO (Mobile Virtual Network Operator): An operator that provides services by leasing wireless communications infrastructure such as mobile networks from other companies.

In the mobile communications business, the Company operates 14 mobile shops in Shizuoka Prefecture as a SoftBank Corp. <9434> agency, and opened 7 iCracked Stores in the prefecture to provide iPhone repair services, though the impact on business results is minor.

Among corporate services, data center services include backup for clients' information systems and outsourced cloud platform services, with data centers located in Shizuoka, Okayama, and Nagano Prefectures. In communications services, the Company operates a fiber-optic network of 12,000 km spanning northern Kanto to northern Kyushu, offering internet connectivity, inter-site communication, and connections to major public cloud services.

3. CATV business

In the CATV business, it has gradually expanded its service area through an M&A strategy, most recently bringing Okinawa Cable Network Inc. into the Group in October 2022. As of the end of March 2026, it operates across Tokyo and seven prefectures—Shizuoka, Kanagawa, Chiba, Nagano, Okayama, Miyagi, and Okinawa—through 10 group companies. At the end of March 2026, the number of customers continued its gradual uptrend, reaching 1,356 thousand in total (925 thousand for broadcasting services and 430 thousand for communications services). As of the end of FY2024, the number of CATV service subscriber households in Japan was 31.87 million, a number that is increasing. In the industry, J:COM Group (JCOM Co., Ltd.) holds a little over 50% market share by viewing households, while other companies, including the Company, each have only a few percent share. For this reason, the Company seeks to expand its market share through M&A activity.

4. Construction, equipment and real estate business

In the construction, equipment and real estate business, TOKAI engages in the design and construction of detached houses, multi-unit residences, retail stores, and office buildings; building management services; sales of residential equipment; and real estate development and transactions, while TOKAI and TOKAI GAS operate renovation businesses. In addition to the active promotion of M&A, starting with the 2019 acquisition of Nissan Tri Star Construction, Inc., a general contractor based in Gifu Prefecture, it subsequently made the following companies subsidiaries: in 2020, Chuo Denki Construction Co., Ltd., which conducts electrical installation work in Aichi Prefecture, and Inoue Technica Co., Ltd., which runs building maintenance operations in Shizuoka Prefecture; in 2021, Marco Polo Inc., which performs large-scale repair and renovation work for buildings in the Tokai area; and in 2022, Wood Recycle Inc., which handles industrial waste processing and manufactures wood chips in Gifu Prefecture. Going forward, the Company plans to leverage the resources possessed by these group companies to further expand its business scale in the Tokai area.

5. Aqua business

In the Aqua business (home water delivery business), TOKAI began the returnable-bottle Home Water Delivery Service in Shizuoka Prefecture in 2007, and since 2011, has offered the one-way (single-use bottle) Urunon Premium Bottled Water Delivery Service outside Shizuoka Prefecture. Serving as a new initiative, in April 2023, it also began selling the plumbed-in water purifier server Shizuclear*, which filters tap water with an internal filter. As of the end of March 2026, the number of customers was 219 thousand, accounting for just under a 4% share of the industry's 5.95 million customers at the end of 2024 (about 50% share within Shizuoka Prefecture).

* Monthly rental fees for water servers are ¥2,640, ¥2,970, or ¥3,300 (tax included) depending on the model. Replacement filters are provided free of charge.

6. Others

Other operations include the day service business of TOKAI LIFE PLUS CORPORATION, the weddings and events business of TOKAI City Service Corporation, and the ship-repair business of Tokaizosen-unyu Corporation. The day service business began in 2011; and as of the end of March 2026, it operates six day service facilities in Shizuoka Prefecture, as well as one short-stay facility and one fee-based nursing care home, and it has opened one care plan center. In the weddings and events business, it operates GRANDAIR Bouquet TOKAI, located in Aoi Tower (in front of JR Shizuoka Station).

Results trends

For FY3/26, the Company achieved record profits with net profit exceeding ¥10.0bn

1. Overview of FY3/26 results

For the consolidated results in FY3/26, net sales increased 0.6% YoY to ¥244,838mn, operating profit rose 11.0% to ¥18,699mn, ordinary profit climbed 10.3% to ¥19,152mn, and profit attributable to owners of parent grew 16.6% to ¥10,749mn, landing largely in line with Company plans and updating record-high results for consecutive years. Additionally, profit attributable to owners of parent surpassed ¥10.0bn for the first time since the Company's founding.

FY3/26 results (consolidated)

(¥mn)

	FY3/25		FY3/26				
	Results	% of net sales	Company forecasts	Results	% of net sales	YoY	vs. initial forecast
Net sales	243,482	-	246,000	244,838	-	0.6%	-0.5%
Cost of sales	149,742	61.5%	-	148,208	60.5%	-1.0%	-
SG&A expenses	76,898	31.6%	-	77,930	31.8%	1.3%	-
Operating profit	16,841	6.9%	18,300	18,699	7.6%	11.0%	2.2%
Ordinary profit	17,370	7.1%	18,700	19,152	7.8%	10.3%	2.4%
Profit attributable to owners of parent	9,216	3.8%	10,600	10,749	4.4%	16.6%	1.4%
Number of continuing customers (FY-end, thousand)	3,423	-	3,462	3,471	-	1.4%	0.3%

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

Despite downward pressure on net sales from price reductions linked to energy procurement costs, sales increased for the ninth consecutive year thanks to growth in the number of continuing customers and expansion of the corporate information and communications business. Although the number of continuing customers in the consumer information and communications business declined, increases were seen in LP gas, CATV, and Aqua businesses, resulting in an increase of 48 thousand over the previous year-end to 3,471 thousand. Compared to the initial plan, the strong performance of the Aqua business resulted in a figure 9 thousand higher than initially planned. The number of TLC members* also increased by 59 thousand to 1,326 thousand. Since TLC members have a lower cancellation rate and ARPU is more than twice as high compared to non-members, the Company is focusing on acquiring new members.

* A membership program where points are awarded by using services provided by the Company Group (users of multiple services receive additional points), which can be applied toward payment or converted into electronic money. TLC members also receive a variety of other benefits.

Number of customers by key service

(thousands)

	FY3/23	FY3/24	FY3/25	FY3/26	vs. end of previous fiscal year
Energy	821	853	880	894	13
LP gas	746	778	807	819	12
City gas	75	75	74	74	1
Information and communications	736	748	752	747	-5
Broadband	665	668	674	664	-10
LIBMO	71	80	79	83	5
CATV	1,287	1,313	1,335	1,356	21
Broadcasting service	914	919	922	925	4
Communications service	373	394	413	430	17
Aqua	165	167	191	219	28
Mobile	179	170	162	157	-5
Others	112	107	102	99	-4
Total number of Group customers	3,299	3,358	3,423	3,471	48
(Number of TLC members)	1,158	1,214	1,267	1,326	59

Note: The number of customers under a thousand is rounded to the nearest thousand. Information and communications and CATV both offer communications services, so the overlapping numbers are excluded from total figures. Others include other services for security and information and communications.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

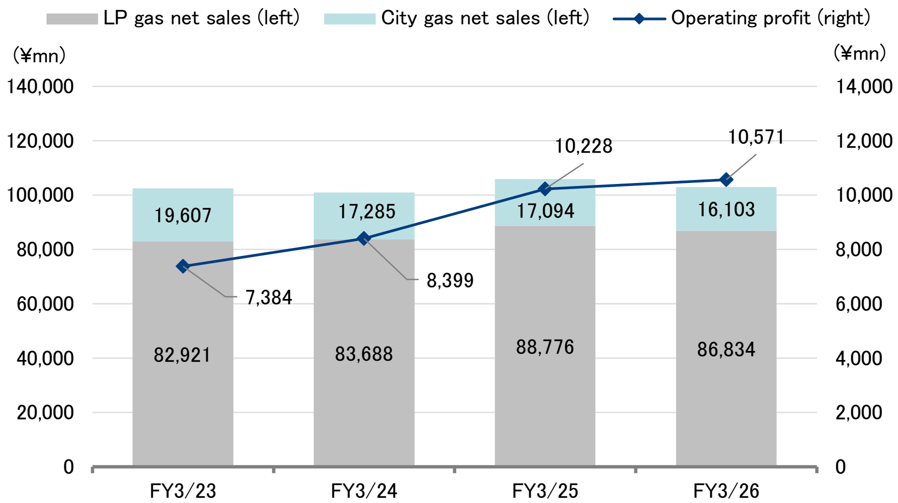
Although personnel costs for the group increased by several hundreds of millions of yen, gains from the increase in continuing customers, higher profits from corporate information and communications and construction, equipment and real estate business, as well as successful cost reductions in customer acquisition costs in the energy and consumer information and communications businesses, absorbed the increase, resulting in profit growth for the third consecutive year at all profit levels.

The energy business experienced a significant profit increase driven by cost reductions

2. Trends by business segment

(1) Energy business

Net sales in the energy business decreased 2.8% YoY to ¥102,937mn, while operating profit (operating profit before allocation of indirect costs, which is calculated differently than in the Company's financial results; the same applies below) increased by 3.4% to ¥10,571mn. In terms of factors for the change in operating profit, the increase in the number of customers contributed ¥400mn to profit, and the decrease in customer acquisition costs contributed ¥300mn. These gains offset a ¥200mn decrease in profit due to a decline in per-unit consumption and a ¥160mn increase in system development and other 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 results briefing materials

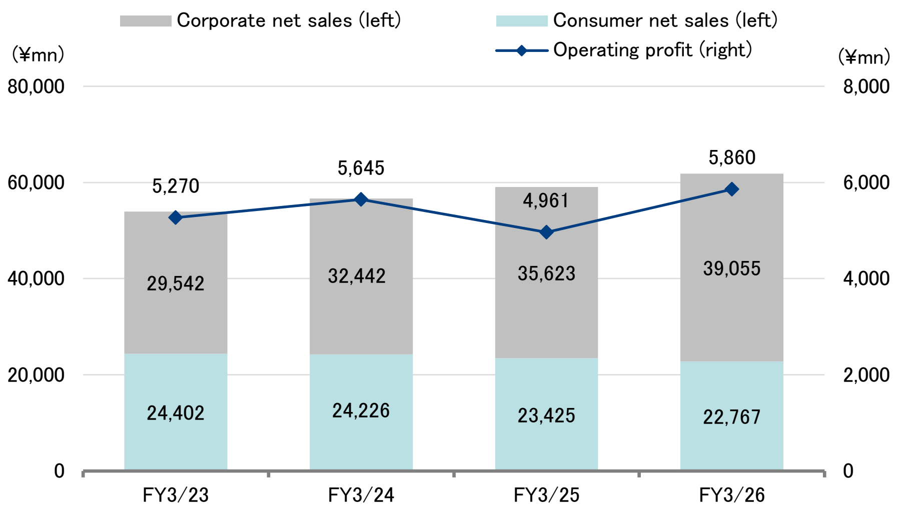
Net sales in the core LP gas business decreased 2.2% YoY to ¥86,834mn. While residential sales volume increased by 1% and the sales price per unit remained stable, industrial and wholesale sales volumes decreased by 6% and sales prices linked to procurement prices decreased by 9%, which drove the overall decrease in revenue. The number of customers at the end of the period increased by 12 thousand to 819 thousand, as new customer acquisitions and commercial area purchases exceeded the number of cancellations. The average temperature remained at the same level as the previous year, and per-household consumption rate declined by 0.5%. In the LP gas industry, the revised ministerial ordinance to rectify LP gas business practices* enacted in July 2024 has made replacing LP gas supply in existing apartment complexes virtually impossible. Going forward, customer growth will be driven by acquiring contracts for new buildings, area expansion, and M&A. Net sales in the city gas business dropped 5.8% to ¥16,103mn. Although the number of customers remained flat at 74 thousand, the main factor for revenue decrease was the decline in sales prices under the raw material cost adjustment system.

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

(2) Information and communications business

Net sales in the information and communications business increased 4.7% YoY to ¥61,823mn and operating profit grew by 18.1% to ¥5,860mn, updating the record high for the first time in two years. Although revenue continued to decline in consumer services, profitability was maintained through lower customer acquisition costs. In corporate services, which had posted lower profits last fiscal year due to upfront investment, both revenue and profit increased, driven by the growth of the recurring revenue-based 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 results briefing materials

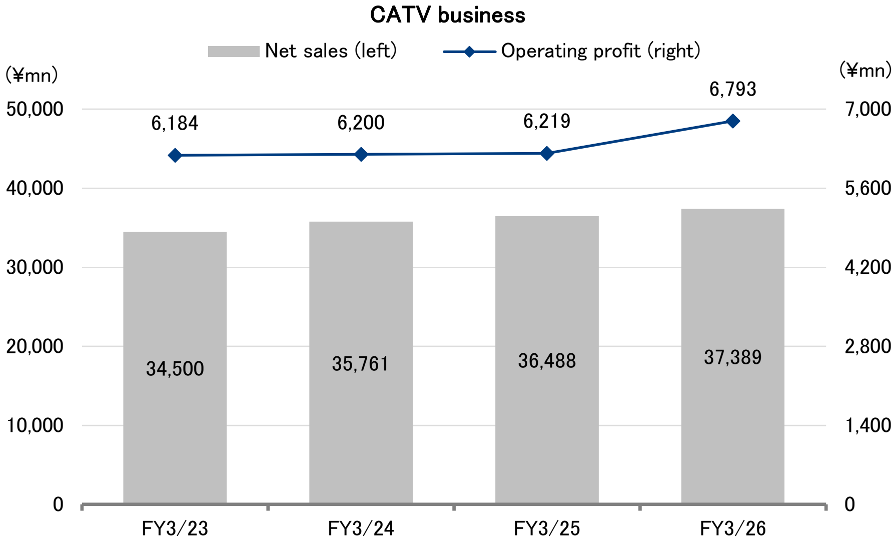
In consumer services, net sales fell 2.8% YoY to ¥22,767mn while operating profit increased 28.6% to ¥984mn. Although the number of LIBMO contracts increased by 5 thousand to 83 thousand, the focus on profitability in ISP business initiatives resulted in a decrease of 10 thousand broadband customers to 664 thousand, which was the main factor behind the decline in net sales. On the profit side, higher profit was achieved thanks to a ¥200mn reduction in customer acquisition costs in the ISP business.

In corporate services, net sales increased 9.6% YoY to ¥39,055mn and operating profit grew 16.2% to ¥4,876mn, marking a new record high for the first time in two years. Net sales increased as the recurring revenue-based businesses, such as telecommunications line services and cloud services, continued to expand steadily. On the profit side, higher cloud service revenue contributed ¥700mn to profit, offsetting the increase in personnel and other costs. In April 2025, the Company extended its optical fiber network to the Kitakyushu area, targeting acquisition of new customers there.

(3) CATV business

Net sales in the CATV business increased 2.5% YoY to ¥37,389mn and operating profit rose 9.2% to ¥6,793mn, achieving record-high results for a second consecutive year. An increase in the number of customers contributed ¥800mn to operating profit, offsetting a ¥230mn increase in personnel and other costs.

Results trends

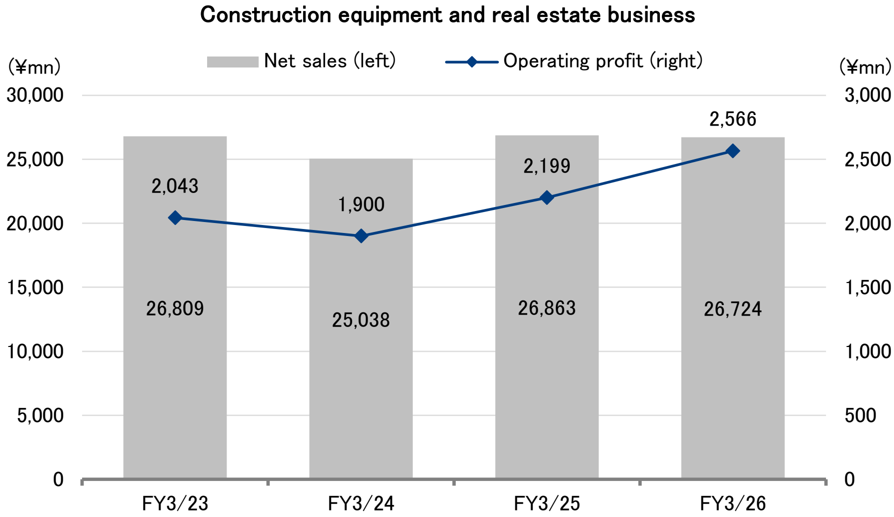


Note: Operating profit values are prior to allocating indirect costs and other costs.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

As a community-based business, the Company focused on local information dissemination and program production, as well as creating attractive content and increasing subscriptions to high-speed internet services. As a result, at the end of the period, the number of customers was up by 4 thousand YoY to 925 thousand for broadcasting services and up by 17 thousand to 430 thousand for communications services. The number of cases where broadcasting service customers newly subscribed to communications services increased, pushing the cross-sell rate up from 44.8% at the end of the previous fiscal year to 46.5%.

(4) Construction, equipment and real estate business

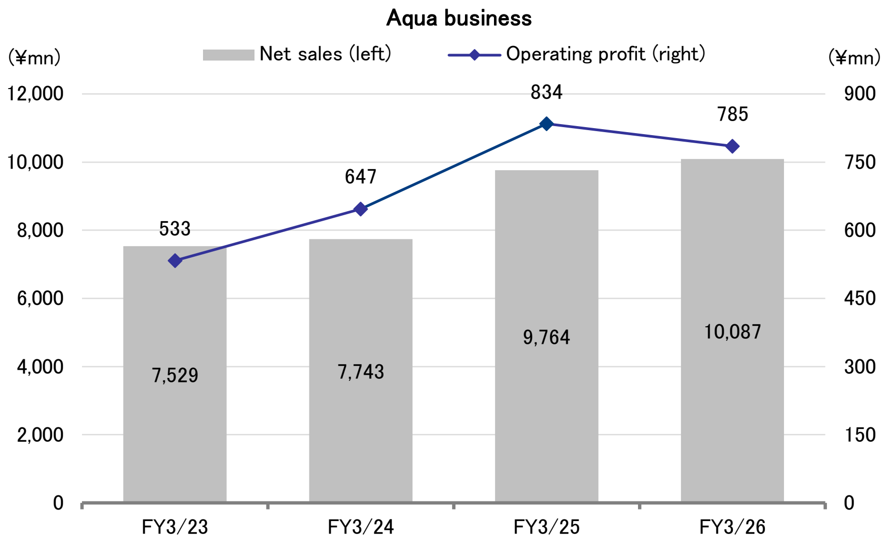
Net sales in the construction, equipment and real estate business fell 0.5% YoY to ¥26,724mn, while operating profit rose 16.7% to ¥2,566mn. Growth in construction and real estate sales business centered on the Shizuoka area as well as the steady performance of the facilities and civil engineering construction business in the Chukyo area contributed to the results. On the profit side, construction and real estate sales business contributed ¥260mn to profit growth, while the facilities and civil engineering construction business contributed ¥110mn.



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

(5) Aqua business

In the Aqua business, net sales increased 3.3% YoY to ¥10,087mn while operating profit decreased 5.8% to ¥785mn. Net sales reached a record high, driven by an expansion in the customer base. By pursuing event sales at large commercial facilities and promotion of web-based marketing, the number of customers at the end of the period grew by 28 thousand to 219 thousand, exceeding expectations. However, since most of the increase was for the "Shizuclear" water purification server, the growth in net sales remained limited. On the profit side, an increase in the number of customers contributed ¥140mn to profit, but this was not able to cover a ¥80mn increase in customer acquisition costs and a ¥110mn increase in SG&A expenses and other costs, resulting in a decrease in profit.



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

(6) Other businesses and adjustments

Net sales for other businesses rose 7.9% YoY to ¥5,876mn. Looking at each business, day service remained steady, with net sales increasing 0.8% to ¥1,410mn; in the ship-repair business, net sales increased 11.8% to ¥1,887mn due to more ship repairs; in the weddings and events business, net sales rose 2.8% to ¥1,357mn due to an increase in general banquets, mainly for corporate customers. Including head-office expenses, the operating loss was ¥7,878mn (compared with a loss of ¥7,600mn in the previous period).

The equity ratio remained above 40%, while ROE reached 11.0%, meeting the targets under the previous medium-term management plan

3. Financial position

As of the end of the FY3/26, total assets increased ¥8,472mn YoY to ¥219,586mn. Major factors included a ¥230mn decrease in cash and deposits, alongside increases of ¥4,090mn in investment securities, ¥2,635mn in net defined benefit asset, and ¥1,242mn in non-current assets.

Total liabilities decreased ¥136mn to ¥115,123mn. Interest-bearing liabilities increased ¥1,727mn while notes and accounts payable trade decreased ¥2,523mn. Net assets increased ¥8,607mn to ¥104,462mn. The Company paid ¥4,463mn in dividends and acquired ¥2,000mn in treasury shares while recognizing ¥10,749mn as profit attributable to owners of parent. Valuation difference on available-for-sale securities increased ¥2,756mn and accumulated adjustments related to retirement benefits rose ¥1,316mn.

Key financial indicators: The equity ratio rose 2.1 percentage points YoY to 46.4%, ROE increased 0.9 points to 11.0%, and ROIC increased 0.5 points to 8.9%. All targets set under the previous medium-term management plan (FY3/24 to FY3/26, including a dividend payout ratio of 40–50%, ROE of 10.8%, and ROIC of 8.7%) were achieved. The Company's business and capital policies implemented over three years have delivered positive results. Going forward, the Company aims to further enhance ROE by improving profitability and strengthening shareholder returns, with the goal of increasing corporate value.

Consolidated financial statements

(¥mn)

	FY3/23	FY3/24	FY3/25	FY3/26	YoY
Total assets	193,339	205,301	211,114	219,586	8,472
(Cash and deposits)	4,359	5,758	5,636	5,406	-230
Total liabilities	111,034	114,000	115,259	115,123	-136
(Interest-bearing liabilities)	46,608	46,295	46,120	47,847	1,727
Net assets	82,304	91,300	95,855	104,462	8,607
Equity ratio	41.5%	43.4%	44.3%	46.4%	2.1pp
Interest-bearing liabilities ratio	24.1%	22.5%	21.8%	21.8%	0.0pp
ROE	8.2%	10.0%	10.1%	11.0%	0.9pp
ROIC	8.3%	8.2%	8.4%	8.9%	0.5pp

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

Outlook

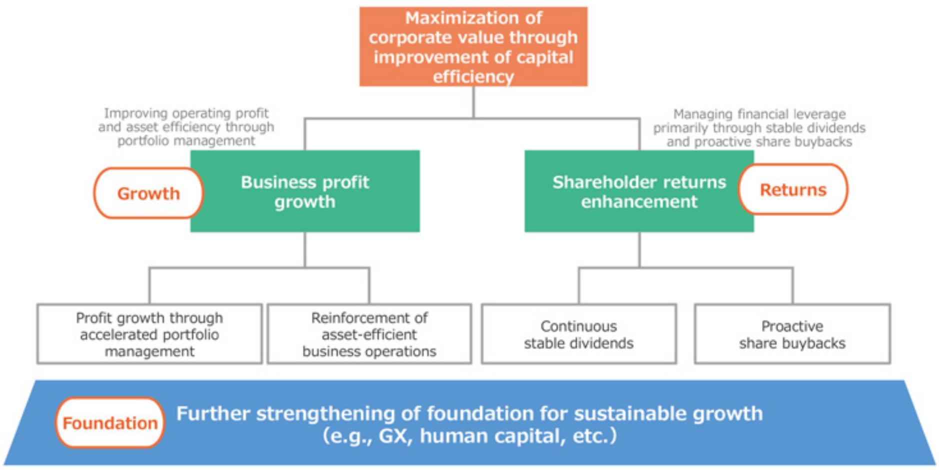
Medium-term management plan targets: FY3/29 profit of ¥13.5bn and ROE of 13%

1. Medium-Term Management Plan 2028

(1) Overview of the medium-term management plan

The Company announced a new three-year medium-term management plan to take effect in FY3/27. With the dual focus on stable business profit growth through strengthening the management foundation and enhanced shareholder returns, the Company aims to maximize corporate value while improving capital efficiency. To expand business profit, the Company will accelerate business portfolio management to drive profit growth and promote business operations with an emphasis on asset efficiency. As for shareholder returns, the Company will raise the consolidated dividend payout ratio and execute flexible share buybacks.

Overview of the medium-term management plan



Source: The Company's medium-term management plan materials

Quantitative targets for FY3/29 are net sales of ¥274.0bn, operating profit of ¥23.5bn, ordinary profit of ¥23.5bn, profit attributable to owners of parent of ¥13.5bn, and number of continuing customers of 3.6 million. Net sales are projected to grow at an average annual growth rate of around 4%, and operating profit around 8%. Under the previous medium-term management plan (FY3/24–FY3/26), the average annual growth rate was around 5% for net sales and around 6% for operating profit, aiming for continued stable growth. The target for the number of continuing customers does not factor in the impact of future strategic M&A (but does include commercial area acquisitions in the LP gas business).

Key management indicators include ROE of 13.0%, ROIC of 9.7%, equity ratio of 41.0%, and operating profit per employee increased by over 15% compared to FY3/26. The Company expects ROE and ROIC to both increase over the prior year's result by 2.0 and 0.8 points, respectively. Meanwhile, the equity ratio is expected to decline by 5.4 points, but this reflects plans to secure approximately ¥10.0bn in additional interest-bearing liabilities as growth investment while maintaining financial soundness. Although market uncertainties are increasing due to mounting geopolitical risks and rising prices, FISCO believes that the Company can achieve its targets by advancing the "Triple Accel" strategy described below.

Management numerical targets of Medium-term Management Plan 2028

(¥bn)

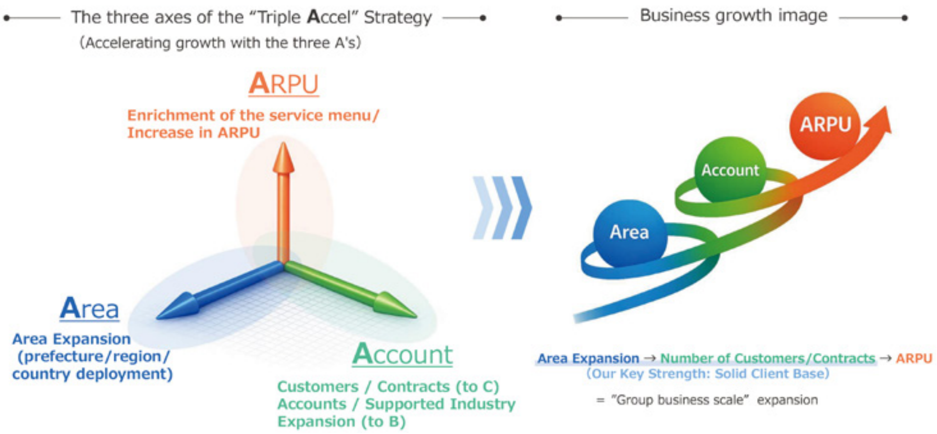
	FY3/26 Results	FY3/27		FY3/29	
		Initial forecasts	YoY	Initial forecasts	FY3/26 Comparison
Net sales	244.8	260.0	15.2	274.0	29.2
Operating profit	18.7	19.0	0.3	23.5	4.8
Ordinary profit	19.2	19.2	0.0	23.5	4.3
Profit attributable to owners of parent	10.7	11.0	0.3	13.5	2.8
Number of continuing customers (FY-end, million)	3.47	3.50	0.03	3.60	0.13
ROE	11.0%	11.0%	0.0pp	13.0%	2.0pp
ROIC	8.9%	8.7%	-0.2pp	9.7%	0.8pp
Equity ratio	46.4%	46.0%	-0.4pp	41.0%	-5.4pp

Source: Prepared by FISCO from the Company's financial results and medium-term management plan materials

(2) Business growth strategy

The Company will accelerate its business growth by implementing the three pillars of the "Triple Accel" strategy. Area, Account, and ARPU are the three pillars, which represent area expansion, expansion of customer base, number of contracts, and served industries, and increase in average revenue per customer through enrichment of the service menu and cross-selling. In doing so, the Company aims to further expand its customer base and business scale.

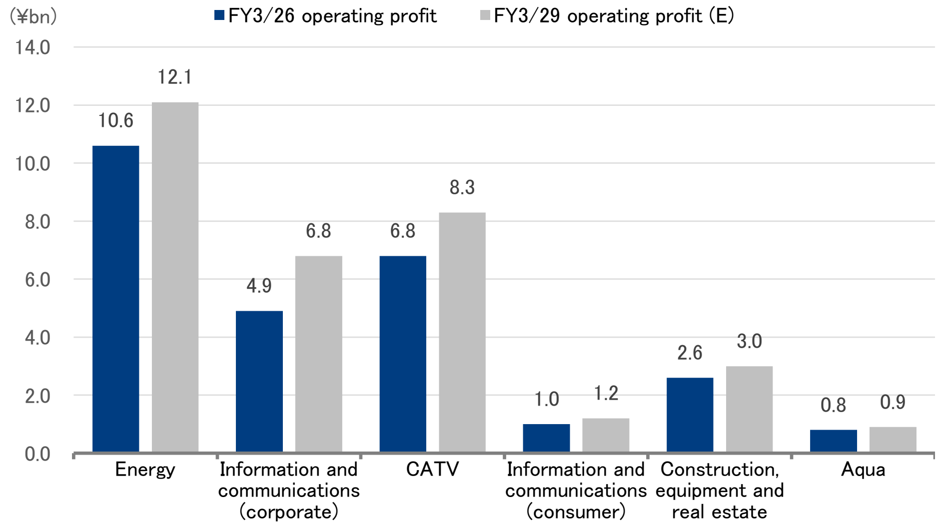
Business growth strategy



Source: The Company's medium-term management plan materials

Within its business portfolio, the Company has positioned the energy business, corporate information and communications business, and CATV business as priority businesses with high capital efficiency and growth potential. The Company has set strategic M&A investment limits (around ¥15.0bn for the energy business, and around ¥5.0bn for the information and communications and CATV businesses) to actively pursue business investments. Meanwhile, for consumer information and communications business, construction, equipment and real estate business, and Aqua business, the Company plans to allocate investment focused on efficiency to maintain current competitiveness.

Operating profit forecasts by business



Source: Prepared by FISCO from medium-term management plan materials

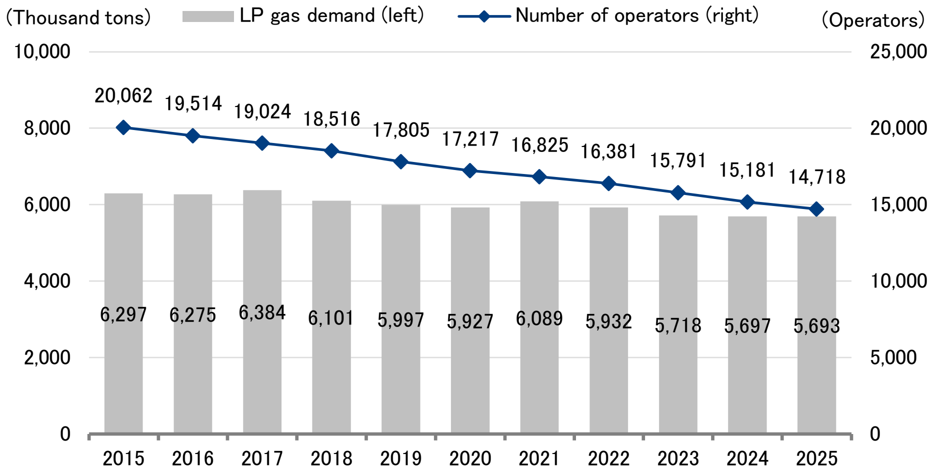
a) Energy business

Operating profit in the energy business for FY3/29 is expected to reach ¥12.1bn, an increase by 14% compared to FY3/26. By leveraging its successful model in Shizuoka, which has one of the largest market shares, the Company will expand its customer base through entry into new areas and active M&A, and pursue revenue gains by increasing ARPU through sales of equipment and additional services.

Although demand for LP gas continues to decrease by slightly more than 1% annually due to population decline and the adoption of energy-saving equipment, the market still includes many small businesses, making it an attractive market with room for share expansion. In fact, the number of operators has decreased by 3% per year over the past decade, and large companies including the Company are expanding their business scale by increasing their customer base through M&A and commercial area acquisitions. With the enforcement of the revised ministerial ordinance to rectify LP gas business practices in July 2024, replacement of LP gas supply in existing apartment complexes has become virtually impossible, making the operating environment even tougher for small businesses. Over the next few years, industry reorganization is expected to accelerate, which FISCO sees as a favorable opportunity for the Company to expand its market share.

The Company has set an M&A investment limit of about ¥15.0bn over the next three years and will actively consider projects expected to generate group synergies. A ¥15.0bn M&A investment would be expected to add ¥2.0–3.0bn in annual gross profit. However, within the period of the medium-term management plan, any benefits will likely be offset by goodwill amortization, so the impact on operating profit should be limited. Regarding expansion into new areas, the Company will continue to focus primarily on western Japan, including Kyushu and the Chugoku and Shikoku regions.

LP gas (household/commercial use) demand and number of sales operators



Source: Prepared by FISCO from Ministry of Economy, Trade and Industry materials

b) Information and communications business (corporate)

For the information and communications business (corporate), operating profit for FY3/29 is expected to show the highest growth rate and amount among the respective businesses, with an increase of 40% over FY3/26 to ¥6.8bn. In the cloud services market, which continues to grow at an annual rate of more than 10%, the Company will actively respond to increased use of AI and the cloud and support customer in-house adoption, as well as acquire new customers and increase the number of contracts by quickly responding to new technologies. In addition, the Company is pushing ahead with expansion into overseas markets as a new area. The cloud services-related business run by its local subsidiary established in Indonesia through a joint venture in 2024 is growing steadily, and the Company aims for further growth in the future. Efforts to increase ARPU include the addition of services that leverage new technologies such as generative AI.

The Company's strengths include having built a proprietary optical fiber network with a total length of approximately 12,000 km, being certified as an AWS Premier Tier Services Partners (top-tier partner), having ample achievements and expertise in supporting the introduction of cloud solutions, and having up to 2,000 personnel consisting of 700 engineers and business partners, which enables it to meet a variety of needs. Going forward, the Company will continue to consider M&A and other measures to expand human resources and further expand its operations.

c) CATV business

Operating profit of the CATV business for FY3/29 is projected to be ¥8.3bn, up 22% from FY3/26 levels. The number of households in the Company group's service area has been slowing, making growth in broadcasting services harder to expect; however, the Company aims for steady growth by raising ARPU through promoting cross-selling (simultaneous subscription to communications services contracts). The cross-selling rate was 46.5% at the end of March 2026 and has continued to rise by around 2 percentage points per year over the past few years. The Company expects the rate to continue rising by 1–2 points annually going forward. If the cross-selling rate increases, profitability is expected to improve by reducing customer acquisition and retention costs as well. In addition, as for area expansion, the Company aims to achieve this through M&A.

d) Information and communications business (consumer)

Operating profit for information and communications business (consumer) in FY3/29 is expected to be ¥1.2bn, a 20% increase from FY3/26. In the market environment, the broadband market will continue gradual growth, while in the mobile market, carrier restructuring and integration of agencies are expected to progress as the market matures. The MVNO market is expected to expand for uses such as smartphones and IoT.

Under these conditions, the broadband business is working on raising net sales and ARPU by developing new services, while continuing efficiency and cost reductions by reviewing the operating structure and other measures. The medium-term management plan assumes a gradual decrease in the number of contracts. On the other hand, in the mobile business, the Company aims to strengthen sales of “LIBMO” through its own and partner stores, as well as maintain market competitiveness by revising product designs and rate plans.

e) Construction, equipment and real estate business

Operating profit for the construction, equipment and real estate business in FY3/29 is expected to reach ¥3.0bn, a 17% increase from FY3/26. The market environment is expected to see continued high costs due to rising construction costs and declining demand for new houses, while the energy-saving renovation construction and equipment construction markets are expected to remain firm.

Under these circumstances, the construction and equipment construction business aims to expand earnings by strengthening orders for large new projects and by enhancing coordination with maintenance operations. Additionally, the Company will strengthen the renewable energy business, including off-site PPAs and the purchase of secondary solar power plants, and also bolster orders for renovation work and non-residential projects. In the real estate business, while expanding the types of properties handled (such as income-producing properties and used business properties), the Company will also be more selective in property procurement from a profitability perspective.

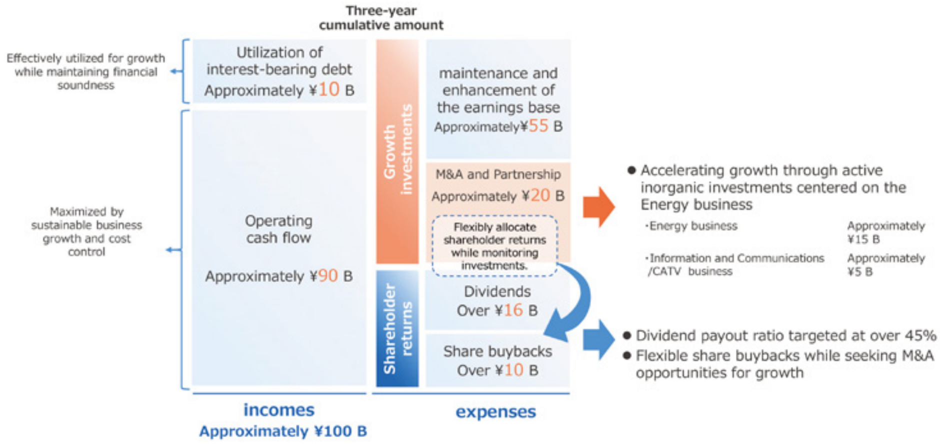
f) Aqua business

Operating profit for the Aqua business in FY3/29 is expected to reach ¥900mn, a 15% increase from FY3/26. While the overall home-delivery water market is maturing, demand for water purification dispensers is expanding. Amid rising logistics, material, and production costs and the need to address environmental issues, the Company’s policy is to offer both home-delivery water and water purification server services, thereby meeting a wide range of needs. Furthermore, the Company will strengthen its customer acquisition framework through the web, work to lower customer acquisition costs, and reduce logistics, material, and production costs. The Company’s strengths include its ability to provide both home-delivery water and water purification server services, its ability to leverage its group network for sales (such as a group-wide points system), recognition by multiple certification bodies for taste and quality, and strong brand power. The Company will make use of these strengths to aim for steady growth.

(3) Capital allocation

For the cumulative three-year capital allocation, the Company plans to achieve stable profit growth and strategically allocate funds to improve ROE. On a cumulative three-year basis, the Company expects about ¥90.0bn in cash inflows from operating cash flow and about ¥10.0bn from the use of interest-bearing liabilities, with cash outflows including approximately ¥55.0bn in investments aimed at maintaining and strengthening the profit base, about ¥20.0bn for investments through M&A and alliance strategies, at least ¥16.0bn allocated for dividends as shareholder returns, and at least ¥10.0bn allocated for share buybacks. If investment through the M&A and alliance strategies does not reach about ¥20.0bn, the difference will be allocated to shareholder returns. In the past three periods, total dividends amounted to about ¥13.4bn and share buybacks were about ¥2.0bn. The amount returned to shareholders is projected to increase by at least 1.7 times.

Capital allocation



Source: The Company's medium-term management plan materials

(4) Human capital and development policy

Regarding the human capital and development policy, the Company will not only work to improve employee skills and engagement but will also seek to foster a rewarding work environment across the Group to realize the overall management strategy and enhance the Company's value. To this end, the Company newly set "operating profit per employee*" as a KGI for productivity. The goal is to lift operating profit per employee from ¥3.72mn in FY3/26 to ¥4.37mn in FY3/29, an increase of over 15%. The increase from FY3/23 to FY3/26 was limited to 5%. Back-calculating the number of consolidated employees in FY3/29 yields about 5,380, an average annual increase of about 2% from 5,033 at the end of FY3/26.

* Consolidated operating profit ÷ consolidated employees at fiscal year-end (excluding contract and part-time employees)

The Company will strive to improve productivity not only in indirect departments but company-wide, including sales and development divisions, by upgrading individual employee skills and leveraging generative AI. As part of these efforts, an AI Strategy Office was also newly established. If the KGI is achieved, operating profit of ¥23.5bn in FY3/29 can also likely be realized.

For FY3/27, system costs and personnel costs will be absorbed by increased revenue, and both sales and profits are expected to continue rising year after year

2. FY3/27 forecasts

For the consolidated results in FY3/27, the Company plans net sales of ¥260,000mn, up 6.2% YoY, operating profit of ¥19,000mn, up 1.6%, ordinary profit of ¥19,200mn, up 0.2%, and profit attributable to owners of parent of ¥11,000mn, up 2.3%. Net sales are expected to increase for the tenth consecutive period, and each profit measure is projected to increase for the fourth consecutive period. Although the Company expects an increase of several hundred million yen in personnel costs due to wage revisions, similar to the previous period, and increased costs associated with system updates for HR and accounting, higher sales are expected to offset these increases and secure profit growth. The number of continuing customers is expected to increase by 29 thousand from the end of the previous fiscal year to 3,500 thousand accounts.

Outlook for FY3/27

(¥mn)

	FY3/26		FY3/27		
	Results	% of net sales	Company forecasts	% of net sales	YoY
Net sales	244,838	-	260,000	-	6.2%
Operating profit	18,699	7.6%	19,000	7.3%	1.6%
Ordinary profit	19,152	7.8%	19,200	7.4%	0.3%
Profit attributable to owners of parent	10,749	4.4%	11,000	4.2%	2.3%
Profit attributable to owners of parent per share (¥)	82.53	-	84.53	-	-
Number of continuing customers (thousands)	3,471	-	3,500	-	0.8%

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

(1) Energy business

The energy business expects increases in both net sales and profit due to increased selling prices resulting from higher procurement costs. For industrial and wholesale, selling prices will also rise in line with procurement costs, while for household use, a price revision is scheduled from July 2026. As a result, margins are expected to deteriorate in the first quarter due to higher procurement costs; however, the subsequent price revision should offset this from the second quarter onward. Assumptions for the average temperature are in line with the previous period.

(2) Information and communications business

In the information and communications business, sales for the consumer segment will continue to decrease due to a decline in the number of broadband contracts, but profit is expected to increase due to reduced customer acquisition costs. Meanwhile, in the corporate segment, both net sales and profit are expected to continue rising, driven by growth in recurring revenue-based businesses such as cloud services and communications line services.

(3) CATV business

In the CATV business, net sales are projected to rise slightly while operating profit is expected to remain flat due to factors such as increased personnel costs. The number of contracts is expected to remain firm, mainly for broadcasting services and communications services, with the cross-sell rate projected to continue rising.

(4) Construction, equipment and real estate business

The construction, equipment and real estate business is expected to post slight increases in both sales and profit. Although there are concerns over a shortage of construction materials derived from naphtha and rising costs, the required volume for FY3/27 has already been secured, so the impact is expected to be minimal; any impact, if any, would materialize from FY3/28 onward.

(5) Aqua business

In the Aqua business, net sales are expected to rise slightly, while operating profit will likely remain flat. Although the number of contracts is thought to be on an upward trend, most of this increase is for water purification servers, so the impact on business results is expected to remain minimal. Additionally, as part of cost reduction measures, the Company plans to begin in-house production of bottled containers for home-delivery water using the one-way system from FY3/27.

Shareholder return policy

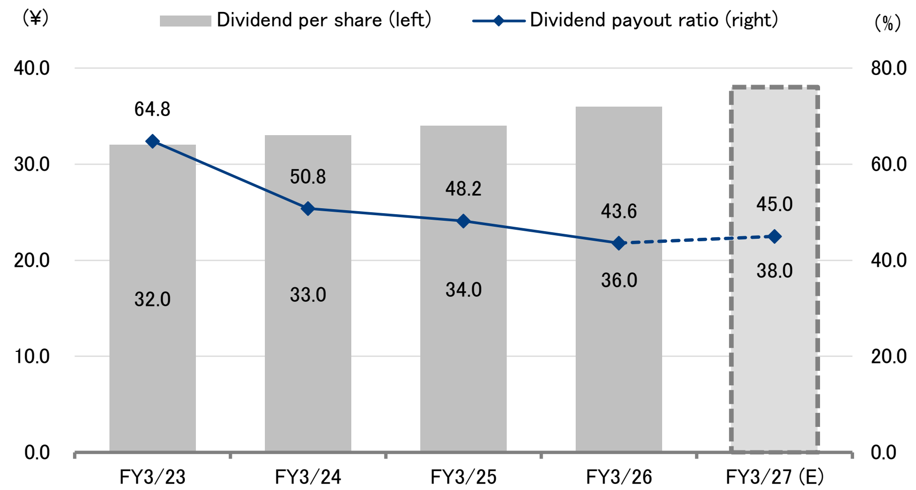
Dividend payout ratio to 45% or more, strengthening returns with share buybacks included

The Company announced a policy to strengthen shareholder returns. Specifically, the guideline for the consolidated dividend payout ratio has been changed from 40–50% to 45% or higher, enabling stable and continuous dividends. The Company will also take a flexible approach to share buybacks as it identifies M&A opportunities for growth, aiming to conduct share buybacks totaling at least ¥10.0bn over the three periods through FY3/29. The total payout ratio will be around 70%, and the amount returned to shareholders through dividends and share buybacks is projected to be at least 1.7 times that of the cumulative total over the past three periods.

For FY3/26, the annual dividend per share will be increased by ¥2.0 from the previous period to ¥36.0 (consolidated dividend payout ratio of 43.6%), and for FY3/27, it is also planned to increase ¥2.0 to ¥38.0 (45.0%), marking four consecutive years of dividend increases. If the dividend payout ratio falls below 45.0%, further dividend increases can be expected.

Shareholder benefits will also be continued. The Company also offers various benefits to shareholders, such as providing QUO cards to shareholders holding 100 or more shares at the end of March and September, with the value matched to the number of shares owned. The total yield per standard lot, including shareholder benefits, is estimated at 4.4% to 7.5% at the current share price (closing price of ¥1,083 on June 5, 2026), assuming shareholders select either QUO cards or Aqua products as their benefit.

Dividend per share and dividend payout ratio



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

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