

# **TOKAI Holdings Corporation**

**3167**

Tokyo Stock Exchange First Section

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

## ■ Index

■ <b>Summary</b> .....	01
1. FY3/21 1H results .....	01
2. Outlook for FY3/21 .....	01
3. Update on progress in priority measures .....	02
4. Shareholder return policy .....	02
■ <b>Result trends</b> .....	03
1. Review of FY3/21 1H results .....	03
2. Trends by business segment .....	04
■ <b>Outlook</b> .....	08
1. Outlook for FY3/21 consolidated performance .....	08
2. Update on progress in priority measures .....	10
■ <b>Shareholder return policy</b> .....	12

## Summary

### Expecting record-high earnings in FY3/21, also making steady progress with the ABCIR+S strategy

Based in Shizuoka Prefecture, TOKAI Holdings Corporation <3167> (hereafter, also “the Company”) is a comprehensive lifestyle- infrastructure company that is developing “energy and lifestyle-related services,” primarily the provision of liquefied petroleum gas (LP gas), and “information and communications services.” In addition to realizing the Total Life Concierge (TLC; comprehensive services for living) concept\*1, from FY3/19 it has started measures for a new theme, ABCIR+S\*2, and it is aiming to take a further leap forward while advancing an M&A strategy.

\*1 Total Life Concierge concept: a vision that aims to improve customer satisfaction by providing comprehensive and detailed support for customers’ comfortable lifestyles through the various services provided by the TOKAI Group.

\*2 ABCIR+S: the TOKAI Group’s strategy for technological innovation. It is the acronym of AI (A), Big Data (B), Cloud (C), IoT (I), Robotics (R), and Smartphone (S), and the Group will focus on creating and developing new services related to these.

#### 1. FY3/21 1H results

The Company reported FY3/21 1H (Apr-Sep 2020) consolidated results of ¥89,836mn in net sales (down 3.4% YoY) and ¥5,452mn in operating profit (down 0.9%). Net sales eased on lower sales prices accompanying a decline in procurement prices in the energy business (LP gas and city gas business) and delays in sales activities amid spread of novel coronavirus infections (hereinafter, COVID-19 outbreak). Profits, meanwhile, were on par with the same period of the previous year and surpassed the internal target by a few hundred million yen thanks to an increase in monthly-billing revenue accompanying a higher continuous-transaction customer volume, savings from procurement cost reduction in the energy business, and a rise in profits from the corporate information and communications business. The Company boosted continuous-transaction customers by 124,000 contracts year on year (YoY) to 3,042,000 contracts at the end of September 2020.

#### 2. Outlook for FY3/21

Regarding FY3/21 consolidated results, the Company kept its initial targets of ¥205,300mn in net sales (up 4.8% YoY) and ¥15,000mn in operating profit (up 5.5%). It expects to increase net sales for a fourth straight year and post record-high profits for a third straight year. Despite uncertainty about the COVID-19 outbreak, the target for operating profit seems attainable as the progress rate reached 36.3% of the full-year target in 1H, outpacing the 31.6% average for the last three years. The Company aims to achieve growth from FY3/22 as well through initiatives to expand continuous-transaction customer volume, further seek M&A opportunities, implement the ABCIR+S strategy, and deepen the TLC concept. It hopes to increase the continuous-transaction customers by 102,000 contracts YoY to 3,105,000 contracts.

Summary

### 3. Update on progress in priority measures

Regarding the ABCIR+S strategy being promoted as a priority measure, the Company started an initiative in the Aqua business to identify customers likely to cancel their service and take preventative measures using D-sapiens, a private DMP\*. It has been applying this effort to other services too since fall 2020 after confirming some effectiveness in lowering the churn rate, and aims to efficiently expand customer volume with digital marketing measures and raise sales per customer by improving the cross-selling rate. In the LP gas business, the Company plans to promote automated metering that utilizes wireless communications technology along with deployment of a new mission-critical system. It sees potential to improve efficiency in delivery and other areas based on metering data collected automatically and also hopes to offer new service proposals in collaboration with D-sapiens. In M&A strategy, it has arranged two acquisitions (electric installation company, building maintenance company) and one alliance (LP gas company in Vietnam) since April 2020 and intends to continue active pursuit of various opportunities. As a new business effort aimed at fleshing out the TLC concept, it wants to launch a healthcare service business via an alliance. Progress in this area should be closely monitored.

\* DMP (Data Management Platform): This is a platform that handles centralized management and analysis of big data stored in various servers on the internet and the Company site's log data and ultimately optimizes an action plan for distributing advertisements and other measures.

### 4. Shareholder return policy

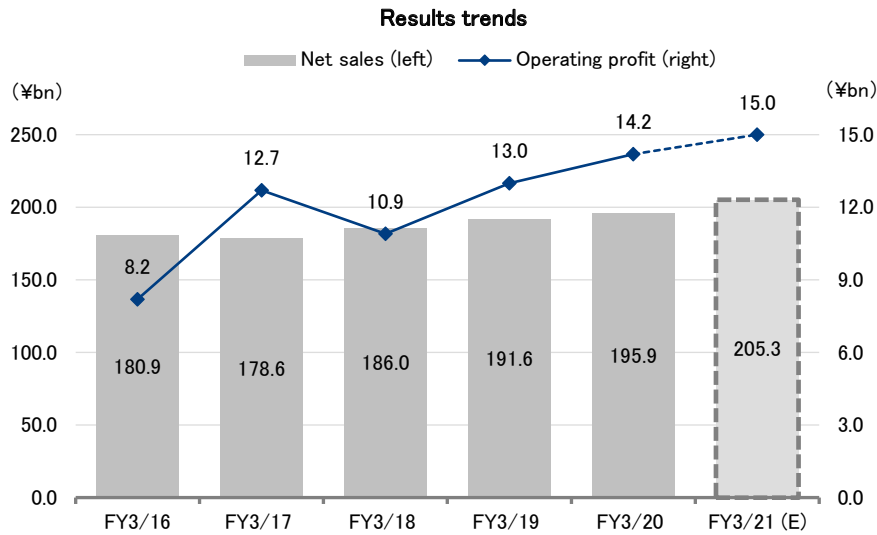
There has been no change to the policy of continuously and stably returning profits to shareholders. The forecast dividend per share for FY3/21 is ¥28.0 (dividend payout ratio: 43.3%), which is unchanged from the previous fiscal year. Going forward, the Company intends to pay dividends while observing profit trends and financing needs, with a benchmark dividend payout ratio of 40% to 50%. Also, at the end of March and the end of September, it presents one gift to shareholders from among several possible choices, such as an Aqua product, a QUO card, or TLC Membership Service points worth ¥1,000. When including the gifts to shareholders in an estimate of the total investment yield per share unit from the current share price level (closing price of ¥1,072 on November 16, 2020), it is in the range of 3.5% to 6.4%\*.

\* In the case of selecting either a QUO card or an Aqua product as the shareholder gift.

### Key Points

- Sustained earnings in FY3/21 1H on par with the same period of the previous year with support from expansion of continuous-transaction customers
- Healthy trend in lifestyle infrastructure services despite the COVID-19 outbreak, outlook for consecutive achievement of record-high earnings in FY3/21
- Starting full-fledged utilization of digital marketing based on D-sapiens aimed at prevention of customer cancellations and improved cross-selling

Summary



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

## Result trends

### Sustained earnings in FY3/21 1H on par with the same period in the previous year with support from expansion of continuous-transaction customers

#### 1. Review of FY3/21 1H results

The Company reported FY3/21 1H consolidated results of ¥89,836mn in net sales (down 3.4% YoY), ¥5,452mn in operating profit (down 0.9%), ¥5,499mn in recurring profit (down 1.9%), and ¥3,279mn in net income attributable to owners of the parent (down 6.1%).

Despite sales boosts from an increase in continuous-transaction customer volume (up 124,000 contracts YoY to 3,042,000 contracts) and expansion of the corporate information and communications business, net sales eased on lower sales prices accompanying a decline in gas procurement prices and delays in sales activities amid the COVID-19 outbreak. Meanwhile, despite the impact of the COVID-19 outbreak on some businesses, profits were on par with the same period of the previous year thanks to an increase in monthly-billing revenue related to higher customer volume, a rise in profits from the corporate information and communications business, and an improved profit margin in the LP gas business. Operating profit surpassed the internal target by a few hundred million yen on an overall basis, aided by overshooting in areas other than the construction equipment and real estate business and wedding ceremony business, which were heavily affected by the COVID-19 outbreak.

**TOKAI Holdings Corporation** | 22-Dec.-2020  
 3167 Tokyo Stock Exchange First Section | <https://www.tokaiholdings.co.jp/english/ir/>

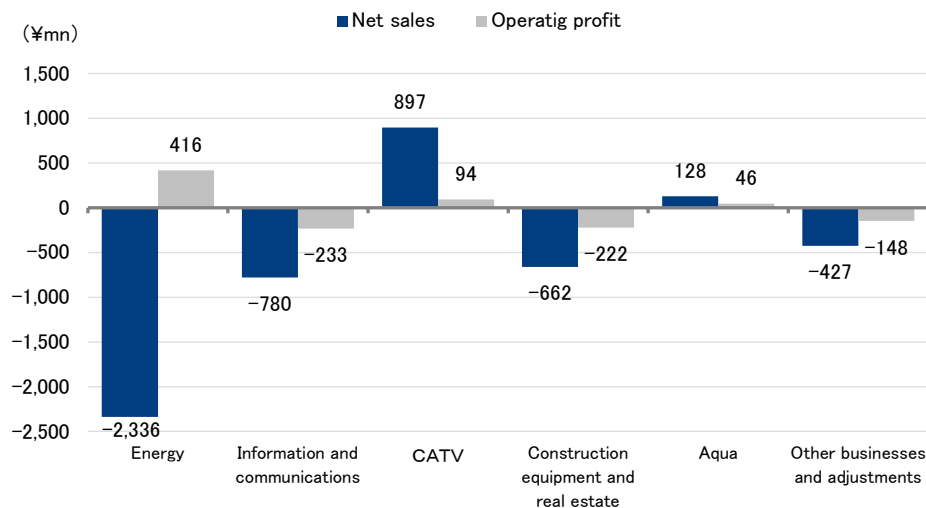
## Result trends

## FY3/21 1H consolidated results

	FY3/20 1H		FY3/21 1H		YoY
	Results	% of sales	Results	% of sales	
Net sales	93,015	-	89,836	-	-3.4%
Cost of sales	55,850	60.0%	51,604	57.4%	-7.6%
SG&A expenses	31,664	34.0%	32,779	36.5%	3.5%
Operating profit	5,500	5.9%	5,452	6.1%	-0.9%
Recurring profit	5,608	6.0%	5,499	6.1%	-1.9%
Extraordinary loss	-337	-	-67	-	-
Net income attributable to owners of the parent	3,492	3.8%	3,279	3.6%	-6.1%
Number of continuous transaction customers (thousands)	2,918		3,042		4.2%

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

## Changes in business results by business segment (YoY)



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

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

## Profits rose in the energy business, corporate information and communications business, CATV business, and Aqua business

### 2. Trends by business segment

## Net sales by segment

	FY3/18 1H	FY3/19 1H	FY3/20 1H	FY3/21 1H	YoY
Energy	32,777	33,948	35,766	33,430	-6.5%
Information and communications	24,906	25,154	25,911	25,131	-3.0%
CATV	13,607	15,135	15,593	16,490	5.8%
Construction equipment and real estate	8,349	8,987	9,736	9,074	-6.8%
Aqua	3,055	3,490	3,752	3,880	3.4%
Other business	2,214	2,123	2,255	1,828	-18.9%
Total	84,911	88,840	93,015	89,836	-3.4%

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

**TOKAI Holdings Corporation** | 22-Dec.-2020  
 3167 Tokyo Stock Exchange First Section | <https://www.tokaiholdings.co.jp/english/ir/>

## Result trends

## Operating profit by segment

	(¥mn)				
	FY3/18 1H	FY3/19 1H	FY3/20 1H	FY3/21 1H	YoY
Energy	1,562	1,084	1,966	2,382	21.2%
Information and communications	1,541	1,608	2,269	2,036	-10.3%
CATV	1,769	2,330	2,539	2,633	3.7%
Construction equipment and real estate	388	554	843	621	-26.3%
Aqua	135	291	400	446	11.5%
Other business	-2,282	-2,393	-2,519	-2,667	-
<b>Total</b>	<b>3,114</b>	<b>3,475</b>	<b>5,500</b>	<b>5,452</b>	<b>-0.9%</b>

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

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

## Number of customers by key service

	(thousand)				
	End of FY3/19 1H	End of FY3/20 1H	End of FY3/21 1H	YoY change	Change from end of previous fiscal year
Energy	670	696	728	32	15
LP gas	615	639	667	28	15
City gas	55	56	61	5	0
Information and communications	804	770	762	-8	1
ISP	768	727	710	-17	-3
(Existing ISP and related services)	440	403	379	-24	-10
(Hikari Collaboration)	328	324	332	8	8
LIBMO	36	43	51	8	4
CATV	1,046	1,076	1,179	103	25
Broadcast service	781	794	868	74	6
Communications service	265	282	311	29	19
Aqua	156	159	161	2	0
Mobile	223	215	209	-6	-3
Security	17	16	16	0	0
<b>Total</b>	<b>2,893</b>	<b>2,918</b>	<b>3,042</b>	<b>124</b>	<b>39</b>
(TLC member volume)	757	852	938	86	42
(TLC member ratio)	26.2%	29.2%	30.8%	1.6pt	1.0pt

Note: The number of customers has been rounded to the nearest thousand. Information and communications and CATV both offer communications services, so total figures avoid duplication.

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

**(1) Energy business (former gas and petroleum business)**

The energy business reported ¥33,430mn in net sales (down 6.5% YoY) and ¥2,382mn in operating profit (up 21.2%; prior to allocating indirect costs and other expenses and hence different than the calculation method in the financial results (same below)). Factors increasing profit included the increase in customer volume (¥500mn), decline in procurement prices (¥520mn), and temperature and other factors (¥110mn). Setbacks, meanwhile, were higher customer acquisition costs (¥190mn), a decline in equipment sales (¥260mn), and rises in other costs (¥260mn). Net change was a ¥420mn increase.

#### Result trends

The LP gas business recorded ¥27,842mn in sales (down 4.8% YoY) and a double-digit rise in operating profit on lower procurement prices and higher customer volume. The Company lifted customer volume by 15,000 contracts during 1H to 667,000 contracts at the end of FY3/21 1H, a stronger gain than the net addition of 11,000 contracts\* a year earlier. Key positives were active acquisitions of commercial areas and steady recruitment of customers at 11 new area sites (including 12,000 contracts from commercial area acquisition and 4,000 contracts from new areas). Demand (volume basis) was up 1% YoY. While residential demand had a 4% increase on higher customer volume, demand slipped in commercial and industrial segments owing to the COVID-19 outbreak.

\* The Company opened a total of 11 sales sites with Sendai, Iwaki and Toyokawa in 2015, Nishimikawa and Gifu in 2016, Tajimi and Okayama in 2017, Fukuoka in 2018, Tsu in 2019, and Kasugai and Yokkaichi in June 2020.

The city gas business posted ¥5,587mn in sales (down 14.4% YoY) with setbacks from a decline in the average sales price under the system to adjust raw-materials costs and non-recurrence of sales from air-conditioning work at elementary and middle schools recorded in the previous year (widening the decline margin). Operating profit fell modestly too. Customer volume improved by 5,000 contracts YoY to 61,000 contracts as a result of the start of business in Nikaho City (Akita Prefecture) from a business purchase in April 2020.

#### **(2) Information and communications business (previously information and communications services)**

The information and communications business posted ¥25,131mn in net sales (down 3.0% YoY) and ¥2,036mn in operating profit (down 10.3%). Despite profit gains in corporate business (¥200mn) and LIBMO (¥50mn), these were not enough to counter setbacks from an increase in customer acquisition costs (¥270mn) and weaker consumer business sales (¥210mn). Net decline totaled ¥230mn.

The consumer business recorded ¥13,142mn in sales (down 9.8%). Even with customer volume increases of 8,000 contracts YoY to 51,000 contracts in LIBMO and 8,000 contracts to 332,000 contracts in Hikari Collaboration, shrinkage of existing ISP service volume (down 24,000 contracts to 379,000 contracts) had a larger impact. However, total contract volume increased 1,000 contracts compared to the end of previous fiscal year, restoring an increase for the first time since FY3/15. This change deserves notice. In recent years, while customer volume continuously dropped due to tougher competition with major mobile phone carriers, Hikari Collaboration's rebound, with an increase of 8,000 contracts compared the end of previous fiscal year, was due to sales promotion campaigns at nationwide stores of top consumer electronics resellers and the rise in telework. We intend to closely monitor trends because of the possibility of recovery in the consumer business sales if upward momentum in Hikari Collaboration continues.

The corporate business meanwhile, sustained positive growth at a 5.6% YoY gain to ¥11,988mn in sales, though slowed modestly from previous double-digit expansion. While recurring business from cloud service and recruitment of telework demand remained upbeat, consigned system development sales slipped to a decline following weak orders in FY3/21 1Q due to the COVID-19 outbreak.

#### **(3) CATV business**

The CATV business posted ¥16,490mn in net sales (up 5.8% YoY) and ¥2,633mn in operating profit (up 3.7%). SENDAI CATV CO. LTD., which was acquired as a subsidiary in March 2020, added about ¥500mn in sales (no impact on operating profit due to goodwill amortization charges), and sales rose by about 3% excluding this factor. In profits, a ¥210mn addition from higher customer volume more than offset the ¥120mn rise in personnel costs and other expenses to support the profit increase.



#### Result trends

Customer volume climbed by 103,000 contracts YoY (including 57,000 contracts from Sendai CATV) to 1,179,000 contracts, including increases of 74,000 contracts to 868,000 contracts in broadcast service and 29,000 contracts to 311,000 contracts in communications service.

#### (4) Construction equipment and real estate business (previously building and real estate)

The construction equipment and real estate business recorded ¥9,074mn in net sales (down 6.8% YoY) and ¥621mn in operating profit (down 26.3%). Renovation and facility equipment sales slipped as a result of delays in sales activities due to the COVID-19 outbreak. Profit setbacks were ¥80mn in renovation business and ¥140mn in facility equipment business.

Operating profit at Nissan Tri-Star Construction, Inc., which was acquired as a subsidiary in September 2019, was ¥10mn. The Company also purchased all shares of Chuo Denki Koji Co., Ltd., an electrical construction company located in Aichi Prefecture, in August 2020, making it a wholly owned subsidiary. This business provides services to public ministries and agencies and large companies, and booked roughly ¥20mn in operating profit in FY3/21 2Q. With this acquisition, the TOKAI Group established operations capable of handling air-conditioning, hygiene, and electrical, the three main types of projects in facility construction, as a comprehensive construction firm and aims to further expand orders in the Chukyo area.

#### (5) Aqua business

The Aqua business recorded ¥3,880mn in net sales (up 3.4% YoY) and ¥446mn in operating profit (up 11.5%). Customer volume only increased by 2,000 contracts YoY to 161,000 contracts because of restrictions on sales at large commercial facilities, the Company's main channel for new customer acquisition, due to the COVID-19 outbreak. An increase in consumption volume per subscriber household supported by stay-at-home demand, meanwhile, contributed to higher sales. Profits moved upward as well, even with a rise in other costs (¥160mn), thanks to a larger boost from an increase in customer contracts (¥110mn) and a decline in customer acquisition costs (¥100mn).

#### (6) Other business

Other business reported ¥1,828mn in net sales (down 18.9% YoY). Breaking this down, in the nursing care business, sales rose to ¥655mn (up 14.1%) with the previous year's acquisition of Tender Co., Ltd., which operates a serviced senior residence (19 rooms). The shipbuilding business, meanwhile, encountered a 9.1% setback in sales to ¥660mn due to a decline in ship repair projects, and wedding ceremony business sales fell sharply by 80.4% to ¥112mn because of temporary facility closures after April's state of emergency declaration and continued wedding postponements and curtailment of banquets even after authorities lifted the declaration. The segment's operating loss, including internal adjustments, was ¥2,667mn (compared to a loss of ¥2,519mn in the same period in the previous fiscal year).

## ■ Outlook

### Healthy trend in lifestyle infrastructure services despite the COVID-19 outbreak, outlook for consecutive achievement of record-high earnings in FY3/21

#### 1. Outlook for FY3/21 consolidated performance

For the FY3/21 consolidated results, the Company retained its initial forecasts for net sales to increase 4.8% YoY to ¥205,300mn, operating profit to rise 5.5% to ¥15,000mn, recurring profit to grow 2.7% to ¥14,870mn, and net income attributable to owners of the parent to climb 2.7% to ¥8,460mn. It expects to increase net sales for a fourth straight year and post record-high profits for a third straight year. In addition to completing the Innovation Plan 2020 “JUMP” (IP20) medium-term management plan, FY3/21 is positioned as an important year in order to work to establish the foundations for the next medium-term management plan.

The Company intends to continue raising monthly-billing revenue by expanding continuous-transaction customer volume (aiming for an increase of 102,000 contracts YoY to 3,105,000 contracts) and achieve longer-term Group growth through further promotion of M&A activities, implementation of ABCIR+S, and deepening of the TLC concept. By business segment, it is anticipating higher profits in the energy, information and communications, and CATV businesses, the Group’s core business areas. Progress rates toward FY3/21 targets in 1H were 43.8% in net sales and 36.3% in operating profit. Compared to averages for the last three years (46.5% in net sales, 31.6% in operating profit), while net sales were slightly lower, operating profit outpaced the average. Since the Company is mainly involved in lifestyle infrastructure services, such as gas, broadcasting, and information and communications, we do not see much risk of large volatility in demand, even with the COVID-19 outbreak, and expect fulfillment of profit targets.

#### Outlook for FY3/21

	FY3/20		FY3/21			1H progress rate	Average progress rate for the last three years
	Results	% of sales	Forecast	% of sales	YoY		
Net sales	195,952	-	205,300	-	4.8%	43.8%	46.5%
Operating profit	14,224	7.3%	15,000	7.3%	5.5%	36.3%	31.6%
Recurring profit	14,479	7.4%	14,870	7.2%	2.7%	37.0%	31.7%
Net income attributable to owners of the parent	8,241	4.2%	8,460	4.1%	2.7%	38.8%	28.6%
Net income per share (¥)	62.93		64.60		2.7%		
Number of continuous transaction customers (thousands)	3,003		3,105		3.4%		

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

The results forecasts for the main businesses are described below.

#### (1) Energy business

In the energy business, while customer volume continues to increase, net sales may decrease as a result of a decline in average sales prices, and the Company projects an operating profit gain of roughly ¥1.1bn for the full year as the profit margin improves due to lower procurement prices.

#### Outlook

The Company expects customer volume in the LP gas business to rise by 51,000 contracts versus the end of previous fiscal year to 703,000 contracts. Though the progress rate is slightly low at an increase of 15,000 contracts as of the end of 1H, the Company aims to achieve plan targets by actively acquiring commercial areas after delays in negotiations caused by the COVID-19 outbreak and focusing on customer acquisition in new areas. It factors in acquisition of 3,000 customers from new sites in Kasugai and Yokkaichi that opened in June 2020.

Conversely, in the city gas business, the number of customers is set to remain unchanged on the end of the previous fiscal period at 61,000 contracts. However, as the figure at the end of the previous period included the addition of 5,000 contracts in Nikaho (Akita Prefecture) for which a business was started from April 2020, in actuality, the number of customers will increase 9% YoY. The Company expects a drop in sales on continued decline in the average sales price.

#### **(2) Information and communications business**

The Company's outlook for the information and communications business is a modest YoY increase in net sales and a ¥250mn rise in operating profit. In the profit breakdown, it forecasts a ¥480mn gain in corporate business and a decline in the consumer business.

The number of customers in the consumer business is expected to change direction and increase, up 2,000 on the end of the previous fiscal period to 975,000 contracts. Breaking this down, they will decrease 21,000 for existing ISP and related services to 368,000 contracts, they will increase 13,000 for the Hikari Collaboration to 337,000 contracts, they will increase 15,000 for LIBMO to 63,000 contracts, and they will decrease 5,000 for mobile to 207,000 contracts. Progress through FY3/21 1H shows a decline of 10,000 contracts in existing ISP services, an increase of 8,000 contracts in Hikari Collaboration, an increase of 3,000 contracts in LIBMO, and a decline of 3,000 contracts in mobile. While progress in LIMBO is slow, Hikari Collaboration outpaced the plan. Store closures due to the COVID-19 outbreak affected LIBMO activity in 1Q. The Company hopes to catch up by promoting sales through a bundled plan with Hikari Collaboration from 2H. In corporate business, meanwhile, it expects higher profit, despite shortfall concerns in consigned system development, due to expansion of network connectivity service aided by growth in the cloud services market and cloud system construction.

#### **(3) CATV, construction equipment and real estate, and Aqua businesses**

In the CATV business, the forecasts are for net sales to increase 6% YoY and operating profit to grow 2%. The plan is for the number of customers to increase by 37,000 compared to the end of the previous fiscal period to 1,191,000 contracts. Sales will increase approximately ¥2bn, but half of this amount will be from the contribution of Sendai CATV, which has newly been made a subsidiary, while the remaining half will be from customer acquisitions by existing subsidiaries. If excluding Sendai CATV, the sales growth rate will be 3%, the same as in the previous fiscal year, so it would seem to be an achievable level. The low growth rate in operating profit reflects reinforcement of personnel and an increase in depreciation costs. The Company is currently implementing optical conversion investments at Group companies and plans to increase capital investments from FY3/20's ¥5.3bn to ¥6.7bn. In October 2020, the Company merged Ichihara Community Network Television Corporation and East Communications Company Limited, which are both based on Chiba Prefecture, with goals of improving the sales operation efficiency and lowering business operation costs.

While the Company's initial plan projected higher sales and profits in the construction equipment and real estate business, progress during 1H lagged behind the plan due to the COVID-19 outbreak, and prospects depend on the extent of catch-up in 2H. Orders have been steadily rebounding, and the Company hopes to reach the same level as in the previous period.

#### Outlook

In the Aqua business, the Company forecasts a 6% YoY increase in net sales and a decline in operating profit. This assumes a customer volume gain of 11,000 contracts YoY to 172,000 contracts, particularly with resumption of sales promotions at large retail facilities and other locations in major cities. While higher customer acquisition costs weigh on profits, it is still possible to increase profits for the full year through promotion of cost-cutting efforts.

## Starting full-fledged utilization of digital marketing based on D-sapiens aimed at prevention of customer cancellations and improved cross-selling

### 2. Update on progress in priority measures

#### (1) ABCIR+S strategy

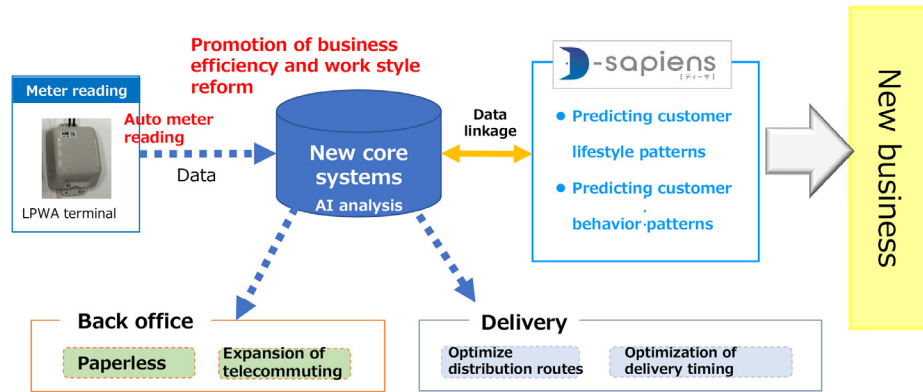
The Company is conducting a full-fledged ramp-up of the D-sapiens DMP, the foundation for its ABCIR+S strategy, in FY3/21. In 1Q, it implemented an initiative in the Aqua business to identify those likely to cancel their service based on AI analysis using customer behavior records stored in D-sapiens (web records, transaction records, inquiries, and other data) and dispense questionnaires with a benefit by direct mail to suspected customers. Through this effort, a 20% reduction in the churn rate was confirmed versus a group for which no action was taken.

Based on its results, the Company plans a full-fledged rollout of dozens of cross-selling retention measures that combine D-sapiens and TLC member services in the LP gas, information and communications, CATV, and other businesses from 3Q. It might be capable of lowering the churn rate, raising the cross-selling rate, and maximizing LTV more efficiently than in the past due to full-scale utilization of these measures. This is important because of a possible further increase in profitability if the cross-selling rate rises due to higher sales per customer and a decline in customer acquisition and maintenance costs. The cross-selling rate moderately increased from 18.8% at the end of March 2020 to 19.5% at the end of September 2020, and the Company hopes to reach 20.0% by the end of FY3/21.

The Company also deployed and started operation of a new mission-critical system in the LP gas business in FY3/21 and is pursuing improved business efficiency and workstyle reforms. A notable development is construction of an automated metering system utilizing LPWA devices. In this architecture, it installs devices on customers' premises and automatically collects usage volume data from gas tanks via wireless communication with goals of optimizing delivery timing, improving delivery route efficiency, and boosting efficiency of administrative division work. It also intends to coordinate with D-sapiens to analyze customer behavior patterns as a basis for new service proposals. The Company plans to promote automated metering over the next five years and anticipates investing a few billion yen in the new mission-critical system, including in its construction. It hopes to improve profitability and expand market share in the LP gas business through automated metering.

Outlook

Utilization of D-sapiens in the ABCIR+S strategy



Source: The Company's results briefing materials

(2) M&A strategy

The Company has implemented 13 deals under the M&A strategy since FY3/18, making investments that totaled ¥12,989mn for additions of ¥8,528mn in net sales, ¥618mn in operating profit, and 350,000 customers. It is currently reviewing M&A opportunities for more than 20 deals with a total deal value of over ¥100bn. Recently, it announced the acquisition of Inoue Technica Co., Ltd., which operates a building maintenance business mainly in the eastern area of Shizuoka Prefecture, as a wholly owned subsidiary in November 2020. While this addition should only have a mild impact on results, the Company intends to maximize Group organizational capabilities and broaden the sales scope from Shizuoka Prefecture to the entire country.

M&A and alliance results (from 2017 through September 2020)

Business	Number of companies	Investment value	Net sales	Operating profit	Number of customers
City gas	4 companies	1,953	626	42	6,000 contracts
CATV	4 companies	3,997	4,769	221	344,000 contracts
Information and communications	2 companies	655	398	67	-
Construction equipment and real estate	2 companies	3,394	2,735	288	-
Overseas*	1 companies	2,992	-	-	-
<b>Total</b>	<b>13 companies</b>	<b>12,989</b>	<b>8,528</b>	<b>618</b>	<b>350,000 contracts</b>

\* Overseas business refers to an alliance with a Vietnam-based LP gas sales firm that is handled as an equity-method affiliate.  
 Source: Prepared by FISCO from results briefing materials

(3) New business initiatives

The Company advocates the Total Life Concierge (TLC; comprehensive services for living) concept, which delivers safety and reliability, convenience and comfort, and happiness and purpose in people's lives, as a management vision and pursues creation of new businesses toward realizing this concept.

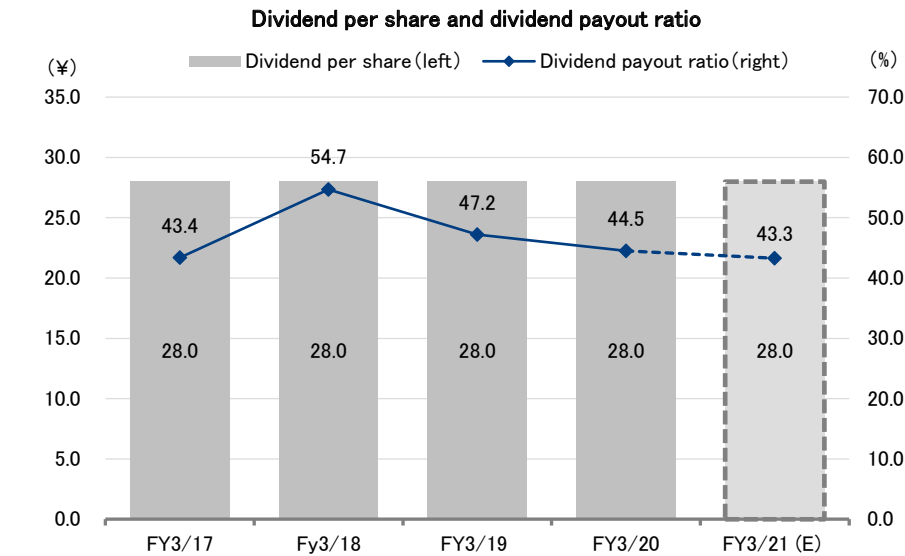
Specifically, the Company is considering healthcare services as a business. It envisions services to prevent cancer, lifestyle diseases, and other illnesses as well as promote health based on the importance of personal health in living a more prosperous and purposeful life. It wants to collaborate with a company that has a track record in healthcare, rather than conducting these services on its own, and jointly build a business model, including service content and other aspects. The Company obtained favorable reactions in a marketing survey conducted during Aug-Sep. We will be closely monitoring developments in this area.

## Shareholder return policy

### Annual return on investment of 3% to 6% from the gifts to shareholders and dividends

The Company returns profits to shareholders by paying dividends, presenting shareholders with gifts, and also purchasing treasury shares depending on conditions. Its basic policy is to continuously pay a stable dividend and it targets a dividend payout ratio of 40% to 50%. The FY3/21 dividend per share will be unchanged YoY at ¥28.0 (for a dividend payout ratio of 43.3%).

The Company presents gifts to shareholders at the end of March and September depending on the number of shares held. For each unit of shares (100 shares) held, shareholders can receive one of the following gifts: an Aqua product worth ¥2,050 (such as the Ulunom “Fuji-no-Tennensui Sarari” (natural water from Mt. Fuji), etc.), a QUO card worth ¥500, meal coupons worth ¥1,000, TLC Membership Service points worth ¥1,000, or a ¥2,100 discount on LIBMO usage fees (¥350 a month x 6 months). When including the gifts to shareholders in an estimate of the total investment yield per share unit from the current share price level (closing price of ¥1,072 on November 16, 2020), it is in the range of 3.5% to 6.4% (depending on the selection of either a QUO card or an Aqua product as the gift).



Note: FY3/17 includes a ¥6.0 commemorative dividend  
Source: Prepared by FISCO from the Company's financial results



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