

TOKAI Holdings Corporation

3167

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Summary

FY3/22 1Q net sales was a new record high, while operating profit progress exceeded the Company's forecast

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 (LP) gas, and “information and communications services.” Based on its strengths of “customer power” with over 3 million customers, “comprehensive capabilities” to provide a wide range of products and services in a one-stop manner, and “mobility” to immediately respond to customer needs, the Company is advancing the ABCIR+S*1 strategy and aims to realize the “Total Life Concierge” (TLC; comprehensive services for living) concept*2.

*1 ABCIR+S: The TOKAI Group's strategy for 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.

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

1. FY3/22 1Q results

In the FY3/22 1Q consolidated results, net sales increased 7.3% year on year (YoY) to ¥48,396mn and operating profit declined 14.7% to ¥3,226mn. Net sales set a new record high for the first time in two fiscal periods, due to the increase in continuous-transaction customers, the expansion of the information and communications business for corporate customers, and the effects of M&A in the construction equipment and real estate business, along with other factors. Meanwhile, although operating profit was aided by an increase in the number of customers and higher profits in the information and communications business for corporate customers, the main factors behind the decline in operating profit were the decrease in household LP gas sales volume due to high temperatures and an increase in expenses for acquiring customers in the LP gas business and the Aqua business. However, it appears that operating profit was still approximately several hundred million yen higher than the Company's forecast. At the end of 1Q in FY3/22, the number of continuous-transaction customers had increased by 96,000 versus the end of FY3/21 to 3,108,000 customers.

2. Outlook for FY3/22

The outlook for the FY3/22 consolidated results was left unchanged from the forecast made at the start of the fiscal year, which is for net sales to increase 5.2% YoY to ¥207,000mn and operating profit to rise 0.1% to ¥15,240mn. Sales are forecast to increase in every business segment except the CATV business. Sales will decline in the CATV business due to a decrease from a change to the accounting standard for revenue recognition, but on an actual basis, sales will increase by around 2%. The number of continuous-transaction customers, especially in the LP gas business, the CATV business, and the Aqua business, is expected to increase by 96,000 compared to the end of the previous fiscal period to 3,195,000 customers. Operating profit is forecast to increase just slightly YoY due to the increase in customer acquisition costs and the booking of costs to establish an environment for workstyle reforms.

Summary

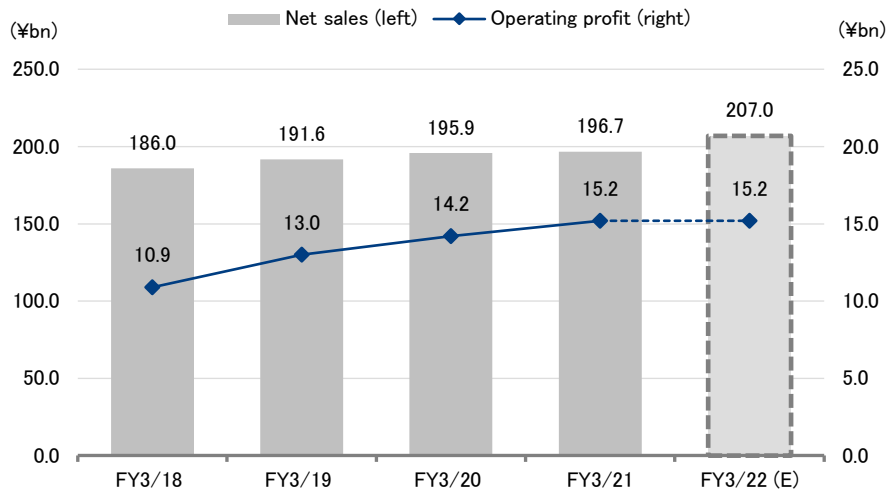
3. Overview of medium-term management plan “Innovation Plan 2024 ‘Design the Future Life’”

In the medium-term management plan “Innovation Plan 2024 ‘Design the Future Life’” announced in May 2021, the Company has set forth a strategy aiming for sustainable growth by broadening its business areas past providing lifestyle infrastructure services, and providing services that “support people’s lives” and “designing and proposing lifestyles.” The numerical management targets for the plan’s final fiscal year of FY3/25 are net sales of ¥245.0bn, operating profit of ¥18.6bn, and 3.56mn continuous-transaction customers. The Company expects average annual growth rates for the next four years to be 5.6% for net sales and 5.2% for operating profit, so steady growth is forecast. Increasing the number of customers will be the key to achieving this forecast. Also, in response to heightened demand from society for responding to global warming, the TOKAI Group has formulated a “Carbon Neutrality Vision,” under which it will aim to realize carbon neutrality by 2050, and the Company plans to push forward with related initiatives.

Key Points

- FY3/22 1Q net sales set a record high, while despite declining YoY operating profit exceeded the Company’s forecast
- Company forecasts a slight increase in profit in FY3/22 while investing to grow the customer base
- Is aiming to change from being companies providing lifestyle infrastructure services to a corporate group that “support people’s lives” and “designs and proposes lifestyles”
- Policy is to pay a dividend targeting a dividend payout ratio of 40% to 50% and also to flexibly acquire treasury shares

Results trends



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

Result trends

FY3/22 1Q net sales set a record high, while despite declining YoY operating profit exceeded the Company's forecast

1. Review of FY3/22 1Q results

In the FY3/22 1Q consolidated results, net sales increased while profit decreased YoY. Net sales increased 7.3% YoY to ¥48,396mn, operating profit declined 14.7% to ¥3,226mn, recurring profit decreased 12.5% to ¥3,353mn, and net income attributable to owners of the parent fell 23.5% to ¥1,870mn.

FY3/22 1Q consolidated results

	FY3/21 1Q		FY3/22 1Q		YoY
	Results	% of sales	Results	% of sales	
Net sales	45,113	-	48,396	-	7.3%
Cost of sales	25,461	56.4%	28,677	59.3%	12.6%
SG&A expenses	15,868	35.2%	16,491	34.1%	3.9%
Operating profit	3,783	8.4%	3,226	6.7%	-14.7%
Recurring profit	3,830	8.5%	3,353	6.9%	-12.5%
Extraordinary income/loss	-73	-	-235	-	-
Net income attributable to owners of the parent	2,445	5.4%	1,870	3.9%	-23.5%
Number of continuous-transaction customers (thousand)	3,012		3,108		3.2%

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

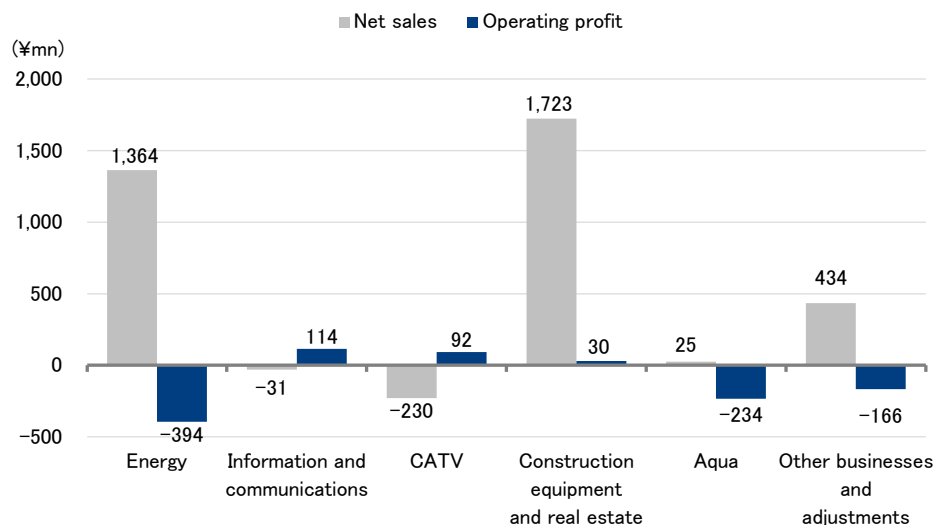
The factors behind the higher net sales include the increase in monthly billing revenue alongside the rise in the number of continuous-transaction customers, the expansion of the information and communications business for corporate customers, and the effects of M&A in the construction equipment and real estate business, leading to record-high net sales for the first time in two fiscal periods. At the end of 1Q in FY3/22, the number of continuous-transaction customers had increased by 96,000 versus the end of the FY3/21 to 3,108,000 customers, with increases mainly in the LP gas business and the CATV business. The number of TLC* members increased steadily by 81,000 to 998,000 customers.

* The TLC service is a service that users of the TOKAI Group's services can join. TLC members are awarded points according to the amount they use and can receive special perks limited to members.

The factors behind the decline in operating profit despite the increase in sales include the decrease in household LP gas sales volume due to high temperatures as well as the recoil decline following stay-at-home demand in the previous fiscal period (negative impact of ¥300mn), and the increase in customer acquisition expenses in the LP gas business and the Aqua business (negative impact of ¥500mn). Still, operating profit was several hundred million yen higher than the Company's forecast, so the fiscal year has gotten off to a solid start. Approximately ¥300mn of the excess versus the forecast came from the energy business, and is due to the fact that the Company was able to curb costs, especially personnel costs, more than initially expected. Also, around ¥100mn of the excess was attributable to the information and communications business for corporations.

Result trends

From FY3/22, a new accounting standard for revenue recognition is being applied. Compared with the previous accounting standard, this resulted in a ¥360mn decline in net sales (declines of ¥500mn in both the energy business and the CATV business, an increase of ¥400mn in the construction equipment and real estate business, and an increase of ¥300mn in other businesses (shipbuilding business), and accounted for a ¥40mn increase in operating profit.

FY3/22 1Q results by business segment (YoY change)


Note 1: The impacts of applying the accounting standard for revenue recognition included declines of ¥500mn in both the energy business and CATV business, an increase of ¥400mn in the construction equipment and real estate business, and an increase of ¥300mn in other businesses

Note 2: Operating profit values are prior to allocating indirect costs and other costs

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

Profit increasing in the information and communications, CATV, and construction equipment and real estate businesses, but declining in the energy and Aqua businesses due to higher customer acquisition costs

2. Trends by business segment

Net sales by segment

	(¥mn)				
	FY3/19 1Q	FY3/20 1Q	FY3/21 1Q	FY3/22 1Q	YoY
Energy	17,608	18,577	17,634	18,998	7.7%
Information and communications	12,513	12,795	12,650	12,619	-0.2%
CATV	7,511	7,738	8,226	7,996	-2.8%
Construction equipment and real estate	4,166	3,777	3,819	5,542	45.1%
Aqua	1,653	1,798	1,896	1,921	1.3%
Other businesses	1,100	1,116	885	1,319	49.0%
Total	44,553	45,804	45,113	48,396	7.3%

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

Result trends

Operating profit by segment

	FY3/19 1Q	FY3/20 1Q	FY3/21 1Q	FY3/22 1Q	YoY
Energy	1,182	1,489	1,972	1,578	-20.0%
Information and communications	724	1,217	1,110	1,224	10.3%
CATV	1,194	1,286	1,367	1,459	6.7%
Construction equipment and real estate	213	213	233	263	12.9%
Aqua	96	169	271	37	-86.3%
Other businesses and adjustments	-1,022	-1,145	-1,171	-1,337	-
Total	2,390	3,231	3,783	3,226	-14.7%

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

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

Number of customers by key service

	FY3/19 1Q-end	FY3/20 1Q-end	FY3/21 1Q-end	FY3/22 1Q-end	YoY change
Energy	664	687	718	752	34
LP gas	610	631	657	687	30
City gas	55	56	61	64	3
Information and communications	810	778	760	781	21
Existing ISP and related services	451	411	383	391	8
Hikari Collaboration	327	326	328	337	9
LIBMO	32	42	50	53	3
CATV	1,039	1,069	1,161	1,206	45
Broadcast service	778	791	864	878	14
Communications service	261	278	297	328	31
Aqua	151	157	159	164	5
Mobile	225	214	211	201	-10
Security	17	17	16	16	0
Total	2,883	2,907	3,012	3,108	96
(No. of TLC members)	731	830	917	998	81

Note: Values of less than 1,000 have been rounded-off. Duplicates from information and communications and communications services in CATV have been excluded from the total. Values from FY3/21 4Q include contracts for additional ISP services in existing ISP and related services.

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

(1) Energy business

In the energy business, net sales increased 7.7% YoY to ¥18,998mn and operating profit (operating profit is prior to the allocation of indirect costs and other costs, which is a different calculation method than that used in the financial results, and applies to values below as well) decreased 20.0% to ¥1,578mn. In the LP gas business, net sales increased 9.5% YoY to ¥16,197mn, and the number of customers increased by 30,000 versus the end of the previous fiscal year to 687,000. The factor for the increase in sales was the rise in sales prices, and although residential sales only increased 1.8% YoY, commercial use and wholesale use, which are linked to purchase prices, rose over 40%, and accounted for the majority of the increase in sales. Meanwhile, with respect to residential use, overall sales volume declined 1.5% YoY. This was due to higher temperatures than the year before along with a recoil decline following stay-at-home consumption, resulting in a decline in gas consumption volume per contracted household. In terms of profit, there was a negative effect of approximately ¥300mn from the decline in residential sales volume and a negative effect of approximately ¥300mn from the increase in customer acquisition expenses. There was hardly any impact on residential LP gas profit from the increase in purchase prices, due to the fact that the Company had already completed purchase contracts for the volume it will purchase for FY3/22.

Result trends

In the city gas business, net sales declined 1.3% YoY to ¥2,800mn, and the number of customers increased by 3,000 versus the end of the previous fiscal period to 64,000 customers. The main factor for the decline in sales was the decrease in sales unit prices due to the system to adjust the prices of raw materials.

(2) Information and communications business

In the information and communications business, net sales decreased 0.2% YoY to ¥12,619mn, but operating profit increased 10.3% to ¥1,224mn. In the consumer business, net sales continued to decrease, falling 6.1% YoY to ¥6,186mn, but operating profit increased ¥30mn due to the decline in customer acquisition costs and improved profitability of LIMBO (inexpensive smartphones). The number of customers rebounded, increasing 21,000 YoY to 781,000 customers. Looking at the breakdown, the number of customers increased 8,000 YoY for existing ISP services and other services to 391,000 customers, rose 9,000 for Hikari Collaboration to 337,000 customers, and increased 3,000 for LIMBO to 53,000 customers. Of these, for Hikari Collaboration, the expansion of the menu due to partnerships with major mobile phone carriers led to the increase. However, among Hikari Collaboration contracts there was an increase in contracts tied with mobile phone carriers, so this and other factors caused ARPU (average revenue per user) to decline, which was a factor behind the decline in net sales.

In the corporate business, net sales increased 6.1% YoY to ¥6,432mn, and operating profit increased by ¥80mn. There was steady growth in recurring revenue business such as Amazon Web Service (AWS) construction projects and cloud services, while there was also a recovery in contracted systems development, so the upward trend in both sales and profit continued. At the end of April 2021, TOKAI Communications Corporation acquired all of the shares of system development company QUERY Co., Ltd., making it a subsidiary. By integrating QUERY's technological strengths, the Company expects to provide customers even more added value and expand the scope of customers (QUERY posted net sales of ¥355mn and operating profit of ¥39mn in FY12/20).

(3) CATV business

In the CATV business, net sales declined 2.8% YoY to ¥7,996mn, while operating profit increased 6.7% to ¥1,459mn. As mentioned above, the application of the accounting standard for revenue recognition resulted in a ¥500mn decline in net sales, but on an actual basis, net sales increased approximately 3%. The steady increase in the number of customers was a main factor for the increase in both sales and profit. The Group is focusing on community-based information dissemination and program production, while it is collaborating with major video distribution businesses to enhance content and investing in optical conversion to expand the areas to which it provides high-speed communications services. These efforts led to an increase in the number of customers. At the end of FY3/22 1Q, the number of customers had increased by 14,000 compared to the end of the previous fiscal period to 878,000 customers for broadcast services, and increased by 31,000 customers to 328,000 customers for communications services.

Result trends

(4) Construction equipment and real estate business

In the construction equipment and real estate business, net sales increased 45.1% YoY to ¥5,542mn, and operating profit increased 12.9% to ¥263mn. Looking at the breakdown of the increase in net sales, M&A effects accounted for ¥800mn, a recovery in existing businesses accounted for ¥500mn, and the change in the accounting standard for revenue recognition accounted for ¥400mn. In M&A, the Company made subsidiaries of Chuo Denki Construction Co., Ltd. in August 2020, Inoue Technica Co., Ltd. in November 2020, and Marco Polo inc. in April 2021. The net sales of these subsidiaries were added to the Company's sales*. Including civil engineering construction company Nissan Tri-Star Construction, Inc., which was made a subsidiary in September 2019, the Company is solidifying its base as a general construction and facility construction company in the Tokai area. Going forward, the Company's strategy is to pursue further business scale expansion through synergies.

* Chuo Denki Construction Co., Ltd. engages in the electrical construction business in Aichi Prefecture with just under 30 employees. Inoue Technica Co., Ltd. provides building maintenance services in the eastern part of Shizuoka Prefecture, and has annual sales of approximately ¥500mn. Marco Polo inc. engages in large-scale repair work of public facilities, and its sales in FY4/20 were approximately ¥2.2bn.

(5) Aqua business

In the Aqua business, net sales increased 1.3% YoY to ¥1,921mn, but operating profit decreased 86.3% to ¥37mn. The number of customers increased by 5,000 compared to the end of the previous fiscal year to 164,000 (roughly 3% increase), but due to the slight decline in consumption volume per household caused by the recoil decline following stay-at-home consumption, the sales growth rate was only around 1%. In terms of profit, the main factor for the decline was that customer acquisition costs increased by ¥200mn YoY. In FY3/21 1Q, the number of customers declined by 2,000 customers versus the end of FY3/20 due to the restrictions on sales activities at large retail facilities, etc. amid the COVID-19 pandemic, but due to the implementation of regular sales activities, the number of customers at the end of FY3/22 1Q was 2,000 higher YoY, which was generally in line with the Company's forecast.

(6) Other businesses/adjustments

In other businesses, net sales increased 49.0% YoY to ¥1,319mn. Breaking this down, in the shipbuilding business, sales rose considerably, up 79.0% YoY to ¥580mn, due to the increase in the number of ships repaired and the effect of the application of the accounting standard for revenue recognition. Meanwhile, in the nursing care business, sales declined 1.8% to ¥317mn due to the decline in the number of day service users as a result of the COVID-19 pandemic. In the wedding ceremony business, a slight recovery in wedding ceremonies and conference usage was seen, and sales increased 484.0% to ¥161mn, but the level remains low compared to FY3/20 1Q (¥274mn) prior to the COVID-19 pandemic.

The segment's operating loss, including internal adjustments, increased ¥166mn YoY to ¥1,337mn, but this was mainly due to an increase in in-Company shared costs. The Company is working on establishing an office environment to support workstyle reforms.

■ Outlook

In FY3/22, expecting a slight increase in profit while making investments to grow the customer base

1. Outlook for FY3/22 consolidated performance

The outlook for the FY3/22 consolidated results was left unchanged from the forecast made at the start of the fiscal year. As such, the Company is forecasting that net sales will increase 5.2% YoY to ¥207,000mn, operating profit will rise 0.1% to ¥15,240mn, recurring profit will grow 0.1% to ¥15,320mn, and net income attributable to owners of the parent will increase 0.2% to ¥8,830mn. Sales are expected to increase due to the rise in the number of continuous-transaction customers, growth in the corporate information and communications business, and the effects of M&A in the construction equipment and real estate business. However, the outlook is that profits will only increase slightly, as the Company will continue to focus on growing the continuous-transaction customer base as well as based on its expectation for costs to establish an environment for workstyle reforms (approximately ¥500mn) and an increase in depreciation alongside the growth in capital investment (approximately ¥500mn). FY3/22 1Q operating profit exceeded the forecast, and the Company plans to allocate the excess portion to customer acquisition costs as it prioritizes growing the customer base.

Outlook for FY3/22

	FY3/21		FY3/22		YoY
	Results	% of sales	Forecast	% of sales	
Net sales	196,726	-	207,000	-	5.2%
Operating profit	15,226	7.7%	15,240	7.4%	0.1%
Recurring profit	15,312	7.8%	15,320	7.4%	0.1%
Net income attributable to owners of the parent	8,815	4.5%	8,830	4.3%	0.2%
Net income per share (¥)	67.32		67.42		0.1%
Number of continuous-transaction customers (thousands)	3,099		3,195		3.1%

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

The number of continuous-transaction customers is forecast to rise by 97,000 compared to the end of the previous fiscal period to 3,195,000 customers. There was only an increase of 9,000 customers in FY3/22 1Q, but the Company will make up for this from 2Q onward. The main increases are expected to be 57,000 customers in the LP gas business, 25,000 customers in the CATV business, 9,000 customers in the Aqua business, and 8,000 customers in the LIBMO business. The application of the accounting standard for revenue recognition had a negative impact on net sales of over ¥3.0bn, centered on the CATV business and energy business, but the impact on operating profit was negligible.

(1) Energy business

The forecasts for the energy business are for sales to increase but profits to decrease, with net sales to rise 4.0% YoY and operating profit to fall 5.6%. Excluding the effects of the application of the accounting standard for revenue recognition, the sales growth rate is expected to be approximately 6%. The assumed sales unit price for residential LP gas is expected to be flat YoY, and the Company assumes that the annual average temperature will fall 0.1°C, so the rise in the number of customers will be a factor in the increase in sales.

Outlook

The number of customers in the LP gas business will increase by 57,000 compared to the end of the previous fiscal period to 738,000 customers and will be unchanged in the city gas business at 63,000 customers. The net increase in the number of LP gas customers was 30,000 in FY3/21, so the forecast is for the increase to accelerate. Breaking this down, new acquisitions will account for 43,000 customers, contract cancellations 23,000 customers, and M&A and alliances 36,800 customers, and the strategy is to further increase customer acquisitions through new acquisitions as well as M&A and alliances. For new acquisitions, in addition to acquisitions in the existing areas, the Company plans to newly open two bases in the Western Japan area in FY3/22, so its policy is to increase acquisitions in these new areas as well.

The factor behind the decrease in operating profit is the increase in costs for customer acquisitions in the LP gas business (up around ¥700mn YoY). Operating profit exceeded the forecast in 1Q, and the Company plans to allocate this excess to customer acquisition costs from 2Q onward. Meanwhile, in the city gas business, there will not be a big change in the number of customers, so operating profit is expected to move generally sideways YoY.

(2) Information and communications business

In the information and communications business, the outlook is for net sales to increase 3.2% YoY and operating profit to be at the same level YoY. In the consumer business, the number of customers for ISP services (including Hikari Collaboration) is expected to be at around the same level as at the end of the previous fiscal period at 732,000 customers, while for LIMBO, customer numbers are forecast to increase by 8,000 to 61,000 customers. Amid the ongoing competition to acquire customers, Hikari Collaboration will aim to increase customers through tie-ups with major mobile carriers, while for LIMBO, the Company will aim to increase customers by measures including reviewing the fee plan and strengthening online promotions. Although the Company expects net sales to increase slightly, at FISCO we think there is a risk for net sales to decline slightly based on the fact that ARPU has decreased more than expected. In terms of profits, the Company expects profit to decline due to the increases in customer acquisition costs. Meanwhile, in the corporate business, due to the increase in recurring-income revenue, such as from cloud services, along with the recovery in consigned development, the outlook is for sales and profits to increase by single-digit levels.

(3) CATV business

The outlook for the CATV business is for sales to decrease but profits to increase, with net sales to decline 3.5% YoY, but operating profit to rise 7.7%. Applying the new accounting standard for recognizing revenue will have a negative impact of ¥2.0bn (the communications service fee portion of major mobile carriers that are selling sets is excluded from sales), but sales are forecast to effectively increase by around 2% due to the increase in the number of customers.

The number of customers is forecast to increase by 25,000 compared to the end of the previous fiscal period to 1,223,000 customers. Of these, they are forecast to increase by 8,000 to 883,000 customers for broadcast services and by 18,000 to 340,000 customers in communications services. There was an increase of 8,000 customers in 1Q, which is progress that exceeds the forecast, and there is a chance that net sales will exceed the forecast amount if the Company can acquire customers at this same pace going forward. Also, as a result of progress on optical conversion of the infrastructure, there has been an increase in customers contracting for communications services at the same time as broadcasting services, and there is an expectation for an increase in profitability accompanying the rise in the sales unit price per customer.

Outlook

(4) Construction equipment and real estate business

The outlook for the construction equipment and real estate business is for sales and profits to increase by double digits, with net sales rising 25.2% YoY and operating profit growing 14.5%. In addition to the recovery in sales in the existing business, including renovation work rebounding following the decline in FY3/21 due to the COVID-19 pandemic, the main factors for the increase in both sales and profits will be the full-fiscal-year contributions of the two companies that were made subsidiaries in FY3/21 (Chuo Denki Construction and Inoue Technica), and the addition of the results of Marco Polo, which was made a subsidiary in April 2021.

(5) Aqua businesses

The outlook for the Aqua business is for net sales to increase 4.3% YoY and operating profit to be basically unchanged. The number of customers is forecast to increase by 9,000 compared to the end of the previous fiscal period to 171,000 customers. The assumption is that average sales per customer will decline slightly, including as a reaction to the nesting demand. The Company expects operating profit to remain generally unchanged YoY, as the increase in profit from higher sales will be offset by the increase in customer acquisition costs.

(6) Other businesses/adjustments

In other businesses, the outlook is that net sales will increase 14.6% YoY. The negative impact of COVID-19 will come to an end, so results will trend strongly in the nursing care business, while they are also forecast to recover in the wedding ceremony business. Conversely, the operating loss, including internal adjustments, is forecast to grow by around ¥300mn. In conjunction with workstyle reforms, the Company plans to incur costs of around ¥400mn for purchasing thin clients compatible with the teleworking environment and to reform offices. As the percentage of employees going into offices is around the 50% level, the plan is to gradually contract the office floor space and finally to reduce it by around 40%.

From companies providing lifestyle infrastructure services to a corporate group that “support people’s lives” and “designs and proposes lifestyles”

2. Medium-term management plan

(1) Basic concept for the next 10 years

As COVID-19 has caused great changes in lifestyles and measures addressing the SDGs are attracting attention across the whole of society, the Company has set the aim of becoming a “Life Design Group” 10 years from now in its four-year medium-term management plan “Innovation Plan 2024 ‘Design the Future Life,’” which starts in FY3/22. The Company’s policy is “Contributing to solving societal problems through designing and proposing the lifestyles that customers want to have,” and based on this approach, the Company is working to enhance its TLC (Total Life Concierge) management vision.

Previously, as a group of companies that provided lifestyle infrastructure services mainly for within the home (such as gas, communications and broadcasting), the Group continued to grow by having each company expand its customer base. However, going forward, it will widen its target markets more than before to “societal lifestyles relating to the home.” The services it will provide will not only be lifestyle infrastructure services, but it will widen the scope to include areas such as services relating to the consumption of experiences. By combining these services, the Group is aiming to become a corporate group providing comprehensive lifestyle services that “support people’s lives” to meet their latent needs for the ways that want to live and that “designs and proposes lifestyles.” This recently announced medium-term management plan positions these four years as the period to build the management foundation toward realizing its vision of becoming a “Life Design Group.”

Outlook

(2) Numerical management targets

The medium-term management plan's numerical management targets for FY3/25 are net sales of ¥245.0bn, operating profit of ¥18.6bn, and net income attributable to owners of the parent of ¥11.0bn, and the plan is to achieve steady growth with a four-year annual average growth rate of around 5%. In terms of profits, growth will be low in the first two years of the medium-term management plan as the Company will actively conduct upfront investment, but growth is expected to accelerate in the second half of the period as effects of these investments will contribute to profits. Its policy is also to carry out management with an awareness of capital efficiency, and it is aiming to increase ROE from 12.7% in FY3/21 to 13% or above, and similarly to increase ROIC from 9.2% to 9.9% or above. As it will continue to conduct investment, the equity ratio is forecast to be around 40%, which is the same level as in FY3/21.

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

	FY3/21 Results	FY3/22 Target	FY3/23 Target	FY3/24 Target	FY3/25 Target	Average annual growth rate
Net sales (¥bn)	196.7	207.0	221.0	232.0	245.0	5.6%
Operating profit (¥bn)	15.2	15.2	15.6	16.5	18.6	5.2%
Net income attributable to owners of the parent (¥bn)	8.8	8.8	9.0	9.5	11.0	5.7%
Cash flow from operating activities* (¥bn)	22.4	21.8	23.0	24.0	26.0	3.8%
No. of customers (10,000 customers)	310	320	332	344	356	3.5%
Dividend payout ratio	44.6%		40% to 50%			
ROE	12.7%		→		13% or above	
ROIC	9.2%		→		9.9% or above	
Equity ratio	41.6%		→		Around 40%	

* Cash flow from operating activities = operating profit + depreciation – lease payments – tax payments
 Source: Prepared by FISCO from results briefing materials

No. of customers

(unit: 10,000 customers)

	FY3/21	FY3/25	Change	Change %
LP gas	68.1	88.1	20.0	29.2%
City gas	6.3	7.3	1.0	15.9%
ISP, etc. (including Hikari Collaboration)	73.2	80.5	7.3	10.0%
LIBMO	5.3	9.4	4.1	77.4%
CATV (broadcast)	87.5	90.3	2.8	3.2%
CATV (communications)	32.2	38.6	6.4	19.9%
Aqua	16.2	21.4	5.2	32.1%
Mobile	20.6	19.0	-1.6	-7.8%
Security	1.6	1.8	0.2	12.5%
Total	309.9	355.8	45.9	15.0%

Source: Prepared by FISCO from an interview with the Company

(3) Carbon Neutrality Vision

In May 2021, the Company announced its “Carbon Neutrality Vision” which articulates the Company’s policy on efforts to address global warming. The Group will aim to achieve carbon neutrality by 2050, and will preemptively advance the following initiatives to reduce CO₂ emissions by 2030.

Outlook

a) Reduce household CO₂ emissions of customers using gas by 170,000 tons (equivalent to 50% of household gas CO₂ emissions in FY3/20). Breaking this down, the Company will reduce CO₂ emissions by 70,000 tons through the widespread use of high-efficiency gas equipment and other means, and by 100,000 tons by facilitating the installation of residential solar power systems. The Company is already working on these initiatives, but it will strengthen them going forward.

b) Reduce CO₂ emissions generated from its operating activities by 13,000 tons (equivalent to 70% of CO₂ emissions in FY3/20). Specifically, the Company will install solar power generation facilities at offices and use electric vehicles, utilize renewable energy, introduce an automatic meter reading system for LP gas, and optimize delivery routes, along with other efforts.

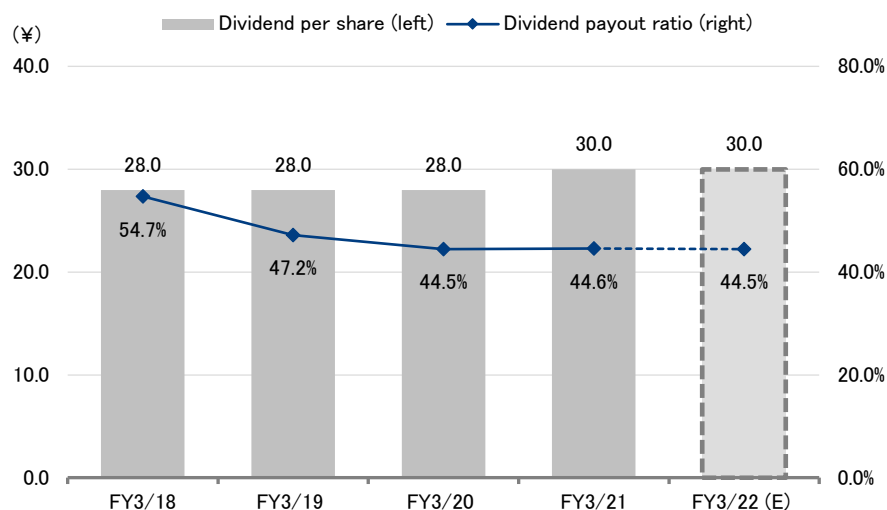
Shareholder return policy

Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%, and also to flexibly acquire treasury shares

Since the past, the Company has actively returned profits to shareholders by paying dividends and providing perks and gifts to shareholders, as well as by acquiring treasury shares depending on the circumstances. It intends to keep this policy unchanged going forward. The Company plans to pay a dividend targeting a dividend payout ratio in the 40-50% range. In FY3/22, the Company plans to pay a dividend per share of ¥30.0 (dividend payout ratio of 44.5%), which is the same amount as the previous fiscal year.

The Company presents gifts to shareholders with 100 or more shares 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 ¥878 on August 6, 2021), it is in the range of 4.6% to 8.1% (depending on the selection of either a QUO card or an Aqua product as the gift).

Shareholder return policy

Dividend per share and dividend payout ratio


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

Shareholder gifts

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

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

Source: Prepared by FISCO from the Company website



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