

TOKAI Holdings Corporation

3167

Tokyo Stock Exchange First Section

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

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Summary

Operating profit increased in FY3/21 1Q, exceeding the forecasts, mainly driven by the energy business

Based in Shizuoka Prefecture, TOKAI Holdings <3167> (hereafter, also “the Company”) is a comprehensive life-style-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 (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 Smart Phone (S), and the Group will focus on creating and developing new services related to them.

1. FY3/21 1Q results

In the FY3/21 1Q (April to June 2020) consolidated results, net sales declined 1.5% year-on-year (YoY) to ¥45,113mn and operating profit rose 17.1% to ¥3,783mn. Net sales moved slightly lower due to weaker sales prices in the energy business (LP gas and city gas). Profits more than offset this impact, posting a third straight increase and second straight all-time high, on increase in monthly-billing revenue with a rise in the number of continuous-transaction customers, higher profit in corporate information and communications business, and improved profit margin in LP gas business. COVID-19 impact, meanwhile, kept continuous-transaction customer volume under the plan level. Nevertheless, operating profit exceeded its forecasts thanks to increase in “stay home” demand and inroads by telework.

2. Outlook for FY3/21

The outlook for the FY3/21 consolidated results is for higher sales for the fourth consecutive fiscal period and record high profits for the third consecutive period, with net sales to increase 4.8% YoY to ¥205,300mn and operating profit to rise 5.5% to ¥15,000mn. In addition to finishing the medium-term management plan Innovation Plan 2020 “JUMP” (IP20) as the plan’s final fiscal year, the Company intends to focus on increasing the number of continuous-transaction customers, further progress in M&A, implementation of ABCIR+S, and even deeper TLC to build the foundation for growth for the next period and onwards. The Company is targeting 3,105,000 continuous-transaction customers, an increase of 102,000 customers versus end-FY3/20.

3. Topics

In June 2020, subsidiary TOKAI Communications Corporation announced the conclusion of a strategic business alliance for initiatives, mainly in MaaS (Mobility as a Service)*, with Ekitan & Co., Ltd. <3646> and ZENRIN DataCom CO., LTD., a subsidiary of ZENRIN CO., LTD.<9474>. The Company also announced, in June, investments (investment ratio, 45% each) in two subsidiaries of PETRO CENTER CORPORATION, a major LP gas sales firm in Vietnam, as part of its overseas strategy in LP gas business. While these investments should only have a light impact on FY3/21 results, they are initiatives targeting the medium- to long-term growth.

* MaaS (Mobility as a Service) uses ICT to convert transportation into a cloud and seamlessly connect mobility via all modes of transportation other than a personal car as a single service.

Summary

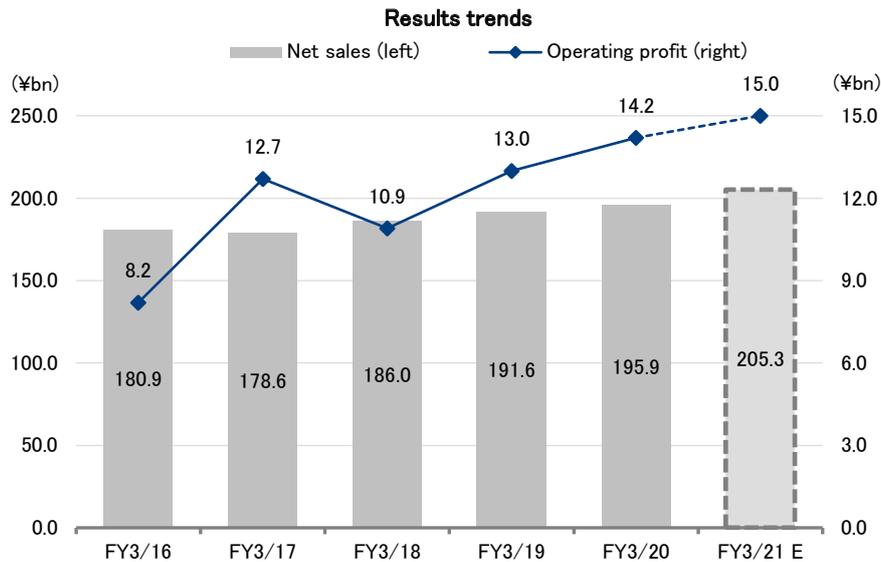
4. Shareholder return policy

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, and points for a TLC member service 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 ¥992 on August 3, 2020), it is in the range of 3.8% to 7.0%*.

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

Key Points

- Operating profit had a double-digit increase in FY3/21 1Q, despite lower sales, thanks to improved profitability in the energy business
- Targets consecutive all-time high profits in FY3/21 while also investing in building the growth foundation
- Announced a strategic alliance in the MaaS field and investments in LP gas sales companies in Vietnam



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

Result trends

Operating profit had a double-digit increase in FY3/21 1Q, despite lower sales, thanks to improved profitability in the energy business

1. Review of FY3/21 1Q results

In the FY3/21 1Q consolidated results, net sales fell 1.5% YoY to ¥45,113mn, operating profit increased 17.1% to ¥3,783mn, recurring profit rose 14.3% to ¥3,830mn, and net income attributable to owners of the parent climbed 9.2% to ¥2,445mn. Profits improved on lower sales.

Net sales benefited from increase in the number of continuous-transaction customers (gain of 105,000 YoY to 3,012,000 customers) and expansion of corporate information and communication services, though fell slightly because of setbacks from decline in gas sales prices and a drop in customer volume for consumer information and communication services. Profits more than offset this impact, posting a third straight increase and second straight all-time high in all categories, on the profit boost from stronger monthly-billing revenue with increase in the number of continuous-transaction customers, higher profit in corporate information and communications business, and improved profit margin in LP gas business. Furthermore, operating profit beat the forecasts in almost all business segments, and FISCO thinks it overshot by a few hundred million yen on a total basis.

The number of customers in the LP gas and Aqua businesses lagged the plan pace due to constraints on face-to-face sales with COVID-19 impact. However, the Company aims to accelerate the customer acquisition pace from 2Q with pursuit of Web marketing and other new sales methods too and increase in customer acquisition costs.

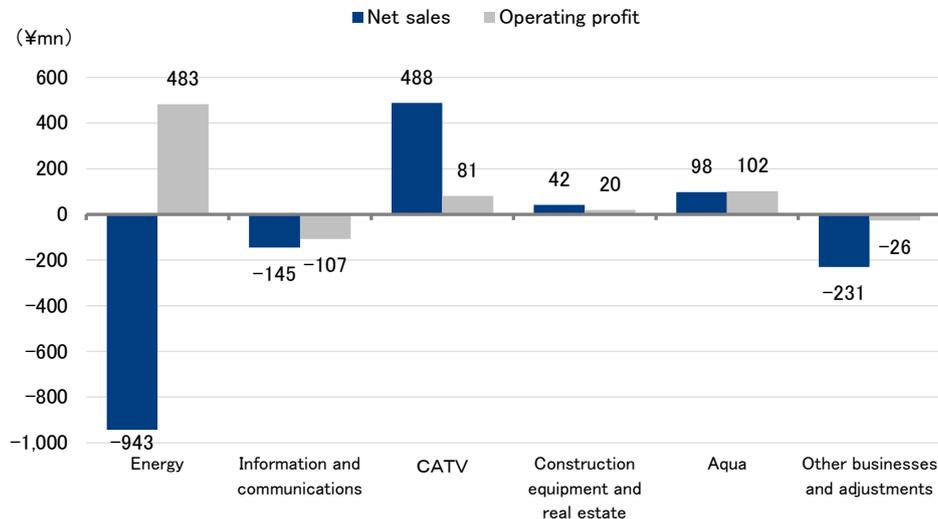
FY3/21 1Q consolidated results

| | FY3/20 1Q | | FY3/21 1Q | | YoY |
|--|-----------|------------|-----------|------------|-------|
| | Results | % of sales | Results | % of sales | |
| Net sales | 45,804 | - | 45,113 | - | -1.5% |
| Cost of sales | 27,097 | 59.2% | 25,461 | 56.4% | -6.0% |
| SG&A expenses | 15,475 | 33.8% | 15,868 | 35.2% | 2.5% |
| Operating profit | 3,231 | 7.1% | 3,783 | 8.4% | 17.1% |
| Recurring profit | 3,351 | 7.3% | 3,830 | 8.5% | 14.3% |
| Net income attributable to owners of the parent | 2,239 | 4.9% | 2,445 | 5.4% | 9.2% |
| Number of continuous-transaction customers (thousands) | 2,907 | | 3,012 | | 3.6% |

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

Result trends

Results by business segments (YoY change in value)



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

Profit margin improved in the energy business on decline in procurement costs, and switch to an increase in Hikari Collaboration customer volume in the information and communications business and sustained steady growth in CATV business

2. Trends by business segment

Net sales by segment

| | (¥mn) | | | | |
|--|---------------|---------------|---------------|---------------|--------------|
| | FY3/18 1Q | FY3/19 1Q | FY3/20 1Q | FY3/21 1Q | YoY |
| Energy | 17,392 | 17,608 | 18,577 | 17,634 | -5.1% |
| Information and communications | 12,447 | 12,513 | 12,795 | 12,650 | -1.1% |
| CATV | 6,406 | 7,511 | 7,738 | 8,226 | 6.3% |
| Construction equipment and real estate | 3,617 | 4,166 | 3,777 | 3,819 | 1.1% |
| Aqua | 1,456 | 1,653 | 1,798 | 1,896 | 5.4% |
| Other businesses | 1,211 | 1,100 | 1,116 | 885 | -20.7% |
| Total | 42,531 | 44,553 | 45,804 | 45,113 | -1.5% |

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

Operating profit by segment

| | (¥mn) | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| | FY3/18 1Q | FY3/19 1Q | FY3/20 1Q | FY3/21 1Q | YoY |
| Energy | 1,324 | 1,182 | 1,489 | 1,972 | 32.4% |
| Information and communications | 774 | 724 | 1,217 | 1,110 | -8.8% |
| CATV | 875 | 1,194 | 1,286 | 1,367 | 6.3% |
| Construction equipment and real estate | 90 | 213 | 213 | 233 | 9.4% |
| Aqua | 56 | 96 | 169 | 271 | 60.4% |
| Other businesses and adjustments | -969 | -1,022 | -1,145 | -1,171 | - |
| Total | 2,152 | 2,390 | 3,231 | 3,783 | 17.1% |

Note: Values are prior to allocating indirect costs and other expenses
 Source: Prepared by FISCO from the Company's results briefing materials

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Result trends

Customer numbers by key services

| | End of FY3/18 1Q | End of FY3/19 1Q | End of FY3/20 1Q | End of FY3/20 4Q | End of FY3/21 1Q | YoY change |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------|
| Energy | 645 | 664 | 687 | 713 | 718 | 31 |
| Information and communications | 1,057 | 1,035 | 992 | 973 | 971 | -21 |
| ISP | 817 | 778 | 736 | 713 | 711 | -25 |
| (Existing ISP and related services) | 507 | 451 | 411 | 389 | 383 | -28 |
| (Hikari Collaboration) | 310 | 327 | 326 | 324 | 328 | 2 |
| LIBMO | 8 | 32 | 42 | 48 | 50 | 8 |
| Mobile | 232 | 225 | 214 | 212 | 211 | -3 |
| CATV | 738 | 1,039 | 1,069 | 1,154 | 1,161 | 92 |
| Aqua | 138 | 151 | 157 | 161 | 159 | 2 |
| Security | 17 | 17 | 17 | 16 | 16 | -1 |
| Total | 2,570 | 2,883 | 2,907 | 3,003 | 3,012 | 105 |

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

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

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

The energy business reported ¥17,634mn in net sales (down 5.1% YoY) and ¥1,972mn in operating profit (up 32.4%; prior to allocating indirect costs and other expenses and hence different than the calculation method in the financial results (same below)). In the LP gas business, the number of customers rose by 26,000 YoY to 657,000 customers and household sales volume climbed 7%. Net sales, however, slipped 4.2% YoY to ¥14,796mn due to just over 2% decline in the sales unit prices and weaker commercial and industrial sales volumes due to the COVID-19 situation. Meanwhile, operating profit achieved a double-digit gain on improved profit margin with lower procurement costs, decline in customer acquisition costs, and other positive trends.

The Company opened new sales sites at the end of June 2020 in Kasugai (Aichi Prefecture) and Yokkaichi (Mie Prefecture) with the aim of broadening sales area coverage. Since 2015, it has incrementally added sales sites in Southern Tohoku, Tokai, Okayama, and Fukuoka in order to expand LP gas business*. It intends to focus on increasing market shares in existing areas and new sales areas for the time being. It added 5,000 customers versus end-FY3/20, including steady growth in new sales areas with acquisition of 2,000 customers that put volume at 45,000 customers.

* 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, Kyushu in 2018, Tsu in 2019, and Kasugai and Yokkaichi in June 2020.

In the city gas business, the Company started business in Nikaho (Akita Prefecture), a newly acquired site, in April 2020. This arrangement raised customer volume by 5,000 customers YoY to 61,000 customers. However, sales dropped 9.4% YoY to ¥2,837mn because sales unit prices decreased due to the system to adjust raw-materials costs. The Nikaho business provided about ¥90mn in sales, and this means that sales were down 12% in existing areas.

(2) Information and communications business (previously information and communication services)

The information and communications business posted ¥12,650mn in net sales (down 1.1% YoY) and ¥1,110mn in operating profit (down 8.8%). Sales and profit slipped in a second straight quarter. While the corporate business sustained sales and profit gains, weaker income in the consumer business took a toll.

Result trends

In the consumer business, sales fell 9.7% YoY to ¥6,586mn due to decline in ISP customer volume amid tougher competition with major telecom carriers. Operating profit appears to have dropped ¥300mn because of the setback in sales and a rise in customer acquisition costs. ISP customer volume was down by 25,000 customers YoY and 2,000 customers versus end-FY3/20 to 711,000 customers. Hikari Collaboration, however, switched to a recovery with increases of 2,000 customers YoY and 4,000 customers versus end-FY3/20 to 328,000 customers. FISCO thinks main drivers of the upward trend were progress in sales expansion through broadened regional scope of bundled sales with LIBMO and other offerings launched at major consumer electronics retailers in certain areas from January 2020 and recruitment of telework demand that has risen in the COVID-19 environment. Also, the number of LIBMO (low-cost mobile service/SIM) customers climbed by 8,000 customers YoY and 2,000 customers versus end-FY3/20 to 50,000 customers thanks to roll out of a high-capacity (30GB) low-cost plan in May 2020 and success in bundled sales with Hikari Collaboration.

In the corporate business, meanwhile, sales rose 10.2% YoY to ¥6,063mn, sustaining double-digit growth, and operating profit also appears to have increased by about ¥160mn. Consigned system development slipped to a single-digit decline (YoY) in orders value because of COVID-19 impact. Recurring business, however, was upbeat with recruitment of cloud service and telework demand and other favorable trends.

(3) CATV business

The CATV business had ¥8,226mn in net sales (up 6.3% YoY) and ¥1,367mn in operating profit (up 6.3%). Sales at SENDAI CATV Co., Ltd., which the Company acquired as a subsidiary in March 2020, added ¥248mn (there was not impact on operating profit after the amortization of goodwill). Sales rose 3.1% without this factor.

Despite constraints on sales activities due to COVID-19 impact, contract volume increased by 92,000 contracts YoY (including 57,000 from SENDAI CATV) and 7,000 contracts versus end-FY3/20 to 1,161,000 contracts with support from smartphone bundling discounts through collaboration with major mobile carriers and other efforts. Broadcast service contracts rose by 73,000 contracts YoY and 2,000 contracts versus end-FY3/20 to 864,000 contracts, and communication service contracts climbed by 19,000 contracts and 5,000 contracts respectively to 297,000 contracts.

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

The construction equipment and real estate business had ¥3,819mn in net sales (up 1.1% YoY) and ¥233mn in operating profit (up 9.4%). Additions from Nissan Tri-Star Construction, Inc., which the Company acquired as a subsidiary in September 2019, facilitated higher sales and profits. Since this subsidiary provided ¥280mn in sales and ¥30mn in operating profit after the amortization of goodwill, sales and profits from the Company's existing business hence slightly declined. FISCO thinks the main setback was weaker construction demand due to COVID-19.

Torrential rainfall in July 2020 caused river flooding and national road collapses in Gero (Gifu Prefecture), where Nissan Tri-Star Construction has its headquarters, and Nissan Tri-Star Construction booked orders for some of the area's reconstruction projects.

(5) Aqua business

The Aqua business recorded ¥1,896mn in net sales (up 5.4% YoY) and ¥271mn in operating profit (up 60.4%). Customer volume rose by 2,000 customers YoY, though fell 2,000 customers versus end-FY3/20, to 159,000 customers as COVID-19 impact curtailed sales at large retail facilities, an important channel for new customer recruitment. Nevertheless, sales were still higher due to increase in consumption volume per contract household driven by "stay home" demand. Profit received boosts from higher sales and decline in customer acquisition costs.

Result trends

The Company started utilization of D-sapiens, a DMP* that is the basis for its ABCIR+S strategy, in the Aqua business from FY3/21 1Q. D-sapiens uses AI to analyze customers' behavior histories (online history, transaction history, inquiry history, etc.), which makes it possible to predict with a high degree of accuracy customers' behavior patterns, such as to discover potential demand and signs of contract cancellations. Based on this prediction data, the Company will propose those services to customers that meet their needs on the optimal timing and using the optimal method, which will lead to acquisitions of new contracts. It is also expected to have the effect of preventing contract cancellations, as customers showing signs of cancelling a contract will be approached before they cancel. Use in the Aqua business has confirmed some success in early discovery of signs of contract cancellations, based on customers' transaction history and other data, and prevention of cancellations. Thanks to this success, the Company plans to enlist D-sapiens to prevent contract cancellations and promote sales of other products in consumer information and communication services business too from FY3/21 2Q.

* DMP refers to the platform for the integrated management and analysis of Big Data accumulated on the various servers on the Internet and log data for its own website, to ultimately realize the optimization of the action plan, including the distribution of advertisements.

(6) Other business

Others business reported ¥885mn in net sales (down 20.7% YoY). Breaking this down, in the nursing care business, sales rose to ¥323mn (up 13.1%), with the acquisition of Tender Co., Ltd., which operates a serviced senior residence (19 rooms), in the previous fiscal year. But in the shipbuilding and repairs business, they decreased to ¥324mn (down 9.1%) because of decline in the volume of ship repair work, while in the wedding ceremony business, they dropped sharply to ¥27mn (down 89.9%), due to temporary closures following the state of emergency declaration and other impacts. The segment's operating loss, including internal adjustments, was ¥1,171mn (compared to a loss of ¥1,145mn in the same period in the previous fiscal year).

■ Outlook

Targets consecutive all-time high profits in FY3/21 while also investing in building the growth foundation

1. Outlook for FY3/21 consolidated performance

For the FY3/21 consolidated results, the Company retained its initial forecasts that expects 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. These targets constitute all-time highs in net sales in a fourth straight fiscal year and profits in a third consecutive year. In addition to completing the Innovation Plan 2020 "JUMP" (IP20) medium-term management plan, FY3/21 is positioned as an important one in order to work to establish the foundations for the next medium-term management plan.

The Company hopes to drive the medium- to long-term growth of the Group by steadily accumulating monthly-billing revenue through increase in continuous-transaction customer volume (it targets an increase of 102,000 customers YoY to 3,105,000 customers) and by pursuing expansion of continuous-transaction customer volume, further progress in M&A, implementation of ABCIR+S, and even deeper TLC. At the segment level, it aims to increase sales in all businesses and raise operating profit mainly on gains in core businesses: energy, information and communications, and CATV.

Outlook

Outlook for FY3/21

| | FY3/20 | | FY3/21 | | |
|---|---------|------------|----------|------------|------|
| | Results | % of sales | Forecast | % of sales | YoY |
| Net sales | 195,952 | - | 205,300 | - | 4.8% |
| Operating profit | 14,224 | 7.3% | 15,000 | 7.3% | 5.5% |
| Recurring profit | 14,479 | 7.4% | 14,870 | 7.2% | 2.7% |
| Net income attributable to owners of the parent | 8,241 | 4.2% | 8,460 | 4.1% | 2.7% |
| Net income per share (¥) | 62.93 | | 64.60 | | 2.7% |
| Number of continuous-transaction customers (thousand) | 3,003 | | 3,105 | | 3.4% |

(¥mn)

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

The results forecasts for the main businesses are described below.

(1) Energy business

In the energy business, the Company forecasts increases (YoY) of 2% in net sales and 9% in operating profit, as expansion of customer volume offsets decline in the sales unit prices. It also projects continuation of an upward trend in profit during 2Q with margin roughly on par with the 1Q level, even with the prospect of decline in the sales unit prices, thanks to a drop in procurement costs too.

The Company expects customer volume in the LP gas business to rise by 51,000 customers versus end-FY3/20 to 703,000 customers. Since it only added 5,000 customers in 1Q, management hopes to realize the plan target through acquisitions in commercial zones that are lagging and increase in customer acquisition costs from 2Q. It factors in acquisition of 3,000 customers from new sites in Kasugai and Yokkaichi 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 customers. However, as the figure at the end of the previous period included the addition of 5,000 customers in Nikaho (Akita Prefecture) for which a business was started from April 2020, in actuality, the number of customers will increase 9% YoY. There is also a possibility of sales decline depending on trends in the sales unit prices.

(2) Information and communications business

In the information and communications business, the Company projects gains (YoY) of 2% in net sales and 5% in operating profit. It thinks expansion of corporate business should more than counter decline in consumer business, just as in 1Q.

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 customers. Breaking this down, they will decrease 21,000 for existing ISP and related services to 368,000 customers, they will increase 13,000 for the Hikari Collaboration to 337,000 customers, they will increase 15,000 for LIBMO to 63,000 customers, and they will decrease 5,000 for mobile to 207,000 customers. The Company aims to recruit customers in Hikari Collaboration by focusing on bundled sales with other products. For LIBMO also, the aim is to increase the number of contracts through conducting set sales with the Hikari Collaboration and strengthening online advertising. The outlook is that profits will decrease due to the effects of the lower sales and also the increase in customer acquisition costs.

Outlook

Conversely, in the corporate business, the plan is for sales and profits to continue to increase from the growth in demand for network connection services and Cloud-system builds, which are benefiting from the growth of the Cloud services market, and also for outsourced systems development. As mentioned above, however, COVID-19 impact has stalled orders in the consigned system development. The Company hence forecasts a switch to decline in net sales (YoY) in FY3/21 2Q (July to September 2020). There is a possibility of falling short of the full fiscal year forecasts depending on COVID-19 trends.

(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 on the end of the previous fiscal period to 1,191,000 customers. 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 the 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 increase in depreciation costs. Group companies are currently investing in optical facilities, and the plan budgets a rise in capital investments from ¥5.3bn in FY3/20 to ¥6.7bn. The Company also announced its plan to merge Chiba-based Ichihara Community Network Television Corporation and East Communications Company Limited in October 2020 for the purpose of improving sales framework efficiency and reducing business operation costs. It only expects a minor impact on FY3/21 consolidated results.

In the construction equipment and real estate business, the Company projects increases (YoY) of 15% in net sales and 4% in operating profit. This outlook factors in full-year contribution from Nissan Tri-Star Construction results and recovery in demand for existing businesses that softened in the second half of FY3/20 due to the consumption tax hike. Nevertheless, orders were sluggish in FY3/21 1Q due to COVID-19 impact, and FISCO sees risk of a shortfall in segment net sales.

In the Aqua business, the Company expects a 6% YoY increase in net sales but decline in operating profit. It aims to expand customer volume to 172,000 customers, an increase of 11,000 customers versus end-FY3/20, on stronger sales activities at large retail facilities and other locations in major cities. Higher customer acquisition costs are the main source of profit decline. However, it appears the Company is still not sufficiently carrying out sales promotions at retail facilities, even since July, because of COVID-19 impact. This means that customer volume is likely to miss the period-start goal. Profit, meanwhile, might increase because of lower customer acquisition costs.

(4) Update on initiatives in the new business

As a new business, the Company is considering provision of healthcare services, including for health and preventive medicine. It newly established the Healthcare Business Planning Office in April 2020 and has been conducting a demand survey for the new business since then. It is looking at business opportunities in two areas, cancer and lifestyle-related diseases. For cancer, it envisages provision of a genetic testing service, using genetic analysis techniques to determine the risk of developing cancer in the future and its early detection. Also, in the lifestyle-related diseases field, it anticipates services for a health-promotion program that utilizes technologies such as IoT and a smartphone app to improve lifestyle-related problems, and a program to maintain and strengthen bodily functions through evaluating scoring for cognitive strength and muscular strength. It hopes to announce one of these services during FY3/21.

Announced a strategic alliance in the MaaS field and investments in LP gas sales companies in Vietnam

2. Topics

The Company announced the following three developments as part of its efforts to achieve the medium- to long-term growth.

(1) Strategic business alliance with Ekitan

In June 2020, subsidiary TOKAI Communications announced the conclusion of a basic agreement with Ekitan for a strategic alliance to cultivate business mainly in the MaaS field. Specifically, the alliance aims to develop a new train-transfer engine that complies with MaaS and offer it as a service through joint development efforts. It also intends to promote joint sales and develop peripheral system solutions for transportation firms related to the MaaS engine and MaaS operators, develop solution services for tourism-type MaaS and conduct joint sales, and build data sensors and a service platform for the MaaS engine.

(2) Strategic business alliance with ZENRIN DataCom

In June 2020, TOKAI Communications and ZENRIN DataCom announced conclusion of a memorandum of agreement on a strategic business alliance related to business initiatives mainly in the MaaS field. Specific initiatives under consideration are linking D-sapiens with the position information platform using map data held by ZENRIN DataCom, generating marketing data and demand forecast data that covers the full range of mobility, and building a MaaS platform and jointly developing solutions for use by companies, local government entities, transportation firms, and MaaS operators. Another aim is realizing improved operational efficiency and enhanced productivity for the Group's sales and delivery operations by utilizing ZENRIN DataCom's service.

(3) Investment in a major LP gas sales firm in Vietnam

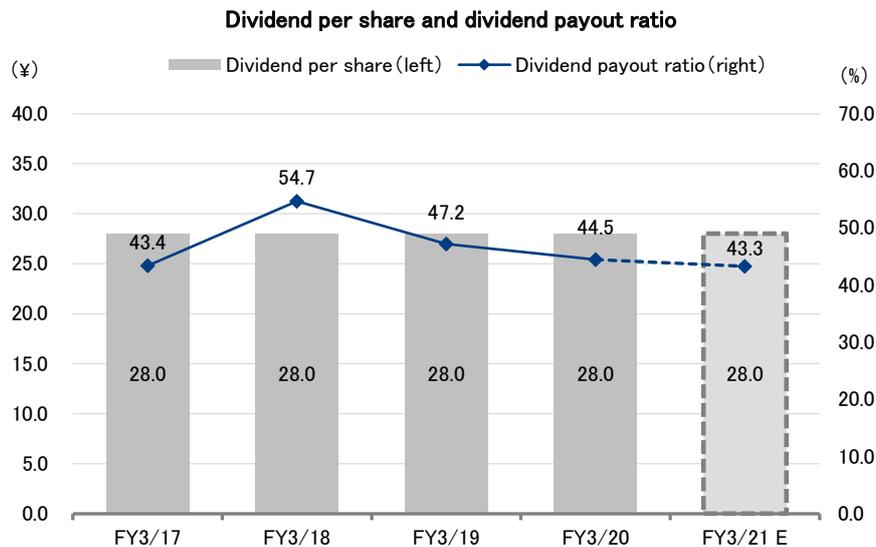
In June 2020, the Company's subsidiary TOKAI announced the acquisition 45% stakes each in subsidiaries MIEN TRUNG GAS JOINT STOCK COMPANY and V-GAS PETROLEUM CORPORATION of PETRO CENTER CORPORATION, a major LP gas sales firm in Vietnam, and handling of these entities as equity-method affiliates. These two companies conduct LP gas wholesale businesses in central and southern Vietnam. FISCO thinks the combined investment was over ¥2bn. Demand for LP gas is rising annually along with economic growth in Vietnam, making this an attractive market. While the Company will not be directly involved in LP gas business in Vietnam, it hopes to contribute to higher corporate value for the investees and further advances of the LP gas market in Vietnam via the investment.

Shareholder return policy

Annual return on investment of 3% to 7% 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 ¥992 on August 3, 2020), it is in the range of 3.8% to 7.0% (depending on the selection of either a QUO card or an Aqua product as the gift).



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



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