

# TOKAI Holdings Corporation

**3167**

Tokyo Stock Exchange Prime Market

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## Summary

### Results steady with lower profit from the energy business being offset by higher profit in the information and communications business

TOKAI Holdings Corporation <3167> (hereafter, also “the Company”), based in Shizuoka Prefecture, is a comprehensive lifestyle infrastructure company that is developing “energy and lifestyle-related business,” primarily the provision of liquefied petroleum (LP) gas, and “information and communications business.” Based on its strengths of “customer power” with over 3.30mn customers, “comprehensive capabilities” to provide a wide range of products and services in a one-stop manner, and “marketing abilities” to immediately address customer needs, it continues to steadily grow.

#### 1. FY3/24 1H results overview

In FY3/24 1H (April–September 2023) consolidated results, net sales increased 1.1% year on year (YoY) to ¥105,226mn, while operating profit was flat at ¥4,254mn. Net sales set a record high for the third consecutive term thanks to an increase in the number of customers in the energy business and CATV business and to expansion in the recurring revenue business for corporate clients within the information and communications business. With regard to profits, residential gas sales volume declined due to higher temperatures and personnel expenses increased, which had an impact, but with the increase in customers in the energy business, the number of monthly charge accounts increased, and there were lower customer acquisition costs in the information and communications business for consumers and in the Aqua business, which absorbed the increases. Compared with the Company’s forecasts, operating profit was slightly lower on account of lower residential gas sales volume from high temperatures in the energy business, but this is being offset by an upswing in the information and communications business and CATV business, so progress is being made that is nearly in line with the Company’s forecasts. The number of continuing customers at the end of FY3/24 2Q stood at 3,328,000, an increase of 85,000 YoY and 28,000 from the end of FY3/23.

#### 2. Outlook for FY3/24

For FY3/24 consolidated results, the Company has maintained its initial forecast of net sales growth of 4.3% YoY to ¥240,000mn and operating profit growth of 0.5% to ¥15,000mn. In the energy business, there could be a decrease in residential sales volume due to higher-than-average temperatures, but raw material prices are being contracted at levels below forecasts, so it is possible the Company will achieve its profit forecast. In addition, in the construction equipment and real estate business, which had stagnated on slow orders, is expected to see a recovery in 2H. In the information and communications business for corporations, in October 2023, the Company was awarded the highest grade, AWS Premium Service Partner, in the AWS Partner Network, a partner certification program of Amazon Web Services (AWS), becoming the 14th company to receive this grade in Japan. Orders for cloud building projects are expected to further expand going forward. Regarding continuing customers, the forecast was an increase of 84,000 YoY to 3,384,000, but progress has been a bit slow through 2Q. In 2H, the Company intends to strengthen customer acquisition, centering on LP gas and information and communication services, to thereby achieve its plans.

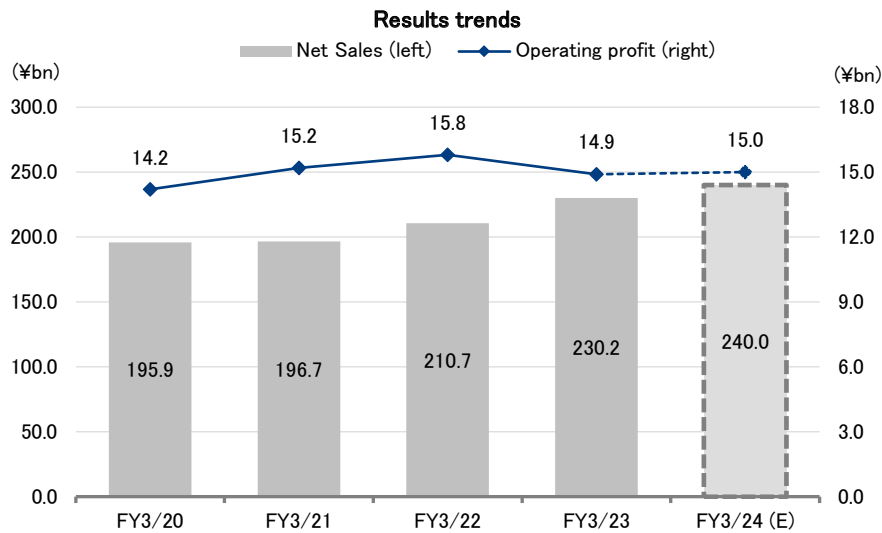
Summary

**3. Progress on the new medium-term management plan**

The Medium-Term Management Plan 2025 announced in May 2023 seeks sustainable growth by expanding the customer base while strengthening human capital investment and provided services that allow for diverse lifestyles and lead to decarbonization. Numerical management targets for FY3/26, the final year of the plan, are net sales of ¥260.0bn, operating profit of ¥17.5bn (for average annual growth rates of 4.1% and 5.5%, respectively) and 3,570,000 continuing customers for solid growth. As for the Company’s DX strategy, it will improve productivity by increasing the percentage of smart meters used in the LP gas business from 65% as of the end of September 2023 to 100% by the end of March 2026. In addition, it will expand the number of registrations on its membership app, a tool for strengthening digital marketing, from the current level of 365,000 registrations to 1.0mn. The Company intends to expand customer LTV by making optimal proposals with the optimal timing and sharing the latest information through the membership app. In its M&A strategy as well, it will continue to activity consider partners in the LP gas and CATV business, and will work for further growth as a comprehensive lifestyle infrastructure company by expanding service provision and its service area.

**Key Points**

- In FY3/24 1H, set a record high for net sales for the third consecutive term; operating profit was up by a small margin
- The impact of high temperatures on the LP gas business was absorbed by lower purchasing prices, so results for FY3/24 are expected to meet initial forecasts
- The Company is seeking solid growth, having set goals for FY3/26 of ¥260.0bn for net sales and ¥17.5bn for operating profit
- Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%, combined with perks and gifts to shareholders for a total investment yield level of 4% to 7%



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

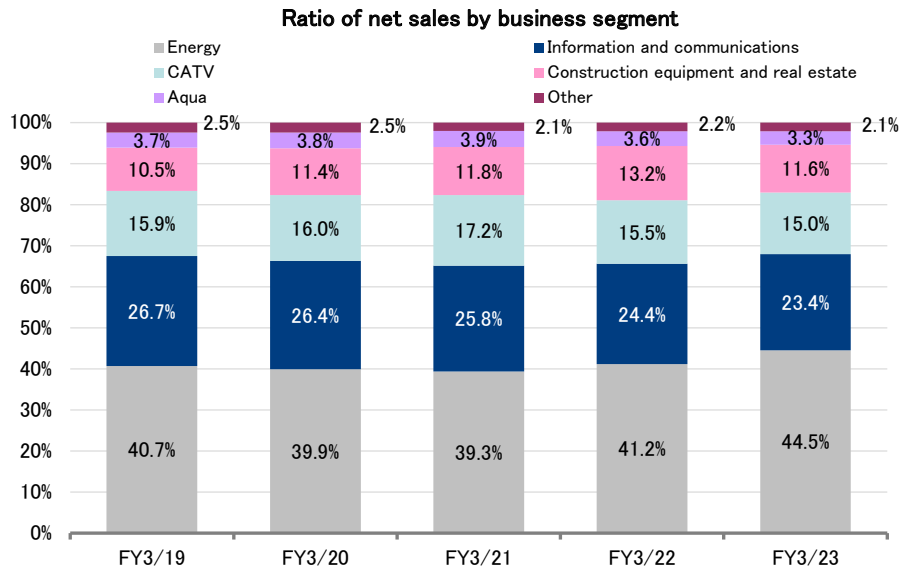
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## Business overview

**Along with lifestyle and infrastructure services, including LP gas, information and communications, and CATV, also developing information and communication services for corporations and the construction equipment and real estate business**

Based in Shizuoka Prefecture, the Company is expanding its two main businesses, “energy and lifestyle-related business,” primarily the provision of liquefied petroleum (LP) gas, and “information and communications business.” It provides a complete range of services for everyday life under a one stop model and while deepening its connections with its customers, their local communities, society, and the global environment, it is striving to enrich people’s lives and to contribute to the development of local communities and to the conservation of the global environment, and aims to grow into Japan’s leading company for comprehensive lifestyle services.

Currently, the Company discloses results for six business segments: the energy business, the information and communications business, the CATV business, the construction equipment and real estate business, the Aqua business, and other businesses. Looking at the sales structure by segment for FY3/23 results, the Company’s original business, the energy business accounted for 44.5% of sales, the information and communications business for 23.4%, and the CATV business for 15.0%. These three mainstay businesses accounted for over 80% of net sales, and there have not been significant changes in trends over the past five years.



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

Business overview

### 1. Energy business

In this business, about 80% of net sales are provided by the LP gas business and about 20% by the city gas business. The mainstay LP gas business is developed by TOKAI Corporation, primarily for homes and businesses and wholesales some of its products. The service areas are mainly in the Shizuoka and Kanto regions, but since 2015 it has also gradually expanded into other areas including the south Tohoku, Chubu/Tokai, Chugoku, and Kyushu areas, promoting expansion of its customer base. As of the end of September 2023, it had 762,000 contracts, and in direct sales, it ranked third after Iwatani Corporation <8088> and Nippon Gas <8174>. In terms of market share, it is the leader in Shizuoka, its home territory, with around 20%, while it has a share of just under 10% in the highly competitive Kanto region, putting it in second place. As there are approximately 20mn households nationwide that use LP gas, its nationwide market share is still at the level of just over 3%, and going forward there remains room for it to grow its share, including by expanding sales areas and conducting M&A. As the LP gas distribution industry is dominated by MSMEs, which are increasingly being consolidated by large-cap companies\* due to the hard business environment, we at FISCO believe the Company also has a lot of room to expand its market share.

\* LP gas providers decreased by around 21,000 in 2012 to around 16,000 in 2022.

For the city gas business, TOKAI GAS CORPORATION sells city gas in Yaizu City, Fujieda City, and Shimada City in Shizuoka Prefecture, and with the liberalization of retail gas sales in April 2017, the Company has been expanding its sales area, taking over the city gas businesses previously run by municipalities. Specifically, it has taken over the city gas businesses in Shimonita Town, Gunma Prefecture (April 2019) and Nikaho City in Akita Prefecture (April 2020). The number of customers was 75,000 as of the end of September 2023. There are 193 city gas providers (175 private and 18 public) in Japan, and excluding the four major companies, all are small and medium-sized companies, so the Company is considering to continue to expand its operational area through M&A.

### 2. Information and communications business

The information and communications business, which is conducted by TOKAI Communications Corporation, is comprised of the consumer ISP (Internet service provider) business and mobile business (sales agents of mobile phones), and a business to provide communication lines, data center services, cloud system development support and consigned systems development for corporations. Looking at the percentages of total net sales for FY3/24 1H results, the percentage of corporate business is trending upward, with an approximately 44% contribution from consumer business and approximately 56% from corporate business. The majority of operating profit also comes from corporate customers.

The ISP business provides the “@T COM” brand for the nationwide service area and the TOKAI Network Club (TNC) brand for the Shizuoka Prefecture service area, and it has the leading share within Shizuoka Prefecture of approximately 20%. In addition, from February 2015 it launched the Hikari Collaboration service (@T COM Hikari and TNC Hikari services), in which it receives wholesale provision of optical lines from NTT <9432> and provides its own optical (hikari) Internet connection service, as well as currently offering plans that include services from major mobile carriers. Also, in 2017 it also started sales of LIBMO, which is an inexpensive SIM / smartphone that uses MVNO\*, and as of the end of September 2023, the Company had 400,000 customers that include those using its existing ISP service, 368,000 customers using its Hikari Collaboration service, and 75,000 customers using its LIBMO service. The number of customers is increasing, albeit slowly, due to the increase in Hikari Collaboration and other services.

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

Business overview

The mobile business operates 14 mobile phone stores, mainly within Shizuoka Prefecture, as a sales agency of Softbank Corp. <9434>, and as of the end of September 2023, it had 174,000 customers, continuing the downward trend from the peak of 236,000 customers in FY3/16. It also operates 7 iCracked Store stores, which provide iPhone repair services, in Shizuoka Prefecture.

### 3. CATV business

In the CATV business, the Company has gradually expanded the service area through its M&A strategy. Recently, it made Okinawa Cable Network Inc. into a Group company in October 2022. It provides services in Tokyo and seven prefectures: Shizuoka, Kanagawa, Chiba, Nagano, Okayama, Miyagi, and Okinawa (10 Group companies) as of the end of September 2023. The number of customers stood at 916,000 for broadcasting services and 384,000 for communications services, bringing the total to 1,300,000 customers, continuing a mild increasing trend. The number of contracts for CATV services in Japan has reached 26,900,000 in total (as of the end of March 2022) including communications services. In the industry, the J:COM (Jupiter Telecommunications Co., Ltd.) Group holds a market share of just over 50% based on the number of subscribing households. The second-largest CATV company and smaller players have market shares in the single digits. Therefore, the Company's strategy is to continue increasing its market share through M&A going forward.

### 4. Construction equipment and real estate business

In the construction equipment and real estate business, TOKAI designs and constructs detached houses, collective housing, stores, and office buildings, provides building management services, sells housing equipment and appliances, and develops, buys and sells real estate, while TOKAI and TOKAI GAS are engaged in the renovation business. The Company is also proactively promoting M&A. Starting with making Nissan Tri Star Construction, Inc., a general construction company located in Gifu Prefecture, a subsidiary in September 2019, the Company moved on to make additional moves, including making Chuo Denki Construction Co., Ltd., which is engaged in the electrical equipment construction business in Aichi Prefecture, a subsidiary in August 2020, making Inoue Technica Co., Ltd., which operates a building maintenance business in Shizuoka Prefecture, a subsidiary in November 2020, and making Marco Polo Inc., which engages in the large-scale repair and renovation business for buildings in the Tokai area, a subsidiary in April 2021, and making Wood Recycle Co., Ltd., which is engaged in industrial waste treatment and woodchip manufacturing business in Gifu Prefecture, a subsidiary in May 2022. By mobilizing these Group companies' resources, the Company's strategy is to expand its business scale further as a general construction company in the Tokai area moving ahead.

### 5. Aqua business

In the Aqua business (bottled water home delivery business), TOKAI launched the Delicious Water Home Delivery returnable (using returnable bottles) service in 2007 in Shizuoka Prefecture, and since 2011, it has been providing its brand name water product Ulunom as a one-way (using disposable bottles) service in areas other than Shizuoka Prefecture. It has two bottle manufacturing plants within Shizuoka Prefecture for Mt. Fuji natural water, and at the end of September 2023, it had 166,000 customers. At the end of 2022, the number of customers in the industry as a whole was 4.82mn. The annual market scale is ¥211.5bn, and the Company's share is around 3% in terms of both the number of customers and sales (approximately 50% share in Shizuoka Prefecture). Additionally, in April 2023, the Company began a new initiative selling "Shizukuria,"\* a water dispenser that purifies tap water using a built-in filter.

| \* The water server rental fee is 3,300 yen/month (tax included) and filters are replaced free of charge around every half year. |

## 6. Other business

Other businesses include a nursing care business operated by TOKAI LIFE PLUS CORPORATION, a wedding ceremony business by TOKAI City Service Corporation, and a shipbuilding and repairs business by Tokaizosen-unyu Corporation. The Company launched the nursing care business in 2011, and as of the end of September 2023, it operated six day-service facilities, a short-stay facility, and a paid-for nursing home in Shizuoka Prefecture. In addition, it has opened two care plan centers. In the wedding ceremony business, the Company operates GRANDAIR Bouquet TOKAI in the Aoi Tower in front of JR Shizuoka Station.

# Result trends

## In FY3/24 1H, set a record high for net sales for the third consecutive term; operating profit was up by a small margin

### 1. FY3/24 1H results overview

In FY3/24 1H consolidated results, net sales increased 1.1% YoY to ¥105,226mn, operating profit was flat at ¥4,254mn, recurring profit increased 79.1% to ¥4,355mn, and net income attributable to owners of the parent increased 1,403.4% to ¥2,219mn. Net sales set a new record high for the third consecutive term as declines in the energy business and construction equipment and real estate business were offset by increases in the information and communications business and CATV business. Regarding operating profit, lower profit from the energy business was offset by profit increases in the information and communications business, CATV business, and Aqua business, so there was a slight increase. The Company posted a share of loss of entities accounted for using equity method of ¥1,963mn due to impairment of goodwill of an equity-method affiliate in Vietnam, but this amount was only ¥37mn in FY3/24 1H, so there was a major decrease in a share of loss of entities accounted for using equity method, which resulted in major gains for recurring profit and net income attributable to owners of the parent. The number of continuing customers at the end of FY3/24 2Q stood at 3,328,000, an increase of 85,000 YoY and 28,000 from the end of FY3/23, so there has been steady increase. LP gas and CATV increased as did Hikari Collaboration and LIBMO in information and communications.

With regard to progress against the Company's forecast, the weakness in the energy business and construction equipment and real estate led net sales to be around several billions of yen below forecasts, while operating profit was nearly in line with plans. The energy business fell short on the impact of a decline in residential LP gas volume caused by high temperatures, but this was covered by the information and communication business and CATV business.



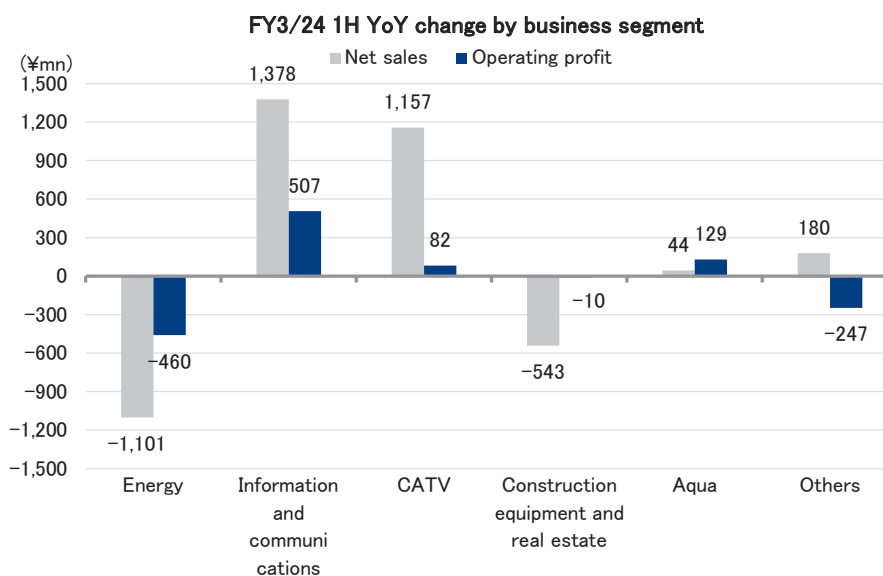
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## Result trends

## FY3/23 1H results (consolidated)

	FY3/23 1H		FY3/24 1H		YoY
	Results	% of sales	Results	% of sales	
Net sales	104,110	-	105,226	-	1.1%
Cost of sales	64,874	62.3%	64,715	61.5%	-0.2%
SG&A expenses	34,982	33.6%	36,255	34.5%	3.6%
Operating profit	4,253	4.1%	4,254	4.0%	0.0%
(Equity-method investment profit and loss)	-1,963	-	-37	-	-
Recurring profit	2,432	2.3%	4,355	4.1%	79.1%
Extraordinary income/loss	-560	-	-437	-	-
Net income attributable to owners of the parent	147	0.1%	2,219	2.1%	1403.4%
Number of continuing customers (thousand)	3,242		3,328		2.7%

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



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

## Result trends

## Number of customers by key service

	FY3/22 2Q-end	FY3/23 2Q-end	FY3/24 2Q-end	YoY change amount	(thousand) Change from previous FY-end
Energy	764	804	837	33	16
LP gas	697	731	762	31	16
City gas	67	72	75	3	0
Information and communications	779	834	843	9	2
Existing ISP and related services	386	414	400	-14	-7
Hikari Collaboration	339	358	368	10	5
LIBMO	54	62	75	13	4
CATV	1,214	1,247	1,300	53	13
Broadcast service	881	894	916	22	3
Communications service	333	354	384	30	11
Aqua	165	167	166	-1	1
Mobile	198	185	174	-11	-5
Security	16	16	16	0	0
<b>Total</b>	<b>3,125</b>	<b>3,242</b>	<b>3,328</b>	<b>85</b>	<b>28</b>

Note: The number of customers under a thousand are rounded to the nearest thousand. Information and Communications and CATV both offer communications services, and so their numbers are excluded from total figures.  
 Information and communications services (existing ISP and related services) include contracts for PC remote service support from FY3/22 4Q.

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

### (1) Energy business

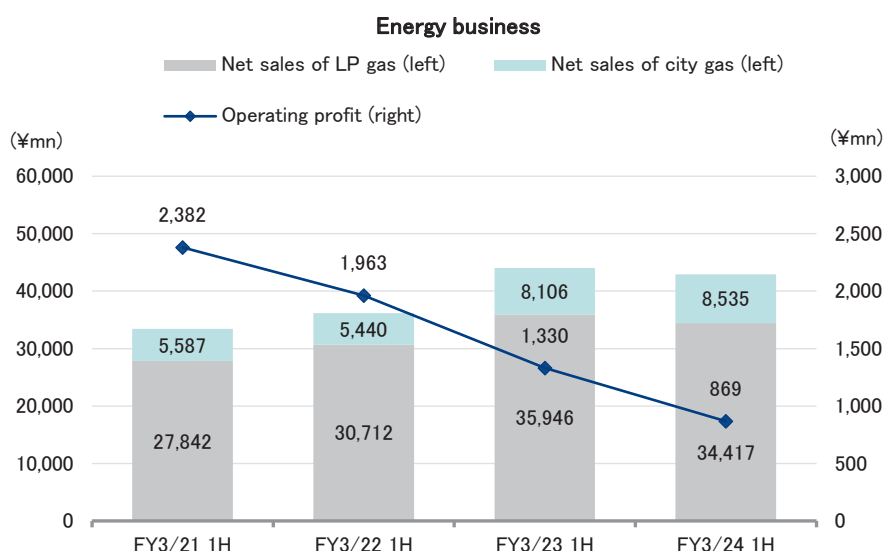
Net sales in the energy business fell by 2.5% YoY to ¥42,952mn and operating profit (operating profit before allocation of indirect costs, which is calculated differently than in the Company's financial results; the same applies below) declined 34.7% to ¥869mn. Looking at the factors behind changes in operating profit, profit increased by ¥0.18bn from an increase in monthly charge income from the steady increase in customers, but there was a decline in the volume of residential gas sales due to high temperatures, and this caused a ¥0.49bn decline in profit. Another factor was an increase of ¥0.15bn in personnel expenses from wage increases. Against forecasts, profit declined due to the impact of lower residential gas sales volume caused by high temperatures. Extremely hot weather persisted during the summer. The average temperature was 1–2°C warmer than the previous year.

Sales from the LP gas business declined by 4.3% YoY to ¥34,417mn. As of the end of 2Q, customers had increased steadily by 31,000 compared to the end of FY3/23 2Q to 762,000. The decrease in residential gas sales volume due to the high temperatures was 3%, and sales costs also fell by 2–3% linked to purchase prices, which caused net sales to decline. Sales volume for LP gas overall remained flat thanks to an increase for industrial use. The number of customers increased by 16,000 from the end of the previous fiscal year, the same pace this quarter as the previous year. Looking at the breakdown, 17,000 were new acquisitions, and 9,000 came from M&A and alliance. There were 10,000 suspensions and cancellations. By area, customers increased by 9,000 in existing areas (Kanto, Shizuoka) and by 7,000 in new areas, so the increases were steady in both. As for new sites, the Company opened an office in Ise City in August 2023, its third office in Mie Prefecture.

Result trends

In the city gas business, net sales increased by 5.3% YoY to ¥8,535mn, and the number of customers increased by 3,000 to 75,000 customers. The increase in net sales was primarily due to an increase in sales unit prices under the raw material cost adjustment system, but in 2Q alone, net sales declined 6.2% to ¥3,906mn, indicating that the effect of higher sales unit prices has run its course. The majority of the increase in customers is attributable to an increase in contracts with equity-method affiliate T&T Energy Co., Ltd.\* in the Tokai area (sales commission only recorded as sales), so the impact on profit was negligible.

\* T&T Energy was established in October 2019 as a joint venture between TEPCO Energy Partner, Incorporated (an investment ratio of 50%). The company operates a city gas and electricity retail business in the three prefectures of the Tokai region (Aichi, Gifu, and Mie prefecture).



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

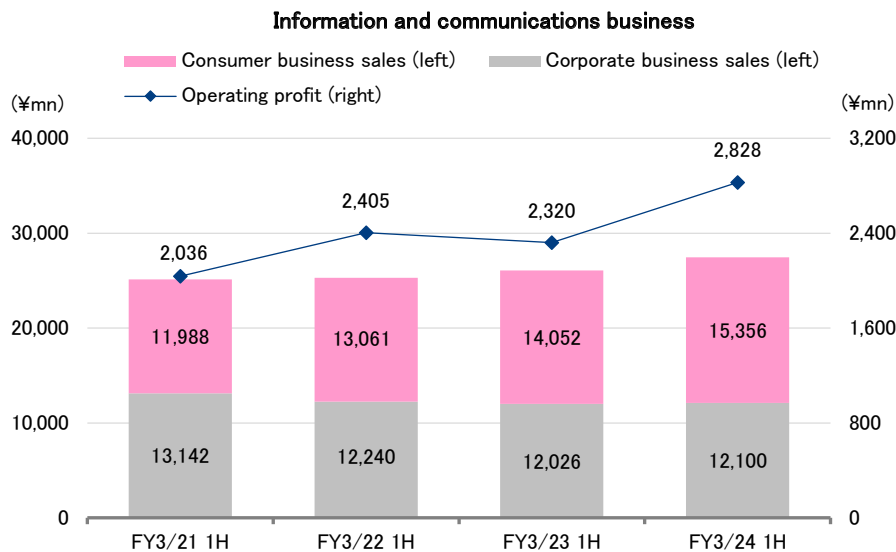
**(2) Information and communications business**

In the information and communications business, net sales increased 5.3% YoY to ¥27,457mn, while operating profit increased 21.9% to ¥2,828mn, a consecutive record high for sales and the first record high for operating profit in two years. Both net sales and operating profit exceeded the Company's forecasts.

Regarding the consumer business, net sales edged up by 0.6% YoY to ¥12,100mn for a slight increase in net sales, but operating profit made a strong gain, rising from ¥30mn at the end of FY3/23 1H to ¥512mn. There was an increase of ¥0.19bn from increased customers for broadband services like Hikari Collaboration, of ¥0.14bn from an increase in LIBMO customers, and of ¥0.15bn from revising customer acquisition routes. Regarding customer routes, Hikari Collaboration customers were acquired at an increasing rate through major mobile carriers, but sales slumped due to a decline in average revenue per user for the service. That said, there was no impact on gross profit and lower customer acquisition costs are a positive for profit. Regarding LIBMO, expanding the service menu and providing plans bundled with fixed lines had an effect on increasing customers. Looking at customer numbers as of the end of 2Q, customers fell by 14,000 to 400,000 for conventional ISP services, but increased by 10,000 customers to 368,000 for the Hikari Collaboration service, and LIBMO increased by 13,000 customers to 75,000, so in total customers increased by 9,000 to 843,000.

Result trends

Net sales from the corporate business increased by 9.3% YoY to ¥15,356mn, maintaining a strong performance. Sales from recurring revenue businesses like communication line services and cloud services expanded steadily, which helped increase sales. In addition, the system consignment development division performed well against a backdrop of robust orders. At the same time, operating profit increased ¥30mn to ¥2,316mn for a smaller gain. Profit increased by ¥0.21bn on increased sales from cloud services and others, but electricity charges increased ¥0.08bn because of electricity rate hikes, and personnel expenses increased ¥0.1bn due to wage adjustments.



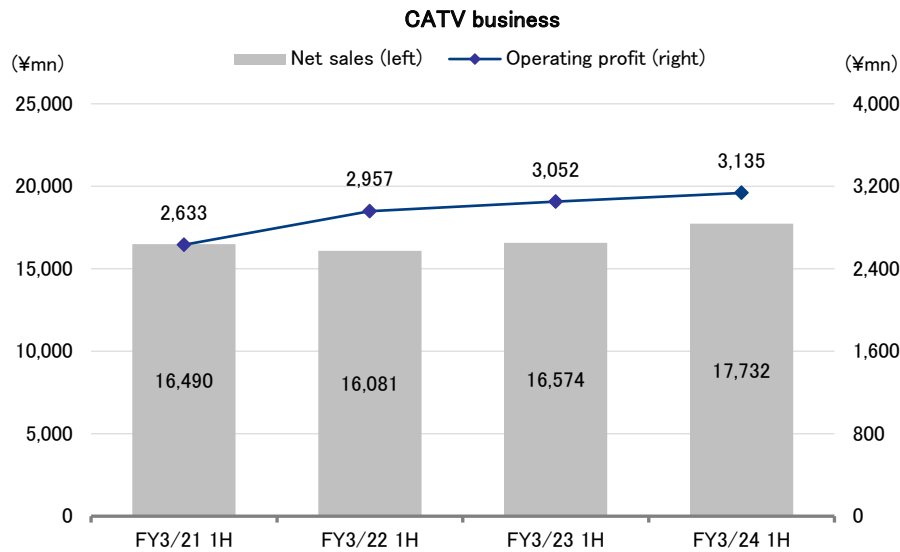
Note: Profits are prior to allocating indirect costs and other costs  
 Source: Prepared by FISCO from Company's financial results and results briefing materials

**(3) CATV business**

Sales from the CATV business increased 7.0% YoY to ¥17,732mn and operating profit increase 2.7% to 3,135mn, as new record highs were set in consecutive terms. Making Okinawa Cable Network Inc. a subsidiary in October 2022 boosted sales by around ¥0.7bn (almost no effect on operating profit), and even when excluding this factor sales grew at a steady 3%. As a local provider, the Company worked to provide local information and produce television programs, and by enhancing content in coordination with major streaming services, and actively promoting sales activities for FTTH high-speed Internet service, we steadily increased customer numbers. Customer numbers at the end of 2Q increased 22,000 to 916,000 in broadcasting services, increased 30,000 to 384,000 in communication services, and increased 53,000 to 1,300,000 overall. Compared to the end of the previous fiscal year, broadcasting services customers increased by 3,000 and communication services customers increased by 11,000. By investing in optical, the FTTH service area expanded, leading to an increase in communication services. Okinawa Cable Network also increased broadcasting services customers by 3,000 and communication services customers by 500 compared to the end of the previous term.

Regarding operating profit, profit was bolstered by ¥0.15bn from the increase in customers and ¥0.03bn from lower SG&A expense. The increases absorbed a ¥0.1bn increase in personnel expenses from wage increases. Compared to initial forecasts, profit was expected to be slightly down due to increased personnel expenses and electricity charges, but electricity charges were reined in, so profit was up slightly compared to forecasts.

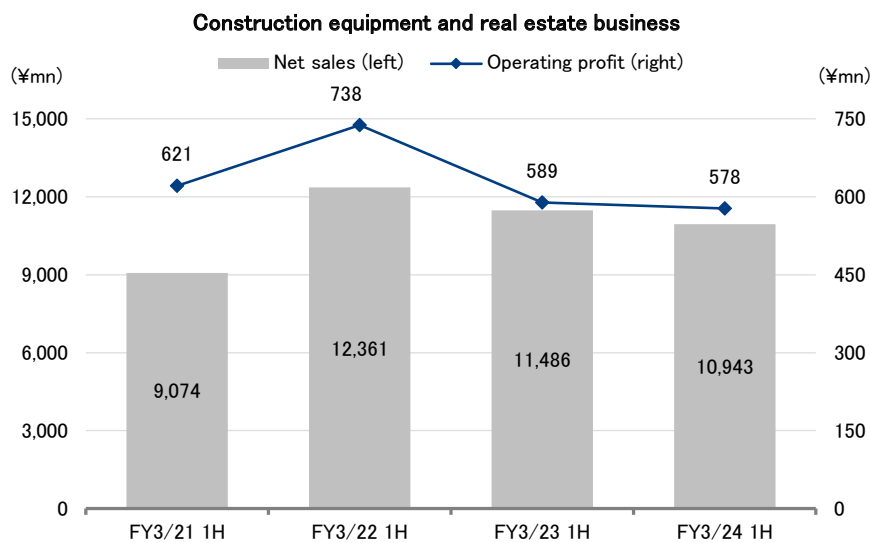
Result trends



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

**(4) Construction equipment and real estate business**

Sales from the construction equipment and real estate business dropped 4.7% YoY to ¥10,943mn, and operating profit edged down 1.9% to ¥578mn. The decline in revenue was impacted by slow orders for facilities construction projects and equipment sales. Operating profit was boosted by ¥0.11bn in the building real estate segment thanks to a strong performance from real estate leasing and building management support services. Profit was held down by ¥0.03bn in the facilitates construction segment and ¥0.04bn in the renovations segment. There was also an increase of ¥0.05bn in personnel expenses from wage hikes, which resulted in a small decrease in profit. Net sales declined by ¥1.5bn against plans due to the impact of slow orders, but profit progressed nearly in line with plans. Regarding net sales, new orders were acquired in the Chukyo area, so a recovery is expected in 2H.



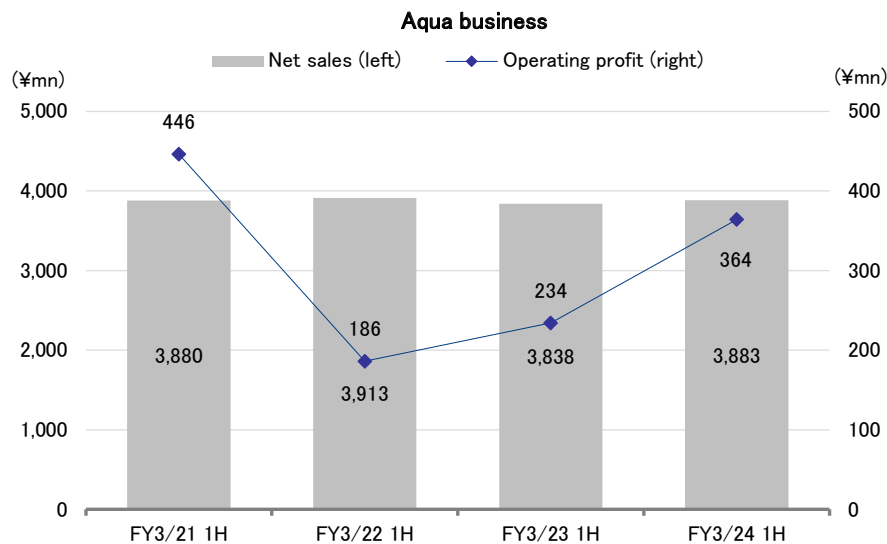
Note: Profits are prior to allocating indirect costs and other costs  
 Source: Prepared by FISCO from the Company's financial results briefing materials

Result trends

**(5) Aqua business**

In the Aqua business, net sales declined 1.2% YoY to ¥3,883mn, but operating profit rose 55.6% to ¥364mn. Customer numbers at the end of 2Q increased by 1,000 compared to FY3/23 2Q to 166,000. Compared to the end of the previous fiscal year, this represents an increase of 1,000 for two consecutive quarters, so the numbers are on the upswing. Along with event operations at large-scale commercial facilities, customers have increased via online marketing, telemarketing and other non-face-to-face channels. Looking at the factors behind operating profit growth in this business, the increase in customers accounted for ¥0.09bn and reduced customer acquisition costs and other declines accounted for ¥0.09bn. These increases absorbed the ¥0.05bn increase in personnel expenses from wage adjustments.

Regarding water supply-type purified water dispensers, which the Company began handling in April 2023, customers are starting to be acquired through Group company KURASHIKI CABLE TELEVISION Inc. Going forward we plan to promote the service primarily in western Japan and are aiming to acquire 2,000 customers in FY3/25.



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

**(6) Other businesses and adjustments**

In other businesses, net sales rose by 8.7% to ¥2,257mn. Sales in the nursing care business increased 0.4% to ¥697mn due to a recovery in the number of users in 2Q, and in the wedding ceremony business, sales increased by 37.9% to ¥549mn owing to a recovery in demand for weddings and parties. In addition, sales in the shipbuilding business rose 9.6% to ¥637mn, due to an increase in ships repaired. The segment's operating loss, including internal adjustments, was ¥3,520mn, a YoY increase of ¥246mn.

## Result trends

## The impact of high temperatures in the LP gas business is being absorbed by lower purchase prices, so FY3/24 results are expected to achieve initial forecasts

### 2. Outlook for FY3/24

For consolidated results in FY3/24, the Company is maintaining its initial forecasts. Net sales is expected to increase 4.3% YoY to ¥240,000mn, operating profit to edge up 0.5% to ¥15,000mn, recurring profit to increase by 12.9% to ¥15,000mn, and net income attributable to owners of the parent to rise 31.5% to ¥8,500mn. In the energy business, it is feared that high temperatures will negatively affect LP gas sales volumes, but the company has contracted raw materials at purchase prices lower the initial forecasts, so this is expected to offset the impact of lower sales volume. In addition, in the construction equipment and real estate business, which had a poor 1H, there is expected to be a 2H earnings recovery from new orders. And, in the information and communications business and CATV business, trends are expected to be solid, so FISCO believes it will be possible for the Company to achieve its overall results forecasts. The increase in personnel expenses of ¥1.0bn due to wage adjustment is expected to proceed according to plan, but the number of continuing customers is expected to slow somewhat compared to the initial plans of an 84,000-customer increase compared to the end of the previous fiscal year to 3,384,000. In 2H, the Company will strive to achieve its forecasts by strengthening customer acquisition centering on LP gas and information and communication services.

#### Outlook for FY3/24

	FY3/23		FY3/24		
	Results	% of sales	Company forecasts	% of sales	YoY
Net sales	230,190	-	240,000	-	4.3%
Operating profit	14,919	6.5%	15,000	6.3%	0.5%
Recurring profit	13,289	5.8%	15,000	6.3%	12.9%
Net income attributable to owners of the parent	6,465	2.8%	8,500	3.5%	31.5%
Net income per share (¥)	49.41		65.10		318%
Number of continuing customers (thousand)	3,299		3,384		2.6%

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

**TOKAI Holdings Corporation** | 29-Dec.-2023  
 3167 Tokyo Stock Exchange Prime Market | <https://www.tokaiholdings.co.jp/english/ir/>

Result trends

Results by segment

	(¥mn)					
<Net sales>	FY3/21	FY3/22	FY3/23	FY3/24 (E)	YoY	1H progress rate
Energy	77,380	86,770	102,528	103,000	0.5%	41.7%
Information and communications	50,735	51,398	53,945	57,200	6.0%	48.0%
CATV	33,745	32,572	34,500	36,000	4.3%	49.3%
Construction equipment and real estate	23,177	27,780	26,809	30,600	14.1%	35.8%
Aqua	7,622	7,629	7,529	7,800	3.6%	49.8%
Other business	4,065	4,540	4,876	5,400	10.7%	41.8%
<b>Total</b>	<b>196,726</b>	<b>210,691</b>	<b>230,190</b>	<b>240,000</b>	<b>4.3%</b>	<b>43.8%</b>

<Operating profit>	FY3/21	FY3/22	FY3/23	FY3/24 (E)	YoY	1H progress rate
Energy	8,988	8,933	7,384	7,500	1.6%	11.6%
Information and communications	4,344	4,721	5,270	5,400	2.5%	52.4%
CATV	5,205	5,852	6,184	6,000	-3.0%	52.3%
Construction equipment and real estate	2,065	2,480	2,043	2,200	7.7%	26.3%
Aqua	573	325	533	500	-6.2%	72.8%
Other business and adjustments	-5,949	-6,518	-6,497	-6,600	-	-
<b>Total</b>	<b>15,226</b>	<b>15,794</b>	<b>14,919</b>	<b>15,000</b>	<b>0.5%</b>	<b>28.4%</b>

Note: FY3/24 (E) is based on an interview with the Company

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

### (1) Energy business

In the energy business, the Company projects net sales will inch up 0.5% YoY and operating profit will rise a modest 1.6%. Regarding purchase prices and sales prices, they are both expected to be down 2–3% YoY, and the average temperature is projected to be at the same level as the previous year. Net sales might be lower than the forecast due to a decrease in residential gas sales volume due to a rise in average temperatures, but purchase costs may be lower than assumed and efforts to raise administrative efficiency through DX means that it is possible the forecasts are achieved on a profit basis.

The number of customers is expected to increase by 42,000 from the end of the previous fiscal year to 862,000. By the end of 2Q, the increase is at 16,000, so the progress rate is low, but with the spread of COVID-19 subsiding, the Company plans to make up for it in 2H with M&A and alliance negotiations that have been proceeding more easily.

### (2) Information and communications business

In the information and communications business, the Company forecasts net sales growth of 6.0% YoY and operating profit growth of 2.5%. Progress rates as of 2Q were 48.0% for net sales and 52.4% for operating profit, so good progress is being made on a profit basis. Regarding net sales, the Company will continue to expand to corporate customers centering on recurring revenue businesses, and for consumers as well, it is expecting a slight increase. Operating profit is expected to remain flat for the full year as corporate sales add ¥0.2bn in profit, while there will also be a ¥0.2bn increase in expenses related to electricity rate hikes. For consumers, an increase in net sales is expected to add ¥0.3bn to profit, while an increase in personnel expenses from wage adjustments will be ¥0.2bn, so the Company was assuming a ¥0.1bn increase in profit, but in 1H there was a ¥0.5bn increase, beating expectations. At the same time, in 2H, more customers will be acquired, so added acquisition costs are possible.

For corporate customers, in October 2023, the Company became the 14th company in Japan to earn the AWS Premium Tier Service Partner, the highest level in the AWS Partner Network, a partner certification system of AWS, so further expansion in orders for cloud construction projects is expected. In addition, having earned this highest rank of certification, the Company is setting its sights on Asian expansion, and it is possible that it will expand the business in the future through alliances with local companies.



#### Result trends

#### (3) CATV business

In the CATV business, the Company forecasts net sales will rise 4.3% YoY, while operating profit falls 3.0%. Progress rates as of 2Q were 49.3% for net sales and 52.3% for operating profit. Net sales is expected to continue to increase as new customers are added. Operating profit is expected to increase by ¥0.1bn from the increase in customer numbers, but the Company is anticipating to pay ¥0.1bn more in electricity charges and ¥0.2bn in personnel expenses related to wage adjustments. So for the full year, operating profit is forecast to decline ¥0.2bn YoY. However, as mentioned above, electricity charges have been trending at the same level as the previous year, and the effects of reining in SG&A expenses are expected, so FISCO believes it is possible that profit will rise slightly and beat the forecast.

#### (4) Construction equipment and real estate business, Aqua business, and other business

In the construction equipment and real estate business, the Company projects net sales will rise 14.1% YoY and operating profit will increase 7.7%, both turning up YoY. Progress rates as of 2Q were 35.8% for net sales and 26.3% for operating profit, so both are low, but a large facility construction project will contribute in 2H, so meeting the full-year forecasts is still possible. Personnel expenses from wage adjustments are expected to increase by ¥0.1bn.

In the Aqua business, the Company forecasts net sales will rise 3.6% YoY, while operating profit will fall 6.2%. Although sales will increase by expanding customer numbers, personnel expenses from wage adjustments will increase, so a slight decline in profit is expected. Progress rates as of 2Q were 49.8% for net sales and 72.8% for operating profit. On a profit basis, it is possible that the forecast will be exceeded, but it is also possible that acquisition costs will be made to increase customer numbers and investments made in promotions. With regard to others, led by the nursing care business and wedding ceremony business, sales are expected to increase 10.7% YoY, as sales is projected to continue to rise.

## Results targets for FY3/26 are net sales of ¥260.0bn and operating profit of ¥17.5bn, for solid growth

### 3. Progress on new medium-term management plan

#### (1) Summary of Medium-Term Management Plan 2025

In May 2023 the Company announced its Medium-Term Management Plan 2025, which covers a three-year period ending in FY3/26. The Company will engage in three key initiatives: “Growth of business earning power (expansion of earnings base and rollout of new services),” “Strengthening of foundations for sustainable growth to realize a decarbonized society,” and “Full energization of human capital and organizations, the source of growth.” Numerical management targets for FY3/26, the last year of the plan, are net sales of ¥260.0bn, operating profit of ¥17.5bn, net income attributable to owners of the parent ¥10.0bn, and continuing customers of 3,570,000. Annual growth rates over the three years are 4.1% for net sales and 5.5% for operating profit. The number of continuing customers is expected to grow 2.7%, a solid pace. Moreover, as a long-term vision, by FY3/30, the Company is striving for net sales of ¥400.0bn, operating profit of ¥30.0bn, and continuing customers of 5,000,000. To achieve these targets, it will need to accelerate its pace of growth in FY3/27 and beyond, and along with organic growth, an M&A strategy is likely to be carried out.

## Result trends

**Management numerical targets for the new Medium-Term Management Plan 2025 (Announced in May 2023)**

	FY3/23 Results	FY3/24 Forecasts	FY3/25 Forecasts	FY3/26 Forecasts	Average annual growth rate
Net sales	230.2	240.0	250.0	260.0	4.1%
Operating profit	14.9	15.0	16.0	17.5	5.5%
Net income attributable to owners of the parent	6.5	8.5	9.0	10.0	15.4%
Cash flows from operating activities	21.2	21.7	23.0	24.4	4.8%
Number of continuing customers (ten thousand)	330	338	348	357	2.7%
Dividend payout ratio	64.8%	49.2%	40-50%		
ROE	8.2%	10.3%	10.4%	10.8%	
ROIC	8.3%	8.0%	8.2%	8.7%	
Equity ratio	41.5%	Around 40%			

Note: Figures rounded to the nearest unit

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

**(2) Priority initiatives for FY3/24 1H**
**a) Growing business earning power**

In the LP gas business, the Company established a new sales office in Ise City, Mie Prefecture, its third office in the prefecture, and worked to expand its customer base. In addition, in new business, subsidiary Tokai Gas is preparing to establish two campgrounds in Shizuoka Prefecture. The first is Mt. Bikuishi Quiet Night Campsite. It is part of Fujieda City's efforts to revitalize its hilly areas to realize its vision of the Fujieda Pottery Village concept. It plans to open in March 2024. The other campground is Mori no Miyako Narakoko no Sato, a campground and hot springs resort established by Kakegawa City (74,000 people used the campground and 63,000 used the hot springs facility in FY3/23). This is a business transfer deal. Kakegawa City sought a business transfer partner to privatize the facility and add to its appeal to further vitalize the local area, and the Company was selected in October 2023. Detailed terms and conditions are being discussed, with the handover planned for April 2024.

**b) Strengthening foundations for sustainable growth**

To contribute to a decarbonized society the Company is working to make its facilities more efficient and decarbonize them. It has worked to expand solar panels and storage systems. In FY3/24 1H, it sold 105 solar panel systems and 54 storage systems.

On July 24, 2023, it participated in the initial public offering of Repower Energy Development Corporation (REDC), a hydropower company in the Philippines, and announced that it had acquired 65mn shares (10% stake, 5 Philippine pesos per share) for approximately ¥0.8bn. In order to realize carbon neutrality by 2050, the Company is promoting low carbon and decarbonization initiatives, and this investment is part of these efforts. Through this investment, it will contribute to the further development of the Philippines' renewable energy market and to the enhancement of its infrastructure as it works to raise REDC's corporate value.

**c) Maximizing the vitality of the organization and human resources**

Regarding investment in human capital, in FY3/24 the Company reformed its pay system to increase work motivation, enhanced childcare support measures (started a birth bonus program and temporary childcare support system), and introduced a reskilling program.

## Result trends

**(3) Strategy by business segment and results targets**
**Strategy by business segment and results targets**

	Expansion of earnings base (Area/ No. of customers)	Rollout new services	Results targets			
			FY3/23		FY3/26	
<b>Energy</b>	<ul style="list-style-type: none"> <li>Further develop existing operating areas (raise ARPU via cross-selling)</li> <li>Expand sales capabilities in Western Japan and the Chukyo region</li> <li>Advance M&amp;A and alliances in LP gas and city gas</li> </ul>	<ul style="list-style-type: none"> <li>Rollout new services for regional revitalization</li> <li>Rollout new services for solving social issues (Expand sales of TOKAI ZERO SOLAR based on the power purchase agreement (PPA) model)</li> </ul>	Net sales	¥102.5bn	Net sales	¥108.7bn
			Operating profit	¥7.4bn	Operating profit	¥7.8bn
			No. of customers	0.82mn customers	No. of customers	0.94mn customers
<b>For corporate information and communications business</b>	<ul style="list-style-type: none"> <li>Expand business areas in Japan</li> </ul>	<ul style="list-style-type: none"> <li>Expand cloud services overseas</li> </ul>	Net sales	¥29.5bn	Net sales	¥39.0bn
			Operating profit	¥4.7bn	Operating profit	¥5.1bn
			No. of customers		No. of customers	
<b>For individual information and communications business</b>	<ul style="list-style-type: none"> <li>Strengthen cooperation among channels to increase the number of customers</li> </ul>	<ul style="list-style-type: none"> <li>Enhance the service lineup</li> </ul>	Net sales	¥24.4bn	Net sales	¥25.9bn
			Operating profit	¥0.6bn	Operating profit	¥1.4bn
			No. of customers	0.84mn customers	No. of customers	0.93mn customers
<b>CATV business</b>	<ul style="list-style-type: none"> <li>Accelerate growth of two recent acquisitions (Sendai and Okinawa)</li> </ul>	<ul style="list-style-type: none"> <li>Enhance internet access services and optional services</li> <li>Develop and provide new businesses and new services by further developing regional business</li> </ul>	Net sales	¥34.5bn	Net sales	¥37.9bn
			Operating profit	¥6.2bn	Operating profit	¥6.4bn
			No. of customers	1.29mn	No. of customers	1.35mn
<b>Construction equipment and Real estate business</b>	<ul style="list-style-type: none"> <li>Expand business in the Chukyo region</li> <li>Win combined orders through interdivisional cooperation</li> </ul>	<ul style="list-style-type: none"> <li>Expand the types of work offered (construction, equipment installation, electrical work, civil engineering work, repair and maintenance work)</li> <li>Sell GQ system, an off-grid housing system</li> <li>Implement energy-saving initiatives (solar power, EV charging points, etc.)</li> </ul>	Net sales	¥26.8bn	Net sales	¥37.3bn
			Operating profit	¥2.0bn	Operating profit	¥3.0bn
			No. of customers		No. of customers	
<b>Aqua business</b>	<ul style="list-style-type: none"> <li>Strengthen sales in the Shizuoka, Kanto and Chukyo areas (returnable/disposable bottles)</li> </ul>	<ul style="list-style-type: none"> <li>Sell mains-fed purified water dispenser nationwide</li> </ul>	Net sales	¥7.5bn	Net sales	¥8.7bn
			Operating profit	¥0.5bn	Operating profit	¥0.8bn
			No. of customers	0.17mn customers	No. of customers	0.19mn customers

Source: The Company's New Medium-Term Management Plan 2025

**a) Energy business**

In the energy business, for FY3/26, the Company is targeting net sales of ¥108.7bn and operating profit of ¥7.8bn. This would mean 2% annual growth in both sales and profits. By promoting M&A and alliances and expanding its sales area, the Company plans to increase the number of customers for LP gas and city gas from 820,000 at end-FY3/23 to 940,000 and will differentiate itself from competitors by increasing business efficiency through DX and working to raise customer satisfaction in order to further increase its share. The Company is assuming that sales prices for LP gas, etc. will be flat from FY3/24. Regarding customer numbers, over the past three terms, even with the impact of the COVID-19 pandemic and difficulty making headway with M&A negotiations, the Company raised its number of customers by 110,000, so FISCO thinks that it is possible to raise the number by 120,000.

**b) Information and communications business**

In the information and communications business for corporate clients, for FY3/26, the Company is targeting net sales of ¥39.0bn and operating profit of ¥5.1bn. This would mean average annual growth rates of 10% for sales and 3% for profits. The cloud business is expected to expand on rampant DX demand and government contracts, and the Company will work for recurring revenue business expansion by further enhancing its network infrastructure. The profit growth rate will be temporarily low due to an increase in the burden of depreciation resulting from optical communication network expansion (extension to the Kyushu area) and improvements to the performance of existing networks, but this is expected to contribute to profit over the medium to long term as sales accumulate in recurring revenue businesses.

#### Result trends

In the information and communications business for consumers, for FY3/26, the Company is targeting net sales of ¥25.9bn and operating profit of ¥1.4bn, for average annual growth rates of 2% and 33% respectively, which shows that major profit improvement is expected. As it has done in the past the Company will work to strengthen coordination among sales channels and further enhance its service lineup with the goal of increasing customer numbers from 840,000 at end-FY3/23 to 930,000. The profit margin is expected to increase as a result of an improved sales mix and a lighter depreciation burden.

#### c) CATV business

In the CATV business, for FY3/26, the Company is targeting net sales of ¥37.9bn and operating profit of ¥6.4bn. This works out to average annual growth of 3% in sales and 1% in profits, so stable growth is expected. The Company plans to increase the number of customers from 1.29mn at end-FY3/23 to 1.35mn and will generate new earnings by developing new businesses and services at Group companies in line with local needs. The Company is planning and developing a variety of services, which specifically include net option services (onsite support, remote support, net security service, etc.), home appliance subscription and vacant house management services, health-related businesses originating at fitness gyms, and businesses that utilize locally produced electricity starting with a bicycle-sharing service. It also appears that the Company is continuing to consider M&A, so if deals go through, they will provide a boost.

#### d) Construction equipment and real estate business

In the construction equipment and real estate business, for FY3/26, the Company is targeting net sales of ¥37.3bn and operating profit of ¥3.0bn. This would mean average annual growth rates of 12% for sales and 14% for profits, so the Company is planning double-digit growth in sales and profits in this segment alone out of all its business segments. Since 2019, the Company has added a number of operating companies to the Group in the area of construction, including Nissan Tri Star Construction, Inc., which is mainly involved in civil engineering and construction projects, Chuo Denki Kogyo Co., Ltd., which conducts electrical facilities work, and Marco Polo Inc., which does large-scale repairs. Consolidating the resources of these Group companies, the Company's strategy is to expand business in the Chukyo area as a general construction company. These Group companies thus far have taken orders on an independent basis, so sales growth has also been limited, but increasing projects in which orders are taken together on a Group basis will make it possible to maximize the scope of sales, which can also be expected to produce Group synergies.

#### e) Aqua business

In the Aqua business, for FY3/26, the Company is targeting net sales of ¥8.7bn and operating profit of ¥0.8bn, for average annual growth of 5% and 17% respectively. The Company is strengthening sales in the Shizuoka, Kanto and Chukyo areas, and in Shizuoka Prefecture in particular, it has provided services using a returnable system, but with logistics costs rising, it will also commence sales using a one-way system. The Company began sales nationwide of water supply-type purified water dispensers in April 2023, capturing diverse needs related to drinking water. It is targeting an increase in customers from 170,000 at end-FY3/23 to 190,000, a gain of 20,000, but given the fact that customers have only increased by 4,000 during the past three years due in part to greater competition, it seems the Company will have to clear a fairly high hurdle to achieve this goal, and results can be expected to differ depending on whether customer acquisition or profit is prioritized.

## Result trends

**(4) DX strategy**

In terms of DX strategy, the Company is working to raise operating efficiency through DX for internal administration, and in sales, it is increasing registrations for a membership app, a tool for raising the effectiveness of digital marketing measures, and is strengthening contact with customers to increase customer numbers and maximize customer lifetime value (LTV). The membership app can be expected to be effective in preventing service cancellations and raising contract acquisition opportunities for Group and other services by making optimal proposals and providing the latest information at the best possible timing. Registrations for the membership app totaled 365,000 as of the end of September 2023, and the Company plans to raise the number to 1,000,000 by the end of March 2026.

In addition, in the LP gas business, the Company is installing smart meters (remote inspection system). Installing smart meters at customer locations makes it possible to automate meter operations, visualize LP gas tank levels, and make deliveries to customers at the optimal timing via the optimal route. It is also expected to lower distribution and other costs. Smart meters were installed at 65% of customers as of September 2023, and the Company plans to make this 100% by the end of March 2026.

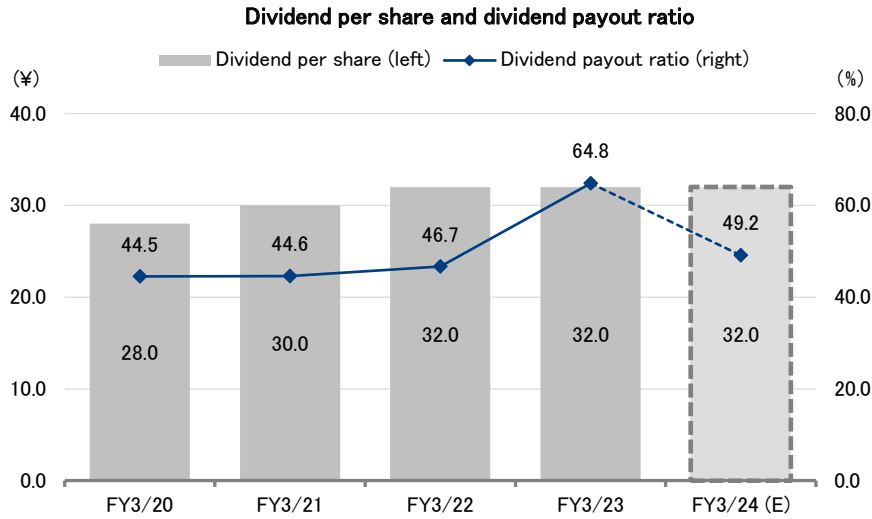
## Shareholder return policy

### **Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%, combined with perks and gifts to shareholders for a total investment yield level of 4% to 7%**

The Company actively returns profits to shareholders by paying dividends and providing perks and gifts to shareholders, as well as by acquiring treasury shares depending on the circumstances. The Company plans to continue to pay a dividend targeting a dividend payout ratio in the 40-50% range. In FY3/24, the Company plans to pay a dividend per share of ¥32.0 (dividend payout ratio of 49.2%), which is the same amount as the previous fiscal year.

The Company also provides gifts such as QUO cards to shareholders owning 100 or more shares at the end of March and September, according to how many shares they own. The total investment yield per share unit, including the gifts to shareholders, in an estimate using the current share price level (closing price of ¥973 on November 17, 2023), is in the range of 4.3% to 7.5% (in the case that the shareholder selects a QUO card or an Aqua product as the gift).

Shareholder return policy



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

**Shareholder gifts**

Shareholders on record at the end of March and September are presented with their choice of one of the following five type of gifts, 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	¥2,080 worth	¥4,160 worth	¥8,320 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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