

# TOKAI Holdings Corporation

**3167**

Tokyo Stock Exchange Prime Market

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

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## Summary

### FY3/25 1H results set new record high for net sales

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 roughly 3.39 million customers, comprehensive capabilities to provide a wide range of products and services in a one-stop manner, and marketing abilities to immediately address customer needs, it continues to steadily grow.

#### 1. FY3/25 1H results overview

In FY3/25 1H (April–September 2024) consolidated results, sales and profits grew, with net sales increasing 5.6% year on year (YoY) to ¥111,088mn and operating profit increasing 9.5% to ¥4,660mn. Net sales increased for the fourth consecutive fiscal year and reached a record high, supported by an increase in the number of Group customers, centered on the energy business, as well as an expansion of the recurring revenue business of the information and communications business for corporate customers. On the profit front, customer acquisition costs increased in the Aqua business and personnel expenses rose alongside wage revisions, but growth in monthly charges accompanying a rise in the number of continuing customers as well as higher profit in the construction equipment and real estate business, among other factors, led to higher profits for the second straight fiscal year. Net sales progressed generally in line with the Company’s initial forecast, and it appears that operating profit was several hundred million yen higher than the initial forecast. This is because in the energy business, the Company had expected impact from discounting alongside escalating competition to acquire customers, but there was almost no such negative impact in 1H. There were 3,399,000 continuing customers at the end of FY3/25 1H, up by 71,000 customers, and aside from the information and communications business for consumers falling a little short of the forecast, progress was generally in line with the forecast.

#### 2. Outlook for FY3/25

For its consolidated results in FY3/25, the Company has maintained its initial forecasts for net sales to rise 5.4% YoY to ¥244,000mn and operating profit to increase 3.2% to ¥16,000mn, for record-high profit for the first time in three fiscal years. It envisions the number of continuing customers growing 94,000 YoY to 3,452,000 at the end of FY3/25, with an increase of 50,000 in the LP gas business. In the LP gas industry, a revised ministerial ordinance to rectify business practices that went into effect in July 2024 is expected to spur the weeding out of small and medium-sized operators. The information and communications business for corporate customers, which saw a decline in profit in 1H, is expected to post an increase in profit for the full fiscal year. Meanwhile, the consumer information and communications business aims to increase the number of customers by strengthening sales through home electronics retailers and online promotions.

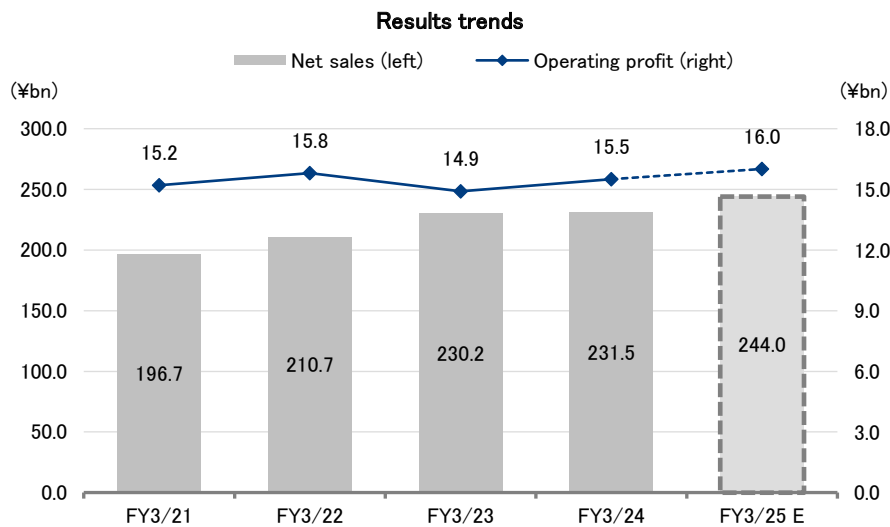
Summary

3. Progress on the medium-term management plan

In the Medium-Term Management Plan 2025, which started in FY3/24, the Company set forth a policy of aiming for sustained growth by expanding the customer base while strengthening human capital investment and by providing services that contribute to diverse lifestyles and the realization of a carbon-free society. The numerical management targets for FY3/26, the last year of the plan, are net sales of ¥260.0bn, operating profit of ¥17.5bn (average annual growth rates of 4.1% for sales and 5.5% for profit), and continuing customers of 3.57 million. At FISCO, we believe that progress is on track through FY3/25 1H, and that the likelihood of achieving the results targets has increased. Going forward, the Company is expected to continue to steadily grow earnings by expanding its customer base, primarily in the LP gas business, where the oligopoly (domination by large operators) is expected to continue, while also increasing Group synergies in the corporate information and communications business and the construction equipment and real estate business, along with advancing M&A. Regarding its policy on shareholder returns, it plans to pay a stable, ongoing dividend based on a payout ratio of around 40–50%. It also provides shareholder benefits. In FY3/25, the Company plans to pay a dividend per share of ¥34.0 (dividend payout ratio of 49.3%), which is an increase of ¥1.0 YoY. The total investment yield per share unit, including the gifts to shareholders, is 4–8% (converted based on closing price on November 20, 2024).

Key Points

- FY3/25 1H results set a record high for net sales while all profit lines also achieved growth
- The Company maintained its initial results forecasts for FY3/25 results, and expects to set new record highs
- The Company aims to increase corporate value through the two axes of capital profitability and growth
- Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%



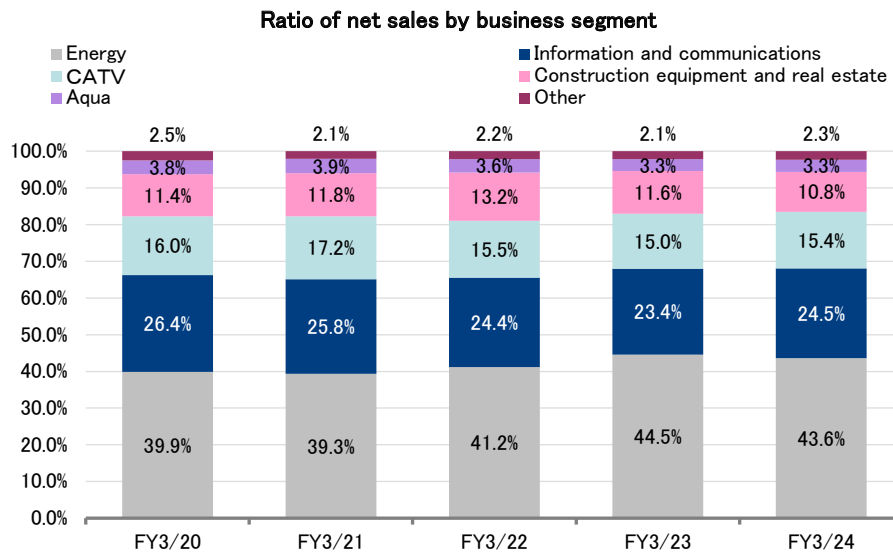
Note: Figures rounded to the nearest billion  
 Source: Prepared by FISCO from the Company's financial results

## Business overview

### Along with lifestyle and infrastructure services, 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 ratio of net sales by business segment for FY3/24 results, the Company’s original business, the energy business accounted for 43.6% of net sales, the information and communications business for 24.5%, and the CATV business for 15.4%. 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 83% of net sales are provided by the LP gas business and about 17% 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 gradually expanded into new areas, including southern Tohoku, Chubu/Tokai, Chugoku, and Kyushu, promoting the expansion of its customer base. As of the end of FY3/25 1H, the number of customers is 804,000, and the number of customers is on the rise in both existing and new areas. The ratio of customers in new areas has risen from approximately 4% in FY3/19 to approximately 13% most recently. In terms of its position in the industry, the company is third in direct sales after Iwatani Corporation <8088> and Nippon Gas <8174>. Its market share is the top in its home prefecture of Shizuoka, at approximately 20%, and it is second in the highly competitive Kanto region, at just under 10%. As there are approximately 21 million households nationwide that use LP gas, the nationwide market share is still at the level of just over 3%. However, the Company plans to increase its market share by expanding sales areas and carrying out M&A. As the domestic LP gas distribution industry is dominated by MSMEs, which are increasingly being consolidated by large-cap companies\* due to the challenging business environment, we at FISCO believe the Company also has a lot of room to expand its market share.

\* The number of LP gas providers decreased from around 21,000 in 2012 to around 15,000 in 2023.

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 full liberalization of gas retail sale 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 and is operating city gas businesses in Shimonita Town, Gunma Prefecture (since April 2019), and Nikaho City, Akita Prefecture (since April 2020). The number of customers was 74,000 as of the end of FY3/25 1H. There are 190 city gas providers (172 private and 18 public) in Japan, and excluding the four major companies, most are small to medium-sized regional operators. The Company has a policy of considering M&A opportunities as they arise.

## 2. Information and communications business

The information and communications business conducted by TOKAI Communications Corporation includes ISP (Internet service provider) services, MVNO\* services, and mobile business (mobile phone sales agency) for consumers, as well as communication line services, data center services, cloud services, and system development for corporations. Looking at the percentages of total net sales for FY3/25 1H results, the percentage of corporate business is trending upward, with an approximately 41% contribution from consumer business and approximately 59% from corporate business. The majority of operating profit also comes from corporate customers.

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

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 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. As of the end of FY3/25 1H, the Company had 387,000 customers that include those using its existing ISP service, 378,000 customers using its Hikari Collaboration service, and 78,000 customers using its LIBMO service.

#### Business overview

The mobile business operates 14 mobile phone stores, primarily in Shizuoka Prefecture, as a sales agency for SoftBank Corp. <9434>, as well as 7 iCracked Store stores offering iPhone repair services. As of the end of FY3/25 1H, it had 165,000 customers, continuing the gradual decline from its peak of 236,000 customers in FY3/16.

### 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 (11 Group companies) as of the end of FY3/25 1H. The number of customers stood at 920,000 for broadcasting services and 403,000 for communications services, bringing the total to 1,324,000 customers, continuing a mild increasing trend. The number of domestic CATV service contracts, including communication services, is 27.12 million in total (as of the end of March 2023, of which 7.77 million were multi-channel service, 10.62 million were Internet service, and 8.73 million were telephone service), and is gradually increasing, led by Internet service. In the industry, the J:COM (JCOM Co., Ltd.) Group holds a market share of just over 50% based on the number of subscribing households. The second-largest CATV company and other smaller players, including the Company, each hold market shares of only a few percent. Accordingly, the Company aims to further expand its market share through M&A.

### 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. Additionally, in April 2023, the Company began a new initiative selling "Shizukuria,"\* a water dispenser that purifies tap water using a built-in filter. At the end of FY3/25 1H, the Aqua business had 180,000 customers. The total number of customers in the industry in FY2023 was 5.24 million units, with the Company holding a market share of around 3% (approximately 50% in Shizuoka Prefecture).

\* The water server rental fee is ¥2,640/month or ¥3,300/month (tax included), and filters, which are replaced approximately every half year, are provided free of charge.

## 6. Other businesses

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 repair business by Tokaizosen-unyu Corporation. The Company launched the nursing care business in 2011, and as of the end of FY3/25 1H, the Company operated six day-service facilities, a short-stay facility, a paid-for nursing home in Shizuoka Prefecture. In addition, it has opened one care plan center. In the wedding ceremony business, the Company operates GRANDAIR Bouquet TOKAI in the Aoi Tower in front of JR Shizuoka Station.

# Result trends

## FY3/25 1H results set a record high for net sales while all profit lines also achieved growth

### 1. FY3/25 1H results overview

In FY3/25 1H consolidated results, net sales increased 5.6% YoY to ¥111,088mn, operating profit rose 9.5% to ¥4,660mn, recurring profit grew 12.1% to ¥4,882mn, and net income attributable to owners of the parent increased 7.7% to ¥2,390mn, achieving growth in both revenue and profit. Net sales increased for the fourth consecutive fiscal year and reached a record high, supported by an increase in net sales in all business segments, especially the energy business. Regarding operating profit, customer acquisition costs increased in the Aqua business (approx. ¥550mn) and personnel expenses rose alongside wage revisions implemented for the second straight year, but growth in monthly charges accompanying a rise in the number of continuing customers as well as higher profit in the construction equipment and real estate business, among other factors, led to higher profits for the second straight fiscal year.

Net sales progressed generally in line with the Company's initial forecast, and it appears that operating profit was several hundred million yen higher than the initial forecast due to the upturn in the energy business. This was because the Company had expected an impact from discounting alongside escalating competition to acquire LP gas customers, but there was almost no such impact in 1H.

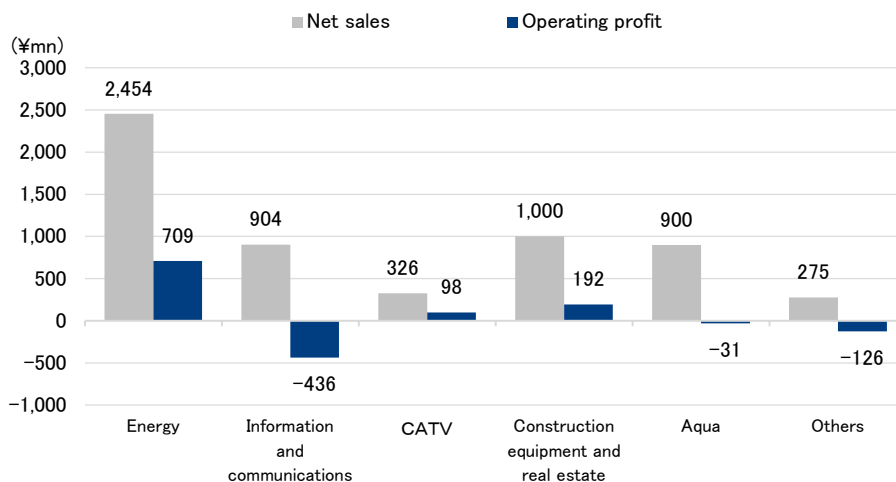
### FY3/25 1H results (consolidated)

	(¥mn)					
	FY3/24 1H		FY3/25 1H		YoY	
	Results	% of sales	Results	% of sales		
Net sales	105,226	-	111,088	-	5.6%	
Cost of sales	64,715	61.5%	68,535	61.7%	5.9%	
SG&A expenses	36,255	34.5%	37,892	34.1%	4.5%	
Operating profit	4,254	4.0%	4,660	4.2%	9.5%	
Recurring profit	4,355	4.1%	4,882	4.4%	12.1%	
Extraordinary income/loss	-437	-	-580	-	-	
Net income attributable to owners of the parent	2,219	2.1%	2,390	2.2%	7.7%	
Number of continuing customers (thousand)	3,328		3,399		2.1%	

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



## Result trends

**FY3/25 1H YoY change by business segment**


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

There were 3,399,000 continuing customers at the end of FY3/25 1H, solid growth of 71,000 YoY and 41,000 from the end of FY3/24. Growth compared with the end of FY3/24 is mostly attributable to an increase of 26,000 customers in the LP gas business due to M&A. In addition, the number of communications service contracts in the CATV business rose 11,000 and customers increased by 13,000 in the Aqua business and 4,000 for Hikari Collaboration. There was a slight shortfall versus the Company's forecast due to a decline in existing ISP and related services as well LIBMO, but it can be said that the customer base steadily expanded.

**Number of customers by key service**

	(thousand)					
	FY3/22 1H-end	FY3/23 1H-end	FY3/24 1H-end	FY3/25 1H-end	YoY change amount	Change from previous FY-end
<b>Energy</b>	764	804	837	878	41	25
LP gas	697	731	762	804	42	26
City gas	67	72	75	74	-1	-1
<b>Information and communications</b>	779	834	843	843	0	-3
Existing ISP and related services	386	414	400	387	-13	-5
Hikari Collaboration	339	358	368	378	10	4
LIBMO	54	62	75	78	3	-2
<b>CATV</b>	1,214	1,247	1,300	1,324	24	11
Broadcast service	881	894	916	920	4	2
Communications service	333	354	384	403	19	9
<b>Aqua</b>	165	167	166	180	14	13
<b>Mobile</b>	198	185	174	165	-9	-5
<b>Security</b>	16	16	16	16	0	0
<b>Total</b>	3,125	3,242	3,328	3,399	71	41
<b>(Number of TLC members)</b>	1,023	1,123	1,188	1,242	54	28

Notes: 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.

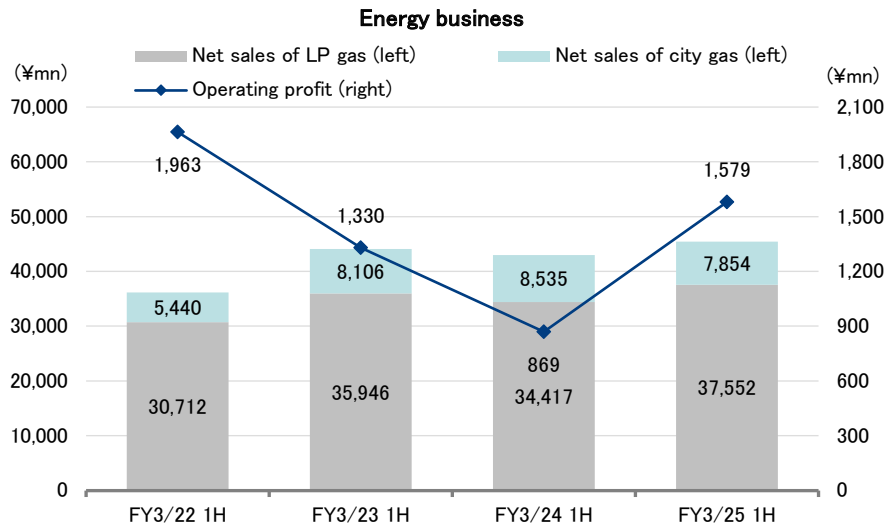
Information and communications services (existing ISP and related services) include contracts for PC remote support service from FY3/22 4Q.

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

## Result trends

**(1) Energy business**

Net sales in the energy business increased 5.7% YoY to ¥45,406mn, and operating profit (operating profit before allocation of indirect costs and other costs, which is calculated differently than in the Company's financial results; the same applies below) rose 81.6% to ¥1,579mn, as net sales increased for the first time in two fiscal years and operating profit rose for the first time in four fiscal years.



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

Looking at the breakdown of net sales, net sales in the LP gas business rose 9.1% YoY to ¥37,552mn. The number of customers increased 42,000 YoY to 804,000 at the end of 1H, owing partly to the acquisition of about 22,000 customers from FUJIPRO CORPORATION becoming a consolidated subsidiary in April 2024. In addition, the residential gas sales volume increased 7% due to the increase in customers, and the average sales unit price of residential gas increased 2%. The amount of LP gas used per customer household was roughly flat due to the fact that the average temperature was roughly the same as in the prior year.

Compared to the end of the previous fiscal year, the number of customers increased by 26,000, of which 20,000 were in existing areas and 6,000 in new areas. In the existing areas, excluding FUJIPRO's contribution, the number decreased by 2,000. This is because some major competitors rushed to grab customers under the pre-enforcement rules before the enforcement of the revised ministerial ordinance\* to correct LP gas business practices in July 2024, and we consider this to be a temporary factor. In addition, looking at the breakdown of the net increase of 26,000 customers, 9,000 were due to new acquisitions (17,000 in the same period of the previous fiscal year), 29,000 were due to M&A and trade area purchases (9,000), and there were 12,000 suspensions/cancellations (10,000).

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

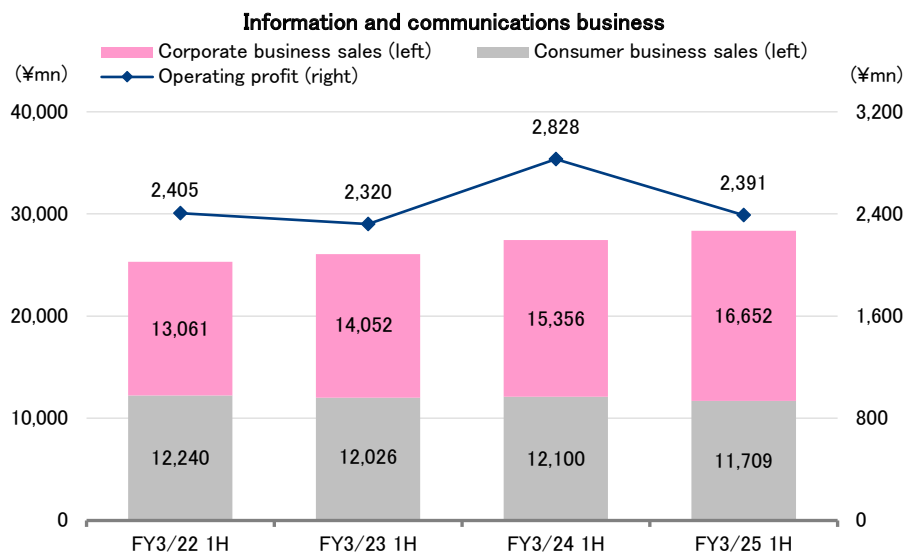
Net sales in the city gas business decreased 8.0% YoY to ¥7,854mn. The number of customers declined by 1,000 to 74,000, staying roughly flat, but a decline in sales prices under the system where raw material costs are adjusted to track procurement costs led to lower revenue.

Result trends

Looking at the factors behind the change in operating profit, an increase in the number of customers in the LP gas business increased profits by ¥360mn, an increase in unit consumption increased profits by ¥30mn, and a decrease in customer acquisition costs, etc., increased profits by ¥320mn. This was several hundred million yen higher than the Company’s forecast. Raw material prices have been rising due to the weakening of the yen, but forward hedging has been applied for raw material prices (for household use) for 2H, so there is no risk from price fluctuations.

**(2) Information and communications business**

In the information and communications business, sales grew but profits fell, with net sales increasing 3.3% YoY to ¥28,361mn and operating profit decreasing 15.4% to ¥2,391mn.



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

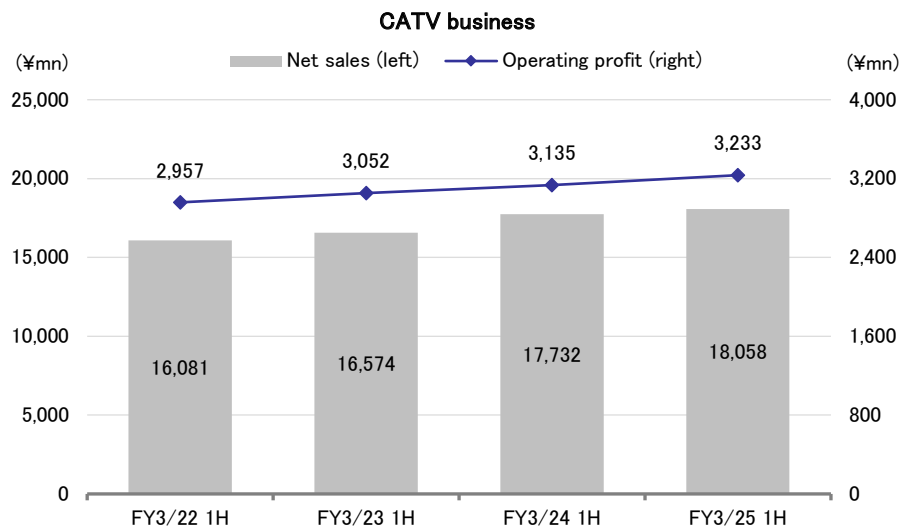
Of this, net sales from the consumer business declined 3.2% YoY to ¥11,709mn and operating profit decreased 16.6% to ¥427mn. The number of customers at the end of 1H was flat overall as customers for Hikari Collaboration service increased 10,000 to 378,000 and LIBMO increased 3,000 to 78,000, offsetting a decrease of 13,000 to 387,000 for existing ISP services. Compared with the end of FY3/24, the numbers were up 4,000 for Hikari Collaboration service as solid expansion continued, but down 5,000 for existing ISP services as the increase in Hikari Collaboration Service could not make up for the decline in existing ISP services. In addition, with regard to LIBMO, which had been steadily increasing, the number of customers decreased by 2,000, due to the impact of DoCoMo shops, which were the main sales channel, bolstering sales of their own service “eximo.” As for Hikari Collaboration service, the ratio of contracts for set plans of major mobile carriers increased, and ARPU continued to decline, which was a factor in the decrease in sales.

Net sales from business for corporate customers rose 8.4% YoY to ¥16,652mn, while operating profit declined 15.2% to ¥1,964mn. Net sales remained strong as communication line services and cloud services continued to expand, but profit declined due to higher personnel expenses from revising wages, as well as an increase in depreciation accompanying equipment capacity enhancements such as data centers and communications infrastructure.

Result trends

**(3) CATV business**

Net sales in the CATV business increased by 1.8% to ¥18,058mn and operating profit rose by 3.1% to ¥3,233mn, showing steady growth in both. As a provider with close ties to the community, the Company focused on local information provision and program production. It also worked to enhance content such as by coordinating with major video streamers. Also, through investment in FTTH, the Company actively promoted sales activities for high-speed Internet services, which increased both sales and profit. At the end of 1H, customers for broadcasting services were up 4,000 YoY to 920,000 and for communications services were up 19,000 to 403,000, as it seems that there has been an increase in broadcasting service customers newly contracting for communications services. In terms of profit, there was a ¥140mn increase in personnel costs due to increasing wages, but positive factors were the ¥200mn increase due to the increase in the number of customers and ¥40mn due to the effect of suppressing SG&A expenses.

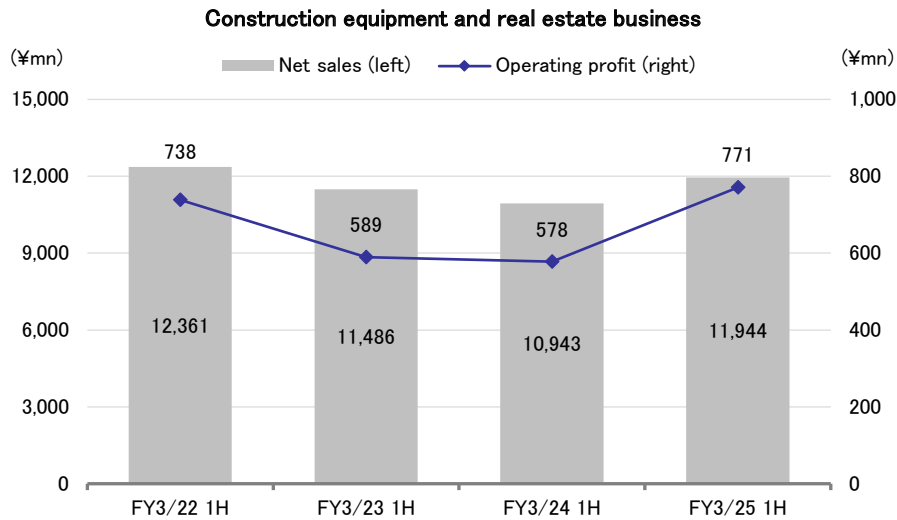


Note: Operating profit values are prior to allocating indirect costs and other costs  
 Source: Prepared by FISCO from the Company's financial results briefing materials

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

Net sales in the construction equipment and real estate business increased 9.1% YoY to ¥11,944mn and operating profit rose by 33.4% to ¥771mn, as both increased for the first time in three fiscal years. Looking at the breakdown of net sales, construction and equipment installation grew 6.9% YoY to ¥7,394mn, driven by an increase in orders, while real estate sales and management saw 12.7% growth to ¥3,849mn due to sales of large business sites and land lots. Also, civil engineering projects, which had been seeing a decline in sales, increased 1.9% to ¥820mn, achieving a slight increase in sales. In terms of construction and equipment installation, the Company is seeing a realization of synergy effects, such as being able to receive orders for larger-scale projects than before by sharing the resources of Group companies. Profits also increased due to the effect of increased sales.

Result trends



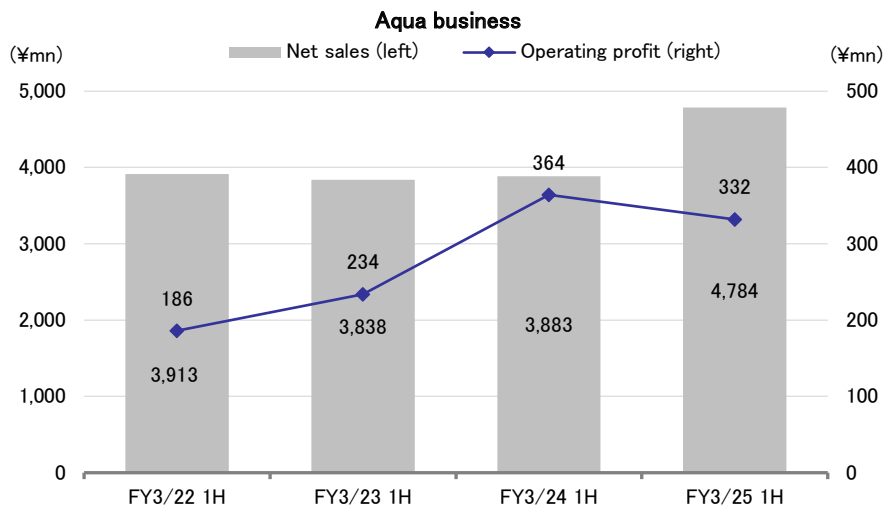
Note: Operating profit values are prior to allocating indirect costs and other costs.  
 Source: Prepared by FISCO from the Company's financial results briefing materials

**(5) Aqua business**

In the Aqua business, net sales increased 23.2% YoY to ¥4,784mn, but operating profit decreased 8.8% to ¥332mn. Profit increased ¥520mn due to the increase in customer count, but customer acquisition costs rose about ¥550mn, resulting in slight drop in profit. The number of customers at the end of 1H increased by 14,000 YoY to 180,000. Of this increase, 11,000 customers were added to Shizuclear, a water dispenser that filters tap water, which the Company began offering in April 2023, bringing its total to 13,000. This accounted for the majority of the increase. Whereas the Company's existing home water delivery service's business model involves lending customers a water server free of charge and generating revenue through sales of natural water delivered regularly, Shizuclear's business model involves generating revenue through monthly usage fees for the water dispenser (including maintenance service fees every six months).

For customers who want to cancel existing home water delivery services, the Company's proposal of Shizuclear with roughly 50% lower average monthly fees is helping to prevent service cancellations. The existing service is also making progress acquiring new customers, with its total customer count 3,000 higher YoY to 167,000, a slight increase. Shizuclear's customer unit sales price is lower than for the water delivery service, but its profits seem to be largely unchanged from the water delivery service since Shizuclear does not incur costs for delivering water to homes.

Result trends



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

**(6) Other businesses and adjustments**

In other businesses, net sales rose by 12.2% YoY to ¥2,532mn. The nursing care business increased by 3.2% to ¥719mn due to an increase in day service users. The shipbuilding and repairs business increased 22.9% to ¥783mn due to an increase in ship repairs. The wedding ceremony business decreased 0.5% to ¥546mn as a result of a decline in the number of wedding ceremonies, which offset the increase in the number of banquets for companies and other general users. Including corporate expenses, the operating loss was ¥3,647mn (compared to a loss of ¥3,520mn in the same period of the previous fiscal year).

**The Company maintained its initial FY3/25 results forecasts, expecting record highs**

**2. Outlook for FY3/25**

For its consolidated results in FY3/25, the Company has maintained its initial forecasts for net sales to rise 5.4% YoY to ¥244,000mn, operating profit to increase 3.2% to ¥16,000mn, recurring profit to increase 3.0% to ¥16,000mn and net income attributable to owners of the parent to go up 6.1% to ¥9,000mn. Net sales are expected to rise for the eighth consecutive fiscal year and each of the profit levels is expecting to set a new record high for the first time in three fiscal years. The Company aims to increase the number of continuing customers by 94,000 YoY to 3,452,000 at the end of FY3/25, and increase monthly billing revenue. Along with that, continued strong performance in the information and communications business for corporate customers and recovery in the construction equipment and real estate business, which did not perform well in the previous fiscal year, are expected to contribute to profit growth. The average temperature from October to November 2024 was slightly higher than the previous year, and there is a possibility that LP gas sales per household will be lower than the previous year (the Company's forecast assumes it will be the same as the previous year), but we believe that this can be absorbed by the higher sales in 1H.

## Result trends

## Outlook for FY3/25

	FY3/24		FY3/25		YoY
	Results	% of sales	Company forecasts	% of sales	
Net sales	231,513	-	244,000	-	5.4%
Operating profit	15,511	6.7%	16,000	6.6%	3.2%
Recurring profit	15,531	6.7%	16,000	6.6%	3.0%
Net income attributable to owners of the parent	8,481	3.7%	9,000	3.7%	6.1%
Net income per share (¥)	64.94		68.90		
Number of continuing customers (FY-end, thousand)	3,358		3,452		2.8%

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

**(1) Energy business**

In the energy business, net sales are expected to rise approximately 2% YoY and operating profit to rise by about 1%, indicating steady results are anticipated. Net sales in the mainstay LP gas business will depend on future trends in temperature and unit sales prices, but if they remain at the same level as last year, it is expected that there may be an increase in sales due to the effect of the increase in the number of customers. On the other hand, in terms of profits, the Company's forecast includes an increase in customer acquisition costs due to intensifying competition to acquire customers for detached houses.

The number of customers in the LP gas business is expected to increase by 50,000 from the end of FY3/24 to 828,000. At the end of 1H, the number of customers increased by 25,000, and the remaining 25,000 customers are expected to be gained in 2H. The LP gas industry is expected to see the elimination of small and medium-sized businesses that lack financial strength, and the oligopoly of large companies, triggered by the revised ministerial ordinance to correct LP gas business practices that came into effect in July 2024. Under the new rules, it will be difficult for leasing condominiums to switch contracts from other providers, so the targets for new customer acquisitions will be narrowed down to newly built leasing condominiums or detached houses. Naturally, the competition to acquire customers will intensify, creating a tough environment for small and medium-sized businesses that lack financial strength. In fact, the number of M&A opportunities brought to the Company seems to be increasing, and we believe that the next few years will be a good opportunity for growth by expanding market share.

**Overview of revised ministerial ordinance to rectify LP gas business practices  
(promulgated April 2, 2024)**

- (1) Limitation on excessive sales activities (goes into effect July 2, 2024)
  - Banned from providing benefits that exceed normal business practices
  - Banned conditioned contracts that would limit LP gas provider switchover that threaten to impede the choice of provider by consumers
- (2) Rigorous enforcement of three-level billing system (goes into effect April 2, 2025)
  - Rigorous enforcement of three-level billing system consisting of basic charges, metered charges and facilities charges (facilities charges must be displayed separately)
  - Banned from listing facility expenses unrelated to LP gas, like electric air conditioners and Wi-Fi on LP gas charges
  - Regarding LP gas charges for leased residences, banned from listing facility expenses for gas implements, etc.
- (3) Information provision for LP gas charges, etc. (goes into effect July 2, 2024)
  - Makes it mandatory of make efforts to provide LP gas charges in advance to prospective residents (provide directly to prospective residents or through the owner, real estate management company, or real estate broker, etc.)

Note: When prospective residents request the LP gas provider to directly provide the information, the provider must respond to the request.

Source: Prepared by FISCO from METI's "Overview of LPG Act Revised Ordinance" (promulgated April 2, 2024)

The Company opened the Group's first sales office in Kagoshima City in August 2024 with the aim of expanding its customer base by growing its sales area. This is the third sales office opening since 2023, following those in Matsuyama City (Ehime Prefecture) and Ise City (Mie Prefecture). The Company plans to open five more sales offices by FY3/26. Its strategy is to expand its customer base while proceeding with new customer acquisitions and M&A and commercial area acquisitions in the areas it has expanded into.

## Result trends

**(2) Information and communications business**

The information and communications business expects net sales to rise by around 7% YoY and operating profit to increase around 5%. The consumer business in particular is expected to see sales decrease, although a slight increase in profit is projected. The number of customers, especially for LIBMO, is slightly below the forecast, and the key will be how much the Company can catch up in 2H. The Company's forecast was to increase broadband, including Hikari Collaboration, by 15,000 compared to the end of the previous fiscal year, and LIBMO by 16,000. In 2H, they aim to achieve the forecast by strengthening online promotions and customer acquisition campaigns at home electronics retailers.

At the same time, business for corporate customers is expecting to see net sales increase by around 12% YoY and operating profit to rise around 5%. Net sales will be led by communication line services and cloud services, sources of recurring revenue, due in part to capacity augmentation at data centers and in the communications infrastructure. Although profit declined in 1H, we at FISCO think there is a possibility for profit to increase for the full fiscal year due to an increase in recurring revenue.

**(3) CATV business**

In the CATV business, net sales are expected to rise around 3% YoY and operating profit is expected to mark time. The number of customers is expected to increase by 19,000 compared to the end of the previous fiscal year, centering on communications services. Customers in communications services are steadily progressing with an increase of 11,000 at the end of 1H, and the full-year target appears to be within reach. Operating profit is expected to be flat YoY, taking into account higher personnel expenses from higher wages and growth in customer acquisition costs.

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

The construction equipment and real estate business is expected to see net sales increase by around 20% and operating profit by around 10%, resulting in a return to growth in both sales and profits. Despite higher personnel expenses, sales and profit growth are expected on the back of rising orders for civil engineering and construction and equipment installation projects, which were lackluster in the previous fiscal year, as well as solid performance in real estate sales and management. In the Tokai area, further growth looks promising in the future as orders tend to be larger than before, owing to Group companies in the Tokai area that were merged and acquired sharing their respective resources.

**(5) Aqua business**

In the Aqua business the Company is projecting around a 5% increase in net sales and operating profit will mark time due to higher personnel expenses and customer acquisition costs. The Company had aimed to increase the number of customers by 6,000 YoY, but as of the end of 1H, the number had already risen by 13,000, surpassing the target. Further growth is expected. The Company's proposals to customers considering canceling contracts for the existing home water delivery service, encouraging them to switch to the more affordable Shizuclear water server that filters tap water, are succeeding. In addition, the number of Shizuclear customers acquired through CATV subsidiaries and other channels is increasing. These efforts have contributed to the overall increase in customer numbers. As a result, net sales are likely to exceed the Company's forecast. Meanwhile, profit is expected to remain within the range of the forecast, although this will depend on the trend in customer acquisition costs.



## Medium-term management plan

### On track to attain the operating profit target of ¥17.5bn for FY3/26

#### 1. Progress on the medium-term management plan

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.

Company forecasts for FY3/25 have downwardly revised net sales by ¥6.0bn compared to the figure set forth in the medium-term management plan, but profit forecasts were maintained. The Company revised down its outlook for net sales because synergy generation in the construction equipment and real estate business has been slower than expected, but expects to catch up in the future. Although system development investment, DX-related investment, and higher personnel expenses from wage increases push up costs, as of now the progress has been steady, and we at FISCO think that the Company can achieve its targets for FY3/26. In addition, the Company targets net sales of ¥400.0bn, operating profit of ¥30.0bn, and 5,000,000 continuing customers in FY2030. In FY3/27 and beyond, the Company intends to accelerate growth by promoting M&A strategy, along with organic growth.

#### Management numerical targets and progress of the Medium-Term Management Plan 2025

	FY3/23 Results	FY3/24		FY3/25 Initial forecasts	FY3/25 Company plan	FY3/26 Initial forecasts
		Initial forecasts	Results			
Net sales	230.2	240.0	231.5	250.0	244.0	260.0
Operating profit	14.9	15.0	15.5	16.0	16.0	17.5
Net income attributable to owners of the parent	6.5	8.5	8.5	9.0	9.0	10.0
Number of continuing customers (FY-end, ten thousand)	33.0	33.8	33.6	34.8	34.5	35.7
Dividend payout ratio	64.8%	49.2%	50.8%	40–50%	49.3%	40–50%
ROE	8.2%	10.3%	10.0%	10.4%		10.8%
ROIC	8.3%	8.0%	-	8.2%		8.7%

Note: Figures rounded to the nearest unit

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

#### (1) Growing business earning power

As a part of efforts to grow business profitability, in the energy business, the Company opened an LP gas office in Kagoshima City and expanded its customer base by making FUJIPRO a subsidiary. In addition, in the information and communications business, the Company established PT TOKAICOM Mitra Indonesia (60% investment stake) in April 2024 as a joint venture with a local company to provide AWS implementation support services in Indonesia, and began operations in September of the same year to capture the strong local demand for cloud services. Furthermore, in the CATV business, the Company is working to expand its customer base through cross-selling of Internet services.

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Medium-term management plan

### (2) Strengthening foundations for sustainable growth

Aiming to contribute to a carbon-free society, the Company is working on energy-saving measures and decarbonization in its own facilities, and also provides city gas that has been carbon-offset\* by Tokai Gas to general households.

\* A city gas contract offering in which greenhouse gas emissions from all or part of the process from extraction of raw gas, transportation, and consumption are offset by carbon credits, resulting in effectively zero greenhouse gas emissions. "J Credits" are utilized for carbon credits.

### (3) Maximizing the vitality of the organization and human resources

Since 2023, the Company has raised salary levels for two consecutive years, and has also worked to expand its internal systems for childcare and nursing care support, introduced a career support system, and improved its reskilling program through e-learning and other measures.

#### Strategy by business segment and results targets

	Expansion of earnings base (Area/ No. of customers)	Roll out new services	Results targets	
			FY3/23	FY3/26
<b>Energy business</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 area</li> <li>Advance M&amp;A and alliances in LP gas and city gas</li> </ul>	<ul style="list-style-type: none"> <li>Roll out new services for regional revitalization</li> <li>Roll out new services for solving social issues (Expand sales of TOKAI ZERO SOLAR based on the Power Purchase Agreement (PPA) model, other disaster preparedness services)</li> </ul>	Net sales ¥102.5bn Operating profit ¥7.4bn No. of customers 820,000 customers	Net sales ¥108.7bn Operating profit ¥7.8bn No. of customers 940,000 customers
<b>Information and communications business for corporate customers</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 Operating profit ¥4.7bn	Net sales ¥39.0bn Operating profit ¥5.1bn
<b>Information and communications business for individual customers</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 Operating profit ¥0.6bn No. of customers 840,000 customers	Net sales ¥25.9bn Operating profit ¥1.4bn No. of customers 930,000 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 Operating profit ¥6.2bn No. of customers 1.29 million	Net sales ¥37.9bn Operating profit ¥6.4bn No. of customers 1.35 million customers
<b>Construction equipment and Real estate business</b>	<ul style="list-style-type: none"> <li>Expand business in the Chukyo area</li> <li>Win combined orders through interdivisional and intercompany 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 Operating profit ¥2.0bn	Net sales ¥37.3bn Operating profit ¥3.0bn
<b>Aqua business</b>	<ul style="list-style-type: none"> <li>Strengthen sales in the Shizuoka, Prefecture and the 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 Operating profit ¥0.5bn No. of customers 170,000 customers	Net sales ¥8.7bn Operating profit ¥0.8bn No. of customers 190,000 customers

Source: Prepared by FISCO from the Company's New Medium-Term Management Plan 2025

## Aiming to improve corporate value based on the two axes of capital profitability and growth

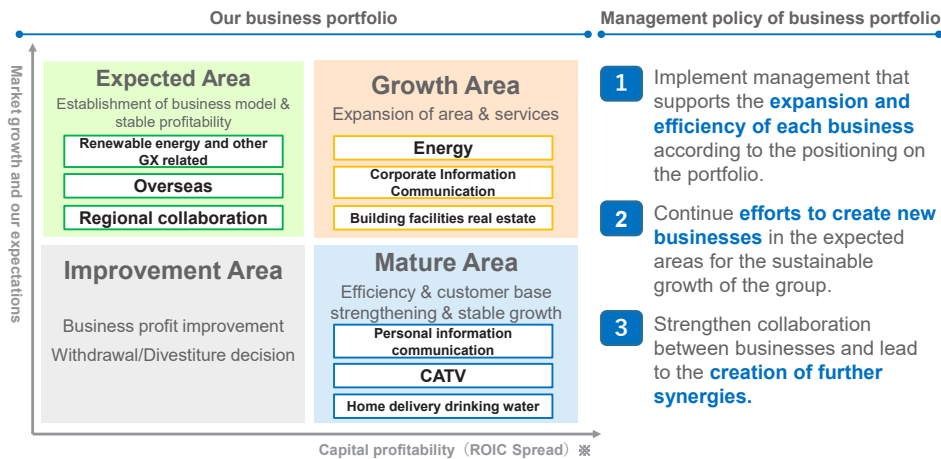
### 2. Initiatives for enhancing corporate value

The Company plans to promote three initiatives targeting improvement in corporate value: (1) business portfolio management; (2) expansion and efficiency improvement in each business; and (3) ESG management. The key measures in FY3/25 are as follows.

#### (1) Initiatives towards business portfolio management

The Company will strengthen management by building a portfolio that realizes group-wide optimization while understanding the business portfolio on the two axes of capital profitability and growth potential. Specifically, the Company has divided the business portfolio into four areas: the growth area (energy, corporate information and communications, construction equipment and real estate), an expected area (renewable energy and other GX related, overseas and regional collaboration), the mature area (individual information and communications, CATV, and Aqua business) and the improvement area (business profit improvement or withdrawal/divestiture decision), and the Company will aim to increase ROE by promoting expansion and greater efficiency for each business depending on their position in the portfolio. In the expected area, the Company plans to continue initiatives to create new businesses for the sustained growth of the Group. Also, by strengthening coordination between businesses, the Company will work to generate Group synergies. Regarding capital profitability for each business, it will be managed using ROIC Spread by business (ROIC for each business minus WACC for each business).

Initiatives to improve corporate value



※Capital profitability for each business is calculated by the ROIC Spread for each business (ROIC for each business - WACC for each business).  
 ROIC for each business is calculated as "NOPAT ÷ (operating capital + fixed assets)". WACC for each business is calculated based on the risk of each business, according to our own standards.

Source: The Company's financial results briefing materials

Medium-term management plan

**(2) Expansion and efficiency improvement of each business**

**a) Growth area**

In the energy business, the Company will work for sustained growth by expanding the customer base through M&A and area and service expansion. In addition, to maintain or increase profitability, it will promote cost-cutting measures such as improved business efficiency through DX. As for its DX strategy, it is proceeding to deploy meters with automated meter-reading. This will not only reduce the cost of meter reading operations, it will allow the Company to grasp consumption volume by customers in real time to make it possible to conduct sales with the optimal timing. It is also expected to make logistics more efficient. The smart meter installation rate was at around 70% as of the end of March 2024 and rose to 88% as of the end of September 2024. The Company aims to make this 100% by the end of FY3/26. Also, as a measure to strengthen customer contact, the Company is promoting the installation of a smartphone app among TLC members. Utilizing this app makes it possible to provide information to customers at the optimal timing, and it is expected to help reduce the cancellation rate and improve the cross-selling rate. As of the end of September 2024, the number of members who have installed the app has steadily increased to 418,000 out of 1,242,000 TLC members (as of the end of March 2024, the number of members who had installed the app was 375,000 out of 1,214,000 TLC members), and the Company aims to have 1,000,000 members install the app by the end of FY3/26.

In information and communications for corporate customers, the Company will work to expand the business area through communications infrastructure investment and increasing capacity at data centers, and also expand recurring revenue. Along with this, the Company's strategy is to capture rampant DX demand by expanding human resources specialized in digital partly by the use of M&A. In addition, in the construction equipment and real estate business, the Company will share Group resources, including construction and real estate, civil engineering projects, and equipment installation projects, and generate Group synergies to achieve earnings growth by expanding market share in the Tokai region.

**b) Expected area**

In renewable energy and other green transformation (GX) related businesses, the Company is involved in promoting the spread of solar power (including PPAs) and battery storage systems, and has invested in a company involved in the energy creation business. While accumulating management know-how for the sustainable energy business, the Company is aiming to be carbon neutral by 2050. Regarding the Company's investments thus far, in July 2023, TOKAI participated in the IPO of REPOWER ENERGY DEVELOPMENT CORPORATION, a hydropower operating company in the Philippines, acquiring 65mn shares (10% stake, 5 Filipino pesos per share) for approximately ¥0.8bn. Additional shares were acquired subsequently such that in February 2024 the Company's ownership stake was 20% and the company became an equity-method affiliate. Additionally, in December 2023, TOKAI Venture Capital & Incubation Corporation invested in Albatross Technology Inc., which develops floating vertical axis wind turbines\* for power generation. Investment in Albatross Technology is intended for the Group to gather information and knowledge in the GX area. Although the Company has made no investments since April 2024, it remains committed to considering investing in companies related to the GX business.

\* The portion of offshore floating vertical axis wind turbines that floats in the ocean has been made compact, and through innovations in turbine manufacturing methods, manufacturing costs and operating cost are expected to be reduced compared to conventional turbines (horizontal axis). Joint research has already begun with various companies and groups.

Regarding the overseas business, in the energy business, the Company has made an LP gas suppliers in Vietnam and a hydropower company in the Philippines equity-method affiliates, and in the information and communications business, the Company will develop business including AWS installation and support primarily in Indonesia and Taiwan. The impact of the overseas business on short-term results is marginal, but it is being developed with the expectation that it will contribute to earnings over the medium to long term.

Medium-term management plan

Regarding regional collaboration, the Company is promoting locally rooted services and initiatives via public-private coordination through its Group companies. Specifically, a subsidiary that handles the CATV business is operating four fitness gyms\* and Tokai Gas operates two campgrounds within Shizuoka Prefecture. One is Mt. Bikuishi Quiet Night Campsite, which opened in March 2024. The site is intended to revitalize the low upland region of Fujieda City under its Fujieda Pottery Village Plan. The other campsite is Narakokonosato Camp Field, which was opened by Kakegawa City and features campsites and hot springs facilities (FY2022 users: 74,000 for the campsites, 63,000 for the hot springs lodge). This is a business that has been transferred to the Company. Kakegawa City held an open recruitment for its privatization and the Company was selected in October 2023 and began operations in April 2024.

\* Retio Body Design, a 24-hour, year-round fitness gym, is developed as a franchise by KEIAI Link Ltd. TOKAI Cable Network operates one of the gyms and one is operated by Kurashiki Cable Television.

### (3) Initiatives towards ESG management

The Company aims to further improve its PER by accelerating its ESG initiatives that lead to sustainable growth.

#### a) Environment

One initiative to achieve carbon neutrality by 2050 is promoting GX for energy used by customers and its own business activities. For energy use by customers, the Company is promoting the spread of energy-saving equipment, promoting the deployment of sustainable energy, promoting low and carbon-free initiatives together with local communities, and strengthening its response to decarbonizing raw materials. In addition, with regard to its own business activities, it is working on improving the efficiency of delivery in the LP gas business through DX promotion, automate meter-reading, install solar power facilities on its own sites, and work to transition to renewable energy for the electricity used at business offices.

#### b) Society

As for human capital investment, the Company will maximize human resource and organizational vitality and promote the improvement of employee well-being. Specifically, toward realization of the “ideal individual,” the Company will enhance autonomous career support and reskilling support. Further, toward realization of the “ideal organization,” the Company is involved in realizing diverse work styles, reforming systems to raise job satisfaction, practicing health and productivity management at a high level, and offering training for managers on the matter of psychological safety and coaching.

#### c) Governance

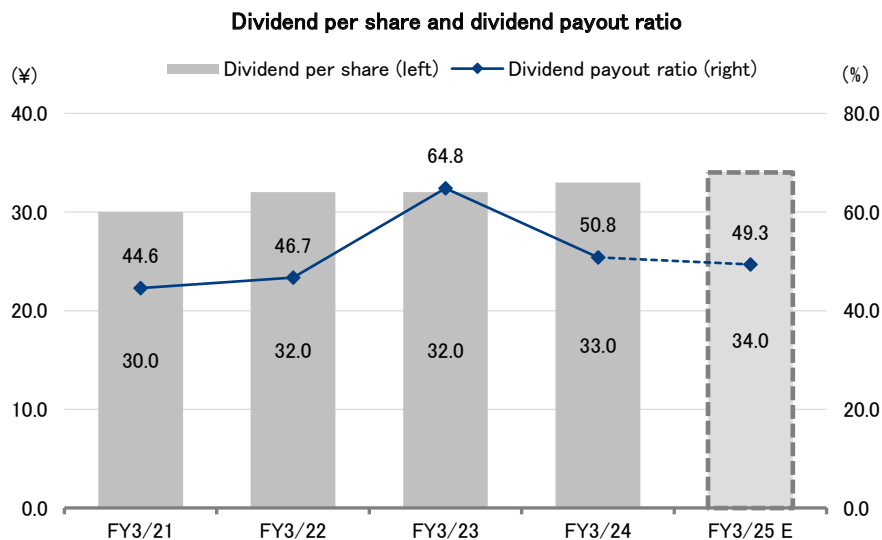
To ensure thorough compliance and governance, the Company will strengthen training for executives and managers and work to further raise the compliance awareness of the organization. Additionally, it will strengthen internal controls and entrench governance throughout the organization.

## Shareholder return policy

### Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%

As for the Company’s shareholder return policy, it provides dividends and shareholder benefits. In addition, depending on the situation, it buys back its own shares. In this way, it is actively engaged in shareholder returns. Regarding dividends, the basic policy is to pay a stable and ongoing dividend with a target payout ratio of 40–50%, striving to enhance corporate competitiveness and maximize corporate value while strengthening the management structure and considering future business development. Based on this policy, in FY3/25, the Company plans to raise the dividend per share by ¥1.0 YoY to ¥34.0 (dividend payout ratio of 49.3%), for a second consecutive fiscal year of increase.

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 annual investment yield per share unit, including the gifts to shareholders, in an estimate using the current share price level (closing price of ¥920 on November 20, 2024), is in the range of 4.8% to 8.4% (in the case that the shareholder selects a QUO card or an Aqua product as the gift).



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, if desired, 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	5,000 or more shares
Aqua product	¥2,170 worth	¥4,340 worth	¥8,680 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
LIBMO monthly usage fee	¥2,100 worth	¥5,100 worth	¥11,280 worth

Source: Prepared by FISCO from the Company website



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