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# TOKAI Holdings

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# Executive summary

TOKAI Holdings is a unique company with two main business areas, its legacy energy business (LP gas and city gas) and its information and communications and CATV businesses. Although it may change somewhat from year to year, these business areas generate over 80% of sales, making energy, and information and communications and CATV its earnings pillars. As of end-FY03/21, TOKAI Holdings had 3.1mn customers (general consumers) within its service areas, including Shizuoka Prefecture and the Kanto area. The company is pushing ahead with its Total Life Concierge (TLC) concept, under which it aims to create a one-stop shop for the goods and services desired by its customers (such as gas, information and communications, CATV, construction, equipment, real estate, and home water delivery). TOKAI Holdings Corporation was established on April 1, 2011, after the management integration of TOKAI Corporation (registered name: The TOKAI Corporation) and TOKAI Communications Corporation (formerly VIC TOKAI Corporation; name changed on October 1, 2011), and an accompanying transfer of shares to a holding company.

The company's energy business (39.3% of FY03/21 sales, 40.2% of operating profit) and information and communications and CATV businesses (43.0%, 51.3%) are synergistic and are the sources of the company's competitive advantage and its growth. The first area where synergies are realized is in the area of personnel. At its B2C businesses, the company has a total of 1,600 local sales representatives that are engaged in door-to-door sales and are thus in a position to offer a range of services to meet the needs of individual customers. Unlike other companies in the industry, TOKAI Holdings uses its own people for new customer development and does not farm out this task to outside contractors. Its sales force also differs from competitors in its ability to offer a wide range of services. Offering everything from energy to information and communications, TOKAI Holdings' sales representatives are productive, and the company has taken advantage of this productivity to continue adding new customers, make effective acquisitions, and expand its business territory.

The second area where synergies are realized is on the capital side. During the past ten years TOKAI Holdings has generated some JPY20–25bn in operating cash flow every year, well more than the roughly JPY15bn in operating cash flow generated by an industry peer Nippon Gas Co., Ltd. (TSE1: 8174), the JPY5–10bn in operating cash flow generated by Mitsui Group Holdings Co., Ltd. (TSE1: 8131), or the roughly JPY5bn in operating cash flow generated annually by SINANEN Holdings Co., Ltd. (TSE1: 8132). The much greater operating cash flow generated TOKAI Holdings has given it a clear competitive edge over its peers by providing it the wherewithal in terms of capital to fund growth investment and shareholder returns.

Aided by its strong competitive position, TOKAI Holdings has been able to expand its sales territory by actively pursuing M&A and alliances. The versatility of its sales representatives, discussed above, means it does not need to worry about limiting its acquisition targets to just one particular industry. This is because its Total Life Concierge service package brings the gas companies and CATV service providers it acquires together so that multiple products can be efficiently sold through the same sales channel.

Business acquisitions in recent years include Sendai CATV Co., Ltd. (in March 2020), Shioya Ltd. (a CATV service provider in eastern Shizuoka Prefecture, acquired in October 2019), TV Tsuyama Inc. (a CATV service provider in Okayama Prefecture, acquired in February 2018), Tokyo Bay Network Co., Ltd. (a CATV service provider in the Tokyo Metropolitan Area, acquired in July 2017), Shimonita's city gas business (Gunma Prefecture, acquired in April 2019), and Nikaho's city gas business (Akita Prefecture, acquired in April 2020).

The company's housing-related business is not new, but aggressive M&A to expand the construction business has been a feature in recent years. In September 2019, TOKAI Holdings acquired Nissan Tri Star Construction, Inc., a general construction company in Gifu Prefecture whose mainstay business is civil engineering work. In August 2020, the company also acquired Chuo Denki Koji Co., Ltd., based in Aichi Prefecture, whose core business is electrical construction. Reasons for pursuing M&A are: 1) to move into new business territories such as Gifu and Aichi prefectures; 2) to expand into other industries to generate synergies to grow the customer base of its Energy and Information and Communication businesses; and 3) to strategically expand its business portfolio to become an all-round infrastructure company.

## Trends and outlook

Full-year FY03/21 results: The company reported sales of JPY196.7bn (+0.4% YoY), operating profit of JPY15.2bn (+7.0% YoY), recurring profit of JPY15.3bn (+5.8% YoY), and net income attributable to owners of the parent of JPY8.8bn (+7.0% YoY). The company posted record sales for the fourth consecutive year and record profit for the third year running. Despite the sales decline from lower LP gas and city gas purchase prices pushing down gas selling prices (although this had no impact on profit) and negative impact of the COVID-19 pandemic, sales increased YoY on growth in household LP gas sales volume, an

expansion in recurring revenue business for information and communications companies, and a rise in CATV and Aqua (water home delivery service) customers.

For FY03/22, the company forecasts full-year consolidated sales of JPY207.0bn (+5.2% YoY), operating profit of JPY15.2bn (+0.1% YoY), recurring profit of JPY15.3bn (+0.1% YoY), and net income attributable to owners of the parent of JPY8.8bn (+0.2% YoY). The annual dividend forecast is JPY30 per share (flat YoY). The company expects sales to grow 5.2% YoY in FY03/22 on the back of an ongoing increase in customer count and project orders, but anticipates flat profits because of expenses to prepare an environment for customer acquisition and work style reforms.

On May 11, 2021, the company unveiled the TOKAI Group Medium-Term Plan IP24 (Innovation Plan 2024 “Design the Future Life”), a four-year plan spanning FY03/22 through FY03/25. FY03/25 targets are sales of JPY245.0bn (versus JPY196.7bn in FY03/21), operating profit of JPY18.6bn (JPY15.2bn), net income attributable to owners of the parent of JPY11.0bn (JPY8.8bn), cash flow from operating activities\* of JPY26.0bn (JPY22.4bn), ROE of 13% or higher (12.7%), ROIC of 9.9% or higher (9.2%), dividend payout ratio of 40–50% (44.6%), equity ratio of around 40% (41.6%), and 3,560,000 customers (3,100,000). (\*cash flow from operating activities = operating profit + depreciation - lease payments - taxes)

The basic concept of the medium-term plan is to become a Life Design Group in 10 years’ time, continuing to expand and improve its services with a vision of making the company’s TLC concept a reality. The basic concept of the medium-term plan is to become a Life Design Group in 10 years’ time, continuing to expand and improve its services with a vision of making the company’s TLC concept a reality. Life Design Group is a stance of helping to solve social problems by designing and proposing lifestyles that appeal to customers. IP24 is positioned as the foundation-building stage. The five key messages of IP24 are as follows. 1) promote LNG strategy (business expansion in existing areas, in Japan, and overseas), 2) advance the TLC concept, 3) further strengthen and expand customer base through full-scale DX strategy, 4) optimize allocation of management resources, and 5) strengthen SDGs initiatives.

## Strengths and weaknesses

Shared Research thinks TOKAI Holdings’ strengths center on its regional dominance providing greater profit contributions from non-gas businesses, flexibility to take business away from major utility companies, and beneficiary of structural reform and realignment of the LP gas industry. Weaknesses center on its lack of experience in cross-selling, structural decline in LP gas market, and intensifying competition in the CATV business. (See the Strengths and weaknesses section for details.)

# Key financial data

Income statement	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
(JPYmn)	Cons. **	Cons.	Est.									
<b>Sales</b>	<b>174,901</b>	<b>181,931</b>	<b>181,684</b>	<b>188,987</b>	<b>187,511</b>	<b>180,940</b>	<b>178,631</b>	<b>186,069</b>	<b>191,600</b>	<b>195,952</b>	<b>196,726</b>	<b>207,000</b>
YoY	9.8%	4.0%	-0.1%	4.0%	-0.8%	-3.5%	-1.3%	4.2%	3.0%	2.3%	0.4%	5.2%
Energy	95,697	98,316	94,519	97,229	93,067	80,745	73,344	76,073	77,977	78,154	77,380	
Information and Communications	34,725	37,943	38,497	38,803	40,118	44,246	49,508	50,894	51,234	51,753	50,735	
CATV	22,647	24,292	23,786	24,187	24,359	24,608	25,396	28,386	30,511	31,385	33,745	
Construction, Equipment, and Real Estate	14,907	15,881	15,756	19,245	20,019	20,975	19,511	19,807	20,090	22,383	23,177	
Aqua	-	-	3,750	4,378	4,959	5,487	5,762	6,200	7,004	7,416	7,622	
Other	6,923	5,498	5,374	5,142	4,987	4,875	5,108	4,706	4,781	4,858	4,065	
<b>Gross profit</b>	<b>67,445</b>	<b>69,537</b>	<b>68,809</b>	<b>68,341</b>	<b>68,932</b>	<b>69,812</b>	<b>73,040</b>	<b>75,336</b>	<b>76,159</b>	<b>79,289</b>	<b>82,870</b>	
YoY	6.5%	3.1%	-1.0%	-0.7%	0.9%	1.3%	4.6%	3.1%	1.1%	4.1%	4.5%	
Gross profit margin	38.6%	38.2%	37.9%	36.2%	36.8%	38.6%	40.9%	40.5%	39.7%	40.5%	42.1%	
<b>Operating profit</b>	<b>10,755</b>	<b>10,923</b>	<b>8,934</b>	<b>7,392</b>	<b>9,003</b>	<b>8,245</b>	<b>12,750</b>	<b>10,971</b>	<b>13,057</b>	<b>14,224</b>	<b>15,226</b>	<b>15,240</b>
YoY	7.2%	1.6%	-18.2%	-17.3%	21.8%	-8.4%	54.6%	-14.0%	19.0%	8.9%	7.0%	0.1%
Operating profit margin	6.1%	6.0%	4.9%	3.9%	4.8%	4.6%	7.1%	5.9%	6.8%	7.3%	7.7%	7.4%
<b>Recurring profit</b>	<b>9,489</b>	<b>9,818</b>	<b>8,065</b>	<b>7,013</b>	<b>8,549</b>	<b>8,150</b>	<b>12,775</b>	<b>11,191</b>	<b>13,259</b>	<b>14,479</b>	<b>15,312</b>	<b>15,320</b>
YoY	-12.3%	3.5%	-17.9%	-13.0%	21.9%	-4.7%	56.7%	-12.4%	18.5%	9.2%	5.8%	0.1%
Recurring profit margin	5.4%	5.4%	4.4%	3.7%	4.6%	4.5%	7.2%	6.0%	6.9%	7.4%	7.8%	7.4%
<b>Net income</b>	<b>2,152</b>	<b>2,715</b>	<b>3,085</b>	<b>2,598</b>	<b>3,934</b>	<b>3,458</b>	<b>7,337</b>	<b>6,620</b>	<b>7,772</b>	<b>8,241</b>	<b>8,815</b>	<b>8,830</b>
YoY	-30.1%	26.2%	13.6%	-15.8%	51.4%	-12.1%	112.2%	-9.8%	17.4%	6.0%	7.0%	0.2%
Net margin	1.2%	1.5%	1.7%	1.4%	2.1%	1.9%	4.1%	3.6%	4.1%	4.2%	4.5%	4.3%
<b>Per-share data</b>												
Shares issued (year-end; '000)	70,845	155,200	155,200	155,200	155,200	139,680	139,680	139,680	139,680	139,680	139,680	
EPS	30.5	27.2	29.9	22.7	34.2	30.0	64.5	51.2	59.4	62.9	67.3	67.4
EPS (fully diluted)	30.5	-	-	-	34.1	26.9	56.3	50.5	-	-	-	
Dividend per share	8.0	12.0	12.0	12.0	12.0	14.0	28.0	28.0	28.0	28.0	30.0	30.0
Book value per share	210.8	262.9	289.3	325.8	368.2	362.8	439.0	460.7	478.3	493.3	568.9	
<b>Balance sheet (JPYmn)</b>												
Cash and cash equivalents	8,622	2,602	4,235	3,182	2,861	4,077	3,239	3,143	4,164	4,629	5,577	
<b>Total current assets</b>	<b>49,744</b>	<b>41,093</b>	<b>40,351</b>	<b>40,606</b>	<b>35,959</b>	<b>38,117</b>	<b>38,594</b>	<b>39,951</b>	<b>42,506</b>	<b>44,268</b>	<b>46,932</b>	
Tangible fixed assets	110,613	110,207	106,602	103,129	98,935	95,064	93,647	96,810	97,030	98,353	101,800	
Investments and other assets	15,996	14,995	15,638	16,855	19,539	16,149	17,860	18,030	16,937	16,518	19,552	
Intangible assets	16,654	17,266	14,906	12,943	11,224	10,940	10,988	11,198	11,128	10,831	10,687	
<b>Total assets</b>	<b>193,239</b>	<b>183,735</b>	<b>177,642</b>	<b>173,620</b>	<b>165,702</b>	<b>160,303</b>	<b>161,112</b>	<b>165,993</b>	<b>167,606</b>	<b>169,972</b>	<b>178,974</b>	
Accounts payable	12,652	13,636	13,019	14,105	13,035	13,511	14,779	15,670	15,021	15,034	17,226	
Short-term debt	56,756	50,834	48,614	44,169	36,279	28,586	26,888	27,358	25,966	23,831	16,107	
<b>Total current liabilities</b>	<b>89,783</b>	<b>85,179</b>	<b>82,563</b>	<b>78,905</b>	<b>71,160</b>	<b>62,958</b>	<b>61,304</b>	<b>63,705</b>	<b>61,385</b>	<b>60,617</b>	<b>57,009</b>	
Long-term debt	65,400	53,404	44,093	41,171	36,790	42,823	39,596	36,793	38,131	38,991	41,304	
<b>Total fixed liabilities</b>	<b>81,866</b>	<b>71,374</b>	<b>61,068</b>	<b>56,385</b>	<b>51,074</b>	<b>55,373</b>	<b>43,361</b>	<b>40,837</b>	<b>42,325</b>	<b>43,372</b>	<b>45,908</b>	
<b>Total liabilities</b>	<b>171,649</b>	<b>156,553</b>	<b>143,631</b>	<b>135,291</b>	<b>122,234</b>	<b>118,332</b>	<b>104,665</b>	<b>104,543</b>	<b>103,711</b>	<b>103,989</b>	<b>102,917</b>	
<b>Total net assets</b>	<b>21,589</b>	<b>27,181</b>	<b>34,011</b>	<b>38,329</b>	<b>43,467</b>	<b>41,970</b>	<b>56,446</b>	<b>61,450</b>	<b>63,894</b>	<b>65,982</b>	<b>76,056</b>	
Total interest-bearing debt	122,156	104,238	92,707	85,340	73,069	71,409	66,484	64,151	64,097	62,822	57,411	
<b>Cash flow statement (JPYmn)</b>												
Cash flows from operating activities	23,521	28,584	25,713	22,806	27,265	21,395	26,692	20,909	21,605	22,535	32,223	
Cash flows from investing activities	-14,601	-10,037	-9,983	-9,664	-8,851	-11,015	-10,985	-11,488	-12,443	-12,131	-17,068	
Cash flows from financing activities	-11,278	-24,255	-14,051	-14,125	-18,764	-9,150	-16,643	-9,527	-8,147	-10,375	-14,064	
<b>Financial ratios</b>												
ROA (RP-based)	4.9%	5.2%	4.5%	4.0%	5.0%	5.0%	7.9%	6.8%	7.9%	8.6%	8.8%	
ROE	14.8%	13.1%	10.4%	7.4%	9.8%	8.3%	15.2%	11.4%	12.6%	13.0%	12.7%	
Equity ratio	7.8%	14.3%	18.6%	21.6%	25.7%	25.6%	34.5%	36.3%	37.4%	38.0%	41.6%	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Results for FY03/11 and prior years are of TOKAI Corp.

## Segment sales and operating profit after allocation of overhead expenses

Segment sales and operating profit (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons. **	Cons.									
<b>Sales</b>	<b>174,901</b>	<b>181,931</b>	<b>181,684</b>	<b>188,987</b>	<b>187,511</b>	<b>180,940</b>	<b>178,631</b>	<b>186,069</b>	<b>191,600</b>	<b>195,952</b>	<b>196,726</b>
YoY	9.8%	4.0%	-0.1%	4.0%	-0.8%	-3.5%	-1.3%	4.2%	3.0%	2.3%	0.4%
Energy	95,697	98,316	94,519	97,229	93,067	80,745	73,344	76,073	77,977	78,154	77,380
YoY	7.5%	2.7%	-	2.9%	-4.3%	-13.2%	-9.2%	3.7%	2.5%	0.2%	-1.0%
% of total	54.7%	54.0%	52.0%	51.4%	49.6%	44.6%	41.1%	40.9%	40.7%	39.9%	39.3%
Information and Communications	34,725	37,943	38,497	38,803	40,118	44,246	49,508	50,894	51,234	51,753	50,735
YoY	0.2%	9.3%	1.5%	0.8%	3.4%	10.3%	11.9%	2.8%	0.7%	1.0%	-2.0%
% of total	19.9%	20.9%	21.2%	20.5%	21.4%	24.5%	27.7%	27.4%	26.7%	26.4%	25.8%
CATV	22,647	24,292	23,786	24,187	24,359	24,608	25,396	28,386	30,511	31,385	33,745
YoY	44.7%	7.3%	-2.1%	1.7%	0.7%	1.0%	3.2%	11.8%	7.5%	2.9%	7.5%
% of total	12.9%	13.4%	13.1%	12.8%	13.0%	13.6%	14.2%	15.3%	15.9%	16.0%	17.2%
Construction, Equipment, and Real Estate	14,907	15,881	15,756	19,245	20,019	20,975	19,511	19,807	20,090	22,383	23,177
YoY	3.5%	6.5%	-0.8%	22.1%	4.0%	4.8%	-7.0%	1.5%	1.4%	11.4%	3.5%
% of total	8.5%	8.7%	8.7%	10.2%	10.7%	11.6%	10.9%	10.6%	10.5%	11.4%	11.8%
Aqua	-	-	3,750	4,378	4,959	5,487	5,762	6,200	7,004	7,416	7,622
YoY	-	-	-	16.7%	13.3%	10.6%	5.0%	7.6%	13.0%	5.9%	2.8%
% of total	-	-	2.1%	2.3%	2.6%	3.0%	3.2%	3.3%	3.7%	3.8%	3.9%
Other	6,923	5,498	5,374	5,142	4,987	4,875	5,108	4,706	4,781	4,858	4,065
YoY	25.8%	-20.8%	-2.3%	-4.3%	-3.0%	-2.2%	4.8%	-7.9%	1.6%	1.6%	-16.3%
% of total	4.0%	3.0%	3.0%	2.7%	2.7%	2.7%	2.9%	2.5%	2.5%	2.5%	2.1%
<b>Operating profit</b>	<b>10,755</b>	<b>10,923</b>	<b>8,934</b>	<b>7,392</b>	<b>9,003</b>	<b>8,245</b>	<b>12,750</b>	<b>10,971</b>	<b>13,057</b>	<b>14,224</b>	<b>15,226</b>
YoY	7.2%	1.6%	-18.2%	-17.3%	21.8%	-8.4%	54.6%	-14.0%	19.0%	8.9%	7.0%
Operating profit margin	6.1%	6.0%	4.9%	3.9%	4.8%	4.6%	7.1%	5.9%	6.8%	7.3%	7.7%
Energy	6,154	4,577	5,200	4,520	5,549	6,973	6,942	4,967	4,434	4,907	6,115
YoY	-13.5%	-25.6%	-	-13.1%	22.8%	25.7%	-0.4%	-28.5%	-10.7%	10.7%	24.6%
Operating profit margin	6.4%	4.7%	5.5%	4.6%	6.0%	8.6%	9.5%	6.5%	5.7%	6.3%	7.9%
% of total	57.2%	41.9%	58.2%	61.1%	61.6%	84.6%	54.4%	45.3%	34.0%	34.5%	40.2%
Information and Communications	4,310	4,197	3,746	3,049	3,486	829	3,065	1,866	2,593	2,959	3,086
YoY	20.2%	-2.6%	-10.7%	-18.6%	14.3%	-76.2%	269.7%	-39.1%	39.0%	14.1%	4.3%
Operating profit margin	12.4%	11.1%	9.7%	7.9%	8.7%	1.9%	6.2%	3.7%	5.1%	5.7%	6.1%
% of total	40.1%	38.4%	41.9%	41.2%	38.7%	10.1%	24.0%	17.0%	19.9%	20.8%	20.3%
CATV	2,592	1,648	429	973	862	1,161	2,331	3,035	4,442	4,543	4,719
YoY	38.7%	-36.4%	-74.0%	126.8%	-11.4%	34.7%	100.8%	30.2%	46.4%	2.3%	3.9%
Operating profit margin	11.4%	6.8%	1.8%	4.0%	3.5%	4.7%	9.2%	10.7%	14.6%	14.5%	14.0%
% of total	24.1%	15.1%	4.8%	13.2%	9.6%	14.1%	18.3%	27.7%	34.0%	31.9%	31.0%
Construction, Equipment, and Real Estate	856	555	209	926	495	676	461	655	954	1,379	1,257
YoY	431.7%	-35.2%	-62.3%	343.1%	-46.5%	36.6%	-31.8%	42.1%	45.6%	44.5%	-8.8%
Operating profit margin	5.7%	3.5%	1.3%	4.8%	2.5%	3.2%	2.4%	3.3%	4.7%	6.2%	5.4%
% of total	8.0%	5.1%	2.3%	12.5%	5.5%	8.2%	3.6%	6.0%	7.3%	9.7%	8.3%
Aqua	-	-	-1,029	-2,107	-1,448	-1,275	101	26	520	401	259
YoY	-	-	-	-	-	-	-	-74.3%	1,895.8%	-22.9%	-35.4%
Operating profit margin	-	-	-	-	-	-	-	0.1%	2.6%	1.8%	1.1%
% of total	-	-	-11.5%	-28.5%	-16.1%	-15.5%	0.8%	0.2%	4.0%	2.8%	1.7%
Other	-274	-228	-17	-10	-386	-197	112	301	217	235	-244
YoY	-	-	-	-	-	-	-	168.8%	-27.9%	8.3%	-
Operating profit margin	-	-	-0.3%	-0.2%	-7.7%	-4.0%	2.2%	6.4%	4.5%	4.8%	-6.0%
% of total	-2.5%	-2.1%	-0.2%	-0.1%	-4.3%	-2.4%	0.9%	2.7%	1.7%	1.7%	-1.6%
Adjustments	-2,883	174	396	41	445	78	-265	118	-105	-201	32

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Segment operating profits are after allocation of overhead expenses.

# Recent updates

## Began handling carbon-neutral LPG

2022-02-01

On January 31, 2022, TOKAI Holdings Corporation announced that its wholly owned subsidiary, TOKAI Corporation, began handling carbon-neutral LPG.

In May 2021, the TOKAI group formulated the Carbon Neutral Vision with an eye toward the achievement of carbon neutrality by 2050. In the vision, as a gas retailer, the company aims to actively participate in the gas industry's efforts to decarbonize. The vision also states that the company will contribute to decarbonization through, for example, the procurement and sale of carbon-neutral gas.

This announcement to begin handling carbon-neutral LPG is one of the measures aimed at materializing the vision. TOKAI Corporation will purchase carbon-neutral LPG from Astomos Energy Corporation and begin selling it to corporate customers who are working to decarbonize their businesses. As an energy company, TOKAI Corporation will strive to reduce greenhouse gas emissions by promoting the use of carbon-neutral LPG. At the same time, the TOKAI group will work to decarbonize its operations by using carbon-neutral LPG for LP gas used at its offices.

## Additional monetary contribution to a board benefit trust (BBT)

2022-01-28

On January 27, 2022, TOKAI Holdings Corporation resolved to make an additional monetary contribution to a board benefit trust (BBT), a trust it has established based on a trust agreement concluded with Mizuho Trust & Banking Co., Ltd.

The company decided to make an additional monetary contribution to the trust as funds for the trust to acquire shares expected to be required for future benefit distributions to maintain the BBT system.

### Overview of additional trust

- Date of additional trust: February 10, 2022 (planned)
- Amount of additional trust: JPY120mn
- Type of shares to be acquired: Common stock of the company
- Maximum number of shares to be acquired: 131,000
- Acquisition period: February 10–March 9, 2022 (planned)
- Acquisition method: Acquisition via stock exchange transactions

Please refer to the notice regarding the introduction of a BBT system dated May 10, 2016 and the notice regarding the details of a BBT system dated August 5, 2016 for an overview of the company's BBT system (Japanese only).

## Sales area expansion for the LP gas business

2022-01-06

On January 6, 2022, TOKAI Holdings Corporation announced that wholly owned subsidiary TOKAI Corporation (operator of the company's Energy business, which includes LP gas sales) had opened a sales office in Fukuyama, Hiroshima Prefecture.

In its new medium-term management plan, Innovation Plan 2024 "Design the Future Life" (IP24), the group has outlined a local, national, and global (LNG) strategy for "expanding its business domain starting with local areas situated primarily in the Shizuoka and Kanto regions before spreading throughout Japan and later to areas located overseas." The company will especially apply this strategy in its Energy business, where it plans to pursue nationwide expansion of its LPG business by extending its business domain in the Shikoku region and Western Japan.

In pursuit of nationwide expansion and a broader customer base for its LP gas business, TOKAI has extended the domain of its LP gas business to include the Tohoku and Sendai regions in Northern Japan and the Kyushu and Kumamoto regions of Southern Japan. The company currently maintains a base of 670,000 customers who are situated in 16 different prefectures located primarily within the Tokai and Kanto regions of Japan.

With the opening of its new sales office in Fukuyama, Hiroshima Prefecture (following its previous establishment of a sales office in Okayama Prefecture, which is also located in Japan's Chugoku region), the company will expand into the eastern portion of Hiroshima Prefecture. Hiroshima Prefecture has the largest population and the largest number of LP gas-consuming households in the Chugoku region, making it a powerful trading area for LP gas. The company believes that its entry into Hiroshima Prefecture will broaden the foundation of its LP gas business and create opportunities for wider use of its products and services.

## Investment in Audit Digital & Innovation Consortium and business launch

2021-12-10

On December 9, 2021, TOKAI Holdings Corporation announced that its wholly owned subsidiary TOKAI Communications Corporation jointly established Audit Digital & Innovation Consortium ("ADIC") with three audit firms.

Wholly owned subsidiary TOKAI Communications, along with three audit firms Gyosei & Co., Avantia GP, and RSM Seiwa, jointly established ADIC with the aim of providing small and medium-sized audit firms—the key players supporting the future of Japan's securities market—with a common IT infrastructure in which these firms can securely use an electronic audit record system (a system that electronically integrates and manages audit records audit firms are obliged to create, organize, and store).

### Background and purpose of joint venture

Japan's securities market is unique in that many of the listed companies are medium-sized corporations, and for this reason, there has been growing expectations and needs for small and medium-sized audit firms. In response, the Financial Services Agency has announced a policy aimed at cultivating these audit firms, under which the agency has outlined measures to support the utilization of IT for enhancing the quality audit processes, including support for the adoption of electronic audit reports and other digitalization efforts. Amid rapid technological developments in the IT environment, small and medium-sized audit firms are facing immediate needs to promote digitalization and implement cybersecurity measures, but they find it difficult to make investments into these areas on their own due to limited capital and personnel resources. To address such needs of small and medium-sized audit firms, the four companies above decided to establish ADIC to launch a joint business aimed at providing a platform to promote and accelerate digitalization initiatives of these audit firms, including by facilitating the adoption of electronic audit report systems.

### Business outlook

ADIC will launch a business primarily focused on providing a common IT infrastructure to enable small and medium-sized audit firms, whose position in Japan's securities market is expected to rise, to use electronic audit report systems in a secure environment. The common IT infrastructure is already adopted by the three audit firms participating in the joint venture, and is in operations with over 500 users. TOKAI Communications, another participating member of the joint venture, has a track record of building and operating cloud-based infrastructure, and will support ADIC's services in the utilization of the common IT infrastructure.

## TOKAI Communications opens a communication services connection point on SCSK's netXDC Inzai Campus

2021-12-07

On December 6, 2021, TOKAI Holdings Corporation announced the opening by wholly owned subsidiary, TOKAI Communications, of a communication services connection point on SCSK's netXDC Inzai Campus.

Together with SCSK Corporation, the company's wholly owned subsidiary, TOKAI Communications, has opened a connection point to TOKAI Communications' BroadLine communications service for carriers and corporations, on SCSK's netXDC Inzai Campus (Inzai, Chiba Prefecture).

TOKAI Communications' BroadLine service utilizes the group's optical fiber network to provide connectivity between client companies' physical sites and connection services to major public clouds.

The newly opened connection point will enable SCSK to provide its data center customers with a high-quality communication service at low cost and with less delivery time.

#### **Background to collaboration**

In recent years, greater uptake of cloud services and faster access lines have created an increase in data traffic that in turn has generated stronger demand for broadband connections. To meet this demand, TOKAI Communications has established a communication facility on the netXDC Inzai Campus that can satisfy all bandwidth requirements from 10Mbps to 100Gbps.

As the connection point can be accessed from the campus' structured cabling, it is possible to provide a high-quality communication service that combines less delivery time with low cost, delivering connectivity between client companies' physical sites, as well as connections to major public clouds, internet, and overseas sites. Moreover, this high-capacity and highly reliable communication service can flexibly support hybrid cloud connections and multicloud connections with complex configurations.

#### **Purpose of collaboration**

TOKAI Communications and SCSK will work together to realize efficient connections for service users and contribute to improving connection quality and reducing costs. They aim to draw on their extensive expertise in data center services, network services, and system development and infrastructure construction and operation for companies.

TOKAI Communications will continue to provide customers with one-stop and total support for all processes from infrastructure installation to the design, construction, and operation of cloud services, harnessing the technology and expertise it has cultivated over years as a system integrator.

# Trends and outlook

## Quarterly trends and results

Quarterly (JPYmm)	FY03/20				FY03/21				FY03/22			% of Est.	FY Est.
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3		
Sales	45,804	47,211	48,542	54,395	45,113	44,723	49,956	56,934	48,396	47,664	53,360		
YoY	2.8%	6.6%	-1.1%	1.4%	-1.5%	-5.3%	2.9%	4.7%	7.3%	6.6%	6.8%		
Gross profit	18,706	18,459	20,137	21,987	19,651	18,580	21,414	23,225	19,718	19,021	21,360		
YoY	4.1%	7.8%	4.6%	0.7%	5.1%	0.7%	6.3%	5.6%	0.3%	2.4%	-0.3%		
Gross profit margin	40.8%	39.1%	41.5%	40.4%	43.6%	41.5%	42.9%	40.8%	40.7%	39.9%	40.0%		
SG&A expenses	15,475	16,189	16,360	17,042	15,868	16,911	16,964	17,900	16,491	17,025	17,334		
YoY	-0.6%	1.0%	4.3%	7.8%	2.5%	4.5%	3.7%	5.0%	3.9%	0.7%	2.2%		
SG&A ratio	33.8%	34.3%	33.7%	31.3%	35.2%	37.8%	34.0%	31.4%	34.1%	35.7%	32.5%		
Operating profit	3,231	2,269	3,778	4,946	3,783	1,669	4,449	5,325	3,226	1,997	4,025		
YoY	35.2%	109.1%	6.0%	-17.8%	17.1%	-26.4%	17.8%	7.7%	-14.7%	19.7%	-9.5%		
Operating profit margin	7.1%	4.8%	7.8%	9.1%	8.4%	3.7%	8.9%	9.4%	6.7%	4.2%	7.5%		
Recurring profit	3,351	2,257	3,870	5,001	3,830	1,669	4,430	5,383	3,353	1,931	4,040		
YoY	34.7%	106.5%	5.5%	-16.8%	14.3%	-26.1%	14.5%	7.6%	-12.5%	15.7%	-8.8%		
Recurring profit margin	7.3%	4.8%	8.0%	9.2%	8.5%	3.7%	8.9%	9.5%	6.9%	4.1%	7.6%		
Net income	2,239	1,253	1,611	3,138	2,445	834	2,657	2,879	1,870	411	2,353		
YoY	56.4%	312.2%	-27.8%	-17.6%	9.2%	-33.4%	64.9%	-8.3%	-23.5%	-50.7%	-11.4%		
Net margin	4.9%	2.7%	3.3%	5.8%	5.4%	1.9%	5.3%	5.1%	3.9%	0.9%	4.4%		
<b>Cumulative</b>	<b>Q1</b>	<b>Q1-Q2</b>	<b>Q1-Q3</b>	<b>Q1-Q4</b>	<b>Q1</b>	<b>Q1-Q2</b>	<b>Q1-Q3</b>	<b>Q1-Q4</b>	<b>Q1</b>	<b>Q1-Q2</b>	<b>Q1-Q3</b>		
Sales	45,804	93,015	141,557	195,952	45,113	89,836	139,792	196,726	48,396	96,060	149,420	72.2%	207,000
YoY	2.8%	4.7%	2.6%	2.3%	-1.5%	-3.4%	-1.2%	0.4%	7.3%	6.9%	6.9%		5.2%
Gross profit	18,706	37,165	57,302	79,289	19,651	38,231	59,645	82,870	19,718	38,739	60,099		
YoY	4.1%	5.9%	5.5%	4.1%	5.1%	2.9%	4.1%	4.5%	0.3%	1.3%	0.8%		
Gross profit margin	40.8%	40.0%	40.5%	40.5%	43.6%	42.6%	42.7%	42.1%	40.7%	40.3%	40.2%		
SG&A expenses	15,475	31,664	48,024	65,066	15,868	32,779	49,743	67,643	16,491	33,516	50,850		
YoY	-0.6%	0.2%	1.6%	3.1%	2.5%	3.5%	3.6%	4.0%	3.9%	2.2%	2.2%		
SG&A ratio	33.8%	34.0%	33.9%	33.2%	35.2%	36.5%	35.6%	34.4%	34.1%	34.9%	34.0%		
Operating profit	3,231	5,500	9,278	14,224	3,783	5,452	9,901	15,226	3,226	5,223	9,248	60.7%	15,240
YoY	35.2%	58.3%	31.8%	8.9%	17.1%	-0.9%	6.7%	7.0%	-14.7%	-4.2%	-6.6%		0.1%
Operating profit margin	7.1%	5.9%	6.6%	7.3%	8.4%	6.1%	7.1%	7.7%	6.7%	5.4%	6.2%		7.4%
Recurring profit	3,351	5,608	9,478	14,479	3,830	5,499	9,929	15,312	3,353	5,284	9,324	60.9%	15,320
YoY	34.7%	56.6%	30.8%	9.2%	14.3%	-1.9%	4.8%	5.8%	-12.5%	-3.9%	-6.1%		0.1%
Recurring profit margin	7.3%	6.0%	6.7%	7.4%	8.5%	6.1%	7.1%	7.8%	6.9%	5.5%	6.2%		7.4%
Net income	2,239	3,492	5,103	8,241	2,445	3,279	5,936	8,815	1,870	2,281	4,634	52.5%	8,830
YoY	56.4%	101.2%	28.7%	6.0%	9.2%	-6.1%	16.3%	7.0%	-23.5%	-30.4%	-21.9%		0.2%
Net margin	4.9%	3.8%	3.6%	4.2%	5.4%	3.6%	4.2%	4.5%	3.9%	2.4%	3.1%		4.3%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## Quarterly performance by segment (segment operating profits are before allocation of overhead expenses)

Segments (quarterly) (JPYmm)	FY03/20				FY03/21				FY03/22				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3		
<b>Sales</b>	<b>45,804</b>	<b>47,211</b>	<b>48,542</b>	<b>54,395</b>	<b>45,113</b>	<b>44,723</b>	<b>49,956</b>	<b>56,934</b>	<b>48,396</b>	<b>47,664</b>	<b>53,360</b>		
YoY	2.8%	6.6%	-1.1%	1.4%	-1.5%	-5.3%	2.9%	4.7%	7.3%	6.6%	6.8%		
Energy	18,577	17,189	19,425	22,963	17,634	15,796	20,007	23,943	18,998	17,155	22,564		
YoY	5.5%	5.2%	-6.3%	-1.5%	-5.1%	-8.1%	3.0%	4.3%	7.7%	8.6%	12.8%		
Information and Communications	12,795	13,116	12,923	12,919	12,650	12,481	12,700	12,904	12,619	12,683	12,904		
YoY	2.3%	3.8%	0.9%	-2.7%	-1.1%	-4.8%	-1.7%	-0.1%	-0.2%	1.6%	1.6%		
CATV	7,738	7,855	7,840	7,952	8,226	8,264	8,504	8,751	7,996	8,085	8,184		
YoY	3.0%	3.0%	1.9%	3.5%	6.3%	5.2%	8.5%	10.0%	-2.8%	-2.2%	-3.8%		
Construction, Equipment, and Real Estate	3,777	5,959	5,183	7,464	3,819	5,255	5,741	8,362	5,542	6,819	6,664		
YoY	-9.3%	23.6%	6.7%	19.5%	1.1%	-11.8%	10.8%	12.0%	45.1%	29.8%	16.1%		
Aqua	1,798	1,954	1,851	1,813	1,896	1,984	1,898	1,844	1,921	1,992	1,898		
YoY	8.8%	6.4%	3.5%	5.1%	5.5%	1.5%	2.5%	1.7%	1.3%	0.4%	0.0%		
Other	1,116	1,139	1,320	1,283	885	943	1,106	1,131	1,319	929	1,147		
YoY	1.5%	11.3%	7.4%	-10.2%	-20.7%	-17.2%	-16.2%	-11.8%	49.0%	-1.5%	3.7%		
<b>Operating profit</b>	<b>3,231</b>	<b>2,269</b>	<b>3,778</b>	<b>4,946</b>	<b>3,783</b>	<b>1,669</b>	<b>4,449</b>	<b>5,325</b>	<b>3,226</b>	<b>1,997</b>	<b>4,025</b>		
YoY	35.2%	109.1%	6.0%	-17.8%	17.1%	-26.4%	17.8%	7.7%	-14.7%	19.7%	-9.5%		
Operating profit margin	7.1%	4.8%	7.8%	9.1%	8.4%	3.7%	8.9%	9.4%	6.7%	4.2%	7.5%		
Energy	1,489	477	3,964	3,488	1,972	410	2,652	3,954	1,578	385	2,354		
YoY	26.0%	-	34.2%	-9.7%	32.4%	-14.0%	-33.1%	13.4%	-20.0%	-6.1%	-11.2%		
Operating profit margin	8.0%	2.8%	20.4%	15.2%	11.2%	2.6%	13.3%	16.5%	8.3%	2.2%	10.4%		
Information and Communications	1,217	1,052	3,366	860	1,110	926	1,045	1,263	1,224	1,181	1,087		
YoY	68.1%	19.0%	29.7%	-30.2%	-8.8%	-12.0%	-69.0%	46.9%	10.3%	27.5%	4.0%		
Operating profit margin	9.5%	8.0%	26.0%	6.7%	8.8%	7.4%	8.2%	9.8%	9.7%	9.3%	8.4%		
CATV	1,286	1,253	3,790	1,234	1,367	1,266	1,469	1,103	1,459	1,498	1,582		
YoY	7.7%	10.3%	6.2%	-10.9%	6.3%	1.0%	-61.2%	-10.6%	6.7%	18.3%	7.7%		
Operating profit margin	16.6%	16.0%	48.3%	15.5%	16.6%	15.3%	17.3%	12.6%	18.2%	18.5%	19.3%		
Construction, Equipment, and Real Estate	213	630	1,242	874	233	388	473	971	263	475	388		
YoY	0.0%	84.8%	35.7%	24.9%	9.4%	-38.4%	-61.9%	11.1%	12.9%	22.4%	-18.0%		
Operating profit margin	5.6%	10.6%	24.0%	11.7%	6.1%	7.4%	8.2%	11.6%	4.7%	7.0%	5.8%		
Aqua	169	231	597	77	271	175	132	-5	37	149	101		
YoY	76.0%	18.5%	34.5%	-75.8%	60.4%	-24.2%	-77.9%	-	-86.3%	-14.9%	-23.5%		
Operating profit margin	9.4%	11.8%	32.3%	4.2%	14.3%	8.8%	7.0%	-	1.9%	7.5%	5.3%		
Other and adjustments	-1,145	-1,374	-3,682	-1,589	-1,171	-1,496	-1,321	-1,961	-1,337	-1,690	-1,487		
<b>Cumulative</b>	<b>Q1</b>	<b>Q1-Q2</b>	<b>Q1-Q3</b>	<b>Q1-Q4</b>	<b>Q1</b>	<b>Q1-Q2</b>	<b>Q1-Q3</b>	<b>Q1-Q4</b>	<b>Q1</b>	<b>Q1-Q2</b>	<b>Q1-Q3</b>		
Sales	45,804	93,015	141,557	195,952	45,113	89,836	139,792	196,726	48,396	96,060	149,420		
YoY	2.8%	4.7%	2.6%	2.3%	-1.5%	-3.4%	-1.2%	0.4%	7.3%	6.9%	6.9%		
Energy	18,577	35,766	55,191	78,154	17,634	33,430	53,437	77,380	18,998	36,153	58,717		

YoY	5.5%	5.4%	0.9%	0.2%	-5.1%	-6.5%	-3.2%	-1.0%	7.7%	8.1%	9.9%			
Information and Communications				12,795	25,911	38,834	51,753	12,650	25,131	37,831	50,735	12,619	25,302	38,206
YoY				2.3%	3.0%	2.3%	1.0%	-1.1%	-3.0%	-2.6%	-2.0%	-0.2%	0.7%	1.0%
CATV				7,738	15,593	23,433	31,385	8,226	16,490	24,994	33,745	7,996	16,081	24,265
YoY				3.0%	3.0%	2.6%	2.9%	6.3%	5.8%	6.7%	7.5%	-2.8%	-2.5%	-2.9%
Construction, Equipment, and Real Estate				3,777	9,736	14,919	22,383	3,819	9,074	14,815	23,177	5,542	12,361	19,025
YoY				-9.3%	8.3%	7.7%	11.4%	1.1%	-6.8%	-0.7%	3.5%	45.1%	36.2%	28.4%
Aqua				1,798	3,752	5,603	7,416	1,896	3,880	5,778	7,622	1,921	3,913	5,811
YoY				8.8%	7.5%	6.1%	5.9%	5.5%	3.4%	3.1%	2.8%	1.3%	0.9%	0.6%
Other				1,116	2,255	3,575	4,858	885	1,828	2,934	4,065	1,319	2,248	3,395
YoY				1.5%	6.2%	6.7%	1.6%	-20.7%	-18.9%	-17.9%	-16.3%	49.0%	23.0%	15.7%
<b>Operating profit</b>				<b>3,231</b>	<b>5,500</b>	<b>9,278</b>	<b>14,224</b>	<b>3,783</b>	<b>5,452</b>	<b>9,901</b>	<b>15,226</b>	<b>3,226</b>	<b>5,223</b>	<b>9,248</b>
YoY				35.2%	58.3%	31.8%	8.9%	17.1%	-0.9%	6.7%	7.0%	-14.7%	-4.2%	-6.6%
Operating profit margin				7.1%	5.9%	6.6%	7.3%	8.4%	6.1%	7.1%	7.7%	6.7%	5.4%	6.2%
Energy				1,489	1,966	3,964	7,452	1,972	2,382	5,034	8,988	1,578	1,963	4,317
YoY				26.0%	81.4%	34.2%	9.3%	32.4%	21.2%	27.0%	20.6%	-20.0%	-17.6%	-14.2%
Operating profit margin				8.0%	5.5%	7.2%	9.5%	11.2%	7.1%	9.4%	11.6%	8.3%	5.4%	7.4%
Information and Communications				1,217	2,269	3,366	4,226	1,110	2,036	3,081	4,344	1,224	2,405	3,492
YoY				68.1%	41.1%	29.7%	10.4%	-8.8%	-10.3%	-8.5%	2.8%	10.3%	18.1%	13.3%
Operating profit margin				9.5%	8.8%	8.7%	8.2%	8.8%	8.1%	8.1%	8.6%	9.7%	9.5%	9.1%
CATV				1,286	2,539	3,790	5,024	1,367	2,633	4,102	5,205	1,459	2,957	4,539
YoY				7.7%	9.0%	6.2%	1.4%	6.3%	3.7%	8.2%	3.6%	6.7%	12.3%	10.7%
Operating profit margin				16.6%	16.3%	16.2%	16.0%	16.6%	16.0%	16.4%	15.4%	18.2%	18.4%	18.7%
Construction, Equipment, and Real Estate				213	843	1,242	2,116	233	621	1,094	2,065	263	738	1,126
YoY				0.0%	52.2%	35.7%	31.0%	9.4%	-26.3%	-11.9%	-2.4%	12.9%	18.8%	2.9%
Operating profit margin				5.6%	8.7%	8.3%	9.5%	6.1%	6.8%	7.4%	8.9%	4.7%	6.0%	5.9%
Aqua				169	400	597	674	271	446	578	573	37	186	287
YoY				76.0%	37.5%	34.5%	-11.5%	60.4%	11.5%	-3.2%	-15.0%	-86.3%	-58.3%	-50.3%
Operating profit margin				9.4%	10.7%	10.7%	9.1%	14.3%	11.5%	10.0%	7.5%	1.9%	4.8%	4.9%
Other and adjustments				-1,145	-2,519	-3,682	-5,271	-1,171	-2,667	-3,988	-5,949	-1,337	-3,027	-4,514

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Segment operating profits are before allocation of overhead expenses.

Note: Beginning in Q1 FY03/21, the company revised the names of some its segments, with the Gas and Petroleum segment becoming the Energy segment and the Building and Real Estate segment becoming the Construction, Equipment, and Real Estate segment. The name changes have no impact on actual earnings in the segments.

## Q3 FY03/22 results (out January 27, 2022)

### Overview

#### Cumulative Q3 FY03/22 results

The company reported sales of JPY149.4bn (+6.9% YoY), operating profit of JPY9.2bn (-6.6% YoY), recurring profit of JPY9.3bn (-6.1% YoY), and net income attributable to owners of the parent of JPY4.6bn (-21.9% YoY). Cumulative Q3 sales grew YoY for the first time in two fiscal years, setting a new record high for the period.

As of end-Q3, the number of continuing customers amounted to 3,142,000, up 43,000 from end-FY03/21. The number of subscribers to TLC Membership Service grew by 87,000 to 1,066,000.

#### Rates of progress

Versus full-year FY03/22 company forecast, cumulative Q3 sales were 72.2% (cumulative Q3 FY03/21 sales were 71.1% of FY03/21 full-year results), operating profit 60.7% (65.0%), recurring profit 60.9% (64.8%), and net income 52.5% (67.3%). Sales, operating profit, and recurring profit exceeded the company's forecasts. Despite the recording of extraordinary losses (details below), net income attributable to owners of the parent was also above internal projections. However, the net increase in the number of continuing customers was only 43,292 in cumulative Q3, lower than the company's full-year projection of 100,000. Accordingly, the company will focus on acquiring customers and preventing contract cancellation in Q4. The company maintains that it will not attempt to secure profits by cutting down on customer acquisition costs. The company has made no changes to its full-year FY03/22 forecast.

#### Sales

In cumulative Q3, sales were JPY149.4bn (+JPY9.6bn, or +6.9%, YoY). Details for individual segments can be found below.

- Energy: JPY58.7bn (+9.9% YoY)
- Information and Communications: JPY38.2bn (+1.0% YoY)
- CATV: JPY24.3bn (-2.9% YoY)
- Construction, Equipment, and Real Estate: JPY19.0bn (+28.4% YoY)
- Aqua: JPY5.8bn (+0.6% YoY)
- Others: JPY3.4bn (+15.7% YoY)

Sales growth was mainly driven by a rise in the number of customers in the Energy and CATV segments, expansion of recurring-revenue businesses targeting corporate customers in the Information and Communications segment, and the impact of M&A in the Construction, Equipment, and Real Estate segment.

## Operating profit

Cumulative Q3 operating profit was JPY9.2bn (JPY653mn, or -6.6%, YoY). A breakdown of operating profit by segment (before allocation of overhead expenses) can be found below.

- Energy: JPY4.3bn (-14.2% YoY)
- Information and Communications: JPY3.5bn (+13.3% YoY)
- CATV: JPY4.5bn (+10.7% YoY)
- Construction, Equipment, and Real Estate: JPY1.1bn (+2.9% YoY)
- Aqua: JPY287mn (-50.3% YoY)
- Others and adjustments: operating loss of JPY4.5bn (loss of JPY4.0bn in cumulative Q3 FY03/21; loss expanded by JPY526mn)

A rise in the monthly billing count due to higher customer numbers and robust performance from the Information and Communications business for corporate customers pushed up profit. However, operating profit fell YoY due to higher customer acquisition costs, because the company moved ahead with customer acquisition at a faster pace than a year ago in the LP gas and Aqua businesses.

One major factor driving growth in operating loss within the Others segment and adjustments was an increase in expenses associated with work style reforms (+JPY230mn in cumulative Q3 after factoring downward impact from lower transportation expenses and other factors), including a rise in home allowance and IT-related expenses and office renovation expenses.

The gross profit margin fell 2.5pp YoY to 40.2%, the SG&A ratio declined 1.6pp YoY to 34.0%, and the operating profit margin decreased 0.9pp YoY to 6.2%.

## Net income attributable to owners of the parent

Net income was JPY4.6bn (JPY1.3bn, or -21.9%, YoY). The company posted JPY1.3bn in extraordinary losses, including one-time losses such as JPY244mn in costs related to events commemorating the company's 10th anniversary, JPY542mn in loss on retirement of non-current assets, and JPY496mn in other costs related to misconduct of a former employee of a company subsidiary (details below).

## Key points

The company established TOKAI Venture Capital & Incubation Corporation in April 2021. This business will promote the TLC concept through synergies with existing businesses and the creation of new lifestyle-related services. In the same month, the company acquired shares in Marco Polo Co., Ltd., which is engaged in large-scale repair work for condominiums and other facilities in the Construction, Equipment, and Real Estate business, and Query Co., Ltd., which is engaged in systems development in the Information and Communication business, and made these companies consolidated subsidiaries. In October 2021, it opened a new LP gas sales office in Kumamoto, Kumamoto Prefecture.

## Results of an investigation into the misconduct of a former employee of the company

The company set up an internal investigation committee (chaired by its legal counsel) to conduct a detailed investigation into the misconduct of a former employee (see the section below, entitled "1H FY03/22 results"). It has received the investigation report from this committee and announced related details on December 24, 2021. In addition, TOKAI Corporation and TOKAI Gas Corporation reported details related to this misconduct, including associated managerial responsibility, recurrence prevention measures, and the impact of this misconduct on the company's consolidated financial statements. In Q2, the company recorded extraordinary losses (see above) consisting of losses and additional projected income taxes associated with this misconduct, and does not expect to record any additional losses as a result of this misconduct. As a preventive measure for its entire corporate group, the company will redouble its compliance efforts on a group-wide basis, upgrade payment processing verification operations, and begin conducting personnel rotation in the accounting departments of group companies.

## Customer count

As of end-Q3, the number of continuing customers amounted to 3,142,000, up 43,000 from end-FY03/21. Versus end-FY03/21, the gas (LP gas and city gas) business had a net increase of 30,000 customers, the CATV business had a net increase of 26,000 customers (including 8,000 from acquisitions), and the Aqua business had a net increase of 3,000 customers.

At the end of Q3, continuing customers were more numerous than projected in the CATV business, but less numerous than projected in the Energy, Aqua, and broadband (part of the Information and Communications segment) businesses. Continuing customers fell short of forecast in the Energy segment, primarily because the company's acquisition of business territories fell behind projections. Meanwhile, the shortfall in the Aqua business was mainly due to a decrease in acquisition opportunities caused by the COVID-19 pandemic. Continuing customers were less numerous than anticipated in the broadband business, mainly because intensified competition resulted in a greater volume of contract suspensions and cancellations than the company had expected (new customer acquisitions were mostly commensurate with the company's projections).

### Change in customer numbers by service type

Number of customers ('000)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	YoY
	Q3	Q3								
<b>Gas (LP gas, city gas)</b>	<b>629</b>	<b>624</b>	<b>629</b>	<b>635</b>	<b>653</b>	<b>674</b>	<b>703</b>	<b>737</b>	<b>774</b>	<b>37</b>
Conventional ISP	848	866	686	538	478	430	396	375	382	7
Hikari Collaboration	-	-	173	288	319	328	324	335	342	7
LIBMO	-	-	-	-	21	39	45	52	55	3
<b>Information and Communications</b>	<b>848</b>	<b>866</b>	<b>859</b>	<b>826</b>	<b>818</b>	<b>797</b>	<b>766</b>	<b>763</b>	<b>779</b>	<b>16</b>
<b>CATV</b>	<b>694</b>	<b>689</b>	<b>704</b>	<b>728</b>	<b>1,002</b>	<b>1,055</b>	<b>1,088</b>	<b>1,188</b>	<b>1,224</b>	<b>36</b>
Aqua	121	133	134	135	143	157	160	162	166	4
Mobile	225	234	235	234	229	220	214	209	195	-14
Security	19	18	18	17	17	17	16	16	16	0
<b>Total</b>	<b>2,510</b>	<b>2,540</b>	<b>2,553</b>	<b>2,551</b>	<b>2,839</b>	<b>2,898</b>	<b>2,933</b>	<b>3,063</b>	<b>3,142</b>	<b>79</b>

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Customer numbers are duplicated for Information and Communications and CATV segments when shown separately, but not in the totals.

\* Mobile virtual network operator (MVNO): Business offering self-branded mobile communication services for mobile phones and PHS devices without building or operating wireless communication facilities, and instead leasing communication lines from major mobile communication carriers.

\*\* The company is actively promoting LIBMO (<http://www.libmo.jp/>) as not only a method to capture new customers in mobile communication, but also as a strategic measure to acquire more contracts and prevent contract termination of fixed-line services, by packaging it with products such as Hikari Collaboration. Specifically, TOKAI is working in partnership with major electronics mass retailers to gain new customers. The company is also working to expand sales to its existing customers by awarding loyalty points in addition to its TLC membership services, and by utilizing flyers and email newsletters.

## Results by segment

Segment results as reported by the company reflect allocated overhead expenses. Beginning in Q1 FY03/21, the company revised the names of some of its segments, with the Gas and Petroleum segment becoming the Energy segment and the Building and Real Estate segment becoming the Construction, Equipment, and Real Estate segment. The name changes have no impact on actual earnings in the segments.

### Energy

In cumulative Q3, sales were JPY58.7bn (+JPY5.3bn, or +9.9%, YoY), and operating profit was JPY2.3bn (JPY14mn, or -23.8%, YoY). Cumulative sales volume increased by about 8% YoY. The main reason for this increase was recovery in demand stemming from the industrial sector. Despite a decrease in consumption per customer, sales generated through household energy customers increased 1% YoY thanks in part to an increase in customers of this type. The YoY decrease in consumption per household energy customer was due to temperature-related factors (a YoY rise of 0.1°C) and absence of the boost previously provided in Q3 FY03/21 by demand stemming from tendency of consumers to remain at home in response to the COVID-19 pandemic.

- ▶ The LP gas business reported sales of JPY50.0bn (+10.7% YoY). The company continued its customer acquisition efforts, and the number of customers expanded to 705,000, up 24,000 from end-FY03/21.
- ▶ The city gas business reported sales of JPY8.7bn (+5.4% YoY). Customer count grew to 68,000, up 6,000 from end-FY03/21. Sales rose, driven by higher sales volume of industrial gas and the fuel cost adjustment system.
- ▶ Operating profit fell mainly due to an increase in customer acquisition costs.
  - Upward impact: JPY740mn from an increase in contracts and JPY650mn from growth in selling prices and factors related to procurement
  - Downward impact: JPY790mn from an increase in customer acquisition costs, JPY460mn from a decrease in consumption, and JPY860mn from an increase in other costs

## Information and Communications

In cumulative Q3, sales were JPY38.2bn (+JPY375mn, or +1.0%, YoY), and operating profit was JPY2.5bn (+JPY322mn, or +15.0%, YoY). The company observed recovery in IT investment, which had previously been subdued, and an expansion in development projects. On the other hand, recurring revenue generated through sales associated with communication lines were almost unchanged YoY.

- ▶ In the Information and Communications business, services for consumers generated sales of JPY18.3bn (-7.6% YoY). In the ISP business, the company expanded its service offerings through a partnership with a major mobile carrier. In the mobile business, it worked to acquire customers by reviewing its service menu and offering set plans bundled with fixed lines. The number of ISP customers decreased by 7,000 from end-FY03/21 to 725,000 while LIBMO customers increased by 2,000 to 55,000. The company steadily expanded its sales channels and worked to halt the slide in net customer count, but sales to consumers declined.
- ▶ In the Information and Communications business, sales to corporate clients were JPY19.9bn (+10.4% YoY). Sales growth was driven by steady progress in cloud services and a higher number of contracted development projects.
- ▶ Operating profit increased 15.0% YoY and exceeded the company's projections by JPY410mn.
  - Upward impact: JPY320mn from profit generated through corporate clients, JPY190mn from improvement in earnings produced through LIBMO, JPY70mn from a decline in costs associated with the acquisition of individual broadband customers, and JPY20mn from other factors
  - Downward impact: JPY190mn from work style reform expenses

## CATV

In cumulative Q3, sales were JPY24.3bn (JPY729mn, or -2.9%, YoY), and operating profit was JPY4.0bn (+JPY304mn, or +8.1%, YoY). The YoY decline in sales was primarily due to downward impact of JPY1.4bn stemming from the company's adoption of the Accounting Standard for Revenue Recognition. Specifically, the company now recognizes revenue from cable phones provided by telecom carriers on a net basis rather than on a gross basis (in which both sales and cost of sales were recorded). This change has no impact on profit.

- ▶ During the COVID-19 pandemic, as a community-based operator, the company focused on delivering local information and program production, as well as working with major video distribution companies (such as Netflix and DAZN) to enhance its content offerings, striving to help customers enjoy staying at home. Cautious yet constant and sustained sales activities in each area enabled the company to acquire new customers, with the number of broadcasting services customers increasing by 10,000 from end-FY03/21 to 885,000, while communications services customers increased by 16,000 to 339,000. Customers for both broadcasting and telecommunications services were more numerous than the company projected.
- ▶ Operating profit increased 8.1% YoY due mainly to an increase in customer count.

## Construction, Equipment, and Real Estate

In cumulative Q3, sales were JPY19.0bn (+JPY4.2bn, or +28.4%, YoY), and operating profit was JPY555mn (+JPY16mn, or +3.1%, YoY).

- ▶ The company made progress in M&A, and orders for equipment work increased. As a result, sales and profit grew YoY.

- ▶ The 3.1% YoY increase in operating profit was mainly due to YoY growth of JPY30mn in profit generated through renovation projects for individual customers.

## Aqua

In cumulative Q3, sales were JPY5.8bn (+JPY33mn, or +0.6%, YoY), and operating profit was JPY67mn (JPY266mn, or -79.7%, YoY).

- ▶ Sales grew thanks to favorable performance from events held at large commercial facilities and telemarketing and other non-face-to-face sales activities. Customer count amounted to 166,000, up 3,000 from end-FY03/21.
- ▶ Operating profit decreased due to higher customer acquisition costs.
  - Upward impact: Increase in customer count
  - Downward impact: JPY260mn from an increase in customer acquisition costs and JPY30mn from a decrease in consumption

## Others

In cumulative Q3, sales were JPY3.4bn (+15.7% YoY), and the operating loss came to JPY111mn (operating loss of JPY120mn in cumulative Q3 FY03/21).

- ▶ In the nursing care business, user numbers rose and sales amounted to JPY1.0bn (+1.1% YoY).
- ▶ In the shipbuilding business, the number of ships repaired grew, and sales came to JPY1.2bn (+22.2% YoY).
- ▶ In the bridal events business, sales were JPY515mn (+60.0% YoY), reflecting a slight recovery in the number of wedding ceremonies and meetings held at the group's banquet halls and hotels.

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

# Full-year company forecast

Est. (JPYmn)	FY03/20			FY03/21			FY03/22		
	1H Act.	2H Act.	Full-year	1H Act.	2H Act.	Full-year	1H Act.	2H Est.	FY Est.
<b>Sales</b>	<b>93,015</b>	<b>102,937</b>	<b>195,952</b>	<b>89,836</b>	<b>106,890</b>	<b>196,726</b>	<b>96,060</b>	<b>110,940</b>	<b>207,000</b>
YoY	4.7%	0.2%	2.3%	-3.4%	3.8%	0.4%	6.9%	3.8%	5.2%
Cost of sales	55,850	60,813	116,663	51,605	62,251	113,856	57,321	-	-
<b>Gross profit</b>	<b>37,165</b>	<b>42,124</b>	<b>79,289</b>	<b>38,231</b>	<b>44,639</b>	<b>82,870</b>	<b>38,739</b>	-	-
YoY	5.9%	2.5%	4.1%	2.9%	6.0%	4.5%	1.3%	-	-
Gross profit margin	40.0%	40.9%	40.5%	42.6%	41.8%	42.1%	40.3%	-	-
SG&A expenses	31,664	33,402	65,066	32,779	34,864	67,643	33,516	-	-
SG&A ratio	34.0%	32.4%	33.2%	36.5%	32.6%	34.4%	34.9%	-	-
<b>Operating profit</b>	<b>5,500</b>	<b>8,724</b>	<b>14,224</b>	<b>5,452</b>	<b>9,774</b>	<b>15,226</b>	<b>5,223</b>	<b>10,017</b>	<b>15,240</b>
YoY	58.3%	-9.0%	8.9%	-0.9%	12.0%	7.0%	-4.2%	2.5%	0.1%
Operating profit margin	5.9%	8.5%	7.3%	6.1%	9.1%	7.7%	5.4%	9.0%	7.4%
<b>Recurring profit</b>	<b>5,608</b>	<b>8,871</b>	<b>14,479</b>	<b>5,499</b>	<b>9,813</b>	<b>15,312</b>	<b>5,284</b>	<b>10,036</b>	<b>15,320</b>
YoY	56.6%	-8.3%	9.2%	-1.9%	10.6%	5.8%	-3.9%	2.3%	0.1%
Recurring profit margin	6.0%	8.6%	7.4%	6.1%	9.2%	7.8%	5.5%	9.0%	7.4%
<b>Net income</b>	<b>3,492</b>	<b>4,749</b>	<b>8,241</b>	<b>3,279</b>	<b>5,536</b>	<b>8,815</b>	<b>2,281</b>	<b>6,549</b>	<b>8,830</b>
YoY	101.2%	-21.3%	6.0%	-6.1%	16.6%	7.0%	-30.4%	18.3%	0.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## Overview

For FY03/22, the company forecasts full-year consolidated sales of JPY207.0bn (+5.2% YoY), operating profit of JPY15.2bn (+0.1% YoY), recurring profit of JPY15.3bn (+0.1% YoY), and net income attributable to owners of the parent of JPY8.8bn (+0.2% YoY). The annual dividend forecast is JPY30 per share (flat YoY).

- ▶ On May 11, 2021, the company unveiled the TOKAI Group Medium-Term Plan IP24 (Innovation Plan 2024 "Design the Future Life"), a four-year plan spanning FY03/22 through FY03/25.
- ▶ The five key messages of IP24 are as follows. 1) LNG strategy (business expansion in existing areas, in Japan, and overseas), 2) advance the TLC concept, 3) further strengthen and expand customer base through full-scale DX strategy, 4) optimize allocation of management resources, and 5) strengthen SDGs initiatives (discussed in more detail later).

- ▶ The company expects sales growth in FY03/22 on the back of an ongoing increase in LP gas customer count and project orders, but flat profits YoY because of expenses associated with strengthening customer acquisition and preparing an environment for work style reforms.

# Outlook

## Medium and long-term plans

### Medium-term plan, Innovation Plan 2024 “Design the Future Life” (IP24)

#### Overview

#### Announcement of medium-term plan, IP24 (Innovation Plan 2024 “Design the Future Life”)

On May 11, 2021, the company unveiled the TOKAI Group Medium-Term Plan IP24 (Innovation Plan 2024 “Design the Future Life”), a four-year plan spanning FY03/22 through FY03/25.

#### Management indices

Management indices for FY03/25, the final year of the medium-term plan, include sales of JPY245.0bn (+124.5% versus FY03/21), operating profit of JPY18.6bn (+122.2%), net income attributable to owners of the parent of JPY11.0bn (+124.8%), operating cash flow of JPY26.0bn (+116.1%), and customer count of 3.56mn (+114.9%). Although the company forecasts operating profit will be flat YoY in FY03/22 because of costs associated with strengthening LP gas customer acquisition and preparing an environment for workstyle reforms, the medium-term plan calls for steady YoY growth in sales and profit.

Other indices aimed at meeting investors’ expectations include ROE of 13% or higher and ROIC of 9.9% or higher while the company looks to maintain the equity ratio at around 40%.

#### Management indices

(JPYmn)	FY03/21 results	FY03/22 budget	FY03/23 target	FY03/24 target	FY03/25 target
Sales	196,726	207,000	221,000	232,000	245,000
Operating profit	15,226	15,240	15,600	16,500	18,600
Net income	8,815	8,830	9,000	9,500	11,000
Cash flow from operating activities	22,400	21,800	23,000	24,000	26,000
Dividend payout ratio	44.6%			40–50%	
ROE	12.7%		→		13% or higher
ROIC	9.2%		→		9.9% or higher
Equity ratio	41.6%		→		Approx. 40%
Number of customers	3.10mn	3.20mn	3.32mn	3.44mn	3.56mn

Source: Shared Research based on company data

Note: Cash flow from operating activities = operating profit + depreciation – lease payment – tax payment

#### Capital policy

The company aims for aggressive shareholder returns in line with group growth and rising profit levels. As was the case in FY03/21, when the dividend was hiked by JPY2 to JPY30 per share, the policy is to maintain a payout ratio of 40–50% and to flexibly conduct share buybacks.

## Basic concept over the next 10 years

#### Basic concept

The basic concept of the medium-term plan is to become a Life Design Group in 10 years’ time, continuing to expand and improve its services with a vision of making the company’s TLC concept a reality. Life Design Group is a stance of helping to solve social problems by designing and proposing lifestyles that appeal to customers. The medium-term plan, IP24 (Innovation Plan 2024 “Design the Future Life”) is positioned as the foundation-building stage.

## Company views of market environment going forward

The company believes that the COVID-19 pandemic has brought about changes in the environment related to daily life, including changes to the customers lifestyles and acceleration of social changes such as the adoption of SDGs. Lifestyle changes caused by the pandemic include a shift to online consumption, promotion of teleworking and staggered commuting, heightened health awareness, realization of regional issues, enhancement of home-based services, and development of experience-oriented services. In addition, social changes affecting companies include the trend toward clean energy, energy liberalization, digitalization, work reform, population decline, declining birthrate, and the aging population.

## Group vision

Tokai Holdings aims to achieve sustainable growth and evolve into a Life Design Group that designs and provides new lifestyles while adapting to changes in society. The corporate philosophy is based on the unchanging value of “For customers livelihood along with the region, together with the earth, we will continue to grow and develop.” Along with this philosophy, the company strives to provide values that are sought by society at large.

## 10-year group objectives

The company's 10-year vision is to become a Life Design Group that contributes to solving social issues by designing and proposing lifestyles desirable to customers. The objective is to progress from providing daily life infrastructure (service supply: the format of the past 10 years) to providing living support (the objective of the current four-year medium-term plan, IP24) to proposing Lifestyle Design (the six years after IP24). By expanding multiple services provided, the company will consider proposals that have experience-oriented value. Examples are as follows:

- ▶ Household energy solutions: Propose eco-friendly lifestyle with the best energy mix comprised of gas, electricity, and renewable energy in combination with storage batteries and energy farms.
- ▶ Comprehensive online-supported living: Propose options that customers can take advantage of without leaving home, including working from home or enjoying the benefits of various daily life services such as medical care and education.
- ▶ Home delivery service: In addition to Aqua (bottled water delivery), propose convenient ways to enjoy food by providing recipes, delivering food ingredients, disseminating information via social media and video streaming, and holding showroom cooking classes.
- ▶ Community revitalization service: Propose outdoor experience-oriented services that leverage regional characteristics, such as Aoi Bune boat excursion for tourism, health promotion through sports, and operation of outdoor and hot bath facilities.

The company is dedicating the next four years FY03/22–FY03/25 in its medium-term plan, IP24 (Innovation Plan 2024 “Design the Future Life”) to building the foundation for realizing Life Design.

## Five key messages of medium-term plan, IP24

The five key messages of IP24 (Innovation Plan 2024 “Design the Future Life”) are as follows. 1) promote LNG strategy (business expansion in existing areas, in Japan, and overseas), 2) advance the TLC concept, 3) further strengthen and expand customer base through full-scale DX strategy, 4) optimize allocation of management resources, and 5) strengthen SDGs initiatives.

### Promote LNG strategy

The company intends to expand customer count through regional expansion (boost customer count from 3.1mn at end-FY03/21 to 3.56mn by FY03/25 through expansion in existing areas, in Japan (strategic market expansion), and overseas while also sustaining growth.

- ▶ Expansion in existing areas: Aim to expand market share in existing areas.
- ▶ Expansion in Japan: Expand the Energy business to Shikoku and West Japan while expanding the Construction, Equipment, and Real Estate business to the Kanto and Chukyo regions and expanding the Information and Communications business to the Kyushu and Hokuriku regions.

- ▶ Global expansion: Expand the Energy business in Southeast Asia, beginning with Vietnam, while expanding the Information and Communications business in China and Indonesia.

## Promote the TLC concept

The company aims to further promote the TLC concept through the dual strategies of advancing digital marketing to better understand customer needs and open innovation centered on corporate venture capital. The company will advance two strategies as steppingstones for the design and counter-planning of lifestyles desired by customers: 1) digital marketing to analyze actual and potential needs and 2) open innovation to expand and create new services.

## Full-scale launch of DX strategy

DX strategy initiatives utilizing ABCIR+S\* are the inter-disciplinary drivers behind promotion of the above-noted LNG strategy and TLC. TOKAI Holdings will consolidate data from 3mn customers nationwide and utilize its data analysis platform D-sapiens to enhance digital marketing that appeals to customer needs. The company has begun to explore and build new businesses in pursuit of technologies, ideas, and human resources by investment in start-up companies through TOKAI Venture Capital & Incubation Co., Ltd (corporate venture capital company established on April 1, 2021).

\*ABCIR+S refers to the group's strategies toward technological innovation; the term is formed from the initials of AI (A), Big Data (B), Cloud (C), IoT (I), Robotics (R), and Smartphone (S).

## Optimal allocation of management resources

The company strives to optimally allocate management resources generated by cash flow from operating activities while making growth investments such as capital investment for future growth and enhancing shareholder returns to improve shareholder value. Specific management indices are as follows:

- Operating cash flow (FY03/22–FY03/25): JPY94.8bn
- Growth investment (FY03/22–FY03/25): JPY65.0bn (expansion of business foundation)
- ROE (FY03/25): 13% or higher
- ROIC (FY03/25): 9.9% or higher
- Shareholder returns (FY03/22–FY03/25): Payout ratio of 40–50%; flexible implementation of share buybacks

## Strengthened SDGs initiatives

- ▶ Green strategy: By FY03/31, TOKAI Holdings aims to reduce CO2 emissions from business activities by 70% (13,000 tons) from FY03/21 levels. In terms of marketing activities, the company aims to reduce CO2 emissions from household gas by 50% (170,000 tons) compared to 360,000 tons in FY03/21 by popularizing high-efficiency gas appliances and installing solar power generation systems. The company further aims to market decarbonized gas by 2050, thus achieving carbon neutrality.
- ▶ Workstyle reform: The company introduced remote work in April 2021 with the aim of reducing office attendance by 50% and office floor area by 40%. By FY03/25, TOKAI Holdings looks to make all employees (excluding essential workers) eligible for remote work. The company also aims to increase the number of female managers 10-fold by 2030, eliminate the circumstances that require employees to leave the company to care for family members, and promote diversity of human resources.
- ▶ Strengthen governance: The Nomination and Compensation Committee was established in February 2021 to evaluate director nominees and remuneration while also ensuring transparency and objectivity in the decision-making process. The company aims to continue improving the effectiveness and transparency of corporate governance through measures such as reviewing the composition of directors.

# (Reference) Previous medium-term plan, Innovation Plan 2020 “JUMP”

## Results of third medium-term plan

### Four-year plan ending in 70th anniversary year

On May 9, 2017, the company unveiled its medium-term business plan, Innovation Plan 2020 “JUMP”—a four-year plan that ended in FY03/21. It was TOKAI Holdings’ third medium-term plan following the first Innovation Plan 2013 (FY03/12–FY03/14) and second Innovation Plan 2016 “Growing” (FY03/15–FY03/17). Whereas the first and second were three-year plans, the third was a four-year plan (FY03/18–FY03/21), because the company wanted the final year to coincide with its 70th anniversary, which was 2020 (FY03/21). Innovation Plan 2020 “JUMP” was an aggressive plan of investing in strategic M&A and alliances to increase topline growth.

### Numerical targets and results

The initial targets for FY03/21 called for sales of JPY339.3bn (1.9x the level in FY03/17) and operating profit of JPY22.5bn (1.8x). In May 2020, the company revised the targets to sales of JPY205.3bn and operating profit of JPY15.0bn. This compares to the actual FY03/21 figures of only JPY196.7bn in sales (1.1x the FY03/17 level) and JPY15.2bn in operating profit (1.2x). JPY100bn had been earmarked for M&A, but only JPY16.7bn of this was invested due to financial discipline. The lower-than-projected M&A activity is the main reason the initial targets were not achieved.

The company had also focused on capital efficiency, setting indices of interest-bearing debt/EBITDA of 2.6x, an equity ratio of 31.6%, and ROE of 13.0%. The actual FY03/21 figures were 1.4x, 41.6%, and 12.7% respectively.

## Overview

### Increasing customer base and services by M&A

The company saw the liberalization of gas and electric power as an opportunity and invested aggressively in strategic M&A and alliances (JPY100bn in total over four years). Targets were companies likely to help expand existing businesses such as gas, CATV, and Information and Communications, as well as those with services and customers in new lifestyle business areas. TOKAI Holdings worked to increase consolidated earnings by M&A of companies with an earnings base in addition to organic growth of existing group businesses. It also sought to generate synergies by cross-selling of monthly fee-based lifestyle and other services acquired from other companies to harness the strengths of its business model.

### Growing customer base and increasing lifetime value per customer

The company aimed to grow the number of customers from 2.56mn at end-FY03/17 to 4.32mn at end-03/21 and increase the percentage of customers using more than one of its services from around 7% at end-FY03/17 to 20% at end-FY03/21. (In FY03/21, the company had 3,099,000 continuing customers, and 979,000 TLC members.) It worked to increase average revenue per user (ARPU) and lower cancellation rates (i.e., increase lifetime value per customer) by taking advantage of its direct point of contact with customers to encourage use of multiple daily life infrastructure services. Around 20% of the group’s 4,000 or so employees had contact with retail customers.

## Numerical targets of Innovation Plan 2020 “JUMP”

	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	
	Act.	Target	Target	Target	Target	
						<b>Vs. FY03/17</b>
Customers (mn)	2.56	2.88	2.99	3.72	4.32 or higher	1.7x
Sales	178,631	189,400	202,000	224,400	339,300	1.9x
Operating profit	12,750	11,400	14,000	16,200	22,500	1.8x
Net income	7,337	6,400	7,900	8,700	11,500	1.6x
Total assets	161,112	169,800	173,800	191,200	283,400	1.8x
Interest-bearing debt / EBITDA	1.9x	2.0x	1.7x	1.8x	2.6x	-
Equity ratio	34.5%	33.9%	35.6%	34.9%	31.6%	-
ROE	15.2%	11.1%	12.8%	13.0%	13.0%	-

Source: Shared Research based on company data

## Previous medium-term plan, Innovation Plan 2020 “JUMP”

Basic direction of the previous medium-term plan, Innovation Plan 2020 “JUMP,” was as follows:

- ▶ Engage aggressively in M&A and alliances, investing JPY100bn over four years on a leveraged growth strategy.
- ▶ Acquire or partner companies that will expand the customer base of core businesses such as gas, CATV, and Information and Communications, and companies with new, monthly fee-based, lifestyle services that will help harness the strengths of the group's business model.
- ▶ Prioritize operating profit as well as sales, aiming to double both between FY03/17 and FY03/21, and ROE (FY03/21 target of 13.0%)
- ▶ Provide continuous and stable returns to shareholders.

## Strategy

The company is involved in a wide-range of products and services. It has a relatively simple strategy of actively adding products and services that contribute to future growth and meet the needs of customers.

Since its founding, the company has focused on energy, such as LP gas, and information and communications, such as FTTH and CATV. Now it is focusing on its added value group-wide rather than the added value of each segment as a source of further growth, given that market growth is beginning to slow for these core businesses.

Only a fraction of the company's customers use more than one product or service. TOKAI has begun launching various measures to encourage customers to use multiple products and services. If it can increase such customers, it will achieve synergies, reducing cancellations and improving sales efficiency.

# Business

## Business description

As of end-March 2021, the company provides a diverse range of products and services to 3,099,000 customers in Shizuoka Prefecture, Kanto, and other areas. The company's core operations are energy and housing-related (which includes LP gas) and information communications (such as Internet connection services and CATV).

TOKAI Holdings Corporation was established on April 1, 2011, after the management integration of TOKAI Corporation and TOKAI Communications Corporation, and an accompanying transfer of shares to a holding company. Prior to this, TOKAI Communications Corporation was a subsidiary of TOKAI Corporation.

## Main business segments

The company's businesses, which provide a diverse array of services targeting both retail and commercial customers, fall into six business segments: Energy; Information and Communications; CATV; Aqua; Construction, Equipment, and Real Estate; and Others.

The Energy, Information and Communications, and CATV segments account for the majority of sales and operating profit and have the largest number of customers, as summarized in the following table.

Number of customers ('000)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	TOKAI cons.	TOKAI cons.	TOKAI cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
LP gas	633	627	622	596	577	575	572	580	588	606	628	652	681
City gas	52	52	52	52	53	53	54	54	54	54	56	61	63
<b>Gas total</b>	<b>685</b>	<b>679</b>	<b>674</b>	<b>648</b>	<b>629</b>	<b>628</b>	<b>626</b>	<b>634</b>	<b>642</b>	<b>661</b>	<b>684</b>	<b>713</b>	<b>744</b>
Conventional ISP				758	816	854	859	633	528	465	419	389	395
Hikari Collaboration							4	219	299	323	327	324	337
LIBMO									2	29	41	48	53
<b>Information and Communications</b>				<b>758</b>	<b>816</b>	<b>854</b>	<b>863</b>	<b>852</b>	<b>829</b>	<b>817</b>	<b>787</b>	<b>761</b>	<b>785</b>
Broadcasting	335	521	562	542	505	502	493	499	508	775	789	862	875
Telecommunication	98	164	178	180	186	191	197	211	225	257	274	292	322
<b>CATV</b>	<b>433</b>	<b>685</b>	<b>740</b>	<b>722</b>	<b>691</b>	<b>693</b>	<b>690</b>	<b>710</b>	<b>733</b>	<b>1,032</b>	<b>1,063</b>	<b>1,154</b>	<b>1,198</b>
<b>Aqua</b>	<b>39</b>	<b>57</b>	<b>71</b>	<b>97</b>	<b>102</b>	<b>122</b>	<b>130</b>	<b>133</b>	<b>135</b>	<b>146</b>	<b>156</b>	<b>161</b>	<b>162</b>
Mobile									233	227	217	212	206
Security	23	22	21	20	20	19	18	18	17	17	17	16	16
<b>Total</b>	<b>1,842</b>	<b>2,190</b>	<b>2,343</b>	<b>2,415</b>	<b>2,445</b>	<b>2,519</b>	<b>2,537</b>	<b>2,558</b>	<b>2,564</b>	<b>2,876</b>	<b>2,902</b>	<b>3,003</b>	<b>3,099</b>

Source: Shared Research based on company data

Note: Communication services overlap Information and Communications and CATV. Duplicate numbers are excluded from totals.

Note: From FY03/21, Information and Communications (conventional ISP services) includes customers with supplementary ISP service contracts.

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Results for FY03/11 and prior years are of TOKAI Corp.

## Performance by segment (segment operating profits are before allocation of overhead expenses)

Segment sales and operating profit (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons. **	Cons.									
<b>Sales</b>	<b>174,901</b>	<b>181,931</b>	<b>181,684</b>	<b>188,987</b>	<b>187,511</b>	<b>180,940</b>	<b>178,631</b>	<b>186,069</b>	<b>191,600</b>	<b>195,952</b>	<b>196,726</b>
YoY	9.8%	4.0%	-0.1%	4.0%	-0.8%	-3.5%	-1.3%	4.2%	3.0%	2.3%	0.4%
Energy	95,697	98,316	94,519	97,229	93,067	80,745	73,344	76,073	77,977	78,154	77,380
YoY	7.5%	2.7%	-	2.9%	-4.3%	-13.2%	-9.2%	3.7%	2.5%	0.2%	-1.0%
% of total	54.7%	54.0%	52.0%	51.4%	49.6%	44.6%	41.1%	40.9%	40.7%	39.9%	39.3%
Information and Communications	34,725	37,943	38,497	38,803	40,118	44,246	49,508	50,894	51,234	51,753	50,735
YoY	0.2%	9.3%	1.5%	0.8%	3.4%	10.3%	11.9%	2.8%	0.7%	1.0%	-2.0%
% of total	19.9%	20.9%	21.2%	20.5%	21.4%	24.5%	27.7%	27.4%	26.7%	26.4%	25.8%
CATV	22,647	24,292	23,786	24,187	24,359	24,608	25,396	28,386	30,511	31,385	33,745
YoY	44.7%	7.3%	-2.1%	1.7%	0.7%	1.0%	3.2%	11.8%	7.5%	2.9%	7.5%
% of total	12.9%	13.4%	13.1%	12.8%	13.0%	13.6%	14.2%	15.3%	15.9%	16.0%	17.2%
Construction, Equipment, and Real Estate	14,907	15,881	15,756	19,245	20,019	20,975	19,511	19,807	20,090	22,383	23,177
YoY	3.5%	6.5%	-0.8%	22.1%	4.0%	4.8%	-7.0%	1.5%	1.4%	11.4%	3.5%
% of total	8.5%	8.7%	8.7%	10.2%	10.7%	11.6%	10.9%	10.6%	10.5%	11.4%	11.8%
Aqua	-	-	3,750	4,378	4,959	5,487	5,762	6,200	7,004	7,416	7,622
YoY	-	-	-	16.7%	13.3%	10.6%	5.0%	7.6%	13.0%	5.9%	2.8%
% of total	-	-	2.1%	2.3%	2.6%	3.0%	3.2%	3.3%	3.7%	3.8%	3.9%
Other	6,923	5,498	5,374	5,142	4,987	4,875	5,108	4,706	4,781	4,858	4,065
YoY	25.8%	-20.6%	-2.3%	-4.3%	-3.0%	-2.2%	4.8%	-7.9%	1.6%	1.6%	-16.3%
% of total	4.0%	3.0%	3.0%	2.7%	2.7%	2.7%	2.9%	2.5%	2.5%	2.5%	2.1%
<b>Operating profit</b>	<b>10,755</b>	<b>10,923</b>	<b>8,934</b>	<b>7,392</b>	<b>9,003</b>	<b>8,245</b>	<b>12,750</b>	<b>10,971</b>	<b>13,057</b>	<b>14,224</b>	<b>15,226</b>
YoY	7.2%	1.6%	-18.2%	-17.3%	21.8%	-8.4%	54.6%	-14.0%	19.0%	8.9%	7.0%
Operating profit margin	6.1%	6.0%	4.9%	3.9%	4.8%	4.6%	7.1%	5.9%	6.8%	7.3%	7.7%
Energy	6,154	4,577	5,200	4,520	5,549	6,973	6,942	4,967	4,434	4,907	6,115
YoY	-13.5%	-25.6%	-	-13.1%	22.8%	25.7%	-0.4%	-28.5%	-10.7%	10.7%	24.6%
Operating profit margin	6.4%	4.7%	5.5%	4.6%	6.0%	8.6%	9.5%	6.5%	5.7%	6.3%	7.9%
% of total	57.2%	41.9%	58.2%	61.1%	61.6%	84.6%	54.4%	45.3%	34.0%	34.5%	40.2%
Information and Communications	4,310	4,197	3,746	3,049	3,486	829	3,065	1,866	2,593	2,959	3,086
YoY	20.2%	-2.6%	-10.7%	-18.6%	14.3%	-76.2%	269.7%	-39.1%	39.0%	14.1%	4.3%
Operating profit margin	12.4%	11.1%	9.7%	7.9%	8.7%	1.9%	6.2%	3.7%	5.1%	5.7%	6.1%
% of total	40.1%	38.4%	41.9%	41.2%	38.7%	10.1%	24.0%	17.0%	19.9%	20.8%	20.3%
CATV	2,592	1,648	429	973	862	1,161	2,331	3,035	4,442	4,543	4,719
YoY	38.7%	-36.4%	-74.0%	126.8%	-11.4%	34.7%	100.8%	30.2%	46.4%	2.3%	3.9%
Operating profit margin	11.4%	6.8%	1.8%	4.0%	3.5%	4.7%	9.2%	10.7%	14.6%	14.5%	14.0%
% of total	24.1%	15.1%	4.8%	13.2%	9.6%	14.1%	18.3%	27.7%	34.0%	31.9%	31.0%
Construction, Equipment, and Real Estate	856	555	209	926	495	676	461	655	954	1,379	1,257
YoY	431.7%	-35.2%	-62.3%	343.1%	-46.5%	36.6%	-31.8%	42.1%	45.6%	44.5%	-8.8%
Operating profit margin	5.7%	3.5%	1.3%	4.8%	2.5%	3.2%	2.4%	3.3%	4.7%	6.2%	5.4%
% of total	8.0%	5.1%	2.3%	12.5%	5.5%	8.2%	3.6%	6.0%	7.3%	9.7%	8.3%
Aqua	-	-	-1,029	-2,107	-1,448	-1,275	101	26	520	401	259
YoY	-	-	-	-	-	-	-	-74.3%	1,895.8%	-22.9%	-35.4%
Operating profit margin	-	-	-	-	-	-	-	0.1%	2.6%	1.8%	1.1%
% of total	-	-	-11.5%	-28.5%	-16.1%	-15.5%	0.8%	0.2%	4.0%	2.8%	1.7%
Other	-274	-228	-17	-10	-386	-197	112	301	217	235	-244
YoY	-	-	-	-	-	-	-	168.8%	-27.9%	8.3%	-
Operating profit margin	-	-	-0.3%	-0.2%	-7.7%	-4.0%	2.2%	6.4%	4.5%	4.8%	-6.0%
% of total	-2.5%	-2.1%	-0.2%	-0.1%	-4.3%	-2.4%	0.9%	2.7%	1.7%	1.7%	-1.6%
Adjustments	-2,883	174	396	41	445	78	-265	118	-105	-201	32

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: The Aqua business was included in the Energy segment for FY03/12 and prior years.

Note: Figures for FY03/11 and prior years are based on TOKAI Corp. data. FY03/12 comparisons are with FY03/11 TOKAI Corp. figures.

Note: Segment operating profits are before allocation of overhead expenses.

## Energy segment

In FY03/21, this core segment saw JPY77.4bn in sales (accounting for 39.3% of overall company sales) and JPY9.0bn in operating profit before allocation of overhead expenses (accounting for 42% of overall operating profit).

The Energy segment has four subsegments, of which the Liquefied Petroleum Gas and Petroleum (LP gas) subsegment accounts for the majority of sales and operating profit. In FY03/21, the LP gas business reported sales of JPY65.6bn and the city gas business reported sales of JPY11.7bn.

### LP gas

In this subsegment, the company mainly sells LP gas, liquefied natural gas (LNG), and petroleum products, along with related equipment and services. The subsegment has approximately 681,000 customers spread over Tokyo and 16 other prefectures located mainly in the Tokai and Kanto regions. Of this total, Shizuoka accounted for approximately 182,000 customers and Kanto accounted for roughly 450,000 customers (as of end-March 2021). The company has top market share (21%) in Shizuoka Prefecture, is second (7%) in Kanto, and is the third-largest LP gas business in Japan (source: LP Gas Annual Report: Facts and Figures, Vol 56, 2021, Sekiyu Kagaku Shinbun Sha).

## LP gas utilities

Ranking	Company	No. of direct customers
1	Iwatani Corporation	1,000,000
2	Nippon Gas Co., Ltd.	877,000
3	TOKAI CORPORATION	651,682
4	Itochu Enex Co., Ltd.	551,000
5	Toho Liquefied Gas Co., Ltd.	372,611
6	Itami Sangyo Co., Ltd.	308,192
7	Saisan Co., Ltd.	304,700
8	ENEOS Globe Energy Corporation	300,999
9	Horikawa Sangyo Co., Ltd.	240,000
10	Kamei Corporation	210,000
	..	..
	Total	22,189,743

Source: Shared Research based on company data (source: LP Gas Annual Report: Facts and Figures, 2021, Sekiyu Kagaku Shinbun Sha)

## City gas

The company supplies city gas in the cities of Yaizu, Fujieda, and Shimada, located in central Shizuoka Prefecture, to 63,000 customers combined (as of end-March 2021). Sales volume was 130mn sqm, of which large-lot users accounted for 120mn sqm and small-lot users for 20mn sqm. In April 2018, the company concluded an agreement relating to the transfer of the gas business operated by the town of Shimonita in Gunma Prefecture. It obtained authorization for the transfer from the Kanto Bureau of Economy, Trade and Industry in October of the same year. It took over operations of the business in April 2019. In March 2019, it also obtained preferential negotiation rights for the gas business operated by the city of Nikaho (Akita Prefecture), and assumed operations of the business starting in April 2020. In April 2019, TOKAI Holdings acquired a minority stake in Isesaki Gas Co., Ltd., a city gas business operator in the city of Isesaki (Gunma Prefecture), making Isesaki Gas an equity-method affiliate. In October 2019, TOKAI Corporation joined together with TEPCO Energy Partner, Inc. to form T&T Energy Co., Ltd. With this joint venture, the company is looking to bring together the expertise of TEPCO Energy Partner in the city gas retail sales business and its gas sourcing capabilities with its own sales network in the Tokai region and use this to develop its city gas retail sales business in the Tokai region. In addition to city gas sales in the Tokai region, the joint venture is also looking at expanding its sales territory outside of the three prefectures that comprise the Tokai region.

## High-pressure gas

The company manufactures and sells high-pressure gas products such as oxygen and nitrogen, as well as related equipment.

## Security

The company wholesales automated security services and other security systems to other security service providers.

## Information and Communications

In FY03/21, the Information and Communications segment reported JPY50.4bn in sales (accounting for some 26% of overall sales) and JPY4.3bn in operating profit before allocation of overhead expenses (accounting for 21% of overall operating profit). The segment has four subsegments. The ADSL/FTTH and mobile subsegments target individual consumers, while the system innovation service (SIS) and corporate telecommunications subsegments serve corporate customers.

At end-March 2021, the number of customers was 991,000 (versus 973,000 at end-March 2020). According to the Ministry of Internal Affairs and Communications (MIC) Information & Communications Statistics Database, the company has top market share in Shizuoka Prefecture (17.8%) with 210,000 customers and a 2.2% share in the Kanto area with 360,000 customers as of end-December 2020.

In FY03/20, ADSL/FTTH reported sales of JPY24.8bn and operating profit of JPY2.3bn; mobile reported sales of JPY4.7bn and operating loss of JPY488mn; SIS reported sales of JPY14.4bn and operating profit of JPY1.6bn; and corporate telecommunications reported sales of JPY7.8bn and operating profit of JPY2.0bn.

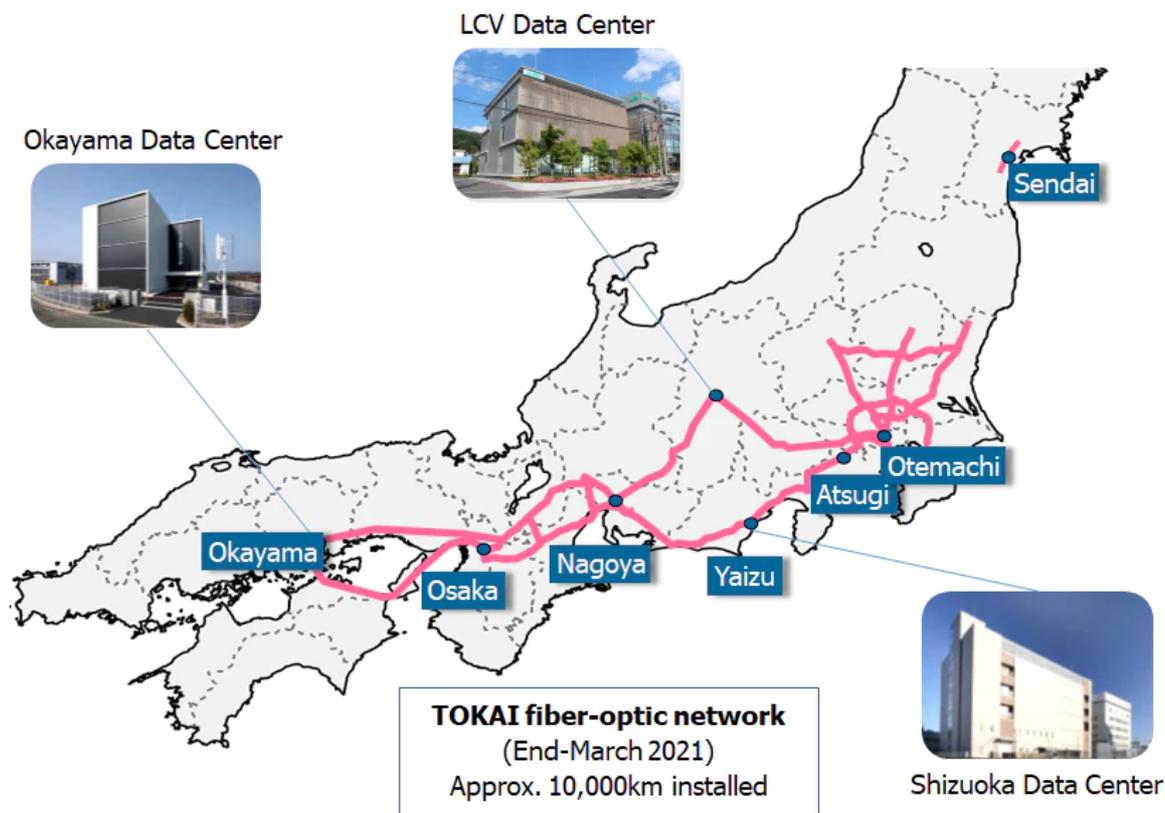
Based on FY03/21 figures, consumer sales totaled JPY26.3bn while corporate sales totaled JPY24.4bn.

## ADSL/FTTH

As an internet service provider (ISP), the company sells services directly to consumers under three brands: @T COM, a nationwide brand focusing on the Kanto region; TOKAI Network Club (TNC) in Shizuoka Prefecture; and Web Shizuoka. Sales efforts for ISP were expanded to the Tohoku region in 2012. In Shizuoka Prefecture and the Kanto region, the company also wholesales optical and ADSL circuits as a telecommunications carrier.

## Mobile

The company is an agent for Softbank Mobile Corporation (a subsidiary of Softbank Corporation; TSE1: 9984) in Shizuoka and Saitama prefectures through 14 stores primarily selling mobile handsets and service contracts.



Source: Shared Research based on company data

## SIS

The SIS subsegment comprises two classes: EA business and SI and DCS business. EA is outsourced software development; SI is sales, maintenance, and operation of information systems; and DCS is data centers. In FY03/15, EA accounted for 49% of subsegment sales, and SI and DCS accounted for 51%. Operating profit (excluding overhead costs) were 41% and 59%, respectively.

DCS provides a range of outsourcing services, including colocation, e-mail, data backup, and cloud-computing platforms (virtual servers) from two data centers located in Yaizu, Shizuoka Prefecture (according to the company, these facilities are designed to withstand earthquakes up to level 7 on the Japanese seismic intensity scale). The company has jointly developed a third data center in Okayama Prefecture with Ryobi Systems Co., Ltd., which commenced services in April 2013. The three data centers have approximately 1,000 racks. Data-center operators from throughout Japan (21 companies) are collaborating to provide business continuity- and disaster recovery-related services. In March 2013, the company established Cloud Master Co., Ltd., in Taipei, Taiwan. The company will cooperate with this joint venture company and to provide secure and low-cost hosted private cloud services. The company intends to strengthen its operations through by providing enhanced services.

\*Data Center X Alliance (DCXA): The DCXA is a group of domestic data center operators formed for the purpose of stimulating the domestic data center business environment through the commercialization of BCP and DR services, providing complimentary services, field-testing of virtual services, and providing commercial-use services. TOKAI Communications Corp. is a member and currently serves as the organization's secretariat. As of end-March 2021, other members of the alliance include Hokkaido Telecommunication Network Co., Inc. (a subsidiary of Hokkaido Electric Power Co., Inc. [TSE1: 9509]), Tohoku Intelligent Telecommunication Co., Inc. (a subsidiary of Tohoku Electric Power Co., Inc. [TSE1: 9506]), ITOCHU Techno-Solutions Corporation (TSE1: 4739; a subsidiary of ITOCHU Corporation [TSE1: 8001]), Hokuden Information System Service Company, Inc. (a subsidiary of Hokuriku Electric Power Company [TSE1: 9505]), OGIS-RI Co., Ltd. (a subsidiary of Osaka Gas Co., Ltd [TSE1: 9532]), Sakura KCS Corporation (a subsidiary of Sumitomo Mitsui Banking Corporation), QTN Net Co., Ltd. (a subsidiary of Kyushu Electric Power Co., Inc. [TSE1: 9508]), Nishitetsu Information System Co., Ltd. (a subsidiary of Nishi-Nippon Railroad Co., Ltd. [TSE1: 9021]), Sakurai Information Systems Co., Ltd. (a subsidiary of OGIS-RI Co., Ltd.), BSN Information NETWORK Service, AGS Corporation, LCV Corporation (a subsidiary of TOKAI Holdings Corporation [TSE1: 3167]), iTEC Hankyu Hanshin Co., Ltd., Ryomo Systems Co., Ltd., TOKAI Communications Corporation (a subsidiary of TOKAI Holdings), MEIKO TECHNOS, Ryobi Systems, Co., Ltd, UNIADDEX, Ltd., OKIGIN SPO, NTT Facilities, Inc., and IBC Co., Ltd. The alliance may implement platform service linkage and network service interconnections.

The EA and SI businesses have a combined total of approximately 700 engineers (as of end-March 2021) and provide total solutions from consulting and system development through to operation and maintenance. Moreover, the company provides AWS solutions in support of cloud migration and utilization. These businesses serve a broad variety of industries and fields, including the restaurant industry, the health care sector, and the public sector, with emphasis on such systems as accounting and human resources.

## Corporate telecommunications

The company provides Internet connection services and interoffice telecommunications services to the corporate market via a proprietary fiber-optic network covering an area stretching from northern Kanto region in the east to Osaka in the west. The network is approximately 10,000km long. Within the subsegment, the Leased Line business—which offers interoffice telecommunications services—accounts for about 90% of sales, and the remainder is made up of other businesses such as the wire leasing business offering fiber-optic lines.

On April 1, 2013, the company extended its fiber-optic network to Okayama Prefecture, accompanying the opening of the Okayama Data Center and strengthening the company's telecommunications infrastructure in western Japan.

## CATV segment

In FY03/21, the CATV segment reported JPY33.7bn in sales (accounting for roughly 17% of overall sales) and JPY5.2bn in segment profit before allocation of overhead expenses (accounting for 25% of overall operating profit). The company provides broadcasting services and telecommunications services (ISP) in Metropolitan Tokyo and six prefectures: Shizuoka, Kanagawa, Chiba, Nagano, Okayama, and Miyagi. In FY03/20, broadcasting services accounted for 47% of subsegment sales and telecommunications services accounted for 53%. As of end-FY03/21, the CATV segment reported a total of 1,198,000 subscribers (875,000 for broadcasting service and 322,000 for telecommunications service) versus 1,154,000 at end-FY03/20.

The broadcasting services business provides local information through community channels and a multichannel digital broadcasting service offering up to 160 channels.

In the telecommunications services business, the company provides, in addition to conventional CATV internet, fiber-optic internet and telephone services. These services utilize the company's proprietary fiber-optic network, which has a backbone network as well as fiber-to-the-home (FTTH). The telecommunications services business had 322,000 subscribers (as of end-March 2021).

The number of households serviceable by the company's broadcasting and telecommunications network infrastructure is 1,621,000, of which 875,000 households are subscribers (as of end-March 2021). Hence, the broadcasting subscription ratio (subscribers divided by number of serviceable households) is approximately 54%. Among these households, 61% subscribed only to broadcasting services, 28% to both broadcasting and telecommunications services, and 11% to telecommunications services only (as of end-March 2021).

## Construction, Equipment, and Real Estate segment

In FY03/21, the Construction, Equipment, and Real Estate segment reported JPY23.2bn in sales (accounting for 12% of overall sales) and JPY2.1bn in segment profit before allocation of overhead expenses (accounting for 10% of overall operating profit). The company designs, constructs, and renovates housing and retail stores; sells equipment and appliances; and develops, sells, leases, and brokers real estate. Contributions from leasing of retail and office space accounts for a high percentage of sales. Renovation accounted for around 22% of total sales, equipment and appliance for roughly 15%, and installation work for 13% (in FY03/21).

The company entered the housing equipment business in 1970 and is involved in a broad array of operations, from the construction of detached houses and rental apartments to renovation services, as well as construction of condominiums, offices, and other large-scale projects. The company also promotes the development of high-quality residential land and is involved in urban development. It wholesales housing-related equipment to house manufacturers and small-scale builders, installs air-conditioning equipment, and carries out plumbing and sewage work. In addition, in April 2010, the company acquired 61% of the total floor area of Aoi Tower, located near JR Shizuoka Station, and it leases retail and office space in this complex.

The company made a full-scale entry into the general renovation business when it launched TOKAI WILL Reform in April 2012. Through its gas business and strong ties to local communities, the company has built up a solid track record in plumbing-related renovation work. Utilizing its technical expertise and over 600,000 customers in its gas business, the company is determined to grow its renovation business. Also, the company actively employs female planners, producing proposals and designs that meet the needs of homemakers and other female customers.

In September 2019, the company acquired and made Nissan Tri Star Construction, Inc., a general construction company in Gifu Prefecture, a consolidated subsidiary. Although the acquisition of a general contractor such as this will not generate the same kinds of synergies that the acquisition of another CATV service provider or city gas company would because it does not leverage TOKAI Holdings' strength in product sales, it will give the TOKAI group expertise in civil engineering that it did not have previously and new sales bases. The acquisition was driven by TOKAI Holdings' confidence in its own expertise in selling multiple product lines in the new areas through acquisition of sales bases. Chuo Denki Koji Co., Ltd. (Gifu Prefecture) was made a subsidiary in August 2020 and consolidation of the new civil engineering and electrical construction businesses positioned TOKAI Holdings as a general contractor and enabled the creation of an ordering system for major companies in the construction industry. In November 2020, Inoue Technica Co., Ltd., which operates a building maintenance business, was made a consolidated subsidiary, allowing TOKAI Holdings to absorb the management expertise accumulated over many years and facilitating expansion of this business.

## Aqua segment

In FY03/21, the Aqua segment reported sales of JPY7.6bn (accounting for around 4% of overall sales) and segment profit before allocation of overhead expenses was JPY573mn. The company manufactures, sells, and delivers drinking-water products. It considers the Aqua business as a main growth area.

The aqua business has developed into a significant segment and separated from the Gas and Petroleum segment, and became the Aqua segment in Q1 FY03/14.

In November 2007, the company commenced a returnable-bottle service (bottles are collected, washed and sterilized, and subsequently reused) in Shizuoka Prefecture, and in March 2011 it launched a nationwide one-way bottle service (bottles are home delivered and disposed of after use similar to PET bottles). The service has around 162,000 customers, of which 71,000 are in Shizuoka Prefecture using the returnable bottle service. The Shizuoka Prefecture service has a market penetration rate of about 5%, giving it the prefecture's largest market share. The nationwide one-way bottle service has 91,000 customers (all figures are as of end-March 2021).

The company's returnable-bottle service is affectionately known as the "Oishii Mizu no Takuhaibin" ("Delicious Water Home Delivery") brand. Its one-way bottle service was rebranded as "Oishii Mizu no Okurimono - ulunom" ("The Gift of Delicious Water") in May 2013, focusing mainly on the Kanto area and targeting child rearing mothers who are highly concerned about their family's drinking water.

The product's main characteristic is its natural water qualities from its local area of Mt. Fuji. The company sources its water from the base of Mt. Fuji on Asagiri Plateau (Fujinomiya, Shizuoka Prefecture). According to the company, Asagiri Plateau is

well-known as a high-quality water source area and is said to have abundant natural spring water with useful mineral content that has been filtered through the layer of basalt from which Mt. Fuji is formed.

The company has produced water in returnable bottles at its own TOKAI Aqua Yaizu Plant (Yaizu, Shizuoka Prefecture) since April 2008. With annual production capacity of 1.85mn bottles, this is enough to supply approximately 70,000 households. However, to meet growing demand for its one-way bottle product and as part of business continuity plan, in March 2013 it commenced operations at a second plant—Aqua Fujisan Plant. Located in the Fujisan Nanryo Industrial Park (Fujinomiya, Shizuoka Prefecture), the Aqua Fujisan plant has an annual production capacity of 3.0mn bottles, or enough to supply approximately 110,000 households.

The company has expanded the service from Shizuoka to cover the entire country, and in April 2012 it established a subsidiary in Shanghai, China, named TOKAI (Shanghai) Trade & Commerce Co. Ltd. Under the product name “Fujishigen” it commenced sales in June 2012 and targets an affluent market segment.

The average revenue per user (ARPU) is around JPY4,600, or about two bottles per user (one 12-liter bottle of Ulunom “Asagiri no Shizuku” costs JPY1,391 including tax (as of end-March 2021); charges for the water dispenser are separate.

## Others

In FY03/21, the Others segment reported JPY4.1bn in sales (accounting for some 2% of overall sales). The Others segment includes three businesses.

### Bridal, events, and hotel

These operations include Grandair Bouquet Tokai, a facility within Aoi Tower near Shizuoka Station.

### Ship repair

The company undertakes ship repairs, including for ocean-going and in-shore fishing vessels.

### Other services

This includes life and casualty insurance agency, travel-agency services, and operating of nursing care facilities.

The company is working to strengthen its nursing care facility operations, which it started in April 2011. As of end-March 2021, the company had six day care facilities, one short stay facility, one paid-nursing care facility, and two care plan centers in Shizuoka Prefecture. The company intends to cater to the growing needs, and enhance its day care, short stay, and nursing care facilities, and expand its businesses while benefiting the local communities.

## Business model

Centering on the Kanto region and Shizuoka Prefecture, the company has 3,099,000 customers (up 95,000 YoY), to whom it offers a wide variety of products and services. Historically, the company simply sold a variety of products and services, without co-branding or bundling. In May 2011, the company stated its new strategy of becoming a Total Life Concierge (TLC), offering one-stop service and product menu to its customers. As of end-March 2021, there were 979,000 TLC members (up 83,000 members YoY).

Shared Research thinks that there is still some way to go with the TLC model and it makes more sense to evaluate the company as a sum of its individual businesses. As of end-March 2020, of the company's 3,099,000 customers, the number of customers that use multiple services stood at 20.0%. (The company had aimed to get that figure above 20% by end-FY03/21.)

In December 2012, the company began issuing the TLC WAON card, using Aeon Co., Ltd.'s (TSE1: 8267) WAON e-money. This marked the launch of the integrated TLC Member Service covering the entire TOKAI group offering. Under this system, members accumulate points as they use various services provided by the company. Other than using their accumulated points to pay, there are 17 menu options for exchanging these points, including WAON Points and MI Points (e-money). Shared Research thinks these new initiatives have potential and will be following developments of the service and any similar measures closely.

## Business portfolio

In the recent years TOKAI Holdings has become more focused on its core competencies, seeing its services as a single business portfolio as opposed to a random array of unrelated services. Although Energy is the company's core segment, the market itself is shrinking. The company sees this business primarily as a cash cow as well as a sales platform, enabling it to offer customers other TOKAI group services and products. The gas business has historically been the main growth driver. The group's LP gas business operates mostly in the Kanto region and, with operations in Metropolitan Tokyo and 16 prefectures, serving a total of 681,000 customers. Its city gas business (which supplies natural gas), operates in the cities of Yaizu, Fujieda, and Shimada in Shizuoka Prefecture, serving a total of 63,000 customers. It employs a sales force of around 500, and accounted for 38% of the company's overall operating profit (before allocation of overhead expenses) in FY03/21. Another cash cow for the company is the CATV segment.

In April 2019, TOKAI Holdings acquired a minority stake in Isesaki Gas Co., Ltd., a city gas business operator in the city of Isesaki, Gunma Prefecture, making Isesaki Gas an equity-method affiliate. By sharing management resources and expertise, the two companies aim to collaborate in the city gas business and LP gas business and mutually promote each other's services. In October 2019, TOKAI Corporation joined together with TEPCO Energy Partner, Inc. to form T&T Energy Co., Ltd. With this joint venture, TOKAI Holdings is looking to bring together the expertise of TEPCO Energy Partner in the city gas retail sales business and its gas sourcing capabilities with its own sales network in the Tokai region and use this to develop its city gas retail sales business in the Tokai region. In addition to city gas sales in the Tokai region, the joint venture is also expanding its sales territory outside of the three prefectures that comprise the Tokai region. In April 2020, the company took over the gas business previously operated by the city of Nikaho in Akita Prefecture, marking the group's first entry into Akita Prefecture. In addition to helping TOKAI Holdings expand its city gas business, this acquisition was also aimed at helping the company expand the reach of its other services under its Total Life Concierge (TLC) service banner.

In contrast, Aqua and Information and Communications (with SIS and corporate telecommunications subsegments as key drivers) are growth segments, and the company is aggressively investing in these businesses.

## Geographic expansion

As of end-FY03/21, the TOKAI Holdings group had 2.6mn customers mainly in the Kanto region and Shizuoka Prefecture and 3.1mn nationwide.

The outline of operations in each area is as follows.

### Kanto

The company has steadily expanded its customer base in the Kanto region, including Tokyo, with the number of customers totaling 1.38mn as of end-FY03/21, mainly in the LP gas and information and communications businesses. Kanto is the largest consumer market in Japan though there is intense competition. The company considers there is still wide room for finding new customers.

### Shizuoka

As of end-FY03/21, the number of customers of the group's services in the Shizuoka area was 940,000 households, accounting for some 63% of all households in Shizuoka Prefecture. In the area, the company operates the LP gas business mainly in the suburbs and the CATV and city gas services mainly in cities. It also runs the internet and Aqua businesses all over the prefecture. Though the rate of population decline, expected for 20 years later, will be high in Japan, Shizuoka is ranked second after Tokyo in all prefectures in terms of income of residents. Accordingly, the company believes that there is wide room for expansion of profits by encouraging customers to use multiple services.

### Other main areas

The company had a total of roughly 600,000 customers in other regions as of end-March 2021. In Suwa, Nagano Prefecture, central Japan, there were 89,000 customers of the CATV service (94%). In Kurashiki, Okayama Prefecture, western Japan, there were 97,000 CATV customers. The company opened its third data center in the Okayama area in April 2013. In the western Japan region, where TOKAI advanced in April 2012, the information and communications business is to turn black in FY2015. TOKAI took part in the market of Fukuoka in the western Japan (Kyushu) in April 2014. With the launch of the around-the-clock call center service outsourced from real estate companies, TOKAI started selling equipment and making efforts to find customers of its LP gas service in the Kyushu region.

## Extending operating areas to expand customer base

In addition to efforts to enlarge its businesses in existing areas, the company plans to extend the territories to surrounding areas, focusing on the LP gas and Aqua businesses. In the LP business, now it is operating mainly in the Kanto region and Shizuoka, and has advanced into the southern Tohoku region in northeastern Japan and the Chubu and Tokai areas of central Japan from 2015. For the Aqua business, the company plans to expand it to the Hokuriku and Chugoku regions, starting from the Kansai western Japan region.

The company was founded in 1950 with the objective of selling city gas in Yaizu, Shizuoka Prefecture. In 1959, the company launched its LP Gas business to expand the sales territory. After the LP Gas business achieved the top market share in Shizuoka Prefecture, in 1979 the company entered the Kanto region and simultaneously diversified its Shizuoka stronghold through the launch the CATV and ISP businesses.

### Aqua

- ▶ TOKAI Holdings has used its reputation, customer relationships, and distribution expertise cultivated in the LP gas business to start up the Aqua business, a water cooler distribution business.
- ▶ The company thinks that selling water is an exceptional addition to its traditional LP gas retailing business—the demand for water peaks in summer while the peak for gas consumption is during winters.
- ▶ Although Aqua is the company's first manufacturing business, it is also a simple one—the company has secured a water source that provides it with a reliable supply of water at a low price. Unlike LP gas, which is purchased at market prices, the Aqua business enjoys extremely stable input costs.

Although Aqua business has its own dedicated sales force, in Shizuoka Prefecture and other areas where the company has an established customer base, sales staff of the LP Gas business also conduct sales activities for the Aqua business. This business segment also utilizes LP Gas' existing logistics expertise.

As discussed in the Market Overview section, the water delivery market has been expanding, and the potential for future growth appears to be large. In this environment, leveraging the "Mt. Fuji brand" and the company's sales capabilities can achieve significant market penetration in Shizuoka Prefecture, as can gradually expanding the sales area. The company stated that with its outright-owned water sources it can respond adequately to future demand growth.

Shared Research understands that while the Aqua business requires a significant investment, it has high incremental margins. Once the breakeven has been reached, the profitability can be remarkable. The cost of goods sold has two components, water servers and the water itself (extraction at the source and other related costs). (See Profitability Snapshot, Financial Ratios for more detailed discussion). The water servers are the main cost here and as the business gains scale, the cost per server could decline somewhat. Customer acquisition (an SG&A component) is the largest cost which is high enough to make the business lose money in the initial growth phase. However, once the cash flow from existing customers exceeds the new customer acquisition costs, margins start expanding rapidly. The business segment turned profitable in FY03/17.

### Information and Communications

An important characteristic of the SIS and corporate telecommunications subsegments is the company's trinity of services: data centers, system development, and corporate interoffice telecommunication services utilizing the company's proprietary fiber-optic network infrastructure.

The important strength of the company's business model in this segment is that it combines in one package one-off revenues of development projects and recurring revenues of its corporate interoffice telecommunications services and data center operations. In order to grow the profitability however, the company thinks it needs to develop cloud-based services for medium-size firms. Doing so will allow to boost its data center utilization rates (a major driver of segment profitability).

### CATV

Sales of the CATV segment are ARPU times the number of subscribers. ARPU change depending on whether users buy higher priced services or use multiple services. The number of subscribers is the subscription rate times the number of households in the service area. Changes in ARPU drive profit margins. In addition, more subscribers give the company bargaining power vis-à-vis suppliers of hardware and programming content. As a side note, depreciation accounts for a large proportion of cost of sales.

Comparing the company with the CATV industry leader, Jupiter Telecommunications Co., Ltd., two firms have the following growth strategies in common: localized sales effort tailored to its region geography and other unique characteristics; rich service lineup; and the use of M&A to buy growth. For the company, its expertise in selling locally door-to-door, the original strength of both its LP gas and CATV businesses, could also mean a higher probability of success in pushing the “total concierge” strategy, cross-selling other products and services using the same sales force.

## Reference: LP gas

LP gas is a fuel made primarily from butane and propane, which easily liquefy at room temperature when compressed. This makes LP gas cylinders easy to refill and transport. For this reason, in suburban areas and small cities where there is no city gas pipeline network, LP gas is a common household thermal source.

In contrast, “city gas” refers to gas delivered via an urban pipeline network and is primarily made from natural gas (methane). Unlike butane and propane, liquefying natural gas requires not only pressure but also cooling to minus 16 degrees Celsius (about three degrees Fahrenheit) or below. For this reason, it is not suited for transportation in cylinders but instead is supplied to households in gas form through underground pipes.

### LP gas usage categories (FY2019)

Usage	Share in domestic demand	Main features
Household & commercial use	43.0%	Propane is the main ingredient and cylinders are installed on-site to supply households and commercial facilities.
General industrial use	21.8%	Used in ferrous and non-ferrous metal processing as a thermal source, and for such applications as drying of industrial components and foodstuffs.
Chemical raw material	20.4%	Demand is on an upward trend for butane as a raw material in the manufacture of such chemical products as ethylene and propylene.
City gas	7.9%	Although the main ingredient of city gas is methane, LP gas is an additive to increase thermal power.
Automobile use	5.5%	Used in domestic LP gas-powered vehicles, butane is the main ingredient.
Electricity generation	0.6%	Used as a backup fuel at thermal power stations.
Large-scale steelmakers	0.7%	Used in the steel industry for heating and heat-treating steel materials.

Source : Shared Research based on data from the Japan LP Gas Association

- ▶ On a nationwide basis, 24.0 million households use LP gas (approximately 45%). By contrast, within Shizuoka Prefecture—the company’s core territory—around 60% of households uses LP Gas (2015).
- ▶ The LP gas industry has a three-tier structure comprising primary suppliers (“motouri”), wholesalers, and retailers. As of March 31, 2012, there were eight primary suppliers, approximately 1,100 wholesalers, and 21,518 retailers. Based on the 2013 LP Gas Industry Report, the industry has several tiers (the company is mainly a retailer but also has some wholesale operations):
  - ▶ Primary suppliers: Import and sell gas from producer countries, as well as refine crude oil and sell refined petroleum products. Fierce competition has seen significant realignment and consolidation of this part of the industry. In 1980, there were 25 primary suppliers, but by 2011 this had shrunk to eight companies.
  - ▶ Wholesalers: Purchase LP gas from primary suppliers and sell to retailers who have direct relationships with end users. Each region has dominant wholesalers, and entry by such companies into the retail business is accelerating.
  - ▶ Retailers: Purchase LP gas from wholesalers and sell to households and other customers as well as delivery, safety assurance, and collection of fees. There are a large number of small-scale retailers who maintain very close links with their respective local communities. These operators face a trend of rising costs for delivery and safety assurance.

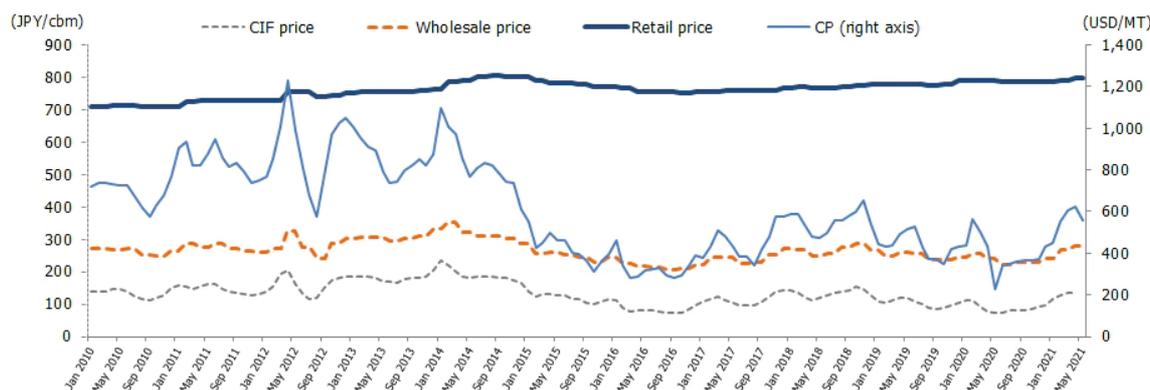
User charges, unlike those for electricity and city gas, are set by each seller based on its own calculation method. Whereas the basic law governing city gas suppliers is the Gas Utility Industry Law, the basic law governing LP gas suppliers is the Law Concerning the Securing of Safety and the Optimization of Transaction of Liquefied Petroleum Gas (LP Gas Law). Under the revised LP Gas Law (effective April 1997), to make tariff systems more transparent, suppliers are obligated to disclose the tariff structure to consumers in an easily understood way and indicate the content of services covered by those charges. Types of tariff structures include two-tier, three-tier, minimum usage, and multiple. As of 2015, the most common structure is a two-tier tariff.

The two-tier tariff structure comprises a base charge and metered volume charge. The basic charge is a fixed amount per customer (dwelling or premises) that is not dependent on usage volume, and covers 1) the cost of equipment necessary for

supply, such as cylinders and meter; and 2) the cost of safety and meter reading as well as gas alarm rental. The metered volume charge is tariff based on gas usage volume and comprises the gas input cost as well as the delivery cost.

LP gas is mostly imported, and the price varies depending on the contract price (CP) and cost, insurance, and freight (CIF). CP refers to the price determined by Saudi Aramco, the national oil and natural gas company of Saudi Arabia—a major LP gas producer—based on a combination of factors, including crude oil price trends and spot bid prices for gas sold by Saudi Arabia and other gas-producing countries. Bid prices are unpublished, hence CP is to some extent a unilaterally notified price (CP is the handover price at the port of the exporting country and is denominated in dollars/ton). CIF refers to one type of basic set of conditions used in the conduct of international trade transactions and is nowadays the most commonly used benchmark. It is the delivered price including freight and insurance. In Japan, it is usually the price to a Japanese port denominated in yen/ton.

## LP gas retail, wholesale, CIF, and contract prices



Source: Shared Research based on data from the Oil Information Center

Domestically, added to CIF are: import primary supplier costs (coastal freight, safety expenses, gas terminal expenses, general administrative expenses, and petroleum gas tax); wholesale costs (personnel expenses, delivery expenses, costs of operating charge stations, safety expenses, and general administrative expenses); and retail costs (personnel expenses, delivery expenses, depreciation expenses, safety expenses, fee collection and meter-reading expenses, and general administrative expenses). LP gas tariffs are set in accordance with the business conditions of each supplier.

Margins (charges less costs) are generally determined by such factors as the competitive situation, and the time lag between cost fluctuations and tariff increases or decreases. Although a change in the import price of LP gas has a short-term impact on the earnings performance of an LP gas supplier, earnings tend to level out over time.

## Profitability snapshot, financial ratios

Profit margins (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons. **	Cons.									
Gross profit	67,445	69,537	68,809	68,341	68,932	69,812	73,040	75,336	76,159	79,289	82,870
Gross profit margin	38.6%	38.2%	37.9%	36.2%	36.8%	38.6%	40.9%	40.5%	39.7%	40.5%	42.1%
Operating profit	10,755	10,923	8,934	7,392	9,003	8,245	12,750	10,971	13,057	14,224	15,226
Operating profit margin	6.1%	6.0%	4.9%	3.9%	4.8%	4.6%	7.1%	5.9%	6.8%	7.3%	7.7%
EBITDA	26,300	28,826	26,381	24,963	26,232	24,979	28,391	26,182	28,147	29,650	31,026
EBITDA margin	15.0%	15.8%	14.5%	13.2%	14.0%	13.8%	15.9%	14.1%	14.7%	15.1%	15.8%
Net margin	1.2%	1.5%	1.7%	1.4%	2.1%	1.9%	4.1%	3.6%	4.1%	4.2%	4.5%
<b>Financial ratios</b>											
ROA (RP-based)	4.9%	5.2%	4.5%	4.0%	5.0%	5.0%	7.9%	6.8%	7.9%	8.6%	8.8%
ROE	14.8%	13.1%	10.4%	7.4%	9.8%	8.3%	15.2%	11.4%	12.6%	13.0%	12.7%
Total asset turnover	0.91	0.97	1.01	1.08	1.11	1.11	1.11	1.14	1.15	1.16	1.13
Inventory turnover	11.6	12.8	13.9	14.8	15.9	18.1	19.8	21.2	20.8	20.7	20.5
Days in inventory	31.3	28.6	26.2	24.7	22.9	20.2	18.4	17.2	17.5	17.6	17.8
Working capital (JPYmn)	17,237	16,595	16,066	16,146	13,745	13,405	13,117	13,525	15,475	16,378	14,670
Current ratio	55.4%	48.2%	48.9%	51.5%	50.5%	60.5%	63.0%	62.7%	69.2%	73.0%	82.3%
Quick ratio	32.2%	29.1%	30.5%	32.0%	32.2%	40.3%	42.5%	42.3%	47.2%	50.3%	56.0%
OCF / Current liabilities	0.25	0.33	0.31	0.28	0.36	0.32	0.43	0.33	0.35	0.37	0.55
Net debt-to-equity ratio	525.9%	373.9%	260.1%	214.3%	161.5%	160.4%	112.0%	99.3%	93.8%	88.2%	68.2%
OCF / Total liabilities	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.3
Cash conversion cycle (days)	33.2	28.6	26.4	25.2	22.2	18.4	14.6	12.8	15.3	17.8	14.5
Change in working capital	-753	-642	-529	80	-2,401	-340	-288	408	1,950	903	-1,708

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Results for FY03/11 and prior years are of TOKAI Corp.

The company's consolidated operating profit margin in FY03/13–FY03/16 was generally lower than the previous level of around 6.0%, but improved to 7.1% in FY03/17. Although sales declined due to price cuts to reflect lower gas purchase prices, this makes minimal impact on profits due to the company's earning structure, and the profitability of priority businesses such as Hikari Collaboration and Aqua improved. ROA and ROE also improved significantly in FY03/17 as a result of higher profitability. ROE had been trending down since FY03/10, but improved to 15.2% (+6.9pp YoY) in FY03/17. However, in FY03/18, the first year of the new medium-term management plan Innovation Plan 2020 "JUMP," which ends at the end of FY03/21, the company made investments to expand its earnings base in the future. As a result, profitability and efficiency worsened YoY. The operating profit margin fell 1.2pp YoY to 5.9% and ROE fell 3.8pp to 11.4%. V-shaped recovery was achieved in FY03/19, with the operating profit margin rising 0.9pp to 6.8%, and ROE rising 1.2pp to 12.6%. In FY03/21, the company achieved a consolidated operating profit margin of 7.7% (the highest in 10 years) and an ROE of 12.7%.

## Energy

In FY03/21, the segment operating profit margin (before allocating overhead expenses) was 11.6%. In the mainstay LP Gas business, the lowest operating profit margin since FY03/07 was 3.6% in FY03/08 and the highest was 12.5% in FY03/17. The decline in operating profit margin in FY03/08 reflected a substantial rise in purchase prices. The increase in FY03/10 reflected a revision in selling prices (i.e., passing on higher costs to the end user in terms of price hikes). The operating profit margin declined in FY 03/14, partly because selling prices failed to reflect higher purchase costs exactly. Since FY03/15, operating profit margin improved due to the correction to the previous year's situation and rationalization efforts. However, in FY03/18, sales were solid as the company raised selling prices to match higher procurement prices and sales volume rose due the increase in customer count. On the other hand, profits were weak due to higher costs to secure new customers and prevent contract cancellations. The operating profit margin fell 2.8pp YoY to 9.7%. In FY03/19, the operating profit margin fell 1.0pp to 8.7% due to the impact to LP gas sales volume from higher temperatures and the surge in LP gas procurement costs. In FY03/20, a decline in gas procurement costs underpinned a 0.8pp rise in the segment operating profit margin to 9.5%. In FY03/21, despite falling selling prices, operating profit margin increased 2.1pp YoY to 11.6%, thanks to the rising customer count.

For reference, a USD10/ton decline in contract price (CP) adds JPY130mn to operating profit, and a one yen fall in the yen versus the USD adds around JPY50mn to operating profit (FY03/21 base). However, although there is a slight time lag between purchase price and selling price, they move in tandem for the most part and generally are stable. The company's operating profit margin is high compared with industry peers, the fact that Shared Research attributes to a high weight of residential customers (not businesses) in the company's mix. As the LP gas market faces gradual decline, a key issue is maintaining profitability by pursuing efficiency. Acquisitions of similar operators and thus boosting the scale of the business are one way of doing this. In addition, if the company was able to take advantage of industry realignment and utilize M&A to boost its size, it may gain some room for lowering its purchase price though greater economies of scale.

The city gas business has approximately 63,000 customers, the number that has remained more or less stable over time. The same can probably be said about profitability—the regulated city gas business is a small but stable part of the company's portfolio.

## Aqua

The Aqua business turned profitable at operating profit level for the first time in FY03/17. In FY03/18, the business maintained profitability, although the operating profit margin fell 1.2pp YoY to 4.0%. The operating profit margin rose 6.9pp to 10.9% in FY03/19 on a reduction in distribution expenses resulting from the business alliance with Toell Co., Ltd. With these cost-savings dropping out and distribution costs rising, the segment operating profit margin fell 1.8pp to 9.1% in FY03/20. In FY03/21, the operating profit margin declined 1.6pp YoY to 7.5% as rising distribution costs outweighed the higher customer count and an increase in the average selling price per customer. The company commented that its bottled water commands a gross profit margin of approximately 50%. An improvement in usage rates and an increase in customers who are both LP gas and Aqua customers will lead to a decrease in cancellation rates and costs.

## Information and Communications

In FY03/21, the segment operating profit margin (before allocating overhead expenses) was 8.6% (+0.4pp YoY). The operating profit margin declined after hitting its latest high of 14.6% in FY03/12 and dropped to 5.2% in FY03/16, mainly due to heavy promotional spending on the new fiber-optical service Hikari Collaboration. Earnings improved in FY03/17 as Hikari Collaboration began contributing to sales. In FY03/18, the company made investments (secure new customers, prevent cancellations, sales promotions in MVNO business, etc.) to expand its earnings base in the future. As a result, the operating profit margin fell 2.3pp YoY. However, the operating profit margin rose 1.2pp to 7.5% in FY03/19 with the optimization of LIBMO customer acquisition costs (changed focus to the acquisition of users that are certain to continue to use the service). Rising demand from corporate customers (mainly for cloud services) helped pushed the segment operating

profit margin up another 0.7pp in FY03/20, to 8.2%. FY03/21 saw a net increase in consumer customers supported by the launch of new MVNO service rate plans and promotion of new customer acquisition through online marketing. Corporate customer demand increased thanks to progress with the cloud service rollout and increased telework demand, leading to a 0.4pp increase in the operating profit margin to 8.6%.

## CATV

In FY03/21, the segment operating profit margin of 15.4% was down 0.6pp from the record-high of 16.2% set in FY03/19, but was still well above the 11.9% figures reported for FY03/11 and the previous record-high of 12.5% logged in FY03/18. Though competition with major telecommunications carriers becomes fierce, the company is enjoying successful results from such measures as the bundling of broadcasting and telecommunications services and discounts for long-term subscribers to increase customer loyalty.

## Group companies

TOKAI Holdings was established in April 2011 to coincide with the 60th anniversary of the founding of the TOKAI group. As of March 2021, the company has 43 operating companies, led by TOKAI Corporation and TOKAI Communications Corporation (33 consolidated subsidiaries and 10 equity-method affiliates). The figures in parentheses indicate the company's holding ratio.

## Core operating companies

- ▶ TOKAI Corporation (100.0%): In Tokyo and 15 prefectures stretching from the Tohoku region in the north to Kyushu in the south, the company provides a diverse range of products and services to the household sector, including LP gas, Aqua (returnable and disposable bottles), housing-related products and services, solar panels and other environmental and energy products, security, and insurance.
- ▶ TOKAI Communications Corporation (100.0%): Provides ICT services.
- ▶ TOKAI Gas Corporation (100.0%): Supplies city gas and LP gas, as well as provides renovation services in the cities of Yaizu, Fujieda, and Shimada, Shizuoka Prefecture and in the town of Shimonita, Gunma Prefecture.
- ▶ TOKAI Cable Network Corporation (100.0%): In addition to providing CATV digital multichannel broadcasting services, the company also offers FTTH Internet services and telephone services utilizing proprietary CATV fiber-optic lines.

## Energy (LP Gas business)

- ▶ Y.K. Osuga Gas Service (100.0%)
- ▶ Joynet Co., Ltd. (50.0%)
- ▶ Energy Line Corporation (100.0%)
- ▶ TOKAI Home Gas Corporation (100.0%)
- ▶ TOKAI Myanmar Company Limited (60.0%)

## Aqua

- ▶ TOKAI (Shanghai) Trade & Commerce Co. Ltd. (100.0%): Conducts home water delivery service under the "Fujishigen" brand in Shanghai, China. Also manufactures water servers used in the Japanese market.

## Information and Communications

- ▶ Cloud Master Co., Ltd. (50.0%): A joint venture established in March 2013 in Taiwan with SYSCOM. Set up with the objective of providing information and communications services in the Asia market, beginning with Japan, Taiwan, and China.

- ▶ Scythe Co., Ltd. (100.0%): Operates the information services business specializing in consignment development of systems and provision of in-house developed survey systems mainly for use in online research.

## CATV

- ▶ Tokyo Bay Network Co., Ltd. (93.9%): Operates a CATV business in Chuo and Koto wards in Tokyo.
- ▶ Ichihara Community Network TV Corp. (92.0%): Operates a CATV business in Ichihara, Chiba Prefecture.
- ▶ Atsugi Isehara Cable Network, Inc. (99.2%): Operates a CATV business in Atsugi, Kanagawa Prefecture.
- ▶ LCV Corporation (89.2%): Operates a CATV business in the Suwa/Okaya/Tatsuno area of Nagano Prefecture.
- ▶ KCT Corporation (98.3%): Operates a CATV business in such cities as Kurashiki, Soja and Tamano in Okayama Prefecture.
- ▶ TV Tsuyama Inc. (96.0%): Operates a CATV business in Tsuyama, Okayama Prefecture.
- ▶ TOCO Channel Shizuoka Co., Ltd. (85.9%): Operates a CATV business in the city of Shizuoka, Shizuoka Prefecture.
- ▶ Net Technology Shizuoka Co., Ltd. (55.0%)
- ▶ Sendai CATV Co., Ltd. (99.3%): Operates CATV business serving the cities of Sendai and Natori in Miyagi Prefecture

## Construction, Equipment, and Real Estate

- ▶ Nissan Tri Star Construction, Inc. (100.0%): General contractor in Gifu Prefecture
- ▶ Chuo Denki Koji Co., Ltd. (100.0%): Electrical contractor in Aichi Prefecture
- ▶ Inoue Technica Co., Ltd (100.0%): Operates a building maintenance business in Numazu, Shizuoka Prefecture.

## Others

- ▶ Tokai City Service Co., Ltd. (100.0%): Operates the Grandair Bouquet Tokai bridal and banquet hall.
- ▶ TOKAI LIFE PLUS CORPORATION (100.0%): Operates a day service and other nursing care services in the city of Shizuoka, Shizuoka Prefecture.
- ▶ TOKAI Management Service Corporation (100.0%): Undertakes administrative duties for internal departments.
- ▶ TOKAI Human Resources EVOL Corporation (39.0%): Operates a labor dispatch business.
- ▶ TOKAI Zosen Unyu Co., Ltd. (90.8%): In the shipbuilding business, conducts ship repairs; in the transportation business, operates LP gas tanker trucks from Oigawa Gas Terminal. In the Aqua home-delivery service, delivers water bottles and servers from Shizuoka Prefecture to household and office customers.

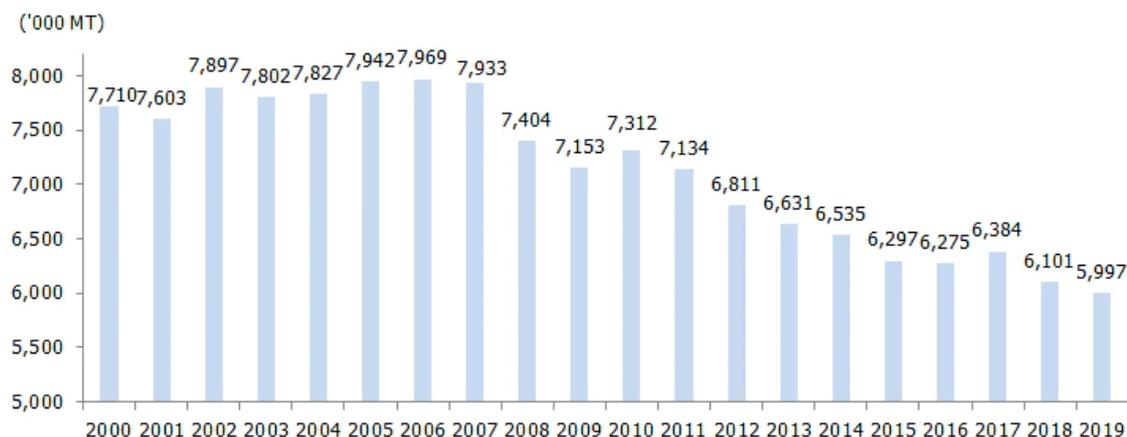
# Market and value chain

## Market overview

### Energy

LP gas demand (household and commercial use) peaked in 2006 and had been on the wane since then due to a falling average number of persons per household, the growing use of energy-efficient appliances, declining volume usage driven by increased environmental awareness, and changes in energy source.

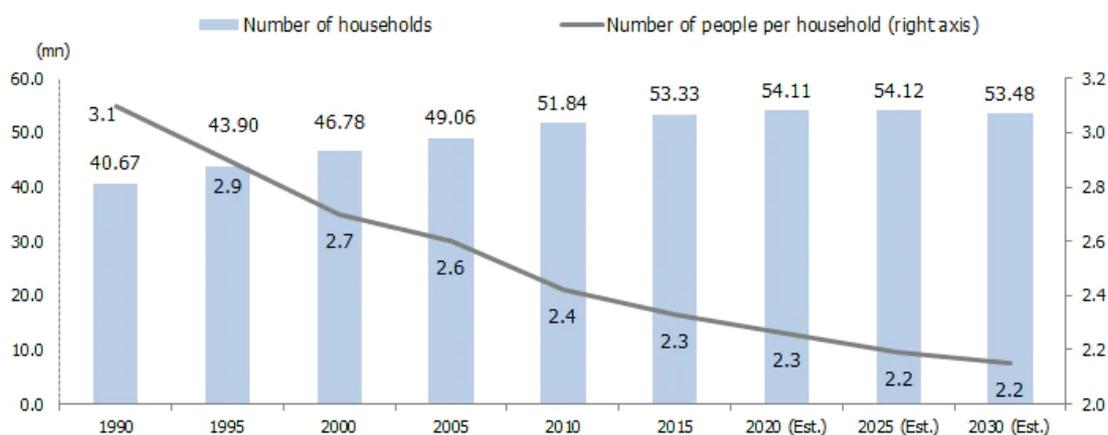
## LP gas demand (household use)



Source: Shared Research based on data from the Japan LP Gas Association

According to the National Institute of Population and Social Security Research, after peaking in 2023, the total number of households in Japan will begin to decline. The average number of persons per household is also expected to fall. In light of this trend, LP gas and city gas usage per household is anticipated to decline. In other words, the gas business operates in a market that started a secular decline.

## Japan's households and people per household



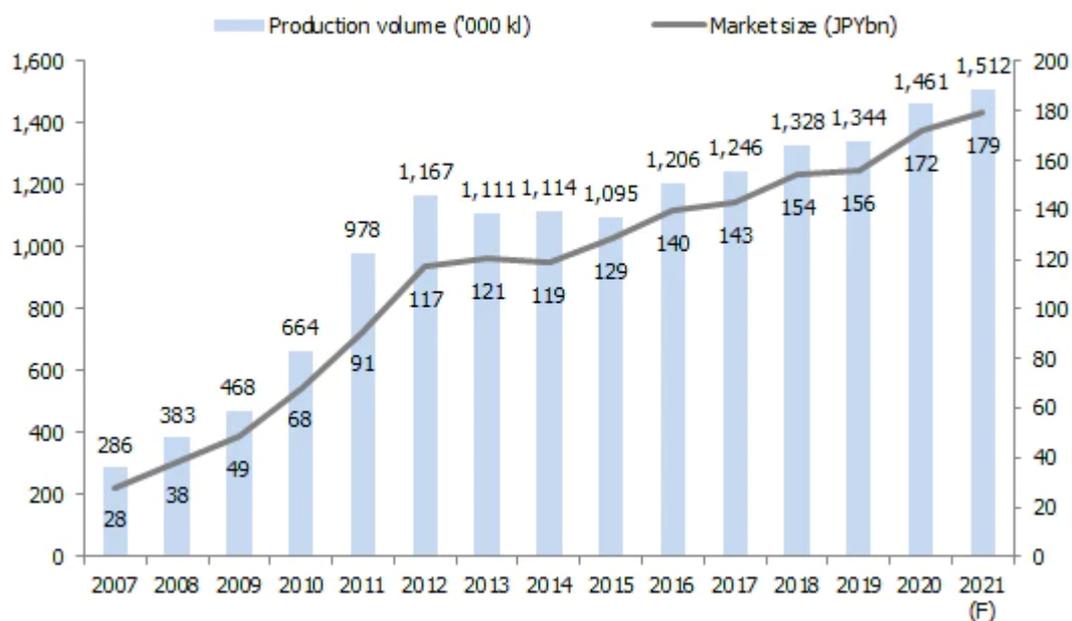
Source: Shared Research based on Ministry of Internal Affairs and Communications, National Institute of Population and Social Security Research data

## Aqua

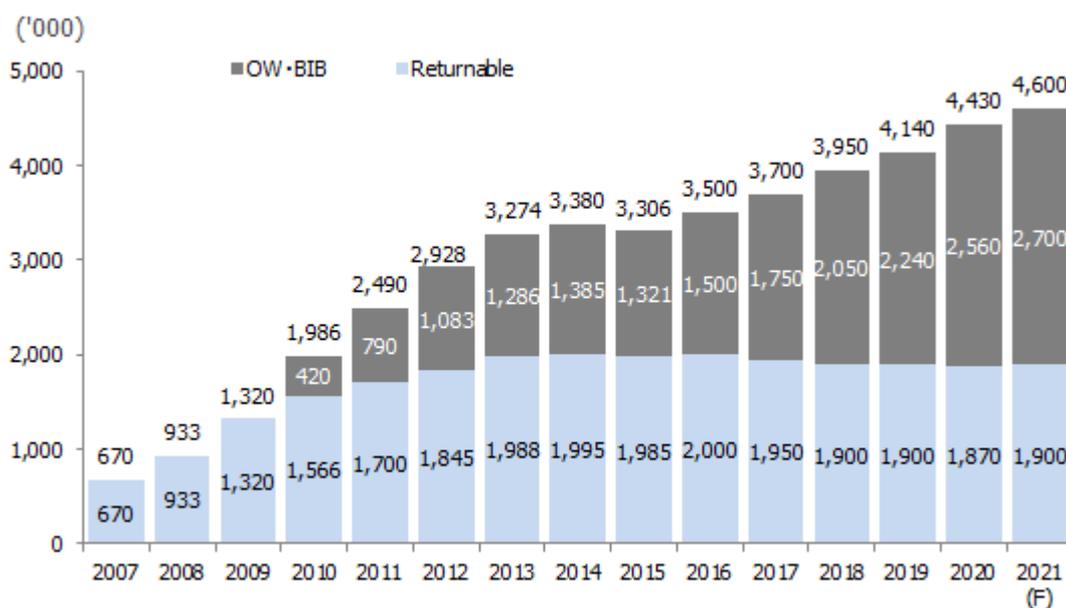
The company is building up the Aqua segment, its water delivery business, where the market has been expanding. For 2021, the Japan Water Home Delivery Association estimates a total customer dispenser count of 4,600,000 (up 170,000 YoY), putting the market value at JPY179bn (up JPY6.7bn YoY).

Note: Water delivery refers not to PET bottles filled with water, but to water delivered in larger containers. A dedicated water server is placed in a home or office, which is used to dispense cold or hot water whenever users desire.

## Water delivery market and production amount



## Number of delivery water customers (thousands of servers)



Source: Shared Research based on data from the Japan Delivery Water & Server Association  
 Note: Returnable means reuse containers. OW (one way) and BIB (bag in box) indicate disposable containers.

According to the Japan Mineral Water Association, per capita mineral water consumption in Japan continues to increase annually. The water-delivery market is growing faster than the overall domestic water market. In 2019, the per capita consumption of mineral water in Japan was 31.7 liters, substantially lower than other developed countries (Italy: 192.0 liters, U.S.: 119.0 liters, UK: 38.9 liters). Judging from these figures, mineral water consumption in Japan would appear to have plenty of room to grow in the future.

## Information and Communications

The fixed broadband market for individual consumers, which is handled by the Information and Communications segment, has slowed significantly in recent years. According to the Ministry of Internal Affairs and Communications, as end-December 2019, there were 32.72mn fiber-optic line subscribers (+4.3% YoY). However, the growth rate has slowed gradually and the number of increase in FY2015 was up 4.7% YoY. This is largely due to the penetration of smartphones and tablet devices, as well as an increase in the number of single-person households—particularly young people—who do not subscribe to a fixed

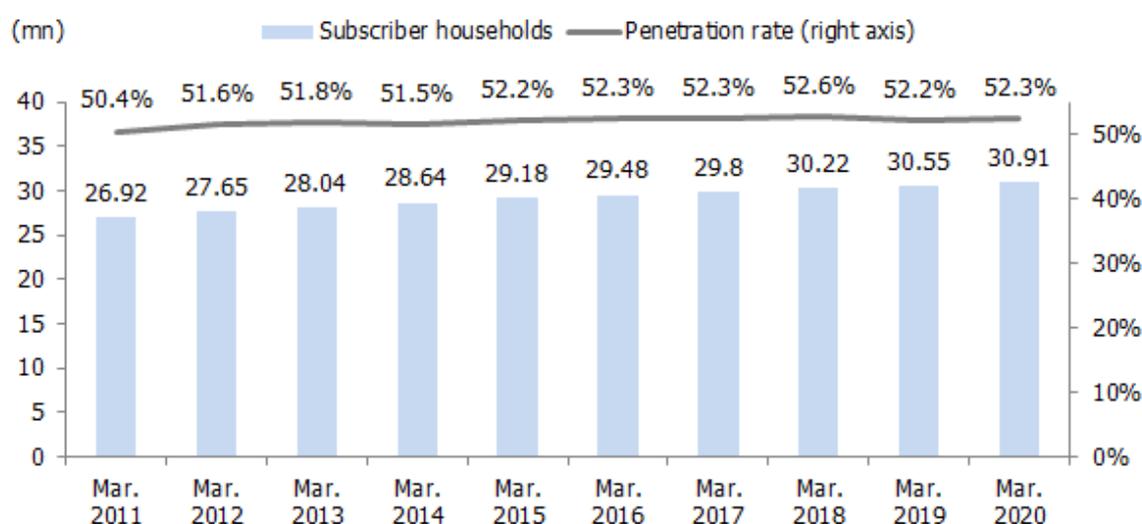
line service. In 2014, the Nippon Telegraph and Telephone Corp. group, the largest provider of fiber-optic lines in Japan, announced a change in selling policy to launch the wholesaling of its fiber-optic services (Hikari Collaboration). Various business operators, including mobile telecommunications carriers, introduced new services using this collaboration model. TOKAI was one of the companies starting the new services.

Shared Research anticipates growth in the SIS and corporate telecommunications businesses. According to MM Research Institute, the market scale of the public cloud (SaaS/FaaS/PaaS/IaaS) is expected to grow from JPY616.5bn in FY2018 to JPY1.6tn in FY2023, representing a CAGR of 21.7%. According to a survey by IDC Japan, a research institution specializing in IT, the data center services market in Japan is expected to grow from JPY1.2tn in FY2017 to JPY1.8tn in FY2022, representing a CAGR of 8.6%.

## CATV

According to the Ministry of Internal Affairs and Communications, the number of CATV subscribers stood at 30.9mn households at end-March 2020, or 52.3% of the overall market. With the market penetration rate already above 50%, the CATV market has clearly been maturing in recent years.

### Cable TV subscriber households and market penetration rate



Source: Shared Research based on data from the Ministry of Internal Affairs and Communications

## Construction, Equipment, and Real Estate

The company has positioned the housing-renovation business as a growth field, and under the New Growth Strategy approved by the Japanese cabinet in June 2010, the housing renovation market was indeed targeted to double from JPY6.0tn in 2010 to JPY12.0tn in 2020. Although the governing party at the time, the Democratic Party of Japan (DPJ) lost power in 2012 to the Liberal Democratic Party (LDP), we do not expect to see any change vis-à-vis this market. The main reason for this expectation is that the original proposal for stimulating the housing-renovation market was made during the previous LDP administration. According to the Ministry of Land, Infrastructure, Transport and Tourism, there are particularly high needs in the plumbing field related to kitchen, toilet, and bathroom renovation. In addition, since the Great East Japan Earthquake, instability in the electricity supply has led to increased renovation needs and energy conservation.

## Barriers to entry

The company's main businesses, including LP Gas, Information and Communications, and CATV, require large-scale capital investment, making the barriers to entry high.

In contrast, the Aqua business and the housing-renovation business are not necessarily market pioneers and do not require large initial investments. For such reasons, barriers to entry are not as high. However, to build these businesses to a certain level of momentum, it is necessary to have some attributes of differentiation. Shared Research sees the company's differentiation in its LP Gas customer base and the "Mt. Fuji" brand. Around the foot of Mt. Fuji, there are increasing moves to regulate the taking of water, meaning it is not easy to drill new wells.

# Competition

## Energy

The number of direct customers in the LP Gas business is 681,000 (as of end-March 2021). This gives the company the third largest customer base in Japan. Competitors include industry leader Iwatani Corporation (TSE1: 8088) and the second-largest operator, Nippon Gas Co., Ltd. (TSE1: 8174). In its stronghold of Shizuoka Prefecture, the company has a 24.1% market share, putting it in top place. In the Kanto region (including Fukushima Prefecture in the Tohoku region), it has a 7.2% market share (based on the number of subscribers; (source: LP Gas Research Report Facts & Figures 2020, Sekiyu Kagaku Shinbun Sha). Looking at historical trends, there are few cases of drastic fluctuations in market share, but competition in the industry tends to be relatively fierce.

## LP gas retailers



Source: Shared Research based on LP Gas Annual Report data

There were approximately 17,800 LP gas retailers in Japan as of end-March 2019. Although this number is in decline, the company expects a major realignment in the industry over a relatively brief period, which may decrease the number of small operators and spawn an oligopoly. Consequently, to expand the customer base, the company has indicated it will consider the use of M&A and business alliances.

## Aqua

In the Aqua business, competitors include NAC Co., Ltd. (TSE1: 9788) and Aqua Clara, Inc. These two companies have around 20% of the market, but TOKAI's market share is around 4% (all market share figures are for 2016; source: Yano Research Institute Ltd.). Still, it has almost a 50% share when looking only at the Shizuoka area. Using the "Mt. Fuji" brand and its sales capabilities as key advantages, the company is preparing for a major sales push in the Kanto region. Water Direct Corporation (TSE Mothers: 2588) also operates a water-delivery service using natural water sourced from the foot of Mt. Fuji. Shared Research considers the company's competitive advantage its existing relationship with LP Gas customers.

## CATV

Originally, the company utilized such leading-edge technologies as CATV-FTTH to offer Internet access and multichannel broadcasting, and leveraged its sales capabilities to expand the CATV business. However, the full transition to terrestrial digital broadcasting in Japan in July 2011 shrunk the area affected by signal interference, revitalizing the multichannel market. Major telecommunications carriers have also expanded into offering bundled broadcasting, Internet, and telephone services, further intensifying competition.

For the company, key competitors include major telecommunications carriers, which boast abundant capital resources, infrastructure assets, and purchasing power, and utilize these to offer a rich array of content, hence leading to differentiation.

In addition to efforts to reinforce its customer base by making Tokyo Bay Network a consolidated subsidiary (in July 2017), the company is aiming to generate synergies (increase ARPU) by packaging its services with the assorted comprehensive lifestyle services of the group. The CATV business of the TOKAI group is ranked third in the industry in sales, sixth in number of broadcasting households, and fourth in number of subscribing households (source: TOKAI Holdings). The company can offer one-stop access to broadcasting services, FTTH Internet access, and telephone services. It also provides broadcasting services to approximately 800,000 households (home pass total: 1.38mn households as of end-March 2020) whom it already knows,

and through strong local community-based sales it has a direct relationship with customers and is able to provide close after-sales service. The company thinks that the major telecommunications carriers are not able to cultivate such advantages.

In particular, unlike the commercial free-to-air broadcasters, who are tied to programming that is backed by advertising sponsors, CATV operators have much greater freedom in deciding their programming and are able to focus on their strengths in providing content that is valuable to viewers in their defined service area. Based on this attribute, the company is working to strengthen its role as a core infrastructure provider in its respective service areas. This includes offering services that focus on local traditions and culture and services that have a strong local community perspective.

## Information and Communications

According to TOKAI, in terms of sales for the ISP business (ADSL/FTTH), the company boasts the top market share in Shizuoka Prefecture, and the fourth largest share nationwide.

Unlike many ISPs, the company is highly cost competitive due to its proprietary infrastructure, such as relay transmission and IP transit. Another key feature is its customer base focusing on the Kanto region and Shizuoka Prefecture.

In the corporate telecommunications and SIS businesses, the company is likely to face intensified competition from the large system integration (SI) companies, which were previously not direct competitors. This change reflects a general move in the information industry toward cloud services, which has prompted the large SI companies to target second-tier companies rather than blue chip companies. Hence, the previously existing segmented market structure is undergoing significant changes. Meanwhile, as the cloud business market expands, operations and business-support platforms, as well as application providers such as Platform as a Service (PaaS) and Software as a Service (SaaS) are expanding.

In this environment, the company is striving to differentiate itself by combining hardware- and software-based services, based on a full lineup of services from data centers and network infrastructure through to SI services performed by IT engineers. In addition, SYSCOM, the company's local partner in its Taiwan joint venture, provides price-competitive cloud services. Based on these services, the company intends to roll out cloud services targeting SMEs.

# Strengths and weaknesses

## Strengths

### **Regional dominance providing greater profit contributions from non-gas businesses:**

The company began selling LP gas in Shizuoka Prefecture, and expanded to the Kanto area. It has leveraged its high market share (over 20%) and customer base in Shizuoka Prefecture, where it built its LP gas business, to successfully launch CATV, ISP and other businesses, and as with the LP gas business, it has expanded these businesses into other areas, using Shizuoka Prefecture as a base. Its customers have grown to 3.1mn at end-FY03/21, from 1.8mn at end-FY03/09. The company expects to continue growing its customer base through regional expansion and offering a diversified product line-up.

### **“Lean and mean” provides flexibility to take business away from major utility companies:**

In the wake of the liberalization of Japan's electric power industry, the large utility companies have, through their group companies, attempted to expand their operations beyond the electricity business. The top three electric power companies have aggressively expanded into the telecommunications business. However, after determining that earnings were unlikely to improve owing to intensified competition, they pulled out of this business, and focused exclusively on energy-related operations. The enormous size proved too costly. However, TOKAI Holdings has been able to penetrate this area due to its lower cost structure, aggressive management, and regional focus, expanding into other regions departed by the major electric companies. For example, the operating profit margin of the Information and Communications segment, the second biggest segment in terms of sales, stood at an average of 7.8% for the past five years up to FY03/21, showing a stable profit status.

### **Beneficiary of structural reform and realignment of the LP gas industry:**

There are nearly 18,000 gas operators supplying LP gas nationwide. Demand for LP gas is on a declining trend, and in view of this situation, Shared Research thinks that there will be an eventual realignment of the gas industry. Given its stronghold in mainstay gas operations, coupled with an improving financial position (i.e., reducing interest-bearing debt one year ahead of schedule), the company is well situated to be an “acquirer” rather than an “acquiree.” For that reason, the realignment of

the gas industry will not only mean an easing of price competition, but may also provide new growth opportunities for the company.

## Weaknesses

### **Lack of experience in cross-selling:**

Despite the company's successful sales of multiple products, only around 20% of the company's customers use multiple products or services of the company as of end-March 2021. To turn the proverbial "conglomerate discount" into a "conglomerate premium," the company needs to boost the cross-selling ratio of multiple product and services.

### **LP gas market is in structural decline:**

The company's core business operates in declining market (driven by demographic factors) but is competitive (due to a commodity nature of the product offered and limited consolidation).

### **Intensifying competition in the CATV business:**

Within the company's business portfolio, the CATV business has been identified as a growth area. However, there is increasing momentum in service bundling by telecommunications carriers, not only in the ISP field but also in such areas as IP telephony, terrestrial digital broadcasting, and satellite digital broadcasting (BS/CS). This means intensifying competition for customers.

# Historical performance and financial statements

## Historical performance

1H FY03/22 results (out October 28, 2021)

### Overview

#### 1H FY03/22 results

The company reported sales of JPY96.1bn (+6.9% YoY), operating profit of JPY5.2bn (-4.2% YoY), recurring profit of JPY5.3bn (-3.9% YoY), and net income attributable to owners of the parent of JPY2.3bn (-30.4% YoY). 1H sales grew YoY for the first time in two fiscal years, setting a new record high for 1H sales.

#### Progress versus full-year forecast

Versus full-year FY03/22 company forecast, 1H sales were 46.4% (1H FY03/21 sales were 45.7% of FY03/21 full-year results), operating profit 34.3% (38.7%), recurring profit 34.5% (38.7%), and net income 25.8% (37.2%). Progress in sales, operating profit, and recurring profit outpaced the company plan. On the other hand, the company noted that customer acquisition was behind schedule. As such, it intends to use the surplus profits from 1H to step up customer acquisition efforts in 2H and achieve the full-year customer count target of 3.2mn by end-FY03/22. As for the net income, despite the one-off recording of extraordinary losses, net income attributable to owners of the parent was largely in line with plan. The company maintained its full-year forecast, which looks for record highs in sales and all profit items.

### Sales

Sales stood at JPY96.1bn, up 6.9% YoY. A breakdown of sales by segment is given below:

- Energy: JPY36.2bn (+8.1% YoY)
- Information and Communications: JPY25.3bn (+0.7% YoY)
- CATV: JPY16.1bn (-2.5% YoY)
- Construction, Equipment, and Real Estate: JPY12.4bn (+36.2% YoY)
- Aqua: JPY3.9bn (+0.9% YoY)
- Others: JPY2.2bn (+23.0% YoY)

Sales growth was mainly driven by a rise in the number of customers in the Energy and CATV segments, expansion of recurring-revenue businesses targeting corporate customers in the Information and Communications segment, and the impact of M&A in the Construction, Equipment, and Real Estate segment.

### Operating profit

Operating profit was JPY5.2bn, down 4.2% YoY. A breakdown of operating profit (before allocation of overhead expenses) is as follows:

- Energy: JPY2.0bn (-17.6% YoY)
- Information and Communications: JPY2.4bn (+18.1% YoY)
- CATV: JPY3.0bn (+12.3% YoY)
- Construction, Equipment, and Real Estate: JPY738mn (+18.8% YoY)
- Aqua: 186mn (-58.3% YoY)
- Others, adjustments: Operating loss of JPY3.0bn (loss of JPY2.7bn in 1H FY03/21; loss expanded by JPY360mn YoY)

A rise in the monthly billing count due to higher customer numbers and robust performance from the Information and Communications business for corporate customers pushed up profit. However, operating profit fell YoY due to higher customer acquisition costs, because the company moved ahead with customer acquisition at a faster pace than a year ago in the LP gas and Aqua businesses. The company also incurred expenses for preparing the environment for work style reforms.

The gross profit margin fell 2.3pp YoY to 40.3%, the SG&A ratio declined 1.6pp YoY to 34.9%, and the operating profit margin decreased 0.7pp YoY to 5.4%.

## Net income attributable to owners of the parent

Net income attributable to owners of the parent fell 30.4% YoY to JPY2.3bn. The company recorded one-off extraordinary losses, which included JPY208mn in costs related to events commemorating the company's 10th anniversary, JPY382mn in loss on retirement of non-current assets, and JPY498mn in costs associated with fraudulent activities by former employees (details to follow). Despite this, the company maintained that 1H net income was largely in line with plan.

## Topics

The company established TOKAI Venture Capital & Incubation Corporation in April 2021. This business will promote the TLC concept through synergies with existing businesses and the creation of new lifestyle-related services. In the same month, the company acquired shares in Marco Polo, Inc., which is engaged in large-scale repair work for condominiums and other facilities in the Construction, Equipment, and Real Estate business, and Query Co., Ltd., which is engaged in systems development in the Information and Communication business, and made these companies consolidated subsidiaries.

## Customer count

The number of continuing customers amounted to 3,125,000, up 26,000 from end-FY03/21. Subscribers to TLC Membership Service reached the one million mark with an increase of 44,000 members to 1,023,000. Versus end-FY03/21, the gas (LP, city gas) business had a net increase of 20,000 customers, the CATV business had a net increase of 17,000 customers, and the Aqua business had a net increase of 3,000 customers.

## Discovery of fraudulent activities by former employees of subsidiaries

A tax inspection conducted by the Nagoya Regional Tax Bureau in July 2021 revealed that former employees of two of the company's subsidiaries misappropriated some company assets for personal use by creating false invoices and fraudulently transferring funds. While these fraudulent activities are currently being investigated by an internal investigation committee chaired by a corporate attorney (see below), the company posted an extraordinary loss of JPY498mn in Q2 in line with the amount identified by the Nagoya Regional Tax Bureau. The company also added JPY88mn to income taxes based on its projection for tax penalty associated with the discovery of fraudulent activities.

- TOKAI Corporation: From February 2014, former employee A provided false invoices on an ordered construction project, and made fraudulent profits totaling approximately JPY173mn.
- TOKAI Gas Corporation: From March 2014, former employee B used his/her position as an accountant to divert a total of approximately JPY368mn in company funds to his/her own bank account for personal use.

The former employees and any other internal accomplices, including superiors, will be severely dealt with in accordance with company regulations.

Following the discovery, the company established an internal investigation committee chaired by a corporate attorney to carry out an investigation focusing on clarification of the details of the cases, understanding the responsibility of managers, identifying the causes, and preventing repeat incidents. Once the committee has completed its investigation, the company plans to disclose the report of its findings as soon as it receives this from the committee. It also plans to promptly disclose any material information that emerges during the investigation. The company takes these fraudulent acts very seriously, and it will work to further strengthen internal controls and improve their effectiveness based on the findings of the committee to prevent future incidents.

## Change in customer numbers by service type

Number of customers ('000)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	YoY Change
<b>Gas (LP gas, city gas)</b>	<b>629</b>	<b>626</b>	<b>627</b>	<b>634</b>	<b>648</b>	<b>670</b>	<b>696</b>	<b>728</b>	<b>764</b>	<b>36</b>
Conventional ISP	841	861	742	565	492	440	403	379	386	7
Hikari Collaboration	-	-	117	272	315	328	324	332	339	7
LIBMO	-	-	-	-	13	36	43	51	54	3
<b>Information and Communications</b>	<b>841</b>	<b>861</b>	<b>859</b>	<b>837</b>	<b>819</b>	<b>804</b>	<b>770</b>	<b>762</b>	<b>779</b>	<b>17</b>
<b>CATV</b>	<b>693</b>	<b>690</b>	<b>698</b>	<b>722</b>	<b>995</b>	<b>1,046</b>	<b>1,076</b>	<b>1,179</b>	<b>1,214</b>	<b>35</b>
Aqua	120	132	132	135	141	156	159	161	165	4
Mobile	221	231	234	234	231	223	215	209	198	-11
Security	19	18	18	17	17	17	16	16	16	0
<b>Total</b>	<b>2,498</b>	<b>2,535</b>	<b>2,543</b>	<b>2,554</b>	<b>2,827</b>	<b>2,893</b>	<b>2,918</b>	<b>3,042</b>	<b>3,125</b>	<b>83</b>

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Customer numbers are duplicated for Information and Communications and CATV segments when shown separately, but not in the totals.

\* Mobile virtual network operator (MVNO): Business offering self-branded mobile communication services for mobile phones and PHS devices without building or operating wireless communication facilities, and instead leasing communication lines from major mobile communication carriers.

\*\* The company is actively promoting LIBMO (<http://www.libmo.jp/>) as not only a method to capture new customers in mobile communication, but also as a strategic measure to acquire more contracts and prevent contract termination of fixed-line services, by packaging it with products such as Hikari Collaboration. Specifically, TOKAI is working in partnership with major electronics mass retailers to gain new customers. The company is also working to expand sales to its existing customers by awarding loyalty points in addition to its TLC membership services, and by utilizing flyers and email newsletters.

## Results by segment

Segment results as reported by the company reflect allocated overhead expenses. Beginning in Q1 FY03/21, the company revised the names of some of its segments, with the Gas and Petroleum segment becoming the Energy segment and the Building and Real Estate segment becoming the Construction, Equipment, and Real Estate segment. The name changes have no impact on actual earnings in the segments.

### Energy

Sales were JPY36.2bn (+8.1% YoY), and operating profit was JPY635mn (-39.0% YoY).

- ▶ The LP gas business reported sales of JPY30.7bn (+10.3% YoY). The company continued its customer acquisition efforts, and the number of customers expanded to 697,000, up 16,000 from end-FY03/21. Sales rose due to higher selling prices linked to a rise in purchase prices.
- ▶ The city gas business reported sales of JPY5.4bn (-2.6% YoY). Customer count grew to 67,000, up 4,000 from end-FY03/21, but sales declined due primarily to the fuel cost adjustment system.
- ▶ Operating profit fell mainly due to an increase in customer acquisition costs and decline in demand per household caused by unseasonable temperatures and other factors. Recovery in sales volume was mainly underpinned by restored demand for industrial-use gas. Household sales volume fell against strong year-ago results that benefited from an extra boost of stay-at-home demand. Factors behind changes in operating profit were as follows:
  - Upward impact: Increase in customer count (+JPY520mn); purchase cost reduction (+JPY60mn)
  - Downward impact: Customer acquisition costs (JPY500mn); unseasonable temperatures, other (JPY370mn); other costs (JPY130mn)

### Information and Communications

Sales were JPY25.3bn (+0.7% YoY), and operating profit was JPY1.7bn (+22.0% YoY).

- ▶ In the Information and Communications business, services for consumers generated sales of JPY12.2bn (-6.9% YoY). In the ISP business, the company expanded its service offerings through a partnership with a major mobile carrier. In the

mobile business, it worked to acquire customers by offering enhanced services through initiatives such as review of price plans and offering of set plans bundled with fixed lines. The number of customers came to 779,000, down 6,000 from end-FY03/21 (ISP customers decreased by 7,000 to 725,000 while LIBMO customers increased by 1,000 to 54,000). The company steadily expanded its sales channels and the trend of net customer decline has ceased, but sales declined due to lower average service prices.

- ▶ In the Information and Communications business, sales to corporate clients were JPY13.1bn (+9.0% YoY). Sales growth was driven by steady progress in cloud services and a higher number of contracted development projects.
- ▶ The company secured double-digit YoY growth in operating profit, thanks to higher profit from the corporate client business, lower customer acquisition costs, and higher profit from LIBMO. Customer acquisition costs fell from 1H FY03/21, when the company made substantial outlay on marketing activities for fixed broadband. The rise in profit from LIBMO was attributable to an increase in customer count and the provision of a high data volume plan, which raised the billing price per customer. Factors behind changes in operating profit were as follows:
  - Upward impact: Higher profit from the corporate client business (+JPY220mn); lower customer acquisition costs (+JPY130mn); higher profit from LIBMO (+JPY130mn); higher profit from business targeting consumers (+JPY30mn)
  - Downward impact: Increase in other expenses such as those to prepare the environment for work style reforms (-JPY140mn)

## CATV

Sales were JPY16.1bn (-2.5% YoY), and operating profit was JPY2.6bn (+9.9% YoY).

- ▶ During the COVID-19 pandemic, as a community-based operator, the company focused on delivering local information and program production, as well as working with major video distribution companies to enhance its content offerings, striving to help customers enjoy staying at home. Cautious yet constant and sustained sales activities in each area enabled the company to acquire new customers, with the number of broadcasting services customers increasing by 5,000 from end-FY03/21 to 881,000, while communications services customers increased by 11,000 to 333,000.
- ▶ Factors behind changes in operating profit were as follows:
  - Upward impact: Increase in customer count (+JPY320mn)
  - Downward impact: No major factor to note

## Construction, Equipment, and Real Estate

Sales were JPY12.4bn (+36.2% YoY), and operating profit was JPY341mn (+40.8% YoY).

- ▶ The company made progress in M&A, and orders for renovation and building work increased. As a result, sales and profit sharply rose YoY. Factors behind changes in operating profit were as follows:
  - Upward impact: Higher profit in the renovation business (+JPY80mn); higher profit in the construction and equipment businesses (+JPY40mn)
  - Downward impact: No major factor to note

## Aqua

Sales were JPY3.9bn (+0.9% YoY), and operating profit was JPY32mn (-88.1% YoY).

- ▶ Sales grew thanks to favorable performance from events held at large commercial facilities and telemarketing and other non-face-to-face sales activities. Customer count amounted to 165,000, up 3,000 from end-FY03/21. Operating profit was down YoY due to higher customer acquisition costs.
- ▶ Factors behind changes in operating profit were as follows:
  - Upward impact: Increase in customer count (+JPY20mn)
  - Downward impact: Higher customer acquisition costs (-JPY280mn)

## Others

Sales were JPY2.2bn (+22.9% YoY), and the operating loss was JPY114mn (operating loss of JPY140mn in 1H FY03/21).

- ▶ In the nursing care business, user numbers rose and sales amounted to JPY657mn (+0.3% YoY).
- ▶ In the shipbuilding business, the volume of ship repairs grew, and sales came to JPY854mn (+29.5% YoY).
- ▶ In the bridal events business, sales were JPY281mn (+150.5% YoY), reflecting a slight recovery in the number of wedding ceremonies and meetings held at the group's banquet halls and hotels.

## Launch of medium-term plan, IP24 (Innovation Plan 2024 "Design the Future Life")

April 2021 marked the tenth year since TOKAI's adoption of a holding company structure, and as the first step toward the next decade, the company has been advancing the TOKAI Group Medium-Term Plan IP24 (Innovation Plan 2024 "Design the Future Life"), which spans the four years from FY03/22 to FY03/25. The environment surrounding corporations is changing drastically amid lifestyle changes due to the pandemic, global demand for SDGs-related action, movement toward clean energy, and digitalization. Under these conditions, the TOKAI group aims to maintain sustainable growth to become a Life Design Group central to people's lives in 10 years' time (see the Outlook section for details). The company says it will continue to step up efforts in 2H to finish the first year of the plan with success, and clearly lay out the path toward its 10-year vision of becoming a Life Design Group.

The company positions FY03/22 as a year to create the foundation for realizing the five key messages of IP24 (shown below).

- Promote LNG strategy (business expansion in existing areas, in Japan, and overseas)
- Advance Total Life Concierge (TLC) concept through digital marketing (analyzing customer needs) and open innovation (bolstering service lineup)
- Fully move forward with digital transformation (DX) strategy to drive LNG strategy and TLC concept
- Optimize allocation of management resources to achieve business growth and improve shareholder value
- Strengthen SDGs initiatives

The company's 1H progress related to the five key messages is outlined below.

### Promote LNG strategy

#### Expansion of customer base in mainstay businesses

The company boosted the number of customers (its revenue base) by 26,000 in 1H FY03/22, mainly in the core businesses of gas, CATV, and Aqua. In the domestic LP gas business, in October 2021 it opened a new sales office in Kumamoto, Kumamoto Prefecture—its second sales base in the Kushu region following Fukuoka. In the Chugoku and Shikoku regions, the company established an office in Okayama Prefecture in 2017, and it is considering the rollout of a new sales base in Hiroshima Prefecture around January 2022. The plan is to build up the customer count further in preparation to achieve the FY03/25 target of 3.56mn customers.

#### New development in the Information and Communications business

The company provides a one-stop service to corporate customers seeking to adopt Amazon Web Services (AWS). The one-stop service spans all processes from consultation regarding adoption of AWS, system design, and construction to connection, monitoring, and operation. As an AWS-certified Advanced Consulting Partner, the company has thus far supported numerous customers in their use of cloud computing. Leveraging such track record and experience, it began offering AWS solutions in China on September 1, 2021, providing AWS-related support to local subsidiaries of Japanese companies. The company intends to actively develop the business, riding the tailwind of expanding cloud usage.

#### M&A: Further growth and expansion as an all-round construction business operator

In April 2021, the company acquired shares in Marco Polo, Inc., a provider of large-scale repair services in Aichi Prefecture, and made it a consolidated subsidiary. Based in Toyota, Aichi Prefecture, Marco Polo has built trust through its solid track record in construction projects from local governments, condominium management associations, and construction companies. Previous M&A activities in the company's Construction, Equipment, and Real Estate business include the

acquisitions of Nissan Tri Star Construction, Inc. (civil engineering company) in 2019 and Chuo Denki Koji Co., Ltd. (electrical works company) in 2020; both companies are now consolidated subsidiaries. These acquisitions have given the company the ability to handle a wide spectrum of major construction works. The company plans to draw on the strengths of these subsidiaries, create synergies, and achieve further growth and expansion as an all-round construction business operator.

#### **M&A: Further expansion of the Information and Communications business**

In April 2021, the company acquired all outstanding shares in Query Co., Ltd. and made it a consolidated subsidiary. Query develops IT systems and smartphone/tablet apps under contract with corporate customers. Query has built a long-lasting relationship of trust with major companies, leveraging its technological strengths that allows it to flexibly respond to customer needs. By matching Query's technology and customer relations with the TOKAI group's cloud/network integration expertise in ICT services for corporate customers, the company plans to generate synergies, provide more value to customers, and capture more business.

#### **Advance TLC concept**

The company has been promoting digital marketing as a tool to identify potential customer needs and make proposals on new lifestyle designs. Though the use of D-sapiens, an analysis platform that centrally manages various data (payment and transaction history, event participation, and other information) of the company's 3.125mn customers nationwide (as of end-1H FY03/22), the company aims to deepen understanding of its customers so that it can propose optimal services. By doing so, it intends to add further value and improve customer experience. For instance, the company has been working to detect signs of service cancellation using AI. On the occasion of its annual Autumn Thanksgiving Fair promotions, it built a special Thanksgiving website enabling non-face-to-face consultations with customers. In addition to making online sales pitches, the company applied the usage and attribute data of customers' visiting the site to automatically distribute optimal content while maintaining the appropriate distance desired by each customer. In such ways, the company has been working to improve customer experience.

#### **Fully move forward with DX strategy**

The company formulated a DX strategy for the TOKAI group at the same time when it announced its medium-term plan IP24. The strategy calls for maximum utilization of data accumulated from business dealings with roughly 3.1mn customers nationwide, as well as the cutting-edge digital technology honed through the ABCIR+S\* initiatives. The company will further optimize existing business models, achieve operational efficiency (improving productivity and operational efficiency through digital workplace), and establish high-value-added services (understanding customers via D-sapiens and improving customer experience). It will also take on the challenge of creating new businesses (through collaboration and co-creation with startups).

\*ABCIR+S refers to the group's strategies toward technological innovation; the term is formed from the initials of AI (A), Big Data (B), Cloud (C), IoT (I), Robotics (R), and Smartphone (S).

#### **Optimize allocation of management resources**

The company says that allocation of management resources has been progressing in line with plan. Of the JPY11.4bn operating cash flow generated in 1H, JPY9.0bn was allocated to growth investment such as funding for existing businesses (JPY6.3bn) and acquisition of new subsidiaries (JPY2.7bn). In terms of shareholder returns, the company plans to share the fruit of business growth with the shareholders by increasing FY03/22 dividends to JPY30 per share (total dividend payment of JPY2.1bn), up JPY2 per share from FY03/21. The company expects an operating cash flow of JPY21.8bn for the full year; it will aim to optimally allocate management resources and make aggressive growth investment while improving shareholder value.

#### **Strengthen SDGs initiatives**

##### **Carbon Neutral Vision**

In May 2021, the company unveiled the TOKAI Group Carbon Neutral Vision with an eye toward the achievement of carbon neutrality by 2050. Since the Japanese government's carbon neutrality declaration in October 2020, corporations have accelerated their efforts to combat climate change. In response to growing societal demand, the TOKAI group intends to reduce CO2 emissions by further expanding the use of environmentally friendly energy equipment while utilizing

renewable energy and electric vehicles in its business operations. In line with the announcement of Carbon Neutral Vision, the group is already implementing specific measures aimed at carbon neutrality as outlined below.

### Sales of carbon neutral gas\*

In August 2021, the company began sales of carbon neutral gas in the city gas business, adopting the J-Credit scheme\*\* to effectively offset CO2 emissions. As a first step, it began providing carbon neutral gas to a public facility in Fujieda, Shizuoka Prefecture, upon signing a collaborative agreement with the City of Fujieda, which declared to become a Zero Carbon City in February 2021. The company is cooperating with Fujieda to raise its citizens' awareness on prevention of global warming and help create a Zero Carbon City.

\* Carbon neutral gas refers to the provision of city gas at effectively net zero CO2 emissions through the application of credit generated by businesses engaging in, for instance, appropriate forest management or use of energy-saving facilities.

\*\* J-Credit is a scheme under which the Japanese government certifies as credit the amount of greenhouse gas (such as CO2) reduced via the adoption of energy-saving facilities and use of renewable energy. The scheme also certifies as credit the amount of greenhouse gas absorbed through appropriate forest management.

### Launched TOKAI Zero Solar service

To promote the take-up of renewable energy, in October 2021 the company began offering the TOKAI Zero Solar service, which allows customers to install solar power generation systems at their homes at zero initial cost. The initial installation cost is fully covered by the TOKAI group. Under this service, when customers use the electricity generated by the system during a given contract period\*, they pay a service usage fee based on the amount of usage (kWh). The service provides economic benefits to customers, as the usage fee billed does not include renewable energy levy and is more affordable compared to the price settings of electric power companies. Also, surplus electricity can be sold to power companies. For the duration of the contract, customers can reduce their utilities expenses, and when the contract period is over, they can obtain the equipment free of charge. The company says spreading the use of solar power generation systems is crucial to improvement in energy self-sufficiency and achievement of a decarbonized society. As such, it plans to contribute to the reduction of CO2 emissions by promoting the merits of renewable energy to its customers.

\* Contract period: For a 5–10Kw system, 10–13 years from the date of connection to power grid; for a 3–5Kw system, 10–15 years from the date of connection to power grid (contract period varies depending on surrounding environment and installment conditions)

### Employee work style reforms

In April 2021, the company introduced a new work style program centered on telework, providing smartphones and laptops to employees, reformatting the office to a hot desk system, and offering work-from-home allowances. It applied its DX strategy to create a safe and comfortable environment where employees can work regardless of location or time. The company says it is making steady progress toward a 50% target for in-office attendance and a 40% target for office floor space reduction. Improvements in office processes, such as the shift to paperless operations and introduction of an electronic seal system, are also making headway. Through its work style reform efforts, the company plans to establish flexible ways of working that are suitable to a diverse range of personnel.

### Strengthen governance

In February 2021, the company established a Nomination and Compensation Committee to further strengthen the independence, objectivity, and accountability of the Board of Directors by ensuring transparency and objectivity in the assessment and decision-making processes associated with directors' nomination and remuneration. The appointment of nine directors was approved at the company's 10th ordinary general meeting of shareholders convened in June 2021. To achieve diversity and access to expertise, the directors' composition included three independent outside directors, one of which being a female director. The company says it is committed to establishing unwavering trust through continued sound management of its businesses based on a high level of self-discipline.

# Q1 FY03/22 results (out July 29, 2021)

## Overview

Q1 FY03/22 results: The company reported sales of JPY48.4bn (+7.3 YoY), operating profit of JPY3.2bn (-14.7% YoY), recurring profit of JPY3.4bn (-12.5% YoY), and net income attributable to owners of the parent of JPY1.9bn (-23.5% YoY). Q1 sales grew YoY for the first time in two fiscal years, setting a new record high for Q1 sales.

Versus full-year FY03/22 company forecast, Q1 sales were 23.4% (Q1 FY03/21 sales were 22.9% of FY03/21 full year result), operating profit 21.2% (24.8%), recurring profit 21.9% (25.0%), and net income 21.2% (27.7%). Both sales and profits exceeded the company's forecast. Sales were ahead of plan with contributions from the Energy segment, reflecting growth in sales volume accompanying boosted utilization rates of energy for industries and rising energy prices. The Information and Communications business for corporate customers and the Construction, Equipment, and Real Estate business also contributed to higher sales. Operating profit surpassed the plan thanks to lower-than-expected personnel expenses and SG&A expenses in the Energy business. The Information and Communications business for corporate customers and the Construction, Equipment, and Real Estate business also contributed to higher profit.

Sales up 7.3% YoY: The increase in sales was mainly due to a rise in the number of customers in the Energy and CATV segments, as well as growth of recurring-revenue businesses targeting corporate customers in the Information and Communications segment and the impact of M&A in the Construction, Equipment, and Real Estate segment.

Operating profit down 14.7% YoY: A rise in the monthly billing count due to an increase in the number of customers, and an increase in profit in the Information and Communications business for corporate customers, were positive factors for profit. However, the decrease in LP gas sales volumes to households, mainly due to warmer temperatures than in Q1 FY03/21, and higher customer acquisition costs associated with acquiring customers at a faster rate than in Q1 FY03/21 in the LP gas and Aqua businesses had a negative impact on profit. The gross profit margin fell 2.9pp YoY to 40.7%, the SG&A ratio declined 1.1pp YoY to 34.1%, and the operating profit margin decreased 1.7pp YoY to 6.7%.

Net income down 23.5% YoY: Accumulated other comprehensive loss was JPY119mn (income of JPY1.6bn in Q1 FY03/21) due to a negative valuation difference on available-for-sale securities and a decline in deferred gains on hedges.

Number of continuing customers: Increased 95,000 since end-FY03/21 to 3,108,000. Subscribers to TLC Membership Service grew 19,000 to 998,000.

Topics: The company established TOKAI Venture Capital & Incubation Corporation in April 2021. This business will promote the TLC concept through synergies with existing businesses and the creation of new lifestyle-related services. In the same month, the company acquired shares in Marco Polo, Inc., which is engaged in large-scale repair work for condominiums and other facilities in the Construction, Equipment, and Real Estate business, and Query Co., Ltd., which is engaged in systems development in the Information and Communication business, and made these companies consolidated subsidiaries.

## Customer count

The number of continuing customers was 3,108,000, up 9,000 from end-FY03/21. The company proactively worked on expanding its client base while applying strict measures to control the spread of COVID-19, including conducting sales activities without face-to-face interactions. Compared with end-FY03/21, the gas (LP, city gas) business had a net increase of 8,000 customers, the CATV business had a net increase of 8,000 customers, and the Aqua business had a net increase of 2,000 customers. The number of continuing customers fell short of the company's target by 5,000 due to lower-than-expected customer acquisition in the LP gas, Information and Communications, Aqua, and mobile businesses. Meanwhile, the number of continuing customers in the CATV business outperformed the company's forecast.

TOKAI Holdings is proactively working on strategies to shore up its earnings base. In its fourth medium-term management plan, Innovation Plan 2024 "Design the Future Life," a four-year plan spanning through FY03/25, the company targets to have 3,200,000 customers at end-FY03/22 and reach 3,560,000 customers at end-FY03/25. It aims to achieve a net increase of 461,000 customers over the four years, of which it targets a net increase of 101,000 customers in FY03/22. (Discussed in detail in the Outlook section.)

## Change in customer numbers by service type

Number of customers ('000)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	YoY
	Q1	Change								
Gas (LP gas, city gas)	629	627	625	634	645	664	687	718	752	34
Conventional ISP	834	858	802	595	507	451	411	383	391	8
Hikari Collaboration	-	-	58	251	310	327	326	328	337	9
LIBMO	-	-	-	-	8	32	42	50	53	3
<b>Information and Communications</b>	<b>834</b>	<b>858</b>	<b>860</b>	<b>846</b>	<b>825</b>	<b>810</b>	<b>778</b>	<b>760</b>	<b>781</b>	<b>21</b>
CATV	693	692	692	716	738	1,039	1,069	1,161	1,206	45
Aqua	105	126	130	134	138	151	157	159	164	5
Mobile	217	229	235	235	232	225	214	211	201	-10
Security	19	18	18	17	17	17	17	16	16	0
<b>Total</b>	<b>2,471</b>	<b>2,526</b>	<b>2,537</b>	<b>2,557</b>	<b>2,570</b>	<b>2,883</b>	<b>2,907</b>	<b>3,012</b>	<b>3,108</b>	<b>96</b>

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Customer numbers are duplicated for Information and Communications and CATV segments when shown separately, but not in the totals.

\* Mobile virtual network operator (MVNO): Business offering self-branded mobile communication services for mobile phones and PHS devices without building or operating wireless communication facilities, and instead leasing communication lines from major mobile communication carriers.

\*\* The company is actively promoting LIBMO (<http://www.libmo.jp/>) as not only a method to capture new customers in mobile communication, but also as a strategic measure to acquire more contracts and prevent contract termination of fixed-line services, by packaging it with products such as Hikari Collaboration. Specifically, TOKAI is working in partnership with major electronics mass retailers to gain new customers. The company is also working to expand sales to its existing customers by awarding loyalty points in addition to its TLC membership services, and by utilizing flyers and email newsletters.

## Overview of sales and operating profit

### Sales

Sales in Q1 FY03/22 were JPY48.4bn, up 7.3% or JPY3.3bn YoY. Q1 sales grew YoY for the first time in two fiscal years, marking a record high for Q1 sales. In addition to an increase in continuing customers (up 96,000 customers YoY), other factors that boosted sales include higher selling prices linked to a rise in purchase prices in the Energy business, M&A and higher renovation orders in the Construction, Equipment, and Real Estate business, and growth in the number of ship repairs and a slight recovery in the number of wedding ceremonies and meetings held at the group's of banquet halls and hotels (under the Others segment).

A breakdown of sales by segment is given below:

- Energy: JPY19.0bn (+7.7% YoY)
- Information and Communications: JPY12.6bn (-0.2% YoY)
- CATV: JPY8.0bn (-2.8% YoY)
- Construction, Equipment, and Real Estate: JPY5.5bn (+45.1% YoY)
- Aqua: JPY1.9bn (+1.3% YoY)
- Others: JPY1.3bn (+49.0% YoY)

### Operating profit

Operating profit in Q1 FY03/22 was JPY3.2bn, down 14.7% or JPY557mn YoY. Growth in customer count and performance in the Information and Communications business for corporate customers pushed up profit, while lower sales volume of LP gas to households due to warmer temperatures than in Q1 FY03/21 and higher customer acquisition costs (the number of new customers grew YoY in the LP gas and Aqua businesses) led to lower profit.

A breakdown of operating profit by segment (before allocation of overhead expenses) is as follows:

- Energy: JPY1.6bn (-20.0%, or JPY394mn YoY)
- Information and Communications: JPY1.2bn (+10.3%, or JPY114mn YoY)
- CATV: JPY1.5bn (+6.7%, or JPY92mn YoY)
- Construction, Equipment, and Real Estate: JPY263mn (+12.9%, or JPY30mn YoY)
- Aqua: JPY37mn (-86.3%, or JPY234mn YoY)
- Others/adjustments: Loss of JPY1.3bn (loss of JPY1.2bn in Q1 FY03/21; loss expanded by JPY166mn)

## Results by segment

Segment results as reported by the company reflect allocated overhead expenses. Beginning in Q1 FY03/21, the company revised the names of some its segments, with the Gas and Petroleum segment becoming the Energy segment and the Building and Real Estate segment becoming the Construction, Equipment, and Real Estate segment. The name changes have no impact on actual earnings in the segments.

### Energy

Sales were JPY19.0bn (+7.7% YoY), and operating profit was JPY910mn (-30.7% YoY).

- ▶ The LP gas business reported sales of JPY16.2bn (+9.5% YoY). As a result of continued customer acquisition initiatives, the number of customers expanded by 6,000 from end-FY03/21 to 687,000. The company says the customer count fell below its forecast by slightly less than 3,000 (slightly below 2,000 due to delay in acquisition of commercial rights and 1,000 due to more cancellations than the forecast). Sales increased due to higher selling prices linked to a rise in purchase prices.
- ▶ The city gas business reported sales of JPY2.8bn (-1.3% YoY). Customer count was up by 2,000 from end-FY03/21 to 64,000, but sales declined due primarily to a downturn in selling prices associated with the fuel cost adjustment system.
- ▶ Operating profit declined despite growth in customer count. Profit fell due to lower sales volume of LP gas to households, influenced by warmer temperatures than in Q1 FY03/21, in addition to higher customer acquisition costs as the number of new LP gas customers grew YoY.

### Information and Communications

Sales were JPY12.6bn (-0.2% YoY), and operating profit was JPY913mn (+14.6% YoY).

- ▶ In the Information and Communications business, services for consumers business generated sales of JPY6.2bn (-6.1% YoY). In the ISP business, the company expanded its service offerings through a partnership with a major mobile carrier and offered mobile services at the lowest price in the industry. In addition, the company made progress on new customer acquisition through offering an ISP and mobile set fee.
- ▶ The number of customers decreased by 4,000 from end-FY03/21 to 781,000 (ISP customers decreased by 4,000 to 728,000 and LIBMO customers remained unchanged at 53,000). Although the number of new customers exceeded the company's plan by 400, the number of cancellations was higher than anticipated due to intensifying competition with mobile telecommunications carriers. As a result, customer count fell short of the company's forecast by 1,400. Although the trend of net customer decline has ceased for the most part, sales declined due to lower average service prices.
- ▶ In the Information and Communications business, sales to corporate clients rose to JPY6.4bn (+6.1% YoY). Growth was centered on recurring-revenue services, with steady progress in cloud services and system integration projects.

### CATV

Sales were JPY8.0bn (-2.8% YoY), and operating profit was JPY1.3bn (+5.9% YoY).

- ▶ During the COVID-19 pandemic, as a community-based operator, the company focused on delivering local information and program production, as well as working with major video distribution companies to enhance its content offerings, striving to help customers enjoy staying at home.
- ▶ Cautious yet constant and sustained sales activities in each area enabled the company to acquire new customers, with the number of broadcasting services customers increasing by 2,000 from end-FY03/21 to 878,000, while communications services customers increased by 6,000 to 328,000. New customer acquisition for the communications service was firm, exceeding the company's forecast. In addition, the cancellations in the broadcasting services were lower than expected. As a result, communications service customers exceeded the company's forecast by 1,900, and broadcasting services customers exceeded by 700.

### Construction, Equipment, and Real Estate

Sales were JPY5.5bn (+45.1% YoY), and operating profit was JPY82mn (-0.2% YoY).

- ▶ The company made progress in M&A, and orders for renovation and building work increased. As a result, sales grew sharply YoY. Growth in the renovation business offset the YoY decline in profit in the Construction, Equipment, and Real Estate Business. However, segment profit was largely flat YoY due mainly to an increase in goodwill amortization.

## Aqua

Sales were JPY1.9bn (+1.3% YoY), and the operating loss was JPY33mn (operating profit of JPY194mn in Q1 FY03/21).

- ▶ Sales from events at large commercial facilities were strong compared to Q1 FY03/21, which had been affected by restraint on activities due to the pandemic. Sales were also helped by non-face-to-face sales activities, including telemarketing. Customer count was up by 2,000 from end-FY03/21 to 164,000.
- ▶ The company recorded an operating loss due to increases in customer acquisition costs and advertising expenses.

## Others

Sales were JPY1.3bn (+49.0% YoY), and the operating loss was JPY4mn (operating loss of JPY70mn in Q1 FY03/21).

- ▶ The nursing care business reported sales of JPY317mn (-1.8% YoY), with user numbers falling amid by the pandemic.
- ▶ In the shipbuilding business, higher volume in ship repairs led to sales of JPY580mn (+79.0% YoY).
- ▶ In the bridal events business, sales were JPY161mn (+484% YoY), reflecting a slight recovery in the number of wedding ceremonies and meetings held at the group's banquet halls and hotels.

## Application of the Accounting Standard for Revenue Recognition

Tokai Holdings adopted the Accounting Standard for Revenue Recognition from the start of Q1 FY03/22. As a result, the company now recognizes revenue in the amount expected to be received in exchange for goods or services when the control of the promised goods or services is transferred to the customer. While TLC points used by customers—which previously were included in SG&A expenses—are deducted from sales after the application of this standard, the impact on the company's sales and profit is minor. Specifically, the application of this standard reduced Q1 sales by JPY360mn (no impact on profit).

In the mainstay LP gas business, the company records revenue when inspecting the customers' gas meters. Revenue generated from LP gas sales from the last inspection to the end of the fiscal year are the company's estimates. In addition, revenue from products such as appliances is recorded at the time of delivery. Revenue from housing and other construction work is recorded based on cost recovery method except for revenue from construction work that are recorded based on percentage-of-completion method. Revenue from provision of services is recorded when the provision of services has been completed.

## Full-year FY03/21 results (out May 11, 2021)

### Overview

Full-year FY03/21 results: The company posted sales of JPY196.7bn (+0.4% YoY), operating profit of JPY15.2bn (+7.0% YoY), recurring profit of JPY15.3bn (+5.8% YoY), and net income attributable to owners of the parent of JPY8.8bn (+7.0% YoY). The company posted record sales for the fourth consecutive year and record profit or the third year running.

Progress: Versus full-year FY03/21 company forecast, sales were 95.8%, operating profit 101.5%, recurring profit 103.0%, and net income 104.2%. Sales fell slightly short, but profit at all levels surpassed the full-year company forecast.

Sales up 0.4% YoY: Despite the sales decline from lower LP gas and city gas purchase prices pushing down gas selling prices (although this had no impact on profit) and negative impact of the COVID-19 pandemic, sales increased YoY on growth in household LP gas sales volume, an expansion in recurring revenue business for information and communications companies, and a rise in CATV and Aqua (water home delivery service) customers.

Operating profit up 7.0% YoY: Some of the company's businesses, such as the wedding and banquet businesses in the Others segment, were negatively impacted by the COVID-19 pandemic. However, operating profit was up YoY as this negative impact was offset by factors such as an increase in monthly billing count due to the rise in number of customers in the LP gas,

Aqua, and CATV businesses, and higher profit in the Information and Communications business for corporate customers. GPM improved 1.6pp YoY to 42.1%, while the SG&A expense to sales ratio grew 1.2pp to 34.4%, and OPM improved 0.4pp to 7.7%.

The number of continuing customers: Increased 96,000 since end-FY03/20 to 3,099,000. Subscribers to TLC Membership Service increased 83,000 to 979,000.

Topics: In June 2020, the company established sales offices in Kasugai, Aichi Prefecture and Yokkaichi, Mie Prefecture in the LP gas business. In the Construction, Equipment, and Real Estate segment, the company acquired the shares of two companies, making them consolidated subsidiaries: Chuo Denki Koji Co., Ltd. (Nagoya, Aichi Prefecture), which operates an electrical construction business (August 2020) and Inoue Technica K.K. (Numazu, Shizuoka Prefecture), which operates a building maintenance business (November 2020). The company believes these acquisitions will lead to expansion for the group by helping it enter new areas and expand its business area. Overseas, the company successfully entered Vietnam's LP gas market by making two companies equity-method affiliates in June 2020: Mien Trung Gas Joint Stock Company and V-Gas Petroleum Corporation, which operate an LP gas sales business in Vietnam.

## Customer count

The number of continuing customers was 3,099,000, up 96,000 from end-FY03/20. Compared with end-FY03/20, the gas (LP, city gas) business had a net increase of 31,000 customers, the CATV business had a net increase of 44,000 customers, and the Hikari Collaboration business had a net increase of 13,000 customers.

### Change in customer numbers by service type

Number of customers ('000)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	YoY Change
	Q4									
Gas (LP gas, city gas)	629	628	626	634	642	661	684	713	744	31
Conventional ISP	816	854	859	633	528	465	419	389	395	6
Hikari Collaboration			4	219	299	323	327	324	337	13
LIBMO					2	29	41	48	53	5
Information and Communications	816	854	863	852	829	817	787	761	785	24
CATV	691	693	690	710	733	1,032	1,063	1,154	1,198	44
Aqua	102	122	130	133	135	146	156	161	162	1
Mobile		227	235	236	233	227	217	212	206	-6
Security	19	19	18	18	17	17	17	16	16	0
Total	2,445	2,519	2,537	2,558	2,564	2,876	2,902	3,003	3,099	96

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Customer numbers are duplicated for Information and Communications and CATV segments when shown separately, but not in the totals.

Note: From FY03/21, Information and Communications (conventional ISP services) includes customers with supplementary ISP service contracts.

\* Mobile virtual network operator (MVNO): Business offering self-branded mobile communication services for mobile phones and PHS devices without building or operating wireless communication facilities, and instead leasing communication lines from major mobile communication carriers.

\*\* The company is actively promoting LIBMO (<http://www.libmo.jp/>) as not only a method to capture new customers in mobile communication, but also as a strategic measure to acquire more contracts and prevent contract termination of fixed-line services, by packaging it with products such as Hikari Collaboration. Specifically, TOKAI is working in partnership with major electronics mass retailers to gain new customers. The company is also working to expand sales to its existing customers by awarding loyalty points in addition to its TLC membership services, and by utilizing flyers and email newsletters.

## Results by segment

Segment results as reported by the company reflect allocated overhead expenses. Beginning in Q1 FY03/21, the company revised the names of some its segments, with the Gas and Petroleum segment becoming the Energy segment and the Building and Real Estate segment becoming the Construction, Equipment, and Real Estate segment. The name changes have no impact on actual earnings in the segments.

### Energy

▷ Sales: JPY77.4bn (-1.0% YoY)

▷ Operating profit: JPY6.1bn (+24.6% YoY)

- ▶ The LP gas business reported sales of JPY65.6bn (+0.6% YoY). As a result of refraining from in-person sales because of COVID-19, instead focusing on telemarketing and utilizing online tools, the number of customers expanded by 30,000 from end-FY03/20 to 681,000. Despite lower selling prices linked to a fall in purchase prices, sales volumes of household-use gas increased, due in part to consumers staying home.
- ▶ The city gas business reported sales of JPY11.7bn (-9.1% YoY). Customer count was up by 2,000 from end-FY03/20 to 63,000, but sales declined due primarily to a downturn in selling prices associated with the fuel cost adjustment system, which is designed to quickly reflect fluctuations in the prices of raw materials for gas (such as LNG [liquefied natural gas] and LPG [liquefied petroleum gas]) in actual gas prices.
- ▶ Operating profit was up due to a higher customer count.

## Information and Communications

- ▷ Sales: JPY50.7bn (-2.0% YoY)
- ▷ Operating profit: JPY3.1bn (+4.3% YoY)
- ▶ Services for consumers generated sales of JPY26.3bn (-8.0% YoY). In light of competition with major mobile carriers and growing demand for communications services amid the COVID-19 pandemic, the company focused on customer acquisitions. It worked to acquire customer through the Internet and to actively expand sales channels and expand Hikari Collaboration set plans, including through the introduction of a new pricing plan (“nattoku plan”) to LIBMO (TOKAI brand MVNO service), offering customers the best plan for their needs. As a result, the company generated a net increase in general consumer customers after six consecutive years of decline as customer count rose to 785,000 (+24,000 compared to end-FY03/20; includes 732,000 ISP customers [-19,000] and 53,000 LIBMO customers [+5,000]).
- ▶ Sales to corporate clients rose to JPY24.4bn (+5.5% YoY). In addition to a growth in existing cloud services, the company was able to capture demand from those working at home, which contributed to an increase in recurring-revenue business.

## CATV

- ▷ Sales: JPY33.7bn (+7.5% YoY)
- ▷ Operating profit: JPY4.7bn (+3.9% YoY)
- ▶ During the COVID-19 pandemic, as a community-based operator, the company focused on delivering local information and program production, as well as working with major video distribution companies to improve its content offerings, striving to help customers enjoy staying at home. Cautious yet constant and sustained sales activities in each area enabled the company to acquire new customers, with the number of broadcasting services customers increasing by 14,000 from end-FY03/20 to 875,000, while communications services customers increased by 30,000 to 322,000.

## Construction, Equipment, and Real Estate

- ▷ Sales: JPY23.2bn (+3.5% YoY)
- ▷ Operating profit: JPY1.3bn (-8.8% YoY)
- ▶ Sales grew from the contribution of M&A despite COVID-19-related delays to sales activities. Profit t declined due primarily to a decrease in orders for construction and facility equipment projects.

## Aqua

- ▷ Sales: JPY7.6bn (+2.8% YoY)
- ▷ Operating profit: JPY259mn (-35.4% YoY)
- ▶ The number of customers increased by 1,000 from end-FY03/20 to 162,000 despite a reduction in commercial activity in shopping malls and other areas. In addition, stay-at-home demand contributed to an increase in unit sales per customer. However, profit fell due to an increase in logistics costs and other factors.

## Others

- ▷ Sales: JPY4.1bn (-16.3% YoY)
- ▷ Operating loss: JPY244mn (versus operating profit of JPY235mn in FY03/20)

- ▶ Benefitting from a contribution from Tender Co., Ltd. (Gero, Gifu Prefecture), which was made a consolidated subsidiary in FY03/20, the nursing care business reported sales of JPY1.3bn (+5.8% YoY).
- ▶ In the shipbuilding business, higher volume in ship repairs led to sales of JPY1.5bn (+1.7% YoY).
- ▶ In the bridal events business, sales were JPY417mn (-69.3% YoY) due to wedding ceremony postponements and voluntary restraint associated with the holding of banquets.

## Cumulative Q3 FY03/21 results (out January 28, 2021)

### Overview

Cumulative Q3 FY03/21 results: The company posted sales of JPY139.8bn (-1.2% YoY), operating profit of JPY9.9bn (+6.7% YoY), recurring profit of JPY9.9bn (+4.8% YoY), and net income attributable to owners of the parent of JPY5.9bn (+16.3% YoY). Cumulative Q3 operating profit grew YoY for the third year in a row, and each profit line achieved a record high for the second year in a row.

Progress: Versus full-year FY03/21 company forecast, sales were at 68.1% (72.2% of full-year sales in Q3 FY03/20), operating profit 66.0% (38.7%), recurring profit 66.8% (65.5%), and net income 70.2% (61.9%). The 66.0% progress of operating profit versus the full-year company forecast is higher than in the past (typically 58–60%). The company has made no changes to its full-year forecast. It has no special expenses planned for Q4.

- ▶ Operating profit was ahead of plan with contributions from Energy, CATV, and Aqua. However, Others (bridal, events, and hotel business) and Construction, Equipment, and Real Estate came in short of plan, as both were affected by the COVID-19 pandemic. In addition, in Information and Communications, subscriber acquisition surpassed the company's expectations, but due to higher acquisition costs, profit was below plan.

Sales down 1.2% YoY: Despite the positive effects from an increase in household LP gas sales volume, an expansion in recurring-revenue business for information and communications companies, and a growth in CATV and Aqua (water home delivery service) customers, sales declined 1.2% YoY as lower LP gas and city gas purchase prices pushed down gas selling prices (although this had no impact on profit) and sales activities were delayed by the pandemic.

The number of continuing customers: Increased 60,000 since end-FY03/20 to 3,063,000, with the increase nearly double the 31,000 added between end-FY03/19 and end-Q3 FY03/20. Subscribers to TLC Membership Service increased 62,000 to 958,000. The company's revenue base expanded on net increases in continuing customers for mainstay gas, CATV, and Hikari Collaboration services. Actively pursuing non-face-to-face sales activities—using telemarketing, online information dissemination and business meetings, and other measures—proved successful. The ratio of customers subscribing to more than one service was 19.7% (+0.9pp versus end-FY03/20).

- ▶ The number of continuing customers for telecommunications and CATV services for consumers grew more than anticipated. Nationwide efforts to acquire ISP subscribers at electronics mass retailers, along with the capture of stay-at-home and telework demand, contributed to the increase in terms of telecommunications services for consumers. The company says the number of new subscriptions increased even as the number of cancellations declined.

Operating profit up 6.7% YoY: Some of the company's businesses, such as the wedding and banquet businesses in the Others segment, were negatively impacted by the COVID-19 pandemic. However, operating profit was up YoY as this negative impact was offset by factors such as an increase in monthly billing count due to the rise in number of customers in the LP gas and CATV businesses, and higher profit in the Information and Communications business for corporate customers. GPM improved 2.2pp YoY to 42.7%, while the SG&A expense to sales ratio grew 1.7pp to 35.6%, and OPM improved 0.5pp to 7.1%.

Net income up 16.3%: Extraordinary losses shrank from JPY1.8bn in cumulative Q3 FY03/20 to JPY643mn in cumulative Q3 FY03/21 due to a YoY decrease in provisions for losses on litigation from JPY1.2bn to JPY26mn.

Topics: In June 2020, the company established sales offices in Kasugai, Aichi Prefecture and Yokkaichi, Mie Prefecture in the LP gas business. In the Construction, Equipment, and Real Estate segment, the company acquired the shares of two companies, making them consolidated subsidiaries: Chuo Denki Koji Co., Ltd. (Nagoya, Aichi Prefecture), which operates an electrical construction business (August 2020) and Inoue Technica Co., Ltd. (Numazu, Shizuoka Prefecture), which operates a building maintenance business (November 2020). The company believes these acquisitions will lead to expansion for the group by helping it enter new areas and expand its business area. Overseas, the company successfully entered Vietnam's LP

gas market by making two companies equity-method affiliates in June 2020: Mien Trung Gas Joint Stock Company and V-Gas Petroleum Corporation, which operate an LP gas sales business in Vietnam.

## Customer count

The number of continuing customers was 3,063,000, up 60,000 from end-FY03/20. Compared with end-FY03/20, the gas (LP, city gas) business had a net increase of 24,000 customers, the CATV business had a net increase of 34,000 customers, and the Hikari Collaboration business had a net increase of 11,000 customers.

- ▶ In the gas business, there was a net increase of 19,000 customers due to the acquisition of business territories, including 4,000 from the acquisition of LP gas business territories and 8,000 as 11 sales offices entered new areas in the LP gas business. Overall, there was a net increase of 24,000 customers, up 26% from a net increase of 19,000 in cumulative Q3 FY03/20.
- ▶ In the CATV business, the net increase in customer count for telecommunications services was 25,000, up 92% from a net increase of 13,000 in Q3 FY03/20. For the CATV business as a whole, there was a net increase of 34,000 customers, up 31% from a net increase of 26,000 in Q3 FY03/20.
- ▶ In the Information and Communications business, the downward trend in the total of fixed-line (ISP) and wireless (LIBMO) customers is slowing. Nationwide efforts to acquire ISP subscribers at electronics mass retailers, along with the capture of stay-at-home and telework demand, contributed to this deceleration. Versus end-FY03/20, there were 14,000 new ISP (including Hikari Collaboration) subscribers and 10,000 fewer cancellations (together resulting in a net increase of 24,000).
- ▶ The Aqua business recorded a net decrease QoQ of 1,600 customers in Q1 because of the COVID-19 outbreak, but a net increase QoQ of 1,300 in Q2 and then again in Q3. The pace of growth in Q2 and Q3 recovered to levels similar to Q2 and Q3 FY03/20.

## Change in customer numbers by service type

Number of customers ('000)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	YoY
	Q3	Q3									
Gas (LP gas, city gas)	656	631	629	624	629	635	653	674	703	737	34
Conventional ISP	752	803	848	866	866	866	878	430	396	375	-21
Hikari Collaboration	-	-	-	-	173	288	319	328	324	335	11
LIBMO	-	-	-	-	-	-	21	39	45	52	7
Information and Communications	752	803	848	866	859	826	818	797	766	763	-3
CATV	726	688	694	689	704	728	1,002	1,055	1,088	1,188	100
Aqua	97	103	121	133	134	135	143	157	160	162	2
Mobile	186	207	225	234	235	234	229	220	214	209	-5
Security	20	20	19	18	18	17	17	17	16	16	0
Total	2,414	2,427	2,510	2,540	2,553	2,551	2,839	2,898	2,933	3,063	130

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Customer numbers are duplicated for Information and Communications and CATV segments when shown separately, but not in the totals.

\* Mobile virtual network operator (MVNO): Business offering self-branded mobile communication services for mobile phones and PHS devices without building or operating wireless communication facilities, and instead leasing communication lines from major mobile communication carriers.

\*\* The company is actively promoting LIBMO (<http://www.libmo.jp/>) as not only a method to capture new customers in mobile communication, but also as a strategic measure to acquire more contracts and prevent contract termination of fixed-line services, by packaging it with products such as Hikari Collaboration. Specifically, TOKAI is working in partnership with major electronics mass retailers to gain new customers. The company is also working to expand sales to its existing customers by awarding loyalty points in addition to its TLC membership services, and by utilizing flyers and email newsletters.

## Results by segment

Segment results as reported by the company reflect allocated overhead expenses. Beginning in Q1 FY03/21, the company revised the names of some its segments, with the Gas and Petroleum segment becoming the Energy segment and the Building and Real Estate segment becoming the Construction, Equipment, and Real Estate segment. The name changes have no impact on actual earnings in the segments.

## Energy

▷ Sales: JPY53.4bn (-3.2% YoY)

▷ Operating profit: JPY3.0bn (+38.9% YoY)

- ▶ The LP gas business reported sales of JPY45.1bn (-1.1% YoY). While face-to-face sales could not be conducted because of the pandemic, the company conducted telemarketing and online activities, and the number of customers expanded by 24,000 from end-FY03/20 to 676,000. However, sales declined as lower purchase prices contributed to lower selling prices and the sales volumes of commercial gas decreased.
- ▶ The city gas business reported sales of JPY8.3bn (-13.3% YoY). Customer count was flat from end-FY03/20 at 61,000, but as with the LP gas business, sales declined due primarily to a downturn in selling prices associated with the fuel cost adjustment system, which is designed to quickly reflect fluctuations in the prices of raw materials for gas (such as LNG [liquefied natural gas] and LPG [liquefied petroleum gas]) in actual gas prices.

## Information and Communications

▷ Sales: JPY37.8bn (-2.6% YoY)

▷ Operating profit: JPY2.2bn (-11.4% YoY)

- ▶ Services for consumers generated sales of JPY19.8bn (-8.6% YoY). In light of competition with major mobile carriers and growing demand for communications services amid the COVID-19 pandemic, the company focused on customer acquisitions. It worked to acquire customers through the Internet and to actively expand sales channels and expand Hikari Collaboration set plans, including through the introduction of a new 30GB plan to LIBMO (TOKAI brand MVNO service). As a result, the company generated a net increase in general consumer customers after six consecutive years of decline as customer count rose to 763,000 (+2,000 compared to end-FY03/20; includes 711,000 ISP customers [-2,000] and 52,000 LIBMO customers [+4,000]).
- ▶ Sales to corporate clients rose to JPY18.0bn (+5.0% YoY). In addition to a growth in existing cloud services, the company was able to capture demand from those working at home, which contributed to an increase in recurring-revenue business.

## CATV

▷ Sales: JPY25.0bn (+6.7% YoY)

▷ Operating profit: JPY3.7bn (+9.0% YoY)

- ▶ During the COVID-19 pandemic, as a community-based operator, the company was able to maintain its sales activities in a careful and stable manner and according to the actual conditions effecting each region. The number of broadcasting services customers rose by 10,000 from end-FY03/20 to 871,000, while communications services customers increased by 25,000 to 317,000.

## Construction, Equipment, and Real Estate

▷ Sales: JPY14.8bn (-0.7% YoY)

▷ Operating profit: JPY539mn (-24.0% YoY)

- ▶ Sales and profit declined due primarily to a decrease in renovation and facility equipment sales caused by COVID-19-related delays to sales activities.

## Aqua

▷ Sales: JPY5.8bn (+3.1% YoY)

▷ Operating profit: JPY333mn (-14.2% YoY)

- ▶ The number of customers increased by 1,000 from end-FY03/20 to 162,000 despite event-related sales slowing due to a reduction in commercial activity in shopping malls and other areas. In addition, stay-at-home demand contributed to an increase in unit sales per customer. However, profit fell due to an increase in logistics costs and other factors.

## Others

- ▷ Sales: JPY2.9bn (-17.9% YoY)
- ▷ Operating loss: JPY120mn (versus operating profit of JPY186mn in Q3 FY03/20)
- ▶ Benefitting from a contribution from Tender Co., Ltd. (Gero, Gifu Prefecture), which was made a consolidated subsidiary in FY03/20, the nursing care business reported sales of JPY995mn (+9.9% YoY).
- ▶ In the shipbuilding business, lower volume in ship repairs led to sales of JPY991mn (-5.8% YoY).
- ▶ In the bridal events business, sales were JPY322mn (-68.8% YoY) due to wedding ceremony postponements and voluntary restraint associated with the holding of banquets.

## Income statement

Income statement (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons. **	Cons.									
<b>Sales</b>	<b>174,901</b>	<b>181,931</b>	<b>181,684</b>	<b>188,987</b>	<b>187,511</b>	<b>180,940</b>	<b>178,631</b>	<b>186,069</b>	<b>191,600</b>	<b>195,952</b>	<b>196,726</b>
YoY	9.8%	4.0%	-0.1%	4.0%	-0.8%	-3.5%	-1.3%	4.2%	3.0%	2.3%	0.4%
Energy	95,697	98,316	94,519	97,229	93,067	80,745	73,344	76,073	77,977	78,154	77,380
Information and Communications	34,725	37,943	38,497	38,803	40,118	44,246	49,508	50,894	51,234	51,753	50,735
CATV	22,647	24,292	23,786	24,187	24,359	24,608	25,396	28,386	30,511	31,385	33,745
Construction, Equipment, and Real Estate	14,907	15,881	15,756	19,245	20,019	20,975	19,511	19,807	20,090	22,383	23,177
Aqua	-	-	3,750	4,378	4,959	5,487	5,762	6,200	7,004	7,416	7,622
Other	6,923	5,498	5,374	5,142	4,987	4,875	5,108	4,706	4,781	4,858	4,065
Cost of sales	107,455	112,393	112,875	120,646	118,579	111,128	105,591	110,733	115,441	116,663	113,856
<b>Gross profit</b>	<b>67,445</b>	<b>69,537</b>	<b>68,809</b>	<b>68,341</b>	<b>68,932</b>	<b>69,812</b>	<b>73,040</b>	<b>75,336</b>	<b>76,159</b>	<b>79,289</b>	<b>82,870</b>
YoY	6.5%	3.1%	-1.0%	-0.7%	0.9%	1.3%	4.6%	3.1%	1.1%	4.1%	4.5%
Gross profit margin	38.6%	38.2%	37.9%	36.2%	36.8%	38.6%	40.9%	40.5%	39.7%	40.5%	42.1%
SG&A expenses	56,690	58,614	59,874	60,948	59,928	61,567	60,290	64,365	63,102	65,066	67,643
SG&A ratio	32.4%	32.2%	33.0%	32.2%	32.0%	34.0%	33.8%	34.6%	32.9%	33.2%	34.4%
<b>Operating profit</b>	<b>10,755</b>	<b>10,923</b>	<b>8,934</b>	<b>7,392</b>	<b>9,003</b>	<b>8,245</b>	<b>12,750</b>	<b>10,971</b>	<b>13,057</b>	<b>14,224</b>	<b>15,226</b>
YoY	7.2%	1.6%	-18.2%	-17.3%	21.8%	-8.4%	54.6%	-14.0%	19.0%	8.9%	7.0%
Operating profit margin	6.1%	6.0%	4.9%	3.9%	4.8%	4.6%	7.1%	5.9%	6.8%	7.3%	7.7%
Non-operating income	973	1,095	983	1,006	747	772	719	774	655	652	601
Non-operating expenses	2,240	2,200	1,852	1,385	1,201	868	693	555	453	397	515
<b>Recurring profit</b>	<b>9,489</b>	<b>9,818</b>	<b>8,065</b>	<b>7,013</b>	<b>8,549</b>	<b>8,150</b>	<b>12,775</b>	<b>11,191</b>	<b>13,259</b>	<b>14,479</b>	<b>15,312</b>
YoY	-12.3%	3.5%	-17.9%	-13.0%	21.9%	-4.7%	56.7%	-12.4%	18.5%	9.2%	5.8%
Recurring profit margin	5.4%	5.4%	4.4%	3.7%	4.6%	4.5%	7.2%	6.0%	6.9%	7.4%	7.8%
Extraordinary gains	265	270	59	486	203	215	172	829	183	677	672
Extraordinary losses	3,533	2,626	1,954	1,508	1,210	1,929	840	1,113	1,029	2,225	1,414
Income taxes	3,015	4,695	3,073	3,381	3,573	2,924	4,685	4,176	4,496	4,484	5,597
Implied tax rate	48.5%	62.9%	49.8%	56.4%	47.4%	45.4%	38.7%	38.3%	36.2%	34.7%	38.4%
Net income attributable to non-controlling interests	1,054	52	11	10	33	52	85	109	144	204	157
<b>Net income attributable to owners of the parent</b>	<b>2,152</b>	<b>2,715</b>	<b>3,085</b>	<b>2,598</b>	<b>3,934</b>	<b>3,458</b>	<b>7,337</b>	<b>6,620</b>	<b>7,772</b>	<b>8,241</b>	<b>8,815</b>
YoY	-30.1%	26.2%	13.6%	-15.8%	51.4%	-12.1%	112.2%	-9.8%	17.4%	6.0%	7.0%
Net margin	1.2%	1.5%	1.7%	1.4%	2.1%	1.9%	4.1%	3.6%	4.1%	4.2%	4.5%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Results for FY03/11 and prior years are of TOKAI Corp.

## FY03/10 results

The company achieved record high operating profits despite a decline in sales. In addition to the favorable growth in operating profit, recurring profits increased significantly, supported by a rise in non-operating income, mainly due to a JPY2.1bn gain in derivatives trading (recorded derivative losses as non-operating charges in FY03/09) during the fiscal year. By segment, operating profit expanded in the Gas and Petroleum segment due to lower purchasing costs and customer growth in the aqua business. Information and communications (currently separated into two segments—Information and Communications and CATV business) also achieved significant operating profit growth, supported by a rise in intra-firm communication projects, together with an increase in CATV customers as a result of an acquisition.

## FY03/11 results

The company recorded its highest-ever sales and operating profits in FY03/11. However, recurring profit declined mainly due to gains from derivatives trading (non-operating income) recorded a year earlier.

By segment, Gas and Petroleum operations suffered a decline in operating profit, hurt by an increase in purchasing costs and decline in unit consumption by households, despite profit improvement in the aqua business. However, operating profit for the Information and Communications segment increased, supported by improvements in the mobile business. CATV

segment operating profit increased, supported by its FTTH service and contributions from two CATV companies made into subsidiaries in FY03/10. Operating profit for the Building and Real Estate segment increased due to improved profitability on real estate leasing operations of Aoi Tower.

## FY03/12 results

Sales were JPY181.9bn (+4.0% YoY), operating profit was JPY10.9bn (+1.6%), recurring profit was JPY9.8bn (+3.5%), and net income was JPY2.8bn (+26.2%). The company achieved record-high sales and operating profit for the fiscal year. The company was able to absorb costs of roughly 1.6 billion related to becoming a holding company, and managed to increase operating profit. By segment, Gas and Petroleum operations, and Information and Communications business contributed to the increase in profits.

## FY03/13 results

Sales were JPY181.7bn (-0.1% YoY), operating profit was JPY8.9bn (-18.2%), recurring profit was JPY8.1bn (-17.9%), and net income was JPY3.1bn (+13.6%). Information and Communications services saw higher sales, but other segments struggled. As a result, despite the decline over the previous year, operating profit was better than the company's forecast, which was revised up on July 31, 2012.

The number of customers for the company's recurring services grew by 30,000 compared with the start of FY03/13, to 2.4 million households as of end of FY03/13. An increase in broadband subscribers in the Information and Communications segment made up for a decline in customers in the LP Gas and Petroleum, and CATV segments. In addition, the number of TLC memberships, a new customer service introduced in December 2012, reached 105,000 members as of end of March 2013.

TLC membership is a service that allows member customers to earn points from using the company's electronic money card, "TLC WAON card" for its various services.

## FY03/14 Results

Sales were JPY189.0bn (+4.0% YoY), operating profit was JPY7.4bn (-17.3%), recurring profit was JPY7.0bn (-13.0%). Sales were up but profits were down YoY, due to higher promotional expenses in the FTTH and Aqua businesses and delays in passing on increased procurement costs of LP gas. However, results outperformed forecast announced in January 2014.

The customer base for recurring services increased by 73,000 over the year, to 2.5mn. The broadband and Aqua businesses both saw robust growth in subscriber count. TLC membership also increased by 201,000 over the year, to 306,000. TOKAI launched the TLC Membership Service in December 2012, to increase customer loyalty. The TLC Membership Service allows customers who hold multiple service contracts to earn loyalty points.

## FY03/15 results

Sales were JPY187.5bn (-0.8% YoY), operating profit was JPY9.0bn (+21.8%), recurring profit was JPY8.5bn (+21.9%), and net income reached record highs at JPY3.9bn (+51.4%).

Sales increased due to a rising subscriber count in the aqua and broadband businesses. Profits increased significantly—the result of lower marketing, customer acquisition, and advertising costs in the aqua business due to more efficient sales, coupled with higher productivity and other streamlining initiatives in the LP gas business. Operating profit surpassed the company's latest target of JPY8.9bn, which had been revised upward from the initial forecast of JPY8.2bn when it announced its 1H FY03/15 results. On a segment basis, the three main businesses of Gas and Petroleum, Information and Communications and Aqua drove the overall improvement in group earnings. In particular, the Gas and Petroleum segment, which made efforts to streamline distribution, administrative and other expenses in the LP gas business, made significant contributions.

# Balance sheet

Balance sheet (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons. **	Cons.									
<b>Assets</b>											
Cash and deposits	8,622	2,602	4,235	3,182	2,861	4,077	3,239	3,143	4,164	4,629	5,577
Marketable securities											
Accounts receivable	20,321	22,180	20,944	22,073	20,085	21,305	22,838	23,806	24,798	25,859	26,323
Inventories	9,568	8,051	8,141	8,178	6,695	5,611	5,058	5,389	5,698	5,553	5,573
Other	11,233	8,260	7,031	7,173	6,318	7,124	7,459	7,613	7,846	8,227	9,459
<b>Total current assets</b>	<b>49,744</b>	<b>41,093</b>	<b>40,351</b>	<b>40,606</b>	<b>35,959</b>	<b>38,117</b>	<b>38,594</b>	<b>39,951</b>	<b>42,506</b>	<b>44,268</b>	<b>46,932</b>
Buildings (net)	50,084	48,186	45,598	42,157	38,413	35,178	33,718	34,280	33,756	34,256	34,508
Machinery and equipment (net)	24,507	23,353	22,830	22,081	21,684	22,074	21,848	23,096	23,592	23,773	24,614
Land	21,918	21,584	21,799	21,918	22,006	21,825	22,634	22,842	22,921	23,068	24,054
Other fixed assets (net)	14,104	17,084	16,375	16,973	16,832	15,987	15,447	16,592	16,761	17,256	18,624
<b>Total tangible fixed assets</b>	<b>110,613</b>	<b>110,207</b>	<b>106,602</b>	<b>103,129</b>	<b>98,935</b>	<b>95,064</b>	<b>93,647</b>	<b>96,810</b>	<b>97,030</b>	<b>98,353</b>	<b>101,800</b>
<b>Investments and other assets</b>	<b>15,996</b>	<b>14,995</b>	<b>15,638</b>	<b>16,855</b>	<b>19,539</b>	<b>16,149</b>	<b>17,860</b>	<b>18,030</b>	<b>16,937</b>	<b>16,518</b>	<b>19,552</b>
Goodwill	15,022	15,540	12,632	10,241	8,270	6,589	5,861	5,430	5,044	5,125	5,258
Other	1,632	1,726	2,274	2,702	2,954	4,351	5,127	5,768	6,084	5,706	5,429
<b>Total intangible assets</b>	<b>16,654</b>	<b>17,266</b>	<b>14,906</b>	<b>12,943</b>	<b>11,224</b>	<b>10,940</b>	<b>10,988</b>	<b>11,198</b>	<b>11,128</b>	<b>10,831</b>	<b>10,687</b>
<b>Total fixed assets</b>	<b>143,265</b>	<b>142,470</b>	<b>137,147</b>	<b>132,928</b>	<b>129,699</b>	<b>122,153</b>	<b>122,496</b>	<b>126,038</b>	<b>125,097</b>	<b>125,703</b>	<b>132,041</b>
<b>Total assets</b>	<b>193,239</b>	<b>183,735</b>	<b>177,642</b>	<b>173,620</b>	<b>165,702</b>	<b>160,303</b>	<b>161,112</b>	<b>165,993</b>	<b>167,606</b>	<b>169,972</b>	<b>178,974</b>
<b>Liabilities</b>											
Accounts payable	12,652	13,636	13,019	14,105	13,035	13,511	14,779	15,670	15,021	15,034	17,226
Short-term debt	56,756	50,834	48,614	44,169	36,279	28,586	26,888	27,358	25,966	23,831	16,107
Other	20,375	20,709	20,930	20,631	21,846	20,861	19,637	20,677	20,398	21,752	23,676
<b>Total current liabilities</b>	<b>89,783</b>	<b>85,179</b>	<b>82,563</b>	<b>78,905</b>	<b>71,160</b>	<b>62,958</b>	<b>61,304</b>	<b>63,705</b>	<b>61,385</b>	<b>60,617</b>	<b>57,009</b>
Long-term debt	65,400	53,404	44,093	41,171	36,790	42,823	39,596	36,793	38,131	38,991	41,304
Other	16,466	17,970	16,975	15,214	14,284	12,550	3,765	4,044	4,194	4,381	4,604
<b>Total fixed liabilities</b>	<b>81,866</b>	<b>71,374</b>	<b>61,068</b>	<b>56,385</b>	<b>51,074</b>	<b>55,373</b>	<b>43,361</b>	<b>40,837</b>	<b>42,325</b>	<b>43,372</b>	<b>45,908</b>
<b>Total liabilities</b>	<b>171,649</b>	<b>156,553</b>	<b>143,631</b>	<b>135,291</b>	<b>122,234</b>	<b>118,332</b>	<b>104,665</b>	<b>104,543</b>	<b>103,711</b>	<b>103,989</b>	<b>102,917</b>
<b>Net assets</b>											
Capital stock	14,004	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000
Capital surplus	2,207	21,868	22,183	22,183	22,315	19,258	24,286	25,525	25,527	25,542	25,542
Retained earnings	-651	1,780	4,225	5,436	7,803	9,870	15,048	17,768	21,863	26,426	31,563
Treasury stock	-135	-11,224	-8,313	-8,191	-8,033	-6,409	-3,285	-2,223	-2,222	-2,221	-2,219
Other	-268	-149	1,006	3,992	6,460	4,344	5,006	5,250	3,459	848	5,625
Share subscription rights	0	327	324	318	260	208	-	-	-	-	-
Non-controlling interests	6,432	578	584	588	662	699	791	1,130	1,267	1,387	1,545
<b>Total net assets</b>	<b>21,589</b>	<b>27,181</b>	<b>34,011</b>	<b>38,329</b>	<b>43,467</b>	<b>41,970</b>	<b>56,446</b>	<b>61,450</b>	<b>63,894</b>	<b>65,982</b>	<b>76,056</b>
Working capital	17,237	16,595	16,066	16,146	13,745	13,405	13,117	13,525	15,475	16,378	14,670
Total interest-bearing debt	122,156	104,238	92,707	85,340	73,069	71,409	66,484	64,151	64,097	62,822	57,411
Net debt	113,534	101,636	88,472	82,158	70,208	67,332	63,245	61,008	59,933	58,193	51,834

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Results for FY03/11 and prior years are of TOKAI Corp.

## Assets

For the past few years, the company has been aggressively investing in growth, placing priority on improving profitability. Consequently, total assets have expanded to JPY193.2bn as of FY03/11. However, with the establishment of TOKAI Holdings, the company improved its financial position by reducing working capital and only investing in areas where it can achieve high returns. As a result, total assets were decreasing. In FY03/17, however, total assets increased YoY, because the value of investment securities rose due to a rise in the market value. Total assets have continued to increase since FY03/18 due to business expansion through M&A.

## Liabilities

As a result of the company's aggressive investment strategy, which was mainly debt-financed, its interest-bearing debt grew to JPY127.7bn in FY03/10. The company will focus on developing a more stable financial position going forward and aims to reduce interest-bearing debt to less than JPY100bn by end-FY03/14 as part of its medium-term business plan developed following the establishment of TOKAI Holdings Corporation. Hence, interest-bearing debt totaled JPY92.7bn as of FY03/13, achieving its target one year ahead of schedule. The debt amount further reduced in FY03/21, totaling JPY57.4bn.

## Net assets

Equity ratio was 7.7% as of FY03/11, but as mentioned, the company has been improving its financial position by reducing interest-bearing debt and increasing retained earnings. As a result, its equity ratio improved to 18.6% at end-FY03/13. The company has been improving its equity ratio even prior to merging its business operations (TOKAI Corporation with VIC TOKAI Corporation in 2010) and achieved its equity ratio target of at least 17%, as highlighted in its previous medium-term business plan, one year ahead of schedule. The ratio stood at 41.6% in FY03/21.

The company held 8,713,000 shares of treasury stock (6.2% of shares outstanding) as of end-March 2021. The company has suggested that it will consider capital tie-ups or alliances going forward.

## Per share data

Per-share data	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
(JPY)	Cons. **	Cons.	Est.									
Shares issued (year end, '000)	70,845	155,200	155,200	155,200	155,200	139,680	139,680	139,680	139,680	139,680	139,680	
EPS	30.5	27.2	29.9	22.7	34.2	30.0	64.5	51.2	59.4	62.9	67.3	67.4
EPS (fully diluted)	30.5	-	-	-	34.1	26.9	56.3	50.5	-	-	-	-
Dividend per share	8.0	12.0	12.0	12.0	12.0	14.0	28.0	28.0	28.0	28.0	30.0	30.0
Book value per share	210.8	262.9	289.3	325.8	368.2	362.8	439.0	460.7	478.3	493.3	568.9	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Results for FY03/11 and prior years are of TOKAI Corp.

## Statement of cash flows

Cash flow statement	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons. **	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities (1)	23,521	28,584	25,713	22,806	27,265	21,395	26,692	20,909	21,605	22,535	32,223
Cash flows from investing activities (2)	-14,601	-10,037	-9,983	-9,664	-8,851	-11,015	-10,985	-11,488	-12,443	-12,131	-17,068
<b>Free cash flow (1+2)</b>	<b>8,920</b>	<b>18,547</b>	<b>15,730</b>	<b>13,142</b>	<b>18,414</b>	<b>10,380</b>	<b>15,707</b>	<b>9,421</b>	<b>9,162</b>	<b>10,404</b>	<b>15,155</b>
Cash flows from financing activities	-11,278	-24,255	-14,051	-14,125	-18,764	-9,150	-16,643	-9,527	-8,147	-10,375	-14,064
Depreciation and amortization (A)	15,545	17,903	17,447	17,571	17,229	16,734	15,641	15,211	15,090	15,426	15,800
Capital expenditures (B)	-13,845	-11,193	-10,747	-10,083	-9,712	-11,435	-11,331	-11,665	-12,423	-11,592	-12,925
Working capital changes (C)	-753	-642	-529	80	-2,401	-340	-288	408	1,950	903	-1,708
<b>Simple FCF (NI + A + B - C)</b>	<b>4,605</b>	<b>10,067</b>	<b>10,314</b>	<b>10,006</b>	<b>13,852</b>	<b>9,097</b>	<b>11,935</b>	<b>9,758</b>	<b>8,489</b>	<b>11,172</b>	<b>13,398</b>

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Results for FY03/11 and prior years are of TOKAI Corp.

## Cash flows from operating activities

The company has a stable source of operating cash flow and has managed to reduce its debt repayment period (interest-bearing debt divided by operating cash flow) from 5.8 years in FY03/10 to 1.8 years in FY03/21.

## Cash flows from investing activities

The company's investment cash flow changes in tandem with capital expenditures.

## Cash flows from financing activities

The company has been free cash flow positive since FY03/11 and has been using excess cash to reduce interest-bearing debt.



# Major shareholders

Top shareholders	Shares held (shares)	Shareholding ratio
The Master Trust Bank of Japan, Ltd. (Trust account)	10,479,100	7.98%
Custody Bank of Japan, Ltd. (Trust account)	7,599,100	5.79%
Aioi Nissay Dowa Insurance Co., Ltd.	7,559,820	5.76%
Suzuyo Shoji Co., Ltd.	5,799,700	4.42%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,611,887	3.51%
The Shizuoka Bank, Ltd.	4,065,527	3.09%
Sumitomo Mitsui Trust Bank, Ltd.	3,816,000	2.91%
TOKAI Group Employee Stock Holding Association	3,667,101	2.79%
Mizuho Bank, Ltd.	3,588,577	2.73%
Astomos Energy Corporation	2,724,848	2.07%
Shares outstanding (excluding 8,322,035 treasury shares)	131,357,942	100.0%

Source: Shared Research based on company data  
(As of March 31, 2021)

## Top management

### Katsuhiko Tokita, President and Representative Director

Born in 1945, Mr. Tokita joined the Ministry of International Trade and Industry (currently, Ministry of Economy, Trade and Industry) in 1968. In 1992, he was promoted to director-general's secretariat at the Agency for Natural Resources and Energy. In July 1993, Mr. Tokita became vice-governor of Kyoto. Mr. Tokita served as Chief of the Central Procurement Office at the Ministry of Defense in 1996, Director-General of the Small and Medium Enterprise Agency in 1998, and Director of the Japan National Oil Corporation in 1999. Mr. Tokita became an advisor to TOKAI Corporation in 2002, and subsequently served in various senior executive positions, eventually becoming TOKAI Holdings President and Representative Director and Chairman of TOKAI Cable Network in 2012. He became Chairman and Representative Director of TOKAI Gas Corporation and TOKAI Management Service Corporation in 2013, Chairman and Representative Director of TOKAI Corporation in 2016, Chairman and Representative Director of TOKAI Communications Corporation in 2018, and Chairman and Representative Director of TOKAI Venture Capital & Incubation Corporation in 2021.

## Employees

The company had 4,251 employees (consolidated basis) and 898 part-time workers as of end-March 2021.

The number of employees in each business segment is presented below (part-time workers in parentheses).

- Energy: 1,454 (399)
- Construction, Equipment, and Real Estate: 366 (81)
- CATV: 640 (77)
- Information and Communications: 1,236 (90)
- Aqua: 146 (61)
- Others: 253 (158)
- Corporate: 156 (32)

As of end-March 2020, there were 86 employees at the holding company with an average 14.3 years of employment and average annual salary of JPY6.4mn.

The company's employees belong to two labor unions, the TOKAI Labor union, which is a member of the Federation of Gas Workers' Union of Japan, and the All Japan Shipbuilding and Engineering Union (Yaizu Branch). Union members totaled 2,369 employees as of end-March 2020.

## Dividends and shareholder benefits

### Dividends

The company adheres to a policy of "maintaining stable and continuous dividend payments, while strengthening its corporate structure and developing future businesses."

## Shareholder Benefits

The company offers gifts and benefits to shareholders of record holding at least one trading unit (100 shares) at the end of the first half (September) and fiscal year (March). Based on the number of shares owned, shareholders can select one of the following gifts:

The company also offers shareholders a 10% discount and JPY100,000 coupon (discount limited to JPY200,000) on wedding ceremonies held at its wedding halls and a 20% discount at its French restaurants, Beau Ciel and Aoi.

- ▶ “Oishii Mizu no Takuhaibin” (“Delicious Water Home Delivery”) and “Oishii Mizu no Okurimono ulunom” (“The Gift of Delicious Water - ulunom”) products
- ▶ Gift certificates (prepaid QUO Card)
- ▶ Meal vouchers for the company’s French restaurants Beau Ciel and Aoi
- ▶ Points for the company’s membership service, TLC Membership Service
- ▶ LIBMO, a low-cost SIM service

**Common  
for all  
options**

GRANDAIR Bouquet TOKAI

**One 10%-discount ticket and one JPY100,000 discount ticket for wedding ceremony (up to JPY200,000)**



AND

Beau Ciel, Aoi

**20% discount for dining (12 tickets)**



**and**

**A**

**B**

**C**

**D**

**E**

**(choose one)**

		Shares held		
		100-299	300-4,999	5,000 or more
<b>A</b>	<b>Aqua products</b>	Not for sale		
	<p><b>A-1</b> "Urunom Fuji-no-tennen-sui", Natural mineral water (500ml)</p> <p>or</p> <p><b>A-2,3</b> One bottle of "Oishii-mizu-no-takuhaibin", "Urunom" water (12 liters)</p> <p style="color: red; font-weight: bold;">Dispenser contract required</p>	<p>×12</p> <p>or</p> <p>×1</p> <p>Worth JPY2,050</p>	<p>×24</p> <p>or</p> <p>×2</p> <p>Worth JPY4,100</p>	<p>×48</p> <p>or</p> <p>×4</p> <p>Worth JPY8,200</p>
<b>B</b>	<p><b>Gift certificates Quo card</b></p> 	JPY500	JPY1,500	JPY2,500
<b>C</b>	<p><b>Meal tickets for group restaurants (in Sizuoka)</b></p> 	JPY1,000	JPY3,000	JPY5,000
<b>D</b>	<p>Membership services</p> <p><b>TLC points</b></p> <p><a href="https://tlc.tokai.jp/">https://tlc.tokai.jp/</a></p> 	1,000 points (worth JP ¥1,000)	2,000 points (worth JP ¥2,000)	4,000 points (worth JP ¥4,000)
<p style="color: red; font-weight: bold;">Note: Eligible for D are the users of TOKAI group services and TLC members</p>				
<p>Services for the point program</p> <div style="display: flex; justify-content: space-around; align-items: center;">  LP gas            Citi gas            Aqua            Internet            LIBMO            Cable TV            Intelligent home            Security            Electricity         </div>				
<b>E</b>	<p><b>Budget smartphone service</b></p> <p><b>LIBMO (リブモ)</b></p> 	JPY2,100	JPY5,100	JPY11,280
		<b>JPY350</b> discounted per month	<b>JPY850</b> discounted per month	<b>JPY1,880</b> discounted per month

Source: Shared Research based on company data

## Investor relations

The company holds earnings briefings following release of first half and full-year business results. Additionally, the company holds overseas investor relations events twice per year.

# News and topics

## Discovery of fraudulent activities by former employees of subsidiaries

2021-10-08

TOKAI Holdings Corporation announced the discovery of fraudulent activities by two former employees of its subsidiaries.

A tax inspection conducted by the Nagoya Regional Taxation Bureau in July 2021 identified instances of fraud by two former employees of two of the company's subsidiaries.

### Overview of misconduct

- TOKAI Corporation: From February 2014, former employee A provided false invoices on an ordered construction project, and made fraudulent profits totaling approximately JPY173mn.
- TOKAI Gas Corporation: From March 2014, former employee B used his/her position as an accountant to divert a total of approximately JPY368mn in company funds to his/her own bank account for personal use.

The former employees and any other internal accomplices, including superiors, will be severely dealt with in accordance with company regulations.

Following the discovery, the company established an internal investigation committee chaired by a corporate attorney to carry out an investigation focusing on clarification of the details of the cases, understanding the responsibility of managers, identifying the causes, and preventing repeat incidents. Once the committee has completed its investigation, the company plans to disclose the report of its findings as soon as it receives this from the committee. It also plans to promptly disclose any material information that emerges during the investigation. The company takes these fraudulent acts very seriously, and it will work to further strengthen internal controls and improve their effectiveness based on the findings of the committee to prevent future incidents.

## Sales area expansion for the LP gas business

2021-10-01

TOKAI Holdings Corporation announced that it was expanding the sales area for the LP gas business.

On October 1, 2021, TOKAI Corporation—a wholly owned subsidiary of TOKAI Holdings Corporation that operates the Energy business (includes LP gas sales)—established a new sales office in Kumamoto, Kumamoto Prefecture.

In the group's new medium-term management plan, Innovation Plan 2024 (IP24) "Design the Future Life," TOKAI Holdings Corporation has set out a Local, National, and Global (LNG) strategy that aims to expand its business area, starting with local expansion, centering on Shizuoka and Kanto, and progressing onto national expansion across Japan and global expansion overseas. In the Energy business, in particular, the company plans to expand the LP gas business in Shikoku and West Japan to take the business nationwide.

TOKAI Corporation has now expanded its business to Kumamoto, Kumamoto Prefecture as a new sales base for the Kyushu area. Kumamoto Prefecture is the second most populous prefecture in the Kyushu area, after Fukuoka Prefecture, and it also has the third-highest number of households using LP gas in the area, after Fukuoka and Kagoshima prefectures, so it is a promising business region for LP gas. The company believes its advance into Kumamoto Prefecture will provide opportunities to grow its LP gas business base and supply products and services.

## Formulation of Carbon Neutral Vision

2021-05-20

TOKAI Holdings Corporation announced Carbon Neutral Vision.

Given the rise of social demand for measures against global warming, the company intends to achieve carbon neutrality by 2050. It plans to use renewable energy and electric vehicles in its operations while further expanding the use of environmentally friendly energy equipment.

## Approach for carbon neutrality

- ▶ Switch to carbon neutral gas using innovative technologies to achieve carbon neutrality by 2050.
- ▶ Work to reduce CO2 before introducing innovative technologies, and by 2030:
  - ▶ Reduce residential CO2 emissions of customers using gas by 170,000 tons (equivalent to 50% of the 360,000-ton CO2 emissions from gas used at home in FY2020) by (1) reducing CO2 by 70,000 tons through the expanded use of high-efficiency gas equipment and other means, and (2) another 100,000 tons by installing solar power for homes.
  - ▶ Reduce 13,000 tons of CO2 emissions in its operations (equivalent to 70% of the 18,000-ton CO2 emissions in FY2020).
- ▶ Consider decarbonization as a growth opportunity instead of a constraint or cost increases.
  - ▶ Promote decarbonization of homes by combining renewable energy with high-efficiency equipment and storage battery. Propose new energy use to achieve carbon neutrality.
  - ▶ Gas will continue to play an important role in preserving resilience for cases like disaster response.

## New medium-term business plan, formulation of digital transformation strategy, and acquisition of shares in Query

2021-05-11

TOKAI Holdings Corporation announced its new medium-term business plan.

On the same day, the company announced that it had formulated its digital transformation (DX) strategy.

The company plans to maximize utilization of data gathered in its business activities and the latest digital technologies (ABCIR+S\*) to optimize its existing business model, streamline operations, and add value to services. It will also take on the challenge of creating new businesses and put into action the key strategies of its new medium-term business plan, IP24 (see references attached to press release for details of the company's DX strategy).

\* ABCIR+S refers to strategies toward technological innovation; the term is formed from the initials of AI (A), Big Data (B), Cloud (C), IoT (I), Robotics (R), and Smartphone (S).

On the same day, the company announced it had acquired shares in Query Co., Ltd. and made it a consolidated subsidiary.

On April 28, 2021, wholly owned subsidiary TOKAI Communications Corporation concluded a share transfer agreement to acquire share in Query Co., Ltd. and made it a consolidated subsidiary. The share transfer date was April 30, 2021. The number of shares held was 0 before the share transfer and 60 (100% ownership) after the transfer.

- ▶ Query is a system development company, mainly contract development of companies' IT systems, software, and smartphone apps, and website production and operation. Its strengths lie in technological capabilities that allow it to respond flexibly to client needs and solid, long-term relationships with major clients over many years.
- ▶ The company acquired shares in Query because it seeks synergies between Query's technological capabilities and TOKAI Communications' strengths in cloud network integration. This will strengthen their business structure and expand the scope of services offered, adding further value to clients, which will lead to more business with them, and increase the corporate value of both companies in the longer term.
- ▶ The company commented that the impact of the acquisition on its FY03/22 earnings is minimal.

## Acquisition of shares in Marco Polo

2021-04-09

TOKAI Holdings Corporation announced the acquisition of shares in Marco Polo, Inc., making it a consolidated subsidiary.

Tokai Holdings' wholly owned subsidiary TOKAI Corp. concluded a share transfer agreement to acquire the equity shares of Marco Polo, Inc. on February 11, 2021, and the share transfer was implemented on April 9, making Marco Polo a consolidated subsidiary of TOKAI Corp. TOKAI Corp. now owns all 8,000 shares, or 100% of Marco Polo's common stock. Prior to the transaction, it had no equity interest (0 shares) in the acquired company.

### **Purpose of the acquisition**

With the stock of newly built condominiums and similar buildings expanding, the market for large-scale repair work on such buildings is expected to continue growing as an increasing number of buildings reach the age when such repair work is required by deterioration over time.

TOKAI Corp. is engaged in a diverse range of business, with its core business being the delivery of LP gas and bottled water to a combined customer base of about 900,000 customers nationwide. The company also is engaged in construction, facilities construction, and real estate sales businesses in Shizuoka, Aichi, and Kanagawa prefectures. The construction and facilities construction business, which centers on plumbing and air conditioning, services customers in the public and private sectors. In Shizuoka Prefecture, in particular, the company is engaged in renewal (renovation) projects as well as new construction. Marco Polo, based in Toyota, Aichi Prefecture, is engaged in large-scale repair work for condominiums and public facilities. It has undertaken projects contracted by local governments, such as Toyota City and Nagoya City, as well as condominium management associations, condominium management companies, and construction companies.

In May 2020, TOKAI Corp. opened a central sales office in Nagoya, Aichi Prefecture, with the aim of expanding the business domain of its construction and facilities construction business to the Chukyo region, which has been a base for its LP gas business. It also has been aggressively acquiring companies in the Chukyo region, making consolidated subsidiaries of Nissan Tri Star Construction, Inc., in Gifu Prefecture in 2019 and Chuo Denki Koji Co., Ltd., in Aichi Prefecture in 2020. These acquisitions added civil engineering and electrical works to TOKAI Corp.'s capabilities, making it a comprehensive construction company capable of receiving orders for major construction projects.

TOKAI Corp. now will be able to leverage the sales and technical expertise of Marco Polo's large-scale repair business to expand the range of projects that can be covered by its facilities construction business in the Chukyo region and grow its renovation business. In addition, Marco Polo plans to expand its operations into Shizuoka Prefecture and other regions by taking advantage of TOKAI Corp.'s established sales network.

The company expects this acquisition will have little impact on its FY03/22 consolidated results.

## **Upgrade to FY03/21 dividend forecast and establishment of a new management company to invest in domestic startups**

2021-03-11

TOKAI Holdings Corporation announced an upgrade to its dividend forecast for FY03/21.

In FY03/21, although the COVID-19 pandemic has had a negative impact on some businesses such as wedding ceremonies and banquets, the company is expected to achieve its full-year forecast and record profits for the third year in a row due to the steady increase in continuing customers.

Based on this, the company revised its year-end dividend forecast for FY03/21 to JPY16, up by JPY2 from its previous forecast, and revised its full-year dividend forecast to JPY30 (JPY28 in FY03/20).

On the same day, the company announced the establishment of a new management company for the purpose of investing in domestic startups.

The company has decided to establish TOKAI Venture Capital & Incubation Co., Ltd. (TVC&I), a 100%-owned management company for the purpose of investing in domestic startups. TVC&I is due to be formally established on April 1, 2021.

### **Purpose of establishment**

In the third medium-term management plan, Innovation Plan 2020 "JUMP," which concludes in FY03/21, the company has increased its base of continuing customers, a key focus, and has promoted multiple contracts based on the TLC (Total Life Concierge) concept. In addition to expanding its business areas, it is actively working on a strategy to grow the earnings base further, through initiatives such as M&A and investment in alliances.

TVC&I will play a part in the group's open innovation strategy for the creation of new businesses with the aim of expanding the TLC service lineup, the main theme of the company's approach to its business.

In addition to synergies with the existing businesses such as energy, information and communications, and housing-related businesses, the company will take on the challenge of creating lifestyle-related businesses in completely new areas, and will invest in a wide range of domestic startups, based on an agile and collaborative investment approach.

## Establishment of Nomination and Compensation Committee and comprehensive cooperation agreement between TV Tsuyama and the city of Tsuyama, Okayama

2021-02-18

TOKAI Holdings Corporation announced the establishment of a Nomination and Compensation Committee.

At a meeting of the Board of Directors held on February 18, 2021, the company resolved to establish a Nomination and Compensation Committee as a voluntary advisory body to the Board of Directors.

- ▶ Purpose: The company decided to establish the Nomination and Compensation Committee as a voluntary advisory body to the Board of Directors in order to strengthen the independence, objectivity, and accountability of the Board of Directors, and to further enhance the system of corporate governance.
- ▶ Role: The Nomination and Compensation Committee will deliberate and report on matters related to the appointment and dismissal of directors, the appointment and dismissal of representative directors, and the compensation of directors, in response to enquiries from the Board of Directors. It will also deliberate and report on other matters as requested by the Board of Directors.
- ▶ Composition: The Nomination and Compensation Committee is to be composed of three or more members who are also directors, selected by resolution of the Board of Directors, the majority of whom are to be independent outside directors.
- ▶ Date of establishment: February 18, 2021

On the same day, the company announced the conclusion of a comprehensive cooperation agreement between its subsidiary TV Tsuyama Inc. and the city of Tsuyama, Okayama Prefecture.

- ▶ TV Tsuyama Inc. (based on Tsuyama city, Okayama Prefecture), a subsidiary of the company, entered into a comprehensive cooperation agreement with the city of Tsuyama, Okayama Prefecture. TV Tsuyama and the city of Tsuyama plan to cooperate with each other in future in a range of fields, including the revitalization of local communities as well as the improvement of services for citizens, on the basis of this agreement.
- ▶ The objective is for close cooperation between TV Tsuyama and the city of Tsuyama to enable the more effective use of human and physical resources of both parties in order to improve citizen welfare and revitalize the region.

# Profile

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Established

**2011-04-01**

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Exchange Listing

**2011-04-01**

Fiscal Year-End

**Mar**

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We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <https://sharedresearch.jp>.

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