



# Action to Implement Management that is Conscious of Cost of Capital and Stock Price

TOHO GAS CO.,LTD.

April 25, 2024

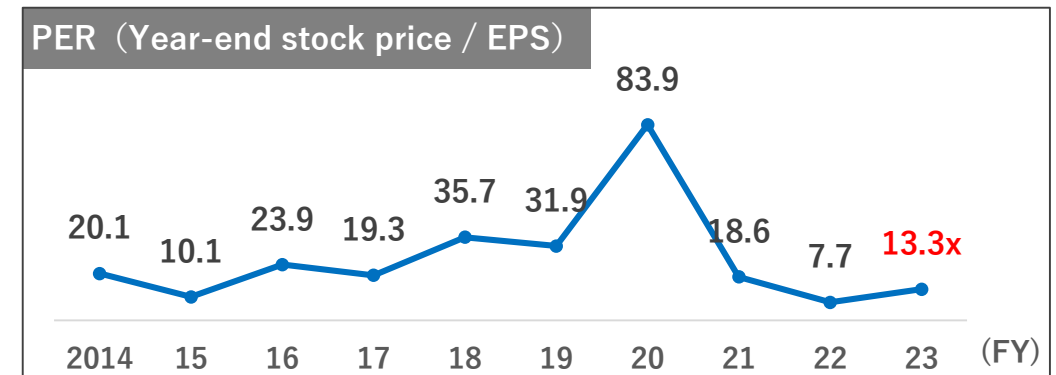
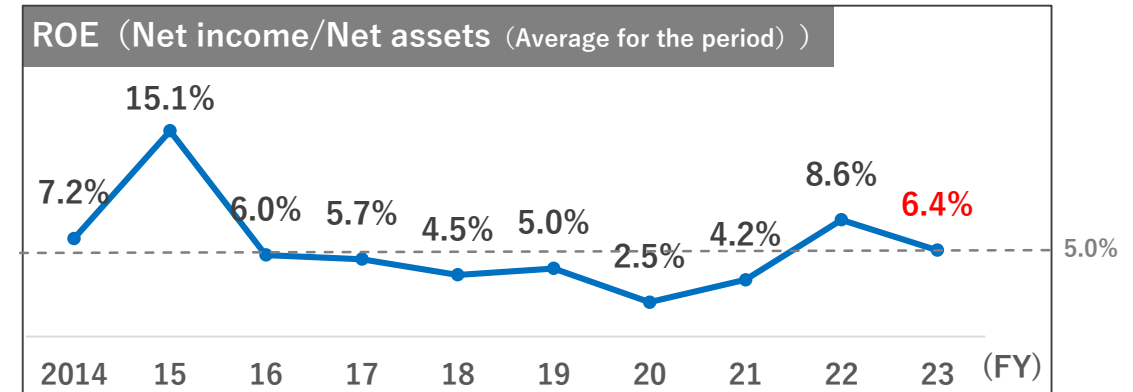
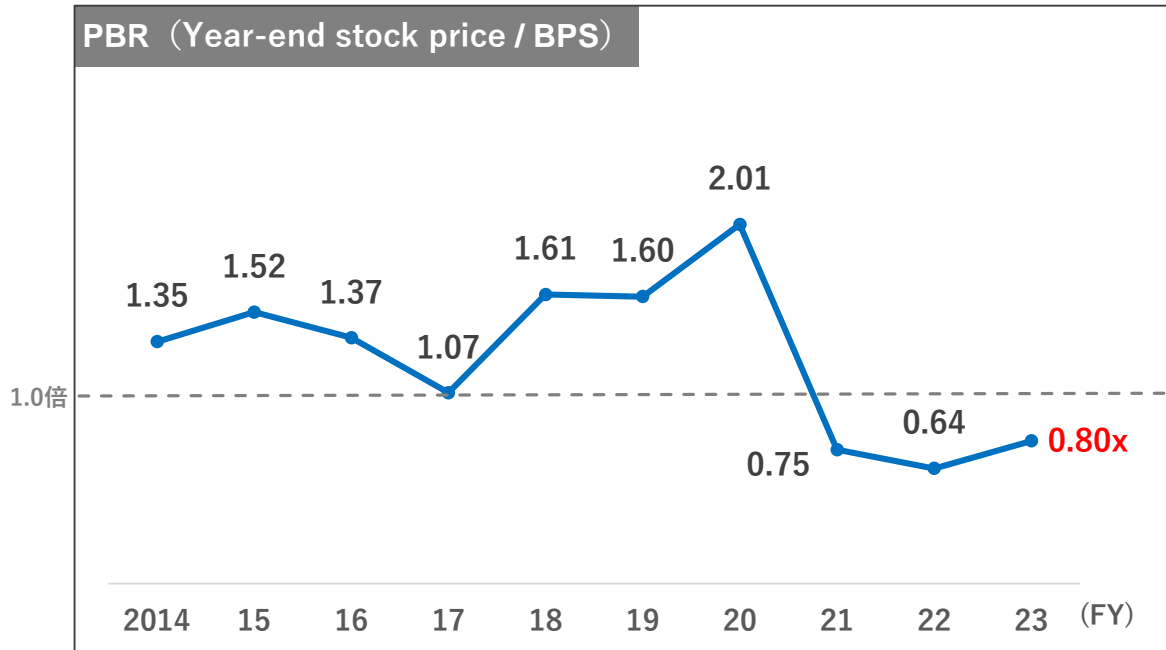
# 1. Recognition of the current PBR status

## (1) Overall picture

- PBR had been above 1.0x though it has been below 1.0x since FY2021.
- When breaking down PBR into ROE and PER, ROE generally fluctuates around 5%, and although PER reached 7.7x in the FY2022, it has currently recovered to around 13x.

### Decomposition of PBR

$$\text{PBR (Price Book-value Ratio)} = \text{ROE (Return On Equity)} \times \text{PER (Price Earnings Ratio)}$$



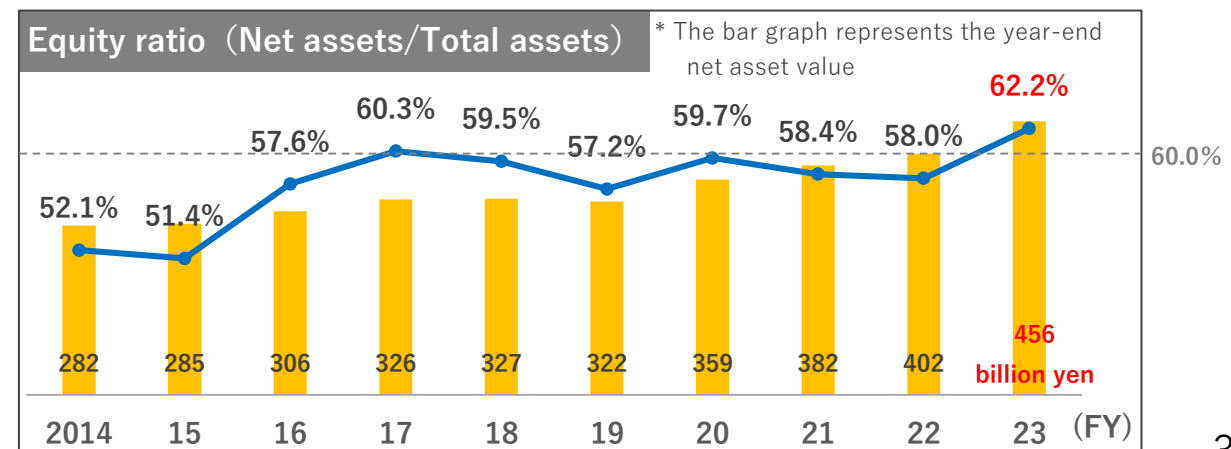
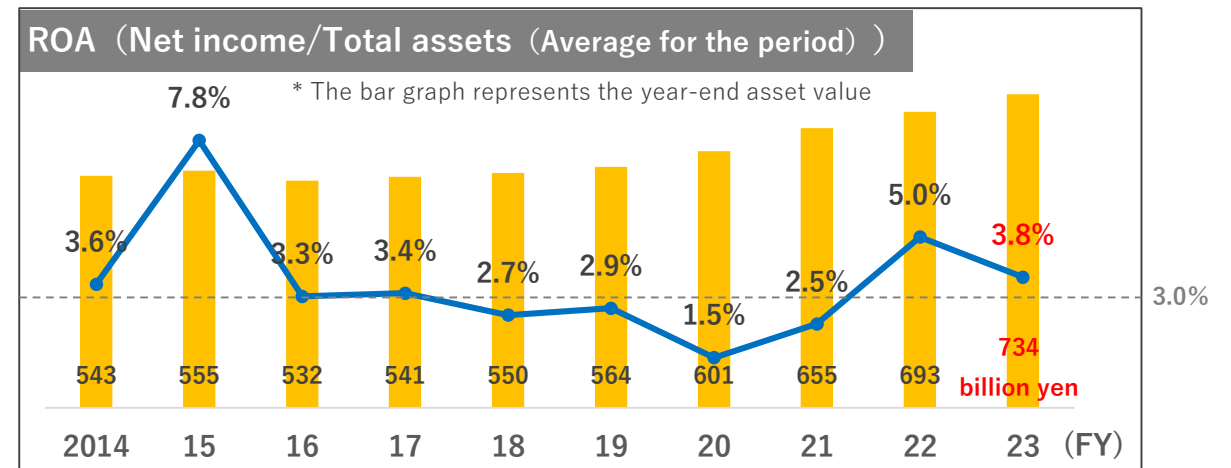
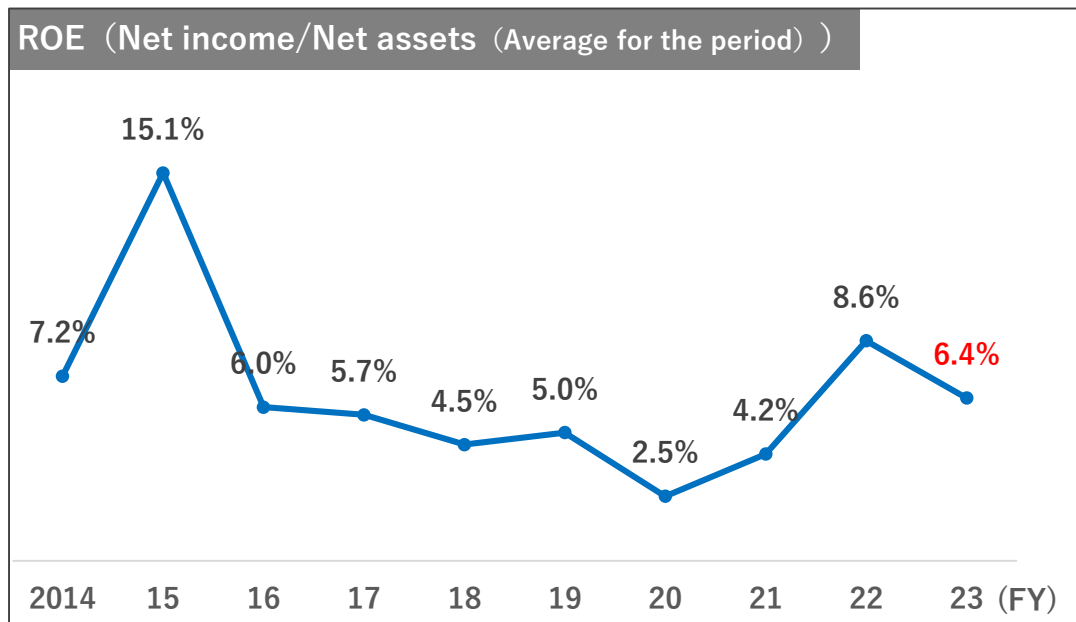
# 1. Recognition of the current PBR status

## (2) Recognition of the current ROE status (Analysis based on ROA and Equity Ratio)

- ROA generally fluctuates around 3%, exceeding the capital cost (WACC: mid-2% range) indicated in the medium-term management plan. However, it is assumed that WACC will increase due to factors such as rising interest rates.
- Our equity ratio has been close to 60% since FY2016 as a result of our efforts to keep investments and shareholder returns within the scope of operating cash flows, while at the same time repaying interest-bearing debt.

### Decomposition of ROE

$$\text{ROE} = \frac{\text{ROA}}{\text{Equity Ratio}}$$

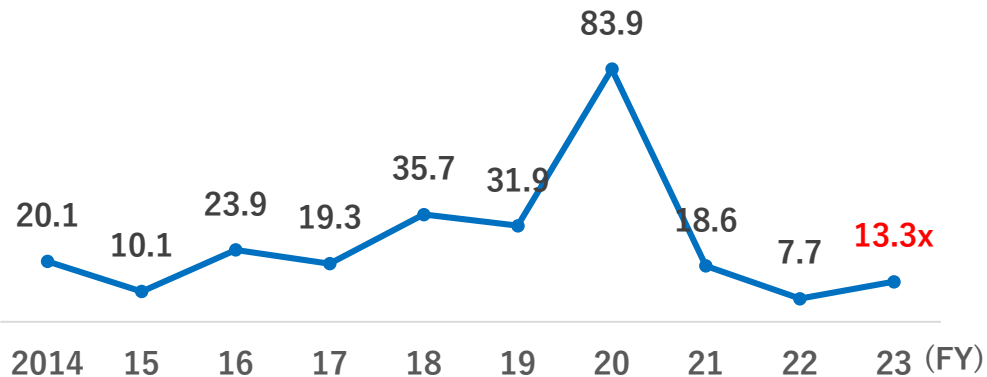


# 1. Recognition of the current PBR status

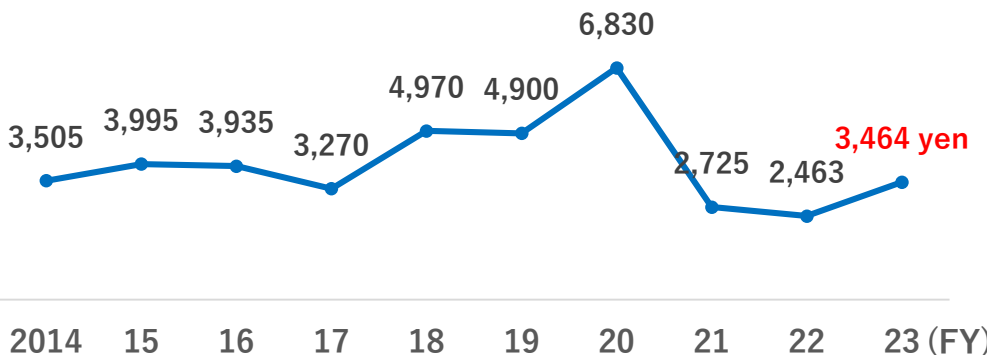
## (3) Recognition of the current market valuation (PER level)

- Our PER has decreased significantly from FY2020 to FY2022 due to changes in the external environment and exclusions from indices.
- We recognize that our current PER level may be influenced by the lack of sufficient understanding from the market regarding our growth potential, such as our response to new risks such as changes in the power procurement environment and progress toward carbon neutrality, and that we have not been able to dispel concerns.

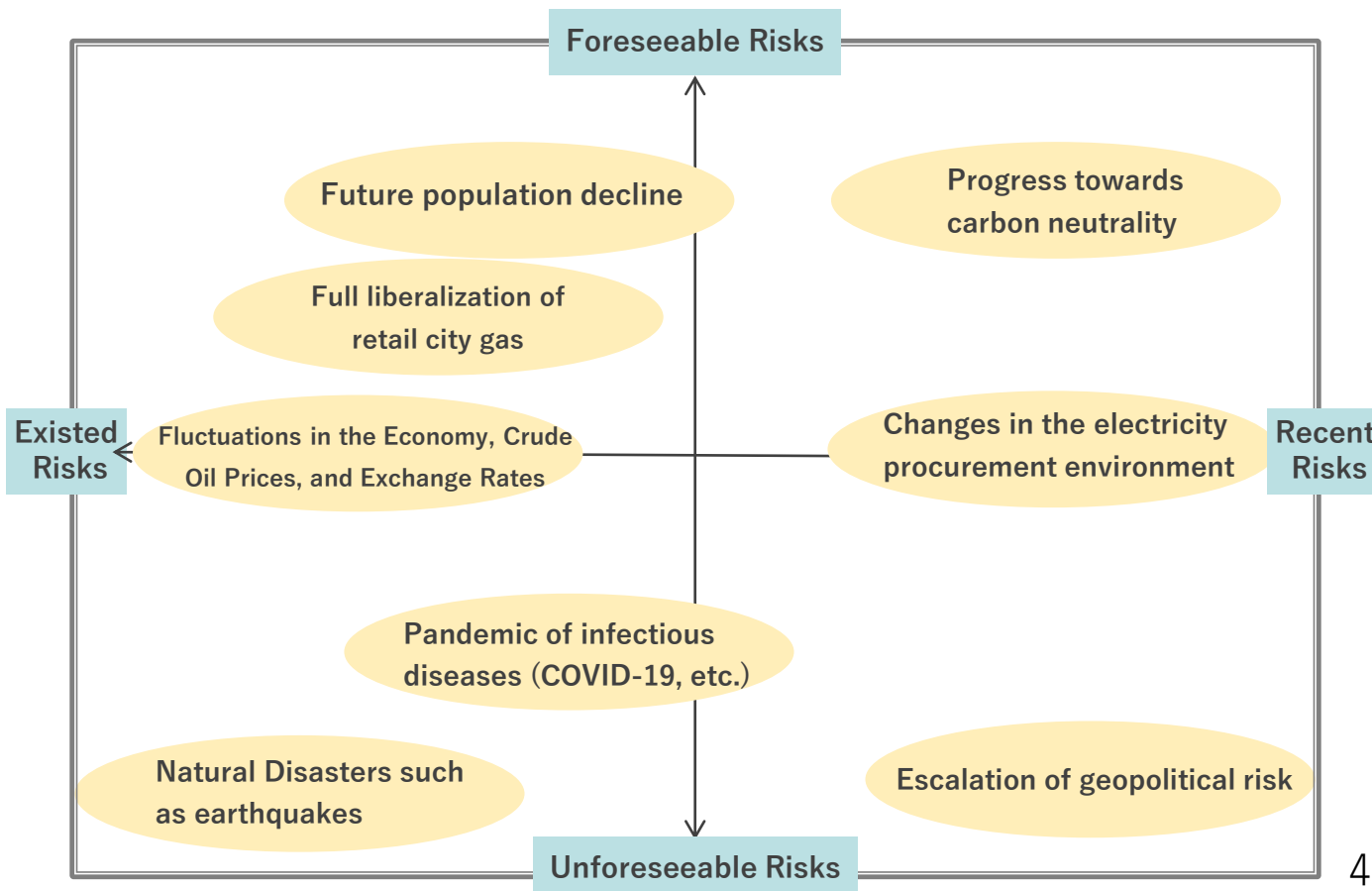
PER (Year-end stock price / EPS)



Year-end stock price



### < The risks surrounding our business >



## 2. Efforts towards improving PBR

- We have decomposed PBR into ROE and PER, identified issues to be addressed from three perspectives: 'Improvement of Asset Efficiency,' 'Optimal Capital Structure,' and 'Improvement of PER.' We have organized corresponding strategies for each issue.

### Point of View

### Issues to be addressed

P B R	R O E	(1) Improvement of Asset Efficiency	( i ) Acceleration of profitability improvement ( ii ) Management of profitability by business segment ( iii ) Compression and utilization of Assets
		(2) Optimal Capital Structure	( iv ) Organization of appropriate levels of equity capital ( v ) Shareholder returns
	×	(3) Improvement of PER (Reduction of Cost of Equity)	( vi ) Promotion of dialogue with the capital market
	P E R		

## 2. Efforts towards improving PBR

### (1) Improvement of Asset Efficiency

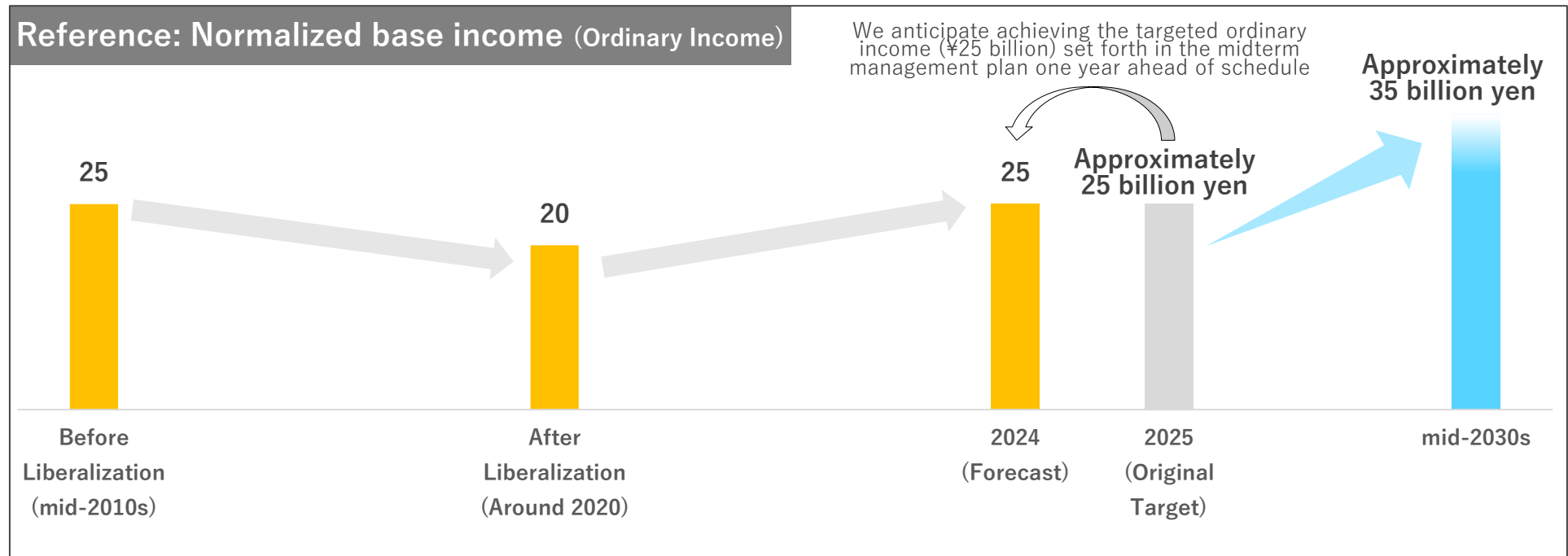
(i)  
Acceleration of  
profitability  
improvement

Initiatives  
toward  
achieving the  
group vision

- Accelerate efforts towards achieving the goals set forth in the group vision\*<sup>1</sup> at an early stage.
- The forecast for the ordinary income for the FY2024 is 27 billion yen, and even on a normalized income basis, it is expected to reach around 25 billion yen. The plan is to achieve the target for the FY2025\*<sup>2</sup>, which was set in the current medium-term management plan as the first step towards achieving the vision, one year ahead of schedule.
- We will promptly move on to the second step in order to achieve our vision.

\*1 Scale up the entire group business by more than 1.5 times by the mid-2030s (≒ Approximately 35 billion yen in consolidated ordinary income)

\*2 Consolidated ordinary income : 25 billion yen、ROA : Approximately 3%、Number of customer accounts : 3 million



\* Normalized base income : Ordinary income excluding one-time factors such as time lag on cost adjustment system

## 2. Efforts towards improving PBR

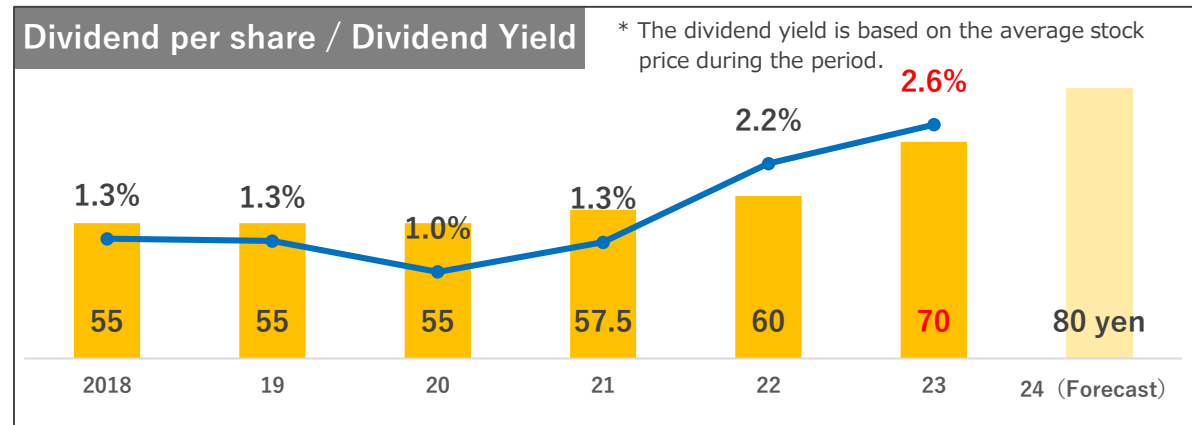
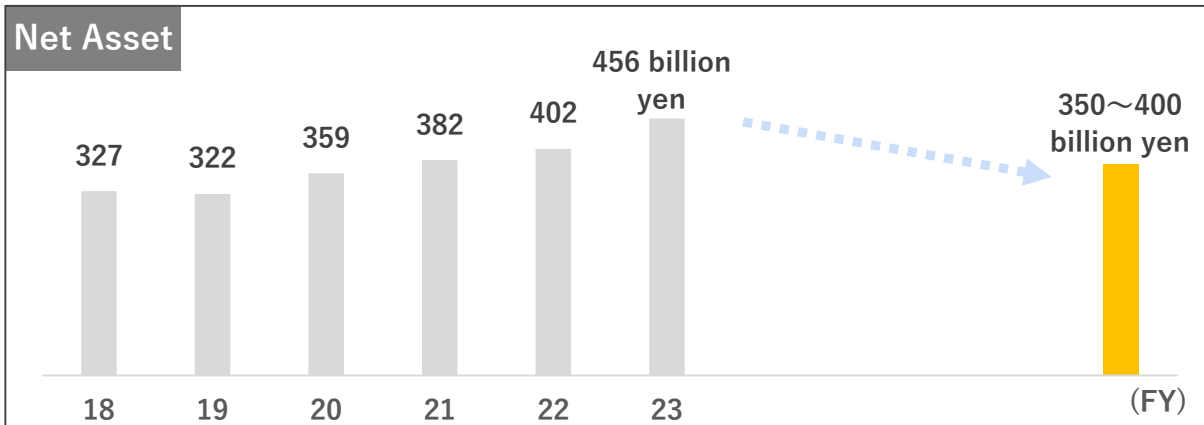
### (1) Improvement of Asset Efficiency

Acceleration of profitability improvement	Core Businesses	<ul style="list-style-type: none"> <li>Regarding City Gas business, we aim to maintain and expand our customer base while pursuing thorough efficiency improvements.</li> <li>Regarding LPG business, we aim to achieve stable growth through continued increase in the number of customers.</li> </ul>
	Strategic Businesses	<ul style="list-style-type: none"> <li>Monetization of the electric power business</li> <li>Expand “Toho Gas Kurashi” and ”Business Support”</li> <li>Growth of group companies and new businesses</li> <li>Response to Carbon Neutrality</li> </ul> <p>Allocate management resources to these areas as a priority.</p>
Management of profitability by business segment		<ul style="list-style-type: none"> <li>To manage the profitability of each business segment, we introduced valuation based on ROIC from FY2024.</li> </ul>
Compression and utilization of assets		<ul style="list-style-type: none"> <li>While advancing investments in strategic businesses, simultaneously proceed with the consolidation and effective utilization of assets. We will proceed with the dissolution of cross-shareholdings. <ul style="list-style-type: none"> <li>* We will start by selling approximately one-third of our assets, focusing on those with diminished significance, based on current valuation.</li> </ul> </li> <li>Promote monetization through the utilization of real estate holdings, and asset compression through sales.</li> </ul>

# 2. Efforts towards improving PBR

## (2) Optimal Capital Structure

<p>(iv)</p> <p>Appropriate levels of equity capital</p>	<ul style="list-style-type: none"> <li>The target level of equity capital is estimated to be between 350 to 400 billion yen*, taking into account the necessity of ensuring safety, security, and stable supply, which are the missions of gas operators, as well as considering natural disasters such as large-scale earthquakes and geopolitical risks related to LNG procurement.</li> <li>* There is a possibility that it may change depending on the quantity and nature of risks, such as changes in the external environment and expansion of strategic business activities.</li> </ul>				
<p>(v)</p> <p>Shareholder returns</p>	<table border="1"> <tr> <td data-bbox="254 468 443 711">Shareholder return policy</td> <td data-bbox="443 468 2446 711"> <ul style="list-style-type: none"> <li>In addition to our conventional shareholder return policy, we will implement additional shareholder returns for the time being, aiming to optimize our equity capital.</li> <li>* Based on stable dividends, we will combine flexible acquisition and cancellation of treasury stocks and deliver shareholder returns approximately 40 to 50% of the consolidated net income over the medium to long term</li> </ul> </td> </tr> <tr> <td data-bbox="254 711 443 968">Recent shareholder return</td> <td data-bbox="443 711 2446 968"> <ul style="list-style-type: none"> <li>We decided to repurchase our own shares in March 2024*.</li> <li>* Shares to be repurchased will be up to : 4 million shares or 10 billion yen, Period of repurchase : From April 1, 2024 to September 30, 2024</li> <li>We will increase the year-end dividend for the fiscal year ended March 31, 2024 to 40 yen per share.</li> <li>* The dividend for FY2023 is ¥ 70/share on an annual basis. The dividend for FY2024 is planned to be ¥ 80/share on an annual basis</li> </ul> </td> </tr> </table>	Shareholder return policy	<ul style="list-style-type: none"> <li>In addition to our conventional shareholder return policy, we will implement additional shareholder returns for the time being, aiming to optimize our equity capital.</li> <li>* Based on stable dividends, we will combine flexible acquisition and cancellation of treasury stocks and deliver shareholder returns approximately 40 to 50% of the consolidated net income over the medium to long term</li> </ul>	Recent shareholder return	<ul style="list-style-type: none"> <li>We decided to repurchase our own shares in March 2024*.</li> <li>* Shares to be repurchased will be up to : 4 million shares or 10 billion yen, Period of repurchase : From April 1, 2024 to September 30, 2024</li> <li>We will increase the year-end dividend for the fiscal year ended March 31, 2024 to 40 yen per share.</li> <li>* The dividend for FY2023 is ¥ 70/share on an annual basis. The dividend for FY2024 is planned to be ¥ 80/share on an annual basis</li> </ul>
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### 3. Efforts towards improving PBR

#### (3) Improvement of PER

(vi)  
Promotion of  
dialogue with the  
capital market

We will enhance our disclosure practices by addressing topics of high interest to shareholders and investors, such as our strategy for the electricity business and carbon neutrality, in our disclosure materials, such as financial results presentation material. Through improved information disclosure, we will strive to enhance understanding of our growth potential and alleviate concerns about the risks surrounding our business.