

# Financial Strategy

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

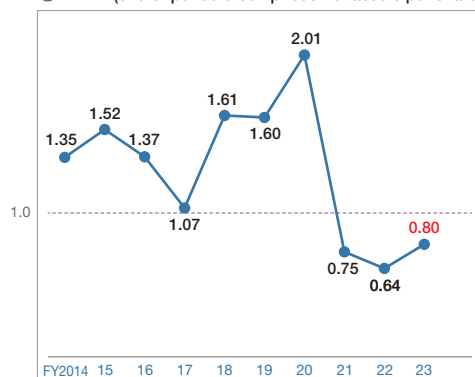
### 1. Recognition of the current PBR status

Toho Gas disclosed action to implement management that is conscious of cost of capital and stock price in April 2024. We will explain our current perception of the PBR and initiatives to improve the PBR in line with the disclosure contents.

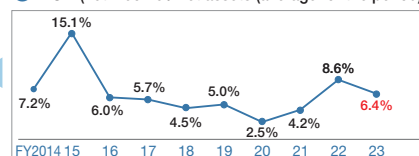
In terms of the current perception of the PBR, while the Company's PBR exceeded 1.0 in the past, it has been below 1.0 since FY2021 and is currently recovering slightly. Breaking down the PBR into ROE and the PER, ROE generally remained around 5%, while the PER decreased to 7.7 at the end of FY2022 but increased to around 13 at the end of FY2023.

$$\text{PBR (price book-value ratio)} = \text{ROE (return on equity)} \times \text{PER (price-earnings ratio)}$$

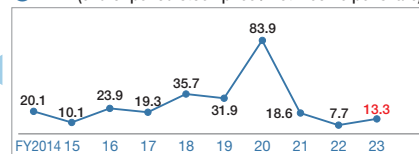
#### ● PBR (end of period stock price / net assets per share)



#### ● ROE (net income / net assets (average for the period))



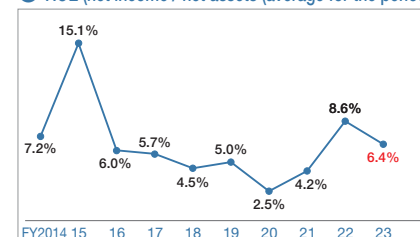
#### ● PER (end of period stock price / net income per share)



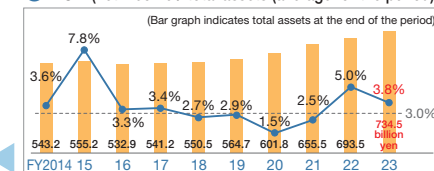
### 1.1 Analysis of ROE

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

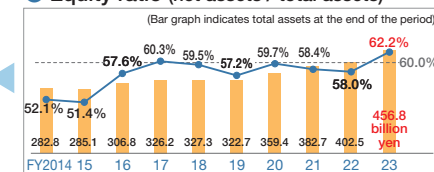
#### ● ROE (net income / net assets (average for the period))



#### ● ROA (net income / total assets (average for the period))



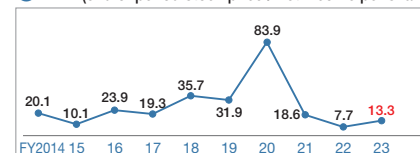
#### ● Equity ratio (net assets / total assets)



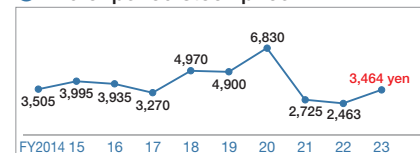
By breaking down ROE into ROA (return on assets) and equity ratio, ROA has generally remained at 3%. Although this is above the mid-2% weighted average cost of capital (WACC) indicated in the Medium-Term Management Plan (FY2022–FY2025), which was released in FY2022, we recognize that WACC is on an upward trend due to the recent rise in interest rates and other factors. The equity ratio has remained close to 60% since FY2016 as a result of making investments and shareholder returns within the scope of operating cash flow while also paying down debt.

### 1.2 Analysis of PER

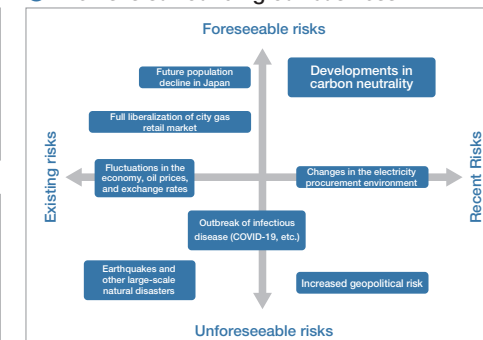
#### ● PER (end of period stock price / net income per share)



#### ● End of period stock price



#### ● The risks surrounding our business



Our PER used to be around 20 times, but due to changes in the external environment and exclusion from the index (MSCI), it has significantly declined from FY2020 to FY2022. The current PER level may be due to the fact that our growth potential, including responses to new risks such as changes in the electricity procurement environment and progress of carbon neutrality, is not fully understood, and concerns have not been dispelled.

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### 2. Efforts towards improving PBR

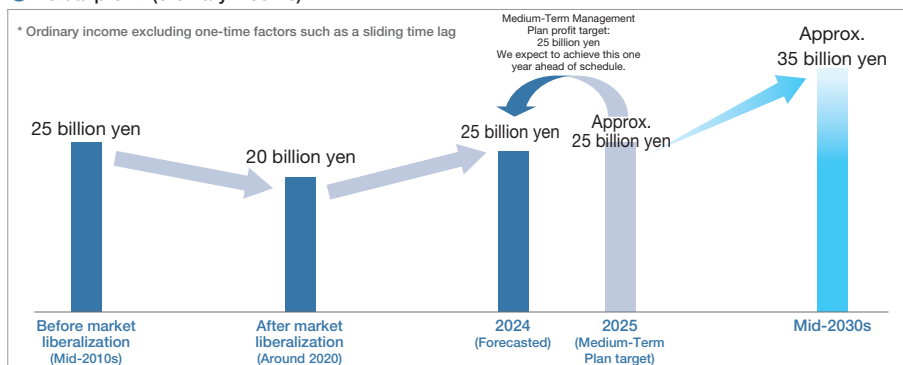
To improve the PBR based on the current situation to date, we identified the issues that need to be addressed from the three perspectives of improvement of asset efficiency, achieving an optimal capital structure, and improvement of the PER, and we organized a response policy for each issue.

		Perspectives	Action issues
PBR	ROE	A. Improvement of asset efficiency	a. Acceleration of profitability improvement b. Management of profitability by business c. Asset reduction and effective utilization
	x	B. Optimal Capital Structure	d. Organization of appropriate levels of equity capital e. Shareholder returns
	PER	C. Improvement of PER (Reduction of Cost of Equity)	f. Promoting dialogue with capital market by strengthening investor relations and shareholder relations activities

#### A. Improvement of Asset Efficiency

In our Group Vision outlined in March 2022, we set the target of expanding our business scale by 1.5 times or more by the mid-2030s, and we are accelerating this initiative to achieve this target.

##### ● Actual profit\* (ordinary income)



a. 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>
b. Management of profitability by business		<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>
c. 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>

#### a. Acceleration of profitability improvement

In the city gas business, which is an existing business, we are maintaining and expanding our customer base and promoting thorough efficiency. Meanwhile, in the LPG business, we are aiming for stable growth by increasing the number of customers while utilizing M&As.

In strategic businesses, we are allocating management resources to the areas of monetizing the electricity business, expanding Toho Gas living and business support, growing Group companies and new businesses domestically and overseas, and accelerating carbon neutrality initiatives with the aim of generating income.

#### b. Management of profitability by business

In FY2024, we will introduce ROIC-based profitability management by business within the Company and promote initiatives to improve asset efficiency.

#### c. Asset reduction and effective utilization

Regarding cross-shareholdings, over the next several years, we will begin by selling off about one-third of assets that are no longer meaningful to hold, based on their current appraised value. In addition, we will generate income through effective utilization of real estate holdings and promote asset reduction through sales of real estate holdings.

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### B. Optimal Capital Structure

d. Appropriate levels of equity capital	<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>
e. Shareholder returns	<p>Shareholder return policy</p> <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>
	<p>Recent shareholder return</p> <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>

#### d. Appropriate levels of equity capital

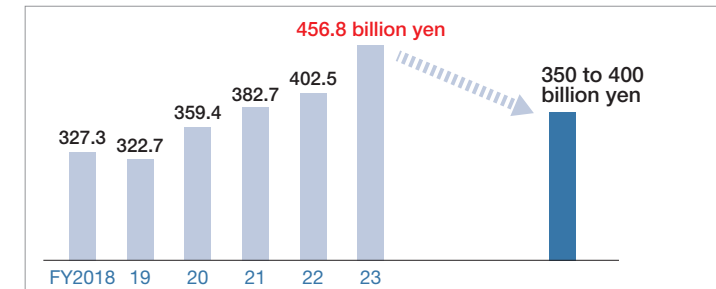
The target level of equity capital is estimated to be between 350 to 400 billion yen, taking into account the necessity of ensuring safety, security, and stable supply, which are the missions of gas operators, as well as considering natural disasters such as large-scale earthquakes and geopolitical risks related to LNG procurement. We will strive to make steady efforts to optimize equity capital over the next several year.

### C. Improvement of the PER

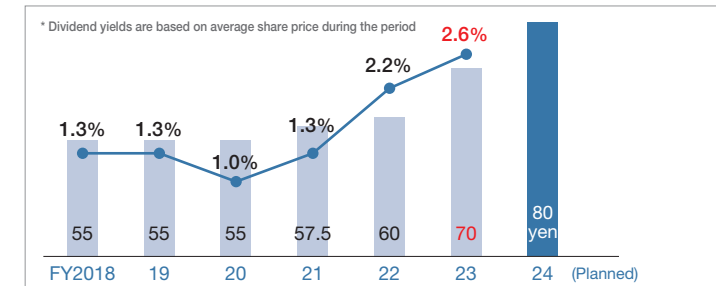
In terms of the PER, if we are unable to adequately address concerns of investors regarding the business risks that we face, stock price volatility could increase, resulting in a higher cost of equity, which could ultimately lead to a decrease in the PER.

Going forward, we will enhance our information disclosure, such as by addressing highly relevant topics including our response to carbon neutrality in financial results presentation materials, and in this way, we will promote a better understanding of the Company's growth potential and work to alleviate concerns about the risks that we face.

#### Net assets



#### Dividend per share and dividend yield



#### e. Shareholder returns

The basic policy on shareholder returns is based on stable dividends with the goal of returning 40% to 50% of consolidated net income over the medium to long term together with flexible share buybacks and cancellations. In addition to this, we will implement an additional shareholder return for the time being to optimize our equity capital.

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### Interview with a Financial Executive

#### Q Tell us about the background leading up to this year's disclosure.

- In light of the fact that PBR of our stock price has remained below 1.0 since the fiscal year 2021 and the Tokyo Stock Exchange issued a request in March 2023, it has become necessary to thoroughly communicate our specific initiatives for improving the PBR to our shareholders and investors.
- We began by analyzing historical changes in stock prices and capital structure to gain an understanding of the current situation, and based on the background to date, we examined specific initiatives for the future from the three perspectives of improvement of asset efficiency, optimal capital structure, and improvement of PER.
- Improving the PBR, namely increasing corporate value, is a company-wide challenge, and therefore, we sought out cooperation not only from the Finance Department but also from other departments, and we conducted careful discussions with the Management Committee and Board of Directors. It was a very meaningful opportunity to sort out the vision of the Company and initiatives going forward regarding profitability and capital structure.

#### Q Were there any specific points that were particularly debated during the review process?

- In light of the fact that our mission as a city gas provider is to ensure safety, security, and stable supply, the target level of equity capital is one of the most discussed topics within the Company. We recognize that there is a discrepancy between the level of equity capital we want to maintain to withstand emergencies and the ideal level required

by capital markets in terms of capital profitability. Therefore, we have held numerous discussions to determine the appropriate level while finding a balance between stability and efficiency.

- Regarding our shareholder return policy, given that the Company indicated a scale of 350 to 400 billion yen for its equity capital, which is lower than the current level, we implemented an additional shareholder return to optimize our equity capital. However, our basic shareholder policy is not something to be changed lightly, and therefore, we added the premise of implementing the additional shareholder return “for the time being” to the basic policy.
- While our investors often inquire about the time frame for optimizing equity capital, it is not something that can be achieved immediately in the short term. That being said, rather than taking 10 to 20 years to implement, we would like to steadily carry it out over a period of several years.

#### Satoshi Yamazaki

Director, Senior  
Managing Executive Officer

#### Q Could you please provide a concluding message for our stakeholders?

- We have received valuable feedback from shareholders and investors on our management policies and financial strategies, and we have made good use of their advice in internal discussions and deliberations on realizing management that takes into account capital costs and stock prices.
- Increasing corporate value requires both improving profitability and responding with capital policies, and it is important to help shareholders and investors understand this through enhanced dialogue and information disclosure. We will steadily implement the initiatives outlined this time for “the improvement of asset efficiency,” “an optimal capital structure,” and “the improvement of our PER.”