Minutes of Q&A Session at Financial Results Briefing for the Fiscal Year Ended March 31, 2024

Date : Thursday, May 9, 2024, 14 : 00～15 : 00

Speaker :

Representative Director; President and Chief Executive Officer	Tomofumi Yoshida
Director; Senior Managing Officer, Chief Operating Officer, Home-Life Division	Kyosuke Wakamatsu
Director; Managing Officer, Chief Operating Officer, Car-Life Division	Tsukasa Motegi
Director; Executive Officer, Chief Financial Officer, Chief Information Officer, Chief Operating Officer, Corporate Administration Division Ⅰ	Yasuhiro Imazawa
Executive Officer; Chief Operating Officer, Industrial Business Division	Hirofumi Chimura
Executive Officer; Chief Operating Officer, Power & Utility Division	Fumiya Tanaka
Executive Officer; Chief Compliance Officer, Chief Operating Officer, Corporate Administration Division Ⅱ	Satoshi Watanabe

Related to the Home Life division (hereinafter "HL division")

Q :Could you provide more details about the extent of the impact on the profit margin due to the change in inventory unit costs for the HL division caused by the declining LP gas import prices (hereafter "CP price") in FY2023?

A :The fluctuating CP price affects the selling price and the profit margin. During FY2023, the exchange rate "¥/$" remained relatively stable around ¥140/$, however, the CP price declined from $790 (highest) in February to $400 (lowest) in July. The selling price of LP gas is determined based on a formula set by the primary oil distributors and reflects the price almost in real-time. Therefore, when selling LP gas from inventory, the profit margin was negatively affected when the CP price decreased from the high market prices at the time of procurement. In the first half, the inventory of about 200,000 tons at the LP gas wholesale company Japan Gas Energy (an equity method company) and about 50,000 tons at our retail consumers' homes led to a negative impact of approximately ¥1.2 billion on the net profit. However, in the second half, the CP price increased to $630, resulting in a positive impact of ¥0.5 billion compared to the previous year. The total inventory impact on the net profit for the fiscal year was -0.7 billion yen. As a result, the net profit for the HL division in fiscal year 2023 was ¥1.8 billion.

Q : The number of direct sales customers at the end of FY2023 reached 574,000 households (increased by 9,000 compared to the end of FY2022). However, as of the end of September 2023, it was already 573,000 households (increased of 8,000 households in the first half and 1,000 households in the second half). Could you explain why the customer growth rate declined in the second half?

A : Typically, in the first half, the number of customers tends to increase more significantly due to heightened M&A activities. Nevertheless, we continued our sales efforts and M&A activities throughout the second half, leading to continued customer growth. The lower growth rate in the second half is primarily attributed to factors such as a higher-than-usual number of customers switching to other companies, demolition of deteriorated apartments, and disconnections due to frequent moving in and out.

Related to the Car Life division (hereinafter "CL division")

Q : Do you have any specific plans for business collaboration with WECARS?

A : We are considering various options, but the specific details are yet to be determined. Our company has been engaged in automobile-related businesses since around 2000, and we have expanded our investments in the automotive aftermarket industry, such as investing in NALNET Communications, which operates in the maintenance and management of lease vehicles, and the automobile auction business. We aim to leverage our existing customer base and further expand in the automotive aftermarket sector. WECARS owns used cars in approximately 250 stores nationwide, and we will explore possibilities of collaboration with our group's 1,566 CS[※①] to facilitate various business activities.

※①…abbreviation for Car Life Station, integrated service fueling station by our company.

Q : Do you have any plans to have WECARS' stores integrated with CS?

A : We believe it is possible to sell WECARS' inventory through CS or utilize the spacious WECARS stores to have adjoining CS. Through this investment, we expect significant synergies not only for all four of our business divisions but also for WECARS such as the earning power of WECARS' stores being further enhanced. However, WECARS' internal controls are not yet in place, and improving the corporate culture is necessary. We plan to initially focus on changing the corporate culture to regain customer trust, then creating synergies with our company.

Related to the Power & Utility division (hereinafter "PU division")

Q :In FY2023, sale of fixed assets have boosted net profits. I would like to know if there will be any additional one-time gains expected in FY2024, or if the core flow-type business will become the main source of earnings from FY2024 onwards. Please provide information on the profit composition for the next few years.

A :We have implemented projects to develop and sell assets in the past five years. However, we do not expect any significant gains from the sale of fixed assets in FY2024 and onwards due to the end of the FIT program. Going forward, we will focus on two areas: firstly, our core flow-type business. Electricity is a common product across all four divisions. Particularly, LP gas and mobility have shown good compatibility with electricity. We will continue to collaborate and sell these products. Secondly, we will focus on renewable energy. While we currently own coal-fired power plants, we are transitioning power generation sources to hydro, solar, LNG, and other renewable sources. We are also engaged in installing self-consumption solar power facilities on the roofs of our industrial division's customers. We will concentrate our efforts on flow-type power sales, reducing CO2 emissions, and reducing customers' electricity costs.

Q : Will you continue to pursue the sale of assets such as non-FIT solar power generation[※②] that you currently own, or will you focus on the flow-type business?

A : Electricity generated by FIT plants cannot be utilized as our power source. On the other hand, non-FIT sources can be utilized as our power source, allowing us to sell electricity directly to customers and increase the proportion of clean energy. Since selling electricity directly to customers is important for us, we aim to develop non-FIT power sources. From a company-wide perspective, we have achieved the highest profits for nine consecutive periods, which includes both normal flow profits and one-time gains. While our company have accumulated one-time gains of approximately ¥1.5-2 billion in the past few years, we expect to make a profit of ¥13.5 billion without one-time gains in FY2024. This demonstrates that we can generate profits based on our capabilities.

※②… Non-FIT solar power generation refers to solar power plants that are not eligible for the feed-in tariff system.

Q : The high-voltage sales volume in the electricity retail business reportedly fell below the previous year due to cost sales. Was focusing on high-profit businesses a factor?

A : The market environment was very challenging in FY2022. Various new electricity suppliers withdrew from the market. We responded to this by implementing price rises and introducing independent combustion control, which led to some customers leaving due to uncompetitive prices. This contributed to the decrease in high-voltage sales volume in FY2023. However, focusing on low-voltage sales for household use is our primary sales strategy. Therefore, we have accepted to some extent the decline in high-voltage sales volume. Regarding the net profit aspect, the electricity market experienced high price levels in FY2022, and we anticipated a shortage of electricity. Therefore, we procured a larger amount of electricity. However, the electricity market situation deteriorated more than expected in FY2023, resulting in losses when selling surplus electricity in the market. Regarding FY2024, we anticipate the business environment will recover due to the withdrawal of various new electricity suppliers and the introduction of capacity markets starting from that fiscal year. We aim to create a business strategy that adjusts to the changing environment.

Company-wide related

Q : How has collaboration between the four divisions evolved over the past year which I asked about in last year's financial results briefing?

A : We hold regular meetings with the department heads of each division to exchange information. We mainly share knowledge and expertise on specific business projects and business methods/models. We have also been considering how to create synergies through our investment in WECARS for about six months and continue to explore this. While the core department is the CL division, we expect collaborations and synergies across multiple departments such as power, fuel supply, and retail by having WECARS become a common platform for the entire company. For conventional businesses with similar business models, even though their products may differ, we are considering efficiency improvements. LP gas and petroleum product sales businesses have their own challenges and may not be easily streamlined. However, we believe that electricity, as a common product, can play a role in bridging these businesses. On the other hand, new investments like WECARS have the potential to strengthen collaboration and leverage the strengths of the four divisions. Currently, we have not yet seen synergy, but we believe it will continue to move in a positive direction.

Q : Regarding capital efficiency, you have set a target for ROE of 9.0% or above by FY2030, which is currently almost achieved. Could you explain your thinking on capital efficiency in the medium to long term?

A : We consider balance to be important when thinking about ROE. In our medium-term management plan, we have set a target for ¥210 billion in investments, which implies a significant cash outflow. Therefore, it is difficult for us to solely pursue capital efficiency as we also need to strengthen our financial structure. On the other hand, we do aim to maintain an ROE of 9.0% considering shareholder returns and expected returns. We will develop our growth strategy while balancing the strength of our financial position and capital efficiency. Our goal is achieving a ROE of 9% or higher and rising the stock price. It is challenging to expect high ROE for our traditional wholesale business, which is the foundation of our earnings. In order to rise ROE, we will invest the accumulated cash into projects to increase profits (the numerator of ROE) and also reduce the denominator through dividend policies. While safeguarding our core business, we will efficiently increase the numerator through new businesses and decrease the denominator through shareholder returns, ultimately achieving a stable ROE of 9% or higher. We are exploring the balance and steps such as how much of the existing business will remain, how to improve efficiency, and how to expand new businesses.

That concludes the summary.