

Osaka Gas Co., Ltd. (9532)

Q&A at the Analysts' Meeting held on October 30, 2023, on the financial results for the 2nd quarter of fiscal year ended March 31, 2024 (FY24.3)

Q1: The Daigas Group's direction of new capital policy includes increasing financial leverage with a greater focus on ROE, as shown in the financial results presentation material. If the Group's shareholders equity continues to grow beyond the current level, achieving 8% in ROE in the next medium-term period, for example, would be a challenging task, as it would require generating approximately 160 billion yen of ordinary profit, excluding time-lag effects. What strategies will the Daigas Group employ to manage ROE? Are there any plans to increase shareholder returns or focus on profit growth?

A1: At present, it is difficult to provide a definitive answer (as we are working on our new Medium-Term Management Plan, which will be announced in March 2024). Our focus has been on making strategic investments to drive growth based on enhanced financial footing with accumulated shareholder's equity. As a result, we have achieved growth in the three business pillars consisting of the Domestic Energy, International Energy, and Life & Business Solutions. However, we have reached a phase to maintain an appropriate level of shareholders' equity. We will examine the optimal way to manage shareholders' equity by balancing profits and shareholder returns while making strategic investments to achieve our targeted ROE level.

Q 2: The Daigas Group has announced repurchase of its own shares in October. The presentation material mentions that FY24.3 total return ratio will be around 50%. Has the share repurchase been determined as part of the new capital policy for the next Medium-Term Management plan?

A2: The share buyback announced in October was not aimed at achieving a 50% total return ratio. As of now, nothing has been finalized regarding the new capital policy for the next Medium-Term Management plan. Our direction of the new capital policy is to manage shareholders' capital and enhance financial leverage, while closely monitoring any changes in the government's energy policy and the risks of energy supply disruptions, such as the Freeport LNG's plant shutdown that happened last year.

Q3: Customer switching in electricity and gas has slowed down recently. Are there any signs of shift in this trend?

A3: In Japan, the churn rates in both electricity and gas tend to go up during the moving seasons, such as spring, when customers typically consider switching in gas after considering in electricity and water. During those months, we implement sales campaigns targeting customers who are moving. When the switching pace slows down, as it is now, it is crucial to conduct churn management, a measure to retain customers and reduce customer churn. Our strategy is to reach customers through direct mails, calls, and web marketing and to offer attractive bundled services with fixed internet connections, TV smart sticks, and refrigerated food delivery, all of which we have launched. In addition, we intend to expand service options by creating new contents and platforms to increase customer accounts.

Q4: Are there any plans to consider the advanced redemption of hybrid bonds during the upcoming Medium-Term period?

A4: While some hybrid bonds will become redeemable prematurely by the end of FY2027.3, we are currently considering replacement using financial instruments with similar equity-like characteristics, such as refinancing with hybrid bonds or loans, as the basic policy.

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