

Financial Results Briefing Material for FY Ending in Mar. 2019 (FYE 03/19)

April 25th, 2019 Nippon Gas Co., Ltd.



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1. Summary (1): Financial Results of FYE 03/19

Gas Sales Volume Significantly Decreased, due to Extremely Warm Temperature, Resulted in Operating Income of ¥8.9B, ¥100M below the Plan.

- **Gas sales volume significantly decreased** due to extremely warm temperature throughout the year and the volume sold was below the plan by ▲69K ton (▲9%). Despite improved LP Gas Gross margin, GP was below the plan by ▲¥300M. While SG&A Expenses was controlled, **Operating Income was ¥8.9B, below the plan by ▲¥100M.**

	FYE 03/19 (P)	FYE 03/19 (A)	Remarks
Gas sales volume ('000 t)	746	677	Gas sales volume per customer significantly decreased, due to extremely warm temperature
Gross Profit (¥100M)	583	580	LP Gas' margin has improved
Operating Income (¥100M)	90	89	Below the plan, while SG&A Expenses was controlled
Net Income (¥100M)	51	43	Included net loss from overseas business (equity method affiliate company)
EPS (¥)	119	102	Total number of issued shares decreased, due to the cancellation of treasury stocks

1. Summary (2): Forecast of FYE 03/20

Assuming Cooler Weather for FYE 03/20. Will Increase Profit Driven by More Gas Sales Volume

- Assuming cooler weather for FYE 03/20. Will generate more profit by increase in gas sales volume and new customer addition.
- Total equity will be tightened by return to shareholders. **EPS and ROE will be improved by net income growth. FCF will be positive in FYE 03/20.**
- **Will redefine NICIGAS' growth.** Drive profit growth through expansion of customer base. First priority is growth of the LP Gas business.

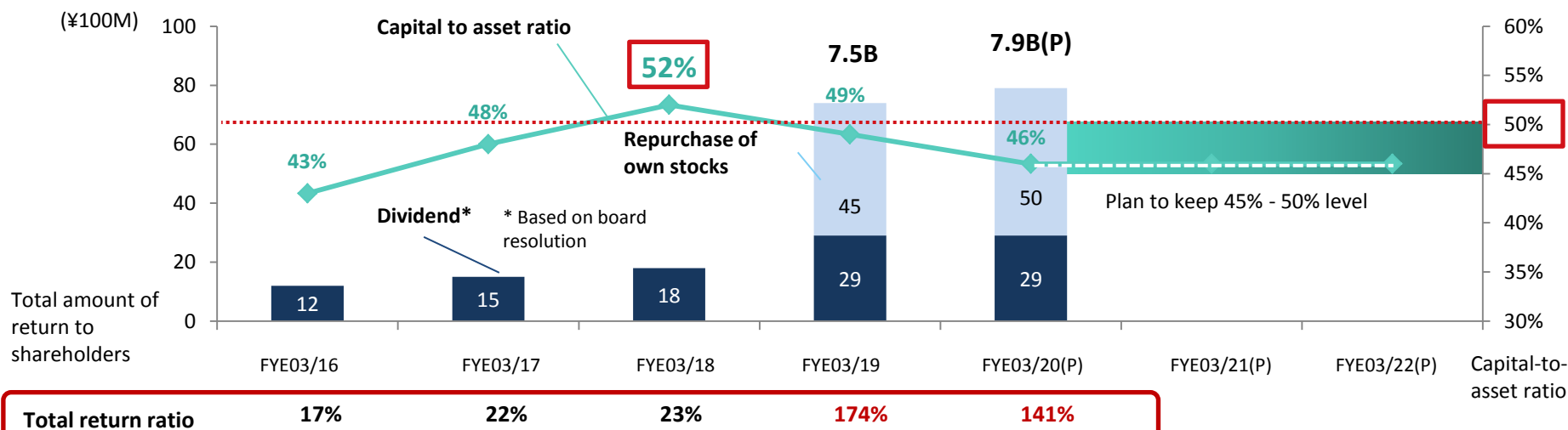
	FYE 03/19 (A)	FYE 03/20 (P)	Remarks
Gas sales volume ('000 t)	677	767	Cooler weather and larger customer base
Gross Profit (¥100M)	580	637	Increase in gas sales volume will generate more profit
Operating Income (¥100M)	89	105	Growth in operating income, after absorbing the increase in SG&A
Net Income (¥100M)	43	56	+30% (YoY)
EPS (¥)	102	135	By profit increase
FCF (¥100M)	▲117	10	Operating CF:17.3B, Investing CF: 16.3B
ROE	6.1%	About 8%	Will keep current level of total equity

1. Summary (3): Details of CF and Capital Policy

Sufficient Financial Capacity. Will Maintain the Current Level of Return to Shareholders with Aggressive Investment in the Future Growth

- Sufficient ability for raising fund to **expand investment for future growth, as well as to enhance return to shareholders**. Acquired land for LP gas filling plant in FYE 03/19. Will continue aggressive investment in FYE 03/20, including M&A for LP gas business, ICT investments, etc. (Refer to P. 16 for further details).
- **Will repurchase its own stock for up to ¥5.0B (maximum) for FYE 03/20**. Total amount of return to shareholders will **increase by ¥0.4B from ¥7.5B(FYE 03/19) to ¥7.9B (FYE 03/20)**. Capital-to-asset ratio is sufficient as it was above 50% in FYE 03/18. **Will keep the level of 45-50% for the next years.**

(¥100M)	FYE 03/16	FYE 03/17	FYE 03/18	FYE 03/19	FYE 03/20(P)	FYE 03/21(P)	FYE03/22(P)
CF from Operations	207	166	156	152	173	-	-
CF from Investing	111	107	71	268	163	-	-
Total amount of return to shareholders	12	15	18	75	79	-	-
- Dividend	12	15	18	29	29	-	-
- Repurchase	-	-	-	45	50	-	-
Capital to Asset Ratio(%)	43%	48%	52%	49%	46%	45% - 50%	



2. Financial Results / Summary (Apr. 18- Mar. 19)

GP did not Grow Due to Extremely Warm Temperature. Operating Profit Decreased, while Customer Increased Significantly

- Gas sales volume in LP Gas and Existing City Gas business decreased significantly, due to extremely warm temperature. While gas sales volume in New City Gas business increased, total sales volume was almost flat YoY. GP slightly increased and SG&A also increased mainly by increase in personnel and operation expense, etc. (+¥2.0B, YoY), resulted in decrease in Operating Income (▲¥1.8B, YoY).
- Customer number increased significantly driven by New City Gas business resulted in **1,496K (+158K, YoY)**

*Digits rounded after the decimal point.

*+/- / +/- (%) is calculated after adjusting to ¥100M units.

Total of all segments (¥100M)	FYE 03/18	%	FYE 03/19	%	+/-	+/- (%)	Remarks
Net Sales	1,147	100%	1,226	100%	+79	+7%	
Gross Profit	578	50%	580	47%	+2	+0.3%	
SG&A Expenses	471	41%	491	40%	+20	+4%	▲¥200M to the plan
- Personnel Cost	128		132		+4	+3%	Employees increased, raised salary level, etc.
- Advertising Expenses	26		22		▲4	▲15%	
Operating Income	107	9%	89	7%	▲18	▲17%	
- LP Gas business	80		69		▲11	▲14%	
- Existing City Gas business	46		35		▲11	▲24%	
- New City Gas business	▲19		▲15		+4	-	
Net Income	78	7%	43	4%	▲35	▲45%	- Net Loss of ¥1.4B from North American business
Net Customer Growth (‘000 households)	138		158		+20	+14%	- While it significantly increased, did not achieve target number
Total Customers (‘000)	1,338		1,496		+158	+12%	
Gas sales volume (‘000 t)	674		677		+3	+0.4%	
- LP Gas business	330		306		▲24	▲7%	- Affected by extremely warm temperature
- Existing City Gas business	323		311		▲12	▲4%	- Affected by extremely warm temperature
- New City Gas business	21.4		59		+37.6	+176%	- Number of customer significantly increased

2. Financial Results / LP Gas Business

Significant Decrease in Gas Sales Volume Due to Extremely Warm Temperature. Despite Increase in GP by Platform Business, etc., Increase in SG&A Expenses Resulted in Less Operating Income

- While gas sales volume decreased due to extremely warm temperature (▲7%, YoY), GP margin improved due to lower raw material cost from autumn. **GP increased by ¥800M YoY**, led by platform business, etc.
- While **CTA decreased**, total SG&A increased by ¥1.9B YoY with increase in upfront investment, including call centers and ICT, as well as cost for retail electricity business, which resulted in **less Operating Income (▲¥1.1B, YoY)**.

*Digits rounded after the decimal point.

*+/- / +/- (%) is calculated after adjusting to ¥100M units.

LP Gas Business (¥100M)	FYE 03/18	%	FYE 03/19	%	+/- / +/- (%)	Remarks
Net Sales	647	100%	674	100%	+27 / +4%	
- Gas	565		568		+3 / +1%	
- Equipment sales, etc.	82		106		+24 / +29%	- Including profit from platform business (¥200M) and land rent
Gross Profit	373	58%	381	57%	+8 / +2%	- GP margin improved - Increased GP by platform business, etc.
SG&A Expenses	293	45%	312	46%	+19 / +6%	
- Personnel Cost	88		91		+3 / +3%	- Raised salary level, etc.
- Cost to Acquire* (CTA)	73		64		▲9 / ▲12%	- Due to decrease in customer addition
- D&A Expense	38		34		▲4 / ▲11%	
Operating Income	80	12%	69	10%	▲11 / ▲14%	
Operating Income exc. CTA	153		133		▲20 / ▲13%	
Net customer growth (‘000 households)	32		25		▲7 / ▲22%	
Total customers (‘000)	828		852		+24 / +3%	
Gas sales volume (‘000 t)	330		306		▲24 / ▲7%	- Affected by extremely warm temperature
- Residential use	192		182		▲10 / ▲5%	
- Commercial use	137		124		▲13 / ▲9%	

*CTA: cost for acquisition and retention of LP Gas customers, including gas cylinders, meters, services and personnel costs

2. Financial Result / Existing City Gas Business

Gas Sales Volume Significantly Decreased Due to Extremely Warm Temperature. The Number of Customers that Switch to Other Gas Retailers is Decreasing

- Gas sales volume significantly decreased, due to extremely warm temperature. The sales from equipment sales decreased, **resulted in less GP (▲¥1.5B, YoY). While SG&A decreased (▲¥0.4B, YoY), Operating Profit also decreased (¥1.1B, YoY).**
- While the number of customer slightly decreased over the year (▲0.8K, YoY), the number of customers that switch to other gas retailers is decreasing. The bundled service with electricity that was launched in Jan. 2019 is contributing to the reduction.

*Digits rounded after the decimal point.

*+/- / +/- (%) is calculated after adjusting to ¥100M units.

Existing City Gas Business (¥100M)	FYE 03/18	%	FYE 03/19	%	+/- / +/- (%)	Remarks
Net Sales	450	100%	447	100%	▲3 / ▲1%	
- Gas	367		387		+20 / +5%	
- Equipment sales, etc.	82		59		▲23 / ▲28%	- Changed classification between LP Gas segment
Gross Profit	197	44%	182	41%	▲15 / ▲8%	- Affected by less gas sales volume and decrease of equipment sales, etc.
SG&A Expenses	151	34%	147	33%	▲4 / ▲3%	
- Personnel Cost	39		36		▲3 / ▲8%	
- Depreciation	60		63		+3 / +5%	
Operating Income	46	10%	35	8%	▲11 / ▲24%	
Net customer growth ('000 households)	7.5		▲0.8		▲8.3 / -	- The number of customer switching to other gas retailers is decreasing
Total customers ('000)	412		412		▲0.8 / ▲0.2%	
Gas sales volume ('000 t)	323		311		▲12 / ▲4%	
- Residential use	124		114		▲10 / ▲8%	- Affected by extremely warm temperature
- Commercial use	199		197		▲2 / ▲1%	
Slide time lag	▲1.6		▲2.5		▲0.9 / -	

2. Financial Results / New City Gas Business

Gas Sales Volume Increased, Due to Substantial Increase in Customers. Absorbed SG&A Expenses Increase and Resulted in Operating Income Increase

- GP increased by ¥0.9B YoY, by significant customer increase. Increase in overall SG&A was partially offset by reduction in advertising expense, and drove the **improvement in Operating Income by ¥0.4B YoY.**
- **The number of sign up is increasing** as tie-up with movers and real estate companies has been expanding. We will focus on full deployment of the bundled service with electricity in FYE 03/20. Will simplify application procedures and achieve the target customer acquisition number of 150K.

*Digits rounded after the decimal point.

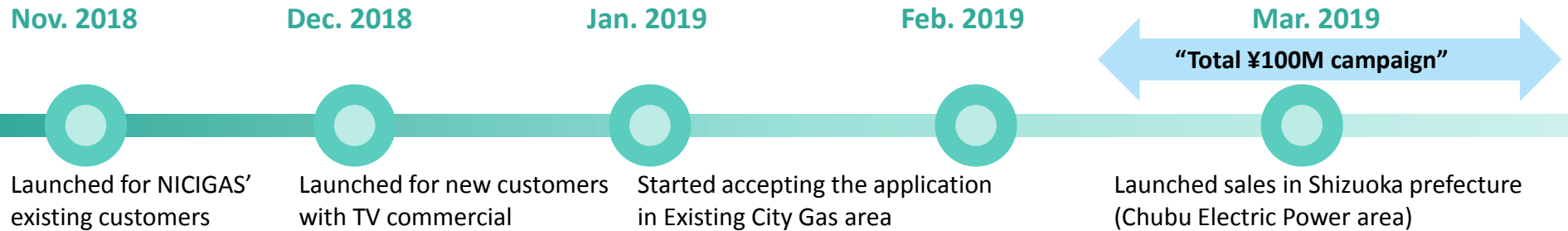
*+/- / +/- (%) is calculated after adjusting to ¥100M units.

New City Gas Business (¥100M)	FYE 03/18	%	FYE 03/19	%	+/- / +/- (%)	Remarks
Net Sales	50	100%	105	100%	+55 / +110%	
- Gas	27		85		+58 / +215%	
- Equipment sales, etc.	23		20		▲3 / ▲13%	
Gross Profit	8	16%	17	16%	+9 / +113%	
SG&A Expenses	27	54%	32	30%	+5 / +19%	
- Operating Expenses, etc.	9		17		+8 / +89%	- Including CTA and Personnel Cost
- Advertising Expenses	17		12		▲5 / ▲29%	- Expenses of TV commercial decreased
- Pipeline Charge						- Pipeline charge paid to local City Gas operators.
(Pipeline Charge for Tokyo Gas is included in COGS)	0.9		3		+2.1 / +233%	Increased due to rise in number of customers switched from them
Operating Income	▲19	▲38%	▲15	▲14%	+4 / -	
Net customer growth (‘000 households)	98		134		+36 / +37%	
Total Customers (‘000)	98		232		+134 / +137%	
Gas sales volume (‘000 t)	21.4		59		+37.6 / +176%	- Due to significant increase in customers
- Residential use	15.9		45		+29.1 / +183%	
- Commercial use	5.5		14		+8.5 / +155%	

2. Financial Results / Retail Electricity Business

Launched Electricity & Gas Bundled Service from Nov. 2018 and Started Accepting the Application in All Group Companies from Jan. 2019

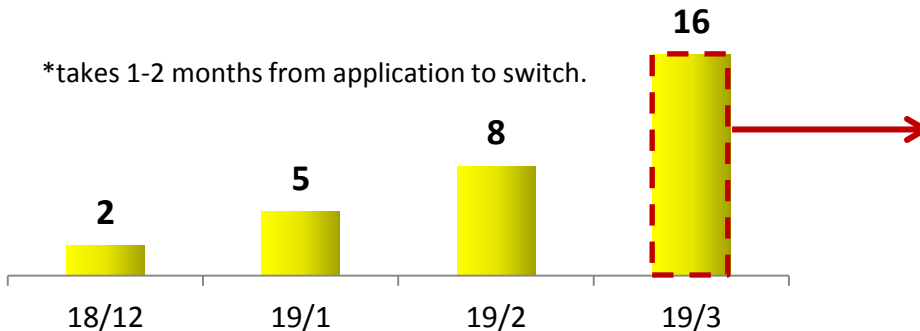
- In Nov. launched Electricity & Gas bundled service which is aiming on realizing the lowest retail price in the market. Started accepting the application in all group companies from Jan. and launched “Total ¥100M cash back campaign” from Feb. 2019, respectively. The number of retail electricity customers as of Mar. 2019 is 16K. By further strengthening the operating system and **simplifying the application procedures** as well as E&G bundled service, **will increase LP Gas customers as our top priority.**



Customer Number (1,000 households)

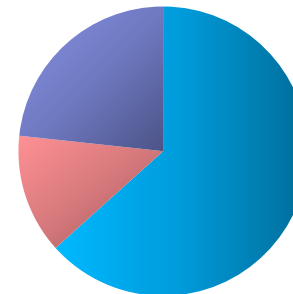
Started to accept application in all group companies from Jan. 2019. Will focus on establishing operation system and simplify of web application procedures.

*takes 1-2 months from application to switch.



Customer Number, Breakdown by Segment (As of Mar. 2019)

■ LP Gas ■ Existing City Gas
■ New City Gas



The share of bundled sales with LP Gas is high. Will increase LP Gas customers by marketing bundled product with electricity.

3. Three-Year Plan : Summary

Downward Revision of Net Customer Growth. Three-Year Plan is Based on Temperature Forecast. We will Set a Guideline of Capital Policy for Next 3 Years.

- Customer acquisition number did not reach the target in FYE 03/19. Based on a thorough assessment on the actual performance, NICIGAS made a downward revision of net customer growth. The first priority is **LP Gas customer growth**.
- In order to avoid volatility from temperature, the **plan has been formed based on temperature forecast**.
- **Drive profit from the ICT platform business**. Will publish the profit roadmap.
- **Set a guideline of capital policy for next 3 years**.

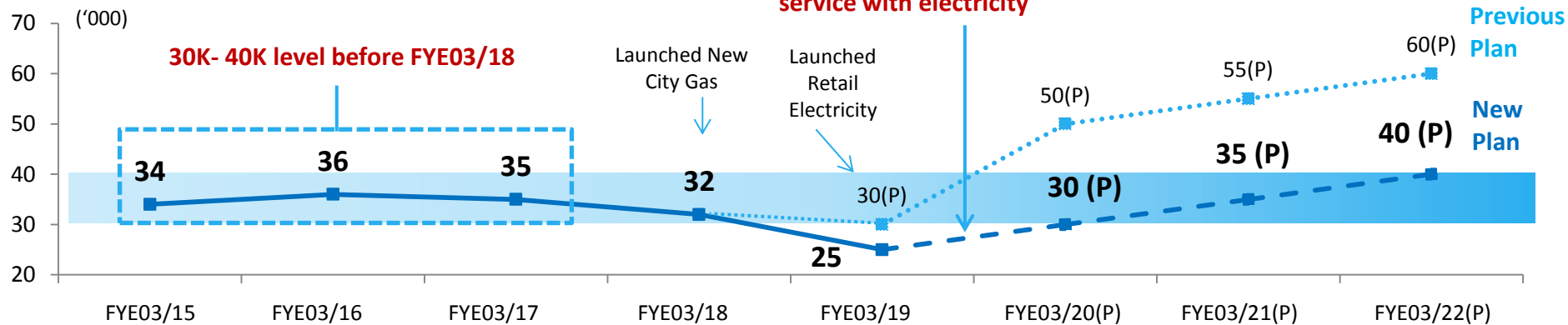
		FYE 03/19(P)	FYE 03/19(A)	FYE 03/20(P)	FYE 03/21(P)	FYE 03/22(P)
Net Customer Growth ('000)	LP Gas	30	25	30	35	40
	Existing City Gas	0	▲1	0	0	0
	New City Gas	200	134	150	150	150
	Electricity	50	16	100	100	100
	Assumption for Temperature	—	Warm	Normal	—	—
Plan (¥100M)	Gross Profit	583	580	637	—	—
	LP Gas	378	381	417	—	—
	Existing City Gas	187	182	188	—	—
	New City Gas	17	17	27	—	—
	Electricity	1	—	5	—	—
	Operating Income	90	89	105	—	—
	Profit from Platform business	—	2	4	8	10
Capital Policy	Capital-to-asset ratio	—	49%	46%	45~50%	45~50%
	Total return ratio	—	174%	141%	—	—
	ROE	—	6.1%	About 8%	±10%~	10%+~

3. Three-Year Plan : Net Customer Growth

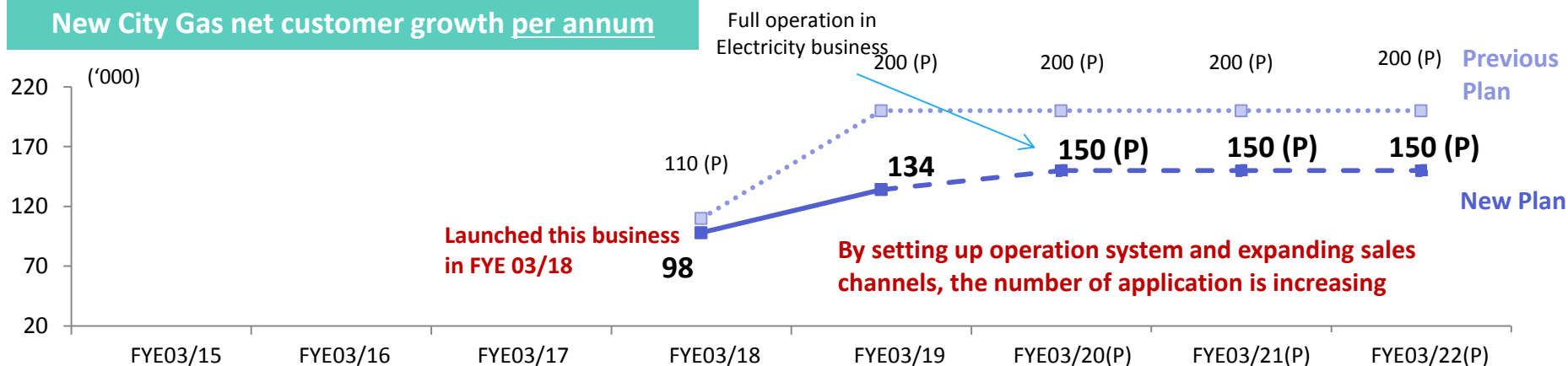
Make a Downward Revision for Net Customer Growth. The First Priority is LP Gas

- Made a downward revision of net customer growth, considering competitive environment. LP Gas net customers growth number is within almost the range of past record. **To more focus on the allocation of human resource in order to achieve growth over mid to long term. By expanding sales channel and bundled service with electricity, the application number in New City Gas business is increasing. By simplifying the application procedure, will drive net customer growth.**

LP Gas net customer growth per annum



New City Gas net customer growth per annum



3. Three-Year Plan : Assumption for Temperature

Gas Sales Volume Greatly Affected by Extremely Warm Temperature in FYE 03/19. Assuming Average Temperature for FYE 03/20

- Gas sales volume significantly decreased, due to **extremely warm temperature** in FYE03/19, **resulted in downward revision of three-year plan**. Considering this situation, made a new three-year plan based on temperature forecast.
- Assuming normal temperature for FYE 03/20, referring forecast from weather specialized agency.

	FYE03/17(A)	FYE03/18(A)	FYE03/19(A)	FYE03/20 (P)	FYE03/21	FYE03/22
Average Temperature* ¹	16°C	15°C	17°C	Normal	NA	NA
Normal Temperature* ²	15°C	15°C	15°C	—	—	—
Gas consumption volume per customer (household use)* ³	252kg	262kg	241kg	—	—	—

Source: Japan meteorological agency website, and information provided by weather specialized agency

*1 : Average temperature in NICIGAS’ operation area (Kanto region, Yamanashi, Shizuoka)
 *2 : Average temperature in NICIGAS’ operation area from 1981 to 2010 (Source: Japan meteorological agency website)
 *3 : Residential Gas sales volume (LP Gas + City Gas) / (average of customer number of the current and previous FY)

(Source: Company website)

3. Three-Year Plan : Comparison against Previous Plan

- Considering downward revision of net customer growth number, Operating Income plan is lowered from ¥12.5B to ¥10.5B. The first priority is **LP Gas**. **Will strictly monitor the allocation of resources.**

	Previous Plan			New Plan		
	FYE 03/20	FYE 03/21	FYE 03/22	FYE 03/20	FYE 03/21	FYE 03/22
Weather Assumption	—	—	—	Normal	—	—
Operating Income (¥100M)	125	150	175	105	—	—
Net Customer Growth (‘000)						
LP Gas	50	55	60	30	35	40
Existing City Gas	10	10	10	0	0	0
New City Gas	200	200	200	150	150	150
Electricity	200	200	200	100	100	100

4. Return to Shareholders

With Sufficient Financial Capacity, Will Enhance to Return to Shareholders with Investment for Growth

- Dividend per share for FYE 03/19 significantly increased to ¥70. We will maintain ¥70 dividend per share for FYE 03/20. Repurchased 1.25M (¥4.5B) own shares in FYE 03/19. Set the plan to repurchase own shares up to ¥5B in FYE 03/20. 5.59M treasury stock was cancelled in FYE 03/19. Total number of issued shares decreased by cancellation of repurchased shares.

Dividend

With sufficient financial capacity, will enhance return to shareholders by stock repurchase.

(¥100M)	FYE 03/16 (A)	FYE 03/17 (A)	FYE 03/18 (A)	FYE 03/19 (A)	FYE 03/20 (P)
Dividend per share (¥)	¥30	¥34	¥42	¥70	¥70
Dividend amount	12	15	18	29	29
Stock repurchase amount	¥2M	¥2M	¥3M	¥4.5B	¥5.0B
Total return to shareholders	12	15	18	75	79
Total return ratio	17%	22%	23%	174%	141%

*Dividend Amounts are as approved by board resolution.

Stock Repurchase

Planning to repurchase own shares up to ¥5.0B in FYE 03/20

	FYE 03/19 (A)	FYE 03/20* (P)
Total repurchase amount	¥4.5B	¥5.0B (maximum)
Total number of repurchased shares	1.25M	1.65M (maximum)

*Repurchase period: from May 1st, 2019 to Apr. 30th, 2020

Cancellation of Treasury Stocks

Total number of issued shares decreased to about 43M

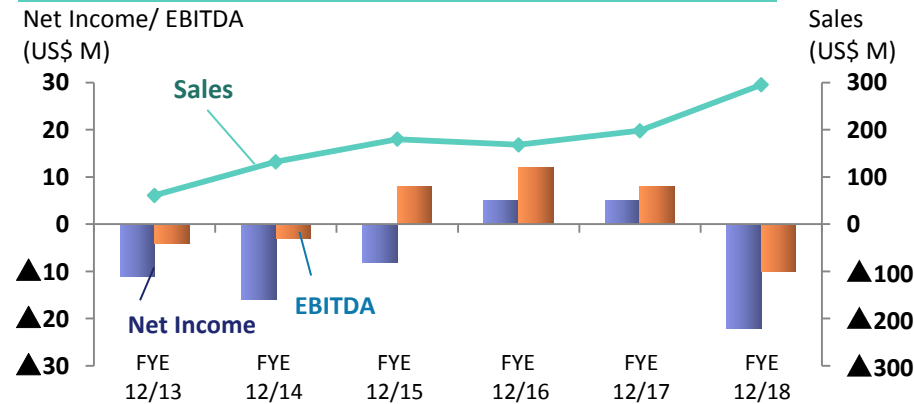
	FYE 03/19 (A)
Number of Cancelled stocks	5.59M
Total number of issued shares (end of FY)	42.97M

5. Overseas Business (North America)

Net Loss in FYE 12/18 Due to Lower Gross Margin from the Sharp Increase in Raw Material Cost

■ **Customer number has been steadily growing, reached 349K (as of Dec. 2018).** Gross margin significantly declined, due to the sharp increase in raw material cost affected by abnormal weather and tight supply-demand balance driven by retirement of large-scale thermal power plants. Despite GP improved during Oct. – Dec. 2018, it resulted in Net Loss in FYE 12/18 and booked about ▲US\$12M NICIGAS' Non-operating loss. Currently focusing on improvement of profit margin through reviewing sales channels, and enhancing the electricity procurement strategy, etc.

Performance (FYE 12/13 – FYE 12/18)



Non-operating loss for NICIGAS

1Q of FYE 03/19 (YTD)

About ▲\$3M

- Raw material cost increase due to extremely cold weather in 01/18 – 03/18

2Q of FYE 03/19 (YTD)

About ▲\$5M

- Power demand increased in TX, due to extremely warm weather. With retirement of large-scale thermal power plants, it resulted in tight supply-demand balance

3Q of FYE 03/19 (YTD)

About ▲\$9M

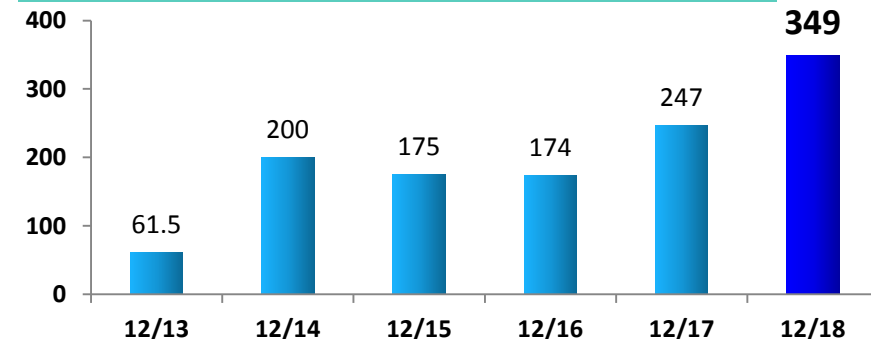
- Despite improved margin during Oct. – Dec. 2018, Net Loss for FYE 12/18 was recorded

4Q of FYE 03/19 (YTD)

About ▲\$12M

- Improving margin through reviewing sales channels, and enhancing the electricity procurement strategy, etc.

Trends in customer number ('000)



*Equity method (about 50%) is applied to North American business. About 50% of net income to be recorded as NICIGAS' non-operating income (loss), 3 months later.

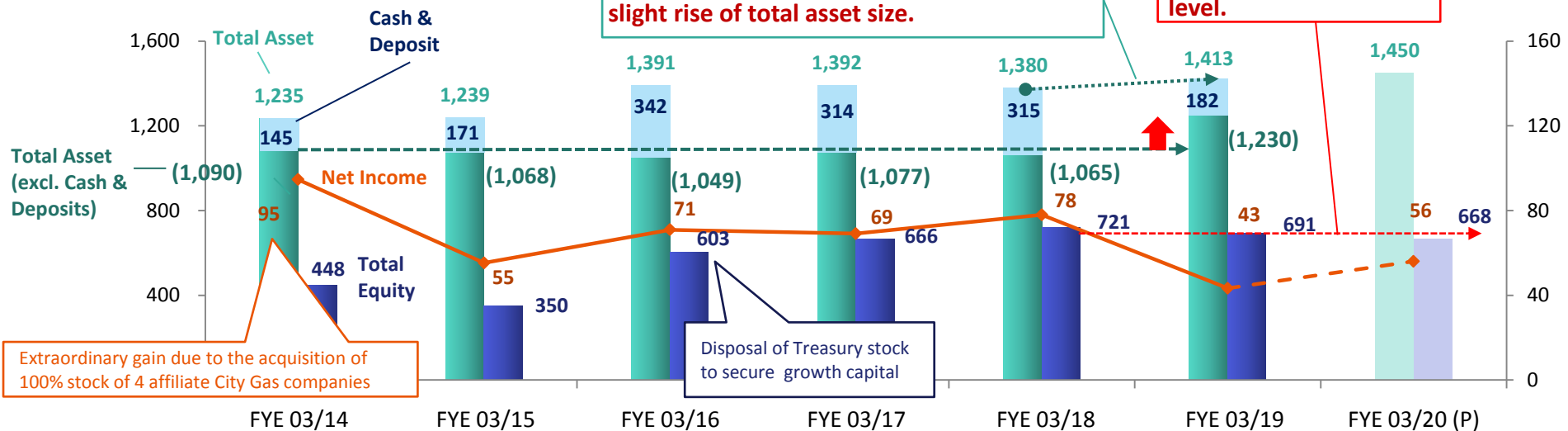
6. Financial Highlights / B/S

Acquired Land for LP Gas Filling Plant without Affecting Asset Size. Total Equity is Expected to Remain at the Current Level

- Acquired land for LP Gas filling plant by utilizing cash on hand and maintaining the total asset size around ¥140B. Capital-to-asset Ratio was 49% as of the end of Mar. 2019 with sufficient total equity. After FYE 03/20, total equity is expected to remain at the current level.

B/S and Net Income (¥100M)

Total Assets / Total Equity / Cash & Deposits



B/S (¥100M)	FYE 03/14	FYE 03/15	FYE 03/16	FYE 03/17	FYE 03/18	FYE 03/19	FYE 03/20 (P)
Capital-to-asset Ratio	36%	28%	43%	48%	52%	49%	46%
Interest-bearing Debt	515	639	539	474	414	473	-
D/E Ratio	1.1x	1.8x	0.9x	0.7x	0.6x	0.7x	-
ROA ^{*1}	7.7%	4.5%	5.1%	5.0%	5.7%	3.0%	about 4%
ROE ^{*2}	22.2%	13.9%	14.9%	10.9%	11.2%	6.1%	about 8%

*1 ROA= Net Income / Total Assets × 100

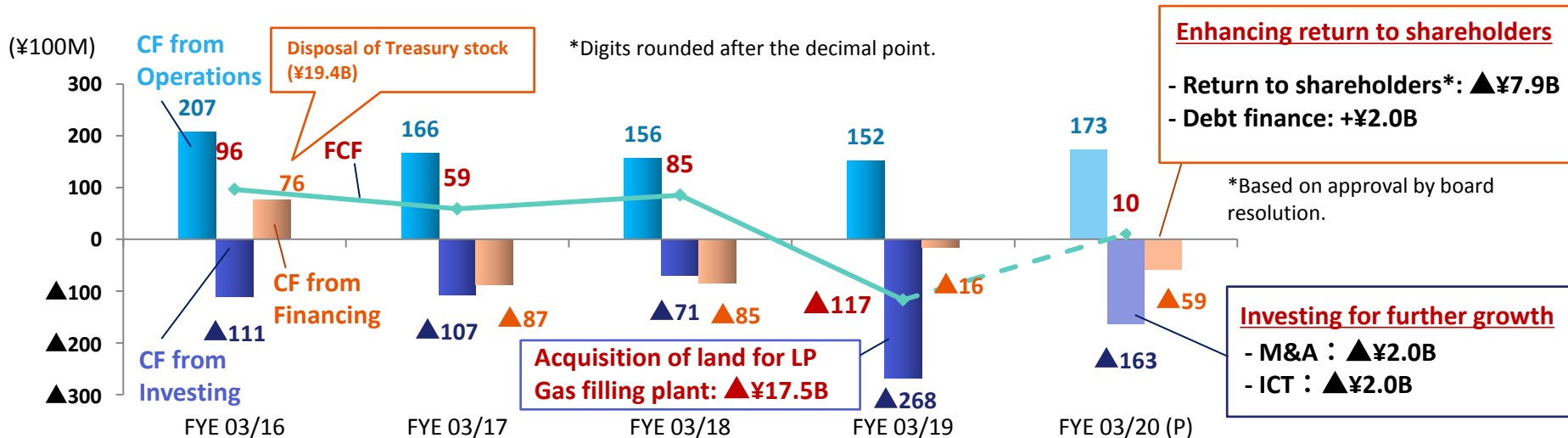
*2 ROE= Net Income (current year) / (average of Total Equity of the current and previous FY) × 100

*Digits rounded after the decimal point.

6. Financial Highlights / Cash Flow

Acquired land for LP Gas Filling Plant in FYE 03/19. FCF will Turn into Positive in FYE 03/20

- In FYE 03/19, acquired land for LP Gas filling plant which will start operation to generate profit in FYE 03/21.
- In FYE 03/20, FCF is expected to turn into positive while investment in M&A of LP Gas customers, ICT, etc. is expected. **Negative CF from Financing due to return to shareholders of dividend (¥2.9B) and repurchase of own stocks (¥5.0B)** will be covered by cash on hand.



Capex

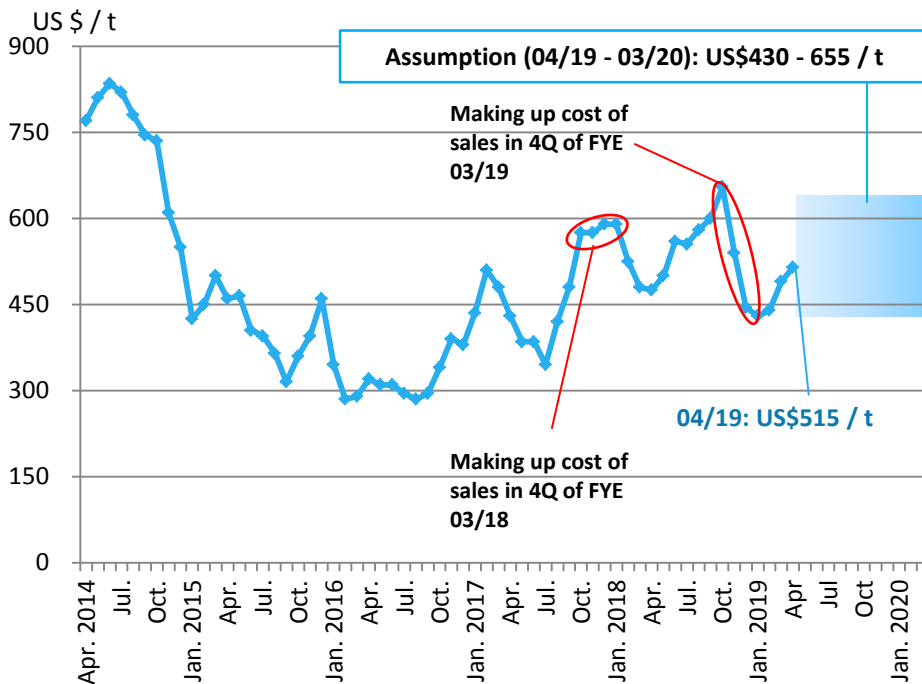
(¥100M)	FYE 03/16	FYE 03/17	FYE 03/18	FYE 03/19	FYE 03/20 (P)	Remarks
LP Gas business	27	21	19	201	58	- Increase of investment in filling plant from FYE 03/19 to FYE 03/20
Existing City Gas business	69	66	60	58	65	- Will decrease, with completion of pipeline replacement
ICT	15	14	9	14	20	- Investment in platform business and operation
M&A	3	4	1	0.3	20	- M&A in LP Gas business

7. Appendix / Raw Material Price

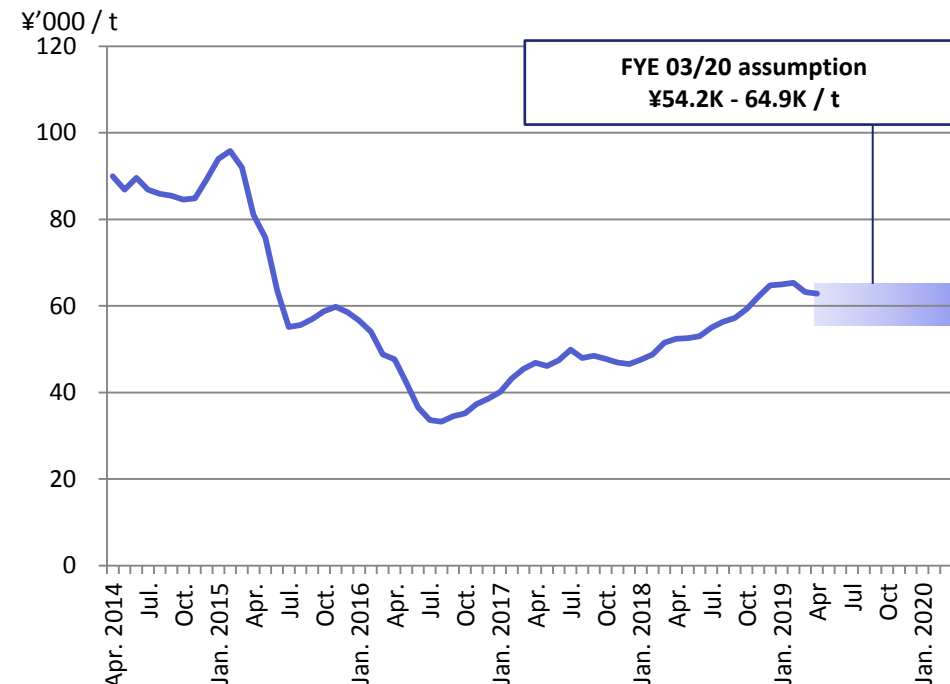
Drop in LP Gas Raw Material Cost from Nov, 2018 was a Tailwind for LP Gas Business in 4Q

- LP Gas raw material cost has dropped from Nov. 2018 to Jan. 2019 resulted in **lower raw material cost in 4Q than that of the assumption (US\$720 / t)**. Considering current price (US\$ 515 / t in Apr, 2019), set an assumption of raw material cost of US\$430 - 655 / t, for FYE 03/20.
- TTS assumption for FYE 03/20 is ¥112 / US\$.

Propane Gas FOB Price



LNG Raw Material Price



Source:

- Propane Gas FOB Price: Japan LP Gas Association website
- LNG Raw Material Price: NICIGAS average purchase price