Osaka Gas Co., Ltd. (9532)

Presentation script 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)

I am Masataka Fujiwara, President of Osaka Gas.

Thank you for taking the time today to participate in this meeting on the financial results for the 2nd quarter of the year ending March 31, 2024 (2Q FY2024.3).

On behalf of the company, I would like to express our gratitude for your continued support and understanding as we pursue our business goals in our businesses.

I will refer to the slides of Financial Report for 2nd Quarter of FY2024.3, which are available on our website. Please look at page 3.

I. Highlights of Business Results for 2nd Quarter of FY2024.3 and Revised Forecasts for FY2024.3

P3 Summary of FY2024.3 2Q Results vs FY2023.3 2Q Results

First, I would like to explain the financial results for 2Q FY2024.3.

Net sales for 2Q were 995.6 billion yen, up 14.1 billion yen from the same period last year, mainly due to higher gas unit selling price in the Domestic Energy business.

Ordinary profit was 123.8 billion yen, up 161.7 billion yen from the same period last year, mainly due to the improvement of the time-lag impact and the reduction of LNG procurement cost following the Freeport LNG plant's operation resumption.

Profit attributable to owners of the parent was 89.3 billion yen, up 119 billion yen from the same period last year.

P4 YoY Comparison of 2Q Results

Page 4 summarizes the year-on-year comparison of consolidated ordinary profit.

In the Domestic Energy, segment profit increased by 148.3 billion yen from the last year, mainly due to the improvement of the time-lag impact and the Freeport LNG plant's operation resumption.

In the International Energy, segment profit decreased by 5.7 billion yen, mainly due to the decreased income from upstream businesses in the US and Australia.

In the Life & Business Solutions, segment profit increased by 3.3 billion yen, mainly due to the increased income from the real estate business.

P5 Summary of FY2024.3 Forecast Revision

Page 5 summarizes the main points of revised forecasts for FY2024.3.

We have revised our forecasts for FY2024.3 due to changes in the business environment, such as an increase in the crude oil price.

Net sales forecast was revised upward to 2.095 trillion yen, which is an increase of 78 billion yen from the previous forecast announced in May, mainly due to the expected increase in gas unit selling prices caused by the increase in the crude oil price.

The forecasts for ordinary profit and profit attributable to owners of the parent remain unchanged from the previous forecast, partly due to increased profits in the International Energy business and the Life & Business Solutions business, despite the negative time-lag effect in the Domestic Energy business.

P6 Comparison between Previous Forecasts and Revised Forecasts

Page 6 summarizes the comparison between the previous forecasts and the revised forecasts.

The forecast for our consolidated ordinary profit remains unchanged from the previous forecast of 159 billion yen.

We have revised the forecasts for each segment profit as follows:

The Domestic Energy segment profit was revised downward by 3.5 billion yen, mainly due to squeezed time-lag profit outlook affected by the change of crude oil price assumption, among other things

The International Energy segment profit was revised upward by 3.0 billion yen, mainly due to improved profit outlook in the upstream assets in Australia affected by increased crude oil price and weaker yen.

The Life & Business Solutions segment profit was revised upward by 500 million yen due to improved profit outlook in the real estate business.

P7 Summary of FY2024.3 Forecasts vs FY2023.3 Results

Page 7 shows a comparison between the FY24.3 forecasts and the FY23.3 results.

In FY24.3, net sales are expected to decrease from the FY23.3 level due to lower LNG prices reducing gas unit selling prices in the Domestic Energy business.

Ordinary profit and profit attributable to owners of the parent are expected to increase from the FY23.3 level based on the assumption of the Freeport LNG plant's operation resumption and the improvement of the time-lag impact.

ROIC is expected to reach the 5% target set for the final year of the current Medium-Term Plan.

We target the annual dividends at 65 yen/share, up 5 yen from FY24.3, and the interim dividends at 32.5 yen/share.

P8 Comparison between FY2023.3 Results and FY2024.3 Forecasts

Page 8 shows a comparison between the FY23.3 results and FY24.3 ordinary profit forecasts.

In the Domestic Energy, segment profit is expected to increase by 89.8 billion yen from the last year, mainly due to the Freeport LNG plant's operation resumption and the improvement of the time-lag impact.

In the International Energy, segment profit is expected to increase by 2.2 billion yen, mainly due to the Freeport LNG plant's operation resumption.

In the Life & Business Solutions, segment profit is expected to decrease by 1.7 billion yen due to the absence of a strong performance as we had in FY23.3.

In light of all the above, our forecast for ordinary profit for FY24.3 on a consolidated basis is 159.0 billion yen, up 83.3 billion yen from FY23.3.

P9 Results and Forecasts for Investment for Growth

Page 9 shows the investments for business growth and the financial soundness indicators.

In 2Q of FY24.3, we invested 74.9 billion yen for business growth, mainly in power generation in the Domestic Energy, North American upstream business development in the International Energy, and real estate business in the Life & Business Solutions.

As for the financial soundness indicators, the shareholders' equity ratio is 55.1%, which exceeds the level targeted in the Medium-Term Management Plan, mainly due to the impact of the expanded shareholders' equity related to overseas assets as a result of yen depreciation. This is calculated with 50% of hybrid bonds as equity.

II. Achieving sustainable growth and medium-to long-term enhancement of corporate value

On the next three slides, I will present our analysis of our current situation, including our financial condition, and outline our plans for achieving sustainable growth and enhancing corporate value.

P11 Current strategy and status

In response to the risk of decreasing gas sales volume, mainly due to population decline and market liberalization, we have focused on strategic investments to drive growth based on enhanced financial footing with accumulated shareholder's equity in the past ten years.

This strategy has allowed us to achieve advancement in the Group's international and Life & Business Solutions businesses and growth in consolidated profit, improving cash-flow generation capabilities, business portfolio, and business foundation stability.

Concurrently, we have progressed our renewable energy development contribution and e-methane technology research for the carbon neutrality of energy, advancing our transformation into a low-carbon and carbon-neutral energy supplier.

Meanwhile, we recognize that growing income has increased shareholders' equity, resulting in underperforming ROE.

P12 Focal points for driving sustainable growth

The Daigas Group will continue working to achieve profit growth by promoting the E&P, power generation, and advanced utilization of natural gas, a transition fuel with growing importance.

The Group will also advance the development of the next-generation core businesses and execute plans to invest in clean assets, including renewables and e-methane related facilities, with the aim of building our future growth drivers in a carbon neutral economy.

We plan to announce our next Medium-Term Plan for sustainable growth in March 2024.

P13 Direction of new capital policy

As for the direction of capital policy, we pursue the continued improvement of ROIC, a management indicator introduced in the current Medium-Term Management plan.

We also intend to increase financial leverage with a greater focus on ROE, as the Group's business foundation stability has improved, mainly due to enhanced business portfolio.

As announced recently, we will implement share buybacks totaling 20 billion yen in the second half of FY2024.3 as a corporate value enhancement measure prior to the execution of the next Medium-Term Management plan, which will be announced in March 2024.

In addition, we aim to improve ROE and PBR by implementing shareholder returns that contribute to the appropriate control of shareholders' equity in balance with financial soundness.

Please refer to:

- pages 14 to 19 for the financial results for 2Q FY2024.3,
- pages 20 to 25 for a comparison between the previous forecasts and revised forecasts for FY24.3, and
- pages 26 to 31 for a comparison between the FY24.3 forecasts and the FY23.3 results.
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This concludes my presentation.

Thank you.