TOKAI Holdings

3167 Tokyo Stock Exchange First Section

24-Feb.-16

Important disclosures and disclaimers appear at the end of this document.

FISCO Ltd. Analyst
Yuzuru Sato

* In March 2015, the Company began selling the @ TCOM Hikari service and the TNC Hikari service, which bundle the company's ISP service with Nippon Telegraph and Telephone Corp.'s (NTT) fiber-optic cables for these services.

Pursuing growth by bundling electricity and other services

Based in Shizuoka Prefecture, Japan, TOKAI Holdings Corporation <3167> engages in two main businesses, energy and lifestyle-related services, primarily the provision of liquefied petroleum gas (LPG) in canisters, and information and telecommunications services. Aiming to become a "Total Life Concierge" (TLC), a company offering a complete range of services for everyday life, TOKAI Holdings has completed the first fiscal year of its three-year medium-term management plan, called Innovation Plan 2016 "Growing". This plan targets consolidated net sales of ¥209.5bn and operating profit of ¥12.6bn for its final year, the fiscal year through March 2017, i.e., FY3/17.

The company announced its consolidated results for Q2 FY3/16 (April - Sept. 2015) on October 29, 2015. Net sales declined 2.9% year on year (y-o-y) to ¥84,773mn, but operating profit rose 2.2% to ¥1,856mn. The net sales decline reflected a revision in LP gas prices, while operating profit gained y-o-y and exceeded initial forecasts on the strength of higher customer numbers in the Aqua (Bottled water delivery), FTTH, and cable TV businesses, greater operational efficiencies, and reduced SG&A expenses. At the end of September 2015, the number of customers stood at 2,543 thousand, up 8 thousand y-o-y and up 6 thousand from the end of FY3/15, showing a steady increase. The number of customers for Hikari collaboration (the collaborative fiber-optic service*) was 117 thousand (22 thousand new ones and 95 thousand conversions). Although the conversion rate (the percentage of FLET's Hikari customers switching to Hikari collaborative) was less than initially anticipated, at 16.5%, it still exceeded the national average of 11.0%.

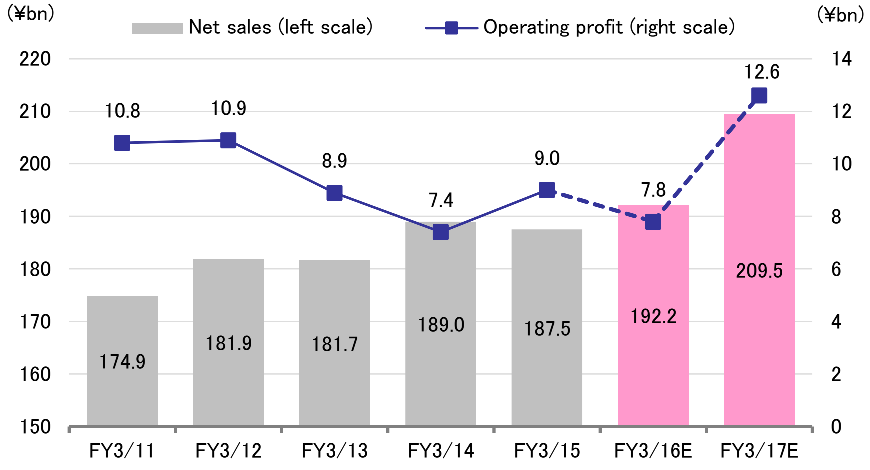
Management has maintained its initial forecasts for FY3/16 of a 2.5% y-o-y increase in consolidated net sales to ¥192,200mn and a 13.8% decrease in operating profit to ¥7,760mn. The company is currently progressing well, and we think that management could lift its projections if there are no major changes in the operating climate. One key focus in 2H would be the launch of bundles of existing services with electricity services. Applications for this new service start in January 2016. The company will promote these bundles to existing and prospective customers. The LP gas business, in particular, will market heavily by expanding areas of operations into Tohoku, Tokai, and Koshin regions of Japan. Numerous small and medium-sized enterprises supply LP gas, so there should be ample scope for expanding market share on the strength of service bundles offering more attractive prices. In the information and telecommunication services, Cable TV, Aqua, and other businesses, the company maintains a strategy of retaining customers through service bundle rollouts and increasing the percentage of service contracts encompassing multiple services. It aims to simultaneously expand sales and profitability by increasing average revenue per user.

The company maintains a proactive shareholder return policy. On November 6, management retired 15,520 thousand shares of treasury stock, representing 10% of the total number of issued and outstanding shares. It also set about spending up to ¥1.8bn to acquire 3,600 thousand shares of treasury stock by the end of February 2016. Management implemented a policy of maintaining a total payout ratio of 100% for FY3/16, and could raise dividends if results exceed forecasts.

Check Point

- The oil and gas business should drive profit growth, with the information and telecommunications services business exceeding initial forecasts
- Although full-year projections are unchanged, operating profit could exceed forecasts
- Management is rolling out a 100% total payout policy that encompasses treasury stock acquisitions and other initiatives

Consolidated Net Sales and Operating Profit



Business Trends

Although second-quarter revenues declined owing to LP gas price revisions, earnings gained y-o-y and exceeded initial forecasts

(1) Q2 FY3/16 Results

In the consolidated results for Q2 FY3/16 (April - September 2015) announced on October 29, net sales decreased 2.9% y-o-y to ¥84,773mn, operating profit increased 2.2% to ¥1,856mn, recurring profit increased 12.2% to ¥1,779mn, and net profit increased 22.8% to ¥277mn. The company revised LP gas prices in response to lower procurement costs, which cut sales by ¥4.3bn. At the same time, it attracted more customers, enhanced operational efficiency companywide, and reduced SG&A expenses, so earnings exceeded initial forecasts and were also up y-o-y.

An analysis shows that although SG&A expenses incurred in securing new Hikari collaborative customers and promoting conversions cut ¥1.5bn from operating profit, customer number increases for broadband, Aqua, and cable TV businesses added ¥700mn, while higher revenues from the LP gas business contributed ¥700mn to earnings and enhanced earnings in the construction and real estate business provided another ¥200mn for operating profit, which was thus up slightly.

Q2 FY3/16 Consolidated Results

(¥mn)

	Q2 FY3/15		Q2 FY3/16				
	Results	% of net sales	Initial plan	Results	% of net sales	y-o-y	vs. plan
Net sales	87,274	-	86,800	84,773	-	-2.9%	-2.4%
Sales cost	55,489	63.6%	-	52,565	62.0%	-5.3%	-
SG&A expenses	29,969	34.3%	-	30,351	35.8%	1.3%	-
Operating profit	1,816	2.1%	900	1,856	2.2%	2.2%	105.6%
Recurring profit	1,585	1.8%	730	1,779	2.1%	12.2%	143.1%
Extraordinary gains and loss	-371	-	-	-692	-	-	-
Net profit	225	0.3%	-360	277	0.3%	22.8%	-

Note : Initial plans are forecasts made at the beginning of the fiscal year.

At the end of September 2015, TOKAI Holdings served 2,543 thousand customers, showing a steady increase of 8 thousand y-o-y and 6 thousand from the end of FY3/15. Looking at the numbers of customer for the main services, the numbers of customers for the gas business, cable TV business and Aqua increased. In December 2012, the company launched its TLC Membership Service to build customer loyalty and increase the proportion of multi-service contracts with customers. At the end of September, this service had 439 thousand members, expanding steadily by 43 thousand compared to the end of FY3/15.

Number of Customers in Main Services

(thousand)

	Q2 FY3/15	Q3 FY3/15	Q4 FY3/15	Q1 FY3/16	Q2 FY3/16
Gas (LPG, City gas)	626	624	626	625	627
Information and Telecommunications (fixed line and Wi-Fi)	863	866	864	861	859
Mobile	231	234	235	235	234
Cable TV	690	689	690	692	698
Aqua	132	133	130	130	132
Security	18	18	18	18	18
Group Total	2,535	2,540	2,537	2,537	2,543
(TLC Membership Service members)	356	378	396	417	439

The oil and gas business should drive profit growth, with the information and telecommunications services business exceeding initial forecasts

(2) Business Segment Results

Business Segment Results (Cumulative)

(¥bn)

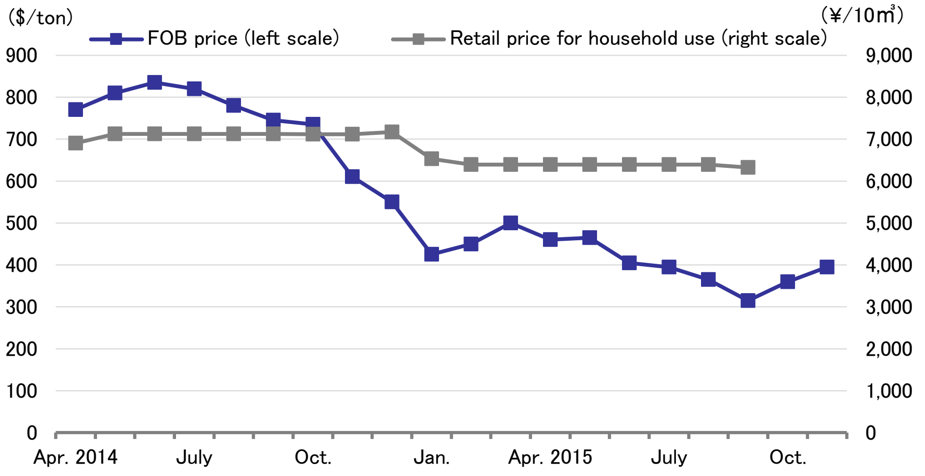
	Net sales			Operating profit			
	Q2 FY3/15	Q2 FY3/16	y-o-y	Q2 FY3/15	Q2 FY3/16		y-o-y
	Result	Result		Result	Plan	Result	
Gas and oil	42.8	38.0	-11.2%	2.0	2.2	2.7	31.2%
Information and telecommunications	19.5	20.4	4.5%	2.4	0.8	1.1	-54.5%
Cable TV	12.1	12.2	0.6%	0.8	0.9	1.0	14.8%
Construction and real estate	8.2	9.3	13.5%	0.1	0.3	0.3	142.9%
Aqua	2.4	2.7	13.3%	-1.0	-0.6	-0.6	-
Other businesses and adjustments	2.2	2.1	-3.6%	-2.6	-2.7	-2.6	-
Total	87.3	84.8	-2.9%	1.8	0.9	1.9	2.2%

Note: Operating profit is before the allocation of indirect corporate costs

○ Gas and Oil Business

In the gas and oil business, net sales fell 11.2% y-o-y to ¥38.0bn, but operating profit grew by 31.2% to ¥2.7bn, exceeding the initial target of ¥2.2bn. Although sales volume was basically unchanged in the mainstay LP gas business, the company revised LP gas prices in response to lower procurement costs, which cut sales by ¥4.3bn. In keeping with a downturn in the crude oil market, which affects LP gas procurement costs, those costs declined from the second half of 2014, with retail prices being revised from 2015. The impact of price revisions should thus continue through Q3 FY3/16. The main factors in segment operating profit changes were a ¥300mn gain on fluctuations in gas purchase costs and selling prices, a ¥300mn reduction in indirect costs, and a ¥100mn decrease in goodwill writedowns.

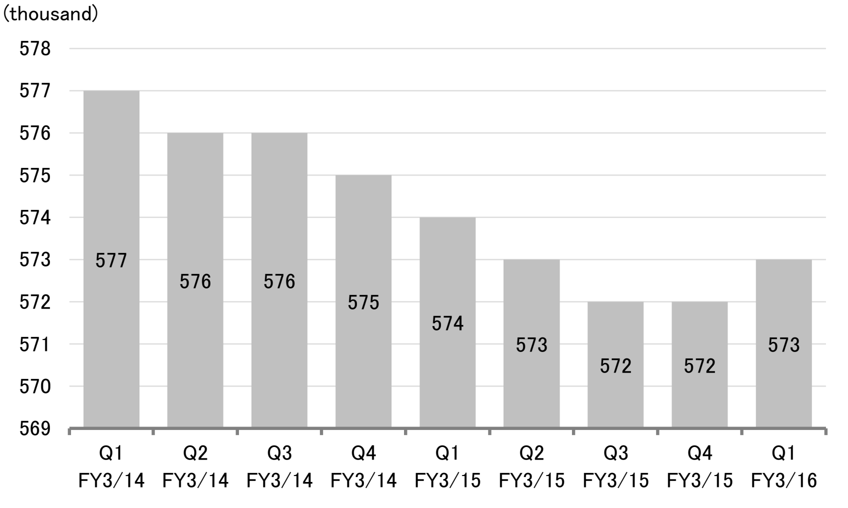
FOB Price and Retail Price of LPG, April 2014–October 2015



Source: Japan LP Gas Association, FOB price (contract price in Saudi Arabia for importers)

The highlight of Q2 was that the number of LP gas customers rose 1 thousand y-o-y to 573 thousand, which was the first growth in a long time. The company had experienced ongoing gradual downturns amid intensifying competition and a declining number of households in its area of operations (Shizuoka Prefecture and Kanto region). From FY3/16, however, expansions into Miyagi and Aichi prefectures contributed to performance. While the new areas added just a few thousand contracts, representing just a fraction of the total, there is growth potential.

Number of Customers for LPG



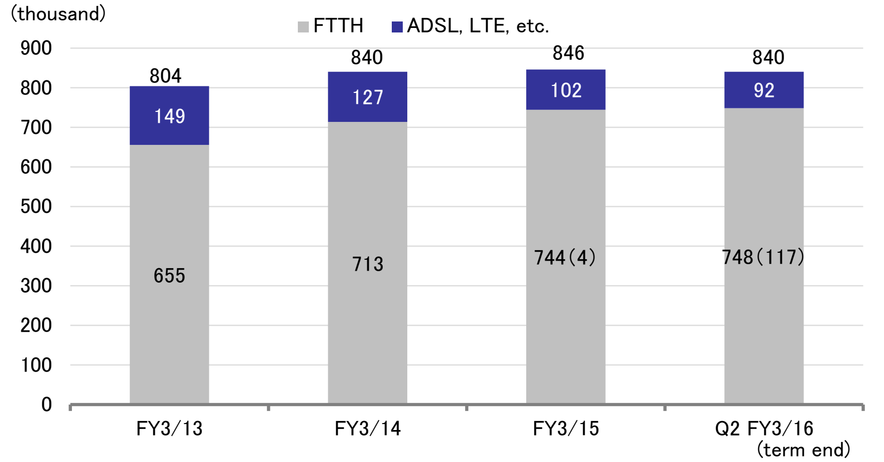
That said, the number of customers for the city gas business was unchanged from the end of FY3/15, at 53 thousand, and with sales prices declining in keeping with the gas rate adjustment system, earnings remained stable despite a revenue downturn.

○ Information and Telecommunications Services Business

Here, sales increased 4.5% y-o-y to ¥20.4bn, but operating profit fell 54.5% to ¥1.1bn. A key factor in growth was an expansion in the number of broadband service customers (new and conversions combined) to 117 thousand as of the end of September. Operating profit was down, however, reflecting ¥1.5bn in SG&A expenses incurred in securing new customers through collaboration and on promoting conversions. Nonetheless, operating profit exceeded management's initial forecast by ¥300mn.

Although the overall number of broadband service customers was down 6 thousand from the end of FY3/15 to 840 thousand, this reflected a decline in the number of ADSL customers. The number of FTTH customers was up 4 thousand from end-FY3/15 to 748 thousand. Still, the number of broadband service customers was 30 thousand lower than planned. This was because the number of cancelations was around 20 thousand higher than expected. Similarly, there were customer losses to SoftBank Mobile and some other telecommunications carriers endeavoring to retain customers through Hikari collaboration. The company aims to constrain the cancelation rate by ensuring attentive service at its call center and by looking to deploy plans that bundle low-cost SIM card services and other offerings.

Number of Customers for Broadband Services

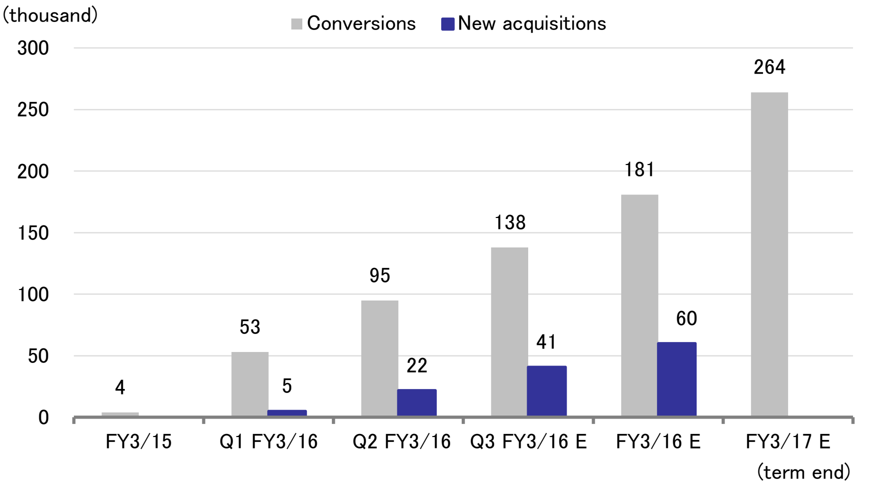


Note: Bracketed figures in the FTTH column indicate the number of collaborative fiber-optic service customers

At the end of September, the number of Hikari collaborative customers comprised 22 thousand new ones and 95 thousand conversions. These numbers were 7 thousand and 70 thousand lower, respectively, than initial forecasts, with the conversion number being particularly off-target. There were several factors in this. One was that awareness of Hikari collaborative did not expand much. Another was that Hikari collaborative promotions at consumer electronics stores were sluggish through August. On top of that, user conversion procedures were apparently more complex than expected at the outset (agents initially handled these procedures, but along the way this was no longer allowed). Still, the conversion rate (the percentage of FLET's Hikari customers switching to Hikari collaborative) was 16.5%, exceeding the national average of 11.0%. In light of these factors, management put back by a year its conversion target of 262 thousand through end-FY3/16. Nonetheless, this should have almost no impact on medium-term results.

In contrast, the company slightly increased sales and earnings from its telecommunications services to corporate customers. Although profits from system development were down, fiber-optic line service and data center demand rose amid expansion in the market for cloud services.

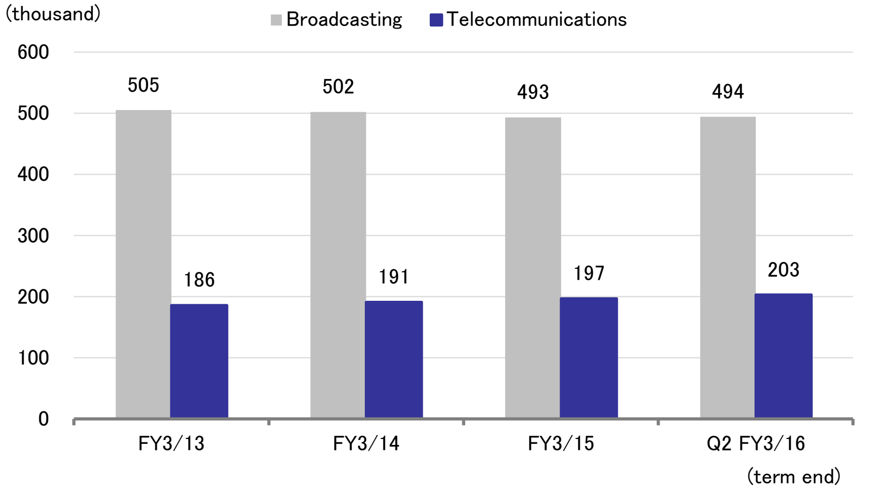
Number of Customers for Collaborative Fiber-Optic Service



○ **Cable TV Business**

Sales in this business increased 0.6% y-o-y to ¥12.2bn. Operating profit climbed 14.8% to ¥1.0bn. This was largely because after trending down amid fierce competition with major telecommunications carriers, the number of customers for the cable TV broadcasting service rose 1 thousand from end-FY3/15 to 494 thousand. Another factor was that the number of customers for cable TV telecommunications services was up 7 thousand to 203 thousand.

Number of Customers for Cable TV Services



The prime contributor to broadcasting service customer growth was bulk services for collective housing, on which the company began focusing from FY3/15. The number of such bulk service customers rose from 3 thousand at the end of FY3/15 to 7 thousand at the end of September. Customer numbers should expand down the track, as collective housing accounts for around 37% of residences in the TOKAI group's service area.

○ **Construction and Real Estate Business**
In this segment, sales rose 13.5% y-o-y to ¥9.3bn and operating profit jumped 142.9% to ¥300mn. Although condominium sales were down, this business performed solidly overall on sales growth in such areas as detached house and store construction, renovations, and building management support. Three projects for large car dealerships and expansion of building management support business drove operating profit growth. The company increased the number of buildings under management by 14 thousand y-o-y to 610 thousand, with growth coming mainly in the Greater Tokyo and Fukuoka regions.

○ **Aqua Business**
Segment sales increased 13.3% to ¥2.7bn. The operating loss was ¥600mn, down from ¥1.0bn a year earlier. During the term, the company expanded its area of operations beyond its main markets of Shizuoka Prefecture and the Greater Tokyo region to include large commercial and other facilities in the Greater Osaka, Hokuriku, and Tohoku areas. It thereby increased the number of customers 2 thousand from the end of FY3/15 to 132 thousand. The customer number increase reduced the operating loss by ¥100mn. Price increases on some products (a ¥100 rise per unit in the beginning of 2015 to cover higher logistics, consumption tax, and other costs) cut ¥200mn from the operating loss. Another ¥100mn in savings came from reductions in production and SG&A expenses.

○ **Other Businesses, Adjustments**
Here, sales declined 3.6% y-o-y to ¥2.1bn. The operating loss was unchanged, at ¥2.6bn. Although revenues from the wedding ceremony business were lower, there were gains in the nursing care business from a day care facilities and pay nursing home with assistance for living opened in FY3/15 in Shizuoka Prefecture reflecting the increase in users. Revenues from the shipbuilding business rose on an increase in the number of vessel repairs.

■ Business Outlook

Although full-year projections are unchanged, operating profit could exceed forecasts

(1) Company forecasts for FY3/16

For FY3/16, the company's full-year forecasts have remained unchanged from the start of the year, with consolidated net sales of ¥192.2bn, up 2.5% y-o-y, operating profit of ¥7.76bn, down 13.8%, recurring profit of ¥7.41bn, down 13.3%, and net profit of 3.24bn, down 17.7%. The company foresees profit declines mainly because it intends to increase its costs by ¥3.0bn, as originally planned, to promote sales of its Hikari collaborative. Although the company is currently performing well, there are uncertainties in the mainstay LP gas business, as demand is heaviest in winter, and fluctuations in contract prices, temperatures, foreign exchange rates, and other factors can change the picture. So, while forecasts remain unchanged, management could revise them upward if full-year earnings look on track to increase.

Business progress through Q2 shows that although earnings exceeded initial projections the number of customers was around 30 thousand lower than anticipated, the shortfall mainly being in the broadband business. Customer number trends in 2H should thus be an important consideration. It is worth noting in that regard that the company looks to begin offering retail electricity sales services from April 2016 and plans to begin accepting applications in January. The goal in starting such acceptance is to offer bundle electricity with LP gas, broadband, cable TV, and other existing services at sufficiently attractive prices to add more customers. Management plans to announce package details at the end of December 2015.

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In offering packages, the company should not only add more new customers but also increase contract rates for multiple services, which could thereby drive revenue and earnings momentum. Multiple service contracts would strengthen ties with customers and constrain cancelation rates, expanding average revenue per user while lowering customer acquisition and retention costs. Only around 7% of the company's customers have contracts for multiple services, so boosting that percentage is a management challenge. The deployment of new electricity packages could change the situation, and we will keep tabs on developments.

It is worth noting that under a marketing partnership with TEPCO the company started offering high-voltage power to corporate customers in the service area of Chubu Electric in October 2015. The company aims to secure customers with attractive pricing, the focus being its industrial LP gas customers.

Business Segment Net Sales

(¥bn)

	FY3/13	FY3/14	FY3/15	FY3/16 E	Nominal change
Gas and oil	94.5	97.2	93.1	86.1	-6.9
Information and telecommunications services	38.5	38.8	40.1	47.2	7.1
Cable TV	23.8	24.2	24.4	24.8	0.5
Construction and real estate	15.8	19.2	20.0	22.7	2.7
Aqua	3.8	4.4	5.0	5.8	0.9
Other businesses and adjustments	5.4	5.1	5.0	5.5	0.5
Total	181.7	189.0	187.5	192.2	4.7

Business Segment Operating Profit

(¥bn)

	FY3/13	FY3/14	FY3/15	FY3/16 E	Nominal change
Gas and oil	7.4	6.5	7.7	7.9	0.2
Information and telecommunications services	4.9	4.4	5.0	2.7	-2.3
Cable TV	1.3	1.8	1.7	1.8	0.1
Construction and real estate	0.6	1.4	1.0	1.4	0.4
Aqua	-0.9	-2.0	-1.3	-1.0	0.3
Other businesses and adjustments	-4.3	-4.7	-5.0	-5.1	-0.1
Total	8.9	7.4	9.0	7.8	-1.2

Note: Operating profit is before the allocation of indirect corporate costs

Number of Customers by Service

(thousand)

	FY3/13	FY3/14	FY3/15	FY3/16 E	Nominal change
Gas (LPG, City gas)	629	628	626	639	13
Security	19	19	18	18	0
Aqua	102	122	130	145	16
Information and telecommunications (fixed line and Wi-Fi)	816	853	864	882	18
Information and telecommunications (mobile)	213	227	235	240	5
Cable TV	691	693	690	712	22
Total	2,445	2,519	2,537	2,611	74

○ **LP Gas Business**

The company intends to launch LP gas Set Plans in April 2016 that bundle electricity with other group services including broadband, cable TV, and Aqua. The strategy is to suppress cancelation rates and strengthen efforts to attract new customers. Around 24 million households in Japan use LP gas. There are as many as 21 thousand LP gas suppliers, but more than 80% of which are small and medium-sized enterprises with an average of fewer than 1 thousand customers. The company ranks third in this sector, yet its market share is just over 2%. It has the top share of the market in Shizuoka Prefecture, at 19.6%, and is second, with a 6.3% share, in the Greater Tokyo region (Tokyo and six surrounding prefectures and Fukushima Prefecture). In rolling out packages at attractive prices, the company aims to expand customer numbers in existing operational areas while attracting new customers in the Tohoku and Tokai areas, where it launched operation during this fiscal year. In the effort to cultivate new customers, the company will ally with small and medium-sized suppliers with existing customer bases and engage in M&As. Electric power liberalization will probably lead to a weeding out among LP gas suppliers, with business concentrating among major players, presenting business expansion opportunities for TOKAI Holdings.

○ **Cable TV Business**

In this business, the company will continue pushing forward with promoting bulk services for collective housing. At the same time, it will endeavor to secure solid average revenue per user by offering reasonably priced telecommunications and multi-channel broadcasting service packages. In 2H the company will seek to strengthen ties with existing preferential customers (who use both its broadcasting and telecommunications services) by setting up routine inspection teams. From April 2016, it will also start offering other services and offerings for which electricity Set Plans will be a key component.

○ **Information and Telecommunications (Broadband) Business**

In 2H FY3/16, the company will step up efforts to secure conversions for collaboration services. It will draw on the results of approaches to customers through Q2 to leverage telemarketing in cultivating solid leads. The company increased sales staff numbers at consumer electronics stores by 20% from October 2015. From January 2016, the company aims to roll out attractively priced bundles that include electricity Set Plans in an effort to reach its targets.

The monthly pricing of the company's collaboration service package is ¥5,100*, which is the lowest in the industry. Traditionally, the Internet services provider charge was ¥1,200 per month. Under Hikari collaboration contracts that combine Internet service provider and fiber-optic circuit components, the monthly charge is fourfold higher, at ¥5,100 monthly, so the impact of the revenue increase is high.

* For detached houses, the two-year value pack price is ¥5,100 per month, while for customers living in condominiums, the monthly price is ¥3,800. Moreover, customers living in condominium housing can receive a price of ¥3,700 per month for one year if they join before the end of August.

The company estimates that its Hikari collaborative will yield 50% more gross profit than its ISP broadband services. Consequently, if the proportion of its broadband services provided through Hikari collaboration grows, its gross profit margin will decline, but its overall gross profit will increase. Assuming that the customer acquisition cost for the Hikari collaborative is the same as that for the ISP services, the increase in the proportion of broadband services provided by Hikari collaborative would expand profits substantially.

For FY3/16, the company projects a ¥2.7bn y-o-y drop in operating profit in the broadband services business to ¥700mn, because of the planned ¥3.0bn increase in sales promotion costs. However, for FY3/17, the company foresees a y-o-y drop in sales promotion costs, supporting a recovery in business operating profit to ¥3.1bn (original plan), and an increase in consolidated business performance.

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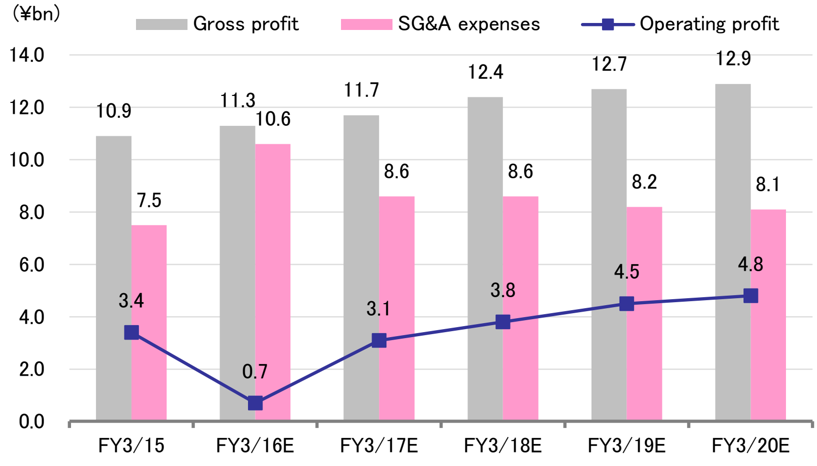
Company Forecasts of Profits in the Broadband Business



Source: The company's forecasts

○ **Aqua**

The number of new customers has tailed off somewhat, so the company aims to draw on its own channels and partnerships with other companies to broaden its sales channels to boost customer numbers. It has already acted in that regard by concluding a customer acquisition outsourcing contract in November 2015 with BIGLOBE, Japan's third-largest Internet service provider, with more than 3 million subscribers. The company aims to secure new customers through BIGLOBE's website. The company currently secures customers through a nationwide sales network of 150 agencies and 2 thousand shops and through online channels. It ranks sixth in this industry, with a market share of around 4%.

Aiming to reach medium-term management plan targets by expanding customer numbers through electricity service packages

(2) Outline of Innovation Plan 2016 "Growing"

In June 2014, the company announced its medium-term management plan, Innovation Plan 2016 "Growing," for the three fiscal years through FY3/17. This plan has three main objectives: 1) continued sales growth and improved profitability by building up the number of customers; 2) continued improvements of financial structure and stable management and 3) delivery of steady and sustained returns to shareholders. The plan targets consolidated net sales of ¥209.5bn and operating profit of ¥12.6bn for FY3/17.

In FY3/16, the forecast is for operating profit to decline owing to higher SG&A expenses for Hikari collaborative. For FY3/17, however, the company should be able to reach its targets by leveraging electricity service packages to expand customer numbers.

Financial Targets in Innovation Plan 2016 "Growing" versus FY3/15 Results and FY3/16 Forecasts

	FY3/14 Result	FY3/15 Result	FY3/16 Initial forecast	FY3/17 Plan
Number of customers (mn)	2.52	2.54	2.61	2.73
Net sales (¥bn)	189.0	187.5	192.2	209.5
Operating profit (¥bn)	7.4	9.0	7.8	12.6
EBITDA (¥bn)	24.9	26.2	25.3	28.7
Interest-bearing debt (¥bn)	85.8	73.1	72.5	64.7
Equity ratio	21.6%	25.7%	26.1%	28.6%

Note: FY3/17 numbers are per the medium-term management plan announcement in June 2014.

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Enhancing financial position through zero-coupon bond issuance

(3) Financial position

At the end of September 2015, total assets were ¥160.2bn, down ¥5.5bn from the end of FY3/15. The main factors were decreases of ¥2.2bn in sales receivable, ¥2.2bn in fixed assets, and ¥800mn in goodwill. Total liabilities were ¥117.7bn, down ¥4.5bn from the end of FY3/15. In June 2015, the company issued ¥10bn in convertible bonds. Its borrowings were down ¥6.9bn, payables were down ¥1.6bn, and other current assets (mainly deposits and accrued consumption taxes) were down ¥4.2bn. Because the convertible bonds have a zero-coupon component, interest-bearing debt effectively declined ¥6.8bn, improving the company's financial position. Net assets were down ¥1.0bn from the end of FY3/15, at ¥42.5bn. This reflected the impacts of ¥700mn in dividend payments and a ¥300mn decline in net unrealized gains on other securities.

The conversion price of the convertible bonds is ¥585, for issuable shares of around 11%. If the share price rises and the conversion ratio is 100%, the equity ratio would rise to about 36.2% in FY3/17, from 25.9% at the end of September 2015. If the conversion rate is lower, a greater reduction than expected in interest-bearing debt would result in the equity ratio rising to 30.1% in FY3/17, compared with the 28.6% targeted under the medium-term management plan.

Consolidated Income Statement

(¥bn)

	FY3/14	FY3/15	Q2 FY3/16	Nominal change	FY3/16 E
Total assets	173.6	165.7	160.2	-5.5	170.2
Total liabilities	135.3	122.2	117.7	-4.5	124.7
Net assets	38.3	43.5	42.5	-1.0	45.5
Balance of interest-bearing debt	85.8	73.1	76.3	+3.2	72.5
Convertible bonds	-	-	10.0	+10.0	10.0
ROE (%)	7.4	9.9	-	-	7.5
Equity ratio (%)	21.6	25.7	25.9	+0.2pt	26.1
Reliance on interest-bearing debt	49.4	44.1	47.6	+3.5pt	42.6

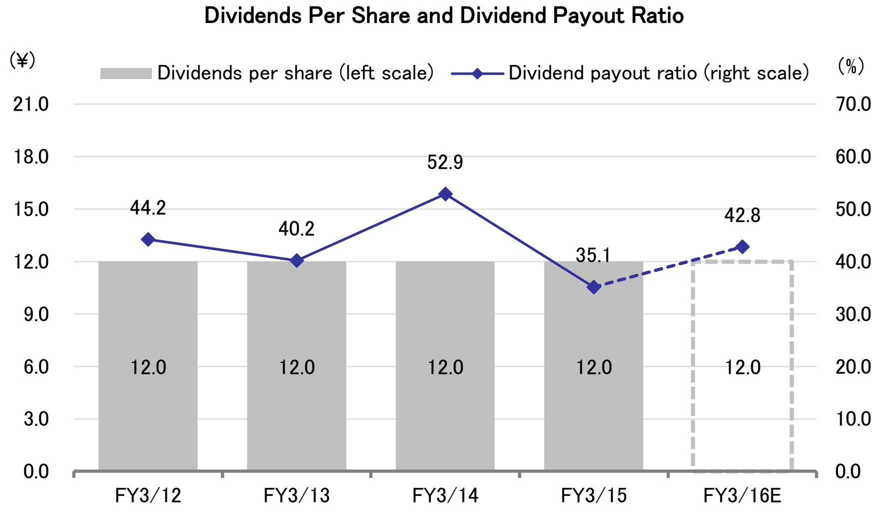
Note: Figures are rounded to whole numbers below.

■ Shareholder Return Policy

Management is rolling out a 100% total payout policy that encompasses treasury stock acquisitions and other initiatives

Management aims to bolster shareholder returns in FY3/16, as it has steadily enhanced the company's financial position. Management has announced that it is rolling out a 100% total payout policy and that it will acquire treasury stock (spending up to ¥1.8bn to purchase 3,600 thousand shares by the end of February 2016). The company plans to pay dividends of ¥12.0 per share for FY3/16, unchanged y-o-y, based on maintaining a dividend payout ratio of 40% to 50%, for a payout ratio of 42.8%. With this combined with the treasury stock acquisition, the total payout would be 100%. The company could therefore increase dividends if its results exceed forecasts.

The company also presents gifts to its shareholders at the end of September and March. For each unit of shares held, a shareholder can receive one of the following gifts: ¥1,900 of bottled Aqua products, such as the Urunon "Fuji-no-tennensui (Mt. Fuji natural water), a QUO card for ¥500, ¥1 thousand of food coupons, or ¥1 thousand worth of points in the TLC Membership Service. After including the gifts, the total investment yield is more than 4%.



On November 6, the company retired 15.52 million shares representing 10% of the number of issued and outstanding shares. Management recognizes that the company's share price is undervalued compared with those of other players in its industry, and it identifies this as a reason to be concerned about future dilution, which reflects a high treasury stock ownership of 25.3%.

For reference, we compared the share price valuation based on management's forecasts for FY3/16 and the annual investment yield (dividends plus gifts) with the closing prices of the shares of five other LP gas companies* on December 15, 2015. The stock is trading at a P/E ratio of more than 19x, comparatively higher than an average of 13.9x for the other five companies. This seems attributable to the company's high investment yield and return on equity. At the same time, EV/EBITDA multiple, which indicates the total market valuation with respect to EBITDA, was 2.9x, which is undervalued compared with the average of 5.2x for the other five companies. This is because amortization, including for goodwill, is about 2.3-fold operating profit, which is considerably higher than the 0.8-fold for the other five companies. That said, amortization does not entail cash expenditures, so given that EBITDA indicates the profitability of core businesses, there seems considerable scope for improvement at the current share price level.

* Iwatani Corporation<8088>, MITSUUROKO CO.,LTD. <8131>, SINANEN HOLDINGS CO., LTD. <8132>, ITOCHU ENEX CO., LTD. <8133>, Nippon Gas Co., Ltd. <8174>

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