

TOKAI Holdings

3167 Tokyo Stock Exchange
 First Section

18-Apr.-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 @ T COM Hikari service and the TNC Hikari service, which bundle the Company's ISP service with NTT's fiber-optic cables for these services.

■ Develops “Energy and Lifestyle-related services,” primarily LP gas, and “Information and Communications services”

Based in Shizuoka Prefecture, Japan, TOKAI Holdings Corporation <3167> (hereafter, also “the Company”) 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 started 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 ending March 2017 (FY3/17).

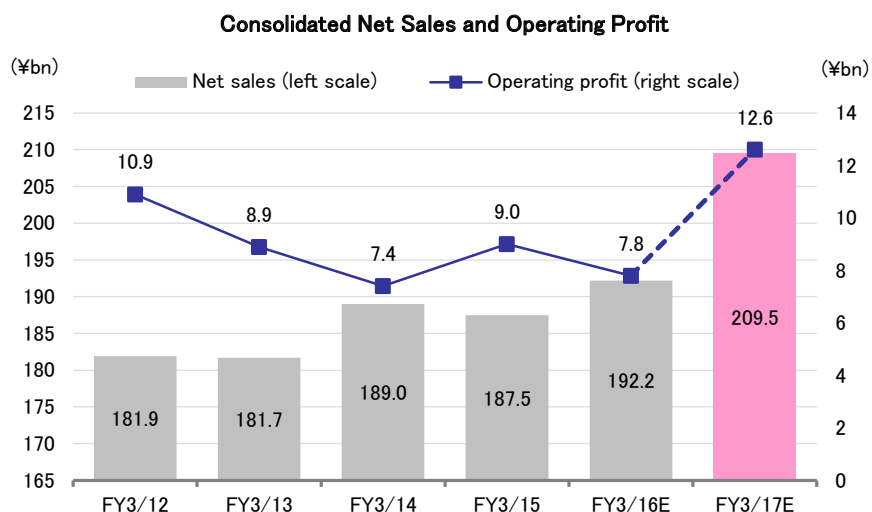
The Company announced its consolidated results for Q3 FY3/16 (April-Dec. 2015) on January 29. Net sales declined 4.3% year on year (y-o-y) to ¥130,103mn and operating profit fell 17.7% to ¥4,006mn. The fall in sales was due to the effects of the price revision following the fall in the LP gas purchase price, while the main reasons for the decline in profits was the increase in costs to convert existing customers to and acquire new customers in the Hikari collaboration* business. At the end of December 2015, Group customer numbers were 2,553 thousand, an increase of 13 thousand y-o-y. In addition, the number of members of the TLC Membership Service, which strengthens points-of-contact with customers and offers them benefits, increased 86 thousand y-o-y to 464 thousand, so customer and member numbers trended steadily.

The initial forecasts for FY3/16 have been left unchanged, with net sales set to increase 2.5% y-o-y to ¥192,200mn, but operating profit to fall 13.8% to ¥7,760mn. Compared to the Company's targets, Q3 net sales fell below target due to the impact of the LP gas price revision, but operating profit was around ¥600mn above target, mainly due to the improved profitability of the LP gas business. The winter has been warm in Q4 compared to a typical year, so there were concerns that the sales volume in the gas business would decrease, but the gas raw materials price has declined and it is considered that the Company can still achieve its target on a profits basis.

FY3/17 is the final fiscal year of the medium-term management plan, and at FISCO we think that it is highly possible that the Company will achieve its operating profit target of ¥12.6bn. This is because of the forecasts of increased profits of approximately ¥3.0bn from the Hikari collaboration business, around ¥1.0bn from the Aqua business, and approximately ¥800mn from the reduction in the amortization of goodwill. In addition, profitability is expected to improve in the other businesses. If the targets in the medium-term management plan are achieved, the earnings per share will be around the mid-¥50 level, and with a dividend payout ratio of 40% as the guideline, we can expect the dividend to increase significantly from the ¥14.0 scheduled for this fiscal year. Moreover, the Company presents gifts to shareholders, and when combining the dividend and gift and estimating the annual investment yield per share unit from the current share price level (¥606 on March 24), the yield is in the range of 4% to 9% (depending on selection of a QUO card or an Aqua product as a gift).

■ Check Point

- Aiming to capture customers with a set discount plan
- Customer numbers are expected to increase in every segment
- Targeting net sales of ¥209.5bn and operating profit of ¥12.6bn



■ Results trends

Operating profit exceeded the target by around ¥600mn mainly from the improved profits in the gas business

(1) Q3 FY3/16 Results

In the consolidated results for Q3 FY3/16 (April-Dec. 2015) announced on January 29, 2016, net sales decreased 4.3% y-o-y to ¥130,103mn, operating profit fell 17.7% to ¥4,006mn, recurring profit declined 13.2% to ¥3,921mn, and net profit attributable to the owners of the parent company decreased 23.3% to ¥1,395mn.

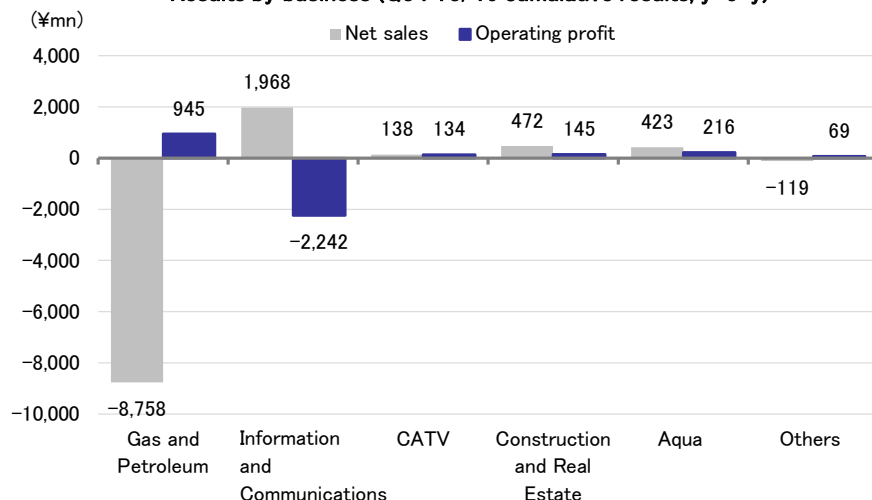
In net sales, while sales increased ¥3.7bn y-o-y in Hikari collaboration and ¥400mn in the Aqua business from the growth in their customer numbers, the price revision following the decline in the price of gas raw materials reduced net sales by ¥8.2bn, resulting in a Group-wide decrease in net sales of ¥5.9bn. In operating profit, sales promotion costs increased ¥2.4bn, including for acquiring new Hikari collaboration customers; however, due to the improved profits in the LP gas business and other businesses, the extent of the decline as a whole was kept down to ¥900mn. Compared to the initial targets, net sales are progressing below target because of the impact of the gas price revision, but operating profit is exceeding the target by around ¥600mn from the improved profits in the gas business.

At the end of December, there were 2,553 thousand contracts to Group services, which is an increase of 13 thousand y-o-y. It is also an increase of 10 thousand compared to the end of September 2015, and subscriber numbers are growing steadily. In addition, the number of members of the TLC Membership Service, which aims to capture customers and realize cross sales, were 464 thousand, which is an increase of 86 thousand y-o-y and also an increase of 26 thousand compared to the end of September 2015, so here also numbers are increasing steadily. Within the subscribers to services, the percentage who subscribe to multiple services has stayed almost unchanged, at around the 7% level.

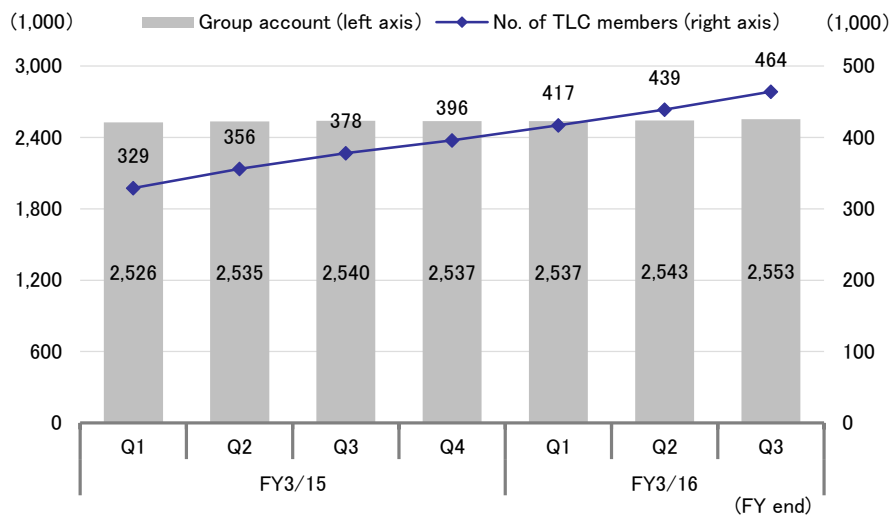
Q3 FY3/16 cumulative results (consolidated)

(unit: ¥mn)

	Q3 FY3/15 cumulative results		Q3 FY3/16 cumulative results		
	Result	% of sales	Result	% of sales	y-o-y
Net sales	135,981	-	130,103	-	-4.3%
Cost of sales	86,424	63.6%	80,047	61.5%	-7.4%
SG&A expenses	44,690	32.9%	46,049	35.4%	3.0%
Operating profit	4,866	3.6%	4,006	3.1%	-17.7%
Recurring profit	4,517	3.3%	3,921	3.0%	-13.2%
Extraordinary profit and loss	-528	-0.4%	-866	-0.7%	-
Attributable to the owners of the parent company	1,819	1.3%	1,395	1.1%	-23.3%

Results by business (Q3 FY3/16 cumulative results, y-o-y)


Note: operating profit is after the allocation of indirect costs

Number of service contracts


Progressing the conversion of existing customers to Hikari collaboration

(2) Results trends by segment

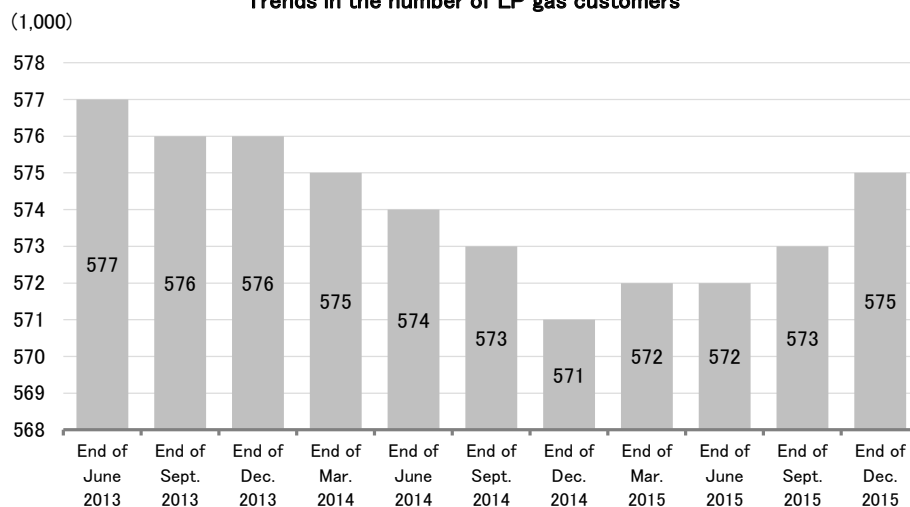
○ Gas and Petroleum business

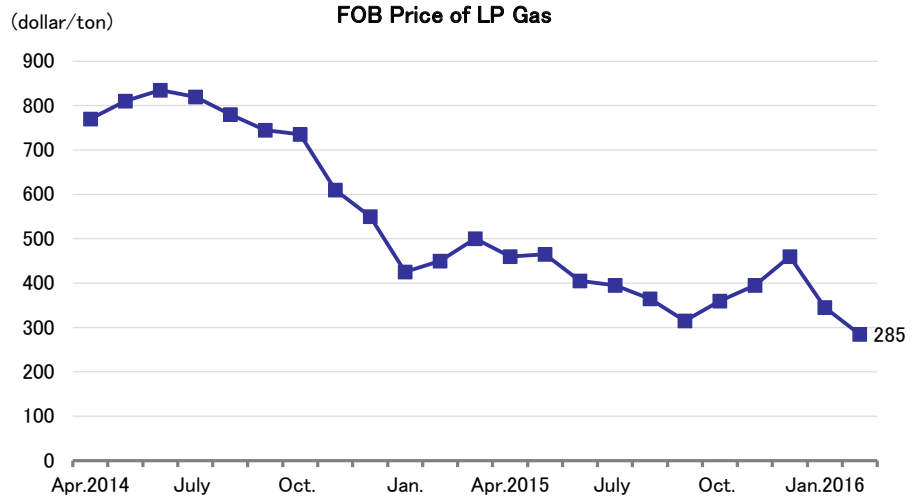
In the Gas and Petroleum business, net sales decreased 13.1% y-o-y to ¥58,348mn, but operating profit increased 33.8% to ¥3,742mn, for a decline in sales but an increase in profits. The main reasons for the lower sales were the declines in the mainstay LP gas business of approximately ¥6.4bn and in the city gas business of approximately ¥1.6bn, due to the reduction in the sales price following the fall in the price of gas raw materials. The LP gas sales volume was basically at the same level as Q3 FY3/15.

The primary factor behind the higher operating profit was the approximately ¥800mn margin with the sale price following the fall in the price of gas raw materials. Customer numbers trended upward in the LP gas business, if moderately increasing by 3 thousand compared to at the end of FY3/15 to 575 thousand. New customer acquisitions resulted from the expansion of the sales area from the previous metropolitan area and Shizuoka Prefecture to the northern Kanto area, southern Tohoku area, and the Chubu area. The result also reflects the impact of the continuous measures the Company is implementing to prevent existing customers cancelling their subscriptions.

Trends in the LP gas purchase price are basically linked to trends in the crude oil price. The FOB price, which is the leading indicator of the crude oil price, reached 285 dollars / ton in February, a record low for recent times, and it is forecast to further decline in the future.

Trends in the number of LP gas customers



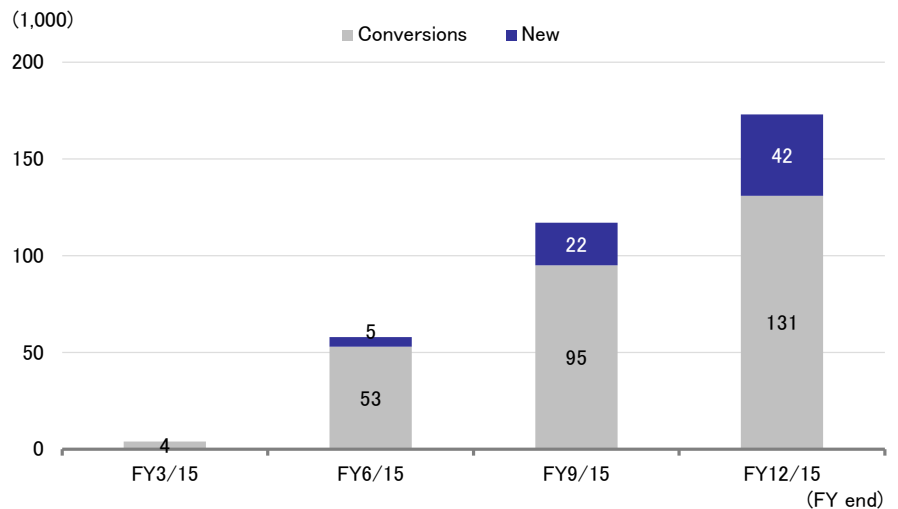


source:Japan LP Gas Association

○ **The Information and Communications services business**

In the Information and Communications services business, net sales increased 6.6% y-o-y to ¥31,988mn, while operating profit decreased 85.1% to ¥391mn. The increase in net sales was from the growth in the number of Hikari collaboration customers (who pay an additional broadband fee) of 173 thousand by the end of December (of whom, 42 thousand were new customers and 131 thousand were converted customers). In addition, the strong sales of broadband services for corporate customers and from the data center contributed to the higher net sales. Looking at the rates of conversion to Hikari collaboration, compared to the overall rate of 15.8% for NTT East and NTT West, the Company's rate is 22.7%, so it can be said that the Company's customers are converting to Hikari collaboration at a pace faster than the market.

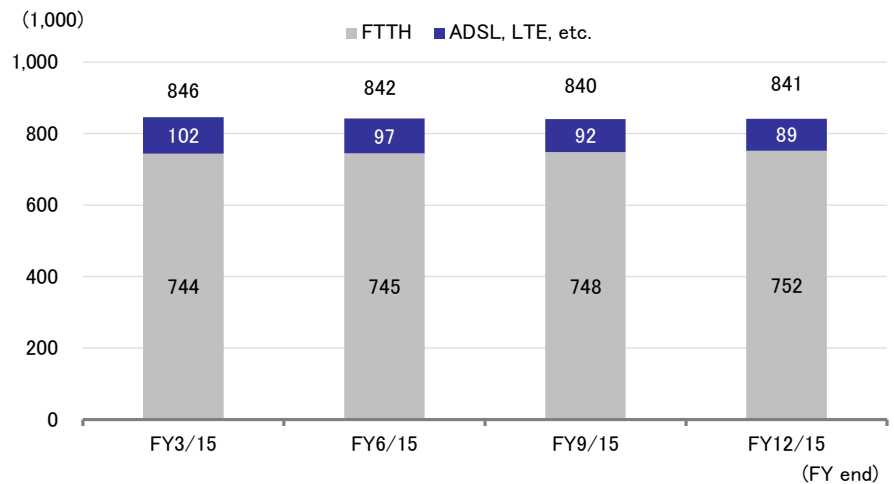
Trends in the number of Hikari collaboration customers



The main reason for the decrease in operating profit was the higher sales promotion costs in order to acquire new customers and convert existing customers for Hikari collaboration, in which the Company had invested ¥3.0bn up to Q3. When including other costs, it has invested ¥3.4bn in business costs solely related to Hikari collaboration for a margin on sales of ¥1.0bn, which caused profits to decline by ¥2.4bn. The pace of conversions is slightly slower than anticipated, but the result is basically in line with the target.

Looking at the number of broadband service customers as a whole, there was a decline of 5 thousand compared to the end of the previous fiscal year, to 841 thousand. This was mainly due to the fall in the number of ADSL customers, and if looking only at FTTH, customer numbers increased steadily, by 8 thousand to 752 thousand.

Breakdown of the numbers of broadband customers

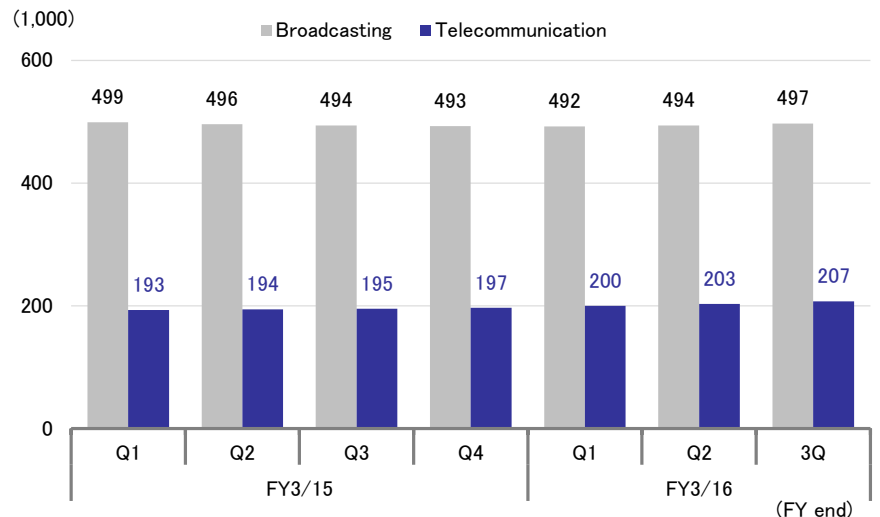


○ CATV business

In the CATV business, net sales increased 0.8% y-o-y to ¥18,345mn and operating profit rose 18.8% to ¥842mn. Customer numbers in broadcasting services, which had continued to decline because of the fierce competition with major telecommunication carriers, rose by 4 thousand compared to the end of the previous fiscal year, to 497 thousand. In addition, the number of telecommunication service customers grew steadily, by 10 thousand to 207 thousand, and as a result of these factors, both sales and profits increased.

The number of broadcasting service customers grew for the second consecutive quarter after bottoming-out at 492 thousand in Q1 FY3/16. The major effects for the acquisition of new customers from the launch of the new bulk service for collective housing and the provision of appealing prices and services. Going forward, the Company intends to continue with these measures to further increase customer numbers.

Breakdown of the CATV customer numbers



○ The Construction and Real Estate business

In the Construction and Real Estate business, net sales rose 3.5% y-o-y to ¥13,783mn, while the operating profit was ¥117mn (compared to a loss of ¥28mn in Q3 FY3/15). Although results in the renovation business were basically unchanged from the previous fiscal year, sales increased in each of detached homes, store construction, and building management support. The reason for the higher operating profit was the contribution from the expansion of the store construction and building management support businesses. The building management support business is expanding steadily, centered on the Kanto and Fukuoka areas, with sales increasing 26% y-o-y.

○ **Aqua business**

In the Aqua business, net sales increased 11.4% y-o-y ¥4,130mn, while the operating loss was ¥1,054mn (compared to a loss of ¥1,270mn Q3 FY3/15). In addition to Shizuoka and Kanto, the Company strengthened its sales activities in other areas, including for large commercial facilities in the Kansai, Hokuriku, and Tohoku areas. As a result, customer numbers rose by 4 thousand compared to the end of the previous fiscal year to 134 thousand, resulting in the higher sales. In addition to the effect of the increase in sales, a factor behind the improved profits was that advertising expenses were kept down.

 ○ **Other businesses**

In other businesses, net sales declined 3.3% y-o-y to ¥3,507mn, while the operating loss was ¥255mn (compared to a loss of ¥324mn Q3 FY3/15). Sales grew in the nursing care business from the increase in the number of users of the new day care facility and the pay nursing home with assistance for living that were opened in Shizuoka Prefecture in the previous fiscal year. Elsewhere, while the number of vessel repairs in the shipbuilding business declined, sales still increased because of the higher unit price. Conversely, sales in the wedding ceremony business fell following the closure of Creation M Bouquet Tokai Gotemba at the end of March 2015.

 ■ **Business outlook**
Net sales forecast to rise 2.5% y-o-y to ¥192.2bn

 (1) **Forecasts for the FY3/16 results**

For the FY3/16 consolidated results, the Company has left unchanged its initial forecasts of 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 attributable to the owners of the parent company of ¥3.24bn, down 17.7%. The forecast of a decline in profits is mainly because of the higher sales promotion costs for Hikari collaboration of ¥3.0bn as initially planned. Looking at the progress made in achieving the targets up to Q3, at FISCO we think that while it is possible that the Company will not achieve its net sales target due to the impact of the decline in the sales price in the LP gas business, it can achieve its operating profit target. In terms of the risk factors in Q4, despite the concerns about a reduction in the LP gas sales volume from the effects of a warm winter, operating profit up to Q3 had exceeded the Company's target by around ¥600mn. In addition, a margin on the sales price due to the reduction of raw materials price is forecast to continue in Q4. Therefore, we think that it is fully possible that the target will be achieved.

FY3/16 consolidated results forecasts

(unit: ¥mn)

	FY3/15		FY3/16		
	Result	% of sales	Company targets	% of sales	y-o-y
Net sales	187,511	-	192,200	-	2.5%
Operating profit	9,003	4.8%	7,760	4.0%	-13.8%
Recurring profit	8,549	4.6%	7,410	3.9%	-13.3%
Attributable to the owners of the parent company	3,934	2.1%	3,240	1.7%	-17.7%



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Aiming to capture customers with a set discount plan

(2) Announced a set discount plan for the launch of an electric power retail sales service

From April 2016, the Company will start providing a residential electric power sales service through a business partnership with Tokyo Electric Power Company Holdings, Inc. (TEPCO) <9501>. Prior to that in January 2016, the Company announced the TOKAI Smart Plus set plan for services provided by the Group and has begun accepting advance bookings for it. By combining the services for LP gas, fiber-optic Internet, Cable TV, and electric power into a set, customer can receive a discount on each service. In addition, the customers will benefit even further by receiving higher bonus points under the TLC points system, which awards points to customers each month according to the number of Group services to which they subscribe.

There are many businesses newly engaged in electric power retail sales, including city gas businesses, mobile phone businesses, and cable TV businesses, and starting from the launch of services, the competition to acquire customers is expected to be fierce. However, the Company is aiming to solidify its position by capturing its existing customers through having them subscribe to the electric power services. In addition, it is considered that this will be an important differentiation strategy toward acquiring new customers and that this effect will be particularly large in the LP gas business. This is because there are many medium- and small-scale businesses in the LP gas industry, but only large-scale businesses will be able to provide electric power services.

For example, within the jurisdiction of TEPCO, approximately 7 million households use LP gas, but among them, the number of customers of the Company and NIPPON GAS CO., LTD. <8174>, which are the two major companies that are partnering with TEPCO and have announced that they will launch electric power services, are only 1.1 million households. So it seems highly likely that the Company will be able to acquire new customers by proposing a set plan for electric power services to the remaining approximately 6 million households. The Company is advancing the same customer-acquisition strategy for the households in the jurisdiction of Chubu Electric Power. A weeding-out of medium, small, and micro companies is expected to occur in the LP gas industry in the future, but the Company is positioning this sort of change to the industry environment as a business opportunity, and working to effectively increase customer numbers while also utilizing M&As.

Moreover, the Company does not intend to limit the set plan to electric power and existing Group services going forward, and its policy is to release new set plans for services covering all aspects of its customers' lives in order to expand its TLC concept.

The set menu for TOKAI Group services and electric power services

TOKAI Group		TEPCO	Description of benefits	Aqua Additional benefits
TOKAI	LP gas	New electricity rates plan • Premium plan • Standard plan	Prepared a set menu that will provide benefits to new LP gas customers. However, the amount of discount in each case will depend on factors such as each customer's individual usage conditions.	○
TOKAI GAS				-
TOKAI Communications	Optical Internet • @T COM Hikari • TNC Hikari		Monthly discount of ¥300.* ¹ Customers subscribing for the TEPCO area standard plan before the end of March 2016 will receive 3,000 TLC points.	-
TOKAI Cable Network	CATV (broadcast/ internet)		Monthly discount of ¥200.* ² Customers subscribing for a new contract for Cable TV broadcasting or Internet services as a set with electric power before the end of March 2016 will receive a maximum of 2,000 TLC points.	-

*1: Subscribers to the family type and users of "Hikari Phone" are eligible (both existing and new subscribers are eligible). In addition, the eligible areas are within the TEPCO and Chubu Electric Power service areas.

*2: In a detached home, households subscribing to a cable TV broadcasting course of a digital small pack or above and an Internet course of 50Mbps or above are eligible (both existing and new subscribers are eligible).

Points benefits

No of contracts	No. of bonus points
2 contracts	50
3 contracts	150
4 contracts	300
5 or more contracts	500

Contracts to the TEPCO new electricity rates plan are also eligible for TLC Membership Service bonus points*³ (The bonus points accumulate each month according to the number of TOKAI Group services used)

*3: Points awarded according to the electricity rate are displayed on the TEPCO membership site Kurashi TEPCO.
Source: press release of January 15

Customer numbers are expected to increase in every segment

(3) Outlook by business segment

Net sales by segment

	(¥bn)				
	FY3/13	FY3/14	FY3/15	FY3/16 (E)	Change
Gas and Petroleum	94.5	97.2	93.1	86.1	-6.9
Information and Communication services	38.5	38.8	40.1	47.2	7.1
CATV	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
Others, adjusted amount	5.4	5.1	5.0	5.5	0.5
Total	181.7	189.0	187.5	192.2	4.7

Operating profit by segment

	(¥bn)				
	FY3/13	FY3/14	FY3/15	FY3/16 (E)	Change
Gas and Petroleum	7.4	6.5	7.7	7.9	0.2
Information and Communication services	4.9	4.4	5.0	2.7	-2.3
CATV	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
Others, adjusted amount	-4.3	-4.7	-5.0	-5.1	-0.1
Total	8.9	7.4	9.0	7.8	-1.2

Note: the figures are prior to the allocation of indirect expenses

Customer numbers by services

	(thousand)				
	FY3/13	FY3/14	FY3/15	FY3/16 (E)	Change
Gas (LP gas, city gas)	629	628	626	639	13
Security	19	19	18	18	0
Aqua	102	122	130	145	16
Information and Communication (fixed and wireless)	816	853	864	882	18
Information and Communication (mobile)	213	227	235	240	5
CATV	691	693	690	712	22
Total	2,445	2,519	2,537	2,611	74

○ Gas and Petroleum business

In the Gas and Petroleum business, full year net sales are forecast to decline ¥6.9bn y-o-y to ¥86.1bn and operating profit (based on prior to the allocation of indirect costs, same below) to increase ¥200mn to ¥7.9bn. As previously explained, it is highly possible that the net sales will not meet the target due to the reduction in the sales prices of LP gas and city gas. Conversely, the forecast is for operating profit to exceed the target. In the LP gas business, customer numbers are expected to continue to increase thanks to the Company's ongoing measures to prevent existing customers cancelling their subscriptions and also the strengthened measures to acquire new customers in the southern Tohoku and Chubu areas.

In addition, customer numbers are expected to rise in FY3/17 with the launch of set services with electric power services. Other than this, indirect costs will continue to decline and therefore the forecast is for the profit growth to continue. In terms of the risk factors, if the gas raw materials price was to change direction and increase, there would be a time lag until this was reflected in the sales prices, which could have a temporarily negative impact on profits. But as the slump in the oil market from the demand-supply balance has become prolonged, for the time being it is thought that the gas raw materials price will continue to trend at a low level.

○ Information Communication services business

In the Information and Communication services business, the forecasts are for full year net sales to increase ¥7.1bn y-o-y to ¥47.2bn and operating profit to decline ¥2.3bn to ¥2.7bn. The rate of progress toward achieving the targets up to Q3 were that net sales were slightly behind schedule because of the effects of the delay in orders in the information services business for corporate customers. The FY3/16 forecasts for Hikari collaboration are for customer numbers of 224 thousand, a margin on sales of ¥1.7bn, customer acquisition costs of ¥4.0bn, and other costs of ¥0.8bn, for an operating loss of ¥3.1bn.

The FY3/17 forecasts for Hikari collaboration are for customer numbers of 380 thousand, a margin on sales of ¥4.0bn, customer acquisition costs of ¥3.1bn, and other costs of ¥800mn, for an operating profit of ¥100mn. After that, sales and profits are expected to continue increasing with growth in customer numbers.

○ CATV business

In the CATV business, the forecasts are for full year net sales to increase ¥0.5bn y-o-y to ¥24.8bn and operating profit to rise ¥0.1bn to ¥1.8bn. Up to Q3, profits trended slightly above target and going forward in this business, customer numbers are expected to grow as the Company strengthens its bulk services for collective housing. In addition, its strategy is to maintain and improve ARPU and increase profits by offering a reasonably priced telecommunications and multi-channel broadcasting menu.

Within the CATV business companies, TOKAI Cable Network Corporation, and TOCO Channel Shizuoka Corporation, which provide services within Shizuoka Prefecture, launched 4K broadcasting in February 2016. In addition to original programs produced by nationwide cable TV companies, they broadcast highly entertaining programs produced by various program providers. 4K broadcasting realizes broadcasting content with definition four times higher than that of full HD, and while viewing requires a 4K compliant STB and 4K compliant television, it is one measure to respond to customers' diverse needs.

○ Aqua business

In the Aqua business, the forecasts are for full year net sales to increase ¥0.9bn y-o-y to ¥5.8bn, and the operating loss to be reduced by ¥0.3bn to ¥1.0bn. Up to Q3, customer numbers were trending slightly below target, so it is possible that the net sales target will not be achieved. However, the Company expects to achieve its target for reducing the operating loss by keeping down customer acquisition costs. Growth in customer numbers has been less than expected, due to an increase in cancelled subscriptions within Shizuoka Prefecture. Going forward, the Company's policy is to aim to expand the business area and increase customer numbers through business partnerships without incurring customer acquisition costs, and to achieve profitability in FY3/17.

Aiming for net sales of ¥209.5bn and operating profit of ¥12.6bn

(4) Outline of the medium-term management plan, Innovation Plan 2016 “Growing”

In June 2014, the Company announced its medium-term management plan, Innovation Plan 2016 “Growing,” for the three years through FY3/17. This plan has three main objectives; continued sales growth and improved profitability by increasing the number of customers, continued improvements to the financial structure and stable management, and the delivery of steady and sustained returns to shareholders. The plan's targets are consolidated net sales of ¥209.5bn and operating profit of ¥12.6bn for FY3/17.

In FY3/16, the forecast is for operating profits to decline because of the higher sales promotion costs for Hikari collaboration. But the forecasts for FY3/17 are for profits to increase approximately ¥3.0bn in Hikari collaboration and around ¥1.0bn in the Aqua business, and in addition for the amortization of goodwill to decrease ¥800mn, which to a certain extent can be expected to increase profits. Therefore, if there are no major changes to the market environment, at FISCO we think that the Company can achieve its target.

Management indicator numerical targets in the medium-term management plan (IP16 “Growing”)

	FY3/14	FY3/15	FY3/16	FY3/17
	Result	Result	Initial forecast	Target
Customer numbers (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: the FY3/17 values are those published in the medium-term plan in June 2014

The equity ratio is expected to improve to around 30% from a reduction in interest-bearing debt

(5) Financial position

Total assets at the end of December 2015 had decreased ¥1,201mn compared to the end of FY3/15 to ¥164,500mn. Looking at the main contributing factors, current assets rose ¥2,170mn due to increases in work in progress and deposits; however, non-current assets decreased by ¥3,366mn, mainly because tangible non-current assets decreased ¥2,791mn due to depreciation expenses, and so forth, and goodwill decreased ¥1,317mn.

Total liabilities were down ¥6mn compared to the end of FY3/15 to ¥122,228mn. Following the issue of ¥10,000mn of convertible corporate bonds and a reduction in debt, interest-bearing debt increased ¥6,425mn; however, income taxes payable decreased ¥1,904mn and other current liabilities decreased ¥2,448mn.

Total net assets declined ¥1,195mn compared to the end of the previous fiscal year to ¥42,272mn. This was because while a net profit of ¥1,395mn was recorded, it was exceeded by dividend payments of ¥1,389mn and acquisition of treasury stock of ¥1,059mn.

At the end Q2, which is the midway point for the medium-term targets, the outlook is that the Company will achieve targets set for the final year of the medium term plan, of an equity ratio 28.6% and interest-bearing debt ¥64.7bn.

The conversion price of the convertible bonds is ¥585. If the share price rises and the conversion ratio is 100%, the equity ratio would rise to in the region of 35% in FY3/17, from 25.1% at the end of December 2015.

Consolidated balance sheet

	(unit: ¥mn)				
	FY3/13	FY3/14	FY3/15	Q3 FY3/16	Change
Current assets	40,351	40,606	35,959	38,130	2,171
(cash and deposits)	4,235	3,182	2,861	3,306	445
(stock)	8,141	8,178	6,695	7,466	771
Non-current assets	137,147	132,928	129,699	126,333	-3,366
(goodwill)	12,632	10,241	8,270	6,953	-1,317
Deferred assets	143	85	43	36	-7
Total assets	177,642	173,620	165,702	164,500	-1,202
Total liabilities	143,631	135,291	122,234	122,228	-6
(interest-bearing debt)	93,668	85,843	73,114	79,538	6,425
Net assets	34,011	38,329	43,467	42,272	-1,195
Equity ratio	18.6%	21.6%	25.7%	25.1%	

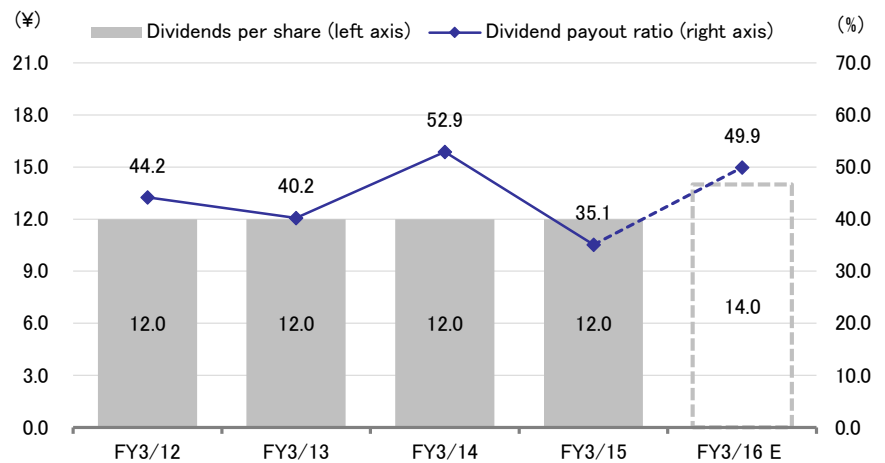
Shareholder Returns Policy

Policy is a total payout ratio of 100%

The Company has steadily improved its financial position, and in FY3/16 it set the policy of realizing a total payout ratio of 100% and acquired treasury stock (3,308,000 shares, ¥1.8bn) in order to strengthen its returns to shareholders. As its consolidated results have also trended steadily, on March 10 the Company planned to pay an end-of-term dividend of ¥8.0, which is ¥2 higher than the initial forecast of ¥6, for an annual dividend of ¥14.0 (dividend payout ratio, 49.9%). If the FY3/17 results also trend strongly, it has expressed its intention to look into further supplementing returns to shareholders. If it achieves the targets in its medium-term management plan and the earnings per share is around ¥55, and assuming a dividend payout ratio of 40%, then a substantial increase in the dividend can be expected.

The Company also presents gifts to shareholders at the end of September and March. For each unit of shares (100 shares) held, shareholders can receive one of the following gifts: an Aqua product worth ¥1,900 (such as the Urunom “Fuji-no-Tennensui Sarari” (Mt. Fuji natural water)), a QUO card worth ¥500, food coupons worth ¥1,000, or ¥1,000 worth of TLC Membership Service points. When including the gifts to shareholders in an estimate of the annual investment yield per unit from the current share price level (¥606 on March 24), it is in the range of 4% to 9% (depending on selection of a QUO card or an Aqua product as a gift).

Dividends per share and dividend payout ratio



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