TOKAI Holdings
3167 Tokyo Stock Exchange First Section

4-Oct.-16

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Very Upbeat Q1 With Profit Increases in All Major Business

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), and "information and communications services". Aiming to become a "Total Life Concierge" (TLC), a company offering a complete range of services for everyday life, the Company started the three-year medium-term management plan, called Innovation Plan 2016 "Growing," in FY3/15 that contains initiatives for strengthening the profitability of its businesses and is on track to largely achieving initial goals. The next medium-term plan focuses on "implementing growth strategies" and seeks to accelerate the growth pace through further improvement of group synergies.

The Company reported ¥41,618mn in net sales (-2.5% y-o-y) and ¥2,870mn in operating profit (+68.0%) as Q1 FY3/17 (Apr-Jun 2016) consolidated results on August 5. Reduction of sales prices in the LP gas business from previous fiscal year contributed to lower sales. However, profit increased in all major businesses, particularly Hikari Collaboration* and Aqua businesses, and appears to have exceeded period-start guidance by about ¥500mn. Group customer volume was up by 21,000 contracts from a year earlier to 2,557,000 contracts at the end of June 2016. While the broadband business slipped by 14,000 contracts due to declining contract volume for conventional ISP service, this was more than offset by increases in CATV, gas, and Aqua businesses.

* 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.

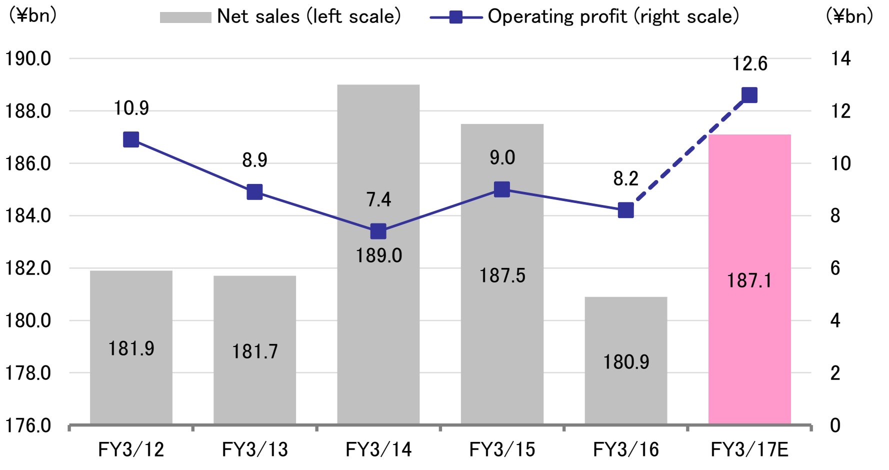
The Company retained period-start FY3/17 guidance for ¥187,100mn in net sales (+3.4% y-o-y) and ¥12,560mn in operating profit (+52.3%). The projected ¥4.3bn y-o-y rise in operating profit factors in income gains of ¥2,280mn for Hikari Collaboration and ¥1,130mn for the Aqua business. It also includes an ¥800mn decline in goodwill amortization costs. The Company projects a rise in group customer volume from the end of FY3/16 of 46,600 contracts to 2,604,000 contracts, primarily from CATV and gas businesses. While Q1 volume was unchanged from the end of FY3/16, the Company intends to expand customer volume by broadening the regional scope of LP gas sales to Mie and Gifu prefectures and increasing customer acquisition costs, mainly for Hikari Collaboration.

For shareholder returns, the Company aims to sharply increase the dividend by ¥8 to ¥22 with a goal of 40% for the dividend payout ratio in FY3/17. It also intends to continue reviewing share buybacks targeting healthier capital efficiency. The Company 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 Ulunom "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 (¥616 on August 15), it is in the range of 5% to 10% (depending on selection of a QUO card or an Aqua product as a gift).

Check Point

- Information and communications services driving sales growth, steep rise in profits for all segments
- Headed for stronger sales and steep profit increases to all-time highs in FY3/17
- Making steady progress with the medium-term management plan and starting to formulate the next plan

Business Performance Trends



Results Trends

Posted all-time high earnings at all levels in Q1 FY3/17

(1) Review of Q1 FY3/17 results

In Q1 FY3/17 consolidated results, net sales dropped 2.5% y-o-y to ¥41,618mn, operating profit increased 68.0% to ¥2,870mn, recurring profit was up 75.9% to ¥2,900mn, and net profit attributable to owners of parent climbed 147.2% to ¥1,766mn. The Company posted all-time high earnings for Q1 at all levels (despite lower sales), a very robust start to the new fiscal year. Reduction of sales prices in the LP gas business from last fiscal year contributed about ¥2,400mn to lower sales. However, operating profit increased in all segments, particularly Hikari Collaboration and Aqua businesses, and appears to have exceeded period-start guidance by about ¥500mn.

Group customer volume was up by 21,000 contracts from a year earlier at 2,557,000 contracts at the end of June 2016 (though unchanged from the end of FY3/16 volume). Looking at contract volume trends in major services, gas, CATV, and Aqua businesses delivered y-o-y increases, while the information and communications business slipped by 14,000 contracts. The information and communications business achieved healthy progress in transfers to Hikari Collaboration and new subscriber acquisitions, but confronted an even larger expansion of contract cancellations for conventional ISP service. Member volume for the TLC Membership Service, which TOKAI launched in December 2012 with aims of retaining customers and raising the contract rate for multiple services within the group, expanded at a healthy pace with an increase of 99,000 contracts y-o-y to 515,000 contracts at the end of June.

Q1 FY3/17 Consolidated Results

(Unit: ¥mn)

	Q1 FY3/16		Q1 FY3/17		
	Results	Ratio to sales	Results	Ratio to sales	YoY change
Net sales	42,672	-	41,618	-	-2.5%
Cost of sales	26,251	61.5%	24,219	58.2%	-7.7%
SG&A expenses	14,713	34.5%	14,528	34.9%	-1.3%
Operating profit	1,708	4.0%	2,870	6.9%	68.0%
Recurring profit	1,649	3.9%	2,900	7.0%	75.9%
Extraordinary profit and loss	-245	-	-140	-	-
Net profit attributable to owners of parent	714	1.7%	1,766	4.2%	147.2%

Information and communications services driving sales growth, steep rise in profits for all segments

(2) Business segment trends

Results by Business Segments

(Unit: ¥mn)

	Net sales			Operating profit		
	Q1 FY3/16	Q1 FY3/17	Growth rate	Q1 FY3/16	Q1 FY3/17	Growth rate
Gas and Petroleum	20,288	17,479	-13.8%	1,865	2,197	17.8%
Information and Communications Services	9,826	11,780	19.9%	691	913	32.1%
CATV	6,074	6,241	2.7%	498	717	44.0%
Building and Real Estate	4,012	3,414	-14.9%	63	81	28.6%
Aqua	1,320	1,424	7.9%	-227	19	-
Other Businesses and Adjustments	1,149	1,277	11.1%	-1,182	-1,060	-
Total	42,672	41,618	-2.5%	1,708	2,870	68.0%

Note: Operating profit prior to allocating indirect costs and other expenses

Customer Numbers by Services

(Unit: 1,000 contracts)

		End-Q1 FY3/15	End-Q1 FY3/16	End-FY3/16	End-Q1 FY3/17	YoY change	Change from the previous year-end
Gas (LP and city gas)		627	625	634	634	+9	+0
Information and communications	Previous ISP model, etc.	858	802	633	595	-208	-38
	Hikari Collaboration	-	58	219	251	+193	+32
	Mobile	229	235	236	235	+0	-1
	Sub-total	1,087	1,095	1,088	1,081	-14	-7
CATV		692	692	710	716	+23	+6
Aqua		126	130	133	134	+4	+1
Security		18	18	18	17	-0	-0
Total		2,526	2,537	2,558	2,557	+21	-0
(TLC members)		329	417	491	515	+99	+24

Note: Total values excludes FTTH (ISP) and CATV communications (carrier) overlap

a) Gas and Petroleum business

In the Gas and Petroleum business, sales dropped 13.8% y-o-y to ¥17,479mn and operating profit rose 17.8% to ¥2,197mn. Customer numbers in the mainstay LP gas business climbed by 8,000 contracts y-o-y to 580,000 contracts (though were flat from the end-FY3/16 level), thanks to expansion of sales coverage, but sales volume stayed flat y-o-y because of warmer weather than usual. The Company incurred a setback in sales of ¥2,400mn due to lowered sales prices from the previous year accompanying the decline in procurement prices. However, operating profit improved thanks to a decline effect in procurement prices and lower SG&A expenses owing to better business efficiency.

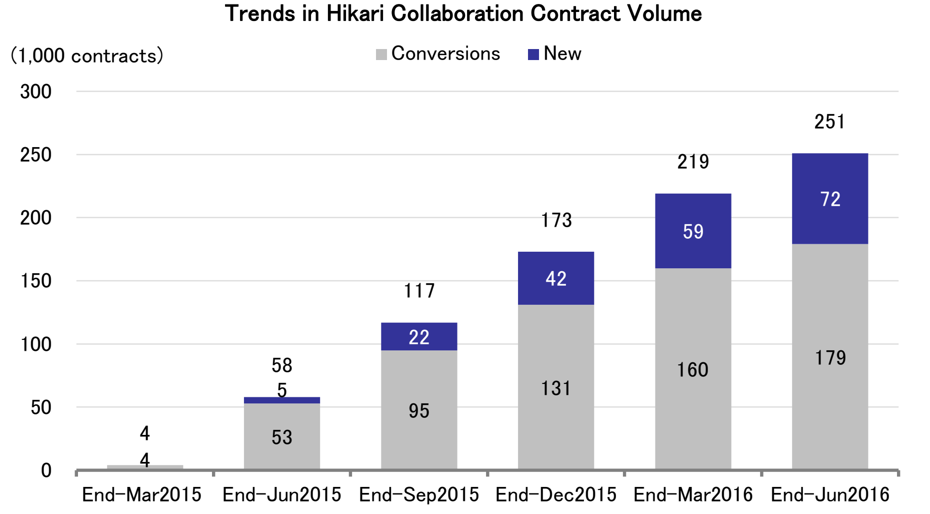
Sales declined in the city gas business too due to customer volume staying at the year-ago level at 54,000 contracts and a drop in the average sales price because of the raw materials cost adjustment program.

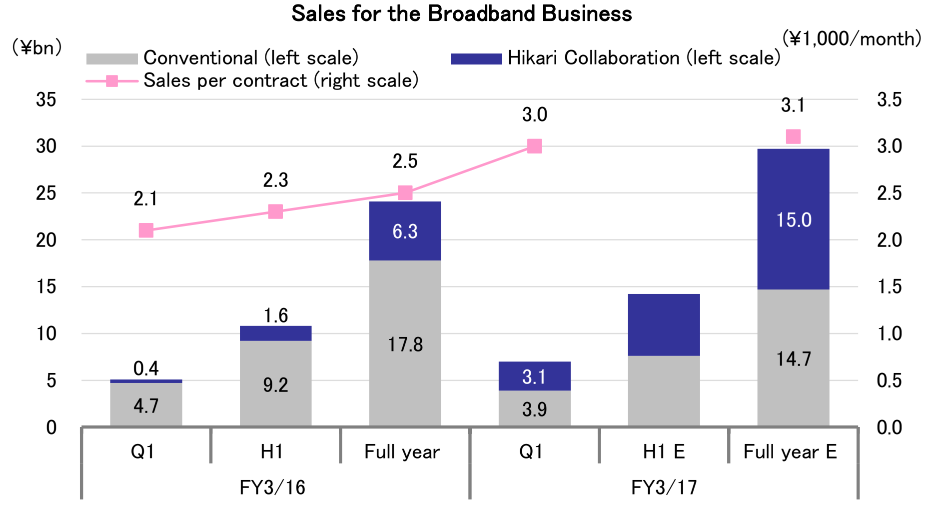
b) Information and Communications Services business

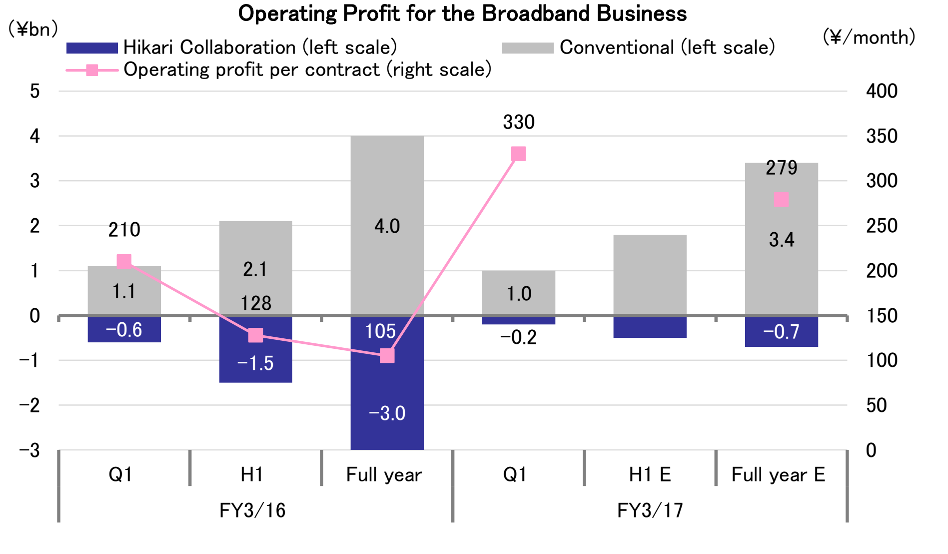
The Information and Communications Services business recorded ¥11,780mn in sales (+19.9% y-o-y) and ¥913mn in operating profit (+32.2%). Despite sluggish conditions in the broadband market as a whole, TOKAI expanded Hikari Collaboration contracts by 193,000 y-o-y to 251,000 contracts (up 32,000 contracts from the end of FY3/16), due to aggressively encouraging existing ISP customers to convert to Hikari Collaboration and also focusing on new customer acquisitions. Both sales and profits improved in Q1 (sales up ¥1,900mn and operating profit up ¥300mn) as the increase in Hikari Collaboration customer volume lifted monthly income per contract by 38% y-o-y to ¥3,000 and operating profit by ¥330 (+58%) in the broadband business. Total broadband customer volume fell by 14,000 contracts y-o-y and by 7,000 contracts from end-FY3/16 because cancellations of existing ISP service surpassed Hikari Collaboration additions, and this dynamic is something that needs to be addressed. We think the majority of customer outflow went to leading mobile carriers.

Data communications services and system development for corporate customers, meanwhile, posted sales and operating profit roughly on par with the previous year.

■ Results Trends







Note: Operating profit prior to allocating indirect costs and other expenses

c) CATV business

The CATV business posted ¥6,241mn in sales (+2.7% y-o-y) and ¥717mn in operating profit (+44.1%). Customer volume increased at healthy paces of 9,000 contracts y-o-y to 501,000 contracts (up 2,000 contracts from end-FY3/16) for broadcasting service and 15,000 contracts to 215,000 contracts (up 4,000 contracts) for telecommunications service. Positive trends were new customer additions thanks to focus on bulk sales to multi-household dwellings, bundling discounts for broadcast and telecommunications services, and the launch of bundling discounts with smartphones through collaboration with multiple mobile carriers as well as use of churn prevention measures through an improved customer center, just as in FY3/16. Operating profit strengthened on the sales-increase effect and lower goodwill amortization costs.

d) Building and Real Estate business

The Building and Real Estate business booked ¥3,414mn in sales (-14.9% y-o-y) and ¥81mn in operating profit (+28.3%). While orders were upbeat, sales weakened owing to an absence of condominium sales and stores and other new building projects and lower solar power equipment sales in the renovation business. Reception desk business (building management support) and standalone home sales were on par with previous-year levels. Earnings climbed thanks to changes in sales mix.

e) Aqua business

The Aqua business booked ¥1,424mn in sales (+7.9% y-o-y) and ¥19mn in operating profit (vs. a ¥227mn loss a year earlier). This was the first quarterly profit. Customer contracts rose by 4,000 contracts y-o-y to 134,000 contracts at the end of June (up 1,000 contracts from end-FY3/16), adding ¥100mn in operating income. Earnings also benefited from a ¥100mn reduction of sales costs by curtailing customer acquisition costs and advertising and promotion costs.

f) Other Businesses and Adjustments

The Other Businesses and Adjustments reported an 11.1% rise in sales to ¥1,277mn and an operating loss of ¥1,060mn (vs. a ¥1,182mn loss a year earlier).

Nursing care business posted higher sales and a smaller operating loss owing to increases in usage numbers for day care facility and pay nursing homes with care services (TOKAI operates seven sites in Shizuoka Prefecture). Wedding ceremony service sales improved because of the number of weddings. Shipbuilding business, meanwhile, posted lower sales due to a decline in project volume. The Company announced that it plans to close one of the two wedding ceremony centers with a low utilization rate at the end of March 2017 and will operate this business with just a single center from April 2017. It expects to achieve profitability from FY3/18.

Continues to make healthy progress improving financial standing through reduction of interest-bearing debt and raising the equity ratio

(3) Financial position

Total assets at the end of June 2016 had decreased ¥8,568mn compared to the end of the June 2015 to ¥155,595mn. Current assets increased ¥268mn to ¥34,775mn, and cash and deposits climbed ¥667mn. Non-current assets were down ¥8,814mn to ¥120,790mn, including tangible fixed assets by ¥3,899mn (due to advances in depreciation), ¥1,373mn in goodwill, and ¥4,544mn in investments and other assets.

Liabilities, meanwhile, decreased ¥7,035mn y-o-y to ¥113,074mn, mainly because interest-bearing debt fell ¥6,400mn. Net assets decreased ¥1,532mn to ¥42,521mn. Although equity increased ¥1,500mn thanks to higher retained earnings, other cumulative comprehensive profit (securities valuation difference, cumulative adjustment value related to retirement benefits, and other items) declined ¥2,991mn.

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In our review of TOKAI's business indicators, we think financial standing is steadily improving because of the 0.5ppt y-o-y rise in the equity ratio to 26.8% and a 1.6ppt decline in reliance on interest-bearing debt to 43.1%. Furthermore, ¥10,000mn of the interest-bearing debt comes from a zero-coupon convertible bond issued in June 2015, and TOKAI has lowered its interest-bearing debt on a real basis to just over ¥57,000mn. The conversion price to equity is ¥585, and the bond has latent share volume that works out to about 11% of outstanding shares. We expect a further increase in the equity ratio if the share price rises and convertible bondholders convert their bonds to shares.

Consolidated Balance Sheet

(Unit: ¥mn)

	End-Q1 FY3/14	End-Q1 FY3/15	End-Q1 FY3/16	End-Q1 FY3/17	Change
Assets total	171,202	167,262	164,163	155,595	-8,568
Liabilities total	137,619	128,734	120,110	113,074	-7,035
Net assets total	33,582	38,528	44,053	42,521	-1,532
Balance of interest-bearing debt	90,176	81,168	73,461	67,061	-6,400
equity ratio	19.1%	22.5%	26.3%	26.8%	+0.5pt
Reliance of interest-bearing debt	52.7%	48.5%	44.7%	43.1%	-1.6pt

Results Outlook

Headed for stronger sales and steep profit increases to all-time highs in FY3/17

(1) Forecasts for FY3/17

The Company retained the period-start FY3/17 consolidated outlook for ¥187,100mn in sales (+3.4% y-o-y), ¥12,560mn in operating profit (+52.3%), ¥11,830mn in recurring profit (+45.1%), and ¥6,240mn in net profit attributable to owners of parent (+80.4%). It projects all-time highs for all profit items. Key profit drivers are a ¥3,400mn combined lift from income improvement effects in Hikari Collaboration and Aqua businesses and an ¥800mn boost from lower goodwill amortization.

FY3/17 Consolidated Results Outlook

(Unit: ¥mn)

	FY3/16		FY3/17		
	Results	Ratio to sales	Plan	Ratio to sales	YoY change
Net sales	180,940	-	187,100	-	3.4%
Operating profit	8,245	4.6%	12,560	6.7%	52.3%
Recurring profit	8,150	4.5%	11,830	6.3%	45.1%
Extraordinary profit and loss	-1,714	-0.9%	-	-	-
Net profit attributable to owners of parent	3,458	1.9%	6,240	3.3%	80.4%

The Company factors in an increase of 46,600 contracts y-o-y from the end of FY3/16 to 2,604,000 contracts at the group level. In the Gas and Petroleum business, it assumes an increase of 16,200 contracts to 650,000 contracts by adding more new contracts through broadening LP gas operating areas and customer acquisition in existing operating areas. The Company entered Aichi prefecture and southern Tohoku in FY3/16 and is acquiring new customers in these areas and also plans to widen operations to Mie and Gifu prefectures from Q3 FY3/17. TOKAI acquires customers without incurring costs due to consignment of gas filling and delivery operations to local firms. We see substantial room for TOKAI with its price competitiveness in these areas with many smaller operators and higher pricing than the national average for LP gas.

The Company also plans to expand Hikari Collaboration business by 138,000 contracts y-o-y to 357,000 contracts. It intends to increase subscriber acquisition costs from Q2, taking into account earnings upside thus far, with the aim of raising contract volume from Q2. It plans to increase contracts in the CATV business by 20,600 to 730,000 contracts and in the Aqua business by 4,900 contracts to 138,000 contracts.

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Net Sales by Business Segments

(Unit: ¥bn)

	FY3/14	FY3/15	FY3/16	FY3/17	
	Results	Results	Results	Plan	YoY change
Gas and Petroleum	97.2	93.1	80.7	75.9	-6.0%
Information and Communications Services	38.8	40.1	44.2	51.8	17.1%
CATV	24.2	24.4	24.6	25.4	3.1%
Building and Real Estate	19.2	20.0	21.0	22.5	7.2%
Aqua	4.4	5.0	5.5	5.8	6.4%
Other Businesses and Adjustments	5.1	5.0	4.9	5.7	16.9%
Total	189.0	187.5	180.9	187.1	3.4%

Operating Profit by Business Segments

(Unit: ¥bn)

	FY3/14	FY3/15	FY3/16	FY3/17	
	Results	Results	Results	Plan	YoY change
Gas and Petroleum	6.5	7.7	9.0	9.0	0.0
Information and Communications Services	4.4	5.0	2.3	4.2	1.9
CATV	1.8	1.7	2.0	2.4	0.4
Building and Real Estate	1.4	1.0	1.3	1.5	0.2
Aqua	-2.0	-1.3	-1.1	0.0	1.1
Other Businesses and Adjustments	-4.7	-5.0	-5.2	-4.6	0.6
Total	7.4	9.0	8.2	12.6	4.3

Note: Operating profit prior to allocating indirect costs and other expenses

Customer Numbers by Services

(Unit: 1,000 contracts)

		End-FY3/15	End-FY3/16		End-FY3/17	
		Results	Results	Change from the previous year-end	Plan	Change from the previous year-end
Gas (LP Gas and city gas)		626	634	+8	650	+16
Information and communications	Previous ISP model, etc.	859	633	-227	499	-133
	Hikari Collaboration	4	219	+215	357	+138
	Mobile	235	236	+1	237	+1
	Sub-total	1,099	1,088	-11	1,094	+6
CATV		690	710	+20	730	+21
Aqua		130	133	+3	138	+5
Security		18	18	-0	18	+0
Total		2,537	2,558	+20	2,604	+47

Information and communications services driving sales growth, aiming for higher profits in all segments

(2) Outlook by business segments

a) Gas and Petroleum business

The FY3/17 segment guidance calls for ¥75,900mn in sales (-6.0% y-o-y) and roughly flat operating profit. The plan projects a decline in sales, even with expansion of LP gas customer volume, because of a lingering impact from price reductions. Yet it envisions flat earnings due to an ongoing decline in procurement prices too. The outlook assumes a $370/ton contract price (with a ¥119/$ forex rate), a higher level than the current market. We think this stance indicates large upside room.

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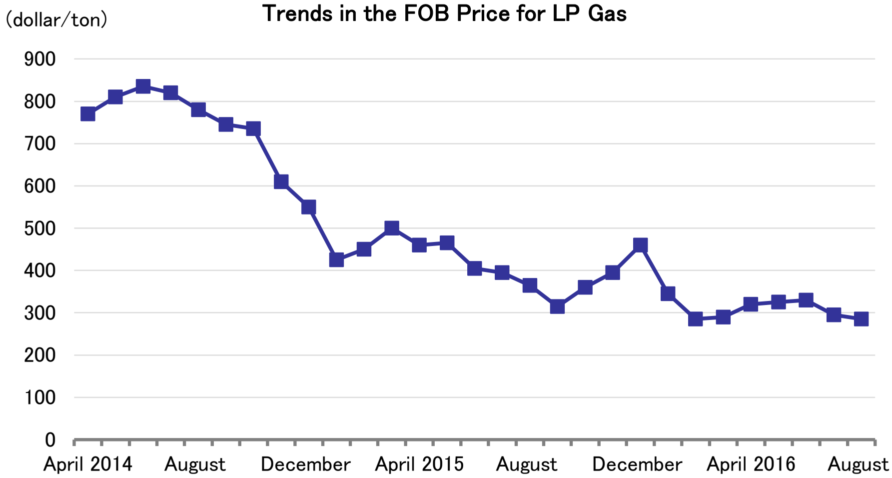
Trends in the FOB Price for LP Gas

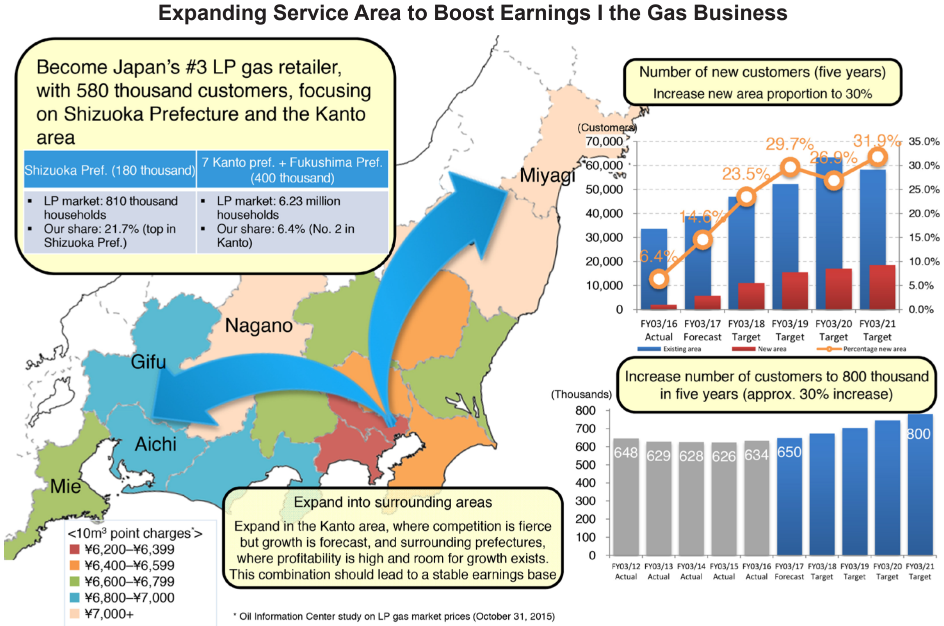


Source: Japan LP Gas Association's FOB Price (contract price from Saudi Arabia to importers)

The LP gas industry has many smaller operators, but we expect growing dominance by major operators. Our view takes into account likely weeding out of smaller operators from the standpoint of price competitiveness amid advances in sales liberalization for communications, electricity, and other living infrastructure services and related toughening of customer acquisition competition through bundled sales. The Company intends to enter Nagano and Okayama prefectures, where its group CATV firms operate, too from FY3/18 as part of this process.

The Company aims to raise the ratio of acquisitions in new operating areas to about 30% of total new customer acquisitions by FY3/21. It also plans to expand shares in existing areas, such as Shizuoka prefecture and Tokyo metropolitan area, and increase the total number of gas business customers to 800,000 contracts by FY3/21. While customer numbers stalled in the gas business in recent years, we expect the Company to convert this segment into a growth business by lifting total customer volume.

Expanding Service Area to Boost Earnings I the Gas Business



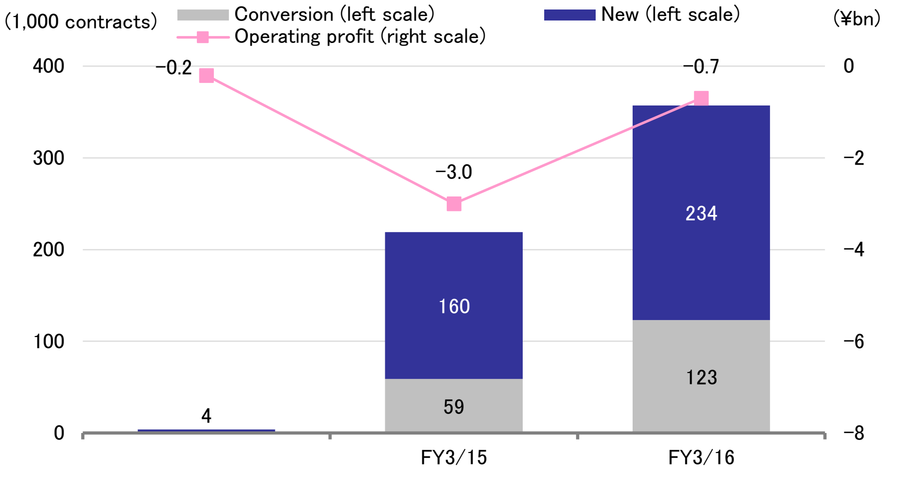
Source: Company briefing materials

b) Information and Communications Services business

The FY3/17 segment guidance calls for ¥51,800mn in sales (+17.1% y-o-y) and ¥4,200mn in operating profit (+¥1,900mn). The bulk of the anticipated rise in sales comes from increasing Hikari Collaboration customers, and this factor also adds ¥2,300mn to operating profit. The plan assumes gains in Hikari Collaboration customers of 138,000 contracts from the end of FY3/16 to 357,000 contracts at the end of FY3/17, with conversions rising by 74,000 contracts to 234,000 contracts and new customers increasing by 64,000 contracts to 123,000 contracts. TOKAI factors in modest slowdown of the monthly average customer acquisition pace from FY3/16's 17,900 contracts to 11,500 contracts in FY3/17. The Q1 pace was weaker than guidance at 10,600 contracts per month, and the Company intends to raise the increase pace from Q2 by spending more on customer acquisition costs.

We expect profitability in Hikari Collaboration service in FY3/18 with about ¥700mn of operating profit if customer volume expands to 439,000 contracts. We also forecast continuation of healthy trends in corporate data communications services and system development based on likely continuation of a healthy market environment again in FY3/17.

Trends in Hikari Collaboration Contract and Operating Profit

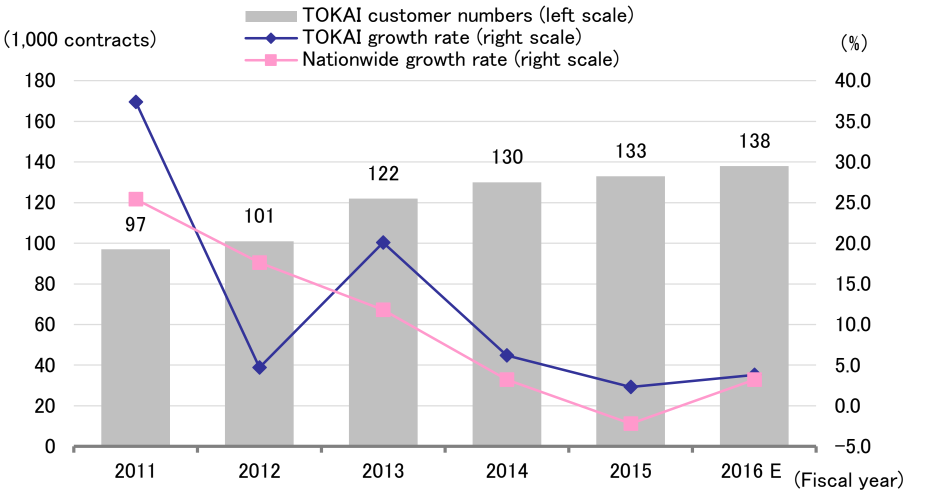


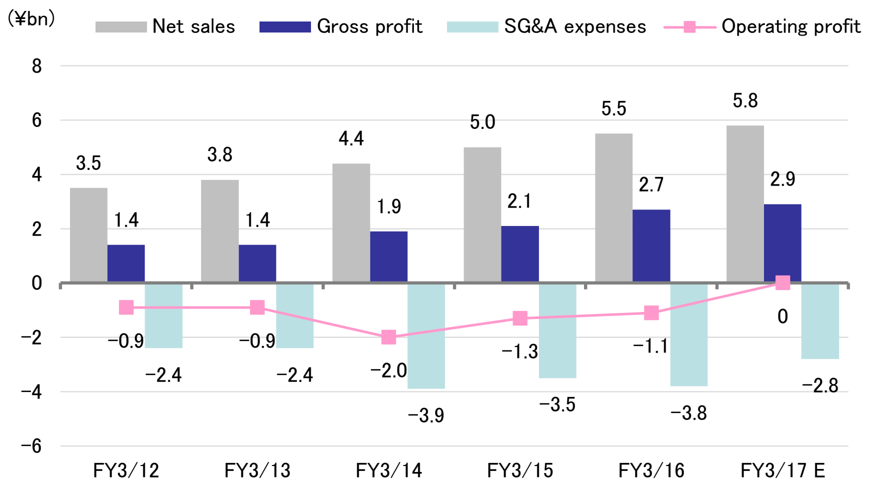
c) Aqua business

The FY3/17 segment guidance projects a 6.4% y-o-y rise in sales to ¥5,800mn and realization of a profit (vs. FY3/16's ¥1,100mn operating loss). The Company assumes an increase of 4,900 contracts in the customer base from the end of FY3/16 to 138,000 contracts. It plans to revise the sales strategy in order to reach a profit this fiscal year taking into account a slowdown in the customer expansion pace amid slower growth momentum in the water delivery market as a whole.

Specifically, it had been broadening operating areas to major regional cities in Kansai, Hokuriku, and Tohoku and aggressively holding customer acquisition fairs in order to recruit more customers through FY3/16, but its average customer acquisition cost increased. From FY3/17, it has revised the policy to implementing sales promotion activities focused on areas with high customer acquisition efficiency. It also plans to reduce the number of sales promotion fairs by 25% from FY3/16's 8,800 times for the full year to 6,600 times in FY3/17.

The main anticipated changes in operating profit are additions of ¥300mn from a rise in sales volume accompanying an increase in customer volume, ¥400mn from improved efficiency in customer acquisition fees, and ¥430mn from better efficiency in sales operations. We think a key point for reaching plan targets in FY3/17 is the extent to which the Company is capable of efficiently increasing customer volume.





d) CATV business

The FY3/17 segment guidance projects sales and profit advances with a 3.1% y-o-y increase in sales to ¥25,400mn and a ¥400mn gain to ¥2,400mn in operating profit. This view assumes a rise in customer volume of 20,600 contracts from the end of FY3/16 to 730,000 contracts. The Company intends to continue striving to expand customer volume through bundling discounts and other sales promotion measures, bulk sales to collective housings, and churn prevention. It expects profit boosts from higher sales and an ongoing decline in depreciation costs from exhaustion of capital investments, lower goodwill amortization charges, and other positive items.

e) Building and Real Estate business

The FY3/17 segment guidance forecasts a 7.2% y-o-y rise in sales to ¥22,500mn and a ¥200mn increase in operating profit to ¥1,500mn. It factors in growing sales for equipment installation, home sales, and renovation businesses.

f) Other Businesses and Adjustments

The FY3/17 segment guidance projects a 16.9% y-o-y increase in sales to ¥5,700mn and ¥600mn narrowing of the operating loss to ¥4,600mn. The Company expects a steep rise in sales for the nursing care business because of a higher utilization rate for its facilities and is aiming for the first-ever operating profit. Additionally, it forecasts higher FY3/17 sales and profits in the wedding ceremony business thanks to exhaustion of the negative impact from the site closure and a higher utilization rate for the remaining site.

Making steady progress with the medium-term management plan and starting to formulate the next plan

(3) Likely to attain goals from the current medium-term plan and getting ready for the next medium-term plan

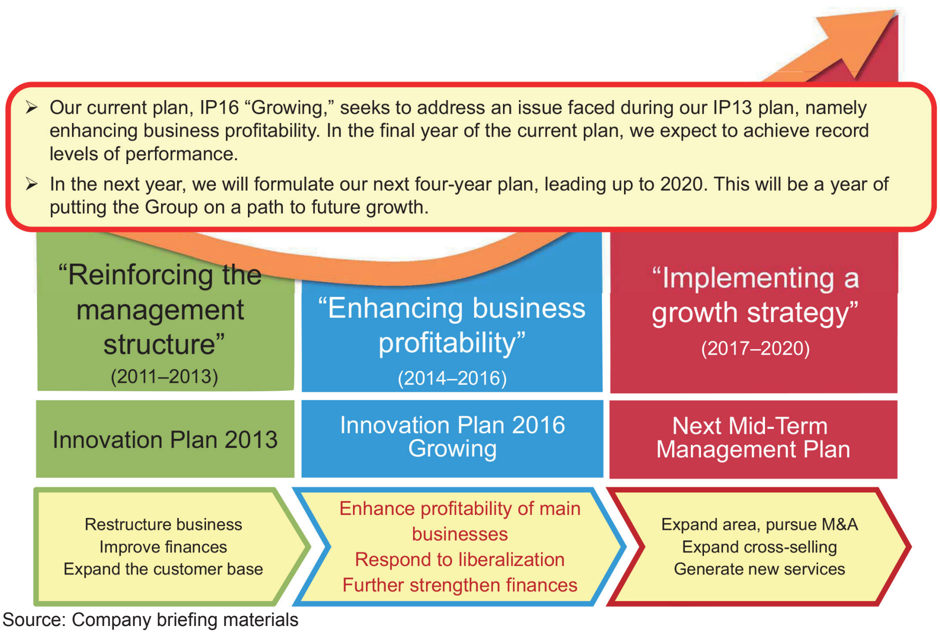
In June 2014, the Company announced its medium-term management plan, Innovation Plan 2016 “Growing” for the three years through FY3/17. This plan has three basic policies: continue to increase sales by acquiring new customers, and improve profitability, continue to improve financial standing and management stability, and provide continuous and stable returns to shareholders. TOKAI has steadily expanded earnings and improved financial standing under the plan. The plan’s FY3/17 (final-year) targets are 2.73mn group customer contracts, consolidated net sales of ¥209,500mn, operating profit of ¥12,600mn, interest-bearing debt of ¥64,700mn, and a 28.6% equity ratio. Based on earnings progress through FY3/16 and recent conditions, we expect slight shortfalls in customer numbers and net sales, but operating profit on track with the plan and a faster cutback pace in interest-bearing debt than anticipated. We think the equity ratio is also headed for the 30% range, surpassing the 28.6% target. We believe TOKAI is making smooth progress even though business conditions changed considerably from when it formulated the medium-term plan, including the decline in gas raw material prices and the start of Hikari Collaboration service.

Medium-Term Management Plan’s Goals and Attainment Prospects

	FY3/17 Initial Plan	FY3/17 Current Plan
Customer volume (10,000 contracts)	273	260
Net sales (¥bn)	209.5	187.1
Operating profit (¥bn)	12.6	12.6
EBITDA (¥bn)	28.7	28.3
Interest-bearing debt (¥bn)	64.7	62.2
Equity ratio	28.6%	30.8%

The Company aims to formulate the next medium-term management plan in light of this progress. We expect aggressive business initiatives in the next plan with a theme of “Implementing growth strategies.” Key points are “expansion of service areas and promoting M&A,” “increased cross-selling,” and “creation of new services.”

Moving to the Next Growth Phase



Source: Company briefing materials

The “expansion of service areas and promoting M&A” covers broadening of service areas in the LP gas business mentioned above and review of area expansion opportunities utilizing M&A in the CATV business. The Company offers CATV service in five prefectures (Shizuoka, Chiba, Kanagawa, Nagano, and Okayama) currently. In this industry, Jupiter Telecommunications Co., Ltd., the top firm, holds a 50% market share, while most other CATV firms operate in specific regions. We hence think developments should be closely watched.

The “increased cross-selling” addresses an issue for the Company of needing to raise the contract rate for multiple services per customer. Only 7% of customers currently subscribe to multiple services out of the services provided by the TOKAI group, though the rate has been slightly rising each year. TOKAI has a 16% contract rate for multiple services in Shizuoka, where it is headquartered, but the rate is lower in other prefectures. This means that the Company is not sufficiently capitalizing on its strength of supplying a wide range of living infrastructure services, such as gas, information and communications, CATV, and water delivery.

TOKAI has been implementing measures to promote cross-selling, including discounted plans for multiple contracts and enhancement of the TLC Membership Service, but the results are not showing up in numbers yet. Each month, the Company holds the TLC promotion meeting created in FY3/17 and, where the top management of group companies gathers to raise the cross-selling ratio with clear goals.

It added electricity service to the menu from 2016, and contract volume was about 3,000 contracts at the end of June 2016. We will be looking for a boost in the cross-selling rate from broadening the service menu.

The “creation of new service” targets ramp-up of new businesses related to life events as a comprehensive living services company. The Company wants to cultivate services that offer strong affinity with existing businesses from among various living-related services that range from birth to education, medical care, insurance, and other areas as new businesses.

■ Shareholder Returns

Aiming for a dividend hike again in FY3/17, aggressively promoting shareholder returns

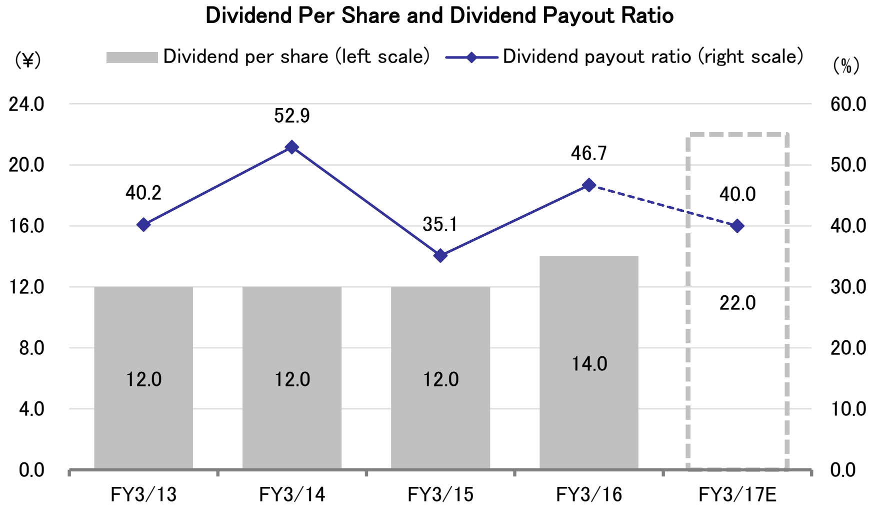
The Company pays dividends and has a shareholder gift program and also purchases treasury shares depending on conditions as shareholder return measures.

The Company sustains a stable dividend as its core policy and targets a 40% dividend payout ratio. It is planning a consecutive dividend hike in FY3/17 with an increase of ¥8 to ¥22 (40.0% dividend payout ratio) because of the prospect of a steep profit increase.

The Company 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 Ulunom “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 (¥616 on August 15), it is in the range of 5% to 10% (depending on selection of a QUO card or an Aqua product as a gift).

The Company purchased 3.3mn treasury shares in FY3/16, and we expect the Company to conduct further share buybacks from FY3/17 depending on conditions.

■ Shareholder Returns



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