

19-Apr-13

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■ Serving more than 2.4 million customers

Tokai Holdings Corp., based in Shizuoka, is growing, led by two main divisions: energy and home services, which engages mainly in the sale of liquefied petroleum gas, and information communications services. Its vision is to become a total life concierge, i.e., a company offering comprehensive services for all aspects of daily life. Tokai Holdings is the product of a merger, in April 2011, between Tokai Corp. and Vic Tokai Corp. Through this merger, the partner companies aimed to establish synergy for growth. In December 2012, the holding company started its TLC Member Service through which members receive points for the company's service. The company expects this service to solidify its base of more than 2.4 million customers.

In the first three quarters of the fiscal year through March 2013, i.e., in Q1-Q3 FY3/13, Tokai Holdings' consolidated sales grew 1.4% year-on-year (y-o-y) and its recurring profit grew 0.6%. In the cable television (CATV) division, profits declined due to a one-time increase in costs to improve customer acquisition, but in the gas and petroleum division, profits grew due to an increase in the number of customers for the aqua business, and due to a profit rise in the liquefied petroleum (LP) gas business, where operating costs were well contained. Thus, overall profits grew.

In Q1 FY3/13, the information communications division and the LP gas business performed better than the company had projected at the start of the fiscal year. Therefore, in July 2012, the company raised its profit forecasts for FY3/13, projecting a 2.9% y-o-y rise in sales and a 31.2% drop in recurring profit. However, in Q1-Q3 FY3/13, profits exceeded the company's forecasts, mainly because profitability in the LP gas division improved. Thus, profits are unlikely to fall in FY3/13 as much as the company has forecasted. From FY3/14, we foresee profit increases as the company expands its large customer base.

For FY3/14, the final year of the company's current medium-term plan, the company had aimed to reduce its interest-bearing debt to ¥99.6bn and to achieve an equity ratio of 17.5%. It now appears that these goals could be achieved by the end of FY3/13. The LP gas business and the CATV division earn steady profits, and the company plans to invest the cash generated by these units in the growing information communications division and in the aqua business, which the company intends to develop as a leading business.

In the past few months, Japanese share prices have rebounded sharply, but the share price of Tokai Holdings has languished, indicating that investors have not yet priced in profit increases from FY3/14. The company's dividend yield is higher than 3.5%, which is high for a Japanese stock. For now, the company intends to maintain a constant dividend, but it may increase its dividend when its profits grow. The company offers several kinds of shareholder awards, such as QUO cards. One award is the company's home delivery of bottled water, valued at ¥1,600. A minimum lot of 100 shares currently costs ¥31,300, so an award of bottled water produces a 5.1% return for holders of a minimum lot.

Check Points

- Starting as a seller of city gas, Tokai Holdings now provides comprehensive services for all aspects of daily life
- In Q1-Q3 FY3/13, sales hit a record high for the first nine months of a fiscal year and operating profit grew for the first time in two first nine-month periods
- The share price appears likely to rise to reflect the company's large dividend and prospective profit growth

Consolidated Sales and Operating Profit (¥mn) of Tokai Holdings, FY3/07 - FY3/14E



Note: Through FY3/11, figures show the consolidated results of Tokai Corp.

Company Description

Starting as a seller of city gas, Tokai Holdings now provides comprehensive services for all aspects of daily life

(1) Company History

Based in Shizuoka, the company has grown through two main divisions, the energy and home services division, which mainly sells LP gas, and the information communications division. In April 2011, it became a holding company. Its goal is to become a total life concierge company, providing a wide range of services for everyday life.



■ Company Description

The company originated in December 1950 as Yaizu Gas Co., which subsequently became Tokai Gas Co., then Tokai Corp. At first, the company just sold city gas, but the growth potential of this business was limited because it required a permit from the national government and was limited geographically. Therefore, in 1959, the company branched out into the sale of liquefied petroleum (LP) gas, which was not geographically restricted. Supported by Japan's rapid economic growth in the 1960's, the company gained the top share in the market for LP gas for homes and businesses in Shizuoka Prefecture, and in 1979, it entered the Greater Tokyo market. Also in 1979, the company listed its shares on the Second Section of the Nagoya Stock Exchange. In 1987, it listed its shares on the First Section of the Tokyo Stock Exchange.

With Shizuoka Prefecture as a base, the company diversified. In 1972, it started operating wedding sites, in 1988, it entered the CATV business, and in 1996, it began Internet business. With the spread of advanced information equipment and infrastructure in Japan, the company invested in its CATV division and its information communications division, including an Internet service provider (ISP) business, building them into two main business pillars, on a par with the LP gas business. In 2002, Vic Tokai registered its shares on the JASDAQ exchange.

Aiming to become a one-stop provider of services for homes, the company started its aqua business of delivering tasty bottled water to homes in 2007, the business of caring for the elderly in 2011, and total home renovation in 2012. To obtain synergy in their businesses, Tokai Corp. and Vic Tokai merged to form Tokai Holdings in April 2011. Tokai Holdings then listed its shares on the First Section of the Tokyo Stock Exchange, while Tokai Corp. and Vic Tokai delisted their shares in March 2011.

Year	History
Dec-50	Founded as Yaizu Gas Co., which later became Tokai Gas, then Tokai Corp.
May-59	Established Shinkou Petroleum Gas Co. to sell liquefied petroleum gas
Dec-66	Built a storage tank capable of storing 1,580t of LP gas along Oigawa Harbor
Nov-72	Established Tokai City Services, which began operating wedding sites in eastern Shizuoka Prefecture
Mar-77	Established Yaizu Cablevision, which later became Vic Tokai, and is now Tokai Communications
Jan-79	Set up offices throughout Greater Tokyo
Nov-79	Tokai Gas (now Tokai Corp) listed its shares on the Second Section of the Nagoya Stock Exchange. In 1987, it listed them on the First Section of the Tokyo Stock Exchange
Oct-84	Entered the security business
Aug-85	Started operating the Tokai Information Center, which is now Data Center #1 for Tokai Communications
Sep-88	Took an equity stake in Tosei Cable Network and began the cable TV business in Numazu City, Shizuoka Prefecture
Apr-90	Seisei Cable Network began cable TV service in Yaizu City and Fujieda City, Shizuoka Prefecture
Jun-96	Started Internet business
Mar-98	Tokai Highway Net, later absorbed by Vic Tokai, acquired a license as a Class 1 Telecommunications Carrier
Apr-98	Took an equity stake in Ichihara Community Network Television and began CATV service in Ichihara City, Chiba Prefecture
Jun-99	Established AIC, now Atsugi Isehara Cable Network, and in October, started CATV service in Atsugi City, Kanagawa Prefecture
Aug-99	Tokai City Service bought Nikko Kaikan and started operating a wedding site in front of Shizuoka Station
Mar-01	Began asymmetric digital subscriber line (ADSL) Internet service
Jun-02	Vic Tokai registered its shares on the JASDAQ exchange
Apr-03	Took an equity stake in East Communications Co. and started CATV service in Chiba City, Chiba Prefecture
Aug-06	Entered into a strategic business alliance with the Softbank (9984) group and started mobile communications business as a distributor
Dec-06	Established Gotenba Cable Television and started offering CATV service in Gotenba City, Shizuoka Prefecture
Nov-07	Began the aqua business of delivering tasty bottled water
Dec-09	Vic Tokai took equity stakes in LCV and Kurashiki Cable Television and began CATV service in Nagano Prefecture (Suwa City, etc.) and Okayama Prefecture (Kurashiki City, etc.)
Nov-10	Vic Tokai took an equity stake in Dream Wave Shizuoka, now Toco Channel Shizuoka, and started CATV service in Shizuoka City, Shizuoka Prefecture
Apr-11	Tokai Corp. and Vic Tokai Corp. merged to form Tokai Holdings, which listed its shares on the First Section of the Tokyo Stock Exchange (Tokai Corp. and Vic Tokai delisted their shares in March 2011). Tokai Holdings entered the business of caring for the elderly.
Oct-11	The information communications services business of Tokai Corp. was transferred to Vic Tokai, now Tokai Communications Corp., through a merger and spin off
Apr-12	The CATV business of Tokai Communications Corp. was spun off as a separate company, Tokai Cable Network. Tokai entered the business of total home renovation. Tokai Holdings established a subsidiary, Tokai(Shanghai)Trade & Commerce in Shanghai, China.



Developing new businesses with stable profits from established businesses

(2)Businesses

Tokai Holdings now has five business divisions. In FY3/12, the gas and petroleum division supplied 54.0% of total consolidated sales, the information communications division provided 20.9%, the CATV division contributed 13.4%, the building and real estate division added 8.7%, and the other products division supplied 3.0%. In the three fiscal years through FY3/12, sales in the CATV division grew slightly faster than overall sales because the division extended its area of operation through mergers and acquisitions.

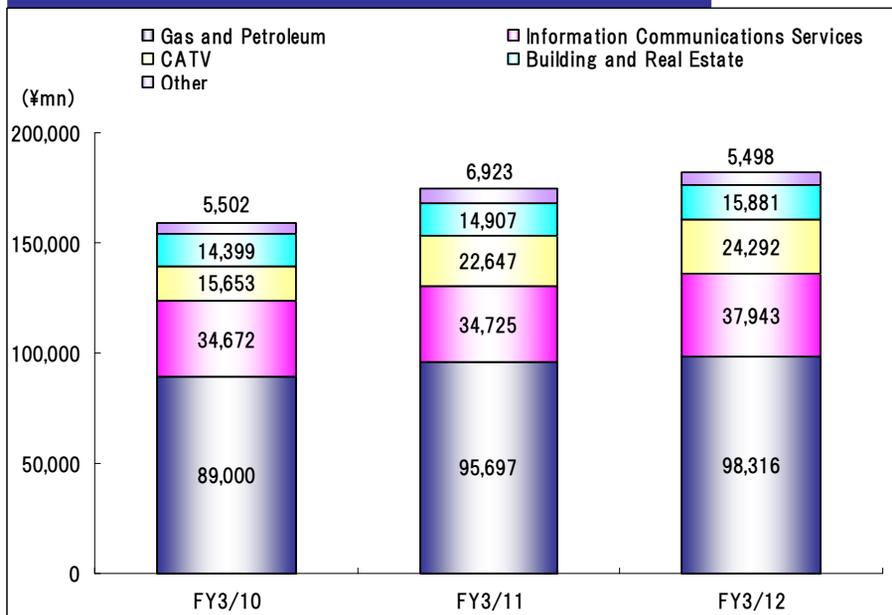
In FY3/12, the gas and petroleum division supplied 41.9% of total consolidated operating profit, the information communications division provided 38.4%, the CATV division contributed 15.1%, the building and real estate division added 5.1%, and the other products division supplied minus 2.1%. The operating profit contributions of the information communications division and the CATV division are high, relative to their sales contributions, indicating higher profitability. The profitability of the other products division is improving in FY3/13 because the division has divested of a valve business that suffered losses in FY3/12.

Each division invests heavily in infrastructure, generating significant depreciation cost, and amortizes the goodwill acquired through mergers and acquisitions. Thus, Tokai Holdings also reports the operating profit for each division before depreciation and amortization costs have been deducted. As shown in the charts below, the CATV division earns the highest margin of operating profit before depreciation and amortization costs. However, this division invests heavily to install cable and optical fiber distribution lines, so it incurs a large depreciation cost. It also amortizes a substantial amount of goodwill. Consequently, its operating profit margin after deducting these costs is notably lower than its margin before deducting them. Tokai Holdings does not plan many further mergers and acquisitions. Rather, it intends to concentrate on strengthening its services in its current service areas while supporting its current customers and attracting new ones. The capital expenditures planned by most of the company's divisions have almost peaked, so the company's operating profit margin may rise in coming fiscal years.

The operating profit earned by the gas and petroleum division, led by the LP gas business, roughly equals the combined profit earned by the information communications division and the CATV division. These three divisions provide the majority of operating profit, and their profits are steady, enabling Tokai Holdings to invest in new businesses.

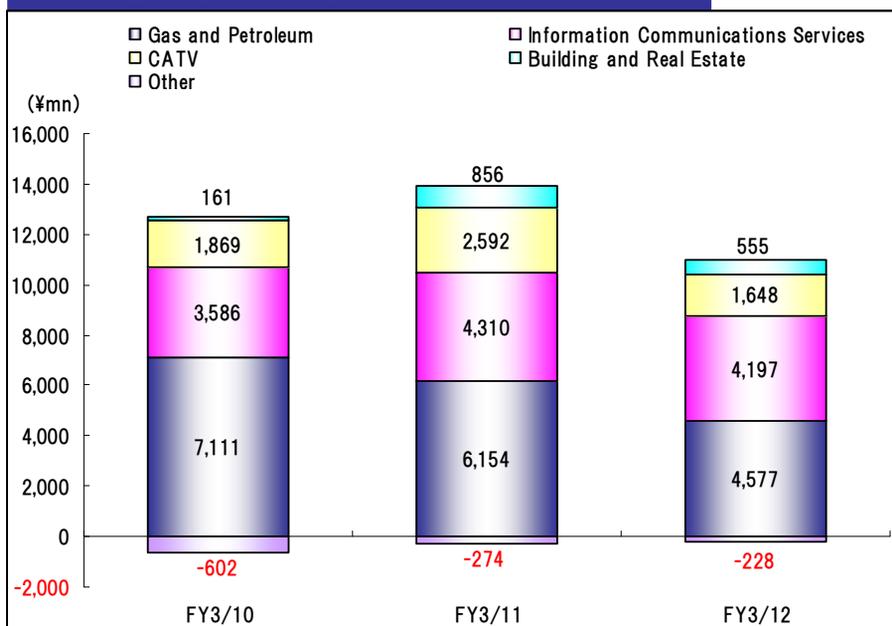
■ Company Description

Consolidated Sales (¥mn) of Tokai Holdings by Division, FY3/10 - FY3/12



Note: Figures for FY3/10 and FY3/11 are consolidated sales of Tokai Corp.

Consolidated Sales (¥mn) of Tokai Holdings by Division, FY3/10 - FY3/12

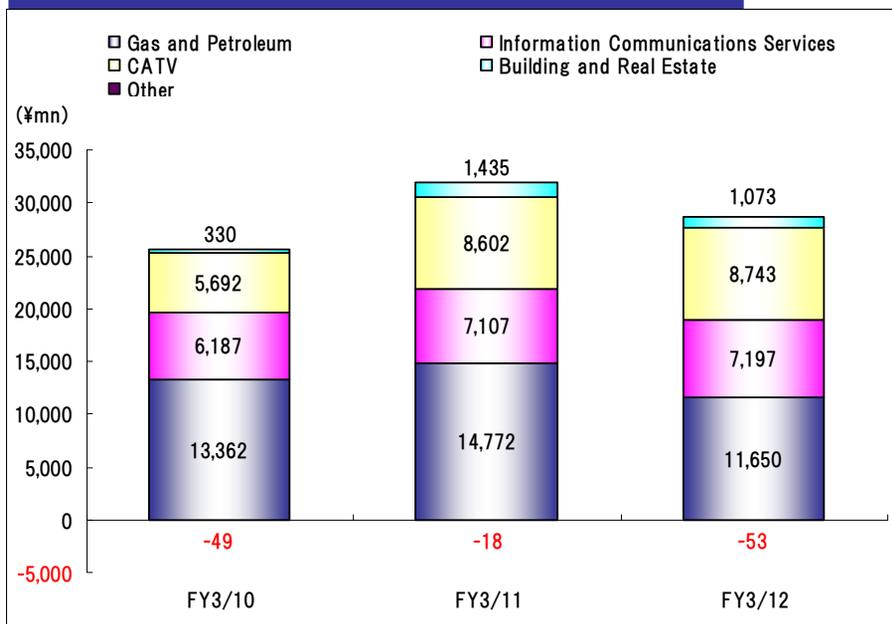


Note: Figures for FY3/10 and FY3/11 are consolidated operating profit of Tokai Corp.



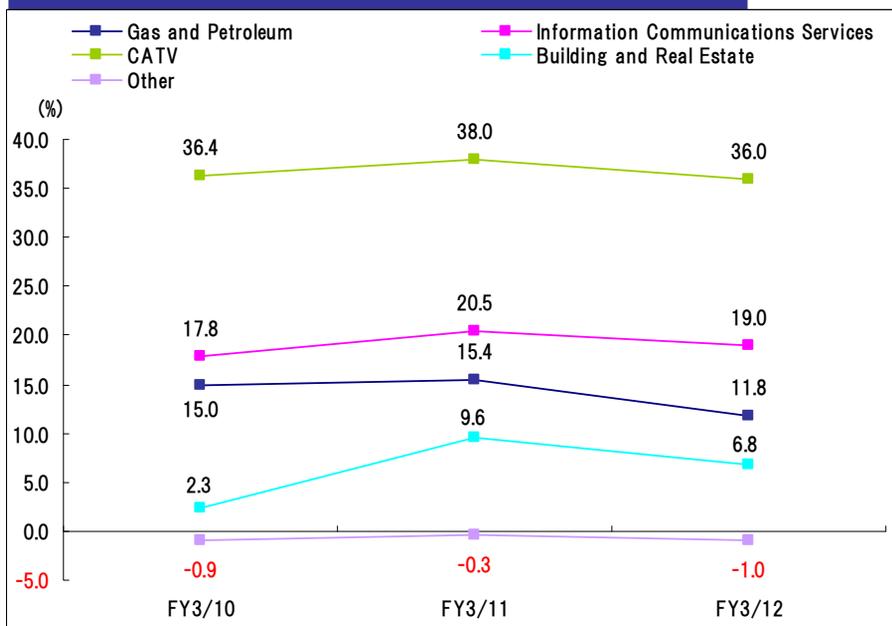
■ Company Description

Consolidated Operating Profit (¥mn) Before Deducting Depreciation and Amortization Costs of Tokai Holdings by Division, FY3/10 - FY3/12



Note: Figures for FY3/10 and FY3/11 are consolidated operating profit before deducting depreciation and amortization costs of Tokai Corp.

Margin of Consolidated Operating Profit (¥mn) Before Deducting Depreciation and Amortization Costs of Tokai Holdings by Division, FY3/10 - FY3/12



Note: Figures for FY3/10 and FY3/11 are margins of consolidated operating profit before deducting depreciation and amortization costs of Tokai Corp.



■ Company Description

Tokai Holdings now has the following 21 consolidated subsidiaries and two affiliates accounted for by the equity-in-earnings method.

Tokai Holdings Group

Consolidated Subsidiaries	Ownership(%)	Division or Main Business
Tokai Corp.	100.0	Gas and petroleum, etc
Tokai Gas	100.0	Gas and petroleum, building and real estate
Suzuki Shokai	100.0	LP gas sales
Osuka Gas Service	100.0	LP gas sales
Joynet	50.0	LP gas production
Tokai Communications	100.0	Information communications Services
Tokai Cable Network	100.0	CATV
Ichihara Community Network Television	90.4	CATV
Atsugi Isehara Cable Network	99.2	CATV
East Communications	100.0	CATV
LCV	89.2	CATV
Kurashiki Cable Television	98.3	CATV
Toco Channel Shizuoka	84.9	CATV
Net Technology Shizuoka	55.0	CATV
Shimada Resort	100.0	Building and Real Estate
Tokaizosen-unyu	90.8	Other businesses, gas and petroleum
Bouquet Tokai Mishima	100.0	Other businesses (managing weddings, etc.)
Bouquet Tokai Gotenba	100.0	Other businesses (managing weddings, etc.)
Tokai City Service	100.0	Other businesses (managing weddings, etc.)
Tokai Life Plus	100.0	Other businesses (care for the aged)
Tokai(Shanghai)Trade & Commerce (Shanghai, China)	100.0	Aqua business (delivering bottled water)
(Equity-accounted Affiliates)		
Shizuoka ekisan	40.0	Gas and petroleum
Waei	25.0	Other businesses

Note: As of March 2013

Maintains high operating profit margin, relative to its industry

(a) Gas and Petroleum Division

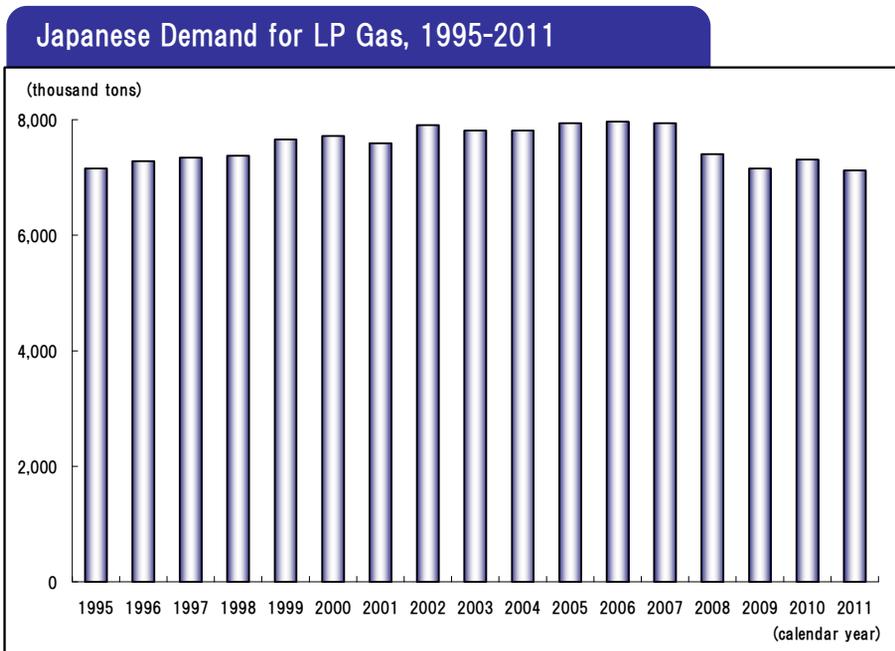
Of the total sales generated by the gas and petroleum division, about 80% comes from the LP gas business, 16% from the city gas business, and 4% from the aqua business.

The LP gas business supplies LP gas mainly to households and businesses in Shizuoka Prefecture and Greater Tokyo. At the end of 2012, the business had 578,000 contracts in effect, placing it third in Japan, after Iwatani Inc. (8088) and Nippon Gas (8174). In Shizuoka Prefecture, the business holds the top market share, of 17.2%, and in Greater Tokyo, its share is 8.4%. The LP gas business produces an operating profit margin of more than 6%. The company's retail of LP gas is adjusted, with a slight time lag, to reflect the cost of this gas, so profitability remains stable. Because this business sells mainly to households and businesses, not to industry, it is more profitable than most other LP gas businesses.



■ Company Description

However, as shown in the graph below, Japanese demand for LP gas peaked in 2006 and has been trending downward since then, probably because LP gas is more expensive than competing sources of energy, such as city gas and electricity, and providers of these alternatives have expanded their areas of operation. The number of customers served by Tokai Holdings' LP gas business has also been slightly declining since FY3/10, and the business aims to lower its costs to become more competitive and to expand its share in a market that is becoming more concentrated. Currently, about 24 million Japanese households use LP gas supplied by about 20,000 companies, half the number of suppliers in 1975. Tokai Holdings expects the number of suppliers to continue to fall as the market becomes more concentrated. The LP gas business intends to reduce its distribution cost and to increase the efficiency of its administrative operations, thereby becoming more cost-competitive and increasing its market shares. A key to the success of this strategy will be to acquire more customers in Greater Tokyo, where the business's market share is low. To do this, the business will review its area strategy and may enter into business agreements to undertake work jointly and to improve business capability.

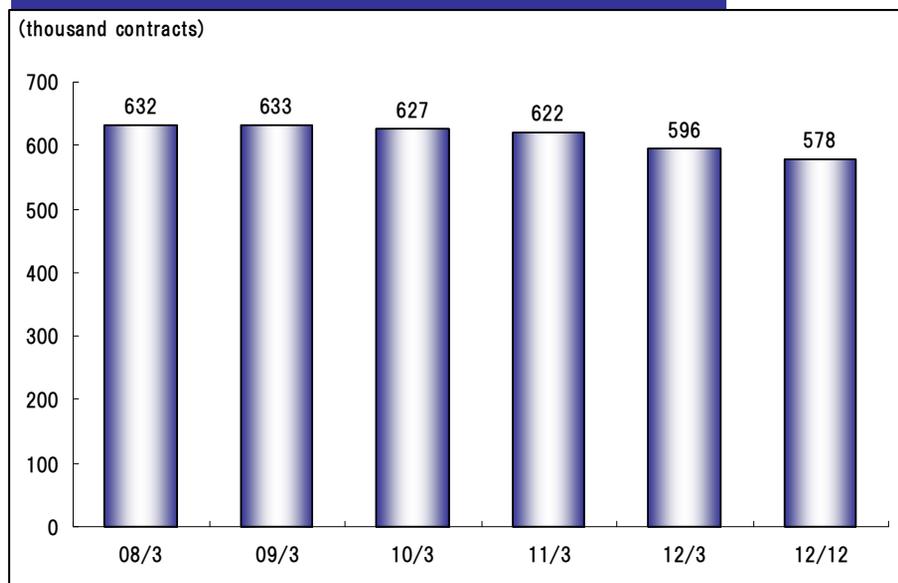


Source: Agency for Natural Resources and Energy



■ Company Description

Number of Contracts for Tokai Holdings' LP Gas Business, March 2008 - December 2012



Note: Numbers are as of the end of each term

Tokai Gas supplies city gas in the Shida area of Shizuoka Prefecture, which includes the cities of Yaizu and Fujieda. Since its area of operation is limited, this business had only 52,000 customers, but it has maintained this number for the past few years.

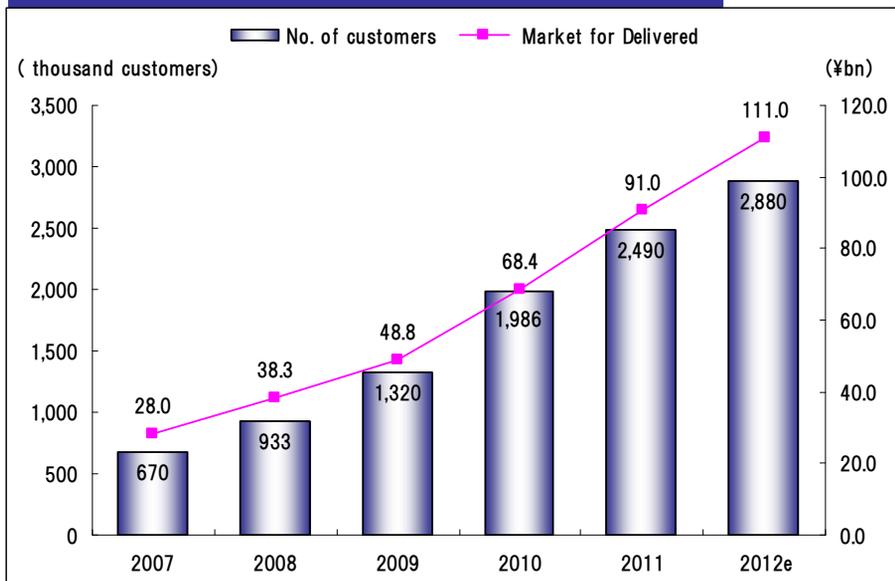
In 2007, this division started delivering bottled water in Shizuoka Prefecture. Tokai Corp. bottles natural water obtained near Mt. Fuji and sells it, while it is distributed by Tokaizosen-nyu. This business flourished, and in FY3/11, it became a nationwide operation. In April 2012, Tokai Holdings established a subsidiary in Shanghai, China to sell this water in that country. The company expects the sale of bottled water in Shizuoka Prefecture to turn profitable in FY3/13, but the costs of expansion in other parts of Japan, mainly Greater Tokyo, are likely to keep the overall business unprofitable in FY3/13. Still, this business provides a higher gross profit margin than the LP gas business, so with further growth, it should turn profitable.

As shown in the chart below, Japan's market for delivered, bottled water has been growing rapidly and surpassed ¥100bn in 2012. The Great East Japan Earthquake and accompanying tsunami of March 11, 2011 stimulated the demand for this water. According to the Yano Research Institute, in fiscal 2011, the leading Japanese supplier of delivered, bottled water was Nac Co. (9788), with a 21% share of the market in terms of sales value. Number two was Aqua Clara Co., with an 18% share. Because Tokai Holdings entered the market late, its market share is just over 4%, but its sales are growing, in part, because its water contains a large amount of vanadium, a mineral found in natural water. Tokai Holdings expects Japan's market for delivered, bottled water to mature in a year or two, so it plans to strengthen its brand of water and to increase the number of its customers by improving its sales capability. This business has 103,000 clients, of which, about 80,000 are in the area of Shizuoka Prefecture and the remaining are in Tokyo or other parts of Japan.



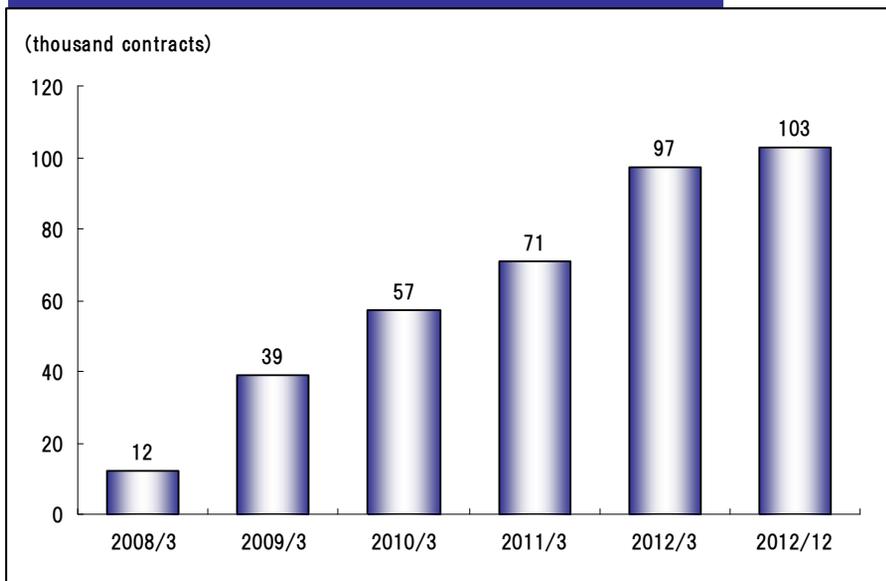
■ Company Description

Japanese Market for Delivered, Bottled Water, 2007 - 2012



Note: Numbers are as of the end of each term
Source: Japan Bottled Water Association

Number of Contracts for Tokai Holdings' Delivered, Bottled Water Business, March 2008 - December 2012



Note: Numbers are as of the end of each term
Source: Japan Bottled Water Association



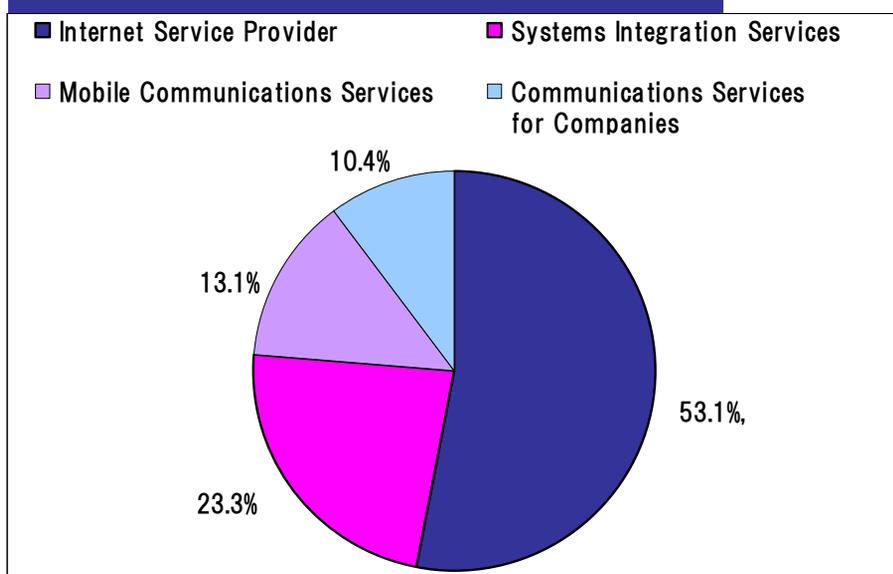
■ Company Description

Holds the top share of about 26% in the ISP market in Shizuoka Prefecture

(b) Information Communication Services Division

The information communications division has four businesses: Internet service provider (ISP), systems integration services, mobile communications services, and communications services for companies. In the first nine months of FY3/13, these businesses supplied the proportions of total division sales shown in the following pie chart.

Division Sales Weightings of Four Businesses of Information Communication Services Division, Q1-Q3, FY3/13



The ISP business accounts for more than half of sales in the information communication services division. This business was begun in 1996 in Shizuoka Prefecture under the TNC brand. In 1997, the business started operations in Kanagawa, Saitama and Chiba prefectures under the @T COM brand. The business sells its service directly at large, mass retailers of electronic goods. Recently, it has concluded an increasing number of contracts for fiber-to-the-home (FTTH) and long-term evolution (LTE) services. In Shizuoka Prefecture, this business holds an approximately 26% share of the ISP market, the top share in the prefecture. In October 2012, the business started operations in the northeastern part of Honshu, the main island of Japan.

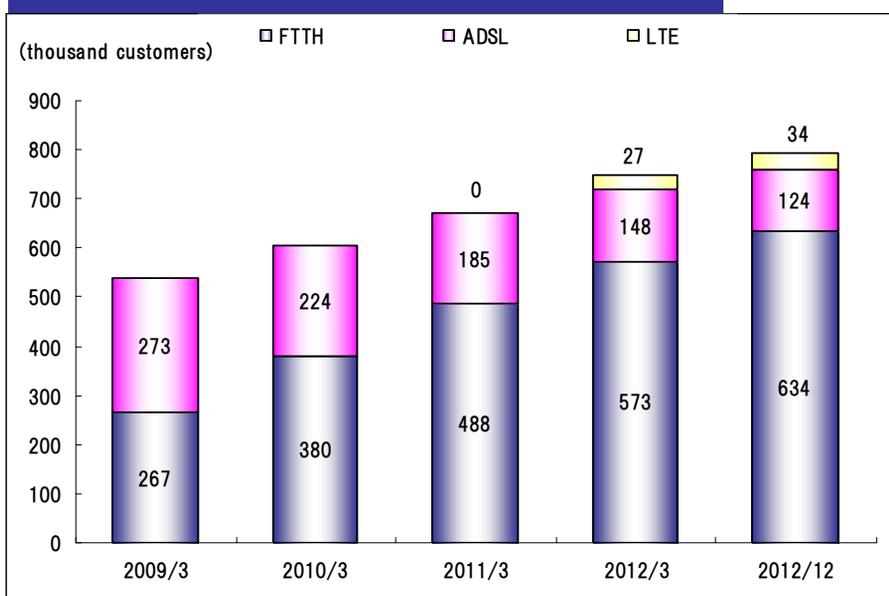
■ Company Description

The mobile communications business operates shops as an agent for Softbank Mobile Corp. In 2012, this business started the Mobile 4G high-speed mobile data communications service as a mobile virtual network operator (MVNO)*.

Most of the operating profit earned by the information communication services division comes from the ISP business, which carries an operating profit margin of about 20%, and the systems integration services business, which yields an operating profit margin of about 14%. These margins are among the highest in the Tokai Holdings group.

Note: a mobile virtual network operator leases a mobile communications circuit from a telecommunications company and provides its own brand of communication services through the circuit.

Number of Customers for Tokai Holdings' ISP Business by Type of Service, March 2009 - December 2012



Note: Numbers are as of the end of each term

Gaining customers by providing programs reflecting regional preferences

(c) Cable Television (CATV) Division

Begun in 1988 in Shizuoka Prefecture, the CATV business rapidly acquired customers using the door-to-door sales technique applied by the company to sell LP gas. About one million Japanese households have access to this business, and half these households subscribe to it. The business is also using its cable network to provide communications services, and the number of customers for such services is growing. Seven group subsidiaries and one affiliate offer CATV service in Shizuoka, Kanagawa, Chiba, Nagano, and Okayama prefectures.

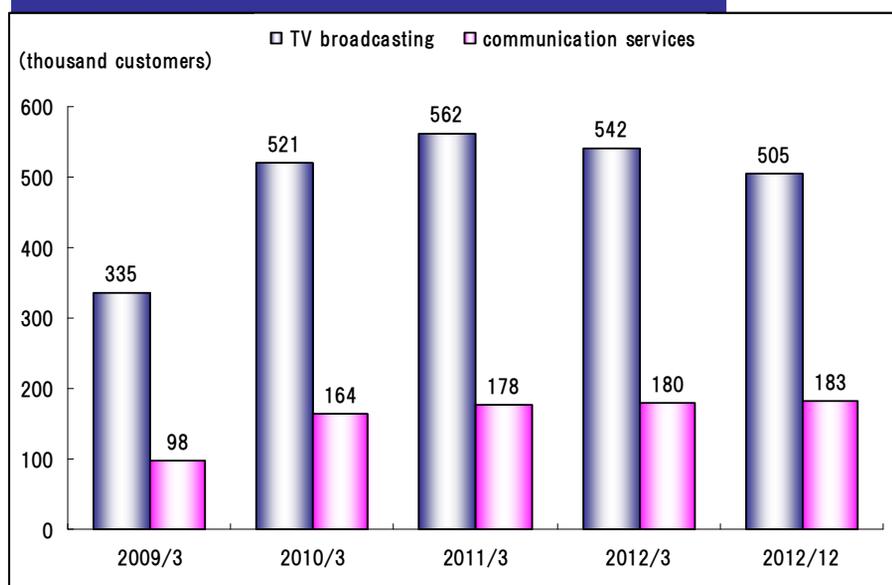


■ Company Description

The main competitors for the CATV business are the large telecommunications carriers. These carriers offer low-priced broadcasts, but have few channels and their programs are not customized for local preferences. The CATV business of Tokai Holdings stresses programs that cater to local interest to gain more customers.

The number of CATV customers peaked in March 2011 and has declined since, due in part to Japan's shift to digital terrestrial TV broadcasting at July 2011, and in part to the division's sale of affiliate Kumagaya Cable Television in April 2012, which lowered the number of CATV customers by 20,000 and the number of communication services customers by 4,000.

Number of Customers for Tokai Holdings' CATV Business by Type of Service, March 2009 - December 2012



Note: Numbers are as of the end of each term

Developing the new business of home renovation

(d) Building and Real Estate Division

In this division, Tokai Corp. designs and constructs homes, stores and other commercial facilities, sells equipment for these structures, and develops and sells real estate. Shimada Resort also engages in real estate business. In April 2012, Tokai Corp. and Tokai Gas started a home renovation business.

Started care of the aged service in 2011

(e) Other Businesses Division

This division operates hotels that host wedding ceremonies and receptions, repairs ships, and offers insurance and travel agency services. In 2011, it entered the business of caring for the aged. The division supplies less than 3% of the total sales for Tokai Holdings.



Business Trends

Sales hit a record high and operating profit increased for the first time in two years

(1)Q1-Q3 FY3/13 Results

On January 31, 2013, Tokai Holdings announced its consolidated results in the first three quarters of FY3/13. Sales rose 1.4% y-o-y to ¥130,879mn, operating profit edged up 0.1% to ¥5,690mn, recurring profit grew 0.6% to ¥4,948mn, and net profit advanced 49.9% to 1,767mn (see the table below). Sales reached a record high for the first nine months of a fiscal year, the third consecutive fiscal year of such highs. Operating profit increased, after a decline in Q1-Q3 FY3/12. Recurring profit rose following declines in Q1-Q3 FY3/11 and Q1-Q3 FY3/12. Net profit grew for the second straight first three quarters. Net profit advanced strongly in Q1-Q3 FY3/13 for two reasons: 1) in FY3/12, the company's tax burden increased due to a change in its effective tax rate, and 2) in FY3/13, the company's tax burden is decreasing because the company is writing down the value of some assets as an extraordinary loss.

Consolidated Results (¥mn) of Tokai Holdings Q1-Q3 FY3/10 - Q1-Q3 FY3/13

	Q1-Q3 FY3/10	YOY	Q1-Q3 FY3/11	YOY	Q1-Q3 FY3/12	YOY	Q1-Q3 FY3/13	YOY
Sales	111,908	-7.0%	125,177	11.9%	129,122	3.2%	130,879	1.4%
Operating Profit	5,860	211.5%	6,364	8.6%	5,684	-10.7%	5,690	0.1%
Recurring Profit	6,872	-	5,379	-21.7%	4,917	-8.6%	4,948	0.6%
Net Profit	2,177	-	1,124	-48.4%	1,178	4.8%	1,767	49.9%
EPS (¥)	30.68	-	15.93	-	11.80	-	17.68	-

The performance by each division in Q1-Q3 FY3/13 is detailed below.

In the gas and petroleum division, sales grew by only 1.8% y-o-y to ¥70,058mn, but operating profit surged by 53.1% to ¥2,078mn. The strong operating profit growth stemmed from the control of operating costs in the LP gas business and an increase in the number of customers in the aqua business. At the end of December 2012, the LP gas business had 578,000 customers, which was 25,000 fewer than it had at the end of December 2011. However, the business raised its selling price to reflect an increase in its purchase cost, and this rise supported modest sales growth. At the end of December 2012, the aqua business had 103,000 customers, which was 6,000 more than it had at the end of December 2011. In July 2012, the aqua business started constructing a second water plant, the Aqua Fujisan Plant, to expand production capacity and reduce the business risk of dependency on a single plant. The second plant started operations in March 2013, increasing production capacity by 50%. In June 2012, the company's new subsidiary in Shanghai, China started delivering the Fuji Shigen brand of bottled water in Shanghai.

■ Business Trends

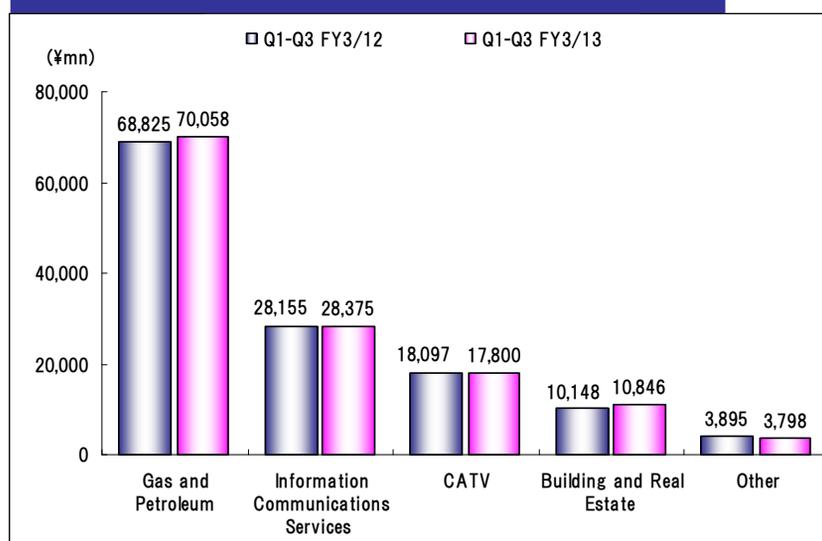
In the information communications division, sales grew by only 0.8% y-o-y to ¥28,375mn, but operating profit fell by 7.5% to ¥2,913mn. The sales growth was attributable to an increase in the number of ISP customers using FTTH or LTE services and to an increase in IT outsourcing for companies. Operating profit declined because FTTH communications carriers lowered their subsidies paid for sales of the FTTH service. At the end of December 2012, the ISP service had 634,000 FTTH customers, which was 70,000 more than it had at the end of December 2011, 34,000 LTE customers, up 12,000 y-o-y, and 124,000 ADSL customers, down 32,000 y-o-y. The number of its broadband communication customers therefore totaled 792,000, which was 50,000 more than the number a year earlier.

In the CATV division, sales decreased by 1.6% y-o-y to ¥17,800mn, and operating profit fell by 49.8% to ¥592mn. The main reason for the sales decline was the sale, in April 2012, of affiliate Kumagaya Cable Television. Operating profit fell because the division lowered its fees to compete with large telecommunications carriers and temporarily increased its costs of acquiring new customers. At the end of December 2012, the CATV division had 505,000 customers for TV broadcasts, 40,000 fewer than it had at the end of December 2011, and 183,000 customers for communication services, up 3,000 y-o-y. The sale of Kumagaya Cable Television reduced the number of TV broadcast customers by 20,000 and the number of communication services customers by 4,000.

In the building and real estate division, sales grew by 6.9% y-o-y to ¥10,846mn, but the division suffered an operating loss of ¥77mn, having earned an operating profit of ¥35mn in Q1-Q3 FY3/12. In April 2012, the division started the Tokai Will brand of complete home renovation, and this new service contributed to sales growth. However, the division also had to staff its sales office with planners for this service and make other initial investments, which led to the operating loss.

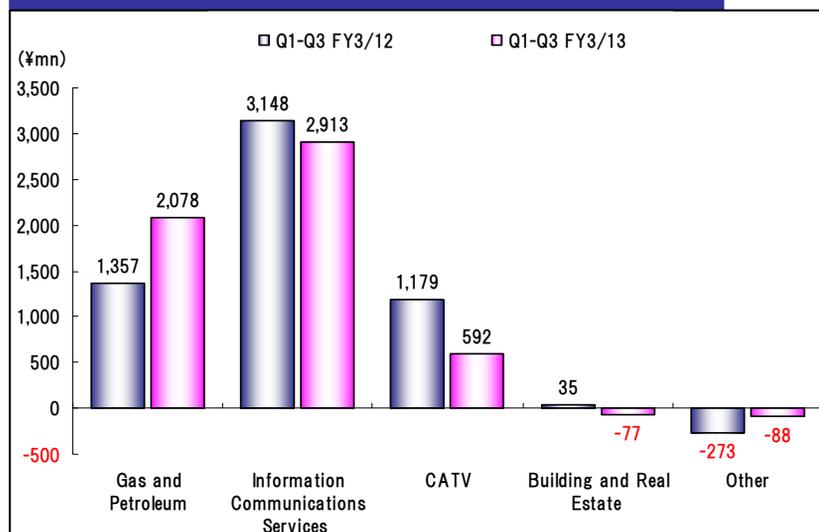
In the other products division, sales declined by 2.5% y-o-y to ¥3,798mn, and the division suffered an operating loss of ¥88mn, which was smaller than its operating loss of ¥273mn in Q1-Q3 FY3/12. In the new service of caring for the aged, sales grew, but at the end of March 2012, the division closed its wedding hall in Numazu City, and this closure contributed to the decline in total division sales. The operating loss shrank because costs were reduced with the closure of the Numazu wedding hall and because other wedding facilities increased their utilization rates.

Division Sales (¥mn) at Tokai Holdings, Q1-Q3
FY3/12 versus Q1-Q3 FY3/13



■ Business Trends

Division Operating Profit (¥mn) at Tokai Holdings, Q1-Q3 FY3/12 versus Q1-Q3 FY3/13



Number of Customers (thousand) for Services of Tokai Holdings, Q1 FY3/12 - Q3 FY3/13

	FY3/12 1Q	FY3/12 2Q	FY3/12 3Q	FY3/12 4Q	FY3/13 1Q	FY3/13 2Q	FY3/13 3Q
Gas total	671	668	656	648	642	635	631
LP gas	619	616	604	596	589	582	578
City gas	52	52	52	52	52	52	52
Security	21	2	20	20	20	20	20
Aqua	87	95	97	97	99	102	103
Information Communications total	1,599	1,614	1,641	1,649	1,631	1,648	1,674
Broadband communications	693	709	742	748	734	740	792
FTTH	517	53	554	573	594	609	634
ADSL	176	166	157	148	139	131	124
LTE	0	10	21	27	31	34	34
Dial up	11	11	10	10	10	11	11
Mobile communications	175	180	186	193	198	202	207
CATV broadcasting	560	547	545	542	506	506	505
CATV communications services	180	180	180	180	176	180	183
Total	2,378	2,398	2,414	2,415	2,392	2,405	2,427

■ Business Trends

The gas and petroleum division was more profitable, the result may exceed company's forecast

(2) Estimates for FY3/13

In July 2012, Tokai Holdings slightly lowered its sales forecast for FY3/13 but raised its profit forecasts, as detailed in the table below. In Q1-Q3 FY3/13, sales amounted to 70% of the company's sales forecast for the full fiscal year, and operating profit totaled 71% of the full-year forecast. The gas and petroleum division was more profitable in Q1-Q3 FY3/13 than the company had expected, and there were no large changes in the company's operating environment in Q4 FY3/13. Therefore, profits may not have fallen in FY3/13 as much as the company had forecasted.

Tokai Holdings' Forecasts (¥mn) of its FY3/13 Consolidated Results

	Sales	YOY	Operating Profit	YOY	Recurring Profit	YOY	Net Profit	YOY	EPS	DPS
Original forecasts	189,200	4.0	6,990	-36.0	5,750	-41.4	1,980	-27.1	19.8	12.0
July 2012 forecasts	187,200	2.9	7,990	-26.9	6,750	-31.2	2,380	-12.3	23.8	12.0

■ Medium-term Plan

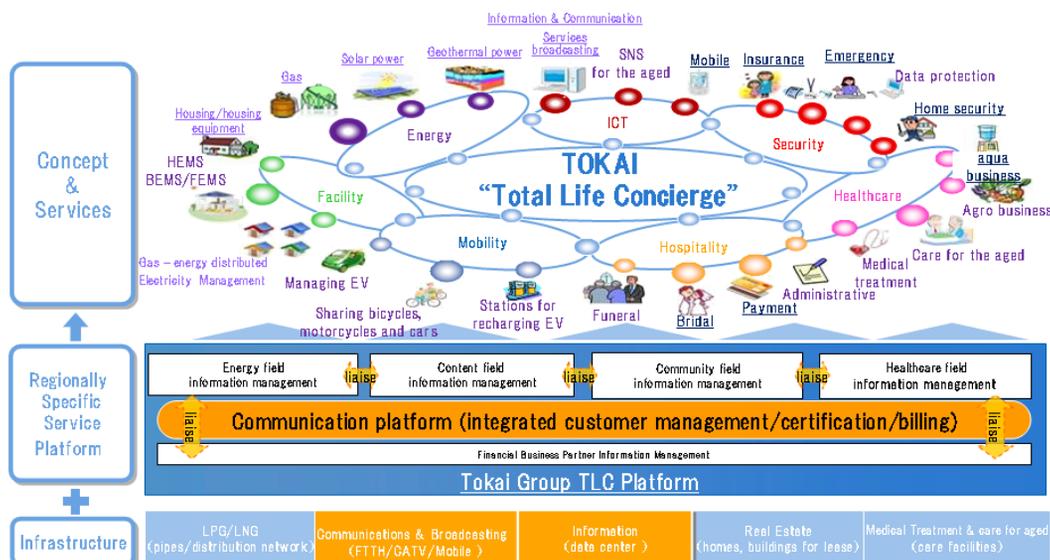
Aims to increase the synergy between its businesses and aims to be more profitable

(1) Plan Description and New Businesses

In July 2012, Tokai Holdings slightly lowered its sales forecast for FY3/13 but raised its profit forecasts, as detailed in the table below. In Q1-Q3 FY3/13, sales amounted to 70% of the company's sales forecast for the full fiscal year, and operating profit totaled 71% of the full-year forecast. The energy and home services division was more profitable in Q1-Q3 FY3/13 than the company had expected, and there were no large changes in the company's operating environment in Q4 FY3/13. Therefore, profits may not have fallen in FY3/13 as much as the company had forecasted.

■ Medium-term Plan

Total Life Concierge Concept



Source: Company
 Note: underlined services currently exist

The table below shows the company’s targets for FY3/12-FY3/14 in its medium-term plan against actual results in FY3/12, company forecasts for FY3/13, and for FY3/14. Based on the company’s forecasts for FY3/13, the company will fall short of several of its targets for that fiscal year. However, in FY3/13 it will probably achieve its FY3/14 target for interest-bearing debt and come close to its targeted equity ratio. The company plans to continue to reduce its interest-bearing debt, so its next medium-term targets may be a debt-equity ratio of 2.5-3.0x, down from the present ratio of 4.0x, and an equity ratio of more than 20%.

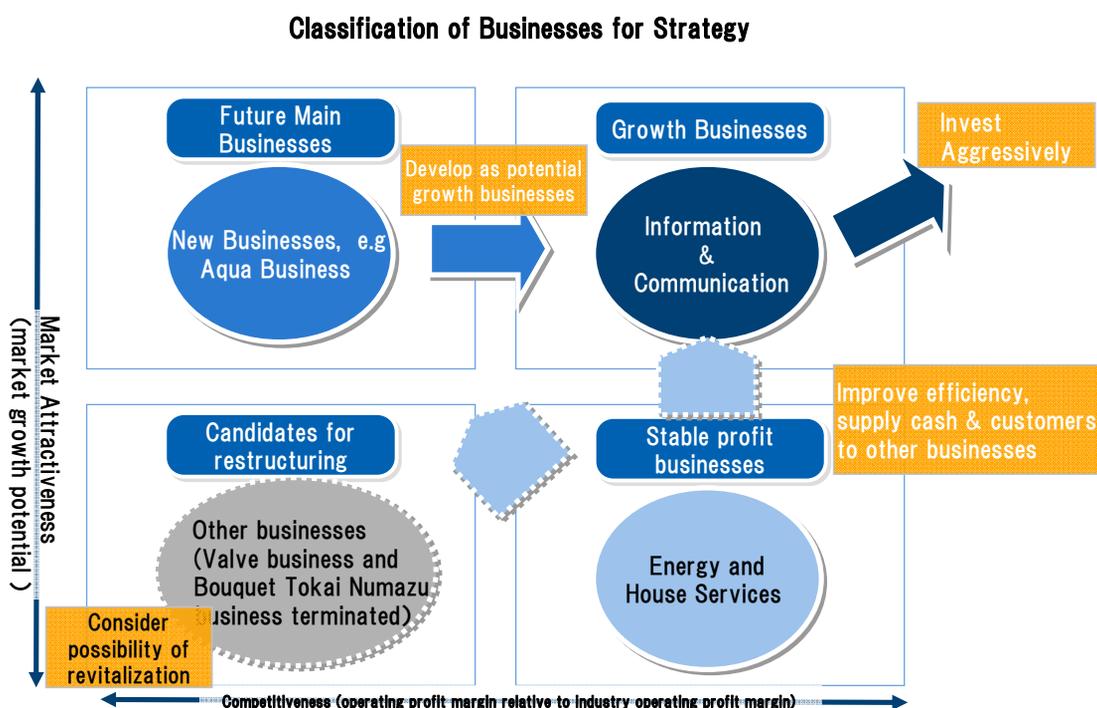
Targets (¥bn) in Medium-term Plan versus Results and Forecasts

	FY3/12		FY3/13		FY3/14	
	Plan	Actual	Plan	Forecast	Plan	Forecast
Sales	185.4	181.9	191.1	187.2	197.2	194.8
Operating Profit	8.5	10.9	11.7	8.0	13.7	9.7
Recurring Profit	6.6	9.8	9.6	6.8	11.5	8.4
Net Profit	1.6	2.7	3.8	2.4	4.9	3.3
Capital investment	17.0	11.9	12.2	12.8	9.0	9.6
Free cash flow	8.0	18.5	14.5	13.1	20.4	16.0
Interest-bearing debt balance	122.6	105.7	113.8	99.0	99.6	90.9
Equity ratio	12.5%	14.3%	14.0%	16.9%	17.5%	16.7%
Return on Assets	0.8%	1.4%	1.9%	1.1%	2.5%	1.6%



■ Medium-term Plan

To formulate an appropriate strategy for each of its businesses, Tokai Holdings classifies its businesses into four categories according to their growth potential and competitiveness (see diagram below). The company sees its established gas and CATV businesses as sources of cash and customers, its information communications services as growth businesses in which it will increase investment, and its new businesses, such as the aqua business, care for the aged, and home renovation, as sources of future growth. Tokai Holdings has entered these new businesses in recent years to realize its Total Life Concierge ideal.



Source: Company

Tapping the overseas market for growth

(a) Aqua Business

In November 2007, Tokai Holdings started selling water in returnable bottles in Shizuoka Prefecture. The formal name of this service was Home Delivery of Delicious Water. Since March 2011, this business has been delivering water in non-returnable bottles throughout Japan. Brands include Asagiri no Shizuku and Asagiri no Shizuku Premium. These brands contain 150 μg of the mineral vanadium per liter, the highest concentration allowed in Japan, and their cost per unit of volume is the second lowest among natural water sold for water servers in Japan.

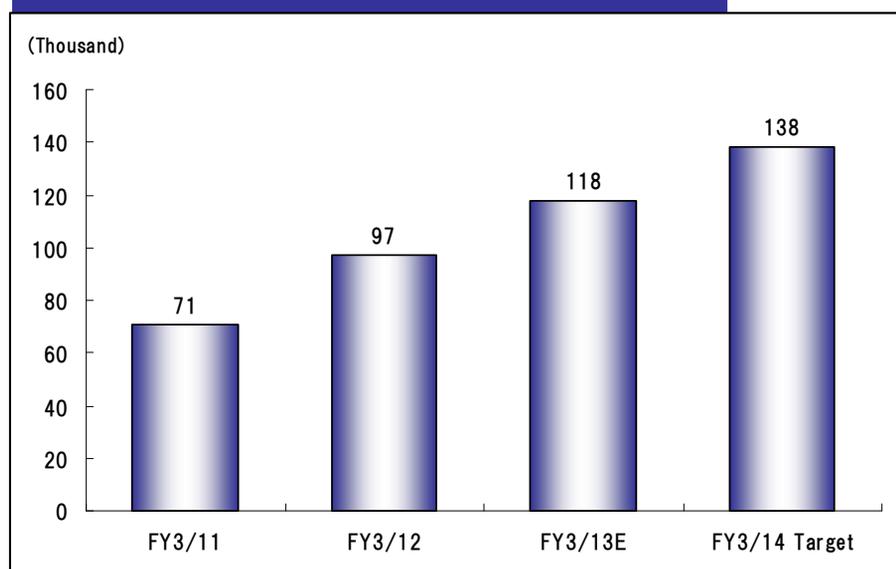


■ Medium-term Plan

The aqua business should benefit from synergy by using the customer acquisition and product distribution knowhow accumulated by the gas business. The aqua business is busiest in the summer, while the gas business is busiest in the winter. By combining and standardizing their administrative functions, these two businesses can improve their productivity. The business produces its own water, making it the first production enterprise of Tokai Holdings. It procures a stable supply of low-cost water from near Mt. Fuji, so it is likely to become a source of stable profit in the future.

At the end of December 2012, the aqua business had 103,000 customers. By the end of FY3/14, it aims to have 138,000 customers, and for FY3/14, it plans to generate sales of ¥7.1bn. In a few years, it targets 200,000 customers and annual operating profit of ¥1.1bn. The aqua business has led Tokai Holdings' advance overseas. In April 2012, the company established a subsidiary in Shanghai, which began selling water in June.

Number of Customers (thousand) for Aqua Business, March 2011-March 2014 target



Aiming for sales of ¥12bn in five years

(b) Home Renovation Business

In April 2012, Tokai Holdings launched a home renovation business for which it has great expectations. In June 2010, the Japanese government announced a new growth strategy that included home renovation. The government estimated the Japanese market for home renovation at ¥6 trillion in 2010 and aimed to double the market to ¥12 trillion by 2020.

■ Medium-term Plan

Tokai Holdings calculates the potential demand for home renovation at ¥140bn in Shizuoka Prefecture and ¥440bn in the six prefectures comprising Greater Tokyo (the Kanto region). Plumbing fixtures, such as kitchen sinks, toilets and bathrooms, are in the greatest need of renovation, but there is also rising demand for solar energy systems to save energy and for barrier-free construction in homes for the elderly.

The home renovation business is expanding under the service concept of being able to provide a wide range of services with advanced design and installation capabilities. The business aims to generate sales of ¥12bn in five years. The business has combined its sales force with the sales force of the gas business, and it is hiring more architects, interior coordinators and planners to provide attractive designs and improve sales efficiency. The gas business and the home renovation business are quite compatible, so they should generate substantial synergy. FY3/13 is the first fiscal year of operations for the home renovation business, so it will not contribute to group profits that year. However, the company expects this business to become profitable soon. The company intends to develop this business as a critical component of its Total Life Concierge concept.

A strategic business for Japan's rapidly aging society

(c) Care for the Aged Business

To realize its Total Life Concierge concept, Tokai Holdings entered the business of caring for the aged, a business with great market potential in Japan, where the average age is rising rapidly. Subsidiary Tokai Life Plus now operates two nursing homes in Shizuoka Prefecture.

Tokai Life Plus plans to expand its care for the aged business in response to demand. With group businesses in house building, information communications services and energy, Tokai Life Plus expects to be able to present a superior and safe service for the aged and to maintain a stable market share in this business. To provide a service with the quality implied by the Plus in Tokai Life Plus, the company will refine its ability to operate facilities for the aged and to provide various services to the aged. Tokai Holdings now has more than 2.4 million customers, and some of these customers will probably subscribe to the company's services for the aged in the future.

Aims to expand the number of customers

(d) TLC Customer Service Started

Tokai Holdings has more than 2.4 million customers, but only about 10% of these customers use more than one of the company's services. This proportion is particularly low considering that the company's businesses contributing to infrastructure for daily living, such as the gas business, communications and CATV broadcasting, operate in the same service areas.



■ Medium-term Plan

To increase this proportion, in December 2012, Tokai Holdings started a TLC Customer Service organization. Customers who join this organization receive a TLC WAON Card that operates using WAON electronic money. Every time a member uses this card for a service provided by Tokai Holdings, the member receives TLC points depending on the transaction size. These TLC points can be freely converted into WAON points that can be used to buy goods at about 156,000 Aeon Group stores or businesses accepting the WAON card throughout Japan.

Initially, the TLC Customer Service was offered to customers of six group businesses: LP gas, aqua, internet, security, city gas and most CATV service providers. The company plans to increase the number of businesses that offer this service and the geographical areas in which it is offered. If a member uses a TLC WAON Card for more than one Tokai Holdings business, he or she receives 50-500 bonus points each month.

Through such a group strategy, Tokai Holdings should be able to increase the number of its customers and its sales from FY3/14. It should also be able to expedite the profitability of new businesses and to reduce capital expenditure and depreciation cost, contributing to profit growth.

■ Share Price Trend and Shareholder Return Policy

Share price likely to discount high dividend and earnings recovery

In recent months, Japanese share prices have rallied, and the Nikkei 225 index recently exceeded 13,000 for the first time in five years. However, the share price of Tokai Holdings is languishing at about 80% of its 2012 high. The prospect of profit declines in FY3/13 has probably contributed to this poor share price performance, but as detailed above, profits may not fall as much as the company has forecasted in FY3/13, and from FY3/14, profits will probably grow.

The company's dividend yield is more than 3.5%, which is higher than the average dividend yield of companies listed on the First Section of the Tokyo Stock Exchange. The company normally pays a constant dividend, but as its profits grow, it may increase its dividend. As a shareholder award, the company offers its bottled water with a retail value of ¥1,600. For an investor holding the minimum lot of the company's shares, this award constitutes a yield of more than 8%.

The company currently holds 41 million treasury stocks, equivalent to 26% of total outstanding shares. It plans to use these stocks for future business reorganizations or capital alliances.



Tokai Holdings' Share Price Movement As of 19th April 2013



(C) FISCO

Consolidated Balance Sheet (¥mn) for Tokai Holdings, FY 3/08 - FY3/12

	FY3/08	FY3/09	FY3/10	FY3/11	FY3/12
Current assets	58,352	52,715	51,236	49,744	41,093
(Cash and cash equivalents)	7,814	7,405	11,084	8,622	2,602
(Inventories)	10,742	9,340	8,885	9,568	8,051
Tangible fixed assets	83,557	88,356	107,778	110,613	110,207
Intangible fixed assets	7,360	8,795	14,810	16,654	17,266
(Goodwill)	6,331	7,490	13,186	15,022	15,540
Investments, etc.	17,209	18,653	17,138	15,996	14,995
Deferred assets	321	33	72	229	171
Total assets	166,802	168,554	191,036	193,239	183,735
Current liabilities	87,339	98,308	96,682	89,783	85,179
Fixed liabilities	58,734	53,513	74,804	81,866	71,374
(Bonds & long-term borrowings)	109,695	112,608	127,686	122,156	104,238
Total liabilities	146,074	151,822	171,487	171,650	156,553
Shareholders' equity	14,629	11,604	13,851	15,425	26,424
Common stock	14,004	14,004	14,004	14,004	14,000
Additional paid-in capital	8,516	8,511	4,786	2,207	21,868
Retained earnings	-5,718	-8,477	-2,239	-651	1,780
Treasury stock	-2,172	-2,434	-2,700	-135	-11,224
Other comprehensive income	99	-364	-51	-547	-149
Equity warrants & minority interest	5,999	5,492	5,749	6,710	905
Total equity	20,728	16,732	19,549	21,589	27,181
Total liabilities & equity	166,802	168,554	191,036	193,239	183,735
Measures of financial strength					
Current ratio	66.8%	53.6%	53.0%	55.4%	48.2%
Equity ratio	8.8%	6.9%	7.3%	8.0%	14.4%
Debt-equity ratio	749.8%	970.4%	921.9%	791.9%	394.5%
Measures of profitability					
Return on equity	3.5%	-18.8%	22.2%	14.0%	10.3%
Operating profit margin	4.0%	5.0%	6.3%	6.1%	6.0%

Note: Figure for FY3/08-FY3/11 are for Tokai Corp.
Source: Company

**Consolidated Income Statement (¥mn) for Tokai Holdings,
FY 3/08 - FY3/12**

	FY3/08	FY3/09	FY3/10	FY3/11	FY3/12
Sales	160,724	165,702	159,228	174,901	181,931
(YOY)	3.8	3.1	-3.9	9.8	4.0
Cost of sales	107,924	106,892	95,880	107,455	112,393
(Cost-of-sales ratio)	67.1	64.5	60.2	61.4	61.8
SGA cost	46,438	50,529	53,317	56,690	58,614
SGA cost ratio	28.9	30.5	33.5	32.4	32.2
Operating profit	6,362	8,279	10,029	10,755	10,923
(YOY)	-19.7	30.1	21.1	7.2	1.6
Margin	4.0	5.0	6.3	6.1	6.0
Non-operating income	3,313	1,885	3,266	973	1,095
Interest and dividends received	286	301	213	200	152
Other income	3,027	1,584	3,053	773	943
Non-operating costs	5,513	10,422	2,472	2,240	2,200
Interest and dividends paid	2,314	2,282	2,064	2,075	1,816
Other costs	3,199	8,140	408	165	384
Recurring profit	4,162	-257	10,822	9,489	9,818
(YOY)	12.7	-106.2	-4310.9	-12.3	3.5
Margin	2.6	-0.2	6.8	5.4	5.4
Extraordinary gains	1,302	1,070	130	265	270
Extraordinary losses	2,165	1,878	2,317	3,533	2,626
Pretax profit	3,299	-1,065	8,635	6,221	7,463
(YOY)	-38.5	-132.3	-910.8	-28.0	20.0
Margin	2.1	-0.6	5.4	3.6	4.1
Income taxes	1,813	143	4,546	3,015	4,695
(Effective tax rate)	55.0	-13.4	52.6	48.5	62.9
Minority interest	966	977	1,008	1,054	52
Net profit	518	-2,187	3,080	2,152	2,715
(YOY)	-350.0	-522.2	-240.8	-30.1	26.2
Margin	0.3	-1.3	1.9	1.2	1.5
Other important data					
Capital expenditure	18,697	18,963	25,980	18,765	17,638
Depreciation cost	8,363	9,592	10,576	12,750	14,234
Goodwill amortization	1,963	2,218	2,459	2,795	3,669
Shares outstanding (thousand)	75,750	75,750	75,750	70,845	155,199
Earnings per share (¥)	7.2	-30.6	43.5	30.5	27.2
Dividend per share (¥)	8.0	8.0	8.0	8.0	12.0
Book value per share (¥)	205.5	157.9	195.4	210.8	262.9
Dividend payout ratio	111.6	-	18.4	26.2	44.2

Note: Figure for FY3/08-FY3/11 are for Tokai Corp.
Source: Company

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