

TOKAI Holdings Corporation

3167

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Summary

The decline in profits in the LP gas business will be covered by the strong performances of the CATV, Aqua, and other businesses toward record high profits for the first time in two fiscal periods

Based in Shizuoka Prefecture, TOKAI Holdings <3167> (hereafter, also “the Company”) is a comprehensive life-style-infrastructure company that is developing “energy and lifestyle-related services,” primarily the provision of liquefied petroleum gas (LP gas), and “information and communications services.” In addition to realizing the Total Life Concierge (comprehensive services for living) concept*¹, from FY3/19 it has started measures for a second theme, of ABCIR+S,*² which utilizes new service technologies that will lead to the next generation of businesses, and it is aiming to take a further leap forward while advancing an M&A strategy.

*¹ Total Life Concierge concept: a vision that aims to improve customer satisfaction by providing comprehensive and detailed support for customers’ comfortable lifestyles through the various services provided by the TOKAI Group.

*² ABCIR+S: the TOKAI Group’s strategy for technological innovation. It is the acronym of AI (A), Big Data (B), Cloud (C), IoT (I), Robotics (R), and Smart Phone (S).

1. FY3/19 3Q cumulative results

In the FY3/19 3Q cumulative period (April to December 2018) consolidated results, net sales increased 3.5% year-on-year (YoY) to ¥137,943mn and operating profit rose 7.0% to ¥7,038mn. So sales and profits both increased, while net sales were a new record high for a 3Q cumulative period. This was mainly because, as a result of the active investment in upfront costs in FY3/18, at the end of FY3/19 3Q the number of Group customers had increased by 59,000 on the end of the previous fiscal year to 2,898,000, mainly in the CATV, LP gas, and Aqua businesses. Looking at the factors causing operating profit to change, the decrease factors were the decline in the LP gas sales volume to households due to the warm weather (¥400mn) and the rise in LP gas purchase costs (¥1.6bn), while the increase factors were the effects of the higher sales from the rise in the number of customers (¥1.6bn), lower costs to acquire customers and to prevent contract cancellations (¥700mn), and the improvement in earnings of LIBMO (¥200mn), which was launched in the same period in the previous fiscal year. Compared to the Company forecasts, it seems that overall, the result was about 10% lower than forecast because of the LP gas business performing below forecast.

2. FY3/19 earnings outlook

For the FY3/19 consolidated results, the initial forecasts have been left unchanged, of net sales to increase 5.1% YoY to ¥195,600mn and operating profit to rise 27.2% to ¥13,960mn. In the LP gas business, it is expected that the impact of factors such as the rise in purchase costs due to the price increase implemented in January 2019 will be minimized, and that this will be covered by the increases in earnings in the CATV and Aqua businesses, which are making progress above forecast, and in the corporate information and communications services business. As a result, the outlook is for record high profits for the first time in two fiscal periods. Alongside the implementation of M&A, at the end of FY3/19 the number of Group customers is expected to have increased by 65,000 on the end of the previous fiscal year to 2,941,000 customers. The rate or progress for this up to 3Q was slightly behind schedule due to LIBMO performing below forecast.

Summary

3. Medium-term management plan (IP20)

In the medium-term management plan (IP20), the Company is targeting net sales of 339.3bn and operating profit of ¥22.5bn in FY3/21. Its strategy to achieve this will be to increase the number of Group customers to more than 4,320,000 (1.5 times the number at the end of March 2018) by utilizing M&As and also to maximize sales and profits per customer by raising the current customer contract rate for multiple services* from about 14% to 20%. M&As will target not only CATV businesses, but also gas, information and communication services, and new businesses. The Company has set about ¥100bn for investment and is examining target companies.

* Contract rate for multiple services = (total number of service contracts ÷ number of customers) - 1

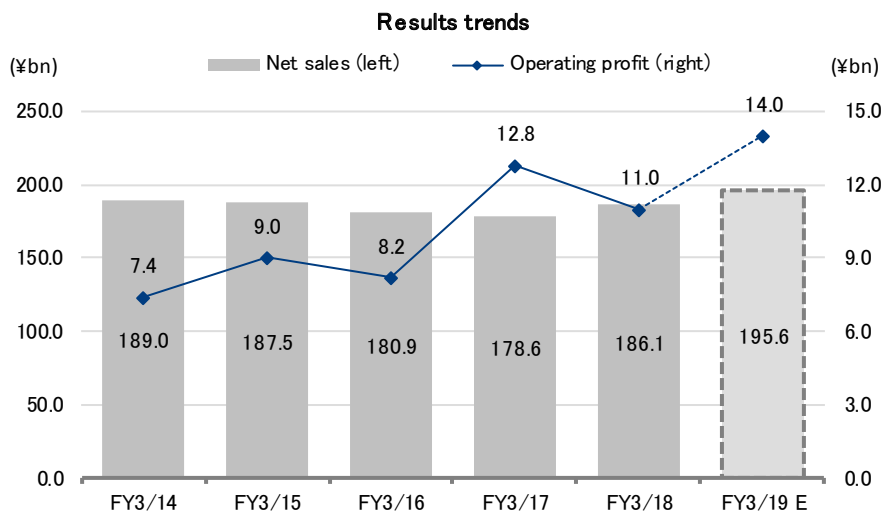
4. Shareholder return policy*

There has been no change to the policy of continuously and stably returning profits to shareholders. The forecast dividend per share for FY3/19 is ¥28.0 (dividend payout ratio, 46.3%), which is unchanged from the previous fiscal year. Going forward, the Company intends to pay dividends while observing profit trends and financing needs, with a benchmark dividend payout ratio of 40% to 50%. Also, at the end of March and the end of September, it presents one gift to shareholders from among several possible choices, such as an Aqua product, a QUO card, and points for a TLC member service worth ¥1,000. When including the gifts to shareholders in an estimate of the total investment yield per share unit from the current share price level (closing price of ¥937 on February 27, 2019), it is in the range of 4% to 7%*.

* In the case of selecting either a QUO card or an Aqua product as the shareholder gift

Key Points

- Achieved sales and profit growth as the decrease in profits in the LP gas business was outweighed by increases in profits in other business segments
- In FY3/19, the active investment to increase customer numbers is proving successful and the outlook is for record high profits for the first time in two fiscal periods
- Aim for more than 4,320,000 Group customers and consolidated operating profit of ¥22.5bn for FY3/21 by advancing the M&A strategy



Source: Prepared by FISCO from the Company's financial results

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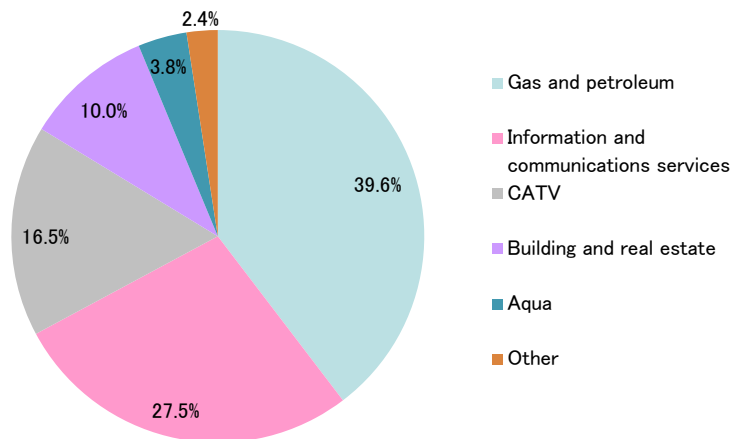
Business overview

Embraced “Total Life Concierge” as a management vision for providing various lifestyle infrastructure services such as LP gas, Internet and CATV services

Based in Shizuoka Prefecture, Japan, the Company is expanding its two main businesses, “energy and lifestyle-related services,” primarily the provision of liquefied petroleum (LP) gas, and “information and communications services,” and it is aiming to achieve its management vision of being a “Total Life Concierge” (TLC). It provides a complete range of services for everyday life under a one contract, one stop, and one call-center model and while deepening its connections with its customers, their local communities, society, and the global environment, it is striving to enrich people’s lives and to contribute to the development of local communities and to the conservation of the global environment, and also to a grow as a comprehensive provider of life services that represents Japan.

The Company currently discloses information on six business segments; the gas and petroleum business, the information and communications services business, the CATV business, the building and real estate business, the Aqua business, and other businesses. Looking at the sales structure by segment for FY3/19 3Q cumulative results, the Company’s original business, the gas and petroleum business accounted for 39.6% of sales, the information and communications services business for 27.5%, and the CATV business for 16.5%. These three mainstay businesses accounted for over 80% of sales. The details by business segment are as follows.

Sales structure by segment (FY3/19 3Q)



Source: Prepared by FISCO from the Company’s financial results

Business overview

1. Gas and petroleum business

In this business, approximately 85% of net sales are provided by the LP gas business and around 15% by the city gas business. The mainstay LP gas business is developed by TOKAI Corporation, primarily for homes and businesses. The service areas are mainly in the Shizuoka and Kanto regions, but since 2015 it has also gradually expanded into other areas including the south Tohoku, Chubu/Tokai, Chugoku, and Kyushu areas. As of the end of December 2018, it had 620,000 contracts, and in direct sales, it ranked third after Iwatani Corporation <8088> and Nippon Gas <8174>. In terms of market share, it is the leader in Shizuoka, its home territory, with around 20%, while it has a share of just under 10% in the highly competitive Kanto region, putting it in second place. As there are approximately 20 million households nationwide that use LP gas, its nationwide market share is still at the level of 3%, and going forward there remains room for it to grow its share, including by expanding sales areas and conducting M&A.

In the city gas business, TOKAI GAS CORPORATION supplies city gas in Yaizu City, Fujieda City, and Shimada City in Shizuoka Prefecture. As the service area is limited, the number of contracts, which was 55,000 at the end of December 2018, has remained basically steady for the past several years. Currently, there are 200 city gas business operators nationwide, but with the exception of the four largest companies, most are small- to medium-sized operators with limited service areas. Following the liberalization of the retail city gas market in April 2017, the Company plans to expand its customer base by bringing regional operators on board as Group companies through M&A deals. As the first stage of this, it acquired the gas business operated by Shimonita Town in Gunma Prefecture* and plans to launch services in April 2019.

| * 1,336 customers and annual net sales of ¥143mn in FY16 |

2. Information and communications services business

The information and communications services business, which is conducted by TOKAI Communications Corporation, is comprised of the consumer ISP (Internet service provider) business and mobile business (sales of mobile phones), and a business to provide communication lines and systems development for corporations. Looking at the percentages of total net sales for FY3/19 3Q cumulative results, the consumer business contributed 61% and the corporate business 39%.

The ISP business provides the “@ T COM” service for the nationwide service area and the TOKAI Network Club (TNC) service for the Shizuoka Prefecture service area, and it has the leading share within Shizuoka Prefecture of approximately 23%. In addition, from February 2015 it launched the Hikari Collaboration service (@TCOM Hikari and TNC Hikari services), in which it receives wholesale provision of optical lines from NTT <9432> and provides its own optical (hikari) Internet connection service. As of the end of December 2018, the Company had 430,000 customers using its existing ISP service and 328,000 customers using its Hikari Collaboration service and customers are shifting toward Hikari Collaboration. The two services have a total of 758,000 customers. This number has steadily declined from 863,000 as of the end of March 2015, immediately after the Hikari Collaboration service was launched. This decline has occurred because customers have been leaving the service at a faster pace than new customers can be enrolled, as major mobile phone carriers conduct sales of service bundles at discounted prices, including mobile phone fees, making use of NTT’s wholesale optical line business.

Business overview

The mobile business operates 12 mobile phone stores, mainly within Shizuoka Prefecture, as a sales agency of Softbank Corp <9434>, and as of the end of December 2018, it had 220,000 customers. The number of customers has continued to gradually decline from a peak of 236,000 as of the end of March 2016. Also, in February 2017 the Company began sales of LIBMO, which is a low-cost smartphone service, as an MVNO business*. The number of LIBMO customers had steadily increased to 39,000 at the end of December 2018.

* MVNO (Mobile Virtual Network Operator): Operators who provide services by borrowing other companies' wireless communication infrastructure, such as for mobile phones.

3. CATV business

In the CATV business, the Company provides services in Tokyo and five prefectures: Shizuoka, Kanagawa, Chiba, Nagano and Okayama. Currently, the CATV business is undertaken by nine Group companies. As of December 31, 2018, the number of customers stood at 785,000 for broadcasting services and 270,000 for communications services, bringing the total to 1,055,000 customers. In terms of the market share of CATV viewing households, the Company holds a market share of approximately 3%, making it the sixth largest player in Japan's CATV industry. Going forward, the Company's strategy is to continue increasing its market share through proactive M&As.

4. Building and real estate business

In this business, TOKAI Corporation engages in the construction and design of detached housing, multi-dwelling housing, stores, and office buildings. It also provides a building management service, sells home facilities and equipment, provides a security service (classified in the gas and petroleum business), operates insurance agencies (classified in other businesses), and develops and trades real estate. In addition, TOKAI Corporation and Tokai Gas Corporation are developing a renovation business.

5. Aqua business

This business began in 2007 when the Company launched a bottled water home delivery service in Shizuoka Prefecture. It provides a returnable bottle service in Shizuoka Prefecture, while in 2011 it also launched a one-way (non-returnable, disposable) bottle service in areas other than Shizuoka Prefecture. It bottles Mt. Fuji natural spring water at two factories in Shizuoka Prefecture that have a total production capacity of approximately 180,000 customers. The Company had 157,000 customers at the end of December 2018. The overall industry had 3,850,000 customers as of the end of 2018, giving the Company a share at around 4%.

6. Other businesses

Other businesses include a nursing care business operated by TOKAI LIFE PLUS CORPORATION, a wedding ceremony business by TOKAI City Service Corporation, and a shipbuilding and repairs business by Tokaizosen-unyu Corporation. The Company launched the nursing care business in 2011, and as of December 2018, it operated six day service facilities, a short stay facility, and a paid-for nursing home in Shizuoka Prefecture. In addition, it has opened two care plan centers. For its wedding ceremony business, it operates one facility in Shizuoka Prefecture.

Results trends

Achieved sales and profit growth as the decrease in profits in the LP gas business was outweighed by increases in profits in other business segments

1. Overview of the FY3/19 3Q cumulative results

Looking at consolidated performance for FY3/19 3Q cumulative results, the Company posted higher sales and profits YoY. Net sales increased 3.5% YoY to ¥137,943mn, operating profit rose 7.0% to ¥7,038mn, recurring profit increased 8.8% to ¥7,247mn, and net income attributable to owners of the parent increased 15.5% to ¥3,966mn. Net sales were a new record high for a 3Q cumulative period. This was mainly because, as a result of the active investment in upfront costs in FY3/18, at the end of FY3/19 3Q the number of Group customers had increased by 59,000 on the end of the previous fiscal year to 2,898,000 customers, mainly in the CATV, LP gas, and Aqua businesses. Looking at the customer numbers compared to the forecasts, they were below forecast in the LP gas business, LIBMO business, and consumer information and communications services business, which includes the mobile business. However, these below-forecast results were exceeded by the pace at which customers increased above forecast in the CATV and Aqua businesses.

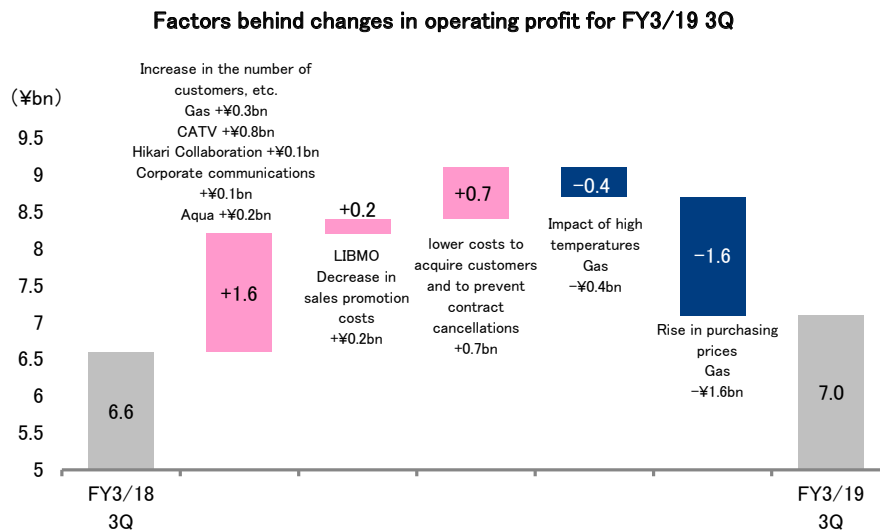
Looking at the factors causing operating profit to change, the decrease factors were the decline in the LP gas sales volume to households due to warmer weather than in a typical year (¥400mn) and the rise in LP gas purchase costs (¥1.6bn), while the increase factors were the effects of the higher sales from the rise in the number of customers (¥1.6bn), lower costs to acquire customers and to prevent contract cancellations (¥700mn), and the improvement in earnings of LIBMO (¥200mn), which was launched in the same period in the previous fiscal year. Compared to the Company forecasts, it seems that the results were slightly above forecast in each of the CATV, Aqua, and building and real estate businesses, but below forecast in the LP gas business (around ¥1.4bn). Therefore in total, the result was approximately ¥1.1bn below forecast.

FY3/19 3Q cumulative consolidated results

	FY3/183Q		FY3/193Q		YoY
	Results	% of sales	Results	% of sales	
Net sales	133,336	-	137,943	-	3.5%
Cost of sales	79,175	59.4%	83,616	60.6%	5.6%
SG&A expenses	47,581	35.7%	47,289	34.3%	-0.6%
Operating profit	6,579	4.9%	7,038	5.1%	7.0%
Recurring profit	6,662	5.0%	7,247	5.3%	8.8%
Extraordinary incom (loss)	-689	-	-491	-	-
Net income attributable to owners of the parent	3,435	2.6%	3,966	2.9%	15.5%

Source: Prepared by FISCO from the Company's financial results

Results trends



Source: Prepared by FISCO from the Company's results briefing materials

In FY3/19, the Company has started various measures on the theme of ABCIR+S as a way to utilize new service technologies that will lead to the next generation of businesses. Specifically, in October 2018, it began providing the TLC Points App, which is a smartphone app that aims to improve the convenience of the TLC member service* by enabling TLC points to be confirmed, used, and exchanged on the app. In addition, the app enables prompt confirmation of services-related information and other information sent by the Company Group. Going forward also, the plan is to work to further improve convenience through enhancing the app's functions.

* Points that are granted to customers by using the Company Group's services. It is possible to pay for usage fees with points and also to exchange the points, such as for other point services and electronic money. Since the launch of the service in December 2012, the number of members has reached 783,000 as of the end of December 2018.

Also, in October 2018, the Company announced that it will partner with Bsize Inc., to start providing Mimamoru AI GPS BoT, which is a child safety protection service that utilizes AI and IoT. It is a service that can confirm in real time the current positional information and movement history on a smartphone app through a small, dedicated terminal that the child carries. Through the AI learning the daily lifestyle habits of the child, abnormalities are detected when patterns of behavior differ from the usual (such as departing from the path usually taken to go to school), and the plan is to add an automatic notification function by the end of FY3/19. The Company intends to actively progress measures on the theme of ABCIR+S in the future also.

Results trends

Major increases in profits in the CATV, Aqua, and building and real estate businesses

2. Trends by business segment

Net sales by segment

	(¥mn)					
	FY3/15 3Q	FY3/16 3Q	FY3/17 3Q	FY3/18 3Q	FY3/19 3Q	YoY
Gas and petroleum	67,106	58,348	51,291	53,145	54,675	2.9%
Information and communications services	30,020	31,988	36,212	37,760	37,959	0.5%
CATV	18,207	18,345	18,901	20,871	22,829	9.4%
Building and real estate	13,311	13,783	12,926	13,491	13,846	2.6%
Aqua	3,707	4,130	4,391	4,652	5,279	13.5%
Other	3,626	3,507	3,708	3,415	3,352	-1.8%
Total	135,981	130,103	127,432	133,336	137,943	3.5%

Operating profit by segment

	(¥mn)					
	FY3/15 3Q	FY3/16 3Q	FY3/17 3Q	FY3/18 3Q	FY3/19 3Q	YoY
Gas and petroleum	4,376	5,232	5,550	3,857	2,954	-23.4%
Information and communications services	3,716	1,472	2,993	2,410	2,595	7.7%
CATV	1,309	1,453	2,125	2,758	3,568	29.4%
Building and real estate	349	523	619	681	915	34.4%
Aqua	-1,166	-933	299	221	444	100.9%
Other	-3,718	-3,741	-3,396	-3,350	-3,442	-
Total	4,866	4,006	8,193	6,579	7,038	7.0%

*Values are prior to allocating indirect costs and other expenses

Source: Prepared by FISCO from the Company's results briefing materials

Customer numbers by key services

	(thousand)					
	End of FY3/15 3Q	End of FY3/16 3Q	End of FY3/17 3Q	End of FY3/18 3Q	End of FY3/19 3Q	YoY change
Gas	624	629	635	653	674	21
LP gas	571	575	582	599	620	21
City gas	53	53	54	54	55	1
Information and communications services	1,099	1,094	1,060	1,047	1,017	-30
Existing ISP	866	686	538	478	430	-48
Hikari Collaboration	-	173	288	319	328	9
LIBMO	-	-	-	21	39	18
Mobile	234	235	234	229	220	-9
CATV	689	704	728	1,002	1,055	53
Broadcasting services	494	497	506	751	785	34
Communications services	195	207	222	251	270	19
Aqua	133	134	135	143	157	14
Security	18	18	17	17	17	0
Total	2,540	2,553	2,551	2,839	2,898	59

* The number of customers below a thousand is rounded to the nearest thousand. Information and communications and CATV both offer communications services, so total figures avoid duplication.

Source: Prepared by FISCO from the Company's results briefing materials

Results trends

(1) Gas and petroleum business

In the gas and petroleum business, net sales increased 2.9% YoY to ¥54,675mn and operating profit, before the allocation of indirect costs and other costs (same below in this section), decreased 23.4% to ¥2,954mn. Within these amounts, in the LP gas business, although the household consumption volume per unit declined due to the weather being warmer than in a typical year, at the end of FY3/19 3Q, the number of customers had risen by 21,000 on the end of the previous fiscal year to 620,000. In addition, the Company transferred the rise in purchases prices onto its prices, so net sales rose 2.0% to ¥45,790mn. The number of customers steadily increased in both the new sales areas (north Kanto, south Tohoku, Aichi Prefecture, Gifu Prefecture, Okayama Prefecture, and Fukuoka Prefecture) and the existing sales areas (including Shizuoka Prefecture and the Tokyo Metropolitan area). In particular, a point to focus is that in the existing areas, customer numbers grew even though customer-acquisition costs did not increase.

Meanwhile, in the city gas business, net sales rose 7.6% YoY to ¥8,885mn, partly due to a rise in sales prices, as well as a slight increase of 1,000 in the number of customers to 55,000.

The main factors behind the decline in operating profit were that, as previously mentioned, the weather was warmer than in a typical year, so LP gas sales volume per customer to households declined, and also because raw materials purchase prices rose alongside the high price of crude oil. It would seem that compared to the Company forecast, operating profit was around ¥1.4bn below forecast.

(2) Information and communications services business

In this business, net sales increased 0.5% YoY to ¥37,959mn, while operating profit increased 7.7% to ¥2,595mn. Within these amounts, net sales in the consumer business suffered a downturn, decreasing 2.2% to ¥23,218mn. Although the number of customers for Hikari Collaboration, which has high monthly revenue, increased by 9,000 on the end of the same period in the previous fiscal year to 328,000, customer numbers for the existing ISP service and other services decreased sharply by 48,000 to 430,000 due to the intensification of competition with major mobile carriers. For the Hikari Collaboration also, the situation has levelled-off since June 2016 due to the intensification of competition to acquire customers. For LIBMO, which is an inexpensive smartphone service, customers increased by 18,000 YoY to 39,000, but this was not enough momentum to stop the overall downward trend, which is expected to continue for the time being.

Conversely, the corporate business performed steadily, with net sales increasing 5.1% YoY to ¥14,740mn. Sales of data communication services trended firmly against the backdrop of the expansion of the cloud services market, and also sales increased for outsourced systems development with active IT demand from corporate customers.

For operating profit, there was a slight increase for consumers due to the improvement in the earnings of LIBMO, while for corporate also, it changed direction and increased due to the effects of the higher sales.

Results trends

(3) CATV business

In the CATV business, net sales increased 9.4% YoY to ¥22,829mn and operating profit rose 29.4% to ¥3,568mn, which were record high results for a 3Q cumulative period. The Company converted Tokyo Bay Network Co., Ltd., and TV Tsuyama Inc., into subsidiaries in FY3/18 2Q and 4Q, respectively, and the effects of these M&A were to increase net sales by approximately ¥1bn and operating profit by around ¥100mn. In addition to the effects of the M&A, the effects of the sales measures continue to appear, such as the discount service by subscribing to a bundle services for broadcasting and communication and for smartphone through collaboration with a major mobile carrier, and also the measures to prevent contract cancellations. Therefore, at the end of the current 3Q, the number of customers had steadily increased for both broadcasting services, up by 34,000 on the end of the previous fiscal year to 785,000, and for communications services, up by 9,000 to 270,000. Broadcasting-services customers also increased by 10,000 on the end of the end of the previous fiscal period, of which, Tokyo Bay Network contributed 5,000 customers. Tokyo Bay Network's service areas are Koto Ward and Chuo Ward, and these are popular areas even within Tokyo whose populations continue to increase. So we will be paying attention to their results as areas in which customer numbers are expected to increase in the future also.

In profits, in addition to the effects of the higher sales, the decrease in depreciation expenses was also a factor behind the increase in profits. The operating profit margin rose from 13.2% in the same period in the previous fiscal year to 15.6%, which was mainly due to the effects of the higher sales, and also that in the existing areas, the broadcasting and communications set contract rate and earnings per customer are rising.

(4) Building and real estate business

In the building and real estate business, net sales increased 2.6% YoY to ¥13,846mn and operating profit rose 34.4% to ¥915mn. The main reason for the higher sales and profits was that orders in the renovaton business grew due to the strengthening of the sales structure in the Shizuoka area.

(5) Aqua business

In this business, net sales increased 13.5% YoY to ¥5,279mn, while operating profit increased 100.9% to ¥444mn, marking the sharp increase in sales and profits. The Company worked actively to acquire customers, including those at large-scale commercial facilities, and the customer numbers had increased by 14,000 on the end of the same period in the previous fiscal year to 157,000 customers, which was the main reason for the higher sales and profits. As a new initiative, the Company has concluded a business-alliance agreement with TOELL Co., Ltd. <3361>, a peer company in the bottled water delivery industry effective November 1, 2018, with the aim of streamlining delivery operations and enhancing service quality in the home water delivery business in the Kanto area, and it has outsourced deliveries of its product to TOELL. TEOLL has 250,000 customers in the Kanto area and has constructed its own delivery system. The alliance has the benefit that it will improve the efficiency of the delivery service through delivering the Company's products at the same time.

(6) Other businesses and adjustments

In the other businesses, net sales decreased 1.8% YoY to ¥3,352mn. Breaking this down, in the nursing care business, sales increased 3.7% to ¥806mn alongside the increase in the number of facility users, and its operating loss continued to improve. In the wedding ceremony business, the number of wedding ceremonies declined and net sales fell 4.4% YoY to ¥1,081mn, while in the shipbuilding business, the volume of ship repair work fell and net sales decreased 3.6% to ¥937mn and operating profit also declined. This segment's operating loss, including internal adjustments, slightly worsened to ¥3,442mn (a loss of ¥3,350mn in the same period in the previous fiscal year).

Results trends

3. Financial position

Looking at the financial condition at the end of FY3/19 3Q, total assets were up ¥1,042mn on the end of the previous fiscal year to ¥167,035mn. Investment and other assets decreased ¥1,208mn, mainly due to the decline in valuation difference on investment securities. Property, plant and equipment fell ¥647mn, but there were increases in cash and deposits of ¥968mn, inventory assets of ¥971mn, and other under current assets of ¥1,509mn, including due to a rise in guarantee deposits.

Income taxes payable decreased ¥1,994mn, provision under current liabilities declined ¥1,453mn, including due to the payment of bonuses, and notes and accounts payable-trade fell ¥1,296mn, while interest-bearing debt increased ¥7,501mn. As a result, total liabilities were up ¥2,860mn on the end of the previous fiscal year to ¥107,404mn.

Total net assets were down ¥1,818mn on the end of the previous fiscal year to ¥59,631mn. This was mainly due to decreases of ¥1,082mn in valuation difference on available-for-sale securities and ¥966mn in deferred gains or losses on hedges.

The equity ratio, which indicates financial soundness, stood at 35.0%, a slight decline from the end of the previous fiscal year. Under the medium-term management plan currently under way, the Company plans to proactively execute growth investments including M&As. The Company expects to keep the equity ratio at the 30% level.

Consolidated balance sheets

						(¥mn)
	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19 3Q	Change
Total assets	165,702	160,303	161,112	165,993	167,035	1,042
(Cash and deposits)	2,861	4,077	3,239	3,143	4,111	968
Total liabilities	122,234	118,332	104,665	104,543	107,404	2,860
(Interest-bearing debt)	73,114	71,410	54,137	50,980	58,481	7,501
Net assets	43,467	41,970	56,446	61,450	59,631	-1,818
Equity ratio	25.7%	25.6%	34.5%	36.3%	35.0%	-1.3pt

Source: Prepared by FISCO from the Company's financial results

■ Outlook

In FY3/19, the active investment to increase customer numbers is proving successful and the outlook is for record high profits for the first time in two fiscal periods

1. Outlook for FY3/19

For FY3/19 consolidated performance outlook, the Company has left its initial forecasts unchanged projecting net sales to increase 5.1% YoY to ¥195,600mn, operating profit to increase 27.2% to ¥13,960mn, recurring profit to increase 24.0% to ¥13,880mn, and net income attributable to owners of the parent to increase 19.6% to ¥7,920mn. Net sales are forecast to increase for the second consecutive fiscal year and to achieve a record high for the first time in five fiscal years. The Company expects higher earnings from increased sales following expansion in the number of Group customers and from lower promotion costs and costs to prevent contract cancellation.

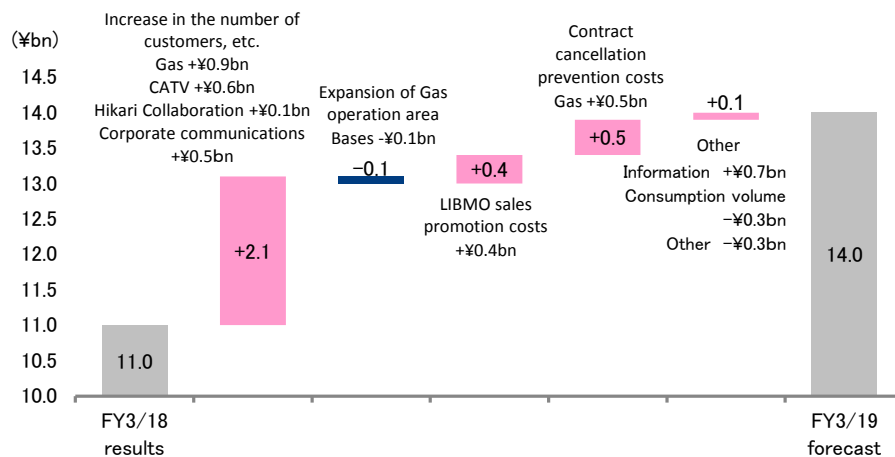
Outlook

Outlook for FY3/19 consolidated performance

	FY3/18		FY3/19		YoY
	Results	% of sales	Full-year forecast	% of sales	
Net sales	186,069	-	195,600	-	5.1%
Operating profit	10,971	5.9%	13,960	7.1%	27.2%
Recurring profit	11,191	6.0%	13,880	7.1%	24.0%
Net income attributable to owners of the parent	6,620	3.6%	7,920	4.0%	19.6%
Net income per share (¥)	51.19		60.48		

Source: Prepared by FISCO from the Company's financial results

Factors expected to impact operating profit in FY3/19



Source: Prepared by FISCO from the Company's results briefing materials

In order to achieve the full fiscal year forecasts, in 4Q it will be necessary to increase 9.3% YoY to ¥57,657mn in net sales and 57.6% to ¥6,922mn in operating profit. Although these are high hurdles, it is thought that the Company still intends to achieve them, as profitability is expected to improve in the LP gas business, including from the implementation of price increases for households in January 2019 to minimize the impact of the rise in purchase costs, and also from the further growth in the businesses that are performing strongly, including the CATV, Aqua, and corporate information and communications services businesses. At FISCO, we think that it is possible that results will be slightly less than forecast, including due to the impact of the warm weather in the LP gas business, but that sales and profits could still increase and that profits could achieve a new record high.

At the end of FY3/19, the number of Group customers is forecast to have increased by 65,000 on the end of the previous fiscal year to 2,941,000 customers. The rate of progress for this up to the end of 3Q was slightly below forecast, and the Company will need to increase by 43,000 in 4Q. It is highly possible that the forecast will not be achieved due to the impact of the below-forecast performance of LIBMO.

Outlook

Looking at the earnings outlook for the main businesses, the initial outlook for the gas and petroleum business was for a double-digit increase in profits, but the forecast for the full fiscal year is now for a slight fall in profits due to the impact of the lower profits up to 3Q. For customer acquisition, the Company will work to further accumulate customers in the existing areas, while in addition, it is focusing on acquiring new customers in Okayama Prefecture and Gifu Prefecture, which it entered-into in FY3/18, and in Fukuoka Prefecture, which it entered-into in June 2018. It has decided to newly enter-into Mie Prefecture in April 2019, and it also plans to enter-into Aisai City, Aichi Prefecture, during FY3/20. Going forward, the aim is to grow earnings by expanding the service areas and also the market shares in existing areas.

Within the information and communications services business, consumer net sales were initially forecast to increase by a single digit, but customer numbers have been trending below forecast and it is highly possible that sales will decrease by a single digit for the full fiscal year. Profits are expected to increase slightly due to the reductions to LIBMO sales promotion costs and other costs. On the other hand, for corporate, against the backdrop of the expansion of the cloud services market, both sales and profits are forecast to increase from the continuing favorable performance of data communication connection services and also the strong orders for outsourced systems development.

In the CATV business, the Company will work to increase the number of customers by continuing to sell service bundles based on tie-ups with mobile phone carriers. In addition, the Company will raise the multiple contract rate for broadcasting and communications services based on its strengths in being able to provide high-speed communications services leveraging its proprietary optical fiber network. Through these measures, the Company is forecasting a double-digit increase in operating profit in the CATV business.

In the Aqua business, the Company is aiming for double-digit increases in sales and profits by further accumulating customer numbers through store front demonstration sales, including at large commercial facilities. It seems that the weeding-out of some business entrants is beginning to make progress in the bottled water home delivery industry, which is being viewed as an excellent opportunity to increase market share.

Net sales by segment

	(¥mn)			
	FY3/15	FY3/16	FY3/17	FY3/18
Gas and petroleum	93,067	80,745	73,344	76,073
Information and communications services	40,118	44,246	49,508	50,894
CATV	24,359	24,608	25,396	28,386
Building and real estate	20,019	20,975	19,511	19,807
Aqua	4,959	5,487	5,762	6,200
Other	4,987	4,875	5,108	4,706
Total	187,511	180,940	178,631	186,069

Operating profit by segment

	(¥mn)			
	FY3/15	FY3/16	FY3/17	FY3/18
Gas and petroleum	7,679	8,991	9,161	7,364
Information and communications services	4,956	2,308	4,213	3,174
CATV	1,669	1,975	2,752	3,554
Building and real estate	1,029	1,266	1,098	1,330
Aqua	-1,313	-1,119	298	246
Other businesses and adjustments	-5,016	-5,175	-4,775	-4,699
Total	9,003	8,245	12,750	10,971

*Values are prior to allocating indirect costs and other expenses

Source: Prepared by FISCO from the Company's results briefing materials

Aim for more than 4,320,000 Group customers and consolidated operating profit of ¥22.5bn for FY3/21 by advancing the M&A strategy

2. Medium-term management plan

(1) Basic policy and activities

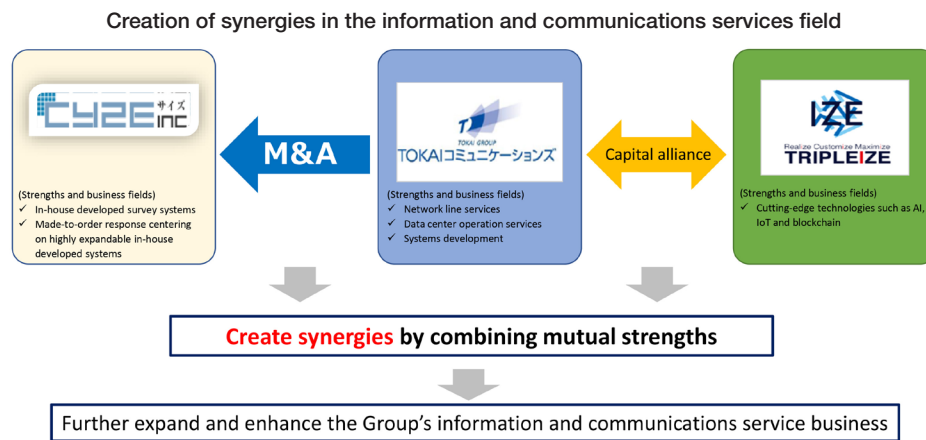
In the new medium-term management plan (IP20) launched in FY3/18, the Company sets out its basic strategy of prioritizing topline growth and switching from defensive to proactive management. By the end of FY3/21, it will proactively conduct M&A and form alliances that will lead to the expansion of its customer base, and it plans to conduct strategic investment worth a total of ¥100bn.

The candidates for M&A are companies that have a customer base in its core businesses, including gas, CATV, and information and communications services, and it is also targeting companies in areas peripheral to its existing lifestyle-related services. The Company is currently investigating and negotiating with several candidate companies. The Company is also working on creating new businesses utilizing advanced technologies on the theme of ABCIR+S, and it has established the Next-Generation Business Strategy Headquarters as a dedicated organization and is progressing an investigation of an ABCIR+S utilization model (including to create new businesses, to increase the sophistication of customer contact points, and for an information-utilization strategy) horizontally across the Group. For these advanced technologies, it is investigating using M&A to acquire companies that have technologies and expertise that it does not possess itself.

In the information and communications services field, the Company converted Cyze Inc.* into a consolidated subsidiary in September 2018. Cyze develops and provides online survey systems as its core business. In addition, the Company concluded a capital and business alliance with Tripleize Co., Ltd., a startup with strengths in cutting-edge technologies such as IoT, AI and blockchain. The purpose of converting Cyze into a subsidiary is to strengthen the Group's digital marketing strategy using Cyze's data collection solutions. As one digital marketing strategy, in October 2018 the Company began providing the TLC Points App. For the future, during FY3/20 it plans to build a platform toward realizing the maximization of earnings per customer through analyzing customers' Big Data (behavior history) collected through the smartphone app and the websites of each service, and by implementing optimized digital marketing measures tailored to each customer's attributes and preferences. It is thought that this project will contribute to this also. With regard to Tripleize, the Company intends to expand the systems development business and create synergies in areas such as the development of new businesses and services by working to further strengthen its relationship with Tripleize by forming a capital alliance. Previously, the Company had partnered with Tripleize in the system development business.

* Cyze posted net sales of ¥179mn and operating profit of ¥36mn in FY11/17. The Company's shareholding ratio in Cyze is 100%.

Outlook



Source: The Company's results briefing materials

In other areas, in August 2018 the Company entered into a capital and business alliance with Minna-Denryoku, Inc., a new electric power producer and supplier, and it has started to explore possibilities for entering the renewable energy field. Initially, it established a wholly owned subsidiary in April 2019 to conduct electricity sales and related activities, and it is progressing a detailed investigation into the extent of the needs for renewable energy. First, it will conduct sales within Shizuoka Prefecture targeting companies that are strengthening their measures for ESG (Environment, Society, Governance) and subsequently, it is expected to expand its sales area to the areas in which the Company Group is developing its businesses.

(2) Targets for management indicators

The numerical management targets set in the medium-term management plan for FY3/21 are consolidated net sales of ¥339.3bn, operating profit of ¥22.5bn, net income attributable to owners of the parent of ¥11.5bn, and ROE of 13.0%. Looking at the levels of these targets compared to FY3/18, the Company is targeting increases of 1.8 times in net sales, 2.0 times in operating profit, and 1.7 times in net income attributable to owners of the parent. It is considered that, while utilizing M&A, the Company is aiming to achieve these targets by increasing the number of Group customers by more than 1.5 times to over 4,320,000, and also by raising the multiple contract rate from around 14% as of the end of FY3/18 to around 20%.

Financially, interest-bearing debt is expected to increase as the Company conducts investment of ¥100bn to accelerate M&A and alliances. Looking at the interest-bearing debt / EBITDA (operating profit + amortization expenses, including goodwill expenses) ratio, although it will increase slightly, from 1.9 times in FY3/18 to 2.6 times in FY3/21, the equity ratio will be kept at the 30% level and financial soundness will be maintained. The Company conducted normal capital investment excluding M&A expenses of ¥12.6bn in FY3/18 and plans an annual level of ¥14bn from FY3/19 onwards.

Outlook

Financial targets in Innovation Plan 2020

	FY3/18 results	FY3/19 forecast	FY3/20 forecast	FY3/21	
				Targets	vs. FY3/18
Net sales (¥bn)	186.1	202.0	224.4	339.3	1.8x
Operating profit (¥bn)	11.0	14.0	16.2	22.5	2.0x
Net income attributable to owners of the parent (¥bn)	6.6	7.9	8.7	11.5	1.7x
Total assets (¥bn)	166.4	173.8	191.2	283.4	1.7x
Interest-bearing debt/EBITDA (ratio)	1.9	1.7	1.8	2.6	
Equity ratio (%)	36.3	35.6	34.9	31.6	
ROE (%)	11.4	12.8	13.0	13.0	
Number of customers (million contracts)	2.88	2.99	3.72	Over 4.32	Over 1.5x

Source: Prepared by FISCO from the Company's results briefing materials and the Company's Medium-Term Management Plan (May 9, 2017)

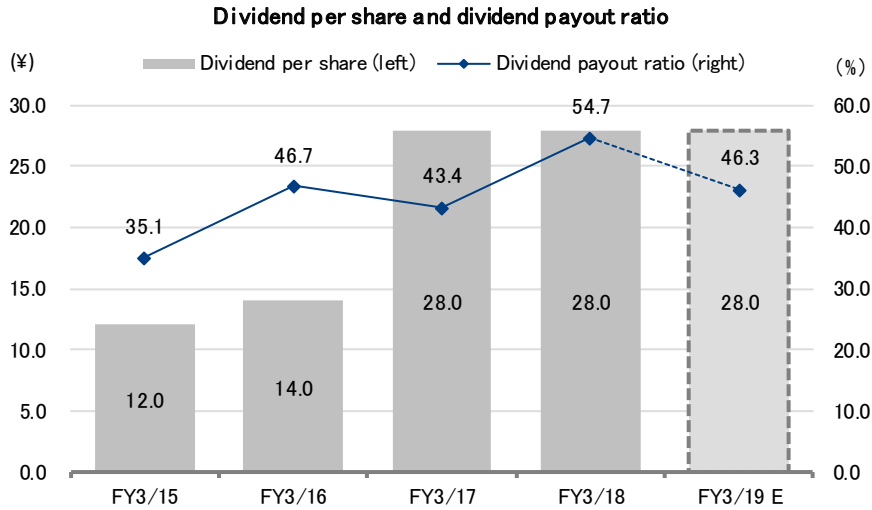
Shareholder return policy

Remaining firmly committed to continuously paying a stable dividend

The Company returns profits to shareholders by paying dividends, presenting shareholders with gifts, and also purchasing treasury shares depending on conditions. Its basic policy is to continuously pay a stable dividend and it targets a dividend payout ratio of 40% to 50%. The FY3/19 dividend per share will be unchanged YoY at ¥28.0 (for a dividend payout ratio of 46.3%). But the Company will also determine the dividend while considering trends in results and its demand for capital.

The Company presents gifts to shareholders at the end of March and September depending on the number of shares held. For each unit of shares (100 shares) held, shareholders can receive one of the following gifts: an Aqua product worth ¥2,050 (such as the Ulunom "Fuji-no-Tennensui Sarari" (Mt. Fuji natural water), a QUO card worth ¥500, food coupons worth ¥1,000, ¥1,000 worth of TLC Membership Service points, or a ¥2,100 discount on LIBMO usage fees. When including the gifts to shareholders in an estimate of the total investment yield per share unit from the current share price level (¥937 on February 27, 2019), it is in the range of 4% to 7% (depending on the selection of either a QUO card or an Aqua product as the gift).

Shareholder return policy



* Including a commemorative dividend of ¥6 in FY3/17
 Source: Prepared by FISCO from the Company's financial results

Shareholder gifts

Shareholders on record at the end of March and September are presented with their choice of one of the following five type of gifts, as well as a 10% discount coupon for a standard wedding service at the Group's wedding halls and a dining certificate and 20% discount coupon for the Beau Ciel and Aoi restaurants.

	100-299 shares	300-4,999 shares	Over 5,000 shares
Shares held	100-299 shares	300-4,999 shares	Over 5,000 shares
Aqua product	¥2,050 worth	¥4,100 worth	¥8,200 worth
QUO card	¥500 worth	¥1,500 worth	¥2,500 worth
Beau Ciel dining certificate	¥1,000 worth	¥3,000 worth	¥5,000 worth
TLC Points	¥1,000 worth	¥2,000 worth	¥4,000 worth
LIMBO monthly usage fee	¥2,100 worth	¥5,100 worth	¥11,280 worth

Source: Prepared by FISCO from the Company website

ESG

Has been adopted as a constituent issue of the MSCI Japan ESG Select Leaders Index

In addition, from December 2018 the Company's shares were adopted as a constituent issue of the MSCI Japan ESG Select Leaders Index, which is provided by MSCI Inc., of the United States. This index is comprised of companies within the MSCI Japan IMI top 700 issues that have been selected as having excellent initiatives for ESG, and the Government Pension Investment Fund (GPIF) had selected it as one ESG index for when conducting passive management. The constituent issues of this index are regularly reviewed by MSCI based on factors such as the ESG ratings and market capitalization, and the Company's issue was newly included in it following the recent review. It is expected that its inclusion in this index will contribute to the further expansion of its investor base and to improved liquidity.

■ Information security measures

In terms of information security measures, previously each Group company had separately managed the personal information held and conducted measures against system failures and cyber-attacks. Since FY3/18, the Company has established a Group-wide expert committee in order to share information between all the Group companies and at the same time, to heighten awareness of its security measures.



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