

TOKAI Holdings Corporation

3167

Tokyo Stock Exchange First Section

19-Sept.-2019

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<http://www.fisco.co.jp>

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Summary

Operating profit made a steady start in FY3/20 1Q

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 new theme, ABCIR+S*2, and it is aiming to take a further leap forward while advancing an M&A strategy. The Company’s shares meet the requirements of global investment standards, such as the efficient use of capital and a management perspective considerate of investors, and so it has been selected as a constituent share of the JPX-Nikkei Index 400 and was adopted into the index on August 30, 2019.

*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), and the Group will focus on creating and developing new services related to them.

1. FY3/19 1Q results

In the FY3/20 1Q (April to June 2019) consolidated results, sales increased 2.8% year-on-year (YoY) to ¥45,804mn and operating profit rose 35.2% to ¥3,231mn, which were new record highs for a 1Q. This performance was mainly due to the increases in customer numbers in the mainstay LP gas business and CATV business, and in the Aqua business, and as results for corporations trended strongly in the information and communication services business. At the end of 1Q, the number of Group customers had increased by 24,000 from the end of the previous fiscal year to 2,907,000 customers. Although the number of Group customers was slightly below forecast, operating profit exceeded the forecast by more than ¥0.65bn due to the effects of measures to reduce costs.

2. FY3/20 earnings outlook

For the FY3/20 consolidated results, the Company has maintained its initial forecasts of sales to increase 4.8% YoY to ¥200,800mn, operating profit to increase 8.5% to ¥14,170mn, and the number of Group customers to increase by 100,000 to 3mn customers. The Company is aiming to achieve the forecast for the number of Group customers through increasing customer-acquisition costs from 2Q onwards and by progressing M&A. Also, with an eye to growth from FY3/21 and beyond, it expects costs to increase by ¥1.9bn as the total of investment in ABCIR+S-related and in human resources. But the outlook is that this will be absorbed by the increase in monthly revenue due to the growth in the number of Group customers and the reduction in purchase costs in the gas and petroleum business.

Summary

3. Medium-term management plan

In the medium-term management plan (Innovation Plan 2020 “JUMP”), the targets for FY3/21 are sales of ¥339.3bn and operating profit of ¥22.5bn. The Group is striving to grow the number of Group customers to more than 4.32 million while actively utilizing M&A and maximizing earnings per customer by increasing the customer contract rate for multiple services* from 17.8% at the end of FY3/19 to 20%. The key to achieving its targets in the medium-term management plan will be the success of the M&A. The Company is progressing investigations for M&A not only for the CATV business, the gas and petroleum business, and the information and communication services business, but also for new businesses related to ABCIR+S, and it has set an investment budget of around ¥100bn. We shall be paying attention to these developments in the future.

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

4. Shareholder return policy

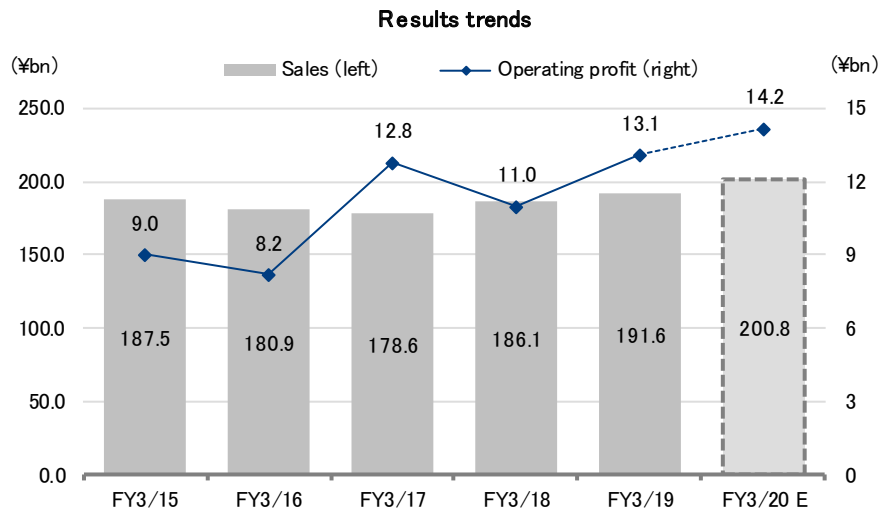
There has been no change to the policy of continuously and stably returning profits to shareholders. The forecast dividend per share for FY3/20 is ¥28.0 (dividend payout ratio, 44.6%), which is unchanged from the previous fiscal year. Going forward, the Company intends to pay dividends while observing 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 ¥984 on August 23, 2019), it is in the range of 3.9% to 7.0%*.

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

Key Points

- In FY3/20 1Q, operating profit exceeded the forecast due to the expansion of the customer base and the strong performance of information and communication services for corporations
- Focusing on customer acquisition measures and growth investment with the initial FY3/20 results forecasts unchanged
- In the medium-term management plan (IP20), intends to accelerate growth through progressing M&A and the ABCIR+S strategy

Summary



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

Results trends

In FY3/20 1Q, operating profit exceeded the forecast due to the expansion of the customer base and the strong performance of information and communication services for corporations

1. Overview of the FY3/19 1Q results

In the FY3/20 1Q consolidated results, sales and profits increased, with sales rising 2.8% YoY to ¥45,804mn, operating profit growing 35.2% to ¥3,231mn, recurring profit climbing 34.7% to ¥3,351mn, and net income attributable to owners of the parent increasing 56.3% to ¥2,239mn. Both sales and profits were new record highs. This performance was because monthly revenue increased as the number of Group customers at the end of 1Q had risen by 24,000 from the end of the previous fiscal year to 2,907,000 customers, mainly in the LP gas business, the CATV business, and the Aqua business, and results trended strongly in the information and communication services business for corporations. Moreover, operating profit exceeded the Company forecast by ¥0.65bn due to measures to reduce SG&A expenses in addition to the effects of the higher sales. By business segment, the extent of the contribution to the increase in profits was high from the information and communications services and the gas and petroleum businesses, while results trended solidly in the CATV and the Aqua businesses.

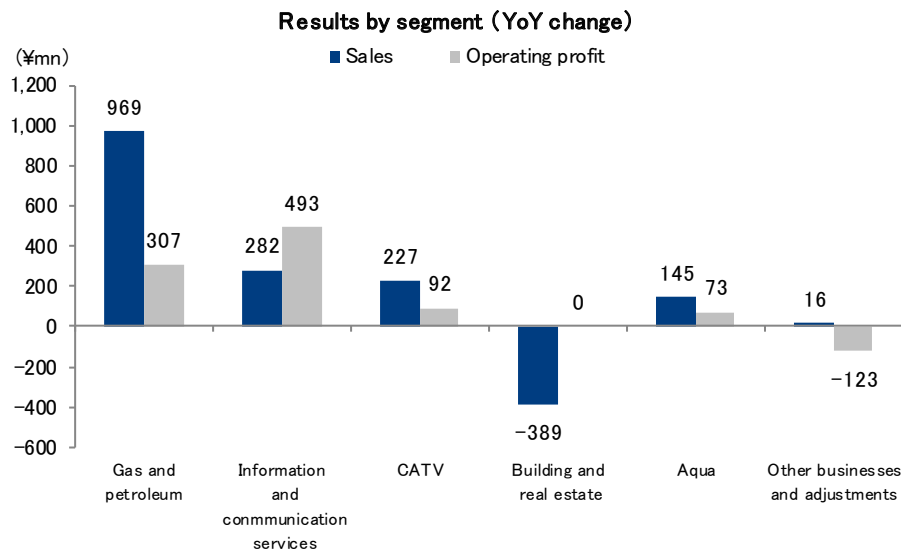
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Results trends

FY3/20 1Q consolidated results

	FY3/19 1Q		FY3/20 1Q		YoY
	Results	% of sales	Results	% of sales	
Sales	44,553	-	45,804	-	2.8%
Cost of sales	26,587	59.7%	27,097	59.2%	1.9%
SG&A expense	15,575	35.0%	15,475	33.8%	-0.6%
Operating profit	2,390	5.4%	3,231	7.1%	35.2%
Recurring profit	2,487	5.6%	3,351	7.3%	34.7%
Net income attributable to owners of the parent	1,432	3.2%	2,239	4.9%	56.3%

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



Note: operating profit is calculated before the deduction of indirect expenses, and the calculation method is different to that used in the financial results summary report.

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

The Company announced that it had completed three M&A as of the end of July. In May 2019, it concluded a contract for a business transfer (scheduled to be transferred on October 1, 2019) with Shioya Limited, whose service area covers one part of Shizuoka Prefecture (approximately 3,000 customers in Kannami Town, Tagata County; Shimizu Town, Sunto County; Ohira, Numazu City; and Izunokuni City). Also in May, it concluded a contract for the transfer of the city gas business of Nikaho City, Akita Prefecture, and it will take over this business on April 1, 2020. The business has 5,172 customers and annual sales of ¥417mn. In July, the Company acquired the shares of AM's Brain Inc., which conducts an outsourced software development business in Okayama Prefecture, and made it a subsidiary. One of its main customers is a major correspondence education company. The Company intends to increase its share of transactions in this area through AM's Brain. Although these three acquisitions are small in scale, the Company continues to investigate and conduct negotiations for others, including for some large-scale deals. We shall be paying attention to these developments in the future.

Results trends

Sales and profits increased in each of the main businesses

2. Trends by business segment

Sales by segment

	(¥mn)				
	FY3/17 1Q	FY3/18 1Q	FY3/19 1Q	FY3/20 1Q	YoY
Gas and petroleum	17,479	17,392	17,608	18,577	5.5%
Information and communication services	11,780	12,447	12,513	12,795	2.3%
CATV	6,241	6,406	7,511	7,738	3.0%
Building and real estate	3,414	3,617	4,166	3,777	-9.3%
Aqua	1,424	1,456	1,653	1,798	8.8%
Other businesses	1,277	1,211	1,100	1,116	1.4%
Total	41,618	42,531	44,553	45,804	2.8%

Operating profit by segment

	(¥mn)				
	FY3/17 1Q	FY3/18 1Q	FY3/19 1Q	FY3/20 1Q	YoY
Gas and petroleum	2,197	1,324	1,182	1,489	26.0%
Information and communication services	913	774	724	1,217	68.1%
CATV	717	875	1,194	1,286	7.7%
Building and real estate	81	90	213	213	0.0%
Aqua	19	56	96	169	76.0%
Other businesses and adjustments	-1,060	-969	-1,022	-1,145	-
Total	2,870	2,152	2,390	3,231	35.2%

* 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)				
	FY3/17 1Q	FY3/18 1Q	FY3/19 1Q	FY3/20 1Q	Change from previous fiscal year-end
Gas	634	645	664	687	23
LP gas	580	591	610	631	21
City gas	54	54	55	56	1
Information and communication services	1,081	1,057	1,035	992	-43
Existing ISP and related services	595	507	451	411	-40
Hikari Collaboration	251	310	327	326	-1
LIBMO	-	8	32	42	10
Mobile	235	232	225	214	-11
CATV	716	738	1,039	1,069	30
Broadcasting services	501	510	778	791	13
Communication services	215	229	261	278	17
Aqua	134	138	151	157	6
Security	17	17	17	17	0
Total	2,557	2,570	2,883	2,907	24

* The number of customers below a thousand is rounded to the nearest thousand. Information and communication services and CATV both offer communication services, so total figures avoid duplication.
 Source: Prepared by FISCO from the Company's financial results and results briefing materials

Results trends

(1) Gas and petroleum business

In the gas and petroleum business, sales increased 5.5% YoY to ¥18,577mn, and operating profit* rose 26.0% to ¥1,489mn. Of which, sales in the LP gas business grew 4.8% to ¥15,446mn. The factors behind the higher sales were that customers were acquired in both the existing and new areas, so the number of contracts increased by 21,000 from the end of the previous fiscal year to 631,000 contracts, and the consumption volume per customer grew because temperatures were lower than in an average year. In profits, the effects of the higher sales and the reduction in customer acquisition costs contributed to increasing profits ¥0.3bn YoY. Also, in comparison with the forecast, the increase in consumption volume due to the lower temperatures was a positive factor of nearly ¥0.1bn. From this 1Q, the Company has progressed into Mie Prefecture for the first time as a new area. Meanwhile, the commencement of operations of the city gas business in Shimonita Town, Gunma Prefecture, which was newly transferred in April, caused the number of customers to increase by 1,000 from the end of the previous fiscal year to 56,000 customers. Furthermore, the increase in sales unit prices due to the cost adjustment system and other factors led to sales increasing by 9.1% YoY to ¥3,131mn. In Shimonita Town, the Company has started sales activities aimed at acquiring multiple service contracts within the Group, including holding a monthly renovation-related product exhibition for the approximately 1,000 customers.

| * Operating profit is before the deduction of indirect cost, and the calculation method is different to that in the financial results |

(2) Information and communication services business

In the information and communication services business, sales increased 2.3% YoY to ¥12,795mn and operating profit rose 68.1% to ¥1,217mn. Of which, sales in the consumer business declined 6.2% to ¥7,294mn due to a decrease in the number of contracts because of the intensified competition with the major mobile carriers. Conversely, profits were maintained at the same level as in the previous fiscal year and slightly exceeded the forecasts due to a reduction in customer acquisition costs and other factors. Looking at the breakdown of the number of contracts, the Hikari Collaboration was down by 1,000 from the end of the previous fiscal year to 326,000 contracts, existing ISP and related services were down by 40,000 to 411,000 contracts, and mobile (mobile phone sales agencies) were down by 11,000 to 214,000 contracts, and only the inexpensive smartphone LIBMO saw an increase, up 10,000 to 42,000 contracts. The number of contracts also trended weakly compared to the forecast, short 3,000 contracts.

Meanwhile, sales in the corporate business increased 16.2% YoY to ¥5,501mn. On the back of the expansion of the cloud services market, the solutions business grew, while results in the outsourced systems development business trended steadily. Profits increased ¥0.5bn YoY due to the effects of the higher sales, exceeding the forecast by around ¥0.1bn.

(3) CATV business

In the CATV business, net sales increased 3.0% YoY to ¥7,738mn and operating profit grew 7.7% to ¥1,286mn. Factors behind the higher sales and profit included decreases in depreciation and lease expense and the number of customers increasing by 13,000 from the end of previous year to 791,000 for broadcasting services and by 17,000 to 278,000 for communication services in response to discounts for subscribing to broadcasting and communication sets and smartphone sets through collaboration with a major mobile carrier. The results have been trending slightly above the Company forecasts.

(4) Building and real estate business

In the building and real estate business, sales decreased 9.3% YoY to ¥3,777mn, while operating profit was unchanged YoY at ¥213mn. Although sales declined with the absence of the large-scale construction project recorded in the same period of the previous year, profits remained at the same level YoY due to the low profit margin of this project and the measures to reduce costs.

Results trends

(5) Aqua business

In the Aqua business, sales increased 8.8% YoY to ¥1,798mn and operating profit grew 76.0% to ¥169mn. Profits increased significantly because the Company worked actively to acquire customers at large-scale commercial facilities, etc., and the number of customers was up 6,000 from the end of the previous fiscal year to 157,000 customers. It also increased as a result of the effects of measures to reduce manufacturing and distribution costs.

(6) Other business and adjustments

In other businesses, sales increased 1.4% YoY to ¥1,116mn. Breaking this down, in the nursing care business, they increased 9.1% to ¥285mn alongside the rise in the number of facility users, while in the shipbuilding and repairs business, they grew 9.6% to ¥356mn on the increase in the volume of ship repair work. However, in the wedding ceremony business, sales fell 18.3% to ¥274mn because of the decline in the number of wedding ceremonies. The segment's operating loss, including internal adjustments, was ¥1,145mn (a loss of ¥1,022mn in the same period in the previous fiscal year).

■ Outlook

To focus on customer-acquisition measures and growth investment, the initial FY3/20 results forecasts kept unchanged

1. FY3/20 earnings outlook

For the FY3/20 consolidated results, the Company has maintained its initial forecasts of sales to increase 4.8% YoY to ¥200,800mn, operating profit to rise 8.5% to ¥14,170mn, recurring profit to climb 5.9% to ¥14,040mn, and net income attributable to owners of the parent to increase 5.9% to ¥8,230mn. Although operating profit was around ¥0.65bn above the Company forecast in 1Q, it has left the forecasts unchanged, because in order to increase the number of Group customers by 100,000 YoY to 3mn customers, it plans to increase spending to acquire customers and to prevent contract cancellations from 2Q onwards. Also, as its growth strategy from FY3/21 onwards, it expects to spend approximately ¥0.5bn on ABCIR+S-related investment and around ¥1.4bn on the increase in personnel expenses due to the active recruitment of human resources, mainly engineers. For ABCIR+S, the Company has established the Digital Marketing Utilization Promotion Headquarters, where the heads of Group companies gather to investigate projects.

Outlook for FY3/20 consolidated performance

	FY3/19		FY3/20		YoY
	Results	% of sales	Full-year forecast	% of sales	
Net sales	191,600	-	200,800	-	4.8%
Operating profit	13,057	6.8%	14,170	7.1%	8.5%
Recurring profit	13,259	6.9%	14,040	7.0%	5.9%
Net income attributable to owners of the parent	7,772	4.1%	8,230	4.1%	5.9%
Net income per share (¥)	59.36		62.85		

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

Outlook

The results forecasts for the main businesses are described below.

(1) Gas and petroleum business

In the gas and petroleum business, sales and profits are expected to increase from the growth in the number of customers and the reduction in purchase costs. In the LP gas business, the number of customers is forecast to increase by 56,000 from the end of the previous fiscal year to 684,000 customers. Within this net increase, the Company expects to acquire 32,000 customers in the existing sales areas and 23,000 customers in the new sales areas while proceeding with acquiring a greater trade area. For the new sales areas, it newly entered into and began sales in Tsu City in Mie Prefecture in April 2019, and it also plans to enter into Aisai City in Aichi Prefecture in Q4. It will have a total of 10 bases in the new sales areas, and it plans to continuously increase this number in the future, while conducting M&A and other measures. After progressing into the new sales areas, the Company is targeting acquiring 10,000 customers in five years' time, and it is currently making steady progress for this. The number of customers in the new sales areas is forecast to increase to 27,000 at the end of FY3/19, to 50,000 in FY3/20, and to 70,000 in FY3/21. Although the prices of LP gas raw materials may fluctuate in the future, for FY3/20, some purchase prices (for households only) have already been reserved at prices below the levels in the previous period, which will be a factor increasing profits.

Meanwhile, in the city gas business, the number of customers is forecast to increase by 5,000 from the end of the previous fiscal year to 61,000 customers. However, this increase of 5,000 customers will come from operations in Nikaho City, Akita Prefecture, which will start in April 2020 and will contribute to sales from FY3/21. In FY3/20, an increase in the number of customers in Shimonita Town, Gunma Prefecture of around 1,000 is expected to increase sales by about ¥140mn.

(2) Information and communication services business

In the information and communication services business, increases in sales and profits YoY are forecast to range in the lower single digits. In the consumer business, the number of customers is expected to decrease by 1,000 from the end of the previous fiscal year to 1,003,000 customers (breaking this down, down 35,000 to 384,000 customers for existing ISP and related services, up 18,000 to 345,000 customers for the Hikari Collaboration, up 21,000 to 62,000 customers for LIBMO, and down 5,000 to 212,000 customers for mobile). However, the extent of the decrease may grow by around 4,000 customers. This will be because the number of customers for the Hikari Collaboration is slightly decreasing due to the intensified competition, and also due to the moderate pace of the increase for LIBMO. Regarding the Hikari Collaboration, competition with the major mobile carriers is fierce, so the Company intends to handle the situation by maintaining the current level of controlling costs. On the other hand, results in the information and communication services for corporations are expected to be strong, benefiting from the continued expansion of the cloud services market.

(3) CATV business and Aqua business

In the CATV business, the number of customers is forecast to increase by 27,000 from the end of the previous fiscal year to 1,090,000 customers due to the measures for set sales through a collaboration with a mobile carrier. For the results, the outlook is for slight increases in sales and profits. The plan is for each company in the Group to invest in converting to fiber optics in order to respond to 4K/8K broadcasting (up ¥0.3bn YoY to ¥5.8bn). The profit margin is expected to be at about the same level as in the previous fiscal year.

Outlook

In the Aqua business, the number of customers is forecast to increase by 11,000 from the end of the previous fiscal year to 167,000 customers due to the in-store demonstration sales at large-scale commercial facilities and other locations in major regional cities, etc. At the end of 1Q, the increase was only 1,000 customers from the end of the previous fiscal year, so the Company's policy from 2Q onwards is to accumulate customer acquisition costs to strengthen customer acquisition. Therefore, the outlook is for sales to increase in the high single-digit range YoY due to the rise in the number of customers, but for profits to stay at around the same level as in the previous fiscal year.

In the medium-term management plan (IP20), the policy is to accelerate growth through progressing M&A and the ABCIR+S strategy

2. Medium-term management plan

(1) Basic policy

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 Company's targets for M&A are companies with customer bases in its core businesses, including gas, CATV, information and communication services, and also companies in areas peripheral to its existing living-related services. In its track record of deals up to July 2019, it had completed a total of seven deals, three in the CATV business (Tokyo Bay Network, TV Tsuyama and Shioya Limited), two deals in the city gas business (Shimonita Town, Gunma Prefecture and Nikaho City, Akita Prefecture) and two deals in the information and communication services business (Cyze and AM's Brain Inc.), investing about ¥5bn as share-acquisition costs. The Company is currently also investigating multiple proposals and progressing negotiations, including for large-scale deals, and we shall be paying attention to these developments in the future.

The Company is also working to develop new services that utilize advanced technologies on the theme of ABCIR+S to expand the new customer base and strengthen competitiveness. Particularly, the Group has a large volume of data for more than 2.9 million customers. It intends to progress the construction of a digital marketing platform (hereafter, DMP), effectively utilizing those data. DMP integrates the Company's customer database and web browsing information on the unit of individual customers to enable it to ascertain individual trends (such as hobby preferences and signs of contract cancellations). The Company intends to work on effective sales activities (including sales promotions of new services) and activities to prevent contract cancellations that are based on these data will lead to an increase in the number of customers and the maximization of revenue per customer. The Company has already constructed the platform, and plans to put it to practical use going forward after collecting and analyzing the database and preparing various scenarios.

Outlook

(2) Progress made for results

The numerical management targets set in the medium-term management plan (IP20) for FY3/21 are consolidated sales of ¥339.3bn, operating profit of ¥22.5bn, net income attributable to owners of the parent of ¥11.5bn, and Group customers of 4.32 million or more. Looking at the progress made up to FY3/19 toward achieving them, we see that the results were below the initial targets, net sales by ¥10.4bn, operating profit by ¥0.9bn, net income attributable to owners of the parent by ¥0.1bn, and the number of customers by 90,000. Looking at the number of customers by business, we see that while the numbers were basically as targeted in the gas and petroleum business and slightly higher than targeted in the CATV business, the number in the information and communication services business decreased more than was expected, a negative factor.

Looking at the FY3/20 results forecasts, we see that sales diverge from the initial target value by ¥23.6bn. This is mainly because the assumption for the number of customers has been reduced from 3.72mn to 3mn. Operating profit also diverges by ¥2bn, which is due to the impact of the rise in LP gas purchasing prices compared to the prices at the stage when the medium-term management plan was formulated, and also the temporary fall in earnings, and it is recognized to be generally trending stably when these factors are excluded. Achieving the FY3/21 targets will depend upon the conditions of the M&A in the future.

Also, for the multiple-contract rate for Group services, which is being focused on as a measure to grow revenue, the target is to increase the rate from 17.8% at the end of FY3/19 (16.7% at the end of the previous fiscal year) to 20% by the end of FY3/21. As CATV and city gas users have relatively high multiple contract rates, the policy is to strengthen sales activities for customers in the city gas business in Shimonita Town, Gunma Prefecture and Nikaho City, Akita Prefecture and customers of Tokyo Bay Network, TV Tsuyama and Shioya in the CATV business.

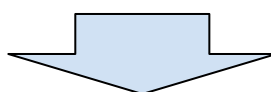
Looking at the Company's financial position, the equity ratio was 37.4% and the interest-bearing debt/EBITDA ratio was 1.8 times at the end of FY3/19, and they are trending basically within the range of the medium-term management plan's targets. If the Company closes a large-scale M&A deal in the future, stock acquisition costs, etc. will be covered by interest-bearing debt, and although its financial condition may temporarily worsen, it intends to keep the equity ratio at the 30% level and to actively invest while also maintaining financial soundness.

As the Company's shares meet the requirements of global investment standards, such as the efficient use of capital and a management perspective considerate of investors, it has been selected as a constituent share of the JPX-Nikkei Index 400 and was adopted into the index on August 30, 2019.

Outlook

Numerical management targets at the time the medium-term management plan (IP20) was announced (May 2017)

	FY3/18 plan	FY3/19 target	FY3/20 target	FY3/21 target
Sales (¥bn)	189.4	202.0	224.4	339.3
Operating profit (¥bn)	11.4	14.0	16.2	22.5
Net income attributable to owners of the parent (¥bn)	6.4	7.9	8.7	11.5
Total assets (¥bn)	169.8	173.8	191.2	283.4
Interest-bearing debt/EBITDA rate (times)	2.0	1.7	1.8	2.6
Equity ratio (%)	33.9	35.6	34.9	31.6
ROE(%)	11.1	12.8	13.0	13.0
Number of customers (thousand)	288	299	372	432 or more



Results for FY3/19 and forecasts for FY3/20

	FY3/18 result	FY3/19 result	FY3/20 plan	FY3/21 target
Sales (¥bn)	186.0	191.6	200.8	339.3
Operating profit (¥bn)	10.9	13.1	14.2	22.5
Net income attributable to owners of the parent (¥bn)	6.6	7.8	8.2	11.5
Total assets (¥bn)	166.3	167.6	-	283.4
Interest-bearing debt/EBITDA rate (times)	1.9	1.8	-	2.6
Equity ratio (%)	36.3	37.4	-	31.6
ROE(%)	11.4	12.6	-	13.0
Number of customers (thousand)	287	290	300	432 or more

Source: Prepared by FISCO from the Company's materials

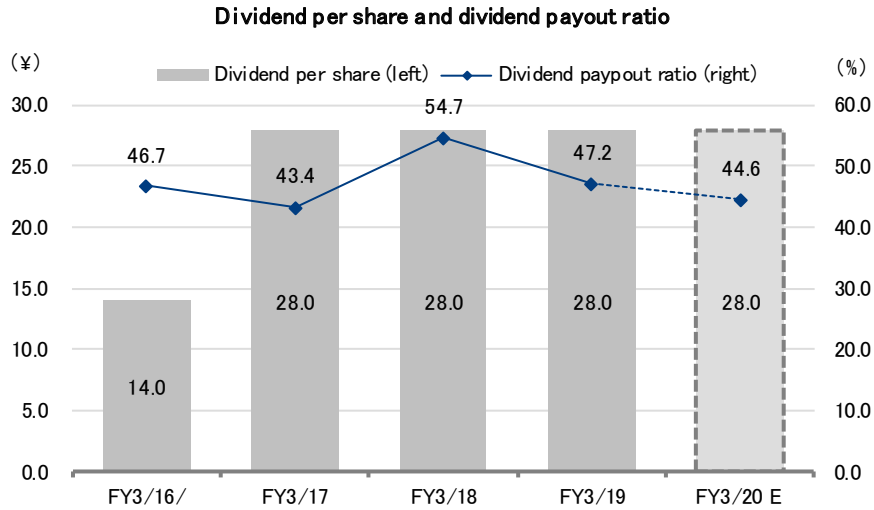
Shareholder return policy

Annual return on investment of 3% to 7% from the gifts to shareholders and dividends

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 FY3/20 dividend per share will be unchanged YoY at ¥28.0 (for a dividend payout ratio of 44.6%).

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, etc.), 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 (¥350 a month x 6 months). 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 ¥984 on August 23, 2019), it is in the range of 3.9% to 7.0% (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

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 also 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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