

TOKAI Holdings

3167 Tokyo Stock Exchange
First Section

1-Apr.-15

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■ Steady progress in first year of new medium-term management plan, profits for the third-quarter exceed plan

Based in Shizuoka Prefecture, Japan, TOKAI Holdings Corporation (“TOKAI”) <3167> engages in the energy and home services business, with a focus on LP-gas (“LPG”), and the telecommunications business. Under its Total Life Concierge (“TLC”) concept, the company launched its new three-year medium-term management plan, Innovation Plan 2016 “Growing,” in the fiscal year ending March 2015, with the aim of achieving JPY 209.5 billion in net sales and JPY 12.6 billion in operating profit in the fiscal year ending March 2017, the final year of the plan.

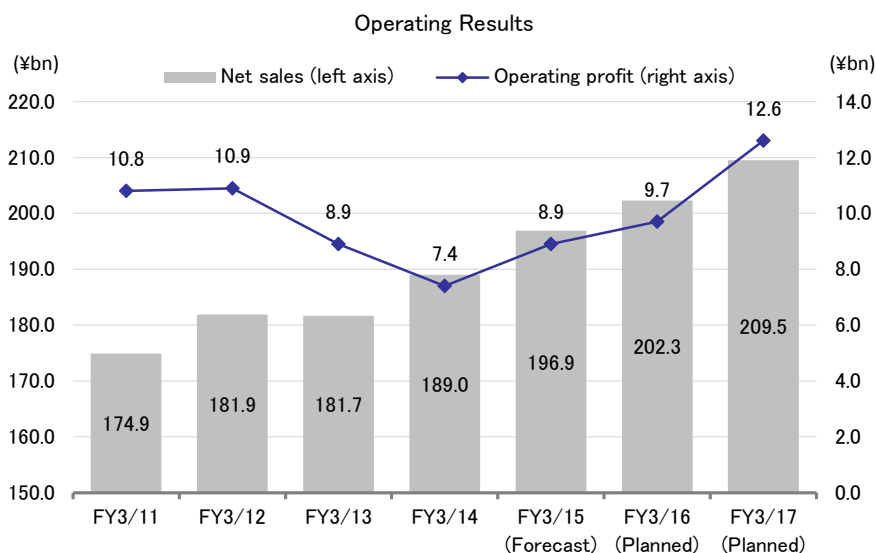
In the first three quarters of the fiscal year ending March 2015 (April 2014–December 2014), TOKAI achieved JPY 135,981 million in net sales, an increase of 2.3% year-on-year (“y-o-y”), and JPY 4,866 million in operating profit, an increase of 52.3% y-o-y. Although net sales progressed mainly as planned, profits were about 10% higher than the target. The main factors were strong growth in sales volume and better-than-anticipated progress in business process efficiency improvements in the LPG business, and plan-beating performance in the telecommunications and water businesses. The number of customers in the entire group at the end of December was up to a total of 2,540 thousand, showing a steady increase of 30 thousand y-o-y, attributable to the increase in its broadband and water businesses. As for the TLC membership service, which was introduced for the purpose of increasing customer satisfaction, the number of members at the end of December steadily increased to a total of 378 thousand with the proportion of TLC members to all subscribers rising to 14.9%.

The company has left its operating results forecast for the fiscal year ending March 2015 unchanged, expecting to achieve JPY 196,900 million in net sales, a 4.2% increase y-o-y, and JPY 8,870 million in operating profit, a 20% increase y-o-y. The reason for leaving the forecast unchanged is that the company anticipates an increase in customer acquisition cost following the launched of sales of a set product with NTT fiber access in the broadband and CATV businesses in the fourth quarter. Furthermore, the company has factored in a decline in sales prices in the LPG business to follow a fall in purchasing prices, as well as a reduction in profit following a review of inventory valuation at the end of the fiscal year. Despite these factors, we believe that TOKAI can still achieve its profit target.

As key strategies for achieving its medium-term management plan, TOKAI is focusing on “retaining customers and promoting multiple transactions” and “realizing TLC by making a fresh entry in sales of electricity”. With regard to “promoting multiple transactions” in the first strategy, the company hopes to accelerate the strategy through the introduction of a new point reward system, “TOKAI Smart Plus,” and is examining options for early launch of system. With regard to “sales of power” in the second strategy, the company establish a dedicated marketing subsidiary, “TOKAI Home Gas” in April 2015 to strengthen its internal marketing system ahead of the liberalization of the electric power industry in fiscal year 2016.

■ Check Point

- Interest-bearing debt continues to decline, and financial status is steadily improving
- Improved profitability in the water business and companywide reduction in SG&A expenses set to achieve full-year earnings targets
- Marketing subsidiary to be established to strengthen sales structure



■ Business Trends

Third quarter sales mainly as planned, operating profit exceeds target

(1) Results for the Third-Quarter Cumulative of the Fiscal Year Ending March 2015

Consolidated results for the third-quarter cumulative of the fiscal year ending March 2015 (April 2014–December 2014) show that TOKAI achieved JPY 135,961 million in net sales, a 2.3% increase y-o-y, JPY 4,866 million in operating profit, a 52.3% increase y-o-y, JPY 4,517 million in recurring profit, a 52.6% increase y-o-y, and JPY 1,819 million in net profit, a 97.7% increase y-o-y. The company has not disclosed its plan for third quarter cumulative results, however net sales seem to have progressed in line with the plan, while operating profit has exceeded the plan by around 10%, mainly in the LPG business.

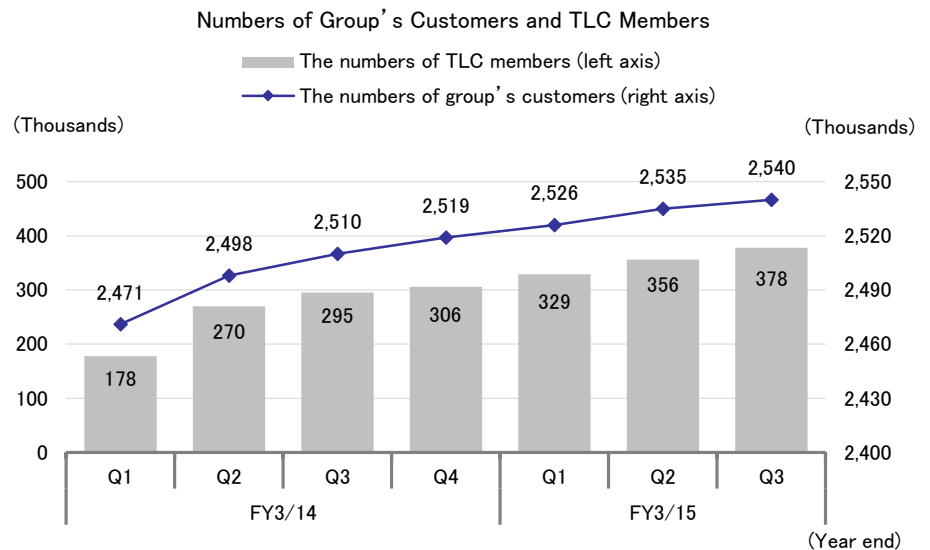
The cost of sales ratio increased by 0.2 percentage points y-o-y; however an increase in gross profit due to higher sales and the effect of reduced SG&A expenses helped to boost earning. For the third quarter (October 2014 – December 2014), the company continued its trend of increasing sales and profits, although the rate of growth slowed, with net sales climbing 0.1% y-o-y and operating profit increasing 9.5%.

Consolidated Results for the Third-Quarter Cumulative of the Fiscal Year Ending March 2015

(Unit: JPY million)

	Cumulative Q3 FY3/14		Cumulative Q3 FY3/15		
	Result	Sales ratio	Result	Sales ratio	y-o-y ratio
Net sales	132,959	—	135,981	—	2.3%
Sales cost	84,314	63.4%	86,424	63.6%	2.5%
SG&A expenses	45,449	34.2%	44,690	32.9%	-1.7%
Operating profit	3,196	2.4%	4,866	3.6%	52.3%
Recurring profit	2,959	2.2%	4,517	3.3%	52.6%
Net profit	920	0.7%	1,819	1.3%	97.7%

The number of customers in the entire group at the end of December was 2,540 thousand, an increase of 30 thousand y-o-y. The number of customers by main service category is as shown in the table. The number of customers declined slightly in the LPG and CATV businesses, but increased or remained level in other businesses such as broadband and water. As for the TLC membership service which was introduced in December 2012 for the purpose of retaining customers and increasing the multiple usage rate, the number of members at the end of December steadily increased to a total of 378 thousand with the proportion of TLC members to all subscribers rising to 14.9%.


Number of Customers in Main Services

(Unit Thousand)

	FY3/14 Q1	FY3/14 Q2	FY3/14 Q3	FY3/14 Q4	FY3/15 Q1	FY3/15 Q2	FY3/15 Q3	y-o-y
Gas	642	629	629	628	627	626	624	-4
LPG	577	576	576	575	574	573	571	-5
Utility gas	53	53	53	53	53	53	53	0
Broadband	821	829	836	840	843	847	849	14
Mobile	217	221	225	227	229	231	234	9
CATV	693	693	694	693	692	690	689	-4
CATV broadcasting	504	503	503	502	499	496	494	-9
CATV telecom	189	190	191	191	193	194	195	4
Water	105	120	121	122	126	132	133	12

Mainstay gas and oil business and information and telecommunications business to see dramatic increase in earnings

(2) Status by Business Segment

Performance trends by business segment are as follows:

Third Quarter Cumulative Results by Business Segment

(JPY million)

		Q3 FY3/14 (Cumulative)	Q3 FY3/15 (Cumulative)	Ratio of Increase / Decrease
Gas and Oil	Net sales	66,964	67,106	0.2%
	Operating profit	3,297	4,376	32.7%
	Profit margin	4.9%	6.5%	+1.6pt
Information and Telecommunications	Net sales	28,628	30,020	4.9%
	Operating profit	3,227	3,716	15.2%
	Profit margin	11.3%	12.4%	+1.1pt
CATV	Net sales	18,093	18,207	0.6%
	Operating profit	1,398	1,309	-6.4%
	Profit margin	7.7%	7.2%	-0.5pt
Construction and Real Estate	Net sales	12,379	13,311	7.5%
	Operating profit	591	349	-40.9%
	Profit margin	4.8%	2.6%	-2.2pt
Water	Net sales	3,271	3,707	13.3%
	Operating profit	-1,695	-1,166	-
	Profit margin	-51.8%	-31.5%	+20.4pt
Others and Adjustments	Net sales	3,621	3,626	0.1%
	Operating profit	-3,623	-3,718	-
	Profit margin	-100.0%	-102.5%	-2.5pt
Total	Net sales	132,959	135,981	2.3%
	Operating profit	3,196	4,866	52.3%
	Profit margin	2.4%	3.6%	+1.2pt

Note: Operating profits are before allocation of overhead, etc.

○Gas and Oil

TOKAI' s Gas and Oil segment achieved net sales of JPY 67,106 million, a 0.2% increase y-o-y, and operating profit of JPY 4,376 million, a 32.7% increase y-o-y. Although the number of customers in the LPG business, a primary business in the segment, decreased by 5 thousand y-o-y, and sales volumes for household and commercial use were down 0.6%, net sales increased slightly y-o-y because of an 8% rise in sales for industrial users, the effect of passing on price increases in the second half of the previous fiscal year, and other factors.

Factors that made a significant contribution to increasing profit include the streamlining of back-office departments and the effect of reduced SG&A expenses from work efficiency gains.

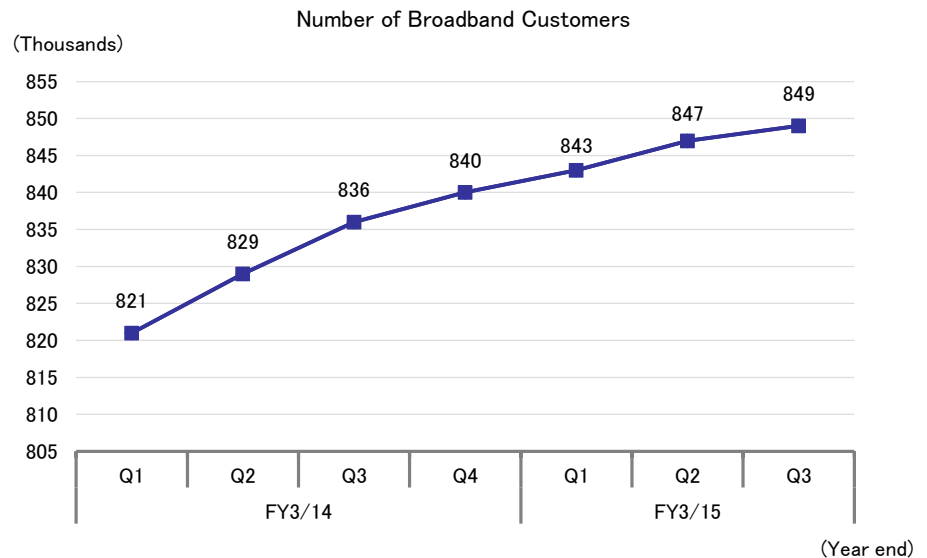
In segment performance for the third quarter only, net sales declined by 3.0% y-o-y while operating profit increased by 10.5%. Factors included the downward revision of LPG sale prices in August 2014 following a drop in the purchasing price, which offset the effect of the price increase in the second half of the previous fiscal year, as well as a decline in sales volume.

The number of customers continued to decline gradually. This was mainly due to a rise in the number of cancellations resulting from increasing price competition in the Greater Tokyo Area, and a decline in the number of new contracts. Looking only at the figures for Shizuoka Prefecture, the number of customers increased by 2.6 thousand from the end of the previous fiscal year. The Greater Tokyo Area is expected to see increased competition going forward. The company plans to step up its marketing activities in this area from the fiscal year ending March 2016 onwards, with the goal of increasing the number of customers there.

○Information and Telecommunications

The Information and Telecommunications segment achieved net sales of JPY 30,020 million, a y-o-y increase of 4.9%, and operating profit of JPY 3,716 million, a y-o-y increase of 15.2%. The profit increase was attributable to a steady increase in customers in the broadband service business, up 14 thousand y-o-y, as well as success in keeping customer acquisition costs level with the previous fiscal year. These efforts increased profits by around JPY 200 million. In the business for corporate customers, soaring demand for high-speed data transmission services and data center services against a backdrop of market growth for cloud computing services effectively boosted sales by around JPY 200 million.

In segment performance for the third quarter alone, sales and profits both continued to climb, with net sales recording a 7.3% y-o-y rise, and operating profit increasing by 4.6%.



○CATV

The CATV segment achieved net sales of JPY 18,207 million, a 0.6% y-o-y increase, and operating profit of JPY 1,309 million, a 6.4% y-o-y decrease. While the number of customers in the broadcasting business fell by 9 thousand y-o-y due to intensified competition with major telecommunications carriers, the number of customers for telecommunications services steadily increased by 4 thousand, enabling the business to continue increasing sales. This is likely due to the continued contributory effect of adopting a set discount in collaboration with mobile network operators.

The main factors weighing on profits were the addition of JPY 100 million in customer services costs in association with the end of rebroadcasting outside the designated digital broadcast area of the Tokyo flagship stations. Furthermore, in segment performance for the third quarter alone, net sales rose 0.3% y-o-y while operating profit declined 5.7%.

○Construction and Real Estate

The Construction and Real Estate segment achieved net sales of JPY 13,311 million, a 7.5% y-o-y increase, and operating profit of JPY 349 million, a 40.9% y-o-y decrease. The sales increase is mostly due to the company's reform business in the Kanto region, which was included in Gas and Oil segment in the previous half-year, being transferred to Construction and Real Estate segment; and, in real terms, it remained almost flat. Despite steady progress in delivery of newly-built condominiums (Shizuoka Prefecture, 12 units), overall activity in the segment, including housing sales and reform businesses, remained low due to the consumption tax hike. Moreover, the reform business performed slightly below the company's plan, causing operating profit to fall slightly below target.

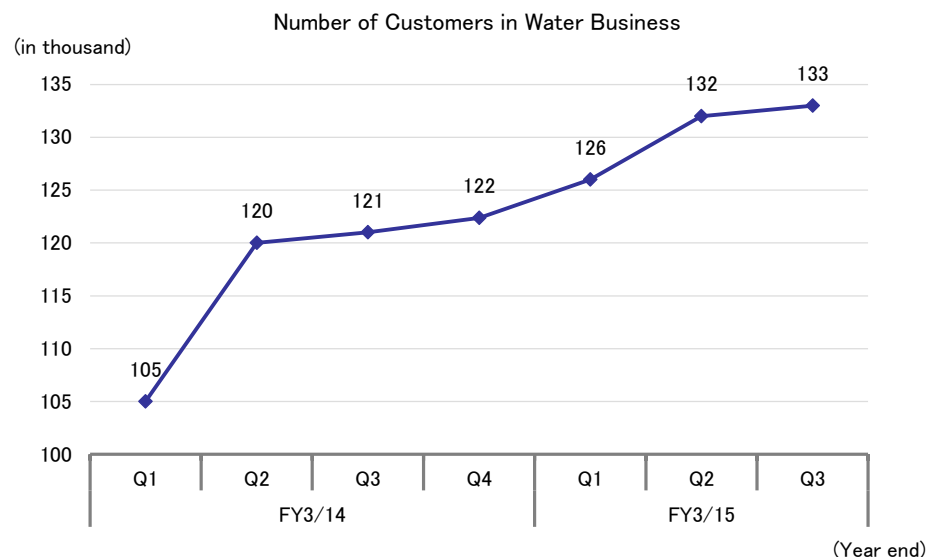
In segment performance for the third quarter alone, net sales were down 0.3% y-o-y while operating profit slipped 39.8%. For the time being, the business environment will continue to present challenges. In light of this market environment, the company's policy is to continue strengthening its business in custom-built homes.

OWater

The Water segment achieved net sales of JPY 3,707 million, a 13.3% y-o-y increase, while the operating loss decreased from JPY 1,695 million in the same period of the previous fiscal year to JPY 1,166 million. The number of customers at the end of December steadily increased to 133 thousand, a y-o-y increase of 12 thousand.

The sales increase was due to factors including continued efforts to increase brand recognition of Urulon, the company's water product, by using "Doraemon" as the image character for One Way water delivery service, strengthening sales promotion focusing on large commercial facilities in the Kansai, Hokuriku and Tohoku regions in addition to the Kanto region and the launch of a new product, Sarari, smoother natural water with less vanadium and mineral contents. For this segment, the company aims to reach its break-even point of 180 thousand customers in the fiscal year ending March 2017.

The improvement of operating profit was attributable to a decrease in advertising expenses in addition to the sales increase. Furthermore, in segment performance for the third quarter alone, net sales were up 9.8% y-o-y to JPY 1,284 million, while the operating loss improved to JPY 187 million from JPY 377 million in the same period of the previous fiscal year. Looking ahead, the company will continue focusing on customer acquisition, so operating expenditure could increase; however, the business is steadily progressing towards achieving profitability in the fiscal year ending March 2017.



OOthers and Adjustments

In the "Others" segment and adjustments, net sales amounted to JPY 3,626 million, a 0.1% y-o-y increase, and operating loss amounted to JPY 3,718 million, remaining unchanged from the operating loss of JPY 3,623 million recorded for the same period of the previous fiscal year.

In the nursing business, the company operates a total of seven day-service facilities and private nursing care homes in Shizuoka Prefecture. Sales are increasing atop growth in the number of users; however, with the opening of three new facilities in the fiscal year ending March 2015, an increase in upfront costs has weighed slightly on profits. On the other hand, with regard to the wedding business, net sales have continued to decline as the number of weddings continues to fall. The company has decided to close one of its three wedding venues in Shizuoka Prefecture at the end of March 2015. Looking at segment performance for the third quarter alone, net sales were down 0.4% y-o-y, and operating loss was level with the same period of the previous fiscal year.

Interest-bearing debt continues to decline, and financial status is steadily improving

(3) Financial Status

The following table shows the company's financial status as of the end of December 2014. Total assets amounted to JPY 168,034 million, decrease of JPY 5,586 million from the end of the previous fiscal year. This is primarily due to JPY 1,727 million decrease in accounts receivable, a JPY 3,196 million decrease in tangible fixed assets and a JPY 1,531 million decreased in goodwill.

Meanwhile, total liabilities were down JPY 6,482 million from the end of the previous fiscal year to JPY 128,808 million. The main factors in the decrease were a JPY 3,100 million decrease in interest-bearing debt, a JPY 1,880 million decrease in income taxes payable, and a JPY 1,078 million decrease in accounts payable. Interest-bearing debt is continuing on a declining trend, and the company's financial status is steadily improving. Furthermore, net assets increased JPY 895 million from the end of the previous fiscal year to JPY 39,225 million, of which the valuation difference on available-for-sale securities increased by JPY 796 million.

Consolidated Balance Sheet

(Unit: JPY million)

	FY3/12	FY3/13	FY3/14	FY3/15 Q3	Amount of increase / decrease
Total assets	183,735	177,642	173,620	168,034	-5,586
(Interest-bearing debt)	105,659	93,668	85,843	82,743	-3,100
Total liabilities	156,553	143,631	135,291	128,808	-6,482
Net assets	27,181	34,011	38,329	39,225	895
Main Management Indicators					
Equity ratio	14.3%	18.6%	21.6%	22.8%	
Interest-bearing debt ratio	402.1%	283.0%	229.4%	216.0%	

Improved profitability in the water business and companywide reduction in SG&A expenses set to achieve full-year earnings targets

(4) Forecast for FY Ending March 2015

The company's forecast for consolidated operating results for the fiscal year ending March 2015 has been left unchanged at net sales of JPY 196,900 million, up 4.2% y-o-y, operating profit of JPY 8,870 million, up 20.0% y-o-y, recurring profit of JPY 8,320 million, up 18.6%, and net profit of JPY 3,740 million, up 43.9% y-o-y. In progress over the first three quarters, the company is ahead of its plan on a profit basis, however this reflects the effects of two negative factors expected to occur in the fourth quarter.

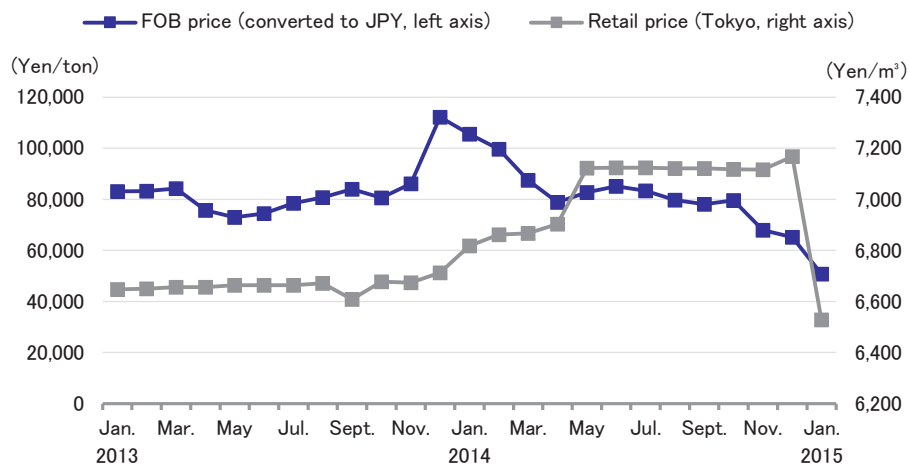
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The first negative factor includes a cost associated with revaluation of inventories in the LPG business at the end of the fiscal year due to the impact of falling purchase prices. There is also a possibility that the sale price will be reduced in March.

LPG FOB Price and Retail Price



Source: Japan LP Gas Association

The second negative factor is the lifting of the ban on NTT fiber optic access wholesale sales from March. The company will respond by launching Internet services as a set with fiber optic access from March, but this is expected to increase customer acquisition costs accordingly. Although it is only for one month, it is expected to have some impact.

However, even when these two factors are taken into consideration, we believe that the company is highly likely to achieve its planned profits. Sales expansion is continuing in the Information and Telecommunications segment and Water segment, and in terms of profits the Water segment has improved its operating loss, while companywide SG&A expense reductions are expected to have an ongoing effect.

Number of Subscribers by Service

(Unit: Thousand)

	FY3/12	FY3/13	FY3/14	FY3/15 (forecast)	Number of increase / decrease
Gas (LPG, utility gas)	648	629	628	634	+6
Security	20	19	19	19	0
Water	97	102	122	143	+21
Telecommunications (land, Wi-Fi)	758	816	854	876	+22
Telecommunications (mobile)	193	213	227	238	+11
CATV	722	691	693	700	+7
CATV broadcasting	542	505	502	496	-6
CATV telecom	180	186	191	205	+14
Total	2,415	2,445	2,519	2,586	+67
Number of TLC members (Thousands)	-	110	306	396	+90

Net Sales by Business Segment

(Unit: JPY million)

	FY3/12	FY3/13	FY3/14	FY3/15 (forecast)	y-o-y
Gas and Oil	94,794	94,519	97,229	97,800	0.6%
Information and Telecommunications	37,943	38,497	38,803	41,500	7.0%
CATV	24,292	23,786	24,187	24,600	1.7%
Construction and Real Estate	15,881	15,756	19,245	21,800	13.3%
Water	3,522	3,750	4,378	5,400	23.3%
Others	5,498	5,374	5,142	5,800	12.8%
Total	181,931	181,684	188,987	196,900	4.2%

■ Three-year Medium-term Plan

Aiming to achieve net sales of JPY 209.5 billion and operating profit of JPY 12.6 billion

(1) Summary of medium-term plan, “Innovation Plan 2016 ‘Growing’ ”

In June 2014, TOKAI announced a medium-term plan, Innovation Plan 2016 “Growing”, ending in fiscal year 2017 (term ending in March 2017). The plan’s basic policies include: 1) improved sales and profitability by building up the number of customers; 2) continued improvement of financial structure; and 3) delivery of steady and sustained returns to shareholders. The company has also announced specific management targets, aiming to achieve net sales of JPY 209.5 billion as well as operating profit of JPY 12.6 billion in the final year of the plan (see table).

Management Indicator Targets in Medium-term Management Plan (IP16 “Growing”)

	FY3/14 (actual)	FY3/15 (forecast)	FY3/16 (planned)	FY3/17 (planned)
Number of customers (in 10 thousand)	252	259	266	273
Net sales (in JPY 100 million)	1,890	1,969	2,023	2,095
Operating profit (in JPY 100 million)	74	82	97	126
Earnings per share (in JPY)	22.67	27.86	34.91	54.06
EBITDA (in JPY 100 million)	249	252	267	287
Interest-bearing debt (in JPY 100 million)	858	818	741	647
Equity ratio	21.6%	23.0%	25.1%	28.6%

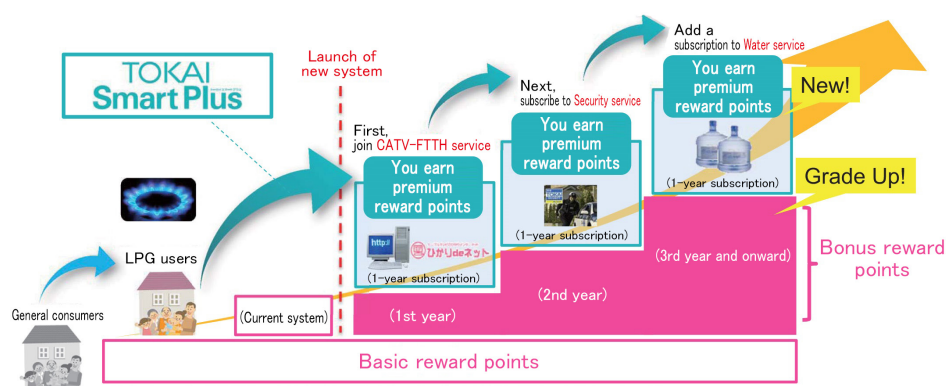
Retain retail customers by increasing the number of TLC members

(2) Retaining customers and promoting multiple transactions

As a strategy for achieving its medium-term management plan, the company intends to focus on retaining customers and promoting multiple transactions. Retaining customers will be possible by increasing the number of TLC members.

To increase the group’s number of customers to 2,730 thousand by the final year of the plan, the key issues for the company to address is how to increase the number of customers with multiple transactions for its various services including gas and telecommunications, broadcasting and Internet, as well as the electric power services it plans to offer in the future. The company makes use of a system for awarding points to TLC members and will introduce a scheme called TOKAI Smart Plus to increase the rate of reward points awarded to users who subscribe to multiple services. This strategy aims to create a sense of benefit for such users and helps to increase the ratio of multiple service users.

Image of TOKAI Smart Plus



Note: The above image represents an existing LPG user who will be adding a new service every year after the launch of a new system.
Source: TOKAI Holdings’ materials

With the number of existing customers who use multiple services only accounting for 7% of all customers, there is large growth potential. The company is discussing options for fast implementation of TOKAI Smart Plus. Since the effects of the new program are not incorporated in the medium-term plan, this may lead to exceeding the original forecast.

Marketing Subsidiary to be Established to Strengthen Sales Structure

(3) Advancing initiatives with a focus on electric power sales

TOKAI has announced to launch electric power retail services, led by the liberalization of electric power retail sales in 2016. The Company is looking to start providing services in Shizuoka and the Kanto region simultaneously at the time of liberalization, and is making steady progress in its preparations.

The recently announced plan to establish the new subsidiary TOKAI Home Gas in April 2015 is also a part of this initiative. This will be a dedicated marketing subsidiary, separate from the current sales team for LPG and other services. Establishing a separate company will streamline the process of developing new customers for the group's multiple services. From fiscal 2016, the group will add electric power supply services to its lineup and strengthen its sales structure. This is expected to increase its customer base going forward.

Market Launch of Cloud-Based Preschooler Management System "Pastell Apps"

(4) Start of cloud-based services for students in kindergarten and daycare

In February 2015, the company's subsidiary, TOKAI Communications Corporation, launched a cloud-based preschooler management system "Pastell Apps," developed in collaboration with Internet production and development company Sunfront.

The system enables kindergartens and daycare centers to manage preschooler, parent, and staff information centrally on a cloud platform to streamline administration, while facilitating smooth communication with parents. Special features of the service include the ability to link with the HOP* preschooler development support system. HOP is a system for presenting an evaluation of a preschooler's developmental status and environment based on scientific grounds, by selecting the appropriate answer to set questions about his or her development. The system enables educators and parents to work together to provide appropriate support for the child's growth. The monthly usage charge (excluding tax) start from JPY 10,000, and the set price together with the HOP service starts from JPY 15,000.

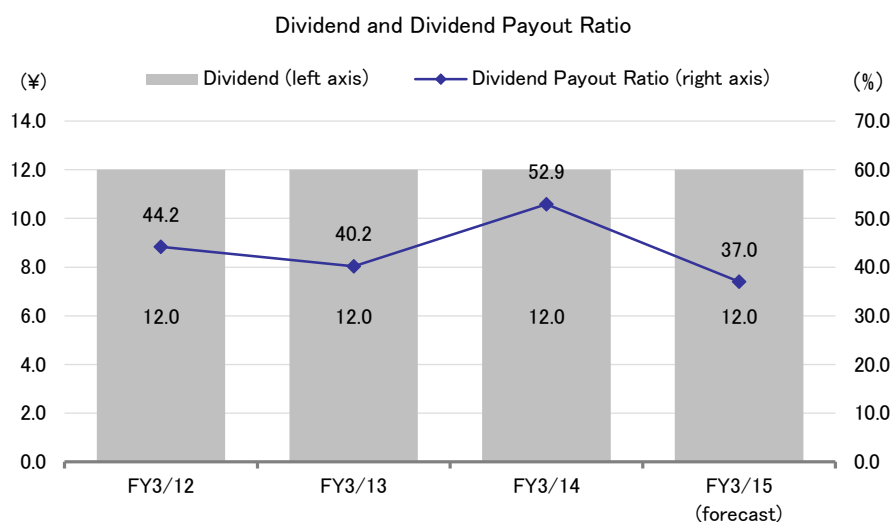
The total number of kindergartens and daycare centers as of 2013 was approximately 37,000, and is expected to increase going forward. The TOKAI group's management vision is to realize the concept of a "Total Life Concierge." The entry into the preschool education market is another service that the group will focus on as part of its effort to expand its business.

* HOP Is a program based on the preschool education cohort study that has been conducted since 1998 by the Hoiku Power Up Kenkyukai, which comprises the dedicated preschool education organization Zenkoku Yakan Hoikuen Renmei as well as researchers and students in various fields, headed by University of Tsukuba Graduate School Professor Tokie Anme. The five support tools such as development assessment and preschool environment assessment that were created from this research have been developed as a cloud-based system.

■ Shareholder Return Policy

Actual Dividend Payout Ratios for the Last Three Periods were Over 40%; 30% Expected for the Fiscal Year Ending March 2015

The Company's dividend policy is based on paying out stable dividends, but, after its transition to a holding company structure, actual dividend payout ratios for the last three periods were over 40% respectively. The ratio for the fiscal year ending March 2015 is expected to be over 30% as well. As for shareholder benefits, the Company gives some of its water products [Urulon "Fuji-no-tennensui (Mt. Fuji natural water)" or others], worth to JPY 1,800, a QUO card, equivalent to JPY 500, or reward points of "TLC Members" service, a comprehensive membership service, worth to JPY 1,000, per unit of shares biannually at the end of March and at the end of September to its shareholders. Based on the current market price level, in the case where shareholders select the water products, the total return is calculated to be approximately 8%, which is an attractive level.



Note: "FY3/12" includes a commemorative dividend of JPY 2.

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