

TOKAI Holdings Corporation

3167

Tokyo Stock Exchange First Section

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

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Summary

Record highs in the FY3/17 results

Based in Shizuoka Prefecture, Japan, TOKAI Holdings Corporation <3167> (hereafter, also “the Company”) is expanding its two main businesses, “energy and lifestyle-related services”, primarily the provision of liquefied petroleum gas (LPG), and “information and communications services”. Aiming to become a “Total Life Concierge*” (TLC), a company offering a complete range of services for everyday life, the Company started the three-year medium-term management plan, called “Innovation Plan 2016 ‘Growing’”, in FY3/15, and it is expected to largely achieve the plan’s initial goals, including for strengthening its financial structure. In the next medium-term management plan (a four-year plan up to FY3/21), the Company intends to shift the focus to investment for growth and is aiming to grow earnings while actively utilizing M&A.

* The Total Life Concierge concept: it indicates the Company’s aim to provide every type of lifestyle support service under a one contract, one stop, and one call center model, and while deepening its connection with customers, their local communities, society, and the global environment, to be a company that enriches people’s lives, assists in the development of local communities, and contributes to protecting the global environment.

1. Major increases in profits in the FY3/17 Q3 cumulative results for new record highs

In the FY3/17 Q3 cumulative (April to December 2016) consolidated results announced on January 31, despite net sales decreasing 2.1% year on year (YoY) to ¥127,432mn due to the impact of the reduction of the LP gas sales price, operating profit increased greatly, by 104.5% to ¥8,193mn, mainly because of the improvement in earnings in the Hikari Collaboration service* and the Aqua business, and was a record high for Q3 cumulative results. The number of Group customers at the end of December was affected by the decline in contracts for the previous ISP service from their transfer to Hikari Collaboration and fell by 6,000 on the end of the previous fiscal year to 2,551,000. However, the member numbers for the TLC Membership Service grew steadily, increasing by 69,000 to 560,000 members.

* In February 2015, the Company began selling the @ T COM Hikari service and the TNC Hikari service, which bundle the Company’s ISP service with NTT’s fiber-optic cables for these services.

2. On course to achieve record highs for FY3/17 for the first time in 5 fiscal years and is aiming for further growth through active investment from FY3/18 onwards

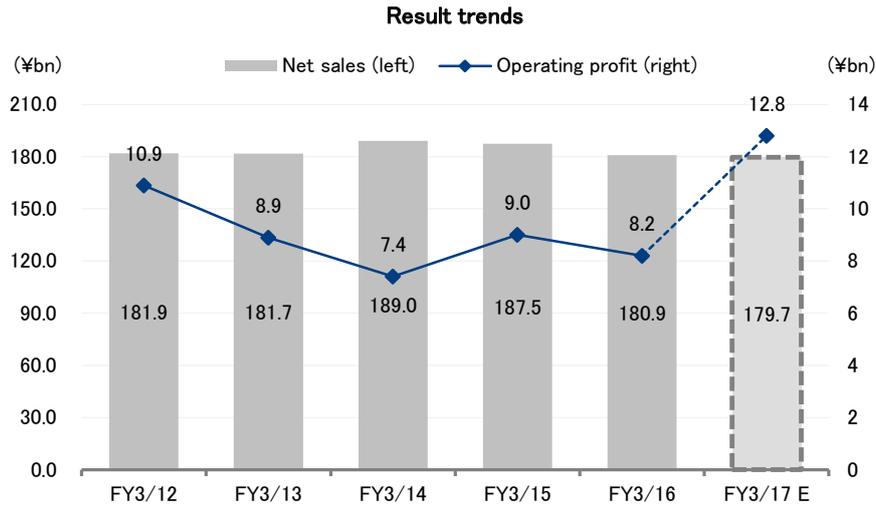
The Company has left its FY3/17 results forecasts unchanged from the previous forecasts, of net sales to decrease 0.7% YoY to ¥179,700mn, but operating profit to increase 54.7% to ¥12,750mn. The progress made up to Q3 was at a pace slightly above these forecasts, and if there are no major changes to the market environment in the near future, it can be expected to achieve them. From FY3/18 onwards, the Company plans to actively conduct investment, including for M&A. In addition, as the percentage of customers using multiple Group services has been at a low level (7%), it intends to focus on improving this, and it is considered that the number of Group customers will increase from the implementation of these policies.

3. Continues to actively return profits to shareholders

For shareholder returns, the Company aims for a dividend payout ratio of 40% to 50%, and in FY3/17, it plans to increase the dividend per share by ¥14.0 YoY to ¥28.0 (dividend payout ratio, 48.9%). It also presents gifts to shareholders at the end of September and March, including Aqua products, QUO cards, and ¥1,000 worth of TLC Membership Service points. When including the gifts to shareholders in the estimate of the total investment yield per share unit from the current share price level (¥851 on February 7), it is in the range of 4% to 8% (depending on the selection of either a QUO card or an Aqua product as the gift).

Key Points

- Major increases in profits in the FY3/17 Q3 cumulative results for new record highs
- Substantial improvements in earnings in the information and communications services and the Aqua businesses
- From FY3/18 onwards, will shift focus to a growth strategy through active investment



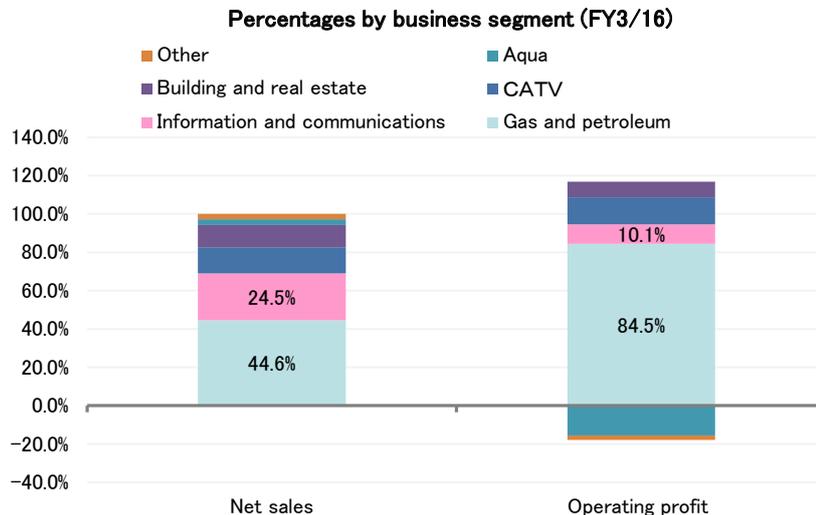
Source: Prepared by FISCO from the Company's financial results

Business overview

Focuses on energy and lifestyle-related services, primarily the provision of LP gas, and information and communications 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), 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 one-stop services for everyday life and while deepening its connections with its customers, their local communities, society, and the global environment, and 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 percentages of sales and profits provided by business segment (FY3/16), the original business of the gas and petroleum business is the main business segment that contributes 44.6% of net sales and 84.5% of operating profit, and the majority of sales and profits are provided by it and two other businesses, the information and communications services business and the CATV business. While the Aqua business had been recording an operating loss, it has become profitable in FY3/17. The details by business segment are as follows



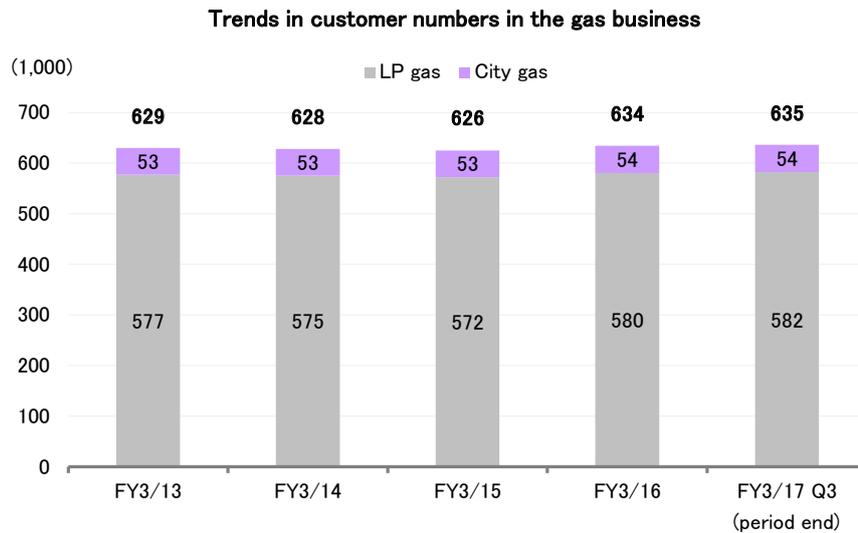
Source: Prepared by FISCO from the Company’s results briefing materials

Business overview

1. Gas and Petroleum

In this business, approximately 90% of net sales are provided by the LP gas business and around 10% 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 sequentially expanded into the south Tohoku, Chubu, and Tokai areas and has been focusing on increasing customer numbers. As of the end of December 2016, it had 582,000 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 22%, while it has an approximately 6% share of the highly competitive Kanto region. As there are approximately 20 million households nationwide that use LP gas, its nationwide market share is slightly less than 3%, and going forward there remains room for it to grow its share, including by expanding sales areas and conducting M&A.

Conversely, 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 54,000 at the end of December 2016, is remaining basically constant.



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

Business overview

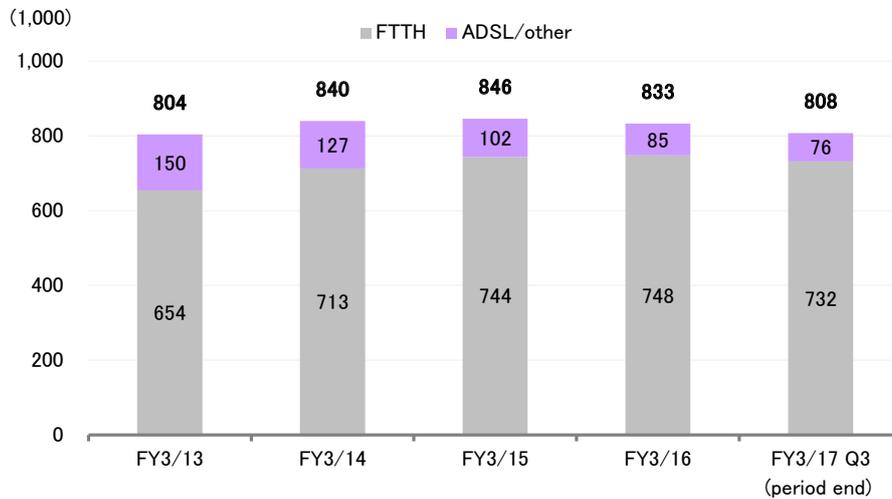
2. Information and Communications Service

This business is developed by TOKAI Communications Corporation, and in addition to an ISP (Internet service provider) business, it includes a mobile business (sales of mobile phones), corporate communication services, and a systems development business, as well as other operations. Looking at the percentages of net sales in FY3/16, the ISP business and corporate communication services, and the systems development business, each provided slightly more than 40%, with the remainder being provided by the mobile business.

The ISP business provides the “@ T COM” service for the nationwide area and the TOKAI Network Club (TNC) service for the Shizuoka Prefecture area, and it has the leading share within Shizuoka Prefecture of approximately 24%. In addition, from 2015 it launched the @TCOM Hikari and TNC Hikari services, in which it is receive wholesale provision of optical lines from NTT <9432> and provides its own optical (hikari) Internet connection service. The total number of customers for broadband services, including the ADSL service, was 808,000 at the end of December 2016, which was down on the end of the previous fiscal year. This was due to the intensification of competition following the start of NTT’s wholesale of optical lines.

The mobile business operates mobile phone stores, mainly within Shizuoka Prefecture, as a sales agency of SoftBank Mobile, and as of the end of December 2016, it had 234,000 customers. In addition, in 2014 it launched sales of inexpensive SIM cards as an MVNO (mobile virtual network operator), while it also began sales of inexpensive smartphones in 2017.

Trends in the number of broadband service customers

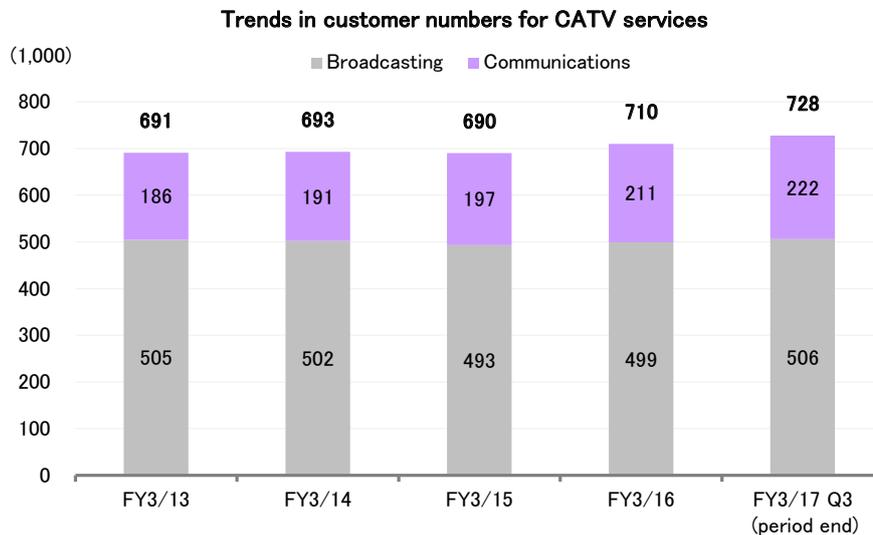


Source: Prepared by FISCO from the Company’s results briefing materials

Business overview

3. CATV

In this business, seven Group companies provide broadcasting and communication services (Internet connection services) in five prefectures; Shizuoka Prefecture, Kanagawa Prefecture, Chiba Prefecture, Nagano Prefecture, and Okayama Prefecture. Due to the increasingly widespread use of optical fibers, the competitive environment is becoming more and more intense, such as that major communication carriers are providing broadcasting services using optical communication lines. However, the Company is aiming to differentiate itself by improving the quality of its services, including by supplementing community-based broadcast programs and progressing compliance with 4K broadcasting. It is also capturing customers by providing discounted sets of services provided by companies both inside and outside of the Group. The number of customers at the end of December 2016 was 506,000 for broadcast services and 222,000 for communication services.



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

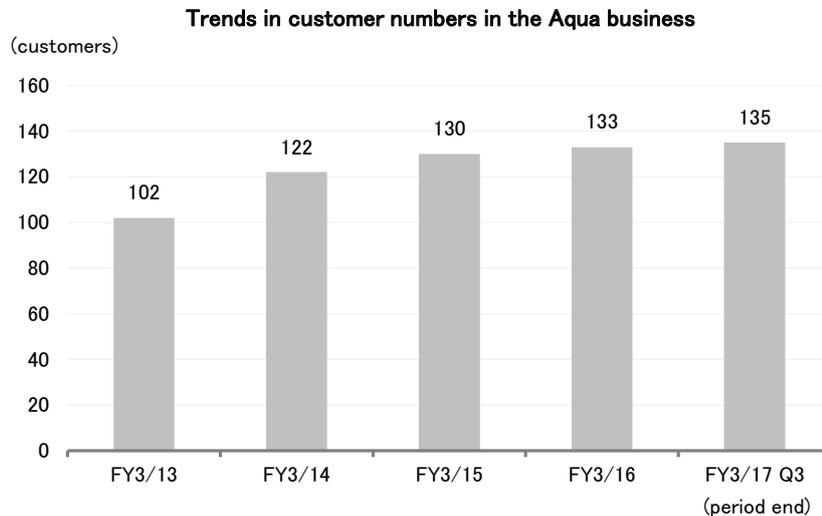
4. Building and Real Estate

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

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, and customer numbers have increased. It bottles Mt. Fuji natural spring water at its own factories, and it has two factories within Shizuoka Prefecture that have a total production capacity of approximately 170,000 customers. Although the bottled water home delivery market as a whole is mature, in the last one or two years customer numbers have still been increasing at a moderate pace, and the Company had 135,000 customers at the end of December 2016.

Business overview



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

6. Others

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 at the end of December 2016, it operated a total of seven facilities within Shizuoka Prefecture, of day care facilities, short-stay facilities, and paid-for nursing homes. It also operates 2 facilities in the wedding ceremony business, although it plans to close 1 facility in March 2017.

Results trends

All profit items greatly increased in the FY3/17 Q3 cumulative results to achieve record highs

1. Overview of the FY3/17 Q3 cumulative results

In the FY3/17 Q3 cumulative consolidated results announced on January 31, net sales decreased 2.1% YoY to ¥127,432mn, operating profit increased 104.5% to ¥8,193mn, recurring profit rose 110.3% to ¥8,246mn, and quarterly net income attributable to owners of the parent climbed 247.6% to ¥4,850mn. All of the profit items were record highs and in addition, each slightly exceeded their respective Company forecast.

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Results trends

The main reason for the decrease in net sales was the impact of the reduction in sales prices in the gas and petroleum business, which reduced net sales by approximately ¥6.2bn. Conversely, the higher profits were due to the improvement in earnings in the Hikari Collaboration and Aqua businesses, which caused profits to rise by approximately ¥3.5bn. In addition, the amortization of goodwill declined about ¥600mn, which also contributed to the higher profits. It is noteworthy that in the Q3 cumulative results, profits increased (or the extent of the loss declined) in all business segments.

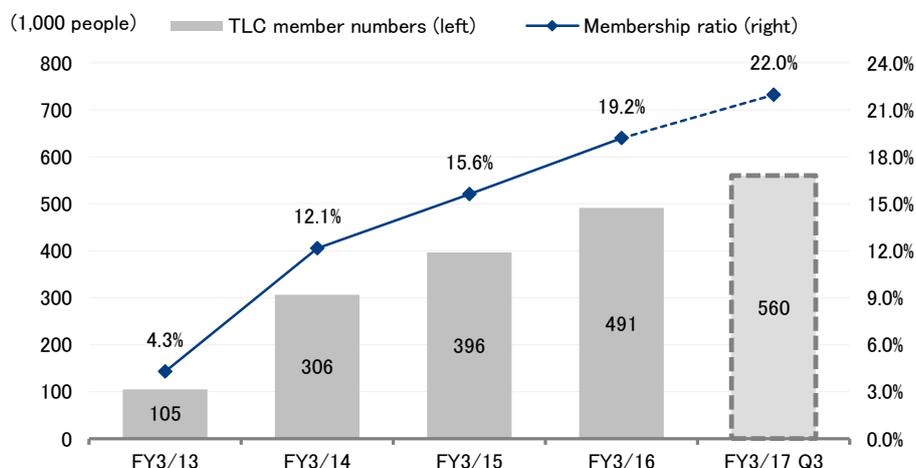
The number of customers for the Group as a whole at the end of December 2016 was 2,551,000, which was down by 6,000 on the end of the previous fiscal year. Looking at customer numbers for each of the main services, in the gas business they increased by 1,000, in the CATV business they rose by 18,000, and in the Aqua business they climbed by 2,000, but the reason for the overall decline was that they decreased by 25,000 in the broadband business. This was because while steady progress was made in transferring existing customers to Hikari Collaboration and acquiring new customers, the rise in the cancelled contracts for the previous ISP service and for other services exceeded the pace of the increase in new and transferred customers. In addition, the number of members of the TLC Membership Service, which was introduced in December 2012 with the aim of capturing customers and increase the rate of use of multiple services within the Group, had steadily increased, and at the end of December it was 560,000, up 69,000 on the end of the previous fiscal year.

FY3/17 Q3 cumulative results (consolidated)

	FY3/16 Q3 cumulative		FY3/17 Q3 cumulative		
	Results	Ratio of sales	Results	Ratio of sales	YoY
Net sales	130,103	-	127,432	-	-2.1%
Cost of sales	80,047	61.5%	75,055	58.9%	-6.2%
SG&A expenses	46,049	35.4%	44,183	34.7%	-4.1%
Operating profit	4,006	3.1%	8,193	6.4%	104.5%
Recurring profit	3,921	3.0%	8,246	6.5%	110.3%
Extraordinary income / losses	-866	-	-377	-	-
Quarterly net income	1,395	1.1%	4,850	3.8%	247.6%

Note: Quarterly net income = quarterly net income attributable to owners of the parent
 Source: Prepared by FISCO from the Company's financial results

TLC member numbers and membership ratio



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

We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends

Substantial improvements in earnings in the information and communications services and the Aqua businesses

2. Trends by business segment

Q3 cumulative results by segment

		(¥mn)			
		FY3/15 Q3 cumulative	FY3/16 Q3 cumulative	FY3/17 Q3 cumulative	YoY
Gas and petroleum	Net sales	67,106	58,348	51,291	-12.1%
	Operating profit	4,376	5,232	5,550	6.1%
	Operating profit margin	6.5%	9.0%	10.8%	+1.8pt
Information and communications services	Net sales	30,020	31,988	36,212	13.2%
	Operating profit	3,716	1,472	2,993	103.3%
	Operating profit margin	12.4%	4.6%	8.3%	+3.7pt
CATV	Net sales	18,207	18,345	18,901	3.0%
	Operating profit	1,309	1,453	2,125	46.2%
	Operating profit margin	7.2%	7.9%	11.2%	+3.3pt
Building and real estate	Net sales	13,311	13,783	12,926	-6.2%
	Operating profit	349	523	619	18.4%
	Operating profit margin	2.6%	3.8%	4.8%	+1.0pt
Aqua	Net sales	3,707	4,130	4,391	6.3%
	Operating profit	-1,166	-933	299	-
	Operating profit margin	-	-	6.8%	-
Other businesses and adjustments	Net sales	3,626	3,507	3,708	5.7%
	Operating profit	-3,718	-3,741	-3,396	-
	Operating profit margin	-	-	-	-
Total	Net sales	135,981	130,103	127,432	-2.1%
	Operating profit	4,866	4,006	8,193	104.5%
	Operating profit margin	3.6%	3.1%	6.4%	+3.3pt

Note: Operating profit is prior to the allocation of indirect costs and other costs
 Source: Prepared by FISCO from the Company's results briefing materials

(1) Gas and petroleum business

In this business, net sales decreased 12.1% YoY to ¥51,291mn, but operating profit increased 6.1% to ¥5,550mn. Despite the decrease in sales of approximately ¥6.2bn from the impact in the reduction in the sales price due to the lowering of raw materials prices implemented in the previous fiscal period, the effect from the reduction in purchase prices was greater and as a result, an increase in profits was secured.

In the mainstay LP gas business, the number of customers at the end of December had steadily risen, by 7,000 YoY and by 2,000 on the end of the previous quarter, to 582,000. The main reason for this was the progress made in acquiring customers in the areas newly entered into in the last fiscal year, of the south Tohoku area and one part of Aichi Prefecture (Toyokawa City). Also, although competition with industry peers intensified in the summer and the number of contract cancellations within the area temporarily increased, countermeasures were implemented and the impact of this had basically disappeared by Q3. Consumption volume per customer trended around the same level YoY. Elsewhere, the number of customers in the city gas business increased 1,000 YoY and was basically unchanged on the end of the previous quarter, but net sales declined due to the impact of the reduction in the sales price.

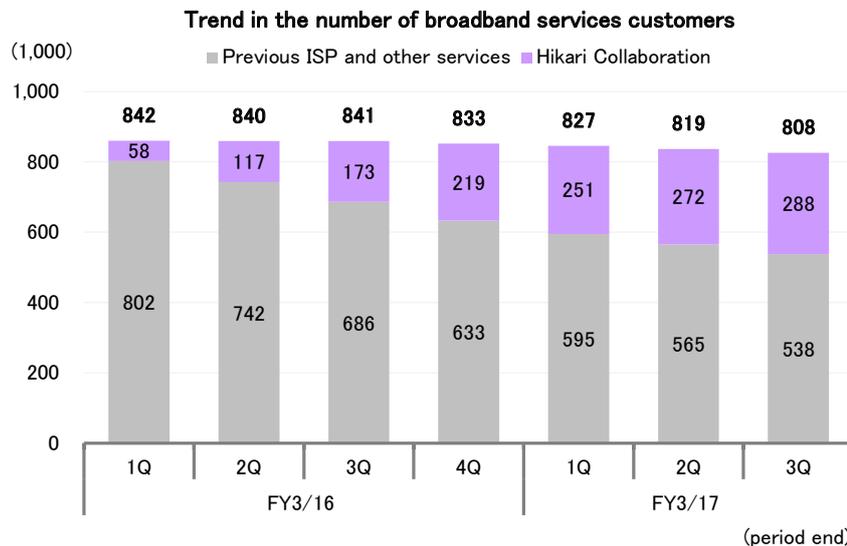
Results trends

(2) Information and communications services business

In this business, net sales increased 13.2% YoY to ¥36,212mn, while operating profit grew significantly, up 103.3% to ¥2,993mn. The number of customers in the broadband business declined 33,000 YoY to 808,000, but as a result of the progress made in the shift from the previous ISP service to the Hikari Collaboration, monthly net sales per customer rose 26% to ¥3,037, which accounted for the majority of the higher sales. In terms of profits also, the extent of the Hikari Collaboration operating loss was greatly reduced, from ¥2,418mn YoY to ¥125mn, which was a factor behind the higher profits. The number of Hikari Collaboration customers rose YoY from 173,000 to 288,000, and the Hikari Collaboration rate* trended above the nationwide average at 52.7%.

* Hikari Collaboration rate = number of Hikari Collaboration contracts at period end ÷ (number of Flets Hikari contracts + number of Hikari Collaboration contracts)

Conversely, in corporate data communication services and system development, both net sales and operating profit increased slightly YoY.



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

(3) CATV business

In this business, net sales increased 3.0% YoY to ¥18,901mn, and operating profit rose 46.2% to ¥2,125mn. In addition to the steady increase in customer numbers, factors such as the rise in the number of users of the communication services and other valued-added services, the reduction in costs, and the decrease in the amortization of goodwill each contributed to the improved profit rate.

The number of customers at the end of Q3 had increased by 9,000 YoY in the broadcasting service to 506,000, and by 15,000 in the communications service to 222,000, and the upward trend in both is being maintained. The Company is making progress in acquiring new customers from the effects of the discounts sets for broadcasting and communication services and the discount sets for smartphones through collaborations with major mobile carriers. Its efforts to prevent contract cancellations by strengthening customer support also contributed to the increase in the number of contracts.

Results trends

(4) Building and real estate business

In this business, net sales decreased 6.2% YoY to ¥12,926mn, but operating profit increased 18.4% to ¥619mn. Despite the fall in sales, which was due to declines in home sales and of solar power generation equipment in the renovation business, profits increased from the expansion of the reception desk business (building management support).

(5) Aqua business

In this business, net sales increased 6.3% YoY to ¥4,391mn and the operating profit was ¥299mn (compared to a loss of ¥933mn in the same period in the previous fiscal year). On a quarterly basis also, it was the second successive quarter of profit. The number of customers at the end of Q3 had risen only slightly, by 1,000 YoY to 135,000, but profits still increased from the shift from this fiscal period to a more efficient marketing strategy (focusing on cost efficiency), from the YoY reduction in customer-acquisition costs that were reduced from ¥1,058mn to ¥726mn, and also from the decrease in advertising expenses, including for TV commercials.

(6) Other businesses and adjustments

In other businesses and adjustments, net sales rose 5.7% YoY to ¥3,708mn and the operating loss was ¥3,396mn (compared to a loss of ¥3,741mn in the previous fiscal year).

Net sales in the nursing care business are steadily increasing due to the rise in user numbers at the 7 facilities operated within Shizuoka Prefecture, of day care facilities and paid-for nursing homes with care services, and as a result, the extent of the operating loss was reduced. Net sales also increased in the shipbuilding and repair business following a rise in the volume of ship repair work. On the other hand, net sales in the wedding ceremony business remained at basically the same level YoY, as the number of wedding ceremonies and the number of event users were also basically unchanged.

Improving the financial structure

3. Financial position and management indicators

At the end of December 2016, total assets were down ¥2,567mn on the end of the previous fiscal year to ¥157,735mn. Looking at the main change factors, in current assets, cash and deposits decreased ¥1,012mn, while inventory increased ¥469mn. In non-current assets, tangible non-current assets decreased ¥2,946mn due to the progress in depreciation, while goodwill declined ¥463mn.

Total liabilities were down ¥7,324mn on the end of the previous fiscal year to ¥111,007mn, mainly due to the decline in interest-bearing debt of ¥5,732mn. Net assets were up ¥4,757mn to ¥46,728mn following the increase in retained earnings.

As a result, the equity ratio rose by 3.5 percentage points on the end of the previous fiscal year to 29.1%, while the interest-bearing debt ratio declined by 31 percentage points to 142.9%, so the outcomes of the Company's efforts to improve its financial structure can continue to be seen in the management indicators. Furthermore, ¥10bn of the interest-bearing debt comes from a zero-coupon convertible bond issued in June 2015 (conversion price, ¥585), and on a real basis the Company has lowered its interest-bearing debt to ¥55.6bn. Going forward, we can expect the equity ratio to rise even higher if the share price rises and convertible bondholders convert their bonds to shares.

Results trends

Consolidated Balance Sheet

	(¥mn)				
	FY3/14	FY3/15	FY3/16	FY3/17 Q3	Change
Assets total	173,620	165,702	160,303	157,735	-2,567
Liabilities total	135,291	122,234	118,332	111,007	-7,324
Net assets total	34,139	39,225	42,272	46,728	4,757
Balance of interest-bearing debt	85,843	73,114	71,409	65,678	-5,732
Equity ratio	21.6%	25.7%	25.6%	29.1%	
Reliance on interest-bearing debt	229.4%	171.9%	173.9%	142.9%	

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

Results Outlook

Outlook is for record highs in the FY3/17 results

1. FY3/17 results outlook

The outlook for the FY3/17 consolidated results is for net sales to decrease 0.7% YoY to ¥179,700mn, operating profit to increase 54.7% to ¥12,750mn, recurring profit to rise 51.6% to ¥12,360mn, and net income attributable to owners of the parent to climb 88.0% to ¥6,500mn. Net sales are forecast to decline for the third consecutive fiscal year due to the impact of the reduction in the gas sales price, but record highs are expected for every profit item, mainly due to the improvements in earnings in the Hikari Collaboration and Aqua businesses. The forecasts that were upwardly revised in October 2016 have been left unchanged, but up to Q3, the Company had made steady progress toward achieving these forecasts in every business segment, and at FISCO we think that provided there are no major changes to the market environment in the near future, it is highly likely that it will achieve these forecasts.

Outlook for the FY3/17 consolidated results

	FY3/16		FY3/17		
	Results	Ratio of sales	Forecast	Ratio of sales	YoY
Net sales	180,940	-	179,700	-	-0.7%
Operating profit	8,245	4.6%	12,750	7.1%	54.7%
Recurring profit	8,150	4.5%	12,360	6.9%	51.6%
Extraordinary income / losses	-1,714	-0.9%	-	-	-
Net income	3,458	1.9%	6,500	3.6%	88.0%

Note: Net income = net income attributable to owners of the parent

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

Results Outlook

The number of customers in the Group as a whole is expected to rise by 17,000 from the end of previous fiscal year to 2,575,000. In the gas business, they are forecast to increase by 13,000 to 646,000 due to the expansion of the LP gas sales area and higher shares within existing areas. The Company launched sales activities in Gifu Prefecture in October 2016 and in Aichi Prefecture in January 2017, and in such ways it is working to acquire new customers. In the areas the Company newly entered in the previous fiscal year, there are many medium- and small-scale operators and the LP gas price is also higher than the national average, so there can be said to be plenty of room in these areas for the Company, as it possesses price competitiveness.

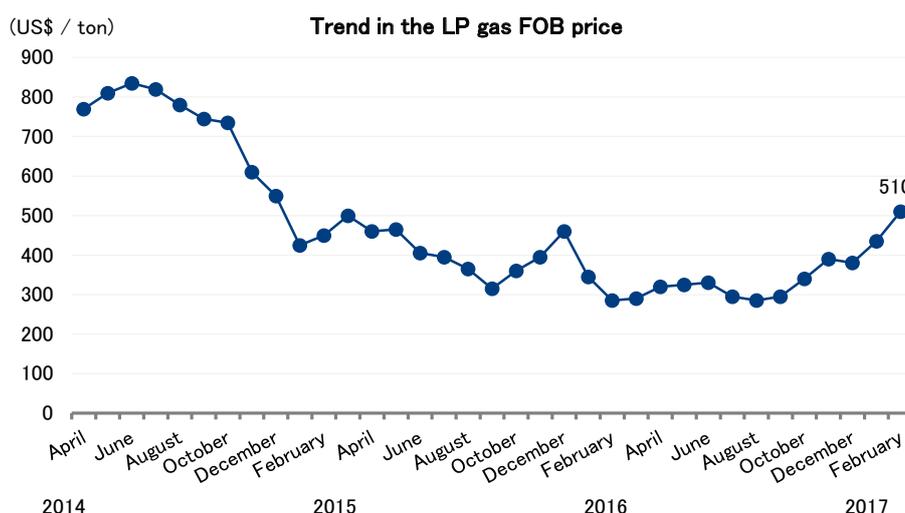
In the Hikari Collaboration business, the Company is making progress in transferring customers from the previous ISP services and acquiring new customers, and customer numbers are forecast to increase 100,000 from the end of previous fiscal year to 319,000. Also, customer numbers are expected to increase by 24,000 YoY to 734,000 in the CATV business, and by 5,000 to 138,000 in the Aqua business.

Higher sales and profits are expected in all businesses, apart from in the gas and petroleum business

2. Outlook by business segment

(1) Gas and petroleum business

In this business, the outlook is for net sales to decrease 10.7% YoY to ¥72.1bn and for operating profit to remain at basically the same level. Net sales are set to decrease despite the increase in the number of LP gas customers, due to the impact of the price reductions. Conversely, operating profit is forecast to remain unchanged YoY from the effects of reduced purchasing costs. Recently, the CP price has risen to as high as US\$500 / ton because of the increase in the price of crude oil, but the Company already has in place the contract reservations for the required amount, so this will not affect this period's results. In addition, the outlook for FY3/18 is for the sale price to increase alongside the rise in the purchase price, and therefore the decrease in net sales is expected to reverse direction and increase.



Source: Prepared by FISCO from Japan LP Gas Association materials

Results Outlook

(2) Information and communications services business

In this business, the outlook is for net sales to increase 12.9% YoY to ¥50.0bn, and operating profit to rise ¥1.9bn to ¥4.2bn. The majority of the higher sales and profits will be from the increase in the number of contracts for the Hikari Collaboration, and the Hikari Collaboration will contribute ¥2.9bn of the higher operating profit. Breaking down the increase in profits from Hikari Collaboration, the reduction in customer-acquisition costs will contribute ¥1.3bn, while the remainder will be from the higher sales from the rise in the number of contracts, and Hikari Collaboration is expected to become profitable in FY3/18. Conversely, in the previous ISP service, operating profit is forecast to decline due to the fall in subscriber numbers, while profits for broadband services as a whole are expected to rise by ¥2.0bn. In addition, single-digit increases in sales and profit are forecast for the corporate information and communications services for the full fiscal year.

The Company's policy is to raise the Hikari Collaboration rate, which was 52.7% at the end of December 2016, to 90.0% by the end of FY3/21. Hikari Collaboration's gross profit is approximately 1.5 times that of the previous service, so if the shift to Hikari Collaboration proceeds steadily in the future, it will become a factor behind higher sales and profits. However, the competition with major mobile carriers and other players to acquire new customers is intensifying, and customer numbers are trending downward for broadband services as a whole. Therefore going forward, the key will be whether or not the Company can increase customer numbers without incurring costs. Hikari Collaboration customer-acquisition costs in the next fiscal year are expected to be at around the same level as the current fiscal year, so the increase in sales from the rise in customer numbers will contribute to higher profits.

(3) CATV business

In this business, the outlook is for higher sales and profits, with net sales to increase 2.9% YoY to ¥25.3bn and operating profit to rise ¥800mn to ¥2.7bn. Customer numbers are expected to increase by 24,000 on the end of the previous fiscal year (broadcasting + 8,000, communications + 16,000) to 734,000. As its customer-acquisition policies, the Company is working on sales promotions, such as set discounts and bulk sales for multiple-dwelling housing, and these policies are producing results. Moreover, since 2H it has opened-up new sales channels for newly constructed detached housing (opened-up routes for home builders and construction stores), and introduced a new Hikari TV plus service for existing antenna-viewer households, and in such ways it is working to further acquire customers. To fund these measures, in 2H it plans to increase spending on customer acquisition by ¥200mn compared to in 1H.

(4) Building and real estate business

In this business, the outlook is for net sales to increase 0.7% YoY to ¥21.1bn and for operating profit to remain unchanged at ¥1.3bn. Results in each of housing sales, sales of home facilities and equipment, the renovation business, and the reception desk business are expected to trend steadily.

(5) Aqua business

In this business, the outlook is for net sales to increase 7.2% YoY to ¥5.9bn and operating profit to be ¥300mn (compared to a loss of ¥1.1bn in the previous fiscal year), which will be the first time it will achieve profitability on a full fiscal year basis. Customer numbers are expected to increase by 5,000 from the end of the previous fiscal year to 138,000. In the context of the slow-down in the growth of the bottled water home delivery market as a whole, from this fiscal period the Company has shifted to a strategy of focusing on areas with high sales efficiency and acquiring new customers within them, and for the future it is aiming to establish a stable profit structure while maintaining gradual growth. Customer-acquisition costs in the next fiscal year are set to be the same as in the current fiscal year.

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(6) Other businesses and adjustments

In other businesses and adjustments, the outlook is for net sales to increase 9.1% to YoY to ¥5.3bn and the operating loss to be ¥4.8bn (compared to a loss of ¥5.2bn in the previous fiscal year). Higher sales are expected, including in the nursing care business and the shipbuilding business, while the reduction in the extent of the loss in the nursing care business will contribute to profits. In the wedding ceremony business, the Company plans to close one facility in March 2017, so from April 2017 onwards it will manage only one facility, which will also be a factor improving profits.

Net sales by segment

(¥bn)

	FY3/14 Results	FY3/15 Results	FY3/16 Results	FY3/17	
				Forecast	YoY
Gas and petroleum	97.2	93.0	80.7	72.1	-10.7%
Information and communications services	38.8	40.1	44.2	50.0	12.9%
CATV	24.1	24.3	24.6	25.3	2.9%
Building and real estate	19.2	20.0	21.0	21.1	0.7%
Aqua	4.3	4.9	5.5	5.9	7.2%
Other businesses and adjustments	5.1	4.9	4.9	5.3	9.1%
Total	188.9	187.5	180.9	179.7	-0.7%

Note: The forecasts are FISCO's forecasts

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

Operating profit by segment

(¥bn)

	FY3/14 Results	FY3/15 Results	FY3/16 Results	FY3/17	
				Forecast	YoY
Gas and petroleum	6.5	7.7	9.0	9.0	-0.0
Information and communications services	4.4	5.0	2.3	4.2	+1.9
CATV	1.8	1.7	2.0	2.7	+0.8
Building and real estate	1.4	1.0	1.3	1.3	+0.0
Aqua	-2.0	-1.3	-1.1	0.3	+1.4
Other businesses and adjustments	-4.7	-5.0	-5.2	-4.8	+0.4
Total	7.4	9.0	8.2	12.8	+4.5

Note: The figures are before the allocation of indirect costs, and the forecasts are FISCO's forecasts

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

From FY3/18 onwards, will shift focus to a growth strategy through active investment

3. Key points for the next medium-term management plan

The next medium-term management plan is expected to be a 4 year plan up to FY3/21, and the details are scheduled to be announced in May 2017. As the Company has made steady progress in improving its financial structure, a key point for FY3/18 onwards will be shifting the focus onto growth investment in order to increase earnings. Previously, it allocated approximately 40% of cash flow from operating activities to capital investment, about 20% was returned to shareholders, and the remaining approximately 40% was used to reduce interest-bearing debt. However, as it has already reduced interest-bearing debt to an appropriate level, from FY3/18 onwards it will allocate this amount of approximately 40% to capital investment and other investment, including for M&A. In the past, its annual investment costs have been on the scale of ¥10bn, but it plans to double this to ¥20bn and to accelerate earnings growth through active investment. It has also set “Expanding the core businesses’ customer base and promoting M&A” and “Promoting TLC as our comprehensive strength” as the points to focus on in the next medium-term management plan.

(1) Expanding the core businesses’ customer base and promoting M&A

The Company plans to expand its sales areas by utilizing M&A in order to expand the customer bases of its core businesses, which include the gas and petroleum business and the CATV business.

In the LP gas industry, there are approximately 19,000 sales operators nationwide, mainly medium- and small-size operators, but this number has been trending downward each year and going forward, an oligopoly of major operators is expected to form. This is because it is considered that, in the context of the liberalization of sales of life infrastructure services, such as communications and electric power, and the intensification of competition to acquire customers, including from the sales of discounted sets, medium- and small-scale operators that cannot implement these policies and compete will be weeded-out. Therefore going forward, the Company’s strategy is to expand its sales areas and increase its customer numbers. In addition to newly entering into Mie Prefecture from FY3/18, it is looking to enter Nagano Prefecture and Okayama Prefecture, which are CATV business sales areas. Furthermore, it is expected to select to utilize M&A and other such measures to smoothly enter and develop areas.

In the city gas industry, completely liberalized retail sales will begin from April 2017. Currently, there are 203 city gas business operators nationwide (of which, 26 are publically managed operators), but apart from the major gas companies, there are many operators with only small capital strength, and it is possible that an industry restructuring will take place in the future. The Company’s strategy is to expand its customer base by utilizing its strength of being not just a gas operator, but also a provider of many life infrastructure services, such as its information and communications services and CATV services, and it intends to bring into the Group through M&A those companies with the potential to generate synergies.

Through this strategy of expanding its sales areas, the Company is aiming to greatly increase customer numbers in its gas business, which were 634,000 at the end of March 2016.

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In the CATV business also, operators will need to invest to convert to fiber optics alongside the expected spread of 4K and 8K UHD broadcasting, so medium- and small-scale operators without the financial resources for this investment are expected to be absorbed into the larger operators. In the CATV industry, Jupiter Telecommunications Co, Ltd, (brand name, J:COM) possesses an overwhelmingly strong position, having a 47% share of households able to watch pay-per-view broadcasting (as of December 2015) and 5.24 million subscribers to its services. The Company's Group ranked sixth in the industry for customer numbers, and it is operating six stations in five prefectures, of Shizuoka Prefecture, Kanagawa Prefecture, Chiba Prefecture, Nagano Prefecture, and Okayama Prefecture. Group Company LCV Corporation's station in Nagano is currently the only one that has not started the conversion to fiber optics, while the other stations have completed 50% to 100% of the conversion. The Company plans to have 100% conversion at all stations in around the next 10 years, including compliance with high definition broadcasting such as 4K and 8K. Going forward, in addition to investment to convert existing stations to fiber optics, it intends to expand its customer base by using M&A to newly bring CATV operators into the Group.

In addition to for its core businesses, the Company intends to proactively conduct M&A if there are candidates that can be expected to generate synergies in all directions within the Group. As a comprehensive provider of life services, the Company is looking into launching new businesses relating to life events and if necessary, it will consider conducting M&A and other such measures for this.

(2) Promoting TLC as a comprehensive strength

An issue that the Company intends to focus on in the next medium-term management plan is improving the rate of contracts for multiple services per customer. Currently, only around 7% of its customers are contracted to more than one of the various services provided by the Company's Group (the cross-selling rate), so for the Company that is advocating its Total Life Concierge concept*, the current situation is that it is not fully utilizing its strengths. However, the cross-selling rate in Shizuoka Prefecture, the location of its head office, is 15.9%, which is high compared to in the other areas. Looking at the breakdown by service, the cross-selling rate among city gas users is the highest at 36.7%, followed by CATV at 32.7% and then LP gas at 23.1%. Therefore, it is thought that developing the sales areas of these services outside of Shizuoka Prefecture will also be effective in improving the cross-selling rate.

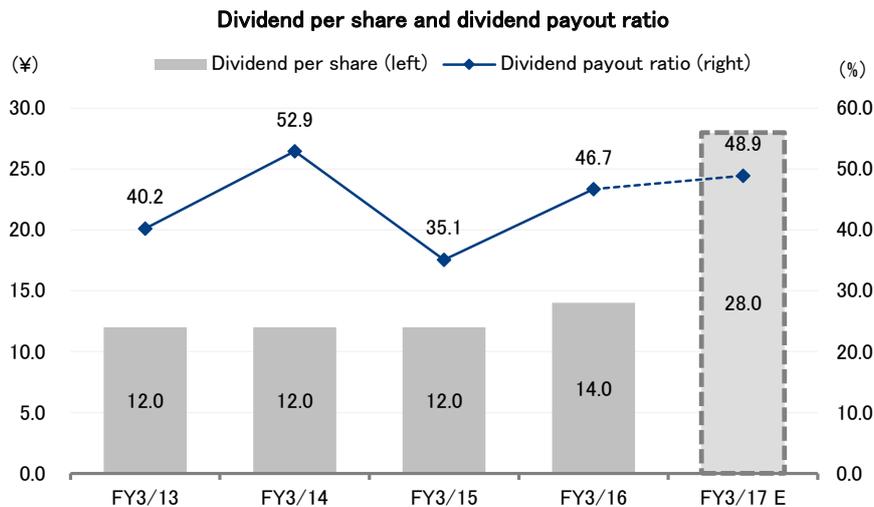
In addition, up until now sales activities for cross selling have been carried out using a passive approach, limited to sharing customer information between Group companies. But the Company is now considering measures for a more active approach within the Group from April 2017. Through these measures, it intends to raise the cross-selling rate to as high as 30% to 40% in the future. If the cross-selling rate rises, the ratio of acquisition costs per customer will fall, which will also contribute to improved profitability. Through expanding the customer base by promoting the TLC concept, sustained earnings growth is expected from FY3/18 onwards.

Shareholder return policy

Aims for investment yield of 4% to 8%, including shareholder gifts

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%. For FY3/17, the Company plans to increase the dividend by ¥14.0 YoY to ¥28.0 (for a dividend payout ratio of 48.9%, including the commemorative dividend of ¥6.0). For FY3/18 onwards, it is expected to maintain dividends at a level of at least ¥28.0 in accordance with its policy of continuously paying stable dividends.

The Company presents gifts to shareholders at the end of September and March 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 ¥1,900 (such as the Ulunom) “Fuji-no-Tennensui Sarari” (Mt. Fuji natural water), a QUO card worth ¥500, food coupons worth ¥1,000, or ¥1,000 worth of TLC Membership Service points. When including the gifts to shareholders in an estimate of the total investment yield per share unit from the current share price level (¥851 on February 7), it is in the range of 4% to 8% (depending on the selection of either a QUO card or an Aqua product as the gift).



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



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