

TOKAI Holdings Corporation.

3167

Tokyo Stock Exchange First Section

4-Oct.-2017

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

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Summary

Made a smooth start in 1Q FY3/18 from the increase in the number of contracts and the reduction in indirect costs

Based in Shizuoka Prefecture, Japan, TOKAI Holdings Corporation <3167> (hereinafter, Tokai Holdings and the Company) is expanding its two main businesses, “energy and lifestyle-related services”, primarily the provision of liquefied petroleum gas (LP gas), and “information and communications services”. The Company aims to become a “Total Life Concierge*” (TLC), a company offering a complete range of services for everyday life. In its medium-term management plan, “Innovation Plan 2020 ‘JUMP’”, which started in FY3/18, TOKAI Holdings Corporation targets sales of ¥339.3bn, an increase of 1.9 times from FY3/17, and operating profit of ¥22.5bn, an increase of 1.8 times. The Company intends to employ M&A and alliances to promote the growth strategy.

* The Total Life Concierge concept indicates the Company’s aim to provide every type of lifestyle support service under a one contract, one stop, and one call-center model. While deepening its connection with customers, their local communities, society, and the global environment, the Company aims to enrich people’s lives, assist in the development of local communities, and contribute to protecting the global environment.

1. Profits declined YoY in the FY3/18 1Q results, but still exceeded the forecast

In the FY3/18 1Q (April to June 2017) consolidated results, net sales increased 2.2% year on year (YoY) to ¥42,531mn, but operating profit decreased 25.0% to ¥2,152mn. Profits decreased from the rise in costs to acquire new customers and to prevent contract cancellations in order to increase customer numbers. But at the end of FY3/18 1Q, the number of customers had steadily increased to 2,570,000, up 13,000 on the end of the previous fiscal year, mainly in the LP gas and CATV businesses, and sales climbed for the second consecutive quarter. Also, compared to the in-Company forecasts, net sales are trending as forecast, while operating profit exceeded its forecast by around ¥400mn, because greater progress than expected was made in reducing indirect costs in each segment.

2. Expects temporary decline in profit in FY3/18 on upfront investment in business expansion

For the FY3/18 consolidated earnings, the initial forecasts have been left unchanged, of net sales to increase 6.0% YoY to ¥189,400mn and operating profit to decrease 10.5% to ¥11,410mn. This is due to the expected upfront investment, including for area expansion in the LP gas business, to promote sales of new services in the communications services business, and to prevent the cancellation of contracts by retail customers. In July 2017, the Company acquired additional shares in Tokyo Bay Network Co., Ltd. (equity stake, 90.18%), changing it from an equity-method affiliate to a consolidated subsidiary, with the aim of expanding its customer base in the CATV business. The target is to increase customer numbers by 316,000 YoY to 2,880,000 by the end of FY3/18. By making this company a subsidiary, it acquired an additional 250,000 customers, meaning that it has currently reached 81% of 2,820,000 customers, so achieving this target is already within sight. Tokyo Bay Network has annual net sales of approximately ¥2.8bn and operating profit of around ¥100mn, so its impact on the overall results will be negligible.

Summary

3. In the new medium-term management plan, is actively pursuing M&A and will strategically invest ¥100bn over 4 years

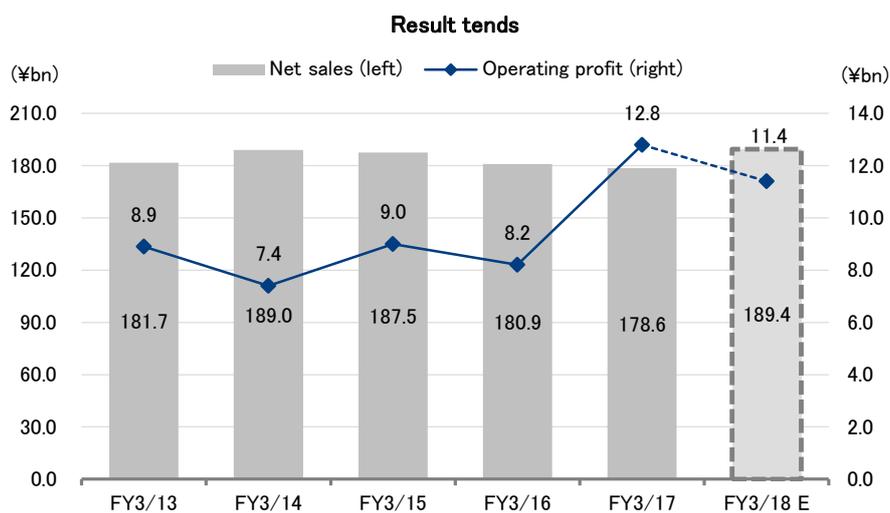
In the new medium-term management plan “Innovation Plan 2020 “JUMP” (hereafter, IP20), the Company plans to strategically invest ¥100bn over the next 4 years and is working to expand its earnings base (customer numbers) in the mainstay businesses of gas, CATV, and information and communications services. Also, at the same time it is working to strengthen cross-sales of Group services. Currently, among the Company Group’s customers, only 7% of them have a contract for more than 1 service, and it is aiming to raise this to 20% over the next 4 years, thereby further increasing net sales per customer and profits.

4. Continues to actively return profits to shareholders

There has been no change to the policy of continuously and stably returning profits to shareholders. The forecast dividend per share for FY3/18 is ¥28.0 (dividend payout ratio, 55.0%), which is unchanged from the previous fiscal year. Going forward, the Company intends to pay dividends while observing profit trends, with a benchmark dividend payout ratio of 40% to 50%. Also, at the end of March and the end of September, it presents 1 gift to shareholders from 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 ¥843 on August 15), 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

- The operating profit exceeded the forecast due to the rise in customer numbers and reduction of indirect costs
- Aiming for consolidated operating profit of ¥22.5bn in FY3/21, the final year of the medium-term management plan
- To continue proactive shareholder return policy



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

Results trends

Operating profit exceeded the forecast due to the rise in customer numbers and the reduction of indirect costs

1. Overview of the FY3/18 1Q results

In the FY3/18 1Q consolidated results announced on August 4, 2017, net sales increased 2.2% YoY to ¥42,531mn, operating profit decreased 25.0% to ¥2,152mn, recurring profit declined 24.0% to ¥2,204mn, and net income attributable to owners of the parent fell 33.1% to ¥1,182mn. A factor increasing profits by ¥300mn was the higher sales following the rise in customer numbers. But costs also rose by ¥1bn, mainly to acquire new customers and to prevent contract cancellations in order to increase customer numbers, so operating profit decreased. However, compared to the Company forecasts, operating profit exceeded the forecast by around ¥400mn, because greater progress than expected was made in reducing indirect costs in each segment.

FY3/18 1Q consolidated results

	FY3/17 1Q		FY3/18 1Q		YoY
	Results	% of sales	Results	% of sales	
Net sales	41,618	-	42,531	-	2.2%
Cost of sales	24,219	58.2%	24,897	58.5%	2.8%
SG&A expenses	14,528	34.9%	15,481	36.4%	6.6%
Operating profit	2,870	6.9%	2,152	5.1%	-25.0%
Recurring profit	2,900	7.0%	2,204	5.2%	-24.0%
Extraordinary income (loss)	-140	-	-255	-	-
Net income attributable to owners of the parent	1,766	4.2%	1,182	2.8%	-33.1%

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

At the end of FY3/18 1Q, the number of customers in the Group as a whole was 2,570,000, which is an increase of 13,000 on the end of the same period in the previous fiscal year and an increase of 6,000 on the end of the previous quarter. The annual increase in FY3/17 was only 6,000, but in FY3/18 1Q alone, the Company has already acquired around the same number of customers. Looking at the number of contracts by the main services, they increased by 11,000 on the end of the same period in the previous fiscal year in the gas business, by 59,000 in the Hikari Collaboration business, by 6,000 in the MVNO* business, by 22,000 in the CATV business, and by 4,000 in the Aqua business. In the MVNO business, LIBMO, which is an inexpensive SIM newly launched in February 2017, contributed to the acquisition of new customers. There was a decrease of 86,000 customers in the previous ISP business, but this was mainly due to the progress made in transferring customers from it to the Hikari Collaboration. The number of members of the TLC Membership Service, which was launched by the Company in December 2012 as a means to retain customers and to increase the ratio of customers with multiple service contracts, is steadily expanding, and by the end of FY3/18 1Q, member numbers had increased by 98,000 on the end of the same quarter in the previous fiscal year to 613,000.

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

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Results trends

Customer numbers by service

						(thousand)
	FY3/16 1Q	FY3/17 1Q	FY3/17 4Q	FY3/18 1Q	YoY	Change from previous fiscal year-end
Gas (LP gas, city gas)	625	634	642	645	11	3
Information and communications	1,095	1,081	1,061	1,057	-24	-4
Previous ISP, etc.	800	593	528	507	-86	-21
Hikari Collaboration	58	251	299	310	59	11
MVNO	2	2	2	8	6	6
Mobile	235	235	233	232	-3	-1
CATV	692	716	733	738	22	5
Aqua	130	134	135	138	4	3
Security	18	17	17	17	0	0
Total	2,537	2,557	2,564	2,570	13	6
(Number of TLC members)	417	515	586	613	98	28

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

Source: Prepared by FISCO from Company materials

2. Trends by business segment

Net sales by segment

						(¥mn)
	FY3/15 1Q	FY3/16 1Q	FY3/17 1Q	FY3/18 1Q	YoY	
Gas and petroleum	22,513	20,288	17,479	17,392	-0.5%	
Information and communications services	9,659	9,826	11,780	12,447	5.7%	
CATV	6,070	6,074	6,241	6,406	2.6%	
Building and real estate	3,728	4,012	3,414	3,617	5.9%	
Aqua	1,123	1,320	1,424	1,456	2.2%	
Other businesses	1,207	1,149	1,277	1,211	-5.1%	
Total	44,302	42,672	41,618	42,531	2.2%	

Operating profit by segment

						(¥mn)
	FY3/15 1Q	FY3/16 1Q	FY3/17 1Q	FY3/18 1Q	YoY	
Gas and petroleum	1,494	1,865	2,197	1,324	-39.7%	
Information and communications services	1,333	691	913	774	-15.2%	
CATV	503	498	717	875	22.0%	
Building and real estate	31	63	81	90	11.1%	
Aqua	-511	-227	19	56	194.7%	
Other businesses and adjustments	-1,193	-1,182	-1,060	-969	-8.6%	
Total	1,657	1,708	2,870	2,152	-25.0%	

* Values are prior to allocating indirect costs and other expenses

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

Results trends

(1) Gas and petroleum business

In the gas and petroleum business, net sales decreased 0.5% YoY to 17,392mn and operating profit prior to the allocation of indirect costs and other costs declined 39.7% to ¥1,324mn. In the mainstay LP gas business, customer numbers increased by 11,000 on the end of the same period in the previous fiscal year to 591,000. This was mainly due to the steady development of new customers, particularly in the Sendai and Aichi areas that the Company has newly entered into. However, because the gas sales volume trended around the same level YoY, net sales were basically unchanged, down 0.1% to ¥14,679mn. Conversely, in the city gas business, customer numbers were practically unchanged from the end of the same period in the previous fiscal year at 54,000, but net sales declined 2.5% to ¥2,712mn, including due to the reduction in the volume of usage for industrial purposes.

The main factors behind the decline in profits were that costs to acquire new customers and to prevent contract cancellations increased by approximately ¥500mn YoY, while purchasing costs also rose slightly.

(2) Information and communications services business

In the information and communications services business, net sales increased 5.7% YoY to 12,447mn and operating profit prior to the allocation of indirect costs and other costs fell 15.2% to ¥774mn. Breaking this down, in the consumer business, within the broadband services, the number of customers for the Hikari Collaboration service increased 59,000 on the end of the same period in the previous fiscal year to 310,000, thanks to the progress made in acquiring new customers and transferring existing customers (from the previous ISP service). However, due to intensifying competition with the major mobile carriers, customer numbers for broadband services as a whole declined 43,000 to 784,000. In the mobile phones sales business also, there was an intensification of competition with inexpensive smartphones and customer numbers fell 3,000 to 232,000. Conversely, in the MVNO business that was fully launched in February 2017, the Company is working to expand sales of LIBMO, which is an inexpensive SIM card, and it acquired 8,000 customers. Net sales in the consumer business increased 1.7% YoY to ¥7,869mn on a higher percentage of sales from Hikari Collaboration, which has a high unit price. This was partially offset by a decrease in the number of broadband service customers. In profits, in the Hikari Collaboration business, profits increased ¥200mn and this business became profitable, if only slightly. But profits in the previous ISP business declined ¥200mn due to the fall in customer numbers, while in the MVNO business, profits were down ¥200mn due to the rise in costs to acquire customers.

In corporate services, the stock-type business, which includes cloud services, is steadily growing, and in addition, orders for systems development projects are trending stably. As a result, net sales increased 13.3% YoY to ¥4,577mn, while profits also rose ¥100mn due to the effects of the higher sales.

(3) CATV business

In the CATV business, net sales increased 2.6% YoY to ¥6,406mn and operating profit prior to the allocation of indirect costs and other costs rose 22.0% to ¥875mn. The number of customers for broadcasting services climbed 9,000 on the end of the same period in the previous fiscal year to 510,000, while they also steadily expanded for communications services, rising 14,000 to 229,000. Customer numbers rose thanks to the discount measures for sales of sets of broadcasting and communications services, and the continuation of the set discount for smartphones through a collaboration with a major mobile carrier. In addition, the Company is working to strengthen its customer support system as a means of preventing cancellations, which is also resulting in a rise in customer numbers. The operating profit margin prior to the allocation of indirect costs and other costs increased 2.2 percentage points YoY. In addition to the effect of higher sales, this seems to be mainly due to the reduction in the amortization of goodwill and depreciation, and the decrease in the acquisition costs per customer from the rise in the percentage of sales provided by the broadcasting and communications set. The percentage of customers with a broadcast service contract who also have a communications service contract increased by 2.0 percentage points, from 42.9% at the end of FY3/17 1Q to 44.9% at the end of FY3/18 1Q.

Results trends

(4) Building and real estate business

In the building and real estate business, net sales increased 5.9% YoY to ¥3,617mn, and operating profit prior to the allocation of indirect costs and other costs rose 11.1% to ¥90mn. Sales of solar power generation equipment declined, but this was covered by higher sales of homes and in the building management support business.

(5) Aqua business

In the Aqua business, net sales increased 2.2% YoY to ¥1,456mn, and operating profit prior to the allocation of indirect costs and other costs rose 194.7% to ¥56mn. The main reason for the higher sales was that customer numbers climbed 4,000 on the end of the same period in the previous fiscal year to 138,000. Since the previous fiscal period, the Company has been focusing on large-scale commercial facilities in major cities for which demand can be expected, and the resulting higher sales efficiency is leading to improved profitability.

(6) Other businesses and adjustments

In other businesses, net sales decreased 5.1% to ¥1,211mn. Breaking this down, in the nursing care business, sales rose 16.7% to ¥245mn following an increase in the number of facility users, while in the shipbuilding business also, sales were up 6.1% to ¥393mn due to the rise in the volume of ship repair work. On the other hand, sales in the wedding ceremony business fell 24.8% to ¥380mn following the closure of 1 of the 2 facilities at the end of March 2017. This segment recorded an operating loss prior to allocation of indirect costs and other costs of ¥969mn, including internal adjustments, (compared to an operating loss prior to allocation of indirect costs and other costs of ¥1,060mn in the same period in the previous fiscal year).

Business outlook

Profit to decline temporarily in FY3/18 on upfront investments made to reach targets in the medium-term management plan

1. FY3/18 earnings outlook

In FY3/18, the Company left the initial forecast unchanged at net sales of ¥189,400mn (up 6.0% YoY), operating profit of ¥11,410mn (down 10.5%), recurring profit of ¥11,360mn (down 11.1%), and net income attributable to owners of the parent of ¥6,450mn (down 12.1%). This is because the Company plans to post one-time investments in FY3/18 in order to reach the targets in its medium-term management plan. These include aggressive upfront investments for the cost to increase customer numbers and execution of M&A.

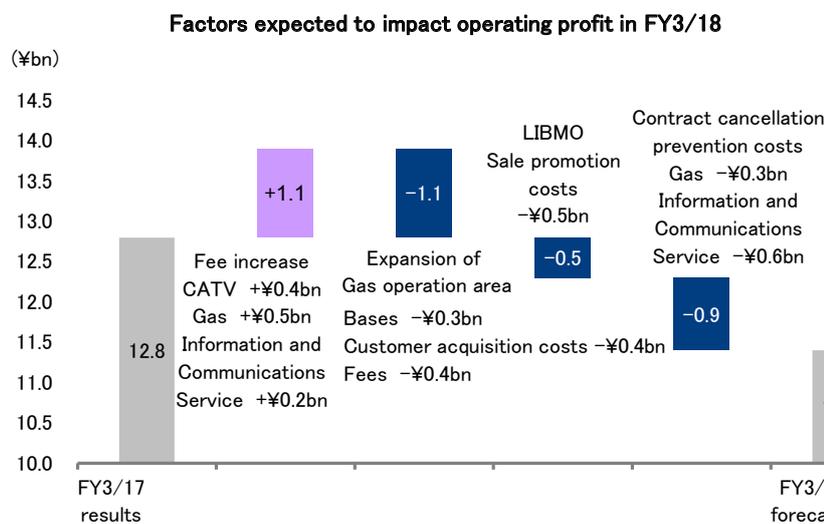
Breaking down the factors that will cause profits to increase and decrease, the effects of the higher sales in the gas, CATV, and information and communications services businesses will increase profits by ¥1.1bn and the area expansion in the gas business by ¥1.1bn, while the rise in sales promotion costs to acquire customers for LIBMO will reduce them by ¥500mn, and the increase in costs to prevent retail customers cancelling their contracts by ¥900mn. However, in 1Q, greater progress than expected was made in reducing indirect costs and profits exceeded the forecast. So if there are no major changes to the market environment in the near future, at FISCO we think that there is a room for the 1H and the full fiscal year results to slightly exceed their forecasts on a profits basis.

Business outlook

Outlook for the FY3/18 consolidated results

	FY3/17 Results	FY3/18			
		Full-year forecast	YoY	1H forecast	YoY
Net sales	178,631	189,400	6.0%	86,000	4.6%
Operating profit	12,750	11,410	-10.5%	2,710	-38.5%
Recurring profit	12,775	11,360	-11.1%	2,650	-40.2%
Net profit attributable to owners of the parent	7,337	6,450	-12.1%	1,080	-54.7%

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



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

In July 2017, as the first phase of its M&A strategy, the Company invested an additional ¥1,577mn in Tokyo Bay Network, its equity method affiliate, and made it a consolidated subsidiary (equity ratio, 90.18%). Tokyo Bay Network has the Koto Ward and the Chuo Ward of Tokyo as its service area, and it has 250,000 customers (of who, 14,000 have a communication service contract), which ranks it ninth in its industry. The population within its service area is expected to increase in the future, so the Company made it a consolidated subsidiary toward expanding the earnings base of its CATV business.

In its FY3/17 results, Tokyo Bay Network recorded net sales of ¥2,838mn and operating profit of ¥129mn, and its results have trended basically unchanged in the last few years. Since its communication services contract rate (the number of communication / broadcasting contracts) is at the low level of less than 6%, it is considered that there is sufficient room for it to grow even by simply increasing this percentage. Also, in the future the plan is to provide discount sets with other services, such as the Aqua business, with the aim of increasing net sales per customer. The initial plan was for it to enter the scope of consolidation from 3Q and this was incorporated into the results forecasts. But as it entered the scope of consolidation from 2Q, this will be a factor behind net sales slightly exceeding their forecast. However, their effect on profits is expected to be negligible.

Business outlook

In terms of the number of Group customers at the end of FY3/18, the Company had targeted an increase of 320,000 on the end of the previous fiscal period to 2.88 million, but this M&A has already increased customer numbers up to 2.82 million. Going forward, it intends to continue to actively acquire customers in each business in order to acquire the remaining 60,000 customers and achieve this target.

Aiming for consolidated operating profit of ¥22.5bn in FY3/21, the final year of the medium-term management plan

2. Medium-term management plan

(1) Basic policy

Tokai Holdings started its new medium-term management plan IP20, in FY3/18. The basic strategy of the plan is to prioritize top-line growth and switch from a defensive to a proactive management stance. Over the four-year period covered by the plan, the Company plans to aggressively pursue M&A and alliances in order to expand its customer base, making strategic investments totaling ¥100bn. However, owing to changes in the market environment, the Company expects to see more M&A activity and believes it will be able to invest ¥100bn in M&A and alliance deals.

The Company will target companies that have customer bases in its mainstay business areas (Gas, CATV, and Information and Communications). The Medium-term management plan also identifies increasing cross sales as an important mission and the Company will therefore pursue a strategy of developing its businesses by pursuing M&A and alliances with companies that have businesses compatible with its existing life services businesses.

(2) Targets for management indicators

Targets for topline growth are a 90% increase in sales to ¥339.3bn in FY03/21, an 80% increase in operating profit to ¥22.5bn, and 60% increase in net income attributable to owners of the parent income to ¥11.5bn. The Company also plans to increase customer numbers by at least 70% to over 4.32mn at end-FY03/21.

The Company's interest-bearing debt balance will increase in order for it to conduct investment of ¥100bn, including for M&A and alliances. But it is investigating methods of effectively raising funds, including by combining zero coupon bonds, such as convertible bonds with stock acquisition rights. It also plans to continue to conduct management that prioritizes capital efficiency, and it is targeting an interest-bearing debt / EBITDA ratio of 2.8 times, an equity ratio of 31.6%, and ROE of 13.0%.

Regarding the investment of ¥100bn, the company will pursue M&A yielding ROI (Operating profit before goodwill amortization ÷ amount invested) of approximately 8%.

Financial targets in Innovation Plan 2020

	FY3/17 Results	FY3/18 Targets	FY3/19 Targets	FY3/20 Targets	FY3/21	
					Targets	Vs. FY3/17
Net sales	178.6	189.4	202.0	224.4	339.3	1.9x
Operating profit	12.8	11.4	14.0	16.2	22.5	1.8x
Net income attributable to owners of the parent	7.3	6.4	7.9	8.7	11.5	1.6x
Total assets	161.1	169.8	173.8	191.2	283.4	1.8x
Interest-bearing debt/EBITDA ratio (x)	2.0	2.4	2.2	2.0	2.8	
Equity ratio (%)	34.5	33.9	35.6	34.9	31.6	
ROE (%)	15.2	11.1	12.8	13.0	13.0	
Number of customers (million contracts)	256	288	299	372	Over 4.32	Over 1.7x

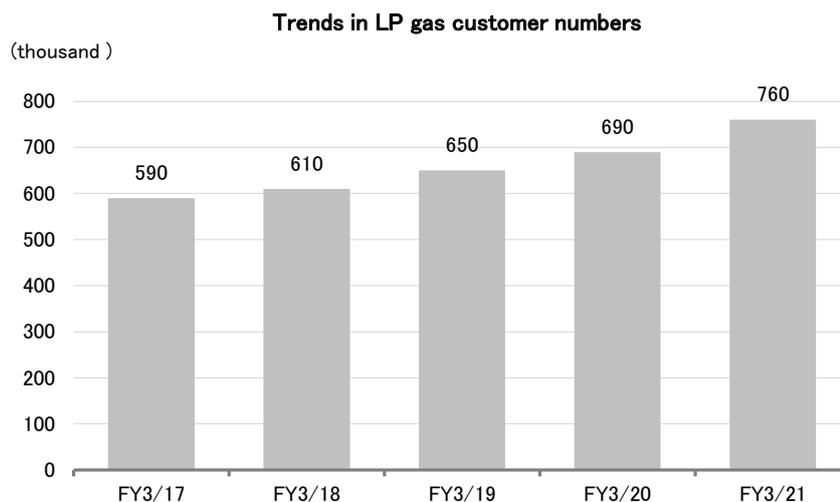
Source: Prepared by FISCO from the Company's results briefing materials

3. Major business initiatives

(1) LP gas business

The residential and commercial LP gas market is expected to shrink by roughly 7% over the next four years owing to population decline and more efficient energy-saving equipment. Small- and medium-sized operators are therefore expected to be pushed out or absorbed into larger corporate groups. This may present Tokai Holdings, the third largest company in the industry, with business opportunities.

In addition to developing businesses in areas where it already operates, starting in FY3/16, the Company began customer development in new geographical areas. Over the next four years, it plans to increase its numbers by 30% to 76,000. Of this increase, the Company plans to increase customer numbers in new areas nine fold, from 8,000 as of end-FY3/17 to 70,000. In addition to plans to expand into Mie Prefecture and Aichi Prefecture, (Aisai City), the Company is looking to expand its CATV business into Nagano Prefecture and Okayama Prefecture and its reception desk business into northern Kyushu. The Company is considering whether to expand in these areas by establishing its own sales offices or through M&A. Until it secures a certain number of customers in these new areas, it will delegate local partners to handle logistics.



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

(2) City gas business

The city gas retail market was liberalized in April 2017. Currently, competition with new market entrants is limited to large cities. Restructuring activity in the city gas market is currently relatively quiet compared with the situation that occurred in the electric power industry following liberalization. There are now 199 city gas business operators nationwide in addition to the four major companies, and as the market gradually shrinks, we expect they will be absorbed into the larger corporate groups as conditions make their survival more difficult.

Business outlook

Amid this environment, the Company's strategy is to aggressively pursue M&A and alliances. While investing in pipeline extension and capturing new industrial demand, the Company is aiming for 100,000 contracts, double the number of at the end of FY3/17. It is targeting the entire country for the areas to newly enter into, but there has been no change to its preference for areas where the Group's other services are being provided. The Company is also developing a renovation business focused on plumbing (in the building and real estate segment) and with average sales of roughly ¥30,000 per customer, it has strong sales capabilities compared to its industry peers. In addition, it plans to grow earnings in the renovations business by increasing customer numbers in its city gas business.

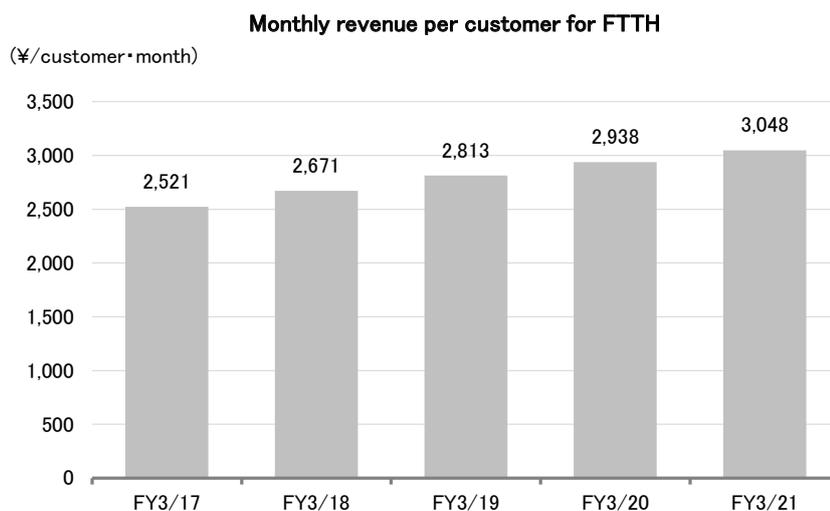
We think M&A could go smoothly because companies acquired by Tokai Holdings could see sizable operational benefits. For example, most small- and medium-sized city gas providers do not offer additional products and services, so investment by the Company could enable them to do so.

(3) Broadband business

The Japanese broadband market is considered to be mature, but we still expect continued annual growth of roughly 2% going forward. Owing to the proliferation of low-cost smartphones, strong growth is expected in the MVNO market and the total number of contracts is expected to grow from 8.8mn to 19.5mn in four years. In this environment, the Company plans to continue with the shift of FTTH customers to Hikari Collaboration, thereby increasing sales per customer and achieving profit growth and also strengthening the LIBMO low-cost SIM service it launched in February 2017.

The Company aims to raise the Hikari Collaboration ratio (Hikari Collaboration contracts ÷ FTTH contracts) from 50% in FY3/17 to 85% in four years. This would increase monthly revenue per customer to ¥3,048, roughly 21% higher than the FY3/17 level. The Company also aims to increase broadband services customer numbers by 1.7x to 1.34mn in four years.

The Company targets 140,000 LIBMO customers four years from now. LIBMO fees between ¥1,180 and ¥2,980 per customer per month for a data and audio plan. The Company's strategy is to increase sales per customer and make the service profitable by adding more services such as security and insurance features.



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

Business outlook

(4) CATV business

In the Japanese CATV industry, test broadcasting and commercialization of high-definition 4K and 8K technology has begun in the run-up to the 2020 Tokyo Olympics. However, fiber optic cable and other related devices are necessary for such broadcasts. As competition heats up, small- and medium-sized operators that cannot afford such capital investments are likely to be integrated into larger corporate groups so that they can receive the funding necessary to continue providing services. The Company believes this market environment proves it with business opportunities and plans to aggressively pursue M&A deals.

The Company plans to expand its business by offering services such as attractively priced 4K/Internet packages, disaster information services provided in cooperation with government agencies, provision of FTTH to areas without high-speed networks in cooperation with local governments, and construction of local broadband wireless access systems.

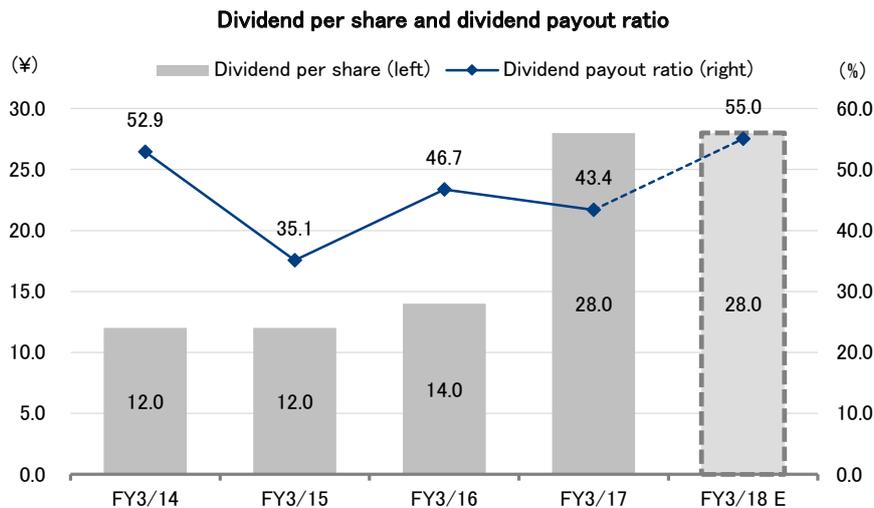
The Company targets CATV customer number growth from 733,000 (508,000 for broadcast services, 225,000 for communication services) as of end-FY3/17 to 1,188,000 in four years (830,000 and 285,000). However, the number has recently reached 980,000 with making Tokyo Bay Network into a consolidated subsidiary. Depending on how M&A deals proceed, customer number could top 1mn. The Company plans to have acquired companies maintain their bands and independence in terms of program production. This stands in contrast to the largest player in the industry, which unifies all operations under the J:COM brand. In addition, we believe the Company's ability to provide a wide range of other products and services such as gas, communication services and water home delivery is appealing to M&A target companies. We believe the Company will continue to increase its customer numbers through M&A going forward.

Shareholder return policy

To continue proactive shareholder return policy

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 FY3/18, the Company plans to leave dividend distributions unchanged YoY at ¥28.0 per share (including the commemorative dividend of ¥6.0) but it will consider a dividend hike in FY3/19 if net income attributable to owners of the parent rises.

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 (¥843 on August 15), 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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