COMPANY RESEARCH AND ANALYSIS REPORT

TOKAI Holdings Corporation

3167

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Summary

The Group's customer base is expanding and the outlook is once again for record high results in FY3/20

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

*1 Total Life Concierge concept: a vision that aims to improve customer satisfaction by providing comprehensive and detailed support for customers' comfortable lifestyles through the various services provided by the TOKAI Group.
*2 ABCIR+S: the TOKAI Group's strategy for technological innovation. It is the acronym of AI (A), Big Data (B), Cloud (C), IoT (I), Robotics (R), and Smart Phone (S).

1. FY3/19 results

In the FY3/19 consolidated results, the number of Group customers, which is the foundation of earnings, steadily grew by 26,000 on the end of the previous fiscal year to 2.9 million customers. As a result, net sales increased 3.0% year-on-year (YoY) to ¥191,600mn and operating profit rose 19.0% to ¥13,057mn, with both being new record highs. Sales increased in each of the mainstay businesses, of the gas and petroleum business, the information and communications services business, and the CATV business. Profits also increased in all of the business segments except the gas and petroleum business, in which profits declined due to the effects of the warm weather and the rise in purchase costs. Compared to the Company forecasts, operating profit was around ¥900mn below forecast, but this was mainly due to a decline in profits of ¥2.4bn in the gas and petroleum business due to the warm weather and the rise in purchase costs, and when excluding these factors, profits were actually above forecast.

2. FY3/20 earnings outlook

The outlook for the FY3/20 consolidated results is for record highs for the second consecutive fiscal year, with net sales rising 4.8% YoY to ¥200,800mn and operating profit increasing 8.5% to ¥14,170mn. With an eye to growth from the next fiscal period onwards, the Company is forecasting an increase in costs of ¥1.9bn as the total to invest in ABCIR+S and in human resources. But this will be covered by the profit-improvement effects, including the increase in monthly revenue due to the growth in the number of Group customers (up by 100,000 on the end of the previous fiscal year to 3 million customers) and the reduction in purchase costs in the gas and petroleum business. The Company is carefully investigating proposals for M&A, but this has not been incorporated into the results forecasts.

3. Medium-term management plan (IP20)

In the medium-term management plan (Innovation Plan 2020 “JUMP”), the targets for FY3/21 are net sales of ¥339.3bn and operating profit of ¥22.5bn. The Group is striving to grow the number of Group customers to more than 4.32 million while actively utilizing M&A and maximizing earnings per customer by increasing the customer contract rate for multiple services* from 17.8% at the end of FY3/19 to 20%. As it intends the number of customers to have grown 3 million organically by the end of FY3/20, the key to achieving the targets in the medium-term management plan will be the success or failure of the M&A. The Company is targeting M&A not only for the CATV business, the gas and petroleum business, and the information and communications services business, but also new businesses, and is progressing investigations upon setting on investment framework of around ¥100bn.

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

4. Shareholder return policy

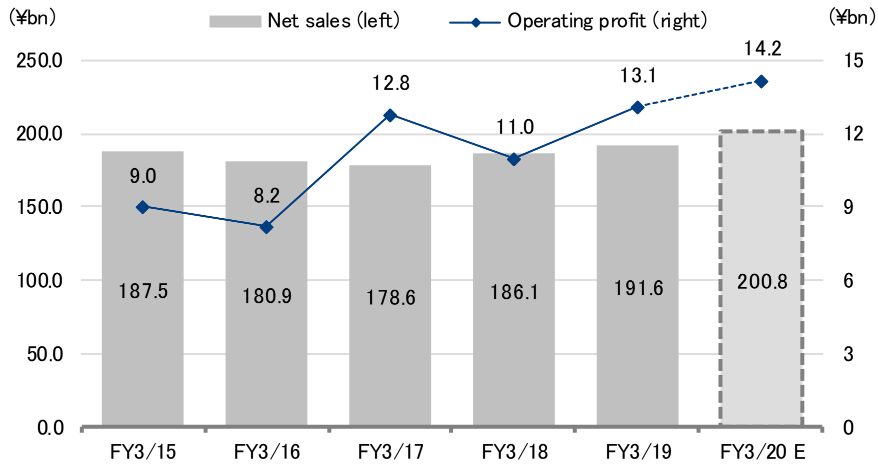
There has been no change to the policy of continuously and stably returning profits to shareholders. The forecast dividend per share for FY3/20 is ¥28.0 (dividend payout ratio, 44.6%), which is unchanged from the previous fiscal year. Going forward, the Company intends to pay dividends while observing profit trends and financing needs, with a benchmark dividend payout ratio of 40% to 50%. Also, at the end of March and the end of September, it presents one gift to shareholders from among several possible choices, such as an Aqua product, a QUO card, and points for a TLC member service worth ¥1,000. When including the gifts to shareholders in an estimate of the total investment yield per share unit from the current share price level (closing price of ¥892 on May 24, 2019), it is in the range of 4.3% to 7.7%*.

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

Key Points

- The number of customers is steadily increasing and results were record highs in FY3/19
- Is strengthening investment in the ABCIR+S strategy and in human resources in FY3/20, which is being positioned as year to establish the foundations for growth
- In the medium-term management plan (IP20), intends to accelerate growth through progressing M&A and the ABCIR+S strategy

Results trends



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

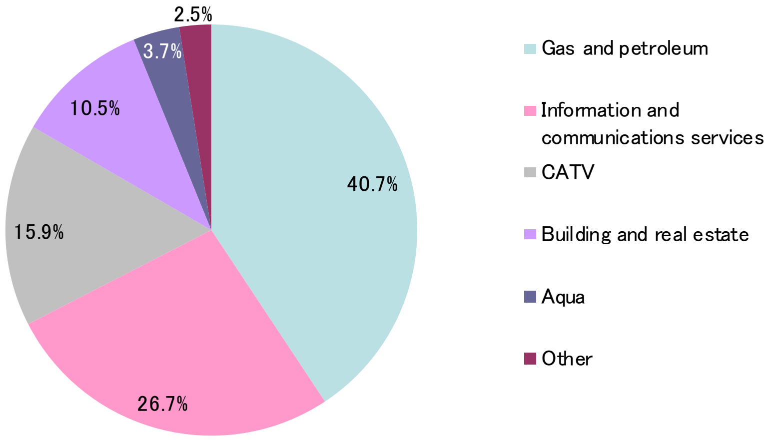
Business overview

Under the Total Life Concierge concept, provides various services for everyday life, including LP gas, the Internet, and CATV

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

The Company currently discloses information on six business segments; the gas and petroleum business, the information and communications services business, the CATV business, the building and real estate business, the Aqua business, and other businesses. Looking at the sales structure by segment for FY3/19 results, the Company's original business, the gas and petroleum business accounted for 40.7% of sales, the information and communications services business for 26.7%, and the CATV business for 15.9%. These three mainstay businesses accounted for over 80% of sales. The details by business segment are as follows.

Sales structure by segment (FY3/19)



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

1. Gas and petroleum business

In this business, 84% of net sales are provided by the LP gas business and 16% by the city gas business. The mainstay LP gas business is developed by TOKAI Corporation, primarily for homes and businesses. The service areas are mainly in the Shizuoka and Kanto regions, but since 2015 it has also gradually expanded into other areas including the south Tohoku, Chubu/Tokai, Chugoku, and Kyushu areas. As of the end of March 2019, it had 628,000 contracts, and in direct sales, it ranked third after Iwatani Corporation <8088> and Nippon Gas <8174>. In terms of market share, it is the leader in Shizuoka, its home territory, with around 20%, while it has a share of just under 10% in the highly competitive Kanto region, putting it in second place. As there are approximately 20 million households nationwide that use LP gas, its nationwide market share is still at the level of around 3%, and going forward there remains room for it to grow its share, including by expanding sales areas and conducting M&A.

In the city gas business, TOKAI GAS CORPORATION supplies city gas in Yaizu City, Fujieda City, and Shimada City in Shizuoka Prefecture. The number of contracts has trended stably in the last few years and was 56,000 at the end of February 2019. There are approximately 200 operators nationwide in the city gas market, but with the exception of the four largest companies, most are (private- and publically-operated) small- to medium-sized operators with limited service areas. Following the liberalization of the retail city gas market in April 2017, the Company has been implementing a strategy of increasing customer numbers by bringing operators in various regions into the Group through M&A.

2. Information and communications services business

The information and communications services business, which is conducted by TOKAI Communications Corporation, is comprised of the consumer ISP (Internet service provider) business and mobile business (sales of mobile phones), and a business to provide communication lines, data center services and systems development for corporations. Looking at the percentages of total net sales for FY3/19 results, the consumer business contributed 60% and the corporate business 40%.

The ISP business provides the “@ T COM” service for the nationwide service area and the TOKAI Network Club (TNC) service for the Shizuoka Prefecture service area, and it has the leading share within Shizuoka Prefecture of approximately 21%. In addition, from February 2015 it launched the Hikari Collaboration service (@TCOM Hikari and TNC Hikari services), in which it receives wholesale provision of optical lines from NTT <9432> and provides its own optical (hikari) Internet connection service. As of the end of March 2019, the Company had 419,000 customers using its existing ISP service and 327,000 customers using its Hikari Collaboration service and customers are shifting toward Hikari Collaboration. The two services have a total of 746,000 customers. This number has steadily declined from 863,000 as of the end of March 2015, immediately after the Hikari Collaboration service was launched. This decline has occurred because customers have been leaving the service at a faster pace than new customers can be enrolled, as major mobile phone carriers conduct sales of service bundles at discounted prices, including mobile phone fees, making use of NTT’s wholesale optical line business.

The mobile business operates 12 mobile phone stores, mainly within Shizuoka Prefecture, as a sales agency of Softbank Corp <9434>, and as of the end of March 2019, it had 217,000 customers. Also, in February 2017 the Company began sales of LIBMO, which is a low-cost smartphone service, as an MVNO business*. The number of LIBMO customers had steadily increased to 41,000 at the end of March 2019.

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

3. CATV business

In the CATV business, the Company provides services in Tokyo and five prefectures: Shizuoka, Kanagawa, Chiba, Nagano and Okayama. Currently, the CATV business is undertaken by nine Group companies. As of March 2019, the number of customers stood at 789,000 for broadcasting services and 274,000 for communications services, bringing the total to 1,063,000 customers. In the CATV industry, the J:COM (Jupiter Telecommunications Co., Ltd.) Group holds a market share of just over 50% based on the number of subscribing households. The second-largest CATV company and smaller players have market shares in the single digits and are locked in a tight race for market share. The Company has around 3% of shares, and its strategy is to continue increasing its market share through proactive M&As going forward.

4. Building and real estate business

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

5. Aqua business

In the Aqua business (bottled water home delivery business), TOKAI launched the Delicious Water Home Delivery returnable (using returnable bottles) service in 2007 in Shizuoka Prefecture, and since 2011, it has been providing its water product Ulunom as a one-way (using disposable bottles) service in areas other than Shizuoka Prefecture. It has two bottle manufacturing plants within Shizuoka Prefecture for Mt. Fuji natural water (production capacity of approximately 180,000 bottles), and at the end of March 2019, it had 156,000 customers. At the end of 2018, the number of customers in the industry as a whole was 3.85 million, so the Company's share is around the 4% level (approximately 50% share in Shizuoka Prefecture). The Delicious Water Home Delivery service was selected as ranking first in the 2019 Oricon Customer Satisfaction Ranking of Water Servers*.

* A questionnaire survey conducted by oricon ME Inc. It had a sample size of 8,081 people, who were questioned about 48 companies.

6. Other businesses

Other businesses include a nursing care business operated by TOKAI LIFE PLUS CORPORATION, a wedding ceremony business by TOKAI City Service Corporation, and a shipbuilding and repairs business by Tokaizosen-unyu Corporation. The Company launched the nursing care business in 2011, and as of March 2019, it operated six day service facilities, a short stay facility, and a paid-for nursing home in Shizuoka Prefecture. In addition, it has opened two care plan centers. For its wedding ceremony business, it operates one facility in Shizuoka Prefecture.

Results trends

Customer numbers steadily increased, achieving record highs in FY3/19

1. Overview of the FY3/19 results

In the FY3/19 consolidated results, net sales increased 3.0% YoY to ¥191,600mn, operating profit grew 19.0% to ¥13,057mn, recurring profit climbed 18.5% to ¥13,259mn, and net income attributable to owners of the parent increased 17.4% to ¥7,772mn. Sales increased in each of the mainstay businesses, of the gas and petroleum business, the information and communications services business, and the CATV business, mainly due to the effects of the growth in the number of customers, which constitutes the foundation of earnings, and the M&A conducted in the previous fiscal year. Moreover, sales were a record high for the first time in five fiscal years. In profits, despite the negative impacts from the fall in LP gas sales volume (¥600mn) due to the warm weather and the rise in LP gas purchase costs (¥1.8bn), alongside the increase in the number of Group customers (up 26,000 on the end of the previous fiscal year to 2,902,000 customers), the profit-increase factors were ¥3.4bn mainly from the rise in monthly earnings, ¥900mn from a reduction in customer-acquisition costs, and ¥200mn from the improvement in the profit-loss condition of LIBMO. As a result, all of the profit items were record highs for the first time in two fiscal years.

Compared to the initial Company forecasts, net sales and profits were slightly below forecast. In the CATV business and the Aqua business, results exceeded forecasts mainly due to the increase in the number of customers. But in the LP gas business, results were below forecast, with the main reasons being the negative impacts of factors other than operating activities, of the warm weather and the rise in purchase costs. If excluding these factors, profits were also above forecast.

FY3/19 consolidated results

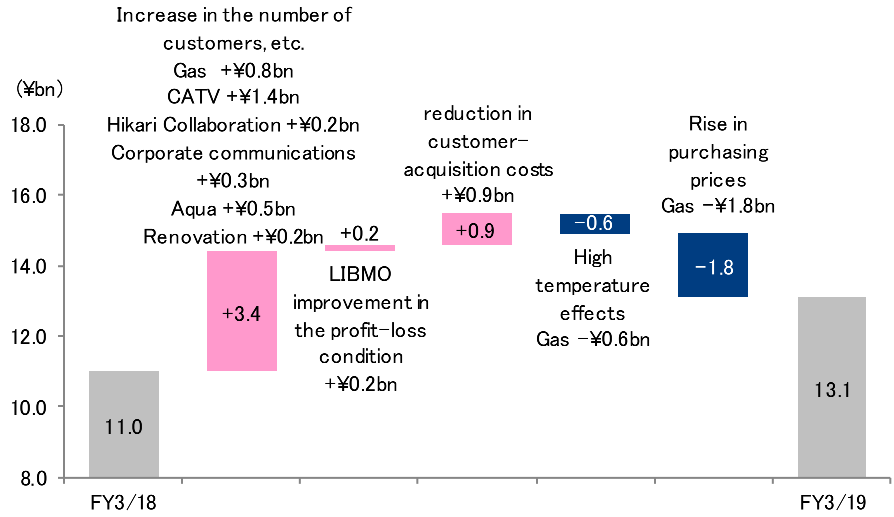
Results trends

(¥mn)

	FY3/18		FY3/19				
	Results	% of sales	Forecast	Results	% of sales	YoY change	vs. forecast
Net sales	186,069	-	195,600	191,600	-	3.0%	-2.0%
Cost of sales	110,733	59.5%	-	115,441	60.3%	4.3%	-
SG&A expenses	64,365	34.6%	-	63,101	32.9%	-2.0%	-
Operating profit	10,971	5.9%	13,960	13,057	6.8%	19.0%	-6.5%
Recurring profit	11,191	6.0%	13,880	13,259	6.9%	18.5%	-4.5%
Net income attributable to owners of the parent	6,620	3.6%	7,920	7,772	4.1%	17.4%	-1.9%

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

Factors behind changes in operating profit for FY3/19



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

One of the Company's priority measures in the medium-term management plan is a strategy of accelerating growth through actively conducting M&A. In FY3/19, it completed two deals in order to promote the expansion of areas for the city gas business. In the first deal, it acquired the gas business*1 operated by Shimonita Town in Gunma Prefecture, and in April 2019, its subsidiary TOKAI GAS took over this business. In the second deal, in March 2019 it was granted the first refusal rights to acquire the city gas business*2 operated by Nikaho City in Akita Prefecture, and the plan is for TOKAI GAS to take over this business in April 2020. This will be the Group's first entry into the Akita Prefecture area. It seems that the main reason that the Company was granted the first refusal rights was that its proposal, of providing various services relating to daily life that will lead to the revitalization of the region, was evaluated.

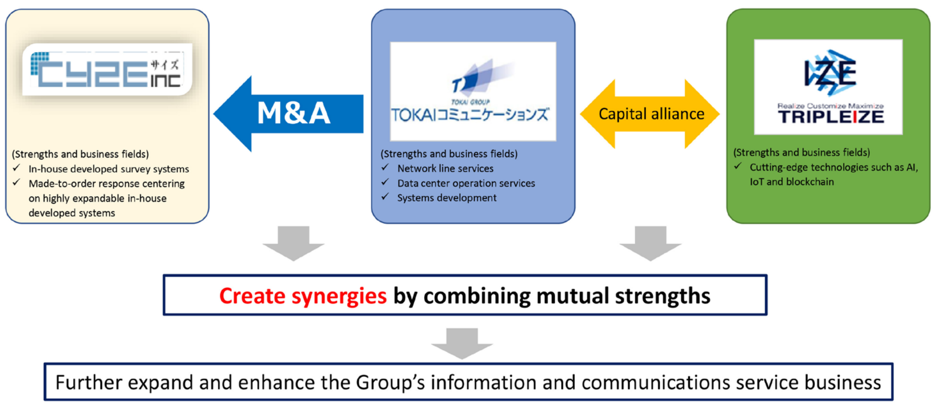
*1 It has 1,336 customers and annual net sales of ¥143mn (FY16 results).
*2 It has 5,255 customers and annual net sales of ¥411mn (FY17 results).

In these new areas, going forward the aim is to propose to customers multiple living-related services provided by the Group's companies, with the city gas service as the starting point, and to increase the number of contracts by 2.5 times from the current number by five years' time. This level of 2.5 times is based on the rate of multiple service contracts among city gas business customers in Shizuoka Prefecture. The multiple services transactions rate for the Group as a whole is 17.8%, but in contrast, the rate for city gas business customers in Shizuoka Prefecture is as high as 62.8%. This is mainly because the connection between the region and the customers is deeper than for other services, and the Company plans to deploy the expertise it has accumulated in Shizuoka Prefecture in new areas also. In addition, it considers that there is room for demand to develop not only for consumers, but for industry as well.

In addition, in the information and communications services business, with the aim of strengthening measures related to ABCIR+S, in September 2018 TOKAI Communications made a consolidated subsidiary of Cyze Inc.*, whose main business is developing and providing on-line questionnaire systems. In the future, in the digital marketing strategy for the Group's customers, it will utilize Cyze's questionnaire system, and the goal is also to create synergies through mutually leveraging their respective customer bases, business expertise, and resources. Moreover, in September of the same year, the Company concluded a capital and business alliance with Tripleize Co., Ltd., which has strengths in cutting-edge technologies, such as IoT, AI and blockchain. Going forward, they will create synergies by leveraging each other's strengths, and the aim is to further expand the Group's information and communications services business.

* Cyze posted net sales of ¥179mn and operating profit of ¥36mn in FY11/18. The Company's shareholding ratio in Cyze is 100%.

Creation of synergies in the information and communications services field



Source: The Company's results briefing materials

In addition, in October 2018, the Company started providing the TLC Points App, which is a smartphone app that aims to improve the convenience of the TLC member services*, including by enabling members to check, use, and exchange their TLC points on the app. They can also confirm in a timely manner the various information disseminated by the Group, such as about services. At the end of the fiscal period, the app had been downloaded slightly over 30,000 times, and in the future the Company plans to continue to expand its functions and improve its convenience, so it is attracting attention is one of the measures to acquire customers.

* Points that are granted to customers by using the Company Group's services. It is possible to pay for usage fees with points and also to exchange the points, such as for other point services and electronic money. Since the launch of the service in December 2012, the number of members has reached 805,000 as of the end of March 2019.

Sales increased in every business segment, and profits rose in every segment except the gas and petroleum business

2. Trends by business segment

Net sales by segment

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	YoY
Gas and petroleum	93,067	80,745	73,344	76,073	77,977	2.5%
Information and communications services	40,118	44,246	49,508	50,894	51,234	0.7%
CATV	24,359	24,608	25,396	28,386	30,511	7.5%
Building and real estate	20,019	20,975	19,511	19,807	20,090	1.4%
Aqua	4,959	5,487	5,762	6,200	7,004	13.0%
Other	4,987	4,875	5,108	4,706	4,781	1.6%
Total	187,509	180,936	178,631	186,069	191,600	3.0%

Operating profit by segment

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	YoY
Gas and petroleum	7,679	8,991	9,161	7,364	6,815	-7.5%
Information and communications services	4,956	2,308	4,213	3,174	3,827	20.6%
CATV	1,669	1,975	2,752	3,554	4,953	39.4%
Building and real estate	1,029	1,266	1,098	1,330	1,615	21.4%
Aqua	-1,313	-1,119	298	246	762	209.8%
Other business and adjustments	-5,016	-5,175	-4,775	-4,699	-4,916	-
Total	9,003	8,245	12,750	10,971	13,057	19.0%

* Values are prior to allocating indirect costs and other expenses
Source: Prepared by FISCO from the Company's results briefing materials

Customer numbers by key services

(thousand)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	Change from previous fiscal year-end
Gas	626	634	642	661	684	24
LP gas	572	580	588	606	628	22
City gas	53	54	54	55	56	2
Information and communications services	1,099	1,088	1,061	1,044	1,004	-40
Existing ISP	859	633	527	465	419	-46
Hikari Collaboration	4	219	299	323	327	5
LIBMO	-	-	2	29	41	12
Mobile	235	236	233	227	217	-10
CATV	690	710	733	1032	1,063	31
Broadcasting services	493	499	508	775	789	14
Communications services	197	211	225	257	274	17
Aqua	130	133	135	146	156	10
Security	18	18	17	17	17	0
Total	2,537	2,558	2,564	2,876	2,902	26

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

(1) Gas and petroleum business

In the gas and petroleum business, net sales increased 2.5% YoY to ¥77,977mn, and operating profit before the allocation of indirect costs and other costs (same below in this section) decreased 7.5% to ¥6,815mn. Within sales, net sales in the LP gas business rose 1.6%. The weather was warmer than in an average year, which led to a decline in the consumption volume per customer. However, the reasons for the higher sales were that at the end of the fiscal period, the number of customers had increased by 22,000 on the end of the previous fiscal period to 628,000 customers, and in addition, the implementation of price transferring was in response to the rise in purchase prices in the 2H. The number of customers increased in both the new business areas (north Kanto, south Tohoku, Aichi Prefecture, Gifu Prefecture, Okayama Prefecture, and Fukuoka Prefecture) and the existing sales areas (including Shizuoka Prefecture and the Tokyo Metropolitan area). In the new areas, customer numbers steadily rose by 14,000 on the end of the previous fiscal period to 27,000 customers.

Meanwhile, in the city gas business, net sales rose 7.4% to ¥12,412mn from the previous year-end, partly due to a rise in sales prices, as well as a slight increase of 2,000 in the number of customers to 56,000.

Sales increased for the second consecutive fiscal period. However, the profit-decrease factors were approximately ¥600mn from the reduction in sales volume per LP gas customer for households due to the warm weather, and around ¥1.8bn from the rise in purchase prices alongside the high price of crude oil. Therefore, operating profit declined for the second consecutive period.

(2) Information and communications services business

In the information and communications services business, net sales increased 0.7% YoY to ¥51,234mn and operating profit rose 20.6% to ¥3,827mn. Within which, sales to consumers decreased 2.8% to ¥30,813mn. This was because although customer numbers increased for Hikari Collaboration, which has high monthly revenue, rising by 5,000 on the end of the previous fiscal year to 327,000 customers, and also for the inexpensive smartphone LIBMO, growing by 12,000 to 41,000 customers, the number of customers for the existing ISP service and other services decreased sharply, by 46,000 to 419,000 customers. In addition, results for Hikari Collaboration have levelled-off since peaking in June 2018 due to the intensification of competition to acquire customers.

Conversely, the corporate business performed steadily, with net sales increasing 6.4% YoY to ¥20,421mn. Sales of communications services and data center services trended firmly against the backdrop of the expansion of the cloud services market, and also sales increased for outsourced systems development with active IT demand from corporate customers.

Operating profit increased ¥400mn YoY due to profits increasing ¥300mn from SG&A expenses being kept down, mainly LIBMO sales promotions expenses for consumers, and also because of the rise in sales for corporations.

(3) CATV business

In the CATV business, net sales increased 7.5% YoY to ¥30,511mn and operating profit rose 39.4% to ¥4,953mn, and once again the results were record highs. The Company made subsidiaries of Tokyo Bay Network Co., Ltd., and TV Tsuyama Inc., in FY3/18 Q2 and Q4 respectively, and the effects of these M&A were to increase net sales by approximately ¥1bn and operating profit by around ¥100mn. In addition to the effects of the M&A, the effects of the sales measures are continuing to appear, such as the discount service by subscribing to a bundle of services for broadcasting and communication and for smartphones through a collaboration with a major mobile carrier, and also the measures to prevent contract cancellations. Therefore, at the end of the fiscal period, the number of customers had steadily increased for both broadcasting services, up by 14,000 on the end of the previous fiscal year to 789,000 customers, and for communications services, up by 17,000 to 274,000 customers.

For profits, in addition to the effects of the higher sales, the main factor behind the higher profits was that amortization expenses (including the amortization of goodwill) decreased ¥491mn YoY. Also, looking at the operating profit margin before amortization, we find that it changed direction and increased for the first time in two fiscal periods, rising 0.7 of a percentage point to 33.4%. As well as the effects of the higher sales, it is considered that this was due to the rise in the broadcasting and communications set contract rate and the increase in revenue per customer in the existing areas.

(4) Building and real estate business

In the building and real estate business, net sales increased 1.4% YoY to ¥20,090mn and operating profit rose 21.4% to ¥1,615mn. The reasons for the higher sales and profits included that orders in the renovation business grew due to the strengthening of the sales structure in the Shizuoka area, and that building and facilities construction projects performed strongly.

(5) Aqua business

Sales and profits increased in the Aqua business, with net sales rising 13.0% YoY to ¥7,004mn and operating profit growing 209.8% to ¥762mn. The factor behind the higher sales was the steady progress made in acquiring customers, such as at large-scale commercial facilities, which meant that at the end of the fiscal period, the number of customers had increased by 10,000 on the end of the previous fiscal period to 156,000 customers.

In profits, in addition to the effects of the higher sales, the Company concluded a business-alliance agreement with TOELL Co., Ltd. <3361>, a peer company in the bottled water delivery industry that came into effect on November, 2018, with the aim of streamlining delivery operations and enhancing service quality in the home water delivery business in the Kanto area, and this also contributed to the higher profits. TOELL has 250,000 customers in the Kanto area and has constructed its own delivery system. The alliance has the benefit that it will improve the efficiency of the delivery service through delivering the Company's products at the same time.

(6) Other businesses and adjustments

In the other businesses, net sales increased 1.6% YoY to ¥4,781mn. Breaking this down, in the nursing business, sales rose 3.8% to ¥1,075mn alongside the increase in the number of facility users, and in the shipbuilding business, sales grew 5.8% to ¥1,520mn due to the increase in the volume of ship repair work. However, in the wedding ceremony business, sales fell 3.7% to ¥1,477mn because of the decline in the number of wedding ceremonies. The segment's operating loss, including internal adjustments, slightly worsened to ¥4,916mn (compared to a loss of ¥4,699mn in the previous fiscal year).

Targeting an equity ratio on the 30% level, intends to continue to actively invest, including in M&A

3. Financial position

Looking at the financial condition at the end of FY3/19, total assets were up ¥1,612mn on the end of the previous fiscal year to ¥167,606mn. This was mainly because although "Investment securities" in investments and other assets decreased ¥ 1,101mn, mainly due to the decline in the valuation difference on investment securities, there were increases, of cash and deposits of ¥1,021mn, notes and accounts receivable of ¥992mn, and merchandise and products of ¥449mn.

Total liabilities were down ¥831mn on the end of the previous fiscal year to ¥103,711mn. Income taxes payable increased ¥525mn and lease obligations rose ¥322mn, but interest-bearing debt fell ¥376mn and “Others” in current liabilities declined ¥851mn. Total net assets were up ¥2,444mn on the end of the previous fiscal year to ¥63,894mn. This was because, although other accumulated comprehensive income decreased ¥1,790mn, mainly from the unrealized gain on other securities, and spending on dividend payments was ¥3,678mn, net income attributable to owners of the parent of ¥7,772mn was recorded.

The equity ratio, which indicates financial soundness, rose from 36.3% at the end of the previous fiscal year to 37.4%, while the interest-bearing debt/EBITDA ratio fell from 1.9 to 1.8 times, and in such ways, the Company’s financial soundness is steadily improving. It is currently progressing the medium-term management plan, in which it sets out the policy of actively investing in growth, including for M&A, and in which it expresses its intention to keep the equity ratio at around the 30% level for the time being.

Also, looking at the cash flow conditions, operating cash flow was income of ¥21,605mn, investment cash flow was expenditure of ¥12,443mn, and free cash flow was ¥9,161mn. Financial cash flow was expenditure of ¥8,147mn, including due to spending of ¥3,673mn for dividend payments, and for the repayment of lease obligations. As a result, at the end of the fiscal year, cash and cash equivalents had risen by ¥1,004mn on the end of the previous fiscal year to ¥4,018mn.

Consolidated balance sheets

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	Change
Total assets	165,702	160,303	161,112	165,993	167,606	1,612
(Cash and deposits)	2,861	4,077	3,239	3,143	4,164	1,021
Total liabilities	122,234	118,332	104,665	104,543	103,711	-831
(Interest-bearing debt)	73,114	71,410	54,137	50,980	50,604	-376
Net assets	43,467	41,970	56,446	61,450	63,894	2,444
EBITDA	26,233	24,980	28,392	26,318	28,148	1,830
Equity ratio	25.7%	25.6%	34.5%	36.3%	37.4%	1.1pt
Interest-bearing debt/EBITDA ratio	2.8	2.9	1.9	1.9	1.8	-

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

Cash flow conditions

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
Cash flow from operations	27,265	21,395	26,692	20,909	21,605
Cash flow from investing activities	-8,851	-11,015	-10,985	-11,488	-12,443
Free cash flow	18,414	10,379	15,706	9,421	9,161
Cash flow from financing	-18,764	-9,150	-16,643	-9,527	-8,147
Balance of cash and cash equivalents at the end of the period	2,821	4,044	3,111	3,004	4,018

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

Outlook

Is strengthening investment in the ABCIR+S strategy and in human resources in FY3/20, which is being positioned as a year to establish the foundations for growth

1. Outlook for FY3/20

The outlook for the FY3/20 consolidated results is once again for new record highs, with net sales to increase 4.8% YoY to ¥200,800mn, operating profit to rise 8.5% to ¥14,170mn, recurring profit to grow 5.9% to ¥14,040mn, and net income attributable to owners of the parent to climb 5.9% to ¥8,230mn. Alongside the continued expansion of the customer base, the Company is focusing on advancing M&A and the ABCIR+S strategy, and it has positioned FY3/20 as a year in which to build the foundations toward realizing fully fledged profit growth from FY3/21 onwards.

Outlook for FY3/20 consolidated performance

(¥mn)

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

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

The Company is forecasting the number of Group customers to increase by 100,000 on the end of the previous fiscal year to 3,002,000 customers. In particular, customer numbers are expected to rise significantly in the gas and petroleum business, including due to the effects of the expansion of the sales areas, increasing by 61,000 to 745,000 customers. The outlook is also for customer numbers to rise by around the same number as in the previous fiscal year on a net-increase basis in the CATV business, by 27,000 to 1,090,000 customers, and in the Aqua business, by 11,000 to 167,000 customers. On the other hand, in the information and communications services business, in which a downward trend has continued, customer numbers are set to decline by 1,000 to 1,003,000 customers, and the Company is working to maintain the current situation.

Operating profit is forecast to increase ¥1.1bn. When considering the end of the factors that caused profits to decline in the gas and petroleum business in the previous fiscal year, of the effects of the warm weather and the rise in purchase costs (together, they caused profits to decrease by ¥2.4bn), the extent of the increase in profits seems small. But this is because the Company is conducting upfront investment in order to steadily realize fully fledged profit growth from FY3/21 onwards. Specifically, it is investing approximately ¥500mn in expenses to promote the ABCIR+S strategy, while personnel expenses are expected to increase by around ¥1.4bn due to the active recruitment of human resources, mainly engineers. Also, another factor is that temporary profits were recorded in the Aqua business in the previous fiscal year. Within the above, for human resources, the Company plans to increase the number of employees by 223 (approximately 100 from the recruitment of new graduates), although it is possible the actual increase number will fall below this plan. In addition, customer acquisition costs are expected to be around the same level as in the previous fiscal year. For the M&A strategy, the present stage is one of carefully investigating several proposals, so it has not been incorporated into the current Company forecasts.

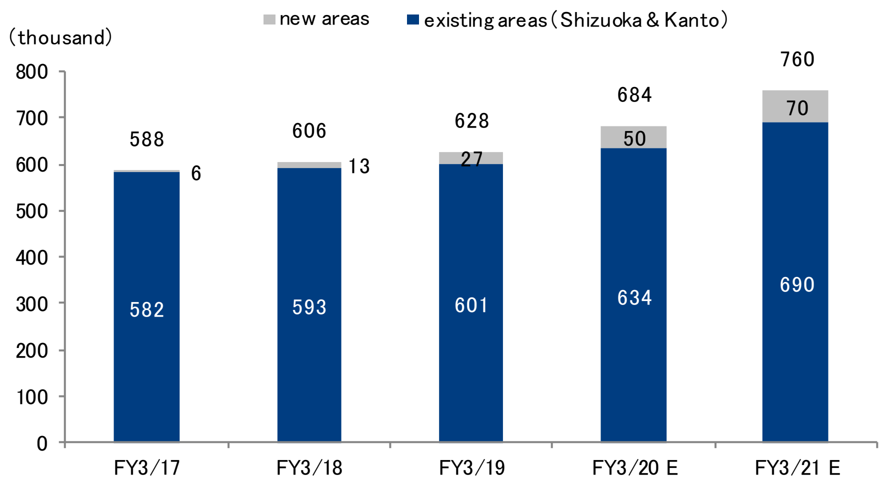
2. Outlook for the main businesses

(1) Gas and petroleum business

In the gas and petroleum business, sales and profits are expected to increase, mainly from the growth in the number of customers and the reduction in purchase costs. Although it is possible that the prices of raw materials for LP gas will fluctuate in the future, for one part of the purchases for FY3/20 (for households only), the reservations have already been completed at prices lower than the level in the previous fiscal year. Also, as it is assumed that the weather will be the same as in a typical year, consumption volume per customer for households is expected to recover.

In the LP gas business, the number of customers is forecast to increase by 56,000 at the end of the previous fiscal year to 684,000 customers. Within this net increase, the Company expects to acquire 32,000 in the existing sales areas and 23,000 customers in the new sales areas. For the new sales areas, it newly entered into and began sales in Tsu City in Mie Prefecture in April 2019, and it also plans to enter into Aisai City in Aichi Prefecture in Q4. It will have a total of 10 bases in the new sales areas, and it plans to continuously increase this number in the future, while conducting M&A and other measures. After entering into the new sales area, the Company is targeting acquiring 10,000 customers by five years' time, and it is currently making steady progress for this. The number of customers in the new sales areas is forecast to increase by 27,000 at the end of FY3/19 to 50,000 in FY3/20 and 70 in FY3/21.

LP gas customer count trends



Source: Prepared by FISCO form interviews

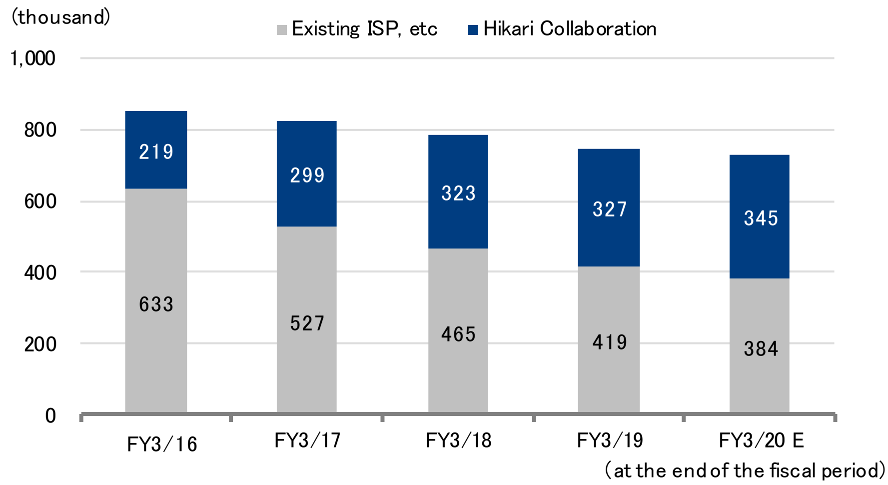
Meanwhile, in the city gas business, the number of customers is forecast to increase by 5,000 on the end of the previous fiscal year to 61,000 customers. However, an increase of 5,000 will be from customers in Nikaho City in Akita Prefecture, for who sales will start following the business transfer in April 2020. Therefore, they will contribute to sales from FY3/21. In FY3/20, the addition will be from the effects of the higher sales from around 1,000 customers in Shimonita Town, Gunma Prefecture, which will be worth ¥140mn in sales. Also, as previously stated, sales of other Group services, such as renovation fairs, will start in Shimonita Town, so sales per customer are expected to grow.

(2) Information and communications services business

The outlook for the information and communications services business is for sales and profits to increase in the low single-digit range. In services for consumers, the number of customers is expected to decline slightly, down by 1,000 on the end of the previous fiscal year to 1,003,000 customers. Breaking this down, they will decrease by 35,000 to 384,000 customers for existing ISP services and related, increase by 18,000 to 345,000 customers for Hikari Collaboration, rise by 21,000 to 62,000 customers for LIBMO, and decline by 5,000 to 212,000 customers in the mobile business. On the one hand, customer numbers for the ISP and related services will continue to decline, but on the other hand, they are forecast to increase for Hikari Collaboration through the expansion of collaboration partners. For LIBMO also, it is thought that the number of customers will increase from the expansion of the sales channels. Currently, the Company's eight mobile shops within Shizuoka Prefecture conduct sales, but in March 2019, it concluded a partnership agreement with iCracked Japan Inc., which conducts a smartphones repair business*. It has opened an iCracked Store providing iPhone repair services and sells LIMBO within these stores. The development of a network of multiple iCracked Stores is being considered, while observing the store-opening conditions.

* iCracked is the world's largest smartphone repair business founded in the United States in 2010, which is able to conduct face-to-face sales through its iTech repair staff who have passed a certification exam and who can quickly repair and return the phone to the customer on the same day, in a minimum of around 30 minutes. iCracked Japan is its Japanese subsidiary that manages the iCracked Stores, and since the opening of the first store in 2015, by May 2019 it was managing a network of 32 stores nationwide.

Broadband subscriptions breakdown



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

Conversely, services for corporations are benefiting from the expansion of the Cloud services market and the increase in IT investment, and the outlook is for the higher sale and profits to continue, mainly for communications services, data center services, and outsourced systems development. Therefore, profits are forecast to increase.

(3) CATV business and Aqua business

In the CATV business, the number of customers is forecast to increase by 27,000 on the end of the previous fiscal year to 1,090,000 customers due to the measures for set sales through a collaboration with a mobile carrier. For the results, the outlook is for slight increases in sales and profits. The plan is for each company in the Group to invest in converting to fiber optics in order to respond to 4K/8K broadcasting (up ¥300mn YoY to ¥5.8bn), while (the decrease in) amortization expenses, which has been a factor causing profits to increase so far, will be basically unchanged in FY3/20. Therefore, the profit margin is expected to be about the same as in the previous fiscal year.

In the Aqua business, the number of customers is forecast to increase by 11,000 on the end of the previous fiscal year to 167,000 customers due to the in-store demonstration sales at large scale commercial facilities and other locations. It is continuing to acquire customers through demonstration sales at large-scale commercial facilities in major cities. Sales will increase YoY in a high single-digit range from the rise in the number of customers, but profits are expected to remain at the same level as in the previous fiscal year.

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

3. Progress made in the medium-term management plan

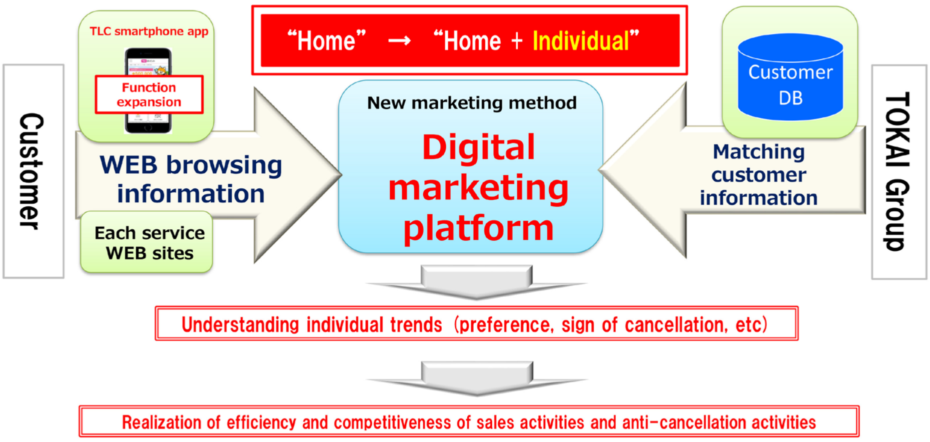
(1) Basic policy and activities

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

The Company's targets for M&A are companies with customer bases in its core businesses, including CATV and information and communications services, and also companies in areas peripheral to its existing living-related services. As its track record of deals up to FY3/19, it had completed a total of five deals, two in the CATV business (Tokyo Bay Network and TV Tsuyama), and in FY3/19, two deals in the city gas business (Shimonita Town in Gunma Prefecture and Nikaho City in Akita Prefecture) and one deal in the information and communications services business (Cyze), investing about ¥5bn as the share-acquisition costs. The Company is currently in the process of carefully investigating several proposals and it plans to continue to actively invest in M&A. Compared to one year ago, the numbers of M&A proposals are particularly increasing in the city gas business and the CATV business, and it is expected to complete deals in the future.

The Company is also working to expand its new customer base and strengthen competitiveness by utilizing advanced technologies under the theme of ABCIR+S. It is further strengthening the system for the Next Generation Business Strategy Headquarters, which was launched in FY3/19 as a dedicated organization, and its policy to advance the construction of the Digital Marketing Platform (DMP). DMP is a new marketing method that integrates the Group's customer database, online browsing information, and data on the unit of individual customers, to realize increased efficiency and strengthened competitiveness, such as by ascertaining individual trends (like hobby preferences and cancellation warning signs), and based on this information, conducting sales activities and cancellation-prevention activities. It has already completed the platform and in the future, it plans to put it to practical use after collecting and analyzing databases and prepare multiple scenarios.

Utilizing the Digital Marketing Platform



Source: The Company's results briefing materials

(2) Progress made for results

The numerical management targets set in the medium-term management plan for FY3/21 are consolidated net sales of ¥339.3bn, operating profit of ¥22.5bn, net income attributable to owners of the parent of ¥11.5bn, and Group customers of 4.32 million or more. Looking at the progress made up to FY3/19 toward achieving them, we see that the results were below the initial targets, net sales by ¥10.4bn, operating profit by ¥900mn, net income attributable to owners of the parent by ¥100mn, and the number of customers by 90,000. This is mainly because, on looking at the number of customers by business, we see that while the numbers were basically as targeted in the gas and petroleum business and slightly higher than targeted in the CATV business, the number in the information and communications services business decreased more than was expected.

Also, in the recently announced FY3/20 results forecasts, net sales deviate by around ¥23.6bn from the numerical target, but this would seem to be mainly because of the delay in progressing M&A. On the other hand, operating profit deviates by approximately ¥2bn, and this is thought to be because the LP gas purchase prices rose compared to at the stage when the medium-term plan was formulated, and this had a profit-reduction effect of around ¥2bn. If excluding this factor, it can be confirmed that profits are trending roughly as expected. Achieving the targets for FY3/21 will depend on the progress made in M&A in the future. Also, the rate of multiple contracts, which is being focused on as a measure to grow earnings, was 17.8% at the end of FY3/19 (16.7% at the end of the previous fiscal year) and is steadily rising toward reaching the target of 20% by the end of FY3/21.

Meanwhile, looking at the Company's financial position, in FY3/19 the equity ratio was 37.4% and the interest-bearing debt/EBITDA ratio was 1.8 times, and they are trending basically within the range of the medium-term management plan's targets. In the future, if it decides to conduct a large-scale M&A, interest-bearing debt will increase, but it intends to keep the equity ratio at the 30% level and to actively invest while also maintaining its financial soundness.

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

	FY3/17 results	FY3/18 target	FY3/18 results	FY3/19 target	FY3/19 results	FY3/20 target	FY3/20 forecast	FY3/21 target
Net sales (¥bn)	178.6	189.4	186.1	202.0	191.6	224.4	200.8	339.3
Operating profit (¥bn)	12.8	11.4	11.0	14.0	13.1	16.2	14.2	22.5
Net income attributable to owners of the parent (¥bn)	7.3	6.4	6.6	7.9	7.8	8.7	8.2	11.5
Total assets (¥bn)	161.1	169.8	166.0	173.8	167.6	191.2	-	283.4
Interest-bearing debt/EBITDA (ratio)	1.9	2.0	1.9	1.7	1.8	1.8	-	2.6
Equity ratio (%)	34.5	33.9	36.3	35.6	37.4	34.9	-	31.6
ROE (%)	15.2	11.1	11.4	12.8	12.6	13.0	-	13.0
Number of customers (million contracts)	256	288	288	299	290	372	300	432

Source: Prepared by FISCO from the Company's materials

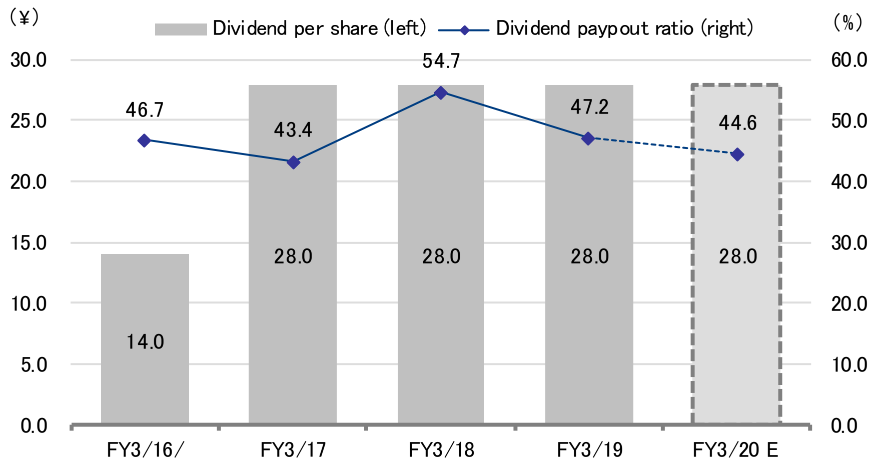
Shareholder return policy

Annual return on investment of 4% to 7% from the gifts to shareholders and dividends

The Company returns profits to shareholders by paying dividends, presenting shareholders with gifts, and also purchasing treasury shares depending on conditions. Its basic policy is to continuously pay a stable dividend and it targets a dividend payout ratio of 40% to 50%. The FY3/20 dividend per share will be unchanged YoY at ¥28.0 (for a dividend payout ratio of 44.6%).

The Company presents gifts to shareholders at the end of March and September depending on the number of shares held. For each unit of shares (100 shares) held, shareholders can receive one of the following gifts: an Aqua product worth ¥2,050 (such as the Ulunom) "Fuji-no-Tennensui Sarari" (Mt. Fuji natural water), a QUO card worth ¥500, food coupons worth ¥1,000, ¥1,000 worth of TLC Membership Service points, or a ¥2,100 discount on LIBMO usage fees (¥350 a month x 6 months. When including the gifts to shareholders in an estimate of the total investment yield per share unit from the current share price level (closing price at ¥892 on May 24, 2019), it is in the range of 4.3% to 7.7% (depending on the selection of either a QUO card or an Aqua product as the gift).

Dividend per share and dividend payout ratio



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

Shareholder gifts

Shareholders on record at the end of March and September are presented with their choice of one of the following five type of gifts, as well as a 10% discount coupon for a standard wedding service at the Group's wedding halls, plus a dining certificate worth ¥100,000 (with a discount limit of ¥200,000) for the Beau Ciel and Aoi restaurants.

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

Source: Prepared by FISCO from the Company website

ESG

In the DBJ Health Management Rating conducted by the Development Bank of Japan, was awarded the highest rank for the second consecutive year

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

Also, in March 2019, it was announced that the Company had been awarded the highest rank for the second consecutive year in the DBJ Health Management Rating (hereafter, the DBJ Health Rating) conducted by Development Bank of Japan Inc., and that it had also received a special award for which only companies with an outstanding rating are eligible. DBJ Health Rating Financing provided by Development Bank of Japan (DJB) is the world's first financing menu with a focus on "health management," which it uses to evaluate and select companies with excellent health awareness measures for its employees, determined using DBJ's own evaluation system, and then to set financing conditions according to this evaluation.

The three points on which the Company was highly evaluated in the recent DBJ evaluation were 1) as the Chief Health Office (CHO), top management is actively developing health management that is integrated for the entire Group centered on the three pillars of "health and safety," "promotion of health," and "reforms to ways of working," and at the same time, it is striving to disseminate and spread the above measures throughout the Group's companies through efforts including appointing healthcare leaders assigned to each department and distributing in-house newsletters and videos; 2) it conducts multi-faceted analyses of various types of health data while cooperating with parties such as industrial doctors, insurers, and external experts, and it identifies health issues within the organization, while also strengthening the provision of various training programs toward improving health literacy; and 3) it has set improving productivity and increasing the rate of taking paid leave as items in its results evaluation, and at the same time, it is promoting the creation of comfortable working environments that are pleasant to work in, such as by introducing the new Support System to Realize both Healthcare and Work.

In addition, the Ministry of Economy, Trade and Industry is advocating "investment in health management" to invest in companies that are actively working on "employee health management" as part of their management strategy, and it plans to announce the Health Management Issues, which are the shares of companies conducting health management that it will select together with the Tokyo Stock Exchange. For investment in health management, it seems that the selection criteria will include the amounts that companies are investing in heath (such as on welfare expenses) and whether or not they are actively implementing measures to address lifestyle-related diseases and for mental health. In the future, listed Exchange Traded Funds (ETF) for health management-related issues are expected to be established, which will attract attention from the viewpoint of health management.

Information security measures

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

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