

TOKAI Holdings Corporation

3167

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Summary

In FY3/20, making steady progress toward achieving record highs for the second consecutive period

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

*1 Total Life Concierge concept: a vision that aims to improve customer satisfaction by providing comprehensive and detailed support for customers’ comfortable lifestyles through the various services provided by the TOKAI Group.

*2 ABCIR+S: the TOKAI Group’s strategy for technological innovation. It is the acronym of AI (A), Big Data (B), Cloud (C), IoT (I), Robotics (R), and Smart Phone (S), and the Group will focus on creating and developing new services related to them.

1. Overview of the FY3/20 3Q cumulative results

In the FY3/20 3Q (April to December 2019) cumulative consolidated results, net sales increased 2.6% year-on-year (YoY) to ¥141,557mn and operating profit rose 31.8% to ¥9,278mn. Both sales and profits were new record highs. The main factors behind the higher sales and profits were the increase in monthly revenue due to the growth in the number of continuous-transaction customers (up 35,000 on the end of the same period in the previous fiscal year to 2,933,000 customers), mainly in the LP gas and CATV businesses, and the Aqua business, and also the reduction in customer acquisition and maintenance costs and the expansion of the corporate information and communication services business. On an operating profit basis, it seems the result was approximately ¥0.75bn above the Company forecast. In the 3Q (October to December) results, net sales decreased 1.1% year-on-year (YoY) to ¥48,542mn and operating profit increased 6.0% to ¥3,778mn. In the LP gas business, sales declined due to the impact of the revisions to sales prices linked to the reduction in industrial and wholesale purchase prices. However, operating profit increased in all the business segments (values before the allocation of indirect costs and other costs).

2. FY3/20 earnings outlook

For the FY3/20 consolidated results, the Company has left the initial forecasts unchanged, of net sales to increase 4.8% YoY to ¥200,800mn and operating profit to grow 8.5% to ¥14,170mn. It is highly possible that net sales will be below forecast, including because of the time taken to conclude M&A proposals and the reduction in the number of contracts in the information and communication services business for individuals. However, it seems highly likely that operating profit will achieve the forecast, because the rate of progress for the full fiscal year forecast up to the 3Q was 65.5%, which is above the annual average for the last three years of 60.0%. At the end of the fiscal period, the number of continuous-transaction customers is forecast to have increased by 100,000 compared to the start of the period to 3 million customers, but the pace of the increase up to the 3Q was slightly below this. However, on February 20, 2020, it was announced that TOKAI Cable Network had acquired the shares of Sendai CATV Co., Ltd., and made it a consolidated subsidiary. Its contribution to sales in FY3/20 will be limited, but it can be said that the Company is making steady progress in expanding the scope of its business by conducting M&A with an eye to the future.

Summary

3. Progress made in the medium-term management plan (IP20)

In the medium-term management plan, Innovation Plan 2020 “JUMP” (IP20), the Company has set numerical management targets for FY3/21, the final fiscal year of the plan, of consolidated net sales of ¥339.3bn and operating profit of ¥22.5bn. It is aiming to achieve these targets including by actively progressing the M&A strategy in order to increase the number of continuous-transaction customers to more than 4.32mn customers, and also by maximizing earnings per customer through raising the contract rate for multiple services* from 17.8% at the end of the previous period to 20%. The progress made up until recently means that achieving the initial forecasts has become difficult, as the pace of the M&A strategy has been a little behind schedule. However, there has been no change to the fact that customer numbers are steadily increasing and that the outlook is for the upward trends in sales and profits to continue. For the M&A, the Company is currently progressing negotiations, including for some major proposals, with a total deal value of more than ¥100bn, and we shall be paying attention to developments in the future.

* Contract rate for multiple services = (total number of service contracts ÷ number of customers) - 1. The current level is around 18%.

4. Shareholder return policy

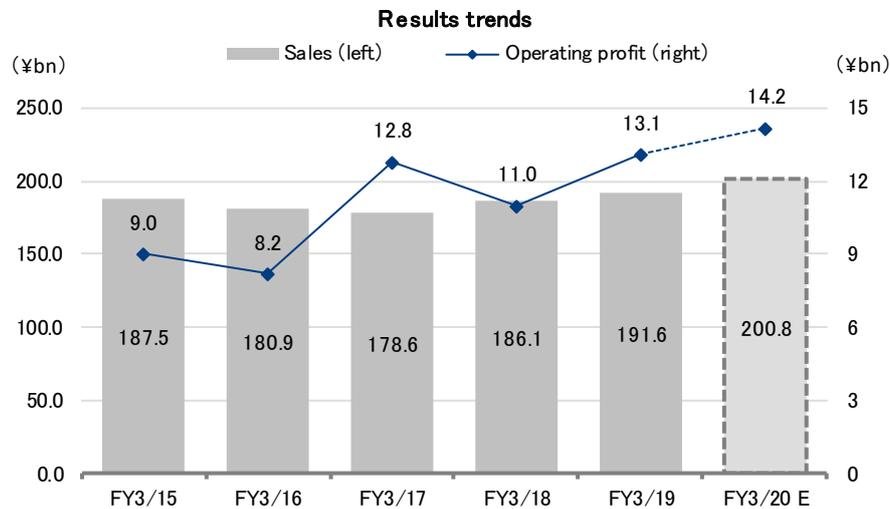
There has been no change to the policy of continuously and stably returning profits to shareholders. The forecast dividend per share for FY3/20 is ¥28.0 (dividend payout ratio, 44.6%), which is unchanged from the previous fiscal year. Going forward, the Company intends to pay dividends while observing 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 ¥1,022 on February 3, 2020), it is in the range of 3.7% to 6.7%*.

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

Key Points

- In the FY3/20 3Q cumulative results, sales and profits were both new record highs from the increase in customer numbers and the strong performance of the corporate information and communication services business
- Results were driven by higher earnings in the LP gas business and the corporate information and communication services business
- The pace of the M&A strategy seems a little behind schedule, but there has been no change to the growth strategy through increasing customer numbers and raising the contract rate for multiple services

Summary



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

Result trends

In the FY3/20 3Q cumulative results, sales and profits were both new record highs from the increase in customer numbers and the strong performance of the corporate information and communication services business

1. FY3/20 3Q cumulative results

In the FY3/20 3Q cumulative consolidated results, net sales increased 2.6% YoY to ¥141,557mn, operating profit increased 31.8% to ¥9,278mn, recurring profit rose 30.8% to ¥9,478mn, and net income attributable to owners of the parent climbed 28.6% to ¥5,103mn. Net sales were a new record high for the second consecutive fiscal period, while each profit item was a record high for the first time in three fiscal periods.

The main factors behind the higher sales were the rise in monthly revenue alongside the increase in the number of continuous-transaction customers, and also that the corporate information and communication services business maintained its strong performance. At the end of the 3Q, the number of continuous-transaction customers was up 35,000 on the end of the same period in the previous fiscal year to 2,933,000 customers and had steadily increased, including in the LP gas, CATV, and Aqua businesses. Also, the main reasons for the increase in operating profit included the rise in monthly revenue, the growth in profits in the corporate information and communication services business, and the reduction in customer acquisition and maintenance costs, and it seems that it was approximately ¥0.75bn above the Company forecast.

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Result trends

Looking at the 3Q results, net sales decreased 1.1% YoY to ¥48,542mn, but this was mainly because, in the LP gas business, industrial and wholesale sales prices declined, linked to the reduction in purchasing prices. Operating profit maintained its upward trend, increasing 6.0% YoY to ¥3,778mn, and it increased in all the business segments (values before the allocation of indirect costs and other costs). Due to the recording in the 3Q of a provision for a litigation loss of ¥1,150mn* as an extraordinary loss, net income attributable to owners of the parent decreased 27.8%.

* Consolidated subsidiary TOKAI Communications Corporation terminated the contract for a development project ordered with Hitachi Solutions, Ltd., due to it failing to meet its obligations, including development delays, and it changed the outsourcing party to complete the development. However, TOKAI Communications made a claim for damages for the costs that exceeded those specified in the initial contract, while the other party also made a counterclaim, seeking the payment of one part of the development costs and payment for damages due to the delayed payment. TOKAI Communications won the case in the district court, but the ruling was reversed at the Tokyo High Court on January 16, 2020, and it lost the case. Therefore, it recorded an allowance in preparation for the case when the judgment is determined. The Company has appealed the ruling to the Supreme Court.

FY3/20 3Q cumulative consolidated results

(¥mn)

	FY3/19 3Q cumulative results		FY3/20 3Q cumulative results			FY3/19 3Q results		FY3/20 3Q results	
	Results	% of sales	Results	% of sales	YoY	results	Results	YoY	
Net Sales	137,943	-	141,557	-	2.6%	49,103	48,542	-1.1%	
Cost of sales	83,616	60.6%	84,254	59.5%	0.8%	29,857	28,404	-4.9%	
SG&A expenses	47,289	34.3%	48,024	33.9%	1.6%	15,684	16,360	4.3%	
Operating profit	7,038	5.1%	9,278	6.6%	31.8%	3,563	3,778	6.0%	
Recurring profit	7,247	5.3%	9,478	6.7%	30.8%	3,667	3,870	5.5%	
Extraordinary profit and loss	-491	-	-1,465	-	-	-196	-1,128	-	
Net income attributable to owners of the parent	3,966	2.9%	5,103	3.6%	28.6%	2,230	1,611	-27.8%	
The number of continuous-transaction customers (end of 3Q, 1,000)	2,898		2,933		1.2%				

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

Results were driven by higher earnings in the LP gas business and the corporate information and communication services business

2. Trends by business segment

Net sales by segment

(¥mn)

	FY3/18	FY3/19	FY3/20	YoY	FY3/19	FY3/20	YoY
	3Q cumulative	3Q cumulative	3Q cumulative		3Q cumulative	3Q cumulative	
Gas and petroleum	53,145	54,675	55,191	0.9%	20,727	19,425	-6.3%
Information and communications services	37,760	37,959	38,834	2.3%	12,805	12,923	0.9%
CATV	20,871	22,829	23,433	2.6%	7,694	7,840	1.9%
Building and real estate	13,491	13,846	14,919	7.7%	4,859	5,183	6.7%
Aqua	4,652	5,279	5,603	6.1%	1,789	1,851	3.5%
Other businesses	3,415	3,352	3,575	6.6%	1,229	1,320	7.4%
Total	133,336	137,943	141,557	2.6%	49,103	48,542	-1.1%

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

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Result trends

Operating profit by segment

					(¥mn)		
	FY3/18 3Q cumulative	FY3/19 3Q cumulative	FY3/20 3Q cumulative	YoY	FY3/19 3Q cumulative	FY3/20 3Q cumulative	YoY
Gas and petroleum	3,857	2,954	3,964	34.2%	1,870	1,998	6.8%
Information and communications services	2,410	2,595	3,366	29.7%	987	1,097	11.1%
CATV	2,758	3,568	3,790	6.2%	1,238	1,251	1.1%
Building and real estate	681	915	1,242	35.7%	361	399	10.5%
Aqua	221	444	597	34.5%	153	197	28.8%
Other businesses and adjustments	-3,350	-3,442	-3,682	-	-1,049	-1,163	-
Total	6,579	7,038	9,278	31.8%	3,563	3,778	6.0%

Note: Values are before the allocation of indirect costs and other costs

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

Customer numbers by key services

						(thousand)
	FY3/17 3Q	FY3/18 3Q	FY3/19 End of 3Q	FY3/20 End of 3Q	YoY change	
Gas	635	653	674	703	29	
LP gas	582	599	620	647	27	
City gas	54	54	55	56	1	
Information and communication services	1,060	1,047	1,017	979	-38	
Existing ISP and related services	538	478	430	396	-34	
Hikari Collaboration	288	319	328	324	-4	
LIBMO	-	21	39	45	6	
Mobile	234	229	220	214	-6	
CATV	728	1,002	1,055	1,088	33	
Broadcasting services	506	751	785	801	16	
Communication services	222	251	270	287	17	
Aqua	135	143	157	160	3	
Security	17	17	17	16	-1	
Total*	2,551	2,839	2,898	2,933	35	

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

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

(1) Gas and petroleum business

In the 3Q cumulative results, net sales increased 0.9% YoY to ¥55,191mn and operating profit* rose 34.2% to ¥3,964mn. Within sales, net sales in the LP gas business decreased slightly, down 0.4% to ¥45,618mn. For households, the Company made progress with customer acquisition in both the existing areas and the new areas, and the number of contracts rose 27,000 on the end of the same period in the previous fiscal year to 647,000 contracts, which increased sales. However, sales decreased due to the fall in industrial and wholesale sales prices, linked to the reduction in purchase prices. The sales-decrease amount from the effect of the fall in sales prices in the 3Q cumulative results was about ¥1.5bn, but it had no effect on profits. The number of contracts was 18,000 below the Company forecast, as there were delays in acquisitions in commercial areas (of this number, 13,000 below forecast due to the delays in acquisitions in commercial areas). Despite the increase in personnel costs alongside system strengthening, profits increased significantly due to the rise in profits following the increase in the number of contracts for households, and increase in consumption per household due to the average temperature trended 0.7 °C lower YoY, and decrease in purchase costs. The Company newly entered into Tsu City (Mie Prefecture) in the 1Q and has made a smooth start, acquiring 4,000 customers.

* Operating profit is before the allocation of indirect costs, etc., and the calculation method is different to that in the financial results.

Result trends

On the other hand, in the city gas business, in April 2019 the Company newly acquired the business of Shimonita Town, Gunma Prefecture, and started sales, so the number of customers increased 1,000 on the end of the same period in the previous fiscal year to 56,000 customers. Net sales increased 7.7% to ¥9,573mn due to the rise in sales unit prices caused by the raw materials costs adjustment system, and an increase in equipment sales. In Shimonita Town, it started sales of various Group services to approximately 1,000 customers, and it acquired around 100 contracts in total including for electric power, home water delivery, LIBMO, and ISP. It seems that the Company expects to increase sales per customer by a maximum of 2.5 times by proposing to them multiple Group products, and continue to progress sales activities going forward.

The main factor in the 3Q results was the fall in industrial and wholesale sales, with net sales declining 6.3% YoY to ¥19,425mn. But operating profit continued to trend upward, rising 6.8% to ¥1,998mn.

(2) Information and communication services business

In the 3Q cumulative results, net sales increased 2.3% YoY to ¥38,834mn and operating profit rose 29.7% to ¥3,366mn. Within this situation, in the consumer business, net sales fell 6.7% YoY to ¥21,661mn as the number of ISP service contracts continued to decline due to the intensification of the competition with the major mobile carriers. Also in profits, although profits increased up the 2Q due to the decline in customer acquisition costs, they fell in the 3Q cumulative results due to the impact of the decrease in sales.

Looking at the breakdown of the number of contracts, the Hikari Collaboration was down by 4,000 on the end of the same period in the previous fiscal year to 324,000 contracts, existing ISP and related services were down by 34,000 to 396,000 contracts, and mobile (mobile phone sales agencies) were down by 6,000 to 214,000 contracts, and only the inexpensive smartphone LIBMO saw an increase, up 6,000 to 45,000 contracts. Compared to the end of the 2Q, Hikari Collaboration was unchanged, halting the decline that had continued up to the 3Q. But existing ISP and related services fell 7,000 contracts and there was no change to the continuing downward trend. Conversely, LIBMO was up 2,000 contracts. It is considered to be from the effect of relocating the locations of mobile shops from the previous suburban and roadside locations to large shopping centers (three shops), and providing a variety of services not limited to selling smartphones at these shops but also selling LIBMO, Hikari Collaboration and providing services including iPhone repairs.

Conversely, in the corporate business, net sales were strong, increasing 16.5% YoY to ¥17,173mn. The main factors were that, against the backdrop of the high growth of the cloud services market, the number of data center communication line contracts grew by double digits, while orders for AWS construction and outsourced system development also continued to trend strongly. Profits increased significantly due to the effects of the higher sales.

In the 3Q results, net sales increased 0.9% YoY to ¥12,923mn and operating profit rose 11.1% to ¥1,097mn, and the decline in results in the consumer business was covered by the strong performance of the corporate business. It seems that results trended above the Company forecasts, on a profits basis.

Result trends

(3) CATV business

In the 3Q cumulative results, net sales increased 2.6% YoY to ¥23,433mn and operating profit rose 6.2% to ¥3,790mn, which were basically in line with the Company forecasts. In addition to the customer-acquisition measures including discount services for subscribing to a broadcast and communication set, a discounted smartphone set through a collaboration with a major mobile carrier, and strengthening the creation of programs on community channels based in local communities, the Company progressed measures to prevent contract cancellations. As a result, the number of customers steadily increased, up 16,000 on the end of the same period in the previous fiscal year to 801,000 customers for broadcasting services, and up 17,000 to 287,000 customers for communication services, which were the reasons for the increase in sales. From October 2019, 3,000 customers were newly added from the business acquired from Shioya Limited (Shizuoka Prefecture). Operating profit increased by slightly more than ¥0.2bn, but slightly less than ¥0.1bn within this was from the reduction in depreciation and amortization and lease expenses.

The 3Q results were solid, with net sales increasing 1.9% YoY to ¥7,840mn and operating profit rising 1.1% to ¥1,251mn.

(4) Building and real estate business

In the 3Q cumulative results, net sales increased 7.7% YoY to ¥14,919mn and operating profit rose 35.7% to ¥1,242mn. The main reasons for the higher sales and profits included the increases in equipment sales, renovation business projects, and air conditioning construction projects for schools, and the results also trended slightly above the Company forecasts. Although the results of Nissan Tri Star Construction Inc., a comprehensive construction company in Gifu Prefecture which was made a consolidated subsidiary in September 2019 were added to this business results, the effects of this were negligible.

The upward trend in sales and profits continued in the 3Q results, with net sales rising 6.7% YoY to ¥5,183mn and operating profit increasing 10.5% to ¥399mn.

(5) Aqua business

In the 3Q cumulative results, net sales increased 6.1% YoY to ¥5,603mn and operating profit rose 34.5% to ¥597mn. The Company actively worked to acquire customers in large-scale commercial facilities and others, and customer numbers steadily increased, rising by 3,000 on the end of the same period in the previous fiscal year to 160,000 customers. Profits rose due to the effects of the higher sales and also the progress made in reducing manufacturing and distribution costs.

In the 3Q results, sales and profits continued to trend upward, with net sales increasing 3.5% YoY to ¥1,851mn and operating profit rising 28.8% to ¥197mn.

(6) Other business and adjustments

In other businesses, net sales increased 6.6% YoY to ¥3,575mn. Breaking this down, in the nursing care business, they increased 12.3% to ¥905mn alongside the rise in the number of facility users, while in the shipbuilding and repairs business, they grew 12.4% to ¥1,053mn on the increase in the volume of ship repair work. However, in the wedding ceremony business, sales fell 4.5% to ¥1,032mn because of the decline in the number of wedding ceremonies. The segment's operating loss, including internal adjustments, was ¥3,682mn (a loss of ¥3,442mn in the same period in the previous fiscal year).

■ Outlook

In the FY3/20 results, forecast to achieve record highs for the second consecutive fiscal period

1. FY3/20 earnings outlook

For the FY3/20 consolidated results, the Company has maintained its initial forecasts of net sales to increase 4.8% YoY to ¥200,800mn, operating profit to rise 8.5% to ¥14,170mn, recurring profit to climb 5.9% to ¥14,040mn, and net income attributable to owners of the parent to increase 5.9% to ¥8,230mn. The rates of progress for the full fiscal year forecasts up to the 3Q were 70.5% for net sales and 65.5% for operating profit. The average rates of progress for the last three years were 71.7% for net sales and 60.0% for operating profit, so the current rate of progress is high on a profits basis. Also, in the 3Q cumulative results, operating profit exceeded the Company forecast by around ¥0.75bn, so results on a profits basis may be slightly above forecast.

Conversely, it is highly possible that net sales will be slightly below the Company forecast. This is because, in order to achieve the Company forecast, net sales in the 4Q must increase 10.4% YoY, but LP gas industrial and wholesale sales are decreasing, while it seems that the number of continuous-transaction customers is likely to be less than forecast. The aim for customer numbers is to increase by 100,000 on the end of the previous fiscal period to 3mn customers, but the progress made for customer acquisition has been less than planned in businesses including LP gas, the Hikari Collaboration, LIBMO and Aqua. However, on February 20, 2020, it was announced that TOKAI Cable Network had acquired the shares of Sendai CATV Co., Ltd., and made it a consolidated subsidiary. Its contribution to sales in FY3/20 will be limited, but it can be said that the Company is making steady progress in expanding the scope of its business by conducting M&A with an eye to the future.

Outlook for FY3/20 consolidated performance

	FY3/19		FY3/20			3Q progress	Average rates of progress for the past 3 years
	Results	% of sales	Forecast	% of sales	YoY		
Net sales	191,600	-	200,800	-	4.8%	70.5%	71.7%
Operating profit	13,057	6.8%	14,170	7.1%	8.5%	65.5%	60.0%
Recurring profit	13,259	6.9%	14,040	7.0%	5.9%	67.5%	59.5%
Net income attributable to owners of the parent	7,772	4.1%	8,230	4.1%	5.9%	62.0%	51.9%
Net income per share (¥)	59.36		62.85				

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

The results forecasts for the main businesses are described below.

(1) Gas and petroleum business

In the gas and petroleum business, sales and profits are expected to increase from the growth in the number of customers and the reduction in purchase costs.

In the LP gas business, the aim was to increase customer numbers by 56,000 on the end of the previous fiscal period (up 32,000 in existing sales areas and 23,000 in new sales areas) to 684,000 customers, but the outlook now is that the increase will only be 32,000 customers due to the delays in acquisitions in commercial areas. At the end of the 3Q, the increases were only 6,000 customers in existing areas and 13,000 customers in new areas. In the 4Q, the Company is focusing on acquisitions in commercial areas, while it also plans to enter newly into Aisai City (Aichi Prefecture) from March 2020.

Outlook

Although the prices of LP gas raw materials may fluctuate in the future, the Company has already reserved purchase prices (for households only) up to FY3/21 at prices below the levels in the previous period. For FY3/21 as well, it has already reserved at prices further below those in this fiscal period, and if sales prices continue to trend at the same level as in this fiscal period, the effects of the reduction in purchasing costs is expected to be a factor increasing profits.

Meanwhile, in the city gas business, the business is forecast to increase by 5,000 from the end of the previous fiscal year to 61,000 customers. However, this increase of 5,000 customers will come from operations in Nikaho City, Akita Prefecture, which will start in April 2020 by business acquisition and will contribute to sales from FY3/21. For net sales in FY3/20, in addition to increases in sales unit prices due to the cost adjustment system, around 1,000 customers (about ¥140mn) in Shimonita Town, Gunma Prefecture will be factors of increasing profits.

(2) Information and communication services business

In the information and communication services business, the outlook is that sales and profits will increase in a range of 1% to 5%.

In the consumer business, the number of customers is forecast to decrease 1,000 on the end of the previous period to 1,003,000 (breaking this down, down 35,000 to 384,000 for existing ISP services, up 18,000 to 345,000 for the Hikari Collaboration, up 21,000 to 62,000 for LIBMO, and down 5,000 to 212,000 for mobile). However, at the end of FY3/20 3Q, the number was down 25,000 on the end of the previous period (breaking this down, down 23,000 for existing ISP services, down 3,000 for Hikari Collaboration, up 4,000 for LIBMO, and down 3,000 for mobile), so the number of contracts for the Hikari Collaboration and for LIBMO were less than expected.

In the 4Q, the Company's policy is to increase customer numbers for the Hikari Collaboration and LIBMO by changing the strategy for mobile shop openings (from shops in the suburbs to shops within shopping centers), and by increasing new customer acquisition costs. However, the forecast is that net sales will continue to decrease by a single digit for the full fiscal year. The outlook is that profits will be down slightly on the previous fiscal year, but this will depend on whether customer acquisition and maintenance costs increase or decrease.

Conversely, for the corporate business, the double-digit increases in sales and profits for the full-fiscal year is expected mainly due to the increase in integration and systems-development demand accompanied by network connections for cloud services and utilization of the Cloud, which continue to benefit from the growth of the cloud services market.

(3) CATV business, Aqua business and Building and real estate business

In the CATV business, the number of customers is forecast to increase by 27,000 from the end of the previous fiscal year to 1,090,000 customers due to the measures for set sales through a collaboration with a mobile carrier. The progress made by the end of FY3/20 3Q was basically as planned. As each Group company is progressing to invest in converting to fiber optics to respond to 4K/8K broadcasting (up ¥0.3bn YoY to ¥5.8bn), the outlook is that sales and profits will increase in a range of 1% to 5%.

In the Aqua business, the number of customers is forecast to increase by 11,000 from the end of the previous fiscal year to 167,000 customers due to the in-store demonstration sales at large-scale commercial facilities and other locations in major regional cities, etc. At the end of FY3/20 3Q, the increase was only 4,000 customers from the end of the previous fiscal year, which is 5,000 below the forecast, so the Company's policy from 4Q onwards is to accumulate customer acquisition costs to achieve the forecast. Therefore, the outlook is for sales to increase in the high single-digit range YoY due to the rise in the number of customers, but for profits to stay at around the same level as in the previous fiscal year.

Outlook

In the building and real estate business, an additional contribution is expected from Nissan Tri Star Construction, which was newly made a subsidiary in September 2019. Nissan Tri Star Construction's FY2/19 results were net sales of ¥2,046mn and operating profit of ¥197mn, so it is expected to contribute around half of these amounts (goodwill of ¥165mn yen at 5 years, straight-line depreciation).

The pace of the M&A strategy seems a little behind schedule, but there has been no change to the growth strategy through increasing customer numbers and raising the contract rate for multiple services

2. Progress of medium-term management plan (IP20)

In the medium-term management plan, Innovation Plan 2020“JUMP” (IP20) launched in FY3/18, the Company sets out its basic strategy of prioritizing topline growth and switching from defensive to proactive management. Up to March 2021, the Company actively progressed M&A and alliances, which will lead to the expansion of its customer base. Also, amid the progression toward a digital society, it is accelerating growth through advancing the ABCIR+S strategy, with the aim of realizing its management vision of the TLC concept.

The Company's numerical management targets for FY3/21 are consolidated net sales of ¥339.3bn, operating profit of ¥22.5bn, and net income attributable to owners of the parent of ¥11.5bn. It is aiming to achieve these targets by increasing earnings per customer through raising the contract rate for multiple services from 17.8% at the end of the previous period to 20%, and in addition, by increasing the number of continuous-transaction customers to more than 4.32mm through actively progressing M&A.

When the Company initially formulated the plan, it aimed to increase the number of customers by implementing M&A with a total value of ¥100bn over 4 years, but it is taking some time to conclude large-scale projects, so it is possible that the numerical targets for FY3/21 will be carried forward. That said, there will be no change to the outlook that sales and profits will continue to trend upward in FY3/21 as well by conducting measures to steadily increase customer number and raise-up the contract rate for multiple services. For the M&A, it is currently progressing negotiations for more than 40 projects with a total deal value of over ¥100bn. For these M&A, it targets companies with customer bases in its core businesses, such as gas, CATV, and information and communication services, while it also targets fields peripheral to lifestyle-related services and new business fields. The Company's policy is to conduct an M&A only after thoroughly investigating the target company, which seems to be the reason why it takes some time to conclude the deal, but it can be highly evaluated on this point of implementing a solid M&A strategy.

Results for FY3/19, plans for FY3/20 and targets for FY3/21

	FY3/18 Results	FY3/19 Results	FY3/20 Plan	FY3/21 Targets
Net sales (¥bn)	1,860	1,916	2,008	3,393
Operating profit (¥bn)	109	131	142	225
Net income attributable to owners of the parent (¥bn)	66	78	82	115
Total assets (¥bn)	1,659	1,676	-	2,834
Interest-bearing debt/EBITDA rate (times)	1.9	1.8	-	2.6
Equity ratio (%)	36.3	37.4	-	31.6
ROE (%)	11.4	12.6	-	13.0
Number of customers (thousand)	2,870	2,900	3,000	4,320 or more

Source: Prepared by FISCO from the Company's materials

Outlook

In October 2019, the Company established T&T Energy Co., Ltd., jointly with TEPCO Energy Partner, Inc. (investment ratio, 50.0%) as a joint venture to conduct a city gas retail business in the Tokai area. Leveraging TEPCO Energy Partner's strength of "expertise in the city gas retail business, starting with its ability to procure gas" and the Company's strength of "a sales network in the Tokai area," the plan is for the joint venture T&T Energy to conduct a city gas retail business (for households) in the Tokai area, with the aim of acquiring 10,000 contracts by March 2021. The competition in the Tokai area include Toho Gas <9533> and Sala Corporation <2734>, but the strategy is to acquire customers by reducing sales prices by around 3%, and at the same time, providing other peripheral, lifestyle-related services, such as electric power, information and communication, and home water delivery services, and the development of this business from FY3/21 onwards will attract attention.

Also, in the ABCIR+S strategy, at the end of October 2019 the Company announced that it had built the D-sapiens, an important platform DMP* (Data Management Platform) to expand the customer base and strengthen competitiveness, and to develop new services. In the future, D-sapiens will centrally manage the many items of Group-customer information that are accumulated daily as a marketing database, and analyze by AI technologies (discovery of customer information → predictions of customer behavior → making potential customers visible), which will lead to the acquisition of contracts through proposing to customers the optimal services on the optimal timing. It will also be used to progress measures to prevent contract cancellations. As it is necessary to accumulate data and design scenarios, the Company plans to first progress measures in the Aqua business. Its effects are not expected to appear until FY3/21 at the earliest, but the operation of D-sapiens can be expected to improve the efficiency of marketing costs, increase the number of customers, and raise the customer contract rate for multiple services, which in turn can be expected to further improve profitability.

* DMP refers to the platform for the integrated management and analysis of Big Data accumulated on the various servers on the Internet and log data for its own website, to ultimately realize the optimization of the action plan, including the distribution of advertisements.

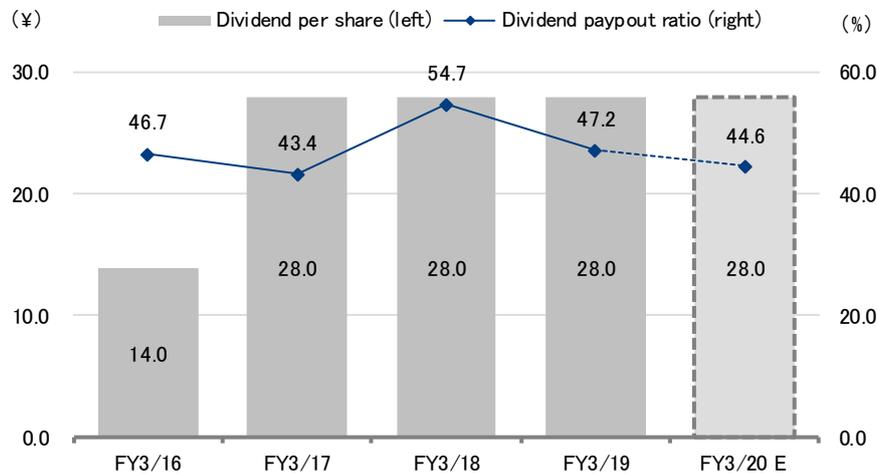
Shareholder return policy

Annual return on investment of 3% to 6% 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" (natural water from Mt. Fuji), etc.), a QUO card worth ¥500, meal coupons worth ¥1,000, TLC Membership Service points worth ¥1,000, or a ¥2,100 discount on LIBMO usage fees (¥350 a month x 6 months). When including the gifts to shareholders in an estimate of the total investment yield per share unit from the current share price level (closing price of ¥1,022 on February 3, 2020), it is in the range of 3.7% to 6.7% (depending on the selection of either a QUO card or an Aqua product as the gift).

Shareholder return policy

Dividend per share and dividend payout ratio


* Including a commemorative dividend of ¥6 in FY3/17
 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 discount of ¥100,000 and a dining certificate with 20% discount coupon (a book of 12 certificates) 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
A Group restaurant 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

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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