



Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2020 [Japanese GAAP]

January 30, 2020

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 Stock code: 3167 URL: <https://tokaiholdings.co.jp>
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 Scheduled date of filing quarterly report: February 13, 2020
 Scheduled date of dividend payment: -
 Supplementary materials on quarterly financial results: Yes
 Quarterly financial results briefing: No

(Figures are rounded to the nearest million yen)

1. Consolidated Financial Results for the Nine-months Ended December 31, 2019 (April 1, 2019 to December 31, 2019)

(1) Consolidated Operating Results (cumulative)

(% figures represent year-on-year changes)

	Sales		Operating Profit		Recurring Profit		Quarterly Net Income Attributable to Owners of the Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine-months Ended December 31, 2019	141,557	2.6	9,278	31.8	9,478	30.8	5,103	28.6
Nine months Ended December 31, 2018	137,943	3.5	7,038	7.0	7,247	8.8	3,966	15.5

(Note) Comprehensive income: 5,579 million yen in the Nine-months Ended December 31, 2019 (199.3%)
 1,864 million yen in the Nine months Ended December 31, 2018 (-55.1%)

	Quarterly Net Income per Share	Quarterly Net Income per Share (Diluted)
	Yen	Yen
Nine-months Ended December 31, 2019	38.97	-
Nine months Ended December 31, 2018	30.29	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
Nine-months Ended December 31, 2019	168,697	65,724	38.2
Year ended March 31, 2019	167,606	63,894	37.4

(Reference) Equity: 64,386 million yen for the Nine-months Ended December 31, 2019
 62,627 million yen for the year ended March 31, 2019

2. Dividends

	Annual Dividend				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	—	14.00	—	14.00	28.00
Year ending March 31, 2018	—	14.00	—	—	—
Year ending March 31, 2018 (Forecast)	—	—	—	14.00	28.00

(Note) Revisions to most recently announced dividend forecasts: No

3. Consolidated Earnings Forecasts for the Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)
 (% figures represent year-on-year changes)

	Sales		Operating Profit		Recurring Profit		Net Income Attributable to Owners of the Parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2020	200,800	4.8	14,170	8.5	14,040	5.9	8,230	5.9	62.85

(Note) Revisions to most recently announced earnings forecasts: No

*Notes

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries affecting the scope of consolidation): No

(2) Application of special accounting procedures in the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, estimates, and restatements

1) Changes in accounting policies accompanying revisions in accounting standards, etc. : No

2) Changes in accounting policies other than 1) : No

3) Changes in accounting estimates : No

4) Restatements : No

(4) Number of shares issued (common stock)

1) Shares issued at the end of each period (including treasury stock):

Q3 FY3/2020	139,679,977 shares	FY3/2019	139,679,977 shares
Q3 FY3/2020	8,722,266 shares	FY3/2019	8,731,411 shares
Q3 FY3/2020	130,953,891 shares	Q3 FY3/2019	130,946,547 shares

2) Number of shares of treasury stock at the end of each period:

3) Average number of shares during the period (cumulative):

(Note) Board benefit trust shares(BBT) is included in the number of year-end treasury stock.(400,700 stocks at Q3 FY3/2020, 410,800 stocks at FY3/2019) And the company shares held in ESOP trust accounts are included in the treasury stock, which is subtracted from calculations of the average number of shares during the period (405,144 shares for the Nine-months Ended December 31, 2020; 413,352 shares for the Nine months Ended December 31, 2019).

* Quarterly financial results not covered by quarterly review

* Explanation regarding the Appropriate Uses of Earnings Forecasts and Other Notes

All earnings forecasts provided within this document are based on the most accurate information available at the time of the release of this document. Actual results may differ from forecasts due to various factors going forward.

[Attachment]

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1. Quarterly Consolidated Financial Statements and Notes

(1) Explanation Regarding Consolidated Operating Results

In the first nine months of the fiscal year ending March 31, 2020, the Japanese economy was on a gradual recovery path, with a rally in personal consumption and continued improvement in the employment situation. However, the economic outlook continued to remain clouded by uncertainties in overseas economies, including US–China trade friction and the United Kingdom’s decision to leave the European Union.

The current fiscal year is the third year of the TOKAI Group’s four-year medium-term management plan, Innovation Plan 2020 “JUMP.” The Group continued to implement strategies aimed at expanding its earnings base, including developing existing businesses, making acquisitions, and entering new businesses. The key themes underlying these strategies were realizing the Group’s vision of becoming a Total Life Concierge (TLC)*1, and ABCIR+S*2 initiatives.

In the nine months ended December 31, 2019, with the success of measures to acquire new customers and increase orders, the Group booked sales of 141,557 million yen (+2.6% year on year) and posted significant growth in each profit line, with operating profit of 9,278 million yen (+31.8% year on year), recurring profit of 9,478 million yen (+30.8% year on year), and net income attributable to owners of the parent of 5,103 million yen (+28.6% year on year). The results for sales and all profit categories were at record highs.

As of December 31, 2019, the number of continuing customers rose by 31 thousand from March 31, 2019 to 2,933 thousand, and members of the TLC Membership Service increased by 70 thousand to 875 thousand.

Major topics in the nine months ended December 31, 2019 included the following: In July 2019, we purchased shares in software development company AM’s Brain Inc. (Kita-ku, Okayama, Okayama Prefecture) and later acquired all shares in general construction company Nissan Tri Star Construction, Inc. (Gero, Gifu Prefecture) in September of the same year, converting both of these companies into consolidated subsidiaries. We acquired shares in Isesaki Gas Co., Ltd. (Isesaki, Gunma Prefecture) in April, converting it into an equity-method affiliate, and formed a business alliance with Isesaki Gas in August. Additionally, in October, we purchased the cable television business covering the eastern section of Shizuoka Prefecture from Shioya Limited (Mishima, Shizuoka Prefecture).

Furthermore, we established Nikaho Gas Corporation (Nikaho, Akita Prefecture) in August and are making preparations for it to take over the city gas business operated by the city of Nikaho. In October, we jointly established T&T Energy Co., Ltd. with TEPCO Energy Partner, Inc. and have begun preparations for the launch of a city gas retail business in the Chukyo metropolitan area surrounding Nagoya, Aichi Prefecture.

*1 Vision of becoming a TLC: The Group seeks to support the comfortable living of its customers in a comprehensive and detail-oriented way and enhance customer satisfaction through its wide range of services.

*2 ABCIR+S: An acronym formed by the first letters of AI, big data, cloud, IoT, robotics, and smartphones. It refers to the Group’s strategies targeting technological innovation.

Performance by segment was as follows.

(Gas and Petroleum)

In the LP gas business, we focused on customer growth through measures such as strengthening efforts to acquire new customers and preventing contract cancellations in existing service areas, as well as expanding into new areas. As a result, in the nine months ended December 31, 2019, the number of customers rose by 19 thousand from March 31, 2019 to 647 thousand, leading to a substantial increase in profit. On the other hand, sales fell to 45,618 million yen (-0.4% year on year) due in part to fluctuations in procurement price of LP gas for industrial use and wholesale.

In the city gas business, the number of customers largely remained unchanged from that of March 31, 2019 at 56 thousand. Still, sales rose to 9,573 million yen (+7.7% year on year), supported by a higher unit sales price on the back of fuel cost

adjustment regulations and increased equipment sales.

As a result, segment sales amounted to 55,191 million yen (+0.9% year on year) and operating profit to 2,156 million yen (+77.5% year on year).

(Building and Real Estate)

In the Building and Real Estate business, segment sales were 14,919 million yen (+7.7% year on year), and operating profit was 709 million yen (+62.9% year on year), thanks primarily to increases in construction and equipment sales.

(CATV)

In the CATV business, amid intensifying competition from telecommunications companies, we worked to increase competitiveness and boost customer count, and took steps to prevent contract cancellations. We offered discounts for broadcasting and communications bundles and packaged services with smartphones in partnership with major mobile phone carriers. We also stepped up efforts to create community channel programs with a local focus. As a result, broadcasting services had 801 thousand customers, up by 13 thousand from March 31, 2019, and communications services had 287 thousand customers, up by 13 thousand.

Consequently, segment sales amounted to 23,433 million yen (+2.6% year on year) and operating profit to 3,432 million yen (+7.5% year on year).

(Information and Communications)

In the Information and Communications business for individual consumers, amid intensifying competition from major mobile phone carriers, the Group worked to attract customers by expanding service offerings. In addition to the TOKAI-brand MVNO service LIBMO on its own, it offered Hikari Collaboration bundled with LIBMO. The LIBMO service added five thousand customers since March 31, 2019 to bring customer count to 45 thousand, but the number of ISP customers declined by 26 thousand to 720 thousand (324 thousand Hikari Collaboration and 396 thousand conventional ISP customers). As a result of these factors, sales came to 21,661 million yen (-6.7% year on year).

In the Information and Communications business for corporate clients, the IT service market was in full swing, and the Group was certified by a global platform provider and steadily increased the size of its corporate client base, primarily in terms of cloud services. These circumstances led to expansion in the Group's recurring revenue businesses. Due in part to a steady climb in the number of contracted system development projects, sales rose to 17,173 million yen (+16.5% year on year).

Due to these factors, segment sales were 38,834 million yen (+2.3% year on year), and operating profit was 2,429 million yen (+43.5% year on year).

(Aqua)

In the Aqua business, we actively worked to acquire customers mainly for "The gift of delicious water: Ulunom" brand, targeting large commercial and other facilities. The number of customers increased by four thousand from March 31, 2019 to 160 thousand. We also worked to reduce manufacturing and logistics costs.

As a result, segment sales came to 5,603 million yen (+6.1% year on year) and operating profit to 389 million yen (+10.7% year on year).

(Others)

Turning to other businesses, sales in the nursing care business totaled 905 million yen (+12.3% year on year), supported by a higher number of care recipients. In the shipbuilding business, sales amounted to 1,053 million yen (+12.4% year on year), reflecting an increase in work volume for ship repairs. In the bridal events business, sales came to 1,032 million yen (-4.5% year on year) due to a decline in the number of wedding ceremonies.

As a result of these factors, segment sales were 3,575 million yen (+6.6% year on year), and operating profit was 186 million yen (+80.7% year on year).

(2) Explanation of Consolidated Financial Position

1) Assets, Liabilities, and Net Assets

As of December 31, 2019, total assets amounted to 168,697 million yen, up 1,090 million yen from March 31, 2019. This mainly reflected a 1,168 million yen decrease in notes and accounts receivable–trade that was offset by an increase of 1,814 million yen in cash and deposits due primarily to the consolidation of new subsidiaries through acquisition.

Total liabilities stood at 102,972 million yen, down 739 million yen from March 31, 2019. This was primarily due to a decrease of 2,900 million yen in income taxes payable resulting from income tax payments.

Net assets totaled 65,724 million yen, up 1,829 million yen from March 31, 2019. This was mainly attributable to the booking of 5,103 million yen in net income attributable to owners of the parent, offsetting the payment of 3,678 million yen in dividends of surplus.

2) Cash Flows

As of December 31, 2019, cash and cash equivalents stood at 5,032 million yen, up 1,013 million yen from March 31, 2019.

Cash flows from each activity during the period under review and the factors behind them are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was 15,476 million yen, up 5,663 million yen from the same period of the previous fiscal year. Income tax payments and a decline in trade payables led to cash outflows, but higher net income before income taxes and lower trade receivables, as well as depreciation and amortization expenses (non-cash items) increased cash inflows.

(Cash flows from investing activities)

Net cash used in investing activities was 9,683 million yen, down 67 million yen from the same period of the previous fiscal year, as a result of the purchase of property, plant and equipment and intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities was 4,779 million yen, down 5,514 million yen from the same period of the previous fiscal year. This was primarily due to repayments of lease obligations and payments of dividends.

The substantial year-on-year decline in cash flows from financing activities was due primarily to a decrease in short-term loans payable.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

Earnings results for the nine months ended December 31, 2019 were generally in line with forecasts, and the Group maintains its consolidated earnings forecasts for the fiscal year ending March 31, 2020, which was announced on May 9, 2019.

The earnings forecasts are based on information currently available to the Company. Actual results may differ from these forecasts due to a variety of factors.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	Fiscal Year Ended March 31, 2019	Nine Months Ended December 31, 2019
Assets		
Current assets		
Cash and deposits	4,164	5,979
Notes and accounts receivable–trade	24,798	23,629
Merchandise and finished goods	4,173	3,973
Work in process	660	2,132
Raw materials and supplies	865	901
Other	8,264	7,894
Allowance for doubtful accounts	-419	-407
Total current assets	42,506	44,102
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	33,756	33,269
Machinery, equipment and vehicles, net	23,592	23,159
Land	22,921	23,065
Other, net	16,760	17,288
Total property, plant and equipment	97,030	96,783
Intangible assets		
Goodwill	5,044	4,657
Other	6,084	5,984
Total intangible assets	11,128	10,642
Investments and other assets		
Net defined benefit asset	2,365	2,417
Other	14,958	15,303
Allowance for doubtful accounts	-386	-553
Total investments and other assets	16,937	17,166
Total non-current assets	125,097	124,592
Deferred assets	2	1
Total assets	167,606	168,697

(Millions of yen)

	Fiscal Year Ended March 31, 2019	Nine Months Ended December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable–trade	15,021	15,158
Short-term loans payable	22,265	25,540
Current portion of bonds	168	133
Income taxes payable	3,491	591
Provision for loss on litigation	-	1,150
Other provision	1,705	192
Other	18,733	18,964
Total current liabilities	61,385	61,730
Non-current liabilities		
Bonds payable	230	161
Long-term loans payable	27,940	26,781
Other provision	149	103
Net defined benefit liability	719	768
Other	13,286	13,427
Total non-current liabilities	42,325	41,241
Total liabilities	103,711	102,972
Net assets		
Shareholders' equity		
Capital stock	14,000	14,000
Capital surplus	25,527	25,542
Retained earnings	21,863	23,288
Treasury stock	-2,222	-2,221
Total shareholders' equity	59,167	60,609
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,573	1,589
Deferred gains (losses) on hedges	-319	122
Foreign currency translation adjustment	-10	-13
Remeasurement of defined benefit plans	2,217	2,078
Total accumulated other comprehensive income	3,460	3,777
Non-controlling interests	1,267	1,338
Total net assets	63,894	65,724
Total liabilities and net assets	167,606	168,697

(2) Quarterly Consolidated Statements of Income, Consolidated Statements of Comprehensive Income
 (Quarterly Consolidated Statements of Income)
 (Nine Months Ended December 31, 2019)

	(Millions of yen)	
	Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)	Nine Months Ended December 31, 2019 (April 1, 2019 to December 31, 2019)
Sales	137,943	141,557
Cost of sales	83,616	84,254
Gross profit	54,327	57,302
Selling, general and administrative expenses	47,289	48,024
Operating profit	7,038	9,278
Non-operating profit		
Interest income	6	8
Dividend income	180	191
Commission fee	69	26
Other	295	275
Total non-operating profit	552	503
Non-operating expenses		
Interest expenses	278	229
Other	63	74
Total non-operating expenses	342	303
Recurring profit	7,247	9,478
Extraordinary income		
Gain on sales of non-current assets	0	14
Transmission line facility subsidies	105	96
Subsidy income	5	-
Gain on reversal of subscription rights to shares	0	263
Total extraordinary income	111	374
Extraordinary losses		
Loss on sales of non-current assets	0	3
Loss on retirement of non-current assets	504	558
Loss on sales of investment securities	-	17
Impairment loss	14	-
Loss on valuation of investment securities	45	30
Provision for loss on litigation	-	1,150
Other	37	77
Total extraordinary losses	602	1,839
Quarterly net income before income taxes	6,756	8,013
Income taxes (current)	1,934	2,799
Income taxes (deferred)	746	-48
Total income taxes	2,681	2,751
Quarterly net income	4,075	5,262
Quarterly net income attributable to non-controlling interests	108	159
Quarterly net income attributable to owners of the parent	3,966	5,103

(Consolidated Statements of Comprehensive Income)
 (Nine Months Ended December 31, 2019)

(Millions of yen)

	Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)	Nine Months Ended December 31, 2019 (April 1, 2019 to December 31, 2019)
Quarterly net income	4,075	5,262
Other comprehensive income		
Valuation difference on available-for-sale securities	-1,082	15
Deferred gains (losses) on hedges	-966	442
Foreign currency translation adjustment	2	1
Remeasurement of defined benefit plans, net of tax	-162	-138
Share of other comprehensive income of entities accounted for using the equity method	-2	-5
Total other comprehensive income	-2,211	316
Quarterly comprehensive income	1,864	5,579
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent	1,755	5,420
Quarterly comprehensive income attributable to non- controlling interests	109	159

(3) Quarterly Consolidated Statements of Cash Flows

	(Millions of yen)	
	Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)	Nine Months Ended December 31, 2019 (April 1, 2019 to December 31, 2019)
Cash flows from operating activities		
Quarterly net income before income taxes	6,756	8,013
Depreciation	10,369	10,681
Amortization of goodwill	859	810
Impairment loss	14	-
Increase (decrease) in net defined benefit asset and liability	-225	-133
Interest and dividend income	-187	-200
Loss (gain) on sales of investment securities	-0	-245
Interest expenses	278	229
(Gain) loss on sales of non-current assets	-0	-10
(Gain) loss on valuation of investment securities	45	30
Loss on retirement of non-current assets	504	558
Decrease (increase) in notes and accounts receivable – trade	610	1,990
Decrease (increase) in inventories	-968	-804
Increase (decrease) in notes and accounts payable – trade	-1,379	-331
Other	-3,630	153
Subtotal	13,046	20,741
Income taxes paid	-3,233	-5,264
Net cash provided by (used in) operating activities	9,813	15,476
Cash flows from investing activities		
Interest and dividend income received	226	238
Purchase of securities	-310	-10
Proceeds from sales of securities	0	576
Purchase of tangible and intangible assets	-9,537	-8,947
Proceeds from sales of tangible and intangible assets	171	164
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-202	-1,408
Payments of loans receivable	-200	-20
Collection of loans receivable	14	53
Other	220	-329
Net cash provided by (used in) investing activities	-9,615	-9,683
Cash flows from financing activities		
Interest expenses paid	-281	-232
Net increase (decrease) in short-term loans payable	10,650	3,450
Repayments of lease obligations	-2,793	-2,706
Proceeds from long-term loans payable	5,800	5,420
Repayment of long-term loans payable	-8,815	-6,850
Redemption of bonds	-134	-104
Payments for acquisition of treasury stock	-0	-1
Proceeds from disposal of treasury shares	0	0
Cash dividends paid	-3,654	-3,672

Other	-7	-82
Net cash provided by (used in) financing activities	762	-4,779
Effect of exchange rate change on cash and cash equivalents	-0	-1
Net increase (decrease) in cash and cash equivalents	960	1,013
Cash and cash equivalents at beginning of period	3,004	4,018
Cash and cash equivalents at end of period	3,964	5,032

(4) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Additional Information)

(Litigation)

On January 16, 2020, the Tokyo High Court delivered an appellate ruling in the damage suit filed by consolidated subsidiary TOKAI Communications Corporation against Hitachi Solutions, Ltd. and the subsequent damage counterclaim filed by the latter against the former. The ruling stipulates that TOKAI Communications Corporation pay compensation for damages and late payment charges to Hitachi Solutions, Ltd.

TOKAI Communications Corporation objects to this ruling and plans to file and petition for acceptance of a final appeal with Japan's Supreme Court. However, the Company has recorded 1,150 million yen in provision for loss on litigation as an extraordinary loss in preparation for possibility that the Supreme Court upholds the ruling of the Tokyo High Court.

(Segment Information, etc.)

[Segment Information]

I. Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)

Sales and Income of Losses by Reportable Segment

(Millions of yen)

	Reportable segments						Other ¹	Total	Adjustments ²	Amount in quarterly consolidated statements of Income ³
	Gas and Petroleum	Building and Real Estate	CATV	Information and Communications	Aqua	Subtotal				
Sales										
Sales to external customers	54,675	13,846	22,829	37,959	5,279	134,590	3,352	137,943	—	137,943
Intersegment sales and transfers	147	772	553	2,293	97	3,863	126	3,990	-3,990	—
Subtotal	54,822	14,619	23,382	40,252	5,377	138,454	3,478	141,933	-3,990	137,943
Segment income (loss)	1,214	435	3,194	1,693	351	6,889	103	6,992	45	7,038

(Notes) 1. The "Other" category is a business segment not included in the reportable segments. This category includes businesses such as weddings, ship repair, insurance, and nursing care.

2. Adjustments to segment income (loss) are mainly eliminations due to intersegment transactions.

3. Segment income (loss) is adjusted to match operating profit in the quarterly consolidated statements of income.

II. Nine Months Ended December 31, 2019 (April 1, 2019 to December 31, 2019)

Sales and Income of Losses by Reportable Segment

(Millions of yen)

	Reportable segments						Other ¹	Total	Adjustments ²	Amount in quarterly consolidated statements of Income ³
	Gas and Petroleum	Building and Real Estate	CATV	Information and Communications	Aqua	Subtotal				
Sales										
Sales to external customers	55,191	14,919	23,433	38,834	5,603	137,982	3,575	141,557	-	141,557
Intersegment sales and transfers	130	750	507	2,593	127	4,109	132	4,242	-4,242	-
Subtotal	55,322	15,669	23,940	41,428	5,730	142,091	3,708	145,799	-4,242	141,557
Segment income (loss)	2,156	709	3,432	2,429	389	9,117	186	9,303	-24	9,278

(Notes) 1. The "Other" category is a business segment not included in the reportable segments. This category includes businesses such as weddings, ship repair, insurance, and nursing care.

2. Adjustments to segment income (loss) are mainly eliminations due to intersegment transactions.

3. Segment income (loss) is adjusted to match operating profit in the quarterly consolidated statements of income.