

Financial Results for the First Half of the Fiscal Year Ending March 31, 2018

TOKAI Holdings Corporation
(Code: 3167)

November 1, 2017

Highlights of Interim Results and Group Direction

TOKAI Holdings Corporation
Katsuhiko Tokita, President & CEO

Highlights of Interim Results

- Revenue for this term turned to profit from the second half and started steadily towards 14 billion yen operating income for the next fiscal year

◎ Net sales were 84.9 billion yen, an increase due to customer growth, etc. (+ 3.3% YoY)

- In terms of profits, we carried out upfront investment and declined profit as initially anticipated
- Meanwhile, an increase of 400 million yen (+ 14.9%) from the expectation contributed by an increase in customers of CATV business and an increase in orders for corporate customers in telecommunications business

◎ The number of customers as a group's earnings base increased by 263,000 compared with the beginning

- Customer acquisition in the LP gas business and CATV business has been steady. The net increase in the number of customers during the interim period is 13 thousand, which is twice as strong as the customer net increase of 6,000 in the previous term.
- The increase in the number of customers by M & A of 250 thousand also added, and as of the end of the interim period progresses to 84% of the plan for the number of customers at the end of this term.

◎ Financial position improved, the Equity ratio increased by 1.5% to 36.0%

- Although free cash flow was negative (-6.4 billion yen) due to aggressive investment, the outstanding balance of interest-bearing debt increased slightly due to the exercise of convertible bonds (+ 2.4 billion yen).
- Maintained an interest-bearing debt/EBITDA ratio at around 2.0x, the same level as the previous fiscal year.

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Three keywords heading for the foundation of 100 years

- The Company Established in 1950, and has become a holding company in 2010, which is the 60th year.
- The final year of the "Innovation Plan 2020 JUMP" will celebrate 70 years.
- These four years are important for the next thirty years, that is, for building the foundation of the group heading toward the 100th year.

"Sales force"

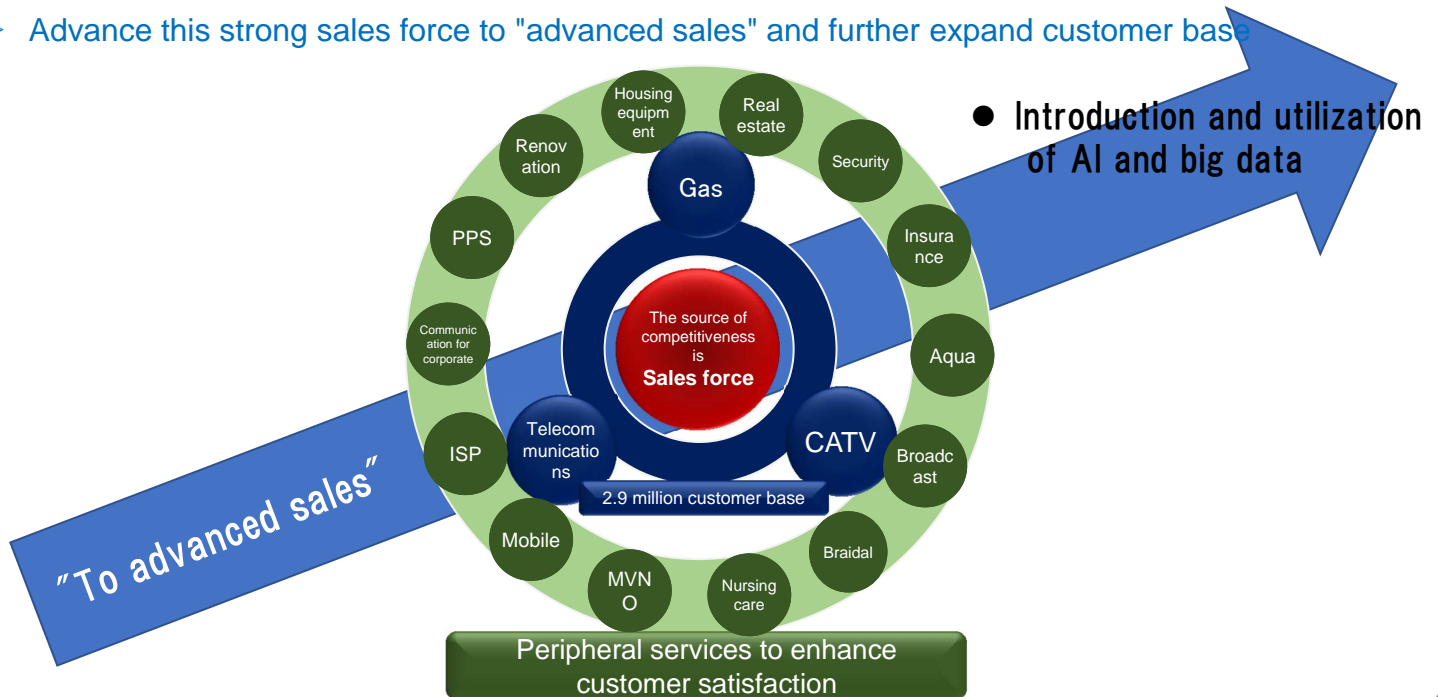
"Open Innovation to Capture the Third Wave"

"Utilizing Group Comprehensive Power"

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Sales force is the source of competitiveness of the group

- The source of competitiveness of the group is "DNA of sales" which is inherited from the era of direct gas sales
- With this sales force, the second growth period grew in the CATV business and telecommunications business and built 2.9 million customers
- Advance this strong sales force to "advanced sales" and further expand customer base



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Open Innovation Capturing the 3rd Wave

- The 1st wave was the gas business, founded in 1950, contributing to the Stability and Improvement of the Quality of People's Lives.
- The 2nd wave was the entry into the information and communications business from 1988. Through these efforts, we have contribute to the sophistication and diversification of the people's living standards, and establish a solid business foundation from the Tokai region to the entire country.
- Taking advantage of the new 3rd wave, we will create new value and services that customers want in the next and make them our own business. In order to achieve this, we will promote open innovation.

Change in TOKAI group sales

1st wave
Reconstruction after the war and improvement of standard of living of the people

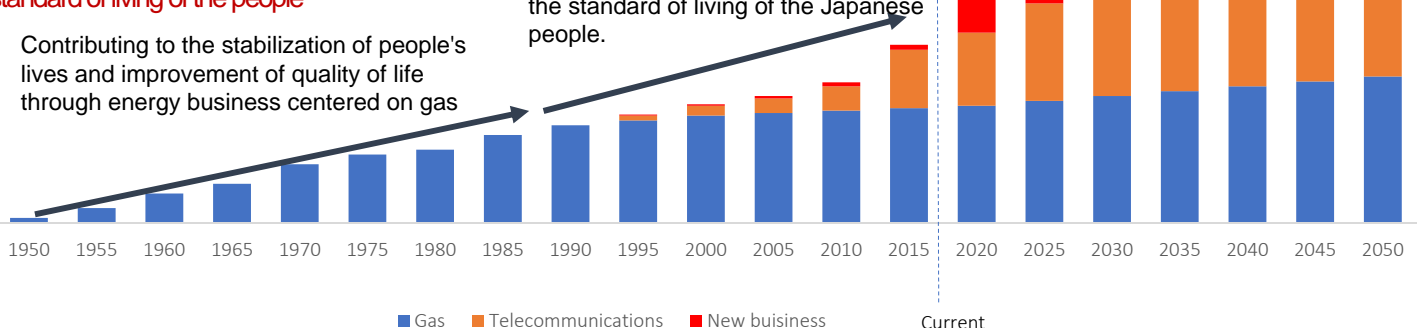
- ✓ Contributing to the stabilization of people's lives and improvement of quality of life through energy business centered on gas

2nd wave
Information and Communication Revolution

- ✓ Provide new services such as CATV and broadband to customers cultivated in the gas business, thereby contributing to the sophistication and diversification of the standard of living of the Japanese people.

3rd wave
The Fourth Industrial Revolution

- ✓ IoT, AI, Renewable Energy Sharing Economy, Virtual Currency, Electric Vehicles, etc.



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Start from “OTS(On The Spot) house”

- The OTS House is a fully self-sufficient home for water and electricity.
- In addition to CATV, broadband, aqua, and security, it incorporates new value and services that customers want in their future lives, such as smart locks that use IoT technologies, and home appliance controllers that control a variety of home appliances from the outside.



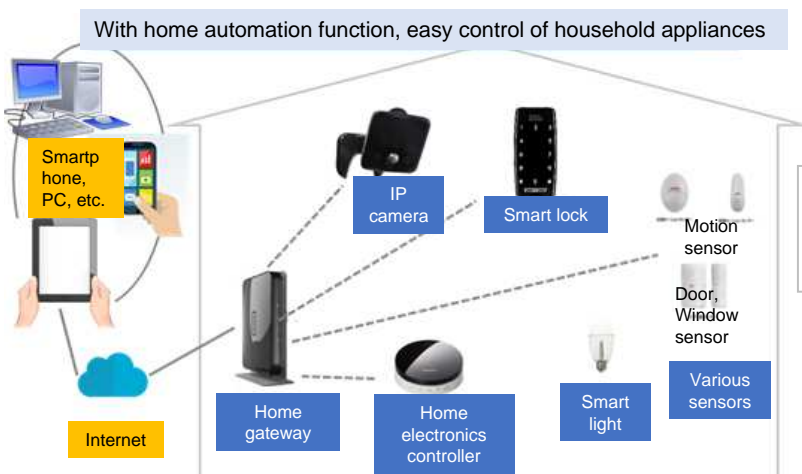
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Launch of intelligent home services

- Entered into a tie-up with ITS Communications Inc. and launched Intelligent Home Service in November in the CATV business (in Tokyo and five prefectures).
- One of the core IoT services, and there is significant market potential (approximately five times the market in the next six years).
- The Group's strengths in sales capabilities and customer base will be fully utilized, and leverage expertise in sales methods and customer response accumulated through diversified management, such as telecommunications, ISPs, and security.

Intelligent home service provided by Tokyu Group's cable TV company
It's Communications

Starting with the CATV business, we will promote sales
as one of the new products of the TOKAI group



License sales

TOKAI Group companies

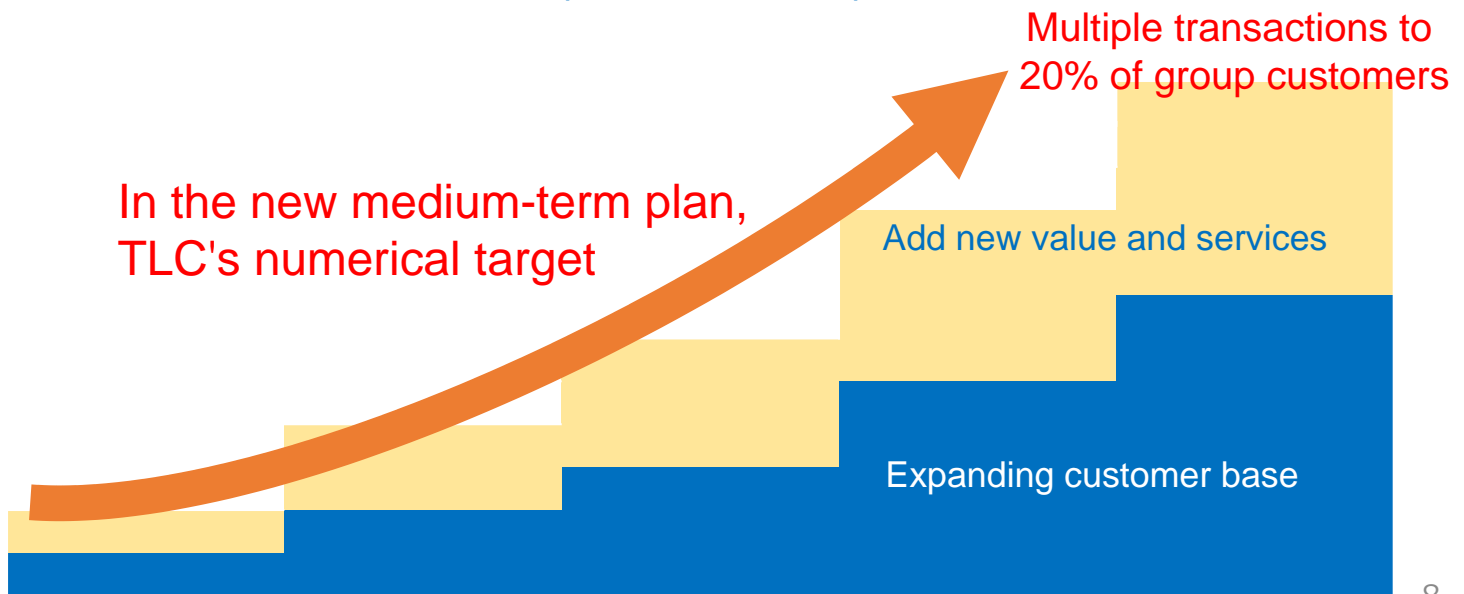
Customer development,
contract,
construction
maintenance etc.

2.9 Million TOKAI Group
Customers

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Strong growth by leveraging the Group's comprehensive strengths

- In order to differentiate ourselves from our competitors, we need to be the most user-friendly service provider for our customers in the field of services in their daily lives.
- In the new medium-term plan, TLC's numerical target is to increase the number of multiple transactions to 20% of group customers.
- Over the next four years, the Company will continue to add new value and services in areas where it has been unable to proceed with multiple transactions.



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Points of interim period settlement of accounts

Lower profits on higher sales as expected in 1H

- ◎ Sales up by 2.7 billion yen (+3.3%) YoY, due in part to Tokyo Bay Network M&A effect (700 million yen)
- ◎ Operating profit down due to 2.0 billion yen in upfront spending to acquire new customers and launch new services, but exceeded initial target by 400 million yen (14.9%) on stronger-than-expected growth of customer base and performance of CATV and communications services to corporate customers

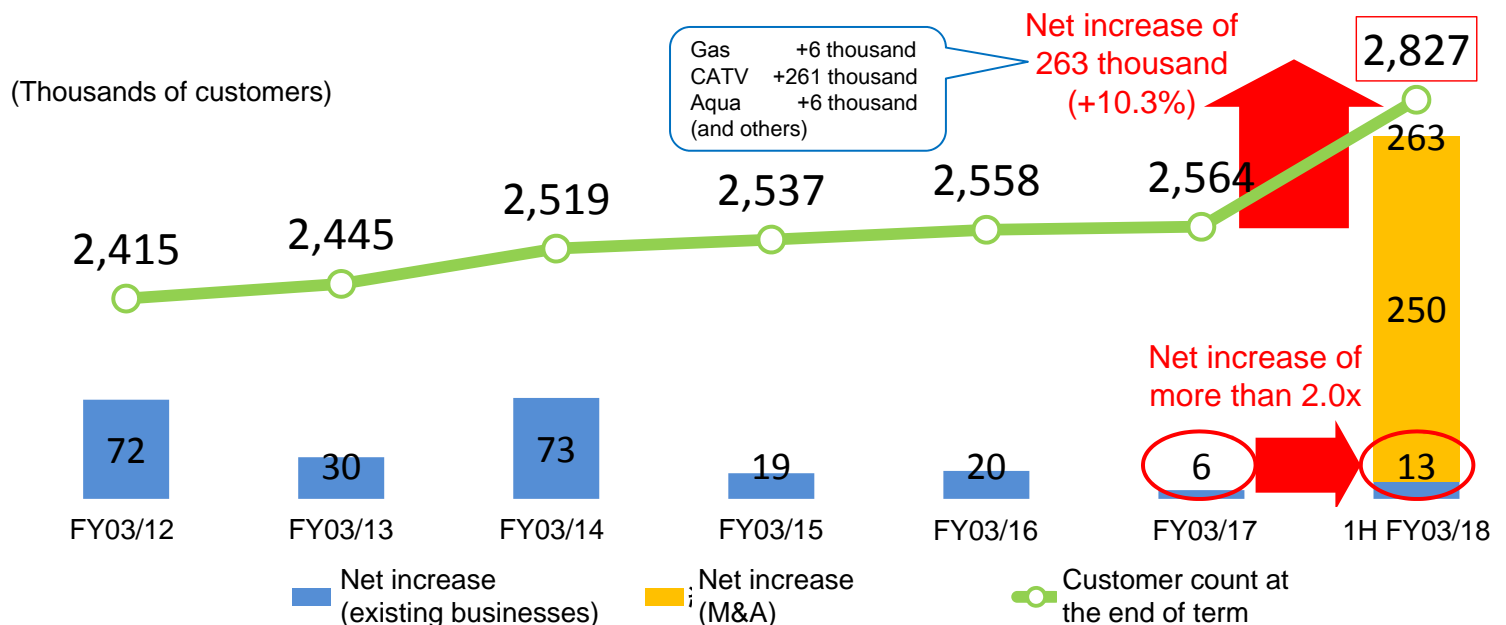
(Sales · Profit: Million yen, Earnings per share: Yen)

	1H FY03/18 Results	1H FY03/17 Results	Initial forecasts	YoY change		Versus initial forecasts	
				Amount of change	Percent change (%)	Amount of change	Percent change (%)
Sales	84,911	82,201	86,000	+2,709	+3.3	-1,089	-1.3
Operating profit	3,114	4,406	2,710	-1,291	-29.3	+404	+14.9
Recurring profit	3,143	4,428	2,650	-1,284	-29.0	+493	+18.6
Net income	1,246	2,384	1,080	-1,137	-47.7	+166	+15.4
EPS (Yen)	9.76	21.00	8.52	-11.24	-53.5	+1.24	+14.6

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Customer count up a sharp 260 thousand from start of FY03/18

- ◎ Net increase of customer count in existing businesses (excluding M&A) of more than 2.0x from 6 thousand in full-year FY03/17 to 13 thousand in 1H FY03/18
- ◎ Exceeded initial target on bringing forward M&A of Tokyo Bay Network
- ◎ Will lead to earnings growth due to increase in customer paying monthly fees from Q3 onward



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Taking advantage of strengthened equity capital to invest for growth

- ◎ Equity ratio up on progress with conversion of convertible bonds and sustained quarterly net profit growth
- ◎ FCF: 2.0 billion yen upfront spending to acquire new customers and launch new services, and aggressive investment in business expansion such as 1.2 billion on Tokyo Bay Network M&A
- ◎ Maintains interest-bearing debt/EBITDA ratio at 2.0x

Equity ratio	34.5 % As of March 31, 2017	➔	36.0 % As of September 30, 2017
Balance of interest-bearing debt	54.1 billion yen As of March 31, 2017	➔	55.0 billion yen As of September 30, 2017
Operating cash flow	12.0 billion yen 1H FY03/17	➔	7.9 billion yen 1H FY03/18
Investment cash flow	-4.7 billion yen 1H FY03/17	➔	-6.9 billion yen 1H FY03/18
Free cash flow	7.4 billion yen 1H FY03/17	➔	1.0 billion yen 1H FY03/18
Interest-bearing debt/EBITDA ratio	2.0 x FY03/17	➔	2.0 x 1H FY03/18

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Point of Financial Results for the First Half

- ◎ In the first half of the fiscal year under review, we invested ¥2.0 billion in upfront costs and other costs, which resulted in the following major results. And continue to invest in expanding its customer base in 2H, which will lead to higher earnings in the future.

Item		Cost for the First Half of the Fiscal Year (YoY Comparison) and its Achievements	
Gas business Expansion of area, etc.	Cost of establishing new bases	-¥0.0 mn	The LP gas business enters Okayama Prefecture (Kurashiki).
	Cost to acquire customers	-¥500 mn	Increase in the number of LP gas new customers from 17,000 to 21,000 (+4,000)
	New-customer acquisition fees	-¥400 mn	
Launch of new communications services	LIBMO promotions	-¥500 mn	Net increase of 11,000 LIBMO customers
To prevent cancellation or cancellation	Gas business	-¥400 mn	LP gas cancellation and cancellation from 18,000 to 15,000, down 3,000
	Communication, etc.	-¥300 mn	BB cancellations and cancellations from 64,000 to 62,000, down 2,000
Total		-¥2,000 mn	
Increase in income due to an increase in the number of billings, etc.		+¥700 mn	LPG, CATV, and corporate communications businesses
Consolidated Operating Income YoY		-¥1,300 mn	

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Full-year forecast

- Forecast 1.3 billion yen year-on-year operating profit decline in FY03/18 due to upfront spending on expanding service areas, sales promotion of new information services, and preventing service cancellations by retail customers with a view to expanding earnings base for future growth
- No change to full-year consolidated earnings forecast announced on May 9, 2017

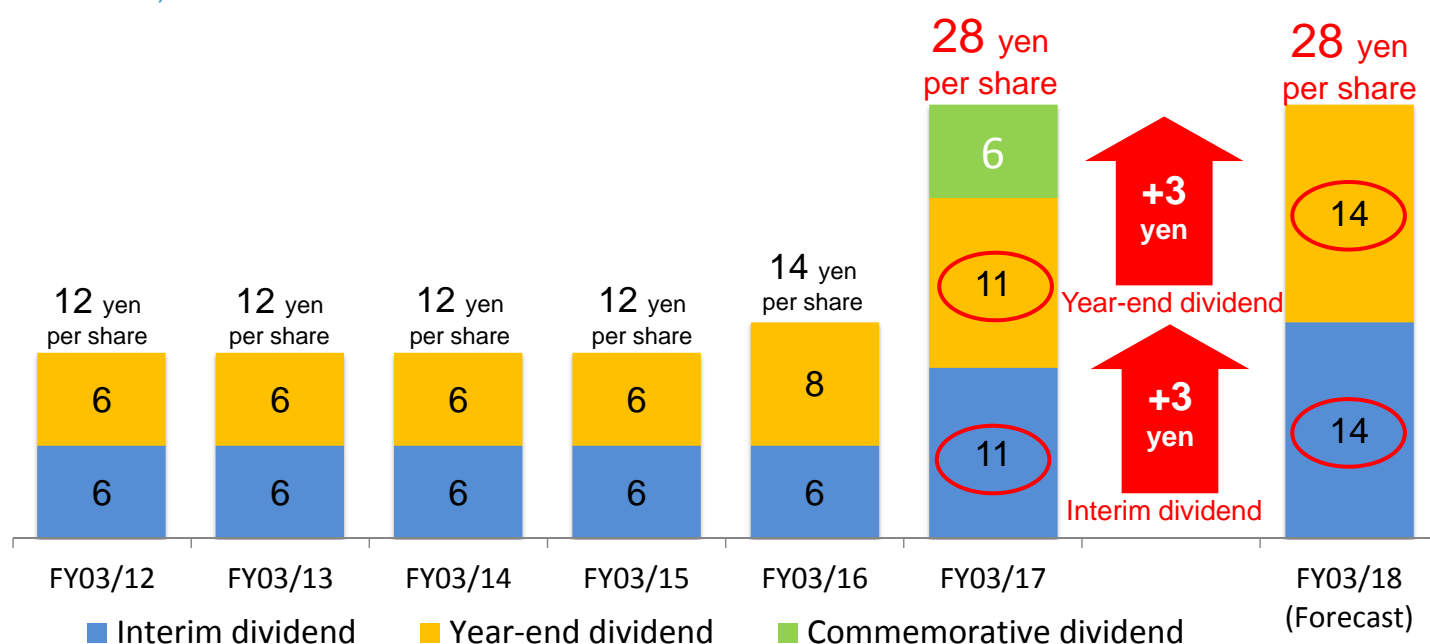
(Millions of yen)

	FY03/18 Forecast (April 1, 2017 to March 31, 2018)	FY03/17 Results (April 1, 2016 to March 31, 2017)	YoY	
			Change	Percent Change
Sales	189,400	178,631	+10,769	+6.0%
Operating profit	11,410	12,750	-1,340	-10.5%
Recurring profit	11,360	12,775	-1,415	-11.1%
Net income	6,450	7,337	-887	-12.1%
EPS (Yen)	50.88	64.46	-13.58	-21.1%

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Dividend forecast

- Interim dividend is 14 yen per share, up 3 yen from 11 yen per share in previous fiscal year
- Year-end dividend unchanged from initial forecast of 14 yen per share to maintain previous fiscal year's annual dividend of 28 yen per share (previous fiscal year's year-end dividend of 17 yen per share was ordinary dividend of 11 yen per share + commemorative dividend of 6 yen per share)



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About LP gas business

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External Environment Surrounding the LP Gas Business -Market Forecasts

- ◎ Demand for gas for residential and commercial use was 6.26 million tons in fiscal 2016 and is forecasted to decrease to 5.81 million tons in fiscal 2020, a decrease of 1.8% per year.
- ◎ The number of LP gas-consuming households is forecasted to decrease by 0.6% annually from 24.2 million in fiscal 2016 to 23.6 million in 2020.

(1) LP gas demand forecast

	FY2016	FY2020	Compared to FY 2016		Annual rate (%)
			Change	%	
Residential and commercial use	6,258 Ktons	5,813 Ktons	-445 Ktons	-7.1	-1.8
Industrial and city gas use	4,978 Ktons	5,592 Ktons	+614 Ktons	+12.3	+3.0
Total for general use	11,236 Ktons	11,405 Ktons	+169 Ktons	+1.5	+0.4

(Source: Ministry of Economy, Trade and Industry, Oil Market Trends Survey WG Document, Issued 2017.4.3)

(2) Number of consumer households

	FY2016	FY2020	Compared to FY 2016		Annual rate (%)
			Change	%	
Total households	52,950 Thousand households	53,053 Thousand households	+103 Thousand households	+0.2	+0.1
LPG consumption household	24,189 Thousand households	23,578 Thousand households	-611 Thousand households	-2.5	-0.6
<i>Total household composition ratio</i>	45.7 %	44.4 %	-1.2 %		

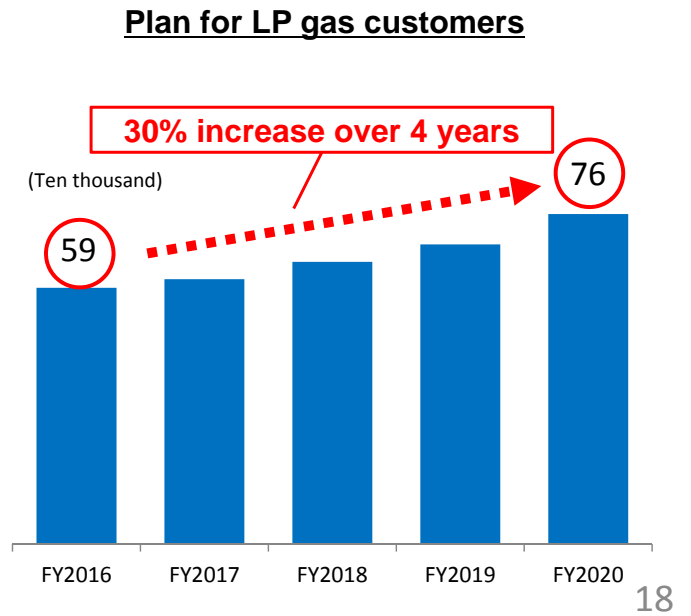
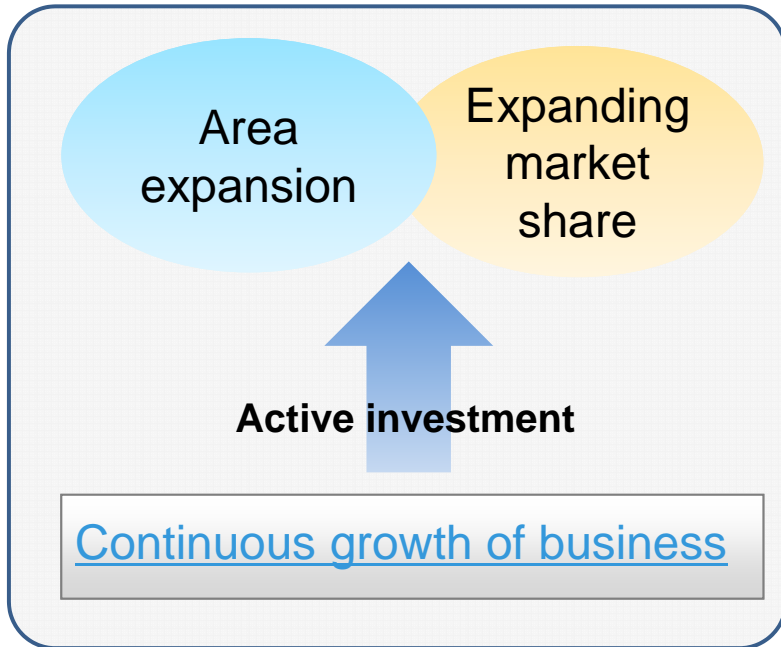
(Source: SEKIYU-KAGAKU-SINBUN-SHA, Annual Report on LPG Document, 2017 Version)

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Medium-Term Plan for LP Gas Business

~ Policy and Number Expansion Plan

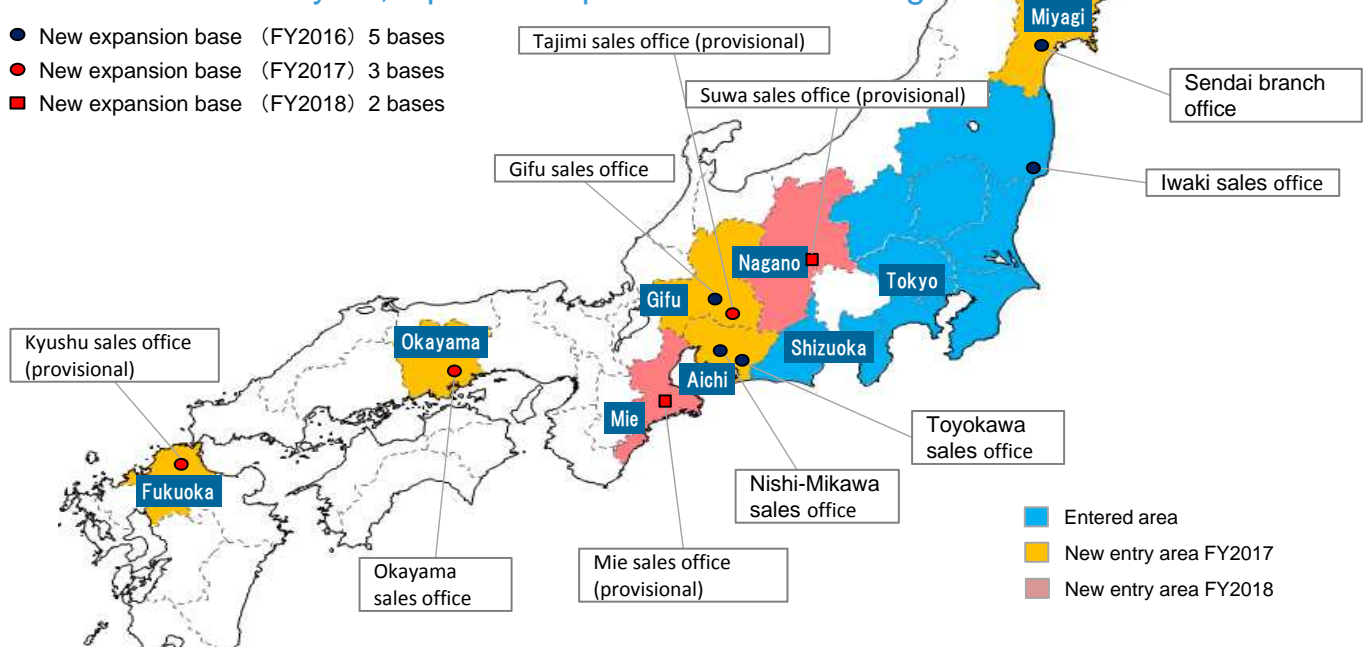
- ◎ The LP gas market is mature and the residential and commercial-use market is contracting.
- ◎ Achieve continuous business growth through aggressive investment to expand area and market share
- ◎ Plans to increase customer numbers by 30% over four years to 760,000



Measures to expand sales areas

- ◎ Established Five bases (Iwaki, Sendai, Toyokawa, Gifu, and Nishi-Mikawa) in the Chubu area (Gifu and Aichi prefectures) and the Tohoku area (Miyagi prefecture) since FY2015.
- ◎ In this fiscal year, it entered Okayama. By the end of the current fiscal year, it plans to expand into two additional locations (Tajimi and Kyushu).
- ◎ In the next fiscal year, it plans to open two bases in Nagano and Mie Prefectures.

- New expansion base (FY2016) 5 bases
- New expansion base (FY2017) 3 bases
- New expansion base (FY2018) 2 bases

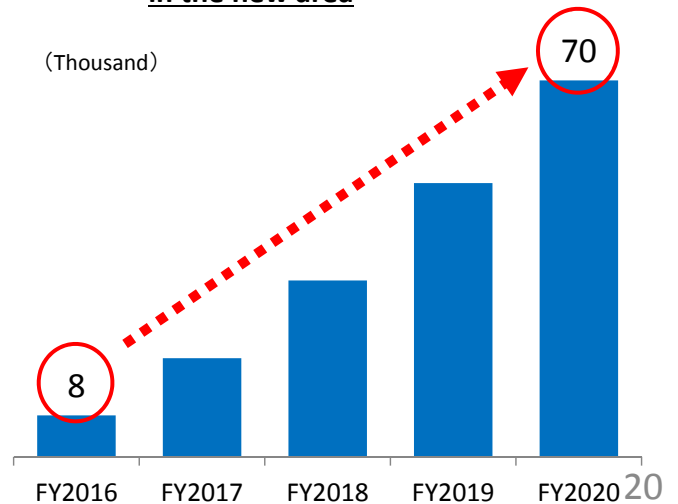


Aiming to acquire a customer base in new areas

- ◎ Our market share in existing areas is 8.4% (our customers are 580,000 of the 6.94 million LPG-consuming households)
- ◎ In new areas, we aim to acquire 10,000 customers at each location, compared to 4.18 million LPG-consuming households in all 10 locations.
- ◎ Plan to increase the number of customers in new areas to 70,000 in FY2020, four years from now

	Existing area (Performance)	New area(plan)
LPG Consumer Households	6.94 million households	4.18 million households
Our customers	0.58 million households	0.1 million households
Market share	8.4%	2.4%

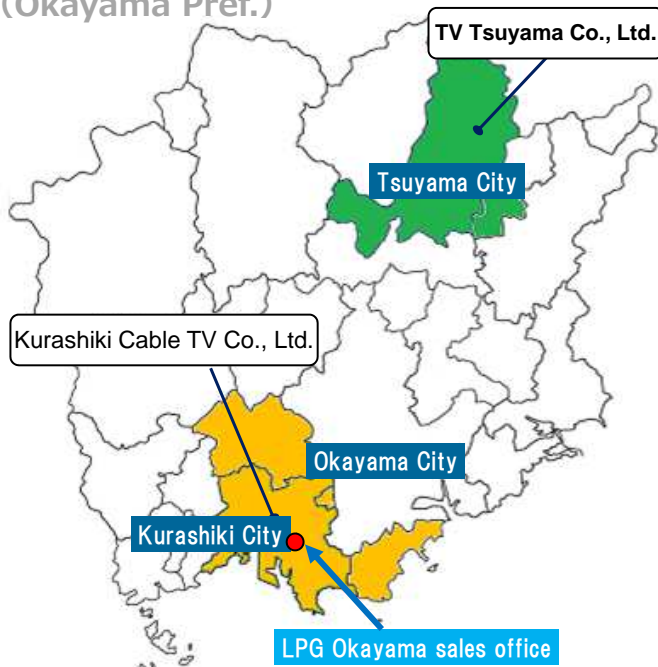
Plan of the number of customers in the new area



Expanding the LP business in the Okayama area

- ◎ Of the new areas, Okayama (Kurashiki) is developing the Group's CATV business, and the Group is launching a new LPG business in those areas.
- ◎ Able to actively conduct sales activities by leveraging the CATV business's name recognition and customer base

(Okayama Pref.)



Kurashiki Cable TV Co., Ltd.

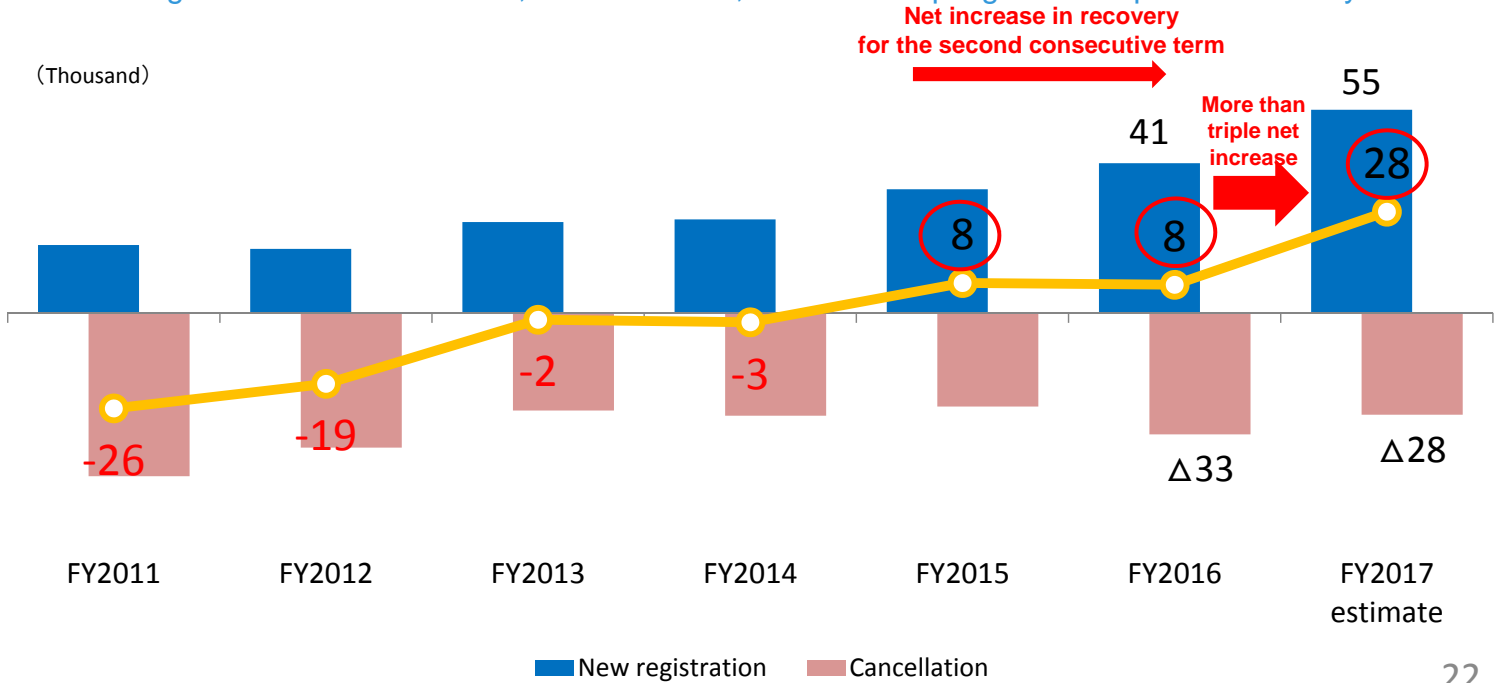
Provided area	Total number of households	260,000
▪ Broadcast customer		90,000
(Approximately 35% of households provided)		
▪ Communication customer		30,000

Utilize brand visibility and customer base

Aggressive sales activities

Net increase in number of customers ~plan to more than triple the previous fiscal year

- ◎ Net decrease continued until FY2014, but the net increase trend recovered for the last two consecutive fiscal years.
- ◎ In this fiscal year, the Company will make up-front investments to increase the number of new registrations, while also focusing on preventing cancellations
- ◎ Aiming for a net increase of 28,000 customers, more than tripling from the previous fiscal year



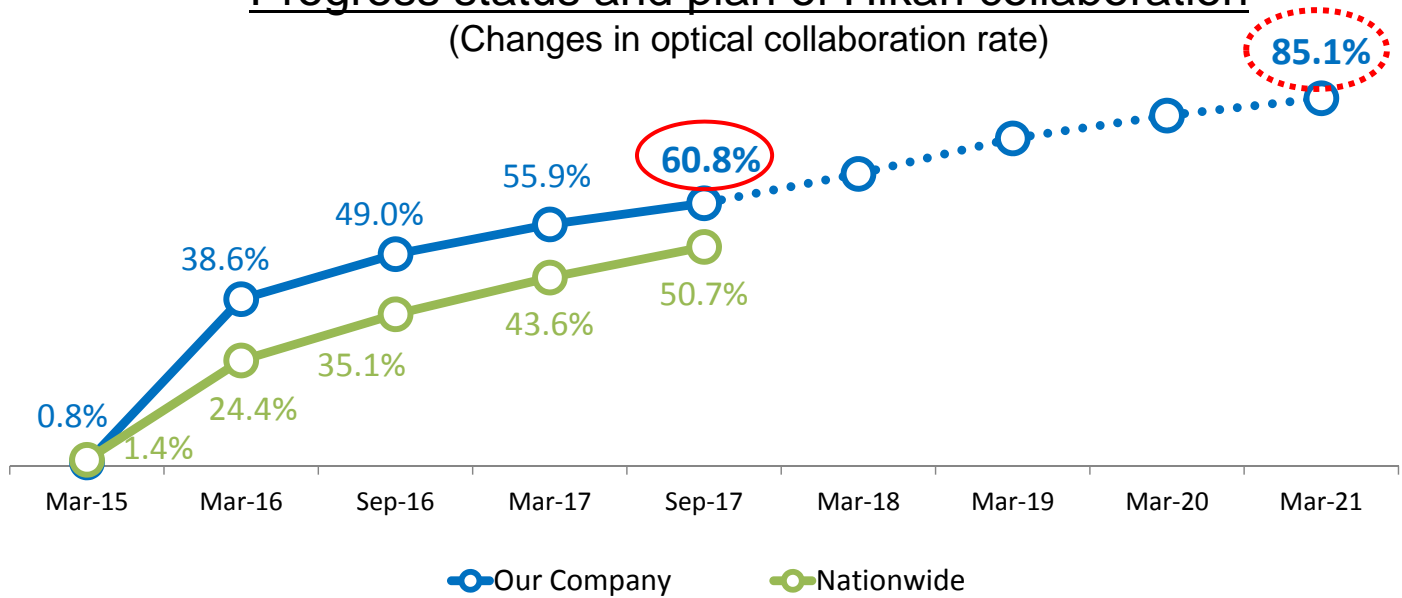
About the information communication business

Strong promotion of Hikari Collaboration

- ◎ Achieve Hikari Collaboration rate of 61% by the first half of the fiscal year
- ◎ Plan to raise the Hikari Collaboration rate to 85% by four years' time

Progress status and plan of Hikari collaboration

(Changes in optical collaboration rate)



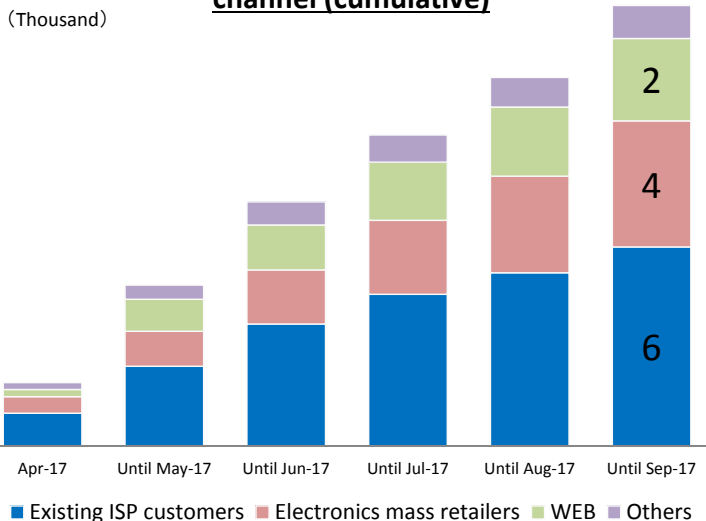
$$\text{Hikari collaboration rate} = \frac{(\text{Hikari collaboration} < \text{diversion} + \text{new} > \text{number of period-end})}{(\text{number of FLETS Hikari period end} + \text{Hikari collaboration} < \text{diversion} + \text{new} > \text{period end number})}$$

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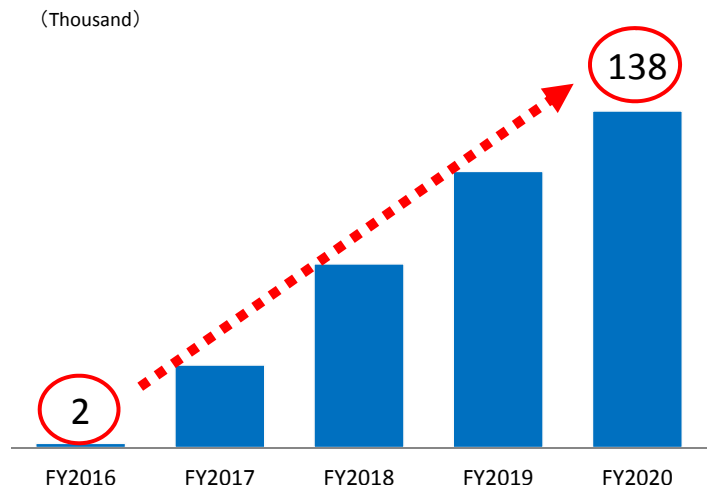
Steady start-up of MVNO

- ◎ Launched low-cost SIM service “LIBMO” in February
- ◎ Steady start-up as a strategic product that embodies the TLC vision
- ◎ In terms of sales channels, existing ISP customers, electronics mass retailers, and web channels performed well.
- ◎ Plan to increase the number of customers in four years to 140,000, benefiting from the expansion of the market

Number of acquisitions by major channel (cumulative)



LIBMO customer count planning



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Own competitive optical trunk line network

- Built a proprietary fiber optic network spanning 6,000 km
- Constructed to connect the high-demand Kanto Region to Okayama, passing through Tokyo, Nagoya, and Osaka
- Providing comprehensive solutions that integrate data centers, optical fiber networks, and system development capabilities

The total distance of the optical trunk line, which is the backbone of the group's information and telecommunications business and CATV business:

Approx. **6,000**km

(Breakdown of total laying distance)

*As of March 31, 2017

Telecommunication business 2,618 km

CATV business 3,551 km

※Including trunk and branch line (excluding lead-in line)



Okayama Data Center

Okayama

Nagoya

Osaka

Yaizu

Atsugi

Otemachi



LCV Data Center



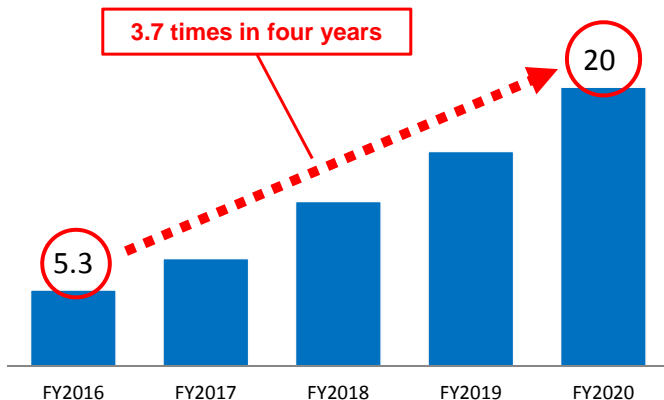
Shizuoka Data Center 26

Large growth in cloud-related business

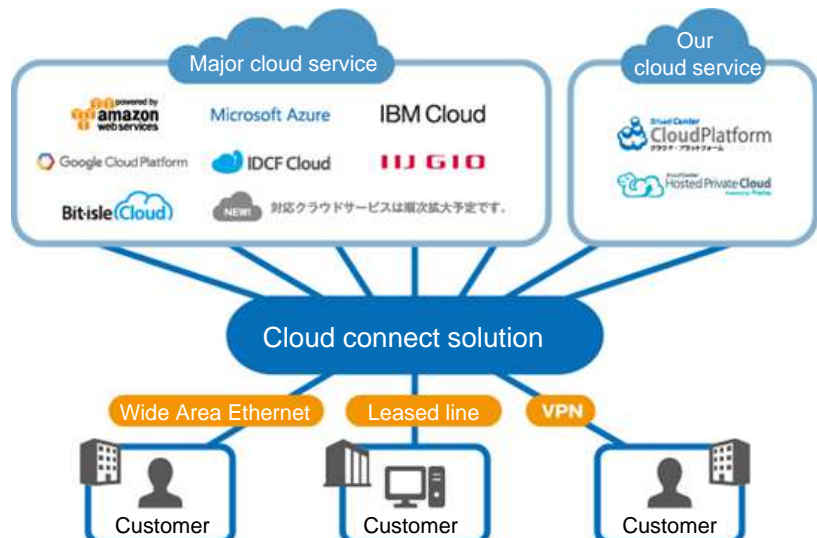
- ◎ Focus on cloud-related services, which are expected to grow significantly
- ◎ Cloud access services in the corporate network market grew 3.7 times from ¥5.3 billion in FY2016 to ¥19.5 billion in FY2020
- ◎ Full coverage of connectivity solutions with AWS, the largest provider of cloud computing services, and major public clouds

Forecast for corporate cloud connecting service market

(Billion yen)



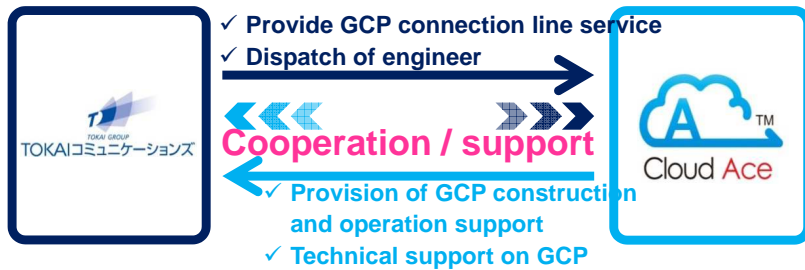
(出所: 富士キメラ総研(2016年9月)、IDC Japan(2017年1月))



Capital and business alliance with Cloud Ace Inc.

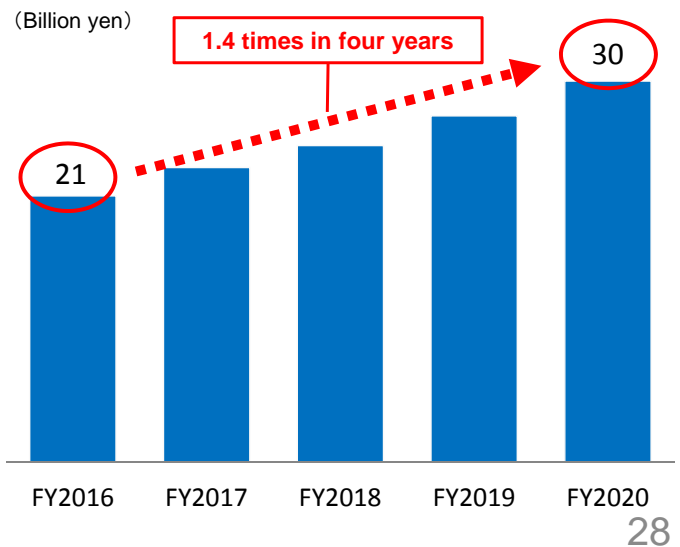
- ◎ Capital and business alliance with Cloud Ace Inc., the No.1 venture company in the domestic Google cloud
- ◎ Sales of cloud solutions, a growth field, more than doubled YoY
- ◎ Four years later, we will grow sales of corporate telecommunications business from ¥ 20.6 billion in 2016 to ¥ 29.5 billion.

Synergy effect through alliance with Cloud Ace Inc.



- Expanding the scope of cloud services
- Expanding sales of connecting line services
- Development of human resources and acquisition of qualifications

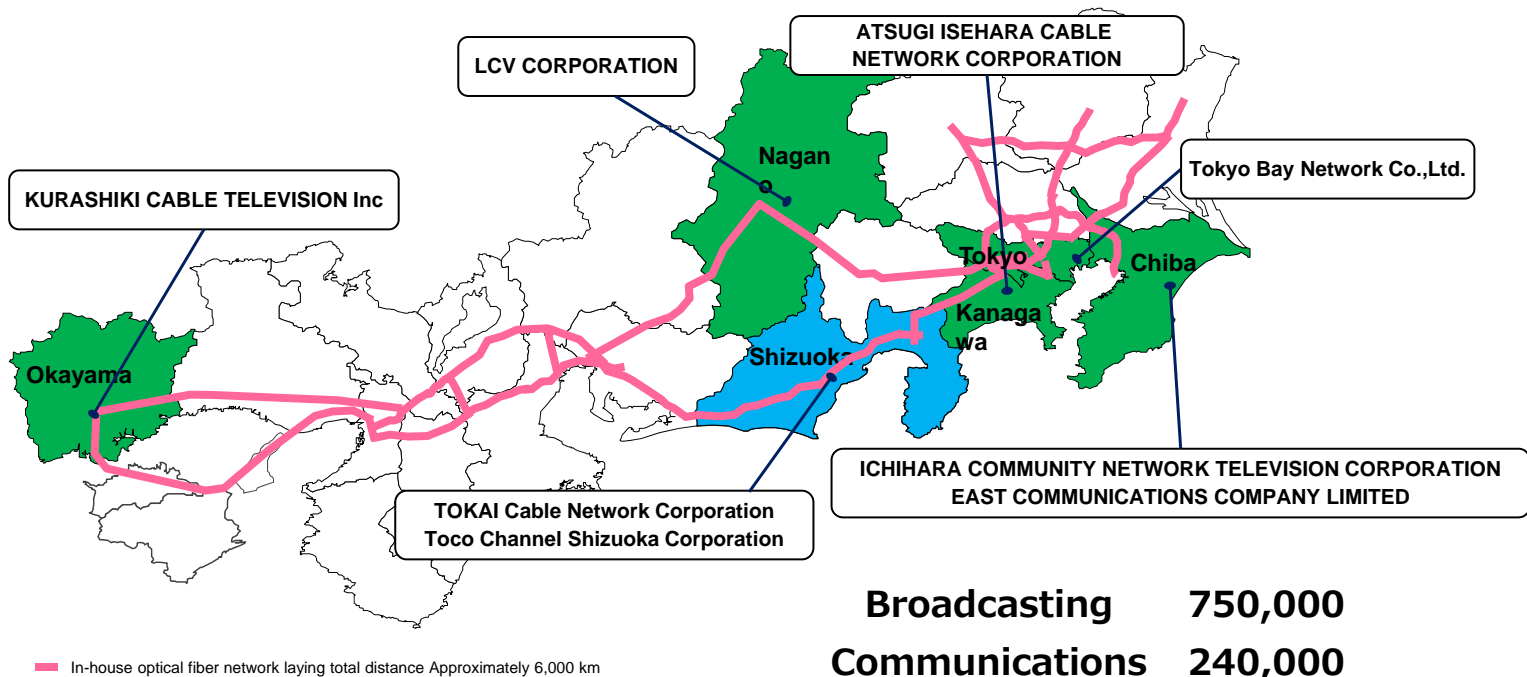
Medium-term plan for sales in the Telecommunications Business for corporate customers



About CATV business

Group's CATV business

- ◎ Operates in Shizuoka, Tokyo, Kanagawa, Chiba, Nagano, and Okayama prefectures
- ◎ The total number of customer is 990,000 (as of the end of September 2017), including 750,000 broadcasting and 240,000 communications customers.



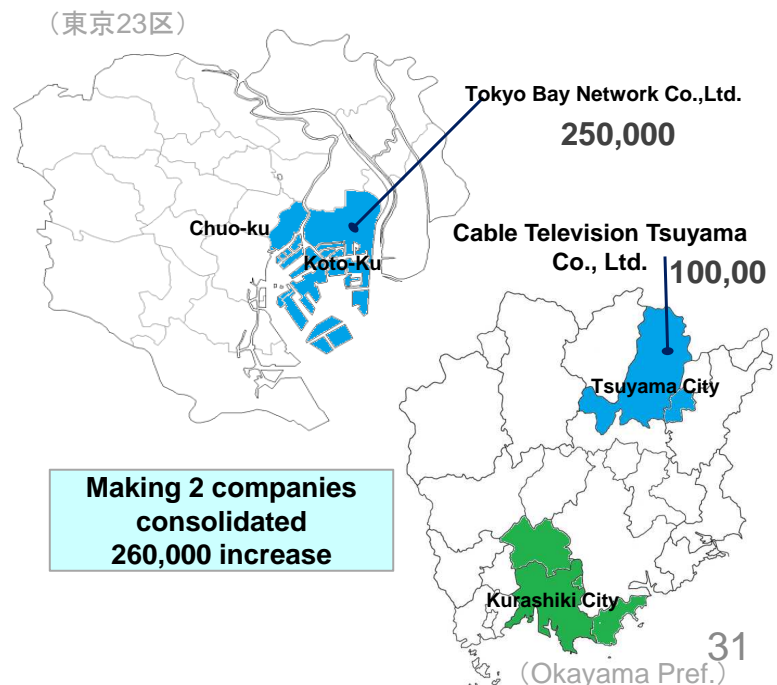
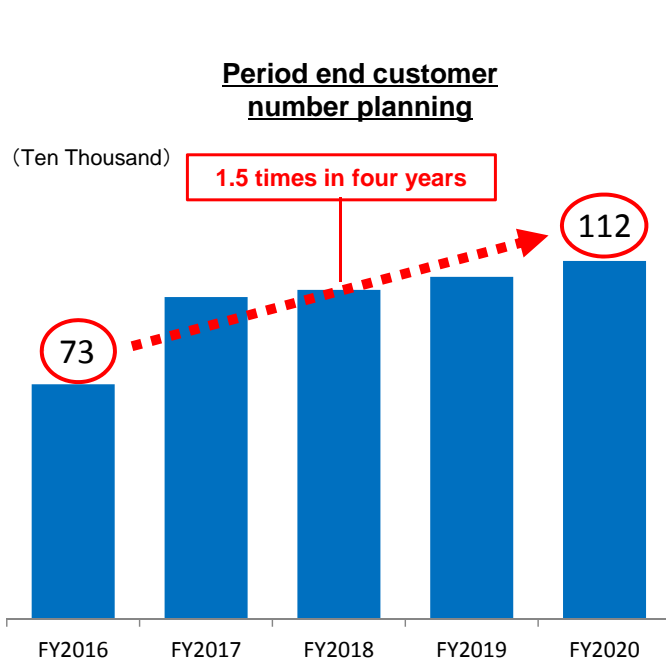
— In-house optical fiber network laying total distance Approximately 6,000 km

Broadcasting	750,000
Communications	240,000
Total	990,000

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CATV Business Mid-term Plan Expansion through M&A

- ◎ Plan to increase the number of customers (730,000) at the end of the previous fiscal year by 1.5 times and 380,000 over four years (of which 300,000 are M&As)
- ◎ Acquired additional shares in Tokyo Bay Network in July of this year and made it a consolidated subsidiary
- ◎ Today, we announced the consolidation of TV Tsuyama in Tsuyama City, Okayama Prefecture.



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Midterm plan of CATV business

Increase due to expansion of customer number

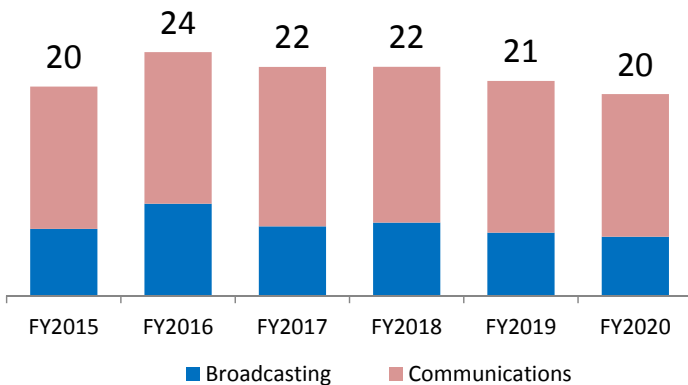
- ⊙ In addition to M & A, we anticipate a net increase of 20,000 each year (total of 80,000) in the next 4 years
- ⊙ Past had also increased by 20,000 pace per year, sufficiently achievable
- ⊙ Operating profit is also expected to increase to 1.75 times the previous year in four years.

Plan for net increase

300 thousand increase in M & A over the next 4 years

(Thousand)

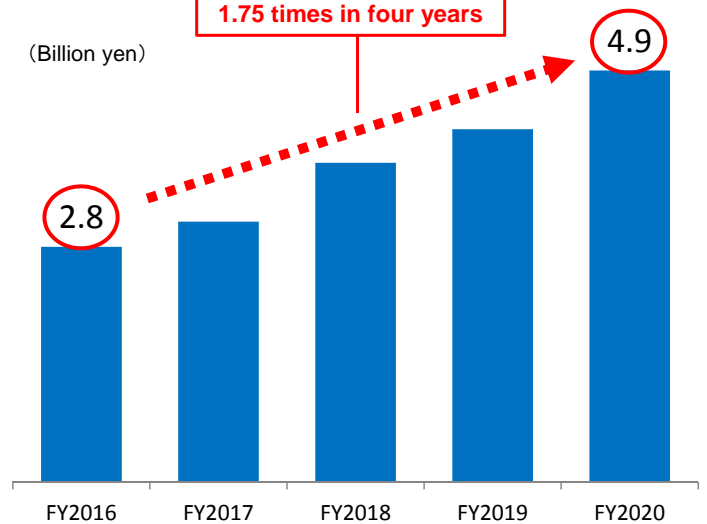
Net increase of 80,000 in existing business



Operating profit plan

(Billion yen)

1.75 times in four years



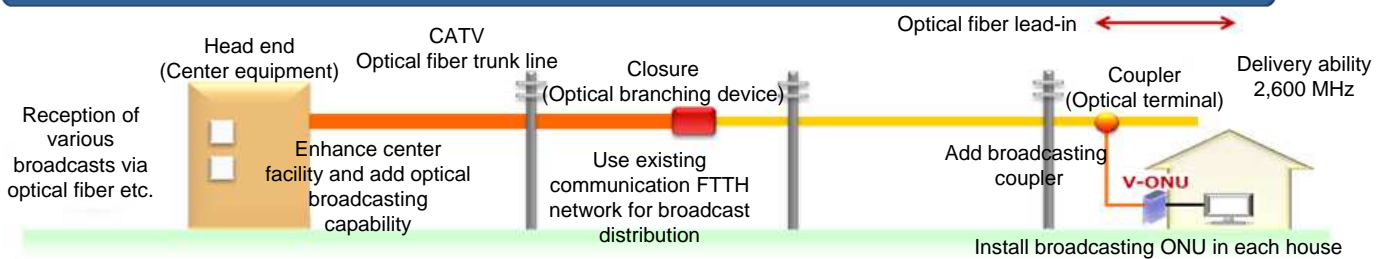
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Strengths of the Group's CATV Business

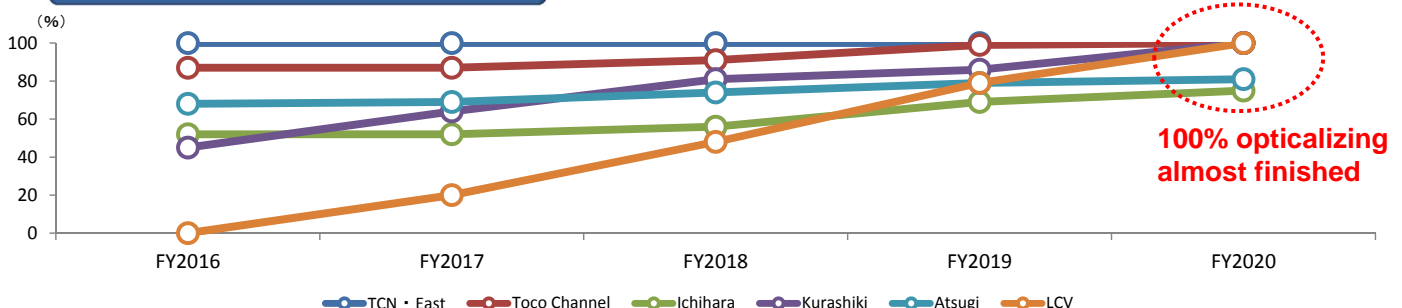
The Group's Own Optical Fiber Network

- ⊙ Looking at the era of convergence of broadcasting and communication, promoting FTTH from 2006
- ⊙ We expect to almost complete the conversion of our CATV areas to 100% optical by fiscal 2020.
- ⊙ This will increase the number of broadcasting and communications customers and contribute to future business expansion.

[Broadcast optical] FTTH : Excellent delivery capability, fault resistance, and durability



Broadcast opticalizing schedule

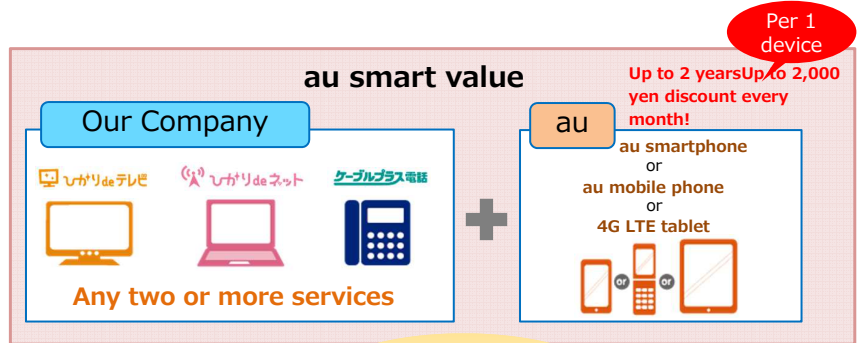
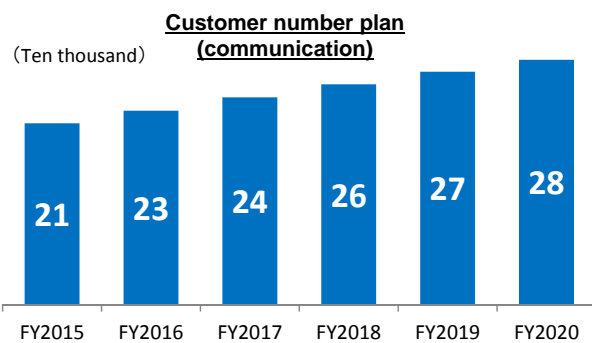
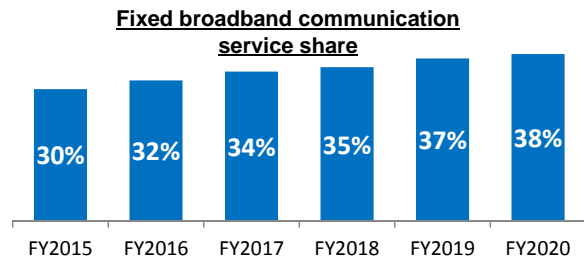


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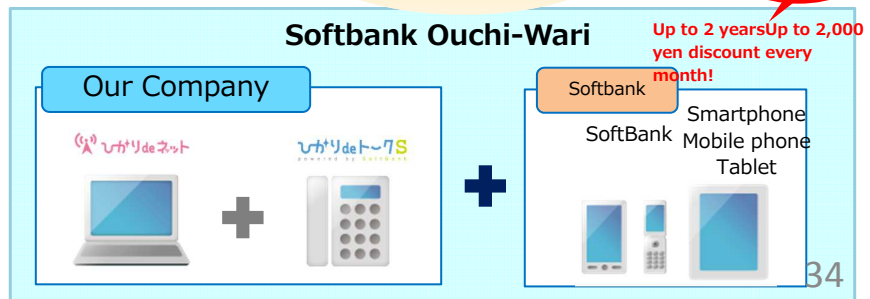
Strengths of the Group's CATV Business

Cooperation with mobile communication carriers

- ◎ The Company's share of fixed broadband communication services in our CATV area is over 30%
- ◎ Own FTTH service customers with high profitability steadily increase
- ◎ The alliance with major carriers has a difference in sales channels and users of both companies, and each other's relationship with WIN-WIN



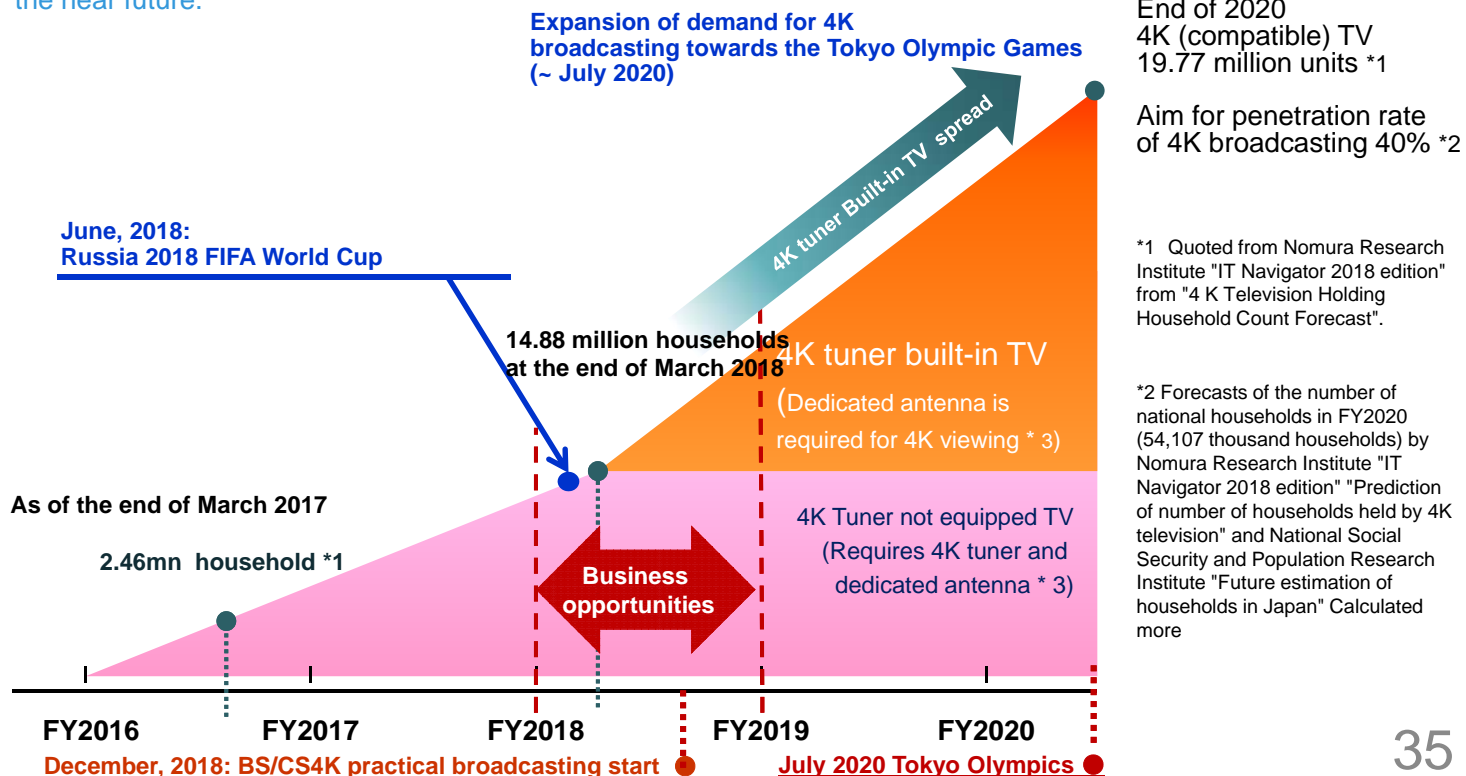
WIN-WIN



Strengths of the Group's CATV Business

Response to 4K broadcasting

- The penetration rate of 4K broadcasting to 40% level by 2020 Tokyo Olympic Games
- In order to provide 4K broadcasting in the CATV infrastructure, it is necessary to optical line (FTTH), our Group have promoted change the line to optical from 2001. →Cover almost the entire area in 2020.
- We assume that many small and medium-sized operators that can not make capital investment will come out in the near future.

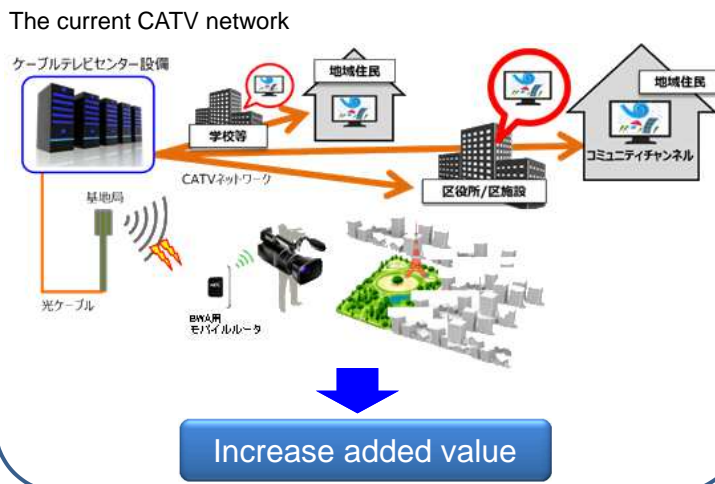


Strengths of the Group's CATV Business

Increasing the Added Value of the Group's Networks

- ◎ We will provide services that meet the needs of the times, such as IoT businesses, which are becoming increasingly popular in the future.
- ◎ Investments to add value to CATV networks
- ◎ Active Efforts by the Regional Wireless Network "BWA" (Broadband Wireless Access)
- ◎ Key to continued and sustained growth in CATV businesses

Efforts to increase added value of CATV network



Efforts of regional BWA

Application example
BWA



- Construction of disaster prevention / crime prevention network in cooperation with local governments
- Improvement of broadband infrastructure that communities can utilize
- Community channel trunk line backup

The performance forecasts and forward-looking statements in these materials are based on information currently available to the Company, and include potential risks and uncertainties. Please be aware that due to changes in a variety of factors, actual results may differ materially from the projections and other forward-looking statements in these materials.

Please contact us with any questions regarding these materials.

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うれしいをつなぐ。ひろげる。

