

Annual Results for FY2017

May 9, 2018

TOKAI Holdings Corporation
(Securities Code: 3167)

Highlight of Financial Results in FY 2017 and Essential Points of FY 2018

**Katsuhiko Tokita
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TOKAI Holdings Corporation**

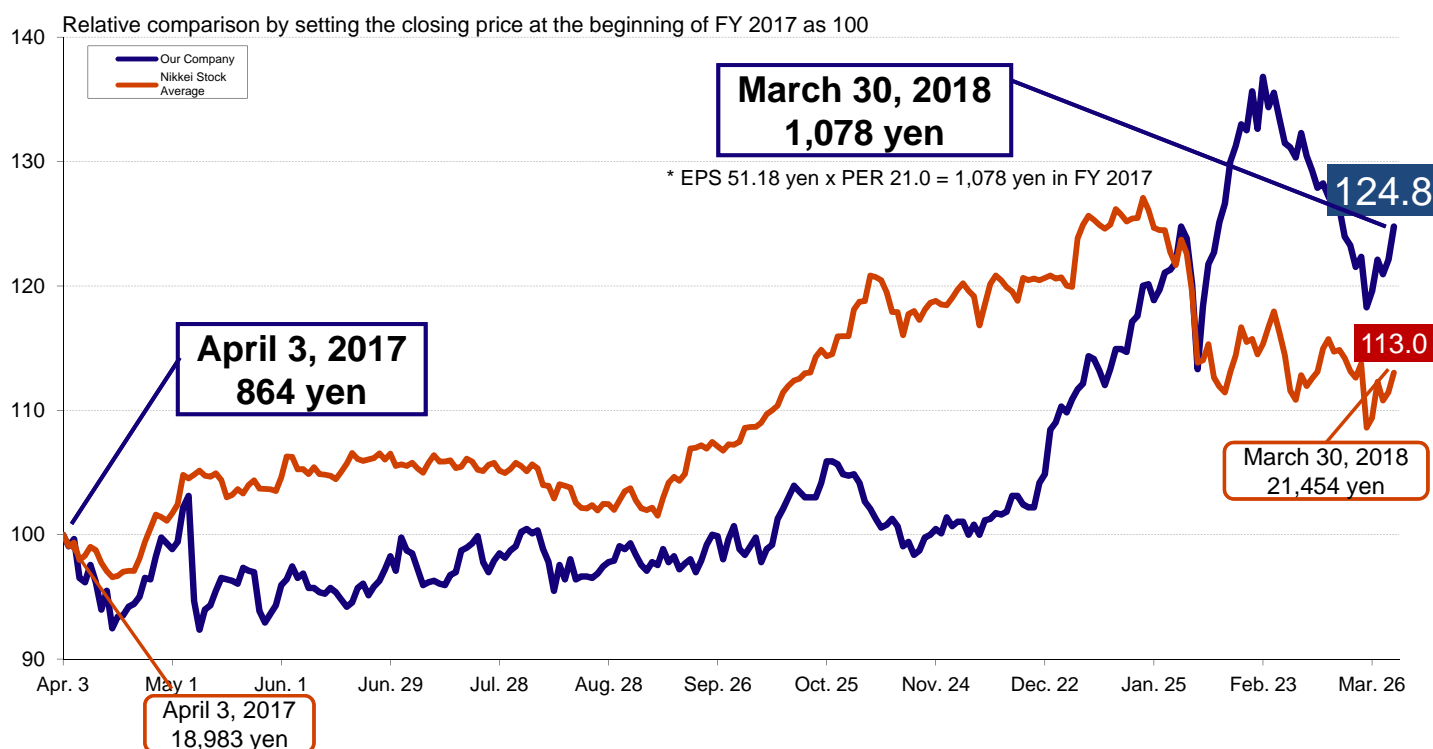
Highlight of financial results in FY 2017

- The first year of the medium-term management plan “Innovation Plan 2020 JUMP” announced in May last year has progressed steadily
- ◎ **Net increase from the beginning of period was 310,000 customers (+12.2%) that form our revenue base.**
 - Steady growth of customer acquisition in LP gas business, CATV business, new LIBMO, etc. Yearly net increase of customers was 39,000, more than 6 times compared with 6,000 customers which was the yearly net increase of customers in the previous period.
 - Furthermore, the revenue base was expanded as planned because of additional 270,000 customers resulting from the completion of two M&A projects.
- ◎ **Increased revenue of 7.4 billion yen (+4.2%) compared with the previous period because of 186.1 billion yen in sales and increased number of customers, etc.**
 - In the aspect of profit, profit decline was anticipated due to spending of costs for future growth at the beginning of period, and the result was almost as planned.
- ◎ **Further progress in continuous improvement of financial strength.**
 - Equity ratio was 36.3%, increase by 1.8pt from the end of the previous period.
 - Interest-bearing debt balance was continuously reduced, and interest-bearing debt/EBITDA ratio was maintained at 1.9 times compared with at the end of the previous period.

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Further growth while meeting expectation

- Share price increased by 25% from the beginning of FY 2017, which outperformed the average increase of the Nikkei Stock Average (13%) in the same period.
- Share price of 1,078 yen was high evaluation exceeding 21 times of PER and 14.79 times of the First Section of the Tokyo Stock Exchange average.



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Essential Points of FY 2018

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The medium-term management plan for twofold increase in four years compared with FY2016

- Aggressive medium-term management plan aiming at growth of 339.3 billion yen of sales, increase by 1.9 times compared with FY 2016; 22.5 billion yen of operating profit, increase by 1.8 times compared with FY 2016 and more than 4.32 million customers, increase by 1.7 times compared with FY 2016
- Plan of 2.6 times higher interest-bearing debt/EBITDA ratio, 31.6% Equity ratio and 13.0% ROE with the emphasis on capital efficiency

(Unit: 100 million yen)	FY2016	FY2017	FY2018	FY2019	FY2020
	Result	Plan	Plan	Plan	Plan
Sales	1,786	1,894	2,020	2,244	(1.9 times) 3,393
Operating profit	128	114	140	162	(1.8 times) 225
Current net earnings	73	64	79	87	(1.6 times) 115
Total assets	1,611	1,698	1,738	1,912	(1.8 times) 2,834
Interest-bearing debt/EBITDA ratio	1.9 times	2.0 times	1.7 times	1.8 times	2.6 times
Equity ratio	34.5%	33.9%	35.6%	34.9%	31.6%
ROE	15.2%	11.1%	12.8%	13.0%	13.0%
Number of customers (10,000 customers)	256	288	299	372	(1.7 times) 432 or more

* Figures in () represent comparison with FY 2016.

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Four Key Messages of IP20 “JUMP”

- In the period of four years starting from FY 2017, implement strategies to accelerate growth according to the following four key messages:

1. From Defensive to Proactive Management

2. Progress M&A

3. Prioritize profit growth and ROE

4. Shareholders are always a priority

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Success of investment expanded in the previous period and achievement of the highest profit in the past

- Active spending of cost in advance in the previous period resulted in accumulation of the number of charging and expansion of revenue base.
- Reversing the tendency to increased profit in the year of a transition stage toward the final fiscal year of IP20 “JUMP”

(Unit: 100 million yen)	FY2016	FY2017	FY2018
	Result	Result	Prospect
Sales	1,786	1,861	1,956
Operating profit	128	110	140
Current net earnings	73	66	79

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Important activities in FY 2018

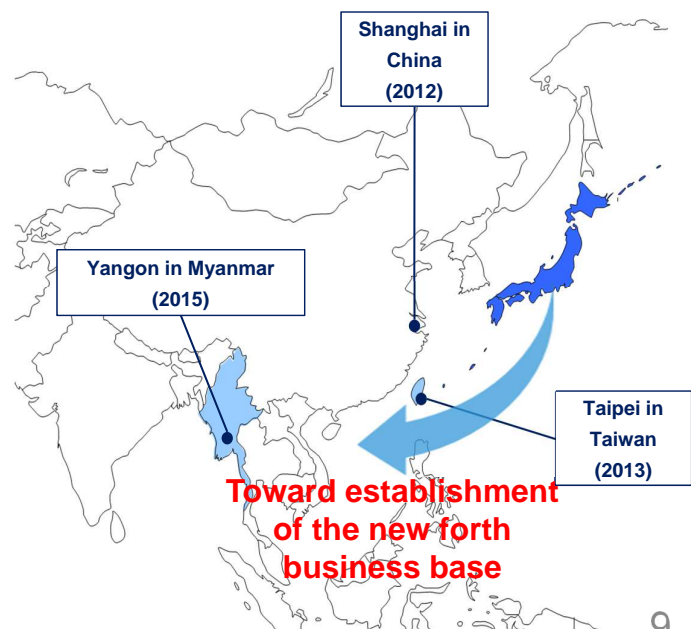
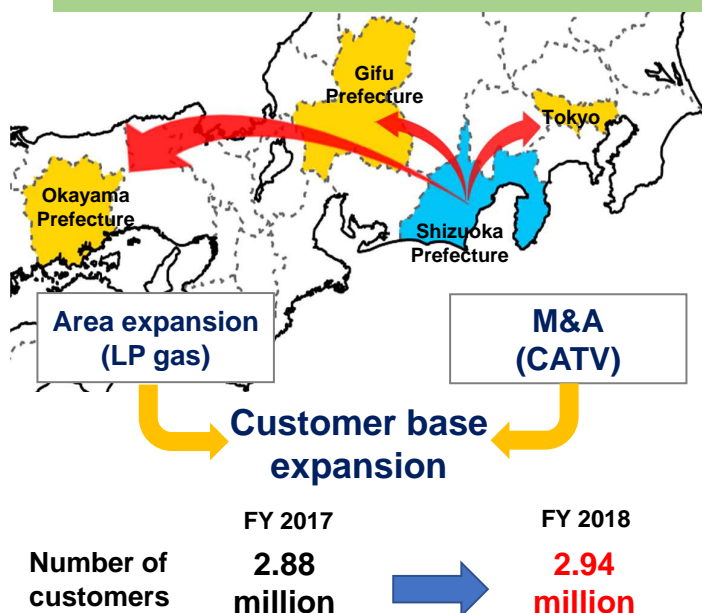
- ◎The customer base will be continuously expanded, and the establishment of new overseas business bases be planned.
- ◎With M&A for the city gas business decided at the beginning of FY 2018, steady progress of M&A will be continued.
- ◎An organization dedicated to ABCIR+S will be established, and change and growth of business will be pursued.

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Continuously expanding customer base and planned establishment of new overseas business bases.

- Subsequent to the great net increase of the customer base in the previous period, active effort will be also made in this period with the plan of net increase of 65,000 customers in a year.
- Effort in overseas business will be made to establish the fourth new business base subsequent to the three business bases in Shanghai, Taiwan and Myanmar.

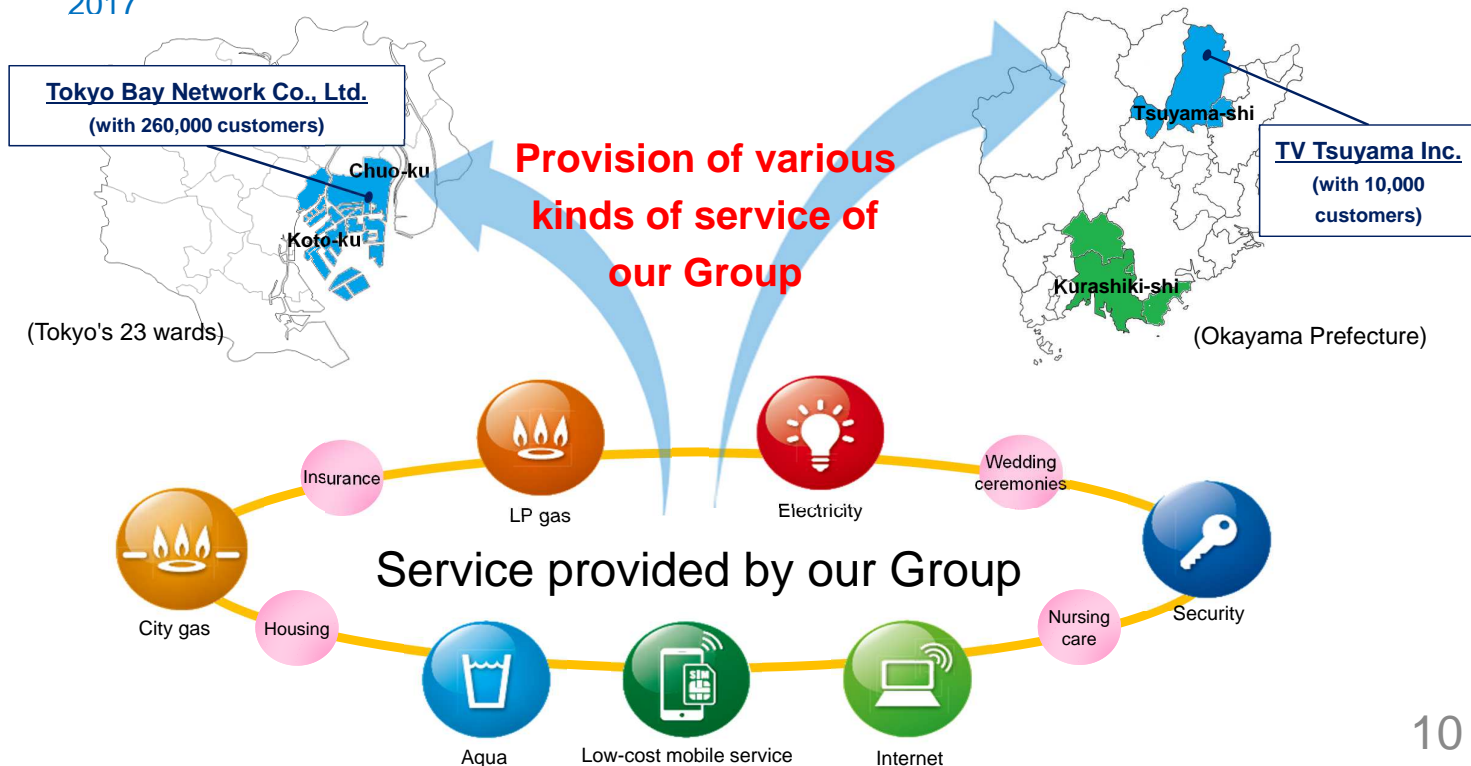
Expansion of LP gas business to Okayama and Gifu in the previous period
Implementation of two M&A projects (Tokyo and Okayama) in CATV business



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Expectation for the future resulting from M&A of two CATV companies in the previous period

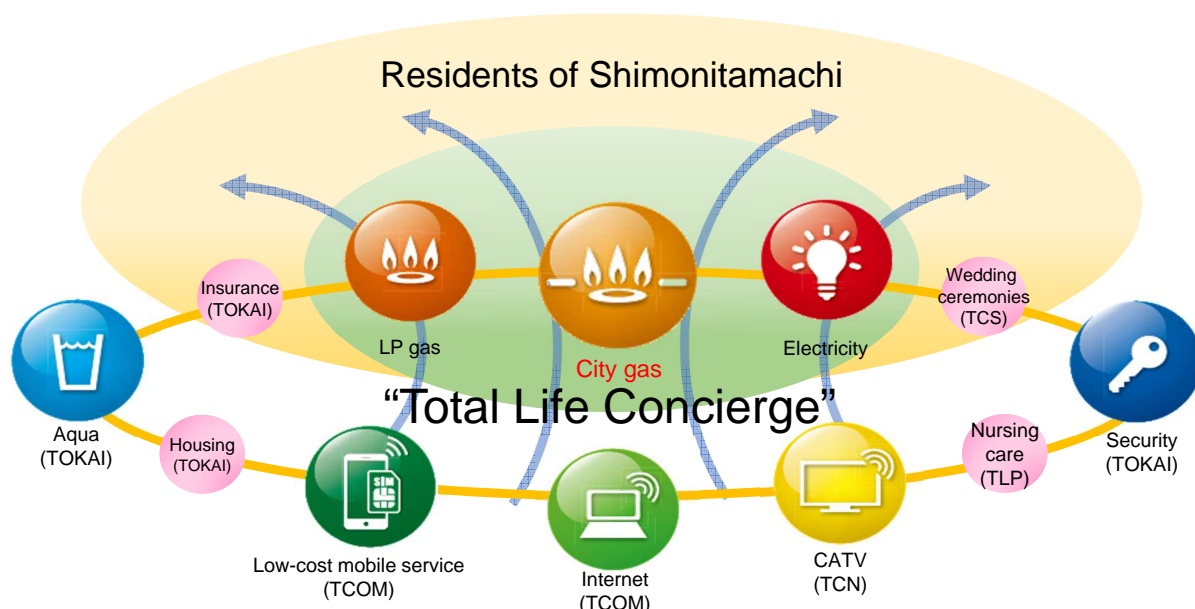
- The IP20 “JUMP” has a plan for active implementation of strategic M&A and alliance investment of 100 billion yen for four years.
- Great expectation for the future growth of CATV business because of M&A of two companies in FY 2017



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Already decided M&A in gas business this period

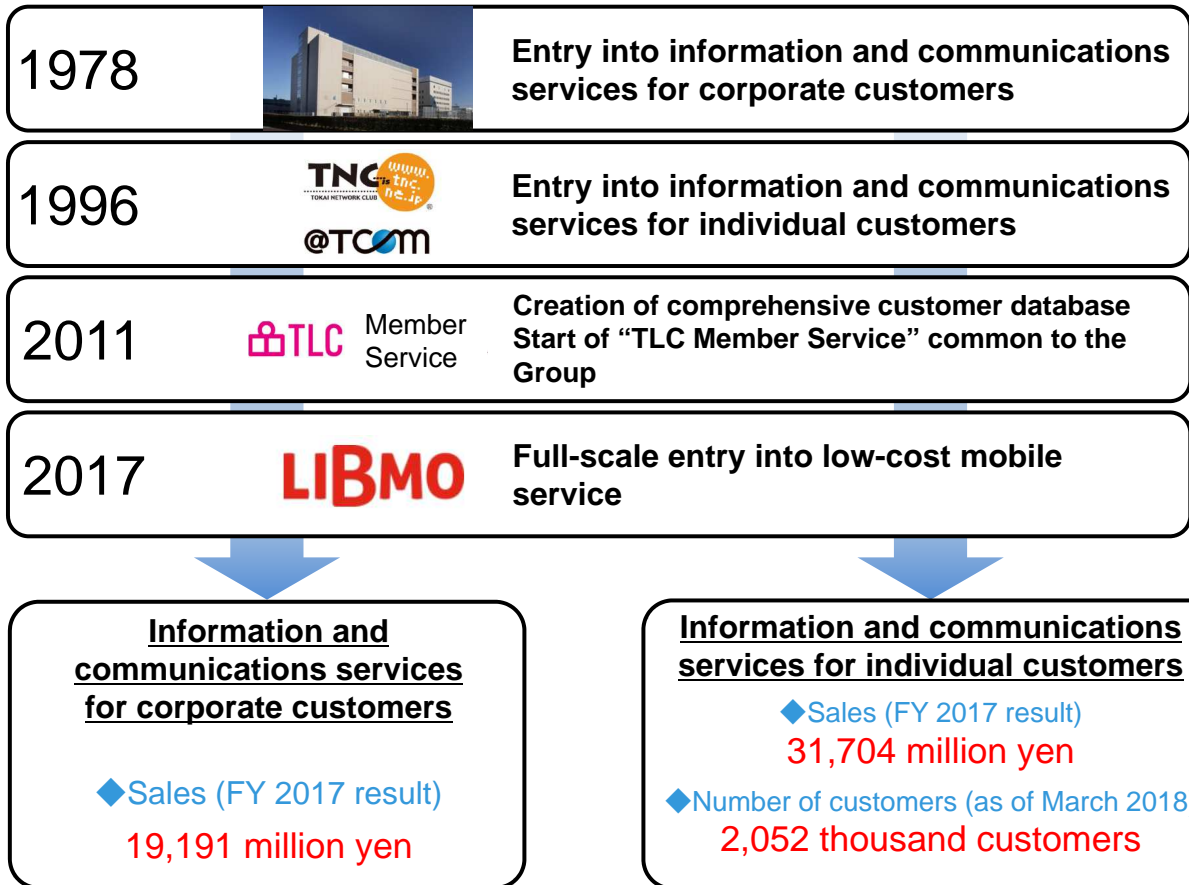
- As announced, conclusion of contract on transfer of gas business in Shimonitamachi in Gunma Prefecture, and succession from April 2019.
- In addition to gas business, proposal on various kinds of service related to life with our Group's vision of TLC (Total Life Concierge) is made to contribute to the achievement of better life.
- M&A and alliance will be continuously promoted in FY 2018.



Currently, 26 M&A projects with the value of 190 billion yen are under consideration. 11

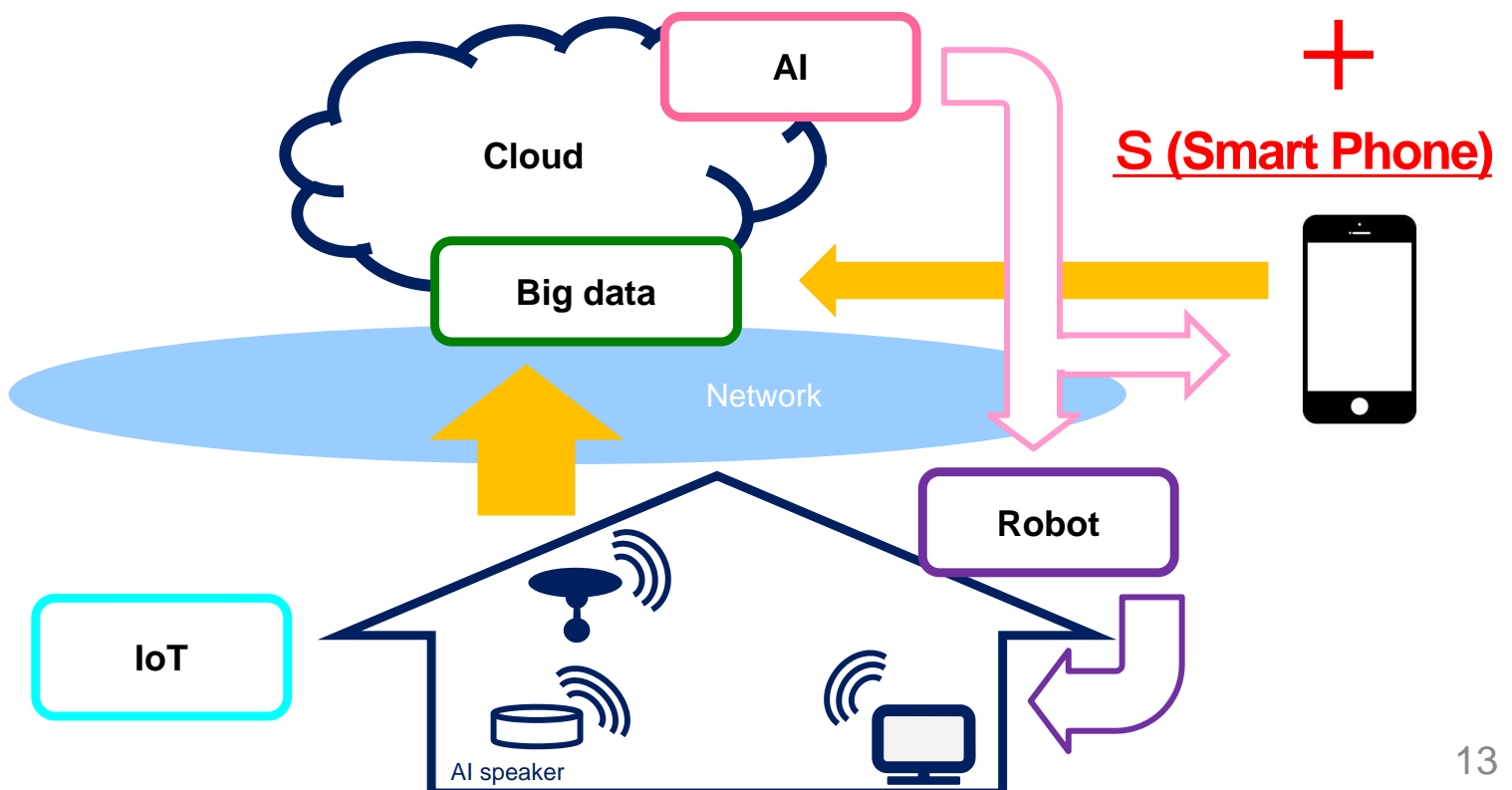
Growth of our Group in information and communications field

Growth of information and communications services as a pillar of the Group while responding to change and needs of social environment



Technology innovation of 'ABCIR + S'

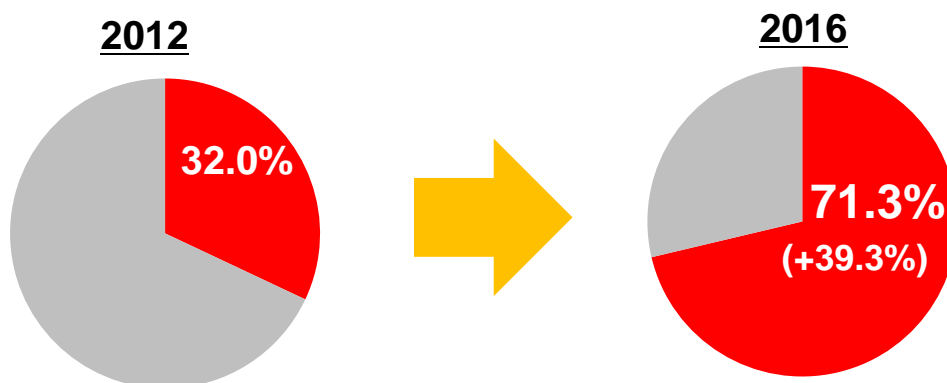
A (AI), B (Big Data), C (Cloud), I (IoT), R (Robotics)



Expansion of utilization ratio of smartphone

- ◆ Rapid expansion of smartphone utilization rate from 32.0% four years ago to 71.3%.

All age brackets



By age

	2012	2016	Change
10s	36.7%	74.3%	+ 37.6%
20s	68.4%	96.8%	+ 28.4%
30s	49.0%	92.1%	+ 43.1%
40s	28.8%	79.9%	+ 51.1%
50s	13.7%	63.1%	+ 49.4%
60s	4.7%	31.7%	+ 27.0%

Source: "Survey report on use time of information and communications media and information behavior in 2016" by Ministry of Internal Affairs and Communications

Increase of time spent on smartphone

- ◆ Averaged time smartphone users spend on their smartphone is 1.5 hours on weekdays and 2 hours on holidays (per day). We live in an era in which we obtain great deal of information from the Internet.

	Weekday	Holiday
All age brackets	97.1 min.	136.8 min.
10s	160.3 min.	269.8 min.
20s	141.0 min.	188.6 min.
30s	82.2 min.	117.5 min.
40s	82.9 min.	112 min.
50s	68.6 min.	78.9 min.
60s	46.5 min.	60.7 min.

Source: "Survey report on use time of information and communications media and information behavior in 2016" by Ministry of Internal Affairs and Communications

Change of consumers' purchase trigger

- ◆ “Internet” is becoming an important information source to choose products and services along with “explanation by sales staff”.

	Matters considered when choosing products and services	%
1	Information from family members, friends and acquaintances	52.4%
2	Website	47.7%
3	Leaflet / Brochure	44.6%
4	Explanation by sales staff	41.1%
5	TV / Radio CM	27.0%
6	Advertisement of newspaper, magazine, etc.	19.8%
7	Article of newspaper, magazine, etc.	16.8%
8	TV / Radio program	13.5%

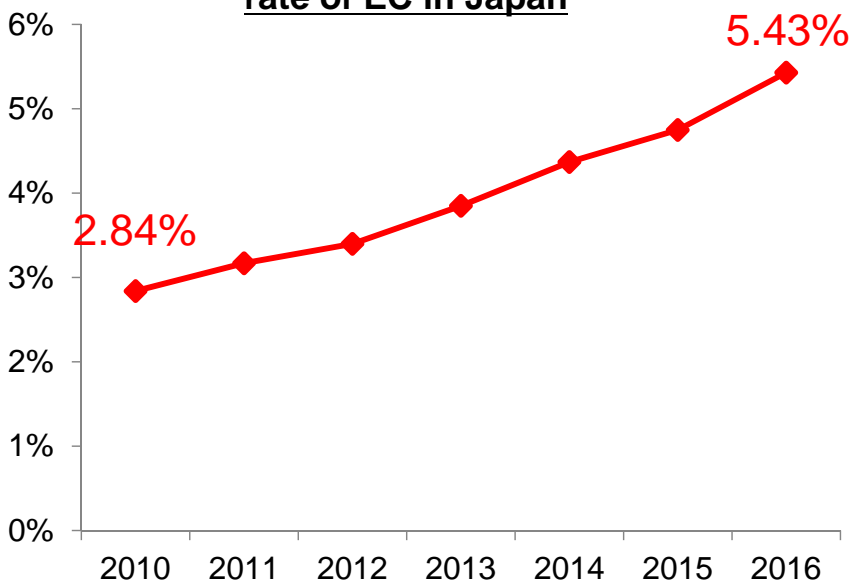
Source: "Basic survey on consumers' attitude in 2016" by the Consumer Affairs Agency

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Rise of introduction rate of EC (Electronic Commerce)

- ◆ The introduction rate of EC in Japan is 5.4%. The rate in the US which is ahead of Japan is 7%, and the rate in China is more than 15%. Growth and expansion will be still expected in the future.

Transition of the introduction rate of EC in Japan



Introduction rate of EC in 2016 (by classification)

	Classification	%
1	Office supplies, stationeries	33.61%
2	Home electrical appliances, PCs, etc.	29.93%
3	Books, image/music software	24.50%
4	General merchandise, furniture, interior	18.66%
5	Clothing/outfits, general merchandise, etc.	10.93%
6	Cosmetics, medical goods	5.02%
7	Cars, motorcycles	2.77%
8	Food, drinks, alcoholic beverages	2.25%
9	Other	0.75%
	Total	5.43%

Source: "Establishment of foundation related to information and service in our economic society in 2016 (market research related to e-commerce)" by the Ministry of Economy, Trade and Industry

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Disruptive Innovation

Marketing
capacity
(existing strength)



ABCIR + S

- A (AI)
- B (Big Data)
- C (Cloud)
- I (IoT)
- R (Robotics)
- +
• S (Smart Phone)

By utilizing 'ABCIR + S', with customers,
"Deeply Connected" is established.

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Establishment of an organization dedicated to "ABCIR+S"

Setting up of "Head office for next-generation business strategy" at TOKAI Holdings.

Head office for next-generation
business strategy at TOKAI
Holdings



Each TOKAI Group
Company

Consideration of ABCIR + S cross-
sectional utilization model for the
Group

- ❑ Consideration of new business
- ❑ Sophisticated customer contact point
- ❑ Consideration of information utilization strategy

Streamlining in
business field

Consideration of
sophistication by
utilization in business
field

Aiming at change and growth by cross-sectional utilization of information
and communications technology by the Group

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Financial Results in FY 2017 and Points of Business Performance Prospect in FY 2018

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Active business expansion by spending cost in advance

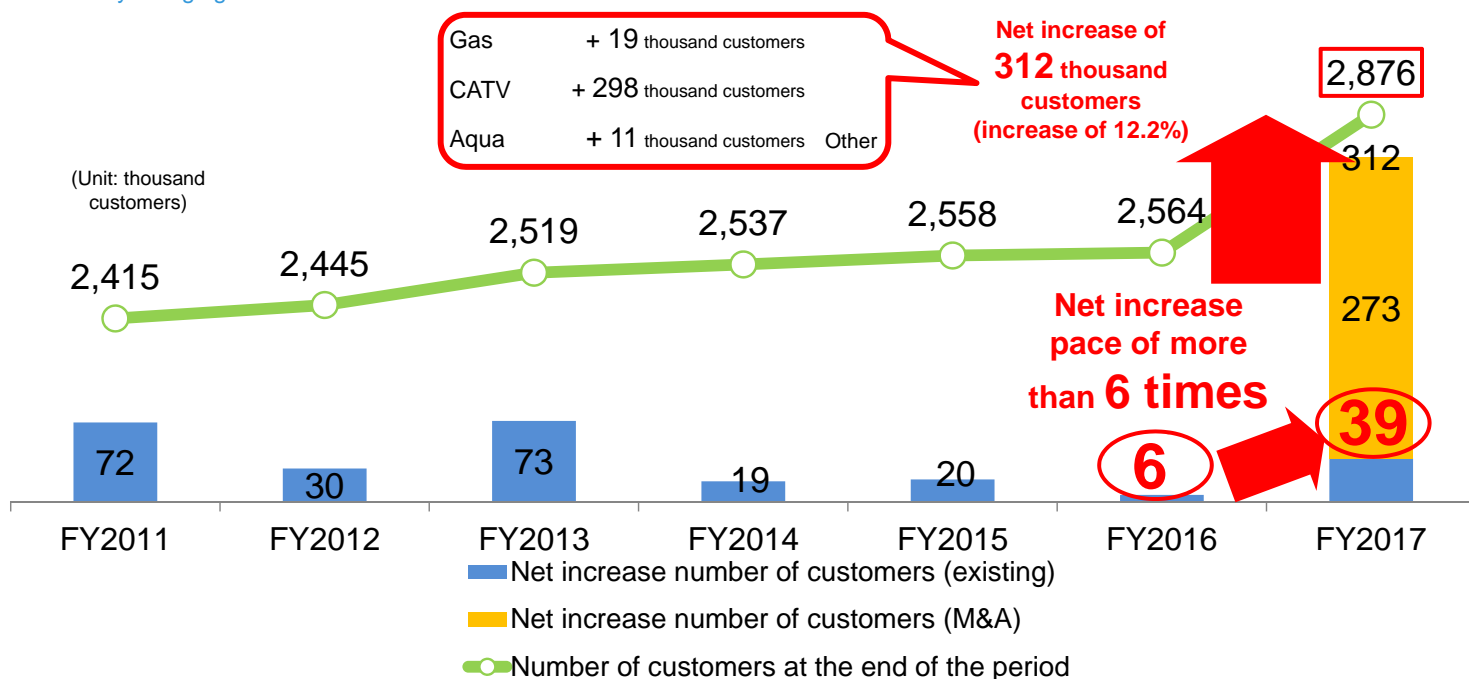
- ◎ To create the trend of new record of the highest profit in FY 2018 and onward, activities for growth were actively conducted such as expansion of areas, introduction of new communication service, and spending cost, etc. in advance for prevention of cancellation, etc.
- ◎ As a result, number of customers which are Group's revenue base greatly increased.
- ◎ In the aspect of profit, although spending of cost in advance as described above, etc. increased by 3.7 billion yen compared with the previous year, profit increased to 1.8 billion yen thanks to increased number of customers, and the revenue base for the next period and onward was established.

(Sales/profit: million yen, earnings per share: yen)

	Result of the current period	Previous period	Initial estimation	Comparison with the previous period		Comparison with initial estimation	
				Change	Change rate (%)	Change	Change rate (%)
Sales	186,069	178,631	189,400	+7,438	+4.2	- 3,331	- 1.8
Operating profit	10,971	12,750	11,410	- 1,779	- 14.0	- 439	- 3.8
Ordinary profit	11,191	12,775	11,360	- 1,584	- 12.4	- 169	- 1.5
Current net earnings	6,620	7,337	6,450	- 716	- 9.8	+170	+2.6
Earnings per share	51.19	64.46	50.88	- 13.27	- 20.6	+0.31	+0.6

Great net increase of 310,000 customers from the beginning of the period

- Net increase of customers in existing business excluding M&A was 39,000, increase by more than 6 times compared to 6,000 customers which was the yearly net increase of customers in the previous period.
- Additional increase of 273 thousand customers by M&A of Tokyo Bay Network and TV Tsuyama
- The plan was achieved as prospected at the beginning of the period which will lead to revenue increase by the increased number of monthly charging cases in the future.



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Promotion of growth investment on the background of equity enhancement

- Additional 1.8-point increase of equity ratio because of conversion of convertible bonds and inclusion of current net earnings
- Although free cash flow decreased temporarily due to actively expanded investment of 3.7 billion yen, M&A investment of 1.2 billion yen, etc. in addition to spending of cost in advance to acquire new customers and introduction of new services, interest-bearing debt was continuously reduced, and the interest-bearing debt/EBITDA ratio was maintained at the same level as the previous period.

Equity ratio	34.5 % End of March 2017	➡	36.3 % End of March 2018
Interest-bearing debt balance	54.1 billion yen End of March 2017	➡	51.0 billion yen End of March 2018
Operating cash flow	26.7 billion yen Period ending in March 2017	➡	20.9 billion yen Period ending in March 2018
Investing cash flow	- 11.0 billion yen Period ending in March 2017	➡	- 11.5 billion yen Period ending in March 2018
Free cash flow	15.7 billion yen Period ending in March 2017	➡	9.4 billion yen Period ending in March 2018
Interest-bearing debt/EBITDA ratio	1.9 times Period ending in March 2017	➡	1.9 times Period ending in March 2018

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Points of financial results in FY 2017 (cost increase and effect)

- ◎ In the previous period, cost spent in advance for growth, etc. was increased by 3.7 billion yen compared with the previous period. As a result, number of customers increased which established the base for future revenue growth.
- ◎ With regard to effect of increased profit because of increased number of customers during the period, initially estimated 1.1 billion yen increased to 1.8 billion yen, resulting in establishment of revenue base which leads to increased profit in the next period and onward.

Item		Spending of cost in advance (comparison with the previous period) and its result		
		Initial	Result	
Area expansion in gas business, etc.	Cost to establish new bases	- 0.3 billion yen	- 0.2 billion yen	Expansion of LP gas business to Okayama Prefecture (Kurashiki) and Gifu Prefecture (Tajimi)
	Cost to acquire customers	- 0.4 billion yen	- 0.8 billion yen	Number of newly acquired customers of LP gas business, 41 thousand customers -> 47 thousand customers, increase of 6 thousand customers
	New customer acquisition fee	- 0.4 billion yen	- 0.7 billion yen	
Start of new communication service	LIBMO sales promotion	- 0.5 billion yen	- 0.7 billion yen	Number of LIBMO customers, net increase of 27 thousand customers
Prevention of suspension/cancellation	Gas business	- 0.3 billion yen	- 0.5 billion yen	Number of LP gas service suspension, cancellation, 33 thousand customers -> 28 thousand customers, reduction of 5 thousand customers
	Communications and other	- 0.6 billion yen	- 0.8 billion yen	Number of BB service suspension, cancellation, 124 thousand customers -> 115 thousand customers, reduction of 9 thousand customers
Influence of increased spending of cost in advance		- 2.5 billion yen	- 3.7 billion yen	
Increased profit because of increased number of customers, etc.		+1.1 billion yen	+ 1.8 billion yen	LP gas business, CATV business, Hikari Collaboration Model, communications services for corporate customers
Increase of LP gas unit consumption		- billion yen	+0.3 billion yen	
Other		- billion yen	- 0.2 billion yen	
Consolidated operating profit compared with the previous period		- 1.4 billion yen	-1.8 billion yen	

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Success of expanded investment achieved the record-high profit this period.

- ◎ As a result of increased number of customers in the previous period and the current period, the increased profit of 2.1 billion yen can be expected because of the increased number of monthly charging cases associated with the increased number of customers, etc., and the increased profit of 2.9 billion yen can be expected because cost to be spent in advance, etc. will decrease by 0.8 billion yen from the previous period in the current period.
- ◎ Cost will be continuously spent in advance in the current period to increase the number of customers in a steady manner, and establishment of base for increased profit will be promoted toward FY 2019 and FY 2020 surely and steadily.

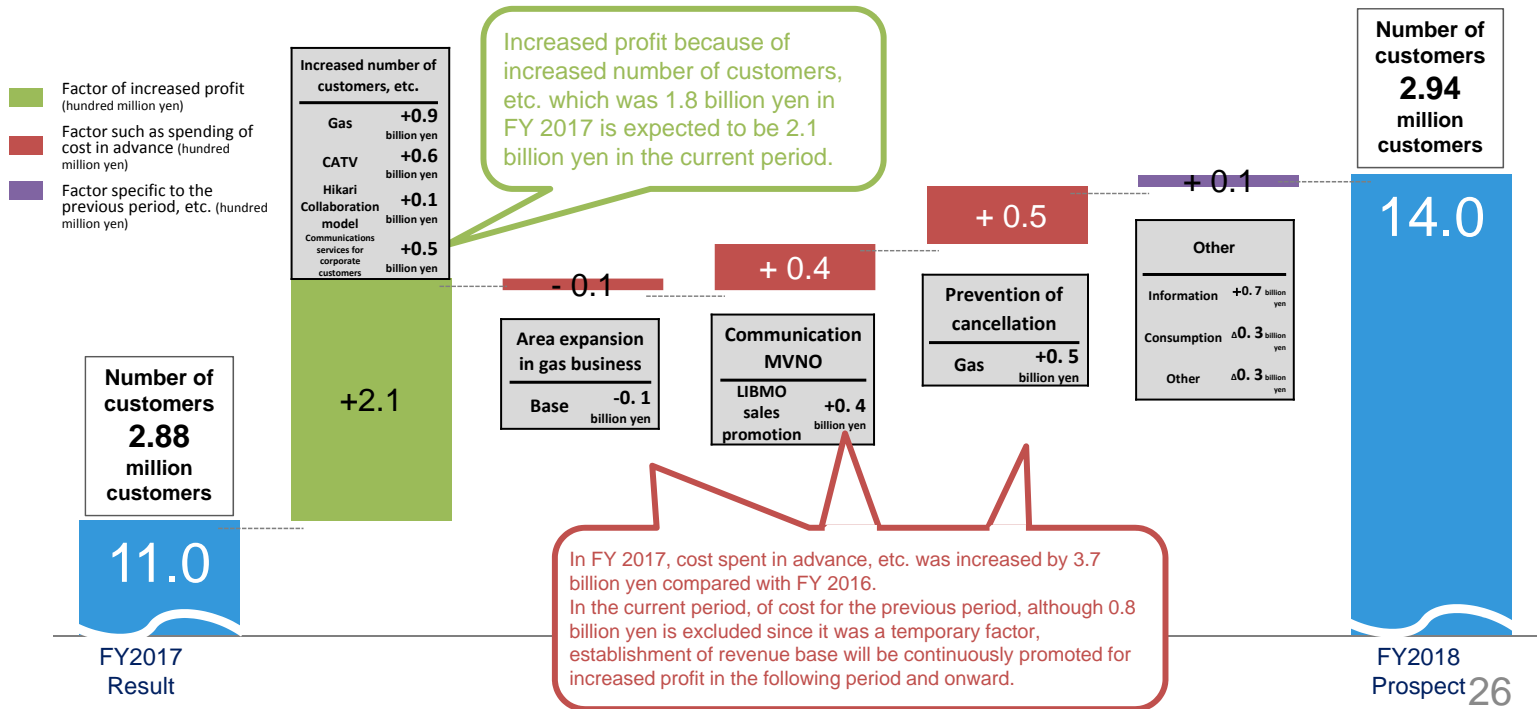
(Unit: million yen)

	Estimation of the current period (FY2018)	Result of the previous period (FY2017)	Comparison with the previous period	
			Change	Change rate
Sales	195,600	186,069	+9,531	+5.1%
Operating profit	13,960	10,971	+2,989	+27.2%
Ordinary profit	13,880	11,191	+2,689	+24.0%
Current net earnings	7,920	6,620	+1,300	+19.6%
Earnings per share	60.48 yen	51.19 yen	9.30 yen	+18.2%

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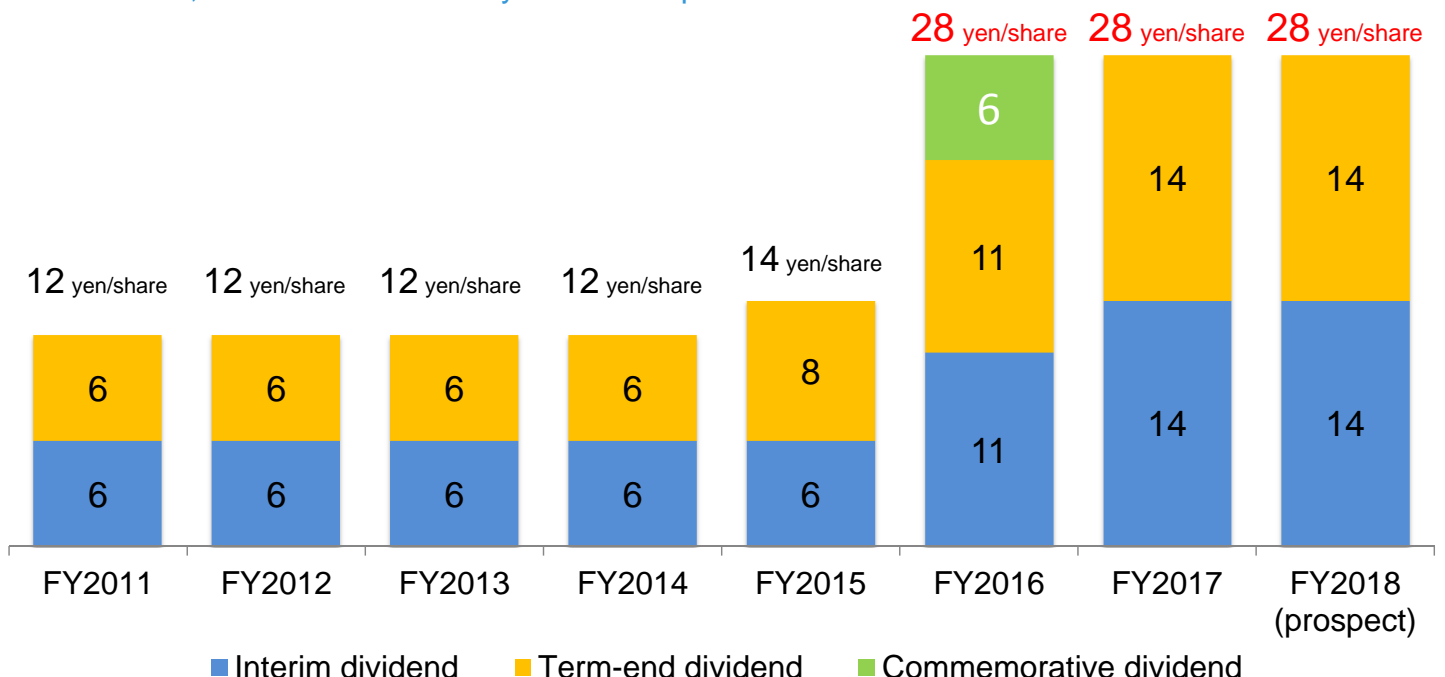
Point of increased profit in FY 2018

- As a result of increased number of customers (increase of 312 thousand customers in FY 2017 and increase of 65 thousand customers in FY 2018), the total number of charging cases in FY 2018 will increase, which will result in estimated 2.1 billion yen of increased profit.
- Although the enhancement of customer base will be continuously promoted, of the cost to be spent in advance, cost specific to the previous period, etc. will decrease by 0.8 billion yen.



Continuous and stable dividend policy

- In FY 2017, as already announced, under the policy to pursue continuous and stable dividend, the level of yearly 28 yen/share was maintained as ordinary dividend including 6 yen of commemorative dividend in FY 2016.
- In FY 2018, the same level of 28 yen/share is planned.

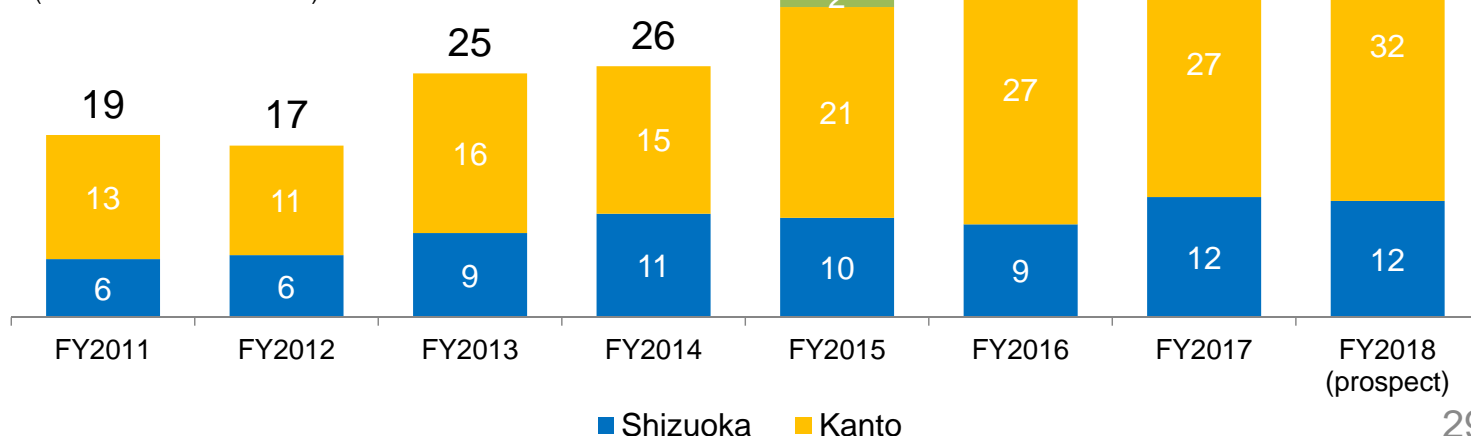


LP Gas Business

Steady improvement of ability to acquire new customers

- ◎ Expansion outside the previous our area of Shizuoka Prefecture and Kanto District was started in FY 2015.
- ◎ Since 2011 when our company changed into a holding company, the ability to acquire new customers has been steadily enhanced through strengthening of the management structure and the financial aspect year by year.
- ◎ In FY 2017, approx. 50 thousand customers were obtained, which was the increase by 15% compared with the previous period. In FY 2018, 60 thousand customers, increase by 30%, in the existing and expanded areas are planned to be obtained.
- ◎ The ability to acquire new customers will be further enhanced since it leads to deterrence of competition with other companies.

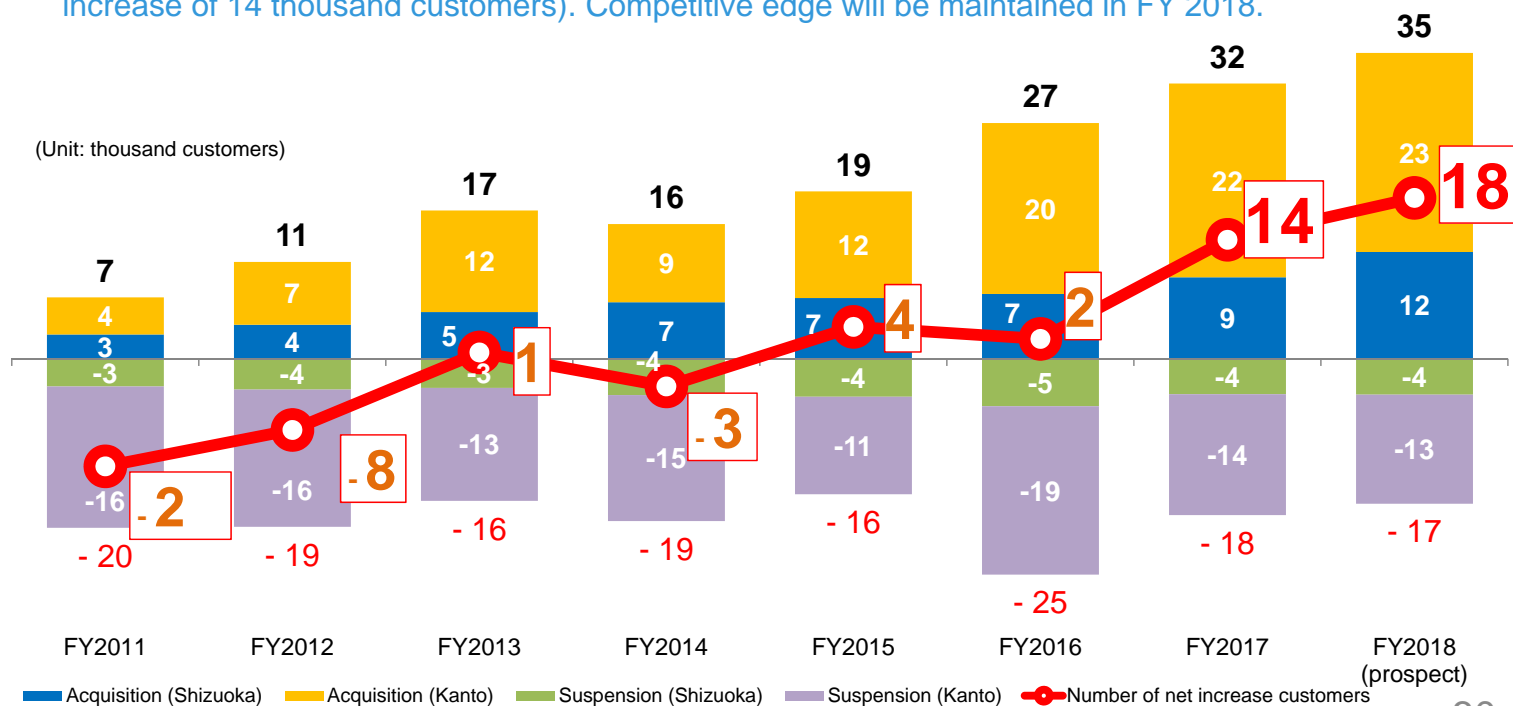
(Unit: thousand customers)



* The number of customers includes customers acquired through trade area acquisition etc.

Advantage in competition among LP gas suppliers

- ◎ In FY 2015, our Company began to have advantage in competition.
- ◎ In FY 2017, the number of acquired customers increased thanks to the active spending of cost, and at the same time, placing emphasis on cancellation prevention enhanced our competitive power (net increase of 14 thousand customers). Competitive edge will be maintained in FY 2018.



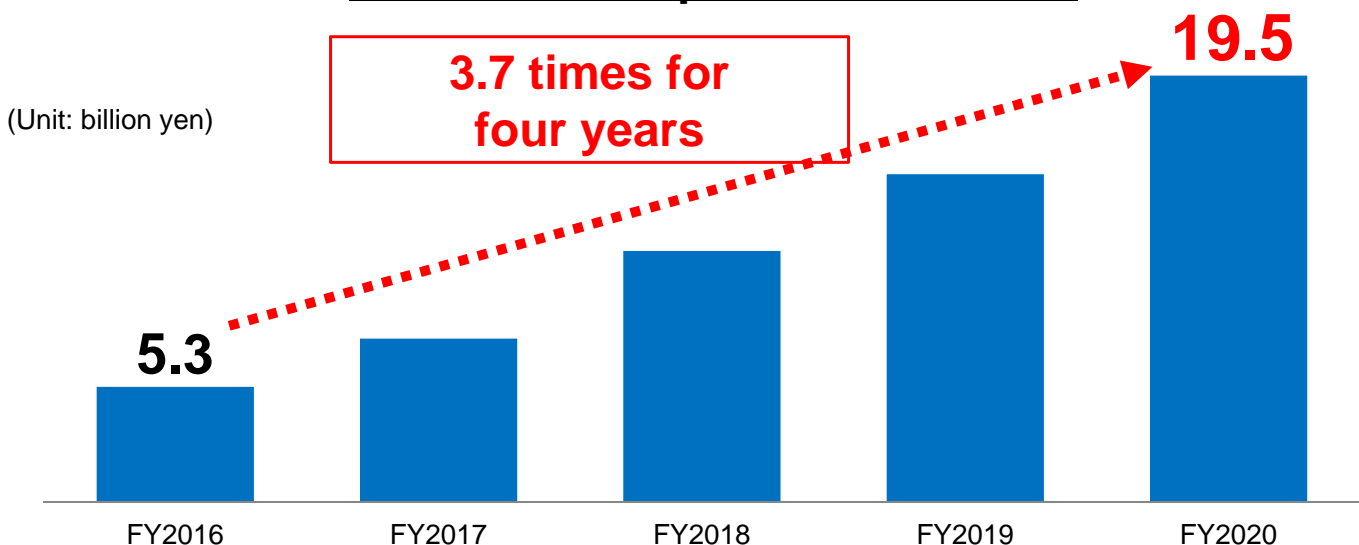
Information and Communications Services

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Further market expansion of cloud-related service

- ◎ Cloud-related service is attracting attention as future big growth is expected.
- ◎ Cloud connection service market in the market of network for corporate customers which was 5.3 billion yen in FY 2016 will be 19.5 billion yen in FY 2020, and 3.7 times growth is expected.

Prediction of market of cloud connection service for corporate customers



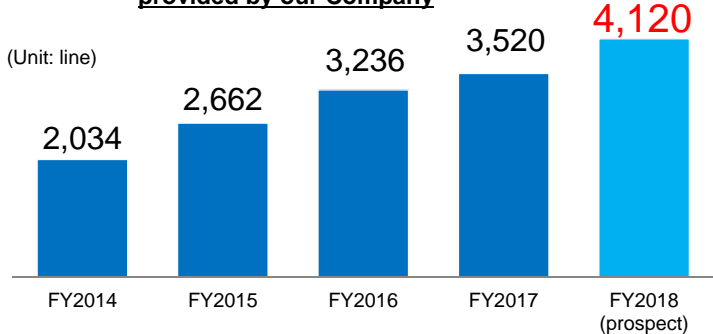
(Source: Fuji Chimera Research Institute (September 2016), IDC Japan (January 2017))

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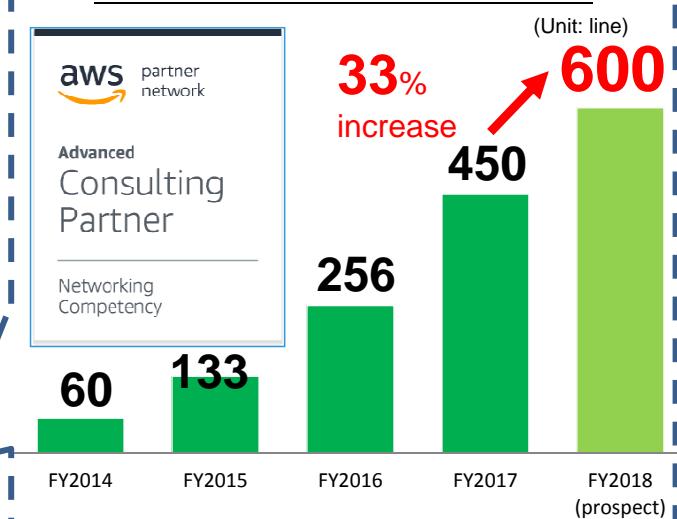
Growth by promotion of cloud connection service

- Provision of cloud connection service to connect on-premise system of customers with major public cloud service is actively promoted.
- By responding to the demand for cloud connection service, great enhancement of network service for corporate customers is planned.
- In particular, for connection line with AWS, taking advantage of a “qualified partner of AWS networking competency” first in Japan, great increase (+33%) from the previous year is planned in FY 2018.

Number of lines for communication service provided by our Company



Number of AWS connection lines



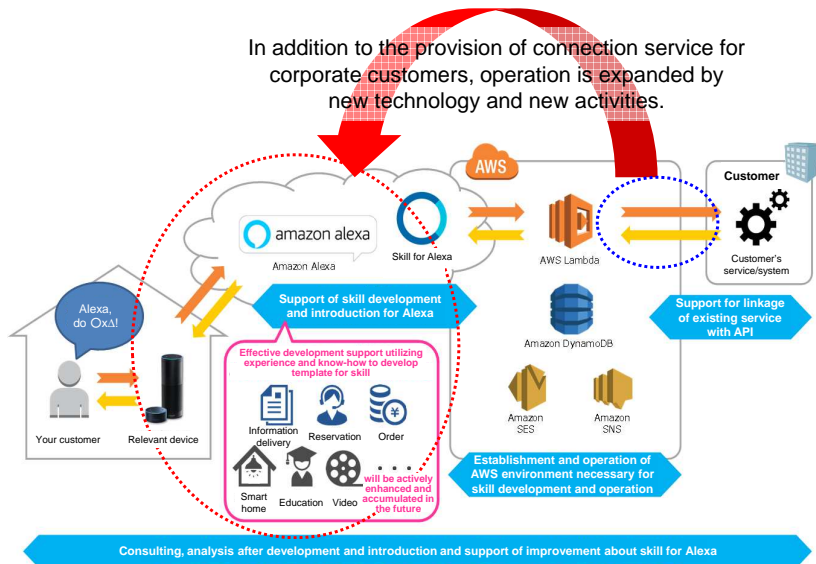
Service for communications between bases	Internet service	Solution service
<ul style="list-style-type: none"> ▶ Ethernet dedicated line Connection of two bases by bandwidth guaranteed, highly reliable dedicated line ▶ Relation Ethernet Wide-area Ethernet connecting multiple bases by layer 2 at low cost ▶ Video transmission service Provision of high-quality and stable video transmission NW for business operators ▶ Service dedicated to optic fiber Provision of our high-quality optic fiber by simplex 	<ul style="list-style-type: none"> ▶ Ethernet Internet Provision of high-speed Internet line with stable quality ▶ Data center connection Internet Provision of menus that meet various needs of customers ▶ Transit High-quality transit connection service for business operators 	<ul style="list-style-type: none"> ▶ Cloud connection solution Ensuring secure and high-quality cloud connection ▶ AWS connection service Various service to connect customers bases with AWS ▶ IBM cloud Direct Link connection service High-quality connection of customer's bases with IBM cloud ▶ GCP connection service Connection of customer's bases with Google Cloud Platform

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Expansion of operations in new areas through development support of “Amazon Alexa”, etc.

- Provision of skill development support service for “Amazon Alexa” was started by utilizing technology, knowhow and experience obtained in cloud connection service.
- Voice order system for our bottled water delivery service was developed and the provision was started (2017/11/8 press release).
- Emphasis is also placed on new areas, and operation is expanded in information and communications services for individual customers and corporate customers.

In addition to the provision of connection service for corporate customers, operation is expanded by new technology and new activities.



One-stop provision of development and introduction of various functions (skills) supporting “Amazon Alexa”

TOKAI うるのんスキル

お水のご注文がカンタンに。

「アレクサ、おいしい水、うるのん、ヘアケア、忙しい時間をおご注文。」

AIスピーカーで 高速バス予約

AIスピーカーとの会話で高速バスの座席を予約

「行先をお話し下さい」

「お車の人数、日にち、予約料金は?」

「大人2人、1月20日(金曜日)、17時」

「座席がありましたか、何番目のバスを予約しますか?」

「1番目」

座席指定電車でも検討

「お水のご注文がカンタンに。」

「アレクサ、おいしい水、うるのん、ヘアケア、忙しい時間をおご注文。」

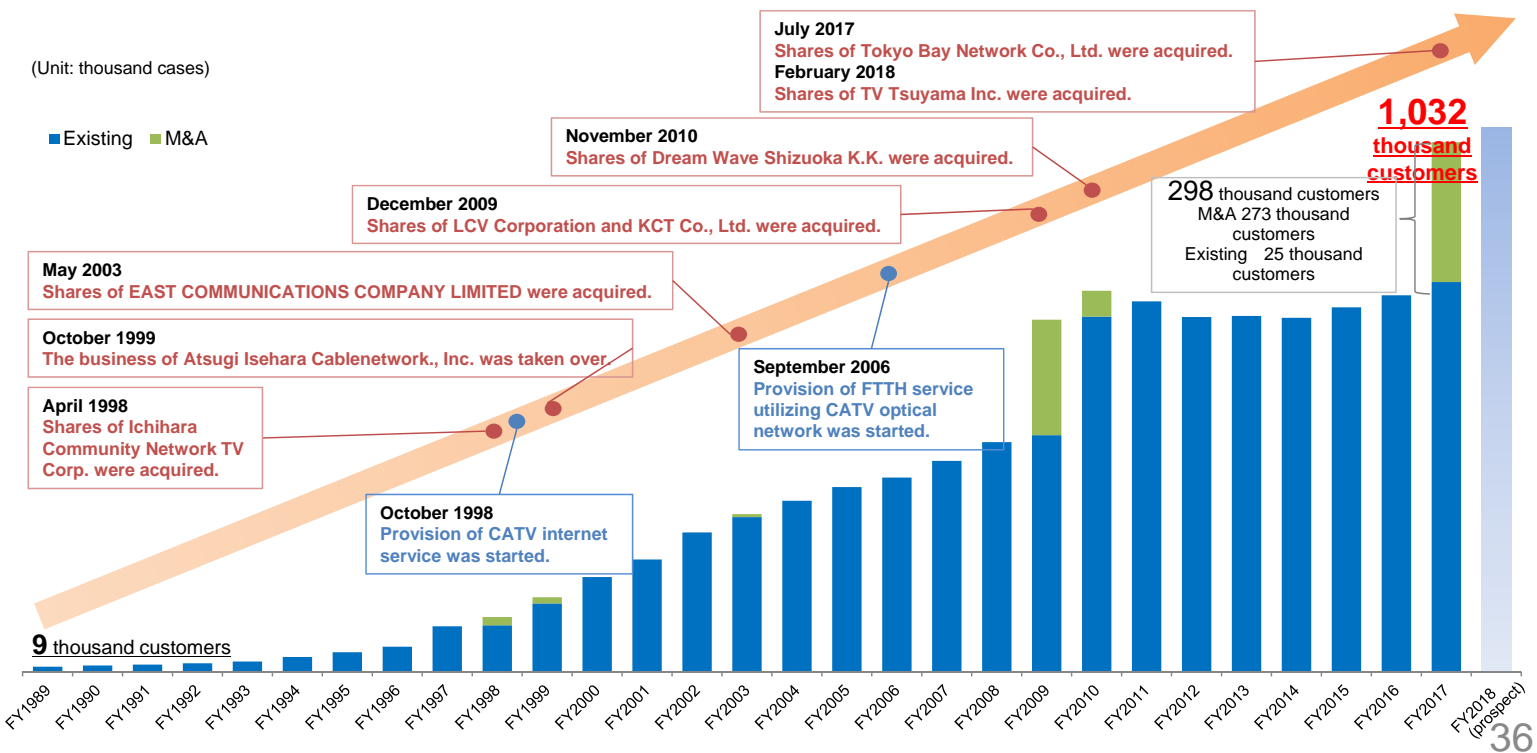
「お水のご注文がカンタンに。」

「アレクサ、おいしい水、うるのん、ヘアケア、忙しい時間をおご注文。」

CATV Business

Expansion of the customer base for CATV business

- Our CATV business has become business with one million customers by now through expansion of bases by M&A (Tokyo and five prefectures in Japan), increase of the number of customers by marketing capacity which is the Group's strength.
- In FY 2017, in addition to the increase of 25 thousand customers by sales activities to acquire new customers in the existing areas, 273 thousand customers were acquired through M&A, resulting in net increase of approx. 300 thousand customers.



Our own fiber-optic network is the strength in CATV business

- Looking toward the era of amalgamation of broadcasting and telecom systems, introduction of FTTH up to last one mile was started in 2006, and the introduction of optical fiber networks will be almost completed in all of our CATV areas by FY 2020.
- This achieved high level of earning capacity in communications service, and this has become a source of Group's competing power as a network that can respond to advanced broadcasting of 4K and 8K in the future.
- In the midst of growing expectation for a public comprehensive information and communications network and local media, by utilizing our strength of community-based business, expansion will be promoted while considering capital alliance with other companies.

(Schedule for introduction of broadcast optical network)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021 ~
TCN (Completion of 100% optical communication network)	Center establishment	Broadcast and communication	Set optical network	Starting inclusion of customers only for broadcast into optical network	Plan of completion in FY 2024
EAST (Completion of 100% optical communication network)		Center establishment	Broadcast and communication customers set optical network	Starting inclusion of customers only for broadcast into optical network	Plan of completion in FY 2022
TOCO Channel (Optical broadcasting was already started.)	Rate of optical communication network area, 90% Broadcast and communication set optical network	99% Broadcast and communication	100% Set optical network	100% Set optical network	Plan of completion in FY 2025
Ichihara (Concurrent expansion of optical communication network)	Rate of optical communication network area, 52%	56% Center establishment	69% Broadcast and communication	75% Broadcast and communication set optical network	Plan of completion in FY 2025
KCT (Concurrent expansion of optical communication network)	Rate of optical communication network area, 65% Center establishment	81% Center establishment	86% Broadcast and communication	100% Broadcast and communication set optical network	Plan of completion in FY 2026
Atsugi (Concurrent expansion of optical communication network)	Rate of optical communication network area, 69% Center establishment	74% Center establishment	79% Broadcast and communication	83% Broadcast and communication set optical network	Plan of completion in FY 2026
L C V (New optical network for broadcast and communication)	Rate of optical communication network area, 18% Center establishment	46% Center establishment	76% Broadcast and communication	100% Broadcast and communication set optical network	Plan of completion in FY 2024
Tsuyama (New optical network for broadcast and communication)	Rate of optical communication network area, 0% Start of optical network from the latter half of the year	Center establishment	55% Center establishment	80% Broadcast and communication set optical network	Plan of completion in FY 2024

Prospect of business performance and future outlook described in this material are our estimation based on information available as of this moment, and potential risk and uncertainties are included. Therefore, please note that actual business performance is possibly very different from the described future outlook due to change of various factors.

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