

Financial Results for the First Half of the Fiscal Year Ending March 31, 2019

November 6, 2018
TOKAI Holdings Corporation
(Code: 3167)

Overview of 1H FY03/19

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TOKAI Holdings Corporation

Essential points of 1H FY03/19 financial results

➤ Despite influence of higher temperatures and rising procurement costs in LP gas business, TOKAI made steady progress overall.

◎ 35% YoY net increase in customer count, which represents our earnings base

- Customer count at end-1H FY03/19 was 2.89 million, an increase of 17,000 (+0.6%) customers over the 2.88 million at the beginning of FY03/19.
- Net increase was 35% higher than 1H FY03/18 (13,000 customers), further expanding our earnings base.

◎ Sales increased 3.9 billion yen (+4.6%) YoY to 88.8 billion yen, a record high, as operating profit rose 11.6%, a double-digit increase.

- Sales reached an all-time high due to the successful investments to grow business in FY03/18, as well as sales growth stemming from a higher customer count and M&A effects.
- In terms of profit, despite the impact of higher temperatures on LP gas sales volume, the customer count increased, resulting in a double-digit growth in profit.

2

Overview of 1H FY03/19

3

Medium-term management plan targets twofold increase in four years compared with FY03/17

- Aggressive plan targeting sales of 339.3 billion yen, 1.9 times higher than FY03/17, operating profit of 22.5 billion yen, 1.8 times higher than FY03/17, and over 4.32 million customers, 1.7 times higher than FY03/17
- Plan targets 2.6 times higher interest-bearing debt/EBITDA ratio, equity ratio of 31.6%, and ROE of 13.0% with emphasis on capital efficiency

Billions of yen	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Results	Plan	Plan	Plan	Plan
Sales	178.6	189.4	202.0	224.4	(1.9 times) 339.3
Operating profit	12.8	11.4	14.0	16.2	(1.8 times) 22.5
Net income	7.3	6.4	7.9	8.7	(1.6 times) 11.5
Total assets	161.1	169.8	173.8	191.2	(1.8 times) 283.4
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%
Customer count (Million customers)	2.56	2.88	2.99	3.72	(1.7 times) 4.32 or more

* Figures in () represent comparison with FY03/17.

4

M&A strategy under Innovation Plan 2020 “JUMP”

- During the four-year period starting FY03/18, the following M&A strategies will be implemented to accelerate growth.

Invest 100 billion yen over four-year period

Strengthen core businesses

Further expand LP gas, city gas, CATV, and information and communications service businesses.

Expand customer base through M&A and alliances.

Acquire new services

Acquire new services to drive future growth.

Focus efforts on acquisitions as well as capital alliances.

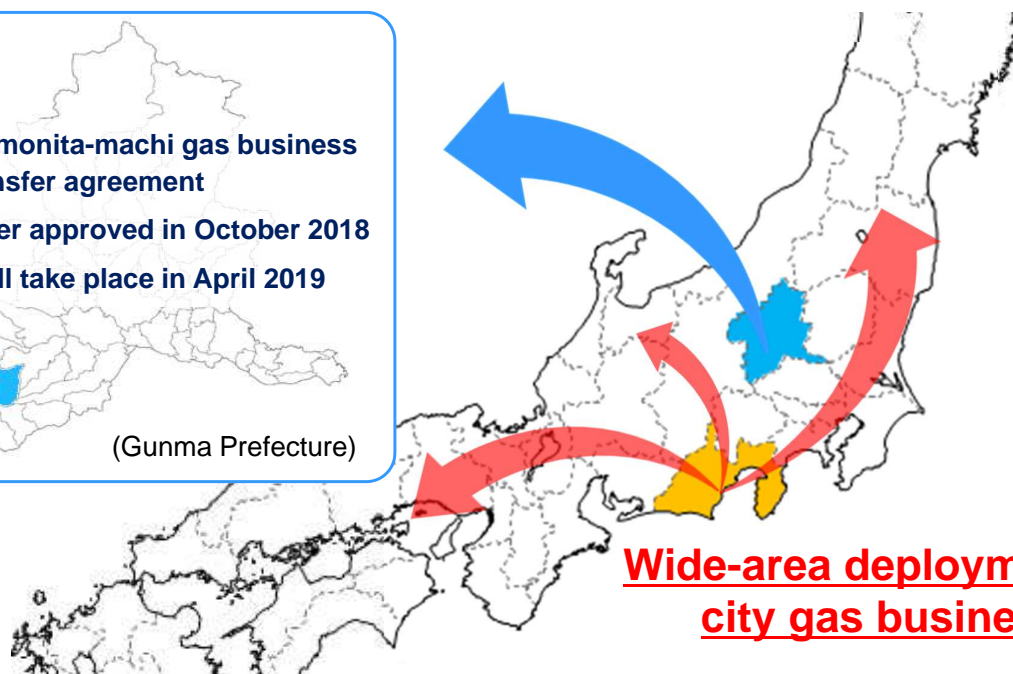
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Results of M&A in 1H FY03/19

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First steps toward wide-area deployment of gas business

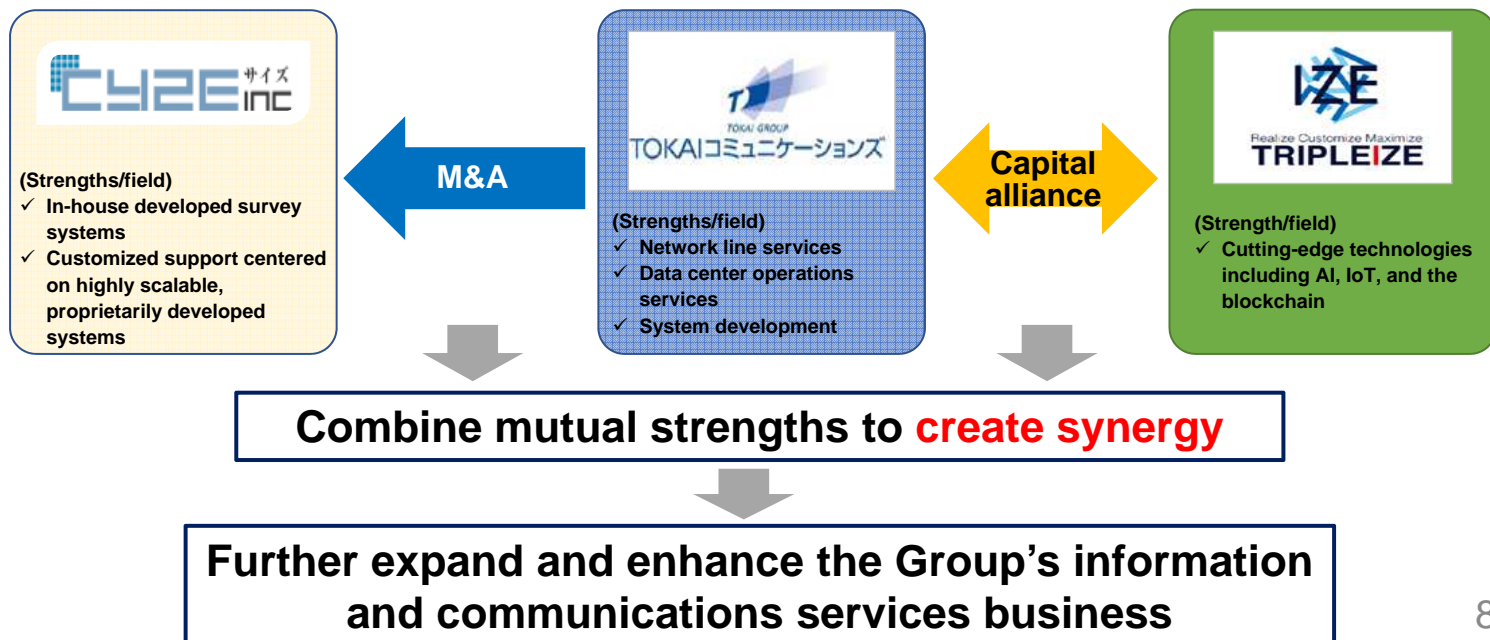
- Concluded agreement on transfer of gas business managed by Shimonita-machi in Gunma Prefecture in April 2018, received approval from the Kanto Bureau of Economy, Trade and Industry in October. Handover will take place in April 2019.
- Taking first steps toward wide-area deployment of city gas business
- Intends to use this opportunity to further expand the scope of city gas business



7

Creating synergy in information and communications services business

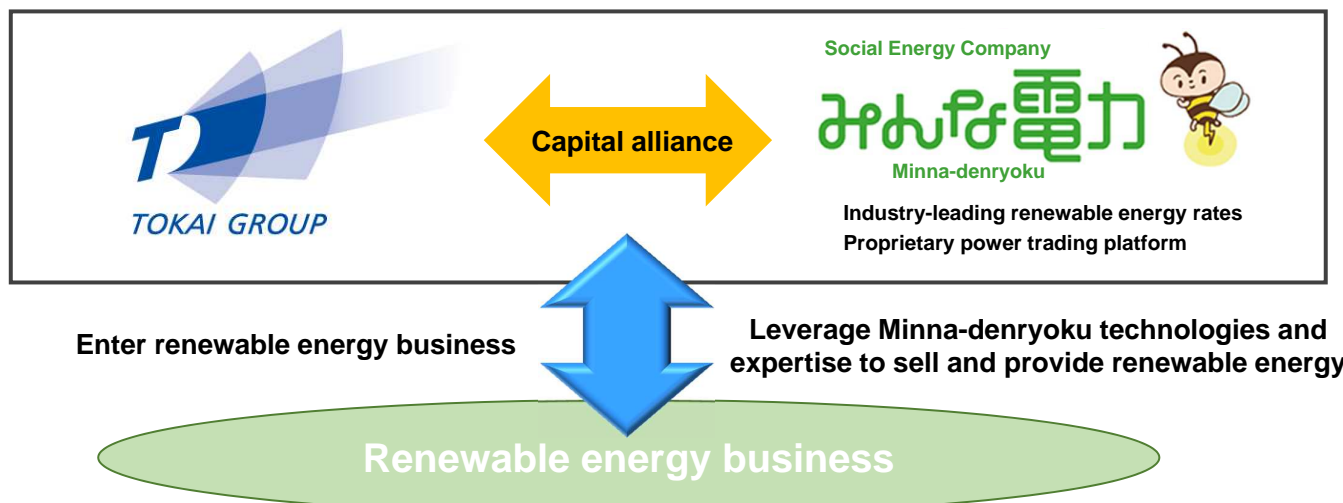
- CYZE Inc., a developer and provider of survey systems, became a consolidated subsidiary.
- Commenced a capital and business alliance agreement with Tripleize Co., Ltd., which has strengths in cutting-edge technologies including AI, IoT, and the blockchain
- Aims to create synergy by combining mutual strengths, further expanding and enhancing the Group's information and communications services business



8

Initiated considerations with regard to entering new business areas

- In August 2018, commenced capital and business alliance agreement with new power venture operator Minna-denryoku, Inc., began full-fledged consideration with regard to entering the renewable energy business
- From 2019, the number of solar power generation systems reaching maturity under the feed-in-tariff (FIT) system will increase, which is expected to result in more companies choosing renewable energy from the perspectives of RE100^{*1}, ESG^{*2}, and CSR.
- Leverage Minna-denryoku technologies and expertise, link to the Group businesses



1. International corporate initiative whereby member companies engage in generating 100% of the energy they use from renewable energy sources
 2. Stands for Environment, Social, and Governance, used as an indicator to determine if companies can grow sustainably

9

ABCIR+S Strategy Progress

An acronym formed by the first letters of AI, big data, cloud, IoT, robotics, and smartphones. It refers to the Group's strategy for technological reform.

10

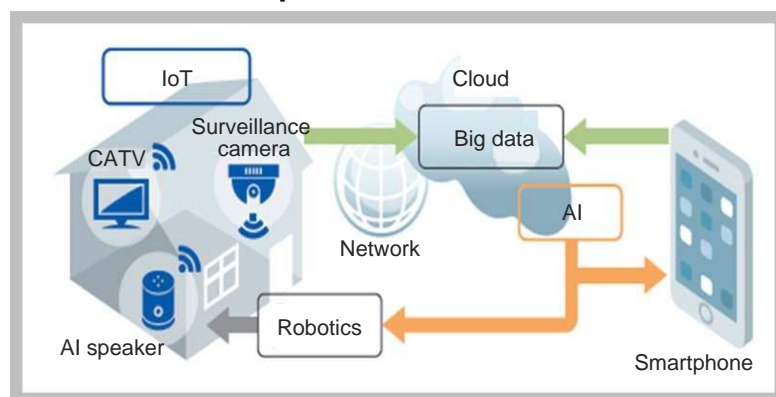
ABCIR+S strategy deliberation progress

- In addition to marketing capabilities accumulated since the Company was founded, the use of "ABCIR+S" to focus efforts on strengthening customer contact, developing new businesses, and improving operational efficiency will be an important strategy going forward.
- Deliberations are being advanced by a dedicated organization, the Head office for next-generation business strategy.

Marketing capabilities
(traditional strength)



ABCIR+S concept



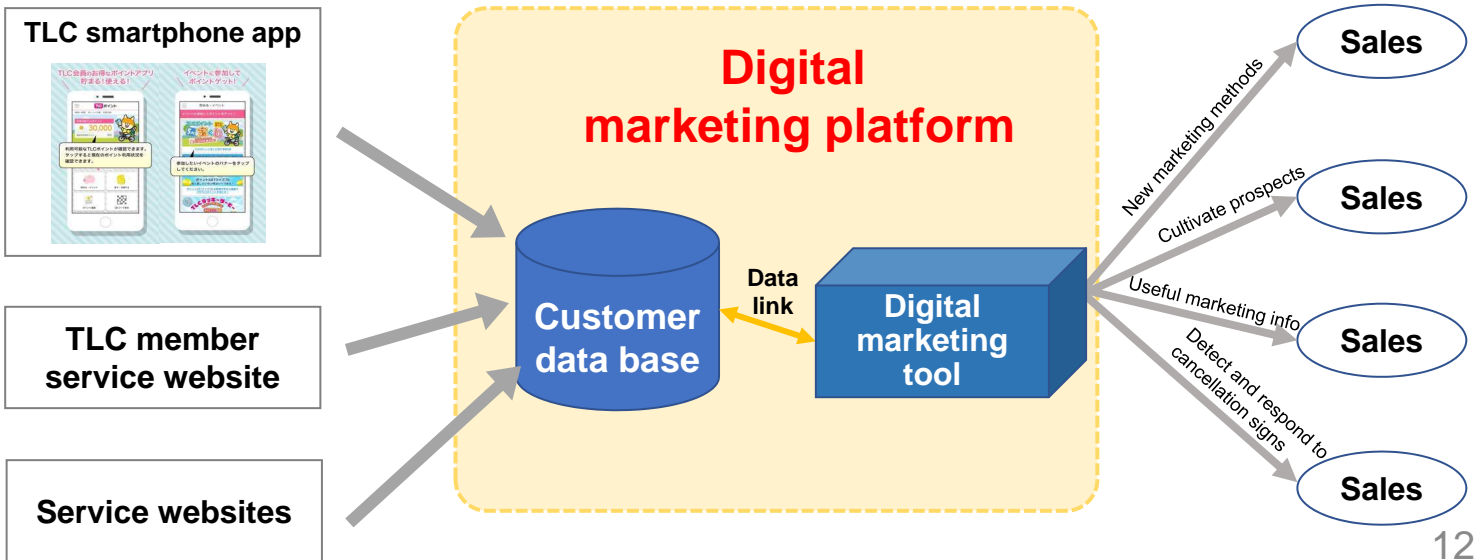
Dedicated organization "Head office for next-generation business strategy" will use ABCIR+S to focus efforts on **strengthening customer contact, developing new businesses, and improving operational efficiency.**

11

Creating new marketing methods

- Began distribution of TLC smartphone app in October 2018
- Timely provision of the Group's service, campaign, and event information to enhance TLC user convenience by enabling members to confirm and use their accumulated TLC points
- Launched creation of digital marketing platform as base for converting customer behavior into big data within owned media and realizing marketing in line with customer attributes and preferences

TLC: Total Life Concierge

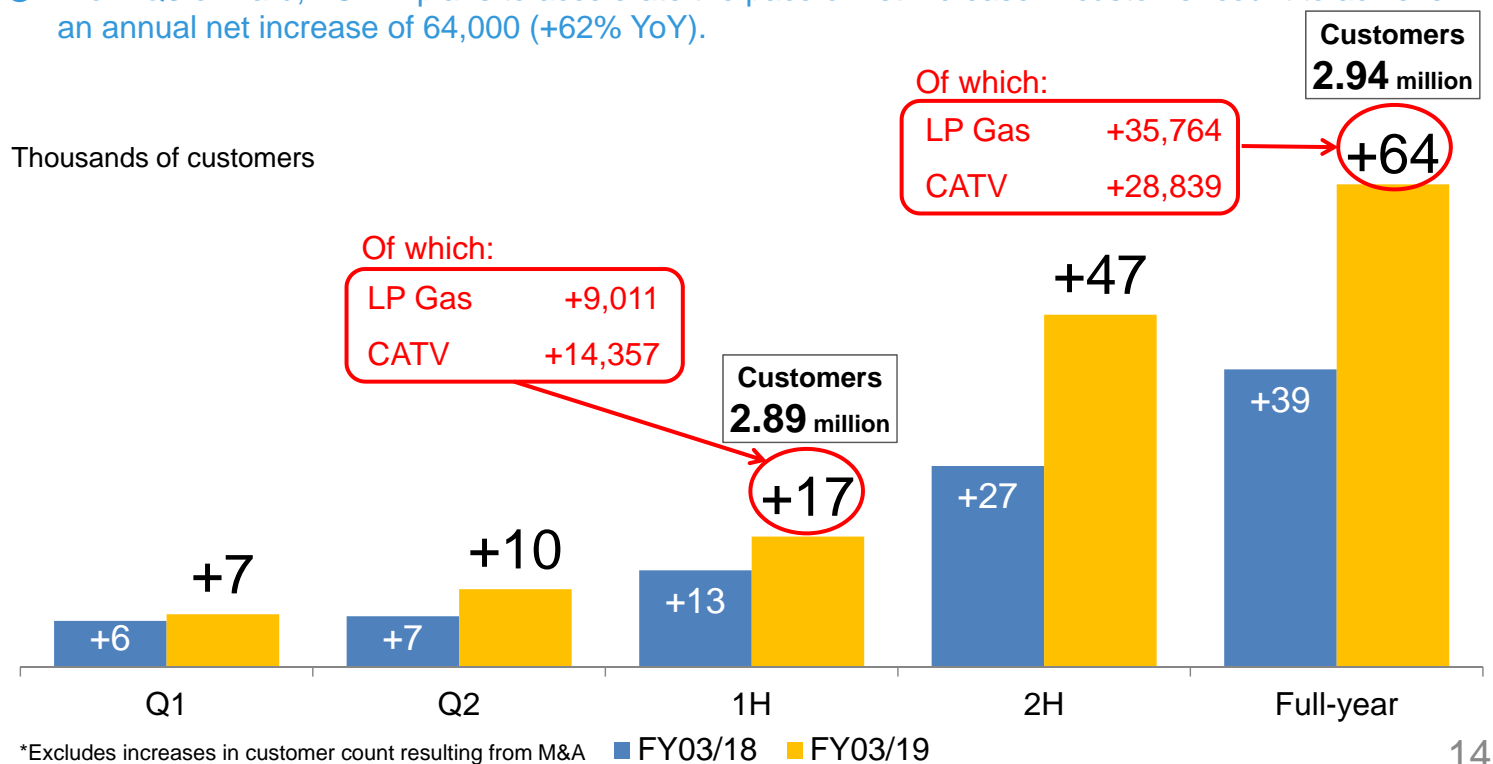


12

Essential Points of 1H FY03/19 Financial Results

Net increase in customer count up by double-digit YoY

- 1H saw a net increase in customer count of 17,303, up 34.9% YoY.
- Mainstay LP Gas and CATV businesses substantially contributed to the increase in customer count.
- From Q3 onward, TOKAI plans to accelerate the pace of net increase in customer count to achieve an annual net increase of 64,000 (+62% YoY).



14

Double-digit increase YoY in all profit categories

- Posted record high 1H sales thanks to an increase in customer count and effects of M&A conducted in FY03/18
- Profit was up 400 million yen (+11.6%) YoY on greater number of monthly fee-paying customers accompanying an increase in customer count.
- Excluding the impact of lower LP gas sales volume due to higher temperatures and higher LP gas procurement costs, TOKAI made steady progress toward forecasts.

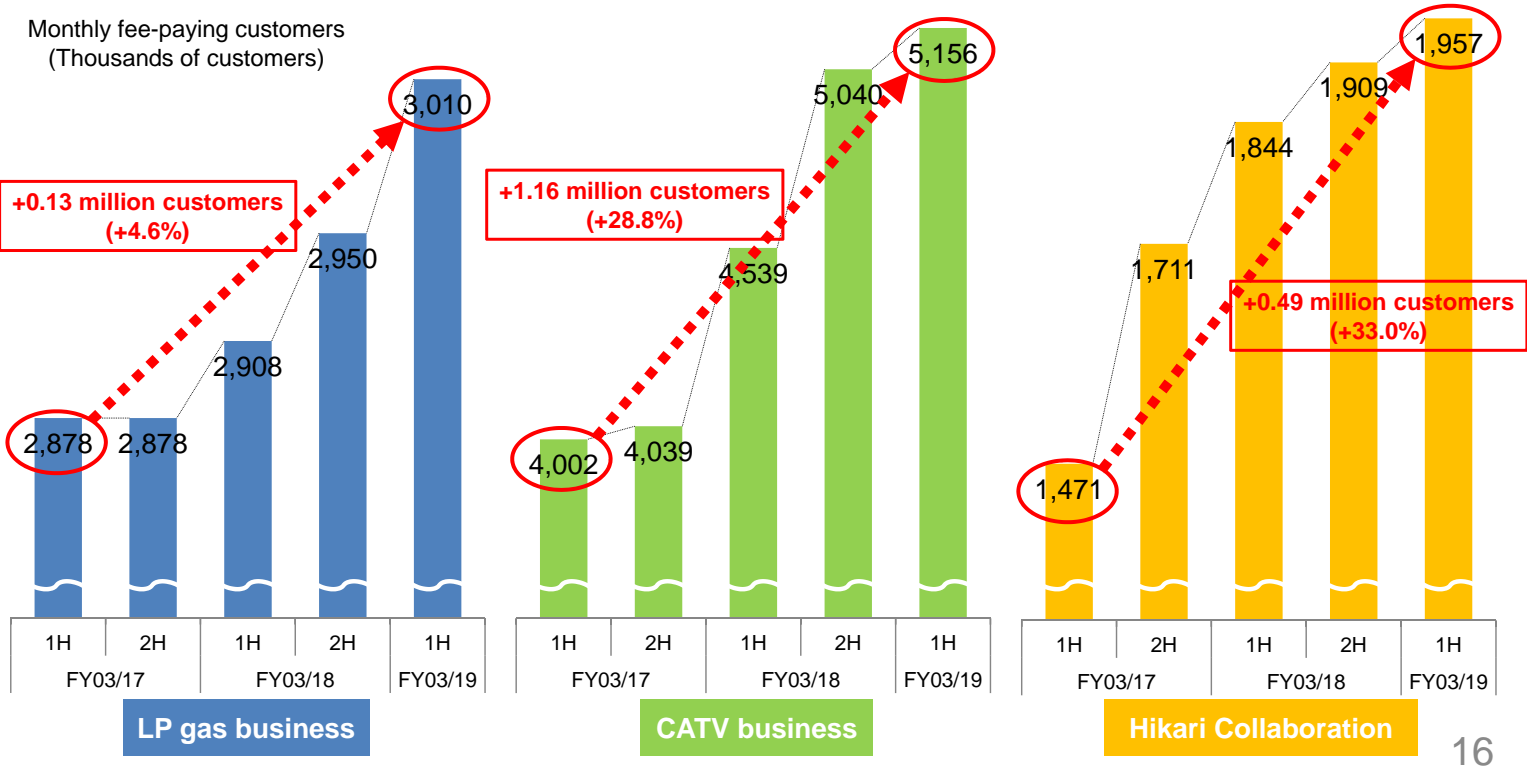
Millions of yen

	1H FY03/19 Results	1H FY03/18 Results	1H FY03/19 Forecasts	YoY		Versus Forecasts	
				Change	Percent Change	Change	Percent Change
Sales	88,840	84,911	90,100	+3,929	+4.6	-1,260	-1.4
Operating profit	3,475	3,114	3,700	+361	+11.6	-225	-6.1
Recurring profit	3,580	3,143	3,650	+437	+13.9	-70	-1.9
Net income	1,736	1,246	1,890	+490	+39.3	-154	-8.1
EPS (Yen)	13.26	9.76	14.43	+3.50	+35.9	-1.17	-8.1

15

Large increase in monthly fee-paying customers in mainstay businesses

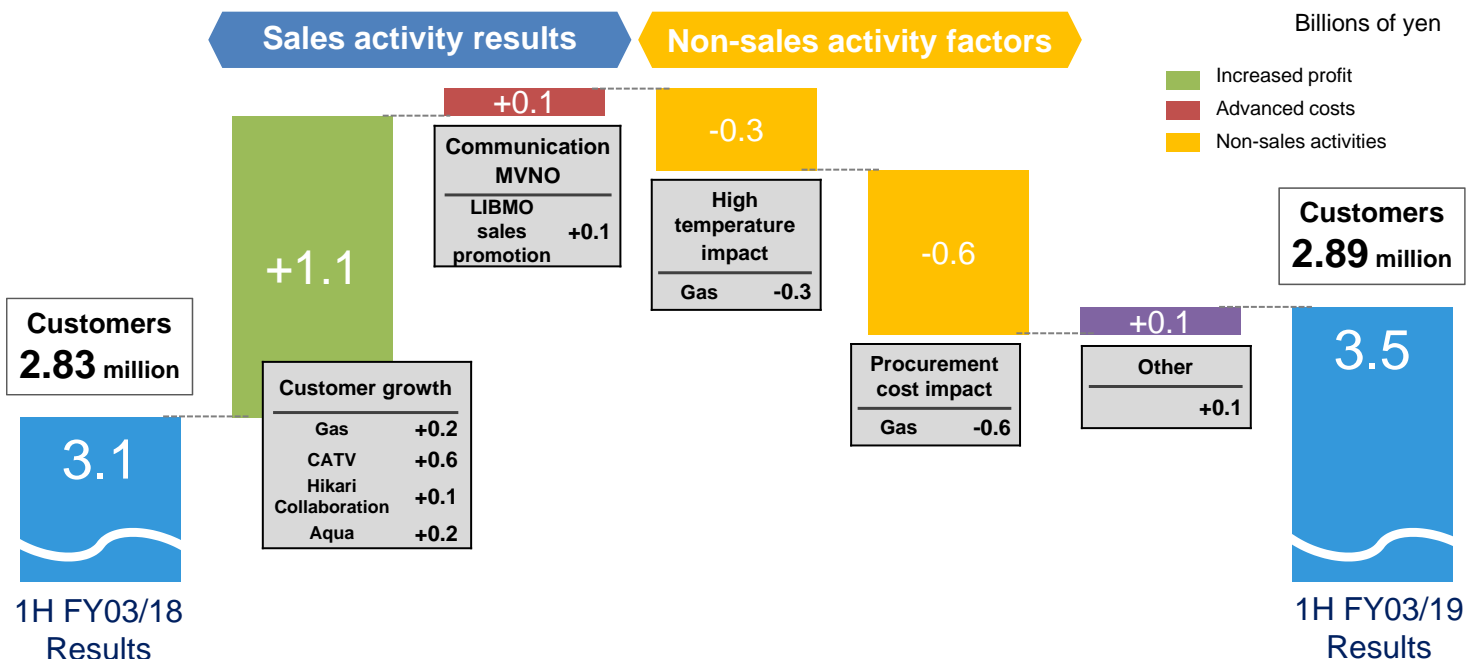
⊙ Earnings grow on an increase in monthly fee-paying customers due to rising customer count, which forms the Company's earnings base.



Factors causing operating profit increase in 1H

⊙ Customer count grew from 2.83 million at end-1H FY03/18 to 2.89 million at end-1H FY03/19, an increase of 60,000 customers. Customer growth pushed up operating profit by 1.1 billion yen and LIBMO (TOKAI-brand MVNO service) improved 100 million yen.

⊙ At the same time, non-sales activities resulted in costs of 900 million yen. (Procurement cost impacts will be countered in 2H.)



Promotion of growth investment on the background of equity enhancement

- Additional 0.8pp increase in equity ratio
- Despite increased operating profit and reduced corporate and other tax payments, as well as a temporary decrease in debt recovery amounts and increased debt payments, free cash flow declined but the interest-bearing debt/EBITDA ratio remained at 1.9 times, the same level as March 31, 2018.

Equity ratio	36.3 % As of March 31, 2018	➔	37.1 % As of September 30, 2018
Interest-bearing debt balance	51.0 billion yen As of March 31, 2018	➔	54.9 billion yen As of September 30, 2018
Operating cash flow	7.9 billion yen 1H FY03/17	➔	7.2 billion yen 1H FY03/18
Investing cash flow	(6.9) billion yen 1H FY03/17	➔	(7.0) billion yen 1H FY03/18
Free cash flow	1.0 billion yen 1H FY03/17	➔	0.2 billion yen 1H FY03/18
Interest-bearing debt/EBITDA ratio	1.9 times FY03/18	➔	1.9 times 1H FY03/19

Note: Interest-bearing debt/EBITDA ratio for 1H FY03/19 is based on the full-year EBITDA forecast.

18

Targets record profits in FY03/19

- Plans to post first record profits for all profit categories in two years with the success of aggressive investments to expand customer base in FY03/18
- Expects a 2.1 billion yen increase in profits on an increase in the number of monthly fee-paying customers owing to efforts to increase customer count in the current and previous fiscal years, and projects a further increase of 3.0 billion yen in profits on reduced upfront spending

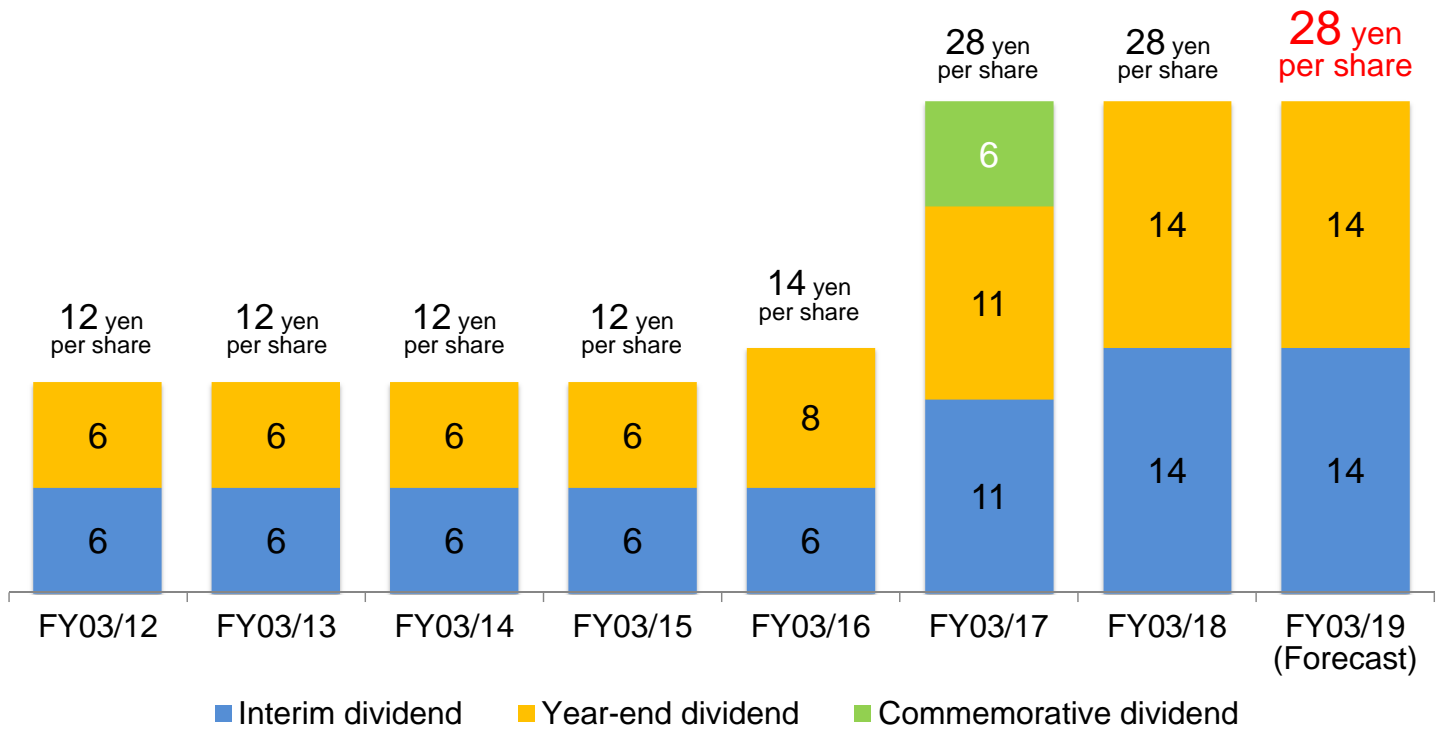
Millions of yen

	FY03/19 Forecasts (April 1, 2018 to March 31, 2019)	FY03/18 Results (April 1, 2017 to March 31, 2018)	YoY	
			Change	Percent Change
Sales	195,600	186,069	+9,531	+5.1%
Operating profit	13,960	10,971	+2,989	+27.2%
Recurring profit	13,880	11,191	+2,689	+24.0%
Net income	7,920	6,620	+1,300	+19.6%
EPS (Yen)	60.48	51.19	+9.30	+18.2%

19

Policy of consistently providing stable dividends

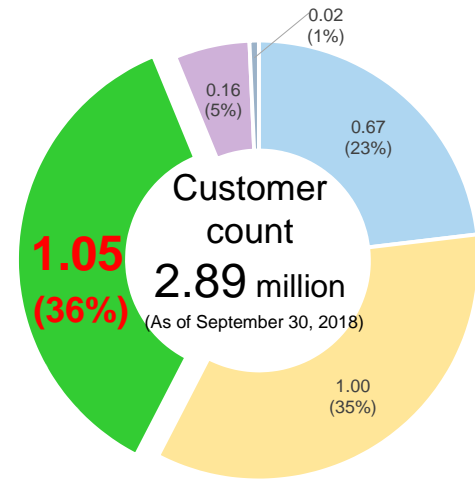
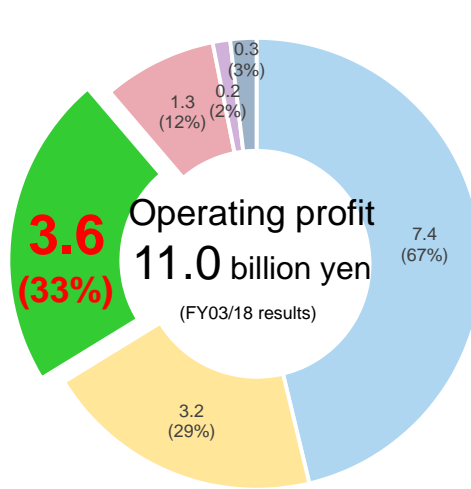
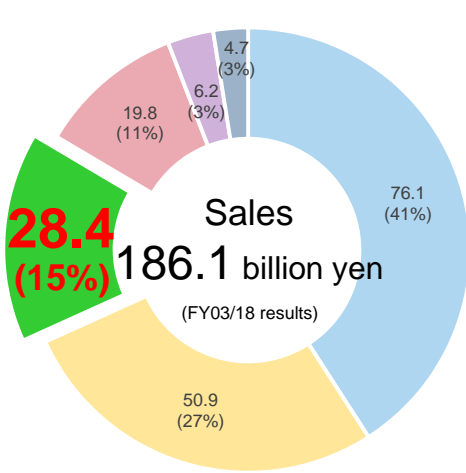
- © No change was made to the dividend forecasts (announced May 8, 2018).
- © Plans to pay an annual dividend of 28 yen per share



Group CATV Business Strategy

CATV business overview

- With a business scale comprising sales of 28.4 billion yen (15%) and operating profit of 3.6 billion yen (33%), positioned as one of the Group's core businesses
- With 1.05 million customers, accounts for 36% of overall, a business with largest customer count in the Group



Note: Before allocating overhead costs (pie chart: excluding adjustment amount).

Note: Communication services overlap in Information and Communications Services and CATV businesses, thus excluded from total value.

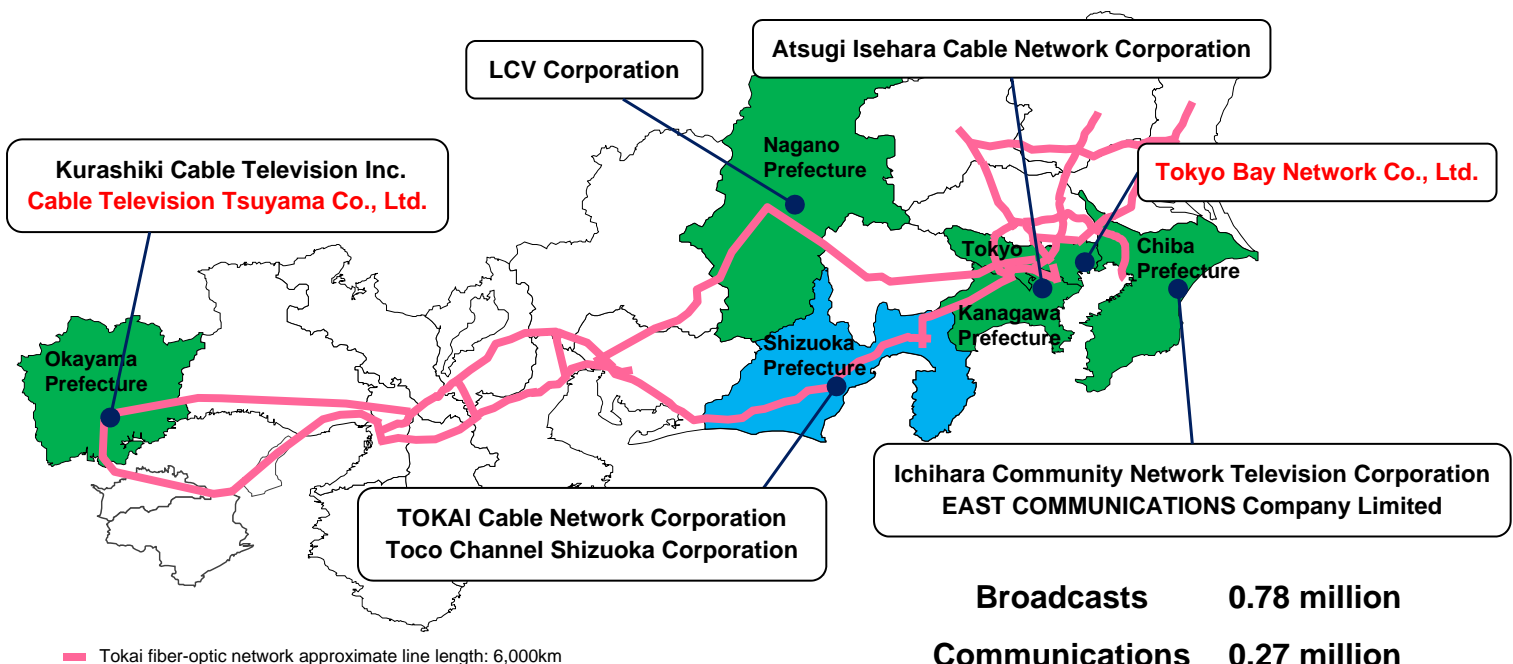
■ Gas and Petroleum ■ Information and Communications Services
 ■ CATV ■ Building and Real Estate
 ■ Aqua ■ Others

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 ■ CATV ■ Building and Real Estate
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■ Gas ■ Information and Communications Services
 ■ CATV ■ Aqua ■ Others

CATV business area expansion

- Launched in 1988 with capital participation in a cable TV company in Numazu, Shizuoka Prefecture
- Afterward, engaged in M&A to expand base with current business deployment in Shizuoka, Tokyo, Kanagawa, Chiba, Nagano, and Okayama prefectures

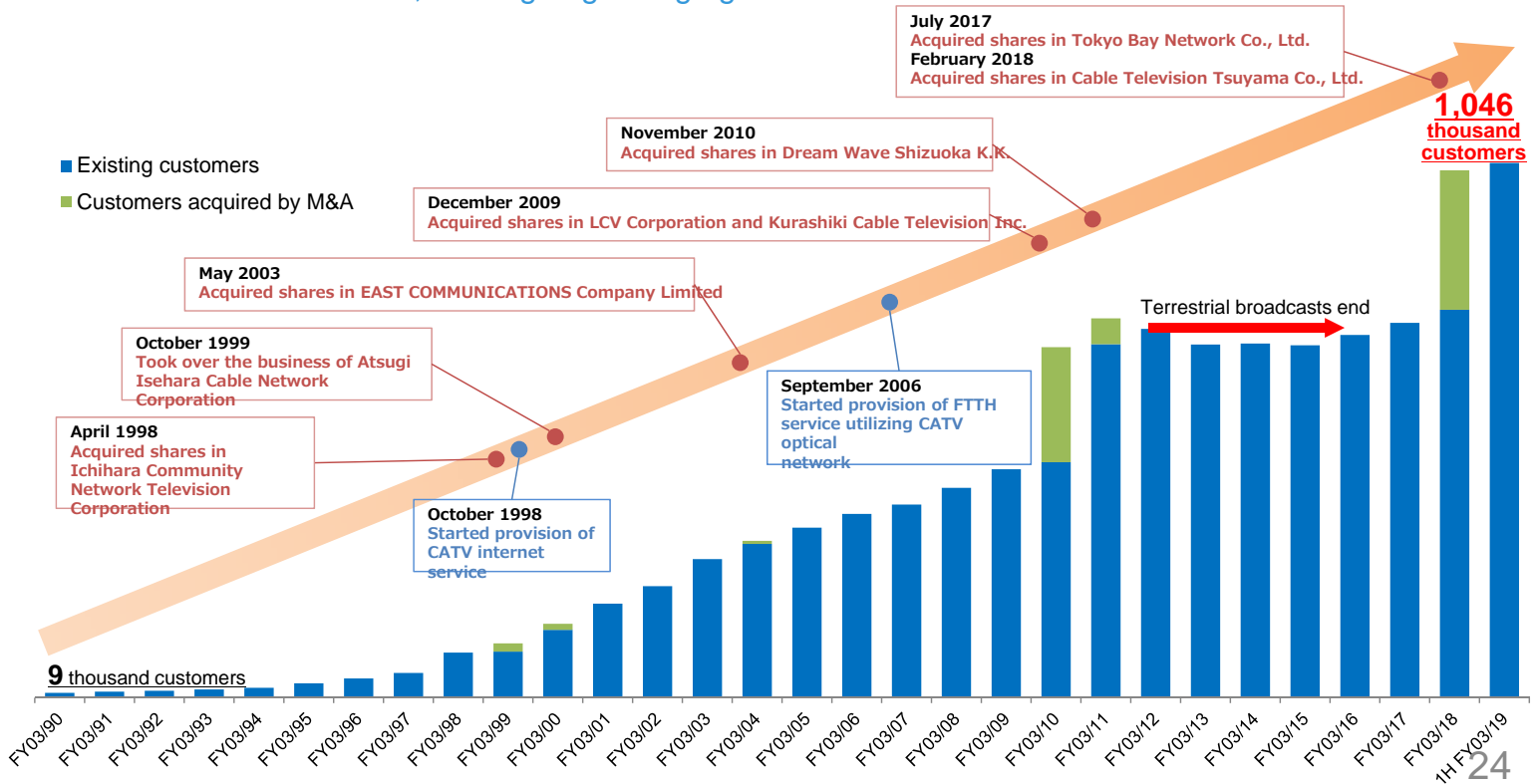


— Tokai fiber-optic network approximate line length: 6,000km

Broadcasts	0.78 million
Communications	0.27 million
Total	1.05 million

Customer base expansion

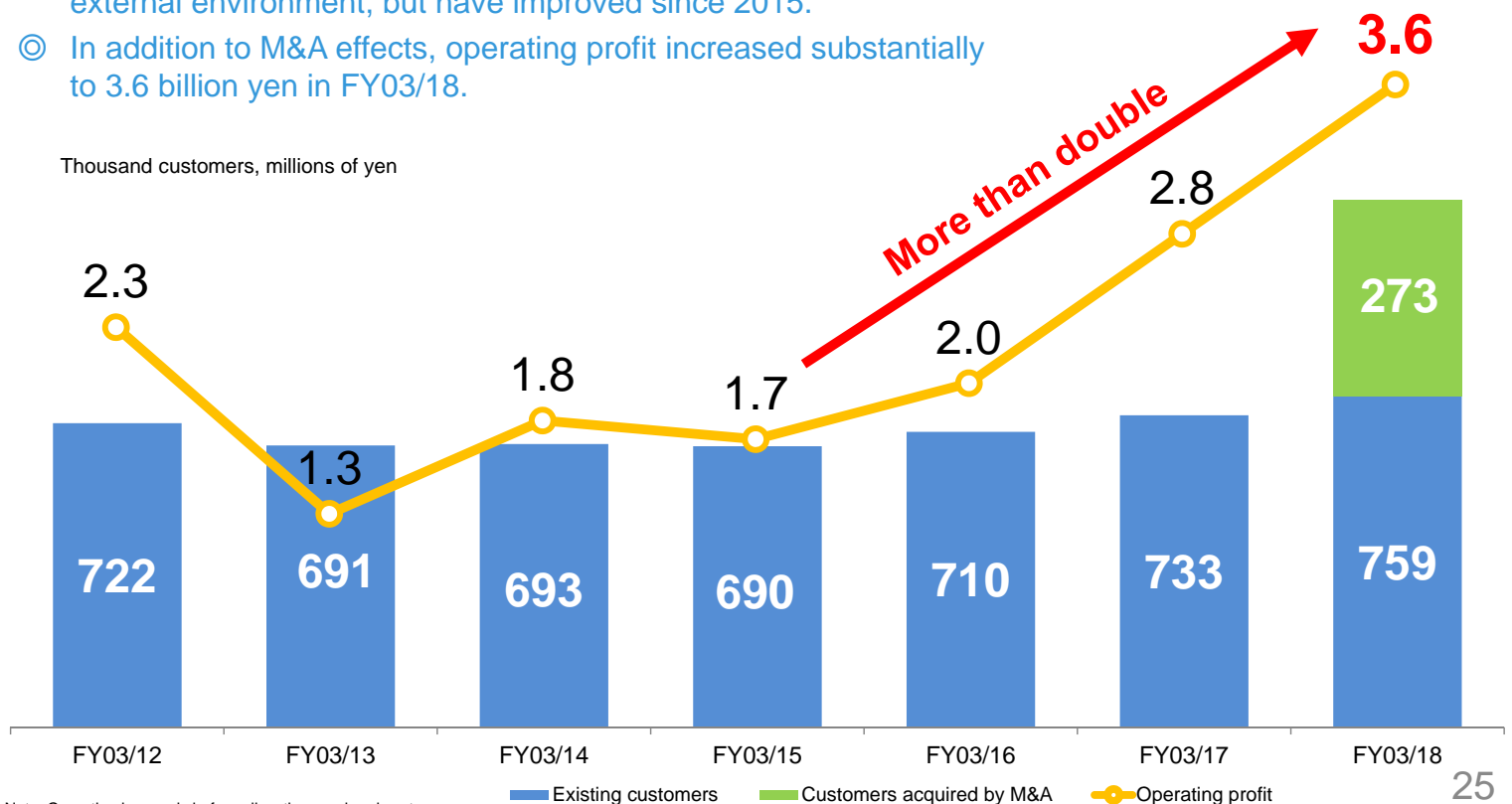
- Expanded bases through M&A, leveraged the Group's strength in marketing capabilities to increase customers; business has grown to one million customers
- Customer count temporarily plateaued due to changes in the external environment such as the end of terrestrial broadcasts, but began growing again from 2015.



Customer count and operating profit since transition to a holding company structure

- Customer count and operating profit leveled off between 2011 and 2014 due to changes in the external environment, but have improved since 2015.
- In addition to M&A effects, operating profit increased substantially to 3.6 billion yen in FY03/18.

Thousand customers, millions of yen



Note: Operating income is before allocating overhead costs.

Industry position

- There are 315 CATV operators in Japan, if counting those operating as Group companies (such as J:COM and TOKAI) as single operators.
- TOKAI CATV business is ranked 3rd in the industry within the urban CATV sales category and 6th overall in the number of subscriber households.

CATV category sales

Rank	Operator	Area	Sales (millions of yen)
1	J:COM Group	Tokyo G	246,359
2	CNCi Group (Community Network Center)	Aichi G	23,930
3	TCN Group	Shizuoka G	14,838
4	its communications	Tokyo, Kanagawa	13,094
5	Kintetsu Cable Network	Nara, Osaka	11,476
6	ZTV	Mie, Shiga, Wakayama	11,119
7	Bay Communications	Osaka	6,644
8	CCJ Group	Mie G	6,514
9	Nihon Network Service	Yamanashi	5,943
10	Chupi COM Fureai	Hiroshima	5,490
	~		~
Total (315 companies)			—

Notes: From the *Nikkei MJ* (November 8, 2017 edition) published by Nikkei Inc. Broadcast-related sales including broadcasts and multiple channels; excludes internet, installation, and subsidies

CATV subscriber households

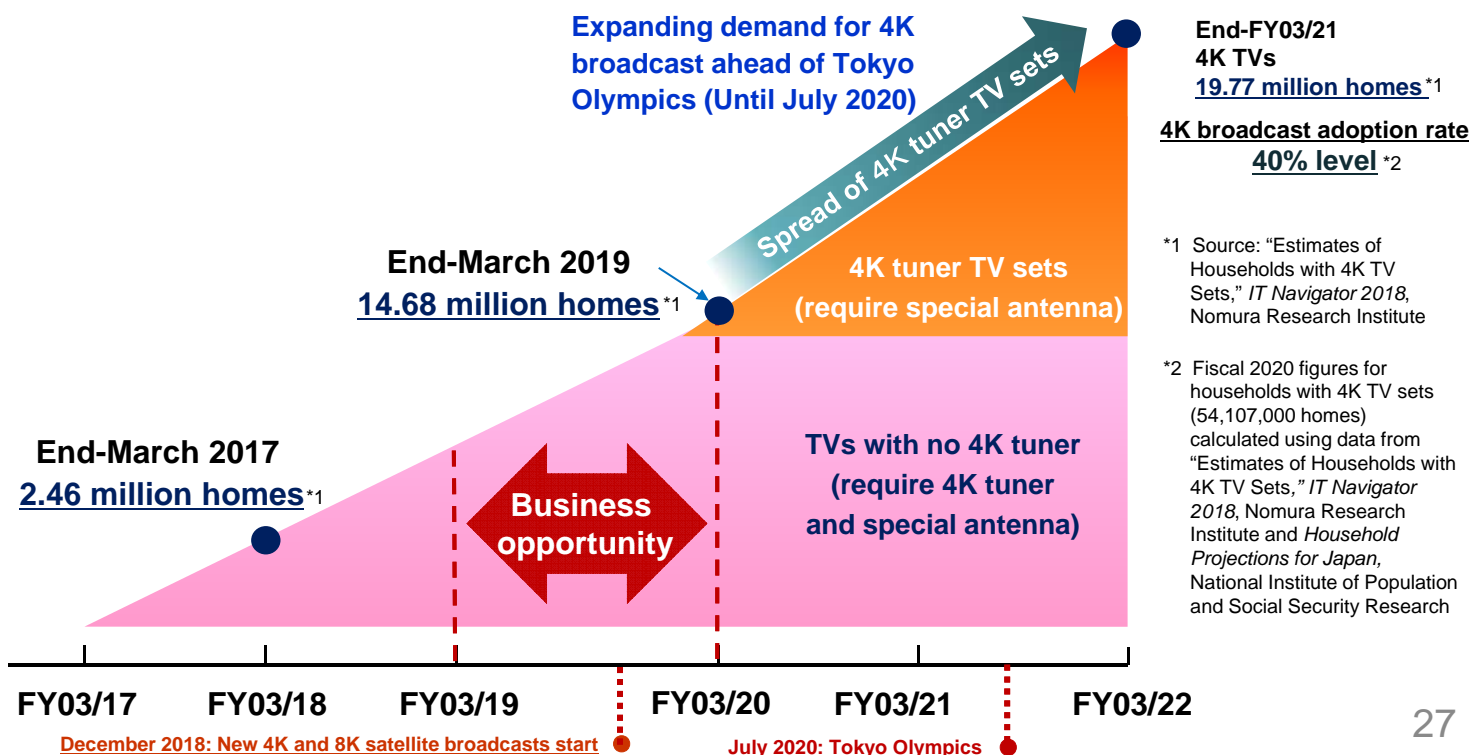
Rank	Operator	Area	Subscribers (households)
1	J:COM Group	Tokyo G	13,601,200
2	CNCi Group (Community Network Center)	Aichi G	1,454,305
3	its communications	Tokyo, Kanagawa	899,953
4	K-Opticom	Osaka, Kyoto, Hyogo, and others	820,924
5	Bay Communications	Osaka	797,900
6	TCN Group	Shizuoka G	774,803
7	CCJ Group	Mie G	304,154
8	ZTV	Mie, Shiga, Wakayama	291,895
9	YOU TV	Kanagawa	240,438
10	Tokyo Cable Network	Tokyo	203,749
	~		~
Total (315 companies)			25,237,287

Notes: From the *Cable Yearbook 2018* published by SATEMAGA BI Inc. on October 15, 2017
Number of subscribers as of June 30, 2017
TOKAI subscribers as of March 31, 2018

26

Support for advanced broadcasting

- From December 2018, new 4K and 8K satellite broadcasting will commence.
- New tuners and antenna will be required to view new 4K and 8K satellite broadcasting.
- In the CATV industry, broadcasts can be viewed without the addition of an antenna; policy is to meet 4K demand with advanced spread of 4K tuner TV sets and antennas.

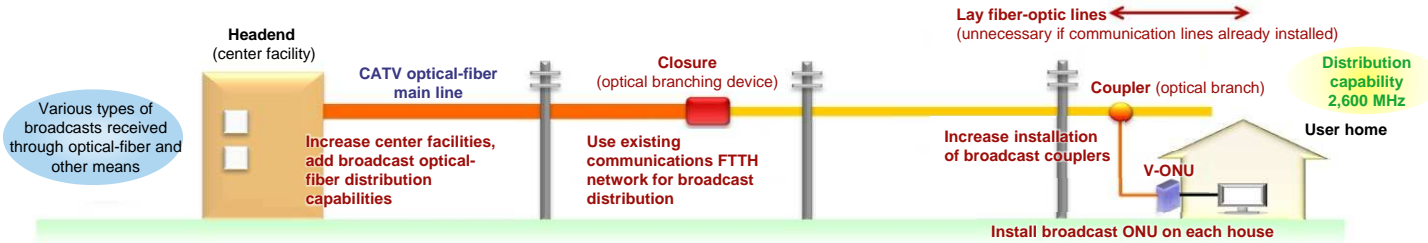


27

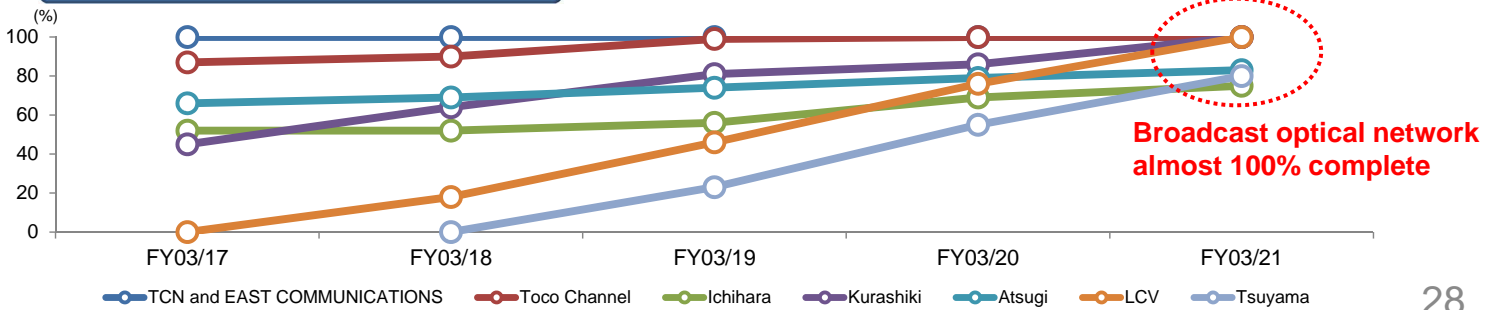
TOKAI fiber-optic network

- ◎ Promoting FTTH since 2006 in anticipation of the fusion of broadcasting and communications
- ◎ Anticipates nearly 100% completion of broadcast optical network in our CATV area by FY03/21
- ◎ Growth in broadcast and communications customers will contribute to business expansion going forward

Broadcast optical network FTTH—Excels in distribution capabilities, damage resistance, and durability



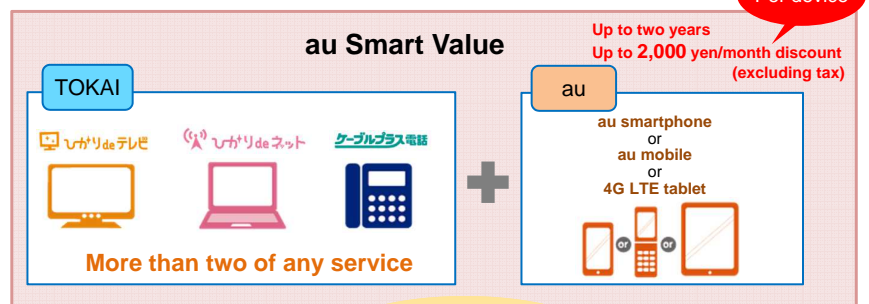
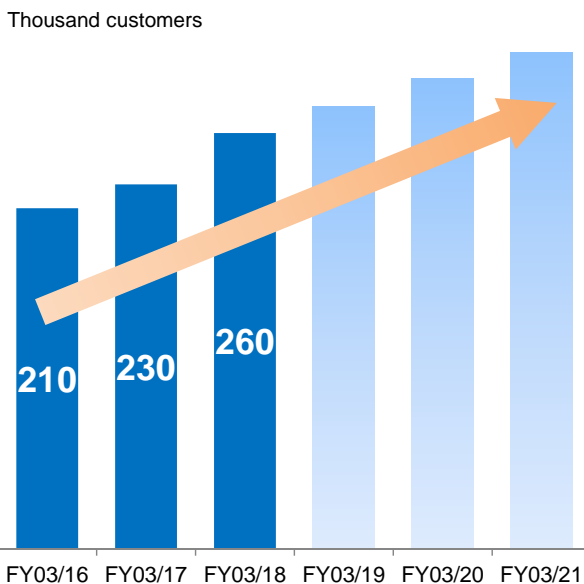
Broadcast optical network rollout schedule



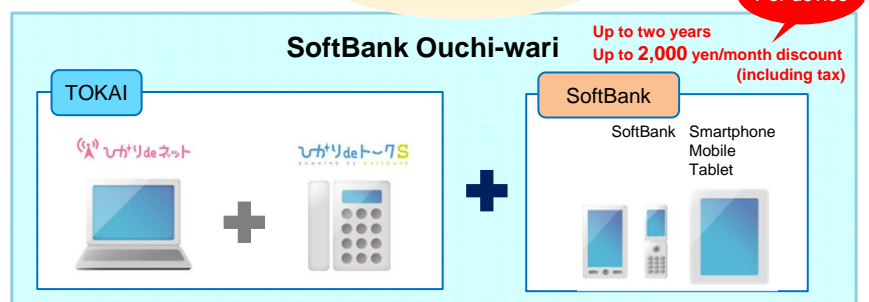
Alliances with major carriers

- ◎ Steady growth in highly profitable FTTH service customers will drive expansion of business earnings going forward
- ◎ Differences in sales channels and user segments among alliances with major carriers creates a win-win scenario

Customer count projection (communications)



Win-win



Initiatives to enhance network added value

- ⊙ Aggressive efforts toward broadband wireless access (BWA), regional wireless network aimed at improving public services and addressing regional information gaps
- ⊙ At present, licenses have been acquired or agreements have been reached for obtaining licenses in eight cities/wards.

Regional BWA initiatives



- Build disaster and crime prevention networks in conjunction with local municipalities
- Develop broadband infrastructure able to be used by regional communities
- Provide backup for community channel broadcasts

Regional BWA progress

Municipality	Progress					
	Pre-proposal	Primary proposal	Considering proposal	Pre-approval	Approved	License acquired
Izunokuni City	[Progress bar from Pre-proposal to License acquired]					
Koto Ward	[Progress bar from Pre-proposal to License acquired]					
Chuo Ward	[Progress bar from Pre-proposal to License acquired]					
Numazu City	[Progress bar from Pre-proposal to Approved]					
Yaizu City	[Progress bar from Pre-proposal to Approved]					
Ichihara City	[Progress bar from Pre-proposal to Approved]					
Atsugi City	[Progress bar from Pre-proposal to Approved]					
Kurashiki City	[Progress bar from Pre-proposal to Approved]					
Shizuoka City	[Progress bar from Pre-proposal to Pre-approval]					Scheduled in December

Note: Agreement with Shizuoka City to be signed in December

CATV embodies TLC vision

- ⊙ TOKAI's basic strategy is based on the Total Life Concierge (TLC) concept of promoting multiple contracts through community-based sales.
- ⊙ Due to strong customer contacts, the CATV business serves as the basis for the TLC concept, which promotes high multiple contract rates.

TLC vision

Total Life Concierge (TLC) services provide one-stop services related to a variety of lifestyles.



One call center

One contract

Customer

Multiple contract rate 24.4% (14% Companywide)

Shizuoka Prefecture

24.4%

Among these, city gas and CATV customers have the highest multiple contract rate with the Group's other services, an effective TLC target.

City gas

37.0%

CATV

63.8%

LP gas

22.8%

(As of September 30, 2018)

TOKAI Group's CATV Business Prospects

Expand as business linking communities
to the future

Expand as business changing the future
of communities

32

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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33