



Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2020 [Japanese GAAP]

July 31, 2019

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 Stock code: 3167 URL: <https://tokaiholdings.co.jp>
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 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 Three-months Ended June 30, 2019 (April 1, 2019 to June 30, 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	%
Three-months Ended June 30, 2019	45,804	2.8	3,231	35.2	3,351	34.7	2,239	56.3
Three-months ended June 30, 2018	44,553	4.8	2,390	11.0	2,487	12.9	1,432	21.2

(Note) Comprehensive income: 2,060 million yen in the Three-months Ended June 30, 2019 (52.1%)
 1,354 million yen in the Three-months ended June 30, 2018 (12.1%)

	Quarterly Net Income per Share	Quarterly Net Income per Share (Diluted)
	Yen	Yen
Three-months Ended June 30, 2019	17.10	-
Three-months ended June 30, 2018	10.94	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
Three-months Ended June 30, 2019	163,992	64,107	38.3
Year ended March 31, 2019	167,606	63,894	37.4

(Reference) Equity: 62,780 million yen for the Three-months Ended June 30, 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, 2017	—	14.00	—	14.00	28.00
Year ending March 31, 2018	—	—	—	—	—
Year ending March 31, 2018 (Forecast)	—	14.00	—	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
Six months ending September 30, 2019	92,500	4.1	4,410	26.8	4,360	21.7	2,360	35.8	18.02
Year ending March 31, 2019	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):

Q1 FY3/2020	139,679,977 shares	FY3/2019	139,679,977 shares
Q1 FY3/2020	8,731,593 shares	FY3/2019	8,731,411 shares
Q1 FY3/2020	130,948,486 shares	Q1 FY3/2019	130,943,526 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.(410,800 stocks at Q1 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 (410,800 shares for the Three-months Ended June 31, 2019; 416,600 shares for the Three-months ended June 30, 2018).

* 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.

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1. Qualitative Information on Financial Results for the Period Under Review

(1) Explanation of Consolidated Operating Performance

In the first three 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 steady improvement in the employment situation. However, the economic outlook remains clouded by uncertainties in overseas economies, including US–China trade friction and other factors.

Against this backdrop, the TOKAI Group passes the halfway point of its four-year medium-term management plan, Innovation Plan 2020 “JUMP,” in the current fiscal year, which is the third year of the plan. In the three months ended June 30, 2019, the TOKAI Group continued to follow its strategy to expand its earnings base by developing existing businesses, making acquisitions, and entering new businesses. The key themes included realizing the Group vision of becoming a Total Life Concierge (TLC)*¹, and ABCIR+S*² initiatives.

In the three months ended June 30, 2019, with the success of measures to acquire new customers and increase orders, the Group booked sales of 45,804 million yen (+2.8% year on year) and posted significant growth in all profit categories, with operating profit of 3,231 million yen (+35.2% year on year), recurring profit of 3,351 million yen (+34.7% year on year), and net income attributable to owners of the parent of 2,239 million yen (+56.3% year on year). The results for sales and all profit categories were at record highs.

As of June 30, 2019, the number of continuing customers rose by 5 thousand from March 31, 2019, to 2,907 thousand, and members of the TLC Membership Service increased by 26 thousand to 830 thousand.

In the three months ended June 30, 2019, initiatives included entering the LP gas business in Mie Prefecture in April 2019. In May, the Group signed an agreement to acquire a cable television business operated by Shioya Limited (Mishima City, Shizuoka Prefecture), and another agreement to buy a city gas business operated by Nikaho City in Akita Prefecture.

*1 Vision of becoming a TLC: The Group seeks to support comfortable living by customers in a comprehensive and detail-oriented way through various services it offers, with the aim of enhancing customer satisfaction.

*2 ABCIR+S: An acronym formed from the first letters of AI, Big data, Cloud, IoT, Robotics, and Smartphones. It refers to the Group's strategies toward technological innovation.

Performance by segment was as follows.

(Gas and Petroleum)

In the LP gas business, amid intensifying competition from rival operators, the Group focused on customer growth through measures such as strengthening acquisition in existing service areas, preventing contract cancellations, and expanding into new areas. As a result, the number of customers rose by 3 thousand from March 31, 2019, to 631 thousand. Sales came to 15,446 million yen (+4.8% year on year), aided by solid growth in customer count.

In the city gas business, the number of customers was in line with March 31, 2019, at 56 thousand. Still, sales totaled 3,131 million yen (+9.1% year on year), supported by a higher unit sales price stemming from the fuel cost adjustment regulations.

As a result, segment sales amounted to 18,577 million yen (+5.5% year on year) and operating profit to 890 million yen (+45.8% year on year).

(Building and Real Estate)

In the Building and Real Estate business, segment sales totaled 3,777 million yen (-9.3% year on year) due to the

absence of a large project from the same period of the previous fiscal year, but operating profit came to 74 million yen (+15.4% year on year) thanks to cost control.

(CATV)

In the CATV business, amid intensifying competition from telecommunications companies, the Group worked to increase competitiveness and boost customer count, and took steps to prevent contract cancellations. It offered discounts for broadcasting and communications bundles and discounted packaged services including smartphones in partnership with major mobile phone carriers. The Group also stepped up efforts to create community channel programs with a local focus. As a result, the CATV business had 791 thousand customers, up by 2 thousand from March 31, 2019, while customers of communications services increased by 5 thousand to 278 thousand.

Consequently, segment sales amounted to 7,738 million yen (+3.0% year on year) and operating profit to 1,171 million yen (+9.1% year on year).

(Information and Communications Service)

In consumer-oriented services, amid intensifying competition from major mobile phone carriers, the Group unveiled an expanded range of plans including bundled set sales of Hikari Collaboration and the TOKAI-brand MVNO service LIBMO, in addition to standalone services, to win customers. The LIBMO service added 2 thousand customers since March 31, 2019 to bring customer count to 42 thousand, but the number of ISP customers declined by 10 thousand to 736 thousand (326 thousand Hikari Collaboration and 411 thousand conventional ISP customers). As a result, sales totaled 7,294 million yen (-6.2% year on year).

In corporate services, sales came to 5,501 million yen (+16.2% year on year), mainly reflecting an increase in recurring-revenue operations and an increase in contracted system development projects.

Due to these factors, segment sales were 12,795 million yen (+2.3% year on year), and operating profit was 919 million yen (+113.7% year on year).

(Aqua)

In the Aqua business, the Group 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 1 thousand from March 31, 2019, to 157 thousand. The Group also worked to reduce manufacturing and logistics costs.

As a result, segment sales came to 1,798 million yen (+8.8% year on year) and operating profit to 104 million yen (+184.5% year on year).

(Others)

Turning to other businesses, sales in the nursing care business totaled 285 million yen (+9.1% year on year), supported by an increase in the number of care recipients. In the shipbuilding business, sales amounted to 356 million yen (+9.6% year on year), reflecting an increase in work volume for ship repairs. In the bridal events business, sales came to 274 million yen (-18.3% year on year) due to a decline in the number of wedding ceremonies.

As a result, segment sales were 1,116 million yen (+1.4% year on year), and operating profit was 24 million yen (-0.5% year on year).

(2) Explanation of Consolidated Financial Position

1) Assets, Liabilities, and Net Assets

As of June 30, 2019, total assets amounted to 163,992 million yen, down 3,614 million yen from March 31, 2019. This mainly reflected a 3,613 million yen decrease in notes and accounts receivable–trade owing to seasonal factors.

Total liabilities stood at 99,884 million yen, down 3,826 million yen from March 31, 2019. This was primarily due to decreases of 1,688 million yen in notes and accounts payable–trade stemming from seasonal factors and 2,423 million yen in income taxes payable resulting from income tax payments.

Net assets totaled 64,107 million yen, up 212 million yen from March 31, 2019. This was mainly attributable to the booking of 2,239 million yen in net income attributable to owners of the parent, offsetting the payment of 1,839 million yen in dividends of surplus.

2) Cash Flows

As of June 30, 2019, cash and cash equivalents stood at 3,824 million yen, down 194 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 6,245 million yen, up 1,896 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 3,227 million yen, up 256 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 3,210 million yen, down 2,050 million yen from the same period of the previous fiscal year. This was due to repayments of lease obligations and payments of dividends.

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

Earnings results for the three months ended June 30, 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	Three Months Ended June 30, 2019
Assets		
Current assets		
Cash and deposits	4,164	3,975
Notes and accounts receivable–trade	24,798	21,184
Merchandise and finished goods	4,173	3,959
Work in process	660	1,327
Raw materials and supplies	865	888
Other	8,264	8,583
Allowance for doubtful accounts	-419	-424
Total current assets	42,506	39,495
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	33,756	33,354
Machinery, equipment and vehicles, net	23,592	23,260
Land	22,921	22,927
Other, net	16,760	16,819
Total property, plant and equipment	97,030	96,362
Intangible assets		
Goodwill	5,044	4,814
Other	6,084	5,783
Total intangible assets	11,128	10,597
Investments and other assets		
Net defined benefit asset	2,365	2,375
Other	14,958	15,600
Allowance for doubtful accounts	-386	-440
Total investments and other assets	16,937	17,535
Total non-current assets	125,097	124,494
Deferred assets	2	2
Total assets	167,606	163,992

(Millions of yen)

	Fiscal Year Ended March 31, 2019	Three Months Ended June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable–trade	15,021	13,332
Short-term loans payable	22,265	23,716
Current portion of bonds	168	148
Income taxes payable	3,491	1,068
Accruals	1,705	207
Other	18,733	20,880
Total current liabilities	61,385	59,352
Non-current liabilities		
Bonds payable	230	220
Long-term loans payable	27,940	26,123
Accruals	149	151
Net defined benefit liability	719	744
Other	13,286	13,293
Total non-current liabilities	42,325	40,532
Total liabilities	103,711	99,884
Net assets		
Shareholders' equity		
Capital stock	14,000	14,000
Capital surplus	25,527	25,527
Retained earnings	21,863	22,263
Treasury stock	-2,222	-2,223
Total shareholders' equity	59,167	59,567
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,573	1,380
Deferred gains or losses on hedges	-319	-326
Foreign currency translation adjustment	-10	-11
Remeasurements of defined benefit plans	2,217	2,171
Total accumulated other comprehensive income	3,460	3,213
Non-controlling interests	1,267	1,326
Total net assets	63,894	64,107
Total liabilities and net assets	167,606	163,992

(2) Quarterly Consolidated Statements of Income, Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Three Months Ended June 30, 2019)

(Millions of yen)

	Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)	Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)
Sales	44,553	45,804
Cost of sales	26,587	27,097
Gross profit	17,965	18,706
Selling, general and administrative expenses	15,575	15,475
Operating profit	2,390	3,231
Non-operating profit		
Interest income	2	2
Dividend income	102	108
Commission fee	22	11
Other	90	97
Total non-operating profit	217	219
Non-operating expenses		
Interest expenses	96	78
Other	24	21
Total non-operating expenses	120	99
Recurring profit	2,487	3,351
Extraordinary income		
Gain on sales of non-current assets	0	0
Transmission line facility subsidies	22	38
Subsidy income	2	-
Gain on sales of investment securities	0	49
Total extraordinary income	25	87
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	161	248
Total extraordinary losses	161	248
Quarterly net income before income taxes	2,352	3,191
Income taxes (current)	1,061	1,360
Income taxes (deferred)	-172	-476
Total income taxes	889	883
Quarterly net income	1,463	2,307
Quarterly net income attributable to non-controlling interests	30	68
Quarterly net income attributable to owners of the parent	1,432	2,239

(Consolidated Statements of Comprehensive Income)
(Three Months Ended June 30, 2019)

	(Millions of yen)	
	Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)	Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)
Quarterly net income	1,463	2,307
Other comprehensive income		
Valuation difference on available-for-sale securities	-50	-193
Deferred gains (losses) on hedges	-	-6
Foreign currency translation adjustment	1	-1
Remeasurement of defined benefit plans, net of tax	-54	-46
Share of other comprehensive income of entities accounted for using the equity method	-6	0
Total other comprehensive income	108	-247
Quarterly comprehensive income	1,354	2,060
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent	1,323	1,992
Quarterly comprehensive income attributable to non- controlling interests	30	68

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)	Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)
Cash flows from operating activities		
Quarterly net income before income taxes	2,352	3,191
Depreciation	3,351	3,525
Amortization of goodwill	290	267
Increase (decrease) in provision for bonuses	-1,240	-1,260
Increase (decrease) in net defined benefit asset and liability	-52	-50
Interest and dividend income	-104	-111
Loss (gain) on sales of investment securities	-0	-49
Interest expenses	96	78
(Gain) loss on sales of non-current assets	-0	-0
Loss on retirement of non-current assets	161	248
(Increase) decrease in notes and accounts payable	3,250	4,305
(Increase) decrease in inventories	-105	-477
Increase (decrease) in notes and accounts payable—trade	-2,441	-1,685
Increase (decrease) in accrued consumption taxes	196	-80
Increase (decrease) in deposits received	2,669	2,764
Other	-707	-821
Subtotal	7,714	9,844
Income taxes paid	-3,365	-3,599
Net cash provided by (used in) operating activities	4,348	6,245
Cash flows from investing activities		
Interest and dividend income received	118	123
Purchase of securities	-3	-2
Proceeds from sales of securities	0	97
Purchase of tangible and intangible assets	-3,877	-3,201
Proceeds from sales of tangible and intangible assets	49	35
Collection of loans receivable	3	3
Other	224	-283
Net cash provided by (used in) investing activities	-3,484	-3,227
Cash flows from financing activities		
Interest expenses paid	-93	-76
Net increase (decrease) in short-term loans payable	4,112	1,850
Repayments of lease obligations	-930	-973
Repayment of long-term loans payable	-2,458	-2,216
Payments for acquisition of treasury stock	-0	-0
Proceeds from disposal of treasury shares	-	0
Cash dividends paid	-1,754	-1,755
Other	-35	-38
Net cash provided by (used in) financing activities	-1,159	-3,210
Effect of exchange rate change on cash and cash equivalents	-1	-1
Net increase (decrease) in cash and cash equivalents	-296	-194
Cash and cash equivalents at beginning of period	3,004	4,018
Cash and cash equivalents at end of period	2,707	3,824

(4) Notes on Quarterly Consolidated Financial Statements
(Notes to Premise of Going Concern)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Segment Information, etc.)

[Segment Information]

I. Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 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	17,608	4,166	7,511	12,513	1,653	43,452	1,100	44,553	-	44,553
Intersegment sales and transfers	34	226	185	708	6	1,161	44	1,206	-1,206	-
Subtotal	17,642	4,393	7,697	13,221	1,659	44,614	1,145	45,759	-1,206	44,553
Segment income (loss)	610	64	1,074	430	36	2,217	25	2,242	148	2,390

(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. Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 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	18,577	3,777	7,738	12,795	1,798	44,687	1,116	45,804	-	45,804
Intersegment sales and transfers	39	235	174	899	6	1,356	46	1,402	-1,402	-
Subtotal	18,617	4,013	7,913	13,694	1,805	46,044	1,163	42,207	-1,402	45,804
Segment income (loss)	890	74	1,171	919	104	3,161	24	3,186	45	3,231

(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.