

# TOKAI Mid-Term Management Plan Innovation Plan 2016 “**Growing**”

June 27, 2014  
TOKAI Holdings Corporation

## Agenda

- I . The TOKAI Group, providing  
Total Life Concierge (TLC)
- II . Next 3-year medium term  
management plan
- III . Future Group strategy  
(packaged sales)

# I . The TOKAI Group, providing Total Life Concierge (TLC)

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I . The TOKAI Group, providing Total Life Concierge (TLC)

## **TOKAI-WAY**

### **Corporate Philosophy**

To improve the lives of our customers.  
We will continue to grow and develop  
along with our region and the globe.

### **Vision**

Building on our nationwide growth to launch a sustained  
move into the international community,  
become a TLC (Total Life Concierge): a one-stop provision  
of products and services our customers demand.

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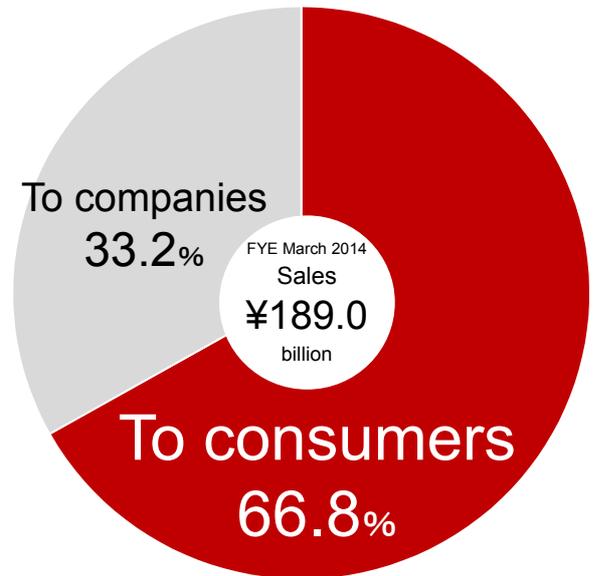
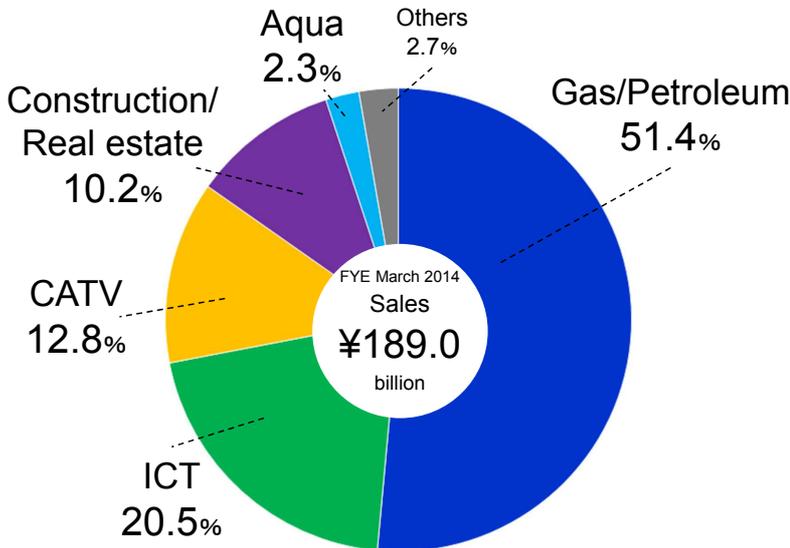
# Group Sales Composition

Retail consumer sales account for 70% of total sales

- Energy accounts for 50% of total sales, telecommunications and CATV account for 30%, and others 20%.

Sales by segment

Percentage of retail business to consumers



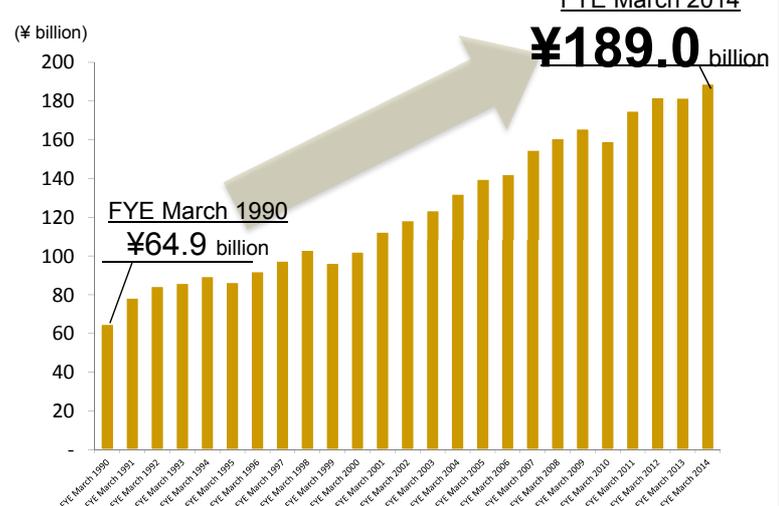
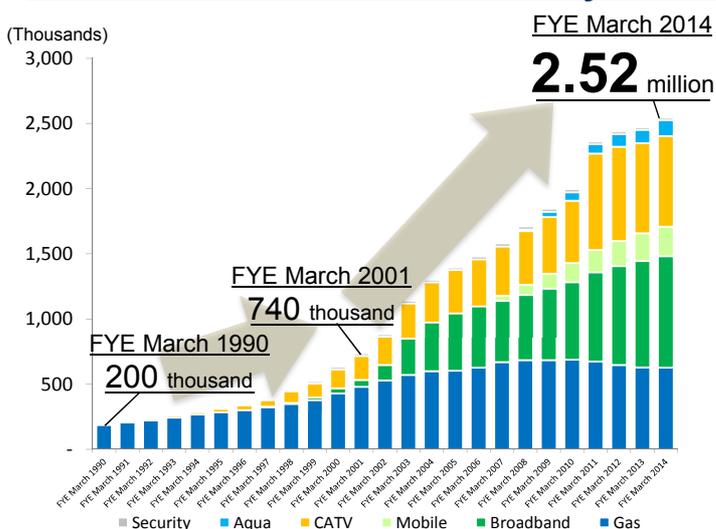
# Group Business Model (1)

The business model is one of monthly fee income from ongoing customer transactions

- The number of customers has increased by approximately 70 thousand every year over the past 3 years to the current level of 2.52 million customers

Number of customer contracts by service

Consolidated Sales



# Group Business Model (2)

## Largest concentration of customers is in Shizuoka Prefecture

- LP gas is offered in suburban areas, CATV and city gas in urban areas, and others, Internet and aqua businesses are provided everywhere.
- Only 20.2% of customers make multiple transactions, so there is still room for integration.

(Number of TOKAI Group contracted households)

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**920** thousand households

**1.15** million contracts

● Gas: 220 thousand  
● ICT: 470 thousand

● CATV: 380 thousand  
● Aqua: 80 thousand

(Shizuoka Prefecture households) **1.43** million

\* Number of TOKAI Group contracts: FYE March 2014 (actual)

\* Shizuoka Prefecture households: "Population Estimate by Municipality in Shizuoka Prefecture." Data provided by Shizuoka Prefecture as of April 1, 2014

# Diverse Life Infrastructure Services

Providing services essential to life including facilities, security, and healthcare based on energy and telecommunications

Healthcare

Nursing care

Aqua

Security

Insurance

Security

Facilities

Household

Equipment and appliances

Renovation

Telecommunications and ICT

Mobile

ISP

CATV

Data center

Energy

City gas

LP gas

Photovoltaic power systems

# Strong Sales Channels

## Direct Sales Channels and Channels with Strong Customer Pull

### Direct Sales Channels

- There are 800 full-time people in charge of customers throughout Shizuoka and the Kanto region

Face-to-face “TLC” sales

- There are 8 customer call centers nationwide with a staff of 250

Meticulous customer care

### Major Electronics Retail Channels

There are 230 stores nationwide in partnership with the ISP business  
Dedicated sales staff collaborate with telecommunications carriers

### Large Commercial Facilities Channel

There are 40 large malls nationwide with more than 100 stores  
Dedicated sales staff win customers at events

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## II . Next 3-year medium-term management plan

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# Innovation Plan 2013 Overview

**Started new system with “improving financial standing as our highest priority”**

As a company that provides social infrastructure,  
our mission is to achieve stable management

- Financial position improved significantly. Shareholders' equity also improved due to increase in individual shareholders.
- Number of customers increased, but earnings compressed due to higher costs over competition for customers (a structural issue).

Capital adequacy ratio	Interest-bearing liabilities	Number of shareholders	Number of customers	Sales	Operating income
<b>7.7%</b>	<b>¥124.0</b> billion	<b>8,132</b>	<b>2.34</b> million	<b>¥174.9</b> billion	<b>¥10.8</b> billion
↓	↓	↓	↓	↓	↓
<b>21.6%</b>	<b>¥85.8</b> billion	<b>44,590</b>	<b>2.52</b> million	<b>¥189.0</b> billion	<b>¥7.4</b> billion
◎	◎	◎	◎	○	×
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## Conditions in mainstay businesses and future targets

# ① LP Gas Business

**Mature market**  
**Declining energy consumption per household**

- Contract by 1.8-2.0% per year based on falling population, energy efficient devices, and the drive to save energy
- Fierce competition from competitors in the Kanto region

**<Industry Position>**  
**LP gas operators**  
**3rd largest customer base in Japan**

- No.1 in Shizuoka Prefecture with 18.6% of the market (170,000 contracts)
- Market share of 410 thousand contracts (6.3%) in Kanto region

(Source: SEKIYU-KAGAKU-SINBUN-SHA, "LP-gas Annual Report: Facts & Figures")

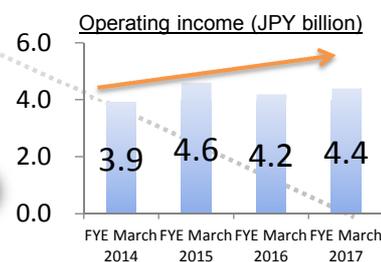
LP Gas Business

**580 thousand**  
**Contracts**  
**TLC's Origin**  
**(Total Life Concierge)**

**<Key Factors to Improve Earnings>**

- Profits expected to fall ¥800 million in FYE March 2017 due to declining energy consumption per household
- Turnaround with net increase in contracts beginning in FYE March 2015. Targeting ¥900 million in FYE March 2017 with 30 thousand net contract increase over 3 years
- Expect streamlining in distribution and other areas to bring costs down by ¥800 million over 3 years and ¥1.3 billion over 5 years (including partner companies)

**Utilize integrated customer information to acquire detached homeowner customers**



Share information between retail segments—gas, aqua, information, security, renovation, and insurance—and use it to attract new customers. Expand customer base among owners of detached homes—a highly profitable demographic.

# ② City Gas Business

**Energy consumption per household to fall, competition with other types of energy for industrial demand, and with electricity, city gas, and LP gas provider for household demand as energy reforms come into effect**

**<Supply Area Overview>**

- The company supplies to Yaizu, Fujieda, and Shimada cities in Shizuoka Prefecture
  - Household demand: 53 thousand
  - Sales volume: 150 million m<sup>3</sup>  
 (130 million m<sup>3</sup> to large customers; 20 million m<sup>3</sup> to small customers)

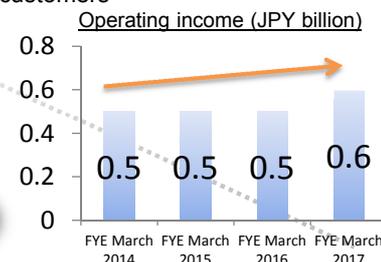
City Gas Business

**Strong regional base with penetration rate of 62% in areas of supply**

**<Key Factors to Improve Earnings>**

- Increase city gas customers (2 thousand net increase)
- Promote fuel switching among industrial clients and increase sales volumes
- Expand preventive care long-term renovations and pre-owned household renovations among household customers

**The TOKAI Group aims to become a comprehensive energy supplier in this area, thus securing future regional contract**



The TOKAI Group plans to sell fuel cells ("energy farms") to households.

The TOKAI Group also plans to promote cogeneration systems to industrial customers and to supply steam, hot water, and electricity.

# ③ Aqua Business

The water delivery market will continue to expand

- Significant user interest and demand for safe and secure drinking water continues

## <Industry Position>

**Aqua delivery companies  
6th largest customer base in Japan**

- Market share leader in Shizuoka Prefecture with 63.8% of the market (80 thousand contracts)
- Has a 4.2% market share in Japan (120 thousand contracts)

(Source: Yano Research Institute Ltd. and Japan Bottled Water Association)

**TOKAI brand water gained penetration due to Ulunom and Doraemon**

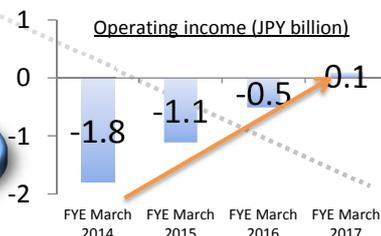
## <Key Factors to Improve Earnings>

- Net customer increase of 60 thousand over 3 years
- Improve productivity of natural mineral water plants following increases in number of customers and units produced
  - Increase unit production by 2.9 times over 3 years (1.3 million to 3.7 million units)
  - Production cost per unit to increase by 35% over 3 years
- Promote highly profitable regular delivery contracts

Further spread new brands and capture expanding demand

Increase range of customers with the launch of new product Sarari.

Expand sales channels with a focus on large commercial features with high customer appeal.



**Improve by ¥2.0 billion over 3 years**

# ④ Broadband Business

Broadband market growth has slowed down

- Broadband market will reach maturity, peaking in FYE March 2016
- FTTH carrier wholesale operations are being reexamined alongside the easing of NTT monopoly regulations
- Shift from ADSL to FTTH to continue

## <Industry Position>

**The TOKAI Group's sales are the 4th largest sales among internet service providers in Japan.**

(Source: Article published in November 6, 2013 edition of Nikkei Marketing Journal)

- Market share leader in Shizuoka Prefecture with 27.4% of the market (240 thousand contracts)
- Market share of 4.4% in Kanto region (520 thousand contracts)

(Source: Estimate based on the Ministry of Internal Affairs and Communications public document "Number of Contracts for Broadband Services, etc. (as of March 2014)")

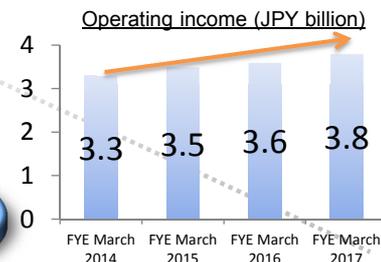
**Advantage of being able to sell broadband through 230 major electronics retailers nationwide**

## <Key Factors to Improve Earnings>

- Net customer increase of 80 thousand over 3 years
- Reform ISP system and make back office operations more efficient at its 2 brands

Take advantage of our 73% share of customers at the 3 major electronics retailers

Efficiently acquire customers by focusing sales staff on stores with a high rate of acquisition.



# ⑤ CATV Business

Markets for FTTH (optic fiber) and CATV-NET, which uses coaxial cable for Internet connections, are growing

● End of broadcasting in different regions

● Price competition with major telecom carriers and increasingly competitive broadcasting services

**<Industry Position>**  
**2nd largest sales among the CATV industry in Japan**

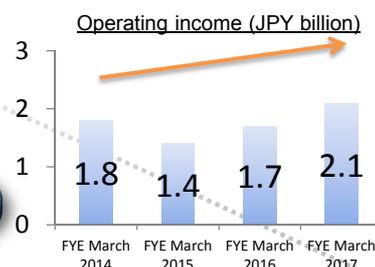
(Source: Article published in the November 13, 2013 edition of Nikkei Marketing Journal)

- The TOKAI Group has 500 thousand broadcast customers (47% of those in the homes passed)

**CATV Business**  
 Regional media with 47% penetration in the homes passed area

**<Key Factors to Improve Earnings>**

- Grow CATV and FTTH customers by 30 thousand contracts over 3 years
- The end of broadcasting in different regions will only result in 9 thousand cancellations in FYE March 2015, a net increase of 5 thousand over 3 years



**Grow share of regional markets through our advantage of prices of broadcast and telecom services**

Attract customers by offering basic free bulk packages bundled with additional services.

Leverage tie-ups with mobile companies (smartphone discounts) to attract telecom customers.

Greater regional penetration due to better value services, including 4K and 8K broadcasting, fiber optic broadcasts, and wireless regional services.

## Basic Policy for Next 3 Years

- Continue to increase sales by acquiring new customers, and improve profitability
- Continue to improve financial standing and management stability
- Provide continuous and stable returns to shareholders

	FYE March 2011	FYE March 2014	FYE March 2015 (forecast)	FYE March 2016 (planned)	FYE March 2017 (planned)
Customers (10 thousand)	234	252	259	266	273
Sales (¥ billion)	174.9	189.0	196.9	202.3	209.5
Operating income (¥ billion)	10.8	7.4	8.2	9.7	12.6
EPS (¥/share)	30.48	22.67	27.86	34.91	54.06
EBITDA (¥ billion)	26.3	24.9	25.2	26.7	28.7
Interest-bearing liabilities (¥ billion)	124.0	85.8	81.8	74.1	64.7
Capital adequacy ratio (%)	7.7	21.6	23.0	25.1	28.6

# Key Items for Earnings Recovery

Seeking profits outside the company for “external growth” and increasing internal efficiency for “internal growth”

External growth	Expansion of customer base	<ul style="list-style-type: none"> <li>● Recoup on investments in businesses with upfront costs                             <ul style="list-style-type: none"> <li>• Number of Aqua business contracts increased from 120 thousand at FYE March 2014 to 180 thousand at FYE March 2017</li> <li>• Number of CATV-FTTH contracts in the CATV business increased from 190 thousand at FYE March 2014 to 220 thousand at FYE March 2017</li> </ul> </li> </ul>	¥1.1 billion	
		<ul style="list-style-type: none"> <li>● Increased provider of information and communication services that earn continuous periodical revenue</li> </ul>	¥0.8 billion	
	Reduced customer acquisition costs			¥0.8 billion
	Subtotal			¥2.7 billion
Internal growth	Economies of scale	<ul style="list-style-type: none"> <li>● Improved productivity in the Aqua business                             <ul style="list-style-type: none"> <li>• From 1.3 million units at end of 2014 to 3.7 million units at FYE March 2017 (2.9 times)</li> <li>• Improve manufacturing costs per unit by 35% in 3 years</li> </ul> </li> <li>● Improve efficiency in LP gas delivery costs                             <ul style="list-style-type: none"> <li>• Improve delivery costs per dayunit by 15% in 3 years</li> </ul> </li> </ul>	¥1.6 billion	
		Reduced depreciation burden		¥0.9 billion
	Subtotal			¥2.5 billion
<b>Total for the 3 years from FYE March 2015 and FYE March 2017</b>			<b>¥5.2 billion</b>	

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## III. Future Group strategy (packaged sales)

# Key Perspective (1) Market Maturation

Market maturation (supply > demand)

Competitors face increasingly fierce competition for share of shrinking markets

Commoditization of products and services

Competition is price competition and sales promotion competition

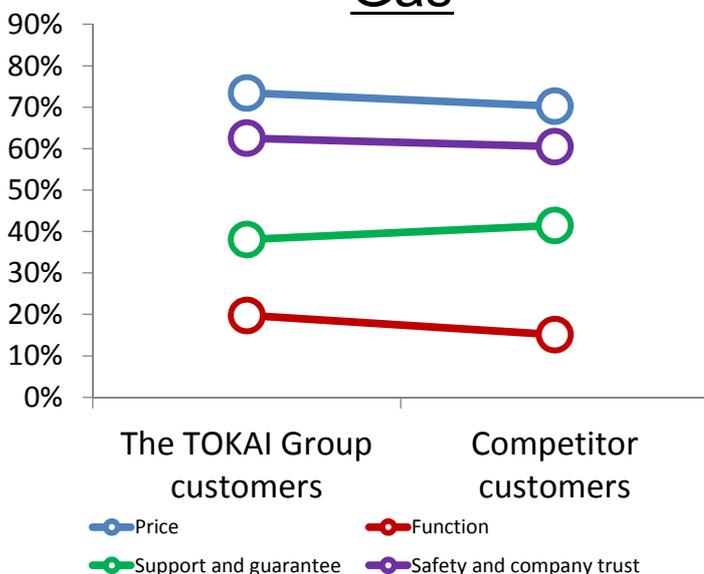
Price competition and acquisition cost competition  
⇒ earnings compress

It is essential that differentiation not compete along the lines of traditional competition  
(Differentiation chosen by customers)

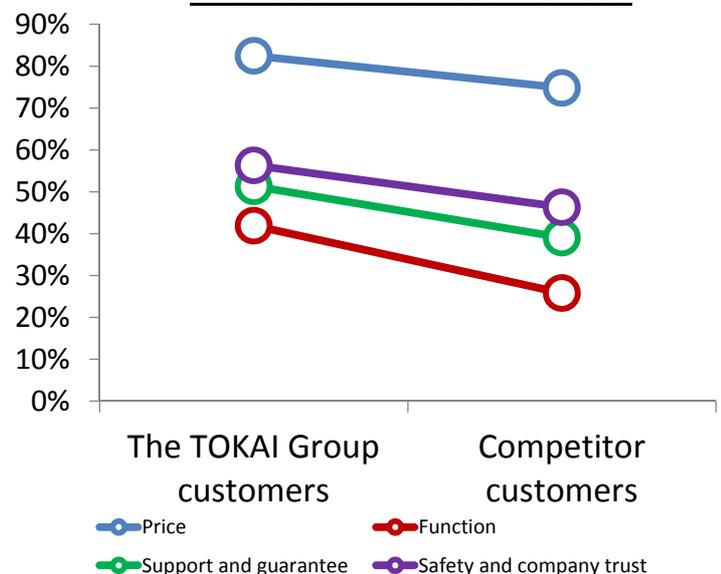
# Key Perspective (2) Customer Needs

- Value, 2nd in importance to customers after price, depends on “safety and company trust” along with “support and guarantee”
- To be chosen by customers, it is important to meet these needs

Gas



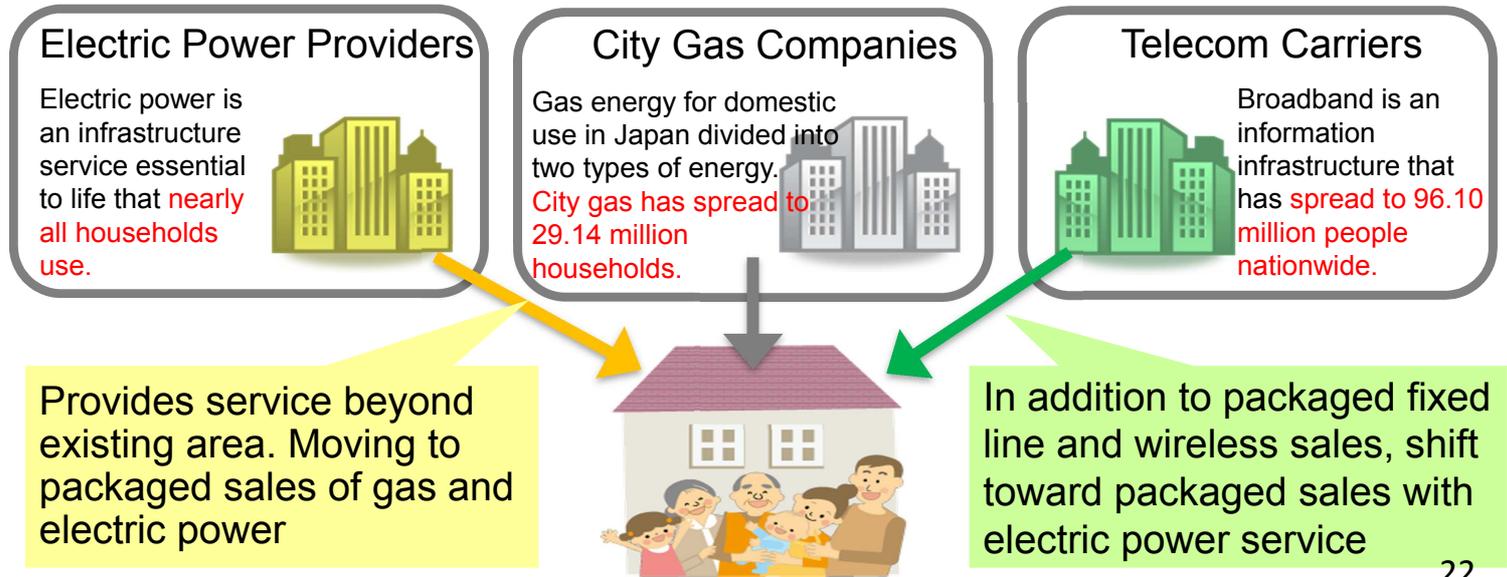
Internet Connections



## Key Perspective (3) Change of Business Environment

2016 (deregulation of electric power) is a major turning point  
Electric power and gas are moving toward dual services

- We are moving to an age where customers choose from a diverse sales offering provided by each player.



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## Differentiation Strategy Based on Packaged Sales

### Customer Needs

- The customer places value on “safety and company trust” along with “support and guarantee.”



### Group's Unique Resources

- Provides by itself highly secure and trusted life infrastructure.

Has expanded market share with its services

Extra economic benefits are possible based on profits generated by packaged sales

Achieve differentiation chosen by customers before competitors

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# Packaged Sales Offering

- The TOKAI Group's mainstay LP gas and telecommunications services, which are used in 1.56 million out of 25.2 million customers, are provided as a package.

• Services are provided to 580 thousand LP gas customers and 980 thousand telecommunications customers for a total of 1.56 million contracts

- We provide attractive benefits to customers who use packaged services.

• Benefits include discount usage fees or TLC points

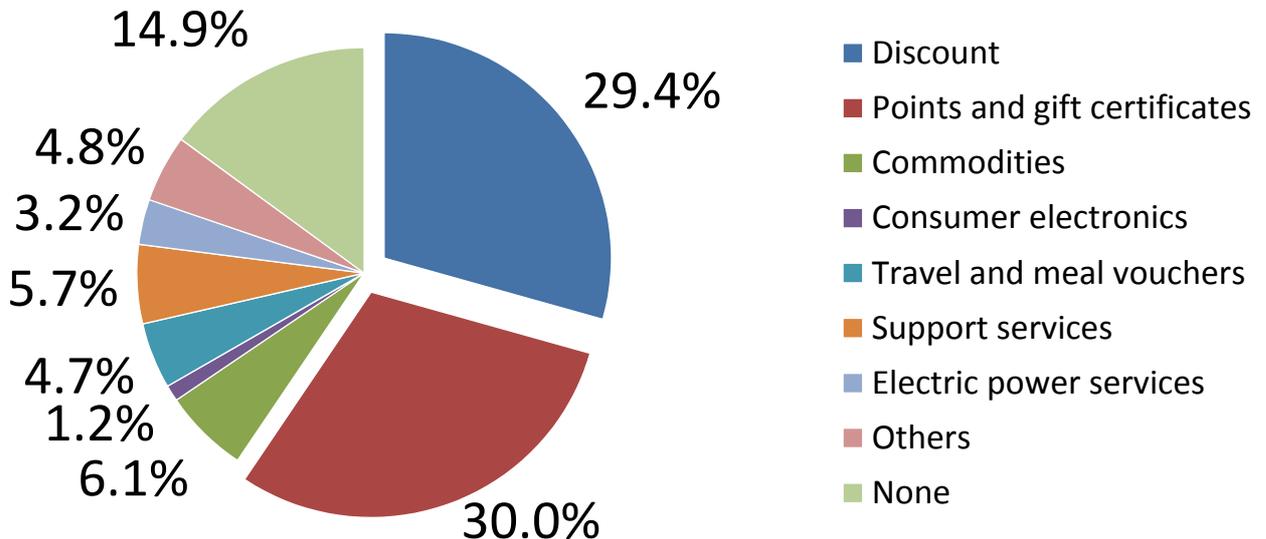


\*TCN and TOCO Channel Shizuoka's Hikaridenet are CATV-FTTH (carriers and ISPs)

# Review of Package Benefits

Packaged sales menu benefit that customers expect is 60% after discount or points  
Considering attractive package benefits based on customer needs

Expected packaged sales menu benefits



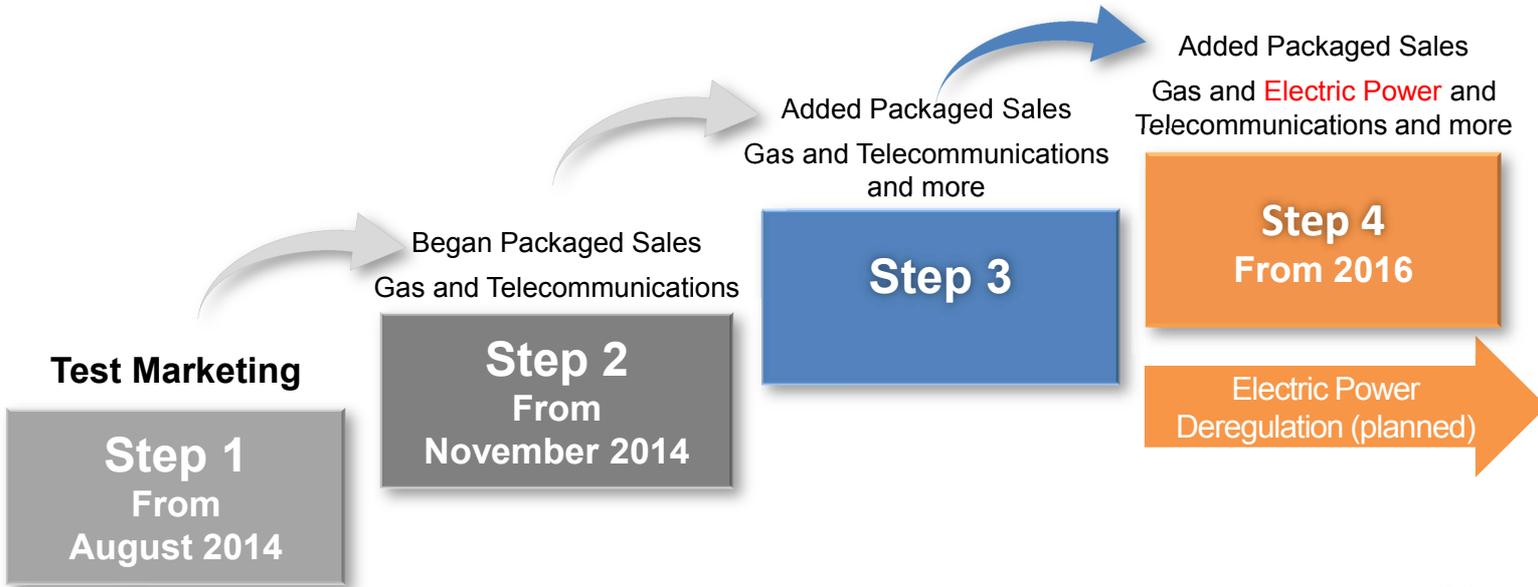
Based on TOKAI Group survey (June 2014)

# Schedule for Expanding Packaged Sales Offering

Began test marketing in August 2014

Began packaged sales in November 2014

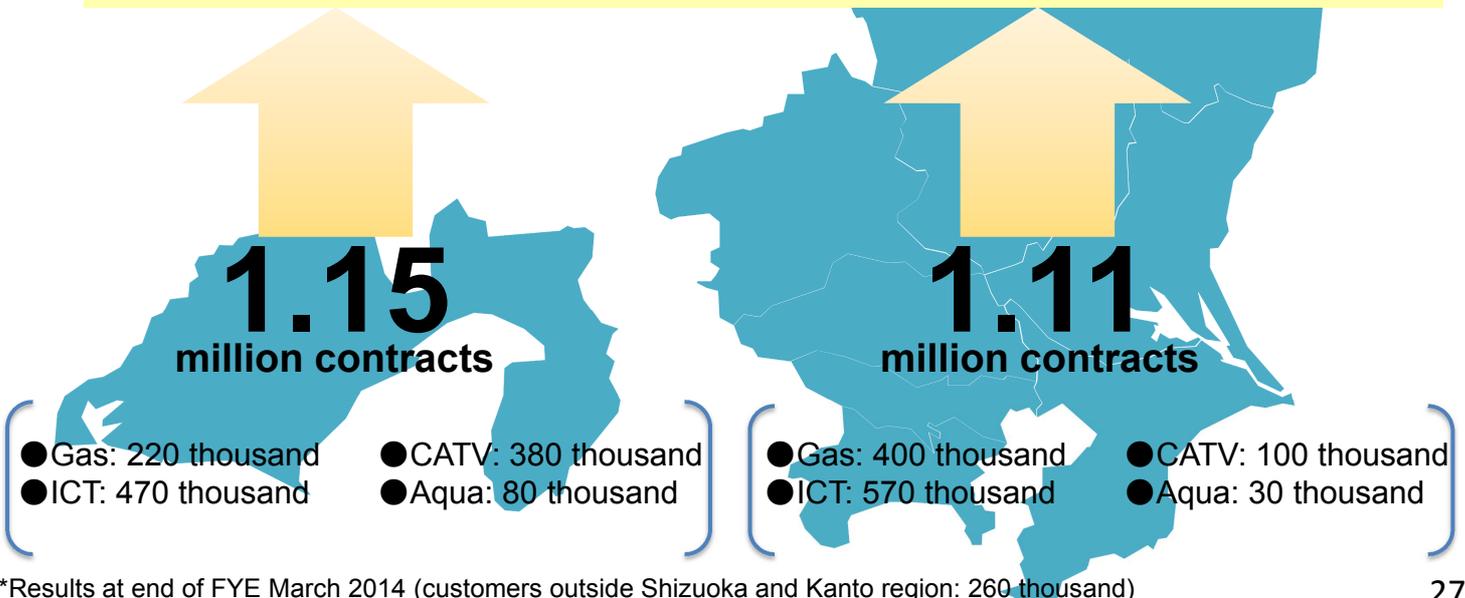
- Plan to implement in Shizuoka and Kanto area.
- Electric power deregulation of FYE March 2017 aims to incorporate electric power service.



## Further Increase Market Share in Shizuoka and Kanto Region

- Penetrate the regions and continue to grow as a comprehensive life infrastructure company for households.

# Focus on Shizuoka and Kanto region markets



\*Results at end of FYE March 2014 (customers outside Shizuoka and Kanto region: 260 thousand)

These materials contain projections and other forward-looking statements on management's judgments derived from information available at the time of formulation, and include potential risks and uncertainties. Various factors may cause actual results in the future to differ materially from projections and other forward-looking statements made within these materials.

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