



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

October 31, 2019

Company name:	TOKAI Holdings Corporation	Stock listing:	Tokyo Stock Exchange
Stock code:	3167	URL:	https://www.tokaiholdings.co.jp/english/
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Scheduled date of filing quarterly report:	November 13, 2019		
Scheduled date of dividend payment:	November 29, 2019		
Supplementary materials on quarterly financial results:	Yes		
Quarterly financial results briefing:	Yes (For institutional investors)		

(Figures are rounded to the nearest million yen)

1. Consolidated Financial Results for the Six-months Ended September 30, 2019 (April 1, 2019 to September 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	%
Six-months Ended September 30, 2019	93,015	4.7	5,500	58.3	5,608	56.6	3,492	101.1
Six-months ended September 30, 2018	88,840	4.6	3,475	11.6	3,580	13.9	1,736	39.3

(Note) Comprehensive income: 2,924 million yen in the Six-months Ended September 30, 2019 (3.7%)
2,819 million yen in the Six-months ended September 30, 2018 (47.6%)

	Quarterly Net Income per Share	Quarterly Net Income per Share (Diluted)
	Yen	Yen
Six-months Ended September 30, 2019	26.67	-
Six-months ended September 30, 2018	13.26	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
Six-months Ended September 30, 2019	165,606	64,982	38.4
Year ended March 31, 2019	167,606	63,894	37.4

(Reference) Equity: 63,602 million yen for the Six-months Ended September 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	—	14.00	—	—	—
Year ending March 31, 2018 (Forecast)	—	—	—	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
Year ending March 31, 2020	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):

Q2 FY3/2020	139,679,977 shares	FY3/2019	139,679,977 shares
Q2 FY3/2020	8,731,837 shares	FY3/2019	8,731,411 shares
Q2 FY3/2020	130,951,794 shares	Q2 FY3/2019	130,945,409 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.(400,700 stocks at Q2 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 (407,378 shares for the Six-months Ended September 30, 2019; 414,634 shares for the Six-months ended September 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 six 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 continued to remain clouded by uncertainties in overseas economies, including US–China trade friction and other factors.

Against this backdrop, the TOKAI Group passed 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. The Group continued to implement strategies aimed at expanding its earnings base, such as developing existing businesses, making acquisitions, and entering new businesses. The key themes underlying these strategies were realizing the Group’s vision of becoming a Total Life Concierge (TLC)*¹, and ABCIR+S*² initiatives.

In the six months ended September 30, 2019, with the success of measures to acquire new customers and increase orders, the Group booked sales of 93,015 million yen (+4.7% year on year) and posted significant growth in all profit categories, with operating profit of 5,500 million yen (+58.3% year on year), recurring profit of 5,608 million yen (+56.6% year on year), and net income attributable to owners of the parent of 3,492 million yen (+101.1% year on year). The results for sales and all profit categories were at record highs.

As of September 30, 2019, the number of continuing customers rose by 16 thousand from March 31, 2019 to 2,918 thousand, and members of the TLC Membership Service increased by 47 thousand to 852 thousand.

Major topics in the six months ended September 30, 2019 included the following:

In July 2019, the Group acquired 99.0% of outstanding shares in software development company AM’s Brain Inc. (Kita-ku, Okayama, Okayama Prefecture) to strengthen its development structure in the Information and Communications business. In August 2019, the Group entered into a business alliance agreement with Isesaki Gas Co., Ltd., which operates city gas and LP gas businesses in Isesaki, Gunma Prefecture, and acquired 20.7% of its outstanding shares. Also in August 2019, the Group established Nikaho Gas Corporation to take over the city gas business operated by the city of Nikaho, Akita Prefecture. In September 2019, the Group acquired all shares in Nissan Tri Star Construction, Inc., a general construction company based in Gero, Gifu Prefecture, to expand its Building and Real Estate business.

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

*2 ABCIR+S: An acronym formed by 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 efforts to acquire new customers and preventing contract cancellations in existing service areas, as well as expanding into new areas. As a result, in the six months ended September 30, 2019, the number of customers rose by 11 thousand from March 31, 2019 to 639 thousand, and sales came to 29,240 million yen (+3.5% year on year).

In the city gas business, the number of customers largely remained unchanged from that of March 31, 2019 at 56

thousand. Still, sales rose to 6,526 million yen (+14.8% year on year), supported by a higher unit sales price on the back of fuel cost adjustment regulations and increased equipment sales.

As a result, segment sales amounted to 35,766 million yen (+5.4% year on year) and operating profit to 787 million yen (versus a loss of 52 million yen during the same period of the previous fiscal year).

(Building and Real Estate)

In the Building and Real Estate business, segment sales came to 9,736 million yen (+8.3% year on year) and operating profit to 487 million yen (+117.9% year on year), thanks to increases in equipment sales and the number of projects in the renovation business.

(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 packaged services with 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, broadcasting services had 794 thousand customers, up by five thousand from March 31, 2019, and communications services had 282 thousand customers, up by nine thousand.

Consequently, segment sales amounted to 15,593 million yen (+3.0% year on year) and operating profit to 2,304 million yen (+10.6% year on year).

(Information and Communications)

In consumer-oriented services, amid intensifying competition from major mobile phone carriers, the Group worked to attract customers by expanding service offerings. In addition to the TOKAI-brand MVNO service LIBMO on its own, it offered Hikari Collaboration bundled with LIBMO. The LIBMO service added three thousand customers since March 31, 2019 to bring customer count to 43 thousand, but the number of ISP customers declined by 20 thousand to 727 thousand (324 thousand Hikari Collaboration and 403 thousand conventional ISP customers). As a result, sales came to 14,563 million yen (-6.1% year on year).

In corporate services, sales rose to 11,347 million yen (+17.6% year on year), mainly reflecting increases in recurring-revenue operations and contracted system development projects.

Due to these factors, segment sales were 25,911 million yen (+3.0% year on year), and operating profit was 1,657 million yen (+64.6% 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 three thousand from March 31, 2019 to 159 thousand. The Group also worked to reduce manufacturing and logistics costs.

As a result, segment sales came to 3,752 million yen (+7.5% year on year) and operating profit to 257 million yen (+61.5% year on year).

(Others)

Turning to other businesses, sales in the nursing care business totaled 574 million yen (+8.0% year on year), supported by an increase in the number of care recipients. In the shipbuilding business, sales amounted to 726

million yen (+15.9% year on year), reflecting an increase in work volume for ship repairs. In the bridal events business, sales came to 574 million yen (-8.1% year on year) due to a decline in the number of wedding ceremonies.

As a result, segment sales were 2,255 million yen (+6.2% year on year), and operating profit was 51 million yen (versus a loss of 10 million yen in the same period of the previous fiscal year).

(2) Explanation of Consolidated Financial Position

1) Assets, Liabilities, and Net Assets

As of September 30, 2019, total assets amounted to 165,616 million yen, down 1,990 million yen from March 31, 2019. This mainly reflected a 2,856 million yen decrease in notes and accounts receivable–trade owing to seasonal factors, partially offset by a 1,146 million yen increase in cash and deposits attributed to newly consolidated subsidiaries through acquisitions.

Total liabilities stood at 100,633 million yen, down 3,078 million yen from March 31, 2019. This was primarily due to decreases of 821 million yen in notes and accounts payable–trade stemming from seasonal factors and 1,784 million yen in income taxes payable resulting from income tax payments.

Net assets totaled 64,982 million yen, up 1,088 million yen from March 31, 2019. This was mainly attributable to the booking of 3,492 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 September 30, 2019, cash and cash equivalents stood at 4,204 million yen, up 185 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 10,706 million yen, up 3,512 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 6,859 million yen, up 104 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 3,659 million yen, down 3,718 million yen from the same period of the previous fiscal year. This was primarily 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 six months ended September 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	Six Months Ended September 30, 2019
Assets		
Current assets		
Cash and deposits	4,164	5,310
Notes and accounts receivable–trade	24,798	21,941
Merchandise and finished goods	4,173	3,694
Work in process	660	1,713
Raw materials and supplies	865	863
Other	8,264	7,418
Allowance for doubtful accounts	-419	-451
Total current assets	42,506	40,491
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	33,756	33,456
Machinery, equipment and vehicles, net	23,592	23,417
Land	22,921	23,094
Other, net	16,760	17,248
Total property, plant and equipment	97,030	97,216
Intangible assets		
Goodwill	5,044	4,831
Other	6,084	5,771
Total intangible assets	11,128	10,603
Investments and other assets		
Net defined benefit asset	2,365	2,399
Other	14,958	15,382
Allowance for doubtful accounts	-386	-478
Total investments and other assets	16,937	17,302
Total non-current assets	125,097	125,122
Deferred assets	2	2
Total assets	167,606	165,616

(Millions of yen)

	Fiscal Year Ended March 31, 2019	Six Months Ended September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable–trade	15,021	14,200
Short-term loans payable	22,265	21,954
Current portion of bonds	168	133
Income taxes payable	3,491	1,707
Accruals	1,705	1,759
Other	18,733	17,719
Total current liabilities	61,385	57,472
Non-current liabilities		
Bonds payable	230	171
Long-term loans payable	27,940	28,669
Accruals	149	101
Net defined benefit liability	719	761
Other	13,286	13,456
Total non-current liabilities	42,325	43,160
Total liabilities	103,711	100,633
Net assets		
Shareholders' equity		
Capital stock	14,000	14,000
Capital surplus	25,527	25,530
Retained earnings	21,863	23,516
Treasury stock	-2,222	-2,220
Total shareholders' equity	59,167	60,826
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,573	1,337
Deferred gains or losses on hedges	-319	-671
Foreign currency translation adjustment	-10	-15
Remeasurements of defined benefit plans	2,217	2,124
Total accumulated other comprehensive income	3,460	2,776
Non-controlling interests	1,267	1,380
Total net assets	63,894	64,982
Total liabilities and net assets	167,606	165,616

(2) Quarterly Consolidated Statements of Income, Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Six-months Ended September 30, 2019)

(Millions of yen)

	Six Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)	Six Months Ended September 30, 2019 (April 1, 2019 to September 30, 2019)
Sales	88,840	93,015
Cost of sales	53,759	55,850
Gross profit	35,081	37,165
Selling, general and administrative expenses	31,605	31,664
Operating profit	3,475	5,500
Non-operating profit		
Interest income	4	5
Dividend income	110	117
Commission fee	45	16
Share of profit of entities accounted for using equity method	—	64
Other	185	101
Total non-operating profit	345	306
Non-operating expenses		
Interest expenses	188	153
Share of loss of entities accounted for using equity method	7	—
Other	43	44
Total non-operating expenses	239	198
Recurring profit	3,580	5,608
Extraordinary income		
Gain on sales of non-current assets	0	13
Transmission line facility subsidies	66	49
Subsidy income	5	—
Gain on sales of investment securities	0	108
Total extraordinary income	72	171
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	317	384
Loss on sales of investment securities	—	9
Impairment loss	14	—
Other	36	115
Total extraordinary losses	367	508
Quarterly net income before income taxes	3,285	5,271
Income taxes (current)	1,333	1,786
Income taxes (deferred)	146	-123
Total income taxes	1,480	1,662
Quarterly net income	1,804	3,608
Quarterly net income attributable to non-controlling interests	67	116
Quarterly net income attributable to owners of the parent	1,736	3,492

(Consolidated Statements of Comprehensive Income)
(Six-months Ended September 30, 2019)

	(Millions of yen)	
	Six Months Ended September 30, 2018 (April 1, 2018 to September 30, 2018)	Six Months Ended September 30, 2019 (April 1, 2019 to September 30, 2019)
Quarterly net income	1,804	3,608
Other comprehensive income		
Valuation difference on available-for-sale securities	21	-236
Deferred gains (losses) on hedges	1,106	-351
Foreign currency translation adjustment	3	0
Remeasurement of defined benefit plans, net of tax	-108	-92
Share of other comprehensive income of entities accounted for using equity method	-7	-5
Total other comprehensive income	1,015	-684
Quarterly comprehensive income	2,819	2,924
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent	2,750	2,808
Quarterly comprehensive income attributable to non- controlling interests	69	115

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)	Six Months Ended September 30, 2019 (April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Quarterly net income before income taxes	3,285	5,271
Depreciation	6,832	7,080
Amortization of goodwill	584	535
Impairment loss	14	—
Increase (decrease) in net defined benefit asset and liability	-132	-122
Interest and dividend income	-114	-123
Loss (gain) on sales of investment securities	-0	-99
Interest expenses	188	153
Loss (gain) on sales of non-current assets	-0	-13
Loss on retirement of non-current assets	317	384
Decrease (increase) in notes and accounts receivable – trade	2,459	3,346
(Increase) decrease in inventories	-370	249
Increase (decrease) in notes and accounts payable–trade	-2,304	-1,312
Other	-1,883	-2,178
Subtotal	8,876	13,172
Income taxes paid	-1,683	-2,466
Net cash provided by (used in) operating activities	7,193	10,706
Cash flows from investing activities		
Interest and dividend income received	139	146
Purchase of securities	-306	-6
Proceeds from sales of securities	0	247
Purchase of tangible and intangible assets	-6,743	-5,750
Proceeds from sales of tangible and intangible assets	122	107
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-202	-1,408
Payments of loans receivable	-200	—
Collection of loans receivable	10	10
Other	215	-206
Net cash provided by (used in) investing activities	-6,964	-6,859
Cash flows from financing activities		
Interest expenses paid	-194	-162
Net increase (decrease) in short-term loans payable	4,450	-375
Repayments of lease obligations	-1,852	-1,858
Proceeds from long-term loans payable	4,800	5,400
Repayment of long-term loans payable	-5,196	-4,722
Redemption of bonds	-104	-94
Payments for acquisition of treasury stock	-0	-0
Proceeds from disposal of treasury shares	0	0
Cash dividends paid	-1,835	-1,838
Other	-7	-8
Net cash provided by (used in) financing activities	58	-3,659
Effect of exchange rate change on cash and cash equivalents	1	-1
Net increase (decrease) in cash and cash equivalents	289	185
Cash and cash equivalents at beginning of period	3,004	4,018
Cash and cash equivalents at end of period	3,294	4,204

(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. Six-months ended September 30, 2018 (April 1, 2018 to September 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	33,948	8,987	15,135	25,154	3,490	86,716	2,123	88,840	—	88,840
Intersegment sales and transfers	96	554	370	1,503	90	2,615	81	2,697	-2,697	—
Subtotal	34,045	9,542	15,506	26,657	3,580	89,332	2,204	91,537	-2,697	88,840
Segment income (loss)	-52	223	2,084	1,006	159	3,422	-10	3,411	63	3,475

- (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. Six-months Ended September 30, 2019 (April 1, 2019 to September 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	35,766	9,736	15,593	25,911	3,752	90,760	2,255	93,015	—	93,015
Intersegment sales and transfers	87	494	344	1,746	98	2,771	85	2,857	-2,857	—
Subtotal	35,853	10,231	15,937	27,658	3,851	93,532	2,340	95,872	-2,857	93,015
Segment income (loss)	787	487	2,304	1,657	257	5,494	51	5,545	-45	5,500

- (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.