

# Overseas IR

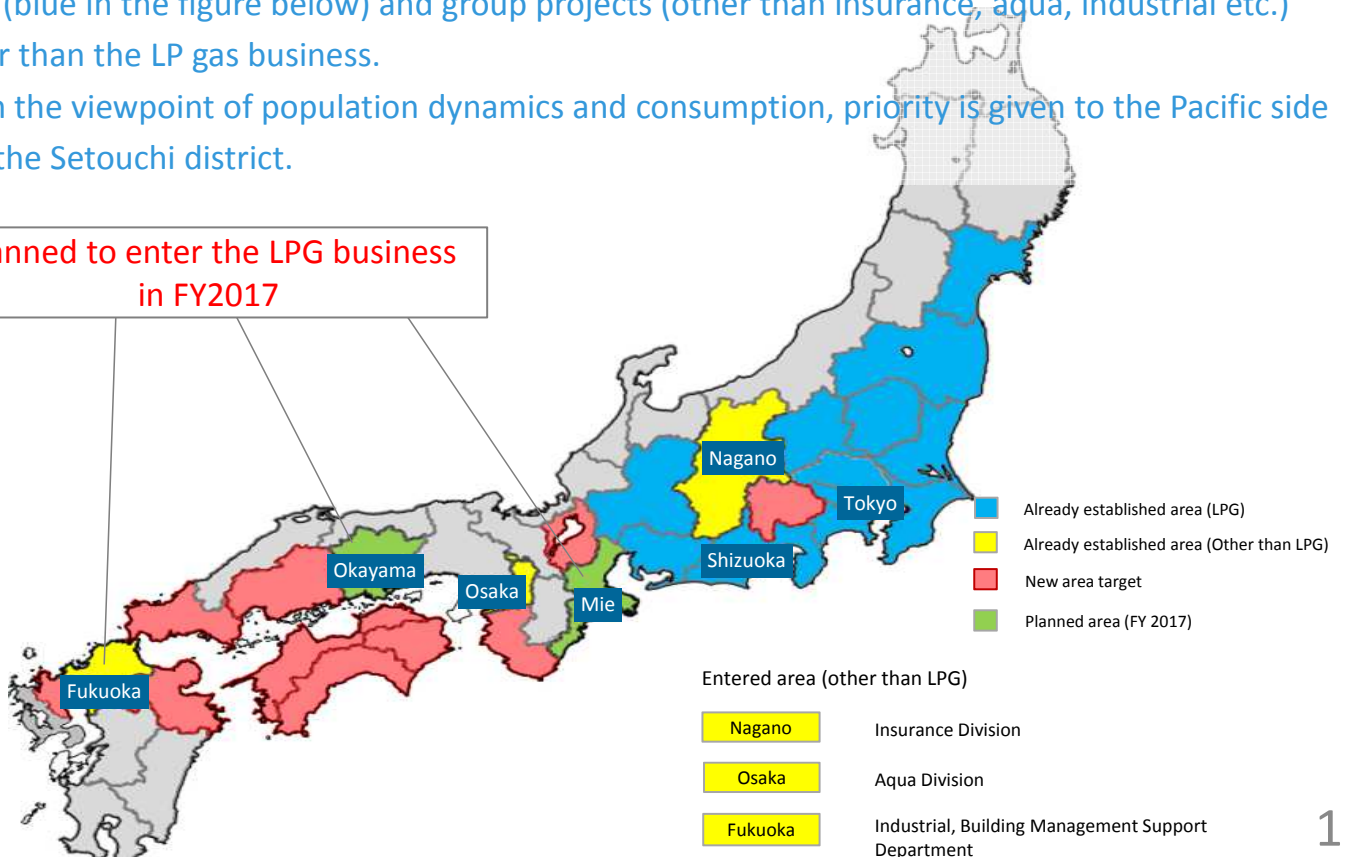
## Thematic discussion material

June, 2017  
 TOKAI Holdings Corporation  
 (Code: 3167)

### Prioritize areas already expanded or neighboring

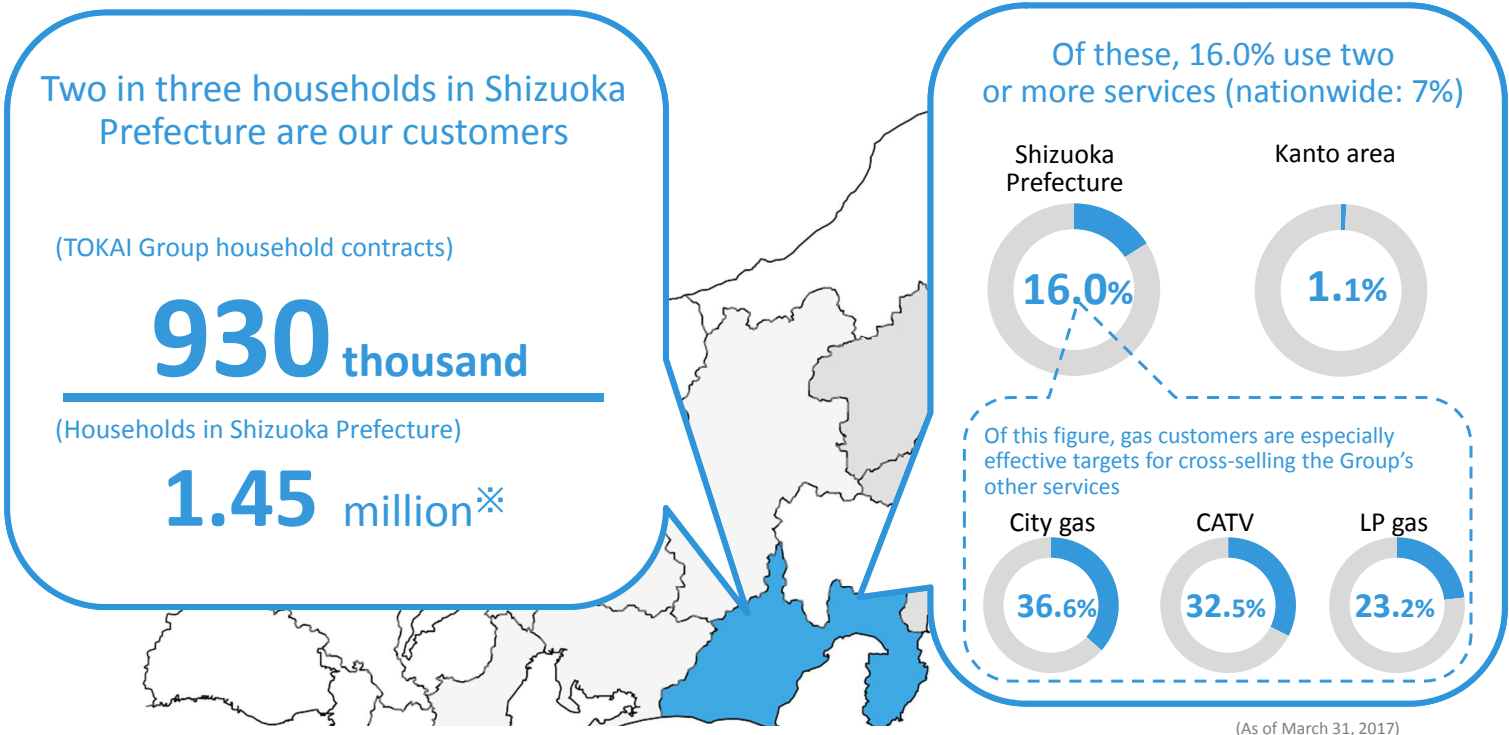
- Targeting operators in the areas already established in the neighboring of the LP gas advanced area (blue in the figure below) and group projects (other than insurance, aqua, industrial etc.) other than the LP gas business.
- From the viewpoint of population dynamics and consumption, priority is given to the Pacific side and the Setouchi district.

Planned to enter the LPG business in FY2017



# TLC model which can be established in Shizuoka prefecture

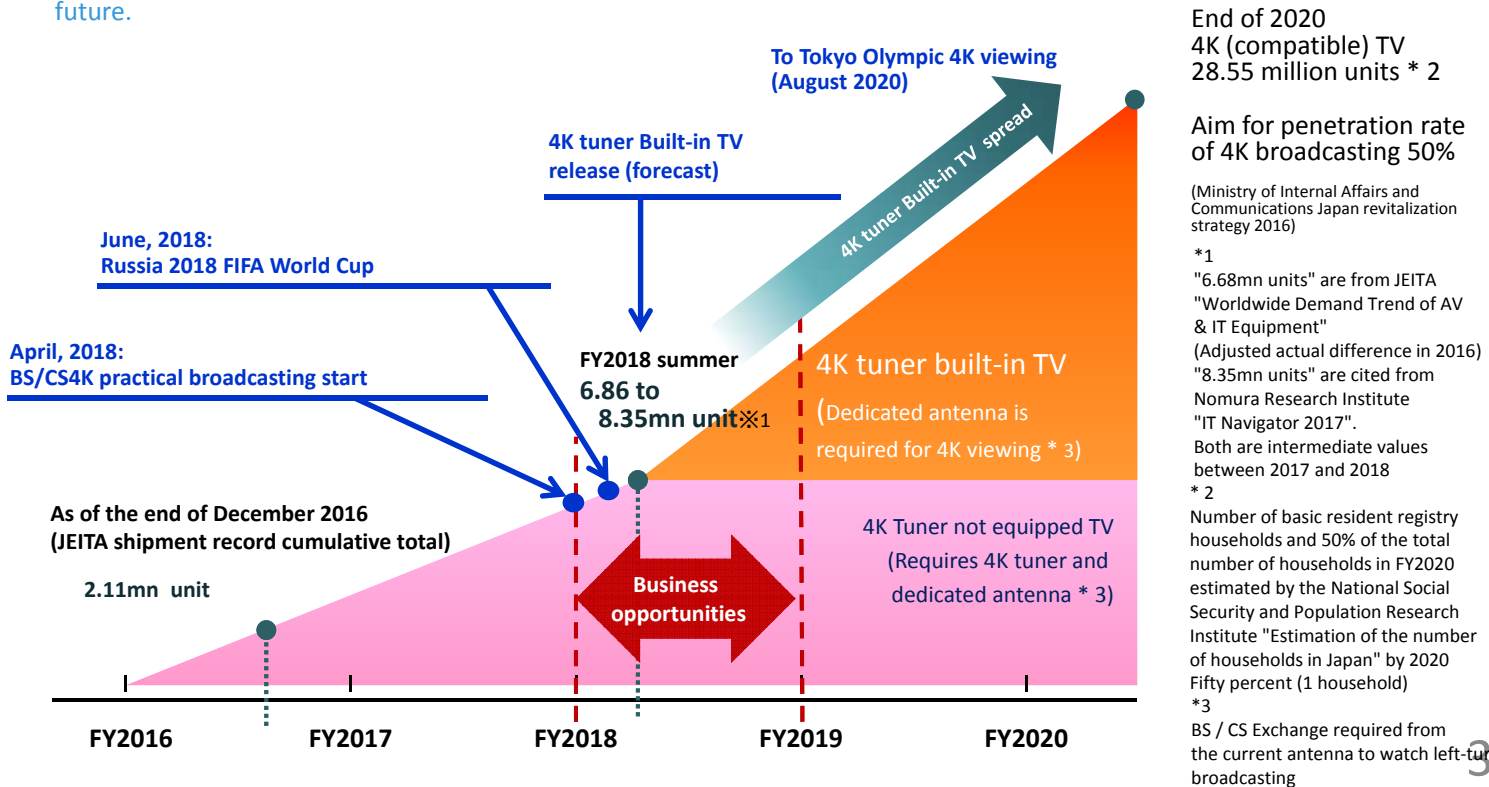
- It is our basic strategy to promote multiple contracts by community-based sales—
- Gas and CATV business is the basis for TLC because customer contact points are strong, and providing a high rate of multiple service contracts—



※ The number of households in Shizuoka Prefecture is as of April 1, 2017 according to "Shizuoka Prefecture Population Statistics, by City, Ward, Town, and Village," Shizuoka Prefectural Government. Contracts by the TOKAI Group as of March 31, 2017

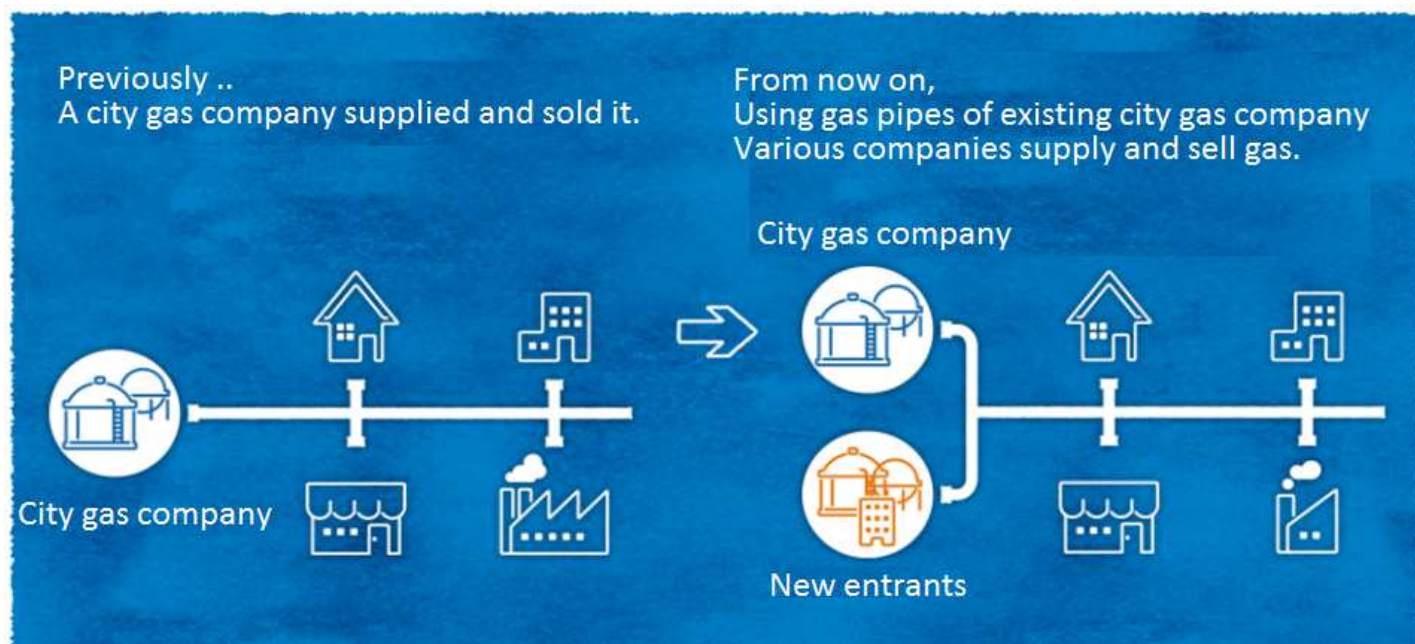
## Advancement of Broadcasting in CATV (Toward optical line)

- The Ministry of Internal Affairs and Communications is targeting the penetration rate of 4K broadcasting to 50% for the 2020 Tokyo Olympic Games.
- In order to provide 4K broadcasting in the CATV infrastructure, it is necessary to optical line (FTTH), our Group have promoted change the line to optical from 2008 . →Cover almost the entire area in 2020.
- We assume that many small and medium-sized operators that can not make capital investment will come out in the near future.



# Competition due to liberalization of city gas

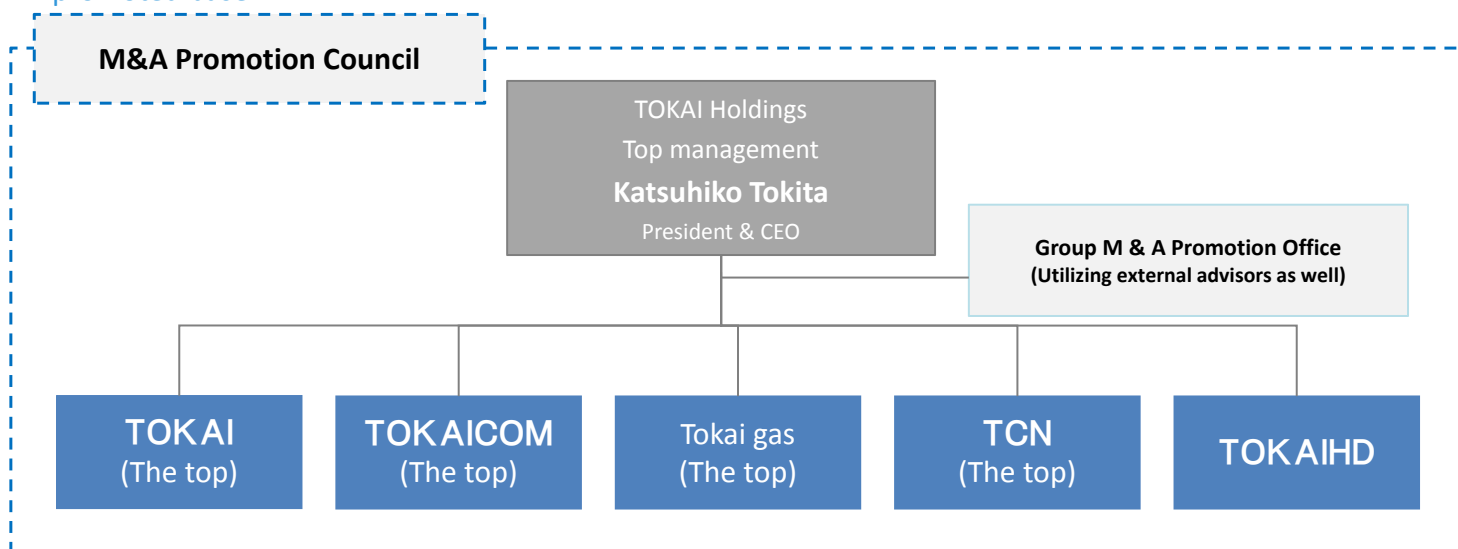
- Liberalization of full gas retailing of city gas began on April 1, 2017.
- Traditionally gas companies that monopolized the supply area and were protected by regulated fees were also exposed to competition and the environment changed completely.



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## Promote M&A by all our group

- The group M&A Promotion Office, a newly established investment special department established within HD, is the promotion agency. Supporting projects promoted by operating companies (Candidate inspection and evaluation using external advisors at the initial stage).
- "M & A Promotion Council" consisting of HD top and constituent members of each business company top is promoted base.



### ■ Consideration

Selection of candidates for M&A

Annual plan formulation  
(budget formation)

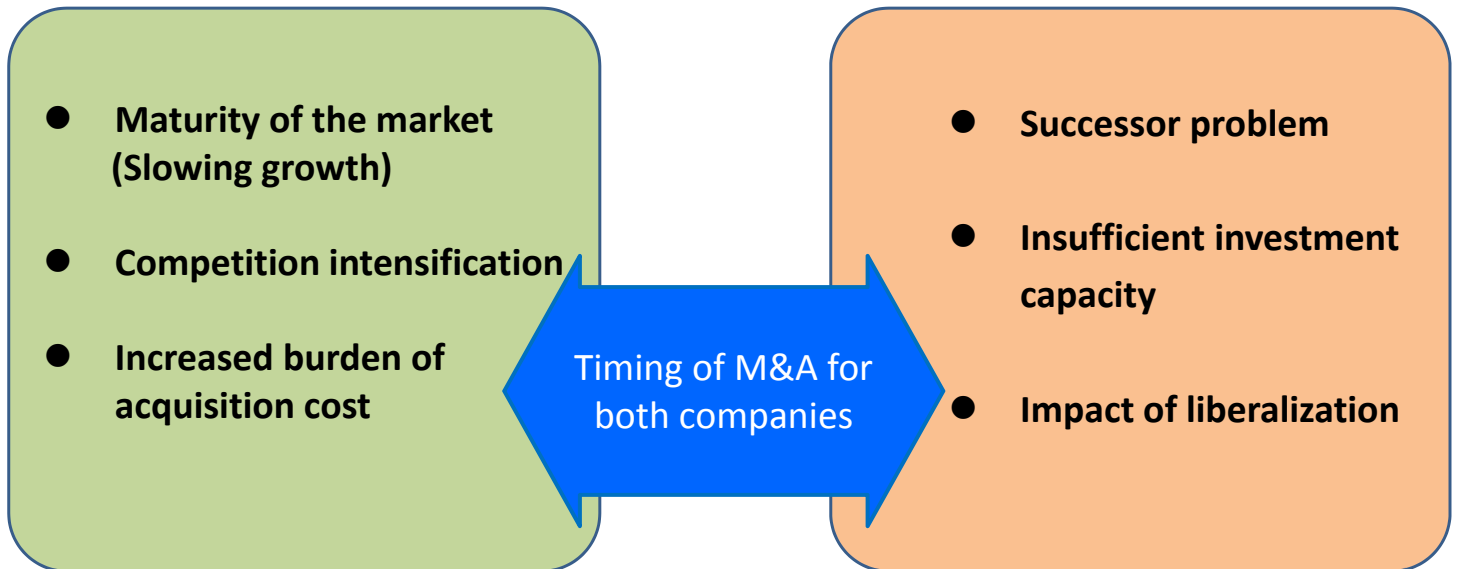
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# Reason to turn to aggressive management (M&A)

- Maturity of the market and intensification of competition between operators are on the rise in costs, and operators who are considering business continuity due to successor problems and liberalization also tend to increase.
- In addition to sales that accumulates one case per case, it is judged that efficient base expansion by M & A is also a rational strategy.

## Our group

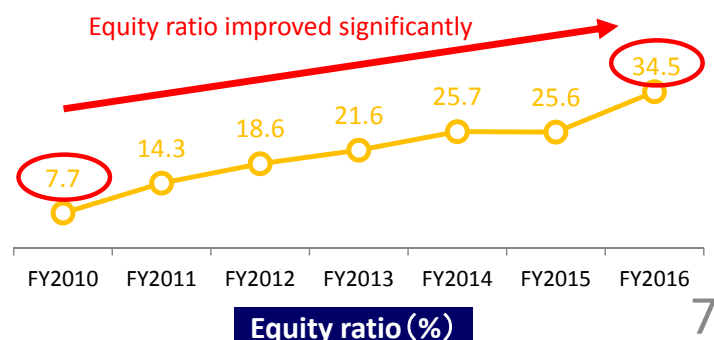
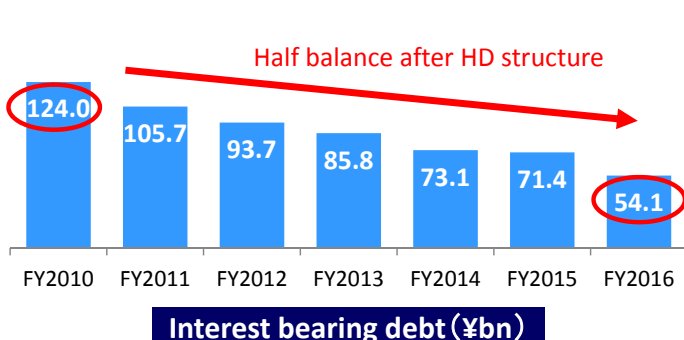
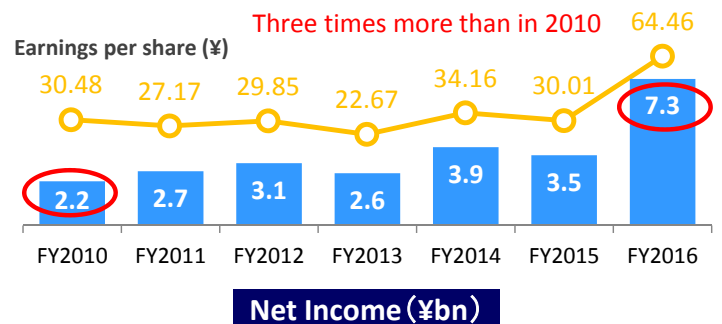
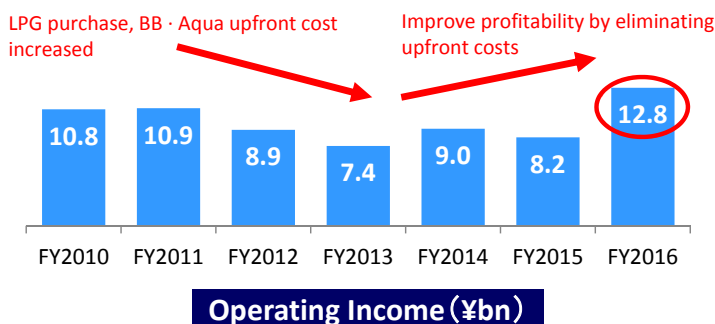
## The opponent company



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# Achievements after the HD structure

- ◎ Achieved operating income of 12.8 billion yen (**record high**) in fiscal 2016
- ◎ Net income **tripled**. +5.1 billion yen (2.2 billion yen ⇒ 7.3 billion yen)
- ◎ Interest bearing debt **halved**. -69.9 billion yen (124 billion yen ⇒ 54.1 billion yen)
- ◎ Equity ratio **improved significantly** (7.7%⇒34.5%)



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# Financing plan in the new medium-term plan

- For the four-year total cash flow, FCF is expected to be minus 38.9 billion yen, because ¥121.7bn earned by sales activities and invests ¥160.6bn. And anticipate ¥36.5bn as dividends and other payments, so procurement will be ¥75.4bn.
- It is necessary for ¥94.1bn against M&A investment of ¥100bn yen, we plan to allocate ¥18.7bn from existing business.

FY2017 to FY2020		Existing business	M&A Investment	Total
Cash flows from operating activities		¥110.1bn	¥11.6bn	¥121.7bn
Cash flows from investing activities		(¥59.2bn)	(¥101.4bn)	(¥160.6bn)
Free cash flow		¥50.9bn	(¥89.8bn)	(¥38.9bn)
Financial Cash Flow	Procurement and allocate for M&A	(¥18.7bn)	¥94.1bn	¥75.4bn
	Dividend and other payments	(¥32.2bn)	(¥4.3bn)	(¥36.5bn)
	Total	(¥50.9bn)	¥89.8bn	¥38.9bn

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## Numerical targets include doubling sales in FY03/21 versus FY03/17

- Target sales of 274.3 billion yen and operating profit of 18.5 billion yen for established businesses, plus M&A to attain FY03/21 sales of 339.3 billion yen and operating profit of 22.5 billion yen (up 90% and 80%, respectively, versus FY03/17). Target 70% increase in customer count to 4.32 million over the same period.
- Target interest-bearing debt/EBITDA ratio of 2.8x, equity ratio of 31.6%, and ROE of 13% by management focused on capital efficiency.

(Billions of yen)	FYE 3/17 Result	FYE 3/18 Target	FYE 3/19 Target	FYE 3/20 Target	FYE 3/21 Target
Sales	<b>178.6</b>	<b>189.4</b>	<b>202.0</b>	<b>224.4</b>	(+90%) <b>393.3</b>
Operating profit	<b>12.8</b>	<b>11.4</b>	<b>14.0</b>	<b>16.2</b>	(+80%) <b>22.5</b>
Net income	<b>7.3</b>	<b>6.4</b>	<b>7.9</b>	<b>8.7</b>	(+60%) <b>11.5</b>
Total assets	<b>161.1</b>	<b>169.8</b>	<b>173.8</b>	<b>191.2</b>	(+80%) <b>283.5</b>
Interest-bearing debt/EBITDA ratio	<b>2.0x</b>	<b>2.4x</b>	<b>2.2x</b>	<b>2.0x</b>	<b>2.8x</b>
Equity ratio	<b>34.5%</b>	<b>33.9%</b>	<b>35.6%</b>	<b>34.9%</b>	<b>31.6%</b>
ROE	<b>15.2%</b>	<b>11.1%</b>	<b>12.8%</b>	<b>13.0%</b>	<b>13.0%</b>
Customer numbers (millions)	<b>2.56</b>	<b>2.88</b>	<b>2.99</b>	<b>3.72</b>	(+70%) <b>Over 4.32</b>

Note: ( ) denotes increase versus FY03/17

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# Evaluation of electricity liberalization

- There is no withdrawal of our customers due to electricity.
- For retailers, margins are low, and for consumers, it is not an attractive fee either.
- We will position it as TLC's product line-up, and will proceed in a natural way.

## Electricity application status nationwide

Area	General household sector number of subscriptions* 1...①	Number of household**1 ...②	Low pressure switching (transition to new electric power) Number of applications**2			Former general electric utility operator New Fee Count**3 ...④	New price transition count			(reference) High altitude - High voltage switching ratio As of February 2017
			As of Apr. 30...③	③÷①	③÷②		③+④ ...⑤	⑤÷①	⑤÷②	
Hokkaido Electric Power	2,760 thousand	2,751 thousand	175.4 thousand	6.4%	6.4%	2,115 thousand	178 thousand	6.4%	6.5%	19.0%
Tohoku Electric Power	5,467 thousand	4,578 thousand	130.7 thousand	2.4%	2.9%	19 thousand	150 thousand	2.7%	3.3%	8.4%
Tokyo Electric Power	22,966 thousand	20,743 thousand	1,941.1 thousand	8.5%	9.4%	685 thousand	2,626 thousand	11.4%	12.7%	15.3%
Chubu Electric Power	7,615 thousand	6,602 thousand	315.4 thousand	4.1%	4.8%	1,043 thousand	1,358 thousand	17.8%	20.6%	7.4%
Hokuriku Electric Power	1,237 thousand	1,154 thousand	22.1 thousand	1.8%	1.9%	9 thousand	32 thousand	2.5%	2.7%	0.9%
Kansai Electric Power	10,067 thousand	9,503 thousand	780.0 thousand	7.7%	8.2%	285 thousand	1,065 thousand	10.6%	11.2%	19.1%
Chugoku Electric Power	3,499 thousand	3,315 thousand	51.9 thousand	1.5%	1.6%	340 thousand	392 thousand	11.2%	11.8%	5.1%
Shikoku Electric Power	1,941 thousand	1,755 thousand	39.9 thousand	2.1%	2.3%	13 thousand	52 thousand	2.7%	3.0%	5.5%
Kyushu Electric Power	6,218 thousand	5,929 thousand	238.7 thousand	3.8%	4.0%	96 thousand	334 thousand	5.4%	5.6%	9.7%
Okinawa Electric Power	760 thousand	622 thousand	0.0 thousand	0.0%	0.0%	0.9 thousand	0.9 thousand	0.1%	0.1%	2.7%
<b>Total</b>	<b>62,531 thousand</b>	<b>56,951 thousand</b>	<b>3,695.2 thousand</b>	<b>5.9%</b>	<b>6.5%</b>	<b>2,492 thousand</b>	<b>6,187 thousand</b>	<b>9.9%</b>	<b>10.9%</b>	<b>12.0%</b>

※1 Number of subscriptions is "Used Electric Light A, B, C at the end of March 2016 and low-voltage electricity", the number of households is "Basic Resident Register on January 1, 2016"

※2 Number of applications applied from local power company to local electric power company (excluding transition to new price menu within regional power).

※3 The number of switchover contracts within the company of the former general electric utility company (regulation ⇒ freedom) is "Electricity Gas Transaction Monitoring Committee Electric Power Transaction Report <Switching Results (End of February)>"

(Based on sales volume)

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## Situation of city gas liberalization

- Unlike electricity, the gas conduit is not connected throughout Japan, the proportion of consignment fee to retail is high
- New entry is a very high barrier

	10-Mar	24-Mar	7-Apr	21-Apr	5-May	19-May
Hokkaido	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
Tohoku	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
Kanto	— (—)	3,284 (+3,284)	8,977 (+5,693)	14,915 (+5,938)	19,882 (+4,967)	27,176 (+7,294)
Chubu, Hokuriku	10,605 (—)	15,634 (+5,029)	20,179 (+4,545)	25,250 (+5,071)	28,935 (+3,685)	32,667 (+3,732)
Kinki	46,533 (—)	71,213 (+24,680)	96,230 (+25,017)	124,790 (+28,560)	135,651 (+10,861)	146,550 (+10,899)
Chugoku, Shikoku	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
Kyushu, Okinawa	654 (—)	2,272 (+1,618)	4,956 (+2,684)	6,504 (+1,548)	7,455 (+951)	8,914 (+1,459)
<b>Nationwide</b>	<b>57,792 (—)</b>	<b>92,403 (+34,611)</b>	<b>130,342 (+37,939)</b>	<b>171,459 (+41,117)</b>	<b>191,923 (+20,464)</b>	<b>215,307 (+23,384)</b>

※ Numbers in parentheses indicate changes from previous published figures

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# Estimating 10,000 customer cross-selling models by M&A

- When acquiring a business operator with a customer base, it is possible to sell various daily living-related products of the group to the customer.
- Based on the results of our company, we estimate the following four services, it is expected to create synergies.

Addition service	Internet	Aqua	Housing/Renovation	Security	Total
Customer base					
CATV	Overlap rate: 10.0% Increase in sales: ¥12mn Increase in profit: ¥1.2mn	Overlap rate: 4.5% Increase in sales: ¥22mn Increase in profit: ¥10mn	Overlap rate: 0.79% Increase in sales: ¥67mn Increase in profit: ¥17mn	Overlap rate: 0.81% Increase in sales: ¥2.9mn Increase in profit: ¥1.5mn	Increase in sales: ¥104mn Increase in profit: ¥30mn
City gas	Overlap rate: 14.0% Increase in sales: ¥58mn Increase in profit: ¥21mn	Overlap rate: 5.86% Increase in sales: ¥29mn Increase in profit: ¥13mn	Overlap rate: 3.00% Increase in sales: ¥136mn Increase in profit: ¥34mn	Overlap rate: 1.54% Increase in sales: ¥5.5mn Increase in profit: ¥2.9mn	Increase in sales: ¥229mn Increase in profit: ¥71mn
LP gas	Overlap rate: 9.73% Increase in sales: ¥40mn Increase in profit: ¥15mn	Overlap rate: 5.57% Increase in sales: ¥28mn Increase in profit: ¥13mn	Overlap rate: 0.79% Increase in sales: ¥67mn Increase in profit: ¥17mn	Overlap rate: 2.15% Increase in sales: ¥8mn Increase in profit: ¥4mn	Increase in sales: ¥143mn Increase in profit: ¥49mn
Internet		Overlap rate: 4.19% Increase in sales: ¥21mn Increase in profit: ¥10mn			Increase in sales: ¥21mn Increase in profit: ¥10mn
Unit price(¥/item · month) Sales / Profit	CATV 1,000/100 Others 3,456/1,264	OW4,179/1,914	CA,LP850/215 TG453/113	Household use 2,967/1,567	

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## TLC model which can be established in Shizuoka prefecture

- It is our basic strategy to promote multiple contracts by community-based sales—
- Gas and CATV business is the basis for TLC because customer contact points are strong, and providing a high rate of multiple service contracts—

Two in three households in Shizuoka Prefecture are our customers

(TOKAI Group household contracts)

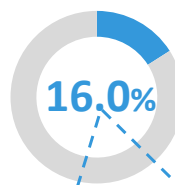
**930 thousand**

(Households in Shizuoka Prefecture)

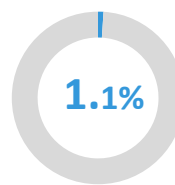
**1.45 million\***

Of these, 16.0% use two or more services (nationwide: 7%)

Shizuoka Prefecture

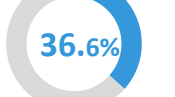


Kanto area

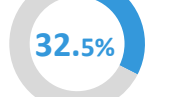


Of this figure, gas customers are especially effective targets for cross-selling the Group's other services

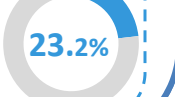
City gas



CATV



LP gas

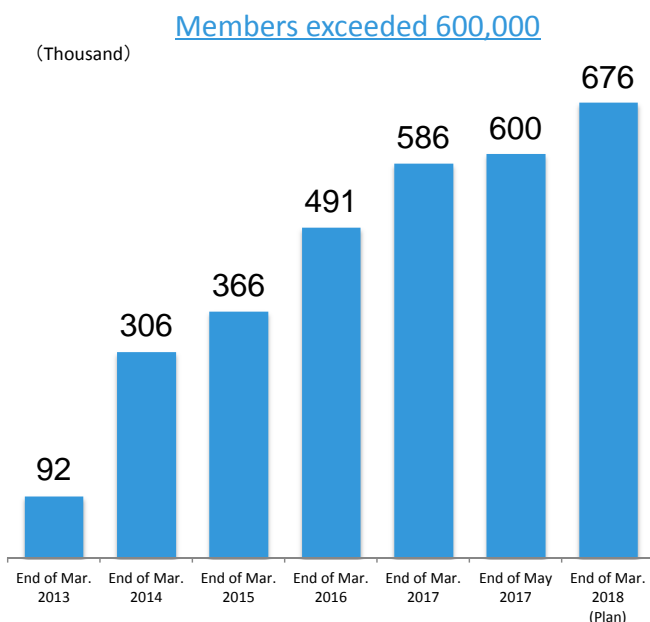


(As of March 31, 2017)

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## TLC membership system effective for continuation and multiple contracts

- Institutionalized in December 2011 to further extend long-term continuity and multi-transaction (cross-selling) measures to 2.56 million customer base.
- TLC points are awarded according to the usage amount of group service (1 point of basic point for monthly usage charge of 200 yen) and the number of contracts of service (bonus points 50 to 500 points according to the number of contracts)



Group Services	LP Gas	City Gas	Electricity	Internet	LIBMO	CATV	Aqua	Security
Basic Points	◎	—	—	◎	◎	◎	◎	◎
※ Receive 1 TLC point per 200 yen of monthly usage amount of target 6 services								
Bonus Points	◎	◎	◎	◎	◎	◎	◎	◎
※Receive TLC points according to the number of targeted 8 services contracts <ul style="list-style-type: none"> <li>• 2 contracts → 50 points</li> <li>• 3 contracts → 150 points</li> <li>• 4 contracts → 300 points</li> <li>• 5 contracts → 500 points</li> </ul>								

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## 40 million customer contact points per year are our strengths

- We have 40 million customer contacts annually in the group as a whole (4.51 million times online in contact with customers directly, 35 million times offline in contact with web or mail).
- In particular, the customer's contact in the gas and CATV business, which is in contact with customers on a face-to-face basis strongly, and this is also evident in cross-selling results.

(Counts per year) (Thousand)

	Delivery	Collection	Call Center	Sales Activity	HP Access	E-Mail Magazine	Total
Gas customers	1,630	220	430	250	160	—	2,690
Aqua customer	430	—	510	—	1,500	—	2,450
CATV customers	—	—	360	30	1,210	1,310	2,910
ISP customers	—	—	600	—	8,880	17,760	27,240
TLC members	—	—	40	—	240	3,930	4,210
<b>Total</b>	<b>2,070</b>	<b>220</b>	<b>1,950</b>	<b>280</b>	<b>12,000</b>	<b>23,000</b>	<b>39,510</b>
Contact directly					Web or E-Mail magazine		
4,510					35,000		

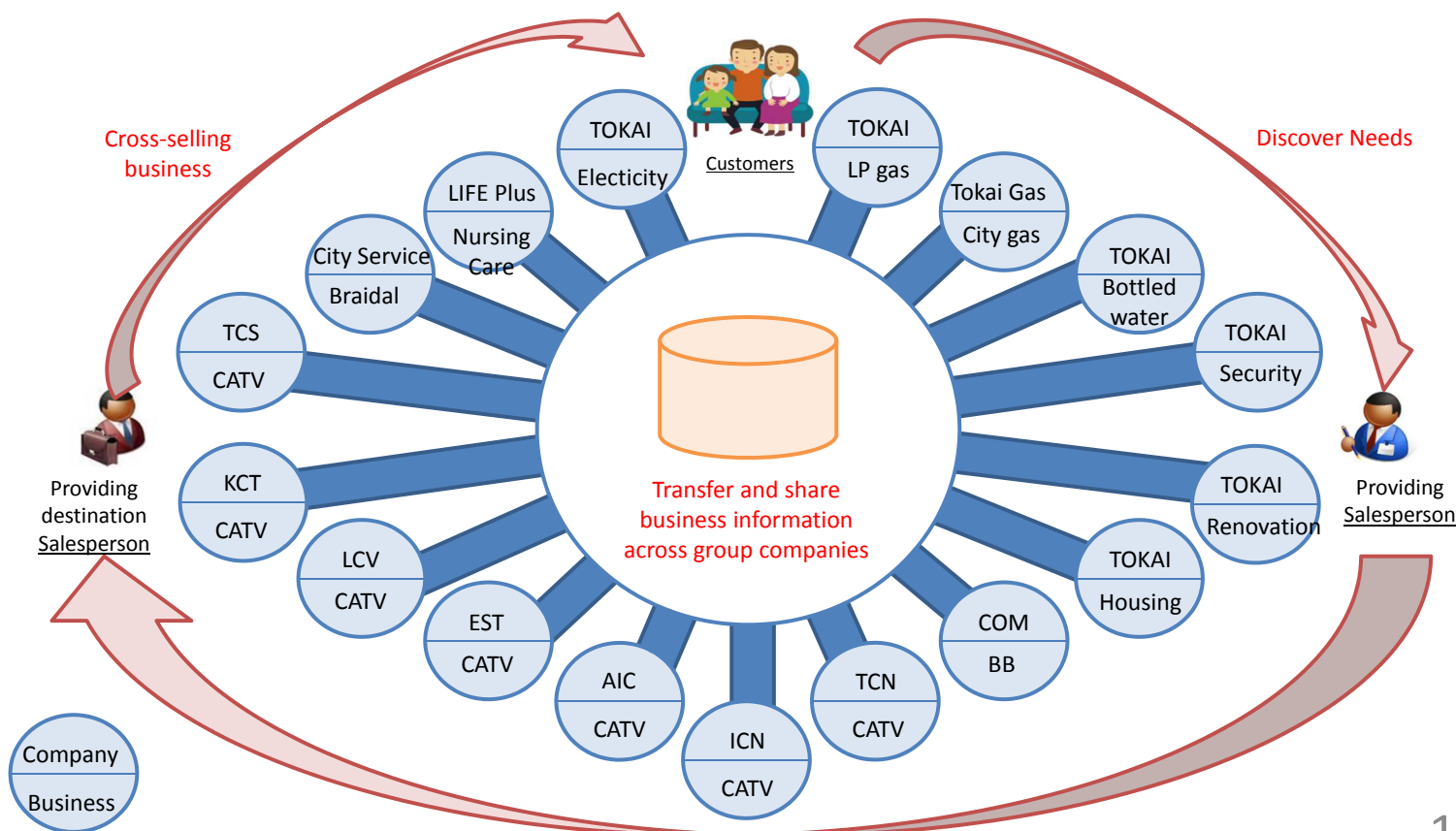
※FY2014 result

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# Information system that centrally manages cross-sell information

- Instantaneously convey information necessary for cross-selling promotion, such as introduction information and prospect information, and combine it with closing.



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## Promote multiple trading with "TLC Kasatoku Plus"

(TLC [Kasanete Tokusuru Campaign](#) + TOKAI [Smart Plus](#))

- As a new cross-selling measure, in addition to the previous point return program, we started "TLC Kasatoku Plus" from FY2019, which provide customers with incentives for multiple trading.
- Developed as a new measure incorporating electricity and LIBMO.

Applicable services	LP gas	Internet	CATV	Aqua	Security	Housing/ Renovation	Electricity	LIBMO
Qualification	<ul style="list-style-type: none"> <li>TOKAI Group service users (existing customers of the applicable services) <u>add another applicable service, resulting multiple contracts.</u></li> <li>If the customer canceled a service and only one or no services remain, the multiple-transaction benefit stopped.</li> </ul>							
Benefit	Monthly	200 TLC Points / month (each 1 contract)						
	Initial time only	LIBMO : 2,000 TLC Points / registration Housing : 10,000 TLC Points / delivery Renovation : 3,000 TLC Points / delivery						
Benefit providing period	<u>Up to 60 months (5 years)</u>							
Example: Conceptual image of application	LP gas       LP gas +  CATV       LP gas +  CATV +  Aqua							
	Basic points	35	35+13 = 48		35+13+21 = 69			
	Bonus points		50		150			
	<b>NEW</b> Kasatoku points		200		400			
	<b>Total</b>	<b>35</b>	<b>298</b>		<b>619</b>			
	Customer benefit	-	- 3%		- 5%			
Our gross margin(*)	100	140		170				
*Profit (exclude customer benefit) level when the current LP gas gross profit is taken as 100								

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# Cross-selling thorough (Challenge to multiple trading ratios of 20%)

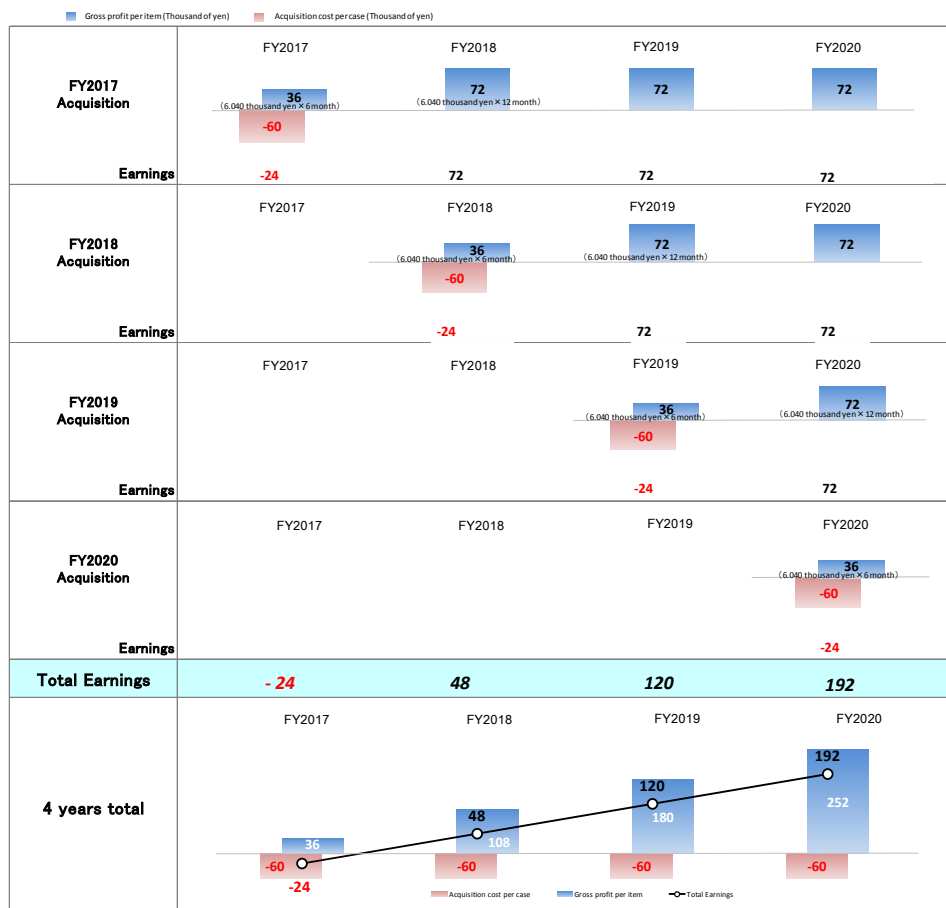
- Challenge to raise the multiple trading rate from 7%(current situation) to 20% and an increase of 1.7 billion yen.

Base customer	Number (Thousands)	Current multiple trading rate (%)	Additional items to be sold to existing customers (Thousands)								Multiple trading rate in FY2020 (%)	
			LP gas	City gas	Aqua	BB (Broad band)	CATV	Security	Low-cost SIM	New item		Total
LP gas	588	9.9			21	28	9	1	12	5	75	23.5
City gas	54	36.6			3	8	5	0.1	2	1	19	74.9
Aqua	135	24.5	1	3		7	5	0.0	1	1	18	48.1
BB (Include MVNO)	827	9.2	20	5	21			0.2	53	9	109	29.1
CATV	733	18.0	13	2	14			0.1	10	4	43	31.1
Security	17	49.5	0.1	0.0	0.1	0.0	0.0		0.0	0.2	0.4	52.3
≈												
Total	2,564	7.0	34	11	60	42	19	1	78	20	266	20.0

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## Business Model

- Earnings model (LP Gas (Shizuoka)) based on acquisition cost (acquisition cost + advertisement expenditure) 59.5 thousand yen / gross profit per case 6.040 thousand yen / month



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