



# Financial Results

for the three month period ended June 30, 2017

August 14, 2017

# Consolidated Results

(Billions JPY)

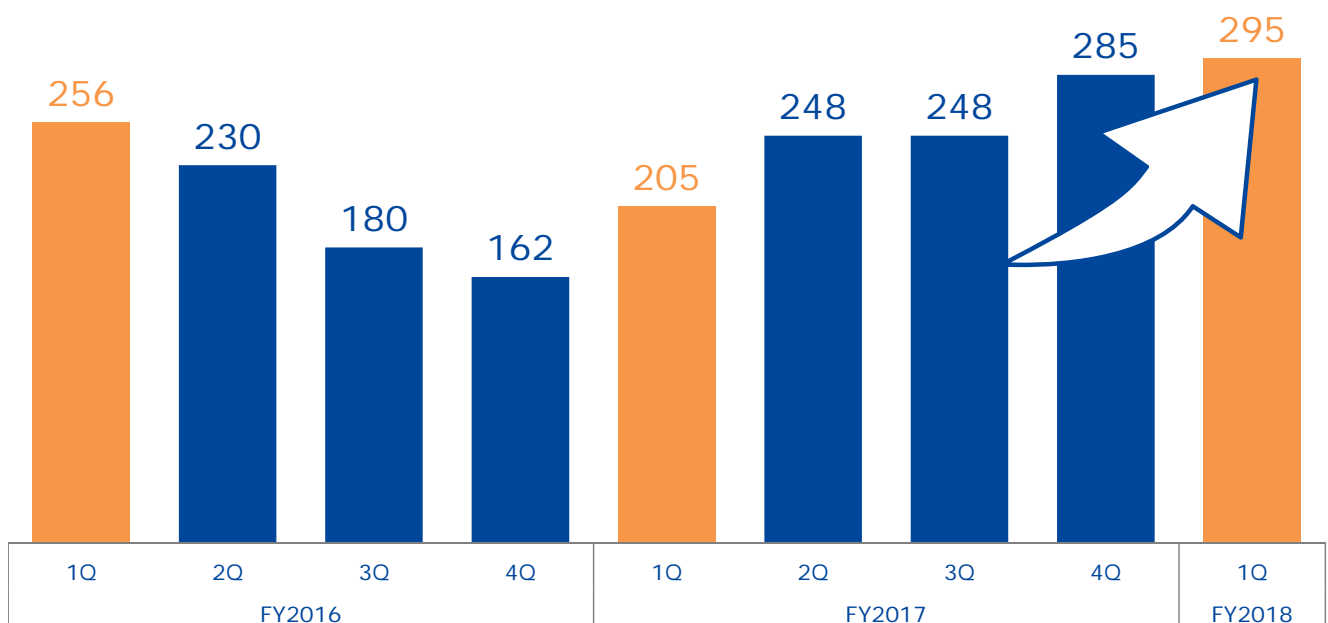
	FY2016	FY2017	FY2018	YoY	
	1Q	1Q	1Q	Increment	% Change
Net Sales	106.2	101.2	102.8	1.5	+1%
Operating Profit	8.6	10.1	9.3	(0.7)	(7%)
Net Income Attributable to Shareholders	7.9	12.3	9.8	(2.5)	(20%)

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## Number of Units Acquired In-house Products

(Thousand Units)



In-house Products = ISP, Mobile Wi-Fi Router, Mobile Phone (Reselling), IT Solution, Water Cooler, Fiber-optic Service, SIM card, Electricity (Retail)

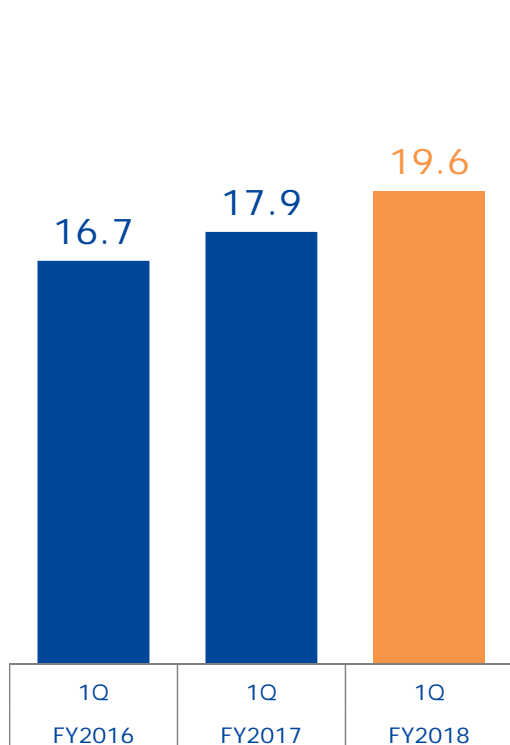
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# Recurring Profit

Steady Increase in Corporate Segment

(Billions JPY)

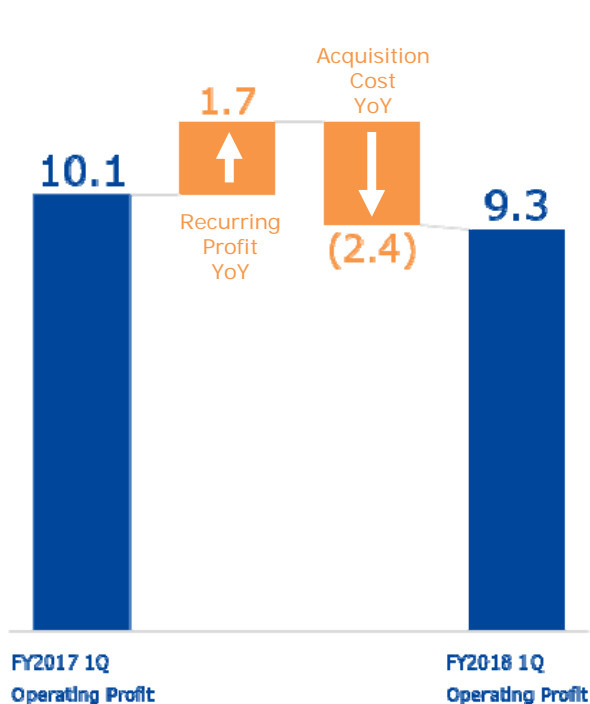


	FY2016	FY2017	FY2018	% Change
	1Q	1Q	1Q	
Corporate	10.5	11.6	14.1	+21%
SHOP	5.0	4.9	3.9	(20%)
Insurance	1.1	1.2	1.4	+16%
<b>Total</b> (Including company wide expenses)	<b>16.7</b>	<b>17.9</b>	<b>19.6</b>	<b>+9%</b>

# Operating Profit (YoY)

Increase in Number of Customers Acquired for In-house Product

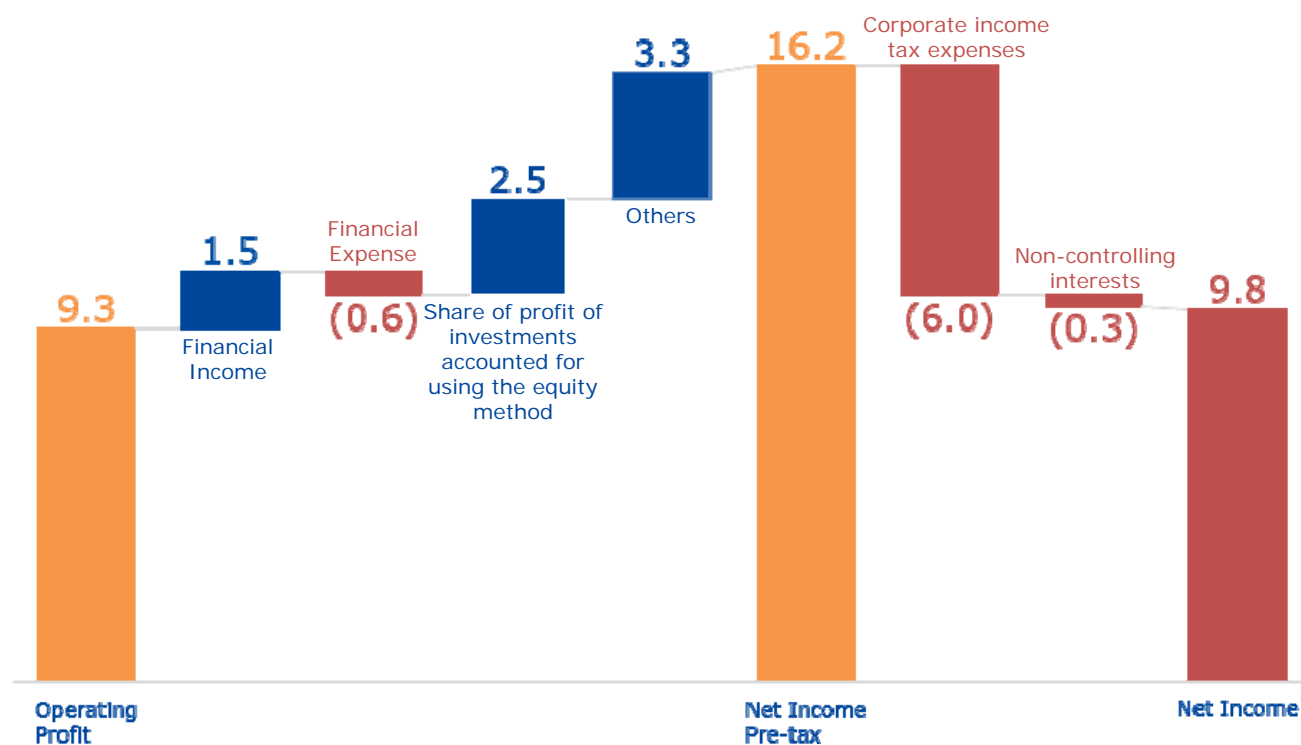
(Billions JPY)



	Recurring Profit	Acquisition Cost	Operating Profit
	YoY	YoY	YoY
Corporate	+2.5	(3.3)	(0.8)
Shop	(1.0)	+0.5	(0.5)
Insurance	+0.2	(0.0)	+0.1
<b>Total</b> (Including company wide expenses)	<b>+1.7</b>	<b>(2.4)</b>	<b>(0.7)</b>

# Non-Operating Profit

(Billions JPY)



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# Progress with respect to FY2018 Forecast

(Billions JPY)

	FY2018 1Q	FY2018	
	Result	Forecast	Progress Rate
Net Sales	102.8	400.0	25%
Operating Profit	9.3	46.5	20%
Net Profit Attributable to Shareholders	9.8	30.0	32%

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# Consolidated Cash Flow

(Billions JPY)

	FY2016	FY2017	FY2018	Notes
	1Q	1Q	1Q	
Cash Flow from Operating Activities	(6.1)	+2.0	+2.1	Due to decrease in corporate taxes
Cash Flow from Investing Activities	+2.4	(2.8)	+8.3	Due to increase in investment securities sold
Free Cash Flow	(3.7)	(0.8)	+10.5	-
Cash Flow from Financial Activities	+1.0	(0.4)	(0.1)	-

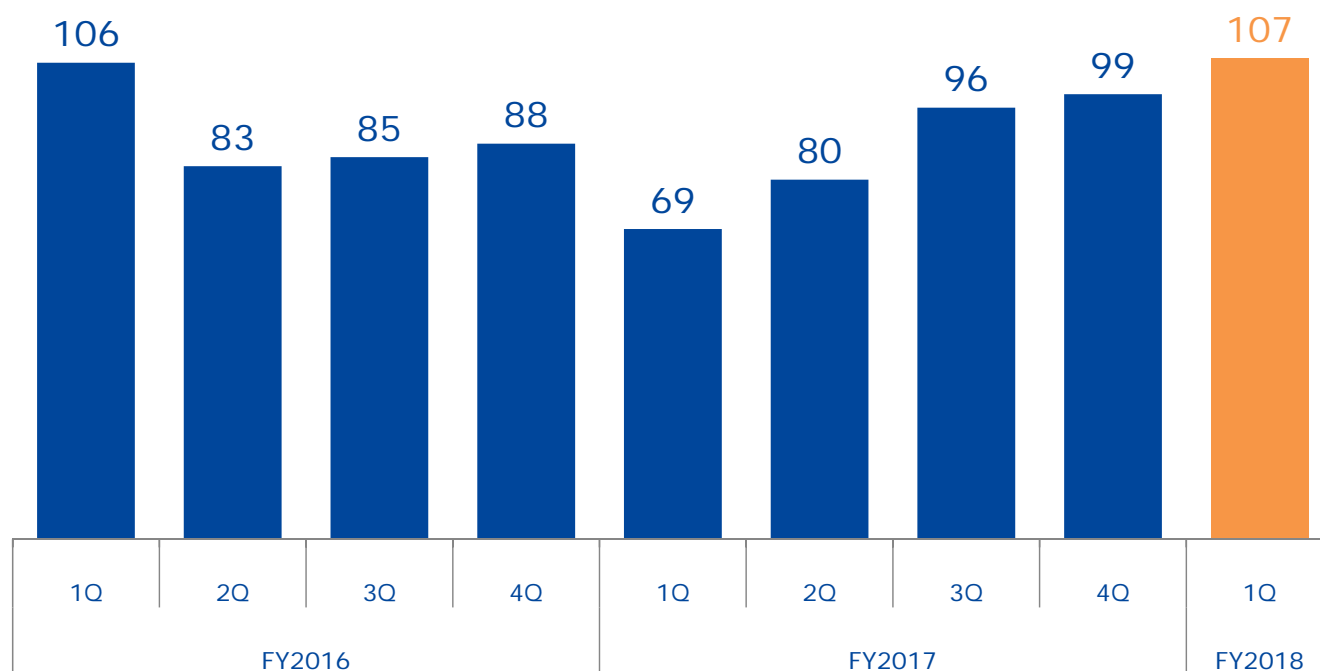
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## Net Cash Assets

(Cash + Listed Securities) – Interest Bearing Liabilities

(Billions JPY)



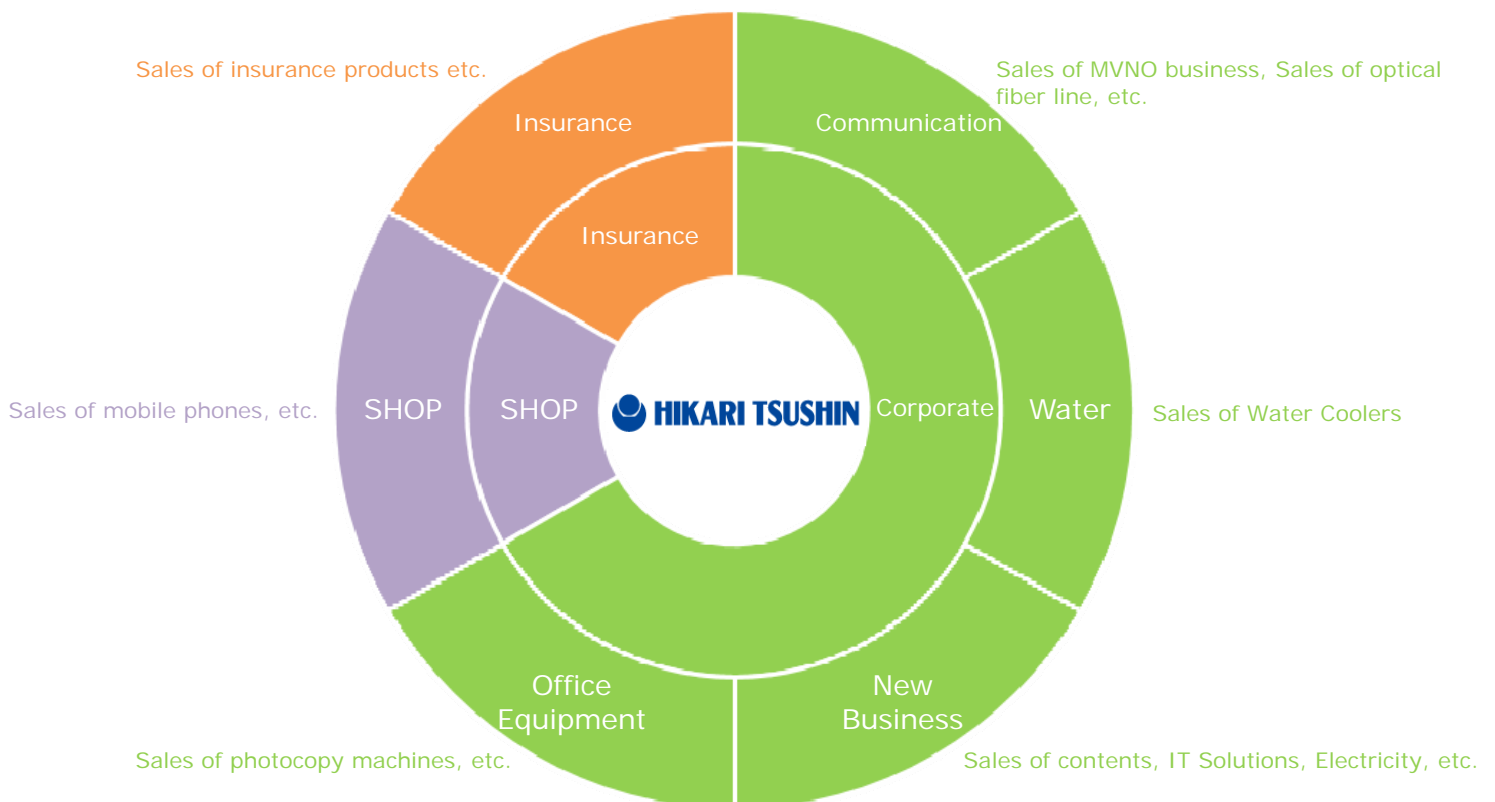
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# Business Divisions

## Business Divisions

Inner Ring: Segments  
Outer Ring: Business Divisions



# Communication Business

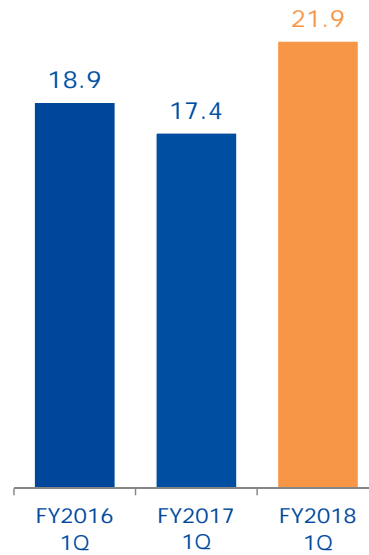
(MVNO, In-House Internet Service etc.)

Description: Sales of optical fiber line etc.  
 Main Products: Mobile Wi-Fi Router, SIM card, etc.  
 Classification: In-House Products, External Products

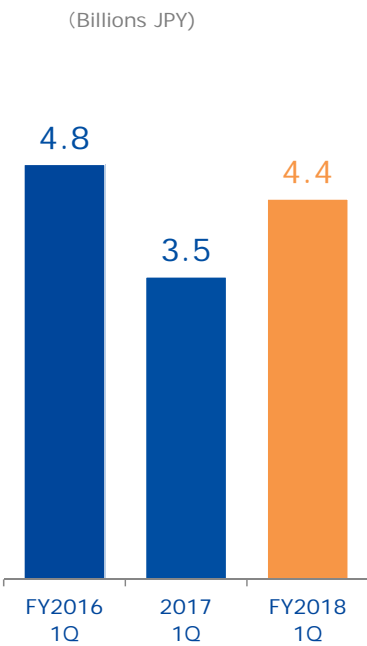
## 1) Figure



## 2) Net Sales (Billions JPY)



## 3) Operating Profit



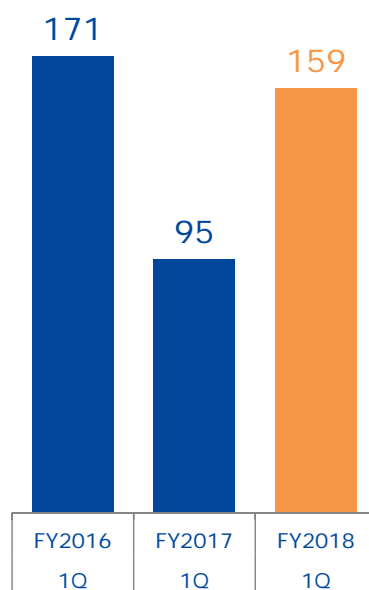
## 4) Recurring Profit

(Billions JPY)



## 5) Sales Units

※In-house Products (Thousand Units)



Both operating profit and recurring profit are increasing, along with an increase in sales units.

# Water Business

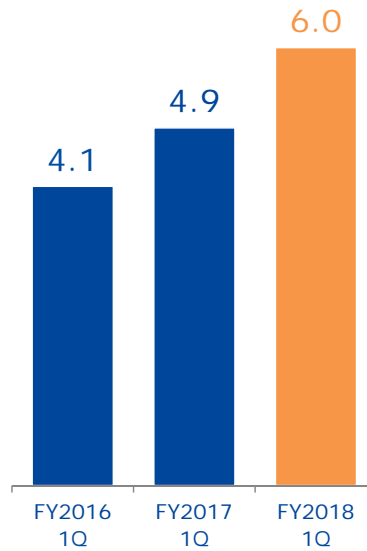
Description: From product development to Sales of Water Coolers etc.  
 Main Products: Water Cooler  
 Classification: In-House Products

## 1) Figure

Product development, manufacturing, quality control, sales, and after-sales services

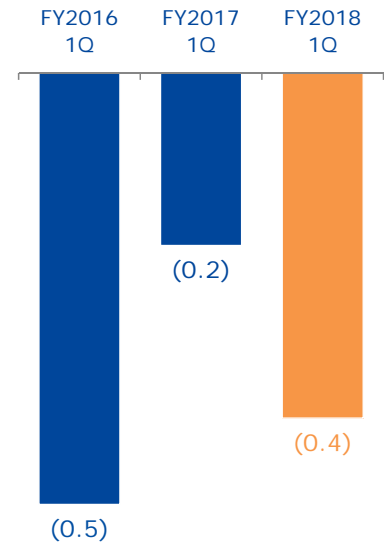


## 2) Net Sales (Billions JPY)



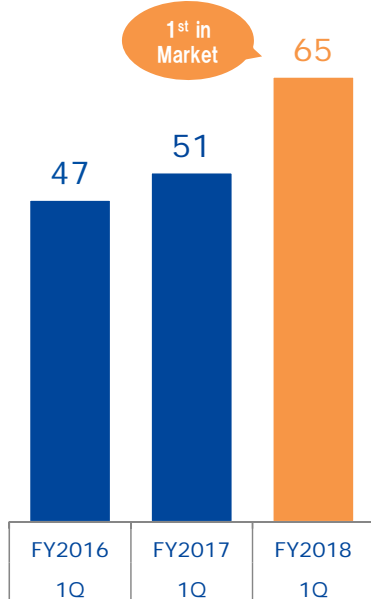
## 3) Operating Profit

(Billions JPY)



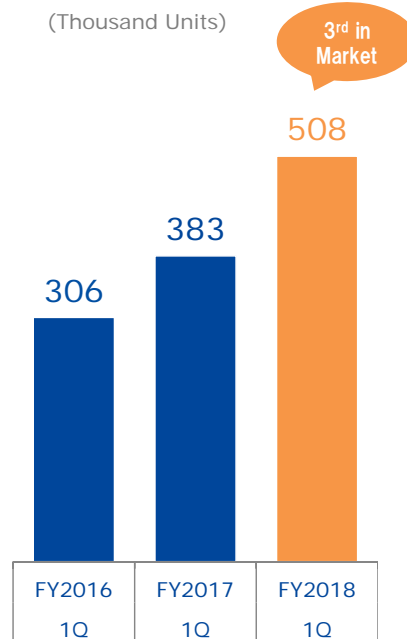
## 4) Sales Units (Thousand Units)

※Water Coolers



## 5) Cumulative Subscribers

(Thousand Units)



As a result of high acquisition cost, there was a decline in Operating profit. However, cumulative subscribers, as a source of stable and long-term profit are increasing significantly.



# New Business

Description: IT Solutions, etc.  
Main Products: Contents, IT Solutions, Electricity, etc.  
Classification: In-House Products, Retail Products

## 1) Figure

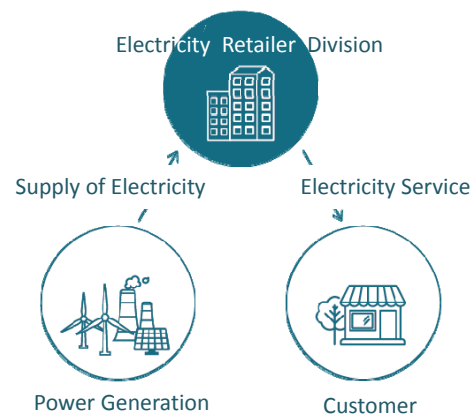
### Contents



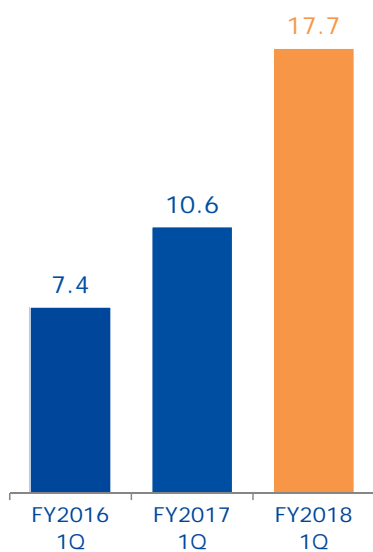
### Industry-Specific IT Solutions



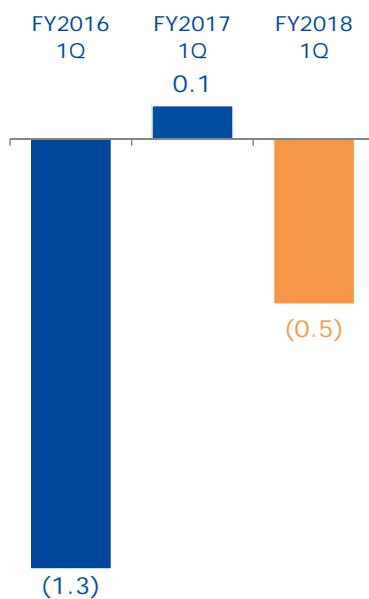
### Electricity



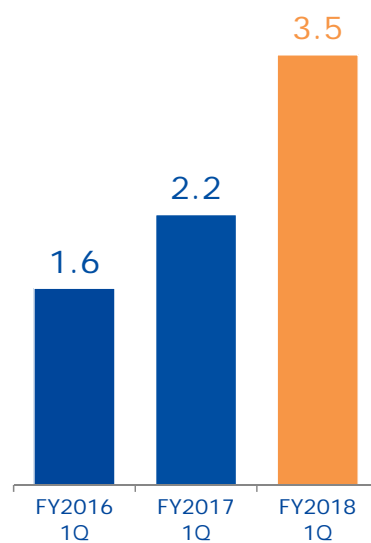
## 2) Net Sales (Billions JPY)



## 3) Operating Profit (Billions JPY)



## 4) Recurring Profit (Billions JPY)



Significant increase in sales units of electricity resulted in decline of Operating Profit.  
However, there was an increase in Recurring Profit.

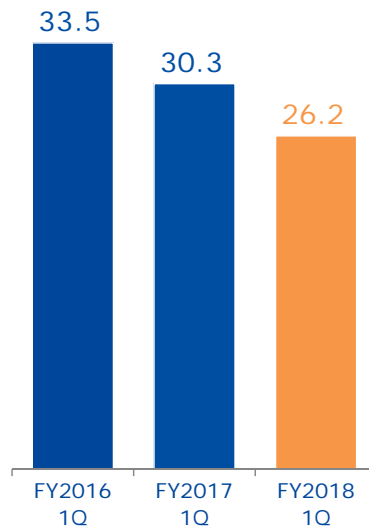
# Office Equipment Business

Description: Sales of Office Automation Equipment  
 Main Products: Photocopy Machine, Mobile Phone, LED Light etc.  
 Classification: External Products

## 1) Figure

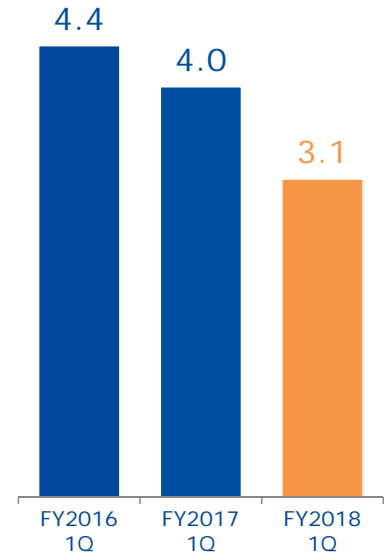


## 2) Net Sales (Billions JPY)



## 3) Operating Profit

(Billions JPY)



## 4) Recurring Profit

(Billions JPY)



## 5) Subscribers

(Thousand Units)



Revenue declined due to a decline in sales of lump-sum profit-type products.

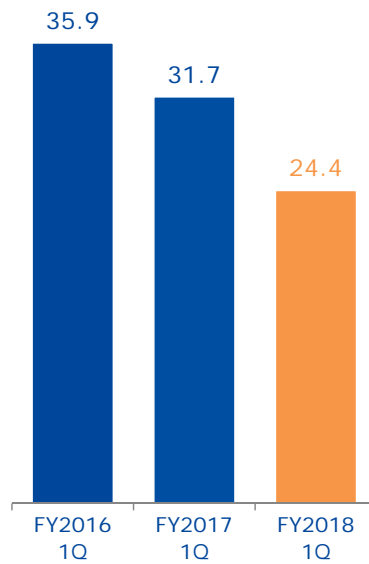
# SHOP Business

Outline : Sales of Mobile Phones through telecom shops  
 Products : Mobile Phone, MVNO etc.  
 Model : External Products

## 1) Figure

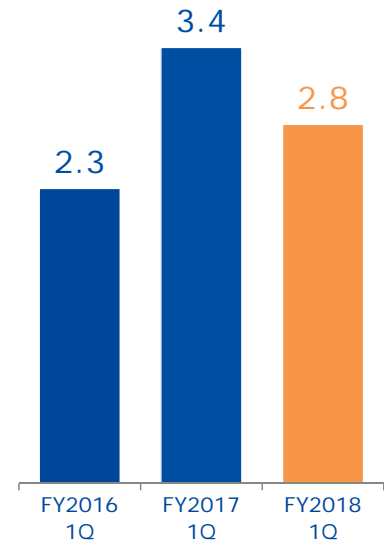


## 2) Net Sales (Billions JPY)



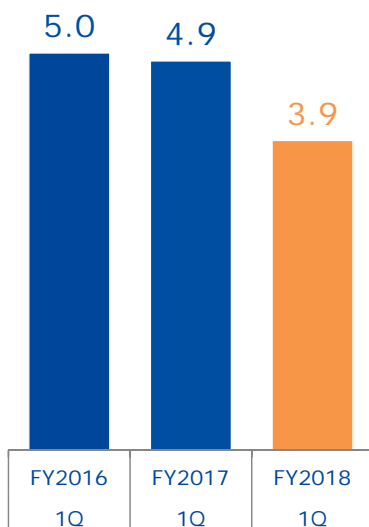
## 3) Operating Profit

(Billions JPY)



## 4) Recurring Profit

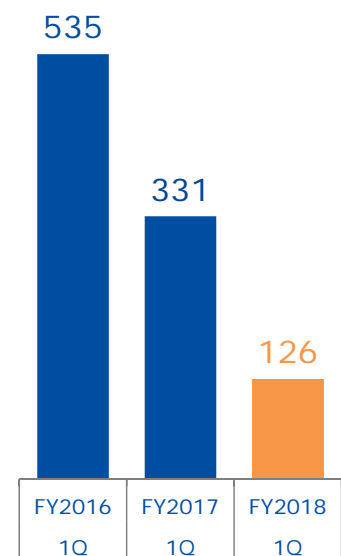
(Billions JPY)



## 5) Total Stores



## 6) Directly Managed



In order to adapt to market environment changes, we are continuously optimizing our operations.

# Insurance Business

Description: Insurance products distribution through shops  
 Main Products: Life, medical, property insurance, etc.  
 Classification: Retail Products

## 1) Figure

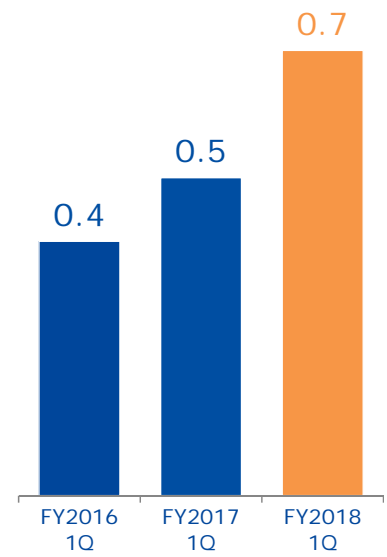


## 2) Net Sales (Billions JPY)



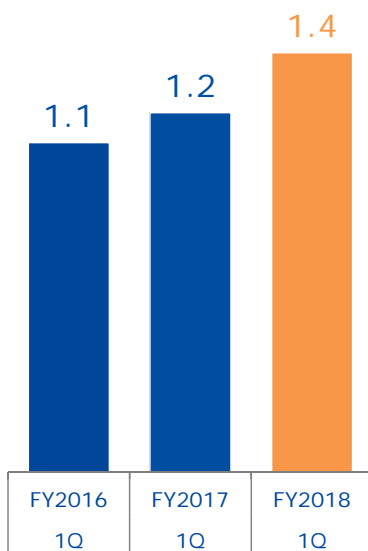
## 3) Operating Profit

(Billions JPY)

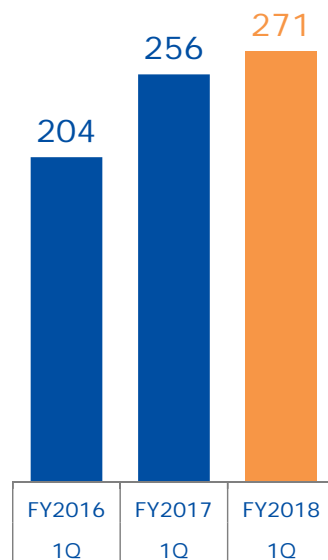


## 4) Recurring Profit

(Billions JPY)



## 5) Directly Managed Stores



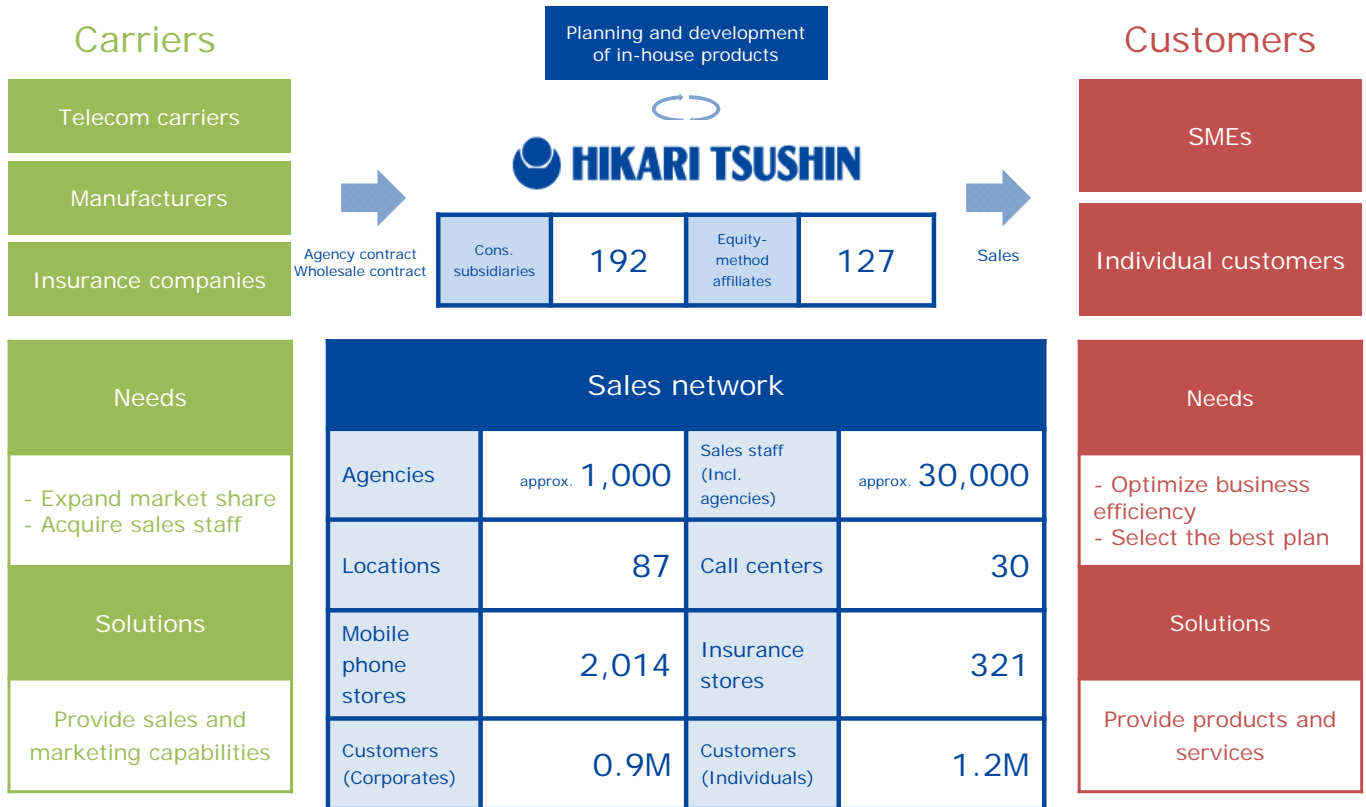
Increase in revenue due to expansion of call centers and strengthened collaboration between different sales networks, which consist of shops, online, and door-to-door.

# References

# Segments

	Business Division	Product/Service	Target		Sales network		
Corporate	Communication Line	Mobile Wi-Fi Router	SME	Individual	TMS	Web	
		SIM Card					
		FTTH, ISP					
	Water	Water Cooler	SME	Individual	Booth		
	New business	IT Solutions	SME			Door-to-door sales	
		Contents					
		Electricity				TMS	Door-to-door sales
	Office Equipment	Mobile Phone (Corporate)	SME	Individual	Door-to-door sales		
		OA Equipment	SME				
LED Lighting							
SHOP	SHOP	Mobile Phone (Shop)	Individual		Shop		
		Mobile Wi-Fi Router					
		SIM Card					
Insurance	Insurance	Insurance	Individual		TMS	Shop	

# Overview of company business

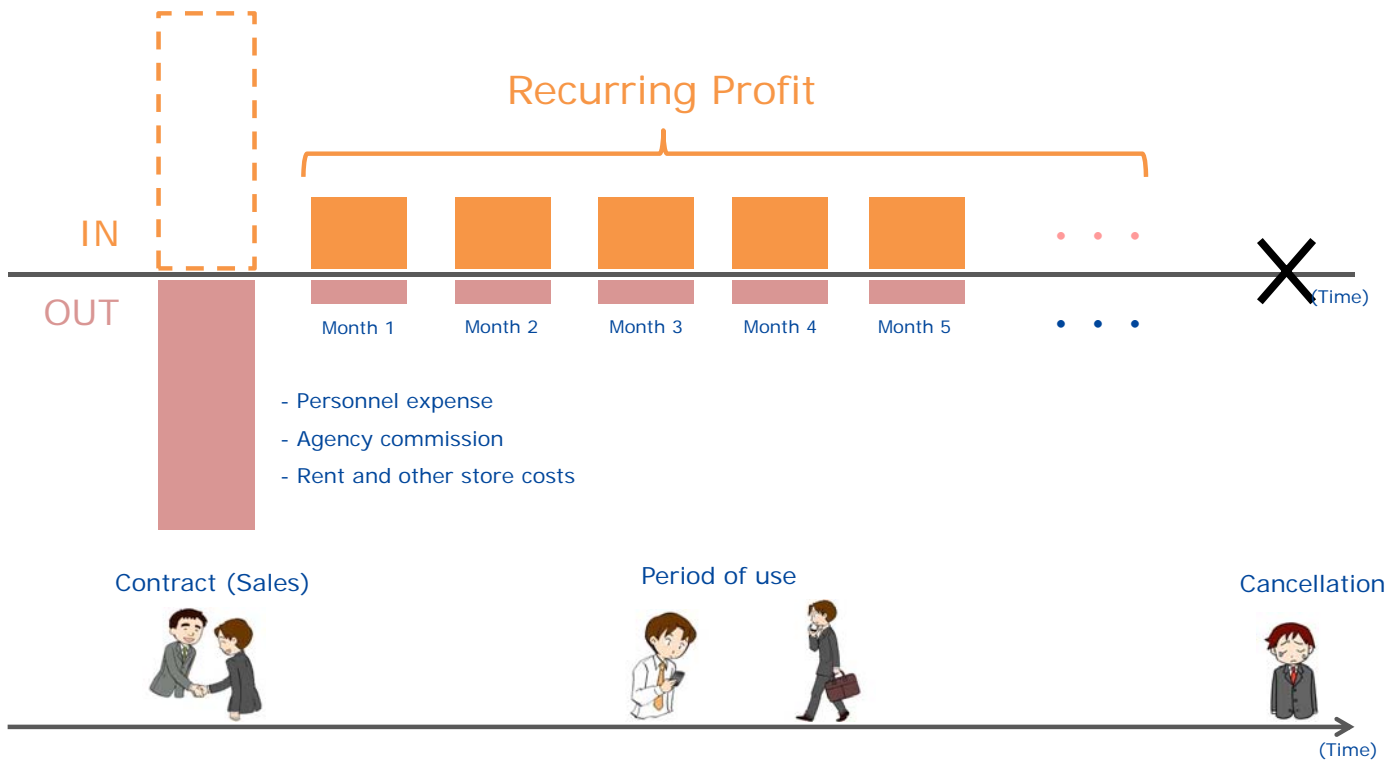


# Main Products

In-House Products

1) Water Cooler	2) Mobile Wi-Fi Routers	3) Internet Service	4) Industry Specific IT Solutions
 <b>No.1</b> in Industry (units sold per month)	 <b>No.1</b> in Industry (units sold per month)	 <b>No.1</b> amongst independent companies	 Over 16 million registered members
5) MVNO	6) Contents	7) Electricity	7) LED Light for Corporate clients
 Rapid increase in units sold	 Selling well	 Selling well	 <b>No.1</b> in Industry (units sold per month)
8) Photocopy Machine	9) Mobile Phone	10) Insurance	11) Fixed-line Internet
 <b>No.2</b> amongst independent companies	 <b>No.4</b> in Industry (units sold per month)	 <b>No.1</b> amongst independent companies	 <b>No.1</b> in Industry (units sold per month)

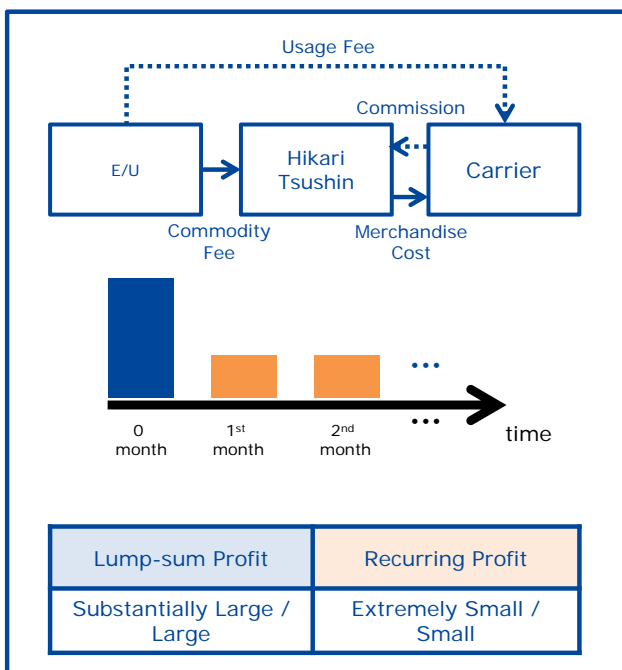
# Conceptual diagram of our typical recurring income earnings model



## Business Models

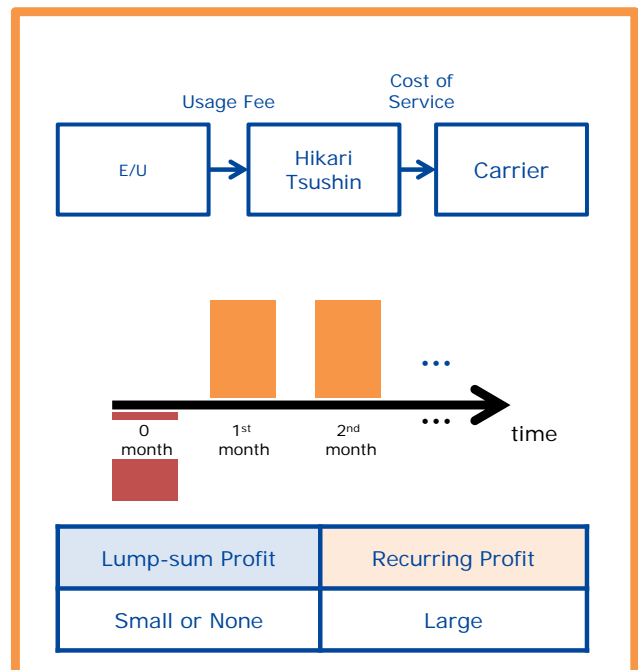
### ① Third-party products

FTTH, Office equipment, LED lighting, Mobile phone, insurance...

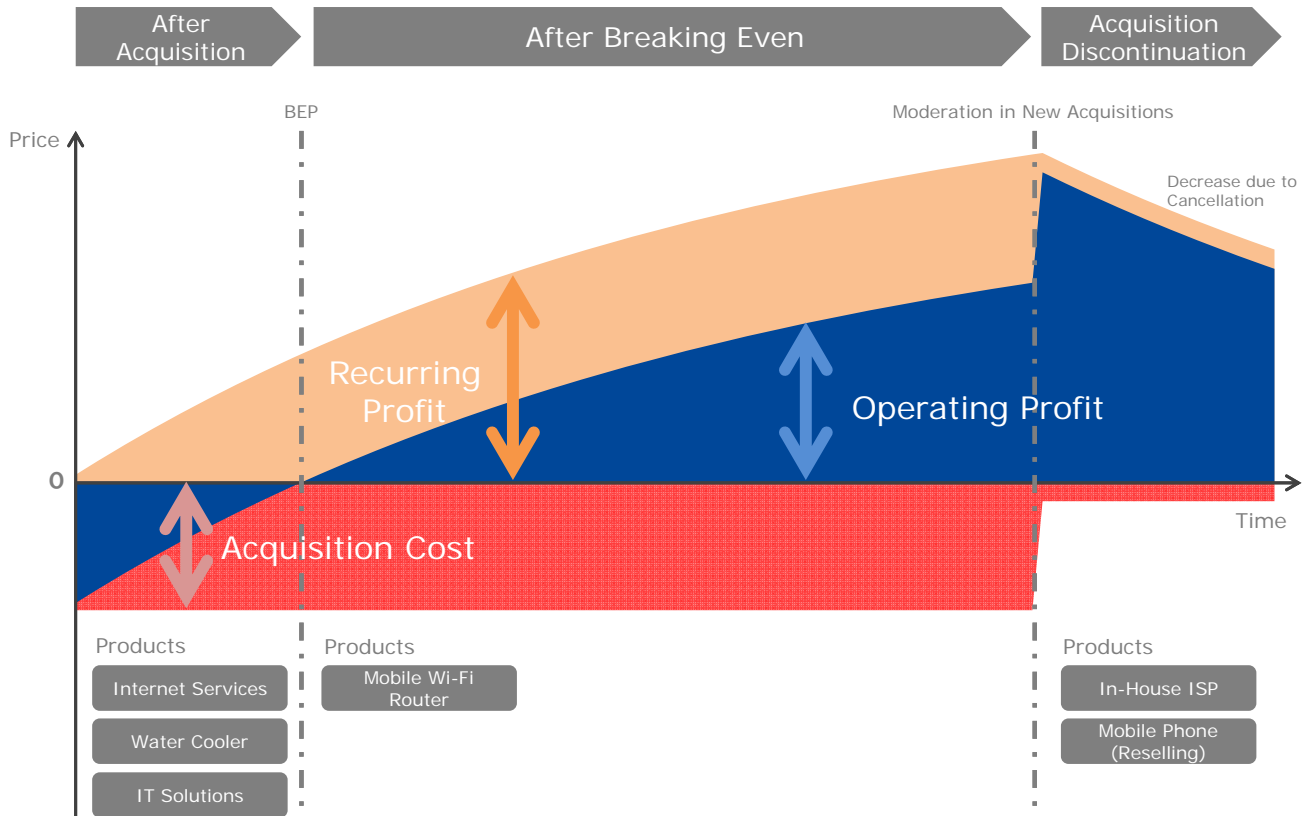


### ② In-house Products

Mobile Wi-Fi router, Water Cooler, Electricity...



# Trends of Operating Profit for High Recurring Profit Model



## [Reference] Breakdown of Net Sales, Expenses and Operating Profit

(Billions JPY)

FY2017	Volume		Volume	Notes
Net Sales	428.9	↳	Recurring	170.5 Data usage revenue from subscribers, commission from service providers, insurance company.
			Lump-sum	258.3 Upfront commission, Sales of hardware, etc.
Cost of Goods Sold & Selling, General and Administrative Expenses	▲387.3	↳	Recurring	▲96.3 Cost of customer retention such as billing, etc.
			Lump-sum	▲290.9 Lump sum cost, personnel expenses, sales commission for distributors, etc.
Operating Profit	41.5	↳	Recurring	74.1 Recurring Profit
			Lump-sum	▲32.5 Acquisition Cost



# Consolidated Statements of Profit or Loss

(Billions JPY)

	14/3	15/3	16/3		17/3
	J-GAAP	J-GAAP	J-GAAP	IFRS	IFRS
Net Sales	565.1	562.5	574.5	447.6	428.9
Operating Profit	31.7	32.0	37.4	37.6	41.5
Ordinary Income	39.7	36.5	38.3	-	-
Net Income Pre-tax	49.6	45.8	51.1	47.9	62.7
Net Income Attributable to Shareholders	29.3	20.7	25.0	22.5	39.0
Earnings Per Share (JPY)	623	450	538	485	840
Operating Profit Margin	5.6%	5.7%	6.5%	8.4%	9.7%

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# Consolidated Statement of Financial Position

(Billions JPY)

	FY2016	FY2017		FY2016	FY2017
Cash and Cash Equivalents	52.9	119.3	Accounts Payables and Other Payables	98.8	107.4
Accounts Receivables and Other Receivables	136.8	150.6	Short-term Interest-bearing Debt	58.3	40.7
Total Current Assets	213.5	312.2	Total Current Liabilities	176.2	162.5
Investments Accounted for using Equity Method	11.7	34.5	Long-term Interest-bearing Debt	41.2	132.4
Other Financial Assets	130.8	108.1	Total Non-Current Liabilities	58.9	155.2
Total Non-Current Assets	194.4	199.2	Total Liabilities	235.2	317.8
Total Assets	408.0	511.4	Total Hikari Tsushin's Shareholder's Equity	125.2	150.0
	FY2016	FY2017	Unrealized Gains and Losses	33.4	30.4
Own Capital	158.6	180.4	Total Equity	172.7	193.6
Capital Adequacy Ratio	38.9%	35.3%	Total Liabilities and Equity	408.0	511.4

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# Net Sales and Operating Profit

(Billions JPY)

## Net Sales

	FY2016	FY2017	FY2018	% Change
	1Q	1Q	1Q	
Corporate	64.0	63.3	72.0	+13%
Shop	35.9	31.7	24.4	(23%)
Insurance	7.0	6.8	6.9	+0%
<b>Total</b> <small>(Including company wide expenses)</small>	106.2	101.2	102.8	+1%

## Operating Profit

	FY2016	FY2017	FY2018	% Change
	1Q	1Q	1Q	
Corporate	73	74	66	(10%)
Shop	23	34	28	(15%)
Insurance	4	5	7	+32%
<b>Total</b> <small>(Including company wide expenses)</small>	86	101	93	(7%)

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## [Reference] Implications of Franchising on Accounting

- ※ The amounts shown here are used purely as an example to illustrate the effects that accounting standards have on the representation of data.
- ※ The example below only considers the device price, as the sales charge is unaffected by changes in accounting standards.
- ※ The example below is based on IFRS accounting standards. By J-GAAP standards, the changes in sales channels does not affect the total price indicated.

	Direct-Sales (Gross amount)	Sales agency (Net amount)	
	Booked amount	Booked amount	Difference
Revenue	80,000 JPY	0 JPY	(80,000) JPY
Cost of Goods Sold	(80,000) JPY	0 JPY	+80,000 JPY
Gross Profit	0 JPY	0 JPY	0 JPY

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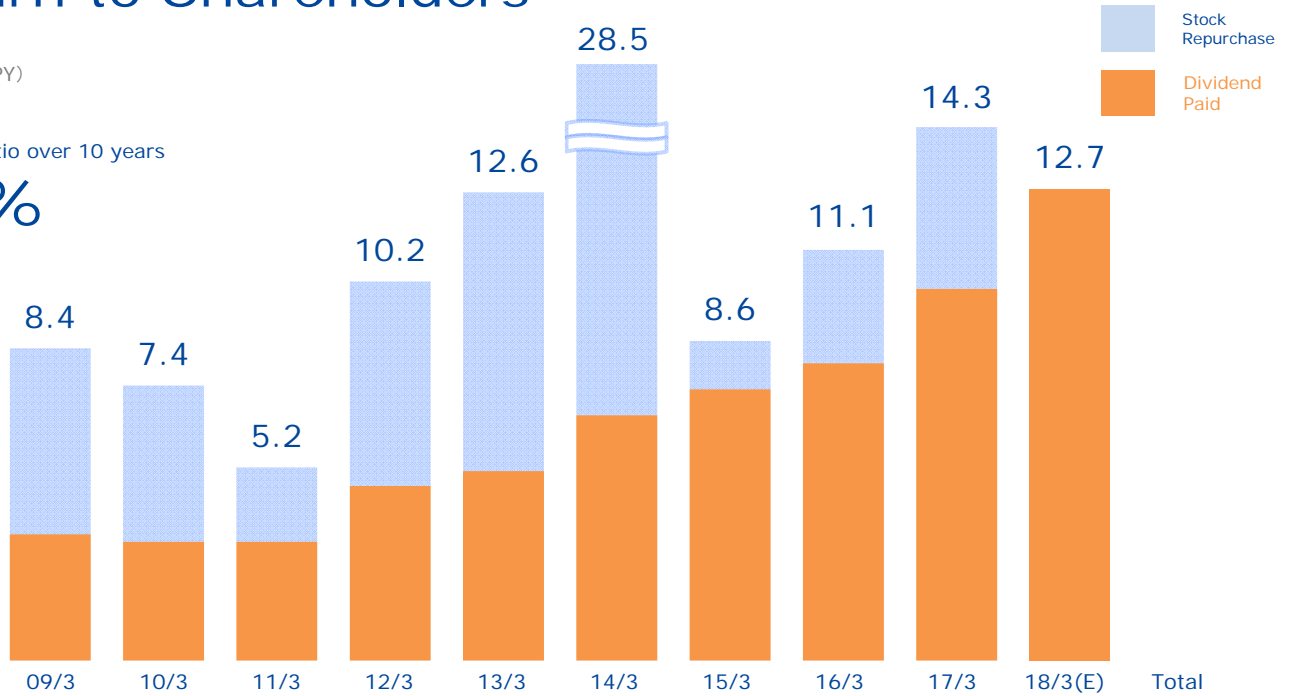
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# Return to Shareholders

(Billions JPY)

Return Ratio over 10 years

## 71%



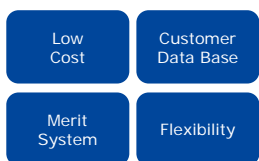
	09/3	10/3	11/3	12/3	13/3	14/3	15/3	16/3	17/3	18/3(E)	Total
Dividend Paid	3.4	3.2	3.2	4.7	5.1	6.6	7.3	8.0	10.0	12.7	64.8
Stock Repurchase	5.0	4.2	2.0	5.6	7.6	22.0	1.3	3.0	4.3	-	54.8
Return Ratio	-	1057%	-	132%	75%	98%	42%	44%	36%	42%	71%

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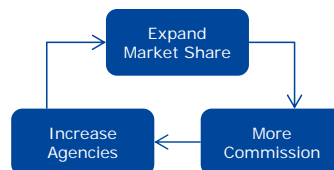
# Strengths

## 1) Corporate Philosophy



Our unique corporate philosophy and work culture have enhanced our earnings since our establishment.

## 2) Sales Channels



We are rapidly expanding our market share by strengthening our network of sales agencies.

## 3) Recurring Profit Business Model

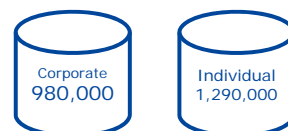
(Billions JPY)



(March, 2017)

Stable income each month enables investments into new business.

## 4) Our Customers



Our diversified customer base allows us to increase our profits by virtue of extensive cross selling.

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# Corporate Social Responsibility

## Improving our Work Environment

### 1) Promoting Diversity

In line with our rapidly diversifying business society, we are committed to promoting diversity within the Hikari Tsushin Group. We are also active in our support of childcare and reinstatement.



### 3) Compliance with the Toshima Ikuboss Declaration

The Ikuboss Declaration is intended to alter Japan's work culture to encourage and foster individual happiness along with work productivity. We are proud supporters of this movement.

※ The Toshima Ikuboss Declaration (commonly known as "The Ikuboss Declaration") was created in September, 2016 by a team of business leaders, politicians, and academics.



### 5) Acquisition of "Kurumin" Certificate

We were recently acknowledged by the Japanese Labor Bureau as a business focused on promoting the next generation of workers. We received the "Kurumin" certification mark, and we continue to work and take pride in our younger generation of employees.



## Hikari Tsushin's CSR

### 2) Bottle Cap Collection for vaccine donations

We collect and donate plastic bottle caps to Japan Committee Vaccines (NPO), which provides vaccines for children around the world. More than 332 million caps were donated by March, 2017, resulting in provision of 3,761 vaccines.



### 4) Used Stamp Donation

We have been donating used stamps to Toshima Ward Residents Council of Social Welfare since March, 2013. Collected stamps are converted into cash for donation.



### 6) Toshima ward Cleaning Drive

We have declared 9<sup>th</sup> of every month as "Clean Day", when we conduct a cleaning drive around Ikebukuro Station. In FY 2016 we were awarded the "Letter of Appreciation" from the Toshima Ward Office, commending us as an organization that promotes Environmental Activities.



## Disclaimer

This material contains "forward-looking" information, including the company's plans, strategies, forecasts, and beliefs. Hikari Tsushin cautions readers that said forward-looking statements are based on Hikari Tsushin's current expectations, which have been derived from information that is currently available and involve a number of risks and uncertainties. Actual results may differ significantly from the information shown here.

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