

Summary of Fiscal Year Ending December 2017

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USEN-NEXT HOLDINGS Co.,Ltd.
(Tokyo Stock Exchange first section • 9418)

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USEN-NEXT HOLDINGS



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Highlights of 2017 Results of Operations

1.

Transitional financial statements due to integration with USEN

The consolidated financial statements for 2017 include all 12 months of U-NEXT and the period from March to November (9 months) for USEN. These statements include one-time expenses associated with this irregular integration.

2.

Big increases in sales and earnings resulting from the consolidation of USEN

Sales totaled ¥114.2 billion and operating income was ¥5.8 billion.

3.

Sales were higher than one year earlier at U-NEXT and USEN

U-NEXT (Jan-Dec) Sales up 11.8%, big improvement in operating income from the prior year's loss
USEN (Mar-Nov) Sales up 13.2%, operating income up 2.9%

USEN Financial Period

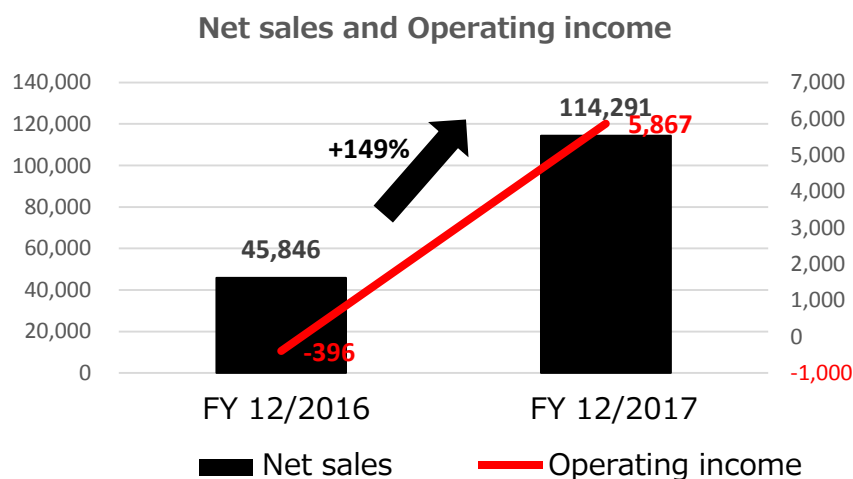
USEN became a consolidated subsidiary in the second quarter of 2017, resulting in the inclusion of the entire USEN Group in the consolidated financial statements. In the next financial period, the fiscal year ends of all companies in the consolidated financial statements will become August 31. This table shows the differences between the fiscal periods used for U-NEXT and USEN.

● Financial Period

Financial Period	The third quarter of 2017	FY12/2017	The first quarter of 2018	FY8/2018
U-NEXT	Jan-Sep	Jan-Dec	Jan-Mar (3 month)	Jan-Aug (8 month)
USEN	Mar-Aug (6 month)	Mar-Nov (9 month)	Dec-Feb (3 month)	Dec-Aug (9 month)

Financial Highlights

(Million yen)	FY12/2016	FY12/2017	Achievement vs. FY12/2017 Forecast
Net Sales	45,846	114,291	102.0%
Operating Income	▲396	5,867	106.7%
Operating margin(%)	-	5.1%	-
Ordinary Income	▲436	3,303	113.8%
Profit or Loss attributable to owners of parent	▲935	427	427.0%
Net Income per share(yen)	▲56.95	21.21	-



Forecast for FY12/2017 (Million yen)	
Net sales	112,000
Operating income	5,500
Ordinary Income	2,900
Profit or Loss attributable to owners of parent	100
Net Income per share(yen)	4.96

Reference: Pro-forma FY12/2017 Data, One-time Expenses Deducted

(Million yen)	FY 12/2017	Impact of One-time Expenses of integration	Pro-forma FY12/2017 (One-time expenses deducted)
Net Sales	114,291	-	133,000
Operating Income	5,867	(1,000)	8,000
Operating margin(%)	5.1%	-	6.0%
Ordinary Income	3,303	(2,600)	6,500
Profit or Loss attributable to owners of parent	427	(4,800)	3,000
EBITDA	12,880	-	17,500
EBITDA margin	11.2%	-	13.2%
EBITDA-CAPEX	8,791	-	12,331

Note: EBITDA is operating income plus depreciation expenses and goodwill amortization. The EBITDA margin is EBITDA divided by net sales.

USEN no longer had non-controlling interests following the management integration on December 1, 2017. Consequently, there will be no profit (loss) attributable to non-controlling interests with regard to the USEN Group's income starting in the next financial period.

Segment Information (U-NEXT Sector)

*Corporate expenses deducted.

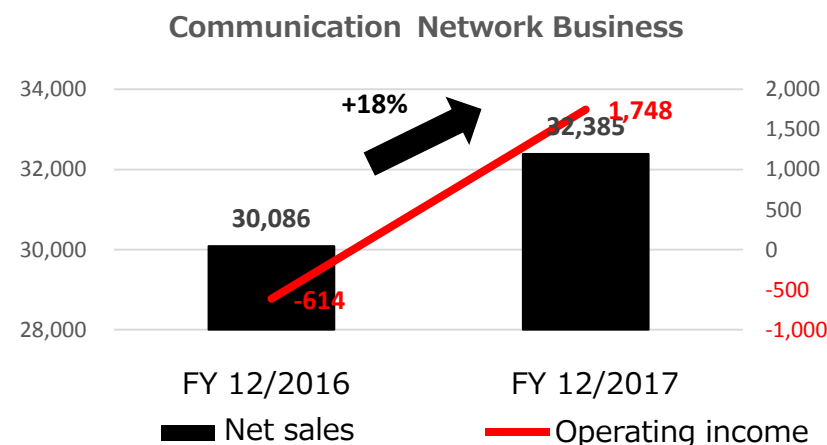
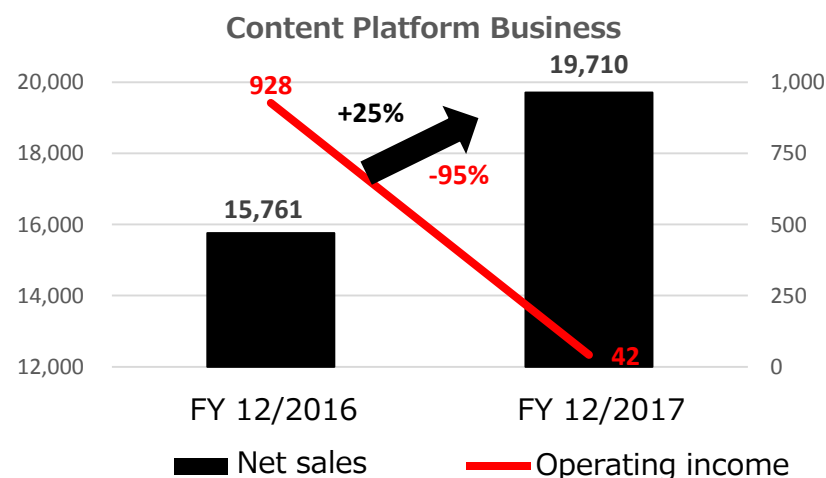
	(Million yen)	FY12/ 2016	FY12/ 2017	year-on-year
■ Content Platform Business	Net Sales	15,760	19,710	+25.1%
	Operating Income	927	42	-95.5%
■ Communication Network Business	Net Sales	30,085	32,385	+7.6%
	Operating Income	▲614	1,748	-

Content Platform Business

Sales were up 25% from 2016 due to growth in the number of subscribers. Earnings were down as SG&A expenses increased because of extensive marketing activities and investments of content.

Communication Network Business

Sales increased and earnings were much higher. Credit investigations were tightened and credit management was reinforced following the appropriation of the allowance for doubtful accounts in 2016. There was also a thorough review of distribution agents and other sales channels.



Segment Information (USEN Sector)

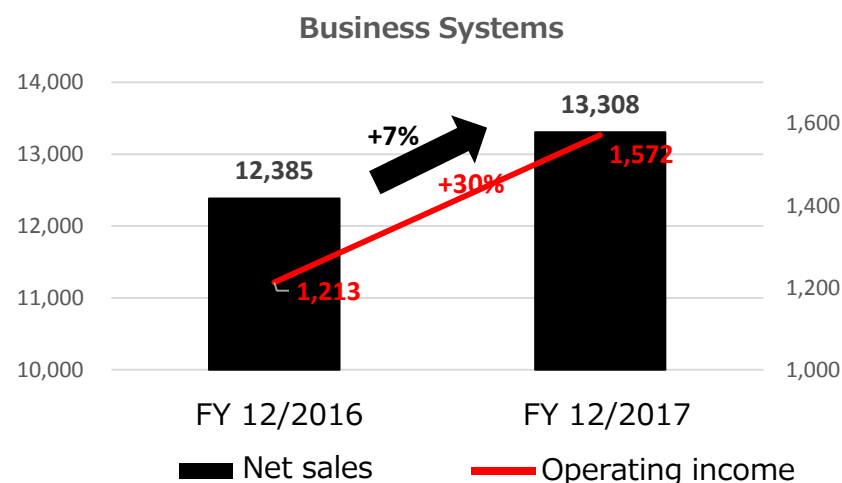
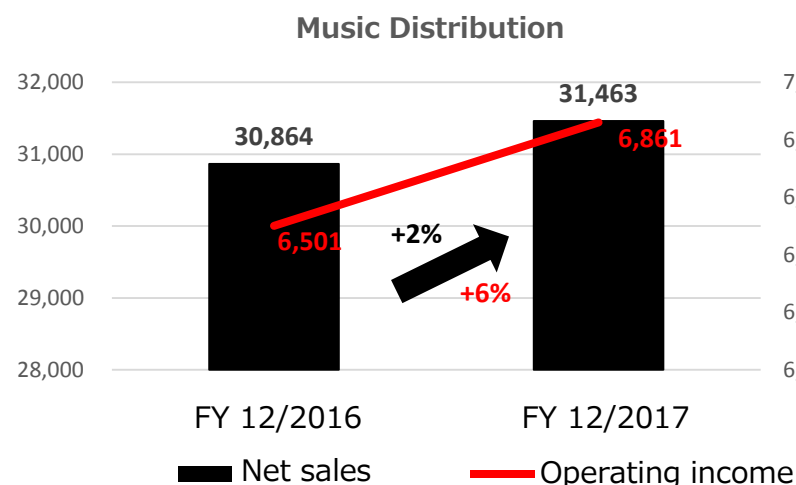
	(Million yen)	FY12/ 2016 (9months)	FY12/ 2017 (9months)	year-on-year
■ Music Distribution	Net Sales	30,864	31,463	+1.9%
	Operating Income	6,501	6,861	+5.5%
■ Business Systems	Net Sales	12,385	13,308	+7.5%
	Operating Income	1,213	1,572	+29.6%

■ Music Distribution

Sales and earnings up because of steady sales in the core music distribution sector and higher sales of commercial products, such as POS Register, Wi-Fi and "USEN PAYGATE"

■ Business Systems

Sales and earnings up because of higher sales of automated billing and payment processing systems and other major products for boutique hotels and hospitals



Segment Information (USEN Sector)

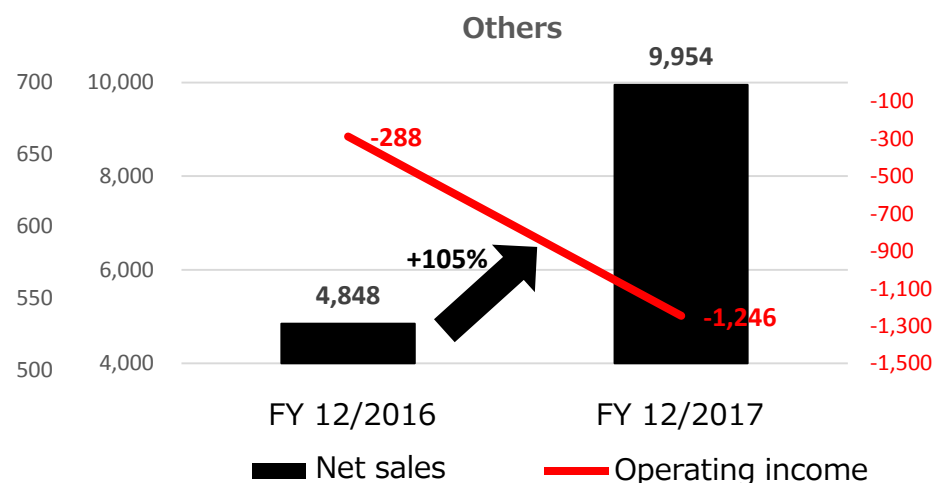
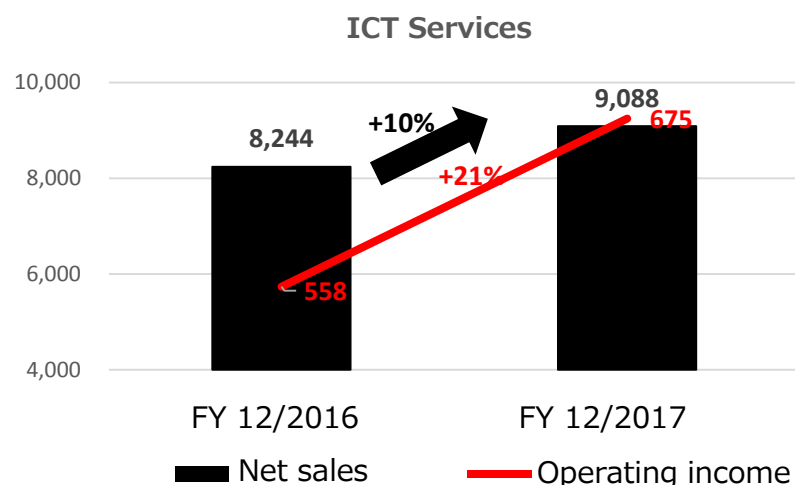
	(Million yen)	FY12/ 2016 (9months)	FY12/ 2017 (9months)	year-on-year
■ ICT Services	Net Sales	8,244	9,088	+10%
	Operating Income	558	675	+21%
■ Others	Net Sales	4,848	9,954	+105%
	Operating Income	▲288	▲1,246	-

ICT Services

No change in the number of network services sold, but sales and earnings increased along with an increase in the number of cloud services and data center services

Others

Big increase in sales as the retail electricity business and marketing support business continue to grow. However, addition of retail electricity sales resources caused the loss in this business to increase.



Consolidated balance sheet

(Million yen)	FY12/ 2016	FY12/ 2017
(Assets)		
Current assets	12,920	37,860
Cash and deposits	1,978	13,010
Notes and accounts receivable - trade	9,516	15,455
Inventories	249	3,321
Deferred tax assets	499	2,947
Other	1,805	4,435
Allowance for doubtful accounts	△1,129	△1,309
Non-current assets	4,877	88,057
Property, plant and equipment	469	19,155
Buildings and structures	275	12,077
Accumulated depreciation and impairment loss	△121	△1,042
Land	-	3,961
Other	315	4,158
Intangible assets	3,908	53,758
Goodwill	2,501	50,187
Other	1,406	3,571
Investments and other assets	499	15,144
Investment securities	43	3,085
Long-term loans receivable	-	8,201
Deferred tax assets	175	6,020
Other	299	2,621
Allowance for doubtful accounts	△19	△4,784
Total assets	17,797	125,918

(Million yen)	FY12/ 2016	FY12/ 2017
(Liabilities)		
Current liabilities	11,217	35,499
Notes and accounts payable - trade	4,637	12,673
Short-term loans payable	2,689	2,500
Current portion of long-term loans payable	927	4,908
Provision for related facility repairs	-	30
Provision for loss on relocation	-	75
Provision for sales promotion expenses	18	123
Provision for directors' bonuses	-	1
Other provision	-	52
Other	2,943	15,132
Non-current liabilities	2,764	78,266
Provision for related facility repairs	-	266
Long-term loans payable	2,731	74,807
Net defined benefit liability	-	2,724
Other	32	467
Total liabilities	13,981	113,766
(Net assets)		
Shareholders' equity	3,725	11,948
Capital stock	1,776	94
Capital surplus	1,734	11,086
Retained earnings	215	767
Valuation and translation adjustments	-	81
Valuation difference on available-for-sale securities	-	139
Remeasurements of defined benefit plans	-	△57
Subscription rights to shares	16	-
Non-controlling interests	74	122
Total net assets	3,816	12,152
Total liabilities and net assets	17,797	125,918

Tender offer for USEN stock caused loans and goodwill to increase. Big increases in assets and liabilities because of the USEN integration. Equity ratio is 9.6%.

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Forecast for FY8/2018

(Million yen)	Forecast for FY8/2018	Pro-forma of Full-year (One-time expenses deducted)
Net Sales	108,000	144,000
Operating Income	5,500	9,200
Operating margin(%)	5.0%	6.4%
Ordinary Income	4,500	7,600
Profit or Loss attributable to owners of parent	1,700	3,300
Net Income per share(yen)	28.31	54.9
EBITDA	11,920	18,180
EBITDA margin	11.0%	12.6%
EBITDA-CAPEX	7,483	12,470

- Forecast growth in sales in all businesses except the consumer MVNO, fixed-line broadband and sales agent businesses
- Expect one-time expenses in the FY8/2018 for the planned relocation of the head office

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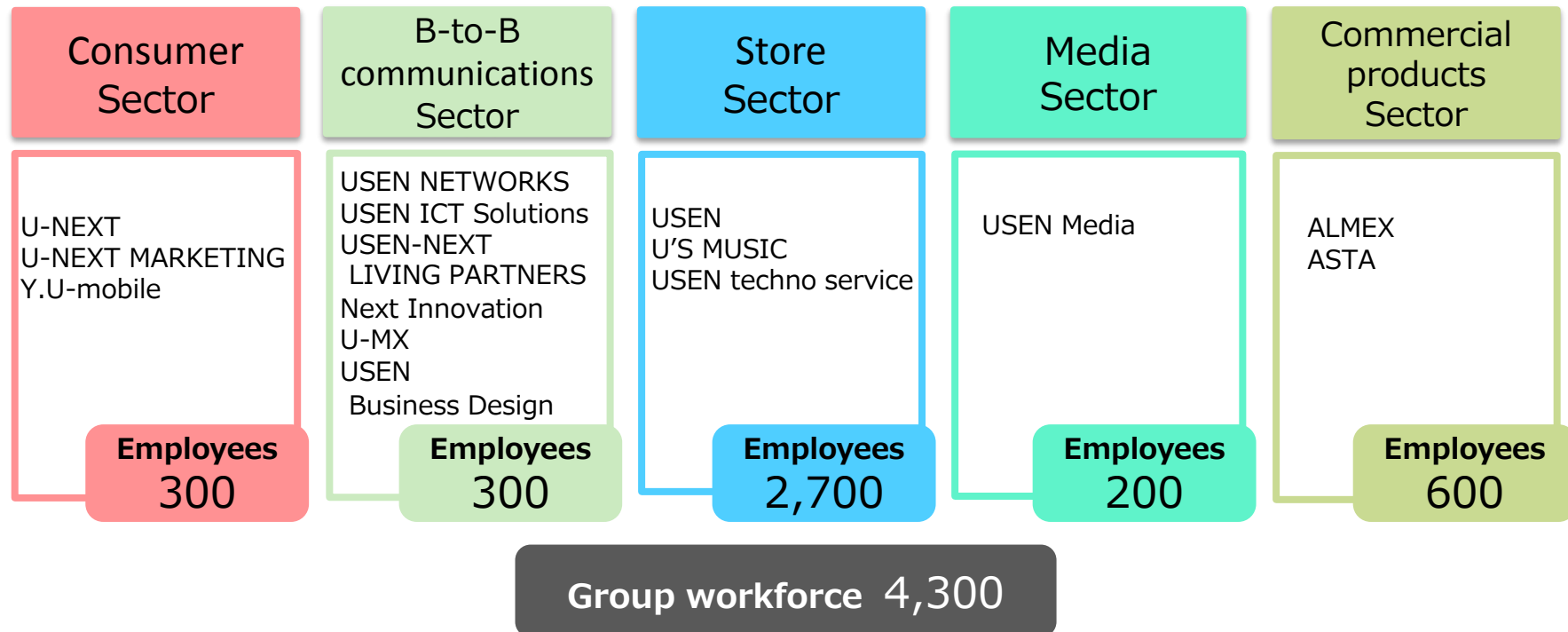
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(Listed on Tokyo Stock Exchange first section)

Employees
200



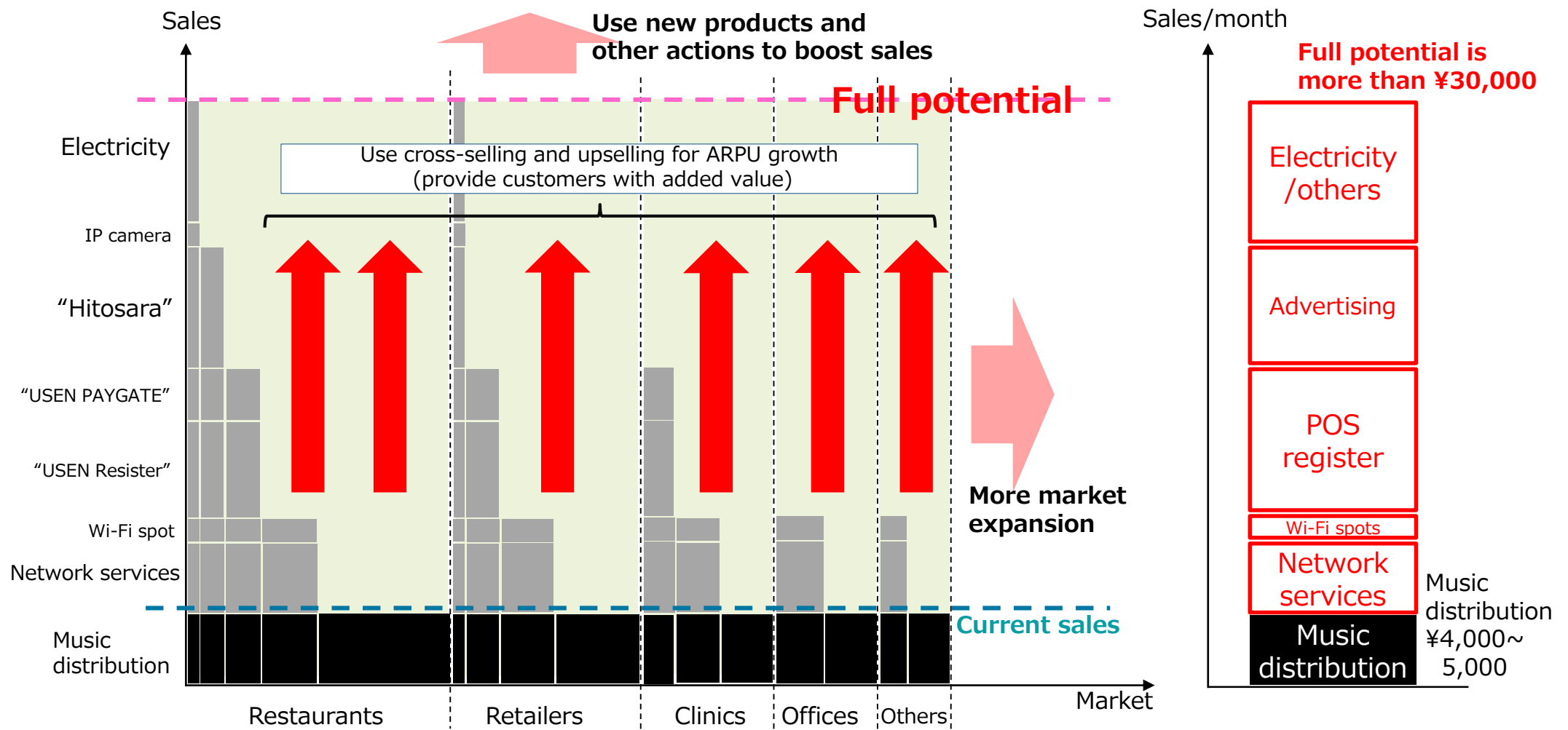
Goal is to increase cross-selling synergies for major products by effectively utilizing the group's customer assets and the sales channels of all group companies.

Plan to increase the efficiency of business operations by eliminating overlapping expenses in individual group companies.

*Business segments is to be revised to match the segments used in the financial statement of the first quarter of FY 8/2018.

Effective Use of the Group's Customer Assets

Direct sales + Telemarketing + Agents + Web promotion and others



Music distribution currently accounts for more than half of sales from stores. The effective use of the group's customer assets and information makes it possible to expand beyond direct sales by making extensive use of telemarketing, agents and other marketing channels. One goal is to increase ARPU by stepping up activities to sell network services and store solutions.

Key Focused Themes of Group



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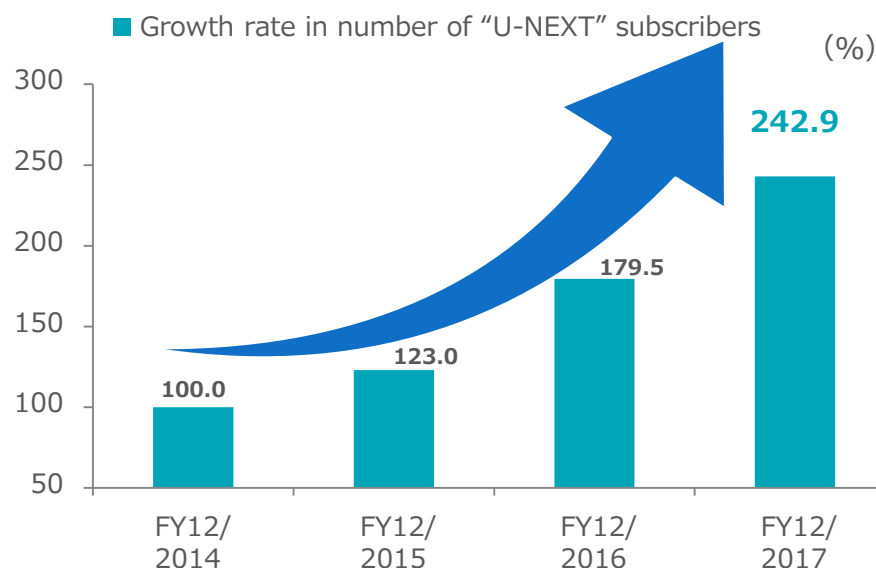
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Growth of Content Platform Business Subscribers



The “U-NEXT” video-on-demand service is attracting a steadily increasing number of subscribers. There was a net increase of more than 120,000 during the past six months.

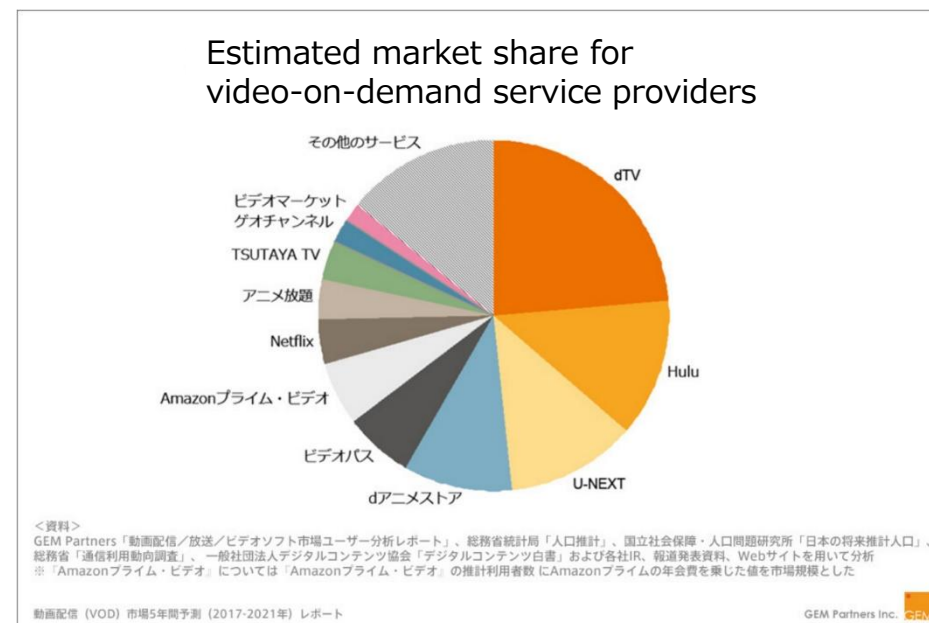
Growth Rate in Number of “U-NEXT” Subscribers



*Index with subscribers at the end of 2014 as 100.

“U-NEXT” subscribers have increased **140%** over three years.
Subscribers increased **35%** in 2017.

Share of Fixed-rate Video-on-Demand Market



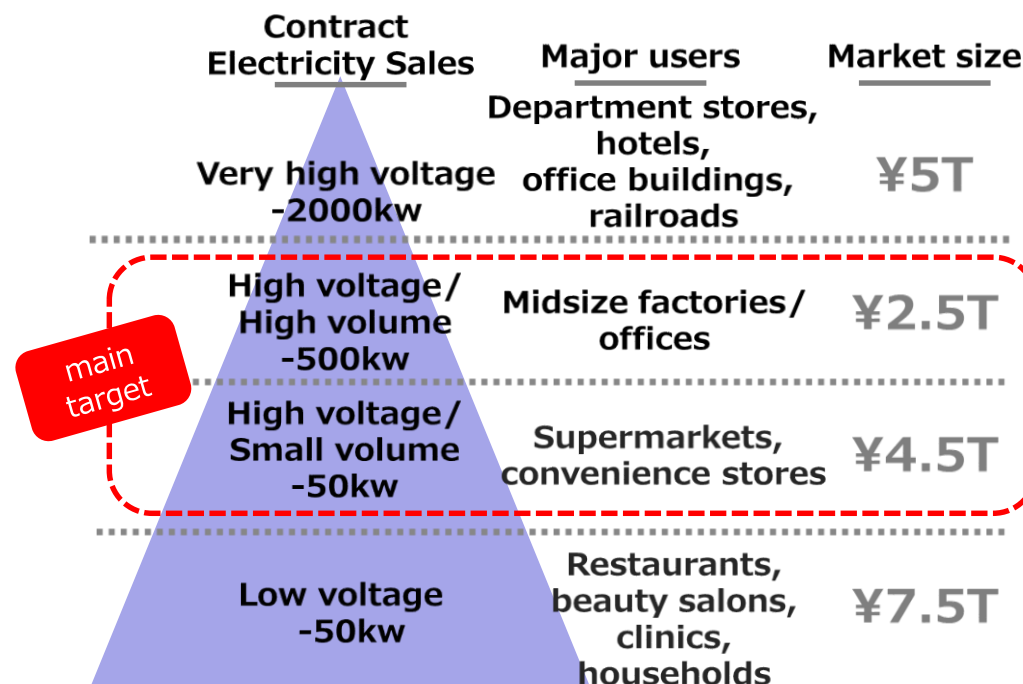
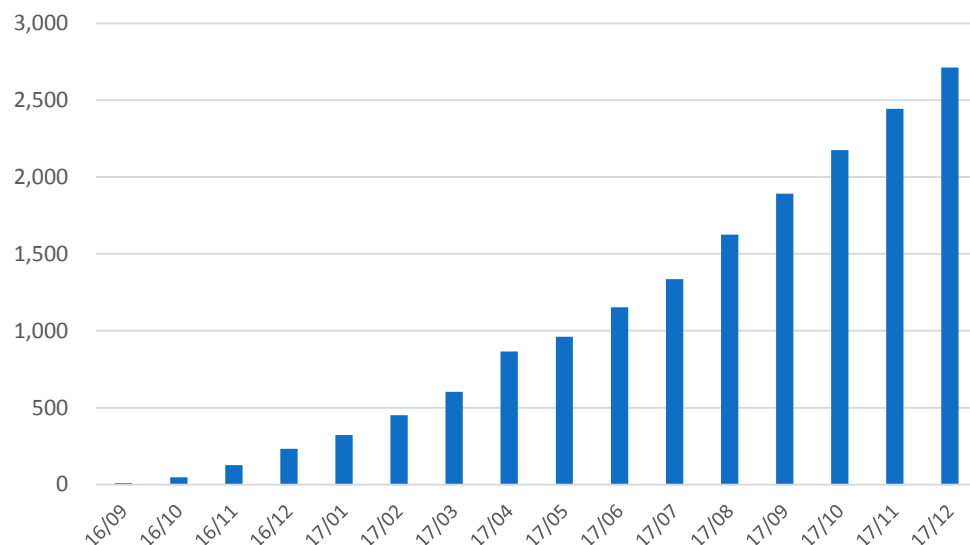
The overall market increased 16% to ¥163.6 billion in 2016.
“U-NEXT” has **the third-largest** market share.

Quote: On February 8, 2017, GEM Partners reported that, based on its survey of Japan’s video-on-demand market, the market grew by 16.0% in 2016 and, in the fixed-rate category, the top three companies had a market share of 48.3%.

URL: https://gem-standard.com/news_releases/142

Retail Electricity Sales (Others Segment)

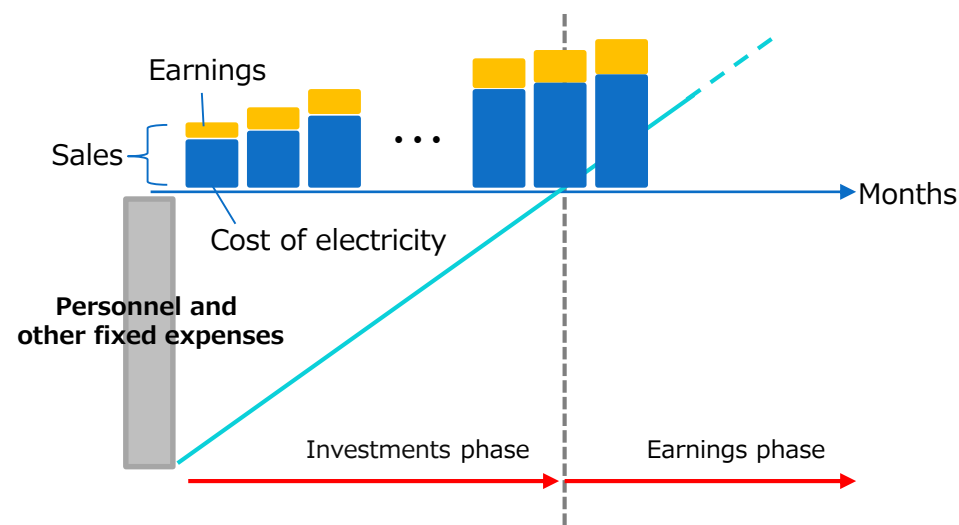
■ Number of “USEN Denki” Contracts



Contracts have been climbing steadily since the Sep. 2016 launch of “USEN Denki” and the goal is to reach 10,000 contracts quickly.

To recover up-front investments (fixed expenses), extensive sales activities will continue with the goal of making this business profitable by the summer of 2020.

“USEN Denki” will be positioned as a “hook” for cross-selling other group products and services.



CANSYSTEM Will Become a Wholly Owned Subsidiary

An agreement in principle was reached that will make CANSYSTEM CO., LTD. a wholly owned subsidiary. USEN-NEXT Holdings and CANSYSTEM signed an agreement in principle on January 29, 2018 for the purchase of all shares of CANSYSTEM that USEN-NEXT Holdings does not currently own. This will make CANSYSTEM a member of the USEN-NEXT Group.

Profile of CANSYSTEM	
Activities	Music and video broadcasting, security services, card payment processing, Internet activities, LED lighting products, CAN-CLUB comprehensive store support
Capital	¥50 million
Major shareholders	Yoshitaka Kudo 84%, USEN-NEXT Holdings 10%

● CANSYSTEM Three-year Financial Highlights

(Million yen)	FY2/2015	FY2/2016	FY2/2017
Net assets	1,429	1,603	1,145
Total assets	6,250	6,651	6,108
Net Sales	5,628	5,515	5,260
Operating Income	285	278	229
Ordinary Income	210	200	210

Specific information about the acquisition of CANSYSTEM stock will be determined later by mutual agreement of CANSYSTEM and USEN-NEXT Holdings. The acquisition of this stock will require the approval of the Japan Fair Trade Commission.

Topics of 2017



<New service>

•Launch of the “USEN PAYGATE” card payment processing service
Sales have started for “USEN PAYGATE”, a credit card payment processing service that uses smart devices. As stores make increasing use of “ICT”, this new service will provide greater convenience and a reduction in payment processing fees.

(May 2, 2017)



<Public-sector activities>

•City of Izumo and USEN sign regional revitalization alliance agreement
The city of Izumo and USEN have agreed to work together to deal with the numerous issues that cities far from metropolitan areas face. Examples are the need to attract and develop businesses and the need to cope with a falling population. USEN’s store development and store operations support services will be used to back up Izumo’s “town, people, job creation strategy.”

(June 29, 2017)



<New service>

•Release of “USEN Register Table Top Order”, an iPad smart self-ordering app

Restaurants and bars in Japan are having difficulties because of the country’s labor shortage and the need to attract and serve foreign tourists. This self-ordering system allows customers to place orders on their own.

(June 29, 2017)



Topics of 2017



<New service>

- Joint development of “innto”, a property management system for vacation rental and low-priced accommodations

Low-priced accommodations like capsule hotels and hostels as well as vacation rental are attracting much attention in Japan. These operations need to recruit people, offer complex Internet reservation services and handle many other aspects of this business. ALMEX created the “innto” property management system specifically for the requirements of vacation rental and low-priced accommodation operators.

(January 25, 2018)



<New product>

- Development of a new hotel check-in/check-out system for many types of payment processing formats

ALMEX has completed the development of two types of automated check-in/check-out system KIOSK allows hotel guests to perform these procedures on their own. The new models reduce the need for labor and make it possible to use people more efficiently. In addition, front desk procedures are much more convenient for guests.

(February 7, 2018)



Topics of 2017

■ U-NEXT

<New service>

- First VOD company in Japan to supply sound content compatible with Dolby Atmos

U-NEXT has become Japan's first video-on-demand company to supply content compatible with Dolby Atmos, an object-based audio technology.



(May 31, 2017)

<New service>

- "U-NEXT" access using PlayStation® 4

By using an app distributed using PlayStation® Store, "U-NEXT" can be enjoyed on the PlayStation® 4, a computer entertainment system sold by Sony Interactive Entertainment.



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(Aug 29, 2017)

<Joint development>

- Joint development of the Energy & AI Service by Nippon Gas and U-NEXT/U-NEXT Marketing

Joint development is under way for the Energy & AI Service, which combines artificial intelligence with the "AI Concierge" automated response service. An automated reception service for telephone calls has already started for people to set up an account for a new residence.



AI コンシェルジュ

(June 23, 2017)

Forward-looking Statements

This presentation includes opinions, forecasts and other statements that are based on the judgments of management when this presentation was prepared. As this information incorporates risk factors and other uncertainties, USEN-NEXT HOLDINGS makes no promise that this information is accurate or complete.