

Summary of First Quarter of Fiscal Year Ending August 2018

May 10,2018

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

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USEN-NEXT HOLDINGS



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Highlights of First Quarter Results of Operations

1.

Sales and earnings were consistent with the forecast for the current transitional fiscal period

Sales: ¥36.0 billion (33% of forecast)

Operating income: ¥2.3 billion (43% of forecast)

2.

Solid sales and operating income in the existing stable business sectors of music distribution, business systems and communications

3.

Big increase in sales in the fast-growth business sectors of content distribution and energy due to growth in the number of new customers

Financial Highlights

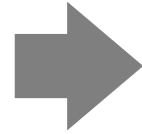
(Million yen)	Forecast for FY8/2018	1Q FY8/2018	Progress
Net Sales	108,000	36,086	33.4%
Operating Income	5,500	2,375	43.2%
Operating margin(%)	5.0%	6.6%	-
Ordinary Income	4,500	2,053	45.6%
Profit or Loss attributable to owners of parent	1,700	1,269	74.6%
Net Income per share(yen)	28.31	21.13	-

**Sales and earnings in this first quarterly period
since the integration were generally in line
with the forecast for the current transitional fiscal period**

New segments

■ Fiscal period ending December 2017

former USEN Sector	Music Distribution	• Music Distribution • Store IoT Services
	Business Systems	• Business Systems • Overseas Operations
	ICT Services	• ICT/Network Services
	Others	• Marketing Support • Retail Electricity Sales
former U-NEXT Sector	Content Platform Business	• Video-on-Demand
	Communication Network Business	• MVNO • Network Services • Sales Agent Operations



■ Fiscal period ending August 2018

Store Services	• Music Distribution • Store IoT Services	USEN NEXT HOLDINGS
Communications	• ICT/Network Services • MVNO • Sales Agent Operations	
Business Systems	• Business Systems • Overseas Operations	
Content Distribution	• Video-on-Demand	
Energy	• Retail Electricity Sales	
Media	• Marketing Support	

Segment Information

1Q FY8/2018	Net Sales (Million yen)	Operating Income (Million yen)
■ Store Services	10,593	2,228
■ Communications	10,242	1,039
■ Business Systems	4,481	844
■ Content Distribution	6,261	198
■ Energy	3,523	▲164
■ Media	1,180	66

Performance was supported by the core music distribution sector and by measures to increase sales of POS Registers, Wi-Fi, "USEN PAYGATE" and other commercial products. In 2018, started selling small-amount, short-term insurance policies to restaurants, beauty salons, stores and other businesses.

The broadband service sales agent business continued to perform well by selling services to new customers, chiefly small business owners. There were also strong sales of network and cloud services for the creation of office ICT environments.

Sales of automated billing and payment processing systems and other major products for boutique hotels and hospitals remained strong. Started selling "*innto*", a management system mainly for overnight-stay-only hotels and private home lodging, for growth in a new market category.

Steady growth in the number of subscribers, but SG&A expenses increased because of extensive marketing activities. Continuing to make substantial marketing expenditures for more growth in the number of subscribers.

Sales are increasing along with the growth of this business but operations are unprofitable because this business is still in the stage of recovering initial investments by increasing sales resources.

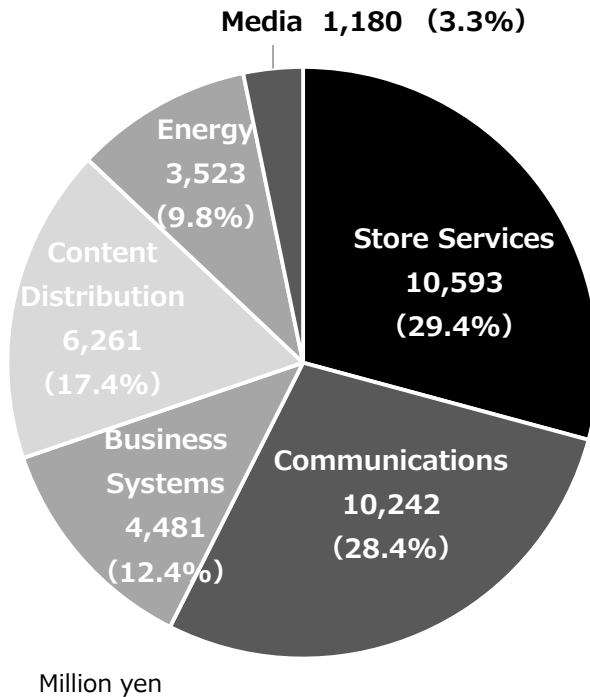
This business performed well due to the provision and operation of services that match the needs of core customers of USEN-NEXT. Major activities are the "*Hitosara*" website to help restaurants attract customers, the "*Weccolle*" website for wedding information, and the "*bangs*" web magazine for locating hair and other stylists.

Segment information does not include corporate expenses that cannot be assigned to a specific segment. Prior-year comparisons are not shown because some segments have been revised.

- **Store Services, Business Systems and Communications are segments with consistent sales and earnings.**
- **In the fast-growth Content Distribution and Energy segments, although SG&A expenses are substantial, sales were much higher than one year earlier due to a large increase in the number of members.**

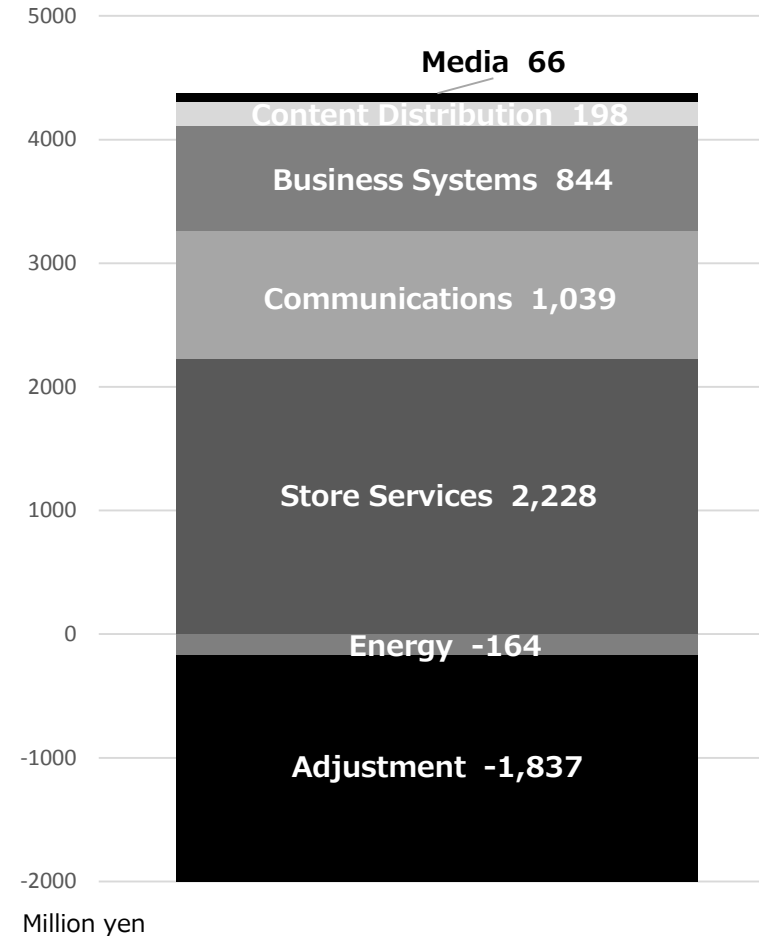
Composition of sales and operating income of segments

■ Sales



- Store Services (29.4%) and Communications (28.4%) together accounted for 57.8% of total sales.

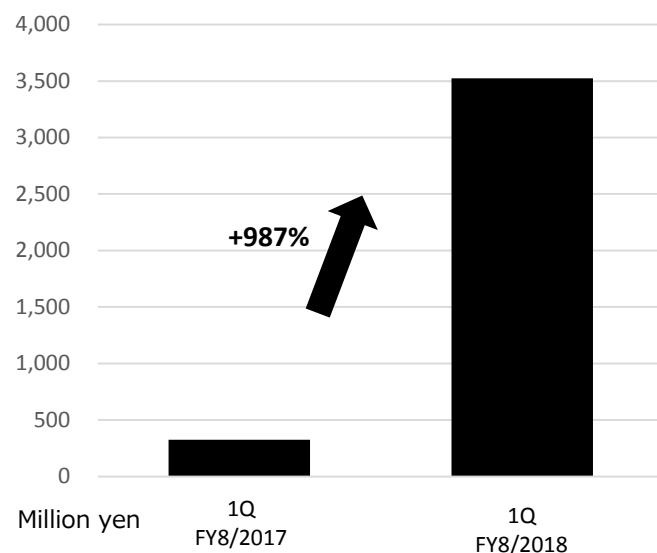
■ Operating income



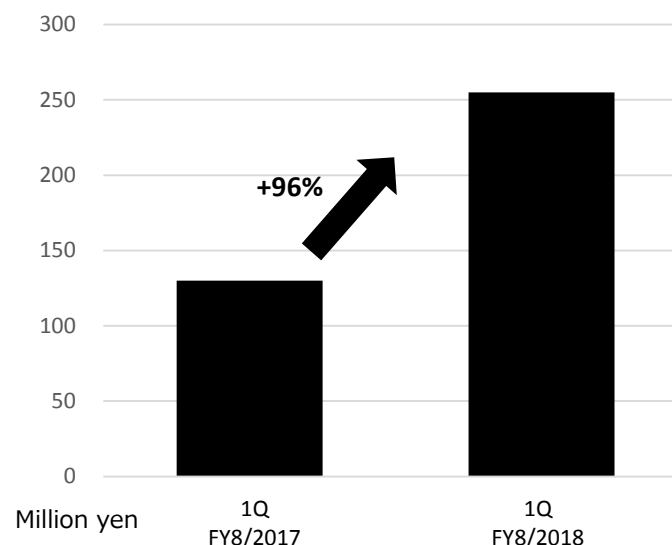
- All segments other than Energy were profitable, although there were variations in the levels of earnings. The adjustment includes holding company expenses, goodwill amortization and other items.

Big Increases in Sales of Products in Growing Business

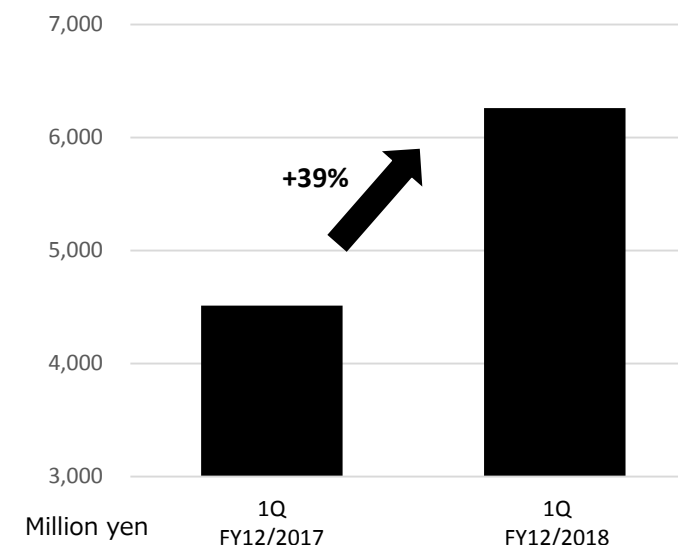
■ *"USEN Denki"*



■ *"USEN Register"*



■ *"U-NEXT"*



- *"USEN Denki"* sales were approximately 11 times higher than one year earlier
- Sales of *"USEN Register"*, an IoT product for stores, were up almost 100%
- Sales of *"U-NEXT"*, a Content Distribution product, increased about 40%

Change to the USEN Fiscal Year

Due to the integration of U-NEXT and USEN in 2017, USEN-NEXT HOLDINGS is changing its fiscal year end to August 31 for consistency with the fiscal year used by USEN. As a result, the current fiscal period is a transitional period of less than one year that ends on August 31. The quarterly financial data for this period include the following months for the pre-integration U-NEXT and USEN.

● Financial Period

Financial Period	1Q FY8/2018	2Q FY8/2018	3Q FY8/2018	FY8/2018
former U-NEXT	Jan-Mar	Apr-Jun	Jul-Aug	Jan-Aug (8 month)
former USEN	Dec-Feb	Mar-May	Jun-Aug	Dec-Aug (9 month)

Consolidated balance sheet

(Million yen)	FY12/2017	1Q FY8/2018	(Million yen)	FY12/2017	1Q FY8/2018
(Assets)			(Liabilities)		
Current assets	37,860	38,547	Current liabilities	35,499	35,062
Cash and deposits	13,010	13,527	Notes and accounts payable – trade	12,673	14,415
Notes and accounts receivable - trade	15,455	16,474	Short-term loans payable	2,500	3,000
Inventories	3,321	3,241	Current portion of long-term loans payable	4,908	4,908
Other	7,383	6,677	Other provision	283	938
Allowance for doubtful accounts	△1,309	△1,373	Other	15,132	11,798
Non-current assets	88,057	86,674	Non-current liabilities	78,266	77,025
Property, plant and equipment	19,155	18,788	Long-term loans payable	74,807	73,580
Intangible assets	53,758	53,051	Net defined benefit liability	2,724	2,742
Goodwill	50,187	49,409	Other provision	266	264
Other	3,571	3,641	Other	467	438
Investments and other assets	15,144	14,833	Total liabilities	113,766	112,088
Other	19,928	19,619	(Net assets)		
Allowance for doubtful accounts	△4,784	△4,785	Shareholders' equity	11,948	12,931
Total assets	125,918	125,221	Capital stock	94	94
			Capital surplus	11,086	11,101
			Retained earnings	767	1,735
			Valuation and translation adjustments	81	77
			Valuation difference on available-for-sale securities	139	113
			Remeasurements of defined benefit plans	△57	△36
			Non-controlling interests	122	125
			Total net assets	12,152	13,133
			Total liabilities and net assets	125,918	125,221

- Goodwill and loans decreased as planned
- The equity ratio increased from 9.6% to 10.4%

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Forecast for FY8/2018 (Reused)

(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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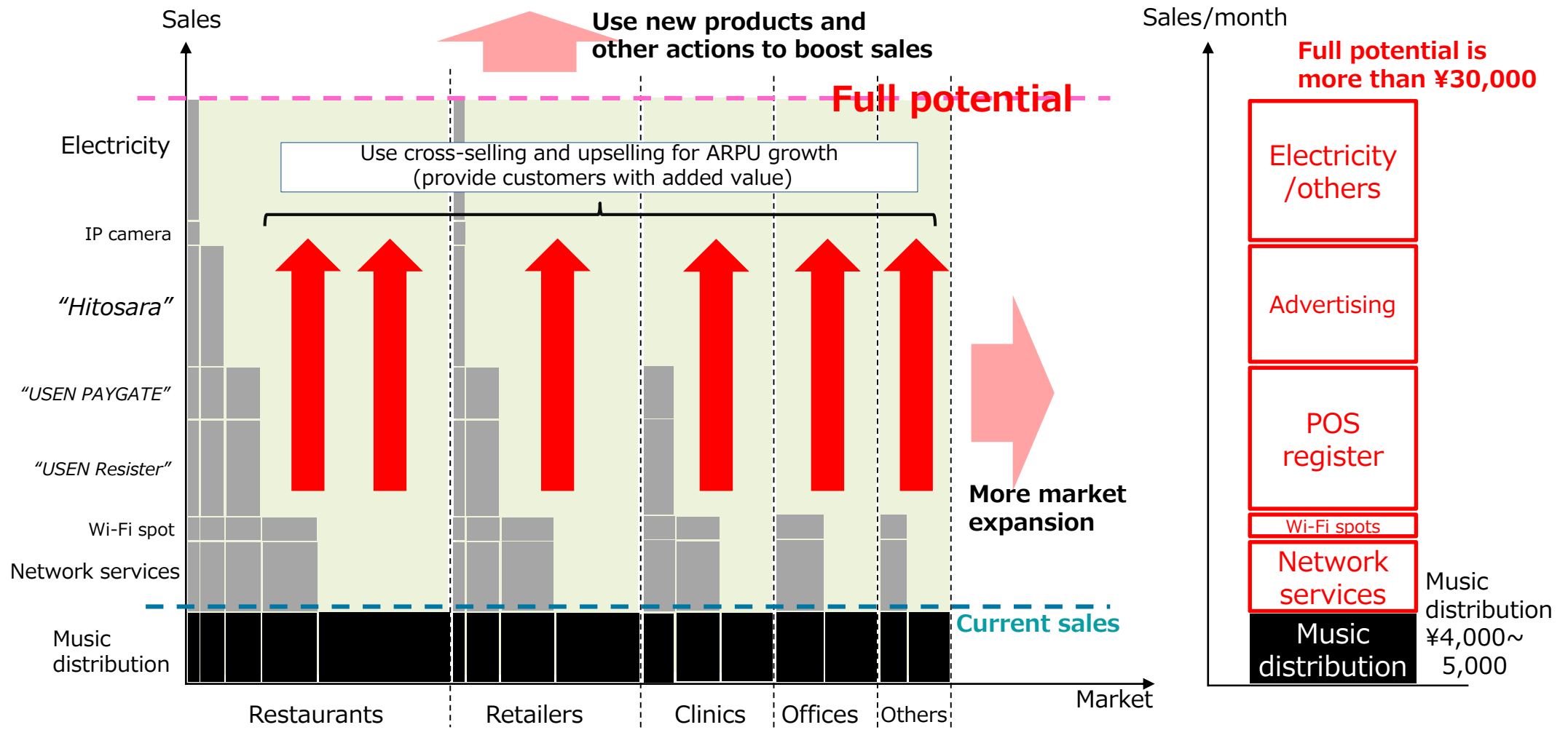
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Effective Use of the Group's Customer Assets (Reused)

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 (Reused)



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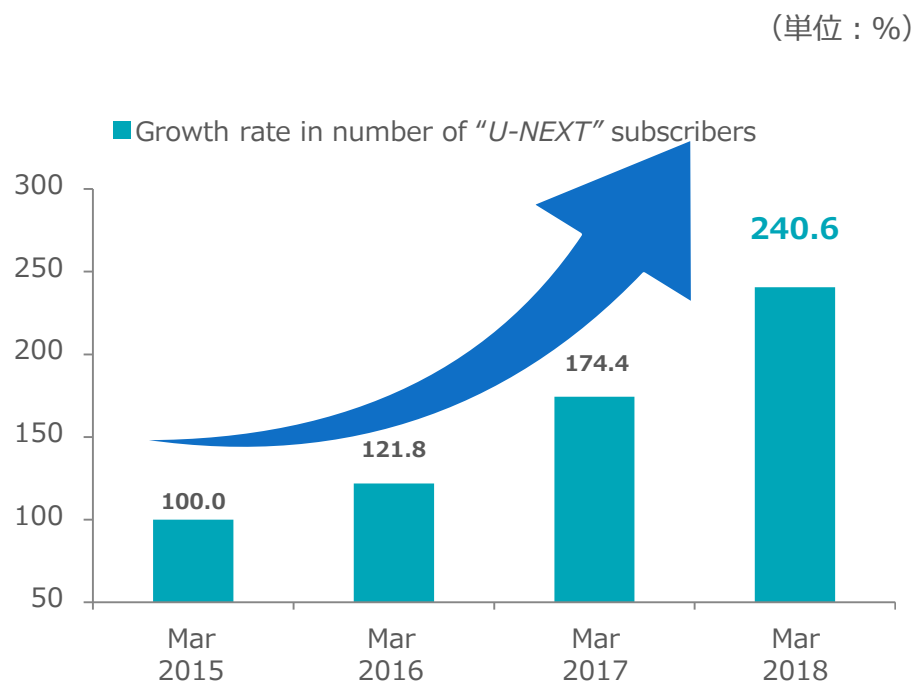
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Growth of “U-NEXT” Subscribers

The “U-NEXT” video-on-demand service is attracting a steadily increasing number of subscribers. There was a net increase of more than 130,000 during the past six months

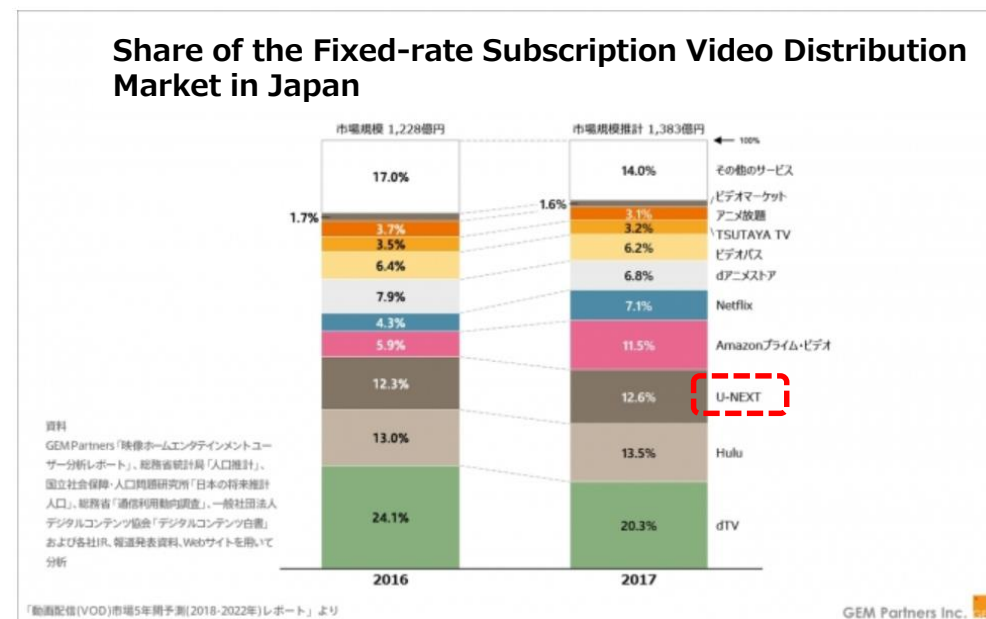
Growth Rate in Number of “U-NEXT” Subscribers



*Index with subscribers at the end of March 2015 as 100.

140% increase in “U-NEXT” subscribers over three years.
38% increase during the past year.

Share of Fixed-rate Video-on-Demand Market

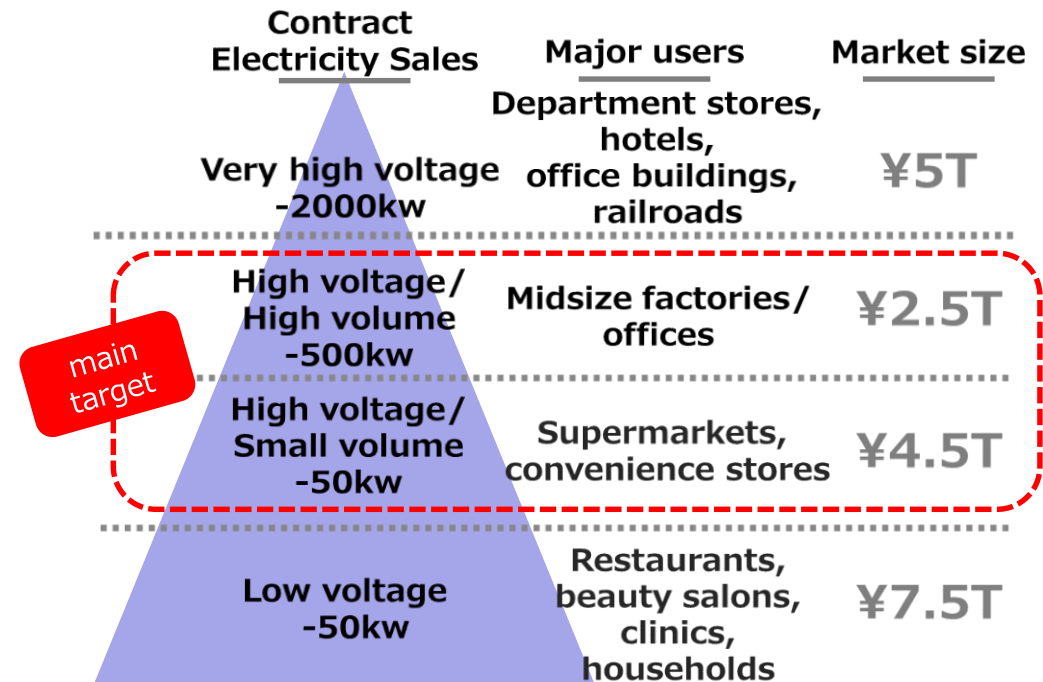
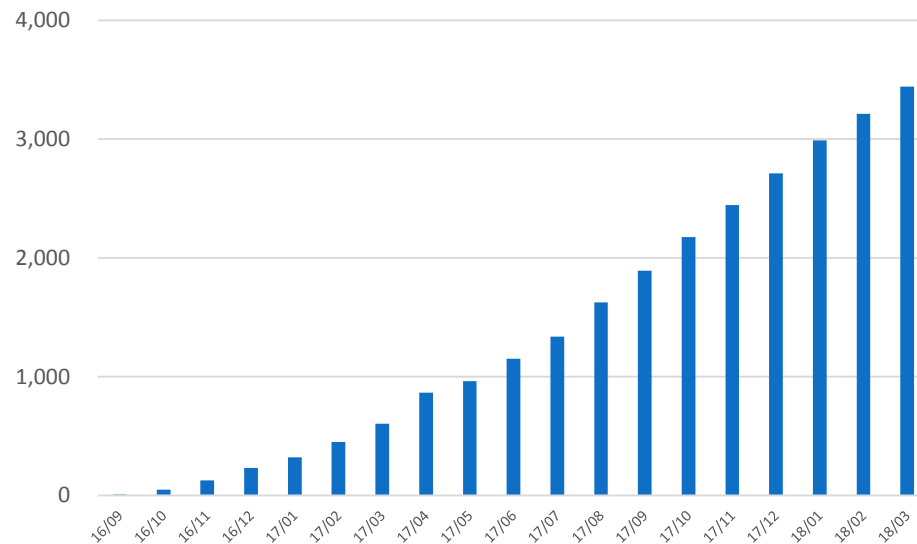


Users of this service in Japan increased 24% in 2017 to a total of 14.4 million. Users are forecast to increase to 20 million by 2020*.
 “U-NEXT” has **the third-largest** market share.

*Source: ICT Research & Consulting
 URL: <https://prtimes.jp/main/html/rd/p/000000023.000013190.html>

Retail Electricity Sales

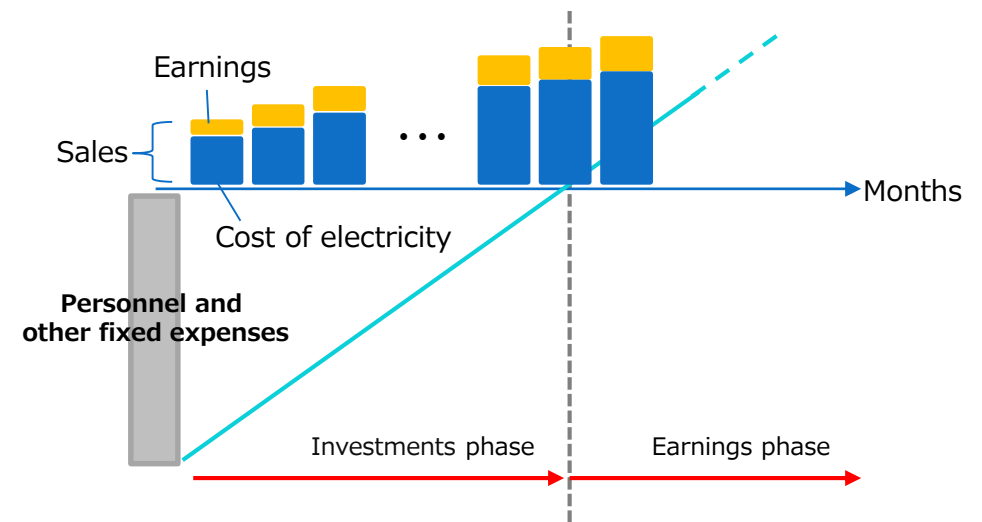
■ Number of “USEN Denki” Contracts



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.



<New service>

• **Launch of Version 4 of “USEN Register for Stores”, a POS register app using an iPad.**

This tablet POS register app was created specifically for the requirements of stores. The app includes inventory management, tax-free sales, accounting, sales analysis, multiple store management and many more functions to meet the needs of small and midsize stores.

(18/2/1)



<New business>

• **USEN Starts an Insurance Business**

Sales activities have started for small-amount, short-term insurance policies for restaurants, beauty salons, stores and other business owners. Called Store Confidence Insurance, the new policy was developed by drawing on USEN’s knowledge of the needs of small businesses gained through its large number of customer relationships. The policy covers damage to equipment and other facilities in the event of a fire or other disaster. In addition, coverage of this revolutionary policy includes losses incurred by the store’s landlord and customers as well as risk factors involving business operations.

(18/2/16)





<New models>

• **New hotel check-in/out kiosks that accept more payment methods**

These two new models make it possible for hotel guests to check in and out on their own. This allows hotels to use fewer people and improve the efficiency and convenience of front desk tasks while simplifying the check in and out processes for guests.

(18/2/7)



<New service>

• **Debut of the “*innto*” accommodation management system**

The popularity of simple, overnight-stay-only accommodations like capsule hotels, hostels and vacation rental is growing. Operators of these facilities need to recruit employees, process Internet reservations and perform many other tasks. The new “*innto*” system simplifies tasks required for the management of a variety of accommodations.

(18/1/25)





<Service-system link>

• **Establishment of link between *innto* and the TEMAIRAZU system**

An agreement has been reached to establish a link between the “*innto*” management system for vacation rental and no-frills accommodation facilities and TEMAIRAZU, a system of Temairazu, Inc. that facilitates the centralized oversight of many online accommodation reservation websites.

(18/3/23)



■ **USEN Media**

<New service>

• **Restaurant photography service using professional photographers**

The new “*Oishii Photo*” (“delicious photo”) service for restaurants uses only professional photographers who comply with designated standards for quality. Restaurants receive the photos with all rights involving their use.

(18/2/22)



■ **USEN Media**

<Business alliance>

・**USEN Media forms alliance with the UX design company ajike**

USEN Media and ajike co., ltd., a user experience (UX) design company, have established an alliance. ajike will use its UX design expertise extending from creating to executing service strategies in order to improve the user experience at the “Hitosara” and “Wecolle” websites. One goal is constantly upgrading the user experience provided by the “Hitosara” dining website. Achieving much faster growth of the two websites is another goal of this alliance.

(18/3/22)



<Business alliance>

・**USEN Media alliance with TSUNAGU for serving foreign tourists**

USEN Media and TSUNAGU, Inc. have agreed to work together in the media field. The number of foreign tourists in Japan is climbing as the country looks ahead to the 2020 Tokyo Olympics. This alliance will be used to provide services that combine the powerful content of USEN Media, which has approximately 20,000 customers, including restaurants, beauty salons, wedding halls and other businesses, with the ability of TSUNAGU Japan to bring foreign tourists to these businesses.

(18/3/29)



■ U-NEXT

<New service>

・"U-NEXT" will add the Fox Channel

"U-NEXT" will make the Fox Channel accessible to users of the Amazon Fire TV, PlayStation® 4 and other TV platforms.

(18/2/21)



※Amazon, Amazon.co.jp, Fire及び関連するロゴはAmazon .com, Inc.またはその関連会社の商標です
※「PlayStation」は、株式会社ソニー・インタラクティブエンタテインメントの登録商標です
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<New model>

・The "U-NEXT TV" set-top box with fast and easy operation

"U-NEXT" has started selling "U-NEXT TV" (¥9,800 before tax), a set-top box that uses the Android TV OS of Huawei. The set-top comes with its own remote control with a fast and smooth response, allowing people to enjoy programs with no stress.

(18/3/27)



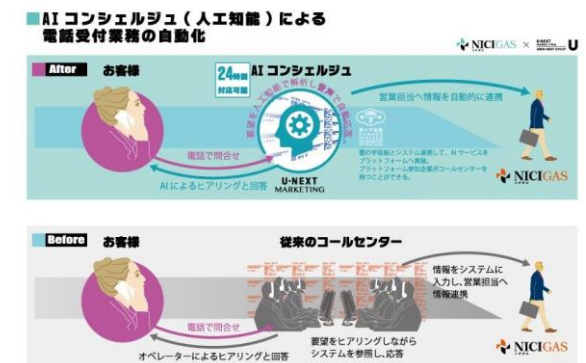
■ U-NEXT MARKETING

<Joint development>

・Energy industry's first "AI concierge" for partial automation of answering telephone calls

U-NEXT Marketing and Nippon Gas Co., Ltd. have developed the "AI Concierge", an automated telephone answering service using artificial intelligence technology for the recognition and analysis of spoken words and conversations. This technology is now in use to answer calls about the procedure for starting gas service at a new residence.

(18/1/9)



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.