

Summary of Second Quarter of Fiscal Year Ending August 2018

Aug 9, 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 Second Quarter Results of Operations

1.

Performance is consistent with the forecast

Net Sales ¥73.0 billion (67.6% of forecast)
Operating Income ¥5.2 billion (94.5% of forecast)

2.

**Solid sales and operating income
in the existing stable high-income business sectors of
music distribution and business systems.**

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	2Q FY8/2018	Progress
Net Sales	108,000	73,087	67.6%
Operating Income	5,500	5,200	94.5%
Operating margin(%)	5.0%	7.1%	-
Ordinary Income	4,500	4,471	99.3%
Profit or Loss attributable to owners of parent	1,700	2,595	152.6%
Net Income per share(yen)	28.31	43.21	-

- Performance is consistent with the forecast and earnings at all levels starting with operating income are about 90% of the transitional FY8/18 forecast

Segment Information

2Q FY8/2018	Net Sales (Million yen)	Operating Income (Million yen)
■ Store Services	21,827	4,474
■ Communications	20,417	2,373
■ Business Systems	9,218	1,726
■ Content Distribution	12,686	202
■ Energy	7,432	△329
■ Media	2,355	175

Performance was supported by the core music distribution sector and by measures to increase sales of POS Registers, Wi-Fi, and other commercial products and sales of small-amount, short-term insurance policies. With partner OKWAVE, started operating a community website called "Use canaeru for store opening preparations!", a one-stop source of store and restaurant opening solutions.

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.

Favorable market conditions as capital expenditures continue to grow along with the improvement in access to funds due to monetary easing. To meet market needs, started supplying a management system that serves foreign tourists and helps deal with Japan's labor shortage and the chronic shortage of hotel and other accommodations.

In a strong market, there were more measures to improve the user experience, increase content and target new markets. The result was steady growth in the number of subscribers. To offer more content, a multi-year comprehensive content licensing agreement was signed with CBS Studios International in the United States.

Strengthened high and low-voltage sales activities, including measures to improve the service lineup for stores, commercial buildings and shopping centers and other retail facilities. Substantial investments and sales activities with the goal of making this a future core business.

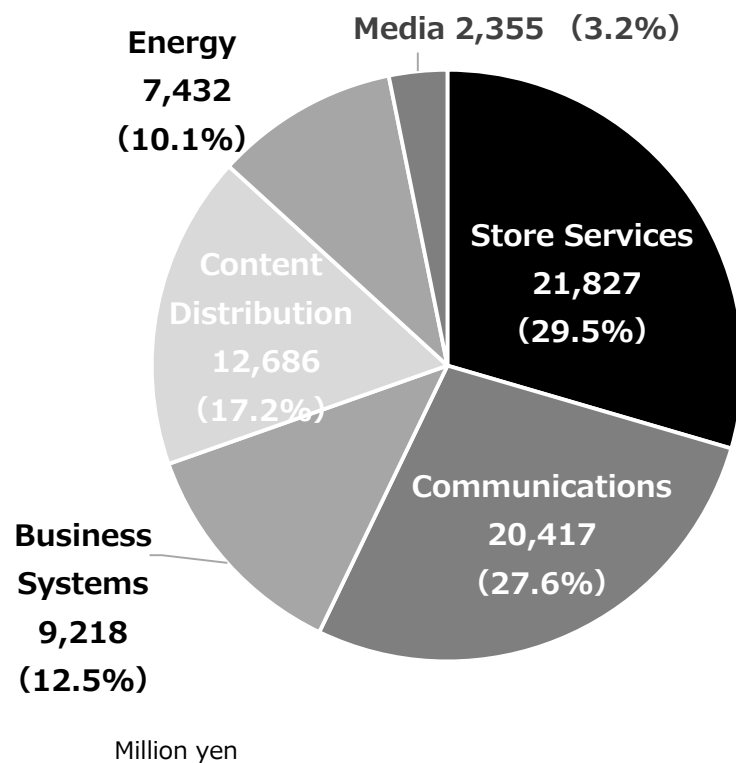
This business performed well due to the provision and operation of services that match the needs of core customers of USEN-NEXT. Major activities are the "Hitosara" website to help restaurants attract customers, the "Wecolle" website for wedding information, and the "bangs" web magazine for locating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

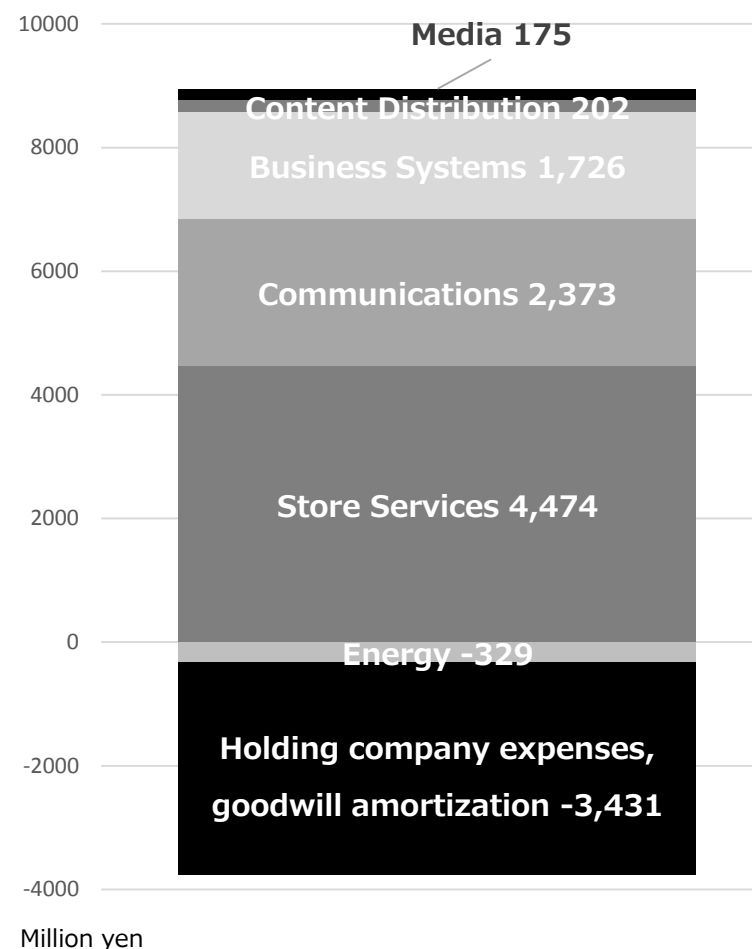
Composition of sales and operating income of segments

■ Sales



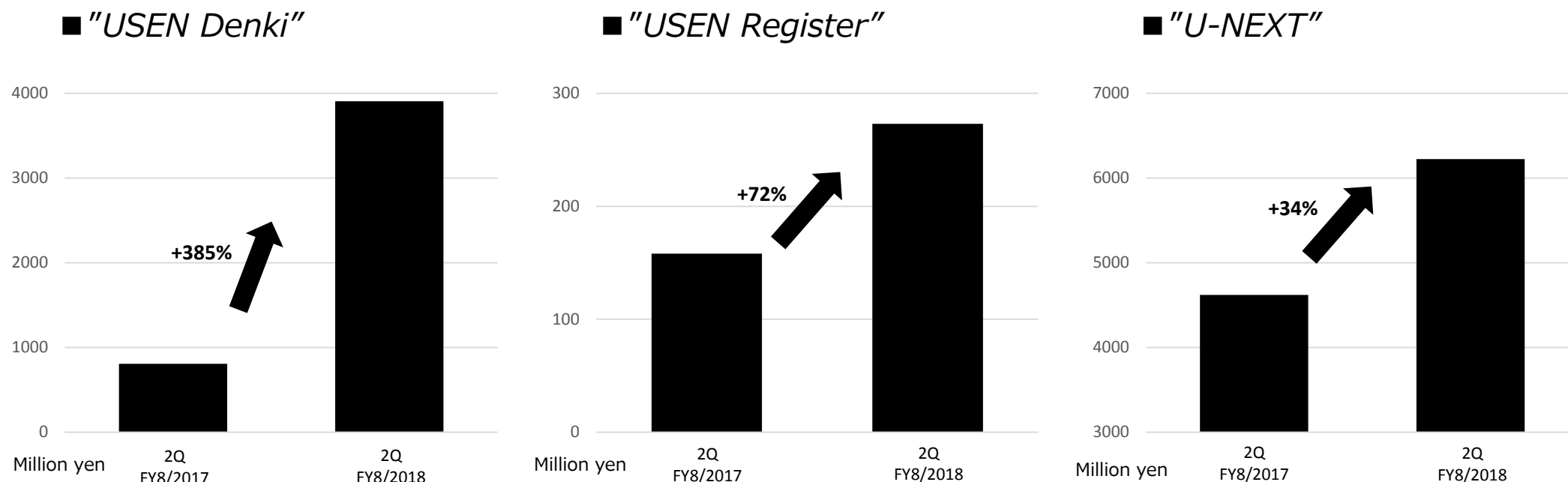
■ Store Services (29.5%) and Communications (27.6%) together accounted for 57.1% of total sales, 0.7% decrease from First quarter of FY8/2018.

■ Operating income



■ All segments other than Energy were profitable, although there were variations in the levels of earnings.

Big Increases in Sales of Products in Growing Business



- **"USEN Denki"** sales were approximately four times higher than one year earlier
- Sales of **"USEN Register"**, an IoT product for stores, increased about 70%
- Sales of **"U-NEXT"**, a Content Distribution product, increased about 30%

Change to the USEN Fiscal Year(Reused)

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	2Q FY8/2018	Difference
(Assets)			
Current assets	37,860	41,326	+3,465
Cash and deposits	13,010	15,886	+2,875
Notes and accounts receivable – trade	15,455	16,180	+725
Inventories	3,321	3,614	+293
Other	7,383	6,991	△391
Allowance for doubtful accounts	△1,309	△1,346	△36
Non-current assets	88,057	86,403	△1,653
Property, plant and equipment	19,155	19,692	+537
Intangible assets	53,758	52,260	△1,497
Goodwill	50,187	48,632	△1,554
Other	3,571	3,628	+56
Investments and other assets	15,144	14,450	△693
Other	19,928	19,230	△697
Allowance for doubtful accounts	△4,784	△4,779	+4
Total assets	125,918	127,730	+1,811

(Million yen)	FY12/2017	2Q FY8/2018	Difference
(Liabilities)			
Current liabilities	35,499	37,620	+2,120
Notes and accounts payable – trade	12,673	13,553	+879
Short-term loans payable	2,500	2,500	–
Current portion of long-term loans payable	4,908	4,908	–
Other provision	283	274	△8
Other	15,132	16,383	+1,250
Non-current liabilities	78,266	75,693	△2,573
Long-term loans payable	74,807	72,352	△2,454
Net defined benefit liability	2,724	2,669	△54
Other provision	266	259	△7
Other	467	410	△57
Total liabilities	113,766	113,313	△452
(Net assets)			
Shareholders' equity	11,948	14,245	+2,297
Capital stock	94	94	–
Capital surplus	11,086	11,089	+3
Retained earnings	767	3,061	+2,294
Valuation and translation adjustments	81	127	+45
Valuation difference on available-for-sale securities	139	152	+13
Remeasurements of defined benefit plans	△57	△24	+32
Non-controlling interests	122	43	△78
Total net assets	12,152	14,417	+2,264
Total liabilities and net assets	125,918	127,730	+1,811

- Goodwill and loans decreased as planned
- The equity ratio increased from 9.6% to 11.2%

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Forecast for FY8/2018

(Million yen)	Forecast for FY8/2018 (Former)	Forecast for FY8/2018 (Revised upward)	Difference
Net Sales	108,000	106,000	△2,000
Operating Income	5,500	6,000	+500
Operating margin(%)	5.0%	5.6%	-
Ordinary Income	4,500	5,000	+500
Profit or Loss attributable to owners of parent	1,700	2,400	+700
Net Income per share(yen)	28.31	39.96	-
EBITDA	11,920	12,420	-
EBITDA margin	11.0%	11.7%	-
EBITDA-CAPEX	7,483	7,983	-

Results of operations are stronger than initially forecast. As a result, the FY8/18 forecast has been revised based on performance in the first six months of this fiscal period, the final outlook for business operations, the valuation of assets at the end of the period and other items.

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USEN and China e-payment platform company Lakala form alliance that will allow QR code transactions for visitors from China

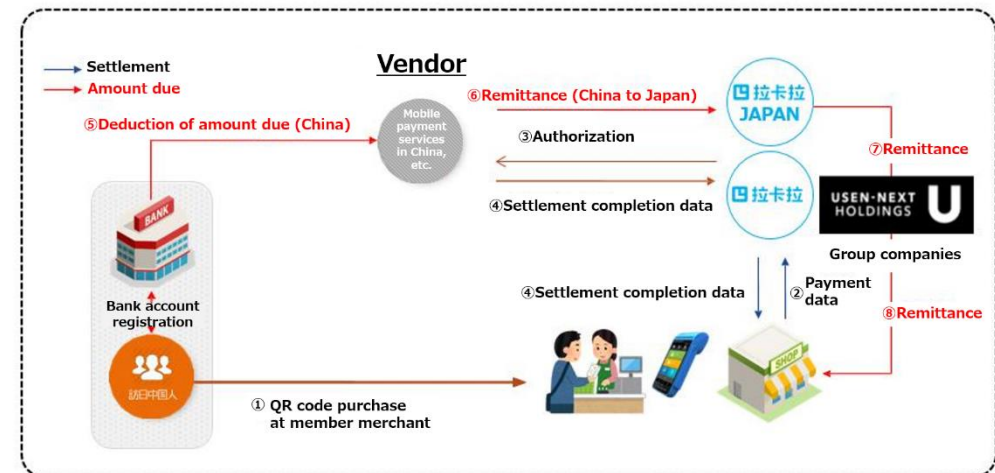
IT Media NEWS, June 27, 2018

Alliance with major Chinese e-payment platform company Lakala allows the use of Alipay and WeChat Pay

SankeiBiz, June 27, 2018

USEN-NEXT HOLDINGS forms alliance with Lakala, operator of a major e-payment platform in China

Zaikei Shimbun, June 27, 2018



<The USEN-NEXT/Lakala Alliance>

USEN-NEXT is the first company in Japan to establish an alliance with Lakala, the operator of a third-party e-payment platform.

This alliance will allow the use of Alipay and WeChat Pay, two widely used e-payment services in China, by using members of the USEN-NEXT Group.

U-NEXT and CBS sign comprehensive content licensing agreement for unlimited viewing of the NCIS series and other programs

AV Watch, June 4, 2018

U-NEXT and CBS sign comprehensive content licensing agreement

Kabutan News, June 4, 2018



Photo: Patrick McElhenney/CBS
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<CBS content>

U-NEXT has signed a multi-year comprehensive content licensing agreement with the U.S. company CBS Studios International. This agreement will give “U-NEXT” subscribers unlimited access to the all NCIS programs and other programs broadcast by CBS-affiliated TV stations. Distribution by “U-NEXT” has started and will expand in stages.

Starting in June, Bravia TV remote controls will have five buttons for the distribution of popular video content

BCN+R, May 12, 2018



* ソニーおよびブラビアはソニー株式会社の登録商標です。

The new Sony Bravia remote control is amazing – The objective of including Hulu and Abema TV buttons

AV Watch, May 9, 2018

<More compatibility>

To celebrate the addition of a U-NEXT Button on the remote control for Sony’s 4K Bravia® television, U-NEXT started a Twitter campaign and a marketing campaign in stores on the day televisions with this remote control went on sale.

USEN and others provide service for responses by experts to issues involving opening restaurants

Nihon Keizai Shimbun (electronic), May 8, 2018

OKWAVE and USEN launch a website for new businesses

Kabutan News, May 14, 2018

Japanese jazz – USEN’s first Amazon Alexa skill for the creative enjoyment of music by simply talking to Echo

AV Watch, May 21, 2018



<Joint business venture>

USEN-NEXT and OKWAVE have started operating a website called “Use canaeru for store opening preparations!” A Q&A section with the more than 36 million submissions to OKWAVE is categorized by using key words about starting a company or business location. The website also features responses from knowledgeable OKWAVE professionals about business start-up issues. As a result, this new website offers one-stop convenience for solving these issues.



<New service>

USEN-NEXT has started supplying “Japanese Jazz,” a skill that is compatible with Amazon Alexa, the cloud-based voice service of Amazon. Simply say “Alexa, start Japanese Jazz” to an Amazon Echo smart speaker to activate the app and start listening to music.

TOPICS (FY8/2018)

ALMEX establishes a “leisure hotel” reservation system alliance with Taiwan company – More mutual sharing of customers to raise membership to 2.14 million

Travel Voice, April 20, 2018

ALMEX and Taiwan company agree to establish a business alliance – Strong interest in attracting foreign tourists to “leisure hotels”

Airstair, April 22, 2018

“Henna Hotel Tokyo Hamamatsucho” has a medical clinic that uses a humanoid robot for reception

Robot Start, April 26, 2018

“Henna Hotel” opens at Hamamatsucho and includes a clinic with fully automated reception

Ryoko Shimbun, April 27, 2018



<Business alliance>

ALMEX’s “Happy Hotel”, Japan’s largest search and reservation website for “leisure hotels,” and FunNow Ltd., which operates the FunNow website for hotel, restaurant and other reservations in Taiwan, have signed an alliance agreement that gives their customers access to each other’s services.



<New service>

The newly opened “Henna Hotel Hamamatsucho” has started using the ALMEX “unibo” AI robot. “unibo” can use many types of “facial” expressions while providing guests with information about the hotel and places to go for sightseeing. Hotel guests use a touch panel to access with ease information about nearby restaurants, stores and other items.

USEN-NEXT moving head office to Meguro to bring about 1,300 employees of 9 group companies to a single location

CNET Japan, June 26, 2018

July head office relocation to Meguro for more growth due to group solidarity and a further improvement in efficiency

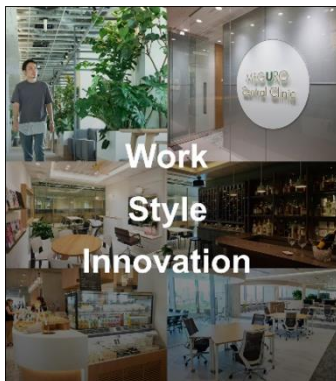
SankeiBiz, June 25, 2018

USEN-NEXT HOLDINGS to move head office on July 9 and speed up the new personnel project

Musicman-Net, June 25, 2018

<New head office/Working style innovation>
USEN-NEXT HOLDINGS is moving its head office to Meguro Central Square a high-rise building in Shinagawa-ku, Tokyo. This relocation will bring all group companies to a single location, which is expected to improve operating efficiency and better position the group for more growth.

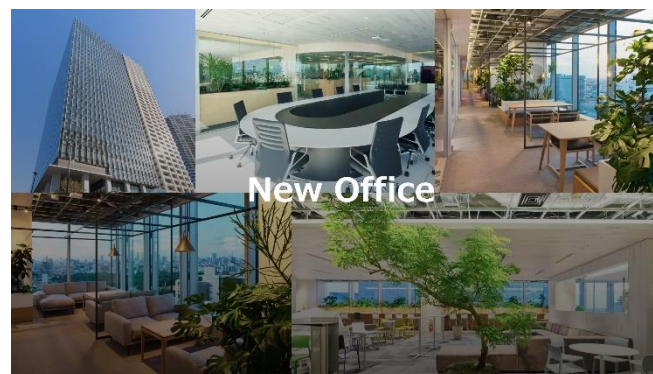
On June 1, the USEN-NEXT Group started a new personnel project called Work Style Innovation. By going beyond the limitations of conventional human resource systems, this project is using many initiatives to allow employees to work productively and realize their full potential.



Work Style Innovation

Super Flex Time
Will begin in the fall of 2018 for about 4,000 people
No core time/3-day weekend

Teleworking
A framework for doing jobs that does not require going to an office



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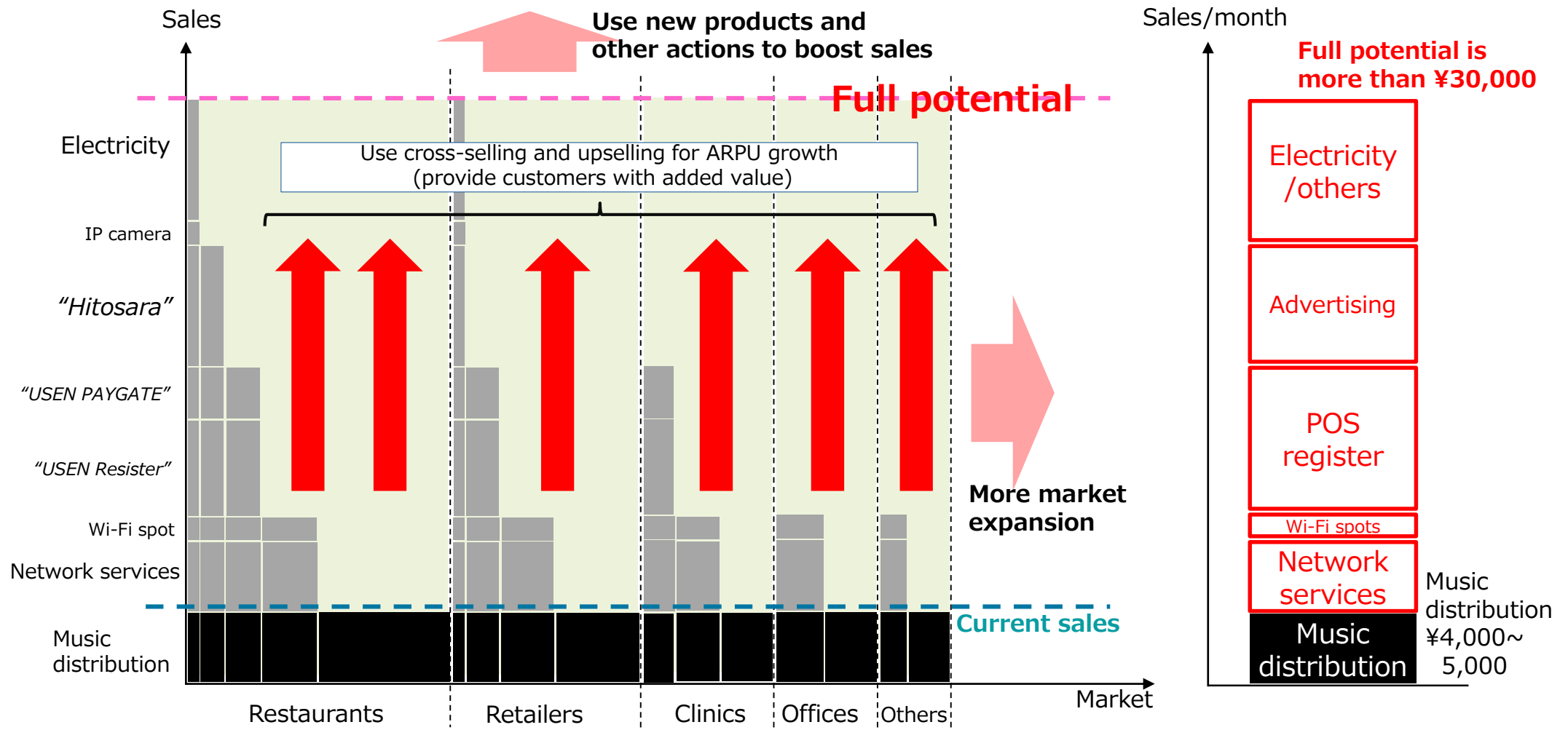
2. Forecast for FY8/2018

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4. **About the USEN-NEXT GROUP**

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.

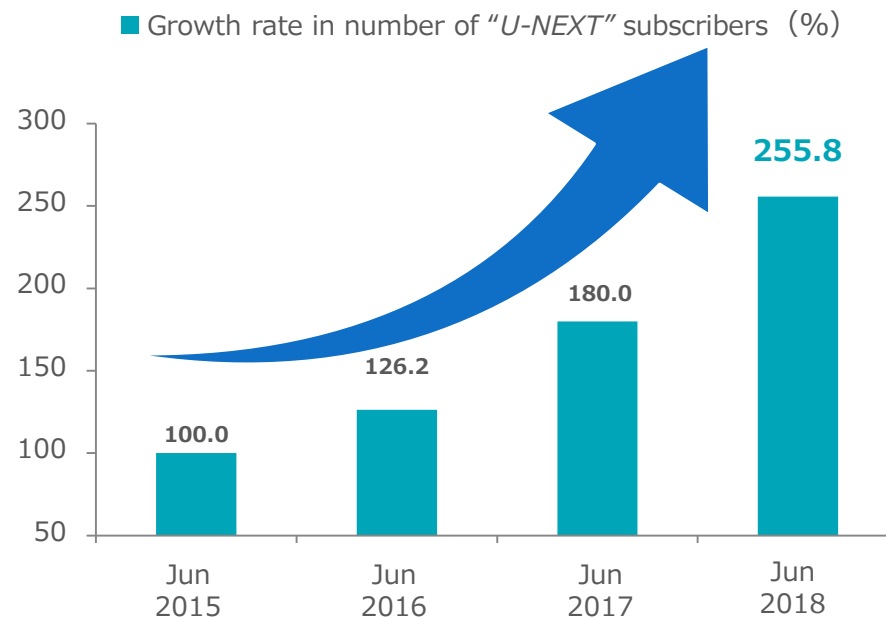
Key Focused Themes of Group (Reused)



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

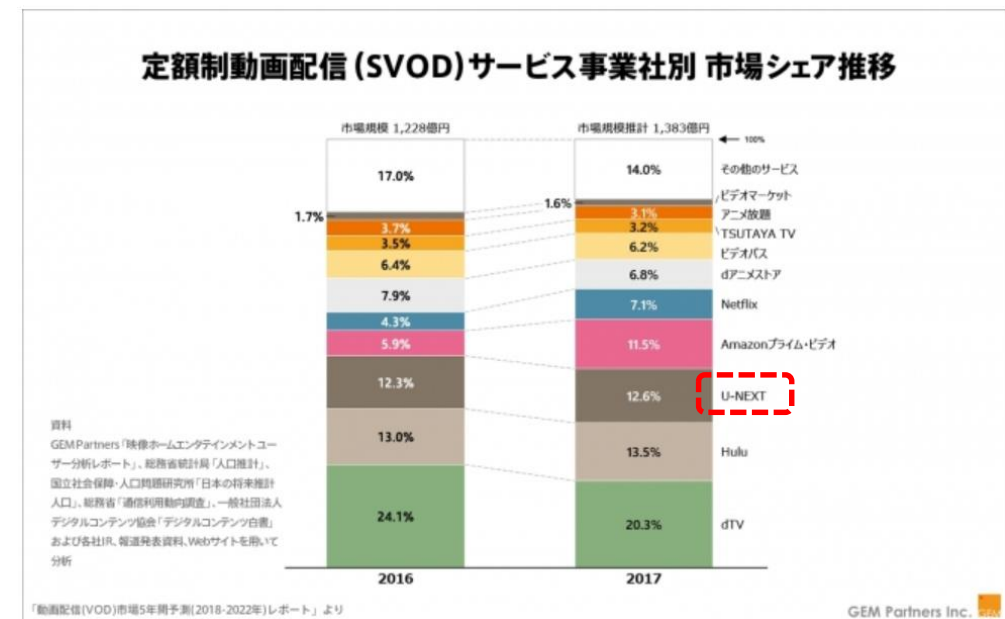
Growth Rate in Number of “U-NEXT” Subscribers



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

160% increase in “U-NEXT” subscribers over three years.
42% increase during the past year.

Share of Fixed-rate Video-on-Demand Market



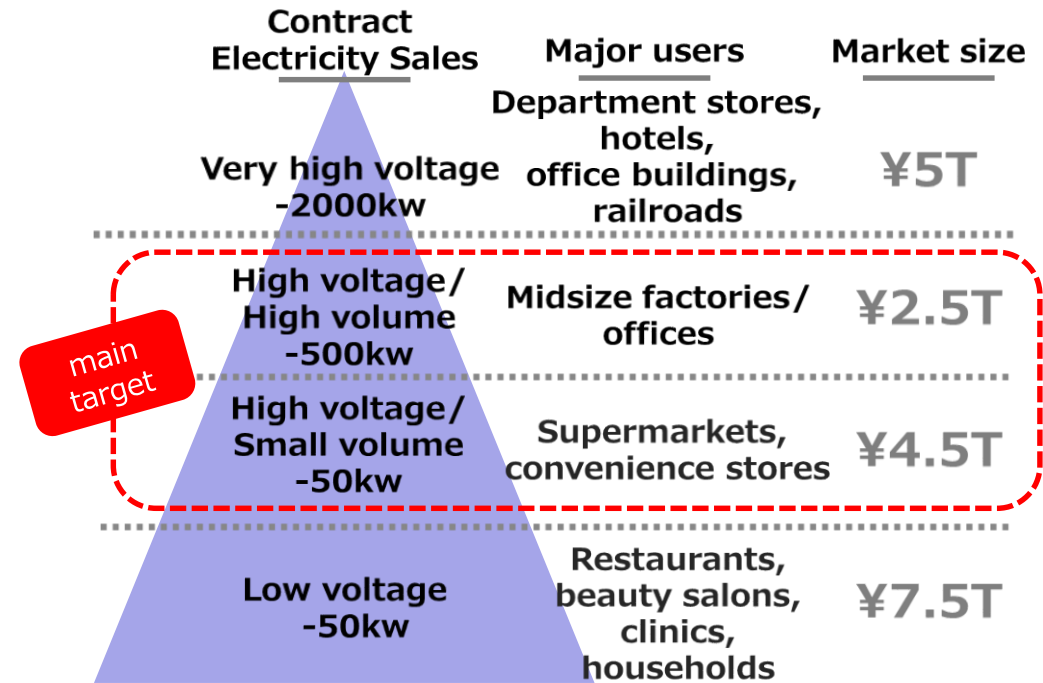
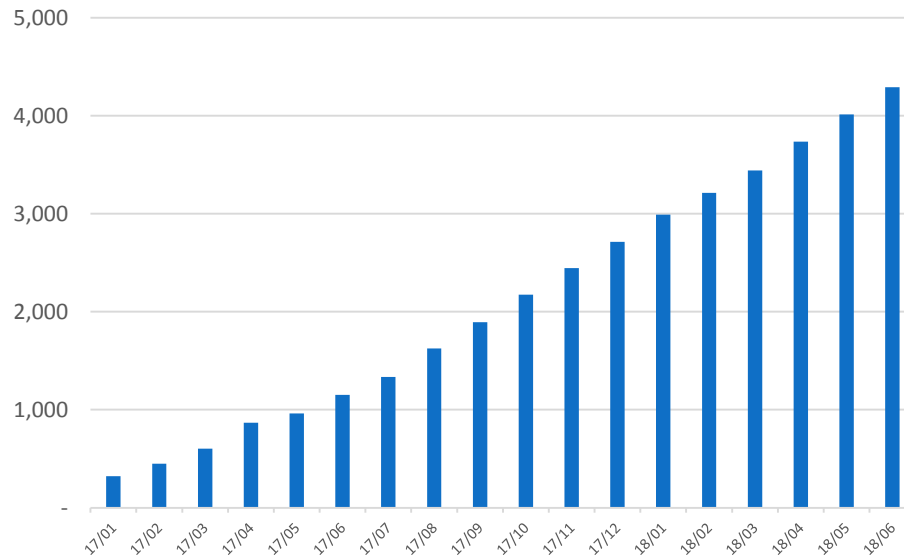
Users of this service in Japan increased 24% in 2017 to a total of 14.4 million. Users are forecast to increase to 20 million by 2020*.

“U-NEXT” has **the third-largest** market share.

(※): ICT総研調べ
 図引用: 定額制動画配信 (SVOD) サービス事業社別 市場シェア推移
 <動画配信 (VOD) 市場規模の予測> 2022年の動画配信市場は2017年比1.4倍、定額制動画配信 (SVOD) サービスが市場の約8割を占めると予想
 URL: <https://prtimes.jp/main/html/rd/p/000000023.000013190.html>

Retail Electricity Sales

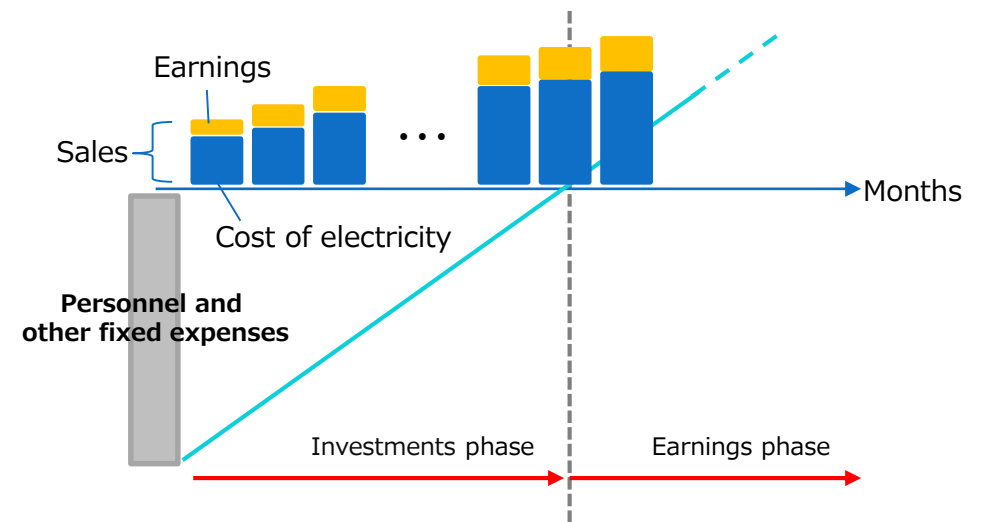
■ Number of “USEN Denki” Contracts



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.

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.