

Summary of Second Quarter of Fiscal Year Ending August 2019

April 10, 2019

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.

All indicators were trended broadly in line with forecasts

Net sales ¥ 835 billion (progress rate : 49.1%)
Operating income ¥ 39.4 billion (progress rate : 49.2%)

2.

Steady performance of the store services business, which has high earnings, and a strong performance by business systems, which is a growing business. The rapidly growing content distribution business and energy business continued to post solid growth, making a big contribution to total sales.

3.

Plan to pay a fiscal year-end dividend of ¥5 per share

***See the press release dated today for more information.**

Financial Highlights

(Million yen)	2Q FY8/2019
Net Sales	83,574
Operating Income	3,942
Operating margin(%)	4.7%
Ordinary Income	3,378
Profit or Loss attributable to owners of parent	1,775
Net Income per share(yen)	29.53

- **Net sales increased about 20% from the same period a year earlier (Sep. 2017 - Feb. 2018).**
- **CANSYSTEM's P/L is included in the consolidation from the 2nd quarter.**
- **Operating income is on target .**

Segment Information

2Q FY8/2019	Net Sales (Million yen)	Operating Income (Million yen)	Operating margin
■ Store Services	23,029	4,279	18.6%
■ Communications	19,549	1,440	7.4%
■ Business Systems	9,529	1,591	16.7%
■ Content Distribution	15,736	10	0.1%
■ Energy	14,098	△306	-
■ Media	2,661	136	5.1%

The core music distribution business benefited from the addition of CANSYSTEM and there were measures to strengthen sales activities for store products such as POS registers, Wi-Fi, "USEN PAYGATE" and IP cameras and for small-amount/short-term insurance. Progress is continuing with the expansion of this business domain from chiefly music distribution to providing comprehensive support services for stores.

Strong promotion of new acquisition of broadband sales agencies centering on those for small scale businesses. In constructing office ICT environments, strengthened network related and cloud service sales.

In the market environment for the businesses, capital investment demand is increasing, fueled by financial relaxation that improved cash availability. To accommodate foreign visitors to Japan and offset labor shortages, began providing management systems to eliminate chronic lodging facility shortages and address market needs.

In this vibrant market, the number of contracts continued to climb as there were more measures to improve the user experience, enlarge the lineup of content and enter new market sectors. Also, "U-NEXT" combines videos and e-books into a single app for a new entertainment experience.

Strengthened sales centering on high voltage and low voltage electric power to business store outlets, buildings and commercial installations. With a view to growth as a future mainstay business, promote aggressive investment and management activity. Keying off sales of the new city gas "USEN GAS" that began in October 2018, accelerate involvement in the energy business.

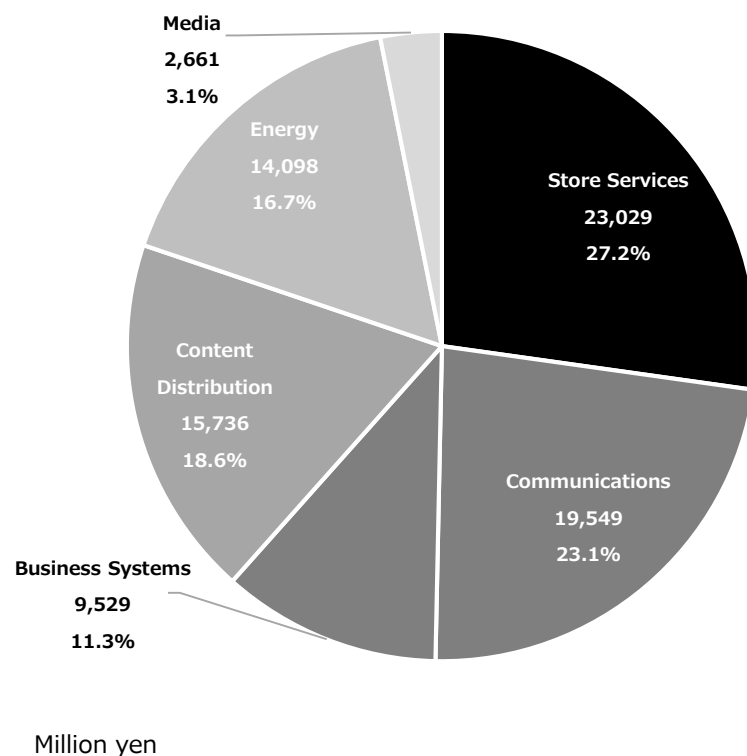
Steady growth of the provision and operation of services, such as the "Hitosara" website to help restaurants attract customers and the "bangs" web magazine for locating hair and other stylists, that match the needs of USEN's primary customers. The Savor Japan gourmet website, which helps foreign tourists in Japan find restaurants, established an alliance with Mafengwo, China's largest travel social network service, to attract a broader range of users.

Corporate expenses not apportioned to the segments are not included.

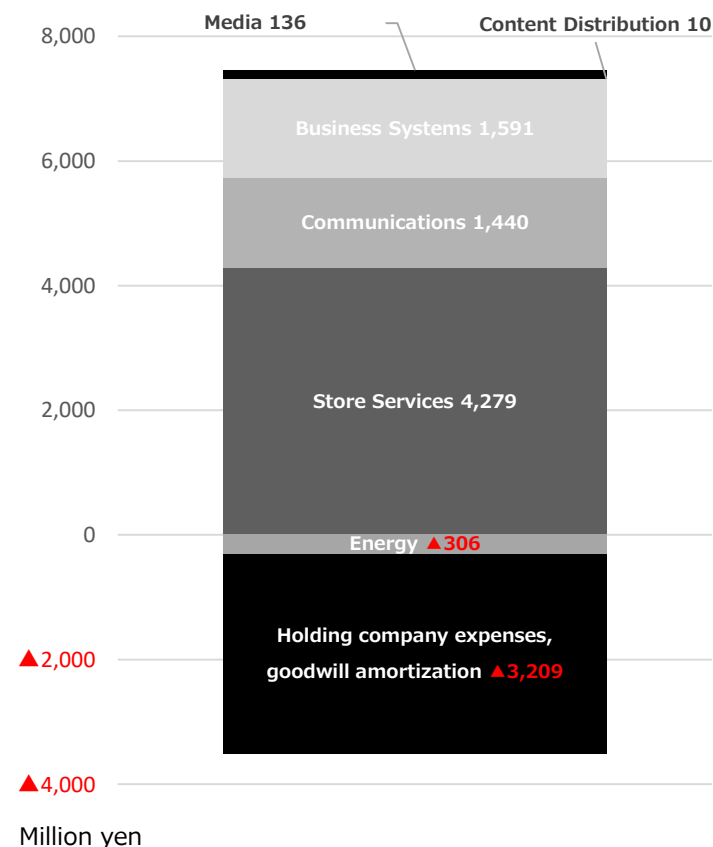
- **A stable performance in the store services business, which is highly profitable.**
- **Business systems, a stable-growth business, performed well.**
- **Content distribution, a growing business, achieved much higher sales than one year earlier as substantial expenditures for sales activities raised the number of members**

Sales and Operating Income Composition by Segment

■ Composition of sales



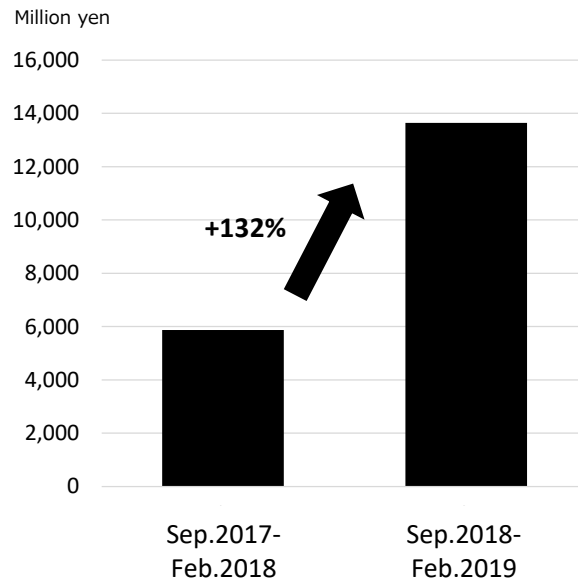
■ Composition of operating income



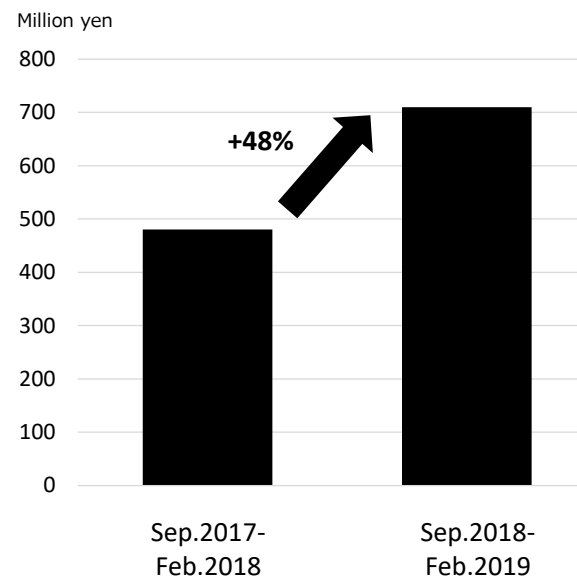
- Starting in the second quarter of FY8/19, store services operating income includes the amortization of goodwill associated with CANSYSTEM, a new wholly owned subsidiary.

Big Increases in Sales of Products in Growing Businesses

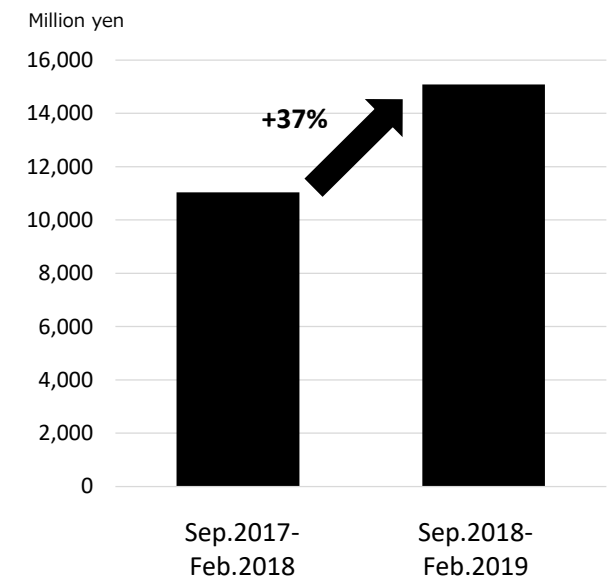
■ Energy -“USEN Denki”



■ Store Services -“USEN Register”



■ Content Distribution -“U-NEXT”



- “USEN Denki” sales were approximately 2.3 times higher than one year earlier
- Sales of “USEN Register”, an IoT product for stores, increased about 50%
- Sales of “U-NEXT”, a Content Distribution product, increased about 40%

Consolidated balance sheet

(Million yen)	FY8/2018	2Q FY8/2019	Difference	(Million yen)	FY8/2018	2Q FY8/2019	Difference
(Assets)				(Liabilities)			
Current assets	37,348	41,058	+3,710	Current liabilities	35,866	41,414	+5,547
Cash and deposits	13,708	15,813	+2,104	Notes and accounts payable – trade	14,067	18,335	+4,267
Notes and accounts receivable - trade	17,315	17,612	+296	Short-term loans payable	2,500	2,500	–
Inventories	3,520	4,812	+1,292	Current portion of long-term loans payable	4,906	5,378	+472
Other	4,730	4,025	△704	Other provision	836	893	+57
Allowance for doubtful accounts	△1,927	△1,205	+721	Other	13,556	14,306	+750
Non-current assets	88,588	94,047	+5,459	Non-current liabilities	75,065	76,941	+1,876
Property, plant and equipment	19,689	20,298	+608	Long-term loans payable	71,534	68,478	△3,056
Intangible assets	51,574	59,729	+8,155	Net defined benefit liability	2,699	3,368	+668
Goodwill	47,905	55,886	+7,980	Other provision	241	359	+117
Other	3,669	3,843	+174	Other	588	4,736	+4,147
Investments and other assets	17,324	14,019	△3,304	Total liabilities	110,931	118,355	+7,424
Other	22,102	18,801	△3,301	(Net assets)			
Allowance for doubtful accounts	△4,778	△4,782	△3	Shareholders' equity	14,819	16,595	+1,776
Total assets	125,936	135,106	+9,169	Capital stock	94	94	+0
				Capital surplus	11,089	11,090	+0
				Retained earnings	3,635	5,410	+1,775
				Valuation and translation adjustments	139	110	△29
				Valuation difference on available-for-sale securities	152	123	△28
				Remeasurements of defined benefit plans	△13	△13	△0
				Non-controlling interests	45	44	△1
				Total net assets	15,004	16,750	+1,745
				Total liabilities and net assets	125,936	135,106	+9,169

- Goodwill of ¥9.6 billion was added to the balance sheet at the end of the first quarter of FY8/19 for CANSYSTEM, which became a wholly owned subsidiary.
- Interest-bearing debt is declining as scheduled.
- The equity ratio was 12.4%, 0.5 point higher than at the end of the previous fiscal year.

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Forecast for FY8/2019

(Million yen)	Forecast for FY8/2019	2Q FY8/2019	Progress
Net Sales	170,000	83,574	49.1%
Operating Income	8,000	3,942	49.2%
Operating margin(%)	4.7%	4.7%	-
Ordinary Income	6,500	3,378	51.9%
Profit or Loss attributable to owners of parent	3,000	1,775	59.1%
Net Income per share(yen)	49.95	29.53	-
EBITDA	17,000	8,303	48.8%
EBITDA margin	10.0%	9.9%	-
EBITDA-CAPEX	10,000	4,086	40.8%

First half sales and earnings were consistent with the fiscal year forecast.
First half profit attributable to owners of parent is more than half of the fiscal year forecast because of a gain on the sale of property and equipment (extraordinary income).

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Sales of AirREGI for USEN start – Smooth processing of everything from orders to accounting

CNET Japan, February 6, 2019

USEN and Recruit start sales of AirREGI

Nihon Keizai Shimbun, February 8, 2019

AirREGI for USEN with initial setup and utilization support from USEN

Impress Watch, February 6, 2019

Start of broadcasts of music, using joint research by USEN and Tokyo University of the Arts, that subliminally makes office workers feel that the work day has ended and it is time to go home

Used by Tanseisha and Fujitsu

Asahi Shimbun Digital, February 21, 2019

USEN and Tokyo University of the Arts produce office music that creates an atmosphere for people to stop working and go home on time

Nihon Keizai Shimbun, February 21, 2019



AirREGI for USEN

AirREGI ハンディ for USEN

<The New AirREGI Service>

USEN has started selling AirREGI for USEN and AirREGI Handy for USEN, a new service that uses a business alliance with Recruit Lifestyle Co., Ltd. Providing USEN support as a package with the AirREGI of Recruit Lifestyle allows AirREGI users to receive assistance for the initial set-up as well as for subsequent maintenance and other support.



<Joint Research Project>

Knowledge obtained from research performed by USEN and Tokyo University of the Arts (Tokyo Geidai) was used to create music that signals and end of the work day and puts office workers in a mood to go home. Tanseisha, Fujitsu and Tokyu Facility Service are using this new music distribution service.

The Next-generation Sma-pa TERMINAL with facial recognition – Allows facial recognition medical clinic reception and payment processes with no waiting and eliminates the need for paperwork

ZDNET Japan, February 15, 2019

Medical clinic reception with AI facial recognition that can even detect a fever – May completely automate the clinic reception process

Nikkei Trend, January 28, 2019

The Next-generation Sma-pa TERMINAL with facial recognition – Allows facial recognition medical clinic reception and payment processes with no waiting and eliminates the need for paperwork

Jiji.com News, February 15, 2019

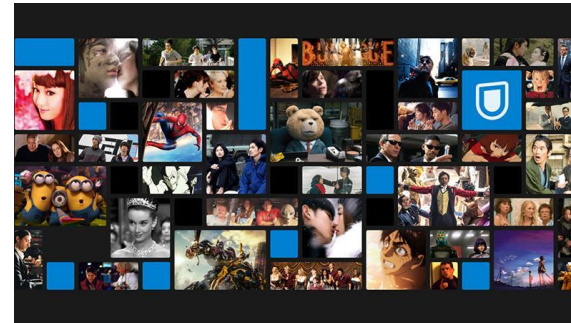


<The New Sma-pa TERMINAL>

ALMEX created the Sma-pa TERMINAL as a next-generation reception unit for medical institutions that handles every step from initial registrations to payments. The unit employs AI for facial recognition and has a thermal camera to detect a fever. In addition, the identity of a patient can be confirmed by reading the chip in a government personal number card or driving license. For more convenience, during the reception process individuals can request a later payment, allowing them to leave immediately after the examination. This effectively eliminates waiting time for payments, which is a problem at many clinics and hospitals.

**U-NEXT Titles for Distribution Top
140,000! – Adding to new content and
aiming to have the largest library**

Jiji.com News, January 15, 2019



<Content>

Content distributed by “U-NEXT” continue to expand and currently exceeds 140,000 titles. There are 90,000 titles with unlimited viewing and 50,000 rental titles, mostly new releases.

**A new look for U-NEXT – Combining the
video and e-book apps, allows checking
originals after watching a video**

AV Watch, February 6, 2019

**U-NEXT combines videos and e-books
into a single app and starts a bonus point
program of up to 40%**

appllio, February 6, 2019



<Expansion of U-NEXT service>

E-books, which were provided by using its own website and app, have been combined with the “U-NEXT” video-on-demand service to create a seamless entertainment experience. In addition to this consolidation, all videos and e-books are linked. For example, after watching a movie, it is possible to see the same story in the original comic book.

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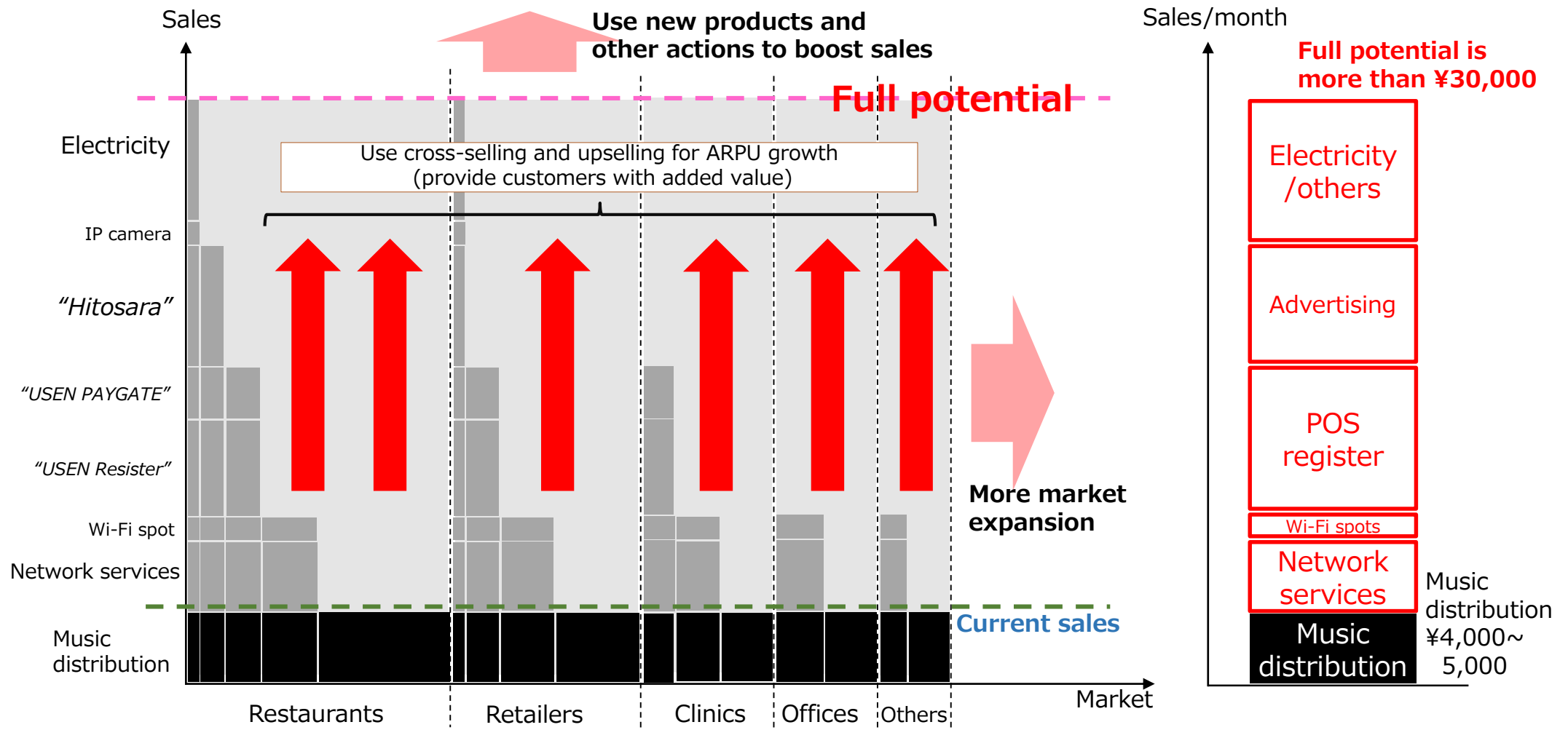
TOPICS

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About the USEN-NEXT GROUP

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

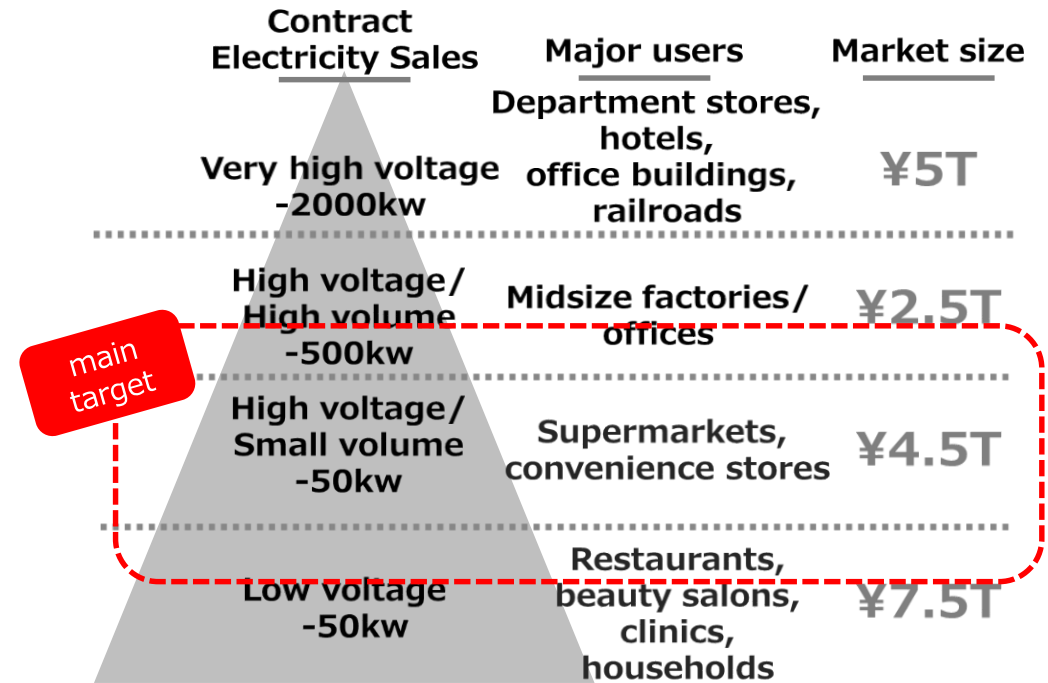
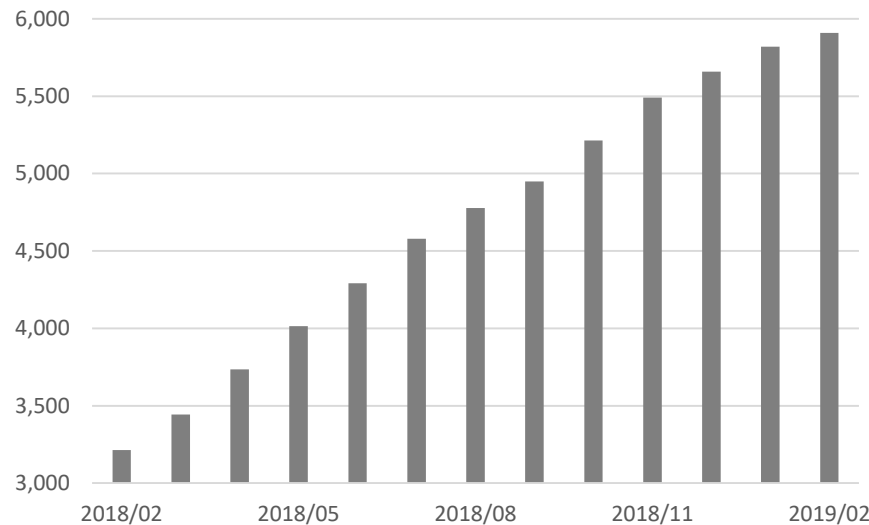
Direct sales + Telemarketing + Agents + Web promotion and others



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.

Retail Electricity Sales

■ Number of “USEN Denki” Contracts

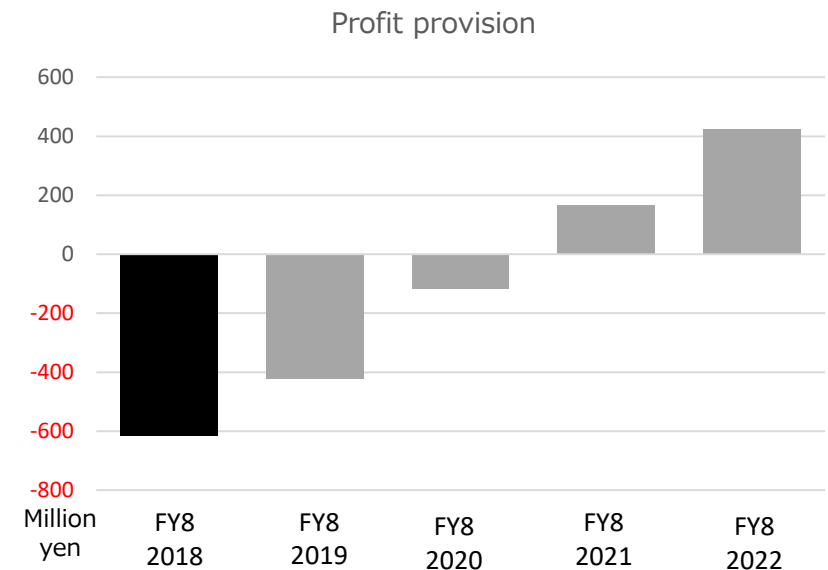


Contracts have been climbing steadily since the Sep. 2016 launch of “USEN Denki”.

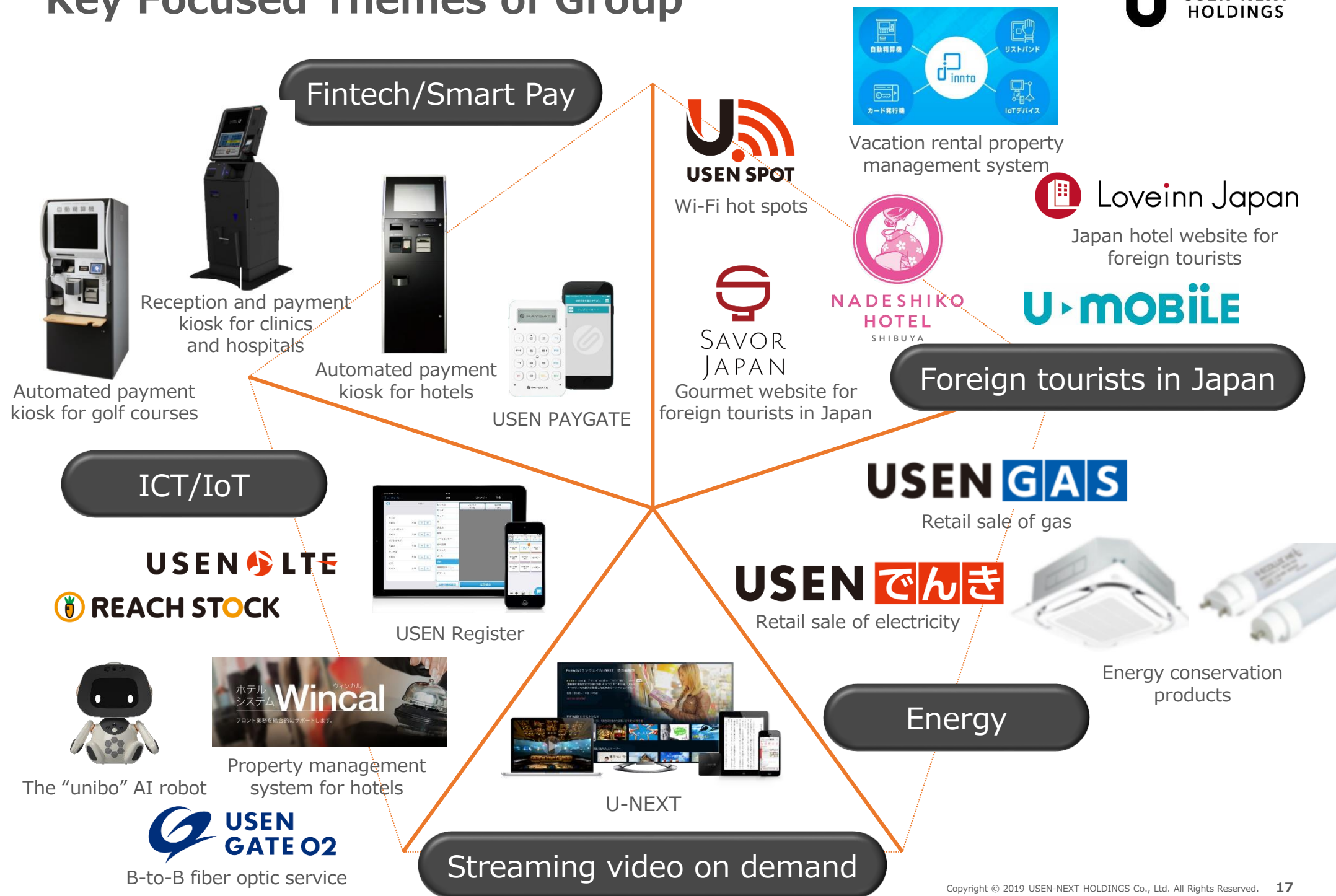
Retail sales of gas started in October 2018.*

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

*This business sells city gas supplied by TEPCO Energy Partner, Inc., a subsidiary of Tokyo Electric Power Company Holdings, Inc.



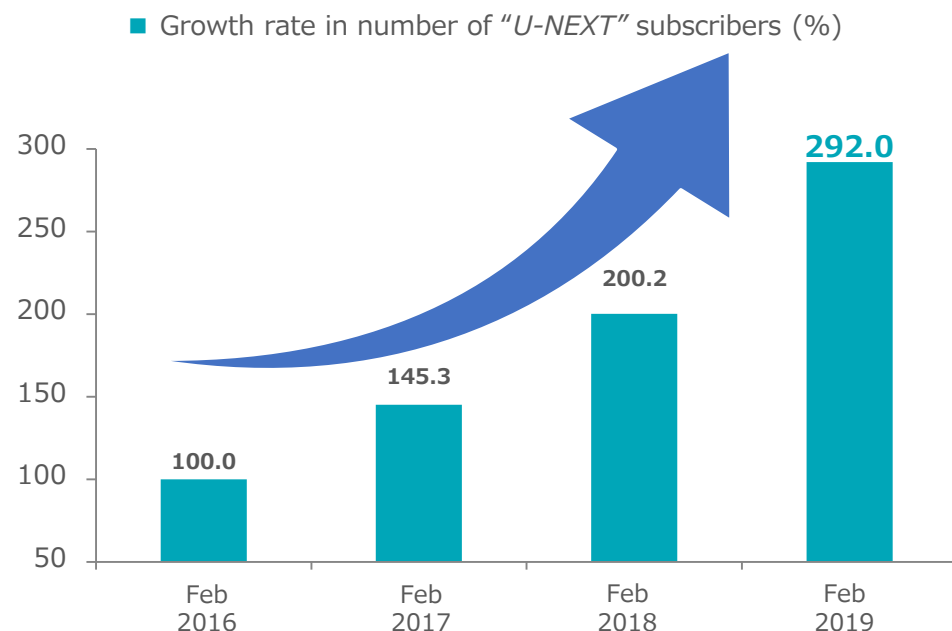
Key Focused Themes of Group



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 200,000 during the past six months

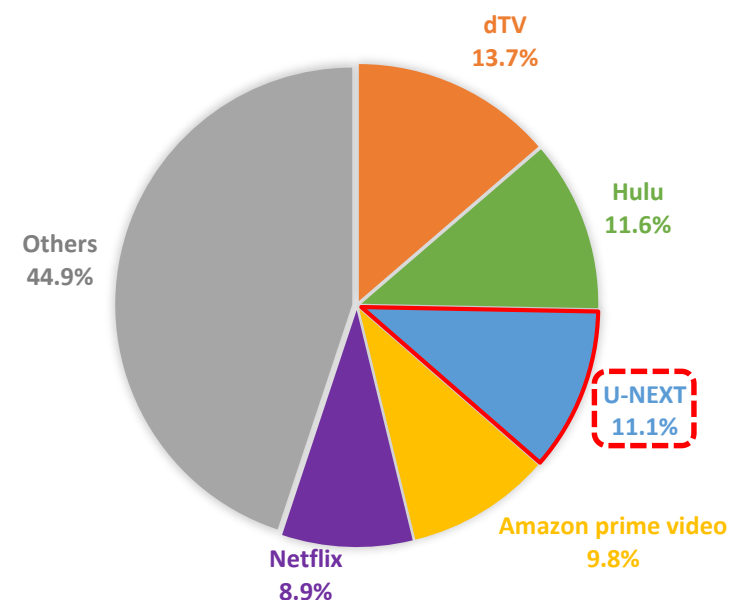
Growth Rate in Number of “U-NEXT” Subscribers



*Index with subscribers at the end of February 2016 as 100.

190% increase in “U-NEXT” subscribers over three years.
46 % increase during the past year.

Share of Fixed-rate Video-on-Demand Market



Japan’s video-on-demand market grew by an estimated 19.5% in 2018 and annual revenues in this market are expected to increase to ¥300 billion by 2023.*
As this market expands, “U-NEXT” retains its position among Japan’s **TOP 3** video-on-demand services.

* GEM Partners

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