

February 28, 2022

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Notice on Formulation of Medium-term Business Plan

USEN-NEXT HOLDINGS Co., Ltd. (the “Company”) hereby announces that it has formulated “Road to 2025,” a four-year medium-term business plan that begins in the fiscal year ending August 31, 2022.

1. Period of the Plan

Four-year period from August 2022 to August 2025

2. Purpose of the Plan

On June 6, 2019, the Company announced its medium-term business plan “NEXT for 2024,” with the fiscal year ending August 31, 2024 as the final year. However, in the consolidated financial results for the fiscal year ended August 31, 2021, operating profit, ordinary profit and profit attributable to owners of parent exceeded the planned values for the final year, and the current business environment is significantly different from the premise of “NEXT for 2024” due to the COVID-19 crisis. By formulating and implementing a medium-term business plan with the current fiscal year as the first year, we will work to achieve sustainable growth and further enhance corporate value.

3. Basic Strategy

- Be a source of added value as a provider of digital transformation support for customers with the objective of functioning as a Social DX Company
- Use organic growth of current businesses to make the USEN-NEXT Group even more profitable
- Aim for even faster growth by using financial leverage for investments for M&A and other actions
- Execute a multi-faceted financial strategy while maintaining financial discipline
- Distribute earnings to shareholders with stability and consistency

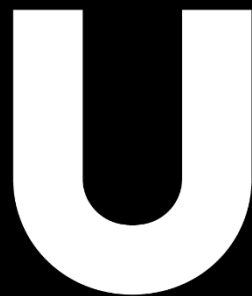
4. Management Targets

	Results for the fiscal year ended August 31, 2021	Plan for the fiscal year ending August 31, 2025
Net sales	208.4 billion yen	274.0-286.0 billion yen
Operating profit	15.6 billion yen	22.0-25.0 billion yen
Profit attributable to owners of parent	8.0 billion yen	12.0-13.5 billion yen
Profit attributable to owners of parent (Adjusted)*	11.3 billion yen	15.0-16.5 billion yen
EBITDA	24.4 billion yen	33.0-36.0 billion yen
EBITDA-CAPEX (Including growth investments)	13.8 billion yen	16.5-19.5 billion yen
ROE	27.2%	Around 20%
Equity ratio	23.6%	30% to 40%
Leverage ratio	2.6 times	1.5 times or less
D/E ratio	1.9 times	1.0 times or less
Dividend payout ratio	10.1%	10% to 30%

*Profit adjusted after adding “amortization of goodwill” to profit attributable to owners of parent

5. Reference

For more details, please refer to the attachments.



**USEN-NEXT
HOLDINGS**

Road to 2025

Medium-term Business Plan FY8/22 ~ FY8/25

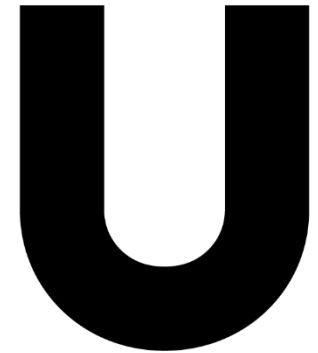
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I . Assessment of the Previous Medium-term Plan

II . Medium-term business plan “Road to 2025”

III. Growth strategy for business segments

IV. Appendix



**USEN-NEXT
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I . Assessment of the Previous Medium-term Plan

FY8/19~FY8/21

Progress Report for the Previous Medium-term Plan

Achieved the final-year consolidated earnings target three years early

(bn yen)	Previous Medium-term Plan		FY8/21 Actual	Progress
	FY8/19 Actual	FY8/24 Plan		
Net sales	175.8	270.0	208.4	77.2%
Operating income	8.2	13.0	15.6	120.0%
Profit attributable to owners of parent	6.1	6.5	8.0	123.1%
EBITDA	17.5	23.5	24.4	103.8%
EBITDA-CAPEX (includes investment and financing)	10.0	13.5	13.8	102.2%
ROE	33.6%	15%	27.2%	+12.2%
Dividend payout ratio	4.9%	10%~30%	10.1%	-
Business Segment Operating Income				
Store Services (Includes for former Media Business)	8.1	7.7	8.6	111.7%
Communications	2.6	6.0	4.5	75.0%
Business Systems	3.5	4.0	2.9	72.5%
Content Distribution	0.4	2.0	5.7	285.0%
Energy	▲0.4	1.0	0.4	40.0%

Corporate expenses not apportioned to the segments are not included

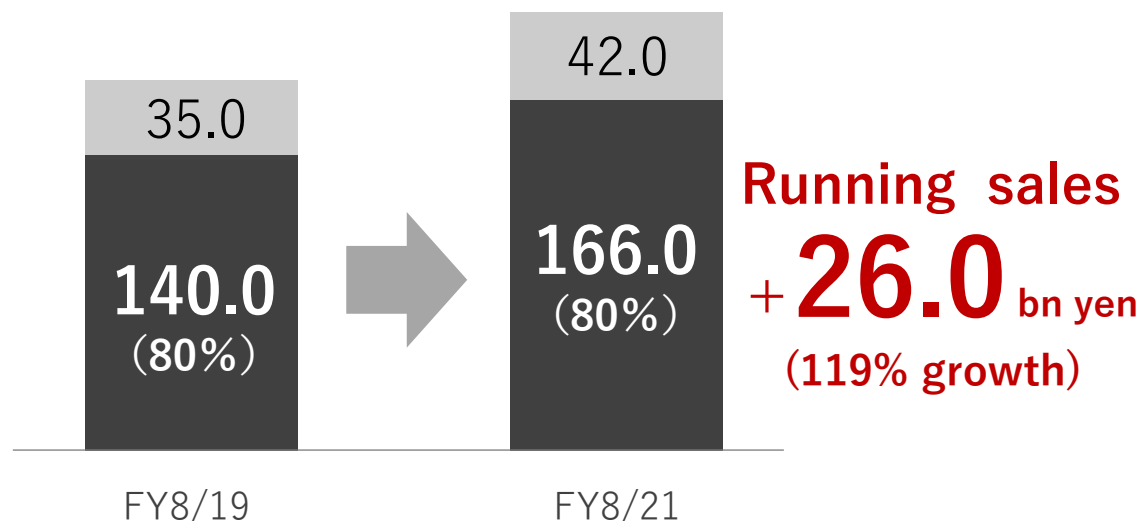
	FY8/2021 Results vs. Previous Plan
Store Services	<ul style="list-style-type: none">– Upselling of U Regi, Wi-Fi, IP cameras and other store DX products and services increased as planned despite pandemic restrictions on sales activities.– Small decrease in music distribution contracts as some restaurants closed due to the pandemic, resulting in a below-plan performance of the former Media Business.– Segment profit was far above the plan because higher productivity held down personnel expenses and due to other measures to hold down the cost of sales and SG&A expenses.
Communications	The performance of the ICT service for business and Broadband internet service for stores, which are priority markets for the USEN-NEXT Group, surpassed the plan.
Business Systems	Hotel IT investment demand was below the plan due to the pandemic, but marketing activities created DX investment demand in the healthcare market.
Content Distribution	<ul style="list-style-type: none">– The increase in subscribers was more than 600,000 higher than planned partly because of demand linked to people staying home during the pandemic.– The gross profit margin was as planned, but the operating margin increased to 10% much higher than planned 2% because of the efficient use of advertising and marketing expenditures.
Energy	The high-voltage domain, which has higher prices, performed mostly as planned despite intense competition.
Corporate expenses	Performance was generally as planned.

Major accomplishments – (1) Profit structure

- Further improved profitability and stability due to steady growth of recurring revenue (running sales)
- Improved the business portfolio balance due to higher earnings of all businesses except Store Services

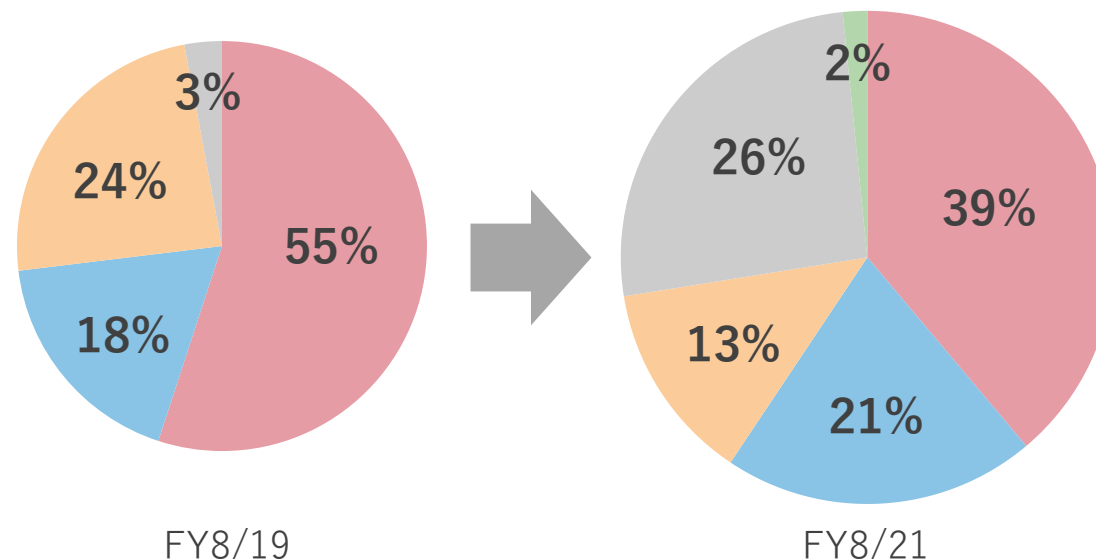
Running sales / Initial sales

(bn yen)



■ Running sales ■ Initial sales

Profit by business segment

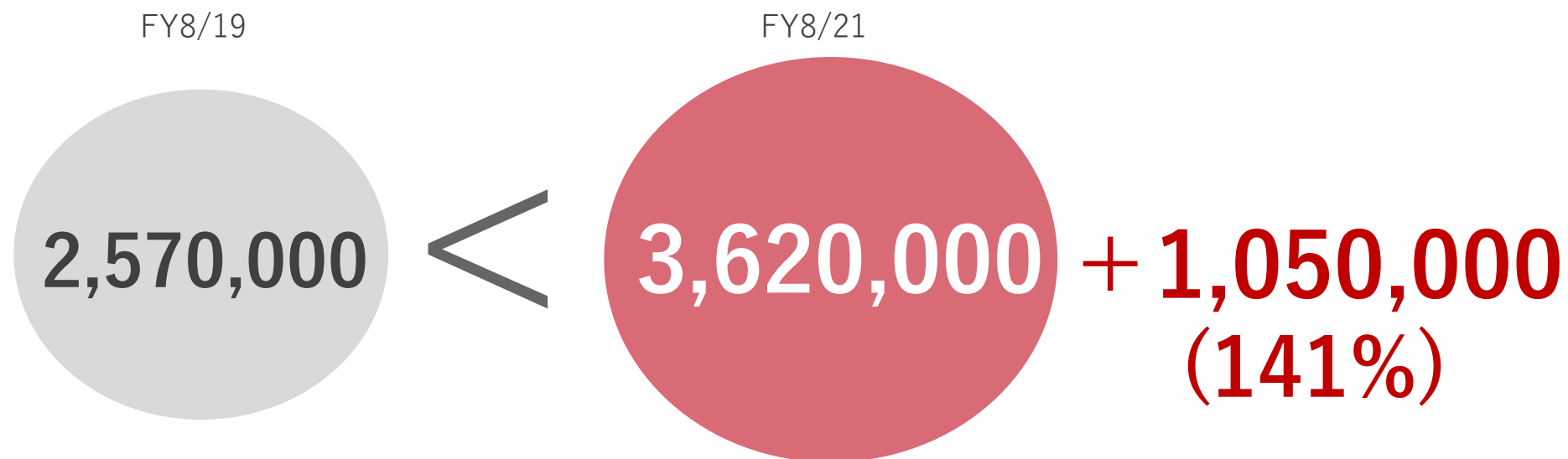


■ Store Services ■ Business Systems ■ Energy
 ■ Communications ■ Content Distribution

Business segment share of total profit based on the simple sum of earnings of all business segments (Energy not included in FY8/2019)

Major accomplishments – (2) Expansion of the customer base

Increased the number of B-to-B and B-to-C customers by rapidly and accurately responding to changes in market conditions and customers' needs due to the pandemic



Stores

860,000

940,000

Network services, POS register, Wi-Fi, IP camera, Energy, etc.

Small and Medium-size Enterprises (SMEs), Hotels, Hospitals

20,000

30,000

ICT service for business, Myna Touch, etc.

Individual subscribers

1,690,000

2,650,000

U-NEXT, MVNO, etc.

Major accomplishments – (3) A stronger workforce and organization

- Used “work style innovation” to increase employee motivation and improve how jobs are done
- Training of people who are self-reliant and productive; establishment of an even more powerful organization

Work Style Innovation

- Started many projects for working styles for higher productivity that are not limited by time of day or locations
- Started the super-flex and remote work programs, consolidated group business sites and other measures

かっこよく、働こう。
Be innovative for results!

Expanded the career advancement support program

- Support aimed at maximizing the capabilities of the group’s workforce of about 5,000 and helping all employees advance and achieve their goals
- Started three programs: Group internal scouting program, group internal recruiting program, job rotation program among group companies



New recruiting activities

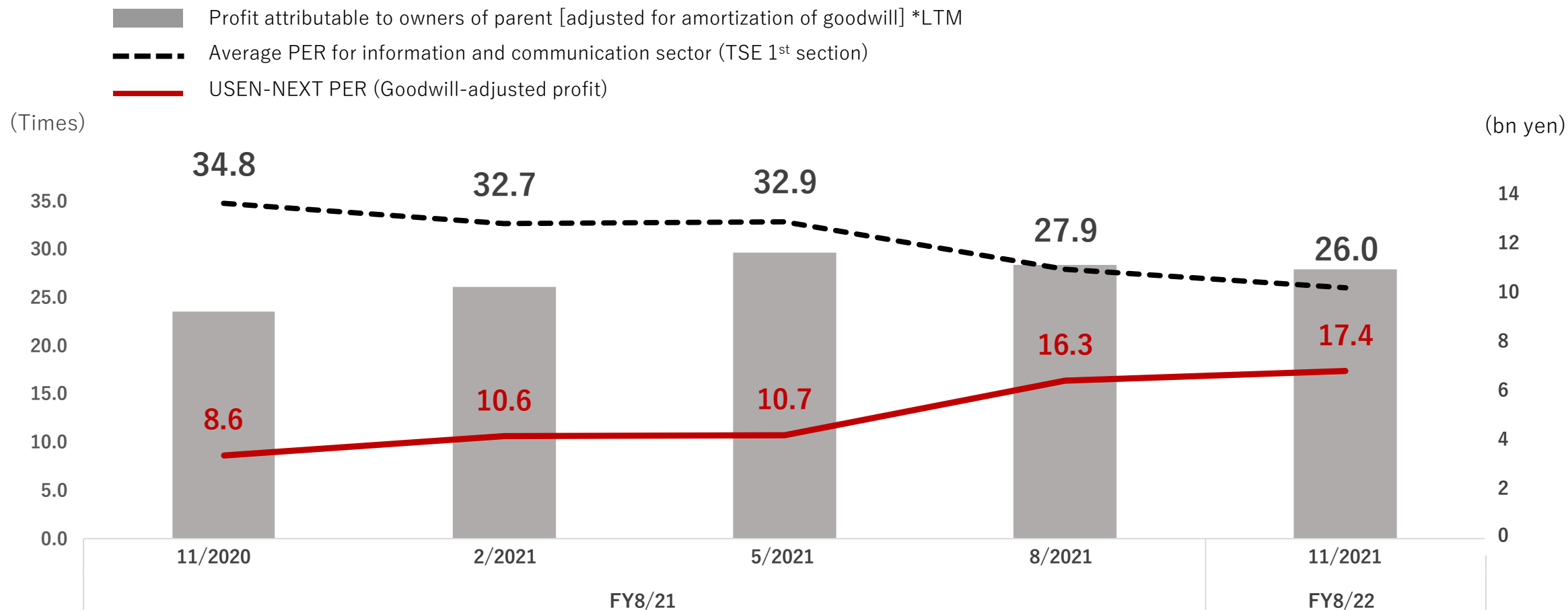
- Revised recruiting programs for the entire USEN-NEXT Group based on the policy of fair, simple and innovative recruiting activities
- Shifted from recruiting new graduates all at the same time to recruiting activities throughout the year
- Started using processes incorporating advanced technologies, such as using online platforms for all processes and utilizing AI analysis

Sales/Gross Profit per Employee (FY8/19 to FY8/21)

Net sales	36 million yen	➔	43 million yen
Gross Profit	14 million yen	➔	17 million yen

PER of USEN-NEXT Stock

The PER has been increasing during the past year but is still below the average for all information and communication sector stocks listed on the Tokyo Stock Exchange first section.



*Goodwill-adjusted profit = Profit attributable to owners of parent + Goodwill amortization

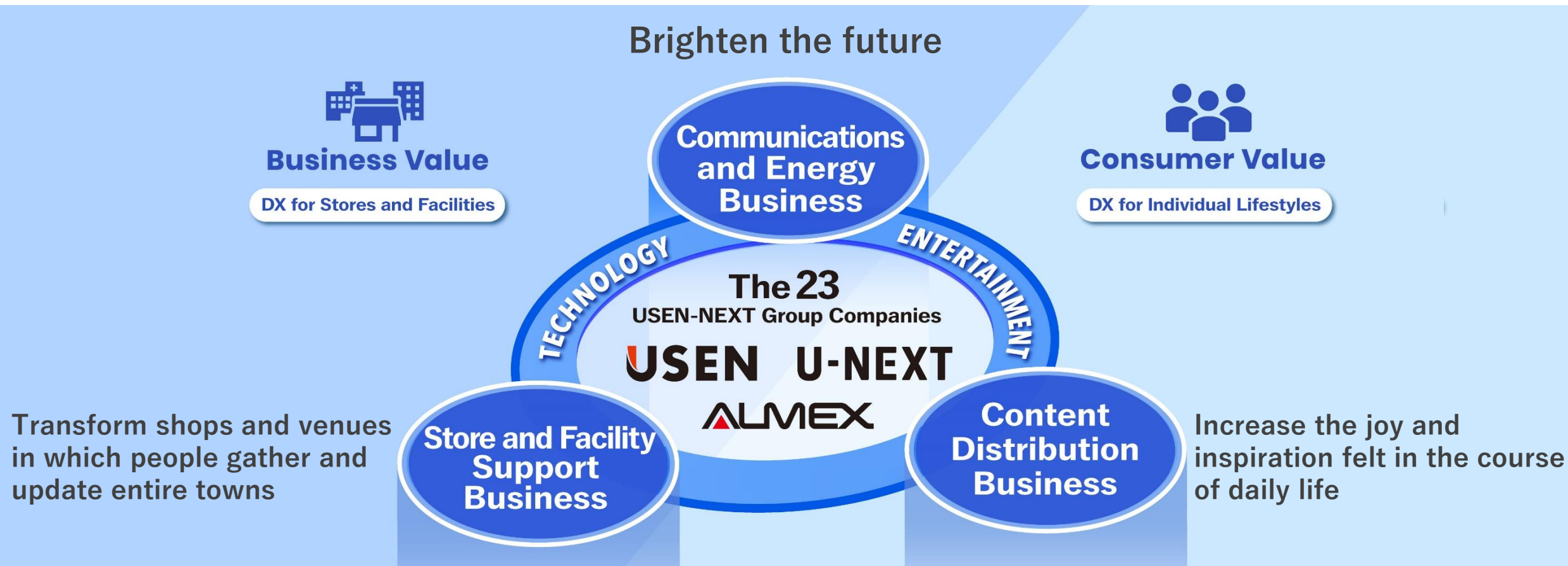
*LTM = For the last 12 months

*USEN-NEXT PER uses the stock price at the end of each quarter and goodwill-adjusted profit for the prior 12 months

II . Medium-term business plan “Road to 2025”

Purpose

- The next ideas needed as a paradigm shift alters society
- Create value that gives USEN-NEXT a critical role in DX activities for a broad range of activities in society and everyday life



A “Social DX” company that makes the future closer

Value Creation Process (Excerpts from the Integrated Report)

USEN-NEXT issued its first Integrated Report with information about the value creation process that utilizes the group's strengths and capital.



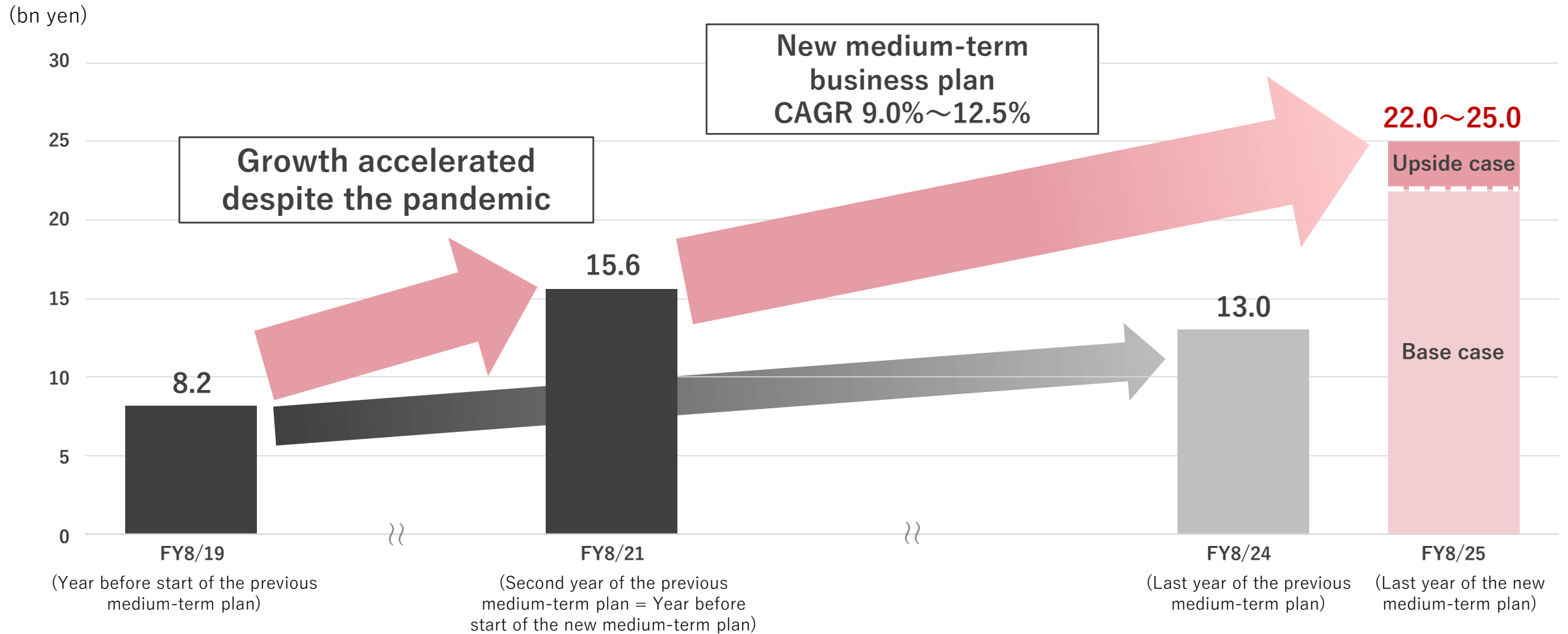
Performance Indicators

- Establish a scenario for even faster growth than the base case while taking into account volatility created by changes in the business climate.
- Aim for the upside case while using the base case as the bottom line for growth.

(bn yen)	FY8/21 (Actual)	Plan for FY8/25 (Base case)			Plan for FY8/25 (Upside case)		
		Goals	CAGR	Four-year growth rate	Goals	CAGR	Four-year growth rate
Net sales	208.4	274.0	+7.1%	+31.5%	286.0	+8.2%	+37.2%
Operating income	15.6	22.0	+9.0%	+41.0%	25.0	+12.5%	+60.3%
Operating margin	7.5%	8.0%	-	+0.5%	8.7%	-	+1.2%
Profit attributable to owners of parent	8.0	12.0	+10.7%	+50.0%	13.5	+14.0%	+68.8%
Profit attributable to owners of parent (adjusted for amortization of goodwill)	11.3	15.0	+7.3%	+32.7%	16.5	+9.9%	+46.0%
EBITDA	24.4	33.0	+7.8%	+35.2%	36.0	+10.2%	+47.5%
EBITDA-CAPEX	13.8	16.5	+4.6%	+19.6%	19.5	+9.0%	+41.3%
Dividend payout ratio	10.1%	10%~30%	-	-	10%~30%	-	-
Number of employees (consolidated)	4,692	5,200	-	-	5,200~ 5,300	-	-

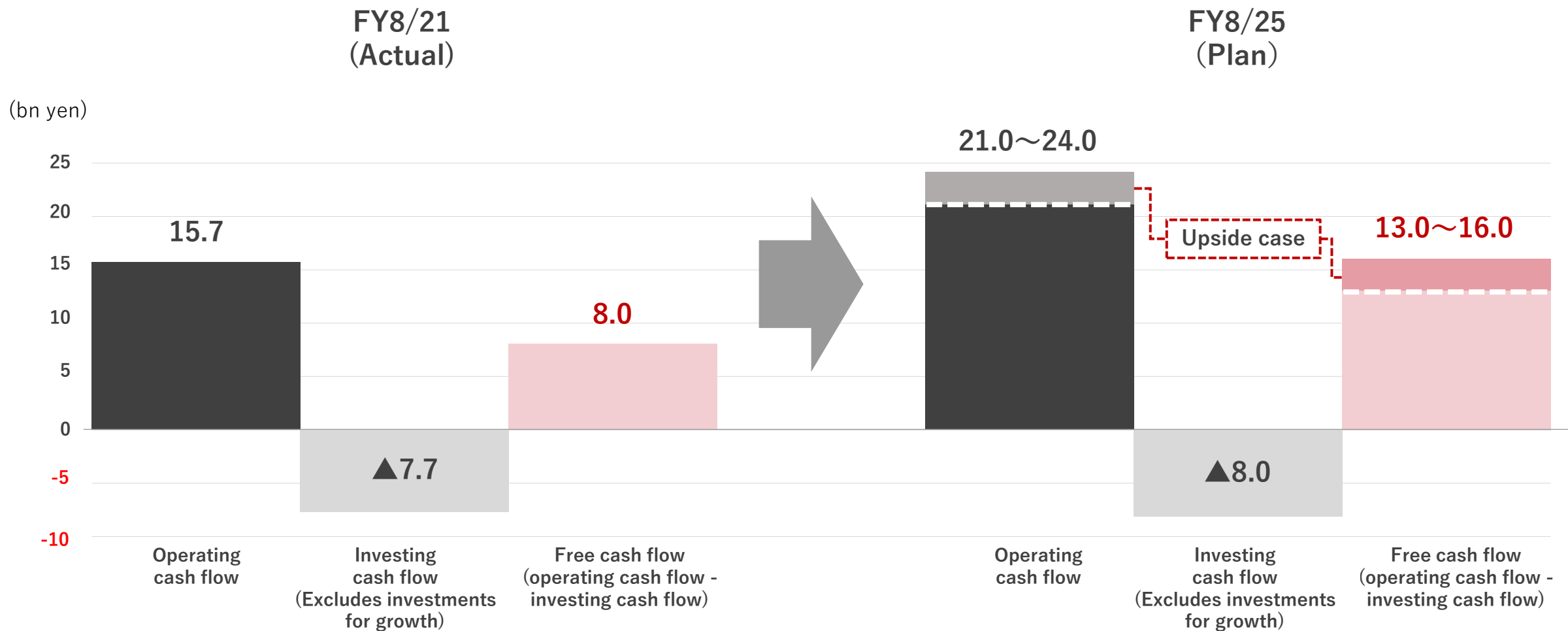
Operating Income

The consolidated operating profit growth target is a CAGR of at least 10% based on earnings in FY8/2021.



Cash flow indicators

Use consistent earnings growth to raise free cash flows **by 1.6 to 2.0 times higher** than the current level



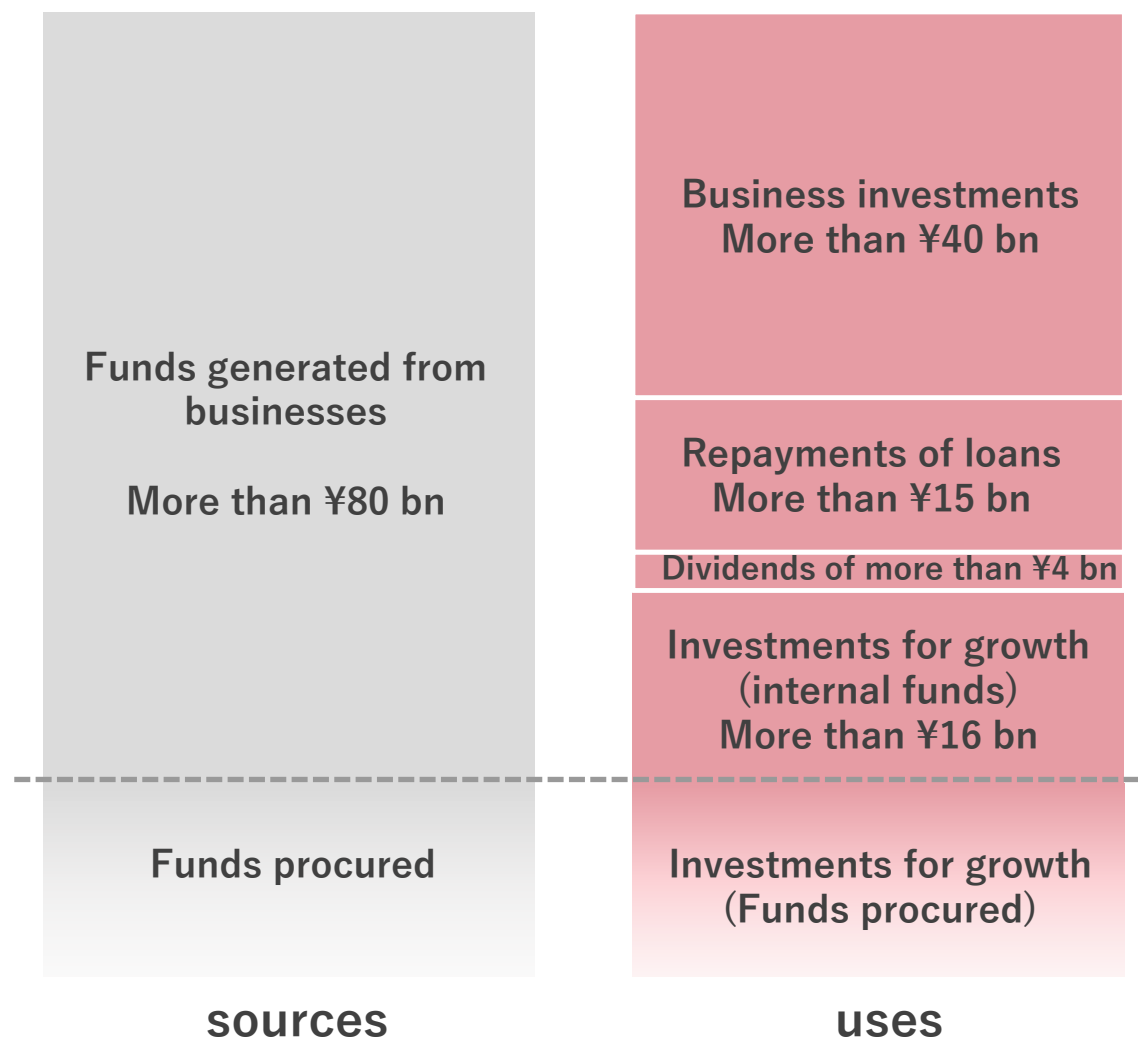
Major financial indicators

	Previous Plan (Actual)		Plan for FY8/25
	FY8/19	FY8/21	
ROE	33.6%	27.2%	About 20%
Equity ratio	14.9%	23.6%	30%~40%
Leverage ratio	4.2	2.6	Under 1.5 times
Debt equity ratio	3.5	1.9	Under 1.0 times

*In the plan, the effect of any M&A activity associated with fund procurement activities is not included.

- Continue efficient business operations while utilizing financial leverage: Maintain an ROE of about 20% and raise the equity ratio to 30% to 40%
- Continue lowering the leverage and debt-to-equity ratios and strengthen fund procurement capabilities in order to utilize M&A opportunities with speed and flexibility.

Capital Allocation (Total for four years)



Currently working on the establishment of an action plan and KPI based on materiality and plan to make an announcement in about May 2022

■ Materiality

E Contribute to reduction in environmental burden and the creation of a recycling-oriented society

We will take on environmental initiatives while helping each employee raise their awareness of environmental concerns. Specifically, we will contribute to reduction in environmental burden and the creation of a recycling-oriented society through our business.



G Pursue sound and highly transparent management by constantly updating our approach

As a company genuinely needed by society, we will constantly update the USEN-NEXT Group itself so that we can remain a contributor to the resolution of issues that society is confronting while simultaneously practicing sustainable business management and striving for a sustainable society. Moreover, we will pursue the soundness and transparency of our business management by developing internal control systems and functions, maintaining compliance with the Corporate Governance Code, and establishing a robust risk management structure.



S Ensure mutual prosperity involving all stakeholders via the creation of a working environment in which everyone can work with enjoyment

We will pursue happiness for all those employed by the Group by creating a safe and secure workplace environment that encourages vibrant and productive work. By doing so, we will empower employees to constantly deliver value to suppliers, business partners, customers and all other stakeholders who come into contact with them through the betterment of their business activities.



B* Make people happier, help their communities flourish, and strive for a better society via the use of technology

We will enable people to make their lives more fulfilling via the provision of a rich lineup of entertainment content that can be enjoyed in their private spaces while empowering retail stores and business corporations to introduce technologies that deliver value in such forms as efficiency and comfort. By doing so, we will help create attractive, comfortable spaces as part of our efforts to contribute to people's happiness, the creation of flourishing communities, and the betterment of society.



*Business

III. Growth strategy for business segments



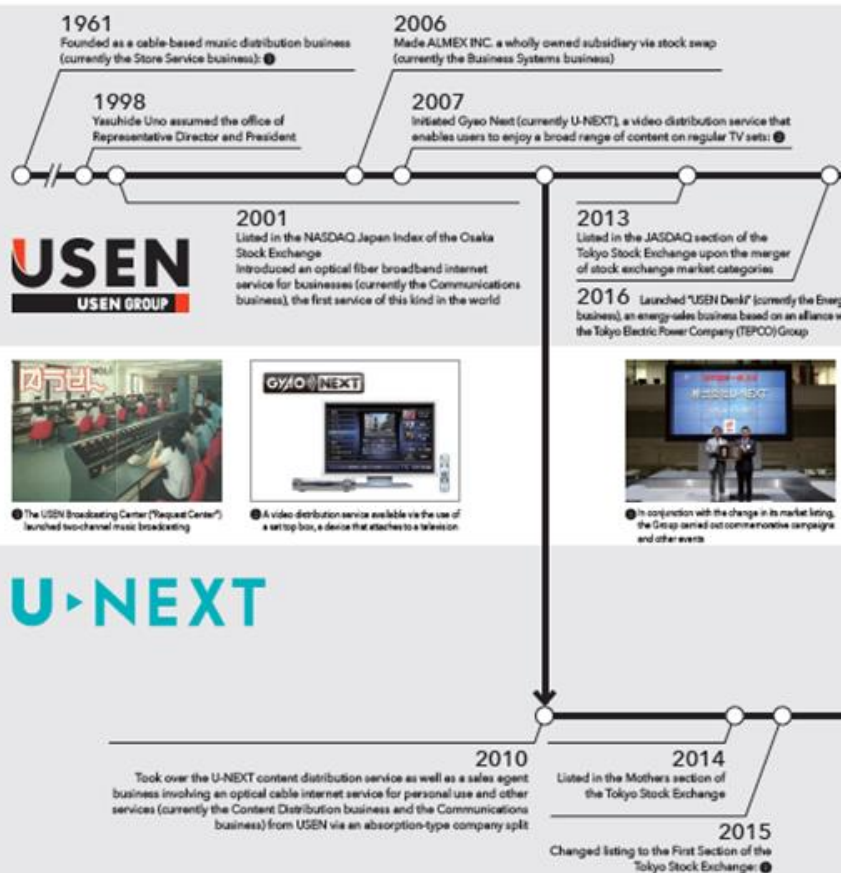
Corporate History (Excerpts from the Integrated Report)

Corporate History

The USEN-NEXT Group was founded by the now deceased Mototada Uno, who initiated a wired music broadcasting service in 1961 as a private business. He conceived the idea of distributing music content to commercial facilities via coaxial cables after observing shop staff having to manually flip the record on the record player to keep the background music going. His initial business thus helped eliminate the need for this cumbersome procedure well before hassle-free alternatives to record players became widespread. Today, the Group boasts a solid customer base, having secured music distribution service contracts with a total of approximately 700,000 stores nationwide, a number unmatched by any domestic peer.

The Group also became the first in the world to introduce a high-speed, optical fiber internet service for business use in 2001 and in 2007 led the way with the launch of an on-demand video distribution service for personal use. Since the dawn of the internet society and in step with its advance, the Group has expanded the scope of services it offers. Moreover, the Group provides a variety of products and services to store facilities, SOHO and other small businesses, small- and medium-size enterprises (SMEs) and individual users, in an effort to help promote digital transformation (DX).

Under the brand slogan, "Brighten the future," the USEN-NEXT Group underwent management integration in 2017 and is working assiduously to achieve further growth.



Brighten the future



USEN-NEXT GROUP



❶ Made a new start as the USEN-NEXT Group, with USEN-NEXT HOLDINGS Co., Ltd. serving as a holding company and overseeing 14 business companies under its umbrella

2017
U-NEXT underwent management integration with USEN and was rebranded USEN-NEXT HOLDINGS: ❹

2020
Announced "USEN IoT PLATFORM," a concept aimed at providing comprehensive assistance to stores seeking to utilize IoT and pursue DX, transcending the conventional scope of music distribution-related services: ❺

USEN-NEXT HOLDINGS

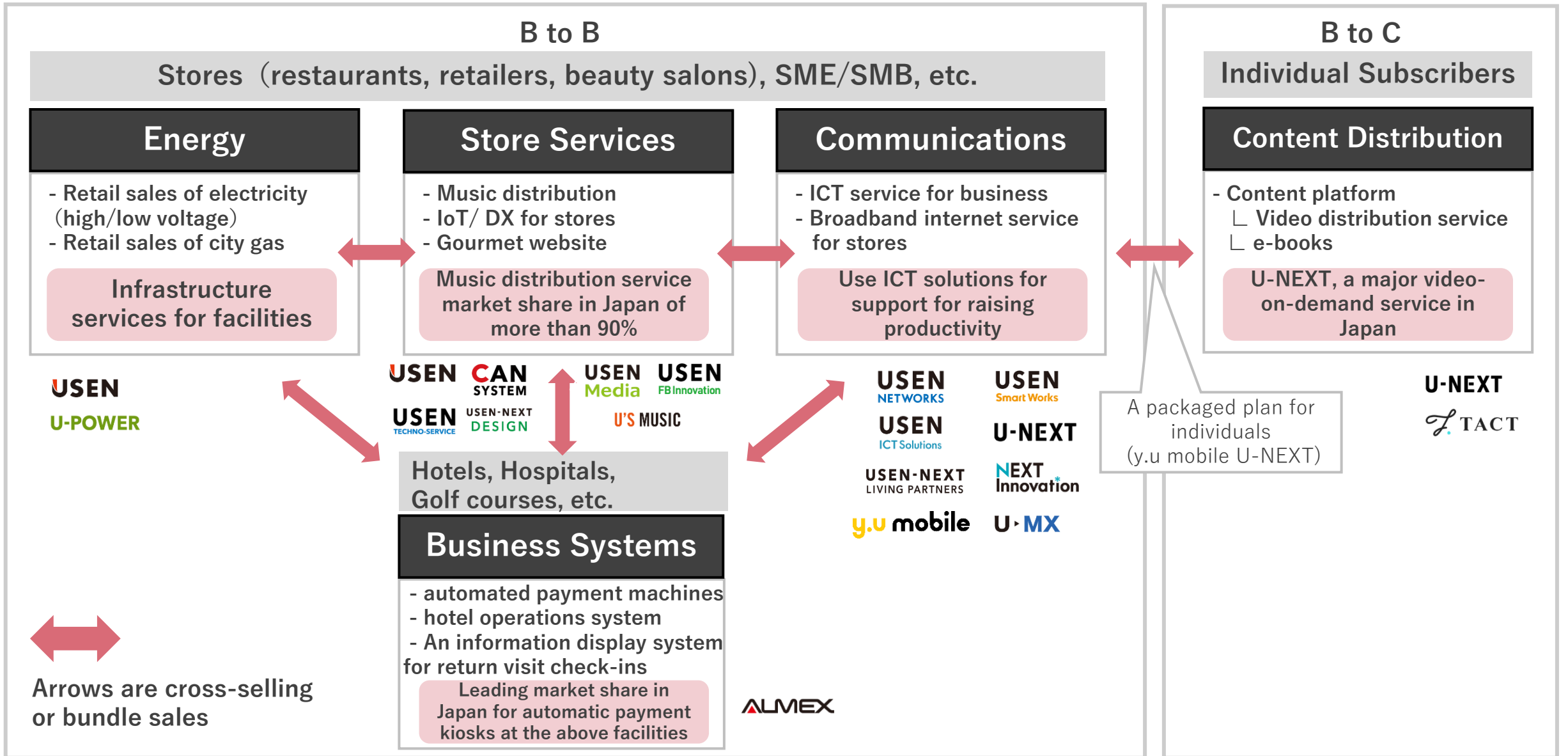


❺ A one-stop solution designed to help realize IoT-driven, "smart" store management



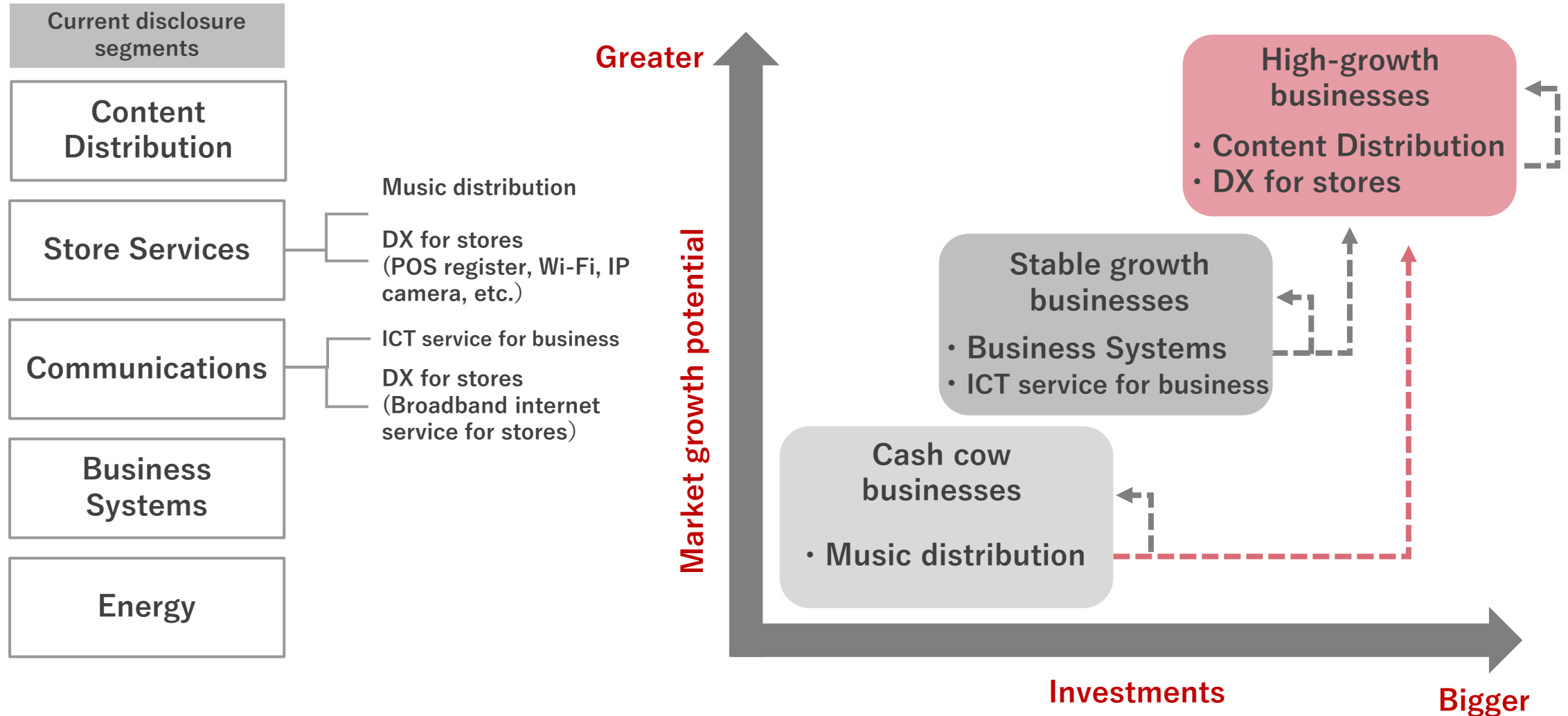
- A customer base consisting of more than 900,000 stores
- Robust network infrastructure
- A rich lineup of video and music content
- In-depth insight into technologies
- Outstanding capabilities to create new services

Overview of Business Segments



Portfolio management

Aim for sustained growth by making big investments in growing businesses while also reinvesting earnings generated by current businesses



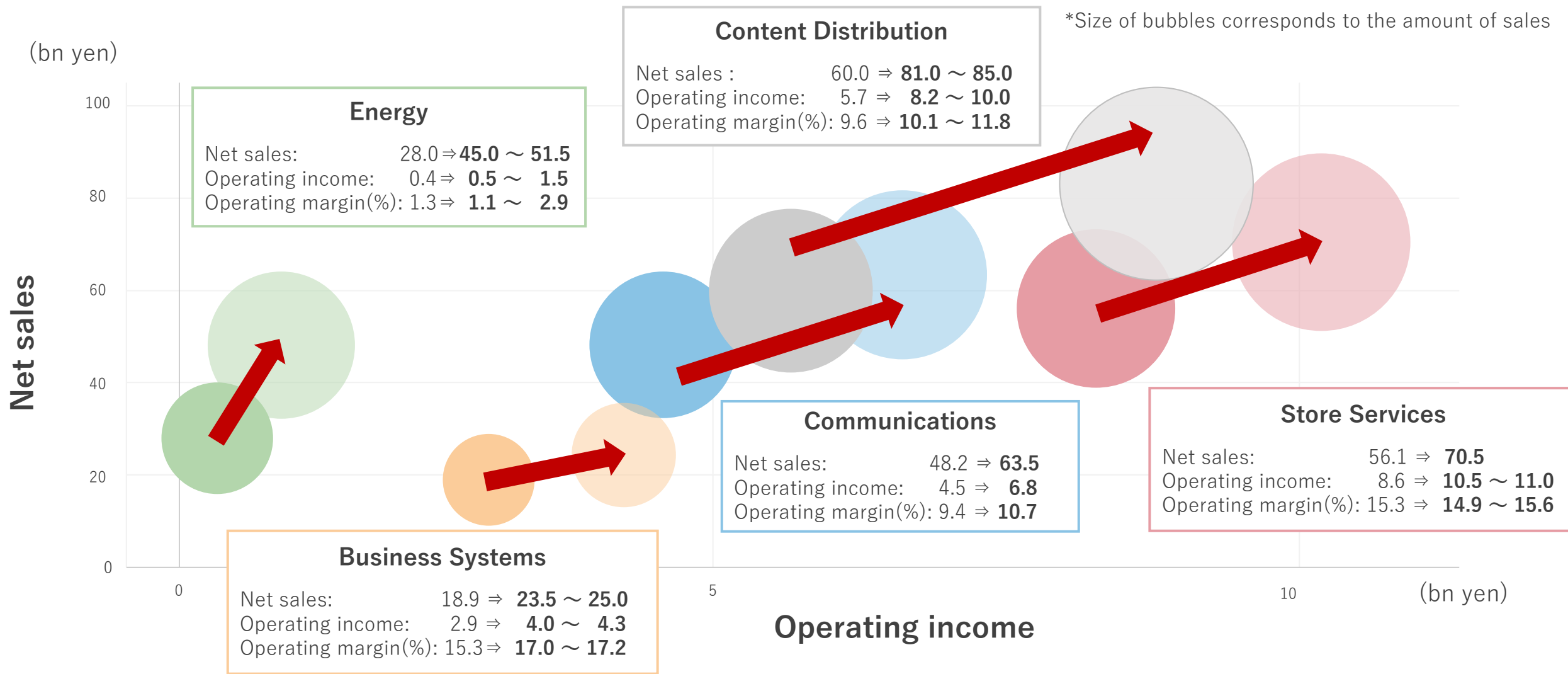
Plan for FY8/25 (Business Segments)

(bn yen)		FY8/21 (Actual)	Plan for FY8/25 (Base case)			Plan for FY8/25 (Upside case)		
			Goals	CAGR	Four-year growth rate	Goals	CAGR	Four-year growth rate
Content Distribution	Net sales	60.0	81.0	+7.8%	+35.0%	85.0	+9.1%	+41.7%
	Operating income	5.7	8.2	+9.5%	+43.9%	10.0	+15.1%	+75.4%
	Operating margin	9.6%	10.1%	-	-	11.8%	-	-
Store Services	Net sales	56.1	70.5	+5.9%	+25.7%	70.5	-	-
	Operating income	8.6	10.5	+5.1%	+22.1%	11.0	+6.3%	+27.9%
	Operating margin	15.3%	14.9%	-	-	15.6%	-	-
Communications	Net sales	48.2	63.5	+7.1%	+31.7%	63.5	-	-
	Operating income	4.5	6.8	+10.9%	+51.1%	6.8	-	-
	Operating margin	9.4%	10.7%	-	-	10.7%	-	-
Business Systems	Net sales	18.9	23.5	+5.6%	+24.3%	25.0	+7.2%	+32.3%
	Operating income	2.9	4.0	+8.4%	+37.9%	4.3	+10.3%	+48.3%
	Operating margin	15.3%	17.0%	-	-	17.2%	-	-
Energy	Net sales	28.0	45.0	+12.6%	+60.7%	51.5	+16.5%	+83.9%
	Operating income	0.4	0.5	+5.7%	+25.0%	1.5	+39.2%	+275.0%
	Operating margin	1.3%	1.1%	-	-	2.9%	-	-
Adjustment*	Net sales	▲2.7	▲9.5	-	-	▲9.5	-	-
	Operating income	▲6.5	▲8.0	-	-	▲8.6	-	-

*The adjustment includes head office expenses, goodwill amortization, the elimination of inter-segment transactions and other items.

Expectation for Segment Growth (FY8/21 to FY8/25)

Anticipate that Content Distribution will drive overall growth as all segments achieve consistent growth of sales and earnings



Reasons for differences in each case

	Major reasons for differences between base and upside cases
Content Distribution	The upside case assumes that, even after the pandemic ends, the digitalization of viewing entertainment will continue to speed up, further upgrades and expansion of e-book, music and other services will increase customer satisfaction, and the number of subscribers will increase even more due to the diversification of channels for attracting subscribers.
Store Services	The upside case assumes that expenditures for human resource and marketing needed to achieve the sales plan can be lower than in the base case.
Communications	No differences between the base and upside cases
Business Systems	The upside case assumes that the pandemic will end within the next year, the tourist hotel sector will stage a strong recovery as foreign tourists return to Japan and for other reasons, and the launch of new products and services in peripheral markets will contribute to even more growth.
Energy	The upside case assumes that the direct electricity purchasing model to begin in March 2022, operated along with the current agency model, will have a successful launch and that all indicators (new customers, customer attrition, cost of purchasing electricity) will be better than for the base case because of a recovery of the real economy and changes in market conditions after the pandemic ends.
Corporate expenses	The upside case assumes that higher earnings than in the base case will be used employee training, re-skilling training and corporate branding for more growth of group businesses and adaptability to changes in the business climate. This case also incorporates additional expenses for more employee benefits.

Content Distribution: Business Climate and Competitive Advantages

Business Climate/TAM (Total Addressable Market)

- The consumer market in Japan for video distribution services is expected to grow from 26.3 million people at the end of 2020 to about 40 million by the end of 2023.*1

- Many people will use more than one video distribution service.

Number of video distribution services subscribed to per person*2

	2019		2020
Japan	1.6	➡	1.7
United States	2.7	➡	3.1

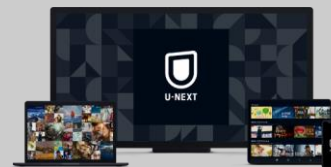
Opportunities

- Markets that expanded rapidly as people stayed home during the pandemic will continue to grow.
 - Much potential for the shift of package media (rental/DVD) to digital platforms
 - More people will use smartphones due to the end of 3G
 - More opportunities to view internet content due to smartphone access and the increasing sales of smart TVs

Competitive advantages

- Absolute No. 1 in terms of the volume of content*3
 - Video content distribution volume is more than 230,000 downloads (210,000 for unlimited viewing content, ranking first in Japan)
 - A large lineup of content extending from major titles to content for niche categories
 - Packaged with more than 650,000 e-book titles in single app

- High average revenue per user (ARPU) thanks to the combination of unlimited viewing and loyalty point programs
 - 1,200 points every month that can be exchanged for viewing the most recent video releases, e-books and movie tickets



Risks

- Increasing competition for content and subscribers because of OTT (over-the-top) video streaming services of companies outside Japan
- Financial strength may affect competitive edge due to the increasing size of content projects

Source *1. ICT Research & Consulting forecast as of August 2021 for the number of video streaming service users

*2. United States: Analysis by The Wall Street Journal of surveys by market research companies

Japan: Analysis of 2020 Video Content Users, GEM Partners

*3. GEM Partners data as of August 2021

All-in-one Entertainment

- An all-in-one entertainment experience combining video, e-books, music and live entertainment
- Considering the full-scale launch of live music and music content distribution by using the resources of the Music Distribution business.



“ONLY ON” strategy

- To retain current subscribers, reinforce the “Only One Strategy” that involves providing high-quality and captivating content that can be viewed only on U-NEXT.



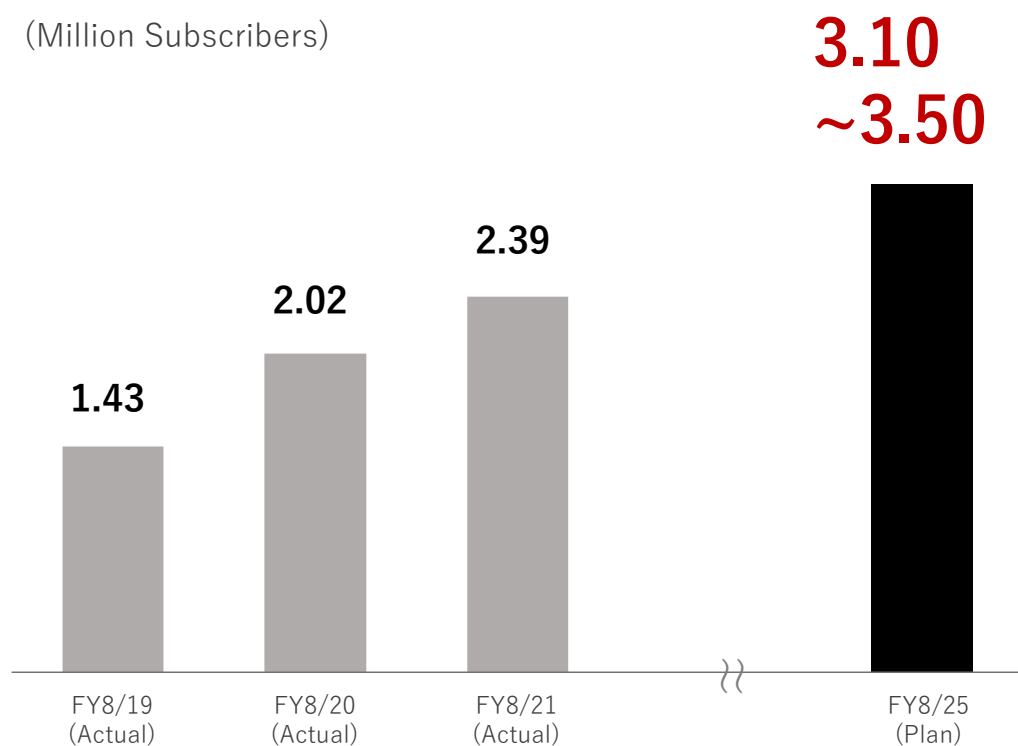
- Exclusive distribution contracts with major video streaming service companies worldwide for fixed-price video streaming and a business alliance with Cube Entertainment, a major Korean entertainment company.
- Use e-books to begin developing intellectual property
 - Develop original e-book content (manga, novels, etc.) and transform popular titles into videos
 - A larger pool of talent and lower expenses than for the development of video content

Content Distribution: Numerical Targets

U-NEXT Subscribers

■ FY8/25 : 3.10~3.50 mn (CAGR+7~10%)

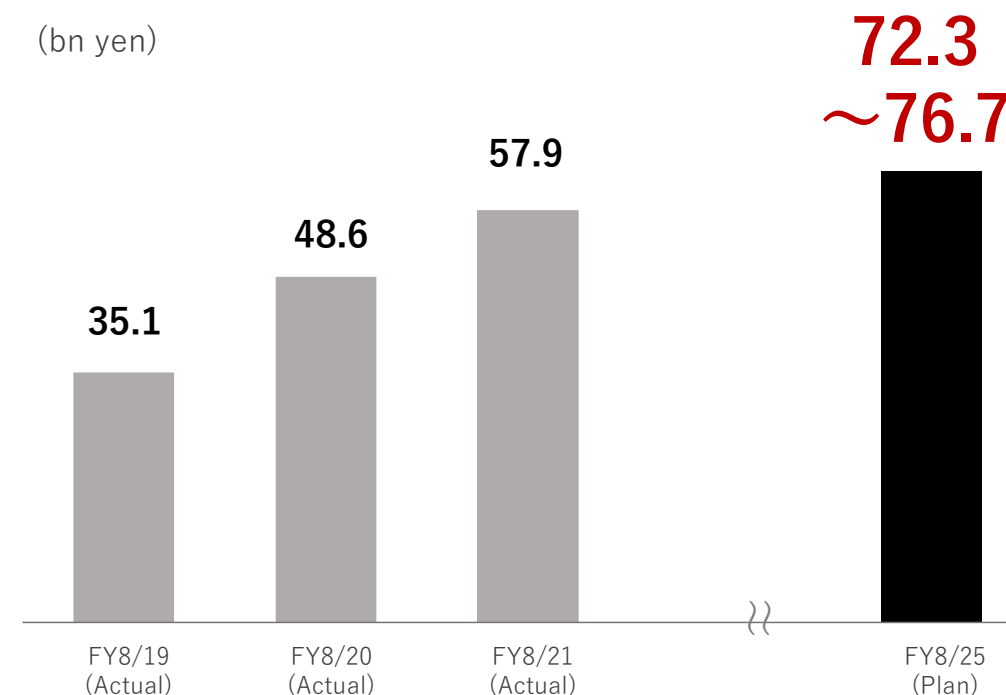
(Million Subscribers)



ARR

■ FY8/25 : 72.3~76.7 bn yen (CAGR+6%)

(bn yen)



*Annual Recurring Revenue : Monthly recurring revenue multiplied by 12.

*Monthly Recurring Revenue : Portion of U-NEXT service sales derived from fees paid on a regular basis.
(excludes PPV and other initial sales, includes music distribution and other related services with monthly fees)

*Based on sales in the last month of each fiscal year.

Store Services: Business Climate and Competitive Advantages

Business Climate/TAM

- About 3 million locations in all areas of Japan
Restaurants, stores, beauty salons, medical clinics, offices and other categories
- Establish separate sales frameworks and product lineups for three market segments based on the size of customers' operations
 - Individual stores
 - Small/midsize store chains (up to 100 stores)
 - Large store chains (more than 100 stores)

These figures are USEN-NEXT assumptions.

Opportunities

- Individual stores and small/midsize store chains are about 80% of this market segment. Productivity at these stores is low because of the slow pace of using digital technologies, creating much potential for the use of DX services to boost efficiency.
- Increasing need for stores to improve efficiency and use fewer people due to Japan's labor shortage (falling population) and need for contactless services during the pandemic

Competitive advantages

- A music distribution customer base with about 700,000 contracts
 - Music distribution business is growing steadily backed by an enormous number of relationships with stores throughout Japan established over about 60 years since the start of business operations.
 - The number of music distribution contracts decreased only about 3% during the pandemic (2H 2020)
- A music distribution team of more than 2,000 sales, installation and maintenance people
Strong customer relationships due to 140 music distribution offices in Japan with about 1,200 directly employed salespeople and about 900 field engineers for installation and maintenance services

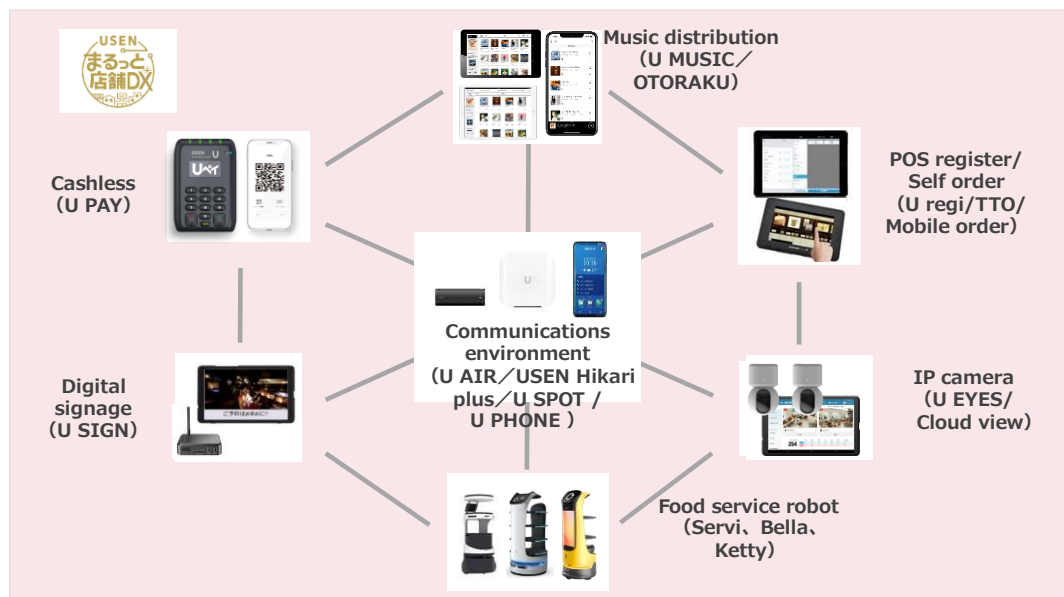
Risks

- The music distribution service has a share of about 90% of all stores in Japan that use a music distribution service. The market share has been steady in recent years.
- The store music distribution market may shrink if the pandemic continues for a long time or becomes more severe, resulting in more store closings and a decline in new store openings.

Store Services: Growth Strategy

Comprehensive Store Support Service

- The comprehensive store support service enables stores to benefit from the store DX, extending from the sales floor to back office, by establishing an advanced communication system and using smart devices.
- Integrated coverage by the USEN-NEXT Group allows maximizing lifetime earnings by upselling services spanning every step from sales to deliveries and maintenance.



Focusing on direct sales channels to newly opened stores

- Use direct sales channels for newly opened stores because the preparation stage for a new store is the best time to sell products and services with a high success rate
- Build a partner network of 10,000 companies for acquiring information about 100,000 new stores every year for quick contact by salespeople.
- Use indirect sales channels for existing stores because of the lower efficiency of sales activities for these stores, whether or not they are already USEN-NEXT Group customers.

		As a market	
		Newly opening stores	Existing stores
For the USEN-NEXT Group	Stores not yet using USEN-NEXT products and services	<p>About 100,000/year</p> <p>Use direct sales channels for these stores</p>	<p>More than 2 million stores in Japan are not yet using USEN-NEXT products and services.</p> <p>Use sales agents and telemarketing for stores that direct sales activities cannot reach.</p>
	Stores using USEN-NEXT products and services		<p>About 700,000 stores are currently using a USEN-NEXT music distribution service</p> <p>Use telemarketing channels for upselling activities</p>

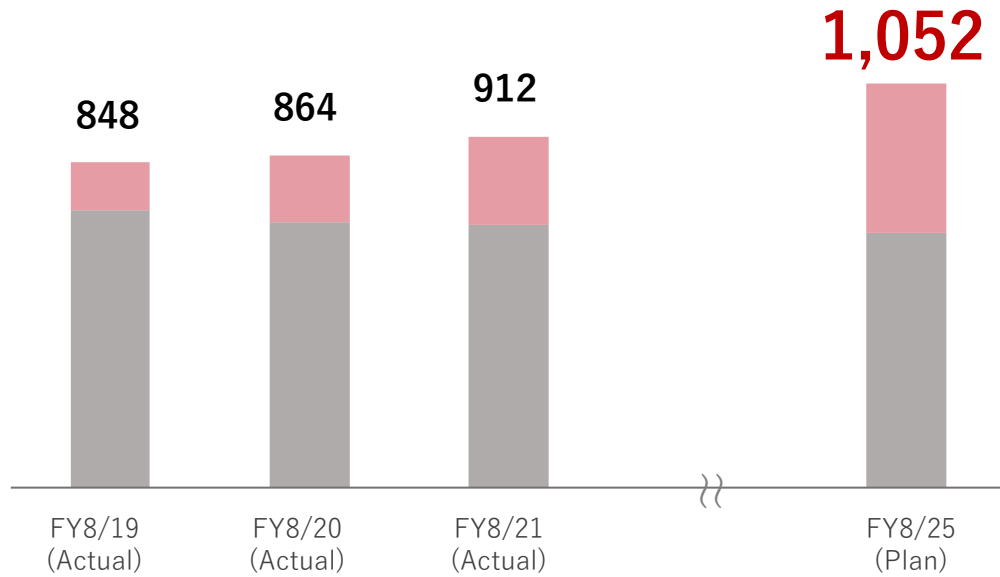
Store Services: Numerical Targets

Subscribers (Music distribution and other service)

■ FY8/25: 1,052K(CAGR+3%)

Thousand Subscribers

- Music distribution subscribers
- Other service subscribers



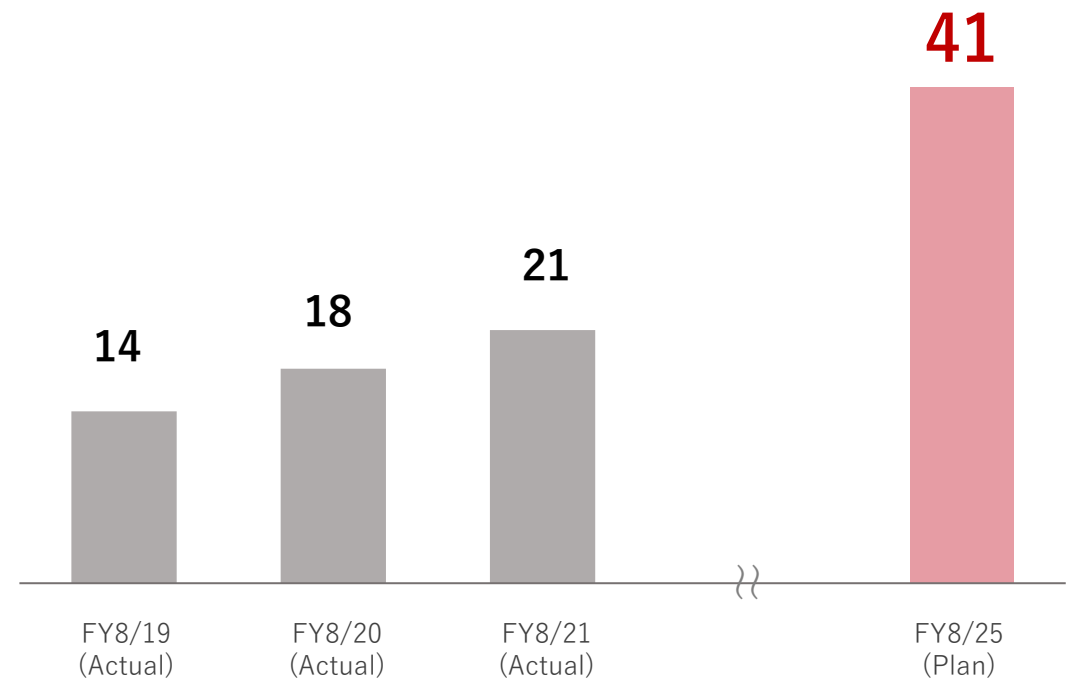
*Other store services: The sum of network services, POS register service, Wi-Fi service, IP camera service, App production service and gourmet website service.

*Subscribers are counted separately for each service provided, including different services provided to the same customer.

Subscribers (POS register service)

■ FY8/25: 41K(CAGR+18%)

Thousand Subscribers



Communications: Business Climate and Competitive Advantages

Business Climate/TAM

- ICT service for business/SaaS
 - About 2 million, mainly SMEs but also large companies, of the approximately 4 million companies in Japan
- Broadband internet service for stores and Sales agency
 - About 3 million stores and offices in Japan
 - Services are also suitable for use for remote work

These figures are USEN-NEXT assumptions.

Opportunities

- Growing demand at companies for the DX and business process efficiency services because of work style reforms and the pandemic
- Support for the increasingly wide range of security measures
- The number of broadband internet service subscribers is increasing consistently.

Competitive advantages

- A multivendor strategy underpins ICT service for business via direct sales activities
 - One-stop proposals to meet each customer's requirements with no need to use a particular carrier or hardware manufacturer
 - One person is assigned to each company for accurate assistance for SMEs that normally have only one person familiar with IT systems.
- Broadband internet service for stores and Sales agency
 - About 250 sales partners in all areas of Japan use a 24-hour phone support option and other strengths for sales activities for stores to switch from a competitor to USEN-NEXT
 - Synergies among different USEN-NEXT businesses as the primary product for upselling activities in the Store Services business
- Ability to provide a complete package of services, including phone, Wi-Fi and others, to large multi-family residence by using USEN-NEXT's powerful network of relationships in the real estate industry

Risks

- An extremely competitive environment with many established and new service providers
- The market is shrinking because of the increasing number of business site closures due to the pandemic.
- Concerns about the possibility of lower broadband sales agent fees caused by a shift in the business policies of communication carriers

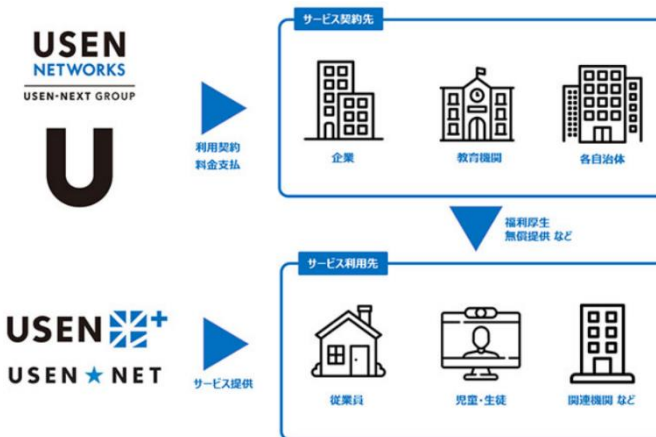
ICT service for business/SaaS

- Using communication network services as a base, focusing on cross-selling of support for security measures, which are becoming increasingly complex, cloud data center outsourced maintenance and operation, and other services
- Enlarge the service lineup for SaaS/IaaS, where demand is growing, and strengthen sales activities for these services
- Create new services for improving workplace environments, such as office BGM, and for providing solutions for companies
- More prospective customers by raising awareness of USEN-NEXT on the internet and using digital marketing activities
- Start using new sales methods, such as online sales meetings and inside sales, that reflect the current business climate



Broadband internet service for stores

- Change from a sales agent to providing USEN-NEXT owned networks in order to switch to a recurring-revenue business model
- Use the larger number of stores using a USEN-NEXT owned network to create opportunities for upselling IoT/DX services
- Provide services to individual stores as well as services that match customers' needs, such as services provided by companies to improve a workplace environment.



Communications: Numerical Targets

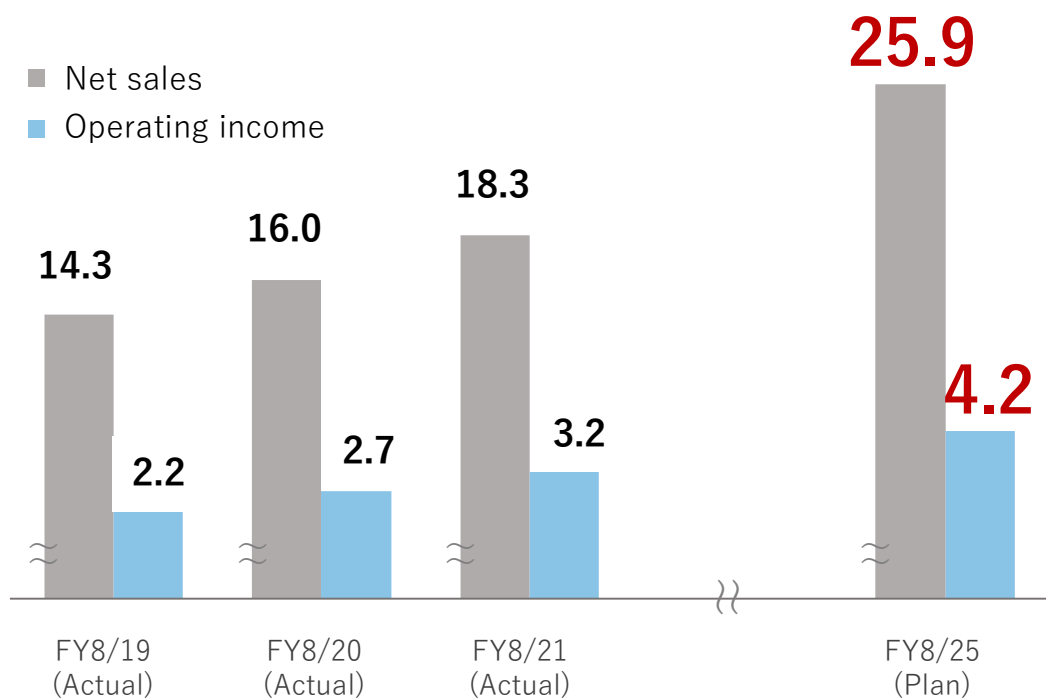
ICT service for business/SaaS

■ FY8/25:

Net sales: 25.9 bn yen (CAGR+9%)

Operating income: 4.2 bn yen (CAGR+7%) (bn yen)

- Net sales
- Operating income



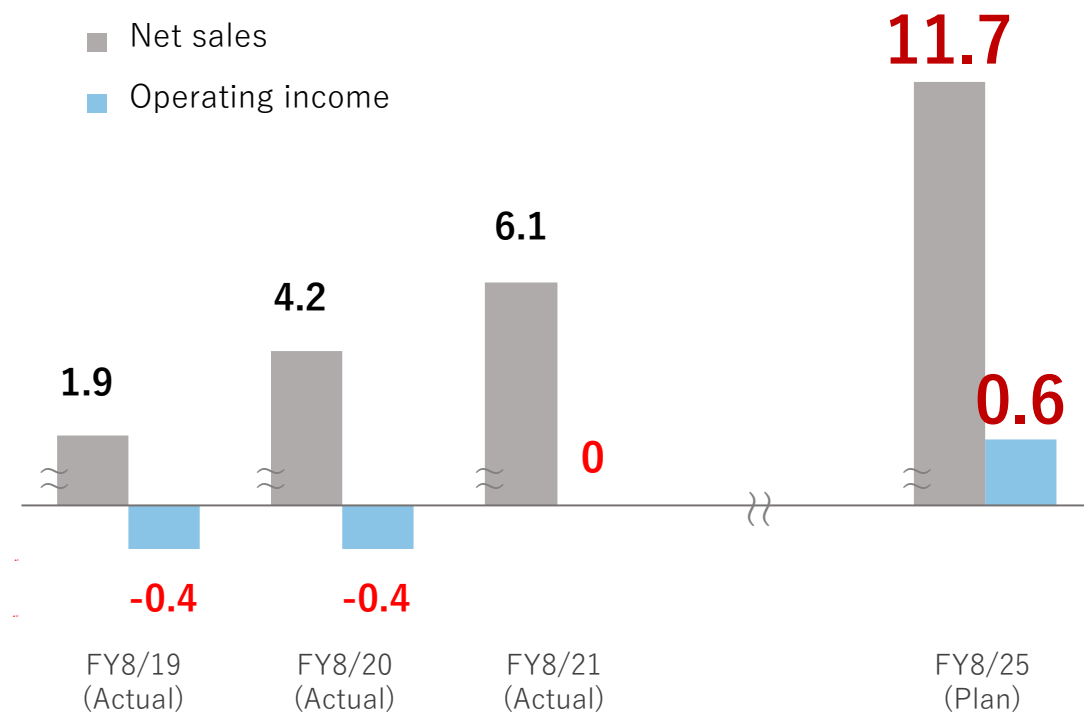
Broadband internet service for stores

■ FY8/25:

Net sales: 11.7 bn yen (CAGR+18%)

Operating income: 0.6 bn yen (stably profitable) (bn yen)

- Net sales
- Operating income



Business Systems: Business Climate and Competitive Advantages

Business Climate/TAM

- Leisure hotels : 6K (Current Customers; about 5K)
- Hotels : 20K (Current Customers; about 1.2K)
- Ryokan/Lodges : 40K (Current Customers; about 0.4K)
- Hospitals : 4K (Current Customers; about 1.5K)
- Clinics/Dental clinics/Pharmacies : 200K (Current Customers; about 14K)
- Golf courses : 2K (Current Customers; about 0.4K)

These figures are USEN-NEXT assumptions.

Opportunities

- Rapid growth of needs involving non face-to-face, contactless/labor-saving services for during and after the pandemic
 - Use of the DX for raising productivity in the healthcare sector as Japan's population declines and ages
 - Activities involving demand for IT investments associated with domestic demand backed by tourism within Japan and with the return of foreign tourists to Japan (more than 30 million foreign tourists came to Japan annually before the pandemic)
- More opportunities to supply solutions for labor-saving measures in peripheral markets (golf courses, retail, restaurants, veterinary clinics, etc.)

Competitive advantages

■ In the field of automated payment machines, our core products, we are the market leader as a fables maker without in-house manufacturing lines

■ Differentiating ourselves through the provision of threefold customer value arising from hardware, software/apps, and maintenance engineers
Build a “last-mile” customer support framework by using USEN-NEXT’s own engineers for maintenance services

■ Recurring revenues and product sales stably account for 40% and 60%, respectively
Establish a stable revenue through stock sales of business management systems, software, maintenance fees, etc.



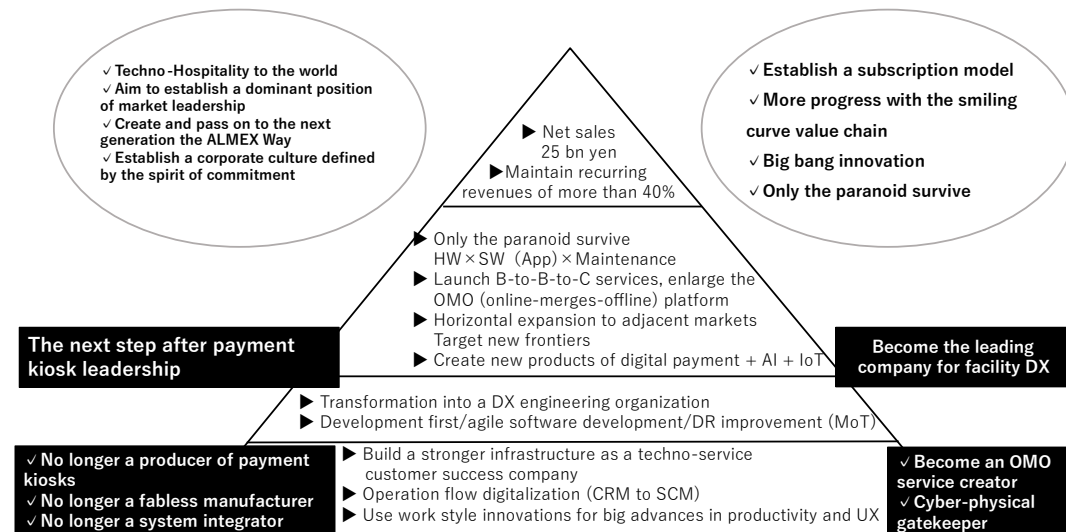
Risks

- Low capital expenditures because of the negative impact of the pandemic on hotel occupancy rates
- Falling demand for automated payment units that handle cash because of the rapidly increasing use of cashless payment methods
- Risk involving the procurement of parts caused by the global semiconductor shortage

Business Systems : Growth Strategy

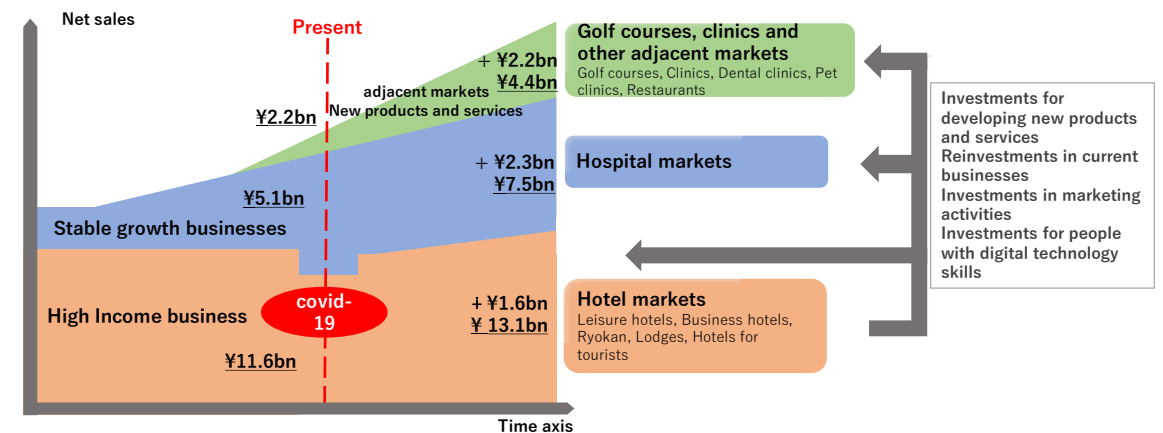
DX solutions as “back yard” support for Japan’s strategy of making health care and tourism two pillars of the economy

- DX support for needs involving non face-to-face, contactless, labor saving and efficient business operations
- DX leadership in the USEN-NEXT Group’s key hotel and hospital markets
- Use automated payment kiosk leadership as the base to establish a position as a visionary partner for facility DX solutions for customers



Strategies for a stronger market presence and developing products

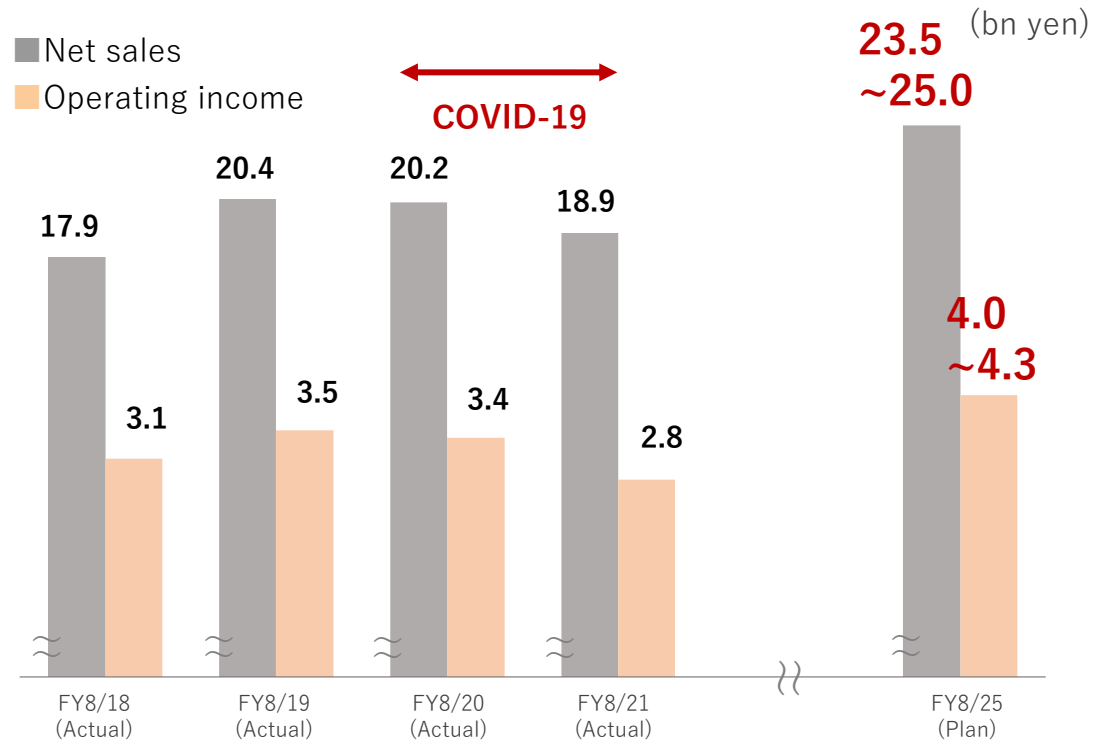
- Growth of business operations for small/midsize medical institutions Starting with Myna Touch (Card reader with facial recognition), enlarge the lineup of products and services to allow cross-selling to small clinics, dental offices, pharmacies and other healthcare sector operations
- Establish a presence and grow in peripheral markets such as golf courses, stores, restaurants, pet clinics and tourism facilities
- Develop and supply products and services that incorporate AI, biometric authentication (facial recognition, etc.), OMO platforms, cashless payments and other fintech, and other advanced technologies



Business Systems: Numerical Targets

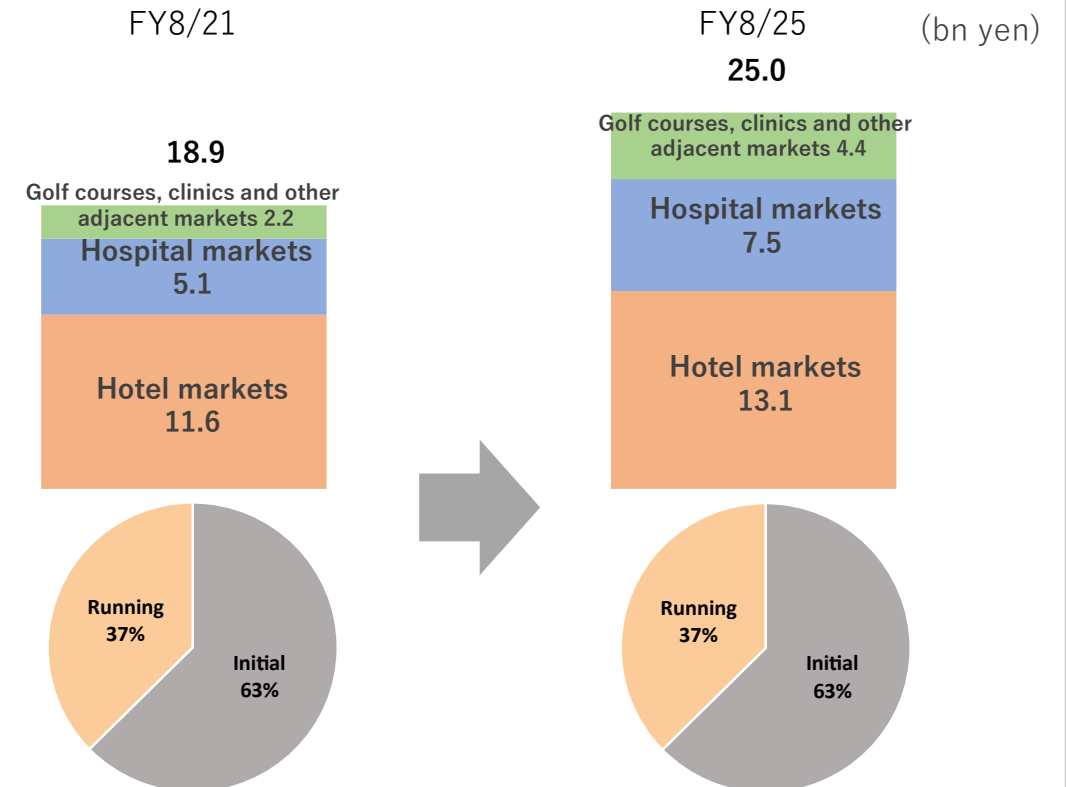
Net sales / Operating income

FY8/25:
Net sales: 23.5~25.0 bn yen (CAGR+6~7%)
Operating income: 4.0~4.3 bn yen(CAGR+8~10%)



Breakdown of net sales

Hotel markets; CAGR+3%
Hospital markets; CAGR+10%
Golf courses, clinics and other adjacent markets; CAGR+19%



Energy: Business Climate and Competitive Advantages

Business Climate/TAM

- **Low voltage**
Stores in Japan, especially current customer contracts in the Store Services business
- **High voltage**
Factories, schools, senior care centers, office buildings and other large-scale operations

Opportunities

- Opportunities for the USEN-NEXT Group have increased along with the growing awareness of new electricity services following Japan's 2016 deregulation of the retail electricity market.
- The pandemic has increased activities by customers to cut costs.
- Increasing public awareness and customers' needs concerning the SDGs and the use of renewable energy

Competitive advantages

- Procurement as agent from the Tokyo Electric Power Group instead of by using the electricity market (USEN Energy Business)
Shields Energy business from negative effects on earnings of changes in the cost of electricity
- Effective use of the USEN-NEXT Group's sales resources
Use direct sales, telemarketing, agents and other sales channels selectively depending on the type of customer contact to maximize the efficiency of sales activities.

Risks

- Rapid increase in the cost of electricity
- Fierce competition between conventional electric utilities and new sellers of electricity
- The pandemic reduced demand for electricity and the recovery following the downturn has been slow.

USEN Energy Business (Agency Model)

- The Energy business will continue sales activities with ideas for cutting the cost of electricity for stores that are current USEN-NEXT customers. Reducing the cost of store operations is expected to lead to sales of new and additional store services to these customers.
- In 2020, the Energy business developed a new product with the Tokyo Electric Power Group in order to strengthen sales of packaged services to stores.
- Increase the use of sales activities for ways to cut the cost of electricity as the entry point for sales channels of all USEN-NEXT Group businesses.
- In the office market sector too, use environmental, BGM, cloud camera and other packages of services as the starting point for establishing a framework capable of creating comprehensive proposals to meet the needs of customers.

USEN **でんき** **USEN** **GAS**

U-POWER (Direct model)

- Provision of a “green” electricity menu with non-fossil fuel energy certification in response to the growing interest at companies at stores in the SDGs and protecting the environment
- Use a business model based on electricity procured directly
 - To improve profitability of the Energy business, plan to start in March 2022 a scheme of purchasing electricity directly in addition to the current agent model.
 - Using this flexible model, which provides a hedge against the risk of a sharp increase in the wholesale price of electricity (ability to pass on price adjustments for procurement cost, fuel cost and other items), profitability is expected to be higher than with the current agent model.
- When USEN-NEXT electricity is sold by sales agents, which are the main sales channel, there is a highly flexible incentive that is more competitive than those of services of competitors.

U-POWER

Energy: Numerical Targets

USEN Energy Business (Agency Model)

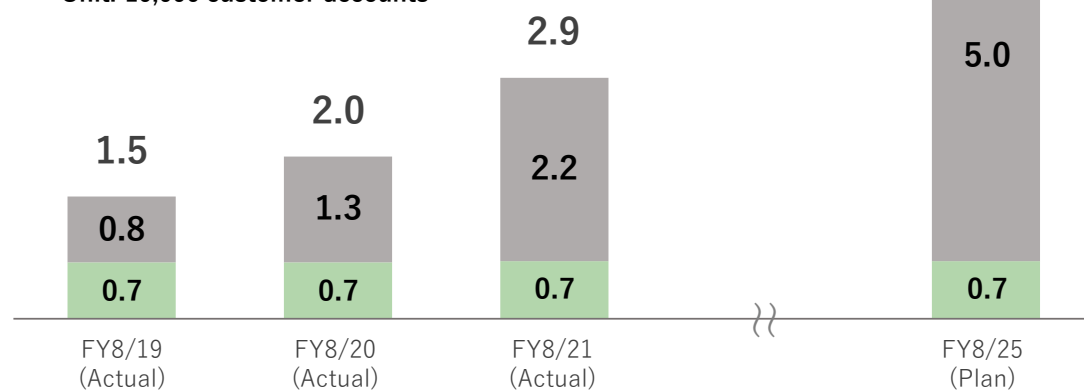
- FY8/25 : High voltage of 7,000~8,000 customers
Low voltage of 50,000 customers(CAGR+22%)

¥bn、%	FY8/21 (Actual)	FY8/25 (Plan) Base	FY8/25 (Plan) UP
Net sales	28.0	35.6	37.6
Operating income	0.4	0.2	0.4
Gross profit margin	4.2%	2.8%	3.3%

5.7
~5.8

- High voltage
- Low voltage

Unit: 10,000 customer accounts



U-POWER (Direct model)

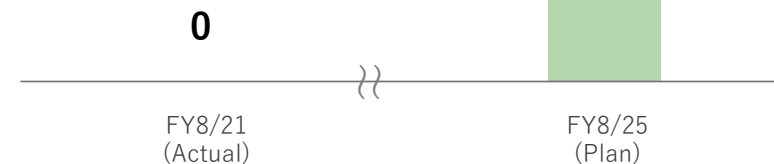
- FY8/25 : Low voltage of 41,000 ~62,000 customers
(Starts in March 2022)

¥bn、%	FY8/25 (Plan) Base	FY8/25 (Plan) UP
Net sales	9.3	13.8
Operating income	0.2	1.1
Gross profit margin	12.5%	17.6%

Unit: 10,000 customer accounts

4.1
~6.2

Benefit of the new model when the cost of electricity rises
If the cost of purchasing energy for 40,000 low-voltage customer accounts rises by four times in one month, the one-time cash expense is a maximum of about ¥2 billion. This would be recovered from customers over a period of approximately three years, resulting in a negligible effect on earnings.



IV. Appendix



ROE, EVA spread (Base case)

	FY8/21 Actual	FY8/22 Forecast	FY8/25 Plan	備考
Net Income/Sales ratio- ①	3.9%	3.8%	4.3%	
Asset Turnover ratio- ②	1.5	1.5	1.7	
Financial Leverage- ③	4.7	3.9	2.6	
ROE	27.2%	22.5%	18.8%	(① × ② × ③)
Operating Income- ④	¥15.6bn	¥17.0bn	¥22.0bn	
Effective tax rate- ⑤	43%	43%	43%	
NOPAT - ⑥	¥8.9bn	¥9.6bn	¥12.8bn	(④ × (1 - ⑤))
Shareholder's equity (Average) - ⑦	¥29.3bn	¥37.1bn	¥62.4bn	
Debt (Average) - ⑧	¥67.1bn	¥61.7bn	¥50.4bn	
ROIC - ⑨	9.2%	9.7%	11.4%	(⑥ ÷ (⑦ + ⑧))
Cost of shareholder's equity- ⑩	15.4%	13.3%	10.4%	
Equity ratio- ⑪	30%	41%	58%	
Cost of dept- ⑫	1.1%	1.1%	1.1%	
Debt to Total Assets- ⑬	70%	59%	42%	
WACC - ⑭	5.1%	5.8%	6.4%	((⑩ × ⑪) + (⑫ × (1 - ⑤) × ⑬))
EVA spread	4.1%	3.9%	5.0%	(⑨ - ⑭)

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