

Consolidated Financial Results for the Six Months Ended February 28, 2022 [Japanese GAAP]



April 7, 2022

Company name: USEN-NEXT HOLDINGS Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Code number: 9418

URL: <https://usen-next.co.jp/>

Representative: Yasuhide Uno, President, Representative Director & CEO

Contact: Shohei Mabuchi, Managing Director & CFO

Phone: +81-3-6823-7015

Scheduled date of filing quarterly securities report: April 8, 2022

Scheduled date of commencing dividend payments: —

Availability of supplementary briefing materials on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled (for analysts and institutional investors)

(Amounts are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the Six Months Ended February 28, 2022 (September 1, 2021 - February 28, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
February 28, 2022	114,016	12.7	8,849	10.3	8,432	10.5	4,408	0.8
February 28, 2021	101,207	6.2	8,021	35.0	7,632	49.5	4,373	80.0

(Note) Comprehensive income: Six months ended February 28, 2022: ¥4,434 million [1.1%]

Six months ended February 28, 2021: ¥4,384 million [85.8%]

	Basic earnings per share		Diluted earnings per share		EBITDA		Adjusted EPS	
	Yen	%	Yen	%	Million yen	%	Yen	%
Six months ended								
February 28, 2022	73.37		73.32		13,094	6.1	98.31	(4.3)
February 28, 2021	72.80		72.74		12,343	22.3	102.74	46.0

(Note) The Company has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the three months ended November 30, 2021. The above amounts for the six months ended February 28, 2022 show figures after the said accounting standard has been applied.

Percent changes from the previous corresponding period are calculated based on the consolidated financial results for the six months ended February 28, 2021 before the said accounting standard has been applied.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of February 28, 2022	146,005	35,967	24.6
As of August 31, 2021	141,316	33,334	23.6

(Reference) Equity: As of February 28, 2022: ¥35,964 million

As of August 31, 2021: ¥33,331 million

(Note) The Company has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the three months ended November 30, 2021. The above amounts for the six months ended February 28, 2022 show figures after the said accounting standard has been applied.

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended August 31, 2021	–	0.00	–	13.50	13.50
Fiscal year ending August 31, 2022	–	0.00			
Fiscal year ending August 31, 2022 (Forecast)			–	15.00	15.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending August 31, 2022 (September 1, 2021 – August 31, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	220,000	5.6	17,000	8.9	16,000	8.3	8,500	5.7	141.47

	EBITDA		Adjusted EPS	
Full year	Million yen	%	Yen	%
	26,000	6.7	191.40	1.4

(Note) Revision to the financial results forecast announced most recently: None

The Company has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the three months ended November 30, 2021. The above amounts for the consolidated financial results forecast for the fiscal year ending August 31, 2022 show figures after the said accounting standard has been applied. Percent changes from the previous corresponding period are calculated based on the consolidated financial results for the fiscal year ended August 31, 2021 before the said accounting standard has been applied.

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
(Changes in specified subsidiaries resulting in changes in scope of consolidation):
Newly included: – (), Excluded: – ()
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes
(Note) For details, please refer to “(4) Notes to Quarterly Consolidated Financial Statements (Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)” on page 13 of the Attachments.
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of shares issued and outstanding (common shares)
- 1) Total number of shares issued and outstanding at the end of the period (including treasury shares):

February 28, 2022:	60,084,611 shares
August 31, 2021:	60,083,111 shares
 - 2) Total number of treasury shares at the end of the period:

February 28, 2022:	72 shares
August 31, 2021:	23 shares
 - 3) Average number of shares during the period:

Six months ended February 28, 2022:	60,083,746 shares
Six months ended February 28, 2021:	60,072,611 shares
- (5) Calculation method of management indices
- EBITDA: Operating profit + Depreciation + Amortization of goodwill
 - * The amounts of depreciation and amortization of goodwill represent figures on the statements of cash flows.
 - Adjusted EPS: Adjusted profit (i.e., Profit attributable to owners of parent + Amortization of goodwill) / Average number of shares during the period

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

*Explanation on the proper use of financial results forecast and other notes

(Notes on forward-looking statements, etc.)

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the date of publication of this document, and the Company does not in any way guarantee the achievement of the projections. In addition, actual results may differ significantly from these forecasts due to various factors. For preconditions for the financial results forecast and notes on the use thereof, etc., please refer to “1. Qualitative Information on Quarterly Financial Results (1) Explanation of Operating Results” on page 2 of the Attachments.

(Method of obtaining supplementary briefing materials on quarterly financial results)

Briefing materials on the financial results for the six months ended February 28, 2022 will become available today (April 7, 2022) on the Company’s website and TDnet.

Table of Contents - Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	7
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information.....	7
2. Quarterly Consolidated Financial Statements and Principal Notes	8
(1) Quarterly Consolidated Balance Sheets	8
(2) Quarterly Consolidated Statements of Income and Comprehensive Income.....	10
Quarterly Consolidated Statements of Income	
For the six months ended February 28	10
Quarterly Consolidated Statements of Comprehensive Income	
For the six months ended February 28	11
(3) Quarterly Consolidated Statements of Cash Flows	12
(4) Notes to Quarterly Consolidated Financial Statements	13
(Notes on going concern assumption)	13
(Notes in case of significant changes in shareholders' equity).....	13
(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements).....	13
(Changes in accounting policies).....	13
(Additional information)	14
(Segment information, etc.).....	15

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

The Group believes that a variety of customers it serves in the B to B market are its greatest assets, including commercial stores to which the Group provides its mainstay music distribution services, in addition to other customers such as hotels, hospitals, golf courses and small- to medium-sized offices.

Making the most of these assets, the Group has been focusing on initiatives to further consolidate its position as a solutions provider and a platformer for small- to medium-sized enterprises that provides one-stop solutions to various needs and problems of customers in its five business segments: the Content Distribution Business, the Store Services Business, the Communications Business, the Business Systems Business, and the Energy Business.

During the fiscal year under review, after the COVID-19 pandemic temporarily subsided, the Omicron variant rapidly spread from the end of the year and the number of COVID-19 cases surged significantly again, which led to the Japanese government's implementing priority measures to prevent the spread of infections. Even now, the number of the COVID-19 cases remains high.

Business activities have also been impacted, as evidenced by some commercial stores being forced to temporarily close or reduce operating hours, due to failure to secure the necessary number of staff in some commercial stores caused by the sudden increase of COVID-19 cases. In addition, a sharp rise in shipping costs due to soaring prices of crude oil, a hike in raw material prices including agricultural products caused by unseasonable weather, surging prices of imported items due to the stagnation of logistics, and weak yen are primarily affecting the Japanese economy to a great extent.

Under these circumstances, the Group, as a "social DX" company that brings the future closer to the present, has continued to focus on its efforts to support commercial stores and service users by providing one-stop solutions to the needs and problems of society through its business activities.

In each segment, the Group has provided products and services tailored to various needs and issues of customers under the COVID-19 pandemic and further utilized resources in the Group to practice our Group slogan, "Brighten the future."

In order for the Group to steadily carry out its new strategy and realize sustainable growth and a further increase of corporate value while responding to a social environment undergoing drastic change in the era of coexistence with and post COVID-19, the Group formulated and released a new medium-term business plan, "Road to 2025" on February 28, 2022. Moreover, the Group issued its first integrated report so that our management and corporate activity will be understood even further.

As a result, regarding the financial results for the six months ended February 28, 2022, net sales were ¥114,016 million (up 12.7% year on year), operating profit was ¥8,849 million (up 10.3% year on year) and ordinary profit was ¥8,432 million (up 10.5% year on year). In addition, profit attributable to owners of parent was ¥4,408 million (up 0.8% year on year).

The Group's net sales (including inter-segment sales or transfers) and operating profit by segment are outlined below.

Effective from the first quarter of the fiscal year under review, the Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020; hereinafter referred to as the "Revenue Recognition Accounting Standard") and other standards.

Year-on-year comparisons in (1) Explanation of Operating Results, and comparisons with the end of the previous fiscal year in (2) Explanation of Financial Position are made using figures from the consolidated results of the previous fiscal year prior to the application of such accounting standards. Details are as described in "Notes (Changes in accounting policies) and (Segment information, etc.)."

<Content Distribution Business>

The Content Distribution Business is operated by U-NEXT Co., Ltd. and TACT INC., our consolidated subsidiaries, and provides and sells the U-NEXT video distribution service.

During the six months ended February 28, 2022, amid a boom in the market for video distribution, there was another surge in COVID-19 cases and the government again implemented priority measures to prevent the spread of infections. As a result, the demand for paid video distribution services driven by the stay-at-home economy remained high.

Under these circumstances, we have been focusing on our efforts to continuously increase the number of subscribers for the “U-NEXT” service. One of the measures was broadcasting TV commercials at the end and beginning of the year when many people watch TV more often for a further increase of recognition of “U-NEXT.”

In regard to the content, as the competitive environment is becoming more intensified, in addition to the conventional “Coverage Strategy,” we have developed “ONLY ON Strategy” in a way that upgrades the Company’s exclusive titles, such as launching live distribution of new releases and much-talked-about titles and popular martial arts contents and music contents, and have worked on enhancing our exclusively distributed titles under the concepts of “Viewable Only With U-NEXT” and “Only With U-NEXT You Can Enjoy Unlimited Viewing.”

As part of these efforts, we have been working to further expand our content lineup by continuous, live, and exclusive distribution with unlimited viewings of “BELLATOR” mixed martial arts competition events held at a world-class level as a distribution partner in Japan. In addition, we select and introduce our recommended titles including exclusive titles with/without unlimited viewing among many titles released every month.

In “U-NEXT”, more than 220,000 movies, drama series, and animated programs can be enjoyed with unlimited viewing. Moreover, 20,000 plus titles including new releases can be rented and over 680,000 comic book and book titles are included in the lineup. “U-NEXT”, which allows users to seamlessly enjoy watching and reading with a single app, offers an entertainment experience crossing the borders of genres.

Additionally, in regard to the improvement of the user experience, we have been encouraging the installation of “U-NEXT Button” on the remote controllers attached to the televisions newly launched by manufacturers and making efforts to allow users to enjoy our services comfortably.

In terms of increasing the number of subscribers, we have also continued to work on acquiring viewers through new channels, including by launching a new bundled plan which combines the MVNO service “y.u mobile” sold by Y.U-mobile Co., Ltd., one of the Group companies, with the “U-NEXT” video distribution service.

As a result, net sales and operating profit of the Content Distribution Business for the six months ended February 28, 2022 were ¥34,808 million (up 20.8% year on year) and ¥3,200 million (down 0.3% year on year), respectively.

<Store Services Business>

The Store Services Business is operated by the following consolidated subsidiaries: USEN CORPORATION, CANSYSTEM. CO., LTD., USEN Media CORPORATION, USEN FB Innovation Co., Ltd., USEN Techno-Service Co., Ltd., USEN-NEXT Design Co., Ltd., and U’S MUSIC Co., Ltd. The business distributes music and provides, sells, and implements store solutions, offers support services for restaurants, and manages and develops music copyright, etc.

The Store Services Business is the Group’s mainstay business, and capitalizing on its stable revenue base centered on music distribution services, the Group plans to actively develop the store IoT market. To this end, we have worked to maintain and expand transactions with customers, acquire new customers and improve our brand power especially in the market for commercial stores.

For commercial stores and chain stores, in an aim to enhance the lineup of services for stores and commercial facilities, we have provided and proposed comprehensive solutions and support services ranging from the support for starting a business and establishing business environments to the support for attracting customers and sales promotions, centered on music distribution and IoT services.

During the six months ended February 28, 2022, there was another surge in COVID-19 cases and the government again implemented priority measures to prevent the spread of infections. The sudden increase of new COVID-19

cases caused situations such as failure to secure personnel necessary for operations, which forced some commercial stores to temporarily close or reduce operating hours. Along with an array of price hikes such as raw material prices, the business environment surrounding commercial stores continued to remain challenging.

The Group has focused on understanding the actual needs of its customer commercial stores and providing them with attentive and speedy services. At the same time, we have aimed to offer comprehensive support for them while leveraging the Group synergy.

At USEN CORPORATION, under the vision of “Create Stores’ Future,” we offer total support for store DX, which is indispensable for store management in the era of coexistence with and post COVID-19.

“USEN IoT PLATFORM” enables providing one-stop services to offer wireless communications and business equipment using the latest technology, including the “U AIR” Wi-Fi equipment for business use that enables internet use without the need of line construction and the “U MUSIC” service that combines AI with our knowledge cultivated through more than 50 years of providing store BGM services to create optimal BGM for each store based on its characteristics. Centered around this service, “USEN Marutto Store DX” promotes operational efficiency, labor saving and non-contact operations by offering a package service that realizes DX of every operation in stores from front operations to back-office operations, including “U-Regi” cloud POS cash register, “U-Pay” payment service, order system, security cameras, in-store signage and insurances, and also provides comprehensive support for service implementation and follow-up. As such, we have been proposing store management from a new perspective.

Recently, in order to resolve the staff shortages under the COVID-19 pandemic, we launched efforts to support recruitment with the “Indeed” job search engine. In addition, in commercial stores, the use of cashless payments to minimize physical contact is on the rise. Therefore, in “U-Pay,” to address the issue of cash management faced by commercial stores, we rolled out a service that allows next-day deposit by satisfying certain conditions. Thus, we have continuously focused on offering services and products to solve the issues in store management.

In USEN Media CORPORATION, we operate “Hitosara” and provide “Tabelog” services which help restaurants attract customers. While customer stores continued to face difficult business environment, we also launched the “Hitosara CHEF’S MALL” gourmet EC media which works with restaurants and features chefs in a key role. We have focused on initiatives to offer highly convenient services for both food providers and consumers as media connecting the two sides.

As a result, net sales and operating profit of the Store Services Business for the six months ended February 28, 2022 were ¥28,273 million (up 2.2% year on year) and ¥4,648 million (down 0.6% year on year), respectively.

<Communications Business>

The Communications Business is operated by the following consolidated subsidiaries: USEN NETWORKS Co., Ltd., U-NEXT Co., Ltd., USEN ICT Solutions CORPORATION, USEN Smart Works CORPORATION, USEN-NEXT LIVING PARTNERS Inc., U-MX co., LTD., Next Innovation Co., Ltd., and Y.U-mobile Co., Ltd. The business operates sales agencies for broadband internet lines, proposes and sells services for building ICT environments in offices, and provides and sells the y.u mobile MVNO service as well as broadband internet lines for individual customers.

During the six months ended February 28, 2022, there was another surge in COVID-19 cases, and the government again implemented priority measures to prevent the spread of infections. Even under these circumstances, the activities to acquire new orders for communication lines, network and security services mainly for small enterprises continued to see strong performance.

At USEN NETWORKS Co., Ltd., as we saw steady performance in acquiring new customers, and we are striving to make a shift from a model of acquiring one-shot fees to a model of acquiring running revenue in spite of the business failure of a large-scale existing customer resulting in a large number of simultaneous cancellations in “USEN Hikari plus,” an optical line service for corporations provided by the Company, in this quarter under review.

In the “B to B to X model” that utilizes “USEN Hikari plus” optical line service, a company enters into a contract for the optical line service, which is used by its employees for teleworking and other purposes. It is a service that leads not only to an improvement in productivity with better communication quality but also to an improvement in employee satisfaction, as the company provides its employees with the optical lines for business use free of charge. Since the need for remote work is high in the era of coexistence with and post COVID-19, we believe that the service will promote “relocation without career change” that allows people to relocate to rural areas while working with companies in urban areas and will support jobseekers for whom it is difficult to work in the office, thereby becoming a tool to help us differentiate from competitors.

Furthermore, in addition to creating an environment for remote work, we received a lot of feedback requesting individual contracts by employees for the optical line service instead of the company entering into contracts for the optical line service due to increasing needs for leisure time to enjoy music, video distribution and other services through the Internet. In response, we started to provide “USEN Hikari 01,” an optical line service for individuals.

In the area of ICT environment construction for offices, USEN ICT Solutions CORPORATION engages in network-related services, cloud services, data center services, and maintenance and operation services for corporate ICT environments and other services under the USEN GATE 02 brand, while also proposing BGM services including Sound Design for OFFICE for office workers. In this way, while proposing business environment improvements aligned with the needs of each company, we are also working to create a system that can provide one-stop service for building these ICT environments.

Meanwhile, to celebrate the 20th anniversary of the rollout of “USEN GATE 02,” the “USEN GATE 02 20th anniversary campaign” is underway.

USEN Smart Works CORPORATION provides a variety of cloud services (SaaS service) to companies to support employees’ work styles in offices and also provides attentive support after service introduction.

Work styles and environments surrounding offices have greatly changed in the wake of the spread of COVID-19 and the declaration of a state of emergency. While remote working arrangements and online meetings have taken root, we have focused on capturing needs to introduce tools for business efficiency improvement and labor saving, and have also worked to propose new service introduction for enterprises.

Furthermore, we have also engaged in proposal activities, including for the utilization of tools to resolve the issue of how internal communications should take place in companies, which has been raised as a result of the mix of employees commuting to the office and those working remotely.

As a result, net sales and operating profit of the Communications Business for the six months ended February 28, 2022 were ¥25,258 million (up 5.7% year on year) and ¥2,790 million (up 37.5% year on year), respectively.

<Business Systems Business>

The Business Systems Business is operated by ALMEX INC., a consolidated subsidiary. It develops, manufactures and sells business management systems and automated payment machines for hotels, hospitals, golf courses, etc.

During the six months ended February 28, 2022, there was another surge in COVID-19 cases and the government again implemented priority measures to prevent the spread of infections. The sudden increase of new COVID-19 cases caused situations such as failure to secure personnel necessary for operations, which forced some commercial stores to temporarily close or reduce operating hours. Meanwhile, the tourism and travel businesses also continued to suffer from a severe business environment.

Under these circumstances, for hotels, we have received more inquiries for the introduction of automated payment machines using government subsidies and grants for accommodation business operators, to deal with non-face-to-face and non-contact services and workforce reduction and labor savings, and saw steady performance in machinery sales.

For hospitals, we sell “Sma-pa Myna Touch,” a card reader with face recognition functions compatible with an online eligibility confirmation system, which went into full-scale operation in October 2021. Partly because the Individual Number Card system is struggling with popularity, the introduction of the card readers in medical institutions as a whole is taking time, but we will continue to carry out initiatives to cut down future operation costs in hospitals.

New needs have emerged even at golf courses and facilities of other business types, where the services had previously centered on omotenashi (hospitality) by persons and had little need for smaller workforces and labor savings using automated payment machines and other devices. Against this background, we have taken this situation as a big business opportunity and made proactive efforts.

As a result, net sales and operating profit of the Business Systems Business for the six months ended February 28, 2022 were ¥9,796 million (up 16.6% year on year) and ¥1,753 million (up 48.5% year on year), respectively.

<Energy Business>

The Energy Business is operated by USEN CORPORATION, a consolidated subsidiary.

We have carried out the Energy Business as part of the lineup of services for commercial stores, buildings and commercial facilities, promoting sales mainly of high- and low-voltage electricity and gas. Through cost consulting by providing a one-stop service together with a variety of our other services, the Group is enhancing the value of its service offerings.

During the six months ended February 28, 2022, there was another surge in COVID-19 cases and the government again implemented priority measures to prevent the spread of infections, which had a significant impact on economic activity. In line with this, electricity consumption at customer stores and commercial facilities is not headed for a full recovery yet.

However, we have continued to work to provide customers with the value of reducing energy costs as a more attractive service, through collaboration with other products leveraging the Group synergies. The efforts led to a sales increase partly due to the impact from an increase of the fuel cost adjusted unit price.

Meanwhile, in the background of recent globally increasing demand for renewable energy with the aim of a sustainable society, in order to contribute to the popularization of renewable energy in Japan toward the realization of a sustainable society and fulfill our social responsibility, we established U-POWER Co., Ltd. in December 2021.

As a result, net sales and operating profit of the Energy Business for the six months ended February 28, 2022 were ¥17,733 million (up 27.0% year on year) and ¥251 million (up 19.0% year on year), respectively.

(2) Explanation of Financial Position

1) Status of assets, liabilities and net assets

(Assets)

Total assets at the end of the second quarter of the fiscal year under review increased by ¥4,688 million compared with the end of the previous fiscal year to ¥146,005 million.

Current assets increased by ¥5,106 million compared with the end of the previous fiscal year to ¥65,798 million.

Non-current assets decreased by ¥418 million compared with the end of the previous fiscal year to ¥80,206 million mainly due to a decrease in goodwill of ¥1,498 million and an increase in deferred tax assets of ¥486 million as a result of the application of the Revenue Recognition Accounting Standard, etc.

(Liabilities)

Current liabilities increased by ¥3,829 million compared with the end of the previous fiscal year to ¥44,671 million.

Non-current liabilities decreased by ¥1,773 million compared with the end of the previous fiscal year to ¥65,365 million mainly due to a decrease in long-term borrowings of ¥1,510 million.

(Net assets)

Net assets increased by ¥2,632 million compared with the end of the previous fiscal year to ¥35,967 million mainly due to an increase in retained earnings of ¥2,606 million.

As a result of the application of the Revenue Recognition Accounting Standard, etc., retained earnings at the beginning of the period under review decreased by ¥990 million.

2) Status of cash flows

Cash and cash equivalents (hereinafter referred to as “net cash”) on a consolidated basis at the end of the six months ended February 28, 2022 was ¥23,086 million, an increase of ¥1,508 million compared with the end of the previous fiscal year. Primary factors for this were as follows.

(Cash flows from operating activities)

Net cash provided by operating activities for the six months ended February 28, 2022 was ¥9,313 million (¥12,775 million provided for the same period in the previous fiscal year). Primary factors for this were the recording of profit before income taxes of ¥7,777 million, depreciation of ¥2,746 million and amortization of goodwill of ¥1,498 million.

(Cash flows from investing activities)

Net cash used in investing activities for the six months ended February 28, 2022 was ¥3,878 million (¥189 million used for the same period in the previous fiscal year). Primary factors for this were a decrease in net cash of ¥2,152 million due to purchase of property, plant and equipment and a decrease in net cash of ¥985 million due to purchase of intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities for the six months ended February 28, 2022 was ¥3,927 million (¥5,194 million used for the same period in the previous fiscal year). Primary factor for this was a decrease in net cash of ¥3,090 million due to repayments of long-term borrowings.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

In regard to the consolidated financial results forecast, there are no changes to the full-year consolidated financial results forecast that was announced in the consolidated financial results dated October 14, 2021.

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed reasonable. Actual results may differ significantly from these forecasts due to various factors.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of August 31, 2021	As of February 28, 2022
Assets		
Current assets		
Cash and deposits	21,585	23,095
Notes and accounts receivable - trade	21,516	23,169
Inventories	6,874	7,570
Prepaid expenses	9,034	10,617
Other	2,666	2,361
Allowance for doubtful accounts	(985)	(1,016)
Total current assets	60,692	65,798
Non-current assets		
Property, plant and equipment	19,197	19,376
Intangible assets		
Goodwill	47,322	45,823
Other	5,103	5,149
Total intangible assets	52,425	50,972
Investments and other assets		
Other	14,145	14,999
Allowance for doubtful accounts	(5,144)	(5,142)
Total investments and other assets	9,000	9,857
Total non-current assets	80,624	80,206
Total assets	141,316	146,005
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,176	20,274
Electronically recorded obligations - operating	1,078	1,354
Current portion of long-term borrowings	4,580	3,000
Income taxes payable	928	2,596
Other provisions	563	237
Other	15,515	17,207
Total current liabilities	40,842	44,671
Non-current liabilities		
Long-term borrowings	59,430	57,920
Retirement benefit liability	2,345	2,327
Other provisions	177	190
Other	5,185	4,928
Total non-current liabilities	67,138	65,365
Total liabilities	107,981	110,037

(Million yen)

	As of August 31, 2021	As of February 28, 2022
Net assets		
Shareholders' equity		
Share capital	96	96
Capital surplus	11,091	11,091
Retained earnings	21,877	24,484
Treasury shares	(0)	(0)
Total shareholders' equity	33,065	35,672
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	6
Remeasurements of defined benefit plans	267	286
Total accumulated other comprehensive income	266	292
Non-controlling interests	3	3
Total net assets	33,334	35,967
Total liabilities and net assets	141,316	146,005

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
For the Six Months Ended February 28

(Million yen)

	For the six months ended February 28, 2021	For the six months ended February 28, 2022
Net sales	101,207	114,016
Cost of sales	60,744	71,714
Gross profit	40,463	42,302
Selling, general and administrative expenses	32,441	33,452
Operating profit	8,021	8,849
Non-operating income		
Foreign exchange gains	61	–
Subsidy income	13	31
Other	49	68
Total non-operating income	124	99
Non-operating expenses		
Interest expenses	375	339
Other	138	178
Total non-operating expenses	513	517
Ordinary profit	7,632	8,432
Extraordinary income		
Gain on sale of non-current assets	388	3
Other	238	–
Total extraordinary income	626	3
Extraordinary losses		
Loss on retirement of non-current assets	404	333
Loss on litigation	–	256
Other	148	67
Total extraordinary losses	553	657
Profit before income taxes	7,706	7,777
Income taxes	3,340	3,369
Profit	4,365	4,407
Loss attributable to non-controlling interests	(7)	(0)
Profit attributable to owners of parent	4,373	4,408

Quarterly Consolidated Statements of Comprehensive Income
For the Six Months Ended February 28

(Million yen)

	For the six months ended February 28, 2021	For the six months ended February 28, 2022
Profit	4,365	4,407
Other comprehensive income		
Valuation difference on available-for-sale securities	(37)	7
Remeasurements of defined benefit plans, net of tax	56	19
Total other comprehensive income	19	26
Comprehensive income	4,384	4,434
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,392	4,434
Comprehensive income attributable to non-controlling interests	(7)	(0)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended February 28, 2021	For the six months ended February 28, 2022
Cash flows from operating activities		
Profit before income taxes	7,706	7,777
Depreciation	2,523	2,746
Amortization of goodwill	1,798	1,498
Increase (decrease) in allowance for doubtful accounts	(66)	28
Increase (decrease) in retirement benefit liability	(652)	(18)
Interest and dividend income	(4)	(6)
Interest expenses	375	339
Loss on retirement of non-current assets	404	333
Loss (gain) on sale of non-current assets	(388)	(3)
Loss on litigation	–	256
Extra retirement payments	54	–
Decrease (increase) in trade receivables	(476)	(1,621)
Decrease (increase) in inventories	(1,125)	(695)
Decrease (increase) in prepaid expenses	(1,111)	(340)
Increase (decrease) in trade payables	4,256	2,108
Increase (decrease) in electronically recorded obligations-operating	1,370	282
Increase (decrease) in accounts payable - other	1,077	(402)
Other, net	(1,770)	(1,033)
Subtotal	13,970	11,250
Interest and dividends received	3	6
Interest paid	(371)	(339)
Extra retirement payments	(69)	(229)
Income taxes paid	(759)	(1,375)
Net cash provided by (used in) operating activities	12,775	9,313
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,162)	(2,152)
Proceeds from sale of property, plant and equipment	3,507	60
Payments for retirement of property, plant and equipment	(390)	(368)
Purchase of intangible assets	(1,292)	(985)
Proceeds from sale of investment securities	67	–
Other, net	82	(432)
Net cash provided by (used in) investing activities	(189)	(3,878)
Cash flows from financing activities		
Repayments of long-term borrowings	(4,670)	(3,090)
Dividends paid	(480)	(811)
Other, net	(43)	(25)
Net cash provided by (used in) financing activities	(5,194)	(3,927)
Net increase (decrease) in cash and cash equivalents	7,391	1,508
Cash and cash equivalents at beginning of period	16,776	21,578
Cash and cash equivalents at end of period	24,167	23,086

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after applying tax effect accounting to profit before income taxes for the fiscal year, including the second quarter of the fiscal year under review, and multiplying the profit before income taxes by this estimated effective tax rate.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Group has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Revenue Recognition Accounting Standard"), etc. effective from the beginning of the first quarter of the fiscal year under review, and has decided to recognize the amount expected to be received in exchange for goods or services as revenue when the control of the promised goods or services has been transferred to the customer. Major revisions due to the application of the Revenue Recognition Accounting Standard, etc. are as follows.

In the Content Distribution Business, regarding points granted to customers based on monthly fees paid by them, the amount corresponding to the points expected to be used in the future had previously been deducted from sales as provision for point expenses. However, the Group has shifted to the method by which revenue recognition is deferred until the points are used.

In the Store Services Business, the Group has shifted to the method by which it recognizes contract fee revenue over a certain period of time as performance obligations are satisfied over the contract period. In addition, for a transaction in which the Group acts as an agent, the Group recognizes revenue at the net amount after deducting the amount to be paid to the supplier from the amount to be received from the customer.

In the Communication Business, the Group has shifted to the method by which it recognizes contract fee revenue over a certain period of time as performance obligations are satisfied over the contract period. The Group has also shifted to the method by which incentives which had been treated as sales are deducted from the cost.

In the Energy Business, the Group has shifted from the previous method by which revenue is recognized as of the meter reading date to the method by which the revenue from the meter reading date to the end of the relevant accounting period is recognized using reasonable estimates.

The Revenue Recognition Accounting Standard, etc. are applied in accordance with the transitional procedures prescribed in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effect of the retrospective application, assuming the new accounting policy had been applicable to periods prior to the beginning of the first quarter of the fiscal year under review was added to or subtracted from the beginning balance of retained earnings of the first quarter of the fiscal year under review, and thus the new accounting policy was applied from the beginning balance. However, by applying the method prescribed in Paragraph 86 of the Revenue Recognition Accounting Standard, the new accounting policies have not been applied retrospectively to contracts for which almost all revenues had been recognized in accordance with the previous treatment before the beginning of the first quarter of the fiscal year under review.

As a result, for the six months ended February 28, 2022, net sales decreased by ¥681 million, cost of sales decreased by ¥777 million, selling, general and administrative expenses decreased by ¥0 million and operating

profit, ordinary profit and profit before incomes taxes increased by ¥96 million, respectively. In addition, retained earnings at beginning of period decreased by ¥990 million.

Due to the application of the Revenue Recognition Accounting Standard, etc., advances received and provision for sales promotion expenses which had been included in “Other” under “Current liabilities” in the consolidated balance sheet of the previous fiscal year are included in “Contract liabilities” included in “Other” from the first quarter of the fiscal year under review. In accordance with the transitional procedures prescribed in Paragraph 89-2 of the Revenue Recognition Accounting Standard, reclassification based on the new presentation method has not been carried out for the previous fiscal year. Furthermore, in accordance with the transitional procedures prescribed in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue arising in relation to contracts with customers in the second quarter of the previous fiscal year is not presented.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Group has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the “Fair Value Measurement Accounting Standard”), etc. effective from the beginning of the first quarter of the fiscal year under review, and has decided to prospectively apply the new accounting policies prescribed in the Fair Value Measurement Accounting Standard, etc. in accordance with the transitional measures prescribed in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). This will have no impact on quarterly consolidated financial statements.

(Additional information)

(Accounting estimates associated with the spread of COVID-19)

There are no significant changes in the assumptions used for the accounting estimates related to the impact of the spread of COVID-19 from those stated in “Additional information” in the securities report for the previous fiscal year.

(Segment information, etc.)

[Segment information]

I. Six months ended February 28, 2021 (From September 1, 2020 to February 28, 2021)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment						Adjustment (Note 1)	Amount recorded in the quarterly consolidated statements of income (Note 2)
	Content Distribution Business	Store Services Business	Communi- cations Business	Business Systems Business	Energy Business	Total		
Net sales								
Net sales to outside customers	28,313	27,389	23,145	8,381	13,963	101,193	14	101,207
Inter-segment sales or transfers	493	284	761	22	-	1,562	(1,562)	-
Total	28,806	27,674	23,907	8,404	13,963	102,756	(1,548)	101,207
Segment profit	3,209	4,674	2,029	1,181	211	11,306	(3,284)	8,021

(Notes) 1. The adjustment of segment profit of ¥(3,284) million includes elimination of inter-segment transactions and corporate expenses not allocated to each reportable segment. Corporate expenses are mainly selling, general and administrative expenses that are not attributable to reportable segments.

2. Segment profit is adjusted with operating profit in the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

II. Six months ended February 28, 2022 (From September 1, 2021 to February 28, 2022)

1. Information on net sales and profit (loss) and information on disaggregation of revenue by reportable segment

(Million yen)

	Reportable segment						Adjustment (Note 1)	Amount recorded in the quarterly consolidated statements of income (Note 2)
	Content Distribution Business	Store Services Business	Communi- cations Business	Business Systems Business	Energy Business	Total		
Net sales								
Goods transferred at a point in time	4,783	6,254	8,027	6,592	263	23,067	20	23,087
Goods transferred over a certain period of time	29,247	21,711	16,253	3,159	17,469	90,913	15	90,928
Revenue arising from contracts with customers	34,247	27,965	24,281	9,752	17,733	113,980	35	114,016
Net sales to outside customers	34,247	27,965	24,281	9,752	17,733	113,980	35	114,016
Inter-segment sales or transfers	561	308	976	43	-	1,890	(1,890)	-
Total	34,808	28,273	25,258	9,796	17,733	115,871	(1,854)	114,016
Segment profit	3,200	4,648	2,790	1,753	251	12,644	(3,794)	8,849

(Notes) 1. The adjustment of segment profit of ¥(3,794) million includes elimination of inter-segment transactions and corporate expenses not allocated to each reportable segment. Corporate expenses are mainly selling, general and administrative expenses that are not attributable to reportable segments.

2. Segment profit is adjusted with operating profit in the quarterly consolidated statements of income.

2. Matters on changes in reportable segments, etc.

As stated in changes in accounting policies above, the Group has applied the Revenue Recognition Accounting Standard, etc. effective from the beginning of the first quarter of the fiscal year under review, and has changed its accounting method of revenue recognition. Accordingly, the Group has also changed the method of calculating profit or loss for business segments.

As a result, compared to the previous method, the major effects by segment in the second quarter of the fiscal year under review are: a decrease of net sales by ¥42 million and a decrease of segment profit by ¥42 million in the Content Distribution Business; a decrease of net sales by ¥745 million and a decrease of segment profit by ¥60 million in the Store Services Business; an increase of net sales by ¥23 million and an increase of segment profit by ¥198 million in the Communications Business; and an increase of net sales by ¥84 million and an increase of segment profit by ¥1 million in the Energy Business.

3. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.