Consolidated Financial Results for the Six Months Ended February 28, 2023 [Japanese GAAP]

April 10, 2023

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 11, 2023
Scheduled date of commencing dividend payments: May 25, 2023
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, 2023 (September 1, 2022 – February 28, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
February 28, 2023	133,732	17.3	9,544	7.9	9,050	7.3	4,958	12.5
February 28, 2022	114,016	12.7	8,849	10.3	8,432	10.5	4,408	0.8

(Note) Comprehensive income: Six months ended February 28, 2023: ¥4,980 million [12.3%]
Six months ended February 28, 2022: ¥4,434 million [1.1%]

	Basic earnings per share	Diluted earnings per share	EBITDA		Adjusted EPS	
Six months ended	Yen	Yen	Million yen	%	Yen	%
February 28, 2023	82.64	82.60	14,131	7.9	108.80	10.7
February 28, 2022	73.37	73.32	13,094	6.1	98.31	(4.3)

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of February 28, 2023	159,096	37,886	23.8
As of August 31, 2022	153,007	40,281	26.3

(Reference) Equity: As of February 28, 2023: ¥37,884 million
As of August 31, 2022: ¥40,278 million

2. Dividends

	Annual dividend				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended August 31, 2022	–	0.00	–	15.00	15.00
Fiscal year ending August 31, 2023	–	10.00			
Fiscal year ending August 31, 2023 (Forecast)			–	10.00	20.00

(Note) Revision to the forecast for dividends announced most recently: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending August 31, 2023 (September 1, 2022 – August 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	247,000	3.8	18,400	6.2	17,300	6.5	9,200	5.9	153.10

	EBITDA		Adjusted EPS	
	Million yen	%	Yen	%
Full year	28,500	8.5	205.36	5.6

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

*** 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: None
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, 2023:	60,092,111 shares
August 31, 2022:	60,089,111 shares

2) Total number of treasury shares at the end of the period:

February 28, 2023:	2,540,872 shares
August 31, 2022:	72 shares

3) Average number of shares during the period:

Six months ended February 28, 2023:	59,992,416 shares
Six months ended February 28, 2022:	60,083,746 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, 2023 will become available today (April 10, 2023) on the Company's website and TDnet.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

The Group has the following five business segments: the Content Distribution Business through which we offer video distribution services for individuals, the Store Services Business through which we offer store DX services and music distribution services for commercial stores and facilities and support services to attract customers for stores, the Communications Business through which we offer networks and security services for offices and distribute internet services, etc., the Business Systems Business through which we offer automated payment machines and front operation management systems mainly for medical institutions and hotels, and the Energy Business through which we offer high- and low-voltage electricity for commercial stores and commercial facilities.

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

During the six months ended February 28, 2023, the Japanese government decided that it would, starting from May 2023, reclassify COVID-19 as Category V Infectious Diseases under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases, the same as seasonal influenza. It also declared that decision to wear a mask will be left to the discretion of each individual, marking a major step forward for the post-COVID-19 society. Under these circumstances, more customers have visited commercial stores and economic activities are returning to the pre-pandemic levels. In addition, easing of restrictions on entry into Japan has led to a recovery in the number of foreign visitors to Japan, and there have been positive signs in travel and hotel industries, as seen in an increase in the number of travelers on the back of the travel discount program resumed nationwide.

Meanwhile, inflation persists on a global scale against the backdrop of shortages in food and energy caused by the situation in Ukraine. The rush to raise prices continues in all sectors due to soaring raw material prices, transportation costs, and utility costs caused by depreciation of the yen, avian influenza, and other factors. As a result, businesses and commercial stores are forced to review the products they sell and their prices.

The soaring commodity prices may potentially result in a pullback in consumer spending as well as a decline in consumer confidence and fewer customers coming to the commercial stores. The business environment surrounding customers is becoming increasingly uncertain, including labor shortages and rising wages.

Under these circumstances, the Group, as a '"Social DX" company that makes the future closer,' has provided commercial stores and service users with products and services that meet various needs and problems through its business activities, and practiced our Group slogan, "Brighten the future."

As a result, regarding the financial results for the six months ended February 28, 2023, net sales were ¥133,732 million (up 17.3% year on year), operating profit was ¥9,544 million (up 7.9% year on year) and ordinary profit was ¥9,050 million (up 7.3% year on year). In addition, profit attributable to owners of parent was ¥4,958 million (up 12.5% year on year).

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

<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.

As of November 2022, “U-NEXT,” which provides abundant titles with unlimited viewing, offers more than 270,000 video titles such as movies and drama series, including rental titles, over 840,000 e-books including comics and book titles, and 170 plus magazines. “U-NEXT,” which allows users to seamlessly enjoy watching and reading with a single app, offers an entertainment experience crossing the borders of genres.

During the six months ended February 28, 2023, the demand driven by the stay-at-home economy is becoming lower due to reasons such as increased opportunities to go out and an increase in the number of people working in the office, as there have been no restrictions on movement of people imposed in the era of coexistence with and post COVID-19. We also saw large audiences returning to real events such as live performances and concerts.

Under these circumstances, “U-NEXT” membership has been increasing steadily. As the competitive environment related to content is becoming more intensified, in addition to the conventional “Coverage Strategy,” we have developed “ONLY ON Strategy.” Under this new strategy, we upgraded the Company’s exclusive titles, such as by launching exclusive distribution of new releases, much-talked-about titles, and high-profile sports content including PGA tour, JLPGA women’s professional golf tour and BELLATOR MMA, as well as by start offering live distribution of music content. Through such initiatives, we 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.”

In addition, with focus on the “experience of watching a movie in a movie theater,” we are aiming to achieve “video distribution services that will encourage more customers to visit the movie theaters,” by enabling ticket purchases with “U-NEXT points.”

Although the yen continues to depreciate in the foreign exchange market, exchange rates have stabilized after a sharp drop in the second half of last year, and the impact on content procurement costs has been limited.

As a result, net sales and operating profit of the Content Distribution Business for the six months ended February 28, 2023 were ¥38,605 million (up 10.9% year on year) and ¥3,323 million (up 3.8% 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., U’S MUSIC Co., Ltd., and VIRTUAL RESTAURANT CO., LTD. The business provides, sells, and implements store solutions including music distribution, offers support services for restaurants to attract customers, and manages and develops music copyright, etc.

In our music distribution service, we provide commercial stores, chain stores, and individual customers across Japan with music, information, etc. through optimal infrastructure, using dedicated receiving terminal devices.

In addition, in our store DX services, we provide solutions necessary for store management, which include the “USEN Regi” POS cash register, the “USEN Pay” cashless payment service, support services for restaurants to attract customers, IoT services including Wi-Fi and IP cameras, rent guarantee services, and non-life insurance services.

Capitalizing on its stable revenue base centered on music distribution services, the business plans to actively develop the store DX market. To this end, we have worked to maintain and expand transactions with commercial stores and chain store customers across Japan, acquire new customers, and improve our brand power.

During the six months ended February 28, 2023, at USEN CORPORATION, under the mission of “Create Stores’ Future,” we offer total support for store DX, which is indispensable for store management. We promote 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, and also provide comprehensive support for service implementation and follow-up. As such, we have been proposing store management from a new perspective. In particular, we are working on activities to solve problems of customers such as personnel shortage in the era of coexistence with and post COVID-19 and an improvement in productivity by proactively focusing on the introduction of catering service robots to restaurants so that the customers can offer services to visitors safely and efficiently with no contact. In addition, we started providing “USEN MUSIC” free of charge to Children’s Cafeterias (volunteer-run cafeterias providing free or inexpensive meals to children) at 100 locations nationwide that serve as a local community hub to support environmental improvements at their facilities. Going forward, we will contribute to the local communities to help build a sustainable society, by leveraging our strength of having contacts with numerous customers and networks with the local communities.

In USEN Media CORPORATION, we operate “Hitosara” and provide “Tabelog” services which help restaurants attract customers. Customer stores are finally recovering their pre-COVID-19 status. The “SAVOR JAPAN” website, which offers gourmet information for foreign visitors to Japan, has seen a significant rise in the number of reservations made since the restriction on acceptance of such travelers was lifted. We expect that demand of foreign visitors to Japan will continue to grow further in the future. We will continue to focus on offering highly convenient services for both food providers and consumers as a medium connecting the two sides and promoting DX to attract customers in collaboration with outside partners, with the mission of “Contributing to the present and future of restaurants.”

VIRTUAL RESTAURANT CO., LTD. has focused on promoting the acquisition of franchisees by leveraging sales channels of the Group companies and developing new food delivery brands since it joined the Group in September 2022.

As a result, net sales and operating profit of the Store Services Business for the six months ended February 28, 2023 were ¥30,630 million (up 8.3% year on year) and ¥4,730 million (up 1.8% 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.

For stores and facilities, we offer a variety of services according to needs of customers, such as “USEN Hikari plus,” an optical line service provided by the Company; “USEN NET,” an ISP; and a next-generation IP telephone service. For offices, we provide services through our “USEN GATE 02” brand, and propose and sell ICT environment construction services as a “multi-service vendor” of ICT solutions, capitalizing on our strengths in that we are capable of proposing network, security, and cloud services comprehensively.

For individuals, we provide a MVNO service “y.u mobile,” which offers simple pricing plans and has been favorably received by customers since the launch of the service.

During the six months ended February 28, 2023, the activities to acquire new orders for communication lines, network and security services mainly for medium to small enterprises continued to see strong performance.

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. It also proposes 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.

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.

While remote working arrangements and online meetings have taken root in the era of coexistence with and post COVID-19, there are growing needs to introduce tools for business efficiency improvement and labor saving, and we have also worked to propose new service introduction for enterprises.

Moreover, 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.

At USEN NETWORKS Co., Ltd., we saw a steady increase in the number of acquisition of new customers for "USEN Hikari plus," an optical line service for corporations provided by the Company, and we are striving to make a shift from a model of acquiring one-shot fees to a model of acquiring running revenue.

Furthermore, in addition to creating an environment for remote work, in response to increasing needs for enjoying music, video distribution and other services through the Internet, we started to provide "USEN Hikari 01," an optical line service for individuals.

As a result, net sales and operating profit of the Communications Business for the six months ended February 28, 2023 were ¥26,456 million (up 4.7% year on year) and ¥2,839 million (up 1.7% year on year), respectively.

<Business Systems Business>

The Business Systems Business is operated by ALMEX INC., a consolidated subsidiary.

Under the slogan "Techno-hospitality (Technology x Hospitality) to the world," it aims to provide clients and end-users behind them with "ultimate hospitality" through products and services making use of the latest technologies, and develops, manufactures, sells, and maintains automated payment machines, hotel management systems, reception machines, guidance display machines, etc. for such clients as business hotels, city hotels, leisure hotels, hospitals, clinics, and golf courses. It also sells order terminals and operating systems for restaurants.

During the six months ended February 28, 2023, new non-contact and non-face-to-face needs have emerged in the era of coexistence with and post COVID-19 even at facilities where the services had previously centered on omotenashi (hospitality) by people and had little need for smaller workforces and labor savings using automated payment machines and other devices. We have taken this situation as a big business opportunity and made proactive efforts to solve issues and meet needs that newly emerged at facilities.

The number of guests in hotels is expected to increase in the future thanks to an impact of the nationwide travel discount program and the return of foreign visitors to Japan as more countries and regions are allowing entry without restrictions. Under such circumstances, measures to control infection need to be taken on an ongoing basis, and we are focusing on provision of products and services to solve various problems including labor shortage.

For hospitals and clinics, we started the sale of "FIT-B for Clinic," a new industry's smallest self-service cash register, in response to the situation where it is difficult to allocate a sufficient number of staff to reception desks due to labor shortage and work style reforms, as well as to the needs for accepting visits on a non-face-to-face basis and saving space. As such, we diversify payment methods and achieve labor saving.

In addition, we have started collaboration with JA MITSUI LEASING, LTD. to provide one-stop support services ranging from financing for the opening of hospitals and clinics and the renewal of installed equipment to the introduction of DX products, including next generation KIOSK terminals, handled by ALMEX INC.

Regarding "Sma-pa Myna Touch," a card reader with face recognition functions compatible with an online eligibility confirmation system, the Ministry of Health, Labour and Welfare has decided to set a partial grace period for the introduction of an online eligibility confirmation system that is to be mandatory from April 2023; however, we continue with our efforts to promote the introduction of the card reader with face recognition functions to promote DX across medical institutions.

As a result, net sales and operating profit of the Business Systems Business for the six months ended February 28, 2023 were ¥9,366 million (down 4.4% year on year) and ¥1,270 million (down 27.6% year on year), respectively.

<Energy Business>

The Energy Business is operated by USEN CORPORATION and U-POWER Co., Ltd., our consolidated subsidiaries, and offers "USEN Electricity," "USEN GAS," and "U-POWER" services.

USEN CORPORATION, through business alliance with the TEPCO Group, offers energy consulting services which include low-voltage electricity for commercial stores, high-voltage electricity for commercial facilities, intermediary in sale of city gas services, and proposals of energy-saving measures.

In addition, U-POWER Co., Ltd. has been promoting the use of greener energy at stores in Japan by providing three plans with different green energy rates to help these stores achieve SDGs.

During the six months ended February 28, 2023, although situation continued to be unstable as power generation costs remained high and major electric power companies applied for price increases, the Group's services saw an increase in sales due to higher fuel cost adjustment unit prices.

In "USEN Electricity (high-voltage)," we continued to see a certain number of cancellations due to soaring electricity prices. U-POWER Co., Ltd. has received orders from customers who cancelled the contracts for "USEN Electricity (high-voltage)," and promoted subscription to services by offering plans designed for enterprises which are facing difficulty in entering into contracts with electric power companies while many new electric power companies have ceased to receive new orders.

As a result, net sales and operating profit of the Energy Business for the six months ended February 28, 2023 were ¥30,288 million (up 70.8% year on year) and ¥1,068 million (up 325.2% 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 ¥6,089 million compared with the end of the previous fiscal year to ¥159,096 million.

Current assets increased by ¥5,873 million compared with the end of the previous fiscal year to ¥81,225 million mainly due to a decrease in cash and deposits of ¥3,676 million and increases in notes and accounts receivable - trade of ¥3,289 million; inventories of ¥2,039 million; and prepaid expenses of ¥3,850 million.

Non-current assets increased by ¥215 million compared with the end of the previous fiscal year to ¥77,871 million.

(Liabilities)

Current liabilities increased by ¥270 million compared with the end of the previous fiscal year to ¥52,027 million.

Non-current liabilities increased by ¥8,214 million compared with the end of the previous fiscal year to ¥69,182 million mainly due to an increase in bonds payable of ¥10,000 million and a decrease in long-term borrowings of ¥1,500 million.

(Net assets)

Net assets decreased by ¥2,395 million compared with the end of the previous fiscal year to ¥37,886 million mainly due to increases in retained earnings of ¥3,949 million; and treasury shares purchased for conducting a share exchange of ¥6,367 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, 2023 was ¥22,679 million, a decrease of ¥3,702 million compared with the end of the previous fiscal year. Primary factors for this were as follows.

(Cash flows from operating activities)

Net cash used in operating activities for the six months ended February 28, 2023 was ¥591 million (¥9,313 million provided for the same period in the previous fiscal year). Primary factors for this were the recording of profit before income taxes of ¥8,602 million, depreciation of ¥3,017 million and amortization of goodwill of ¥1,569 million, an increase in trade receivables of ¥3,240 million, an increase in inventories of ¥2,026 million, an increase in prepaid expenses of ¥3,813 million and a decrease in net cash of ¥4,663 million due to income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities for the six months ended February 28, 2023 was ¥4,836 million (¥3,878 million used for the same period in the previous fiscal year). Primary factors for this were a decrease in net cash of ¥2,214 million due to purchase of property, plant and equipment and a decrease in net cash of ¥1,049 million due to purchase of intangible assets.

(Cash flows from financing activities)

Net cash provided by financing activities for the six months ended February 28, 2023 was ¥1,726 million (¥3,927 million used for the same period in the previous fiscal year). Primary factors for this were an increase in net cash of ¥10,000 million due to issuance of bonds, a decrease in net cash of ¥6,367 million due to purchase of treasury shares and a decrease in net cash of ¥3,950 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 13, 2022.

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, 2022	As of February 28, 2023
Assets		
Current assets		
Cash and deposits	26,390	22,714
Notes and accounts receivable - trade	25,987	29,276
Inventories	7,808	9,848
Prepaid expenses	13,528	17,379
Other	2,671	3,097
Allowance for doubtful accounts	(1,035)	(1,090)
Total current assets	75,351	81,225
Non-current assets		
Property, plant and equipment	19,143	19,031
Intangible assets		
Goodwill	44,324	44,161
Other	5,462	5,776
Total intangible assets	49,787	49,937
Investments and other assets		
Other	13,905	14,158
Allowance for doubtful accounts	(5,179)	(5,255)
Total investments and other assets	8,725	8,902
Total non-current assets	77,655	77,871
Total assets	153,007	159,096
Liabilities		
Current liabilities		
Notes and accounts payable - trade	21,979	22,763
Electronically recorded obligations - operating	1,517	1,760
Short-term borrowings	–	3,000
Current portion of long-term borrowings	5,450	3,000
Income taxes payable	3,600	2,579
Other provisions	152	293
Other	19,057	18,631
Total current liabilities	51,757	52,027
Non-current liabilities		
Bonds payable	–	10,000
Long-term borrowings	53,970	52,470
Retirement benefit liability	2,348	2,351
Other provisions	152	160
Other	4,497	4,200
Total non-current liabilities	60,968	69,182
Total liabilities	112,725	121,210

(Million yen)

	As of August 31, 2022	As of February 28, 2023
Net assets		
Shareholders' equity		
Share capital	96	97
Capital surplus	11,092	11,092
Retained earnings	28,763	32,712
Treasury shares	(0)	(6,367)
Total shareholders' equity	39,952	37,534
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25	29
Remeasurements of defined benefit plans	301	319
Total accumulated other comprehensive income	326	349
Non-controlling interests	2	2
Total net assets	40,281	37,886
Total liabilities and net assets	153,007	159,096

(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, 2022	For the six months ended February 28, 2023
Net sales	114,016	133,732
Cost of sales	71,714	89,065
Gross profit	42,302	44,667
Selling, general and administrative expenses	33,452	35,122
Operating profit	8,849	9,544
Non-operating income		
Share of profit of entities accounted for using equity method	–	39
Other	99	96
Total non-operating income	99	135
Non-operating expenses		
Interest expenses	339	354
Commission expenses	87	165
Other	91	110
Total non-operating expenses	517	630
Ordinary profit	8,432	9,050
Extraordinary income		
Other	3	0
Total extraordinary income	3	0
Extraordinary losses		
Loss on retirement of non-current assets	333	405
Other	324	41
Total extraordinary losses	657	447
Profit before income taxes	7,777	8,602
Income taxes	3,369	3,645
Profit	4,407	4,957
Loss attributable to non-controlling interests	(0)	(0)
Profit attributable to owners of parent	4,408	4,958

Quarterly Consolidated Statements of Comprehensive Income

For the Six Months Ended February 28

(Million yen)

	For the six months ended February 28, 2022	For the six months ended February 28, 2023
Profit	4,407	4,957
Other comprehensive income		
Valuation difference on available-for-sale securities	7	4
Remeasurements of defined benefit plans, net of tax	19	18
Total other comprehensive income	26	22
Comprehensive income	4,434	4,980
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,434	4,980
Comprehensive income attributable to non-controlling interests	(0)	(0)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended February 28, 2022	For the six months ended February 28, 2023
Cash flows from operating activities		
Profit before income taxes	7,777	8,602
Depreciation	2,746	3,017
Amortization of goodwill	1,498	1,569
Increase (decrease) in allowance for doubtful accounts	28	131
Increase (decrease) in retirement benefit liability	(18)	2
Interest and dividend income	(6)	(7)
Interest expenses	339	354
Loss on retirement of non-current assets	333	405
Loss (gain) on sale of non-current assets	(3)	–
Decrease (increase) in trade receivables	(1,621)	(3,240)
Decrease (increase) in inventories	(695)	(2,026)
Decrease (increase) in prepaid expenses	(340)	(3,813)
Increase (decrease) in trade payables	2,108	720
Increase (decrease) in electronically recorded obligations-operating	282	284
Increase (decrease) in accounts payable - other	(402)	(935)
Other, net	(1,005)	(646)
Subtotal	11,021	4,418
Interest and dividends received	6	7
Interest paid	(339)	(354)
Income taxes paid	(1,375)	(4,663)
Net cash provided by (used in) operating activities	9,313	(591)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,152)	(2,214)
Purchase of intangible assets	(985)	(1,049)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(1,243)
Other, net	(740)	(328)
Net cash provided by (used in) investing activities	(3,878)	(4,836)
Cash flows from financing activities		
Proceeds from short-term borrowings	–	3,000
Repayments of long-term borrowings	(3,090)	(3,950)
Proceeds from issuance of bonds	–	10,000
Purchase of treasury shares	(0)	(6,367)
Dividends paid	(811)	(901)
Other, net	(25)	(54)
Net cash provided by (used in) financing activities	(3,927)	1,726
Net increase (decrease) in cash and cash equivalents	1,508	(3,702)
Cash and cash equivalents at beginning of period	21,578	26,381
Cash and cash equivalents at end of period	23,086	22,679

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

We conducted acquisition of 2,540,800 treasury shares based on the resolution at the meeting of the Board of Directors held on February 17, 2023. As a result, during the six months ended February 28, 2023, treasury shares increased by ¥6,367 million, resulting in treasury shares of ¥6,367 million at the end of the second quarter of the fiscal year under review.

(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.

(Segment information, etc.)

[Segment information]

I. 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	25,922	20	25,942
Goods transferred over a certain period of time	29,463	21,711	16,253	3,159	17,469	88,058	15	88,073
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. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

II. Six months ended February 28, 2023 (From September 1, 2022 to February 28, 2023)

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	4,701	7,483	8,053	6,039	561	26,839	23	26,863
Goods transferred over a certain period of time	33,726	22,846	17,260	3,296	29,721	106,850	18	106,869
Revenue arising from contracts with customers	38,427	30,330	25,314	9,336	30,282	133,690	41	133,732
Net sales to outside customers	38,427	30,330	25,314	9,336	30,282	133,690	41	133,732
Inter-segment sales or transfers	177	300	1,142	30	6	1,657	(1,657)	-
Total	38,605	30,630	26,456	9,366	30,288	135,347	(1,615)	133,732
Segment profit	3,323	4,730	2,839	1,270	1,068	13,232	(3,687)	9,544

(Notes) 1. The adjustment of segment profit of ¥(3,687) 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.

(Significant subsequent events)

The Company passed a resolution at the meeting of the Board of Directors held on February 17, 2023 to conduct a share exchange, in which the Company will become the wholly-owning parent company in the share exchange and Premium Platform Japan, Inc. ("Premium Platform Japan") will become the wholly-owned subsidiary in the share exchange (the "Share Exchange") and to conduct an absorption-type merger effective on March 31, 2023, in which U-NEXT Co., Ltd., a consolidated subsidiary of the Company, will become the surviving company in the absorption-type merger and Premium Platform Japan, after becoming a consolidated subsidiary of the Company through the Share Exchange, will become the disappearing company in the absorption-type merger (the "Merger"). The Company conducted the Share Exchange and the Merger on March 31, 2023.

(Business combination through acquisition)

(1) Outline of the business combination

1. Name and business of the company acquired
   - Name of the company acquired: Premium Platform Japan, Inc.
   - Description of its business: Operation, etc. of platforms for video distribution and other purposes
2. Main purpose of the business combination

   The Group aims to increase its corporate value by further raising the presence in the market as a content distribution platform alliance originating in Japan through optimal and effective use of management resources of the Group and maximization of synergies arising from integration of management between U-NEXT Co., Ltd. and Premium Platform Japan.

3. Date of the business combination
   March 31, 2023
4. Legal form of the business combination
   Share exchange through which the Company becomes the wholly-owning parent company and Premium Platform Japan becomes the wholly-owned subsidiary
5. Name following the business combination
   Premium Platform Japan, Inc.
6. Ratio of voting rights acquired
   100%
7. Major grounds for deciding on the acquiring company
   The Company acquired all shares of Premium Platform Japan in consideration of shares

(2) Acquisition costs of the company acquired and breakdown by type of consideration

- Consideration for acquisition:
  Market value of the Company's common shares issued on the date of the business combination: ¥6,506 million
- Acquisition costs: ¥6,506 million

(3) Exchange ratio by type of shares, its calculation method and number of shares issued

1. Exchange ratio by type of shares
   7.94 common shares of the Company have been allotted for one common share of Premium Platform Japan
2. Calculation method of share exchange ratio
   In order to ensure the fairness and appropriateness in deciding the share exchange ratio (the "Share Exchange Ratio"), the Company requested Daiwa Securities Co., Ltd. ("Daiwa Securities"), which is a third-party calculation agency independent of the Company and Premium Platform Japan to calculate the share exchange ratio.
   The Company made careful examinations based on the calculation document regarding the share exchange ratios received from Daiwa Securities, held discussions and negotiations with Premium Platform Japan upon comprehensively considering such factors as the financial positions, trends in operating results, etc. of the Company and Premium Platform Japan, and judged that the final Share Exchange Ratio is within the range of the share exchange ratios calculated by Daiwa Securities and is appropriate in that it does not impair the interests of shareholders of the Company and Premium Platform Japan. Accordingly, the Company agreed to conduct the Share Exchange at the Share Exchange Ratio.
3. Number of shares issued
   2,540,800 shares
   (Note)The shares delivered in this stock swap were treasury shares held by the company.

(4) Description and amount of major expenses related to the acquisition
Advisory fees and other costs: ¥182 million (approximation)

(5) Amount of goodwill that accrued, the cause for the accrual, the amortization method and the amortization period
They have not yet been determined at this point in time.

(Absorption-type merger between consolidated subsidiaries)

(1) Outline of the transactions

1. Name and business of companies in the business combination
   - Name of the combining company (surviving company)
     Name: U-NEXT Co., Ltd. (consolidated subsidiary of the Company)
     Description of its business: Operation, etc. of platforms for video distribution and other purposes
   - Name of the combined company (disappearing company)
     Name: Premium Platform Japan, Inc. (consolidated subsidiary of the Company)
     Description of its business: Operations, etc. of platforms for video distribution and other purposes
2. Date of the business combination
   March 31, 2023
3. Legal form of the business combination
   Absorption-type merger through which U-NEXT Co., Ltd. becomes the surviving company and Premium Platform Japan becomes the disappearing company
4. Name following the business combination
   U-NEXT Co., Ltd.
5. Other matters related to outline of the transactions
   The Group aims to increase its corporate value by further raising the presence in the market as a content distribution platform alliance originating in Japan through optimal and effective use of management resources of the Group and maximization of synergies arising from integration of management between its consolidated subsidiaries conducting operation, etc. of platforms for video distribution and other purposes.

(2) Summary of accounting treatment conducted

The Company will treat the absorption-type merger as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(Refinancing of borrowings)

The Company passed a resolution at the meeting of the Board of Directors held on March 17, 2023 to implement refinancing of all of the current syndicated loans through origination of a new syndicated loan, and accordingly concluded the agreement on March 28, 2023 and implemented refinancing of all of the existing borrowings effective March 31, 2023.

1. Purpose and expected effects of the financing

   The Company implemented refinancing of all of the existing borrowings with more favorable financing terms with the purpose of providing stronger financial support for the implementation of the Group's future management strategies.

   More specifically, such financing terms include elimination of some of the financial covenants, namely, "maintenance of gross leverage ratio" and "maintenance of debt service coverage ratio" on a consolidated basis; relaxation of the "prohibition of ordinary loss" from a single fiscal year to two consecutive fiscal years; elimination of the pledge of the Group's assets as collateral for the loan obligations; extension of the final repayment due date from September 30, 2026 to March 31, 2030; and expectation for significantly lower capital expenses during the term of the loan due to revisions to the borrowing interest rate and conditions for repayment of the borrowed principal amount.

   Through the refinancing, we aim to secure the cash position with stable long-term funds and implement flexible growth investments using those funds, and thereby continue to enhance corporate value in line with the Group's medium-term management plan and business strategies.

2. Summary of the syndicated loan agreement

(1) Total amount originated:	¥55.22 billion
(2) Agreement date:	March 28, 2023
(3) Borrowing date:	March 31, 2023
(4) Final repayment due date:	March 31, 2030
(5) Lead arranger:	Mizuho Bank, Ltd.
(6) Participating financial institutions:	10 financial institutions including Mizuho Bank, Ltd.
(7) Collateral:	None
(8) Applicable interest rate:	Variable interest rate based on JBA Japanese Yen TIBOR + spread
(9) Other:	Financial covenants

   a. Maintaining profit

      To not cause ordinary profit on a consolidated basis with the borrower at the top, as of the end of each fiscal year, to be in the deficit for two consecutive fiscal years after the fiscal year ending August 31, 2023 (including the fiscal year ending August 31, 2023)

   b. Maintaining net assets

      To maintain total net assets on the consolidated balance sheet with the borrower at the top, as of the end of each fiscal year, at least ¥14.0 billion and at least 75% of total net assets on the consolidated balance sheet with the borrower at the top, as of the end of each immediately preceding fiscal year, in and after the fiscal year ending August 31, 2023 (including the fiscal year ending August 31, 2023).