

Consolidated Financial Results for the Nine Months Ended May 31, 2023 [Japanese GAAP]

July 10, 2023

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

Stock exchange listing: Tokyo Stock Exchange

Code number: 9418

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Scheduled date of filing quarterly securities report: July 11, 2023

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 Nine Months Ended May 31, 2023 (September 1, 2022 – May 31, 2023)

(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	%
Nine months ended								
May 31, 2023	202,097	15.7	15,567	15.1	14,664	14.5	8,369	22.9
May 31, 2022	174,712	13.5	13,530	7.9	12,810	7.4	6,807	1.7

(Note) Comprehensive income: Nine months ended May 31, 2023: ¥8,417 million [23.3%]

Nine months ended May 31, 2022: ¥6,827 million [1.8%]

	Basic earnings per share		Diluted earnings per share		EBITDA		Adjusted EPS	
	Yen		Yen		Million yen	%	Yen	%
Nine months ended								
May 31, 2023	140.08		140.00		22,614	12.9	179.47	19.1
May 31, 2022	113.31		113.23		20,023	5.0	150.73	(2.0)

(2) Consolidated Financial Position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of May 31, 2023	171,916		49,763		28.7	
As of August 31, 2022	153,007		40,281		26.3	

(Reference) Equity: As of May 31, 2023: ¥49,330 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)				11.00	21.00

(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
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	270,000	13.5	20,500	18.3	19,000	17.0	10,500	20.9	175.74

	EBITDA		Adjusted EPS	
Full year	Million yen	%	Yen	%
	30,000	14.2	227.63	17.0

(Note) Revision to the financial results forecast announced most recently: Yes

*** 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 14 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):

May 31, 2023:	60,093,611 shares
August 31, 2022:	60,089,111 shares
 - 2) Total number of treasury shares at the end of the period:

May 31, 2023:	74 shares
August 31, 2022:	72 shares
 - 3) Average number of shares during the period:

Nine months ended May 31, 2023:	59,747,208 shares
Nine months ended May 31, 2022:	60,084,013 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 nine months ended May 31, 2023 will become available today (July 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 store customers, 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 nine months ended May 31, 2023, the reclassification of COVID-19 as Category V Infectious Disease under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases on May 8, 2023 marked a major step forward for the post-COVID-19 society. Economic and social activities were returning to pre-COVID-19 conditions, with more customers visiting commercial stores, people starting to attend events again, and operating rates going back to normal at various facilities.

Domestic travel has also been on a recovery trend and presented generally positive signs, such as an increase in the number of foreign visitors to Japan, which had been trending low due to the COVID-19 pandemic, partly owing to the weaker yen, and an imminent recovery of consumption by visitors to Japan to the pre-pandemic levels.

Meanwhile, due to a serious labor shortage and increasing labor costs, as well as soaring raw material prices, transportation costs, and utility costs, the prices of various things have continued to rise. Rising consumer prices have diminished consumers' willingness to buy, making the business environment surrounding customers even more uncertain.

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.”

In the B to C domain, U-NEXT Co., Ltd. and Premium Platform Japan, Inc., which operates “Paravi,” integrated their management on March 31, 2023. Through the integration, 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.

As a result, regarding the financial results for the nine months ended May 31, 2023, net sales were ¥202,097 million (up 15.7% year on year), operating profit was ¥15,567 million (up 15.1% year on year) and ordinary profit was ¥14,664 million (up 14.5% year on year). In addition, profit attributable to owners of parent was ¥8,369 million (up 22.9% 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 June 2023, “U-NEXT,” which provides abundant titles with unlimited viewing, offers more than 310,000 video titles such as movies and drama series, including rental titles, over 910,000 e-books including comics and book titles, and 180 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. In addition, U-NEXT Co., Ltd. integrated its management with that of Premium Platform Japan, Inc., which operates “Paravi,” with an effective date of March 31, 2023. “Paravi” provides rich content, including the latest titles and spin-offs mainly in the genres of dramas and variety shows in tandem with television broadcasts.

During the nine months ended May 31, 2023, economic and social activities were also going back to normal; opportunities to go out has increased, and thanks to the lifting of restrictions, large audiences have returned to in-person events, such as live performances and concerts, as before.

Even under these circumstances, “U-NEXT” membership has been increasing steadily, and as of May 31, 2023, the number of paid members topped 3 million.

As the competitive environment related to content is becoming more intensified, under the mission of “The best times, any time, and only for you.,” we have developed “ONLY ON Strategy” in addition to the conventional “Coverage 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, as well as by starting to offer 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 March 2023, in partnership with LIVE SPORTS MEDIA Co., Ltd., which operates “SPOTV NOW,” we launched the “SPOTV NOW Pack,” which allows subscribers to watch an extensive lineup of programs, including the Premier League, Lega Serie A, Major League Baseball (MLB), etc., live at no additional charge.

In addition, drawing on our overwhelmingly large program lineup, we launched a web medium “U-NEXT SQUARE” to generate opportunities for people to come into contact with movies, dramas, animations, and other various content.

Furthermore, 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.”

The yen has continued to trend lower in the foreign exchange market, having a certain impact on content procurement costs.

From July 2023, through the integration of the services of “U-NEXT” and “Paravi,” we will work to reduce the business operation costs currently incurred separately by both services.

As a result, net sales and operating profit of the Content Distribution Business for the nine months ended May 31, 2023 were ¥60,625 million (up 14.5% year on year) and ¥5,063 million (up 2.6% 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 nine months ended May 31, 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 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, the frequent occurrence of shoplifting these days has become a serious problem in stores in the retail and service industries. For this reason, under the supervision of the National Organization for Shoplifting Prevention, we have started to offer the “Anti-shoplifting Announcements” service, which is designed for use inside stores to suppress the crime. We have thus worked to solve the urgent problem of our customers.

In USEN Media CORPORATION, we operate “Hitosara” and provide “Tabelog” services which help restaurants attract customers. Customer stores are recovering their pre-COVID-19 status.

The “SAVOR JAPAN” website, which offers gourmet information for foreign visitors to Japan, has started to coordinate with TableCheck Inc.’s reservation system for restaurants and provide a service that enables smooth reservations via the “SAVOR JAPAN” for the ever-increasing foreign visitors to Japan.

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. The company and USEN Media CORPORATION have released a new delivery brand series “Hitosara CHEF’S KITCHEN” and started to offer menus created in collaboration with popular chefs.

Furthermore, as rent guarantee and other guarantee-related businesses, which are currently conducted by USEN CORPORATION, are growing rapidly in Japan, we newly established USEN TRUST Co., Ltd. as of July 3, 2023 in order to further expand the businesses as a group-wide endeavor.

As a result, net sales and operating profit of the Store Services Business for the nine months ended May 31, 2023 were ¥47,135 million (up 9.2% year on year) and ¥7,435 million (up 5.7% 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 the 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 an 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 nine months ended May 31, 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 addition, fee income increased in the sales agency business as we captured the demand, which increased at the end of the fiscal year.

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, there are also growing needs to introduce tools for business efficiency improvement and labor saving, and we have also worked to propose new service introduction for enterprises.

Even after the reclassification of COVID-19 as Category V Infectious Disease, the rate of office attendance has not increased significantly, and working from home is still prevalent. It is thus unclear how far the return to the office will progress in the future.

Consequently, we have also engaged in proposal activities with the use of tools to resolve the lingering issue of how internal communications should take place in companies between 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 nine months ended May 31, 2023 were ¥41,644 million (up 6.9% year on year) and ¥4,684 million (up 8.4% 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 nine months ended May 31, 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. As this trend is expected to continue in the future, we have taken this situation as a big business opportunity and made proactive efforts to solve issues and meet the needs that newly emerged at facilities.

In the hotel industry, domestic travel is on the road to recovery due to the reclassification of COVID-19 as Category V Infectious Disease. While there were positive signs, such as a sharp rise in hotel rates during the Golden Week partly due to an increase in the number of foreign visitors to Japan, there was a situation in which the supply of guest rooms was constrained attributable to a serious labor shortage. There will thus be a growing need for smaller workforces and labor savings in the future, and we are focusing on the provision of products and services to meet the need.

In addition, USEN-NEXT Tourism Design Lab. held a hybrid seminar under the theme of the “Resumption of

Inbound Travel” and introduced cases and solutions of various activities that we performed in the past in collaboration with people from local communities as part of our effort to propose solutions for issues in responding to the increase in demand for inbound travel.

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.

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.

The Japanese government has decided to issue new banknotes in the first half of 2024. As no definite date has been announced, however, most of the facilities have continued to delay the introduction of machines compatible with the new banknotes or the replacement of old ones.

As a result, net sales and operating profit of the Business Systems Business for the nine months ended May 31, 2023 were ¥13,811 million (down 3.4% year on year) and ¥1,820 million (down 25.5% 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 and facilities in Japan by providing three plans with different green energy rates to help these stores and facilities achieve SDGs.

During the nine months ended May 31, 2023, we saw constant changes in the market conditions; while power generation costs were on a downward trend, major electric power companies made revisions to their rate menus (standard menus) and obtained approval for raising their regulated electricity rates.

In “U-POWER (high-voltage),” we proposed menus to serve customers of “USEN Electricity (high-voltage),” in which we continued to see a certain number of cancellations due to soaring electricity prices, and promoted subscription to our services. In addition, sales of “U-POWER (low-voltage)” have also continued to expand through agent channels, and the number of its customers has steadily been increasing.

As a result, net sales and operating profit of the Energy Business for the nine months ended May 31, 2023 were ¥41,667 million (up 47.5% year on year) and ¥2,165 million (up 490.4% 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 third quarter of the fiscal year under review increased by ¥18,908 million compared with the end of the previous fiscal year to ¥171,916 million.

Current assets increased by ¥14,076 million compared with the end of the previous fiscal year to ¥89,428 million mainly due to increases in cash and deposits of ¥1,481 million; notes and accounts receivable - trade of ¥1,723 million; inventories of ¥2,448 million; and prepaid expenses of ¥7,124 million.

Non-current assets increased by ¥4,832 million compared with the end of the previous fiscal year to ¥82,487 million.

(Liabilities)

Current liabilities increased by ¥2,194 million compared with the end of the previous fiscal year to ¥53,951 million.

Non-current liabilities increased by ¥7,232 million compared with the end of the previous fiscal year to ¥68,200 million mainly due to an increase in bonds payable of ¥10,000 million and a decrease in long-term borrowings of ¥2,250 million.

(Net assets)

Net assets increased by ¥9,482 million compared with the end of the previous fiscal year to ¥49,763 million mainly due to increases in retained earnings of ¥6,784 million; capital surplus of ¥2,236 million due to a capital increase through third-party allotment, etc. conducted by U-NEXT Co., Ltd., a consolidated subsidiary of the Company; and non-controlling interests of ¥430 million.

2) Status of cash flows

Cash and cash equivalents (hereinafter referred to as “net cash”) at the end of the nine months ended May 31, 2023 was ¥27,872 million, an increase of ¥1,491 million compared with the end of the previous fiscal year, which included an increase in cash and cash equivalents of ¥1,407 million due to a share exchange. Primary factors for this were as follows.

(Cash flows from operating activities)

Net cash provided by operating activities for the nine months ended May 31, 2023 was ¥4,772 million (¥16,186 million provided for the same period in the previous fiscal year). Primary factors for this were the recording of profit before income taxes of ¥14,204 million, depreciation of ¥4,692 million and amortization of goodwill of ¥2,353 million, income taxes paid of ¥7,239 million, an increase in prepaid expenses of ¥6,960 million, and an increase in inventories of ¥2,434 million.

(Cash flows from investing activities)

Net cash used in investing activities for the nine months ended May 31, 2023 was ¥7,619 million (¥5,886 million used for the same period in the previous fiscal year). Primary factors for this were a decrease in net cash of ¥3,637 million due to purchase of property, plant and equipment, a decrease in net cash of ¥2,215 million due to purchase of intangible assets, and a decrease in net cash of ¥1,243 million due to purchase of shares of subsidiaries.

(Cash flows from financing activities)

Net cash provided by financing activities for the nine months ended May 31, 2023 was ¥2,930 million (¥4,688 million used for the same period in the previous fiscal year). Primary factors for this were an increase in net cash of ¥55,220 million due to proceeds from long-term borrowings through refinancing of all syndicated loans, a decrease in net cash of ¥59,920 million due to repayments of long-term borrowings, 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 ¥1,476 million due to dividends paid.

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

In regard to the consolidated financial results forecast, we have revised the full-year consolidated financial results forecast that was announced in the consolidated financial results dated October 13, 2022 in the "Notice on Revision of Full-year Financial Results Forecast and Revision of Dividend Forecast (Increase)" dated July 10, 2023.

For more detail, please refer to the "Notice on Revision of Full-year Financial Results Forecast and Revision of Dividend Forecast (Increase)" dated today (July 10, 2023).

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of August 31, 2022	As of May 31, 2023
Assets		
Current assets		
Cash and deposits	26,390	27,872
Notes and accounts receivable - trade	25,987	27,710
Inventories	7,808	10,256
Prepaid expenses	13,528	20,652
Other	2,671	4,029
Allowance for doubtful accounts	(1,035)	(1,094)
Total current assets	75,351	89,428
Non-current assets		
Property, plant and equipment	19,143	19,129
Intangible assets		
Goodwill	44,324	43,376
Other	5,462	5,924
Total intangible assets	49,787	49,301
Investments and other assets		
Other	13,905	19,313
Allowance for doubtful accounts	(5,179)	(5,256)
Total investments and other assets	8,725	14,057
Total non-current assets	77,655	82,487
Total assets	153,007	171,916
Liabilities		
Current liabilities		
Notes and accounts payable - trade	21,979	22,090
Electronically recorded obligations - operating	1,517	1,777
Short-term borrowings	–	3,000
Current portion of long-term borrowings	5,450	3,000
Income taxes payable	3,600	2,174
Other provisions	152	252
Other	19,057	21,657
Total current liabilities	51,757	53,951
Non-current liabilities		
Bonds payable	–	10,000
Long-term borrowings	53,970	51,720
Retirement benefit liability	2,348	2,305
Other provisions	152	157
Other	4,497	4,018
Total non-current liabilities	60,968	68,200
Total liabilities	112,725	122,152

(Million yen)

	As of August 31, 2022	As of May 31, 2023
Net assets		
Shareholders' equity		
Share capital	96	97
Capital surplus	11,092	13,328
Retained earnings	28,763	35,548
Treasury shares	(0)	(0)
Total shareholders' equity	39,952	48,973
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25	28
Remeasurements of defined benefit plans	301	328
Total accumulated other comprehensive income	326	357
Non-controlling interests	2	433
Total net assets	40,281	49,763
Total liabilities and net assets	153,007	171,916

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

For the Nine Months Ended May 31

(Million yen)

	For the nine months ended May 31, 2022	For the nine months ended May 31, 2023
Net sales	174,712	202,097
Cost of sales	110,887	132,725
Gross profit	63,824	69,371
Selling, general and administrative expenses	50,294	53,803
Operating profit	13,530	15,567
Non-operating income		
Share of profit of entities accounted for using equity method	–	41
Other	138	172
Total non-operating income	138	214
Non-operating expenses		
Interest expenses	505	500
Commission expenses	134	430
Other	218	186
Total non-operating expenses	858	1,117
Ordinary profit	12,810	14,664
Extraordinary income		
Gain on sale of investment securities	–	172
Gain on bargain purchase	–	88
Other	3	–
Total extraordinary income	3	260
Extraordinary losses		
Loss on retirement of non-current assets	519	558
Other	350	163
Total extraordinary losses	870	721
Profit before income taxes	11,943	14,204
Income taxes	5,135	5,817
Profit	6,807	8,386
Profit or loss attributable to non-controlling interests	(0)	17
Profit attributable to owners of parent	6,807	8,369

Quarterly Consolidated Statements of Comprehensive Income

For the Nine Months Ended May 31

(Million yen)

	For the nine months ended May 31, 2022	For the nine months ended May 31, 2023
Profit	6,807	8,386
Other comprehensive income		
Valuation difference on available-for-sale securities	(8)	3
Remeasurements of defined benefit plans, net of tax	28	27
Total other comprehensive income	20	30
Comprehensive income	6,827	8,417
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,828	8,399
Comprehensive income attributable to non-controlling interests	(0)	17

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the nine months ended May 31, 2022	For the nine months ended May 31, 2023
Cash flows from operating activities		
Profit before income taxes	11,943	14,204
Depreciation	4,245	4,692
Amortization of goodwill	2,248	2,353
Increase (decrease) in allowance for doubtful accounts	138	135
Interest and dividend income	(9)	(9)
Interest expenses	505	500
Loss on retirement of non-current assets	519	558
Loss (gain) on sale of non-current assets	(2)	4
Decrease (increase) in trade receivables	(1,497)	(173)
Decrease (increase) in inventories	(1,120)	(2,434)
Decrease (increase) in prepaid expenses	(2,200)	(6,960)
Increase (decrease) in trade payables	2,495	(1,057)
Increase (decrease) in electronically recorded obligations-operating	669	185
Gain on bargain purchase	–	(88)
Increase (decrease) in accounts payable - other	1,355	1,255
Increase (decrease) in accrued expenses	(1,116)	(1,045)
Other, net	736	381
Subtotal	18,910	12,502
Interest and dividends received	9	9
Interest paid	(505)	(500)
Payments for loss on litigation	(256)	–
Income taxes paid	(1,971)	(7,239)
Net cash provided by (used in) operating activities	16,186	4,772
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,495)	(3,637)
Purchase of intangible assets	(1,533)	(2,215)
Proceeds from sale of investment securities	–	172
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(1,243)
Other, net	(858)	(695)
Net cash provided by (used in) investing activities	(5,886)	(7,619)
Cash flows from financing activities		
Proceeds from short-term borrowings	–	3,000
Proceeds from long-term borrowings	–	55,220
Repayments of long-term borrowings	(3,840)	(59,920)
Proceeds from issuance of bonds	–	10,000
Purchase of treasury shares	(0)	(6,367)
Dividends paid	(811)	(1,476)
Proceeds from share issuance to non-controlling shareholders	–	2,508
Other, net	(37)	(34)
Net cash provided by (used in) financing activities	(4,688)	2,930
Net increase (decrease) in cash and cash equivalents	5,611	83
Cash and cash equivalents at beginning of period	21,578	26,381
Increase of cash and cash equivalents due to share exchange	–	1,407
Cash and cash equivalents at end of period	27,189	27,872

(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 thousand treasury shares based on the resolution at the meeting of the Board of Directors held on February 17, 2023. As a result, during the nine months ended May 31, 2023, treasury shares increased by ¥6,367 million.

In addition, with an effective date of March 31, 2023, the Company conducted a share exchange, in which the Company became the wholly-owning parent company in the share exchange and Premium Platform Japan, Inc. became the wholly-owned subsidiary in the share exchange, and U-NEXT Co., Ltd., a consolidated subsidiary of the Company, conducted a capital increase through third-party allotment. Consequently, during the nine months ended May 31, 2023, capital surplus increased by ¥2,235 million and treasury shares decreased by ¥6,367 million, resulting in treasury shares of ¥0 million and capital surplus of ¥13,328 million at the end of the third 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 third 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. Nine months ended May 31, 2022 (From September 1, 2021 to May 31, 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	7,138	9,865	12,887	9,472	401	39,766	20	39,786
Goods transferred over a certain period of time	44,872	32,842	24,558	4,773	27,852	134,900	25	134,925
Revenue arising from contracts with customers	52,010	42,708	37,446	14,246	28,254	174,666	46	174,712
Net sales to outside customers	52,010	42,708	37,446	14,246	28,254	174,666	46	174,712
Inter-segment sales or transfers	919	471	1,509	53	1	2,954	(2,954)	-
Total	52,929	43,179	38,955	14,300	28,255	177,621	(2,908)	174,712
Segment profit	4,935	7,034	4,319	2,444	366	19,101	(5,571)	13,530

(Notes) 1. The adjustment of segment profit of ¥(5,571) 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. Nine months ended May 31, 2023 (From September 1, 2022 to May 31, 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	7,463	12,220	13,412	8,781	619	42,497	23	42,521
Goods transferred over a certain period of time	52,867	34,449	26,211	4,984	41,036	159,549	26	159,575
Revenue arising from contracts with customers	60,330	46,670	39,623	13,765	41,656	202,046	50	202,097
Net sales to outside customers	60,330	46,670	39,623	13,765	41,656	202,046	50	202,097
Inter-segment sales or transfers	295	464	2,020	46	11	2,837	(2,837)	-
Total	60,625	47,135	41,644	13,811	41,667	204,883	(2,786)	202,097
Segment profit	5,063	7,435	4,684	1,820	2,165	21,169	(5,601)	15,567

(Notes) 1. The adjustment of segment profit of ¥(5,601) 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
The information is omitted due to lack of materiality.

(Significant subsequent events)

(Capital and business alliance of the Company's consolidated subsidiary)

U-NEXT Co., Ltd. ("U-NEXT"), a consolidated subsidiary of the Company, passed a resolution at the meeting of the Board of Directors and the Extraordinary General Meeting of Shareholders held on June 29, 2023 to enter into a capital and business alliance with TBS HOLDINGS, INC. ("TBSHD") (the "Capital and Business Alliance"), which involves issuance of new shares through third-party allotment with TBSHD as the allotted party (the "Capital Increase Through Third-party Allotment"). The payment for the Capital Increase Through Third-party Allotment was completed on June 30, 2023.

1. Details of the Capital Increase Through Third-party Allotment

(1) Payment due date	June 30, 2023
(2) Number of new shares issued	12,310 common shares
(3) Amount of fund financed	24,289,488,810 yen

(4) Method of solicitation or allotment (allotted party)	Third-party allotment TBS HOLDINGS, INC.: 12,310 shares
(5) Shareholder composition of U-NEXT after the issuance	The Company: 79.64% TBS HOLDINGS, INC.: 20.00% HAKUHODO DY MEDIA PARTNERS INCORPORATED: 0.36%