COMPANY RESEARCH AND ANALYSIS REPORT

USEN-NEXT HOLDINGS Co., Ltd.

9418

Tokyo Stock Exchange Prime Market

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Summary

Is accelerating growth in the new medium-term management plan "Road to 2025"

1. Through the effects of the integration and more, achieved the previous medium-term management plan "NEXT for 2024" profit targets three years ahead of schedule

USEN-NEXT HOLDINGS <9418> (hereafter, also "the Company") provides various equipment and solutions needed to operate stores and facilities and for DX, with music distribution as the main area, to commercial stores such as restaurants, retailers, and beauty salons, and to facilities including hotels, hospitals, and offices. It also provides "U-NEXT," a flat-rate content distribution service for individuals. USEN and U-NEXT reintegrated in December 2017 and the Company was established as the holding company. The aim of the reintegration was to promote growth by circulating funds from cash cow music distribution to the growth businesses, including the content distribution business. Another aim was to create synergies by cross-selling the mainstay products of the Group's companies by closely linking the strengths and sales channels of each of these companies. This strategic integration has proven successful and in FY8/21, the profit targets in the previous medium-term management plan, whose final fiscal year was FY8/24, were achieved three years' ahead of schedule.

2. Operating profit is forecast to increase in FY8/22, but it may increase even higher than forecast

In the 2Q FY8/22 results, net sales were ¥114,016mn (up 12.7% year-on-year (YoY)*), and operating profit was ¥8,849mn (up 10.3%). As a result of the steady progress made by Store DX and Lifestyle DX and in responding to customer needs, the results were excellent with sales and profits increasing by double digits even as the Company invested in upfront costs and campaigns. Its financial position also continued to improve.

* The Accounting Standard for Revenue Recognition, etc., was adopted from the start of FY8/22, and the increase and decrease rates were calculated based on the consolidated results in the same period in the previous fiscal year before the adoption.

For the FY8/22 results outlook, the Company is forecasting net sales of ¥220,000mn (up 5.6% YoY) and operating profit of ¥17,000mn (up 8.9%). However, on taking into account factors such as the acceleration of DX in society and people's lives, the excellent progress made in 2Q, and that it will incur no upfront costs, at FISCO our impression is that the forecasts are somewhat conservative.

3. Strengths of the Group as a whole include a deep customer base and sales capabilities cultivated through music distribution and other services

The Company operates five businesses. 1) The content distribution business distributes videos, e-books, and other digital content to individuals. 2) In the store services business, it distributes music to commercial stores and retail facilities, manages music copyrights, and supplies all types of solution services related to store DX, such as IoT products and peripheral services. 3) In the communications business, the Company engages in sales and services particularly with respect to ICT for corporate customers and its own optical line service for commercial stores. 4) The business systems business sales and maintains automated payment machines and front desk management systems to hotels and hospitals, among other users. 5) In the energy business, the Company sells electricity and gas, which are products supporting the store services business. Each respective business has its own strengths, while the strengths of the Group as a whole include a deep customer base and sales capabilities cultivated through music distribution and other services.

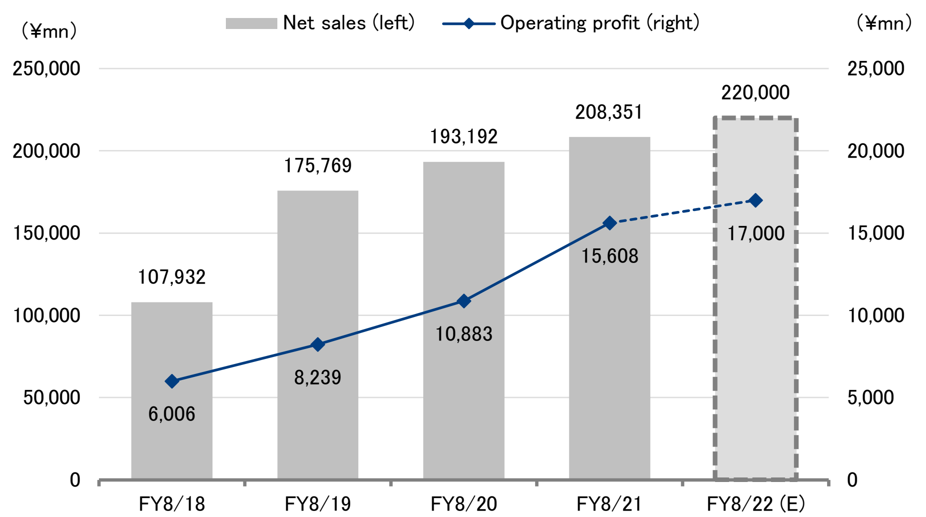
4. In the new medium-term management plan, is targeting operating profit of ¥22bn to ¥25bn in FY8/25

As a “social DX company that brings the future closer to today,” the Company’s purpose is to be useful for society and to create social and economic value by promoting store and facilities DX and lifestyle DX. To express this specifically, in the medium-term management plan “Road to 2025,” it has set the operating profit target of ¥22bn to ¥25bn in FY8/25. It also plans to create operating cash flow of more than ¥80bn in the four years through profit growth and a steady financial strategy, and to allocate these funds to business investment, the repayment of loans, dividends, and other uses. What is noteworthy here is that it plans to invest funds of more than ¥16bn into growth investment, including M&A (as its borrowing capacity is rising, it may significantly increase this amount). If the majority of this amount is allocated to M&A, then it is likely to be a fairly large-scale acquisition.

Key Points

- During the COVID-19 pandemic, the content distribution business has grown rapidly, while store services business and communications business are also leveraging their strengths
- In the new medium-term management plan, is targeting operating profit of ¥22bn to ¥25bn in FY8/25
- Is forecasting that operating profit will increase in FY8/22, but the forecast appears somewhat conservative considering the progress already made

Results trends



Note: FY8/18 was an eight-month fiscal year. For USEN, FY8/18 was a nine-month fiscal year from December to August. The Accounting Standard for Revenue Recognition, etc. has been applied from FY8/22.
Source: Prepared by FISCO from the Company’s financial results

Company profile

Is steadily implementing the corporate slogan of "Brighten the Future"

1. Company profile

Through the Group companies under its umbrella as the holding company, the Company provides devices, solutions, and other products and services needed to operate stores and facilities and support for DX, centered on its founding business of music distribution, to restaurants, retailers, and other commercial stores, and to various facilities including hotels, hospitals and offices. It also provides a service that distributes videos, e-books, and other digital content to individuals under a flat-rate-fee system. The Company creates synergies through cross-sales of the Group companies' mainstay products. This involves leveraging the respective strengths of these companies, particularly in terms of the customer base consisting of over 930,000 commercial stores and other such enterprises, the more than 2.5 million members of its video distribution services, the expertise in assisting commercial stores, the network infrastructure, and the sales capabilities such as direct sales platforms, telemarketing, and agency network. It is also progressing a dynamic growth strategy that incorporates next-generation technologies like 5G, IoT (Internet of Things), and AI (Artificial Intelligence). In this way, the Company is steadily implementing its corporate slogan of "Brighten the future," which expresses its desire to continue to be a corporate group that meets the expectations of and is needed by society by providing services necessary for society.

Has built a strong earnings foundation since the reintegration

2. History

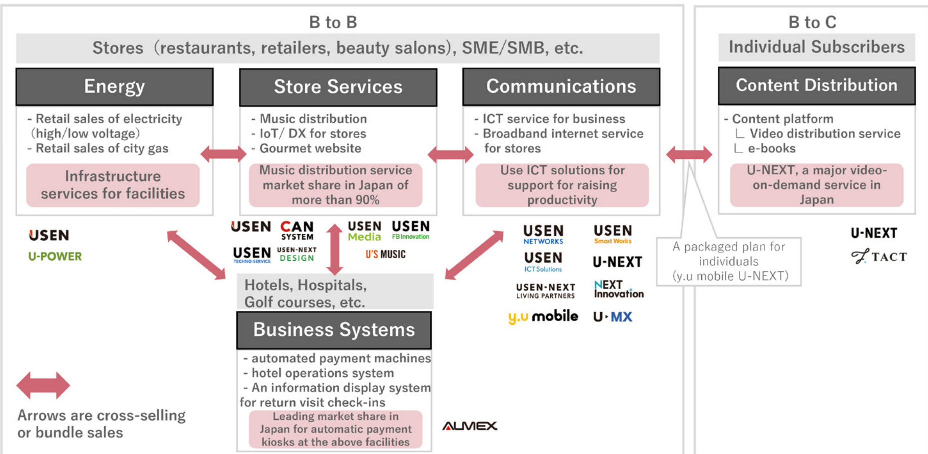
Mototada Uno founded USEN in 1961 as Osaka Yusen Broadcasting and subsequently built a wired broadcast network nationwide. When Yasuhide Uno took over as President in 1998, he promoted store assistance services and broadband services using the Company's existing customer base and infrastructure, and pursued diversification and digitalization, including video distribution, and other content provision services. U's Broad Communications (now, U-NEXT), a broadband service provider, took over the paid TV video distribution service and sales agent business for optical lines for individuals and other communication lines and spun off from USEN in December 2010. However, USEN and U-NEXT reintegrated in December 2017 with the aim of leveraging respective customer bases and other management resources. The reintegration was an opportunity to concentrate shared Group functions while simultaneously expanding business through Group synergies. Currently, the Company is building a firm revenue base with high growth potential.

Conducts one business for individuals and four businesses for corporations

3. Business overview

The Company has five business segments; the content distribution business, the store services business, the communications business, the business systems business, and the energy business. The content distribution business involves the distribution of digital content, of videos and e-books, to individuals. The other four businesses mainly consist of providing goods and services for the various facilities of companies and SMEs, primarily individual business owners that operate commercial stores and other facilities. The store services business provides music distribution services to commercial stores including restaurants, retail stores and various other facilities. It conducts sales and installations of sound equipment, manages music copyrights, and provides store IoT and other store operation solution services. It is further divided into the cash cow music distribution business and the high growth Store DX (POS cash registers, WiFi, etc.) business. The communications business sells ICT products to companies and the Group's own optical line service and other products and services to commercial stores. The communications business is broadly dividend into the stable-growth corporate ITC business and the high-growth Store DX (the Group's own optical line service) business. The business systems business sells equipment and services such as automated payment machines and front desk management systems to hotels, hospitals, and other customers, and provides maintenance services. The energy business sells low-cost electricity and gas to the customers of the store services business and the communications business. In these businesses, the Company is not only pursuing cross-sales and synergies, but it is also improving the earnings structure by shifting away from a model of one-time profits at the time of a sale to a model of increasing stable and continuous recurring income obtained through monthly usage fees.

Segment overview



Source: The Company's results briefing materials and medium-term management plan materials

(1) Content distribution business

"U-NEXT" is a content distribution service of movies, TV videos and other videos, e-books, and music for individuals. For a monthly fee, users can access content ranging from movies or TV videos to e-books and music via the Internet on many types of devices, including TVs, PCs, and smartphones. The video distribution market is shifting away from packaged media such as DVDs and smartphone users are increasing due to the termination of 3G communication services, while the simultaneous distribution of TV programs on the Internet is becoming more widespread. Against this backdrop, nesting (stay-at-home) demand during the COVID-19 pandemic has rapidly increased and the number of continuous users is trending upward. The scale of the video distribution market for individuals in Japan is forecast to increase from 26.3 million people at the end of 2020 to 40 million people at the end of 2023. In addition, as the average number of uses per person for video distribution services is low in Japan at 1.7 compared to 3.1 in the US, the Company expects the number of multiple uses to increase dramatically in the future. So while on the one hand Japan's video distribution market is growing and can be said to be a growth market, on the other hand it can also be said to be a fiercely competitive market. The video distribution services of other companies, such as DAZN and Hulu, are losing momentum, while the total market share of small- and medium-sized operators is also falling. Conversely, the shares of three companies of "U-NEXT," Netflix, and Disney Plus are growing.

Other than the Company, the overwhelming strength of the three major foreign companies is the contents they produce based on the enormous amounts they spend on them. To compete with them, "U-NEXT" has a content lineup that can be said to be industry leading. In addition to an all-you-can watch service for a library of more than 220,000 titles, it provides a comprehensive lineup of content from Japan and overseas, from hit works through to niche fields, and from videos through to live music and live martial arts, while it is also quick to distribute new titles. In addition, as it packages together more than 680,000 e-books and music-distribution songs, with just one contract users can use multiple contents services to listen, watch, and read. Also, the monthly usage fee for the Company's service seems high at ¥2,189 (tax included), but every month users receive points worth ¥1,200 (points can be used to acquire coupons for live theater performances), so it is actually only ¥989 (tax included) and moreover a single account can be viewed by up to four people. When considering together all these benefits, it is actually not all that expensive. The Company also differentiates its service from other services in terms of the content it provides. It has entered into a series of major contracts for exclusive distribution rights with overseas content holders to enable it to compete against Amazon Prime Video and Netflix. It is also progressing its "ONLY ON" strategy to strengthen exclusive distribution and live music distribution that utilizes its relationships in the music distribution field. Moreover, it is the only major service provider to distribute adult content, and the fact that adult content is one factor behind the growth in demand can be understood by the overwhelming victory of TSUTAYA Co., Ltd., over US-based major Blockbuster LLC during the growth years of video rental. In these ways, the Company is progressing strategies that clearly differentiate its service from those of the three major foreign companies, and it seems that many users choose "U-NEXT" when they use multiple video distribution services.

(2) Store services business

The store services business provides a music distribution service, which is the Company's original business, centered on the Group, and also services to support DX at stores. It targets the approximately 3 million commercial stores nationwide, including restaurants, retail stores, beauty salons, medical facilities and offices, and also the wide variety of chain stores, ranging from nationwide chains to community-based chains. Of these, the Company provides a music distribution service to 700,000 stores (its share of the music distribution market is approximately 90%). It has more than 60 years of history in the music distribution business, and it provides the "U MUSIC" service that broadcasts music and information for stores and facilities throughout the country, ranging from specialty channels, such as for J-POP and Western music, through to request channels. It has a library of around 10mn songs and can use AI to create playlists suited to any type of industry or business format. It also provides 1,000 types of in-store announcements for customers, employees, and others.

Store DX conducts a business peripheral to the music distribution service. In recent years, demand for digital support has been rapidly increasing toward realizing personnel-saving and labor-saving. For SMEs, the hurdles to clear to progress IoT, DX, and related by themselves are high, so instead this business provides them with installation support as a one-stop service. This is called the "USEN IoT PLATFORM," and centered on the "U MUSIC" music distribution service, it is a store management service that integrates various products and services, including the "U Regi," which is a POS cash register, "U AIR" business-use WiFi, "U EYES," an AI camera that can analyze the attributes of customers visiting stores, and catering service robots. Due to COVID-19, the number of Store DX customer has increased rapidly from around 100,000 in FY8/19 to more than 200,000 presently. Also, against the backdrop of its even richer menu, the Company has developed "USEN Marutto Store DX," which is a Store DX package service, and it is progressing operations for new customers, including for new stores that have a high set contract completion rate. When adding music distribution, this business has a customer base on a scale of 930,000 customers and can be said to be the Company's greatest management resource.

The strengths of this business are this customer base and also a strong support network consisting of 140 Group bases nationwide, as well as a workforce of 1,200 direct sales and 900 installation and maintenance professionals. In addition, the approach for both music distribution and Store DX is to undertake all tasks, from installing equipment through to aftercare and dealing with troublesome copyrights. The music distribution market is stable and the situation is that store closures (contract cancellations) are cancelled out by new stores (new contracts), so this business is a highly profitable cash cow. Therefore, it is a business that financially supports the Group's growth strategy. On the other hand, for Store DX among existing customers, many individually-run stores and small- and medium-sized stores have not progressed digitalization, so there remains plenty of room for Store DX installations and it can be said to be an extremely high growth business. In addition, due to COVID-19, the working population has declined and urgent problems facing company management have arisen at many facilities, such as reducing personnel and labor, and these are also considered to be factors that will push-up growth.

(3) Communications business

The communications business conducts sales agency operations for broadband internet lines, proposes and sells the building of office ICT (Information and Communication Technology) environments, provides the "y.u mobile" MVNO service, and provides and sells broadband internet lines for individuals. For the building of ICT environments, it provides corporations with ICT products and solution services linked to SaaS, such as cloud services, mobile services and data center services from Google, Cybozu <4776>, and others.

The strengths of the Company's corporate business, which has continued to stably grow despite the rapid changes in the ICT industry, include the wide breadth of its service lineup through a multi-vendor strategy and offering highly convenient direct sales through which it can respond to each customer's needs via a single customer desk. Also, for broadband Internet lines, it is progressing the switch from contract agencies to its own optical line service for profitable commercial stores, while also strengthening up-sales of IoT/DX products to commercial stores and offices for high-growth services that support facilities' DX. There are risks, of competition intensifying and the customer base contracting, but through the reforms to workstyles and COVID-19, companies' and commercial stores' needs are strengthening for digitalization, improved work efficiency, and security measures, so demand can be said to be strong. The strengths of Store DX in this communications business include its synergies with the store services business and that sale promotions are conducted through a network of 250 agencies. Another strength is its network in the real estate industry, and it provides a one-stop service for residents of major rental residential properties.

(4) Business systems business

The subsidiary ALMEX INC., is responsible for the business systems business. It sells equipment to meet customer needs for personnel-saving and labor saving, including automated payment machines and front desk work management systems, to general hotels, leisure hotels, general hospitals and golf courses, and also order terminals, operating systems, and other products for restaurants. In addition, it provides maintenance and software services that generate recurring revenue. In terms of its track record of deliveries to all types of facilities within Japan, according to the Company the rates are high for all facilities except clinics, at 83% for leisure hotels, 60% for general hotels, 38% for general hospitals, 7% for clinics, dentists, and dispensing pharmacies, and 20% for golf courses. Within them, it has the top share in each effective market for automated payment machines. The strengths of this business include that, as a fabless manufacturer, it itself conducts each stage from the development of equipment and systems through to sales and maintenance.

In terms of the growth potential of the market, in the medical industry, which has long patient wait times, and in the hotel industry, in which the movement in Japan toward becoming a leading tourist destination is expected to start again, the willingness to invest in personnel-saving and labor-saving is rising. Also, the Company's equipment has a high affinity with adjacent markets, such as the golf courses, retail, and pet clinics markets. So it is considered that demand is strong in these markets as well and growth potential is judged to be comparatively high in the medium- to long-term. In the short term, demand for capital investment is recovering, leveraged by government subsidies and other factors, in hotels that are emerging from the difficulties of COVID-19, and in hospitals that are anticipating the application of the Individual Number Card social security and tax number system (My Number System) on insurance cards. Particularly in this situation, it is being highly evaluated for its devices equipped with proprietary functions like the "Sma-pa Myna Touch," which is a card reader with face authentication for general hospitals that is compatible with online qualifications and that enables the reading of various card-based certifications like contactless forms and medical certificates. It is expected to be an effective tool for opening-up the market for small- and medium-sized clinics, which for the Company can be said to be an underdeveloped market.

(5) Energy business

The energy business, which was launched following the liberalization of energy sales in 2016, involves selling high-voltage and low-voltage electricity and city gas procured on a relative basis from Tokyo Electric Power Company Holdings, Inc. <9501> (hereinafter, TEPCO), with which the Company has a business alliance, to areas other than TEPCO's areas. At the same time, it provides consulting and services, such as for energy saving, while it also functions as the catalyst for new customer acquisition in the store services business and for cross-selling.

In recent years, competition with new power companies and existing regional power companies has intensified. In this situation, based on the rising awareness among companies and stores about compliance with SDGs and protecting the environment, the Company has developed a wide service menu, including "Green Electricity with Non-fossil Fuel Energy Certificates." When electricity wholesale prices are soaring, the Company can pass on price increases to customers, so features of this business are that the risk of negative spread or a decline in gross profit is low and that it adopts a highly profitable from the Company's own procurement compared to an agency model. However, there are risks caused by the recent soaring energy prices, including the timing of passing on price increases to customers and that demand will decrease.

Medium-term management plan

Implemented the previous medium-term management plan ahead of schedule and also achieved major results

1. The results of "NEXT for 2024," the previous medium-term management plan

From FY8/19, the Company progressed the medium-term management plan "NEXT for 2024," whose targets for FY8/24 included operating profit of ¥13bn. However, as profitability greatly improved, it achieved the profitability targets, such as for operating profit and EBITDA, three years' ahead of schedule in FY8/21.

In profits by segment, it appears that the business systems business was adversely impacted by COVID-19. Both the communications business and the energy business progressed as planned, while the store services business and the content distribution business made progress that was better than targeted. In particular, in the content business, operating profit grew significantly to nearly three times higher than the target, and this drove the growth of consolidated earnings.

The progress made in the previous medium-term management plan

(¥bn)

	Previous medium-term management plan		FY8/21	
	FY8/19 Results	FY8/24 Plan	Results	Progress rate
Net sales	175.8	270.0	208.4	77.2%
Operating profit	8.2	13.0	15.6	120.0%
Profit attributable to owners of parent	6.1	6.5	8.0	123.1%
EBITDA	17.5	23.5	24.4	103.8%
EBITDA-CAPEX (including investments and loans)	10.0	13.5	13.8	102.2%
ROE	33.6%	15.0%	27.2%	12.2pt

Source: Prepared by FISCO from the Company's medium-term management plan materials

Operating profit by segments

(¥bn)

	Previous medium-term management plan		FY8/21	
	FY8/19 Results	FY8/24 Plan	Results	Progress rate
Store services business (includes former media business)	8.1	7.7	8.6	111.7%
Communications business	2.6	6.0	4.5	75.0%
Business systems business	3.5	4.0	2.9	72.5%
Content distribution business	0.4	2.0	5.7	285.0%
Energy business	-0.4	1.0	0.4	40.0%

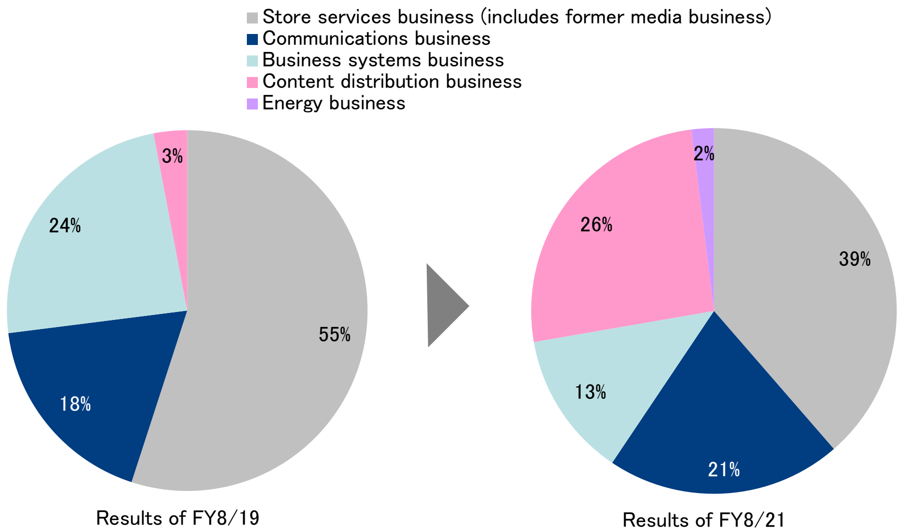
Note: does not include Company-wide expenses that are not allocated to each segment
Source: Prepared by FISCO from the Company's medium-term management plan materials

The Company also achieved a certain level of results in terms of its earnings base, customer base, and organizational capabilities. For the earnings base, in addition to the initial earnings that added momentum to growth, it achieved running earnings, which provide a stable base for growth and gave it a good balance between growth potential and stability. Also, earnings in the store services business have grown stably, and in this situation, the balance of the business portfolio has improved by increasing the contributions to profits of the businesses other than the store services business.

For the customer base, the Company has been quickly ascertaining and responding to changes in the social environment and to customer needs, such as nesting demand due to COVID-19. As a result, the number of contracts increased by 41%, from 2.57mn in FY8/19 to 3.62mn in FY8/21. Breaking this down by customer type, contracts for commercial stores, for which this business meets needs such as for communication lines and POS cash registers, increased in this period from 860,000 to 940,000; for SMEs, hotels, hospitals and other facilities, they increased from 20,000 to 30,000 through corporate ICT and sales promotions of "Myna Touch"; and for individuals, they increased from 1.69mn to 2.65mn, mainly due to the rapid growth of the U-NEXT video distribution service.

In terms of organizational capabilities, through "Work Style Innovation," which is the Company's work style reforms, it has been reforming employees' awareness and work styles and developing highly productive human resources and organizations that can act autonomously. As a result, compared to FY8/19 and FY8/21, net sales per employee improved from ¥36mn to ¥43mn and gross profit from ¥14mn to ¥17mn.

Improvements to the business portfolio



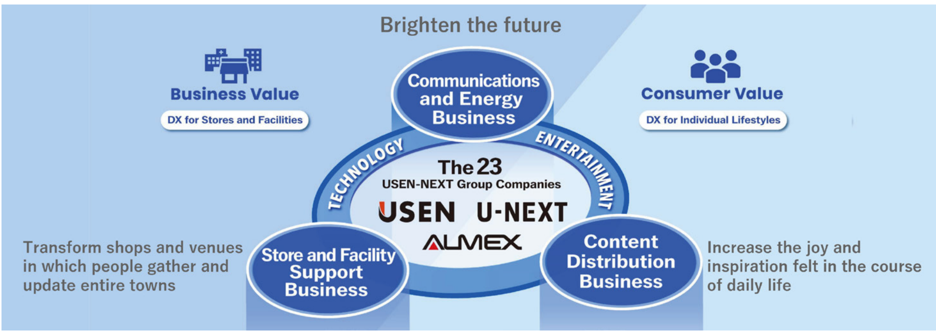
Source: Prepared by FISCO from the Company's medium-term management plan materials

“A social DX company” that brings the future closer to today

2. Purpose (provision of social and economic value)

It is considered that the Company is increasing the sophistication of its value-creation process by utilizing the management resources it has cultivated over more than 60 years in business, including its customer base and network infrastructure, Japan’s largest music distribution network, the capabilities of its human resources and organizations, and a network of more than 10,000 agencies and partner companies, in the workflow from sales and sales promotions through to contracts, usage, follow-up services, and maintenance, and moreover by capturing needs and feeding back issues. It is aiming to be useful for society by promoting store and facility DX to change the stores and towns where people gather and lifestyle DX that increases happiness and emotions in people’s daily lives. It is also aiming to realize continuous profit growth by strengthening the profitability of the existing businesses, realizing dynamic growth by utilizing M&A and other methods, promoting a flexible financial strategy that maintains order, and stably and continuously returning profits to shareholders. In these ways, the Company made its purpose to evolve into being a “social DX company” that provides high economic and social value. This purpose is expressed specifically in “Road to 2025,” the new medium-term management plan.

Conceptual diagram of the Company’s purpose



Source: The Company’s medium-term management plan materials

Is targeting operating profit of ¥22bn to ¥25bn in FY8/25

3. New medium-term management plan “Road to 2025”

In the new medium-term management plan “Road to 2025,” on considering the changes to the external environment, such as COVID-19 and the situation in Ukraine, the Company has set two scenarios; the base case of achieving the lower-limit targets, and the upside case of achieving the actual targets. For both scenarios, it is targeting double-digit growth of operating profit (four-year compound annual growth rate (CAGR) of 9.0% to 12.5%) and plans to achieve consolidated operating profit of ¥22bn to ¥25bn in FY8/25. In the Company’s case, the market potential and growth potential of each of its segment are different, so an important point is the strategies it implements for each segment. But basically, it is expected to adopt an upgraded strategy on an extension of the same path taken up to the present time.

Numerical targets in the medium-term management plan

(¥bn)

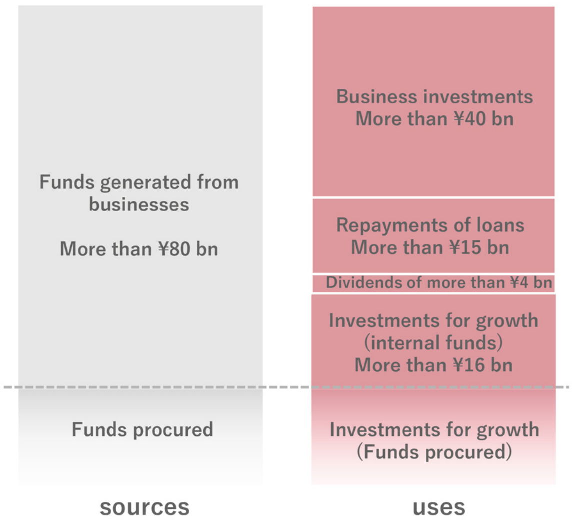
	FY8/21 Results	FY8/25 targets (base case)		FY8/25 targets (upside case)	
		Target	Four-year growth rate	Target	Four-year growth rate
Net sales	208.4	274.0	31.5%	286.0	37.2%
Operating profit	15.6	22.0	41.0%	25.0	60.3%
Operating profit margin	7.5%	8.0%	0.5%	8.7%	1.2%
Profit attributable to owners of parent	8.0	12.0	50.0%	13.5	68.8%
EBITDA	24.4	33.0	35.2%	36.0	47.5%
EBITDA-CAPEX (includes investing and financing, and prepaid contents)	13.8	16.5	19.6%	19.5	41.3%

Source: Prepared by FISCO from the Company's medium-term management plan materials

Cash flow from operating activities is forecast to increase from the current ¥15.7bn to from ¥21bn to ¥24bn in the plan's final fiscal year through the steady profit growth and precise financial strategy. This means the creation of a cash flow from operating activities of more than ¥80bn in total over the four years, and from this, the plan is to invest more than ¥40bn in business investment, more than ¥15bn to repay borrowing, and more than ¥4bn for dividends, while it intends to use the remaining amount of more than ¥16bn to invest in growth (excluding buffers). It seems that the anticipated methods of use are for large scale M&A and new business development, a business to back-up DX for stores and facilities and for productivity improvements in Japan as a "social DX company," and a digitalization-related business in the entertainment field. The target candidates are limited to those peripheral to existing businesses, and its policy is not to handle different industries and fields.

As the financial targets, the Company plans to continue efficient management that utilizes leverage to improve the equity ratio to 30% to 40%, while maintaining ROE of around 20%. Also, it is considered that it will continue to reduce the leverage ratio and the D/E ratio and secure sufficient fund raising capabilities. Through this, it seems it will be able to respond flexibly for even greater investment in growth. The Company plans to progress a sustainability strategy and has said that it is currently formulating an action plan and KPI based on materiality.

Capital allocation (total for 4 years)



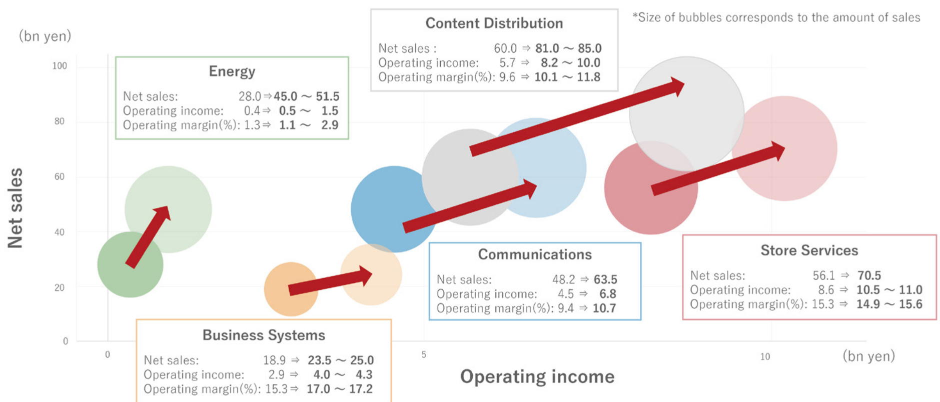
Source: The Company's medium-term management plan materials

The content distribution business and Store DX are driving growth

4. Growth strategy by segments

The Company conducts business portfolio management on classifying businesses into the cash cow business, stable-growth businesses, and high-growth businesses, and it has not changed its previous policy of redistributing funds from the cash cow business to the high-growth businesses. It classifies the cash cow business as the original business of music distribution formed of the store services business, the stable growth businesses as the business systems business and the communications business (specifically, ICT for corporations within this business), and the high-growth businesses as the content distribution business and Store DX business (within the store services business, POS cash registers, WiFi, IP cameras, etc., and within the communications business, the Group's own optical line service for commercial stores). In the new medium-term management plan, it plans for growth to be driven by the content distribution business and the Store DX business. The operating profit targets for each segment in FY8/25 are ¥8.2bn to ¥10bn in the content distribution business, ¥10.5bn to ¥11bn in the store services business, ¥6.8bn in the communications business, ¥4bn to ¥4.3bn in the business systems business, and ¥500mn to ¥1.5bn in the energy business. It seems that for each business, it has set a base case and an upside case, while for Company-wide costs also, in the upside case, upside earnings from the base case will be the source of funds to strengthen the Group's abilities to grow and to respond to its environment. Therefore, it is anticipated that it will conduct additional investment, including for the development, education and re-skilling training of human resources, and to enhance corporate branding and welfare.

Growth image by segments



Source: The Company's medium-term management plan materials

(1) Content distribution business

The video distribution market is a growing and highly competitive market. Therefore, the Company's policy is to further improve its competitive advantages, including its overwhelming number of video contents, and also to strengthen its all-in-one entertainment service that enables users to enjoy video, books, music, and live events from a single app. There are not many service providers that handle a wide range of content other than video, so particularly in its music distribution service, it intends to differentiate itself by making full use of its relationships for the fully fledged distribution of live music and music contents. Also, in order to compete against the private-brand titles of companies such as NETFLIX, Amazon Prime Video, and the Disney Channel that each invest enormous amounts, it will further strengthen its "ONLY ON strategy" of providing titles that can be viewed only on "U-NEXT." However, it is not the case that the Company faces risk from having a production function, and instead it plans to increase its "ONLY ON" titles by exclusive distribution contracts with the major distribution services companies in various countries around the world and its business alliance with CUBE Entertainment, a major South Korean entertainment company, for a fixed-fee video distribution service. Also, starting from original e-books, such as manga and novels, it is promoting the development and monetization of IP (Intellectual Property), including by creating videos of popular IP. The advantages of this IP development include a wider target market and lower costs compared to video development.

Through the above, in FY8/25 the Company is targeting increasing the number of fee-paying users to 3.1mn people to 3.5mn people (four-year CAGR, 7% to 10%), running sales alone of ¥72.3bn to ¥76.7bn (four-year CAGR, around 6%), and operating profit of ¥8.2bn to ¥10bn. However, this business has the largest difference within the Company's businesses between the base case and the upside case. It is thought that this is because in the current new normal, it is difficult to anticipate consumer trends and the pace of expansion of growth markets. Incidentally, the base case anticipates a decline in demand as a reaction to the previous nesting demand, but the upside case anticipates that demand for digital entertainment content will grow continuously and that customer satisfaction will improve from the enhancement of books, music, and other services, and that as a result, the number of fee-paying users will increase even more. On considering the trends at the present time, at FISCO we think that it is highly likely that the upside case will occur.

(2) Store services business

The strategy is centered on Store DX for which high growth is expected. The policy is to first provide total support to stores, from their front work through to their back office work, by building a communications environment, such as WiFi, and installing smart devices, including POS cash registers. It is also promoting up-sales through a one-stop service by the Group, from sales through to delivery and maintenance. By observing the timing of launches of the biggest products at stores' opening and preparation stages, it is strengthening direct sales to newly opened stores that have a high contract-completion rate. Also, by building a partner network of 10,000 companies, it obtains 100,000 items of new business information per year, which it connects to rapid sales activities for newly opened stores. For already opened stores, because sales efficiency is relatively low for both existing customers and unacquired customers, it utilizes non-direct sales channels, including agencies and telemarketing. By implementing these measures, the Company intends to increase the number of contracts from 912,000 at the end of FY8/21 to 1.052mn by the end of FY8/25. It also plans to increase the number of billings by POS cash registers, which is a typical smart device, from 21,000 cases to 41,000 cases.

(3) Communications business

For the FY8/25 results, the targets for ICT/SaaS for corporations are net sales of ¥25.9bn (four-year CAGR, 9%) and operating profit of ¥4.2bn (7%), and for the Group's own optical line service for commercial stores, net sales of ¥11.7bn (18%) and operating profit of ¥600mn (profit stabilization). In ICT/SaaS for corporations, it will focus on support for security measures that have become more complex and on cross-sales, including the outsourcing of maintenance and operations for cloud and data centers as a BCP measure. It will also respond to the growing demand for SaaS/IaaS by expanding the service lineup and developing new services to improve office environments, such as through BGM.

For sales, on the one hand the Company will create potential new customers by improving name awareness on the Internet and investing in digital marketing costs, while on the other hand it will establish new sales methods tailored to the age, including online sales negotiations and inside sales. For the Group's own optical line service for commercial stores, it will further strengthen switching from agency contracts to acquisitions for the Group's own lines, which are highly profitable, and at the same time, it will accelerate up-sales of IoT/DX products to increase the number of commercial-store customers using the Group's own lines. As well as for commercial stores, it is responding to meet the needs of companies that want to improve their office environments.

(4) Business systems business

In FY8/25, it is targeting net sales of ¥13.1bn (four-year CAGR, 3%) for hotels, of ¥7.5bn (10%) for general hospitals, and of ¥4.4bn (19%) from adjacent markets, which include golf courses, retail, restaurants, pet clinics, and tourist facilities. For its existing main customers of hotels and general hospitals, it will strengthen DX support based on their needs for non-face-to-face and contactless operations, and for labor saving and improved efficiency. In particular, for hotels, the Company expects a return to Japan's growth strategy of becoming a leading healthcare and tourist destination country. From its level of having the top market share in payment machines, the company is aiming to increase its presence even further as a visionary partner for its customers by leveraging its facility DX solutions.

The Company is developing adjacent markets on the two axes of deepening the market and developing products. For example, for small- and medium-sized medical facilities, such as small-sized clinics and dentists and dispensing pharmacies, it is enhancing cross-sales products and services, starting with "Myna Touch." For products, it is developing products and services that incorporate the latest technologies, including AI and biometric authentication (face authentication), and cashless and post-payment payments.

(5) Energy business

In the "USEN Energy" agency model, the Company continuously proposes cost reductions to commercial stores at the same time as proposing additional introductions of its services and products after these cost reductions. For offices, using set services, which including environmental BGM and cloud cameras, as the entry point, it is building a system that is able to provide comprehensive proposals. It intends to further strengthen "U-POWER," Green which is the Company's own energy procurement model launched in March 2022, and this will enable it to further increase profitability compared to the agency model. It is also developing a menu for compliance with SDGs, including "Green Electricity with Non-fossil Fuel Energy Certificates," and therefore it is providing products and services that are highly competitive compared to those of other companies. As a result, the numbers of "USEN ENERGY" customers in FY8/25 are forecast to increase to 50,000 customers (four-year CAGR, 22%) for low voltage, but to hardly increase (basically unchanged) for high voltage, at 7,000 to 8,000 customers. It is aiming for the number of "U-POWER" customers to increase significantly by from 41,000 to 62,000 customers (from zero in FY8/21).

Financial results trends

Operating profit continued to increase by double digits even during the unexpected conditions, including the re-spread of COVID-19 infections

1. 2Q FY8/22 results

In the 2Q FY8/22 results, net sales were ¥114,016mn (up 12.7% YoY), operating profit was ¥8,849mn (up 10.3%), ordinary profit was ¥8,432mn (up 10.5%), and profit attributable to owners of parent was ¥4,408mn (up 0.8%). Due to the respread of COVID-19 infections, many commercial stores were required to close or to reduce their business hours and were unable to secure the required number of employees, which impacted their business activities. Moreover, against the backdrop of changes to global conditions and the unseasonal weather, prices of raw materials and fuel soared globally and confusion occurred in supply chains, while the rapid weakening of the yen also had a major impact on the Japanese economy as a whole. These unexpected and dramatically changing conditions continued, but despite them, the Company was still able to steadily progress Store DX and Lifestyle DX and to respond to the needs of customers, such as commercial stores and service users. As a result, it achieved double-digit increases in sales and profits (profit attributable to owners of parent increased only slightly because of a major reduction, mainly due to the recording of a gain on sales of fixed assets in the previous period), while the progress rates were also higher than in the same period in the previous fiscal year. The equity ratio improved to close to 25%, while ROE was maintained at above 20%, so the Company continues to improve its financial structure. It adopted the Accounting Standard for Revenue Recognition, etc., at the start of FY8/22, and the increase and decrease rates were calculated based on the consolidated results in the same period in the previous fiscal year before it was adopted.

2Q FY8/22 results

(¥mn)

	2Q FY8/21			2Q FY8/22			
	Results	% of net sales	Progress rate	Results	% of net sales	YoY	Progress rate
Net sales	101,207	100.0%	49.6%	114,016	100.0%	12.7%	51.8%
Gross profit	40,463	40.0%	-	42,302	37.1%	4.5%	-
SG&A expenses	32,441	32.1%	-	33,452	29.3%	3.1%	-
Operating profit	8,021	7.9%	51.7%	8,849	7.8%	10.3%	52.1%
Ordinary profit	7,632	7.5%	52.6%	8,432	7.4%	10.5%	52.7%
Profit attributable to owners of parent	4,373	4.3%	58.3%	4,408	3.9%	0.8%	51.9%

Note: The Accounting Standard for Revenue Recognition, etc., was adopted at the start of FY8/22, and the YoY values were calculated based on the consolidated results in the same period in the previous fiscal year before it was adopted.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Every segment maintained the sales-increase trend

2. 2Q FY8/22 results by segment

For the 2Q FY8/22 results by segment, in the content distribution business, net sales were ¥34,808mn (up 20.8% YoY) and operating profit was ¥3,200mn (down 0.3%); in the store services business, net sales were ¥28,273mn (up 2.2%) and operating profit was ¥4,648mn (down 0.6%); in the communications business, net sales were ¥25,258mn (up 5.7%) and operating profit was ¥2,790mn (up 37.5%); in the business systems business, net sales were ¥9,796mn (up 16.6%) and operating profit was ¥1,753mn (up 48.4%); and in the energy business, net sales were ¥17,733mn (up 27.0%) and operating profit was ¥251mn (up19.0%). COVID-19 had either a positive or negative effect on the results of every segment, while the results of the segments also varied due to the active spending on advertising and sales promotion costs in the content distribution business and the store services business. However, every segment maintained the sales-increase trend. At FISCO, we think that the reasons for the steady increase in consolidated operating profit include the effects of synergies and the business portfolio through Group management.

2Q FY8/22 results by segment (before adjustment)

(¥mn)

[Net sales]	2Q FY8/21		2Q FY8/22		
	Results	% of net sales	Results	% of net sales	YoY
Content distribution business	28,806	28.0%	34,808	30.0%	20.8%
Store services business	27,674	26.9%	28,273	24.4%	2.2%
Communications business	23,907	23.3%	25,258	21.8%	5.7%
Business systems business	8,404	8.2%	9,796	8.5%	16.6%
Energy business	13,963	13.6%	17,733	15.3%	27.0%

[Operating profit]	2Q FY8/21		2Q FY8/22		
	Results	Profit ratio	Results	Profit ratio	YoY
Content distribution business	3,209	11.1%	3,200	9.2%	-0.3%
Store services business	4,674	16.9%	4,648	16.4%	-0.6%
Communications business	2,029	8.5%	2,790	11.0%	37.5%
Business systems business	1,181	14.1%	1,753	17.9%	48.4%
Energy business	211	1.5%	251	1.4%	19.0%

Note1: The Accounting Standard for Revenue Recognition, etc., was adopted from the start of FY8/22, and the increase and decrease rates were calculated based on the consolidated results in the same period in the previous fiscal year before the adoption.
Note2: the former media business has been incorporated into the store services business
Source: Prepared by FISCO from the Company's financial results

(1) Content distribution business

In addition to continuing its "coverage strategy" of increasing the number of titles that can be viewed under the fixed-fee plan, in its "ONLY ON strategy" the Company has been exclusively distributing new and popular titles and live music and marital arts. Among this content, as the distributor in Japan of "BELLATOR," which is the world's largest mixed martial arts competition, its continuous, all-you-can-watch distribution service for live tournaments can be said to have been well received. In addition, it has been actively investing in advertising and sales promotion, including TV commercials, and it has started a set plan for "y.u mobile," an MVNO service, and "U-NEXT," while it has also succeeded with a policy of quickly distributing theatrical and other titles that have attracted attention, like the movie "We Made a Beautiful Bouquet."

As a result, at the end of 2Q FY8/22, the number of fee-paying users had increased greatly to 2.587mn people (up 18.7% YoY), which drove the increase in consolidated net sales. However, due to the rise in upfront advertising and sales promotion expenses, including for TV commercials and affiliates, operating profit increased only slightly. Incidentally, the Company is partnering with theaters and working on an innovative proposal to present coupons for movie theaters to new users. This is a promotion that combines the Internet (the Company) and the real (theaters) that has never before been implemented by other companies, and it seems that it is generating synergies and creating a win-win-win situation for customers, the real world, and the Internet.

(2) Store services business

Music distribution has been trending stably. But in contrast, the management environments of restaurants and other commercial stores remain severe due to the prolonging of the COVID-19 pandemic. Therefore, the Company has been utilizing Group synergies to strengthen its response to Store DX. Centered on the “USEN IoT PLATFORM,” it has created DX packages for every type of operation at commercial stores, including with the “U Regi.” It has been progressing the provision of “USEN Marutto Store DX” and proposing management from new perspectives, such as improving work efficiency and realizing labor saving and contactless operations. Also, toward addressing the labor shortage that has become an issue during the COVID-19 pandemic, it has started to handle “Indeed,” a job-search engine, while for “U Pay” as well, it has released a cash flow service that enables payments to be made the following day if certain conditions are met. It has also strengthened customer support, including developing catering service robots and other new products.

As a result, at the end of 2Q FY8/22, the number of contracts had steadily risen to 930,000 (up 5.3% YoY), driven by Store DX. For “U Regi,” which is a typical Store DX product, in 1Q the Company conducted a campaign with zero initial costs and the number of fee-paying customers increased greatly to 22,768 customers (up 21.2%). As a result, stable running sales in this business increased and higher sales were secured, while profitability was also maintained at a high level. However, operating profit decreased slightly, mainly due to the campaign costs.

(3) Communications business

The Company is developing measures tailored to teleworking and other changes to offices environments, and it is supporting changes to the communications infrastructure, such as DX and workstyles, at SMEs and micro-enterprises that tend not to be catered for by the major companies. For “USEN Hikari plus,” which is the Group’s own optical line service for commercial stores, cancellations of multiple contracts occurred in the 2Q due to the bankruptcy of a large existing customer, but the Company worked to steadily acquire new customers and to shift from the one-shot type earnings model of acquiring sales commissions to the running-type earnings model that acquires earnings stably and continuously. For the “USEN Hikari plus” optical line service, the “B-to-B-to-X model,” which is used by contracting companies such as for their employees’ remote work, has become a product differentiating the Company from its competitors. For the building of offices’ ICT environments, it continues to provide a network-related service and other services under the “USEN GATE 02” brand and has been proposing improvements to the work environment through combining these services with the “Sound Design for OFFICE” BGM service. It has also been providing various services and tools tailored to the new normal, and as a result, operating profit increased significantly. Among these services, the Group’s own optical line service for commercial stores, which has accumulated customers over many years, secured profits even in the three months of the 2Q in which the contract cancellations occurred, and the Company made progress in strengthening its resilience.

(4) Business systems business

In the hotel industry, which has continued to struggle due to the prolonging of the COVID-19 pandemic, for business hotels, the desire to invest is recovering slowly but surely. They are also benefitting from government subsidies and other subsidies, including for non-face-to-face and contactless operations, and for personnel-saving and labor saving, so sales of automated payment machines and other products trended strongly. For hospitals, this business sells "Sma-pa Myna Touch," a face authentication card reader. Although hospitals received subsidies to introduce it, because of the delay in the spread of My Number cards, efforts for medical facilities are also progressing at a slow pace. For golf courses and other facilities, an increasing number of facilities are newly requiring personnel-saving and labor-saving devices like automated payment machines, and the Company has started to actively conduct sales to them. However, it is not the case that conditions in the hotel industry have fully returned to normal, and the timing of the recovery of inbound demand also remains uncertain at the present time. Even in this situation, the business achieved double-digit increases in sales and profits as a rebound from the extremely harsh environment in the same period in the previous fiscal year.

(5) Energy business

The volume of electricity consumed by customers' stores, commercial facilities, and other facilities has not yet sufficiently recovered due to the prolonging of the COVID-19 pandemic. However, through collaborations with the products of other businesses, the Company strengthened proposals that utilize Group synergies to reduce energy costs. As a result, sales and profits increased significantly because the customer base grew and also from factors including the rise in the volume of electricity consumed due to seasonal factors and the upturn in fuel-adjustment unit prices. Toward the realization of a sustainable society, U-POWER Co., Ltd., was established in December 2021 in order to contribute to the spread of renewable energy.

Has left the initial FY8/22 results forecasts unchanged.

3. FY8/22 outlook

For the FY8/22 results outlook, the Company is forecasting net sales of ¥220,000mn (up 5.6% YoY), operating profit of ¥17,000mn (up 8.9%), ordinary profit of ¥16,000mn (up 8.3%), and profit attributable to owners of parent of ¥8,500mn (up 5.7%). It has left the initial forecasts unchanged, but the net sales progress rate up to 2Q was 51.8% (49.6% in the same period in the previous fiscal year), and even while each segment incurred costs, the operating profit progress rate was 52.1% (51.7%). On considering this, at FISCO our strong impression is that leaving the initial forecasts unchanged is itself conservative. With regards to the risks of the weak yen in the Japanese economy and the semiconductor supply shortage, in content distribution there is semiconductor-related risk due to overseas procurement and the use of devices for store services and business systems, but it seems that the impact of this is small at the present time.

FY8/22 outlook

(¥mn)

	FY8/21		FY8/22 (E)		YoY
	Results	% of net sales	Amount	% of net sales	
Net sales	208,351	100.0%	220,000	100.0%	5.6%
Gross profit	81,579	39.2%	-	-	-
SG&A expenses	65,971	31.7%	-	-	-
Operating profit	15,608	7.5%	17,000	7.7%	8.9%
Ordinary profit	14,768	7.1%	16,000	7.3%	8.3%
Profit attributable to owners of parent	8,044	3.9%	8,500	3.9%	5.7%

Note: The Accounting Standard for Revenue Recognition, etc., was adopted from the start of FY8/22, and the increase and decrease rates were calculated based on the consolidated results in the same period in the previous fiscal year before the adoption.
Source: Prepared by FISCO from the Company's financial results

For the Group's FY8/22 management policies, it has set (1) Respond to the environmental changes in the with- and post-COVID-19 periods and maintain the growth trend, (2) Formulate a new medium-term management plan to replace the previous medium-term management plan whose targets were achieved three years ahead of schedule and an integration report, and (3) Take on the challenge of achieving dynamic growth through strengthening human resources and M&A, for which it has previously been cautious. For (1), it is considered that it will maintain the growth trend by continuing with a balance strategy of attack and defense through appropriate business portfolio management and by adapting its existing businesses to environmental changes. It is considered to have made steady progress by the 2Q stage. For (2), it has already announced the new medium-term management plan "Road to 2025" and the integration report, and going forward, it is thought it will connect them to the sustainability strategy. For (3), it is strengthening "CEO's GATE," the President's talent discovery program, and also internal human resources. For M&A, it explains in the new medium-term management plan the direction to be taken and fund raising, and it can be said to be making steady progress in this area as well.

For the FY8/22 results outlook by segment, the Company has also left the initial forecasts unchanged. In the content distribution business, it is forecasting net sales of ¥67,000mn (up 11.7% YoY) and operating profit of ¥6,900mn (up 20.4%); in the store services business, net sales of ¥56,000mn (down 0.2%) and operating profit of ¥8,600mn (up 0.1%); in the communications business, net sales of ¥50,000mn (up 3.8%) and operating profit of ¥5,100mn (up 12.5%); in the business systems business, net sales of ¥20,500mn (up 8.3%) and operating profit of ¥3,100mn (up 7.0%); and in the energy business, net sales of ¥30,000mn (up 7.4%) and operating profit of ¥400mn (up 13.0%).

Segment outlook for FY8/22 (before adjustment)

(¥mn)

[Net sales]	FY8/21		FY8/22 (E)		
	Results	% of net sales	Amount	% of net sales	YoY
Content distribution business	59,956	28.8%	67,000	30.5%	11.7%
Store services business	56,112	26.9%	56,000	25.5%	-0.2%
Communications business	48,179	23.1%	50,000	22.7%	3.8%
Business systems business	18,925	9.1%	20,500	9.3%	8.3%
Energy business	27,926	13.4%	30,000	13.6%	7.4%

[Operating profit]	FY8/21		FY8/22 (E)		
	Results	Profit ratio	Amount	Profit ratio	YoY
Content distribution business	5,731	9.6%	6,900	10.3%	20.4%
Store services business	8,590	15.3%	8,600	15.4%	0.1%
Communications business	4,534	9.4%	5,100	10.2%	12.5%
Business systems business	2,898	15.3%	3,100	15.1%	7.0%
Energy business	354	1.3%	400	1.3%	13.0%

Note: The Accounting Standard for Revenue Recognition, etc., was adopted from the start of FY8/22, and the increase and decrease rates were calculated based on the consolidated results in the same period in the previous fiscal year before the adoption.
Source: Prepared by FISCO from the Company's results briefing materials

In the content distribution business, in March 2022, 18 prefectures lifted the COVID-19 priority measures, including the state-of-emergency measures, and they ceased to be areas subject to restrictions. This is likely to have a slightly adverse effect in the 2H, such as slowing down the increase rate of new users. But alongside this, costs for affiliates will contract and also the Company does not plan to broadcast TV commercials, which was a factor reducing profits slightly in the 2Q, and moreover the large number of users acquired in the 2Q will contribute fully in this period, and this should make it easier to secure profits. Also, as the market is continuing to expand, the slowdown can be viewed as being temporary and will end. The Company is also investigating procuring new differentiation products, so leaving the initial forecasts unchanged seems somewhat conservative.

In the store services business, the lifting of COVID-19 priority measures, including state-of-emergency measures, is basically a positive factor for customers. But their government compensation payments and subsidies will come to an end and they will enter the repayment period for interest-free unsecured loans, so there may be commercial stores whose business deteriorates. However, after the withdrawals of these commercial stores, many new commercial stores will become tenants and, in this case, it is considered that the Company will conduct sales for introductions of multiple services for new stores. Therefore, the forecast is for a slight increase in profits.

The communications business, centered on the Group's own optical line service for commercial stores, is expected to drive the growth of the Group through stable profit growth. However, in the new normal ensuring sufficient communication lines has become the foundation for society and for people's lives, so it seems to be expanding the business scope to SMEs as well. Therefore, there is the sense that the Company's current forecast is somewhat conservative.

In the business systems business, the speed of the recovery of hotels may increase against the backdrop of their re-openings and the government's economic measures. Also, at hospitals that have been slow to introduce the My Number card, the end of the period of eligibility for business subsidies is March 2023, so the number of installations may rise rapidly toward the end of the fiscal year. Therefore, it seems highly likely to achieve the full fiscal year forecasts.

In the energy business, the Company is also forecasting increases in sales and profits against the backdrop of the normalization of the market. However, while on the one hand fuel adjustment unit prices are rising sharply and sales are growing greatly at the present time, on the other hand, there may occur a discrepancy with the increase in the number of customers, and the situation remains unclear. But it is a low-risk business, so it is thought unlikely to have a major adverse impact on the consolidated results.

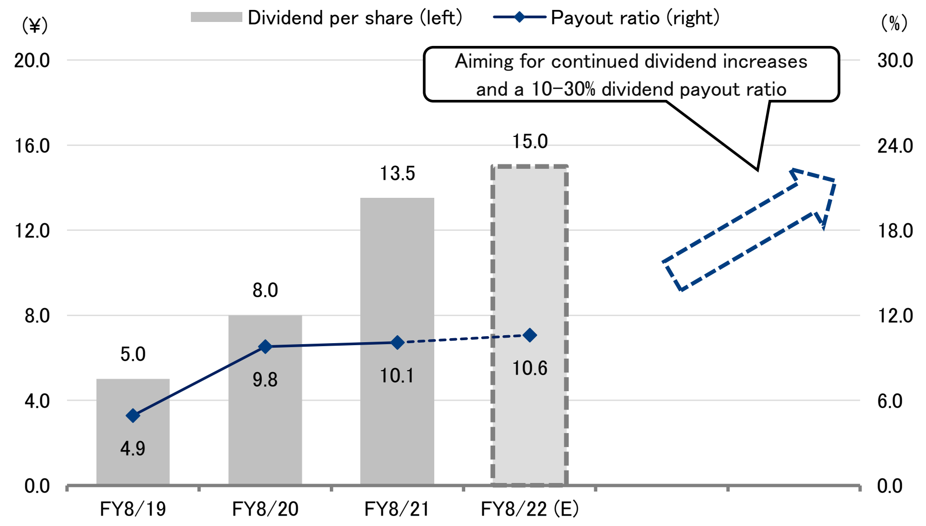
Shareholder return policy

Policy in the new medium-term management plan is to continuously increase the dividend, targeting a dividend payout ratio from 10% to 30%

1. Dividend policy

With regard to dividends, the Company has a fundamental policy of allocating surplus funds once a year at period-end based on results assessed comprehensively in terms of the financial position, profit situation, new investment plans, and other factors, and the general meeting of shareholders is the decision-making body for the payment of dividends from retained earnings. The Company views return of earnings to shareholders as a key corporate policy and plans to pay an annual dividend of ¥15.0 per share in FY8/22 as the result of an overall assessment of results and other factors in accordance with the fundamental policy. The Company is aiming for a 10-30% dividend payout ratio in the medium-term and its policy is to continue increasing the dividend.

Trends in dividend per share and payout ratio



Source: Prepared by FISCO from the Company's financial results

Shareholder benefits include the "U-NEXT" content distribution service and the "Premium Benefit Club"

2. Shareholder benefit program

The Company offers a shareholder benefit program to show appreciation to shareholders for their support, deepen shareholders' understanding of business content by using Group services, and enhance investment appeal of its shares and encourage long-term ownership. Under the current benefits package, shareholders are eligible for both the "U-NEXT" content distribution service and the "Premium Benefit Club." With respect to the "U-NEXT" content distribution service, shareholders with holdings of 100 shares to 999 shares are to receive 90 days of free service use along with ¥1,000 worth of points, and shareholders whose holdings amount to 1,000 shares or more are to receive one year of free service use and ¥1,800 worth of points each month.

The "Premium Benefit Club" allocates shareholder benefit points based on the number of shares owned to shareholders who own 500 or more shares. Members can exchange the points for over 5,000 hospitality products including food, electronic products, gifts, travel or experience services at the "USEN-NEXT HOLDINGS Premium Benefit Club" site exclusively for shareholders. The shareholder benefit points have been established in detail according to the number of shares held, and if the shares are held for at least one year, the number of points is increased to 1.1 times the number in the first year. Shareholders who qualify for shareholder benefits are those own are registered in the shareholder ledger on the final day of February each year. Also, from March 1 of the year before the reference date to the end of February of the relevant year, in the shareholder ledger on the day set independently by the Company, shareholders with the same shareholder number will be listed if holding at least 5 units (500 shares) of the Company's shares.

The points are scheduled to be awarded in early April every year. To be awarded points, shareholders must register and file an application via the "USEN-NEXT HOLDINGS Premium Benefit Club" website set up especially for the shareholder benefits program. Points awarded are valid for up to two years given that they can be carried over to the subsequent fiscal year. Shareholders may exchange their benefit points for "WILLsCoin" shareholder benefit coins. The coins may then be exchanged for hospitality products on the "Premium Benefit Club Portal" membership website for individual investors.

Information security

Reducing security risk for the Group as a whole

The Company is strengthening personal information protection capabilities and continues to implement educational programs. However, it cannot give a guarantee of complete protection and there is always risk of personal information leaks due to improper access from an external source, system trouble, insider crime, human mistakes, and management mistakes at outsourcing and service provision partners. Given these challenges, the Company manages the information system at a data center, employs a firewall, and continually assesses vulnerability in web applications as a more proactive information security effort. The Company allocates notebook PCs and smartphones to individuals as part of work-style reforms. It uses notebook PCs installed with a security chip (TPM), while its smartphones use mobile device management (MDM). Moreover, in order to provide services that can be used safely and securely, the Group as a whole is reducing security risk by establishing "Usirt," centered on the Company, and implementing external audits in a planned manner.

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