NEXT Co., Ltd. (TSE1, 2120)

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Revised our business forecast due to a significant growth in sales and income

◆ The 3rd quarter of the year ending March 31, 2013

For the 3rd quarter of the year ending March 31, 2013, NEXT achieved strong business expansion. Consolidated sales for the quarter under review stood at 2,939 million yen, an increase of 18.2% year on year. Operating profit for the quarter amounted to 439 million yen, an increase of 31.3% year on year. Net income for the 3rd quarter declined by 175 million yen, or 1.9%, year on year since the Company recognized 134 million yen in loss on the valuation of investment securities as extraordinary loss with regard to Rakuya International Info. Co., Ltd. of Taiwan in which NEXT had equity interest (equity interest ratio of 12.2%). Of SG&A expenses of 2,404 million yen for the quarter (an increase of 15.4% year on year), advertising costs totaled 777 million yen, which represented a year-on-year gain of 25.5%.

In the "HOME'S Rental & Real Estate Trade" business, the number of quarterly online property listings averaged 4.204 million for December 2012, a growth of 11.7% year on year while average affiliated store sales for the 3rd quarter amounted to 52,468 yen, an increase of 6.9% year on year, pointing to a gain driven by growing affiliated store responses. The average number of affiliated stores for the same quarter grew to 9,967, a gain of 3.6% year on year.

Consolidated sales for the nine months ended December 31, 2012 stood at 8,439 million yen, an increase of 15.5% year on year. Operating profit for the same period amounted to 1,381 million yen, an increase of 135.7% year on year. Net income for the nine months ended December 31, 2012 totaled 700 million yen, an increase of 176.7% year on year. The operating profit margin for the same period stood at 16.4% compared with 8.0% for the same period a year ago, an improvement achieved through the Company's cost structure reform. Of SG&A expenses of 6,799 million yen, which represented a year-on-year gain of 4.2%, advertising costs totaled 2,163 million yen, a 21.9% increase year on year, marking NEXT's earnest branding promotion spending initiative implemented leveraging its accumulated knowledge and expertise.

As for the proportion of costs to sales, the cost-of-sales and other SG&A-expenses ratio to sales for the 3rd quarter of the year ending March 31, 2013 (October to December 2012) stood at 32.5%, a decrease of 1.5 percentage points year on year, an improvement attained due to increased sales for the quarter. Meanwhile, the advertising-costs to sales ratio amounted to 26.4% for the quarter under review, a year-on-year gain of 1.5 percentage points, reflecting growing levels of online customer drawing costs and branding promotion costs. The personnel-costs to sales ratio was 26.1% for the quarter, a decline of 1.5

percentage points year on year. Although the total consolidated number of employees as of the end of the quarter was unchanged year on year at 559, the total employee headcount excluding employees serving NEXT's overseas subsidiaries was down year on year to 524 as of December 31, 2012. The operating profit margin improved to 14.9% for the quarter under review, an increase of 1.4 percentage points year on year.

◆Achieved significant year-on-year sales growth for all our service categories

In terms of sales by service line, the real estate information services business, the main business line, registered 2,911 million yen in sales for the 3rd quarter under review (October to December 2012), a year-on-year increase of 18.2%. Looking at this business line's sales breakdown, the "HOME'S Rental & Real Estate Trade" business posted 1,568 million yen in sales for the quarter, an increase of 10.8% year on year, and the New Condominium business recorded 410 million yen in sales for the same quarter, a year-on-year gain of 24.1% while the New Houses business registered 484 million yen in sales for the quarter, an increase of 33.2% year on year. As for other segments of the real estate information services business line, the Custom-built House and Refurbishment business posted 195 million yen in sales for the quarter under review, a year-on-year increase of 30.8%, while the Renter's Network business recorded 128 million yen for the same quarter, a year-on-year gain of 24.7%, and the "Others" business registered 124 million yen in sales for the quarter, an increase of 24.5% year on year. Meanwhile, looking at non-real estate information services business lines, the local information services business line posted 4 million yen in sales for the quarter under review, a decline of 48.2% year on year, while the "Others" business line recorded 22 million yen in sales for the quarter, a year-on-year gain of 54.8%.

As for profit and loss by segment for the cumulative third quarter of the year ending March 31, 2013 (the nine months ended December 31, 2012), the real estate information services business line posted 1,648 million yen in operating profit for the period, representing a robust 17.9% increase year on year. The local information services business line recorded 121 million yen in operating loss for the same period compared with an operating loss of 573 million yen for the same nine-month period a year ago, a significant improvement resulting from NEXT's business downsizing-related staff headcount and advertising cost reductions. The "Others" business line also showed a reduced loss, registering 145 million yen in operating loss for the period in comparison to an operating loss of 239 million yen for the same period a year ago.

With regard to the statuses of the consolidated balance sheets and goodwill, per-share net assets as of December 31, 2012 stood at 485.28 yen, a year-on-year growth of 7.4%, while NEXT maintained interest-bearing debt at the zero level. The Company recognized 32.51 million yen in amortization of the goodwill of the former Littel Co., Ltd. (as of December 31, 2012, the residual amortization amount stood at 140.88 million yen and the number of residual amortization months was 39 months). Meanwhile, NEXT recognized 8.93 million yen in amortization of the goodwill of overseas subsidiary Next Property Media Holdings Limited (as of December 31, 2012, the residual amortization amount totaled 152.57 million yen). The goodwill of the subsidiary increased by 102 million yen in the nine-month period ended December 31, 2012 owing to NEXT's additional acquisition of shares in the subsidiary.
A look at the consolidated cash flow statement shows that cash flows from operating activities for the cumulative 3rd quarter under review (the nine-month period ended December 31, 2012) stood at 1,398

million yen, an increase of 353 million yen year on year, while cash flows from investing activities for the same period amounted to a negative 248 million yen, representing a year-on-year cash flow increase of 2,330 million yen. Meanwhile, cash flows from financing activities totaled a negative 66 million yen, a year-on-year gain of 41 million yen. As a result, the balance of cash and cash equivalents as of December 31, 2012 stood at 4,496 million yen, an increase of 1,433 million yen year on year. If time deposits of three months or more of approximately 2,001 million yen had been included, the total balance of cash and cash equivalents would have amounted to 6,497 million yen as of December 31, 2012, marking a steady accumulation.

◆ Ranked number one in terms of the number of property postings and of user-friendliness

Among the highlights of the operating results for the 3rd quarter under review (from October to December 2012), the number of NEXT's quarterly online property listings grew steadily to an average of 4.2 million during the period in the real estate information services business while the number of affiliated stores exceeded the 10,000 mark during the same period. Moreover, we obtained a third-party assessment ranking the "HOME'S" website number one among different real estate information sites in Japan in terms of user-friendliness. Also noteworthy was the fact that NEXT's SEO effect was enhanced substantially thanks to the Company's website overhaul. The 3rd quarter marked another period in which NEXT continued to step up its branding promotion efforts.

As a specific action program, NEXT has been implementing for the past three years the 4-P Marketing Strategy, under which the Company changed, as a price strategy, its fee charging format, migrating from the pay-per-posting-based fee structure to the pay-per-inquiry-based fee structure, a step taken with the aim of achieving a significant expansion in the number of online property listings. Moreover, under its place strategy, NEXT rebuilt, as its marketing initiative, its marketing platform into an individual affiliated store-centric platform. To date, our dedicated teams have been continuing to pursue their new affiliated store prospecting activities. At the same time, they have been delivering consulting-based marketing services by regularly visiting individual affiliated stores while providing consulting-based marketing services by making telephone calls to their target contacts. These efforts have enabled NEXT to achieve an increased number of new affiliated store enrollments, an improved membership withdrawal rate and expanded average affiliated store sales.

Under its product strategy, NEXT implemented the first full overhaul of the "HOME'S" website in 10 years after a decade-long use of the site format. This enabled "its SEO effect to be maximized through site integration" while allowing "the website's user reach to be enhanced through an introduction of cross-search function, a function that enables the website visitor to search for properties across all categories." Moreover, this overhaul served to "raise NEXT's brand profile through a design unification process" and to "improve the matching rate by enhancing website usability." As a result of these initiatives, in the Gomez Real Estate Information (Rental and Trade) Site Ranking released in December 2012, the "HOME'S" website was ranked number one in the overall category while being ranked number one in the "site usability" category as well. During the period since the website overhaul in question, the "HOME'S" website has continued to be ranked mostly number one in Google's and Yahoo's keyword search results, up from the number 10-or-so spot at which the site had previously been placed. With the site visitor count having grown substantially since the website revamp, the "HOME'S" website has been maintaining its top position in terms of site visitor count among a host of real estate information websites run in Japan, according to Nielsen NetView data.

As part of its promotion strategy, NEXT has been engaging in aggressive spending activities aimed at promoting its brand further. We have been striving to achieve increased differentiation from competitors in order to tout in our statements that we have two "number one" website rankings as was done in the slogan of "number one in the number of online property listings leading to number one in site usability as well," a slogan that was used during part two of our public transport-based advertising campaign. We think all of the 4-P strategy initiatives outlined just now were successful, and we will continue to implement our website overhaul, public transport-based advertising and TV commercial campaigns in a multi-faceted manner in the coming months

Among other highlights, NEXT in the real estate information services launched "HOME'S AD" services, which represented behavioral targeting-based advertisement delivery platform services. Meanwhile, consolidated subsidiary Renter's rolled out "Renter's BB NET" services that constituted inter-realtor property information dissemination services. In its China operations, NEXT made the "homescn.com" website-operating holding company its wholly-owned subsidiary. In another move, our "HOME'S Thailand" real estate property listing site run in Thailand initiated the provision of rental property information services designed for Japanese nationals residing in the country. In Indonesia, we launched a commercial property information service program dubbed "Property concierge Services." In the "Others" business segment, financial information service program "MONEYMO" achieved profitability on a single month basis.

◆Revised up the full-year business forecast

NEXT revised upward the consolidated business forecast for the year ending March 31, 2013 that had been released at the beginning of the current fiscal year. The revised forecast shows that consolidated sales for the year will stand at 11,859 million yen, an upward revision of 14.8% from the original projection, while operating profit will amount to 1,447 million yen, an upward revision of 170.4%, and net income will total 718 million yen, an upward revision of 233.9%. Although management had initially projected consolidated sales conservatively in consideration of significant levels of the Company's sales volatility, it decided to change to a forecast showing record high consolidated sales for the full-year, an achievement to be driven by the Company's website overhaul and branding promotion efforts. Its income forecast upward revision was a substantial one in its extent. Under the revised business forecast, advertising costs for the year ending March 31, 2013 are projected to be 3,540 million yen, an upward revision of 13.1% from the period-start projection. With consolidated sales likely to exceed its period-start projection by a wide margin, NEXT will reallocate funds to TV commercial, public transport-based advertising and online customer drawing programs in an effort to grow sales further in the next fiscal year onwards. The Company expects to pay 5.7 yen per share as annual dividend, an increase of 4.0 yen compared with the year ended March 31, 2012. In terms of projected sales for the year ending March 31, 2013 by service line, the real estate information

services business line is expected to register 11,754 million yen in sales, an upward revision of 15.5% from the period-start forecast. Looking at this business line's sales breakdown, the "HOME'S Rental & Real Estate Trade" business will likely post 6,470 million yen in sales, an upward revision of 13.5%, and the New Condominium business is anticipated to record 1,642 million yen in sales, an upward revision of 17.4%, while the New Houses business is expected to report 1,890 million yen in sales, an upward revision of 22.9%. As for other segments of the real estate information services business line, the Custom-built House and Refurbishment business will likely register 800 million yen in sales, an upward revision of 23.3%, while the Renter's Network business is anticipated to post 482 million yen in sales, an upward revision of 4.0%, and the "Others" business is expected to register 468 million yen in sales, an upward revision of 10.8%. These sales projections show that double-digit rate sales upward revisions were made to all of these business units. Meanwhile, looking at non-real estate information services business lines, the local information services business line will likely post 20 million yen in sales, a downward revision of 58.0%, while the "Others" business line is expected to record 84 million yen in sales, a downward revision of 22%.
Looking at the monthly sales data for the "HOME'S Rental & Real Estate Trade" business, sales for January 2013 grew some 25% month on month, accompanied by a strong momentum, which was attributable to the aggressive spending implemented by NEXT during the period from August 2012 for its TV and radio commercial and public transport-based advertisement campaigns.

As part of its fourth quarter promotion strategy initiatives, NEXT will continue to run TV commercial and public transport-based advertising campaigns across the country. In February 2013, we plan to hold a real estate investment-related event as the largest one of its kind in Japan. One past initiative that requires a mention is the revamp of the "HOME'S kun" brand character, a program carried out by the Company at the time of implementing the website overhaul.
Under its product strategy, NEXT plans to perform an overhaul of the "HOME'S" smartphone optimization site and the "HOME'S Real Estate Investment" site. As for our place strategy, we are now striving to achieve higher productivity while paying attention to highly efficient use of work time by means of allocating iPad and CRM (marketing support tool) to all marketing staff members, a step taken to streamline their marketing activities. Moreover, we are now in the process of pursuing new affiliated store prospecting initiatives as well using full commission-based proxy sales services.

◆ Q&As ◆

Currently, how do you see risk from branding promotion and business operation perspectives?

In the area of branding promotion, many online business operators are bound to be greatly affected by Google's display algorism, which in 2012 was subjected to two major updates that served to provide important metrics for the business operator to judge whether it was delivering useful contents to website users in a highly viewable manner. Under such circumstances, websites that users find to be poorly viewable will likely go out of existence in coming years.

We at NEXT believe that we will be able to naturally remain ranked highly among different SEO service providers if we strive to deliver user friendly services while expanding the quantity of our real estate information and contents. Regarding search engine algorism changes, we make conscious efforts to continue gathering the latest information as well as reports about future developments at all times in an effort to keep abreast of the latest trend.

We note that Google listing advertising unit costs have been continuing to increase little by little for advertisers across all industrial sectors. In view of this phenomenon, it will be important for us to build a structure not reliant on listing advertising. Therefore, NEXT will strive to step up its SEO efforts while enhancing its branding promotion initiative aimed at making the “HOME’S” website selected by the online website information seeking website user as his/her first choice site, in an effort to attain an improved website user mind share. Through these efforts, the Company in the long term wishes to break out of the existing business platform that is dependent on Google search results and customers’ paid service use. Moreover, we will pursue our operations while remaining always well-informed of the latest marketing methodologies as well as devices such as smart phone and iPad.

As for its business operation, given that NEXT has achieved success in the 4P strategy for its principal domestic businesses, the Company intends to expand this strategy further in the coming years. The next challenge we wish to take on is the development of our overseas business, a business category that involves high levels of operational and country risks as well as of volatility. With only about one year having passed since the launch of our overseas business operations, we are now in the process of accumulating knowledge about local rules and local website users’ thinking. We will lay the firm groundwork for achieving a business takeoff in the overseas markets.

As for SEO activities, rivals’ actions seem to be important to watch. How do you see their actions?
A player cannot win a higher promotion SEO service provider ranking just by spending a significant amount of money on relevant projects.
In order for the player to win a higher SEO service provider ranking, the firm must rebuild its website structure into such structure as generates an SEO effect in an efficient manner. Such a website restructuring process took NEXT three years to complete. Under such circumstances, our competitors would not find it easy to win higher rankings even by making NEXT-like efforts to overhaul their websites and implement other well-funded programs.

What is the size of the real estate information website services market segment within the overall Japanese online services market? Has this market segment reached saturation point, or does it have further room to grow?
Although this is my own personal view, 80% or so of rental property information searchers living in Japan are thought to be doing so online given that young-age people represent a significant proportion of such information searcher category. I also think some 50% of real estate sale and purchase transactions in the country are currently conducted using online information services.
As for the size of the Japanese real estate information website services market, I must use estimated numbers in the absence of definitive market data in the industry. The nation’s real estate advertising market is estimated to be worth approx. 200 billion yen to 300 billion yen (including advertising conducted through

paper-based media), of which 40 billion yen to 50 billion yen is thought to be accounted for by leading real estate information portal sites such as the "HOME'S" site in terms of online services-based revenues. If we base our conclusion on these estimated numbers, the real estate information portal site services market segment should have further room to grow as a proportion of the overall online advertising market.

Within the 200 billion yen to 300 billion yen Japanese real estate advertising market, what would be the size that the online real estate advertising market segment would be able to grow to and how many years would it take for that to be achieved?

This is purely my personal view, but given a third party report stating that the nation's online real estate advertising market segment has been growing at an annual rate of 15% or so, this market segment will likely grow to a level equivalent to about half of the overall Japanese real estate advertising market within a matter of another few years.

I note that for the 3rd quarter of the year ending March 31, 2013 (three months ended December 31) the real estate information services business's operating income was flat compared with the same quarter a year ago. Was it due to the one-time addition of website overhaul costs, or to growing advertising costs?

That was attributable to increasing advertising costs that resulted from the continued implementation of our branding promotion program during the period from summer 2012 to the annual peak season.

Am I right in thinking that income for the fourth quarter of the year ending March 31, 2013 (the January to March 2013 period) is anticipated to decline compared with the 3rd quarter since NEXT will increase its advertising cost spending further in the fourth quarter for the purpose of achieving higher sales.

With the fourth quarter being the industry's annual peak season, NEXT is now continuing to run TV commercials as well in earnest during the quarter. Although this is causing costs to rise for the fourth quarter, such cost spending constitutes part of the Company's medium- to long-term investment activities, an endeavor pursued based on the belief that years of branding promotion efforts are necessary for NEXT to achieve a higher website user mind share.

Will NEXT's ongoing investment activities contribute to higher income growth starting from the first quarter of the year ending March 31, 2014, or from sometime after that?

Already, NEXT is now in a position in which it can decide at its discretion whether or not to recognize certain income depending on its own cost control approach, meaning that curbing investment activities will allow the Company to generate greater income. As its basic approach, NEXT will strive to attain increased full-year income growth on a year-on-year basis, but what is more important in our view is for the Company to enhance its overall corporate strength in the medium term through implementing its investment programs. Consequently, we intend to not only generate increased income but also continue making investment while seeking to strike a good balance between both types of endeavors.

I heard from business operators other than real estate information service providers that your SEO

effect has been diminishing on a relative basis due to a growing number of Google listing advertisements with product images. Is it true that NEXT has been affected by the phenomenon in such a manner?

Currently, NEXT's SEO effect is little affected by the phenomenon you mentioned. In the event of Google making changes to its product design or algorism, we will have no alternative but to take flexible action to deal with such changes. Thus, if such kind of influence has materialized, we will address the situation by modifying our advertising cost allocation.

My question concerns your overseas business operations, in particular, your China operations given that local Chinese authorities are said to have taken a new set of regulatory tightening measures towards real estate business operators in the country. I would like to have your comment on the situation.

Our challenge is the fact that we have yet to achieve profitability in individual country markets although our key KPI metrics have been showing improvement there.

In Thailand, the Company's real estate information website is ranked number one among locally-operated websites of the same kind in terms of the number of property listings, but we find it difficult to attain profitability in the Thai market. This is attributable to the fact that the value of the website's services is not well appreciated by Thailand-based real estate developers with local property information searchers having yet to become accustomed to using online services for searching for condominiums although a certain level of online property information-related website user inquiries are made to local real estate developers.

As for the China market, NEXT has been steadily achieving increased online traffic and a rising number of online property listings. However, when it comes to the issue of attaining profitability for its China operations, the Company is still in a position to continue competing with forerunning local Chinese rival firms before gaining the ability to achieve profitability in the market, under its current policy.

While China's new condominium market has been subjected to a new set of regulatory tightening measures, NEXT, being a startup player, has largely been insulated from the effects of the changing market conditions, which came from the fact that the Company's operations are mostly focused on the provision of information services relating to rental properties and previously-owned for-sale properties.

In its Indonesian business, the number of NEXT's online property listings has reached levels of several thousand, and thus the Company has finally started to sound out its local contacts on the fee charging format. Although its Indonesian operations have achieved profitability on a single month basis, the sales value itself is still at a low level.

NEXT's business in Taiwan is pursued in the form of an equity participation in an operator of a local real estate information website, which is ranked number one in Taiwan among local websites of the same kind in terms of property listing count.

NEXT is faced with the challenge of managing to attain profitability in individual country markets through its continued efforts.

May I know your firm's advertising cost spending standard if you have any?

Previously, NEXT's policy was to limit advertising costs to 20% of net sales and personnel expenses to 30%

of net sales.
The Company, however, raised its advertising cost to sales ratio from 20% to 30% in response to rising Google listing advertising unit costs while restricting personnel costs to approximately 25% of net sales. We are now considering lowering the advertising cost to sales ratio from 30% to 25%, going forward.

Do you intend to spend 30% of net sales on advertising next fiscal year?
NEXT will spend approximately 30% of net sales on advertising this and next fiscal year before reducing the advertising cost to sales ratio to 25% on a step-by-step basis thereafter.

Am I right in thinking that there is no possibility of NEXT expanding its advertising cost spending further for the fourth quarter of the year ending March 31, 2013? Given that its preliminary January 2013 sales showed a year-on-year gain of 25%, it seems NEXT might do well to increase its advertising cost spending a little further for the fourth quarter. My I have your comment on this point?
I would like to know management's projection of its advertising cost spending growth rate for the next fiscal year onwards.

Net sales for the fourth quarter may potentially exceed our estimate slightly, but this estimate was made without bias on the basis of the data obtained until the end of January 2013. So we don't see much chance of the ultimate sales figure differing greatly from the estimated level even in consideration of certain potential developments that could occur in relation to the annual peak business season.
Presumably, from a cost-benefit viewpoint, advertising cost spending will not deviate from the estimated level because all relevant items for the period until the end of March 2013 were factored into the spending plan although, admittedly, some new investment could still potentially take place.
While I hope investors will look forward to seeing NEXT's financial results releases for the next fiscal year onwards, a projected annual sales growth rate of 25% would be too aggressive a forecast, but a growth rate of 5% might be too low a forecast. Thus, our sales growth rate forecast would probably be set at a level somewhere in between these levels.
In devising our FY 2013 budget, we will factor in certain levels of investment costs in advance, as was done for the current fiscal year, while making a conservative forecast on volatility-prone net sales.

(Tokyo, February 15, 2013)

※ For the presentation material used at our financial results presentation meeting, please go to the Company's IR website shown below:
URL: http://www.next-group.jp/ir/index.html