2120 **NEXT Co., Ltd.**

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Highest Sales to Date with 3-year Implementation of the 4 Ps

◆Real Estate Market Conditions and Summary of Financial Results for the Current Period

Real estate market conditions are transitioning favourably with the change of administration, "Abenomics" and high share prices, etc. An improvement in individual buyer motivation has been observed due to the fact that interest rate rises and tax hikes, etc. are being curbed. Over the past three years, Next has actively implemented Price Strategy (changes in billing format), Product Strategy (website overhaul), Promotion Strategy (branding promotion) and Placement Strategy (sales strategy). These were very difficult challenges to face but, at the end of the three years, we acknowledge that we are now at the start line of our 2nd growth period.

Due to the increase in income from our core real estate information service HOME'S, we were able to post a rise in sales and profits with total sales at 11,962 million yen, operating profit at 1,591 million yen and current net profit at 614 million yen, recording our highest sales to date. The number of properties had increased satisfactorily by 420,000 in the year-on-year average for the year ending in March. The point that differentiates Next from its peers is the high volume of information for the number of properties. Affiliated stores increased by 3.8% year-on-year and affiliated store unit prices increased by 4.9%, both recovering and pushing up performance. In addition, due to the effects of branding promotion and the rental/real estate sale and purchase website overhaul, the number of visitors to the site via search engines increased. Furthermore, key indicators for the core business of real estate information services achieved their highest ever records across the board.

◆Financial Results Information for the Year ending March, 2013

The highlight of the yearly financial results is a rise in both sales and profits including an increase of 15.9% in sales year-on-year, an increase of 10.1% in SGA (Selling, General and Administrative) expenses and a 67.0% increase in operating profit. Sales increased by 1,642 million yen year-on-year. In SGA expenses, advertising expenses in particular greatly increased by 718 million yen (increase of 26.3% year-on-year). In the 4th quarter alone, sales increased by 16.9% compared with the same period in the previous year and basic earnings growth recovered while operating profits fell by 42.9% but this is the result of active investment in advertising expenses with a mid-to-long-term outlook such as branding promotion in busy periods for rental.

These financial results were calculated with an additional 71 million yen of SGA expenses for the commencement of consolidation with the NMP Group, a Chinese affiliate. In the net profit category for this period, there were special losses of 357 million yen. These were due mainly to impairment loss of Chinese goodwill with impairment losses of software in new Next domestic business and losses on revaluation of investments in securities of the partner companies REM, Inc. and Rakuya International (Taiwan) in which Next invests.

In sales component ratio for expenses, cost price and other SGA expenses improved 2.9 points year-on-year to

30.4%. We conducted active investment in advertising expenses and although, on the one hand, these increased by 28.9%, personnel costs improved from 30.9% to 27.4% due to an improvement in individual productivity and the effects of revenue growth.

Sales for each service increased in almost all segments. Sales for the core business of real estate information services were 11,851 million yen (increase of 15.9% year-on-year). In particular, after a structural reorganization and a business model conversion, sales for the high volume area of rental/real estate sale were 6,513 million yen (increase of 9.3% year-on-year). In addition, condominium and detached new-builds are growing favourably. The rate of growth for custom-built houses and renovation is also satisfactory at 35.8% and we would like to grow this as a core business in the future.

In profit and loss by segment, the community information services business dramatically reduced its number of personnel due to downsizing and there was a marked improvement in the deficit over the whole period. Other businesses also showed lucrative improvements due to downsizing in the same way. The core business of real estate information services showed an increase in branding promotion expenses due to active development of TV commercials, etc. and although there was no change in profit ratio, as the deficits of the above-mentioned businesses improved dramatically, there was a large year-on-year improvement in consolidated operating profit.

◆Balance Sheet and Goodwill Situation

The net worth per share was 482.21 yen (increase of 6.7% year-on-year) and we are continuing with 'pay as you go' operations. Assets increased by 1,434 million yen year-on-year and floating assets increased by 1,954 million yen mostly due to increases in cash and deposits. A major factor in the increase of accumulated earnings was net worth of 9,064 million yen (increase of 586 million year-on-year).

In the amortization of goodwill, Littel, Inc., a company that researches and develops recommendation engines, has residual value of 130 million yen that will be amortized over 36 months. The NPM, Inc. balance of 152 million yen was amortized in a lump sum as a special loss in the latter half of last year. As a result, cash and cash equivalent balances were at their highest ever at 6,940 million yen.

◆Initiatives for the 4th Quarter, Year ending March, 2013

Domestic topics include, first of all, the implementation of nationwide branding promotion. We incorporated street vision advertising, TV commercials and train advertising, etc. to create effective advertising synergy. Secondly, we implemented an overhaul of the HOME'S core business website for rental/real estate sale and purchase in the 3rd quarter. The aim of this was to maximize the SEO (search engine optimization) effect through site integration. As a result of this, the search results position for main keywords has risen dramatically and this has linked to an increase in users. Due to the effects of the above-mentioned promotion and website overhaul, we were able to record the highest number of visitors among our peers. The price model was changed to a structure in which sales increase if there is a rise in the number of enquiries as the result of an increase in the number of visitors. As a result, sales for March alone increased 12.4% year-on-year.

The 4th quarter responded to sales policy enforcement and both the number of listed properties and affiliated stores has increased. Sales policy enforcement implemented cultivation of new sales with a specialized team, visiting consultant sales and telephone consulting sales for decentralized clients and as a result, there was an increase in affiliated store members, an improvement in the ratio of members who left and an improvement in affiliated store unit price, etc. The number of listed properties increased by 11.8% year-on-year, the number of affiliated stores increased by 5.0% and sales by affiliated store increased by 7.0%.

Moreover, through efforts such as sales policy enforcement and website overhaul, we surpassed all previous records for each type of key indicators. According to aggregate calculations by various survey institutions, HOME'S was chosen as the No.1 service in total number of listed properties, number of users and ease of use.

◆Performance Forecast for Year ending March, 2014

The cornerstone of the Next Group strategy is building a global company through giant databases and communication & concierge services. The image of the Group's intermediate business deployment is, using HOME'S which has entered its 2nd growth period as a weapon and the profits made to invest in new fields and services while re-investing in HOME'S in the domestic market, to aim to be the hands-down No. 1 in domestic and existing markets by maximising sales through re-investment. We will evolve the already strong domestic HOME's service which has also been deployed to China, Thailand and Indonesia beyond these four countries. We will provide new products and services for the existing domestic real estate market. In particular, up until now, HOME's has focused on B2C but, in the future, we will expand to a B2B service for clients in the real estate industry. Furthermore, as a diversification strategy, we will invest in businesses outside the real estate field in order to construct new business cornerstones, although the scale of investment will not be large, and we will cultivate new businesses and products. Consequently, the forecast for this financial year is increased earnings and a decline in operating profit due to the above-mentioned plans for re-investment with the aim of growth in the future.

The performance forecast is sales of 13,041 million yen (increase of 9.0% year-on-year), SGA expenses of 11,250 million yen (increase of 12.6% year-on-year) and through a particularly large active investment of 4,016 million yen in advertising expenses, we will grow our mid-to-long term vision. As a result, we forecast an operating profit of 1,322 million yen (a decrease of 16.9% year-on-year). For this financial year, taking into consideration a drop in sales due to customer outflow as a result of the planned condominium website overhaul, costs in order to compensate for this have been accumulated and increased in advertising expenses. As a result, we forecast that sales will be slightly soft.

For sales component ratios for costs, we will invest around 30% in advertising expenses and further improve the personnel costs ratio and enhance productivity. Planned growth investment for the domestic HOME's service, which is our focus, is 650 million yen.

Planned distribution of dividends will consist of a yearly dividend of 7.9 yen with a dividend pay-out ratio of 20.0%. Our policy is to fluctuate in response to current net profit at a dividend pay-out ratio of around 20% for ordinary dividends.

◆Focus Points for Year ending March, 2014

Our first priority is the strengthening of the domestic HOME's service, our second is the strengthening of the overseas HOME's service and of services for clients and our third priority is the strengthening of new businesses. The strategy in order to make HOME's the hands down No.1 is to implement promotion by investing in nationwide TV commercial broadcasts, train advertising, holding events and search engine optimization and to place even more effective advertisements through analysis of user behaviour. The product strategy is to overhaul all HOME's websites, to strengthen the partnership between HOME's and Lococom, to start new HOME'S services and to install customized sort logic for each user. The sales strategy is to focus on strengthening consulting and business support services, expanding sales of existing products (Annex, HOME'S AD, etc.), promoting the development of new affiliated stores and deterring membership withdrawal through follow up and promotion of utilization for customers acquired. As shown above, we will increase sales not only with sales from enquiries as well as an increase in affiliated stores through the execution of sales strategy and an increase in optional products sales, but also with an increase in sales from basic charges and optional products.

In our overseas strategy we are in discussions with China for liquidation. In Thailand, we will increase the number of rental and previously-owned properties in our newly started service and we will also increase the number of properties in Indonesia.

The image of future business development is to increase both sales and profits by adding B2B services to the basic HOME'S business. In addition, we will actively develop in the ASEAN countries and reconstruct in China and we will seek out our next steps while investing small-scale in new businesses such as community information/finance/healthcare/events information websites, etc.

As a result, we will aim for a future operating profit of 25% as a business indicator.

◆Q&A◆

Please give me specific details about how the money that was used for naming rights costs up until now will be used in the future.

We have spent around 70 million yen a year up until now but we are planning to invest this in other promotional costs from now on (please see P.28 in the briefing session document). Specifically, we plan to actively increase our investments in TV commercials and train advertising as well as expanding advertising periods and areas and investing in SEO measures in order to increase search results priority and placing effective advertisements through analysis of user behaviour.

Please tell me the reasons for the rise in search results priority with the changes to Google algorithms. Is it due only to the integration of your websites?

To give a simple overview, we are always watching the changes in results priority with the cooperation of an external partner (SEO consulting company). The sharing of know-how with this partner company has been going well. Along with our partner company, we expected that the SEO effect would drop by around 20-30% after website overhaul but it rose beyond expectations and factors in this were that we were able to predict the changes in algorithms and that we integrated the websites.

How much do you spend on partner companies for SEO measures?

This information is not in the public domain.

Please tell me the reasons why you decided to temporarily suspend development in China.

We were not able to create synergy with our Chinese partner company. This may be due to a lack of effort on our part but as we were not able to obtain the sales support, human support and know-how that we had originally expected from this company, we decided that it was better to dissolve the partnership. Up until last year we were thinking of purchasing this company and controlling it by adding to holdings up to 90 – 100% but as fulfilment conditions for share transfer were not conducted by the deadline, we were both unable to add to holdings and it would cost us money so we decided that is was more efficient to liquidate.

Is there a possibility that you will deploy in China again in the future?

We have not totally given up and we are considering new methods of deploying to China and we will look out for new opportunities while modifying our approach.

Do you consider the Chinese market to be attractive?

The Chinese population is huge but there is a lack of real estate, so we believe the market is large. However, we also acknowledge that it is not an easy market to get into. We are considering changing our entry scheme to see if we can't evolve with a scheme under the control of our company if at all possible.

Are you considering state companies or private companies as your future Chinese partner?

As we would ideally like 100% control at the point of having cleared all legal impediments, we are not considering state companies as future Chinese partners.

How do you explain the fact that the rise in search result position and the rise in sales do not correlate?

We have a detailed portfolio of advertising expenses overall including AdWords, SEO consulting expenses, website overhaul, TV commercials and train advertising. Website overhaul was implemented over October and November but the SEO effect did not really appear until around two months after that and concurrently, we implemented various advertising activities such as increasing the amount of TV commercials, train advertisements and website advertisements during busy periods. As sales is a multiplication of all these, it is natural that it does not correlate to SEO. It is easier to correlate user numbers to sales. Even so, sales correlate with increases in inflow traffic numbers and responsiveness depending on the season through the effects of each of these advertising campaigns but do not necessarily correlate only with SEO results.

It is easy to get an overall picture with the number of contracts and contract unit prices. Could you tell me about the affiliated store unit price?

Our clients are real estate companies, developers and house manufacturers who post real estate information, company information and catalogues, etc. on HOME'S. If there is an enquiry on the rental/real estate sale and purchase website, we take a fee from the real estate company that correlates to the number of enquiries. Therefore, as we only provide the function of creating phone calls or e-mails from users, we do not know if contracts are made in the end after the enquiry.

The affiliated store unit price is an indicator that expresses how many visitors there are, how many affiliated stores there are, the results of how much value is provided and how much money is paid per store. To give a specific breakdown, along with the monthly usage fee of 10,000 yen, we have sales based on the number of enquiries and sales based on the number of optional products that enhance exposure, (please see P.37 in the briefing session document), so the monthly fee per affiliated store is around 60,000 yen.

(Tokyo, 15th May, 2013)

*Use the link below to view briefing session documents.

（http://www.next-group.jp/en/ir/presentation_20130514.pdf）