

Next Co., Ltd. (2120)

Third quarter results briefing summary for the fiscal year ending March 31, 2014

Date and time	Monday, February 17, 2014, 17:00 to 18:10
Location	Our conference room
Our attendees	Takashi Inoue, President and Representative Director Ryoma Morino, Director and Executive Officer of Management Division Hidekazu Fukuzawa, Corporate Communications Group Leader, Corporate Planning Department
Attendees	23 people

<Sales and profit growth continue mainly on a strong track>

In our medium-term business strategy, the Group is aiming to become a global company by developing databases that can take advantage of the information in all areas related to living at home and abroad, from which our communication and concierge services extract information optimized for targeted users that range in scope from actual target groups to potential target groups. Our strategy consists of three main pillars: we will advance re-investment in our Japan mainstay HOME'S to maximize sales, build out new services on real estate industry platforms to expand our business support services clientele among real estate industry participants, and promote new and overseas services.

In the financial results for the third quarter of the fiscal year ending March, 2014 (October to December), the mainstay real estate information service business remained strong, and this produced record sales of ¥3.556 billion, a 21.0% increase over the same quarter last year, while operating earnings reached ¥791 million, for an 80.1% year on year increase. As a result, we posted quarterly net earnings of ¥455 million, up 160.3% from the previous year. December's listed properties averaged 4.46 million, or 260,000 more than the same quarter last year. The number of stores expanded to 11,182 as of the end of December, an increase of 1,137 stores. Advertising costs rose by 16.7% YoY to ¥960 million on account of TV commercial production costs and other expenses. In addition, our vigorous efforts at brand promotion and the website update undertaken in the previous quarter generated improved SEO effects, bringing increases in visitors and inquiries and leading to higher revenues and earnings.

So far this fiscal year, the three quarters cumulative total sales rose 23.3% YoY to ¥10.48 billion, and cumulative total operating earnings rose 59.5% YoY, to ¥2.24 billion; these both topped all previous records. Although advertising and labor costs increased, the 21.2% operating earnings margin saw a 4.8% improvement over the 16.4% margin achieved in the same quarter last year, thanks to higher revenues. This productivity improvement is on track to achieve the 25% operating profit margin stated as the Group's medium- to long-term goal.

In sales by service type, the mainstay real estate information services business enjoyed double-digit growth this quarter in all service departments. In Rental & Real Estate Trade, the numbers of visitors and inquiries increased as a result of a website update and brand promotions. Property listings for New Houses increased by an average of 31.6% YoY, and the huge 71.2% rise in membership numbers contributed to increased revenues. More inquiries came in for Custom-Built Houses and Renovations, and we enjoyed higher unit prices for sales, also contributing to higher revenues. Our income rose also on account of higher rates of property listings and closings, and higher unit prices.

Turning to profit or loss by business sector, in the third quarter, the real estate information services business significantly increased by ¥290 million YoY to reach ¥799 million. Other business was ▲¥690 million in the same quarter last year vastly improved to ▲¥8 million. In addition, by the end of December, 2013, net assets per share had risen to ¥180.64, an increase of about ¥20 from its ¥160.74 level as of the end of March, 2013. Interest-bearing debt remains at zero. In terms of cash flow, cash and cash equivalents increased by ¥3.38 billion when compared with ¥4.496 billion in the same period last year, reaching ¥7.877 billion. It should be noted that, if ¥2.01 billion in time deposits of more than three months is included, the cash and cash equivalents would have totaled ¥6.497 billion in the same quarter last year, and the increase would be actually around ¥1.38 billion.

<Initiatives during the 3rd Quarter of the fiscal year to end March 31, 2014>

Our major initiatives in the third quarter were first, the continuing investment in brand promotion of “HOME'S” in Japan, and second, a series of HOME'S EXPO client events held in four cities. These focused on the development of smart devices that have a rapidly increasing user base. In November we released the “Heyakuru!” room search app for the iOS7, and on its heels we next released an Android app called “New Property Navigation: HOME'S new condominiums.” After that, in December we updated the website for Rental & Real Estate Trade, optimized for smartphones, and also released a universal app that supports all devices equipped with mobile operating systems such as Apple's iPhone, iPad, and “iOS,” Apple's mobile OS.

As MLIT's housing policy is expected to cause a doubling of Real Estate Trade and Renovation markets between 2015 and 2010, expanding them to ¥20 trillion, there is also no excise tax on sales of Real Estate Trade between individuals, and as a result the renovation market is now coming into focus as a new growth market. Last October we released HOME'S Renovation that specializes in case studies of renovated homes. In addition, “trunk room” storage facilities that have gained widespread use in the U.S. are seen as having major growth potential in Japan as well. In October last year, we created Japan's largest website for trunk room information, called “HOME'S Trunk Room.”

Beyond these consumer initiatives, we are devoting effort into BtoB services as well. The Renters subsidiary, engaged in business support services for real estate companies, last November began a new CRM offering geared to property owners. This sector remains strong, and the strength is also evident in how many affiliated stores now use our existing Renters Net—the number recently topped 1,000 stores.

<Operating earnings already achieved the year's budgeted plan>

This continuing series of initiatives has gotten us on track to meet our business plans for the full fiscal year to end March 31, 2014, even as forecasts were revised upward last November. Of these, the ¥2.24 billion operating earnings in the third quarter financial results already exceeded the annual budget of ¥1.69 billion for operating earnings. We plan to strive to maximize sales in the fourth quarter and next fiscal year by conducting our largest-ever brand promotion.

<The fourth-quarter brand promotion, our largest ever>

Now, during the fourth quarter, we are conducting our largest-ever brand promotion of Japan domestic HOME'S. Specifically, our TV commercials starring Banana-man are airing on 32 stations in eight regions nationwide, making the claim we are number one in listed properties. These are certain to be raising the awareness level and sensitivity level, where the YouTube video replays have reached 4 million total views. In addition, we are conducting more area marketing with transportation ads and outdoor ads. An expanded program of cinema ads is also being rolled out.

In addition, we have launched our For-Sale Proposal Service, an industry first. This is set up so real estate companies can make property proposals to individual users, and properties that could not originally be listed by real estate companies in ads can be proposed. We expect the match rate to rise, while users benefit with new options and obtaining non-public listed property information. Following up on last December's smartphone optimized Rental & Real Estate Trade site update, in January we finished the smartphone optimized site for new detached houses and new condominiums, and we expect more SEO effect. In addition, we have worked to develop a property search app for visually impaired people, and are initiating development of new option products. Our efforts overseas focus on content development and enhanced SEO in Taiwan and Indonesia, and in Taiwan, where last October we began charging fees, we have reinforced our promotional efforts.

Third Quarter Results Briefing Q & A for the fiscal year to end March 31, 2014

※ For the sake of accuracy, there are some Q&A points that have been revised and corrected. Please see the video posted on the WEB site (In Japanese) that shows the actual Q&A session that day.

Q1.

Regarding advertising expenses, there is some ¥1.9 billion difference between the actual, up to the 3rd quarter, and the budget for the full fiscal year. Do you plan to go with the budgeted amount? What about next fiscal year?

A1.

The original concept of advertising expenses is that they are linked to sales, and the target amount is around 30% of sales. Because sales have held steady to the plan, we also want to invest in advertising to match it. We want to stick to this basic concept for next year's plan as well.

Q2.

What effect have you seen from last summer's "HOME'S New Condominiums" and "HOME'S New Houses" website updates? And please tell me when you expect to see a concrete impact on sales from the smartphone optimized website update that you did in the 3rd quarter?

A2.

Although the SEO effect rose after we updated the newly built websites, the number of inquiries has stagnated more than we expected, so we organized a project team to handle this and they resolved the problem. We think the update was achieved without any problems. The smartphone optimized sites have been more favorably received than we expected. As a result, the SEO effect has risen on both the PC and smartphone sites. These are gaining ground rapidly since late January in particular.

Q3.

How much use do you forecast for the buy and sell property proposal service?

A3.

We just released it, so we cannot yet disclose our expectations outside the company. For reference, in the market there about the same number of privately-sold pre-owned properties and publicly sold properties. More specifically, assuming that has led to 400,000 known sale contracts per year for pre-owned properties, there will be around 400,000 that

will be sold privately, behind the scenes. For such a market, we are aiming our buy and sell property proposal service at creating matches between real estate companies and users.

Q4. What is your thinking concerning the comprehensive digitization of important instruction manuals that the Ministry of Land, Infrastructure and Transport is now starting to consider as part of deregulation?

A4.

For physically disabled and elderly who are moving residences and for overseas investors in Rental, if we can reduce the impediments they now experience with face to face explanations by real estate companies, this move creates the possibility of solving that and widening the field of users. It may increase both consumer protection and convenience. We want to work specifically from the position that that we support it.

Q5.

Please explain Next's differences and points in common with foreign companies in the same industry.

A5.

Concretely, we have very similar business models, and while we go toward the number one position here in Japan, we are going international a little at a time. To be more specific, Trulia and Zillow in the U.S. are still in the investment phase and are operating in the red, but they have significantly boosted user traffic and sales in a short period of time. Rightmove in the UK, SouFun of China, and REA of Australia are already in the number one position in their respective countries. REA of Australia is particularly active in overseas expansion.

Q6.

As Next develops its overseas business, what areas will you go into that are not going to run up against overseas competitors?

A6.

Next's strength is the implementation of its SEO capabilities. In our detail-oriented Japan SEO implementation, we want to go on and win over other companies. At that time, it becomes a challenge to collect property listings information. In North America there is an industry database in place, so we think it is relatively easy to enter the market.

Q7.

Are you doing your SEO in-house?

A7.

Basically, we are doing it in-house, with six or seven specialists on the staff. Further, we are also working with several consulting companies in order to obtain new knowledge.

Q8.

Next's profit margin is low when compared with England's Rightmove and China's SouFun. Why is there that difference?

A8.

With its 70 to 80% domestic market share, England's Rightmove is the price leader, and when thinking of the Lanchester strategy, isn't it important to be certain to be inside the safety zone? China's SouFun profitability stems from its being on the top, having differentiated itself from its competitors in second and third position and below. Next is investing in new businesses, and also has advertising expenses on the high side. If we create a widespread perception that "When moving to a new home, HOME'S is the place," we think it will lead to lower advertising expenses and higher profits.

Q9.

Are your advertising costs so high because Japan is more fiercely competitive than other markets?

A9.

Yes, that is certainly true. The four well-known names in this industry are Recruit, Yahoo!, At Home, and Next.

Q10.

Japan cannot be expected to have strong market growth in the future. What do you think of the prospects for industry restructuring or acquisition of other companies?

A10.

As before, we intend to remain neutral about exploring the possibilities.

End