NEXT Co., Ltd. (2120)

Edited Transcript

Earnings Briefing for the Six-month Period Ended September 30, 2016

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Presentation

Takashi Inoue, *President and CEO*

Welcome and thank you for attending this presentation of the Company's earnings results for the six-month period ended September 30, 2016, or second quarter. An outline of today's discussions is provided on page 1 of the presentation materials.

[Segments and Main Services (Slide 2)]

NEXT Co., Ltd. continues to engage in a wide range of activities. We have, at the same time, witnessed an increase in the number of subsidiaries. Here on page 2, we provide a list of the Company's business segments and main services.

[Condensed Statements of Profit and Loss (Slide 4)]

Turning to the topic at hand, the Company's consolidated results for the six-month period ended September 30, 2016, I draw your attention to page 4.

From a key numerical data perspective, revenue climbed 15.6%, earnings before interest, taxes, depreciation, and amortization, or EBITDA, improved 28.5%, and net profit attributable to owners of the parent grew 35.8% year on year. Revenue came in at 13 billion 757 million yen. Brief details are listed in the "main items" column at the top right of the table on this page.

Looking at the "main items" column for advertising expenses, expenditure decreased year on year. In the normal course of its business, the Company broadcasts TV commercials just after the summer holiday break in August. In the period under review, the timing of TV advertising was pushed slightly forward to the third quarter which contributed to the downturn in costs.

Accounting for this and other factors, EBITDA was 2 billion 941 million yen, while net profit attributable to owners of the parent amounted to 1 billion 676 million yen.

[Expanse-to-Sales Ratio (Slide 5)]

Here on this page, we present trends in the expense-to-sales ratio. While the cost of sales as well as other selling, general and administrative expenses to sales ratio is increasing, this largely reflects the inclusion of Lifull Marketing Partners Co., Ltd., or Lifull MP, in the Company's scope of consolidation, and is in line with expectations. Lifull MP undertakes the advertising agency and other operations of such service providers as Google AdWords. The structural trends indicated on this page are a direct result of these additional costs.

The EBITDA margin shown in blue has climbed to 21.4%, up 2.1 percentage points year on year.

[Sales by Segment (Slide 6)]

Moving on, I would like to touch on sales by segment. Please turn to page 6.

The Company's domestic and other business segments are exhibiting steady growth. Overseas revenue, on the other hand, has declined due mainly to the weak euro.

By segment, revenue in Domestic Real Estate Information Services increased 14.4%, to 9 billion 701 million yen. In specific terms, the Company took steps to enhance its sales capabilities in its mainstay Rentals & Real Estate Sales operations. The improvement in operating results in this category reflects the steady increase in the number of affiliated stores, which climbed by 3,970 year on year, to 21,066.

Jumping forward to Domestic Services for Realtors, the third line from the bottom of the table, revenues surged 63%, to 2 billion 110 million yen.

The substantial increase in revenue is largely attributable to the inclusion of Lifull MP in the Company's scope of consolidation from July 2015 in line with efforts to reinforce the Group's overall structure. Moreover, DMP and CRM services continue to generate robust rates of double-digit percentage growth.

Turning to the Company's overseas operations, revenue declined 14.7% year on year, to 1 billion 574 million yen. As mentioned a few moments ago, this is mainly due to the weak euro, which pushes down revenue when converted into Japanese yen.

[Segment Profit and Loss (Slide 7)]

For details regarding profit and loss by segment, I draw your attention to page 7.

In its principal domestic activities, profit surged 57.2% year on year, to 2 billion 292 million yen. This was mainly due to sales efforts, the reduction of costs, and the time lag in recognizing certain costs in connection with the launch of TV commercials.

Turning to the Company's overseas operations, profit came in at 266 million yen. This was 38.7% lower than the level recorded in the corresponding period of the previous year. This profit largely reflected reversal of the provision for bonuses at Trovit, the Company's subsidiary in Spain. Other factors included the drop in revenue when converted into Japanese yen as a result of movements in foreign currency exchange rates, and the increase in personnel and other expenses at Trovit.

The 266 million yen in overseas profit also includes operating overhead expenses incurred by the International Business Division at the Company's head office in Japan. In addition to Trovit, this Division oversees the Group's businesses in other countries.

The amount of bonus provision at Trovit is determined in line with internal performance targets that are set at a significantly high level. In principle, bonus payments serve as an incentive, and are paid to management when targets are met or likely to be met. However, in the year ending December 31, 2016, performance is expected to fall short of these targets. As a result, the decision was made at this time to undertake a reversal of the provision.

[Condensed Statements of Profit and Loss (quarterly) (Slide 8)]

For reference purposes, we provide condensed statements of quarterly profit and loss. Please turn to page 8.

For the second quarter, the three-month period from July to September, EBITDA for the year ending March 31, 2017 climbed 51.5% year on year. Net profit attributable to owners of the parent grew 70.7%, a substantial increase compared with the corresponding period of the previous year. I will omit any further detailed explanation and ask that you review the table when time permits.

[Condensed Statements of Financial Position and Goodwill (Slide 9)]

Here on this page, we provide condensed statements of financial position and goodwill. Taking into consideration the impact of movements in foreign currency exchange rates, the balance of assets has declined.

Turning to the third and sixth line items in the "Main item" column of the Assets section at the right of the table, the balances of goodwill declined 989 million yen and other tangible fixed assets decreased 194 million yen compared with the balances as of March 31, 2016. This was largely due to movements in foreign currency exchange rates. The balance of investment securities increased. This was mainly due to the equity investment in Jimoty, Inc. NEXT also posted an increase in its balance of lease and guarantee deposits. This reflects the scheduled relocation of the Company's head office in April next year.

Looking at the note at the bottom of the page, we provide a breakdown of the balance of goodwill.

[Condensed Statements of Cash Flows (Slide 10)]

I will now touch briefly on the Company's cash flows. Please turn to page 10.

The balance of cash and cash equivalents stood at 6 billion 313 million yen as of September 30, 2016, an increase of 553 million yen compared with the end of the corresponding period of the previous year. While omitting a detailed explanation, suffice it to say, NEXT is building a steady stream of positive cash flows.

[FY2016 Forecasts and Progress (Slide 11)]

Please turn to page 11.

Focusing on major items, revenue for the second quarter came to 13 billion 757 million yen. At 43.5% of our full-year forecast, trends are essentially in line with plans. EBITDA is running at 50.7% of the full-year forecast. The EBITDA margin is 3.1 percentage points higher than our forecast, coming in at 21.4% for the first half of the year under review. Net profit attributable to owners of the parent totaled 1 billion 676 million yen. This was 53.3% of the full-year forecast.

Turning to the second line of the table at the right side of the page, revenue from Domestic Real Estate Information Services is running at 45% of full-year forecasts. As activity picks up during the peak January, February, and March period of the New Year, we expect revenue from Rentals & Real Estate Sales to provide an especially strong boost to earnings. Accounting for each of these factors, operating trends are progressing in line with plans.

Based on this brief outline of the Company's quantitative results, I would now like to elaborate on business conditions from page 13.

[Business Strategies (Slide 12-18)]

NEXT listed on the Mother's section of the Tokyo Stock Exchange on October 31, 2006. Since then, our goal has always remained the same: "to create a system in which all real estate information is open and available."

Looking back over the past decade, our revenue has increased approximately tenfold. Over this period, net profit attributable to owners of the parent has grown by a factor of seven. Despite a slight recent downturn, our market capitalization peaked at 181.2 billion yen. This is approximately seven times higher than our initial public offering.

Based on this brief overview of the past 10 years, I would now like to comment on areas of growth, and where we see potential both in Japan and overseas. Clearly, we do not view the past decade as an end to our journey. As our Company name suggests, we are committed to looking ahead and taking the NEXT step forward. Please turn to page 19.

[Growth Area and Potential (Slide 19)]

Turning first to growth areas in the domestic business, the size of Japan's real estate market is currently estimated at around 50 trillion yen. While this is far from an imposing figure in terms of growth potential, we do see room for expansion in the real estate investment and renovation fields as well as the purchase and sale of existing homes.

Looking at our mainstay rental activities, which is largely immune to fluctuations in economic conditions, we take pride in our leading market positions in terms of revenue and the volume of information. Building on these strengths, we believe there is still more than enough room for growth in this field in the future.

Taking into consideration Japan's declining population, we do recognize that any room for further expansion in the new condominium and custom built housing fields is limited.

Before commenting on the strategic measures that we plan to take in each field, I would like to touch briefly on conditions in the world market. The world's real estate market is estimated at around 1 thousand two hundred trillion yen. By extending our business model to the overseas market, our goal is to further accelerate the pace of growth. In this context, it is important to consider the challenges that we face. Please turn to page 20.

[Becoming Absolute No. 1 in Japan (Slide 20-21)]

The first priority is to become the absolute No. 1 in Japan.

As indicated on this page, becoming the absolute No. 1 entails reinforcing the Company's two "strengths." Here, we refer specifically to the Company's "media" and "brand" power. Turning to the first of these two powers, I draw your attention to page 22.

[Strengthen Media Power (Slide 22)]

In an effort to reinforce the Company's media power, it is vital that we increase the coverage and visualization of information while also improving reliability.

Looking at the first of these vital needs, I ask that you turn to page 23.

[Information Coverage — Number of Properties Listed (Slide 23)]

As far as our information coverage is concerned, trends remain robust, with the number of properties listed currently exceeding 8 million. As far as new houses and condominiums are concerned, listings also exceed 7,000 buildings.

Based on these figures, we continue to hold the absolute No. 1 position in terms of the number of properties listed compared with our peers.

[Information Coverage — Network of Affiliated Stores (Slide 24)]

Here on this page, we provide a snapshot of our network of affiliated stores. As I mentioned earlier in this presentation, the number of affiliated stores currently stands at 21,066 and continues to increase steadily. Our goal is to further increase the number of affiliated stores to 40,000, at which point we believe our network in Japan will be complete.

Shifting to the need to improve the ability to visualize information, I direct you to page 25.

[Information Visualization — Visualize Reference Prices and Rents (Slide 25)]

In a bid to promote the growing visualization of information, we have progressively extended access to rents and reference prices from the metropolitan to the Kinki area. Initially focusing on reference prices, we have also taken steps to promote the visualization of condominium rents. In addition to broadening the areas covered, we have also made steady progress in expanding the scope of visualization to include properties, building types, rents, and prices.

NEXT more than likely covers the condominium in which you currently reside. I recommend that you use the HOME'S PRICE MAP search function and insert the name of your condominium and address. With one click you can obtain a market price for your condominium if you chose to sell it today.

Moving on, I would like to touch on the need to improve information reliability. Please turn to page 26.

[Improvement of Reliability — HOME'S Certification Icon (Slide 26)]

NEXT is working to put in place a mechanism that will help users visualize the quality and reliability of realtors.

Among a host of measures, the Company has launched the HOME'S Hospitality Grand Prix initiative, which entails ratings given by mystery shoppers based on a checklist that covers several dozens of items. Inquiries are also made by electronic mail. Through the HOME'S Hospitality Grand Prix initiative, we are promoting efforts that help visualize which outlets rank in the top 10 in terms of service quality and reliability in each region as well as nationwide.

The HOME'S Certification Icon is another proprietary initiative that serves to set improved standards for reliability. Realtors that meet certain guidelines set by the Company receive a certification mark as an indication of outstanding quality. This icon is a measure of superior hospitality and service and helps to confirm the reliability of realtors when users are conducting a search. The HOME'S Certification Icon also helps to create a virtuous cycle through which efforts to provide better hospitality and services lead to higher contract rates, which in turn increases revenue and earnings.

Looking at HOME'S Omni-channel strategy, please turn to page 27.

[Improvement of Reliability — HOME'S Omni-channel Strategy (Slide 27)]

In order to bolster efforts aimed at improving reliability, we have pushed forward the HOME'S omni-channel strategy from the year under review. In addition to online and telephone consulting, energies are increasingly being directed toward promoting a multi-faceted omni-channel, or concierge-type, strategy that includes face-to-face counters in a bid to address a wide variety of needs.

For a specific example, I direct you to page 28.

[Improvement of Reliability — First Physical Store, "HOME'S Counter" in Shinjuku (Slide 28)]

An inaugural physical HOME'S Counter outlet was opened in Shinjuku. Initially set up to provide free consultation services on custom built homes, HOME'S Counter adopts an objective stance between customers and such service providers as home builders, construction companies, housing manufacturers and renovation companies and provides professional housing advice.

In the final analysis, customers decide for themselves when selecting a home builder. HOME'S Counter is attracting high praise with the first contract executed at the Shinjuku store just the other day. Looking ahead, we will provide a succession of services that help customers lead full and satisfying lives. Plans are in place to open five HOME'S Counter stores in the metropolitan area by the end of fiscal 2016.

Continuing on, I would like to elaborate on efforts aimed at strengthening our brand power. Please turn to page 29.

[Strengthen Brand Power (Slide 29)]

In order to retain the No. 1 position in Japan, it is imperative that we strengthen our brand power. To this end, we must fine tune our promotional and real estate technology, or ReTech, capabilities while improving services for realtors.

Please turn to page 30.

[Promotional Strategy (Slide 30)]

Looking first at our promotional strategy, we are taking steps to push forward virtually every possible measure. At the same time, we are periodically evaluating the effects of these measures on an independent basis. In addition to determining ROI by media, we are also analyzing the effects of certain combinations of media and any links with the level of contribution. For example, the use of transportation advertising after broadcasting TV commercials tends to keep in check forgetting rates while boosting the overall effect. Our analysis has uncovered various instances of success for certain combinations of media. We are working to increase the effect of our promotional activities by repeatedly carrying out this process.

NEXT has taken an equity interest in Jimoty, identified at the bottom right of the page. Despite its status as a classified advertising site, Jimoty is enjoying continuous high rates of traffic growth. As far as real estate property information is concerned, we are pursuing collaborative endeavors, and have begun by posting data on the Jimoty site.

NEXT also conducts new promotional campaigns. Please turn to page 31.

[New Promotional Campaign (Slide 30)]

You may have seen the commercial where our image character Homes-kun has a bleeding nose. This commercial is attracting considerable interest and leaving quite a positive and lasting impression.

Previously, the main thrust of our advertising was driven by comedians and other personalities. We are now transitioning toward a strategic branding policy that focuses on our image character. This initiative will also make it easier to promote the HOME'S brand across our network of 20,000 plus affiliated stores. In the future, we will broadcast a series of commercials utilizing our image character. We hope you will look forward to what we have in store.

In terms of transportation advertising, we have also started to place posters outside the train channel while at the same time promoting other campaigns. We are currently in the process of pushing forward the HOME'S brand through multiple composite channels.

Moving on to efforts aimed at fine tuning our ReTech capabilities, I would ask that you turn to page 32.

[ReTech (Real-estate Technology) (Slide 31)]

NEXT is committed to developing services that utilize advanced technologies. Among a host of endeavors, we list details of three initiatives: Grid Vrick, VR, and Smart Property Viewing that have been designed to instill a sense of excitement when searching for a future home.

For the ultimate in electronic services, the goal is for home hunters to select a property that they like, receive an explanation of important contractual matters, and execute the necessary agreements entirely online. This initiative is based on the potential to complete the processes required when searching for a home, without once having physically viewed the property.

As a patented product, NEXT will work diligently to increase the number of worldwide Grid Vrick user clients.

[Grid Vrick Video (Slide 33)]

I would ask that you now watch a brief Grid Vrick video (https://www.gridvrick.homes.co.jp/).

Utilizing a VR headset and glasses or smartphone, the potential now exists to do a 3D property walk-through. While this service is currently limited to certain properties and the condominiums of select developers, we are conducting research into measures that would allow a 3D walk-through of all 8 million of the properties currently listed at some time in the future.

[ReTech — "HOME'S LIVE" Communication System (Slide 34)]

In another ReTech initiative aimed at facilitating the explanation of important contractual matters online, Japan's Ministry of Land, Infrastructure, Transport and Tourism continues to conduct a social experiment. Here, more than half of the participants in the experiment are using HOME'S LIVE Web communication system software.

Roughly one year remains on the aforementioned social experiment. As far as my own thoughts are concerned, I believe that restrictions on leasing will more than likely be lifted. In this case, we will see an electronic platform that allows users from remote locations to, at a minimum, view a property, receive an explanation of important contractual matters, and execute a rental agreement entirely online.

Turning our attention to services for realtors, I direct your attention to page 35.

[Services for Realtors — Cost of Real Estate Service Operations (Slide 35)]

Through the use of ICT as well as ReTech initiatives, our approach is to increase efficiency thereby reducing realtors' operating costs.

Based on Company estimates, personnel expenses make up the vast majority of realtors' operating costs. Media advertising expenditure is not included in this instance. As mentioned, operating costs, which largely comprise personnel expenses come to around 1.5 trillion yen each year. Looking at this total in more detail, operating costs are for the most part made up of marketing, showing, appointment and travel as well as contract and payment expenses. Percentage shares are presented in the bar graph at the left of the page. If for example, realtors successfully cut costs by 30% through increased efficiency on the back of our ReTech and other support services, the opportunity is there to reduce expenditure by roughly 450 billion yen. If we in turn set the level of compensation for the systems and services that we provide at around 20% of the aforementioned cost savings, the potential exists to tap into a latent market of approximately 90 billion yen.

Under this scenario, business operators also benefit through increased profitability, efficiency, and contract rates. Taking into consideration the benefits that accrue to realtors as well as the compensation that we receive for our services, the result is very much a win-win situation. Looking ahead, we will work to upgrade and expand these types of services.

[Services for Realtors — Service List (Slide 36)]

While omitting a detailed explanation, we provide a list of our services in the green text box that runs along the bottom of page 36.

We also provide details of user trends in the text box that runs across the top of the page and matching media in the text box that runs across the middle of the page. Looking at our basic strategy for the real estate sector presented in diagram format on this page, we believe significant potential exists to increase operating efficiency by introducing ICT to various operations. Working beyond media, we will endeavor to provide a full range of end-to-end services by inserting our systems and services into daily operations.

[Services for Realtors (Slide 37)]

On page 37, we provide brief overviews of select services. In the Group's Rental and Real Estate Trade operations, Renters Co. provides customer relationship management, or CRM, services for real estate companies. HOME'S PRO is also a distribution service among realtors that facilitates the exchange of information on a B to B basis. In activities covering new houses, NabiSTAR is a data management platform, or DMP, for realtors that is designed to increase the effect of advertising. Working through these and other services, we will endeavor to become the best partner for realtors.

[Existing Home and Renovation Market (Slide 38)]

Changing tack, I would now like to comment on the existing home and renovation markets, which we see as growth areas in Japan. Please turn to page 39.

[Existing Home and Ratio in Developed Countries (Slide 39)]

Looking first at an overview of prevailing conditions, the share of the existing homes market in Japan is extremely low compared with the ratio in developed countries. Based on a wide range of data, the share currently stands at 34% with the number of existing homes traded estimated generously at roughly 510,000. By comparison, the shares of existing home markets in the U.S., the U.K., and France, are 83%, 88%, and 68%, respectively. On this basis, the share in Japan is roughly 40% of levels recorded in Europe and the United States. From this, we believe there is ample room for growth.

[A Room for Existing Home Market to Grow in Japan (Slide 40)]

Drawing your attention to page 40, we look at this potential for existing home market growth. In the event that the market should expand to levels recorded in Europe and the United States, the number of existing homes traded can be expected to more than double to around 1,200,000.

Currently, Japan's population is exhibiting a downward trend. In the future, we are anticipating limited growth in the new construction market. Meanwhile, we believe there is room for further expansion in the existing home and renovation markets.

Let's then take a quick look at the home renovation market in Japan. Please turn to page 41.

[A Room for Home Renovation Market Grow in Japan (Slide 41)]

The government has set a growth target for the home renovation market in Japan of 12 trillion yen. This is roughly double the current level of 6.6 trillion yen in 2016.

With this target in mind, I would now like to touch on some of the government's key initiatives. Please turn to page 42.

[Japanese Government's Initiatives (Slide 42)]

By undertaking a drastic review of the real estate distribution system, the Japanese government is looking to enrich housing information from a broad perspective including performance and repair history. Steps are also being taken to push forward initiatives aimed at revising building appraisal methods. This includes the development of an inspection scheme. In this regard, revisions have already been made to the Building Lots and Buildings Transaction Business Act.

In a bid to expand the real estate investment market, the government is endeavoring to promote inbound investment and to revitalize regional areas by facilitating efforts aimed at addressing the need to utilize vacant houses. Energies are also being directed toward improving transparency as a part of efforts to attract investment from overseas.

In terms of its transparency, Japan's real estate market ranking is regrettably low compared with other developed countries. On a global basis, Japan's ranking has finally risen to 19 from its earlier position of 26. As a result, the market is still considered by many as difficult to understand due to its poor transparency. On a positive note, recent trends to improve transparency match our efforts to promote increased market visualization.

The government has also launched its Basic Housing Plan with the aim of reducing the number of vacant houses to about 4 million by 2025. If this problem is left unattended, Nomura Research Institute, Ltd. has estimated that the number of vacant houses will increase to 15 and then 20 million. By utilizing vacant houses to the maximum extent possible, the government is looking to hold down this number to around 4 million.

As a part of the plan, particular emphasis is being placed on revitalizing the existing home and renovation markets, with an eye toward doubling its size to 20 trillion yen. As far as the use of IT is concerned, I have earlier commented on efforts to improve communication, and for example facilitating the explanation of important contractual matters.

[NEXT'S Initiatives (Slide 43)]

Based on this brief overview of the market, and as a part of the Company's efforts to keep pace with the government, I will now provide details of some of our major initiatives. Please turn to page 44.

[Visualize the Results of Home Inspection (Slide 44)]

First, I would like to touch on our efforts to visualize the results of home inspections. Both from the legal and taxation perspectives, properties and especially residences made out of wood are completely depreciated over a period of 22 years. Despite a property that has stood for 50, 60, or 100 years, the structural portion is therefore deemed to have zero value after 22 years.

Recognizing this anomaly in the market, we are working to increase the level of transparency. By properly identifying the value of land and undertaking a building performance evaluation, positive steps can be taken to ascertain a fair market price.

An image of the HOME'S initiative and efforts to visualize the results of home inspections is presented on page 45.

[Visualize the Results of Home Inspection — Image of HOME'S Initiatives (Slide 45)]

Looking at the processes involved, real estate companies first place requests for property inspection. Based on the requests received, NEXT is endeavoring to build a nationwide network of external inspectors. After conducting a performance evaluation, inspectors issue a home inspection report. This report is then submitted to the real estate company together with an evaluation report.

The presence or absence of any inspection record for each property is posted on the HOME'S site. Users conducting a search can therefore ascertain the property performance of a property and any subsequent recommendation or endorsement.

By visualizing the results of home inspections in this manner, we are working to relieve anxieties associated with the purchase of existing homes. At the same time, we are looking to help develop the market by promoting assurance and other services. Through these means, we hope to ensure the safe and reliable purchase and sale of existing homes, even when a defect is uncovered.

Moving on, I would like to address the issue of vacant property utilization. Please turn to page 46.

[Utilizing Vacant Properties — House Sharing (*Minpaku*) (Slide 46)]

As I mentioned a while ago, the number of vacant houses is likely to rise to 15 and then 20 million. The government is endeavoring to reduce this figure to around 4 million. One key area that has the potential to considerably impact efforts aimed at achieving this endeavor encompasses properties that fall within the *Minpaku* format.

As you will be aware, the government has set targets for the number of inbound tourists at 20, 40, and 60 million. If trends progress according to plans, this will result in a threefold increase. Against this backdrop, the volume of accommodation facilities falls well below the level required to meet ensuing demand.

[Utilizing Vacant Properties — House Sharing (*Minpaku*) (Slide 47)]

On page 47, we provide a snapshot of trends in the size of the hotel market. In line with the upswing in inbound tourists, the hotel market is projected to increase approximately 1 trillion yen from 2.7 trillion yen in 2015 to 3.8 trillion yen in 2030.

Looking at measures aimed at addressing these trends, I ask that you turn to page 48.

[Investment-type Cloud Funding (Slide 48)]

In response to the aforementioned trends, there are moves within the government to set up strategic zones and enact legislation that will help ease restrictions on the *Minpaku* format. These efforts are likely to take effect from the next fiscal year.

In line with these developments, HOME'S has already established itself as Japan's leader in vacant property information. With an eye toward utilizing this stock of vacant properties, we are putting in place an investment- and financing-type cloud funding platform. The goal is to build a model through which to procure the necessary proceeds through cloud funding for remodeling, renovation, and interior work. Dividing these funds into small lots of 3, 5, and 10 million yen, property owners can apply the proceeds to turn idle properties into operating assets thereby generating income. The income derived can then be returned to investors in the form of dividends, or as interest in the case of lenders.

[Global Expansion (Slide 49)]

As I come toward the end of this presentation, I would like to comment on our greatest challenge: global expansion. Please turn to page 50.

[Develop a Real-estate Database (Slide 50)]

As I have mentioned, the world's real estate market is estimated at around 1 thousand two hundred trillion yen. The issue at hand is how to navigate this market and capture an appropriate share. To this end, we will work to develop a real-estate platform and database that will enable seamless connection around the world.

Please turn to page 51.

[Acquired International Business Division of MARIMO Co., Ltd. (Slide 51)]

Among a number of endeavors, we have recently acquired the International Business Division of the real estate developer MARIMO Co., Ltd. Our intention is to match the needs of overseas investors and domestic realtors. In specific terms, we will offer our support by providing property information to investors, soliciting investments, and executing contracts.

Turning to our subsidiary, Trovit, I draw your attention to page 52.

[Trovit — 2 Years Since the Acquisition (Slide 52)]

2 years have now passed since Trovit was included in the Company's scope of consolidation as a subsidiary. Trovit's operations now span 46 countries, up 7 countries since its acquisition with the total number of employees increasing by 23, to 117. Trovit also contributed to the early launch of Lifull Australia.

[Lifull Australia (slide 53)]

The HOME'S business model was used to set up Lifull Australia. Between July and October, 2016, the number of users expanded by a factor of three with the number of properties listed totaling 240,000. This ranks third in terms of the volume of information in Australia.

Summarizing our operations in the global domain, I ask that you turn to page 54.

[Business Area (Slide 54)]

Classifying our global business into areas already covered and uncovered, the matching of real estate companies in Japan with domestic customers is largely the responsibility of HOME'S in Japan.

Global operations, and efforts to support the overseas needs of customers outside Japan are undertaken by Trovit, which maintains a presence in 46 countries worldwide. In the future, we plan to increase this coverage to 100 countries. The recent acquisition of the International Business Division of MARIMO Co., Ltd. is designed to address the needs of customers outside Japan who wish to invest in domestic properties, inbound demand, and the needs of Japanese customers who wish to invest in overseas properties, outbound demand. The role of the International Business Division is therefore to complete the matrix puzzle and fill in the areas covered by the angled light blue oval.

First and foremost, we will secure and maintain the absolute No. 1 position in the domestic market. We will then expand our business across all areas while continuing to invest in growth areas and completing the aforementioned matrix puzzle.

[Designing Delightful Encounters (Slide 55)]

NEXT is committed to designing delightful encounters and delivering a sense of satisfaction through increased safety and security to people who are looking to relocate to a new residence around the world. Going forward, we welcome your expectations.

This then concludes this earnings presentation. I would like to thank you for your attention and ask for your continued support and understanding. I will now open the floor to questions.

Questions and Answers

Q1. My question has three parts. While the Company's earnings results were reasonable, its share price is a little weak today. I also understand that a fair number of investors are expressing some concern over the Company's overseas operations. Despite the positive effect of reversing Trovit's provision for bonuses, earnings in the overseas business declined. In your presentation, you explained that this was mainly due to the impact of movements in foreign currency exchange rates.

My first question then is: Are there any other factors that contributed to the downturn, and can you tell us more about the status of Trovit's operations and current capabilities? On a related matter, I am frequently asked whether the Company has any impairment issues. Could you also provide us with your thoughts?

You commented on the Company's acquisition of the International Business Division of MARIMO Co., Ltd. toward the end of today's presentation. While at this stage it may be difficult to determine the level of contribution, my second question is: Can you provide us with a rough image of how this acquisition will benefit the Group's earnings over the medium term? If you have any estimated timeline or amount, details would be appreciated.

Finally, when commenting on page 35, you touched on the significant size of the services for realtors' market. You stated that there was potential to tap into earnings of around 90 billion yen. Given earlier discussions surrounding other substantial opportunities including the *Minpaku* market, my third question is: What is the Company's standing in the services for realtors' market, and how should we view this amount of 90 billion yen in the context of the Company's earnings? Again, any details regarding a timeline or amount would help.

A1. (Takashi Inoue) Your questions concern our overseas business and operations at Trovit, the acquisition of MARIMO CO., Ltd., and the services for realtors' market. While steps were taken to reverse the provision for bonuses, we have made a slight change to our overseas business strategy. I will touch on this again shortly. As far as impairment risks are concerned, we do not see the need to post any losses. This is largely based on Trovit's substantial EBITDA margin, which exceeds 30%. The company enjoys various profit streams and we are confident that the surpluses generated are more than ample.

Turning to growth potential, we have undertaken a number of measures since the company's acquisition. Our initial strategy was to accelerate the pace of growth by developing, introducing, and expanding sales of such new products as *Criteo*, a real-time bidding system. Currently, we are making slight adjustments to this approach. While rearranging our products and services, we are focusing mainly on search engine optimization, or SEO. As an important issue that needs to be addressed, we have taken stock of periodic Google search algorithm Penguin and Panda updates. Recently, these updates have exhibited certain weaknesses, especially in the area of search ranking. With incidents of year-on-year declines depending on the conditions in each country, we are placing the utmost emphasis on SEO by thoroughly reinforcing our current operations and platforms. As far as our current operations are concerned, we are seeing improvements on the back of various SEO measures taken in each country over the past three months. In this regard, we do not see the need for any major concern.

The second issue facing Trovit is sales, and the need to strengthen marketing. Over 70% of the company is comprised of engineers and as such it exhibits some measure of technical bias. We are, therefore, implementing various measures in a bid to shore up any weakness in sales promotion. In specific terms, the head office in Barcelona covers 46 countries on its own. As a result, marketing resources are thinly and widely spread. To address this concern, steps have been taken to divide the company's operations into two teams, one that focuses on priority customers and another that concentrates on new customer development. The activities of each team are aligned to the needs of each customer group. Working to address any shortfall, signs are beginning to emerge that measures are taking effect. For example, the number of fee paying customers is steadily on the rise. Positioned as a third priority measure, we are endeavoring to launch new services and products. As I mentioned a moment ago, we are currently in the throes of readjusting our strategy. Our SEO endeavors are currently taking hold and the number of blue-chip customers is expanding in line with the increase in sales. Taking into account these recent trends, we do not see the need for any impairment write-off.

Turning to our acquisition of the International Business Division of MARIMO Co., Ltd., I would first like to call on Mr. Kazuno, who is in charge of overseeing this business, to provide a brief overview and general outline.

(Toshio Kazuno) This acquisition is in line with our efforts to bolster the Group's real estate investment business capabilities. The Group currently operates the HOME'S real estate investment platform. While working to match real estate investment properties with the needs of investors in Japan, our efforts have historically been limited to specific areas. Naturally, there is considerable demand for realtors in Japan to also address the real estate investment property needs of overseas investors. With this mind, and with a view to addressing any gaps in which the Group is yet to enter, we acquired the International Business Division of MARIMO Co., Ltd.

We believe there are two broad avenues through which to address the needs of overseas investors. The first is the matching mechanism driven by the HOME'S platform, an area in which we of course excel. The second entails concierge events, or actual promotions that provide overseas investors with direct access to real estate investment property information in Japan. In realizing the important need to pursue each of these avenues simultaneously, and to fill an existing void, we decided to undertake this acquisition.

(Takashi Inoue) Following on from Mr. Kazuno's remarks, I believe a specific example would help to better understand our intention and expectations. In attempting to market a property located in Malaysia to investors in Japan, a key initiative is to hold an investment seminar, in which Japanese investors can easily participate. Utilizing various media, positive steps can be taken to attract investors with an interest in making a purchase. Should an investor decide to acquire say three condominiums after participating in the seminar, he or she would then be faced with various language and other barriers. Here, the HOME'S platform is an important mechanism in providing the necessary translation and contract support. The exact reverse applies when looking to market a real estate investment property in Japan to overseas investors. Here, the business model entails holding a seminar overseas. Rather than a media model, we are looking at an end-to-end process that encompasses everything from events to contract support. We are not in a position at this stage to disclose earnings data. There are, however, seven members involved in this activity.

Going forward, we will align the number of projects to the resources we currently have in hand. We will then work to expand numbers and activities as the model generates increased earnings. Turning to the services for realtors' market and in particular our role as well as future earnings scale, we provide a fee-based online property trading system platform through which realtors can share information. At the same time, we provide content management systems and advise realtors on how to lift their customer-drawing power while also helping to produce websites.

Tapping into our technological capabilities, we also utilize virtual reality tools that enable properties to be viewed from remote locations. For the most part, our services are systems-based. We are taking steps to release a succession of customer and owner management systems. Our support helps to significantly reduce the time required to complete tasks that historically have taken considerable time and effort. Each of these systems attract a usage fee. In overall terms, the NEXT GROUP's activities in this field may best be identified as "the real estate industry's Salesforce.com"

Our goal is to provide every possible service and to simplify the operations of realtors. By facilitating customer management and increasing convenience, we are helping to enhance customer satisfaction which in turn serves to improve contract rates. By continuing to focus on "Win-Win" scenarios, we are working diligently to boost the good fortunes of customers and realtors thereby generating higher earnings.

As far as future earnings are concerned, and as mentioned during the presentation, we estimate a market potential of 90 billion yen. If we look at accumulated sales based on the activities of existing operators limited to a particular area or service, it could be argued that a market of between 10 and 20 billion yen already exists. With this in mind, our strategy is to leverage the HOME'S media power and deliver cost competitive services thereby expanding the market.

Q2. Referring to your comments toward the end of the previous reply, e-Seikatsu Co., Ltd., a public listed company, and the NEXT Group's Renters Co. also provide certain business support services. Can we assume that you are engaging more earnestly in these activities? As far as the acquisition of the International Business Division of

MARIMO Co., Ltd. is concerned, several Japanese companies and businesses such as Jones Lang LaSalle already market high-rise condominiums in Japan to investors in Asia. Can we also assume that your endeavors fall roughly in the same category?

A2. (Takashi Inoue) The nature of our activities is close to those undertaken by Jones Lang LaSalle. In principle, our ultimate goal is to expand our network through a combination of media-based information and real events. Taking into consideration our relationships and direct contact with real estate companies, we are well positioned to acquire property information at an early stage. As a result, we are hastening the pace at which we provide so-called concierge support. While similar in nature, we are working to differentiate our services and standing a little at a time.

Q3. Does this mean you are looking to receive sales commissions that are slightly higher than those in Japan? I thought that in principle, you did not act as an intermediary.

A3. (Takashi Inoue) Indeed, we do not act as an intermediary.

Q4. While adopting a balanced approach utilizing a different format, are your earnings derived as a percentage of any transaction that might emerge?

A4. (Takashi Inoue) Yes, that is correct.

Q5. I have four questions that I would like to ask. The first concerns your thoughts on trends in the advertising expense ratio. Adopting a simplistic approach, online advertising in the July to September second quarter seems somewhat subdued. I am assuming that this reflects stable rates of growth from an affiliated store unit price perspective. On the basis that the HOME'S brand has achieved considerable acceptance among consumers and users, is there any room to further control the advertising expense ratio?

My second question also relates to the raising of prices. Looking at various media that cover rental real estate in Japan, HOME'S prices remain lower than say for example SUUMO. Assuming that the HOME'S brand has achieved a reasonable level of penetration among both affiliated stores and users, is there room to lift the rates of your existing price table rather than just providing additional service functions to realtors?

My third question is about HOME'S real store strategy. How will you differentiate HOME'S stores from a strategic perspective? How will you go about promoting the appeal of stores?

My final question is about the *Minpaku* market. Perhaps I am mistaken, but looking at pages 47 and 48 of the presentation materials, your plans would appear to revolve around building a matching platform that would allow idle properties to be developed for *Minpaku* use by utilizing cloud funding. Originally, it was my understanding that from an accommodation perspective, you were looking to put in place a business model that would generate commission income by matching the needs of guests seeking accommodation and property owners. Could you then once again clarify how you plan to monetize the *Minpaku* market and what initiatives you intend to undertake?

A5. (Takashi Inoue) As far as our advertising expense ratio is concerned, there may indeed have been a slight misunderstanding. Our decision to adjust the timing of advertising was in connection with the Group's TV commercials. We continue to undertake online advertising as usual. Having said this, however, we have budgeted advertising expenses for the current year under review at around 8.3 billion yen on a consolidated basis. While maintaining an advertising expense to sales ratio of 30%, we plan to progressively reduce this to around 25% in the future. This has been our approach from the beginning.

With our advertising expenditure currently running at 24.9%, it could be argued that we have already achieved this target. Since initially adopting this target, however, we have seen a slight change in our business structure. The plan to reduce our advertising expense to sales ratio from 30% to 25% was based solely on the HOME'S media business. With contributions to sales from the Lifull MP advertising agency business, the tendency is for the ratio to fall as the cost of sales increases. As this business structure continues to take hold, the potential exists to lower the ratio even further. As a result, we believe it will be possible to raise the EBITDA margin.

Turning to your second question and suggestions that with price levels lower than those of SUUMO, there is room for an increase, the answer is both yes and no. I say this because if we compared the effects, impact, and contract rates across all fields between SUUMO and HOME'S, there are some fields where there is indeed room to increase prices and others where in the final analysis conditions are even. With this in mind, we will continue to consider increasing prices in line with efforts to improve our media prowess and our reputation for reliability.

In addressing your third question and how we intend to surpass SUUMO in the counter business field, I will turn the floor over to Mr. Ito, who is the officer in charge.

(Yuji Ito) Our approach toward counter business activities will follow two broad steps.

The first entails service quality. We have launched counter sales and marketing activities with roughly seven employees. All staff members have a relatively long history in this field and considerable expertise. Boasting outstanding frontline experience and knowledge, we will endeavor to distinguish ourselves from the rest of the market by the quality of our services. At the same time, we will make every effort to expand the scope of our market domain. Building, for example, on custom-built homes, we will expand our activities to address customer needs across such wide-ranging fields as the sale of a house, ready-built homes, and the purchase and renovation of an existing property. We do not engage in intermediary activities and will therefore employ the HOME'S network of affiliated stores. Generating income through customer referrals, we will work to expand the market. Our approach is to differentiate ourselves from the competition by creating a comprehensive service. Customers can then call into our counters and feel confident that all of their real estate and building reform problems will be resolved.

(Takashi Inoue) While I am unable to go into specific details, I would like to touch on the use of AI, which is currently attracting widespread interest. Through the use of AI, we will put forward the most appropriate and effective proposal by tracking the mode and type of inquiry by each individual, and whether that same individual's approach was made online, by telephone, face-to-face, or through a chat bot.

Your final question was on our approach to the *Minpaku* market. Put simply, we recognize the need to actively participate in this important business. We will undertake measures that address the “people, property, and money” flows that are directly associated with the use of vacant houses. From a “property” perspective, the pool of vacant houses available is substantial. We have already opened the Lifull Stay site as a part of efforts to help lease vacant houses that have been converted into *Minpaku* properties. Lifull Stay follows exactly the Airbnb model. The plan is to list and match a large number of facilities thereby generating commission income. As far as “money” is concerned, we are working diligently to advance the cloud funding business in a bid to accelerate the flow of capital into the *Minpaku* businesses of each region. This leaves “people.” Blessed with a substantial pool of quality vacant houses as well as strong capital flows, “people” with the expertise to properly produce each facility into an appealing package are of the utmost importance. Unfortunately, the number of regional producers currently in Japan is limited. While looking at a variety of options including renovation schools and individuals with expertise in the *Minpaku* business, we will nurture people in each region. In this manner, we will channel “people, properties, and money” to ensure that appealing facilities flourish even in regional areas. We will endeavor to build a model that will help secure a sudden surge in the *Minpaku* business in all areas far and wide.

Q6. Again on the issue of the *Minpaku* market, focusing on recent discussions surrounding national strategic special zones, there is talk that restrictions on the number of nights’ accommodation will again be lowered to 2 nights. This is amid the steady albeit modest growth in what for all intents and purposes can be considered an official *Minpaku* market. Against this backdrop, what do you believe is lacking in order for the market’s business scale to increase? Focusing on deregulation, what specific area do you feel needs to be relaxed before we see a significant step forward? Other than deregulation, what piece do you consider is missing as far as the understanding of customers and related companies is concerned in order to help scale-up the market?

A6. (Takashi Inoue) From a structural perspective, Japan’s population is without doubt experiencing a downward trend. Under these circumstances, it is imperative that efforts be made to scale-up the *Minpaku* market given the increase in inbound demand. It is only natural that steps be taken, and in this regard, we believe that thoroughgoing deregulation is key.

Looking at recent trends, the government is clearly aware of the need to take action. There are obvious signs that steps are being taken to lift restrictions. For example, with the removal of certain regulations, budget hotels began offering *Minpaku*-type services from April, and are now increasingly participating in the market. On the matter of strategic special zones, there are trends toward the approval of two-night-three-day stays. With the total lack of any users seeking accommodation for six nights and seven days and an absence of demand, stays of two nights and three days have been approved following a full review and will commence from the New Year.

Under proposals regarding a new *Minpaku* law, deliberations have centered on an upper limit restriction of 180 days. This significantly exceeds the upper limits of 60 and 90 days in such countries as France, the U.K., and Germany. It would appear that proactive moves are being made to lift current restrictions, and that the substantially longer upper limit will hold sway.

For our part, we are fully in favor of a deregulated market as well as minimal rules regarding its use. As a director of various economic organizations, I am vigorously promoting increased relaxation.

Q7. I have two broad issues that I would like you to address. On page 36 of the presentation materials, you provide a list of services for realtors. While various changes have been made compared with six months ago, the status of progress in each service is mixed. Some services are marked as “being provided” and others “under development/in planning.” “Online contract,” which was earlier marked as “being provided” is identified in this presentation as “not undertaken.” Is this a fundamental change in your strategy? Similarly, while income streams from realtors appear heavily weighted toward inquiry charges, there seems to be ample room for contracts to be concluded. Through the Company’s systems, users can gain access to contracts as well as an explanation of important matters without face-to-face contact online. On this basis, what changes can we expect if contracts can be completed on line? Ultimately, are we looking at some form of contract charge? Based on this scenario, I believe that the commissions available to the Company are quite high. Is this how you see things in the future, and what kind of business model do you envisage?

My second question refers to your comments on reducing the cost of real estate service operations and page 35 of the presentation materials. In a sense, I am sure that opportunities exist to reduce costs from among existing realtors. To be honest, I believe some form of screening is warranted. If and when this happens, what kind of image do you have in mind? As the volume of surplus activities undertaken by the Company increases, what role or added value will realtors provide? As you mentioned earlier in your presentation regarding changes in the Company’s operating strategy, rather than working toward capturing realtors, can we expect to see a drop in the number of contract operators. Is it safe to assume that in addition to a drop in the number of contract operators, you will look to lift average revenue per user? If indeed you shift to this type of growth model, when will this occur?

A7. (Takashi Inoue) First, let me apologize for the confusion regarding the “online contract” component of our administrative support. As far as the status of our policy is concerned, there is no particular change. Under the current statutory environment, contracts cannot be completed online. However, postal mail remains a viable option. While we are unable to carry out the completion of contracts online without a change in existing legislation, and our understanding of the law is that face-to-face contact is required for the explanation of important matters, we are engaging in efforts that will make this unnecessary.

Despite the ability to forward contracts by postal mail rather than face-to-face delivery, restrictions still apply to online channels. In principle, this reflects the need for correspondence to be conducted in writing and for each party to affix their common seal. Both documents and signatures issued and undertaken electronically are prohibited under the strict letter of the law. To carry out the completion of contracts online, current legislation needs to be changed. Currently, it is possible to conduct an explanation of important matters online as long as contracts are then forwarded by postal mail. However, as I mentioned a moment ago, our understanding is that legislation needs to be repealed in order for contracts to be completed entirely online. Notwithstanding these current circumstances, our policy regarding the complete online conclusion of contracts remains unchanged.

Turning to your assumptions regarding a shift from inquiry charges to the tracking of contracts, you are absolutely correct. Building on our full range of matching services, we will effectively cover the needs of all contract users in the event we are able to provide additional settlement, insurance, and other services. In this case, we will effectively be able to carry out the full range of contract operations. Our role, however, is purely to provide support and our services are predicated on realtors carrying out contract operations.

Drawing your attention to page 27 of the presentation materials, and our diagram of the Company's omni-channel strategy, as you quite rightly stated, profitability will increase with the shift from inquiry charges to charges based on contracts. The incidence of online inquiries resulting in the completion of a contract in percentage terms is quite low. By comparison, contract rates resulting from face-to-face counter consultations are quite high. From the perspective of realtors, payments would tend to be higher for referrals that are based on firm face-to-face counter contact as opposed to online inquiries.

Rather than focus on inquiry charges, we are better placed by helping customer users resolve their problems by providing a variety of services. It is becoming increasingly important to foster relationships with customer across a wide range of areas including the purchase of a property or construction in a specific location. Through these endeavors, we are more likely to receive a higher fee from realtors. You are therefore correct in your assumption of a change not only in our structure, but also our profit model at some time in the future.

To your last point, and the ongoing screening process, I believe that the role and value that realtors provide lies in their consulting capabilities. No two homes are ever the same. The profits to be generated from a particular property will differ from its use. One need only look to the *Minpaku* example, or whether vacant land should be used for coin parking, the construction of condominiums, or as a *Minpaku* facility or hotel.

Against the backdrop of a wide range of conditions, consulting will only increase in importance. The collation, distribution, and visualization of information, as well as matching can easily be conducted using ICT. Efforts to improve efficiency are better served using AI, robotics, IoT, and virtual reality. In contrast, I believe it is imperative that realtors fine tune their consulting capabilities.

In whatever form, it is unlikely that technology can address, for example, an inquiry concerning the inheritance of a 120-year old traditional Japanese-style residence. In this instance, realtors can provide considerable value through face-to-face personal consulting. While I digress, I would like to touch on the need to pursue the deregulation of brokerage charges. Against a current upper limit of 3%, I believe that detailed and complex consulting that requires a considerable level of knowledge, information, and experience should attract a higher fee of say 5 or 10%. Conversely, the fee charged for simple matters could be reduced from 3 to 1%. I would offer that the industry is be better placed with the deregulation and open competition of fees. With the Company working to provide services for realtors while undergoing a structural change and shifting from an inquiry to contract-based charge model, you asked when a pickup in earnings can be expected. I am afraid that I am unable to provide a definitive reply at this stage.

Whether it is 3, 5, or 10 years in the future, we are indeed making every effort to help users find a new home without worry or anxiety. Our goal is to increase earnings by creating win-win-win situations. Together with legislative reform, we would be extremely pleased if this scenario came to fruition in 3 to 5 years.