http://www.next-group.jp/

NEXT Co., Ltd. (TSE1, 2120)

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Achieved positive growth in sales and income in all service categories

◆ Highlights of the settlement of accounts for the 1st quarter of the year ending March 31, 2013

During the 1st quarter of the year ending March 31, 2013, the Japanese real estate market enjoyed generally steady growth in housing starts for rental properties, condominiums and new houses. Under such circumstances, the Company achieved notably strong financial results for the quarter. Although we have a positive outlook for the full-year results, we potentially anticipate a certain level of volatility since NEXT will seek to grow its sales while continuing to increase advertising spending as investment for growth, in the belief that the Company is now at the stage of expanding earnings. This is why we consider revising the full-year forecast at this time would be premature, while maintaining an unchanged full-year business forecast. Consolidated sales for the quarter under review stood at 2,737 million yen, an increase of 16.1% year on year, due to the favorable performance of the main real estate information services business. Operating profit for the quarter amounted to 521 million yen, a major turnaround from a small loss posted for the same quarter a year ago. Net income for the first quarter totaled 297 million yen. The number of quarterly property listings rose by 840,000 year on year, as annual growth of approximately 30 percent continued, although the growth rate itself showed a slight slowdown. The number of affiliated stores resumed positive growth, standing at 9,822, a gain of 565 year on year. Also resuming positive year-on-year growth was the average sales figure per store, meaning all key metrics showed positive growth rates in comparison to the same quarter a year ago. As for the “HOME’S” website, we plan to implement a full revamp in early autumn 2012.

During the quarter under review, SG&A expenses decreased 7.4% year on year thanks to improving productivity. Personnel costs for the quarter declined by approximately 140 million yen compared with the same quarter a year ago (a year-on-year decline of 15%), mainly as a result of the reduction in fixed-term temporary employees due to their contract term expirations during the period, in which NEXT’s regular new graduate recruitment program was implemented as usual. Advertising costs for the quarter under review grew 11% year on year as the Company engaged in aggressive investment activities starting from the first quarter. As for the proportion of costs to net sales, the cost-of-sales and SG&A-expenses ratio to sales for the quarter was lower by 7.7 percentage points compared with the same quarter a year ago, supported by the implementation of our restructuring program. Meanwhile, the advertising-costs and personnel-costs to sales ratio for the quarter declined by 11.6 percentage points year on year. These changes resulted in the operating profit margin rising a robust 19.1% over the same quarter a year ago.

Examining sales by service line, the “HOME’S Rental & Real Estate Trade” business, the main service line of the real estate information services business, showed positive year-on-year sales growth for the quarter under review while a continued high pace of sales expansion was posted by New Condominium, New Houses, Custom-Built House and Refurbishment. Renter’s Network, the subsidiary, and others retained double-digit sales growth rates during the same period. The local information services business also recorded a positive year-on-year sales growth for the quarter, albeit modest. As for the profit and loss by segment, the real estate information services business registered 626 million yen in operating profit for the quarter under review, doubling from 307 million yen posted for the same quarter a year ago. The local information services business, a segment that had incurred 215 million yen in operating losses for the previous-year quarter alone, succeeded in greatly reducing its losses for the first quarter under review, owing to the downsizing initiative. Meanwhile, the “Others” segment also recorded a smaller loss for the quarter in comparison to the same quarter a year ago.

With regard to the consolidated balance sheets, the net asset per share as of June, 2012 was 2.7% higher than the level a year ago while NEXT continued to remain free of interest-bearing debt. The Company amortized the goodwill of Littel Co., Ltd., the entity acquired in the year ended March 31, 2011 as a commendation engine research institute. In addition, NEXT newly amortized the goodwill of two overseas subsidiaries, one of which was PT. Rumah Media, set up in Jakarta, Indonesia, for which one-time amortization was recorded since the goodwill involved only the new company establishing expenses. The goodwill of Next Property Media Holdings Limited, another of the two overseas subsidiaries, will be amortized over the next five fiscal years. A look at the consolidated cash flow statement shows that cash flows from operating activities for the quarter under review grew by 381 million yen year on year while the balance of cash and cash equivalents increased by 453 million yen compared with the same quarter a year ago. If time deposits of three months or more of 2,000 million yen had been included, the total balance of cash and cash equivalents would have amounted to 5,745 million yen as of June 30, 2012, pointing to a steady expansion trend.

◆ The main first quarter topics

In the real estate information services business, the number of properties posted on our website for June 2012 stood at 3.67 million, an increase of 29.7% year on year. According to website user surveys, the real estate information searcher using various portal sites and real estate information websites prioritizes the number of property listings located within his/her search area above all. Therefore, NEXT, identifying the number of properties posted as the key service differentiator, is striving to provide website users with property information based on a database of an estimated 5 million vacant and for-sale properties nationwide. Meanwhile, as of March 2012, the cumulative number of downloads of “HOME’S” website smart phone applications exceeded 1.5 million. In response to mobile phone users’ ongoing fast-paced shift from feature phone to smart phone, the Company will continue striving to develop smart phone applications.

In the first quarter under review, NEXT participated as a co-sponsor in the “Sumaizukuri (House Building) Fair 2012,” an event held at the Tokyo Big Site sponsored by the Asahi Shimbun Company. This was a major event, attended by up to 33,000 visitors comprising general end-users, including individuals seeking residential properties and people interested in house building. Given the large attendance, we think this event helped boost our brand profile to a certain extent. While the Company's advertising activities have been online-centric to date, we intend to also use non-virtual events to increase our interaction with users. As for NEXT's overseas business activities, its China business, currently in operation in Beijing and Shanghai alone, has recorded in excess of 1.4 million online property listings after exceeding the 1 million mark within a mere three months of the service launch. Meanwhile, in Jakarta, Indonesia the Company launched the "Real Estate Concierge Services" program, a service offering designed to assist Japanese company employees taking assignments in Jakarta in seeking accommodation in the country. This program has already attracted numerous customer inquiries, directly generating sales for NEXT. As for our Thailand operations, the number of new condominium project listings reached 3,338 within some six months of the service launch, allowing NEXT to become the current number one real estate portal operator in terms of the number of online property listings.

◆ Revision to the business forecast for the first half of the year ending March 31, 2013

NEXT revised its business forecast for the first half of the year ending March 31, 2013, raising the consolidated sales forecast by 8.5%, operating profit forecast by 77.9% and net income by 110.9% from our original projections, respectively. Specifically, the consolidated sales forecast for the first half was raised to 5,370 million yen, an increase of 419 million yen from the original projection of 4,951 million. The first half operating profit forecast was raised by 270 million to 616 million yen. Under the revised projections, the cost of sales and SG&A expenses account for 32.7% of consolidated sales for the first half with advertising costs representing 26.9% of consolidated sales. Given the Company's policy to continue striving to improve productivity in relation to personnel costs, the first half operating profit margin forecast was finally revised to 11.5%. As for sales by service line, a positive year-on-year sales growth is forecast for the first half in all categories of the main real estate information services business. Although the local information services business is forecast to post a small decline, the Rental & Real Estate Trade business is expected to serve as the main contributor to the revised business forecast for the first half of the year ending March 31, 2013.

◆ A full overhaul of the "HOME'S" website

For more than a decade, NEXT has been continuing to implement version upgrades for the "HOME'S" website by extending and renovating the same system. This time around, however, we will fully overhaul the website platform and hardware. Following successful previous experience of compiling a vast amount of real estate property information into a database, we will use this opportunity to enhance the user-friendliness of the website and attract increased users and inquiries, thereby further expanding sales.

The first key point of this website overhaul involves NEXT maximizing the SEO effect through site integration. Under the format used by NEXT to date, the user has been directed to a rental property site, condominium site and real estate trade site according to keywords respectively. This format, however, had a drawback of diluting the SEO effect through cannibalization within the same group sites. Moreover, there was also the issue of overlapping website users drawing cost spending. The website overhaul will include a website user drawing route streamlining, which will allow us to direct the website user to a single landing page, for example, a condominium landing page optimized for a condo information searcher, based on a multi-entrance concept. In addition, to maximize the SEO effect, we will improve the website structure in a manner that will enable the user to be directed to a relevant landing page according to keywords such as train line name, train station name, address and rental property/condominium, words that are referred to as middle words and tail words.

The second key point of the website overhaul involves the Company enhancing the website's user reach by introducing a cross-search function, unlike the existing format of "HOME'S", which directs users to a rental property site, previously-owned property site and new condominium site, respectively. The planned website overhaul will allow the user to view a full list of all properties that meet the specified requirements, whether rental property, previously-owned property or new condominium, if both the rental and for-sale boxes on the main website page are ticked. This means users wondering whether to rent or buy a property will be able to compare individual properties in the rental and for-sale categories by shifting horizontally on the website without returning from the full list page to the top page. For example, a property searcher with a monthly payment budget of 100,000 to 150,000 yen will be able to compare rental and for-sale properties in the same list before deciding to either move to a rental property or buy a property. This will be possible as the person will be able to simultaneously view the information on rental properties available at a rent within the specified range and on for-sale previously-owned properties available for the specified monthly mortgage budget. This cross-section search function, allowing users to view information on properties in all categories, i.e. for-sale, rental, previously-owned and newly-built property categories, was relatively well-received according to interviewees at our user group interview meeting.

The third key point of the website overhaul involves NEXT raising its brand profile through a design unification initiative. To date, there has been a problem of our brand designs lacking unity because they were developed separately for different market segments. The upcoming website overhaul will result in the Company using orange, the main color of the "HOME'S" website, as a uniform color for the individual designs.

The fourth key point of the website overhaul involves the Company improving the matching rate by enhancing website usability. Under its existing format, our website shows a list of multiple buildings of equivalent size and rent, using line after line for presenting the search result, which tends to result in overlapping information. However, the planned website revamp will enable the single presentation of information compiled for a given property and building. This function was positively received by our questionnaire survey respondents and the interviewees at our group interview meeting, who appreciated the easy-to-understand presentation of a large volume of information.

The upcoming overhaul of the "HOME'S" website will allow NEXT to improve website usability even further while curbing promotion costs efficiently, which will likely pave the way for the Company to grow sales significantly. This initiative should be followed by a major marketing promotion program. As in the previous fiscal year, we will continue our branding enhancement activities, utilizing TV commercials and non-virtual events. At the same time, we will implement the marketing promotion campaign designed to fully leverage radio commercial and social media such as Facebook and Twitter, alongside advertising posters hung in trains, street flags and posters. At NEXT, we aim to build a socially-friendly platform enabling citizens to search for information on relocation, local community and medical care in a stress-free fashion at all times, thereby enjoying their daily lives in comfort.

(Tokyo, August 10, 2012)

＊For the presentation material used for this meeting, please go to the following URL
http://www.next-group.jp/ir/data/presentation.html (Japanese)

◆ Q&As◆

Q1. Compared with the fiscal year ended March 31, 2012, little growth seems to have been posted by segments other than the main real estate information services business, as can be observed by examining the "Others" segment, which includes medical information services. What should be done to boost such poorly-performing segments?

A1. We have established a certain set of policy guidelines for investment in new businesses, within the scope of which we implement our business investment programs, targeting a future earnings driver for the Company. Having said that, given our current policy of intensively channeling our corporate resources into efforts to make "HOME'S" the number one real estate information website in Japan, we will adopt a gradualist approach to our new business development initiatives while limiting the scale of any new business launch as far as possible. If sales of the "HOME'S" website business exceed expectations, we should be able to increase our investment in the new businesses to reflect such better-than-expected sales.

When identifying a reasonable business opportunity in an area which may inconvenience global people, NEXT will enter the new market, within a certain limit, to translate our corporate philosophy into action.

(See Page 42) Top priority for our business activities is our commitment to making the "HOME'S" website the number one real estate information website in Japan, followed by the program to expand the "HOME'S" website services business into overseas markets. Third on the list is the initiative to grow the revenue source for our new businesses.

For the year ending March 31, 2013, we strive to expand earnings while raising productivity efficiently using a reduced staffing structure without aggressively allocating human resources to individual projects. It is based on such policy that the Company targets an operating profit margin of 25% in the medium-term.

Q2. It appears that NEXT's business results showed a sudden jump for the first quarter of the year ending March 31, 2013. Should we attribute the improvement to the extremely low earnings level posted for the same quarter a year ago? Or was the improvement achieved thanks to your firm's efforts made during the previous fiscal year, consisting of the pricing method change and expanded number of property postings and affiliated stores? May I have your comment on the reason for the

earnings improvement?

A2. It is true that the earnings level for the same quarter a year ago was low with the fiscal 2011 first half, in particular, faced with the time-consuming process of rectifying problems associated with the pricing method change. It was thanks to the earlier completion of measures to tackle such problems that a strong business performance was recorded for the latest quarter under review. However, with the Company targeting even higher earnings, we seek increased profits in coming years on the back of investment.
(See Page 7) For the first quarter under review, the Rental & Real Estate Trade business of the real estate information services business segment showed a year-on-year sales increase of 79 million yen following the shift implemented in early 2011 to the pay-per-inquiry-based fee structure. Given that sales for the Rental & Real Estate Trade business will grow in proportion to the number of inquiries placed by the website user, we intend to further expand our investment. Meanwhile, for the first quarter under review, sales for New Condominium and New Houses, segments using the pay-per-posting-based fee structure instead of the pay-per-inquiry-based fee structure, rose by 47 million yen year on year and 124 million yen year on year, respectively, pointing to a steady sales growth trend. With the inclusion of sales for the "Other" business as well as the Custom-Built House and Refurbishment and Renters businesses, the combined value of the year-on-year sales increase was greater for the segments other than the main Rental & Real Estate Trade business.

Q3. Is it the operating environment that has been contributing to the growth of non-main service line segments such as New Condominium and New Houses?
A3. While the New Condominium business currently enjoys a favorable operating environment, its sales growth for the quarter under review is the result of the continuous efforts made previously. As for the New Houses business, competition in this business category remains fairly limited at the moment, and real estate companies selling blocks of new houses have highly evaluated NEXT's website as user friendly. Under such circumstances, the Custom-Built House and Refurbishment business posted a steady sales growth for the quarter. The successful sales expansion of these segments should be identified as the result of our sales efforts, rather than the changing operating environment.

Q4. I would like to have your idea for deciding on NEXT's investment stance for the second half of the year ending March 31, 2013. Is it reasonable to believe the second half profit will be more or less twice the first half profit with a certain upside or downside likely for the whole year? Or, did you not revise up the full-year business forecast in consideration of the huge potential uncertainties surrounding the overhaul of the "HOME'S" website? Your comment on this would be appreciated.
A4. As for our thinking on the full-year results, in view of our tough experience, suffering a sales decline worse than expected following our shift in the year ended March 31, 2011 to the pay-per-inquiry–based fee structure, we factored all the relevant necessary expenses into the budget for the full website overhaul with due attention paid to risk management. Although believing risk levels would not exceed our assumptions, we kept our full-year business forecast unchanged since we wanted to leave an ample buffer to absorb the potential effects of risks exceeding assumed levels. The full overhaul of the "HOME'S" website will be implemented in early autumn 2012 with certain effects likely to emerge in our operating performance in

terms of the SEO effect, advertising impact and website usability changes towards the end of 2012. Accordingly, such effects of the website overhaul will emerge prominently in the update on the December 2012 monthly performance data to be announced on January 20, 2013.

Q5. What segment reflects the financial results for the overseas business operations?
A5. They are included in the "Other" business segment of the real estate information services business.

Q6. If the business performance proves to far exceed the projection from the second quarter onwards, as in the first quarter, will you further increase your advertising spending?
A6. Our marketing promotion plan for this fiscal year was previously formulated properly by factoring in all necessary expenses. Although additional spending cannot be totally ruled out, any addition would be in the region of 100 to 200 million yen when considering the challenge of deciding on the investment target and destination and speedily investing by the end of the fiscal year.

Q7. You said any additional investment for the full-year would be in the region of 100 million to 200 million yen. Yet I note that an additional 200 million yen has already been added to the first half advertising budget. Does this mean no addition will be made to the second half advertising budget?
A7. Although the simulation and planning processes have been completed internally, we still consider the potential operating profit level for the full-year with some flexibility. The second half may see certain additional advertising cost spending, but it should not exceed several hundred million yen, if any.

Q8. In the Rental & Real Estate Trade business, what was the average rate of price increases for the properties inquired on by website users?
A8. Although the average price was found to have exceeded our assumptions, it was a gain of several percent or so.

Q9. As part of the "HOME'S" website overhaul program, do you examine the option of implementing any scheme designed to encourage the user to place an inquiry on a higher-priced property, in addition to that targeting an increased number of user inquiries via usability improvement?
A9. Although no specific action plan has yet been devised, we are now studying several steps, including an effort to draw more customers by running special feature advertisements, e.g. in a high-end central Tokyo rental properties feature.

Q10. Is it difficult to introduce the pay-per-inquiry-based fee structure for the New Houses business?
A10. We previously made a major change to the fee structure for the Rental & Real Estate Trade business in an effort to achieve an increased number of property listings, based on the understanding that it was a segment where the amount of property information available could serve as a distinct service differentiator. However, given the substantial number of properties already listed in the New Condominium and New Houses business segments (1,500 condominium buildings and 4,000 to 5,000 houses), a fee structure change will not trigger a significant expansion in the number of property listings. It is our intention to use a

fee structure optimally suited to the characteristics of each market segment.

Q11. According to your projection, NEXT's sales in China for the year ending March 31, 2015 will amount to 3.0 to 4.0 billion yen or so. What steps will you take to grow sales in the country? What level of profit contribution is expected to materialize in the event of such sales being achieved?

A11. Unfortunately, we are unable to answer clearly regarding profit contribution levels. Under our existing sales expansion strategy for the Chinese market, we are engaging in business activities there with a focus on Beijing and Shanghai. Going forward, we will expand into other major Chinese cities of similar size such as Shenzhen while seeking an increased number of affiliated stores and online property listings. As the pay-per-inquiry-based fee structure is in place in our China business operations, we will strive to grow our sales there by boosting the number of website user inquiries on the back of our efficient marketing promotion efforts. Although our China business will not have any visible impact on our income statement for this and next fiscal years, we intend to expand into new service areas in the country in due course while continuing to maintain our current pace of market growth. Within three months of the business launch in the country, we achieved 1.4 million property listings and 10,000 affiliated stores.

Q12. I note that the number of NEXT's property listings in China stands at 1.4 million compared with 3.67 million in Japan. However, examining sales posted in these markets, those for the China business stand at several million yen compared with several billion yen recorded for the Japan business. What sets apart the former and latter businesses? Also, bearing in mind the seemingly high average property prices in Beijing and Shanghai, I would like to know the reason for such disparity between the Japan and China businesses.

A12. Our pay-per-inquiry-based fee income in China started to come in only from July, so sales in the country remain fairly limited. Property prices, although more expensive than Japan on a like-for-like basis in certain spots, are generally lower in comparison to Japan, reflecting the nation's lower per-capita disposable income, a factor behind the lower average fee income for our China business. Meanwhile, China's top real estate portal operator, pursuing its new condominium-centric information services, has achieved annual sales equivalent to 15 billion yen or so. We believe it will be possible for NEXT to grow its business in the country to such level if we continue expanding customer traffic while successfully putting the pay-per-inquiry-based fee income generation on a firm footing.

Q13. Among NEXT's domestic sales, what is the proportion of sales generated under the pay-per-inquiry-based fee structure?

A13. Approximately 50 to 60% of total annual domestic sales given that, of just under 500 million yen in monthly sales for the Rental & Real Estate Trade business, about 100 million yen are accounted for by the basic monthly fee (10,000 yen per store) from some 10,000 affiliated stores with the remainder consisting of pay-per-inquiry-based fee income and option product sales.