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Upward Revision to First Half Forecast due to Strong Sales

◆First Quarter Financial Results for the Year Ending March 31, 2014

Boosted by the Abenomics economic policy, consumers have taken a very positive mindset towards the real estate industry, and the number of prospective buyers is growing. Contracts for used real estate properties have grown by 20% to 30% year-on-year, and the number of available properties has fallen. However, the situation must be watched closely, as there is the possibility of an autumn slump following the demand spike.

The HOME'S real estate information service has been successful, with increased revenue and profits. Sales growth is accelerating, with sales for the quarter reaching 3,398 million yen (a 24.1% increase year-on-year). Both operating profit and quarterly net profit increased. Operating profit rose to 862 million yen (an increase of 65.3%), and quarterly net profit to 516 million yen (an increase of 74.0%).

The number of properties, an important index, rose by 12.8% year-on-year to 4,147,000 (an increase of 471,000 properties), and the number of affiliated stores also rose by 9.3% to 10,521 (an increase of 897 affiliated stores). These increases indicate that growth is accelerating. Because of these results, we have upwardly revised our forecast for the first half of the fiscal year.

On our income statement, the sales forecast has been raised by 660 million yen, and sales, general, and administration expenses by 299 million yen. The main reasons for the increase in sales, general, and administration expenses are investment in attracting Web customers, branding promotion costs such as television advertising, and promotional campaign expenses incurred by the Rakuten Super Sale. These measures created an increase of 144 million yen in advertising costs, but have been showing steady results. Because business indices have been steadily climbing, we are considering the possibility of additional investments.

The ratios of sales to costs were 28.1% for cost and other sales, general, and administration expenses, a year-on-year improvement of 1.7 points.　We engaged in aggressive advertising investment, but revenue improved by 22.8%, and personnel costs by 23.7%, a total improvement of 4.6 points, resulting in the company's first quarter operating profit margin exceeding 25%. The increase in revenue, and efforts to improve personal productivity, greatly reduced the personnel cost composition ratio.

In terms of sales by individual service, the real estate information service segment performed strongly, with rental and real estate trade rising by 320 million yen and new houses by 123 million yen. The number of new house members rose by 60.7% year-on-year, and the number of new condominium members rose by 9.5%. The redesign of the custom-built house site in April of this year began showing results, with the number of custom-built houses and renovations inquiries increasing. Within the "Other" segment, the nursing home search site, HOME'S Elderly Care Service, saw a particularly large amount of growth. In our new business segments, the MONEYMO financial information site grew steadily, becoming profitable this quarter. There were segments with negative growth during the last one or two years, but all segments had positive growth this quarter.

In terms of profit and loss trends by segment, real estate information services grew to 887 million yen (261 million yen more than last year), an increase of 41.7% year-on-year. The other businesses segment rose to negative 24 million yen (79 million yen more than last year), a significant reduction in losses. Factors behind this decrease in segment losses included the scaling-back of Lococom, MONEYMO's profitability, and the company's pulling out of the career education business segment, in which it was engaged until the second quarter of last year. We have recently decided to terminate EventCal and eQOl Skin Care services, so this deficit is expected to shrink even further.

On our consolidated balance sheet, net assets per share grew 4.4% year on year to 503.35 yen (21.14 yen more than at the end of last quarter) while interest-bearing debt remained zero. Our net assets were 9,464 million yen (an increase of 400 million from the end of last quarter). These increases were due to a rise in retained earnings. With regard to goodwill, amortization will continue for the remaining 120 million yen in value of Little, which was purchased as a research lab for recommendation engine research and development.

The key cash flow statement item is the balance of 7,199 million yen in cash and cash equivalents (a year-on-year increase of 3,453 million yen). This increase was achieved due to an increase of 2,000 million yen as a result of time deposit cancellations.

◆Key Topics for the First Quarter of the Year Ending March 31, 2014

1. The redesign of the rental & real estate trade site last quarter continued to accelerate sales growth, with the number of keywords in the top 5 increasing and maintaining their positions.
2. Television advertisements were broadcast for the first time during Golden Week.
3. Train advertisements were run in both the Kanto and Kansai areas for the full duration of the year.
4. The company was a special sponsor of a major real-world event, "Asahi Shimbun x HOME'S presents (at: Big Sight)".
5. The television commercials and train advertisements for the "Half-Priced Homes!" Rakuten Super Sale, a joint initiative carried out with Rakuten Real Estate, had a major impact and were highly successful.
6. Our sales strategy of increasing the number of affiliated stores and real estate listings produced steady results.
7. We redesigned our custom-built house site.
8. We began offering the Uchimi Pro iPad app, an industry first.

◆Second Quarter Initiatives for the Year Ending March 31, 2014

1. We will unite our disparate brands under the HOME'S brand, increasing the convenience they offer, and continue with proactive branding efforts.
2. We will redesign our new condominium site (migrated in July) and our new house site.
3. We will open a new HOME'S Renovation site.
4. In order to fulfill the needs of consumers searching for housing and rental trunk rooms at the same time, we will open a new HOME'S Trunk Room site.
5. We will provide housing information valuable to users through the HOME'S PRESS web magazine.
6. We will open a new HOME'S Research Institute, which research not only present market conditions, but also medium- and long-term themes, building up fundamental data for use in our business deployment strategies.
7. We will hold a HOME'S Customer Service Grand Prix.
8. We have begun providing the HOME'S PRO social network, focused on the real estate industry.
9. Overseas, in Thailand we will increase the number of properties, attract users, and improve profitability. In Indonesia, in addition to these, we will also develop site content. In China, liquidation procedures for our local subsidiary are underway, and we are considering a business model for re-entering the market.

◆Upward Revision of First Half Forecast for the Year Ending March 31, 2014

We have upwardly revised our forecast for the first half of the fiscal year. We expect sales to increase to 664 million yen (a 6.3% increase over initial forecasts), operating profit to increase to 920 million yen (a 64.9% increase), and quarterly net profits to rise to 523 million yen (a 72.5% increase).

With regards to personnel costs, we expect provisions for bonuses to increase due to increased profits, and for investment in television commercials, regional promotions, and other branding promotions to increase advertising costs.

A portion of the sales in excess of the initial forecast will be reinvested in order to produce even greater sales, and we expect to secure an operating profit margin of 14% for the first half of the year.

In terms of sales by service, we have raised our sales forecast for our real estate information sites, which are performing strongly, by 386 million yen. In particular, we expect 186 million yen more in rental & real estate trade-related sales. This large increase is the result of a cycle of increased SEO effectiveness, producing an increase in inquiries, which in turn produce greater sales, as a result of the site redesign last year. The main factor behind the 66 million yen increase in our "Other" segment is an increase in searches on HOME'S Elderly Care Service, with this year's growth rate being over twice that of the same period last year.

Results during the first half of the year are expected to far surpass initial forecasts, and we also expect to achieve our business targets for the full fiscal year, but we have decided not to revise our fiscal year forecasts, and will carefully observe and disclose future business results.

◆Q&A◆

Could you please provide details about HOME'S superiority over its competitors?

HOME'S competitors are the SUUMO, Yahoo! Real Estate, and at home websites. Our main point of differentiation with these sites is that ours has the most listed properties. When users decide what site to use, they place a large amount of importance on the amount of information the site can provide, so we are thoroughly focused on increasing our number of listings. We now have 2 to 2.5 times as many listings as our competitors. In order to increase the number of listings on the site, we have switched our billing system from billing when listing a property to allowing unlimited free listings, and charging when inquiries are made (see reference materials on page 39). This has enabled real estate companies to list all of their properties, without being limited by listing budgets, and the number of listings has risen accordingly. We have also implemented successful promotions, increasing the number of inquiries, driving sales.

Furthermore, as listing a large number of properties makes it difficult to find properties, we have carried out a site redesign focused on making it easy to find desired listings quickly, resulting in the site being ranked by a third party as No. 1 in ease of use. We have also been ranked as No. 1 in number of users.

Please discuss in detail the relationship between NEXT, Rakuten Real Estate, and the Rakuten Super Sale.

Rakuten is one of NEXT's shareholders, with a 16% stake in the company (see reference materials on page 46). There is an exclusivity contract between Rakuten's Rakuten Real Estate and HOME'S, and all properties listed on Rakuten Real Estate are also listed on HOME'S. When there are inquiries regarding Rakuten Real Estate properties provided by NEXT, the sale is initially posted as a HOME'S sale, and then a fee is paid to Rakuten Real Estate based on the amount of inquiries.

The Rakuten Super Sale was a joint project carried out as part of a series of promotional efforts to stimulate Rakuten Real Estate usage, which succeeded in making a strong impact through its concept of "Rakuten Super Sale - Even Houses Are Half Off!"

What are the shares and positioning of each service? Which services have a large amount of growth potential?

NEXT measures share internally from a variety of perspectives, but it is difficult to give a single quantitative answer.

The segment with the largest growth potential is rental & real estate trade, which has the largest market.

In the new condominium segment, despite the power of our competitor, SUUMO, we believe that there is potential for growth by taking share from non-SUUMO areas, as developers have large advertising and promotion budgets. In the custom-built houses and renovations segment, based on GDP calculations the overall real estate market is believed to be worth 50 trillion yen, 20 trillion yen of which are accounted for by custom-built houses and renovations. Although the market is large, there is no established culture of bringing in customers via the Internet, so we believe this segment has growth potential provided that the environment changes in the future.

We do not yet have a 40% to 50% share of services in any segments. We believe that the trend of real estate industry advertising moving from fliers, newspaper ads, and free papers to the Internet will continue, and that Internet real estate advertising will grow.

The Nikkei recently reported that Yahoo would be entering the market. If it does, what is your position on concerns that past SEO efforts may prove less effective, and that it may result in price competition?

We do not see any threat at present. This is because the only segment that it has been reported that Yahoo! Real Estate will enter will be the real estate buying and selling segment, which is not a very large market. Yahoo! Real Estate is already a competitor. All that has happened is that it will now absorb the real estate listing information that has been provided by at home, so we do not see our competitive relationship as having changed.

With regards to SEO ranking, our SEO efforts are aimed at appropriately securing top display positions under Google's algorithms, so we do not recognize a major risk. However, we will keep a careful eye on the situation, as Yahoo is a major Internet company, and is taking on the real estate business segment in earnest.

Could you please state whether this upward revision to the forecast for the first half year was due to an increase in page views (PVs) or the conversion rate (CVR)?

The largest factor was an increase in unique users due to the success of SEO efforts. The second largest factor was an influx of users as a result of branding promotions. A large amount of importance is placed on the KPI of new unique users, but little is placed on PVs. One of the reasons for the high number of site redesigns is CVR improvement. There is no single method that can create an immediate, massive increase; instead, slow, steady efforts are necessary.

Are there any reasons other companies cannot also change from listing-based to inquiry-based fee systems?

There is nothing preventing them from doing this. However, it took NEXT approximately three years to achieve these business performance improvements after changing our fee system. We did not merely change our fee system, but also carried out system support efforts, site redesigns, and marketing measures in parallel. If any competitors were to take this same inquiry-based fee approach, it would probably take two to three years.

(Tokyo, August 8, 2013)

* The materials used at the briefing can be accessed from the link below.

(http://www.next-group.jp/ir/data/pdf/130807_kikan_1Q.pdf)