

Next Co., Ltd. (2120)

Fiscal Results Briefing Summary for 1st Quarter of Fiscal Year ending March 31st, 2015

Date & Time: Tuesday, August 12, 2014 5:00pm - 6:00pm

Location: Our meeting room

Our Attendees: Takashi Inoue, President and CEO

Daigo Minaguchi, Managing Officer and General Manager of Corporate Management Department

Hidekazu Fukuzawa, Corporate Communication Group Leader, Corporate Promotion Division

Attendees: 30 people

<Overview and Review of Current Fiscal Year Business Strategy>

In the "Ministry of Internal Affairs and Communications' 2013 Housing and Land Survey", conducted once every five years, record highs of 60.63 million homes and 52.46 million households were recorded. Although the population has entered into a decline, the number of single-person households and the number of households have increased, and are expected to reach a peak in 2019 before declining. The rate of vacant homes has continued to increase to 13.5%, 8.196 million vacant homes, or approximately 1 in 7 homes nationwide. We take this positively, in that it increases the need for property advertisements in the future. As a society, we consider that the increasing number of empty homes can be used not only for habitation, but as dual-use areas with increasing need, such as hobby studios, daycare centers, and small nurseries in addition to housing.

Our mid-term strategy slogan is "Aim to be a global company with DB and CCS" ("DB" is an abbreviation for "database" and "CCS" is an abbreviation for "communication concierge services"). We want to create a database of the various information related to living in Japan and abroad, and deliver information suited to everyone individually on any device. While continuing to distinguish ourselves as No. 1 in terms of number of listings, we will aim to be No. 1 in terms of ease of use, number of users, and accuracy of information. In order to achieve our long-term goal of a 40% user share of all moves, and before that our mid-term goal of having the No. 1 user share of moves over the Internet, we take this fiscal year to be a year for investment, and will invest in our priorities as follows: 1) Becoming an overwhelming No. 1 in terms of domestic real estate information service, 2) New services for real estate business owners, 3) Overseas expansion, and 4) New business outside of the real estate sector. As a management indicator, we are aiming for a 25% operating margin. To that end, we want to increase productivity further, and restore increased corporate value through ongoing dividends and profit growth.

<Financial Information from the 1st Quarter of Fiscal Year ending March 31, 2015>

The real estate information service business performed well. The number of listed properties, an important Key Performance Indicator (KPI) as 4.32 million as of the end of June. This is 2 to 2.5 times the number of other companies in the industry, making us a commanding lead as No. 1.

Consolidated net sales was a 3.8 billion yen (an increase of 13.4% over the previous year) . Advertising and promotion costs increased 44.0% due to expenditures such as television ad campaigns, a train-based advertising campaign tie-in with the "THERMAE ROMA II" film, and a strengthening of digital marketing. Our operating income decreased to ¥712 million (a 17.5% decrease). With regards to the sales composition ratio, it is worsening

due to investment in advertising and additional human resources costs due to new hiring, but we are positioning this fiscal year as a period for investment aimed at long term growth, so this is proceeding as planned and we do not see it as a problem.

In terms of sales by service, we are seeing some effect of the consumption tax increase on new constructions, order-made housing, and renovations, but leasing and real estate are growing steadily at 15.6%. New constructions include both apartment buildings and single-family homes. We saw an increase in sold-out apartments due demand in the pre-tax increase rush, and a decrease in demand after the tax increase. The supply decreased due to increased listing prices, and the number of listed properties decreased by 5.2% compared to the previous fiscal year. However, due to sales efforts, detached homes increased by 15.7%.

With respect to profits and losses by segment, profits shrank due to investment in the real estate information system, but the deficit shrank in all other new businesses.

<Balance Sheet and Goodwill>

The net assets per share of stock increased 1.5%, and we continue to have no interest-bearing debt. Intangible assets are due to increases in software and software temporary accounts for investment in new services and internal base systems. As a result, at the end of this quarter, our balance of cash and equivalents, including term deposits, has risen steadily to ¥8.3 billion.

<Major Initiatives for the 1st Quarter of Fiscal Year ending March 31, 2015>

The following are the three main topics:

1) Releases, one after another, of services that support smartphones, such as the HOME'S iOS application renewal and release of an application for the visually impaired. We renewed our sites aimed at smartphones for "HOME'S Nursing Care", "HOME'S Renovation", and "HOME'S Style Market".

2) As new services, we launched 360-degree panoramic images, and the "HOME'S New Construction Equipment Warranty" for newly-built single family homes. By extending the usual one-year manufacturer's warranty to 10 years, we support inhabitants' peace of mind after they move in.

3) We presented our real estate market report, "Stock & Renovation 2014" from the HOME'S Research Institute. This was our company's first attempt at a report on the anticipated increase in the future of the used housing and renovation markets.

<Initiatives in the 2nd quarter and beyond>

We consider the focus on ongoing branding promotion important to further increase user share, and will increase the previous year's first-half advertisement expenditures of ¥1.7 billion to ¥2.3 billion, and increase areas, channels, and investment amounts. While taking effective measurements with analysis methods known to be top-notch in the world, we will continue to increase our "share of mind".

We will fine-tune our rates in our core businesses of leasing and real estate sales. Until now, we had offered volume discount of 2% for 61 or more lease inquiries, as well as 0.02% for 6 - 20 trades or investments, and 0.01% for 21 or more. However, we will raise this starting October 1 to 4% for leases and 0.03% for trades and investments.

We will change the billing model for renovations from billing-by-inquiry to billing-by-contract. We will

drastically redesign our web site and open sections for word-of-mouth advertising, ratings, and celebratory money for contracts. Billing details are as follows: ¥10,000 for basic monthly fee, ¥500 bidding fee per bid, and 6% of construction price for contracts. In comparison to other companies, users are able to view companies in their areas and choose one they like, and clients will be able to show their strengths and achievements. Furthermore, as a user benefit, we will offer, guaranteed refunds for advance payments, a maximum 1% cash back, and extended equipment warranties. Renovation sales are currently ¥280 million, but top firms have sales of ¥1.4 billion and handle trading volumes of ¥20 billion, so we would like to achieve similar results.

As a new service, we launched a DMP service specialized to the industry and aimed at real estate agencies. We will share our world-class knowhow and technology of effective advertisement effectiveness measurement, and merge real estate big data and HOME'S user behavior data to optimize clients' web advertisement effectiveness, and support increases to their closing rates and sales, and decreases in their costs.

Furthermore, we invested in the Glue-th company that manages Mechika, the 15-second video SNS.

<Our strengths>

The source of our company's growth is: Shared values, a challenge-seeking culture, and thorough PDCA management. We hire those who share this vision. We provide newly assembled employees with opportunities to try new businesses and services. By speeding up our PDCA, we have created a great company that generates results immediately.

Furthermore, while we are often thought of as a sales company, 37% of our staff are planners, engineers, designers, and other production staff. In the rapidly-changing Internet industry, we rapidly incorporate new technology and introduce new services in rapid succession.

We take the following approaches to strengthen our human resource development.

- 1) "Next University" to quickly cultivate employees who share the vision.
- 2) The "Switch" system of new business suggestions: Twice per year any employee, including prospective employees can make business suggestions. "HOME'S Storage Service" and "HOME'S Nursing Care", which were commercialized by staff only 2 years after graduating university and are already turning profits, were both born from this system.
- 3) Creators' Day: 10% of working time may be used to create interesting services and prototypes, focused on engineers and manufacturing. We conduct one training camp for creators each quarter.

As a human resource strengthening initiative, we aim to be the No. 1 most rewarding company to work for, hold gatherings and parties once a month, and periodically share our vision and business strategy. We will continue to strengthen ties between employees, and provide many opportunities for them to always reflect on and understand our mission.

This has resulted in our winning Best "Rewarding company to work for" company four years in a row, and sixth place in the "2014 Best Motivation Company Awards".

<Next's Housing Search of the Near Future>

[Reference Video <http://youtu.be/czRJEiYuqfo> (YouTube)]

If we are able to remove the inconvenient and difficult-to-understand aspects of the real estate market, and using

new technology such as Google Glass and smart keys enable people to view properties without being accompanied by agents, or visualize how properties might look if they actually lived in them, and conclude contracts online, we think this will be useful to those searching for properties abroad or in remote locations.

We are already proceeding with research and development into smart keys, a "Room VR" virtual interior application, a "Matter Port" 3D scanning camera, and a property search map with a tangible user interface that can be searched easily by the elderly and those not skilled with computers. We have attracted a lot of attention at overseas conferences as well.

In the future, keeping our company policy of "altruism", we want to innovate a society where everyone can acquire joy and happiness with peace of mind. We want to continue to make proposals so each individual can achieve a home and surrounding environment perfectly suited to them.

For IR information, we have launched a new official Twitter account. We also want to actively disclose this information via Facebook, etc.

◆ ◆ ◆ **Question & Answer Session** ◆ ◆ ◆

※ For the sake of accuracy, portions of the Q&A session have been corrected or revised. To see the actual events of the day, please watch the video on our web site.

[Advance Questions]

Q) The Ministry of Land, Infrastructure, and Transport has made explanation of important items possible online (hereinafter, "online migration").

A) We generally regard this positively. If it becomes possible to do everything online, investment in remote and foreign property, as well as property searching and contracting by the disabled and elderly becomes possible, and the market's horizons will broaden. By expanding services not only for residents, but to increase convenience to spread information on how to use a studio for a particular interest, we believe it will result in business development at the same time. Currently, according to the Ministry of Land, Infrastructure, and Transport's mid-term report, they are proceeding to consider lifting the ban. They are aggressively lifting the ban for leasing. For trading, there are many important matters, so in the interests of consumer protection, they appear to be considering it further. They ultimately will decide and report their policy by December.

[Day-of Questions]

Q) I often see this company's TV commercials and ads on public transportation, so I think brand awareness is increasing. How is brand awareness now? Do you expect future advertisement costs to decrease with rising awareness, or do you expect current amounts to be insufficient.

A) We expect that "mind-share" will rise to a given level and plateau, but we expect that there is room for it to double or triple. We want to spend while keeping an eye on the sensitivity of ads and their effects. In the mid-term,

we want operating margins to reach 25%, so in the future we would like to reduce advertising and promotion costs. As a measure to this end, while a large number of users visit HOME'S throughout the year, since moving is not something people do frequently, the next time they use the service may be years in the future. By offering users a variety of services, we will gradually pool members, and we think this will create a member system where users use HOME'S two or three times.

Q) There was discussion about revising some rates. What is the likelihood they will be revised more in the future? Although I think it is still cheaper compared to competitors' frame-selling sites.

A) At the moment, we are not considering any specific revisions. We think, after comparing to other companies, that new constructions are where we have some room for increase. If we are able to further increase the effectiveness, there is probably also room to increase the price.

Q) Question about the online migration. Do you think it provides great benefits with respect to providing services to real estate businesses and business support, or great benefits with respect to an invigoration of trading across the whole industry?

A) Both. For customers, the horizons will broaden and the increase in people who move will expand the market. Concurrently, the number closings will increase, which increases sales. For businesses, working online requires computer literacy, but there are businesses unused to this, so HOME'S will offer services that allow online interaction as one of their business support tools. In the future, we will be able to offer services that allow businesses to communicate with users on HOME'S system.

Q) Question about the fee revision. As a business person, it seems like a bullish revision that feels negative. How much of a positive effect do you expect it to have? Also, what are the positive effects of revising the renovation fees but changing to a per-contract billing system?

A) While we cannot answer as to its quantitative impact, the impact on performance this fiscal year is negligible. We have analyzed how much impact there will be on each business, but there will be a limited impact on profits and losses, and a rebound seems unlikely. The merit for our company is that if there are many things with low rates, we need to slow down investment in advertising. By getting rid of the volume discount service, we are able to flexibly use advertising costs, and it will become easier to continue increasing the number of inquiries. As a result, each business will increase its inquiries, leading to increases in their sales and closings, for a win-win effect.

Q) In the first quarter, home orders and renovations decreased somewhat due to the effect of the consumption tax increase. What do you expect from the market when the consumption tax increases to 10% in the future?

A) In the mid-term, we consider the renovation market to be a growth market. Keeping pace with this, we think the existing house and used house market will expand. There is some effect from the tax increase, but since we are

directing much of our resources to the renewal in October, this may have the effect of holding back sales and promotions.

Q) Question about the online migration. If this becomes commission-based like the securities industry, we are you are currently charging based on inquiries for leases, but considering that this may lead to lower proceeds, will this lead to changes in rates? Considering that Sony and others may enter this market, I think it would be good to act as an intermediary. What are your thoughts?

A) Even if the online migration proceeds, we think it would be unlikely that it would become a rate competition like with securities and investment trusts. Even if the merchandise is available online, most people will want to see the properties in person, and we think only some users will use it for remote properties and investment. There is some discussion that Sony may expand into the real estate market, but we do not plan to actually trade real estate. We are in a position to back up real estate agents while boosting the industry. Ultimately we just want to support them as a platform.

Q) Based on the housing survey, I think it will continue to get more and more difficult. Would you consider a hotel-related service for foreigners as a revenue opportunity?

A) Renovation, and stock housing are expanding markets. In other fields, considering that vacancies are increasing and visitors from abroad will increase from 10 million to 20 million or 30 million due to the Olympics, we think that it would be a possibility to match supply and demand for short term stays. There is need for an AirBNB-style business model for the Olympics, but as they conflict with the current Hotel Business Law of Japan, we think it is a difficult environment to develop such a model. It would be positive to match vacancies with foreigners and travelers, so we hope to move forward with lobbying and regulatory reform.

Q) You said that this is a period for investment. As you have set a 25% operating margin, could you let us know the time span you expect for moving from investment into recovery?

A) We expect to continue the 25% operating margin for 3 to 5 years. With development of the user share and smart devices, as well as investment in expansion of affiliated stores, we expect to recover investments quickly. It is with the development of new services for businesses that we expect it to take some time, as it will take time for them to use the product and boost sales. We would like to expect recovery within 2 to 3 years of the release. Overseas and new businesses have high degrees of volatility. In this field, there may be a decrease in our "batting average", so we want to prioritize investment with a high return-on-investment.

Q) Question about the use of smartphone apps. Could you tell us if conversion rates are higher with apps as opposed to browser-based transactions, or about what percentage of inquiries are from apps?

A) Including apps and sites optimized for mobile devices, we can roughly say that about half comes from smart

devices and mobile transactions. Since we expect this to increase in the future, we are focusing on development for smart devices. There is no notable difference with respect to conversion rates.

Q) You said in the mid term you will aim for a 25% profit margin. Abroad, there are companies in the same field with profit margins exceeding 50%. Is there some essential difference between them and your company, or are you aiming for the same?

A) Rightmove in the UK has about an 80% market share and is a price leader. Even if they raise prices, real estate agents have no choice but to follow them, so they have a very high profit margin. REA is a clear leader in Australia. We are also investing to become a clear leader in Japan. There is no significant difference in business model, but we are investing for mid-term growth in new business, business abroad, and services for businesses. If we were to stop this, we would quickly achieve 25% profit margin. We currently have about 600 employees, including 350 engaged in HOME'S business in Japan. The rest are back office or middle office (new and abroad), and are investments from the perspective of maintaining mid-term growth.