Next Co., Ltd. (2120)

Fiscal Results Briefing Summary for 2nd Quarter of Fiscal Year Ending March 31st, 2015

Date & Time:	Tuesday, November 17, 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:	35 people

<Overview and Review of Current Fiscal Year Business Strategy>

The slogan for the medium-term strategy is "Aim to be a Global Company with DB+CCS" (DB is short for "Database," and CCS is short for "Communication & Concierge Services"). We aim to be a Global Company centered on information recommendation services suited to the user's various needs, interests, and preferences by establishing an enormous database of homes, insurance, and interior design in Japan and abroad. We will aim to be No. 1 with respect to total number of listed properties, ease of use, number of users, and accuracy of information, all of which continue to be key points of our competitive strategy in Japan. Current business performance is favorable. We are positioning this fiscal year as a period for investment with respect to our medium- and long-term growth strategy.

In the medium term, we aim to have the No. 1 market share of the Internet-based home relocation services. In the long term, we aim for a 40% market share of all home relocation services. To achieve this, we will 1)prioritize making HOME'S the overwhelming No.1 domestically, and continue to invest by order of priority in 2) services for real estate business operators, 3) overseas projects, and 4) new projects.

Domestically, we will aim to dramatically increase match numbers and contract numbers between users and real estate business operators and 1) strengthen customer attraction efforts, 2) strengthen products, 3) enhance the database, and 4) strengthen business support services. In the medium term, we will 1) improve advertising ratios, 2) maintain or improve labor expense ratios by improving productivity, 3) absorb other expenses by increased revenue, and aim for a 25% operating profit margin.

In overseas business, in order to expand into many countries at low cost, we plan to expand into areas where Google is strong and areas with large populations of people speaking the same language, without establishing bases of operations there. We decided to acquire the Spanish company Trovit because it is consistent with this strategy.

<Financial Information from the 1st Half of the Fiscal Year Ending March 31st, 2015>

In the first half of the fiscal year, consolidated sales rose 13.1% over the previous half to ¥7,750 million. The total number of listed properties, a key performance indicator, averaged 44.7 million in the first half (up 5.3% from the previous year), and the number of affiliated stores averaged 11,862 (up

10% from the previous year). Both indicators showed strong growth. Operating profit decreased 19.1% to ￥1,144 million compared to the previous fiscal year due to advertising expenses such as TV commercials, advertising in trains, YouTube video advertising, and digital marketing costs, as well as strategic investment in sales agencies and service development costs, but they were still on target with the original plan, so this is not viewed as problematic.

With respect to sales by service, sales of new constructions and custom homes and renovations are being impacted by the increase in the consumption tax. Rental and real estate sales, our mainstay, showed strong growth of 16.3% compared to the previous fiscal year. Our real estate business operator services showed rapid growth of 48.1% compared to the previous fiscal year, thanks in part to the growth of our DMP service provided to developers. In other business, HOME'S Nursing Care grew steadily, and its first half totals were up 63.3% over the previous fiscal year.

Net assets per share increased 4.5% (+￥8.17). Temporary software accounts increased due to new services, a new core system, and web site renovation, with fixed assets increasing to ￥385 million.

Including fixed deposits, cash equivalents at the end of the fiscal year will be ￥8.5 billion, and we will continue to have no interest-bearing debt.

<Comparison between forecast and actual performance for the first half of the fiscal year ending March 31st, 2015>

Sales were slightly short of forecasts, but we changed our budgeting from conservative to neutral and believe that no significant deviation has occurred. Advertising costs increased because a portion of the budget for the second half of the fiscal year was used in the first half of the fiscal year. Operating profit was up 8.2% in part due to cost reduction efforts.

<Revision of rates for rental and real estate sales>

By increasing the minimum rates for rental and real estate sales, we aimed to eliminate the back spread from the cost of attracting customers, implementing a rate revision beginning October 1st. We abolished the volume discount rate for leases of 61 properties and more, and changed the rate for sales and investment of 6 properties and more to a uniform 0.03%. Unlike the rate revisions implemented in January 2011, we have not seen an effect of withdrawals caused by this change. We have a record high number of affiliated stores at 12,252, and the rate revision has completed without incident.

<Trovit x NEXT Group>

Trovit Search, S.L., which we have decided to acquire, is located in Spain and operates the world's largest aggregation site. It receives a supply of content from over 20,000 partner sites, providing information on real estate, used cars, and job listings in 39 countries throughout the world. It has over 600 sites as paid customers, and has 120 million posts (of which 86 million are real estate information). Its performance in 2013 converted to Japanese yen included sales of ￥2.45 billion and operating profit of ￥820 million. (Calculated at €1 = ￥140.) The considered acquisition is approximately ￥11.3 billion, and this cost is planned to be met with cash on hand and borrowings (￥7 billion in unsecured and unguaranteed borrowing from Mitsui Sumitomo Trust and Banking Co., Ltd.)

The aggregation site operated by Trovit aggregates information from a large number of portal sites and enables global searching of that information, then profits by sending customers to the source of the information they access. Trovit has top-class search engine optimization (SEO) technology, and by automating it, they have expanded from Spain to 39 countries, with about 47 million users per month. HOME'S has strong SEO technology with respect to big words and middle words (ex.: lease, sale, condominium, etc.) but Trovit has specialized in tail word SEO technology (the combination of multiple keywords). Next spring, service will begin for Trovit Japan (tentative name), and we plan to use Trovit's SEO technology to attract customers to HOME'S, as well as to provide information other than real estate, such as about automobiles and job listings.

We intend to expand our service deployment area with Trovit and combine its expertise with HOME'S expertise to strengthen sales and develop new products, as well as accelerate monetization as a group.

There will be three Trovit directors, their current CEO Iñaki, Next Co., Ltd.'s President and Representative Director Inoue, and Next Co., Ltd.'s international division officer. We also plan to dispatch other support staff from Japan.

Trovit's monthly sales are growing steadily. Its most recent cumulative performance for January - September showed 31.4% growth in sales, and a 22.6% increase in EBITDA.

<Revision of earnings forecast for the fiscal year ending March 31st, 2015>

We have revised the full year forecast to include sales of ￥17.895 billion (an increase of 3.8%) and operating profit of ￥2.162 (a decrease of 7.1%).

Sales are three months' of Trovit's sales plus ￥943 million. This is a decrease of ￥289 million due to the delayed launch of the interior design e-commerce site and the sluggish growth of HOME'S Move.

Income was revised down by ￥178 million in accordance with the interior design e-commerce site's revised sales figures. Goodwill from Trovit's expenses and acquisition is calculated (with 5 years' amortization) at -￥534 million. With cost cutting efforts, +￥111 million. Introduction of IFRS is planned for the next fiscal year, but if we move to IFRS, goodwill amortization will no longer occur.

Other sales, general, and administrative (SG & A) expenses will worsen by 1.3 points in accordance with the goodwill amortization. Personnel expenses will remain largely unchanged, but the acquisition of Trovit will result in an increase of about 90 employees.

This fiscal year's dividends are calculated based on the fiscal year's net income, excluding 1) Trovit's performance, and 2) the amortization of goodwill associated with the acquisition of Trovit's stock. At present, as there is no change to the initial forecasts not taking into account the effects of 1) and 2), we intend to increase dividends as planned, without modification. However, in the future, if there are changes to the fiscal year's net income excluding 1) and 2), we will reconsider and disclose any changes without delay.

Going forward, we will continue to aim to be a global company to create the worldview that we are aiming for and create a company that the people of the world will be glad to work with.

◆ ◆ ◆ 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.

Q) This question is future prospects about the service for realtors. A monthly surplus has been achieved in the DMP service. Please tell us about the current number of customers and unit prices, as well as the future growth.

A) The DMP service, as explained on page 69 of the explanatory materials, is a web marketing support service aimed at developers that leverages big data. We currently have a limited number of customers - only 4 or 5 companies - and we are increasing the data and information matching system while we run trials. Rather than selling a system, it also involves consulting, so rather than growing suddenly, we expect it to grow gradually at the current pace. It is difficult to quickly train personnel to do data mining and consulting, but since it is easy to profit from these endeavors, this business is sure to grow.

Q) This is a question about the prospects for Trovit in the next fiscal year and thereafter. I would like to know whether it is appropriate to assume that current performance will continue, or to assume their fourth quarter operating profit of ￥368 million will be multiplied by four for an annual operating profit of ￥1.4 - 1.5 billion, or if you are calculating based on some other assumption.

A) We believe that Trovit's growth so far will keep continuing in the same way. There are two things that we can do to contribute to its growth by taking advantage of synergy. One of these is to increase the number of countries of operation. In particular, from their perspective in Spain, Asia is a region that is difficult to understand, but since we are closer and understand it better, we can increase the deployment speed to Asian countries. The other is how to increase sales per agent, sales per portal, and sales per customer. Indeed Inc. is a similar case. In comparison, Trovit still has room for improvement with respect to attracting customers and sales conversion rate, so we would like to increase its profitability. If we increase Trovit's sales and profits, we have an opportunity for significant improvement.

The impact of Trovit's performance in this fiscal year is expected to increase fourth quarter sales by ￥943 million. After being consolidated in the next fiscal year, simple calculation shows that these figures will reach around ￥3.772 million. Amortization of goodwill will occur in this fiscal year, but with next year's migration to IFRS, the amortization of goodwill will no longer occur. Through this, annual operating profit is expected to reach ￥1.472 billion since fourth quarter operating profit being

￥368 million.

Q) In the previous dividend policy, 20% of the fiscal year's net income was to be allocated to dividends, but I think that the operating profit level will rise as Trovit is taken into consideration in the next fiscal year and we migrate to IFRS. Even with the move to IFRS base, can we expect to continue to see 20% of the fiscal year's operating profit allocated to dividends?

A) We are planning on the dividend payout ratio to be 20% of net income, including the consolidation of Trovit.

Q) This is a question about Trovit Japan, scheduled to open next spring. Which domestic sites do you plan to partner with for automobiles and job listings?

A) This will be addressed in the future and we cannot answer at this time.

Q) Please tell us about the current state and future expectations for the small- and medium-sized business services, such as the web site creation agency services for Renters.

A) We want to continue to enhance these services in the future. Currently, our second highest priority is investment in services for businesses. We are currently improving the sales features and plan to further improve sales for Renters Net. We have the DMP service that we just explained as a new area of investment for CMS web site construction tools and SNS, and we plan to focus on investment in other business support services as well.

Q) This is a question about the online migration of important items. Do you plan to focus on this area? I think that this is one area that will have a significant effect on small- and medium-sized business support.

A) Online migration of important items refers to making the key items available online that are necessary for real estate transactions including rental and sales, and must be explained while presenting identification by a registered real estate transaction manager. If it were to become possible for people in remote areas or people with physical disabilities to have these important items explained and conclude a contract from their homes, the market would expand, so this is currently being discussed in the industry. However, it is my personal opinion that at most this would affect about 20% of real estate transactions overall. As it spreads gradually, providing a service that enable simple online explanation of important items will become part of our business. This is considered to be something that could be implemented in a short period of time and for relatively low cost.

Q) With regards to the trends in sales by service, Next's rental and real estate sales services are growing even though new constructions are lagging due to the effects of the consumption tax increase. Since rental is of properties that are in stock, I expect that they would increase normally, but why are real estate sales growing even though we have not completely recovered from the tax increase?

A) The number of used properties has decreased slightly, but the unit price has increased. Against this backdrop, our affiliated stores increased, and the number of inquiries has increased, which works in our favor. When the consumption tax goes from 8% to 10%, new properties will be subject to the full 10%, but with the vast majority of sales of used properties, the seller is an individual and a brokerage firm is involved, so it is exempt from consumption tax as a high priced item. This creates a spread between new constructions and used, and we expect that demand for used properties will grow more in the future. As sales of used properties increases, the market will continue to change with related increases in home renovations. In response, we have focused on sales and promotions and our performance is growing.

Q) Firms such as Sony Real Estate are expecting growth in real estate transactions due to the online migration of important items. How do you plan to work with such companies? Are these different from companies that have physical stores, or do you plan to work with Sony Real Estate as a supporting company with listings, etc.? What is the current situation?

A) Sony Real Estate has attracted a lot of attention in the industry, and we are focusing on them positively. What they are probably aiming for, rather than being a discounter, is making satisfactory fees visible to consumers. We look positively on the fact that they have brought a new model to real estate, modeled after non-life insurance, where fees are collected only on the amount used or risked, and started a model that can easily gain users' support. Ultimately, we provide a service to collect information and match it to end users as a platform. There are many different real estate companies, and the end user's decision of which company to support is ultimately up to that user. By allowing users to see which model each company uses, whether users rate them highly, what scores they have with regard to customer satisfaction based on the past three years, etc., we hope to support users' decision-making. As explained on page 89 of the explanatory materials, we will set up a certification system to see which stores have the best e-mail response or which have hospitable sales staff, they will be rated using a star system on whether handling by the real estate company was good or not like with online restaurant reviews, and undercover investigators will actually go to the stores with an 80 item checklist to see which companies are the best in their areas. In this way, we will quantify which companies are the best in the country and convey that information to users in numbers that they can understand.

Q) I would like to know more about the impact of the rate revision. The number of customers decreased slightly but the unit price increased, so is it alright to interpret this to mean that the overall impact was minor? Since there were no withdrawals, will that lead to an increase in sales in the second half of the fiscal year?

A) There were hardly any withdrawals due to this. However, there are few customers in this area overall, so the positive factors are minor as well. Please understand that the ultimate purpose was to be able to make more investment in advertising.

Q) On page 20 of the explanatory materials, it appears that customers for companies building new constructions are increasing, yet it appears that the market for house building industry is quite harsh now. Is the reason that customers are increasing because large orders are increasing? What are the conditions surrounding this increase?

A) The future market conditions are expected to be quite harsh. Nevertheless, we do not have anything like a high 80% market share, so we can increase our number of customers in the usual course of business. Additionally, it may take time for major companies to become customers. We have been increasing the number of properties since around last summer of the previous fiscal year due to having gained these major customers.

Q) This is a question about the acquisition of Trovit. Is there any reason to be concerned that IFRS will not be able to be implemented? If there are any hurdles to its implementation, please let us know.

A) If there are any risks that it cannot be implemented, they are with regards to the time needed for preparations. The schedule has already been set with the related parties, such as the auditors, and we have set our sights on building a system whereby Trovit can support it. It is possible that the timing will shift slightly for some reason or another, but this shift would only mean approximately the difference between an April start and a second quarter start. In the next fiscal year, we will make our disclosures simultaneously based on the Japanese accounting standards and IFRS, but this is only a change in appearance and the management itself will remain unchanged.

Q) It is clear that the acquisition of Trovit is beneficial for Next, but from Trovit's perspective, it seems it would be to their financial benefit to do an IPO, rather than be bought for this cheap price. I would like to hear your opinion about why they decided to be bought for such a cheap price.

A) I can only tell you my personal speculation, but it appears that they were looking for a partner so that they could rise up and become a global company. If their intent was to exit the market, the management would not remain, but in this case the management has remained. I believe that more than price, they focused on which company they wanted to partner with. Exerting the synergy between both companies will allow them to develop globally and improve significantly overall. I believe this is what they focused on. If that were not the case, they would have had vastly greater monetary valuation if they had sold the company to an investor company.