

NEXT Co., Ltd. (2120)

Second Quarter Financial Results Briefing Summary for the Fiscal Year Ending March 31st, 2016

Date & Time: Monday, November 16, 2015 1:00pm - 2:00pm
Location: Our meeting room
Our Attendees: Takashi Inoue, President and CEO
Daigo Minaguchi, Managing Officer and General Manager of Corporate Management Department
Hidekazu Fukuzawa, Deputy General Manager, Business Control Div, Corporate Management Dept
Attendees: 54 people

< Key Points >

We delivered strong 2Q results for the fiscal year ending March 2016. Our key performance indicators, i.e., consolidated sales revenue, EBITDA and net profit registered YoY increase.

This 1H, we have been continuously aiming to be the absolute top player in Japan and releasing variety of new services. We have been also aiming to further expand our user share by increasing the points of contact with users.

In June, Lifull Marketing Partners (former AXELION, hereinafter referred to as “Lifull MP”), a consulting and advertisement agency for real-estate developers, became our consolidated subsidiary. Our intention is to further strengthen our sales activities in new houses business by having our HOME’S Newly-built Condos Team working together with Lifull MP.

The transaction of issuing new shares of stock through a third-party allotment to Rakuten, Inc was completed. We have financed about 4 billion yen through the transaction, which will be used to improve our balance sheet and strengthen our business alliance with the company.

< Highlights of Financial Results for 2Q >

Our growth has been gaining momentum, which is highlighted by the following performance indicators. Revenue for the 1H was 11,899 million yen (up 53.5% YoY), EBITDA was 2,289 million yen (up 70.9%) and net profit for the 2Q was 1,234 million yen (up 73.1%).

If you look at reference data (average during the 1H) of Rental & Real Estate Trade, which is our core business, total number of listed properties achieved faster growth and recorded 5,242 thousands (up 17.2%). As increasing number of small regional stores, etc..., becoming our affiliates, total number of affiliated stores also increased significantly, achieving 16,065 stores (up 35.4%). Though average revenue per store slightly declined to 56,281 yen (down 6.0%), we aim to make a recovery in the future.

< Simplified Income Statement >

Advertisement slot purchase fee has been added to Cost of Sales since Lifull MP has become our consolidated subsidiary. Personnel cost increase is due to the 150 newly-added headcount of our consolidated subsidiaries, Trovit and Lifull MP. Advertisement expenses increased since Trovit is now consolidated. Operating Expense increase is due to the utilization of sales proxy service in addition to our direct sales channels.

Revenue recorded a significant growth of 65.3% YoY on a quarterly basis.

If you look at sales breakdown, sales cost & other SG&A for the 1H increased by 1.8 points from the previous year,

which was in line with our estimate. Advertisement expenses and personnel expenses both declined by 1.9 points. We will keep improving the advertisement expense ratio to achieve our mid-term EBITDA target of 28%.

< Sales by Service> All segments recorded double-digit revenue growth.

Domestic Real Estate Information Service: Our main business, Rental & Real Estate Trade, continuously performed well and the revenue grew by 27.3% compared to the same period last year.

New Houses & Condominiums: Revenue grew by 10.7% as a result of making effort in sales activities although the number of listed properties decreased following the market trend of new condos selling 5.1% less than the same period last year.

Custom-made Homes and Renovations: Back on course for recovery. Monthly revenue has started to be greater than the same month last year in September. Custom-built Homes has started to trend strongly after the website was renovated in October.

Others: HOME'S Nursing Care Service has been continuously performing fairly well.

Overseas: Revenue increased significantly after consolidating Trovit.

By segment, income generated by Domestic Real Estate Information Service and Overseas Real Estate Information Service were 1,458 million yen (up 18.8%) and 434 million yen (it was negative 60 million yen in the previous quarter) respectively. We achieved a huge growth both in the domestic and in the overseas markets.

<Status of Statements of Financial Position> Liabilities decreased significantly after repaying debt through a capital increase.

Major factors for the increase in fixed assets were costs to develop HOME'S PRO Property Distribution and other services for realtors and to overhaul our internal backbone IT system.

Goodwill for Littel was 86 million yen, Trovit 9,402 million and Lifull MP 251 million yen. For reference, depreciable asset (PPA) of Lifull MP was 292 million yen.

All in all, outstanding balance of cash and cash equivalent as of the end of the 1H was 5,759 million yen, increased by 1,491 million yen during the 1H.

< Business Strategy>

We are aiming to develop a platform which will bring a revolution to the real estate market in Japan.

Our highest priority is to be the absolute top player in the domestic real estate information service business and the second highest priority is to further strengthen our services for realtors to support their daily business.

As for Domestic Real Estate Information Services, we aim to expand our user share and increase the number of affiliated realtors. While, with regard to Services for Realtors, we will further enhance penetration and improve the functionalities of the existing services while focusing on developing new services.

The Basic Strategy chart is illustrating how the platform will be built. It is like users and realtors are going to complete a jigsaw puzzle together. One piece of the puzzle represents a service required by either users or realtors and those pieces are going to be fit one after another to realize the big picture.

Our aim is to make HOME'S a one-stop website where all necessary information related to real estate are provided.

The latest total number of properties listed on HOME'S was 5.62 million for Rental and Real Estate Trades, 6,794 for

Newly-built Condos and total number of affiliated realtor marked the record high 16,777 stores. We aim to continuously increase the number of listed properties and to make HOME'S service available anywhere in Japan.

β version of "HOME'S PriceMap" (<http://www.homes.co.jp/price-map/>) was released in October to further improve the transparency of real estate prices. Currently, referral prices of 160,000 condos in the metropolitan areas are listed on the website, and the plan is to expand the geographical areas and to also list rent prices, etc... in the future. For those users interested in more precise latest market price after checking a referral price on the website, there is a link to transfer to HOME'S asset sales website. In Japan, property market price has been something not always available in the market, but we aim to develop an environment where market price of all properties for sales/rent in Japan will be available in the future.

With the aim to make HOME'S a one-stop counselor that can provide any necessary information related to real estate, we have launched HOME'S My Home Counter service as a pilot, where people considering of building a custom-built house can stop by and ask related questions to experts or get housing contractor referral. In addition to the website service, which has been our mainstream channel till today, we aim to further enhance other user touchpoints including telephone, face-to-face and SNS, etc...

In August, we launched HOME'S LIVE service to join the social experiment of providing important information concerning real estate rental/sales contract on-line when a contract is concluded. Users are no longer required to travel to sign off a contract by utilizing this service.

In July, we launched HOME'S PRO Property Distribution service. On this website, realtors can exchange property information in a timely manner with no charge (the service is for free to HOME'S affiliated realtors). Once a realtor or a realtor sales rep registers conditions of a property they are looking for, they will receive a notification as soon as a property meeting such conditions becomes available. In addition, realtors can exchange messages, search for properties on the website and use the website as an internal communication tool. We will continuously provide support for realtors by making HOME'S even more convenient platform to do their job.

The number of clients of NabiSTAR, our DMP service for developers, increased 2.3 folds compared to the same month last year. Client developer will receive a personalized information utilizing supplemented data by combining HOME'S and developer's audience data.

Now, utilizing acquisition of Lifull MP as an opportunity, we will strengthen our sales capability by integrating our Newly-Built Condos Team with them. Lifull MP has been providing a suite of services for developers including advertisement planning, creating marketing tools to support sales and providing access analysis. Before the acquisition, HOME'S was getting involved with their business only at the timing when they were placing advertisement but from now on, HOME'S aims to get involved from an earlier stage of each project as a partner to provide a one-stop services utilizing Lifull MP's consulting knowhow.

In overseas, we will aim to keep the current momentum of expanding Trovit operation and HOME's model in four and two new countries respectively on an annual basis. Since both population and number of households are expected to

decline in Japan in the future, we will build the foundation of our global business now to be prepared for the time when a global platform is going to be required for real estate investment.

We have deployed the HOME'S model in the fourth country, Australia, by launching real estate portal website.

Trovit is already doing business in 46 countries, which will keep increasing in the future.

Our priorities in the 2H are listed on the 2Q earnings presentation material.

As for Domestic Real-Estate Information Service Business, we have renewed HOME'S Custom-built Houses Website in October and launched HOME'S My-home Counter. In addition, we aim to strengthen our sales force in regional areas by making use of contracted employees.

For realtors, we will launch a smart viewing system utilizing a smart-key.

In overseas, we have released a real-estate portal website in Australia.

Year-end and new year season is our peak period. Approaching the peak season, and in line with our marketing strategy to keep expanding the user share, we are planning to make a large scale advertisement investment.

Following the TV commercial we aired in August, we will air a different version of commercial this time, featuring Mr. Ninomiya of Arashi (popular singing group). With a message "What I am looking for is my future" we will communicate a concept that we will provide support for each individual to secure better living environment in the future. Total number of potential household viewership is more than 30 million. We will analyze ROI for each investment in a detailed manner and build the recognition effectively by combining TV advertisement with other advertisement methods including advertisements on the train, on-line movies and flags.

< Full Year Performance Forecast and Progress >

For the 1H, revenue was 11,899 million yen, EBITDA was 2,289 million yen, achieving 45.5% and 44.5% of the full-year forecast respectively. All business segments overachieved their own revenue forecast for the 1H. One business segment achieved more than 50% of full-year net profit forecast but since this was due to some expenses payment delay and since we are likely to end up in line with the forecast at the end of the year, we will not revise the full-year forecast at this moment.

Our mid-and-long term target is to achieve EBITDA margin of 28%. We will improve the profitability by spending less advertisement and personnel costs.

We aim to keep providing exact information each individual user is looking for by utilizing our platform not only here in Japan but across the world.

◆ ◆ ◆ 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) I believe one of the benefits you can enjoy by consolidating Lifull MP is to get yourself involved with their business from an earlier stage, for example, by providing inputs from the development stage. Since the acquisition, have you already made some collaboration and been enjoying synergy effect as a result? When can we expect to see the positive impact on, for example, your monthly revenue?

A) The consolidation took place in mid-October, so we are still in an early period but we are already enjoying some

impacts such as receiving a large-scale order by a major developer asking us to not only develop the website but also to provide marketing support and select appropriate advertisement media. Since we can now get involved from a hearing stage, our DMP client has been also expanding.

The business is part of Service for Realtors, but since there are variety of factors included, there is no single figure which will simply tell you how the business is performing. I will recommend you to check Service for Realtors and New Houses and Condos figures to understand the business performance.

Q) What are you trying to achieve on a long-term perspective with the HOME's PriceMap? Is your aim to increase the number of users by providing a convenient website for those who have a plan to sell/purchase property? Or to bring a revolution to the industry's business model by developing an environment where people can purchase properties at much lower prices if they purchase via your website?

A) We are expecting to enjoy a marketing impact. When the U.S. largest portal Zillow launched a similar service a few years ago called Zestimate, their traffic increased significantly. Talking about expanding the potential market size, we are expecting this may happen as well since users are sensitive to prices, those users who never thought about moving into new house may start thinking about it after seeing attractive prices on our website. We do have other ideas in our pipeline including an idea of price search engine but there is no specific idea we can disclose for today.

Q) With your HOME'S PriceMap service, do you have this future image that if you keep getting more property information on the website, you will receive more inquiries, enjoy more inquiry fees and as a result will be able to increase your revenue?

A) We will be able to enjoy certain positive impact with the scenario you mentioned, but the size of the impact should be limited. Because I guess, since we are already listing about 350,000 second-hand property information, even if we keep accumulating additional information utilizing property price inquiries, the additional number of information we may acquire will be no more than 50,000. But we do expect that the number of inquiries will increase by listing more quality properties.

Q) You are now bringing your HOME'S Model into overseas markets and recently have launched the service in Australia. Are you already enjoying any synergy effect by having Trovit in the market?

A) It takes time to develop a media. But in a market where Trovit is already in place and have some traffic, it will take less time for HOME's to start up since we can utilize the traffic. And it was the case in Australia. We will keep targeting such areas, where we can start-up quickly and where the market size is big when we enter into a new market.

Q) Until now, it was taking a long time to break-even every time you launched HOME'S model in overseas. Are you planning to break-even earlier this time?

A) We have changed the way how we spend expenses. Until now, we were starting from establishing local companies and offices, dispatching management teams from Japan and hiring local staffs. But the plan we have for Australia is, we

start without establishing a local company, we send people from Japan to work on transactions and develop the business from here in Japan. And once we gain confidence with the business, then we will establish a local company.

Q) Which of the three business segments of Trovit, real estate, people and used-cars, is growing and in which market Trovit is growing in terms of revenue?

I would like to also know how the revenue is going to grow in the future and what is the fuel to make the business grow because although I know the growth pattern so far has been repeating the cycle of keep growing for a while and then be flat for a while before it resumes to grow, I also know a pattern of Indeed (a company owned by Recruit), whose revenue started to grow dramatically after exceeding a certain point.

A) Real-estate segment, which was our core target of the consolidation, has been growing the most followed by people, which has also been performing relatively well. Used-car is our third priority. Talking about the market, in Latin America, the business has been performing well in Brazil, Argentina and Mexico. In Europe, where the business has been originally performing well, Spain, Italy, the U.K., France and Germany have been growing.

Since total revenue will increase by either increasing the number of total traffic by increasing the number of markets we do business or by increasing the ASP, or by increasing the both, we will take measures to make sure we increase all of the three figures mentioned above.

Q) I think HOME'S PriceMap is convenient for users but I am not sure whether it is convenient for realtors or not. Is the website a competitive environment for realtors? In other words, is there any possibility that realtors may not be able to attract users if they do not list their properties on the website? Is this website all about property price referral or is any kind of synergy effect taking place between realtors and users on the website?

A) We just wanted to improve the transparency of property prices by providing HOME'S PriceMap service and wanted to make it a one-stop website where all information related to real-estate are provided. So we have no intention to force realtors to join the service.

What we are expecting now is the marketing effect and the effect to convert some users to make property price inquiries. In the future, we are expecting one or two additional effects for both users and realtors. For example, something that will help users making their decisions, or, sending property information in a timely manner once users register their preference/conditions for properties they are looking for, or further in the future, we may be able to provide a system for realtors to help their decision-making on which property to buy, but this system will be designed for investment-purpose property transactions.

Q) After consolidating Lifull MP, now you can get yourself involved from an earlier stage of development including candidate site selection. But does this mean you can even provide advices on which land is attractive enough to buy? At the end of the day, I think the base is similar to your PriceMap service.

A) Yes, we aim to do so though the hurdle is very high. We would like to be able to make proposals saying "At this area, a property with these specs with maximum price of one tsubo being this much will see a very strong demand" utilizing our log-data and search query data.