

NEXT Co., Ltd. (2120)

Outline of Briefing on Financial Results in Q3 for the Fiscal Year ending March 2016

Date:	Monday, February 15, 2016 1:00pm - 2:00pm
Venue:	Meeting room of NEXT Co., Ltd.
Attendees of NEXT:	Takashi Inoue, President & CEO Daigo Minaguchi, Managing Officer, General Manager of Administration Kazuhiro Yoshida, Corporate Communication Group, Business Control Division
Number of attendees:	54 people

< Key Points >

Financial results in Q3 for the fiscal year ending March 2016 progressed smoothly both in Japan and overseas as planned in the beginning of the period, and increases were recorded both in sales and profits. Sales revenue for Q1-Q3 increased by 50.6% over the same period of the previous year, and EBITDA and Quarterly profits attributable to owners of parent company increased by 55.3% and 51.5%, respectively.

In order to revitalize the entire real estate industry, NEXT formed a capital tie-up with JG Marketing Co., Ltd. in January 2016 to establish a real estate investment platform. We will enrich and develop the already-released “HOME’s Price Map” in order to make the real estate prices transparent.

The number of subsidiaries in Japan and overseas increased to 15, and the number is expected to increase further in the future. Therefore, we established the Lifull Bizas Co., Ltd. shared service center in Kochi Prefecture so as to strengthen the function of the back office for the group companies in preparing for continued growth.

<Financial results for the first nine months of the fiscal year ending March 2016 >

Sales revenue for the first nine months of the fiscal year ending March 2016 was 18,180 million yen (+ 50.6% y-o-y basis), and EBITDA and quarterly profits were 3,596 million yen (+55.3%) and 1,928 million yen (+51.5%), respectively. The company has been growing progressively thanks to growth in existing business, and grouping and affiliate companies in Japan and overseas.

Regarding the reference data of our key business “Rental and Real Estate Trade” (the average for 3Q), the total number of listed properties was 5,474,000 (+16.7%), and the number increased to 7,470,000 in the most recent statistics. Although the average revenue of the affiliated stores has been decreasing due to an increase in memberships of local small-scale stores, the number of affiliated stores increased significantly to 16,439 (+36.6%).

<Simplified Profit Loss Statement>

Due to consolidating Lifull Marketing Partners (hereafter referred to as Lifull MP), purchases of advertisement increased the costs of sales. Personnel costs increased as a result of an increase of 245 employees, including those gained since Trovit and Lifull MP were consolidated. In addition, advertising expenses increased due to the release of new TV commercials and the start of consolidating Trovit.

Regarding the composition of sales revenue for the first nine months, the rates of both cost of sales and other SGA worsened by 1.2 points as expected, due to inclusion of Lifull MP. The composition of advertising expenses improved by 0.4 point. Personnel expenses improved by 1.4 points, due to revenue increases and productivity improvement, in spite of an increase in the number of employees from 633 on a consolidated basis in the 1H to 878.

<Sales revenues by service category> Sales increased by two digits in all segments

Domestic Real Estate Information Services (+18.9% y-o-y basis): In our core business, Rental and Real Estate Trade, revenue increased by 25.9%, as the amount of website traffic and inquiries increased. The number of affiliated stores increased by 3,140 to 17,584, as a result of strengthening promotional and sales activities. In the area of new houses and condominiums, although the number of listed single-family homes and condos decreased because of the impact of a decrease in the number of sales of newly built condominiums by 9.9% in Apr-Dec, sales revenue increased by 7.5% thanks to sales efforts. The category of custom-built homes and renovation business has been on a recovery trend. As a result, since last September, the sales results have been increasing compared with the same month of the previous year. Sales of custom home information can be expected to grow in the future, as the website was renewed last October. In other categories, sales revenue from “HOME’S Nursing Care” have been brisk, and the number of listings expanded 1.4 times that of the previous year. The website of “HOME’S Renovation” was updated last December.

Services for Domestic Real Estate Companies (+230.4%): Revenue increased considerably since consolidation of Lifull MP started in June 2015.

Overseas business (+898.7%): Revenue increased substantially since consolidation of Trovit started in December 2014.

Other Services (+56.1%): Sales of Lifull FinTech and Lifull Space, both of which became subsidiaries of NEXT, have been increasing steadily.

The progress rate of sales revenue to business performance forecast for the full fiscal year was 69.5%, meaning it is proceeding mostly according to plan. Considering that January-March is the busy season for renting properties, the rate has been progressing smoothly.

Although expenses for establishing Lifull Bizas have recently been incurred, the company is scheduled to contribute to profits in the medium term as it makes operations more efficient, etc.

Regarding profit and loss by segment, both the Japanese and overseas real estate information service business have been growing, to 2,475 million yen (+14.4%) and 481 million yen (-85 million yen in the 9 months in 2014), respectively.

Bonuses for overseas subsidiaries were appropriated in December 2015 in a lump sum. These are allowances for retention bonuses for current management members, which will be paid if the goals are achieved.

<Statement of financial position>

Net assets were 16,729 million yen, as liabilities decreased after the Group repaid a loan to Rakuten, Inc. through third-party share allotment in July 2015. Fixed assets increased thanks to the development of services for the real estate companies, including “HOME’s PRO Property Distribution,” and an overhaul of NEXT’s internal backbone IT system.

Concerning goodwill, Littel Laboratory was 86 million yen, Trovit was 9,179 million yen, and Lifull MP was 251 million yen. As a reference, the purchase price allocation (PPA) of Lifull MP was 276 million yen.

As a result, cash and cash equivalents in the first half of the fiscal year increased by 1,660 million yen to 5,928 million yen.

<Topics in Q3>

The total number of properties listed on HOME'S was 6,720,000, which has steadily increased to the current 7,470,000. Our efforts to cover all information have quietly been progressing. The number of affiliated stores is increasing favorably. In particular, sales in local areas were well cultivated by contract employees, which constituted a large network with 17,584 stores.

The Group has been actively engaging in promotional activities. It is continually placing ads on the largest scale with media franchises, such as Transit Advertising and Out-of-home (OOH) media, including vehicle wrapping (wrap advertising) and large electronic billboards in downtown areas. New, creative TV commercials featuring Mr. Kazunari Ninomiya are popular. A combination of multi-faceted events and promotions, including campaigns and events in cities, has enhanced the degree of name recognition of HOME'S, thereby leading to an expansion in the number of inquiries.

<Business strategies>

The image of the mid- to long-term growth strategy of the NEXT group is, first of all, to reform the real estate industry, invigorate and expand the market, then develop into a global platform.

Concerning the first stage, “reforming the real estate industry,” we have come to feel that there have been many non-transparent aspects in the real estate industry since the inauguration of the company. Therefore, in order to visualize them, NEXT has been engaging in the following projects:

- 1) List all properties in Japan on HOME’s, covering the information comprehensively.
- 2) Make property prices open through the use of “Price Map.”
- 3) Visualize property values, including not only the ages of buildings and their specifications, but also other information such as seismic performance, additional investments in renovations, architectural design and geographical conditions; then, form an inspection network enabling performance assessments on properties.
- 4) Visualize evaluations of realtors, namely, which real estate agencies fulfill the functions of agencies more sincerely and appropriately as professionals.

In addition, we believe there is a lot of room to streamline and make operations more efficient at the real estate companies by using ICT. Therefore, we will assist with improving the efficiency of services through the provision of systems and applications.

For the second stage, “revitalization of the market,” the group will develop the usage of vacant houses, the number of which will increase further in the future, and monetize unutilized assets so they become profitable. More specifically, we will promote deregulation to create a sharing economy, where we can utilize such assets as adult daycare centers, small nursery schools in inner city areas and minpaku, or accommodations that make temporary use of residences. In local areas where the number of vacant houses will continue to increase in the future, we will facilitate regional revitalization by converting old Japanese-style houses into lodging facilities or cafés.

Moreover, as a part of developing an online system so that real estate transactions can be handled using fewer people, the company currently offers a system for demonstration tests for explaining important matters.

In the third stage, “market expansion,” NEXT is eager to enable ordinary people to use real estate as an investment target, rather than for usage only. We have already been running the website “HOME’s Real Estate Investments” for this purpose; however, we are also devising a platform for investment-type crowdfunding.

For instance, suppose we plan to turn a vacant house into an adult daycare center for people who can visit to receive rehabilitation services, to meet the needs of the region. If such a renovation costs 10 million yen, we would like to prepare a mechanism in which people can invest on a small scale, such as 100,000 yen per share, with the profits to be returned to investors according to the number of funded shares.

In the fourth stage, we will make these platforms usable throughout the entire world.

What NEXT aspires toward is Real-estate × Technology = “ReTech”

We aim to be a platform that transforms the real estate industry through reinvigorating the real estate market, which has similar characteristics as financial markets, by using information technology.

The priority ranking in investment remains stable, and the contents the company has been focusing on have been progressing well.

Therefore, we will develop the remaining segments of services on the conceptual chart of our basic strategy on page 21 in the briefing handout, and, we hope that when we realize these developments, the services of HOME’S will be an indispensable platform for the industry.

In the category of Domestic Real Estate Information Services, in the third quarter, we renewed the website for custom-built homes in October and the website for property renovation in December, with the aim of expanding the market share.

So far, HOME'S has used the Internet as its primary information provision channel, particularly through the websites. NEXT will continue its efforts to maintain its absolute No. 1 market share in this field, while seeking to gain 40% of the moving market. Additionally, the company launched a house-hunting support center, through which we assist customers by providing information over the telephone. In October of last year, we initiated the operation of "HOME'S My Home Counters," where we can introduce engineering firms and real estate companies, while consulting with customers face to face. In this way, we will solve issues users have by multifaceted omni-channels, and continuously provide services to customers, so that they can ultimately conclude the optimal contract for their homes.

The group will expand the "HOME'S Price Map" system to facilitate transparency in prices. At present, reference prices for transactions for 160,000 condominiums in the Tokyo metropolitan area are listed in HOME'S Price Map, but this spring we will expand the coverage of the Price Map to include reference rent of rental condos in the Tokyo metropolitan area. Our ultimate goal is to make available selling prices and rent for all condos across Japan.

With regard to increasing the number of affiliated stores, contract employees have been actively engaging in business activities to cultivate realtors in local areas.

Regarding services for domestic real estate companies, some new products and services are scheduled to be released. One of them is the system called "KIND," by which people can update and register their information in one step on the website related to nursing care facilities.

With regard to the fusion of various technologies and house hunting, we are scheduled to release the new "GRID VRICK" service that enables customers to create 3D computer graphics of the rooms within about one second, by assembling different colored blocks with colors identified by the program. The computer graphics will be instantly updated whenever customers change the blocks that make up the rooms. This program will therefore be applicable to services that customers can use to create images of custom-built homes, look at images of their homes after completion of renovations, and go on virtual tours of properties located in remote places.

We also plan to provide a "smart viewing system," through which NEXT will enable our customers to access keys to properties using their smartphones on a temporary basis so that they can tour the sites by themselves without having to be accompanied by sales staff.

With regard to overseas business, NEXT currently operates in 46 countries, aspiring to be a global platform. The company has newly launched a feasibility project for the HOME'S model in Australia. We would like to continue to increase the number of countries in which our business operates by about four countries per year on average.

With regard to a new business field, Lifull Space is scheduled to release a service to guarantee rent payment specialized for rental storage rooms. Although there are many companies which provide services to guarantee rent for rental properties, services specializing in payment for rental storage rooms are not offered by many companies.

It's a niche area for which we would like to make efforts to be No.1 in the field.

Lifull FinTech has acquired status as an insurance broker. Previously, the company only offered functions to search and make appointments with insurance agencies. From now on, the company will establish a system to directly sell insurance policies as an insurance agency.

In addition, NEXT formed a capital tie-up with JG Marketing Co., Ltd., which engages in the crowdfunding business, in order to expand in the real estate market. In Japan, the number of vacant houses that are unutilized assets has been increasing. As it will be necessary to reform, renovate and prepare their interiors to develop them for usage and monetize them, there is a need for financing. Therefore, both NEXT and JG Marketing will work together to create a platform for this area in the future.

Moreover, the company aspires to establish a foundation to facilitate investment in the real estate industry as a result of the increase in the number of properties that can be monetized, such as lodging facilities and cafés, even though Japan's population is in a downward trend.

Sales revenue of the group has stayed at a record high. Although we experienced a stagnant period as it took two to three years to improve our business model, NEXT has been growing since then as if it were in a second growth period, and is continuously renewing historically high sales revenues, partially as a result of the acquisition of Trovit and Lifull MP.

NEXT established Lifull Bizas Co., Ltd. to streamline back office operations in Kochi Prefecture to support the increasing number of group companies. The company started with about 30 employees. As the NEXT group's back office, it is now going to be in charge of operations to support global growth of the entire group in the future.

We believe the source of competitiveness lies with people. As we seek to be a company where people most want to work, we will share our vision with workers, vitalize the organization, support diversified work styles, and provide opportunities to employees for challenges and growth, with a desire to produce innovative services from the NEXT group.

Thanks to such a vision, the company was selected as a recipient of the 2016 Healthy Management Issue in the service industry category, an award given jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange to listed companies with healthy management. Moreover, the company has been recognized as a "Great Place to Work," from the Great Place to Work® Institute Japan for six consecutive years. Based on the belief that people are the source of competitiveness, the group will continuously invest in human resources.

The group aims at increasing sales revenue further through these measures, with an eye toward achieving 28% in EBITDA margin for the medium term.

◆ ◆ ◆ 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) Sales in the category of Rental and Real Estate Trade have been increasing since autumn last year, thanks to favorable conditions brought by SEO. What kind of measures do you plan to take to maintain this growth, after this effect fades out? Do you expect to keep this high growth rate in the next term by strengthening commercial advertisements?

A) The SEO effect certainly increased the number of customers, but we also continuously use charge methods for attracting customers through TV commercials and digital marketing. We also will employ the omni-channel marketing method, as mentioned in the handout. Previously, NEXT attracted customers through its website, creating a sensation, and monetizing. We will attract customers we have been unable to reach through our traditional methods by adding telephone calling and face-to-face counter services, with the intention of producing profits.

Although NEXT's market share for rental properties has been increasing, there is still a lot of room to increase the shares in the newly built, custom built and renovated property categories. Hence, we plan to enhance our share in these fields by promoting NEXT in all categories. We believe we have many opportunities to improve our position.

Q) What is your prediction about your business in the Rental and Real Estate Trade? Do you expect its growth rate of revenue increases will decline in next period and beyond this period? Or do you forecast its continuous growth, as in the case of newly built properties?

A) We haven't disclosed our plan yet, but we hope to maintain our growth rates both in rental and used properties.

Q) Please let us know about the current order receipt status of Lifull MP. In which areas can you identify the synergy of the acquisition?

A) The business of Lifull MP has been growing continuously and smoothly. The area we see synergy in is consulting. Sales representative in the sales section of HOME'S were unable to provide any consultation services to some clients, but Lifull MP has its own consulting capabilities. In addition to the HOME'S media, we are able to provide products by offering comprehensive media consulting services for the creation of other competitors' advertising products or websites. We think we now have more customers to whom we can offer such full service.

Specifically, we have already started making achievements such as to the provision of full-package services for a leading developer affiliated with Zaibatsu, which is a different style from our conventional transactions.

Q) A question about Trovit. In the beginning of the period, I thought its performance would be more robust, despite your conservative business forecast. After there was a change in CEO during the term, did the business performance of Trovit change from the plan set out in the beginning of the period for better or worse?

A) The departure of the founding manager from the company didn't have much effect on performance. However, changes in the foreign exchange rate were different from the projection. Progress of the company in local currency (Euro) is as planned.

With regard to the tasks Trovit needs to tackle in the future, the first should be to strengthen its sales activities. Staff members increase the number of real estate listings by using Crawler and attracting customers through long-tail SEO. However, these sales activities are not sufficient, so we plan to train the staff by conveying NEXT's know-how to increase the sales of each company.

Secondly, the structure of customer attraction has been changing, from PCs to mobile devices, and now to mobile device applications. I think we have been doing well to keep up with these changes, but until now a considerable part of the revenue was from AdSense on PCs. As the amount of traffic on PCs is in a declining trend around the world, we plan to increase revenues from mobile devices.

The third task is to release new large-scale products. So far, the main charging method has been CPC, but Trovit will release the new products Adpage and real-time bidding Rocket and sell them around the world.

In summary, we are seeking to reinforce sales and increase revenue with new products. The company has been shifting its methods to attract customers, while the structure of traffic has been changing.

Q) I have a question about "HOME'S Price Map." You mentioned that it's going to evolve further, but what achievement has it realized at present? I presume, in terms of selling, an increase in cases of assessment on selling will facilitate investment, but I would like to know how it will impact rental properties, as their average revenues are lower.

A) NEXT hasn't launched large promotional activities for "HOME'S PriceMap" yet, because the site currently only lists transactions for condos in the Tokyo metropolitan area. As a result, Price Map didn't bring about a rapid increase in the number of assessments on selling properties. We hope to use the site especially to influence the attraction of customers to rental properties. When customers see that the rent for real estate in which they are living is relatively expensive compared to properties in their neighborhood, they can consider moving into another condo using HOME'S. We hope to see such effects through marketing, which is our original goal.

Q) I would like to ask a question about sharing. JG Marketing uses crowdfunding. As we are seeing a significant move toward minpaku, I presume NEXT is in a stage that the company has been considering minpaku inside of the company. Do you have any plan for the future to self-manufacture products in other areas or to make a large capital tie-up with other companies, like you did with JG Marketing?

A) JG Marketing has been using donation-type crowdfunding including JustGiving (or JapanGiving in Japan), Shooting Star and purchasing-type crowdfunding. I am aware that no company employs crowdfunding for real estate investment as its platform in Japan, except in cases where some crowdfunding companies invest in old

Japanese-style houses on a small scale. In the future, we will create a platform that can be commonly used in a large market, by taking advantage of the resources of JG Marketing and NEXT.

Though such development applies to cafés and adult daycare centers, the target that will have the largest impact is minpaku. I believe minpaku will be allowed in any form in the future, based on observing the current moves of the Ministry of Health, Labour and Welfare, and the Ministry of Land, Infrastructure, Transport and Tourism. We will therefore prepare to provide our service for these, once minpaku is allowed.

Q) What do you think about the cost-effectiveness of advertising expenses? Do you expect to have an effect by increasing the expense level in the next term more than in this term? Or do you plan to suppress the growth? It might be difficult to fully comprehend the quantitative cost effectiveness, but I would like to know your future outlook on your evaluation of cost effectiveness.

A) We roughly estimate our advertising expenses have been 30% for sales, with 32% as the highest rate during the period of highest spending. We plan to improve the EBITDA rate, while improving the rate by about 1% every year in the medium term. According to the most recent statistics, the rate for the first nine months of the fiscal year was 27.8%, which shows some improvement. The advertising expenses will increase in terms of amount as sales increase, but we will lower the sales rate. This trend will be maintained in the future as well. We are confident with our method of analyzing the effects. We created our own simulation model for investment, so that we can understand the repercussions of the annual 6 billion yen in investment, such as what kind of impacts will be produced in which areas by investing what amount where. We also can forecast ROI in detail.

Q) My question is about the average revenue of the affiliated stores. What accounts for the company's performance at present? Do you have any measures you plan to take for the future?

A) Concerning the average revenue of the affiliated stores, we are continuing to expand the number of inquiries as media based on our existing policy.

The company has been launching new services for businesses one after another. By increasing effectiveness in operations of the real estate industry, we can create an environment where businesses can easily conclude agreements. This move will directly be linked to earnings of real estate agencies. NEXT will therefore aspire to increase the average revenue across the whole picture, shown on page 21.

Q) When do you expect to see the impact of an average revenue increase on the business performances of NEXT?

A) The company provides application and network services called HOME'S PRO, though those are free now. Once we succeed in increasing the number of affiliated agencies in the future, which are the users of services and the system, we will be able to produce earnings. We are still in the stage of increasing the number of users in the current and the next financial terms, but after that we hope to start making profits.

Q) This is a question about the average revenue of the affiliated stores. Have you considered increasing the base directly for the time being? I believe the presence of NEXT at affiliated stores is enhanced because of your various approaches for enriching services.

A) It depends on the service. For example, all enterprises will need services that are currently provided through "HOME'S PRO." In such cases, if all businesses installed the apps and can use our services, we will be able to increase the average revenue.

On the other hand, some services are not necessarily needed by all people. For example, only management companies need services provided by "Rakuzuke (Easy copy tool for agents)" and "Owner CRM," etc., and some companies may not want to use "ANNEX," which is a system for managing the websites of companies, so those that already have a similar system don't need one. In such cases, if individual agencies use whatever they need, the average revenue per store will increase in a broad way.

Q) On page 9 of the briefing handout, there is a description of allocating provisions for bonuses for overseas subsidiaries. Could you explain this in more detail? Do you expect your profits will increase in the future by removing the effect of bonuses?

A) The bonuses temporarily recorded are a provision for bonuses, rather than bonus payments. The bonuses will be paid during the fiscal year ending December 2016 if the company achieves its sales and profit goals. We still do not know if this will occur, but we have allocated the amount as a provision. If there are no targeted employees for bonus payments or the company cannot reach the goal, the payment will not occur. Hence, retention bonuses are temporary expenses, and the profitability of the company will increase if it doesn't occur.