

NEXT Co., Ltd. (2120)

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

Date & Time: Thursday, August 13, 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, Corporate Communication Group Leader, Business Control Division

Attendees: 50 people

< Main Points of This Quarter >

Posted extremely positive figures for Q1 of the year ending March 2016. The key performance indicators showed a considerable increase in overall profits with consolidated sales revenue up by 41.7%, EBITDA up by 56.6%, and net profit up by 59.8% compared to the previous year. From this financial year onward we have migrated to the use of IFRS standards.

The number of listed HOME'S properties for rentals and real estate sales increased favorably to an average of 5.05 million properties in Q1 (up 18.3%), and around June, this number reached 5.15 million, maintaining a difference of over double the amount compared to other companies. The unit price of affiliated stores was down 5.7% at ¥56,312; however, the business has been expanding favorably thanks to the considerable increase in our number of affiliated stores.

Released new services in order to become the absolute top player in Japan. Strengthened our new houses business by converting AXELION into an affiliated company, and established six new subsidiaries aimed at building the third business pillar.

< Business Strategy >

The Japanese real estate market is facing a large number of problems, including the increase of vacant homes due to the decline in population after the peak in the number of households in 2019, the lack of a property database containing all properties, real estate prices lacking in transparency, the fact that discussions regarding important real estate information have to be done face to face –even though social experiments are being carried out into new methods for the provision of said information–, the existence of information gaps, the fact that the value of property assets become fully depreciated within 20 years, and more. The first thing we want to achieve is to become a platform for the real estate industry in Japan. Up until now we have been offering a variety of services to support users and companies in their property moving needs across different stages of the real estate cycle. We believe that by filling in all the stages in the property moving process, we can get closer to the creation of a complete platform.

We proactively invest in advertising, while following the PDCA cycle repeatedly and measuring the effectiveness of advertising campaigns in great detail. We aim to become the absolute top player in Japan by increasing the customer recall rate through TV commercials and video advertising, and by curbing the forgetting rate through advertisements placed outdoors and on trains.

Our vision encompasses not only Japan, but it also includes the building of a global platform. We purchased the

Spanish company Trovit last fall in November for approximately 11,000 million yen. We are considering expanding Trovit's service areas at a rate of around four new countries per year, and within those we want to expand the HOME'S model into countries likely to have particularly high market prospects at a rate of two new countries per year.

In addition to our growth strategy, we are also carrying out investments in services for consumers as a first priority, then services for companies as second priority, followed by the overseas markets, and others. In concrete terms, for the consumers, we are currently expanding user share and increasing our number of affiliated stores. We are also partnering with sales agencies to increase membership numbers effectively. For the companies, we are running sales promotions for existing services and investing in the development of new services. We want to consolidate all our company services into one single platform and provide an application market to be used by professionals.

We want our investments made to date to bear fruit and ensure that in this year we start heading toward the recovery phase.

< Financial Results for Q1 of the Year Ending March 2016 >

Sales revenue for this period was 5,457 million yen, constituting an increase of 1,605 million yen compared to the same period in the previous year (up 41.7%). EBITDA was 1,267 million yen, an increase of 458 million yen (up 56.6%), and the quarter's net profit was 694 million yen, an increase of 260 million yen (up 59.8%). The quarter's financial figures were extremely favorable with an increase in both revenue and profit.

There has been an improvement in the company's EBITDA to sales ratio, as well as a decline in advertising expenses, personnel expenses, and other SGA expenses. Increase in advertising expenses was 23.2%. By controlling our expenses, in the mid-term we are aiming to reach an EBITDA to sales ratio of 28%. The number of personnel has increased to 796 post-acquisition, an increase from the 605 employees in the previous financial year; however, due to higher revenues and increased productivity, there has also been an improvement in the personnel expenses to sales ratio.

In the analysis of sales revenue by service, there was a double digit increase across all segments. Custom-built Homes and Renovations showed a decrease in figures, but the whole of the domestic real estate information services was up by 18.2%. Domestic Services for Realtors was up by 14.7%. Due to the consolidation of Trovit, Overseas Business experienced substantial growth, with figures up by 6,339.1%. Other services were up by 34.4% with sales for the HOME's Nursing Care Service experiencing considerable growth (up 40.1%). The number of affiliated stores for Q1 increased by 1,447 stores to reach a total of 15,892 stores.

In the analysis of profit and loss by segment, Domestic Real Estate Information Services achieved 860 million yen, constituting an increase of 119 million yen (up 16.1%), and Overseas Business achieved 214 million yen, a considerable increase of 238 million yen.

In terms of the company's balance sheet and goodwill status, from this financial year we have eliminated goodwill amortization due to the company's transition to IFRS standards. Goodwill increase was 852 million yen. This includes an increase of 370 million yen due to the acquisition of AXELION and the difference in foreign exchange rates for goodwill resulting from the Trovit acquisition. The balance of unamortized goodwill was 86 million yen for Littel,

9,560 million yen for Trovit, and 370 million yen for AXELION.

These figures resulted in cash and deposits amounting to 4,696 million yen, constituting an increase of 428 million yen.

< TOPICS >

We are constantly developing and releasing new services aimed at making the company the absolute top player in Japan.

This fall we plan to make a general release of HOME'S Crystal Clear Property Price Map (provisional service name), a service that takes HOME'S data and performs statistical analyses to display reference prices on a map for properties and apartment block floors across Japan. This will be Japan's first trial service of its kind.

Preparations for the HOME'S LIVE system are now complete, in line with the start of a social experiment for the online provision of important information concerning real estate. The system supports a variety of devices including PCs, smartphones, and tablets, and it prevents the loss of records through automatic recording. It also allows multiple people to log in simultaneously, so not only the intermediary company, but also the seller, buyer, bank, or any other party involved in the negotiations can join in. Approximately 250 companies will be taking part in this experiment and we have been told that the Ministry of Land, Infrastructure and Transport has already completed its selection process.

HOME'S PRO Property Distribution service was launched in July and is available for free to HOME'S affiliated stores. This is a service that allows businesses to exchange real estate information. It links with the HOME'S originator company's control system in real time, sending out notifications to intermediary companies as soon as a property becomes vacant. It uses smart devices, which allows business people to check information using their smartphone or other similar device. It also allows you to control in detail how to transmit the information through functionality such as batch or individual transmission of information, reporting of the number of views per property, ability to send information only to designated parties, and more. This service allows businesses to enjoy an information flow that is much speedier and more reliable than was ever possible before.

This year Trovit expanded its operations into three new countries: Japan and Thailand in May, and Taiwan in June.

Four subsidiaries were established to cover the four service areas of HOME'S Nursing Care, MONEymo, HOME'S Moving Estimates, and HOME'S Storage Room, in order to achieve increased speed in operations and facilitate the development of managers.

By encompassing all these services, Lifull aims to become a service that will make people's lives (Life) much more enjoyable and fulfilling (Full). Two new services have been released in this financial year: Scouting and LiveMatch. In Scouting, sports players register with the service, and the service then matches them with the best teams or companies. LiveMatch finds other people going to live concerts in order to exchange tickets or information, and it also links with iPhone apps to automatically display live performance information about your favorite artists.

We issued new shares through a third party allotment to Rakuten, Inc. A repayment of approximately 4,000 million yen was made toward a short-term loan of 7,000 million yen resulting from Trovit's acquisition. Going forward, we

must establish even stronger business ties with Rakuten, Inc., linking up with real estate companies and considering the implementation of a variety of initiatives such as the provision of new services to 100 million Rakuten users x HOME'S 5.2 million properties and 16,000 stores across the country.

The remaining debt of 3,000 million yen was refinanced through an unsecured syndicated loan for a period of three years. This has allowed us to increase our capital, enabling us to consider conducting business more aggressively such as by engaging in new M&A activities.

We acquired AXELION Co., Ltd. to strengthen our new houses business domain. In terms of media, up until now we had solely been focusing on the right timings for displaying advertising; however, we want to use AXELION as a partner for developers that can provide a one-stop service to provide support for projects from the initial stages. As a result, we want to leverage AXELION's expertise to increase HOME'S media value.

< Revision of Full Year Performance Forecast due to Conversion of AXELION into an Affiliate >

Compared to the initial forecast for the year, the sales revenue forecast has been set to 26,142 million yen, constituting an increase of 1,997 million yen (up 8.3%). Cost of sales varies just as with media sales agencies so the media purchasing element has been increased by 190.8%. The EBITDA change was 0%. Minor revisions have been made to all figures other than the sales revenue.

The change in EBITDA to sales ratio and the increase in cost of sales have resulted in the deterioration of the ratios of costs and other SGA expenses to sales by 4.2%. EBITDA shows a decrease of 0.6%. Going forward, we will increase earnings by focusing on linking with agencies that are likely to exhibit high productivity and profitability.

As a result of the consolidation of AXELION and the issuing of new shares, the forecast dividend has been revised from the initial forecast value of ¥5 to ¥4.71.

The company's issue of new shares through a third party allotment to Rakuten, Inc. has caused a dilution of the share price of already existing shares by 5.1%, consequently having the effect of reducing the dividend per share to ¥4.71.

Compared to the previous year, forecast for the year ending March 2016 states sales revenue up by 43.9%, EBITDA up by 61.3% at 5,146 million yen, net profits up by 54.8% at 2,795 million yen, and dividends up by 63.5%. The dividends were calculated taking into account the effect of the stock split.

The outlook for medium- and long- term growth includes the reduction of advertising expenses, maintenance of personnel expenses ratio, and the absorption of other SGA costs through an increase in revenue, thereby increasing productivity and EBITDA margin up to 28%. While investing in growth and achieving returns in line with the company's business strategy, we want to acquire 40% of the share of users involved in property moves in Japan. In this way, one day we can fulfill our future vision of becoming a world-leading, global Internet company specializing in the provision of life infrastructure services.

◆ ◆ ◆ 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) You mentioned that in the HOME'S model, you want to expand into two new countries per year. What about the areas and schedule? What kind of profit are you aiming for? Please tell us more about the HOME'S model for overseas expansion.

A) I cannot say specifically which countries we will be expanding to, but during this financial year we are planning launches in two countries. Overseas top players include Zillow in the US, Rightmove in the UK, and REA in Australia; however, as the market is large we believe there is room for new entries. Just for reference, in terms of overseas sales ratios for REA, out of the service's 40 billion yen in sales, 25 billion comes from Australia and the remainder from abroad.

Even if we can confirm that Trovit has good marketability, the service is struggling to make a profit in Thailand and Indonesia, where they are already established, so it would take some time for them to grow to the same scale as HOME'S.

Q) There has been an investment from Rakuten. Can you tell us about the type of business you have been doing with Rakuten up until now. You mentioned that you are planning to roll out new services in the future, please tell us what sort of ideas you have in mind in terms of new businesses?

A) The biggest project going on right now is Rakuten Real Estate. The listed properties are all from HOME'S so from our point of view we see it as a linked satellite site. If an inquiry is received by Rakuten, it is sent through HOME'S to the originating company and affiliation fees are then paid in line with sales. In addition, we are also running a campaign that gives out Rakuten super points by tracking the number of visits arranged and number of contracts closed.

In future we will be able to respond quickly, including in terms of feasibility of projects, when carrying out discussions at the top level. With a large number of members, we would have access to a variety of logs including audience data, so we have ideas for using this information in our marketing activities.

Q) I'd like to ask about your progress with Trovit and its future prospects. Last time you seemed to be having difficulty in deciding on your business strategy, as well as in working out how much you could expand its business this year; however, things seem to be progressing quite well. What are your current expectations in terms of your plans by the end of the financial year?

A) So far we have been able to expand the existing Trovit model successfully. We are still finalizing our plans for generating further revenue so I cannot answer this in detail; however, we believe the fastest shortcut we can take is to strengthen our sales and raise the customer unit price. We still have to decide on our timings, what areas to cover, how many sales people to have, etc.

Q) I'd like to ask about how you view M&As. What are your current thoughts in terms of the targets that you might still need in the future.

A) There is a possibility that we might go for companies providing services to consumers and companies providing services to businesses within the Japanese market. We could go for acquisitions that would allow us to expand user share or companies that have a good base of affiliated stores; however, we do not have any concrete plans at the moment. Trovit was a large acquisition for us, but for now we feel that we are in a good position in terms of our overseas business. If possible we will work to expand our domestic business.

Q) In terms of the overseas expansion of the HOME'S model, what are your thoughts in terms of the impact and the effect on your actual profitability and growth caused by events such as the possible slow increase in profit margins, the increase in personnel expenses, and the like?

A) We have already expanded into Indonesia and Thailand. Indonesia is making a profit, but Thailand is not. Compared to actual earnings, operational costs are insignificant. Even if we were to develop new bases and place new staff, this would have an extremely small impact on the overall figures.

Q) I would imagine that one of your objectives in the acquisition of Trovit was to acquire its SEO technology. Has it been effective in reducing the advertising expenses of your HOME'S business in Japan? You probably have not been expecting to decrease your advertising expenses that much yet this year, but do you think you will see some improvements around the second half of the financial year?

A) The migration of Trovit's knowledge and expertise is progressing gradually. There are three large areas of knowledge that are currently being incorporated into HOME'S in Japan. It would be difficult to see results in the first half of the year, so we can probably expect to start seeing results gradually from the second half onward. We have already launched Trovit Japan, but we might need a bit more time to see results appearing gradually. We are still in the preparation stage, so results will probably start to become visible after a few months.

Q) Roughly what percentage decrease are you forecasting for your advertising expenses in the second half of this financial year? In particular, I suspect you have probably made many large investments as this would be a very busy period, so do you think you will be able to see considerable reductions?

A) Trovit has an SEO engine that is good at handling long-tail keywords, so we are not expecting for the volume to increase suddenly in one go. If you are asking whether we could make huge cuts on advertising expenditure, then I do not think Trovit would have such a large impact during this financial year. But instead, as HOME'S SEO effectiveness increases based on our current policies, and although we have already seen great improvements in the past three years, if we were to see further improvements we could expect to achieve an increase of around 5 to 10%. The way we think about it is that, say for example, if there was an increase in traffic and therefore an increase in sales and profits, if anything we would actually invest even more in advertising to further increase our sales and profits.

Q) In terms of Trovit Japan, thinking of the market in Japan and HOME'S position, do you think you will be able to create a different market? Would it be effective? What has been the situation in the last two months?

A) Just as we thought based on our initial assumptions, this is not about having a competitive advantage. For example, even if we were to compete, as long as we come in 1st, 2nd, or 3rd place in Google results, then we are definitely getting overall share of the market. And even if Trovit was 1st and HOME'S was 2nd, then that would be fine too. In terms of the last two months, we are yet not completely able to determine the effectiveness of SEO on Trovit's long tail. We shall have to continue on for a little while.

In terms of other areas, with recruitment and secondhand cars we can look forward to a little bit more. Recruitment is a red ocean area, but for us it is a white space, so we would like to seize it as a new market.

Q) I'd like to ask about the services aimed at companies. What is the market size and how much sales and profit margins could the company achieve?

A) We have done some trial calculations in-house but I am unable to disclose them at this moment.

Q) From what month will AXELION's revised plans be consolidated?

A) We will consolidate the plans from June onward for 10 months. However, monthly consolidations will start from July so they are not included in the Q1 financial results. The Q2 financial results will include four months' worth of figures to account for the missing month.