

2120 **NEXT Co., Ltd.**

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Investment in Further Service Expansion due to Strong Performance

◆Continued Significant Increases in both Sales and Profits

The Next Group is aiming to become a global company with databases + communications & concierge services as its business strategy. Recommendation engines will use giant databases to provide each user with optimum information, just like a concierge. First of all, we will re-invest in HOME'S in the domestic market to maximize sales. The cornerstones of the strategy for new services will be the expansion of a client business support service in the real estate industry and the construction of a real estate industry business platform.

Financial results for the 2nd quarter (July – September) of the financial year ending March, 2014 achieved double figure growth in sales, operating profit and quarterly net profit year-on-year. The September average for number of properties was 4,250,000 and the number of affiliated stores had risen to 11,224 by the end of September. In addition to an increase in the number of employees from 536 to 561 year-on-year, the reserve for bonuses has increased along with strong performance due to performance-based bonuses. For this reason, personnel costs increased by 30.8% year-on-year. Advertising expenses also increased by 25.9% due to active investment.

Accumulated results for the 2nd quarter were sales of 6,852,000,000 yen (increase of 24.6% year-on-year) and an operating profit of 1,413,000,000 yen (increase of 50% year-on-year). In sales component ratio for expenses, costs and other SGA (Selling, General and Administrative) expenses improved 1.9 points year-on-year to 28.2%. The total for advertising expenses and personnel costs also improved by 1.5 points. As a result, operating profit ratio was 20.6%.

There was an increase in sales for all services year-on-year in both the 2nd quarter and first half of the year. There was particularly strong continued growth in detached new-builds of 596 million yen (increase of 33.4% year-on-year) in the 2nd quarter. The reason for this is an increase in the average number of advertised properties of 29.5% year-on-year as well as a 67.8% increase in the number of members. In other areas, there was an increase in the number of inquiries on HOME's Nursing Care, the search website for senior care facilities and improvements in both contract conclusion ratios and contract unit prices. In other businesses, the deficit in 2nd quarter operating profit was reduced from 93 million yen to 14 million yen year-on-year. The amount of investment in the local information website, Lococom, was reduced and the deficit improved and the financial information website, MONEYMO, turned a profit. The event search website EventCal, which had a continued deficit, and the information provision website for people suffering from atopic dermatitis, eQOL Skin Care, were both closed at the end of July and the end of September respectively. The extent of the deficit is expected to further improve due to this.

◆Initiatives for the 2nd Quarter of the Financial Year ending March, 2014

In the 2nd quarter, the domestic HOME's business was advertised on national television during the IAAF World

Championships Moscow 2013, targeting 52.3 million households and 124 million people. HOME's is continuing to advertise in trains in both the Kanto and Kansai regions. As well as rolling out orange brand colour hanging strap and ceiling advertisements focusing on the key message of No.1 in Number of Properties, large sign advertisements are on display in Shinagawa Station all year round. Further, there was a large-scale campaign on Facebook with a prize of 5,550,000 yen for relocation/moving costs. In a 2nd joint project with Rakuten Real Estate, the Rakuten Super Sale Half-price House Cashback Campaign was conducted. Upgrades of both the new-build condominium and detached new-build websites were completed in July and September respectively. With the concept of communicating the truth and the current situation about houses as a medium that transmits information so that users can intelligently look for a house that fits their needs with peace of mind, HOME'S PRESS was released. This publication communicates information from opinion leaders and housing trend news in order to rectify the information gap between users and the real estate industry. The HOME's Customer Service Grand Prix was held as a service for the real estate industry in order to give support to improve services in the industry. In addition, an SNS for the real estate industry, HOME'S PRO, was released. Furthermore, we commenced provision of the HOME'S Relocation Guarantee. This is the first domestic real estate portal to offer an owner's warranty for re-sale properties. It is usually the seller who pays for repairs required by defects that are reported within three months after handover and the buyer is responsible for the payment of repairs from the fourth month onwards. In order to alleviate anxiety about this, an inspector sets the guarantee period after inspecting the property. This is an extra service that real estate companies can use to obtain sale mediation requests from sellers. With the aim of creating business synergy by providing capital and know-how, a venture company support programme was set up as a new business. A HOME's-sponsored Vissel Kobe soccer game was held as an event. As can be seen from the above, Next has been engaging in active branding promotion. In particular, the SEO (search engine optimization) effect has further improved with the upgrade of the new-build condominium and detached new-build website. Average position in searches with major keywords on search websites is No. 1. The number of keywords which lead to display within the top 5 positions was increased to 4,000.

◆Promoting the Further Expansion of Services

There will be continued active investment in brand promotion for domestic HOME'S in the 3rd quarter and HOME's EXPO, a customer-oriented event, will be held in 4 cities: Tokyo, Osaka, Nagoya and Fukuoka. This event is a platform for strengthening relations and information exchange with real estate companies that are affiliated stores and participants are increasing year on year. An iPad app for apartment-hunting, HOME's Heya Kuru!, was also released. This is a next-generation application that is more particular about interface than a conventional search system and was quickly made compatible with iOS7. The HOME'S Renovation website was also opened in October. The markets for re-sale distribution and renovation are both expected to double between 2015 and 2020 to a 20 trillion yen industry. We would like to actively expand large-scale renovations and have approximately 200 participating companies by FY2015. HOME's Trunk Room was also set up in October. The storage service market is growing year after year and the goal is to have 2,800 facilities by the end of this financial year. There are plans to upgrade the HOME'S smartphone website. There are also plans to build a member's database for individual users. We are now able to sell the website creation tool, Next Generation Real Estate Home Page Annex, a service for the real estate industry, to 100,000 companies under the umbrella of the National Federation of Real Estate Transaction Associations through the Hato Mark Support Mechanism. First of all, we will actively sell to affiliated stores. We will also focus on increasing the number of users of the already released SNS, HOME'S PRO, for the real estate industry.

Our subsidiary, Renter's, will commence provision of CRM (Customer Relationship Management) for Real Estate Owners, the first service of its kind in the industry. This service visualises progress management of a series of sales evolutions in real estate companies and makes it possible to share within the company.

On the international front, a Thai Real Estate Investment Seminar will be held in Japan and in Indonesia we are focusing on building a website in order to attract more customers. We have already held a Malaysia Real Estate Investment Seminar which was a great success. In the future we would like to consider holding a Real Estate Investment Seminar for Jakarta. The current number of properties is 22,744 in Thailand and 5,421 in Indonesia.

Various promotions were held during the first half of the year. As well as upgrading the HOME's Custom-Built Houses website, we have released other products such as an iPad app, Naiken Pro, as a business support tool for real estate agents. Further, we have commenced the provision of a property search system for small-scale childcare centres. In order to resolve the issue of childcare centre waiting lists, small-scale childcare centres are allowed to be set up in one room of an apartment, etc. so this is a service to support childcare centre operators in finding appropriate properties. An Android app, Newly Arrived Property Navigator, was also released.

In this way, we would like to actively continue with the policy of expanding opportunities for profit in the future. Since last year we have been working on upgrading our websites for the first time in 10 years. These have begun to operate well so we will invest in further development.

◆Upward Revision of Yearly Performance Forecast

The performance forecast for the first half of the year was revised in August. At that point, as there was also the risk of a temporary reduction in the SEO effect during the upgrading of the new-build condominium and detached new-build websites, we did not revise the forecast for the whole year. However, as the upgrades were completed without problem, the original yearly performance forecast was revised upwards in November. Post-revision figures are sales of 14,282,000,000 yen (increase of 9.5% compared to original forecast) and an operating profit of 1,690,000,000 yen (increase of 27.8% compared to original forecast). In advertising expenses, there will be additional investment in branding promotion in busy periods aiming for the effect of pushing up sales for the end of the year and next year. In other SGA expenses, there will be investment in the construction of a member's database for individual users and the development of business support tools towards further future growth. Thanks to the above, the operating profit ratio is expected to be 11.8%. As this strategy is currently proving to be effective, we believe that the timing is right to push up the top line through active investment.

Mid-to long-term goals are an operating profit ratio of 25%, the improvement of productivity and continued passing on of dividends and profit growth. In business development, first of all, we will make HOME's hands down No.1 in Japan.

◆Q&A◆

What kind of initiatives do you have for real estate properties for investment? Do you have any interest in the sale of securitized products?

We handle real estate properties for investment at HOME'S Real Estate Investments. Sales are included in real estate sale and purchase.

We are interested in securitized products but we would need to study whether it would be in the style of a private

placement or like a REIT so we are still undecided.

At the moment, we would like to function as a pipeline for investment in overseas real estate and investment from overseas into Japanese real estate.

Sales for rental/real estate sale/purchase for last year were positively affected by the TV commercials in the 4th quarter and they rose dramatically. There is an expected increase of approximately 1 billion yen in comparison to last year in the revised performance forecast but at the current pace, it may be difficult to attain more growth than last year. Please tell me your thoughts on this.

The rise in sales for rentals in the busy period of the 4th quarter is the same as in previous years and as we are planning more active investment in branding promotion and advertisements such as PPC, etc. than last year, we don't believe that it will be difficult.

The growth rate for sales was high last year but can we expect even better results this year?

Yes. We are planning active investment in advertising expenses in order to achieve this.

Will you invest in advertising expenses in the second half of this year at a similar level to that of last year, 32% in comparison to sales? If not, what level of investment are you planning?

The advertising expenses ratio announced at the beginning of the year was 30.8% for the whole year but has now been revised to 31.4%. We are considering even more active investment and plan to invest in the 4th quarter in particular.

Our policy is to step on the gas while we are in a favourable position rather than coming in under the planned budget.

Usually when there are repeated TV commercial campaigns, the effect gradually falls away. What are your specific thoughts about this, looking at the current cost-effectiveness figures?

We are obtaining effects that are commensurate with the amount of investment. We believe that the slowing of the growth curve is still fairly far in the future. Positive effects should continue with another 1 or 2 years of active investment.

Detached houses and condominiums have shown high growth each year but what do you think about their potential growth next year?

Detached houses continue to be in an unexpectedly favourable situation. To be honest, it is not possible to know exactly when it will slow down but for the moment, the situation is favourable.

The condominium market is not growing as much as that of detached houses. In order to double or triple sales in the future, we are considering a review of fundamental strategy but if we do go ahead with this review, it will be after next year.

Are you thinking of buying companies with the skills to expand B to B services in Japan in the same way as Zillow and Trulia overseas and incorporating solutions? If you are considering this, do you have any specific targets?

A number of systems companies are already providing this service so we are considering collaboration and capital

participation with these companies.

Do you think that one or more of these systems companies matches the Next approach exactly?

Yes. We believe that there are companies that match our approach.

What were the effects of the Rakuten Super Sale?

We cannot give details but the number of UU (Unique user) that visited via Rakuten doubled.

Will you continue with this in the future?

Yes.

In the first half of the year, costs fell and profits exceeded costs but will cost continue to fall in the second half of the year?

We plan to invest in personnel costs and advertising expenses as originally planned. There may be slight discrepancies in merchandising expenses (sales expenses). Up until now, there have been cases in which we have not completely used up sales expenses. There may also be slight delays in the timing of the occurrence of depreciation expenses due to delays in development.

Advertising/sales expenses for the first half of the year reduced by around 160 million yen – were they not used intentionally or were they not able to be used?

Advertising expenses comprise planned investments such as branding promotion or train advertisements and expenses that are variable such as listing advertisements that fluctuate depending on the number of inquiries and payments to partner portals. There may be discrepancies in expenses due to variable costs that cannot be predicted.

In the first half of the year, there were some cases in which we were not able to use up sales expenses for merchandising novelty production due to stock or order timing.

Even if sales for the second half of the year are higher than expected, do you expect to invest in advertising expenses as planned?

We regard investing in branding promotion as mid-to long-term investment, hence, as investment for the future.

When comparing performance in the first half of the year and the yearly performance forecast, as it looks like profits will decrease quite a lot in the second half of the year, investors looking at Next for the first time may misunderstand. What is your response to such investors?

We can only reply that these are advertising expenses and system development costs for future business.

Within advertising expenses, things that quickly and directly link to sales are factored in and we are also investing in branding promotion for future growth in anticipation of the next 2 or 3 years.

We are actively conducting development but we don't know by how much sales will increase and as this was not anticipated in the forecast, we have only incorporated costs. In addition, there are much better effects when branding promotion is implemented during busy times when many users are on the move. A combination of the development rush of the second half of the year and seasonal factors is likely to squeeze profits.

Each year, during the transition from March to April, there is a decrease in sales with seasonal fluctuations but this year there was almost no decrease. As charging for inquiries is increasing, it would follow that sales would decrease even further but why did they hardly decrease at all?

Usually there is a net decrease in the number of affiliated stores but as it was possible to keep membership cancellations in check after the busy period, this shored up results.

Can you confirm that your use of advertising expenses is approximately 30% of the sales forecast for the whole year, rather than deciding expenses based on how much profit you would like to achieve in the first or second halves of each year?

Yes. As we input advertising expenses at the most effective times depending on seasonal factors, the input amount is uneven over the year but we believe that there is nothing that can be done about this because it is the nature of the real estate market.

If this year is more favourable than last year and 4th quarter sales increase dramatically, can we understand that advertising expenses will be increased ever further and, as a result, yearly advertising expenses will be around 30% of sales?

Yes.

(Tokyo, 15th November, 2013)

*Use the link below to view briefing session documents.

(http://www.next-group.jp/en/ir/presentation_20131113.pdf)