Next Co., Ltd. (2120)

Fiscal Year Results Briefing Summary for the fiscal year ending March 31st, 2014

Date & Time:	Thursday, May 15th, 2014, 17:00 to 18:00
Location:	Our meeting room
Our Attendees:	Takashi Inoue, President and CEO
	Ryoma Morino, Director and General Manager of Corporate Management Department
	Hidekazu Fukuzawa, Corporate Communication Group Leader, Corporate Promotion Division
Attendees:	26 people

<Sales and Profit Growth Continue to be Strong>

Our mainstay real estate service business was extremely favorable in the fiscal year that ended March 31st, 2014. The fiscal year's consolidated net sales were ¥14.69 billion (an increase of 22.8% from the previous year), we had an operating profit of ¥2.299 billion (an increase of 44.5%), and set a new record for net income in the fiscal year of ¥1.336 billion (an increase of 117.7%).

The fiscal year ending March 31, 2015 will be a period for investment. In order to not miss the opportunity of a second growth period, brought on by the past three years of structural reforms, we would like to invest.

<Account Statement Information for the Fiscal Year ending March 2014>

Compared to the past three fiscal years, the speed of expansion has increased. The key indicators of HOME'S leasing and real estate trade are: 4.26 million properties posted, ¥59,345 unit price per member store (increase of 8.8%), and 11,042 member stores (full-year average). We have recent news that the number of member stores has increased to 11,710, a historic high which has broken the company's internal "Guinness" record.

Sales of real estate information services and other businesses exceeded 20%, reaching a record high. We conducted our largest promotional activities to date, with advertising costs for the fiscal year at ¥4.496 billion. The previous fiscal year included China-related goodwill building, securities investment in Taiwan, and the special loss of ¥357 million in the fiscal year with MONEYMO. This fiscal year saw significant improvements.

With regards to the sales component ratio, due to revenue growth and the delay to April of the launch of items slated for launch in March, which resulted in a sliding of some costs, the operating income increased 15.7% and 2.4pt. The composition ratio is being improved through revenue growth, cost reduction, and productivity increases, along with improvements in administrative costs, other trading management costs, and personnel costs.

Even figures for sales-by-service, all services saw double-digit growth compared to the previous year, and reached record highs. An increase in unique users through the largest branding campaign to date, and an increase in search engine optimization from the renewal of the site led to an increase in inquiries. In particular, in the new house department, the number of properties posted increased by 26%, the number of members increased dramatically by 59%, and sales grew by 29.4%. "HOME'S Nursing Care," which is included in other business, grew twofold compared to the previous year.

Profit-and-loss trends by segment were: 23.8% increase in real estate information service business of ¥453 million, and in other business, improvement of the "Lococom" local information site that had been posting losses, return to profitability of "MONEYMO", and the closing in the second quarter of "EventCal" and "eQOL Skin Care" services that had been continuously posting losses, resulted in a large-scale improvement of losses and an increase in profits of ¥250 million.

<Balance Sheet and Goodwill>

Net assets per share increased 12.9%, and interest-bearing debt continues to hold steady at 0. Net assets are ¥10.249 billion (a 13.1% increase from the previous year). For amortization of goodwill, ¥86 million salvaged from the Ritter Co., Ltd., which conducts the research and development of the previously acquired Recommendation Engine, will be amortized over 24 months. As a result, by the end of the fiscal year, cash and cash equivalents totaled ¥8.4 billion, an increase of ¥1.5 billion.

<Main Initiatives in the Fiscal Year ending March 31st, 2014>

In this fiscal year, we launched large promotions one after another and over 20 new services. The main three are as follows: (1)The largest branding promotion ever. (2)Strengthening of support for smart devices (iPhone, iPad, Android, etc.). The "HOME'S" iPhone app added photos taken of the actual interiors of properties, and a tour memo function that allows users to retain notes they take for later comparison. (3)Start of a new "Property Trading Proposal Service" for users to find private properties. Due to these, we have added more effective unique users and the ability for more users to choose properties that meet their needs.

<Medium-Term Business Strategy>

In the early years of the Internet in 1995, when there were fewer users, despite the fact that homes are one of the largest purchases people make in their lives, there was limited information. With the desire to do something to assist with this largest purchase in people's lives, we launched the first "HOME'S" in Japan. Since then, we have eliminated this information gap and developed our business with the desire to create a "Designing Delightful Encounters."

The slogan for the medium-term strategy is "Aiming to be a Global Company through DB+CCS" (DB is short for "Database," and CCS is short for "Communication & Concierge Services") Going beyond the realm of real estate, we will continue to extract and provide the information on insurance, interior design, and other aspects of living from our vast amounts of data that meets users' needs with our recommendation engine. Through this, we will research and develop services that change peoples' lives and lifestyles.

As a management indicator, we will continue to aim for a 25% operating margin, improve productivity, and strive for capital gains through profits and continuing dividends for our shareholders.

In our business development, while striving for an overwhelming No. 1 domestic ranking of HOME'S, we will develop abroad as a new market to secure new revenue bases, and invest in new businesses.

<Looking Back on the Past Three Years>

For about three years, we have been working on major structural reforms in a "4P strategy," (Price, Promotion, Placement: business strategy, and Product: service strategy) As a result, we are coming upon our second rapid growth phase. In particular, the number of leasing and real estate trading properties increased threefold in four years to 4.25 million. For new condominiums and houses, we have a total of 7,388 properties, which is an overwhelming No. 1

compared to other companies. As of the end of March, we have 11,639 stores, a record high.

Management indicators of these medium-term goals are: (1)Aim for operating income of 25%, an increase of 6.5 points, (2)Productivity increase: Increase in 44% of sales per employee, operating income productivity improvement of 2.4 times, (3)Continuing dividends and profit redistribution: Dividend payout ratio is 15% -> 20% -> 20%, but dividends from main profit expansion increased 4 times (compared to the fiscal year ending March 31st, 2012).

In the future, we intend to add an additional medium term goal, to "enrich services for realtors."

<Changes to IR Policy>

We made the following three changes to make investment decisions easier. (1)Change in forecasts from conservative to neutral We were unable to figure sales resulting from changing the charge model to an inquiry charge model three years ago, but we have gained three years' of knowledge and plan to account for costs and consider the effect of the external environment and investment to disclose a neutral earnings forecast. (2)Review of sales classifications by service. (3)The monthly disclosures that had heretofore only been of the three main services will now be of all services (consolidated net sales). However, member store numbers and member store values will be summarized in the balance sheet financial documents by quarter.

<Earnings forecast for the fiscal year ending March 31st, 2015>

An increase in sales of 17.4% (¥17.24 billion) and increase in profits of ¥2.5 billion are expected. Operating profits are expected to increase 1.2% due to investment aimed at future growth. Advertising expenses will increase ¥857 million from the previous fiscal year to ¥5.350 billion. For operating costs, in order to increase the number of properties, we will see an increase in outsourcing costs of ¥416 million to ¥889 million through investment in management of the expansion of new HOME’S member outlets. We will aim for a 15.5% growth in the real estate information services, growth of 3.2 times in other business and the highest sales numbers in three consecutive fiscal years. We expect there will be an increase to the cost of sales through the addition of the interior e-commerce service of ¥265 million.

With regard to the sales ratio, we plan to continue to invest approximately 30% in advertising expenses. The operating margin will increase 2.2pt to 13.5% due to prior investments.

With respect to sales by service, we expect a 20.4% increase in our mainstay leasing and real estate trading to ¥9.602 billion, and ¥922 million (44.5% increase) for the expansion of our CRM service for leasing businesspeople and business support service for real estate developers. For our other business, we expect ¥429 million (216% increase) in sales for our interior design e-commerce site, HOME'S Style Market.

As a result, with regards to forecast dividends, we expect ¥4.92 per share at a dividend payout ratio of 20%. While taking into consideration expected net assets and investment, as well as growth rate, we hope to increase the dividends in the future.

<Business Strategy of the Fiscal Year Ending March 31st, 2015>

We consider this to be a time for investment. In the long term, we hope that 40% of the people who move domestically will use HOME'S, but in order to do that, in the mid-term, we want to be sure that we have the number one user share of those using the Internet to find homes.

We will conduct our investments according to the priorities below. (1)We will aim to make our existing domestic real estate information services be overwhelmingly No. 1, and conduct proactive promotion, strengthening of the product, enhancement of the database, and expansion of affiliated stores. (2)Services aimed at realtors. (3)Expansion of existing services into new foreign markets. (4)New services (outside of the real estate field).

With regard to expansion abroad, we will shift from an Asia-centered focus to a worldwide one. As a general rule, we will not set up a corporation or hub in each country. We will use the HOME'S SEO technology cultivated in Japan to support the different languages of each country, and enter the market for low cost using the Internet.

With regards to new businesses outside of real estate, the e-commerce "HOME'S Style Market", which began this April for the first time at Next, does not maintain a stock so it offers follow-up to those who found their home on HOME'S at low risk. As we aim for profitability with the existing "MONEYMO" and "Lococom", we will continue to create new businesses, invest in ventures, and speedily withdraw from increases in investment.

The points that we will strengthen other than services are human resource development and strengthening of technology. We would also like to focus on research into smart devices and wearable devices, such as our "Room VR" that is currently in testing.

For our vision for medium term growth, we will aim for a 25% profit margin as an important management indicator, and expand our market share and sales.

In the future as well, we will continue with the altruistic spirit of wanting to bring joy to everyone, and continue to develop businesses that will become platform infrastructure for society to make even more users happy.

◆◆◆ Q&A ◆◆◆

※ 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) What are your thoughts on the benefits and issues associated with the Ministry of Land, Infrastructure and Transport's lifting of the ban on Internet real estate trading?

A) We consider it to be very good news. Until now, important matters had to be explained face-to-face, even for people who lived far away or for investors in foreign real estate. This has inhibited the expansion of the market. According to the Residence and Land Transaction Law, there is nothing stating that explanations need to be conducted face to face. When the law was passed, there was no Internet. Now we can conduct face-to-face explanations using Skype, so we hope that this is implemented quickly. If there is one issue, it is that when presenting the real estate license and giving an explanation, in order to prevent identity fraud, it will be necessary technologically to confirm the identity of the agent.

Q) It has been pointed out that there are delays in the construction of apartment buildings in metropolitan areas. Has the supply and demand deteriorated suddenly?

A) With regards to lots for sale, the supply has temporarily decreased. In this fiscal year, this has held back the numbers for lot sales and apartment buildings in particular.

Q) You have said that you want to change your forecast from "conservative" to "neutral" for this fiscal year. If you were hypothetically calculate the figures "conservatively," what would they be? How, specifically, have you done neutral calculations of sales and costs?

A) We cannot say how much they would be specifically, but until now we have factored in costs fully, and have not seen an effect on sales growth from it. We have not changed that we are factoring in all forecast expenditures as costs, but we have gathered information on about how high we think sales will go. This is how it was calculated. If we had been taking a conservative stance, we would revise the numbers upwards several times throughout the fiscal year, but in taking a neutral stance we will not make large variations. However, if there are some unforeseen circumstances, we hope you understand that there is a risk we will need to revise the figures downwards.

Q) You have said that you are aiming for a 25% operating margin. About what percent do you expect for advertising expenses? Additionally, what do you expect sales to be when you have reached the 25% operating margin goal?

A) Advertising expenses account for 31% of our investment now. As we become more well-known and recognizable, we will reach a point where we do not need to spend so much, and will be able to cut back on mass advertising costs. Personnel expenses are just below 25%, so we hope to eventually operate with advertising expenses to around 25%. Other than that, the new services and new projects in which we are investing now are expected to result in increased profits.

Q) About what percentage of use comes from smart phones and tablets? Is this number increasing?

A) We hope you will understand that wish to keep such usage information undisclosed in the interests of competition. The rate is increasing in all types of business.

Q) What is the situation with the more recent businesses, such as the recently started "HOME’S Renovation," and "HOME'S Trunk Room"?

A) Both have just passed their six month mark. "Trunk Room" is already profitable and is progressing steadily. "Renovation" is still at the investment phase and is not yet profitable, but its number of users is growing steadily.

Q) A lot of work has been put into developing the app. Will there be new types of apps or new functionality in the future?

A) We cannot tell you in detail, but the development team is working on methods to improve the user experience. They are coming up with a "completely new way of searching for real estate." If this can be implemented in an app or tablet, then the answer to your question is, "Yes." We are working on new search methods with other devices, and expect that the functions will be added in some form or another.

Q) Yahoo! real estate started posting properties for ¥10,000 per month. How does this affect the current situation and what effect will it have in the future?

A) We do not expect it to have much effect on our company's business. From what we hear in the field, the number of properties increased three or fourfold, but it is not the case that the number of unique users or traffic increased three or fourfold accordingly. After the number of properties increases, we expect that the number of inquiries per property will decrease. As a result, our method yields a serious number of inquiries with good cost performance, so the impact on our business performance should be small.

Q) In this guidance, the effect of the costs in the first half resulted in a distortion of the first and second halves. Could you explain about the balance between the two halves?

A) This time, the advertising fees and other sales management fees increased. In particular, branding promotion fees increased due to a television commercial that tied into the "Termae Romae" movie at the end of April. With regard to our other sales management fees, as in the explanation about this being an investment phase, management proxy fees to increase services for realtors and increase affiliated stores, as well as fees for new services, and outsourcing costs and service use fees increased. Due to these investments into the second half, we expect sales and profits to increase in the following fiscal year.

Q) With regard to the increase in costs discussed for future investment, I would like to confirm exactly how much this will be. Will the work for future investment only be in this fiscal year, or are we entering a period of several years where it will continue? I would also like to ask in which fields in particular you plan to invest.

A) In addition to branding promotion and digital marketing, we plan to invest in enhancing our database (for example, increasing information on the area surrounding apartments, and word-of-mouth information such as store information. We will work to strengthen support for smart devices and wearable devices. Furthermore, we will increase the CRM and CMS functionality for realtors, and expand SNS and other services especially for realtors. While investing in development of new services, we hope to increase future earnings. With regard to whether the investment will continue, depreciation and amortization increase with development, so we will amortize them over the course of five years. In addition, we do not expect that investment in databases and next-generation devices will be ongoing.

The forecast for this fiscal year's operating margin is 13.5%, but we do not expect it to suddenly increase to 25% in the future, but to reap the rewards of this fiscal year's investment in future fiscal years, and gradually increase the operating margin while making new investments.