

NEXT Co., Ltd. (TSE1, 2120)

Takashi Inoue President and CEO

Seeking a wider variety of advertising vehicles to demonstrate our position as Japan's top online real estate information provider in terms of the number of website-posted objects

(November 10, 2011, Tokyo)

◆Sales declined in the “HOME'S Rental & Real Estate Trade” business

In the second quarter of the year ending March 31, 2012, NEXT recorded a year-on-year decline in sales and profit, adversely affected, in particular, by the performance of the main service line “HOME'S Rental & Real Estate Trade” business. For the second quarter under review, consolidated sales stood at 4,820 million yen and consolidated operating profit totaled 251 million yen. Consolidated net income for the quarter amounted to 74 million yen.

In the “HOME'S Rental & Real Estate Trade” business, sales declined 23.2% year on year as the number of inquiries showed a slower growth, coupled with a longer lead time to generate sales. The number of objects posted on our website stood at 3.26 million for the month of September 2011 (an increase of 1.54 million compared with the same month a year ago), representing a steady growth. Average sales per store during the quarter fell below the 60,000 yen mark since the number of inquiries fell short of plan. As for the number of our affiliated stores, a change in our fee model resulted in slightly more-than-expected membership withdrawals during the quarter under review. However, the number of our affiliated stores itself has stopped declining as of now. Starting in November 2011, the President and CEO assumed direct charge of the real estate information service business “HOME'S” in an effort to strengthen its operational platform. Meanwhile, achieving profitability for “Lococom,” the local community website service business, has been taking much more time than expected. Accordingly, in a move to operate the business with minimal staffing for the continued provision of services, its staffing level will be reduced markedly from the second half of the year ending March 31, 2012.

With regard to SG&A expenses during the second quarter under review, personnel costs showed a year-on-year decrease of 128 million yen in the absence of personnel costs for the Guarantor Operating Business, the unit that had been sold in the year ended March 31, 2011. The average number of the business unit's employees had totaled 66 for the same period a year ago. Advertising costs for the second quarter under review rose by 175 million yen year on year as cost spending grew for listing advertisement and SEO activities in relation to “HOME'S,” accompanied by the higher costs associated with “Lococom” and other new businesses. Other SG&A expenses posted a year-on-year increase of 359 million yen, of which 318 million yen was incurred due to the relocation of the head office. In the quarter under review, NEXT recorded 113 million yen in extraordinary losses on the impairment of Lococom's software.

Sales by service in the second quarter under review show that lower sales in “Rental & Real Estate Trade” were not offset by sales in other services. Overall sales in the real estate information services business decreased by 439 million compared with the same period a year ago. The breakdown reveals that sales in “Rental & Real Estate Trade” declined by 847 million yen year on year while other businesses registered sales growth in a continuation of more-or-less double-digit growth. Looking at

the status of the individual segments, reduced sales, coupled with the head office relocation-induced cost increase, resulted in all the segments recording a year-on-year sales decline for the second quarter under review.

As for key features for the consolidated balance sheets as of September 30, 2011, whereas assets decreased year on year as a consequence of lower sales during the quarter under review, interest-bearing debt was maintained at the zero level. The Company conducted a 1-for-100 stock split for its common stock effective October 1, 2011. With regard to cash flows, while the balance of cash and cash equivalents as of September 30, 2011 stood at 3,000 million yen, an inclusion of time deposits will make the balance 5,000 million yen. The balance of cash and cash equivalents is presented with the exclusion of 2,000 million yen which was deposited to a higher-yielding 6-month time deposit account in the second quarter under review.

The Company's actual financial results for the first half of the year ending March 31, 2012, as compared with its original forecast, reveal that, whereas sales fell short of forecast, profitability was achieved at the operating level owing to cost saving efforts and revised investment plans for new businesses. SG&A expenses for the first half of the year fell short of forecast by 551 million yen, and personnel costs and other SG&A expenses decreased from the same period a year ago by 192 million yen and 220 million yen, respectively. Although an operating loss of 153 million yen had originally been forecast for the first half of the year, the actual result came in 404 million yen better than originally forecast due to our cost saving efforts. Sales by service show that sales in the "Real-estate Rents & Services" business fell short of forecast by 184 million yen.

◆ Revised down the full year earnings forecast

NEXT has revised its earnings forecast for the year ending March 31, 2011. Under the revised forecast, sales will be 15.7% lower than previously forecast while operating profit and net income will be lower than previously forecast by 58.7% and 69.9%, respectively. SG&A expenses, originally forecast at 10,079 million yen, have been revised down to 9,004 million yen. The breakdown reveals that personnel costs have been revised down by 475 million due to management's decision to cancel its previous plan to increase the number of sales personnel (contract employees), mainly in the Lococom business, after an examination of the business unit's progress status for the first half of the year ending March 31, 2012.

Under the revised forecast, operating expenses will be lower than previously forecast by 214 million yen, reflecting a reduction in sales promotion costs. Since we plan to reallocate a part of this reduced portion to advertising costs with the aim of achieving an increased number of inquiries, advertising costs have been revised up by 79 million yen. Other SG&A expenses have been revised down by 394 million yen owing to a revised investment plan for new businesses. The above-mentioned revisions have resulted in the new full year earnings forecast deviating significantly from the original forecast although the Company is projected to achieve operating level profitability for the year ending March 31, 2011.

Looking at sales by service under the revised forecast, sales in the "Rental & Real Estate Trade" business will be lower than previously forecast by 13.5% (888 million yen) for the year ending March 31, 2012. Given the high gross margin level for the real estate information services business, whose sales and operating profit declines, when they occur, tend to exhibit more or less identical magnitude, we will continue to make efforts to achieve higher sales for this business. Sales in the local community information services business have been revised down by 97.2% for the year ending March 31, 2012, representing a significant deviation. To address the situation, we will seek to downsize investment in this business swiftly.

The FY03/2012 dividend ratio is likely to be 15.0% compared with 10.0% for the year ended March 31, 2011. The FY03/2012

per share dividend forecast has been revised down to 1.90 yen, reflecting the net income forecast revision.

◆The number of affiliated stores has stopped declining due to an improving recognition of the fee structure change

With regard to the status of the “HOME’S Rental & Real Estate Trade,” the number of objects posted on our website continued to grow during the second quarter under review without being accompanied by a corresponding growth in the number of unique users and inquiries. As a step to help increase the number of unique users, we will seek to broaden the scope of our users by conducting more efficient advertising activities, making enhanced efforts for acquiring smart phone users and using social media extensively. While the number of affiliated stores has stopped declining as of now, we intend to take actions towards achieving a net gain, going forward. As for the number of inquiries, despite a series of website revamps conducted during the quarter, not much improvement has been attained thus far, and we will continue to undertake carefully planned site renovations.

Although the number of our website-posted objects is two to three times larger than that of competitors, it is not well known among our users. Consequently, by using a wider variety of advertising vehicles, we will seek to demonstrate our position as Japan’s top online real estate information provider in terms of the number of website-posted objects. Specifically, in addition to making increased efforts on our existing initiatives, including listing and SEO advertisings as well as affiliated portal expansion, we will employ, in a more aggressive manner, SNS-based advertising as well as advertising through smart phone and other various devices.

In the year ended March 31, 2011, we migrated from a pay-per-posting-based fee structure to a pay-per-inquiry-based fee structure. This step was motivated by the view that the latter structure will enable us to achieve a substantial sales growth in the medium term. During the ten-month period since the January 2011 introduction of the pay-per-inquiry-based fee structure, the first of its kind in the industry, NEXT has been obtaining from its affiliated stores improving recognition of the new fee structure. Although the number of affiliated store membership withdrawals exceeded our expectations slightly during the early period of the migration, the period thereafter has been characterized by new membership enrollment starting to gradually outpace membership withdrawals.

Comments from our affiliated stores include: “The free-of-charge posting function has allowed us to post all the properties under our management, resulting in a growing number of responses from website users”; “Our competitors have come to pay greater attention to information quality since it has become much easier to post objects on the website”; “the function to allow all properties to be posted free of charge has helped us demonstrate the level of our services not only to website users but also to property owners”; “Website user response directly translating into fee payment has given our staff a stronger motivation to close the sale of a given property.”

◆Launched services in Thailand and China

In the local community services business, NEXT has been focusing its efforts on marketing and sales expansion during the six-month period to September 2011 on the back of a major website revamp initiative implemented by using an expanded number of development personnel allocated to the project. While this has resulted in the number of check-ins totaling 52,000 during the period to September 31, 2011 on a cumulative basis, the number is still below our original expectations. To address the situation, we will make efforts to further promote check-in practice among website users, thereby helping to grow the

number of regular users. The number of word-of-mouth referrals stood at 160,000 as of March 31, 2011 before hitting the 210,000 mark as of September 30, 2011. While this constitutes a certain level of accomplishment, we wish to attain an increased number of such referrals through enhanced collaboration with social media operators.

The number of iPhone-based application downloads exceeded the 100,000 market within about three months since the April 21, 2011 release. The Company will strive to achieve a broader scope of users through providing continuous updates (twice a month or so). The number of affiliated stores using services based on such application downloading function, originally projected at 1,225 as of September 30, 2011, actually totaled 1,972 as of that date. We will seek to acquire new members for the relevant affiliated store program in an efficient manner by pursuing an appropriate member store policy. We note that the level of sales generated through the above-mentioned downloading services was adversely affected by the complicated method in place for using GPS coupons. The model adopted by the Company in launching the service concerned was the one under which the program user is charged a fee at the time of a restaurant customer actually presenting the coupon at the restaurant. We used this model because of the need for us to differentiate ourselves from competitors in the highly competitive gourmet coupon market. Given the model's failure to attain a favorable response from users, the Company will shift to a flat fee structure (monthly fee of 3,000 yen), reducing staffing to one fifth of the current level. This represents a move to continuously operate the business with low cost spending and limited staffing commitment for the purpose of preparing for the anticipated future growth for the "online to offline" market.

Under its overseas business strategy, NEXT set up in Thailand HOME'S PROPERTY MEDIA (THAILAND) CO., LTD., the local subsidiary, in September 2011, followed in October 2011 by a posting in the country of several Japanese personnel charged with preparing for launching actual operations there. In January 2012, we will launch the provision of real estate information services in Thailand. As for China, in December 2011, we will establish Next Property Media Holdings Ltd. in the country jointly with Real Estate Mobile Inc., following an acquisition of shares in the latter entity. Under our plan, Next Property Media Holdings Ltd. will start providing real estate information services in January 2012.

Q&As

- 1. (Referring to information presented in Slide 17 of the Annual Report of Financial Statement) "Others" in real estate information services are composed of "HOME'S Moving Estimates," "HOME'S Nursing Care" and "HOME'S Rental Insurance", among others. Could you tell us about the direction for these businesses?**

I would also like to have your view on your non-housing-related services, in addition to your main line housing-related services such as "Rental & Real Estate Trade" and "New Condominium" services.

As shown in Note 2 in Slide 17, "Others" in the real estate information services business includes "HOME'S Estimation for Relocation" and "HOME'S Nursing Care." The former, a business line closely related to "HOME'S" services, has been growing steadily as an after-sales service offering, although it still represents only a small fraction of the "HOME'S" business. The Nursing Care business line is based on a website providing a whole range of information on various kinds of facilities designed for nursing care recipients and other elderly persons, including nursing homes as well as rental condominiums with nursing care services. This business line too has been growing smoothly in a market offering the potential of evolving into a big segment in coming years, which provides a motivation for us to make earnest efforts for this business.

"Others," as shown in Note 5 of Slide 17, consist of "MONEYMO" and "eQOL Skincare" and "property and casualty insurance

agency business,” among others.

“MONEYMO” is a financial portal site, providing information mainly on mortgage, life insurance and property/casualty insurance products. Being a website closely related to the “HOME’S” website, “MONEYMO” allows the user to compare different financial products designed for consumers, place product inquiries and make consultation service requests in a care-free manner. We note that, among various property and casualty insurance products, fire, contents and earthquake insurance products specifically concern housing-related consumer needs. On the other hand, the consumer’s need for life insurance plan alteration tends to arise at the time of moving house or entering a new life stage. Bearing these points in mind, we wish to further develop connectivity between “HOME’S” and “MONEYMO.”

Launched as NEXT’s first medical information service offering, “eQOL Skincare” is an information services business line designed to serve the needs of atopic patients. Medical services industry products, like real estate and financial products, present the consumer with the challenge of choosing an appropriate item with conviction, and of selecting a treatment approach well-suited to his/her physical conditions based on tough-to-follow information at a time when “information asymmetry” tends to easily occur. The atopic patient typically struggles to find the right product for his/her own status in the face of diverse information available online when symptoms and optimal treatment differ from one patient to another. Under such circumstances, through the provision of “eQOL Skincare” services, NEXT will seek to guide such atopic patients to finding a treatment approach best-suited to his/her own medical needs. “eQOL Skincare” services are offered via mobile phone for a fee of 315 yen per month using a user-pays fee structure as the Company’s sole service line applying that structure.

The property and casualty insurance agency services, provided under the brand name “HOME’S My Room Insurance,” represent a business line delivering contents insurance services to rental property tenants through our affiliated stores. Although standing apart from NEXT’s other business lines in business model approach, the property and casualty insurance agency business line shares with the “HOME’S,” financial and medical service business lines the concept of providing information well-suited to user needs through resolving information asymmetry.

2. What are the effects of the latest Thailand flooding on NEXT’s business operations?

We are completely unaffected by the flooding because we are still at the website development stage. Management has confirmed the safety of our locally-hired staff while ensuring proper living conditions for such personnel. According to local sources, the water level is expected to moderate within the next one month or so. Still, if that does not materialize until January to February 2012, the operational disruption may result in our activities lagging behind schedule.

3. In addition to Thailand and China, is there any other country in Asia and Oceania where you are looking to set up operations?

Our current focuses are China and ASEAN nations, and among ASEAN states it is Vietnam, Indonesia, Malaysia and Singapore that are now being examined as part of our regional research.

4. (Referring to Company D’s comment shown in Slide 21 of the Annual Report of Financial Statement) The fact that a client firm’s employees were given a stronger motivation must be proof that NEXT had achieved high customer satisfaction. Among the affiliated stores’ comments, what were those that made you believe the pay-per-inquiry-based fee structure will attain success in future?

Comments made respectively by Company A and Company B. NEXT migrated from the pay-per-posting fee structure to the pay-per-inquiry-based structure based on the view that the former structure would provide only a limited upside. In other

words, the fee structure change was implemented in conformity with the Company's strategy of valuing both quantity and quality. The circumstance mentioned in Company D's comment does not constitute the goal that the fee structure change had sought to attain although that had been the desirable scenario we had had in mind. Our affiliated stores are generally visited by cold-call potential customers as well as by those who make prior contact by e-mail or by phone. During the days when the pay-per-posting-based fee structure was still in place, cold-call would-be customers were prone to be valued most highly by such stores, which tended to give less favorable treatment to potential customers making prior e-mail contact. Nowadays, however, the knowledge of each individual inquiry directly translating into fee payment to NEXT is motivating the affiliated store salespersons to provide better follow-up services to their customers, according to the comment in question. We are quite happy to hear that.

5. (Referring to information presented in Slide 34 of the Annual Report of Financial Statement) According to information provided in Slide 34, pay-per-posting-based and flat-monthly-fee structure is the norm for real estate information service providers operating in China. Does NEXT plan to employ the pay-per-inquiry-based fee structure for its operations in China and Thailand as it does in Japan?

We believe the pay-per-inquiry-based fee structure is an appropriate format to be used for the Chinese market. Given the country's vast land and huge population as well as the enormous number of properties that exist there, achieving increasing levels of property information comprehensiveness will give us a highly significant advantage over competitors. The real estate information portal sites run by listed Chinese companies currently employ the pay-per-posting fee structure, and provide information with a focus on new condominiums. The new condominium boom in China will be followed, in our view, by a boom in the actual demand-driven previously-owned condominium and rental property market segment. This is why we believe the pay-per-inquiry-based fee structure will be essential as a means of attaining growing levels of property information comprehensiveness. On the other hand, being a geographically smaller economy centered on Bangkok, Thailand is a market where it will not be very difficult to gain higher levels of property information comprehensiveness. Given the business cooperation to be provided by our local partner having strong relationships with the nation's real estate industry, it should not be particularly difficult for NEXT to achieve a large number of property information postings in Thailand, where we will use the pay-per-posting-based fee structure to begin with before migrating eventually to the pay-per-inquiry-based fee structure.

6. Operating profit margin, which stood at 16.3% for FY03/2011, is forecast at 5.7% for FY03/2012. You aim to achieve 25% in operating profit margin, going forward. In order to exceed the 16.3% level posted in FY03/2011 and to attain the targeted 25% mark in future, what strategic actions do you intend to take?

While at this point in time it is not possible to say specifically when the FY03/2011 profitability level will be restored, we plan to achieve it within the next two years.

7. You stated that the year-on-year decline in personnel costs for first half FY03/2012 and full year FY03/2012 is attributable to the cancellation of the plan to hire contract employees for the Lococom business, the plan previously slated for second half FY03/2012. As the amount involved appears to be fairly large, I would like to know how many contract employees you had previously intended to hire.

Although we had previously planned to hire sales staff totaling 80 and assistant staff numbering 20 to 25 as of March 31, 2012,

we decided to cancel the plan altogether.

8. (Referring to information presented in Slide 19 of the Annual Report of Financial Statement) I note that, following NEXT's migration to the pay-per-inquiry-based fee structure, the solution to the number of inquiries issue has been slow in coming. Is this due to new issues occurring one after another as you keep solving existing ones? Or is it due to your failure to complete, by now, the process of identifying all existing issues from scratch and solving them one by one, owing to the amount of time required to do so?

Having already come up with plans to deal with the existing issues, we are now in the process of solving specific issues one by one. It is not that new issues are occurring in the Company. As we are fully aware that our users are quite rigorous about website usability as well as posted object quality/quantity, we will continue to perform website revamps actively in an effort to achieve better usability. In our view, it is particularly important to attain an increased conversion rate (CVR) since any degree of unique user (UU) growth realized will prove to be futile unless CVR improvement is made.

With the existing issues currently being resolved one by one, we are nearing the end of the ongoing struggle. Our policy is to continue the efforts to improve website usability and raise CVR, followed by the initiative to boost incoming website user traffic and to acquire a greater number of UUs.

9. Do you have any idea about the likely level of sales (expected level) for the overseas business in FY03/2013?

We intend to make a small start for the first year, so any effect of the overseas business will be a marginal one.

10. What were the reasons for revising down your earnings forecast rather early in spite of the ongoing efforts to achieve an improvement in CVR?

Achieving the level of earnings previously forecast for FY03/2012 became increasingly challenging for NEXT because the "HOME'S" business line had recorded a lower-than-expected number of inquiries during the period prior to the forecast revision, coupled with a less-than-projected rate of CVR growth. Moreover, in the Lococom business, the Company decided to put the brakes on the operations and to reduce staffing, making a significant sales shortfall inevitable for this business line. The crucial point is what assumption to use regarding earnings for the "HOME'S" business line, from among the scenarios of improvement from now on, the continuation of the current trend and a further deterioration from now on. Still, we decided to revise the earnings forecast using a cautious assumption, just as we entered the second peak season, in consideration of the previous instance of an earnings shortfall that had occurred in the first peak season.

11. How long will it take for NEXT to attain the projected level of CVR, in your view?

Although being efficient in attracting inquiries directly, text-centric listing and SEO advertisings, the types of advertising to which a significant amount of advertising cost spending has been allocated thus far, have proven to be unsuitable for NEXT to demonstrate its position as Japan's top online real estate information provider in terms of the number of website-posted objects. As for CVR, if the advertising cost spending enhancement for the ongoing peak season contributes meaningfully to raising CVR, we will be able to improve CVR at a faster-than-expected pace. (This scenario has not been used as it is difficult to estimate the potential CVR contribution from the implementation of a NEXT branding program.) However, if such degree of positive contribution fails to materialize, that would indicate that we will be nowhere near achieving the projected CVR level.

12. Had the number of inquiries decreased immediately prior to the fee structure change? Or did the number of inquiries decline immediately after that fee structure change? If such a decrease had occurred in advance of the change, it should mean users' behavior did not have much to do with the fee structure change in question, and it would be reasonable to assume that other factors had been at work instead.

There had been a slight decrease in the number of inquiries immediately prior to the fee structure change. The soaring unit cost for listing advertising has made it difficult for NEXT to attain an increase in the number of inquiries even with expanded cost spending. Thus, it is essential for us to shift to a structure that will enable the Company to operate without relying heavily on listing advertising.

NEXT has not been able to fully demonstrate its position as Japan's top online real estate information provider in terms of the number of website-posed objects at a time when users tend to think individual websites do not differ from each other in the level of usability. This has resulted in website users being drawn to websites that are heavily advertised on TV. Under such circumstances, the key question posed to us now is whether or not to implement enhanced branding efforts during second half FY 2011 in a move to emulate such competitors' activities.

13. During second half FY 2011, do you plan to increase advertising cost spending on TV commercials, emulating competitors' advertising efforts?

From a Lanchester Strategy perspective, spending blindly on advertising will get you nowhere. So, instead of using TV commercials heavily, we will seek to raise our profile through advertising based on SNS and smart phone.

14. Among the various types of fee structures springing up in the industry is the type of service using a success-based fee structure, which constitutes a business model in which only website functions are employed for attracting property information postings, with a limited extent of staffing commitment. Do you regard such types of services as a threat?

Currently, we do not see operators using a success-based fee structure as a threat to us. The scenario of NEXT migrating to a success-based fee structure business model continues to be examined through our simulation work, yet this model is prone to involving high levels of operational volatility, according to our existing assessment. Therefore, we regard such business model only as a potential alternative, which may be adopted some time in future after an analysis of the prevailing conditions.