NEXT Co., Ltd. (2120)

Edited Transcript

Earnings Briefing for the Fiscal Year Ended March 31, 2016

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Corporate Participants:

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Presentation

Takashi Inoue, *President and CEO*

Welcome and thank you for attending this presentation of the Company's earnings results briefing for the fiscal year ended March 31, 2016.

As a part of efforts to ensure the proper and comprehensive disclosure of information, we endeavor to provide stakeholders with details of our outlook and plans over the medium to long term. For many of you, this would encompass a timespan of roughly three to five years, with the 2020 Tokyo Olympics positioned as a major point of reference.

The industry in which we operate, however, tends to adopt a longer term view. With an outlook that covers a period of 10 to 20 years and beyond, our attention is placed more on how to expand the market against the backdrop of such nationwide issues as the declining population and growing incidence of unoccupied housing.

While the future undoubtedly holds many challenges, I would like to convey our unwavering commitment to realizing all of our established goals together with continued growth and development.

In this context, NEXT has decided to forego the disclosure of detailed monthly data and the use of many of its indices. Recognizing that the information provided, in certain instances, is contrary to the Company's medium- to long-term view, we will now focus more on a limited number of key benchmarks when disclosing monthly information.

With this in mind, I draw your attention to the Index on page 1 for an outline of today's presentation, before turning to page 2, where we present several Key Points.

[Today's Key Point (Slide 2)]

I am pleased to announce that NEXT achieved record high revenues and profits for the fiscal year ended March 31, 2016. Results were extremely robust. Consolidated sales revenue climbed 41.5%, earnings before interest, taxes, depreciation, and amortization (EBITDA), improved 54.3%, and net income attributable to owners of the parent grew 48.7% year on year.

Looking at initiatives aimed at revitalizing the real estate industry as a whole, HOME'S PriceMap (http://www.homes.co.jp/price-map/) has evolved to provide rent information on top of the previously disclosed price data. Steps have also been taken to add a booking function to HOME'S PRO Smart Property Viewing. Steady progress is being made with trials to create an ideal market in which transactions can be completed entirely online.

As far as the evaluation of building performance is concerned, NEXT continues to promote open disclosure. We are working diligently to increase the transparency of information as it pertains to the real estate industry including real estate companies, pricing, and property information. I will touch on this in more detail shortly.

Turning to the issue of *Minpaku*, or "home-sharing," properties, an area that is attracting considerable interest, we are planning to launch a platform in June that is dedicated to legal private lodgings, along similar lines to Airbnb.

Details of our entry into this market are presented in a press release issued on May 10, 2016.

[Trends in Consolidated Revenue (Slide 3)]

On this page, we provide details of trends in consolidated revenue. As you can see, existing businesses continue to grow steadily. In the immediate term, the Domestic Real Estate Information Service segment is also exhibiting steady growth. Moreover, revenue from the Domestic Services for Realtors segment is expanding thanks to acquisition and other effects.

Revenue from the Overseas segment has increased substantially. This is mainly due to the full fiscal year's contribution from Trovit.

The Others segment remains a minor component of our overall operations. We are, however, seeing signs that our endeavors in this segment are gradually bearing fruit.

[FY2015 Review (Slide 4)]

Looking back on the fiscal year ended March 31, 2016, I draw your attention to page 5.

[Topics of FY2015 (Slide 5)]

NEXT undertook a number of initiatives during the fiscal year under review. Due to the constraints of time, I am unable to address each and every endeavor.

Focusing on a few of the key initiatives, the Company undertook a series of rapid-fire activities in order to bolster its product services.

At the same time, we worked diligently to reinforce our promotional capabilities. Against the backdrop of advances in digital marketing, we made every effort to lift our performance by introducing and maximizing the effect of cutting-edge technologies.

The fiscal year ended March 31, 2016 was also a year in which strategic moves were made through the acquisition of companies. By taking an equity interest in various entities, NEXT has laid the foundation for future growth.

Looking back, I am convinced that we have taken positive strides toward achieving our medium- to long-term targets.

[Consolidated Results for FY2015 (Slide 6)]

Moving on, I would like to elaborate on the Company's performance in the fiscal year ended March 31, 2016. Please turn to page 7.

[Simplified Income Statement (Slide 7)]

Revenue in the fiscal year ended March 31, 2016 totaled 25 billion 707 million yen, an increase of 41.5% compared with the previous fiscal year. With EBITDA coming in at 4 billion 859 million yen, results for the fiscal year under review were extremely sound. Looking at the notes below the table on this page, items 3 and 6 warrant particular mention. As indicated in note 3, personnel expenses increased following the inclusion of Trovit and Lifull Marketing Partners, or Lifull MP, as subsidiaries in the Company's scope of consolidation. As far as one-time costs are concerned, the Company also recorded an additional amount to cover overseas subsidiary payments. As a retention, or "goal-in" type, bonus, payment is dependent upon certain executives achieving preset goals. In this instance, the amount in question is therefore considered a provision. Turning to note 6, the increase in other costs is again mainly due to the inclusion of Trovit and Lifull MP as subsidiaries in the Company's scope of consolidation.

The Company has also incurred higher costs as a result of the establishment of Lifull Bizas in Kochi City, Kochi Prefecture. As a shared service subsidiary, Lifull Bizas is charged with the responsibility of improving the efficiency of various back-office activities, including order management as well as billing, help-desk support, and call center operations.

We are confident that the increase in other costs is temporary in nature, and will be offset through efforts to reduce expenditure and to improve back-office efficiency.

[Expenses-to-Sales Ratio and EBITDA (Slide 8)]

Here on this page, we provide a snapshot of trends in the expenses-to-sales ratio and EBITDA. Looking first at the full fiscal year graph at the left side of the page, the ratio of advertising expenses to sales has declined from 32.7% in the fiscal year ended March 31, 2015 to 28.6% in the fiscal year ended March 31, 2016.

In the most recent fourth quarter, from January to March 2016, this ratio has improved 11.2 percentage points compared with the corresponding period of the previous fiscal year.

In contrast, fourth quarter personnel expenses as a ratio to sales has increased 2.8 percentage points year on year. Taking into consideration these and other factors, the ratio of EBITDA to sales came in at 18.9% on a full fiscal year basis.

I would now like to touch on the contributions of each service segment to the Company's total sales. Please turn to page 9.

[Segment Revenue (Slide 9)]

In the fiscal year under review, trends in Domestic Real Estate Information Services were robust. Revenue from this mainstay segment totaled 18 billion 417 million yen, up 18.1% compared with the previous fiscal year.

The Rental & Real Estate category was again a major contributor to the segment. Trends in this category were also robust, with revenue climbing 23.7% year on year.

Revenue from the Domestic Services for Realtors segment was especially strong surging to 3 billion 122 million yen. The Overseas segment also reported substantial revenue growth.

While still representing only a small portion of the Company's business, the Others segment reported revenue of 660 million yen. We are pleased with this effort and can bear witness to the definitive steps being taken to move forward.

As indicated in notes 5 and 6 at the bottom of the page, results were impacted by the inclusion of Lifull MP in the Company's scope of consolidation from June 2015.

In addition, and while HOME'S undertook the placement of various advertisements, an exclusive agency contract for the handling of ads has been concluded between Lifull MP and the Company.

Looking at results for the New Houses & Condominiums category, the growth in revenue would appear to be low. As identified in the Company's "Consolidated Financial Report for the Fiscal Year Ended March 31, 2016," however, a large portion of the revenue generated by newly-built condominiums is posted as Lifull MP revenue in the Domestic Services for Realtors segment. With this in mind, we would ask that you confirm the Company's performance by reviewing results on a combined revenue basis.

Results from the Company's customer relationship management, or CRM, and data management platform, or DMP, services, which are also included in the Domestic Services for Realtors segment, remained strong, exhibiting double-digit percentage growth.

As indicated in the table on this page and note 6, revenue from the Overseas segment witnessed a substantial increase. This largely reflected the inclusion of Trovit in the Company's scope of consolidation.

Due to the impact of such factors as fluctuation in foreign currency exchange rates, revenue from the Overseas segment for the fourth quarter declined 7.8% year on year after converting into yen. Despite this downturn in revenue, short-term earnings remain steady.

I will elaborate on our outlook regarding the future impact of foreign currency exchange rates as I outline our forecasts for the full fiscal year ending March 31, 2017 later in this presentation. At this point, I would just like to confirm that the Company is adopting a conservative approach toward foreign currency exchange rates given the weak nature of the euro against the yen.

Needless to say, our business continues to enjoy steady growth.

Please now turn to page 10 for details of trends in segment income.

[Segment Income (Slide 10)]
The Company has witnessed solid income trends across all of its business segments. This was especially true for the Domestic Real Estate Information Services segment, where income grew substantially to 3 billion 540 million yen.

Income in the overseas segment also increased significantly thanks to the 12-month contribution from Trovit.

As you can see from the notes listed at the bottom of the page, income generated by existing categories in the Domestic Real Estate Information Services segment exceeded full fiscal year targets mainly on the back of successful efforts to control costs.

As I mentioned a moment ago, the establishment of Lifull Bizas has had a temporary impact.

In the Overseas segment, results were impacted by costs including personnel expenses incurred by the International Business Division at the Company’s head office in Japan.

Other expenses included an allocation to the Company’s reserves for the payment of overseas subsidiary retention bonuses.

[Statements of Financial Position and Goodwill (Slide 11)]
Here on page 11, I would like to touch on the Company’s financial position. Liabilities as of the end of the fiscal year under review declined substantially compared with the previous fiscal year-end. This was mainly due to the repayment of borrowings following an increase in capital.

Total assets as of March 31, 2016 stood at 25 billion 265 million yen, up 2 billion 673 million yen compared with the previous fiscal year-end.

Total liabilities came to 8 billion 123 million yen, down 3 billion 615 million yen.

The downturn in total liabilities was mainly due to the drop in current liabilities, which declined 5 billion 177 million yen year on year, to 5 billion 991 million yen. As indicated at the right side of the page, this was ostensibly attributable to the decrease in short-term borrowings of roughly 6 billion 29 million yen.

As a result, and after taking into account the increase in capital and other factors, net assets increased substantially to 17 billion 142 million yen.

Turning to the list of notes at the bottom of the page, I would ask that you pay particular attention to notes 7, 8, and 9.

I will now take a quick look at the Company’s cash flows. Please turn to page 12.

[Statements of Cash Flow (Slide 12)]
Cash and cash equivalents as of March 31, 2016 stood at 6 billion 625 million yen, up 2 billion 357 million yen compared with the previous fiscal year-end. We are in the process of further strengthening our financial position.

[Business Strategies (Slide 13)]
Moving on, I would like to explain our business strategies. Please turn to page 14.

[NEXT Group Mid-to-Long Term Growth Strategy Roadmap (Slide 14)]
As I mentioned in my introduction to this presentation, the Company is looking to take the following steps in a bid to transform the industry and become a global company over the next five to 10 years and beyond.

The first step is to simultaneously transform the real estate industry, an aspiration we have held since our foundation, and to increase the transparency of information as well as the evaluation process while expanding the depth of coverage. In this context, our initial point of focus is property information.

Our ultimate goal is to create a comprehensive database that covers all of the real estate databases in Japan.

The next point of focus is pricing information. From both the domestic and overseas perspectives, real estate prices in Japan are extremely difficult to clarify and understand.

It is not only embarrassing, but also unfortunate that the real estate sector in Japan ranks 26th among leading developed nations in terms of its transparency.

In order to increase the level of transparency, we plan to put in place a price map.

From a performance evaluation perspective, we undertake inspections to ensure that every aspect of a property including its aseismic performance and framework strength fully complies with accepted standards. Turning to the design and renovation of properties, we work to ensure that any appreciation in value is reflected in the purchase and sales price.

Over the past four decades, the value of Japan’s lost assets is estimated at 500 trillion yen.

A large portion of this value can be attributed to the complete depreciation of properties over a period of 20 years.

On an annual basis, this comes to around 12 trillion yen.

Through a repetitive cycle of construction and demolition, the values of properties fall to zero over the span of 20 years.

For this reason, it is exceedingly difficult for funds to circulate in the form of real estate investment. This is especially the case for residences made out of wood.

The Company is committed to promoting performance evaluation in order to overcome this dilemma.

When it comes to evaluating real estate companies, I am sure that you have all had some experience in the leasing, purchase, and sale of properties.

The level of a company’s integrity and reliability is a mirror reflection of the level of customer satisfaction.

In this regard, you may have experienced a situation where the services provided fell well below expectations.

Our goal is to put in place a transparent evaluation system and to help build a sound market in which users can easily identify companies that can be assured of providing first-rate services.

As far as the operating efficiency of real estate operators is concerned, it is disappointing that in this age of information technology and rapid developments in use of the web that a portion of work remains labor intensive.

We will continue to support the growth and development of the market by leveraging advances in IT to increase the efficiency of operations.

The second step is also consistent with national policy.

Japan is today experiencing a prolonged increase in unoccupied housing amid efforts to transition toward a tourism-oriented country. Against this backdrop and the growing focus on *Minpaku* and other formats, Japan’s Ministry of Land, Infrastructure, Transport and Tourism has declared its intention to double the size of the existing property secondary market while demolishing properties that are deemed to have no use and retaining properties of value.

For some time, the government has also highlighted its intention to expand the property reform and renovation market by several trillions of yen.

As a private-sector company, NEXT is in full agreement with this initiative, and plans to help boost the government's endeavors going forward.

In a bid to revitalize the market, we will also look closely at areas outside the *Minpaku* format including day-care as well as small-size nursing centers. In this regard, and as I just mentioned, we will strive to develop new applications.

We believe the opportunity exists to generate earnings across a variety of formats that are in tune with each region. This includes restaurants as well as traditional Japanese-style house cafes.

Moving toward comprehensive online real estate services, progress is being made in the trial of systems that explain important contractual matters via the Internet.

One of several initiatives currently in the works entails efforts to expand the market. We are working to put in place an investment-type cloud funding platform to facilitate the use of the growing number of unoccupied houses. In those instances, where owners of vacant properties lack the financial or economic capacity to undertake additional investment, we intend to cast a wide net and employ a cloud funding platform to solicit funds from equity investors to cover renovation and acquisition expenses via the Internet. Profits from earnings generated will then be returned in the form of dividends.

NEXT is taking preparatory steps to rejuvenate idle assets by promoting the circulation of funds, know-how, and people.

After putting in place this real estate investment platform in Japan, we will turn our eyes toward overseas markets.

Taking into consideration the borderless nature of relocation demand in markets outside Japan, we will endeavor to establish a complete online platform.

Another key objective is to build a global platform in which small lot real estate investors can participate.

Today, a large number of financial instruments are readily traded online. As far as small lot real estate is concerned, however, there are no online indicators, indices, or investment evaluation mechanisms available. Conditions as they currently stand are extremely chaotic and difficult to understand.

Statutory and regulatory requirements also differ from country to country. We will make every effort to unify these constraints into a single platform in an effort to realize the ideal scenario over the medium to long term.

As I am sure you are all well aware, market capitalization of the global stock market as a whole stands at roughly 6 thousand to 8 thousand trillion yen. By my estimation, the value of real estate assets exceeds this amount by a wide margin at around 5 quadrillion yen.

I suspect you will have a deep understanding of the vast potential of a market that boasts liquid assets to the value of 5 quadrillion yen. Moving forward, we will work to create the necessary platform to realize this enormous market.

Looking at our growth strategy roadmap, step by step, I ask that you turn to page 15.

[Transform the Real Estate Industry (Slide 15)]

The name "FinTech" has enjoyed increasingly widespread acceptance of late. Turning to the real estate industry, we have coined the term "ReTech."

Through real estate technology, or ReTech, we will transform the industry.

[Covering Property Information (Slide 16)]

Here on this page, you can see that the total number of properties listed on HOME'S has expanded to around 7 million. By our estimates, this covers roughly 60% of all available information in Japan.

[HOME'S PriceMap to be Upgraded (Slide 17)]

As you can see from this page, upgrades to HOME'S PriceMap are also gradually increasing the transparency of prices.

Currently, HOME'S PriceMap provides property reference prices for approximately 1.5 million units of 160 thousand condominiums in the Tokyo metropolitan area. As we announced in a recent press release, the information provided has been extended to include estimated rents and yields.

I encourage you to take a look at the condominium prices that are plotted on the map, which employs the Google Earth application.

One click will reveal that property's details and specifications in the event of purchase. Estimated rent and yield information is also displayed in the event the property is leased.

Potential real estate investors can now obtain ready access to information on the purchase and sale price as well as rent and yield of a particular property in map format at a glance.

In the future, we will gradually extend the scope of coverage to cover the rest of Japan as well as properties other than condominiums.

[Visualize the Results of Home Inspection (Slide 18)]

Following steps to revise the Building Lots and Buildings Transaction Business Act, we are taking preparatory steps to provide information on whether a property inspection has been conducted or not. These steps are geared toward increasing the transparency of land and building performance evaluation.

At the same time, we will utilize the HOME medium to provide a service that will allow users to not only confirm whether a property inspection has been conducted or not, but also to ascertain fair value.

[Visualize Reputation of Realtors (slide 19)]

Here on this page, we outline certain initiatives aimed at evaluating real estate companies.

In addition to user word-of-mouth evaluations, we draw on HOME'S Hospitality Grand Prix initiative, which is based on ratings given by mystery shoppers.

Rankings are then set on the back of evaluations using a checklist that covers around 120 items.

We have also put in place the HOME'S Home Advisor certification system. Through information regarding whether a real estate company uses properties as window-dressing, provides prompt and efficient service, or has a history of complaints, users can view the certification mark as a sign of stable and reliable service.

[Basic Strategy for Real Estate Sector (Slide 20)]

Turning to page 20, I would like to touch on our basic strategy for the real estate sector.

We have presented details of our basic strategy for the real estate sector in a diagram format on many occasions in the past. Briefly, we will continue to employ information and online technologies to fully address administrative needs in line with the activities of users and real estate companies. More than just a matching service, we will extend our support to cover operating requirements. In this way, we will position HOME'S and its services as an indispensable component of the real estate sector.

The initiatives shaded in grey and orange represent services that the Group already provides. The initiatives shaded in red are either under development or in the planning stage. Finally, the initiatives shaded in white are yet to be undertaken and are earmarked for consideration in the future. These include correspondence in a foreign language, credit support, and deposit management.

In mapping out the operations of the industry, we have filled in many pieces of the puzzle. We believe that we have now entered a phase during which every effort will be made to increase awareness and acceptance.

Looking at specific examples where technology is being applied to the Company's services, I ask that you turn to page 21.

[Technology x Home Hunting (Slide 21)]

Our goal in the future is to enable service users to undertake and complete the task of hunting for a home entirely online.

By passing a sensor over lego blocks placed on a designated board, the Grid Vrick service allows users to automatically view a 3D computer graphic of a property of their own design within the matter of less than a second. Various aspects of the property can be identified and distinguished using different colors.

In certain cases, it took graphic designers more than four hours to produce a 3D representation in the past. Today, this can be achieved in an instant.

Utilizing our virtual reality service, users can then do a walk-through of the 3D computer graphic.

Using a device that is similar to a computer game controller, users can change the furniture and interior of the property, mix and match the type of materials used, and produce various simulations on a virtual basis.

These services were developed in-house by the Company.

Moving forward, we will further enhance the convenience and performance of the Virtual Reality service. With this in mind, energies will be channeled toward ensuring compatibility with any and all hardware, be it a device produced by Oculus Rift, Google, or Sony.

In order to alleviate the need for a real estate company salesperson to accompany a prospective client, our “smart viewing system” enables customers to access keys to properties using their smartphones. This allows them to freely visit a property on their own. Details have been disclosed in an earlier release, and we plan to expand sales of this service in the future.

Demonstration tests of an initiative that is designed to facilitate the explanation of important contractual matters online are ongoing.

Utilizing its Web communication system, HOME’S LIVE is a participant in demonstration tests that were launched during the summer of 2015. An interim report was subsequently released at the seven-month mark.

In addition to facilitating the explanation of important contractual matters online, this service incorporates a recording function to avoid any “he said/she said” conflicts. With access through smartphones and tablets, this service also eliminates restrictions imposed by location.

Drawing on the results of a social experiment and the interim report issued by Japan’s Ministry of Land, Infrastructure, Transport and Tourism, HOME’S accounted for more than half, or 54.5%, of the software used for the experiment.

The social experiment is scheduled to continue for roughly another year.

[The Network of Affiliated Stores is Expanding (Slide 22)]

Here on page 22, we take a look at our expanding network of affiliated stores.

The number of affiliated stores has expanded at an extremely rapid rate and now exceeds 18,000.

This is the first time that we have included this information in materials for our earnings presentation. Our goal is to expand this network to around 40,000 at which point our nationwide coverage will be complete.

Calculating backwards from a collection of data including the number of annual transactions and the earnings of real estate companies, we believe that around 40,000 is the right number to ensure comprehensive coverage. Currently, we are expanding our network and working toward this goal.

Moving on, I would like to briefly explain the HOME'S Omni-channel strategy. Please turn to page 23.

[HOME'S Omni-Channel Strategy (Slide 23)]

The trend toward online services continues to expand. Even with this increase in Internet users, however, demand for telephone consulting, as well as face-to-face discussions for more complex matters, are important components of the house-hunting process and environment.

Today, growth in shop-type counters and consultation desks is especially marked in the insurance domain. For the real estate sector, where complexities necessitate a higher level of expertise as well as detailed knowledge of legal, taxation, and related issues, we recognize the need for concierge services that encompass online, telephone, and face-to-face contact. In this regard, HOME'S is committed to eliminating any and all anxiety.

In this manner, HOME'S has adopted an omni-channel strategy in an effort to secure its position as the preferred partner of choice.

[Enhance the Market (Slide 24)]

The next step along the Group's growth strategy roadmap is "market vitalization." Please turn to page 25

[*Minpaku* (Home-Sharing) (Slide 25)]

Trials of the *Minpaku* (home-sharing) reservation service are scheduled to begin in June.

While I have personally made representations recommending reform to the Regulatory Reform Council, if we look at budget hotels, the most convenient of the four types of accommodation (hotel, ryokan, budget hotel, and lodgings) defined under the Hotel Business Law from April 1, then the restrictions on *Minpaku* would appear to have been lifted.

In reality, opportunities remain limited. A considerable amount of time and effort is still required to gain the necessary approval. Depending on the property, the period between application and approval can take up two to three months.

Discussions toward taking the next step and removing major significant constraints are underway. The timing and content of these discussions, however, remain unclear.

I suspect that details will eventually become clear at some time in the future.

Even in this preliminary stage, and whatever the outcome, I would like to convey our commitment to resolving the issue of unoccupied housing.

[Market Expansion (Slide 26)]

Next, I would like to elaborate on our views toward market expansion. Please turn to page 27.

[Investment-Type Cloud Funding (Slide 27)]

The goal is to build a model through which funds are procured using a variety of tools including remodeling, renovation, and interior work as well as efforts to attract customers that will allow the application of idle assets to generate income.

The income that is generated can then be returned to shareholders and investors.

Depending on the property, the opportunity exists to promote either investment- or finance-type cloud funding.

After entering into a capital alliance with JG Marketing, every effort is being made to complete the necessary preparatory steps to put in place a real estate investment platform.

A common misconception is that this investment platform is similar to a real estate investment trust, or REIT. Quite the contrary, the real estate investment platform that we envisage entails the online search for individual properties, as opposed to multiple properties packaged in a parcel. The distinguishing feature is the focus on single properties. Our goal is to contribute to the development of regions outside the major metropolitan cities, and to provide investors with the opportunity to support local communities in their hometowns. Several examples include investments in a 150-year old traditional Japanese-style house in Wakayama Prefecture or a village property in Kumamoto.

[Global Platform (Slide 28)]

Looking outside Japan, we aim to create and develop a borderless platform. Please turn to page 29.

[Toward the Global Platform (Slide 29)]

As indicated on the map on this page, and with the inclusion of Trovit (marked in green) in the Company's scope of consolidation, the NEXT Group has expanded its service area to 46 countries worldwide. In the last year alone, we have rolled out the Trovit model to three new locations. We have also launched the HOME'S model in Australia and have already commenced preparatory steps to expand even further.

[Investment Outlook (Slide 30)]

As in every presentation, we provide details of the Group's areas of particular focus. I draw your attention to the quadrant matrix on page 30.

[Medium- and Long-Term Growth Outlook (Slide 31)]

Here on page 31, we provide details of trends in EBITDA. With a view to increasing management and operating efficiency, the NEXT Group is targeting an EBITDA margin of 28%.

In the fiscal year ended March 31, 2016, revenue came to 25 billion 707 million yen. Revenue is forecast to total 31 billion 653 million yen in the fiscal year ending March 31, 2017. We are also projecting an increase in EBITDA to 5 billion 803 million yen for an EBITDA margin of 18.3%. The goal is to lift this margin even further to 28.0%.

Following the acquisition of AXELION, and the subsequent change in the company's name to Lifull MP, the Company has necessarily witnessed a downturn in its profit ratio. This is largely attributable to Lifull MP's inherent advertising agency function and the impact on earnings. Moving forward, we are in the process of improving our profitability while making the required adjustments.

[Forecasts for FY2016 (Slide 32)]

Turning to forecasts for the fiscal year ending March 31, 2017, I draw your attention to page 33.

[Forecasts for FY2016 (Slide 33)]

In the fiscal year ending March 31, 2017, EBITDA is expected to come in at 5 billion 803 million yen on revenue of 31 billion 653 million yen.

Looking at the revenue by service table at the right side of the page, results in the Domestic Real Estate Information Service segment are projected to climb 17.0% year on year, to 3 billion 131 million yen. Revenue in the Rental & Real Estate category is forecast to grow 2 billion 250 million yen, or 18.6%, year on year, to 14 billion 316 million yen.

As far as the amounts of increase are concerned, the pace of growth for the fiscal year ended March 31, 2016 and fiscal year ending March 31, 2017 is roughly the same.

In addition, the Custom-Built Homes & Renovations category has enjoyed robust recent growth. Revenue is forecast to expand substantially going forward.

The Domestic Services for Realtors segment is also anticipated to witness rapid revenue growth.

From an Overseas segment perspective, revenue is expanding steadily on a euro basis. While the yen amount listed in the table is after taking into account the Company's somewhat conservative stance toward foreign currency exchange, and in particular the euro/yen rate, revenue is forecast to climb sharply in local currency terms.

Details of operating income are presented in the notes at the bottom of the table. Personnel expenses are projected to increase in line with the Group's overall growth.

These forecasts take into account a number of factors including various one-time costs associated with the relocation of the Company's corporate headquarters, efforts to increase floor space, and the potential payment of retention bonuses.

Trends in EBITDA are presented in more detail on the next page.

[Forecasts for FY2016 (Slide 34)]

In the fiscal year ending March 31, 2017, EBITDA is forecast to come in at 5 billion 803 million yen. After taking into consideration the increase in one-time expenses, this represents a year-on-year upswing of 19.4%. Excluding the aforementioned special factors, EBITDA is forecast to climb 34.9% year on year.

While a breakdown of one-time expenses is presented on a virtual basis, the difference in EBITDA results for the fiscal year ended March 31, 2016 is made up of accrued bonuses, or an allocation to reserves to cover the payment of retention bonuses.

Under normal circumstances, EBITDA comes in at around 5 billion yen. The drop is therefore attributable to accrued bonuses.

Returning to the forecasts for the fiscal year ending March 31, 2017, again EBITDA comes in at 5 billion 803 million yen. In this instance, one-time expenses comprise moving costs as well as accrued bonuses (or the allocation to reserves to cover the payment of retention bonuses). The Company has also factored in a conservative approach toward foreign currency exchange rates. Taking each of these factors into consideration, I ask that you take particular note of the resulting discrepancy.

[Forecasts on Expenses-to-Sales Ratio and EBITDA (Slide 35)]

Here on this page we provide a breakdown of sales. In the fiscal year ending March 31, 2017, the cost of sales and other SG&A expenses are forecast to make up 31.7% of sales. This includes a variety of costs outlined a moment ago.

[Profit Sharing (Slide 36)]

This is the first time for us to present details of profit sharing as a part of the Company's earnings presentation materials.

Drawing on the principles of public interest capitalism, NEXT Co., Ltd. adheres strictly to a policy of concentric management. Rather than favor any one interest, we work diligently to provide adequate returns to all stakeholders.

In this context, we have coined the term “aspiration-” or “will-centric” public interest capitalism.

In adopting this philosophy, we engage in a wide range of activities from a medium- to long-term perspective while positioning altruism, and the interests of consumers, clients, employees, partners, shareholders, the global environment, and society, at the heart of our business operations.

[Dividends (Slide 37)]
As one example, we provide details of our dividend policy and trends here on page 37.

The Company strives to maintain a payout ratio of 20%. On this basis, we are planning to pay a dividend of 5.3 yen per share for the current fiscal year.

Looking at other aspects of efforts to promote “will-centric” public interest capitalism, I draw your attention to page 38.

[The Results Achieved by Taking Initiatives to be the Best Company (Slide 38)]
For around eight years now, the Company has placed considerable weight on efforts aimed at building a workplace environment in which employees can go about their duties in a vigorous and enjoyable manner, while feeling a strong sense of fulfillment. Our goal is to be universally recognized as the company in which employees would most like to work.

As a result of these endeavors, NEXT Co., Ltd. is the only company in the service sector to have been selected as a “health and productivity” stock in a management program organized by Japan’s Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.

Among a host of accolades, the Company was also ranked 2nd in the “Best Motivation Company Awards” organized by Link & Motivation, 12th of listed companies that new graduates are finding themselves happy to work at, and 6th among global companies headed by Google and Microsoft with 100 to 999 employees as a great place to work.

Each of these accolades reflects the Company’s success in adhering to the principles of “will-centric” public interest capitalism and its efforts to provide returns to various stakeholders.

In closing, I would like to touch on some of the Company’s social activities. Please turn to page 39.

[Social Action Support Program – One P’s (Slide 39)]
NEXT has established the Social Action Support Program that encourages employees to participate in volunteer activities.

Under the name “One P’s,” the Company contributes 1% of its employees total working hours and 1% of its previous year’s after-tax profits to an activity fund. Under the Social Action Support Program, the costs associated with volunteer activities undertaken by employees are subsidized by this fund.

In this manner, we are making every effort to contribute to society and to instill a sense of social responsibility across the Group as a whole.

[Designing Delightful Encounters (Slide 40)]
NEXT Co., Ltd. is dedicated to designing delightful encounters. Together with all stakeholders, we will work diligently to secure mutual sustained growth through a broad range of services.

This then concludes this earnings presentation. I would like to thank you for your attention and ask for your continued support and understanding.

Questions and Answers

Q1. My question is about *Minpaku* or home sharing. The Company has announced that it will commence trials of a *Minpaku* reservation service from June 2016. As is the case with the Airbnb site, I expect your intention is to generate income through matching fees. As far as your existing HOME'S site is concerned, the structure would appear to be quite different. In the case of the HOME'S site you have affiliated stores, beyond that owners, and then properties. Do you plan to create a separate channel? What kind of business model do you envisage?

I would also like to have your thoughts on how you see the market evolving. Presentations that you made to the Regulatory Reform Council in the past were based on a number of underlying assumptions including unit price. Has anything changed over the ensuing period to make you revise your earlier comments and recommendations?

There has been no end to discussions when it comes to the potential, shape, and format of the *Minpaku* market. As of the end of March, for example, the government announced that the number of inbound tourists to Japan surpassed 20 million last year. Scenarios have included the number of inbound tourists reaching 40 million, with each tourist staying for a period of five nights. During the last soccer world cup, we are told that the hotel *Minpaku* share came to roughly 20%. On this basis, some have argued that there is no reason for Japan's *Minpaku* share not to come in at say 10 to 20%. During various meetings, discussions have also touched on placing a limit on the period of accommodation. Figures that have been bandied about include 30 and 60 days. Bringing together this mix of scenarios, how do you see the *Minpaku* market evolving?

A1. (Takashi Inoue) In the final analysis, we envisage a business model along the lines of Airbnb. We will establish a separate site and engage in promotions both in Japan and overseas. In the short term, I can see difficulties in increasing the number of available properties. This is because of the considerable amount of time required to obtain budget hotel approval. Given the substantial volume of vacant property information, and ability to work closely with real estate management companies and property owners, I am confident the opportunity exists to expand the market in one fell swoop at the next stage when regulatory requirements and restrictions are eased.

How the *Minpaku* market will evolve and its likely overall scale is a difficult question. One useful reference is the policy recommendation issued by the Japan Association of New Economy. Here, the economic ripple effects of home sharing are projected to reach 10 trillion yen. While specific details have not been provided, renovation, reform, and interior work is estimated to contribute around 1 trillion yen. Accommodation in general is forecast to generate roughly 2 to 3 trillion yen.

Looking at the number of guests or lodgers, discussions inevitably lead to inbound demand. As I mentioned a moment ago, the number of inbound tourists to Japan surpassed 20 million last year. The government has in turn set the ambitious targets of 30 and then 40 million. As the world’s top tourist destination, France welcomes 80 million tourists each year. Japan by comparison has the potential to attract 100 million visitors. This is because of a number of factors. Trends in tourism are said to peak at an air travel distance of around five hours. Rather than the population of Europe, Japan is in close proximity to the massive markets of China and Asia and boasts an abundance of sightseeing resources.

Meanwhile, overseas travelers make up less than 10% of the total number of guests and lodgers in Japan. In other words, domestic residents make up more than 90%. With this in mind, it is vital that we aggressively roll out and promote the necessary services. Japan boasts a large number of regional events that attract one million or more visitors. In most cases, accommodation in each region falls well short of addressing these needs. As such, day trips are generally the norm. We believe that a full-fledged *Minpaku* market would go a long way to providing a solution. The additional revenues that accrue would then help to boost earnings. I understand that this is not a definitive answer, but would ask that you draw your own conclusions from the thoughts that I have provided.

Q2. HOME’S PriceMap has evolved to provide rent information and yields on top of the previously disclosed price data. Turning to income properties, there are already a number of available sites including Firstlogic’s Rakumachi, Kenbiya, and Nomura Real Estate’s nomu com pro. I think it is safe to expect continued growth. Currently, you have HOME’S PriceMap. Are you planning on spinning off income properties and expanding the business through a separate designated site?

A2. (Takashi Inoue) We already offer a service that is similar to Rakumachi. In fact, our HOME’S Real Estate Investment site, which generates several hundreds of million yen, predates the Rakumachi service. Given the level of income, I have not discussed this service as a separate item in earlier earnings presentations. Ultimately, however, we plan to develop the HOME’S Real Estate Investment site into a global platform and will ramp up our efforts in this particular field.

We will, for example, continue to work with real estate companies and hold a number of real estate investment fairs each year. In the past, we held conferences and maintain a track record of attracting more than 1,000 real estate investors.

Q3. With a number of ongoing business activities, I understand that the Company has a wide range of options from which to choose when allocating management resources. When looking at a designated site like Rakumachi, however, I cannot help but think that your real estate investment activities are a minor priority within the Company's overall portfolio of services. I feel that there is room for a little more expansion. Utilizing HOME'S PriceMap, the opportunity exists to further expand the income property market. It seems a waste that you are not accelerating efforts to expand and push this side of the business.

A3. (Takashi Inoue) In overseeing the activities of the Group, I have in fact instructed the necessary parties to channel additional investments into this business domain. While I would like to do more, it is equally important that we maintain a balance across every facet of the Group's operations. Investing in too many areas is likely to trigger a decline in EBITDA. I am comfortable with the current level of investment aimed at boosting personnel numbers as well as advertising. My plan is to continue monitoring the situation for a little while longer before determining the next step.

Q4. Following your release in May, can we expect a significant jump in the number of HOME'S PriceMap users and page views as the popularity of this service increases? Or, do you think an upswing will only come after your current plans to expand service coverage have been brought to fruition? Can you elaborate in the context of HOME'S earnings?

A4. (Takashi Inoue) The capital region accounts for around 50% of the national market. As a result, our coverage currently stands at 50%. From a property perspective, our services are limited to the purchase and sale of condominiums, which I believe makes up roughly 30 to 40%.

With reference prices only covering condominiums in the capital region at the time of purchase and sale, our expectations of expansion through promotion were low in the past. Having included rent data in the scope of the service information that we provide, however, we will now look to undertake promotional activities. As I also posted on Facebook, the extent of share expansion is substantial. From this, it would appear that expectations are high. Recognizing the limits of our current level of activities, we will undertake additional expenditures to better inform people that these services exist and are now readily available.

Q5. What is your outlook on the future of *Minpaku* deregulation? Currently, *Minpaku* services are available through approved budget hotels. Can you see further deregulation in the future? If so, how do you think this will come about? Can you see an increase in the number of public health centers, which will help in reducing the period taken to obtain approval? Or do you see other means through which the process of deregulation will be simplified?

A5. (Takashi Inoue) Current discussions are leaning toward the removal of regulations imposed by public health centers and fire stations. The absence of statutory and regulatory requirements, however, would cause considerable anxiety to local residents. As an absolute minimum, it is vital that protection afforded under rental agreements and condominium management contracts is strictly maintained. Another topic of deliberation is the need to place maximum limits on the period of accommodation. Maximum limits are common outside Japan.

We are therefore looking at an unrealistic scenario. The market is unlikely to expand if participants are forced to clear all necessary procedural requirements one by one. The first step then is the removal of restrictions on budget hotels. The next step is complete deregulation.

Q6. Do you see any issues with respect to the pace of Trovit growth on a local currency basis? If so, what countermeasures do you plan to take in the future? Is Trovit growth progressing along the lines you first envisaged at the time of acquisition?

A6. (Takashi Inoue) I believe that the nature and pace of growth remains in line with our assessment at the time of acquisition. In order to take full advantage of this upside, we are strengthening sales and introducing new products.

Q7. With around the same number of properties as SUUMO, I suspect you saw ample room for sales revenue and income growth. This and other reasons surely factored into the decision to acquire Lifull MP. While it is still not quite one year since Lifull MP was included in the Company's scope of consolidation, do you feel that by lifting the media value of newly constructed properties you are seeing your initial expectations being realized, or quite the opposite, are you witnessing issues arise?

A7. (Takashi Inoue) Progress is in line with plans at the time Lifull MP was first included in the Company's scope of consolidation. The most important point is to participate as a consultant from the initial new property development planning stage. Lifull MP is very successful at doing so and has established strong relationships with clients. Accordingly, we are seeing positive results emerge. Of course this is not always the case, but there has been steady progress in developing deep ties through consulting with multiple companies.

Q8. Taking into consideration the continued strong yen, your forecasts for sales revenue and income in the Group's overseas operations seem extremely aggressive for the current fiscal year. What are your expectations? Which business in the overseas segment and in which country do you see an increase in revenue and income? Naturally Trovit is one area where you will look to boost results. When putting in place forecasts for the current fiscal year, what contributions do you see from Trovit, and what impact will foreign currency exchange rates have on performance?

A8. (Takashi Inoue) To be honest, we have adopted a conservative approach toward foreign currency exchange rates. With this in mind, we can be even more aggressive. Trovit will make up a large portion of our overseas operations. Next comes Indonesia. Efforts to strengthen sales and introduce new products at Trovit account for the increase over existing plans.