

## NEXT Co., Ltd. (2120)

### Outline of Briefing on Financial Results in Q1 for the Fiscal Year ending March 2017

Date:	Monday, August 15, 2016 11:00am - 12:00pm
Venue:	Meeting room of NEXT Co., Ltd.
Attendees of NEXT:	Takashi Inoue, President & CEO Kazuhiko Abe, Division Manager, Business Control Division Hidekazu Fukuzawa, Deputy Division Manager, Business Control Division Kazuhiro Yoshida, Corporate Communication Group, Global Corporate Communication Division
Number of attendees:	55 people

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#### < Main Points of This Quarter > Speaker: Fukuzawa

We delivered good results although the real estate market was not in a very good condition.

Our key performance indicators showed a considerable increase in overall profits with consolidated sales revenue up by 25.5%, EBITDA up by 9.9% and net profit up by 7.6% compared to the previous year. Lifull Marketing Partners (hereinafter referred to as “Lifull MP”), which we started to consolidate in July 2015 made a significant contribution to increase our sales revenue but due to the nature of the business, i.e., an advertising agency, cost of sales increased accordingly. EBITDA margin of 20.3% was slightly lower than the previous year, but it was within our expectation.

As for sales breakdown, sales cost increased by 5.3 points as a result of consolidating Lifull MP. Advertising expenses improved by 3.2% y/y after successfully saving expenses since 2Q last year thanks to our effort to control ad campaign volume and timing to place ads based on the result of TV commercial and transportation ad cost-effectiveness analysis. Although personnel expenses increased by 0.9%, it was within our expectation since it was as a result of an increase in the number of our subsidiaries.

< Sales by segment > Domestic services for Realtors registered a significant sales increase of +322.0% thanks to the consolidation of Lifull MP.

Overseas sales, although slightly increased on a Euro basis, was -8.9% y/y after negatively affected by stronger yen.

Domestic Real Estate Information Services sales showed a steady growth of +15.3%. Under the segment, the mainstay Rental & Real Estate business, which is charging realtors on an inquiry basis, increased its sales significantly by 14.6% after successfully increasing the number of users and number of inquiries accordingly. The number of affiliated stores increased by 28.9% y/y and is now 20,310 as of June 2016.

Custom-Built Homes & Renovations sales increased by 100.1% and almost doubled from the previous year. This was achieved not only by successfully increasing the number of users and inquiries for custom-built homes but also because the contract-based paid-for model we started to introduce in the Renovation business in Oct 2014 switching from the previous inquiry-based paid-for model is now on a track to grow.

< Segment Income > Domestic Real Estate Information Services, which is a highly profitable business, posted a significant increase of 33.4%. The reason why Domestic Services for Realtors incurred a loss was because personnel cost, etc. related to HOME’S new service launched in summer last year, was no longer recognized as an asset, namely, software or development cost, but recognized as an operational cost once the development was completed. Overseas, consisting of Trovit, an aggregation model business, and Lifull, a portal business similar to HOME’S, did not post a

big profit due to the negative impact caused by stronger yen and the advance investment required by Lifull.

< Status of the statement of financial positions > Goodwill decreased by 918 million yen affected by exchange rates. Net assets decreased accordingly.

< Cash flows > Operating cash flow increased by 1,126 million yen thanks to well performing HOME'S. Investing cash flow was just as usual unlike 1Q in the previous year when we withdrew time deposit. Increase of 199 million yen in investment securities is due to the minority investment we made in Jimoty. The plan we have with Jimoty is to tie-up with its website and transfer their users to HOME'S website, etc. Financing cash flow decreased by 552 million yen after we had paid dividend, etc.

As a result of above, cash and cash equivalent is now 6.7 billion yen, up 100 million yen y/y.

< FY2017/03 Forecast and Progress > Out of the full-year revenue forecast of 31,653 million yen, 1Q revenue was 6,846 million yen (achievement ratio: 21.6%). We believe we are on track taking the seasonality into consideration, since our revenue tends to be higher in 2H because a lot of people relocate in Jan-Mar period. EBITDA was roughly on track, 1Q was 1,392 million yen (achievement ratio: 24.0%) out of the full-year forecast of 5,803 million yen.

< FY2017/03 Forecast > The net profit growth ratio is likely to be lower than the previous year since we are expecting temporal cost increase including HQ relocation expenses, provision for bonuses and affect by foreign exchange.

Part of provision for bonuses is for retention bonus to be paid to our overseas subsidiary Trovit's employees based on EBITDA as of the end of this FY. Provision for this retention bonus will end at the end of Dec. Provision for NEXT (non-consolidated) employees' bonuses will also increase this year. This is because the employees' bonuses is calculated by deducting retained earnings, dividend to shareholders and corporate tax from net profit and since corporate tax will be lower this year, dividend and bonuses will increase accordingly. Stronger yen will also affect the result.

On a neutral-basis excluding all of the above mentioned factors, EBITDA will grow by 34.9%, meaning we are progressing well against our mid-and-long term target.

#### < **Business Strategy** > **Speaker: Yamada**

HOME'S business is inheriting the philosophy our President Inoue had when he established NEXT, which was to transform the real estate industry and let house-hunters find ideal place to live. We are always engaging in our business with the same mindset and aiming to create an environment which can make it happen.

As our mid-to-long term strategy, we would like to, first of all, transform the real estate industry which serves as the base for all house-hunters. In the meantime, we would like to develop new applications to existing real estates to respond to the vacant house issues in the age of declining population. We would also like to promote property online transaction, etc. to revitalize the real estate market and also contribute to the growth of Japanese economy by developing real estate investment platform, which meets investors' demand to purchase and sell properties in small

lots, to expand the real estate market. In the final phase, we aim to develop a global real estate platform catering to house-hunters and investors.

How are we going to transform the industry? As our first step, we aim to transform the area related to real estate transactions.

We believe that by visualizing real estate information we can revitalize and transform real estate transactions since real estate transaction is said to be equal to real estate information transaction. Real estate information can be classified into four categories, i.e., property information, price information, building performance information and realtors and sales reps reputation. We aim to keep expanding the coverage and improving accuracy of each information category while keeping them up-to-date and provide such information in an easily communicated manner and in a user-friendly format, which, we believe, should be a great strategy for us to take.

Next is about the current initiatives we are taking with HOME'S. The initiatives are based on the following three keys.

The first key is "coverage". As for coverage in terms of listed property information, we have been already working on for a while and steadily increasing the number of listed property information, especially rental property information, and the total number has already exceeded 7.7 million. In terms of the number of affiliated stores, it is now at a record-high level exceeding 20,000. We are on track to achieve 40,000 in a mid-term perspective. The major contributing factor is the tie-ups with local industrial organizations and print media, which has enabled us to acquire local small and medium size affiliated stores in an efficient manner.

In June, we opened a new branch in Sapporo. We aim to accelerate capturing properties in Hokkaido, where we could not develop in the past.

Second key is "visualization". We aim to visualize new information.

In order to visualize price information, we are providing "HOME'S Price Map" (<http://www.homes.co.jp/price-map/>), where reference prices are available with full transparency. We are currently working on to list reference prices for properties for trade and for rent in Kinki area in Sep, in addition to currently available reference prices of 160,000 condos or approximately 1.5 million units for trade or for rent in the metropolitan area.

To visualize building performance, we aim to evaluate properties fairly by conducting inspections, etc., since fair evaluation is currently not conducted at the time of property transaction. For example, all wooden houses aged 22 or over are evaluated to be zero value with no exception. In the past, there was no system to evaluate building performance at the time of real estate transaction. But now Land, Infrastructure & Transportation Ministry is promoting inspections, which we aim to utilize for real estate transaction to evaluate building by part, and to evaluate building and land separately based on the inspection results. By doing so, we aim to lead the industry to develop a market where people can trade real estate with trust based on the inspection results. This initiative has been selected as The Land, Infrastructure & Transportation Ministry's "FY2016 Residence Stock Maintenance and Improvement Promotion Business" and we are working on the development together with the partner corporations.

Final key is “improve efficiency”. We aim to provide support to realtors to improve their business efficiency by bring in more IT into their business and let them use the time they could save to collect more regional and property information.

We have two objectives with our HOME'S omni-channel strategy. First is to increase the number of touch points with the users as one of the HOME'S strategies to gain competitiveness. Second is to decrease the realtors' burden to attract customers by improving the users' probability before we introduce our users to them. Now as increasing number of users are using smartphone and SNS, we are starting to hear voices saying users are now making inquiries more easily. Assuming value of the inquiries either by e-mail or by phone will decrease in the future, one of our aims with the omni-channel strategy is to establish a channel where we can build face-to-face relationship with the users, which will enable us to introduce potential customers with higher probability to realtors. As a pilot, we will start from three counters, where we will introduce custom-built homes, but we are planning to gradually expand into other business segment and other geographical areas in the future.

<Current status with NabiSTAR, DMP service specialized for real estate industry>

NabiSTAR is a service which allows developers to optimize their marketing activities when approaching to their target customers by combining real estate companies' and HOME'S' audience data.

In June, we announced that we would jointly develop a new product with a U.S company “Kaizen Platform”, which will continuously improve real estate companies' website based on the combined data, which will be released in Sep. The product is receiving high expectation from real estate companies and as a result, NabiSTAR has been performing very well, with the number of real estate companies signing up for NabiSTAR has doubled y/y.

#### ◆◆◆ 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) < HOME'S Price Map > I heard you have started from properties for trade in autumn last year and would expand into properties for rent, but my question is what kind of direct effect have you been observing so far? I know that the number of inquiries including the inquiries for appraisal and the number of affiliated stores have been increasing but what about the conversion rate?

A:Yamada ) Although it is difficult to answer the size of the direct effect with specific numbers, what I can tell you is that our aim with this service is to increase the number of reference of users who are planning to sell their properties and to attract more property owners who may list their properties with HOME'S. Since the product is still under development, we have so far not been promoting the service on a full-fledged basis to raise its awareness among users, but we would like to gradually strengthen the promotional activities in the future starting from the timing when we expand the service into Kinki area in Sep.

Q) < Update on home sharing > Following the deregulation plan on home sharing announced by Land, Infrastructure & Transportation Ministry in June, I think the current direction is to deregulate, for example, maximum number of nights to stay can be 180 nights or 200 nights in the special zone, Ohta-ward. I know NEXT is currently providing the

service as a trial for free but so far how has it been accepted by users? What kind of reaction are you receiving?

A: Yamada) Home sharing is an area, we believe, we should work on as a company. Our plan is to provide home sharing matching service on our Lifull Stay website and we are currently waiting for the outstanding gray areas to be resolved. We are now under preparation to make sure we can start providing the service as soon as the deregulation is officially approved.

Q) <How to achieve the target number of HOME'S affiliated stores> I think HOME's is now covering most of Japan after opening the Sapporo branch but in terms of the number of affiliated stores you are so far achieving only 50% of your target. What do you think are the reasons potential stores are not signing up as members and what do you think is required to let them signing up?

A: Yamada ) The next 20,000 realtors we are targeting are so-called "tail" realtors, meaning, out of the total 100,000 realtors existing in Japan, they have low appetite for ads and being satisfied with placing their ads only on local media distributed in a small area. We believe that we can strengthen their loyalty and our relationship with them by providing support to improve their business operation efficiency or to expand their business. So, we aim to achieve the target of 40,000 by providing not only the services to attract customers but also other services to provide support to their business.

Q) Are you satisfied with Trovit's 1Q business result? I would like to hear how the company is evaluating the result.

A: Fukuzawa) To be honest, we are not quite satisfied with the result but it does not mean the result was terrible. We can still have hope for 2Q and 3Q. As introduced on page.37, Trovit has four major revenue sources. The largest revenue source is (1) Premium accounting for 60% of its total revenue, followed by (2) Google AdSense. (3) and (4) are new services launched this year. Revenue generated by (3) Ad Page has been increasing gradually but (4) RTB system is yet to see an increase in the revenue.

There are two bottlenecks they need to overcome to achieve further growth. First is attracting more customers. Trovit has strong SEO and is attracting a lot of customers from Google. Since the company joined NEXT Group in 2014, Trovit has been making its effort to expand its business into other markets and now providing its services in 46 countries, increased from the initial 39 countries. But in the meantime, Trovit could not afford to allocate enough resource to take SEO measures and improve efficiency in attracting customers at each market. Under the situation, Trovit has suspended to keep expanding into other countries for this fiscal year and has started to focus on attracting customers at each market. Specifically speaking, we aim to attract customers by taking SEO measures localized to each market since search words differ from one market to another even if the used language is the same. Second bottleneck is the weak sales capability since Trovit used to be consisted of engineers only. The strategy was to firstly provide the service for free and generate revenue by (2) while increasing the number of users and then promoting (1) to them. But the number of paid users is still small. NEXT executive officer is now seconded to Trovit to boost its business by recruiting and educating local employees and run PDCA cycle but, as of now, he has only reached "D" stage. We believe we will be able to see the effect in the future.

Q) Compare to your competitors, the number of rental properties listed on HOME'S has been growing faster. Is it because your competitors have changed the pricing? If there is any other reason, could you please let me know? And could you also tell me why your revenue growth has been smaller than the number of listed property growth?

A: Yamada) The trend in the number of property listed on HOME's has not been affected by the competitors' pricing because we are not pricing on a listing basis unlike our competitors but on an inquiry basis. The reason for the growth is thanks to the comprehensive tie-ups we have been making with regional industrial organizations and paper media. The reason why the revenue growth has been smaller than the growth we have been observing with the number of listed properties is because with our business model we cannot generate revenue no matter how many listings we have unless users make inquiries. Having that said, the revenue has been increasing more than 20% y/y and our marketing team and relevant members are making effort on a daily basis to maintain the current momentum.

Q) I am interested in your strategy to increase the number of users. Are you focusing more on not making any opportunity loss or focusing more on increasing the usage frequency? I am asking this because be it property for trade or for rent, your service is not a one users use very frequently. And because I also know that you tried to increase contact frequency in the past utilizing regional paper media, etc., but it did not necessarily seem to be successful.

A: Yamada) Our most important target has been and continuously will be the flow users. We are proactively promoting our services including branding both on-line and off-line. But it does not mean we are giving up with stock users. Since we think on-line channel alone may not be enough to increase contact frequency, we are adopting Omni-channel strategy, where we will provide our services by phone and face-to-face at the counters like a concierge to make sure we have increasing number of contacts with the users.

Q) I am interested in your strategy to expand your sales. You have earlier mentioned that you are going to increase the number of "tail" affiliated stores but what is the background? Is it because you have no other option after cultivating all major realtors in the urban cities? Or is it because such "tail" stores' information are different from those owned by major realtors and can generate more profit? Or is it because you can enjoy greater option up-sell? In a mid-to-long term perspective, what kind of affiliated realtors do you think you should increase to bring benefit to your business?

A:Yamada ) When we say "tail" realtors you may imagine realtors in rural areas but there are also "tail" affiliated realtors in urban areas. "Tail" realtors do not necessarily have ad demand throughout a year but our plan is to sell ad and business support service as a set at a timing when they do have demand for ad. Sales per realtor may start from a low level but at least we can gain a contact with them and we believe it still contributes to increase revenue per store because when these rural realtors need ads in the future they will spend as much as major realtors.

Q) Low ranked competitors are having difficult time. I guess some of them will be out for sale in the future but do you think acquiring one or some of them will bring benefit to your business? Or do you think there is any risk that your competitor get stronger by acquiring other competitor or by acquiring a business in different industry and upgrade themselves as a competitor providing a slightly different type of service?

A: Yamada) Since other party gets involved when it comes to M&A, we are always considering with Business Control Division. And we are also considering the right timing like we did when we acquired LMP or when we made investment with Jimoty.

A: Fukuzawa) We do not think we can further grow our business or enjoy synergy effect by acquiring a competitor which is operating exactly the same business as we do since HOME'S is already highly capable to attract customers and is already listing the largest number of properties on the website in Japan. So potential M&A target should be a company operating not exactly the same business but a similar business to ours.

Q) I remember that when you took SEO measure in late 2014 your business grew significantly. But after the first 12 months, i.e., since 2H in the previous year, the growth has not been as rapid as it used to be. Is there any SEO or non-SEO measure you can take to grow more rapidly than you experienced at that time?

A: Yamada ) It is very difficult to find a perfect solution to make it happen since SEO platform functions and algorithms are always being improved by Google based on their visions. We can only achieve a huge growth like we did in the past when one of our various measures makes a smash hit. Marketing team and relevant members are working on internally to keep modifying and improving the products on a daily basis.

Q) Could you provide me more details on Price Map? I was assuming that once you launch the service, the number of HOME'S page view and the number of users would grow and boost your revenue. But is there any additional functionality required for the service to significantly increase your mainstay business revenue? Or is there any functionality the service is still missing? If not, I appreciate any other supplementary information related to Price Map.

A: Yamada) We could not promote the service on a full-fledged basis not because of functionality-related reason but because the service has been only available in the metropolitan area. Firstly, we would like to expand the coverage to include Kyoto-Osaka-Kobe area and then strengthen our promotional activities. We would like to monitor how many asset assessment inquiries we are getting from property owners and how many owners we are acquiring to analyze the investment effect when we engage in promotional activities.