NEXT
2120 Tokyo Stock Exchange First Section

22-Oct.-14

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The keynote of increasing sales continued in Q1 and the company is continuing to strategically invest for long-term growth

NEXT Co., Ltd.<2120> (hereafter, "NEXT" or "the company") develops information services in various lifestyle-related fields, including an insurance agency search and appointment website and a local community information site. Its primary focus is on managing the HOME'S real estate and housing information portal site. Its nationwide affiliated stores numbered 11,736 (the average of Q1 FY3/15) and its total listed properties numbered 4,320,000 (the average for June 2014), the largest number of listings in all of Japan. The unique feature of NEXT is its "inquiry-based billing" earnings model that charges affiliated stores based on the number of user inquiries. Leveraging its position as No. 1 in total number of listed properties, the company is raising its visibility and increasing the number of site visitors by aggressively expanding its branding promotion. As a result, earnings growth has been solid.

During the first quarter of the fiscal year ending March 2015 (Q1 FY 3/15, April 2014 to June 2014) sales increased but profits decreased, with sales of ¥3,852mn (up 13.4% y-o-y) and operating profit of ¥712mn (down 17.5%). This is basically in line with targets, as from the beginning of this fiscal year the company anticipated in its forecasts that it would front load its strategic investments. In addition to the increase in total listed properties, its number of site visitors and inquiries also increased thanks to positive branding, digital marketing, and other measures, which contributed to the increase in sales. But profits decreased mainly due to its strategic investment in advertising costs.

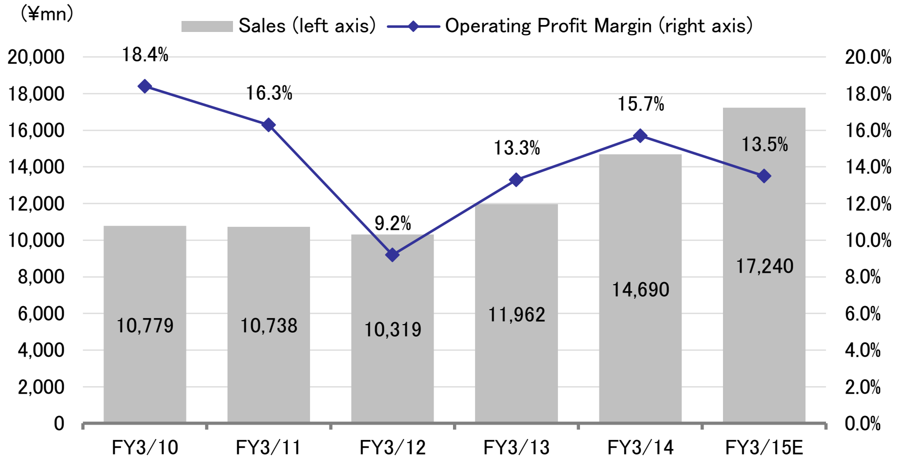
In FY3/15, NEXT expects sales and profits to increase, with sales of ¥17,240mn (up 17.4% y-o-y) and operating profit of ¥2,328mn (up 1.2%). The sales growth rate is expected to slow down slightly due to the impact of the consumption tax rate increase. Its cost rate rose as a result of the opening in April 2014 of HOME'S Style Market, a furniture and interiors e-commerce service, while the profit margin is expected to decline slightly due the reinforcement of digital marketing, the opening of new services in the real estate information domain, upfront investments, the development of new affiliated stores, and the cut-off error from the previous year. NEXT has positioned FY3/15 as a time for investment in long-term growth.

As a growth strategy, NEXT's earnings drivers over the near term are the establishment of a dominant No. 1 position through reinvestment and the creation of a real estate industry business platform by expanding and upgrading business support services for real estate companies. Further, as part of this strategy, NEXT will expand overseas and develop new businesses.

Check Point

- The increase in sales but decrease in profits in Q1 was in line with targets, due to the front loading of strategic investment
- The company is focusing on branding promotion and new services for realtors
- The forecast for its profit margin can be used for evaluation.

Sales and Operating Profit Margin



Company Profile

HOME'S total listed properties of 4.32 million is the largest in Japan

(1) Business Activities

NEXT develops information services in various lifestyle-related fields, including an insurance agency search and appointment website and a local community information site. Its primary focus is on managing the HOME'S real estate and housing information portal site. HOME'S provides a one-stop housing and property information service that includes "Rental and Real Estate Trade," "New Houses," and "Custom-Built Houses and Renovations" nationwide. Its nationwide affiliated stores numbered 11,736 (average for Q1 FY3/15) and its total listed properties numbered 4,320,000 (average for June 2014), the largest number of listings in all of Japan. The unique feature of NEXT is its inquiry-based billing earnings model that charges affiliated stores based on the number of user inquiries. Leveraging its position as No. 1 in total number of listed properties, the company is raising its visibility and increasing site visitors by aggressively expanding its branding promotion. As a result, earnings growth has been solid.

The company's business is divided into two segments, the Real Estate Information Services segment and the Other Businesses segment. The Real Estate Information Services segment comprises 99.1% of total sales (result of FY3/14). Further, the Real Estate Information Services segment is divided into "Rental & Real Estate Trade," "New Houses," "Custom-Built Houses and Renovations," "Realtors' Network (CRM services for the real estate industry)" and "Others (elderly care service, relocation estimates, renovations, trunk rooms, overseas business, etc.) The Other Businesses segment consists of "MONEYMO," an insurance agency search and appointment website; "Lococom," a local community information site; "HOME'S Style Market," a furniture and interiors e-commerce site; and other businesses.

* Up to FY3/14, it was divided into "Rental and Real Estate Trade," "New Houses," "New Condominiums," "Custom-Built Houses and Renovations," "Renter's Network," and "Others."

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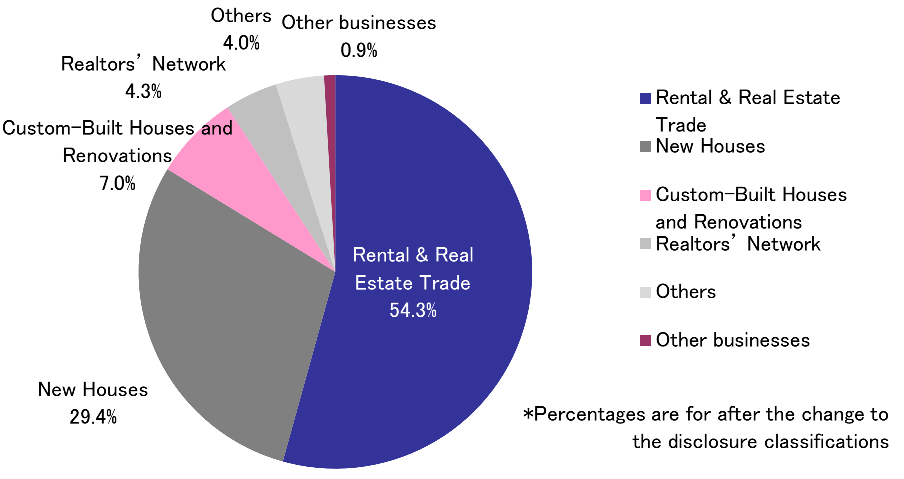
Pie chart of sales breakdown for FY3/14



*Percentages are for after the change to the disclosure classifications

NEXT has six consolidated subsidiaries (one in Japan and five abroad). Its wholly owned domestic subsidiary, Renters Co., provides customer relationship management (CRM) services for real estate companies. Overseas, NEXT has one subsidiary in Indonesia (50.0% ownership ratio), one in Thailand (99.9% ownership ratio), and three which used to do business in China (however, the three Chinese subsidiaries are now in the process of being liquidated). Also, the company has one equity method affiliate, FLYMEe Inc., which manages its furniture and interiors e-commerce site (20% ownership ratio).

Developing its businesses into adjacent areas, focused on its real estate and housing information portal site

(2) Company history

NEXT was founded in Yokohama City, Kanagawa Prefecture in March 1997 with the goal of providing services that enable free online access to real estate property information. When President and CEO Takashi Inoue, the founder of NEXT, was employed at Recruit Cosmos Co., Ltd. (now Cosmos Initia Co., Ltd.<8844>),a major real estate developer, he felt that there was an asymmetry of information (unequal distribution of information) and still room for greater management efficiency in real estate companies. Thus, he started the company with the aim of creating an information infrastructure that would benefit both users and real estate companies by making information for the many home buyers and renters easily accessible and by broadening their options.

In April 1997, NEXT started the real estate and housing information portal site HOME'S service, its core business, but until it secured a certain total number of listed properties and pulled in more site visitors, it was not a profitable line of business and management continued to be dependent on website construction support business for real estate companies. However, spurred by its unceasing adherence to its founding principles and the growing number of Internet users, the company established a business base while gradually raising the value of its media. In January 2002, NEXT concluded a capital tie-up with Rakuten, Inc. (4755) aimed at strengthening its content, increased its earnings while raising its media value, and listed on Tokyo Stock Exchange Mothers in October 2006.

In addition, NEXT started the local community information site "Lococom" in October 2006. Renters Co., which provides business support CRM services for real estate companies, was turned into a wholly owned subsidiary in April 2007. At the same time, NEXT expanded its service domain by taking over the online homebuilding business run by ITOCHU Corporation (8001) and the home renovation business run by ITOCHU Electronics (now Itochu Interactive Corporation),and listed on the first section of the Tokyo Stock Exchange in March 2010. Further, it launched the "MONEYMO" site, an insurance agency search and appointment website, in February 2011.

A major turning point for the company was the revision of its fee structure carried out in January 2011. To achieve even greater growth and to eliminate the asymmetry of information, a founding concept, NEXT recognized that increasing user convenience by having a huge total number of listed properties and differentiating itself from competitors are what really counts. It therefore changed from its past billing system based on the total number of listed properties to a new billing system based on the number of inquiries. The change in the billing system, even though it temporarily caused earnings to decline, brought about a rapid increase in total listed properties, and established NEXT as No. 1 in total number of listed properties, and is contributing to the company's current growth.

Overseas, the company launched its real estate and home information site service in Thailand in January 2012 and in Indonesia in August 2012.

Advantages: Unique Revenue Model, Strong Ability to Attract Customers, and Organizational Strength

(3) Special Characteristics of NEXT

The greatest feature of HOME'S is its No. 1 position in total number of listed properties. The fact that HOME'S is No. 1 in total number of listed properties attracts users and this creates a virtuous cycle, whereby the number of affiliated stores and total listed properties increases further and drives company earnings. What enabled NEXT to become No. 1 in total number of listed properties was that it developed its business through the 4P Strategy, which it has implemented for three years since 2011. The 4P Strategy consists of a price strategy (change in billing method), a product strategy (website upgrades), a promotion strategy (branding promotion), and a placement strategy (marketing strategy). Above all, 1) a unique revenue model, and 2) strong ability to attract customers, which are backed up by the organizational strength it derives from its unique style of management, are what gives the company its advantage.

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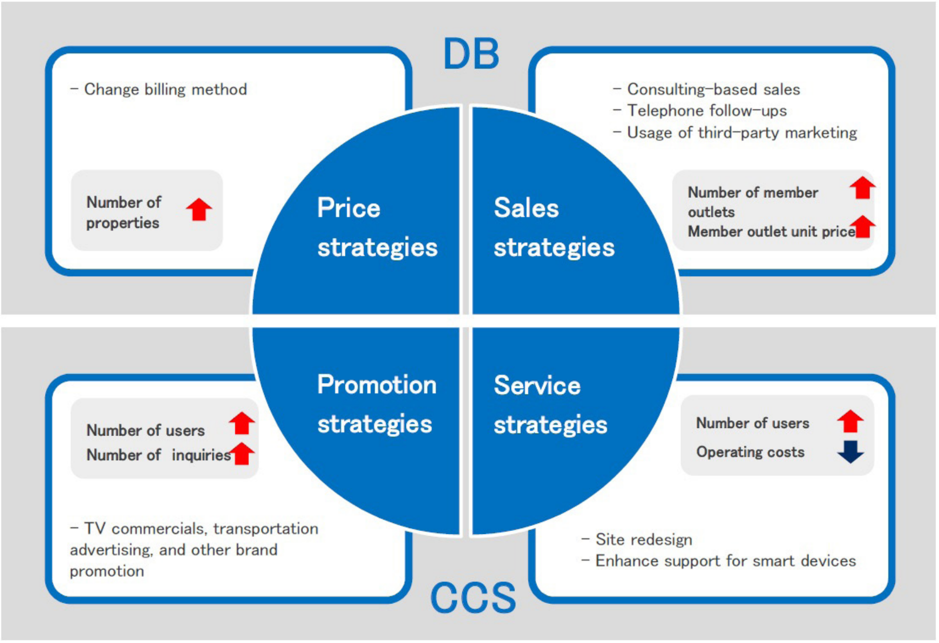
4P Strategy



Source: Company

1) Unique Revenue Model of Billing based on Number of Inquiries

The increase in the total number of listed properties was caused by the revision of its fee structure. To increase user convenience and differentiate itself from competitors by the total number of listed properties, in "Rental & Real Estate Trade," its volume zone, the company changed from a billing system based on the number of total listed properties, which is the industry standard, to a billing system based on the number of user inquiries. This change has led to a rapid increase in the total number of listed properties. From the affiliated stores' perspective, paying only a fixed base rate, in which their costs won't increase no matter how many properties they list, motivates them to list more properties. Moreover, a network externality* is at work on HOME'S, which can increase site visitors as the total number of listed properties increases, and this is considered a reason behind its successful matching of interests of both the company and affiliated stores.

* Network externality means that the more the number of members increases, the more each member benefits.

The company's inquiry-based billing is calculated by applying a certain rate to the rent of the subject property. However, the company plans to revise one part of its billing rate in Rental and Real Estate Trade in October 2014 (the effect on results will be negligible).

HOME'S Billing Rate Revision for Rentals and real estate sales

Rental Property Billing Calculating Formula

Monthly basic Fee + Property Rent/ Sales price × Billing Rates × Number of Inquiries from End Users (emails/phone calls)

Review

New Billing Rates

Rental		
Number of Inquiries	Old Billing Rates	New Billing Rates From Oct 1, 2014
1 to 15	5.5%	5.5%
16 to 60	4.0%	4.0%
61 -	~~2.0%~~	

Buying/Selling and Investment		
Number of Inquiries	Old Rates	New Billing Rates From Oct. 1, 2014
1 to 5	0.05%	0.05%
6 to 20	~~0.02%~~	0.03%
21 -	~~0.01%~~	

Source: Company

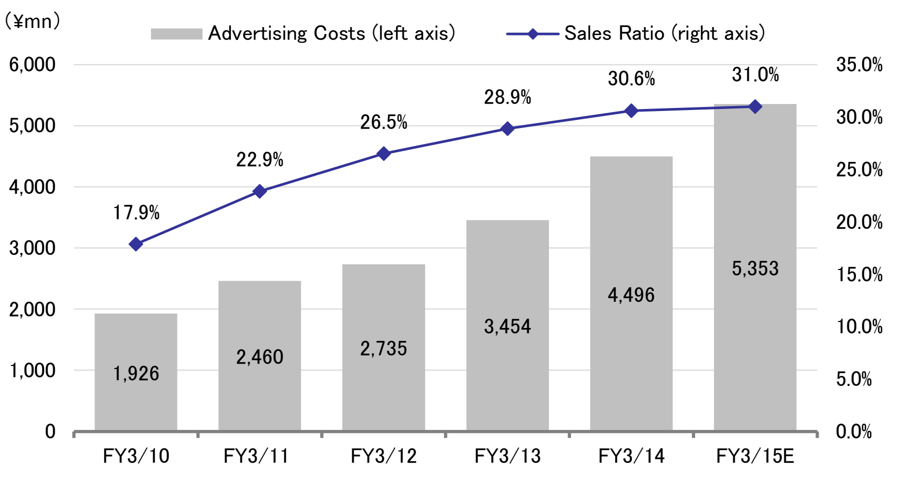
2) Strong Ability to Attract Customers through Branding and SEO

NEXT has focused on strengthening its visibility and its ability to attract customers to its site through aggressive branding promotion and highly precise SEO. The company continues its strategy of investing roughly 25% to 30% of sales in upfront investments for advertising costs, which has contributed to its higher visibility.

In the area of SEO, based on the effects of information volume from being No. 1 in total number of listed properties and website upgrades through integration and other measures, while at the same time as having its team of in-house experts collaborate with outside partners, the company continued to have the top average ranking of search results based on major keywords*. As a result, the company boasts the No. 1 industry ranking in number of site visitors (based on access from home and office PCs according to Nielsen NetView, August 2012 to February 2013). NEXT is also focused on increasing user convenience and was ranked No. 1 in user-friendliness according to the Gomez Real Estate Information (rental/buying and selling) site ranking (announced in December 2013).

* Major keywords refer to the selected words of rental, rental condominium, condominium, previously-owned condominium, apartment, new condominium, single family house, and new house.

Advertising costs (six years)



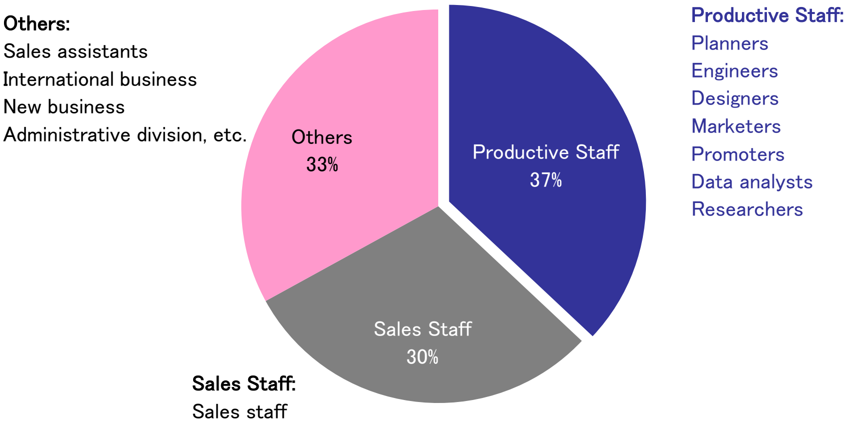
The "HOME'S" PC site

3) Organizational strength derived from its unique management style

The source of the company's strength is considered to be its organizational strength that it derives from its unique management style comprised of three elements; shared values, a corporate culture of taking on challenges, and thorough PDCA management. Its shared values are particularly prioritized when it employs people, and this results in high levels of teamwork and motivation and improved performance. In addition, the company has accumulated various empirical rules and a database through repeated trial and error that now function as its organizational capital, which it leverages to improve the precision of its marketing and to develop new businesses.

Moreover, another characteristic of the company is the high percentage of its employees that are highly productive, such as planners, engineers, designers, and marketers. Within the focus on in-company production, NEXT aims to reinforce its organizational capital by training highly specialized staff, and it has become especially strong in the upstream marketing area. In this respect, NEXT has been able to significantly differentiate itself from its peer companies, including those overseas.

Breakdown of employees



■ Industry Structure

Spurred on by increasing demand for property advertising due to the rise in vacant properties

Websites similar to HOME'S that offer real estate information services in Japan include "SUUMO" run by Recruit Sumai Company Ltd., "YAHOO! Real Estate," "CHINTAI," and "at home." According to a survey conducted by Fuji Sankei Business i (March 31, 2014) HOME'S holds the No. 1 position in total number of listed properties by an overwhelming margin.

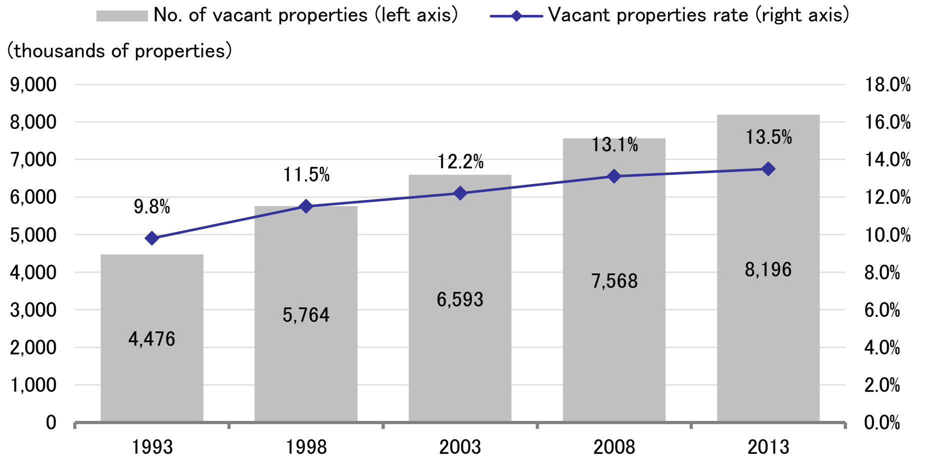
Number of listed properties ranking

	Total Number of Listed Properties
HOME'S	4,091,700
SUUMO	2,243,300
YAHOO! Real Estate	1,859,900
at home	1,420,500
CHINTAI	550,000

Source: Fuji Sankei Business i (March 31, 2014)

According to the Ministry of Internal Affairs and Communications, the number and rate of vacant properties is increasing year by year and consequently, the demand for property advertising is expected to increase in the future. The company estimates that the number of vacant properties in circulation is between 5 million and 5.5 million, and it is aiming to construct a network of information on all properties in Japan, which has been its goal since it was established. In the company's earnings model, even if the total number of listed properties reaches saturation point, its earnings will grow if inquiries from users increase. Therefore, providing information on every property has the major benefit of increasing its ability to attract customers. Moreover, by using its website that has a competitive advantage in term of total listed properties and ability to attract customers to mobilize a network externality, which increasingly enhances its value as a media, it is possible that in the future the market will become more of an oligopoly, and there remains room for the company to grow by acquiring the market share of other companies.

The number and rate of vacant properties



Source: "The 2013 Housing and Land Statistical Survey" by the Ministry of Internal Affairs and Communications

There are no industry peers of comparable size with the same earnings model as NEXT, of billing based on the number of inquiries. Not only is inquiry billing difficult to forecast, it is considered a system that could make business performance fluctuate greatly and therefore is difficult for large companies with many fixed costs to adopt.

■ Financial results

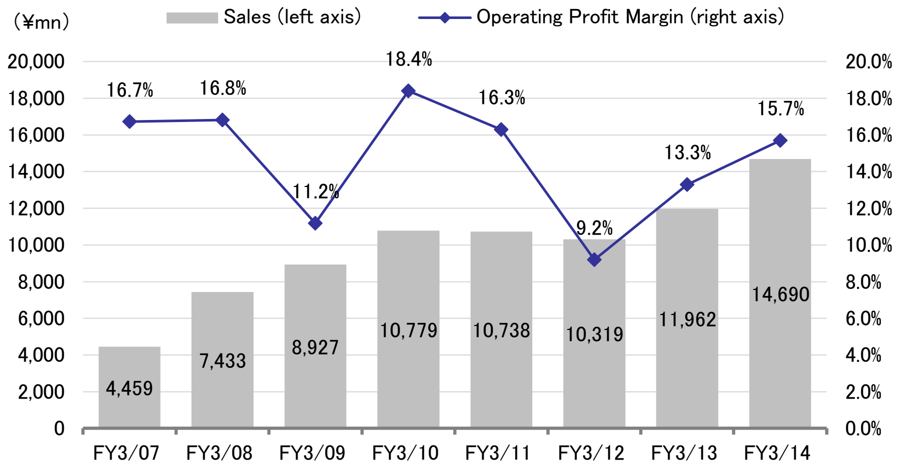
Earnings are entering a new growth stage with the increase in total listed properties from the fee structure revision

(1) Past Earnings

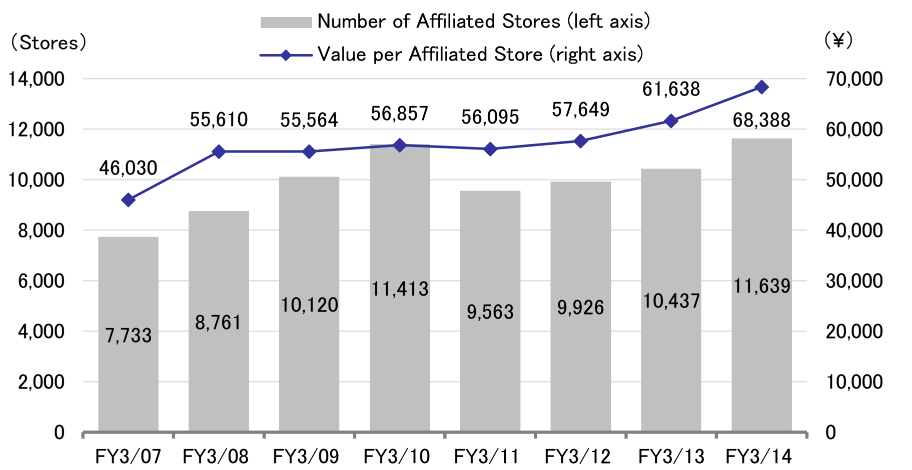
In past earnings, the "Rental & Real Estate Trade" segment drove NEXT's sales, and until FY3/10, earnings had grown favorably along with the number of affiliated stores and the sales per affiliated store (the value per affiliated store). The effects of the fee structure revision are what caused earnings to decline from FY3/11 through FY3/12. Because the number of inquiries fell below the company's expectations and there was a temporary defection of affiliated stores overwhelmed by the industries' first inquiry billing attempt, the number of affiliated stores and the value per affiliated store decreased. However, the total number of listed properties has been rapidly increasing and the company's visibility and ability to attract customers have further increased through branding promotion and effective SEO, based on the website redesign begun in FY3/13. At the same time, the number of affiliated stores has begun to steadily increase and earnings appear to have entered a new growth stage.

Further, even though the operating profit margin decreased in FY3/12 due to lower earnings caused by a revision to the billing method, higher costs owing to factors including head office relocation, and aggressive upfront investments in advertising, thanks to the impact of the above-mentioned 4P Strategy, in FY3/13 these costs were absorbed through higher sales and high profitability is being restored.

Past Earnings



HOME'S Rental and Real Estate Trade's Number of Affiliated Stores and Value per Affiliated Store



Note: As of fiscal year-end

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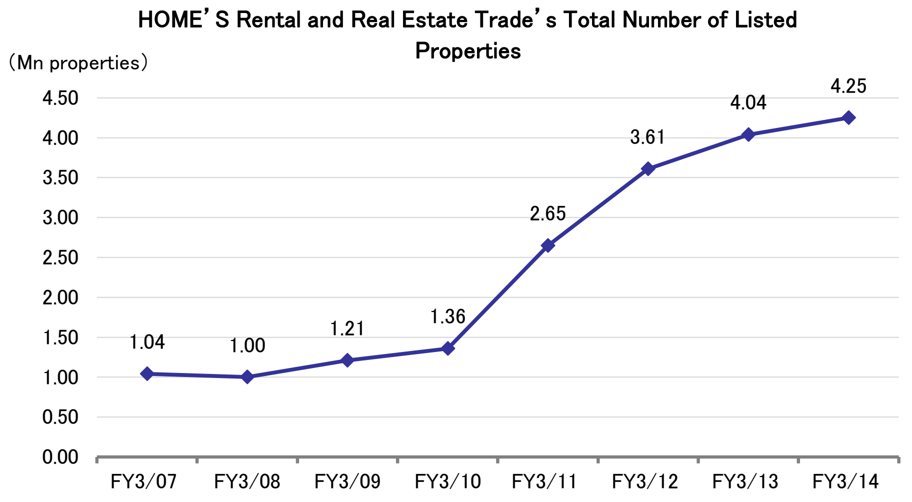


Note: Total number of listed properties is as of March 31 of each period

Increase in sales but decrease in profits in Q1 was in line with targets, due to the front loading of strategic investment

(2) Results Summary for Q1 FY3/15

In Q1 FY3/15 (April to June, 2014) sales increased but profits decreased, with sales up 13.4% y-o-y to ¥3,852mn, but operating profit down 17.5% to ¥712mn, recurring profit declining 17.0% to ¥710mn, and net profit down 19.0% to ¥418mn. However these results were roughly in line with targets, as since the beginning of this fiscal year the company has incorporated its front loading of strategic investment into its forecasts.

In the company's core business of "Rental and Real Estate Trade," through continuously reinforcing its branding promotion and digital marketing and strengthening its sales capabilities, the numbers of site visitors, inquiries, and affiliated stores all rose, which contributed to the increase in sales. Conversely, in "New Houses," there was an increase in all sold properties resulting from the surge in demand prior to the hike in the consumption tax rate, the decrease in demand following the tax hike, and also decline in the number of properties supplied due to the increase in property purchase prices. These factors meant the growth rate remained only moderate, which was expected. There was also a decline in "Custom-Built Houses and Renovations" as a reaction to the previous surge in demand prior to the hike in the consumption tax rate, and as expected earnings were lower. But "Realtors' Network" grew significantly, with contributions from both the increase in sales from CRM services for realtors and the business support service for real estate developers, which is a new service.

Since the beginning of this fiscal year, the company has been actively carrying out strategic investment in order to achieve long term growth, including for advertising costs (branding promotion to acquire user share, developing new services, etc.), personnel costs, and operating costs (market surveys, etc.) As a result, the operating profit margin declined to 18.5% (compared to 25.4% in the same period in the previous fiscal year), but the decrease in profits was roughly in line with the company's target. On the other hand, the loss in Other Businesses shrunk, due to the decrease in the loss of the "Lococom" local community information site; the return to profitability of "MONEYMO," an insurance agency search and appointment website; and the closure in 2Q of the previous fiscal year of two sites that had continuously recorded losses.

Result summary for Q1 FY3/15 Q1

(Unit: ¥mn)

	Q1 FY3/14	% of total	Q1 FY3/15	% of total	Change	% change
Sales	3,398	-	3,852	-	454	13.4%
Real Estate Information Services	3,366	99.1%	3,811	98.9%	445	13.2%
Rental & Real Estate Trade	1,818	53.5%	2,102	54.6%	283	15.6%
New Houses	1,021	30.0%	1,083	28.1%	62	6.1%
Custom-Built Houses and Renovations	256	7.5%	230	6.0%	25	-10.0%
Realtors' Networks	136	4.0%	206	5.3%	69	51.2%
Others	132	3.9%	187	4.9%	55	41.4%
Other Businesses	31	0.9%	40	1.1%	8	28.0%
Cost of sales	102	3.0%	108	2.8%	6	6.4%
SG&A	2,433	71.6%	3,031	78.7%	598	24.6%
Personnel costs	806	23.7%	988	25.6%	182	22.6%
Advertising costs	774	22.8%	1,114	28.9%	340	44.0%
Operating costs	84	2.5%	126	3.3%	42	50.3%
Depreciation/amortization costs	131	3.9%	88	2.3%	-42	-32.6%
Others SG&A	637	18.7%	712	18.5%	75	11.9%
Operating profit	862	25.4%	712	18.5%	-150	-17.5%
Real Estate Information Services	887	26.1%	722	18.7%	-165	-18.7%
Other Businesses	-24	-	-9	-	15	-
Recurring profit	855	25.2%	710	18.4%	-145	-17.0%
Net profit	516	15.2%	418	10.9%	-98	-19.0%

Total number of listed properties (thousands of properties, average for Q1)	4,019		4,268		249	6.2%
Number of affiliated stores (average for Q1)	10,517		11,736		1,219	11.6%
Value per affiliated store (average for Q1)	57,645		59,700		2,055	3.6%

The forecast for full year earnings are unchanged from the initial forecast of an increase in sales and profits.

(3) Earnings forecast for FY3/15

The earnings forecast for FY3/15 is for sales and profits to increase with sales of ¥17,240mn, up 17.4% y-o-y, operating profit of ¥2,328mn, up 1.2%, recurring profit of ¥2,322mn, up 0.9%, and net income of ¥1,386mn, up 3.7%. The forecasts are unchanged from the initial forecasts.

In sales according to service, sales in Real Estate Information Services are forecast to remain strong, and in particular, the core "Rental and Real Estate Trade" segment is expected to contribute to an increase in sales. Conversely, the growth rate of "New Houses" and "Custom-Built Houses and Renovations" should slow down y-o-y due to the expected impact of the consumption tax rate increase. The growth of the Realtors' Networks segment depends on the expansion of sales of CRM services for the rental business and business support services for real estate developers. The furniture and home interiors e-commerce site HOME'S Style Market, which started in April 2014, should contribute to higher sales in Other Businesses.

A slight decrease of the operating profit margin is expected as a result of a higher cost rate due to the purchase of the furniture and interiors e-commerce site and in addition, upfront investments to reinforce digital marketing, to start new services, and to develop new affiliated stores (utilizing third party marketing), as well as the cut-off error from the previous year. Moreover, NEXT plans to continue spending about 30% of sales on advertising and it has been actively investing in advertising since its establishment, based on its policy of acquiring an overwhelming user share. The company has positioned FY3/15 as a year for investing in long-term growth and plans to gradually raise its operating profit margin to 25%, its medium- to long-term goal, despite the temporary decline.

Earnings Forecast for FY3/15

(Unit: ¥mn)

	FY3/14 (Results)		FY3/15 (company forecast)		Change	
		% of total		% of total		% change
Sales	14,690	–	17,240	–	2,550	17.4%
Real Estate Information Services	14,554	99.1%	16,811	97.5%	2,257	15.5%
Rental and Real Estate Trade	7,975	54.3%	9,547	55.4%	1,572	19.7%
New Houses	4,324	29.4%	4,571	26.5%	246	5.7%
Custom-Built Houses and Renovations	1,031	7.0%	929	5.4%	-101	-9.9%
Realtors' Networks	638	4.3%	977	5.7%	338	53.0%
Others	584	4.0%	785	4.6%	201	34.4%
Other Businesses	135	0.9%	429	2.5%	293	216.4%
Cost of sales	472	3.2%	738	4.3%	265	56.2%
SG&A	11,918	81.1%	14,174	82.2%	2,256	18.9%
Operating profit	2,299	15.7%	2,328	13.5%	28	1.2%
Real Estate Information Services	2,355	16.2%	–	–	–	–
Other Businesses	-56	–	–	–	–	–
Recurring profit	2,302	15.7%	2,322	13.5%	20	0.9%
Net profit	1,336	9.1%	1,386	8.0%	50	3.7%

The company announced that it was changing from its previous conservative earnings forecast to a neutral forecast. Considering the fact that the company's difficult-to-predict inquiry billing is its earnings pillar, it had conservatively forecasted sales. But it has changed to a more rational sales forecast as the accuracy of its forecasts has gradually increased. In addition, in the future it will incorporate into its forecasts the contribution of new investment.

Measures for FY3/15

Focusing on branding promotion and new services for realtors

(1) Results of activities in Q1 FY3/15

During Q1, the company strengthened its measures for smart devices, launched new services, and released property market reports. In its measures for smart devices, it redesigned its HOME's app for iOS and also launched an app for people with visual impairments. It also released a number of services compatible with smart devices, including redesigning its websites for "HOME'S Nursing Care" "HOME'S Renovation" and "HOME'S Style Market." In new services, it launched a panorama video service that gives users a 360 degree view, which makes it easier to view properties, and also collaborated with Japan Living Warranty Inc. to launch the "HOME'S Warranty for Facilities of New Single Family Homes." This service offers a 10 year warranty compared to manufacturers' usual 1 year warranty, and is the first such service on a portal site.

HOME'S Research Institute prepared and released property market reports on the previously owned homes market and renovation market, which are expected to grow in the future. Anyone can download these reports for free. It intends to continue to release such reports regularly in the future in order to contribute to the development of the market as the leading company in its industry.

(2) Measures in the future

From Q2, the company plans to continue its measuring to reinforce its branding promotion, to launch new services for realtors, and carry out Internet venture investment.

■Measures for FY3/15

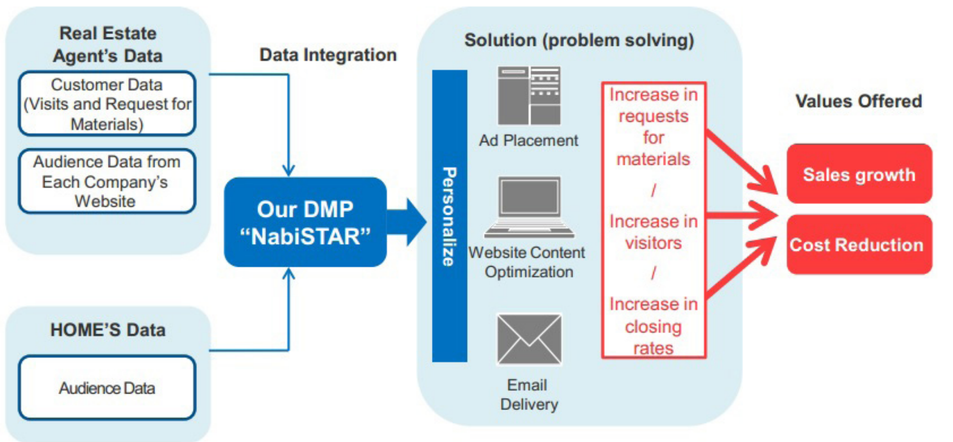
Compared to the previous period, it will expand the channels, areas, and investment total for its branding promotion. Through TV commercials, transport advertising (ads on buses), YouTube ads, and campaigns, the company is aiming to widen its area from the Kanto and Kansai areas that is has focused on up to the present time to the Kyushu and Tokai areas. Toward this, it is planning to invest ¥2.3 billion in 1H (compared to ¥1.7 billion in the same period in the previous fiscal year).

In its new services for realtors, the company has launched an industry-specific DMP* service for real estate companies. By offering as a platform the expertise in marketing and the database it has cultivated up to the present time, it is aiming to optimize the effectiveness of its customers Internet advertising and support improvements to their sales-closing rates and sales.

* DMP is an abbreviation of Data Management Platform

New services Tailored to Real Estate Agents to be Released

* DMP＝Data Management Platform



Source: Company

In Internet venture investment, the company has invested in Glue-th Inc, which manages the SNS 15 second video service "Mechika". From the standpoint of utilizing short videos for communication over the Internet in the future, this investment constitutes the seed of a next generation business and is part of a series of activities the company will carry out to cultivate this business.

Growth strategy

Promoting measures for overseas expansion and the development of new businesses, with a focus placed on strengthening existing businesses

NEXT is aiming to become a global company based on the slogan of its medium term strategy of "Database and Communication Concierge Service (DB＋CCS)." Specifically, by leveraging various information domains (Database) that revolve around people's lives, NEXT will offer services that provide the most relevant information (Communication Concierge Service) to each user. Its strategy to achieve this is to promote measures corresponding to each of four events (see diagram) for supporting overseas expansion and the development of new businesses, with a focus placed on strengthening existing businesses.

In particular, the pillars of its strategy over the near-term are to establish the dominant No. 1 position by reinvesting in HOME'S in Japan and to create a real estate industry business platform by expanding business support services for real estate companies. While maintaining the real estate-related business as its base, it plans to generate additional profit through overseas expansion and new businesses. Moreover, one of its targeted management benchmarks is an operating profit margin of 25%.

NEXT is aiming to strengthen its existing businesses by expanding its user share and the number of affiliated stores. To expand its user share, in addition to measures taken thus far to increase site visitors, the company is broadening its engagement with customers by expanding its services into new fields, such as renovation and trunk rooms for storage that it began in the previous fiscal year, adopting marketing methods for retaining first-time visitors so they become repeat customers (attracting customers by providing the most relevant content, and email marketing). Further, NEXT is creating services that retain users as members by providing communication tools they can use after they change residence. So that people can live optimal lives, the company seeks to make suggestions on people's lifestyle and create an environment in which people can more easily (and more frequently) change their residence. This will enable the company's scope for growth to continue to expand.

NEXT is also taking steps to expand the number of affiliated stores. Its policy is to accelerate the pace of new store development through increasing the efficiency of its direct-sales operations and using sales agents and other means.

The real estate industry business platform provides essential solutions for the businesses of real estate companies. In addition to the function of attracting site visitors through existing sites, the platform provides customer relationship management (CRM), which covers pursuing customers, preliminary inspection/property visit, and sale closing, as well as CRM support for real estate owners, an industry first. With a focus on its dominance in attracting customers, the company can expect to create value by expanding solution domains to those upstream and downstream business processes and this will differentiate itself from its competitors.

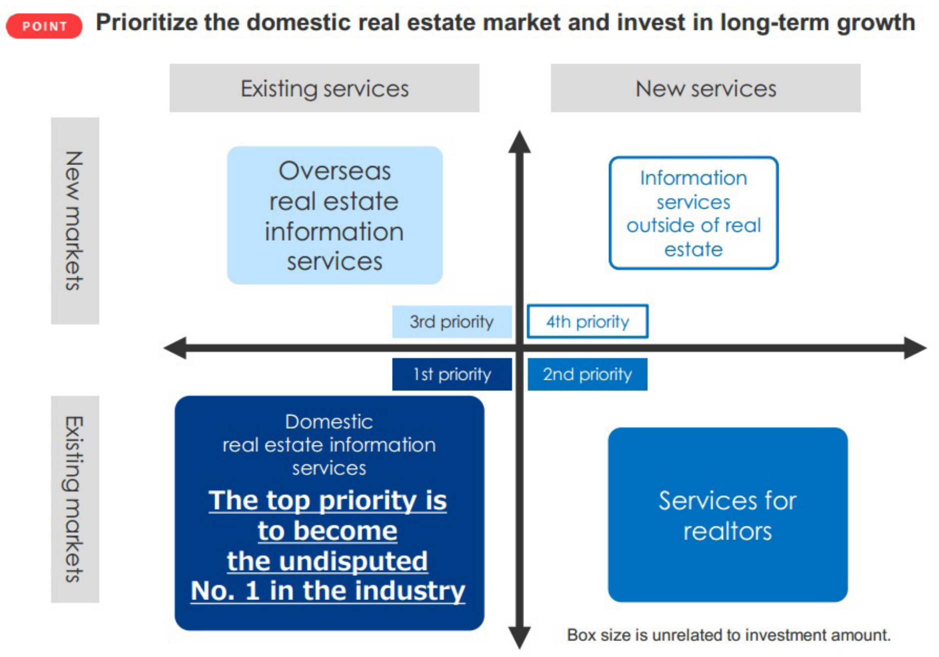
A solution the company provides for attracting and pursuing new customers is its CRM service for the rental business "Renter's Net," which has grown and is now adopted by more than 1,213 stores (up 37.4% y-o-y) as of March 31, 2014.

In the previous fiscal year, the company began offering "Preview Pro," an iPad app for customer sales support for real estate companies, as well as a CRM service that manages the business between realtors and real estate owners, and the HOME'S Pro SNS service for realtors. Next, it is seeking to increase the number of customers and sales per customer by expanding further its service domain.

In April 2014, NEXT started a new business, HOME'S Style Market, which is a home interior e-commerce site that offers furniture that matches the needs of existing businesses. Although this is the first e-commerce site run by NEXT, it expands the aftermarket for housing search with a system that limits inventory risk (prepares the product after order is received) as much as possible.

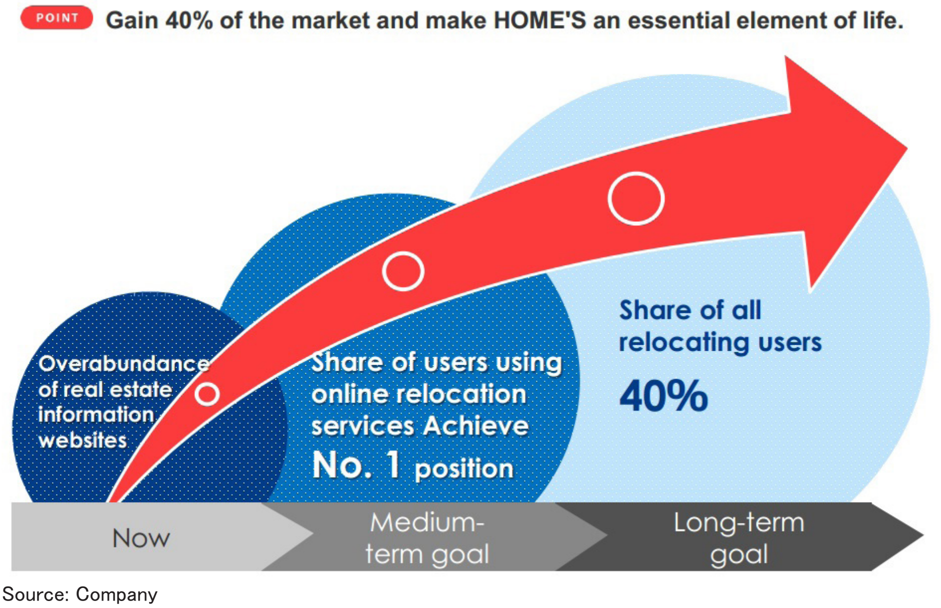
As for overseas expansion, at some point the domestic market will reach its saturation point, so it is working from a long-term span of 5 to 10 years in anticipation of further market shrinkage. Taking into account the Internet diffusion rate, the real estate market, and other factors, based on SEO technology in its current state of development, the company has targeted countries where the Google search engine is firmly established and that have large populations per language. Because its strategy is to develop the website at low cost in regions where it can leverage its strengths without having local bases, its plan is develop through repeated trial and error while keeping investment risk under control.

Investment Outlook (the 4 growth strategy events)



Source: Company

Medium- and Long-term Outlook



Source: Company

Share price valuation

The forecast for profit margin in the future can be used for evaluation.

As there are no companies similar to NEXT that are listed within Japan, we will compare it to overseas companies. All the overseas companies can be evaluated highly for their business models that have innovated their industry's structures and for their growth potential and their valuations are generally high. The company's valuation can also be judged to be roughly at a reasonable level, within the same range. But there is a large gap between them in terms of market capitalization. The reason for this includes differences in their profit levels, and also more fundamentally, that the company's profit margin is relatively low compared to similar overseas companies (other than two U.S. companies). The high profit margins of overseas companies are for price leaders that have already acquired overwhelming market shares, so it is thought that they do not need to spend large amounts on advertising for branding promotion. The company is carrying out strategic investment to become the overwhelming dominant No.1 in its industry and in the medium term is targeting an operating profit margin 25%. If it can progress according to its targets, then it is reasonable to think that there remains room for its share price to climb through the improvement to its profit level. Its share ownership ratio by overseas investors at the end of March 2014 was 35.1%, meaning it had grown greatly (it was 17.3% at the end of the previous fiscal year). In conjunction with it establishing a dominant position in its industry, it is possible to predict that its profit margin will increase significantly. Including the trend toward weeding out companies in the industry (toward creating an oligopoly), attention should be paid to changes to the company's profit margin that are likely to occur based on the outlook for its measures to increase its market share and for its strategic investment.

A valuation comparison of peer companies

Company name (Country)	NEXT (JP)	Rightmove (UK)	Soufun (CN)	REA group (AU)	Zillow (US)	Trulia (US)
Fiscal period	FY3/14	FY12/13	FY12/13	FY6/14	FY12/13	FY12/13
Sales (¥100mn)	146	190	650	413	201	146
Operating profit (¥100mn)	22	132	357	192	-17	-24
(Operating profit margin)	15.7%	69.5%	54.9%	46.5%	-	-
Net profit (¥100mn)	13	101	304	141	-12	-18
(Net profit margin)	9.1%	53.2%	46.8%	34.1%	-	-
Market capitalization (¥100mn)	403	3,792	4,737	5,667	5,888	2,299
Results standard, PER (times)	31.0	37.5	15.6	40.2	-	-

* Prepared based on company materials
* The share price is of August 8, 2014
* The exchange rates used were 1 U.S. dollar =102.1 yen, 1 British pound =171.7 yen, 1 Australian dollar =94.6 yen
* Zillow Co. announced the acquisition of Trulia Co. for 3.5 billion U.S. dollars

Returns to shareholders

There remains room for increased dividends in the future through raising the dividend payout ratio and profit growth

In FY3/14, NEXT paid out a dividend of ¥4.74 per share (a payout ratio of 20%). In FY3/15 the company plans to pay a dividend of ¥4.92 per share (a payout ratio of 20%), an increase of ¥0.18 (4%). Currently, the company targets a payout ratio of about 20% for ordinary dividends, but it is considering a possible future increase in its dividend payout ratio while taking into account its forecast for net assets and investments, the growth rate, and other factors. As a result of profit growth, the potential for a dividend increase is considered quite high over the medium term.

FISCO

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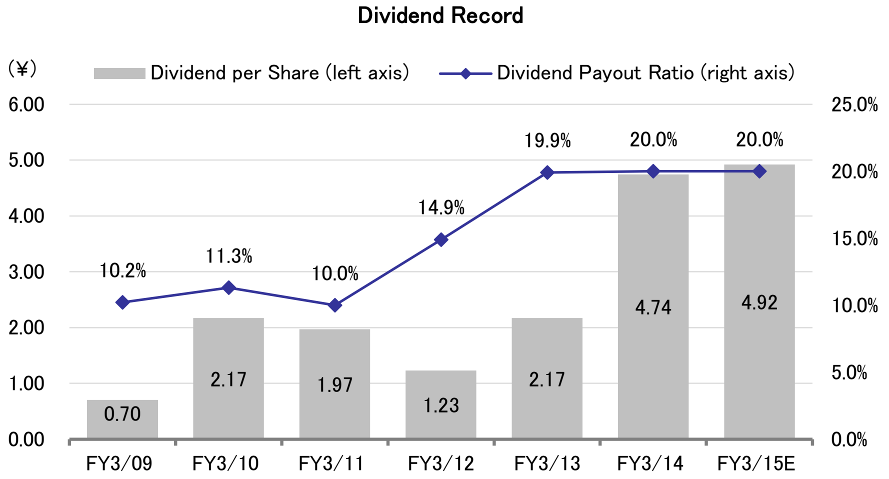
First Section

22-Oct.-14

■ Returns to shareholders



Note: Carried out 100 to 1 stock split in Oct. 2011 and 3 to 1 stock split in Jan. 2014; per share figures have been retroactively adjusted

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