

LIFULL Co., Ltd. (2120)

Edited Transcript

Mid-term Business Plan

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Corporate Participants:

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Presentation

Takashi Inoue, *President and CEO*

I would now like to elaborate on the Company's recently issued Mid-term Business Plan. Please turn to the separate presentation materials before you.

[20th Anniversary (Slide 1)]

Coinciding with our 20th anniversary in 2017, we have put in place a mid-term business plan that covers the period to 2020.

[Background (Slide 2)]

2017 marks the Company's 20th anniversary. Looking back, and in the early years of our foundation, we took steps to put in a revenue and earnings platform. We then entered a period of expansion during which we implemented various initiatives including changes to our business model.

Moving forward, we will focus on expanding our business scale as a part of our mid-term plan. We plan to capture an overwhelming share of both the domestic real estate media and services for realtors markets and as such anticipate moderate trends in profit margin growth.

[Business Policy (Slide 3)]

With the change in the Company's name to LIFULL, we pledge to become the best life-event database and solution company in the world.

As the first time to voice our aspiration of becoming the leading global company in our field, I would like to explain in more detail our concept of a life-event database. Please turn to slide 4.

[The Life Database Concept (Slide 4)]

Since its foundation, the Company has launched a wide variety of businesses. While a mix of endeavors both large and small, the Trovit business, for example, maintains a database comprised of roughly 200 million items, focusing mainly on the real estate, human resource recruiting, and used automobile fields across 53 countries worldwide. On the domestic front, LIFULL HOME'S boasts information on around 8 million properties.

Moving forward, we will continue to accumulate several hundred million items of data from around the globe, encompassing life events as well as a variety of lifestyles. At the same time, we will roll out these databases and services from one country to the next.

We are following this direction on the understanding that the fabric of society and perceptions toward each era will be transformed by artificial intelligence, robotics, and IoT on a global scale in the blink of an eye.

Under this scenario, information and data will increasingly provide the lifeblood essential to each era. While continuing to upgrade and expand this database, we will work to integrate user IDs.

[Provide the Best Solution for Each and Everyone (Slide 5)]

In consolidating a wide range of massive databases, we will provide an optimal matching service that draws on LIFULL data and efforts to pursue individual behavior patterns.

Our ultimate goal is to make LIFE FULL for each and everyone. On this basis, we will work to secure a predetermined level of profit for the foreseeable future. Earnings above this designated level will be directed toward essential forward-looking investment.

[Quantitative Target (Slide 6)]

Based on the scenario described, we are targeting revenue around the 50 billion yen level in the fiscal year ending March 31, 2020. From a profit perspective, we are looking at achieve an EBITDA ratio of around 20%.

Some would argue that around the 50 billion yen level is quite narrow. For our part, we will target the maximum revenue possible between 50 billion yen and 59.9 billion yen.

Again, we will pursue a certain level of earnings and channel any additional profits to anticipatory investments. Moving forward, will adopt this model as a continuous and repetitive cycle.

[Mid-term Business Plan – Vision (Slide 7)]

In order to achieve these goals and our Mid-term Business Plan Vision, we will further expand the HOME'S Services business and Build a foundation that comprises 100 Group companies.

[Mid-term Business Plan – Vision (Slide 8)]

In further expanding the HOME'S Services business, we will undertake three core initiatives. We will (1) increase the number of customers and increase average revenue per agent, or ARPA, (2) provide the best customer experience, and (3) capture a share of growth markets.

[(1) Further Expansion of HOME'S Services Business (Slide 9)]

Monitoring such key performance indicators, or KPIs, as the increase in the number of customers and the increase in ARPA will allow investors to gauge how the Company is succeeding in making all kinds of LIFE FULL while developing the best life-event database and becoming the best solution company in the world.

By increasing the number of customers and increase in ARPA, LIFULL committed to increasing sales per client.

[Increase the No. of Customers and Increase ARPA (Slide 10)]

As indicated on this slide, we will increase unit prices while expanding the scale of LIFULL HOME'S businesses.

While the segments and realtor services mentioned earlier are a little different from the media thus far, we will increase ARPA by providing every possible service while increasing the range of customers. Expanding our business scope is equivalent to increasing revenue and we suggest that each of these KPIs be closely monitored in the future.

These particular KPIs have not been disclosed in this instance. We will, however, provide details from the first quarter of fiscal 2017. Through periodic checks, confirmation can be made whether there is indeed any growth.

[Provide the Best Customer Experience (Slide 11)]

In order to provide the best customer experience, we will enhance the accuracy and coverage of information. We will also provide customers with the optimal experience through omni-channel concierge services. In each case, our efforts will be underpinned by a robust technology platform made up of a wide range of facets including real estate technology, or ReTech, and AI.

[Provide the Best Customer Experience – Omni-Channel Strategy (Slide 12)]

We will continue to expand omni-channels at the current pace.

[Provide the Best Customer Experience – AI and ReTech Strategy (Slide 13)]

We recognize that the use of AI is critical to providing customers with the best experience. In applying AI as just mentioned, we are initially taking steps to eliminate improper images and information on a trial basis. Looking ahead, we will build a massive database and provide services that best fit individual needs. We understand that success will rest on the effective use of AI.

In tune with the question raised a moment ago, we will create a global system that allows users from around the world to complete real estate transactions entirely online. In this regard, ReTech will comprise our principal operating pillar.

[Capture the Growth Market (Slide 14)]

Looking at each market, the custom-built homes and new houses and condominiums markets offer only limited growth due to Japan's declining population. On a positive note, the rental market is extremely stable.

Turning to the real estate sales and renovations markets, prospects are for further growth. In overall terms, our first objective is to expand our market share and become the absolute No. 1 in the rentals market.

In the real estate sales market, we will endeavor to boost the distribution of existing homes. Utilizing a multiplier effect in conjunction with the renovations business, we will work to expand both markets.

The custom-built homes market remains largely analog based with limited progress in promoting online and IT initiatives. Against this backdrop, we will enhance added value by providing call center and counter services.

While we expect the renovations market to expand, we will focus on bolstering renovation contractor activities where we have initiated efforts through a subsidiary.

Finally, in the new houses and condominiums market, which is experiencing limited growth, we see significant opportunities as an advertising market. Unfortunately, our share of this market remains small at this time.

Here, we are confronted by the extremely large competitor, Recruit Sumai Company SUUMO. Our strategy in this instance, is to secure and expand market share by providing a single comprehensive package from consulting to media.

[Mid-term Business Plan – Vision (Slide 15)]

I would now like to comment on the Group's foundation and ask that you turn to slide 16.

[(2) Build a Foundation to Have 100 Group Companies (Slide 16)]

The LIFULL Group is currently comprised of 14 companies. As we work to increase this number to 100, it is imperative that we first put in place an appropriate foundation.

[(2) Build a Foundation to Have 100 Group Companies (Slide 17)]

As an initial step, we will generate a steady stream of new businesses. In this regard, our plans are to establish 100 companies and by association to identify 100 individuals with genuine management skills. Starting from a zero base and essentially the same environment and conditions for all, we anticipate these 100 proprietors will obtain the necessary attributes through a process of trial and error and by overcoming considerable hurdles.

While working to provide the aforementioned environment, more than 100 projects can be expected to emerge each year under the current system of new business proposal. At this moment, business plans for 7 of the more than 100 proposals received are under development.

In addition, we have launched Corporate Venture Capital, or CVC. In doing so, we hope to support not only start-ups and seed companies within our own walls but also outside the Company. This initiative is also expected to help establish 100 companies.

[(2) Build a Foundation to Have 100 Group Companies (Slide 18)]

To achieve our stated goals, and as I mentioned at the start of this presentation, it is vital that we put in place this

headquarters and the necessary headquarter functions.

As we increase the number of Group companies, it will become increasingly important to strengthen back-office functions. Key issues such as systems, governance, and personnel development will become absolutely vital.

[(2) Build a Foundation to Have 100 Group Companies (Slide 19)]

In addressing another key need and pushing forward major strategies, we will set up and identify CxO positions in order to seamlessly coordinate operations and enhance the competitiveness of the Group.

We will appoint young staff to the positions of Chief Technology Officer and Chief Data Officer, to increase our technological capabilities and ensure the full application of our database, respectively. The Chief Strategy Officer and Chief Financial Officer will need to strictly oversee and manage the Group's operations. As such the individuals appointed to these positions will require an abundance of experience and skills. The Chief Human Resource Officer will be charged with the important role of properly utilizing the Group's personnel.

And then there is the Chief Creative Officer. For the most, our activities to date have been technology based. On a personal note, I have also harbored a keen interest in business. In the future, we will look to leverage a multiplier effect over both the business and technology aspects of our operations. We will also incorporate creativity into this multiplier mix. In this manner, we will generate products and services that surprise and excite the world, much the same as companies such as Apple.

At this time, I would like to introduce Mr. Kohei Kawasaki. Mr. Kawasaki has a wealth of knowledge and experience working for a major foreign advertising agency. He has received countless awards for his creativity both in Japan and overseas. By inviting him to join us, we hope to accelerate the pace of the Group's growth and development.

As you can see from the note at the bottom of the slide, CxOs are not official titles and may differ from actual job classifications.

[Further Expansion of Overseas Business (Slide 20)]

As far as our overseas operations are concerned, we will continue to expand our global network as well as areas covered. We will take steps to further strengthen SEO initiatives in a bid to attract a growing number of customers. At the same time, we will increase unit prices.

[Mid-term Business Plan (Slide 21)]

In carrying out our Mid-term Business Plan, we will work toward achieving revenue of around the 50 billion yen level and EBITDA of roughly 20% in the Olympic year three years hence.

[(Slide 22)]

In closing, I would like to reiterate our commitment to making every LIFE FULL.

Q1. The new plan shows average revenue per agent (ARPA). Previously, under affiliated store unit price, even though affiliated stores increased, you were unable to list information on new affiliated stores right away, which you mentioned made it look like increases in the number of affiliated stores led to a decrease in unit price. How has using ARPA changed this? Am I correct in understanding that unit prices have increased by providing numerous services to the same vendors? Also, does the three-year business plan include price hikes for services such as inquiry charges?

You previously mentioned that the ratio of EBITDA to sales revenues ratio will rise as advertising costs to sales revenues decreases, but I would like to know if you have figures for line items other than advertising expenses and EBITDA that suggest this.

A1. (Takashi Yamada) When considering how to boost ARPA, our No. 1 focus is on enhancing media approaches for LIFULL HOME'S. While the number of properties and listings is of the utmost importance for strengthening media approaches, the top priority is to increase the number of affiliated stores, which is our foundation. Initially, we sought to raise our media capabilities by increasing property listing volume even at low unit prices and then boost unit prices.

Initially, we lifted unit prices through vendors purchasing additional optional services offering greater convenience, incorporated into our services, and could be freely used at low unit prices by enhancing operational assistance-oriented services and products.

(Takashi Inoue) Adding to this, we viewed ARPA in terms of clients using our media services. While ARPA has been used for real estate majors with numerous properties, there are also small regional vendors with fewer properties. In this case, ARPA tends to decline the wider the market expands.

We now list ARPA that on the whole includes information-sharing services among real estate operators as well as a significant amount of vendor support services such as customer management CRM systems that efficiently increase earnings. We will work to boost ARPA through various service packages that assist real estate operators.

Whether ARPA includes price hikes varies depending on the market. Price hikes are included in ARPA based on when there are competitive advantages such as sales of new properties. However, areas where we are still focusing on strengthening media power and engagement (for which we still have made little progress) are not included in ARPA. Rather than solely discussing the details of what we need to do in which field, we prefer that the focus be on how customer numbers and ARPA are changing due to our constant and dynamic efforts to optimize portfolios, including providing systems to raise prices and involve wide-ranging, overwhelming media power.

We expect the EBITDA ratio to decline if we become the overwhelming No. 1 company in marketing costs ratio to sales revenues in the future. Boosting value via branding, we see a need for investment to become a leader in pure recall, then we will try to lower the marketing costs ratio to sales revenues thereafter.

As for personnel costs, while we are hiring at a higher pace than before at subsidiaries, we are working to raise per-person productivity Group-wide with the aim of improving per-person net revenue/operating income/operating income ratio. We plan to raise per-person performance by visualizing daily profitability at each segment and rapidly

following the PDCA based on ameba management and profit centered approaches. We will take steps to develop a system for increasing profitability even if we do not increase staff levels to the same extent.

Q2. Your revenue target is set at the 50 billion yen level for the fiscal year ending March 31, 2020 but does the new mid-term business plan illustrate which businesses this involves and their weightings?

A2. (Takashi Inoue) I think you can get an idea of this by looking at the growth rates seen so far and projected rates at cruising speed for domestic, overseas, and new businesses. The new plan does not factor in any major changes. For reference, slide 49 of the results briefing materials shows our current fiscal year forecasts: HOME'S-related businesses +23.9% (YoY), overseas +24.0%, and other (including new businesses) +43.4%. Monetarily, the plan establishes HOME'S-related business growth to drive earnings. At this point we do not expect any major changes in these ratios in three years time.