

LIFULL Co., Ltd. (TSE 2120)

Edited Transcript

Quarterly Results for the First Six-Month Period (October 1, 2020 to March 31, 2021)

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Corporate Participants:

INOUE Takashi, President and CEO

YAMADA Takashi, Director, Managing Officer (Head of AI Strategy Office)

ITO Yuji, Director, Managing Officer (General Manager of LIFULL HOME'S Business Department)

TSUTSUI Keizo, Managing Officer (Manager of President's Office)

HADA Yukihiro, Managing Officer (General Manager of Human Relations Department)

KAWASAKI Kohei, Managing Officer (General Manager of Creative Department)

FUKUZAWA Hidekazu, Managing Officer (General Manager of Group Company Business Development Department)

Total Participants: 41

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## Key Points

1. Financial Results for the Second Quarter of FY 2021/9
  - Sales Revenue: JPY 17,852 mil. (YoY -6.9%) , Operating Income: JPY 1,824 mil. (-25.2%)
  - Revenue by segment has been affected by the COVID-19 pandemic with JPY 13,607 mil. for HOME'S Services and JPY 3,206 mil. for Overseas. However, recovery from the pandemic is still underway.
2. HOME'S Services Segment (Japan)
  - The client network has consistently grown to 27,953 while ARPA has declined to JPY 79,622 as a result of the expansion of the client network.
  - Combining a multifaceted marketing mix with the release of new features, traffic and inquiries for LIFULL HOME'S along with other key indicators have been on an upward trend.
3. Overseas Segment
  - LIFULL CONNECT has released a tool, Proppit, for Direct clients in Latin America and Southeast Asia which allows them to list properties across its network of sites and manage incoming inquiries.
4. Management Philosophy of the LIFULL Group
  - Following the credo "Altruism," LIFULL serves as a Social Enterprise growing its business by seeking out solutions to social issues.

## Presentation

### [Financial Results for the Six-Month Period Ended March 31, 2021]

It has been over a year since we first started feeling the effects of the COVID-19 pandemic, but we are seeing progress with vaccines and other measures. As a result, we are able to better control our business environment. Our flagship service, LIFULL HOME'S, is continuing to recover. Also, as the world is still refraining from face-to-face contact, the shift online and digital transformation of the real estate industry is progressing at a rapid pace which have been a tailwind for our business. We continue to update our business model and growth investments to ensure that both our primary businesses and new ventures will be able to take off after the pandemic has stopped.

### [Condensed Statements of Income and Loss]

With the contributions from our domestic business, sales revenue for the second quarter of FY 2021/9 has recovered to JPY 17,852 mil. (-6.9% YoY.)

SG&A expenses amounted to JPY 13,856 mil. (-3.9%), and we have been monitoring these costs closely in regard to sales revenue. The breakdown for SG&A expenses includes JPY 4,347 mil. (+5.3%) in personnel expenses primarily due to the increase in the base salary of LIFULL employees and the resulting welfare expenses. Although we are making proactive investments for growth domestically in Japan, advertising expenses amounted to JPY 5,740 mil. (-10.9%) due mostly to reductions in our Overseas segment from the impact of COVID-19. Operating expenses have considerably declined to JPY 183 mil. (-37.5%) from the implementation of online tools for sales initiatives.

### [Revenue / Income and Loss by Segment]

Looking at sales revenue by segment, HOME'S Services amounted to JPY 13,607 mil. (-4.9%) and Overseas to JPY 3,206 mil. (-17.7%) respectively due to the effects of the COVID-19 pandemic. However, the results are progressing on an upward trend.

Income and loss for each segment is as follows. As a result of the increase in employees' base salaries, profit for the HOME'S Services segment amounted to JPY 1,524 mil. (-33.2%). On the other hand, cost controls and a transfer of development personnel expenses contributed to a profit of JPY 734 mil. (+87.3%) for the Overseas segment.

### [Condensed Statement of Financial Position and Goodwill]

Cash and cash equivalents decreased by JPY 1.8 bil. resulting in a JPY 22.1 bil. decrease in current assets. Current liabilities amounted to JPY 14.4 bil. due primarily to a decrease of JPY 1.6 bil. for short-term loans, taxes and provisions for employee bonuses. As a result, total assets have increased JPY 1.6 bil. to JPY 35,326 mil. The primary breakdown of goodwill can be found on slide 5 of the presentation.

### [Condensed Statement of Cash Flow]

Cash and cash equivalent decreased by JPY 1.8 bil. to JPY 14.1 bil. due to the payment of employee bonuses, taxes and dividends.

## [FY 2021/9 Forecast and Progress]

Progress toward the forecast is as follows. Revenue is at 46.4% just shy of the turnaround point and slightly behind schedule. However, revenue continues to recover, and we expect to see more of a turnover in the second half of the year. We have been managing SG&A expenses which have reached 46.1% with operating income at 53.1% and profit attributable to owners of the parent at 51.7%. Revenue for each segment is as follows: HOME'S Service has reached 46.1%, Overseas 50.7% and Other Businesses 38.9%.

## Segment Update

### HOME'S Services

In the HOME'S Services segment, we are increasing the scale of our business by strengthening our key performance indicators: our client network and Average Revenue Per Agent (ARPA.)

Despite the effects of the on-going pandemic, our sales teams have been primarily speaking with clients online and have increased our client network to 27,953 clients (six-month average from October 2020 to March 2021.) Resulting from the growth in our client network, ARPA has declined from the previous year to JPY 79,622, but we expect it to recover with as our results continue to improve.

Since our founding, it has been our desire to provide people with access to vast information to find just the right home for them. Currently, we have added two new features to the LIFULL HOME'S website: LINE Notifications for New Properties and Search by Current Residence. By simplifying the search process, more people are adding listings to their favorites and inquiry conversion rates are improving above traditional searches.

We have also put together a multifaceted marketing mix of television commercials combined with online advertisements to increase brand awareness of LIFULL HOME'S. In the past, our commercials were focused around the peak moving season of January to March, but this fiscal year we started in November and have expanded our broadcasting area. We also released hit videos on YouTube, and our press release on our Popular Cities Ranking attracted the most attention ever from media outlets from the impact of the new normal.

In the second quarter, a state of emergency was released for parts of Japan, but LIFULL HOME'S continued to grow considerably with 39.8% more traffic and 13.8% more inquiries. This proves that we are providing more value to our clients and are looking forward to even better results in the second half of the year.

Our omnichannel strategy is one of our prime focuses, and consultations with "LIFULL HOME'S *Sumai No Madoguchi*" (<https://www.homes.co.jp/counter/> in Japanese) have increased 1.5 times YoY. Until recently, we focused our efforts mostly on the Greater Tokyo Metropolitan Area, but we have now

opened three new locations in the Kansai region (Western Japan.) This has led to a boost in the number of consultations coming from Kansai. We have an exceptionally high user satisfaction rating of 99.4% and plan to increase our service area and the number of consultations in the future.

The digital transformation of the real estate industry in Japan has been a tailwind for us. Now, apart from searching for properties, consumers can hold consultations with real estate companies, go on property viewings and conduct verbal disclosure statements required by law for real estate transactions all online. In the past verbal disclosures for rental units were allowed to be conducted online, but as of April 2021 online disclosures for sale properties are now permitted as well. For home-seekers, this shift online means a more convenient search and moving process. In regard to this, the number of online consultations, property viewings and disclosures using our tool, LIFULL HOME'S LIVE, has increased +67.4%.

As part of our efforts to find solutions to social issues in the housing industry, we have been created FRIENDLY DOOR, a service to help diverse groups who generally experience discrimination when moving, such as the elderly, non-Japanese residents of Japan, LGBTQ+ people, welfare recipients, single parents and those affected by natural disasters. Using this service, members of these groups can find "friendly" real estate companies who specialize in these communities or are willing to assist them (<https://actionforall.homes.co.jp/friendlydoor> in Japanese). In addition, we have been hosting seminars for real estate professionals and have received support from over 2,700 real estate companies in Japan (as of March 2021.) In the future, we hope to continue to improve the industry and expand our services for consumers.

## Overseas

The effects of the pandemic have been felt more outside of Japan, but our sales revenue is on the path to gradual recovery. We are monitoring profit margins and managing costs and have seen considerable growth in profit.

Although we have decreased overall paid traffic, more users are using our sites with +11.6% growth in organic traffic.

LIFULL CONNECT is the product of past mergers and acquisitions, and we currently operate an expansive global network of aggregation sites including Trovit, Mitula, Nestoria and Nuroa as well as real estate portals including icasas, Dot Property and Hipflat.

In our real estate portals, we have seen +22% expansion in our client network and 50% more listings. Even in the midst of the current pandemic, 19.5% more users are using our sites, and our clients are receiving 15.7% more inquiries - an impressive cycle.

After considering how to operate multiple sites in each country, we have developed and are

promoting Proppit, a management tool for real estate professionals, to our clients. Using this tool, realtors can list their properties and receive inquiries from multiple sites across the LIFULL CONNECT network. Managing listings is simpler, and realtors are receiving more inquiries. Real estate professionals who have already adopted this tool are already seeing results of 6 times the number of views and 3.5 times more inquiries for their properties. Currently, 23% of clients in Latin America and 7% in Southeast Asia have implemented Proppit, and we are further expanding within these regions.

### Progress in Other Key Areas

Within the scope of our Regional Revitalization Initiatives, we are expanding locations for LivingAnywhere Commons with 14 of 25 planned facilities already in operation. The need for places for remote work has been increasing, and we are already seeing 7 times more stays at our facilities from the previous year. The Cabinet Office of the Japanese government has also used LivingAnywhere Commons as a successful case study in discussions about teleworking for the revitalization of rural communities.

Regarding our efforts for senior citizens, our subsidiary, LIFULL senior, has started a new shopping assistance service, *Kaimono Connect*, for elderly care facilities. We are also making preparations for further ventures to assist with the aging society of Japan.

### LIFULL Group Management Philosophy

Rooted in Will-Centric Public Interest Capitalism, we are living out our credo "Altruism" for each of our stakeholders.

In 2020, we concentrated on improving the well-being of our employees by implementing new regulations for working from home and increased based salaries. As a result, we were named the third best motivation company in Japan in an award ceremony hosted by Link and Motivation.

We will strive to find solutions to social issues as a Social Enterprise and use our businesses to make the world a better place. We will continue to grow and request your support as we work to make every LIFE FULL.

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## Question and Answer Session

*Over the course of its Q&A session, the Company received 6 questions. The following is a summary of the questions received and answers provided.*

Q1) When do you expect overseas sales to recover to pre-coronavirus levels, and what percentage of sales growth do you expect after the recovery?

A1: Tsutsui) The current status of the pandemic differs by country. For example, vaccines are already being administered in the United States. France has also seen a decline in the number of infections, but the total still remains above 20,000. It's very difficult to read the situation. Currently, we are taking a conservative approach and believe that we should see a full recovery to pre-pandemic levels either in the second half of the next fiscal year or the year after. We believe that growth will return to double-digits as before the pandemic. We will continue to monitor the situation and control expenses where necessary in order to be able to boost sales revenue once the pandemic has ended.

A1: Inoue) We offer services in over 60 different countries, and the situation is different in each one. We are unsure of when, but we believe that we will return to around 20% growth after the pandemic has ended.

Q2) Will the main focus of LIFULL HOME'S be on increasing the number of customers and ARPA, or will you strengthen your sales activities and charge higher prices?

A2: Ito) There are two reasons for the steady expansion of our client network. The first is because a large-scale client with several hundred offices across Japan started listing on HOME'S. The second is because we have released a special plan with a limited number of products and have offered it to more clients. The release of this plan has also been one of the reasons for the decrease in ARPA, and accounts for about half of the decline. The other half is due to clients reducing their advertising volumes and the drop in properties available for sale due to increased transactions. Currently, these numbers are recovering, and we expect ARPA increase from more properties introduced into the market as well as our sales initiatives.

Q3) How is the Company planning on monetizing online verbal disclosures and other services other than in-coming inquiries?

A3: Ito) Our matching service still makes up the core of our business, and we are not planning to alter that. As you asked, the real estate industry is making progress in its digital transformation which means there is an increased need for support services and other tools and services to allow realtors to enhance the efficiency of their businesses. Our subsidiary, LIFULL Marketing Partners, serves as an advertising agency, so we plan to create more synergy with them and make positive

contributions to ARPA and sales revenue.

Q4) Could you please provide the status of inquiries via LIFULL HOME'S by individual market, such as rental or sale, during the second quarter?

A4: Ito) We do not disclose the details about inquiries, but the market for real estate is currently very strong and is reflected in our results. Currently, rental units have been growing, and we're seeing a gradual recovery.

Q5) The Company is currently taking various measures, and I want to have high expectations for after the pandemic. However, how do you expect the Company to change as a whole? Will you increase your market share, sales, operating income margins? Please explain what we should expect from the current investments?

A5: Inoue) In our mid-term management plan that extends to FY 2025/9, we expect to boost revenue and market share and ultimately reach an operating income margin of around 20%. The primary focus of our investments will be on our flagship service, LIFULL HOME'S, in order to develop and evolve the it for the future. Due to our competitive strategy, we cannot release the details of our investments, but I expect that we should see results in one to three years and reach our targets in the fourth or fifth year. Therefore, investors can expect growth in sales revenue, market share and profit margins.

Q6) Regarding ARPA, has there been a decline in the number of existing clients? Please also give an update on the contributions from the real estate investment site you acquired, Kenbiya, in terms of revenue and synergy.

A6: Ito) My answer to this question has some overlap with question 2, but the reasons for the decrease in ARPA are growth in our client network and lower advertising volumes from our clients. We are currently experiencing recovery and will be intensifying our sales initiatives in the future.

Regarding synergy with Kenbiya, we are making progress in the integration. Both Kenbiya and our site, LIFULL HOME'S Real Estate Investment, are experiencing strong expansion. We have started an internal synergy project and are planning increase synergy for sales and the site contents.