

**LIFULL Co., Ltd. (2120)**  
**Edited Transcript**  
**Earnings Briefing for the Three-month Period Ended June 30, 2017**

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Venue: LIFULL headquarters

Corporate Participants:

**Takashi Yamada**, *Director, General Manager of LIFULL HOME'S Business Department*

**Yosuke Hisamatsu**, *Director, Division Manager of Marketing Strategy Division*

**Kazuhiko Abe**, *Managing Officer, General Manager of Group Company Business Development Department*

**Yuji Ito**, *Managing Officer,*

*Division Manager of New UX Development Division, LIFULL HOME'S Business Department*

**Yoshihisa Onuma**, *General Manager of Group Strategy Division*

**Hidekazu Fukuzawa**, *Deputy General Manager of Group Company Business Development Department*

**Kazuhiro Yoshida**, *Group Manager of Investor Relations Group, Group Strategy Division*

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**Presentation**

**Kazuhiko Abe**, *Managing Officer*

Starting in this fiscal period, the Company changed its auditor to PricewaterhouseCoopers Aarata LLC. from Deloitte Touche Tohmatsu LLC.

We also changed our fiscal year to end on the last day of September, rather than the last day of March. The Company's peak business period is from January to March of every year. In the past, we had been unable to step on the accelerator during this period because of the approaching end of the fiscal year. In view of this, the accounting period was changed to reduce opportunity losses and to further enhance the impact of our marketing efforts.

We will publish our six-month results for the fiscal year ending September 30, 2017 (April to September 2017) in early November and return to a twelve-month fiscal period from October 1, 2017.

We also reduced the number of our business segments from four to three (HOME'S Services Business, Overseas Business, and Other Business). LIFULL Kaigo, previously included in Domestic Real Estate Information Services, has been moved to Other Business.

Revenue increased 13.8% (compared to the same period last year; the same applying hereafter) to ¥7,793 million, marking a record high for five consecutive periods. Revenue increased in every segment, with the HOME'S Services Business serving as the main driver.

Cost of sales increased to ¥915 million (+36.5%), reflecting the steady growth of LIFULL Marketing Partners ("LIFULL MP"). SG&A expenses grew ¥1,569 million to ¥6,346 million (+32.9%). Advertising expenses grew ¥1,029 million (+61.0%) due to the company and brand name changes in April and associated efforts to achieve recognition as quickly as possible. Personnel expenses grew ¥219 million (+12.4%). The number of employees increased by 171, including new graduates and two new consolidated subsidiaries as we add to our staff strategically with a focus on productivity per head. "Other" increased ¥326 million (+30.6%) due to redundant lease payments incurred before the head office relocation, as well as strategic investments in subcontracting costs and system usage fees.

EBITDA was ¥458 million (-67.1%), and net profit attributable to owners of the parent company was ¥22 million (-97.0%). Net profit fell for two major reasons: LIFULL, the parent company, assumed the cost of all advertising expenses associated with the change in company name; the tax rate increased due to a reversal of deferred tax assets and other items.

In expense-to-sales ratios, the EBITDA margin declined due to an increase in the ratios of cost of sales and other SG&A by 4.6 percentage points and of advertising expenses by 10.2 percentage points. We believe the ratio will return to typical levels on a twelve-month basis from the second quarter on.

In sales by segment, HOME'S Services Business recorded ¥6,472 million (+15.2%). Overseas Business achieved sales of ¥859 million (+4.3%) as Trovit finally got on a track for recovery. Other Business achieved sales of ¥461 million (+13.7%) due to the effects of the segment change for LIFULL Kaigo and two new consolidated subsidiaries.

Overall segment income and loss was ¥278 million (-76.4%). Advertising expenses grew as we sought to achieve recognition for the new brand as quickly as possible.

Due to higher advertising expenses, the segment income and loss for HOME'S Services Business was ¥264 million (-74.8%). With Trovit's steady recovery, Overseas Business recorded a profit of ¥65 million (+61.6%). Other Business recorded a loss of ¥74 million. Previously reported under different segments, our business development operations, which start up new businesses and promote incubation, have been consolidated under Other Business starting this current fiscal period.

In the Condensed statements of financial position, assets fell ¥1,640 million to ¥25,469 million. Cash and deposits fell ¥1,033 million due to in cash payment of advertising expenses and the cost of renovating the new head office building. While goodwill increased ¥659 million, this does not amount to a major change, since it offsets the increase in foreign currency translation adjustments on the other side of the balance sheet.

In terms of cash flow, the balance of cash and cash equivalents at the end of June was ¥5,013 million, a decline of ¥1,033 million. Expenditures of ¥239 million for the acquisition of shares of associates are for Rakuten LIFULL STAY, which operates a platform for vacation rentals. The increased dividend payment of ¥671 million includes a commemorative dividend for the company's 20th anniversary. Expenditures of ¥390 million for the purchase of shares in subsidiaries are for the conversion of LIFULL MP to a fully owned subsidiary. Since our cash holdings will increase from July onward, we believe the balance of cash and cash equivalents will return to typical levels.

In terms of progress toward achieving the forecast, revenue, EBITDA, and net profit attributable to owners of the parent company made progress of 48.8%, 69.3%, and 16.0%, respectively, and for the most part proceeded according to plan. We will continue to strive to achieve the goals set in our plans.

### **Takashi Yamada, Director**

We adopted new key performance indicators starting this fiscal period, namely, "number of clients," which represents the total paid clients of LIFULL HOME'S, Renter's, and LIFULL Marketing Partners, and "Average Revenue Per Agent (ARPA)," which is HOME'S Services Business revenue divided by the number of clients; these are primarily indicators for LIFULL HOME'S media business.

Over the past calendar year, our client numbers have increased steadily to 28,401. While ARPA is trending downward due to an increase in numbers of clients with lower revenue, it stands nearly unchanged at ¥76,340, thanks to marketing efforts.

At LIFULL HOME'S, we plan to invest based on the top priority of becoming the unquestioned number one player in domestic real estate. "Strengthening media power" and "strengthening brand power" will continue to be the two axes of our movement forward.

We have begun disclosing "number of total information listings" as a performance indicator for "strengthening media power" in the current earnings results. This indicator is the aggregate of the number of properties for rental, real estate sales, properties for investment, and new houses and condos for sale listed by LIFULL HOME'S and the number of construction companies handling custom-build homes and renovation

from whom work can be ordered. This number has grown steadily and stands at 7,810,000 as of the end of June 2017.

We have launched the following functions to enhance media profile and presence:

#### *LIFULL HOME'S House Appraisal*

By making building values and inspection results visible, we are seeking to resolve the uncertainties confronting buyers of existing homes and to stimulate real estate transactions.

#### *Real Estate Price Visualization*

As another way of presenting the price forecasting algorithm developed through LIFULL HOME'S Price Map, this shows property owners the current demand for their properties.

#### *Home Mortgage Calculator*

This simulator links to MOGE SCORE'S API to help calculate the amount of home mortgage loan a user can borrow and allows a search for real estate and properties that can be purchased based on this amount. The Home Mortgage Calculator calculates the loan amount available based on the user's age, attributes, and other information.

With respect to the media function, we focused on becoming omni-channel, rather than being limited to online services only. We increased the number of physical offices to 11, adding these to telephone and chat. To expand user numbers, since our presence now covers nearly the entire metropolitan area, we will enhance advertising to target people who have concerns and need consultations regarding their conditions, search method, etc.

By enhancing our services for realtors, we believe we can increase the number of affiliated offices, thereby increasing the number of total information listings, leading indirectly to enhanced media power, including the quality of customer service provided by real estate brokers. As shown on page 28 of the earnings presentation, we provide various services to both users and realtors.

To illustrate, in the case of real estate brokers, whose business flow consists of property purchases, advertising to attract and engage with customers, and then contract signing, we believe expanding the number of property information listings listed by LIFULL HOME'S through administrative support for property-purchasing activities and providing a CRM function to improve the quality of their customer service will improve the satisfaction of the end user and result in an enhanced media profile and presence.

As part of this strategy, we absorbed our subsidiary Renter's in October 2017. We would like to further accelerate our evolution into a company chosen by both users and realtors.

To enhance our brand power, we launched a summer promotion program. As in the last period, we are seeking to improve recognition through television commercials and transportation ads and to improve prospective users' disposition to use us with movies on YouTube explaining our functions and services. We began airing commercials featuring Home's-kun on August 17.

Once again, we opened the Beach House, which was well-received last year. This year, we built rooms and spaces that allow visitors to imagine how they would live, upgrading the Beach House to something that can be used as a place to promote future lifestyles and concepts proposed by LIFULL. We would like to capitalize on the Beach House to improve recognition of LIFULL and LIFULL HOME'S.

Vacant homes present an ever-growing social issue. We are currently pursuing efforts to resolve the problem of vacant homes by stimulating the market for existing homes.

On June 19, we announced our selection as an implementation operator for the building and operation of a nationwide Akiya Bank (*akiya* meaning vacant properties and homes) promoted by the Ministry of Land, Infrastructure, Transport and Tourism. We would like to start building LIFULL HOME'S Akiya Bank as a platform for consolidating information held in akiya banks operated by local governments, thereby allowing

users wishing to use these vacant properties to search for and compare properties in a standardized format on a nationwide basis.

In the area of vacation rentals, viewed with high hopes as a way of developing a use for vacant homes, we announced the establishment of Rakuten LIFULL STAY, Inc., on June 22. By drawing on respective strengths, Rakuten and LIFULL are seeking to capture market share in the domestic vacation rental market in the early stages. We will begin offering this service once the new law is enacted. We have already established partnerships with major global vacation rental websites like Home Away, AsiaYo.com, and Tujia.

While Rakuten LIFULL STAY will operate a vacation rental website of its own, we want to make Rakuten LIFULL STAY a platform that also provides properties to partner websites and provides support for business operators that will allow owners to manage vacant rooms and count the number of days of use, all in one place. In addition, by operating the vacation rental and LIFULL HOME'S Monthly websites in parallel, we are seeking to provide a service business operators will find easier to use.

To address the matter of the funds required to develop uses for existing homes, we acquired shares in JG Marketing with the aim of building a fundraising platform based on crowdsourced loans and investments. We are currently preparing to launch this service.

In Overseas Business, we have expanded the number of countries in which we operate to 57.

In Australia, where we operate the same portal model as LIFULL HOME'S, steady growth in numbers of matching has resulted in three-fold growth. We plan to become profitable during the current year. We also launched operations in Germany on March 29, where steady growth in the number of properties listed has resulted in growth by a factor of 3.5.

Despite momentary fluctuations in traffic due to seasonal factors and changes in Google algorithms, Trovit has experienced steady growth for the most part.

We are seeking to push forward with these efforts with the aim of achieving the ¥50.0 billion level revenue target cited in our Medium-term business plan. We look forward to progress for LIFULL and for LIFULL HOME'S.

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## Questions and Answers

Q1. In Q1, the ratio of SG&A expenses to sales rose to 34.9% due to temporary factors. Where do you expect the ratio of advertising expenses to sales to be in Q2 and beyond?

A1. (Kazuhiko Abe) Pages 12 and 13 of the earnings presentation give the progress for those six months. The ratio will change depending on how much we spend in Q2 on advertising expenses. Since SG&A expenses in Q1 were ¥6,346 million, we would improve on the original plan by some ¥1 billion if the amount were the same in Q2. But our future plans for this area have yet to be determined.

Q2. Can you tell us whether you expect the ratio of advertising expenses to sales to return to 28% or to fall to 25% for the next year?

A2. (Kazuhiko Abe) Revenue affects this ratio, too, but if revenue develops as forecast, the ratio may prove to be around the same as this year. We launched a new brand in the current period, but we will need to strengthen the brand further to achieve ¥50 billion in revenue in the medium to long term. For this reason, if we decide to spend more in advertising, the ratio will rise. If we do not and take a normal course, the ratio should come back down. Our plans for the next period have not been finalized, so the ratio will be announced at some point down the line.

Q3 How much was the extraordinary amount associated with the brand change? Additionally, if we assume ¥700 to ¥800 million was invested, this would mean that organic advertising expenses, excluding temporary advertising investments, also increased by over 10%. Since revenue grew 13.8%, I am worried the impact of advertising expenses on revenue may be diminishing. Can you comment on your assessment of the current method of investing in advertising and the revenue performance resulting from these investments? Also, please give us KPIs or indicators other than revenue that would make it easier to evaluate the impact of advertising investment, if any.

A3. (Yosuke Hisamatsu) We are tracking recognition of the Company and advertisements of our services as indicators in connection with the changes in brand and company name. The advertising campaign began in April and ended in May, so the costs were incurred in Q1. We are implementing advertising investments based on the idea that by promoting understanding of the change in company name, we can strengthen business in Q2 and beyond. We changed the company name in April, and we are continuing efforts to build recognition, but we do not believe this process is complete at this point. The figures show the impact on business in Q1, but there is also an impact for collective employee morale and recruiting. While traffic declines significantly every year during the summer *obon* season and the year-end due to fewer users looking for houses, the numbers are still fairly good. We believe we can recoup our investments in Q1 and our ongoing investments in Q2.

A3. (Takashi Yamada) The apparent sensitivity of revenue to advertising expenses looks worse if you include the additional expense associated with the company name change. The direct advertising expenses for LIFULL HOME'S, the portion that you referred to earlier as "organic," has not changed much. We invested significantly to determine how to use advertising expenses efficiently, so we will gradually and efficiently improve productivity. We would like to lower our reliance on the ratio of advertising expenses to sales, but we do not have clear-cut rules in mind, like "25% of revenue or lower," as we did in the past. The relationship is similar to the one for procurement, so if revenue grows as a result, we will probably increase our advertising spending.

Q4. You launched Real Estate Price Visualization as a new service, which I believe relates to transactions in second-hand properties. Based on the differences in concept and content between this and LIFULL HOME'S Price Map, what differences do you see in terms of economic returns and business opportunities?

A4. (Takashi Yamada) LIFULL HOME'S Price Map was developed to make current real estate values widely visible to the public. The Real Estate Price Visualization service stimulates a user's need to sell real estate in a more specific way. What we are trying to do is to expand our reach to real estate owners. The point is to capture business opportunities at a point farther upstream by acquiring owners so that we can capture intentions to initiate sales or to lease.

Q5. With regard to the new KPI, ARPA, you mentioned an increase in affiliated offices with lower revenues. You also said that, even with the traditional average revenue per affiliated office, ARPA will decline if the number of smaller offices increases. If possible, can you give a breakdown of the part of ARPA that is declined? Also, can you explain if there has been a decline in LIFULL HOME'S traditional revenue per affiliated office and whether the number of affiliated offices offering two or three of the new services is increasing?

A5. (Takashi Yamada) We have said that ARPA would decline on average as LIFULL HOME'S new affiliated offices expand their marketing targets from national clients to local clients, such as local family-owned real estate brokers. We are succeeding in acquiring new affiliated offices as we intended, so to that extent, the revenue per affiliated office is falling.

At the same time, our marketing efforts are winning clients who have a stronger need to advertise, so the overall figures are flat. So, the relationship is that the numbers of clients with stronger advertising needs have grown, and they are posting advertisements.

Q6. It is going to be some time before we feel the effects of the vacation rental business held under the equity method, but what other ripple effects will there be for LIFULL HOME'S? If it is possible to manage the overseas network in one place, owners should be able to take advantage of this convenience. I would like to hear about what direct effects exist, like prompting owners to take this opportunity and become affiliated offices.

A6. (Takashi Yamada) One conceivable direct effect on LIFULL HOME'S in the vacation rental business is proposing new services to real estate brokers. By being able to provide comprehensive support as LIFULL to the new business of the real estate brokers, we believe we can get them to continue using LIFULL HOME'S.

Q7. The number of total information listings on page 20 shows periods when the number drops by more than one million every year. I would like to confirm whether these declines are due to the year-end and *obon* season that you mentioned earlier. Also, do rentals account for the largest share of the number of information listings?

A7. (Takashi Yamada) Rental properties account for a large number of total information listings. The fluctuations in the number of total information listings reflect an increase in advertisements ahead of the peak business period and a decrease in listings as people move into vacant properties.

Q8. The twelve-month annual forecast published three months ago predicted operating profits of ¥4 billion. But the six-month figure reported this time is slightly under ¥200 million. Based on the calculation, the operating profit for October 2017 to March 2018, the second half of the fiscal year according to the previous fiscal year system, should be slightly under ¥4 billion. Is this a figure that, though not official, you are aware of internally, or a figure you want us to forget about completely since you might incur additional advertising expenses in trying to achieve the ¥50 billion target?

A8. (Kazuhiko Abe) We present a precise figure obtained at the time and revise the forecast figures for October and beyond based on that figure. We know these figures internally. We have spent a lot on advertising this time, but we also have estimates without them. Depending on our policies regarding advertising expenses, we will make adjustments based on the plan for October to March and formulate a budget.

Q9. I understand seasonality affects the number of listings given on pages 20 to 21. But as far as how effective the listings are in matching people to properties, have the listings been running for longer, around the same, or for less time over the last three months?

A9. (Yuji Ito) I do not have precise figures for the three-month period on hand, but my impression is that the peak period is moving earlier every year. So, five years ago, it was March; two or three years ago, it was February; and recently, it has been late January. I do get the impression that more people have accelerated their search since the information is posted earlier now. My sense is that there has not been much change in how long the listings are up.

Q10. You published a forecast up to September. Are things going as expected based on the figures from three months ago? I think you would planned to spend significantly on advertising since the start of this period on a twelve-month basis. I would like to confirm whether you are spending more than you initially planned.

A10. (Kazuhiko Abe) We are spending as planned. As for the figures, the businesses are seeing increased revenues and profits.