

LIFULL Co., Ltd. (TSE 2120)

Edited Transcript

Quarterly Results for the Fiscal Year Ended September 30, 2020

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Venue: LIFULL Headquarters

Corporate Participants:

INOUE Takashi, President and CEO

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

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

HADA Yukihiro, Managing Officer, General of Human Relations Department

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

KAWASAKI Kohei, Managing Officer, General Manager of Creative Department

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

Total Participants: 51

Presentation

Takashi Inoue, *President and CEO*

Thank you for attending our Earnings Presentation.

First, I want to express my sincere regret for all those whose lives have been affected by COVID-19.

The effects of the virus have been felt across many different industries, and the LIFULL Group was no exception. However, I believe this also represents a momentous opportunity to make further progress in the digital transformation of the real estate industry. The pandemic has caused a shift in people's attitudes, and real estate transactions have been further moving online. Times are changing at a rapid pace, so I want to take advantage of this opportunity to further develop our business.

Our earnings prove that it has been possible to maintain profit by implementing flexible controls on our expenses both domestically and internationally, even during the pandemic.

In our new Mid-Term Management Plan, we have outlined our 5-year goal of becoming a social enterprise focused on finding solutions to social issues. The whole world is being forced to change at once, but change can also be an opportunity. I hope to leverage these developments to move our businesses forward.

[Index (Slide 1)]

In today's earnings presentation, I will elaborate on the following topics:

The Full-Year Financial Results for the fiscal year ended September 30, 2020

The LIFULL Group Mid-Term Management Plan

The Growth Strategy for the HOME'S Services Segment

Our Overseas Action Plan

Our Efforts in the Real Estate Investment Sector

And finally, the Results Forecast for the fiscal year ending September 30, 2021

[Full-Year Financial Results (Slide 2)]

First, I want to take a look at our earnings results for the fiscal year ended September 30, 2020.

[Condensed Statements of Income and Loss (Slide 3)]

Sales revenue totaled 35.4 billion yen (-3.89 billion yen year over year) - a decrease of nearly 10%.

SG&A expenses amounted to 25 billion yen. This was primarily due to cost reductions totaling 4.5 billion yen. On the other hand, particularly large savings of 2.8 billion yen were made in advertising as well as 2 billion yen in other expenses.

As note 5 indicates, one-off costs were incurred for the acquisition of Mitula in the previous fiscal year while items such as office rent have been reclassified under IFRS 16. I will discuss note 6 which refers to the impairment loss in LIFULL CONNECT on a later slide. Note 8 states that depreciation and amortization have increased due to the acquisition of Mitula as well as the application of IFRS 16.

[Revenue and Income and Loss by Segment (Slide 4)]

When looking at the individual segments, the impact that the pandemic has had on our results is apparent, but profit in the domestic HOME'S Services segment increased year over year due to revisions in expenses.

Revenue for HOME'S Services ended at 27 billion yen; a decrease of 8.5% year over year. For the Overseas segment, as you are aware, the impact of the pandemic has been greater than in Japan resulting in a 17% decrease year over year.

Profit in the HOME'S Services segment was 3.9 billion yen, or plus 18.1% year over year.

[Condensed Statement of Financial Position and Goodwill (Slide 5)]

Looking at the Condensed Statement of Financial Position and Goodwill, operating leases have been recognized as right-of-use assets under IFRS 16 resulting in a change of 4.4 billion yen in assets and liabilities.

In April, we took out new borrowings of 7.2 billion yen to solidify our financial base against future unpredictability. Assets totaled 55 billion yen (an increase of 11.6 billion yen year over year), and liabilities totaled 21.6 billion yen, an increase of 10.6 billion yen year over year.

Total equity amounted to 33 billion yen, an increase of 1 billion yen. This increase is the result of an increase in cash due to borrowings and other measures as well as changes due to the application of IFRS 16.

[Condensed Statement of Cash Flow (Slide 6)]

Looking at the statement of cash flows, although there was an impairment loss posted for the Overseas segment, free cash flow increased to 3.15 billion yen primarily from new borrowings to solidify the financial foundation of the company. As a result, the balance of cash and cash

equivalents grew to 15.9 billion yen.

[Japanese Real Estate Market Trends (Slide 7)]

Taking a look at the trends of the Japanese real estate market, we can see increased activity in resale properties and suburban areas. As more people are suddenly working from home due to the pandemic, an increasing need for in-house workspace is developing.

Re-sale properties in suburban areas are also gaining more attention, since they offer distance from crowded urban centers. This has resulted in a 4% decline in the number of available properties in the Tokyo Metropolitan area. Real estate sales are going well, and prices are remaining stable without a drop in sight.

However, the areas where people are looking for homes are changing. Looking resale properties, the number of closed transactions in areas in southern Tokyo, Kawasaki and Yokohama as well as houses in Chiba have increased 20%.

Even in the rental market, the popularity of different areas is changing. We can see from the annual ranking posted on HOME'S that the demand for homes in central Tokyo is declining with Hon-Atsugi number one, Kasai number 2 and Omiya number 3.

[Upward Revisions to Results Forecasts (Slide 8)]

On September 18, we revised our earnings forecast. Inquiries over LIFULL HOME'S declined during the state of emergency in Japan but have gradually recovered after it was lifted. I believe the improvement in traffic will also translate into an increase in revenue in the future.

Organic traffic to HOME'S has been increasing in the second, third and fourth quarters. In the fourth quarter, traffic grew 125% year over year. We have also seen an upward trend in inquiries each quarter with quarter 2 at 77%, quarter 3 at 87% and quarter 4 at 97% of the previous year.

Although revenue for the HOME'S Services segment was 12.5% lower than the previous year, revenue in the fourth quarter was -9.3% - a three-point improvement. We will continue working to ensure that more traffic translates into revenue increases.

[Key Performance Indicators (Slide 9)]

Next, I would like to draw your attention to our key performance indicators, our client network and average revenue per agent (ARPA). Although the 12-month average of our client network has remained about the same as the previous year, it has been growing steadily since January 2020.

On the other hand, ARPA has been affected by the reduced revenue in the HOME'S Services segment due to the on-going pandemic and has declined year over year. Please also take note of the footnote regarding the change to the counting method for our client network.

[Client Network Expansion (Slide 10)]

By actively pushing the digital transformation of our sales initiatives, we have been expanding our client network. The stay home request from the government caused sales activities to shift from in-person to online which, in turn, started a positive trend in our on-boarding initiatives.

Taking a look at the quarterly trend, we can see that our client network has been growing steadily. The efficiency and performance of our sales team have improved, resulting in 6.4% more clients currently in the fourth quarter than at the beginning of the fiscal year.

[Effects from Forecast Revisions and Impairment Loss (Slide 11)]

Next, I would like to address the effects from the revisions to our earnings forecast and the impairment loss. As the description on the slide indicates, we have been controlling our various expenses due to the unpredictability of the current situation which has resulted in similar operating profit to the previous fiscal year.

Removing the impact from the impairment loss on goodwill in LIFULL CONNECT, operating profit totaled 4 billion 116 million yen with a profit margin of 11.6%. As the management of LIFULL, we believe that we have a structure in place that can flexibly respond to different changes in the environment.

Regarding personnel expenses, the image on the right depicts the adjustment to employee bonuses. Since employee bonus provisions are directly linked to profit, the upward revisions to the earnings forecast in the fourth quarter resulted in adjustments to those provisions as well.

[LIFULL CONNECT Impairment of Goodwill (Slide 12)]

Continuing on, I would like to direct your attention to the impairment loss in LIFULL CONNECT announced on September 18. As the COVID-19 pandemic has continued to have an impact on the Overseas segment, we revised our business plans resulting in an impairment loss of 1.6 billion yen.

If you look at the graph, new COVID-19 infections in the primary regions serviced by LIFULL CONNECT, Southeast Asia, Europe and North and South America, are still increasing indicating a longer recovery period than originally predicted. We currently believe that it will take until 2022 for conditions to return to pre-pandemic levels. For this reason, we have revised our original plans and have posted an impairment loss for the discrepancy.

[Changes to the Dividend Policy (Slide 13)]

Next, let me discuss the changes to our dividend policy. On the previous slide, I discussed the outstanding conditions surrounding the impairment loss in LIFULL CONNECT. With this in mind, we have changed our dividend policy to take large fluctuations in the profit attributable to owners of the parent into consideration in the calculation of dividends. The basic principle behind our dividend policy is that we divide net profit for the period into four parts: shareholders, employees, retained earnings of the company and taxes.

Under the original policy, total dividends would have been 25% of net profit after deducting the impairment. However, under the changes to the policy, we have determined the impairment to be an outstanding occurrence and have excluded it from the calculation of dividends. In order to return profits from our businesses to shareholders, we will continue to monitor our financial status and make appropriate adjustments. The decisions of our management will reflect total shareholder return.

[A Look into the Next 5 Years (Mid-Term Management Plan 2025) (Slide 14)]

Here I would like to touch on our plans for the next 5 years.

[Foundation of LIFULL Group Management (Slide 15)]

Will-Centric Public Interest Capitalism is the foundation of the LIFULL Group and stems from our credo "Altruism."

Our businesses are rooted in our corporate values with the goal of becoming a group of companies finding solutions to social issues while giving back to all of our eight major stakeholders: consumers, clients, employees, partners, investors, society and the environment, and we believe that managing our business in a way that is good for everyone will lead to sustainable growth and increased corporate value.

[Management on a Will-Centric Foundation (Slide 16)]

In the past, we have been following the principles of Will-Centric Public Interest Capitalism to make progress while remaining conscious of all stakeholders.

First, our employees: Our efforts to create the best team in the world have been recognized with the Best Motivation Company Award in Japan. Those efforts have continued to be recognized, and we continue to foster highly motivated people.

Next, our OneP's program supports employee volunteer activities. We donate 1% of total working hours and 1% of profit before taxes to support this program. In the real estate market, we are doing our best to provide the most transparent information possible. Our goal is to provide accurate, understandable information to home-seekers.

For Regional Revitalization, we are taking action against the growing number of vacant properties in Japan and helping to create and strengthen local communities. So, as you can see, we are focused on finding solutions to social issues and making every life full.

[Focal Points of the Mid-Term Management Plan (Slide 17)]

One of the primary focus areas of our Mid-Term Management Plan is the HOME'S Services segment where we will be making further progress in combining our omnichannel approach with the digital transformation of the entire real estate industry.

In the Overseas segment, we will be "moving to direct." This refers to altering our strategy from aggregation to real estate portals in the Latin American and Southeast Asian markets. With our more direct approach, we will be moving closer to users and clients. Finally, in the Other Businesses segment, we will be finding solutions to social issues primarily in the fields of Regional Revitalization and Senior Citizens.

[Depiction of Future Growth (Slide 18)]

Next, I would like to give you an idea of our future growth. We expect that by taking action to find solutions to social issues, we will be able to increase the scale of our businesses and boost profits. Each year we plan to release forecasts for the coming year while continuing to monitor our recovery

from the pandemic. COVID-19 has affected the living situations and lifestyles of many people, but through our efforts to find solutions to social issues, such as these and the rapidly aging population of Japan, we will expand our corporate value in the mid-term.

[Growth Investments for the LIFULL Group (Slide 19)]

The growth investments of the LIFULL Group are based around providing a suitable environment and conditions which will attract new talent and maximize the potential of our employees to create innovative services. There is a relationship between the well-being and happiness of our employees and their productivity. Providing for well-being means that employees will find more enjoyment in their work and improve overall productivity.

We believe that this will also translate into more innovation in service development and ultimately improve the overall satisfaction of our users and clients. In our minds, creating conditions for our people to thrive will be a key factor in our competitiveness.

[More Flexible Workstyles for Higher Productivity (Slide 20)]

To achieve these goals, we are making changes to our office life to provide for innovative working styles and increase productivity. As a rule, employees will be able to work from home two days a week with the option of up to five days a week with flexibility for individual situations. We have also implemented an open office system and allow our employees to work from 10 LivingAnywhere Commons locations across Japan.

Employees are also being reimbursed for individual travel expenses as used, rather than providing commuter passes. After optimizing our spending with these new rules, we have given our full-time employees in Japan a 10% raise across the board beginning in October. This way we hope to maintain our team of talented individuals and further accelerate our progress toward our goals.

[Growth Investments Consolidating Office Space (Slide 21)]

On the other hand, with more people working from home, we are consolidating our offices. In order to make more efficient use our office space, we are making consolidations in the Tokyo and Osaka regions. With employees working both from home and the office, we will double the functional capacity of our offices.

[HOME'S Services (Slide 22)]

Next, I would like to talk about the strategy for the HOME'S Services segment

[LIFULL HOME'S Growth Strategy (Slide 23)]

Our focus for LIFULL HOME'S is to drive growth through a combination of our omnichannel approach and DX to increase user and client satisfaction.

[LIFULL HOME'S Growth Strategy Omnichannel (Slide 24)]

Taking a glance at our omnichannel approach, we are providing support to users both online and offline on a wide variety of housing-related subjects to find the right place to live. Our channels include in-person as well as e-mail or over-the-phone consultations. Users can even contact us through the messenger app, LINE, to speak with an advisor. Currently, we have expanded this service to 33 locations across Japan and consultations have increased 82% year over year.

We have made the effort to extend our services to a diverse set of user needs. As a result, we have an unbelievable user satisfaction score of 99.5%. So, I think we can say that we are meeting the needs of our users.

[LIFULL HOME'S Growth Strategy DX (Digital Transformation) (Slide 25)]

In our digital transformation, we are revolutionizing the process of searching for a new home as well as all necessary paperwork that goes along with it. To us, this digital transformation is about bringing the entire moving process online - from the initial search to all closing paperwork.

Some examples of how we are using technology to achieve this are our price map as well as property recommendations based on frequently visited train stations and user age. Our walkability index maps out the areas around properties highlighting various facilities to determine the overall convenience of the area. Other features we offer include a budget simulator, property appraisals and a simplified building viewer to get an idea of different kinds of homes available.

Online disclosures for rental properties have already been approved by the government. However, unfortunately, this has yet to be extended to ownership transactions - which still must be conducted face-to-face. Currently, trial runs are being conducted, and the Ministry for Land, Infrastructure, Transport and Tourism has announced its intention to allow online disclosures, so we expect that all real estate transactions will be able to be conducted via the Internet in the near future.

From our standpoint, we already provide LIFULL HOME'S LIVE, a system which allows users to view properties and conduct disclosures online, and this system has seen a 50% growth in the number of users since the beginning of the pandemic.

[Overseas (Slide 26)]

Next, I would like to discuss our strategy for the Overseas segment.

[LIFULL CONNECT Increasing Competitiveness (Slide 27)]

After establishing LIFULL CONNECT, we have made continuous progress in SEO resulting in growth in traffic. As the graph indicates, there has been considerable growth of 38% over the previous year. Although stay home orders have been continuing outside of Japan, the number of people viewing our sites has increased. Although many of them are still not moving house just yet, we believe there will be a considerable demand for relocation once the situation has calmed down.

[LIFULL CONNECT Moving to Direct (Slide 28)]

"Moving to Direct" refers to our efforts to provide high-quality information and services directly to

our users and clients by focusing our investments on our portals. By strengthening our local teams, enriching our listing content, developing site features and adding more multimedia to our listings, we want to drive client and user satisfaction.

In October 2020, we acquired Hipflat, a real estate portal in Thailand. As the client base and listings differ from our subsidiary, Dot Property, we believe that we will be able to employ synergies between these two portals to increase our share in the Thai market.

[LIFULL CONNECT Action Plan (Slide 29)]

Throughout the pandemic, we have remained flexible in our growth investments in LIFULL CONNECT. By optimizing costs based on the performance of our businesses, we have effectively reduced spending on recruiting, marketing, office-related and other expenses. Consequently, we have managed to maintain high profit levels despite a drop in sales revenue. Therefore, our controls on SG & A expenses have been effective in maintaining our profitability both domestically and overseas.

[Technology for the Real Estate Investment Sector (Slide 30)]

Next, I would like to give you an idea of how we are using advanced technology in the real estate investment market.

[Developing a Global Real Estate Investment Platform (Slide 31)]

We have been steadily making progress toward our goal of becoming a global platform for real estate investment. Employing detailed property data and advanced technology, we are building a global real estate investment platform. LIFULL has already gained experience through a proof-of-concept on transferring property ownership rights via blockchain. In March 2020, LIFULL Investment also conducted a proof-of-concept for a real estate security token offering (or STO).

LIFULL HOME'S is one of the largest sources for real estate information in Japan and has grown even more with the investment property information of Kenbiya. In our overseas markets, LIFULL CONNECT has also collected a considerable amount of information through our brands, such as Trovit and Mitula.

Our international partnerships include a capital investment in InvestaX this year in July. InvestaX is a start-up which provides end-to-end solutions for digital securities, transactions and custody of real estate and private equities.

In August, we also formed a strategic partnership with Securitize, a company offering systems for STOs and secondary transfers for real estate joint ventures. Through these various activities, we believe we are well on our way to constructing a global real estate investment marketplace.

[Working Toward a Global Real Estate Investment Platform (Slide 32)]

As reported in our press release from October 20, we have completed the first STO in Japan for real estate joint ventures. This initiative will stimulate the investment market by making it possible to buy and sell securitized real estate in the future.

To put it simply, this is not just for the primary market. It will allow securitized properties to be bought and sold on the secondary market as well. Opening the secondary market is a significant step forward. First, STOs will provide more convenience and security to investors. The second point touches on the potential of the market. The asset value of all real estate in Japan is estimated at 2.562 quadrillion yen. However, only 2% of that has been securitized through J-REITs, meaning that there is still 98% of the market remaining. STOs will turn lower-priced properties in rural areas into potential investments which means that this could be used for vacant properties - a growing social issue in Japan.

As a result, we believe that it will lead to the expansion of new investment products and investor base and, ultimately, to the revitalization of the Japanese real estate investment market. In addition, as we enter an era where people live up to 100 or even 120 years, we hope to make real estate investment accessible to even more people.

[FY 2021/9 Results Forecast (Slide 33)]

Finally, I would like to move on to our Forecast for the fiscal year ending September 30, 2021.

[Forecast for FY 2021/9 (Slide 34)]

We will continue to make timely announcements should any issues arise that would alter these values, such as changes in the status of the pandemic. We estimate our sales revenue at 38.4 billion yen, operating profit at 3.4 billion yen and net profit for the period at 2 billion yen.

Question and Answer Session

Over the course of its Q&A session, the Company received 8 questions. The following is a summary of the questions received and answers provided.

Q. Although COVID-19 infections in Europe and the Americas have been increasing, large-scale home builders, for example, in the United State have reported good sales due to low interest rates. How is the situation for the areas served by LIFULL?

A. (TSUTSUI Keizo) As mentioned in the presentation, sales of suburban resale properties have been increasing in Japan. However, the situation overseas is quite different. The first country to recover where LIFULL CONNECT is active was France, but currently a second wave of infections is quickly spreading. Italy also had a particularly bad first wave of infections and recovered quickly, but the second wave is still underway. Looking at the other continents, for example, in Mexico the number of infections has been increasing, but our sales have continued to recover. Our biggest drivers for revenue are Europe, the United States and Mexico. In Europe, we have been seeing large, monthly fluctuations in countries such as France, Italy, Spain and the United Kingdom.

The government in France reinstated a lockdown from November 7 after the number of infections reached 86,000. Currently, new infections have been contained at around 30,000. If it is possible to keep the situation under control, a recovery is expected soon. However, if stricter lockdown measures are implemented which prevent people from leaving their homes, such as in the UK, economic activity will come to a halt, which would have an impact on our business. We will continue to pay close attention to the situation and control our expenses as mentioned in the presentation to maintain profit levels.

Q. Have the effects of the acquisition of the real estate investment site, Kenbiya, been negligible? Are you expecting to speed up your progress in the area of investment properties?

A. (INOUE Takashi) There have been almost no effects from COVID-19 on the investment property page of LIFULL HOME'S and Kenbiya. We will employ synergies to continue to broaden our presence in the investment market and increase our market share. Having Kenbiya and LIFULL HOME'S work together will accelerate our efforts to maximize our investment listings.

Q. Despite the amount of the impairment loss, the forecast for profit recovery seems sluggish. Particularly, other SG & A expenses are increasing, but what is driving that increase?

A. (FUKUZAWA Hidekazu) In our Mid-Term Management Plan that we have just begun, our policy is to boost sales and increase our profitability for the future. In the fiscal year ended September 30, 2020, the pandemic slowing down recovery is one aspect, but we also plan on making investments for future growth. For those reasons, profit growth appears more sluggish than your expectations. We

are not planning just for the current fiscal year, but rather for growth that can be sustained for the next several years.

Q. Can you give us specific goals for revenue and profit in each term of the New Mid-Term Management Plan? Also, please explain any KPI that you have for each segment.

A. (INOUE Takashi) We have created our Mid-Term Management Plan on a 5-year basis. However, since it is not possible to predict the effects of the pandemic 3 to 5 years from now, we have decided to provide single year forecasts.

We will continue to focus on our client network and ARPA as our key performance indicators. The expansion of our client network is related to the number of listings on our websites. In addition to our media services, we will continue to produce new services for realtors to promote the digital transformation of the real estate industry to drive ARPA.

Q. When do you predict that revenue for HOME'S will be positive year over year?

A. (ITO Yuji) We are expecting positive revenue for fiscal year 2021. After the state of emergency was lifted, we saw strong recovery trends between July and September and want to continue this trend.

Q. Why do you believe that omnichannel is an important approach? Please describe how much you plan on investing and give us an idea of what kinds of returns you expect in the form of revenue.

A. (ITO Yuji) For the last 3+ years, we have been building up our multichannel approach. There is a strong demand from users and satisfaction has been very high. Currently, we are convinced that this will be one of our pillars for revenue growth. We see this as one of our strengths in a competitive real estate portal market and want to continue to invest to grow this business in the future. We have not disclosed details on the amounts or returns on our investments, but we will continue to operate this business within our SG & A budget.

Q. When do you expect the market for STOs to pick up speed? Also, can you give us an idea of the kinds of future contributions STOs will make to the results of LIFULL?

A. (INOUE Takashi) There is a lot that we won't know until we try, so it is still not possible to know when this market will really take off. Currently, we are in a stage where we are making single steps forward. This is just a prediction, but the value of the global real estate market is estimated at 70 to 80 quadrillion yen. If even 10% of that could be securitized, the monetary value would be about the same as the stock exchanges of the entire world. Then, if it would be possible to collect a fee for secondary transactions, the impact on revenue and profit would be enormous.

Right now, there are several smaller start-ups organizing real estate STOs in different parts of the

world. In our case, with LIFULL CONNECT we have a network providing real estate information in 63 countries and billions of listings. We have brought together the necessary parts and completed a blockchain proof-of-concept. We plan on using these resources to create a platform that will serve as a marketplace within the next 2 to 3 years.

It is very likely that the laws of different countries will need to be reformed, so we will need to take that into consideration when creating our strategy. I cannot make any comments on the impact to our results, but I will say that the size of the market is considerable and has enormous potential.

Q. I believe the current lull in inquiries has been greatly affecting growth in ARPA, but are there any current initiatives other than inquiries to increase ARPA?

A. (ITO Yuji) At the moment, the situation is improving, but you are correct. The pandemic has been affecting the number of inquiries.

Particularly for sale properties, we have several revenue sources other than inquiries. For example, there are optional services and proposals that we can make for the peak seasons which are currently on a smooth upward trend.
