

LIFULL Co., Ltd. (2120)

Edited Transcript of FY 2023/9 Full-Year Earnings Briefing

(Online/Offline Hybrid Meeting)

Date: November 14, 2023 (Tue.) 11:00 AM – 12:00 PM (JST)

Participants (In-Person):

INOUE Takashi

Representative Director and CEO

ITO Yuji

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

FUKUZAWA Hidekazu

Managing Officer, General Manager of Group Businesses Management Department

Participants (Online):

YAMADA Takashi

Director, Managing Officer, Head of AI Strategy Office, General Manager of LIFULL HOME'S Business Department Development Division

HADA Yukihiro

Managing Officer, General Manager of Human Resources Department

KAWASAKI Kohei

Managing Officer, General Manager of Creative Department

NAGASAWA Tsubasa

Managing Officer, General Manager of Technology Department

Speaker: INOUE

I. Main Points for FY 2023/9 Second Quarter

- Earnings for FY 2023/9
 - Strong growth and increased profitability ending the year with increased revenue and profit YoY
- Growth strategy and forecast for FY 2024/9
 - Focusing in growth in core businesses
 - Changes to reporting segments: Offshore development centers moved from the Overseas segment into the HOME'S Services segment
- Changes in the management structure to reach the targets of the Mid-Term Management Plan

II. FY 2023/9 Full-Year Earnings Results

[Review of FY 2023/9 Full-Year] We have been successful in our strategy of selective focus and have increased profitability. Operating profit ended the year +17.2% YoY, but our overseas aggregation business has not been performing well and ended the year below our targets. For the domestic HOME'S Services segment, we have been making smooth progress in our investments in service development, and revenue was up YoY for re-sale properties, appraisals and our consultation service, *Sumai No Madoguchi*. Apart from the increase in revenue, we also optimized our advertising spending resulting in increased profit YoY.

For the Overseas segment, aggregation struggled ending the year with decreased profit YoY. However, the portal and tech-enabled agency businesses that we acquired during the year outperformed our original expectations.

For the Other Businesses segment, we have been managing the Regional Revitalization Fund of about ¥1.0 billion for the last several years. This year it was time to make our exit from some of our investments, and we sold several projects resulting in a significant increase in profit. At the same time, LIFULL senior, which operates a portal for searching for elderly care facilities, has been investing in branding in order to further increase revenue.

[Condensed Statements of Income and Loss] Consolidated revenue for the Group increased +1.9% YoY thanks to contributions from overseas acquisitions and the Regional Revitalization Fund. However, we sold LIFULL Marketing Partners (LMP) at the end of the previous fiscal year which resulted in a drop in revenue for FY 2023/9. Removing the effects of the sale of businesses in the previous year, revenue has grown +15.0% YoY. There were one-off increases in cost of sales related to the sale of investments by the Regional Revitalization Fund, but cost of sales also decreased YoY due to the sale of LMP which increased the profitability of our businesses. Additionally, there was a sharp decrease in advertising spend primarily due to the strategic optimization of promotion costs for LIFULL HOME'S. Other income and expenses were primarily affected by the sale of shares of LMP and Fashiola in the previous fiscal year and the sale of shares of Rakuten LIFULL STAY during the current year. Additionally, there were increased costs for the earn-out of FazWaz, which operates a tech-enabled agency and website in Thailand. These costs amounted to ¥0.75 billion, but this is a positive factor, as it shows that FazWaz is progressing according to plan.

[Revenue / Income and Loss by Segment] Going by segment, the HOME'S Services segment has grown by +2.7% YoY (after removing revenue from LMP in the previous fiscal year) and returned advertising spend back to levels from two years ago resulting in an enormous +657% growth in profit.

In the Overseas segment, our aggregation sites have not been performing well, but segment revenue grew by +30.3% YoY after removing effects of the sale of Fashiola. Due to the decline in revenue from aggregation sites and increased personnel costs, segment profit dropped by 99.4%, but 2Q, 3Q and 4Q have all been profitable. FazWaz has also been performing well, and we have made the revenue recognition policy more conservative. In the past, there was a cancellation rate automatically applied to deals that needed to be cancelled when revenue had actually been accrued. Now, revenue is recognized after it cannot be cancelled. As a result, we have changed to a more conservative approach with a negative impact of ¥0.4 billion in revenue and ¥0.18 in segment profit.

In the Other Businesses segment, revenue increased +80.8% YoY due to the sale of investments by the Regional Revitalization Fund. However, even after removing these one-off gains, the Other Businesses segment has reduced its losses and is making progress toward profitability. We hope to bring this segment into profitability soon.

[Shareholder Returns] We have not made any changes to our overall policy of a payment ratio of 25% of profit for the period attributable to owners of the parent. However, for FY 2023/9, we have also included several extraordinary factors into the payment reserves for dividends. These included the reduction in taxes due to the reversal of operating losses carried forward for the reorganization of overseas subsidiaries as well as the additional recording of the earn-out for FazWaz. Including these factors, dividends for the period are projected at ¥4.26 per share (payment ratio of 53.1%.) (Submitted to the General Shareholders' Meeting to be held on December 21, 2023.)

[Condensed Statement of Financial Position and Goodwill] Due to overseas acquisitions and currency translation, goodwill increased to ¥5.5 billion. Despite a decrease in current assets from the Regional Revitalization Fund, current liabilities also decreased due to the repayment of loans. Repayment of loans amounted to ¥3.0 billion resulting in total equity of ¥32.6 billion.

[Condensed Statement of Cash Flow] The operating cash flow increased to ¥6.2 billion primarily due to an increase in profit. The investing cash flow decreased ¥1.7 billion primarily due to the real estate financing business and overseas acquisitions. The financing cash flow decreased ¥5.0 billion due to repayment of loans. As a result, cash and cash equivalents amounted to ¥16.5 billion at the end of the period.

■ Initiatives in Each Segment

[Overseas]

In the Overseas segment, we are continuing to follow our strategy of "Moving to Direct" in which we are creating a closer connection to the actual transactions. Revenue increased by +17% YoY on a local currency basis.

Originally, the aggregation business, which works on a cost-per-click (CPC) business model, was very profitable. However, due to changes in the policies of how advertisements are displayed on Google, specifically with more advertisements being displayed within the first view, organic traffic has been on a downward trend not only for our services, but worldwide. One additional worldwide factor has been the opacity of the global economy moving forward. Due to these factors, our client portals have been reducing their advertising budgets over the last year. On the other hand, revenue from third-party advertising products, such as Google AdSense, has begun to recover with +31% increase in revenue YoY. On the other hand, our portal business grew by +116% and exceeded our original forecast due to the acquisition of Lamudi Mexico, which was not included in the original budget for the year. Moving forward, we will work to increase Average Revenue Per Agent (ARPA.) Additionally, our tech-enabled agent business, which utilizes online and AI technology, greatly exceeded our original forecast.

You can find a detailed explanation of the Moving to Direct strategy on page 14 of the Earnings Presentation.

Users interesting in moving go through the entire process of searching, comparing properties and finally signing a contract. As the information we provide through our aggregation, portal and tech-enabled agent services gets richer the further down the funnel users go, the more valuable the services become.

LIFULL CONNECT currently has some of the largest real estate aggregators in the world under one roof – Trovit, Mitula, Nestoria and Nuroq, and we need to take action to improve solve some of the issues that we are currently experiencing. The services we offer that are closest to the transaction, our "Direct" services, have exceeded our original forecast through the acquisitions of Lamudi Mexico and FazWaz. As you can see on page 15, as revenue continues to grow for the Overseas segment as a whole, the percentage of our Direct services continues to increase along with our overall client base. We will continue to drive this transformation of Moving to Direct in the future.

One of our pillars of growth will be our tech-enabled agency business. In this business, we are combining the enormous traffic of Dot Property, a service offered through LIFULL CONNECT, with property information from FazWaz and increasing the overall inquiries we generate through our sites. Over the next fiscal year, FazWaz will grow its network of agents and further improve efficiency of its employees to increase the conversion rate and number of transactions within the Group to increase revenue by approximately +85% YoY. Personnel costs for the agents themselves are nearly completely commission-based, so these costs will remain linked to revenue.

The second acquisition we made in FY 2023/9 was the real estate portal, Lamudi Mexico. This business has also continued to grow above our expectations and will be working to grow the overall client network in Latin America and increase ARPA. Over the next fiscal year, we will be leveraging our sales team that we have strengthened over the last two years through the acquisitions of Lamudi Mexico and Properati to increase our client base by approximately while also taking actions to increase ARPA by the end of FY 2024/9.

For our third pillar, the aggregation sites, organic traffic remains difficult to control. Therefore, we will be investing in increasing our development and sales teams to increase the conversion rates and price per click.

[HOME'S Services]

For the HOME'S Services segment, we are working to increase the final closing rate of our clients by fine-tuning our traffic and the content of our inquiries. For example, if 1 person out of 100 people who visited our site signed a contract, that would make up about 1% of our users. However, we are talking about being able to produce 3 - 4 inquiries even with a total traffic were 80 instead of 100. This would not just provide revenue for us, but also for our clients. For every incoming inquiry they have, they have to call back or send an e-mail or chat and arrange property viewings in order to try to make a sale. These all take time and resources, so we believe that by improving

the closing rate for real estate professionals, our clients will have more completed transactions and lower costs improving the profitability of their businesses while also creating new opportunities for us to increase revenue in the future.

During FY 2023/9, we were successful in improving the value that LIFULL HOME'S provides while also decreasing branding costs by 57.7%. Our efforts helped us optimize these costs and maintain the total number of inquiries through LIFULL HOME'S despite the fact that the total number of individuals moving in Japan had not increased.

As part of our efforts to improve the features of our site and ensure our clients' closing rates improve, we utilized AI technology to create nice-to-have search filters in addition to the hard must-have search filters previously provided and now have a patent on this feature. As a result, revenue amounted to ¥23.1 billion (+2.7%), and segment profit ended the year at ¥2.6 billion (+657.0%).

As one of the pillars of our growth strategy for LIFULL HOME'S, we will continue to develop new features for the website and will be making investments to secure development resources. Our new features will help to further transform us into a service that provides personalized recommendations to each individual users while also serving real estate professionals as a support service to make them more efficient overall.

In conjunction, we have created an internal team specialized in generative AI which has been releasing new services one after the other. On page 24, you can find several examples of past releases, but the team is also working on creating new services using generative AI to improve internal efficiency and create a more personalized experience for users. We believe that there is a lot of room for growth here and are looking forward to the results of our initiatives.

The second area where we will be focusing on is the expansion of our sales team. In the past, we have made significant investments in developments to improve our clients' closing rates, and those investments have been paying off. We have received feedback from some of our larger clients which operate multiple offices saying that users who inquire through LIFULL HOME'S have up to a 10% closing rate which means more transactions for their businesses. With this in mind, we are expanding our sales team to increase the number of members of LIFULL HOME'S.

■ Change in Reporting Segments and the Results Forecast for FY 2024/9

Total revenue is negligible, but our offshore development locations, LIFULL Tech Vietnam and LIFULL Tech Malaysia, have been primarily focused on making developments to accelerate the growth of the LIFULL HOME'S website. Therefore, we are moving these businesses from the Overseas segment to the HOME'S Services segment.

For FY 2024/9, we project total consolidated revenue to be ¥37.0 billion with ¥3.0 billion in operating profit.

We resolved to sell our subsidiary LIFULL SPACE in October and have included ¥0.85 billion of other income in the forecast. However, the final total will be finalized when the transfer is completed in February 2024. We have also used an exchange rate of ¥149 to the euro.

■ Reaching the Targets of our Mid-Term Management Plan (until FY 2025/9)

We have not made any alterations to our Mid-Term Management Plan ending in FY 2025/9. We will continue to improve consolidated revenue by two percentage points each year while working toward ¥5.0 billion in operating profit. To achieve these goals, we will maintain our selective focus on increasing revenue in our core businesses while increasing profit. The trigger for the stock options we have announced is a consolidated operating profit of ¥5.0 billion with ¥3.0 billion for the entity LIFULL Co., Ltd. We will work as a united group to reach these targets.

■ New Initiatives in the Field of Real Estate Investment

We are strengthening our initiatives in the field of real estate investment as one of our new investments.

On page 32, you can see an overview of our past efforts in the field of real estate investment. We acquire Kenbiya, which offers listings for investment properties and combined with our own investment property service on LIFULL HOME'S. By combining these services, we are able to appeal to a wide variety of real estate investors.

We have also taken action on small-lot real estate crowdfunding businesses with the Real Estate Joint Venture Act and have created financing schemes through our subsidiary, LIFULL Investment,

as well as the Regional Revitalization Fund. Additionally, we invested in Hash Dash to create real estate-based security tokens.

This time, we are planning to establish LIFULL Financial Co., Ltd. to lead our efforts in the area of financing. To scale the business globally and create a secondary marketplace, Mr. SHIMIZU Tetsuro will be serving as representative director of this new subsidiary. Mr. Shimizu has previously worked at the Long-Term Credit Bank of Japan, Seven Bank, Rakuten Inc. Rakuten Edy, Shinsei Bank and Shinsei Financial serving in positions as the representative director and CEO. Currently, Mr. Shimizu also serves as a full-time director of the Monex Group and has been nominated to serve as a director of LIFULL Co., Ltd. We look forward to his deep knowledge and rich experience in our businesses.

We believe that real estate x NFTs have considerable potential for growth moving forward. NFTs are based on blockchain technology which makes them extremely difficult to copy or alter. It is also possible to combine them with different features. For example, NFTs could be used for special kinds of rights or memberships which could, then, be used to develop new products.

Small-lot real estate investment has traditionally been focused primarily on REITs. However, REITs are expensive to form and are, thus, mostly only made up of large-scale commercial real estate in central metropolitan areas. With the advancement of technology, though, we can use security token or NFTs to create markets for even smaller-scale products. Recently, resort memberships, rights to share houses or other accommodations have been launched as NFT products. They are easy to create and design and are not associated with large creation costs. Therefore, we believe they present an enormous opportunity.

Also, by using NFTs, we can expand globally more easily, as they are generally not prohibited or strongly regulated under local financial laws in different countries. So, we have included Real Estate x NFT as a new area of our investment-related businesses and will be considering ways to expand these services globally.

■ Changes to our Management Structure

On December 21, we plan to add one additional Representative Director.

Mr. INOUE Takashi, the founder and owner of the LIFULL Group, has served as representative director for the twenty-eight years. However, we will be transitioning into a two-person team to further strengthen management and governance of the Group overall by nominating next-generation leader, Mr. ITO Yuji, to serve as Representative Director and President.

Currently, there are thirty-seven companies within the Group expanding a wide range of different businesses and services. Mr. Inoue and Mr. Ito will divide the businesses with Mr. Ito gradually taking over different parts of the Group while ensuring overall growth. Mr. Inoue is still young and healthy, but he wants to create his succession plan and ensure a smooth transition of leadership to create a group of companies that will last for fifty or even more than 100 years.

To give a basic overview of Mr. Ito's background, he joined the Company 14 years ago. In this time, he has worked in LIFULL HOME'S and with new start-ups and currently serves and head of LIFULL HOME'S. He is now forty years old and will be a rejuvenating factor for our management.

One other change we have made is to our internal auditors. Our current full-time internal auditor is Mr. SHISHIDO Kiyoshi, and he will be moving into a position as head of our overseas businesses as a director of the Company. Mr. Shishido has served for several subsidiaries of the Mitsubishi Corporation in management positions and as representative director. Therefore, he has the professional knowledge, management experience as well as a deep understanding of global businesses, technology, legal affairs, risk management and managements and acquisitions.

Taking Mr. Shishido's place will be Ms. OHSUMI Shoko. Ms. Ohsumi joined the Company in 2008 and has served as head of financial departments and internal auditing.

On page 39, you can find an overview of the newly proposed LIFULL Group Management Structure. After December 21, Mr. Inoue will serve as chairperson overseeing the Group and governance as a whole. Mr. Ito will oversee the domestic Japanese businesses (excluding the finance-related businesses), Mr. Shishido will oversee the overseas businesses and promote higher profitability in our overseas subsidiaries, Mr. Shimizu will oversee the newly created financial subsidiary and Mr. Yamada will remain unchanged in his position overseeing technology.

◆◆◆ Question & Answer Session ◆◆◆

In addition to translation, a portion of these questions have been edited. Please review the Japanese video of the Earnings Presentation for the questions in their entirety.

Q1) Regarding the reductions to advertising spend in the HOME'S Services segment, you mentioned that you reduced branding costs by 57% YoY due to efforts of the team and utilizing AI technology etc. Can you give us more details on whether or not there have been additions to property listings?

A1: Ito) During FY 2023/9, we have been revolutionizing the structure and increased profitability. By doing so, we reviewed and adjusted our expenses primarily for branding and television commercials and reduced these costs to levels from two years ago. However, we did not just cut costs. We also shifted more of our budget to social networks that produce more results, such as YouTube, and have gained valuable experience. We also created several hit commercials that created a buzz online and helped us improve brand recognition and maintain traffic and incoming inquiries. During the current fiscal year, we also plan to continue to further optimize our spending in this area and are looking forward to the results.

A1: Kawasaki) As Mr. Ito mentioned, this was planned optimization. We specifically considered who, when, where we were approaching with our ads. By taking this scientific approach, we were able to better select the media where we placed our ads. We featured KAWAGUCHI Haruna, a popular young actress, in our television commercials such as "It's a waste not to use HOME'S" in order to approach users who would potentially be using multiple services and were able to take communicate our message to them to help them take action. On YouTube, we featured Mr. KIMURA, the president of a large sushi restaurant chain known for his public appearances, at the first fish auction of the year. This video alone had more than 18 million views and was a huge success.

A1: Inoue) To follow up, these plans were brought to life by Mr. Kawasaki and his creative, promotion and marketing teams and were created internally. The teams considered what approach they would take with a limited budget in order to produce the best results, and these promotions were the result of that hard work.

Q2) Regarding the explanation of the real estate investment area on page 32, I understand that you are aiming to strengthen the Group's position on financial businesses, but what is the current status of these businesses and what do you think the potential is in terms of revenue and profit?

A2: Fukuzawa) You can see an overview of our real estate investment-related companies on page 32. At the far left are our services associated with actual real estate: Kenbiya and LIFULL HOME'S Investment Real Estate (the number two and three sites in Japan.) We combined these two services in April and aim to become the number one in Japan. This business originally had a revenue of several hundred million yen with a profit margin of around 20% - a highly profitable business. We plan to continue to maintain the profit we are seeing here while continuing to increase the scale of business.

The second from the left is LIFULL Investment. Here, we made our exit from the Regional Revitalization Fund in September 2023 with a profit margin of over 10% - another highly profitable endeavor.

The other items in the orange box are future investment-related businesses. They are not large, but are investments for the future, and are providing a positive boost to the operating profit for the segment. This is the area we want to pursue moving forward.

Q3) You changed the revenue recognition policy for FazWaz, and in the presentation materials it said that there was a negative impact of ¥0.4 billion and ¥0.18 billion in profit during Q4. Will this downside be multiplied by four during FY 2024/9?

A3: Fukuzawa) FazWaz has been consolidated since January, so we were accruing revenue according to our original policy until Q3. However, in Q4 we adjusted all revenue for the year according to the new policy (from January to June.) For FY 2024/9, the new recognition policy is

already in place, so there will not be a negative impact from these changes.

Q4) During recent earnings presentations, there has been a lot of talk about the effects of Google's changes to its algorithm and the effects on businesses. Are the conversion rates you referred to during the presentation also susceptible to these changes?

A4: Inoue) The changes to the search policies and how ads are displayed are Google have created a global drop in organic traffic. However, even if we our organic traffic were to be negatively affected, we are working on increasing the conversion rate of inquiries after searches, so we are updating the user interface and adding more details about properties – such as about the surrounding environment and how easy it is to raise children in the area. Bu doing so, we believe that we are improving the overall conversion rate for our clients.

Q5) From the user's perspective, is the site going to be changing little by little, or will there be a big release sometime?

A5: Inoue) We make large-scale updates to our systems every several years, but the site is changing almost daily. In the industry, we talk about A/B tests. Some users view the site in its current form (pattern A) and others view the site in a modified form (pattern B), and we compare the results in terms of conversions. The winning side is implemented into the website.

Q6) Have you included the results of LIFULL Financial in your forecast for FY 2024/9?

A6: Inoue) We do not expect to have a significant amount of revenue or profit during FY 2024/9. Right now, we're looking at this as a feasibility study on markets using NFTs.

■ Remarks from ITO Yuji (Newly nominated Representative Director and President as of Dec. 21)
Mr. Inoue just gave you a brief overview of my background, but I joined the company in 2006 – about eighteen years ago. I have been working in some capacity with LIFULL HOME'S over the entire period and have been on the front lines. I know more about LIFULL HOME'S than anyone as well as all of our other businesses. For the last three years, I have also given my input on the Board of Directors as well as at internal management meetings. I understand that I am expected to further improve our results and help the businesses to grow, and I will take action as quickly as possible. In our changes to the management that we have released, we also discussed additions to the overseas and financial businesses, so I hope our next generation of leadership will live up to your expectations.

■ **Closing: Inoue**

As I explained earlier on, the reorganization of our non-core businesses is nearly complete, and our core businesses are stronger for it. Moving forward, I want to continue to increase revenue and profit. At the same time, I also believe that the real estate financing market is enormous. We have strengthened our management structure, and I hope you will look forward to the impact of our actions.