

LIFULL Co., Ltd. (2120)

Edited Transcript of FY 2024/9 Second Quarter Earnings Briefing

(Online/Offline Hybrid Meeting)

Date: May 15, 2024 (Wed.) 11:00 AM – 11:37 AM (JST)

Participants (In-Person):

ITO Yuji

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

INOUE Takashi

Representative Director and Chairperson

FUKUZAWA Hidekazu

Managing Officer, General Manager of Group Businesses Management Department

Participants (Online):

SHISHIDO Kiyoshi

Director

YAMADA Takashi

Director, Managing Officer, General Manager of Group Data Department

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: ITO Yuji

■ Main Points

1. LIFULL HOME'S progressing according to plan
2. Profit of ¥0.91 bil. from the sale of LIFULL SPACE
3. Downward revisions to forecast due to gap in actual results Overseas

■ FY 2024/9 Second Quarter Earnings Digest

[Consolidated Results] Consolidated revenue amounted to ¥17.3 bil. (-9.4% YoY, all percentages will be YoY unless otherwise stated.) However, there were one-off sales of investments by the Regional Revitalization Fund in the previous year. Excluding this factor, revenue has grown +¥0.3 bil. YoY.

Operating profit amounted to ¥0.97 bil. (-43.2%.) However, there were one-off gains of ¥0.66 bil. from the sale of shares of Rakuten LIFULL STAY and ¥0.45 bil. from the sales of investments by the Regional Revitalization Fund in the previous fiscal year. On the other hand, during the current year, we incurred one-off costs (¥0.23 bil.) for the transition to a new management team in our overseas subsidiary and well as proceeds of ¥0.91 bil. from the sale of shares of LIFULL SPACE. In our core businesses, we continued to make growth investments, and parts of our overseas businesses have fallen behind on our original forecast.

[HOME'S Services] This segment is making progress in-line with forecasts with an increase of 1.2% in revenue. Segment profit, however, was down 17.8% due to advertising spend and proactive growth investments.

[Overseas] Revenue grew 5.1% due to contributions from two acquisitions made in the previous fiscal year, but progress is still behind our full-year forecast. Additionally, there was a segment loss of ¥0.5 bil. due to one-off costs associated with the transition to a new management team.

■ Creating a Stronger Business Overseas

As on page 12, we are following our strategy of Moving to Direct in the Overseas segment. Within this strategy, we are adjusting the services we provide to each individual region while also shifting our focus on

higher value areas. Currently, there have been no changes to this strategy.

Our real estate portals continue to grow in-line with our plans. Moving forward, we will continue to expand our client network while increasing ARPA (average revenue per agent) to drive revenue growth.

In our tech-enabled agency, FazWaz, we saw a temporary decrease in the number of agents during the first quarter which led to decreases in the number of bookings and completed transactions. This ultimately resulted in a gap to the original forecast. Currently, we are seeing growth in indicators such as the agent headcount, inquiries and listings. Additionally, the number of sales transactions reached the highest level ever in March. Moving forward, we will continue increase the agent headcount while also further developing our training programs.

Organic traffic to our aggregation sites has declined due to a number of external factors, and we have been taking steps to reduce the impact. We are increasing sales of our new products while also making changes to our websites to further drive our conversion rates and traffic. As of the end of the quarter, we have already been successful in increasing our conversion rates and average cost per click year over year.

As part of the transition to our new management team for our overseas businesses, we are taking initiatives to further drive employee engagement. Through these initiatives, we hope to create a positive cycle which leads to growth of our businesses as a whole. Some specific examples of our efforts include more effective working environments, more support for team building as well as revisions to incentive plans for key personnel.

The full rebuilding process for the Overseas business has been provided on page 17. Last year, we transitioned to a new management team, and Mr. SHISHIDO Kiyoshi (Director of LIFULL) has been involved in determining issues in the business as well as brainstorming potential solutions over the last three months. From April, we are taking action on the plans we have made and are working to recover and start growing the business again.

■ HOME'S Services Segment

The real value that we provide through LIFULL HOME'S is the volume of high-quality inquiries we provide. The more likely these inquiries are to translate into transactions for our clients, the more valuable a partner we become. We have outlined some examples of steps we are taking to make this happen on page 19. We are increasing the total volume of inquiries we provide while also finding ways to ensure that each lead is of a higher quality. By doing so, we will provide more value to our clients and be able to continue this cycle to invest for more growth.

In order to increase the volume of inquiries we are sending, we are improving the user interface and experience of LIFULL HOME'S. Currently, we are using artificial intelligence (AI) to make better recommendations for users and make them more likely to contact real estate professionals. We have also been making improvements to our iOS and Android apps. As a result, these apps have been downloaded over 7.5 mil. times and have received high ratings from users. The number of inquiries to our clients via our apps has also increased 14%.

Additionally, we have been focusing on promotion and have seen a 7% increase in direct searches on major search engines for LIFULL HOME'S. We expect the effects of our increased advertising to contribute to growth during the second half of the year as well.

As mentioned before, the value we provide are high-quality inquiries and ultimately transactions for our clients, and we are taking steps to further improve the quality. One example of this is the automatic de-listing of properties which are no longer available - a service which we have patented. A second example is the growth we are seeing in our personal consultation service, *Sumai No Madoguchi*. We currently have over 60 locations throughout Japan and have added more ways for users to access this service from the LIFULL HOME'S website. Through these actions, we have increased all of our indicators from consultations to revenue over the previous year. A third example are the Real Estate Digital Transformation Partnerships we are offering to our clients. In this service, we work together with our clients to develop new online features. Moving forward, we aim to be recognized as one of the leaders of the digital transformation of real estate.

Our investment real estate platform, Kenbiya, has also been experiencing accelerated growth. We acquired Kenbiya in July, 2020, and integrated its property database with our own LIFULL HOME'S Investment Real Estate. Now, we are focusing on sales and have acquired 30% more properties than the previous year. We will continue to work toward becoming the number one investment real estate website in Japan.

■ Other Topics in our Japanese Services

As a social enterprise, our ultimate goal is to find solutions to social issues through our businesses.

During the second quarter, LIFULL HOME'S offered a support site to victims of the January 1, 2024, earthquake on the Noto Peninsula in Japan, and we continue to offer aid to the survivors. From April, 2024, we were also one of the first websites to make it possible to display energy labels on listings on LIFULL HOME'S. Additionally, we founded LIFULL AgriLoop, a new subsidiary which produces more sustainable fertilizer for the agricultural industry. The new company has also entered into a collaboration with ITOCHU Techno-Solutions from March - a smooth start for the company.

After stepping up as Representative Director and President of LIFULL, it has been my goal to further empower our management team. In April, we instated a new Chief Legal Officer (CLO) and recognized several other Operational Leaders of the company. I hope that our investors will interpret this as a second beginning for LIFULL and continue to support our actions.

◆◆◆ 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) Looking at the downward revisions you have made to the forecast, I can see that in addition to revenue you have also reduced your other SG&A expenses such as personnel and advertising. However, at the same time, on a different slide, you mentioned that you are increasing spending on advertising. Can you give us more information for the reasoning behind the revisions?

A1: FUKUZAWA) We have only made revisions to the forecast for our overseas subsidiary, LIFULL CONNECT. That means that all of our other businesses, such as LIFULL HOME'S, are continuing on our original forecast. The advertising costs for LIFULL CONNECT are linked with revenue, so by reducing our forecast for revenue, this directly affects our advertising spend. In regard to personnel costs, we have also revised our hiring plans which has also been reflected in our forecasts.

Q2) Regarding the gap to the forecast for the Overseas segment, looking at the agent numbers on page 14, you are saying that you have reached the highest total ever. So, are you saying that you are seeing recovery quarter on quarter? Also, you also mentioned that you are continuing sales of new products, but what is your planned schedule for these sales? Do you plan to move your schedule up?

A2: SHISHIDO) Regarding the tech-enabled agency in Thailand, the agent headcount was at its highest ever in March. As a result, we also expect to see more booked properties. However, there is a time lag of several months between booking and completing transactions, but I expect that we should be able to see the results of the headcount increase after June. For the last six months, we have been watching how booked deals translate into completed transactions and have been able to confirm that there is a lag of several months between bookings and when we actually can recognize the revenue.

Next, I would like to address your second question about our new directives related to the aggregation sites. Organic traffic has been on a downward trend, but we are expanding sales of our new products to cover some of the reduction we are seeing.

At the same time, though, the drop in organic traffic has been larger than the gains we have made with our new products. Therefore, we need to continue to monitor the current situation to see if we are beginning to see positive trends around June. At the moment, I can't say whether or not we will see an increase in organic traffic or sales of our new products, but we believe that sales of our new products should be positive.

Q3) Was the 33% downturn in traffic taken into account for in the forecast at the beginning of the fiscal year or did you expect a neutral or slightly positive trend?

A3: SHISHIDO) We expected organic traffic to decline due to factors such as the legal changes Google is making in Europe, but it has currently dropped below our original expectations. On the other hand, we've been seeing a slight downward trend for the last several years now, so we were expecting traffic to continue to decrease, but there are also other outside factors at play.