



LIFULL | 2120

TSE Prime

Q1 Marks Progress Toward Transitions to Higher-Value Business Models

Earnings Summary:

LIFULL reported an 8% increase in net sales to ¥8.1 bn, driven by overseas acquisitions made during the second quarter of the previous FY. OP from comparable operations remained steady at around ¥0.15bn. In the previous year, the company recorded an operating profit of ¥0.8bn, but this included ¥0.66bn in profits from the sale of Rakuten LIFULL STAY, a hotel and lodging platform operator, in October of 2022. In the current term, the company recorded a net loss of ¥0.05bn, but this included about ¥0.2bn in one-off costs for the transition to a new management structure in the overseas business. Two changes in the SG&A expenses were worth noting: personnel costs rose by 24.9% due to the overseas acquisitions and management transition, while advertising costs decreased by 5.9% due to timing shifts of branding for LIFULL HOMES. Management anticipates an increase in advertising costs in the second quarter.

New Management Structure

As of December 21, 2023, LIFULL introduced a new management structure, appointing Inoue Takashi as Chairperson and promoting Ito Yuji to President and Managing Director. Ito, who joined the company in 2006, played a key role in expanding LIFULL HOME'S *Sumai No Madoguchi* to various cities.

Additional directors were appointed to directly oversee the overseas businesses, financial services.

Valuations

LIFULL's shares currently trade at less than 70% of book value. Management believes they can increase ROE by focusing on improving lead quality in the HOME'S Services segment and shifting to business models closer to the transaction in the Overseas segment. These transformations will take time and requires investments, causing volatility in earnings. Management is, however, pleased with the progress and expects higher and more consistent returns once these transitions have been completed. Meanwhile, the company has net cash reserves exceeding 40% of market value and a strong cash flow from operations.

¥ mn, %	Revenue	YoY	Operating profit	YoY	Pre-tax profit	YoY	Net profit ATOP	YoY	EPS	DPS
2019/9	39,297	13.7	4,184	(3.0)	3,626	(12.8)	2,360	(15.7)	18.52	4.40
2020/9	35,402	(9.9)	2,497	(40.3)	2,148	(40.7)	1,175	(50.2)	8.77	5.29
2021/9	35,857	1.3	(6,644)	TR	(6,857)	TR	(5,895)	TR (44.78)	3.62	
2022/9	35,730	(0.4)	1,681	TB	1,396	TB	1,187	TB	9.01	2.25
2023/9	36,465	1.9	1,959	17.2	1,634	17.9	1,031	(12.6)	8.03	4.26
2024/9 CE	37,000	1.6	3,000	62.1	-	-	1,350	42.9	10.06	4.26
2023/9 1Q	7,583	(10.9)	822	39.7	737	28.6	564	54.5	4.35	-
2024/9 1Q	8,190	8.0	(52)	-	(131)	-	(397)	-	(3.11)	-

Source: Compiled by SIR from the company's financial statements.

Note: Figures may slightly differ from those published by the company due to rounding to the nearest million.

1Q Follow-up



Focus Point

Japan's Only Listed Company focused exclusively on its Real-estate related Portal business.
Dedicates higher resources to IT and less to advertising than rivals.
Sold off non-core businesses to focus resources on areas of strength.
Active in more than 60 countries and rapidly expanding the profitability of its global business.

Key Indicators

Share price (3/18)	174
YH (24/1/26)	204
YL (24/3/5)	162
10YH (15/12/22)	1,598
10YL (22/6/20)	148
Shrs out. (mn shrs)	13.424
Mkt cap (¥ bn)	23.36
EV (¥ bn)	15.53
Equity ratio	63.71%
FY23/9 ROE (act)	3.24%
FY23/9 P/B (act)	0.68x
FY24/9 P/E (CE)	17.3x
FY24/9 DY (CE)	-

Stock Price Chart 1Y



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FY2024/9 Q1 Earnings

Consolidated sales rose 8%, to ¥8.1bn driven by overseas acquisitions aiding the shift from a cost-per-click model to a model that is closer to transactions. Operating profit from comparable operations was flat at about ¥0.15bn.

In the previous year, the company recorded an operating profit of ¥0.8bn, but this included ¥0.66bn in profits from the sale of Rakuten LIFULL STAY, a hotel and lodging platform operator, in October of 2022. In the current term, the company recorded a net loss of ¥0.05bn, but this included about ¥0.2bn in one-off costs associated with the start of a new management structure in the overseas business.

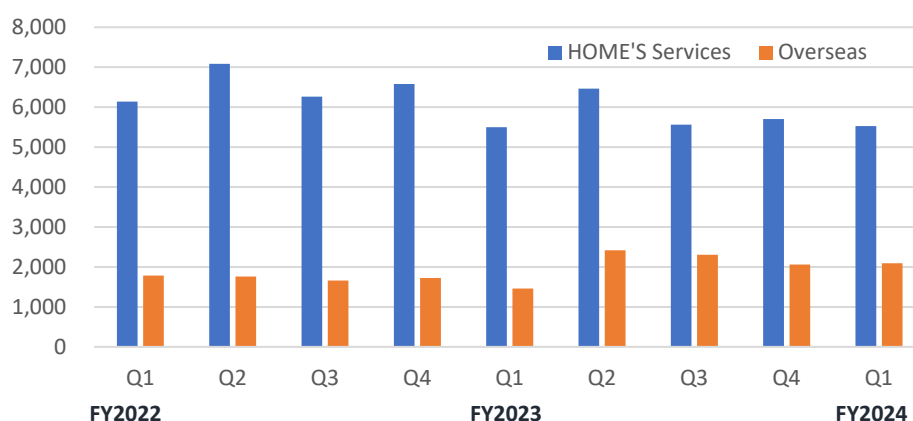
Two changes in the SG&A expenses were worth noting: Personnel costs rose 24.9%, but this included unplanned one-off severance payments associated with restructuring of the overseas business and the increased headcount from acquisitions. Advertising costs were down 5.9%, but this was related to a shift in the timing of these expenses, and management expects these costs to rise during the peak moving season in Japan in the second quarter.

Quarterly P/L

	2022				2023				2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	8,510	9,530	8,645	9,044	7,583	11,585	8,825	8,410	8,190
Home' Services	6,139	7,085	6,263	6,579	5,497	6,462	5,563	5,702	5,527
Overseas	1,787	1,762	1,660	1,727	1,463	2,419	2,305	2,063	2,093
Other Businesses	583	683	721	738	622	2,704	956	643	569
Cost of Revenue	947	1,066	957	1,084	328	2,240	843	444	527
SG&A	7,010	8,580	7,857	7,923	6,972	8,456	7,306	7,465	7,668
Personnel expenses	2,203	2,485	2,436	2,558	2,334	2,374	2,503	2,449	2,916
Advertising expenses	2,731	3,916	3,160	3,015	2,482	3,737	2,608	2,667	2,336
Operating expences	121	120	144	150	135	146	173	199	224
Depreciation/Amortization cost	459	468	482	493	488	521	529	533	495
Other SG&A	1,494	1,589	1,634	1,704	1,531	1,675	1,491	1,616	1,697
Operating income	588	(66)	105	1,044	822	889	708	(570)	(52)
Operating income margin(%)	6.9	(0.7)	1.2	11.5	10.8	7.7	8.0	(6.8)	(0.6)
Net income	365	(179)	161	833	564	560	321	(502)	(397)

1) Net income = Net income attributable to owners of the parent 2) As the provisional accounting measures for corporate mergers have been defined for FY 2021/9, FY 2023/9 and FY 2024/9, these provisional accounting measures have been applied to all related values. 3) LIFULL Tech Vietnam and LIFULL Tech Malaysia have been moved to the HOME'S Services segment as of FY 2024/9. In this report, revenue by segment from FY 2023/9 Q1 is stated based on the revised segments.

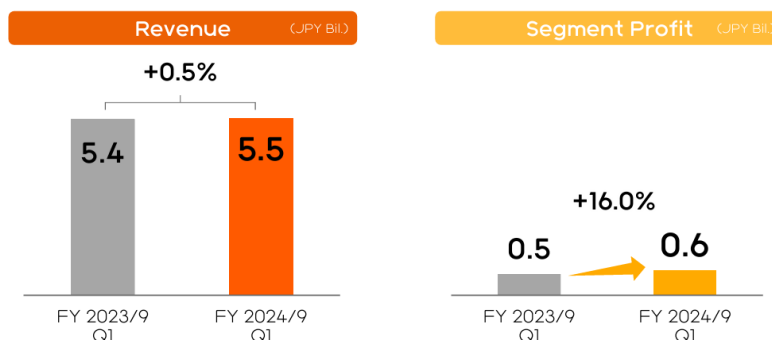
Segment Revenue Trend (¥ mn)



Source: compiled by SIR from company IR materials.

HOME'S Services Segment

Revenue in the HOME'S Services rise to ¥5.5bn on a 0.5% YoY, and segment profit rose to ¥695mn, 16.0% YoY. Both sales and profits were in-line with management's plan, though some of the rise in profitability was attributable to a shift in the timing of advertising expenses to drive traffic growth during the peak moving season in Japan from January to March.



Source: company's 3Q presentation.

The company continued to make progress in the quarter toward its goal of improving the quality of its leads, an indicator of which is that inquiries reached company targets for nearly all property types during the first quarter. The company's research indicates that the improved response rates are likely a direct result of efforts to improve the amount of detail and ease of use of the features on the LIFULL HOME'S web site.

Investing in Development

Q1 Initiatives (Selection)

- Rent** Appealing to users on the accuracy of listings
- Sale** Adjustments made to property detail pages



Result Inquiries exceeded targets in almost all markets

Source: company's 3Q presentation

Boosting Sales

Results of Q1 Initiatives

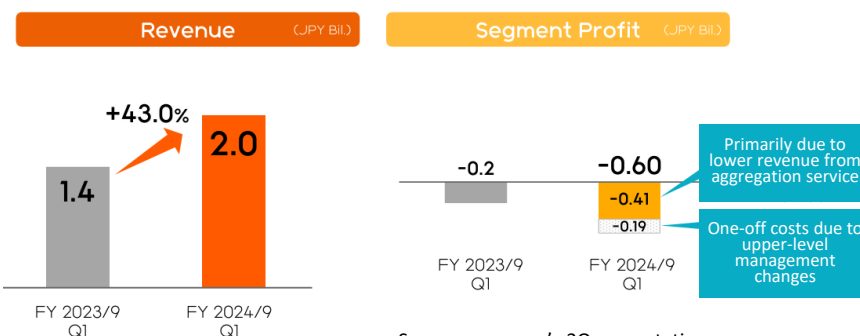


+500 Clients
(Compared to Sep. 30, 2023)

Recruitment is on-track for sales positions

Overseas Segment

The overseas segment increased revenues by 43%, to ¥2bn, as acquisitions outperformed plan, compensating for greater than expected declines in the aggregation business. The company's strategy is to shift more of the business toward tech-enabled agent and real estate portal businesses, which accounted for 46% of overseas business in the first quarter, compared to just 9% in the same quarter two years ago, and 17.5% in the previous year. Both operations exceeded plan.



Source: company's 3Q presentation

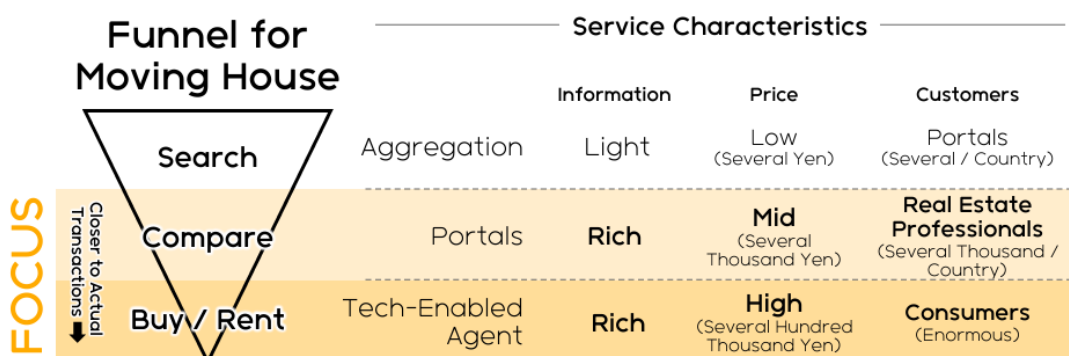
Revenue from aggregation sites declined 15% and contributed ¥0.41bn in losses. These sites generate revenue through a cost-per-click model and is vulnerable to declines in ad spending by realtors. The company also paid out ¥0.19bn in one-time severance payments and other costs related to the restructuring of its overseas business.

Adjusted Segment Revenue and Profit by Quarter

Segment Revenue	2022				2023				2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
HOME'S Services (Reported)	6,139	7,085	6,263	6,579					
HOME'S Services (Excl. LMP)	5,278	6,147	5,438	5,696	5,482	6,448	5,543	5,683	5,527
Overseas (Reported)	1,787	1,762	1,660	1,727					
Overseas (Excl. Fashiola)	1,612	1,667	1,442	1,667	1,478	2,432	2,326	2,083	2,093
Overseas (Offshore Development)	73	81	93	68	85	88	115	126	
Others (Net)	583	683	721	738	622	2,704	956	643	569
Segment Revenue (Adj.)	7,473	8,497	7,601	8,101	7,582	11,584	8,825	8,409	8,189
Segment Revenue (Rep.)	8,510	9,530	8,645	9,044	7,583	11,585	8,825	8,410	
Segment Profit									
HOME'S Services (Reported)	318	-91	-169	234					
HOME'S Services (Excl. LMP)	371	-34	-48	306	586	715	717	625	695
Overseas (Reported)	401	121	89	-45					
Overseas (Excl. Fashiola)	401	-63	-25	-72	-192	1	28	57	-605
Overseas (Offshore Development)	16	17	20	4	13	17	74	27	
Others (Net)	-180	-158	-158	-164	-113	168	-73	-186	-100
Segment Profit (Adj.)	592	-255	-231	70	281	884	672	496	-10
Segment Profit (Rep.)	552	-192	-206	-67	282	923	712	538	

Outlook

The company's core business is executing according to plan and the company has left its full-year guidance unchanged. Parts of the overseas businesses remain below target, but management is continuing to shift resources to higher-value services in the long-run. If the aggregation business stabilizes, growth in the real estate portals and tech-enabled agent businesses will become even more apparent.



Source: company's 3Q presentation

New Management Structure

LIFULL announced a new management structure as of December 21, 2023. Inoue Takashi became the Chairperson, and Ito Yuji was promoted to President and Managing Director. Ito joined the company in 2006 as a salesman immediately after graduating from university. He spearheaded the expansion of LIFULL HOME'S *Sumai No Madoguchi* to various cities, before serving as the General Manager of LIFULL HOME'S, and a year later, was nominated as a Director. He was born in November 1982 and is bringing a younger mentality into the leadership of the company. Other new directors were also appointed to directly head the overseas businesses, and financial services as well as a new member of the auditing committee.

Representative Directors



ITO Yuji's profile

- Born: November 1982 (Currently 41 years old)
- Joined the Company in 2006 after graduating from university
- Started in a sales position in LIFULL HOME'S (HOME'S)
- Made considerable contributions to growth in rental & sales markets
- Headed the nation-wide expansion of LIFULL HOME'S *Sumai No Madoguchi*
- Became General Manager of LIFULL HOME'S in 2019
- Nominated as a Director in 2020

Valuation

LIFULL's shares currently trade at less than 70% of book value. Management believes that they can increase ROE by continuing to focus on the quality of the leads it provides to its real-estate customers in the HOME'S Services segment and by shifting resources away from the cost-per-click model toward a business model that is closer to the transaction overseas. These transformations take time and requires investments that have caused volatility in earnings and increased uncertainty, but management is pleased with the progress toward these goals. When this process is complete, returns should be higher and more consistent. In the meantime, the company's net cash reserves exceed 40% of market value and cash flow from operations exceeds capital requirements with a significant margin for error.



Source: TradingView

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