



LIFULL | 2120

TSE Prime

2Q Follow-up

Q2: Move to Higher Value-Added Model Continues

■ **Earnings Summary:** LIFULL continued to make progress in its transition to higher-value added business models in the first half of FY2024/9. despite setbacks in the overseas business. Highlights included:

1. The company recorded a ¥0.91bn gain in the sale of its subsidiary, LIFULL SPACE, which operates a storage space search site. In completing the transfer, management made further progress on its goal of concentrating resources on its core business lines.

2. Revenues and profits at the core operating segment, HOME'S Services, were in-line with targets. Although profits declined as a result of strategic increases in branding and advertising expenses, management expects segment revenue growth to accelerate during the second half as the company enhances its website with innovative services and AI-driven functionality.

3. The Overseas segment saw an increase in one-off costs, a delay in its tech-enabled agency business, and a steeper-than-expected decline in traffic to aggregation sites. The agency business is already recovering briskly, and the company has taken several initiatives that are expected to enhance revenues for the aggregation sites over the next 3-4 quarters even if traffic remains subdued.

■ **Revision to Guidance:** As a result of unplanned one-off costs and reduced traffic in the Overseas segment, the company revised its full-year operating profit guidance to ¥1.9bn, from ¥3.0bn. Sales guidance was revised to ¥35.5bn, from ¥37bn. No revisions were made to any of the other segments. The company believes that during the next three quarters it can improve the revenue from this segment even at current levels of traffic to the aggregation sites.

■ **Valuations:** LIFULL's shares currently trade at less than 69% 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 require 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 67% of market value.



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 (6/12)	162
YH (24/1/26)	204
YL (24/4/22)	157
10YH (15/12/22)	1,598
10YL (22/6/20)	148
Shrs out. (mn shrs)	13.424
Mkt cap (¥ bn)	21.74
EV (LTM/¥ bn)	12.70
Equity ratio (23/9)	63.71%
FY23/9 ROE (act)	3.24%
FY23/9 P/B (act)	0.64x
FY24/9 P/E (CE)	69.23x
FY24/9 DY (CE)	-

Stock Price Chart 1Y



Source: Trading view

¥ mn, %	Revenue	YoY	Operating profit	YoY	Pre-tax profit	YoY	Net profit ATOP	YoY	EPS	DPS
2020/9	35,402	(9.9)	2,485	(40.6)	2,136	(41.1)	1,167	(50.5)	8.71	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)	1,672	TB	1,386	TB	1,185	TB	8.96	2.25
2023/9	36,405	1.9	1,959	17.2	1,634	17.9	1,031	(12.6)	8.03	4.26
2024/9 CE	35,500	(2.5)	1,900	3.1	-	-	300	(68.1)	2.34	0.00
2023/9 1H	19,168	6.3	1,711	227.3	1,564	265.3	1,164	586.6	8.72	-
2024/9 1H	17,360	(9.4)	971	(43.2)	813	(48.0)	115	(90.0)	0.93	-

Source: Compiled by SIR from the Company financial statements.

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

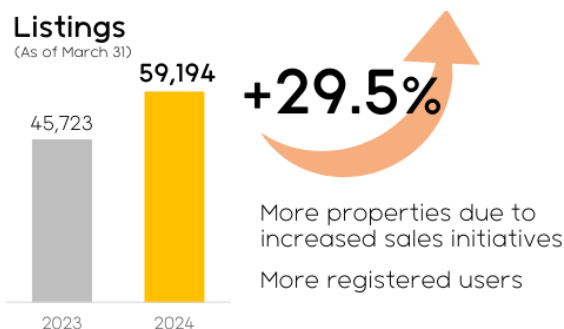
Michael Allen, Analyst

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■ HOME'S Services Segment

LIFULL has internally developed several new features using artificial intelligence which have helped to increase the propensity of leads to be converted into sales. A key problem in the real-estate industry is that brokers have limited staff and are not incentivized to clean their databases, so many leave ads up on multiple websites even after a deal is closed. These so-called "bait-properties" lower the propensity of new leads to convert to sales and reduce the quality of the company's service. At the beginning of the current year, LIFULL further improved its patented system using artificial intelligence to automatically compare advertised listings on its site with data on closed deals provided by management companies. By ensuring that a high percentage of the properties listed on the site are actually available, the company ensures the freshness of the information to users while reducing the burden on brokers, management companies, and landlords. By February, the new system was scanning 1.87mn properties, managed by 18 management companies that have adopted the system, and was suppressing about 100,000 property advertisements per month. Despite these reductions, though, the total number of properties remained about the same which indicates that total available properties are actually increasing.



Source: The Company 2Q FY2024/9 presentation "Growth of Investment Property Site Kenbiya"

Upgrades to the LIFULL HOME'S app to include more features from the company's website and conversion rate optimization initiatives have led to a 14% increase in inquiries via the app. Additionally, increased sales efforts helped spur a 4.1% increase in the customer network, to 28,889, while the average price per account was down only 2.3% following the 7.1% rise in the same period a year ago. Consultations, referrals, transactions, and revenue for the company's personalized consultation service, *Sumai No Madoguchi*, have all increased year-over-year. Inquiries that go to clients are pre-qualified by employees of LIFULL and clients are charged for completed transactions – making these leads more valuable and providing a benchmark for high-quality leads. Increased use of artificial intelligence-driven features, such as AI AnswerPlus, a chatbot for users, is helping the company start more partnerships with clients and create more opportunities to generate revenue. The company also saw a 29% rise in listings year-over-year on its investment property portal, Kenbiya, which was acquired in July 2020. The company finished integrating the acquisition's database with LIFULL's own database during the previous year and as a result, was able to increase its promotion of this service. The company aims to become the number one site for investment properties in Japan.

As a result of these efforts, sales rose 1.4% during the first half, despite headwinds caused by a declining population of movers and changes in the online advertising market. At the same time, the company increased television branding promotions during the peak moving season in Japan, leading to a 4.6% rise in advertising expenses. Advertising is expected to be seasonally high in the second quarter, but the increase was exacerbated by a shift in timing of some expenses from the first quarter into the second, which caused profits during the half to decline 17.8%. The segment profit margin fell to 9.0%, from 10.9%. Management expects the segment profit margin going forward will be closer to that experienced in the first quarter, on average, but the second quarter expenditures are usually higher than the average.

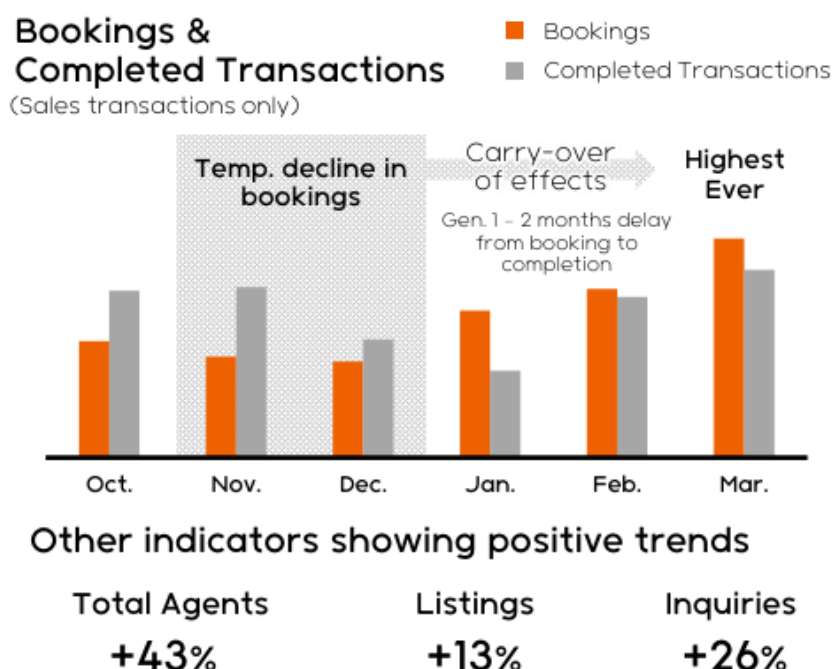
Overseas Segment

Overseas revenues increased 5.1%, driven by new acquisitions, but as a result of unplanned one-off restructuring costs combined with shortfalls in the aggregation business and a delayed start to hiring plans in the company's tech-enabled agency business, the company is behind its original forecasts. Consequently, the company has revised its forecasts for these portions of the overseas business.

The company continues to expect annual recurring revenue from international real estate portals to rise about 17%, achieved by stronger sales teams in target areas and utilizing experience from Japan to tailor services to each local market. The annual recurring revenue is calculated by multiplying the revenue of the final month of each quarter by 12.

The tech-enabled agency experienced a temporary decline in bookings during November and December, largely because the company fell behind its hiring targets. Since December, however, the total number of agents has continued to rise and reached a new record at the end of March, up 43%. Additionally, listings were also up 13% as well as a 26% increase in inquiries over the end of the first quarter. Bookings began to rise in January, and completed transactions recovered from February. By the end of March, bookings reached the highest level ever.

The company's aggregation sites have been hit by changes in internet advertising protocols as well as downturns in real estate markets around the globe. Traffic was down 33% compared to the first half of the previous year. The company plans to further enhance its user interfaces and experiences, implement solutions powered by artificial intelligence, and provide richer listings to users. The introduction of new advertising products for clients has led to a 3.3 percentage point rise in the conversion rate and a 9% increase in the price per click during the half. Each new function or feature needs to be tested across four different brands with aggregation sites in 60 different countries, so the company expects to roll these new features out over a period of two to three quarters.



Source: The Company 2Q FY2024/9 presentation

■ 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.

■ FY2024/9 Q2 Earnings

The core HOME'S Services segment reported a 1.8% rise in revenues, driven by new features using AI technologies and an increase in branding efforts. On the other hand, Overseas revenues declined 17.9%, driven primarily by declines in traffic to global aggregation sites. Sales in the Other Businesses segment fell back to a normal level of ¥608mn, compared to the ¥2.7bn recorded in the same quarter of the previous year, which included one-off sales of investments in hotel development projects. Reported consolidated sales declined 20.8%, to ¥9.2bn, but excluding the one-off asset sales in the previous year, sales were down only 3.5%, and only the international aggregation sites were significantly below target.

Reported operating profit from the HOME'S Services segment was down 45.5%, to ¥399mn, in-line with a planned advertising blitz to strengthen the brand. Although management expects the operating margin to be seasonally low during the peak moving season, which occurs during the second quarter, the current year change was exacerbated by calendar differences that cause some expenses to shift from the first quarter to the second. This was in-line with management's expectations.

The Overseas segment recorded a segment loss of ¥123mn, compared to break-even in the same quarter of the previous year. Declines in revenue from aggregation sites were steeper than expected, and delays in hiring at the tech-enabled agency service were delayed. Management expects the segment to return to profitability within the next 3-4 quarters as tech-enabled agency services accelerate and enhanced services and functions designed to increase revenue per engagement are rolled out to all of the company's aggregation sites.

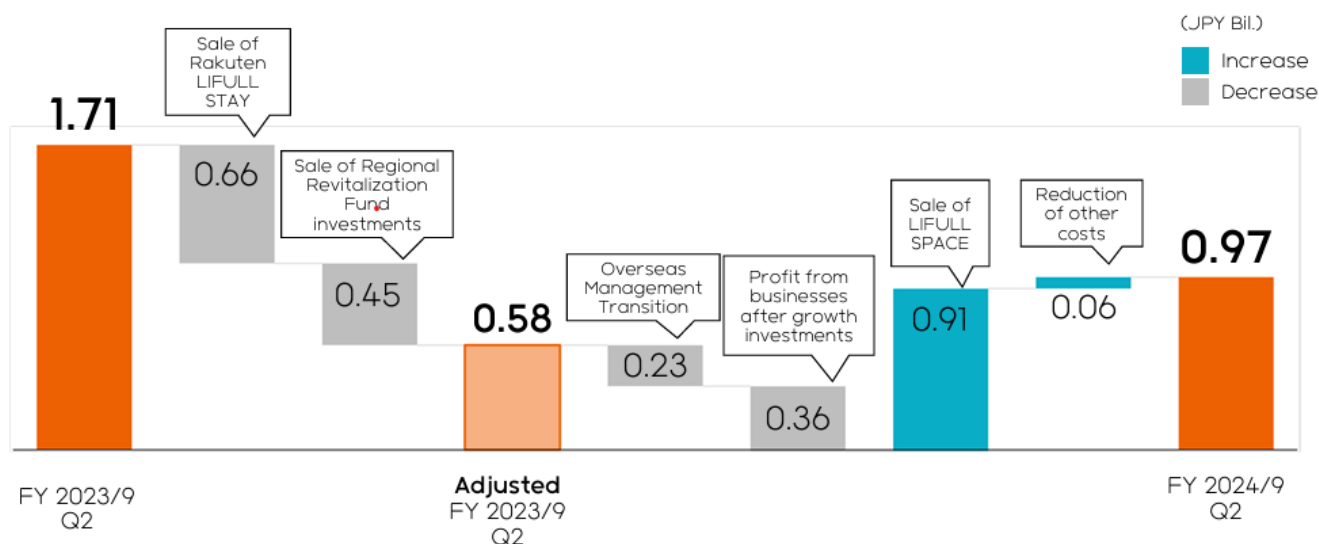
Quarterly P/L

	2022				2023				2024	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	8,510	9,530	8,645	9,044	7,583	11,585	8,825	8,410	8,190	9,169
Home' Services	6,139	7,085	6,263	6,579	5,497	6,462	5,563	5,702	5,527	6,575
Overseas	1,787	1,762	1,660	1,727	1,463	2,419	2,305	2,063	2,093	1,986
Other Businesses	583	683	721	738	622	2,704	956	643	569	608
Cost of Revenue	947	1,066	957	1,084	328	2,240	843	444	527	543
SG&A	7,010	8,580	7,857	7,923	6,972	8,457	7,309	7,469	7,672	8,498
Personnel expenses	2,203	2,485	2,436	2,558	2,334	2,374	2,503	2,449	2,916	2,394
Advertising expenses	2,731	3,916	3,160	3,015	2,482	3,737	2,608	2,667	2,336	3,786
Operating expenses	121	120	144	150	135	146	173	199	224	192
Depreciation/Amortization on cost	459	468	482	493	488	523	532	537	498	503
Other SG&A	1,494	1,589	1,634	1,704	1,531	1,675	1,491	1,616	1,697	1,620
Operating income	588	(66)	105	1,044	822	888	705	(573)	(55)	1,027
Operating income margin(%)	6.9	(0.7)	1.2	11.5	10.8	7.7	8.0	(6.8)	(0.7)	11.2
Net income	365	(179)	161	833	564	560	319	(504)	(400)	519

Source: The Company 2Q FY2024/9 presentation

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.

FY 2024/9 Q2 Consolidated Summary Operating Profit

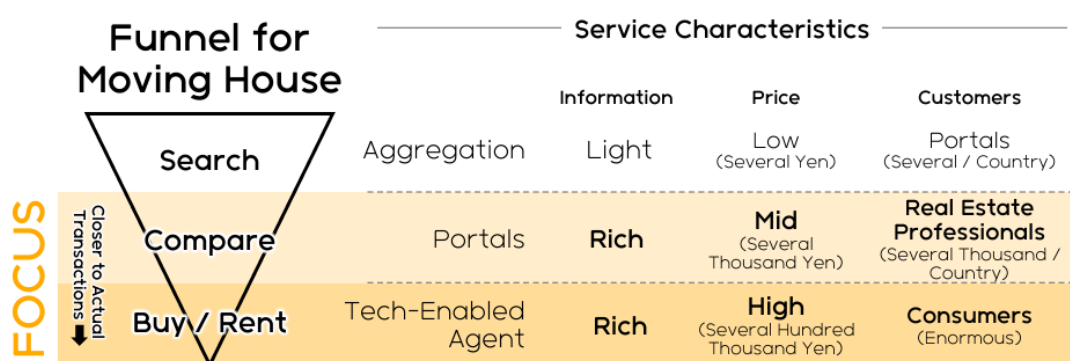


Source: The Company 2Q FY2024/9 presentation

■ Outlook

The company's core business is executing according to plan. The overseas aggregation business remains weak, but management continues to shift resources to higher-value services and believes that if the aggregation business stabilizes, growth in the real estate portals and tech-enabled agent businesses will eventually lead this segment to new highs in sales and profits.

In the current year, however, the reduced traffic in the Overseas segment combined with unplanned one-off costs caused the company revised its full-year operating profit guidance to ¥1.9bn, from ¥3.0bn. Sales guidance was revised to ¥35.5bn, from ¥37bn. No revisions were made for any of the other segments. The company believes that during the next three quarters it can improve the revenue from this segment even at current levels of traffic to the aggregation sites.



Source: The Company 3Q FY2023/9 presentation

■ Management

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. Finally, the company has also stepped up the recognition of middle managers in an effort to retain staff and promote diversity.

Representative Directors



Chairperson

INOUE Takashi



President, Managing Director
Head of LIFULL HOME'S Business Department

ITO Yuji



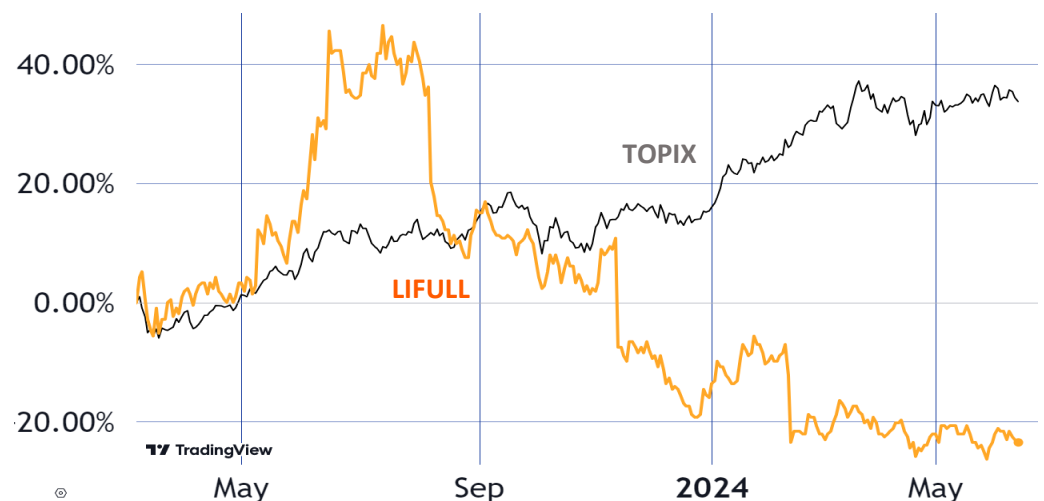
ITO Yuji's profile

- 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 69% 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 67% of market value.

Relative Chart: LIFULL vs TOPIX [1 year]



Source: TradingView

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