LIFULL | 2120

TSE Prime

Full report

Strategically transforming the Overseas segment to focus on HOME'S Services: Continuing to monitor the next developments

Summary

■ **Company Profile**: LIFULL Co., Ltd. (hereafter, the Company) operates one of Japan's largest real estate and housing information sites, *LIFULL HOME'S*, which works with real estate companies across Japan to provide listings for rental and for-sale properties. Emphasizing a user-first approach, it not only offers property information but also supports users' decision making through features such as information on living conditions by area, user reviews, and AI-driven recommendations. Beyond real estate, the Company has expanded into new businesses, including *LIFULL Kaigo,* a matching platform for senior living facilities, and *LIFULL Regional Revitalization*, to meet a broad range of user needs. Although the Company has also pursued global expansion, declining competitiveness has resulted in underperformance. In response, the FY2024/9 results announced a strategic transformation of the Overseas business, effectively withdrawing from it to concentrate management resources on the domestic HOME'S Services segment.

■ **Business trends:** FY2024/9 results were challenging, with operating profit declining by JPY 8,402 mn YoY, resulting in a loss of JPY 6,443 mn. This was mainly due to a goodwill impairment loss of JPY 7,056 mn, caused by declining competitiveness of aggregation sites in the Overseas business. Excluding one-off factors such as impairment, operating profit was JPY 730 mn, a decline of 47.5% YoY. In the HOME'S Services business, sales increased by 3.4% to JPY 24,024 mn. However, segment profit declined due to additional hiring of sales personnel. The Overseas business reported a sales decline of 1.2% and a segment loss of JPY 1,464 mn. To refocus management resources on growing domestic operations, the Company has decided to undergo a strategic transformation of the Overseas business.

■ **Share Price Insights:** The Company's share price has been in decline since peaking at the end of 2015, with its PBR falling to a historical low of 0.55x by the end of September 2024. This drop was likely caused by the significant downward revision of FY2023/9 operating profit (which was initially expected to recover) and the underperformance of the Overseas business. However, the announcement of the structural transformation of the Overseas business seems to have reassured the market, suggesting the worst may be over. To meet the listing criteria for the TSE Prime Market, the Company has committed to focusing on its core business, improving profitability, and increasing market capitalization. It also indicates its intention to strive for capital-cost-conscious management. These actions demonstrate a strong commitment to improving corporate value. That said, to further gain market valuation and establish a sustainable share price recovery, further progress in initiatives are expected to improve capital efficiency.

JPY mn, %	Revenue	YoY	Operating Profit	YoY	Pre-tax profit	YoY	Net profit	YoY	EPS	DPS
2021/9	35,857	*1.3*	(6,644)	-	(6,857)	-	(5,901)	-	(44.78)	3.62
2022/9	35,731	*(0.4)*	1,682	-	1,396	-	1,188	-	8.96	2.25
2023/9	36,405	*1.9*	1,842	*9.5*	1,518	*8.7*	939	*(21.0)*	7.31	4.26
2024/9	34,466	*(5.3)*	(6,443)	-	(7,076)	-	(8,463)	-	(66.12)	0.73
2025/9 CE	**38,000**	*10.3*	**3,500**	-	**-**	-	**1,900**	-	14.84	-

Source: Compiled by SIR from the Company IR material.
Note: Figures may differ from the Company materials due to differences in SIR's financial data processing and the Company TANSHIN reporting standards.

Focus Point

The struggling Overseas business will undergo strategic transformation, as announced. By focusing resources on the HOME's Services business, the core domestic real estate portal is expected to sustain its gradual recovery. With reorganization underway in the Other segment, attention now shifts to the Company's next move.

Key Indicators	
Share price (12/25)	199
YH (12/20)	209
YL (8/5)	100
10YH (15/12/22)	1,598
10YL (24/8/5)	100
Shrs out. (mn shrs)	134.24
Mkt cap (JPY bn)	26.98
Equity ratio	58.5%
FY24/9 P/B (act)	1.07x
FY25/9 P/E (CE)	13.54x
FY24/9 ROE (act)	-29.87%
FY24/9 DY (CE)	---%

Stock Price Chart - One year

Source: Trading view

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Company Profile

Overview

The Company's primary business is operating the real estate and housing information site, *LIFULL HOME'S*. This site allows users to search and compare a wide range of property listings, including rentals, new and pre-owned homes, land, and apartments, serving as a comprehensive platform for real estate information. Beyond real estate, the Company also operates other businesses such as nursing care and regional revitalization, aiming to address societal challenges. Excluding its financing and fund-related businesses, these businesses also follow a matching-service model built around search and comparison functionalities. Having effectively withdrawn from its Overseas business, the Company is now focusing its resources on accelerating growth in its domestic HOME'S Services business which has been steadily recovering.

Corporate history

In 1997, Takashi Inoue, the founder and current Chairman, established NEXT Co., Ltd. (now LIFULL Co., Ltd.) and launched the real estate and housing information site *HOME'S* (now *LIFULL HOME'S*). At the time, Chairman Inoue was working at Recruit Cosmos (now Cosmos Initia Co., Ltd.), a major real estate developer, where he experienced firsthand the challenges of gathering information about properties. This frustration ultimately inspired him, setting him on a mission to make real estate information easily accessible. In 2002, the Company entered into a capital alliance with Rakuten (now Rakuten Group, Inc.<4755>), becoming its equity-method affiliate. While the Company faced challenges in its early years, including financial difficulties and competitive pressure from other sites, the introduction of an inquiry-based fee model alongside the traditional listing fee model proved to be a turning point. By 2005, *HOME'S* had the largest number of property listings in Japan. The following year, the Company went public on the TSE Mothers market and was subsequently listed on the TSE First Section in 2009. In 2012, the Company expanded into Asia by launching real estate portals in markets including Thailand and Indonesia. In 2014, it acquired *Trovit*, a Spanish real estate and lifestyle information aggregator, accelerating its global business expansion. In 2017, the Company changed its name to LIFULL Co., Ltd., and in 2019, acquired *Mitula Group*, which operated one of the world's largest aggregation sites. These efforts have enabled the Company to build a global network of websites which provide real estate information across more than 60 countries. Since the Company's re-naming in 2017, its commitment to a multi-pronged strategy focused on enhancing overall quality of life has become increasingly evident.

Corporate philosophy and values

The Company places great importance on its corporate ethos, with the guiding value of "altruism" deeply ingrained among its employees. This value stems from an experience*1 Chairman Inoue had prior to founding the Company. Rooted in this altruistic foundation, the Company's management philosophy defines the vision for the world it aspires to create through its business efforts.

Create a society where everyone can attain Comfort and Happiness through continuous social innovations (Source: the Company website)

The Company's name, LIFULL, clearly embodies this philosophy. It reflects the aspiration to enrich the lives of people around the world (LIFE), filling them with comfort and happiness (FULL).

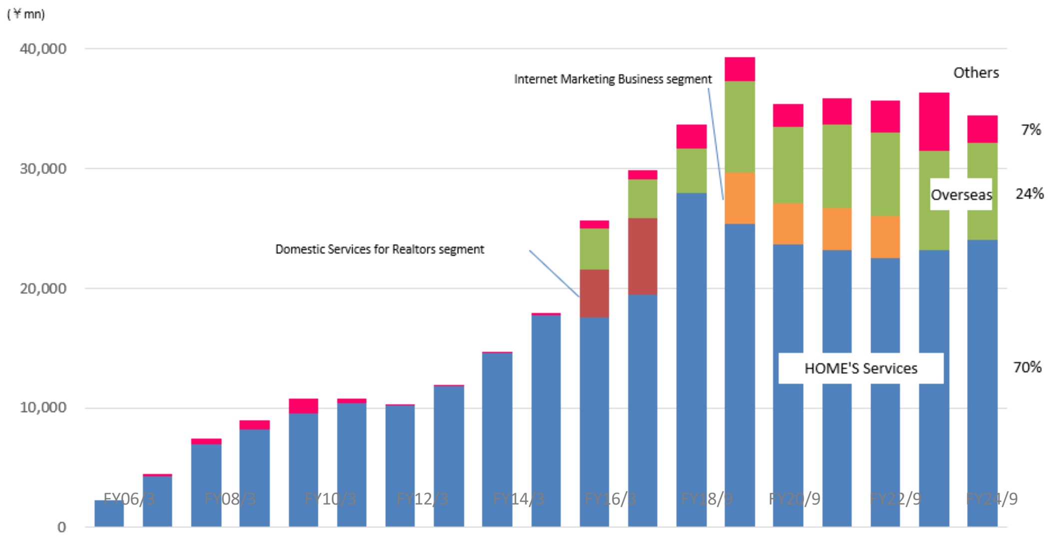
*1： In 1991, Chairman Inoue, who was then working in sales at a real estate developer, encountered a client who had to abandon plans to purchase a property due to a denied mortgage application. Wanting to help, he introduced the client to properties with information from other companies. The client ultimately chose one of these properties and completed the purchase. However, Chairman Inoue was reprimanded by his supervisor for recommending competitor properties. Despite this, he had no regrets and further strengthened his resolve to focus on work that genuinely benefits others.

Business model

Business description

The Company's business segments are as follows: 1) **HOME'S Services (accounting for 70% of FY2024/9 sales)**, which includes *LIFULL HOME'S* and the real estate investment and income property information site *Kenbiya**1; 2) **Overseas (24% of sales)**, which includes aggregation sites*2 and a Tech-Enabled Brokerage; and 3) **Other Businesses (7% of sales)**, which includes early-stage initiatives such as *LIFULL Kaigo*, a matching platform for senior living facilities; *LIFULL Regional Revitalization*, a collection of services devoted to the repurposing of abandoned homes in rural Japan as well as funding opportunities for revitalization projects. The former Domestic Services for Realtors segment included *LIFULL Marketing Partners* (*LMP*), acquired in May 2015, which provided internet advertising agency services, and *Renter's,* a CRM service for real estate businesses. Following a segment reclassification, these were incorporated into the HOME'S Services segment starting from FY2017/3. Financial reports from FY2018/9 to FY2022/9 disclosed sales from the internet marketing business segment, which closely resembled sales of *LMP*. Excluding this, sales from HOME'S Services have remained stable at over JPY 20,000 mn in recent years. *LMP* was completely sold during FY2022/9, as business synergies did not materialize as expected.

Sales composition



Source: Compiled by SIR from the company's IR materials and Securities Report.
Note 1: Due to a change in the reporting period, FY2017/9 covers only six months. However, it has been combined with FY2018/9 and presented on a 12-month basis.
Note 2: Prior to FY2013/3, the "Other" segment included advertising agency, local community services, and real estate lease warrant businesses.

In its FY2024/9 results announcement, the Company announced strategic transformation plans, including an effective withdrawal from its overseas operations. If the planned business transfer proceeds as expected, *LIFULL CONNECT*, which controls the Overseas business, is scheduled to be removed from consolidation during FY2025/9.

*1: *Kenbiya* is a specialized website offering information on real estate investment and income-generating properties. It became a subsidiary of LIFULL in 2020. Its main competitor is *Rakumachi*, operated by Rakumachi Inc. <6037> (formerly First Logic).

*2: A website that gathers and organizes scattered information from across the web based on specific verticals, presenting it on a single platform. See page 5 for details.

1) HOME'S Services Segment (70% of FY2024/9 sales)

The majority of this segment is comprised of *LIFULL HOME'S*, which provides a service enabling users to search a wide range of housing-related information across Japan, including rental and for-sale properties, as well as custom-built homes and renovations. It operates as a real estate and housing information site, earning listing fees from real estate and moving companies, helping to match them with users.

Other comprehensive real estate portals include *SUUMO* by Recruit Holdings Co., Ltd. <6098>, *at home* by At Home Co., Ltd. <unlisted>, and *Yahoo! Real Estate* by LY Corporation <4689>[*1]. In addition, aggregation sites that compile information from these portals include *Nifty Real Estate* by NIFTY Lifestyle Co., Ltd. <4262>, *Rakuten Real Estate* by Rakuten Group <4755>, and *Sumaity* by Kakaku.com, Inc. <2371>.

Number of listings by major real estate portal companies

Site name	HOME'S	SUUMO	at home	Yahoo! Real Estate
Operating company	LIFULL	Recruit	At Home	LINE Yahoo
Start of service	1997	1996	1999	1999
Number of Listed Rental Properties (Nationwide)	5,814,823	8,717,285	1,844,059	8,162,171
Number of Listed Rental Properties (Tokyo)	203,437/1,050,451[Note 2]	1,565,953	387,661	303,369
Number of Listed Rental Properties (Kagurazaka Station)[*1]	119/927[Note 2]	1,247	376	178
Number of Listed Rental Properties (Kichijoji Station)[*1]	14/78[Note 2]	132	24	30

Source: Compiled by SIR based on each company's website and IR materials
Note 1: Search criteria: "within a 5-minute walk from the station, building age of less than 20 years, studio, 1K, 1DK, 1LDK, apartment"
Note 2: The figure on the left represents the number of unique properties, while the figure on the right represents the total number of property listings, counting all instances of the same property as listed by different real estate companies.
To provide users with the actual number of available properties, the Company eliminates duplicates, ensuring accuracy in its disclosed property count.

Users tend to favor portals with a large number of property listings, driving intense competition among portal operators to increase the number of listings on their sites. SIR compiled the number of listings across major portals as of October 21, 2024 (see table above). Given the significant time required to compile all listings, this analysis focuses exclusively on rental properties. The listing counts for more narrowly defined geographic areas are considered more reliable. Hence, SIR believes using locations like Tokyo, or even narrower areas like Kagurazaka or Kichijoji Stations, is appropriate. Based on this analysis, the ranking of real estate portals by listing count is as follows: *SUUMO* (#1), *LIFULL HOME'S* (#2), *at home* (#3), and *Yahoo! Real Estate* (#4).

A quarter-century has passed since various portal services were launched, and online real estate search has long been established as a standard practice among consumers. In 2023, the number of vacant rental properties stood at 4.43 million (compared to 330,000 properties available for sale)[*2]. Also considering the prevalence of duplicate listings across multiple real estate companies, the market may have reached a stage where further growth in terms of quantity is limited.

*1: Other portal sites focusing primarily on rental properties include *CHINTAI* (operated by CHINTAI, a subsidiary of Able & Partners, which is unlisted) and *Chintai SMOCCA* (operated by (ZIGExN Co., Ltd. <3679>).

*2: Based on data from Ministry of Internal Affairs and Communications, 2023 Housing and Land Survey (preliminary report).

Unlike other companies that typically charge a basic fee based on the number of property listings, the Company offers unlimited listings and charges additional fees on top of the basic fee based on the number of inquiries received.

The Company's pricing structure (property for rental/sale)

	Basic fee (monthly)	Inquiry	Inquiry fee
Property for rent	JPY 15,000	Property inquiry (mail/phone)	Monthly rent of the inquired property × 9.5%
		Company inquiry	Number of inquiries × JPY 5,000
Property for sale	JPY 15,000	Property inquiry (mail/phone)	Transaction value of the inquired property × 0.05%
		Company inquiry	Number of inquiries × JPY 10,000

Source: Compiled by SIR from the Company IR material

The Company focuses on improving the inquiry-to-transaction conversion rate for its real estate clients, which is directly tied to client performance. To enhance the conversion rate, the Company has been actively developing and offering a variety of services. For real estate companies, this includes tools for managing operations, marketing support, customer service assistance using AI, and efficiency tools to streamline workflows. For end-users, the Company offers features such as AI-powered search, personalized recommendations, 3D floor plans, and VR tours to improve satisfaction and drive more inquiries.

2) Overseas Segment (24% of FY2024/9 sales)

The Company's Overseas segment includes aggregators such as *Trovit* and *Mitula*, real estate portals such as *Dot Property* and *Lamudi Mexico*, and the Tech-Enabled Brokerage *FazWaz* in Thailand.

Overseas Segment

Overseas business	-------------- Service Characteristics --------------			The Company services
	Information	Price	Customers	(Selection)
Aggregation sites	Light	Several Yen	Portals (Several/Country)	TROVIT、MITULA、NESTORIA、NUROA
Portals	Rich	Several Thousand Yen	Real Estate Professionals (Several thousand to several tens of thousand companies /Country)	ICASAS、DOTPROPERTY、LAMUDI、PROPERATI
Tech-Enabled Agent	Rich	Several Hundred Thousand Yen	Consumers (Enormous)	FAZWAZ

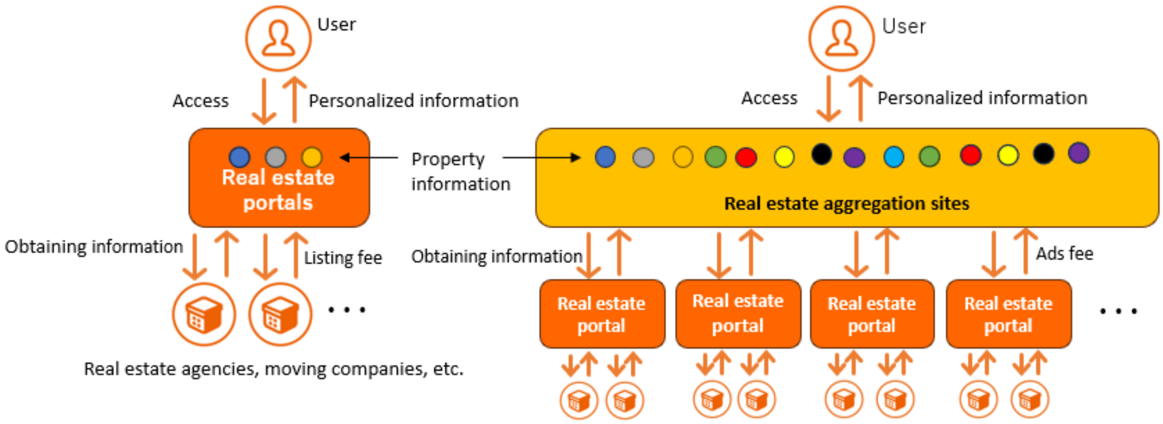
Source: Compiled by SIR from the Company IR material

Aggregators are websites that collect and organize various information scattered across the web based on a specific vertical, presenting it on a single platform. Their primary sources of information are portal sites. Aggregators utilize crawling technologies to mechanically gather data from a variety of resources and are not limited to the real estate vertical, but are also found in the job listing, travel and fashion verticals. Although they appear similar on the surface, real estate portals and aggregators operate on different business models. Real estate portals usually generate their revenue from listing fees for properties charged to real estate companies. Aggregators, on the other hand, generally operate on a cost-per-click (CPC) model charging portals for incoming traffic.

*1: Advertisements displayed on aggregators are intended to drive traffic to the portals where they originated. The portals, then, pay for that incoming traffic effectively making them the sponsors of paid listings.

Real estate aggregators do not require direct dealings with local real estate companies, making the business model highly conducive to scaling rapidly. Competitiveness in this business depends on factors such as whether the site appears prominently in search results*1 and whether it offers robust search functionality that allows users to quickly find what they need from a vast set of listings or data. These factors, in turn, depend on the capabilities of the aggregator's web technologies. *Trovit*, founded in 2006, and *Mitula*, founded in 2009, were among the world's largest aggregators for real estate, serving tens of millions of users monthly. However, a combination of reduced real estate transactions during the pandemic and changes to Google's search algorithms have led to declining page views, with organic user traffic experiencing a significant drop in recent years.

Real estate portals and real estate aggregators
Differences in business models



Source: Compiled by SIR

The Company operates several real estate portals overseas, including *Dot Property*, based in Thailand and expanding across Southeast Asia; *Lamudi Mexico*; and *icasas*, offered in several countries in Latin America. As part of its medium to long-term growth strategy, the Company aims to expand its real estate portal business in regions like Latin America and Southeast Asia, where the online population continues to grow.

The Company's main overseas real estate portal sites

dotproperty MOVING ASIA ONLINE	Established in Thailand in 2013, it operates 11 real estate portals and complementary offline media across Southeast Asia. Acquired by LIFULL Group in 2019.
Lamudi	Launched in 2013, it is a leading real estate platform in Mexico and became part of LIFULL Group in 2023.
icasas	Started in Spain in 2013, it operates in five Latin American countries and receives over 2 million visits per month. It became part of LIFULL Group in 2019.

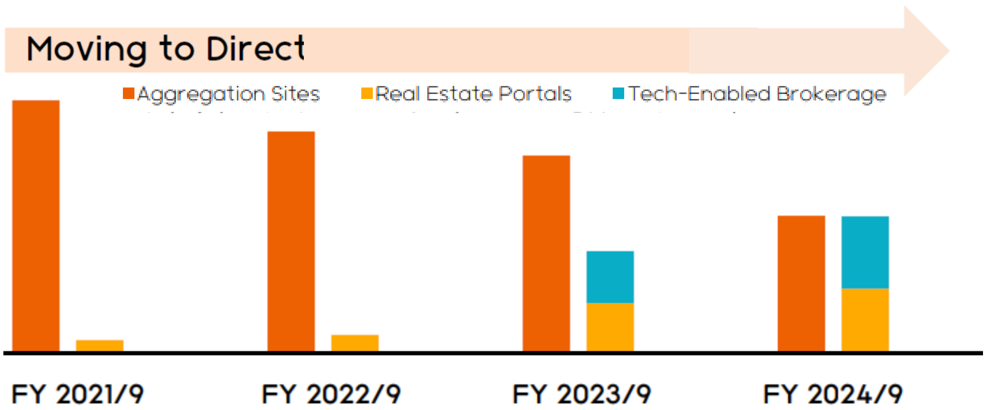
Source: Compiled by SIR from the Company Website

*1: The practice of optimizing a website to appear higher in search engine results for specific keyword searches is called SEO (Search Engine Optimization).

The acquisition of *FazWaz* in February 2023 marked a significant milestone, as it represents the Company's first venture into the Tech-Enabled Brokerage business, having previously focused primarily on operating portal sites. Generally, it is rare for real estate portal operators to make such a move due to the risk of alienating real estate companies which are their core clients. However, this business can be highly attractive, as commissions in markets like Japan can reach up to one month's rent for rentals or 3% of the transaction value for property sales. This can be particularly appealing for portal operators reliant on high sales volumes with slim margins. *FazWaz* has been operating its Tech-Enabled Brokerage business in Thailand since 2015, and it has been expanding rapidly. In Q3 and Q4 of FY2024/9, its sales (in euros) grew by 26% and 91% year-on-year, respectively. While its operations are standard, *FazWaz* sets itself apart by leveraging digital tools to manage the entire sales process, from customer interactions and inquiries to deal closure, enhancing agent efficiency. Looking ahead, *FazWaz* plans to continue scaling its business by increasing its agent workforce and improving the number of transactions per agent. Additionally, the Company's portals in Thailand have experienced substantial year-on-year total traffic growth, indicating that the collaboration between its portal operations and Tech-Enabled Brokerage business is progressing effectively[*1].

The Company refers to its efforts to expand its real estate portal business and venture into the Tech-Enabled Brokerage business as the "Moving To Direct" strategy. This strategy aims to transition toward a more profitable portfolio (Tech-Enabled Brokerage business > real estate portals > aggregation sites) while bolstering its client base.

Moving To Direct strategy



Source: The Company IR material

*1: The Thai real estate market lacks a licensing system like Japan's real estate agent licensing system, leading to a large number of independent real estate agents. However, there are relatively few agents operating at a business scale capable of maintaining consistent listings on portals. As a result, SIR believes that the Company's strategy of running its portal operations alongside its Tech-Enabled Brokerage is proving effective.

3) Other Businesses (7% of FY2024/9 sales)

This segment includes services not covered in the two main segments discussed earlier. There are over 20 such services, including *LIFULL Kaigo*, a matching platform for senior living facilities; *LIFULL Regional Revitalization*, a collection of services devoted to the repurposing of abandoned homes in rural Japan as well as funding opportunities for revitalization projects.

Other main services

LIFULL Kaigo	One of Japan's largest online platforms for finding senior homes, nursing care facilities, and care services. Users can search for and compare care facilities and services, check customer reviews and ratings, access caregiving information and articles, and take advantage of free consultation services. Launched in 2008.
LIFULL Regional Revitalization	LIFULL's Regional Revitalization business works to rediscover and maximize the potential of regional areas by collaborating with local governments and businesses across Japan. This includes initiatives such as abandoned home utilization projects and encouraging migration to regional areas. Launched in 2014.
LIFULL regional revitalization funds	Managed by LIFULL Investment, the fund has been investing in projects that contribute to revitalizing regional economies and promoting regional development since 2018. Its primary focus is on leveraging local assets, such as real estate, to develop lodging facilities and tourism-related businesses, thereby stimulating regional economies. The first fund financed three regional development projects, including the construction of the apartment-style hotel *FAV HOTEL TAKAMATSU* (Takamatsu City, Kagawa Prefecture), featuring kitchens, refrigerators, and washing machines, and achieved a 7.7% return on investment.

Source: Compiled by SIR from the Company Website

The Company identifies itself as a social enterprise dedicated to solving societal challenges, guided by its Corporate Credo of "altruism." Believing that addressing housing-related issues alone is insufficient to achieve its ultimate vision, the Company has designated specific societal challenges such as the rapidly-aging population and revitalization of rural areas of Japan as its key foci and is actively developing new businesses to cater to these needs. The Company's internal systems and policies are designed with employees' "intrinsic motivation" in mind, fostering a culture where employees are rewarded for demonstrating initiative and taking on new challenges. To support this, the Company has introduced a program that encourages employees to propose new business ideas[*1] aimed at solving societal challenges, thereby fostering the development of "intrapreneurs" (internal entrepreneurs).

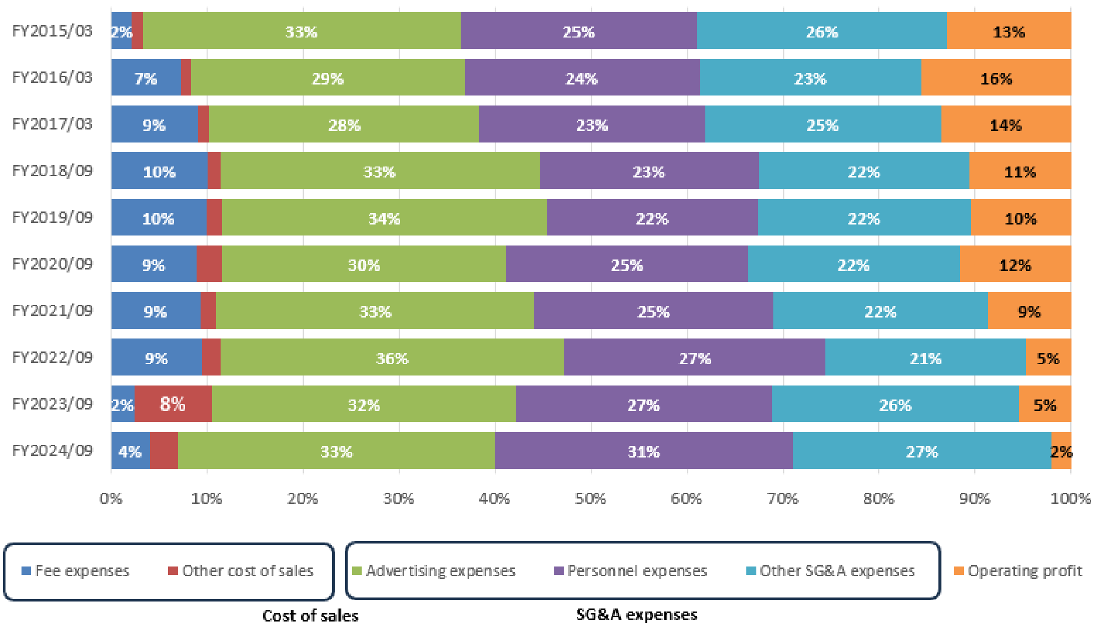
This segment has seen considerable turnover in its business offerings over the years. Among the relatively long-standing businesses are the main services mentioned earlier, as well as the moving cost estimate platform *LIFULL Hikkoshi* (launched in 2012) and the employee training and leadership development consultant *LIFULL Leadership* (launched in 2014). A common thread among these is that they seem to be peripheral to the Company's core real estate business. That said, at the end of the day, competitive advantage should boil down to whether these services can deliver value in ways that others cannot.

*1: The new business proposal program "SWITCH" consists of a three-step process: document screening, a first-round interview, and a final presentation. Any employee can apply and present their ideas. The Company offers support throughout the process, including feedback and refinement of proposals through meetings with division heads and leaders from established subsidiaries of subsidiaries. Occasionally, external experts familiar with new business ventures, such as those from venture capital firms, are invited to provide additional feedback. The program receives 100-150 applications annually, with 30-50% advancing to the first-round interview, and 4-10 proposals receiving awards each year.

Profit structure

The graph below shows the trend in the cost-to-sales ratio up to operating profit since FY2015/3, when detailed cost of sales data was first disclosed. From FY2016/3 to FY2022/9, the internet advertising agency business *LMP* was consolidated, meaning the figures for FY2015/3[*1] provide a clearer representation of the cost structure of the Company's core portal business in Japan. As common for portals, the cost of sales is minimal, with 84% of sales attributed to SG&A expenses.

Cost structure (cost-to-sales ratio)



Source: Compiled by SIR from the company's securities report

The largest component of costs is advertising expenses (33% of sales), which include branding-related expenses[*2] and listing ads directly linked to revenue growth. The next largest is personnel expenses (25% of sales), primarily for designers and engineers focused on developing services for both clients and users, followed by back-office staff, including corporate functions, and sales and marketing teams targeting real estate companies. Although the Company is often seen as an internet business, its significant investment in development staff underscores its focus on various initiatives to improve conversion rates. Other SG&A expenses are a collection of various costs, but according to the Company, they mainly consist of office rent, M&A advisory fees and other fees, as well as depreciation costs for the Company's own systems and software. The Company operates with a profit structure where variable costs account for 30-40% of sales, leading to a high marginal profit ratio.

*1: Includes three months of contribution from the acquired aggregation site operator *Trovit* starting from January 2015, though this is deemed to have no significant impact on overall results.

*2: Branding expenses, as long-term investments, often become a target for cost-cutting when business conditions are tough. As such, it may be appropriate to view advertising expenses as entirely sales-linked (variable cost).

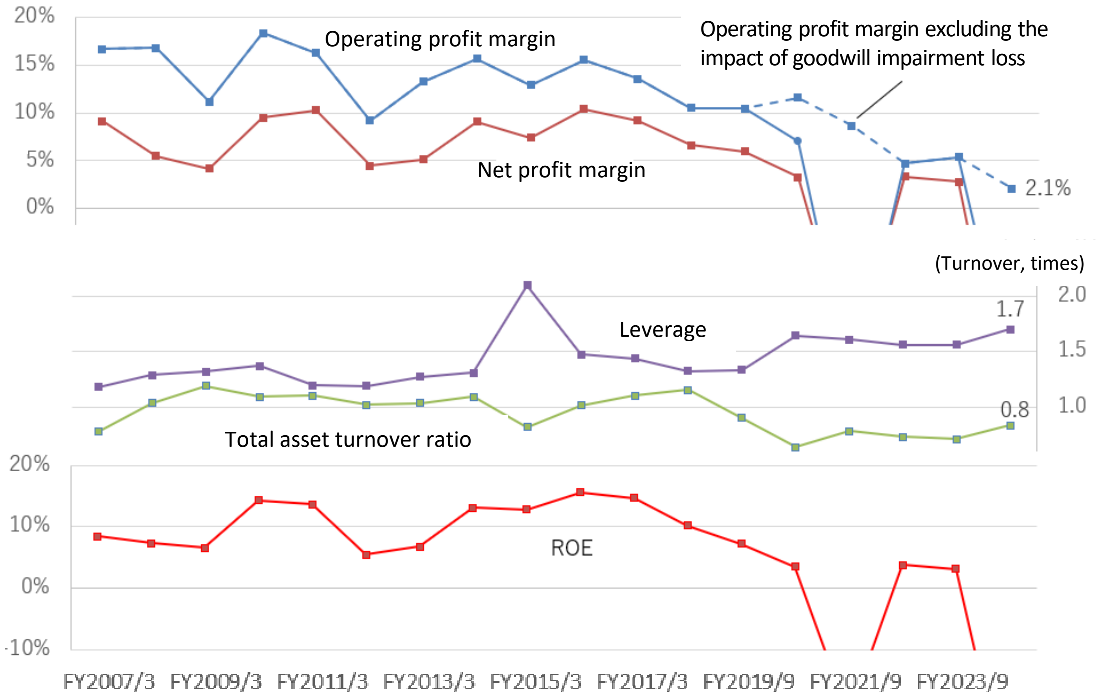
Since FY2016/3, the cost of sales appears to have increased by around 10%, primarily due to the consolidation of the internet advertising agency *LMP*, which resulted in recording procurement costs for advertising inventory as fee expenses. However, following the divestiture of LMP shares in FY2022/9, these fee expenses in the cost of sales decreased to approximately 2% in FY2023/9. Meanwhile, in the same fiscal year, operating costs from the regional revitalization fund were recorded as a lump sum within the cost of sales, due to the sale of fund assets for investment recovery. As a result, the cost of sales ratio only declined slightly overall. Although fund asset sales are infrequent, the cost of sales can fluctuate significantly during such phases.

Financial Analysis

Analysis of financial trends

The graphs below show the financial trends of the breakdown of the Company's ROE.

Financial trend analysis through ROE decomposition



Source: Compiled by SIR from SPEEDA data and the Company's IR releases
Note 1: Due to a change in the reporting period, FY2017/9 covers only six months. However, it has been combined with FY2018/9 and presented on a 12-month basis.
Note 2: The profit margins for FY2021/9 and FY2024/9 show significant losses due to goodwill impairment but are not displayed in the chart because of scale limitations.
Note 3： Decomposition of ROE (ROE = Net income/Net asset = Net income/~~Net sales~~ x ~~Net sales~~/~~Total asset~~ x ~~Total asset~~ /Net asset

The Company's ROE, which had fluctuated around an average of 10%, began to decline in the 2020s, reaching -29.9% in FY2024/9 due to the impact of impairment losses. The drop in ROE from 10.2% in FY2018/9 to -29.9% in FY2024/9 is primarily attributed to a decline in operating profit margins and impairment losses related to the Overseas segment. SIR's analysis is that because it is a business with a high marginal profit margin, sluggish sales revenue growth resulting from declining competitiveness have directly led to lower profit margins and impairment losses. The next section provides an analysis of profitability trends by business segment.

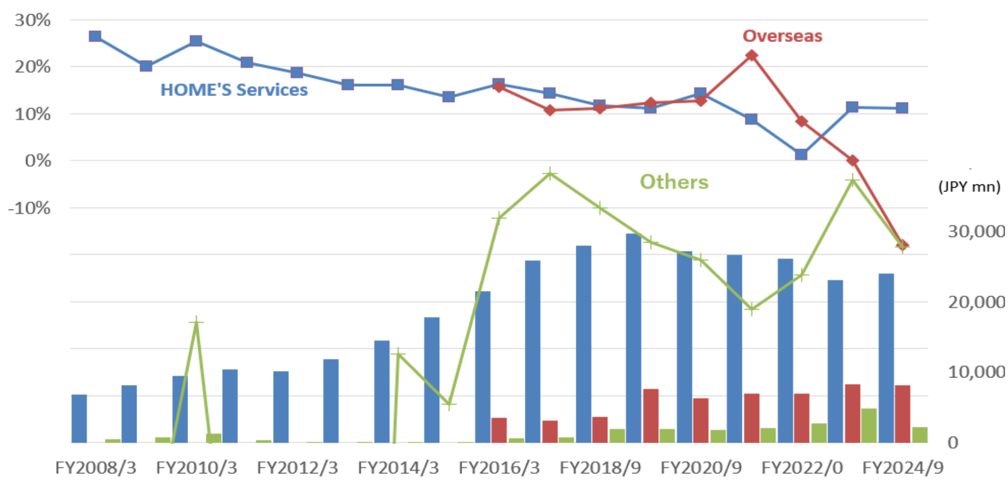
The asset turnover ratio, which had remained around 1.0x, has slightly declined since FY2019/9. The main reasons were the consolidation of *Mitula* as a subsidiary in 2019 and the adoption of IFRS16 in Q1 FY2020/9 which increased assets and liabilities*1. Another factor has been the underperformance of Overseas aggregators (*Trovit* and *Mitula*), which were expected to be growth drivers but have struggled since the 2020s.

Leverage (total assets/net assets) has shown an upward trend*2, as goodwill impairment losses*3 stemming from the continued underperformance of aggregation sites have outweighed factors that would typically reduce leverage, such as equity financing for large acquisitions (*Trovit* and *Mitula*) and increases in currency translation adjustments due to yen depreciation. While this has unintentionally improved capital efficiency indicators, it is estimated that without the three goodwill impairments, capital efficiency would have significantly deteriorated. In the near term, large-scale acquisitions are likely to be challenging, with investors expected to seek efforts to address concerns about capital efficiency, such as establishing and disclosing rules to ensure that M&A are conducted at appropriate valuations.

Profitability (trends in segment profit margins)

This section provides an overview of the segment earnings performance. The segment profit margin for the HOME'S Services business bottomed out in FY2022/9 but has shown a long-term declining trend. As part of its growth strategy, the Company attempted to expand into businesses peripheral to real estate, including internet marketing, but was unable to achieve success in these ventures. At the same time, the core *LIFULL HOME'S* business itself faced intensifying competition leading to stagnant sales growth. However, after divesting the internet marketing business in FY2022/9 and implementing measures such as enhancing *LIFULL HOME'S* site functionality and improving advertising efficiency, the segment profit margin has been on a recovery trend.

Segment Revenues and Profit Margins



Source: Compiled by SIR from SPEEDA data.

Note 1: The bar graph represents sales, while the line graph shows the segment profit margin. Note 2: Due to a change in the reporting period, FY2017/9 covers only six months. However, it has been combined with FY2018/9 and presented on a 12-month basis.
Note 3: Services for domestic real estate agents are included under HOME's Services

*1: The adoption of IFRS16 resulted in the recognition of operating leases as right-of-use assets, increasing both assets and liabilities by approximately JPY 4,400 mn.
* 2 : The Company also conducted share buy-back programs in 2020 and from 2022 to 2023.
* 3 : JPY 1,619 mn in FY2020/9, JPY 9,749 mn in FY2021/9, and JPY 7,056 mn in FY2024/9.

The segment profit margin for the Overseas business had consistently remained in the double-digits since the Company entered the business but has plummeted in recent years, ending in a significant loss in FY2024/9. Sales continued to decline for the aggregators even after COVID-19. Despite recovery measures, including the acquisition of real estate portals and the Tech-Enabled Brokerage, these initiatives failed to keep pace with the rapid changes in the external environment. The Company attributes the underperformance of its aggregation services to factors such as changes in user search behavior following amendments to General Data Protection Regulation in the EU and changes to Google's search algorithms*1. Since Q2 FY2024/9, the Company had been considering plans to rebuild its Overseas business. However, after a 37% YoY drop in organic traffic to its aggregators during the fiscal year, the Company decided to move forward with a strategic transformation of the business.

In the Other Businesses segment, few individual businesses have achieved sufficient traction, and the segment has never turned a profit. In FY2023/9, it came close to profitability, but this was largely driven by a one-off factor from the sale of regional revitalization fund assets. Various measures have been implemented to drive sales growth, but none of the businesses have managed to secure sufficient sales to reach break even. As such, it may be time to pause and pursue selection and concentration to restructure the business portfolio, in SIR's view.

Earnings results

FY2024/9 results were challenging overall, mainly due to the poor performance of the Overseas business. Operating profit recorded a loss of JPY 6,443 mn, a year-on-year decline of JPY 8,402 mn. The main reason behind this significant decline was a goodwill impairment loss of JPY 7,056 mn due to the declining competitiveness of overseas aggregators.

In the HOME'S Services segment, sales increased 3.4% year-on-year to JPY 24,024 mn, driven by initiatives to enhance media value, including website improvements and service expansion. On a quarterly basis, the growth rate accelerated from Q1 to Q4, signaling a positive outlook. However, as part of its long-term growth strategy, the Company increased its salesforce to broaden its customer reach, resulting in a decline in segment profit.

The Overseas business continues to face challenging conditions. Since Q2 FY2024/9, various initiatives aimed at restructuring operations and overhauling the management structure have been implemented, resulting in improvements in some metrics. However, the aggregation sites experienced a 30% decline in sales, with the decline accelerating, leaving the efforts short of expectations. As a result, the segment posted an operating loss of JPY 1,464 mn for FY2024/9.

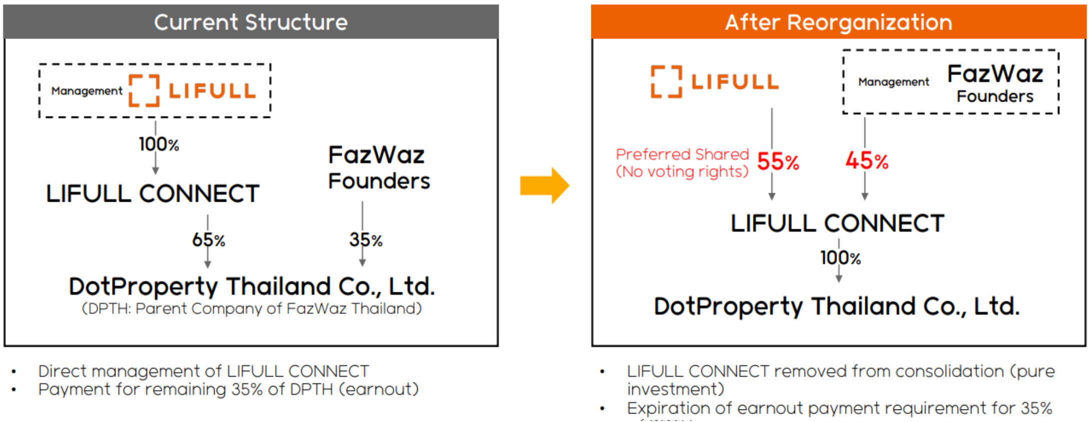
Under these circumstances, the Company has decided to pursue a strategic transformation of its Overseas business, in addition to scaling back existing investments in Other Businesses while concentrating management resources on expanding its domestic operations.

*1: Google's search algorithm determines the ranking of websites displayed when keywords are entered into the search bar. Changes to this algorithm, known as "core algorithm updates," are reportedly implemented two to four times per year to improve search results and can cause fluctuations in search rankings.

Strategic transformation of the Overseas business

In its FY2024/9 results announcement, the Company outlined plans for a strategic transformation of its Overseas business. This includes transferring management rights of *LIFULL CONNECT*, its primary overseas subsidiary, to the co-founders of FazWaz, resulting in its removal from consolidated reporting. While the Overseas business has continued to struggle, domestic HOME'S Services is showing signs of recovery. The transformation aims to refocus management resources on growth areas within the Company's businesses in Japan. Negotiations are ongoing, with the transfer of management rights expected to include eliminating the obligation to pay the earnout [*1] co-founders of FazWaz.

Transformation of the Overseas business: Planned structure



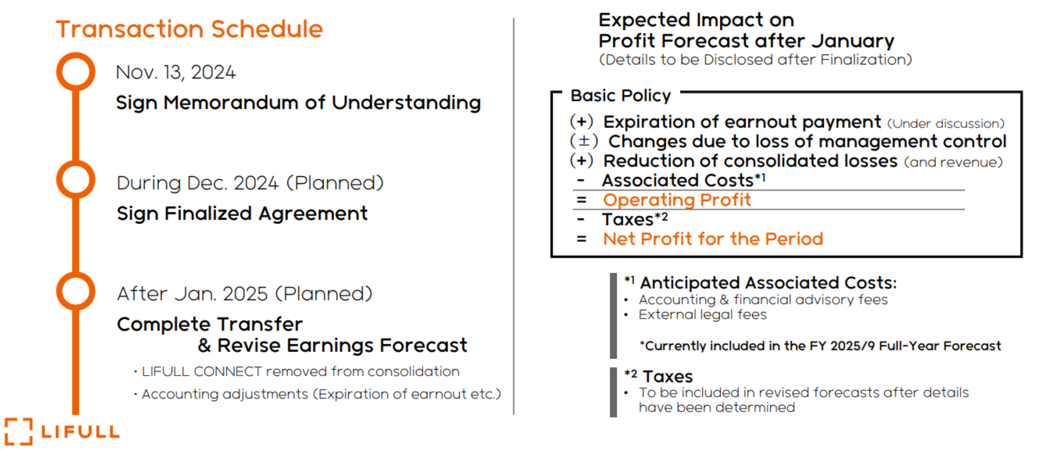
Source: Excerpts from the Company's IR materials

The Company plans to retain a 55% stake in *LIFULL CONNECT*, which will be non-voting shares, effectively holding it as a pure investment. As such, it is worth noting that valuation risk[*2] will remain, which will be affected by the future business performance of *LIFULL CONNECT*.

The schedule for the strategic transformation includes signing the share transfer agreement by the end of December 2024, with *LIFULL CONNECT* expected to be removed from consolidation starting in January 2025. The transfer of control and elimination of the earnout obligation are anticipated to have a positive impact on Company's profits.

Transformation of the Overseas business: Schedule

- Signing the share transfer agreement by the end of December 2024, with LIFULL CONNECT expected to be removed from consolidation starting in January 2025.
- The transfer of control and elimination of the earnout obligation are anticipated to have a positive impact on profits.

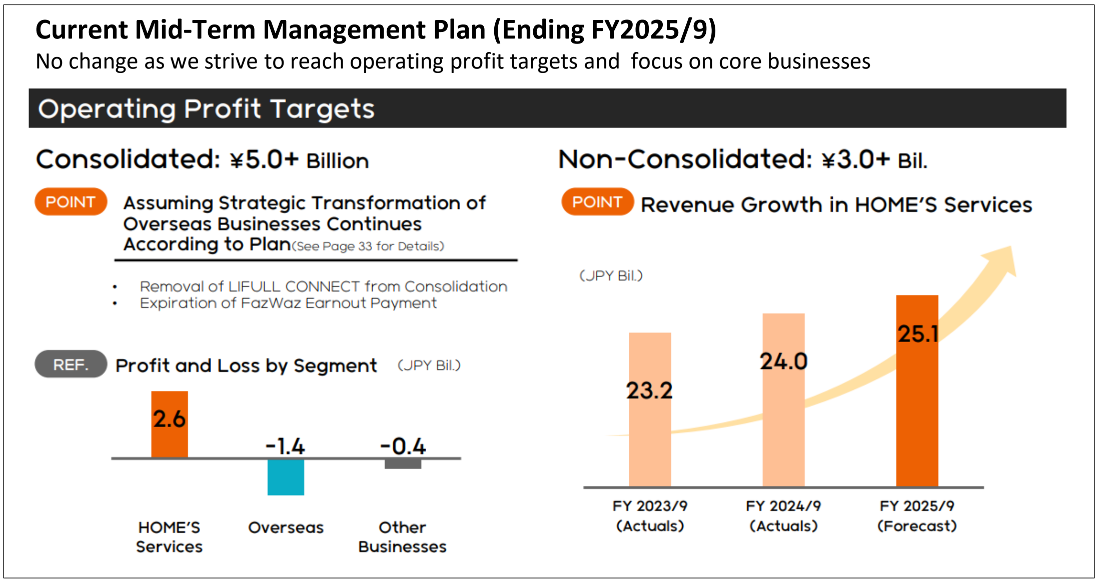


*1: A contractual agreement in M&A transactions to pay part of the acquisition price through future installments.

*2: Under IFRS, which the Company adopts, investment securities are measured at fair value at the end of each reporting period, with valuation differences recorded under other comprehensive income.

Mid-Term Management Plan

In its mid-term management plan ending September 30, 2025, the Company aims to achieve a record-high operating profit of over JPY 5,000 mn through stable sales growth and improved profit margins. No changes to this plan have been announced following the strategic transformation of the Overseas business. Currently, the FY2025/9 operating profit forecast stands at JPY 3,500 mn, with expectations that growth from the HOME'S Services segment, combined with the impact of the strategic transformation of the Overseas segment, will contribute toward achieving the JPY 5,000 mn target.



Source: Excerpts from the Company's IR materials

The main strategic policies of the previously announced mid-term management plan are listed as follows. The Overseas segment will be excluded from consolidation, while investments in Other Businesses will be scaled back to prioritize achieving profitability, with HOME's Services serving as the main growth driver.

Medium-Term Management Plan for the FY2021/9 – FY2025/9: The main strategic policies

HOME'S Services	Sustained investment in development	Improve search experiences for users by enhancing recommendation accuracy and usage Enhance business efficiency for clients through generative AI-driven productivity gains
	Strengthen sales	Expand client base Enhance concierge services
Overseas	Improve aggregation sites	Enhance attractive content and improve user interface
	Revitalize the Tech-Enabled Brokerage business in Thailand	Strengthen hiring and training to boost sales capacity
	Medium to long-term direction and strategy	Implement strategic transformation
Other Businesses	Scale back investments	Prioritize the HOME'S Services and Overseas segments

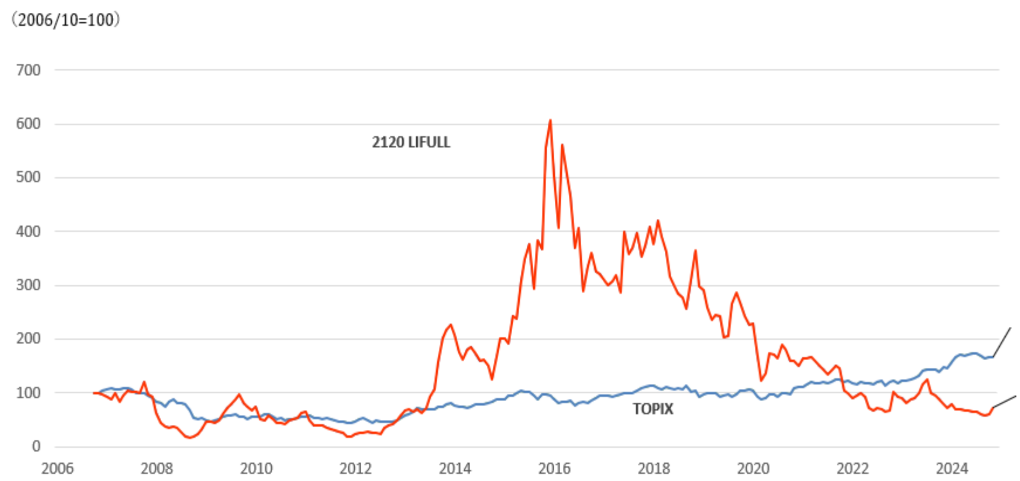
Source: Compiled by SIR from the Company's Medium-Term Management Plan

Currently, the Company is promoting two key initiatives within HOME'S Services. The first is supporting the improvement of conversion rates. On the user side, this involves leveraging AI to enhance the accuracy of recommendation features and implementing continuous website improvements. On the client side, the Company is extracting and organizing user preferences from search keywords and incorporating this information into property inquiries, enabling real estate companies to deliver more value-added proposals. It has been reported that a large real estate company with multiple branches has seen its conversion rate improve by around 10% from these measures. The second initiative focuses on expanding the client base and enhancing concierge services by increasing the salesforce. Many unique properties are offered by real estate companies not yet part of the Company's network, and by onboarding them, the Company can broaden the scope of its property listings and enhance the platform's appeal. The Company is also expanding the number of locations and housing advisors for *Sumai no Madoguchi*, an in-person support service offering free consultations for housing selection and homebuilding, aiming to strengthen referrals to homebuilders and construction companies.

Share Price Insights

Since becoming publicly listed, the Company's share price performance relative to TOPIX peaked at the end of 2015 but has since entered a downward trend. While shares rebounded several times, there are still no clear signs of a bottoming out.

Share price performance since listing

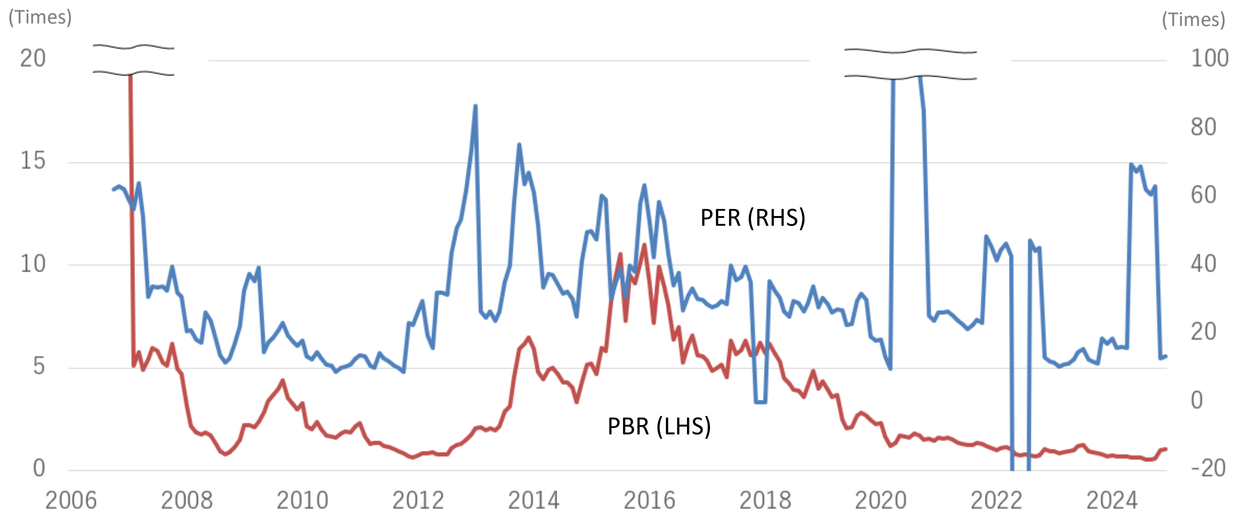


Source: Compiled by SIR from SPEEDA data.

The Company's PBR had dropped to a historical low of 0.55x by the end of September 2024. Operating profit forecast for FY2023/9, which initially projected a V-shaped recovery, saw a significant downward revision. Moreover, the continued underperformance of the Overseas business prompted further revision, resulting in a sharp decline in investor reliability. However, the announcement of the structural transformation of the Overseas business appears to have reassured the market, suggesting the worst may be over.

On December 20, 2024, the Company issued a statement titled "Plan to Meet Listing Criteria for the Tokyo Stock Exchange Prime Market." In this statement, the Company outlined its core principle of "Increased share price driven by a focus on core businesses and enhanced profitability," emphasizing the goal of increasing its market capitalization. The Company also announced plans to enhance disclosure of measures to achieve management that is mindful of the cost of capital. SIR believes this underscores the Company's strong commitment to improving corporate value. However, to regain market valuation and establish a sustainable bottoming-out in the share price, further actions are expected in management initiatives to improve capital efficiency, including: 1) greater selection and concentration across all businesses, including Other Businesses, and 2) disclosing decision-making rules to ensure M&A is conducted at fair and appropriate valuations.

PER and PBR



Source: Compiled by SIR from SPEEDA data.

Appendix | Consolidated Statements of Income

JPY mn, % [IFRS]	FY2021/09 act	FY2022/09 act	FY2023/09 act	FY2024/09 act	FY2025/09 CE
Total Revenue	**35,857**	**35,731**	**36,405**	**34,466**	**38,000**
Total Cost of Sales	3,951	4,056	3,856	2,252	
Gross Profit	31,906	31,675	32,548	32,214	
Gross Margin	*89.0*	*88.6*	*89.4*	*93.5*	
Selling, General and Administrative Expenses	38,550	29,993	30,706	38,658	
Operating Profit	**(6,644)**	**1,682**	**1,842**	**(6,443)**	**3,500**
Operating Profit Margin	*(18.5)*	*4.7*	*5.4*	*(18.7)*	*9.2*
Non-Operating Income	24	6	61	143	
Interest and Dividends Income	9	6	61		
Non-Operating Expenses	237	291	386	775	
Interest Expenses	108	89	189		
Income from Equity Method - Non-Operating	(129)	(202)	(197)	(454)	
Ordinary Profit	**(6,857)**	**1,396**	**1,518**	**(7,076)**	
Ordinary Profit Margin	*(19.1)*	*3.9*	*4.5*	*(20.5)*	
Extraordinary Profit/Loss					
Extraordinary Profit					
Extraordinary Loss					
Pretax Profit	(6,857)	1,396	1,518	(7,076)	
Pretax Profit Margin	*(19.1)*	*3.9*	*4.5*	*(20.5)*	
Income Taxes	(962)	204	579	1,386	
Income Taxes-Current	662	249	594		
Income Taxes-Deferred	(1,624)	(45)	(15)		
Net Profit Attribute to parent company shareholders	**(5,901)**	**1,188**	**939**	**(8,463)**	**1,900**
Net Profit	(5,896)	1,193	963	(8,462)	
Net Profit Attribute to non-controlling shareholders	5	5	24	0	
Net Profit Margin (Attribute to parent company shareholders)	*(16.5)*	*3.3*	*2.8*	*(24.6)*	*5.0*

Source: Complied by SIR from SPEEDA data.
Note: To facilitate with companies using different accounting standards, standardized data from Uzabase, Inc. is used. As a result, certain fields including numerical data may differ from those disclosed by the Company.

Balance Sheet

JPY mn, % [IFRS]	FY2021/09 act	FY2022/09 act	FY2023/09 act	FY2024/09 act
Total Assets	**45,888**	**48,707**	**51,166**	**41,191**
Current Assets	21,545	25,011	23,064	21,589
Cash Equivalents And Short-term Investments	13,145	16,521	16,510	14,633
Accounts Receivables	5,070	4,538	4,630	4,299
Accounts Receivable - Other and Accrued Income	786	864	952	
Allowance for Doubtful Accounts - Current	(70)	(77)	(169)	
Non-Current Assets	24,343	23,696	28,102	19,602
Property, Plant & Equipment (PPE)	4,871	3,848	3,145	2,604
Intangible Assets	14,111	14,441	19,634	12,410
Goodwill	11,027	11,591	16,349	9,954
Investments and Other Assets	5,361	5,407	5,320	4,585
Deferred Tax Assets - Non-Current	2,849	2,716	2,735	2,118
Total Liabilities	**17,349**	**17,576**	**18,612**	**16,989**
Current Liabilities	12,139	13,390	12,127	10,295
Trade Payables	3,178	3,037	3,259	2,973
Accounts Payable - Other and Accrued Expenses	1,963	2,303	2,282	
Short-Term Borrowings	6,629	8,092	5,329	4,297
Current Portion of Long-term Borrowings	738	693	698	
Non-Current Liabilities	5,210	4,186	6,485	6,693
Long-Term Borrowings	3,762	2,500	1,761	1,240
Deferred Tax Liabilities - Non-Current	483	451	571	509
Total Net Assets	**28,538**	**31,131**	**32,554**	**24,202**
Shareholders' Equity	28,414	30,999	32,456	24,103
Capital Stock	9,716	9,716	9,716	9,716
Capital Surplus	9,982	10,033	10,035	9,938
Retained Earnings	10,297	11,025	11,662	2,639
Treasury Stock	(1,009)	(1,009)	(2,009)	(2,009)
Accumulated Other Comprehensive Income	(572)	1,234	3,051	3,819
Valuation Difference On Available-for-sale Securities	122	141	(34)	
Foreign Currency Translation Adjustments	(694)	1,092	3,084	
Non-controlling interest	125	132	97	97

Source: Complied by SIR from SPEEDA data.
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Statements of Cash Flows

JPY mn, % [IFRS]	FY2021/09 act	FY2022/09 act	FY2023/09 act	FY2024/09 act
Cash Flows from Operating Activities	**1,288**	**2,697**	**6,233**	**1,671**
Depreciation - CF	1,978	1,911	1,980	1,974
Interest and Dividends Received - Operating CF	1	5	5	42
Interest Paid - Operating CF	(112)	(172)	(69)	(63)
Cash Flows from Investing Activities	**(1,068)**	**389**	**(1,743)**	**(718)**
Payments for Purchases of Stocks of Subsidiaries and Affiliates		(800)		(124)
Proceeds from Sales of Stocks of Subsidiaries and Affiliates		2,440	858	939
Purchases/Sales of PPE	(97)	(86)	(129)	(242)
Payments for Purchases of PPE	(99)	(93)	(131)	(250)
Proceeds from Sales of PPE	2	7	2	8
Purchases/Sales of Intangible Assets	(679)	(587)	(388)	(148)
Cash Flows from Financial Activities	**(3,292)**	**(54)**	**(5,079)**	**(2,977)**
Proceeds from Short-Term Borrowings		503	400	400
Repayments of Short-Term Borrowings	(1,101)	(251)	(1,800)	(2,029)
Increase in Long-Term Debt	410	1,320		100
Repayments of Long-Term Debt	(1,055)	(404)	(1,592)	(217)
Proceeds from Issuance of Stock	21		3	100
Redemption/Retirement of Stock	(20)	0	(1,000)	(65)
Cash Dividends Paid	(717)	(483)	(353)	(546)
Foreign exchange adjustment	255	344	578	147
Changes in Cash & Cash Equivalent	(2,817)	3,376	(10)	(1,876)
Cash & Cash Equivalent - Beginning	15,963	13,145	16,521	16,510
Cash & Cash Equivalent - Ending	13,145	16,521	16,510	14,633
Free Cash Flow (FCF)	**220**	**3,086**	**4,490**	**953**

Source: Complied by SIR from SPEEDA data.
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