

## **LIFULL Co., Ltd. (TSE 2120)**

### **Edit Transcript**

### **Mitula Group Limited 100% Acquisition (May 9, 2018) [Cover Page]**

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Venue: LIFULL headquarters

Corporate Participants:

**Takashi Inoue**, *President and CEO*

**Takashi Yamada**, *Director, General Manager of LIFULL HOME'S Business Department  
Executive Vice President, LIFULL Marketing Partners Inc.*

**Yosuke Hisamatsu**, *Director, Division Manager of Contents Strategy Division*

**Kazuhiko Abe**, *Managing Officer, General Manager of Group Company Business Development Department*

**Keizo Tsutsui**, *Managing Officer, Manager of President's Office*

**Yuji Ito**, *Managing Officer, Deputy General Manager of LIFULL HOME'S Business Department,  
Division Manager of New UX Development Division, LIFULL HOME'S Business Department*

**Hidekazu Fukuzawa**, *Deputy General Manager of Group Company Business Development Department*

**Kazuhiro Yoshida**, *Group Manager of IR Group, Group Company Business Development Department*

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### **Presentation**

**Takashi Inoue**, *President and CEO*

Ladies and Gentlemen, good morning.

In the hour that we have, we will devote the first 15 minutes to a brief summary on the acquisition of Mitula Group Limited and its conversion to a wholly owned subsidiary. We will then take questions from the floor for around 15 minutes.

In the second half, we will comment on our business results and earnings for around 20 minutes and then answer your questions for roughly 10 minutes.

#### **[(Slide 1)]**

So, without further delay, during the period under review, the LIFULL Group undertook a major move overseas. This is consistent with our strategy and efforts to realize our vision.

Although we have continued to promote social innovation, while confronting many hurdles along the way, we consider the events of the period under review as just another challenge.

Moving forward, we are pushing ahead with strategies in the strong belief that, eventually, we will bring to fruition a society in which more people “can attain comfort and happiness.”

#### **[Mid/Long-Term Growth Strategy (Slide 2)]**

In order to realize its vision, the LIFULL Group has put in place a mid- to long-term growth strategy.

#### **[Company Slogan (Slide 3)]**

As a part of our Company Slogan, our goal is also to develop and maintain “the best life-event database in the world.”

While analyzing that enormous life-event database, our intention is to provide solutions—through the use of vanguard technology, such as AI—as well as pleasant services for each and every customer.

#### **[DB + Technology (Slide 4)]**

With this in mind, we see database integration together with the creation of new value through the use of vanguard technology as critical to our future endeavors.

In this context, the strength that the recently acquired Mitula provides is its enormous life-event database.

#### **[Quantitative Objective (Slide 5)]**

We have already announced that the Company has changed its account settlement date from March to September. We have also identified certain quantitative objectives; namely, revenue of 50 billion yen or more and an EBITDA margin of approximately 20% for the fiscal year ending September 2020.

#### **[Mid-to-Long Term Strategy Roadmap (Slide 6)]**

As we have identified on a number of occasions in the past, here on this slide we provide details of our mid- to long-term strategy roadmap for the real estate market, where we consolidate and map our domestic and overseas strategies.

As far as converting Mitula Group Limited into a subsidiary is concerned, I direct your attention to the “Global Platform” arrow at the right side of the slide. As you can see, the main pillars are: building a global database, expanding the network of real estate companies in the world, and expanding our share and brand recognition in the global market.

#### **[Mitula Group Limited 100% Acquisition (Slide 7)]**

Allow me to introduce Mitula Group Limited.

#### **[Summary of Acquisition (Slide 8)]**

Mitula Group Limited maintains a number of subsidiaries under its umbrella.

Already listed on the Australian Securities Exchange, the Mitula Group’s main business is the operation of aggregator and portal sites.

In fiscal 2017, which ended last December, Mitula Group Limited reported revenue equivalent to approximately 2.8 billion yen, EBITDA of around 900 million yen and net income of roughly 400 million yen. The acquisition of the company was undertaken as a scheme of arrangement.

As its main requirement, the scheme of arrangement requires the passing of a resolution by majority approval at a meeting of Mitula Group Limited shareholders. With a majority of shareholders present, the approval of at least 75% of those present, who hold voting rights, is another critical requirement.

From an acquisition price perspective, compensation comprised ordinary shares and cash. In specific terms, LIFULL shares are to be exchanged at a stock consolidation base price of 0.85 of an Australian dollar per share.

For the remainder, we will exchange Mitula shares at a price of 0.8 of an Australian dollar per share up to a maximum of 20,000 shares per shareholder.

After this process, the total acquisition price will come in at an equivalent of around 15.3 to 15.5 billion yen. While some degree of fluctuation is expected, the range will depend on the amount of cash consideration.

As far as timing is concerned, the plan is for the acquisition of shares to be completed in September of this year, and we are currently working toward that end.

**[Summary of Results (Slide 9)]**

If you look at this summary of results, you will see that Mitula has recorded steady growth in terms of revenue and profits.

Over the past five calendar years, there has been a steady nine-fold increase in revenue and a 12-fold increase in EBITDA.

With an EBITDA margin of approximately 35% and its highly profitable structure, Mitula is recognized as a powerful company.

**[Mitula Group (Slide 10)]**

The Group's business description involves the operation of primarily real estate aggregator and portal sites. First, is the service named "Mitula" and the acquired "nuroa" service, which are managed by the Mitula Group subsidiary, Mitula Classified. Active in a number of countries, Mitula Classified operates aggregator websites in the real estate, car, job and fashion markets.

Second, is Lokku Ltd., which the Mitula Group previously acquired and brought into its fold. The principal service "nestoria" is a real estate aggregator website that up to now has been ranked third in global terms.

Dot Property is another Group acquisition. This company develops real estate portal sites mainly in several Southeast Asian countries.

Finally, there is Fashiola, again an acquisition, which operates aggregator websites in the fashion market.

**[CEO (Slide 11)]**

As stated in this profile, CEO, Board Director and Founder Gonzalo Del Pozo was co-founder and CEO of Globaliza, a real estate portal site established in 1998.

After selling Globaliza in 2009 and spending a period as CEO of Mitula Classified, Mr. Del Pozo has served as CEO of Mitula Group since 2015.

We consider Mr. Del Pozo a key person in his capacity as CEO and look forward to his continued participation in the management of Mitula Group.

**[trovit x Mitula Group (Slide 12)]**

Trovit, which was previously included in LIFULL's scope of consolidation as a wholly owned subsidiary, is engaged in the same business as Mitula.

**[Corporate History (includes plans) (Slide 13)]**

The Top Three real estate aggregator websites in the world are Trovit in first place, Mitula in second and nestoria, which had already joined the Mitula Group, in third. After completing the previously mentioned acquisition, all three will come under the LIFULL Group umbrella.

As you can see, we have acquired other companies and services including nuroa and Dot Property. The main aspect, however, is the coming together of the Trovit, Mitula and nestoria Top Three.

The question then is, is there a significant fourth or lower ranked company. The answer is "no."

As far as we are concerned, all the major players that operate real estate aggregator websites on a global basis will become

part of the LIFULL Group family.

#### **[Information Volume (Slide 14)]**

By aggregating Trovit and Mitula Group Limited, the volume of information listings will exceed 400 million. As a result, we are well on the way to becoming a company with a huge life-event database.

#### **[Number of Site Users (monthly UV) (Slide 15)]**

Also, if you combine the figures for the two companies, the number of monthly unique visitors, or UVs, will reach more than 170 million people. As a reference, the job aggregator Indeed stands at around 200 million per month. On this basis, our system will help acquire an enormous amount of traffic roughly on a par with Indeed.

#### **[Global Footprint (Slide 16)]**

Here, we provide a global map which depicts service areas that are color-coded. The areas colored in orange are those where Trovit and Mitula are both entering and operating services.

Trovit-only and Mitula-only areas are also color-coded. As you can see, our footprint will cover the majority of countries.

From a site perspective, we believe that continuing operations on an individual basis will lead to increased revenue. We therefore have no plans to integrate sites at this time.

Meanwhile, we are yet to address the specifics of any timing for management integration. Our focus is on growth in terms of both improved operational efficiency and increased revenue.

#### **[Base of Operations (Slide 17)]**

Looking ahead to integration on an organizational basis, however, by chance the companies ranked No. 1 and 2 are both headquartered in Spain. Since Trovit is in Barcelona and Mitula in Madrid, we believe it will be easy to unite them organizationally due to their geographical proximity.

#### **[Business Strategy (Slide 18)]**

While putting forward a number of facts regarding our business strategy going forward, our principal focus is to raise value on the basis of overwhelming traffic.

As we have mentioned, the 1st, 2nd and 3rd placed companies are all being integrated, and there is no significant fourth and below player. In other words, we will raise our profile as a price leader as options disappear.

We are also considering ways to increase profitability by continuing to reduce any duplication of investment costs.

#### **[Multi-Dimensional Opportunities for Revenue (Slide 19)]**

Looking at our future direction, and in the context of the numbers posted: 1, 2 and 3, here on this slide, our original business was based on (1) charges per click or CPC for each of Trovit, Mitula and nestoria. Accordingly, the business model adopted was based on low, thin, and broad value.

By further expanding and upgrading services to 2 and 3, and areas in close proximity to transactions, we will be able to set a high value.

While operating the LIFULL HOME'S real estate portal in Japan, we are in the position to provide overwhelmingly higher value than CPC and to therefore receive high value as a result of moving closer to advertisement revenue and

transactions. With this as our business model, we will look to gradually push ahead in each country.

**[(Reference) LIFULL Group Financial Results (Pro Forma historical results) (Slide 20)]**

Here on this slide, and as a reference, we show what happens when we consolidate revenue by adding together the averages of semi-annual historical data. As you can see, on average, sales climb by about 8%.

**[(Reference) LIFULL Group Cash Flow Generation (Pro Forma historical results) (Slide 21)]**

Turning to the next slide, simple addition has the effect of pushing up EBITDA by about 18%.

**[(Reference) Change in Overseas Revenue ratio (Slide 22)]**

Also, the outlook for the overseas sales ratio is an increase to about 17.4%.

**[Mitula Group Limited 100% Acquisition: Impact on Current Fiscal Year and Mid-Term Management Plan (Slide 23)]**

Under this schedule going forward, the acquisition of shares will be completed around September. Although the impact of the acquisition on business performance is currently being scrutinized and also factored into the mid-term management plan, we will disclose information on a timely basis as soon as figures are finalized.

Naturally, when it comes to the mid-term management plan, we are confident that the data provided will show a strong upside.

**[Ongoing Growth of Domestic Business and the Ability to Build a Global Platform more Quickly (Slide 24)]**

Looking ahead, we will slightly revise our strategy and work toward building the foundation for a global platform through M&As, while adding ongoing growth of our domestic business.

This concludes our explanation relating to the conversion of Mitula Group Limited into a subsidiary.

**[LIFULL Make every LIFE FULL (Slide 25)]**

I now open the floor to questions.

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## **Questions and Answers**

**Q1.** Just now, on slide 19, there was mention of CPC, advertisement revenue, and transactions, in the context of your business strategy. Previously, with your acquisition of Trovit, it appeared that the Group experienced difficulty with no increase in value. Are you confident in this instance with the acquisition of Mitula Group Limited? Can we have your thoughts.

**A1. (Takashi Inoue)** As far as Trovit is concerned, and whichever way you look at it, Mitula stands out as its most prominent competitor. Mitula provides the same kinds of service and operates in the same countries. While Trovit has more traffic and higher sales, it faces competition in terms of value. As such it has proven difficult to secure an increase.

Across various frontline locations, we are seeing instances where clients negotiate a shift to Mitula, when the question of raising price at Trovit comes up.

With this in mind, we will look to raise the price at both Trovit and Mitula through management integration.

With no other options available, and even when comparing with various other online advertisements beginning with Google Adwords, we are confident that our price is very reasonable when it comes to CPC. On this basis, we believe there is still room for raising price.

**Q2.** I would like to ask two questions. As a benefit of this integration, you state that the price will rise to an ideal level due to the absence of previous competition.

First, could you tell us about the benefits you see being generated by the cost reduction effect associated with back office function integration.

Second, and on a personal note, I wonder whether competition between aggregation media is indeed good for the industry.

That is to say, at a time when Google has been making repeated improvements to various specialized department functions, and frequent changes to its algorithm, when you take into account the long-term growth potential and risk factors involved in focusing on aggregation media when seen against Google as a competitor, do you believe as president that focusing on aggregation media is a good idea?

**A2. (Takashi Inoue)** With regard to integration, key issues are still under scrutiny and thus I am not in a position to provide you with figures.

Under scrutiny means that, although the merging of each company's mid-term management plan is at hand, we are unable to disclose the extent and to what degree of certainty this might be possible at the present time.

We will announce details at the next timely disclosure.

As far as our approach is concerned, our focus is on how to rebuild management costs as well as back office and sales systems.

Even though Trovit and Mitula operate in roughly the same 60 countries and both businesses are involved in the real estate, recruitment, and car markets, each approaches business in the same way from their respective sides, and each is in competition with the other. Accordingly, we believe that management efficiency will be improved through integration.

In addition, Mitula is a company with strong marketing capabilities, while Trovit is a company with strengths in technology. We believe it would be better to increase revenue by drawing on each company's respective strengths while making the most of commonalities between sales structures and system investments.

I agree with the importance of questioning whether aggregation represents rivalry or whether Google's expansion poses a threat.

First of all, we will increase profitability and make our services more robust through integration. As you are aware, Indeed was originally founded on an aggregation business model before gradually entering the portal market, which is close to the transactions market. It then underwent the transition to direct transactions.

Google has strengths on the CPC side, but from a transaction point of view, does not yet have real estate market know-how, for which, in particular, no online settlement function is needed. On this basis, we feel there is still some time to spare.

Therefore, rather than wasting each company's strengths, our position is to enhance profitability and enter an area with a higher profitability value through integration.

As you know, Google has launched Google for Jobs. As a result, we can expect it will take the lead in job market aggregation.

It is only natural to expect inroads into areas outside jobs, including cars, real estate and fashion.

However, looking at the strategies Google has adopted in the past, rather than enter all 60 countries in one fell swoop, it is more likely that it will take a gradual approach toward global expansion, first entering North America or Europe. We believe that it will take a few years to get that far and will work to reinforce our business presence in the meantime.

**Q3.** Could you please address the following three questions.

Looking at slide 9, Mitula's sales grew in 2017, but EBITDA edged down. This would appear to reflect sales promotion expenses and in part relocation costs. Taking the aforementioned into consideration, I would think that certain costs can be reduced in the future.

While I understand the scope of your reply could rest solely on the level of due diligence, I would like to know the degree to which you think EBITDA can be increased?

Second, and looking at the primary bases of both companies on slide 17, I can see synergies from a governance perspective between Trovit and Mitula with both located in Spain. If you look at both companies from each of the Japanese and Spanish sides, however, how do you view Trovit and Mitula from a governance perspective from Japan? What are your current thoughts?

My third question relates to the Company's press release, which states that KPMG's calculations were partly based on the "forecasted expansion of countries where Mitula develops its business." As an assumption made by KPMG, I suspect that this is not of any direct concern to LIFULL. Mitula is currently active in 54 countries. What are your thoughts on how to increase the number of countries in which Mitula is expanding its business?

**A3. (Takashi Inoue)** I would ask Mr. Tsutsui to comment on Mitula's EBITDA in 2017.

**(Keizo Tsutsui)** The lack of Mitula EBITDA growth is mainly due to sales promotion expenses.

As for what happened, there was a sharp fall in visits in the first part of 2017, around February and March. Search Engine Optimization, or SEO, is the main method for attracting customers, but here we experienced a slight uphill struggle. This in turn resulted in a fall in traffic.

Mitula took steps to offset these struggles through advertising expenditure. The main reason then was the buildup of advertising expenses.

In the materials that Mitula disclosed in Australia, visits fell sharply in 2017. Visits during the March, April and May periods declined year on year.

Green is 2015, red is 2016 and blue is 2017. Here SEO declined, and the sequence of events shows the injection of advertising expenses.

Thereafter, and following a downturn over the March, April and May 2017 period, traffic recovered on the back of SEO measures. While we are unable to disclose details, growth has been steady in March and April 2018.

In addition, Trovit has been attracting customers through the use of advertising expenses for a long time and, having made use of technology, possesses an automatic bidding system. We believe we can make further reductions in advertising and promotion expenses by transferring some of this technology to Mitula in the years to come.

**(Takashi Inoue)** Turning to the second question and what to do with regard to governance with both companies located in Spain, Trovit already has staff assigned from Japan, and I personally travel there regularly to attend board meetings and participate in management.

We will ensure effective governance at both companies in much the same way.

From a governance perspective, the movement of cash and delegated authority are first and foremost monitored remotely without fail. We always watch what kind of decision-making takes place and what settlements are being made.

We constantly monitor whether there are any unusual movements, and from a growth strategy perspective maintain an oversight function through Board meetings and daily communication with local and assigned staff. Based on these endeavors, we are confident that there is no cause for concern.

Three and a half years have passed since Trovit was made into a subsidiary in 2014. Given the absence of any serious problems, we will adopt the same approach for Mitula.

On your third question, regarding KPMG's report that the expansion of countries where Mitula develops its business is serving as a growth driver, I do not think that the impact will be that large.

While both companies operate in around 60 countries, the majority of sales revenue is derived from the top-ranked countries. I do not believe there would be much of an impact on revenue by increasing the number of lower ranked and peripheral countries.

More importantly, the potential to impact profit and loss is greater by raising value in countries where operations have already been monetarized. It is therefore more lucrative to earn revenue from services related to advertisements and transactions than from the previously mentioned CPC.

**Q4.** I have one follow-up question. What is the current status of Mitula's advertising expenses, and what is being disclosed in terms of the company's total annual scale?

**A4. (Takashi Inoue)** The SGA expense breakdown information that we currently disclose does not go so far as to cover advertising expenses.

**Q5.** My question concerns the map that shows the global service area footprint on slide 16. Looking two or three years down the road, for example, if for the sake of argument revenue was 10, what would be the proportion of revenue increase for each country?

Looking ahead two or three years from now, would you say overseas and China would increase by three, Japan by two and the United States by five?

**A5. (Takashi Inoue)** Based on a two or three-year time span, I do not think the proportions would be all that different from what they are now. Currently, Europe, North America as well as Central and South America represent core revenue streams.

I think there is still some way to go in Asia. With regard to China, I do not think it will be easy to generate revenue and earnings due to language problems and country risk.

Likewise, even in Japan, where we have established and are operating Trovit Japan, under the current situation growth here is limited. As far as portal and aggregation sites in Japan are concerned, competition is fierce and increasingly awash with blood.

In the case of emerging areas in the years to come, we are launching initiatives in the Asia area and Africa. Despite these endeavors, we are looking at a span of two to three years before realizing any return. On this basis, we are not anticipating any major impact.