

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

### Edit Transcript

### Earnings Briefing for the Three-months Period Ended December 31, 2018

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Venue: LIFULL headquarters

Corporate Participants:

**Takashi Inoue**, *President and CEO, General Manager of LIFULL HOME'S Business Department*

**Takashi Yamada**, *Director, Deputy General Manager of LIFULL HOME'S Business Department*

**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*

**Yukihiro Hada**, *Managing Officer, General Manager of Human Resources Department*

**Kohei Kawasaki**, *Managing Officer, General Manager of Creative Department*

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## Presentation

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

### Key Points

1. FY2019/9 Q1 Revenue: JPY 8.3 billion, +3.2% YoY, EBITDA: JPY 1.8 billion, +34.1% YoY
2. Media enhancement initiatives underway to improve ARPA (\*ARPA= Average Revenue Per Agent, revenue per clients)
3. Trovit continuously on the growth track: Revenue Oct-Dec (local currency basis) +16.1% YoY
4. Completed procedures to make Mitula Group Limited ("Mitula") a subsidiary
5. Revised full year forecast following the acquisition of Mitula (Synergy effects with Trovit not reflected)

### LIFULL Group Growth Strategy

We gathered life-event data through our LIFULL HOME'S web service in Japan and we recently completed acquisition of the Mitula to expand life-event data for housing, real estate, jobs and used cars in our overseas business in line with our aim of "Becoming the best life-event database and solution company in the world." Meanwhile, in LIFE solutions, we created an AI Strategy Office and conducted research and development to determine how to provide solutions that closely match the needs of individual users.

Page 5 of the presentation materials shows a road map for real estate industry, which is our main focus.

In terms of "Transforming the real estate industry," we will focus on LILFUL HOME'S and implement three core strategies, namely create an enormous database, further expand our network, and enhance LIFULL HOME'S media power to expand matching opportunities. In New Domains, we will provide applications and systems to increase the operational efficiency of realtors and offer labor saving support. We will also promote the establishment of next-generation real estate transactions, using real estate technology to enable transactions including the signing of contracts to be completed entirely online.

In terms of "Stimulating real estate markets," we are conducting and steadily expanding the vacation rental business in a

joint venture with Rakuten whilst developing “LILFUL HOME’S *Akiya Bank*” database. (<https://www.homes.co.jp/akiyabank/>)

For the development of a global platform, we have completed the recent acquisition and integration of the Mitula. We will continue steadily implementing these strategies.

We have set ourselves the targets of revenue of JPY 50 billion and EBITDA of approximately 20% in the FY2020/9 and the FY2019/9 is positioned as a time for investment for achievement of the mid-term plan.

In terms of actual strategies, firstly we are focusing on improvement of ARPA (ARPA x Number of clients) through growth of the HOME’S Services. To this end, we are enhancing our media capability, above all, investing intensively in SEO.

Secondly, we are looking forward to growth of the Overseas and increased competitiveness as a result of the management integration of Trovit and Mitula.

To enhance our media capability, we are implementing a multi-dimensional initiative including branding, campaigns, SEO, paid marketing and optimization. We have appointed Mr. Yuto Nagatomo, a professional soccer player, as “LIFULL ambassador” and Ms. Tsubasa Honda, an actress, to LIFULL HOMES’s promotions. Ms. Honda’s TV commercial (<https://www.youtube.com/user/HomesDiary>) is attracting a great deal of attention, garnering more than 4 million views on YouTube.

In terms of growth of overseas business, we are trying to demonstrate synergies through the management integration of Trovit and Mitula in addition to the organic growth of Trovit. As for area strategy, we will implement strategies giving different prioritization based on the market of each country. Trovit and Mitula operate a combined total of 180 sites, with sites handling real estate, jobs and used cars in 63 countries. If we add fashion and real estate portals to this total, Trovit and Mitula have more than 200 sites. We will be now able to pursue area strategies based on an assessment of a variety of data, asking ourselves which measures are effective in each specific area and focusing on either Trovit or Mitula in this area. Since we will also be able to grasp each country’s competitive landscape, we will use this information to draw up a competitive strategy. We will expand the service scope and will take our area, competitive and service strategies into consideration when creating our sales strategy and the organizational structure.

### **Consolidated Financial Results for FY2019/9 Q1**

**[Condensed statements of income and loss]** Revenue was ¥8,391 million (+3.2% YoY), EBITDA was ¥1,889 million (+34.1%) and net profit was ¥1,003 million (+12.8%).

As described in the notes below, advertising expenses decreased due to optimization of paid marketing. A gain on sale of shares resulting from the sale of all shares of LHL Co., Ltd. to Nippon Life Insurance Company is included in Other income and expenses. ([https://lifull.com/wp-content/uploads/2018/12/Release\\_181220\\_LHL\\_en.pdf](https://lifull.com/wp-content/uploads/2018/12/Release_181220_LHL_en.pdf))

**[Expense-to-revenue ratio]** The ratio of advertising expenses decreased to 28.0% (-1.9pt) thanks to the ad-optimization and the EBITDA margin improved considerably, to 22.5% (+5.2pt) due to profit generated by business transfer.

**[Revenue by segment]** Revenue growth was achieved in all segments. Revenue generated by the HOME’S Services was ¥6,860 million (+1.7%) due to a decrease in temporary expenses and an effort to reduce costs. Revenue generated by the Overseas was ¥102 million (+11.6%), reflecting Trovit revenue growth and higher profitability. Meanwhile,

revenue generated by the Others was ¥544 million (+8.4%). In HOME'S Services, revenue increased because a decrease associated with the withdrawal from the non-profitable businesses, renovation and remodel services was more than offset by the increase in the number of inquiries following the initiatives such as SEO. In the Overseas, although JPY turned out to be approximately 3% higher than expected, we achieved double-digit growth thanks to Trovit growth. Meanwhile in the Others, we increased sales thanks to continued strong performances of LIFULL senior, a nursing homes and senior housing searching web service, and LIFULL SPACE, a storage space searching web service.

**[Segment income and loss]** Income increased due to rationalization of paid search marketing in the HOME'S Services and the increased revenue of Trovit in the Overseas.

**[Progress of business forecast for the FY2019/9]** Progress toward achievement of the revenue forecast is 21.5%, which is according to plan. Progress toward achievement of the EBITDA forecast is 32.6%. This is good progress, reflecting the one-time gain on the sale of business.

**[Condensed Statements of Financial Position and Goodwill]** Out of short-term borrowing of ¥3.3 billion, ¥3.2 billion is borrowing for the acquisition of the shares of Mitula. Since the acquisition was made through a combination of stock consideration and cash consideration and the cash acquisition component was around ¥2.3 billion, we plan to repay the rest immediately. As a result, assets were ¥30,536 million, liabilities were ¥8,731 million and total equity was ¥21,805 million.

**[Condensed statements of cash flow]** Cash and cash equivalents came to ¥7.4 billion.

## **Business Update**

### **[HOME'S Services Business]**

Looking at key indicators, ARPA increased slightly to ¥85,017 and the number of clients edged up to 27,373. In terms of room for growth of ARPA in the future, expansion of organic inflow through improvement of SEO did not make such a major contribution in the first quarter but ARPA has grown further since the start of the busy period and we, therefore, believe that there is room for expansion of revenue in the future.

In new services, we are making a new proposal for house hunting through our "LIFE LIST". (<https://www.homes.co.jp/life/>) Existing services have focused on searches based on property spec, area or budget, but LIFE LIST is a service that allows users to find a house based on the "lifestyle" they would like to achieve, for example, living by the beach, amazing scenery, cycling. We have also run a campaign linked to the new content in TV commercials and the service has been much talked about on social media.

We started to air a program called "Stories - A home to explore your life" (<http://www.ntv.co.jp/stories/>) from October 8, 2018 to communicate the world view that LIFULL and LIFULL HOME'S wants to offer throughout the year.

As a result, our ability to attract traffic has improved year on year since last autumn and is also strong at the moment.

### **[Overseas Business]**

Trovit is expanding steadily, posting revenue growth of 16.1% (in Euro, compared with Oct.-Dec. 2017).

Mitula, which joined the LIFULL Group on January 8, 2019, was competing with Trovit in around 80% of markets

and in all service domains. In addition to an aggregation website for real estate, used cars and jobs, Mitula is operating and expanding a portal website for real estate in the South East Asia and fashion aggregation website in 20 or so countries. In 2018, Mitula reported sales of AUD 47.8 million (around JPY 3.8 billion) and EBITDA excluding the expenses related to the acquisition of AUD 12.3 million (around JPY 1.0 billion). \*Currency exchange assumption: AUD 1 = JPY 80

We acquired Mitula for around JPY 13.8 billion (cash consideration of around JPY 2.35 billion and stock consideration of around JPY 11.43 billion).

We plan to establish a new company called “LIFULL CONNECT” through the management integration of Trovit and Mitula. We will maintain the brands of each company respectively as before, utilizing a multi-brand approach to increase market share without combining the websites.

The advantages of management integration are summarized in the five points on page 30 of the presentation materials. Market share will improve through integration and we can gain a multi-faceted understanding of each market. We will minimize unnecessary investments and leverage the different technologies, services and strengths of each company in a multi-faceted way. The top management of Mitula has performed multiple M&As on a global scale and has also made a success of PMI. Listing costs will be reduced through the recent acquisition. Revision of the full-year business forecasts incorporates this reduction in costs. We plan to disclose the synergies of integration in a timely manner in the future.

Our growth strategy is to expand traffic through integration and expand CPC and Google AdSense, which are currently a primary source of revenue. We will also develop new products to the point of transactions similar to the conclusion of contracts and monetize expanding traffic.

### **Revision of FY2019/9 guidance**

As a result of the consolidation of Mitula starting from January, we revised our forecast for the FY2019/9.

Our revised forecasts are revenue of ¥42,306 million (+8.4% from the initial forecast), SG&A of ¥31,943 million (+10.7%), EBITDA of ¥5,975 million (+3.2%), and net profit of ¥2,962 million (-5.4%), reflecting one-time expenses for acquisition.

In light of recent conditions, we revised our currency assumption from EUR 1=JPY 129 to EUR 1=JPY 127.

The figures on page 35 are for reference excluding temporary factors, but revenue assuming that Mitula is consolidated from October to September is ¥43,401 million and EBITDA excluding temporary costs associated with M&A is ¥6,741 million.

To achieve the forecast for the FY2019/9 and to then achieve the mid-term plan, growth of 15.2% in revenue and 4.5 pts in the EBITDA margin will be necessary as stated on page 36.

In Japan, we will focus on SEO and enhance profitability. To improve internal productivity, we introduced a daily profitability system which estimates the daily added value produced per employee from October last year. We will become a more efficient, highly productive organization. We plan to disclose the synergies of integration of Trovit and Mitula in the future. The revenue of subsidiaries involved in new businesses are expanding steadily as shown on pages 55 and 56, and we believe that we have every possibility of achieving the mid-term plan.

## Questions and Answers

Q1) You spoke of a 4.5 pt improvement in the EBITDA margin in the FY2020/9. You said the synergies of integration of Trovit and Mitula will emerge in the future. Please explain how the HOME'S Services Business, new businesses and other factors will contribute to this improvement.

A1: (Takashi Inoue) These figures are for reference only but, according to the business forecast based on the assumption of consolidation of Trovit and Mitula on a full year basis presented in material disclosed previously (page 45 of the presentation materials for Q3 of the FY2018/9), the synergy to be generated by the integration of Trovit and Mitula is synergy revenue of between ¥100 million and ¥200 million and synergy cost reduction of between ¥200 million and ¥300 million. Both Trovit and Mitula are growing and I believe that they can contribute between around ¥500 million and ¥1 billion to the topline through organic growth + synergies from integration + cost improvements. Most of the remainder will be generated by our core LIFULL HOME'S business. I hope that new businesses will also make some contribution by generating higher revenue and moving into profit.

Q2) What is behind Trovit's strong performance? Is it the effect of SEO as in the case of HOME'S or is it an increase in charges?

A2: (Takashi Inoue) One of the factors behind Trovit's growth is continued improvement in SEO, which is producing good results. SEM activities are also going well, with Google AdWords bidding and other operations performed using an automatic system. CPC has also risen, reflecting recognition of the value generated through sales efforts. These three factors are behind Trovit's growth.

Q3) Does the illustration of the increasing cost of services in the pyramid on page 31 represent acceleration as a result of the integration of the two companies?

A3: (Takashi Inoue) We intend to move quickly. I think that now we no longer have any rivals, it will be easier for us, as price leader, to revise prices. Synergy has yet to emerge, but we think that improving cost, especially in the real estate domain can make a significant contribution to our overall performance.

Q4) In your opinion, what should the organic revenue growth rate of the HOME'S Services Business in Japan be after deduction of M&A costs and gain on sale? Given the current situation in which the organic growth rate falls short of this, which aspect of your internal environment or the external environment needs to change and how to be able to keep up with this revenue growth rate and when will this change take place?

A4: (Takashi Inoue) Since LIFULL HOME'S generally achieves growth of around 15% with some fluctuation from year to year, we intend to get back on track for 15% growth as standard. Our plan for the current fiscal year is 12.9%, which is slightly more conservative than this, but since traffic is improving recently, a return to 15% is now within our sights. The answer to the question what will drive growth is traffic. Improvement in our ability to attract customers will make the biggest contribution.

Q5) Traffic increased year on year Oct.-Dec. but the revenue growth rate of HOME'S Services was 2.2% in the previous Q4 and 1.7% in this Q1. This suggests the existence of a mismatch whereby traffic has improved but this has not led to revenue growth. When will revenue start to grow in line with the improvement in traffic?

A5: (Takashi Inoue) LIFULL HOME'S revenue consists of basic charges and commission from inquiries and optional service expenses. Domains that generate high revenue are rentals and real estate sales. Meanwhile, there are domains with different business models, namely new houses and new condos and the custom-built home domains and the admin support domain. The revenue that is boosted by traffic is charges generated through the pay-per-inquiry based pricing model in the rental and secondary markets. Rentals and real estate sales domains are performing well, but new condos are slowing down due to stubbornly high prices and a reduction in supply, reflecting market conditions. Another factor that is having a slight impact is that the average rent of rental houses has fallen slightly. ARPA appears to have fallen due to new condos and withdrawal from the physical renovation business.