

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

### Edit Transcript

### Earnings Briefing for the Six-Month Period Ended March 31, 2019(October 1, 2018 to March 31, 2019)

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Venue: LIFULL headquarters

#### Corporate Participants:

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**Takashi Yamada**, *Director, Deputy General Manager of LIFULL HOME'S Business Department,  
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**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,  
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**Kohei Kawasaki**, *Managing Officer, General Manager of Creative Department*

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#### Presentation

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

Welcome and thank you for attending this earnings presentation for the first half of the fiscal year ending September 30, 2019, the six-month period from October 1, 2018 to March 31, 2019. While recent comments by President Trump have triggered concerns of an upswing in international market volatility, LIFULL's business is largely removed from trends in the U.S. and China. Taking into account these circumstances, we remain committed to steadfastly advancing our domestic and overseas business.

On a concurrent basis in conjunction with my existing responsibilities, I was appointed Head of the HOME'S Business Division in Japan on October 1, 2018. Over the ensuing period, and in particular the busy rental January to March 2019 quarter, we have enjoyed record highs for various key performance indicators while witnessing signs of accelerated growth. Coupled with a pickup in the pace of Trovit expansion, which has been included in the Company's scope of consolidation as a subsidiary, and the substantial growth attributable to the acquisition of Mitula, both our domestic and overseas businesses are advancing steadily. As far as proactive investments are concerned, LIFULL is looking to uncover a wide range of new businesses. While the immediate impact on business results remains small, we will continue to sow and nurture the seeds for growth going forward.

Turning then to the principal topic at hand, I draw your attention to slide 2 of the presentation materials. Here, we list several key points of the six-month period under review.

#### [Key Points (Slide 2)]

In the first half of this fiscal year, revenue climbed 10.9% year on year, to 19.5 billion yen. EBITDA, on the other hand, decreased 24.7%, to 2.2 billion yen. This largely reflects the impact of proactive investments listed in item 2.

In a bid to lift ARPA, we are taking steps to strengthen LIFULL HOME'S media presence. In this regard, we are focusing especially on boosting investments in mass-media advertising.

LIFULL also incurred a temporary jump in expenses in connection with the acquisition and inclusion of Mitula in the Company's scope of consolidation as a subsidiary.

In sowing the seeds for future growth, LIFULL undertook proactive investments in the Rural Revitalization Business with the aim of stimulating activity in the vacation rental and other markets.

Moreover, LIFULL incurred a goodwill impairment loss in connection with the entry of a subsidiary into the crowd-funding business and such factors as associated delays in acquiring the necessary license.

From an overseas business perspective, and as I mentioned a moment ago, Trovit growth during the first half of the fiscal year progressed at an accelerated pace climbing 20.2% year on year. Successful steps were also taken to include Mitula in the Company's scope of consolidation as a subsidiary.

### **[Highlights (Slide 3)]**

As you can see from this slide, revenue climbed 10.9% compared with the corresponding period of the previous fiscal year, notwithstanding the sale and transfer of LIFULL's insurance agency direct client flow operations to Nippon Life Insurance Company.

From an earnings perspective, trends in the EBITDA margin and net profit were in line with the decline in EBITDA mentioned a moment ago. Despite the temporary impact of one-off acquisition costs as well as advertising and other expenses, we hold high expectations of a reasonable return on proactive investments.

In our HOME'S Services Business, revenue grew 3.1% year on year. As I will explain in more detail later in this presentation, this positive result is after offsetting the loss incurred by our online renovation operations and downturn in revenue attributable to the withdrawal and liquidation of LIFULL Remodel, a subsidiary that engaged in renovation building and reconstruction mediation work. Turning to other operating trends, both our client network and ARPA continue to expand steadily.

Results in our overseas business are in line with my earlier comments.

### **[Growth Strategy (Slide 4)]**

Despite having covered this topic before, I would next like to touch briefly on our growth strategy.

### **[Mid-term Management Plan: Quantitative Target (Slide 5)]**

In broad terms, LIFULL is looking to secure revenue and EBITDA margin targets of 50-plus billion yen and around 20%, respectively, in the fiscal year ending September 30, 2020.

### **[ (Slide 6)]**

As stated on this slide, the fiscal year ending September 30, 2020 is positioned as an investment phase to achieve the targets of the "Mid-term Plan 2020."

### **[To Achieve "Mid-term Plan 2020" (Slide 7)]**

Although a repeat of earlier comments, LIFULL invests mainly in the development of new services as well as efforts to strengthen its media presence. These endeavors are geared toward increasing ARPA in the mainstay HOME'S Services

Business.

Working to expand our Overseas Business, we are focusing on strengthening the Trovit Business in order to accelerate growth, and to include Mitula in the Company's scope of consolidation. In addition, plans are in place to establish a new company, LIFULL CONNECT, through the integration of Trovit and Mitula. Based on a process of management integration, we are looking to improve our competitiveness by securing cost benefits and strengthening sales skills.

#### **[Consolidated Financial Results for FY2019/9 Q2 (Slide 8)]**

Moving on, I would like to elaborate on LIFULL's financial results for the first half of the fiscal year ending September 30, 2019.

#### **[Condensed statements of income and loss IFRS (Slide 9)]**

While I will refrain from repeating my comments from earlier in this presentation, I am pleased to confirm that revenue climbed 1.9 billion yen, or 10.9%, compared with the corresponding period of the previous fiscal year, for the first half of the fiscal year under review. As indicated in Note 1 at the bottom of the slide, increases in both HOME'S Services and Overseas businesses were the principal contributing factors behind this improved result.

Turning your attention to Note 3, and despite progress in optimizing the costs incurred to attract Google AdWords and other advertising system paid customers through increasingly detailed analysis, LIFULL undertook record high investments in TV commercials and branding in an effort to raise awareness during the peak season. As a result, advertising expenses increased 1.1 billion yen, or 18.8%, year on year. Following the inclusion of Mitula in the Company's scope of consolidation, and as indicated in Note 5, we incurred temporary costs that contributed to an upswing in other SG&A expenses. As far as note 6, and other income and expenses are concerned, the proceeds generated by the sale of shares in LHL Co., Ltd., which engages in insurance business and advertising agency operations, were largely offset by the goodwill impairment loss attributable to the review of plans resulting from the delay in LIFULL Social Funding Co., Ltd., a crowd-funding subsidiary, acquiring its financial business license.

#### **[Progress of business forecast for the FY2019/9 IFRS (Slide 10)]**

As you can see from the data presented on this slide, business results continue to progress steadily.

In overall terms, revenue for the first half has remained firm, coming in at 46.3% of the full fiscal year forecast. While EBITDA came in at 38.2%, we are confident of continued steady progress. This is largely based on the projected impact and increase in revenue and earnings from a full six-month contribution from Mitula in the second half.

By service, revenue is advancing smoothly with steady across-the-board growth. Generally speaking, results for the first half of the fiscal year under review are in line with plans, coming in at 47.8% and 41.3% against full fiscal year forecasts in the HOME'S Services and Overseas businesses, respectively.

#### **[Sales by segment, segment income and loss IFRS (Slide 11)]**

For fear of repeating comments made earlier in this presentation. I simply refer you to the "main items" column in the tables on slide 11.

Despite the withdrawal from certain activities in the HOME'S Services Business, the rate of revenue increase has improved from the first quarter. This is largely due to the success of several initiatives including efforts aimed at improving various key performance indicators and continued search engine optimization, or SEO. Despite an

approximate 4% appreciation in the value of the yen, revenue increased in the Overseas Business on the back of Trovit growth and the inclusion of Mitula in the Company's scope of consolidation. As far as the Others Business is concerned, revenue decreased following the transfer of the insurance agency business.

Looking at the segment income and loss table that runs across the bottom half of the slide, results were impacted by such proactive investment branding expenses as TV commercials, temporary costs in connection with the acquisition of Mitula and increased spending in the Rural Revitalization Business. In real terms, LIFULL posted an increase in earnings of roughly 550 million yen after excluding the impact of the aforementioned temporary costs.

#### **[Temporary impact of growth investments -YoY Analysis- (Slide 12)]**

Here on this slide, I would like to touch on the temporary impact of growth investments.

Growth investments total approximately 1.5 billion yen. This includes M&A spending of 550 million yen and various other expenses such as reorganization, other, and marketing costs.

#### **[Quarterly performance history -Consolidated revenue- (Slide 13)]**

Looking at quarterly trends in revenue here on slide 13, revenue climbed 17.5% year on year, to 11.2 billion yen in the January to March second quarter.

#### **[Business growth and breakdown -Consolidated revenue- (Slide 14)]**

As a reference, we provide details of consolidated revenue growth and a breakdown by business segment on slide 14. Turning first to the note at the bottom right of the slide, and despite Mitula's inclusion in the Company's scope of consolidation from January 2019, figures are calculated according to their actual values, assuming consolidation from October 2018. On this basis, and after combining contributions from Trovit and Mitula, the Overseas Business accounted for 21.2% of total consolidated revenue in the first half of the fiscal year ending September 30, 2019. As you can see, this share is steadily expanding.

#### **[Condensed statements of financial position and goodwill IFRS (Slide 15)]**

Commenting on LIFULL's financial position and goodwill here on slide 15, total assets stood at 43.7 billion yen as of March 31, 2019. This was a substantial 50% higher than the balance as of December 31, 2018 and largely attributable to the increase in goodwill following the acquisition of Mitula. In specific terms, and as indicated in the fourth main item in the column at the right of the slide, goodwill climbed 10.3 billion yen compared with the end of the previous calendar year.

Total liabilities grew 54%, to 11 billion yen. Over the second quarter, short-term debt increased 3.3 billion yen. For the most part the acquisition and inclusion of Mitula in the Company's scope of consolidation was undertaken through the exchange of shares. While the transaction included a portion of cash, this was allocated to associated expenses.

Taking into account each of the aforementioned, total equity increased to 32.6 billion yen.

#### **[Condensed statements of cash flow IFRS (Slide 16)]**

As indicated here on slide 16, the balance of cash and cash equivalents came in at 9.3 billion yen, an increase of 1.7 billion yen.

### **[HOME'S Services (Slide 17)]**

Changing tack, I would like to elaborate on HOME'S Services.

### **[Comparison with same period in previous year -Effects of operation withdrawals- (Slide 18)]**

Revenue in the HOME'S Services Business climbed 3.1% compared with the corresponding period of the previous fiscal year. This sales revenue growth increases to 4.1% if we exclude the effects of withdrawing from the Reform Business. On a personal note, however, I am committed to securing at least double-digit growth in the HOME'S Services Business, and as such I view our current performance as just a steppingstone. As far as segment profit and loss is concerned, I refer you back to my earlier explanation of our various proactive investments. Next, I would like to touch briefly on key performance indicators.

### **[KPIs -Client network -ARPA- (Slide 19)]**

I have mentioned that our growth is largely based on an ARPA and client network multiplier effect. As indicated here on slide 19, ARPA has climbed 2.2% compared with the corresponding period of the previous fiscal year. Our client network also continues to expand steadily.

### **[Measures to improve ARPA -Strengthening media presence- (Slide 20)]**

As far as measures aimed at improving ARPA are concerned, LIFULL is investing in efforts to strengthen its media and branding presence. As indicated here on this slide, we are taking steps to thoroughly reinforce branding and campaigns, the convenience attributable to users interface and experience, and SEO while enhancing efficiency by optimizing paid marketing. At the same time, we are in the process of increasing reading content as a part of efforts to provide value to users and to extract SEO effects on a rotating basis.

### **[Investment in strengthening media presence -Branding promotion- (Slide 21)]**

In particular, energies are being directed toward branding promotion with TV commercial slots coming in at a record high. Among a host of initiatives, we have ramped up our investment in short TV programs from October, and are witnessing a definitive improvement in our profile and popularity as a result. Our decision to use the actress and model, Tsubasa Honda, has been especially successful, with our recent series of TV commercials and campaigns proving a big hit.

### **[New marketing products -New product- (Slide 22)]**

As indicated here on slide 22, and as an adjunct to strengthening our media presence while increasing large-scale advertising products and materials, we are in the midst of boosting consulting sales focusing especially on major companies.

### **[(Ref) ARPA improvement measures -Strengthening media presence- (Slide 23)]**

LIFULL's business is largely based on a paid inquiry model. As we look at efforts designed to increase ARPA here of slide 23, improving traffic is an extremely important indicator. As you can see, traffic has experienced a positive turnaround since September compared with the previous year. Thereafter, we have achieved record highs in various KPIs including through the busy period. The goal going forward is to now link these trends and results to an improvement in

sales.

With this, I conclude my explanation of the HOME'S Services Business in Japan.

**[Overseas Businesses (Slide 24)]**

Moving on, I would like to elaborate on our Overseas Business.

**[Overseas businesses -Q2 performance- (Slide 25)]**

As indicated here on this slide, Overseas Business revenue in the first half of the fiscal year ending September 30, 2019 climbed 81.5% compared with the corresponding period of the previous fiscal year. From a profit perspective, segment income grew 3% year on year. Drawing your attention to the note at the bottom of the slide, Mitula was included in the Company's scope of consolidation as a subsidiary from January 2019. As a result, its contribution is for a three-month period. If we adjust this figure assuming consolidation from October 2018, revenue from LIFULL's Overseas Business comes in at around 4 billion 384 million yen in real terms.

**[Trovit -Quarterly result trend- (Slide 26)]**

Here, we provide a snapshot of quarterly trends in Trovit's results on a non-consolidated basis. While quarterly growth of 16.1% compared with the most recent previous quarter is considered more than adequate, results are projected to increase at an accelerated pace, rising to 24% year on year.

**[Mitula Group (Slide 27)]**

As I have mentioned, Mitula was included in the Company's scope of consolidation from January 2019.

**[Mitula -Quarterly result trend- (Slide 28)]**

Mitula is expanding at an accelerated pace. While growth came in at 42.1% compared with the most recent quarter, this figure comes in at the much higher 63.4% on a comparative basis with the corresponding period of the previous fiscal year.

**[Overseas businesses -Segment P&L (Quarterly Trend)- (Slide 29)]**

Looking at segment profit and loss in the Overseas Business, Trovit and Mitula earnings on a combined basis came in at 542 million yen for the second quarter of the fiscal year under review. Meanwhile, LIFULL incurred temporary expenses in connection with its M&A activities. If we assume that these expenses were not incurred, profitability in the Overseas Business is increasing substantially.

It is important to note, however, that plans are in place to post the purchase price allocation depreciation costs associated with the acquisition of Mitula once they have been finalized. Notwithstanding these plans, the impact on business results is considered to be nominal.

**[Growth of overseas businesses -Accelerate growth through M&A- (Slide 30)]**

This slide is a repeat of information provided in a prior earnings presentation. In order to maximize synergies between Trovit and Mitula going forward, LIFULL is promoting the five area, competitive, service, sales, and organization strategies.

### **[Overseas business growth -Growth strategy- (Slide 31)]**

As indicated on this slide, we are looking to secure clearly defined achievements. The diagram on this slide is again a repeat from an earlier presentation.

The vertical axis at the left of the slide reflects the impact on and degree of unit price increase. Items (1) to (3) presented at the right of the slide lay out the flow and process subsequent to Trovit and Mitula integration. First, the goal is to lift the unit prices of charges per click. Second, to increase advertising and other income. And finally, third, to impose transaction charges in line with contract closing, and from a secondary market perspective, to direct client flows toward mortgage banks in the home loan field as well as life and casualty insurance companies.

From a horizontal perspective, and given the combined massive volume of traffic and information held by both companies, together with the development of services that spans more than 60 countries, we are working diligently to expand our business scope. Ultimately, the goal is to broaden this pyramid both vertically and horizontally.

### **[Other Businesses (Slide 32)]**

In closing, I would like to touch briefly on the Others Business segment including new businesses.

### **[Other businesses -Segment sales revenue (quarterly)- (Slide 33)]**

We are seeing continuous and steady growth in our other businesses after excluding the effects attributable to the transfer of LHL Co. Ltd., which engages in insurance agency direct client flow operations. As indicated in the note at the bottom of the slide, LIFULL FinTech Co., Ltd. was founded as a subsidiary and transferred to Nippon Life Insurance Company in December 2018. Among the Group's remaining existing businesses are four companies including LIFULL MOVE Co., Ltd., LIFULL senior Co., Ltd., and LIFULL SPACE Co., Ltd.

### **[Other businesses -Segment P&L (quarterly)- (Slide 34)]**

In the second quarter of the fiscal year under review, LIFULL incurred a loss of around 128 million yen in its other business activities. This was largely due to the transfer of LHL Co., Ltd., investments in the Rural Revitalization Business, and delays in generating revenue through LIFULL Social Funding Co., Ltd. In addition to the projected returns from proactive investments for the future, we are confident of a positive flow-on effect to other existing and other businesses, the incidence of synergies between the Rural Revitalization Business and LIFULL HOME'S in the vacant property rental-related fields, and contributions from the vacation rental business established as a joint venture with the Rakuten Group. Recognizing the critical need for crowdfunding in order to divert resources to these types of vacation rental and other activities, we will engage increasingly in collective business investment.

### **[Other businesses -Rural revitalization- (Slide 35)]**

Various activities in the Rural Revitalization Business are becoming increasingly brisk.

We have, for example, made steady progress in compiling a database for vacant properties.

Among a host of initiatives in the recruitment and training business, we are launching training and other programs. Recent trends indicate the need to increase the capacity of these programs with the number of applicants exceeding fixed quotas by 1.5 times. In this regard, there is a strong sense that rural revitalization is experiencing extremely robust conditions while undergoing a current major boom.

Buoyed also by efforts to repurpose vacant properties, we are witnessing a positive impact on Japan as a popular tourist destination.

### **[Other businesses -New services- (Slide 36)]**

I would at this point like to introduce to you some of our new business activities.

With an eye toward training the next generation of business leaders, we will work to increase the number of current Group companies over the distant future. The goal is to create a network of 100 companies.

As a result, we are taking steps to expand the scope of business across every possible field, and to ensure a “Full Life” for everyone. As a part of these endeavors, we have received approval for a new “Clean Smoothie” business. As I am sure you are all well aware, Japan disposes of 2 million tons of imperfect vegetables annually. Recognizing that food items are often disposed of as waste for reasons of poor appearance or irregular size, we have commercialized efforts to cut, freeze, and mix imperfect vegetables into fresh and appealing smoothies. Initially approaching the cafeterias and other outlets of major companies that are looking to improve the health of employees, we are initiating efforts to promote B to B to C sales. By providing delicious treats that contribute not only to employees’ health, but also to society as a whole, interest in this new business is extremely high and increasing.

### **[LIFULL Worldview -LIFULL Group- (Slide 37)]**

To summarize, LIFULL as a group is committed to becoming and building the biggest life-event database in the world and to offer the best solutions for each and every customer in order to create a society where everyone can attain “comfort” and “happiness” through continuous social innovations. With this in mind, we are developing a host of new services, which we will progressively introduce as they emerge.

This then concludes this presentation of LIFULL’s earnings for the first half of the fiscal year ending September 30, 2019. I would now like to open the floor to any questions.

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## **Questions and Answers**

**Q1.** I would like to ask two questions. First, revenue and earnings in the HOME’S Services Business appear a little weak for the first half of the fiscal year under review. You mentioned during the presentation that you would like to return the HOME’S Services Business to double-digit growth. It looks like you have already addressed issues regarding traffic. What do you think remains to be done? LIFULL enjoys substantial rental housing listings. What are your thoughts on this matter? Do you see the recent succession of scandals by rental housing companies as having an impact, and what is your assessment of market conditions?

My second question is about the Group’s Overseas Business and, in particular, the progress made by LIFULL CONNECT. While you mention that synergies and amortization-related benefits will emerge in the future, will there be any additional expenses on top of the temporary 550 million yen recently incurred, and any impact on earnings in the future?

**A1. (Takashi Inoue)** I am sorry, but the second part of your question was a little hard to hear. Are you asking if we anticipate any additional Mitula-related M&A costs?

**Q1.** Yes, that is correct.

**A1. (Takashi Inoue)** Temporary costs related to the acquisition of Mitula have for the most part come to an end with the expenditure undertaken in this instance. While asset purchase price allocation depreciation costs are yet to be finalized, we are estimating an additional 100 to 200 million yen on a full 12-month consolidated basis. With this in mind, we do not expect additional costs will have a major impact. We will provide details once the amount has been finalized.

LIFULL HOME'S traffic remains steady while coming in at a record year-on-year high.

The rental as well as purchase and sale markets provide a flow of paid inquiries, which in turn generates revenue on a linear basis. Other areas including new condominiums and houses as well as custom-built residential properties, on the other hand, are not based on a paid inquiry business model. Despite an upswing in positive ties with clients to date, there is a time lag between the period required to address requests and an increase in volume. In this sense, there is a mismatch from a time requirement perspective and the immediate production of results.

As far as the markets are concerned, and as I will elaborate in more detail shortly, signs of a wait and see approach by construction companies of custom-built residential properties and related players are emerging in the lead-up to the consumption tax rate hike to 10%. The rental market is extremely firm. While issues regarding boundary walls and partitioning have recently come to light, we believe the overall impact is limited. On this point, I would ask Mr. Ito to comment, given his direct experience with the frontline.

**A1. (Yuji Ito)** While Mr. Inoue just mentioned that new condominiums and houses as well as custom-built residential properties are based on a paid listing business model, a portion of custom-built residential properties are also being handled on a paid inquiry basis. In this instance, the linear growth of rental, distribution, and custom-built residential property inquiries will also help generate growth in revenue on a linear basis.

Taking into consideration the fixed listing period required for new condominiums and houses, activities will entail sales negotiations in the event of an increase in inquiries.

As far as traffic is concerned, the downturn through to last year appears to have bottomed out. With signs of a recovery trend, it is vital that steps be taken to ensure an ongoing increase.

From an acquisition efficiency perspective, we are working on a daily basis to constantly improve our site. At the same time, we are, for example, collaborating with the LINE services. We have established an official LIFULL HOME'S account and are additionally promoting various initiatives to entice follow-up inquiries after initial user contact. By raising acquisition efficiency in this manner, our goal is to maximize revenue.

Turning to the market environment, and despite the certain rush in demand for custom-built residential properties especially in March in the lead-up to the tax hike, we do not believe conditions in our mainstay rental and distribution fields to be nearly as bad as reported by various media outlets. We remain confident that opportunities will still expand going forward.

**Q2.** Touching briefly on the second part of my earlier question, what are your plans for the Group's Overseas Business? While Mitula was included in the Company's scope of consolidation in January this year, a considerable amount of time has elapsed since announcing the name of the newly established LIFULL CONNECT. Do you have any plans following the completion of these types of activities and events?

**A2. (Takashi Inoue)** Our goal was to first announce the intention to pursue integration and generate synergies. On this

basis, we announced the name of the new company together with other details. In reality, we are looking to complete integration around early fall. This reflects the need to ensure a certain amount of time for employees of both companies to properly mix and interchange.

As far as the various issues confronting the rental sector are concerned, we take great pride in our ability as a responsible medium to provide users with safe and secure information. LIFULL HOME'S will not list information unless reliability has been confirmed. The issues concerned represent only a small portion of the five million rental properties listed as a whole. We therefore believe that the overall impact is minor.

**Q3.** SG&A expenses in the HOME'S business are increasing over the fiscal year under review. What are your expectations for HOME'S business margins in order to achieve an EBITDA margin of around 20% for the Company as a whole next fiscal year?

**A3. (Takashi Inoue)** The graph on slide 47 of the presentation materials plots trends in the Company's expense-to-revenue ratio.

The ratio of advertising expenses is increasing on the back of proactive investments aimed at lifting the topline. In contrast, the ratio of personnel expenses is declining. This reflects the growing use of systems to increase productivity. Despite the handling of advertising agency operations by a subsidiary and subsequent slight increase, we are implementing various measures including a review of the cost of sales. If at all possible, our goal is to hold the ratio of advertising expenses to less than 30% and to manage the ratio of personnel expenses at around 20%.

While recognizing that these levels are close to the bare minimum, our efforts are being impacted by the current incidence of temporary M&A costs. If we are successful in our efforts to control expenses, we expect to come within sight of the 20% line. The HOME'S business itself boasts a much higher EBITDA margin, and if anything, is considered a cash cow. Currently, investment activities are focusing on rural revitalization and overseas acquisitions.

While the EBITDA margin for the HOME'S business alone is difficult to convey from a competitive strategy perspective, we are generating extremely high margins in the rental, distribution, and other fields.

**Q4.** I have three questions if I may. First, and as far as the Group's Overseas Business is concerned, how far do you plan to go with the integration of Mitula and Trovit? The reason I ask, is because the activities that each company has conducted to date continue to run smoothly. I believe that each company is enjoying accelerated growth. This begs the question whether there is any need to proceed hastily with integration given the risk of throwing cold water on both companies' positive momentum. Under these circumstances, are you looking to push forward with integration encompassing various facets of the business including media, or will you settle for just integrating sales. If you are first working to balance each company's forward momentum with integration synergies, I would then like to know the details of your integration plans and the pace at which you intend to progress.

My second question concerns SG&A expenses incurred by the HOME'S business in Japan. On the one hand, a considerable amount of expenditure was undertaken mainly for advertising and branding in the second quarter of the fiscal year under review. I am not sure, however, if the rate of sales growth is enough. I understand that you are promoting various advertising measures from a long-term perspective. What should we be looking at when measuring whether there is any waste in the current level of advertising, or if your advertising initiatives are generating meaningful results and an appropriate level of long-term return? If there is any particular significance in your current advertising

endeavors, it would help if you could provide us with details of KPIs that measure performance and specific results.

My third and final query is linked to the last question. In order to achieve revenue in excess of 50 billion yen and an EBITDA margin of around 20% in the next fiscal year, I believe it will be necessary for you to accelerate HOME'S business sales and substantially improve the SG&A expenses ratio, which has in fact deteriorated in the first half of the current fiscal year. Under the mid-term management plan for the next fiscal year, it would appear that the measures in place are enough to achieve the target levels set going forward. Can you give us your thoughts as president whether you believe that initiatives are sufficient to achieve the Company's goals?

**A4. (Takashi Inoue)** In answer to your first question regarding our Overseas Business, forecast figures in this instance, such as the improvement in unit prices from synergies between Trovit and Mitula, are of a considerable conservative nature. Figures factored into our plans are based solely on definitive cost-cutting measures. In other words, we have not as yet incorporated the synergy effects of integration to any major degree. To your point regarding the downside risk of hasty integration given the status of current trends, we recognize the need for a reasonable amount of time to monitor conditions and make an appropriate assessment. Having said this, however, we do not believe that integration will have a debilitating effect. Engineers and marketing staff from both sides are beginning to cooperate with each other and to share their expertise and know-how. In their own rights, Mitula's strength lies in its sales capabilities, while Trovit boasts outstanding technological skills. Both companies are in the process of bringing their strengths to the same table. Our plan is to promote integration in a natural and reasonable manner while monitoring efforts to draw out synergy effects.

As we have mentioned in the past, we do not intend to integrate each company's website. We believe this would lead to a deterioration in the sum of the parts, where our goal is to create a scenario where one plus one come to a total of more than two. In this regard, every effort will be made to comprehensively harness the strengths of each company. In contrast, we will integrate business activities on the understanding that an operating company will help draw out synergy effects. In this context, our efforts are currently progressing in line with plans.

Before asking our Chief Creative Officer, Mr. Kawasaki, to reply to your second question, I would like to acknowledge your point that the link between branding and sales is somewhat small. One reason for this, is the time-lag associated with negotiating prices with major companies and expanding the volume of transactions. On another point, we consider online paid marketing as advertising media that can be gathered in on an ad-hoc basis. In endeavoring to convey the LIFULL HOME'S worldview, our goal is to position the LIFULL HOME'S brand at the forefront of people's minds when they look to change their home. To this end, we recognize the need to invest in efforts to raise our brand profile and reputation over the medium to long term. On this matter, I would ask Mr. Kawasaki to comment shortly on the results of this investment and the means including KPIs through which we measure benefits and effects.

But first, to your third question, and progress in achieving our mid-term management plan, it is imperative that we improve our SG&A expenses ratio. We anticipate some relief with the absence of temporary M&A costs for the remainder of the current fiscal year. In contrast, we expect advertising expenses will expand on the back of our current investment mode. Moving forward, we plan to bring this ratio a little closer to the 30% mark and will focus on increasing advertising efficiency. We are confident that steady progress is being made in lifting productivity per staff. On this basis, we intend to improve advertising expenses by 7% and personnel expenses by 0.7%. By securing additional improvements in other temporary expenses, we expect to come within range of our EBITDA margin target of 20%. As far as proactive investments are concerned, we are undertaking expenditures in such areas as the Rural Revitalization Business, through increased advertising expenses. After incurring a total quarterly loss in excess of 100 million yen, the

scenario then is to increase the top line by factoring in sales growth on the back of proactive investment returns, thereby improving earnings. As far as this new business is concerned, however, we see both up- and downside volatility. We are therefore focusing on areas that only have a minor effect on operations as a whole.

Returning to your second question regarding branding, I would ask Mr. Kawasaki to add his comments.

**A4. (Kohei Kawasaki)** I would like to begin by elaborating on our promotion strategy from the current fiscal year in light of the increasingly diverse nature of general consumers' residential and living styles. Given conditions as they currently stand, we are not looking to simply raise our profile during the current period. Our strategy encompasses branding communication that properly differentiates LIFULL HOME'S unique value and through increased awareness stimulates clients' mindsets toward increased use. In specific terms, when searching for a property, it is now important to look beyond traditional needs surrounding physical requirements. It has become vital to consider users' diverse lifestyles and values.

And then of course we have promotions, products, and campaigns. In addition to the LINE services Mr. Ito mentioned a moment ago, we will integrate every possible touchpoint. We are promoting a brand image that allows each user to achieve his or her preferred lifestyle. In this manner, we are engaging in communication that continuously stocks comprehensive brand value.

As far as KPIs are concerned, we are enjoying record high levels of major indicator as well as our highest scores for advertising and campaign awareness. We conducted a LIFULL HOME'S property inquiry campaign with alarm clocks as a prize. This has become a popular topic of conversation on such SNS tools as Twitter, with a substantial pickup in applicants. Turning to LIFULL's commercials, indications are that solid progress is being made. Taking into consideration these achievements, we are gaining progress with KPIs across the board.

**A4. (Takashi Inoue)** Thank you, Mr. Kawasaki. Just to add, the alarm clock campaign fronted by Tsubasa Honda has proven a major hit. From an SNS perspective, we have picked up comments from users willing to pay from 50,000 yen up to 500 million yen for the privilege of receiving the prize.

I hope this fully addresses your three concerns.

If there are no further questions, I would like to bring this presentation to a close. I thank you for your interest and attention.