

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

### **Edited Transcript**

### **Quarterly Results for the First Six-Month Period (October 1, 2019 to March 31, 2020)**

Date/time: May 15, 2020 / 11:00 a.m. JST (Conducted Online)

Venue: LIFULL Headquarters

Corporate Participants:

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

**Takashi Yamada**, *Director Manager of AI Strategy Office*

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

**Yuji Ito**, *Managing Officer, General Manager of LIFULL HOME'S Business Department*

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

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

Total Participants: 51

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### **Presentation**

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

Thank you for joining us today as we present LIFULL's earnings presentation for the first half of the fiscal year ending September 30, 2020, the six-month period from October 1, 2019, to March 31, 2020.

Ordinarily, we hold our presentation in person. However, while LIFULL as a whole remains free from infection, we are aware of the significant impact that COVID-19 is having on the global community and are holding today's presentation online to help prevent further spread of the virus.

Turning to our principal topic, I draw your attention to the "Index" on slide 2 of the presentation materials.

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

First, we will take a quick look at the revisions made to our full fiscal year earnings forecast announced on April 20. I will then comment on LIFULL's financial results for the first half of the current fiscal year and review the status of each segment before elaborating on the repurchase of treasury stock.

#### **[Revisions to the Earnings Forecast (Slide 2)]**

Following the presentation materials before you, let's begin by explaining our decision to revise LIFULL's earnings forecast. Please turn to slide 3.

#### **[Assumptions Behind the Revisions (Slide 3)]**

Taking into consideration the impact that COVID-19 is having on society as a whole, we decided to revise our earnings forecast for the full fiscal year. For our revisions, we have considered a worst-case scenario in which conditions as of the date of disclosure, April 20, 2020, such as stay-at-home orders and temporary business closures, will continue until the end of September.

After evaluating various simulations regarding the timing and degree of negative impact that the virus will have on

operations, we have revised our financial results according to this worst-case scenario.

Looking at the HOME'S Services Segment in Japan, realtors are experiencing a drop in the number of inquiries, consultations and property viewings. This began mainly due to the government's request to refrain from large gatherings. After the government declared a state of emergency, we waived fees for LIFULL HOME'S members voluntarily refraining from conducting business during the pandemic and temporarily suspended their accounts. Therefore, we have also based our revisions partially on lower usage fees.

For the Overseas Segment, we have taken into account a downturn in user traffic and listings on real estate portals around the world.

#### **[LIFULL Business Environment Survey (Slide 4)]**

Here on slide 4, I would like to share with you the results of a series of surveys we conducted on changes in user trends and the awareness of realtor clients of HOME'S toward COVID-19.

90% of realtors replied that their "business operations had been affected." Meanwhile, 56% of users commented that they would continue to consider a move at some time in the future.

As far as the effects on real estate businesses are concerned, 70% of realtors responded that their businesses had been somewhat affected at the time of the March survey. This figure climbed to 91.7% as of April 6 to April 12.

In the second survey, nearly all respondents reported concern regarding the future. The primary effects that were creating anxiety included decreases in consultations, property viewings, inquiries and revenue.

In contrast, only a low 6.7% of users reported that they had cancelled plans to move or build while more than 50% commented that they would proceed as planned or reconsider at a later date.

While not a large number, certain users responded that they would have continued their plans to move if realtors had offered the option to view properties, make inquiries, and complete paperwork online. In fact, some 40% said that they would have used these services if they had known of this option.

With these underlying assumptions in mind, I would now like to comment on our revised earnings forecast for the fiscal year ending September 30, 2020. Please turn to slide 5.

#### **[Revised Earnings Forecast for FY 2020/09 (Slide 5)]**

In light of the wide-ranging data gleaned from these surveys, we have adopted a worst-case scenario for the revisions to our earnings forecast released on April 20, 2020. In specific terms, we now anticipate revenue will come in at 30.7 billion yen, down 31.9% from 45.1 billion yen. In line with this downward revision of revenue, the cost of revenue is expected to decline 1.5 billion yen. While LIFULL maintains a high ratio of selling, general and administrative expenses, our variable expenses are quite extensive. In total, we anticipate SG&A expenses will fall 7.8 billion yen.

Accounting for these downward revisions, EBITDA is now projected to come in at 2.9 billion yen, down 63.4% from 8.1 billion yen.

The revision to revenue by service is approximately 30%.

I direct your attention to slide 6 regarding our response to COVID-19

#### **[Response to COVID-19 (1) (Slide 6)]**

Guided by its spirit of "altruism," LIFULL focuses on "will-centric public interest capitalism" and selfless activities that benefit all stakeholders. With this as our driving force, we have pushed forward a variety of initiatives.

First, we continue to provide users as well as society as a whole with information on our response to COVID-19. “LIFULL HOME’S PRESS,” our online publication, offers information on addressing the virus at home and other social aspects. In order to prevent further spread of the infection, we have also cancelled or postponed company-sponsored events that would normally attract large numbers of participants.

For realtors and other business partners, we are offering our system for online consultations and property viewings free of charge to new clients. We are also allowing clients to temporarily suspend their accounts without charge if they choose to close their business during the pandemic. Complementing these initiatives, LIFULL is also providing a portion of “LIFULL HOME’S Academy” e-Learning courses free of charge. These courses will help realtors who had not used online services before better serve their customers over the Internet right away.

Returning to the user trend survey that I mentioned a moment ago, we undertook this initiative to provide helpful information for realtors to make informed decisions for their businesses going forward.

For our employees, we emphasize working from home wherever possible while restricting overseas travel and business trips in Japan. We are also promoting the use of online tools for meetings and sales teams. In support of these initiatives, we have provided a work-from-home allowance and have taken steps to support employees who have had difficulty in finding places to look after their children while occupied with work.

#### **[Response to COVID-19 (2) (Slide 7)]**

Looking at the Group’s strengths here on slide 7, LIFULL is distinguished by its ability to carry out sustainable activities despite an uncertain future.

Given the online-centric nature of its services, clients and users can access the Group’s services from anywhere in the world.

Moreover, due to the stable demand for food, clothing and housing, the COVID-19 pandemic has served to reaffirm the importance of housing to the people of Japan. For this reason, I suspect that the motivation for people relocating to a new home will remain unchanged.

As far as the IT environment is concerned, we have been automating many of our internal processes for some time. Continued progress in enhancing the Group’s IT environment and cloud data sharing has ensured our smooth transition to telecommuting. As a result, almost all our employees are able to work from home.

Turning to the Group’s cost of revenue and expenses, LIFULL is further distinguished by its low base service costs. Given their variable nature, we are able to control SG&A expenses by reviewing investment plans for the current fiscal year. In this sense, we are distinguished by our systems that allow us to respond quickly to changes in our operating environment.

Turning your attention to the next slide, I will comment on efforts to strengthen our financial position in response to COVID-19.

#### **[Response to COVID-19 (3) (Slide 8)]**

In order to maintain a solid financial base, LIFULL currently maintains an amount of cash and cash equivalents of roughly 8 billion yen.

From a cash on hand perspective, we have taken steps in this instance to borrow 7.1 billion yen bringing the total of available funds to more than 15 billion yen. We are also consulting with several financial institutions to raise the current limits on existing credit lines. Through these means, we are working to further stabilize our financial base in the event

that the effects of COVID-19 should linger for an extended period.

**[(Slide 9)]**

Looking at the summary here on slide 9, the impact of COVID-19 on business operations is projected to be low. We believe that a unique opportunity exists to accelerate the pace of the digital transformation of the real estate industry. In light of these circumstances, we are strengthening our financial position to provide us with the flexibility required to grow in the midst of an uncertain future.

**[FY2020/9 Second Quarter Financial Results (Slide 10)]**

Next, I would like to comment on the LIFULL Group's financial results for the first half of the fiscal year ending September 30, 2020. Please turn to slide 11.

**[Condensed Statement of Income and Loss (IFRS) (Slide 11)]**

In the first half of the current fiscal year, revenue declined 2.1% compared with the corresponding period of the previous fiscal year, to 19,185 million yen. During the period under review, every effort was made to manage SG&A expenses, which contracted 11.2% year on year, to 13,415 million yen. While advertising, operating and other expenses made up the bulk of SG&A expenses, these items largely reflected one-off costs associated with the acquisition and inclusion of Mitula as a subsidiary of LIFULL during the previous fiscal year, as indicated in Note 3 at the bottom of the slide.

Accounting for each of these factors, EBITDA came in at 3,445 million yen, up 50.8% compared with the corresponding period of the previous fiscal year, on an EBITDA margin of 18%.

Looking now at revenue as well as income and loss by segment, I ask that you turn to slide 12.

**[Revenue and Income and Loss by Segment (IFRS) (Slide 12)]**

While continuing to improve the media presence of our HOME'S Services Segment, which includes a partial change in our pricing structure, we are yet to fully reach expected levels. Moreover, revenue in this segment declined 6.3% year on year due to the impact of COVID-19.

In our Overseas Segment, revenue climbed 18.1%. Despite the impact of foreign exchange rates as depicted, this increase largely reflects contributions from Mitula following its acquisition and inclusion in the Company's scope of consolidation as a subsidiary.

In the Others Segment, revenue declined 5.1% owing mainly to the sale and transfer of LHL, an insurance and advertising business, in December 2018.

Looking at profit by segment, the HOME'S Services posted a 50.8% increase on the back of successful efforts to manage advertising expenses. As far as the Overseas Segment is concerned, the LIFULL Group also reported a substantial increase of 64.7%. This largely reflected the absence of one-off costs associated with the acquisition of Mitula in the previous fiscal year.

**[Progress Toward FY2020/9 Forecast (IFRS) (Slide 13)]**

As indicated by the data on this slide, LIFULL is making steady progress with efforts to achieve its revised forecast announced on April 20. With revenue at 62.4% and plans to substantially reduce expenses, EBITDA for the first half

already comes in at 116.1% of the full fiscal year plan. In this sense, we believe that the real estate sector represents a lagging indicator. In contrast, the food and beverage, tourism and entertainment sectors are reeling under the effects of current conditions. We suspect that real estate offices, restaurants and other outlets as well as tenants will be next in line to feel the effects and will closely monitor trends going forward accordingly.

#### **[Condensed Statement of Financial Position and Goodwill (IFRS) (Slide 14)]**

Commenting on LIFULL's financial position and goodwill here on slide 14, total assets as of March 31, 2020, increased 4.6 billion yen compared with the end of the previous fiscal year. From a goodwill perspective, this largely reflects the reclassification of operating leases as right-of-use assets following the adoption of International Financial Reporting Standard 16. While current liabilities declined owing to a reduction of 2.2 billion yen in short-term loans payable, this was mainly due to the repayment of loans and refinancing of short-term to long-term debt.

In addition, LIFULL drew on provisions to undertake employee bonus payments of 425 million yen. This represents the payment of December employee bonuses and reconfiguration of bonuses for the current fiscal year. Here, I would like to point out that the source of LIFULL's bonus payments fluctuate in accordance with trends in business results and profit.

The status of goodwill for each Group company is presented at the bottom of the slide.

Taking a quick look at the Company's cash flow, I draw your attention to slide 15.

#### **[Condensed Statement of Cash Flow (IFRS) (Slide 15)]**

LIFULL has repaid a portion of its short-term loans payable and taken steps to refinance existing debt in connection with the acquisition of Mitula.

As of March 31, 2020, free cash flow increased by 1,230 million yen. The balance of cash and cash equivalents stood at 7,984 million yen.

#### **[HOME'S Services (Slide 16)]**

Moving on, I would like to touch on the status of each segment, looking first at HOME'S Services.

#### **[Key Performance Indicators -Client Network and ARPA- (Slide 17)]**

Looking at the key performance indicators listed here on this slide, we provide details of trends in our client network and average revenue per agent, or ARPA. As you can see, the client network is shrinking following the implementation of a partial change in the pricing structure. Buffeted by delays with plans to boost media presence at the beginning of the period and the impact of COVID-19 from March, ARPA is also showing signs of decline.

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

Looking ahead, we will utilize the benefits of technology and continue to provide support that makes moving house safer and more comfortable.

Commenting on some of the measures that we are promoting to achieve this end, I direct you to slides 19 to 24.

#### **[Boosting Media Presence -More Details and More Complete Information- (Slide 19)]**

Working to boost our media presence, we revised parts of our pricing structure in conjunction with efforts to enrich and

expand the content and volume of information on an individual property basis.

As a result, 75% of listed properties now contain richer information. We are, therefore, in the position to provide a wealth of information as planned.

As seen on social networks, it is now commonplace to use hashtags when looking for just about anything. People can now search for the life they desire using #TagSearch. Looking at some of the hashtag examples listed at the bottom left of the slide, including #SurroundedByClothes and #GoodOnlineLife, people can now search online for a place to live that matches their personal lifestyle.

One of the challenges that we currently face is a lower number of property listings. In a bid to address this challenge, we are working to acquire new clients while responding to existing client needs.

Recognizing the difficulties that lie ahead, we have also factored the temporary downturn attributable to COVID-19 into revised forecasts.

Taking a quick look at efforts to increase brand awareness of LIFULL HOME'S, I ask that you turn to slide 20.

### **[Boosting Media Presence -Increasing Brand Awareness of LIFULL HOME'S- (Slide 20)]**

Complementing efforts to boost our media presence, we are aggressively broadcasting television commercials with a tag search theme during the peak moving season. Thanks to these endeavors, we have seen an 8.5% increase in the number of direct searches compared with the previous year.

### **[Boosting Media Presence -All-Around Home Search Support Services for Users- (Slide 21)]**

As indicated here on slide 21, we also provide support to home-seekers over a variety of channels. In addition to our original online search tools for homes, for example, we provide the housing consultation service, *Sumai no Madoguchi*. In addition to face-to-face consultations, users have access to wide-ranging support through e-mail, video chat, telephone and LINE channels. The number of consultations to *Sumai no Madoguchi* has increased 43% year on year.

### **[Bringing More of the Moving Process Online (Slide 22)]**

LIFULL has continued to facilitate the transition to online services by driving the industry's digital transformation.

As I mentioned at the start of this presentation, we are offering LIFULL HOME'S LIVE free of charge to realtors who sign up for the service for the first time. It includes features for online consultations, property viewings and verbal disclosures which are required for real estate transactions in Japan. Plans are in place to continue this online service to the end of September.

Since removing fees for this service in March, the number of members rose 50% compared to January. Online consultations and property viewings also increased a substantial 6.7 times. Coupled with a 2.5-times upswing in verbal disclosures completed online, more and more people are experiencing the opportunity to search for a home online.

Moving on to the current availability of real estate transactions online, I ask that you turn to slide 23.

### **[Current Availability of Real Estate Transactions Online (Slide 23)]**

Looking at the two broad real estate transaction categories, the entire rental process from search to contract execution can be completed online. Unfortunately, the interpretation of the law dictates that verbal disclosure and signing of sale contracts must be completed in person.

In the future, we will endeavor to ensure that online services are more widely used for rental transactions. Moreover,

we will work to stimulate the market while enhancing the convenience of real estate transactions by offering users the opportunity to complete the property purchase and sale process including the execution of contracts entirely online.

#### **[Online Transactions for Sale Properties -Online Trials for Verbal Disclosures and Other Initiatives- (Slide 24)]**

As indicated by the timeline that runs across the top half of the slide, LIFULL has worked vigorously to promote the legalization of online verbal disclosures, undertaking a variety of initiatives since 2015. Among these initiatives, we have repeatedly carried out tests with the government.

On April 27, 2020, Prime Minister Abe initiated a review of various administrative procedures as well as laws and ordinances to abolish the need for affixing seals on documents, conducting face-to-face meetings and maintaining hard copies.<sup>1</sup>

As one of several initiatives, we had already conducted trials for the transfer of property ownership via blockchain in October 2019. This in effect entails replacing the registration of real estate using blockchain technology. More recently, experiments, once again using blockchain technology, were conducted with respect to the Regional Revitalization Fund in March 2020. Utilizing a security token offering, or STO, format, online blockchain purchase and sale contract trials were completed for the acquisition of rural properties.

#### **[Overseas (Slide 25)]**

Changing tack, I would now like to elaborate on the Group's Overseas Segment. Please turn to slide 26.

#### **[(Slide 26)]**

In the Overseas Segment, LIFULL Group is committed to connecting people to solutions in life's biggest decisions in the global marketplace.

Directing your attention to slides 27 and 28, I would like to touch briefly on LIFULL CONNECT.

#### **[LIFULL CONNECT -Connecting Systems- (Slide 27)]**

Last year, we established LIFULL CONNECT as a new company bringing together the Trovit, Mitula, Nestoria and Nuroa brands. Originally, each of these sites was operated individually, but we have now completed an overarching advertisement management system for clients.

With the release of "Thribee," clients can now manage their campaigns more effectively while accessing new traffic sources across aggregation brands.

This system extends advanced technology from Trovit to each brand with abundant segmentation and bidding options for campaigns. Clients are now better placed to efficiently acquire traffic.

#### **[LIFULL CONNECT -Connecting Expertise- (Slide 28)]**

As indicated here on this slide, the system integration that I mentioned a moment ago, coupled with efforts to share expertise and exchange search engine optimization, or SEO, best practices aimed at attracting clients, has contributed to

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<sup>1</sup> In Japan, it is common to affix personal seals / company chops (*inkan*) on official documents rather than physical or digital signatures. This need to physically stamp paper documents has been preventing some companies from adopting work-from-home measures.

improved traffic. In specific terms, organic traffic saw a positive turnaround in December, January and February year on year, with positive growth up to 10% in February. In March, however, the impact of COVID-19 has brought this favorable trend to a sudden halt.

Turning to LIFULL's growth in the marketplace, I draw your attention to slide 29

#### **[Growth in Marketplaces -Growth in Up-coming Markets- (Slide 29)]**

As a part of efforts to expand our real estate portals overseas, we are focusing mainly on emerging markets such as Southeast Asia and Latin America. Sales revenue for our portals in these regions is increasing at an accelerated pace with revenue in both January and February up compared with the previous year. Despite this positive trend, sales were negatively affected by COVID-19 in March.

#### **[Connecting the Organization -Combining Resources for Added Flexibility- (Slide 30)]**

Through smooth integration, LIFULL CONNECT has gained increased flexibility. However, we have postponed our initial team expansion goals until after COVID-19 subsides.

#### **[(Slide 31)]**

Our individual aggregation and marketplace teams are currently working together in a bid to ensure the flexible allocation of resources.

Moving on, I would like to touch briefly on the repurchase of treasury stock. Please turn to slide 32.

#### **[Repurchase of Treasury Stock (Slide 32)]**

LIFULL resolved to repurchase treasury stock on May 14, 2020, with the aim of enhancing shareholder returns, improving capital efficiency and increasing the company's ability to utilize capital in a flexible manner.

Through discretionary purchases on the market by securities companies, we plan to repurchase a maximum of 3 million common shares, or 2.24% of the company's total issued and outstanding shares, at an aggregate purchase price of 1 billion yen from May 15 to September 30, 2020.

Recognizing that various initiatives, including the repurchase of treasury stock, help in securing higher total shareholder returns, a management objective that is attracting widespread interest, we will continue to push forward measures of this nature.

#### **[(Slide 33)]**

Despite considerable anxiety and confusion due to COVID-19, we will take this opportunity to promote the digital transformation of both the real estate industry and society as a whole. Guided by an unwavering commitment to our philosophy of "making every life full" and our "altruism" credo, we will continue to work together to achieve our goals.

This then concludes this presentation of LIFULL's earnings for the first half of the fiscal year ending September 30, 2020. I would now like to open the floor to any questions.

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## Question and Answer Session

*Over the course of its Q&A session, the Company received 10 questions. The following is a summary of the questions received and answers provided.*

**Q.** In the revised earnings forecast, net profit is projected to come in at around 300 million yen for the full fiscal year ending September 30, 2020. Meanwhile, the Company reported a net profit of approximately 1,500 million yen for the first half of the current fiscal year. Are you therefore anticipating a substantial net loss in the second half? Moreover, are you being overly conservative when revising your earnings forecast?

**A. (Takashi Inoue)** As I mentioned during my earlier explanation, forecast data is based on a worst-case scenario. Even if the worst were to happen, we expect to ultimately generate net profit of roughly 269 million yen by controlling SG&A and other expenses.

Naturally, we see considerable room for an upturn should the state of emergency be lifted, and the economy gradually recover. At this point, however, we are assuming the worst.

**Q.** Can you please remind us of the aims of the pricing structure revisions? Is it correct to assume that enriching the content of property listings will lead to an increase in the number of inquiries and, thereby, contribute to site growth?

Also, can you identify any specific target goals or the current level of progress for the portion of listings with enriched content?

**A. (Takashi Inoue)** Details of revisions to our pricing structure undertaken from October last year are presented on slide 44 of the presentation materials.

Three factors underpin our decision to revise our pricing structure.

First, we are looking to provide users with various options including panorama photos and sales staff comments. Users generally look through a variety of information available on the web and apps and send inquiries to realtors before visiting properties. Thus, providing users with as much information as possible contributes significantly to site growth.

Second, and from an SEO perspective, increases in the volume of information tend to have a positive effect on Google ranking raising the order in which a site appears in search results, inevitably leading to site growth.

Before, inquiry fees for rental properties ranged from 4 to 5.5% of the monthly rent with additional fees for optional services. With the revisions in October in addition to raising this rate to 9.5% of the monthly rent per inquiry, we have removed fees for optional services, effectively including them into the inquiry fees.

From the realtors' perspective, deciding which options to apply to a selection of 500 properties, for example, is both labor-intensive and time-consuming. Eliminating the time and effort involved in this selection process by providing a uniform amount of information for all properties and charging when an inquiry is made is beneficial to both the realtor as well as users who gain access to richer information.

Third, is the advantage for LIFULL. In the past, our sales staff spent a significant amount of time making sales pitches to each realtor individually, extolling the benefits of optional services such as panorama photos, sales staff comments and our ability to enrich other services. But by eliminating charges for these services, our sales staff is also relieved of the time and effort required to put forward proposals. In this regard, we see the revision of our pricing structure as a WIN-

WIN-WIN scenario.

The number of properties with optional content is steadily increasing and leading to results.

While unable to disclose details of our target line, efforts to enrich content are progressing at a level greater than anticipated.

*Three questions were raised regarding the Group's Overseas Segment, with the first focusing on LIFULL CONNECT traffic.*

**Q.** Can you provide us with details of monthly traffic in April and May for LIFULL CONNECT?

**A. (Takashi Inoue)** While refraining from disclosing details of monthly traffic, we can confirm that the Group provides services covering the four fields (real estate, used cars, jobs and fashion) in 63 countries through LIFULL CONNECT. Given the uneven nature depending on the country and field, it is difficult to provide a general picture of traffic. As a guide, we can refer to Google trends, which indicate a sudden drop of between 40 and 50% in search activity in March. After bottoming out at around 50% in April and May, I sense that trends are now exhibiting a modest recovery. As far as LIFULL CONNECT traffic is concerned, our decline was not as bad as Google trends.

*The second question centered on the impact of COVID-19.*

**Q.** Europe and the United States appear to have been more seriously affected by COVID-19 than Japan. Have you noticed any changes in the attitudes of overseas users toward moving into a new home or in business demand before and after the onset of COVID-19?

**A. (Takashi Inoue)** At this stage, we have yet to grasp the extent of any change in user attitudes and business demand for each country. But, as you rightly point out, conditions are much more serious overseas. I believe the answer to this question applies equally to another inquiry received. As such, I would like to answer later.

*The third question touched on our outlook for overseas business conditions and growth rate over the medium to long term.*

**Q.** What are your thoughts on overseas business conditions and growth rates over the medium to long term?

**A. (Takashi Inoue)** While taking into account the effects of COVID-19 based on a worst-case scenario, we do believe that current circumstances present an opportunity for growth over the long term. From a global perspective, and when relocating to a new home, the trend toward online transactions and paperwork is becoming more widespread. Over time, we anticipate that online channels will supersede face-to-face transactions. Despite a belief that this change in the business environment will serve as a tailwind, I will refrain from commenting on our outlook for growth rates.

*Complementing the second question on the Group's Overseas Segment, an inquiry was made regarding LIFULL's strategies going forward.*

**Q.** Will there be a structural change in the way general consumers search for properties and sales activities targeting members in the post COVID-19 era? What strategies will the LIFULL Group adopt in its efforts to capitalize on the opportunities that this structural change generates, and what steps will be taken to expand market share?

**A. (Takashi Inoue)** On the domestic front, we are looking at two broad strategies.

As I mentioned at the start of the presentation regarding the search for real estate by general consumers, our survey has indicated that some 40% of respondents would use online services if available.

Some consumers have abandoned their efforts unaware that these services exist. It is vital therefore that we ramp up our efforts and convey to consumers the option of completing the process of locating, viewing, completing paperwork, and moving into a new rental home entirely online.

While not yet a major trend, another change exhibited by users is the substantial upswing in telecommuting across a variety of industries. A growing number of people are now placing increased value on moving to the suburbs and residing in a more spacious environment where they can work from home, as opposed to a more confined and expensive location in the city.

As far as commercial offices are concerned, business leaders are reevaluating the merits of maintaining costly office space in the city against the alternatives of downsizing and decentralizing. While the overwhelming majority still want to maintain the status quo, if we include those who are considering downsizing or relocating, or taking a wait-and-see approach, some 20 to 30% of business leaders are exhibiting a change in mindset.

In regard to realtors, our members have generally requested that our sales representatives visit them for face-to-face meetings - as is typical in the real estate industry. Due to the effects of COVID-19, though, we have informed our members that all sales meetings will be conducted online where possible.

With the upswing in telecommuting work, and clients agreeing to a new marketing style, I believe that a growing number will appreciate the benefits that online services provide, not least of which are convenience and speed. Looking ahead, inside sales approaches that utilize online tools can be expected to surge by leaps and bounds as travel to distant locations for face-to-face meetings declines.

Our strategy then is to fully address all of the aforementioned. In addition to accelerating efforts aimed at completing the entire process online, we are taking all preparatory steps to increase awareness toward online transactions not only for the rental market, but also for sale properties as well.

As and when demand increases, we are also putting in place the structure and systems required to promote and address people's need to move into a new home in a rural or suburban area.

Having already begun conducting sales meetings with our clients online, we will capitalize on the opportunities before us and work to address every need.

*The next question was raised with respect to the risk of goodwill impairment on the Group's overseas operations.*

**Q.** What are your thoughts on the risk of goodwill impairment in connection with the Group's Overseas Segment?

**A. (Takashi Inoue)** Acutely aware of the inherent risk, LIFULL constantly tests for impairment. I would ask our CFO Mr. Fukuzawa to reply on the Company's behalf.

**(Hidekazu Fukuzawa)** As far as our approach to the impairment of goodwill is concerned, both revenue and profit continue to expand over the short term. As a result, there are no indications of an impairment of goodwill.

While dependent on how this outlook will change in the future, our revisions to earnings forecasts reflect figures up to the end of September. Despite the possibility of goodwill impairment should business results deteriorate in the future, we have not included this possibility in our underlying assumptions at this time.

In the context of the Group's Overseas Segment, we view our earnings forecast in a positive light. Notwithstanding this favorable assessment, we will determine whether there are any signs of goodwill impairment on a quarterly basis after taking into consideration business results trends.

*The next question looked at the number of visits compared to the number of listings.*

**Q.** With a downturn in the number of visits to real estate agents, can we still assume that demand for online marketing for real estate is relatively strong compared with the travel, job and other sectors?

**A. (Takashi Inoue)** In a word, demand is indeed strong. With the emphasis on refraining from face-to-face meetings, direct visits to agencies are on the decline. Harking back to our survey, however, less than 7% of respondents have abandoned their search for a new home. Nearly 60% continue to consider a move, intend to relocate as the lease agreement on their existing home expires or will pursue plans after a slight delay. The remaining 30 or so percent are adopting a wait-and-see approach due to the uncertainty of current conditions.

In Japan, we are not seeing a sudden halt to users' activities, and listings remain strong.

*On a related matter, a question was raised on inquiries regarding real estate listing information.*

**Q.** While moving schedules have been pushed back due to business and school closures, will the number of inquiries for listed real estate information increase in March, April and May should demand for relocation remain unchanged?

**A. (Takashi Inoue)** It is difficult to pin down just how long the effects of COVID-19 will last. But as you so rightly point out, we anticipate continued demand for housing. This includes people relocating, looking for a home or moving to the suburbs due to a shift in values as a result of COVID-19. Having said this, I don't think we can accurately predict when this will happen.

Looking at certain realtor trends, some clients have suspended listings in Japan with the impact greater overseas. In contrast, though, other clients have increased their listings. Unable to meet face-to-face, this reflects their desire to create lists of leads to vigorously engage in sales activities as the effects of COVID-19 subside.

*The final question concerned the Company's advertising budget.*

**Q.** Can you provide us with details of your advertising budget in Japan for the current fiscal year? To what extent do you feel you can reduce expenses?

**A. (Takashi Inoue)** Directing your attention to our revised earnings forecast on slide 5 of the presentation materials, you will see that our original plan was for advertising expenses of 13.5 billion yen on consolidated revenue of 45 billion yen. This has been revised downward by roughly 3.8 billion yen, to 9.7 billion yen on consolidated revenue of 30 billion yen.

While we do not normally disclose a breakdown between domestic and overseas operations, just under 80% is domestic in overall terms. In addition to the real estate portal LIFULL HOME'S, this also includes nursing care, moving, storage and other subsidiaries.

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

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