# KE Holdings Inc.
# Second Quarter 2023
# Earnings Conference Call Script

Thursday,31 August 2023

**KE Holdings Inc.**

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**Operator:** Hello ladies and gentlemen. Thank you for standing by for KE Holdings Inc.'s second quarter 2023 earnings conference call. At this time, all participants are in listen-only mode. Today's conference call is being recorded. I will now turn the call over to your host, Ms. Siting Li, IR Director of the Company. Please go ahead, Siting.

**Li, Siting:**

Good evening and good morning, everyone! Welcome to KE Holdings Inc. or Beike's second quarter 2023 earnings conference call. The Company's financial and operating results were published in the press release earlier today and are posted on the Company's IR website: investors.ke.com .

On today's call, we have Mr. Stanley Peng, our co-founder, chairman and chief executive officer, and Mr. Tao Xu, our executive director and chief financial officer. Mr. Peng will provide an overview of our strategies and business developments, and Mr. Xu will provide additional details on the company's financial results.

Before we continue, I refer you to our safe harbor statement in our earnings press release, which applies to this call as we will make forward-looking statements.

Please also note that Beike's earnings press release and this conference call include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. Please refer to the Company's press release which contains a reconciliation of the unaudited non-GAAP measures to comparable GAAP measures. Lastly, unless otherwise stated, all figures mentioned during this conference call are in RMB.

With that, I will now turn the call over to our Chairman and CEO, Mr. Stanley Peng. Please go ahead, Stanley.

**Peng, Stanley:**

Thank you, Siting. Hello everyone. Thank you for joining Beike's second quarter 2023 Earnings Conference Call.

In the first half of this year, our performance improved significantly compared with the same period last year, with 43% year-on-year growth of our total GTV and 51% year-on-year growth of our total revenue. Although the housing market experienced a surge and a subsequent adjustment on a quarterly basis, compared to the same period last year, China's real estate and residential markets as a whole still demonstrated recovery. In addition, during the market correction we successfully retained service providers, effectively reduced costs and raised our efficiencies, all while rapidly expanding our emerging businesses. This combination of initiatives has enabled us to capitalize more effectively on the market's rebound and outperform the market.

In the first half of this year, for our primary business of home transaction services, we continued to expand our ACN, optimize its ecosystem and refine platform operations while exploring breakthroughs in Lianjia. These all propelled our organic growth.

The capabilities of our service providers have also expanded. Our home renovation and furnishing services have gained rapid growth momentum. We reconstructed the industry's competitive mechanisms to help the good get better and established capabilities in customer acquisition, conversion, project delivery, data, products, supply chain and others. This has led to breakthroughs in our service quality and scale, as well as the economic performance of our home renovation and furnishing services business, with total contract sales in the first half of the year reaching 6 billion RMB and total revenue reaching 4 billion RMB. Going forward, we expect to replicate our success in leading cities to more areas and gradually establish a virtuous cycle across the board. Our rental property management services business has also achieved meaningful development in the second quarter. The scale of our carefree rent improved significantly to reach 120,000 units under management, and the occupancy rate reached 94.5%.

Today's housing industry has reached an inflection point in the course of its development. The traditional golden age of real estate was accompanied by 30 years of reform and opening up, along with rapid urbanization and a substantial demographic dividend. As the per capita living area increased, houses have been in short supply, leading to a one-way increase in property prices. Buying a house became the core goal of many people in China. In the process, real estate has gradually strayed away from its initial function to provide residential homes. Instead, it has taken on the dual roles of an investment asset and a speculative tool.

However, all that deviate from their intended course will return to their original track, and today, the industry is reverting to its core value proposition. The essential function of real estate is once again "serving people" with "quality living." The true golden age of focusing on "people" and "living" has just begun. Amid this shift, customers' rising demand for better living is far from being fulfilled. In other words, there is a central challenge in today's housing market and the foreseeable future, born of the disparity between customer demand for more joyful living, and the inadequate supply of quality services and products. This contradiction motivates us to climb our next mountain and introduces substantial growth opportunities in our future.

Our solution to resolve the supply and demand imbalances includes two essential components: providing joyful living for customers, in Chinese we call it 安居， and facilitating fulfilling careers for service providers, which we call 乐业 in Chinese. This is also a continuation of our mission of "admirable service, joyful living."

Specifically, we have upgraded our corporate strategy to "One Body, Three Wings," accompanied by organizational realignments. This evolution represents the strategic expansion and deepening of our "One Body, Two Wings" model. With a focus on our customers and frontline value creation, we have established four business lines – Housing Transaction Services, Home Renovation and Furnishing Services, Home Rental Services, and our newest addition, Beihaojia 贝好家, where we are engaging in new home supply-side upgrades. Each of these tailored businesses caters to customers' residential aspirations and service providers' diverse career aspirations.

In the process of providing joyful living 安居 for customers, superior goods and services will see great benefits, whether they relate to the property itself, or the provision of a wide range of residential necessities, such as renting, purchasing, trusteeship, home renovation and furnishings, and so on. Next, I will go into more detail about how we define good products and services for joyful living, within the context of our "One Body, Three Wings" strategy.

Regarding our one-body home transaction services business, its value will be more obvious after the market normalizes, enabling more sustainable and healthier development.

When identifying the "right" property becomes more challenging and emotional for consumers, service providers must establish trust, emphasizing the importance of building emotional connections around these relationships. Fostering this type of customer relationship will allow service providers the opportunity to provide more value-added services and extended value for communities around "joyful living." It will also enable consumers to redefine how service providers are viewed and unleash the huge potential of our ACN.

We also have significant room to further enhance customers’ experience with our home transaction services. On one side, the bargaining power of homebuyers continues to rise. On the other side, homeowners are expressing intense demand for quick property sales and exchange. This will inevitably reshape the service dynamics of the brokerage industry, and direct the way to better consumer experiences in the next phase of industry’s evolution. Meanwhile, we see room for further value creation in deeper integration with communities and in the evolution of consumers' aesthetics. All these opportunities are allowing our core business to become a key force in "joyful living."

Next, we come to our first wing business, Home Renovation and Furnishings. At a time when the housing experience is becoming increasingly important, consumers have high expectations for housing improvements. As such, home renovation and furnishings are often top-of-mind when consumers require a better home experience. But the pain points for this industry are very clear. To address these pain points, we are moving away from an "assembly" model, and toward a product-centric philosophy that focused on people. Customers should feel at ease when they undertake renovations, and we can help them through this process. This means providing one-stop services, which removes many of the complications felt by customers. We should also be able to help consumers pursue better living. For example, in addition to construction and installation, our refined capabilities facilitates "smart" homes, maximizing the efficiency of a home's living area, and offering flow designs that complement customers' preferences. To achieve this, we will continually push industry transformation through digitalization and complex working process reconstruction to enhance customer experiences and increase service providers' efficiency.

Our second wing is Beike Rental Services. Today, renting is gradually becoming a way of life, with "houses are for living in, not for speculation" reshaping the market dynamics that previously favored property sales over rentals. The resonance between growing rental supply and demand presents a historic opportunity for us to expand our Rental Services. On the supply side, a substantial portion of Chinese assets is tied to real estate, making preserving and reasonably appreciating property values crucial to families. More homeowners want their properties to be better cared for, and rental property management services can be streamlined and more convenient. On the demand side, for tenants, we aspire to comprehensively elevate the rental experience through customer-centric products and services, transforming the concept of renting a house from a transitional compromise to an appealing option. In turn, this can foster a balanced approach between renting and purchasing.

We are pleased that our "Carefree Rent" has made initial strides in the rental space, and we will keep looking for ways to use our technological, platform and operational advantages to create value for the marketplace and society.

Moving to our newly added third wing: Beihaojia 贝好家. The traditional model has been driven by first-home buying demand, increased leverage, and the attempt to rapidly acquire a house and enjoy asset appreciation. These driving forces are becoming outdated in a market with stabilizing housing prices. A new consumer trend is taking shape that prioritizes quality and experience. As a result, there is an increasingly evident demand for high-quality housing “products.” Going forward, market differentiation might come from the difference in the quality of houses being built. This translates to a call for supply-side improvements in the new home market. It is our responsibility and opportunity to heed this call. We will establish capabilities and explore innovative offerings in order to define quality houses based on customer demands, build good products and services, and enable value chain partners to promote the housing industry’s supply-side upgrades.

Moving to how we can “let service providers have a fulfilling career,” 乐业. The residential service sector operates and revolves around agents and stores. Service providers are our core assets; investing in their growth and guiding their self-improvement results in a steady increase in our corporate assets.

As real estate resumes its fundamental purpose of providing a space to live, stores and agents will also shift from scale expansion to optimizing efficiency. In this regard, several trends come into view:

Firstly, building sustained relationships based on professionalism and integrity is increasingly crucial for real estate agents. As properties return to the most fundamental residential function, the dynamic between customers and agents changes from "information-based" to "trust-based." A knowledgeable and reliable agent becomes more valuable when market transactions slow down and it becomes harder to identify the "right" property. As such, agents' roles and skills must evolve from transaction facilitators to long-lasting community housing service experts. We see many areas of this dynamic where we can help. For example, the operational efficiency of mid-level agents has the potential to be significantly improved. Additionally, there is great room for development in terms of community engagement. Our goal is to support our agents to become the bridges that connect communities with better living conditions in the future.

Second, the trend toward a large store model is unquestionable. As more commissions might be directed to agents who provide value to customers directly, store owner profitability might decrease. As such, bigger stores with higher revenue potential are crucial to improving efficiency, and realizing greater returns for both store owners and agents. To this end, we have persistently pursued a large-store strategy since 2022. By the end of June this year, we had effectively restructured over 6,500 stores. Stores on our platform achieved an average efficiency improvement of 80% year-over-year in the first half of this year.

Thirdly, the large-store model fosters a new relationship between store owners and agents that goes beyond a mere employer-employee relationship, evolving into a partnership or collaboration. Store owners must treat agents as both employees under management, and clients who require support, empowerment and service. On our end, we need to stimulate creative thinking among store owners in order to benefit from the new trend.

With these changes, we hope not only to make timely adjustments but also to become a trendsetter. We have started by establishing a tiered ranking infrastructure for stores and agents, as well as standards for both stores and individuals. These are the first steps to enhance the management and operational capabilities of the platform and store owners, helping to cultivate a robust agent talent pool. Our continuous efforts encompass seminars on values, rules and protocol-based management, training and empowerment programs, certification systems, and establishing a more rational payment distribution structure. Through these initiatives, we can enhance the efficiency of store owners committed to taking good care of service providers, and facilitate service providers' transformation from taking a job to entering a profession and engaging in fulfilling careers.

To close, I'm both energized and awed by the tremendous possibilities and growing pains ahead, as the housing industry transforms from high growth to a focus on quality and experience. We will continue to solidify our core competencies. At the same time, we will have the courage to reform and break new ground, altogether creating new values, while undertaking historic missions and social responsibilities. We are in the foothills of the next mountain on our quest, and we look forward to the exciting roadmap ahead.

Thank you, everyone. I want to invite our CFO, Mr. Xu Tao, to present the financial highlights for the second quarter.

**Xu, Tao:**

Thank you, Stanley, and thank you everyone for joining us. Before going into details of our second quarter financial results, I would like to provide a brief update on the housing market over the first half of this year.

The market trends for the first half of the year are in line with the projections we made at the beginning of this year. Overall transaction volume gradually normalized following the pulse-like rebound fueled by the pent-up demand. Since the second quarter, the lingering effects of the pandemic have become more pronounced, with the pressure on household income and employment expectations, sluggish export and declining FDI posing challenges to the economic recovery. In the real estate market, divergent price expectations between buyers and sellers, along with policy loosening speculations, have intensified the market's wait-and-see attitude, leading to a deceleration in transaction cycles. Meanwhile in the higher-tier cities, policy optimizations targeting the unleash of home upgrade demand have yet to materialize, maintaining obstacles to the release of reasonable demand. Under the various factors, the market underwent a noticeable quarter-over-quarter adjustment in transaction volume in Q2. Meanwhile, the new home market continues to grapple with debt risks of developers. Both supply and demand have remained weak due to constraints on effective new home supply and ongoing consumer concerns about project deliveries following a series of defaults by some top property developers.

However, we also noticed that the leading indicators of housing demand have been relatively resilient. For instance, the number of home tours made in Q2 remained above the historical average in recent years, which is indicative of the continued underlying strength in the overall demand. In general, the overall market saw notable year-over-year growth in the first half of the year. We have always maintained a neutral market view, and our persistence is bearing fruit. We have continually enhanced support for service providers and store owners, implemented effective cost reductions and efficiency improvements, and fine-tuned our operations. These measures, coupled with the rapid growth of our emerging businesses, have resulted in our outstanding performance and have better positioned us to seize opportunities in the market recovery amidst fluctuations.

In the first half of the year, our GTV reached RMB1.75 trillion, up 43% year-over-year. During the second quarter, our GTV amounted to RMB780.6 billion, reflecting a 22.1% year-over-year increase. Furthermore, our net revenues in Q2 increased by a faster rate at 41.4% year-over-year, to reach RMB19.5 billion, beating both the high-end of our guidance and street consensus. Specifically, net revenues from new home sales services have expanded quarter-over-quarter for the past five quarters. Our businesses apart from housing transaction services, which include home renovation and furnishings, and rental services, achieved significant on-year growth, contributing to a revenue share of over 20% for the first time. In Q2, our gross margin stood at 27.4% and GAAP net income reached RMB1,300 million. On a non-GAAP basis, our net income reached RMB2,364 million, compared with a net loss of RMB619 million for the same period last year.

By business segments, in Q2, existing home transactions GTV increased by 16% year-over-year, as the market recovered to a certain extent from the low base last year and through our continued enhancements in operational efficiency, which further supported our performance. However, on a quarter-over-quarter basis, the existing home market experienced a considerable adjustment in Q2 following the intensive release of pent-up demand, resulting in a 31.3% sequential decrease in our existing home GTV. In particular, due to more pronounced market sentiment adjustment in first-tier cities, Lianjia's sequential adjustment in existing home GTV was notably higher than that of connected brands. With a relatively stable monetization rate, in Q2, net revenue from the existing home transaction services amounted to RMB6.4 billion, up 15.9% year-over-year and down 30.1% quarter-over-quarter.

While the overall new home market remained subdued, the willingness of developers to adopt external sales channels continues to increase, offering us a resilient target market. Building upon this foundation, our new home business maintained robust operational momentum and a commendable sell-through rate, bolstered by our ongoing refined operations, ecosystem optimization, and our Commission in Advance model, which is repaid by developers. In Q2, new home transactions GTV on our platform increased by 32.4% year-over-year, and 6.2% quarter-over-quarter. Net revenues from new homes rose by 30.4% year-over-year and 3.5% quarter-over-quarter, totaling RMB8.7 billion. Of which, commissions from SOE developers constituted 46.8%, and projects with Commission in Advance contributed 53% of total commissions collected, remaining at a high level.

Our home renovation and furnishings business has taken off this year with breakthroughs in both scale and efficiency, reaping the benefits of steadfast investments in our capabilities over the past few years, as well as our successful integration with Shengdu. Starting from February, monthly contracted sales have consistently exceeded RMB1 billion for five consecutive months, and total contracted sales for the first half of this year reached over RMB 6 billon. In Q2, total contracted sales stood at RMB3.4 billion, reflecting a year-over-year increase of 106% on pro forma basis and a sequential increase of 28.2%. Our pace of revenue recognition accelerated in Q2, as seasonal factors from the Spring Festival subsided and our delivery capabilities improved. As such, we achieved net revenues of RMB2.6 billion, up 157.5% year-over-year on pro forma basis and 86.4% quarter-over-quarter. Net revenues for the first six months of this year exceeded RMB4 billion. In our leading cities such as Beijing, we have established positive operational cycles. In Beijing, our monthly contracted sales surpassed RMB200 million in May and June, with city-level net margin exceeding the industry ceiling. The verified business model in Beijing provides the foundation for our rapid replication in additional cities. We will roll out this proven model in the new cities we enter, which will gradually make higher contributions to our total revenues as we expand.

In Q2, our net revenues from emerging and other services increased by 213.9% year-over-year and 36% quarter-over-quarter to reach RMB1.7 billion, primarily driven by the growth of our rental property management services and financial services.

In terms of profitability, contribution margin for existing home transaction services expanded by 8.9 ppts year-over-year to 45.6% in Q2, driven by the existing home revenue growth, a decline in fixed labor costs, and a relatively stable variable cost ratio from the previous year. On a sequential basis, despite a 30% quarter-over-quarter reduction in revenue scale, contribution margin for existing home transaction services only decreased by 3.4 ppts from Q1, remaining at over 45%. This signifies the sustained and robust profitability in our core business.

Contribution margin for new home transaction services rose by 3.6 ppts year-over-year to reach 27.2%, resulted from revenue expansion and a relatively streamlined personnel structure, marking the highest point since our listing for five consecutive quarters.

Our gross profit in Q2 registered 97.3% year-over-year growth to RMB5.3 billion, as we benefitted from improved contribution margins of our major business segments, as well as a decrease in store and other costs as a proportion of revenue. Our gross margin stood at 27.4%, compared to 19.7% in the same period last year. The slight 3.9 ppts decline from Q1's high was mainly due to changes in our revenue mix with the adjustment of existing home revenues.

In Q2, our GAAP operating expenses amounted to RMB4.3 billion. Among which, sales and marketing expenses were RMB1,649 million, increasing by 47.1% year-over-year and 27.5% quarter-over-quarter due to the uptick in marketing expense for our home renovation and furnishing services and our home transaction business. General and administrative expenses were RMB2,105 million, down slightly from RMB2,250 million in the same period last year, while increasing by 29.9% from Q1, primarily due to the lack of bad debt provision written-backs in Q2, the increase in share-based compensation, and growth of emerging businesses. While we have adopted a rigorous provision method over the past two years to fully provide for all foreseeable risks, we have encountered unforeseen instances of continued debt crisis faced by top property developers, with a growing number of developers filing for liquidation or bankruptcy. We have further raised the expected loss ratio for developers, with some being elevated to 100%. Especially, in Q2 we set aside approximately RMB64 million yuan as bad debt provision for Country Garden, with a provision ratio exceeding 85%. We hope the industry can emerge quickly from this predicament and achieve stable and healthy development. Research and development expenses decreased by 39% year-over-year to RMB475 million, primarily due to a headcount reduction leading to lower personnel costs and share-based compensation. Sequentially, R&D expenses remained relatively stable, with a slight increase of 4% from Q1. Our Non-GAAP operating expenses for Q2 amounted to RMB3.3 billion, down 4.6% year-over-year.

In Q2, income from operations amounted to RMB1,081 million, a significant improvement from the loss from operations of RMB1,518 million in the same period of last year. Our operating margin increased to 5.5% in Q2 from -11.0% in the same period of 2022, thanks to our gross margin expansion and greater operating leverage.

Our non-GAAP income from operations for Q2 reached RMB2,148 million, compared with a non-GAAP loss from operations of RMB690 million in the same period last year. Our non-GAAP operating margin was 11.0%, compared with -5.0% in the same period of 2022.

Q2 net income was RMB1,300 million, compared with a net loss of RMB1,866 million in the same quarter of the prior year. Non-GAAP net income for Q2 reached RMB2,364 million, versus a net loss of RMB619 million in the same period of 2022.

Our balance sheet remains robust. As of June 30, 2023, the combined balance of cash, cash equivalents, restricted cash, and short-term investments amounted to RMB60.8 billion (US$8.4 billion). We spent approximately US$346 million (RMB2.51 billion) in share repurchase in Q2. On top of that, our total cash liquidity which excludes customer deposits payable amounted to RMB79.4 billion, up 680 million from Q1.

Our net operating cash outflow was RMB196 million in Q2. Excluding customer deposits payable, the operating cash inflow was RMB1,754 million.

We remain staunch in our commitment to rigorous receivables management. In Q2, our cash collection from the new home business increased to RMB10.06 billion, surpassing new home revenue for the eighth consecutive quarter. New home DSO in Q2 was 52 days, marking a new record low since we went public.

Turning to our guidance for the third quarter of 2023, we expect total net revenues to be between RMB15.5 billion and RMB16.0 billion in Q3, representing a decrease of approximately 9.1% to 11.9% from the same period in 2022. This forecast considers the potential impact of the real estate related policies and the macro economy recovery status. It constitutes current and preliminary view on our business situation and market condition, which are subject to change.

We have always placed great emphasis on shareholder returns. Leveraging our robust cash reserves and prudent financial management, we are enhancing shareholder value through proactive shareholder return initiatives. We have maintained strong share repurchase efforts, and from the program’s initiation in September 2022, we have concluded a year of buyback. Over this period, we cumulatively repurchased shares worth around US$605 million, representing approximately 57% of our free cash flow during

2022. The ADSs bought backed totaled nearly 41 million, accounting for approximately 3.24% of Company's total shares prior to the launch of our 2022 repurchase program. These shares have already been fully cancelled. This year alone, we have spent close to US$414 million in buybacks, and the repurchased shares accounted for 2.12% of our total shares.

Moreover, today, Company's board approved an extension of the existing share repurchase program until August 31, 2024, with the repurchase authorization being increased from US$1 billion to US$2 billion.

At the same time, we are pleased to announce that the board has approved a special cash dividend of US$0.057 per ordinary share, or US$0.171 per ADS, to holders of ordinary shares and holders of ADSs of record as of September 15, 2023, respectively. The aggregate amount of the special dividend to be paid will be approximately US$200 million, which will be funded by surplus cash on the Company's balance sheet. We hope to share the benefits of development with like-minded investors who accompanied the company in the growth journey and transcended cycles. While distributing dividends, we are also continuously expanding into new businesses, seeking organic and sustainable growth.

At this stage, the primary contradiction in our society is the contradiction between unbalanced and inadequate development and the people's ever-growing needs for a better life. The Politburo meeting held in late July made an important assessment of the new situation where the supply-demand dynamics of the real estate market have undergone major changes. The real estate market is going through a rapid transformation from a seller's market to a supply-demand balance. Against this backdrop, the home upgrade-oriented demand is gaining prominence. This trend is accompanied by the elimination of excess capacity, consumers' strong demand for "better living", and the establishment of long-term mechanisms within the real estate market. All of these will all contribute to a more stable environment and sustained impetus for industry development.

Our financial strategy entails maintaining a robust balance sheet and healthy cash flow while practicing stringent risk management. We will persistently enhance efficient capital allocation, concentrate on critical growth drivers, bolster frontline endeavors, support continuous efficiency gains for our agents and stores, expand our ACN within a healthy platform ecosystem, increase income for service providers, and solidify the fundamental capability of emerging businesses including home renovation. Amidst the recovery of the real estate market and ongoing breakthroughs in our new businesses, we will make reasonable investments in sales and marketing to further boost our businesses' momentum. Furthermore, we will prudently explore transformations and upgrades in other areas related to "better living". On the cost side, we will have a clear total cost level, manage the efficiency of investments, and ensure that "money that should be spent must be spent, and money that shouldn't be spent will not be spent. The money spent should demonstrate clear efficiency and effectiveness," thus supporting business operations effectively.

We believe that in the vast market of residential services, we will gain huge potential and certainty of growth. We will always uphold the neutral market perspective, while firmly believing that the Chinese economy will continue to adjust, consolidate, enrich, and enhance along a path of high-quality growth. We still hold the strong belief that "The next China is China".

This concludes our prepared remarks. Now we are open for questions, operator, please go ahead.

**Operator**: For the benefit of all participants on today's call, please limit yourself to One question, and if you have additional questions, you can reenter the queue. If you are going to ask the question in Chinese, please follow with English translation.

**Alex Yao from JPM :** Can you talk about the market volatility in the first half? And whether the supply and demand structure has changed of the current home transaction market?

How do you think the market outlook after the recent positive policy statements? Thank you.

**Xu, Tao:**

Thank you, Alex. Overall, we believe the existing home market will improve this year from the extreme conditions in 2022 at the bottom of the cycle. The recovery trend will strengthen confidence in the market. Both the supply and the demand sides have become more responsive to policy relaxations. The market's recovery and supportive policies are expected to ease the lingering effect of the three-year pandemic. We believe that China's economic cycle has strong vitality, and we believe the property market will usher in a new period of recovery and growth.

The new home market faces the risk of concluding the year with a year-over-year decline, considering the current macroeconomic pressure, unemployment rate and resident expectations that still require further improvement, and the impact of the continued debt crisis that leading private developers face. However, the willingness of developers to adopt external sales channels continues to increase. Rather than fixate on the overall market scale, we place greater emphasis on the sustainable, healthy and stable growth of the brokerage channel sales market. This is our target addressable market, and where we see more opportunities to benefit.

In the first half of the year, we experienced a market surge and a subsequent fall. The rapid increase in the first quarter elevated market expectations. Since April, the market has retreated notably, with existing home sales on our platform continued to decline on our platform from April to June. New home sales also contracted on a sequential decline and showed a year-over-year decline in June of over 20%. The reasons for these decreases are three-fold. First, the market is normalizing. Second, the market's previous expectations were too high. During the normalization, the gap between reality and expectations further dampened market confidence. Third, the macro economy has been under pressure since the second quarter of this year. This has shown in the employment rates and import and export data, which has also caused fluctuations in residents' confidence. The three-year pandemic has left long-lasting impacts on the economy, and it will take time and effort to for these prolonged effects to be fully eradicated.

As for market characteristics in the first half of the year, first, market trends have severely diverged. We are seeing this even in different districts within a single city. In the recent five years, for example, the core areas of Beijing and Shanghai as example, has performed very differently than that in the outer suburbs, with the housing price index of the former to reach 40-50 percentage points higher than the later.

Second, in terms of the supply and demand structure, the home upgrade demand is still the most essential force in the market. On the supply side, the proportion of newly listed homes with age under 5 years and those over 20 years has increased most significantly. The increasing supply of high-quality and relatively new homes in the existing home market provides more choices for buyers. From the demand perspective, in the first half of the year, the proportion of transactions involving the demographic and housing unit types of the home upgrade demand have further increased. The proportion of customers aged 35-44 has increased by 2 percentage points to 35% compared with 2022, and the proportion of units above 90 square meters has increased by 3 percentage points to 37% compared with 2022. Whether from the supply or demand perspective, the houses in key city areas and homes for upgrade-oriented demand are still the primary market focus.

Third, existing homes are playing a bigger role in satisfying home upgrade demand, supporting the overall existing home demand to be stable. Whereas in the new home market, it still takes time to digest the accumulated risks related to developers, and the effective supply in core areas is limited. We are in a market with a strong preference for existing homes, and the demand for new homes continues to be diverted to the existing home market. The comparative advantage of existing homes remains significant and existing home demand is also relatively stable. In June, our monthly existing home tours index fell only 1.7% from April, and even recorded a rebound in July. According to our research, in the second quarter, the number of residents with a “home purchasing plan” even rose by 1% compared to Q1. The steady demand-side data supports our view that the market adjustments in the second quarter are short-term, normal corrections, not an inflection point indicating a long-term trend.

For the second half of this year and going forward, we first want to emphasize that, our market is not suitable for linear extrapolation based on a single-quarter's fluctuation. It has inherent cycles and room for structural and directional growth. In the future, we believe that active policies will bring better support for market recovery, and based on an objective understanding of market dynamics and a neutral market perspective, we also believe that the market will recover.

The Politburo meeting on July 24 emphasized the need to effectively prevent and resolve risks in key areas. Specifically, while adapting to the significant changes in the supply-demand dynamics of China's real estate market, it is necessary to adjust and optimize real estate policies in a timely manner, make good use of the policy toolbox for city-specific measures to better meet the rigid and improvement-oriented housing needs, promoting the stable and healthy development of the real estate market.

With the implementation of relevant supportive policies, we expect that the existing home market to bottom in June and recover in the second half, while new home market will find the bottom among fluctuations in the third quarter. Since the Politburo meeting, we have observed that in Beijing and Shanghai, the number of home tours, new customer demand and transaction volume are the first to pick up. The potential rollout of improvement demand-related policies is expected to activate more than 50% of the population in the demand structure, further amplifying and activating the home replacement chain.

At the same time, real estate is not only steel and concrete, but also a carrier of the economy, happy lives and inspiring dreams. In the long run, real estate assets, services and efficiency need to be comprehensively improved to better align with customer expectations for better living. Recently, government authorities issued " Measures on Promoting Home Furnishing Consumption." Focusing on smart homes, one-stop home furnishing solutions, old home renovation, etc., the recommendation put forward measures to comprehensively promote home furnishing consumption, fully release the potential of the housing industry value chain and facilitate the overall improvement of people's quality of life. We believe that in the future, the housing industry will become more mature and comprehensive, entering a new stage of growth founded on higher quality. Thank you.

**Timothy Zhao from GS**: Could management share how we should look at the long-term growth outlook for its core business, including new home and secondary home transactions? As well as what the room for long-term efficiency enhancement and What are your specific strategic actions in this regard? What progress has been made this year?

**Xu, Tao:**

Thank you Timothy. Benefiting from better empowerment and retention for service providers, effective cost reductions and efficiency enhancement measures during market corrections, we achieved rapid growth during the market recovery in the first quarter of this year. Our housing transaction services have built on this foundation and continued to more deeply refine its platform operations and drive breakthroughs of Lianjia's business. These have led to the steady growth of our housing transaction services while allowing us to better meet consumer needs and elevate service providers' efficiency and income.

As for our core business, we are implementing policies according to the distinctive development status of different regions. In cities where existing connected stores are insufficient in scale, we aim to ramp up the connection with high-quality stores, while supporting stores' ability to recruit agents, conduct suitable training and overall management. The number of our stores in the first half of this year increased by almost 10% from the end of last year, and the number of agents increased by 17%.

In cities where we reached certain scale, we are dedicating our efforts to enhancing our efficiency and quality, which are mutually reinforcing and inseparable. On the store front, we are promoting a competitive mechanism based on store ranking, which has also been extended to our external new home sales channel. We are also dedicated to promoting our large store strategy, and creating dedicated homepages for store owners, and are leveraging digitalized operation analysis tools to enhance their efficiency in business management and facilitate more intuitive interactions with our platform. Our next step will be to help store owners elevate their business understanding and improve their management approach using online products and dedicated operation support staff, thereby driving success of stores and brokerage brands.

Targeting three more granular elements in our operation, the houses, customers and agents, we continued to refine our ACN operation, and promote collaboration and more focused operation by agents, ultimately achieving enhanced efficiency.

For instance, on the home listings side, in the first half of this year, underpinned by our systematic capabilities, we implemented a home listing operation mechanism of “home listing maintenance score（房源维护分）” and “stores to home listings（店对盘）” project matching mechanism nationwide. This allowed agents to focus on specific communities while improving home maintenance capabilities and transaction efficiency. On the new home side, we are also implementing the “focused projects（盘源聚焦）” strategy to drive sell-through efficiency.

In terms of home-customer matching, we launched a product called “point-to-point（点点通）” as an inter-agent channel for the flow of home listings, improving home-customer matching efficiency and home listing inventory liquidity. As a result, the 14-day sell-through rate of our home listings improved from 6% to around 12%.

As for agent-customer matching, we completed the comprehensive optimization of our online sales-leads allocation mechanism for existing home and new home transaction services, which take into account both fairness and efficiency to support junior agents’ growth.

With respect to ecosystem governance, to address the issue of private transferred orders that every platform in the industry is facing, we achieved new breakthroughs in our business conduct governance. We empower our Client Achievement team by creating digital tools and promoting closed-loop management awareness, identify risk and fix any issues found. Through our integrated online and offline governance system, service providers on our platform now engage in proactive self-reviews instead of being passively supervised. Store owners and agents now hold elevated trust in our platform, and their "sense of compliance" has improved. For new homes, we promoted developers and all sales channels to jointly abide by the Sunshine Promise, a series of pledges on transparent operations, and promoted industry-wide compliance. As of the end of June, more than 5,000 cooperative real estate projects have been covered by the Sunshine Promise.

Going forward, we will continue to focus on enhancing our servicing capabilities for store owners and homeowners. In the context of increased cross-district new home projects and chain transactions of existing homes, we hope to further improve our customer targeting capabilities to match customers with respective new home projects and enhance our understanding of customers' needs in a more systematic way, thereby strengthening our collaboration network and improving matching efficiency.

In cities where our network coverages are already at high level, we are further enhancing efficiency and quality of our ACN, while pursing the growth of our core and emerging businesses and breakthroughs of our emerging businesses. Meanwhile, despite the possible volume decline in the new home market, developers have been more willing to adopt external sales channels. Instead of the total market size, we put more emphasis on and benefit more from the sustainable, healthy and steady growth of our addressable market – the brokerage channel sales market.

For our direct-operate Lianjia business:

First, we continued to leverage our large store model to take our agents' income to the next level. In the first half of this year, the average number of agents per store for Lianjia reached 18, up 16% year-over-year. Lianjia's average agents' income to average social income competitiveness index also improved by 40% year-over-year.

Second, we continue to pilot innovative agent incentive mechanisms. Our goal is to create a working environment that benefits professional agents' and managers' long-term development.

Third, we will continue to enhance our service capabilities and increase investments in traffic acquisition to boost brand momentum, invigorating the Lianjia brand. In the first half of this year, we refocused and standardized our service commitments, and we will invest more in brand cultivating going forward. Thank you.

**Harry Chen from CITI**: How is your home renovation and furnishing service business progressing? Any updates on the development of your core capabilities? Could you share some key operating metrics and the unit economics model for benchmark cities like Hangzhou and Beijing?

**Xu, Tao:**

Thank you Harry. the progress of our home renovation and furnishing business continue to exceed our expectations. In the second quarter, our home renovation and furnishing services business sustained its growth momentum, the contracted sales reached 3.4billion in the second quarter, making the first half contacted sales volume to reach more than 6 billion RMB. The YoY growth rate in the second quarter continued to reach over 100%. Notably, the home renovation order volume increased by over 90% year-over-year, contributing significantly to our expanding scale. As project completion and delivery accelerated, our revenue for the second quarter surpassed RMB2.6 billion, marking a proforma 91% increase year-over-year and an 86% increase quarter-over-quarter.

In cities where we have leadership: We have established a virtuous business cycle of scale, quality and economic performance. Beijing and Hangzhou were the first cities we entered and are leading the way in establishing a virtuous cycle. Take Beijing as an example, in terms of scale, our contracted sales in this city exceeded RMB600 million in the second quarter, with monthly contracted sales surpassing RMB200 million for two consecutive months, with a quarter revenue to reach over RMB 500 million. We expect Beijing's annual contracted sales to exceed RMB2 billion this year. In Hangzhuo, the contract sales volume for the second quarter also reached over RMB 500million, and we expect their annual contract sales this year to reach more than RMB 1.8 billion.

We can now simultaneously initiate and complete 1,000 home renovation units per month in Beijing. This is a significant breakthrough for the industry. In terms of profitability, the quarterly operating profit in Beijing reached 50 million RMB, and the monthly operating profit exceeded RMB10 million for 5 consecutive months.

Using Beijing and Hangzhou as guiding examples, we are replicating the models and experiences from these well-established cities across the entire country. Shanghai is expected to break the milestone of RMB1 billion in annual contracted sales and contribute annual revenue of RMB700 million this year, which means it will reach the same scale as Beijing, trailing one year behind. We expect cities like Wuhan, Ningbo, Suzhou and so on to reach the same scale as Beijing and Hangzhou in our third wave of expansion. As of the middle of this year, after just 9 months of integration of Wuhan Shengdu and Beike, we achieved RMB240 million in contracted sales and RMB120 million revenue, each showing growth rates exceeding 120% year-over-year, which is a strong testament to the effectiveness of our laser-focused sales strategies.

Progress in capabilities development: The virtuous cycle we've established at the city level is a result of our committed efforts in developing capabilities, combined with consistent iterations for improvement over the years.

1. Customer Acquisition: we continued to empower agents to become community experts and home advisors. Their effective and extensive customer acquisition and conversion has helped us break through the home renovation and furnishing industry bottle neck at

the top of the funnel. This year, more than 45% of home renovation customers were referred by our core business. Simultaneously, home renovation business is contributing to the growth of home transactions and home rental services the other way around. In Beijing, designers are involved in measurements during the initial stages of home transactions, and create renovation design plans during the negotiation stage to facilitated transaction completions. Our customer acquisition advantage frees us from putting our main efforts into acquiring customers like our peers typically do. Instead, we can focus more on enhancing our core capabilities in the home renovation and furnishing business. This enables us to concentrate on the essence of operations and overcome growth barriers.

2. Management of service providers: We've invested our resources in service providers, fundamentally redefining how they earn income and how they participate in the industry. This is achieved by positive and systematic order dispatching, timely settlements, providing incentives and respect for high-quality service providers, both financially and culturally. This shift has transformed the industry's past practice of bad money drives out good money, into good quality wins.

3. Delivery Capabilities: We invested in technology and research, focusing on two things. First, we enhanced our reliance on systems and rules for process management, not just on people. So, we can build an end-to-end system that covers design, construction, materials and the supply chain. Moreover, we explored AI-driven technology to improve customer acquisition and efficiency, which empowers Beike go beyond the traditional boundaries of project management, enabling us to scientifically and efficiently manage timelines, conducts governance and services online. This ensures a high-quality breakthrough in scale.

4. Product Capabilities: We invested in product capabilities. Our products are based on deep user insights, covering rich SKU offerings to meet specific user demands.

As we keep developing our capabilities, we're confident we can continually propel our business toward a virtuous cycle of quality, scale and economic returns across various regions. Thank you.

**Miranda Zhuang from BofA:** Can management elaborate more on the recent organization upgrade and structure change, what are the changes have taken place, and what are the thoughts behind this organizational upgrade?

**Peng, Stanley:**

Thank you, Miranda. The purpose of this organizational structure adjustment is to establish a new formation to achieve our strategic goals. The strategies and business concepts require new organization structure to undertake and implement them.

Focusing on joyful living, fulfilling careers, services and Esprit de Corps, we upgraded our strategy to "one body, three wings". Our corresponding organizational adjustments, is also the upgrade of our management philosophy and mechanism. The new organization structure is centered on customers and placing the front line at the center of value creation, we have established four business lines that are – Home Transaction Services, Home Renovation and Furnishings, Rental Property Management services and Beihaojia 贝好家, and nine function lines comprising finance, R&D, strategy, quality assurance, human resources, users, compliance, public affairs and collaboration. Together, these are designed to provide joyful living for customers and fulfilling careers for service providers. Our business lines will work to take care of customers, inspiring joyful living for consumers in each city and fulfilling careers for different types of service providers. The function lines will leverage their professional capabilities to provide good services, to whom they define as company’s internal customers, and help different cities achieve the goal of "admirable services, joyful living." Through these actions, we aspire to get rid of mediocrity and “big company disease,” and return to entrepreneurship in how we view ourselves, our customers and internal partners.

The adjustment of our organizational structure lays the foundation for company-wide consensus, and invites every individual to participate in value co-creation. It will facilitate unified ideas and goals, help us grasp the essence of our industry throughout the cycles, and return to the nature that “houses are for living in and in service of people”, and everyone demands a better living. Thank you.

**Operator:** We are now approaching the end of the conference call. I will now turn the call over to your speaker host today, Ms. Siting Li, for closing remarks.

**Li, Siting**: Thank you once again for joining us today. If you have further questions, please feel free to contact Beike’s investor relations team through the contact information provided on our website. This concludes today's call, and we look forward to speaking with you again next quarter. Thank you, and goodbye.