KE Holdings Inc.

Fourth Quarter and Fiscal Year 2023

Earnings Conference Call Script

Thursday, 14 March 2024

KE Holdings Inc.
Fourth Quarter and Fiscal Year 2023 Earnings Conference Call Script

Operator: Hello, ladies and gentlemen. Thank you for standing by for KE Holdings Inc.'s fourth quarter and fiscal year 2023 earnings conference call. Please note that today's call, including the management's prepared remarks and question-and-answer session, will all be in English. Simultaneous interpretation in Chinese is available on a separate line for the duration of the call. To access the call in Chinese, you will need to dial into the Chinese language line.

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, fourth quarter and fiscal year 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.

For today's call, management will use English as the main language. Please note that the Chinese translation is for convenience purposes only. In the case of any discrepancy, management's statements in their original language will prevail.

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 fourth quarter and fiscal year 2023 Earnings Conference Call.

2023 was a fruitful year for Beike, not just in terms of business growth but, more importantly, in our organization's strength, which fosters our teams' deeper sense of purpose, and inspire greater dedication in us to move forward and embrace more possibilities.

Over the past few years, we have made a series of proactive adjustments in our strategy and business operations in the face of challenges. We are gearing up for "crossing the next mountain" to capitalize on the promising residential market with a technology-driven, one-stop residential services platform for "better living." These efforts have created much hope for our future.

Scale-wise, our "one body" business has substantially outperformed the market, while our new initiatives have taken off. For profitability, our "one body" business has reached historical highs, and new initiatives have seen significant improvement in core cities. We have achieved breakthroughs in at least five cities in terms of an integrated one body two wings business model with service consolidation and end-to-end experience optimization.

More importantly, our organization gained unity and cohesion. The synergistic development in 2023, guided by the "One Body, Three Wings" strategy, has laid a solid foundation for our Company. It has fostered a shared understanding within our organization - we are more certain of the path ahead, and our steps are firmer.

Now let's take a more detailed look at our performance in 2023. Overall, we achieved strong results in a turbulent market. For full year 2023, we recorded a GTV of RMB3.14 trillion on our platform, up 20% year-over-year. GTV of existing home transactions grew by 29% year-over-year, with notable market penetration improvements in most of the core cities. Full-year GTV of new home transactions rose 7% year-over-year, significantly outperforming the market, as compared with year-over-year decline of 6% in China's total new home GTV , according to the NBS, and a decline of 18% in GTV of CRIC's top 100 developers. As for our new initiatives, pro-forma contracted sales of our home renovation and furnishing services soared over 93% year-over-year. The number of units managed by our Beike rental services surpassed 210 thousand. Our full year total revenue increased by 28% year-over-year to RMB77.8 billion, its second-highest level on record, with more than 20% attributable to our new initiatives. Regarding operating efficiency, we have been reducing costs and enhancing efficiency, while controlling risks over the past two years. It did cause a lot of sacrifices internally. These efforts paid off in 2023, as evidenced by the record-high profitability we set across our existing and new home transaction services, as well as for the Group as a whole. We have also seen great improvements in our earnings quality and operating cash flow. Our achievements in 2023 have given us greater safety margins and bolstered our confidence.

Next, we maintained our solid strides in our "one body" business in 2023, with some proactive actions to drive growth in the second half. By the end of 2023, our platform served a total of 43 thousand 800 (43,800) connected stores, with over 42 thousand active stores, up 12% year-over-year. The number of agents connected on our platform was close to 428 thousand, and the number of active agents rose by 14% year-over-year to 397 thousand. Also, service providers on our platform achieved substantive improvements in efficiency and income, as we see a 44% of per store revenue increase for Lianjia stores excluding Beijing and Shanghai, and a 31% increase for connected stores on year-over-year basis.

Moving to our new initiatives. At the heart of our achievements in scale this year, their progress reaffirmed that we are headed in the right direction. We also gained a clearer picture of where we fall short, and the vast potential for improvement in these sectors.

Our home renovation and furnishing services achieved great breakthroughs in 2023. Beyond the numbers, what matters most is that we gained much deeper industry understandings and knowledge base.

First, we developed a deeper understanding of customers' mindsets. Their happiness, pain points and frustrations deeply motivated us to iterate our business models in line with the customers perspective. Past industry practices emphasize the 'goods-centric' installation process with logic similar to assembling a computer. Understanding our customers allows us to take initiatives from human perspective, evolving our business logic and restructuring processes based on real customer needs, thereby creating competitive barriers and stickiness. We also understand that a hunters-like sales model, commonly used at the early development stage of low-frequency industries, is not a sustainab. Only by deepening our roots in communities, winning long-term customer trust, customer recognition and word-of-mouth referrals, can we increase the transaction frequency and density.

Now turning to our Beike rental services. As it grew rapidly throughout 2023, new problems began to emerge at a faster pace, requiring a higher business sensitivity and accelerated model iteration. We were successful on both fronts. Our Carefree Rent model recorded over 200 thousand managed units, up from 70 thousand in 2022, and our centralized long-term apartment rental service has managed over 10 thousand units by the end of 2023 from 5 thousand in 2022. We are elevating millions of rental orders on our platform every year, from conventionally lower value-added rental brokerage services, to higher value-added long-term rental property management services. The call behind this is, first, our understanding to the added value, which are homeowners' and tenants' needs, and the ability to serve. Second, our ability to control risks, which requires high operating efficiency. In 2023, we upgraded rental products to enhance value proposition to homeowners and strengthen risk control, and we redefined the roles of our key service providers. All of these efforts helped create a sustainable business model to emerge.

Only by advancing our understandings of the fundamentals can we truly drive industry progress.

For 2024, our goal is to achieve growth with stability, focus on quality and efficiency, and make decisions on long-termism.

Striking a balance between business growth and risk control is a fundamental challenge for every organization. In our approach, we need to respect the law of the market in the same way farmers honor the law of nature. We also must protect our seedlings from storms to ensure a fruitful harvest. Over the past two years, we focused on mitigating risks and reducing uncertainties amid external turbulence. This has significantly improved our safety margins and deepened our roots in the industry. On top of that, our future development will come from innovation. As we face a different environment now with new challenges, we need to find new solutions.

The first challenge lies in shifting our priorities. For our "one body" business, scale and agents' income were once the most important factors. Now, efficiency and agents' experience have become more important. As known, our ACN resource allocation mechanism helps us retain a large pool of talent, which formed our competitive advantages in the past. However, going forward, this advantage in scale may not be the key to help us meet consumer demand, or benefit any stakeholders. As our agents mature, their needs are also changing from higher income to work-life balance.

As we navigate these challenges, we have already seen our front-line teams taking steps ahead. Let me share a few examples. Our platform showcases many distinguished home brokerage brands. Large franchise brand like ‘Fu Fang富房’, they have expanded their store count from 100 to 1,000 within five years. Their strategy focuses on differentiated urban coverage and in-depth exploration in lower-tier markets. Every aspect, from store location selection and development planning, to internal communication and team building, follows a skillfully designed top-down approach. We are also honored to connect with a boutique franchise brand like Qingdao “YouYiJia有一家” Real Estate, who has achieved fivefold growth since joining Beike in 2019, defying the market trend. Their growth strategy emphasizes on collaborate with store owners and agents with quality service and rich experiences, especially those having weathered hard times. By efficiently leveraging brand resources, they are active in service model innovations —— they served the first transaction under our “Youxianmai优鲜卖” model, helping customers lock in new homes before old homes were sold.

On the store front, we place a strong emphasis on the “large store” strategy, which demands excellent leadership and management skills from store operators. Taking our Lianjia branch of Lingnan Bridge Metro Station in Shanghai as an example. The store manager sets clear plans for staffing and operations, making each core business line led by the agent top in the corresponding business, to ensure robust and comprehensive customer service. During key service stages, such as face to face consultations with homeowners, the manager also helped the team to cultivate awareness of delving into homeowners’ needs, and developing a methodology with it. To further strengthen the leadership skills of store operators managing large stores, Lianjia has launched the Store Leadership Development Program (SLDP) this year. The three-year program aims to reshape store managers’ leadership model through operational planning, quality assurance, efficiency improvement, talent growth, team management and so on. By setting up a comprehensive certification system linked to career development and award incentives, SLDP aims to nurture versatile managers for the industry.

On the agent side, our dedicated agents have been instrumental in introducing numerous innovative initiatives to enhance service quality and efficiency. We always say, ‘closing a transaction is just the beginning of a service case’, this is not just a slogan. Our agent from Shanghai Lianjia, 朱沛霖Peilin Zhu, sets a good example. She delivered a special photo album for homeowners upon property handover. The album documented details of this apartment during this agent’s house maintenance period, helping home sellers keep a good memory of their past home. Inspired by Peilin’s idea, we have introduced the “Peilin Album” company-wide at Lianjia, honoring the handover of homes with these precious memories.

These are examples of our ongoing exploration of a new path for quality and efficiency growth while deepening our market presence. Going forward, the advancement and widespread adoption of technology may be the key. As such, in 2024, we need to open our mind in understanding the relationship between agents and technology, embrace and create changes. New media is another powerful force we want to better explore and leverage. Finally, business model innovation is another possible solution. In an effort to advance our one-stop residential services model for “better living,” we will explore initiatives such as membership system and flagship stores. These mechanisms will foster deeper synergies under the “One Body, Three Wings” strategy, energizing our business holistically. Given that Beijing is our “mother ship” and stands at the top of scale in many ways, we believe it boasts the best innovation ground and we plan to conduct more efficiency and model improvement trials there.

For our emerging businesses, our main focus in 2024 is on quality.

For home renovation and furnishing, the next step is to continually enhance our understanding of customer needs. This involves deepening our capabilities in quality, products, process innovation, technology, and supply chain management, thereby cultivating customer trust and driving future business growth.

For Beike rental services, there’s a huge market demand. Operationally, we’ve established a solid foundation and our next step strategy is clear: enhance efficiency through managing individual service capabilities variance, improving occupancy rates and profitability, and elevating service quality by various dedicated roles. What's more important for this business is to explore innovative models that balance risk and return better, then we can replicate them, look to long-term growth prospects while safeguarding our bottom line.

In terms of technology, we have the strongest data assets and the richest offline scenarios in the living industry. Digitalization and technology hold the greatest potential to solve the long-term efficiency issues for agents. In 2024, we will further advance the digitalization across our business and industry, conduct more in-depth exploration and practices around technology-driven initiatives.

Regarding quality, for us, it sets the upper limit of how much we can be motivated by our customers and represents our business’s bottom line. In 2024, we’re doubling down on quality, exploring ways to enhance our ability to improve quality and create value through products, services, operations, and commitments. For example, we are innovating supervisory systems and products to remove barriers between customers and our platform, making sure we’re always open to hearing from our customers. These quality-centric products and capabilities, represent the real value to our customers and business, also namely long-termism capabilities. Let the positive customer feedback to continuingly motivate us, while turning customers’ dissatisfaction into our driving forces to improve and evolve our organization. That’s the real power of focusing on quality.

Lastly, we never stop thinking forward – if we could stand in 20 years behind and look back to today, what strategies might not work anymore, and what new ones will, opening up our mind to reflect and address these core long-term issues, is a major task for us in 2024.

We're on solid ground, with ample opportunities to make our mark in the vast residential sector, backed by a team with unity and trust formed through battles fought together. Moving forward, we will continue to focus on the things at hand, encouraging, supporting and learning from each other, and growing together. By lending strength to one another, we're increasingly resembling an invincible team.

2024 is about welcoming new possibilities and challenges, each one guiding us toward more promising opportunities and helping us cross the next mountain. Thank you. Next, I would like to turn the call over to our CFO, Xu Tao to review our fourth quarter and fiscal year 2023 financials.

Xu, Tao:

In 2023, the Chinese real estate market deepened its transformation. The year started with a concentrated release of pent-up demand before moving to gradual normalization mid-year. A transient rebound followed in the second half of 2023, fueled by intensive supportive policies. Existing and new home market showed differentiated performance, with the latter being affected by risks associated with real estate developers' debt and limited effective supply, resulting in continued weakness in supply and demand. In contrast, both GFA and GTV of existing home transactions increased significantly year-over-year, showing home buyers' preference for readily available existing homes. This is an inevitable trend as China's real estate market approaches maturity. Houses are returning to their original purpose of providing a comfortable living environment, bringing us closer to the vision of joyful living.

Facing an evolving external environment, our performance in 2023 demonstrated remarkable resilience. Guided by our goal of achieving "high-quality growth", our series of measures to reduce costs, enhance efficiency, and mitigate risks have brought us significant operating leverage.

Our full-year revenue reached RMB77.8 billion, up 28.2% year-over-year. Revenues from existing and new home transaction services grew by 15.9% and 6.7% year-over-year, respectively. Our home transaction services business maintained steady growth with a solid foundation. Revenue from our home renovation and furnishing, emerging and other services become a new engine of growth contributed 24.7% of the total in 2023, an increase of 11.7 percentage points from 2022. Specifically, revenue from the home renovation and furnishing business was RMB10.9 billion, rising by 74.3% year-over-year on pro forma basis.

Our profitability also increased substantially in 2023. Contribution margin grew by 7.3 percentage points to 47.2% for existing home transaction services and 2.9 percentage points to 26.6% for new home transaction services, both setting new historic highs. Our adjusted operating expense ratio dropped by 2.1 percentage points year-over-year, with an adjusted operating margin of 11.2% for the year. Our adjusted net margin increased by 7.9 percentage points to reach 12.6%, bringing our full-year adjusted net income to RMB9.8 billion. Earnings quality improved meaningfully as well. We realized a net operating cash inflow of RMB11.2 billion in 2023, 1.14 times our adjusted net income for the year, and DSO fell by 50 days year-over-year to 55 days. We believe we have delivered commendable results in 2023.

Turning to our performance in Q4, our top line and bottom line each grew by double digits on year-over-year basis. Total revenue for the quarter increased by 20.6% year-over-year to RMB20.2 billion, beating the top range of our guidance, primarily attributable to better-than-expected performances from our new home transaction services, home renovation and emerging services. Our gross margin reached 25.5%, up 1 percentage point year-over-year. Our GAAP net income rose by 80.2% year-over-year to RMB670 million, and our non-GAAP net income increased by 10.8% year-over-year to reach RMB1.71billion.

For home transaction services, the fourth quarter witnessed a pronounced contrast of performance between the new and existing home markets nationwide. The existing housing market has seen a year-on-year increase, driven by the low base effect caused by year 2022's pandemic, and increased activity in the existing home market in second and third-tier cities. Sequentially, the existing home market has been relatively stable since October, benefiting from favorable policies and increasing market maturity. Revenue from existing home transactions reached RMB6 billion, up 14.6%, with GTV reaching RMB468.1 billion, up 30.1%, both on a year-over-year basis. Notably, GTV served by connected stores showed even more robust growth at 41.1% year-over-year. Our strategic expansion through more connected stores and positive performances from second-tier cities and below in existing home markets fueled the increased proportion of the GTV served by connected stores. Meanwhile, this structural change contributed to a lower growth in revenue than GTV for existing home transaction services. The contribution margin from existing home transaction services reached 44.5%, surging by 7.4 percentage points year-over-year, mainly attributable to the low base in the same period of 2022 when operations were nearly impossible because of the pandemic. The contribution margin fell by 4.1 percentage points quarter-over-quarter, primarily due to the extra bonus issued in Q4.

In terms of new home transaction services, as I mentioned, the national new home market remained sluggish. CRIC shows the sales from the top 100 developers declined by 32% in Q4 year-over-year and increased by 12% quarter-over-quarter. The industry is still undergoing a process of supply contraction and risk being cleared. While maintaining our risk threshold, we proactively and strategically expanded our channels. In Q4, new home GTV reached RMB238 billion, dropped by 9.7% year-over-year and grew 23.9% sequentially, significantly outperforming the market. Revenue from new home transactions was RMB7.6 billion, down 8.5% year-over-year and up 28.3% sequentially, outpacing GTV growth. This is a reflection of our steady monetization capabilities in a market downturn. The contribution margin for new home transaction services slightly increased year-over-year, maintaining a high level of 26.4%. Our ability to grow contribution margin despite a decline in revenue is another testament to our operational resilience. In Q4, the percentage of commission income from SOE developers rose from 46% in Q3 to 53% in Q4. Projects with the “Commission in Advance” model also remained at a high level, accounting for 53% of total commissions revenue. We’d like to emphasize that we have never and will never compromise on risk control to outperform the market.

Revenues of home renovation and furnishing, emerging and other services grew by 106.6% year-over-year in Q4, accounting for an increasing portion of our total revenue at 32.6%, significantly increased by 13.5 percentage points from the same period of 2022.

Our home renovation and furnishing business continued to grow at a fast pace, with further breakthroughs in both scale and efficiency. In Q4, contracted sales reached RMB3.9 billion, up 99.7% year-over-year and 19.7% quarter-over-quarter. Revenue reached a new high of RMB3.6 billion, increasing 73.9% year-over-year. The percentage of contracted sales contributed by our home transaction services continued to increase to about 47% of total GTV in Q4, further demonstrating the synergy between our housing transaction and other residential services. Moreover, our home renovation and furnishing business has grown more diverse, with furniture and home furnishing sales reaching RMB1.15 billion in Q4, accounting for around 29% of total contracted sales, marking a 3.4 percentage points improvement from the same period of 2022.

In Q4, our net revenue from emerging and other services increased by 169.3% year-over-year and 21.2% quarter-over-quarter to RMB2.9 billion, primarily propelled by the rapid expansion of our rental property management services.

Our store costs were RMB727 million, remained overall stable in Q4 compared with the same period of 2022. Other costs rose substantially to RMB548 million year-over-year, due to the increased of human resources related costs, maintenance costs of rental property management services and share-based compensation expenses. As a result of our increased operating leverage, our gross profit grew by 25.7% year-over-year, reaching RMB5.1 billion. Our gross margin ticked up 1 percentage point year-over-year to 25.5%, while falling by 1.9 percentage points quarter-over-quarter due to lower contribution margin of existing home transactions and smaller proportion of revenue from this business.

In terms of expenses, our GAAP operating expenses for Q4 totaled RMB5.3 billion, up 43.5% year-over-year. Specifically, G&A expenses rose by 47.7% year-over-year to

RMB2.6 billion, mainly due to an increase in provision for bad debts from one single developer for new home transaction services and the increase in personnel costs. With regards to the new home receivables provisions, we have conducted a more cautious assessment of the realization value of the single collateral asset, provided by Sunac earlier for its unpaid amounts to Beike. This asset is expected to be impaired by over 50%. Based on this, in the fourth quarter, we made additional provisions for bad debts amounting to around RMB400 million, which represents an over 50% provisions on the receivables and other outstanding amounts corresponding to this collateral asset. As a result, apart from Sunac's portion of secured receivables, the average provision ratio for bad debts related to receivables from 68 high-risk developers on our platform has exceeded 95%. Sales and marketing expenses grew by 56.1% year-over-year to RMB2.1 billion. The rapid development of our full-service renovation business led to a fast, parallel increase in our sales and marketing expenses. The increase was also a result of rising marketing expenses in our housing transaction services business. R&D expense grew by 4.9% year-over-year to RMB534 million, mainly due to the salary increases of R&D personnel.

On the profitability front, GAAP income from operations amounted to a loss of RMB 173 million in Q4, compared with RMB387 million from the same period of 2022. GAAP operating margin was negative 0.9%, compared with 2.3% from Q4 of 2022. Non-GAAP income from operations was RMB856 million, compared with RMB1.34 billion from the same period of 2022. Non-GAAP operating margin was 4.2%, compared with 8% from Q4 of 2022. The year-over-year reduction in operating margin was mainly due to a higher operating expense ratio.

In Q4, GAAP net income was RMB670 million, up 80.2% year-over-year. Non-GAAP net income was RMB1.71 billion, a year-over-year increase of 10.8%.

Moving to cash flow and balance sheet metrics. We realized a net operating cash inflow of RMB1.77 billion in Q4. New home DSO for Q4 was 43 days, dropping below 50 days for the first time, a testament to our effective risk control. On top of the approximate

US$173 million we spent on share repurchases in the quarter, our total cash liquidity, which excludes customer deposits payable, still amounted to RMB79.1 billion, remained at a high level.

While achieving excellent results in 2023, we also placed great emphasis on shareholder returns. We spent approximately US$718.7 million in a strong buyback program and fully canceled all repurchased shares. The total number of repurchased shares accounted for around 3.7% of the company's total shares before the start of the buyback program. We also initiated our first special cash dividend of around US$200 million during the year. On the basis of such positive shareholder returns, we'd like to announce our first final cash dividend plan, which has been approved by the Board, at US$0.117 per ordinary share, or US$0.351 per ADS, to holders of ordinary shares and holders of ADSs of record as of April 5, 2024, respectively. The amount paid for the final dividend will be approximately US$400 million, which will be funded by surplus cash on our balance sheet. As of year-end, our total shareholder returns for 2023 significantly exceeded our net income, accounting for around 159% of our net income for the year. In addition, we are developing a long-term, proactive, stable total shareholder return plan, aiming to share the value we create with our long-term shareholders. In doing so, we aim to provide our shareholders with certainty of returns in an uncertain external environment.

Market confidence has yet to recover in 2024. Despite market uncertainty, we remain undeterred and will continue to strive for excellence. As our one body three wings businesses develop at a fast pace, gradually forming a positive cycle of scale, efficiency and quality, we are required to strengthen our financial prudence, improve resource allocation and refine our operations. So, in terms of financial strategy, we will continue to enhance the financial infrastructure of each business and provide comprehensive support through our financial expertise. We remain unwavering in our efforts to prevent risks and establish regulations. For our new home transaction services, we will proactively control risks and strictly follow the developer ranking and cash accounts receivable management. Regarding our new businesses including home renovation and furnishing and rental property management, as we seek rapid expansion, we will replicate our solid integrated business and finance system management capabilities from our primary business to the new business. This will improve financial process automation rates and bolster data analysis and processing abilities for those business lines. In addition to actively rewarding shareholders, we consistently prioritize the safety of our funds in cash management. We meticulously select underlying assets and establish clear investment strategies and risk preferences. Currently, the majority of our cash investments are in deposit-based products.

We believe that our excellent financial management capabilities will serve as a safeguard for the healthy growth of the organization, helping us to navigate through cyclical fluctuations and overcome challenges, enabling more organic and efficient business development. Furthermore, our proactive shareholder returns will allow long-term investors who have accompanied us on this journey to better share in the fruits of the company's growth.

Operator provides instructions and hosts Q&A: Thank you. As a reminder, we only accept questions on the English language line. 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 an English translation.

Timothy Zhao from GS: Thank you management for taking my question. My question is regarding the home renovation and furnishing business, I noticed, the 2023, you had a very strong growth year in this business line. Can management further elaborate what is the driver behind? And what are the key operating metrics that you are focusing on? And in 2024, what is your key focus in the operation of this business? Thank you.

Peng Stanley:

Yes. We achieved big breakthroughs in our home renovation and furnishing business in 2023. As for scale, our contracted sales reached RMB13.3 billion, up 93% year-over-year on pro-forma basis, with revenue growing by 74% to reach RMB10.9 billion. As for profitability, we have 11 cities reported operating profits in 2023, with 4 cities achieving operating profits of over RMB10 million. On the operation side, around 43% of total contracted sales were attributable to customer referrals from real estate agents in 2023, a remarkable increase of 9.9 percentage points from 2022. Our product portfolios are also more diverse, with our contracted sales of furniture and home furnishings reaching about RMB 3.6 billion in 2023, accounting for 27% of total contracted sales, showing a 5.8 percentage points increase from 2022 on pro-forma basis. These achievements were the result of improvements across our business operations.

Our overall expansion was mainly driven by rapid expansion in core cities. In Beijing and Hangzhou, contract sales exceeded RMB2 billion, and in Shanghai exceeded RMB1 billion. There were also 6 cities that had contract sales over RMB500 million. Our breakthrough in scale for the home renovation and furnishing business was mainly, I think due to three reasons. The first, highly efficient synergies between our core and emerging businesses. The second is, more diversified product portfolio and third, higher deliver capabilities.

So the business outlook for 2024: We achieved breakthroughs in scale in 2023. But for a business to be successful and recognized by customers, the most important thing is “customer buy-in”. And the key to that is “quality”. So, in 2024, while ensuring steady scale expansion, we have chosen “quality” as our key word.

“High-quality delivery” is the competitive divide in the home renovation industry. For now, we can provide the customer guarantee when facing problems. Going forward, we plan to take preventive measures to reduce problem frequency, finally offering customers a truly hassle-free experience and creating a positive cycle of quality. Right now, the main problems regarding renovation include construction delays and response slowness, and so on. We will take a series of measures to address these pain points in 2024. The first is, shorten construction timelines by completing more steps simultaneously. The second is, we will establish roles in charge of the quality control with online and one-stop services, to identify and resolve problems as early as possible.

While enhancing quality, we aim to achieve further breakthroughs in the scale and the operation model in 2024, then we are replicating our model in more cities going forward. Yes, that's my answer to your question, thank you.

John Lam from UBS: What was the Beike's penetration rate in the existing home market in 2023? And also, what is the overall focus for company's existing home business for 2024, this year? We've also noticed that the company's plans to expand its store networks, can you share more color on this? Can management also share some insights regarding on this year's strategy for the connected brokerage brands and stores? Thank you.

Xu, Tao:

Thank you John, in 2023, we did quite well in the existing home business, achieving significant improvements in scale, efficiency, and profitability.

In the face of steep market adjustment, we managed to retain quality service providers, that's been a big reason why we could jump on when the market rebound at the beginning of last year. On top of that, we actively connected with more quality brands, stores, and agents in the second half of last year, while refining our operational strategies and infrastructure for better efficiency. In 2023, our existing home GTV was up 29% year-over-year and revenue was up 16% simultaneously. We also significantly increased our market penetration in most cities, including like Beijing, Shanghai, Nanjing, Hefei, Hangzhou, Jinan, Changsha and Qingdao, so on and so forth. Specifically, we focused on a few key areas to boost our existing home business in 2023:

1) We expanded our store and agent network. By the end of 2023, the total number of active stores on our platform reached over 42,000, an increase of 12% year-over-year. The number of active agents on Beike platform was over 397,000, an increase of 14% year-over-year.
2) And we also enhanced our operational efficiency through following refined strategies:

a) First, in the face of lots of new and previously inactive listings, we're developing the ability to identify top listings. We aim to create a virtuous cycle of securing high-quality listings, establishing efficient matching and cooperation between buyers' and sellers' agents, ensuring quick sales, and achieving high customer satisfaction, leading us to secure more high-quality listings, boosting our efficiency.
b) Second, we adopt diverse online tools to optimize efficiency. For example, we introduced AI assistant to help agents improve their responsiveness to clients and their ability to accurately recommend listings.

As a result, the store and agent productivity on Beike platform improved substantially. In 2023, the average GTV per store increased by 29%, average GTV per agent was up by 25%. The average income per connected store increased by 31% year-on-year. Excluding Beijing and Shanghai, the store churn rate decreased by 34 percentage points, and the agent churn rate decreased by 21 percentage points in 2023.

Our focus in 2024 is on "growth and ecosystem." Even with the ongoing uncertainties in the market this year, we're set on growing our business confidently.

For growth, we see big opportunities to expand our network in many cities in the year of 2023. We are expected to connect over 5,000 new stores this year. In a few cities where we have a longer operating history, like Beijing, we've attracted more customers and increased our market penetration since adjusting our commission rules last year. This year, we will expand our coverage for first-time homebuyers in the city, and also seizing the most starting point of the chain of "home-upgrade".

In addition, we will also continue to grow through refined operations. We're transforming our agents from just making sales to becoming experts who really understand what customers need. We're looking to increase our presence on the customer side by exploring different channels to bring in more online traffic.

For service providers, we're working harder to create a more harmonious ecosystem: We're moving from a strong focus on profitability to providing more targeted support. This change aims to help less efficient stores start making deals, and ensure higher productivity stores receive better return. We'll foster collaboration and shared management with store owners, improving the operational environment for stores, and also increasing their satisfaction with our platform.

And also for our self-owned business Lianjia, in terms of store strategy, we'll expand with a large store model. We'll also open some small stores in key areas to increase our service coverage and ensure our penetration in those hotspots.

Specifically, for our Lianjia's agent strategy, we've launched the "Old Soldier Plan" to bring back former agents and are opening up recruitment for experienced agents from the industry to strengthen our Lianjia team. In 2024, we'll focus on improving agent expertise through training and talents nurturing, building a talent pool for our 'one body, three wings' business strategy. Thank you.

Griffin Chan from CITI: Thanks management for the opportunity. Congratulations, first, on the solid 2023 results and improving shareholders' return. So my question is that, how do you view the overall real estate market in 2023? How did the market perform recently? With the notable outperformance of the existing housing market compared to the new home market, how does the management think of the underlying reasons? How is the trend expected for the new and existing housing markets in 2024? Will they continue to differentiate? Thank you.

Xu, Tao:

Thank you, regarding the market situation in 2023 there was a lot of turbulence in the real estate market in 2023 and overall, it's still in the middle of deep adjustments. Here's what we have observed.

The market is shifting toward existing homes at a faster pace. Full-year existing home GTV nationwide rose by around 20-30% year-over-year. Official data showed, existing homes accounted for nearly 40% of full-year real estate transaction volume. This is a historic high.

The new home market recovery fell short. According to official data, national new home sales declined by 6% year-over-year, while for the new home sales of top 100 real estate developers dropped by 18% year-over-year. New home sales saw some mild recovery in the first quarter of last year, but then it dropped again and has been hovering at a low level ever since.

Housing prices continued to adjust. First-tier cities' home price saw a faster decline in the fourth quarter, but overall, first-tier cities' existing home prices were still higher than in the year of 2019. New home prices are stable on the whole, primarily due to structural shifts towards high-tier cities.

The market supply and demand continued to evolve, leading to what we observed the polarization of the market. For demand side, demand structure keeps changing, demand for home upgrades becomes dominate, making up 60% of the total housing demand, with first-time home buying demand at 30% and investment demand narrowing to around 10%.

Consumers are more inclined to purchase existing homes. Our survey showed customer preference for existing homes purchases grew from 23% in June 2022 to 35% in December 2023, while interest in new homes dropped from 31% to 18% over the same time period. Basically, existing homes are meeting the rigid first home buying demand. And people who want to upgrade their home by selling one property to buy another also enter into the existing home market first.

For new home, there's a lack of demand, due to the location and project delivery issues, as well as the pre-sold model and product design which doesn't align with the current consumer needs. Nevertheless, buyers are still interested in properties located in scarce areas or with good designs. The demand for large-sized and high-priced new homes are more stable.

Overall, the demand is resilient, but it didn't translate into transactions. There's still a "wait-and-see momentum" among home buyers. In 2023, the total number of clients viewing properties exceeded the total number of newly listed properties on Beike platform, indicating there's a number of people looking to buy homes. In cities with solid fundamentals, such as Shenzhen and Hangzhou, we observed a situation where there was solid home purchase demand, but consumers are hesitant to enter into the market. In a market with abundant home listings and down-trending prices, there is a need to further restore confidence among homebuyers.

Overall, in the fourth quarter, home prices were lowered while people were still willing to make transactions, indicating the resilience of demand.

Regarding the supply side, we noticed investors are paying attention to the number of existing home listings, concerned about higher inventory. The number of existing home listings did reach an all-time high in 2023. It is a natural result of the growth of the existing home market. It also reflects the accelerated release home upgrade demand under policy encouragement. In first-tier cities, more than 70% of sellers were also buyers. An increase in home listings is typically an early sign of growth in demand. In addition, not all home listings are real supply. Some home owners list their homes "to give it a try". Moreover, a portion of older housing stock remains listed throughout the year with very low liquidity, leading to a continued increase in the total volume of existing property listings.

For new homes, here is still a mismatch between supply and demand. New homes with their prices lower than neighboring existing homes in the core areas of top-tier cities are still favored and contribute to the majority of sales. But new home supply in these key areas are limited. The supply is more concentrated in faraway suburbs where demand is weaker. So in higher-tier cities, more demand were fulfilled by existing home supply.

The overall lack of demand for new homes also caused a prolonged inventory clearing period on the supply side.

For recent market updates, policies continued to support market stabilization: Recently, multiple cities have continued to optimize their policies, in terms of purchase restriction loosening like today's news for the Hangzhou city, and more financial support. The supply side funding conditions could improve. And mortgage rates lowered down. Although the effects of policy boosts sometimes are marginal in the short term, the massive buildup of easing policies since 2022 should bolster the relative stability of today's existing home market.

For existing home market, overall GTV of existing homes has been very stable since October 2023. During the Chinese New Year, average daily transaction volume of existing homes on our platform rose by over 70% year-over-year.

For example, after the Spring Festival, in first-tier cities such as Shenzhen, and second-tier cities like Chengdu, Chongqing, Hefei, Dalian, and Nanjing, the average existing home sales in the two weeks after the holiday exceeded the weekly average from December to January. This aligns with historical trends, indicating that the existing home is operating relatively stable.

On recent leading indicators, the daily average home showings and transaction volume exhibited parallel changes during the Chinese New Year. Weekly average ratio of showings-turned-transactions performed better than the same period of last year.

The Beike prosperity index, based on the listing and price adjustment behavior of home owners on our platform, has been bottoming out at the beginning of the year with fluctuations. The frontline brokerage managers' confidence index has been steadily recovering since February.

In terms of housing prices, the month-on-month decline in the existing home price index for the key 50 cities from January to February in 2024 continued to narrow, to within 1% in February. The number of cities experiencing a decline in home price also reduced.

For the recent new home market, according to CRIC, the sales of the top 100 developers declined 49% year-on-year in January to February, with a 60% drop in February alone. The continued weak demand for new homes has led to a low enthusiasm among developers to promote their projects.

Looking ahead into 2024, as the real estate market in second- and third-tier cities accelerates its transition to existing homes, overall existing home transaction volume will gather momentum for structural improvements. Hence we believe existing home GTV will remain relatively stable.

As for new homes, demand remains the key, the market will continue to fluctuate as it bottoms out. On the supply side, under an uncertain environment, we believe developers will take active measures to adapt, focusing on enhancing product capabilities and sell-through. Thank you.

Thomas Chong from Jefferies: Thanks the management for taking my question. My question is about housing rental business, which has experienced rapid growth in 2023. Could management provide me more color on what we have accomplished in this business during the year and last year? And how are we managing the risk about expanding our scale? What is the development plan for the year 2024?Thank you

Xu, Tao:

To summarize this business in 2023, our goal is to provide homeowners with carefree rental services and reliable property management services, and provide tenants with safer and more reliable living experiences. 2023 was a key year for establishing our foundational capabilities.

We prudently expanded our operational scale, with our decentralized rental management service, “Carefree Rent”, growing from 70,000 units by end-2022 to over 200,000 units by end-2023. We also enhanced our asset operation efficiency and rental service quality. By the end of 2023, the occupancy rate of “Carefree Rent” increased by 6 percentage points compared to the end of 2022, reaching 95.1%.

The increased scale and lifetime rental property management operations placed new demands on our operating capabilities. In 2023, we made the following iterations.

1) We made significant upgrades to our “Carefree Rent” business model, which greatly reduce seasonal fluctuations and the risks associated with a failure to re-lease. It also better resisted the risk of continuous market downturn on rental prices.

2) We implemented refined operations by redefining core roles along the full-cycle of rental management, ensuring proper staffing, to smooth out our operation processes.

3) We comprehensively enhanced service quality around the seven major pain points for tenants, continually improving our standardized service capabilities. We enhanced our service team’s response time and encouraging preemptive problem-solving.

In addition, in 2023, our apartment business also expanded in scale and efficiency, with more than 10 thousand housing units under management.

For 2024, first, we have ambitious goals for the scale we manage. Our focus will primarily be on core cities. Beijing, Shanghai, and Chengdu will be key targets for major growth. Second, we aim to robustly establish our business at all levels, including achieving operational breakeven in these core cities, and continuously improving overall operational efficiency and quality. This requires building and strengthening a range of capabilities.

Improve efficiency: we’re aiming for operational breakeven in leading city, and we also target to increase productivity. In 2023, the average property signed-up productivity per manager has reached 100 units. This year, we aim to reduce capability variance and have more rental property managers achieve that productivity.

We will also solidify quality: First, we secure the safety bottom-line by identifying potential risks in advance and establishing a mechanism for handling processes. Second, we work on making our services both standardized and customized. We do this by clearly defining distinct roles and enhancing our online capabilities to keep our rental services reliable and standardized. We also pay attention to community demands and customers' needs based on their demographics, so we can offer them right-fit services.

We will also build technology and service capabilities around the five key strategies: unit signups, unit occupancy, rental management, operations, and reputation, to make sure our business can achieve the sustained growth in the long term. Thank you.

Eddy Wang from MS: Thank you management for taking my question. My question is regarding the new home business, we have seen that our new home business has been significantly outperformed the industry performance. So what's the reason behind? And considering that the sales of new home has been more difficult going forward, do we expect the penetration rate of the brokerage channel to keep going up? And what's our strategy and outlook for the new home business in this year. Thank you.

Xu, Tao:

Hi Eddy, thank you for your question, as you said, China's new home market faced big challenges in the year of 2023. In such a tough market, we achieved around 7% growth in full-year new home GTV, significantly outperforming the industry. Our operating metrics also reached historical highs. Throughout the year, we deepened our insights into the new home business as the market evolved. And our efforts in operations and business management also paid off.

Operationally the industry is still on a strong move shifting to a buyers' market. Consumers now need more professional services. In the past, with the home pricing always going up, agents got used to just focusing on the listings then find the suitable buyers. This approach is not effective anymore because there is a lack of understanding and insight into consumer needs To boost sales conversion, it's key for agents to think from the buyers' side, identify who is buying new homes and what they are after.

Meanwhile, on the developer side, with weak demand, traditional promotional methods, such as price cuts, are not working anymore. Developers have a stronger need for brokerage services. In the 20 key cities we monitored, the proportion of projects that developers choose to cooperate with brokerage sales channels reached 82% at the second half of 2023, an increase of 11 percentage points compared to the first half of last year.

Given this context and in line with our Group's strategy adjustments, last year we have shifted our new home strategy from a defensive to a proactive manner, with a focus on "growth" and "quality". We deepened our online consumer coverage and insights, and established better online presence with initiatives like the "live streaming" for quality homes.

Based on our consumer insights, accumulated user data and close connections with existing home customers, in the second half of 2023, we started to build new types of partnership with developers. We introduced innovative services on marketing and sales. This helped boost our coverage of high-quality new home projects.

In 2023, our new home cooperation project coverage ratio improved significantly to 51% in Q4, up by 10 percentage points from Q1 in the same year.

We remained committed to strengthening our ecosystem development. In 2023, more than 6,500 new home projects have been covered by the commitments from both developers and the platform to transparent operations.

Over 3,500 cooperative new home projects have embraced a "private phone number protection service".

On our financial management, in the first half of 2023, we focused on “risk control” and “profitability” as core KPIs, strictly managing receivable collections and financial safety. In the second half of 2023, while maintaining a strict risk baseline, we specifically emphasized “Commission in Advance” model and collection management for high-risk developers. Thanks to these efforts, our new home DSO shortened to only 43 days in Q4. “Commission in Advance” model accounted for 53% of total new home revenues in Q4 last year. The percentage of commission income from SOE developers reached at 53%. Our new home commission rate in the fourth quarter also increased modestly.

Based on our outlook regarding the new home market in 2024, we will take the following steps to improve operations. On Supply side, we will further promote our new strategic collaborations with high-quality developers to secure higher quality new home supply for our channel service.

On Sell-through side, we aim to empower our service providers and boost their productivity and job satisfaction. We will properly raise the commission split rates for downstream brokers. We will also enhance the operations for our external new home sales channel, and optimize our products offered to brokers. We will also strengthen our infrastructure, including our new home housing dictionary, ecosystems and online new home content development.

Given our richer and higher-quality new home listings, deeper customer understanding, and stronger sell-through capabilities, we believe our new home business will consistently outperform the market. 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.