



Leopalace21 Corporation

Financial Results Briefing for the Six Months Ended September 30, 2021

November 12, 2021

Presentation

Kawasaki: Thank you very much for taking time out of your busy schedules to participate in the financial results briefing for Q2 of the fiscal year ending March 2022 of Leoplace21 Corporation today.

I am Kawasaki, and I will be the moderator. Today's speakers and those who will answer questions are the following 3 people: Bunya Miyao, President and CEO. Shigeru Ashida, Director, Managing Executive Officer. Shinji Takekura, Executive Officer, Senior Department Manager, Corporate Planning Department.

In this briefing, there will be time for questions and answers after the financial report. Please note that due to time constraints, we may not be able to answer all of your questions. The meeting is scheduled to end at 6:00 PM.

Miyao, President and CEO, will now present the results for H1, and the revisions to the full-year earnings forecasts for the fiscal year ending March 2022.

Miyao: Thank you very much for taking time out of your busy schedule to join us today. I am Miyao, President and CEO.

I would like to explain our business results for H1 of the fiscal year ending March 2022 and the revision of the full-year business forecast announced on November 8, with a particular focus on H2 of the year.

In H1 of the fiscal year ending March 2022, we were able to turn around from our initial forecast of a loss and achieve profitability in both operating income and net income. As the occupancy rate from April to September exceeded our plan, we were able to end the period with sales exceeding our initial plan.

It declined YoY, but the main reason is a decrease in sales of construction real estate due to the impact of the suspension of new orders. The decline in unit rent prices due to the impact of the COVID-19 infection through early spring and the decrease in sales at subsidiaries was also factors in the decrease in revenue.

As for the continuation of the fundamental structural reforms set forth at the beginning of the fiscal year, progress through H1 of the fiscal year has been steady. We were able to reduce the cost of sales by JPY17 billion YoY and SG&A expenses JPY5.4 billion YoY. As a result, operating income was JPY800 million in the black, a significant improvement over the previous fiscal year, maintaining an increase compared to the initial plan as well.

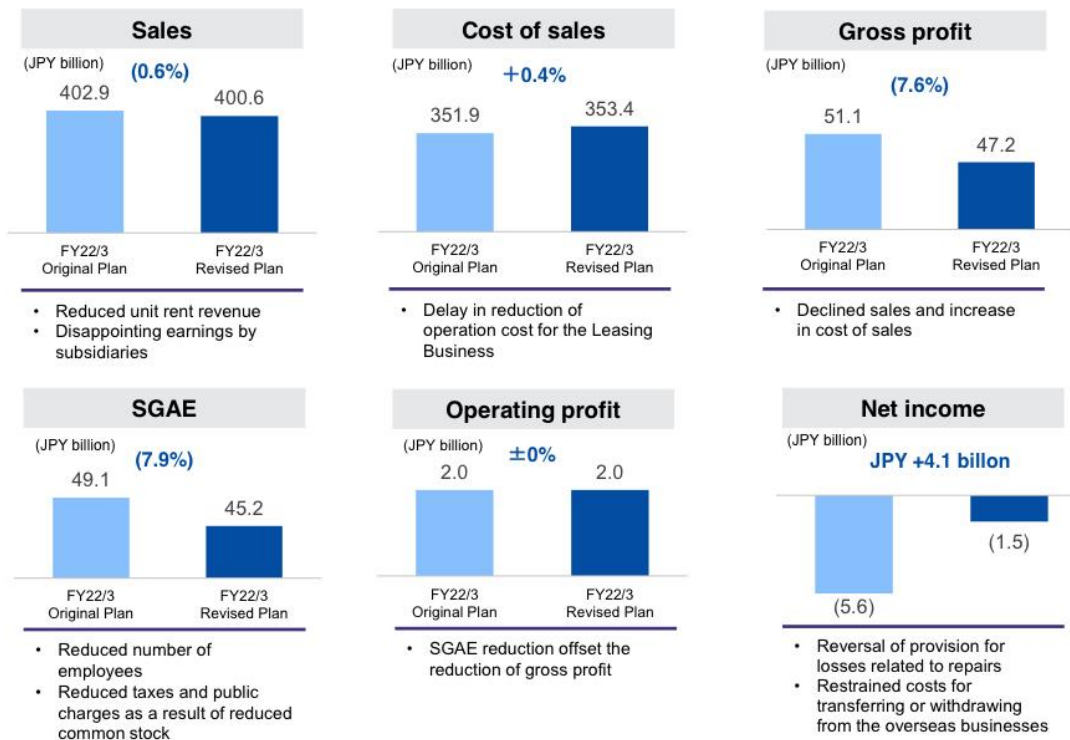
Although we incurred a recurring loss of JPY1.3 billion due to interest payments of JPY2.3 billion on a JPY30 billion loan with share subscription rights, we were able to achieve profitability with a net income of JPY600 million due to a JPY3.3 billion reversal of the provision for losses related to repairs in H1.

Ownership equity as of the end of H1 was negative JPY11 billion, but net assets, reflecting share subscription rights and non-controlling interests, were positive JPY600 million.

Since the stock price has been recovering since August, when we announced Q1 results, we have received many questions about whether the exercise of share subscription rights by Fortress Investment Group, part of the fundraising conducted last year, is not incorporated in the plan. However, they have the option to negotiate, and we do not have the right to decide.

The Company's plan to eliminate its excess liabilities by steadily achieving its business plan remains unchanged.

2-6: Revision of Full-year Plan in FY22/3



11

Next, I would like to explain the revision of the full-year business forecast and the forecast for H2.

Please see page 11 of the document. This is a summary of the initial plan and revised plan, as well as factors contributing to the increase or decrease.

Sales declined JPY2.3 billion compared to the initial plan. The main reason for this was the decline in unit rent prices during H1 of the fiscal year, and we responded to the decline in occupancy demand due to the spread of the COVID-19 infection by lowering unit rent prices.

On the other hand, H2 of the year will be the busy season, and we plan to gradually raise the contract rent. Although we will increase the unit rent in H2 of the fiscal year, the impact on the full-year business results for the current fiscal year will be limited, so we have decided to plan for a slight decrease in revenue compared to the initial plan.

We have also revised downward our sales plan for our subsidiaries as the impact of COVID-19 is expected to linger, especially in Guam, in H2 of the fiscal year. The occupancy rate plan has been revised slightly downward in H2 of the fiscal year due to the slightly weak performance in October, partly caused by a mismatch with demand, but we are confident that there is no problem with our sales strategy and sales force.

We will continue to promote the 3 pillars, which are top-level sales to corporate clients, an area strategy that divides the country into 7 regions, and strengthening ties with real estate agents.

H2 of the fiscal year is also the time when demand from new graduate hires emerges in corporate sales, and we have been focusing on capturing this demand since October. In addition, due to the reduction in our workforce, we will establish measures for the busy season, such as reviewing operations and assigning personnel during Q3 to prepare for January and beyond.

Cost of sales is expected to increase by JPY1.5 billion, or 0.4%, compared to the initial forecast. Factors for the increase in costs of sales in H2 include the expected rebound in leasing management costs, which were reduced more than planned in H1 of the fiscal year, and the expected delay in the cost and expense reductions of leasing operation due to a decrease in personnel.

As a result of the above, gross profit is expected to decrease by JPY3.8 billion compared to the initial plan. As for the provision for apartment vacancy loss, which had a reversal of JPY2.5 billion in H1 of the fiscal year, i.e., cost reduction effect, the full-year reversal of JPY4 billion at the beginning of the fiscal year is planned to occur in H2. Although there was a reversal of JPY2.5 billion in H1, the full-year reversal plan of JPY4 billion was left unchanged, causing a discrepancy between H1 and H2 plans.

On the other hand, we plan to reduce SG&A expenses by another JPY3.9 billion from the initial plan, and operating income will remain unchanged from the initial plan. Although the main reason for the reduction in SG&A expenses is the reduction in personnel expenses due to a decrease in the number of employees, we expect a slight increase in SG&A expenses in Q4 as we plan to supplement our workforce, including temporary employees, in order to strengthen our sales force for the busy season.

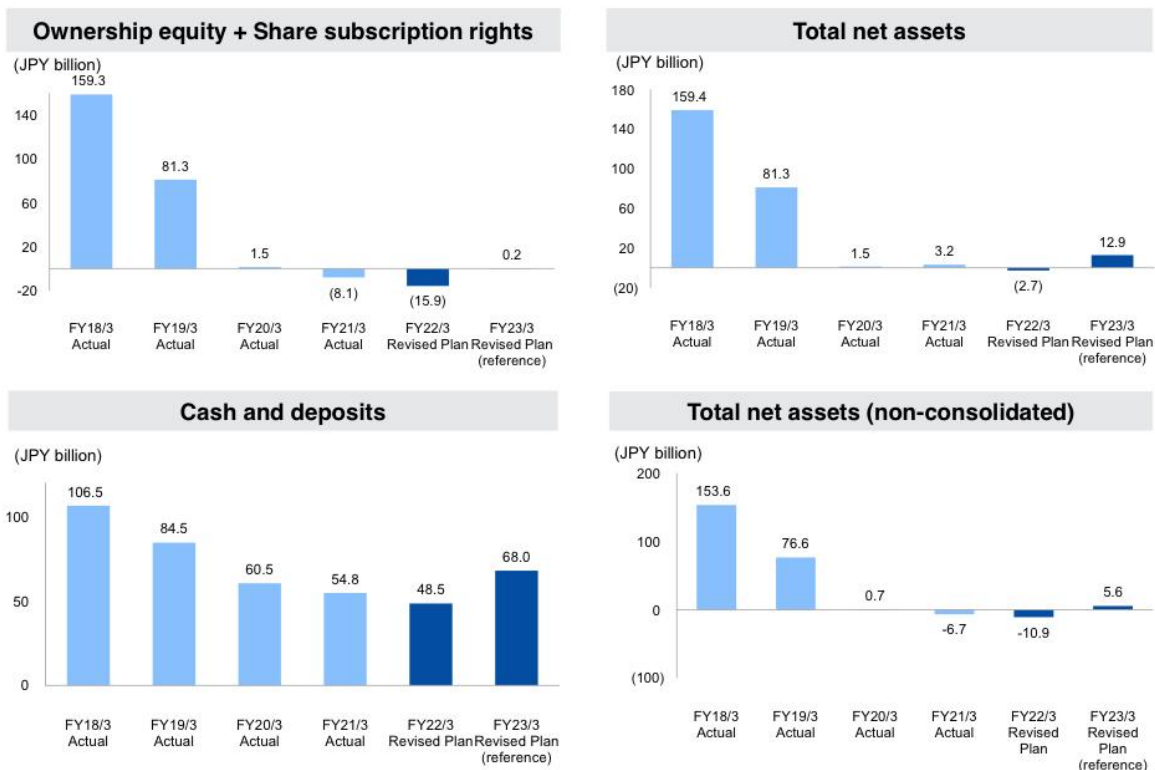
In addition, the reduced common stock approved at the general shareholders' meeting in June became effective on August 10. As a result, the tax is expected to be reduced by about JPY1 billion. While gross profit is expected to decrease, we expect to be able to further reduce SG&A expenses compared to the initial plan, so the operating income plan remains unchanged.

Net loss is planned to be JPY1.5 billion, although it is an improvement of JPY4 billion from the initial plan. The reason for the improvement compared to the initial plan is the effect of the reversal of provision for losses related to repairs, which was JPY3.3 billion in H1 of the fiscal year, and the reduction of asset transfer and withdrawal costs related to Cambodia and Thailand compared to the plan due to the completion of asset sales by October.

The provision for losses related to repairs is calculated by multiplying the unit price of construction work by the rate of occurrence of deficiencies, and the background to the reversal of the provision is that the unit price of construction work was further reduced. We have achieved the reversal through utilizing in-house resources for repair works and by reviewing the way we place orders with construction companies. We will continue this effort, but we do not currently anticipate any further reversals in H2 plan.

In addition, the sale of overseas assets represents progress in withdrawing from non-core and unprofitable businesses as part of the continuation of the fundamental structural reforms set forth at the beginning of the fiscal year. It is not an easy task to sell the property in the COVID-19 pandemic, but we will continue to work on it.

2-8: Road Map – BS (Graph)



13

Please see page 13 of the document. This is the roadmap for the balance sheet.

As a result of reflecting the revisions to the P&L, as explained so far, consolidated net assets at the end of the fiscal year are expected to be JPY2.7 billion in excess of liabilities. However, we plan to improve this to JPY12.9 billion in the next fiscal year, and there is no change from the initial plan to eliminate excess liabilities by the end of the fiscal year ending March 2023.

In the Leasing business, we were able to steadily exceed our initial plan through H1 of the fiscal year due to the success of the new sales measures we have been implementing this year and the easing of the direct impact of COVID-19.

However, we are very disappointed that the indirect impact of COVID-19, i.e., traces of the decline in rent prices and the impact on our subsidiaries, will appear in H2 of the fiscal year, resulting in a decrease in the full-year sales forecast. In addition, we were unable to maintain the momentum in operating profit and recurring profit of H1 in the forecast for H2. We apologize for this.

However, through the accumulation of measures 1 by 1, we are determined to achieve an operating surplus and improve the net loss at the end of the fiscal year.

We are aware that we provide social infrastructure that is directly and closely related to people's homes, with approximately 570,000 properties under our management nationwide.

We believe that it is our social mission to maintain and develop this social infrastructure, and we are determined to rebuild our management as soon as possible. We would appreciate the continued support of our stakeholders.

This concludes my presentation. Next, Ashida, Director, Managing Executive Officer, will explain the response to construction defects. Thank you very much for listening.

▶ 1: Repair Works on Properties Constructed by Leoplace21

Goal: Complete the repair for all obvious defects by the end of 2024

Progress of repairs

- Repair target for Sep - Dec 2020: about 2,000 rooms Repair result: 2,183 rooms
- Repair target for Jan – Jun 2021: about 6,000 rooms Repair result: 6,002 rooms
- Plan for Jul 2021 onward remains unchanged: complete the repair for all obvious defects by the end of 2024 and carry out the measures to tackle construction defects problem.

(as of October 31, 2021)

Apartment Series	No of Buildings	No of buildings containing obvious defects	No of all rooms which corresponds to No of buildings containing obvious defects	No of rooms	
				requiring repairs*	with repairs completed
Nail Series / Six Series Total	15,283	7,761	121,877	94,495	44,468
Other Series Total	23,802	4,872	76,065	67,344	4,893
Grand Total	39,085	12,633	197,942	161,839	49,361

* The number of rooms requiring repairs includes the rooms for which investigations are not complete.

* Progress of repair work: <https://www.leopalace21.co.jp/info/en/news/progress.html>

▶ 28

Ashida: I am Ashida, who is in charge of the Construction Defects Response Headquarters. I will explain the progress of the response to construction deficiencies.

Please see page 28 of the document.

As for the repairs for properties with obvious defects, as we have already announced, we are reducing the pace of repairs to the minimum level after July 2021. This is in line with our policy of focusing on the recovery of our financial base, and we are in the process of repairing the necessary areas according to the occupancy demand.

As for the specific progress, the number of units for which repairs have been completed for properties with obvious defects was 49,361 as of the end of October. The repair plan announced in August last year for approximately 2,000 units to be repaired from September to the end of December 2020, and for approximately 6,000 units from January to the end of June 2021, has been completed as planned.

In the second column from the right of the table, there are 161,839 rooms requiring repairs, and this includes about 90,000 units that are still occupied and have not yet been surveyed. Subtracting that number and the 49,000 units for which repairs have been completed from the number of rooms requiring repairs, there are 22,000 units, and we will first repair these units according to occupancy demand.

We will continue to monitor our company’s financial situation and proceed with construction on an appropriate scale, aiming to eliminate obvious defects by the end of 2024.

That is all the explanation from me. Thank you very much for listening.

Kawasaki: Next, Takekura will give an explanation. Thank you.

Takekura: I am Takekura. Thank you very much for taking time out of your busy schedules to join us today. I will present an overview of the financial results for H1 of the fiscal year ending March 2022, as well as the full-year plan for the current fiscal year, along with the presentation materials.

▶ 2-1: PL

1H results were ahead of original plan from sales to net income due mainly to good results from occupancy improvement measures, reduction in cost of sales and SG&A, and reversal of provision. The Company successfully recorded operating profit and net income and disclosed the revision of earnings forecasts on November 8, 2021 for 1H and full fiscal year ending March 2022.

Highlights of Results

(JPY million)	1H FY21/3 Actual	1H FY22/3 Original Plan	1H FY22/3 Actual	Compared		Factors contributing to changes
				YoY	with Plan	
Sales	208,647	198,000	199,550	(9,096)	+1,550	Reduction in sales of construction subcontracting were the major reasons behind negative growth YoY. Reversal of provision for apartment vacancy loss of JPY 2.5 billion (Q1: JPY 1.1 billion, Q2: JPY 1.3 billion) and reduction in cost of sales contributed to increased gross profit against original plan and the result for 1H FY21/3 result.
Cost of Sales	194,662	180,700	177,603	(17,059)	(3,096)	
Gross profit %	13,984 6.7%	17,300 8.7%	21,946 11.0%	+7,962 +4.3p	+4,646 +2.3p	
SG&A	26,600	24,700	21,136	(5,463)	(3,563)	Reduction in SG&A centered on personnel expenses contributed to the recording of operating profit.
Operating profit %	(12,616) (6.0%)	(7,400) (3.7%)	809 0.4%	+13,425 +6.5p	+8,209 +4.1p	
Recurring profit %	(12,854) (6.2%)	(9,700) (4.9%)	(1,332) (0.7%)	+11,521 +5.5p	+8,367 +4.2p	Interest expenses made recurring loss despite the fact that deficit margin was reduced.
Net income*	(17,571)	(11,500)	647	+18,218	+12,147	Recorded reversal of provision for losses related to repairs of JPY 3.3 billion (Q1: JPY 1.9 billion, Q2: JPY 1.4 billion)

* Net income refers to net income attributable to shareholders of the parent.

6

First, please see page 6. This is a summary of the financial results for H1 of the fiscal year ending March 2022.

The overview is as explained by Miyao earlier.

Sales for H1 of the fiscal year were JPY199.6 billion. This was a decrease of JPY9 billion from the previous fiscal year, but this was mainly due to the impact of the almost complete shutdown of the Development Business division, which resulted in an increase of JPY1.6 billion from the initial plan.

Gross profit was JPY21.9 billion. This is an increase of JPY7.9 billion YoY, and an increase of JPY4.6 billion compared to the initial plan, showing the results of our ongoing drastic structural reforms.

Specifically, we have set up an internal project to reduce SG&A costs and cost of sales, and this is the key point. The reduction is also highly probable, and I will explain this in more detail later.

In addition, there was a JPY2.5 billion reversal of the provision for apartment vacancy loss in H1 of the fiscal year, and this amount directly led to cost reduction.

Also, SG&A expenses were JPY21.1 billion. This represents a reduction of JPY5.4 billion YoY. We were also able to reduce it by JPY3.5 billion compared to the plan at the beginning of the fiscal year as well, and the main reason for this reduction is the reduction in the personnel expenses due to the reduction in the number of employees.

In the last fiscal year, we implemented voluntary retirement for the first time since the establishment of the Company, and while natural attrition has continued since then, we are definitely moving forward with a rational staffing and personnel structure. In order to address the lack of personnel due to seasonality factors particularly in this H2, we will hire non-regular employees and conduct internal transfer of personnel as needed, and strengthen the marketing ability for Leasing business.

As a compensatory measure, we plan to continue our business activities while protecting the current level of SG&A expenses by promoting stronger ties with real estate agents.

As a result, operating profit was JPY800 million. This is also an improvement of JPY13.4 billion YoY, and an improvement of JPY8.2 billion from the initial plan as well, showing a complete turnaround from the deficit. Reduction of SG&A expenses, and reduction of cost and expense had a significant impact on the profitability. This is the biggest achievement for our company, which has a high cumulative effect.

Recurring profit was negative JPY1.3 billion, but this was mainly due to the deduction of JPY2.2 billion of interest expenses on the loan with the share subscription rights that I mentioned, and a JPY3.3 billion reversal of provision for losses related to repairs, which was recorded as extraordinary income. As a result, we were able to achieve profitability with a net income of JPY600 million.

Also, the results by segment have been omitted from the presentation materials because the leasing demand now accounts for more than 90%. You can find the information on page 2 of the Financial Statement, so please take a look at it later.

To give you an overview, the Leasing business is as I just mentioned. In the Elderly Care business, sales increased slightly from the previous fiscal year, but we continued to post a final operating loss. As for other businesses, mainly in Guam, both sales and profits decreased due to the decline in occupancy rates.

As for the amount of adjustments, expenses borne by the entire Company have decreased due to changes in the structure of the Construction Defects Response Headquarters, so this is another improvement over the previous fiscal year.

Balance Sheet - main items only

(JPY million)	FY21/3	Q1 FY22/3	1H FY22/3	Factors contributing to changes (compared against end of FY21/3)
Cash and deposits	54,863	45,774	43,852	■ Cash and deposits Decreased by JPY 11 billion due to expenditure for operation funds and payment related to repairs of construction defects
Total assets	161,708	150,332	145,255	
Interest-bearing debt*	35,409	34,496	33,951	■ Provision for loss related repairs (current: JPY 1.2 billion, non-current: JPY 27.2 billion) Writing-off the provision for JPY 1.6 billion due to progress of repairs and reversal of provision for JPY 3.3 billion due to streamlined process (Q1: JPY 1.9 billion, Q2: JPY 1.4 billion) totaled to JPY 5.0 billion.
Provision for loss related to repairs	33,509	30,373	28,505	
Provision for apartment vacancy loss	12,262	11,067	9,749	■ Provision for apartment vacancy loss (current: JPY 6.7 billion, non-current: JPY 2.9 billion) Total reversal of JPY 2.5 billion (Q1: JPY 1.1 billion, Q2: JPY 1.3 billion)
Total liabilities	158,431	151,590	144,624	
Common stock	81,282	81,282	100	■ Common stock and capital surplus Transferred common stock of JPY 81.1 billion to capital surplus as of August 10, an effective date..
Capital surplus	55,174	55,174	136,346	
Retained earnings	(142,586)	(148,518)	(146,903)	■ Retained earnings Recorded net income for 1H of JPY 0.6 billion (Q1 for JPY 0.9 billion, Q2 for JPY 1.6 billion) despite applying Accounting Standard for Revenue Recognition pushed down the retained earnings by JPY 4.9 billion
Total shareholders' equity (A)	(6,474)	(12,364)	(10,759)	
Total accumulated other comprehensive income (B)	(2,019)	(359)	(314)	■ Non-controlling interests Became flat due to Leopalace Power Corporation's dividend payment and reduction of overseas subsidiaries' accumulated profit despite the recording of Leopalace Power Corporation's recording of net income
Ownership equity (A)+(B)	(8,494)	(12,723)	(11,074)	
Share subscription rights	388	357	357	■ Net assets Turned to positive at the end of 1H, which was JPY 0.6 billion, whereas deficit was recorded at the end of Q1
Non-controlling interests	11,383	11,108	11,347	
Total net assets	3,277	(1,257)	630	
Total liabilities and total net assets	161,708	150,332	145,255	

* Interest-bearing debt = borrowings + lease obligations

Now, please see page 8. This is the balance sheet.

I will go over with you the main items that have increased or decreased.

First, cash and deposits decreased by JPY11 billion YoY due to the expenditure for operation funds and payment related to repairs of construction defects.

In the liabilities account, interest-bearing debt decreased by JPY1.45 billion, mainly due to a decrease in lease obligations. Provision for losses related to repairs decreased by JPY5 billion in total due to the write-off of JPY1.6 billion due to progress in repairs, and a reversal of JPY3.3 billion in unit price improvements due to increased efficiency.

As I mentioned at the beginning of this report, we have reversed JPY2.5 billion of the provision for apartment vacancy loss due to the improvement of occupancy rates and property income and expenditure by reducing cost and expense.

And net assets. As it was mentioned earlier, our common stock was reduced by JPY81.1 billion and transferred to capital surplus as a result of the reduced common stock that was approved at the general meeting of shareholders in June.

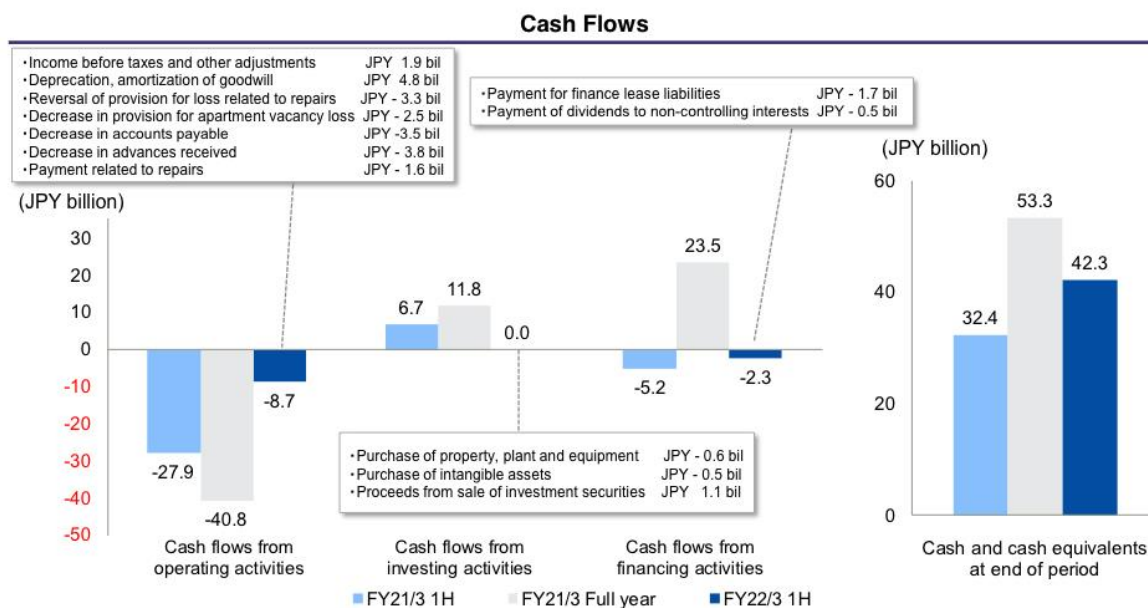
Retained earnings deteriorated from the end of the previous fiscal year. The main reason for this was the retroactive effect of the application of the Accounting Standard for Revenue Recognition, which resulted in a reduction of cumulative JPY4.9 billion from retained earnings at the beginning of the fiscal year.

As a result, the difference to net income of JPY600 million in H1, which is JPY4.3 billion, was reduced from net asset at the end of the previous fiscal year.

Ownership equity was negative JPY11 billion, but with the addition of share subscription rights and controlling interest, final net assets were positive JPY600 million.

2-4: CF

1H of FY22/3 resulted in net outflow from operating activities of JPY 8.7 billion, net inflow from investing activities of JPY 6 million, and net outflow from financing activities of JPY 2.3 billion, which resulted in net outflow of JPY 11.1 billion, an improvement of JPY 15.2 billion compared with 1H FY21/3.



Next, please turn to page 9. This is a statement of cash flows.

Operating cash flow and financial cash flow improved compared to the previous fiscal year.

First, although operating cash flow is still negative JPY8.7 billion, it has improved by JPY19.2 billion YoY. This was mainly due to the reduction in SG&A expenses, and in costs and expenses as a result of the recovery in our core business, and also due to the posting of income before taxes and other adjustments.

Cash flow from investing activities was JPY1.1 billion for the acquisition of fixed assets. This is for software and equipment required for our managed units, but we also sold investment securities, which added JPY1.1 billion to the total, resulting in JPY6 million at the end.

The sale of investment securities is being promoted as part of our efforts to strengthen governance.

Cash flow from financing activities was negative JPY2.3 billion, but it was an improvement of JPY2.9 billion YoY. Payment for finance lease liabilities was JPY1.7 billion, and payment of dividends to non-controlling interests was JPY500 million.

▶ 3-1: Progress Status for Excessive Liabilities Elimination

◆ Continue Drastic Structural Reforms

- Cost reduction across the board has been showing effect as a result of having implemented measures for drastic structural reforms such as transferring or withdrawing from non-core and unprofitable businesses, reviewing personnel structure, curtailing operation cost and management cost in the Leasing Business, as well as lowering fixed cost through consolidating leasing sales offices.
- 1H FY22/3 has seen the recording of operating profit of JPY 809 million, which overachieved the 1H plan.
- 1H FY22/3 has seen the recording of cost of sales of JPY 177,603 million, which is an improvement of JPY 3,096 million compared with the plan. SG&A was JPY 21,136 million, which was ahead of the plan by JPY 3,563 million.

◆ Improve Occupancy Rates

- Implemented the sales strategies such as prioritized allocation of management resources into the Leasing Business, introduction of area intensive approach, DX solution promotions such as web-based customer services, apartment viewing and rental contract signing, as well as longer reach of customers through the strengthened tie with real estate agents network.
 - The average occupancy rate during 1H FY22/3 was 80.69%, which was ahead of plan by 0.21 point and 1.43 point higher than the result of 1H FY21/3.
- The delisting grace period has been extended from one year to two years to March 31, 2023 for the Company because its excessive liabilities was judged to be caused by the impact of COVID-19 pandemic.
 - The Company disclosed on the website the notice of its efforts in excessive liabilities elimination dated May 14, 2021 and the notice of its entry into grace period pertaining to delisting caused by excessive liabilities dated June 29, 2021.

15

Next, I would like to talk about our measures for this fiscal year, which are the structural reform and occupancy rate improvement measures that we are continuing to implement.

This is a bit of a page jump, but please turn to page 15.

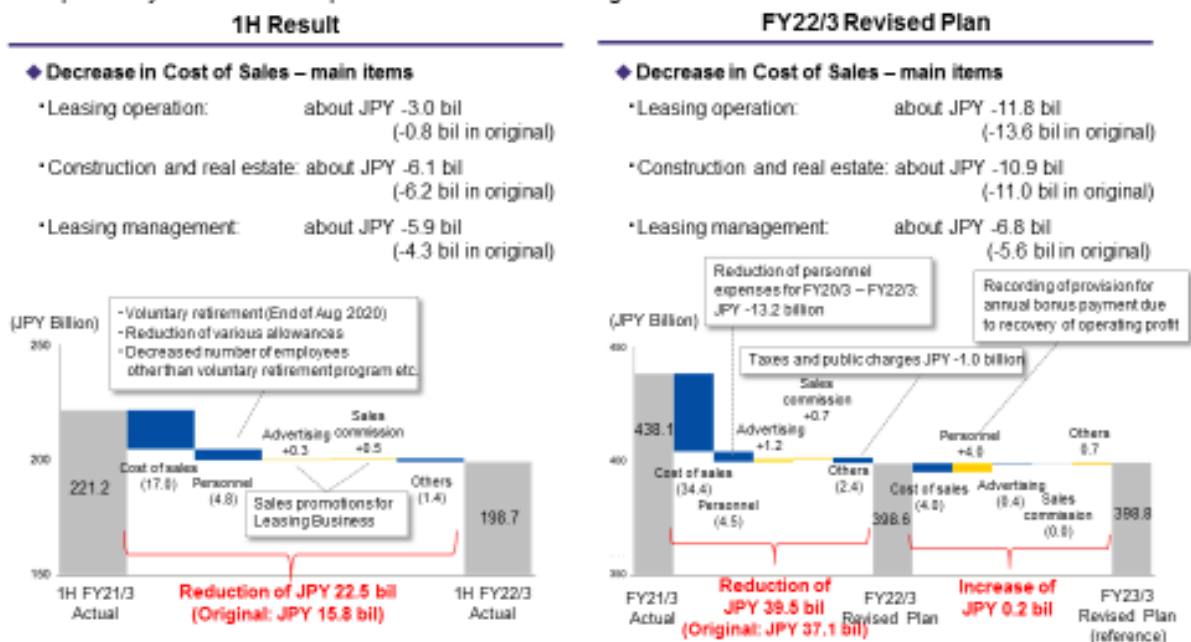
We are proceeding with structural reforms in line with the elimination of excess liabilities. In the improvement of the Leasing business, as I mentioned earlier, operating cost and management cost control had a significant impact, as well as the consolidation of leasing sales offices to reduce fixed costs. Offices were reduced from 135 a year ago to 103 currently, with a rational reduction of 32 offices to curb SG&A expenses.

As it was mentioned earlier, for withdrawal from overseas business as non-core business, we have completed the sale of assets in Cambodia and Thailand, and have started liquidation procedures for them in addition to Indonesia.

The occupancy rate is as stated. The average for the period improved by 0.21 points compared to the plan and by 1.43 points YoY due to the promotion of the improvement policy.

▶ 3-2: Reduction in Cost of Sales and SG&A

The Company has reduced cost of sales and SG&A for 1H FY22/3. Full year revised plan showed increased reduction of personnel expenses (JPY -2.6 billion in original) and other SG&A (JPY -0.8 billion in original) despite delay in reduction of operation cost for the Leasing Business.



Let's take a look at the next page, page 16.

I would like to talk about the details of cost of sales and SG&A expenses, which are the pillars of our structural reforms, and which have been mentioned many times before.

In H1 of the previous fiscal year, we had JPY221.2 billion in cost of sales and SG&A expenses on a consolidated basis, but at the end of H1 of this fiscal year, we had JPY198.7 billion, being able to have reduced by JPY22.5 billion compared to the planned decrease of JPY15.8 billion.

The largest reduction was the cost of sales. The reduction was JPY17 billion, and for the breakdown, there was the reduction in cost of sales in leasing operation of JPY3 billion. This was mainly due to the contractual rent adjustment based on the master lease agreements, and the results through H1 of the fiscal year were almost in line with the plan.

Then, there was a reduction of construction and real estate costs. This reduction of JPY6.1 billion is related to the decrease in sales in the Development business due to the suspension of new orders and was in line with the plan.

Also, there was a reduction in cost of sales in leasing management. As for this JPY5.9 billion, we were able to proceed slightly ahead of the initial plan. This is the result of a series of really small efforts, such as reviewing the maintenance flow for furniture and home appliances installed in the properties we manage and increasing the efficiency of room maintenance by reviewing it unit by unit. Although the unit price is very small, there are 570,000 rooms nationwide, so if we keep piling them up, it will lead to a reduction of several billion yen.

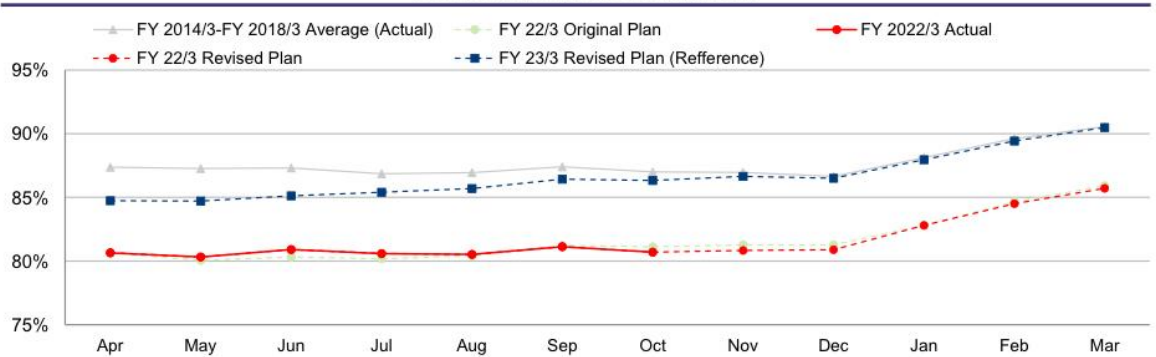
In addition, the JPY4.8 billion in personnel expenses is due to the natural attrition I mentioned earlier. Advertising and SG&A expenses were slightly increased by JPY800 million due to the strengthening of ties with

real estate agents. Overall, we were able to reduce SG&A expenses more than our initial plan at the beginning of the fiscal year.

▶ 3-3: Occupancy Rates Development for Past, Present and Future

Occupancy improvement measures and slowdown impact of COVID-19 pandemic helped the 1H results remained ahead of the plan. Considering the dip in October, the Company revised the average rate downward. The target rate at the end of FY22/3 is 85.70%, down 0.22p against original plan; and average for FY22/3 is 81.62%, down 0.03p against original plan.

Occupancy Rates Development



(Occupancy rate = Number of contracted rooms / Total number of rooms under management %)

	Apr	May	Jun	Jul	Aug	Sep	1H Ave.	Oct	Nov	Dec	Jan	Feb	Mar	Full-year Ave.
FY14/3 - FY18/3	87.37	87.26	87.31	86.86	86.94	87.40	87.19	87.00	86.96	86.65	88.12	89.62	90.56	87.67
FY22/3	80.65	80.32	80.91	80.59	80.53	81.13	80.69	80.70						80.69

*Monthly Data : <http://eg.leopalace21.com/ir/finance/getsuji.html>

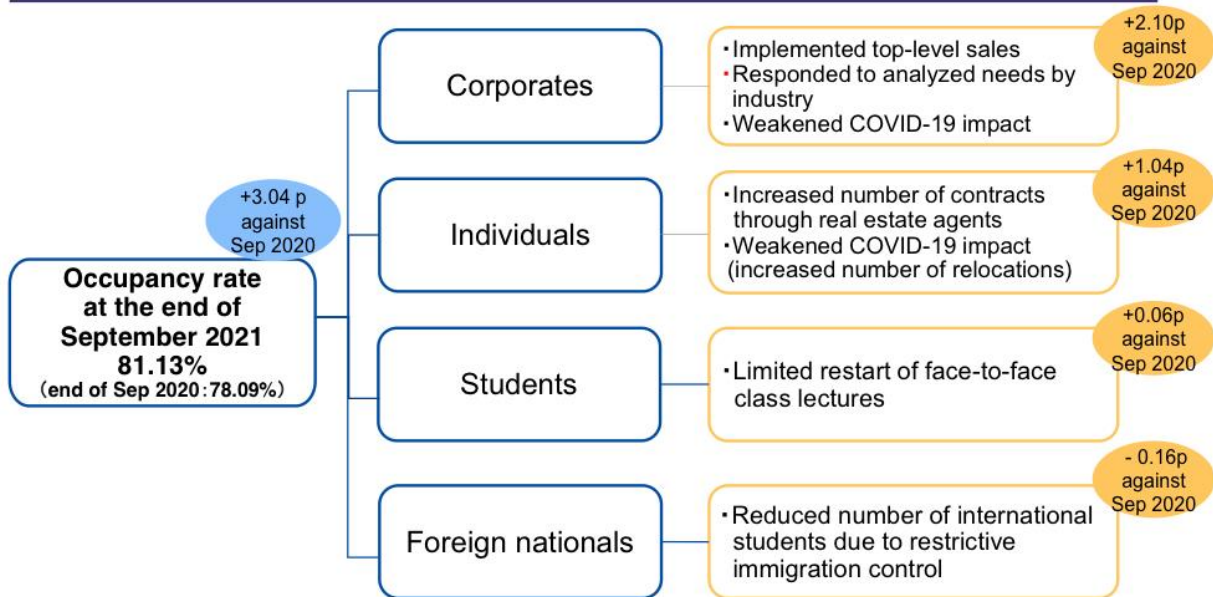
Continuing on page 17. This is a graph showing the changes in the occupancy rate.

As I mentioned earlier, the average for the period was 80.69%, which was 1.43% higher YoY. We were able to achieve an increase of 0.21 points compared to the initial plan.

3-4 : Occupancy Rate Gap Analysis

Occupancy improvement measures by customer segment produced the results for 1H broadly in line with the plan, same as Q1 FY22/3. The demand for apartment rooms is recovering especially for corporate customers despite the demand by foreign nationals remained weak due to COVID-19 impact.

Gap Analysis Against the End of Sep 2020



18

Page 18 shows the improvement in occupancy rate in H1 of this fiscal year, and the results by attribute.

Looking at the occupancy rate at the end of September, which is the end of H1 of the fiscal year, broken down into corporates, individuals, students, and foreign nationals, the segment that showed the greatest improvement YoY was corporates, with a 2.1-point improvement YoY. There is a sales policy that we are implementing as the top-level sales in the measures to improve the occupancy rate this fiscal year. We analyze that the improvement is partly due to the results of these efforts coming to fruition.

Individuals also shows the improvement of 1.04 points YoY. This is due to an increase of as large as 56% in contracts through real estate agents YoY.

Students are almost flat at 0.06 points due to the effect of COVID-19 and other factors. On the other hand, foreign nationals decreased by 0.16 points YoY due to the continued decline in the number of foreign nationals coming to Japan, mainly students because of the immigration restrictions imposed in relation to COVID-19, as I mentioned earlier.

This month, on November 8, there was news about the easing of immigration restrictions, and we have already received inquiries from companies about this, which is a very strong tailwind for us.

Toward the end of the fiscal year, we will implement the following 3 measures to achieve the occupancy rate of 85.7 at the end of the fiscal year: implementation of top-level sales to the key decision makers at the customers by our President & CEO and senior management in the Leasing business department as I mentioned earlier; implementation of area intensive strategy by dividing the nation into 7 areas -- and implementing measures for each area with a speed; and strengthening ties with real estate agents, as I mentioned earlier.

2-5: Roadmap

The Company disclosed revision of earnings forecasts on November 8, 2021 for 1H and full year of FY22/3. Revised plan confirmed operating profit due to continued effect of occupancy improvement measures and cost-cutting measures. FY23/3 will see net income expecting the effect of continued respective measures, along with both positive numbers for ownership equity + share subscription rights and for total net assets.

Plan

(JPY Million)	FY18/3 Actual	FY19/3 Actual	FY20/3 Actual	FY21/3 Actual	FY22/3 Revised Plan	FY23/3 Revised Plan (reference)
Sales	530,840	505,223	433,553	408,959	400,600	421,200
Cost of sales	434,762	428,988	408,112	387,872	353,400	349,300
Gross profit	96,077	76,235	25,441	21,086	47,200	71,900
%	18.1%	15.1%	5.9%	5.2%	11.8%	17.1%
SGAE	73,147	68,844	61,915	50,269	45,200	49,500
Operating profit	22,930	7,390	(36,473)	(29,182)	2,000	22,400
%	4.3%	1.5%	(8.4%)	(7.1%)	0.5%	5.3%
Recurring profit	22,354	7,063	(36,341)	(34,170)	(2,900)	17,200
Net income *	14,819	(68,662)	(80,224)	(23,680)	(1,500)	15,400
Average occupancy rate	90.59%	88.34%	80.78%	78.89%	81.62%	86.62%
Ownership equity	159,044	80,915	1,303	(8,494)	(16,300)	(200)
Ownership equity + Share subscription rights	159,328	81,320	1,572	(8,105)	(15,900)	200
Total net assets	159,438	81,338	1,589	3,277	(2,700)	12,900

* Net income refers to net income attributable to shareholder's of the parent.

10

Finally, I would like to go back and look at page 10.

As Miyao already explained it earlier, I just would like to briefly explain. The movement will change between H1 and H2, but at the end of this fiscal year, we will maintain an operating profit of JPY2 billion.

Net income was negative JPY5.6 billion in the initial plan, but we plan to improve it to negative JPY1.5 billion with an increase of JPY4.1 billion. By doing so, we will reduce the amount of excess liabilities on a consolidated basis to JPY2.7 billion at the end of the fiscal year, and in the next fiscal year, operating profit is expected to be JPY22.4 billion and net income is expected to be JPY15.4 billion. Also, consolidated net assets is planned to be JPY12.9 billion. We are planning to proceed with this as a probable plan.

We will continue to be vigilant and work on drastic structural reforms, while striving to recover our financial base by steadily aiming to improve occupancy rates.

This concludes my explanation. We would like to ask for your continued support and encouragement. Thank you very much.

Question & Answer

Kawasaki: We will now begin the question-and-answer session.

Here is a question from Mr. Tazawa, SMBC Nikko Securities Inc.

You mentioned that you have lowered the outlook for negotiations with the owner for a reduction in the guaranteed rent compared to the initial plan at the beginning of the fiscal year. What is the current status of the negotiations and what is the outlook for the future? Since this is due to the factor of delay in reporting, can we expect the reduction to be as initially expected if we look at it over a period of 2 to 3 years? Or is it difficult to reduce the amount as expected?

Miyao: Miyao will answer the question.

It is true that we have lowered our forecast slightly, but we have lowered it to the point where we think we will not be able to make a contribution in time for the current fiscal year, so you can think of it as a postponement to the next fiscal year.

Also, I hope you understand that the actual amount of the postponement is not that big of an impact. Therefore, because this is due to the delay in reporting, we believe that we can expect to achieve the originally planned figures within a certain period of time.

In particular, regarding the negotiation with owners, they are the largest stakeholder among our business partners, and since they are individuals, we explain to them the details in accordance with the so-called New Sublease Law, so as to avoid any problems. That is all from me.

Kawasaki: Thank you very much. Now, Mr. Tazawa's second question.

The occupancy rate has been recovering steadily, but the unit rent has been declining. Please tell us how much it has fallen, and what the future outlook is for unit rents and how they will affect the profit plan.

Miyao: As I explained, the first factor was that the market itself was weak because the movement of people had been quite low for about a year due to the effect of COVID-19.

In the current fiscal year, especially from the beginning of the fiscal year, we have lowered the unit rent, especially for selected properties in each area, in order to solidify the occupancy rate so that it does not fall. This is another factor. On average, the rent for our apartments is less than JPY50,000 if you exclude the common service fee, so in that respect, I would say that reduction would be about JPY1,000 or so.

However, in terms of the future outlook, we will be reviewing the rent from around December, as we have been doing in the past. In the so-called relocation season actually, we intend to proactively review unit prices, taking into account the demand in the area.

Once the occupancy rate recovers to a certain level, as I mentioned at the beginning, we will not need to take measures to lower rents in order to raise or maintain the occupancy rate. Therefore, if the demand for tenants is high, we do not think that such a decrease in unit rent will have a significant impact.

As for the impact on our profit plan, as you will see later, the impact will be about JPY2 billion or more.

Kawasaki: Thank you very much. Now, the third question from Mr. Tazawa.

For the fiscal year ending March 2022, what are the assumptions behind the plans for sales, operating profit, recurring profit, et cetera, which are generally at the same level in H1 and H2 of the year and are not expected to improve? Although the occupancy rate is on the way to improving, please tell us the reason why earnings have not recovered much.

Miyao: The occupancy rate is almost unchanged from the plan at the beginning of the term. On the other hand, profits in H2 of the year are not expected to rise as much as initially planned. One reason for this is the impact of the unit rent, as I mentioned earlier.

In addition, as I mentioned earlier, we initially expected a reversal of provision for apartment vacancy loss of JPY4 billion for the current fiscal year.

We had assumed that all of this JPY4 billion would be generated in H2 of the fiscal year, but in fact, JPY2.5 billion was generated in H1. Instead of adding this JPY2.5 billion to JPY4 billion in H2, we left JPY4 billion unchanged for full year. As a result, the amount to be generated in H2 of the fiscal year is actually expected to be JPY1.5 billion, JPY2.5 billion less than the JPY4 billion initially planned. The second reason is that these factors have led to an increase in costs, the opposite of the so-called cost reduction.

Thirdly, as I mentioned earlier, we also take into account the management costs of so-called agents and maintenance, as well as the delay in negotiations on contractual rent adjustment based on the master lease agreements to the next fiscal year.

Then, there are subsidiaries. Especially in Guam, Japanese tourists don't actually enter until the end of December. In any case, the number of Japanese tourists to Guam this fiscal year is 0, so we have projected a negative impact on earnings for that reason as well.

These are the reasons why earnings have not recovered, even though the occupancy rate has started to improve. The occupancy rate, in particular, is expected to improve by about 5 points in Q4, but even if the occupancy rate actually rises, the rental income will mostly be received in the next fiscal year.

Therefore, even if we achieve a high occupancy rate of 85% in March, the rent income will not contribute much to the current fiscal year, but will take full effect in the next fiscal year. That part, roughly a 2-month lag, is the reason for the slight difference in the pitch between occupancy rate improvement and revenue.

Kawasaki: Thank you very much. Next, Mr. Tazawa's fourth question.

Excess debt has increased to JPY10.8 billion. What is your sense of direction toward the elimination of it in the fiscal year ending 2023? Is there a growing confidence that the debt will be eliminated even without an equity conversion of Fortress loan?

Miyao: I am confident. We hope to eliminate it by March 2023 on our own. In terms of figures, we have such a conservative plan to some extent this time. On the other hand, as Takekura mentioned earlier, the easing of the entry into the country in November was not easily incorporated into the revised plan.

As reported in the Nikkei Shimbun, there are 370,000 people who have the so-called qualifications to enter Japan but have not yet entered the country. The breakdown is 110,000 for specific skills or technical training, 140,000 foreign students, and other, according to the newspaper. If such many people are coming to Japan, they will naturally be in need of housing, and we believe that we have enough materials to provide housing for them.

I believe that the results of such efforts will be realized in the future. The outlook for actual results is still unclear, as we only have the government's announcement. However, even in the past few days, we have

already received a considerable number of inquiries, so in that sense, our confidence has increased. That is all.

Kawasaki: Thank you very much. Next, we have a question from Mr. Hashimoto, Mizuho Securities Co., Ltd.

It is about loans with share subscription rights. You said that it depends on the decision of Fortress Investment Group Japan, but since they are also an outside director, how are you handling the situation? Please let me know to the extent you can.

Miyao: I cannot tell you anything. Or rather, I think it is basically impossible for me to discuss the conversion of loans with share subscription rights, with an outside director. This is still a Fortress decision, and I hope you understand that we are not engaged in any kind of dialogue at this point.

Kawasaki: Thank you very much. Now, Mr. Hashimoto’s second question.

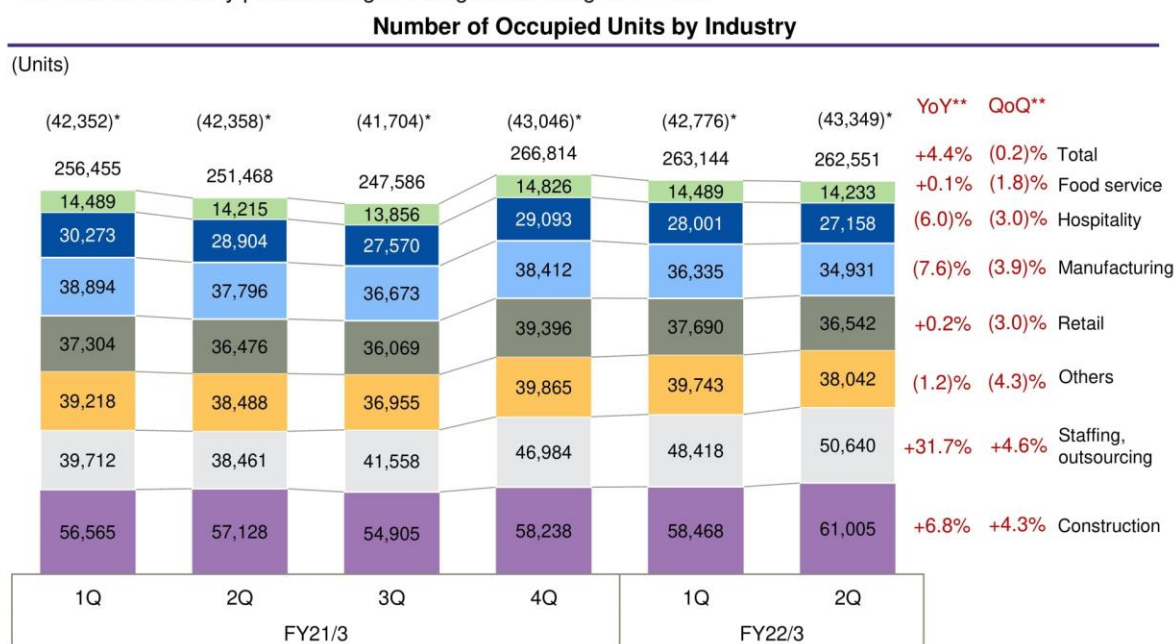
If the occupancy rate forecast, page 17, is achieved, can the reversal of provision for apartment vacancy loss be recorded for the full year?

Miyao: The occupancy rate forecast has not changed significantly since the beginning of the term. Our forecast is based on the assumption that if we can achieve this occupancy rate forecast, the reversal of JPY4 billion for the full year will be possible. Therefore, logically speaking, if we can achieve this outlook of occupancy rate, the reversal will be JPY4 billion in line with the plan. Because of this, we took JPY2.5 billion in advance in H1 of the fiscal year, which affected the revision of the profit plan for H2.

Kawasaki: Thank you very much. Now, Mr. Hashimoto’s third question.

▶ 4-4: Occupied Units by Industry

Approximately 80% of listed companies* in Japan have used Leopalace21 services.
Gradual slowdown impact of COVID-19 and the strong demand in staffing and outsourcing industry as well as construction industry produced significant growth during 1H FY22/3

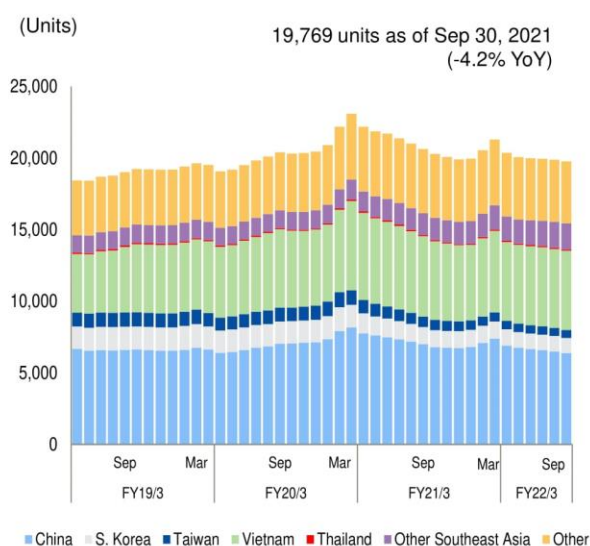


Looking at page 25 of the document, the construction industry and the temporary staffing and outsourcing industry are doing well in terms of corporate contracts, but can we expect demand in the manufacturing industry in the future as well?

4-5: Foreign National Tenants

By adding 13 thousand units contracted by corporate customers for their foreign national employees, totally about 33 thousand units are used by foreign national tenants, making up 7.1% of the total occupied units, which compared with 7.6% at the end of September 2020 and 7.2% at the end of June 2021.

**Leased Units by Foreign Nationals
(Excluding Corporate Contracts)**



Leasing Business Overseas (9 locations)



On page 26, are there any movements with foreign nationals by shortened isolation period for foreigners?

Miyao: Up to this point, the construction industry and the temporary staffing and outsourcing industry have been doing well because, as a result of gathering human resources in Japan, they were able to acquire sufficient resources domestically.

I think you are pointing out that the manufacturing industry is growing slightly less in this aspect. On the other hand, until now, the manufacturing industry has relied on dispatched workers of Japanese people to fill the labor shortage.

However, when it comes to foreign human resources in the future, I hear that many companies are recruiting overseas personnel through so-called supervising organizations for reception of trainees or interns. I have heard that the manufacturing industry is one of those industries, so in that respect, we can expect to see an increase in demand for rooms in the manufacturing industry through the hiring of overseas personnel.

As for page 26, this is just the number of individual foreign nationals, so I think the target is basically foreign students.

As for the movement by shortened quarantine period, basically we will continue to work with individuals overseas, mainly international students, and we have heard that there have been a series of inquiries from schools since the government's announcement.

In fact, the number of people who are actually entering the country is still quite small, although the government is currently talking about 3,500 people a day. Even if they say that there are 3,500 people, it is still unclear how the first person is selected.

I think that everyone is now inquiring here and there about how to proceed with the policy in this aspect. This is my answer.

Kawasaki: Thank you very much. We still have a bit of time left, but since there are no additional questions, we will now conclude the question and answer session and the briefing session.

Thank you very much for participating in today's financial results briefing for Q2 of the fiscal year ending March 2022 for Leopalace21 Corporation.

[END]

Disclaimer

SCRIPTS Asia reserves the right to edit or modify, at its sole discretion and at any time, the contents of this document and any related materials, and in such case SCRIPTS Asia shall have no obligation to provide notification of such edits or modifications to any party. This event transcript is based on sources SCRIPTS Asia believes to be reliable, but the accuracy of this transcript is not guaranteed by us and this transcript does not purport to be a complete or error-free statement or summary of the available data. Accordingly, SCRIPTS Asia does not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information contained in this event transcript. This event transcript is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal.

In the public meetings and conference calls upon which SCRIPTS Asia's event transcripts are based, companies may make projections or other forward-looking statements regarding a variety of matters. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the applicable company's most recent public securities filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are accurate and reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the anticipated outcome described in any forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE PUBLIC MEETING OR CONFERENCE CALL. ALTHOUGH SCRIPTS ASIA ENDEAVORS TO PROVIDE ACCURATE TRANSCRIPTIONS, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE TRANSCRIPTIONS. IN NO WAY DOES SCRIPTS ASIA OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BY ANY PARTY BASED UPON ANY EVENT TRANSCRIPT OR OTHER CONTENT PROVIDED BY SCRIPTS ASIA. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S PUBLIC SECURITIES FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS. THIS EVENT TRANSCRIPT IS PROVIDED ON AN "AS IS" BASIS. SCRIPTS ASIA DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, AND ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT.

None of SCRIPTS Asia's content (including event transcript content) or any part thereof may be modified, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of SCRIPTS Asia. SCRIPTS Asia's content may not be used for any unlawful or unauthorized purposes.

The content of this document may be edited or revised by SCRIPTS Asia at any time without notice.

Copyright © 2021 SCRIPTS Asia Inc. ("SCRIPTS Asia"), except where explicitly indicated otherwise. All rights reserved.