



Leopalace21 Corporation

Financial Results Briefing for the Nine Months Ended December 31, 2021

February 10, 2022

Event Summary

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[Participants]		
[Number of Speakers]	4	
	Bunya Miyao	President and CEO, Chief of the Business Operation Headquarters
	Shigeru Ashida	Director, Managing Executive Officer, Chief of Corporate Management Headquarters, Chief of Construction Defects Response Headquarters
	Shinji Takekura	Executive Officer, Senior Department Manager, Corporate Planning Department
	Wataru Kawasaki	Corporate Planning Department, IR Promotion Office
[Analyst Names]*	Yasuhisa Hashimoto	Mizuho Securities Co., Ltd.
	Kouki Ozawa	SBI Securities Co., Ltd.
	Junichi Tazawa	SMBC Nikko Securities Co., Ltd.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

Kawasaki: Thank you very much for taking time out of your busy schedules to participate in the financial results briefing for the third quarter of the fiscal year ending March 2022 of Leopalace21 Corporation today. I am Kawasaki, and I will be the moderator. Thank you.

Today's speakers and question-and-answer session will be led by the following three people: Bunya Miyao, President and CEO; Shigeru Ashida, Director, Managing Executive Officer, Chief of Corporate Management Headquarters; and Shinji Takekura, Executive Officer, Senior Department Manager, Corporate Planning Department.

In this briefing, there will be time for a question-and-answer session after the financial report. Questions will be accepted in text format via the Q&A function in the control panel. Please note that only one question may be included per text. If you have multiple questions, please send us multiple messages.

Please note that due to time constraints, we may not be able to answer all of your questions. We would appreciate your understanding in advance. Please note that the chat function is not available, so if you have any problems, please let us know using the Q&A function.

We will also ask you to complete a one-minute questionnaire after the briefing. We look forward to your cooperation. The meeting is scheduled to end at 18:00.

We will now begin our presentation on the financial results for the third quarter of the fiscal year ending March 2022.

▶ 2-1: PL

Q3 results were ahead of revised plan in cost of sales, SG&A and net income, which compensated the decrease in sales due to slower recovery in occupancy improvement affected by the re-expansion of COVID-19 pandemic. The Company disclosed the revision of earnings forecasts on February 4, 2022 for full fiscal year ending March 2022.

Highlights of Results

(JPY million)	Q3 FY21/3 Actual	Q3 FY22/3 Revised Plan	Q3 FY22/3 Actual	Compared		Factors contributing to changes
				YoY	with Plan	
Sales	308,326	299,300	297,470	(10,856)	(1,829)	Reduction in sales of construction subcontracting was the major reason behind negative growth YoY.
Cost of Sales	287,110	264,800	262,264	(24,846)	(2,535)	
Gross profit	21,215	34,500	35,206	+13,990	+706	Reversal of provision for apartment vacancy loss of JPY 5.0 billion (Q1: JPY 1.2 billion, Q2: JPY 1.3 billion, and Q3 JPY 2.5 billion) and major reduction in cost of sales contributed to increased gross profit against the plan and the result for Q3 FY21/3 result.
%	6.9%	11.5%	11.8%	+5.0p	+0.3p	
SG&A	37,801	32,700	30,930	(6,870)	(1,769)	Reduction in SG&A centered on personal expenses contributed to the recording of operating profit.
Operating profit	(16,585)	1,800	4,275	+20,860	+2,475	
%	(5.4%)	0.6%	1.4%	+6.8p	+0.8p	Interest expenses of JPY 3.3 billion decreased the margin of recurring profit.
Recurring profit	(20,562)	(1,200)	1,444	+22,006	+2,644	
%	(6.7%)	(0.4%)	0.5%	+7.2p	+0.9p	Recorded reversal of provision for losses related to repairs of JPY 6.1 billion (Q1: JPY 1.9 billion, Q2: JPY 1.4 billion, and Q3 JPY 2.8 billion)
Net income*	(25,003)	700	5,865	+30,868	+5,165	

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

▶

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 the third quarter of the fiscal year ending March 2022, as well as the revision of the full-year business forecast announced on February 4.

First, in the financial results for the third quarter of the fiscal year ending March 2022, net sales decreased by JPY10.8 billion YoY and JPY1.8 billion compared to the plan, but we were able to improve gross and other profit compared to both the previous fiscal year and plan.

The reason for the YoY decline in net sales was a decrease in sales of construction and real estate sales due to the impact of the suspension of new orders. On the other hand, there are two factors for the decrease in revenue compared to the plan. One is that more tenants than expected have vacated their rooms due to the spread of the Omicron strain, and the other is the continued decline in contracted rents, as reported previously.

While we are moving forward with cost and expense reductions steadily, there has been a slight delay in contractual adjusting of master lease rent, but it is still within the range that can be handled by time lag in reporting in the fiscal year. In addition, a reversal of the provision for apartment vacancy loss in the cost of sales of JPY5 billion was made, and the cost of sales was reduced by JPY24.8 billion from the previous fiscal year.

SG&A expenses were reduced by JPY6.8 billion YoY. As a result, we were able to achieve an operating profit of JPY4.2 billion, a significant improvement over the previous fiscal year. Recurring profit remained to be at JPY1.4 billion due to the burden of JPY3.3 billion in interest payments on a JPY3.3 billion loan with share subscription rights. However, as a result of a JPY6.1 billion reversal of the provision for losses related to repairs, net income was JPY5.8 billion, an improvement of JPY30.8 billion YoY, and we were able to achieve profitability in the third quarter as well.

Ownership equity as of the end of the third quarter was negative JPY5.6 billion, but net assets, reflecting share subscription rights and non-controlling interests, were positive JPY4.2 billion.

▶ 2-5: Roadmap

The Company disclosed revision of earnings forecasts on February 4, 2022 for full year of FY22/3. Revised plan confirmed operating profit and net income. The recording of net income was the first time in four fiscal years.

Although total net assets will be negative, they will turn to be positive as well as ownership equity + share subscription rights.

Plan

(JPY million)	FY18/3 Actual	FY19/3 Actual	FY20/3 Actual	FY21/3 Actual	FY22/3 Revised Plan Feb	FY23/3 Revised Plan Feb(reference)
Sales	530,840	505,223	433,553	408,959	399,400	420,800
Cost of sales	434,762	428,988	408,112	387,872	353,200	351,700
Gross profit	96,077	76,235	25,441	21,086	46,200	69,100
%	18.1%	15.1%	5.9%	5.2%	11.6%	16.4%
SGAE	73,147	68,844	61,915	50,269	43,600	48,600
Operating profit	22,930	7,390	(36,473)	(29,182)	2,600	20,500
%	4.3%	1.5%	(8.4%)	(7.1%)	0.7%	4.9%
Recurring profit	22,354	7,063	(36,341)	(34,170)	(1,800)	15,300
Net income *	14,819	(68,662)	(80,224)	(23,680)	1,800	13,500
Average occupancy rate	90.59%	88.34%	80.78%	78.89%	81.24%	85.86%
Ownership equity	159,044	80,915	1,303	(8,494)	(12,000)	3,400
Ownership equity + Share subscription rights	159,328	81,320	1,572	(8,105)	(11,600)	3,800
Total net assets	159,438	81,338	1,589	3,277	(900)	12,800

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

10

Next, I will explain the revision to our full-year earnings forecasts. Please see page 10 of the document. This is a summary of the plan, as well as factors for changes.

Net sales forecast was revised down by JPY1.2 billion, or 0.3%, from the previous plan announced on November 8.

The main reasons for this, as in the third quarter results, are that the occupancy rate has not met the plan due to more than expected leavers from rooms and that the recovery of unit rent has been delayed.

With regard to rent in particular, we told you at the previous briefing that we would gradually raise the rent in the second half of the fiscal year, and although we are gradually raising the rent, it is not yet complete. On the other hand, ASUKA SSI, tenant contents insurance provider, a subsidiary of the Company, has newly included in its plan an increase in revenue from the conclusion of reinsurance contracts.

Although the occupancy rate plan has been revised slightly downward due to an increase in leavers, we believe that there is no problem with our sales strategy and sales capabilities. In particular, the fourth quarter is the time to capture demand for new graduates in corporate tenants, and as a result of interviews with various companies, we have already confirmed that demand is even higher than last year, specifically, demand for nearly 25,000 leased corporate housing units for a tenant without family.

Last fiscal year, we received about 15,000 contracts for a demand of about 20,000 rooms, and we believe that we will be able to capture the same proportion this year. Last year, we started the interview to find out demand around October to confirm rooms at early stage. However, this year, we are trying to determine

whether the demand is for a short-term need for training or a long-term need for permanent assignments before confirming rooms. Therefore, contracts have been pushed back compared to last year. In other words, the increase in the number of contracts due to demand from new graduates is expected to be delayed in February and March.

In some areas, matching cannot keep up with the increasing demand, but we will make sure to close the deal by providing detailed follow-up services, such as introducing other rooms along the same rail line.

A year ago, the market condition was difficult partly due to the declaration of state of emergency issued twice consecutively, but we were able to increase the occupancy rate by more than 4 percentage points despite that. Although Omicron variant is currently raging again this fiscal year, we will make sure to achieve our year-end occupancy rate plan of 85.1% in the next two months.

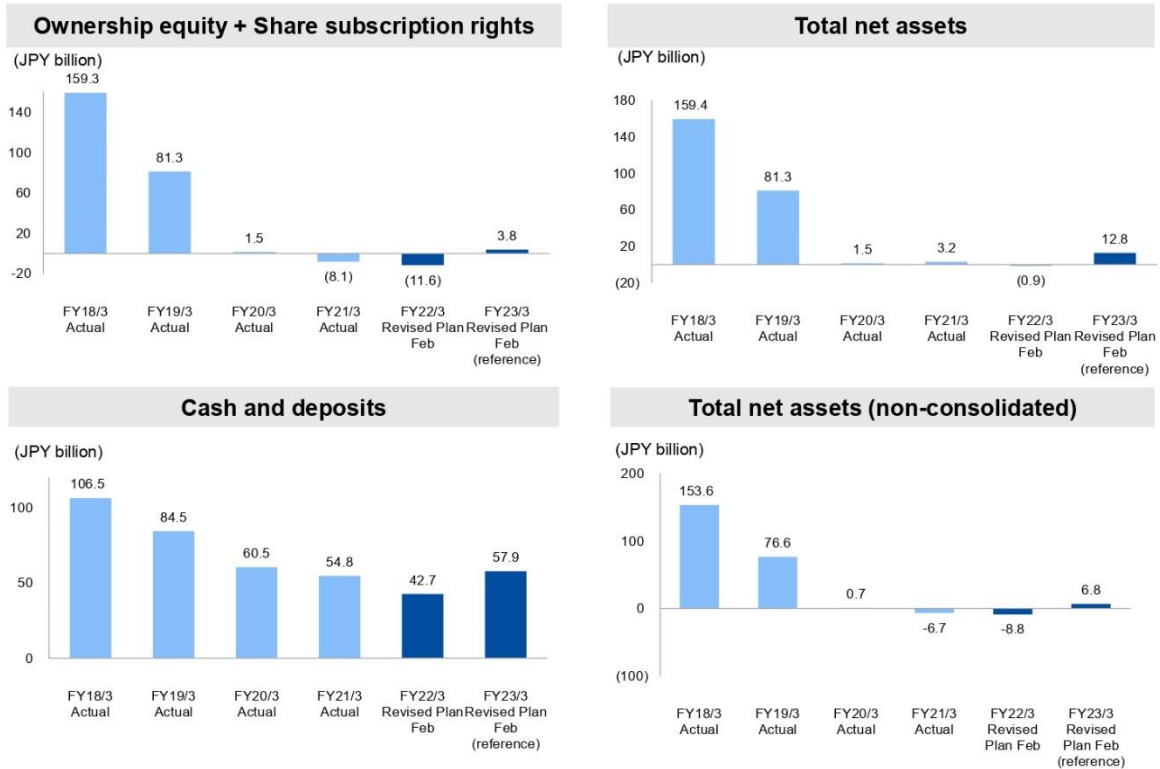
The cost of sales is expected to decrease by JPY200 million compared to the previous plan, but since provision for apartment vacancy loss has already been reversed by JPY5 billion in the third quarter against the plan of reversing JPY4 billion for the full year, the reversal set for the fourth quarter is not expected in the plan. As a result, the actual increase was about JPY1 billion compared to the plan.

In addition, we plan to reduce SG&A expenses by another JPY1.6 billion compared to the previous plan, and operating profit is revised up by JPY600 million compared to the previous plan.

As a result of the improvement of JPY3.3 billion compared to the previous plan, we revised the net income forecast to be positive JPY1.8 billion, turning to the black at the end of this fiscal year. The main reason for this is that a reversal of JPY6.1 billion was made in the provision for losses related to repairs by the end of the third quarter. Until the first half of the fiscal year, reversals were made due to efficiency improvements made by reviewing the method of ordering to contractors, and the in-house implementation of repair work.

However, in the third quarter, the reversal was mainly due to a review of the judgment of defects, i.e., from obvious defects to minor defects, and a decrease in the number of buildings to be repaired due to the demolition of old buildings under management.

2-7: Road Map – BS (Graph)



Please see page 12 of the document. This is the roadmap for the balance sheet.

Consolidated net assets at the end of the fiscal year are expected to be negative JPY900 million. It is at the right. We plan to improve this figure to JPY12.8 billion in the next fiscal year, and there is no change in our plan to eliminate excess liabilities by the end of the fiscal year ending March 2023.

Although the spread of the Omicron variant has had an impact on the increase in the number of rooms vacated, the occupancy rate has maintained a steady increase over the previous fiscal year. In the fourth quarter, we have been conducting sales activities with the aim of recovering the unit rent as planned, while at the same time steadily achieving the target of the occupancy rate one month at a time and raising the starting point for the next fiscal year as high as possible.

Due to the difficulty in predicting the reversal of provision for apartment vacancy loss and provision for losses related to repairs, the actual results for the third quarter is used for the full year plan and it was left unchanged. We will make an announcement whenever a change is expected.

In addition, as we released last month, we will gradually introduce smart locks from the next fiscal year in order to improve convenience for tenants and promote real estate tech. The goal is to introduce the system to 440,000 rental units under management over the next two years until May 2024, which is equivalent to about 80% of the total number of units under management.

Also, we are celebrating our 50th anniversary next fiscal year. Although the number of units under management is on a slight downward trend due to the expiration of the basic contract, et cetera, in this 50th anniversary memorial year, we hope to start examining and announcing concrete measures on how to maintain and expand the number of units under management in the future, including the resumption of construction contracts.

By eliminating excess liabilities and making up-front investments for further growth, we will strive to increase our corporate value and firmly fulfill our function as a social infrastructure. We look forward to the continued support of our stakeholders.

I would now like to conclude my explanation, and pass onto Ashida, Managing Executive Officer, who will explain the response to the construction deficiencies. Thank you very much for your attention.

▶ 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 January 31, 2022)

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	7,768	121,985	92,645	44,901
Other Series Total	23,802	4,730	73,624	62,791	5,210
Grand Total	39,085	12,498	195,609	155,436	50,111

* 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>

Ashida: I am Ashida, who is in charge of the Construction Defects Response Headquarters. I will explain the progress of the response to construction defects. Please see page 28 of the document.

As for repair work for buildings containing defects, we continue to reduce repair work to a minimum level. 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. Specific progress is as follows.

As of the end of January, no of rooms with repairs completed for buildings with obvious defects was 50,111 units. In the second column from the right of the table, there are 155,436 units requiring repairs, and this includes about 82,000 units that are still occupied and have not yet been surveyed. Subtracting that number and the 50,000 units for which repairs have been completed, there are 23,000 units, and we will first repair these units according to occupancy demand.

In addition, as Miyao explained, a reversal of JPY2.8 billion was made in provision for losses related to repairs in the third quarter alone due to the review of judgment of defects and dismantling of buildings, which was recorded as extraordinary income. We will continue to improve the efficiency of construction work and continue to provide careful responses to specified administrative agencies, property owners and tenants, aiming to eliminate obvious defects by the end of 2024.

This concludes the explanation from me. Thank you for listening.

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

Takekura: Thank you very much for taking time out of your busy schedules to join us today. I am Takekura from Corporate Planning. I will provide an overview of the financial results for the third quarter of the fiscal year ending March 2022 and the numerical plan for the current fiscal year and beyond. Although there is some overlap in the content, please have the presentation material ready at hand for your review.

▶ 2-1: PL

Q3 results were ahead of revised plan in cost of sales, SGAE and net income, which compensated the decrease in sales due to slower recovery in occupancy improvement affected by the re-expansion of COVID-19 pandemic. The Company disclosed the revision of earnings forecasts on February 4, 2022 for full fiscal year ending March 2022.

Highlights of Results

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Gross profit	21,215	34,500	35,206	+13,990	+706	
%	6.9%	11.5%	11.8%	+5.0p	+0.3p	
SGAE	37,801	32,700	30,930	(6,870)	(1,769)	Reduction in SGAE centered on personnel expenses contributed to the recording of operating profit.
Operating profit	(16,585)	1,800	4,275	+20,860	+2,475	
%	(5.4%)	0.6%	1.4%	+6.8p	+0.8p	
Recurring profit	(20,562)	(1,200)	1,444	+22,006	+2,644	Interest expenses of JPY 3.3 billion decreased the margin of recurring profit.
%	(6.7%)	(0.4%)	0.5%	+7.2p	+0.9p	
Net income*	(25,003)	700	5,865	+30,868	+5,165	Recorded reversal of provision for losses related to repairs of JPY 6.1 billion (Q1: JPY 1.9 billion, Q2: JPY 1.4 billion, and Q3 JPY 2.8 billion)

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

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

First, as Miyao mentioned earlier, the sales were JPY297.4 billion. Compared to the previous fiscal year and the plan, it was a decrease of JPY10.8 billion and JPY1.8 billion respectively.

The occupancy rate through the first half of the fiscal year was steady compared to the plan, but in the third quarter, due to the impact of the global spread of the Omicron variant, there was a slight increase in the number of rooms vacated, and the occupancy rate ended up slightly lower than the plan.

Gross profit was JPY35.2 billion. This is the improvement from the previous year and the plan, and a remarkable result of our drastic structural reform.

There was a cumulative reversal of JPY5 billion in the provision for apartment vacancy loss as of the end of the third quarter. The breakdown is: first quarter, JPY1.19 billion; second quarter, JPY1.31 billion; third quarter, JPY2.5 billion.

The provision for apartment vacancy loss is reversed according to the remaining period of the fixed term and when property income and expenditure is improved. The main reason for the reversal made this time is that the income and expenses of the properties subject to the provision have improved due to the revision of the master lease rent to be in line with the market price.

In addition, as explained, the fact that the number of properties subject to the provision will decrease as construction defects problem is resolved also affected to the reversal.

SG&A expenses were JPY30.9 billion, a reduction of JPY6.8 billion YoY and JPY1.7 billion from the plan. The main reasons for this were a reduction in personnel expenses due to a decrease in the number of employees, a decrease in taxes and public dues, and a decrease in commissions to pay due to a reduction in various expenses.

As a result, important operating profit was JPY4.2 billion. This is an improvement of JPY20.8 billion from the previous fiscal year and JPY2.4 billion compared to the plan, and we continued to achieve profitability from the first half of the fiscal year.

Recurring profit totaled JPY1.4 billion. The reversal of the provision for losses related to repairs of JPY6.1 billion was recorded as an extraordinary gain, resulting in a net income of JPY5.8 billion, an improvement of JPY30.8 billion from the previous year and JPY5.1 billion from the plan.

2-2: PL - Quarterly Comparison

Quarterly Comparison

(JPY million)	Q1 Apr-Jun		Q2 Jul-Sep		Q3 Oct-Dec		Q4 Jan-Mar	
	FY21/3 Actual	FY22/3 Actual	FY21/3 Actual	FY22/3 Actual	FY21/3 Actual	FY22/3 Actual	FY21/3 Actual	FY22/3 Revised Plan Feb
Sales	103,986	100,244	104,660	99,305	99,679	97,920	100,632	101,900
Cost of sales	97,016	90,472	97,646	87,131	92,447	84,660	100,762	90,900
Gross profit	6,969	9,771	7,014	12,174	7,231	13,259	(129)	11,000
SGAE	13,797	11,059	12,802	10,076	11,201	9,794	12,467	12,700
Operating profit	(6,827)	(1,287)	(5,788)	2,097	(3,969)	3,465	(12,597)	(1,700)
Recurring profit	(6,848)	(2,241)	(6,005)	909	(7,707)	2,777	(13,607)	(3,200)
Net income	(14,123)	(957)	(3,447)	1,605	(7,432)	5,217	1,322	(4,100)
Key contributing factors	The occupancy rates were ahead of the plan for Q1 and Q2. Cost-cutting measures and reversal of provision for losses related repairs contributed to a recording of profit for Q2 (Jul - Sep) on a non-consolidated basis.				Reversal of provision for apartment vacancy loss is not expected for Q4 and management cost for Leasing Business and SGAE will be rising to reflect the busiest season despite the increase of sales by an affiliated company. Hence resulting in operating loss, recurring loss and net loss.			

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

Please see page 7. This is the detail of quarterly results.

The fourth quarter alone is expected to be in the red since we intend to strengthen our sales force even at the expense of costs or, in other words, increase the occupancy rate more than expected. However, the results of this effort will surely be seen in the next fiscal year, 50th term, and beyond.

Similarly, by segment, the Leasing business is as just explained. For business other than leasing, in the Elderly Care business, sales are slightly down from the previous fiscal year, and we continue to have an operating loss.

In the Other business, Guam, sales and profits decreased due to the impact of lower occupancy rates caused by COVID-19 pandemic. The detailed figures can be found on page 4 of Consolidated Financial Statements for the nine months ended December 31, 2021, and we hope you will check them later.

▶ 2-3: BS

Balance Sheet - main items only

(JPY million)	FY21/3	Q2 FY22/3	Q3 FY22/3	Factors contributing to changes (compared against end of FY21/3)
Cash and deposits	54,863	43,852	44,130	<ul style="list-style-type: none"> ■ Cash and deposits Decreased by JPY 10.7 billion due to expenditure for operation funds and payment for repairs of construction defects, but increased QoQ due to recording of net income for Q3.
Total assets	161,708	145,255	143,137	
Interest-bearing debt*	35,409	33,951	33,351	<ul style="list-style-type: none"> ■ Provision for losses related repairs (current: JPY 1.8 billion and non-current: JPY 23.2 billion) Writing-off the provision for JPY 2.3 billion due to progress of repairs and reversal of provision for JPY 6.1 billion due to streamlined process (Q1: JPY 1.9 billion, Q2: JPY 1.4 billion and Q3 JPY 2.8 billion) totaled to reduction of JPY 8.4 billion.
Provision for loss related to repairs	33,509	28,505	25,103	
Provision for apartment vacancy loss	12,262	9,749	7,249	<ul style="list-style-type: none"> ■ Provision for apartment vacancy loss (current: JPY 4.2 billion and non-current: JPY 2.9 billion) Total reversal of JPY 5.0 billion (Q1: JPY 1.2 billion, Q2: JPY 1.3 billion, and Q3 JPY 2.5 billion)
Total liabilities	158,431	144,624	138,927	
Common stock	81,282	100	100	<ul style="list-style-type: none"> ■ 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	136,346	136,345	
Retained earnings	(142,586)	(146,903)	(141,685)	<ul style="list-style-type: none"> ■ Retained earnings Recorded net income of JPY 5.8 billion (Q1 for JPY - 0.9 billion, Q2 for JPY 1.6 billion, and Q3 JPY 5.2 billion) despite applying Accounting Standard for Revenue Recognition pushed down the retained earnings by JPY 4.9 billion
Total shareholders' equity (A)	(6,474)	(10,759)	(5,542)	
Total accumulated other comprehensive income (B)	(2,019)	(314)	(91)	<ul style="list-style-type: none"> ■ Non-controlling interests Reduced by JPY 1.8 billion because of dividend payment to a non-controlling shareholder by Leopalace Power Corporation and its purchasing treasury stock although it recorded net income.
Ownership equity (A)+(B)	(8,494)	(11,074)	(5,634)	
Share subscription rights	388	357	357	
Non-controlling interests	11,383	11,347	9,486	<ul style="list-style-type: none"> ■ Net assets Recorded JPY 4.2 million after turning to positive at the end of Q2, whereas deficit was recorded at the end of Q1
Total net assets	3,277	630	4,209	
Total liabilities and total net assets	161,708	145,255	143,137	

* Interest-bearing debt = borrowings + lease obligations

8

Continuing onto page 8.

I will focus on the main items that have increased or decreased in the balance sheet. Cash and deposits decreased by JPY10.7 billion compared to the end of the previous fiscal year due to the handling of construction defects and expenditures for operating costs of Leopalace21 Corporation.

In the liabilities account, interest-bearing debt decreased by JPY2 billion, mainly due to a decrease in lease obligations. Provision for losses related to repairs decreased by JPY8.4 billion in total with writing-off of JPY2.3 billion due to progress of repair works and the reversal of JPY6.1 billion mentioned earlier due to the decreased unit price resulting from streamlined construction method and expected dismantling of buildings.

The provision for apartment vacancy loss is as I mentioned earlier. It decreased by JPY5 billion due to the improvement of property income and expenditure by cost and expense reduction.

Moving onto net assets. As I mentioned at the time of the results reporting of the first half, the common stock was reduced to JPY100 million with the transfer of JPY81.1 billion to capital surplus in August.

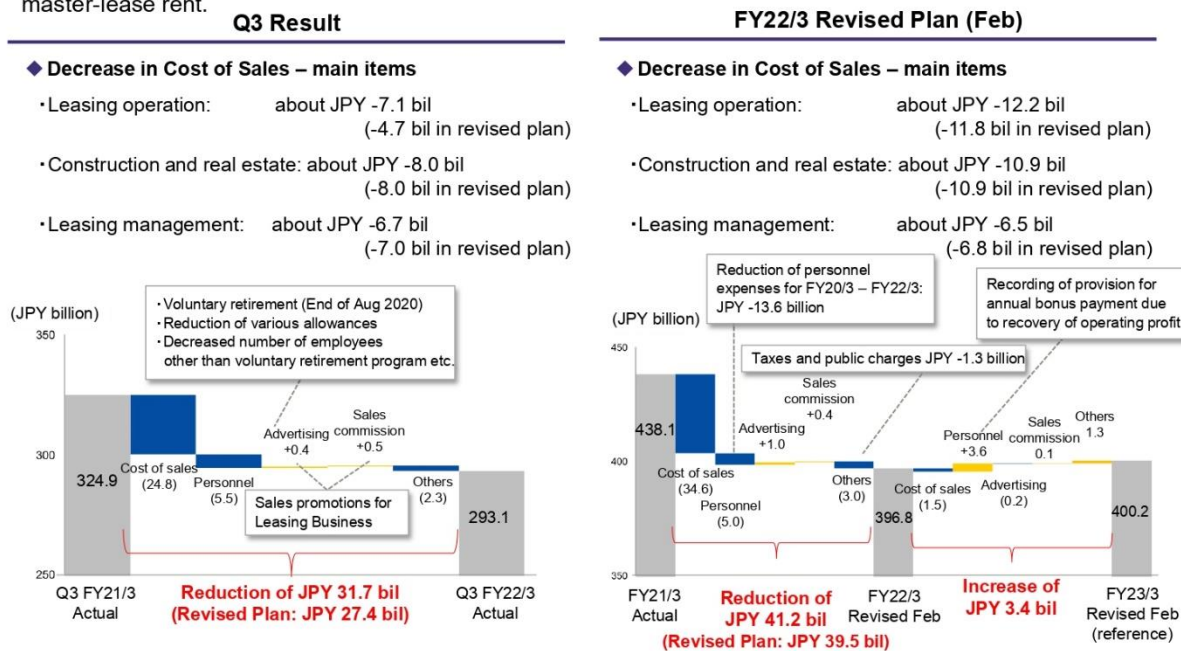
Retained earnings increased by only JPY900 million compared to the previous fiscal year. This is because, as I mentioned earlier, there was the reduction of JPY4.9 billion at the beginning of the fiscal year due to

retroactive application of the accounting standard for revenue recognition as well as the net income of JPY5.8 billion. The difference of JPY900 million increased from the amount of net asset at the end of previous year.

As a result, ownership equity is negative JPY5.6 billion. Net assets, including share subscription rights and non-controlling interests, which are mainly Fortress Investment Group LLC' holdings, were positive JPY4.2 billion.

3-2: Reduction in Cost of Sales and SGAE

Reduction in cost of sales and SGAE continued in Q3 FY22/3, overachieved the plan. Revised full-year plan dated February 4, 2022 showed further reduction due to reversal of provision for apartment vacancy loss for Q3 and declined personnel cost, taxes and public charges which offset delayed contractual adjustment of master-lease rent.



Next, I would like to explain our progress in improving the occupancy rate and structural reforms for this fiscal year. Please turn to page 15. I would like to explain the details of the reduction of cost of sales and SG&A expenses, which are the pillars of our structural reform.

The graph on the left shows the progress up to the end of the third quarter of this fiscal year. We were able to reduce the consolidated so-called cost of sales and SG&A expenses from JPY324.9 billion in the third quarter of the previous fiscal year to JPY293.1 billion in the third quarter of the current fiscal year, a JPY31.7 billion reduction over one year. The largest reduction is JPY24.8 billion in the cost of sales.

It includes three elements. the first one is a reduction of JPY7.1 billion in leasing operation. This is mainly due to the contractual adjustment of master-lease rent which takes a lot of time to negotiate one by one, so there is a slight delay compared to the initial plan. However, we are making progress in completing the entire process in two years as planned.

The second element was a reduction in construction and real estate costs for JPY8 billion. This was due to a decrease in sales related to the Development business caused by the suspension of new orders, which was in line with the plan.

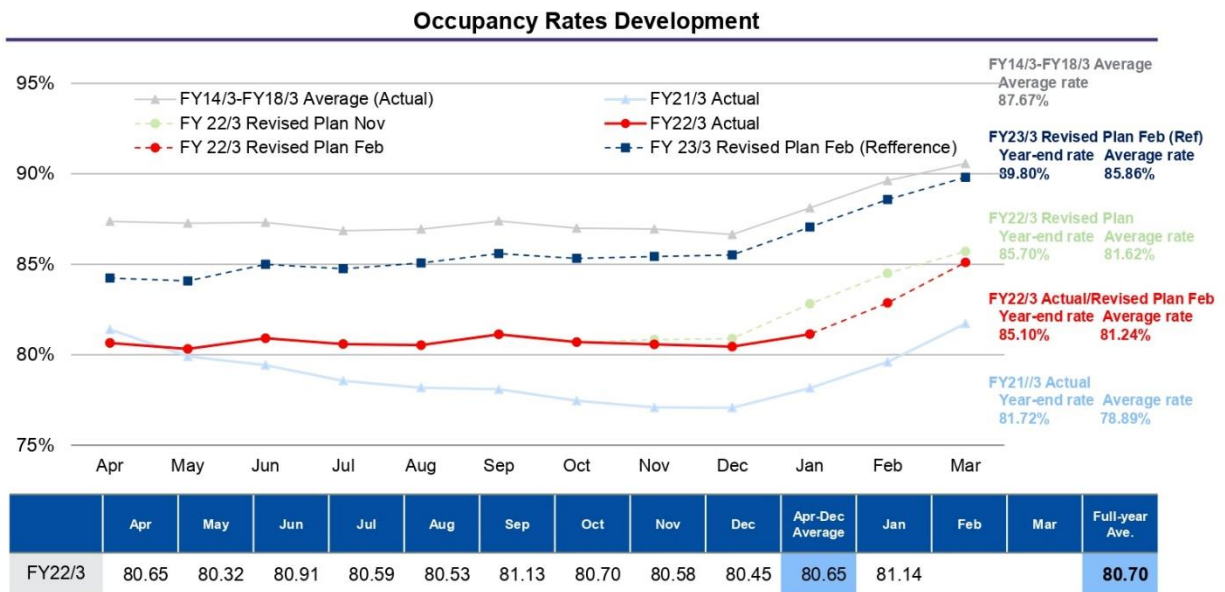
The third element was a JPY6.7 billion reduction in leasing management costs which has been also progressing almost as planned. This is the result of reviewing the maintenance flow of each home appliance installed in

our managed properties, and also promoting the efficiency of in-room maintenance, which is a series of very detailed efforts one by one, but we will proceed carefully.

In addition, personnel expenses decreased by approximately JPY5.5 billion due to a decrease in the number of employees. In addition, advertising and sales commissions slightly increased by JPY400 million and JPY500 million, respectively, due to strengthening tie with real estate agents and the signing of leases, but overall SG&A expenses were reduced more than initially planned.

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

Occupancy improvement plan was re-adjusted downward based on slower space of recovery since November 2021 affected by Omicron variant of COVID-19. The target rate at the end of FY22/3 is 85.10%, down 0.6p against revised plan; and average for FY22/3 is 81.24%, down 0.38p against revised plan.



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

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

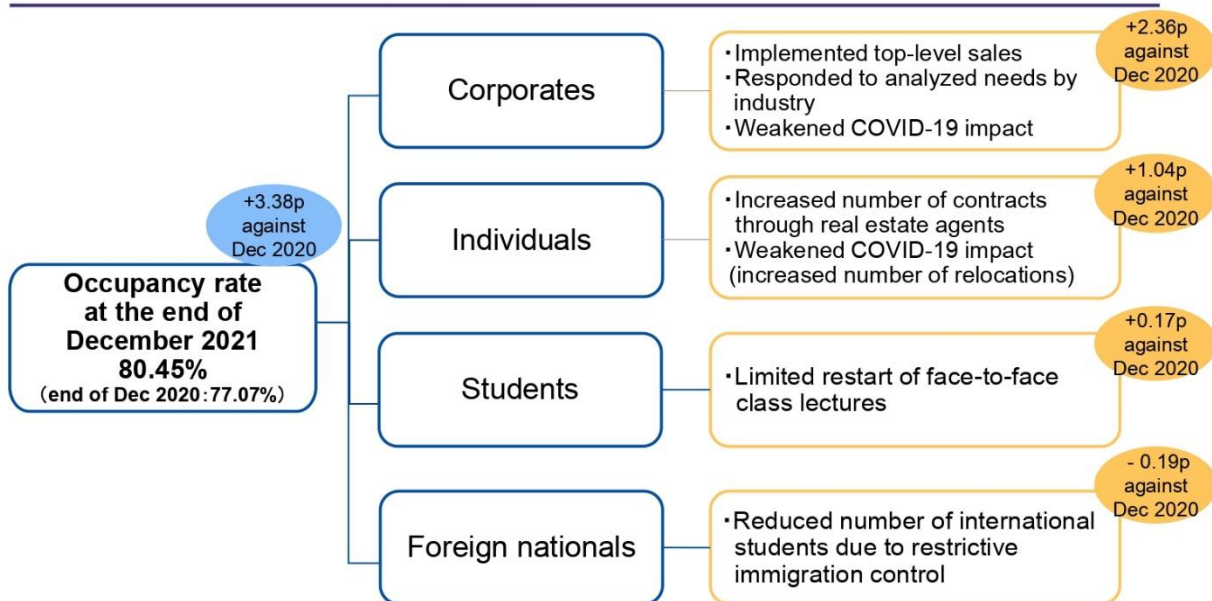
Please see page 16. This is a graph of occupancy rate trends.

From October to December, the occupancy rate was slightly lower than planned, and as a result, we have revised our occupancy rate plan for the full year slightly downward. However, since October, the occupancy rate has continued to improve by about 3 percentage points compared to the previous fiscal year.

▶ 3-4: Occupancy Rate Gap Analysis

Occupancy improvement measures by customer segment produced the improved results for Q3 FY22/3 in comparison to Q3 FY21/3. 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 Dec 2020



The factors behind the improvement in the occupancy rate are shown in the next slide, page 17, by tenant attributes.

Looking at the occupancy rate at the end of December, which is the end of Q3 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 2.36-point improvement YoY.

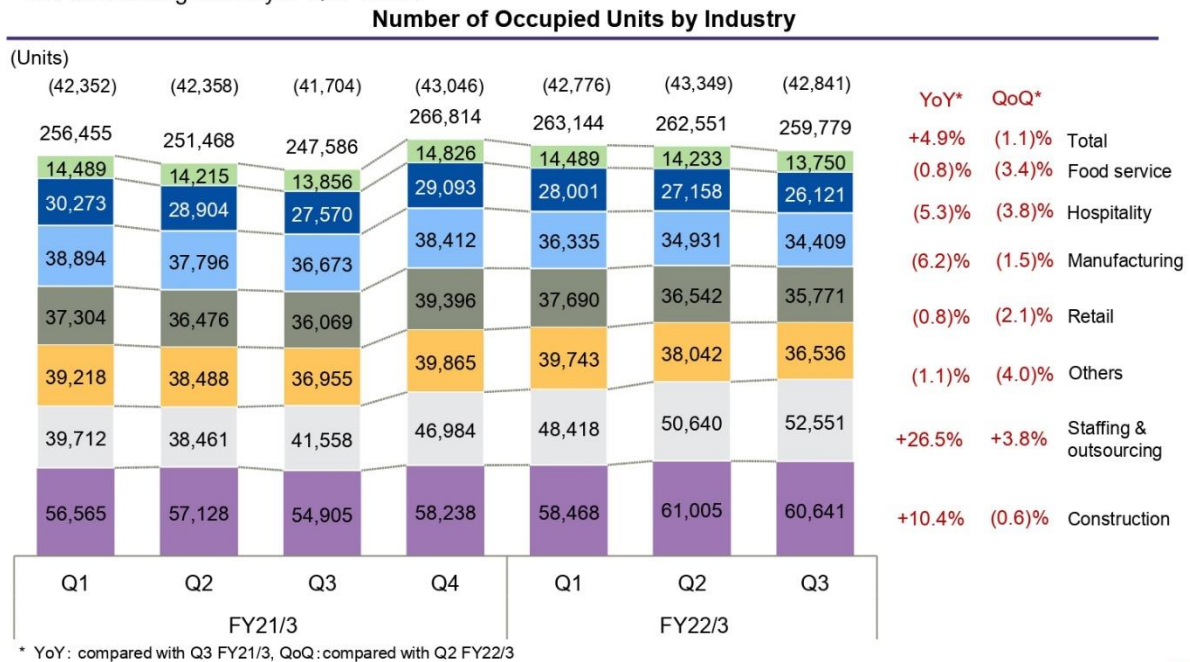
Individuals followed with a 1.04-point improvement YoY, which was mainly due to the fact that contracts through real estate agents increased by more than 50% YoY.

Students improved by 0.17 points, which is almost the same as the previous year, but as Miyao mentioned earlier, we just started our efforts to capture the demand from high school seniors as they begin their new lives.

On the other hand, the occupancy rates by foreign residents decreased by 0.19 points YoY, resulting from the continued decrease in the number of foreign students and other foreign residents entering the country due to the travel restrictions caused by COVID-19.

4-2: Occupied Units by Industry

Approximately 80% of listed companies in Japan have used Leopalace21 services. In gradual slowdown impact of COVID-19 and the corporate customers' completion of seasonal personnel changes and increased leavers because of completion of training, the strong demand remained only in staffing and outsourcing industry in Q3 FY22/3.



Skipping some pages, please see page 22. This is the occupied units by corporate users by industry.

By industry, the growth rate of staffing and outsourcing industry, second from the bottom, is very pronounced. While being impacted by the status of the supply of semiconductors, the demand for securing personnel continued to be high, resulting in the growth in our orders.

During the busy season toward the end of the fiscal year, we will not only steadily capture the industries with strong demand, but also raise the contract rate by making detailed proposals to arrange the necessary number of units at the necessary time for both temporary use for training and long-term use for permanent assignments. Every year at this time, from the end of December to the end of March, we have been able to increase the occupancy rate by about 4 points, and we are aiming for the same increase this year.

Lastly, I would like to explain our plan for this fiscal year. Let's move on to page 10.

Net sales are expected to decrease slightly. Operating profit is forecasted to be JPY2.6 billion, due to the steady progress of very probable cost cutting and the large reversal of the provision for apartment vacancy loss and provision for losses related to repairs. Net income is expected to be JPY1.8 billion, an increase from the previous forecast.

As a result, we plan to reduce the amount of excess liabilities to negative JPY900 million at the end of the fiscal year, and in the next fiscal year, we plan to recover operating profit to JPY20.5 billion, net income to JPY13.5 billion in the black, and consolidated net assets to JPY12.8 billion.

The improvement of net asset may appear to be slow for the improvement in the P&L plan this fiscal year. This is due to the fact that there are overseas subsidiaries whose liquidations are scheduled to be completed

during this fiscal year, as well as an increase in retirement benefit adjustments due to higher-than-expected retirements.

Miyao has already explained the details of the plan, so I will skip the explanation.

We would like to ask for your continued support and encouragement. We will work on drastic structural reforms with a tightened mind and strive to recover our financial base by steadily implementing measures to improve occupancy rates in order to meet your expectations.

This concludes my presentation. Thank you for listening.

Question & Answer

Kawasaki [Q]: We will now move on to the question-and-answer session.

The first question is from Mr. Hashimoto, Mizuho Securities Co., Ltd.

“Please tell me the progress in adjusting master-lease rent.”

Takekura [A]: If you turn to page 15 of the presentation materials, you will see the full-year plan on the right side, which includes a section on cost reduction. At the top of the list is the leasing operation cost. It includes equipment such as furniture and home appliances and so on, but almost all of the JPY12.2 billion mentioned here is the result of the effect of reducing the cost of sales for rent to the owners by adjusting master-lease contracts.

As shown at the right side, the revised plan was originally JPY11.8 billion, but the figure has increased slightly from that. As I mentioned earlier, the negotiation for adjustment itself may take more time than what we expected, because we have to be more careful. Therefore, although there will be a slight delay from the initial plan, we plan to steadily complete the negotiations during the entire two-year period.

Kawasaki [Q]: Thank you very much. Now for the second question.

“Do you expect to increase the amount of provision in the fourth quarter? Please explain the background behind the operating profit of JPY4.2 billion in the first three quarters and JPY2.6 billion for the full year.”

Takekura [A]: It depends on the final figure of occupancy rate in March. As I mentioned earlier, for provision for apartment vacancy loss, reversal amount was JPY1.2 billion in the first quarter, JPY1.3 billion in the second quarter and JPY2.5 billion in the third quarter.

The progress of repairs, the improvement of occupancy rates, and the contractual adjustment of master-lease rent will all have an impact on this. In the event that the result was as expected, we may need to record the reversal of provision for apartment vacancy loss.

As for the amount, I cannot make a final statement, so I will not go into that here.

Kawasaki [Q]: Thank you very much. Next, the question from Mr. Tazawa of SMBC Nikko Securities Co., Ltd.

“As shown on page 10, have you become more confident about eliminating excess liabilities in the fiscal year ending March 2023? In the fiscal year ending March 2023, it is expected to be eliminated at the average occupancy rate of 85.9%. Please also let me know the prospect of improvement in occupancy rate. I would also like to know what you are aware of as risk factors that may hinder the elimination of excessive liabilities.”

Miyao [A]: My feeling is that our confidence in our ability to eliminate excessive liabilities has been bolstered. In this roadmap for eliminating excessive liabilities, the plan was set for the end of this fiscal year on the assumption that we would not take into consideration the reversal of provision in the fourth quarter.

As a result, in the plan for the end of this fiscal year, the excess liabilities in TSE’s criteria is JPY11.6 billion, and according to the accounting rules, JPY900 million. In light of the accounting rules, the amount is JPY900 million, so I believe that it will be eliminated in the fiscal year ending March 2023 without any particular problems.

On the other hand, with regards to JPY11.6 billion in TSE's criteria, the feasible revenue in the next fiscal year will become high with the occupancy rate of around 85.1% at the end of this fiscal year, and according to our simulation, the operating profit is expected to be around JPY20 billion. Therefore, I think that the possibility of the elimination of excess liabilities has become higher.

As to the planned average occupancy rate of 85.9% in FY2023, looking at past trends, the occupancy rate at the end of the fiscal year is very close to the average occupancy rate for the following year.

Therefore, if the occupancy rate at the end of this fiscal year is 85.1%, the average occupancy rate for next year will be about the same, around 85% plus. Based on that, we believe that the probability of the simulated operating profits I mentioned earlier will be high, so we would like to make sure that we will eliminate the excess liabilities.

In terms of risk factors for inhibition, I'm wondering what the intrinsic risks are, but I think there will be more of the extrinsic risks. I understand that due to factors beyond our control, such as major disasters, the average occupancy rate may not be achieved, or we may be forced to incur unforeseen expenses. That is all.

Kawasaki [Q]: Thank you very much. Next, Mr. Tazawa's second question.

“Does the implementation of the reduction of common stock increase the possibility of realizing JPY20 billion in deferred tax assets that was reversed a year ago? I would like to know whether it will be realized in full or just a part of it.”

Takekura [A]: I will answer your question. Practically speaking, due to the characteristics of this deferred tax assets, we are unable to make a definite statement here because the figures are to be discussed with the auditing firm based on the fact that our earnings situation for the next fiscal year and beyond is improving.

If the occupancy rate of 85% at the end of March, which has been mentioned earlier, ends up exceeding 85%, even if the operating profit becomes negative in the fourth quarter alone, the earnings forecast figures for the 50th term and beyond will be very promising. Recording of deferred tax asset will be decided as a result of discussions with the auditing firm, therefore we will continue to pursue the possibility.

As for whether it is a multi-year recording or a single-year, we are unable to judge the situation, so I would like to skip the explanation here. That's all.

Kawasaki [Q]: Thank you very much. Next, the first question of Mr. Ozawa of SBI Securities Co., Ltd.

“You mentioned an increase in occupancy demand, 25,000 units, and strong demand in staffing and outsourcing industry. Could you tell me if you see specific characteristic depending on area, or location such as metropolitan area or suburb, and age of the building?”

Miyao [A]: The increase in occupancy demand that I mentioned earlier was basically for new graduates. As a result of the interview with companies, we found that there is the demand for 25,000 units at the time of hiring new graduates for leased corporate apartment for the employee without family.

One of the reasons why the demand has increased compared to last year is that companies are continuing to face a shortage of labor and hope to increase the number of new graduates hiring. The other reason is that our relationship with corporate customers seems to be improved and I think that is why we were able to obtain such information.

The reason for the strong demand in staffing and outsourcing industry is because of the increase in the overall number of corporate rooms used. It is not necessarily for new graduates. Basically, the reason for the increase

in the use of temporary staffing agencies is that companies, especially those in the manufacturing industry, are experiencing a labor shortage and are asking temporary staffing agencies to help hire people.

Staffing agencies have employees nationwide separately from particular factories or production points. As a result, they need a place to live, so they are using our rooms.

I have heard that staffing agencies have quite a large order backlog from manufacturing companies, and they are working hard to recruit people. We would like to closely stay in touch with staffing agencies to provide them with rooms so that they can use our rooms in conjunction with their hiring.

There are no major characteristics in terms of area or building age. There is the material available showing the status by areas, so please refer to it as well.

Kawasaki [Q]: Thank you very much. Now, Mr. Ozawa's second question.

“You mentioned that you are considering resuming the sales activities for newly built properties in conjunction with the 50th anniversary. Do you have any thoughts on how it compares to conventional properties which are studio type apartments in the city center? For example do you consider the measures such as making the room larger and more soundproof to accommodate telecommuting in the time of coexisting with the coronavirus.”

Miyao [A]: As I said earlier, it is the memorial year of the 50th anniversary, so we are just starting to think about what we should do. We are not yet in a position to announce or answer the questions that Mr. Ozawa asked. If anything, it would be better to say that we are starting, but piloting or something like that, including a small start.

Kawasaki [Q]: Thank you very much. The first round is over, so we will start the second round. Here is a question from Mr. Tazawa, SMBC Nikko Securities Inc.

“We have heard that average unit rent has fallen by about JPY1,000 compared to the plan. Could you tell me the current situation and future outlook? In Tokyo, demand for leased apartment units for single person is slightly deteriorating, and the downward pressure to unit rent is continuing.”

Miyao [A]: First, as for the current unit price, compared to the plan, at the end of the second quarter, was something around JPY1,000, but I think we are in a slight improvement. However, the truth is that the efforts have not resulted in making successes.

The reason why it lacks successful result is, while we are making efforts to raise the rent, the supply and demand environment is deteriorating in the 23 wards of Tokyo, where number of people moving out surpassed that of moving in, as Mr. Ozawa pointed out.

As a result, since Tokyo is the area with the highest unit rent, not only for us but for all companies, if the unit price does not grow in Tokyo, it will be difficult for the overall unit rent to rise. To be honest, the gap has become a little wider.

I don't think it will improve any further in this fiscal year. This is the reason why we have taken a conservative view at sales and associated earnings, especially in the fourth quarter of this fiscal year's plan. That is all.

Kawasaki [Q]: Thank you very much. Next, the question from Mr. Tazawa.

“Could you tell me if there was any progress in the sale of the Guam hotel?”

Takekura [A]: I will answer your question. Currently, there is no progress in the sale of the property itself, although we have been approached by several parties.

I touched on when I discussed the performance by segment earlier, but if you refer to page 4 of the Consolidated Financial Statements for the nine months ended December 31, 2021, you will see the Other businesses segment, which mostly corresponds to the performance of the Guam Hotel. As stated, it is in this segment that both sales and operating profit are negative due to the impact of COVID-19 and lockdown.

As we are currently stuck in a situation where we cannot take actions, we are planning to continue our sales activities.

Kawasaki [Q]: Thank you very much. Next, the question from Mr. Tazawa.

“I would like to know if there are any new initiatives as a synergistic effect with Fortress.”

Miyao [A]: There may be some small things, but nothing new in particular. Fortress is also engaged in a wide range of activities, including investment activities, so we were introduced to the top management of business partners with Fortress and focusing on promoting our services to such new customers.

Kawasaki [M]: 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 and the briefing session.

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

[END]