



Leopalace21 Corporation

Financial Results Briefing for the Fiscal Year Ended March 2022

May 17, 2022

Presentation

Kawasaki: Thank you very much for taking time out of your busy schedules today to participate in the financial results briefing for Leoplace21 Corporation for the fiscal year ended March 31, 2022. My name is Kawasaki, and I will be your moderator. Thank you very much for your cooperation.

Today's presentation will be led by Bunya Miyao, Representative Director, President and CEO, and Shinji Takekura, Executive Officer and Chief of the Corporate Management Headquarters.

Mr. Miyao will now give a summary of the results for the fiscal year ended March 31, 2022, as well as the management policy and plan for the fiscal year ending March 31, 2023.

Miyao: Thank you for taking time out of your busy schedules to join us today. I am Miyao, Representative Director, President and CEO. First of all, we would like to sincerely apologize for the disturbance caused by the announcement of the financial results. A warning was made to our auditing firm, and we received a request for an investigation into the content of the report just prior to the announcement of financial results, so we had to postpone the announcement of the financial results. However, as a result of the investigation conducted over the weekend, it became clear that there was no impact on the financial results, and the announcement of financial results was made at 9:00 AM yesterday.

There were three main warnings, none of which, as I mentioned earlier, had any impact on the financial results. Of these, we had already conducted an investigation into the allegations regarding the posting of fictitious loans and the improper payment of brokerage commissions.

Regarding the allegation of fictitious loans, we have already conducted an investigation by an outside attorney and have once again confirmed that there was no such occurrence. With regard to the fraudulent brokerage contract, the investigation has been completed, internal disciplinary actions have been taken, and preventive measures have been formulated.

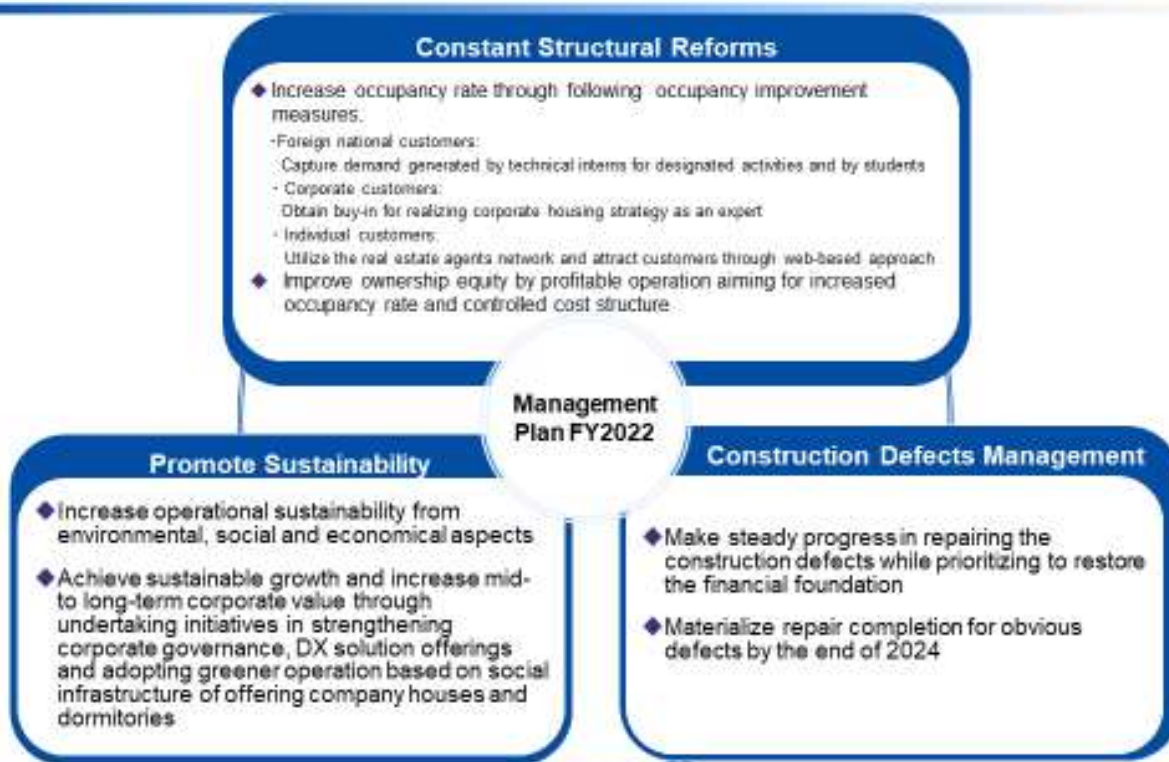
Regarding the last warning raised about the occupancy rate, the occupancy rate is calculated mechanically by the system and cannot be manually manipulated. In light of the recent warning, we would like to further improve our transparency and fair management in the future.

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I will now move on to the explanation of the financial results. I will summarize the results for the fiscal year ended March 31, 2022, and explain our management policy and plans for the fiscal year ending March 31, 2023.

Details will be explained later, but there are two major points. The first was the elimination of excessive liabilities under TSE standards one year ahead of schedule. Second, as we celebrate our 50th anniversary this fiscal year, we will actively engage in sustainability management with a focus on promoting real estate tech for our new growth strategy.

First, please see page three of your handout. This is the management policy summary for this fiscal year.

The three pillars of our business are constant structural reform, promotion of sustainability, and construction defects management.

As for constant structural reforms, we will strive to generate further profits and increase ownership equity by implementing measures to improve occupancy rates and optimize the cost structure, which we have been working on for some time.

For the promotion of sustainability, we will focus on the promotion of real estate tech, strengthen governance, and promote greener operations to enhance our corporate value from a medium- to long-term perspective.

Regarding construction defects management, as previously announced, we aim to resolve all obvious defects by the end of 2024. Including the 22,606 units that have already been found to be defective, we will steadily proceed with the currently projected number of units to be repaired which is approximately 38,000 units.

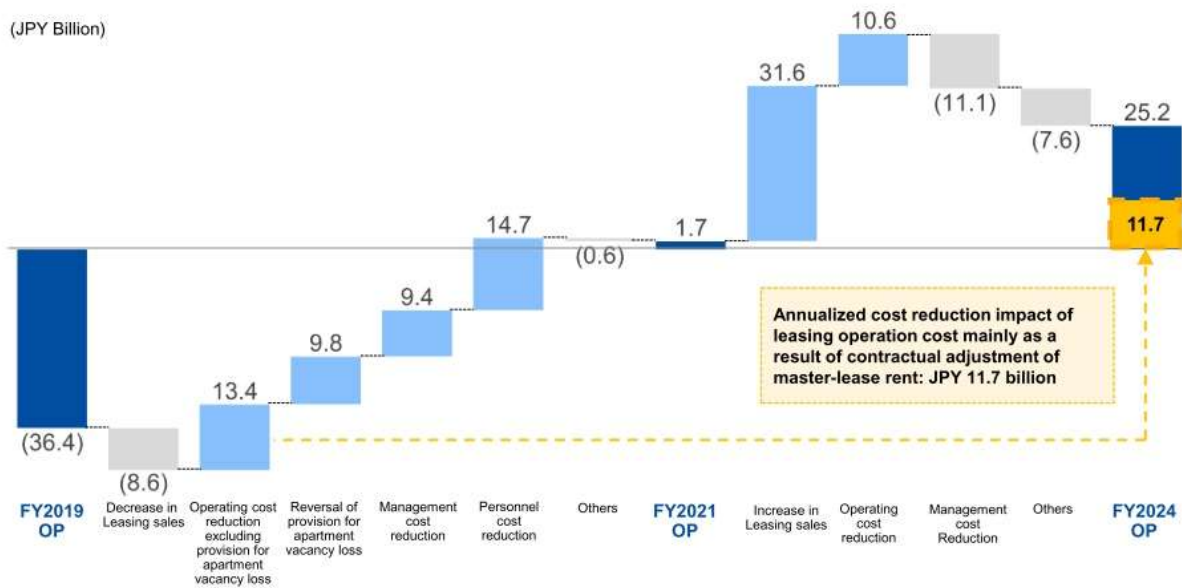
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Continued measures for structural reforms to increase operating profit by JPY 38.1 billion in FY2021.. Already achieved additional JPY 11.7 billion if annualize the impact; total JPY 49.8 billion of improvement is done. We aim to realize operating profit of JPY 25.2 billion through additional structural reform measures and sales efforts.

Main Factors of Increase / Decrease of Operating Profit



Then see page five. We presented a roadmap for structural reforms from the fiscal year ending March 2020, when operating profit was at its lowest, to the end of the fiscal year ending March 2025.

By improving the top line through a recovery in occupancy rates and reducing SG&A expenses through cost structure reforms, we plan to achieve a profit recovery of JPY61.6 billion over five years and operating profit of JPY25.2 billion for the fiscal year ending March 2025. We also recognize that the JPY11.7 billion portion of this profit plan is a very probable figure, as the decrease is confirmed by the reduction in leasing operation costs that has already begun.

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Due to steady progress in the structural reforms, all profit items improved compared with those in FY2020. Net income increased by JPY 35.5 billion mainly due to reversal of provision for losses related to repairs and recording income taxes-deterred despite sales and profit items up to recurring profit worsened against the plan.

Highlights of Results

(JPY million)	FY2020 Actual	FY2021 Revised Plan	FY2021 Actual			Factors Contributing to Changes
				YoY	Compared with Plan	
Sales	408,959	399,400	398,366	(10,592)	(1,033)	Reduction in construction subcontracting was the main reason.
Cost of sales	387,872	353,200	352,289	(35,583)	(910)	Gross profit improved yoy due to reversal of provision for apartment vacancy loss of JPY 6.6 billion. (Q1: JPY 1.2 billion, Q2: JPY 1.3 billion, Q3: JPY 2.5 billion, Q4: JPY 1.6 billion) and progress in contractual adjustment of master-lease rent.
Gross profit	21,086	46,200	46,077	+24,990	(122)	
%	5.2%	11.6%	11.6%	+6.4p	(0.0p)	
SGAE	50,269	43,600	44,302	(5,966)	+702	Operating profit improved yoy but did not meet the plan due to recording of provision of allowance for doubtful accounts which offset the reduction in personnel expenses.
Operating profit	(29,182)	2,600	1,774	+30,957	(825)	
%	(7.1%)	0.7%	0.4%	+7.6p	(0.2p)	
Recurring profit	(34,170)	(1,800)	(2,151)	+32,018	(351)	Net income drastically improved yoy and against the plan mainly due to recording of reversal of provision for losses related to repairs of JPY 11.9 billion and income taxes-deterred of JPY 4.4 billion.
Net income*	(23,680)	1,800	11,854	+35,535	+10,054	
Average Occupancy rate	78.9%	81.2%	81.2%	+2.3p	(0p)	Huge increase in average occupancy rate by implementing the occupancy improving measures
ESP (JPY)	84.88	5.47	36.04	+120.92	+30.57	

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

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See page six. This is a summary of the financial results for the fiscal year ended March 31, 2022.

Net sales ultimately fell short of the plan by JPY1 billion due to the occupancy rate in February falling slightly short of the plan.

On the other hand, gross profit was affected by a reversal of the provision for apartment vacancy loss of JPY1.6 billion in the fourth quarter, which pushed down the cost of sales. However, gross profit was JPY0.1 billion lower than planned due to an increase in costs at subsidiaries, specifically, an increase in the provision for the fulfillment of guarantees at Plaza Guarantee Co., Ltd., which provides rent guarantees. However, compared to the fiscal year ending March 31, 2021, we have improved by JPY24.9 billion, showing the results of our structural reforms.

SG&A expenses, especially personnel expenses, were controlled better than planned. However, at the end of the period, we recorded JPY2 billion as a provision for allowance for doubtful accounts, which ultimately resulted in a result of JPY0.7 billion plus compared to the plan. Operating profit was JPY1.7 billion positive, a JPY30.9 billion improvement over the fiscal year ending March 31, 2021, and the company returned to profitability for the first time since the fiscal year ended March 31, 2019.

Interest payments resulted in negative JPY2.1 billion in recurring profit. Reversal of the provision for losses related to repairs amounted to JPY11.9 billion for the full year. In addition, based on the outlook for future performance and other factors, we recorded deferred tax assets of JPY4.4 billion for a single year. These have led to a net income of JPY11.8 billion, the first time in four years since the fiscal year ended March 2018, and as a result, we were able to eliminate excessive liabilities under TSE standards, which has been a management issue. The average occupancy rate during the period increased by 2.3 percentage points to 81.2% compared to the fiscal year ended March 31, 2021.

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The Company expects increased sales and profit for FY2022 YoY due to planned increased occupancy rate and cost reduction effect as a result of structural reforms.

Plans for FY2023 and FY2024 indicate continuous growth in sales and operating profit.

Highlights of Plan

(JPY million)	FY2022 Plan	YoY	Factors Contributing to Changes	FY2023 Plan	FY2024 Plan
				(reference)	(reference)
Sales	410,800	+12,433	Sales from Leasing Business grow fast because of planned increase in occupancy rate	423,100	429,300
Cost of sales	348,800	(3,489)		353,400	350,100
Gross profit	62,000	+15,922	Continued contractual adjustment for master-lease rent reduces the cost of sales whereas increase in management cost related to maintaining property partially offset the reduction.	69,700	79,200
%	15.1%	+3.5%		16.5%	18.4%
SGAE	50,300	+5,997		52,200	54,000
Operating profit	11,700	+9,925	Recording of provision for bonuses and sales initiative implementation increase personnel expenses in SGAE. Planned increase in occupancy rate and reduction in cost of sales contribute to the increase in operating profit.	17,500	25,200
%	2.8%	+2.4%		4.1%	5.9%
Recurring profit	6,800	+8,951	No extraordinary income/losses are planned. income taxes—deferred is planned based on business performance recovery which contributes to large increase in net income.	12,900	22,100
Net income*	24,900	+13,045		13,400	19,400
Average Occupancy rate	85.1%	+3.8p	Occupancy rate follows the trend similar to that of FY2017.	88.3%	91.3%
ESP (JPY)	75.6	+39.6	Number of outstanding shares remain the same as FY2021, therefore EPS increases in accordance with net income.	40.7	58.9

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

See page seven. This is the numerical plan for the next three years including this fiscal year.

For the current fiscal year, we plan to achieve net sales of JPY410.8 billion, a JPY12.4 billion improvement over the previous year, mainly due to a recovery in occupancy rates.

In addition, we have factored in an increase in the unit rent price due to the provision of high value-added products, such as an increase in incidental income from the installation of smart locks, which we will begin to put in sequentially this fiscal year.

Gross profit will be JPY62 billion, an improvement of JPY15.9 billion over the previous year. This is mainly due to a decrease in rent costs as a result of the contractual adjustment of master-lease rent and the fact that, from this fiscal year onward, properties that will be removed from the units under management due to contract expirations will occur in the thousands of units per year.

On the other hand, we plan to increase the cost of maintenance for our managed properties in the current fiscal year and will focus on preventive maintenance and quality improvement of managed properties in the future.

SG&A expenses will be JPY50.3 billion, an increase of JPY5.9 billion from the previous year. The main reason for this increase is the provision for bonuses to employees, which will be restored from this fiscal year onward as operating profit recovers.

Operating profit increased JPY9.9 billion YoY to JPY11.7 billion. Despite the interest payment, recurring profit also returned to a positive at JPY6.8 billion. Final net income is planned to recover significantly to JPY24.9 billion due to the multi-year recognition of deferred tax assets.

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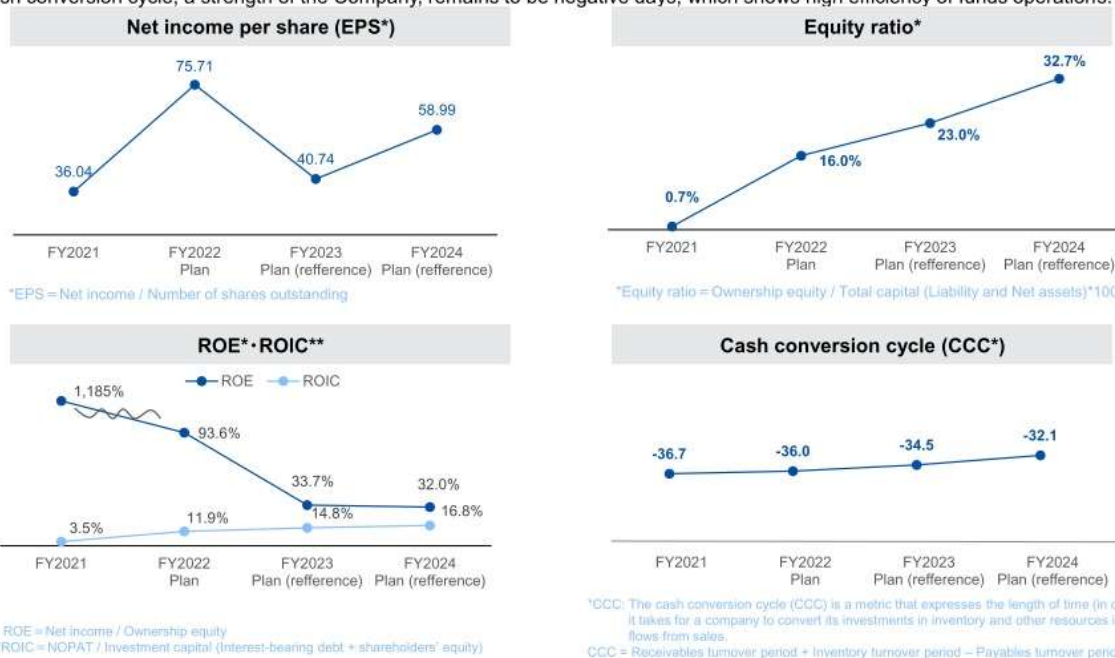
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In the fiscal years ending March 31, 2024, and 2025, we will similarly work to improve our top line and optimize our cost structure to steadily restore operating profit. In addition, while until the previous period, profits from the reversal of provision which does not involve any cash movement contributed to the profit to a large extent, the current plan does not incorporate the reversal of provision, except for a projected JPY3 billion of reversal of provision for apartment vacancy loss in the current period. In other words, the generation of profit from a pure recovery in occupancy rate accompanied by cash is a major difference from the previous year's financial results.

Thanks to continued structural reforms and improved balance sheet, EPS, ROE, ROIC and Equity ratio indicators reached favorable levels.

Cash conversion cycle, a strength of the Company, remains to be negative days, which shows high efficiency of funds operations.



See page 11. The following is a forecast of key indicators through the fiscal year ending March 31, 2025.

Based on the recovery of the occupancy rate, our most important KPI, EPS, will improve from JPY36 in the previous period to JPY58.9 in the fiscal year ending March 2025. This is a result of improving the top line and generating profit through further cost structure reform.

The equity ratio and ROE/ROIC are also expected to normalize as profits recover. We intend to build a management base with an emphasis on capital efficiency over the next three years, and from the fiscal year ending March 31, 2025 onward, we will shift our management focus to how we can maintain and improve this level.

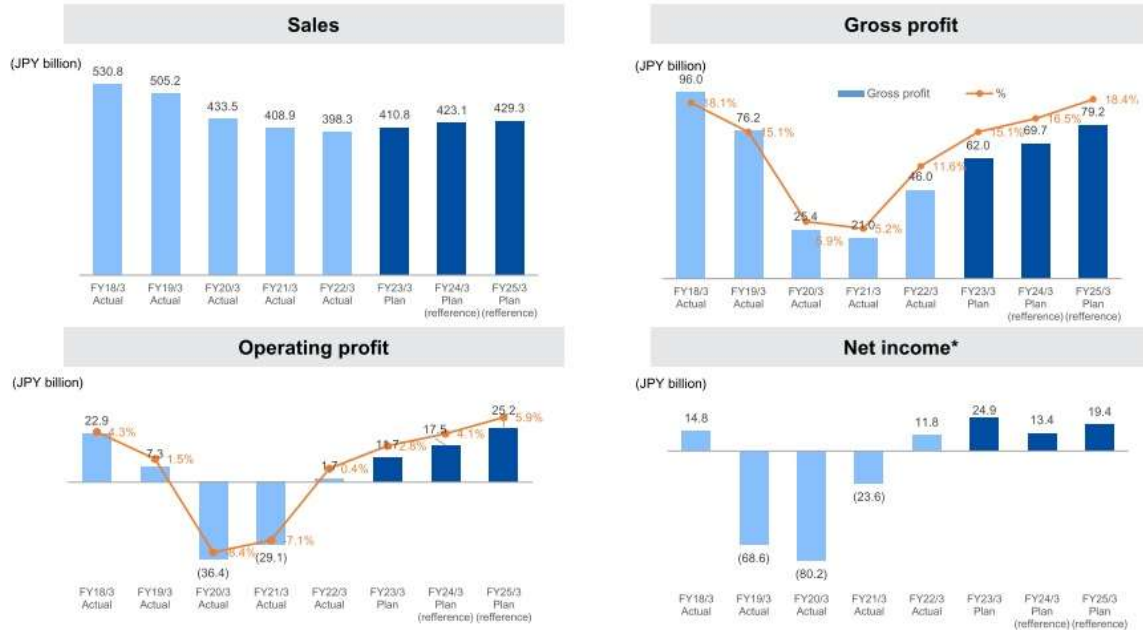
The cash conversion cycle described is an indicator of the number of days it takes to go from cash outflow to cash inflow. We plan to continue to maintain a negative number because our business has been always requiring minimum upfront funds, where we receive rent from tenants in advance, and we basically operate on a non-asset basis, including inventories. Also, we do not incur large purchases. As you can see, this will allow us to maintain a strong financial base that will never run out of funds.

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Operating profit has been increasing since FY2019 reflecting the profit structure improvement. Continued structural reforms increased net income to sales ratio and that of FY2024 outperforms FY2017.



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

See pages 12 and 13. P&L and B/S items are graphed.

In the upper right-hand corner of page 12, we see that while gross profit has not yet recovered to the level of FY18/3 in absolute terms of profit, gross profit margin will recover to a level higher than it was at that time. Similarly, in terms of operating profit, both the amount and rate of profit are expected to exceed the level of the fiscal year ending March 31, 2018.

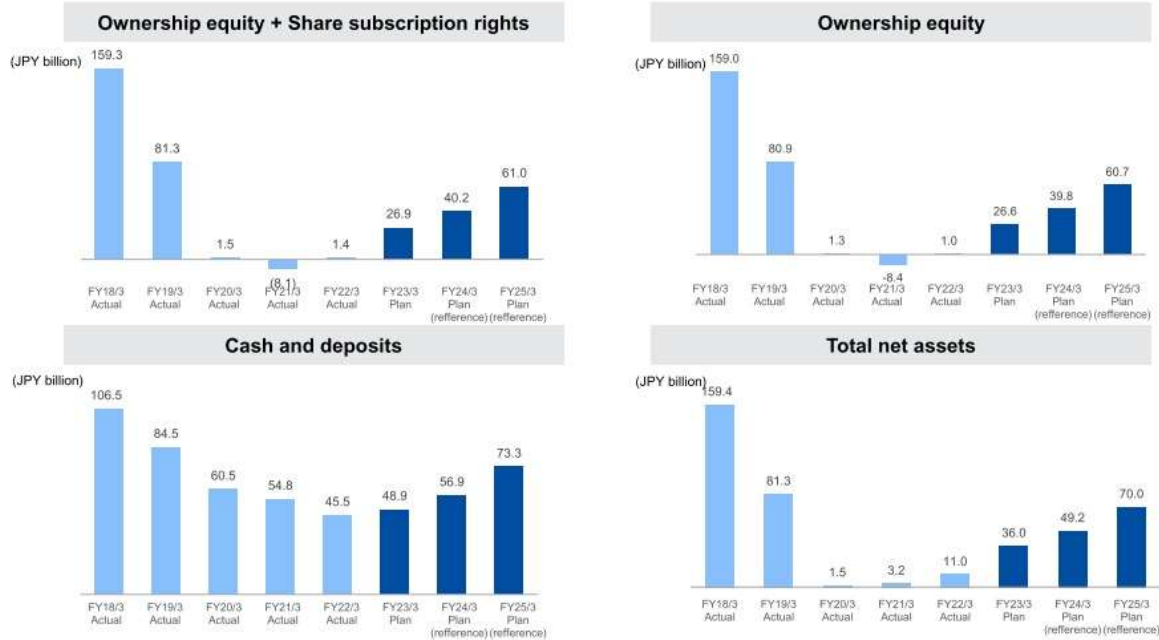
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The Company eliminated excessive liabilities per Tokyo Stock Exchange's definition at the end of March 2022. In addition to strengthening capital by recording net income, the Company starts to consider from FY2022 to FY2024 implementing shareholders return such as payment of dividends and share buybacks.



Page 13 is a B/S graph.

As explained at the beginning of this report, as of the end of the fiscal year ended March 31, 2022, the upper left graph shows that the company has eliminated excessive liabilities even under TSE standards, and the upper right graph, ownership equity, will also be steadily built up.

We have not been able to pay dividends since the fiscal year ended March 31, 2018. We intend to strengthen our capital by posting profits accompanied by cash, and to consider for the three years beginning this fiscal year, the possibility of returning profits to shareholders by resuming dividend payments and share buybacks .

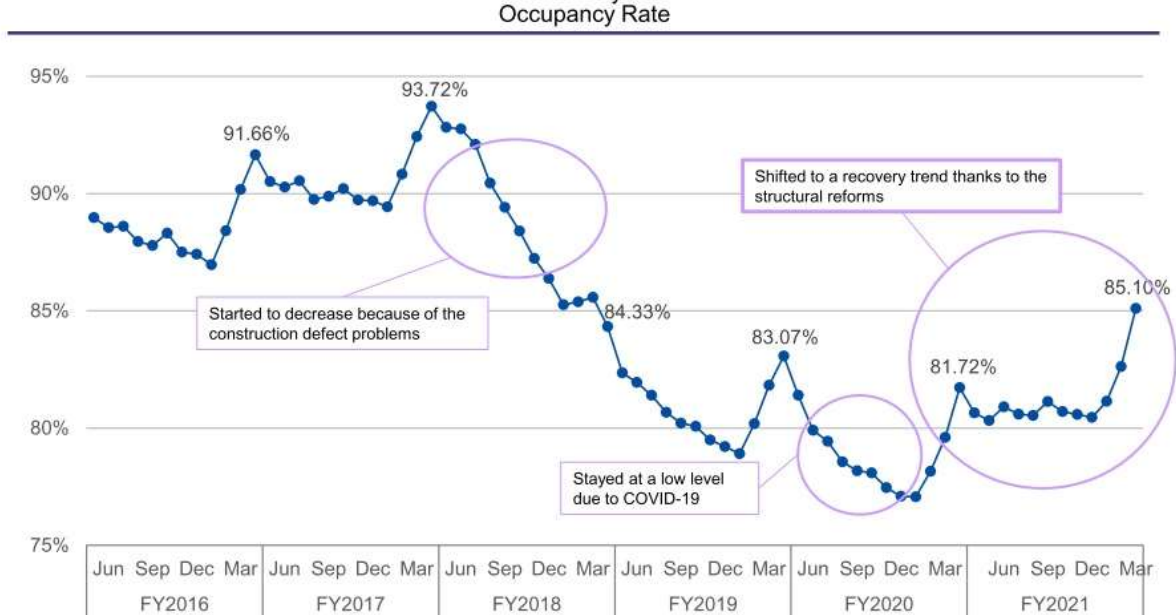
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Occupancy rate had been increasing until FY 2017 after the Lehman collapse, it started to decrease from FY2018 due to the construction defects problem and COVID-19. By implementing measures to improve occupancy rate, it bottomed out in December FY2020 and turned to a recovery trend.



Now I will jump ahead and explain the plan for the occupancy rate, which is on page 19 and beyond.

Since the revelation of the construction defects problem in the fiscal year ended March 2019, together with the spread of COVID-19, the occupancy rate has been trending downward, but in the fiscal year ended March 2022, it has turned to a recovery trend, regaining its previous seasonality.

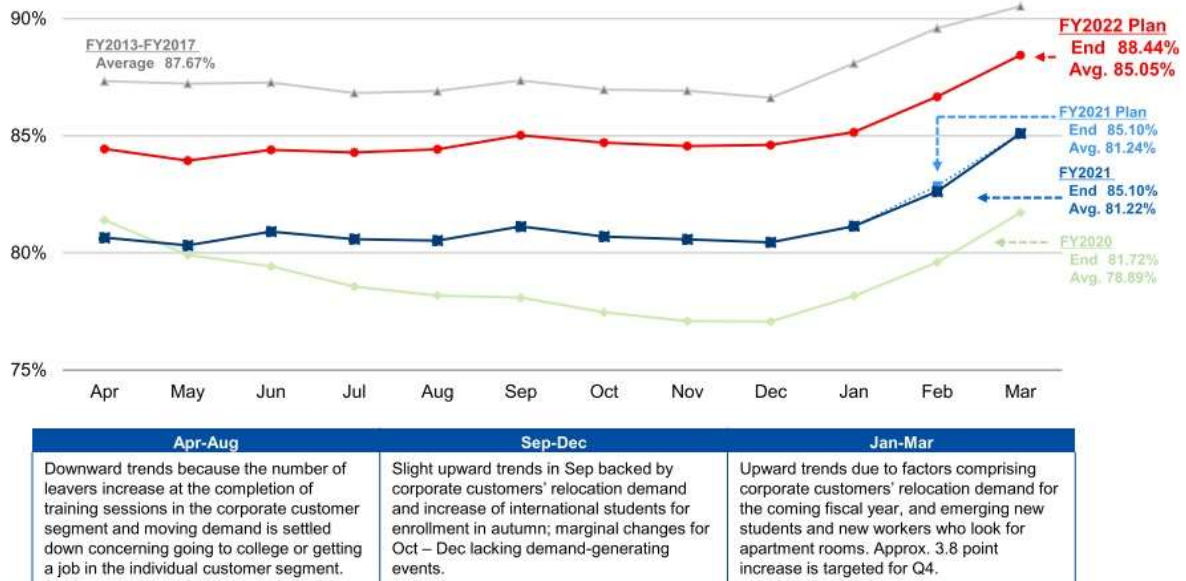
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The occupancy rate has been improved over FY2020 - FY2021 due to the occupancy rate boosting measures amid reducing impact by COVID-19 pandemic. The Company strives to achieve 88.44% at the end of FY2022 and 85.05% as the average of FY2022 by continued occupancy rate boosting measures. Occupancy Rate



See page 20. The blue line shows the actual results for the fiscal year ended March 31, 2022.

During the busy fourth quarter, the occupancy rate increased by 4.7 percentage points to 85.1% at the end of the period, achieving the plan. The average ratio for the fiscal year was 81.22%, up 2.33 percentage points from the previous period and almost in line with the plan.

The occupancy rate plan for this fiscal year is to further improve the average occupancy rate by 3.83 points during the current period, which I will outline on the next page.

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The Company implements measures of boosting occupancy rate for segmented customers to achieve the plan. Efforts are made to attract increasing number of foreign national customers of technical interns for designated activities and international students reflecting the relaxation of immigration restrictions in FY2021.

Acquire larger share at each corporate customer	Attract increased number of individual customers through real estate agents and use of web-based services
<p style="text-align: center;">Obtain customer's buy-in for realizing corporate housing strategy as an expert</p> <ul style="list-style-type: none"> ◆ Top-level sales activities Involve senior management team in customer interaction for resolving issues. ◆ Strengthen sales organizational structure <u>Reorganized the sales departments from five to eight in Tokyo metropolitan area aiming for increased customer interaction time.</u> ◆ Individual customer strategy <u>Promote customers' use of rooms by responding to specific customer requirement.</u> <p>Selected five industries for increased market share: staffing & outsourcing, construction, transport, food service, and distribution</p> <p style="text-align: center;">Attract specified skilled workers ^{*2} for increased use of rooms</p> <p>Increase the use of rooms by specified skilled workers by collaborating with staffing agencies for foreign nationals and establishing stronger relationship with the support agencies.</p>	<ul style="list-style-type: none"> ◆ Strengthen sales to real estate agencies by working with major real estate agents and Village House in Fortress group. ◆ Achievement in FY2021 <ul style="list-style-type: none"> • Number of rental contracts through real estate agencies: 35,576 (an increase of 34.2% YoY) • Ratio of contracts with individual customers through agencies: 38.9% (an increase of 6.9p YoY) <p style="text-align: center;">Strengthen web-based customer attraction^{*1}</p> <p>Reinforced digital marketing ⇒ Increase responses by drawing more traffic to the Company website</p> <p style="text-align: center;">Attract international students^{*2} for increased use of rooms</p> <p>Acquire the increasing demand by international students coming to Japan as a result of relaxation of immigration restrictions. Utilize seven IFCs, and strengthen relationship with real estate agencies and service providers which cater for students' needs.</p>

*1 Refer to P25 for details
*2 Refer to P22 for details

See page 21. These are the pillars of our strategy. For corporate use, we will increase the number of rooms used by increasing market share, and for individual use, we will utilize brokers and web-based customer acquisition.

One thing that both have in common is the acquisition of foreign national tenants. Since the relaxation of immigration restrictions by the government in March, the entry of foreign nationals, including technical interns and international students, has resumed. The Company will first focus on foreign nationals with specified skills by strengthening alliances with companies supporting foreign human resources and organizations that support workers with specified skills in order to increase the use of units.

Specifically, starting later this month, we will hold a seminar for companies jointly with companies that support workers from abroad to explain the features of our products and services. In addition to this, we will share the unique knowledge of our company, which already has a large number of foreign residents, and strive to build relationships with more companies that accept foreign national workers.

In addition, in order to restore usage by international students to an upward trend, we will actively accept applications from international students through our seven IFC locations in Japan, i.e., leasing sales offices that are able to respond to tenants in multiple languages. We will also collaborate with brokers and study abroad centers that have close relationships with IFC offices to attract international students who will enter Japan in the future.

Prior to the pandemic, the number of foreign nationals using our services was increasing along with the number of international students. At that time, our acquisition rate as a percentage of the total number of international students entering the country annually was approximately 7%, according to an internal data. According to news reports, there are approximately 130,000 technical intern trainees and 150,000

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international students waiting for entering Japan. At the very least, we aim to increase the number of foreign national individual contracts alone by approximately 13,000, an increase of 65% over the previous year.

This number is the same level as in the fiscal year ended March 31, 2020, when the usage by foreign national residents was at its peak before COVID-19, and is equivalent to an increase of about 1% in terms of occupancy rate. These figures are for individual contracts only. In addition to this, we expect to see an increase in the number of foreign nationals through corporate contracts.

In addition to foreign nationals, we will continue to promote top-level sales to corporate clients, which we have been strengthening since last year, and expect to recover the number of occupied rooms this fiscal year, especially in five specific industries: staffing & outsourcing, construction, transportation, food service, and distribution. In all of these industries, market demand itself is increasing due to the economic situation and the increased demand caused by the pandemic and other factors. We will steadily increase our market share and increase the number of units in use by taking advantage of our existing strength of being able to offer furnished and uniform properties nationwide.

Chap 4 1: Web-based Customer Attraction



Focus on digital marketing for FY2022 for effective investment and make use of rental website with multi-language support for acquiring increased number of inquiries from potential tenants including foreign nationals to grow successful rental contracts.

Optimize Digital Marketing

Rental Website with Multi-language Support

Major initiatives for FY2022

- 1 Add method of digital marketing and renew rental website for room-search
- 2 Look into tracking records of the users-visitors and monitor the profitability of each media
- 3 Actively post the rental units information on real estate portal sites



Target for FY2022:

Number of website users-visitors +46% yoy
 Number of rental contract conversion +61% yoy
 Continue to further strengthen digital marketing



- ◆ **Accommodate five languages:** English, Chinese in both traditional/simplified characters, Korean and Vietnamese
- ◆ **Full functionality of room search to application of contract from anywhere in the world**
- ◆ **Language is no longer a restriction** for foreign national customers to look for a room through specifying conditions to cope with individual needs

The following is an explanation of the promotion of sustainability, which will be a particular focus from this fiscal year.

As shown on page 25, in the promotion of real estate tech, we have introduced a system that enables completion of the entire process from application to signing the contract on our rental website, and we have promoted various DX initiatives, such as the introduction of web-based customer service and web-based contracting during the pandemic.

As already released in our announcement, this fiscal year, we are also providing a new solution – introducing sequentially smart locks that eliminates the need to hand over keys. In the future, we would like to further

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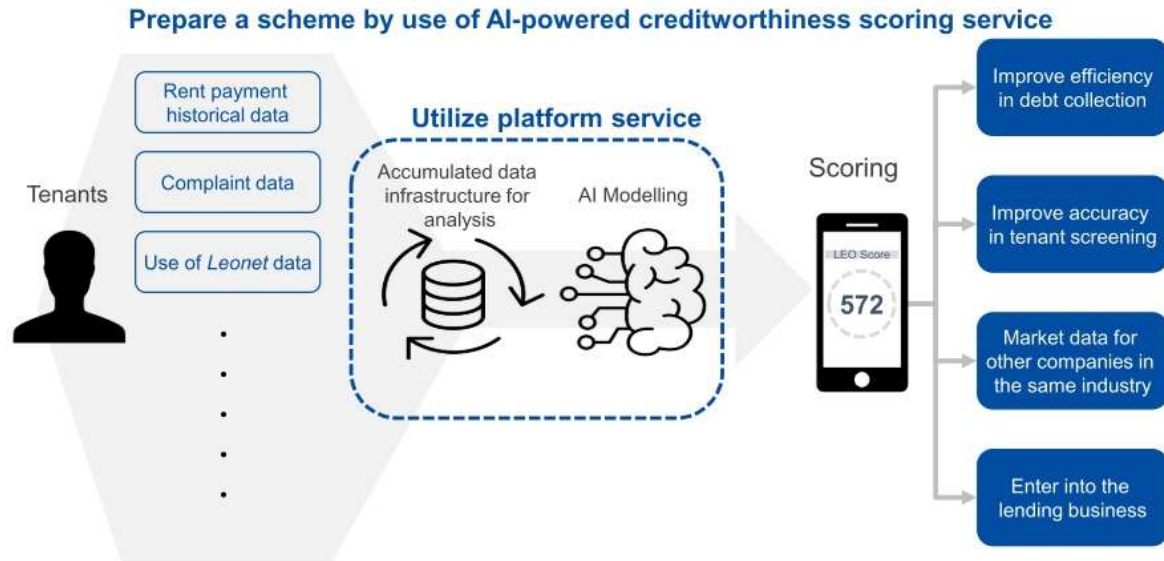
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consider using the data accumulated to date to provide services that will not only improve customer satisfaction, but also contribute to our company's profitability.

Apply AI technology to the huge accumulated data through Leasing Business operation. Investigate a business possibility of selling outside AI-powered creditworthiness scoring service and further develop to a platform business.

Possibility to develop to a platform business



Please see page 28. For example, we have acquired and accumulated a variety of data from the approximately 570,000 properties we manage, including rent payment history, complaints data, *LEONET* usage data, and move-in/out status received from our clients.

By using the platform service and applying AI analysis to this data, we hope to achieve, for example, cost reductions by upgrading debt collection operations, preventing delinquencies, improving the tenant screening system, and contributing to sales by selling the data to other companies in the industry. In addition, we will actively work to strengthen governance, which is indispensable for improving corporate value over the medium to long term, and to go green.

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Further improve risk sensitivity and compliance awareness of all officers and employees by strengthening the functions of risk and compliance representatives in each department.
 Procurement department was established in January 2022 so that it contributes to fortify the governance system and adhere to Leopalace21 Group CSR Procurement Guidelines.

Promote compliance

Aiming to transform into a corporate culture that motivates staffs to think and act based on Compliance First policy

Initiatives in FY2022

- ◆ **Improve risk sensitivity and compliance awareness**
 The Compliance Promotion Department aims to improve the risk sensitivity and compliance awareness of officers and employees through the trainings and development of teaching materials of that reflect the various specific cases of risk and compliance accumulated so far and the request by officers and employees.
- ◆ **Strengthen the functions of risk and compliance officers in each department**
 Each department will proactively respond to risk and compliance cases to improve self-propelled responsiveness and at the same time improve risk sensitivity and compliance awareness of each department.

Established Procurement Department and Procurement Management Committee

Tightened the control of procurement process of goods and services including supplier selection based on Leopalace21 Group CSR Procurement Guidelines

Procurement department

- ◆ Newly established department in the Business Management Headquarters on Jan 26, 2022 in order to adhere to the CSR Procurement Guidelines.
- ◆ Procurement department will proceed with planning and execution of purchasing processes such as bidding, and will procure based on transparent and strict purchasing processes such as bidding for each type of transaction and type of procured product.

Procurement Management Committee

- ◆ Chaired by CEO and consisted of GM of the Business Management Headquarters, CLO, and the head of each management department.
- ◆ Deliberation and decision on important matters related to purchasing, ensuring appropriate quality and stricter selection of suppliers.

See page 30. Although not yet available on our website, we have completed the implementation of all 50 items in our preventive measures for constructive defects formulated in response to the discovery of the construction defects problem.

In the current fiscal year, in order to maintain and improve the compliance promotion implemented through preventive measures for constructive defects, we have set policies to increase risk sensitivity and compliance awareness. In order to strengthen the functions of risk management and compliance amongst personnel, we will continue internal training programs.

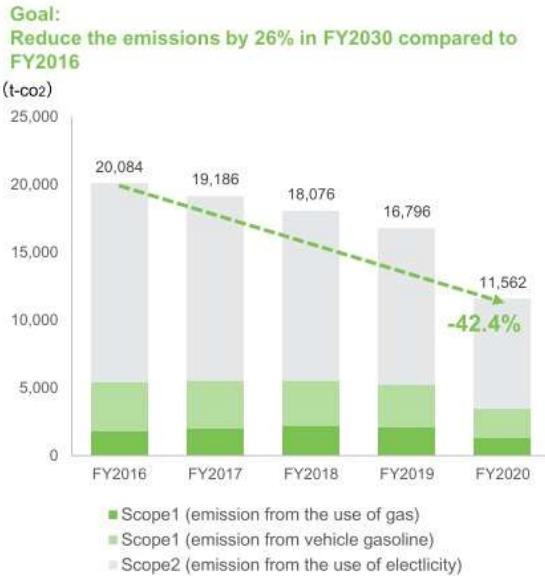
Also, this year, a new Procurement Department was established, and a Procurement Management Committee was formed. We will optimize the procurement process, which has tended to left to a certain individual decision for each department. We will ensure appropriate quality assurance and a stricter selection of suppliers, as well as strengthen the adherence to the CSR procurement guidelines.

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The Japanese government set a goal of reducing the CO₂ emissions by 46% in FY2030 compared to FY2013. In line with this goal, the Company have set a goal of reducing the Scope 1 and 2 CO₂ emissions – emissions from the use of electricity and gas, and vehicle gasoline by 26%.

CO₂ Emissions for Scope 1 and 2



Disclosure Based on TCFD Framework

- ◆ The Company expressed to support the recommendations by TCFD and participated in the consortium during FY2021.
- ◆ Launched a project for disclosure based on TCFD framework.
- ◆ The Company plans to disclose its activities in June 2022 on HP and the corporate governance report.

CO₂ Emissions for Scope 3



See page 31. The promotion of greener operations.

We have traditionally aggregated and disclosed our CO₂ emissions according to Scope One, Two, and Three. CO₂ emissions have been steadily decreasing, partly due to the reduction in the scale of operations as a result of structural reforms. However, we feel that the challenge is how to reduce these emissions, especially since Scope Three is expected to increase as occupancy rates recover in the future.

In order to develop a strategy for the environment, a project team was first formed this fiscal year for disclosure based on TCFD recommendations. Scenario analysis, risk management, and strategy development are underway.

We intend to disclose these summaries in due course through the Corporate Governance Report or the Integrated Report.

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Expected number of repaired units in the future: About 38,000 rooms

Of the 98,200 rooms that have been deducted from "requiring repairs" and "repairs completed", 22,606 units have already been found to be defective by the investigation. It is expected that about 38,000 units will be requiring repairs, including 15,000 uninvestigated rooms that are predicted to be defective based on the results of the investigation so far.

(As of April 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		Expected No. of to-be-repaired rooms
				requiring repairs	with repairs completed	
Nail Series / Six Series Total	15,283	7,764	121,952	90,401	45,209	22,000
Other Series Total	23,802	4,630	72,086	58,598	5,640	16,000
Grand Total	39,085	12,394	194,038	148,999	50,849	38,000

Steadily repairing construction defects while continuing to rebuild the financial base.
Aim to eliminate obvious defects by the end of 2024.

* Progress of repair work: <https://www.leopalace21.co.jp/info/pdf/2021/progress.pdf>

* Fundamental approach to prevent recurrence : <https://www.leopalace21.co.jp/info/pdf/2021/progress.pdf>

See page 33. This is our latest status of managing the construction defects problem.

As explained at the beginning of this report, we will steadily proceed with the repair works to eliminate the obvious defects by the end of 2024.

As of the end of April, works have been completed on more than 50,000 of the approximately 150,000 units that require repair. As for the remaining 100,000 units, based on the calculation of the defective rate to date, the total number of units expected to be repaired, in addition to the units already confirmed to be repaired, is estimated to be 38,000 units in total. We will work to resolve the defects in these 38,000 units by the announced deadline.

We managed to eliminate our excessive liabilities under TSE standards one year ahead of schedule, and our financial base has barely normalized. From here, we will continue to improve our top line, formulate a solid financial strategy, and focus on sustainability activities so that we can be recognized as a company that is needed by society. We would appreciate the support and guidance of our stakeholders.

This concludes my explanation. Thank you for your attention.

Kawasaki: Next, Mr. Takekura will give an explanation. Mr. Takekura, please go ahead.

Takekura: My name is Takekura. Thank you very much for taking time out of your busy schedules to join us today.

I will explain the progress made in cutting SG&A expenses and cost of sales for the fiscal year ended March 31, 2022 and our future plans. Please continue to refer to the presentation at hand. Please see page six first. This is a summary of the March 2022 financial results.

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The outline is as explained by President Miyao. Net sales were JPY398.3 billion. This is a JPY10.5 billion decrease from the previous year, but gross profit and items under this have improved significantly from the previous year.

The three points mentioned earlier contributed to this. This includes a JPY6.6 billion reversal of the provision for apartment vacancy loss, an JPY11.9 billion reversal of the provision for losses related to repairs, and JPY4.4 billion in the recognition of deferred tax assets.

As a result, operating income was JPY1.7 billion, recurring profit was negative JPY2.1 billion, and net income was positive JPY11.8 billion, JPY35.5 billion more than the previous year and JPY10.1 billion more than planned. This is the first time since the fiscal year ended March 31, 2018 that net income has returned to profitability.

Ownership equity + share subscription rights was JPY 1,425 million, hence resulted in excessive liabilities* elimination as of end of March, 2022. * The excessive liabilities per the Tokyo Stock Exchange is defined ownership equity plus share subscription rights.

Balance Sheet - main items only

(JPY million)	FY2020	Q3 FY2021	FY2021	Factors contributing to changes (compared against end of FY2020)
Cash and deposits	54,863	44,130	45,523	<p>■ Cash and deposits 2H cash flows was inflow reflecting the successful structural reform effect although balance decreased YoY.</p> <p>■ Provision for losses related to repairs (current: JPY 1.9 bil; non-current: JPY 16.1 bil) Reduced by JPY 3.4 bil in accordance with the progress of repairs and reversal of JPY 11.9 bil due to lowered unit repair cost (Q1: JPY 1.9 bil, Q2: JPY 1.4 bil, Q3: JPY 2.8 bil, Q4: JPY 5.8 bil), hence total reduction of JPY 15.4 bil. Insourcing repair works, lowered unit repair cost, sourcing based on quotation from multiple suppliers and utilizing internally available resources made the balance of JPY 18 bil in FY2021 from JPY 50.7 bil in FY2018.</p> <p>■ Provision for apartment vacancy loss (current: JPY 4.2 bil, non-current: JPY 1.4 bil) Reversal of JPY 6.6 bil (Q1: JPY 1.2 bil, Q2: JPY 1.3 bil, Q3: JPY 2.5 bil, Q4: JPY 1.6 bil) as a result of aggregated impact of improving profitability of out management units and reduced number of the management units as a result of master-lease contract expiration.</p> <p>■ Ownership equity Ownership equity turned to positive which had been negative up to Q3, because recording of Q4 net income of JPY 5.9 bil increased retained earnings and increase in total accumulated other comprehensive income resulting from weakened JPY.</p> <p>■ Total net assets Increase in ownership equity kept positive total net assets.</p>
Total assets	161,708	143,137	145,430	
Interest-bearing debt**	35,409	33,351	33,045	
Provision for loss related to repairs	33,509	25,103	18,086	
Provision for apartment vacancy loss	12,262	7,249	5,632	
Total liabilities	158,431	138,927	134,396	
Common stock	81,282	100	100	
Capital surplus	55,174	136,345	136,345	
Retained earnings	(142,586)	(141,685)	(135,749)	
Total shareholders' equity (A)	(6,474)	(5,542)	392	
Total accumulated other comprehensive income (B)	(2,019)	(91)	675	
Ownership equity (A)+(B)	(8,494)	(5,634)	1,068	
Share subscription rights	388	357	357	
Non-controlling interests	11,383	9,486	9,608	
Total net assets	3,277	4,209	11,034	
Total liabilities and total net assets	161,708	143,137	145,430	

** Interest-bearing debt = borrowings + lease obligations

Next see page nine. We will primarily focus on the items on the balance sheet that have increased or decreased.

Cash and deposits decreased from the previous year to JPY45.5 billion, mainly due to the payment related to repairing construction defects and an increase in working capital.

In the liabilities account, interest-bearing debt decreased by JPY2 billion, mainly due to a decrease in lease obligations.

Reversal of provision for losses related to repairs was JPY11.9 billion due to progress in repair works for construction defects, unit price reductions achieved by employing more efficient repair methods, and expected demolition of properties. A reversal of JPY5.8 billion was realized in the fourth quarter, for a total decrease of JPY15.4 billion.

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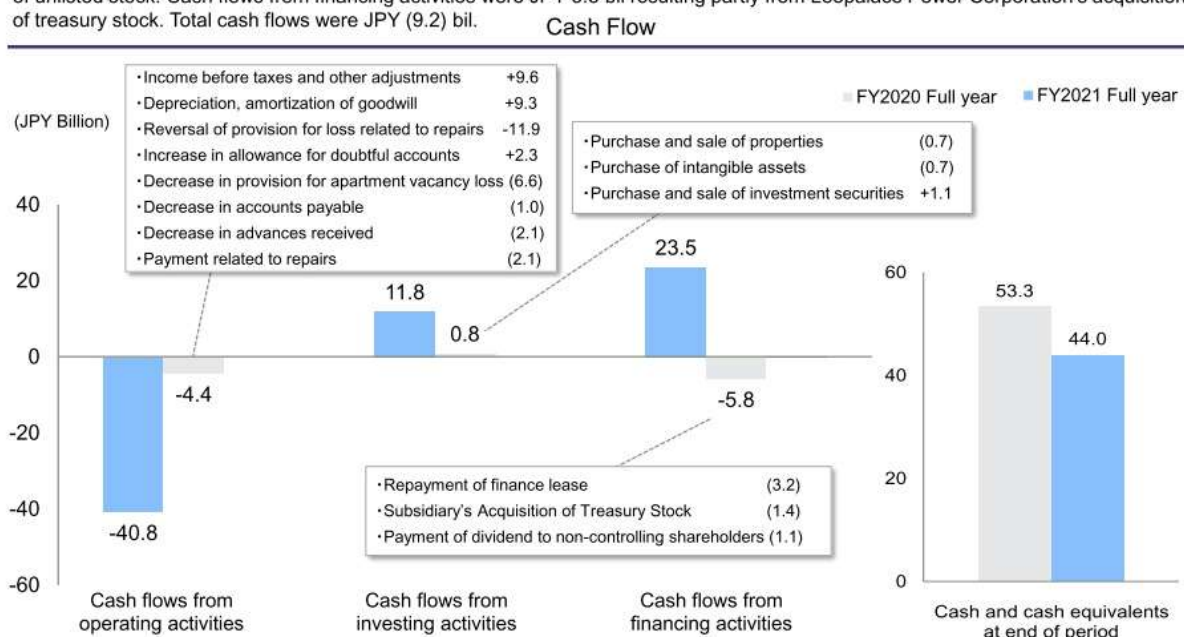
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Provision for apartment vacancy loss is also JPY1.6 billion in the fourth quarter due to the improvement of property income and expenditure by reducing rental operating costs as well. The total decrease was JPY6.6 billion.

In terms of net assets, retained earnings increased due to the recording of JPY5.9 billion in net income for the fourth quarter. As a result, as I reported earlier, equity capital has turned to a positive JPY1 billion, and net assets under TSE standards are JPY1.45 billion.

Against a two-year grace period, we were able to achieve the excessive liabilities elimination with one year left. Net assets under corporate accounting standards are positive JPY11 billion.

Cash flows from operating activities were JPY (4.4) bil due to expenditure of working capital and carrying out repairs, whereas profitability improvement contributed to improve JPY 36.4 bil YoY. Cash flows from investing activities were JPY 0.8 bil mainly due to sale of non-current assets held by subsidiaries in ASEAN and sale of unlisted stock. Cash flows from financing activities were JPY 5.8 bil resulting partly from Leopalace Power Corporation's acquisition of treasury stock. Total cash flows were JPY (9.2) bil.



Please see page 10 regarding cash flow.

Cash flows from operating activities was negative JPY4.4 billion but turned positive JPY36.4 billion from the previous year due to improved earnings in the core business. We were able to greatly reduce the deficit.

Cash flows from investing activities decreased by JPY11 billion from the previous year to a positive JPY0.8 billion, as sale of non-current assets and sale of marketable securities settled down. Cash flows from financing activities was negative JPY5.8 billion, mainly due to payments for the repayment of finance leases and acquisition of treasury stock by Leopalace Power Corporation.

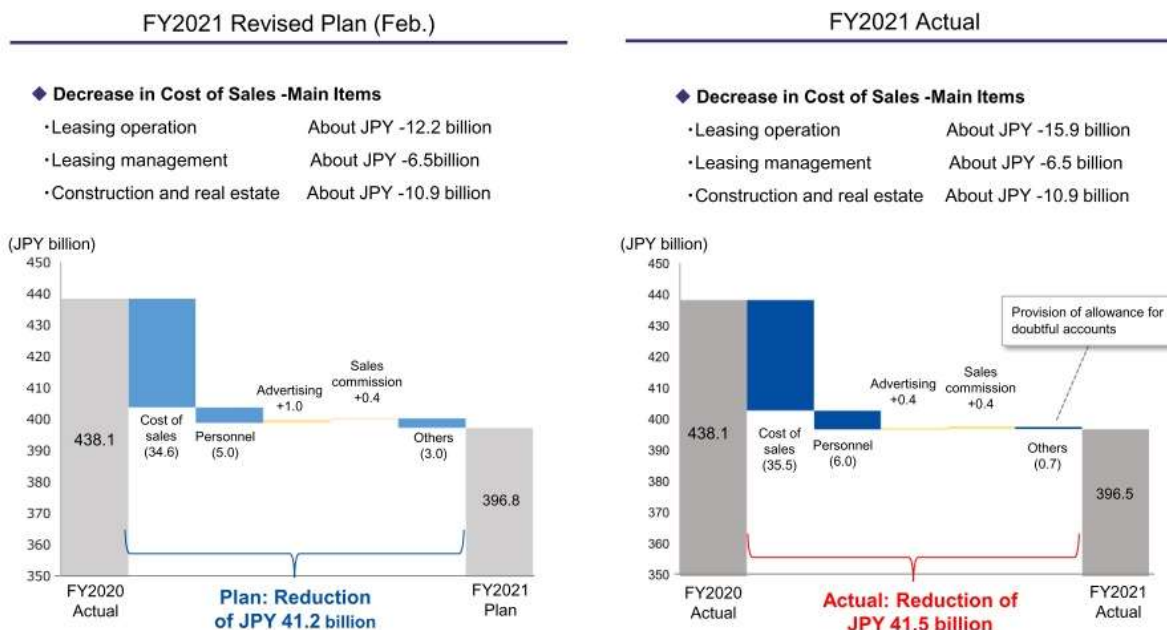
For the full year, cash and deposits decreased by a total of JPY9.2 billion, but the difficult period ended in the first half of the year, and since September 2021, cash flows have remained positive in total.

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Cost of sales and SG&A successfully achieved the plan by making reduction of JPY 41.5 billion through efficiency improvement measures such as cost curtailment across the board and reviewing operation flow.



Next, I will explain the reform of the cost structure. At the outset, President Miyao stated that we have really been making a series of realistically planned cost reductions since FY2020, especially in the last year. See page 15. I would like to explain the details of the reduction of cost and SG&A expenses, which is the pillar of our structural reforms.

The left-hand side shows the plan for the fiscal year ended March 31, 2022, while the right-hand side shows the actual results. The final reduction was JPY41.5 billion against the plan to reduce cost of sales and SG&A expenses by JPY41.2 billion in total. The largest reduction is in cost of sales, which was JPY35.5 billion. The breakdown is approximately JPY15.9 billion in reduction of leasing operation costs. Most of this figure is due to changes as a result of contractual adjustment of master-lease rent, which we discussed with the property owners and finally settled respectively with a fair price.

On the other hand, the reversal of JPY1.6 billion of the provision for apartment vacancy loss was realized in the fourth quarter. Other reductions in operation costs and various infrastructure costs were achieved by reducing costs beyond what was planned and realized. The reduction in leasing management costs of approximately JPY6.5 billion was also in line with the plan.

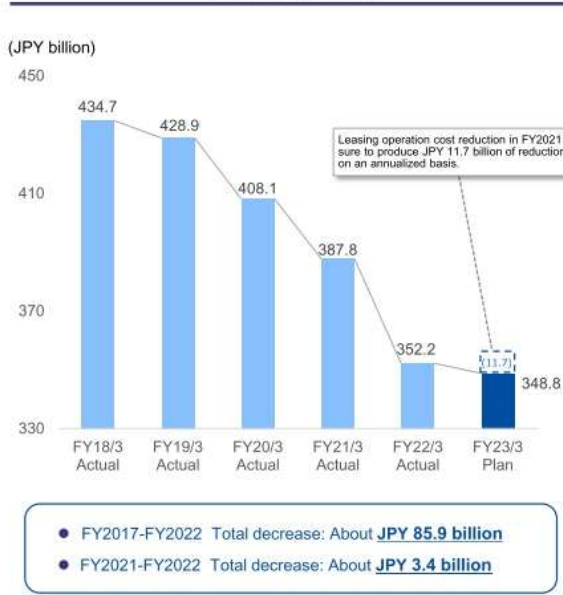
Reduction in building real estate costs amounted to JPY10.9 billion. This was due to a decrease in sales in the development business due to the suspension of activity to new orders, which was also in line with the plan. In SG&A expenses, personnel expenses decreased by approximately JPY6 billion was due to a decrease in personnel.

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The Company will see increased leasing management cost based on proper maintenance for apartment buildings in FY2022 but expect continued reduction of cost of sales against the previous fiscal year, reflecting progress in contractual adjustment for master-lease rent and cost of operating *Leonet*, internet services.



- Decrease in Cost of Sales –Main Items**
- ◆ **Leasing Operation : YoY JPY -8.3 billion**
 - Continued contractual adjustment for master-lease rent since FY2021 makes substantial reduction in rent payable to owners.
 - Provision for apartment vacancy loss (- means positive)
FY2021: JPY - 6.6 billion, FY2022: JPY – 3.0 billion (JPY 3.6 billion YoY)
 - Utilities expenses for monthly rental contracts increase JPY 1.2 billion YoY due to occupancy rate improvement and rise in electricity and gas rates
 - ◆ **Leasing Management: YoY JPY +6.3 billion**
 - Leasing management cost substantially increases reflecting increasing number of maintenance operation despite continued operation flow improvement since FY2021.
 - ◆ **Construction and Real Estate: YoY JPY -0.3 billion**
 - level off due to ceased new order intake, same as FY2021.

Then see page 16. This is the cost and expense reductions plan for this fiscal year.

In the current fiscal year, we expect a JPY6.3 billion increase in leasing management costs as we focus on preventive maintenance for property management in preparation for the future. We plan to reduce leasing operation costs by JPY8.3 billion and construction real estate costs by JPY0.3 billion by contractual adjustment of master-lease rent and reducing other cost of sales.

The reduction in leasing operation costs includes a decrease in cost of sales due to a decrease in the managed units resulting from contract expirations, but we plan to limit the impact on earnings by restoring occupancy rates, contracts, and unit rent prices to their original levels.

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Personnel expenses increase because of recording provision for bonuses; increase in taxes and public charges and sales commission expense are offset by cost reduction as a result of operation efficiency improvement measures and selective concentration for optimizing cost structure.



Then see page 17. Selling, general and administrative expenses.

Until the previous fiscal year, we had been reducing SG&A expenses, mainly personnel expenses, but this fiscal year we expect a JPY4.1 billion increase in personnel expenses, including some JPY4.1 billion in provision for bonuses.

On the other hand, in order to absorb the reduction in fixed costs due to the closure of leasing sales offices and the reduction in personnel up to the previous fiscal year, we began centralization of administrative operations and the outsourcing of call center operations last fiscal year.

In the centralization of administrative operations, each branch office will share contract related jobs, and the subsequent contract work processing will be centralized in the metropolitan area, with a higher percentage of non-permanent employees working there to achieve proper staffing and operational efficiency. We estimate that this will save 120,000 hours of work per year, which will further reduce personnel costs.

In addition, by outsourcing some of the call center operations that were previously performed by regular employees, we have been able to reduce costs by approximately JPY120 million per year. In the future, we will promote the effective use of this system by shifting permanent employees to the field.

Next, we will explain the occupancy rate. See page 20.

In the fiscal year ended March 31, 2022, we were able to maintain a stable occupancy rate throughout the year. The trend that approximately 60% of the contracted units are for corporate use remains unchanged as of the end of the period.

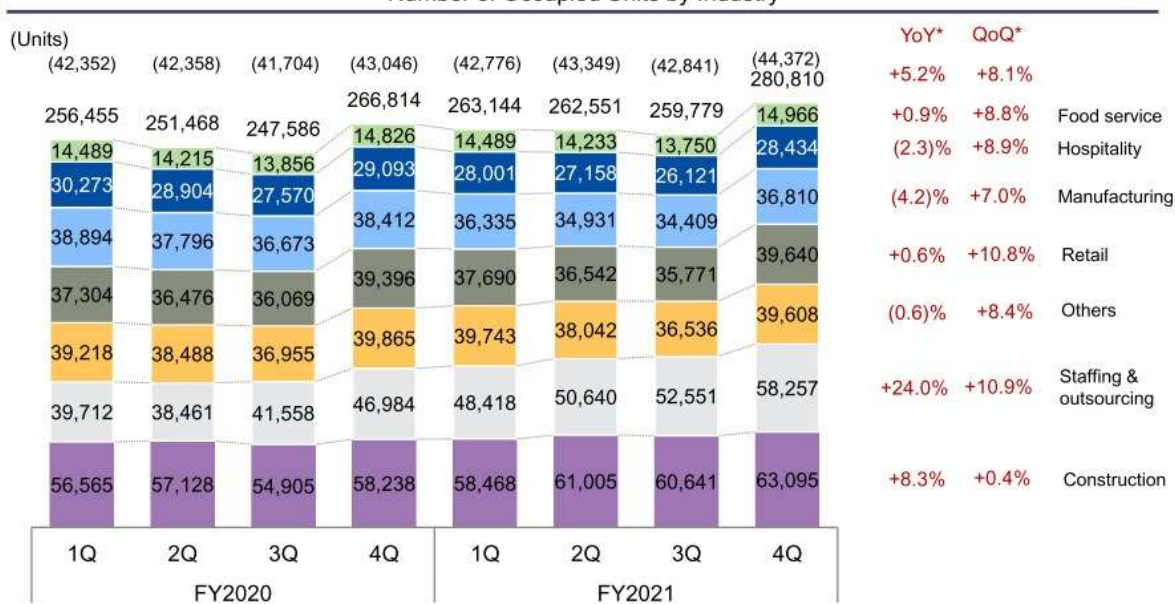
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Approximately 80% of listed companies in Japan have used Leopalace21 services. The strong demand remained in staffing & outsourcing and construction during FY2021. Food service, hospitality, and retail also remained at a high rate of increase in Q4 due to the mitigated impact of COVID-19 pandemic.

Number of Occupied Units by Industry



* YoY: compared with Q4 FY2020, QoQ: compared with Q3 FY2021

If you skip a few pages, the corporate contracts are shown by industry, which is represented on page 37.

The number of units in corporate use is up 5.2 percentage points from March 2021. Temporary staffing/outsourcing and Construction performed well throughout the year, improving by 24 points and 8.3 points, respectively, over the year ended March 31, 2021. In the Manufacturing sector, the end of the previous period was minus 4.2 points, due in part to the shift of temporary workers, but compared to the end of December, it improved by 7.0 points.

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Occupancy rate of all prefectures except Tokushima increased QoQ due to the implementation of measures to improve occupancy rate and the mitigated impact by COVID-19 pandemic.

The national market has been divided into 7 areas from FY2021 in which sales, cost and profit are individually managed.

Managed Units and Occupancy Rates by Area

Managed unit: in thousands, Occupancy: %	Q4 FY2021				Managed unit: in thousands, Occupancy: %	Q4 FY2021				Managed unit: in thousands, Occupancy: %	Q4 FY2021			
	Managed units	Occupancy rate	YoY	QoQ		Managed units	Occupancy rate	YoY	QoQ		Managed units	Occupancy rate	YoY	QoQ
Hokkaido	13	78%	+8p	+6p	Fukui	4	94%	+1p	+5p	Okayama	12	84%	±0p	+3p
Aomori	4	84%	+1p	+1p	Yamanashi	4	86%	+5p	+3p	Hiroshima	14	88%	+2p	+5p
Iwate	3	94%	+5p	+2p	Nagano	11	86%	+6p	+3p	Yamaguchi	7	90%	+3p	+7p
Miyagi	10	84%	+3p	+5p	Niigata	9	79%	+1p	+2p	Tokushima	2	89%	+6p	△1p
Akita	2	94%	+8p	+8p	Gifu	7	87%	+4p	+5p	Kagawa	5	80%	△1p	+5p
Yamagata	4	83%	±0p	+3p	Shizuoka	25	77%	+2p	+4p	Ehime	4	86%	+1p	+3p
Fukushima	10	82%	±0p	+5p	Aichi	41	89%	+5p	+4p	Kochi	2	86%	+4p	+4p
Ibaraki	15	84%	+6p	+5p	Mie	12	85%	+9p	+5p	Fukuoka	20	87%	+2p	+5p
Tochigi	11	84%	+7p	+4p	Shiga	8	94%	+8p	+6p	Saga	3	91%	+4p	+6p
Gunma	12	78%	±0p	+1p	Kyoto	9	89%	+4p	+5p	Nagasaki	2	93%	+1p	+4p
Saitama	46	85%	+3p	+4p	Osaka	31	83%	+3p	+5p	Kumamoto	7	90%	+5p	+5p
Chiba	34	80%	+2p	+5p	Hyogo	22	85%	+3p	+5p	Oita	4	84%	+1p	+4p
Tokyo	45	86%	+3p	+6p	Nara	3	87%	+5p	+4p	Miyazaki	2	84%	△1p	+4p
Kanagawa	41	90%	+6p	+7p	Wakayama	3	77%	±0p	+4p	Kagoshima	3	86%	±0p	+3p
Toyama	5	80%	+4p	+6p	Tottori	2	91%	△2p	+3p	Okinawa	5	94%	±0p	+2p
Ishikawa	5	75%	△3p	+4p	Shimane	2	96%	+3p	+3p	Total	567	85%	+3p	+5p

* YoY: compared with Q4 FY2020, QoQ: compared with Q3 FY2021

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The specific occupancy status is shown by prefecture on page 39.

The improvement over the previous quarter in the Hokkaido and Tohoku areas, as well as in the Chubu area, is quite remarkable. Demand is expected to continue for some time to come due to the government's focus on offshore wind power generation and biomass power generation-related demand. Comparatively speaking, there is a great need, and the area has seen a large increase in unit rent prices.

The Chubu area, especially Mie Prefecture, improved by nine points from the previous quarter, a move that was largely driven by demand due to increased production capacity at semiconductor-related plants. Similarly, in Shiga Prefecture, the occupancy rate is currently over 90%, an improvement of eight percentage points from the previous quarter, due to the expansion of factories and other factors, as well as their operation.

We will continue to watch carefully market demand, and as explained by President Miyao, we will continue our sales activities to approach the five specific industries that need our services, which are staffing & outsourcing, construction, transportation, food service, and logistics.

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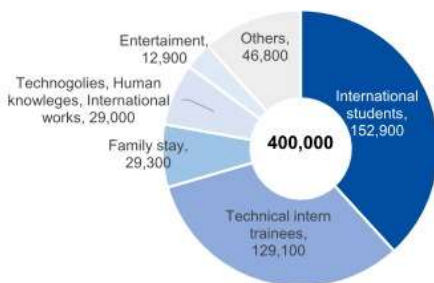
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The number of foreign nationals is expected to gradually increase due to the relaxation of immigration restrictions. Targets are set for each category of immigrants, aiming to acquire tenants at the level of FY2019 which is before the expansion of COVID-19.

FY2022 Plan
 Number of contracts by foreign nationals (individual only)
 Acquire about **13,000 contracts (+65% YoY)**

▼ Number of non-immigrants who have been issued a "Certificate of Eligibility" (as of January 4, 2022)



Target	Main measures to get response
International students	<ul style="list-style-type: none"> University, business college, Japanese language school Real estate agents Study abroad center
Workers	<ul style="list-style-type: none"> Real estate agents Employment Agencies
Specified skilled workers	<ul style="list-style-type: none"> Specified skilled workers support organizations Real estate agents Companies accepting foreign workers
Technical intern trainees	<ul style="list-style-type: none"> Supervising organizations Companies accepting foreign workers

Finally, to return a bit, please see page 22.

The key to increasing the occupancy rate this quarter has been the acquisition of foreign national tenants. According to news reports, there were 400,000 foreign nationals at the end of January this year who have a status of residence but were unable to enter Japan. The majority of these, 282,000, are foreign students and technical trainees, who are our target group. Capturing this segment of people is crucial. The International Front Center, or IFC, which I mentioned earlier, is one of our existing strengths. It is our goal to increase the number of contracts with foreign national tenants by 65% over the previous year to 13,000 in the current fiscal year by utilizing multilingual support capability and partnering with specified skilled workers support organizations, host companies, or real estate agencies.

In terms of important occupancy rate trends, we will continue to focus on improving the occupancy rate in the current fiscal year.

That concludes my brief explanation. We look forward to your continued support and encouragement. Thank you for your attention.

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Question & Answer

Kawasaki [Q]: We will now begin the question-and-answer session. In the first round, each person may ask two questions. Now, the first question is from Mr. Tazawa, SMBC Nikko Securities Inc.

The postponement of the announcement of the financial results was said to be due to the warnings regarding fictitious loans, improper payment of brokerage commissions, and manipulation of occupancy rates. What is the background of the incident that may have caused such a report, and is there any possibility that some other incident may be uncovered, even though this incident is not a problem with the financial statements? I would like to know whether there are any cases in which you are aware of any problems within the company.

Miyao [A]: We have announced that the postponement of the announcement of the financial results was based on these three warnings. In postponing the announcement of financial results at 5:00 PM on March 13, we did not disclose the details of the reports, and we regret very much that we have aroused your suspicions.

However, the request for investigation came from the auditing firm just before the day of the announcement, so we had no choice but to postpone the announcement. As I mentioned earlier, we had already completed our investigation into the fictitious loans and brokerage fee irregularities, and over this weekend, Saturday and Sunday, we re-compiled the details and made an announcement.

As to your question about the background. Regarding the fictitious loans, this is not something that can be seen from our financial statements, etc., so I am not sure to what extent I should explain it. The fact that some debtors or their associates have been vocal in their claims has reported to the authorities. There is a question of whether it is appropriate as an explanation, so there is a question of how far to go with the explanation afterwards. I believe that the background of the claim is that rather than the loan being a fictitious loan, the person has no intention of paying it.

As for the second question, the improper payment of brokerage commissions. As stated, this is a case in which a brokerage firm worked with another brokerage firm, as if the brokerage firm existed, for a contract that was taken directly without brokerage commissions, and as a result, the company incurred approximately JPY10 million in brokerage commissions and other expenditures. This is also a case in which we have understood the details through internal investigations and offers from internal employees, etc., and as stated, the recovery of damages, etc., is almost complete, and all internal procedures, internal disciplinary actions, etc., have also been completed.

Unfortunately, however, I think it is a bit unfortunate that this kind of problem came out in the form of such an external report. We have also compiled reports from the Compliance Committee and provided them to the auditing firm, so I believe that we can say that there was no concealment against the auditing firm as well.

Also, regarding the improper manipulation of the occupancy rate, I think it was not always easy to know how occupancy was counted in this case. Or how should I put it, was there some kind of strange desire to make a mess of things, I can't say. The background is a bit uncertain. For our part, we are taking it as such.

As to whether there is any possibility of such a matter being discovered, as I mentioned earlier, we have submitted the minutes and documents of the Compliance Committee and Risk Management Committee meetings, as well as the audit meetings, to the audit firm with all the information from the board meetings. It does not mean that the matter was discovered, but rather that the matter was reported to the auditing firm, regardless of whether the audit firm knew about it or not. We have responded to your first question.

Kawasaki [Q]: Next, Mr. Tazawa's second question.

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On page 11, due to earnings recovery, the equity ratio is expected to recover to 32.7% in March 2025. On page 13, you state that you will consider the implementation of shareholder returns (resumption of dividends and share buybacks), but we would like to answer your question regarding what approach you would take to consider resuming shareholder returns.

Miyao [A]: On page 12, the profit curve is going to be on a steady rise, and as for the equity ratio, as I indicated, the capital account will be strengthened through this accumulation of profit.

Regarding the cash conversion cycle on slide 11, I am sure you understand that our business model does not require upfront capital in terms of operations. Therefore, we would like to start returning profits to shareholders as soon as possible, based on the equity ratio, ROE, ROIC, or the absolute amount of cash and deposits.

In a sense, we have just managed to turn our equity ratio from negative to positive, and we would like to discuss internally what we should do when we reach this stage. I have answered your questions. Thank you very much.

Kawasaki [Q]: Next, the first question from Mr. Hashimoto, Mizuho Securities Co., Ltd.

I would like to ask about the number of occupancies in support of Ukraine

Takekura [A]: Takekura will answer your question. Investors may wonder what we mean when we talk about the number of occupancies in Ukrainian support, so let us briefly explain.

On March 7, after the outbreak of the current problems in Ukraine, our company, as part of its social contribution and humanitarian assistance, took measures to provide free rentals of our rental units, which are equipped with furniture and appliances as standard and have electricity and heating and cooling costs included, for a certain period of time to Ukrainian residents who came to Japan and who had no housing due to lack of government and administrative assistance and lack of support from private companies.

Therefore, if there was some support provided, we would not do this. Under these circumstances, when we talked to the government and others, we received a great response. The content was posted on the websites of various government agencies and on the blogs of the council members.

Currently, we are renting out rooms in double-digit numbers. This is not open to the public, though, so I will keep it private. Of course, there are some cases in which these are not so-called evacuees, so we are checking carefully to make sure that those who are eligible are able to use the rooms.

Incidentally, as we announced on April 20, one of our corporate clients, Pan Pacific International Group, was one of the first to announce that it would provide 100 households for rent as well as employment. I would like to report again that Leopalace is working together with them to provide this housing. That is all.

Kawasaki [Q]: Next, Mr. Hashimoto's second question.

In terms of occupancy rates by prefecture, what are the measures to be taken to improve the occupancy rate for those prefectures where the occupancy rate is below 80%?

Takekura [A]: I will continue to answer your questions. Earlier on page 39, we talked about the number of units under management and occupancy rates by area. This time, there are actually some prefectures where demand for corporate tenants is very strong, and the recovery trend is strongly reflected in some prefectures.

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Similarly, there are some areas that have missed the trend. One of the points in our leasing strategy is to expand the occupancy rate by increasing the number of corporate sales departments from the current five to eight by enforcing the numbers of human resources, and by adopting a strategy of making contracts that are firmly rooted in each region.

Regarding the other point, our structure includes rental management in each district. We are also planning to make sales efforts to local companies that have strong roots in each region. Our strategy is to clearly trace the number of households by dividing them into corporate sales and PM, depending on the size of the company. Now, in some areas, there are certainly prefectures that are still below around 80%, but we plan to catch up on this as soon as possible, and we will be able to explain this again at the time of our next report. That is all.

Kawasaki [Q]: Next, the first question from Mr. Ozawa, SBI SECURITIES Co., Ltd. Are the rent levels and profitability of foreign students and technical interns lower than existing comparisons? I would like to ask whether a slightly poor location will be a plus in terms of P&L if the tenant moves in.

Takekura [A]: I will answer your question. Regarding the rent level and profitability of foreign student technical interns, please see our leasing strategy page, page 22, for more information about this.

Here, we have a plan for the number of foreign contracts I mentioned earlier, for the fiscal year ending March 31, 2023. To the right of that, there states the targets, which are foreign students and specific skilled human resources. The technical intern trainees that Mr. Ozawa asked us about are roughly divided into two categories: specified skilled human resources and the technical intern trainees mentioned earlier.

In this case, the specified skilled human resources are sufficiently profitable. The other issue, technical intern trainees, is not profitable in terms of unit cost unless various measures are taken, such as when there is more than one tenant in a unit.

Therefore, the reason we have circled these targets is not only because of the number of tenants, but also because we have taken into account the profitability of the project and have targeted foreign students and people with specific skills. That is all.

Kawasaki [Q]: Next, Mr. Ozawa's second question.

In the strengthening of the five specific industries, you introduced the cases factories in Mie (temporary staffing) and construction in Hokkaido, and I would like to ask if food and beverage is also improving.

Miyao [A]: This is on page 37.

As shown in the YoY and QoQ data, the service and restaurant industries have maintained a rapid recovery trend as mentioned above, but when compared to the previous year, the service and other industries are still down 2.3 points and have not yet achieved a full-fledged recovery. Therefore, we are taking action in the five specific industries that I mentioned earlier, assuming that they are on the road to recovery and will return to their previous state. That is all.

Kawasaki [Q]: Next, a question from Citigroup Global Markets Japan Inc., Mr. Okina.

In the next fiscal year, you expect net income to increase by about JPY10 billion due to deferred tax assets, but will this effect last for several years? I would like to ask when should we look at normalized earnings.

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Miyao [A]: Miyao would like to answer this question. If you look at page seven of the slide, you will see the plan for the current fiscal year, as well as the numerical plan for the fiscal years ending March 2024 and 2025, as shown on the right side.

As for the plan for the fiscal year ending March 31, 2023, if you look at the fourth line from the bottom up to ordinary income, the so-called ordinary part of the business is about JPY9 billion, which is an increase compared to the previous year. In addition, the net income figure is about JPY4 billion higher than the previous year's figure. As I mentioned earlier, this is where net income will increase significantly for the year ending March 31, 2023, including a multi-year view of deferred tax assets.

As to your question about at what stage the large profit fluctuation will be settled, the timing of recognition of deferred tax assets from a single fiscal year to multiple fiscal years has changed between the previous and the current fiscal years. That is a big, because it will increase net income for the year ending March 31, 2023.

As you can see, we will continue to promote the multi-year plan from 2024 onward, and if you look at the ordinary income and net income figures, you will see that they are almost equal to each other. In other words, I think you can see that the value of ordinary income and net income for the year ending March 31, 2025 will be the normal figure. We have provided our response above.

Kawasaki [Q]: The first round is completed, so we will start the second round of questions. Here is a question by Mr. Tazawa, SMBC Nikko Securities Inc.

How long has the decrease in unit rent continued and to what extent has it been factored into the plan?

Takekura [A]: I believe that you are asking this question because in the last fiscal year, the first half of the 49th fiscal year, our company reduced the unit rent by about JPY1,000 in the contracts. Toward the end of the year and into the new year, of course, we have been raising these unit rent prices to meet our needs, and the situation is now almost back to where it was. In April, our target was an occupancy rate of just over 84.2%, but we achieved a final result of 84.4%, exceeding the expected figure.

In this context, in the latter half of the year, we have already raised the rent by approximately JPY1,000 for all the rooms that are now available for rent. The decrease in unit price has been taken up as an important issue for this fiscal year, and the trend is almost back to normal.

In addition to the current short-term indicators, there was a major impact from COVID-19 in the last fiscal year, and so we have been trying to be as flexible as possible in terms of the authority to set rents, and have been handing this authority over to those who are closer to the site. In this way, we set rents in a variety of volatile conditions, but they are often slightly lower than the market rents. Conversely, the next time the authority to set those rents is extended more centrally, this is a mechanism that makes it difficult to lower rents.

In the current fiscal year, the rent setting has become slightly more consistent with the market than in the previous fiscal year, and we have centralized this decision-making to prevent a decrease in the unit rent revenue. Currently, rather than last year, we are factoring in a plan to make up for what we dropped last year. That is all to your question.

Kawasaki [Q]: Now, the next question from Mr. Tazawa.

On page 20, regarding the plan to improve the occupancy rate (plus just under four points), is the main driver to this the increase in the number of foreign residents due to the lifting of immigration restrictions (on page 22, the plan is to acquire 13,000 tenants)? Would this have the effect of boosting the overall occupancy rate

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by about 2.7% (about 480,000 units managed overall)? I would like to ask about the current status of inquiries, etc.

Miyao [A]: The improvement plan for this quarter is about 3.8 points, and last year was about 2.3 points, so compared to last year's percentage points of increase, I think it breaks down to about 1.5 points. By further brushing up on the measures we have been working on since last year, we will further increase the 2.3 points we achieved last year.

That said, the biggest driver will be, as you say, the acceptance of foreign nationals. Naturally, there are those who leave, not just come, so we are now projecting 13,000 cases, a 65% increase over the previous year, so I think we can achieve a little more than one percentage point there as an increase in the occupancy rate over last year.

As for inquiries, we have received many inquiries from schools and organizations that support immigration-related activities, as I mentioned earlier. As I mentioned a little earlier, our head office is targeting foreign students and those with specific skills. As for technical intern trainees, it is difficult for them to afford the rent setting, so we are in the process of holding various meetings with them to explain our business model, room usage, etc., as well as our sales activities, focusing mainly on foreign students and specified technical intern trainees. I have answered the above questions.

Kawasaki [Q]: Now, the next question from Mr. Tazawa.

Page 33, number of units to be repaired, 38,000 units planned. Is there any change in the schedule to finish this by the end of March 2024? As the end of the fiscal year ended March 31, 2022, there is a provision for losses related to repairs of about JPY18 billion, calculated at JPY470,000 per case. Considering the past performance, is it sufficient? Please also tell us about the current situation with rising construction costs. In addition, we have seen a continuous reversal of gains on such reserves, but do you expect to see much reversal in the future? Has the reputation of domestic clients, both individual and corporate, mostly recovered? Is there still any impact from the construction defects problem?

Miyao [A]: In the table on page 33, we have newly presented the number of units expected to be repaired in the future. Until now, we have not announced this, so as stated in the third and second item from the right side of the table below, there are about 150,000 rooms that need repair, etc., of which 50,000 have been completed, which means that anyone can draw in their mind that there are still 100,000 rooms left to be repaired. I think people would normally think that we won't make it in 2024.

However, based on our past surveys, we have accumulated a track record of determining the rate at which repair is necessary. As a result, we estimate that the number of rooms that will need to be repaired by 2024 is 38,000 rooms. In terms of the end of 2024, there are two and a half years left. We believe that these 38,000 rooms can be adequately handled in this two-and-a-half-year target.

Regarding your question about costs, it is true that construction costs are on the rise. On the other hand, we will continue to control costs by continuing to implement measures such as in-house production, i.e., having employees fill in putty, etc. By continuing to implement these measures, we hope to control costs.

As for the reversal of provisions, as I mentioned earlier, we have been reviewing provisions through various measures, such as in-house construction, review of various construction methods, and methods of recovering defective products. We will continue to review various new workflows, or rather, business operations, and promote measures in the future, but for the time being, we do not anticipate any reversal of provisions in the future in this plan.

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On the other hand, certain reputations were widely spread. There was the matter of the safety of Leoplace rooms for both individuals and corporations. We have been working diligently to visit companies and schools in particular to gain their understanding of safety issues, and at this point, we feel that nothing major has occurred.

Kawasaki [Q]: Now, the next question from Mr. Tazawa.

Is there any discussion about restarting or reviving the new construction subcontracting business? Have you started to make proposals to existing owners, etc.? Are there any inquiries from owners? In addition, you need the support of banks in this process, and I would like to know if the banks' response is positive.

Takekura [A]: Regarding the new construction subcontracting business, we are naturally proceeding with internal discussions here. Specifically, as mentioned earlier and stated at the very end, the response of banks will be extremely important.

Recently, banks have been tightening the lending policy for rental housing across Japan, but the current situation has loosened up a bit again. We have determined, especially with regional banks, that if the appropriateness of the plan, specifically, floor plan, rent setting, location, customer attributes and such things are appropriate, banks have not changed their style of financing, taking into account the attribute issues.

In addition, as I mentioned earlier, we have been trying to solve the problem of inadequate construction with all of our human resources, so we have not been able to achieve or implement the same results for the past two years. We have been consulting with the owner on the next exit strategy for the property that triggered the provision this time, a so-called aged property where our lease period is coming to an end. In addition to resolving the deficiencies, we hope to make some progress on our new construction works this year. That is all.

Kawasaki [Q]: Lastly, a question from Mr. Hashimoto, Mizuho Securities Co., Ltd.

Looking at the positive coverage by the media for the resolution of the insolvency, I think it would be good to consider improving the occupancy rate by reviewing the branding and other measures to link such positive feedback.

Miyao [A]: I, Miyao, would like to respond to your comments. Regarding this kind of feedback from Mr. Hashimoto, I appreciate it very much.

Since the announcement of the construction defects in April 2018, we have been rather preoccupied with short-term measures, rather than forward-looking measures, as to how we should accomplish what we need to accomplish at the time. In this regard, I believe that we are just now beginning to discuss the medium- to long-term goals of the company, including a review of branding.

We will continue to study various ways to promote sustainability as part of this effort, so that we can improve our corporate value over the medium to long term, which in turn will lead to an increase in stock value and shareholder value.

We would also appreciate your opinions.

Thank you very much. That concludes our response.

Kawasaki [M]: With that, we will now conclude the question-and-answer session and the briefing.

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Thank you very much for attending today's financial results briefing for Leopalace21 Corporation for the fiscal year ending March 31, 2022.

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