



Leopalace21 Corporation

Financial Results Briefing for the Three Months Ended June 30, 2022

August 5, 2022

Presentation

Kawasaki: Thank you very much for taking time out of your busy schedules today to participate in the financial results briefing of Leopalace21 Corporation for Q1 FY2022.

I'm Kawasaki, and I will be your moderator. Thank you very much for your cooperation.

Today's speakers are Mr. Bunya Miyao, President and CEO, and Shinji Takekura, Director, Chief of the Corporate Management Headquarters.

Mr. Miyao, President and CEO, will now give an overview of the Q1 results for FY2022.

Miyao: Thank you for taking time out of your busy schedules to join us today. I'm Miyao, President and CEO. I would like to provide a summary of our Q1 results for FY2022, our sustainability initiatives, and our response to construction defects.

Executive Summary

Leopalace21

PL

- Achieved plan for sales and profits for each stage (Sales: JPY 101.4 billion, operating profit: JPY 3.5 billion, net income: JPY 1.6 billion)
- Recorded Q1 operating profit for the first time in 4 years and net income for the first time in 5 years.

Leasing Business

- Average rent was increased both YoY and against the plan.
- Recorded a large increase of average occupancy rate for Q1 of 84.19%, a 3.56 point increase YoY.

Cost Control

- Cost of sales decreased by JPY 3.5 billion YoY and by JPY 1.1 billion against the plan. Postponement of leasing management cost contributed to the decrease against the plan and contractual adjustment of master-lease rent contributed to the decrease YoY.
- SG&A expenses decreased by JPY 0.1 billion from Q1 in the previous fiscal year and JPY 0.8 billion against the plan.

First, please see page two, the executive summary, for a summary of the Q1 financial results.

There are three key points in this financial statement. The first point is that the Q1 P&L was positive compared to the plan. It was the first operating surplus in four fiscal years and the first final surplus in five fiscal years. Second, the main reason for this is that not only did the average rent increase, but the occupancy rate also increased by more than 3 percentage points YoY. And the third and final point is that we were able to reduce both cost and SG&E YoY and to the plan. These are the three points.

Improved occupancy rate and recovered unit rent contributed to increased net sales, for the first time in four financial years.

Highlights of Results

(JPY million)	Q1 FY2021 Actual	Q1 FY2022 Plan	Q1 FY2022 Actual			Factors contributing to changes
				YoY	Compared with Plan	
Net sales	100,244	100,400	101,406	+1,162	+1,006	Increase in average unit rent contributed to positive result against plan.
Cost of sales	90,472	88,100	86,908	(3,564)	(1,191)	The effect of contractual adjustment of master-lease rent helped cost of sales reduction YoY.
Gross profit	9,771	12,300	14,498	+4,727	+2,198	Recording of provision for apartment vacancy loss of JPY minus 0.5 bil and postponement of leasing management cost contributed to the reduction against plan.
%	9.7%	12.3%	14.3%	+4.5p	+2.0p	
SGAE	11,059	11,800	10,919	(140)	(880)	Due to increased gross profit and reduction in SGAE such as advertising and commission expense contributed larger operating profit both YoY and compared with plan.
Operating profit	(1,287)	500	3,579	+4,867	+3,079	
%	(1.3)%	0.5%	3.5%	+4.8p	+3.0p	
Recurring profit	(2,241)	(800)	2,643	+4,885	+3,443	Recording of interest expenses of JPY 1.1 bil in non-operating losses, and recording of loss related to repairs of JPY 0.24 bil and loss on retirement of property, plant and equipment of JPY 0.14 bil in extraordinary losses.
Net income*	(957)	(1,400)	1,630	+2,587	+3,030	
Ave. occupancy rate	80.63%	84.26%	84.19%	+3.56p	(0.07)p	Average occupancy rate was greatly improved YoY as a result of implementing occupancy rate boosting measures.
EPS (JPY)	(2.91)	(4.25)	4.96	+7.87	+9.21	

See page seven. This is the detail of the P&L.

As you can see, net sales were JPY101.4 billion, an increase of JPY1.1 billion YoY, mainly due to an increase in the occupancy rate and a rise in the unit rent.

This is an increase of JPY1 billion over the plan. The typical contribution to this result was the key money income. Key money and security deposit are business practices in localized rental housing. For example, there is no culture of key money in Hokkaido, and in a sense, we have not set key money either.

However, as you know, we often provide company housing to companies that have a nationwide presence. Even in areas such as Hokkaido, where there is no key money culture. Instead of dealing with people in those areas, we can do it all at once at our head office in Tokyo or Osaka and set up key money. In areas where demand is high, such as Hokkaido, we have been able to increase revenues associated with occupancy rates by setting new key money.

We believe that our ability to develop such a strategy is one of the effects of the seven-area intensive strategies that we have been working on since the previous fiscal year.

Cost of sales was JPY86.9 billion, a decrease of JPY3.5 billion YoY, mainly due to the effect of contractual adjustment of master-lease rent. In addition, it is negative JPY1.1 billion compared to the plan, but half of this, or JPY0.5 billion, is a reversal of the provision for apartment vacancy loss. The Company had planned to reverse the provision for apartment vacancy loss in March 2023, but the reversal occurred in Q1, which means that it occurred outside of the plan.

The remaining JPY600 million is due to a delay in the start of maintenance of managed properties, which we announced we would strengthen this fiscal year. We intend to exhaust this amount in Q2 and beyond.

Gross profit after SGAE was JPY14.4 billion, an increase of JPY4.7 billion YoY and an increase of JPY2.1 billion from the plan.

SGAE was JPY10.9 billion, a reduction of JPY0.8 billion from the plan. This is due to various reviews of operations, including reductions in commission expenses, outsourcing fees, etc., as well as a slight delay in system-related expenses, which are included in repair expenses. We have become much more cost-conscious, and we will continue to make progress within our SGAE plan.

As a result of the above, operating profit was JPY3.5 billion, which, as I mentioned earlier, is the first time in four years that Q1 has returned to profitability.

Here, interest expenses of JPY1.1 billion in non-operating losses resulted in the recording of recurring profit of JPY2.6 billion and other extraordinary losses of JPY0.4 billion, bringing net income to JPY1.6 billion.

The final net income was JPY1.6 billion, and as I mentioned earlier, this was the first profitable result in Q1 in five years.

Ownership equity augmented by JPY 3.0 billion QoQ due to increase in retained earnings and in accumulated other comprehensive income. Equity ratio became 2.9% at the end of Q1 FY2022. (+2.2p QoQ)

Balance Sheet – main items only

(JPY million)	FY2021	Q1 FY2022	QoQ	Factors contributing to changes (compared against end of FY2021)
Cash and deposits	45,523	43,869	(1,654)	■ Cash and deposits Q1 is usually a QoQ negative trend. Lowered decrease by restrained payment.
Total assets	145,430	143,097	(2,332)	
Interest-bearing debt*	33,045	32,991	(54)	
Provision for loss related to repairs	18,086	17,773	(313)	■ Provision for losses related to repairs (current: JPY 2.6 billion; non-current: JPY 15.1 billion) Decrease of JPY 0.3 bil reflecting the progress of repairs. Insourcing repair works, lowered unit repair cost, sourcing based on quotation from multiple suppliers, and utilizing internally available resources made the balance of JPY 17.7 bil in from JPY 56.2 bil, the largest number recorded at the end of FY2019.
Provision for apartment vacancy loss	5,632	5,053	(579)	
Total liabilities	134,396	129,817	(4,579)	
Common stock	100	100	±0	
Capital surplus	136,345	136,339	(5)	
Retained earnings	(135,749)	(134,134)	+1,615	■ Provision for apartment vacancy loss (current: JPY 3.6 bil; non-current: JPY 1.4 bil) Reversal of JPY 0.5 bil as a result of reduced number of years for master-lease contract expiration.
Total shareholders' equity (A)	392	2,020	+1,628	
Total accumulated other comprehensive income (B)	675	2,061	+1,386	
Ownership equity (A) + (B)	1,068	4,082	+3,014	■ Ownership equity Ownership equity augmented by JPY 3.0 billion QoQ due to increase in retained earnings and in accumulated comprehensive income.
Share subscription rights	357	343	(13)	
Non-controlling interests	9,608	8,853	(755)	■ Non-controlling interests Decrease by JPY 0.7 bil due to Leopalace Power Corporation's acquisition of own shares and dividends payment.
Total net assets	11,034	13,279	+2,245	
Total liabilities and total net assets	145,430	143,097	(2,332)	

* Interest-bearing debt = borrowings + lease obligations

Page 10 shows the balance sheet.

The topmost cash and deposits at the end of Q1 amounted to JPY43.8 billion, a decrease of JPY1.6 billion from the end of last March.

The decrease in cash and deposits in Q1 is an annual trend. Inevitably, the end of the fiscal year, introduction fees related to occupancy promotion, brokerage fees, and other payments occur in April. As expenses, they were taken in the previous year as well. In addition, during the busy season in February and March, which is the season for moving to a new apartment, there are many leavers. Although the fee which incurs is recorded

in March, the payment is inevitably made in April, which is the reason for the decrease in cash and deposits in Q1.

However, the rate of decline has decreased compared to the same period in the previous years because we were able to control various things. For your information, the decrease in cash in Q1 last year was JPY9 billion, so we have made some progress in reducing cost controls.

In the second line, as noted, total assets decreased by JPY2.3 billion to JPY143 billion.

As for liability accounts, the balance of provision for losses related to repairs decreased by JPY0.3 billion to JPY17.7 billion. The balance of provision for apartment vacancy loss is JPY5 billion due to a JPY500 million reversal.

Other liabilities, such as accounts payable-other and accrued income taxes, decreased, bringing total liabilities to JPY129.8 billion, a decrease of JPY4.5 billion from the end of the previous fiscal year.

The recording of net income of JPY1.6 billion reduced the negative balance in retained earnings. In addition, other comprehensive income, which is under shareholders' equity, increased by JPY1.3 billion compared to the end of March, due to the foreign currency translation adjustments for the depreciation of the yen.

As a result, ownership equity increased by JPY3 billion YoY to JPY4 billion. The equity ratio was 2.9%, an improvement of 2.2 points.

Total net assets, including non-controlling interests, amounted to JPY13.2 billion, an increase of JPY2.2 billion from the end of the previous fiscal year.

The Company published its DX strategy to promote DX solutions on August 5, 2022. The Company strengthened DX promotion structure and aims at acquiring DX certified status and to be appointed as a DX stock.

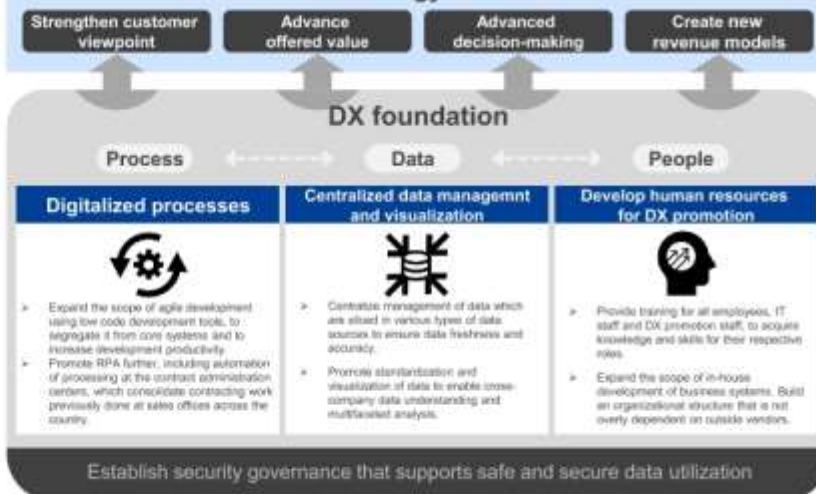
DX VISION

Create new value by offering advanced solutions for meeting people needs and expectations through DX

DX Promotion Structure



DX Strategy themes



I will now move on to an explanation of one of our management policies for this fiscal year, our efforts to promote sustainability.

Please turn to page 25.

In our leasing business, we have been strengthening the introduction of real estate tech, such as the promotion of web-based contracts and the introduction of smart locks, and today we announced our DX strategy to further strengthen the promotion of DX.

Our vision is to "create new value by offering advanced solutions for meeting people needs and expectations through DX." As stated, the four themes of the DX strategy are to strengthen customer viewpoint, advance offered value, advanced decision-making, and create new revenue models.

First, we will aim to acquire DX certified status, but after that, we will work to improve our corporate value with the goal of being appointed as a DX stock, which has been renamed, as we have been selected as Competitive IT Strategy Company Stock for two years in the past.

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 Q1FY2022

- ◆ **Improve risk sensitivity and compliance awareness**
Made all employees familiar with how to effectively utilize in-house legal consultation and the system for searching judicial precedents. In addition, conducted training on the handling of important information, the new sublease law, and the revised Whistleblower Act. To eradicate harassment, a declaration on harassment was obtained from managers and above, and made available to all officers and employees.
- ◆ **Strengthen the functions of risk and compliance representatives in each department**
The operation of Risk Management Committee and Compliance Committee has been reviewed, and instead of secretariat, the persons in charge of risk management and compliance in each department lead the discussion. As a result, discussions on analysis of causes and preparing measures to prevent recurrence have become more active.

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.

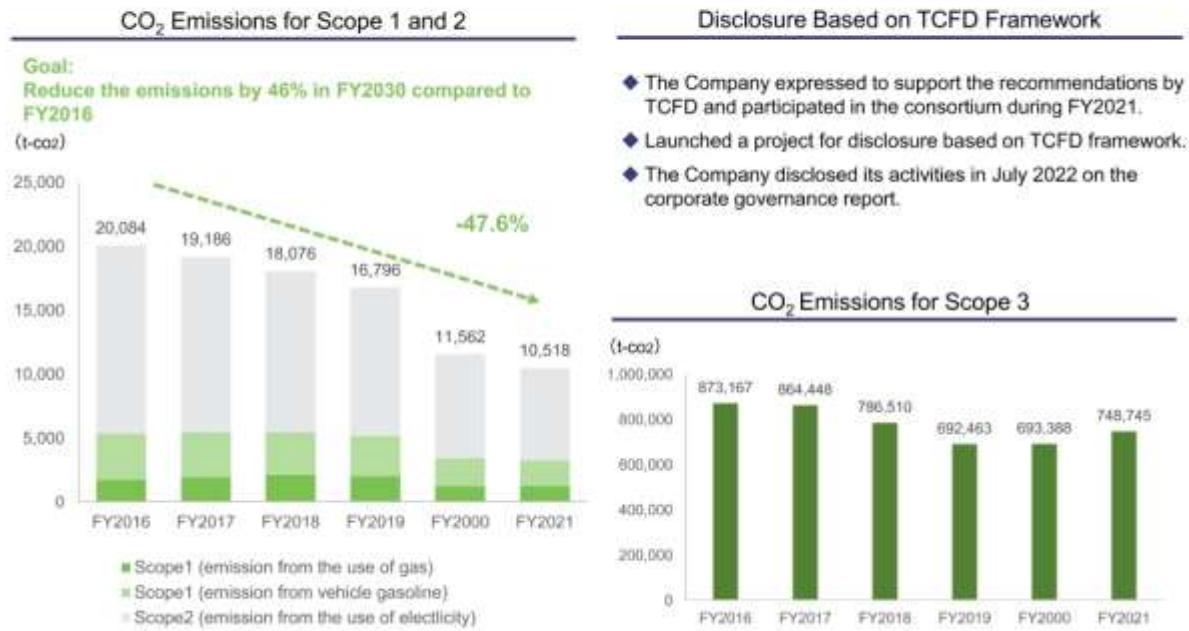
Procurement Management Committee

- ◆ 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.

Please see page 30.

Efforts to strengthen compliance and governance will require a medium- to long-term change in awareness. Q1 results include training through e-learning to improve risk sensitivity and compliance awareness, and making anti-harassment declarations by managers available to all officers and employees, as part of ongoing efforts to eliminate harassment.

Achieved CO2 emissions reduction targets for Scope 1 and 2 (from electricity, gas, and gasoline). The Company updated a goal of reducing the Scope 1 and 2 CO₂ emissions by 46% in FY 2030 compared to FY 2016.



Please turn to page 31.

As part of our efforts to address environmental issues, we have organized information based on TCFD recommendations and included the impact of climate change on our company in our Corporate Governance Report submitted on July 1.

Specifically, in response to the growing environmental awareness of the world, we have identified risks such as the impact on our business resulting from delayed environmental response, the impact of increased disaster and flood risks due to future climate change on the properties we manage and on our stakeholders. In terms of opportunities, we have identified an increase in profit-earning opportunities associated with the development of eco-friendly apartments.

The aggregation of Scope 1, 2, and 3 for FY2021 has been completed, and the results for Scope 1 and 2 show a 47% reduction compared to FY2016.

As business performance recovers, CO₂ emissions through business activities are expected to increase, and Scope 3 is expected to increase as well, due to the recovery of occupancy rates.

Now that we have returned to profitability and have reached a new stage, we would like to accelerate not only the recovery of our business performance, but also our sustainability management, including environmental initiatives.

Expected number of repaired units in the future: About 36,000 rooms

Of the 89,303 rooms that have been deducted "repairs completed" from "requiring repairs" in the below table, 22,611 rooms have been found defective as a result of the investigation. It is estimated that about 36,000 rooms need repairs, by adding 22,611 rooms to about 13,300 uninvestigated rooms that are estimated to be defective based on the past investigation results.

(As of July 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	7,752	121,813	87,669	45,546	21,000
Other Series Total	23,802	4,614	71,792	53,296	6,116	15,000
Grand Total	39,085	12,366	193,605	140,965	51,662	36,000

- **Status up to June 2022**

Priority has been given to repairing rooms for which tenant recruitment was suspended because of obvious defects. Completed about 51,000 rooms by the end of June 2022.

- **Plan for July 2022 onward**

Complete repairs for approximately 6,000 rooms by the end of March 2023

Steadily repair construction defects while continuing to rebuild the financial base.

Aims to eliminate the rest of rooms with obvious defects **by the end of 2024**.

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

Fundamental approach to prevent recurrence: <https://www.leopalace21.co.jp/info/en/approach.html>

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Lastly, we will explain the response to construction defects. See page 33.

As of the end of July, work has been completed on more than 50,000 of the approximately 140,000 units requiring repair, etc. On the other hand, the remainder is 90,000 units, and we estimate that 36,000 units are found to be defective in the future.

Of these 36,000 units, we have already announced in June that 6,000 units will be repaired by the end of March 2023. For the remaining approximately 30,000 units, we are aiming to repair them by the end of 2024.

This concludes my explanation. After this, Mr. Takekura will provide details on occupancy rates and Leasing Business strategies.

Thank you for your attention.

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

Takekura: Thank you for taking time out of your busy schedule to join us today. I'm Takekura.

I would like to briefly explain the progress of our structural reforms, mainly with regard to the optimization of our cost structure and our strategy for the Leasing Business.

Q1 FY2022 saw reduction of leasing management cost due to postponement of preventive maintenance. The difference against plan is going to be smaller over FY2022 total.

Quarterly Trends of Cost of Sales



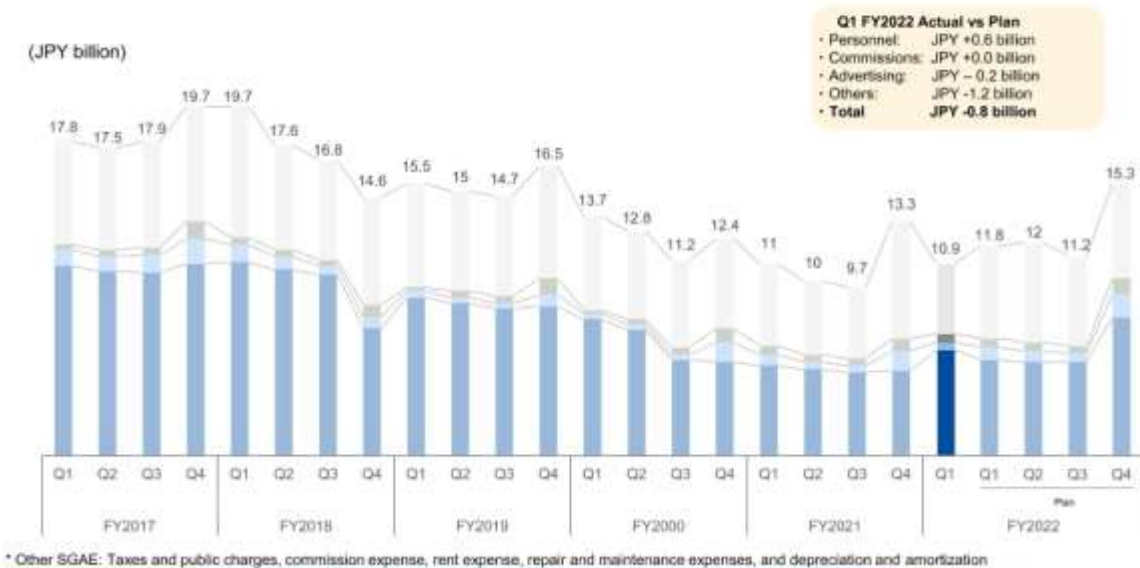
First, please turn to page 15. The graph shows the historical cost of sales.

Looking at cost of sales by quarter, cost of maintenance and cost of restoration tends to increase in Q4 due to the large number of move-ins and move-outs. In addition, due to the effect of contractual adjustment of master-lease rent that started in the previous fiscal year, the cost of sales has dropped significantly since FY2021, and it was JPY86.9 billion in Q1, a further decrease of JPY3.5 billion YoY.

This includes a reversal of the provision for apartment vacancy loss, which was JPY0.5 billion in Q1 FY2022, compared to a reversal of JPY1.1 billion in the previous fiscal year, which means that the actual cost, not considering provision for apartment vacancy loss, was reduced by about JPY4 billion YoY.

Despite personnel expenses exceeded the plan for Q1 FY2022 due to special bonus payment, significant reduction in the other SGAE items such as commission expense and repair and maintenance expenses resulted in smaller expenses compared with the total SGAE plan.

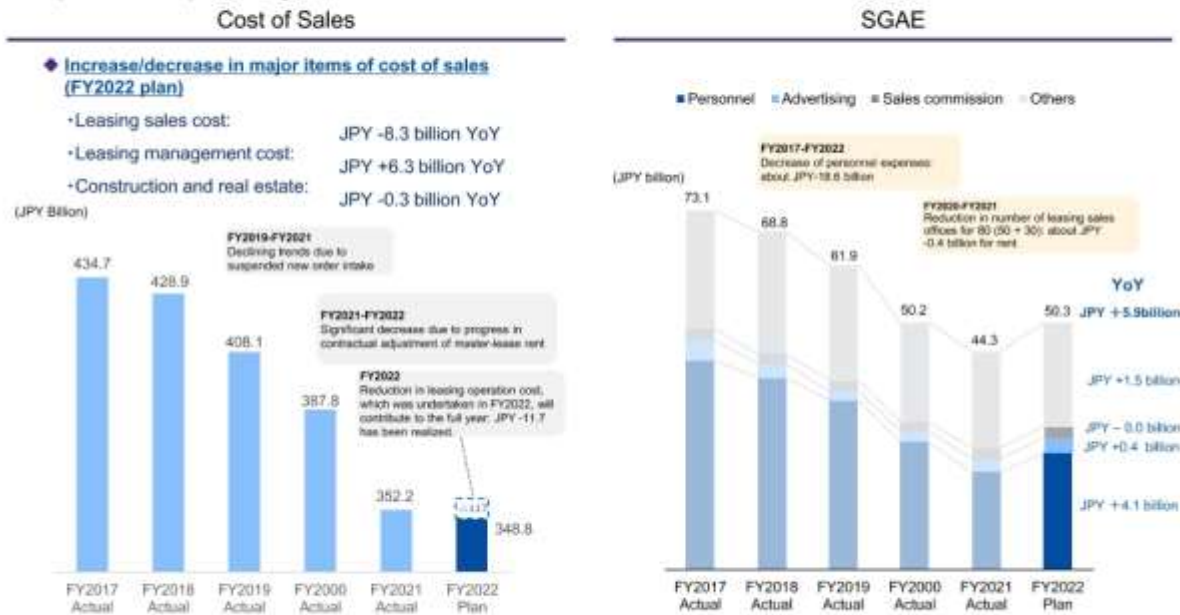
Quarterly Trends of SGAE



Please continue to page 16. Here are the quarterly trends from the past for SGAE.

We have reduced personnel costs and other expenses over the past five years. In Q1, we paid special bonuses to important employees who support the Company, the first time in four fiscal years, and personnel expenses increased slightly from the previous year and from the plan. We have continued to operate our business with thorough cost awareness, and as a result, we were able to reduce SGAE overall, including commission expenses and repair expenses, resulting in a decrease in both SGAE compared to the previous fiscal year and to the plan

Leasing management cost will increase for FY2022 due to spending for preventive maintenance. Progress in contractual adjustment for master-lease rent will offset the increase and cost of sales continues to decrease compared to the previous years.

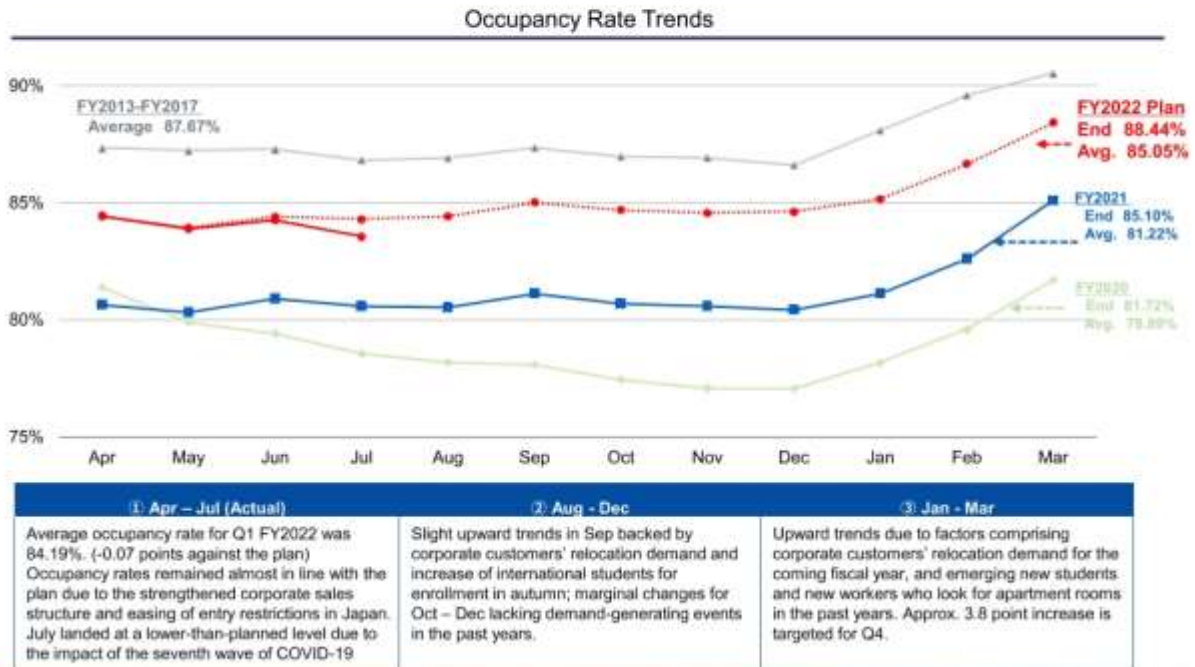


See page 17. This is the cost projection for the current fiscal year.

As explained at the time of the announcement of our financial results, in the graph on the left of cost of sales, leasing management cost is expected to increase due to the focus on maintenance, while the leasing operation cost is expected to continue to be reduced significantly, mainly due to the contractual adjustment of master-lease rent, and overall costs are planned to be further reduced YoY.

In the graph on the right, SGAE is expected to increase YoY due to provision for bonuses and an increase in other SGAE.

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 to the former level by continued occupancy rate boosting measures.



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

We will then explain in detail the occupancy rate results and the leasing strategy. Please turn to page 20.

The planned occupancy rate for the current fiscal year is the red dotted line and the actual rate is the red solid line. The occupancy rate, which rose to 85% at the end of the previous fiscal year, has remained steady this fiscal year, holding at about 3 points higher YoY, partly due to the fact that the number of rooms vacated in April was lower than in previous years.

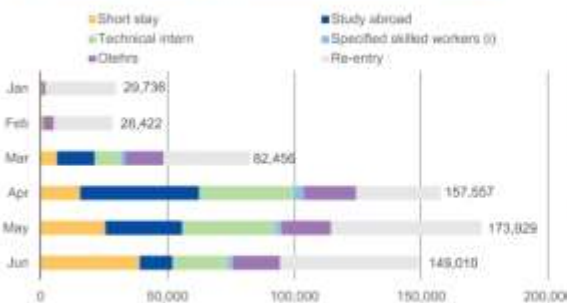
Although progress has been made without significant deviations from the plan, in July, there were deviations from the plan, which we attribute to a combination of the impact of the seventh wave of COVID and other factors.

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 spread of COVID-19.

Contracts with foreign national customers (individual contract)

- Number of contracts Q1 (Actual) 2,762 (+ 756 against the plan)
- Number of contracts for full year (Plan) About 13,000 contracts (+65% YoY)

Trends of foreign nationals entering Japan



Source: Statistics on number of foreign nationals entering Japan and the number of Japanese nationals returning to Japan (Immigration Services Agency)

Target segment	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

Please turn to page 22. I would like to discuss the details of one of our strategies for this fiscal year, the foreign nationality contract.

The actual number of foreign individual contracts in Q1 was 2,762, an increase of 756 or 1.37 times from the plan. This is an increase of more than 700 from Q1 FY2021. This is due to the government's relaxation of immigration restrictions since March, which has led to an increase in the number of foreign nationals entering Japan since March, as shown in the lower left corner.

Regarding study abroad in dark blue, the number of students peaked in April and is on a downward trend, but we expect the next peak in September and October, as the next timing will be for fall enrollment.

At this stage, as shown in light blue, the number of specified skilled workers entering Japan is still very limited, but the number of technical intern in yellow-green has reached a level that has surpassed that of foreign students. Originally, the technical intern was designed to bring back Japanese technology to developing countries for the purpose of assisting their development. However, if the trainee successfully completes the practical training period and their work falls under the specified skills, it is now possible for them to move to the specified skilled workers after a certain period of time.

Therefore, we expect an increase in the number of people shifting from technical interns to specified skilled workers over the medium to long term, and we are currently focusing on building relationships with so-called registered support organizations and companies that accept these workers.

Approximately 80% of listed companies in Japan have used Leopalace21 services. The strong demand remained in staffing & outsourcing and construction during Q1 FY2022. Others includes education which increased much because of easing of entry restrictions in Japan.

Number of Occupied Units by Industry



* YoY: compared with Q1 FY2021, QoQ: compared with Q4 FY2021

Please skip to page 37. Here are the trends by corporate industry.

The construction industry, which has been a strong sector prior to this fiscal year, also increased by 0.2% from the end of the previous quarter, while staffing & outsourcing also increased by 0.2% QoQ.

In addition, a characteristic movement this fiscal year is in others, which increased by 3% from the end of the previous fiscal year. One of the most significant contract growth has actually been in the education industry. With the relaxation of immigration restrictions, increased demand by Japanese language schools for technical intern and increased demand from universities to secure housing for international students are all reflected here.

This demand is still expected to continue for a certain period of time, as once increased, corporate demand will continue unless there are major changes in the macro economy.

The number of occupied units by industry is currently up 5.9% YoY, driven by construction, staffing & outsourcing and education, which I mentioned earlier.

The number of occupied units under corporate contracts has substantially increased YoY by implementing measures to improve the occupancy rate and mitigated impact of COVID-19 pandemic.



As you can see on page 38, when we categorized the residents into three segments, corporate-occupied units continue to account for 60% of the total.

Occupancy rate of all prefectures except Wakayama, Tottori, Tokushima, and Kagoshima increased YoY due to the implementation measures to improve occupancy rate amid the general downturn QoQ during the slack period. The national market has been divided into 7 areas since FY2021 in which sales and profit are individually managed.

Managed Units and Occupancy Rates by Area

Managed unit in thousands Occupancy %	Q1 FY2022				Managed unit in thousands Occupancy %	Q1 FY2022				Managed unit in thousands Occupancy %	Q1 FY2022			
	Managed units	Occupancy rate	YoY	QoQ		Managed units	Occupancy rate	YoY	QoQ		Managed units	Occupancy rate	YoY	QoQ
Hokkaido	13	81%	+8p	+3p	Fukui	4	92%	+1p	-2p	Okayama	12	82%	±0p	-2p
Aomori	4	86%	+1p	+2p	Yamanashi	4	89%	+7p	+3p	Hiroshima	14	87%	+3p	-1p
Iwate	3	92%	+1p	-2p	Nagano	11	87%	+5p	+1p	Yamaguchi	7	89%	+4p	-1p
Miyagi	10	83%	+3p	-1p	Niigata	9	80%	+2p	+1p	Tokushima	2	83%	-5p	-6p
Akita	2	96%	+8p	+2p	Gifu	7	85%	+4p	-2p	Kagawa	5	81%	+4p	+1p
Yamagata	4	86%	+2p	+3p	Shizuoka	24	77%	+3p	±0p	Ehime	4	88%	+2p	+2p
Fukushima	10	81%	+2p	-1p	Aichi	41	87%	+3p	-2p	Kochi	2	81%	±0p	-6p
Ibaraki	15	82%	+5p	-2p	Mie	12	82%	+5p	-2p	Fukuoka	20	86%	+2p	-1p
Tochigi	11	83%	+7p	-1p	Shiga	8	93%	+7p	-1p	Saga	3	91%	+5p	±0p
Gunma	12	78%	+1p	-1p	Kyoto	9	88%	+5p	-1p	Nagasaki	2	92%	+5p	-1p
Saitama	46	84%	+4p	-1p	Osaka	31	82%	+4p	-1p	Kumamoto	7	91%	+5p	+1p
Chiba	34	78%	+1p	-1p	Hyogo	22	84%	+2p	-1p	Oita	4	84%	+1p	±0p
Tokyo	45	85%	+4p	±0p	Nara	3	85%	+3p	-2p	Miyazaki	2	84%	±0p	±0p
Kanagawa	41	88%	+5p	-2p	Wakayama	3	76%	-1p	-2p	Kagoshima	3	85%	-1p	-1p
Toyama	5	78%	+2p	-2p	Tottori	2	85%	-7p	-6p	Okinawa	5	93%	+3p	-1p
Ishikawa	5	78%	+7p	+3p	Shimane	2	96%	+3p	±0p	Total	565	84%	+3p	-1p

* YoY: compared with Q1 FY2021, QoQ: compared with Q4 FY2021

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Finally, page 39 is the occupancy rate by prefecture, which I mentioned briefly last time.

I will provide a brief explanation of where the YoY improvement was large, and conversely, where it worsened.

First, in Hokkaido, the entire region improved by 8 points YoY. In addition to the demand for dispatch workers related to automobile manufacturing and the expansion of demand due to the conversion of the biomass business operated by the public sector, there are also construction projects for railroad infrastructure, etc., which are acquired by sales against a backdrop of relatively medium- to long-term needs.

In Tochigi, the factors include the automotive industry and semiconductors. In Ishikawa, the factor is the semiconductor sector, and Yamanashi is also growing due to semiconductors.

Also, precision equipment, and in the food processing sector, we are seeing a 7-point improvement for Yamanashi.

Conversely, the deterioration was a little more noticeable in Tottori and Tokushima, which reported a decline of 7 and 5 points, respectively. Each of them has seen an increase in the number of vacancies following the completion of major biomass-related construction projects in the region.

As Mr. Miyao explained earlier, we will promote the area strategies to promote occupancy by capturing the characteristics of each area, such as the setting of key money in Hokkaido.

We will continue to improve the occupancy rate and management by capturing needs through area intensive strategies that are rooted in the community and through both corporate and individual sales that span the entire country. This concludes my presentation. Thank you for your attention.

Question & Answer

Kawasaki [Q]: We will now move on to the Q&A session.

Now, the first question from Mr. Tazawa of SMBC Nikko Securities Inc.

Operating profit, net income, etc. in Q1 have already exceeded the Company's plan for H1. Why did you not revise the plan for H1 or the full year?

Takekura [A]: Takekura will answer your question.

In Q1 of H1, we had originally budgeted and planned to strengthen the repair and maintenance of a part of the building as an investment for the future, as I mentioned in the previous briefing. In fact, the timing of the accrual has shifted, and in light of this situation, we have included the calculation for Q2 and have not made any changes for H1 and full year.

Therefore, we have decided to leave the plan unchanged, and we may change it in light of the situation in Q2 from the end of this month to early September.

Kawasaki [Q]: Thank you very much.

Mr. Tazawa's next question.

Profits increased significantly due in part to broad cost containment, including contractual adjustment of master-lease rent to owners, advertising expenses, and commission expenses. Is there any risk that these cost containment measures will restrain medium- to long-term growth?

Miyao [A]: Regarding the idea of curbing advertising expenses, I think the most important factor in curbing expenses is still TV commercials. However, other than that, we are currently spending the usual advertising expenses mainly in terms of web advertising, so I don't think there is much of a problem there.

There was also the issue of controlling costs such as commission expenses, but this was also caused by reviewing business operations, etc., and I do not think it makes detrimental impact on medium- to long-term growth. We have started to look closely at various costs by establishing the procurement department, including organizing bids.

Kawasaki [Q]: Thank you very much.

Mr. Tazawa's next question.

What are the status of rent increases and the possibility of further rent upside in the future?

Takekura [A]: Takekura will answer your question.

We had some difficulty in improving profitability in the previous fiscal year by reducing the unit rent and expanding the market share in Q1 FY2021, although it was intended to mitigate the impact of COVID-19. We have been raising the overall base since April, the beginning of Q1, and have proceeded the strategy of not buying the market share at the expense of lowering rent.

As a result, we were able to increase the unit price by approximately JPY2,000 in Q1 of April, May and June YoY. We suffered from reduced rent in order to increase the occupancy rate in Q1 FY2020 and the increase offset the reduction last year. So it also contributed slightly to the increase of sales in leasing business in Q1.

However, including such things, in July, we have seen a slight impact on the occupancy rate with priority either on profitability or on boosting occupancy rate. We plan to balance these factors, and to further raise the rent in order to improve the profitability.

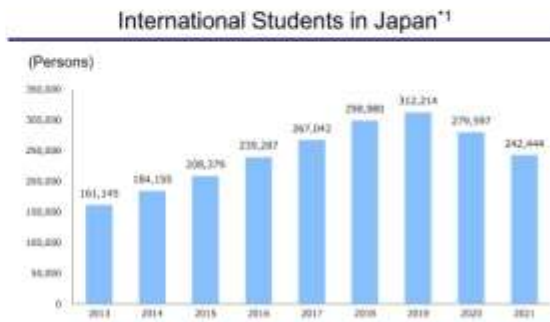
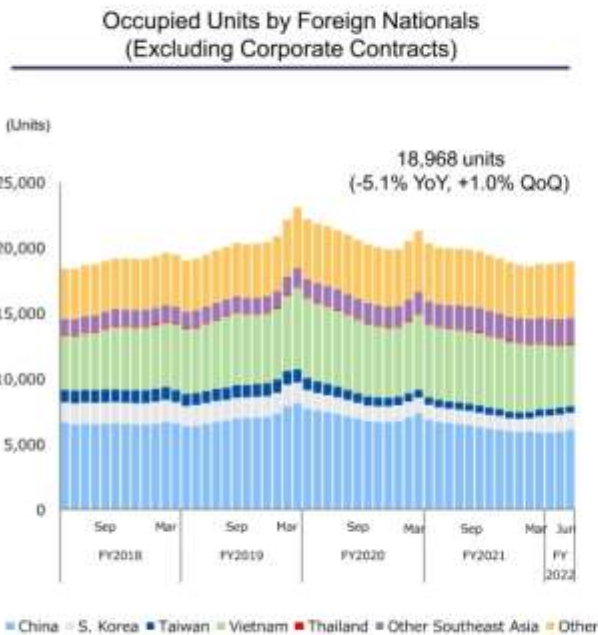
Kawasaki [Q]: Thank you very much.

Mr. Tazawa's next question.

In light of the immigration restrictions and the recent increase in COVID-19 cases, when will the number of international students and technical intern trainees increase and clearly boost demand for apartments in your company, and what is your outlook for the size of that demand?

Chap 3 5: Occupied Units by Foreign Nationals

Number of units used by foreign national tenants is about 36 thousand, comprising about 19 thousand individual customers and 17 thousand under corporate contracts, 7.5% of total occupation. (Q1FY2022 result: +0.3p. YoY, +0.6p. QoQ)



*1 Excerpt from "Result of an Annual survey of International Students in Japan 2021" (Japan Student Services Organization)
 *2 Excerpt from "Employment status of foreign workers in Japan" as of end of Oct 2021 (Ministry of Health, Labor, and Welfare)

Miyao [A]: Miyao will answer this.

As for the increase in the number of foreign students and technical intern trainees and the rising demand for apartments, page 22 and 23 are explaining the situation of foreign national tenants.

Page 22 focuses only on individual contracts, and you will see on the left a comparison of the number of contracts. Q1 saw 2,762 cases, 756 more than planned. This is in contrast to the plan of roughly 2,000 cases.

In terms of timing, we have already started receiving more and more foreign students. As noted in the graph below, they have been coming in steadily since April.

We are now actively gathering information for our next target, which is the fall enrollment in September or October. The scale of demand will depend on how much we can capture, but we originally captured about

10% of all foreign students coming to Japan, and we are planning to capture 13,000 cases for the current fiscal year.

In a sense, the foreign nationals are making some steady progress.

Kawasaki [Q]: Thank you very much.

Mr. Tazawa's next question.

As for ideas on restarting the apartment construction business, under what conditions would you consider restarting? Also, will you be able to obtain support from financial institutions, such as apartment loans, when you resume operations?

Takekura [A]: Let me answer Mr. Tazawa's question.

This is a very important issue for us, and we are constantly discussing it internally.

After it turned out, we have been working on repairing the construction defects by the end of 2024, and we have all the human resources, including construction management engineers and designers, in place to deal with the problem. The realistic background was that even if we were to receive new sales orders, we would still not be able to prepare a construction structure to execute.

Therefore, as a guideline, we will proceed to solve the problem of obvious construction defects including parting walls by the end of 2024.

Regarding apartment loans, we are not talking about so-called "land set real estate investments," where the investment is for both land and building, but about so-called "land-owner" type loans, where the land owners want to rebuild the property, including various tax measures, and we are discussing with the financial institutions about landlord-owned properties or the Company-owned properties.

Along with the reconstruction of properties that will pass 25 to 30 years since the completion, we will propose our business along with the creditworthiness of such customers. We have already sounded the financial institutions about that kind of talk, and received various offers from them, so we are confident that we can make progress based on the situation.

Kawasaki [Q]: Thank you very much.

Now, the next question is from Mr. Hashimoto of Mizuho Securities Co., Ltd.

JPY500 million was reversed in the provision for apartment vacancy loss, but I would like to know about other P&L movements in Q1 related to the provision.

Miyao [A]: Miyao will answer this.

There was not much movement.

As I explained earlier in the balance sheet, the amount for construction defects is about negative JPY300 million, and other provisions, such as the provision for warranty obligations on completed projects and the provision for fulfillment of guarantees, have not changed significantly.

Kawasaki [Q]: Thank you very much.

Mr. Hashimoto's next question.

What are the conditions for acquiring DX stock? Are there numbers to be aware of, such as the adoption rate of smart locks at 50% or more?

Miyao [A]: Actually, I think this is a long way off, but the DX stocks selected this year are 33 companies. Below the DX stocks, there are 15 companies of Noteworthy DX Companies that are candidates for future DS stocks.

On the other hand, the selection criteria for DX stocks are very abstract, but for example, responses to questionnaires, ROE scores above a certain level, and a high evaluation of the Company's efforts by the evaluation committee, I think they are still individualities.

In that sense, as Mr. Hashimoto asked, we are very conscious of the DX stock, since we have already announced that we will install smart locks in 440,000 units by FY2024, which will be evaluated by the evaluation committee.

Other than smart locks, we would also like to pay attention to the development of web-based contracts that we report on a monthly basis.

Kawasaki [Q]: Thank you very much.

Mr. Hashimoto's next question.

What measures should be taken by the Company to complete the repairs by the end of 2024, such as increasing the number of staff? The plan is to repair 6,000 units in nine months from July 2022 to March 2023, but I think it is necessary to accelerate the pace from April 2023 onward.

Miyao [A]: To tell the truth, we think we need to better prepare ourselves to achieve 6,000 in the nine months to March 2023. We started last year with 250 units per month to complete 3,000 units for the previous fiscal year and are expanding the monthly number including the organizational structure and number of staffs.

So far it was 250 units per month, but in July it was 330 units this year. The plan is constructed this time with the idea of increasing the number of units in a gradual manner, such as at a pace of roughly 500 units in August and 700 units in September onward.

One of the measures to achieve this is to increase the number of staff, and another is the organizational structure, or using subcontractors. In the past, we have done about 3,000 units at most in a month. Some have a certain amount of experience in such repairs, and we are now in the process of reaching out once again to building contractors in each region.

Kawasaki [Q]: Thank you very much.

Now, the next question is from Mr. Ozawa of SBI SECURITIES Co., Ltd.

What factors have contributed to the increase in the unit rent price? Are there any restraints on discounting due to higher occupancy rates, or a recovery in corporate demand? Is there any industry-specific impact, such as education-related?

Takekura [A]: I will answer your question.

As I mentioned earlier in my regular briefing, last year we were forced to lower rents because of a decrease in the number of room use by the customers in the food service and hospitality industries due to the impact of COVID-19. This was a very big factor last year.

In the current fiscal year, in light of last year's situation, we have divided the properties we can rent out into separate shares, and have decided not to offer price reductions for properties that can be rented at high rents or that are in demand. Then we were able to increase the unit rent by approximately JPY2,000 YoY, as I mentioned earlier.

Therefore, regarding foreign human resources, since the market rent is originally slightly higher for specified skilled workers, so while targeting them, we also accept technical interns. As I mentioned earlier, this is based on the premise that they will be shifted to specified skilled workers.

Even though we were asked to accept the technical interns at lower rent in some areas, we did not dare to take these tenants from those areas and paid attention to securing the profit amount of the rent, which has led to the Q1 results.

Kawasaki [Q]: Thank you very much.

Next, Panview Capital, Mr. Kuni's question.

In the summary of financial results there is a comment about postponement of the timing of incurring maintenance and system development related costs, etc. How much was the amount delayed in the budget for the full year and for Q1, and will the delayed amount be recorded in Q2?

Takekura [A]: I will answer your question.

Strictly speaking, there are various accounts within our company, such as so-called building maintenance costs, restoration costs, maintenance costs, BM, etc., which may cause a time lag or advance.

For example, as a large item of roughly JPY500 million, which is a forward-looking investment in our repair activities, and now in Q2, those costs are being spent in the amount I just mentioned.

They will be somewhat accounted for in Q2, but not all will be consumed there. As with the staffing issue for the construction management to improve the problem of inadequate parting walls, there is a limit to the amount of budget that can be spent over time. So we are now determining that it would be difficult to spend all of the budget in Q2.

Kawasaki [Q]: Next question from Mr. Kuni.

You mentioned that the occupancy rate in July was affected by the seventh wave of COVID. How much of an impact did it have when quantified? What is your view of its future impact?

Takekura [A]: I don't have anything a little quantitative prepared. Sorry. In fact, the impact of COVID is difficult to quantify, not only because of market movements, but also because, although this is a bit of an internal issue, our sales staff have been severely affected, and some of our branches have been unable to operate in some cases. Although we have established an internal hygiene system and are thoroughly implementing it, without exception, this happened to our company in the same proportion in, say, Tokyo as in the rest of the country, and the numbers have dropped.

Kawasaki [Q]: Thank you very much.

Now, the next question is from Mr. Ozawa of SBI Securities.

The current main business is leasing, but is there still time to strengthen contracting, such as rebuilding?

Takekura [A]: The contents are as we mentioned earlier. We already have a lot of prospects, and since the announcement made in May last fiscal year, we have started to indicate the number of units that are expected to have obvious defects, but until we attempt to finally repair the number of units, we are shifting our construction system to the problem of inadequate parting walls. Until the end of 2024, we will focus all of our efforts on this problem, so the timing will be after that.

Kawasaki [M]: Thank you very much.

We have reached the scheduled time, so this concludes the Q&A session and the briefing.

Thank you very much for attending today's financial results briefing for Q1 FY2022 for Leopalace21 Corporation.

[END]