



Leopalace21 Corporation

Financial Results Briefing for the Six Months Ended September 30, 2022

November 11, 2022

Presentation

Kishi: Thank you very much for joining us today for Leoplace21 Corporation's financial results briefing for H1 of the fiscal year ending March 2023.

My name is Kishi, and I will be your moderator. Today's speakers are Bunya Miyao, Representative Director, President and CEO; and Shinji Takekura, Director, Chief of the Corporate Management Headquarters. There will be time for questions and answers after the presentation.

The end time is scheduled to be 18:00. Mr. Miyao, Representative Director, President and CEO, will now give a summary of the results for H1 of the fiscal year ending March 31, 2023.

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

I will summarize the H1 results and the H2 forecast, and explain our sustainability initiatives and response to the construction defects problem. Before I go any further, I would like to apologize for the trouble we have caused regarding the article of SHINCHOSHA Publishing Co., Ltd. that was reported in the press last month.

Stock prices dropped significantly, and we received many inquiries. There are no facts behind the exciting words "falsification of occupancy rates" and "window-dressing management restructuring." It also stated that the number of rent delinquents is increasing due to lax tenant screening, but this is not true.

It is true that the number of uncollected termination settlements has increased due to the fact that we refrained from attending to tenants when they left the apartment due partly to a decrease in our employees and a number of cases in which we were unable to contact foreign national tenants whose return to their home countries increased due to the coronavirus. However, as announced on May 10, the amount has already been recorded as an allowance for doubtful accounts in the prior year-end financial statements. Accordingly, we filed a lawsuit against Shinchosha on November 2, demanding the publication of an apology ad and compensation for damages. We will report to you all once we have received the ruling from the court.

In addition, in accordance with the guidance of the Ministry of the Environment, we have changed the scheme for the recycling and disposal of home appliances, which was pointed out at our shareholders' meeting, since November.

Upsided performance for H1	<ul style="list-style-type: none"> Achieved plan for sales and respective profits. Full year forecast remains same due to recent occupancy rates lower than the plan, shift in posting some cost items for H2, and changes in market despite upsided H1. Cash flows from operating activities was JPY 2.9 billion, positive result for the first time in five fiscal years, resulted in an increase of JPY 11.6 billion YoY.
Structural reforms	<ul style="list-style-type: none"> Continued execution of boosting measures made the occupancy rate reach 84% at the end of September, the highest level in the last three years. Recorded transferring businesses of Morizou and Woori & Leo PMC, company split for the Elderly Care Business, and liquidation of Cambodian subsidiaries.
Cost control	<ul style="list-style-type: none"> Cost of sales decreased by JPY 3.0 billion YoY / by JPY 1.4 billion against the plan. Postponement of leasing management cost contributed to the decrease against the plan and contractual adjustment of master-lease rent worked to the decrease YoY. SG&A expenses decreased by JPY 0.1 billion YoY / JPY 2.8 billion against the plan.
Creating new value	<ul style="list-style-type: none"> Continued the promotion of DX solutions and qualified as DX Certified Company on November 1, 2022. Launched Leopalace Green Energy Project aiming to realize carbon-neutral society.
Construction defects management	<ul style="list-style-type: none"> Good progress of plan made the remaining no. of rooms with obvious defects decline to 34,000, decreased by 4,000 rooms from end of April to end of October. Repairs of 6,000 rooms from July 2022 to March 2023 are making progress largely in line with the plan..

Please refer to the Executive Summary on page two.

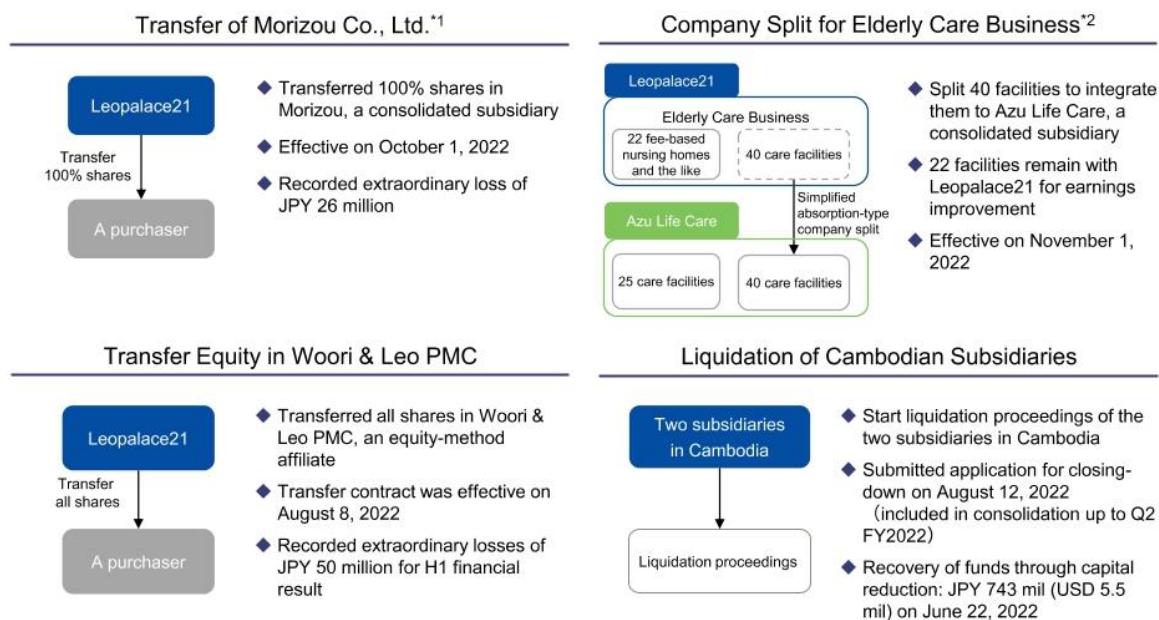
In the revision of the H1 forecast announced on November 8, significant upward revisions in each profit level, mainly due to the curbing of cost of sales and SG&A expenses. As a result, cash flows from operating activities was positive JPY2.8 billion, the first positive cash flow during the H1 in five fiscal years.

On the other hand, the full-year earnings forecast remains unchanged. There are two reasons. The favorable results up to H1 of the fiscal year were largely due to the cost of sales and SG&A expenses being shifted from one period to another, and we expect to incur costs in H2 of the fiscal year to compensate for the shift. Second, the market environment has to be estimated conservatively due to the impact of COVID-19 and the instability of the global situation and exchange rates.

The occupancy rate has almost reached the plan in April to June, but has been short of the plan since July. This is a result of the seventh COVID wave in the summer. Since September, however, the environment has improved, with the occupancy rate reaching 84% at the end of September, the highest level for the end of September in the past three years.

The actual occupancy rate at the end of October was 83.8%. The deviation from the planned 88.44% occupancy rate for the end of the current fiscal year is approximately 4.6 percentage points. Both last fiscal year and the fiscal year before last, the occupancy rate during the busiest season from January to March was about 4 percentage points. We believe that if we conduct sales activities as usual this fiscal year, we will be able to fully capture the year-end plan.

Executed transfer/withdrawal of subsidiaries and company split from the perspective of optimal allocation of management resources in the entire group.



*1 Announced on September 9, 2022 in [Notice Concerning Change in Consolidated Subsidiary \(Transfer of Shares\) and Recording of Extraordinary Loss](#)
 *2 Announced on August 26, 2022 in [Notice Concerning Implementing Company Split – Simplified Absorption-type with Wholly Owned Subsidiary](#)

In terms of structural reforms, the Company has made significant progress in transferring of and withdrawing from subsidiaries. I will explain the details. Please refer to page five.

2 items have already been announced: the transfer of Morizou and the company split of the Elderly Care Business.

We entered into a business alliance with Morizou in April 2014 and made Morizou a subsidiary in March 2015, and have achieved synergies mainly in the construction of new homes for apartment owners. However, the transfer was completed on October 1, due to the fact that Morizou could no longer conduct sales and marketing activities in our market as a result of concentrating Leopalace21’s management resources into the Leasing Business and thus could no longer generate synergies, as well as Morizou’s insolvency.

In the Elderly Care Business, all nursing care facilities, excluding fee-based nursing homes and group homes, are being consolidated through an absorption-type demerger to Azu Life Care, a subsidiary. The remaining 22 facilities will also be absorbed by Azu Life Care in the same manner after efforts to improve profitability.

Apart from this, we have completed the transfer of all shares in Woori & Leo PMC, a company engaged in the rental management business in South Korea, which had been an equity-method affiliate.

In the ASEAN region, we have initiated liquidation procedures for two consolidated subsidiaries in Cambodia and have just completed applications for company closure during August. The remaining subsidiaries in the ASEAN region are located in Singapore and the Philippines, and we will proceed with the policy of transferring of and withdrawing from these two companies as well.

Increase in the average unit rent and shift in recording some items of cost of sales and SG&A expenses contributed to significant increase in the respective profits against the plan.

(JPY million)	H1 FY2021 Actual	H1 FY2022 Plan	H1 FY2022 Actual	YoY		Factors contributing to changes
				YoY	Compared with Plan	
Net sales	199,550	202,400	202,460	+2,910	+60	Increase in average unit rent contributed to positive result YoY.
Cost of sales	177,603	176,000	174,505	(3,098)	(1,494)	The effect of contractual adjustment of master-lease rent helped cost of sales reduction YoY.
Gross profit	21,946	26,400	27,955	+6,008	+1,555	Reversal of provision for apartment vacancy loss of JPY 1.5 bil and postponement of leasing management cost contributed to the reduction against plan.
%	11.0%	13.0%	13.8%	+2.8 p	+0.8 p	
SG&A	21,136	23,800	20,992	(144)	(2,807)	Constrained SG&A expenses such as advertising and commission expense contributed larger operating profit both YoY and compared with plan.
Operating profit	809	2,600	6,962	+6,152	+4,362	
%	0.4%	1.3%	3.4%	+3.0 p	+2.2 p	
Recurring profit	(1,332)	100	5,434	+6,766	+5,334	Recording of interest expenses of JPY 2.2 bil in non-operating expenses, and recording of loss related to repairs of JPY 0.11 bil and loss on retirement of property, plant and equipment of JPY 0.16 bil in extraordinary losses
Net income	647	(1,000)	3,691	+3,043	+4,691	
Ave. occupancy rate	80.69%	84.42%	83.91%	+3.22 p	(0.51) p	Average occupancy rate for Q2 was lower than the plan as a result of COVID-19 spread and pricing strategy of maintaining rent levels instead of acquiring occupancy rates by discount.
EPS (JPY)	1.97	(3.04)	11.22	+9.25	+14.26	

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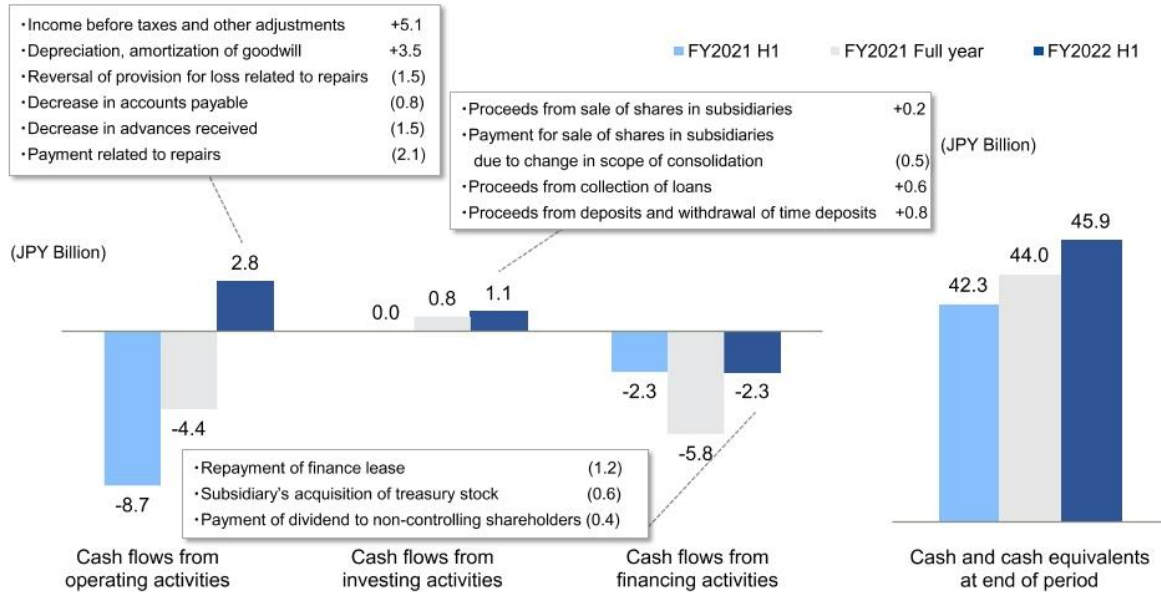
Please refer to page seven. Details of P&L.

Net sales were JPY202.4 billion, an increase of JPY2.9 billion from the previous year, mainly due to higher occupancy rates and unit rent prices. Although the occupancy rate was slightly short of the plan, sales was almost in line with the plan due to an increase in the unit rent price.

Cost of sales was JPY174.5 billion, down JPY3.0 billion from the previous year, mainly due to the effect of contractual adjustment of master-lease rent with apartment owners. Cost of sale was decreased against the plan and this was due to an unplanned reversal of JPY1.5 billion in the provision for apartment vacancy loss and the impact of deferred maintenance on managed apartments.

SG&A expenses were JPY20.9 billion, down JPY2.8 billion from the plan, mainly due to the postponement of system-related expenses. We will continue to work on detailed cost reduction. Operating profit and other items were in line with our recent trend, with no special factors other than a slight impact from weaker JPY.

Cash flows from operating activities were JPY 2.8 bil and JPY 11.6 bil YoY.
Recorded positive cash flows from operating activities for H1 for the first time in five fiscal years.

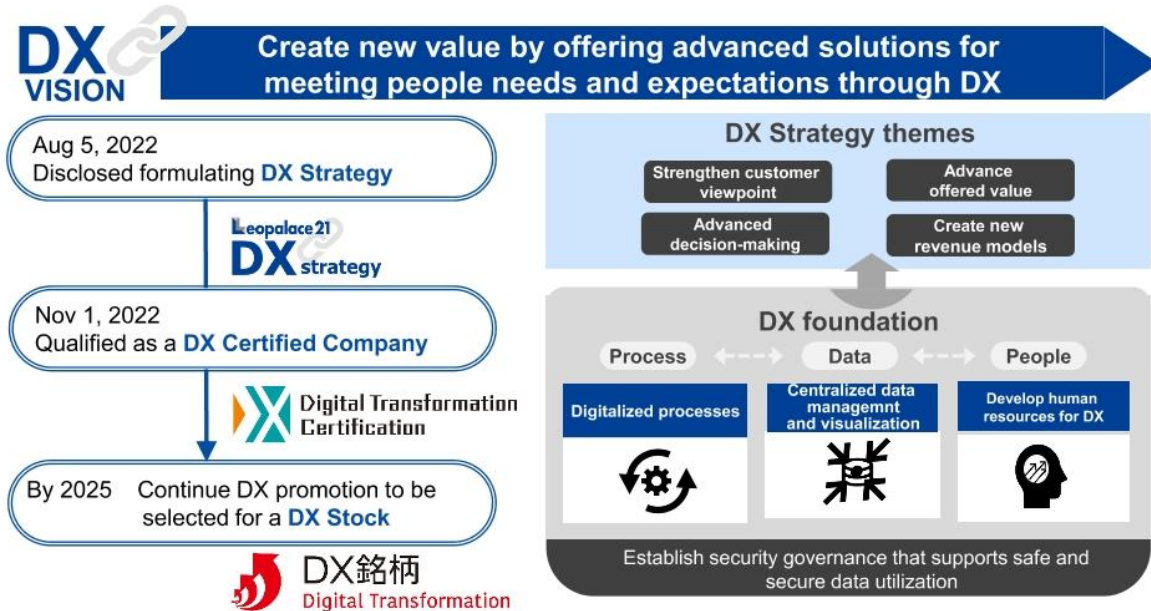


Please refer to page 11.

Cash flows from operating activities at the left end was a positive JPY2.8 billion due to improved income from the Leasing Business, the first positive cash inflow during H1 in five years, which is a significant achievement.

Cash and cash equivalents at the end of the period are also building up, and the cash position is steadily improving.

The Company was qualified as a DX Certified Company under the DX Certification System established by the Ministry of Economy, Trade and Industry on November 1, 2022.

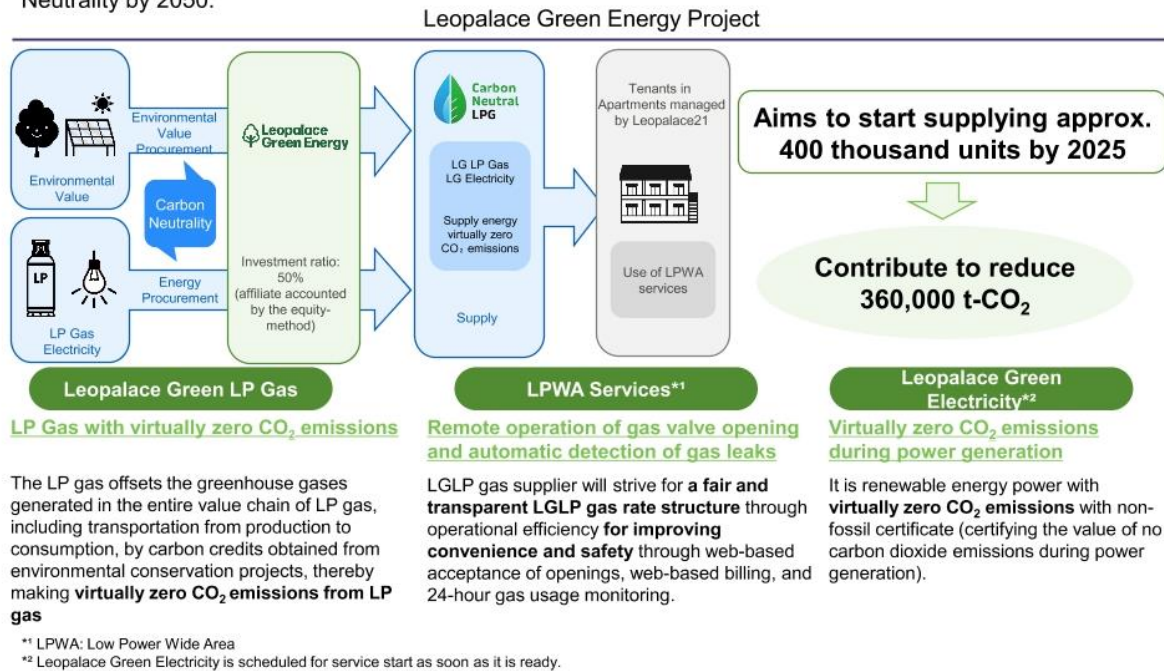


Next, I would like to report on the promotion of sustainability. Please refer to page 26.

In August, we formulated and announced our DX strategy, and as of November 1, we were certified as a DX certified company under the DX certification system established by the Ministry of Economy, Trade and Industry (METI). DX Certification is a system under which the METI certifies companies that have already developed a DX vision, strategy, and system, and are ready to promote DX. More than 500 companies, mainly listed companies, have been certified, of which only 6% are in the real estate sector.

We are actively promoting web-based contracts as well as the introduction of smart locks. With the aim of establishing itself as a real estate tech promotion company, the Company will continue its promotion with the goal of being selected as a DX Stock by 2025.

Leopalace21 plans to offer Green LP Gas and LPWA services with virtually zero CO₂ emissions to the apartments under management starting in 2023, in response to the government's declaration of Carbon Neutrality by 2050.



Please refer to page 31.

As part of our efforts to become carbon neutral, we will begin supplying Leopalace Green LP Gas and Leopalace Green Electricity, which have virtually zero CO₂ emissions, to our managed apartments sequentially from 2023 onward.

The goal is to supply approximately 400,000 units by 2025, and the annual reduction in CO₂ emissions resulting from this project is 360,000 tons, or the equivalent of 25.7 million cedar trees. COP27 is currently held. We will first ensure that our company will implement our efforts to become carbon neutral in response to the 2050 Carbon Neutral Declaration by the Japanese government.

Expected number of repaired units in the future: About 34,000 rooms

Of the 82,941 rooms that have been deducted "repairs completed" from "requiring repairs" in the below table, 21,652 rooms have been found defective as a result of the investigation. It is estimated that about 34,000 rooms need repairs, by adding 21,652 rooms to about 12,260 uninvestigated rooms that are estimated to be defective based on the past investigation results.

(As of October 31, 2022)

Apartment series	No. of buildings	No. of buildings containing obvious defects	No. of all rooms which corresponds to No of buildings containing obvious defects	No. of rooms requiring repairs		Expected No. of to-be-repaired rooms
					No. of rooms with repairs completed	
Nail Series / Six Series Total	15,283	7,744	121,691	86,205	46,297	20,000
Other Series Total	23,802	4,576	71,177	50,270	7,237	14,000
Grand Total	39,085	12,320	192,868	136,475	53,534	34,000

■ **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 works: <https://www.leopalace21.co.jp/info/en/news/progress.html>

Lastly, I will explain the response to construction defect problems. Please refer to page 36.

As of the end of October, repair work has been completed on approximately 53,000 units of the approximately 136,000 units requiring repair, etc. The number of units expected to be repaired in the future is estimated to be approximately 34,000. We plan to complete those repairs by the end of 2024.

In the period to June of this year, the number of units repaired was 250 units per month, or 3,000 units per year, taking into account the impact on cash flow and other factors. This fiscal year, we plan to repair 6,000 units from July through March. For this reason, we are proceeding the repair works approximately 700 units per month from July onward. In the next fiscal year and beyond, we will further increase the pace of our efforts to eliminate obvious deficiencies.

This concludes my explanation. Now, Mr. Takekura will provide a detailed explanation of occupancy rates and Leasing Business strategies.

Thank you.

Takekura: I, Takekura, Director, Chief of the Corporate Management Headquarters, will give an explanation. Thank you for taking time out of your busy schedule to join us today. I will mainly explain the optimization of the cost structure and the current state of the Leasing Business.

Preventive maintenance was not performed in line with the plan. The difference against plan is expected smaller over FY2022 total. Leasing operation cost is lower than the plan as a result of reversal of provision for apartment vacancy loss of JPY 1.5 billion.

Quarterly Trends of Cost of Sales



Please refer to page 16.

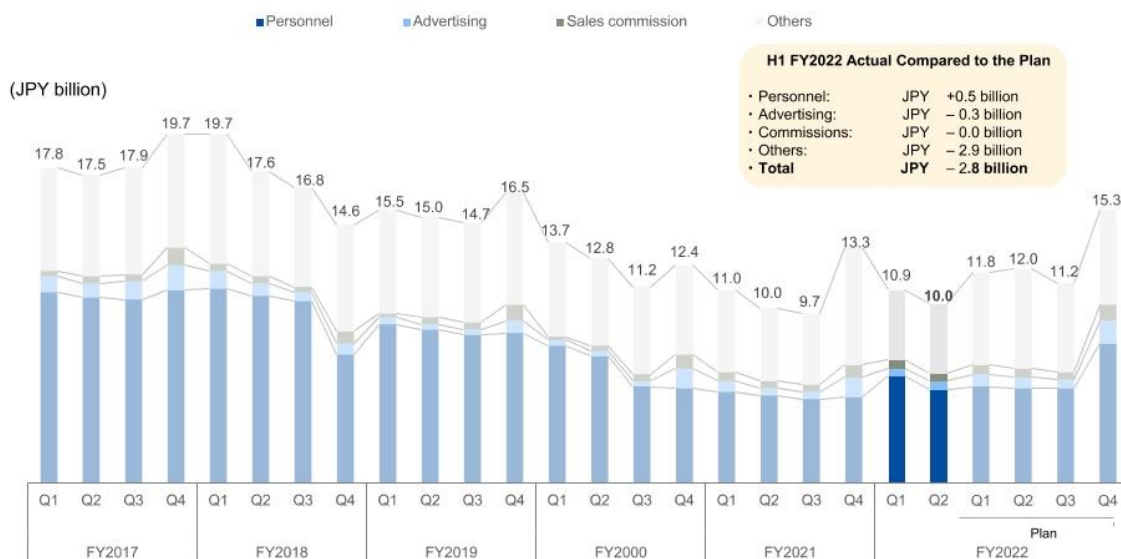
Major costs include leasing operation costs, leasing management costs, and construction and real estate costs. Despite recent foreign exchange problems and an increase in utilities costs due to high energy prices, contractual adjustment of master-lease rent with the apartment owners had a strong effect, resulting in a decrease in leasing operating costs of JPY6.3 billion from the previous fiscal year and a decrease of about JPY700 million compared to the plan. The effect of the reversal of provision for apartment vacancy loss is also included here.

Leasing management costs were up JPY3.0 billion from the previous year. The maintenance budget could not be fully digested as originally planned, resulting in a postponement of recording, which had a significant negative impact of JPY1.4 billion compared to the plan. Delay of the maintenance, which started at the beginning of the period, is continuing, but we plan to make progress as planned throughout the year by establishing the internal structure in H2 and beyond.

Construction and real estate costs have ended up almost in line with plans.

Despite delayed execution of hiring plan, personnel expenses exceeded the plan due to special bonus payment for H1 FY2022. Significant reduction in the other SG&A expenses such as system investment taking place later than the plan resulted in smaller expenses compared with the total SG&A expenses plan.

Quarterly Trends of SG&A Expenses



* Other SG&A expenses: Taxes and public charges, commission expense, rent expense, repair and maintenance expenses, and depreciation and amortization

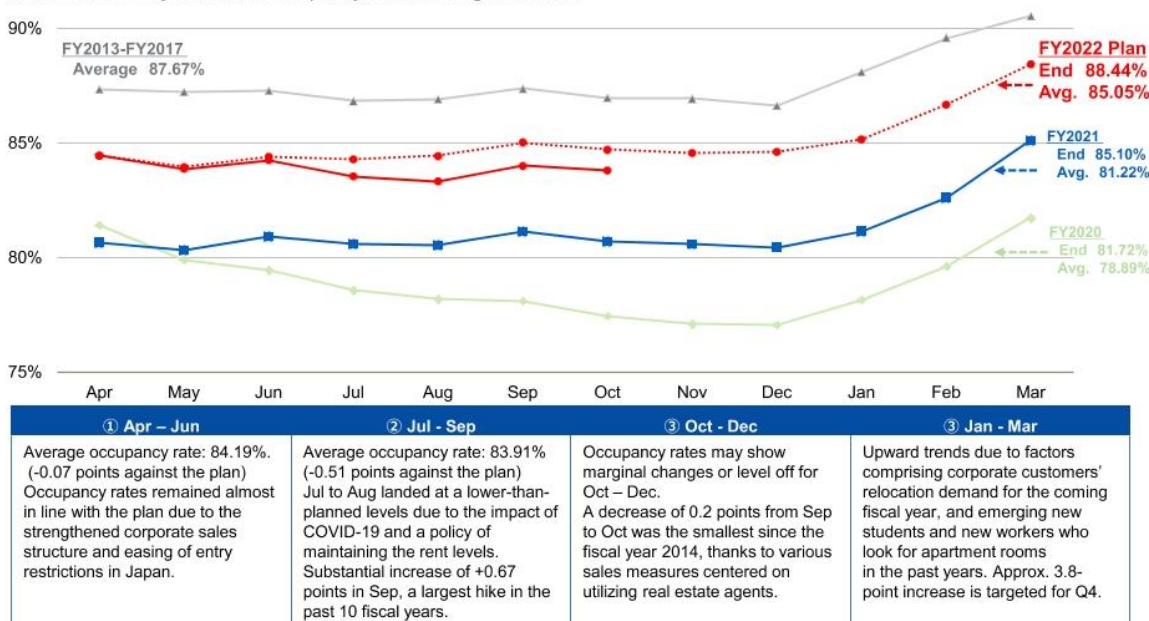
Please refer to page 17. SG&A expenses.

SG&A expenses were also significantly lower than planned, as was the cost of sales, but this was due to the postponement of system-related expenses to H2 of the fiscal year. The increase from the plan was in personnel expenses, this was due to the payment of special bonuses in July for the first time in three years to valued employees, as many employees had left the Company.

On the other hand, personnel expenses excluding special bonuses were lower than the plan. This was mainly due to the number of experienced hires, or so-called mid-career hires, not reaching the plan.

This is followed by a detailed explanation of our occupancy rate and leasing business strategy.

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: <https://eq.leopalace21.co.jp/ir/finance/getsuij.html>

Please refer to page 21. The average occupancy rate during H1 of the period was 83.91%, down 0.51 points from the plan.

From April to June, the occupancy rates were almost in line with the plan. However, the rates have remained lower than the plan due to the impact of the seventh COVID wave since July, as well as the continued emphasis on rent prices and the focus on profitability. In particular, with regard to the impact of COVID-19 in July and August, rather than the economic activities in general having been stagnant, the number of people affected within our company increased, and the sales force was not able to operate as much as expected, which was a very significant factor. In fact, contracts via real estate agents have also declined during this period due to COVID-19.

The occupancy rate for October, announced on November 4, was 83.8%, the first time in four months since June that the rate has recovered by more than 3 points higher than the same month last year. The sales environment is improving, and we will continue to maintain this momentum and strengthen sales in both corporate and retail sales.

Most recently, from September to October, the occupancy rate usually drops around 0.5 points, but this quarter we were able to reduce the drop to 0.2 points. January through to March is the busiest season for our company.

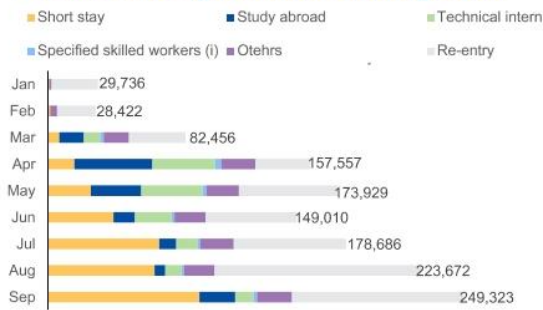
Last fiscal year, as Miyao mentioned earlier, the occupancy rate increased by 4.65 percentage points over this period. We will proceed with our strategy in Q3 to achieve the same or even better results as before in the current fiscal year.

The number of foreign nationals is expected to gradually increase due to the relaxed immigration restrictions. Targets are set by immigrant category, aiming to acquire tenants at the level of FY2019, prior to COVID-19 spread.

Contracts with foreign national customers (individual contract)

- ▶ Number of contracts H1 (Actual) 4,973 (+ 974 against the plan, + 1,185 YoY)
- ▶ 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 • service providers catering for students' needs
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

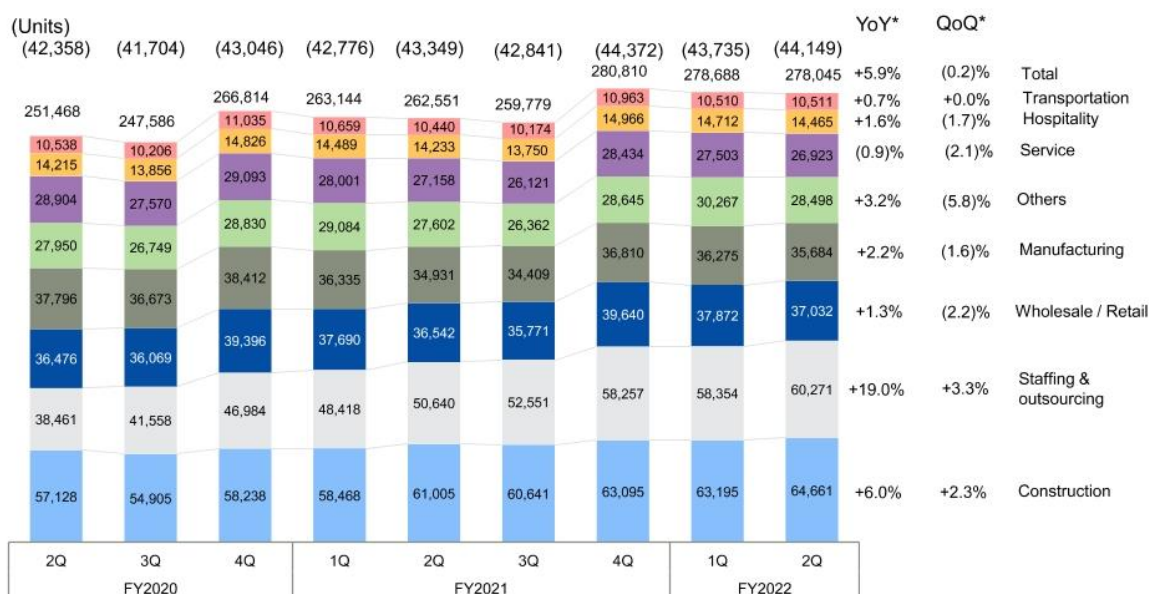
Please refer to page 23. One of our main strategies is to conclude contracts with foreign national customers.

The number of visitors to Japan has been gradually increasing following the easing of immigration restrictions since March. Especially in April and May, the growth of the number of international students was very remarkable.

The Company plans to have 13,000 individual contracts with foreign national customers in the current fiscal year. As of the end of September, about 5,000 contracts had been gained against a plan of about 4,000, an increase of more than 1,200 contracts over the previous fiscal year.

We plan to conclude the remaining 9,000 contracts in H2. In particular, in order to acquire international students, technical intern trainees, and specified skilled workers who will enter prior to April in preparation for the term starting in April, we will work with schools and specified skilled workers support organizations, and build relationships with service providers that are in business related to the foreign national students and workers.

Approximately 80% of listed companies in Japan have used Leopalace21 services.
The strong demand remained in staffing & outsourcing and construction during Q2 FY2022.



Please refer to page 40. The following is an explanation of the number of units under contract by corporate sector.

First, demand from the staffing & outsourcing and construction industries has been strong for some time, increasing both YoY and versus the end of Q1. We have seen an increase in the use by the manufacturing industry, and although there are talks of production adjustments in the recent months, the impact has been largely restricted due to the limited number of tenants we can accept.

The hospitality segment, which was affected by COVID-19, has begun to show signs of bottoming out, with positive growth compared to the same quarter last year. At the end of Q1, others increased significantly as a result of a very large increase in the use of the education industry. However, at the end of Q2, the QoQ decline in the others segment was noticeable.

We clearly know that this is due to an increase in contract terminations due to the completion of training at rehabilitation medical care schools, which is a typical year's movement.

Tokushima and Ehime showed negative QoQ growth due to slowdown of construction related demand. Fukushima and Nagano showed growth both on YoY and QoQ due to rise in demand from staffing and outsourcing, and construction.

Managed unit: in thousands, Occupancy: %	Q1 FY2022			
	Managed units	Occupancy rate	YoY	QoQ
Hokkaido	13	82%	+5 p	+1 p
Aomori	4	87%	-3 p	+1 p
Iwate	3	93%	±0 p	+2 p
Miyagi	10	83%	+2 p	+1 p
Akita	2	94%	+1 p	-2 p
Yamagata	4	86%	-2 P	-1 p
Fukushima	10	84%	+6 P	+3 p
Ibaraki	15	82%	+4 p	±0 p
Tochigi	11	85%	+5 p	+1 p
Gunma	12	78%	+1 p	+1 p
Saitama	46	83%	+3 p	-1 p
Chiba	33	79%	+3 p	±0 p
Tokyo	44	85%	+4 p	-1 p
Kanagawa	40	87%	+4 p	-2 p
Toyama	5	78%	-1 p	±0 p
Ishikawa	5	78%	+6 p	±0 p

Managed unit: in thousands, Occupancy: %	Q1 FY2022			
	Managed units	Occupancy rate	YoY	QoQ
Fukui	4	92%	±0 p	-1 p
Yamanashi	4	88%	+6 p	±0 p
Nagano	11	90%	+5 p	+3 p
Niigata	9	81%	+2 p	+1 p
Gifu	7	85%	+1 p	-1 p
Shizuoka	24	77%	+4 p	+1 p
Aichi	41	86%	+1 p	-1 p
Mie	12	81%	+4 p	-1 p
Shiga	8	94%	+6 p	±0 p
Kyoto	9	87%	+3 p	±0 p
Osaka	31	81%	+2 p	-1 p
Hyogo	22	85%	+3 p	+1 p
Nara	3	84%	+1 p	±0 p
Wakayama	3	75%	-2 p	±0 p
Tottori	2	86%	-3 p	+1 p
Shimane	2	96%	+1 p	-1 p

Managed unit: in thousands, Occupancy: %	Q1 FY2022			
	Managed units	Occupancy rate	YoY	QoQ
Okayama	12	83%	+2 p	+1 p
Hiroshima	13	87%	+3 p	±0 p
Yamaguchi	7	90%	+6 p	+1 p
Tokushima	2	76%	-16 p	-7 p
Kagawa	5	78%	+2 p	-2 p
Ehime	4	83%	-1 p	-5 p
Kochi	2	83%	+2 p	+3 p
Fukuoka	20	85%	+2 p	-1 p
Saga	3	88%	+2 p	-3 p
Nagasaki	2	89%	+2 p	-3 p
Kumamoto	7	92%	+7 p	+1 p
Oita	4	82%	+1 p	-2 p
Miyazaki	2	83%	+4 p	-2 p
Kagoshima	3	86%	+2 p	+1 p
Okinawa	5	92%	+1 p	±0 p
Total	564	84%	+3 p	±0 p

Please refer to page 42. Occupancy rates by prefecture.

Fukushima and Nagano were notable for their rise in Q2.

In Fukushima Prefecture, demand for occupancy was generated by the wind power generation projects in Iwaki and Aizu areas. In Soma area, the occupancy rate increased significantly due to demand for periodic repairs of thermal power generation.

In Nagano, the Company is capturing increased construction demand associated with repairs to the Chuo Highway and other projects, as well as temporary staffing demand associated with increased production at precision equipment plants in Matsumoto area. In particular, this type of infrastructure-based demand capture is not temporary, and regular repairs will occur, which will ensure stable occupancy in the future.

Offshore wind power generation has sustained high demand in Akita Prefecture. Although there appeared to be a temporary decline, this was due to the end of special demand for the reconstruction of the hospital. We are well positioned to continue to capture demand related to offshore wind power. However, we expect a temporary decrease in volume due to the difficulty in continuing construction works in winter season.

On the other hand, Fukushima and Ehime prefectures showed a noticeable decrease compared to Q1. These were decreases in use due to the completion of large local projects, and we hope to capture recurring demand which are aroused at regular repairs of these facilities.

We look forward to your continued support as we strive to become the housing infrastructure needed by the society.

This concludes my explanation. Thank you.

Question & Answer

[Q]: You said that you aim to complete repairs of obvious construction defect by the end of 2024, but isn't it necessary to expand the construction structure? Please tell us about your efforts to increase staffing, secure building contractors, etc., or if you could do it earlier than the end of 2024, we would be more than grateful.

Miyao [A]: Miyao will answer your question. As I mentioned earlier, last year we repaired 250 rooms per month, or 3,000 rooms in one year, and from July of this year we have tripled that number.

Since July, we have focused on securing personnel, especially the building contractors. However, we do not intend to stop there. We plan to further expand our construction structure in the next fiscal year and beyond. We will do this systematically in order to complete the plan by the end of 2024.

[Q]: The number of foreign national tenants was 19,500 units at the end of Q2, you said. What is your outlook for the future following the October easing of border restrictions?

Takekura [A]: During H1, we were able to have 18,000 corporate tenants and 19,000 individual tenants to accommodate in the apartments under management, as mentioned above, in line with our initial target.

Considering outlook for H2, the numbers are expected to remain about the same. Therefore, our full-year plan for individual contracts is 13,000.

In particular, we anticipated increased demand by specified skilled workers. As we mentioned in our previous presentation for Q1 financial results, when companies hired technical interns, they tended to assign one room for two to three interns, but now many companies are increasing in letting one person per room, even in the food and beverage industry. We believe that this will further increase the use of rooms, and we are especially trying to encourage companies to use more rooms for their employees.

[Q]: What is the impact of the company split of the Elderly Care Business on profitability? Please tell us about the profit/loss you are aiming for in the fiscal year ending March 31, 2024 or March 31, 2025.

Miyao [A]: About three years before the Lehman Shock, we originally started the Elderly Care Business within Leopalace21, but the situation remained difficult in terms of profitability. The demand was strong, so we created a subsidiary and began operations at the subsidiary. However, in light of the fact that the Company's operating structure, while the business is run in parallel between the Company and the subsidiary within the same group, resulted in duplication of work and wasteful expenses, we have decided to integrate the business by a form of company split.

By segment, the Elderly Care Business posted a loss of about JPY 700 million in the last fiscal year and the fiscal year before the last. With this company split, we will focus on reviewing our cost structure and aim to achieve positive segment profit.

[Q]: Please tell us about your progress in contractual adjustments in master-lease rent and the expected impact for the current fiscal year.

Takekura [A]: The amount of contractual adjustments of master-lease rent has not been disclosed. I cannot speak to which extent it has contributed.

However, as you can see on page 11, the turn to the net inflow of operating cash flows is undeniably due in large part to this contractual adjustments. As Miyao mentioned earlier, operating cash flows were actually positive for the first time in five fiscal years.

The cumulative effect is so large. Although the execution of contractual adjustments was expected to take two years to finish, the most part are being completed in almost a year and a half. We will continue negotiations with the remaining less than 10% apartment owners so that the exercise will contribute to our performance.

[Q]: The H1 saw fairly high progress. If H2 of the fiscal year goes according to plan, the results will be substantially higher than the full-year plan. Why haven't you revised the full-year forecast? Are there any risk factors in H2?

Takekura [A]: It is very gratifying to hear that you say our performance in H1 has been quite favorable. I understand that our performance went generally according to the plan.

As mentioned in the announcement, it is our understanding that some expenses that should have been consumed were shifted to H2, occupancy was better than expected in terms of average unit rent, provision for apartment vacancy loss was reversed, and that all of such elements contributed to the better business performance.

Our approach for the full year is to ensure that we achieve the planned results. Regarding risk, there are various assumptions and other issues, but we do not believe there will be any material impact on performance.

The seventh wave of the coronavirus did not shake the market in August, but our sales force was heavily affected in the unit of 100 and suspended some of the planned sales activities. We believe that we will be able to achieve our performance forecast if we could avoid the same situation in the eighth wave and push forward with corporate and retail sales.

[Q]: The Shukan Shincho, a weekly magazine, published an article on the alleged overstatement of occupancy rates, which affected the stock price. Once again, on what basis can you show that there is no occupancy rate manipulation? Also, even if false, are there any governance or corporate culture factors that led to the leak of such allegations from a former Board member? I would like to know, including future improvements.

Miyao [A]: As I said at the beginning, we are very sorry for the inconvenience caused by the SHINCHOSHA Publishing Co., Ltd.'s report and the impact it had on the stock market. We have disclosed in our news release that there is no manipulation of occupancy rates. First of all, the basic calculation structure of the occupancy rate has remained unchanged for the long time.

The IT system is also audited by an auditing firm to determine the calculation method of the occupancy rate and its IT configuration. It is clear from the audit that there has been no manipulation in the system in the last five years or three years.

However, we have not received a specific written statement from the auditing firm, but I hope you understand that the auditor's opinion was made in the report that it was appropriate.

I don't know if a former Board member did it or not, but I consider it a serious issue that the various information and data of the Company are leaked to outsiders. I believe that there are areas where we are lacking in terms of governance. We are now instructing each department head individually on this matter.

It is true that employees were able to see a variety of information. To prevent this from happening again in the future, we are currently improving the authorizing permissions to view high-impact information to tighten the restrictions.

[Q]: On page 16, regarding the progress of contractual adjustments of master-lease rent with owners, have the negotiations completed in H1 of this fiscal year? Will the effects of the reduction produce the full impact in the fiscal year ending March 31, 2023? What action will be taken for the 10% of owners who have not agreed?

Takekura [A]: I have just answered the question about the progress of contractual adjustments of master-lease rent. The plan was to complete the process in two years, but as Mr. Tazawa pointed out, we have almost completed the round in a year and a half. Apart from the remaining 10%, or over 5%, we have received cooperation from various owners this time, and they said that they would not cooperate with us if we allow those who refuse to cooperate to gain the benefits by making troubles.

We have spoken to owners to make sure that all are treated equally. For more than 5% of the landlords, we first obtain a third-party opinion through mediation, and then reconcile our claims with those of the owners, with the goal of reaching a final settlement.

If there is inevitably a large divergence in claims even in mediation, and if there is a large divergence in economic terms, we may eventually go to trial as well and then agree with demand of the other party. Basically, however, we are in the process of talking to them with the aim of reaching an agreement in the mediation stage.

[Q]: Are there any discussions about resuming or reviving the new construction contracting business?

Miyao [A]: We have internal discussions all the time. As Mr. Hashimoto mentioned earlier, it is not just a desk study, but when it comes to construction, we must also take into account the construction structure of promoting the new buildings, etc. We are discussing it, including what to address.

[Q]: What are you discussing regarding the subscription rights of Fortress? Are both sides discussing the issue of subscription rights weighing on stock price recovery even if earnings recover?

Miyao [A]: We haven't really discussed it from that perspective. We have not had any particular discussion, including what trigger we would use to take up the subscription rights in particular.

[Q]: Can you expect to continue to raise the level of rents for tenants against a backdrop of improved occupancy rates? Is there any difference in the room for acceptance of corporate clients, by industry, for foreigners, etc.? Regarding carbon neutrality, gas and electricity will be supplied. Apart from the repair works for construction defects, what are your energy conservation construction initiatives and what inquiries have you received from owners?

Takekura [A]: I would like to answer your question about the increase in the rent level for tenants, based on the improvement in the occupancy rate.

This is somewhat of a trade-off. On the other hand, for corporate tenants, which is our strongest area of expertise, we value the transparency of being able to use the same kind of service nationwide and the convenience of being able to use 100 or 200 or 1,000 rooms with a single window.

Individual clients often make their choice based on the fact that there is no initial cost or low rent. On the other hand, in sales to corporate clients, we are raising rents mainly for convenience.

Compared to private tenants, we have this as a leverage and are currently working to improve profits through a rent level oriented strategy, as I mentioned at the outset.

I will answer questions about the rooms for foreign national clients and the differences by industry.

We developed a dedicated website for foreign national customers. As for searching for rooms on websites, various service providers offer websites which support multiple languages, but when you actually start looking for a room for details, the website no longer support that language. In our case, we have five languages available and the system services customers to find rooms with a very diverse range of nationalities.

We believe that there is ample room for accepting foreign national customers.

As for the industry segment, until now we have listed separate industries such as food service and hospitality, but now, as shown on page 40, we have decided to publish figures for a new segment, the transportation industry.

This document is intended to confirm the number of uses of this segment, as there is room for growth in the logistics sector in the future. We believe that by dividing the number of uses into segments, we can provide a firm grasp of the needs being sought.

Second, your question about carbon neutrality and whether there are any construction inquiries apart from repair works for construction defects. The majority of our apartments are originally insured and maintained by the owners with our insurance.

However, there are cases where the Company may proceed with refurbishing the appearance of the building, either to further beautify the exterior or because the owner, who does not have insurance, wants to refurbish.

These refurbishing businesses will be handling apartments that are fifteen years old or older. Since it is very difficult to get estimates for refurbishments, we are now in the process of trying to create opportunities to provide services to apartments that have been managed so that this can be done in a systematic way.

[M]: Thank you very much. Since there are no additional questions, we would like to conclude the question-and-answer session and the briefing session.

Thank you very much for joining us today at the Leoplace21 Corporation 2Q financial results briefing for the fiscal year ending March 31, 2023.

[END]