

Consolidated Financial Statements (Japanese Accounting Standard)

February 10, 2023

(For the nine months ended December 31, 2022)

Name of Company Listed: **Leopalace21 Corporation** Stock Listing: Tokyo Stock Exchange
 Code Number: 8848 URL: <https://eg.leopalace21.co.jp/> Location of Head Office: Tokyo
 Representative: Position: President and CEO Name: Bunya Miyao
 Name of Contact Person: Position: Director, Chief of the Corporate Management Headquarters
 Name: Shinji Takekura Telephone: +81-50-2016-2907
 Scheduled Date of Filing of Securities Report (Japanese only): February 13, 2023
 Scheduled Date of Commencement of Dividend Payments: —
 Supplemental Explanatory Material Prepared: Yes
 Results Briefing Held: Yes (for institutional investors and security analysts)

1. Results for the Nine Months ended December 31, 2022 (April 1, 2022 – December 31, 2022)

(1) Consolidated financial results (Amounts less than JPY 1 million are omitted)

(The percentage figures indicate rate of gain or loss compared with the same period in the previous fiscal year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	JPY million	%	JPY million	%	JPY million	%	JPY million	%
Nine months ended December 31, 2022	303,517	2.0	10,768	151.9	8,448	485.0	5,548	(5.4)
Nine months ended December 31, 2021	297,470	(3.5)	4,275	—	1,444	—	5,865	—

(Note) Comprehensive income in the nine months ended December 31, 2022: JPY 11,907 million (40.6%);

Comprehensive income in the nine months ended December 31, 2021: JPY 8,467 million (—%)

	Net income per share	Diluted net income per share
	JPY	JPY
Nine months ended December 31, 2022	16.87	13.59
Nine months ended December 31, 2021	17.83	15.95

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	JPY million	JPY million	%
As of December 31, 2022	148,282	20,972	8.3
As of March 31, 2022	145,430	11,034	0.7

(Reference) Ownership equity as of December 31, 2022: JPY 12,279 million; as of March 31, 2022: JPY 1,068 million

2. Dividend Status

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Annual Total
	JPY	JPY	JPY	JPY	JPY
FY ended March 31, 2022	—	0.00	—	0.00	0.00
FY ending March 31, 2023	—	0.00	—		
FY ending March 31, 2023 (Estimate)				0.00	0.00

(Note) Change from the latest dividend estimate: No

3. Consolidated Earnings Forecasts for the Fiscal Year ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(The percentage figures for full fiscal year indicate rate of gain or loss compared with the previous full fiscal year.)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	JPY million	%	JPY million	%	JPY million	%	JPY million	%	JPY
FY ending March 31, 2023	410,800	3.1	11,700	559.2	6,800	—	24,900	110.0	75.69

(Note) Change from the latest earnings forecast: No

(Notes)

(1) Changes in major subsidiaries during the nine months ended December 31, 2022 (change in specific subsidiaries resulting in a change in the scope of consolidation) : Yes

Addition: — ; Exclusion: one, Name of the company: Morizou Co., Ltd.

(Note) For details, please refer to 2. Consolidated Financial Statements and Notes (3) Notes Regarding Consolidated Financial Statements

(Note regarding change in major subsidiaries in the nine months ended December 31, 2022) in p.10.

(2) Use of accounting procedures specific to the preparation of quarterly financial statements: Yes

(Note) For details, please refer to 2. Consolidated Financial Statements and Notes (3) Notes Regarding Consolidated Financial Statements

(Note regarding special accounting treatments for quarterly consolidated financial statements) in p.10.

(3) Changes in accounting policies, procedures or reporting methods used in preparation of financial statements and restatements

(i) Changes in accounting policies accompanying revision of accounting standards, etc.: Yes

(ii) Changes in accounting policies other than (i) above: No

(iii) Changes in accounting estimates: No

(iv) Restatements: No

(Note) For details please refer to 2. Consolidated Financial Statements (3) Notes Regarding Consolidated Financial Statements (Changes in accounting policies) in p.10 of the attached material.

(4) Total number of outstanding shares (common stock)

(i) Total number of outstanding shares at term end (including treasury stock)

As of December 31, 2022: 329,389,515 shares, As of March 31, 2022: 329,389,515 shares

(ii) Total treasury stock at term end

As of December 31, 2022: 335,211 shares, As of March 31, 2022: 493,610 shares

(iii) Average number of outstanding shares during the period

As of December 31, 2022: 328,976,691 shares, As of December 31, 2021: 328,886,262 shares

–Indication regarding the status of auditing:

These financial statements are not subject to auditing under the Financial Instruments and Exchange Act.

– Explanation on the proper use of the business forecasts, and other special notices:

(Note on the business forecasts and other forward-looking statements)

The business forecasts and other forward-looking statements contained in this report are based on information currently available to Leopalace21 (hereinafter the “Company”) and on certain assumptions that the Company has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.

For assumptions of business forecasts and notes on the proper use of these forecasts, please refer to 1. Business Results (3) Future Predictions in p.5.

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material is planned to be posted on the Company’s website on February 10, 2023.

【Table of Contents】

1. Business Results	4
(1) Analysis of Business Results.....	4
(2) Analysis of Consolidated Financial Position	5
(3) Future Predictions.....	5
2. Consolidated Financial Statements and Notes	6
(1) Consolidated Balance Sheets.....	6
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income.....	8
Consolidated Statement of Income	8
Consolidated Statement of Comprehensive Income	9
(3) Notes Regarding Consolidated Financial Statements.....	10
(Notes regarding the premise of the Company as a going concern)	10
(Note related to the significant changes in the amount of shareholders equity).....	10
(Note regarding change in major subsidiaries in the nine months ended December 31, 2022).....	10
(Note regarding special accounting treatments for quarterly consolidated financial statements).....	10
(Changes in accounting policies).....	10
(Segment Information).....	11
(Significant subsequent events)	12

1. Business Results

(1) Analysis of Business Results

(JPY million)

	Nine months ended December 31, 2022	Nine months ended December 31, 2021	Difference	Percentage change
Net sales	303,517	297,470	6,046	2.0%
Cost of sales	261,821	262,264	(442)	(0.2)%
Operating profit (loss)	10,768	4,275	6,493	151.9%
Recurring profit (loss)	8,448	1,444	7,004	485.0%
Net income (loss) attributable to shareholders of the parent	5,548	5,865	(316)	(5.4)%

While the corporate earnings showed a gradual recovery trend in the domestic economy resulting from various policies during the nine months ended December 31, 2022 in the transition to a new normal society incurred by COVID-19 pandemic, the outlook remained uncertain due to the effect of rising energy and raw material prices and other factors.

The new housing starts of leased units increased for the 22 months in a row (up 5.7% year on year). In order to secure a stable occupancy rates in the rental housing market where the number of vacant houses continues to rise due to declining population, falling birthrate and aging population, the Company believes it is important to focus on serving still growing single-person households, to supply apartments in the three metropolitan areas where high occupancy rates are expected, to maintain and enhance the value of apartments through proper maintenance, to implement sales strategies that match regional and customer characteristics, and to provide highly convenient tenant services through the promotion of DX solutions.

Under these circumstances, Leoplace21 Group (the "Group") has been continuing structural reforms which was disclosed in June 2020, concentrating management resources on the core Leasing Business and thoroughly reviewing and reducing all costs, the Group has worked to stabilize the financial base and continuously improve profitability.

As a result, net sales for the nine months ended December 31, 2022 became JPY 303,517 million, an increase of 2.0% year on year and operating profit was JPY 10,768 million, an increase of 151.9% year on year, due to the reduction of cost of sales through optimizing the cost structure. Recurring profit was JPY 8,448, an increase of 485.0% year on year mainly due to interest payment of JPY 3,296 million, and net income attributable shareholders of the parent was JPY 5,548 million, a reduction of 5.4% year on year, caused by the reversal of provision for losses related to repairs which was recorded in the previous year.

Result by segment are as follows:

(JPY million)

	Net sales			Operating profit (loss)		
	Nine months ended December 31, 2022	Nine months ended December 31, 2021	Difference	Nine months ended December 31, 2022	Nine months ended December 31, 2021	Difference
Leasing Business	292,296	285,696	6,600	16,079	8,588	7,491
Elderly Care Business	10,482	10,890	(408)	(997)	(456)	(541)
Other Businesses	738	884	(145)	(1,959)	(1,148)	(810)
Adjustments	—	—	—	(2,353)	(2,708)	354
Total	303,517	297,470	6,046	10,768	4,275	6,493

(i) Leasing Business

In the Leasing Business, the Company provides abundant value-added services such as web-based integrated services which allows a customer complete all steps from searching an apartment to signing a rental contract without the need of face-to-face meeting, promotion of the transition to smart apartments which enables electrical appliances and door locks to be operated by smartphone. The Company aims at stable occupancy rate by working with real estate agents and adopting sales strategies catering for the customer and region specific requirements.

The occupancy rate at the end of December 31, 2022 was 84.08% (up 3.63 points from the same month end in the previous fiscal year) with average occupancy rate of 83.92% (up 3.27 points year on year). The demand recovery for apartment rooms mainly from corporate customers due to the slowdown impact of COVID-19 pandemic and strengthened tie with real estate agents produced positive results. The number of units under management was 562 thousand (a decrease of 4,800 from the end of the previous fiscal year). The number of direct leasing sales offices at the end of December 31, 2022 was 109 (no change from the end of the previous fiscal year).

As a result, net sales came to JPY 292,296 million, up 2.3% year on year due to the higher unit rent and improved occupancy

rates. Operating profit was increased to JPY 16,079 million, up 87.2% year on year, mainly due to the effect of increased revenue and the effect of successful contractual adjustment of master-lease rent with the apartment owners.

(ii) Elderly Care Business

The Company has been cutting the operational cost by continuous efficiency improvement for the Elderly Care Business. Net sales during the nine months ended December 31, 2022 were JPY 10,482 million (down 3.7% year on year), and operating loss was JPY 997 million (an increased loss of JPY 541 million year on year) due to a decrease in the number of users for elderly care services concerning about the infection risk of COVID-19. The number of facilities was 87 as of the end of Q3 in the fiscal year ending March 31, 2023.

(iii) Other Businesses

Net sales of the Other Businesses including resort facilities in Guam and others, were JPY 738 million (down 16.5% year on year) and operating loss was JPY 1,959 million (an increased loss of JPY 810 million year on year) mainly due to a significant decline in occupancy rates in Guam.

(2) Analysis of Consolidated Financial Position

(JPY million)

	December 31, 2022	March 31, 2022	Difference	Percentage change
Assets	148,282	145,430	2,851	2.0%
Liabilities	127,309	134,396	(7,086)	(5.3)%
Net assets	20,972	11,034	9,937	90.1%

Assets at the end of December 31, 2022 increased by JPY 2,851 million from the end of the previous fiscal year to JPY 148,282 million. This was mainly attributable to an increase of JPY 2,625 million in cash and deposits, an increase of JPY 2,334 million in building and structures (net) and JPY 1,153 million in land due to Guam resort facilities' value affected by weaker JPY, despite a reduction of JPY 636 million in trade receivables, reduction of JPY 665 million in machinery equipment and vehicles (net) and JPY 1,625 million in others (net) in property, plant, and equipment.

Total liabilities decreased by JPY 7,086 million from the end of the previous fiscal year to JPY 127,309 million. This was mainly attributed to the decrease of JPY 957 million in accounts payable – other, JPY 767 million in accrued income taxes, JPY 2,474 million in advances received and long-term advances received, JPY 2,685 million in provision for apartment vacancy loss, and JPY 1,588 million in provision for losses related to repairs, whereas provision for bonus payment was increased by JPY 1,716 million.

Net assets were JPY 20,972 million, an increase of JPY 9,937 million from the end of the previous fiscal year. This was mainly due to an increase of JPY 5,592 million in foreign currency transaction adjustments and the recording of JPY 5,548 million in net income attributable to shareholders of the parent, on the other hand, decrease in non-controlling interests of JPY 1,200 million was recorded due to payment of treasury stock purchase price and dividend payment to non-controlling shareholders of a consolidated subsidiary. The equity ratio improved by 7.6 points from the end of the previous fiscal year to 8.3%.

(3) Future Predictions

There are no changes to the consolidated earnings forecast for the full year announced on May 16, 2022 in the Consolidated Financial Statements (Japanese Accounting Standard) for the fiscal year ending March 31, 2023.

As the Company plans to record multi-year deferred tax assets at the end of the fiscal year ending March 31, 2023, net income attributable to shareholders of the parent in the consolidated earnings forecast for the full year is significantly different from net income attributable to shareholders of the parent in the nine months ended December 31, 2022.

This forward-looking statement is based on the information which is available to the Company on the date of release, but actual results may differ significantly from these forecasts due to various factors.

2. Consolidated Financial Statements and Notes
(1) Consolidated Balance Sheets

(JPY million)

	December 31, 2022	March 31, 2022
<Assets>		
Current assets		
Cash and deposits	48,149	45,523
Trade receivables	7,981	8,618
Accounts receivable for completed projects	339	443
Securities	—	200
Real estate for sale	459	693
Real estate for sale in progress	256	213
Prepaid expenses	1,645	1,634
Others	4,683	5,090
Allowance for doubtful accounts	(2,062)	(2,255)
Total current assets	61,452	60,161
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	21,186	18,852
Machinery, equipment, and vehicles (net)	6,868	7,534
Land	32,422	31,269
Leased assets (net)	2,579	1,976
Construction in progress	128	92
Others (net)	3,301	4,926
Total property, plant, and equipment	66,486	64,652
Intangible fixed assets		
Goodwill	1	6
Others	2,784	3,130
Total intangible fixed assets	2,786	3,136
Investments and other assets		
Investment securities	5,410	5,180
Long-term loans	507	1,126
Long-term prepaid expenses	458	577
Deferred tax assets	6,587	6,596
Others	5,857	4,914
Allowance for doubtful accounts	(1,262)	(914)
Total investments and other assets	17,557	17,480
Total non-current assets	86,830	85,269
Total assets	148,282	145,430

(JPY million)

	December 31, 2022	March 31, 2022
<Liabilities>		
Current liabilities		
Accounts payable	2,682	2,552
Accounts payable for completed projects	40	427
Short-term borrowings	72	53
Lease obligations	1,926	1,992
Accounts payable -other	8,165	9,123
Accrued income taxes	536	1,304
Advances received	29,843	31,733
Customer advances for projects in progress	141	268
Provision for bonus payment	1,716	–
Provision for warranty obligations on completed projects	1	7
Provision for fulfillment of guarantees	1,962	2,187
Provision for losses related to repairs	4,996	1,941
Provision for apartment vacancy loss	1,533	4,218
Others	4,087	3,732
Total current liabilities	57,707	59,542
Non-current liabilities		
Long-term debt	30,455	30,429
Lease obligations	413	569
Long-term advances received	6,567	7,151
Lease/guarantee deposits received	7,232	7,382
Deferred tax liabilities	14	11
Provision for losses related to repairs	11,502	16,145
Provision for apartment vacancy loss	1,414	1,414
Liability for retirement benefits	9,658	9,525
Others	2,343	2,222
Total non-current liabilities	69,602	74,854
Total liabilities	127,309	134,396
<Net assets>		
Shareholders' equity		
Common stock	100	100
Capital surplus	136,240	136,345
Retained earnings	(130,128)	(135,749)
Treasury stock	(205)	(302)
Total shareholders' equity	6,005	392
Accumulated other comprehensive income		
Net unrealized gains on other securities	(51)	(39)
Foreign currency translation adjustments	6,338	746
Remeasurements of defined benefit plans	(13)	(31)
Total accumulated other comprehensive income	6,273	675
Share subscription rights	284	357
Non-controlling interests	8,408	9,608
Total net assets	20,972	11,034
Total liabilities and net assets	148,282	145,430

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
Consolidated Statement of Income

(JPY million)

	Nine months ended December 31, 2022 (Apr 2022–Dec 2022)	Nine months ended December 31, 2021 (Apr 2021–Dec 2021)
Net sales	303,517	297,470
Cost of sales	261,821	262,264
Gross profit	41,695	35,206
Selling, general and administrative expense	30,926	30,930
Operating profit (loss)	10,768	4,275
Non-operating income		
Interest income	207	23
Dividend income	64	57
Valuation gains of investment securities	119	119
Foreign exchange gains	418	—
Equity in earnings of affiliated companies	57	—
Employment adjustment subsidy	15	239
Other	207	239
Total non-operating income	1,090	679
Non-operating expenses		
Interest expenses	3,296	3,374
Foreign exchange loss	—	12
Funding costs	—	52
Other	114	71
Total non-operating expenses	3,411	3,510
Recurring profit (loss)	8,448	1,444
Extraordinary income		
Gains on sale of property, plant and equipment	28	92
Gains on sale of investment securities	—	0
Reversal of provision for losses related to repairs	—	6,144
Total extraordinary income	28	6,237
Extraordinary losses		
Loss on sale of property, plant and equipment	42	—
Loss on retirement of property, plant and equipment	176	41
Impairment loss	316	—
Loss related to repairs	458	—
Loss on liquidation of affiliates	141	—
Loss on closure of offices	—	67
Total extraordinary losses	1,135	109
Income (loss) before taxes and other adjustments	7,341	7,572
Income taxes	1,038	1,035
Net income (loss)	6,303	6,537
Net income (loss) attributable to non-controlling interests	754	672
Net income (loss) attributable to shareholders of the parent	5,548	5,865

Consolidated Statement of Comprehensive Income

(JPY million)

	Nine months ended December 31, 2022 (Apr 2022–Dec 2022)	Nine months ended December 31, 2021 (Apr 2021–Dec 2021)
Net income (loss)	6,303	6,537
Other comprehensive income		
Net unrealized gains on other securities	(12)	(14)
Foreign currency translation adjustments	5,601	1,904
Remeasurements of defined benefit plans	17	40
Share of other comprehensive income of entities using equity method	(3)	(0)
Total other comprehensive income	5,603	1,929
Comprehensive income	11,907	8,467
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	11,146	7,793
Comprehensive income attributable to non-controlling interests	760	673

(3) Notes Regarding Consolidated Financial Statements

(Notes regarding the premise of the Company as a going concern)

There are no relevant items.

(Note related to the significant changes in the amount of shareholders equity)

There are no relevant items.

(Note regarding change in major subsidiaries in the nine months ended December 31, 2022)

The Company transferred its whole shares in Morizou Co., Ltd, a specified subsidiary, during Q2 in the consolidated fiscal year ending March 31, 2023. The Company excluded Morizou Co., Ltd. from the scope of consolidation starting from Q3 in the consolidated fiscal year ending March 31, 2023.

(Note regarding special accounting treatments for quarterly consolidated financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by rationally estimating the effective tax rate after applying tax effect accounting to income before income taxes and other adjustments for the consolidated fiscal year ending March 31, 2023 including the Q3 cumulative, and multiplying income before income taxes and other adjustments for Q3 cumulative by the said estimated effective tax rate. However, if the calculation of tax expenses using such estimated effective tax rate would significantly lack rationality, the statutory effective tax rate is used.

(Changes in accounting policies)

(Application of Accounting Standard for Fair Value Measurement)

The Company adopted the new accounting policy stipulated by the "Guidance on Accounting Standard for Measurement of Fair Value" (ASBJ Guidance No. 31, June 17, 2021, hereinafter the "Guidance") from the beginning of Q1 of the fiscal year ending March 31, 2023. The Company determined to apply the new accounting policy prescribed by the Guidance prospectively in accordance with the transitional treatment prescribed in Section 27-2 of the Guidance. This change has no impact on the quarterly consolidated financial statements.

(Segment Information)

I. Nine months ended December 31, 2022 (April 1, 2022 – December 31, 2022)**(i) Information on net sales, profit or loss by reportable segment and breakdown of net sales**

(JPY million)

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Rent income	224,290	—	—	224,290	—	224,290
Ancillary service income	32,767	—	—	32,767	—	32,767
Maintenance	26,764	—	—	26,764	—	26,764
Rental guarantee	3,212	—	—	3,212	—	3,212
Company housing agency fee	606	—	—	606	—	606
Roof lease solar power generation	2,199	—	—	2,199	—	2,199
Construction subcontracting	1,076	—	—	1,076	—	1,076
Other	217	10,482	738	11,437	—	11,437
Sales from contracts with customer	291,134	10,482	738	302,355	—	302,355
Furniture insurance	1,161	—	—	1,161	—	1,161
Other sales	1,161	—	—	1,161	—	1,161
Sales to customers	292,296	10,482	738	303,517	—	303,517
Inter-segment sales and transfers	43	—	194	238	(238)	—
Total	292,340	10,482	933	303,756	(238)	303,517
Segment profit (or loss)	16,079	(997)	(1,959)	13,122	(2,353)	10,768

Note 1: Adjustment of JPY (2,353) million in segment profit (or loss) includes inter-segment elimination of JPY 139 million and corporate expenses of JPY (2,492) million which have not been divided into each segment. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Note 2: Segment profit or loss have been adjusted to the operating profit on the Consolidated Statement of Income

(ii) Information on impairment loss of non-current assets by reportable segment

In Leasing Business segment, the book value of assets for rent that were decided to be sold was reduced to the recoverable amount, and the Company recognized the amount of reduction as impairment loss of JPY 316 million in extraordinary losses.

II. Nine months ended December 31, 2021 (April 1, 2021 – December 31, 2021)

Information on net sales, profit or loss by reportable segment and breakdown of net sales

(JPY million)

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Rent income	219,352	—	—	219,352	—	219,352
Ancillary service income	30,192	—	—	30,192	—	30,192
Maintenance	26,330	—	—	26,330	—	26,330
Rental guarantee	3,404	—	—	3,404	—	3,404
Company housing agency fee	577	—	—	577	—	577
Roof lease solar power generation	2,195	—	—	2,195	—	2,195
Construction subcontracting	1,797	—	—	1,797	—	1,797
Other	344	10,890	884	12,119	—	12,119
Sales from contracts with customer	284,195	10,890	884	295,970	—	295,970
Furniture insurance	1,500	—	—	1,500	—	1,500
Other sales	1,500	—	—	1,500	—	1,500
Sales to customers	285,696	10,890	884	297,470	—	297,470
Inter-segment sales and transfers	58	—	179	238	(238)	—
Total	285,754	10,890	1,064	297,708	(238)	297,470
Segment profit (or loss)	8,588	(456)	(1,148)	6,983	(2,708)	4,275

Note 1: Adjustment of JPY (2,708) million in segment profit (or loss) includes inter-segment elimination of JPY 115 million and corporate expenses of JPY (2,823) million which have not been divided into each segment. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Note 2: Segment profit or loss have been adjusted to the operating profit on the Consolidated Statement of Income

(Significant subsequent events)

There are no relevant items.