



Leopalace21 Corporation

Financial Results Briefing for the Nine Months Ended December 31, 2022

February 10, 2023

Presentation

Kawasaki: Thank you very much for taking time out of your busy schedules to participate in today's financial results briefing for Q3 of the fiscal year ending March 2023 of Leoplace21 Corporation.

I am Kawasaki, and I will be the moderator. Thank you.

Today's speakers are Bunya Miyao, Representative Director, President and CEO and Shinji Takekura, Director, Chief of the Corporate Management Headquarters. In this briefing, there will be time for a question-and-answer session after the financial report. The meeting is scheduled to end at 18:00.

Miyao, President and CEO, will now give an overview of Q3 of the fiscal year ending March 2023.

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

I will explain the summary of Q3 of the fiscal year ending March 2023, our sustainability initiatives and construction defects management, but first, I would like to inform you about the *Shukan Shincho* and the *Kyodo News* report last month.

While the October issue of *Shukan Shincho* reported the article that is factually incorrect, it also had a significant impact on our stock price and caused a great deal of consternation. The Company thinks it is totally unacceptable and has filed a lawsuit against the news report for the first time, demanding the publication of an apology ad and compensation for damages. It may take some time, but we will report back to you all once we have a ruling.

Also last month, *Kyodo News* reported that the Ministry of the Environment and others conducted on-site inspections due to suspicions of improper disposal of discarded home appliances. The stock price fell again the next day, but this was not a new incident. It was rather concerning an event in the process of correcting the disposal procedures for discarded home appliances under the guidance of the Ministry of the Environment and the Ministry of Economy, Trade and Industry. The cause of the problem was that we did not recognize ourselves as a retailer of appliances. We have now established a new disposal scheme to fulfill our obligations as a retailer, which is also partially operational.

We will continue to gradually switch to the new scheme, seeking guidance from the Ministry of the Environment and the Ministry of Economy, Trade and Industry.

Occupancy rates

Continued execution of boosting measures made the occupancy rate increase by 0.08 points during October – December timeframe. It is for the first time in 16 years since FY2006 that the occupancy rate at the end of Q3 was higher than that of Q2.

PL

Sales were lower than the plan due to the unplanned business transfer of Morizou, a subsidiary, and lowered occupancy rate of Guam resort facilities affected by COVID-19. Operating profit and net income outperformed the plan.

Construction defects management

Good progress of plan made the remaining number of rooms with obvious defects decline to 31,700, decreased by 6,300 from end of April 2022 to end of January 2023.

3

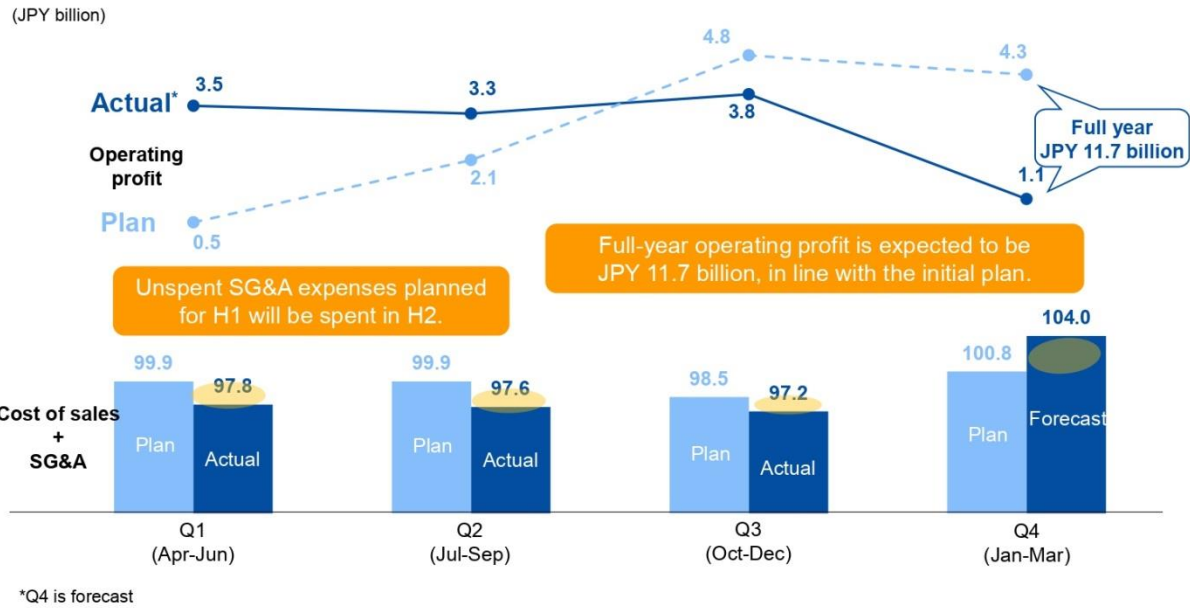
Now, please see page three of your handout, the Executive Summary.

In Q3, occupancy rates remained favorable, steadily narrowing the gap with the plan. Since November, MoM gains have continued, and this is the first time in 16 years, since the fiscal year ended March 2007, that the occupancy rate has improved when comparing the end of December with the end of September. The three-month period was a period in which we were able to increase the certainty of achieving the year-end plan of 88.44%.

On the P&L side, the unplanned transfer of subsidiary Morizou, the poor performance of Guam Resort, and the impact of lower occupancy rates in July and August resulted in a cumulative sales decline of approximately JPY 2 billion from the plan.

Due to the optimization of the cost structure, each of the profits below operating income remained positive both compared to the previous year and to the plan, but when looking at the three months of Q3, operating income was negative compared to the plan. This was due in part to the postponement of some costs that could not be fully reported in H1 of the fiscal year.

Operating profit in Q1 and Q2 was significantly higher than planned, but this was due to the postponement of costs to H2 of the fiscal year, and variance from the plan is expected to narrow.



Please see page seven. The graph shows the postponement of cost of sales and SG&A expenses and changes in operating income by quarter.

The bar graph shows the total amount of cost of sales and SG&A expenses, and the negative figure compared to the plan is expected to decrease as the first three quarters progress, and exceed the plan in Q4.

Accordingly, operating income in the line graph, which had been positive compared to the plan, was slightly negative compared to the plan in Q3, and is expected to be below the plan in Q4. Since operating income is on a slowing trend in H2 of the fiscal year due to the postponement of costs, we have not revised our full-year plan, although we made upward revisions in H1, aiming to achieve operating income of JPY 11.7 billion.

Recorded increase in the operating profit, recurring profit and net income both YoY and against the plan although sales and gross profit were lower than the plan due to the unplanned business transfer of Morizou, a subsidiary, and declined occupancy rate of Guam resort facilities affected by COVID-19. .

(JPY million)	Q3 FY2021 Actual	Q3 FY2022 Plan	Q3 FY2022 Actual			Factors contributing to changes
				YoY	Compared with Plan	
Net sales	297,470	305,700	303,517	+6,046	(2,182)	Negative compared to plan due to the transfer of subsidiary Morizou, lowered occupancy rate of Guam, and lower occupancy rates in July and Aug.
Cost of sales	262,264	263,300	261,821	(442)	(1,478)	Reversal of provision for apartment vacancy loss of JPY 2.6 bil was recorded in cost of sales (planned to be reversal of JPY 3.0 bil in Q4), despite the recording of management costs that were delayed from H1.
Gross profit	35,206	42,400	41,695	+6,489	(704)	
%	11.8%	13.9%	13.7%	+1.9 p	(0.1) p	
SG&A	30,930	35,000	30,926	(4)	(4,073)	SG&A expenses were significantly lower than planned due to continued cost reduction.
Operating profit	4,275	7,400	10,768	+6,493	+3,368	Recurring profit was higher than planned due to foreign exchange gains of JPY 0.4 bil despite interest expenses of JPY 3.2 bil.
%	1.4%	2.4%	3.5%	+2.1 p	+1.1 p	
Recurring profit	1,444	3,700	8,448	+7,004	+4,748	Extraordinary losses included loss related to repairs of JPY 0.4 bil and impairment loss of JPY 0.3.
Net income	5,865	2,300	5,548	(316)	+3,248	
Ave. occupancy rate	80.65%	84.49%	83.92%	+3.27 p	(0.57) p	Although the current occupancy rate gained momentum, the rates in July and August held back the average compared to the plan due to affected sales capacity caused by the spread of COVID-19 within the Company.
EPS (JPY)	17.83	6.98	16.87	(0.97)	+9.88	

8

Please see page eight. This is a summary of the profit and loss statement.

From sales to net income, we are positive compared to the previous year, but there are a variety of factors when viewed against the plan. Net sales were JPY 303.5 billion, and the reasons for falling short of the plan are as explained earlier.

Cost of sales was JPY 261.8 billion. The cost of sales is JPY 1.4 billion less than planned, but this includes a JPY 2.6 billion reversal of the provision for apartment vacancy loss as a factor pushing down the cost of sales. We have incorporated a reversal of JPY 3 billion in the plan for Q4. Therefore, we believe pushing down of the cost of sales in Q4 is less than planned.

SG&A expenses were JPY 30.9 billion, which is JPY 4 billion below the plan. The main reason for the large reduction compared to the plan was the cost containment effect of bit less than JPY 1 billion in other SG&A expenses. Depreciation, which had been set at the level of previous years, resulted in a negative of about JPY 800 million compared to the plan. Others are due to the accumulation of minor items, such as system-related investment delays.

Because costs were negative compared to the plan, operating profit was higher than planned by JPY 3.3 billion at JPY 10.7 billion. As separately released today, a loss of JPY 400 million related to repair work has been recorded as extraordinary losses. The Company has recorded several hundred million yen in extraordinary losses since the beginning of this fiscal year, but the amount recorded in Q3 met the criteria for timely disclosure, which is why the release was made.

The loss was caused by a temporary decline in the rate of insured repairs and an increase in the unit price of repair work as a result of the Company's personnel being allocated to instruct subcontractors, as described in the release.

(JPY million)	End of FY2021	End of Q2 FY2022	End of Q3 FY2022	Factors contributing to changes
Cash and deposits	45,523	46,630	48,149	■ Cash and deposits Q3 saw positive QoQ JPY 1.5 bil which increased by JPY 2.6 bil for Q3 cumulatively.
Trade receivables	8,618	8,389	7,981	
Total assets	145,430	146,336	148,282	
Interest-bearing debt*	33,045	32,903	32,867	■ Provision for losses related to repairs (current: JPY 4.9 bil; non-current: JPY 11.5 bil) Decrease of JPY 1.5 bil reflecting the progress of repairs for Q3 cumulatively. Insourcing repair works and sourcing based on quotation from multiple suppliers made the balance of JPY 16.4 bil from JPY 56.2 bil recorded at the end of FY2019.
Provision for loss related to repairs	18,086	16,875	16,498	
Provision for apartment vacancy loss	5,632	4,101	2,947	■ Provision for apartment vacancy loss (current: JPY 1.5 bil; non-current JPY 1.4 bil) Reversal of JPY 2.6 bil for Q3 cumulatively as a result of reduced number of fixed rent period for master-lease contract. Q1: JPY 0.5 bil, Q2: JPY 0.9 bil, Q3: JPY 1.1 bil
Total liabilities	134,396	127,897	127,309	
Common stock	100	100	100	■ Accumulated other comprehensive income Recorded foreign currency translation adjustments of JPY 5.5 bil for Q3 cumulatively due to weaker JPY.
Capital surplus	136,345	136,249	136,240	
Retained earnings	(135,749)	(131,986)	(130,128)	■ Ownership equity Ownership equity augmented by JPY 11.2 bil for Q3 cumulatively due to increase in retained earnings and in accumulated comprehensive income.
Total shareholders' equity (A)	392	4,122	6,005	
Total accumulated other comprehensive income (B)	675	4,861	6,273	■ Non-controlling interests Decrease by JPY 1.2 bil for Q3 cumulatively due to Leopalace Power Corporation's acquisition of own shares and dividends payment.
Ownership equity (A) + (B)	1,068	8,983	12,279	
Equity ratio	0.7%	6.1%	8.3%	
Share subscription rights	357	310	284	
Non-controlling interests	9,608	9,144	8,408	
Total net assets	11,034	18,439	20,972	
Total liabilities and total net assets	145,430	146,336	148,282	

* Interest-bearing debt = borrowings + lease obligations

11

Please see page 11. This is a major balance sheet item.

Improved operating cash flows have resulted in a steady buildup of cash and deposits, thus the balance at the end of December amounted to JPY 48.1 billion, a JPY 2.6 billion improvement from the end of the previous fiscal year.

Net income and a further increase in foreign currency translation adjustments due to the weaker yen resulted in JPY12.2 billion in ownership equity. Compared to the end of the previous fiscal year, this was an increase of about JPY 11 billion. The equity ratio has recovered to 8.3%.

Started to install smart locks in FY2022 in addition to the on-going services.
 Upgraded *LEONET*, internet connection service, for stable data transmission that is less likely to cause line delay.

Smart Lock

- ◆ Leopalace21 is installing the smart locks to **440 thousand apartment units**, or approx. 80% of its apartment units under management, since June 2022.
- ◆ The smart lock enables tenants to view rooms or move in the room **without visiting leasing sales office** for receiving the key. It **prevents face-to-face procedure** as a protective measure against infectious diseases.
- ◆ Tenants can **avoid the lost key** because the entrance door can be unlocked by multiple authentication methods using a smart phone, a smart card, or a PIN entry to a keypad.
- ◆ No. of units installed **exceeded 50,000, the largest scale in the industry.**



LEONET

- ◆ Leopalace21's own internet connection service comes standard with all apartment rooms by which Leopalace21 also offers various content such as video streaming and shopping.
- ◆ Increased the tenants' convenience in FY2022 for rebranding
 - Replaced the PPPoE protocol with IPoE for **stable data transmission to avoid delay in transmission speed.**
 - Extended the toll-free number hours from 10:00 to 19:00 **to 24 hours a day, 7 days a week** since August 2022.



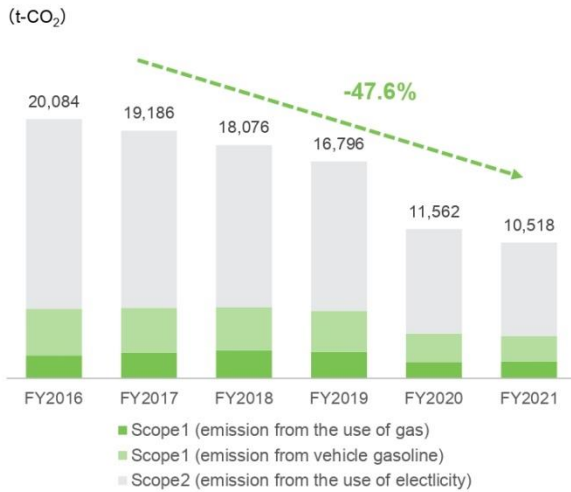
Next, I would like to report on the promotion of sustainability. Please skip to page 28.

As released today, the number of smart locks installed has surpassed 50,000 units. This is the largest level in the industry. Smart locks are a measure that not only improves customer convenience, but also increases operational efficiency. Ultimately, we aim to install up to 440,000 units.

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.

CO₂ Emissions for Scope 1 and 2

Goal:
Reduce the emissions by 46% in FY2030 compared to FY2016



Disclosure Based on TCFD Framework

- ◆ The Company expressed to support the recommendations by TCFD and participated in the consortium during FY2021.
- ◆ Launched a project for disclosure based on TCFD framework.
- ◆ The Company disclosed its activities in its Integrated Report published in October 2022 on the governance, strategy, risk management, and metrics and targets.

CO₂ Emissions for Scope 3



As part of our efforts to address environmental issues, we have also sorted out information on both the risks and opportunities that climate change poses to our business and made disclosure in line with the TCFD recommendations. First, we aim to reduce CO₂ emissions from our business activities by 46% in FY2030 compared to FY2016.

Expected number of repaired units in the future: About 31,700 rooms

Of the 77,735 rooms that have been deducted "repairs completed" from "requiring repairs" in the below table, 20,228 rooms have been found defective as a result of the investigation. It is estimated that about 31,700 rooms need repairs, by adding 20,228 rooms to about 11,500 uninvestigated rooms that are estimated to be defective based on the past investigation results.

(As of January 31, 2023)

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	7,731	121,473	85,257	47,475	18,700
Other Series Total	23,802	4,562	70,964	48,184	8,231	13,000
Grand Total	39,085	12,293	192,437	133,441	55,706	31,700

■ **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 – March 2023**

Complete repairs for approximately 6,000 rooms by the end of March 2023. Actual result for July 2022 – January 2023: 4,420 rooms

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>

Finally, please see page 36. This is about the obvious deficiencies that we aim to eliminate by the end of 2024.

As of the end of January, construction has been completed on approximately 55,000 of the approximately 133,000 rooms requiring repairs, etc. The actual number of rooms repaired as of end-January was 4,420 rooms, compared to the 6,000 rooms planned for repairs from July to March announced last June. We will firmly achieve our plan, as we are currently repairing just over 700 rooms per month.

As a result, the number of rooms projected to be repaired in the future is about 31,700. The breakdown is as follows: the rooms that have already been found to be defective as a result of the investigation reach over 20,000. The number of assumed defective rooms is over 11,000 rooms which was out of the uninvestigated rooms calculated based on the past investigation results.

We are working to eliminate the construction defects problem by calculating the schedule backward from the end of 2024 and posting the planned number of rooms to be repaired each month on the Company-wide intranet. We will continue to provide detailed explanations to tenants, property owners, and relevant administrative agencies, and with their approval, we will move forward to resolve the problem as soon as possible.

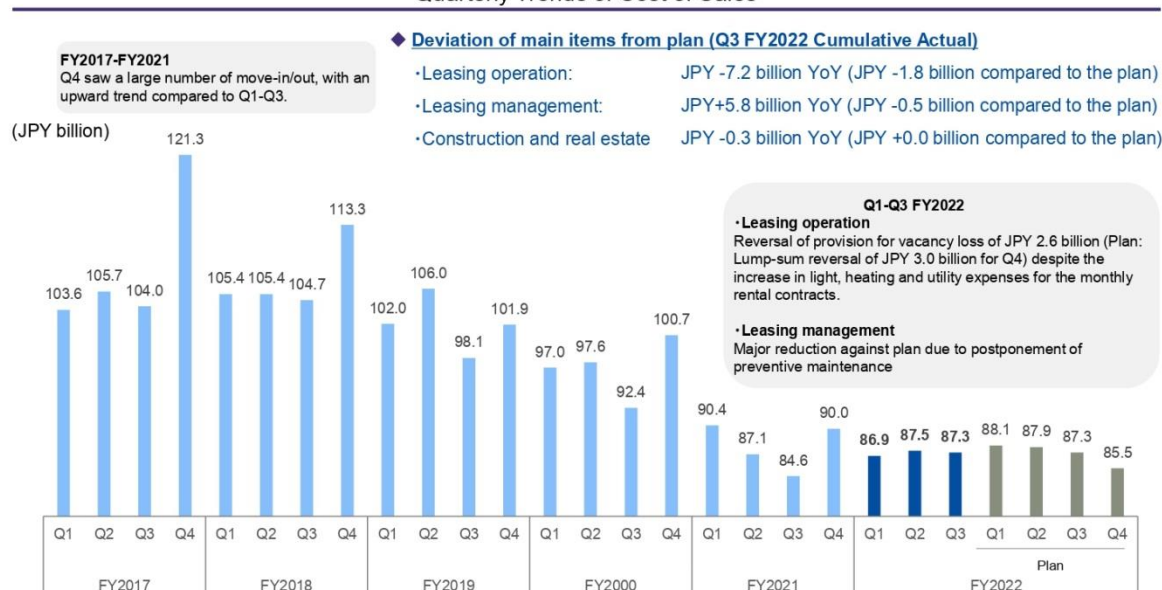
That’s all for my presentation. Takekura will now provide details on cost containment and occupancy rates. Thank you for your attention.

Kawasaki: Next, Takekura, Director, Chief of the Corporate Management Headquarters, will give an explanation. Thank you.

Takekura: Yes. Thank you very much for taking time out of your busy schedules to join us today. This is Takekura. I will mainly explain the cost structure and rental situation that were mentioned earlier, as well as our compliance efforts.

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 2.6 billion.

Quarterly Trends of Cost of Sales



Please see page 16 of the material. We have got over the critical point of cost structure reform.

First, leasing operation costs declined JPY 7.2 billion YoY, with the effect of contractual adjustment of the master-lease contracts being the most significant factor. This was JPY 1.8 billion less than the initial plan, because this includes the effect of reversing provision for apartment vacancy loss, we were able to absorb the increase in the cost of water, utilities, and other expenses due to high prices in the end.

Leasing management costs were up JPY 5.8 billion from the previous year, which was the result of increase in the cost of preventive maintenance of apartments. The portion that could not be implemented in H1 of the year is gradually being implemented in H2, and will be in line with the initial plan.

Despite delayed execution of hiring plan, personnel expenses exceeded the plan for Q3 cumulative due to special bonus payment. Significant reduction in the other SG&A expenses and delayed IT system investment resulted in much 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 continue to the next page, page 17. SG&A expenses.

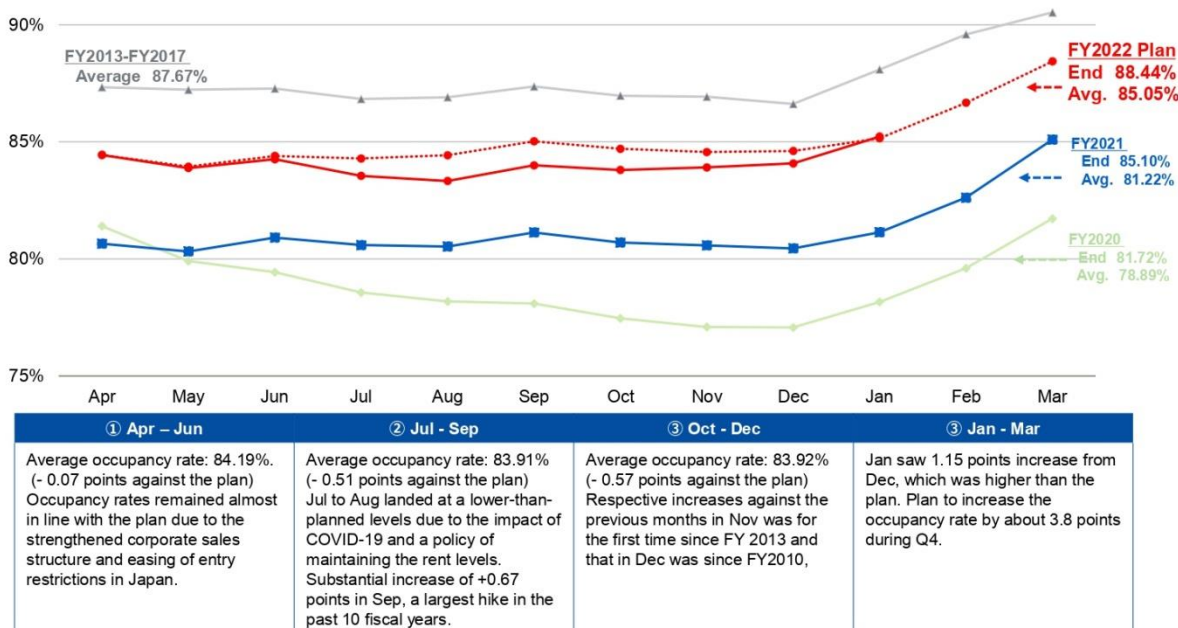
This one was significantly below the plan. Although we are still far from where we should be in real terms, we will systematically invest in people in the future as our business performance is on the road to recovery.

Our company's workforce, which was over 7,000 before the voluntary retirement program, is now down to 4,000. At this point in time, as of the end of December, ratio of workforce turnover excluding staff engaged in Elderly Care Business has dropped to 8% which is compared with over 15% during the previous year in the wake of the implementation of voluntary retirement.

First, as I mentioned in the last briefing, we will restore the regular bonuses that we have been unable to pay for the past four years, in order to reward and retain current employees who have worked so hard. This is true for any company, but it is very important for our company now.

We have also begun preparing to hire new graduates and are now preparing to welcome our first new employees in four years next April 2024. We will strengthen this system of building a structure for the next stage of re-growth, after sufficient personnel cost control is firmly in place.

The increase at the end of Q3 from the end of Q2 is for the first time in 16 fiscal years since FY 2006. The occupancy rate as of end of January 2023 was 85.23% and overachieved the plan.



*Monthly Data: <https://eg.leopalace21.co.jp/ir/finance/getsuji.html>

Continuing onto our occupancy rate performance and leasing business strategy. Please turn to page 21. The solid red line shows the actual occupancy rate for the current period and the dotted line shows the planned occupancy rate for the current period.

We have reported that in July and August, the occupancy rate dropped due to a large number of employees infected by COVID-19, mainly those in sales, but since then, various sales measures have been successful and we have been able to reduce the deviation from the plan.

In January, we were able to exceed our planned figures. Behind this is the implementation of top-level sales and individual Company-specific strategies in corporate sales, which, despite concerns about the global recessionary phase since the end of the previous fiscal year, have been able to capture the strong occupancy demand of the realistically robust Japanese economy.

For private customer contracts, we've reinforced to utilize the tie with real estate agents. Students, in particular, have seen an increase element in demand for our apartments since the reopening of the country to international students last April. On top of that, from here through the end of the fiscal year, our particular focus will be on addressing the demand for new graduates.

With respect to this demand, according to what we heard from the corporate customers, hiring plan was about 80,000 in the previous year. That number has increased to nearly 100,000 this fiscal year.

In line with this, orders to the Company have increased by more than 10% compared to the previous year. In the areas where rooms are already fully occupied and there is no vacancy, the customers cooperate with us in the demand alignment. In areas where there are a lot of apartments with vacant rooms, some companies are actively considering allocating rooms for new graduates. We will continue to capture demand from new graduates while minimizing the mismatches in the market.

In the previous fiscal year, there was a period when we pursued occupancy rates by lowering unit prices, but in the current fiscal year, we focus on unit rent prices as well as volume in order to increase occupancy rates and profitability. The occupancy rate increased by 3.96 percentage points in February to March in the previous year.

This fiscal year, the difference to 88.44%, our final target at the end of the period, is 3.21 points remaining. We will conduct our sales activities in the remaining 40 days of operation with an eye to achieving as high an occupancy rate as possible at the end of the fiscal year, which will be the starting point for the next fiscal year.

The functions of risk management coordinators and compliance coordinators in each department are to be strengthened to further increase the risk sensitivity and compliance attitude of all employees and to reform the company to a self-driven corporate culture of ensuring compliance in FY2022.

Q3 Actual

◆ **Revision of compliance manual**

In addition to legal compliance and standards of conduct, the new guide includes information on corporate ethics and social norms, which have attracted much attention in recent years. The content has been revised to make compliance more accessible and useful in social life.

《Main content》

- About compliance
- Roles of compliance manager/ coordinator
- Whistleblowing system
- Harassment tips
- Related laws
- Information management



(First edition in 2006)



(Revised edition in 2022)

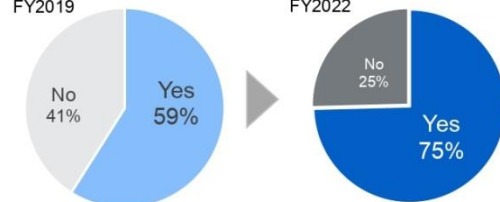
◆ **Result of compliance attitude survey**

Conducted compliance attitude survey in August 2022. The results were disclosed internally to further promote compliance awareness.

Q: Do you pay attention to compliance in daily work?



Q: Do you trust the whistleblowing system?



Finally, please jump to page 34. This is about the compliance. Since the discovery of the construction defects problem, we have been making special efforts to ensure compliance, and have disclosed various initiatives in our financial results materials on a quarterly basis.

Last November, we made the revised version of the Compliance Manual created in 2006, so that the new version should make compliance more familiar to all officers and employees and more applicable in their daily lives. Since the discovery of the construction problem, there has been an annual compliance awareness survey questionnaire, the results of which are shown on the right. The results show that the entire Company is aware of compliance, and similarly, trust in the whistleblower system has improved. This is improving with each successive survey, and we feel that the changes are real.

Finally, we provide the infrastructure of company housing for companies, and support for their first time living alone for individuals, students, and foreign nationals. We will continue to make solid and steady progress in the business, which is needed by society as a residential infrastructure.

This concludes my presentation. Thank you.

Question & Answer

Kawasaki [Q]: We will now move on to the question-and-answer session. The first question is from Mr. Hashimoto, Mizuho Securities Co., Ltd. What is the future outlook for the progress of repair works on apartments, especially in terms of construction capacity per month?

Miyao [A]: We are currently able to repair about 700 to 800 rooms, but from next summer we will expand the structure to enable us to repair more than 1,000 rooms, and eventually about 1,800 rooms. That is the answer.

Kawasaki [Q]: Now, Mr. Hashimoto's second question. The progress rate to the Company's plan for FY2023 as of Q3 is high on operating profit and low on net income. In relation to that, please tell us about the progress or outlook for reversal of provision for apartment vacancy loss, contractual adjustment of master-lease contracts, and recognition of deferred tax assets.

Miyao [A]: The plan is to reverse the provision for apartment vacancy loss by JPY 3 billion for the full year, and we have been able to reverse it by a little more than JPY 2.6 billion so far. The contractual adjustments of the master-lease contracts are in line with the plan.

Deferred tax assets are not recorded at all until Q3, so they will be finally recorded in Q4.

5: Units and Occupancy Rates by Prefecture

Leopalace21

Winter season reduced demand temporarily in Hokkaido, Aomori and Akita, which showed negative QoQ.

New factories construction and operation starts helped increased demand from construction and staffing & outsourcing in multiple of prefectures including Shiga and Kumamoto, which showed positive YoY.

Managed unit: in thousands, Occupancy: %	Q3 FY2022			
	Managed units	Occupancy rate	YoY	QoQ
Hokkaido	13	77%	+5 p	-5 p
Aomori	4	81%	-2 p	-6 p
Iwate	3	91%	±0 p	-3 p
Miyagi	10	85%	+6 p	+2 p
Akita	2	84%	-2 p	-10 p
Yamagata	4	83%	+3 P	-2 p
Fukushima	10	83%	+5 P	-1 p
Ibaraki	15	84%	+5 p	+2 p
Tochigi	11	84%	+3 p	-1 p
Gunma	12	80%	+4 p	+2 p
Saitama	46	84%	+4 p	+1 p
Chiba	33	81%	+6 p	+2 p
Tokyo	44	87%	+7 p	+2 p
Kanagawa	40	87%	+5 p	+1 p
Toyama	5	75%	±0 p	-4 p
Ishikawa	5	74%	+3 p	-4 p

Managed unit: in thousands, Occupancy: %	Q3 FY2022			
	Managed units	Occupancy rate	YoY	QoQ
Fukui	4	85%	-5 p	-7 p
Yamanashi	4	88%	+5 p	-1 p
Nagano	11	89%	+6 p	±0 p
Niigata	9	81%	+4 p	±0 p
Gifu	7	84%	+2 p	±0 p
Shizuoka	24	79%	+6 p	+2 p
Aichi	41	86%	+1 p	-1 p
Mie	11	77%	-2 p	-4 p
Shiga	8	94%	+6 p	±0 p
Kyoto	9	87%	+3 p	-1 p
Osaka	31	81%	+4 p	±0 p
Hyogo	22	86%	+5 p	+1 p
Nara	3	85%	+3 p	+1 p
Wakayama	3	78%	+5 p	+3 p
Tottori	2	86%	-2 p	±0 p
Shimane	2	96%	+3 p	±0 p

Managed unit: in thousands, Occupancy: %	Q3 FY2022			
	Managed units	Occupancy rate	YoY	QoQ
Okayama	12	79%	-2 p	-4 p
Hiroshima	13	87%	+4 p	±0 p
Yamaguchi	7	85%	+3 p	-5 p
Tokushima	2	77%	-13 p	±0 p
Kagawa	5	77%	+2 p	-1 p
Ehime	4	79%	-4 p	-4 p
Kochi	2	84%	+2 p	+1 p
Fukuoka	20	85%	+3 p	±0 p
Saga	3	88%	+4 p	±0 p
Nagasaki	2	92%	+3 p	+3 p
Kumamoto	7	93%	+8 p	+1 p
Oita	4	81%	+1 p	-1 p
Miyazaki	2	84%	+4 p	+1 p
Kagoshima	3	87%	+4 p	+1 p
Okinawa	5	93%	+1 p	+1 p
Total	562	84%	+4 p	±0 p

42

Kawasaki [Q]: Thank you. Now, Mr. Hashimoto's third question. Please comment a little more on the occupancy rate by prefecture on page 42 of the Company data, which shows Aomori, Akita, and Hokkaido are

down, while Shiga and Kumamoto are doing well. In addition, what is the outlook for achieving an occupancy rate of 88.44% at the end of March?

Takekura [A]: Hokkaido, Aomori, and Akita Prefectures tend to be highly seasonal.

In Hokkaido in particular, the drop is due to the decrease in needs resulting from the completion of the ballpark in Kitahiroshima. However, the operation of wind power generation in Ishikari has begun in earnest, and the opening of construction of the Shinkansen bullet train line in Sapporo and Otaru is underway. Similarly, in the Kitahiroshima area, due to the redevelopment in front of the station, demand is expected to recover in the future, although there is a temporary drop.

In the case of Aomori and Akita, it is up to seasonality, but this is due to the nature of the construction industry, works are forced to suspend during the winter and will restart as needed after a certain period. The number of constructions gradually decreases in November when the snow begins to fall, and returns to normal in February or March.

Conversely, in Shiga and Kumamoto Prefectures, both of which are performing well, the needs of manufacturing companies are very strong. In Shiga Prefecture, there is strong demand both from the manufacturing companies themselves and associated temporary staffing companies. There are also new construction sites and plants in Yasu and other areas, and we are capturing the demand, which is recovering, from these general construction companies.

As for Kumamoto, I'm sure you all have the same idea already, but there is a really active demand from semiconductor-related companies. The demand from construction companies, their employees, and infrastructure building companies to provide infrastructure to people living there will continue. We are looking for ways to meet these needs outside of the apartments we currently have.

Kawasaki [Q]: Thank you.

Next, the question from Mr. Hamano of SMBC Nikko Securities Co., Ltd. I would like to know the details of the fact that Q4 costs are expected to be higher than planned.

Miyao [A]: Yes, once again, the main factor is the reversal of the provision for apartment vacancy loss. When a reversal of the provision for apartment vacancy loss occurs, the cost of sales will be lower.

In Q4 of this fiscal year, the plan called for a reversal of JPY 3 billion, but in reality, more than JPY 2.6 billion had already been reversed by Q3. If we assume that we ended the year with the full-year reversal of JPY 3 billion, the reversal in Q4 will be less than JPY 400 million, which means that gross profit will be lower than the plan by JPY 2.6 billion or JPY 2.7 billion. This means that we are behind the plan, not a reduction in the cost of sales, and this is the current outlook.

Kawasaki [Q]: Thank you. Now, the next question is from Mr. Hamano. There was an extraordinary losses of JPY 460 million recorded in Q3 due to the increase in repair cost. Is there a possibility that similar losses will increase in the future?

Takekura [A]: We announced the posting of extraordinary losses at the timing of result announcement. However, as shown in the balance sheet, we have budgeted about JPY16.4 billion for the provision for losses related to repairs, and there are currently no plans to increase it.

If necessary, we plan to submit new figures ahead of time during the meeting with the auditing firm, and we have secured the estimates in the budget or balance sheet.

Kawasaki [Q]: Thank you. Now for the next question from Mr. Hamano. The occupancy rate is showing significant improvement. In the contract with Fortress, the 15% interest rate on the loan from Fortress will be reduced if the occupancy rate meets a certain level. Is the interest rate likely to be reduced in the near future and to boost your company's profit?

Miyao [A]: It has not been finalized yet, so I think it will be a factor in raising future profits, but I think there are some differences of opinion as to how close the near future is.

Kawasaki [Q]: Thank you. Now, this next question from Mr. Hamano. I would like to know about the status of rent increases and the possibility of further increase in rent in the future.

Takekura [A]: We had a difficulty in determining the rent levels last year. In the current fiscal year, however, we were able to adjust the rent by considering careful pricing, and were able to lease apartments by raising the rent levels.

We had a strategy for this. In areas where there is a particularly active corporate sector, even Corporate Sales Department in the Leasing Business Headquarters set the rent levels high considering strong demand, apartments are leased where there is the need. The large increase in corporate needs led directly to the increase in overall rent income and we think the demand will continue.

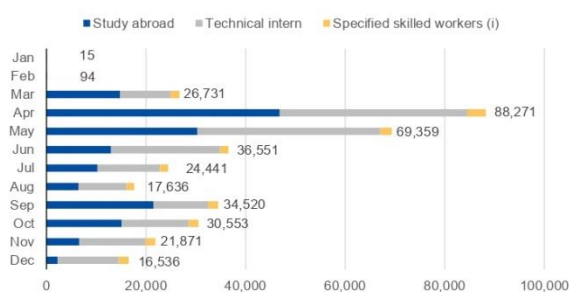
Chap 3 4: Acquiring Demand from Foreign Nationals

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 Q3 (Actual) 7,504 (+ 1,314 against the plan, + 2,370 YoY)
- ▶ Number of contracts for full year (Plan) About 13,000 contracts (+65% YoY)

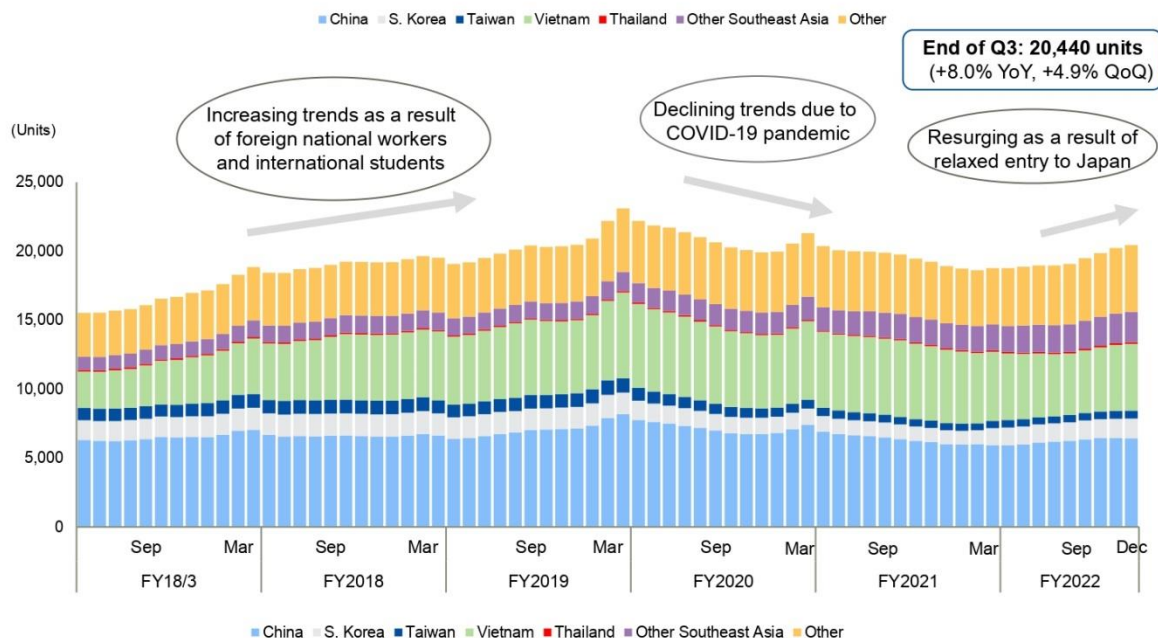
▼ Trends of foreign nationals entering Japan



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"> • Universities, business colleges, Japanese language schools • 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

Number of units used by foreign national tenants is about 40 thousand, comprising about 20 thousand individual customers and 19 thousand under corporate contracts, 8.4% of total occupation.
 (Q3 FY2022 result:+1.4 p YoY, +0.4 p QoQ)



Kawasaki [Q]: Thank you. Now for next question from Mr. Hamano. Please let me know about the needs from foreigners on pages 23 and 24. From Q4 onward, how much increase in occupancy rate can we expect from the demand of foreigners? Please let me know the basis of the estimate as well. Also, are inquiries from foreigners increasing as expected?

Miyao [A]: Regarding the demand from foreign nationals, it is mainly from two groups: international students, and specified skilled workers or technical intern trainees. We expect that demand from foreigners will continue to come in, but we are aware that we are still lacking sufficient sales and marketing activities for that.

Regarding increasing the factor of occupancy rate, simply put, we have 560,000 units under management, and if we increase the number of contracts by 5,600, we can boost the occupancy rate by one percentage point.

Our plan for this fiscal year, as stated, is 13,000 contracts, of which roughly 2.5%, are contracts with foreigners. As for inquiries from foreigners, we don't get many directly from foreigners. In principle, we have leasing sales offices in East Asia, China, Taiwan, and Korea. For those three countries, we discuss the need directly with students who want to live in Japan at the seminars for studying abroad, etc. However, for other areas, we discuss the need with schools in Japan.

On the other hand, with regard to specified skilled workers or technical intern trainees, we discuss the need with the companies that accept them, registered support organizations, or supervising organizations, etc. In particular, the latter part, discussions with supervising organizations or registered support organizations, etc., have not progressed as much as the corporate sales and sales to real estate agents in my opinion.

However, I think there is a lot of room for growth here, not just in the short term, such as up to the end of March, but over the medium to long term as well. On the other hand, people from Vietnam, demand from whom has been particularly strong till now, are choosing countries other than Japan, due to the exchange rate between the Vietnamese dong and the yen. I think we have to take an approach that is different from the sales strategy we have so far.

Kawasaki [Q]: Thank you. Now, another question from Mr. Hamano. You are trying to correct the inadequate response to the Home Appliance Recycling Law, but to what extent will this be a cost-increasing factor?

Takekura [A]: In this regard, the first thing I would like to explain is that we have not been doing anything illegal in terms of final disposal of home appliances based on the so-called recycling law. The most important point is that we did not recognize ourselves as a retailer, and for that reason, we did not issue the recycling tickets and therefore did not fulfill our obligations to deliver the items.

In terms of cost, in the past, we paid to the contractors, including the cost of the recycling tickets, and outsourced the whole process to them. We were not fulfilling our obligations as a retailer. In terms of costs, the conclusion is that there will be no increase in the future.

We will proceed under exactly the same circumstances as before. We are now switching to a scheme in which we issue recycling tickets to fulfill our obligations as a deliverer. If we were to receive a recommendation, etc., for violating the recycling law, we would still be fined, which would be in the amount of JPY 500,000 or so. However, I hope you understand that it was an error in the operation.

Kawasaki [Q]: Thank you. Now, this next question from Mr. Hamano. I would like to know the status of discussions regarding the resumption or revival of the new construction contracting business.

Miyao [A]: Our business model has traditionally been operated in two businesses: the contracting business to build apartments and the leasing business for completed properties. After the occurrence of construction defects problem, one of its business was not in operation. However, we would like to restart and revive the new construction contracting business based on the original business model.

In addition, we believe that the reopening of the construction contracting business should focus on the reconstruction of the 36,000 or so apartments that we have supplied, rather than the development of new landowners. We would like to proceed with reopening while confirming medium- to long-term demand, and in light of the owners' intentions.

Kawasaki [M]: We still have a bit of time left, but since there are no additional questions, we will now conclude the question-and-answer session and this briefing. Thank you very much for participating in today's financial results briefing for Q3 of the fiscal year ending March 2023 for Leoplace21 Corporation.

[END]