



Leopalace21 Corporation

Financial Results Briefing for the Fiscal Year Ended March 2023

May 12, 2023

Presentation

Kawasaki: Thank you very much for taking time out of your busy schedules to participate in the financial results briefing for the fiscal year ended March 2023 of Leopalace21 Corporation today.

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 questions and answers after the financial report. The meeting is scheduled to end at 18:00.

Miyao, President and CEO, will now begin the presentation.

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

Before I start explaining the financial results, I would like to express my deepest apologies for having to revise the earnings forecast that was once announced on the 10th.

As a result of discussions with our audit firm regarding the accounting treatment of furniture and appliances installed in our managed properties, we have come to the conclusion that the accounting treatment should be different from what we have employed, which is the reason for the revision of the earnings forecast announced on 10th.

As disclosed in March, under the guidance of the Ministry of the Environment and the Ministry of Economy, Trade and Industry, we have changed our scheme for the installation and disposal of furniture and appliances. In addition, as a result of discussions with our audit firm, we have changed our accounting procedures.

As a result, we have decided to make a negative correction of approximately JPY1.1 billion in profit at each stage. We will continue to operate appropriately under this new accounting method.

Occupancy rate

Continued execution of boosting measures made the occupancy rate increase to 88.83%, a 0.39 point above the plan at the end of March 2023.

PL / BS

Substantial growth with net income of JPY 19.8 billion (+ JPY 7.9 billion YoY). Equity ratio rose to 14.5%, a 13.8 p increase and cash and deposit was built up to JPY 53.5 billion, an increase of JPY 8.0 billion compared with the results of March 2022 respectively. EBITDA increased by JPY 5.3 billion to JPY 16.4 billion and will reach JPY 30.0 billion in FY2024.

Cash Flows

Cash flows from operating activities improved significantly to JPY +10.5 bil (JPY +15.0 billion YoY) due to improved revenue from Leasing Business. Cash flows from operating activities was positive for the first time in five fiscal years.

Construction defects management

Good progress of plan made the remaining number of rooms with obvious defects decline to about 29,400. The number of rooms repaired during end of April 2022 to end of April 2023 was 7,452. Start discussing with tenants so that repair works can be done before the move-out to further accelerate the progress.

Capital Efficiency

The Company will eliminate through recapitalization the deficit in retained earnings carried forward, which is the source of dividends. The Company intends to soon realize a flexible and agile shareholder return, such as share buybacks and resumption of dividends.

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I will now summarize the financial results for the previous fiscal year and explain our management policy and business strategy for the current fiscal year, as well as our response to construction defects problem.

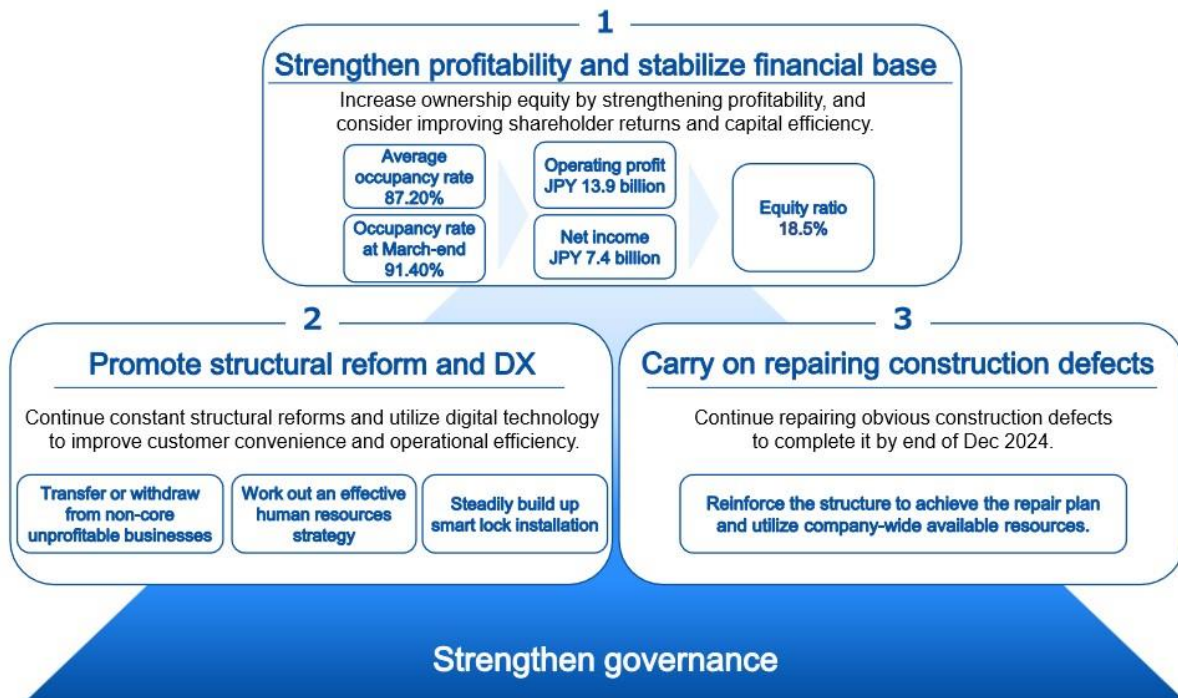
The financial results for the fiscal year ended March 31, 2023, showed a significant improvement over the previous year, in terms of both revenue and income. In comparison with the plan, although there were some items falling short of the plan, the financial situation improved significantly compared to that of the preceding period.

The occupancy rate was 88.83% at the end of March, exceeding the plan. The average occupancy rate during the period was slightly lower than planned, partly due to the impact of the drop in the summer, but on a YoY basis, it showed an improvement of 3.44 points.

Net sales increased due to improved occupancy rates. Cost of sales and SG&A expenses continued to be reduced through continued cost-conscious business management, resulting in net income of JPY19.8 billion, an improvement of JPY7.9 billion. The equity ratio recovered to 14.5%, up 13.8 percentage points from the previous year, and the cash and deposits balance was JPY53.5 billion, up JPY8.0 billion.

EBITDA was JPY16.4 billion and is expected to reach JPY30 billion in the next fiscal year, the level before the construction defects problem was revealed. Primarily due to the recovery in occupancy rates, Cash flows from operating activities were positive JPY10.5 billion, a JPY15.0 billion improvement from the previous year, and the ending balance of cash and cash equivalents increased by JPY8.8 billion.

This is the first positive cash flows from operating activities for the full year in five years.



Based on these results, we present our three management policies for the current fiscal year on page five.

The first is to strengthen profitability and stabilize the financial base. Occupancy rates will be restored to the level of the fiscal year ended March 2018, and profits will be generated to further increase ownership equity. At the same time, the capital structure will be reallocated to realize shareholder returns as soon as possible.

The second is to promote structural reforms and DX. We will continue to transfer or withdraw from non-core and unprofitable businesses, and from this fiscal year, we will promote a new human resource strategy. On DX front, we will continue to focus on the installation of smart locks in managed properties to differentiate them from their competitors, improve customer convenience, and increase operational efficiency.

The third is to carry on repairing construction defects. In order to complete the repair works of obvious defects by December 2024, we will put increased staffs in our construction-related organization this fiscal year to speed up the repair process and continue to carefully respond to owners, tenants, and the related administration agencies.

Operating profit rose 457% YoY due to increased occupancy rate and lean cost structure.

(JPY million)	FY2021 Actual	FY2022 Plan	FY2022 Actual	Factors contributing to changes		
				YoY	Compared with Plan	
Net sales	398,366	410,800	406,449	+8,082	(4,350)	Failed to achieve the plan due to unplanned transfer of subsidiary Morizou Co., Ltd., lowered occupancy rate of Guam, and lagging apartment occupancy rates in July and Aug. Expensing some home appliances installed in apartment of JPY 1.4 bil, soaring utility costs and prices of construction materials and labor, in addition to smaller reversal of provision for apartment vacancy loss of JPY 2.0 bil (plan: JPY 3.0 bil) increased cost of sales, which exceeded the plan. SG&A expenses were significantly lower than planned due to continued cost reduction, despite recording of provision of allowance for doubtful accounts of JPY 0.9 bil. Recurring profit was higher than planned due to foreign exchange gains of JPY 0.3 bil despite interest expenses of JPY 4.3 bil. Extraordinary losses included loss related to repairs of JPY 2.5 bil and impairment loss of JPY 0.8 for Guam and others. Net income significantly exceeded the result of FY 2021 but did not reach the plan due to the shortfall of the planned deferred tax assets considering taxable income for coming years.
Cost of sales	352,289	348,800	353,163	+874	+4,363	
Gross profit	46,077	62,000	53,285	+7,208	(8,714)	
%	11.6%	15.1%	13.1%	+1.5 p	(2.0) p	
SG&A	44,302	50,300	43,406	(895)	(6,893)	
Operating profit	1,774	11,700	9,879	+8,104	(1,820)	
%	0.4%	2.8%	2.4%	+2.0 p	(0.4) p	
EBITDA	11,127	18,300	16,449	+5,322	(1,850)	
Recurring profit	(2,151)	6,800	6,526	+8,678	(273)	
Net income	11,854	24,900	19,810	+7,956	(5,089)	
Ave. occupancy rate	81.22%	85.05%	84.66%	+3.44 p	(0.39) p	
EPS (JPY)	36.04	75.71	60.22	+24.18	(15.49)	

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Please see page six. I will now explain the full-year results for the fiscal year ended March 2023.

Sales were JPY406.4 billion. Although having fallen short of the plan due to the average occupancy rate falling short of the plan and the unplanned transfer of Morizou Co., Ltd., sales increased by JPY8.0 billion YoY due to an improvement in the occupancy rate and other factors.

Cost of sales was JPY353.1 billion, JPY4.3 billion higher than planned. The main reasons were, in addition to the revision of the accounting treatment of some appliances at the time of installation, which was announced today, higher utilities costs for the rooms under monthly rental contracts and for common areas of apartment buildings, and higher maintenance costs as a result of the recent impact of high energy and material prices and rising labor costs.

Another factor was that the reversal of the provision for apartment vacancy loss, which was expected to be JPY3.0 billion in the plan, but was only JPY2.0 billion.

With regard to the cost of master-lease rents, which accounts for the largest proportion of cost of sales, contractual adjustment for master-lease rent negotiation with apartment owners has largely finished.

While we had announced at the beginning of Q4 that we would accelerate maintenance of managed properties to prepare for the future, we were unable to completely spend the costs according to the plan until Q3, but we accelerated maintenance in Q4 and saw it executed as planned.

SG&A expenses were JPY43.4 billion, JPY6.8 billion less than planned, about half of which was the result of lower personnel expenses, and the rest was the result of cost containment. As a result, operating profit was JPY9.8 billion, an improvement of JPY8.1 billion YoY. Despite the burden of interest payments, recurring profit was JPY6.5 billion, an improvement of JPY8.6 billion YoY, due to foreign exchange gains and other factors.

Net income was JPY19.8 billion, including JPY2.5 billion in loss related to repairs and JPY0.8 billion in impairment losses on Guam, etc. On the other hand, income tax-deferred were JPY18.5 billion, which resulted in an improvement of JPY7.9 billion YoY.

As a result of the recovery in net income, the equity ratio at the end of the period was 14.5% and net assets were JPY32.9 billion, a JPY21.8 billion improvement over the past year.

Chap 1 3: PL (Full-year Plan for FY2023)



The Company expects no increase in deferred tax assets. Operating profit and EBITDA is planned to recover and reach the level before the revelation of construction defects problem in FY2024.

(JPY million)	FY2023 Plan	YoY	Factors Contributing to Changes	FY2023 Plan	
				(reference)	YoY
Sales	419,800	+13,351	Sales from Leasing Business grow substantially due to increased occupancy rates.	432,200	+12,400
Cost of sales	355,400	+2,237	The exercise of contractual adjustments for master-lease rent has run its course, which will take effect in the reduction of leasing operation cost.	353,000	(2,400)
Gross profit	64,400	+11,115		79,200	+14,800
%	15.3%	+2.2 p	Increased utility cost affects cost of apartment rent under monthly rental contract. Higher restoration and maintenance costs due to soaring material and labor unit costs. Balance of provision for apartment vacancy loss remains unchanged.	18.3%	+3.0 p
SG&A	50,500	+7,094		55,400	+4,900
Operating profit	13,900	+4,021	Personnel expenses increase mainly due to base salary increase and provision for bonuses. Other elements include IT system investment and resumption of new graduate hiring	23,800	+9,900
%	3.3%	+0.9 p		5.5%	+2.2 p
EBITDA	20,500	+4,050		30,400	+9,900
Recurring profit	9,400	+2,874	No extraordinary income/losses are planned. No increase in deferred tax assets is expected. (FY2022 actual: JPY +18.5 billion)	20,100	+10,700
Net income	7,400	(12,410)		18,100	+10,700
Average Occupancy rate	87.20%	+2.54 p	Occupancy rate is expected to steadily grow.	89.62%	+2.42 p
ESP (JPY)	22.49	(37.73)		55.01	+32.52

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Now, on page seven, I will show you our plans for the current and next fiscal year.

Basically, we will increase the top line by recovering occupancy rates, while at the same time maintaining a sense of cost containment and accelerating investment where necessary.

Specifically, we plan to strategically invest in people, which is already reflected in our SG&A plans. As an assumption of the plan, reversal of provision for apartment vacancy loss has not been factored into the plan since the current fiscal year. This is because the balance as of March 31, 2023 was about JPY3.5 billion, and it is expected that this balance will remain to a certain extent in the future.

On the other hand, we are forced to take into account high energy and material costs, as well as rising labor costs, which are reflected in our leasing management cost plan.

In the fiscal year ending March 31, 2023, we recorded JPY18.5 billion in deferred tax assets. However, we do not expect to increase deferred tax assets in the current fiscal year as a conservative plan.

Operating profit and EBITDA will recover steadily, and we hope to shift to a growth path, changing to the growth stage from stability.

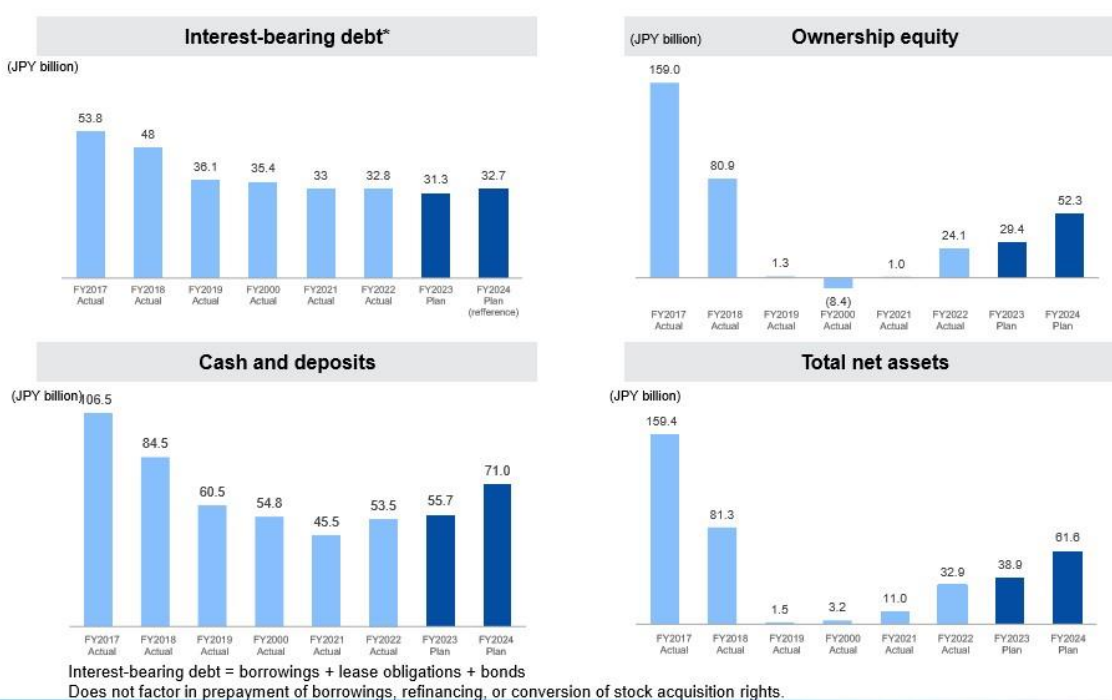
The occupancy rate, which is a prerequisite for this, is targeted to be 91.4% at the end of this fiscal year and 93.6% at the end of the next fiscal year, thus restoring the occupancy rate to the level before the construction defects problem was revealed.

This fiscal year, we will also start small order-taking activities, mainly for apartment buildings as reconstruction of existing properties. Although the figures are not reflected in the plan due to the limited involvement of human resources and expected areas for new orders, and the fact that actual completion of the projects will not occur until the next fiscal year or later, we will proceed with preparations for a full-scale resumption of operations.

Chap 1 10: BS Yearly Development



Strengthen equity capital by improving profitability and move toward shareholder returns such as dividend resumption and share buybacks.



Next, on page 14, the plan is for interest-bearing debt to remain unchanged at JPY30 billion since November 2020 financing from Fortress Investment Group.

While refinancing of loans and exercise of warrants has not been incorporated into the plan, we will be discussing our financial strategy regarding repayment or refinancing during this fiscal year, as we will be able to prepay our loans starting this November.

In addition, as announced today, the Board of Directors decided today to seek a resolution to reduce capital surplus and increase retained earnings at the Ordinary General Shareholders' Meeting in June. We hope that you will take this as our message to return profits to shareholders as soon as possible, including resumption of dividends, by making up the deficit in retained earnings.

Refine the occupancy rate boosting measures exercised in FY2022 to achieve the occupancy rate plan.

Corporate: Acquire larger share of business	Individual: Utilize real estate agents and web-based services
<p>Obtain customer's buy-in for realizing corporate housing strategy as an expert</p> <ul style="list-style-type: none"> ◆ <u>Top-level sales activities</u> Involve senior management team in customer interaction for resolving issues faced by the customer. ◆ <u>Reinforce sales organizational structure</u> Reorganized the sales teams mainly for Tokyo metropolitan area. 11 departments instead of 8 for increased customer interaction time. ◆ <u>Individual customer strategy</u> Increase use of room by responding to specific requirements. <Extended corporate sales> Responsible for strengthening six industries; Staffing & outsourcing, Construction, Transportation, Food & beverage, Wholesale / Retail, and Nursing-care. <Area-based corporate sales> Build strong relationship with local companies. <p>Attract foreign nationals for increased use of rooms</p> <p>Expand business by working with staffing agencies for foreign nationals and support agencies. (Note) FY2023 plan for no. of contracts of corporate customers with foreign national tenants: About 10,000</p>	<p>Collaborate with real estate agents</p> <ul style="list-style-type: none"> ◆ Strengthen sales to real estate agents by working with major real estate agents and Village House in Fortress Group. ◆ <u>FY2022 achievement</u> <ul style="list-style-type: none"> • No. of rental contracts through real estate agents: 39,728 (+11.7% YoY) • Ratio of contracts with individual customers through agents: 43.3% (+4.4 p YoY) <p>Attract international students for increased use of rooms</p> <p>Acquire increasing demand mainly by international students coming to Japan. Utilize seven IFCs and reinforce relationship with real estate agents and service providers which cater for students' needs. (Note) FY2023 plan for individual rental contracts: About 12,000</p>

Next, we will explain our leasing business strategy, which is a prerequisite for occupancy rates.

The corporate sales division, which is a source of our strengths, will continue to make proposal selling based on an understanding of the needs of each corporate customer, with an idea of establishing ourselves as the brains behind corporate housing strategies.

In addition to promoting efficient sales activities by having our key personnel approach the key personnel of the corporate customers utilizing high-level management, the structure of the sales department will be increased from 8 to 11.

Our corporate sales strategy up to the previous fiscal year has been successful, with the number of rooms in use at the end of March 2023 reaching 296,300, next to the record high, achieved at the end of March 2018.

By industry, the increase was evenly distributed.

On the other hand, in light of the fact that a decrease in the number of vacancies in the future could easily lead to a mismatch with demand, we will approach local companies in each area and implement strategies to capture demand even in areas with few vacancies.

And we have strengthened our sales structure to achieve this goal.

For individuals and students, the other customer segments, we will continue to focus on sales to real estate agents as in the past, while expanding our sales channels by expanding the number of properties listed on service providers' websites.

We will also offer plans within the monthly rental contract aiming increased flexibility to steadily capture demands from business trips, travel, and inbound demand from overseas.

Estimated number of rooms requiring repairs: About 29,400 rooms

18,878 rooms have been found defective as a result of the investigation. It is estimated that about 29,400 rooms need repairs, by adding 18,878 rooms to about 10,530 uninvestigated rooms that are estimated to be defective based on the past investigation results.

(As of April 30, 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	7,722	121,289	83,948	48,562	17,520
Other Series Total	23,802	4,554	70,904	45,535	9,404	11,880
Grand Total	39,085	12,276	192,193	129,483	57,966	29,400

■ **Plan for July 2022 – March 2023**

Completed repairs for approximately 6,000 rooms by the end of March 2023.
Actual result for July 2022 – March 2023: 6,002

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, we will explain the construction defects management.

As of the end of April, the number of units projected to be repaired has been reduced to approximately 29,400 units.

In H2 of last fiscal year, we repaired 600 units per month, and in the current fiscal year, we plan to gradually accelerate the pace of repair from 700 units per month, to between 1,000 and 1,500 units per month in H2 after the summer, and to 1,500 units next fiscal year.

In line with this, the Company will strengthen its repair capabilities by hiring new employees or expanding the number of contractors.

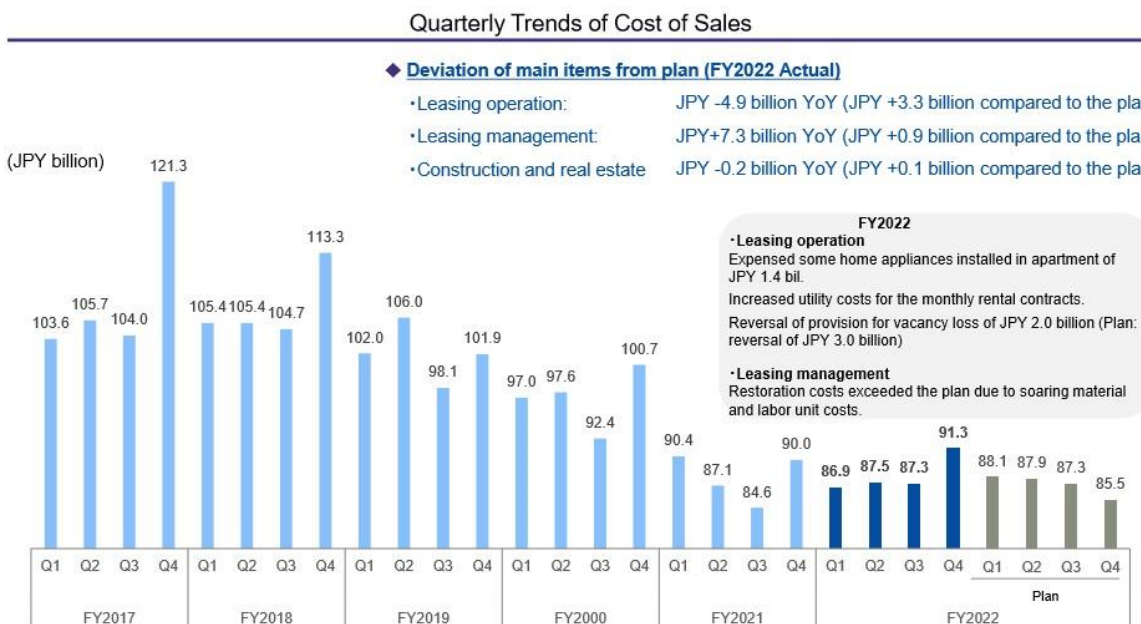
That’s all for my presentation.

After this, Takekura will explain our cost containment and sustainability strategies.

Thank you for your time.

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

Cost of sales increased in Q4 FY2022 due to increased utility costs, soaring materials and labor unit costs, and recording of increased provision for apartment vacancy loss.



Takekura: Thank you very much for taking time out of your busy schedule to join us today. This is Takekura.

I will mainly explain the outlook for cost of sales, SG&A, sustainability, and compliance.

Please see page 16 of the materials.

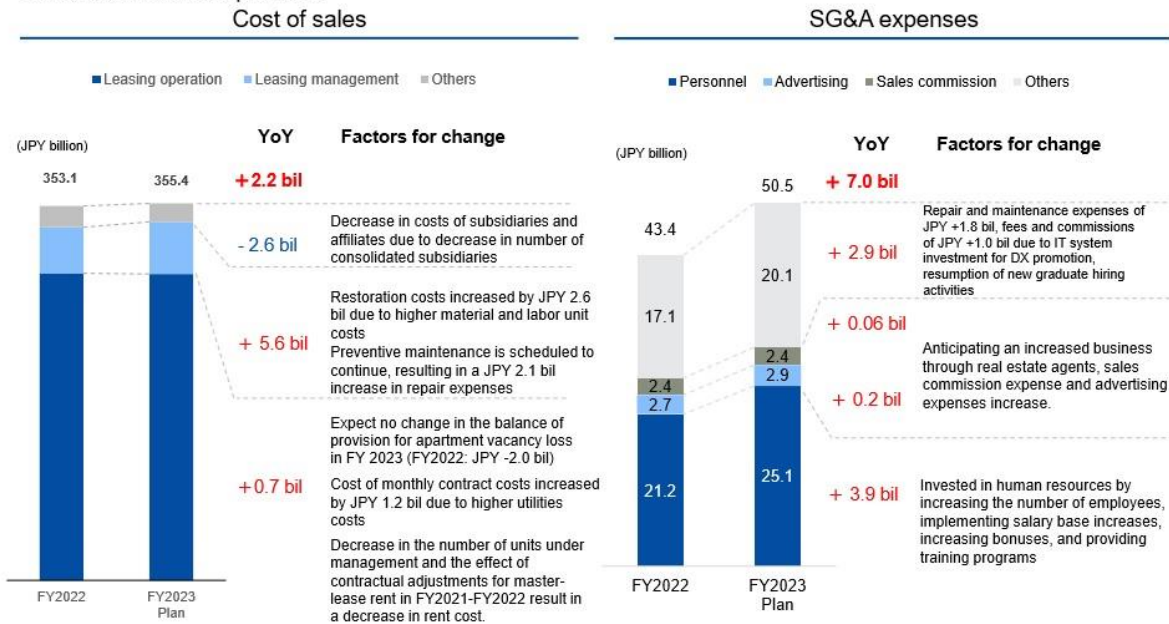
The cost of leasing operations decreased by JPY4.9 billion YoY, mainly due to the effect of contractual adjustment of master-lease rents and the expiration of master-lease contract that had reached the end of the lease terms. Although it increased by JPY3.3 billion compared to the plan at the beginning of the period, mainly due to higher utilities costs and recording of JPY1.4 billion as an accounting revision for installation of some appliances.

In addition, reversal of provision for apartment vacancy loss which was JPY3.0 billion in the plan but became JPY2.0 billion, which was reflected on the cost of leasing operation.

Leasing management cost increased by JPY7.3 billion YoY, but we were able to execute maintenance of managed properties in preparation for the future use as planned at the beginning of the period. The increase of JPY0.9 billion from the plan was due to the impact of higher restoration and maintenance costs resulting from increased material prices.

The cost of sales and SG&A plans for the current and next fiscal years are based on the assumption that these factors will continue to have an impact.

The Company will focus on restraining costs through selective concentration for FY2022 onward in order to achieve sustainable growth, in addition to cutting costs across the Company since the revelation of the construction defects problem.



In addition, the details are on page 18, so please check them later. In SG&A expenses, in personnel expenses, as part of the promotion of the human resource strategy, we will launch initiatives for human resource development, including the training of candidates for next-generation executives.

- Smart lock installation exceeded 90,000 rooms. A new tenant service of AI-powered Speech Dialog System and Chatbot Tool was rolled out in Feb 2023.
- Having all types of lease contracts for individual tenants ready for electronic signing from Apr 2023.



Smart Lock

- ◆ Introduced since Jun 2022 with the planned installation of **440,000 apartment units** under management in steps to service.
- ◆ It enables tenants to view rooms or move in the room with **no need of visiting** leasing sales office for receiving the key.
- ◆ 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.



AI-powered Speech Dialog System and Chatbot Tool

- ◆ AI technology can respond to tenants' inquiries quickly and accurately 24 hours a day, 7 days a week.



Web-based contracts

◆ **2015 - Leo-sign (Electronic contract)**

- Introduced in 2015 for corporate customers.
- FY2022 actual: 37.5% of corporate lease contracts used *Leo-sign*.

◆ **2019 - Web-based contract**

- Launched in June 2019
- FY2022 actual: 16,415

◆ **2020 - Web-based customer service / room viewing**

- Rolled out in Oct 2020.
- Use of video calling for integrated service eliminated the need of visiting the leasing sales offices.

◆ **2021 - eKYC (Know your customer)**

- Started in Jan 2021.
- Replaces submission of identity verification document for car park contracts with a digitized ID document and a web-based interview for examination.

◆ **2023 - Extended the scope of electronic signing utility for all lease contracts for individual tenants which require a joint guarantor**



As part of our sustainability strategy, we are installing smart locks as part of our DX from H1 of the previous fiscal year. The number of units with smart locks installed exceeded 90,000.

The installation of smart locks has eliminated the need for customers to visit the leasing sales office to pick up the keys, which has already saved approximately 47,000 hours of customer interaction time and 340,000 sheets of paper.

This is not only for the convenience of the tenants, but also directly improves our operational efficiency, and we will continue to move forward with the goal of installing this system in up to 440,000 units.

The Board of Directors takes the lead of human resources strategy as it handles one of the most important management resources. Highlighted six most important themes. Details are to be disclosed in annual securities report at the end of Jun 2023 and in integrated report at the end of Sep 2023.

<p>Put Well-being Management in priority</p> <ul style="list-style-type: none"> ◆ President and CEO becomes the chief officer to promote well-being management. ◆ Improved health and workplace vitality are sources of innovation ◆ Well-being information is communicated in each office and health committee. 	<p>Committed to Diversity and Inclusion</p> <ul style="list-style-type: none"> ◆ Maximize human resources' abilities by recognizing, accepting, and respecting diversity of attributes. ◆ Create an environment that enables lower turnover, higher employee satisfaction. 	<p>Strengthen a sense of compliance and develop ethical standard</p> <ul style="list-style-type: none"> ◆ Develop a sound corporate culture trusted by customers, employees, and society as a whole through thorough management of work hours and hygiene. ◆ Fulfill corporate social responsibility.
<p>Increase employee engagement</p> <ul style="list-style-type: none"> ◆ Motivate each employee. ◆ Foster attachment to the Company and build a relationship of integral mutual growth between employees and the Company. 	<p>Implement strategic acquisition of diverse human resources</p> <ul style="list-style-type: none"> ◆ Promote hiring of new graduates, ex-employee rejoining, establishing specialist personnel positions, and use of part-time workers. ◆ Attract a diverse workforce that will shape the Company's future. 	<p>Promote Leader Development and Succession Planning</p> <ul style="list-style-type: none"> ◆ Promote sustainable growth of each employee in the career. ◆ Prepare a pool of management personnel who will be responsible for the future of the Company.

This is the first time we have disclosed our human resources strategy.

We considered the six items listed here as the core of our human resource strategy and provide an environment where our valued employees can grow and play an active role in the future.

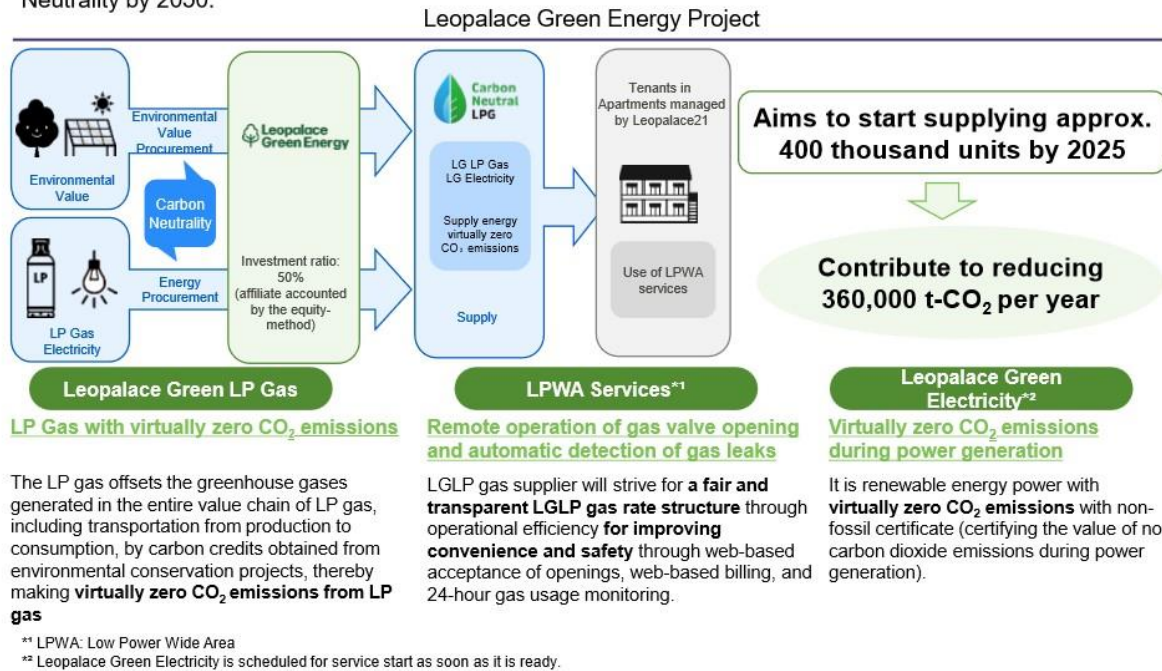
Particular emphasis will be placed on leadership development and succession planning this fiscal year, and we will invest in training programs and other expenses. KPIs and target figures for achieving each item will be disclosed in our annual securities report and integrated report, as well as on our website.

As I will also mention on that website, we are continuing to take measures to eliminate so-called compliance violation cases, including the formulation of prevention of recurrence as well as the investigation of the causes. In the previous fiscal year, compliance training was held 19 times and the Compliance Committee met 19 times, ensuring that compliance awareness within the Company has progressed steadily.

In order to eliminate compliance violations, we promote the use of the whistleblower system, and there were 90 cases last year. If the system is not used at all, the reported case is zero, it means that either the system itself is not trusted or is not widely known to employees in the Company. It is a very healthy situation to have a certain moderate number of cases.

We will continue to reform our corporate culture to put compliance first by appointing compliance coordinators in each department and continuing to provide compliance training.

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 see page 31.

The Leopalace Green Energy Project, which we launched in the previous fiscal year, is gradually supplying LP gas and electricity with virtually zero CO₂ emissions. Over the next three years, we will switch the supply of green LP gas to 25,000 apartment buildings, or about 400,000 rooms, to reduce CO₂ emissions through our business activities.

If we proceed as planned, we will reduce CO₂ emissions by 360,000 tons, which is equivalent to about 92,000 average households CO₂ emissions per year, which is equivalent to the number of households in Chuo Ward of Tokyo. In addition to its own CO₂ reduction effect, for corporate customers, which currently accounts for 70% of all the tenants, using our properties will lead to the reduction of CO₂ emissions by their employees.

In this first year, we will switch approximately 5,700 apartment buildings, aiming to reduce CO₂ emissions by 40,000 tons, which is equivalent of CO₂ emissions of about 10,000 households.

We will continue to service in the housing infrastructure needed by society.

That's all for my explanation.

Thank you very much.

Question & Answer

Kawasaki [Q]: We will now move on to the question-and-answer session.

We have a question from Mr. Hashimoto, Mizuho Securities Co., Ltd.

There are 29,400 units remaining to be repaired. To finish by the end of December 2024, it is necessary to have a repair capability of about 1,400 units per month. What is the current capability for repair?

Miyao [A]: For this Q1, we plan to repair 700 units per month. In another words, our current capability is 700 units. On the other hand, as I mentioned earlier, we are currently developing contractors and we expect to build up the capability to 1,000 units a month in the summer.

The key to establishing an efficient repairing system is the continuous occurrence of repairing sites, and we are in the process of setting a goal for this and expanding transactions with contractors.

Kawasaki [Q]: Thank you. Here is a question from Mr. Tazawa, SMBC Nikko Securities Inc.

For page seven, what is your assumption of the unit rent for the year ending March 31, 2024? Are you planning a certain amount of increase? I would also like to know the status of rent increases.

Takekura [A]: In the leasing business, we have raised the rent in the previous period, 50th term, by paying attention to the so-called pricing of the rent. As for the plan we are executing now, in conclusion, we do not expect any rent increase at this time.

We are making conservative estimates for the plan. We are currently asking for rent increases mainly from corporate customers, but since there will be market fluctuations, we keep our plan unchanged.

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

The Company said that it will eliminate the deficit of retained earnings carrying forward and secure a capital structure that enables it to do shareholder returns and pursue a capital policy. On the other hand, even if the equity ratio proceeds as planned, it will be at 17.8% at the end of the fiscal year ending March 2024. Do you want to start returning profit to shareholders as soon as possible even if it is a small amount, or do you want to start providing solid shareholder returns after the company has achieved an equity ratio of 30%, etc.?

Miyao [A]: Regarding shareholder returns, at this time we have not decided on what kind of shareholder returns we will provide or when we will provide them. We have not discussing yet the reference point of shareholder returns as to when we will start returning the profit to shareholders.

We believe that shareholder returns should be resumed while carefully listening to the opinions of related parties, along with equity ratio and financial discipline.

As a priority issue as of this June, we should be in a position to resume shareholder returns. Then, at that point, we would like to discuss whether or not to move to the next step at that stage, after securing the progress of recording net income and other external factors.

Therefore, at this point in time, we announced that we would not be paying a dividend. This is my answer.

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

I would like to know your assumptions for income taxes and income taxes-deferred for the fiscal years ending March 2024 and 2025.

Takekura [A]: We do not currently anticipate any income taxes-deferred, or DTA (Deferred tax assets), for the fiscal years ending March 2024 and 2025, which were recorded in the fiscal year ended March 2023.

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

I understand that the company will transfer or withdraw from non-core and unprofitable businesses. What non-core businesses remain? Also, you have recognized an impairment loss for the Guam Hotel. I would like to know about the possibility of selling it in the future.

Miyao [A]: The policy of transferring or withdrawing from non-core and unprofitable businesses was established in 2020, and the non-core and unprofitable businesses referred to in this policy were two businesses. One is the hotel resort business, and the other is the international business that we have been engaged in ASEAN.

Regarding international projects, at this point, there is still a local subsidiary in Singapore, and through this JVs and other things remain. We intend to transfer this over the next several years. We will continue to follow that policy.

In the hotel resort business, we sold or withdrew from domestic hotels and travel agency subsidiaries. The remaining one is Guam.

However, the Guam resort has yet to see a return of Guam's tourists, and although the impairment has been processed this time, I think it will take some time before the resort can be sold. Because, as I said earlier, the return of tourists has been slow, and the prospect of turnaround has not yet seen.

Incidentally, the number of Japanese tourists to Guam now is roughly 10,000 per month. At the peak, it was close to 100,000 per month, so you can see from the numbers I just mentioned that the return is still very slow.

In addition, the number of Korean tourists peaked at 60,000 to 70,000 per month before COVID-19 pandemic, but nowadays the number is around 35,000, which is about half of what it used to be. This is where recovery is still awaited. This is my answer.

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

Can we expect the high level of interest payments to Fortress of around 15% to be eliminated by the November refinancing? I would like to know the interest rate burden that has been factored into your plans for the fiscal years ending March 2024 and 2025.

Takekura [A]: Regarding the 15% interest rate payment for both years you pointed out, naturally, we will have the opportunity to refinance beyond November starting this fiscal year, and we would like to implement a measure.

However, in our planning, as it stands, we are putting together projects based on the assumption that we will continue to pay similar interest rate levels for the current fiscal year, and for the next fiscal year, we have considered based on the assumption that there will be some change in interest rate.

The situation will change depending on the refinance after November. We will inform you of this when we have a final, probable plan. At this point, please understand that we are considering based on the assumption I mentioned.

Number of units used by foreign national tenants is about 43 thousand, comprising about 23 thousand individual customers and about 20 thousand under corporate contracts, 8.5% of total occupation. (+1.6 p from end of FY2021 and +0.1 p against Q3 result)

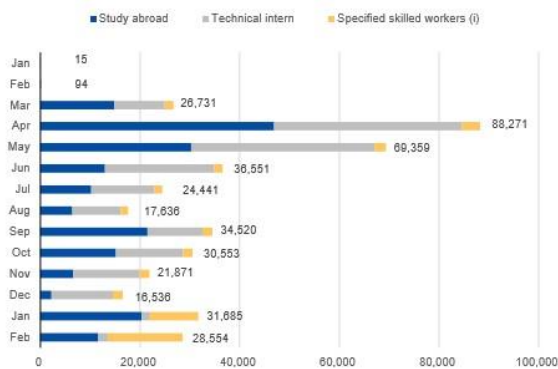
▶ **Contracts with foreign national customers (Individual customers)**

▶ **FY2022 Actual**
12,011 (- 989 vs plan; +3,902 YoY)

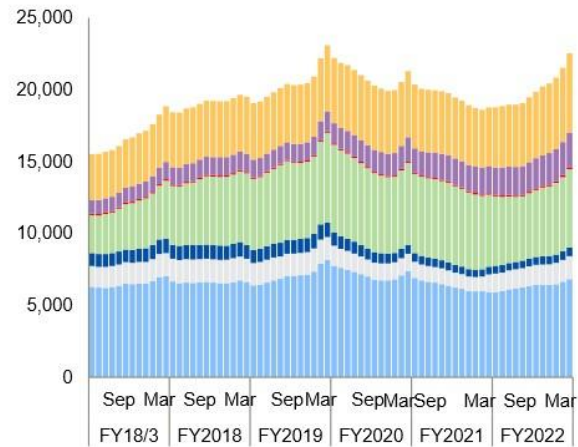
Trends of No. of contracts with individual foreign nationals

(Unit) **FY2022 Actual: 22,539 rooms**
(+20.1% vs FY2021 Actual, +10.3% vs end of Q3 FY2022)

▼ **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)



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

Relating to pages 22 and 23, what is the status of acquiring foreign nationals and mid- to long-term upside prospect, and what boosting effect can you expect for profit?

Miyao [A]: The current status of acquiring foreign nationals is as shown on page 23. The actual results for the previous fiscal year were 12,000, nearly 1,000 less than planned.

As you may have read in the newspapers recently, there is a lot of discussion in the national government about how foreign nationals are invited into the country.

As mentioned on page 23 here, the number of technical intern trainees and the number of people who entered the country with specified skills were large for a while in March of last year, when COVID-19 impact became lower, and we thought that the situation would continue from there. However, from around June, the number did not grow very much. This was the reason why we could not reach the plan I mentioned earlier.

In terms of the medium- to long-term outlook, although restrictions on entry that I mentioned earlier have been lifted, the revision of the technical internship program will to some extent affect our outlook. On the other hand, during the past year, we have been able to make contacts with various supervising organizations and the like.

There are quite a number of supervising organizations, and we have finally found an excellent and trustworthy one, so we will focus on this area from this fiscal year onward.

We are quite strong on individual contracts, especially with international students, and the situation has seen a return to the past trend in terms of individual contracts last year. You can see that in the bar chart at the right on page 23.

I am sure that the improvement in the number of these sales will boost earnings, but I believe that this will be included in the top line. Therefore, it is safe to say that it is basically included in the plan. That is all.

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

You mentioned that the capacity for repair work will be about 1,500 units per month. In FY2025 onward when repair work is completed, will you work on new construction using the capacity in and beyond FY2025? I think the current repairing capacity is too large for new construction. Will you be able to scale it down?

Takekura [A]: The 1,500 units that you mentioned are, in effect, for repair work, and not for the new construction.

We are planning to receive orders from apartment owners to rebuild apartments that are 25 or 30 years old after the expiration of the master-lease contracts.

Until December 2024, we will concentrate on resolving construction defects problem, and after that, we will shift our resources to new construction.

In fact, if we convert 1,500 units into new construction on our average sized apartment, it would be about 100 buildings. If we assume that we will start working on it in FY2025, it will take some time until the construction is started due to the necessity of securing and training workers and contractors.

Miyao [A]: I would like to add one more thing. The workers involved in the repair work on the parting walls and room restoration are contractors who we cannot count for new construction. I hope you understand that point.

Kawasaki [Q]: Next, we have a question from Mr. Kuni of Panview Capital.

You were talking about starting to deal with new properties at a small level. How many properties are you talking about? Also, you mentioned a full-scale start from the next fiscal year, but what assumptions will you make about rent levels when proposing rent levels to owners?

Takekura [A]: I am assuming that what you are referring to as a "new property" is a newly built property and will answer the question based on that assumption.

As for newly built property, we do not expect the number to be large enough to hit the P&L this fiscal year. For this fiscal year, for the orders of rebuilding we expect it to be the level of 50 buildings on a trial basis, as a preparation to start new construction as I mentioned earlier.

Basically, rebuilding will lead to solve the issue of construction defects problem such as parting walls, and there are actually many cases we rebuild the house rather than repairing. We will begin this construction in the next fiscal year.

As for the rent level, Rental Housing Management Business Act was enforced in December 2020 where sub-leasing companies are required to follow for concluding the master-lease contracts in terms of rent setting in light of market levels. We will start therefore the negotiation process of deciding on the rent standard for master-lease contracts based on the market level.

Kawasaki [Q]: 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 the briefing session.

Thank you very much for participating in today's financial results briefing for the fiscal year ended March 2023 of Leopalace21 Corporation.

[END]
