



## LIVING PLATFORM

### Message to current Stakeholders in “Living Platform”

#### FY2023: Inflation and Growth of Enterprise (2)

Dear Stakeholders,

This year in Japan, on May 8th, the Infection Law Classification of the Coronavirus has been reclassified from Class 2 to 5. For this matter, it is appropriate to state that we have reached a certain point of closure. Since March of this year, a rapid rate of recovery has been observed. Additionally, initially starting in popular tourist destinations such as Kyoto, the newfound rate of recovery has begun to gradually spread among other areas of Japan.

Although it has been predicted that there would be a certain level of stabilization in inflation, interest rates all over the world are rising, and this is expected to continue not only in Japan but at a global scale. In fact, in reference to the prediction included in the letter to stakeholders last year, prices in Japan have soared, especially in utilities, aliments, and building costs, and this is only the beginning.

Following the previous letter, I would like to keep the same overarching theme, as well as mention our response, as inflation has even further increased the probability of a significant impact on our growth.

Firstly, Utility costs, more specifically, electricity prices have faced a sharp increase, and while these have been eased due to the introduction of subsidies in February 2023, said subsidies will only last until September 2023.

The costs for high-voltage electricity prices have escalated in all regions since April 2023. Furthermore, in June 2023, power companies operating in our main sales areas: Hokkaido, Tohoku and Tokyo electric companies have also raised their prices for low-voltage electricity. Unlike Kyushu Electric Power, and Kansai electric power, in which the companies have continued their operations containing nuclear power plants, the price increases of the 3 companies mentioned were substantial, in that the costs rose far beyond last year's predicted outcome, and were a cause to the significant loss in business performance.

Secondly, the cost of foodstuffs was hit with an increase of 10%, and while some bear the burden of price increases, we were able to act accordingly and overcome this issue.

Finally, as for building costs, the rates have increased by 50% since 2021, and although we are proud to be one of the best business developers in our industry, it has reached a level at which I cannot say that our plans will remain unaffected.

In such circumstances, what can we do to ensure that we can show continuous growth?

Our first step involves financial allowances. I have issued an updated version of our mid-term business plan, where I have stated that I will terminate borrowing financially over the next couple of years. As you may be aware, in April 2023, the bank made a transition from the Kuroda organization, lasting around 10 years, to a new president, by the name of Kazuo Ueda, a well-known economist with various global connections. Putting aside the positives and negatives of the Kuroda regime, the direction in which the financial policy is moving is attracting lots of attention. Over the past decade, Japan has implemented every possible policy in terms of economic theory, such as quantitative easing, qualitative easing, negative interest rates, YCC (yield curve control), etc. As part of the Abe administration's policy package known as "The three arrows". However, what was the outcome of this situation? Many other countries have increased their interest rates due to the prominent inflation, and as a result, Japan has not been

able to greatly change its interest rate policies, and through ETFs, has become the highest shareholder in numerous of companies, and have gone as far as to monetize government bonds, considered a forbidden form of monetary policy.

I do not know how long this circumstance will stay this way. At the moment, the domestic underwriting ratio of government bonds exceeds 90%, and if the ratio degrades and an error in underwriting appears, it could lead to the government bond prices crashing, with the possibility of hyperinflation. Simultaneously, Japanese people, who are the biggest creditors of the country, will be obliged to pay a moral decree, in the form of an asset price collapse. I am not saying that this would happen in a few years, however in such an unstable environment, I thought it best to solidify our finances.

Step two, is price shifting. In Japan opposing opinions from consumers seem very strong, however with a variety of prices rising so high, for instance, labor costs, it seems that it has reached a point where sustainability is abrogated by corporate efforts alone. Contrarily, if corporate efforts can reduce costs by a percentage, is it not the negligence of past management? Our group moves forward by aiming to provide good products at the lowest possible price, and we are proudly one of the best in our industry, in terms of assuring quality service, while keeping costs low. Anyhow, the group believes that it must adapt prices, acknowledging price rises, on the promise that it will improve management, while also reducing costs to the best prospect.

The third step is to increase productivity. Over the past few years, I have referred to digital transformation (DX), in numerous disclosure documents, and by the end of this year, we will be completing a level of implementation, seeing us move forward in data management. Paperless, stampless, and cashless have taken precedence, nevertheless we are now entering a phase where we will make use of the data that we have previously accumulated. This would allow us to share both good and bad practices smoothly, which could in turn improve the quality of service in the working environment, leading us to believe that this will create a chain reaction of sorts, on recruitment and sales. Many people in the previously mentioned group are upwards of 70 years old, and some were confronted with difficulties following the introduction of the system, it has

fortunately come to our attention that many have now grasped an understanding of this system, as per the realization that as they get used to it, efficiency could be greatly increased. In our system, we hold a minimum standard for working hours, and there is a limit in incomes of productivity, however, I have heard that the Ministries of Health, Welfare and Labor are discussing staffing standards that also take productivity into account. Hence, why we are planning on demonstrating our strength when regulatory reforms are in implementation.

Step 4 would be the fact that there would be a larger range of recruiting staff. Surging labor costs are starting to become a grand management issue, which is why we are working to curb the rise in labor and recruitment costs by widening the scope of our human resources recruitment. Particularly, we are currently looking towards recruiting staff members from overseas, and in June 2023, the Cabinet made a decision to widen the area of focus of the skills system to 14 industries in 12 fields.

As for number 5, we are focusing on the creation of a highly profitable business. In Japan, due to the fact that interest rates have stayed at a very low rate, even small-margin businesses have been able to function. Nevertheless, we do not expect the same occurrence would continue in forthcoming times, and accordingly, we felt that it is necessary to create, alternatively expand businesses of a higher margin. Within the Japanese stock market, commission-based nursing homes, specializing in terminal and Parkinson's diseases, are highly regarded, and in our facilities, we abide by residents who are terminally ill, and we also offer end-of-life services. Furthermore, many clients with Parkinson's disease are also facilitated in our dementia facilities. Because we accept a wide range of people, we have not been focusing on specific diseases or conditions, however we have decided to open these specific businesses, as per high demand. To further accommodate our growth, we believe that participating in the REIT (Real Estate Investment Business) business would be beneficial, to withhold higher profit margins in the future.

To summarize, the 5 steps above were the main priority management issues that we intend on pursuing the solution towards them, favorably leading to our growth in the future.

Even though we had modified accounting methods in the last year, we had unfortunately fallen into an operating loss, and our share price fell to a large extent. As CEO, I cannot hide my distress towards this.

I do not doubt that our industry is in rare demand at a global scale, and at the same time, oligopoly is not progressing either. In a large market worth a total of around 7 trillion yen in Japan alone, there will naturally be a company that leads the market in 10 years or so. Although Living Platform was founded 12 years ago, I still firmly believe that we can become such a leader.

We will continue to provide the utmost efforts to reach your respective expectations, and we thank you for your lasting understanding and cooperation.

Living Platform Co.

CEO Hirofumi Kaneko

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