

Consolidated Financial Statements (Japanese Accounting Standard)

August 8, 2023

(For the three months ended June 30, 2023)

Name of Company Listed: **Leopalace21 Corporation** Stock Listing: Tokyo Stock Exchange
 Code Number: 8848 URL: <http://eg.leopalace21.co.jp> Location of Head Office: Tokyo
 Representative: Position: President and CEO Name: Bunya Miyao
 Name of Contact Person: Position: Director, Executive Officer and Chief of the Corporate Management Headquarters
 Name: Shinji Takekura Telephone: +81-50-2016-2907
 Scheduled Date of Filing of Securities Report (Japanese only): August 9, 2023
 Scheduled Date of Commencement of Dividend Payments: —
 Supplemental Explanatory Material Prepared: Yes
 Results Briefing Held: Yes (for institutional investors and security analysts)

1. Results for the Three Months ended June 30, 2023 (April 1, 2023 – June 30, 2023)

(1) Consolidated financial results

(Amounts less than JPY 1 million are omitted)

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

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	JPY million	%	JPY million	%	JPY million	%	JPY million	%
Three months ended June 30, 2023	106,375	4.9	7,622	112.9	6,851	159.2	6,627	306.6
Three months ended June 30, 2022	101,406	1.2	3,579	—	2,643	—	1,630	—

(Note) Comprehensive income in the three months ended June 30, 2023: JPY6,961 million (107.5%)
 Comprehensive income in the three months ended June 30, 2022: JPY 3,355 million (229.0%)

	Net income per share	Diluted net income per share
	JPY	JPY
Three months ended June 30, 2023	20.14	15.76
Three months ended June 30, 2022	4.96	4.14

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	JPY million	JPY million	%
As of June 30, 2023	169,053	38,931	18.2
As of March 31, 2023	166,548	32,922	14.5

(Reference) Ownership equity as of June 30, 2023: JPY 30,755 million; as of March 31, 2023: JPY 24,115 million

2. Dividend Status

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Annual
	JPY	JPY	JPY	JPY	JPY
FY ended March 31, 2023	—	0.00	—	0.00	0.00
FY ending March 31, 2024	—	—	—	—	—
FY ending March 31, 2024 (Estimate)	—	0.00	—	0.00	0.00

3. Consolidated Earnings Forecasts for the Fiscal Year ending March 31, 2024 (April 1, 2023 – March 31, 2024)

(The percentage figures for full fiscal year indicate rate of gain or loss compared with the previous FY; Those for the six-month period represent the change compared with the same term in the previous FY.)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	JPY million	%	JPY million	%	JPY million	%	JPY million	%	JPY
Six months ending September 30, 2023	209,100	3.3	8,000	14.9	5,700	4.9	4,500	21.9	13.68
FY ending March 31, 2024	419,800	3.3	13,900	40.7	9,400	44.0	7,400	(62.6)	22.49

(Notes) Change from the latest earnings forecast: No

(Notes)

- (1) Changes in major subsidiaries during the three months in the consolidated fiscal year ending March 2024 (change in specific subsidiaries resulting in a change in the scope of consolidation) : No
- (2) Use of accounting procedures specific to the preparation of quarterly consolidated financial statements: Yes
(Note) For details, please refer to 2. Consolidated Financial Statements and Notes (3) Notes Regarding Consolidated Financial Statements (Application of accounting methods specific to the preparation of quarterly consolidated financial statements) in p.9.
- (3) Changes in accounting policies, procedures or reporting methods used in preparation of financial statements and restatements
 - (i) Changes in accounting policies accompanying revision of accounting standards, etc.: No
 - (ii) Changes in accounting policies other than (i) above: No
 - (iii) Changes in accounting estimates: No
 - (iv) Restatements: No
- (4) Total number of outstanding shares (common stock)
 - (i) Total number of outstanding shares at term end (including treasury stock)
As of June 30, 2023: 329,389,515 shares, As of March 31, 2023: 329,389,515 shares
 - (ii) Total treasury stock at term end
As of June 30, 2023: 334,011 shares, As of March 31, 2023: 335,211 shares
 - (iii) Average number of outstanding shares during the period
As of June 30, 2023: 329,055,478 shares, As of June 30, 2022: 328,905,730 shares

–Indication regarding the status of auditing:

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

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

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

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

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

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material is planned to be posted on the Company’s website on August 8, 2023.

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1. Business Results

(1) Analysis of Business Results

(JPY million)

	Three months ended June 30, 2023	Three months ended June 30, 2022	Difference	Percentage change
Net sales	106,375	101,406	+4,968	+4.9%
Gross profit (ratio)	18,066 (17.0%)	14,498 (14.3%)	+3,567 (—)	+24.6% (+2.7 p)
Operating profit (ratio)	7,622 (7.2%)	3,579 (3.5%)	+4,043 (—)	+112.9% (+3.7 p)
Recurring profit (loss)	6,851	2,643	+4,208	+159.2%
Net income (loss) attributable to shareholders of the parent	6,627	1,630	+4,997	+306.6%

Although it is necessary to pay attention to the effects of rising prices due to soaring energy and raw material prices and other factors, the economy remained in a state of gradual recovery under improving employment and income conditions during Q1 of the consolidated fiscal year ending March 2024.

The number of new housing starts for rental market increased by 2.0% YoY and the number of vacant houses continues to increase in the rental housing market. In order to ensure a stable occupancy rate amid the difficulty of increased vacant houses due to the declining population, falling birthrate, and aging population, the Company believes it is important to target single-family households, which are expected to continue to increase; implement sales strategies that match regional and customer characteristics; keep and increase property values through appropriate maintenance; and provide highly convenient tenant services in order to attract customers through offering DX solutions.

Under these circumstances, Leopalace21 group (the “Group”) has worked to stabilize its earnings structure and financial base by focusing on optimizing costs through selective concentration, while strengthening profitability by increasing occupancy rates and unit rent prices.

As a result, the Group’s consolidated net sales for Q1 of the current fiscal year increased by 4.9% YoY to JPY 106,375 million, and operating profit was JPY 7,622 million increased by 112.9% YoY due to improved profitability from increased sales and curbed SG&A expenses, despite an increase in cost of sales from higher unit prices for materials and a focus on property maintenance.

Recurring profit was JPY 6,851 million, an increase of 159.2%, due to the recording of JPY 1,096 million in interest expenses. Net income attributable to shareholders of the parent was JPY 6,627 million, an increase of 306.6% YoY.

Results by segment are as follows:

(JPY million)

	Net sales			Operating profit		
	Three months ended June 30, 2023	Three months ended June 30, 2022	Difference	Three months ended June 30, 2023	Three months ended June 30, 2022	Difference
Leasing Business	102,476	97,571	+4,905	9,344	5,366	+3,977
Elderly Care Business	3,543	3,494	+49	(236)	(357)	+121
Other Businesses	355	341	+14	(629)	(568)	(61)
Adjustments	—	—	—	(854)	(860)	+5
Total	106,375	101,406	+4,968	7,622	3,579	+4,043

(i) Leasing Business

In Leasing Business, the Company is striving to secure stable occupancy rates and improve profitability by reviewing unit rents and others through various measures. They included web-based contract conclusion that allows everything from room search to contract signing without face-to-face meetings, promotion of smart apartments which enables electrical appliances and door locks to be operated with a smartphone, further business development of corporate clients, utilization of real estate agents, and development of detailed sales strategies tailored to the specific characteristics and requirements of each client and area.

During Q1 of the consolidated fiscal year ending March 2024, the occupancy rate at the end of the period was 86.82% (up 2.56 points from the end of the same period of the previous fiscal year), with the average occupancy rate of 87.03% (up 2.84 points YoY). This was due to the gradual recovery in demand by corporate customers which had been subdued by COVID-19 pandemic and the Company’s various successful measures. The number of units under management was 560 thousand, a reduction of 1.2 thousand units from the end of the previous fiscal year, and the number of leasing sales offices was 109 (no change from the end of the previous fiscal year).

As a result, net sales for Q1 of the fiscal year ending March 2024 increased by 5.0% YoY to JPY 102,476 million due to recovered average unit rent and an improved occupancy rate. Operating profit was JPY 9,344 million, a growth of 74.1% YoY, due to the increased revenue and improved profitability resulting from the favorable cost structure.

(ii) Elderly Care Business

In Elderly Care Business, due to efforts of various revenue boosting measures and continued cost control, net sales increased by 1.4% YoY to JPY 3,543 million and operating loss amounted to JPY 236 million, a reduction of loss by JPY 121 million YoY.

The number of facilities as of the end of Q1 of the current consolidated fiscal year was 87.

(iii) Other Businesses

Other Businesses segment, which includes the operation of Guam resort facilities, reported net sales of JPY 355 million (up 4.2% due to weaker JPY) and operating loss of JPY 629 million, a deterioration of JPY 61 million YoY due to a significant decline in the occupancy rate of Guam resort facilities which did not recover to the level prior to COVID-19 pandemic.

(2) Analysis of Consolidated Financial Position

(JPY million)

	June 30, 2023	March 31, 2023	Difference	Percentage change
Assets	169,053	166,548	+2,505	+1.5%
Liabilities	130,122	133,625	(3,503)	(2.6)%
Net assets	38,931	32,922	+6,008	+18.3%

Assets at the end of Q1 of the current fiscal year were JPY 169,053 million, an increase of JPY 2,505 million from the end of the previous fiscal year. This was mainly due to an increase of JPY 4,597 million in cash and deposits, whereas trade receivables reduced by JPY 585 million, others (cash advance) in current assets reduced by JPY 1,042 million and allowance for doubtful accounts increased by JPY 490 million.

Total liabilities amounted to JPY 130,122 million, a reduction of JPY 3,503 million from the end of the previous fiscal year. This was mainly due to decreases of JPY 2,063 million in accounts payable-other, JPY 1,396 million in advances received and long-term advances received, and JPY 1,065 million in provision for losses related to repairs, whereas increase of JPY 1,085 was recorded for provision for bonus payment.

Total net assets increased by JPY 6,008 million from the end of the previous fiscal year to JPY 38,931 million. This was mainly due to a reduction of JPY 631 million in non-controlling interests due to payment of treasury stock purchase and dividends to non-controlling shareholder of a consolidated subsidiary, whereas JPY 6,627 million was recorded as net income attributable to shareholders of the parent.

The shareholders' equity ratio increased by 3.7 points from the end of the previous fiscal year to 18.2%.

(3) Future Predictions

Concerning consolidated earnings forecasts for the consolidated fiscal year ending March 2024, the Company confirms that there are no changes for the six months in FY ending March 2024 and for the full FY ending March 2024 which it announced on May 12, 2023 "Consolidated Financial Statements (Japanese Accounting Standard, for the fiscal year ended March 31, 2023)".

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

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(JPY million)

	June 30, 2023	March 31, 2023
<Assets>		
Current assets		
Cash and deposits	58,158	53,560
Trade receivables	7,536	8,121
Accounts receivable for completed projects	415	432
Real estate for sale	123	273
Payment for construction in progress	280	159
Prepaid expenses	1,599	1,320
Others	4,868	5,911
Allowance for doubtful accounts	(2,884)	(3,027)
Total current assets	70,098	66,752
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	18,923	19,165
Machinery, equipment, and vehicles (net)	6,378	6,596
Land	31,237	31,220
Leased assets (net)	1,932	1,546
Construction in progress	152	119
Others (net)	2,246	2,716
Total property, plant, and equipment	60,871	61,364
Intangible fixed assets		
Others	2,482	2,612
Total intangible fixed assets	2,482	2,612
Investments and other assets		
Investment securities	5,435	5,384
Long-term loans	505	510
Long-term prepaid expenses	440	422
Deferred tax assets	25,153	25,152
Others	6,478	6,126
Allowance for doubtful accounts	(2,411)	(1,778)
Total investments and other assets	35,601	35,819
Total non-current assets	98,955	99,796
Total assets	169,053	166,548

(JPY million)

	June 30, 2023	March 31, 2023
<Liabilities>		
Current liabilities		
Accounts payable	2,687	2,549
Accounts payable for completed projects	88	34
Short-term borrowings	65	59
Lease obligations	1,254	1,155
Accounts payable -other	10,610	12,673
Accrued income taxes	221	451
Advances received	32,845	34,134
Customer advances for projects in progress	278	144
Provision for bonus payment	1,085	-
Provision for warranty obligations on completed projects	5	4
Provision for fulfillment of guarantees	690	603
Provision for losses related to repairs	6,507	6,053
Others	3,717	3,860
Total current liabilities	60,057	61,724
Non-current liabilities		
Long-term debt	30,341	30,359
Lease obligations	361	275
Long-term advances received	6,291	6,399
Lease/guarantee deposits received	7,347	7,548
Deferred tax liabilities	13	13
Provision for losses related to repairs	10,010	11,530
Provision for apartment vacancy loss	3,590	3,590
Liability for retirement benefits	9,733	9,714
Others	2,374	2,470
Total non-current liabilities	70,065	71,901
Total liabilities	130,122	133,625
<Net assets>		
Shareholders' equity		
Common stock	100	100
Capital surplus	29,391	136,240
Retained earnings	(2,530)	(116,006)
Treasury stock	(205)	(205)
Total shareholders' equity	26,756	20,128
Accumulated other comprehensive income		
Net unrealized gains on other securities	(96)	(97)
Foreign currency translation adjustments	4,125	4,117
Remeasurements of defined benefit plans	(29)	(32)
Total accumulated other comprehensive income	3,999	3,986
Share subscription rights	284	284
Non-controlling interests	7,891	8,522
Total net assets	38,931	32,922
Total liabilities and net assets	169,053	166,548

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

(JPY million)

	Three months ended June 30, 2023 (Apr 2023–Jun 2023)	Three months ended June 30, 2022 (Apr 2022–Jun 2022)
Net sales	106,375	101,406
Cost of sales	88,308	86,908
Gross profit	18,066	14,498
Selling, general and administrative expense	10,444	10,919
Operating profit (loss)	7,622	3,579
Non-operating income		
Interest income	7	5
Dividend income	4	4
Valuation gains of investment securities	19	27
Foreign exchange gains	203	183
Gains on redemption of deposit	93	–
Other	83	68
Total non-operating income	411	289
Non-operating expenses		
Interest expenses	1,096	1,101
Share of loss of entities accounted for using equity method	47	95
Other	38	28
Total non-operating expenses	1,182	1,225
Recurring profit (loss)	6,851	2,643
Extraordinary income		
Gains on sale of property, plant and equipment	–	28
Reversal of provision for losses related to repairs	324	–
Total extraordinary income	324	28
Extraordinary losses		
Loss on sale of property, plant and equipment	–	42
Loss on retirement of property, plant and equipment	28	148
Impairment loss	26	–
Loss related to repairs	–	246
Total extraordinary losses	54	437
Income (loss) before taxes and other adjustments	7,121	2,235
Income taxes	172	267
Net income (loss)	6,948	1,967
Net income (loss) attributable to non-controlling interests	321	337
Net income (loss) attributable to shareholders of the parent	6,627	1,630

Consolidated Statement of Comprehensive Income

(JPY million)

	Three months ended June 30, 2023 (Apr 2023–Jun 2023)	Three months ended June 30, 2022 (Apr 2022–Jun 2022)
Net income (loss)	6,948	1,967
Other comprehensive income		
Net unrealized gains on other securities	1	(11)
Foreign currency translation adjustments	7	1,389
Remeasurements of defined benefit plans	3	5
Share of other comprehensive income of entities using equity method	–	4
Total other comprehensive income	12	1,387
Comprehensive income	6,961	3,355
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	6,640	3,016
Comprehensive income attributable to non-controlling interests	321	338

(3) Notes Regarding Consolidated Financial Statements

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

There are no relevant items.

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

The Company reduced on June 29, 2023 capital reserve was reduced by JPY 41,235 million and transferred the same amount to other capital surplus in accordance with Article 448, Paragraph (1) of the Companies Act, under the approval of the 50th Ordinary General Shareholders' Meeting held on June 29, 2023. Other capital surplus was reduced by JPY 106,847 million and the same amount was transferred to retained earnings carried forward to eliminate the deficit pursuant to Article 452 of the Companies Act.

As a result, capital surplus became JPY 29,391 million and retained earnings became JPY (2,530) million at the end of Q1 of the fiscal year ending March 31, 2024..

There was no impact on total shareholders' equity.

(Application of accounting methods specific to the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by rationally estimating the effective tax rate after applying tax effect accounting to income before income taxes and other adjustments for the consolidated fiscal year ending March 31, 2024 including the Q1 cumulative, and multiplying income before income taxes and other adjustments for Q1 cumulative by the said estimated effective tax rate. However, if the calculation of tax expenses using such estimated effective tax rate would be significantly unreasonable, the statutory effective tax rate is used.

(Segment Information)

(i) Information on net sales including breakdown, profit or loss, liabilities and other items by reportable segment

Three months ended June 30, 2023 (April 1, 2023 – June 30, 2023)

(JPY million)

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Rent income	79,175	–	–	79,175	–	79,175
Ancillary service income	11,786	–	–	11,786	–	11,786
Maintenance	8,859	–	–	8,859	–	8,859
Rental guarantee	1,115	–	–	1,115	–	1,115
Company housing agency fee	237	–	–	237	–	237
Roof lease solar power generation	803	–	–	803	–	803
Construction subcontracting	54	–	–	54	–	54
Other	49	3,543	355	3,949	–	3,949
Sales from contracts with customer	102,082	3,543	355	105,981	–	105,981
Furniture insurance	393	–	–	393	–	393
Other sales	393	–	–	393	–	393
Sales to customers	102,476	3,543	355	106,375	–	106,375
Inter-segment sales and transfers	6	–	76	82	(82)	–
Total	102,482	3,543	432	106,458	(82)	106,375
Segment profit (loss)	9,344	(236)	(629)	8,477	(854)	7,622

Note 1: The segment profit (loss) adjustments of JPY (854) million includes JPY 59 million in eliminated inter-segment transactions and JPY (914) million in corporate expenses that are not allocated to any reportable segment. Corporate expenses mainly consist of general and administrative expenses related to administrative departments that do not belong to any reportable segment.

Note 2: Segment profit (loss) is adjusted with operating profit in the quarterly consolidated statements of income.

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

In the Leasing Business segment, the book value of assets for lease that were decided to be sold was reduced to the recoverable amount, and the amount of the reduction was recorded as impairment loss of JPY 26 million under extraordinary losses.

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Rent income	74,372	–	–	74,372	–	74,372
Ancillary service income	11,175	–	–	11,175	–	11,175
Maintenance	9,014	–	–	9,014	–	9,014
Rental guarantee	1,080	–	–	1,080	–	1,080
Company housing agency fee	205	–	–	205	–	205
Roof lease solar power generation	849	–	–	849	–	849
Construction subcontracting	423	–	–	423	–	423
Other	73	3,494	341	3,909	–	3,909
Sales from contracts with customer	97,195	3,494	341	101,031	–	101,031
Furniture insurance	375	–	–	375	–	375
Other sales	375	–	–	375	–	375
Sales to customers	97,571	3,494	341	101,406	–	101,406
Inter-segment sales and transfers	17	–	63	81	(81)	–
Total	97,588	3,494	405	101,488	(81)	101,406
Segment profit (loss)	5,366	(357)	(568)	4,440	(860)	3,579

Note 1: The segment profit (loss) adjustments of JPY (860) million includes JPY 40 million in eliminated inter-segment transactions and JPY (901) million in corporate expenses that are not allocated to any reportable segment. Corporate expenses mainly consist of general and administrative expenses related to administrative departments that do not belong to any reportable segment.

Note 2: Segment profit (loss) is adjusted with operating profit in the quarterly consolidated statements of income.

(Significant subsequent events)

Acquisition of treasury stock

The Company has announced that the Board of Directors resolved on the acquisition of treasury stock at a meeting held on July 5, 2023, pursuant to Article 156 as applied pursuant to Article 165, Paragraph (3) of the Companies Act.

1. Reasons for acquisition of the treasury stock

It is intended to enable the execution of flexible capital policy for shareholder return and in response to changes in the business environment.

2. Details of the acquisition

(1)	Type of shares to be acquired	Common stock of the Company
(2)	Total number of shares to be acquired	50,000,000 shares (maximum) (15.2% of total number of shares outstanding excluding treasury stock)
(3)	Total amount of shares to be acquired	JPY 10,000,000,000 (maximum)
(4)	Period of acquisition	July 6, 2023 to January 5, 2024
(5)	Method of acquisition	Purchases on the Tokyo Stock Exchange