



## **Leopalace21 Corporation**

Financial Results Briefing for Q1 Fiscal Year Ending March 31, 2024

August 8, 2023

# Presentation

**Kawasaki:** Thank you very much for joining us today for Leopalace21 Corporation's financial results briefing for Q1 of the fiscal year ending March 2024. I am Kawasaki, and I will be your moderator. Thank you.

Today's speakers are Bunya Miyao, CEO, and Shinji Takekura, Director, Chief of the Corporate Management Headquarters. There will be time for questions and answers after the presentation. The end time is scheduled to be 6:00 PM. Miyao, CEO, will now begin the presentation.

**Miyao:** Thank you very much for joining us today. I am Miyao, CEO. I will summarize the Q1 financial results and explain our financial strategy, leasing business strategy, and response to the construction defects problem.

Executive SummaryLeopalace21

<b>Leasing Business</b>	Average occupancy rate during Q1 FY2023 was <b>87.03%</b> which almost remained in line with the plan, while average rent was increased and significantly exceeded the plan.
<b>PL</b>	<b>Net sales: JPY 106.3 billion, operating profit: JPY 7.6 billion, net income: JPY 6.6 billion</b> Achieved plan for sales and profits for each stage. This was the record-high operating profit and net income for Q1 since the 2007-2008 global financial crisis.
<b>BS</b>	<b>Cash and deposits at the end of Q1 were JPY 58.1 billion</b> (+ JPY4.5 billion, compared with Q4 FY2022), the first increase in Q1 vs Q4 in the previous year since the global financial crisis. <b>Equity ratio improved to 18.2%.</b>
<b>Construction Defects Management</b>	In Q1, the number of units repaired was 2,105, in line with the plan. The number of units expected to be repaired is <b>about 26,900</b> (as of the end of July 2023). The Company has started discussing with tenants so that repair works can be done before moving out in order to further accelerate the progress.
<b>Acquisition of Treasury Stock</b>	Announced acquisition of treasury stock, with maximum of <b>JPY 10 billion and 50 million shares</b> during the period of <b>July 6, 2023 - January 5, 2024.</b>

First, let me provide you with the executive summary on page three, which shows that both sales and profits for Q1 of the fiscal year ending March 31, 2024, increased YoY and according to the plan. As for operating profit and net profit for Q1, it was the highest ever since the Lehman collapse.

The occupancy rate was 86.82% as of the end of June, and the average occupancy rate during the three-month period was 87.03%, landing in line with the plan and improving by 2.84 points compared with the one recorded in the same period last year.

In addition, both occupancy rates and rents had a positive effect on net sales, as unit rents for new contracts were higher than planned.

Cash and deposits at the end of June totaled JPY58.1 billion, up JPY4.5 billion from the end of March. This is the first time since the Lehman collapse that the three-month period from April to June has turned positive. Equity ratio is 18.2%. The ratio recovered by 3.7 points from the end of the previous period.

Achieved plan for sales and profits for each stage.  
This was the record-high operating profit and net income for Q1 since the 2007-2008 financial crisis.

(JPY million)	FY2022 Q1 Actual	FY2023 Q1 Plan	FY2022 Q1 Actual	FY2023 Q1 Actual		Factors contributing to changes
				YoY	Compared with Plan	
<b>Net sales</b>	101,406	104,900	<b>106,375</b>	+4,968	+1,475	<b>Net sales</b> JPY +1.4 bil against the plan due to the increase in average rents while occupancy rates remained almost in line with the plan.
<b>Cost of sales</b>	86,908	88,500	<b>88,308</b>	+1,400	(191)	<b>Cost of Sales</b> JPY +1.4 bil YoY as a result of continuing to focus on preventive maintenance from FY2022 and an increase in restoration costs due to higher material prices and an increase in the number of move-ins and move-outs.
<b>Gross profit</b>	14,498	16,400	<b>18,066</b>	+3,567	+1,666	
%	14.3%	15.6%	<b>17.0%</b>	+2.7p	+1.4p	
<b>SG&amp;A</b>	10,919	12,000	<b>10,444</b>	(475)	(1,555)	<b>SG&amp;A</b> JPY -1.5 bil compared to the plan resulting from the postponement in hiring employees and IT system investment.
<b>Operating profit</b>	3,579	4,400	<b>7,622</b>	+4,043	+3,222	
%	3.5%	4.2%	<b>7.2%</b>	+3.7p	+3.0p	
<b>EBITDA</b>	5,453	6,100	<b>8,959</b>	+3,506	+2,859	
<b>Recurring profit</b>	2,643	3,200	<b>6,851</b>	+4,208	+3,651	
<b>Net income</b>	1,630	2,500	<b>6,627</b>	+4,997	+4,127	<b>Recurring profit</b> Recording of interest expenses of JPY 1.0 bil.
<b>Ave. occupancy rate</b>	84.19%	87.03%	<b>87.03%</b>	+2.84p	±0.00p	<b>Net income</b> JPY 320 mil in reversal of provision for losses related repairs was recorded as extraordinary income.
<b>EPS (JPY)</b>	4.96	7.60	<b>20.14</b>	+15.18	+12.54	

Please refer to page six. I will explain the details of the Q1 results for the fiscal year ending March 31, 2024.

Net sales were JPY106.3 billion, and the positive factors compared to the plan were mainly the increase in the unit price of rent for new contracts and the increase in ancillary sales. The occupancy rate for each month improved by around three percentage points compared with the same months last year and net sales have also improved YoY.

Meanwhile, cost of sales was JPY88.3 billion, almost in line with the plan. No reversal or provision of allowance for apartment vacancy loss occurred in Q1. Since the occupancy rate has returned to the trend before the construction defects problem was revealed, we do not expect a large increase or decrease in the occupancy rate in the future.

SG&A expenses were JPY10.4 billion. The expenses reduced both YoY and against the plan, with personnel costs and other SG&A expenses being particularly down. Personnel expenses were lower YoY mainly due to a decrease in the number of employees, and although we had planned to increase personnel expenses through mid-career hiring, they were also reduced YoY due to the delay in hiring activities.

The main reason for the decrease in other SG&A expenses compared to the plan is that the timing of the IT system investment was shifted to sometime later months.

Operating profit and further profits were in line with previous trends, with a net profit of JPY6.6 billion, a significant improvement of JPY4.9 billion YoY. As a result of the recovery in net profit, the equity ratio at the end of June was 18.2% and net assets were JPY38.9 billion, an increase of JPY6 billion from the end of March.

Eliminate deficit in retained earnings carried forward, which is the source of dividends, through recapitalization.

Capital Reserve Reduction and Appropriation of Other Capital Surplus\*

▼ Shareholders' equity (non-consolidated basis)

(JPY billion)	Before appropriation	→	After appropriation
Common stock	0.1		0.1
Capital surplus	131.2		24.3
Capital reserve	51.2	10.0	10.0
Other capital surplus	79.9	41.2	14.3
Retained earnings	(106.8)	(106.8)	0

- 1 Reducing the amount of capital reserve of JPY 41.2 billion and appropriating other capital surplus
- 2 Transferring other capital surplus of JPY 106.8 billion to retained earnings carried forward
- 3 Retained earnings became JPY 0 and compensated for the deficit

Securing a flexible and agile capital policy that enables early resumption of dividends

\* Approved at the 50th Ordinary General Shareholders' Meeting on June 29, 2023  
Effective date: June 29, 2023

Please refer to page 14. At the ordinary shareholders' general meeting in June, the compensation for deficit was approved and the negative retained earnings, the source of the dividend, was reset to zero, thus beginning preparations for the implementation of a flexible capital policy going forward.

Considering the financial strength and stock price, the Company announced the acquisition of its treasury stock on July 5, 2023.

Details of the acquisition are as follows:

	Number of Shares Acquired	Total Amount of Shares Acquired	Period of Acquisition
Status of Acquisition (as of the end of July)	8,036,000 shares	JPY 2.4 billion	July 6, 2023 – July 31, 2023
Details of Resolution for Acquisition	50,000,000 shares (maximum)	JPY 10 billion (maximum)	July 6, 2023 – January 5, 2024

■ Total treasury stock at term end

As of March 31, 2023	:335,211 shares
As of July 31, 2023	:7,150,961 shares

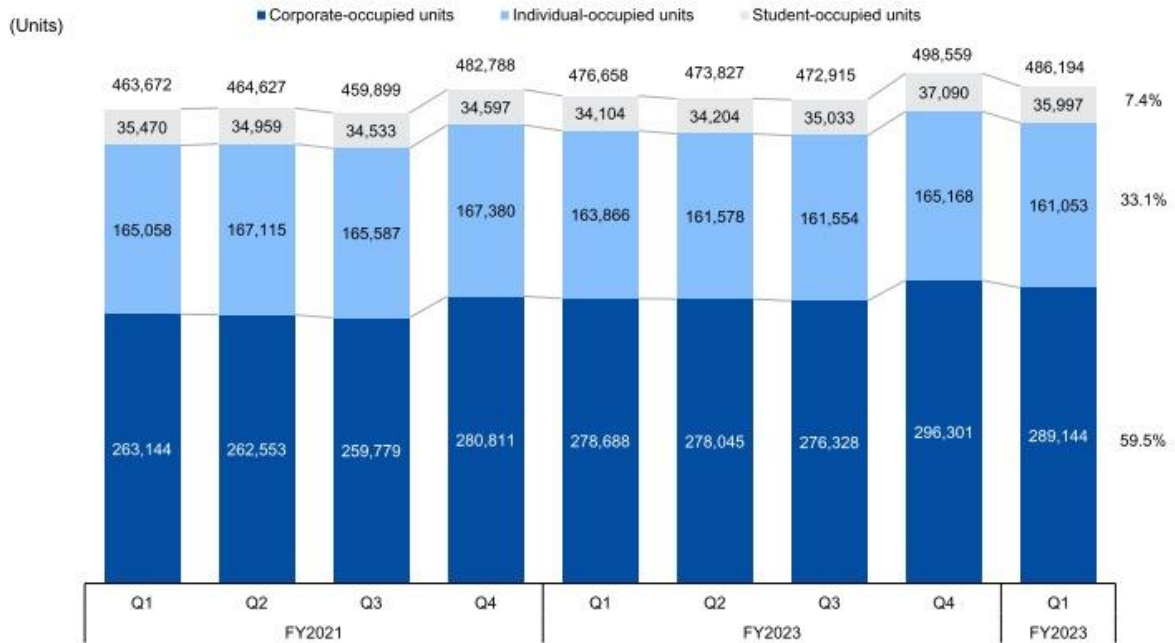
Ref: Notice Concerning Determination of Matters Relating to Acquisition of Treasury Stock (July 5, 2023)  
 Notice Concerning Status of Acquisition of Treasury Stock (August 4, 2023)

In addition, as noted on page 15, on July 5, we announced a share buyback as a shareholder return policy. The Company has a limit of JPY10 billion for 50 million shares, and as of the end of July, it had repurchased 8.03 million shares for JPY2.4 billion. The board members discussed shareholder returns many times, but the final decision to implement the share buyback was made in light of having flexibility considering the recent stock price level.

Apart from this, the Company will also be able to make prepayment on its JPY30 billion loan from November this year. We will continue to discuss and choose the best option for the Company, whether to use cash on hand to repay the debt, refinance, or both, as a financial strategy separate from the share buyback.

The number of occupied units by corporate customers grew substantially with 289,144, an increase of 10,456 compared with Q1 FY2022.

The corporate composition reached all-time high of 59.5% since the global financial crisis.



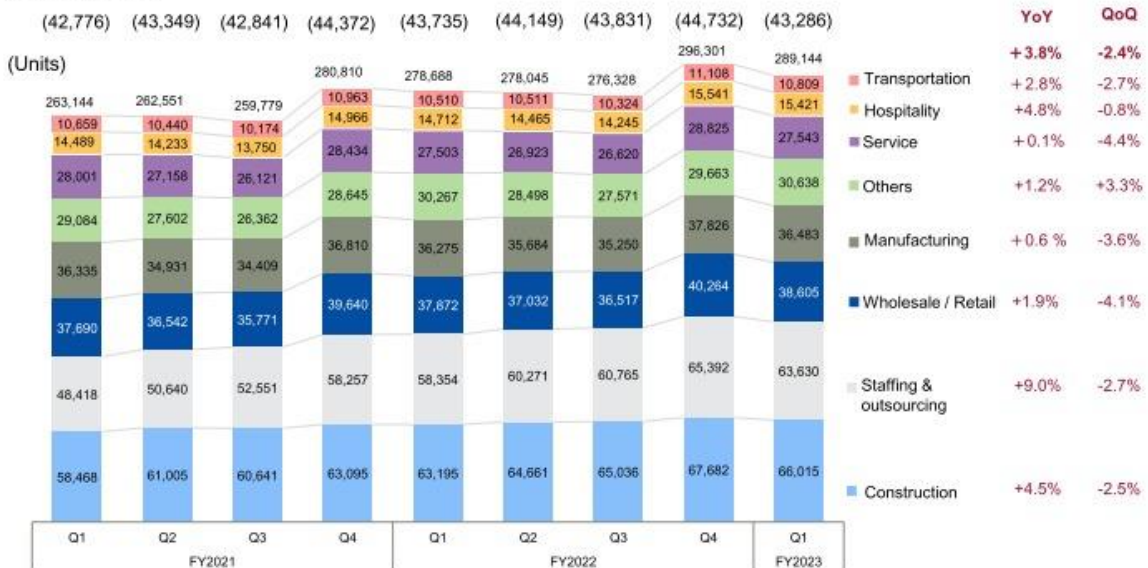
I will then explain the details of the leasing business. The average occupancy rate for Q1 during the period landed as planned.

Please refer to page 19. The ratio of corporate contracts to the total number of contracts is on the rise, and in terms of the number of units contracted, the ratio of corporate use is the largest ever since the Lehman collapse.

Approximately 80% of listed companies in Japan use Leopalace21 services.

Staffing & outsourcing and construction sectors showed continued growth. Hospitality showed recovery trends due to mitigation of COVID-19 impact.

No. of companies



I would like to explain trends in the corporate sector, which accounts for approximately 60% of our contract balance. What we have done in the past two years since the discovery of the construction defects problem is to increase the market share of existing clients, especially in the construction, temporary staffing, and retail sectors, rather than to expand the number of new clients. As a result, when the economy recovers or there is an influx of foreign workers, the Company will receive related orders.

Although we have steadily recovered the number of units under corporate contract so far, there are two things we must be careful of in the future.

The first is to eliminate mismatches caused by reducing the number of vacancies as occupancy rates recover. If there are no vacancies in the area the customers want, we will offer them instead the vacant rooms in the neighboring areas. The demand by manufacturers, or temporary staffing agencies, is met by the Company's proposal in this aspect, we can fill the vacant rooms in nearby areas, in an effort of working with the temporary staffing agencies to eliminate mismatches. In terms of market share, we have already captured approximately 50% of the demand in the temporary staffing industry.

The second point is that the manufacturing industry, especially semiconductors, is beginning to be affected by the sluggish sales of some smartphones and other factors. However, from discussions with various companies, we have heard that this is the bottom and that the economy is expected to return to a recovery trend from the end of the year.

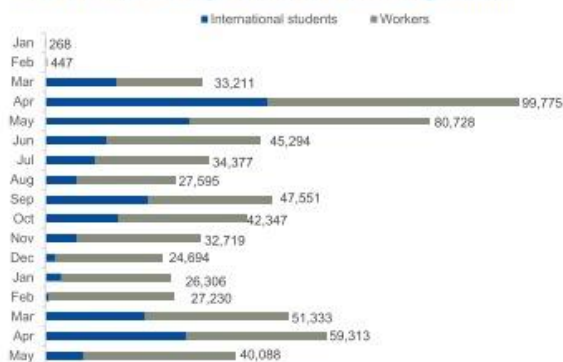
In terms of rent trends, corporate contracts also maintained an upward trend. Although our rents may appear higher than those of other companies due to the increase in rent, we are able to present a total economic benefit because the customers do not need to pay brokerage fees and can locate apartment rooms nationwide through a single point of contact, thus reducing other expenses.

Number of units used by foreign national tenants is about 42 thousand, comprising about 22 thousand individual customers and about 20 thousand under corporate contracts, 8.7% of total occupation. (+1.2 p from end of Q1 FY2022 and -0.1 p from end of Q4 FY2022)

Contracts with foreign national customers (Individual customers)

Q1 FY2023 Actual  
2,133 (- 564 against the plan, - 629 YoY)

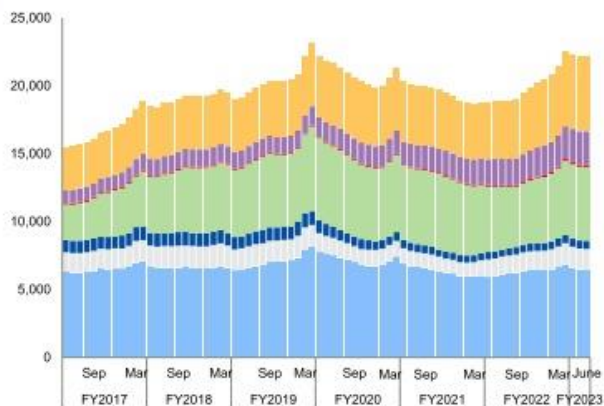
Trends of foreign nationals entering Japan\*



\*Source: Statistics on number of foreign nationals entering Japan by nationality and region

Trends of No. of contracts with individual foreign nationals

(Unit) Q1 FY2023 Actual: 22,152 rooms  
(+16.8% vs Q1 FY2021 Actual, -1.7% vs end of Q4 FY2022)



Please refer to page 21. Regarding the trend of foreign nationals, Japan has been trying to increase the number of foreign national workers in all industries for some time due to the decline in Japan's working-age population. In the temporary staffing industry in particular, they focus on offering foreign national workers to the industries which suffer from manpower shortage.

The lower left graph shows the number of foreign nationals entering the country. Immediately after the easing of entry restrictions in March 2022, the number of arrivals rose dramatically, but since summer, due in part to the depreciation of the yen, the movement has calmed down. However, since March this year, the number has increased again. Among them, the growth of international students has been particularly strong.

The graph on the right shows the trend in the use of foreign national workers by individuals in our properties, and the balance of contracts by individual foreign nationals at the end of June increased approximately 17% compared with the result of June last year. The analysis shows that use by international students has contributed to this. In addition, the balance of foreign nationals under corporate contracts increased by approximately 26% compared with the result of June last year.

We will actively provide housing for foreign national workers, not only through our connection with companies that employ foreign national workers, but also in cooperation with support agencies that provide immigration assistance. In addition to the human rights issues that are often reported in the news these days, we expect that there is still room to expand our market not only by increasing the number of contracts for international students and foreign national workers, but also by advising the corporate customers to allocate one room per person.



**Estimated number of rooms requiring repairs: About 26,900 rooms**

Of the units requiring repair, we expect to repair approximately **26,900** units, including **18,023** units that have already been surveyed and **8,910** units that have not been surveyed and are expected to be inadequate based on the results of the survey to date.

(As of July 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		Expected No. of to-be-repaired rooms
				requiring repairs	with repairs completed	
Nail Series / Six Series Total	15,283	7,708	121,066	80,214	49,568	16,300
Other Series Total	23,802	4,542	70,793	42,479	10,534	10,600
Grand Total	39,085	12,250	191,859	122,693	60,102	26,900

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, I will explain the response to the construction defects problem. As of the end of July, the number of units to be repaired has been reduced to approximately 26,900 units. While our policy of eliminating obvious defects by the end of December 2024 remains unchanged, we will soon announce again the details of our future repair plan.

Finally, regarding the supply of new apartments, construction of one building is underway in Q1 and is expected to be completed by the end of the current fiscal year. In addition, we have just signed our first new order contract for a new product in August. Although new order will be completed sometime next fiscal year, we are proceeding with the project while incorporating DX into the construction site under the new construction management method which was established as part of the measures to prevent the recurrence of the problem.

This concludes my explanation. Takekura will now give a presentation on cost containment and sustainability strategies. Thank you very much for your attention.

**Kawasaki:** Next, Takekura, Chief of the Corporate Management Headquarters begins his presentation.

**Takekura:** Thank you very much for taking time out of your busy schedules to join us today. I am Takekura. I will mainly explain costs, DX and sustainability strategies, and compliance.

Cost of sales increased YoY due to an increase in leasing management costs, but remained generally in line with the plan.

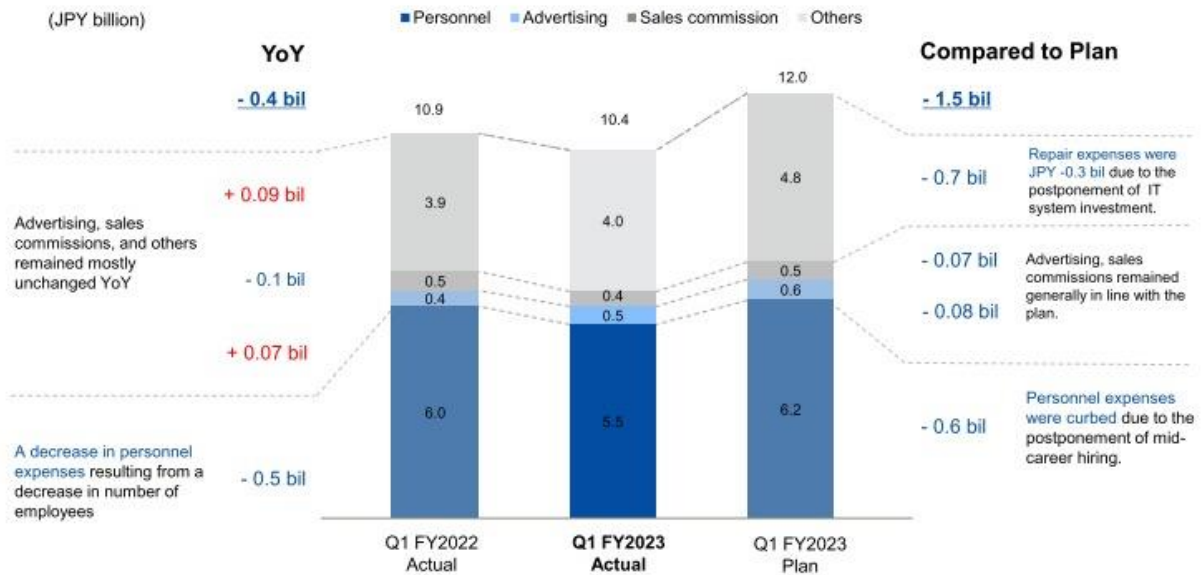


Please refer to page seven. These are the cost of sales results.

The leasing operation cost was minus JPY0.7 billion YoY due to a decrease in the number of units under management. Even compared to the plan, this is a negative JPY500 million. This is due to a lower-than-expected increase in utility costs.

The leasing management cost was up JPY1.9 billion YoY due to preventive maintenance, but ended JPY0.5 billion lower than the plan, partly due to the delay in some maintenance work.

SG&A expenses were lower than planned due to the postponement of mid-career hiring and the control of other expense items.



\*Others: Taxes and public charges, commission expense, rent expense, repair and maintenance expenses, depreciation and amortization, etc.

Please refer to page eight. These are the SG&A expenses results.

SG&A expenses were reduced both in comparison to the previous year and to the plan. The main reason for the YoY decline was a decrease in personnel expenses, which decreased by about JPY500 million. This is also a JPY600 million decrease from the plan, due to the push back of personnel hiring.

Other SG&A expenses were also down by JPY0.7 billion compared to the plan. This was due in part to the JPY300 million investment in IT systems and other factors which were pushed back.



### Create new value by offering advanced solutions for meeting people needs and expectations through DX

**Smart Lock**

- ◆ Reached installation of 130,000 apartment units under management, which is the industry-largest.
- ◆ Reducing the time and effort of visiting stores and issuing related documents by eliminating the need to hand over keys.



**AI-powered voicebot / chatbot**

- ◆ Full-scale operation of chatbot for tenants covering all kinds of inquiries from August 2023
- ◆ No. of inquiries handled by chatbot: 120,732 (March – July)



Response rate  
Improved by about 20%.

**Contract-related work reduction for corporate customers by digitalization**

- ◆ DX streamlines and reduces the processes from arrangement to contract, renewal, and cancellation.
- ◆ Number of works related company housing reduced by about 40%.

Finding Rooms

EcoSystem

AI assists in finding rooms for company housing.

Contract / Renewal

Leo-sign

Apartment contract signing can be done as short as one day.

Billing / Contract Termination

Corporate WEB System

Centralized management of various data from billing to termination.

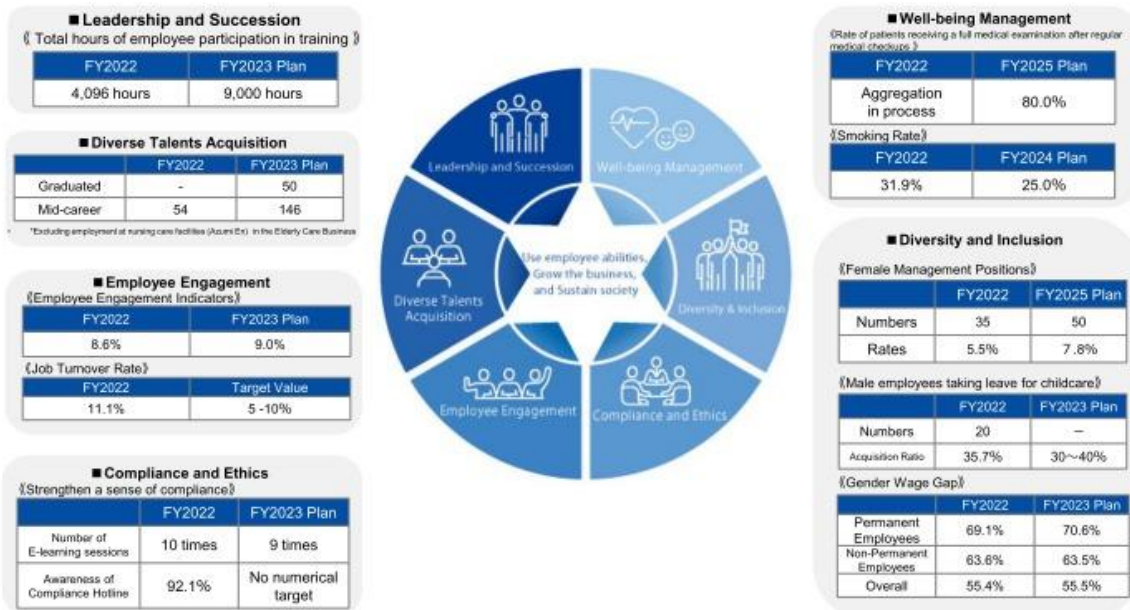
See page 25 for our sustainability strategy. I will explain DX promotion as a sustainability initiative directly related to our core business, as well as the very important human capital management and the Leopalace Green Energy Project.

First, as for DX-related activities, the number of units with smart locks installed exceeded 130,000 units. This is the largest smart lock project ever undertaken by a single company. Currently, this is calculated to result in approximately 62,000 hours of operational improvement.

Other DX initiatives include the March release of a system that uses AI-powered chatbot and voicebot to respond to tenants' inquiries. The chatbot will be able to respond with AI in all categories from this August, which was initially about 30% of the range of support. In terms of operator response to inquiries, the response rate was sometimes below 70% during busy periods, but since the introduction of chatbot and voicebot with AI, the operator response rate has improved to the current 90%. The FAQ site is renewed in conjunction with the full-scale operation of the chatbot. The latest information will be posted on the site, which will also improve customer convenience.

In the area of corporate contracts, we have reduced the work involved in corporate contracting by approximately 40% by digitizing the entire process from room search to contracting and contract termination procedures.

Leopalace21 positioned human resources strategy as the most important management resources. Highlighted six most important themes.



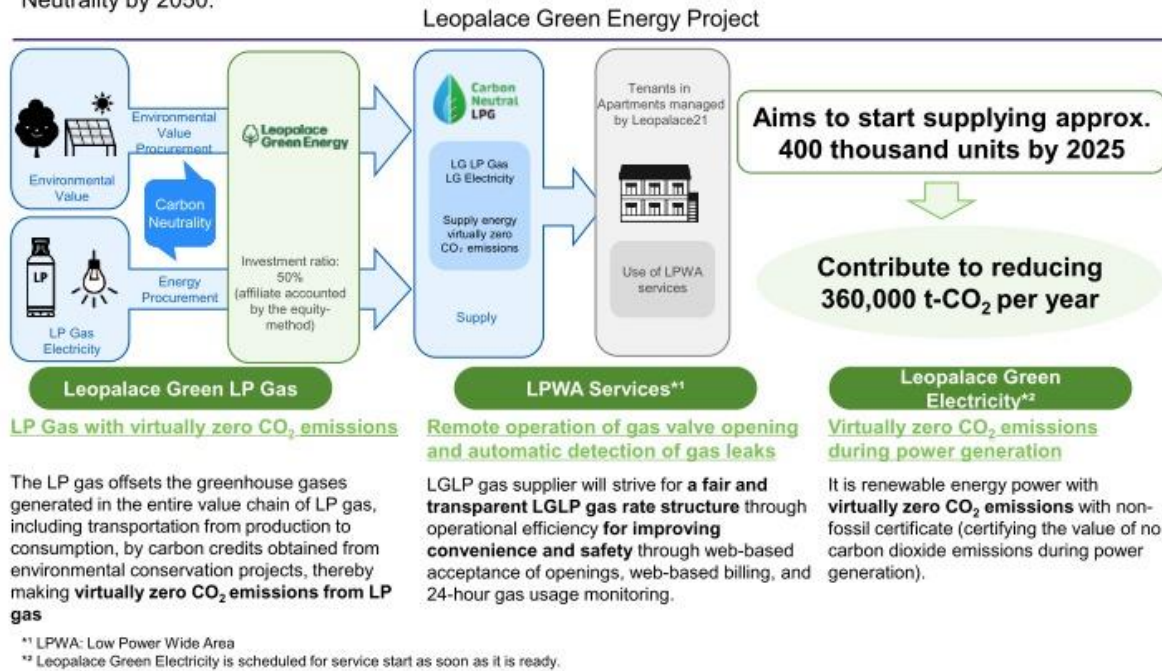
Please refer to page 26. This was disclosed in the annual securities report released in June this year, which discussed human capital management initiatives, their indicators, and target values.

First, regarding the top left, leader development and succession, we will begin selecting and training personnel for the next management level from this fiscal year. We will also resume training for human resource development, which we have not been able to do for the past several years.

Bottom left. With respect to fostering a sense of compliance and ethics, we have been conducting ongoing training for employees and officers for some time now, and we are also focusing on the operation of an internal reporting system.

In addition, with the goal of promoting self-driven compliance, we have appointed compliance managers and compliance coordinators in each department to actively implement compliance at the business execution, and each is responsible for his or her own duties. For example, in the event of a compliance violation, the compliance manager and compliance coordinators will take the lead in taking the necessary actions to address the incident. Like a BCP, it is a means of preparing a response in the event of an emergency.

Leopalace21 plans to offer Green LP Gas and LPWA services with virtually zero CO<sub>2</sub> emissions to the apartments under management starting in 2023, in response to the government's declaration of Carbon Neutrality by 2050.



Please refer to page 27. This is the Leopalace Green Energy Project.

We have been sequentially switching to green LP gas, which generates virtually zero CO<sub>2</sub> emissions, and as of the end of June, we had completed the switchover for more than 3,000 units in 200 buildings. The target for the switchover current fiscal year is 5,700 buildings. This is equivalent to a reduction of 40,000 t-CO<sub>2</sub> or about 10,000 households of CO<sub>2</sub> emissions. The final supply target is 400,000 households in the plan.

Some of the companies that use our apartment rooms have obtained SBT, or Science Based Target, certification. All of these companies are promoting initiatives to reduce CO<sub>2</sub> emissions. In particular, the companies that have obtained SBT certification have very strict CO<sub>2</sub> reduction targets, and are now required to reduce not only their own CO<sub>2</sub> emissions, but also those in their supply chains.

We believe that by providing this virtually zero CO<sub>2</sub> emission rental housing in addition to the sheer volume of 560,000 room offering capability nationwide, added value such as having furniture and home appliances equipped, internet included, and no brokerage fees, we will expect the increasing demand by SBT companies for their company housing.

We will continue to pursue our company's business with the aim of becoming a provider of housing infrastructure, being conscious that our company's raison d'etre is to continue to be a company that provides services needed by society through our core business and through these sustainability activities. This concludes my explanation. Thank you very much for your attention.

## Question & Answer

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**Kawasaki [M]:** We will now begin the question-and-answer session. Start with a question from Mr. Hashimoto, Mizuho Securities.

**Hashimoto [Q]:** In Q1, the Company almost achieved its H1 operating profit plan of JPY8 billion. I would like to understand the background of the unchanged earnings forecast. Do you anticipate any cost increases or provisions in Q2 and beyond?

**Miyao [A]:** As you said, we have finished Q1 of the fiscal year with profits that exceeded the plan by a considerable amount, but on the other hand, there is no doubt that costs have risen in various ways, so we will take into account how costs will progress in the future and the degree of overall achievement for the full fiscal year before making any changes to the earnings forecast.

If we rush to make changes now, it will be difficult to predict when various things will change again, including energy and the weak yen, so we are thinking of waiting until we can get a more complete picture.

**Hashimoto [Q]:** Regarding the status of share buybacks, are you almost exclusively buying back shares from the market at this point? What are the prospects for utilizing ToSTNeT-3?

**Takekura [A]:** At this point, we are basically purchasing from the market, and while there are no zero opportunities to do so when using ToSTNeT-3, I would like you to understand that we are mostly purchasing from the market at present. As for purchasing from ToSTNeT-3, we will make an announcement once we are at the stage where we are certain that there is no execution possibility, so I would like to answer that we are mostly purchasing from the market at present.

**Hashimoto [Q]:** With 17 months remaining until the end of 2024, the average number of units to be repaired per month will be 1,582 units per month, compared to the plan of repairing 26,900 units. What is the projected progress of the repair work per month going forward?

**Miyao [A]:** Starting with Q2, we will increase the number to 1,000 units per month, followed by 1,300 units and then 1,500 units. To this end, we are developing construction companies and will make sure that the repairs proceed steadily.

**Kawasaki [M]:** Thank you very much. The next question is from Mr. Tazawa, SMBC Nikko Securities.

**Tazawa [Q]:** On page six, you mentioned that Q1 results were significantly higher than planned due to higher rent prices and SG&A cost containment, and that some costs have been shifted to later periods. To what extent is the Company's full-year forecast being exceeded? While the above-mentioned trend is on the upswing, is there still a reasonable risk that costs will increase in Q4, and the plan will not be achieved?

**Takekura [A]:** As you mentioned, there is no doubt that Q1 results were very much better than planned. In this premise, first, in terms of costs, personnel and other costs will not be incurred for those that have already passed their time, so this will be a budget that cannot be executed, even if it is purely a latecomer.

Other matters will also arise depending on the situation, but the most important one to watch in the full-year plan is the occupancy rates, especially in August, September, October, and November, which we had difficulty last year. Rather than a cost issue, we are proceeding based on the belief that if we can make progress in the recovery period of the occupancy rate, as scheduled at the beginning of Q2 and Q3, part of the current upward

swing can be secured as it is. In this regard, at the end of H1, we will be able to almost see the expected figures, and we would like to change our earnings forecast accordingly.

**Tazawa [Q]:** You can begin the repayment of JPY30 billion loan from Fortress, with an interest rate of 15%, in November this year. Is it your company's policy to seek full repayment?

**Miyao [A]:** Our basic policy is to repay all loans from Fortress in full and to make collateral and freely available once again. We are still considering whether the full repayment will be funded by cash on hand, refinancing, or a combination of the two. Since we are actually paying out about 4.3 billion in interest expenses per year as funds, if we can repay the entire amount on hand, our annual profit will increase by more than 4 billion, so another issue for this year's financial strategy is how much lower interest rate debt we can raise. As Takekura mentioned earlier, the repayment policy will be finalized in November, when leasing business performance for H1 will become clear to some extent, and the timing for the change of earnings forecast of this fiscal year's performance will also come after that.

**Tazawa [Q]:** Please tell me how you see the possibility of Fortress exercising its stock acquisitions rights, 50% dilution. Even if they exercise them, are the share buybacks implemented to limit dilution? Is there a possibility that the Company will consider further share buybacks to further reduce the risk of dilution?

**Takekura [A]:** First, as for the effect to control dilution. Of course, it exists. However, our decision to buy back our own shares this time was firstly to send a strong message that the current management is not satisfied with the current share price in terms of EV or enterprise value, which we consider in many ways. On the basis of consideration, there's the dividend and other various means of share buybacks. We have had a number of internal discussions and decided that share buybacks would be the most agile and effective option, and we have now reached this decision.

Regarding the last point, whether or not to consider measures to further reduce the risk of dilution, we would like to continue to have a thorough discussion and conduct capital policy as the best possible measure. That's all from me.

**Kawasaki [M]:** This is a question from Mr. Hashimoto, Mizuho Securities.

**Hashimoto [Q]:** Could you comment on the occupancy rate by prefecture on page 22? Are there any prefectures that have been affected by smartphone-related manufacturing, particularly Hokkaido, which saw eight-point quarterly increase, and Ibaraki, Kanagawa, and Mie, which saw a four-point decline?

**Miyao [A]:** First, regarding Hokkaido, the occupancy rate is 91% in Q1, to my recollection, Hokkaido has not exceeded 90% for quite some time. In the past few years, the occupancy rate in Hokkaido has been very low, and we have been struggling a lot, but with the construction of semiconductor plants moving into Chitose, the occupancy rate has been increasing all the way from Chitose airport to Tomakomai in the south, and then to Sapporo in the north.

Sapporo naturally has the largest number of units under management in Hokkaido, but construction of the Shinkansen, the bullet train, is underway and various redevelopment projects are underway in front of the station. Currently, Sapporo is full of development projects for office buildings and hotels, which are attracting people not only from Hokkaido but also from Tokyo and many other places. Therefore, the occupancy demand in Hokkaido is rising considerably.

On the other hand, the area with the largest decrease is Mie, which I would like to comment on. One of the reasons for this is that a related-company in the smartphone industry completed its seventh manufacturing building last year. Suppliers of construction and other equipment-related products who used our rooms are leaving as the construction is complete.



As I mentioned earlier, business related to smartphones is a little weak at the moment, although the plant has been completed, the production line is not yet fully operational. Therefore, the reason for this is that the number of dispatched workers and various business partners, as well as business partners related to manufacturing, have not yet come in as planned, and have not come in as much as last year. That is all from me.

**Kawasaki [M]:** Next question from Mr. Tazawa, SMBC Nikko Securities.

**Tazawa [Q]:** On pages seven and eight. The preventive maintenance cost was reduced by JPY500 million, the repair and maintenance cost was reduced by JPY300 million due to push back of the IT system investment, and the personnel cost was by JPY600 million due to push back of the mid-career hiring. These are listed as costs that have been pushed back in the document. I would like to know when these will come to the surface.

**Takekura [A]:** First, personnel expenses, Q1 has already ended, so even if we start recruiting again from here, it is not really possible to spend all of the expenses. Therefore, this one is almost disappearing from our assumptions.

Also, IT system investment is necessary, so there is a possibility that this will occur Q2 or Q3, but the preventive maintenance that has been delayed has been pushed back, as was the case last year, and there is the fact that it cannot be used for the entire fiscal year. I hope you understand that the possibility of incurring costs that have been delayed one quarter is becoming a little less likely.

**Tazawa [Q]:** On page 21, the number of foreign national customer contracts landed at 2,133 individual contracts, a decrease of 564 contracts from the plan. It is slightly behind 10,000 foreign national individual contracts. The number of new arrivals of foreign nationals has declined significantly compared to the previous year, almost halving when viewed from April to May, but what is the outlook for the number of foreign national contractors using the properties in the future?

**Miyao [A]:** I have the same impression that it is indeed a bit behind the plan. This is due in part to the fact that the number of foreign nationals entering the country has not increased significantly. However, as you know, our apartments are equipped with furniture and appliances, and internet access is readily available, so we feel that we have an advantage over other rental apartments in this respect.

Therefore, the question is how the number of foreign nationals will grow in the future, but we have heard from many companies that they want to hire more and more foreign nationals. I have never heard of anyone saying that they are already terminating employment contract with their foreign nationals. In that aspect, I think business opportunities still remain.

On the other hand, although the depreciation of the yen may have something to do with it, at least the industry would like to invite foreign nationals for their workforce. They are still trying to resolve compliance issues, humanitarian issues, and various other issues, and they are still trying to increase foreign national workers in each field. I feel that this is an area where we can continue to grow.

We would like to achieve the goal in the end as planned, and since we believe that we have been able to develop various channels over the past year, we would like to do our best in this area.

**Kawasaki [M]:** Next, a question from Mr. Hashimoto, Mizuho Securities.

**Hashimoto [Q]:** I believe that the construction capacity for new apartments will increase in and after 2025, when the repair work will be finished. Do you have any comments on the capacity of construction in 2023 and 2024 and the capacity of supply in 2025? After 2025, the Company will continue to focus on the city center, and my reading is that it will be less than the JPY76.6 billion for the year ended March 31, 2018.

**Takekura [A]:** As of now, our construction management and design staff are engaged in dealing with the recent construction defects, but as mentioned, once the repair work is over in 2025, the reconstruction of existing apartments will begin, which started this fiscal year.

As for the current situation, we have talked to the existing owners, and there are many owners who are supporting us despite their various concerns, and we would like to thank them for their support and proceed to the reconstruction.

As it is now, just as it takes time for a craftsman to regain his skills if he takes a break for a while, it will take time to restart the construction network in our company since we have a history of stopping the construction of a nationwide network that we had in the past. Therefore, after receiving several dozen orders this fiscal year, we will start construction next fiscal year to prepare for the transition to 2025, and then return the order situation to the JPY10 billion unit per year as soon as possible.

We will not proceed with all of construction in all 47 prefectures in the future, but rather, after confirming the population statistics, we will construct buildings based on the premise that tenants will move into them in order to conduct solid rental management. If we proceed with construction in the three major metropolitan areas, the number of related prefectures will be about half. That would make about from 23 to 27, half of the number of prefectures. Even if we receive orders for three or four buildings there, the number will grow to about 70 or 80 buildings, and if we calculate the unit price, it will soon exceed JPY10 billion. Once we reach that level, all we have to do is to increase the number of buildings. We are hoping to get the preliminary arrangements in place and move forward with the construction order and establishment an organization to complete constructions at the earliest possible stage.

**Kawasaki [M]:** Next, a question from Mr. Kuni of Panview Capital.

**Kuni [Q]:** How much have new rents for existing apartment rooms increased compared to the previous year? We would also like to know about future prospects.

**Miyao [A]:** First, in terms of rent setting, I feel that in this rental housing market, it is not easy to pass on a price increase. I believe that rent is a market that has not seen much of an increase while the prices of many things are rising.

I think this is because most of the apartment owners are private owners, and they want to fill vacancies faster than others, rather than trying to increase prices or rationalize their operations. Also, individual business owners cannot recruit by themselves, so they have to rely on intermediary companies. Brokerage firms, on the other hand, need a lot of benefit, such as reduced rent from the owners, key money exemptions and free rent in order to conclude a contract and earn money. Therefore, I think the problem in this industry is that no one is moving to raise rents.

In this context, we are, so to speak, in the position of a lessor, and because we are managing and operating the property ourselves, we are now setting rents more aggressively than our competitors. In terms of specific rent setting methods, for example, if the room with the most recent tenant has the highest rent out of the 10 rooms available, that price is the room that sold at the current market price, so we use the rent of the room that sold as the standard and do not lower the rent for the next available room. So, as to your question about how much the price increased compared to the previous year, I think the increase was a little over JPY1,000 last year compared to the year before, and everyone is raising prices accordingly. In reality, we are now in the latter half of the JPY1,000 range.

And not all the increase in sales comes from this rise in rent, but also from various other ancillary revenues, such as the key money that I mentioned earlier. We are also actively engaged in this kind of thing, and things

like free rent are rather recorded in the form of negative sales. Therefore, by reducing the free rent, sales can be secured. Focusing on how much revenue can be obtained, each sales team is now in control.

Also, we are currently trying to raise the rent for renewal of existing properties. Our goal is to raise the difference between the current rent and the previous rent by targeting the rent that is currently being offered or recently signed. However, it is difficult to be able to control all the rent as we wish and it has just started, so I am sure you can understand that it is still too early to talk about the future prospects.

**Kawasaki [M]:** Since there are no additional questions, we would like to conclude the question-and-answer session and the briefing session. Thank you very much for joining us today at the Leopalace21 Corporation, Q1 Financial Results Briefing for the Fiscal Year Ending March 31, 2024.

**Miyao [M]:** Thank you.

[END]