



**Leopalace21 Corporation**

Financial Results Briefing for the Six Months Ended September 30, 2023

November 10, 2023

# Presentation

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**Kaneko:** Thank you very much for joining us for Leopalace21 Corporation’s financial results briefing for Q2 of the fiscal year ending March 31, 2024. I am Kaneko, and I will be your moderator. Thank you.

Today's speakers are two, Bunya Miyao, Representative Director, President and CEO, and Shinji Takekura, Director, Chief of the Corporate Management Headquarters. There will be time for questions and answer session after the presentation. The end time is scheduled to be 18:00.

Miyao, CEO, will now begin the presentation.

## Redemption of JPY 30 Billion Loans



In discussions with several financial institutions, Leopalace21 is working on final terms of contracts and aiming to complete refinancing as soon as possible.

### ■ Outline of Loan

<b>Amount of Loan</b>	JPY 30 billion	<b>Maturity Date</b>	November 4, 2025
<b>Interest Rate</b>	14.5% per annum	<b>Early Repayment</b>	Available from November 2, 2023

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

First, I would like to report on the status of the refinancing study, which is of great interest to all of you.

The JPY30 billion loan taken out from Fortress Investment Group in November 2020 is available for early repayment as of November 2 of this year, three years after the loan was taken out. With an interest rate of 14.5%, interest payments of over JPY4 billion per year are incurred as non-operating expenses, and we recognize that early repayment or refinancing is an issue.

As our business performance recovers, we have discussed all possible means, including refinancing with general financial institutions and partial repayment using cash on hand that is accumulating, and after

discussions with several companies, we are currently in the process of narrowing down the list of prospective lenders.

We regret that we were not able to disclose the completion of refinancing along with the financial results, but we would like to begin by informing you that we are currently working out the final terms and the wording of contractual documents, and we intend to complete the refinancing as soon as possible.

## Executive Summary

Leopalace21

### Leasing Business

Whilst average occupancy rate during H1 FY2023 was **86.33%** which was 0.25p lower than the plan, average unit rent was trending upward.

### PL / BS

**Net sales: JPY 211.8 billion, operating profit: JPY 14.8 billion, net income: JPY 11.8 billion** achieved higher than the plan.  
These were the record-high operating profit and net income for H1 since the 2007-2008 global financial crisis.  
**Equity ratio was improved to 20.3%**

### Promoting DX

Promoting DX throughout the Company, including **Online Contract, Smart Lock, AI-powered Chatbot, etc.**  
As part of DX strategy, the company integrated leasing **sales office from 109 to 72**, significantly improving productivity.

### Revision of Earnings Forecasts

Due to increased average unit rent and continued awareness of controlling cost, **the full-year forecasts were revised upward: net sales +0.5%, operating profit +30.2%, and net income +62.2%.**  
Whilst the Company has conservative plans of costs associated with busy season and personnel reinforcement, cost-conscious approach will eventually reduce the cost.

### Construction Defects Management

The Company has been discussing the way of repairing defects while tenants occupy the rooms in order to further accelerate the progress.  
From April to the end of October 2023, 5,441 units were repaired, and the projected number of units to be repaired is approximately 23,100 as of the end of October.

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Next, the executive summary of the H1 results.

Both sales and profits for H1 of the fiscal year ending March 31, 2024, are higher than both the previous period result and the plan. Net sales increased mainly due to an increase in unit rent in the leasing business. On the other hand, postponement of some cost items such as the restraint of mid-career hiring, maintenance expenses and IT system investments took place since Q1, and such postponement continued in Q2.

Below operating profit, an extraordinary loss of JPY910 million was recorded. The Company recorded a loss related repairs of JPY580 million to accelerate repair work on properties with construction defects. The specific use of this loss is for expenses required to temporarily place tenants in temporary housing to make repairs to properties that are currently occupied. Please consider this a necessary cost in completing the elimination of obvious defects as planned.

As for the proposal of housing placement for the tenants, there are no major problems at this stage, and we are steadily obtaining their acceptance.

In addition, a JPY250 million loss on closure of offices was recorded, but this is a one-time charge resulting from the sales office consolidation announced in September, and is an amount that can be turned into a positive effect within a year by reducing SG&A expenses in the next fiscal year and beyond.

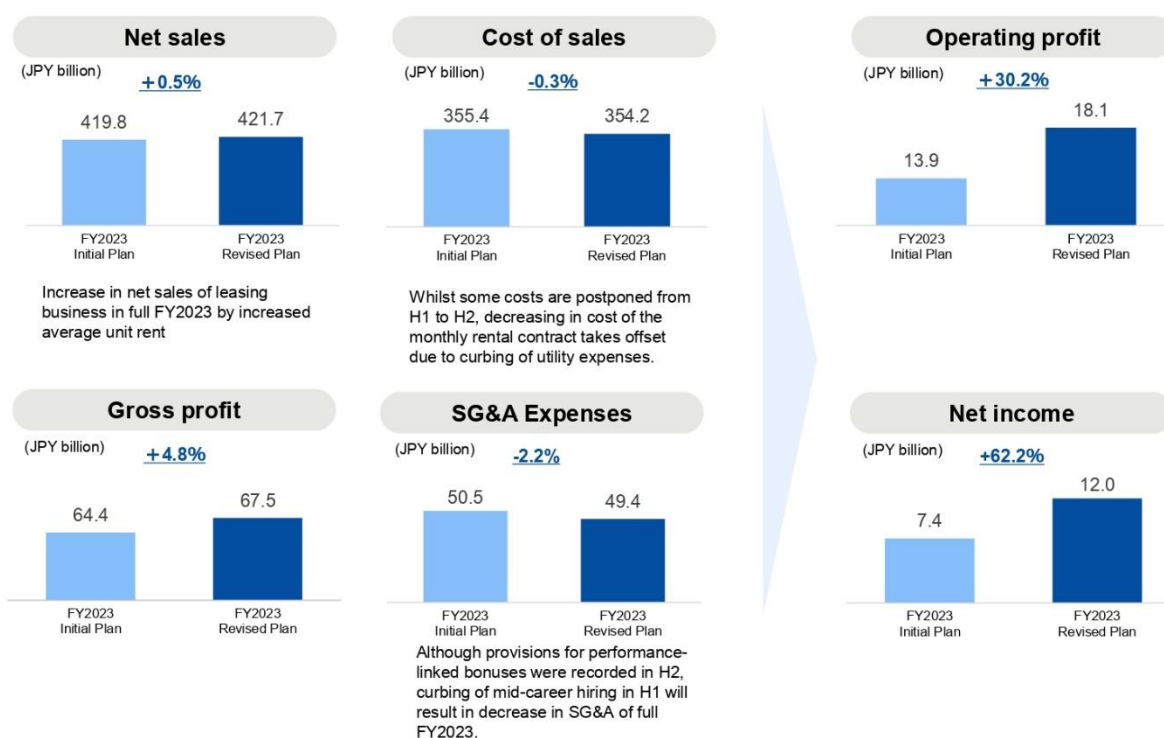
On the other hand, a JPY590 million gains on sale of shares in a sub-subsidiary was recorded as extraordinary income.

The occupancy rate was 85.62% as of the end of September, and the average occupancy rate during the first six months of the period was 86.33%, an increase of 2.42 points YoY.

Although the occupancy rate fell slightly short of our plan, the rent per unit has recovered to a level above the plan and even to the level before FY2018, when the construction defects problem was uncovered. Going forward, the Company will strive to maintain the increased unit rent prices and improve the overall operating unit rent.

The equity ratio at the end of September was 20.3%, up 5.8 points from the end of the previous fiscal year, and even from the end of the previous quarter, the ratio recovered by 2.1 points.

**Chap 1** 6: Revisions of Earnings Forecasts for FY2023



Next, I will explain our plans for the current period and our forecasts for H2.

As announced today, we have upwardly revised our full-year forecasts. The factors for the revision of net sales and profit at each stage are based on the results of H1 of the fiscal year.

Net sales are revised to JPY421.7 billion, up 0.5% from the initial plan, operating profit to JPY18.1 billion, up 30% from the initial plan, and net income to JPY12 billion, up 62% from the initial plan.

On the other hand, looking at H2 alone, the plan will not be able to maintain the momentum of H1, and one of the reasons for this is the increase in costs. Of the cost of sales, property maintenance and other lease management costs were approximately JPY1.1 billion unaccounted for in H1, but in H2 we plan to spend more

than the amount unaccounted for in H1 to implement maintenance in order to further strengthen preventive maintenance.

Similarly, in SG&A expenses, which was unspent and amounted to JPY3.3 billion in H1 of the fiscal year, it will increase due mainly to building provision for performance-linked bonus of approximately JPY1.5 billion, which is expected to be posted in conjunction with increased operating profit, and a temporary increase in personnel as a measure for the busy season.

Another factor is the revision of the occupancy rate, which is the premise for the top line. The number of contracts, especially for individual clients, has not increased in current period as we have set stronger rents and are trying to improve individual property profitability rather than volume. In addition, some mismatches have already occurred due to the concentration of demand in some areas.

Regarding the occupancy rate, it is important to bring it up to the end of March as high as possible, so we are considering measures in H2 as I am about to explain.

Two major topics in H2 in leasing measures are as follows. They are to capture the demand for hiring new graduates and to attract foreign national tenants.

Regarding the demand for new graduates, information on new graduates will be organized during October. Since there are limited number of rooms available, we will focus on considering where optimal performance can be achieved. Demand is already expected to increase by approximately 10% compared to the previous period.

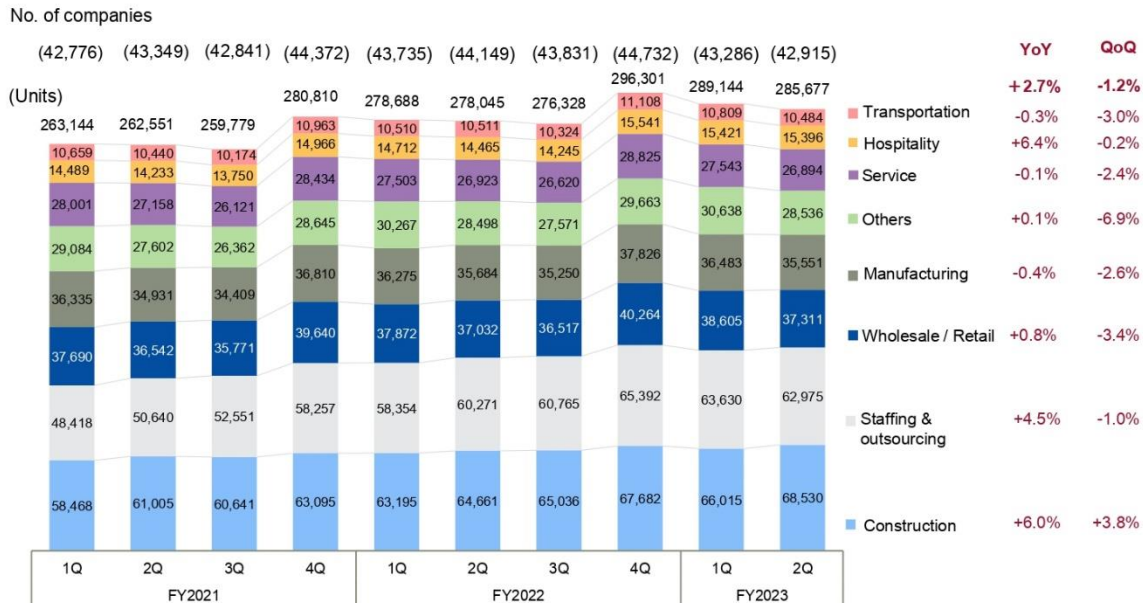
Regarding the attraction of foreign national tenants, we will continue our upstream marketing as in the past through collaboration with supervisory organizations that serve as entry points. In addition, in direct sales with each company, we will propose the use of foreign human resources to the company as solution sales and introduce the supervisory organizations from the Company to solve the problems of each company.

I will explain details on trends by industry sector in H1.

Overall, the demand for our rooms were increasing, supported by strong business activity. Staffing and outsourcing remained a strong sector with an increase of 4.5 points YoY change. Although some macroeconomic factors, such as semiconductor inventory adjustments, have slowed the movement a bit, demand for rooms was increasing as car production recovers.

Especially since September, the number of contracts has exceeded the number of rooms vacated, resulting in a steady increase in stock. Some companies have ordered us for more than 1,000 rooms by the end of the year due to the recovering production of semiconductors for automobiles.

Approximately 80% of the listed companies in Japan use Leopalace21 services.  
 Construction sectors showed continued growth both in YoY and QoQ due to increased construction projects.



The construction industry was the only sector that increased both YoY and QoQ comparisons at the end of September, as COVID-19 disaster ended and construction investment increased.

Large capital investment projects by private companies are underway in some regions, and infrastructure renewal work is also robust. In particular, we have recently seen an increase in the number of companies that give us preferential treatment in using our properties for their on-site accommodations at construction sites. Our employees participate in branch meetings of major subcontractors and general contractors at each of their locations, and as a result, the number of subcontractors of various construction companies using our services has been increasing.

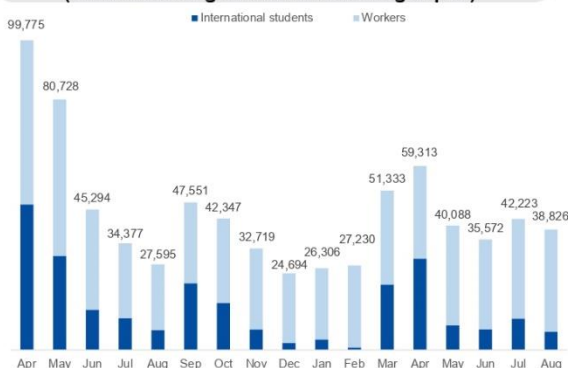
What will become important in the future is the reduction of supply mismatches to meet demand. Areas with considerable mismatches are Tohoku, Kyushu, and the Tokyo metropolitan area. In each area, we are working with companies to avoid mismatches by proposing properties that are located within commuting distance by train or bus.

Number of units used by foreign national tenants is about 43 thousand, comprising about 22 thousand individual customers and about 21 thousand under corporate contracts, 9.1% of total occupation. (+1.3 p from end of Q2 FY2022 and +0.3 p from end of Q1 FY2023)

**Amount of contract (individual customers)**

**1H FY2023 Actual**  
**4,229 (- 747 against the plan, - 744 YoY)**

**Market Data**  
**(trends of foreign nationals entering Japan)\***

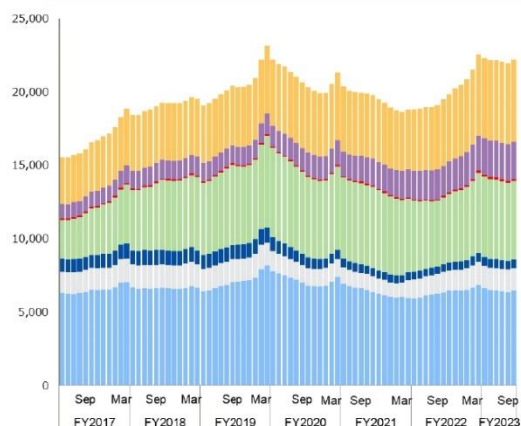


\*Source: Statistics on number of foreign nationals entering Japan by nationality and region

**Trends of No. of contracts with individual customers**

China S. Korea Taiwan Vietnam Thailand Other Southeast Asia Other

(Unit) **End of Q2 FY2023 Actual: 22,179 rooms**  
 (+13.8% vs Q2 FY2022 Actual, +0.1% vs end of Q1 FY2023)



Regarding trends in foreign nationals, both the number of arrivals and the balance of the Company's individual customer contracts continued to increase YoY.

The graph on the lower right shows the actual room use results of foreign nationals in individual contracts in our properties. After COVID-19 ended, the balance has been recovering since April of the previous period, and as of the end of September of current period, it has shown a significant increase of plus 13.8% compared with the one in the previous year. In addition, the balance of corporate contracts with foreign nationals as tenant increased by approximately 22% compared with the result of the previous year.

Against the backdrop of a declining and aging population, especially the working-age population, the acceptance of foreign workers is inevitable. We will continue to provide properties and services considering perspective of providing comfortable housing also for foreign nationals.

**Estimated number of rooms requiring repairs: About 23,100 rooms**

Of the units requiring repair, we expect to repair approximately **23,100** units, including **16,879** units that have already been surveyed and **6,220** units that have not been investigated and are expected to be inadequate based on the results of the investigation to date.

(As of October 31, 2023)

Apartment series	No. of buildings	No. of buildings containing obvious Defects	No. of all rooms which corresponds to No of buildings containing obvious defects	No. of rooms requiring repairs		Expected No. of to-be-repaired rooms
				No. of rooms requiring repairs	No. of rooms with repairs completed	
Nail Series / Six Series Total	15,283	7,689	120,811	75,638	51,616	13,800
Other Series Total	23,802	4,521	70,568	35,401	11,458	9,300
Grand Total	39,085	12,210	191,379	111,039	63,074	23,100

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/>

Lastly, I will explain the response to construction defects problems.

As of the end of October, the number of units projected to be repaired has been reduced to approximately 23,100 units. In response to the plan to eliminate defects in approximately 5,500 units in four months from September to the end of December 2023, repair work on 1,734 units was completed in the two months of September and October. Including demolitions, etc., the number of units required for repair has decreased by approximately 2,800 units.

There are just over 13 months left until the end of December 2024. Going forward, we aim to achieve to eliminate obvious defects by the end of December 2024 through actively promoting relocating existing tenants for temporary housing and proceed with repairs of more than 1,500 units per month, while also proposing rebuilding existing apartments to some apartment owners.

Finally, regarding the supply of new buildings, we have signed contracts for five new buildings as of the end of October for rebuilding. All of these projects will be completed in the next period or later, and we will proceed construction incorporating DX under the new construction supervision system established through the preventive measures for constructive defects.

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

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

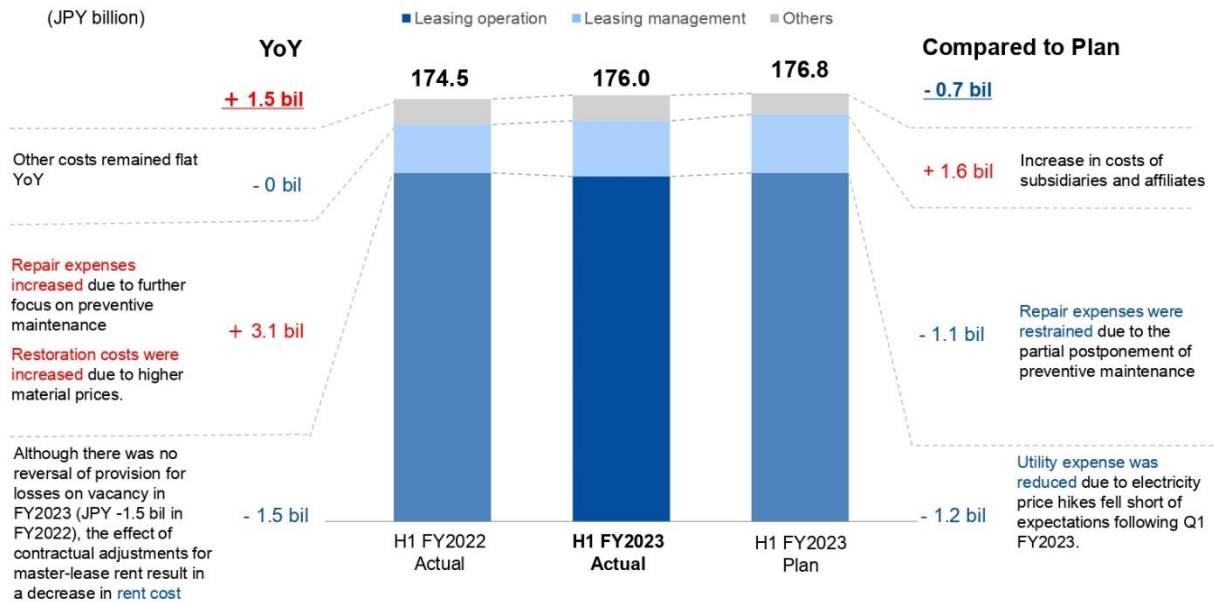
**Takekura:** Thank you very much for taking time out of your busy schedule to join us today. I am Takekura.



I will mainly explain about costs, sustainability strategies associated with DX promotion, and compliance.

**Chap 1** 3: Cost of Q2 FY2023 (Cost of Sales)

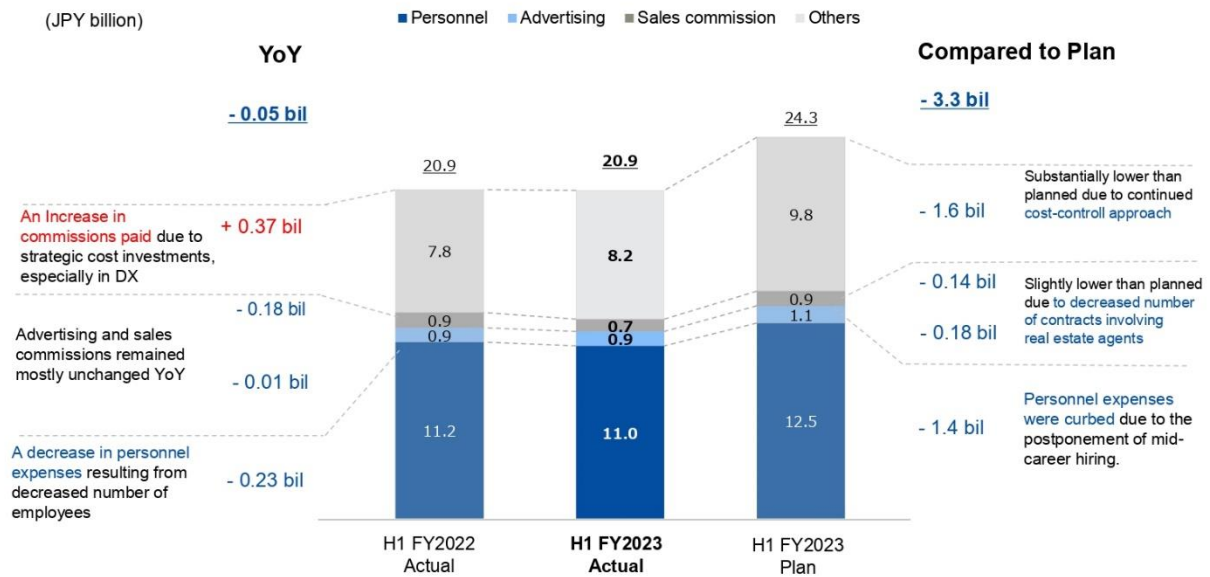
Cost of Sales was lower than planned due to the partial postponement of preventive maintenance for the future and a lower-than-expected rise in electricity costs in the monthly contract.



Please refer to page eight of material. These are the cost results.

Overall cost of sales increased by about JPY1.5 billion from the previous period due to increased preventive maintenance, etc., but is about JPY700 million less than the plan for H1. Factors include a decrease in utility costs and electricity costs that were much lower than planned and postponed preventive maintenance.

SG&A expenses were significantly 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.

Also, on page nine are the results of SG&A expenses.

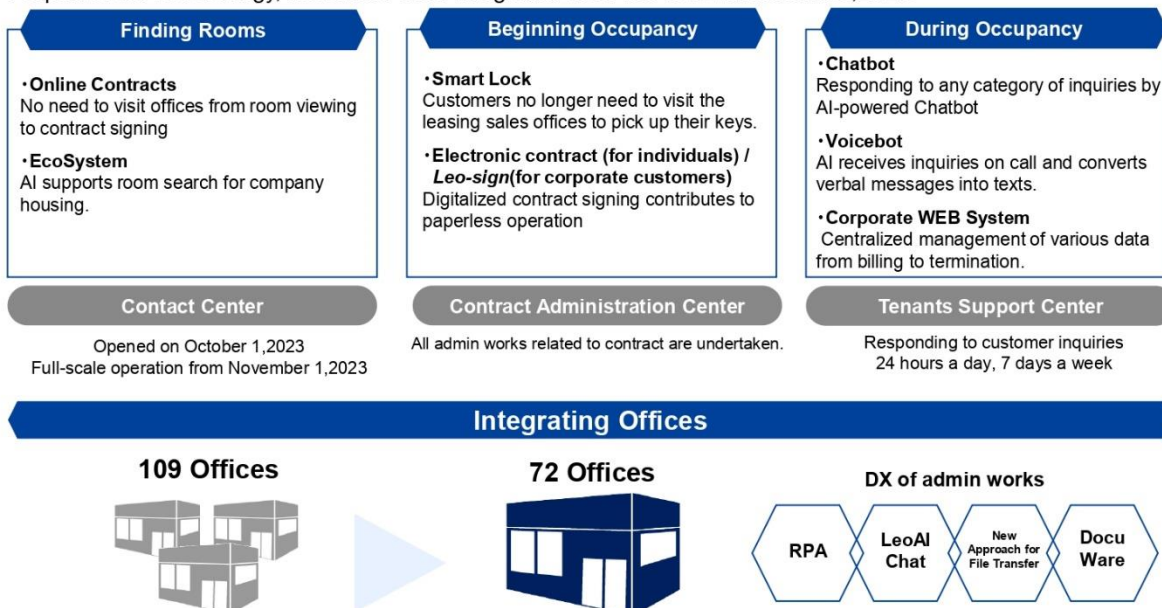
SG&A expenses remained unchanged from the previous period, but were JPY3.3 billion lower than planned, a significant continued decrease from Q1. The factors were very much influenced by the restraint in career hiring, which continued from Q1. This continued into Q2, and personnel expenses were JPY1.4 billion below the plan for H1.

As for the restraint of mid-career hiring, we expect that the cost that was recorded in H1 will become a cost reduction factor for the full year. We also expect a sufficient downward swing in SG&A expenses as we aggressively promote the DX strategy, which we will discuss later.

As for other items, cost restraints took effect as a result of various small accumulations, including consumables, and the continuation of a cost containment approach.

Leopalace21 promotes DX to realize non face-to-face service from room search to contract signing and post-move-in support.

As part of the DX strategy, the offices were integrated from 109 to 72 in November,2023.



Please refer to page 26. As an extension of our sustainability efforts, it is about the promotion of DX that we talked about earlier.

We have been proactively incorporating digital technology to improve our services and operations, such as online room searches, room viewing, and online contract signing. The services include installation of smart locks, chatbots, and voicebots for tenants during their tenancy.

As a result, in our mainstay leasing business, it is now possible to search for a room and sign a contract without visiting a sales office, and the scope of services during the tenancy are also increasing which can be provided in a non-personal manner.

Streamlining has progressed as part of this DX, and from November 2023, 109 domestic and international leasing sales offices have been consolidated into 72 offices to achieve further efficiencies. In the future, we plan to convert our 72 offices nationwide from being mainly customer service centers triggered by customers' action to bases where the Company approaches to customers from our end.

In addition, we have consolidated our customer follow-up system into three specialized units: a contact center, a contract administration center, and a service center.

The Contact Center handles everything from initial inquiry response to application and final contract signing. The Contract Administration Center consolidates administrative processing related to contracts. The Tenants Support Center then incorporates a series of specialized services in each field in response to inquiries from tenants, which contribute to greater operational efficiency, manpower savings, and ultimately reduced labor costs.

In addition, as part of our overall efforts, we are actively utilizing RPA to automate some of our operations, and we are now providing an environment that allows all employees to pursue their work through DX by realizing the benefit of LeoAI Chat, a corporate version of ChatGPT, a hot topic that has recently been making headlines in the newspapers.

Leopalace21 Scholarship Program was launched to address social problems such as recent sharp rise in tuition fees and long-term repayment of scholarships. Leopalace21 supports new students entering universities, junior colleges, and vocational schools in April 2025 will be supported by either free rental of properties managed by Leopalace21 or benefit-type scholarship.



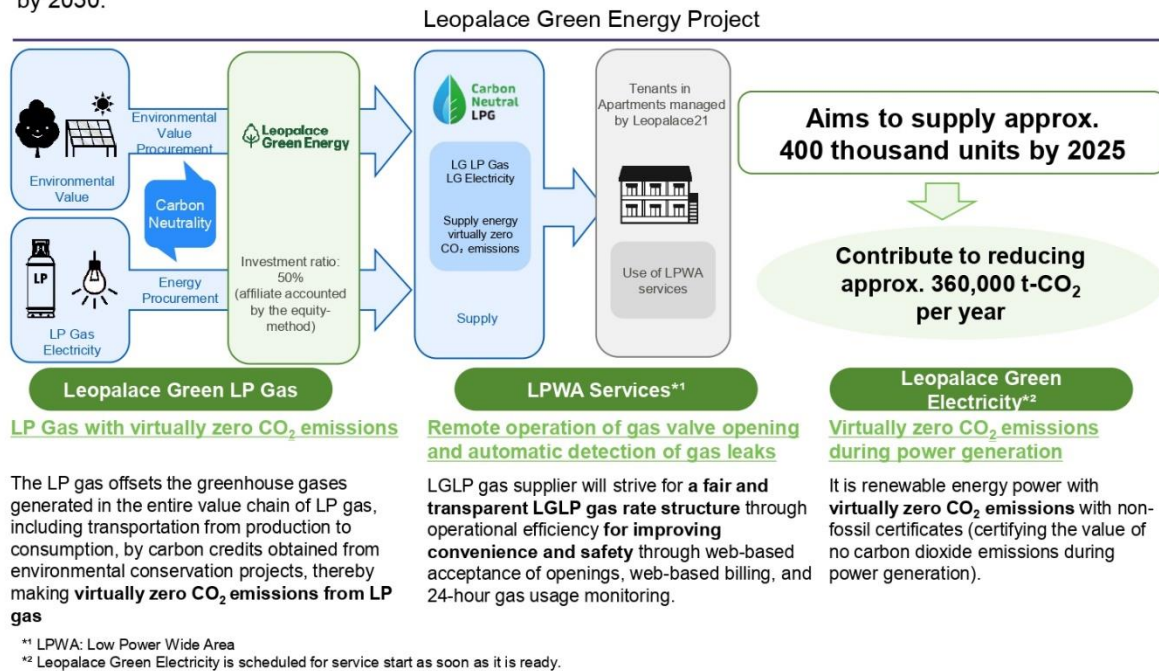
<b>Details of Support</b>	① Use of a room of Leopalace21 apartment without paying rent up to JPY1.2 million/year ② Benefit-type Scholarship JPY360,000/year	<b>Support Period</b>	Regular period in school
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And as part of our efforts to promote sustainability through our core business, we began accepting applications for our scholarship program since October. This provides students with free rooms at Leopalace21 apartments.

Recently, the increase in the number of students who are unable to pursue higher education as they wish due to income and tuition fee challenges, and the burden in long-term repayment of responsive scholarships have been a social issue. The reality is that they are carrying approximately JPY3 million in debt in their first year of business which is a huge burden. High tuition fees are already a problem in other countries, but in Japan this is becoming an issue in a different form.

The scholarship program we offer is not a scholarship program with a financial support. It contributes to solving a social issue while supporting the future of students through housing. It demonstrates the characteristics of our company. It is also very important for us to promote our company to potential future tenants over the age of 18.

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



Please refer to page 29. This is the progress of the Leopalace Green Energy Project.

As of the end of September, approximately 1,000 apartment buildings had switched over to green LP gas, which generates virtually zero CO<sub>2</sub> emissions. This will result in a reduction of 5,500 tons of CO<sub>2</sub> emissions. Our overall CO<sub>2</sub> emissions from our business activities amount to 550,000 tons, 95% of which is CO<sub>2</sub> generated from the lives of our apartment tenants. How to reduce that 95% is the most important issue in our environmental efforts.

In addition, many of the companies that use our properties for company housing are certified with SBT, Science Based Target. In addition to the added value for 550,000 rental housing nationwide such as furnished, with appliances, internet, and no brokerage fees, we will continue to address the needs of SBT-accredited companies which require company housing, by providing rental housing with virtually zero CO<sub>2</sub> emissions.

Finally, I would like to explain the compliance issue.

In H1 of this fiscal year, we have set four compliance themes and have been working on them.

The first was to appoint a compliance coordinator who is in charge along with the compliance manager in each department to establish how information will be escalated in the event of an incident. As with BCP response, we are now putting such a framework in place so that it works as planned.

The second point was to train the ability to respond to cases to improve the credibility of whistleblowing. The third was to strengthen anti-harassment measures, and the fourth was to implement compliance training that reflects employee opinions.

Although the awareness of compliance in our company is increasing year by year, along with the increase in compliance awareness, we are also working on the issue of improving our ethical standards, which is very important.

This concludes my explanation. We will continue to strive to be a company that provides services needed by society, which is the raison d'etre of our company and will enhance our corporate value, and will continue to pursue our business with the aim of becoming an infrastructure for rental housing.

Thank you very much.

## Question & Answer

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**Kaneko [M]:** Now let us begin the question-and-answer session. Start with a question from Mr. Hashimoto, Mizuho Securities.

**Hashimoto [Q]:** In the revised earnings forecast, H2 operating profit of JPY3.3 billion (equal to the amount of JPY18.1 billion minus JPY14.8 billion) is a 13% increase YoY change, which seems somewhat conservative considering the increase in the occupancy rate and the 113% increase in profit in H1. Do you expect to record any special costs in H2 of the fiscal year?

**Takekura [A]:** In H2 of the fiscal year, as Mr. Hashimoto says, in order to improve the occupancy rate at the end of March, which will ultimately be our launching pad, the budget now includes recruitment of career workers, which was not spent in H1, and temporary staffing to increase the occupancy.

Considering the situation in H1, we assume that we will not intend to fully utilize all of the personnel expenses we have set aside for H2. This is a very conservative estimate considering the nature of the cost reductions we have continued to implement in H1 of the fiscal year, and we believe that cost reductions can still be expected in this respect.

**Tazawa [Q]:** Regarding final arrangement of refinancing. Would the interest rate of 14.5% be much lower, or would it be something like that for a loan from a normal financial institution? Is the Company also looking to reduce the principal amount of JPY30 billion through partial cash repayment?

**Tazawa [Q]:** Has the refinancing been positively received by Fortress? The loan is a loan with stock acquisition rights, and the stock acquisition rights will remain outstanding until 2025. Do you intend to negotiate with them in various ways to reduce dilution, such as the purchase of acquisition rights?

**Miyao [A]:** First, the interest rate level is naturally going to be lowered from the current 14.5%. We are currently finalizing the conditions and other matters of the contract, such as partial cash repayment. I would appreciate if you could wait for our announcement.

On the other hand, regarding the intention, or rather the attitude, from Fortress about this refinancing, as we have sent out the document today as a timely disclosure, we are making this announcement based on discussions at the Company's Board of Directors meetings and other meetings, so I hope you will accept it as reflecting the thoughts of Fortress, which is represented on the board of directors.

Also, as you point out, the stock acquisition rights can remain separate from the loan, though. We will be negotiating on this in the future, but basically, at this stage, we are still in the process of discussing refinancing.

**Tazawa [Q]:** Regarding the concept of reinstatement of dividends. Do you intend to do that as soon as possible if refinancing is completed?

**Miyao [A]:** To answer your question, we are currently discussing refinancing intensively, and we would like to proceed with the study after that.

**Tazawa [Q]:** Does this upward revision incorporate the effect of refinancing? In that case, is there a possibility that recurring profit and below could swing higher?

**Miyao [A]:** Yes, as we separately released this refinancing, we could not include a definitive figure at this time, so it is not included in this revision. Therefore, there is a possibility that recurring profit and below may change as a result of refinancing.

Chap 2 6: Units and Occupancy Rates by Prefecture



Occupancy rates in Hokuriku region consisting of Toyama, Ishikawa, Fukui fluctuated substantially in both YoY and QoQ due to continuation and termination of infrastructure related construction projects. Although Oita showed negative development due to cease of infrastructure-related projects and job training, Hokkaido, Iwate and Kumamoto remained high levels.

Managed unit, in thousands, Occupancy%	Q2 FY2023				Managed unit, in thousands, Occupancy%	Q2 FY2023				Managed unit, in thousands, Occupancy%	Q2 FY2023			
	Managed units	Occupancy rate	YoY	QoQ		Managed units	Occupancy rate	YoY	QoQ		Managed units	Occupancy rate	YoY	QoQ
Hokkaido	13	91%	+8p	-0p	Ishikawa	5	87%	+9p	+5p	Okayama	12	82%	-0p	-0p
Aomori	4	84%	-3p	+1p	Fukui	4	82%	-10p	-3p	Hiroshima	13	87%	+0p	-1p
Iwate	3	93%	-0p	-0p	Yamanashi	4	85%	-3p	-2p	Yamaguchi	7	88%	-2p	-1p
Miyagi	10	83%	-0p	-4p	Nagano	11	92%	+2p	+0p	Tokushima	2	77%	+1p	-2p
Akita	2	92%	-2p	-0p	Gifu	7	83%	-2p	-1p	Kagawa	4	79%	+1p	-1p
Yamagata	4	86%	+1p	-4p	Shizuoka	24	81%	+3p	+0p	Ehime	4	82%	-1p	+1p
Fukushima	10	84%	+0p	+2p	Aichi	41	87%	+1p	-1p	Kochi	2	82%	-1p	+0p
Ibaraki	15	85%	+3p	-0p	Mie	11	73%	-9p	-1p	Fukuoka	20	87%	+2p	-1p
Tochigi	11	82%	-3p	-1p	Shiga	8	90%	-4p	-4p	Saga	3	88%	-0p	-0p
Gunma	12	82%	+4p	-1p	Kyoto	9	86%	-1p	-3p	Nagasaki	2	89%	+0p	-5p
Saitama	45	87%	+4p	-1p	Osaka	31	84%	+3p	-1p	Kumamoto	7	93%	+1p	-0p
Chiba	33	82%	+3p	-2p	Hyogo	22	85%	-0p	-2p	Oita	4	77%	-5p	-4p
Tokyo	43	89%	+5p	-2p	Nara	3	90%	+6p	+1p	Miyazaki	2	85%	+3p	-0p
Kanagawa	40	87%	+0p	-2p	Wakayama	3	77%	+1p	-2p	Kagoshima	3	89%	+4p	+0p
Niigata	8	85%	+5p	-0p	Tottori	2	83%	-3p	-0p	Okinawa	5	97%	+5p	-0p
Toyama	5	90%	+12p	+2p	Shimane	2	95%	-0p	+1p	Total	558	86%	+2p	-1p

**Hashimoto [Q]:** Occupancy rate by prefecture on page 23. Please comment on the movements in Toyama and Ishikawa prefectures, which have risen in the past quarter, and conversely in Miyagi and Nagasaki prefectures, which have fallen.

**Takekura [A]:** As for Toyama, where the occupancy rate has increased significantly, there has been strong demand for large-scale renovation work at local thermal and hydroelectric power plants, and we were able to meet this expectation. In addition, the new plant construction was similarly centered in Takaoka, which allowed us to capture the needs of this project.

As for Ishikawa Prefecture, the occupancy rate was very large in the semiconductor sector, and this was due to the demand for the construction of a new power semiconductor plant for electric vehicles, which led to our higher occupancy rate.

Conversely, in Miyagi, the numbers dropped a little because the construction site of the biomass power plant was finished, and the demand disappeared all at once which caused the numbers to change.

In Nagasaki, similarly, the need has ended with the completion of the development of Nagasaki station and the withdrawal of construction-related companies, including general contractors. Also, the completion of the construction of a certain company's factory coincided, so the occupancy rate temporarily dropped as the needs of the Company's apartment ended.



**Hashimoto [Q]:** With 13 months remaining, does 1,500 multiplied by 13 equal 19,000 units? Are there likely to be any cost increases in the acceleration of the project?

**Miyao [A]:** No, we expect to repair about 23,000 units over the next 13 months, and we do not see any cost increase in particular by accelerating the process now. We are about to ask intensively for the cooperation of the tenants in the rooms that are now being occupied. This is being done through the call center as usual, etc. Once the repair started, we believe that we can basically handle it with the amount we have already appropriated in the provision.

**Ozawa [Q]:** Is it possible to recover the increased maintenance costs in H2 through future rent increases?

**Takekura [A]:** Regarding the additional maintenance cost accumulation, this is something we originally budgeted to do, and we will not go over on that cost. Most of apartment owners have taken out our maintenance insurance. So there will almost certainly be no direct impact on our PL.

**Ozawa [Q]:** The order for five new buildings is a bright spot, but what are the construction costs compared to other companies in your industry? Are you competitive in both materials and labor as you continue to repair the building?

**Miyao [A]:** First, regarding the content of the orders, I think it will continue. We started our apartment business in 1985, almost 40 years ago, and at that time we started with direct sales, that is, we acquired the land, built the apartments ourselves, and sold them as real estate.

Then, after changes in the taxation system and the bursting of the so-called Heisei Bubble, we shifted our focus to contract sales to landowners from 1992 to 1993. From this point of view, direct sales aside, in terms of sales to landowners, we have been in the market for about 30 years.

The client, the landowner, at that time, the basic contract for them was basically for about 25 years. Since the loans were mainly for 20 or 25 years in accordance with the useful life for tax purposes, the loans have already been repaid, the depreciation has already been completed, and then income tax measures are necessary, or inheritance tax reduction measures must be considered. Therefore, we are now proceeding with the reconstruction of our existing Leopalace21 apartments.

As for the competitiveness of costs for materials and labor, I honestly believe that we are not yet strong enough. On the other hand, in terms of client demographics, we are not massively investing in salespeople to cultivate new clients, but rather we are making proposals to existing apartment owners regarding the future of their properties that are 30 years old or more than 25 years old. We believe that orders will still continue to come in.

I have answered your question, including the part that is a bit different from the question.

**Tazawa [Q]:** Could you be more specific about the status of rent increases? With a JPY1,000 increase at the time of contract renewal, please tell us the amount of profit contribution from the price increase in H1, the image of profit increase for the full year, and whether rent increase can be expected in the immediate future for the next fiscal year and beyond.

**Takekura [A]:** As for H1, the average occupancy rate during the period was 86%, and the issue of raising rent and the occupancy rate are not proportional to the increase in the rental rate, so as Miyao mentioned at the beginning of this presentation, we have been working on a strategy to secure rent increase and profit.

In conclusion, the average rent increase is now about JPY2,000 to JPY3,000, and we are raising the rental rent amid the increasing occupancy situation to come back to the level prior to the revelation of construction defects problem and COVID-19 pandemic, which is also in synchronization with the general prices increase.

In particular, from our point of view, the needs of corporations are different from those of individuals. The corporate customers are more interested in convenience, such as having 100 rooms immediately available at a certain location. In this respect, we are currently in a situation where the corporate customers highly evaluate the capability of Leopalace21's readiness to cope with such a demand and accept the increased rent.

**Miyao [A]:** I would like to add that, on the other hand, there is a slight slowdown in the growth of individual contracts, as you can see in the document. Contracts through brokers have also been slightly lower than last year.

In the case of our corporate customers, we have a strong corporate sales force, and we believe that the biggest concern for the customers is not so much the rent level but whether they can find the right property in the right place at the right time to meet their expanding business needs. We are in the process of regaining the rent reduction margin that we experienced in the time when the occupancy rates were lower than 80%.

As for the next fiscal year and beyond, I wonder to what extent the current pace will continue as is. On the other hand, costs have been rising in some areas, and at this stage we are wondering if we should consider a certain increase in rent to keep pace with the cost increases. These are my answers.

**Kaneko [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, Q2 financial results briefing for the fiscal year ending March 31, 2024.

[END]