Leopalace21 Corporation

Financial Results Briefing for the Nine Months Ended December 31, 2023

February 9, 2024

Presentation

Kawasaki: Thank you very much for joining us today for Leopalace21 Corporation's financial results briefing for Q3 of the fiscal year ending March 2024. I am Kawasaki, and I will be your moderator. Thank you.

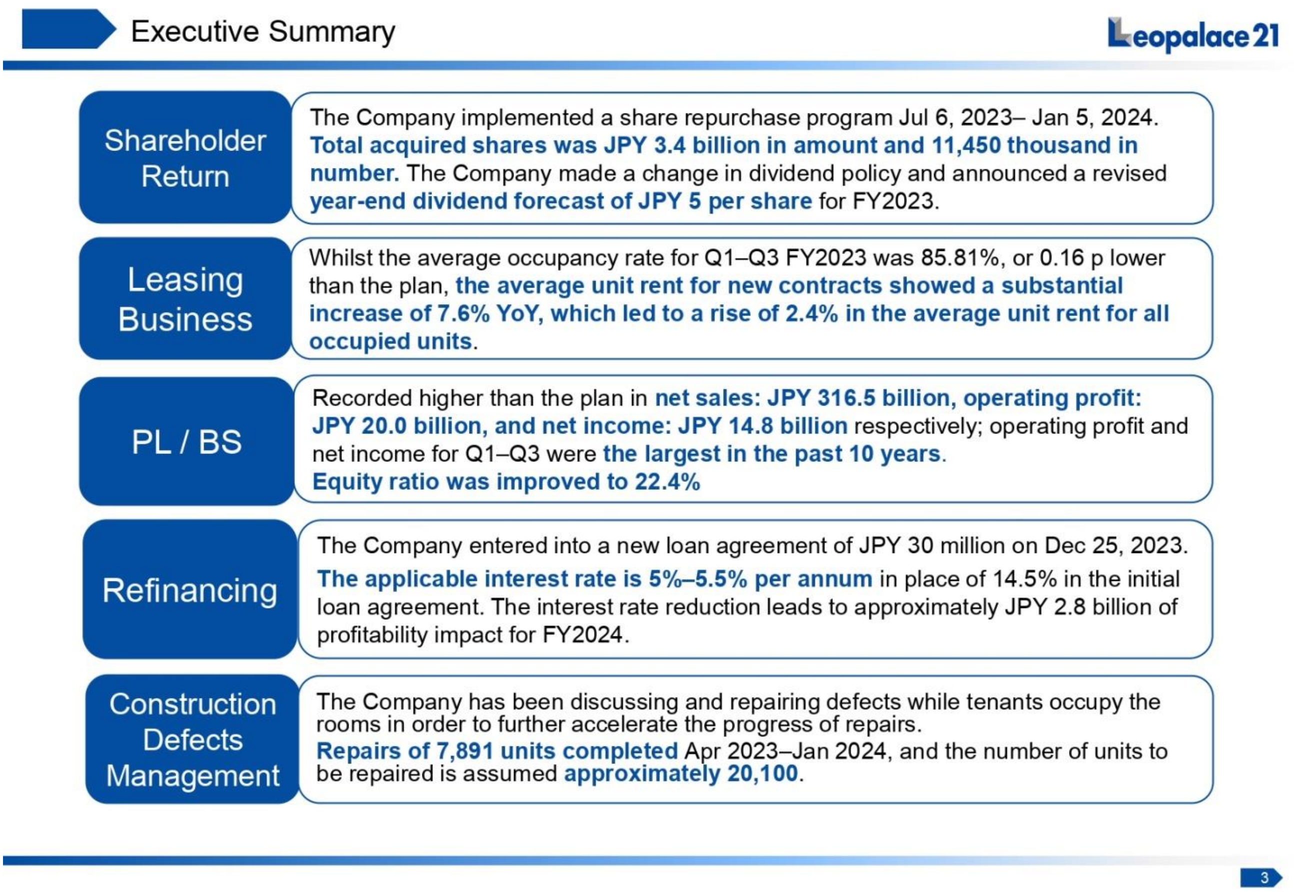
We have two speakers today, Bunya Miyao, Representative Director, President and CEO, and Shinji Takekura, Director, Chief of the Corporate Management Headquarters.

There will be time for questions-and-answer session after the presentation. Questions will be accepted in text format. The event is scheduled to end at 6:00 PM.

Miyao, CEO, will now begin the presentation.

Miyao: Thank you very much for taking time out of your busy schedule today to attend our financial results briefing. I am Miyao, CEO.

We would like to express our deepest sympathies to all those affected by the Noto Peninsula Earthquake which occurred on January 1, 2024, and our sincere wishes for a speedy recovery.



First of all, let me begin by explaining the executive summary for Q3.

Both sales and net income increased YoY as a result of the recovery of average unit rent for new contracts in the Leasing Business to pre-COVID-19 levels. Compared to the plan, net sales and profits at each stage were positive.

The acquisition of treasury stock, which was announced and executed last year, was completed on January 5, and today, at the same time as the announcement of financial results, we announced a change in our dividend policy and revised dividend forecast.

Then, on December 25 of last year, we executed a refinancing of JPY 30 billion in loans. The interest rate, which was 14.5%, has been reduced to 5% to 5.5%.

As for the response to construction defects problem, we are making good progress toward the end of December 2024, and the expected number of units to be repaired is 20,100 units.

Shareholder Return

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Acquisition of treasury stock

Implemented a share repurchase program considering financial position and level of share prices.

Period of acquisition

From July 6, 2023 to January 5, 2024

Result

Total amount of shares acquired	Total number of shares acquired
JPY 3.4 billion	11,450 thousand

Dividend

Announced a change in dividend policy and revision of dividend forecast to resume dividends payment.

Dividend Policy

- The Company will follow a policy of resuming dividends payment for FY2023 and set the year-end dividend forecast of JPY 5 per share.
- Pay continuous and stable dividends afterward by comprehensively considering performance trends, financial conditions, and other factors.

Revision of the Dividend Forecast for FY2023 (Dividend per share)

End of Q2	End of Fiscal Year	Total
-	JPY 5.00	JPY 5.00

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Now, let me move on to the details.

First let’s look at the shareholder return. Repurchase of treasury stock began on July 6, 2023 and was completed on January 5, 2024. Since the share price has been on an upward trend since September, the Company has not reached the maximum limit of JPY 10 billion but has acquired JPY 3.4 billion and 11.45 million shares.

On the right side of the slide is the dividend. The Company has continued to pay no dividends since the fiscal year ending March 31, 2019, but has decided to change its dividend policy due to the recovery of its business performance and improvement in its financial position, in addition to compensating for deficit in retained earnings approved at the Ordinary General Shareholders’ Meeting.

For the current fiscal year, ending March 31, 2024, we have decided to resume dividends payment, aiming to pay a year-end dividend of JPY 5 per share. From the fiscal year ending March 31, 2025 onward, we will strive to pay continuous and stable dividends, while comprehensively taking into account trends in business performance and our financial condition.

Debt Refinance of JPY 30 billion

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Implemented refinancing of JPY 30 billion on December 25, 2023*.
Approximately JPY 2.8 billion of increased profit is expected for FY2024.

	Initial Loan Agreement	New Loan Agreement
Principal of Loan	JPY 30 billion	JPY 30 billion
Maturity Date	November 4, 2025	November 4, 2025
Applicable Interest Rate	14.5% per annum	5–5.5% per annum
Voluntary Repayment	Repayment may be made on November 2, 2023 onward.	Repayment may be made if the Company satisfies certain conditions.

* Refer to "Notice Concerning Debt Financing (Refinancing)" dated December 22, 2023

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Continuing on, I would like to discuss the status of the refinancing study disclosed on November 10, 2023.

As disclosed on December 22 of the same year, we borrowed JPY 30 billion from Biwa Godo Kaisha, which has received loans from several financial institutions, as a new lender, and executed the loan on December 25 of the same year. As a result, the interest rate has been reduced to 5%– 5.5% per year, from 14.5% per year in the original loan.

For the fiscal year ending March 31, 2024, the Company recorded a non-operating expense of JPY 1 billion as funding costs, but interest expense for the same period decreased by JPY 750 million and is expected to decrease by JPY 2.852 billion for the following fiscal years. As with the initial loan, the new loan is also a loan with stock acquisition rights.

Changes in Occupancy Rate and Average Unit Rent for New Contracts

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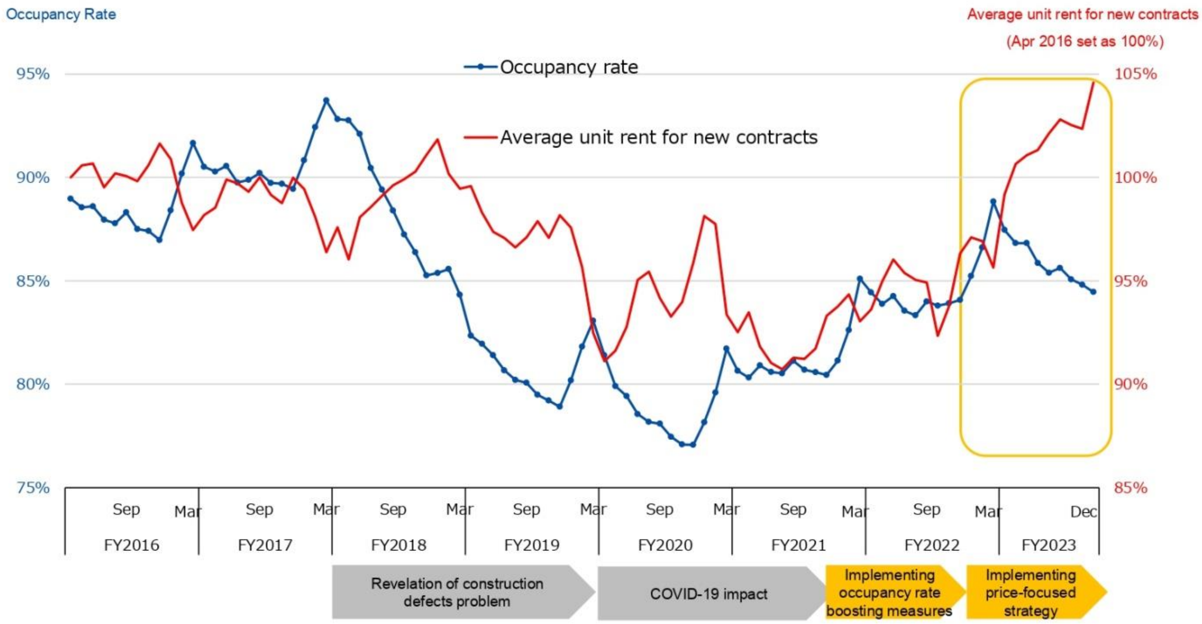
The average unit rent for new contracts remained at a low level until H1 FY2022 with priority set for improving the occupancy rate, and it recovered to the level before the revelation of the construction defects problem in Q3 FY2023 due to the shift to a price-focused strategy.



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Next, we will explain the trends in the occupancy rate and the average unit rent for new contracts.

Although the occupancy rate had been steady prior to the revelation of the construction defects problem, after the revelation of the problem and COVID-19, the occupancy rate began a downward trend, falling to 77.07% in December 2020. Therefore, until H1 of the fiscal year ending March 31, 2023, we set the unit rent for new contracts at a low level as a matter of policy and made improving the occupancy rate as a priority.

Subsequently, the occupancy rate began to recover, and in order to further improve profitability, the Company changed its policy to price-focused strategy for setting rents based on an analysis of the surrounding rent market and area characteristics, etc. As a result, the average unit rent for new contracts in Q3 of the fiscal year ending March 2024 recovered to the level before the construction defects problem was revealed.

Chap 1 2: PL (Q3 FY2023 cumulative result)

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Recorded higher net sales and profits than the plan; operating profit and net income for Q1–Q3 were the largest in the past 10 years.

(JPY million)	Comparison vs Q3 FY2022 Actual	Q3 FY2022 Actual	Q3 FY2023 Actual	Q3 FY2023 Revised Plan	Difference
Net sales	+13,058	303,517	**316,576**	315,800	+776
Cost of sales	+1,886	261,821	**263,707**	263,300	+407
Gross profit	+11,172	41,695	**52,868**	52,500	+368
%	+3.0 p	13.7%	**16.7%**	16.6%	+0.1 p
SG&A	+1,932	30,926	**32,859**	34,400	(1,540)
Operating profit	+9,240	10,768	**20,009**	18,100	+1,909
%	+2.8 p	3.5%	**6.3%**	5.7%	+0.6 p
EBITDA	+7,625	16,000	**23,626**	23,050	+576
Recurring profit	+8,118	8,448	**16,566**	15,300	+1,266
Net income	+9,329	5,548	**14,878**	13,500	+1,378
Average occupancy rate	+1.89 p	83.92%	**85.81%**	85.97%	(0.16) p
EPS	JPY +29.27	JPY 16.87	**JPY 46.14**	JPY 41.03	JPY +5.11

Factors contributing to changes

■ Net sales
Average unit rent increase led to a JPY 0.7 billion increase compared to the plan despite a slight gap in occupancy rates against the plan.

■ Cost of sales
Whilst the cost of subsidiaries and affiliates rose, unit cost control in property maintenance reduced the deviation from the plan.

■ SG&A
Restricted hiring and general cost control resulted in JPY -1.5 billion compared to the plan.

■ Recurring profit
Recorded interest expenses of JPY 3.2 billion and funding costs of JPY 0.9 billion in non-operating expenses.

■ Net income
Recorded gains on sale of shares in subsidiaries of JPY 0.6 billion in extraordinary income and loss related to repairs of JPY 0.7 billion and loss on closure of offices of JPY 0.2 billion in extraordinary losses.

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I will now explain the cumulative Q3 results for the fiscal year ending March 31, 2024.

As I mentioned earlier, net sales and profits at each stage were up from the plan, as well as from the results in previous year.

Although the average occupancy rate for the Q3 was slightly below the plan, the operating profit level was positive compared to the plan, especially as a result of an increase in the average unit rent for new contracts from the beginning of the period and an improvement in profitability due to a change in the monthly contract plan, which had been a low-profit making service.

Net income was JPY 14.8 billion, an increase of JPY 1.3 billion from the plan. Refinancing costs were recorded in non-operating expenses and loss related to repairs was recorded in extraordinary losses and the plan was achieved.

Chap 1 **3: Movements in Occupancy Rate**

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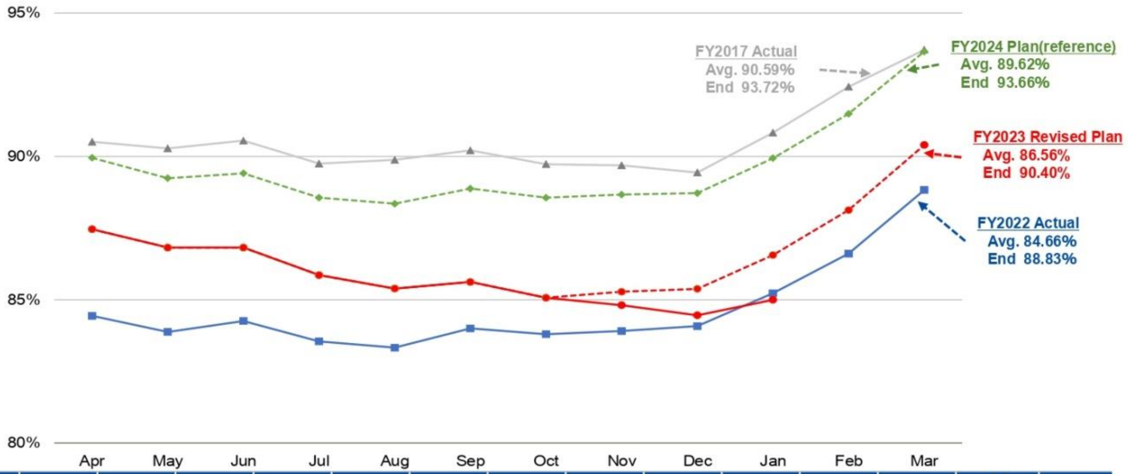
Although the occupancy rates were lower than the plan, the increased average unit rent more than compensated for the gap in occupancy rates and resulted in the revenue of the Leasing Business exceeding the plan.



	Apr	May	Jun	Apr-Jun Average	Jul	Aug	Sep	Jul-Sep Average	Oct	Nov	Dec	Oct-Dec Average	Q3 cumulative Ave.	Jan
FY2023	87.46%	86.82%	86.82%	87.03%	85.86%	85.39%	85.62%	85.62%	85.07%	84.81%	84.46%	84.78%	85.81%	85.00%
YoY	+3.02 p	+2.94 p	+2.56 p	+2.84 p	+2.31 p	+2.06 p	+1.62 p	+1.99 p	+1.27 p	+0.90 p	+0.38 p	+0.85 p	+1.89 p	-0.23 p

Monthly Data : https://www.leopalace21.co.jp/english/ir/finance/monthly/index.html

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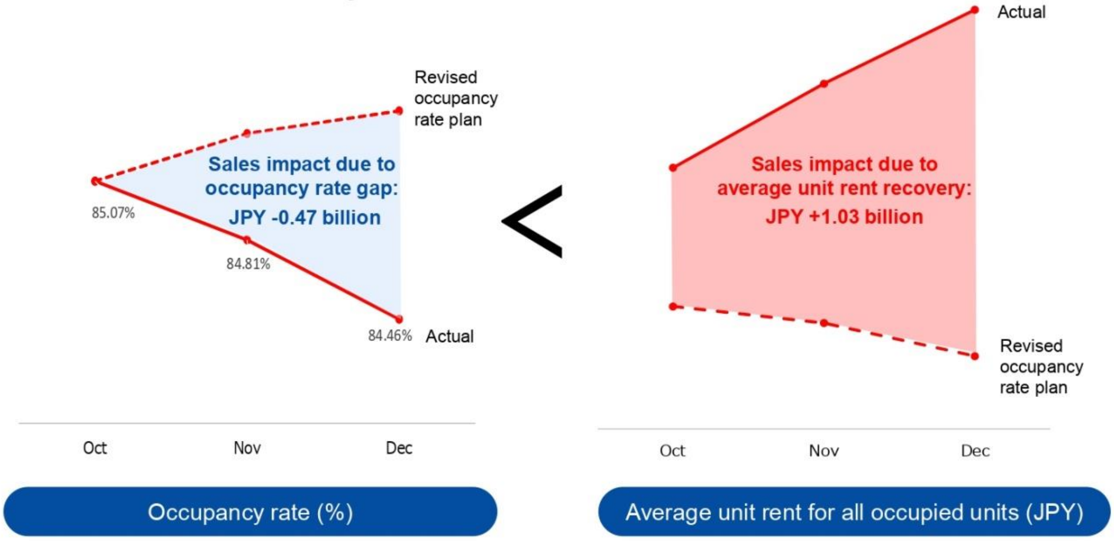
Regarding occupancy rate performance, the cumulative Q3 average occupancy rate was 85.81%. This is minus 0.16 points compared to the plan.

This was due to a decrease in the number of individual contracts in particular because of a rise in the unit rent for new contracts, and also to a decrease in the number of contracts of monthly contract plans as a result of the Company's efforts in making a change for monthly contract plans to improve profitability.

Chap 1 4: Sales Impact Due to Gap in Occupancy Rate and Average Unit Rent Recovery

The Company strategically shifted its focus from the occupancy rate to the average unit rent in order to achieve a qualitative transformation in revenue from the Leasing Business.

Although the occupancy rates remained below planned levels as a result of restricting the low-profit monthly rental plans and others, the average unit rents for all occupied units were higher than planned, leading to increased revenue from the Leasing Business.



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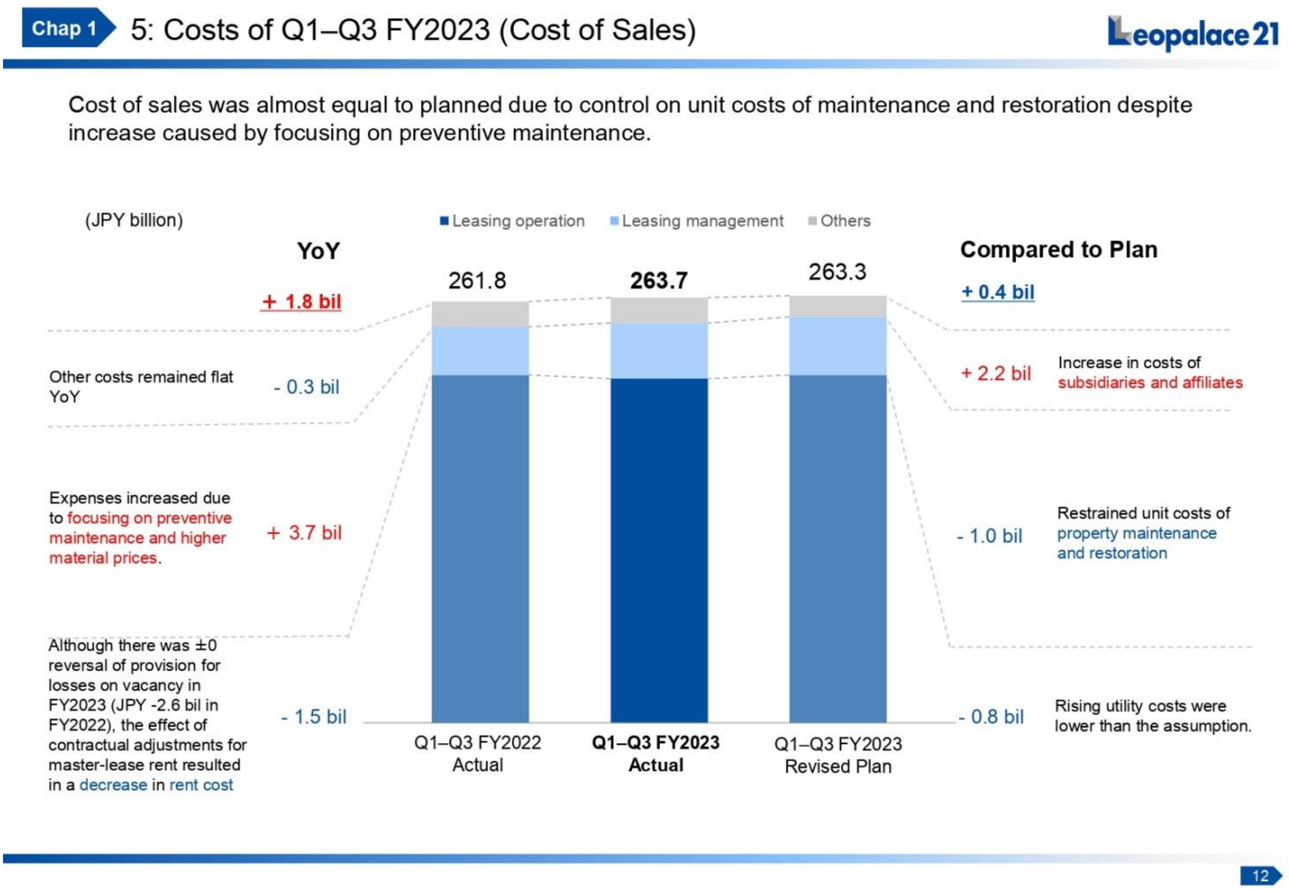
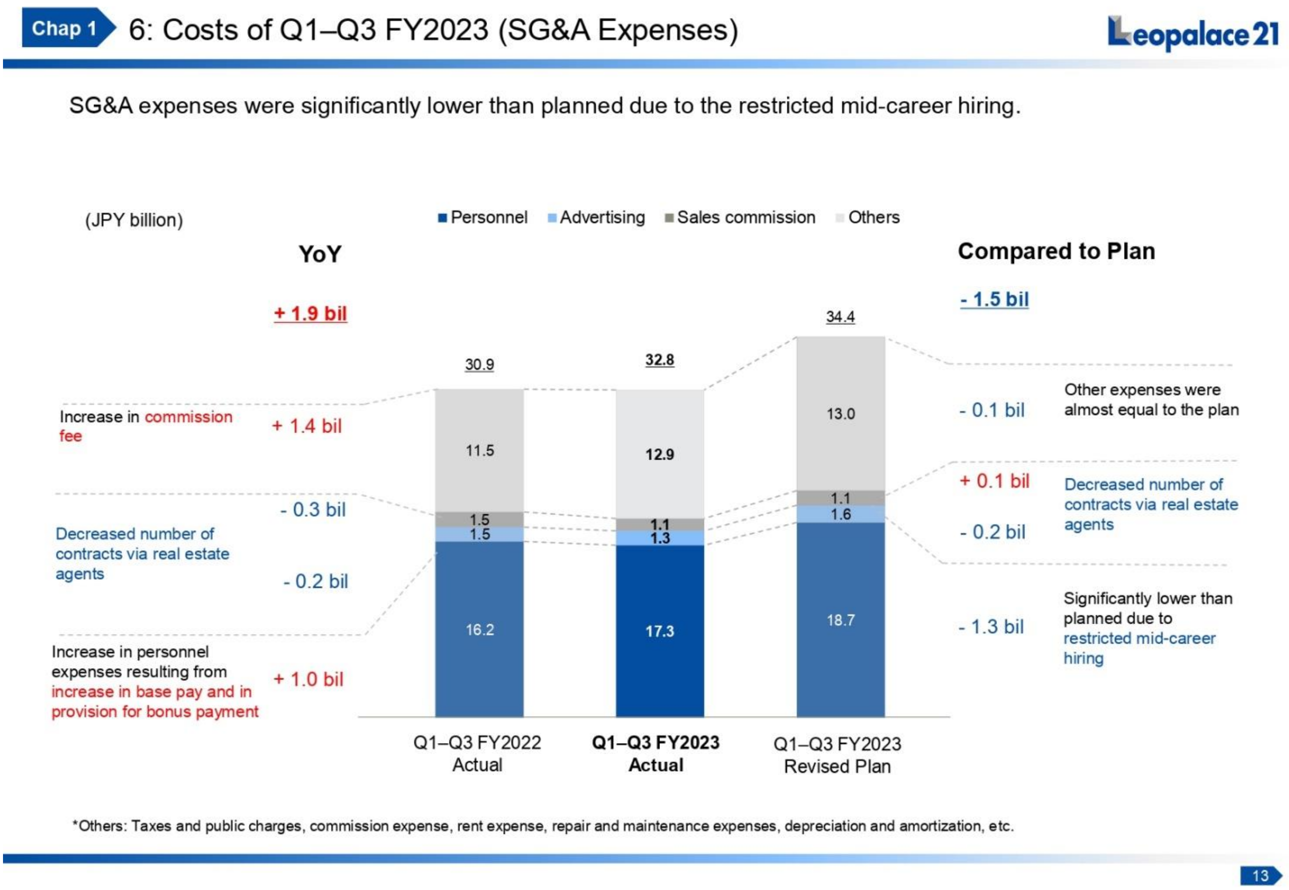
Although the occupancy rate in November and December was lower than planned, the average unit rent for new contracts recovered to the level before the construction defects problem was revealed, and the average unit rent, including not only new contracts but also the entire occupied rooms, has been significantly higher than planned.

As a result, the sales impact of JPY 470 million caused by lower occupancy rate against the plan was offset by the sales impact of JPY 1.03 billion due to an increase in the average unit rent for all occupied units, and the price-focused strategy contributed to the increase in earnings, resulting in both sales and operating profit exceeding the plan as mentioned above.



Cost of sales was almost in line with the plan. Although costs for subsidiaries and affiliates exceeded the previous year's level and the plan, property maintenance, unit cost reduction of restoration expenses, and utilities were lower than expected.



SG&A expenses increased by JPY 1.9 billion from the previous year, mainly due to an increase in commissions paid, but were JPY 1.5 billion lower than planned due to efforts to improve operational efficiency by promoting DX, to restrict mid-career hiring and temporary staffs. We will continue our efforts to control costs in order to improve productivity and profitability.

Chap 1 7: PL (FY2023 Revised Plan and FY2024 Plan)

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The Company did not consider building up deferred tax assets based on a conservative approach for FY2023. Operating profit and EBITDA were on steady recovery and will reach the level prior to the revelation of the construction defects problem for FY2024.

(JPY million)	FY2023 Revised Plan	Difference against FY2022 Actual	Factors contributing to changes	FY2024 Plan (ref.)	Difference against FY2023 Rev. Plan
Net sales	421,700	+15,250	Increase in occupancy rate and average unit rent contributed to the large difference.	432,200	+10,500
Cost of sales	354,200	+1,036	Contractual adjustments for master-lease rent since FY2021 has run its course, which reduced the leasing operation cost.	353,000	(1,200)
Gross profit	67,500	+14,214	Costs related to monthly rental contracts were increased due to higher utility costs; restoration cost and maintenance cost were affected by rising unit cost of materials and labor. Provision for apartment vacancy loss remains flat.	79,200	+11,700
%	16.0%	+2.9 p		18.3%	+2.3 p
SG&A	49,400	+5,993	Increase in personnel expenses resulting from increase in base pay and in provision for bonus payment. Increase in the other items such as IT system investments and resumption of new graduate hiring.	55,400	+6,000
Operating profit	18,100	+8,220		23,800	+5,700
%	4.3%	+1.9 p		5.5%	+1.2 p
EBITDA	24,700	+8,250		30,400	+5,700
Recurring profit	14,100	+7,573	No increase in deferred tax assets is expected whereas JPY 18.5 billion was recorded in FY2022.	20,100	+6,000
Net income	12,100	(7,810)		18,100	+6,100
Ave. occupancy rate	86.56%	+1.90 p	The occupancy rates remain stronger..	89.62%	+3.06 p
EPS	JPY 36.93	JPY (23.29)		JPY 55.01	JPY +18.08

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The forecast for the full year remained JPY 18.1 billion in operating profit and JPY 12 billion in net income, which the Company announced as the revised full-year plan in November last year.

Chap 1 8: PL (Quarterly Comparison)

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In Q4, the Company's business model compels increased costs including tenant recruitment campaign and restoration costs which are triggered by a large number of move-out in advance for the new fiscal year.

In H2, the Company plans conservative profits considering various elements such as postponed property maintenance expenses from H1, temporary staffing during the busy season, and the recording of provision for performance-linked bonus payment.

(JPY million)	FY2022				FY2023						
	Q1	Q2	Q3	Q4	Q1		Q2		Q3		Q4
	Actual	Actual	Actual	Actual	Plan	Actual	Plan	Actual	Revised Plan	Actual	Revised Plan
Sales	101,406	101,053	101,056	102,931	104,900	106,375	104,200	105,472	104,000	**104,728**	105,900
Cost of sales	86,908	87,597	87,315	91,341	88,500	88,308	88,300	87,771	87,300	**87,627**	90,900
Gross profit	14,498	13,456	13,740	11,590	16,400	18,066	15,900	17,701	16,700	**17,100**	15,000
SG&A	10,919	10,073	9,934	12,479	12,000	10,444	12,300	10,495	13,400	**11,918**	15,000
Operating profit	3,579	3,383	3,806	(889)	4,400	7,622	3,600	7,205	3,300	**5,181**	0
Recurring profit	2,643	2,790	3,014	(1,921)	3,200	6,851	2,500	6,259	2,200	**3,455**	(1,200)
Net income	1,630	2,061	1,857	14,261	2,500	6,627	2,000	5,222	1,600	**3,028**	(1,500)

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We will continue to focus on improving unit rent for new contracts and controlling costs. However, in Q4, the busy season of the leasing market is coming, and this will be the period with the highest number of move-ins and move-outs. This is in addition to the period of increased costs for tenant recruitment promotion expenses and restoration costs after move-outs, and property maintenance costs and others which have been postponed from previous periods.

We do not expect to increase deferred tax assets, and our forecast remains conservative.

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(JPY million)	End of FY2022	End of Q2 FY2023	End of Q3 FY2023	QoQ	Factors contributing to changes
Cash and deposits	53,560	58,822	60,359	+1,536	■ Cash and deposits JPY +1.5 bil from end of Q2 FY2023 due to positive cash flows from operating activities
Trade receivables	8,121	7,368	6,799	(568)	
Total assets	166,548	170,726	170,741	+15	
Interest-bearing debt*	31,849	30,785	30,887	+101	■ Provision for losses related to repairs (current: JPY 7.1 billion; non-current: JPY 7.6 billion) JPY -1.2 bil resulting from progress of repairs
Provision for losses related to repairs	17,583	16,104	14,835	(1,268)	
Provision for apartment vacancy loss	3,590	3,590	3,590	± 0	■ Provision for apartment vacancy loss (current: JPY 0.0 bil; non-current JPY 3.5 bil) No increase or decrease from end of Q2 FY2023 Since the occupancy rate has returned to the trends prior to the revelation of construction defects problem, no significant increase or decrease is expected in the future.
Total liabilities	133,625	127,760	124,866	(2,894)	
Common stock	100	100	100	± 0	
Capital surplus	136,240	29,376	29,376	(0)	
Retained earnings	(116,006)	2,655	5,684	+3,028	
Treasury stock	(205)	(3,614)	(3,614)	± 0	
Total shareholders' equity (A)	20,128	28,517	31,545	+3,028	■ Shareholders' equity JPY +3.0 from end of Q2 FY2023 due to recording of net income
Total accumulated other comprehensive income (B)	3,986	6,056	6,677	+620	
Ownership equity (A) + (B)	24,115	34,574	38,223	+3,648	
Equity ratio	14.5%	20.3%	22.4%	+2.1 p	
Share subscription rights	284	242	242	± 0	
Non-controlling interests	8,522	8,148	7,409	(739)	
Total net assets	32,922	42,965	45,874	+2,909	

* Interest-bearing debt = borrowings + lease obligations

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On the other hand, there was no significant movement in the balance sheet.

The equity ratio was 22.4%, an improvement of 7.9 points from the end of the previous fiscal year and 2.1 points from the end of Q2.

Chap 4 1: Repair Works on Properties Constructed by Leopalace21

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Estimated number of rooms requiring repairs: Approx. 20,100

Of the units requiring repair, we expect to repair approximately **20,100** units, including **15,631** units that have been confirmed defective and approximately **4,510** units that are assumed to be defective based on the past investigation results.

(As of January 31, 2024)

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	No. of rooms with repairs completed	Expected No. of to-be-repaired rooms
Nail Series / Six Series Total	15,283	7,670	120,561	72,262	53,069	12,100
Other Series Total	23,802	4,507	70,411	31,551	12,561	8,000
Grand Total	39,085	12,177	190,972	103,813	65,630	20,100

Steadily repair construction defects while continuing to rebuild the financial base.
Aims to **eliminate the rooms with obvious defects by the end of 2024**.

Progress of repair works: https://www.leopalace21.co.jp/info/en/pdf/2024/progress.pdf

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I will then explain the status of construction defects problem.

As of the end of January, the number of units projected to be repaired has been reduced to approximately 20,100. We aim to eliminate the apparent defects by the end of December 2024 this year, while asking for the cooperation of existing tenants to temporarily change their residences.

Last but not least, there are no slides, but as a report, I would like to explain about the orders received for new buildings.

As of the end of January, we have signed contracts for 14 buildings, mainly for reconstruction of existing properties. We would like to express our sincere gratitude to the owners who have awarded us contracts.

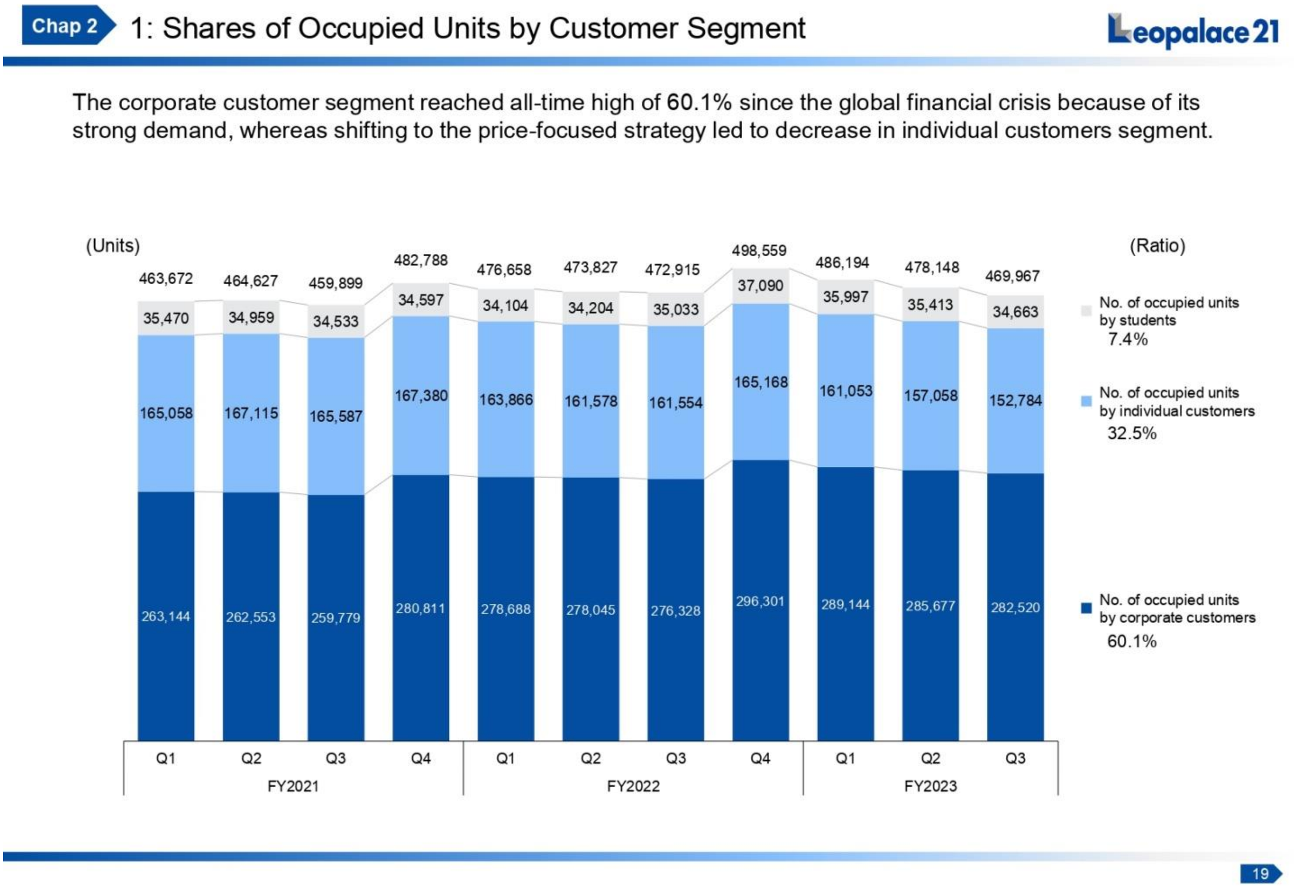
We recognize that our priority is to meet the demand for apartment rooms in each area. To generate revenue from apartment rooms under our management is our recurring business model. Accordingly, we will formulate and implement plans to resume full-scale property order intake from January 2025 onward.

This concludes my explanation. After this, Takekura, Chief of the Corporate Management Headquarters, will explain the occupancy situation in the Leasing Business along with the measures, and the status of promotion of sustainability. Thank you very much for your attention.

Kawasaki: 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.

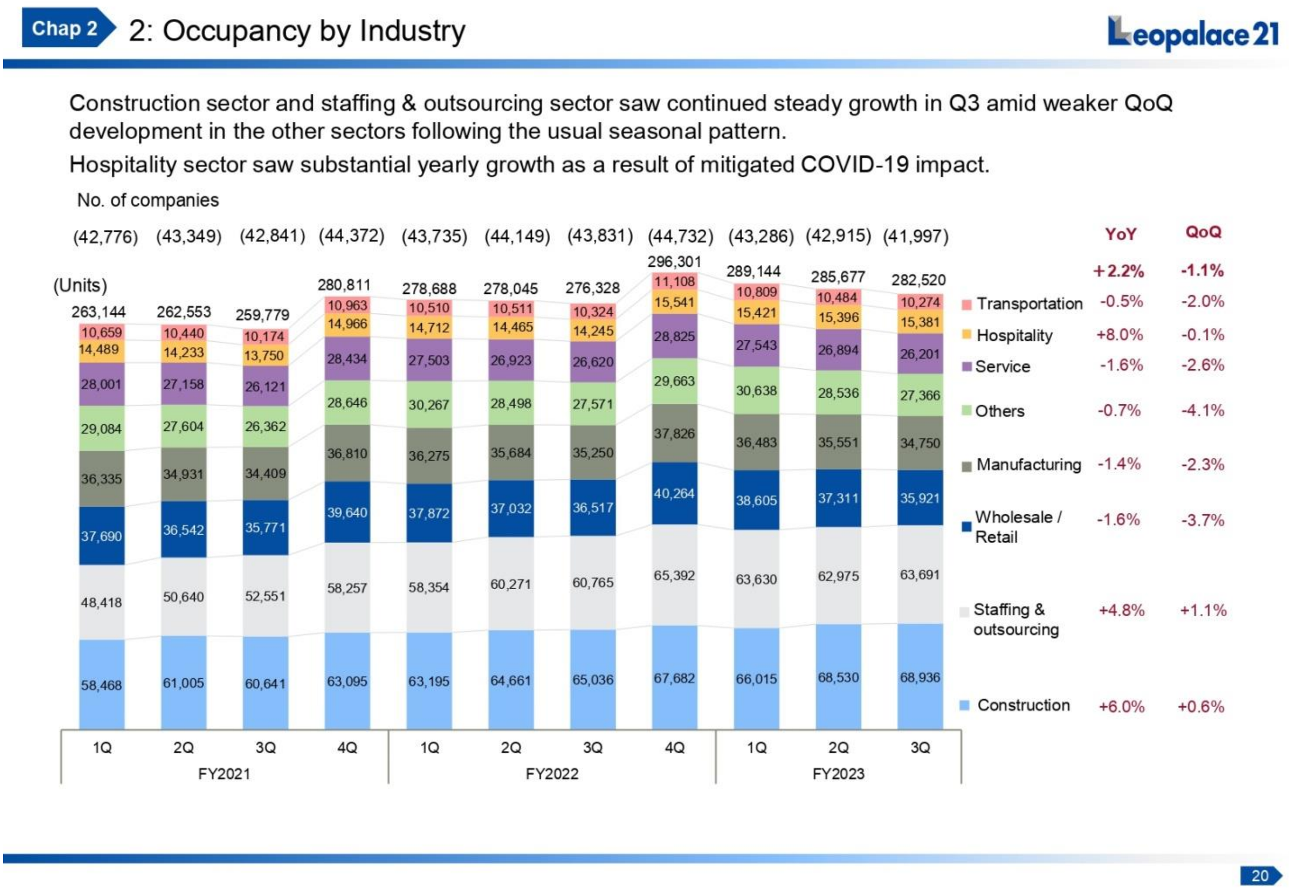
I will explain the DX promotion and the governance situation in the Company. As President Miyao mentioned earlier, the occupancy rate in November and December fell short of the plan, but the average unit rent for new contracts recovered to the level before the revelation of the construction defects, and earnings increased due to the emphasis on unit rent rather than occupancy rate. Against this background, I would like to begin with the future demand, our leasing needs and the status.



As for the Company's apartment room usage by various companies, it is generally said that if 10% to 20% of the tenants are companies, then the companies are the largest users of the leasing properties. Continued from H1, we see solid demand for our rooms due to active corporate activities.

In Q3 of the fiscal year ending March 2024, the number of units used by the listed companies was 40,000, or precisely 41,997 companies, which is equal to 74.7% of all the listed companies using us in some form or another, and the number of rooms used by them was 282,000.

In line with past trends, the comparison against Q2 shows a negative 1.1%, but a positive 6,000 units or 2.2% growth compared to the same period in the previous year.

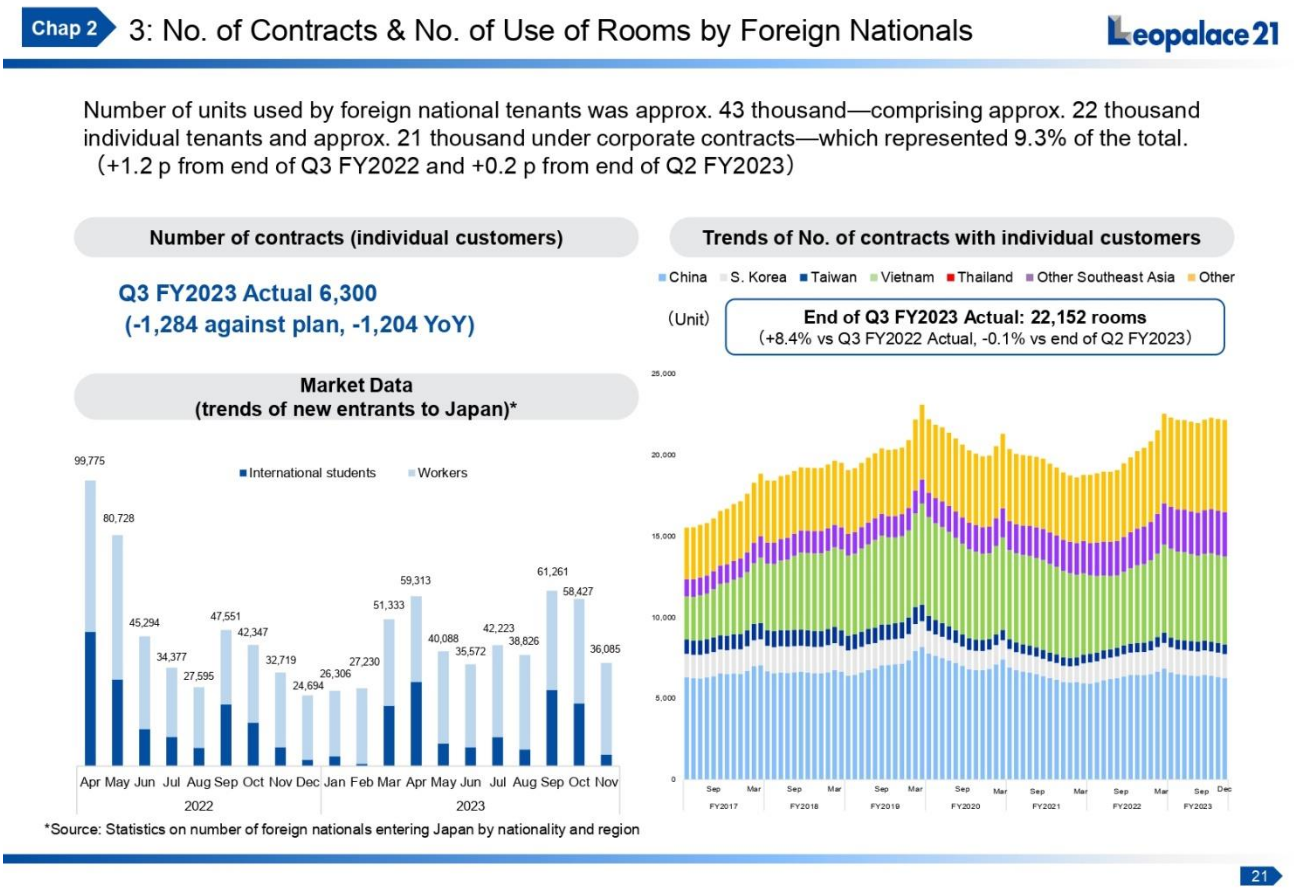


By industry, the construction and temporary staffing or outsourcing contracting sectors remained strong, with positive growth compared with the same period in the previous year and against Q2. In particular, the recovery from COVID-19 is remarkable for the hospitality sector, which have shown a significant growth of 8% over the same period in the previous year.

In the service, manufacturing, and wholesale and retail sectors, demand has run its course compared with the same period in the previous year and against Q2, and are in negative growth, but we have obtained information that companies in the manufacturing sector are planning to hire as many as 1,000 workers in the future, and we are currently working to promote the use of rooms.

Especially during this season, we have been working on developing demand for new graduates, and we have sorted out information on new graduates by the end of October. As of the end of January, we have already received contracts for 9,000 rooms, and we have also another demand information for 22,000 rooms on order.

Considering the Company’s apartment use by the top 500 companies in terms of the number of rooms, we know that there was demand for approximately 40,000 rooms in the last year, and that there is a need for 43,000 rooms in the current year. We will strive to further increase the number of rooms to be used by offering proposals that meet the characteristics and needs of each company.



At the same time, as in the past, we continue to collaborate with supervisory organizations that serve as entry points for foreign nationals. We propose to companies hiring foreign nationals, and we introduce them to supervisory organizations. On top of that, we are working on the corporate issue of securing housing for foreign nationals as a solution.

As a result of these developments, the number of foreign residents, including those under individual contracts, increased by 1.2 percentage points from the same time in the previous year to 43,000 units, which is equivalent to 9.3% of the total number of units in use.

As with the information on new graduates, as of the end of January, we had obtained information on the demand for foreign nationals in companies, which is about 5,000 rooms, and we are handling these one by one.

In addition, we are able to respond to inquiries regarding general living matters, etc. in five languages, which is unique to our company, and this environment is also encouraging residents to use the service.

Chap 2 4: Units and Occupancy Rates by Prefecture

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Occupancy rates in Hokkaido and Tohoku region saw downward trends because of completion of construction projects including offshore wind power generation facilities.
Miyazaki and Kumamoto saw high level of occupancy rates due to strong demand related to semiconductor industry.

Managed unit: in thousands, Occupancy:%	Q3 FY2023			
	Managed units	Occupancy rate	YoY	QoQ
Hokkaido	13	83%	+6 p	−8 p
Aomori	4	74%	−7 P	−9 p
Iwate	3	84%	−7 p	−9 p
Miyagi	10	80%	−5 p	−3 p
Akita	2	80%	−4 p	−12 p
Yamagata	4	79%	−5 p	−8 p
Fukushima	10	84%	+2 p	−0 p
Ibaraki	15	85%	+1 p	−0 p
Tochigi	11	81%	−3 p	−1 p
Gunma	12	81%	+1 p	−1 p
Saitama	45	87%	+2 p	−1 p
Chiba	33	82%	+1 p	+1 p
Tokyo	43	89%	+3 p	+0 p
Kanagawa	40	87%	−1 p	−0 p
Niigata	8	80%	−1 p	−5 p
Toyama	5	80%	+5 p	−11 p

Managed unit: in thousands, Occupancy:%	Q3 FY2023			
	Managed units	Occupancy rate	YoY	QoQ
Ishikawa	5	84%	+9 p	−3 p
Fukui	4	78%	−7 p	−4 p
Yamanashi	4	86%	−2 p	+0 p
Nagano	11	88%	−1 p	−4 p
Gifu	7	81%	−4 p	−2 p
Shizuoka	24	82%	+3 p	+1 p
Aichi	41	87%	+1 p	−0 p
Mie	11	71%	−6 p	−1 p
Shiga	8	87%	−7 p	−2 p
Kyoto	9	86%	−1 p	+0 p
Osaka	31	83%	+1 p	−1 p
Hyogo	22	85%	−1 p	+0 p
Nara	3	90%	+4 p	−0 p
Wakayama	3	75%	−3 p	−1 p
Tottori	2	84%	−2 p	+1 p
Shimane	2	97%	+1 p	+1 p

Managed unit: in thousands, Occupancy:%	Q3 FY2023			
	Managed units	Occupancy rate	YoY	QoQ
Okayama	12	80%	+1 p	−3 p
Hiroshima	13	86%	−1 p	−1 p
Yamaguchi	7	89%	+3 p	+1 p
Tokushima	2	74%	−3 p	−3 p
Kagawa	4	78%	+1 p	−1 p
Ehime	4	78%	−1 p	−5 p
Kochi	2	81%	−3 p	−1 p
Fukuoka	19	87%	+2 p	−0 p
Saga	3	89%	+1 p	+1 p
Nagasaki	2	88%	−3 p	−1 p
Kumamoto	7	90%	−4 p	−3 p
Oita	4	76%	−5 p	−1 p
Miyazaki	2	90%	+6 p	+5 p
Kagoshima	3	81%	−5 p	−8 p
Okinawa	5	98%	+5 p	+1 p
Total	556	84%	+0 p	−1 p

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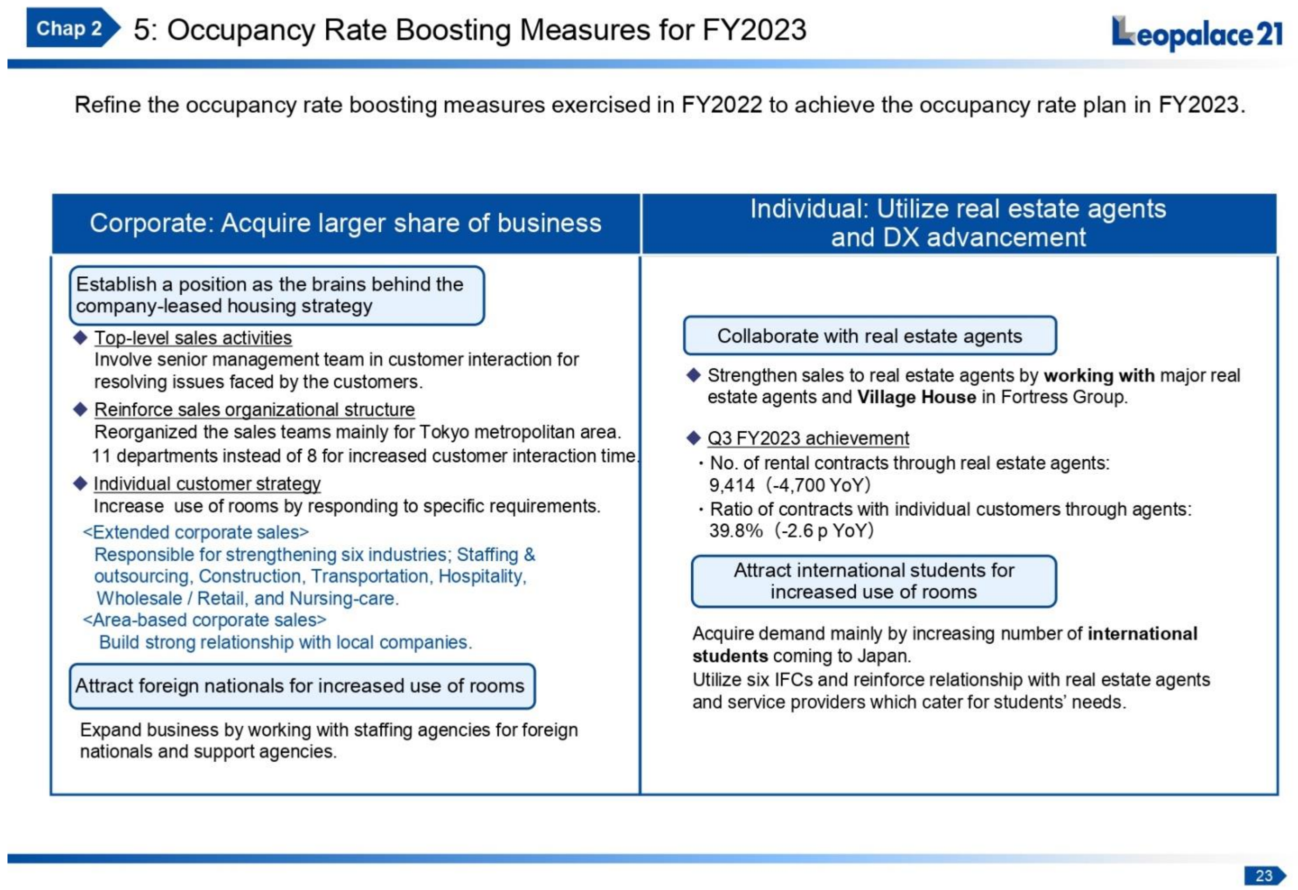
Next is the occupancy status of each prefecture. The situation is changing depending on the characteristics.

In Hokkaido, Tohoku, Toyama, Kagoshima and other prefectures, wind power generation construction projects have run their course, so the trend is downward compared to the end of Q2.

On the other hand, the semiconductor economic zone of Kumamoto, which is currently making headlines in the newspapers and is said to have an economic effect of JPY 20 trillion over 10 years, is booming, and we currently have a demand for over 1,000 rooms.

In these strategic locations, where extremely important economic activities continue, large companies are in a situation where, even after large-scale construction and related needs are completed, if one company releases a room, another company will quickly fill the vacancy. Therefore, some of the major companies are now making a rational decision to continue renting the room until the next operation requirement, and then start preparing for the next business opportunity. We have a very stable client base, and we are working to meet the needs of our clients to keep them as tenants.



We will continue to work with our top-level sales team to firmly differentiate ourselves from our competitors, and since some of our properties are used only during the winter in snowfall areas, we will try to improve the occupancy rate by presenting characteristics suited to these areas.

The number of apartment units with smart lock exceeded 200,000*.
More than 90% of new tenants entered in the apartment units with smart lock.

Leopalace21's apartment units with smart lock exceeded 200,000

Enhanced customer convenience

- Start living in a new apartment unit without having to stop by a leasing sales office to pick up keys
- Door is unlockable by a smartphone app, a smart card or PIN entry to numeric keypad
- Reduced risk of lost keys
- Enhanced security by self-locking door

Improved productivity

Compared to apartment units with conventional locks installed, those with smart locks enable reductions in various operations.
The Company has realized a saving of approximately 100,000 hours of work per year.

Job	Content
Replacement of keys and locks	Prepare keys and locks for reinstallation
	Sort keys and locks
	Hand over keys and locks for contractors to reinstall
Key management	Register key information in a system
	Store master key in the key box
	Post the keys to a responsible leasing sales office
Key hand-over	Prepare documents
	Meet and serve tenants
	Register hand-over completion in a system
Attendance service at leasing sales offices	Employee accompanies customers during apartment previews

* Refer to "Time-Saving Effect of Approximately 100,000 Hours Achieved Due to Smart Locks Installed Exceeding 200,000 Units" dated January 10, 2024

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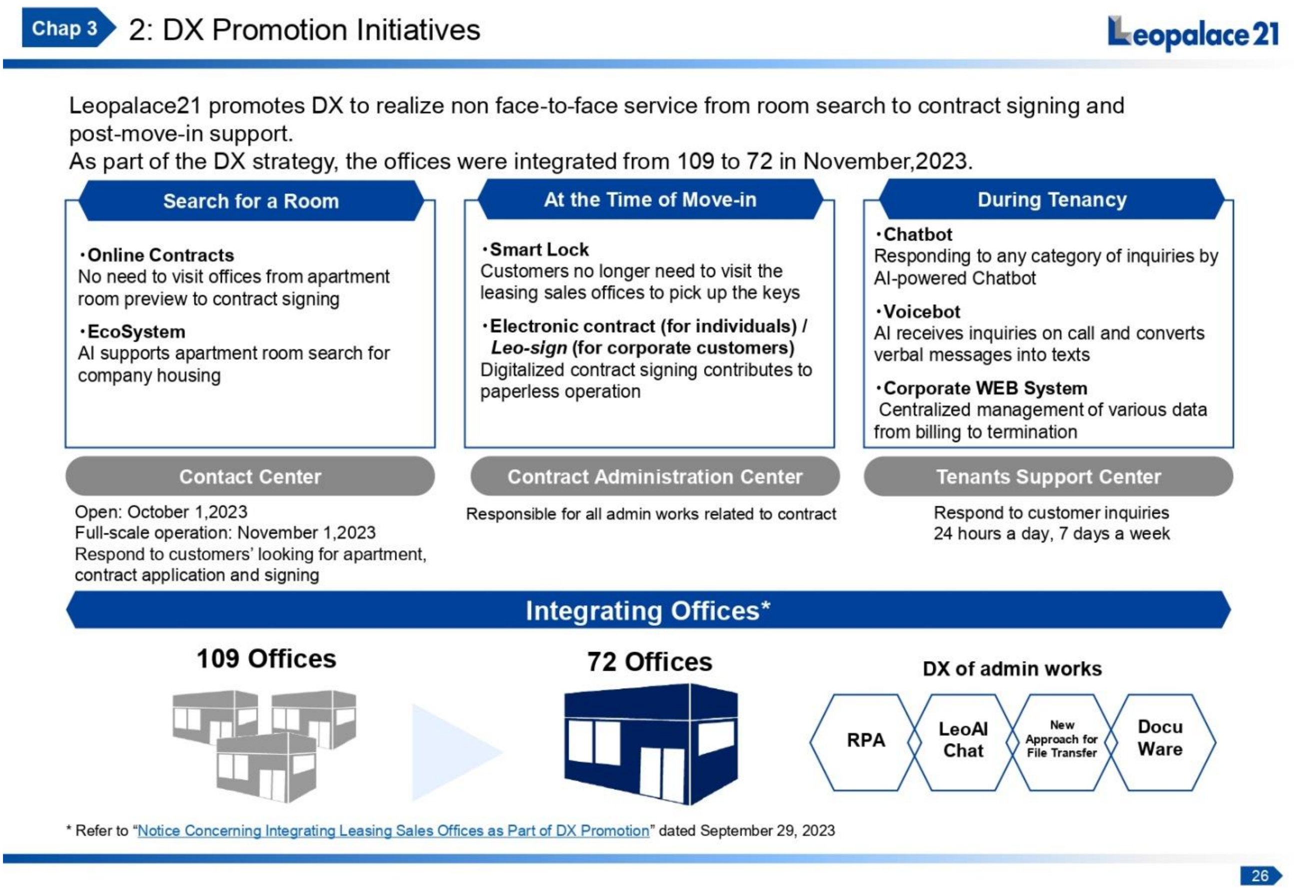
From here, I would like to explain the status of improvement by DX.

We have been promoting these initiatives to improve customer convenience and productivity for a long time, and now, in particular, it has become possible to complete the entire process from room search to move-in without even visiting our leasing offices.

As for smart locks, which have a particularly significant effect, we announced on January 10, 2024, the number of smart locks installed has exceeded 200,000 units. It is one of the largest numbers in Japan for units managed by a single company, and more than 90% of rooms for new contracts are currently equipped with smart locks.

After signing a contract, tenants no longer need to come all the way to our office to pick up keys just before they move in, nor do we need to meet and serve the tenants. Also, customers who are looking for a room will be able to preview the room at a time that is convenient for them. Such things are becoming possible.

The key-changing work associated with moving in and out of the apartment room has been reduced, and the annual reduction of about 100,000 hours of work has already been realized. The employees in the sales offices can now focus more of their time on serving customers.



As a result of this non-face-to-face, centralized operation, we were able to consolidate the number of direct leasing sales offices from 109 to 72 locations.

The significance of the existence of each office is changing, and we are in the process of shifting from a wait-and-see approach to an aggressive, proactive sales office. In the future, we will further strengthen our sales force centered on sales activities, creating more points of contact with customers.

Leopalace21 positioned human resource development as a most important management issue.
It decided on new human capital management vision and selected six themes.

■ Leadership and Succession
《Total hours of employee participation in training》

FY2022	FY2023 Target
4,096 hours	9,000 hours

■ Diverse Talents Acquisition
《Hiring》

	FY2022	FY2023 Target
New graduates	-	50
Mid-career	54	146

*Excluding employment at nursing care facilities (Azumi En) in the Elderly Care Business

■ Employee Engagement
《Employee Engagement Indicator》

FY2022	FY2023 Target
8.6%	9.0%

《Turnover Rate》

FY2022	Target Value
11.1%	Within 5 -10%

■ Compliance and Ethics
《Strengthen a sense of compliance》

	FY2022	FY2023 Target
Number of E-learning sessions	10 times	9 times
Awareness of Compliance Hotline	92.1%	No numerical target

■ Well-being Management
《Rate of thorough examinations undergone after periodic medical examination》

FY2022	FY2025 Target
27.1%	80.0%

《Smoking Rate》

FY2022	FY2024 Target
31.9%	25.0%

■ Diversity and Inclusion
《Female Management Positions》

	FY2022	FY2025 Target
No. of female managers	35	50
Rates of female managers	5.5%	7.8%

《Male employees taking leave for childcare》

	FY2022	FY2023 Target
No. of male employees	20	–
Rate of childcare leave usage	35.7%	Within 30%-40%

《Gender Wage Gap》

	FY2022	FY2023 Target
Regular Employees	69.1%	70.6%
Non-Regular Employees	63.6%	63.5%
Total	55.4%	55.5%

* Refer to "Notice Concerning Disclosing Leopalace21's Human Capital Management to Promote HR Strategies" dated July 4, 2023

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Finally, governance. As we have explained in various ways at our financial results briefings, one indicator of our internal situation is the change in the number of employees, or in other words, the ratio of workforce turnover.

Currently, at the end of December, we have 2,733 employees and 3,904 on a consolidated basis. In the fiscal year ending March 31, 2022, the turnover rate, which was 16% two years ago, dropped to 11.1% in the previous fiscal year, and is expected to land at around 8.6% in the current fiscal year.

As we mentioned previously, we received a large number of applications for the 50 positions available for new hires, and we have decided to hire 70 new employees starting in April of this fiscal year. I am convinced that this is a change in our employees' perception of the stability within the company and the future of the corporate entity where they work. We will continue to strengthen governance and compliance as we move forward with our company's business.

This concludes my explanation. When you open our corporate website, you will see the following phrase, your first apartment**:** where it all begins. Starting with these words, we will continue to pursue our corporate activities through the management and operation of approximately 560,000 leasing housing units as an infrastructure for a society that goes along with individual lives. Thank you very much for your attention.

Question & Answer

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

Mr. Hashimoto, Mizuho Securities, please.

Hashimoto [Q]: To repair the remaining 20,100 units and to finish in 11 months, you need a pace of 1,830 units per month, how should we look at the monthly progress? Also, is there a possibility that some units will remain unrepaired because of tenants reasons?

Miyao [A]: The average monthly pace during the peak season of housing changes, the monthly pace is expected to decrease slightly to about 1,000 units per month. I think the biggest numbers will be from May onward through the summer months, when it is closer to the off season.

In particular, we have been focusing since last year on surveying rooms with tenants living and repairing the defects in those rooms in turn, and we hope to work around these difficulties and seek cooperation from the tenants during this period, given their various inconveniences.

As you say, in terms of whether there are tenants and the possibility of some units remaining, I think there is such a possibility, but it depends on how effectively we face the issue and to which degree we can get their cooperation.

Kawasaki [M]: Next, Mr. Hashimoto's second question.

Hashimoto [Q]: On page 22 of the company data, the occupancy rates by prefecture, Hokkaido, Tohoku, Toyama, etc., have been declining over the quarter, but what were the background? Should they be understood as worrying factors? Conversely, Miyazaki, Okinawa, Saga, etc. are doing better, but what is the background to this?

Takekura [A]: As for Hokkaido and Hokuriku, as you mentioned earlier, there is a very strong relationship between seasonality and the temporary suspension of demand during the winter season.

The reduction in numbers for Hokkaido were a little noticeable this time because of the temporary termination of the use by the companies involved in the construction of wind power generation, but we do not need to worry too much about this because Hokkaido is currently very active, including in the area of semiconductors.

In Akita and Toyama, as I mentioned earlier, there are infrastructure-related construction projects and use of apartment rooms was reduced in the winter season, so I hope you understand that these needs have tapered off.

Conversely, in the southern part of Japan, Miyazaki, there has been a very noticeable increase in the number of contracts for semiconductor-related businesses. Since there is no seasonality in this area, we would like to ensure the stability of tenants over the long term by monitoring the activities of local companies and promoting very strong and stable tenants.

Kawasaki [M]: Next, a question from Mr. Hamada, SMBC Nikko Securities.

Hamada [Q]: Page four, please explain why you decided to resume dividends payment at this time. I would also like to know your thoughts on share buyback that has left the target unfulfilled in both the amount and the number of shares.

Miyao [A]: We had been thinking about resumption of dividends since the Ordinary General Shareholders' Meeting, when we made up the deficit in retained earnings, and one trigger in terms of timing was the end of the share repurchase program. I understand that it came out to be our possible next step when the repurchase program was over.

Regarding your other question about unfulfilled target of share buyback, in the first place, the acquisition of treasury stock was beneficial from the perspective of investment at the time. We have not fulfilled the targeted amount of money allotted for the program which we originally announced. I believe that the effects and efficacy of the resumption of dividends and the share buyback may differ slightly, so I would like to make a careful judgment on this point as well.

Kawasaki [M]: Next, a question from Mr. Ozawa ,SBI Securities.

Ozawa [Q]: On page 21, is the rent level for foreign nationals comparable to that for Japanese? Were you able to raise rent?

Takekura [A]: In conclusion, this has been done. We have various ways of leasing, but practically speaking, it is the foreign nationals who are in a position to pay the highest rents in general. These rooms are for singles, but foreign national residents in some cases they live in these rooms by sharing the space, and therefore even if the rent setting was higher, it is acceptable to them because several foreign nationals would live together.

The sequence of rent level is in the order of foreign nationals, company use, and individuals, who are more sensitive about the rent level, and students come even under the individual segment.

There have been many situations recently where foreign nationals, who worked as technical interns, etc., have had to live together to be able to pay the rent level that the Company set. Recently, however, due to various legal revisions for hiring technical interns, etc., companies have changed their policy from allowing two people to live together to allocate one room for one person. We continue to see this target of foreign nationals as a potential growth market, as some companies are starting to rethink their housing policy.

Kawasaki [M]: Next, a question from Mr. Hamada, SMBC Nikko Securities.

Hamada [Q]: On page nine, why didn’t you revise the company's full-year plan upward even though the Q3 results were considerably above the company's plan? Is there still a possibility of some costs or losses to be recorded in Q4?

Miyao [A]: On page 15, you will see a table of quarterly results for the previous fiscal year, the plan and actual results for the current fiscal year. What I would like to explain here is that for Q4, we originally projected zero in our plan, and last year we had an operating loss of about JPY 900 million.

Although Q4 is certainly a busy season, the contracts signed in March will make almost no contribution in terms of sales. The revenue from rent payments only starts in the end of March for next April tenancy. It will be recorded as advances received and will not contribute to sales.

Despite the busy season, there are commissions to real estate agents to promote occupancy, and advertising expenses, as well as cleaning, restoration, maintenance and other expenses incurred after tenants move out. With these backgrounds, as you can see, operating profit for Q4 is unlikely to increase, and offset by higher costs.

The operating profit up to Q3 is JPY 20 billion, compared to the current plan of JPY 18.1 billion, which is about 10% over the plan.

There may be no big leap in Q4, maybe zero, maybe even negative. Considering no large increase in profits for Q4, we did not revise our full-year forecast, in light of disclosure threshold, even if we continue with the current estimate of in the range of 10% increase against the plan.

We will continue to examine this issue as we move into Q4.

Kawasaki [M]: Next, a question from Mr. Hamada.

Hamada [Q]: Please share your opinion on the possibility of Fortress exercising its warrants of 50% dilution. Even if exercised, would the company consider further share repurchases to limit dilution, buy back the subscription rights, or take other actions to further reduce the risk of dilution?

Takekura [A]: Naturally, we are in a situation where we are constantly being asked by investors about the dilution regarding the execution of these warrants, and in conclusion, I would like to avoid stating specific measures here. We believe it is necessary to develop various measures to meet the expectations of our shareholders, who are one of our stakeholders, while keeping a close eye on basic earnings per share and other such factors. I would like to respond to this issue in the management team, taking it as an agenda item.

In the summary section of the Consolidated Financial Statements, both net income per share for the quarter and diluted net income per share are shown, and we are convinced that a proper increase in these figures will lead to an increase in the share price. With this, we will continue to improve our business performance.

In June and July of last year, the management of the Company decided to buy back its own shares at a certain share price, including the fact that it was not satisfied with the then share price levels, and we will continue to take measures to ensure that net income per share is properly reflected in the share price, as well as to improve our business performance.

Kawasaki [M]: Next, a question from Mr. Hamada.

Hamada [Q]: Why is the improvement in the occupancy rate slower than planned? As a result, on page 10, is there also an increased downside risk to the FY2024 plan?

Miyao [A]: Regarding the improvement of occupancy rates, as explained earlier, we are now switching to aggressive pricing for unit rents. This has led to the reduced number of individual contracts, whereby each customer inevitably searches for a variety of rooms while keeping an eye on his or her own budget. Inevitably, the search for a room is looking into the website for comparison, keeping fairly sensitive attitude to the rent level of the apartment room.

We do not just go along with them, but we also work from a different angle to reward those who are looking for apartments, or more specifically, companies, through our activities. The slow improvement in occupancy rates is where the number of individual contracts has declined significantly.

However, please look on page 11 regarding what has happened to business performance. As shown on the left side, the negative impact on sales due to the decline in occupancy rate is nearly JPY 500 million. On the other hand, as shown on the right side, we believe that the impact on sales due to average unit rent recovery of JPY 1 billion in Q3 alone, a sum of twice as big as JPY 500 million. It compensated for the negative impact due to occupancy rate gap.

Both work on the basis of number of occupied units, so the further we go to for Q4, the increased difference against the occupancy rate plan will be compensated by average unit rent recovery. We believe this will lead to an increase in earnings.

Kawasaki [M]: Next, a question from Mr. Hamada.

Hamada [Q]: On page 21, I would like to know in detail about the factors that caused the number of contracts in foreign national segment was much lower than planned. In addition, considering increase in inbound travelers and the like, can the Company implement some measures such as using DX to gain revenue from vacation rental business?

Takekura [A]: This can be roughly divided into two main points.

At the beginning of my presentation of the financial results, I mentioned earlier that we are supported by active corporate activities. While our corporate sales department intends to develop the needs of foreign nationals through supervisory organizations and companies, but in reality, our sales staffs are too busy to just service the existing demand by the companies which enjoy good business. We have been making contacts with supervisory organizations and their communities, which are the target of needs that should be uncovered, but our sales activities are still far short of the required manpower resources.

The other point, and this is a proper strategic one, is that we are not easily lowering the rent, which is a very contributing effect to the current financial results. There was a discussion earlier about whether the rent increase is seen for the lending to the foreign nationals.

In response to this, we will be responding to those who pay a certain level of rent. As I mentioned earlier, with reduced level of rent considerably, there will naturally be a large demand available in the market. We do not want to lend to those who are not prepared to pay the proper level of rent. We are currently addressing foreign nationals who are able to pay a certain level of rent. This is the current situation.

Also, regarding the use of smart locks, we experimented for a time with various vacation rental business and the like to see if it provides acceptable profitability. The experiments did not yield convincing profitability, though.

In fact, smart locks are convenient for foreign national residents, as they can apply for and provisionally reserve a room in their home country via the Internet. They can obtain a passcode to the smart lock in the mobile phone and move in directly after landed in the international airports, without having to visit our leasing office. We are working hard to create an environment where foreign nationals can use the rooms smoothly after entering Japan.

Kawasaki [M]: Next, a question from Mr. Hamada.

Hamada [Q]: What are the trends in unit rent, do you continue to actively raise rent at the time of change in tenants, and what is the current average unit rent, including common service expense?

Miyao [A]: On page six of the slides, you can see on the y-axis scale of the right edge of the graph, the trend of the unit rent over the past year, as you can see from this graph, the average unit rent has increased by about 10 points.

As I have already explained the reasons for this, we are also focusing on raise in rent at the time of change in tenancy, or renewal.

In particular, most of our new individual tenants stay with us for about three years. When looking at the level of unit rent around the year 2022, the unit rent was about 15 points lower than the current level. We have been setting the new aggressive rent while keeping an eye on local market and other factors. You can see how we have worked out the price-focused strategy in setting the new rents by this percentage numbers.

The average unit rent, including common service expense, is now approaching just over JPY 55,000.

Kawasaki [M]: It is before the scheduled end time, but there are no additional questions, so we will now conclude the question-and-answer session and the briefing.

Thank you very much for attending today's financial results briefing of Leopalace21 Corporation for Q3 of the fiscal year ending March 31, 2024.

[END]