Leopalace21 Corporation

Financial Results Briefing for the Fiscal Year Ended March 2024

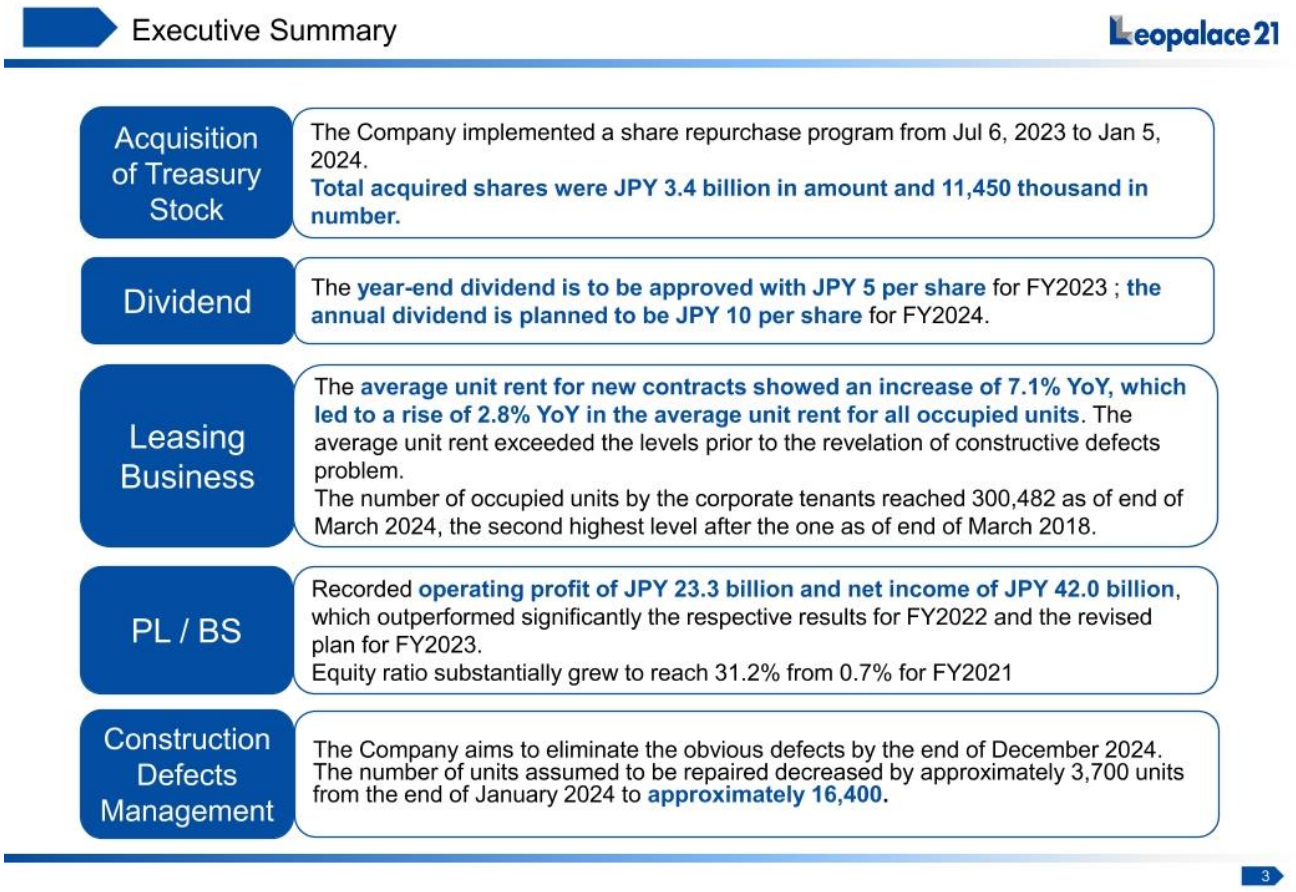
May 10, 2024

Presentation

Ueda: Thank you very much for taking time out of your busy schedules today to participate in the financial results briefing of Leopalace21 Corporation for the fiscal year ended March 31, 2024. I am Ueda, and I will be your moderator.

Today's speakers are Bunya Miyao, President and CEO; and Shinji Takekura, Director, Chief of the Corporate Management Headquarters.

There will be time for a question-and-answer session after the presentation. The event is scheduled to end at 6:00 PM. Miyao, President and CEO, will now begin the presentation.



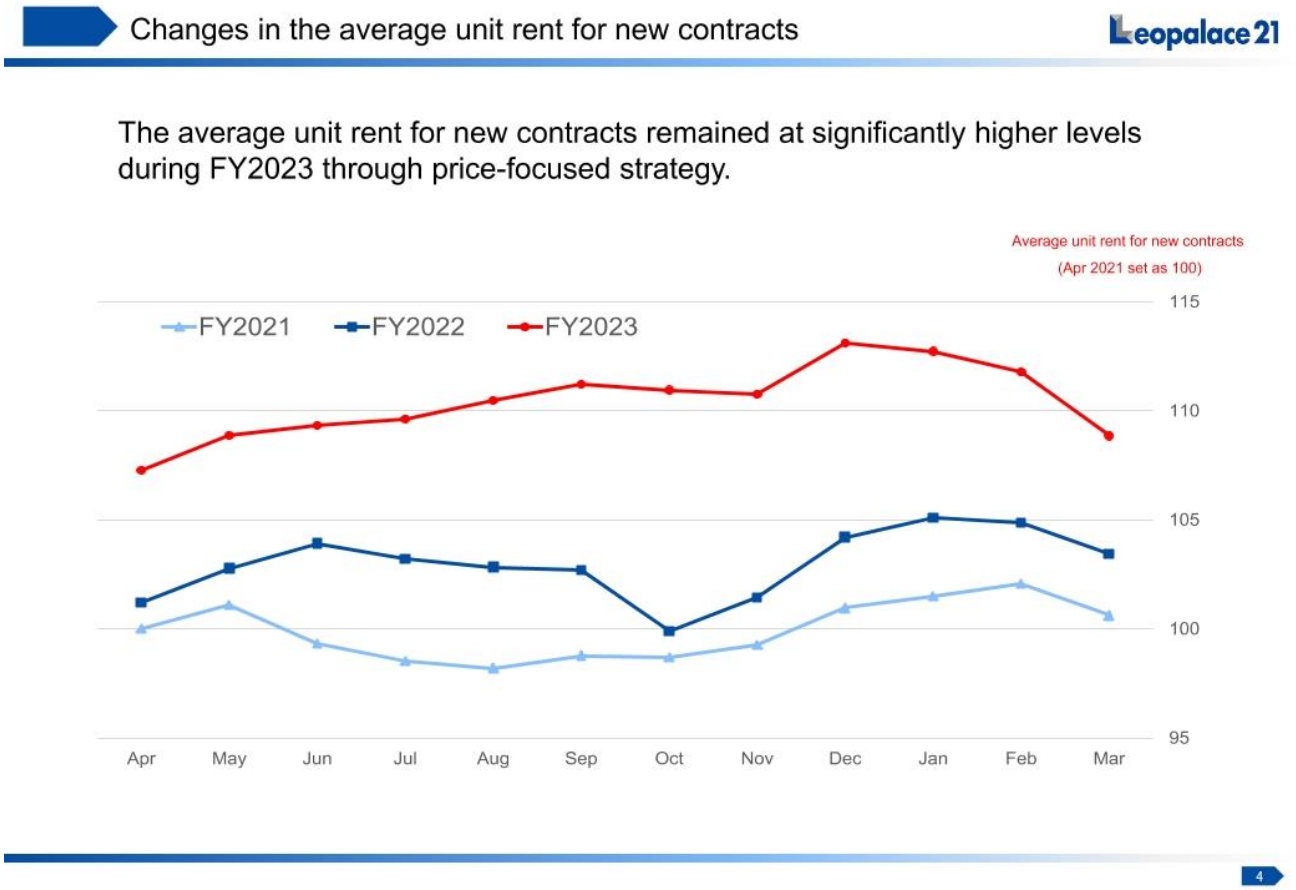
Miyao: Thank you for taking time out of your busy schedule to join us today. I am Miyao, President and CEO. I will give a summary of the financial results for the previous fiscal year, management policies and strategies for the current fiscal year, and our response to construction defects.

Financial results for the fiscal year ended March 31, 2024, showed an increase in both sales and profit over the previous fiscal year. Although the average occupancy rate was slightly lower than planned, each profit level exceeded the plan. This was due to an increase in the average unit rent for new contracts due to the implementation of the price-focused strategy and corresponding increase in the average unit rent for all occupied units, as well as the continued strong growth in the number of corporate leased-housing from the previous period, reaching 300,482 units, the second highest level of units in use on March 31, 2018.

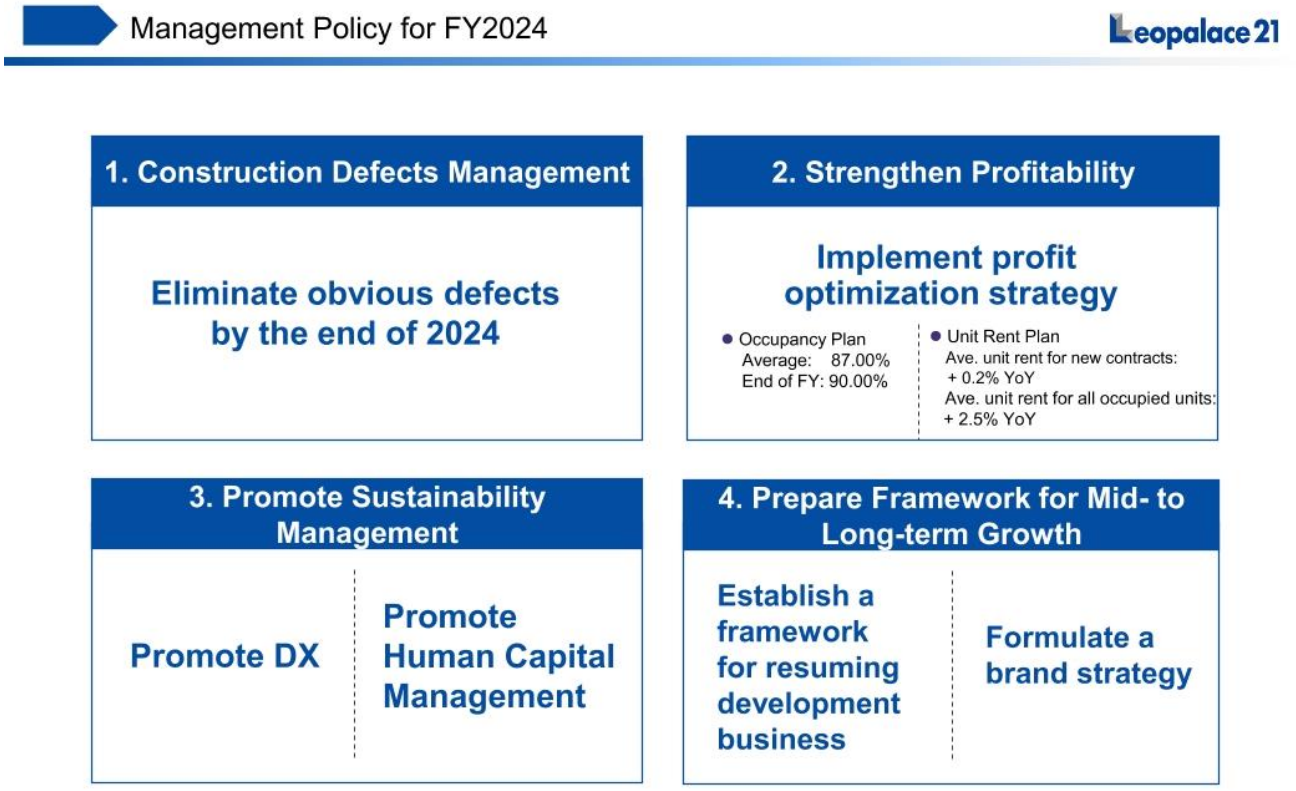
In terms of capital policy, the Company executed a share buyback program totaling JPY 3.4 billion from July 2023 to January 2024. A resolution was passed to eliminate the deficit in retained earnings carried forward by reducing the amount of capital reserve and appropriating other capital surplus at the previous fiscal year's annual general shareholders' meeting, thus ensuring that the Company is in a position to resume dividend payments as soon as possible. For the fiscal year ended March 31, 2024, we have changed our dividend policy and now expect to pay a year-end dividend of JPY 5 per share, and a yearly dividend of JPY 10 per share for the fiscal year ending March 31, 2025.

In December 2023, we refinanced JPY 30 billion in borrowings, and the interest rate was reduced from 14.5% to 5.5% per annum, which leads to a positive effect of approximately JPY 2.8 billion for the fiscal year ending March 31, 2025.

Regarding the response to construction defects, approximately 11,800 units were repaired in the previous fiscal year, and the projected number of units to be repaired is 16,400 units for the current fiscal year.



Please refer to page four. This is the change in the average unit rent for new contracts, which was a factor in the increase in revenue and profit. Although the average occupancy rate during the period was minus 0.57 percentage points below the plan, the average unit rent for new contracts was higher than that in the fiscal year ended March 31, 2018, before the revelation of the construction defects problem, as a result of adopting the price-focused strategy in accordance with area characteristics.



Based on these results, we have presented four management policies for the current fiscal year on page five.

The first is to address construction defects. We are discussing with tenants who live in the defective units in addition to repairing vacant rooms to eliminate the obvious defects by the end of 2024. We will continue our efforts to improve the speed of repairs and to carefully respond to owners, tenants, and relevant ministries and agencies.

The second is to strengthen profitability. The average occupancy rate plan for the period is 87%, and the average unit rent for new contracts is expected to increase by 0.2% from the previous period. In addition, the Company will continue to promote its profit optimization strategy through the implementation of measures tailored to the characteristics of each area.

The third is to build a sustainable management foundation. Through human capital management, we will further strengthen our business structure and promote sustainability management by differentiating ourselves from our competitors such as improving customer convenience through the promotion of DX.

Fourth, we are building a structure for medium- to long-term growth. Regarding the resumption of development business, including taking orders for new apartments, for which we often receive questions from our stakeholders, we established a new division which is responsible for development business in May and built a structure that will enable us to resume development business in the future.

In addition, to rebuild our brand, which was damaged by the construction defects problem, we will improve employee engagement by restructuring our internal branding and take various measures as a social infrastructure company whose purpose is "to create new value and provide better living solutions based on the theme of housing”.

Achieved net sales and profit items as planned due to increased unit rent and restrained personnel cost.
Net income outperformed the plan by 251% due to recording of income taxes–deferred (profit).

(JPY million)	Comparison vs FY2022 Actual	FY2022 Actual	FY2023 Actual	FY2023 Revised Plan	Difference	Factors contributing to changes
Net sales	+16,222	406,449	**422,671**	421,700	+971	■ Net sales Average unit rent increase led to a JPY 0.9 billion increase compared to the plan despite a shortfall in occupancy rate. ■ Cost of sales Cost of sales became JPY 0.3 billion smaller than the plan due to restrained apartment maintenance unit cost despite recording of provision for apartment vacancy loss of JPY 1.0 billion. ■ SG&A Restricted mid-career hiring resulted in JPY -3.8 billion compared to the plan. ■ Extraordinary income Recorded gains on sale of shares in subsidiaries of JPY 0.6 billion as a result of transferring shares in a subsidiary. ■ Extraordinary losses Recorded loss related to repairs of JPY 2.7 billion due to soaring material prices and increased ratio of subcontracted repair works ■ Net income Recorded income taxes–deferred (profit) of JPY 26.5 billion.
Cost of sales	+673	353,163	**353,836**	354,200	(363)	
Gross profit	+15,549	53,285	**68,835**	67,500	+1,335	
%	+3.2 p	13.1%	**16.3%**	16.0%	+0.3 p	
SG&A	+2,114	43,406	**45,521**	49,400	(3,878)	
Operating profit	+13,434	9,879	**23,313**	18,100	+5,213	
%	+3.1 p	2.4%	**5.5%**	4.3%	+1.2 p	
EBITDA	+11,525	16,449	**27,974**	24,700	+3,274	
Recurring profit	+12,949	6,526	**19,476**	14,100	+5,376	
Net income	+22,251	19,810	**42,062**	12,000	+30,062	
EPS (JPY)	+70.69	60.22	**130.91**	36.93	+93.98	

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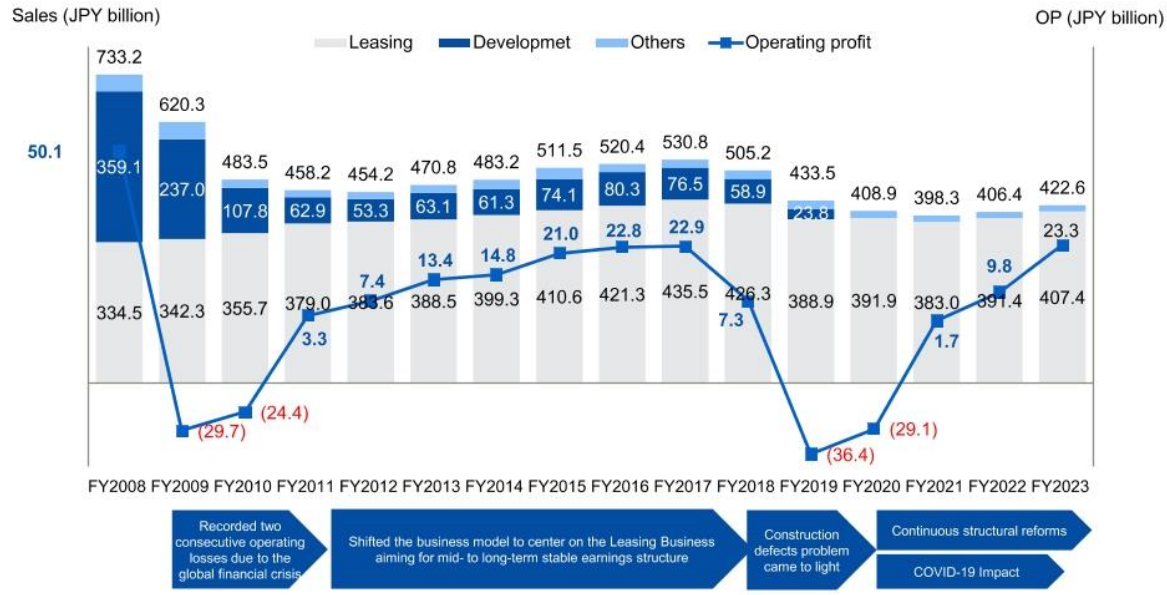
Please refer to page seven. As for the results for the fiscal year ended March 2024, due to price-focused strategies in accordance with the characteristics of the area, the average unit rent for new contracts was higher than that in the fiscal year 2017, before the revelation of the construction defects. Consequently, net sales exceeded the fiscal year 2022 actual and the fiscal year 2023 plan.

In addition, restrained cost of sales, control of SG&A expenses, and an increase in deferred tax assets resulted in significant increases in each profit level, both compared to the previous year and to the plan. As a result of the recovery in net income, the equity ratio at the end of the period was 31.2% and net assets were JPY 71.6 billion, showing a JPY 38.7 billion improvement in one year.

Operating profit was JPY 23.3 billion, up from 22.9 billion in the fiscal year ended March 31, 2018, before the revelation of the construction defects. We will continue to strive to maximize earnings by implementing detailed price-focused strategies in each area, along with appropriate cost of sales and SG&A expense management.

Leopalace21 shifted its business model to center on the Leasing Business after the global financial crisis. With construction defects problem revealed in FY2018 and another blow by COVID-19 impact starting from FY2020, implementing continuous structural reforms turned operating profit in three consecutive years from FY2021.



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In addition, on page 34, we have shown the performance trends since the Lehman Brothers collapse. As mentioned earlier, the fiscal year ended March 31, 2018, before the revelation of the construction defects, was the year in which the average occupancy rate during the period reached 90.59%, exceeding the operating income for that period. The fact that sales at that time were JPY 530.0 billion, JPY 100.0 billion higher than in the previous year, is the evidence of the significant improvement in profitability.

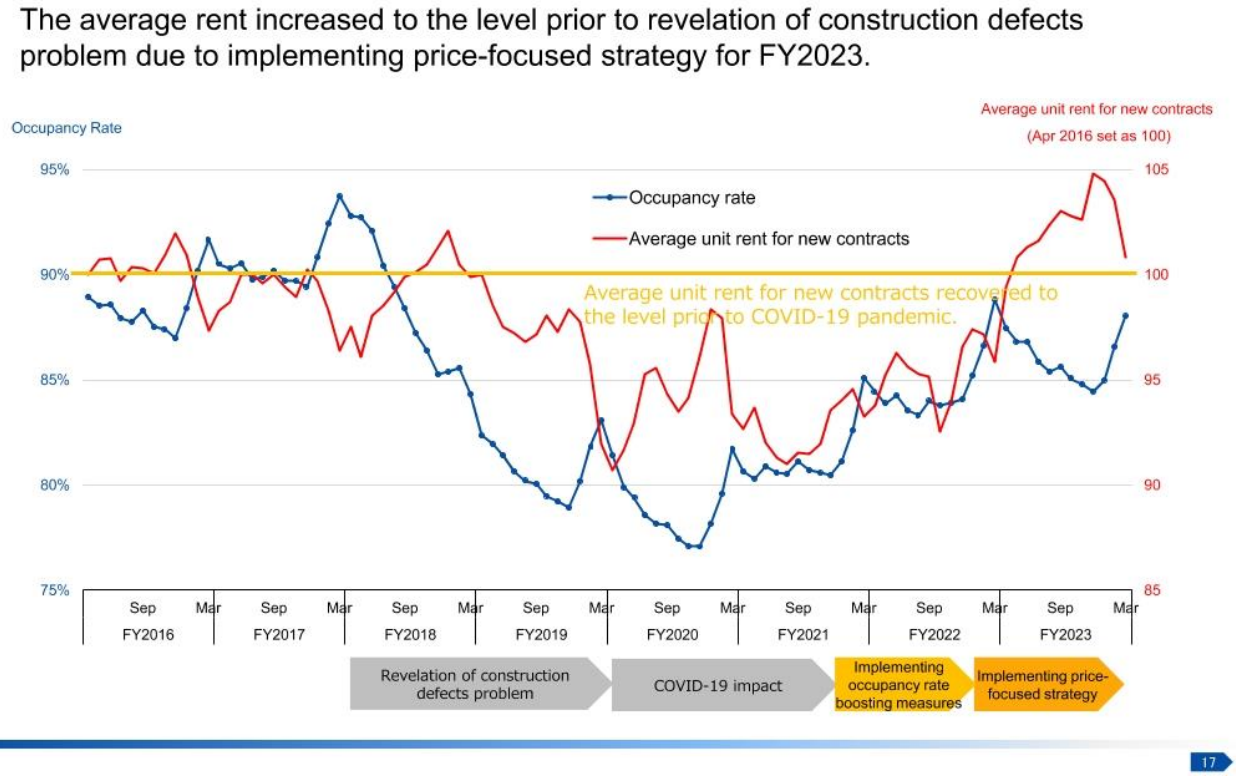
At the same time, the number of employees at the end of March 2018 was approximately 7,700 on a consolidated basis and 6,500 on a non-consolidated basis, so you can see that sales per employee or profit per employee has improved significantly.

We will implement profit optimization strategy to maximize profitability through increasing occupancy rate and average unit rent for all occupied units.

(JPY million)	FY2024 Plan						Factors contributing to changes
	Q1	Q2	Q3	Q4	FY Total	Delta vs FY2023	
Net Sales	106,900	106,200	106,700	108,800	428,600	+5,928	Increase in average unit rent for all occupied units
Cost of sales	87,200	87,900	88,400	89,200	352,700	(1,136)	Decrease in number of apartment units under management and decrease in costs of subsidiaries and affiliates contributed to JPY -1.1 billion YoY. Balance of provision of apartment vacancy loss is estimated ±0. (JPY +1.0 billion for FY2023)
Gross profit	19,700	18,300	18,300	19,600	75,900	+7,064	
%	18.4%	17.2%	17.2%	18.0%	17.7%	+1.4p	
SG&A	11,600	11,800	11,900	14,000	49,300	+3,778	
Operating profit	8,100	6,500	6,400	5,600	26,600	+3,286	Increase in personnel costs due to growth in the number of employees and increased compensation.
%	7.6%	6.1%	6.0%	5.1%	6.2%	+0.7p	
EBITDA	9,100	7,400	7,200	6,400	30,100	+2,125	
Recurring profit	7,700	6,100	6,000	5,100	24,900	+5,423	A reversal of deferred tax assets is planned for Q4.
Net income	7,100	5,700	5,600	(3,900)	14,500	(27,562)	
EPS (JPY)	22.35	17.94	17.63	(12.28)	45.64	(85.27)	

Now, I would like to move on to our plan for this fiscal year. Please refer to page 11. Basically, we will maintain our price-focused strategy and further increase the occupancy rate to grow the top line. The average occupancy rate during the period is expected to be 87%, an increase of 1 percentage point from the previous period, and we also expect an increase in net sales due to an increase in the average unit rent for all occupied units.

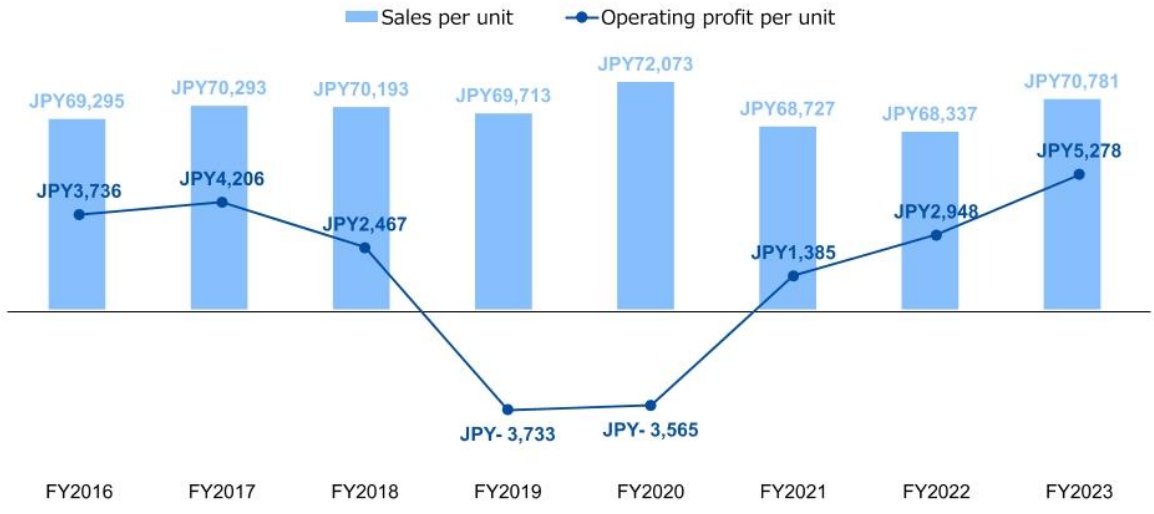
Operating profit will be JPY 26.6 billion, an increase of JPY 3.3 billion from the previous fiscal year. Net income is expected to be JPY 14.5 billion due to the expected reversal of deferred tax assets.



Next, please refer to page 17. The chart shows trends in occupancy rate and average unit rent for new contracts. The occupancy rate dropped to 77.07% in December of the fiscal year ended March 31, 2021, due in part to the impact of COVID-19 since the revelation of the construction defects problem. From there, the occupancy rate has shown a recovery since the fiscal year ended March 31, 2022 due to the implementation and continuation of area strategies such as top sales efforts for corporate clients to recover the number of rooms use and strengthening tie with real estate agents.

Priority was placed on occupancy rate growth until the middle of the fiscal year ended March 31, 2023, but since then we have shifted our priority to price-focused strategy and improved the average unit rent for new contracts, which has now recovered to the level it was before the revelation of the construction defects problem. Accordingly, the average unit rent of all occupied units, which is the rent during tenancy, is expected to rise in the future, contributing to further improvement of earnings in the future.

Operating profit per unit reached all time high due to increased unit rent and optimized cost.
We aim to grow profit by keeping the profitability and increasing occupancy rate.



* Sales per unit (Operating profit) = Sales for Leasing Business Segment (Operating profit) / Number of occupied units per annum

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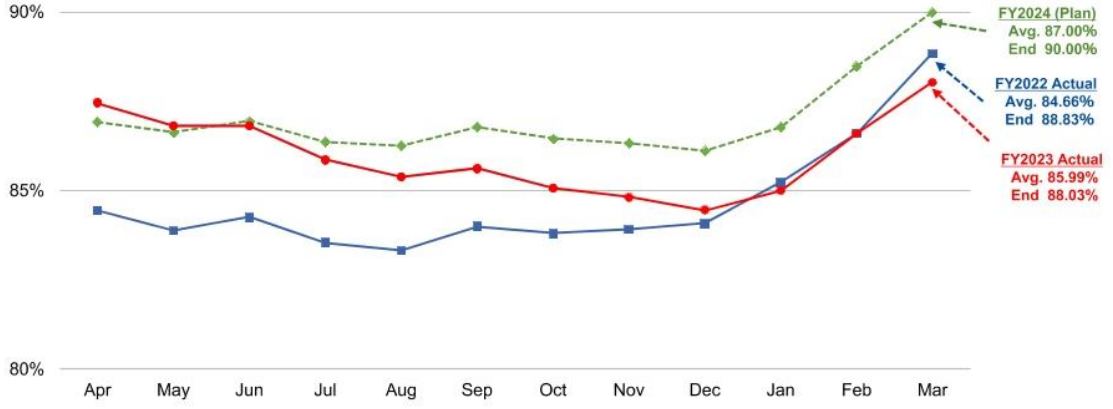
Also shown on page 18 are net sales and operating profit per apartment unit in the Leasing Business segment. The implementation of measures to improve the occupancy rate and the price-focused strategy for the fiscal year ended March 31, 2022 and beyond are contributing to sales, while operating profit has risen to a level higher than before the revelation of the construction defects, thanks to the effects of further cost improvements.

The occupancy rates resulted in 88.03% at the end of March 2024 (-0.80 p YoY) and 85.99% of average occupancy rate (+1.33 p YoY).
We aim at maximizing profitability for FY2024 through implementing profit optimization strategy, namely improved occupancy rate at appropriate pricing.



	Apr	May	Jun	Apr-Jun Average	Jul	Aug	Sep	Jul-Sep Average	Oct	Nov	Dec	Oct-Dec Average	Jan	Feb	Mar	Jan-Mar Average	FY2023 Average
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%	85.00%	86.60%	88.03%	86.54%	85.99%
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	-0.23 p	-0.01 p	-0.80 p	-0.35 p	+1.33 p

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

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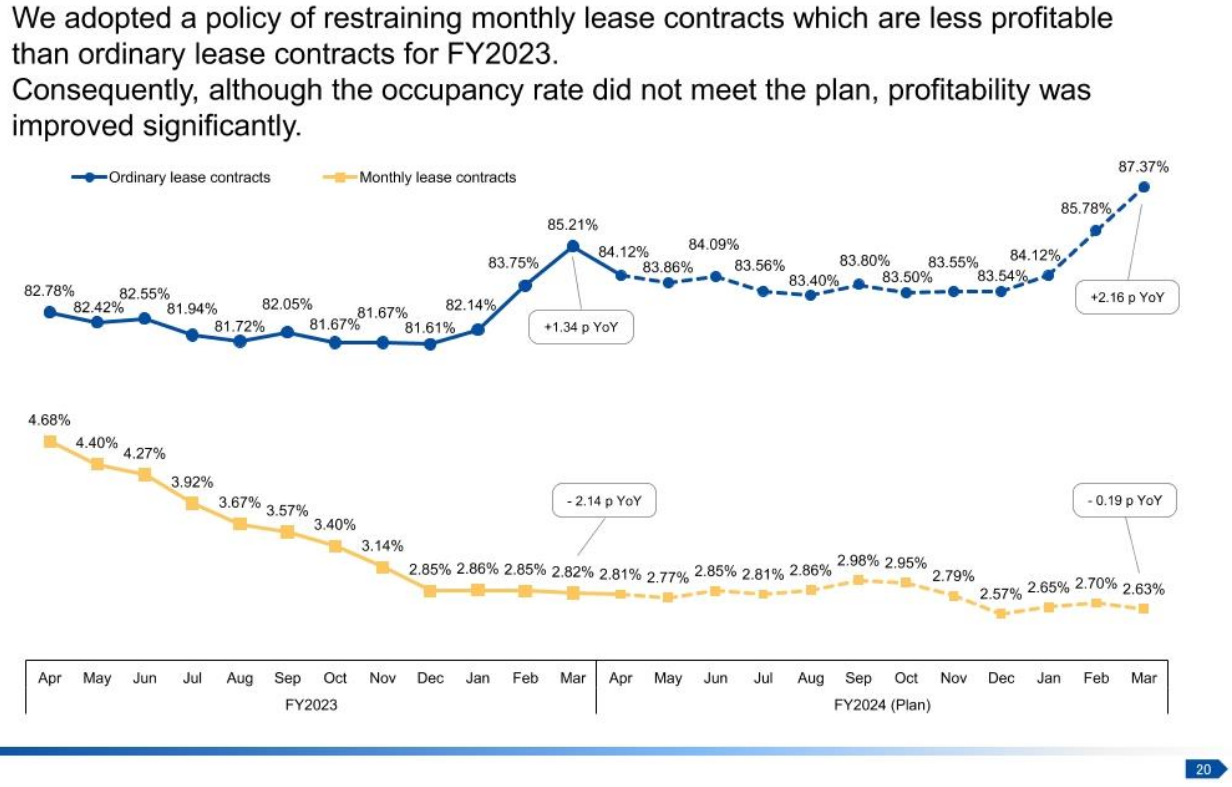
Page 19 shows the most recent occupancy rate and the plan for this fiscal year. For the fiscal year ending March 31, 2025, we plan to maintain our price-focused strategy, with an occupancy rate of 90% at the end of the period and an average occupancy rate of 87% during the period.



Please see page 20 for the factors that led to the slowdown in growth of the occupancy rate in H2 of the fiscal year ended March 31, 2024, which was lower than the previous year's results.

Here is the occupancy rate broken down by contract plan. At the same time when we began to adopt a price-focused strategy, we reviewed our monthly plan, a form of contract for short-term room uses. We changed the monthly plan to an appropriate price level which earns reasonable profit.

On the other hand, this resulted in a particularly large drop of minus 2.14 points in the occupancy rate of monthly lease contracts from the end of the previous fiscal year, which was the part of the sluggish growth in the occupancy rate in the previous fiscal year that I mentioned earlier.

However, as you can see, the number of corporate contracts in the ordinary leasing contracts remained strong, and the occupancy rate in ordinary leasing contracts increased by 1.34 points from the end of the previous fiscal year, and the increase in the average unit rent for all occupied units due to an increase in the average unit rent for new contracts ensured profitability in the fiscal year 2023. In the current fiscal year, we will continue with the same strategy and strive to optimize earnings.

Construction sector and staffing & outsourcing sector saw continued steady growth to reach the largest number of occupancy level.

Hospitality sector saw substantial yearly and quarterly growth due to demand recovery as a result of mitigated COVID-19 impact.



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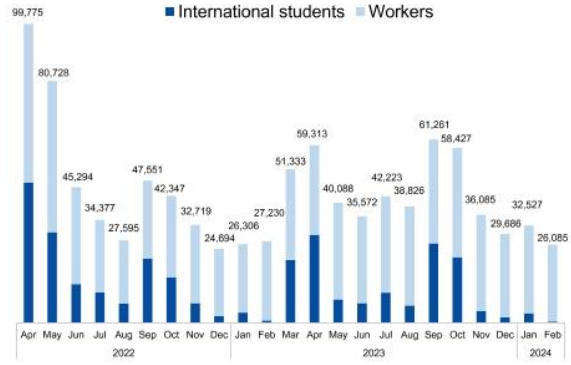
On page 22, we see corporate use, which has remained steady, rising to 61.6% of all units used. By industry, the construction industry and temporary staffing and outsourcing remained strong, accounting for nearly 50% of the total number of rooms used by corporate customers. In addition, for industries that were greatly affected by COVID-19, such as the hospitality industry, demand has recovered and landed in a significantly positive result compared to the previous period.

Number of units used by foreign national tenants was approx. 47 thousand—comprising approx. 24 thousand individual tenants and approx. 23 thousand under corporate contracts—which represented 9.7% of the total.
(+1.3 p from end of FY2022 and +0.5 p from end of Q3 FY2023)

Number of contracts (individual customers)

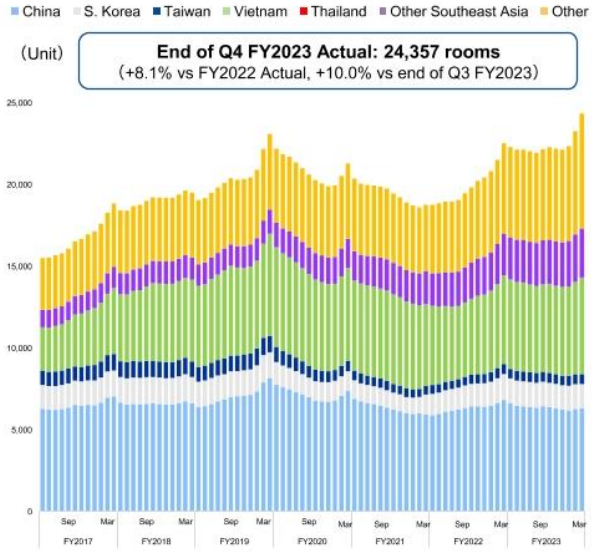
Q4 FY2023 Actual 12,201
(+47 against plan, +190 YoY)

Market Data
(trends of new entrants to Japan)*



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

Trends of No. of contracts with individual customers



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Page 23 shows the number of units used by foreign nationals. As indicated in the upper row, when the number of units under corporate contracts is included, the number of foreign tenants is approximately 47,000, accounting for a little less than 10% of the total number of units used.

Estimated number of rooms requiring repairs: Approx. 16,400

Of the units requiring repair, we expect to repair approximately **16,400 units**, including **14,018** units that have been confirmed defective and approximately **2,390** units that are assumed to be defective based on the past investigation results.

(As of April 30, 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	7,508	117,964	68,059	54,744	9,950
Other Series Total	23,802	3,763	58,266	26,255	13,576	6,450
Grand Total	39,085	11,271	176,230	94,284	68,320	16,400

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

Finally, we would like to explain our response to construction defects. As of the end of April, the number of units expected to be repaired in the future has been reduced to approximately 16,400 units. As announced in our news release dated April 5, 2024, we have eliminated approximately 8,100 units from September last year to March this year, and more than 10,000 units for the full fiscal year.

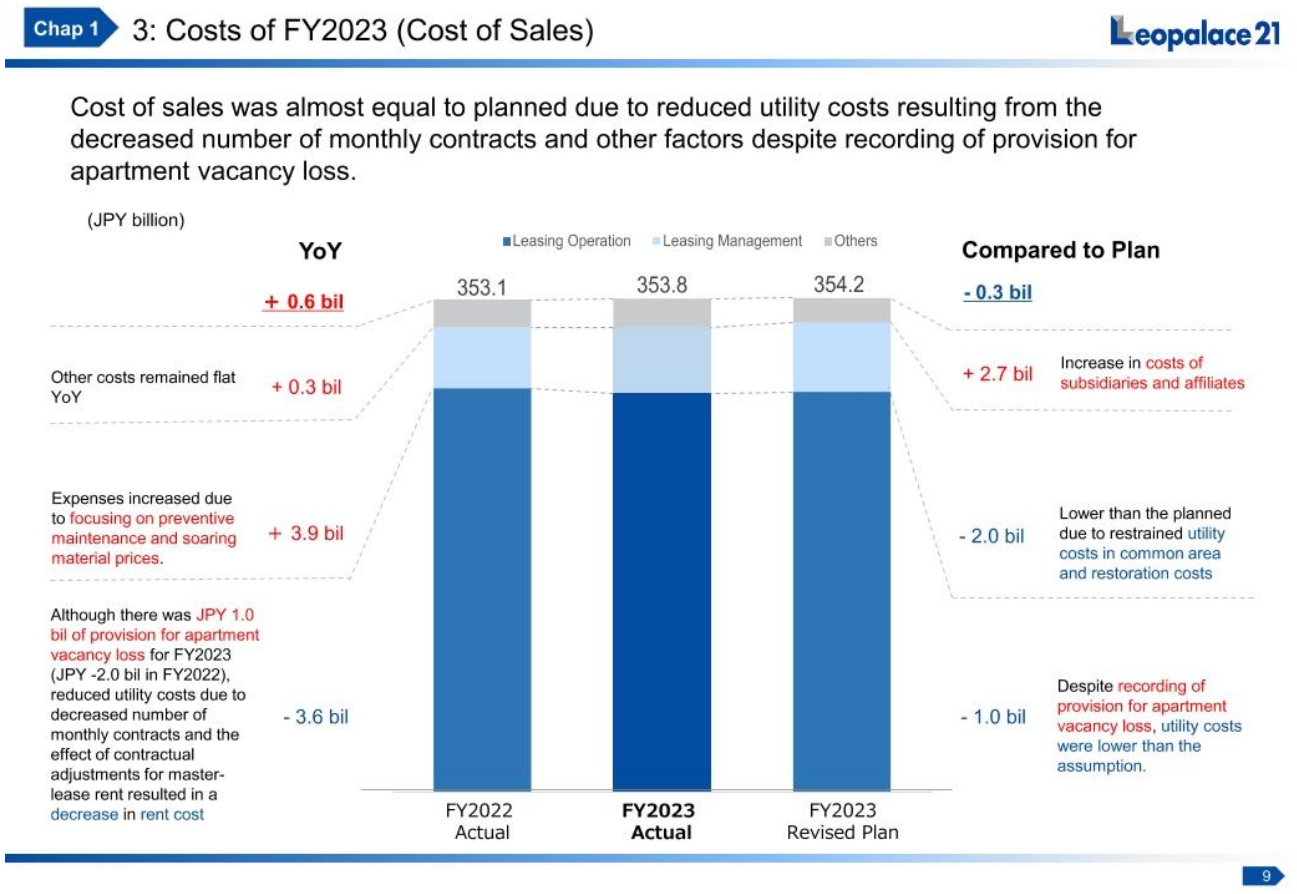
The investigation and repairs for rooms after tenant's move-out have been progressing smoothly and without delay. However, we are currently experiencing difficulty in negotiating with tenants while they live in the rooms, and there are cases where we cannot conduct room investigation while the tenants keep the rooms or the tenants cannot agree to move from their rooms to temporary housing or to a new place of residence.

In addition, we have difficulty in dealing with some cases where owners of apartments managed by other management companies or tenants of such apartments, but we will continue to persistently negotiate with them.

In the event of difficulties, we will make it a top priority of our management policy to eliminate the obvious defects by the end of 2024, based on the opinions of a neutral third party, including mediation.

This concludes my explanation. After this, Takekura will explain the cost situation and its plan for this fiscal year, as well as its financial situation and sustainability strategy. Thank you for your attention.

Ueda: Next, Takekura, Director, Chief of Corporate Management Headquarters, will give an explanation. Thank you.



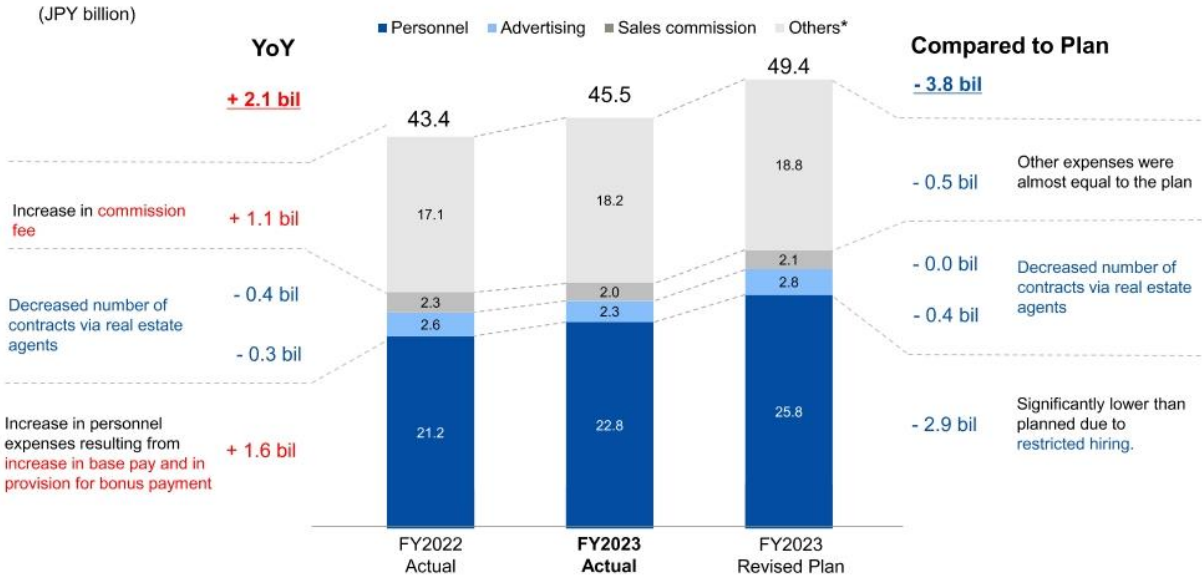
Takekura: Thank you very much for taking time out of your busy schedule to join us today. I am Takekura. I will mainly discuss the review of cost of sales and SG&A expenses, our financial situation, and our progress in sustainability.

Please refer to page nine of the materials. Cost of sales was JPY 353.8 billion, a decrease of JPY 0.3 billion from the plan. Although a JPY 1.0 billion of provision for apartment vacancy loss was recorded, utilities expenses were lower than expected, mainly due to a decrease in monthly lease contracts.

Rent cost was also almost in line with the plan at minus JPY 0.2 billion. The contract expiration of the property master lease contract was the main factor, resulting in a minus JPY 4.4 billion compared to the previous fiscal year.

Restoration and maintenance costs increased from the previous period due to higher material prices, but this was minus JPY 1.6 billion compared to the plan, due to a decrease in planned maintenance and compensation costs for completed projects.

SG&A expenses were significantly lower than planned due to the restricted hiring of mid-career and non-regular employees.



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

The next page shows SG&A expenses, which were JPY 45.5 billion, down JPY 3.8 billion from the plan. The main factor was a decrease in personnel expenses due to restricted hiring.

We will implement profit optimization strategy to maximize profitability through increasing occupancy rate and average unit rent for all occupied units.

(JPY million)	FY2024 Plan						Factors contributing to changes
	Q1	Q2	Q3	Q4	FY Total	Delta vs FY2023	
Net Sales	106,900	106,200	106,700	108,800	428,600	+5,928	Increase in average unit rent for all occupied units
Cost of sales	87,200	87,900	88,400	89,200	352,700	(1,136)	Decrease in number of apartment units under management and decrease in costs of subsidiaries and affiliates contributed to JPY -1.1 billion YoY. Balance of provision of apartment vacancy loss is estimated ±0. (JPY +1.0 billion for FY2023)
Gross profit	19,700	18,300	18,300	19,600	75,900	+7,064	
%	18.4%	17.2%	17.2%	18.0%	17.7%	+1.4p	
SG&A	11,600	11,800	11,900	14,000	49,300	+3,778	
Operating profit	8,100	6,500	6,400	5,600	26,600	+3,286	Increase in personnel costs due to growth in the number of employees and increased compensation.
%	7.6%	6.1%	6.0%	5.1%	6.2%	+0.7p	
EBITDA	9,100	7,400	7,200	6,400	30,100	+2,125	
Recurring profit	7,700	6,100	6,000	5,100	24,900	+5,423	A reversal of deferred tax assets is planned for Q4.
Net income	7,100	5,700	5,600	(3,900)	14,500	(27,562)	
EPS (JPY)	22.35	17.94	17.63	(12.28)	45.64	(85.27)	

On page 11, the forecast for this fiscal year is JPY 352.7 billion, almost the same level as the previous year's results, excluding the provision for apartment vacancy loss. SG&A expenses are expected to be JPY 49.3 billion due to further efforts to develop human resources, including the promotion of human resource strategies, as well as an increase in personnel expenses and bonus payments.

Chap 1 7: BS (End of FY2023)

Leopalace21

(JPY million)	End of FY2022	End of FY2023	YoY	QoQ
Cash and deposits	53,560	**68,627**	+15,066	+8,267
Trade receivables	8,121	**7,670**	(451)	+870
Total assets	166,548	**205,000**	+38,451	+34,258
Interest-bearing debt*	31,849	**30,879**	(969)	(7)
Provision for losses related to repairs	17,583	**15,339**	(2,243)	+504
Provision for apartment vacancy loss	3,590	**4,683**	+1,093	+1,093
Total liabilities	133,625	**133,320**	(305)	+8,453
Common stock	100	**100**	± 0	± 0
Capital surplus	136,240	**30,121**	(106,118)	+745
Retained earnings	(116,006)	**32,867**	+148,873	+27,183
Treasury stock	(205)	**(4,359)**	(4,153)	(745)
Total shareholders' equity (A)	20,128	**58,729**	+38,600	+27,183
Total accumulated other comprehensive income (B)	3,986	**5,175**	+1,188	(1,501)
Ownership equity (A) + (B)	24,115	**63,904**	+39,789	+25,681
Equity ratio	14.5%	**31.2%**	+16.7 p	+8.8 p
Share subscription rights	284	**242**	(42)	±0
Non-controlling interests	8,522	**7,532**	(989)	+123
Total net assets	32,922	**71,679**	+38,757	+25,804

■ Cash and deposits
JPY +8.2 bil from end of Q3 FY2023 due to positive cash flows from operating activities. Recorded JPY +15.0 bil from the end of FY2022.

■ Provision for losses related to repairs
(current: JPY 6.6 billion; non-current: JPY 8.6 billion)
JPY -2.2 bil resulting from progress of repairs from the end of FY2022.

■ Provision for apartment vacancy loss
(current: JPY 0.0 bil; non-current JPY 4.6 bil)
Built up by JPY 1.0 bil in Q4 in anticipation of parts of apartments' worsening profitability.

■ Retained earnings
Recorded JPY +148.8 bil by make-up for the deficit in Jun 2023 and recording of net income.

■ Treasury stock
Recorded JPY -4.1 bil as a result of treasury stock acquisition and introduction of employee incentive plan.

* Interest-bearing debt = borrowings + lease obligations

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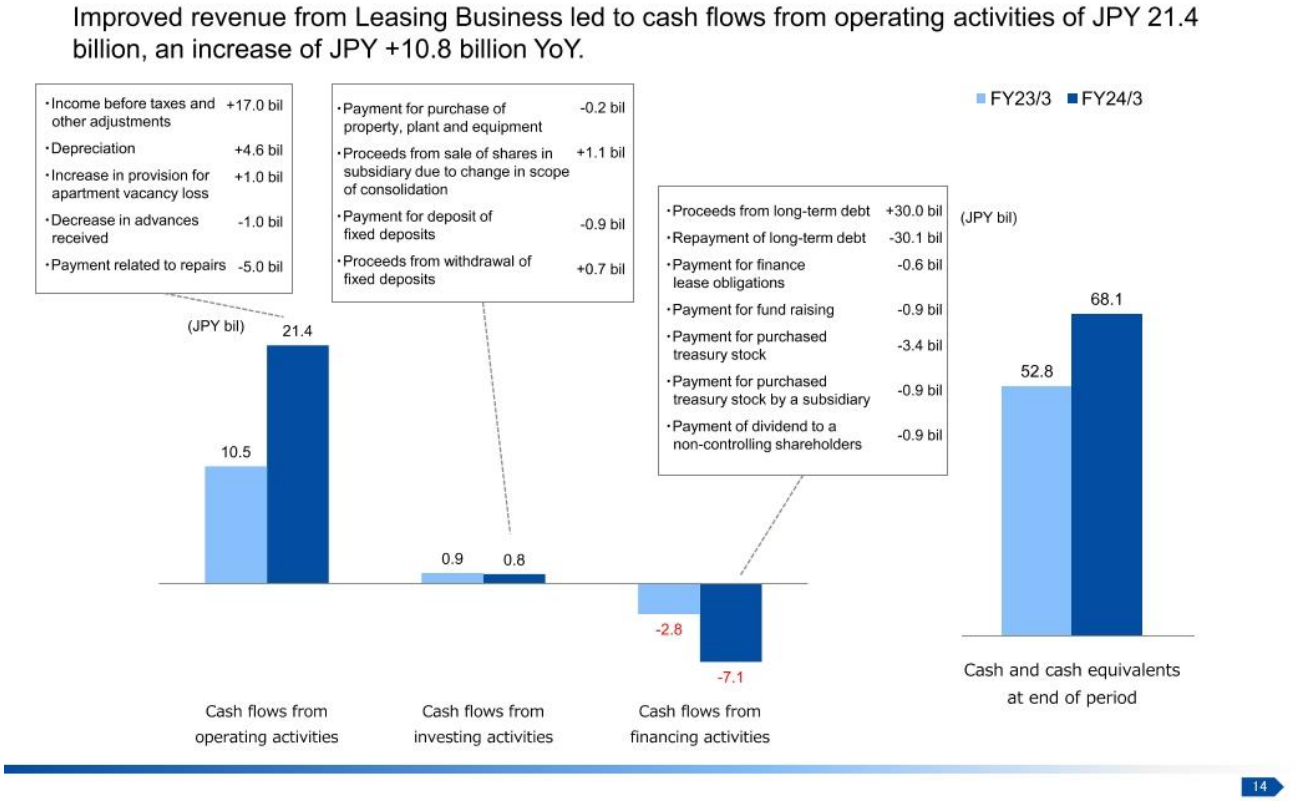
Please refer to page 13 for the balance sheet. I would like to draw your attention to equity ratio above all in the final results for the fiscal year ended March 31, 2024. It increased by JPY 39.8 billion from the previous year to JPY 63.9 billion, which has led to a financial stabilization of 31.2% from 14.5% in the previous fiscal year.



Cash flows are shown on the next page. Particularly, cash flows from operating activities, which indicates the increase or decrease of cash from core business, was positive JPY 21.4 billion, leading to an improvement of JPY 62.2 billion compared to the lowest point of negative JPY 40.8 billion in the fiscal year ended March 31, 2021, when the Company fell into excessive liabilities due to the impact of COVID-19 after the revelation of the construction defects.

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 to resume dividend payment after six-year interval.

Dividend Policy

- The Company will follow a policy of resuming dividend 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.

Dividend Forecast for FY2023 onward (Dividend per share)

	End of Q2	End of FY	Total
FY2023	-	JPY 5.00*	JPY 5.00
FY2024	JPY 5.00	JPY 5.00	JPY 10.00

* Subject to the approval at the 51st Ordinary General Shareholders' Meeting scheduled for June 27, 2024

Page 15 shows shareholder return. We forecast a dividend policy of JPY 10 per share totaling the dividend at the end of the interim period and at year-end dividend for the current fiscal year. Going forward, we will move forward with the implementation of continuous and stable dividend payments.

Chap 3 1: Expand the Installation of Smart Locks

The number of apartment units with smart locks reached approximately 250,000 at the end of March 2024.
It saved approximately 580,000 key handover jobs during January – March 2024*.
Average saving time of 42 minutes per apartment unit, leading to a total saving of approximately 140,000 work hours per year.

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



Job	Content
Replacement of locks and keys	Prepare locks and keys for reinstallation
	Sort locks and keys
	Hand over locks and keys for contractors to reinstall
Key management	Register key information in a system
	Store master keys 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 viewing

*Refer to "Smart Locks Saved Over 50,000 Key Handovers During Peak Quarter" dated May 9, 2024.

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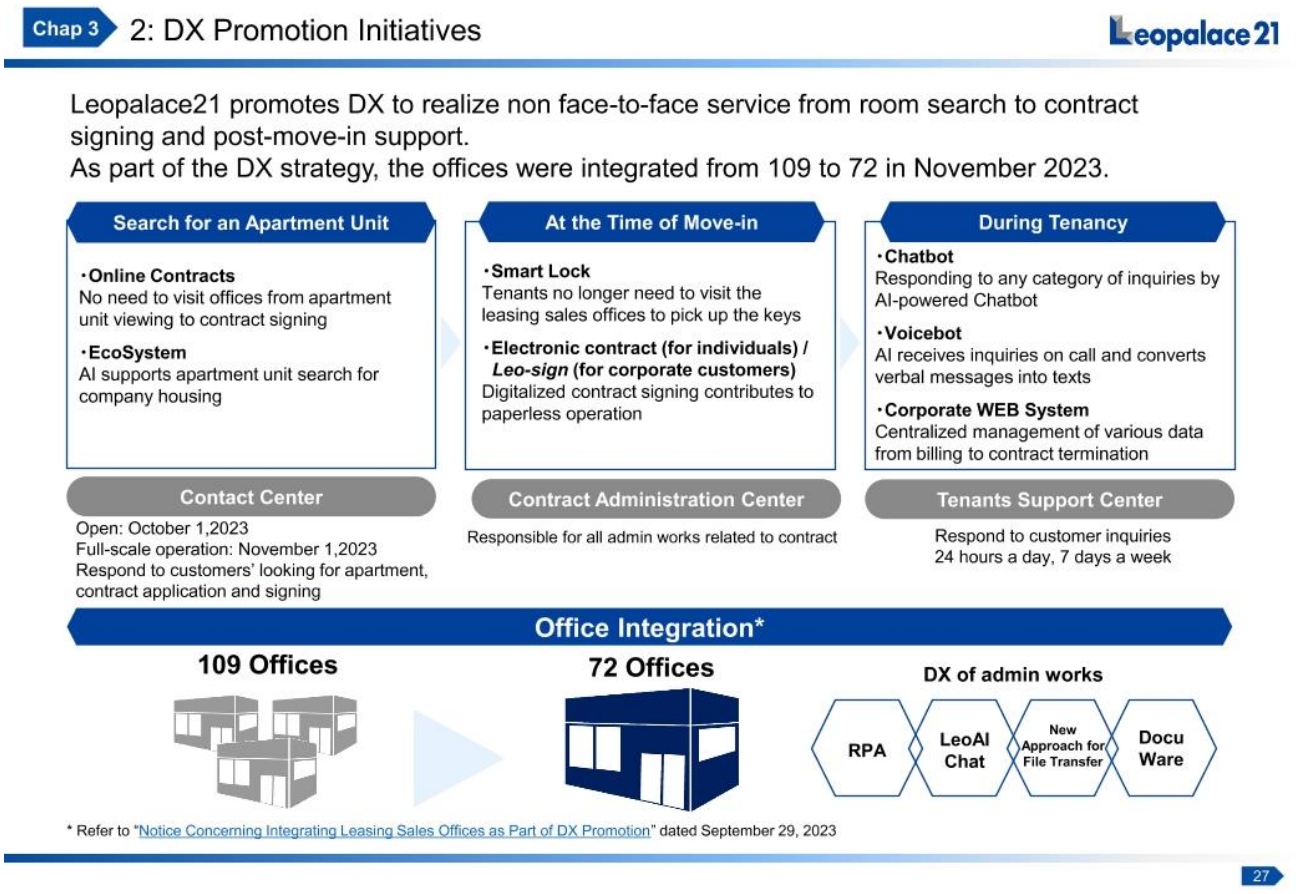
The following page, starting on page 26, describes the promotion of sustainability. As part of our sustainability promotion, we have been promoting the installation of smart locks as part of our strong promotion of DX for the coming population decline. With more than 250,000 units installed, we are the largest single company in the industry in terms of the number of managed units. We made key handover jobs redundant for approximately 58,000 new tenants to move into the apartments from January to March 2024. This means that approximately 92% of the tenants during the same period saved their visits to our offices just to receive their keys.

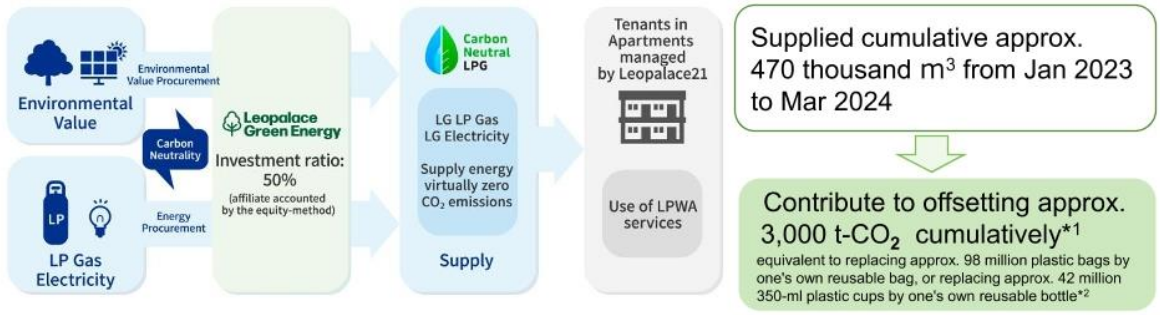
In other words, DX, including the promotion of smart locks, not only contributes to the convenience of customers during the move-in process, but also eliminates the need for customers to come all the way to the sales office and thereby made the entire process non-face-to-face from room search, contract signing, and moving in.

This has also led to various streamlining measures, such as inter-office key delivery, which has resulted in a reduction of approximately 42 minutes of work per unit and approximately 140,000 hours of work per year. These efforts have also contributed significantly to the streamlining of business operations, which led to integration of sales offices and made the number of sales offices from 109 to 72.



In addition, inquiries during tenancy are handled by chatbots and voicebots. We have switched to a system that allows us to respond to inquiries via chat 24 hours a day, 7 days a week. Through the use of these tools, the response rate to telephone calls from customers during the busy months of January through March, when many move-ins and move-outs occur, has improved from 79% previously to 94% currently.

Leopalace21 started to offer Leopalace Green LP Gas and LPWA service with virtually zero CO_2 emissions to the apartments under management in 2023, in response to the government's declaration of Carbon Neutrality by 2050.



Leopalace Green LP Gas

LP Gas with virtually zero CO_2 emissions

LG LP gas offsets the greenhouse gases generated in the entire value chain of LP gas by carbon credits obtained from environmental conservation projects, thereby making **virtually zero CO_2 emissions from LP gas**

LPWA Service*3

Remote opening/closing of gas valve and leakage detection

LG LP gas supplier will strive for **a fair and transparent LG LP gas rate structure** through operational efficiency **for improving tenants' convenience and safety** through web-based acceptance of openings, web-based billing, and 24-hour gas usage monitoring.

*1 Refer to "Over 3,000 t-CO_2 Offset by Supplying Approximately 470,000 m³ of Leopalace Green LP Gas with Virtually Zero CO_2 Emissions" dated May 8, 2024
*2 As per the Ministry of the Environment's document on carbon intensity based on environmental 3R initiatives, meaning reduce, reuse, and recycle. https://www.env.go.jp/press/files/jp/19747.pdf (Japanese language only)
*3 LPWA: Low Power Wide Area

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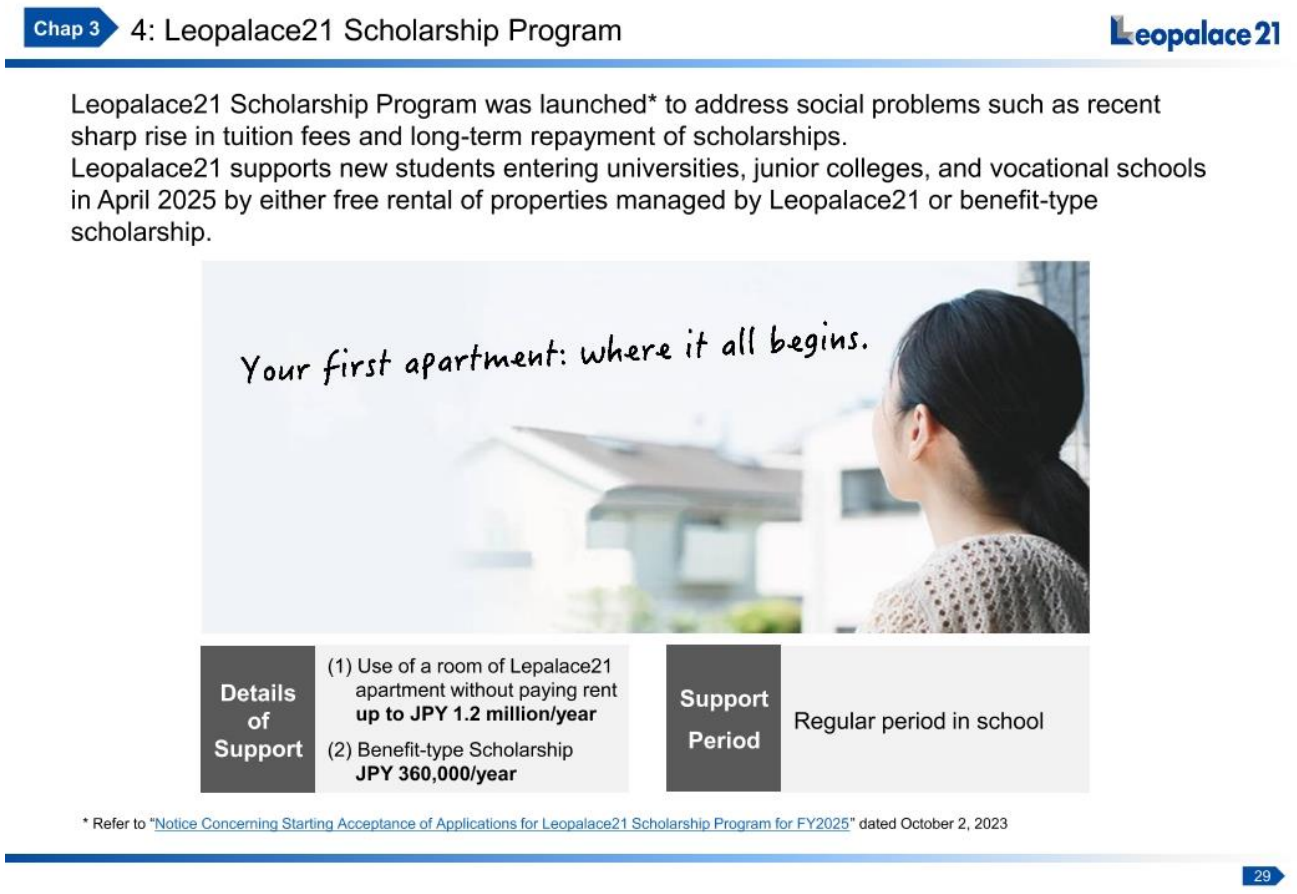
Page 28 discusses the Leopalace green energy project, which began in 2023. This plan to supply Leopalace Green LP gas and electricity with virtually zero CO_2 emissions has a cumulative CO_2 emission reduction of approximately 3,000 t-CO_2 for supply up to March 2024. We will promote initiatives to decarbonize both electricity and gas, and promote management with virtually zero CO_2 emissions from the management of apartments.

Recently, the Ministry of Economy, Trade, and Industry (METI) has pointed out the problem of provision of gas water heaters and gas stoves at free of charge at the expense of user's add-on charges, and we have heard that there are cases of unclear usage fees due to the problem of the said dubious free LP gas service, which is considered a customary practice in the industry. In order to ensure the price transparency of Leopalace Green Energy's LP gas, we have posted a price list on our leasing business website in order to gives peace of mind for the customers.



Finally, on page 29, you will find the Leopalace 21 Scholarship Program. This scholarship program was established to address the social issue of scholarships, which is said to be used by one out of every two university students these days. We have started accepting applications so that students who will enter schools April 2025 will be able to use the program. This is our unique scholarship program that provides free apartment units to students while they are in school, and we will continue to assist young people who will support society with dreams.

We will continue to strive to be a company that is needed by society, and we will continue to do our best in our business as a company that supports housing as a part of the social infrastructure. This concludes my explanation. Thank you for your attention.

Question & Answer

Ueda [M]: We will now move on to the Q&A session. The first question by Mr. Hashimoto from Mizuho Securities.

Hashimoto [Q]: Please explain the recording of deferred tax assets and the future outlook for reversal. Will the relationship between recurring profit and net income be the same for the fiscal year ending March 31, 2025 and for the fiscal year ending March 31, 2026?

Miyao [A]: We have recorded a large amount of deferred tax assets, and we started our estimates, as we have announced here in our calculations, for one year as the planned value, and then the same amount thereafter.

On the other hand, the reversal was included in the plan for the fiscal year ending March 31, 2025, in anticipation of the expiration of loss carryforwards from previous years, which will begin to arrive six years from now. In this respect, we expect the relationship between recurring profit and net income to be similar in the fiscal year ending March 31, 2025 and the fiscal year ending March 31, 2026. However, depending on the point in time of the following year, or on the formulation of the mid-term plan, the difference between the two items may be the same, or it may narrow or widen. I believe that there will be some fluctuation.

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

Hashimoto [Q]: Ownership equity was increased to JPY 63.9 billion in the fiscal year ended March 2024. What is your approach to shareholder return, and do you think you can flexibly respond to the risk of warrant exercise, which investors are concerned about, although the dividend is JPY10 per share, up JPY5 from the previous year?

Takekura [A]: Regarding the content of this dilution of warrants that we are often asked, first, I would like to mention that at today's board of directors meeting, where the directors of Fortress were also present, we made this resolution. We stated the diluted net income per share as in the title of the financial results. We are always aware of the situation.

We will then consider the various proposals and discuss what measures would be most beneficial to our shareholders. Since our cash on hand has risen to JPY 68.6 billion, we finally discuss with the sponsors to reach a final decision.

As we have not been able to pay dividends for a long time, we are now proceeding with the dividend payment by unanimous approval. We would like to agree on shareholder return on the basis of stable Company performance considering the dilution possibility.

Ueda [M]: Next, Mr. Hashimoto's third question.

Hashimoto [Q]: In the occupancy rate by prefecture shown on page 24, please tell us the background of the movement in Prefectures of Ishikawa, Toyama, Chiba, Yamanashi in the past quarter, and the background of the decline in Kumamoto Prefecture.

Miyao [A]: First, both Ishikawa and Toyama prefectures are responding to Noto Peninsula Earthquake. Specifically, this is due to the use of rooms by disaster victims or the workers involved in the reconstruction projects.

Next, in Chiba Prefecture, the construction of the new runway at Narita Airport has started in December 2023. The increased occupancy was backed by the increased demand in the construction and transportation industries in relation to this project.

In Yamanashi Prefecture, manufacturers are constructing factories or expanding their production lines, and demand from major manufacturers has increased.

As for the decline in Kumamoto Prefecture, TSMC's first plant was completed with the opening ceremony held in February. The use of rooms by the construction and equipment-related companies was reduced as a result of construction project completion. Although there was a decline in the demand by the construction and equipment-related companies, we expect that the use by production line operators including the staffs dispatched by temporary agencies, will continue to increase as the production lines begin to operate.

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

Hamada [Q]: Average unit rent for new contracts has come down in March. Is this a seasonal trend and no need to be particularly concerned about? What is your assumption for the average unit rent for new contracts in the fiscal year ending March 31, 2025? Are you going to target further upside, especially corporate customers? What is the lag between the change in the average unit rent for all occupied units and the average unit rent for new contracts?

Takekura [A]: The trends in terms of average unit rent for new contracts show a peak around February and decline in March to capture the last-minute demand by the customers for increased occupancy rate. It holds true for the general market trends.

Therefore, at the end of March of the previous fiscal year, we were bullishly raising unit rents in January and February, and the graph shows such a reactionary declining effect. As I mentioned earlier, this is due to seasonality, and I would like to assure you that there is nothing to worry about.

As for further upside, April actually showed better numbers than we had expected in the initial period, so we will try to respond to those requests as much as possible while aiming for more upside.

Regarding the unit rent for all occupied units and the unit rent for new contracts, the unit rent for new contracts has been relatively stable. The tenants who moved in the apartment units in COVID-19 period is slowly moving out, and the relatively low unit rent at that time during COVID-19 period are now being replaced by the higher unit rent at the moment.

Ueda [M]: Next, Mr. Hamada's second question.

Hamada [Q]: You aim to achieve year-end occupancy rate of aims 90% with average 87% landing in the fiscal year ending March 31, 2025. Did you lower the target from the previous plan, to be on the safe side, taking into account the effect of the unit rent increase? Is it a conservative plan?

Miyao [A]: Basically, I think it is a conservative plan. The average for the period is based on the last year's figure of about 86%, an increase of 1 percentage point. There may be some possibilities for unit rent increase. We are trying not to miss profit-earning opportunities by carefully watching the market situation and appropriately reviewing the rent in advance to meet the increasing demand from companies. We are working to raise unit rents and ensure occupancy rates, while securing the demand with first priority.

Therefore, the success depends on rather how much we can catch the plans of corporate activities ahead of time and make ourselves prepared for such plans. There is no correlation between the increase in unit rent and the slowdown in occupancy rate growth.

Ueda [M]: Next, Mr. Hamada, the third question.

Hamada [Q]: Regarding background to the recent decision to increase the dividend by JPY 10 per share and plus JPY 5 per share for the fiscal year ending March 31, 2025, is it largely related to the recovery of the equity ratio to 31.2%? I would like to know this along with your thoughts on future shareholder return.

Takekura [A]: As for the background of the dividend increase, the equity ratio became 31.2%, but more to that, in the last fiscal year, we actually ended up purchasing JPY 3.4 billion shares in a JPY 10 billion share buyback program. In effect, JPY 6.6 billion ended up not being spent, partly due to the stock price situation.

Therefore, against this backdrop, the first trigger was the decision to pay a dividend as the next step in returning funds to shareholders, after discussions by the Board of Directors at the beginning of this year.

We are currently discussing the optimal figure for the Company's real equity ratio. We are in the process of figuring out the ideal equity ratio, considering a negative cash conversion cycle, cash on hand, and Leasing Business division which requires funds for the future.

Ueda [M]: Next, Mr. Hamada, the fourth question.

Hamada [Q]: What is the status and progress of FIG's consideration of the response to the share subscription rights?

Miyao [A]: The subscription rights expire in November next year, so we will have to discuss the situation, including the maximization of Fortress' profit from the investment and the Company's stock price at that time.

In this regard, I think that at this stage, we should not be considering any kind of study or something at this stage, but perhaps after the termination of the construction defects problems.

Ueda [M]: Then, Mr. Hamada, the fifth question.

Hamada [Q]: Just to confirm, is it correct that specific targets for the dividend payout ratio and others have not been set at this time and are still under discussion?

Takekura [A]: The amount of future dividends will be determined after examining the equity ratio as mentioned earlier, as well as the desirable form of such surplus funds, but the dividend itself will continue to be stable.

Ueda [M]: Thank you very much. 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 attending today's financial results briefing for Leopalace21 Corporation for the fiscal year ended March 31, 2024.

[END]