Consolidated Financial Statements (Japanese Accounting Standard)

August 9, 2024

(For the three months ended June 30, 2024)

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

1. Results for the Three Months ended June 30, 2024 (April 1, 2024 – June 30, 2024)

(1) Consolidated financial results (Amounts less than JPY 1 million are omitted)

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

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	JPY million	%	JPY million	%	JPY million	%	JPY million	%
Three months ended June 30, 2024	108,917	2.4	10,289	35.0	10,244	49.5	9,767	47.4
Three months ended June 30, 2023	106,375	4.9	7,622	112.9	6,851	159.2	6,627	306.6

(Note) Comprehensive income in the three months ended June 30, 2024: JPY 11,470 million (64.8%)
Comprehensive income in the three months ended June 30, 2023: JPY 6,961 million (107.5%)

	Net income per share	Diluted net income per share
	JPY	JPY
Three months ended June 30, 2024	30.75	22.53
Three months ended June 30, 2023	20.14	15.76

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	JPY million	JPY million	%
As of June 30, 2024	208,997	80,662	35.1
As of March 31, 2024	205,000	71,679	31.2

(Reference) Ownership equity as of June 30, 2024: JPY 73,436 million; as of March 31, 2024: JPY 63,904 million

2. Dividend Status

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Annual
	JPY	JPY	JPY	JPY	JPY
FY ended March 31, 2024	—	0.00	—	5.00	5.00
FY ending March 31, 2025	—				
FY ending March 31, 2025 (Estimate)		5.00	—	5.00	10.00

(Note) Change from the latest dividend forecast: No

3. Consolidated Earnings Forecasts for the Fiscal Year ending March 31, 2025 (April 1, 2024 – March 31, 2025)

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

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	JPY million	%	JPY million	%	JPY million	%	JPY million	%	JPY
Six months ending September 30, 2024	213,100	0.6	14,600	(1.5)	13,800	5.3	12,800	8.0	40.29
FY ending March 31, 2025	428,600	1.4	26,600	14.1	24,900	27.8	14,500	(65.5)	45.64

(Notes) Change from the latest earnings forecast: No

(Notes)

(1) Significant changes in the scope of consolidation during the three months in the consolidated fiscal year ending March 2025: No

(2) Use of accounting procedures specific to the preparation of quarterly consolidated financial statements: Yes

(Note) For details, please refer to 2. Consolidated Financial Statements and Notes (3) Notes Regarding Consolidated Financial Statements (Application of accounting methods specific to the preparation of quarterly consolidated financial statements) in p. 9.

(3) Changes in accounting policies, procedures or reporting methods used in preparation of financial statements and restatements

(i) Changes in accounting policies accompanying revision of accounting standards, etc.: Yes
(ii) Changes in accounting policies other than (i) above: No
(iii) Changes in accounting estimates: No
(iv) Restatements: No

(Note) For details, please refer to 2. Consolidated Financial Statements and Notes (3) Notes Regarding Consolidated Financial Statements (Notes regarding changes in accounting policies) in p. 9.

(4) Total number of outstanding shares (common stock)

(i) Total number of outstanding shares at term end (including treasury stock)
As of June 30, 2024: 329,389,515 shares, As of March 31, 2024: 329,389,515 shares

(ii) Total treasury stock at term end
As of June 30, 2024: 11,694,361 shares, As of March 31, 2024: 11,694,361 shares

(iii) Average number of outstanding shares during the period
As of June 30, 2024: 317,695,154 shares, As of June 30, 2023: 329,055,478 shares

– Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: No

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

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

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

For assumptions of business forecasts and notes on the proper use of these forecasts, please refer to “1. Summary of Business Results (3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements” in p. 5.

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material is planned to be posted on the Company’s website on August 9, 2024.

【Table of Contents】

1. Summary of Business Results 4

(1) Analysis of Business Results 4
(2) Analysis of Consolidated Financial Position 5
(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements 5

2. Consolidated Financial Statements and Notes 6

(1) Consolidated Balance Sheets 6
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income 8
Consolidated Statement of Income 8
Consolidated Statement of Comprehensive Income 9
(3) Notes Regarding Consolidated Financial Statements 9
(Notes regarding the premise of the Company as a going concern) 9
(Notes related to the significant changes in the amount of shareholders equity) 9
(Application of accounting methods specific to the preparation of quarterly consolidated financial statements) 9
(Notes regarding changes in accounting policies) 9
(Notes regarding the consolidated statements of cash flows) 10
(Segment Information) 10

1. Summary of Business Results
(1) Analysis of Business Results

(JPY million)

	Three months ended June 30, 2024	Three months ended June 30, 2023	Difference	Percentage change
Net sales	108,917	106,375	+2,541	+2.4%
Cost of sales	87,519	88,308	(789)	(0.9%)
Gross profit (ratio)	21,398 (19.6%)	18,066 (17.0%)	+3,331	+18.4% (+2.6 p)
Selling, general and administrative expense	11,108	10,444	+664	+6.4%
Operating profit (loss) (ratio)	10,289 (9.4%)	7,622 (7.2%)	+2,666	+35.0% (+2.2 p)
EBITDA (Operating profit (loss)+Depreciation)	11,216	8,959	+2,256	+25.2%
Recurring profit (loss)	10,244	6,851	+3,392	+49.5%
Net income (loss) attributable to shareholders of the parent	9,767	6,627	+3,139	+47.4%

Although economic downturn overseas with global monetary tightening, concerns about a slowdown in the Chinese economy and other factors is a risk that puts downward pressure on business conditions in Japan, the Japanese economy was on a gradual recovery trend under improving employment and income conditions during Q1 of the consolidated fiscal year ending March 2025.

The number of new housing starts for rental market in Q1 of the current fiscal year was 90,023 units (up 2.9% YoY).

Under these circumstances, the Leopalace21 group (the "Group") worked to strengthen profitability by increasing occupancy rates and average unit rent, and stabilize its financial base.

As a result, the Group's consolidated net sales for Q1 of the current fiscal year increased by 2.4% YoY to JPY 108,917 million. Operating profit was JPY 10,289 million increased by 35.0% YoY, due to absorption of an increase in SG&A expenses caused by use of outsourcing by a rise in gross profit resulting from increased unit rent and curbed cost of sales. Recurring profit was JPY 10,244 million, an increase of 49.5% YoY, and net income attributable to shareholders of the parent was JPY 9,767 million, an increase of 47.4% YoY. It was a third consecutive year to record increased net sales and increased net income attributable to shareholders of the parent.

EBITDA for Q1 of the current fiscal year increased by 25.2% to JPY 11,216 million.

Results by segment are as follows:

(JPY million)

	Net sales			Operating profit		
	Three months ended June 30, 2024	Three months ended June 30, 2023	Difference	Three months ended June 30, 2024	Three months ended June 30, 2023	Difference
Leasing Business	105,088	102,476	+2,612	12,266	9,344	+2,922
Elderly Care Business	3,412	3,543	(131)	(330)	(236)	(94)
Other Businesses	417	355	+61	(501)	(629)	+127
Adjustments	—	—	—	(1,144)	(854)	(289)
Total	108,917	106,375	+2,541	10,289	7,622	+2,666

(i) Leasing Business

During Q1 of the consolidated fiscal year ending March 2025, the occupancy rate at the end of the period was 86.01% (down 0.81 points from the end of the same period of the previous fiscal year), with an average occupancy rate of 86.48% (down 0.55 points YoY). The index of average unit rent for new contracts (the index in April 2016 deemed to be 100) at the end of the period was 106 (up 5 points YoY).

Consequently, net sales for Q1 of the fiscal year ending March 2025 increased by 2.5% YoY to JPY 105,088 million due to elevated average unit rent and other factors. Operating profit was JPY 12,266 million, a growth of 31.3% YoY, due to the increased revenue and improved profitability resulting from the favorable cost structure.

(ii) Elderly Care Business

Net sales decreased by 3.7% YoY to JPY 3,412 million and operating loss amounted to JPY 330 million, an increase of loss by JPY 94 million YoY. The number of facilities as of the end of Q1 of the current consolidated fiscal year was 85.

(iii) Other Businesses

For Q1 of the consolidated fiscal year ending March 2025, net sales increased by 17.3% YoY to JPY 417 million and operating loss amounted to JPY 501 million, a reduction of loss by JPY 127 million YoY.

(2) Analysis of Consolidated Financial Position

(JPY million)

	June 30, 2024	March 31, 2024	Difference	Percentage change
Assets	208,997	205,000	+3,997	+2.0%
Liabilities	128,335	133,320	(4,985)	(3.7)%
Net assets	80,662	71,679	+8,982	+12.5%
Shareholders' equity ratio	35.1%	31.2%	—	+3.9 p

Assets at the end of Q1 of the current fiscal year were JPY 208,997 million, an increase of JPY 3,997 million from the end of the previous fiscal year. This was mainly due to an increase of JPY 4,340 million in cash and deposits, as well as increases of JPY 740 million in buildings and structures (net), and JPY 500 million in land resulting from factors such as the impact of exchange rates for Guam resort facilities, whereas trade receivables reduced by JPY 599 million and others (cash advance) in current assets reduced by JPY 929 million.

Total liabilities amounted to JPY 128,335 million, a reduction of JPY 4,985 million from the end of the previous fiscal year. This was mainly due to decreases of JPY 1,937 million in accounts payable-other, JPY 1,888 million in advances received and long-term advances received, and JPY 1,389 million in provision for losses related to repairs, whereas increase of JPY 1,110 million was recorded for provision for bonus payment.

Total net assets increased by JPY 8,982 million from the end of the previous fiscal year to JPY 80,662 million. This was mainly due to a decrease of JPY 1,619 million in retained earnings due to payment of dividend, and a reduction of JPY 548 million in non-controlling interests largely due to payment of treasury stock purchase and dividend to non-controlling shareholder of a consolidated subsidiary, whereas foreign currency transaction adjustments increased by JPY 1,404 million due to depreciating JPY and JPY 9,767 million was recorded as net income attributable to shareholders of the parent.

The shareholders' equity ratio increased by 3.9 points from the end of the previous fiscal year to 35.1%.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements

Concerning consolidated earnings forecasts for the consolidated fiscal year ending March 2025, the Company confirms that there are no changes to the forecasts for the six months in FY ending March 2025 and for the full FY ending March 2025 that were announced on May 10, 2024 in "Consolidated Financial Statements (Japanese Accounting Standard, for the fiscal year ended March 31, 2024)".

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

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(JPY million)

	June 30, 2024	March 31, 2024
<Assets>		
Current assets		
Cash and deposits	72,967	68,627
Trade receivables	7,070	7,670
Accounts receivable for completed projects	652	628
Real estate for sale	168	129
Payment for construction in progress	236	182
Prepaid expenses	2,382	1,757
Others	5,407	6,337
Allowance for doubtful accounts	(2,864)	(2,904)
Total current assets	**86,021**	**82,428**
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	19,664	18,923
Machinery, equipment, and vehicles (net)	5,595	5,750
Land	32,162	31,661
Leased assets (net)	1,459	1,488
Construction in progress	136	219
Others (net)	882	1,093
Total property, plant, and equipment	**59,900**	**59,137**
Intangible fixed assets		
Others	1,300	1,358
Total intangible fixed assets	**1,300**	**1,358**
Investments and other assets		
Investment securities	4,764	4,827
Long-term loans	501	506
Long-term prepaid expenses	347	359
Deferred tax assets	51,585	51,730
Others	8,192	7,846
Allowance for doubtful accounts	(3,615)	(3,194)
Total investments and other assets	**61,774**	**62,075**
Total non-current assets	**122,976**	**122,571**
Total assets	**208,997**	**205,000**

(JPY million)

	June 30, 2024	March 31, 2024
<Liabilities>		
Current liabilities		
Accounts payable	2,783	2,875
Accounts payable for completed projects	98	104
Current portion of long-term debt	620	620
Lease obligations	268	297
Accounts payable -other	13,098	15,036
Accrued income taxes	215	423
Advances received	32,142	33,855
Customer advances for projects in progress	281	227
Provision for bonus payment	1,110	–
Provision for warranty obligations on completed projects	28	19
Provision for fulfillment of guarantees	900	926
Provision for losses related to repairs	4,781	6,660
Others	2,905	3,111
Total current liabilities	**59,236**	**64,158**
Non-current liabilities		
Long-term debt	29,070	29,225
Lease obligations	762	737
Long-term advances received	5,486	5,662
Lease/guarantee deposits received	7,002	7,214
Provision for losses related to repairs	9,169	8,679
Provision for apartment vacancy loss	4,683	4,683
Provision for stock benefits	557	529
Liability for retirement benefits	10,070	10,011
Others	2,296	2,417
Total non-current liabilities	**69,098**	**69,161**
Total liabilities	**128,335**	**133,320**
<Net assets>		
Shareholders' equity		
Common stock	100	100
Capital surplus	30,120	30,121
Retained earnings	41,016	32,867
Treasury stock	(4,359)	(4,359)
Total shareholders' equity	**66,877**	**58,729**
Accumulated other comprehensive income		
Net unrealized gains on other securities	(109)	(85)
Foreign currency translation adjustments	6,734	5,330
Remeasurements of defined benefit plans	(64)	(69)
Total accumulated other comprehensive income	**6,559**	**5,175**
Share subscription rights	242	242
Non-controlling interests	6,983	7,532
Total net assets	**80,662**	**71,679**
Total liabilities and net assets	**208,997**	**205,000**

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

Consolidated Statement of Income

(JPY million)

	Three months ended June 30, 2024 (Apr 2024–Jun 2024)	Three months ended June 30, 2023 (Apr 2023–Jun 2023)
Net sales	**108,917**	**106,375**
Cost of sales	**87,519**	**88,308**
Gross profit	**21,398**	**18,066**
Selling, general and administrative expense	**11,108**	**10,444**
Operating profit (loss)	**10,289**	**7,622**
Non-operating income		
Interest income	9	7
Dividend income	4	4
Valuation gains of investment securities	18	19
Foreign exchange gains	220	203
Gains on redemption of deposit	–	93
Others	103	83
Total non-operating income	**357**	**411**
Non-operating expenses		
Interest expenses	364	1,096
Share of loss of entities accounted for using equity method	26	47
Others	11	38
Total non-operating expenses	**402**	**1,182**
Recurring profit (loss)	**10,244**	**6,851**
Extraordinary income		
Reversal of provision for losses related to repairs	182	324
Total extraordinary income	**182**	**324**
Extraordinary losses		
Loss on retirement of property, plant and equipment	2	28
Impairment loss	–	26
Total extraordinary losses	**2**	**54**
Income (loss) before taxes and other adjustments	**10,424**	**7,121**
Income taxes	**337**	**172**
Net income (loss)	**10,086**	**6,948**
Net income (loss) attributable to non-controlling interests	**319**	**321**
Net income (loss) attributable to shareholders of the parent	**9,767**	**6,627**

Consolidated Statement of Comprehensive Income

(JPY million)

	Three months ended June 30, 2024 (Apr 2024–Jun 2024)	Three months ended June 30, 2023 (Apr 2023–Jun 2023)
Net income (loss)	**10,086**	**6,948**
Other comprehensive income		
Net unrealized gains on other securities	(24)	1
Foreign currency translation adjustments	1,404	7
Remeasurements of defined benefit plans	4	3
Total other comprehensive income	**1,383**	**12**
Comprehensive income	**11,470**	**6,961**
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	11,151	6,640
Comprehensive income attributable to non-controlling interests	319	321

(3) Notes Regarding Consolidated Financial Statements

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

There are no relevant items.

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

There are no relevant items.

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

(Calculation of tax expenses)

Tax expenses are calculated by rationally estimating the effective tax rate after applying tax effect accounting to income before income taxes and other adjustments for the consolidated fiscal year ending March 31, 2025 including the Q1 cumulative, and multiplying income before income taxes and other adjustments for Q1 cumulative by the said estimated effective tax rate. However, if the calculation of tax expenses using such estimated effective tax rate would be significantly unreasonable, the statutory effective tax rate is used.

(Notes regarding changes in accounting policies)

(Application of the "Accounting Standard for Current Income Taxes," etc.)

The Company has applied the "Accounting Standard for Current Income Taxes" (Accounting Standards Board of Japan (ASBJ) Statement No. 27, October 28, 2022; the "2022 Revised Accounting Standard"), etc. from the beginning of the Q1 of the consolidated fiscal year ending March 31, 2025.

The application of the revision associated with classification of income taxes (taxation on other comprehensive income) is in accordance with the transitional treatment set forth in the proviso of paragraph 20-3 of the 2022 Revised Accounting Standard, and the transitional treatment specified in the proviso of paragraph 65-2 (2) of the "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022; the "2022 Revised Guidance"). This change in accounting policies has no impact on the quarterly consolidated financial statements.

Furthermore, as for the revision associated with the review of treatment in consolidated statements in the case where gain or loss on sale arising due to sale of shares in subsidiaries and others between consolidated companies is deferred for tax purposes, the 2022 Revised Guidance has been applied from the beginning of the Q1 of the consolidated fiscal year ending March 31, 2025. This change in accounting policies has been applied retrospectively, and the quarterly consolidated financial statements for the quarters of the previous fiscal year and the consolidated financial statements for the previous fiscal year reflect the retrospective application. This change in accounting policies has no impact on the quarterly consolidated financial statements for the quarters of the previous fiscal year and the consolidated financial statements for the previous fiscal year.

(Notes regarding the consolidated statements of cash flows)

Consolidated statements of cash flows for Q1 of the consolidated fiscal year ending March 2025 were not prepared. Depreciation (including amortization of intangible fixed assets) for the three months ended June 30, 2024 and June 30, 2023 is as follows:

(JPY million)

	Three months ended June 30, 2024 (Apr 2024–Jun 2024)	Three months ended June 30, 2023 (Apr 2023–Jun 2023)
Depreciation	926	1,336

(Segment Information)

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

Three months ended June 30, 2024 (April 1, 2024 – June 30, 2024)

(JPY million)

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Ancillary service income	7,521	–	–	7,521	–	7,521
Maintenance	8,810	–	–	8,810	–	8,810
Company housing agency fee	246	–	–	246	–	246
Roof lease solar power generation	802	–	–	802	–	802
Construction contracting	203	–	–	203	–	203
Others	–	3,412	316	3,728	–	3,728
Sales from contracts with customer	17,584	3,412	316	21,312	–	21,312
Rent income	81,380	–	–	81,380	–	81,380
Ancillary service income	4,749	–	–	4,749	–	4,749
Rental guarantee	1,009	–	–	1,009	–	1,009
Furniture insurance	365	–	–	365	–	365
Others	–	–	101	101	–	101
Other sales	87,504	–	101	87,605	–	87,605
Sales to customers	105,088	3,412	417	108,917	–	108,917
Inter-segment sales and transfers	4	–	76	81	(81)	–
Total	105,092	3,412	494	108,998	(81)	108,917
Segment profit (loss)	12,266	(330)	(501)	11,433	(1,144)	10,289

Note 1: The segment profit (loss) adjustments of JPY (1,144) million includes JPY 65 million in eliminated inter-segment transactions and JPY (1,209) million in corporate expenses that are not allocated to any reportable segment. Corporate expenses mainly consist of general and administrative expenses related to administrative departments that do not belong to any reportable segment.

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

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

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

(JPY million)

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Ancillary service income	7,608	–	–	7,608	–	7,608
Maintenance	8,859	–	–	8,859	–	8,859
Company housing agency fee	237	–	–	237	–	237
Roof lease solar power generation	803	–	–	803	–	803
Construction contracting	54	–	–	54	–	54
Others	–	3,543	287	3,831	–	3,831
Sales from contracts with customer	17,563	3,543	287	21,394	–	21,394
Rent income	79,175	–	–	79,175	–	79,175
Ancillary service income	4,177	–	–	4,177	–	4,177
Rental guarantee	1,115	–	–	1,115	–	1,115
Furniture insurance	393	–	–	393	–	393
Others	49	–	67	117	–	117
Other sales	84,913	–	67	84,980	–	84,980
Sales to customers	102,476	3,543	355	106,375	–	106,375
Inter-segment sales and transfers	6	–	76	82	(82)	–
Total	102,482	3,543	432	106,458	(82)	106,375
Segment profit (loss)	9,344	(236)	(629)	8,477	(854)	7,622

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

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

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

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