Leopalace21 Corporation

Financial Results Briefing for Q1 Fiscal Year Ending March 31, 2025

August 9, 2024

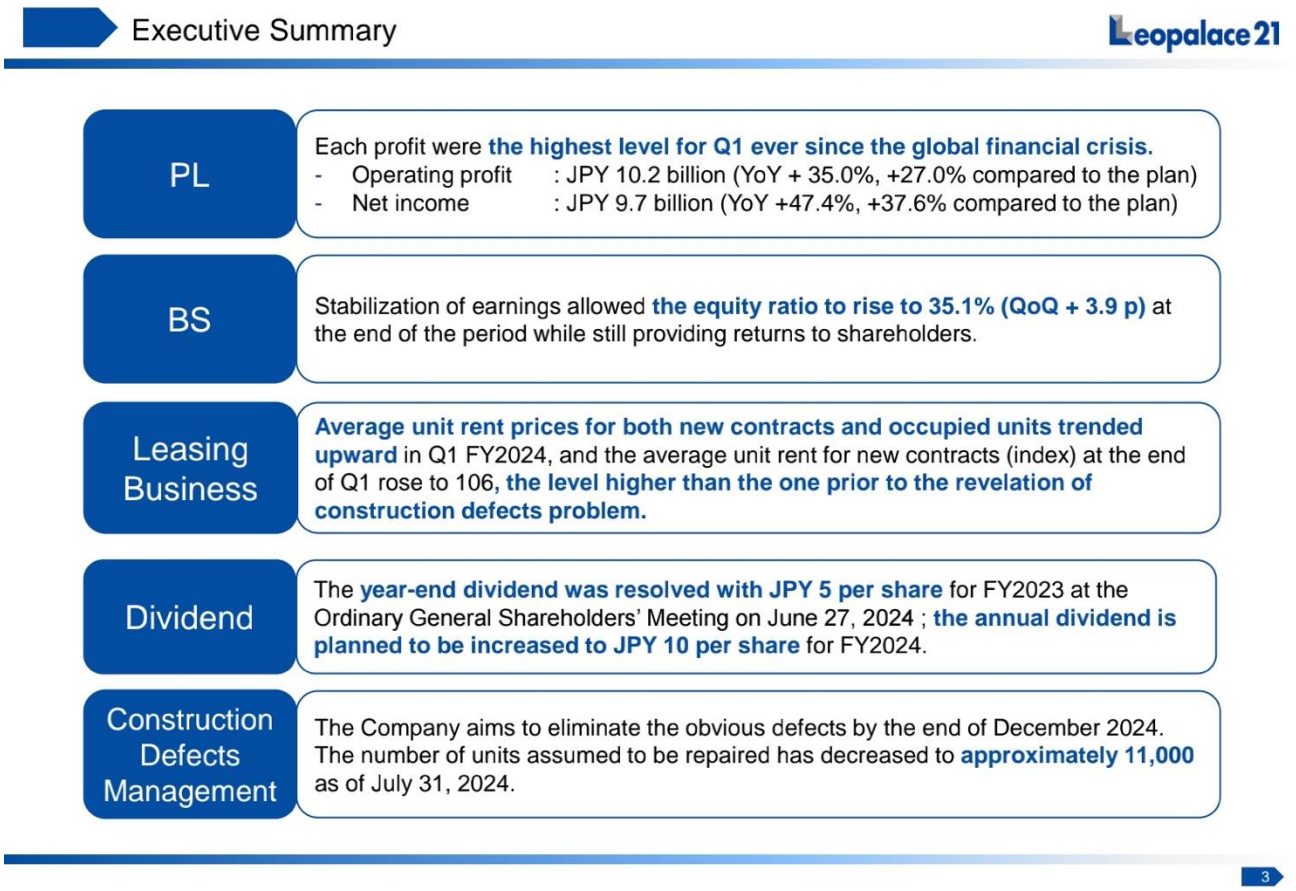
Presentation

Kaneko: Thank you very much for taking time out of your busy schedule today to participate in the financial results briefing of Leopalace21 Corporation for Q1 of the fiscal year ending March 31, 2025. My name is Kaneko, and I will be the moderator.

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

This briefing will be followed by a question-and-answer session. Questions will be accepted in text format from Q&A. The end time is scheduled for 5:00 PM.

Now President Miyao will begin the presentation.



Miyao: Thank you for taking time out of your busy schedule to join us today. I am President Miyao. I will summarize Q1 financial results and explain the status of the leasing business, which is our main business, and our response to the construction defects problem.

First, as for the financial results for Q1 of the fiscal year ending March 2025, all of the profits at each stage recorded their highest profits since the global financial crisis. In particular, operating profit increased by 35.0% YoY to JPY10.2 billion, and net income increased by 47.4% to JPY9.7 billion. As a result, as of the end of June, ownership equity amounted to JPY73.4 billion and the equity ratio was 35.1%, an improvement of 3.9 percentage points from the end of the previous fiscal year.

The Company regards the return of profits to shareholders as one of its most important management issues and has a policy of paying continuous and stable dividends, taking into consideration performance trends, financial conditions, and other factors. As already announced, the annual dividend for the current fiscal year is planned to be JPY10, an increase of JPY5 from the fiscal year ended March 2024.

Regarding the construction defects management, we continue to aim to eliminate obvious defects by the end of December 2024. The projected number of units to be repaired in the future is approximately 11,000.

Chap 1 1: PL (Q1 FY2024 Actual)

Leopalace21

Both sales and income increased YoY and vs. plan because of the increase in the average unit rent. Net income significantly increased by 47.4% YoY.

(JPY million)	Comparison vs Q1 FY2023 Actual		Q1 FY2023 Actual	Q1 FY2024 Actual	Q1 FY2024 Plan	Differences		Factors contributing to changes
Net sales	+2.4%	+2,541	106,375	**108,917**	106,900	+2,017	+1.9%	■ Net sales An increase of JPY 2.0 billion compared to the plan was due to an increase in the average unit rent for new contracts, common expenses, etc., although the occupancy rate fell short of the plan.
Cost of sales	(0.9%)	(789)	88,308	**87,519**	87,200	+319	+0.4%	
Gross profit	+18.4%	+3,331	18,066	**21,398**	19,700	+1,698	+8.6%	
%	+2.6 p	-	17.0%	**19.6%**	18.4%	-	+1.2 p	
SG&A	+6.4%	+664	10,444	**11,108**	11,600	(491)	(4.2%)	■ Cost of sales and SG&A Cost and expenses were largely in line with the plan.
Operating profit	+35.0%	+2,666	7,622	**10,289**	8,100	+2,189	+27.0%	■ Recurring profit Debt refinancing of JPY 30.0 billion implemented in the previous period reduced interest expenses to JPY 0.36 billion (JPY 1.09 billion in interest expenses in Q1 FY2023)
%	+2.2 p	-	7.2%	**9.4%**	7.6%	-	+1.8 p	
EBITDA	+25.2%	+2,256	8,959	**11,216**	9,100	+2,116	+23.3%	
Recurring profit	+49.5%	+3,392	6,851	**10,244**	7,700	+2,544	+33.0%	■ Extraordinary income/losses JPY 182 million in reversal of provision for losses related repairs was recorded as extraordinary income, and JPY 2 million in loss on retirement of property, plant and equipment was recorded as extraordinary losses.
Net income	+47.4%	+3,139	6,627	**9,767**	7,100	+2,667	+37.6%	
EPS (JPY)	+52.7%	+10.61	20.14	**30.75**	22.35	+8.40	+37.6%	

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Now, please turn to page five. I will explain the details of Q1 results for the fiscal year ending March 2025.

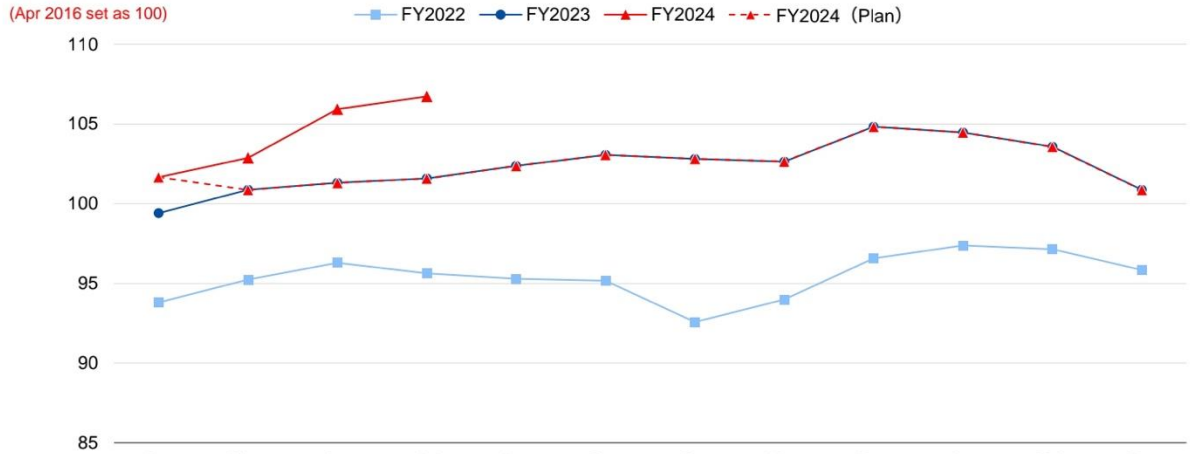
In Q1, both net sales and profits increased YoY and against the plan. Net sales increased by 2.4% YoY to JPY108.9 billion. Although the occupancy rate was slightly below the planned level, the average unit rent for new contracts recovered to the level before the construction defects problem was discovered due to the implementation of the price-focused strategy in the previous fiscal year. The elevated average unit rent for new contracts will contribute to an increase in the average unit rent for occupied units this fiscal year, resulting in positive results both compared to the previous fiscal year and to the plan.

Cost of sales and SG&A expenses were generally in line with the plan, and operating profit increased by 35% YoY to JPY10.2 billion. Similarly, EBITDA increased by 25.2% to JPY11.2 billion.

In non-operating expenses, interest expenses decreased by more than JPY700 million YoY due to the debt refinancing executed last December. As a result, recurring profit increased by 49.5% YoY, and net income increased by 47.4% YoY to JPY9.7 billion, the highest level in Q1 since the global financial crisis.

Chap 2 1: Changes in Occupancy Rate and Average Unit Rent for New Contracts Leopalace21

The average unit rent for new contracts is in upward trend in line with the rent increase in the market for single persons, which was assumed the same level as the previous fiscal year.



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Fed	Mar
FY2022	94	95	96	96	95	95	93	94	97	97	97	96
FY2023	99	101	101	102	102	103	103	103	105	104	104	101
FY2024	102	103	106	107	-	-	-	-	-	-	-	-

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

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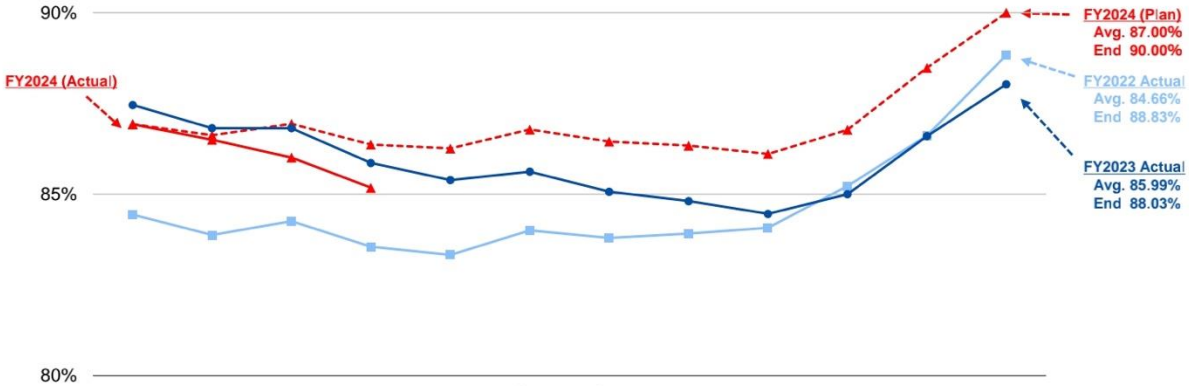
Then, we move on to the leasing business. Please turn to page 11. The graph shows the average unit rent for new contracts.

The Company has been implementing a price-focused strategy since last year. As a result of capturing corporate demand by continued implementation of this strategy, as well as by continued strengthening of top-level sales and other activities in corporate sales, we achieved an increase in the average unit rent for new contracts, as in the previous fiscal year.

In particular, in June, the index rose to 106 with April 2016 at 100, the highest index since the revelation of the construction defects problem. We believe that the implementation of these measures has been solid.

The average occupancy rate resulted in 86.48%, a 0.35 p smaller than the plan. Average unit rent for all occupied units surpassed the plan despite the decline in the number of contracts for individual customers as a result of price-focused strategy.



	Apr	May	Jun	Apr-Jun Average	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Fed	Mar	FY Average
FY2022	84.44%	83.88%	84.26%	84.19%	83.55%	83.33%	84.00%	83.80%	83.91%	84.08%	85.23%	86.61%	88.83%	84.66%
FY2023	87.46%	86.82%	86.82%	87.03%	85.86%	85.39%	85.62%	85.07%	84.81%	84.46%	85.00%	86.60%	88.03%	85.99%
FY2024	86.93%	86.50%	86.01%	86.48%	85.18%	-	-	-	-	-	-	-	-	-

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

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On the other hand, the occupancy rate is shown on page 12. The result fell slightly short of the plan.

It was minus 0.35 points compared to the plan, or minus 0.55 points YoY. One factor is a decrease in the number of occupied units due to a price review of monthly contracts, which had been unprofitable.

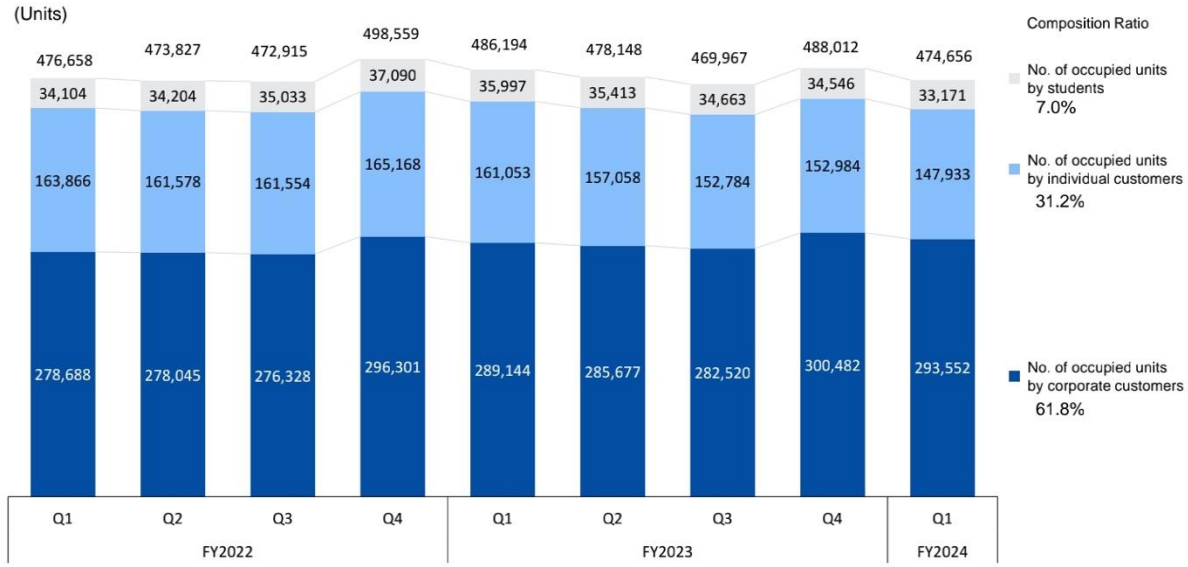
Earlier, I said that we were down 0.55 percentage points YoY in Q1, but for the regular lease contracts, we were up 1.1 percentage points YoY.

In the meantime, the number of units under monthly contracts has dropped by 1.7 percentage points YoY as a result of restraining these low-profit monthly contracts. This is the reason for the 0.55 percentage point decline YoY, but we are basically developing a management and business policy that emphasizes profitability.

Another factor in this decline is a decrease in individual contracts, which has been caused by our price-focused strategy. Overall, we have shifted our business policy from simply pursuing the number of occupancy rates, which is a measure of quantity, to focusing on the profitability, or quality, of each and every contract.

We will continue our price-focused strategy, and while maintaining profitability, we will further improve the occupancy rate and capture contract opportunities, in order to achieve further profitable growth. To this end, we will build a system that will enable us to implement a detailed price-focused strategy by visualizing profits for each area and property.

The number of occupied units by corporate customer segment reached the second highest level in Q1 after the end of Q1 FY 2018. The composition ratio recorded the all-time high of 61.8%.



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As shown on page 13, in Q1 of the fiscal year ending March 2025, the percentage of occupied units by corporate customers expanded to 61.8%, the highest ever.

Hospitality sector posted a large yearly growth due to increased acceptance of foreign nationals.
Others sector grew because of strong demand by education industry based on increased number of technical interns and international students.



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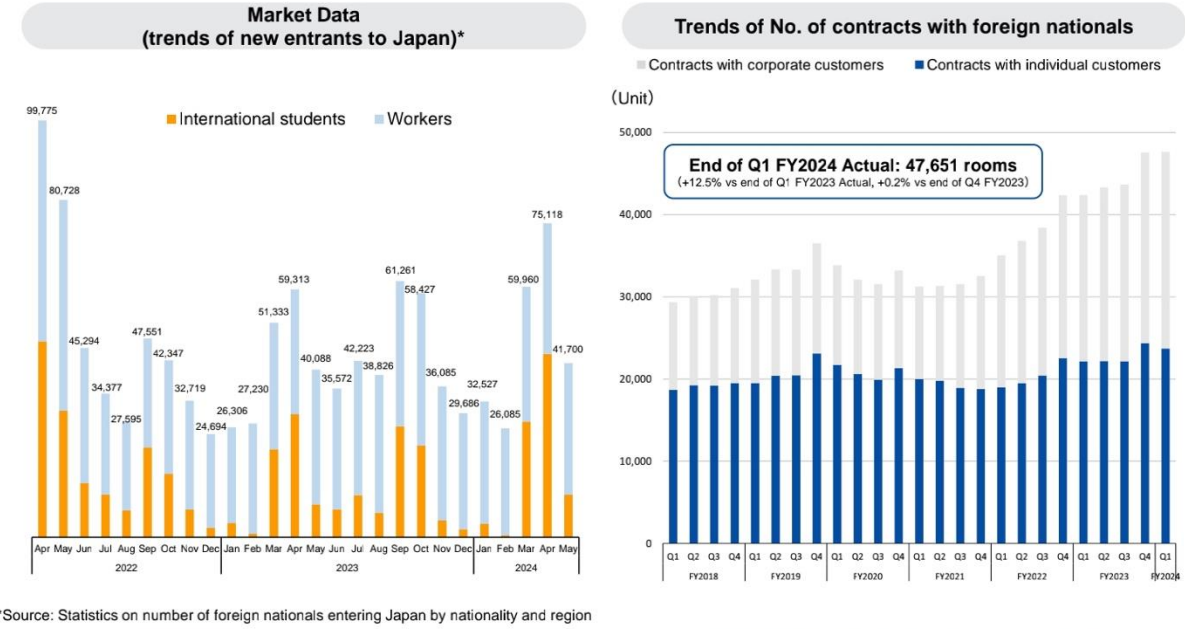
In the context of the occupied units by corporate customers, you can see the occupancy by industry on page 14.

The number of occupied units by corporate customers in Q1 was 293,000, which is up 1.5% YoY.

In particular, the hospitality sector grew by a marvelous 15.6% YoY, and the construction sector also grew by a significant 4.5% YoY. This is due to the increasing acceptance of foreign nationals in each industry because of the shortage of workers.

In particular, the construction industry, which is the largest user sector by type of business, has been using our properties as accommodations at various construction sites throughout Japan. We believe that the reason why we have gained the support of construction-related companies is that we have properties of the same standard throughout Japan, equipped with various furniture and appliances and internet access, and provide services that can be used flexibly according to construction schedules.

Number of units used by foreign national tenants was 47,651 at the end of Q1 FY2024, which represented 10.0% of the total. (+1.3 p from end of Q1 FY2023 and +0.3 p from end of Q4 FY2023)



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

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Page 15 shows the number of units used by foreign nationals.

The graph on the right shows the number of contracts with foreign nationals. We previously showed the number of foreign nationals by nationality, but from this time onward, we show the number of contracts with foreign nationals through corporate customers and that with individual foreign customers separately.

The individual contracts accounted for about two-thirds of the contracts in the fiscal year ended March 2019, but by the end of June in this fiscal year, corporate contracts accounted for the majority. This trend is also due to the acceptance of foreign nationals in various industries, which is reflected in the status of our sales activities.

Accordingly, the number of units used by foreign nationals under corporate contracts has increased, reaching 10% of all units as of the end of this June. This is the largest figure in our history, and we will continue to expand this segment.

Occupancy rates in Ishikawa saw large increase YoY because of continued long-term use of earthquake recovery. Hokkaido and Tohoku districts saw increase QoQ due to strong demand backed by reopening of construction projects.

Kyushu district suffered from gradual decline due to completion of building projects related with semiconductor industry.

Q1 FY2024	Managed units (thousand)	Occupancy rate	YoY	QoQ
Hokkaido	13	89%	−2 p	+5 p
Aomori	4	79%	−4 p	+2 p
Iwate	3	84%	−9 p	−0 p
Miyagi	9	79%	−8 p	−3 p
Akita	2	90%	−2 p	+7 p
Yamagata	4	80%	−11 p	+1 p
Fukushima	10	84%	+1 p	−1 p
Ibaraki	15	87%	+1 p	−2 p
Tochigi	11	81%	−3 p	−2 p
Gunma	11	82%	−0 p	−3 p
Saitama	45	88%	−0 p	−3 p
Chiba	33	87%	+3 p	−2 p
Tokyo	43	92%	+1 p	−2 p
Kanagawa	39	88%	−1 p	−3 p
Niigata	8	87%	+2 p	+4 p
Toyama	5	88%	−1 p	−5 p

Q1 FY2024	Managed units (thousand)	Occupancy rate	YoY	QoQ
Ishikawa	5	93%	+10 p	−4 p
Fukui	4	82%	−3 p	−0 p
Yamanashi	4	93%	+6 p	+1 p
Nagano	11	88%	−4 p	−2 p
Gifu	7	82%	−3 p	−1 p
Shizuoka	24	80%	−0 p	−3 p
Aichi	40	87%	−1 p	−2 p
Mie	11	70%	−4 p	−4 p
Shiga	8	89%	−4 p	−2 p
Kyoto	9	89%	−0 p	−4 p
Osaka	30	87%	+1 p	−2 p
Hyogo	21	86%	−1 p	−2 p
Nara	3	87%	−3 p	−5 p
Wakayama	3	75%	−4 p	−2 p
Tottori	2	80%	−3 p	−5 p
Shimane	2	88%	−6 p	−8 p

Q1 FY2024	Managed units (thousand)	Occupancy rate	YoY	QoQ
Okayama	12	78%	−5 p	−2 p
Hiroshima	13	87%	−2 p	−3 p
Yamaguchi	7	91%	+3 p	+0 p
Tokushima	2	72%	−7 p	+0 p
Kagawa	4	81%	+1 p	+0 p
Ehime	4	77%	−5 p	−3 p
Kochi	2	78%	−3 p	−3 p
Fukuoka	19	87%	−1 p	−3 p
Saga	3	86%	−2 p	−6 p
Nagasaki	2	81%	−14 p	−10 p
Kumamoto	7	85%	−9 p	+1 p
Oita	4	80%	−0 p	−1 p
Miyazaki	2	89%	+4 p	−4 p
Kagoshima	3	83%	−6 p	+2 p
Okinawa	5	98%	+1 p	−1 p
Total	551	86%	−1 p	−2 p

Page 16 shows the occupancy rate by prefecture.

The overall figure was minus 1 point. However, as for the prefectures with particularly large negative figures, we can say that the situation is temporary because the completion of large-scale construction projects has led to increased move-out.

As shown earlier on page 14, the number of units used by the construction industry is 68,000, or about one-fourth of corporate use. We would like to capture the demand of companies, especially those related to the construction industry, ahead of other companies, and strive to improve occupancy rates by filling vacancies as soon as possible.

Estimated number of rooms requiring repairs: Approx. 11,000

Of the units requiring repairs, we expect to repair approximately **11,000 units**, including **10,000** units that have been confirmed defective and approximately **970** units that are assumed to be defective based on the past investigation results.

(As of July 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	7,508	117,966	64,989	57,024	6,650
Other Series Total	23,802	3,763	58,274	21,654	14,785	4,350
Grand Total	39,085	11,271	176,240	86,643	71,809	11,000

While the investigation of vacant rooms and repair works are progressing without delay, the challenges are tenants' refusal to move in for investigation and the difficulty in dealing with owners and tenants of apartments managed by the other management companies.
We aim to **eliminate the rooms with obvious defects by the end of 2024** by persistent visits and negotiations, or refer to the opinions of neutral third parties, such as mediation.

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

Lastly, I would like to explain our response to the construction defects problem.

As mentioned at the beginning of this briefing, as of the end of July, the number of units expected to be repaired in the future has been reduced to approximately 11,000 units. We have made progress on the survey of vacant rooms and on repair works as planned without delay, but there have been some cases where the survey could not be conducted due to difficulties in negotiating the tenants. We also have cases where repair works could not proceed because of the need of tenants' temporarily move to another residence. As a result, in some cases, the repair works are not progressing as planned.

In addition, we have seen cases where we are having difficulties in negotiating with property owners who entrusted their apartment and their tenants to another management company. We will continue to persistently negotiate with these tenants and owners, and in the event of difficulties, we will proceed with negotiations not only based on our own judgment but also by referring to the opinions of neutral third parties, aiming to resolve the obvious defects by the end of 2024 as planned.

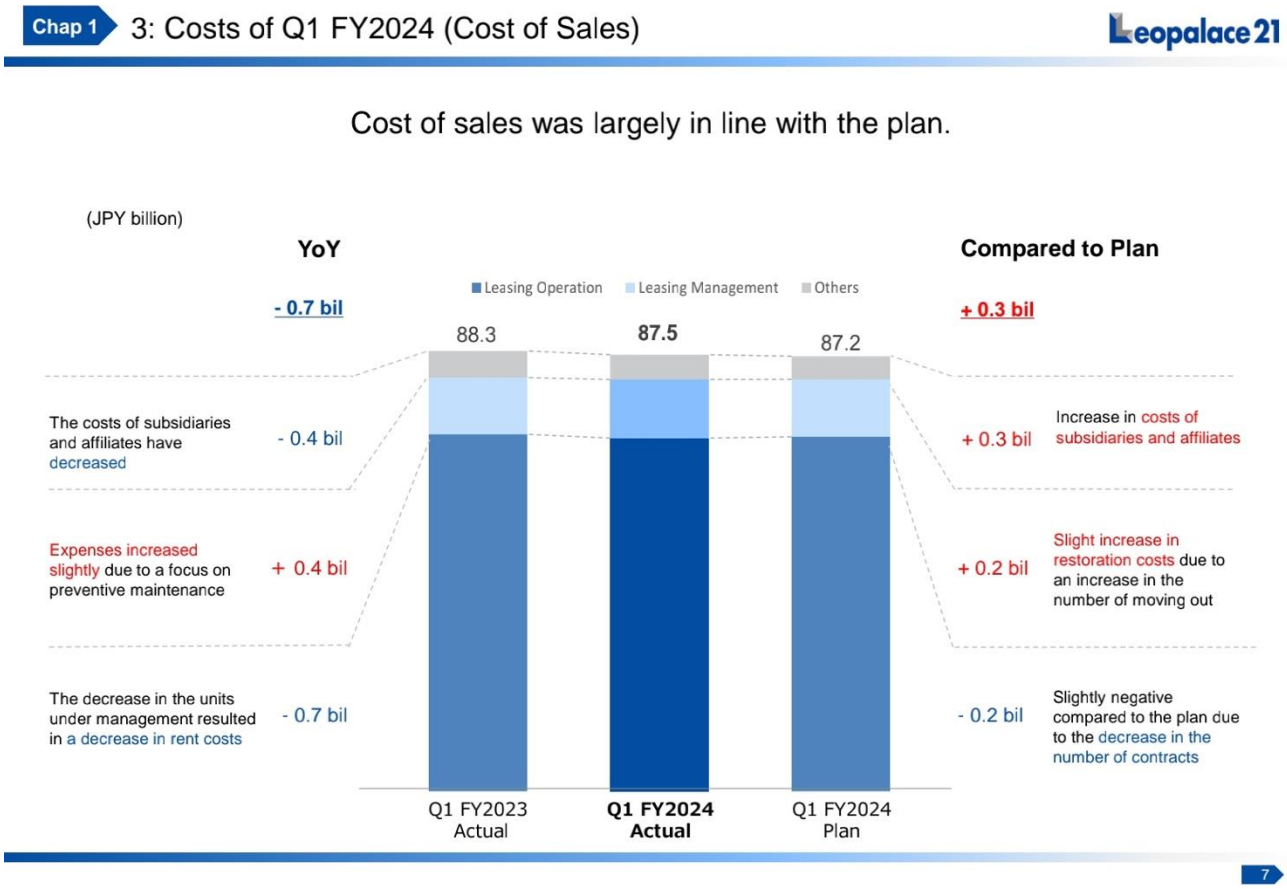
Currently, the Company is working to resolve obvious defects in construction by the end of this year as a top priority. In addition, through the implementation of the profit optimization strategy, the Company will increase the average unit rent for new contracts and the average unit rent for occupied units, while maximizing profits by optimizing costs.

Under these circumstances, we are simultaneously building a structure for medium- and long-term growth. We will firmly tackle medium- and long-term issues such as the formulation of brand strategies while also engaging in activities such as the establishment of a structure for the resumption of the development business and promoting activities for new orders including construction contracting.

From now on, Mr. Takekura will explain the status of costs, or their progress against the plan, and the progress of sustainability.

That is all from me. Thank you for your attention.

Kaneko: Next, Mr. Takekura, Director and Executive Officer, Chief of the Corporate Management Headquarters, will give an explanation.

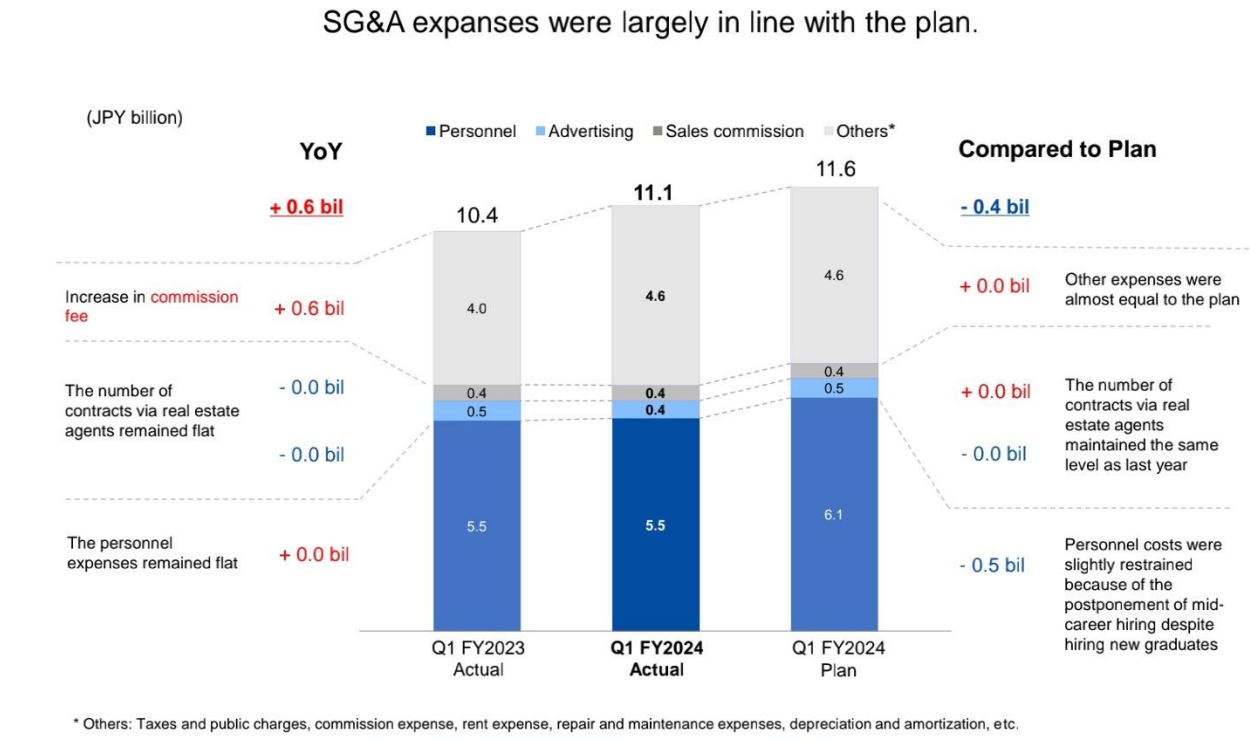


Takekura: Thank you for taking time out of your busy schedule to join us today. I am Takekura. I would like to explain mainly on the cost side and the progress of sustainability.

First, please refer to page seven for the results of cost of sales.

Cost of sales remains almost in line with the plan for this fiscal year. Cleaning costs slightly increased due to an increase by about 3.3% against the plan in the number of rooms vacated at the managed units by Leopalace21 and in costs at PLAZA GUARANTEE, an affiliate company. However, as we continued to reduce the unprofitable monthly contracts, the cost of sales was restrained.

In the future, we will generate profits by maintaining appropriate cost control while spending the costs necessary to keep property values and provide comfortable housing for tenants, including preventive maintenance of properties.



On page eight is the status of SG&A expenses.

SG&A expenses have remained in line with the plan unlike last fiscal year. Compared to the plan, although personnel costs were slightly restrained as a result of the postponement of mid-career hiring, we will continue our hiring activities throughout the full year. Therefore, we believe that the personnel costs will progress as planned.

The number of apartment units with smart lock installed exceeded 270,000, nearly half the number of units under management.

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



18 min. 5 min. 19 min.

42 min.

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

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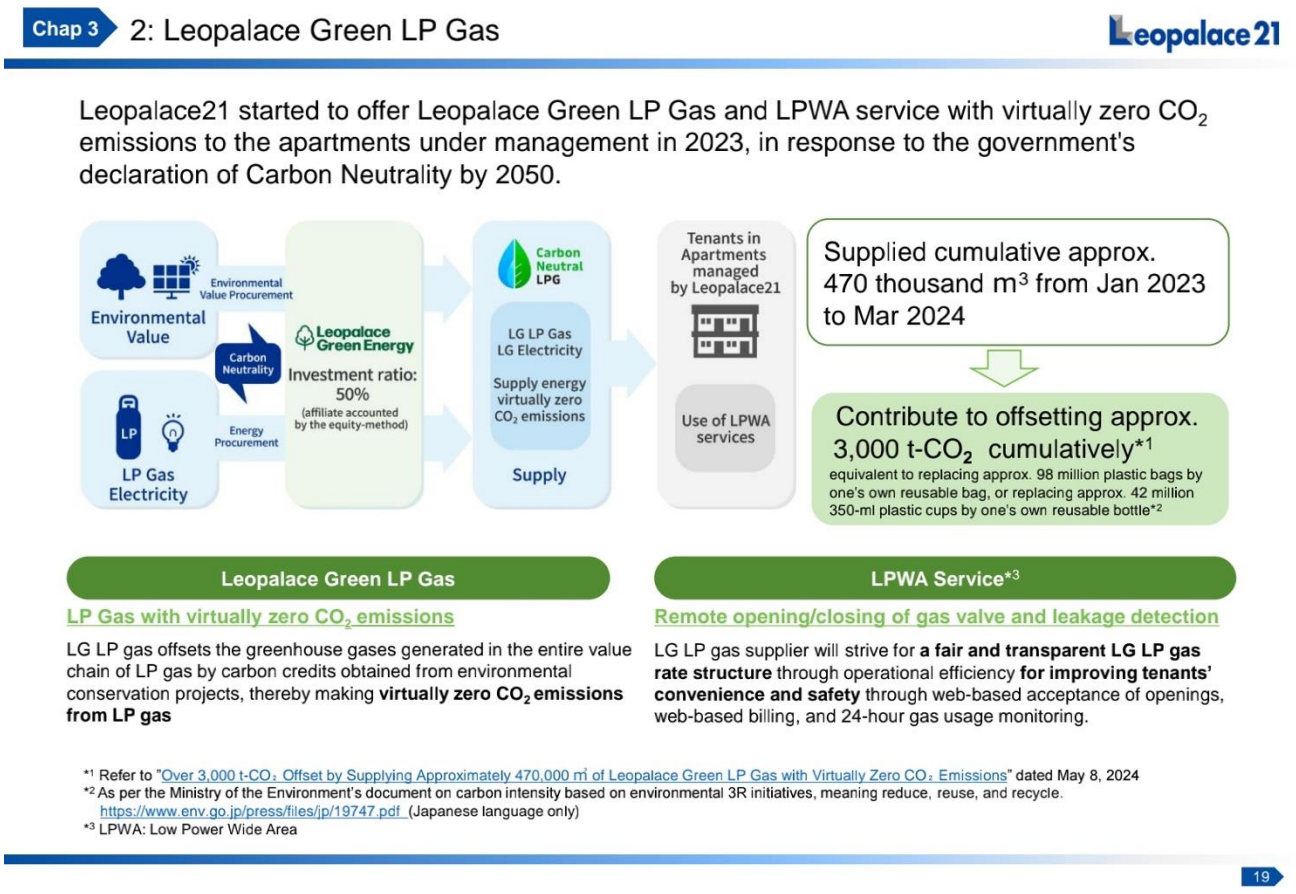
Pages 18 to 21 show the status of sustainability. I would like to talk about smart locks, which we have been introducing since FY2022.

The number of units with smart lock installed has exceeded 270,000, approximately half of the total number of the managed units. In the case of general physical keys, it was necessary for tenants to visit our sales office to receive the keys, and if the distance between our sales office and the property is far, it could take up to two hours one way, or four hours round trip. Such trip is no longer necessary.

In addition, as shown in this page, the associated tasks such as key change and handover have reduced the work time by 42 minutes per unit, and the effect of the reduction associated with the management of 500,000 rooms has contributed very much to the improvement of productivity.

During the busy season from January to March, approximately 58,000 physical key deliveries were saved in 2024, and the effect of this change has contributed to the efficiency of business operations, as the number of branches has been consolidated from 109 to 70 as of FY2023.



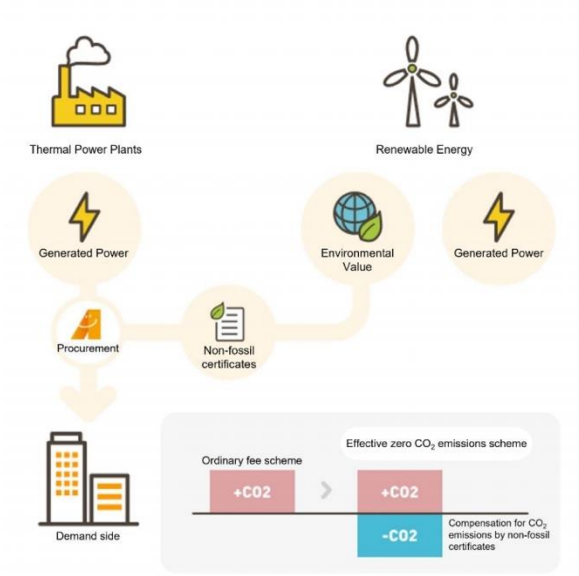
Page 19 shows the Leopalace Green LP Gas initiative.

To reduce greenhouse gas emissions, we are stepping up efforts to promote the introduction of LP gas, which emits virtually no CO_2. We are supplying Leopalace Green LP Gas, which has virtually zero CO_2 emissions, at the properties we manage, and providing LPWA services that enable remote control of usage meters.

This LPWA service will contribute to the safety of tenants by enabling us to remotely monitor gas usage and control the closing and opening of gas valves and will also eliminate the need to employ a person to read the meter for the usage fee. As a result of these efforts, the cumulative supply from January 2023 to the end of March 2024 was approximately 470 thousand m^3, which corresponds to 3,000 tons of CO_2 emission reduction. For example, this amount is equivalent to replacing approximately 98 million plastic bags by one's own reusable bag or replacing about 42 million 350-ml plastic cups by one's own reusable bottle.

As the industry-side problem, there was a custom of free rental of various items from LP gas providers to users, which is later added to users' LP gas bills. In response to that, an amendment to the LPG ministerial ordinance was promulgated on April, 2020. Leopalace Green Energy initiatives are tackling this issue head-on through meetings with related ministries and agencies, and we ensure the transparency of our billing system and disclose it to the public.

Leopalace21 Green Energy started to supply Leopalace Green Electricity in June 2024.
With the supply of LG LP gas and LG electricity, the Company materializes to manage rental housing with virtually zero CO_2 emissions.



The Company plans to provide LG Electricity to approx. **75,000** households by Mar 2025

CO_2 emissions reduction is expected approximately **81,993** t-CO_2 per year

Leopalace Green Electricity

LG Electricity with virtually zero CO_2 emissions

LG Electricity supplied by Astomos Energy Corporation is now available for Monthly Contracts and Utility Inclusive Plans.
LG Electricity is a virtually renewable energy source with virtually zero CO_2 emissions combined with non-fossil certificates.

*Refer to "Leopalace Green Electricity Starts with Virtually Zero CO_2 Emissions" dated July 3, 2024.

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As shown on page 20, we also started supplying Leopalace Green Electricity in June 2024.

Leopalace Green Electricity is a renewable energy source that, when combined with a non-fossil certificate, emits virtually no CO_2. By supplying these gas and electricity, we aim to operate rental housing with virtually zero CO_2 emissions.

Chap 3 4: Leopalace21 Scholarship Program

Leopalace21

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



Details of Support	(1) Use of a room of Lepalace21 apartment without paying rent **up to JPY 1.2 million/year** (2) Benefit-type Scholarship **JPY 360,000/year**
Support Period	Regular period in school

* Refer to "Notice Concerning Starting Acceptance of Applications for Leopalace21 Scholarship Program for FY2025" dated October 2, 2023

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Page 21 is about our approach to scholarship programs. Currently just under 50% of college students use a scholarship program to pursue higher education, and the repayment of such scholarships is becoming a social problem.

This is a scholarship program in which we, as a company involved in the provision of housing, provide housing at free of charge to outstanding students who are struggling financially and who wish to pursue higher education. We have established and operated this program in consideration of the possibility of supporting young people with a bright future by fully utilizing our company's resources. We will promote this in an effort to solve social problems such as rising tuition costs and long-term repayments.

Being a single-household social infrastructure, we will continue to work hard to improve our corporate value.

This concludes my explanation. Thank you for your attention.

Question & Answer

Kaneko [M]: We will now begin the question-and-answer session. Start with a question from Mr. Hamada, SMBC Nikko Securities.

Hamada [Q]: The better results over the plan are due to the increase in the average unit rent. Will the future unit rent for occupied units contribute to the full-year results? Also, as for the average unit rent for new contracts, the full-year plan shows plus 0.2% YoY. Is this due to a large increase in rent? Or is it due to the fact that the rent increase acceptance rate is increasing?

Miyao [A]: The first factor to be reflected in the results is the unit rent for occupied units, which is based on the unit rent for new contracts. As you can see, the unit rent for new contracts is higher than planned, resulting in an increase in the unit rent for occupied units.

In that sense, I would like to say that this is a result of the fact that the rent for new contracts has been raised more than planned, not the current rent for occupied rooms.

Hamada [Q]: I understand that you planned to increase the unit rent for occupied units by 2.5% for the full year. What is the current level? I would also like to know if there is any change in your outlook that the rent will reach around JPY60,000 from this fiscal year to the next, and then level off from there. Based on trends in the unit for new contracts, inflation, and wage increases, can you further raise the level, etc.?

Takekura [A]: Regarding your question about the unit rent for occupied units, as I showed you in the presentation material at the end of the previous period, we initially set a target of 2.5% up YoY.

I would like to answer that the current situation is more advanced than the figures shown here.

As you probably already know, the basic rent for studio rooms in the rental market had not risen very much if you use the 2015 or 2016 level as a benchmark. However, since the beginning of this year, the rent for family apartments has already risen, and the rent for studio rooms, which had been almost flat, has turned up slightly. Therefore, our lending has also been brisk, driven by the market. I would like you to understand that the rent for occupied units has been favorable accordingly.

Hamada [Q]: On page 12, the occupancy rate averaged 86.48% in Q1, slightly below the plan, and the graph shows that the deviation from the plan is getting larger and larger. The rate in July was 85.18%. I think you said that if you could secure around 87%, you would focus on rent from then on. Can you tell me again about the outlook based on your strategy for the occupancy rate and unit rent?

Miyao [A]: In terms of numbers, I think you are right. In particular, the decline in the occupancy rate, including the YoY decline, has two aspects, as I mentioned earlier, one of which is the decrease in the number of units used for monthly contracts, short-term contracts with a lump sum payment. This is the result of our emphasis on profitability.

The other factor is that while the unit rent for new contracts has been rising, it has been difficult to raise the rent for individuals who place the highest priority on the rent level.

We are focusing on sales to companies. Corporate customers use rooms not for their livelihood, but to secure their own sales and profits, or performance. I think our current strategy to provide rooms that contribute to their performance as quickly as possible is effective.

In that sense, we used to think that we should secure 87%, but since last year, we have not been thinking of a certain threshold, but rather of the surrounding economic situation, and the status of economic activities in each area. We would like you to understand that we have taken these factors into consideration, and that the current situation is the results of our preemptive measures.

Kaneko [M]: Next, we have a question from Mr. Hashimoto, Mizuho Securities.

Hashimoto [Q]: You achieved 70%, more than 50% of the planned operating profit of JPY14.6 billion for H1 in Q1 alone. Is there room to revise the full-year forecast? While the unit rent is increasing, do you anticipate any increase in costs?

Takekura [A]: As Mr. Hashimoto mentioned, we have announced net sales of JPY213.1 billion and operating profit of JPY14.6 billion for H1. Therefore, the JPY10.2 billion in operating profit represents almost 70% of the planned figure, and in fact, we had a lot of internal discussions about how this figure would appear to the market.

As a result, we have determined that if there are any changes in the figures at the end of H1, we will disclose them in a timely manner. In H1 of the previous fiscal year, as some of you may remember, there was a change in operating profit due to delays in the accrual of costs, where the costs expected in Q1 reported in Q2 and those expected in Q2 reported in Q3, respectively.

In the current fiscal year, as I mentioned earlier, the details of cost of sales and SG&A expenses are proceeding almost as planned, and there are no major delays at present.

Therefore, as I just mentioned, we announced these figures as we have only just completed Q1. If the figures change again in H1, we will revise the figures in a timely manner. That is all.

Kaneko [M]: Now, the next question is from Mr. Hamada, SMBC Nikko Securities.

Hamada [Q]: Do you have any update on the discussion of the policy for dealing with warrants?

Miyao [A]: I will answer your question, but to give you the short answer, we do not have an update yet.

As we have said in the past, the deadline for exercising these warrants is November next year, so I think the details will be available after a little more time passes.

Kaneko [M]: Next, we have a question from Mr. Hashimoto, Mizuho Securities.

Hashimoto [Q]: There are five months left until the end of 2024, including August. Assuming 1,800 units per month, 9,000 units can be repaired in five months. What is your image of the progress of repair work for the remaining 11,000 units?

Takekura [A]: The remaining 11,000 units, which I am showing in the Investor Meeting Presentation, are the number of units that the Company has set as the number of units with obvious defects to be repaired by the end of December 2024.

As of now, we have been meeting with the ministries and agencies concerned, and we are going to complete them as planned. One of the issues we are currently facing is the difficulty for tenants who have been paying their rent, refuse to move to a new residence as well as the inability to contact tenants. We are trying to make the best proposals to those tenants by sending documents repeatedly and visiting them on site.

We found some cases in which the administrative agencies ask us to deal with after the tenants' move -out, especially for those who are very old or ill and cannot move to another place. We will have a thorough discussion with them.

Hashimoto [Q]: On page 14, there is an increase in the sectors of others and hospitality. What is the background? Also, on page 16, the occupancy rate by prefecture is up in Akita and Hokkaido, while it is down in Saga, Nara, Nagasaki, and other prefectures.

Miyao [A]: In terms of others sectors, education in particular is increasing.

That is because there has been a slight increase in education-related activities, driven by the acceptance of technical intern trainees and an increase of foreign students coming to Japan.

In the hospitality sector, due to the COVID-19 pandemic, they had closed stores and reduced operating hours, but now that it has subsided, each industry is moving positively, I think. As they are moving positively, the hospitality sector is hiring more and more foreign nationals in particular, and this has led to the use of our rooms.

Regarding the occupancy rate by prefecture, you asked about the increase in the occupancy rate in Akita and Hokkaido, and the decrease in Saga, Nara, Nagasaki and other prefectures.

On a quarterly basis, Hokkaido has increased compared to the end of March, because of the demand related to the Rapidus project from April and the redevelopment of the area in front of the Sapporo Station.

In Akita, the increase for these few years is related to the construction of offshore wind farms. When the weather turns cold, the construction work is halted, so the occupancy rate dropped after December. It has been rising again since April and May when the workers started working on site.

On the other hand, you mentioned Saga, Nara, and Nagasaki as prefectures that we see a decline.

In Nagasaki, large construction-related activities were completed, and we have seen the workers leave. In Nagasaki, the completions of the construction of the Nagasaki Stadium or a soccer field, development work in front of the station, and Sony's Nagasaki plant are just some of the reasons. Then in Nara, I think there is a similar situation.

In Saga, there was construction work related to the Self-Defense Forces for the Osprey stationing base and construction at Saga Airport, but many of the workers have left the area since the completion of such work. In addition, the construction of factories and various other facilities have been completed.

Therefore, we can think of it in terms of such demand cycle. We propose to the general contractors, subcontractors, and various other companies involved in each project in each site to use our rooms as on-site accommodations for their projects. The competitors for our rooms are, to tell the truth, business hotels.

We have told the construction industry, which traditionally used business hotels, that it is not good to have them stay in a business hotel with a floor space of only 15 square meters, where they watch TV on their beds. We have suggested that they should use our apartments as a proper living base.

If a business hotel costs JPY5,000 per night, it would cost JPY150,000 for a month. We have been appealing that our apartments do not cost that much, and that we are more economically rational in terms of costs, which is the reason why the construction industry became our number one customers.

In terms of on-site accommodation, they are not there for so many years of three or five years. However, once a project is finished, for example, after civil engineers leave, construction workers will come in next. Then, the

interior electrical workers and subcontractors are coming. In such a way, workers come and go constantly in the construction industry.

Even if one project is completed, general contractors and various other companies have their next projects, so in total, even if there is a decrease in one area, we will be used again in the next site. So, even if there is a decline at the prefectural level in a quarter, please do not worry too much about it. In other words, we should be concerned when construction work is decreasing nationwide, but we recognize that the current situation is not like that.

Hashimoto [Q]: After listening to Director Takekura's explanation of the smart lock, I thought that you should explain and appeal to investors and society more about the efficiency and the progress of DX. I thought it might be worthwhile to consider changing the name of the Company to a name that would be recognizable as a company that manufactures smart locks.

Takekura [A]: Thank you, I think you are pointing out that we are actually not appealing enough, and we will take this seriously and work to address this.

As for smart locks, we actually had an in-house smart lock system in place prior to 2018. However, as it is commonly referred to as the "Devil River," "Valley of Death," or "Darwinian Sea," it was a bit early at that time, in terms of making it a technology that could be used for a certain degree of versatility, and the error rate was high even when smart locks were used. In rental housing, not being able to enter a room is a truly horrendous incident. We decided to stop after all with various other reasons. The technology became just what we needed two years ago, as the technology advanced, while overcoming the Devil River just as the iPhone did.

As I explained earlier, the smart lock has been making solid achievements as part of our DX program, and also will be the core components of our rebranding that we are currently discussing for in response to our one of the most important management mission, so-called construction defects problem which will be resolved at the end of 2024.

Whether or not to change name of the Company is a matter of need. Based on what you have told us, we would like to make the public aware that we are a tech company, a so-called DX company, or the leading DX brand in real estate. Thank you very much.

Kaneko [M]: Since there seems to be no additional questions, we will conclude the question-and-answer session and the briefing.

Thank you very much for attending today's financial results briefing of Leopalace21 Corporation for Q1 of the fiscal year ending March 2025.

[END]