Leopalace21 Corporation

Financial Results Briefing for the Six Months Ended September 30, 2024

November 8, 2024

Presentation

Kaneko: Thank you very much for taking time out of your busy schedule today to participate in the financial results briefing for Leopalace21 Corporation for Q2 of the fiscal year ending March 2025. I am Kaneko, and I will be your moderator. Thank you very much for your cooperation.

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

In this presentation, financial report will be followed by a Q&A session.

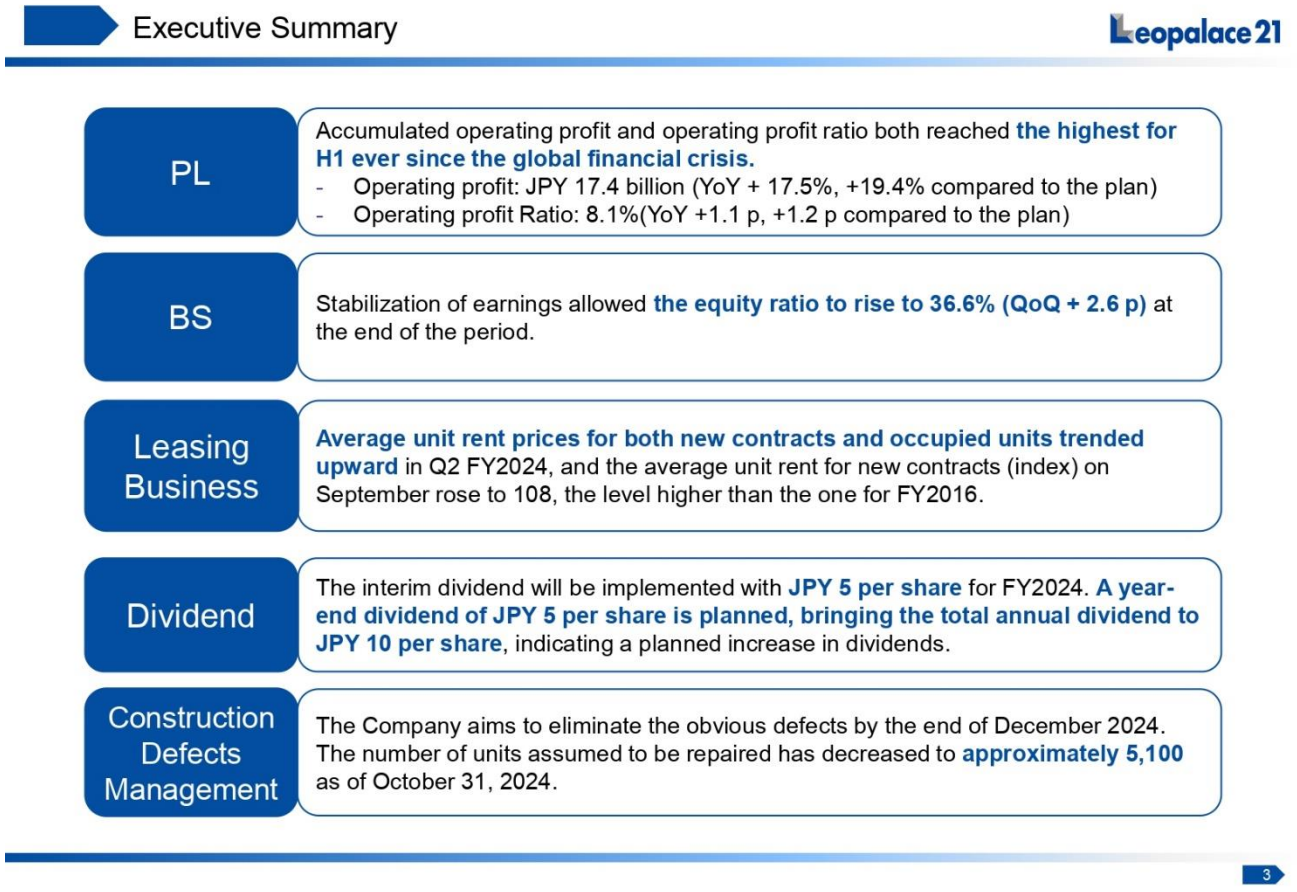
The end time is scheduled for 5:00 PM. President Miyao will now begin the presentation.

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

First, I would like to explain a partial correction to the financial results for Q1 of the fiscal year ending March 2025. The Company had a policy of reversing deferred tax assets at the end of the fiscal year, but due to the strong performance in H1, it was found necessary to reverse the deferred tax assets on a quarterly basis.

Therefore, we have revised the Q1 financial results that we had already announced, and we have also revised the plan that was previously prepared based on the assumption that the reversal would be made at the end of the fiscal year and have now disclosed the new plan based on the assumption that the reversal would be made every quarter.

Since this correction is a correction in the accounting treatment of tax effects, there is no impact on the full-year plan or earnings forecast, nor is there any impact on cash flow.



I will now explain the executive summary.

The financial results for Q2 of the fiscal year ending March 2025 showed operating profit of JPY 17.4 billion, the highest since the global financial crisis. As a result, net income at the end of September brought ownership equity to JPY 76.27 billion and the equity ratio to 36.6%, an improvement of 5.4 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, comprehensively taking into account performance trends and financial conditions, etc. The interim dividend was announced to be JPY 5 per share. As already disclosed, we plan to pay a year-end dividend of JPY 5 per share, bringing the annual dividend for the current fiscal year to JPY 10 per share, an increase of JPY 5 from the previous fiscal year.

In the Leasing Business, average unit rent prices for both new contracts and occupied units trended upward. We will continue to maximize profits through timely and appropriate pricing.

Regarding the construction defects management, we continue to work on resolving them with a sense of speed, aiming to eliminate obvious defects by the end of December 2024. The number of units assumed to be repaired is approximately 5,100 units.

Accumulated operating profit and Operating profit ratio both reached the highest for H1 ever since the global financial crisis.

(JPY million)	Comparison vs H1 FY2023 Actual		H1 FY2023 Actual	H1 FY2024 Actual	H1 FY2024 Plan*	Differences		Factors contributing to changes
Net sales	+2.0%	+4,317	211,848	**216,165**	213,100	+3,065	+1.4%	■ Net sales An increase of JPY 3.0 billion compared to the plan and JPY 4.3 billion compared to H1 FY2023 was due to an increase in the average unit rent for new contracts, although the occupancy rate fell short of the plan.
Cost of sales	+0.0%	+2	176,080	**176,082**	175,100	+982	+0.6%	
Gross profit	+12.1%	+4,314	35,768	**40,082**	38,000	+2,082	+5.5%	
%	+1.6 p	-	16.9%	**18.5%**	17.8%	-	+0.7 p	■ Cost of sales Slight increases from the plan due to the construction starts of new properties and post-disaster construction works.
SG&A	+8.2%	+1,715	20,940	**22,655**	23,400	(744)	(3.2%)	
Operating profit	+17.5%	+2,598	14,828	**17,426**	14,600	+2,826	+19.4%	■ SG&A increase of JPY 1.7 billion compared to H1 FY2023, due to Increased compensation including base pay.
%	+1.1 p	-	7.0%	**8.1%**	6.9%	-	+1.2 p	
EBITDA	+11.4%	+1,970	17,301	**19,272**	16,500	+2,772	+16.8%	■ Non-operating expenses Interest payments decreased to JPY 730 million in H1 FY2024, down from JPY 2.19 billion in H1 FY2023, due to the refinancing of a JPY 30 billion loan executed in FY2023.
Recurring profit	+27.6%	+3,617	13,111	**16,729**	13,800	+2,929	+21.2%	
Net income	(10.6%)	(1,253)	11,850	**10,596**	7,900	+2,696	+34.1%	■ Net income JPY 1.4 billion in reversal of provision for losses related repairs was recorded as extraordinary income, and JPY 6.9 billion in Income taxes was recorded.
EPS (JPY)	(8.6%)	(3.12)	36.47	**33.35**	24.87	+8.48	+34.1%	

*Correction of errors due to the recording of tax effects are underlined.

On page five, I will explain the details of the results for H1 of the fiscal year ending March 2025.

Net sales increased by 2% YoY to JPY 216.1 billion. Although the occupancy rate fell below the planned level, the average unit rent for new contracts recovered to the level before the construction defects problem was discovered through the implementation of the price-focused strategy from the previous fiscal year, and this contributed 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.

Despite the increase in SG&A expenses, operating profit increased by 17.5% YoY to JPY 17,426 million. Similarly, EBITDA increased by 11.4% to JPY 19,272 million.

Non-operating expenses decreased by more than JPY 1.3 billion YoY, including a decrease in interest expenses due to refinancing executed last December, and net income fell by 10.6% YoY to JPY 10,596 million due to the recording of JPY 6.9 billion in income taxes.

Steady progress toward achieving the FY2024 full-year plan.

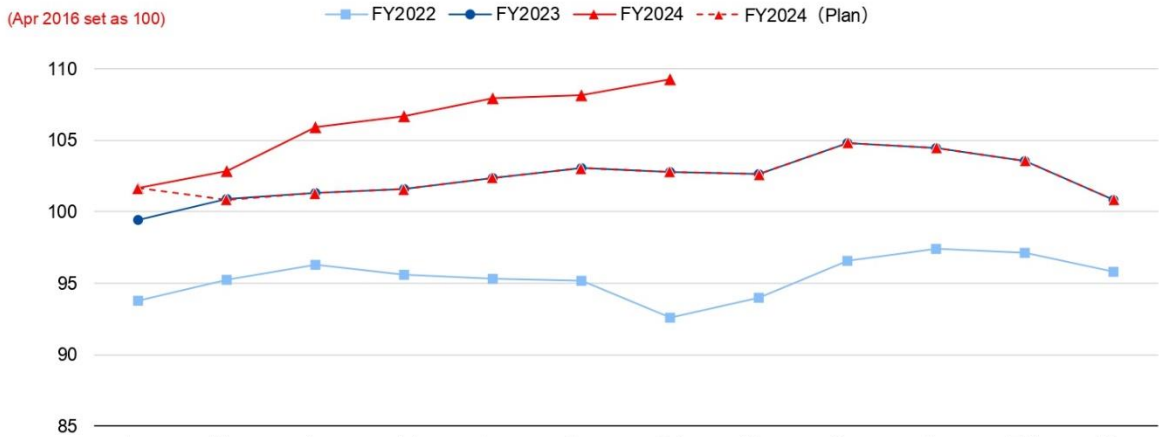
(JPY million)	FY2023				FY2024*						
	Q1	Q2	Q3	Q4	Q1		Q2		Q3	Q4	FY Total
	Actual	Actual	Actual	Actual	Plan	Actual	Plan	Actual	Plan	Plan	Plan
Net sales	106,375	105,472	104,728	106,095	106,900	108,917	106,200	**107,247**	106,700	108,800	428,600
Cost of sales	88,308	87,771	87,627	90,128	87,200	87,519	87,900	**88,563**	88,400	89,200	352,700
Gross profit	18,066	17,701	17,100	15,966	19,700	21,398	18,300	**18,683**	18,300	19,600	75,900
SG&A	10,444	10,495	11,918	12,662	11,600	11,108	11,800	**11,546**	11,900	14,000	49,300
Operating profit	7,622	7,205	5,181	3,304	8,100	10,289	6,500	**7,137**	6,400	5,600	26,600
Recurring profit	6,851	6,259	3,455	2,909	7,700	10,244	6,100	**6,484**	6,000	5,100	24,900
Net income	6,627	5,222	3,028	27,183	4,400	6,084	3,500	**4,511**	3,600	3,000	14,500

*Correction of errors due to the recording of tax effects are underlined.

As explained at the beginning of this report, the quarterly plan has also been changed due to a correction in the accounting treatment of tax effects.

The results up to Q2 were up 34% of the plan and are progressing steadily.

The average unit rent for new contracts is in upward trend resulting from continuous gradual rise in the corporate customer segment.



	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	108	108	109	-	-	-	-	-

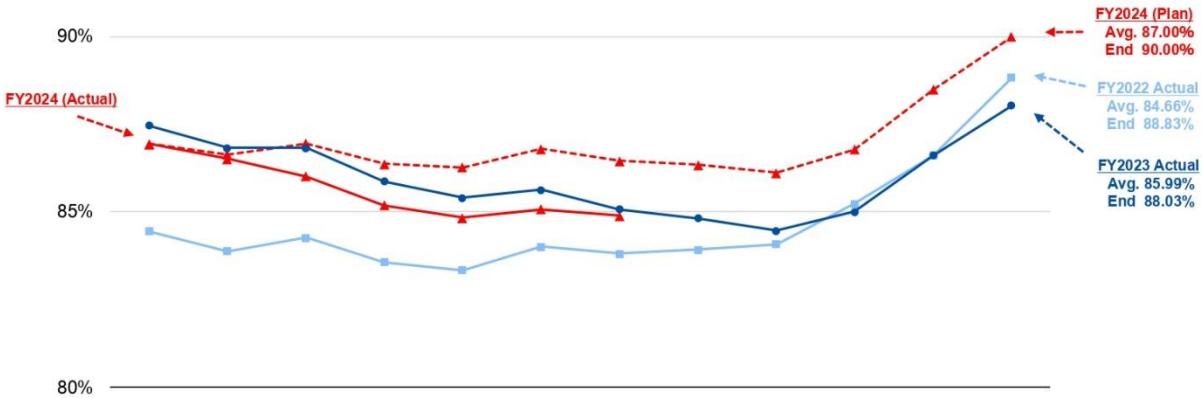
Monthly Data : https://www.leopalace21.co.jp/english/ir/finance/monthly/index.html

Next, I will explain the Leasing Business. Page 12 shows a graph of the average unit rent for new contracts.

The acquisition of corporate demand through price-focused strategies and continued top-level sales efforts led to an increase in the average unit rent for new contracts, as in the previous fiscal year. In particular, in September, the index was 108 with April 2016 as 100, and in October, the most recent month, the index was 109, the highest value for the last two periods.

We will continue our price-focused strategy to improve the quality of contracts and maintain high occupancy rate and rent unit prices, which are directly linked to sales.

The average occupancy rate of H1 resulted in 85.75%, 0.90 points lower than the plan.



	Apr	May	Jun	Apr-Jun Average	Jul	Aug	Sep	Jul-Sep Average	Q2 cumulative Ave.	Oct	Nov	Dec	Jan	Fed	Mar	FY Average
FY2022	84.44%	83.88%	84.26%	84.19%	83.55%	83.33%	84.00%	83.63%	83.91%	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%	85.62%	86.33%	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%	84.83%	85.07%	85.03%	85.75%	84.88%	-	-	-	-	-	-

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

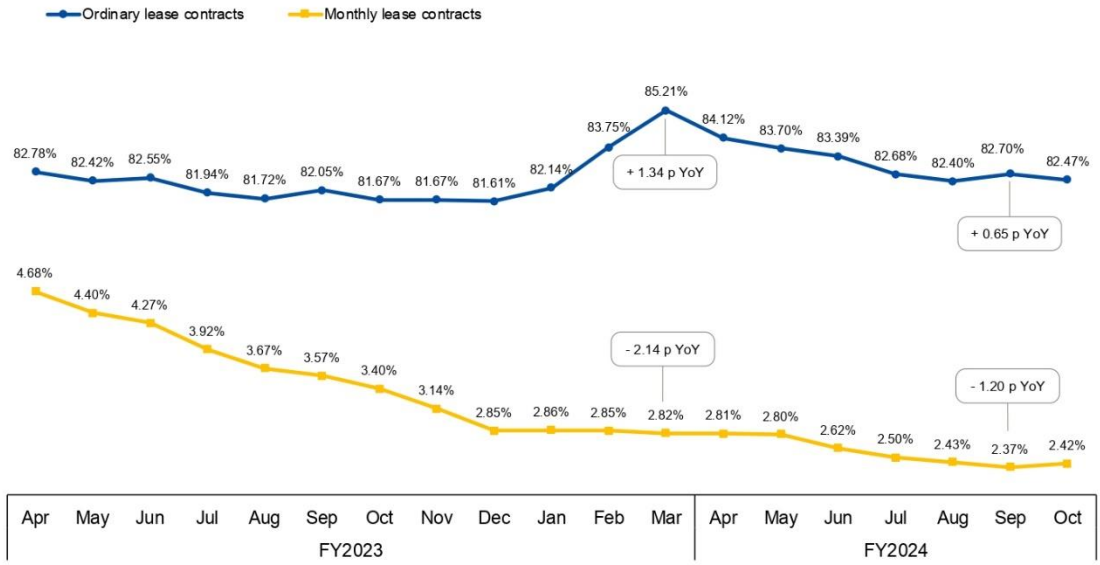
13

On the other hand, as for the occupancy rate, we show the movements in occupancy rate on page 13.

As for the occupancy rate plan, an average occupancy rate was 85.03% for H1, a decrease of 1.44 percentage points from the plan. Although there are some factors, such as a decrease in individual contracts due to our price-focused strategy, we are currently placing priority on pursuing profitability per contract, and there is no change in our policy of increasing the quality of contracts.

Under such circumstances, the Company will continue to focus on increasing corporate use of rooms and other price-focused strategies to maintain profitability and improve occupancy rates to achieve further profitable growth. To this end, we have established a system that enables us to visualize the revenues of each area and property, and to implement detailed price-focused strategies.

We will continue a policy of restraining monthly lease contracts which are less profitable than ordinary lease contracts in order to improve the profitability.

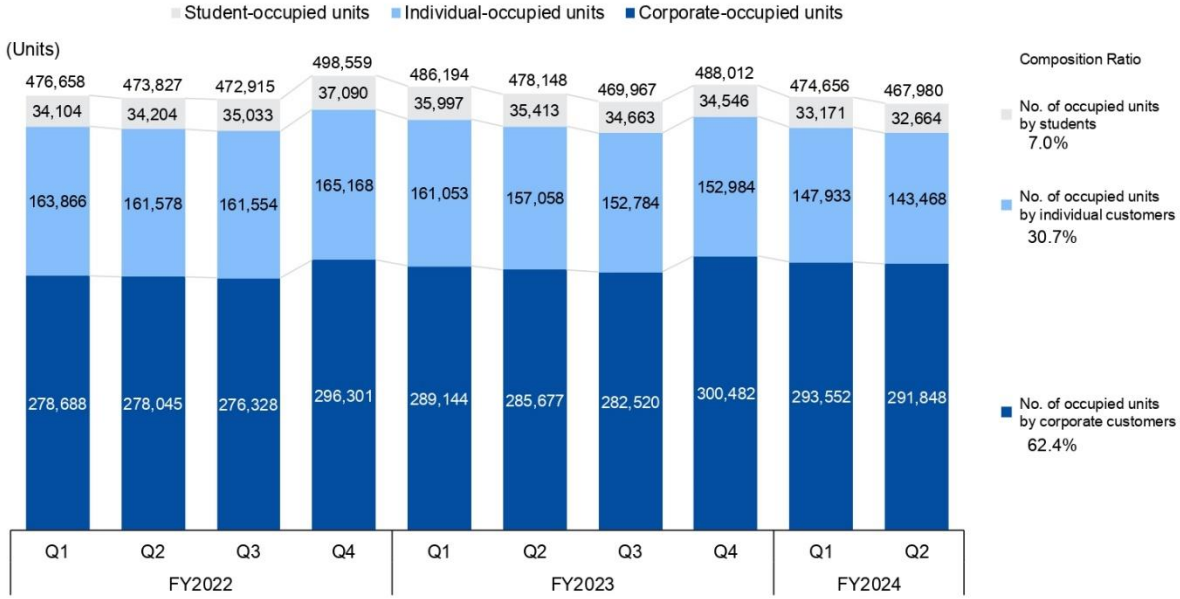


In terms of improving the quality of contracts, the Company attaches importance to profitable leasing contracts. Our contract plans include an ordinary lease contract, and a monthly lease contract, which is a fixed-term lease contract.

The monthly lease contract is an easy-to-use plan for business travelers and employees posted away from home, as it allows 30-day rentals. However, the short-term nature of this plan results in a high number of move-ins and move-outs, which increases costs, resulting in a low-profit plan. Therefore, the Company's policy is to increase profitability and improve quality by increasing ordinary lease contracts.

At the end of Q2, the occupancy rate for ordinary lease contract was positive 0.65 points YoY and the occupancy rate for monthly lease contracts was negative 1.2 points, in line with policy.

The composition ratio by the corporate customers reached the record high of 62.4%.



Looking at the number of occupied units by corporate, individual, and student demographics, the number of occupied units by corporate customers was the largest ever at 62.4%. It also remained at positive 2.7 points YoY.

Hospitality sector posted a large yearly growth due to increased acceptance of foreign national workers.
Construction sector's use of units reached record high due to increased construction projects.



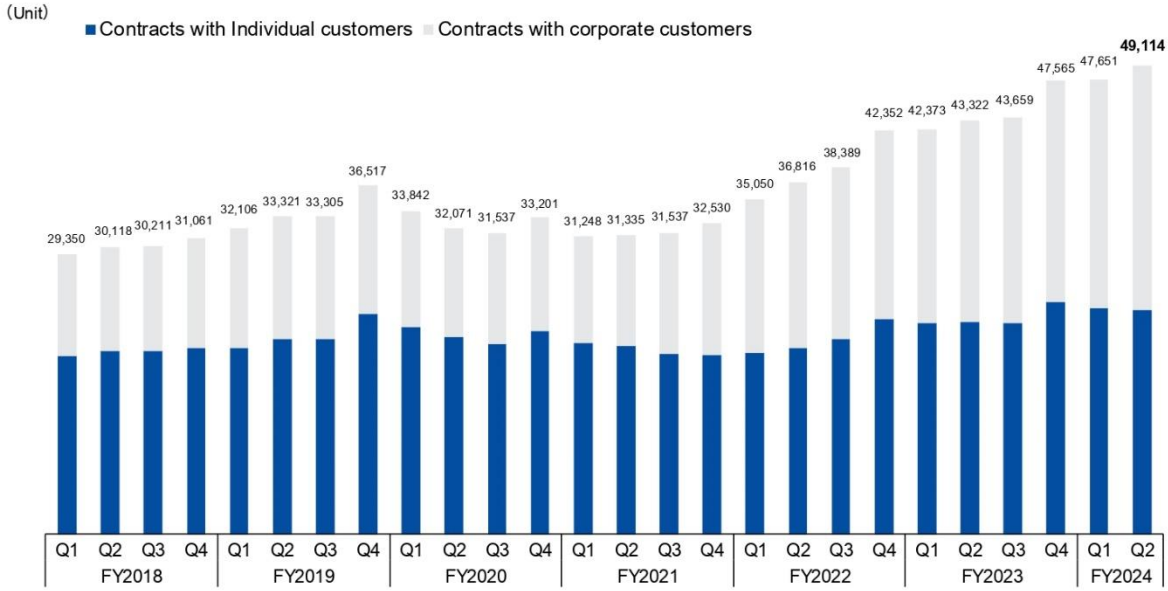
By industry, the hospitality industry grew significantly by positive 19.7 points YoY, while the staffing & outsourcing and construction industries also continued to perform well from Q1.

We recognize that these industries are associated with the active acceptance of foreign national workers due to the decline in the working-age population. Particularly in the construction industry, the main factor is the increased use of rooms in the civil engineering industry as well as the increased use by subcontractors of general contractors.

We will continue to approach the supply chain of companies, regardless of industry, to expand room use.

The negative growth rate also narrowed for the industries with negative YoY growth.

Number of units used by foreign national tenants was 49,114 at the end of Q2 FY2024 (+13.4 p from the end of Q2 FY2023 and +3.1 p from end of Q1 FY2024), which represented 10.5% of the total (+1.4 p from end of Q2 FY2023 and +0.5 p from end of Q1 FY2024).



Continuing on, I would like to explain the increasing number of rooms used by foreign nationals.

By the end of Q2, foreign national tenants accounted for 10% of the total number of units used, and the number of units used reached 49,114, the largest number ever. In the fiscal year ended March 2019, the number of units was 31,061, so this is an increase of about 58 percentage points from that time.

Also notable is the increase in contracts with corporate customers. Companies are now increasingly accepting foreign nationals. From 11,542 units in the fiscal year ended March 2019 to 25,672 units at the end of this Q2, the number of contracts with corporate customers has more than doubled in about five years.

For foreign nationals such as technical intern trainees, companies are required to provide housing and a living environment. Our apartments are furnished from the start with furniture, appliances, Internet, and smart locks so that they can move in and start living right away. This convenience has been well received by companies and has led to a significant increase in the number of units used by foreign national tenants in contracts with corporate customers.

We believe that demand in this area will continue to grow, and we will continue to implement measures to increase the number of units used by foreign national tenants in contracts with corporate customers.

Occupancy rates in Tohoku region and Kyushu region saw reduction due to completion of construction projects of factories and power plants.
Yamanashi and Miyazaki saw large increase YoY because of strong infrastructure related demand.

Q2 FY2024	Managed units	Occupancy rate	YoY	QoQ
Hokkaido	13	91%	+0p	+2p
Aomori	4	80%	−3p	+1p
Iwate	3	86%	−7p	+2p
Miyagi	9	78%	−5p	−1p
Akita	2	86%	−6p	−4p
Yamagata	4	80%	−7p	+0p
Fukushima	10	85%	+1p	+1p
Ibaraki	15	85%	−0p	−2p
Tochigi	11	79%	−3p	−2p
Gunma	11	80%	−2p	−2p
Saitama	45	87%	−0p	−1p
Chiba	33	86%	+4p	−2p
Tokyo	42	91%	+1p	−2p
Kanagawa	39	87%	−0p	−1p
Niigata	8	86%	+1p	−1p
Toyama	5	87%	−4p	−1p

Q2 FY2024	Managed units	Occupancy rate	YoY	QoQ
Ishikawa	5	87%	+0p	−5p
Fukui	4	82%	−0p	−1p
Yamanashi	4	94%	+9p	+1p
Nagano	11	88%	−4p	+0p
Gifu	7	83%	+0p	+2p
Shizuoka	24	79%	−2p	−1p
Aichi	40	86%	−1p	−1p
Mie	11	71%	−2p	+1p
Shiga	8	88%	−2p	−1p
Kyoto	9	88%	+2p	−1p
Osaka	30	86%	+2p	−1p
Hyogo	21	85%	+1p	−0p
Nara	3	85%	−5p	−2p
Wakayama	3	73%	−4p	−2p
Tottori	2	79%	−4p	−1p
Shimane	2	88%	−7p	+0p

Q2 FY2024	Managed units	Occupancy rate	YoY	QoQ
Okayama	11	80%	−2p	+2p
Hiroshima	13	85%	−3p	−2p
Yamaguchi	7	92%	+4p	+0p
Tokushima	2	72%	−5p	−0p
Kagawa	4	79%	+0p	−2p
Ehime	4	75%	−7p	−1p
Kochi	2	78%	−4p	−0p
Fukuoka	19	86%	−1p	−1p
Saga	3	87%	−1p	+0p
Nagasaki	2	75%	−15p	−6p
Kumamoto	7	86%	−7p	+1p
Oita	4	78%	+1p	−2p
Miyazaki	2	92%	+7p	+3p
Kagoshima	3	83%	−6p	−0p
Okinawa	5	98%	+2p	+0p
Total	550	85%	−1p	−1p

Page 18 shows units and occupancy rates by prefecture.

Overall, the YoY change was negative 1 point, but in prefectures with particularly large negative growth, this was due to a concentration of move-outs as construction projects, and other projects came to a close.

One example is Nagasaki Prefecture, which has experienced a significant decline due to factors related to development work around Nagasaki Station after the opening of the West Kyushu Shinkansen and the completion of the Nagasaki Stadium construction project. On the other hand, Yamaguchi and Miyazaki Prefectures continue to see strong demand for factory construction and other projects, while Yamanashi Prefecture is experiencing growth due to an increase in foreign students studying in the universities, in addition to similar construction factors.

We will continue to strive to improve occupancy rates by capturing demand ahead of time from the buoyant construction industry and temporary staffing and outsourcing-related companies, as well as demand from various companies for new graduate hiring and demand from current third year high school students and others seeking to enter higher education.

Estimated number of rooms requiring repairs: Approx. 5,100

Of the units requiring repairs, we expect to repair approximately **5,100 units**, including **4,675** units that have been confirmed defective and approximately **440** units that are assumed to be defective based on the past investigation results.

(As of October 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	62,397	58,841	2,900
Other Series Total	23,802	3,763	58,274	19,494	16,179	2,200
Grand Total	39,085	11,271	176,240	81,891	75,020	5,100

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

Finally, I will explain our construction defects management.

As of the end of October, the estimated number of rooms requiring repairs has decreased to 5,100 units. While we have made progress in investigating and repairing vacant rooms without delay, there have been cases where we have been unable to conduct investigation or proceed with repair works due to difficulties in negotiating with tenants who are still occupying the rooms.

In addition, there are cases where we have constructed properties that are now managed by other companies, not by us, and we sometimes face difficulties in dealing with the owners and tenants. As we have explained at the beginning of the report, construction defects management is a top priority of our management policy.

We will continue to negotiate these difficult cases with tenants and owners with speed and persistence, and in the event of continued difficulties, referring to the opinions of neutral third parties and others, we will definitely make every effort to eliminate the obvious defects by the end of 2024.

Currently, the Company is working to eliminate the obvious defects in construction by the end of 2024 as a top priority. In addition, the Company is working to maximize earnings through the implementation of an earnings optimization strategy centered on the Leasing Business. In anticipation of future business expansion, the Company has resumed, albeit gradually, taking orders for construction and other activities.

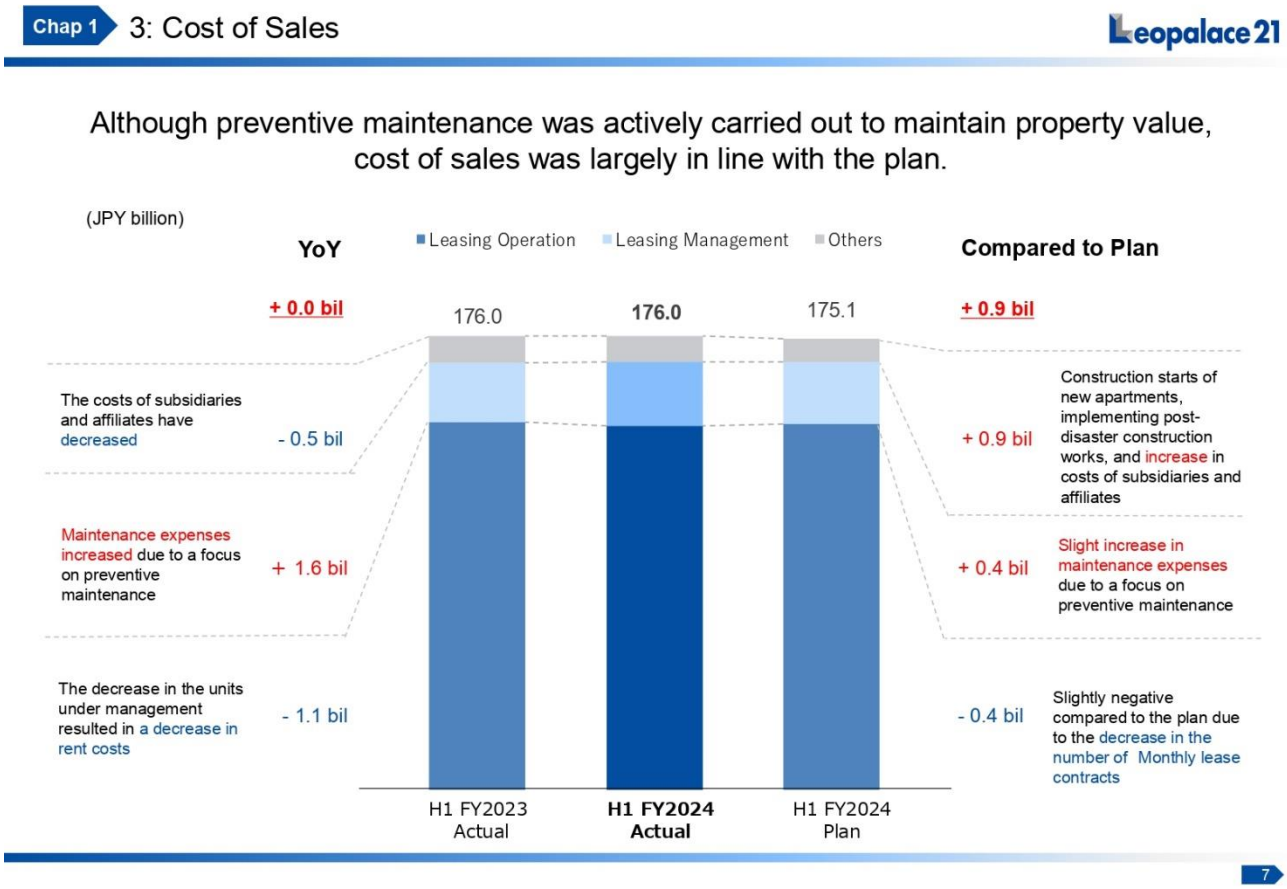
In addition, as we mentioned at the last financial results meeting, we have begun rebranding to rebuild our brand, which was damaged by the construction defects problem and other problems. This is not a top-down approach by management, but one that is employee-driven.

We will strive to improve our corporate value by creating an environment in which all executives and employees can work on these medium- and long-term issues.

After this, Takekura will provide an overview of the cost situation and the promotion of sustainability. That is all from me. Thank you for your attention.

Kaneko: Next, Mr. Takekura, 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. This is Takekura. I would like to explain the progress on cost and sustainability.



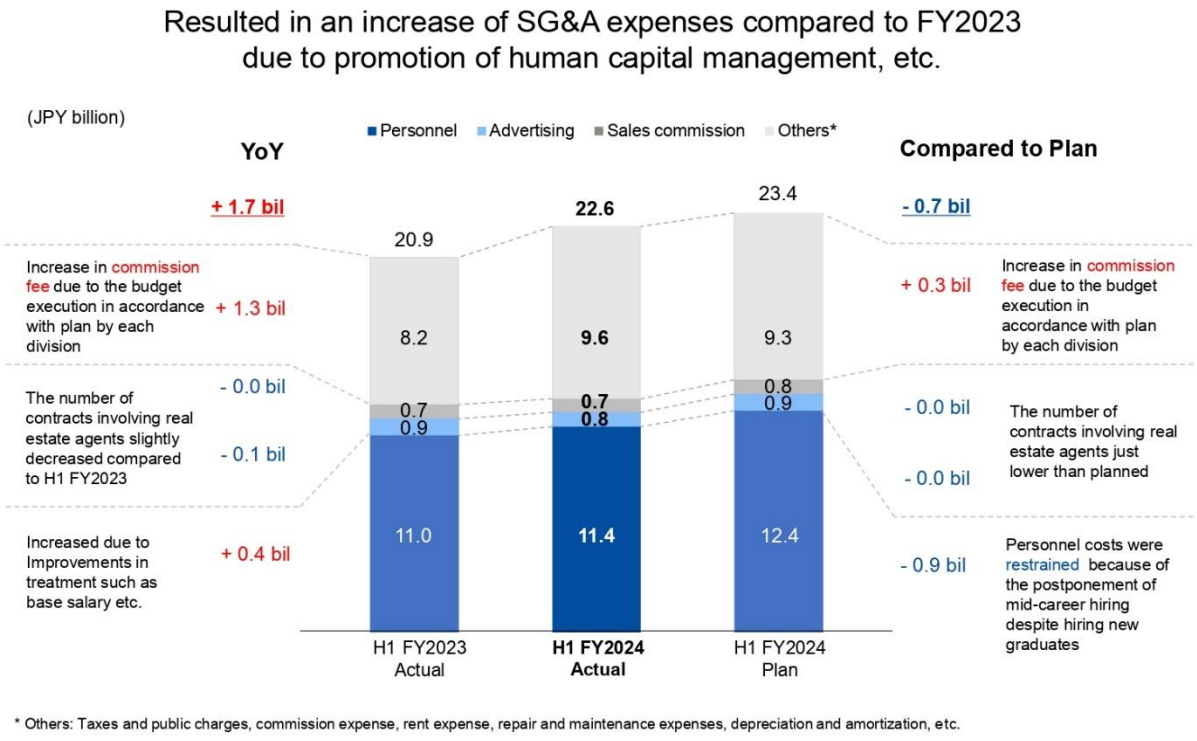
Please see page seven of the document.

Cost of sales remained almost in line with the plan, increased by 0.6% to JPY 0.9 billion compared to the plan. In the previous fiscal year, there was a delay in carrying out maintenance and other construction work, which resulted in a delay in the accrual of costs, but this has been resolved in the current fiscal year and the maintenance and other construction work has been proceeding as planned.

As stated in the presentation materials, in addition to the temporary cost before insurance covered of disaster restoration work, which was caused by flood damage, cost of sales has increased and occurred due to the resumption, albeit gradually, of orders for newly constructed rental properties, mainly for reconstruction.

In addition, as explained at the Q1 financial results meeting, we focused on property maintenance to maintain property values and provide comfortable housing for tenants, resulting in an increase of about JPY 400 million from the plan.

The Company continues to control low-profitable monthly contracts, and these costs are being held down. We will continue to promote appropriate cost control.



Page eight shows the status of SG&A expenses.

SG&A expenses are positive JPY 1.7 billion YoY but are currently negative JPY 0.7 billion in the plan due to the control of personnel expenses by the postponement of mid-career hiring, and are thus, in general, on track as planned.

In our management policy of promoting sustainability management, not because there is a recent trend in this area, but we recognize that human capital management is the most important issue, as well as the promotion of DX, etc., which will be explained later.

In particular, the hiring of new graduates resumed in April of this year, and nearly 150 have already been offered positions for next April, and are preparing to join the Company. We will continue to invest in human capital, including the training of new graduates, from a medium- to long-term perspective.

(JPY million)	End of FY2023	End of Q1 FY2024**	End of Q2 FY2024	QoQ
Cash and deposits	68,627	72,967	**76,580**	+3,612
Trade receivables	7,670	7,070	**7,139**	+68
Total assets	205,000	205,314	**208,137**	+2,822
Interest-bearing debt*	30,879	30,721	**30,698**	(22)
Provision for losses related to repairs	15,339	13,950	**11,001**	(2,949)
Provision for apartment vacancy loss	4,683	4,683	**4,683**	±0
Total liabilities	133,320	128,335	**124,198**	(4,137)
Common stock	100	100	**100**	±0
Capital surplus	30,121	30,120	**30,120**	±0
Retained earnings	32,867	37,332	**41,844**	+4,511
Treasury stock	(4,359)	(4,359)	**(4,359)**	(0)
Total shareholders' equity (A)	58,729	63,194	**67,705**	+4,511
Total accumulated other comprehensive income (B)	5,175	6,559	**8,564**	+2,005
Ownership equity (A) + (B)	63,904	69,753	**76,270**	+6,517
Equity ratio	31.2%	34.0%	**36.6%**	+2.6 p
Share subscription rights	242	242	**391**	+149
Non-controlling interests	7,532	6,983	**7,276**	+293
Total net assets	71,679	76,979	**83,939**	+6,959

Factors contributing to changes

■**Cash and deposits**
JPY +3.6 billion from the end of Q1 FY2024 due to income from Leasing Business.

■**Provision for losses related to repairs**
(current: JPY 2.8 billion; non-current: JPY 8.1 billion)
Decrease of JPY 2.9 billion from the end of Q1 FY2024 due to progress of repairs and a JPY 1.4 billion reversal of provision for losses related to repairs.

■Provision for apartment vacancy loss
(current: JPY 0.0 bil; non-current JPY 4.6 bil)
±JPY 0 compared to the end of Q1 FY2024
There was no change from the end of Q1 FY2024 due to the stabilization of rental income and expenses, significant fluctuations are not expected.

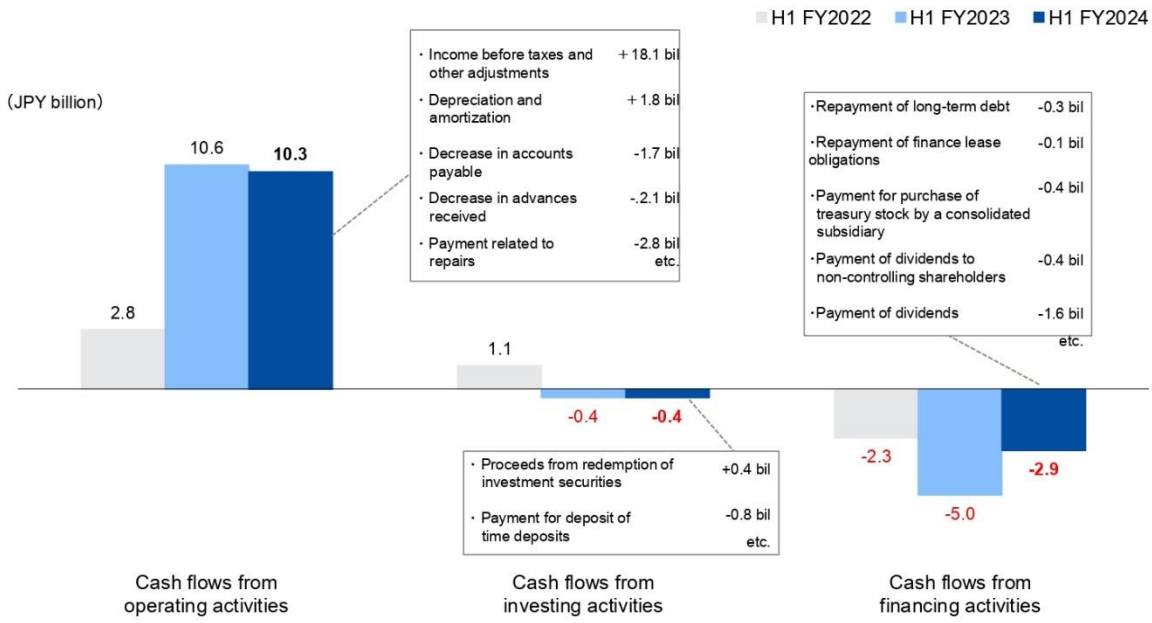
■**Retained earnings**
Recorded JPY +4.5 bil due to recording of net income.

■**Total accumulated other comprehensive income**
Due to the weaker yen, foreign currency translation adjustments were recorded JPY +2.0 billion from the end of Q1 FY2024.

* Interest-bearing debt = borrowings + lease obligations
**Correction of errors due to the recording of tax effects are underlined.

Page nine shows B/S results. With our core business continuing to perform well, retained earnings increased by JPY 4.5 billion QoQ. As Miyao explained earlier, the equity ratio was 36.6%. We will continue to strive for financial stability.

Through the generation of stable operating cash flow, cash and cash equivalents increased to JPY 75.2 billion.



Page 10 shows cash flows. Cash and cash equivalents totaled JPY 75.2 billion, an increase of JPY 7.1 billion from the end of the previous period. After the appropriate equity ratio has been established, how to use the funds to contribute to measures to increase corporate value, including shareholder returns, will be finalized.

Please see pages 20 through 23 for our progress on sustainability.

The number of apartment units with smart lock installed exceeded 280,000 as of end of September 2024.

Enhanced customer convenience



Start a new chapter of 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

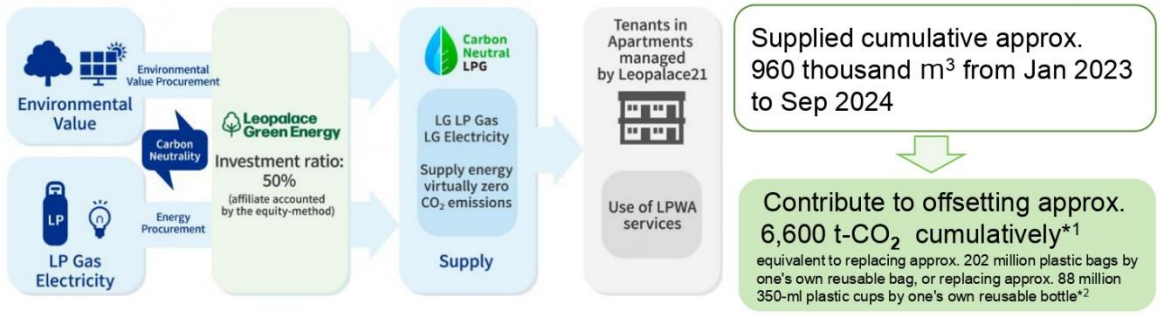
Improved productivity



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

Page 20 shows smart locks, which we have been working to introduce since 2022. The number of units installed exceeded 280,000, or slightly more than half of the number of units under management by the Company. Of the customers who signed contracts this fiscal year, 93% of the rooms were installed with smart locks. In addition, the installation of smart locks has also led to a significant reduction in work hours, contributing greatly to improved productivity.

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

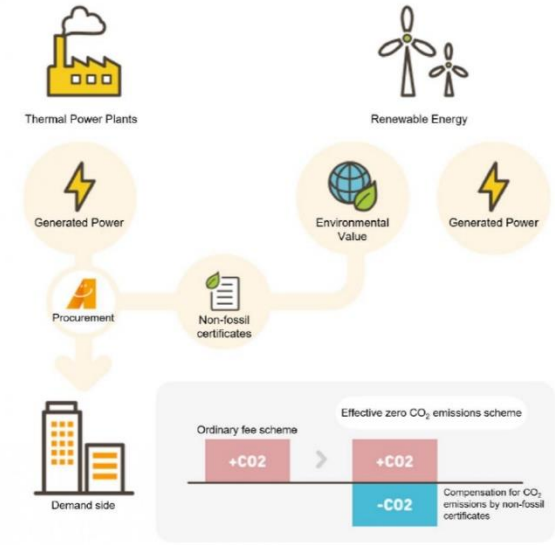
Page 21 shows the status of *Leopalace Green LP Gas* initiatives.

In an effort to reduce greenhouse gas emissions, for the properties we manage, we provide *Leopalace Green LP Gas* with virtually zero CO_2 emissions, and switch to an LPWA service, which allows for remote control of the gas meter.

Leopalace Green LP Gas offsets the generated CO_2 by carbon credits, resulting in virtually zero emissions. By using LPWA service, it will be possible to remotely read the numbers for gas, open and close the tap, etc.

As a result of these offerings, from January 2023 to September 2024, CO_2 emission reductions amounted to approximately 6,600 tons.

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.

In addition, as shown on page 22, the supply of *Leopalace Green Electricity* started in June 2024, and by combining it with non-fossil certificates, CO_2 emissions will be virtually zero for electricity use as well.

By supplying *Leopalace Green LP Gas* and *Leopalace Green Electricity*, we will provide rental housing with virtually zero CO_2 emissions. This initiative has attracted a great deal of interest from companies that use our managed properties for company housing, and they are using this service.

In the current fiscal year, we expect to supply nearly 75,000 units, thereby reducing CO_2 emissions by 81,993 tons per year.

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

Page 23 shows our efforts in the area of student scholarships, where repayment arrangements and other issues continue to be a social problem.

For our company, which deals with the infrastructure of housing, we support student advancement by free rental of properties whenever possible. We will continue our efforts to solve this social problem so that talented people with ambitions do not give up on higher education due to financial problems.

We are currently in the final selection process for new students for April 2025 and will begin accepting applications for the next academic year starting April 2026. Details will be announced on our corporate website when they are finalized.

There are 5.4 million rental housing units of 29 square meters or less in Japan, generally referred to as single occupancy properties. Of which 550,000 are managed by Leopalace21, i.e. one in every 10 households in Japan lives in a Leopalace21 apartment.

we will strive to improve our corporate value as a company that deals with housing infrastructure and aspires to be of service to society.

This concludes my explanation. Thank you for your attention.

Question & Answer

Kaneko [M]: We will now begin the Q&A session. Start with questions from Mr. Hashimoto of Mizuho Securities.

Hashimoto [Q]: Operating profit in Q2 was JPY 7.1 billion, compared to JPY 10.3 billion in Q1. Are there any special factors in terms of expenses other than seasonal factors such as occupancy rates?

Miyao [A]: On page six, there are quarterly figures. If you look there, you will see that in cost of sales in Q1 and Q2, or in SG&A expenses as well, there is no significant difference especially in Q1 and Q2. There are no special factors in that aspect.

Hashimoto [Q]: The number of units to be repaired has decreased to 5,100 as of October 31. With repairs of 1,500 to 1,600 units per month, there will be 500 to 200 units possibly remaining at the end of December, but will they be almost gone by the end of March 2025?

Takekura [A]: Takekura will answer your question. As for the status of repair works on construction defects, as noted, the current number of units assumed to be repaired is 5,100.

As a matter of fact, by the end of December, we are facing a situation where almost all of these units are occupied by the tenants and therefore, we cannot get into the unit for repair in any way. We are also conducting mediation by a so-called third-party organization, etc., to have the tenants move out, and regardless of the reasons, we will proceed with the repair work with the utmost care and attention. However, in the end, I think some numbers will remain at the end of December, although I can't speak specifically here yet.

We completely manage all the rooms one by one, and when tenants move or move out, we prepare ourselves to immediately start to repair the defects, while we have been asking them to move out.

We are doing everything that can be done by the end of December, aiming for final completion.

Kaneko [M]: Now, the next questions are from Mr. Tazawa of SMBC Nikko Securities.

Tazawa [Q]: Considering the good performance for H1, it appears that there is a possibility of considerable upward swing for the full fiscal year. Why did you leave the numerical plan unchanged, and is there any downside to the H2 plan?

Miyao [A]: The reason for leaving the full-year plan unchanged is not that we have anything in particular in H2, or that we see what we call a downward swing. Assuming that H1 was positive about JPY 2 billion and H2 would be as planned, the overall forecast is that there will not be a large increase for the full year, so we simply judged that we are not yet at the point of reviewing or revising the full-year plan.

As was the case last year, we believe that we will have clearer view after Q3, after January, whether or not the full-year plan can be revised.

Tazawa [Q]: On pages 12, 30, and 31, rents are on an upward trend, and considering the macro environment, such as labor shortages at factories and other worksites and the acceptance of foreign national interns, is

there still much room for rent increases? To what extent do you see the potential for growth in unit rents and operating profit per unit?

Takekura [A]: Takekura will answer your question. If you open the document to page 30, you will see that in terms of the average unit rent for new contracts, it has generally come back to the level of the fiscal year ended March 2017, before COVID-19.

From this point on, the unit rents in the Kanto area and a part of Kyushu, which is currently enjoying special demand, are still on the rise. In other areas, rents are almost as planned. The rent will be renewed every two years for the occupied units. We will secure the rents of those who are currently renting at a lower rate than the market at the time of renewal of every two years. In H2, we will work to secure the occupancy rate in particular as a matter of fact.

Tazawa [Q]: When you disclose FY2024 financial results in May next year, will you present some kind of medium-term plan for a period of three years? In doing so, is the idea that profit growth prospects and returns, such as payout ratio of 30 to 40%, will be indicated? You mentioned that securing the number of units under management is an issue, but have you found a way to deal with it?

Miyao [A]: Basically, in next May, we would like to announce a medium- to long-term management plan, whether it is for a period of three years or not. I think it will contain the items that Mr. Tazawa has just mentioned

In addition, we are currently working to secure the number of units under management by establishing a framework for resuming the development business this fiscal year. Basically, we have about 26,000 owners, and we are progressively rebuilding properties that are quite old and where the future prospects for rental demand are high. We would like to secure the number of units under management by focusing on rebuilding such properties.

Tazawa [Q]: Please tell us about the progress of the sale of non-core businesses, the three JVs in Singapore subsidiary, and the situation in Guam.

Takekura [A]: As for the overseas business you just mentioned, we are not moving forward with it at present. In particular, the Singapore subsidiary has three JVs, and we are working with almost the same company on these projects, which are located in Indonesia. We are in the process of working with the local law firm to which we have delegated these projects, while taking steps to implement an exit policy, since this is a non-core business.

In Guam, the market recovery is not as what was expected, and the number of visitors has not been increased, The Company is now reexamining the tactics of the withdrawal policy execution. We will update the situation going forward.

Kaneko [M]: Next, questions from Mr. Hashimoto of Mizuho Securities.

Hashimoto [Q]: By preparing a framework for resuming development business, do you mean that once the repair work is completed, it is possible to resume construction with sales of JPY 20 billion to JPY 30 billion per year, is that correct?

Miyao [A]: First of all, there are basically two elements in the framework preparation for resuming development business: one is the sales setup and the other is the construction setup.

First of all, with regard to the sales setup, many of our employees are involved in resolving construction defects, and I believe that from next year there will be people at the Construction Defects Response Headquarters who will return to sales of development business.

However, at present, the number of salespeople responding to owners is very small, and the number of owners handled by each salesperson is too large to meet every owner at least once a year. So first thing we need to tackle is the sales setup here.

I think we can make up for a certain part of the resources issue when the construction defects are completed, but even so, we now think moving people back is still not enough, and we need to improve it by another way including new hires and departmental transfers.

As for the construction setup, it is necessary to have so-called subcontractors to take on new construction work. Subcontractors will be like each local area's respective builders. However, the connections with such builders have become weaker with no business for the past four to five years and it is difficult to get their attention back to our business.

We have a certain number of backlog orders, and in parallel with the growth in the backlog, we are thinking of restructuring our construction setup.

Hashimoto [Q]: What is the status of the study on brand strategy formulation, and has a study team been set up, including younger employees?

Takekura [A]: You are absolutely right, and from this summer, for the past six months, we have been working with the employees to change our company into one in which the employees play the leading role, rather than a top-down approach, as President Miyao often refers to . The younger employees are now taking the lead in formulating a brand strategy.

In particular, we are almost finished with the establishment of our mission, vision, values, etc., from the fundamental point of view of what we should aim for as a company, and we will be putting it all together to make a final decision by the end of this year.

Based on this, we will now start from the question of whether or not we should really change the company/brand name as Mr. Hashimoto mentioned before, and we plan to draw a clear picture of what the company should focus after the problem of construction defects is solved. I hope you will be patient with us for a while.

Kaneko [M]: Next, questions from Mr. Tazawa of SMBC Nikko Securities.

Tazawa [Q]: What is the progress of the discussion on how to respond to Fortress's stock acquisition rights due for exercise in November 2025?

Miyao [A]: First of all, on this matter, there is no particular progress.

Both of us, we and Fortress may have own ideas about it, but we have not put anything on the table yet.

Tazawa [Q]: Please update us on the status of construction contracting and current orders, whose target is 50 or more for the fiscal year ending March 2025, and what is your current construction capacity?

Takekura [A]: In terms of construction contracting, of the 25 buildings for which we received orders in the previous fiscal year, construction has finally begun on some of them, so the contribution to the current fiscal year's results is only about JPY 800 million. We are just getting started.

The most important point is, as Miyao mentioned earlier, we are devoting a considerable amount of human resources to the construction defects problem, and almost no sales activities have been conducted as a result of allocating our resources for design, construction and customer interface to deal with construction defects problem. We have been accepting orders mainly for rebuilding since the previous fiscal year.

After the completion of the construction defects, we plan to reorganize the structure once more, centering on the employees who have returned from the construction defects response, to systematically create this development business framework, and to reconstruct the property to the satisfaction of the owner. We hope you will be patient for a while.

Kaneko [M]: Thank you very much.

Since there seems to be no additional questions, we will conclude the Q&A session and the briefing.

Thank you very much for attending today's financial results briefing for Leopalace21 Corporation for Q2 of the fiscal year ending March 2025.

[END]