Leopalace21 Corporation

Financial Results Briefing for the Six Months Ended September 30, 2025

November 14, 2025

Presentation

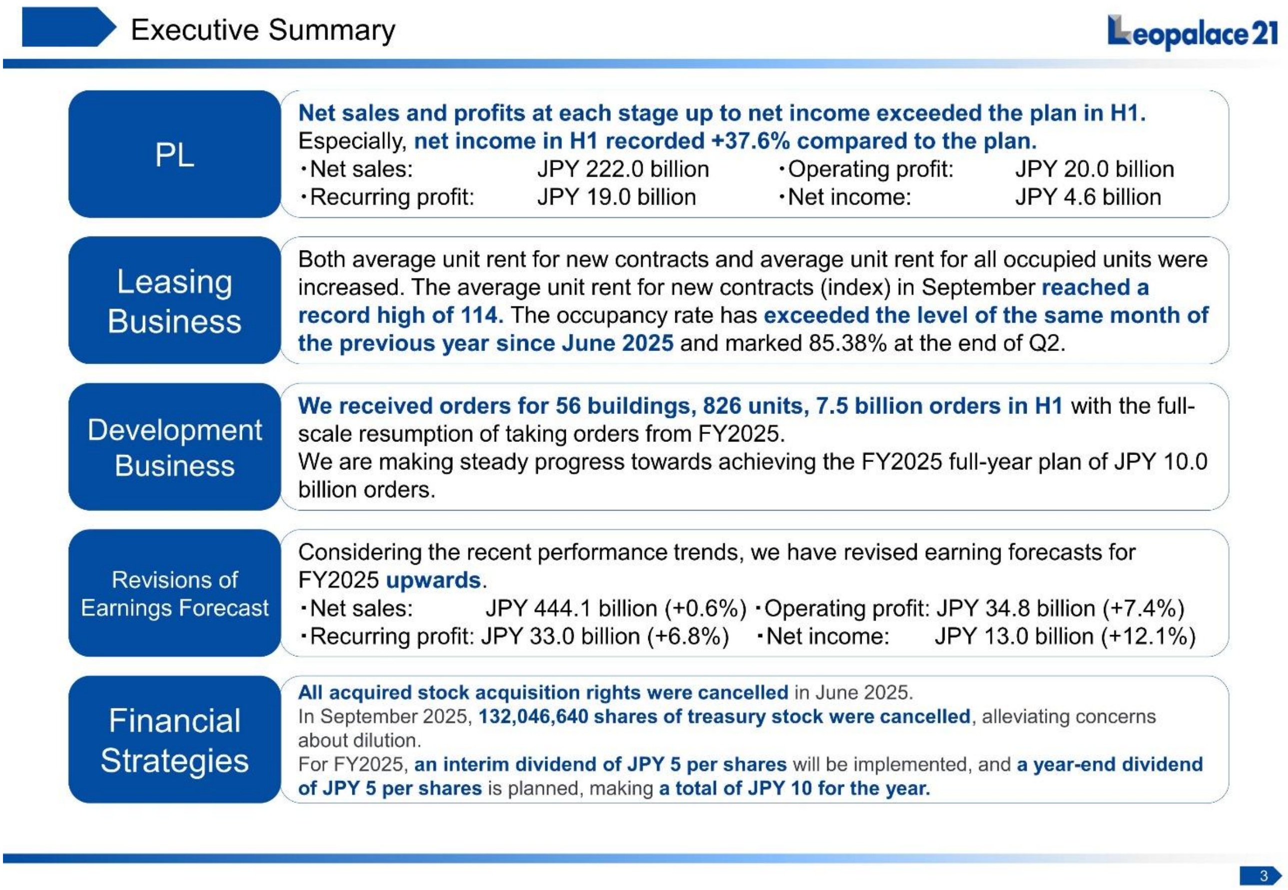
Sakamoto: Thank you very much for taking time out of your busy schedule today to participate in the financial results briefing of Leopalace21 Corporation for Q2 of the fiscal year ending March 31, 2026. My name is Sakamoto, and I will be your moderator. Thank you.

At today's briefing, Bunya Miyao, Representative Director, President and CEO, will provide an overview of the financial results and business conditions. In addition to Mr. Miyao, Shinji Takekura, Director, Chief of the Corporate Management Headquarters, will answer your questions. Questions and answers will be accepted in text format from Q&A.

The event is scheduled to end at 6:00 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.

I would like to present our financial results for Q2, and the status of our leasing and development business.



To begin, here is an executive summary of the current financial results.

For H1 of the fiscal year ending March 31, 2026, we reported net sales of JPY222.0 billion, operating profit of JPY20.0 billion, recurring profit of JPY19.0 billion, and net income of JPY4.6 billion, all of which were ahead of plan from sales to net income.

In the leasing business, both the unit rent for new contracts(index) and the average occupancy rate exceeded the plan in H1, driven by corporate demand. In September, the unit rent for new contracts (index) reached a record high of 114, while the occupancy rate has been higher than the previous year since June.

In the development business, orders for 56 buildings, 826 units, and JPY7.5 billion were received in H1, showing steady progress toward the achievement of the full-year plan.

In light of these developments, the Company today announced an upward revision to its full-year earnings forecast. Net sales are expected to increase by JPY2.7 billion to JPY444.1 billion, operating profit by JPY2.4 billion to JPY34.8 billion, recurring profit by JPY2.1 billion to JPY33.0 billion, and net income by JPY1.4 billion to JPY13.0 billion.

In addition, as I mentioned in the Q1 results, we executed the redemption of treasury stock acquisition rights in June. Then, in Q2, in September, the Company retired approximately 130 million shares of treasury stock.

As announced at the beginning of the fiscal year, the Company today resolved to pay an interim dividend of JPY5 per share. The Company plans to pay a year-end dividend of JPY10 per share, the same amount as the previous year.

Chap 1 **1. PL**

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(JPY million)	Comparison vs H1 FY2024 Actual		H1 FY2024 Actual	H1 FY2025 Actual	H1 FY2025 Revised Plan	Differences	
Net sales	+2.7%	+5,845	216,165	**222,010**	219,500	+2,510	+1.1%
Cost of sales	(0.3)%	(604)	176,082	**175,478**	176,100	(621)	(0.4)%
Gross profit	+16.1%	+6,450	40,082	**46,532**	43,400	+3,132	+7.2%
%	+2.5 p	-	18.5%	**21.0%**	19.8%	-	+1.2 p
SG&A	+16.9%	+3,828	22,655	**26,484**	25,400	+1,084	+4.3%
Operating profit	+15.0%	+2,621	17,426	**20,048**	18,000	+2,048	+11.4%
%	+0.9 p	-	8.1%	**9.0%**	8.2%	-	+0.8 p
EBITDA	+12.4%	+2,382	19,272	**21,655**	19,600	+2,055	+10.5%
Recurring profit	+13.7%	+2,297	16,729	**19,027**	17,100	+1,927	+11.3%
Net income	(55.9)%	(5,918)	10,596	**4,678**	3,400	+1,278	+37.6%
EPS (JPY)	(59.2)%	(19.75)	33.35	**13.60**	9.89	+3.71	+37.5%

Factors contributing to changes

■ **Net sales**
The average unit rent, primarily for corporate contracts, remained at a high level.

■ **Cost of sales**
Reversal of provision for apartment vacancy loss was recorded JPY 0.68 billion.
(No change in provision for apartment vacancy loss was recorded in FY2024, and none is planned for FY2025.)

■ **SG&A**
Increase from the previous year, driven by a rise in the number of employees and improvement of employee compensation and benefits.

■ **Non-operating expenses**
Interest expenses were recorded JPY 0.47 billion; a decrease of JPY 0.26 billion in YoY.
A commission fee of JPY 0.66 billion was recorded.

■ **Net income**
JPY 10.0 billion loss on cancellation of treasury stock acquisition rights was recorded as an extraordinary loss.
Income taxes were recorded JPY 3.7 billion.

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I will now explain the results for H1. See page five.

As I mentioned earlier, from net sales to net income, we achieved positive results compared to the plan. Although net sales and profit increased from the previous year, net income decreased due to the recording of a loss on redemption of treasury stock acquisition rights as an extraordinary loss in Q1.

First of all, sales were JPY222.0 billion. Although the average occupancy rate for H1 remained the same as the previous period, the continued upward trend in unit rent prices resulted in a 2.7% increase in revenues over the previous period. In addition, the ratio to the plan is plus 1.1%.

Cost of sales was negative by both compared to the previous year and to the plan, due to the provision of minus JPY680 million for apartment vacancy loss, which lowered the cost of sales. On the other hand, SG&A expenses were higher than both the previous year and the plan due to an increase in personnel expenses. As a result, operating profit was JPY20.0 billion, up 15% from the previous year and 11.4% from the plan.

Although non-operating expenses increased slightly from the previous year due to funding costs, interest expenses decreased by JPY260 million due to refinancing, resulting in ordinary profit of JPY19 billion. Although net income is down due to the cancellation of treasury stock acquisition rights in Q1, it is still a significant plus of 37.6% compared to the plan.

Chap 1 2. PL (Quarterly Comparison)

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Due to increase in unit rents from Q1 to Q2, we revised earnings forecast for FY2025 upwards.

JPY million	FY2024				FY2025								
	Q1	Q2	Q3	Q4	Q1	Q2		Q3		Q4		FY Total	
	Actual	Actual	Actual	Actual	Actual	Revised Plan May	Actual	Revised Plan May	Revised Plan Nov	Revised Plan May	Revised Plan Nov	Revised Plan May	Revised Plan Nov
Net sales	108,917	107,247	107,805	107,860	111,717	109,500	110,293	110,000	110,200	111,900	111,900	441,400	**444,100**
Cost of sales	87,519	88,563	88,399	90,054	86,659	88,800	88,818	88,700	89,000	90,500	90,400	355,300	**354,900**
Gross profit	21,398	18,683	19,405	17,805	25,058	20,700	21,474	21,300	21,200	21,400	21,500	86,100	**89,200**
SG&A	11,108	11,546	11,375	14,031	12,851	12,900	13,632	12,800	12,700	15,500	15,200	53,700	**54,400**
Operating profit	10,289	7,137	8,030	3,774	12,206	7,800	7,841	8,500	8,500	5,900	6,300	32,400	**34,800**
Recurring profit	10,244	6,484	8,151	2,055	11,516	7,400	7,510	8,100	8,200	5,700	5,800	30,900	**33,000**
Net income	6,084	4,511	4,795	2,469	525	4,200	4,152	4,800	4,900	3,400	3,400	11,600	**13,000**

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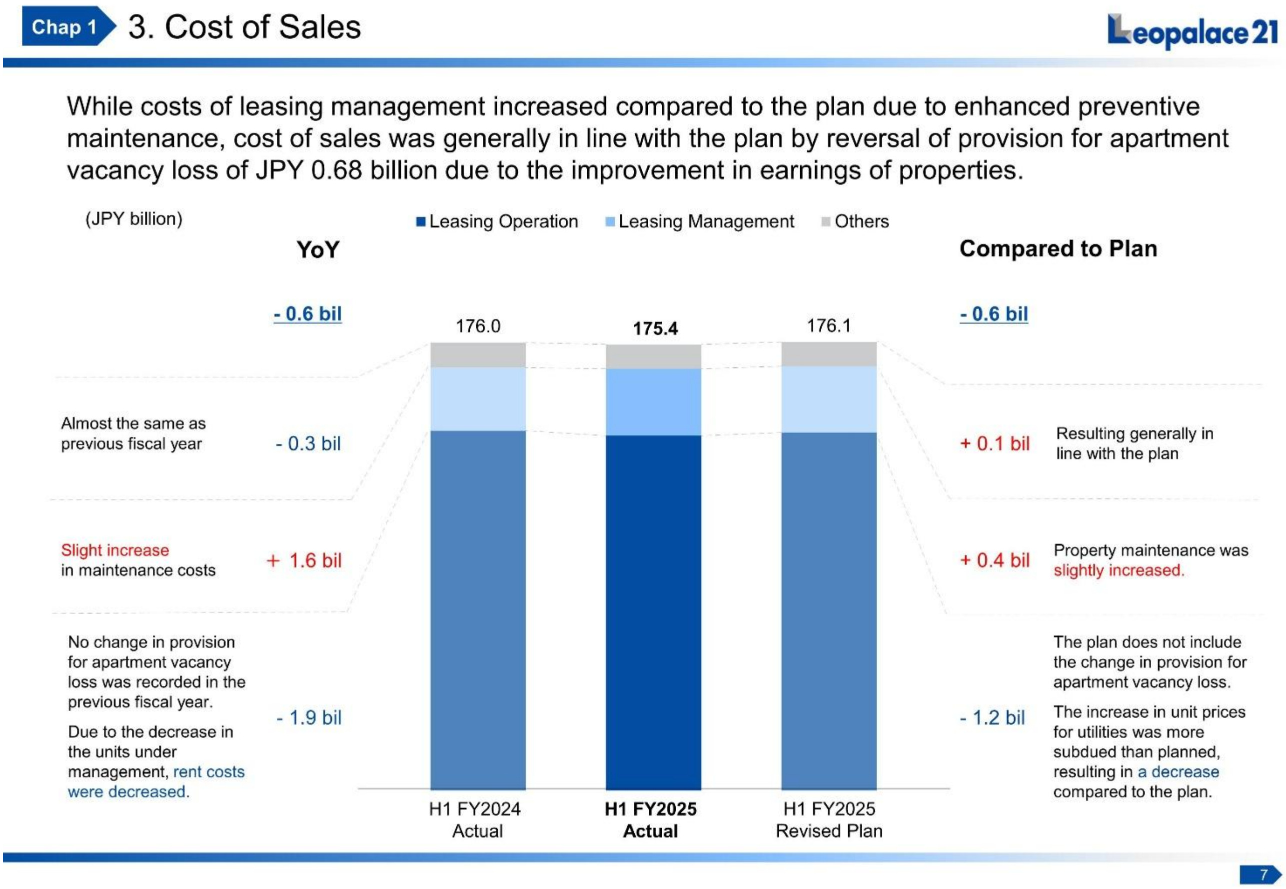
The quarterly performance slide on the next page explains the revision of the full-year forecast.

Sales were higher than planned, due in part to the upward trend in unit rent prices in Q1 and Q2. Despite a slight increase in SG&A expenses, each stage of profit was also positive compared to the plan. The full-year forecast has been revised mainly due to this upward revision in H1, and accounting has been adjusted with respect to Q3 and Q4.

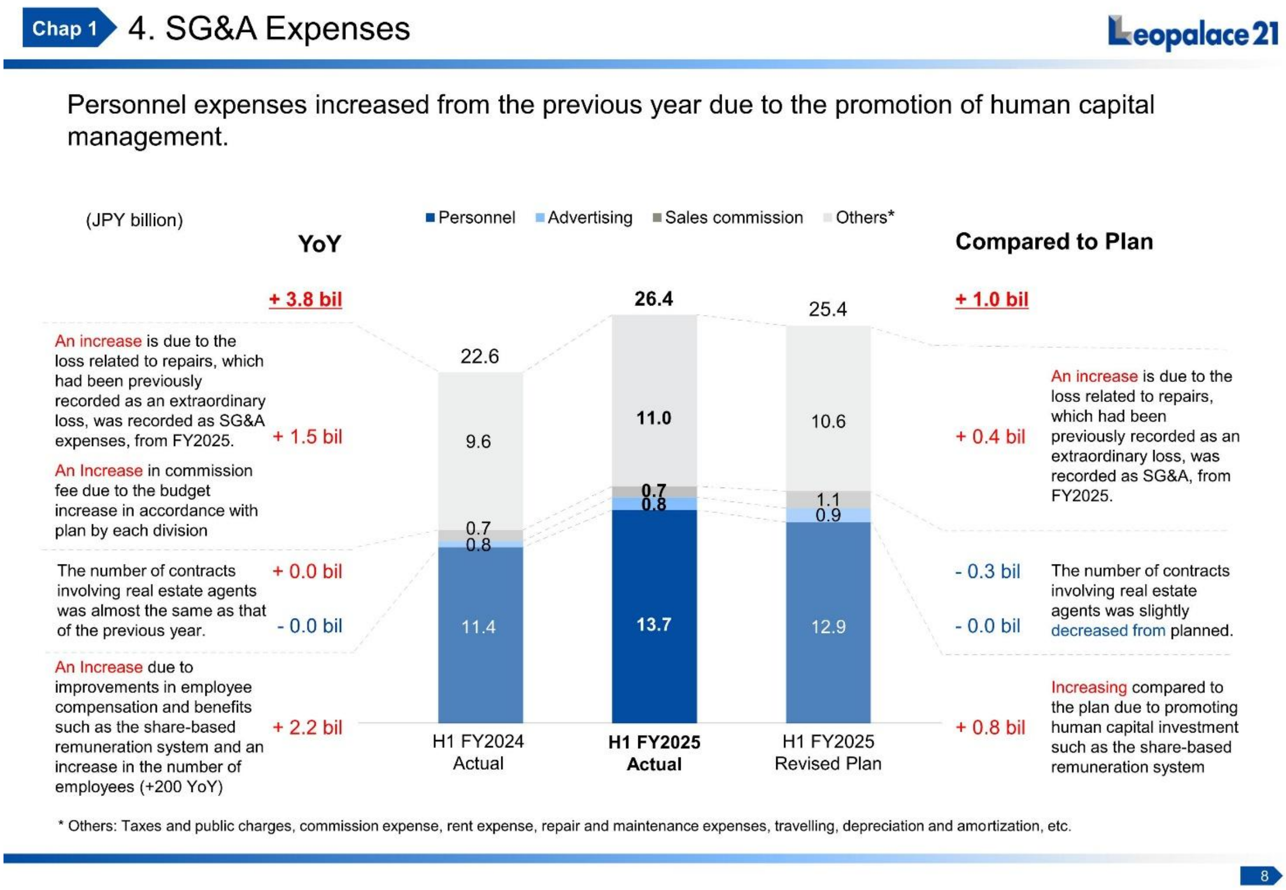
With regard to the forecast for H2, we are in the process of carefully assessing trends in the company housing business and other busy seasons for the next fiscal year in each industry sector. Our market is the demand for company housing due to the acquisition of new graduates, etc., and we are not making any major revisions, partly because we need to assess this market. Nevertheless, we believe that the current performance is solid and that the plan is conservative. We will steadily capture corporate demand and aim to achieve results beyond our plans.



Pages seven and eight show the status of costs, including cost of sales and SG&A expenses.

Cost of sales was generally in line with the plan due to a JPY680 million reversal of the provision for vacancy loss and lower-than-expected unit price hikes in utilities, despite an increase in rental management costs as a result of a similar focus on building maintenance.

With the resumption of our full-scale development business, the supply of new properties will gradually increase, but we will also continue to focus on building maintenance for existing properties in order to improve property values.



SG&A expenses were positive both in the previous year and in comparison with the plan, but this was due to an increase in personnel expenses, partly because of an increase in the number of employees and partly because of improvements in compensation, including the implementation of a stock-based compensation program. Rather than simply increasing costs, we see this as an investment in human resources that will support future business growth. We intend to continue to take various measures as part of our human capital management.

In addition to personnel expenses, other SG&A expenses increased from the previous period. However, these expenses, such as commissions paid as well as repair and maintenance expenses, are in line with the plan, which is the result of reviewing the budgets of each department, which had previously been restrained according to financial conditions, to appropriate levels according to corporate size and each department's efforts.

Chap 1

5. BS

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(JPY million)	End of FY2024	End of Q1 FY2025	End of Q2 FY2025	From the end of last quarter
Cash and deposits	88,408	105,460	**41,100**	(64,359)
Trade receivables	7,913	7,119	**7,133**	+14
Total assets	216,625	229,047	**160,748**	(68,299)
Interest-bearing debt*	31,630	31,528	**31,437**	(90)
Provision for compensation for completed construction	7,177	7,143	**6,968**	(175)
Provision for apartment vacancy loss	4,337	3,737	**3,651**	(86)
Total liabilities	128,356	124,904	**124,602**	(301)
Common stock	100	9,717	**100**	(9,617)
Capital surplus	30,120	39,736	**15,015**	(24,720)
Retained earnings	47,490	46,396	**17,729**	(28,667)
Treasury stock	(4,359)	(4,359)	**(8,753)**	(4,393)
Total shareholders' equity (A)	73,350	91,490	**24,091**	(67,399)
Total accumulated other comprehensive income (B)	7,918	6,668	**5,739**	(928)
Ownership equity (A) + (B)	81,269	98,158	**29,830**	(68,328)
Equity ratio	37.5%	42.9%	**18.6%**	(24.3) p
Share subscription rights	391	26	**26**	±0
Non-controlling interests	6,607	5,958	**6,289**	+330
Total net assets	88,268	104,143	**36,145**	(67,997)

* Interest-bearing debt = borrowings + lease obligations

Factors contributing to changes

■ **Cash and deposits**
Due to implementing tender offer for treasury stock, there was a decrease JPY 64.3 billion from the end of last quarter.
(Date of settlement: July 16, 2025)

■ **Provision for apartment vacancy loss (current: JPY 2.7 billion; non-current: JPY 0.88 billion)**
Due to the improvement in earnings of properties, there was a decrease of JPY 80 million from the end of last quarter.

■ **Common stock**
At the Ordinary General Shareholders' Meeting held on June 26, 2025; Reduction of the Amount of Common Stock and Capital Reserve was resolved and implemented.
(Effective date: July 31, 2025)

■ **Capital surplus**
While there was an increase by capital reduction and trust for share-based remuneration system, due to cancellation of treasury stock, there was a decrease of JPY 24.7 billion from the end of last quarter.

■ **Retained earnings**
While the quarterly net income was recorded, there was a decrease of JPY 28.6 billion from the last quarter due to cancellation of treasury stock.

■ **Treasury stock**
Due to the tender offer for treasury stock (JPY -71.5 billion), cancellation of treasury stock (JPY +67.8 billion), and trust for share-based remuneration (JPY -0.6 billion), there was a decrease of JPY 4.3 billion.

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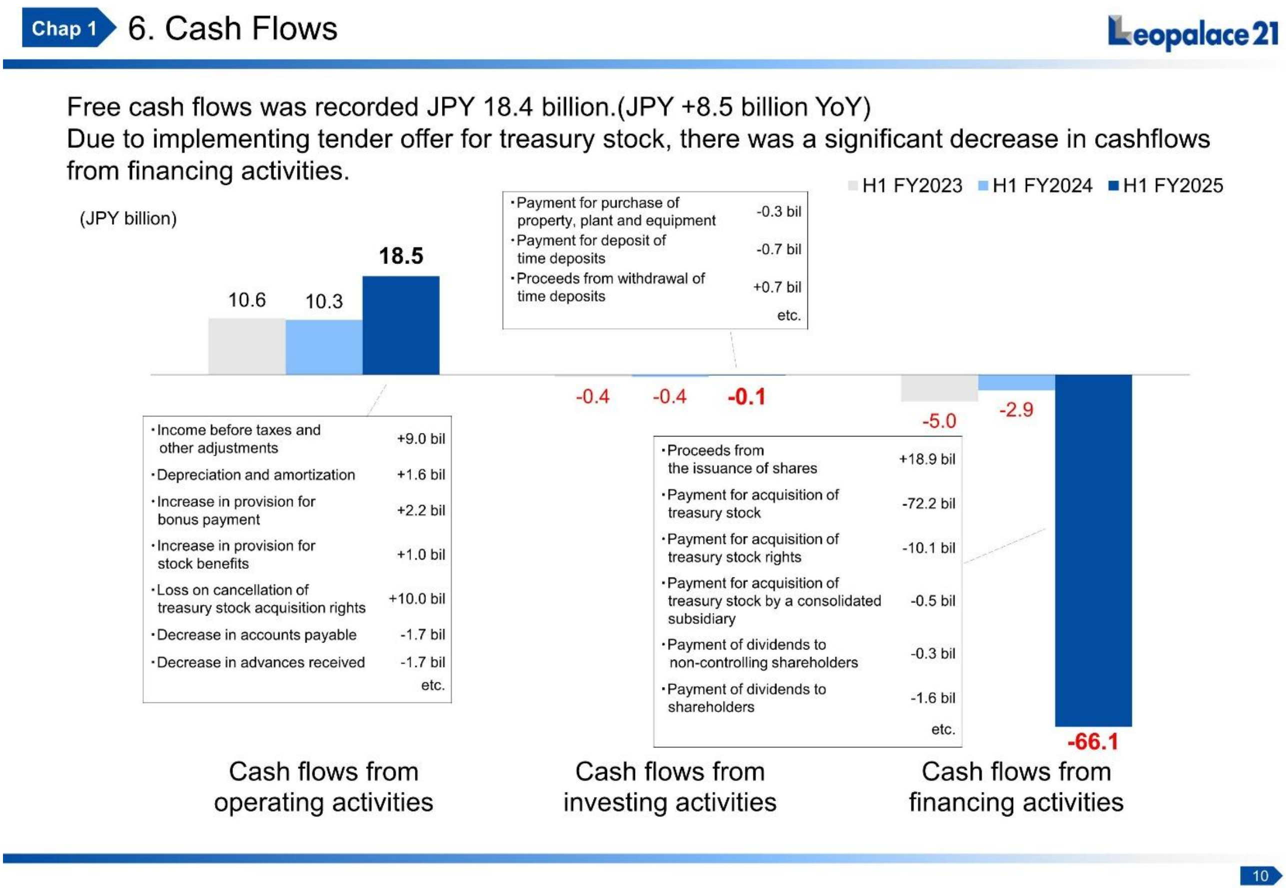
Next, I will report on the balance sheet. The Company conducted a tender offer for its own shares from May 28 to June 24, and the settlement date was July 16. As a result, cash and cash equivalents at the end of September decreased from the end of the previous quarter to JPY41.1 billion.

Net assets have shown significant fluctuations due to the implementation of several measures. First, the effective date of the capital reduction resolved at the annual shareholders' meeting was the end of July, and the capital was reduced to JPY100 million. Capital surplus decreased due to the capital reduction mentioned above and the increase from the stock compensation trust, while capital surplus decreased due to the cancellation of treasury stock in September. Retained earnings also decreased due to the cancellation of treasury stock, while profit was recorded. Treasury stock increased on a net basis due to tender offers and stock-based compensation trusts, while there was the cancellation of the treasury stock.



Page 10 shows cash flows. Operating cash flow was JPY18.5 billion. This is a significant increase compared to the previous period and the previous two periods, and it shows the results of steady improvement in profitability, especially in the leasing business. There was no significant movement in investment cash flow, while financial cash flow was significantly negative due to a tender offer for treasury stock.

This is all for our summary of the financial results.

1. Changes in Average Unit Rent for New Contracts

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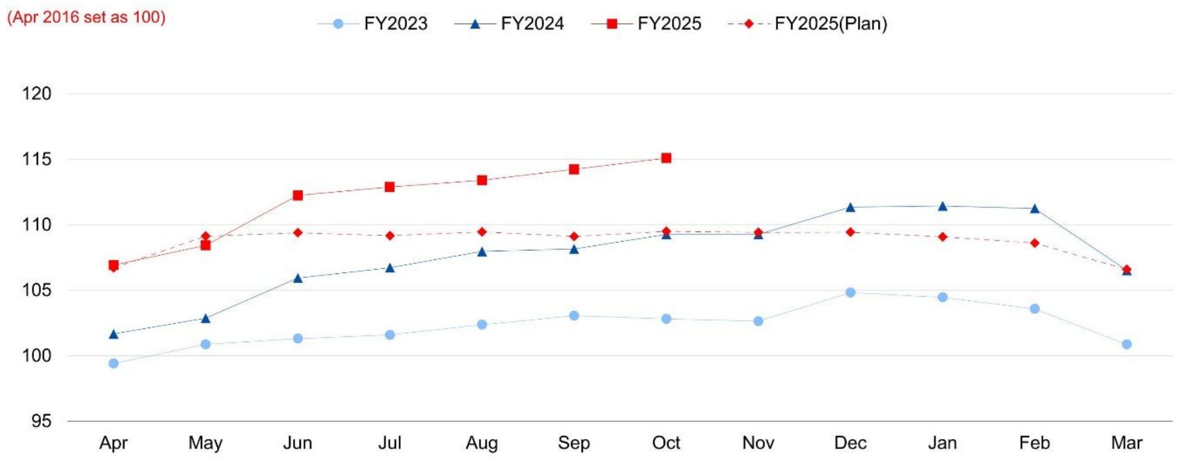
The average unit rent(index) for new contracts maintained high levels driven by corporate contracts, which led to achieving the index of all-time high 114.



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	FY Average
FY2023	99	101	101	102	102	103	103	103	105	104	104	101	102
FY2024	102	103	106	107	108	108	109	109	111	111	111	107	108
FY2025	107	108	112	113	113	114	115	-	-	-	-	-	-

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

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Now, on the business side, let me first explain about the leasing business.

As for the status of the average unit rent for new contracts, the upward trend continued in Q2 with the index at 114 in September. The index for October, released today, was 115, a new record high.

With corporate demand remaining firm, the effects of our pricing strategy are steadily becoming apparent, and our sales policy of not relying on excessive price reductions is gaining ground.

On the other hand, during the busy season, we are considering flexible measures to eliminate long-term vacancies depending on the situation, and we intend to continue to improve overall profitability while closely examining the balance between occupancy rates and profitability.

Chap 2 2. Movements in Occupancy Rate

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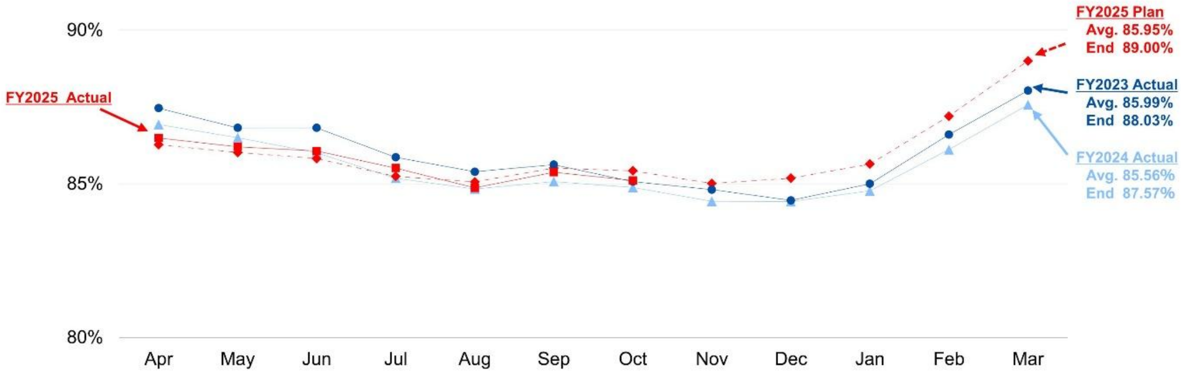
The increased orders from the corporate customers especially those hiring foreign nationals contributed to good performance. The occupancy rates for Q2 were higher than those recorded in the same quarter of the previous year.



	Apr	May	Jun	Apr-Jun Average	Jul	Aug	Sep	Jul-Sep Average	H1 Ave.	Oct	Nov	Dec	Jan	Feb	Mar	FY Average
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%	84.43%	84.42%	84.77%	86.11%	87.57%	85.56%
FY2025	86.49%	86.20%	86.06%	86.25%	85.51%	84.87%	85.38%	85.25%	85.75%	85.11%	-	-	-	-	-	-

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

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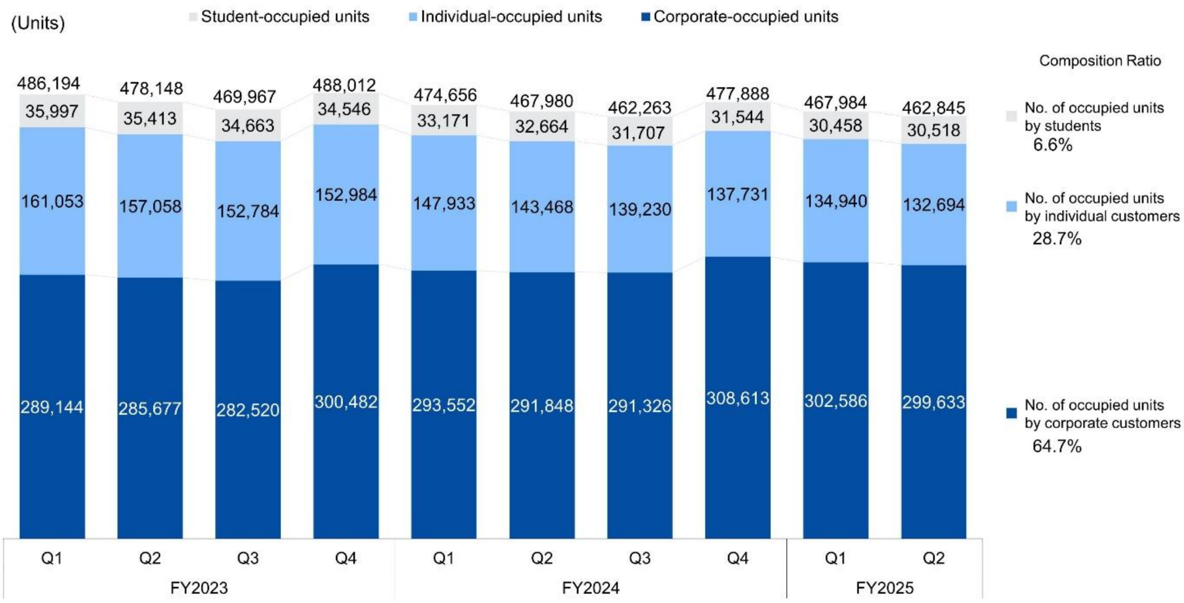
This is followed by the occupancy rate. Since June, the occupancy rate has remained positive compared to the previous quarter, reaching 85.38% at the end of September, and the average occupancy rate for H1 was 85.75%.

The trend shows that companies are increasingly hiring more foreign nationals across various industries, as was the case in Q1, due to labor shortages. This trend is accompanied by an increase in corporate contracts.

Chap 2 4. Shares of Occupied Units by Customer Segment

The composition ratio by the corporate customers reached the record high of 64.7%.
(+2.3 p YoY, +0.0 p QoQ)



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There was no significant movement in the composition by attribute, with the corporate use composition remaining at 64.7%, maintaining the level of Q1. While continuing to steadily capture demand for company housing, the Company will also strengthen its pricing strategy for individual and student contracts in areas where demand is limited in order to increase the number of units in use.

Chap 2 ## 5. Occupancy by Industry

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The hiring market remained robust due to increased demand for foreign national talents.
The hospitality industry saw a remarkable growth YoY, the same pattern continued from Q1.

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This 64.7% share is the usage status by corporate industry. In particular, the second orange area from the top shows that the hospitality industry has grown significantly, with an increase of 16.6% over the same period last year. The wholesale/retail and service sectors also performed well. As you will see on the next slide, the increase in employment of foreign nationals in the hospitality, wholesale and retail, and service industries is behind this increase.

On the other hand, the construction industry saw positive QoQ growth due to a demand associated with redevelopment projects and new factory construction, although some areas saw rooms vacated as construction work was completed.

Chap 2

6. No. of Units Used by Foreign Nationals

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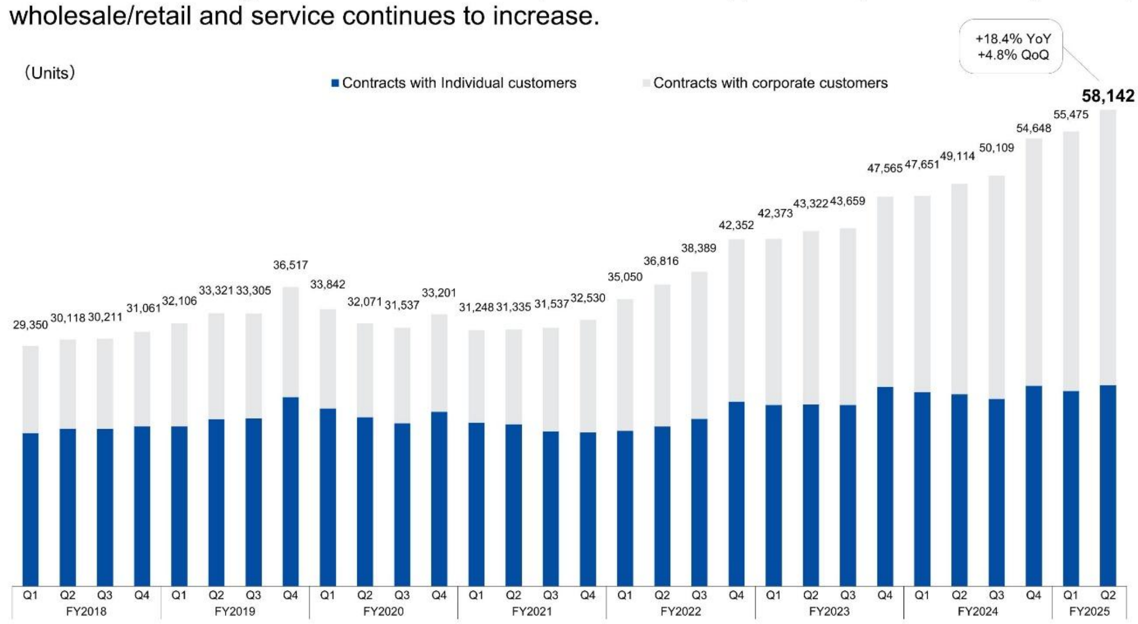
The number of units used by foreign national tenants reached a record high of 58,142, which represented 12.6% of the total.
The number of foreign national tenants in corporate contracts, particularly in the industry of hospitality, wholesale/retail and service continues to increase.



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The next page shows the number of units used by foreign nationals. The number of units used by foreign nationals totaled 58,142, representing a 12.6% share of the total number of units used, the largest ever.

As I mentioned earlier, this is due to the continued increase in the use of foreign nationals in corporate contracts, particularly in the hospitality, wholesale and retail, and service industries. As for the breakdown of foreign nationals' use, approximately 60% of the contracts are corporate contracts.

Chap 2 7. Units and Occupancy Rates by Prefecture

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The occupancy rates in the Tokyo metropolitan area recorded positive results YoY due to solid corporate demand. Aomori, Akita, Tottori and Shimane saw an increase both YoY and QoQ due to the demand for new construction projects such as factories and power plants. Yamaguchi and prefectures in Kyushu region saw a decline affected by completion of various construction projects.

End of Q2 FY2025	Managed units (thousand)	Occupancy rate	YoY	QoQ
Hokkaido	13	87%	−4 p	+0 p
Aomori	3	83%	+3 p	+6 p
Iwate	3	87%	+1 p	+1 p
Miyagi	9	77%	−1 p	−1 p
Akita	2	89%	+4 p	+2 p
Yamagata	3	79%	−1 p	−2 p
Fukushima	9	81%	−3 p	+1 p
Ibaraki	15	85%	−0 p	−1 p
Tochigi	11	78%	−1 p	−2 p
Gunma	11	79%	−1 p	−1 p
Saitama	44	90%	+3 p	+0 p
Chiba	32	90%	+4 p	−1 p
Tokyo	42	95%	+4 p	−1 p
Kanagawa	39	89%	+3 p	−2 p
Niigata	8	81%	−6 p	+1 p
Toyama	5	86%	−1 p	+3 p

End of Q2 FY2025	Managed units (thousand)	Occupancy rate	YoY	QoQ
Ishikawa	5	90%	+3 p	+2 p
Fukui	4	87%	+5 p	−3 p
Yamanashi	4	94%	−1 p	−2 p
Nagano	11	89%	+1 p	−1 p
Gifu	7	81%	−2 p	+0 p
Shizuoka	23	77%	−2 p	−1 p
Aichi	40	87%	+1 p	−1 p
Mie	11	69%	−2 p	−2 p
Shiga	8	89%	+1 p	+1 p
Kyoto	8	91%	+3 p	+1 p
Osaka	29	87%	+2 p	−0 p
Hyogo	21	85%	−0 p	−1 p
Nara	3	82%	−2 p	+1 p
Wakayama	3	72%	−1 p	+0 p
Tottori	2	82%	+3 p	+4 p
Shimane	2	94%	+6 p	+2 p

End of Q2 FY2025	Managed units (thousand)	Occupancy rate	YoY	QoQ
Okayama	11	78%	−2 p	−2 p
Hiroshima	13	83%	−1 p	−1 p
Yamaguchi	7	77%	−14 p	−1 p
Tokushima	2	72%	−0 p	−1 p
Kagawa	4	77%	−2 p	+1 p
Ehime	4	72%	−3 p	+0 p
Kochi	2	81%	+2 p	+2 p
Fukuoka	19	85%	−1 p	−2 p
Saga	3	71%	−15 p	−6 p
Nagasaki	2	79%	+4 p	+3 p
Kumamoto	7	79%	−7 p	−5 p
Oita	4	80%	+2 p	−3 p
Miyazaki	2	83%	−9 p	−4 p
Kagoshima	3	80%	−3 p	+1 p
Okinawa	5	98%	−0 p	−2 p
Total	542	85%	+0 p	−1 p

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Next is the occupancy status by prefecture. By region, the Tokyo metropolitan area showed steady growth. In conjunction with the influx of population, the use of our rooms is showing a steady growth.

On the other hand, while some areas have been affected by vacancies due to the completion of construction work, there has been an emerging demand related to factories and power plants in Tohoku, such as Aomori and Akita, and San-in areas, such as Tottori and Shimane, which has contributed to an improvement in the occupancy rate. We will continue to closely monitor demand trends by region and appropriately apply pricing and sales policies.

1. Order Receipt Plan and Rate of Progress

Chap 3

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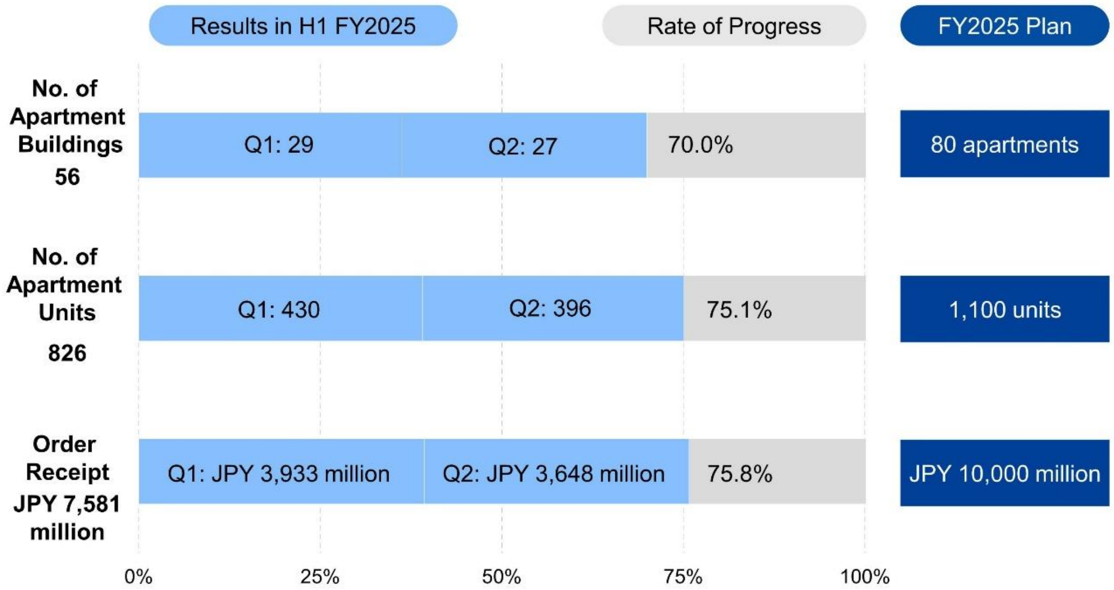
Progress is steady toward achieving the full-year order receipt plan. For FY2025, the first year of full-scale resumption, we are conducting order acquisition activities in the Tokyo metropolitan area and Nagoya.



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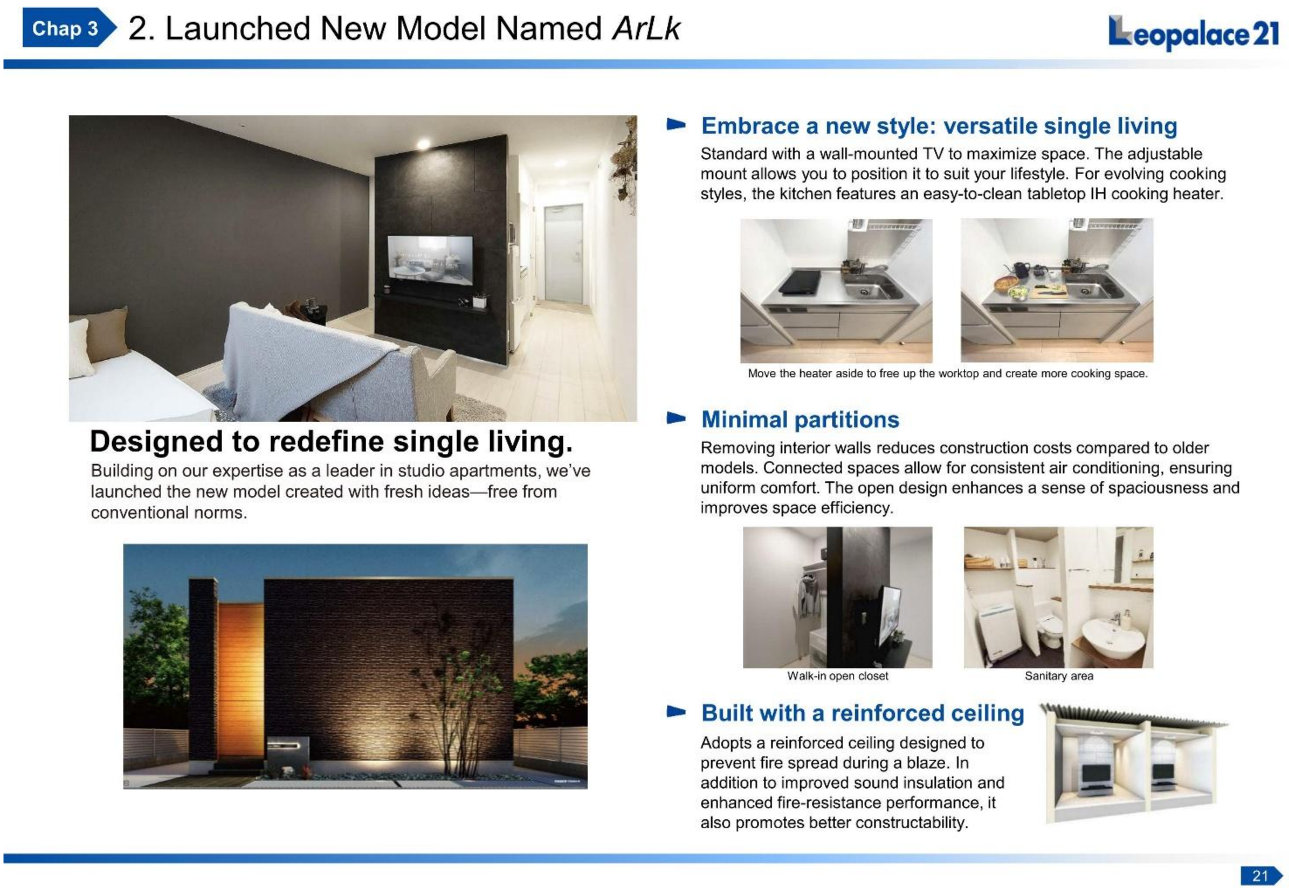
Starting on page 19 is the status of our development business. Q2 also progressed steadily, with cumulative orders received for 56 buildings, 826 units, and JPY7.5 billion in H1. Progress toward the full-year plan is in excess of 70% for all items.

Amid the favorable market environment, including demand trends and the lending attitudes of financial institutions, we will place the highest priority on maintaining construction quality and will steadily put order receipt to construction start and completion at a reasonable pace by thoroughly implementing a construction management system and quality governance, including third-party checks.

In the current fiscal year, the first year of full-scale resumption of development business operations, we are taking orders mainly in the Tokyo metropolitan area and Nagoya area, and we intend to strengthen our structure in order to expand our service area.

Incidentally, about 70% of the 56 buildings in H1 were reconstructions of our existing properties. More than half of the orders are for inheritance tax measures, and about 30% are for responding to aging of the existing properties.



The next slide shows the contents of the new products that are being built from this fiscal year. The product is named *ArLk*.

This new product is a new concept that combines both design and functionality compared to conventional apartments for singles and is designed to meet the needs of new lifestyles for single people.

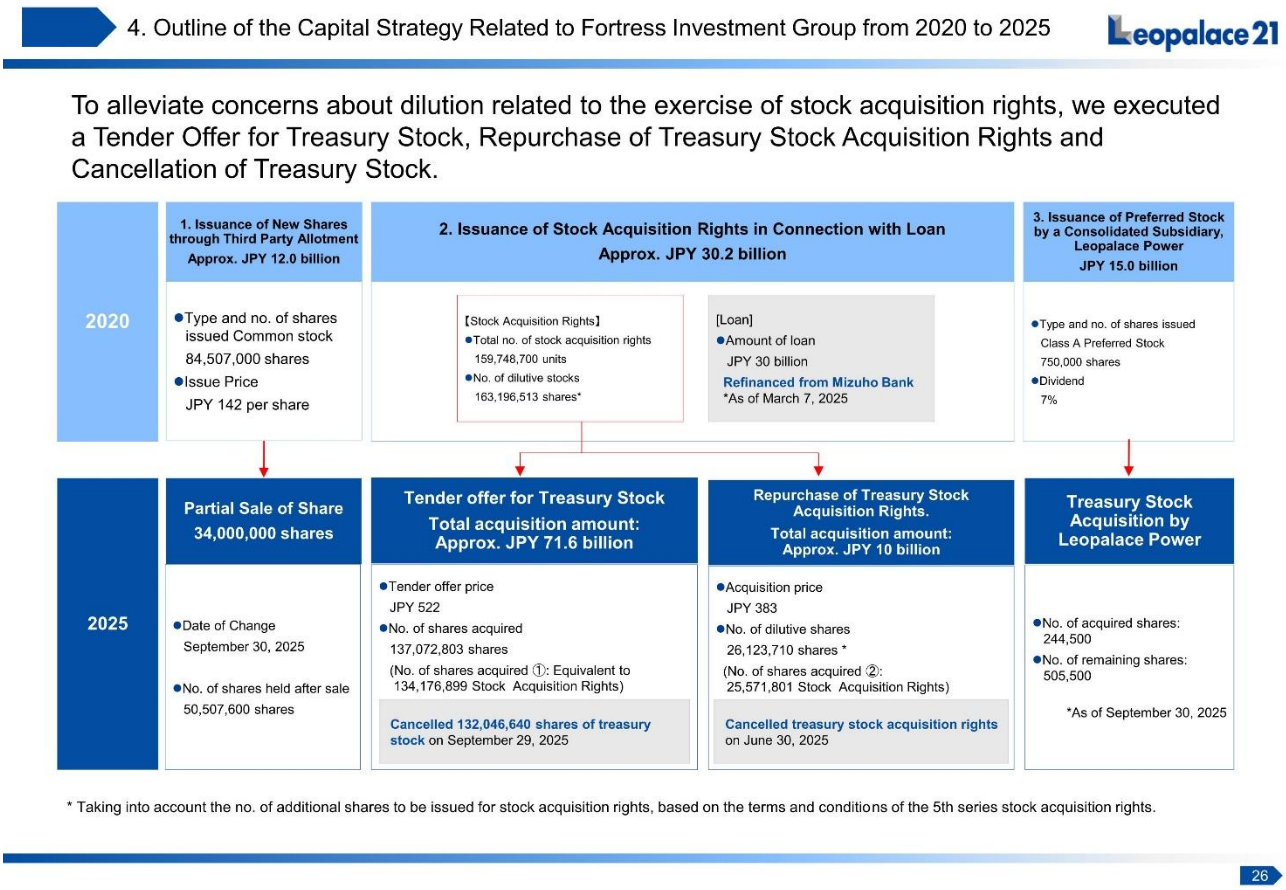
First, we designed comfortable living spaces to suit the tenants' lifestyle by enhancing spatial performance. For example, the TV in the living room is wall-mounted for efficient use of space. Since the wall-mounting TV is movable, the place and angles can be adjusted to suit the viewing location and lifestyle.

On the right side, as recently reported in the media, there has been an acceleration in the shift away from stoves, and to address this issue, the kitchen has a movable IH cooktop. By moving it, the kitchen can be used more spaciously, and it is also possible to heat pots and pans in the living room, for example.

It is designed with fewer interior fittings. It was designed to create a space that emphasizes a sense of openness. For example, the storage space on the left side was previously a closet with a door, but the new product uses an open closet. The plumbing facilities area is designed as a combined space to create a hotel-like atmosphere. The reduction in the number of these fixtures has led to a reduction in construction costs compared to older designs.

As for the structural aspect, reinforced ceilings are used. Reinforced ceilings are designed to allow for advanced and flexible design specifications, ensuring sound insulation while improving fire performance and ease of construction.

We will continue to strengthen our development business through *ArLk*, a product that creates new value for single living.



The following section will discuss capital policy as topics related to financial strategy. On page 26, the first section at the top provides an overview of the overall financing that was implemented in 2020.

We raised a total of approx. JPY57.2 billion in 2020 and secured financial soundness at that stage. On the other hand, there were continuing concerns about dilution of shares for the current term, which is the deadline, following the issuance of stock acquisition rights. The Company has systematically implemented several measures to address this concern.

First, although not directly related to dilution, we refinanced the loan portion of the loan with stock acquisition rights with Mizuho Bank in March this year. In May and June, we proceeded with a tender offer for our own shares for acquisition and cancellation of treasury stock acquisition rights, in order to respond to this dilution issue.

Furthermore, in September, the acquired treasury stock, approximately 132 million shares, was cancelled. Although the shares acquired through TOB were temporarily held as treasury shares, we believe that the dilution concern has been completely eliminated by this cancellation in September.

In 2020, Chidori Godo Kaisha, an affiliated entity of Fortress Investment Group, was the largest shareholder in the company through a third-party allotment, and some 34 million shares were sold at the end of September. At that moment, the company’s holdings are reduced to 50.5 million shares, resulting in a change in the largest shareholder.

Regarding the subsidiary’s preferred shares on the far right, the issuer, Leopalace Power, a solar power generation subsidiary, has been regularly repurchasing its own shares, and at this point, there are still over 500,000 shares remaining, compared to the 750,000 shares of preferred stock issued.

That concludes my explanation.

Next month, December, will mark the entrance of the busy season in earnest. In particular, the response to new graduates hiring at various companies will be in full swing from December. Although we were able to achieve better-than-planned results in both the leasing and development business, which are the two wheels of our business model, in H1, the entire company will continue to work toward the busy season from January to March without losing our energy. Thank you for your attention.

Question & Answer

Sakamoto [M]: We will now begin the question-and-answer session. Now, a question from Mr. Tazawa, SMBC Nikko Securities.

Tazawa [Q]: This upward revision, operating profit of JPY2.4 billion and net income of JPY1.4 billion were raised. The upward revision, plus JPY2.04 billion in operating profit and plus JPY1.27 billion in net income, seems to be a direct addition to the full-year plan, but don't you believe H2 will exceed the initial plan by as much as H1? If so, I would like to know why.

Miyao [A]: As I mentioned earlier in my explanation, in the case of our company, the trend of new graduates hiring at various companies is the most important factor, especially when it comes to acquiring new graduates in H2.

However, this is only at the planning stage, and we are still interviewing each company about the number of new graduates they plan to hire, and the number of companies that have a high probability of actually hiring graduates. We are interviewing each company about these planned figures.

Since we have not yet been able to determine the figures that exceed our initial assumptions, we have decided to keep the figures as originally planned for H2. However, as I mentioned earlier, we consider this to be a conservative level, and we will naturally strive to exceed this level in our sales activities.

Sakamoto [M]: Now, the second question from Mr. Tazawa, SMBC Nikko Securities.

Tazawa [Q]: At this time, the annual dividend plan remains unchanged at JPY10 per share. Due to the Company's approach to future returns and its response to dilution, share buybacks and capital reductions have been implemented, resulting in a significant decrease in ownership equity. I would like to know if there are any restrictions on shareholder returns, while also taking into account the status of consolidated and non-consolidated ownership equity.

Takekura [A]: The issues of dividend payout ratio and shareholder return were discussed at the Board of Directors' meeting held today before the disclosure of the financial results. We have not changed our current policy of a 30% dividend payout ratio for the fiscal year ending March 2028. In H1 alone, the dividend payout ratio was almost 29%, which is temporary, due to a special event, such as the tender offer for and cancellation of stock acquisition rights.

As for the shareholder return, the total shareholder return ratio temporarily stands at around 1,200% due to the distortion from the said event, but we are planning to achieve the maintained dividend payout ratio at the end of this term, after a certain recovery of shareholders' ownership equity and based on the new final landing plan we have just formulated.

Going forward, although our current business model does not necessarily require large amounts of cash on hand, as long as we clearly identify growth opportunities where allocating funds would enhance corporate value, we will proactively direct resources to those areas.

Sakamoto [M]: Now, the third question from Mr. Tazawa, SMBC Nikko Securities.

Tazawa [Q]: The number of foreign national tenants is increasing, 12.6% of the total, will the pace of increase accelerate in the future? On the other hand, there has been some discussion about the new Takaichi administration's restrictions on foreigners; will this have any impact?

Miyao [A]: First of all, as a fact, the number of new foreign nationals' arrival is in the high 300,000 range annually in and after 2022.

The new foreign entrants referred to here are limited to those who may potentially use our housing services, namely, specified skilled workers, technical intern trainees, and international students. Out of the roughly 360,000 to 380,000 people in these categories, the number we have handled so far is only about 60,000. We do not expect a significant decrease in this immigration trend, so we believe that the number of our tenants in this aspect of the business will increase.

However, as you mentioned, the new administration of Takaichi is concerned about restrictions on foreigners, but the focus is more on the problems of acquiring real estate in Japan.

In addition, since we are not concerned about visa issues or illegal immigration, there should not be a major impact in this area.

We have been employing foreign nationals and contacting foreign tenants directly in their native languages to ensure that there are no problems, including in the surrounding neighborhood.

Sakamoto [M]: Now, the fourth question from Mr. Tazawa, SMBC Nikko Securities.

Tazawa [Q]: Page 12 of the presentation, the average unit rent for new contracts are considerably higher than planned, and the index of the average unit rent has risen to 115. Can it be raised further in line with inflation, 2% to 3% per annum, in the future?

Takekura [A]: Regarding your question, I think you are saying that we should rather revise the planned average unit rent for new contracts. This is described in the text of the Notice Concerning Differences between Earnings Forecasts and Actual Results for the First Half and Revisions of Earnings Forecasts for FY2025.

We mentioned earlier that rent levels have been on a steady upward trend thanks to our ability to accurately capture the firm underlying demand from corporate tenants. This is exactly the case, starting with our most popular properties, we implemented a confident and disciplined pricing strategy, led by our top sales activities. As a result, we were able to achieve the current rental market levels. One of the reasons why we did not revise the average unit price for new contracts for the full-year estimate is that many of the remaining vacancies are relatively low unit price properties.

In addition, there are some properties that remain vacant for a long period of time, and by bringing in tenants, even with lowered rent, we can expect an increase in profitability, against the background of the master lease amount being paid as rent to the apartment owners. This helps to reduce the cost of operation itself. As mentioned earlier, there was demand for occupancy during the busy season, so we did not dare to make any modifications.

With Inflation element being considered, we are implementing the best possible countermeasures.

Sakamoto [M]: Now, the next question is from Mr. Ozawa, SBI Securities.

Ozawa [Q]: What is the profit margin on the JPY7.6 billion in orders received in H1?

Miyao [A]: The profit margin is roughly 15%. In response to rising costs, as I mentioned earlier, we are primarily rebuilding the existing Leopalace21 properties.

While the rent paid to owners in some locations has not changed significantly, when you consider the cost per unit, or rather the amount of orders received, when built 25 or 30 years ago, from the owner's point of view, it is hard to see how the very high yields of the past could be cut in half. I don't think this is reflected in the profit margin yet.

However, since we have resumed development business this year, we must first control costs by increasing this number by a factor of 10, hypothetically speaking. Therefore, the profit margin at this stage is at a minimum, and we intend to aim for volume discounts as order activity becomes increasingly active.

Sakamoto [M]: Now, the second question from Mr. Ozawa, SBI Securities.

Ozawa [Q]: With the resumption of the development business, how much of the decrease in profit will be due to upfront costs in the fiscal year ending March 2026?

Takekura [A]: As I mentioned earlier about the development figures, this has already been factored in as a conclusion. Comparing between H1 FY2024 and H1 FY2025, SG&A expenses were JPY3.8 billion higher for H1 FY2025.

As shown in the material, most of these expenses are personnel costs, which are due to the increase in the number of employees before the startup of the development business, bonuses and pay increases, etc. Therefore, there will be no impact on the P&L as a factor for the decrease in profit.

In the fiscal year ending March 31, 2026 and beyond, as we continue to contract for our development business, there is a possibility that we will invest in our own properties in some areas where demand is extremely strong, as a part of our "development" business and there are cases when we will use the funds for those projects.

However, as of now, we are operating in our usual contracting style, so there is almost no outflow of funds on hand. I hope you understand that the factor for the decrease in profit due to upfront costs has already been considered.

Sakamoto [M]: Now, the third question from Mr. Ozawa, SBI Securities

Ozawa [Q]: The average unit rent for new orders index is at an all-time high, but will the rent paid to owners also increase with the timing of future renewals?

Miyao [A]: Earlier, I noted that the average unit rent for new contracts reached a record high, driven primarily by corporate contracts. This is especially true in H1. As you can see from the occupancy data by prefecture, the Tokyo metropolitan area, the four major prefectures, accounts for a major portion of our managed units. Saitama Prefecture has the most, Tokyo is second, and Kanagawa is fourth. So, the occupancy rate is increasing in the metropolitan areas of these representative prefectures.

The metropolitan areas have higher rent levels due to corporate contracts. As a result, the fact that we were able to contract at an appropriate rent setting in such a higher rent level area has boosted the overall rent.

As for our outlook, as I mentioned earlier, further expansion into regional markets will likely put some downward pressure on the overall average unit rent for new contracts index. As sales in these local areas increase, we expect the index to trend slightly lower on a company-wide basis.

On the other hand, the owner's portion of the contract does not change because of an increase in our average unit rent for new contracts. In addition, including the new sublease law, the rent paid to the owner is basically set based on the rent of nearby buildings of the same type, etc. Therefore, it cannot be said that the rent is generally increasing regardless of the area.

When we talk about comparable properties in the surrounding area, this naturally includes buildings of various ages. It’s not the case that rents for 15- or 20-year-old apartment buildings are rising sharply across Japan, as newly built properties might. The owner will have to understand this and set the rent accordingly.

However, there is a possibility that the rent for owners may increase in the timing of future contract updates there. However, these properties are not seeing increases that match the rent index for example, rises of 10% or anything of that magnitude. I hope you will keep that point in mind.

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

Tazawa [Q]: Orders are progressing well, with 1,100 units planned for this fiscal year. What level of sales is needed to be profitable on an operating profit basis? When can we expect to see a reasonable profit?

Takekura [A]: As for the details, it is estimated that it will take about three years for the business to be profitable.

While we operate on the profit margin that Miyao mentioned earlier, what makes us different from a full-scale developer is that we are a master lease company, which means that we have a lease contract with the owner, and from the viewpoint of making a steady profit in the leasing business for the rent and other ancillary revenue after the construction completion as well.

As I mentioned earlier, the improvement in profitability clearly shows how newly completed properties contribute significantly to rental profits after completion. In parallel, we are currently working to ensure that, over the years, we can generate stable profits from the leasing business.

In recent years, building costs have been reduced by various innovations, such as reducing the number of fixtures and fittings. I understand that several security analysts recently visited one of our sites. One of the reports stated that although somewhat expensive in terms of cost, the reinforced ceilings were also installed and showed the Company’s determination not to repeat the scandal.

The insights gained on site, particularly regarding the initiatives we are aiming to pursue, really energized our people in the Architectural Engineering Division. While we are investing in these costs as we move forward, we expect the timing we mentioned earlier to translate into earnings. At the same time, we plan to make the segment-level disclosures early, so that you can see the numbers as they take shape.

Sakamoto [M]: Next, a question from Mr. Tazawa, SMBC Nikko Securities.

Tazawa [Q]: It has been recognized by the Takaichi administration that inheritance tax measures using real estate are excessive, and it was reported yesterday in the Nikkei newspaper that some rule changes may be discussed, but how will this affect your company’s apartment orders?

Miyao [A]: As I mentioned earlier, more than 50% of our apartment contracts are due to inheritance tax measures, so it goes without saying that inheritance tax measures are closely related to apartment orders.

On the other hand, there is still a lack of clarity about what is said to be excessive and what kind of real estate is actually available. If anything, I am aware that what was originally mentioned included high-rise apartments, etc. As for how these developments may affect our two- and three-story apartment buildings, we will continue to monitor the situation carefully going forward.

Sakamoto [M]: Now, the next question is from Mr. Hashimoto, Mizuho Securities.

Hashimoto [Q]: My question concerns the conditions under which you might revise your H2 guidance. While you mentioned that the current outlook is conservative, I would like to know whether there is potential for upside similar to what we saw in H1, or conversely, whether there are risks related to occupancy rates, costs, or other factors.

Takekura [A]: Although it was mentioned that the plan is conservative, the rent conditions are as I explained earlier. While the strategy has been successful and is working well, the expansion of the properties themselves is relatively low, and in light of this and other factors, we are leaving the plan unchanged this time.

In addition, as mentioned earlier, despite political factors, the automobile industry, which is Japan's main industry, and related subcontracting companies have actually been firm. Until about this April or May, we were watching the market with careful attention and prepared to take any actions.

As to the economic forecast, our corporate sales staff recognize that the economy is likely to remain flat by hearing from their contacts at the corporate customers. For new hires, which was mentioned earlier in our discussion, there is a situation where the numbers are swinging up among the companies. Although there is some background in such cases, I hope you understand that we are presenting the numbers.

Sakamoto [M]: Now, the second question from Mr. Hashimoto of Mizuho Securities.

Hashimoto [Q]: How do you see the possibility of a sale of shares by Chidori Godo Kaisha?

Miyao [A]: In terms of possibilities, I think it is possible. However, to be honest, we do not know the timing of the project.

Sakamoto [M]: Now, the third question from Mr. Hashimoto of Mizuho Securities.

Hashimoto [Q]: Regarding your development business, won't the orders for this fiscal year be about 100 buildings? The plan for the next fiscal year is 140 buildings, but will it not be 160 to 200 buildings?

Takekura [A]: As you say, we may be able to reach about 100 buildings. Most importantly, there is the issue of when construction will begin and be completed on that very property for which we received the order.

As for our company, we originally announced that the order would be around JPY10 billion at first, and it is still very important for us to start construction, and to build the so-called back office and its structure including architects, which is currently very important for the current term. We would like to aim for this number in terms of orders.

Sakamoto [M]: Now, the fourth question from Mr. Hashimoto of Mizuho Securities.

Hashimoto [Q]: Regarding *ArLk*, rather than focusing solely on disclosures around good design, shouldn't you emphasize more strongly to customers that it is also a superior product in terms of addressing previously pointed-out issues such as soundproofing and construction defects?

Miyao [A]: Thank you for your remarks, Mr. Hashimoto. When we make product proposals, or even in the brochures we provide, we already include explanations on matters such as soundproofing performance and what I referred to earlier as quality governance. This covers the various inspections and checks conducted throughout the construction process, from the start of work through completion.

In particular, with regard to soundproofing, we have been enhancing our soundproofing performance since 2013. The products we offered 25 to 30 years ago were admittedly still weak in terms of soundproofing. However, since 2013, we have significantly improved our soundproofing performance. We will continue to emphasize this point to our customers going forward. Thank you very much.

Sakamoto [M]: Now, the fifth question from Mr. Hashimoto of Mizuho Securities.

Hashimoto [Q]: I would like to ask about the occupancy rates by prefecture on page 18, the movement in Aomori and Akita such as power construction, as well as the background of the rise in Tottori and the decline in Saga and Kumamoto prefectures.

Takekura [A]: While some of these movements are cyclical in nature, the figures for Aomori rose sharply due to a sudden increase in local project demand. This includes demand within the site of the nuclear fuel reprocessing facility, as well as a surge in air-conditioning construction work related to the Air Self-Defense Force.

In Akita, the demand for geothermal power generation is also positive due to the needs of the geothermal power generation sites.

In Tottori and Shimane, the demand for construction of biomass power generation is stable, and the demand for construction, including the reworking of the San-in Expressway, is raising the occupancy level.

Conversely, Saga's occupancy has dropped a bit because of the end of construction sites, and also the departure of construction companies that have completed related work associated with the stationing of Self-Defense Forces and other military units.

Also, there are some semiconductor-related projects, but they are ones that have been completed and finished. The same is true for biomass, where the points have dropped due to a combination of vacancies caused by the completion of the construction of the power plant.

Conversely, even in Kumamoto, where performance was strong, some of the projects were not proceeding as originally scheduled. These include construction projects that, under normal circumstances, should already have commenced but have not yet broken ground. Given the characteristics of the area, we expect occupancy rates to recover going forward.

The corporate sales department is in charge of preparing rooms in advance by receiving information on economic trends, and other factors, as well as business trip trends for each company, store trends, and construction trip trends. The customers appreciate Leopalace21's value and convenience including the provision of uniform rooms across Japan.

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

Thank you very much for attending today's financial results briefing for Q2 of Leopalace21.

[END]