



## Bridge Report Leoplace21 Corporation (8848)

 Eisei Miyama, President	Company	Leoplace21 Corporation	
	Code No.	8848	
	Exchange	Tokyo Stock Exchange 1 <sup>st</sup> Section	
	Industry	Real Estate	
	President	Eisei Miyama	
	HQ	2-54-11 Honmachi, Nakano-ku, Tokyo	
	Business Description	Leoplace21 provides “one stop shopping” services including construction, leasing, and sales of primarily apartments, condominiums, and other residential properties. The Company also acts as property manager for 550,000 residential properties across Japan.	
	Year-end	March	
	Website	<a href="http://eg.leoplace21.com/">http://eg.leoplace21.com/</a>	

### — Stock Information —

Share Price	Shares Outstanding		Market Cap	ROE (actual)	Trading Unit
¥462	262,874,705 shares		¥121.448 billion	18.7%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥0.00	-%	¥45.65	10.1x	¥398.78	1.2x

\*Stock prices as of the close on May 28, 2014. Number of shares issued at the end of the most recent quarter excluding treasury shares.

### — Consolidated Earnings Trends —

(Unit: Million Yen)

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2010	620,376	-29,727	-33,831	-79,075	-521.91	0.00
March 2011	484,390	-23,607	-31,808	-40,889	-261.03	0.00
March 2012	459,436	4,585	2,349	1,588	9.40	0.00
March 2013	454,222	7,413	11,091	13,335	74.50	0.00
March 2014	471,089	13,673	11,574	15,229	67.17	0.00
March 2015 Est.	493,500	14,500	13,000	12,000	45.65	0.00

\*Estimates are those of the Company.

This Bridge Report reviews Leoplace21's fiscal year March 2014 earnings results and its Midterm Business Plan “EXPANDING VALUE”.

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## Key Points

- Sales rose by 3.7% year-over-year to ¥471.0 billion in fiscal year March 2014. While the leasing business fell slightly shy of estimates, the construction business was able to exceed estimates. Strong gross income was able to absorb the higher than expected double digit increase in sales, general and administrative expenses, and allowed operating income to rise by a large margin from the previous term.
- During fiscal year March 2015, sales are expected to rise by 4.8% year-over-year to ¥493.5 billion on the back of sales increases in all business segments. Operating income is also expected to grow by 6.0% year-over-year to ¥14.5 billion, due to a 0.5% point improvement in gross margin which is expected to offset an increase in sales, general and administrative expenses arising from anticipatory investments. At the same time, growth in sales and profits is expected to accelerate during the second half. Also, no dividend payment is anticipated during the coming term.
- The newly created Three Year Midterm Business Plan entitled “EXPANDING VALUE” will start in the coming year. Steady growth in the leasing business is expected to be derived from high occupancy rates and construction demand arising from replacement demand for rental housing, and Leopalace21 seeks to rapidly expand its construction business at the same time. The Company’s New Plan calls for “sales and operating income of ¥540.0 and ¥22.0 billion” to be achieved by fiscal year March 2017. Given the current high occupancy rates, how quickly Leopalace21 can promote the various measures in the New Midterm Business Plan will be a key in determining how much of the 400,000 units of latent replacement demand can be cultivated within the Tokyo metropolitan region.

## 1. Company Overview

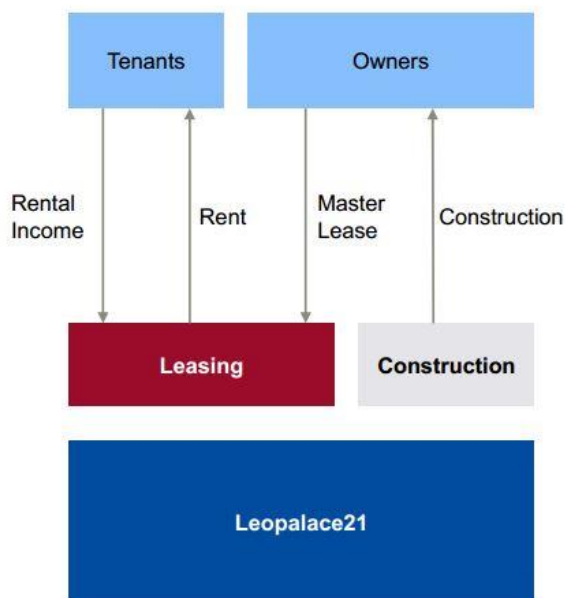
Leopalace21 was the first in their industry to offer “guaranteed leasing services” that integrate residential property and condominium construction, and management services after their construction to land owners seeking to make effective use of their real estate. Sales are primarily the rental income fees received from residents of apartments, condominiums, and other residential properties and construction work to build apartments and condominiums. Leopalace21 managed 548,912 units as of the end of March 2014 located primarily in the three major metropolitan areas of Japan including Tokyo, Nagoya, and Osaka. The Company is also aggressively promoting the installation of solar power electricity generating systems and the deployment of its businesses in overseas markets.

### <Business Model>

Leopalace21 offers “guaranteed leasing services” that integrate residential property and condominium construction, and management services after their construction to land owners seeking to make effective use of their real estate. The “guaranteed leasing services” is a comprehensive support system where management and operational services for leased residential properties are provided to owners of apartments and condominiums. This system is an outsourcing service designed to reduce the burden of, and provide stable income to, rental property owners, and includes the specific functions of locating tenants, payment of rent, and management and repair services which are normally undertaken by the property owner themselves.

Leopalace21 enters into a contractual relationship with property owners for terms as long as 30 years, under which they agree to pay the property owners a fixed amount of rent regardless of whether or not the properties are occupied or vacant. After the initial fixed period is completed, the contract will be negotiated every two years to reflect actual prices in the

real estate market. Sales of the “leasing business” are the rents paid by residents, and payment of rent to property owners is booked as the cost of sales. The “construction business” is another main source of the Company’s revenues.



(Source: Leopalace21)

The potential for “negative spread” may occur in the event that a higher than expected amount of vacancies occurs during the fixed rent period. Therefore, holding down the amount of vacancies (Raising the resident occupancy rates), and acquiring appropriate levels of rental income are the most important factors for the profitability of Leopalace21.

“Increasing the provision of residential property construction by cultivating new property owners and expanding stable rental income through the acquisition of tenants” are the main factors driving Leopalace21’s earnings growth. However in the wake of the Lehman Shock in 2008, corporations were forced to reduce staff due to the rapid deterioration in their earnings. Increases in cancellation of corporate contracts led to “negative spread” and a deterioration in the profitability of the leasing business. Furthermore, the tightening of loan screening requirements led to a sudden decline in the supply of new residential properties constructed, which had a large impact upon and led to stagnation in profitability of the construction business.

Against this backdrop, Leopalace21 maintained its business structure based on this system of guaranteed leasing services while also implementing the following measures to convert its business into a “stock basis” to acquire stable earnings.

“Contraction in the construction business: Focus upon providing new supplies in regions that have high occupancy rates”

“Improve profitability of the leasing business: Reduce cost of leasing, securing appropriate levels of rent”

“Conduct construction work not linked to guaranteed leasing services”

“Raise the value addition of properties to increase resident satisfaction”

### <Market Environment>

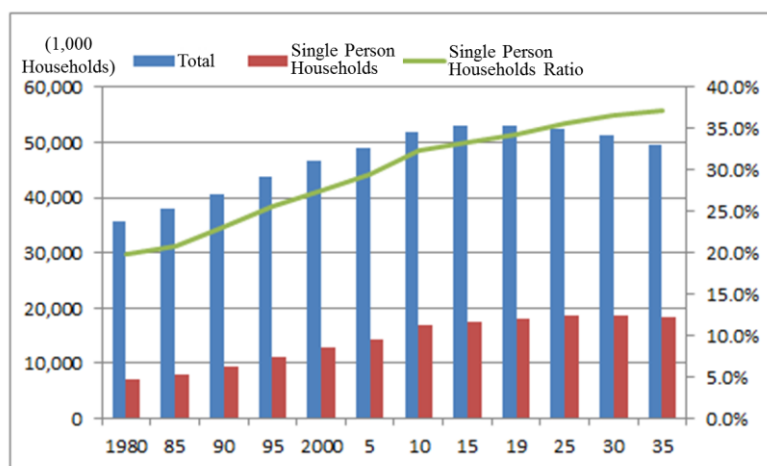
#### ① Number of Household Trends

According the National Institute of Population and Social Security Research estimates, the number of Japanese households is expected to rise from 51.84 million in 2010 to a peak of 53.07 million in 2019, and thereafter decline to

49.56 million by 2035. The number of single person households is expected to rise from 16.79 million in 2010 to 18.46 million in 2035, and their share of total households is expected to rise from 32.4% to 37.2% over the same period.

The increase in single person households represents a growing business opportunity for Leopalace21, which has traditionally focused upon the business of “one-room” studio type condominiums. Another key issue confronting the Company is how successfully it can expand its business targeting its traditional customer base of younger aged tenants to include elderly tenants. In addition, Leopalace21 must also promote measures to capture individual resident contracts along with its traditional corporate contracts.

### <Trend in Number of Households in Japan>



Source: January 2013 Report, National Institute of Population and Social Security Research

\* Figures from 2010 and beyond are estimates. Right hand axis represents single person household share.

### ② New Housing Start Trends

New housing starts during fiscal year 2013 rose by 10.6% year-over-year to 987,254 units, marking the fourth consecutive year of growth. Furthermore, this double digit growth represents the highest growth rate in 26 years since 1987 when housing starts rose by 23.5%. The Ministry of Land, Infrastructure, Transport and Tourism attributes this strong rise to “both an improvement in consumer sentiment and extraordinary demand ahead of the implementation of a hike in the consumption tax” (Ministry of Land, Infrastructure, Transport and Tourism Statistics and Research Office).

While demand for real estate over the near to intermediate term is expected to remain strong in the run up to the Tokyo Olympics and Paralympics to be hosted by Tokyo in 2020, a continuation of this strong demand over the longer term is difficult to envision given the problem of the declining population.

### ③ Rental Housing Replacement Construction Demand

With the view of “rental housing” from the perspective of being a “stock” business within the housing domain of Leopalace21’s business, a different vision appears in the future.

According to data released in the Ministry of Internal Affairs and Communications “2008 Housing and Land Statistics Survey (Announced in 2010)”, of the 13.00 million units of privately owned rental homes, some 2.50 million homes were constructed before 1980. Taking a closer look at the distribution of these 2.50 million homes, some 300,000 exist in the 23 wards of central Tokyo, and some 400,000 in the Greater Tokyo area including Yokohama, Saitama and other surrounding regions. Furthermore, some 800,000 privately owned rental homes exist in the four major metropolitan areas including Nagoya, Osaka, Fukuoka and other major cities.

With regard to the rental housing market, the overwhelmingly strong popularity and demand for newly constructed housing forces property owners to consider choosing between partial refurbishment and total rebuilding of their existing

properties in order to raise occupancy rates. Consequently, Leopalace21 expects demand for reconstruction of the existing rental housing supply in the major cities throughout Japan to remain strong for the foreseeable future.

In addition to this replacement demand, revisions to the inheritance tax laws are also expected to act as a strong tailwind. Effective from January 1, 2015, the basic exemption for inheritance tax will be lowered and the amount subject to the inheritance tax will increase by a large margin. Consequently, demand for construction of rental housing is expected to increase as property owners take advantage of property devaluation schemes by constructing rental housing.

### <Competitors>

The following list of companies may be considered to be competitors in the realm of the “guaranteed leasing services.”

Company	Market	Market Capitalization	Sales	Operating Income	Net Income	Assets	PER	PBR
Token Corporation (1766)	TSE1 <sup>st</sup>	60,489	253,136	9,684	6,013	48,949	10.1	1.2
Daito Trust Construction Co., Ltd. (1878)	TSE1 <sup>st</sup>	895,983	1,345,000	91,000	59,800	222,005	15.0	4.0
Japan Property Management Center Co., Ltd. (3276)	JQ	10,962	30,668	1,302	784	2,333	14.0	4.7
Leopalace21 Corporation (8848)	TSE1 <sup>st</sup>	121,448	493,500	14,500	12,000	104,860	10.1	1.2

\* Values are estimates of the current term. Net assets are as of end of the most recent quarter. Units are million yen. PER and PBR are ratios of the number of times. Market capitalization is based on May 28, 2014 closing share price.

Regarding PER and PBR valuations, Leopalace21 is trading around the same levels as it was one year earlier, while all of its three competitors' valuations have fallen. In the wake of the “Abenomics inspired bull market” that boosted share prices from the second half of 2012 to the first half of 2013, investors are now taking a more cautious approach to determine the future direction of Japanese shares. Therefore, progress in achieving the goals of the New Midterm Business Plan is required for investors to take renewed interest in Leopalace21.

### <ROE Analysis>

	FY3/12	FY3/13	FY3/14
<b>ROE(%)</b>	<b>4.8</b>	<b>29.0</b>	<b>18.7</b>
Net Income to Sales Ratio (%)	0.4	2.9	3.2
Asset Turnover Ratio (x)	1.6	1.7	1.7
Leverage (x)	8.4	5.7	3.4

<Reference: TSE First Section ROE by Industry>

	FY3/12	FY3/13
All Industries (Exc. Finance)	4.70	5.28
Manufacturing	4.06	4.80
Non-Manufacturing	5.61	5.95
Real Estate	5.24	6.71

\* Source: TSE Homepage “Earnings Data Review”

Leopalace21's ROE far exceeds the average for all industries and its own industry. In addition, while leverage declined due to the public offering conducted in December 2013, improvement in profit margins allowed the Company to achieve high ROE of 18.7%. However, the impact of the increase in capital and the outlook for lower profits during the coming term is expected to lower ROE to just above 10%. Leopalace21 maintains an ROE target of 12.3%.

### <Business Description>

Leopalace21's businesses can be divided into the five segments of "leasing," "construction," "elderly care," "hotel and resort," and "other" businesses. The main business segments are the "leasing" and "construction" businesses and they account for 96% of total sales.

#### <Leasing Business>

##### **Sales and Operating Income of ¥388.768 and ¥15.567 Billion Recorded in FY3/14**

Leasing is Leopalace21's main business, and it includes the guaranteed leasing services of apartments and condominiums constructed, leasing, and property management services. In the leasing services, two contract types are provided including the straight forward "lease contract" that reduces the initial expenses of monthly management fees, and the "monthly contract" that assumes all of the costs for furnishing and utilities in exchange for a single upfront fee payment to the property owner. In both these instances, Leopalace21 books the rent received from tenants as sales. The rent net of service fees and other costs paid to landlords are booked as cost of sales.

#### <Construction Business>

##### **Sales and Operating Income of ¥63.135 and ¥2.954 Billion Recorded in FY3/14**

Construction of apartments, condominiums and other structures is conducted in this business segment. In recent years, Leopalace21 has begun focusing upon construction of commercial and nursing home facilities, which are not related to the guaranteed leasing services, in addition to construction connected to its guaranteed leasing services. Furthermore, the Company has also begun to focus its efforts upon sales of solar power electricity generating systems, and started the roof-lease solar power electric generation business from February 2013.

#### <Elderly Care Business>

##### **Sales and Operating Loss of ¥10.171 and ¥0.610 Billion Recorded in FY3/14**

As of end March 2014, a total of 61 facilities including "nursing home facilities," "day care services," "short stay services," and "group homes" called "Azumi-En" were operated in the Tokyo and surrounding six prefectures. In order to capture growing demand sparked by an expansion in the market, Leopalace21 is opening new facilities.

#### <Hotels and Resort Business>

##### **Sales and Operating Loss of ¥7.571 and ¥1.118 Billion Recorded in FY3/14**

Leopalace Guam Corporation, an overseas subsidiary, operates various resort facilities including golf courses, baseball fields, hotels, condominiums and other facilities on the island of Guam. Leopalace21 also operates another eight hotels within Japan. The hotel and resort business acts to support the expansion in Leopalace21's main leasing and construction businesses. When conducting proposal based marketing to property owners, the recognition and reliability associated with Leopalace21's hotel operations contributes to smooth negotiations. While this business currently operates at a loss, it boasts of positive cash flow and currently stands little risk of becoming the subject to impairment accounting.

#### <Other Business>

##### **Sales and Operating Income of ¥1.442 and ¥0.137 Billion Recorded in FY3/14**

In addition to the provision of short term insurance on household items to residents of rental housing, Leopalace21 also provide finance, real estate sales, solar power electric generation facilities sales and other services through its subsidiary.

## 2. Characteristics and Strengths

#### <Focus Upon Three Major Metropolitan Areas>

Of the 550,000 rooms under management nationwide, 70% are located in the greater Tokyo, Nagoya and Osaka regions. In these three regions there is still an inflow of population and by focusing on these regions, Leopalace21 is able to maintain high occupancy rates.

#### <Strong Product Development Capability>

Leopalace21 remains in step with market conditions by developing products and services that match the market needs.

Furthermore, it was the first company in the industry to introduce “rooms with lofts,” “guaranteed leasing services,” “monthly rentals,” “broadband-facilitated rooms,” and “furnished rooms”. Residents-oriented services and introduction of systems such as installation of furniture and home electrical appliances, room customization with "My Collection Plan" and "Comfort Plan", and installation of security system contributed to the improvement in occupancy rates.

#### Room Customization



(Source: Leopalace21)

#### <High Quality Studio Apartments>

Because higher rental income is derived from one room type studio apartments rather than single family homes for the same floor space and property size under conditions when stable occupancy rates can be achieved, most property owners choose to build studio apartments or have Leopalace21 manage their smaller properties located primarily in metropolitan areas. The Company provides effective solutions to property owners with the ability to flexibly build studio apartments on properties where it would be difficult to build single family homes.

#### <Nationwide Business Deployment>

As of end March 2014, Leopalace21 operated 176 offices directly and 164 offices through franchises for a total of 340 offices throughout Japan. This network enables the Company to provide services and products to customers nationwide, including services to help students and employees find conveniently located new residences. Another characteristic of Leopalace21 is its bountiful database of nationwide information on owners of idle and property characteristics, and the ability to propose effective solutions to these property owners.

### 3. Fiscal Year March 2014 Earnings Overview

#### (1) Consolidated Earnings

(Units: Million Yen)

	FY3/13	Share	FY3/14	Share	YY Change	Divergence from Plans
Sales	454,222	100.0%	471,089	100.0%	+3.7%	+0.8%
Gross Income	57,713	12.7%	69,579	14.8%	+20.6%	+0.8%
SG&A	50,299	11.1%	55,906	11.9%	+11.1%	+1.8%
Operating Income	7,413	1.6%	13,673	2.9%	+84.4%	-3.0%
Ordinary Income	11,091	2.4%	11,574	2.5%	+4.4%	-5.1%
Net Income	13,335	2.9%	15,229	3.2%	+14.2%	+38.4%

#### Despite Shortfall in Profits Due to Rise in SG&A Expenses, Both Sales and Profits Rose Year-Over-Year

Sales rose by 3.7% year-over-year to ¥471.0 billion. While the leasing business fell slightly shy of plans, the construction business trended favorably and exceeded expectations. Improvements in gross profitability offset a higher than expected double digit increase in sales, general and administrative expenses, and allowed operating income to rise by a large margin. Despite this strong gain, operating income fell shy of plans. Due to the decline in foreign exchange translation gains recorded during fiscal year March 2013 of ¥5.592 billion to only ¥10 million in the current term, ordinary income was limited to only a small margin of growth. The booking of deferred tax assets for the second

consecutive year allowed net income to rise by double digits.

## (2) Business Segment Trends

(Units: Million Yen)

	Sales				Operating Income			
	FY3/13	FY3/14	YY	Divergence from Plans	FY3/13	FY3/14	YY	Divergence from Plans
Leasing	383,574	388,768	+0.5%	-0.1%	8,687	15,567	+79.2%	+3.8%
Construction	53,369	63,135	+18.3%	+3.3%	2,747	2,954	+7.5%	-15.6%
Hotel, Resort	6,657	7,571	+13.7%	+13.0%	-1,005	-1,118	-113	-418
Elderly Care	9,482	10,171	+7.3%	+8.2%	-742	-610	+132	+90
Others	1,137	1,442	+26.8%	+31.1%	35	137	+291.4%	+137
Adjustments	-	-	-	-	-2,308	-3,256	-	-
Total	454,222	471,089	+3.7%	+0.8%	7,413	13,673	+84.4%	-3.0%

### <Leasing Business>

- ✓ Sales rose by only a marginal amount to ¥388.7 billion, and fell short of plans also by a small margin of about ¥200 million.
- ✓ Reserve for apartment vacancy loss of ¥4.5 billion was booked, exceeding plans of ¥2.5 billion from the end of fiscal year March 2013.
- ✓ Average occupancy rates during fiscal year March 2014 slightly fell below the target of 85.0% at 84.58%, but rose by a large margin from the average of 82.94% during the previous fiscal year. And since the start of April 2014, the occupancy rate has gotten off to a favorable start by rising 2.7% points to 86.0%.
- ✓ Leopalace21 operated 184 offices directly (Up by 2 from end March 2013, including 8 overseas offices), and 164 offices through franchise partnerships (Down 28 from end March 2013) for a total of 348 offices (Down 26 from end March 2013). Leopalace21 has adopted a strategy that focuses upon the “quality” of its franchise partnerships rather than “quantity,” and has fortified its training and instruction function for its franchisees.
- ✓ The number of resident contracts formed with foreigners stood at 11,927 at end March 2014. This represents a recovery to the levels recorded prior to the Great East Japan Earthquake and it breached the 10,000 contract level for the first time in August 2013. From December 2013, marketing activities were launched by local subsidiaries in Thailand and Vietnam, and the number of offices operated in four countries including China, Korea and Taiwan reached 10. In the future, Leopalace21 will endeavor to steadily expand the number of foreign residents to whom it provides housing.
- ✓ Leopalace21’s Room Customize continues to receive highly favorable response and is a major factor differentiating the Company from its competitors. The number of aggregated contracts recorded since May 2012 reached 14,061 at end March 2014, and rose 2.5 fold from 5,714 at end March 2013. Furthermore, the ratio of male to female residents for normal rooms is 7 to 3, but Room Customize is contributing to an increase in female residents and its ratio is 1 to 1.
- ✓ LEONET (Internet usage made available without the need for contract with specific providers), Leopalace21 Online Shopping and other various services are provided to residents. Furthermore, the Company also provides a specialized site for residents called “MY PAGE.” These features are part of Leopalace21’s strategy of providing not only living spaces, but also other comprehensive services to its residents.
- ✓ At the end of March 2014, the number of security systems installed reached 187,756 units for an instalment ratio of 34.2% of the total number of rooms (At end March 2013, the number of installations was 136,064 for a ratio of 24.9%) managed by the company. Both orders and sales numbers of security systems exceeded the company’s plans, but the value of installations fell below targets. Furthermore, the target number of “installations of 190,000 units and instalment ratio of 35%” has nearly been achieved one year ahead of the end March 2015 scheduled target



date. In the future, Leopalace21 will continue to satisfy the needs of female residents and corporate clients by creating safer and more secure living environments through the installation of anticrime cameras and shutters, and to increasing its competitive positioning.

#### <Construction Business>

- ✓ Sales of ¥63.1 billion recorded during the current term exceeded both plans and the previous year's levels. Operating income fell below targets, but still managed to exceed the previous year's levels. Increases in the number of staff to fortify its marketing structure, and efforts to conduct area specific strategies are being implemented to expand orders. In fiscal year March 2014, orders rose above targets of ¥80.1 billion to ¥81.1 billion. Buildings and solar power electricity generating systems accounted for ¥67.4 and ¥13.7 billion of total orders respectively. Leopalace21 has established a target for orders of ¥100.0 billion in fiscal year March 2015.
- ✓ The construction business operated 60 offices as of end May 2014, which represents an increase of 8 offices from end March of the previous year. Leopalace21 has decided to narrow the focus of their marketing area for orders, with the three major metropolitan areas accounting for 71% of all orders.
- ✓ Sales of "Arma-L tri-EL" were launched in October 2013 and integrates the characteristics of "DUAL-L" (Facilitated with doubles lofts) and "Arma-L" (Planned from the viewpoint of women), which accounts for 30% of orders. This product boasts of three lofts and one bedroom, in addition to a kitchen, and living and dining rooms. Furthermore, this product also takes the needs of female tenants into consideration and is equipped with powder room space, full wall storage and kitchen counters like "Arma-L."
- ✓ From April 2014, Leopalace21 has equipped its housing with facilities that are "useful to younger residents living away from home for the first time" (Including wireless LAN, security systems, bunk beds, independent wash basins, indoor clothes drying lines, toilets with washing and heated seat functions) and started sales of "UNI-BIRTH" as a product targeting younger aged residents.
- ✓ Based upon the theme of "making new and comfortable Japanese homes", Leopalace21 launched sales of a steel framed rental house "Smaio" and a wooden framed house "Smaio-W" from April and August 2013 respectively. By combining the characteristics of normal and rental homes, the Company has been able to offer a scheme that allows homeowners to reduce the burden of home loans by acquiring rental income. At the same time, sales of the three storied, duplex type reinforced concrete rental homes equipped with two lofts called "L-Force" were started in October.
- ✓ Sales of apartments with sound insulating facilities provided as standard equipment using improved sound isolation "Non-Sound Floor" as part of the "Non-Sound System" have been launched from April 2013. In addition, this "Non-Sound Floor" has been included as standard equipment in steel framed rental housing from July 2013.
- ✓ Aside from the apartment type structure construction business, nursing homes and other commercial facilities trended basically in line with targets. While sales of both of these facilities fell shy of targets at ¥3.6 and ¥0.5 billion, they exceeded the previous year's levels of ¥1.6 and ¥0.1 billion, respectively.
- ✓ The number of buildings with solar power panels installed by property owners reached 6,629 at end March 2014. Combined with the 2,372 units installed and operated by Leopalace21, the total number of systems installed reached 9,001.

#### <Hotels and Resort Business>

A rise in occupancy rates allowed sales of hotels operated within Japan to reach ¥2.317 billion, exceeding the previous year's levels by a small margin. Operating income reached ¥9 million, surpassing both the previous year's levels and targets. In the resort business, occupancy rates trended favorably and exceeded the growth in the number of tourists visiting Guam (Up 2.0% year-over-year) due to marketing efforts to client companies and other stakeholders. Consequently, both sales and profits surpassed the previous year's levels by large margins.

#### <Elderly Care Business>

Day care service, short stay, and nursing home facility services all recorded occupancy rates higher than in the previous term and exceeded targets. And while this division continued to operate at a loss at the operating level, Leopalace21 seeks to achieve profitability at an early stage. During fiscal year March 2015, coordination with the construction

business is expected to allow new facilities to be opened.

### <Overseas Deployment of Leasing Business>

In addition to the service of introducing housing within Japan to foreigners, Leopalace21 also provides similar services to Japanese working for Japanese companies in overseas markets in Korea and Taiwan, and will launch the same services in Thailand and Vietnam from December. Leopalace21 also operates four offices in China, three in Korea, and one in Taiwan, Thailand and Vietnam each, for a total of ten overseas offices. Furthermore, a joint venture company called "Woori & Leo PMC Co., Ltd." was established to cultivate the strong latent growth expected in the Korean rental housing market by leveraging its knowhow accumulated in the Japanese market. Offices are expected to be established in other ASEAN regions in the future.

### (3) Financial Conditions, Cash Flow

(Units: Million Yen)

	3/13 End	3/14 End		3/13 End	3/14 End
Cash, Equivalents	56,681	74,767	Payables	2,670	2,685
Receivables	4,360	5,490	Unpaid Construction Expenses	14,307	12,128
Outstanding Fees for Completed Construction	2,231	1,651	Short Term Interest Bearing Liabilities	15,374	3,500
Prepayments	12,772	6,679	Outstanding Payments	13,252	16,001
<b>Current Assets</b>	<b>90,896</b>	<b>102,324</b>	Prepayments Received	49,036	45,051
Buildings, Structures	54,740	57,073	<b>Current Liabilities</b>	<b>105,144</b>	<b>92,560</b>
Land	80,780	81,800	Long Term Interest Bearing Liabilities	31,500	27,997
Lease Assets	1,798	5,167	Retirement Reserves	8,634	-
Marketable Securities	7,176	7,257	Vacancy Loss Reserves	13,950	9,352
Long Term Expense Prepayments	8,127	3,719	Long Term Security Deposits	8,984	8,492
<b>Fixed Assets</b>	<b>170,705</b>	<b>185,100</b>	Long Term Prepayments Received	32,357	27,628
<b>Total Assets</b>	<b>261,649</b>	<b>287,459</b>	<b>Fixed Liabilities</b>	<b>98,353</b>	<b>90,037</b>
			<b>Total Liabilities</b>	<b>203,498</b>	<b>182,598</b>
			<b>Net Assets</b>	<b>58,151</b>	<b>104,860</b>
			<b>Total Liabilities, Net Assets</b>	<b>261,649</b>	<b>287,459</b>

	3/10 End	3/11 End	3/12 End	3/13 End	3/14 End
Equity Capital	70,890	33,025	33,804	58,133	104,829
Equity Ratio	17.9%	11.1%	12.8%	22.2%	36.5%
Interest Bearing Liabilities	56,481	39,888	48,305	46,874	31,497
Cash	72,431	40,674	41,477	56,681	74,767
NDE Ratio	-0.23	-0.02	0.20	-0.17	-0.41

\* Interest bearing liabilities exclude lease liabilities. NDE Ratio = (Interest bearing liabilities - Cash) / Shareholders' Equity

Compared with end March 2013, funding through a public offering allowed cash and equivalents and total assets to increase by ¥18.0 and ¥25.8 billion respectively. At the same time, declines in interest bearing liabilities and vacancy loss reserves of ¥15.3 and ¥4.5 billion respectively, and other declines in retirement reserves, unpaid construction expenses, and prepayments received contributed to a ¥20.9 billion fall in total liabilities. Net assets rose by ¥46.7 billion on the back of an increase in shareholder equity arising from higher net income, and an improvement in other comprehensive income arising from declines in the negative margin of foreign exchange translation adjustment accounts. Consequently, equity ratio rose by a large 14.3% point margin from the end of March 2013 to 36.5%.

## 4. Fiscal Year March 2015 Earnings Estimates

### (1) Consolidated Earnings

(Units: Million Yen)

	FY3/14	Share	FY3/15 Est.	Share	YY Change
Sales	471,089	100.0%	493,500	100.0%	+4.8%
Gross Income	69,579	14.8%	75,500	15.3%	+8.5%
SG&A	55,906	11.9%	61,000	12.4%	+9.1%
Operating Income	13,673	2.9%	14,500	2.9%	+6.0%
Ordinary Income	11,574	2.5%	13,000	2.6%	+12.3%
Net Income	15,229	3.2%	12,000	2.4%	-21.2%

### <First, Second Half Earnings Trends>

(Units: Million Yen)

	1H FY3/15	Share	YY Change	2H FY3/15	Share	YY Change
Sales	233,500	100.0%	+0.8%	260,000	100.0%	+8.6%
Operating Income	4,000	1.7%	-25.5%	10,500	4.0%	+26.4%
Ordinary Income	3,500	1.5%	-20.0%	9,500	3.7%	+32.0%
Net Income	3,000	1.3%	-23.5%	9,000	3.5%	-20.4%

\* The second half earnings estimates are calculated by subtracting the first half estimates from the full year estimates, and are not official estimates of the Company.

### Small Increase in Sales, Anticipatory Investments for the Future Lead to Small Gain in Profits

Sales are expected to rise 4.8% year-over-year to ¥493.5 billion, on the back of increases in sales of all business segments. At the same time, operating income is expected to rise by 6.0% year-over-year to ¥14.5 billion on the back of a 0.5% increase in gross margin, despite increased staffing for the construction business, depreciation arising from the start of a new information system, and increases in sales, general and administrative expenses due to anticipatory investments. Due to the disappearance of ¥5.1 billion in corporate tax adjustments recorded during fiscal year March 2014, net income is expected to decline by 21.2% year-over-year. Sales and profits are expected to expand during the second half. And while a continuation of no dividend payment is expected in the coming term, Leopalace21 will implement efforts to reinstate dividends as quickly as possible.

### (2) Segment Business Trends

(Units: Million Yen)

	Sales			Operating Income		
	FY3/14	FY3/15 Est.	YY Change	FY3/14	FY3/15 Est.	YY Change
Leasing	388,768	397,000	+2.1%	15,567	17,500	+12.4%
Construction	63,135	75,000	+18.8%	2,954	4,000	+35.4%
Hotel, Resort	7,571	8,000	+5.7%	-1,118	-700	+418
Elderly Care	10,171	10,500	+3.2%	-610	-1,000	-390
Others	1,442	3,000	+108.0%	137	-100	-237
Adjustments	-	-	-	-3,256	-5,300	-
Total	471,089	493,500	+4.8%	13,672	14,500	+6.0%

#### <Leasing Business>

Leopalace21 has established an occupancy rate target of 86.8% in fiscal year March 2015, or 2% points above the level recorded in the previous term. Improvement in profitability is expected to boost gross margin from 13.9% in fiscal year March 2014 to 14.8% in the coming term.

#### <Construction Business>

Leopalace21 is expected to focus its marketing efforts to capture orders in regions where high occupancy rates can be

expected. However, shortage of manpower and higher construction costs are expected to contribute to a 1% point deterioration in gross margin from 23.7% in the term just ended to 22.7%.

And while sales of the elderly care business are expected to rise, anticipatory investments are expected to increase the margin of losses in this business. At the same time, Leopalace21 will continue its efforts to market its services to various stakeholders in the hotel and resort business segment, in addition to pursuing improvements in the level of hospitality offered.

## 5. New Midterm Business Plan “EXPANDING VALUE” (Fiscal Years March 2015 to 2017)

Fiscal year March 2015 marks the final year of the Midterm Business Plan “Creating Future” first announced in May 2010. However, given the large changes in the business environment since the initial announcement of the current plan, Leopalace21 has created and launched a new three year Midterm Business Plan “EXPANDING VALUE”.

### <1. External Environment>

- ✓ New housing starts have recovered since the large declines recorded in the aftermath of the Lehman Shock and are increasing. The rush to beat the hike in the consumption tax at the end of fiscal year 2013 contributed to strong demand, and boosted new housing starts by 10.5% year-over-year to 987,000 units. And while a near term decline in the wake of the rush to beat the consumption tax hike is anticipated, demand overall during the coming year is expected to remain favorable.
- ✓ During the past three consecutive years, seven regions which saw an excess of new residents included Tokyo, Kanagawa, Saitama, Aichi, Fukuoka, Osaka and Okinawa.
- ✓ As explained earlier, replacement demand for the some 800,000 privately owned rental homes is expected to expand in the major metropolitan regions (Tokyo, Nagoya, Osaka, and Fukuoka). In addition, demand to reduce inheritance tax by using rental housing property valuation reduction schemes is also expected to increase.
- ✓ In the run up to the 2020 Tokyo Olympics, real estate demand is expected to grow.

### <2. Overview>

#### ① Corporate Motto

Leopalace21 maintains a basic strategy of “focus on core businesses and challenging itself with new business fields”. And in the pursuit of new value addition sought after currently, the Company will implement a strategy called “EXPANDING VALUE” to expand its realm of activities.

#### ② Reflecting Upon the Previous Midterm Business Plan

The basic goal of the previous Midterm Business Plan of “establishing a stable earnings structure that strikes a balance between the leasing and construction businesses” has been achieved.

Points Achieved	Outstanding Issues
<ul style="list-style-type: none"> <li>• Profit increase arising from improvement in leasing income</li> <li>• Promote solar power electricity power generation, security systems, and other services to raise value of properties</li> <li>• Promote orders, construction of structures other than apartments (Nursing homes, commercial facilities)</li> </ul>	<ul style="list-style-type: none"> <li>• Acquire individual residents</li> <li>• Improve profitability of construction business</li> <li>• Expansion of new businesses (Overseas deployment)</li> <li>• Expansion of elderly care business</li> </ul>

#### ③ Quantitative Targets

##### <Earnings Trend>

(Units: Billion Yen)

	FY3/13	FY3/14	FY3/15 Est.	FY3/16 Target	FY3/17 Target
Sales	454.2	471.0	493.5	525.0	540.0
Operating Income	7.4	13.6	14.5	19.5	22.0

Ordinary Income	11.0	11.5	13.0	18.0	21.0
Net Income	13.3	15.2	12.0	16.0	19.0
EPS (¥)	74.5	67.2	45.5	61.9	71.7
Equity Ratio	22.2%	36.5%	41.0%	45.0%	48.0%
ROE	29.0%	18.7%	10.0%	12.0%	12.3%
ROA	5.1%	5.5%	4.2%	5.5%	6.0%

\* From fiscal year March 2015 onwards, tax effect accounting is not anticipated.

Through the improvement of profitability based upon its core business, the New Midterm Business Plan calls for sales, and operating and net incomes to grow by 14.9%, 52.9% and 23.7% respectively in fiscal year March 2017 over fiscal year March 2014.

### <Segment Business Trend>

(Units: Billion Yen)

	FY3/13	FY3/14	FY3/15 Est.	FY3/16 Target	FY3/17 Target
<b>Leasing</b>					
Sales	383.5	388.7	397.0	407.0	414.5
Operating Income	8.6	15.5	17.5	18.0	18.5
<b>Construction</b>					
Sales	53.3	63.1	75.0	92.5	100.0
Operating Income	2.7	2.9	4.0	7.5	9.0
<b>Elderly care</b>					
Sales	9.4	10.1	10.5	13.5	15.0
Operating Income	-0.7	-0.6	-1.0	-1.4	-0.6
<b>Hotel, Resort</b>					
Sales	6.6	7.5	8.0	8.0	8.0
Operating Income	-1.0	-1.1	-0.7	-0.9	-0.9
<b>Others</b>					
Sales	1.1	1.4	3.0	3.5	3.5
Operating Income	0.0	0.1	-0.1	-0.1	0.0

Leopalace21 seeks to maintain stable growth in the earnings of its leasing business, while growing both sales and operating income of its construction business. At the same time, the elderly care business is expected to continue to see losses over the next three years due to anticipatory expenses to secure staff for its facilities. In addition, the increase in other business sales is expected to be derived from sales of solar power electricity power generation systems.

### <3. Business Strategy>

#### ① Leasing Business

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
Term End Rooms Managed (1,000)	556	546	549	557	567	578
Term Average Occupancy Rates (%)	81.2	82.9	84.6	86.8	88.0	89.0

- ✓ The targets for the number of rooms managed and occupancy rates are 580,000 and 89.0% respectively. These figures represent a conservative increase of 30,000 from the actual figure recorded in fiscal year March 2014 on the back of replacement demand.
- ✓ Therefore, Leopalace21 will leverage its directly operated offices as well as its “Leopalace Partners” franchised offices and partnerships with real estate companies to capture tenants.
- ✓ Furthermore, the Company seeks to differentiate itself from its competitors through an expansion of its tenant services.
- ✓ The “MY PAGE” website designed especially for tenants has begun to offer special services and products of

collaborating companies. Currently, there are 15 collaborating companies that use this website to market their products and services. Given the large potential customer base of 550,000 tenants, this business is expected to grow strongly in the future.

## ② Construction Business

	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
Sales (Billion Yen)	107.8	62.9	53.3	63.1	<b>75.0</b>	<b>92.5</b>	<b>100.0</b>
Operating Margin (%)	33.8	26.6	24.7	23.7	<b>22.8</b>	<b>24.5</b>	<b>25.1</b>

- ✓ The hosting of the 2020 Olympics by Tokyo is expected to allow occupancy rates in the leasing business to trend strongly in the major metropolitan areas. Based upon this outlook, Leopalace21 is expected to leverage this opportunity to expand its sales to achieve its sales target of ¥100.0 billion in the final year of the New Midterm Business Plan.
- ✓ In order to achieve this sales target, the number of offices has been expanded to 60, and the number of staff has been doubled from the level two years previous to 510 at end April 2014.
- ✓ Among the specific strategies are measures to expand orders and construction of apartments that have been fortified to respond to the needs of tenants. Also, efforts to fortify product lineup to respond to the requirements of various properties are also anticipated for nursing homes and commercial facilities.
- ✓ With regard to custom ordered homes, the number of homes constructed has risen to about 10 units. However in order to prepare for full scale construction, Leopalace21 has formed a collaborative alliance with “Morizou Co., Ltd.”, which boasts of a track record in homes using Japanese cypress trees, and has begun to take orders. This product lineup targets property owners rather than developing a wide range of customers and acts as a product to expand earnings.

## ③ Elderly Care Business

- ✓ In order to respond to the expansion in the number of senior citizens, the elderly care business segment has been identified as a strategically important business and a “marketing division” function has been added to this segment in reflection of its growing importance as a core business.
- ✓ Leopalace21 will promote opening of new nursing home facilities through proposal to property owners and pursue economies of scale.
- ✓ As of March 2014, a total of 61 facilities were in operation, and the target is 90 in the final year of the New Midterm Business Plan.
- ✓ The securing of employees to staff new facility openings is expected to contribute to increased expenses and continued losses during fiscal years March 2015 and 2016. However in the final year of the New Plan, a profit at the operating level is expected to be achieved.

## ④ Hotels and Resort Business

Leopalace21 seeks to provide high quality hospitality and the best possible service to its stakeholders at the Leopalace Hotels and Guam Resort. Also, this business will contribute to the promotion of sales in its core businesses (Leasing and construction).

## ⑤ Solar Power Electricity Generation Business

- ✓ In addition to the traditional flow type business of solar power electricity generation business, the electric power generation company “Leopalace Power” will rent rooftop space to install its own solar power electricity generating systems.
- ✓ As of end March 2014, Leopalace21 had installed a total of 9,001 units of solar power electricity generating systems including the installation of systems by the expense of property owners and by Leopalace21.
- ✓ Approximately ¥15.0 billion of the total funds raised by the financing through public offering conducted in December 2013 are expected to be used to install 3,000 units of solar panels. In addition to the currently installed 1,047 units, another 2,000 units are expected to be installed by November 2014.

- ✓ Most all of the divisions in the “others” business segment are expected to see increases in sales. Profitability in this business is expected to begin contributing to overall earnings from the fourth year of operations due to the large depreciation burden in the initial phases of this business.

#### ⑥ Overseas Business

- ✓ Leopalace21 will fortify both its inbound and outbound business services in Southeast Asia, and strengthen its relations with local companies in these respective regions.
- ✓ Leopalace21 currently operates 10 offices in four countries, and targets 20 offices to be operating in the final year of the New Plan.
- ✓ In addition, the Company is expected to continue to secure additional staff for both its construction and elderly care business segments.

#### ⑦ New Businesses Endeavors

Leopalace21 is expected to make aggressive investments to secure growth in peripheral businesses (Solar power electricity generation systems installed on rented rooftops, nursing home construction, elderly care business) in its core business segments (Leasing and construction businesses) and new businesses (Overseas real estate, ASEAN region real estate development).

### <4. Finance>

#### ① Cash Flow

Operating cash flow is expected to increase along with the Company’s earnings. The net outflow of cash in investing activities is expected to increase during fiscal year March 2015 due to investments in solar power electricity generation systems. But in fiscal year March 2016 and 2017, free cash flow is expected to improve considerably.

(Units: Billion Yen)

Cash Flow	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
Operating	6.0	15.5	18.0	22.0	26.0
Investing	-0.0	-6.9	-11.0	-2.5	-2.5
Free	6.0	8.6	7.0	19.5	23.5

#### ② Capital Strategy

Net assets are expected to be fortified in the coming terms along with strong performance in net income. Based upon this fortified financial position, aggressive investments are expected to be made in new businesses.

(Units: Billion Yen, %)

	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
Net Assets	58.1	104.8	117.0	133.0	152.0
Equity Ratio	22.2	36.5	41.0	45.0	48.0

#### ③ Dividend Strategy

(Units: Billion Yen)

	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
Retained Earnings	-51.1	-49.7	-37.9	-23.3	-11.0	5.0	22.0
Capital	56.5	56.5	62.8	75.2	75.2	75.2	75.2
Capital Reserves	33.7	33.2	39.4	51.5	51.5	51.5	51.5

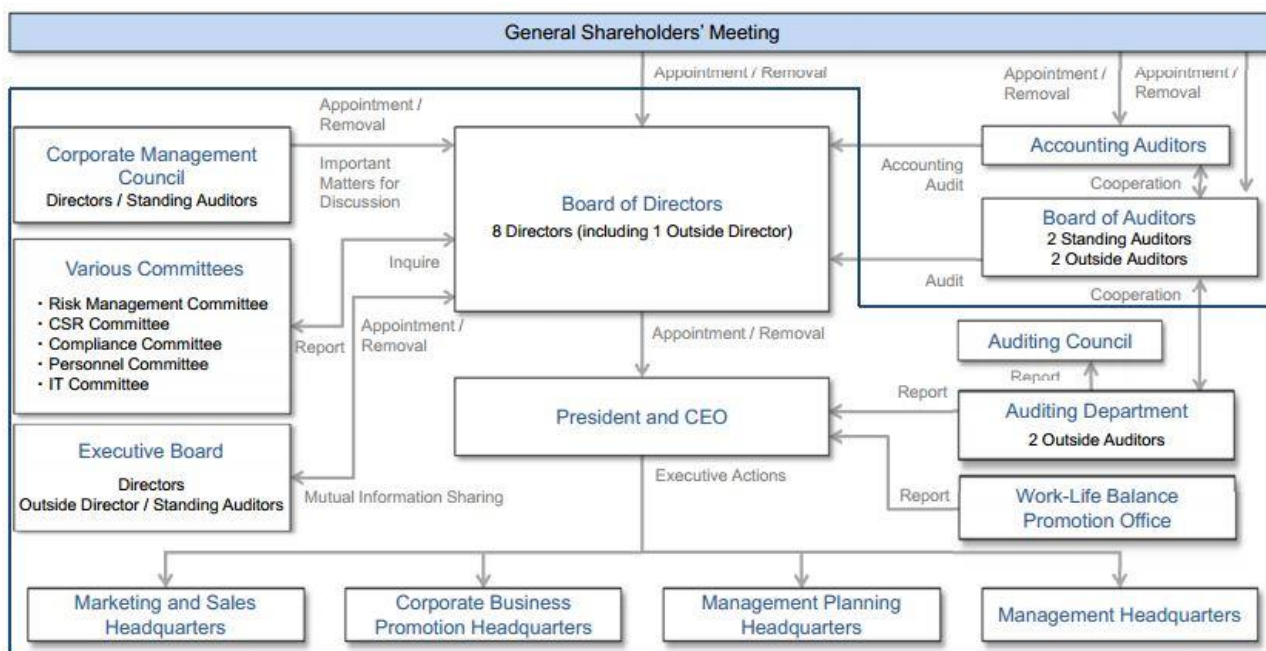
The stockpiling of earnings is expected to allow retained earnings to grow and enable Leopalace21 to reinstate dividend payments at an early stage.



<5. Governance, CSR>

① Corporate Governance

Leopalace21 identifies the maintenance of a strong corporate governance structure as a highly important management issue. Furthermore, the Company will endeavor to conduct a management strategy that achieves high levels of transparency, fairness and efficiency to promote higher value addition for all of its stakeholders.



(Source: Leopalace21)

② CSR

Based upon the corporate philosophy of “creating new value”, Leopalace21 endeavors to contribute to a sustainable society, in addition to respond to the expectations of its customers and various stakeholders and contribute to their development. Specifically, the Company is implementing the measures listed below.

Provision of housing that matches tenant lifestyles
24 hour apartment supervision services
ISO9001 certification acquisition
Cleanup campaigns of the areas surrounding managed properties
Introduction of solar power electricity generation systems
Promotion of good work, life balance
Diversification of human resources through hiring of foreigners and women
Aggressive investor relations activities

From the perspective of securing human resources given the declining population caused by falling birthrates and aging of the population, the number of companies increasing their hiring of a diverse range of human resources is on the rise and Leopalace21 is seeks to provide work opportunities for foreigners and women.

With regard to the development of one room studio type condominium products such as “Arma-L” and “Arma-L tri-EL,” hit products have been created by taking the opinions of female employees into consideration. At the same time, a special sales team composed of only female staff has been formed to conduct marketing to industries where female sales staff are more effective. Female staff are also selected to become team leaders and are increasingly selected for managerial positions.



In addition, Leopalace21's businesses are being offered both inbound and outbound to Japan and in overseas markets, with rapid increases in employment of local staff in overseas markets and foreigners within Japan being seen in recent years. At the same time, foreign employees are increasingly being selected to serve in managerial positions.

Employee Numbers	End 3/12	End 3/13	End 3/14
Males	4,225	4,366	4,542
Females	2,151	2,330	2,584
Female Managers	36	39	44
Foreigners	120	157	185
Foreigner Managers	16	16	18

- Consolidated basis

## 6. Conclusions

Occupancy rates are continuing to increase. In particular, the focus upon key concepts of “newly constructed” and “major metropolitan regions” has been a supporting factor for these improved occupancy rates. Compared with the overall occupancy rate of 87.5% recorded at end March 2014, occupancy rates of properties less than three years since construction trended at nearly full capacity of 96.8%. In addition, occupancy rates at properties constructed within three years in the Tokyo, Saitama, and Kanagawa regions boast of even higher occupancy rates of 98.1% (far above the average), 98.1% and 97.0% respectively. These high occupancy rates reflect the success of Leopalace21's strategy of focusing their construction of housing in regions where there is strong demand.

In the future, a major issue is how quickly Leopalace21 can cultivate latent demand to replace the aging housing supply in the major metropolitan and Tokyo regions of 800,000 and 400,000 units respectively, while protecting its earnings from negative fluctuations in the economy such as what happened after the Lehman Shock. And this factor is expected to have a strong influence in how the New Midterm Business Plan will progress towards the achievement of its goals.

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