

Bridge Report Leoplace21 Corporation (8848)

 Eisei Miyama, President	Company	Leoplace21 Corporation	
	Stock Code	8848	
	Exchange	Tokyo Stock Exchange 1 st Section	
	Industry	Real Estate	
	President	Eisei Miyama	
	HQ	2-54-11 Honcho, 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	http://eg.leoplace21.com	

— Stock Information —

Share Price	Shares Outstanding		Market Cap	ROE(actual)	Trading Unit
¥702	262,874,485 shares		¥184.538 billion	12.5%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
TBD	-%	¥60.87	11.5x	¥481.05	1.5x

*Stock prices as of the close on May 25, 2015. Number of shares issued at the end of the most recent quarter excluding treasury shares.

— Consolidated Earnings Trends —

(Unit: ¥mn)

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	483,188	14,763	13,424	14,507	55.19	0.00
March 2016 Est.	525,000	19,500	18,000	16,000	60.87	TBD

*Estimates are those of the Company.

This Bridge Report introduces the fiscal year March 2015 earnings results and business strategies for Leoplace21 Corporation.

— Table of Contents —

1. Company Overview
 2. Fiscal Year March 2015 Earnings Overview
 3. Fiscal Year March 2016 Earnings Estimates
 4. Conclusions
- <Reference: New Midterm Business Plan “Expanding Value”>

Key Points

- **Sales during fiscal year March 2015 rose by 2.6% year-on-year but fell 2.1% below estimates to ¥483.1 billion. The leasing business sales were stronger sales than estimates and rose year-on-year, but the construction business sales were weaker than estimates and declined year-on-year. Sales, general and administrative expenses exceeded the previous year's levels, but higher gross income absorbed these costs and allowed operating income to rise by 8.0% year-on-year.**
- **During fiscal year March 2016 sales are expected to rise by 8.7% year-on-year to ¥525.0 billion on the back of continued strength in the leasing business, and a recovery in the construction business, with all sectors expected to see sales growth. Operating income is expected to rise by 32.1% year-on-year to ¥19.5 billion. While SG&A expenses are expected to rise by 13.1% year-on-year on the back of increases in personnel for the construction business, the higher sales and gross income are expected to be able to absorb these higher expenses. While the actual amount has yet to be determined, a reinstatement of dividends is anticipated.**
- **The potential for reinstatement of dividends, which has been looked forward to by shareholders and investors, is very high given the strong earnings performance of Leopalace21. However, the share price appears to have yet to fully respond to the potential reinstatement of dividends and favorable earnings, and seems to be waiting for further positive news. The PER and PBR valuations relative to its peer group appears to be an indication that further positive earnings developments will be necessary for the share price to respond. The market looks forward to the turn to profits of the elderly care and other business segment and creation of other highly profitable businesses.**

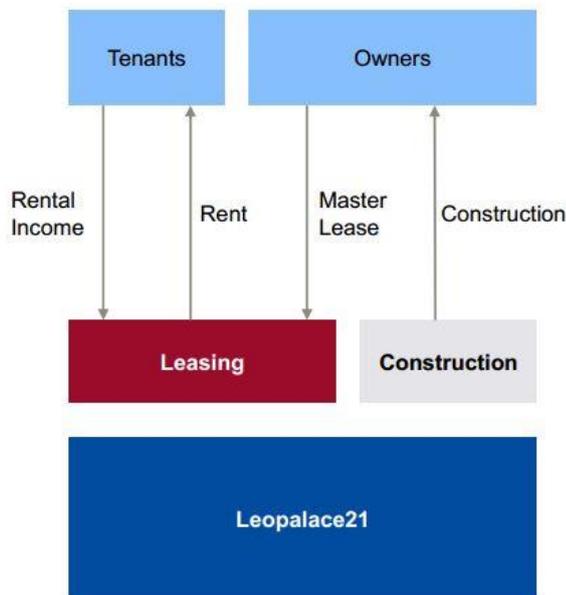
1. Company Overview

Leopalace21 was the first in the industry to offer “guaranteed leasing services” that integrate residential property and condominium construction, and management services after their construction to landowners 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 554,948 units as of the end of March 2015 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 electric 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 landowners 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. At Leopalace21, the increases in cancellation of its corporate contracts led to “negative spread” and a deterioration in the profitability of its 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.

Conduct a balanced construction business	Focus upon creating new supplies of housing in regions where high occupancy rates can be expected as a means of expanding earnings of the leasing business
Leasing business earnings improvement	Reducing costs of leasing, realizing appropriate rent
Construction of facilities that do not have guaranteed leasing	Expand the realm of construction business projects
Increase value addition of properties to increase resident satisfaction	Consider the viewpoint of tenants to increase stable, long-term tenant numbers

<Market Environment>

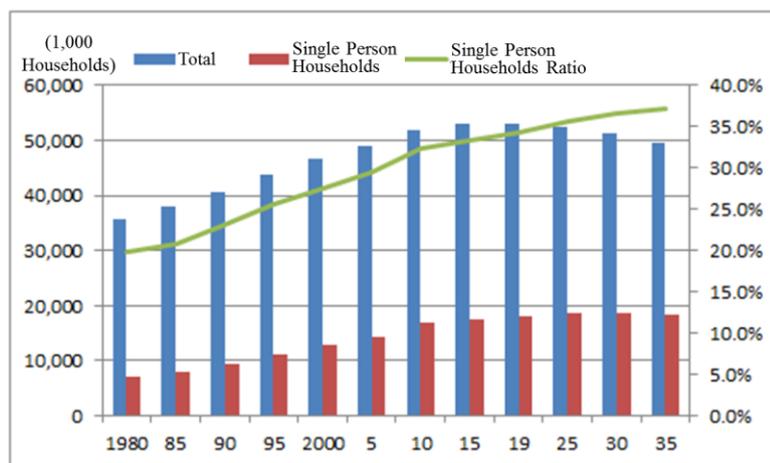
① Number of Household Trends

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. Meanwhile, 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 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 2014 declined by 10.8% year-over-year to 880,470 units in the wake of the rush to buy ahead of the consumption tax hike in the previous year, marking the first time that starts has fallen in five year. Aside from this recent weakness, real estate demand is expected to continue to grow along with the approach of the Tokyo Olympics and Paralympics in 2020. At the same time, longer term growth beyond this period is difficult to envision given the demographic trend of a decline in the population which is unavoidable.

③ Rental Housing Replacement Construction Demand

However, with the view of “rental housing” from the perspective of being a “stock” business within the housing domain of Leopalace21’s business, a different prospect emerges.

According to data released in the Statistics Bureau, Ministry of Internal Affairs and Communications “2013 Housing and Land Statistics Survey Preliminary Estimates (Announced in July 2014),” of some 14.50 million units of privately owned rental homes, some 2.20 million homes were constructed before 1980.

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 significantly 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	Operating Income Margin	ROE	PER (X)	PBR (X)
Token Corporation (1766)	TSE1 st	91,275	266,610	9,475	3.6%	10.3%	15.5	1.7
Daito Trust Construction Co., Ltd. (1878)	TSE1 st	1,094,684	1,431,300	93,000	6.5%	24.1%	17.5	4.6
Japan Property Management Center Co., Ltd. (3276)	TSE1 st	30,777	33,601	1,703	5.1%	30.3%	29.7	10.5
Leopalace21 Corporation (8848)	TSE1 st	184,538	525,000	19,500	3.7%	12.5%	11.5	1.5

* Earnings are estimates of the respective companies. Units are million yen. PER and PBR are ratios of the number of times.

Market capitalization is based on May 25, 2015 closing share price.

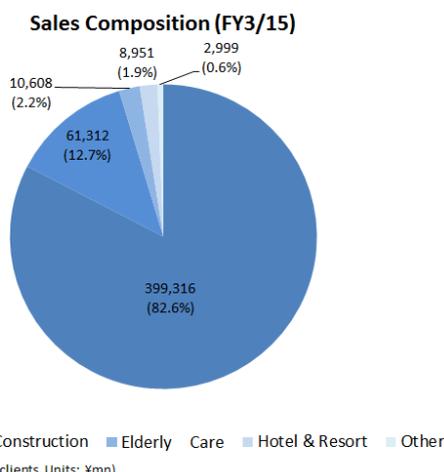
<ROE Analysis>

	FY3/12	FY3/13	FY3/14	FY3/15
ROE (%)	4.8	29.0	18.7	12.5
Net Income to Sales Ratio (%)	0.4	2.9	3.2	3.0
Asset Turnover Ratio (x)	1.6	1.7	1.7	1.6
Leverage (x)	8.4	5.7	3.4	2.6

The sourcing of funds through a public offering conducted in March 2015 led to a decline in leverage, but double digit return on equity (ROE) was maintained. Leopalace21’s REO target for fiscal year March 2017 is 12.3% even after including the impact of tax effect accounting and a reinstatement of dividends could lead to further increases in ROE.

<Business Description>

Leopalace21’s businesses can be divided into the five segments of “leasing,” “construction,” “elderly care,” “hotels and resort,” and “other” businesses. The main business segments are the “leasing” and “construction” businesses and they account for about 96% of total sales.



<Leasing Business>

Sales and Operating Income of ¥399.316 and ¥20.532 Billion Recorded in FY3/15

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 ¥61.312 and ¥0.210 Billion Recorded in FY3/15

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 ¥10.608 and ¥0.606 Billion Recorded in FY3/15

As of end March 2015, a total of 63 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 an attempt to provide care service in local communities. 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 ¥8.951 and ¥1.289 Billion Recorded in FY3/15

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 seven hotels within Japan (Hotel Leopalace Niigata was sold and transferring in July 2015). The hotels 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 ¥2.999 and ¥0.031 Billion Recorded in FY3/15

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

<Characteristics and Strengths>

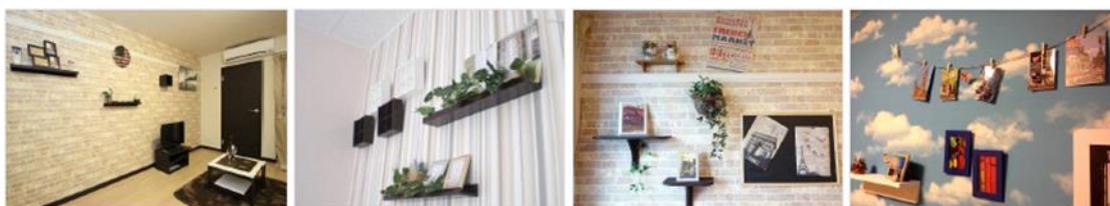
<Focus Upon Three Major Metropolitan Areas>

Of the approximately 550,000 rooms under management nationwide, about 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 Customize”, and installation of security system contributed to the improvement in occupancy rates.

Room Customize



(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 2015, Leopalace21 operated 180 offices directly and 141 offices through franchises for a total of 321 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.

2. Fiscal Year March 2015 Earnings Results

(1) Consolidated Earnings

(Units: ¥mn)

	FY3/14	Share	FY3/15	Share	YY Change	Divergence from Est.
Sales	471,089	100.0%	483,188	100.0%	+2.6%	-2.1%
Gross Income	69,579	14.8%	75,755	15.7%	+8.9%	+0.3%
SG&A	55,906	11.9%	60,992	12.6%	+9.1%	+0.0%
Operating Income	13,673	2.9%	14,763	3.1%	+8.0%	+1.8%
Ordinary Income	11,574	2.5%	13,424	2.8%	+16.0%	+3.3%
Net Income	15,229	3.2%	14,507	3.0%	-4.7%	+20.9%

Sales, Profits Rise YoY; Sales Fall Slightly Below Estimates while Profits Exceed Estimates

Sales rose by 2.6% year-on-year to ¥483.1 billion, but fell 2.1% shy of estimates during fiscal year March 2015. The leasing business sales was able to exceed both the previous year level and estimates, but orders of the construction business during the first half fell short of targets and contributed to a shortfall in sales compared with both the previous year and estimates. The absorption of higher sales, general and administrative (SG&A) expenses than the previous year's level by higher gross income allowed operating income to rise by 8.0% year-on-year. Refund of noncurrent asset taxes were recorded and declines in interest payments allowed ordinary income to rise by 16.0% year-on-year. While net income declined by 4.7% year-on-year due in part to the booking of ¥2.6 billion in deferred tax assets, it exceeded estimates by 20.9%.

(2) Business Segment Trends

(Units: ¥mn)

	Sales	Operating Income

Bridge Report



	FY3/14	FY3/15	YY	vs. Est.	FY3/14	FY3/15	YY	vs. Est.
Leasing	388,768	399,316	+2.7%	+0.6%	15,567	20,532	+31.9%	+17.3%
Construction	63,135	61,312	-2.9%	-18.3%	2,954	210	-92.9%	-94.8%
Elderly Care	10,171	10,608	+4.3%	+1.0%	-610	-606	+4	+394
Hotels & Resort	7,571	8,951	+18.2%	+11.9%	-1,118	-1,289	-171	-589
Other	1,442	2,999	+108.0%	0.0%	137	31	-77.4%	+131
Adjustments	-	-	-	-	-3,256	-4,116	860	+1,184
Total	471,089	483,188	+2.6%	-2.1%	13,673	14,763	+8.0%	+1.8%

* Sales are those to external clients.

<Leasing Business>

- ✓ Sales rose by 2.7% year-on-year to ¥399.3 billion and exceeded estimates by 0.6%. Segment income exceeded both the previous year's levels and estimates by large margins and reached ¥20.5 billion, having exceeded the ¥20 billion marks for the first time.
- ✓ Reversals of vacancy loss reserves of ¥4.0 billion rose from the previous fiscal year and from the full year estimate of ¥3.3 billion.
- ✓ Average occupancy rates during fiscal year March 2015 rose by 2.0% points from the previous term to 86.57%. The term of stay of residents is increasing along with the lengthening of lease contracts as a means of realizing stable occupancy rates. However, actual occupancy rates fell 0.23% points below estimates. Occupancy rate target for fiscal year March 2016 reflects a conservative outlook and calls for a small 1.4% point increase to 88.0% given that occupancy rates got off to a good start in April 2015 at 87.88%. (The previous record high occupancy rate was 92.8% recorded in March 2007 prior to the Lehman Shock.)
- ✓ Fortification of marketing to corporate accounts contributed to a 6.6% year-on-year increase in the number of corporate resident contracts to record high 262,577 units. Furthermore, these corporate contracts rose by 1.7% point year-on-year to account for 53.0% of the total number of contracted leased units. The client industries which saw strong double digit growth included the construction, food service, labor dispatching and business process outsourcing industries. In addition, demand from other industries was also strong.
- ✓ At the same time, expansion in the number of contracted individual and student residents is an important issue for Leopalace21. The implementation of various measures that take the viewpoint of residents into consideration, strengthened marketing efforts by creating a section specifically targeting schools and universities from October 2014, and aggressive television commercials have been conducted to increase the brand recognition of the Company's services.
- ✓ The "Room Customize" service continues to be regarded highly by individual residents. The aggregated number of contacts from May 2012 to end March 2015 stood at 21,573, as a result of favorable increase. Seminars regarding customization and various customization competitions were also hosted as part of a strategy to increase the recognition of these services. The overall ratio of male to female residents is 70% to 30%, whereas the ratio of male to female residents in the customized room service is 50% to 50%, with women contributing significantly to earnings in this service.
- ✓ The number of resident contracts formed with foreigners stood at 14,366 at end March 2015. The steady increase in foreign residents is a result of successful efforts including the creation of a team specializing in foreign residents and establishment of a call center for foreigners. By nationality, the number of Chinese, Vietnamese, and Korean resident households stood at 7,033, 1,995 and 1,336 respectively. To further expand the number of Vietnamese residents, the Hanoi office was opened in January 2015. By category of contracts, students and working adults accounted for 59% and 41% respectively of all contacts with foreign residents.
- ✓ At the end of March 2015, the number of units equipped with a security system reached 226,801 for an installment ratio of 40.9% of the total number of units managed by the Company. However, the Company has decided to install security systems only at units less than 15 years old, the substantial rate of installment is higher than 50%. In addition to these security system installations being booked as sales of facility improvements, they contribute to earnings on a monthly basis through usage fees in addition to rent, which means an increase in stock model income.

5,505 crime prevention surveillance cameras have been installed. Going forward, the Company will gain a competitive edge by installing surveillance cameras, anti-crime shutters and other facilities to strengthen the safety and security of residential environment, and will keep an eye to satisfy the needs of female residents and security-conscious large companies.

<Construction Business>

- ✓ Sales of ¥61.3 billion recorded during the current term fell below both estimates and the previous year's levels. Among the factors behind this were the facts that solar panel installations at the expense of property owners have been completed and that the focus of the solar panel business has now shifted to the leasing of roof top space of property owners for installation at the expense of Leopalace21. Consequent to these developments, segment income fell below both targets and previous year's levels. Competition intensified and costs increased. At the same time, total orders recorded a mere single-digit increase of 7.7%, while total orders for apartments excluding solar power generation rose favorably by 25.5% year-on-year. In the future, the Company will endeavor to grow orders by maintaining its area specific strategy while at the same time strengthening its organization through hiring of marketing staff.
- ✓ New efforts are being conducted in the marketing structure including the formation of specialized marketing teams that are comprised of only female employees (Five teams, 25 members). These teams will mainly pursue route sales to develop relationships with new property owners such as tax accountants and financial institutions, but will also engage in business matching and cultivation of properties including aging facilities (For reconstruction).
- ✓ The number of offices in the construction business as of end March 2015 stood at 60. As a result of the strategy of focusing upon key geographic regions, 46% of this segment's sales were derived from the Tokyo and surrounding areas and 70% from the three major metropolitan areas in Japan (Tokyo, Nagoya, Osaka).
- ✓ "UNI-BIRTH" facilities (Launched in May 2014) that are useful to younger customers who are living alone for the first time and "L-SECTion" (Launched in December 2014) first floor residential facilities with increased amenities boast of industry leading levels of soundproofing, safety, security and furnishing options for furniture and electric appliances to be supplied by Leopalace21. Maintaining all these strengths of the existing brands, the two new brands, "MIRANDA" and "CLEINO," have been launched in May 2015 as means of increasing the competitive edge and recasting the public image of their services.
- ✓ Morizo Co., Ltd., which builds custom-made homes made of the renowned Kiso cypress wood and with which a collaborative agreement was started from May 2014, was turned into a subsidiary at end March 2015. Also, diversification of the marketing of construction services to property owners is being conducted.
- ✓ Construction sales of residences for the elderly fell below the previous year's levels of ¥3.6 billion to ¥2.8 billion. Construction of commercial facilities also fell below the previous year's levels.

<Elderly Care Business>

The Midterm Business Plan calls for synergies to be pursued between the elderly care business and the construction business. Moreover, this business also plays a role in the Company's efforts to make contributions to the local communities and they plan to open 29 facilities within the next three years for a total of 90 facilities in operation. While the focus of the facility openings had been in the Tokyo metropolitan region, openings are being expanded into the Nagoya and surrounding Chubu region as well. 63 "Azumi En" assisted nursing care homes were operated in the Tokyo and six other prefectures as of end March 2015. Operating rates of the day care services fell below both the estimates and the previous year's actual results. However, operating rates of the short stay and pay nursing homes remained at full capacity.

<Hotels & Resort Business>

Domestic hotel sales fell slightly below both estimates and the previous year's results at ¥2.2 billion. However, usage by corporate clients of the leasing business allowed occupancy rates to exceed both estimates and the previous year's results. An operating loss of ¥30 million was incurred. The Guam resort saw its sales rise above both estimates and the previous year's results on the back of favorable occupancy rates. Military personnel use also started from August 2014.

< Business of Installing Solar Panel Electric Generating Systems on Rented Rooftop >

The number of buildings with solar panels installed at the expense of property owners stood at 7,129 as of end March 2015. And now the focus of Leopalace21's activities in this realm is to install "solar power electric generating systems on rented rooftops" at the expense of the Company. The number of buildings with solar power panels installed at the expense of Leopalace21 stood at 12,356 as of end March 2015, with the ratio of installations to total residential properties with potential for installation of 55%.

	FY3/14	FY3/15	Aggregate
Buildings installed	1,114	2,855	3,969
Actually generating power	680	3,102	3,782
Power generation capacity	21.4MW	37.2MW	58.7MW
Electric power sales	¥0.10 bn	¥1.46 bn	¥1.57 bn
Total power generation	About 2,700MWh	About 36,600MWh	About 39,300MWh

* The above data include the Fukushima Validation Model totaling 67 units and 1.2MW of power capacity. Total power generation is that within the specified term. Electric power sales are booked in the "other business" segment.

Because the declining balance method was introduced for depreciation, the fact that the amount of annual depreciation is currently the same is contributing to losses. However a profit is expected to be seen from the coming term as the depreciation is expected to end and the profit margin is expected to recover to about 20%. With a view to the complete deregulation of retail electric power in 2016, the subsidiary Leopalace Energy Corporation is considering the sale of electric power to apartment residents.

<Overseas Deployment of Leasing Business>

Real estate brokerage services targeting Japanese nationals and corporations were started in Korea and Taiwan, and then expanded into Thailand and Vietnam in December 2013. Marketing for similar services were started in Cambodia, Myanmar, and Shanghai on August 1, 2014, and an office was opened in Hanoi in January 2015. In addition, the WooriLeo PMC Co., Ltd. in Korea started its full-scale marketing of leased property management services following the February 2014 enforcement of local legislation. WooriLeo is a joint venture established on the basis of know-how developed in Japan with an expectation that Korea will become a growth market. As of end March 2015, the number of properties managed by WooriLeo PMC had risen to 452 units, steadily from 178 and 321 units at end September 2014 and end December 2014 respectively. These growth rates are actually lower than had been expected due to Koreans' lack of familiarity with leased property management system, but WooriLeo PMC plans to steadily expand its business through explaining the effectiveness of the system.

As of end March 2015, the number of overseas branches and subsidiaries in China, Korea, Taiwan, Thailand, Vietnam, Cambodia and Myanmar stood at 5, 2, 1, 1, 2, 1 and 1 respectively for a total of 13 facilities. Furthermore, large-scale apartment operations in Cambodia were started, with construction started in April 2015 and completion expected in two years. The apartment under construction is geared to local Japanese nationals seeking a safe and comfortable rental apartment. By expanding business into Vietnam and Indonesia in the future, Leopalace21 aims for the top in leased apartment management services outside Japan.

<Other Business>

Training of skilled workers in Vietnam is currently underway to solve the shortage of construction workers in Japan. The first group of 20 Vietnamese skilled workers trained in the basics of both the Japanese language and architectural skills will arrive in Japan in June. Their actual employer will be each of the construction companies that provide construction services for Leopalace21 at various properties throughout Japan.

(3) Financial Conditions

(Units: ¥mn)

	3/14 End	3/15 End		3/14 End	3/15 End
Cash, Equivalents	74,767	75,221	Payables	2,685	2,803
Receivables	5,490	6,254	Unpaid Construction Expenses	12,128	14,049
Uncollected Fees for Completed Construction	1,651	1,714	ST Interest-Bearing Liabilities	3,500	24,525
Prepayments	6,679	3,656	Outstanding Payments	16,001	18,466
Current Assets	102,324	102,263	Prepayments Received	45,051	40,781
Buildings, Structures	57,073	59,899	Current Liabilities	92,560	116,521
Equipment, Machinery	3,950	15,115	LT Interest-Bearing Liabilities	27,997	11,156
Land	81,800	83,289	Long-Term Prepayments	27,628	22,198
Lease Assets	5,167	7,880	Long-Term Security Deposits	8,492	8,019
Marketable Securities	7,257	6,832	Vacancy Loss Reserves	9,352	5,280
Long-Term Expense Prepayments	3,719	3,416	Retirement Reserves	10,050	9,351
Fixed Assets	185,100	205,887	Fixed Liabilities	90,037	65,279
Total Assets	287,459	308,274	Total Liabilities	182,598	181,801
			Net Assets	104,860	126,473
			Total Liabilities, Net Assets	287,459	308,274

	3/10 End	3/11 End	3/12 End	3/13 End	3/14 End	3/15 End
Equity Capital	70,890	33,025	33,804	58,133	104,829	126,455
Equity Ratio	17.9%	11.1%	12.8%	22.2%	36.5%	41.0%
Interest-Bearing Liabilities	56,481	39,888	48,305	46,874	31,497	35,681
Cash	72,431	40,674	41,477	56,681	74,767	75,221
NDE Ratio	-0.23	-0.02	0.20	-0.17	-0.41	-0.31

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

Compared with end March 2014, a ¥11.1 billion increase in machinery and delivery equipment associated with the solar power generation business contributed to a ¥20.8 billion rise in total assets to ¥308.2 billion. While similar business investments contributed to an increase in short term interest-bearing liabilities, declines in long-term liabilities and vacancy loss reserves contributed to a ¥0.7 billion decline in total liabilities to ¥181.8 billion. Net assets grew by ¥21.6 to ¥126.4 billion due in part to retained earnings turning positive. As a result, equity ratio rose by 4.5% points from the end of March 2014 to 41.0%.

(4) Topics

◎ Decline in Capital Reserves, Disposal of Retained Earnings

Leopalace21 seeks to resume dividend payments at an early stage, while maintaining the objectives of coverage of deficits associated from retained earnings carried forward and a flexible and dynamic capital policy, and will implement “reductions in capital reserve surplus” and “disposal of retained earnings.”

Procedure 1: Capital Reserves Decline

Capital reserves will be reduced by ¥5.0 billion from its current level of ¥50.3 billion, and be allocated to other capital surplus. The reduced capital reserves will stand at ¥45.2 billion.

Procedure 2: Retained Earnings Disposal

Coverage of deficit from retained earnings carried forward will be conducted after allocation of the total value of other capital reserves for other purposes.

Other Capital Reserves to Decline by ¥6.2 Billion

Retained Earnings Carried Forward Rise by ¥6.2 Billion

Leopalace21 on a non-consolidated basis saw a deficit in capital reserves carried forward of ¥6.2 billion at end March 2015. However, as a result of the above-mentioned allocations this deficit was eliminated and preparations for reinstatement of dividends have been completed. Estimates for net income during fiscal year March 2016 (Non-consolidated) call for ¥15.6 billion and can resolve any deficit. However, in case of resolution of the deficit, announcement of reinstatement of dividends will be delayed until the next year. Out of such concern, this capital policy was made to express the Company's intention of reinstating dividends to shareholders and investors at an early stage. A resolution for the above-mentioned capital policy will be effective after it is passed in the shareholders' meeting scheduled to be held on June 26, 2015.

◎ Promotion of Diversity

Leopalace21 will grow its businesses by deploying them in both directions: "from Japan to overseas" and "from overseas to Japan." Therefore, in recent years, the Company has been employing more and more local staff in overseas and foreign staff in Japan, with the number of foreigners in management positions increasing. In addition, Leopalace21 is also proactively promoting a work environment where women can prove their skills, along with the formation of all female marketing teams and new product and service development from the viewpoint of female customers.

	3/12 End	3/13 End	3/14 End	3/15 End
Male Employees	4,225	4,366	4,542	4,776
Female Employees	2,151	2,330	2,584	2,886
Female Managers	36	39	44	60
Foreign Employees	120	157	185	215
Foreign Managers	16	16	18	22

* Consolidated Base

3. Fiscal Year March 2016 Earnings Estimates

(1) Consolidated Earnings

(Units: ¥mn)

	FY3/15	Share	FY3/16 Est.	Share	YY Change
Sales	483,188	100.0%	525,000	100.0%	+8.7%
Gross Income	75,755	15.7%	88,500	16.9%	+16.8%
SG&A	60,992	12.6%	69,000	13.1%	+13.1%
Operating Income	14,763	3.1%	19,500	3.7%	+32.1%
Ordinary Income	13,424	2.8%	18,000	3.4%	+34.1%
Net Income	14,507	3.0%	16,000	3.0%	+10.3%

Favorable Operating Environment Contributes to Increases in Both Sales and Profits

Leopalace21's earnings estimates call for sales to rise by 8.7% year-on-year to ¥525.0 billion on the back of continued strong demand for leasing business services, a recovery in construction business. Growth is expected in sales of all business segments. Consequently, operating income is expected to rise by 32.1% year-on-year to ¥19.5 billion, due in part to a 1.2% point improvement in gross margin. SG&A expense is expected to rise by 13.1% year-on-year, but the higher sales and gross income are expected to be able to absorb these higher expenses. And while the actual value amount has yet to be determined, dividends are expected to be reinstated.

(2) Segment Business Trends

(Units: ¥mn)

	Sales			Operating Income		
	FY3/15	FY3/16 Est.	YY Change	FY3/15	FY3/16 Est.	YY Change
Leasing	399,316	411,000	+2.9%	20,532	21,500	+4.7%
Construction	61,312	86,000	+40.3%	210	3,500	+1,566.7%
Elderly Care	10,608	11,200	+5.6%	-606	-1,400	-793
Hotels & Resort	8,951	12,500	+39.6%	-1,289	-500	+789
Other	2,999	4,300	+43.4%	31	-100	-131
Adjustments	-	-	-	-4,116	-3,500	+616
Total	483,188	525,000	+8.7%	14,763	19,500	+32.1%

* Sales represent those to external customers.

<Leasing Business>

Occupancy rates continue to trend higher. Increases in rent paid accompanying a rise in new properties and declines in vacancy loss reserves reversals are expected to contribute to low growth in profits, but gross income margin is expected to rise from 15.7% of the previous term to 16.1%.

<Construction Business>

Efforts are being promoted to quickly turn new employees into productive marketing staff to capitalize on business opportunities presented by inheritance tax revisions and to promote aggressive order taking activities. While the year has gotten off to a slightly slow start, a recovery expected to begin in the first half is expected to contribute to acceleration in growth during the second half.

The elderly care business is also expected to see higher sales, but the margin of decline in profits is expected to increase due in part to anticipatory investments. Emphasis is expected to be placed on provision of services to various stakeholders in the hotels and resort business, along with efforts to further improve the levels of hospitality provided in this business. A turn from profit to loss is anticipated with regard to operating results in the other business due to increased depreciation arising from solar power electric generating systems installed on rented rooftops.

4. Conclusions

The probability of a reinstatement of dividends, which had long been awaited by investors and shareholders alike, is extremely high given the favorable earnings environment. However, the market is likely to remain focused upon the next phase of Leopalace21's growth based upon the fact that the shares have underperformed. Compared with its competitors in terms of price to earnings and price to book valuations (PER, PBR), a further improvement in earnings is likely to be required for the market to focus upon the Company's shares. A turn to profitability of the elderly care business at an early stage, or creation of other highly profitable new businesses is awaited by the market.

<Reference>**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, the seven regions that saw an excess of new residents were 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"> • Profit increase arising from improvement in leasing income • Promote solar power electricity generation, security systems, and other services to raise value of properties • Promote orders, construction of structures other than apartments (Nursing homes, commercial facilities) 	<ul style="list-style-type: none"> • Acquire individual residents • Improve profitability of construction business • Expansion of new businesses (Overseas deployment) • Expansion of elderly care business

③ Quantitative Targets

<Earnings Trend>

(Units: Billion Yen)

	FY3/13	FY3/14	FY3/15	FY3/16 Est.	FY3/17 Target
Sales	454.2	471.0	483.1	525.0	540.0
Operating Income	7.4	13.6	14.7	19.5	22.0
Ordinary Income	11.0	11.5	13.4	18.0	21.0
Net Income	13.3	15.2	14.5	16.0	19.0
EPS (¥)	74.5	67.2	55.2	60.9	71.7
Equity Ratio	22.2%	36.5%	41.0%	45.0%	48.0%
ROE	29.0%	18.7%	12.5%	12.0%	12.3%
ROA	5.1%	5.5%	4.9%	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 14.6%, 61.8% and 25.0% respectively in fiscal year March 2017 over fiscal year March 2014.

<Segment Business Trend>

(Units: Billion Yen)

	FY3/13	FY3/14	FY3/15 Est.	FY3/15 Act.	FY3/16 Target
Leasing					

Bridge Report



Sales	383.5	388.7	397.0	399.3	411.0
Operating Income	8.6	15.5	17.5	20.5	21.5
Construction					
Sales	53.3	63.1	75.0	61.3	86.0
Operating Income	2.7	2.9	4.0	0.2	3.5
Elderly Care					
Sales	9.4	10.1	10.5	10.6	11.2
Operating Income	-0.7	-0.6	-1.0	-0.6	-1.4
Hotels and Resort					
Sales	6.6	7.5	8.0	8.9	12.5
Operating Income	-1.0	-1.1	-0.7	-1.2	-0.5
Other					
Sales	1.1	1.4	3.0	2.9	4.3
Operating Income	0.0	0.1	-0.1	0.3	-0.1

While Leoplace21 will continue to pursue stable earnings in its leasing business, it expects to increase both the sales and operating income of its construction business. A loss is expected in the elderly care business due to anticipatory expenses of staff hiring to its facilities. In addition, the increase in other business sales is expected to be derived from sales of solar power electricity generation systems.

This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

Copyright(C) 2015 Investment Bridge Co., Ltd. All Rights Reserved.