



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	
¥675	262,874,485 shares	¥177.440 billion	12.5%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥10.00	1.5%	¥60.87	11.1x	¥515.04	1.3x

*Stock prices as of the close on November 11, 2015. Number of shares issued at the end of the most recent quarter excluding treasury shares.

ROE is based on actual results of the previous term end.

— 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	10.00

*Estimates are those of the Company.

This Bridge Report introduces the first half of fiscal year March 2016 earnings results for Leoplace21 Corporation.

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<Reference: New Midterm Business Plan “Expanding Value”>

KeyPoints

• While sales rose by 8.3% year-on-year to ¥252.3 billion during the first half of fiscal year March 2016, they fell slightly shy of estimates. The leasing business trended favorably, but the construction business fell shy of estimates. Price hikes on products and services and reviews of procurement routes allowed gross income margins to improve by 1.9% points. At the same time, sales, general and administrative expenses rose from the previous first half but remained below estimates. Consequently the higher sales and improved profitability allowed operating income to rise by a large margin of 70.9% year-on-year, exceeding estimates by 30%.

• Leopalace21's earnings estimates for the full year remain unchanged and call for an 8.7% year-on-year increase in sales to ¥525.0 billion. All sectors are expected to see higher sales during the full year, with continued favorable trends in the leasing business and a recovery in the construction business during the second half anticipated. Consequently, gross income margin is expected to rise by 1.2% points. Also, the higher sales and strong gross income are expected to be able to absorb a 13.1% increase in SG&A expenses due to increases in staffing and to allow operating income to rise by 32.1% year-on-year to ¥19.5 billion. Dividend payment is expected to be resumed for the first time in seven terms, with a dividend of ¥10 per share anticipated to be paid at the yearend.

• The leasing business is continuing to see favorable trends, with a 1% point rise in occupancy rates in each term recently, and in the Company's prospect, with the potential for overall occupancy rates to rise to 90% to 91% in the near future. Performance of the construction business, on the other hand, will depend on how this segment can achieve top-line growth through quick training of new employees into highly capable sales force. Having overcome a difficult period, Leopalace21 will reinstate dividend payment for the first time in seven years. A close watch should be kept on how the Company's growth strategies will be promoted in both its existing and new businesses.

1. Company Overview

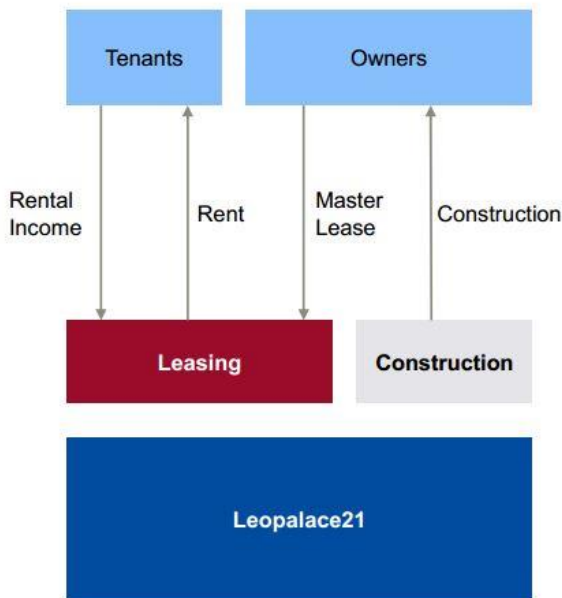
Leopalace21 was the first in the industry to offer “guaranteed leasing services” that integrate residential property and condominium construction, and management services after their construction to landowners seeking to make effective use of their real estate. Sales are primarily the rental income fees received from residents of apartments, condominiums, and other residential properties and construction work to build apartments and condominiums. Leopalace21 managed 558,457 units as of the end of September 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

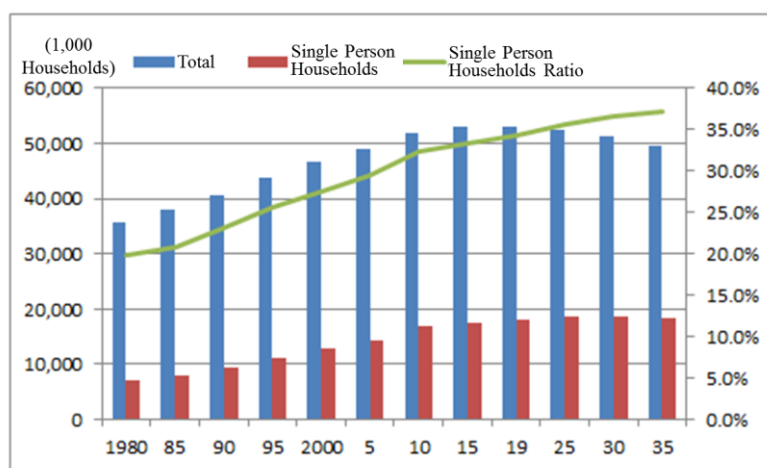
<Market Environment>

① Number of Household Trends

According to 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.

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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	126,229	287,060	10,732	3.7%	11.1%	17.7	2.2
Daito Trust Construction Co., Ltd. (1878)	TSE1 st	1,001,807	1,431,300	93,000	6.5%	24.1%	16.1	3.9
Japan Property Management Center Co., Ltd. (3276)	TSE1 st	20,666	33,601	1,703	5.1%	30.3%	19.8	7.0
Leopalace21 Corporation (8848)	TSE1 st	177,440	525,000	19,500	3.7%	12.5%	11.1	1.3

* 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 November 11, 2015 closing share price.

Improvement of profitability is mid and long-term task for the company, which PER and PBR are lower than competitors.

<ROE Analysis>

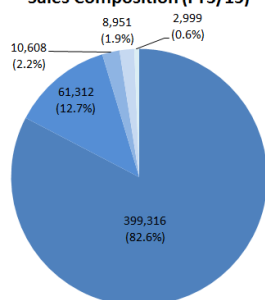
	FY3/12	FY3/13	FY3/14	FY3/15
ROE (%)	4.8	29.0	18.7	12.5
Net Income to Sales Ratio (%)	0.4	2.9	3.2	3.0
Asset Turnover Ratio (x)	1.6	1.7	1.7	1.6
Leverage (x)	8.4	5.7	3.4	2.6

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.

Sales Composition (FY3/15)



■ Leasing ■ Construction ■ Elderly Care ■ Hotel & Resort ■ Other

(Sales to external clients, Units: ¥mn)

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<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 six hotels within Japan (as of September 30). 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 September 2015, Leopalace21 operated 181 offices directly and 132 offices through franchises for a total of 313 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. First Half of Fiscal Year March 2016 Earnings Overview

(1) Consolidated Earnings

(Units: ¥mn)

	1H FY3/15	Share	1H FY3/16	Share	YY Change	Divergence from Est.
Sales	233,037	100.0%	252,316	100.0%	+8.3%	-0.3%
Gross Income	35,501	15.2%	43,102	17.1%	+21.4%	+3.4%
SG&A	29,413	12.6%	32,701	13.0%	+11.2%	-3.0%
Operating Income	6,087	2.6%	10,401	4.1%	+70.9%	+30.0%
Ordinary Income	5,546	2.4%	9,645	3.8%	+73.9%	+32.1%
Net Income	5,066	2.2%	8,211	3.3%	+62.1%	+34.6%

Favorable Trends in Leasing Business Contribute to Higher Sales, Profits

While sales rose by 8.3% year-on-year, they fell slightly shy of estimates. Despite favorable trends in the leasing business, the construction business fell short of its estimates. Product price hikes, reviews of procurement routes, expansion in production of precast and other construction materials, and other efforts allowed gross income margin to improve by 1.9% year-on-year. And while sales, general and administrative expenses exceeded the previous year's levels, they were actually kept below estimates. Consequently, the higher sales and improved profitability allowed operating income to rise by a large margin of 70.9% year-on-year to exceed estimates by 30%.

(2) Business Segment Trends

(Units: ¥mn)

	Sales				Operating Income			
	1H FY3/15	1H FY3/16	YY Change	vs. Est.	1H FY3/15	1H FY3/16	YY Change	vs. Est.
Leasing	197,432	203,597	+3.1%	+0.3%	9,561	12,212	+27.7%	+16.3%
Construction	24,650	35,344	+43.4%	-1.8%	-1,374	391	-	-
Eldery Care	5,275	5,371	+1.8%	+1.3%	-237	-576	-	-
Hotels & Resort	4,258	5,538	+30.1%	-13.5%	-130	-301	-	-
Other	1,418	2,464	+73.8%	+7.1%	262	510	+94.7%	+155.0%
Adjustments	-	-	-	-	-1,994	-1,835	-	-
Total	233,037	252,316	+8.3%	-0.3%	6,087	10,401	+70.9%	+30.0%

* Sales are those to external clients.

<Leasing Business>

- ✓ Sales rose by 3.1% year-on-year to ¥203.5 billion, exceeding estimates by 0.3%. Operating income of ¥12.2 billion was recorded, exceeding both the previous year's level and estimates.
- ✓ A reversal of vacancy loss reserves of ¥0.7 billion was booked during the first half, with reversals of ¥2.5 billion expected to be booked during the full year.
- ✓ Occupancy rates rose by 1.6% points year-on-year to an average of 87.56% during the first half. A lengthening of the term of long term lease contracts contributed to stability in occupancy rates. The average occupancy rate target for the full fiscal year March 2016 is 88.0%.
- ✓ The strengthening of the corporate client marketing function contributed to a 6.5% year-on-year increase in the number of corporate resident contracts to 260,978. This increase allowed the share of corporate resident contracts to rise by 1.9% points to 53.3% of total resident contracts.
- ✓ While individual resident contracts rose by 1.2% year-on-year to 180,335, student resident contracts declined by 8.6% year-on-year to 48,458 and contributed to a 1.0% year-on-year decline in total contracts to 228,793. Leoplace21 recognizes this weakness as an ongoing issue to be resolved. In addition to fortification of marketing, an aggressive television commercial strategy has been launched to raise its brand recognition.
- ✓ The "room customization" service, geared to individual residents, continues to be highly regarded. This service

includes such features as free customization of wallpaper and no cleaning deposits deducted at the end of the lease. The cumulative number of lease contracts stood at 23,248 between May 2012 and end September 2015. The ratio of female to male residents using this service is approximately 50% to 50%, compared with 70% to 30% for all the contracts between the Company and its customers. This service has evidently contributed strongly to the ability to acquire female residents.

- ✓ The number of foreign resident contracts at the end of September 2015 declined from the end of March to 13,827, but represents a rise from end June. For further business expansion, infrastructure has been established including a specialized marketing team and a call center to expand the number of foreign residents. By nationality, 6,336 units were from China, 1,947 from Vietnam, and 1,349 from Korea. And within foreign resident contracts, the ratio of students to workers stood at 58% to 42%.
- ✓ The number of security systems installed stood at 242,283 units as of end September 2015 for an installment rate of 43.4%. Since security systems are installed only on properties that are less than 15 years old, the actual installment rate exceeds 50%. Security cameras have been installed at 6,513 buildings, for the installment rate of 18.3%. Going forward, security cameras, security shutters and other facilities will be installed to strengthen the safety and security of the residential facilities and with an eye to satisfying the needs of female residents and security conscious large companies.

<Construction Business>

- ✓ While sales exceeded that of the previous first half, they fell shy of estimates. The aggregate total of new orders, too, fell by 4.3% year-on-year. From the current term, housing orders and sales totaling ¥1.4 and ¥2.0 billion have been added from the acquisition and subsequent turning of Morizou Co., Ltd. into a subsidiary.
- ✓ Efforts to improve profitability allowed profits to exceed both the previous year's levels and estimates.
- ✓ The number of construction business offices nationwide stood at 62 at the end of September 2015. Leopalace21's focused marketing strategy led to a concentration of "guaranteed leased apartments" (Lease agreements where Leopalace21 builds, and then leases total apartment units from landlords for a fixed monthly rental price) in the Tokyo and three major metropolitan regions of 52.3% and 72.6% respectively of total apartments leased.
- ✓ Leopalace21 boasts of residential facilities with industry leading levels of soundproofing, safety and security, and furnished with appliances. As means of increasing the competitive advantage of their services and creating a fresh look of their properties by developing two different brand concepts, the new brands, "MIRANDA" and "CLEINO," have been launched in May 2015.
- ✓ In addition, sales of "Burliant," a wall-type precast concrete product to be used to build high quality apartments was launched in October 2015. By pre-casting concrete parts at their factory, Leopalace21 has been able to shorten the construction period by about two months and reduce the amount of onsite work. In addition, this pre-cast construction technique also contributes to the realization of superior seismic resistance, wind pressure resistance, and water-tightness.

<Eldery Care Business>

Sales rose by 1.8% year-on-year to ¥5.3 billion.

The Medium Term Business Plan calls for synergies to be pursued between the Eldery Care business and the construction business. Moreover, this business also plays a role in the Company's efforts to make contributions to the local regions and 29 facilities are scheduled to be opened within the next three years for a total of 90 facilities. While the focus of the facility openings thus far has been in the Tokyo metropolitan region, new facilities are expected to be opened in Kagamigahara (Gifu Prefecture) in November 2015, Kasugai and Moriyama (Aichi Prefecture) in February 2016, and other parts of the Nagoya and surrounding Chubu region as well. 65 "Azumi En" assisted care nursing homes were operated in the Tokyo and seven other prefectures as of November 1, 2015. Operating rates of the three services fell, but the decline in operating rates of the day care service was caused by the start of operations on Sunday, which had been a day off.

<Hotels & Resort Business>

While sales of domestic hotels fell from the previous year's levels to ¥1.1 billion, they exceeded estimates. Promotion of usage by corporate clients of the leasing business allowed occupancy rates to exceed the previous year's levels. At the same time, operating income exceeded both the previous year and estimates by large margins at ¥37 million.

The total number of hotels in operation declined to 6 units at the end of September due to the sale of Hotel Leopalace Niigata in July 2015.

While sales of the Guam resort exceeded the previous year's level, they fell short of estimates. Also, occupancy rates fell below both the previous year's level and estimates. Consequently, Leopalace21 recognizes the need to develop new customers for this facility.

<Solar Power Electric Generating Systems on Rented Rooftops>

The Leopalace21 Group's investments in the "solar power electric generating systems on rented rooftops" business led to the installation of 521 new units during the first half and brought the total number of units installed to 4,490.

	FY3/14	FY3/15	1H FY3/16	Total
Installations	1,114	2,855	521	4,490
Actually generating power	680	3,102	695	4,477
Power generation capacity	21.4 MW	37.2 MW	8.3 MW	67.0 MW
Electric power sales (¥bn)	0.10	1.46	1.63	
Total power generation	About 2,700 MWh	About 36,600 MWh	About 43,000 MWh	

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

While a loss is currently being seen due to the introduction of declining balance method for depreciation in 2005, profitability is expected to be achieved during the next fiscal year according to Leopalace21's Plan. During peak years, sales of approximately ¥2.5 billion and expectations of an earnings before interest, taxes, depreciation, and amortization (EBITDA) margin of 75% to 80% is also expected to contribute to profits.

With a view to the complete deregulation of electric power sales in 2016, the subsidiary Leopalace Energy Corporation is considering the sale of electric power to residents of apartments.

<Overseas Deployment of Leasing Business>

The Company provides real estate brokerage services targeting Japanese nationals and Japanese corporations in Korea and Taiwan.

Most recently, operations have started in Vietnam along with the opening of the Hanoi office in January 2015 and, furthermore, a local subsidiary started operations in the Philippines in July 2015, a branch office in Siracha, Thailand and a local subsidiary in Jakarta, Indonesia in October 2015.

In addition, WooriLeo PMC Co., Ltd. started full-scale marketing in February 2014. WooriLeo is a joint venture that was established for exporting Japanese-originated know-how to the Korean lease management market, potentially a large future market. As of end September 2015, the number of properties managed by WooriLeo PMC had steadily risen to 666 units from 178 and 321 units at end September 2014 and end December 2014 respectively. Growth rates in these services are actually slower than had been expected due to the lack of familiarity of leased property management system in Korea, but WooriLeo PMC plans steady business expansion through demonstrating the effectiveness of the system.

As of end October 2015, the number of overseas branch offices and subsidiaries in China, Korea, Taiwan, Thailand, Vietnam, Cambodia, Myanmar, the Philippines, and Indonesia stood at 4, 2, 1, 2, 2, 1, 1, 1 and 1 respectively for a total of 15 facilities.

From the current term, development and operation of service apartments in the Southeast Asian region targeting Japanese expatriates working at Japanese firms was started.

In Siracha, Thailand, an 8-story 72-room serviced apartment began operation in October 2015. In addition to a reception desk, the apartment boasts of a swimming pool, gym, sauna and other facilities and is operating at 100% occupancy rates due to strong demand to house expatriates of Japanese companies.

Furthermore, a similar serviced apartment with 13 floors above ground and one below and 48 units is being developed in Cambodia and is expected to be completed in January 2017 and begin operation in April 2017. At the same time, Leopalace21 is also currently considering the development and operation of similar facilities in both Vietnam and Myanmar, with the goal of realizing yields of over 10% on these facilities.

<Other>

In response to the shortage of skilled construction workers within Japan, the Japanese and Vietnamese Governments are providing support for a system to train Vietnamese in construction techniques conducted in cooperation with collaborating construction companies. As the first group of workers who have undergone training in the Japanese language and fundamental construction techniques, 18 Vietnamese workers entered Japan in July 2015. Currently, these workers have been dispatched to nine collaborating construction companies and began working from August 2015. The employment contracts have been entered between the workers and the collaborating construction companies.

(3) Financial Conditions, Cash Flow

(Units: ¥mn)

	3/15 End	9/15 End		3/15 End	9/15 End
Cash, Equivalents	75,221	77,527	Payables	2,803	2,607
Receivables	6,254	5,337	Unpaid Construction Expenses	14,049	10,873
Completed Construction Uncollected Fees	1,714	1,858	ST Interest-Bearing Liabilities	24,525	5,911
Prepayments	3,656	3,212	Outstanding Payments	18,466	12,106
Current Assets	102,263	101,504	Prepayments Received	40,781	36,794
Buildings, Structures	59,899	58,650	Current Liabilities	116,521	85,871
Machinery, equipment and vehicles	15,115	17,015	LT Interest-Bearing Liabilities	11,156	36,689
Land	83,289	83,405	Long-Term Prepayments	22,198	19,313
Lease Assets	7,880	9,155	Long-Term Security Deposits	8,019	7,759
Marketable Securities	6,832	6,560	Vacancy Loss Reserves	5,280	4,542
LT Expense Prepayments	3,416	3,453	Retirement Reserves	9,351	9,744
Noncurrent Assets	205,887	207,311	Noncurrent Liabilities	65,279	88,241
Total Assets	308,274	309,550	Total Liabilities	181,801	174,113
			Net Assets	126,473	135,437
			Total Liabilities, Net Assets	308,274	309,550

	End 3/11	End 3/12	End 3/13	End 3/14	End 3/15	End 9/15
Net Worth	33,025	33,804	58,133	104,829	126,455	135,390
Capital Adequacy Ratio	11.1%	12.8%	22.2%	36.5%	41.0%	43.7%
Interest Bearing Liabilities	39,888	48,305	46,874	31,497	35,681	42,600
Cash, Equivalents	40,674	41,477	56,681	74,767	75,221	77,527
NDE Ratio	-0.02	0.20	-0.17	-0.41	-0.31	-0.26

* Interest-bearing liabilities do not include lease liabilities. NDE Ratio = (Interest-bearing liabilities - Cash, equivalents) / Net Worth

Compared with the end of March 2015, total assets rose by ¥1.2 to ¥309.5 billion on the back of increases in cash and equivalents, machinery, equipment and vehicles in connection with solar power generation system service, and lease assets.

Short-term interest-bearing liabilities declined by ¥18.6 billion, but long-term interest-bearing liabilities rose by ¥25.5 billion. Declines in unpaid expenses contributed to a ¥7.6 billion decline in total liabilities to ¥174.1 billion. Large increases in retained earnings allowed net assets to rise by a large margin of ¥8.9 to ¥135.4 billion. Consequently, capital adequacy ratio rose by 2.7% points from end March 2015 to 43.7%.

◎ Cash Flow

(Units: ¥mn)

	1H FY3/15	1H FY3/16	YY Change
Operating Cash Flow	-3,675	986	+4,661
Investing Cash Flow	-7,671	-3,737	+3,934
Free Cash Flow	-11,346	-2,751	+8,595
Financing Cash Flow	-1,138	5,086	+6,224
Cash and Equivalents	61,640	76,810	+15,170

Increases in profits allowed operating cash flow to turn from a net outflow in the previous first half to a net inflow in the current first half. A decline in acquisition of tangible assets allowed the margins of net outflow in investing cash flow to contract, and the margins of free cash flow to decrease significantly.

The issuance of a corporate bond allowed financing cash flow to turn from a net outflow in the previous first half to a net inflow in the current first half.

Also, cash position grew by a large margin.

(4) Topics**◎ Reinstatement of Dividend for First Time in Seven Years**

Leopalace21 announced on November 6, 2015 that it would reinstate a dividend of ¥10.00 per share during fiscal year March 2016, after its status of “undetermined” for its dividend estimate.

This move reflects the first time that dividends will be paid in seven terms (Pending approval of a resolution expected to be submitted during the annual general shareholders’ meeting to be held in June 2016).

The dividend payout ratio is estimated at 16.4%. Leopalace21 will endeavor to raise its dividend payout ratio to 30% at an early stage, while at the same time working to improve earnings per share (EPS) through various growth investments.

3. Fiscal Year March 2016 Earnings Estimates**(1) Consolidated Earnings**

(Units: ¥mn)

	FY3/15	Share	FY3/16 Est.	Share	YY Change	Attainment Rate
Sales	483,188	100.0%	525,000	100.0%	+8.7%	48.1%
Gross Income	75,755	15.7%	88,500	16.9%	+16.8%	48.7%
SG&A	60,992	12.6%	69,000	13.1%	+13.1%	47.4%
Operating Income	14,763	3.1%	19,500	3.7%	+32.1%	53.3%
Ordinary Income	13,424	2.8%	18,000	3.4%	+34.1%	53.6%
Net Income	14,507	3.0%	16,000	3.0%	+10.3%	51.3%

Outstanding Earnings Estimates Maintained, 3rd Consecutive Term of Higher Sales, Profits on Back of Favorable Leasing Business Trends

Leopalace21 made no changes to its earnings estimates, which call for sales to rise by 8.7% year-on-year to ¥525.0 billion. The outlooks for a continuation of favorable trends in the leasing business and a recovery in the construction business are expected to allow sales of all business segments to rise. Consequent to these higher sales, gross income margin is expected to rise 1.2% points year-on-year and operating income to rise by 32.1% year-on-year to ¥19.5 billion. An anticipated rise in sales, general and administrative expenses of 13.1% year-on-year on the back of higher labor expenses for the construction business is expected to be absorbed by the strong gross income. A ¥10.00 per share dividend is expected to be paid, marking the first time in seven years that a dividend will be paid.

Bridge Report



(2) Segment Business Trends

(Units: ¥mn)

	Sales			
	FY3/15	FY3/16 Est.	YY Change	Est. Attainment Rate
Leasing	399,316	411,000	+2.9%	49.5%
Construction	61,312	86,000	+40.3%	41.1%
Eldery Care	10,608	11,200	+5.6%	48.0%
Hotels & Resort	8,951	12,500	+39.6%	44.3%
Other	2,999	4,300	+43.4%	57.3%
Total	483,188	525,000	+8.7%	48.1%

* Sales represent those to external customers.

(Units: ¥mn)

	Operating Income			
	FY3/15	FY3/16 Est.	YY Change	Est. Attainment Rate
Leasing	20,532	21,500	+4.7%	56.8%
Construction	210	3,500	+1,566.7%	11.2%
Eldery Care	-606	-1,400	-793	-
Hotels & Resort	-1,289	-500	+789	-
Other	31	-100	-131	-
Adjustments	-4,116	-3,500	+616	-
Total	14,763	19,500	+32.1%	53.3%

<Leasing Business>

Conditions remain favorable with continued increases in occupancy rates. While growth in profits is low due to an increase in rental payments arising from increases in newly constructed properties and a reduction in reversals from vacancy loss reserves, gross income margin rose from 15.7% to 16.1%.

<Construction Business>

The quick training and cultivation programs designed to turn new staff into productive sales staff is crucial due to the fact that 60% of sales staff have less than three years of work experience at Leopalace21. Therefore, the Company is pursuing aggressive use of external trainers. At the same time, the Company will enhance competitiveness of products such as precast construction products, and aggressively pursue opportunities to secure orders.

As reflected by the decline in total new orders, sales are also encountering some difficulties. However, efforts to raise profitability are being promoted and Leopalace21 is confident that it can achieve its profit estimates.

The Eldery Care business is expected to see growth in sales, but anticipatory investments are expected to contribute to a large increase in operating loss. In the hotel and resort business, efforts are being made to improve the hospitality service levels offered to customers and various stakeholders. In the other business segment, an increase in depreciation arising from rooftop solar power electric generation systems is expected to cause a loss to be seen at the operating level, compared with a small profit in the previous term.

4. Conclusions

Favorable conditions are continuing in the leasing business. With the exception of the highest ever occupancy rate of 93% in fiscal year March 2007, occupancy rates have risen by over 1% point in each term in recent years and the occupancy rate of properties of less than five years of age in the Tokyo metropolitan region is currently 94.0%. Consequently, Leopalace21 expects overall occupancy rates to rise to between 90% and 91%.

As for the construction business, the key factor will be whether or not top-line growth can be achieved through quick training of young workers into a productive sales workforce.

The announcement of the reinstatement of dividends for the first time in seven years reflects Leopalace21's ability to overcome difficult times and enter a new phase in its business strategy, which is designed to bring about growth in both existing and new businesses.

<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

Bridge Report



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					
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 Leopalace21 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.

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