

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	
¥705	262,874,395 shares	¥185,326 million	14.3%	100 shares	
DPS (Est)	Dividend Yield (Est)	EPS (Est)	PER (Est)	BPS (Actual)	PBR (Actual)
¥22.00	1.7%	¥70.38	10.0x	¥556.06	1.3x

*Stock prices as of the close on June 3rd, 2016. 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	511,424	20,996	19,820	19,432	73.92	10.00
March 2017 Est.	528,000	22,500	21,500	18,500	70.38	22.00

*Estimates are those of the Company. The definition for net income is net income attributable to owners of parent.

This Bridge Report introduces the Fiscal year March 2016 earnings results for Leoplace21 Corporation

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Key Points

▪Leopalace21's sales rose by 5.8% year-on-year to ¥511.4 billion during fiscal year March 2016, and all segments experienced increased profits. However, as construction business's received orders fell short of estimated numbers, the Company's total sales did also. Price hikes, revised suppliers, and expansions of factory productions of architectural materials led to improved construction business' gross profit margin by 5.7% as well as overall gross income margins of 1.7% points. Sales, general and administrative expenses rose by two digits compared to the previous fiscal year but remained below the estimates. Higher sales and improved profitability allowed operating income to rise by a large margin of 42.2% year-on-year.

▪The company's sales will rise by 3.2% year-on-year to ¥528 billion during the fiscal year March 2017. They are anticipating increased profits from construction business along with favorable leasing business. Operating income will rise by 7.2% to ¥22.5 billion. SG&A will increase by 5.4% due to increase in construction business personnel. However, it will be absorbed by increased profitability and gross profit margin. The Company will begin paying interim dividends in the fiscal year March 2017 and intends to pay a total of ¥22 per share, ¥10 as interim dividends and ¥12 at the end of the fiscal year. Expected dividend payout ratio is 31.3%. Although the mid-long term goal was 30%, the business environment has proven to be favorable. Thus, it has boosted its dividend payout ratio of 13.5% from the previous fiscal year ahead of schedule.

▪Although the previous fiscal year fell short of target sales, which was the second year since the initiation of mid-term management plan, "Expanding Value", majority of the goals were accomplished. The amount in which the company exceeds over the current year's numbers revised from the previous fiscal year is closely watched. However, investors are monitoring the Company's performance to see how much it will exceed these performance targets, but it is likely they are already focusing beyond this fiscal year. Leopalace21 resumed dividend payments and increased its dividend payout ratio. We look forward to seeing how the company will transform itself in the foreseeable future.

1. Company Overview

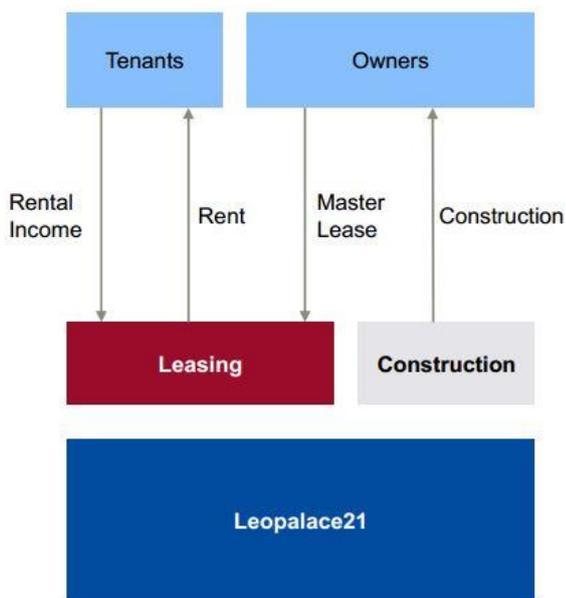
Leopalace21 was the first in the industry to offer "guaranteed leasing services" that integrate residential property and condominium construction, and management services after their construction to landowners seeking to make effective use of their real estate. Sales are primarily the rental income fees received from residents of apartments, condominiums, and other residential properties and construction work to build apartments and condominiums. Leopalace21 managed 561,961 units as of the end of March 2016 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: Leopalace 21)

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

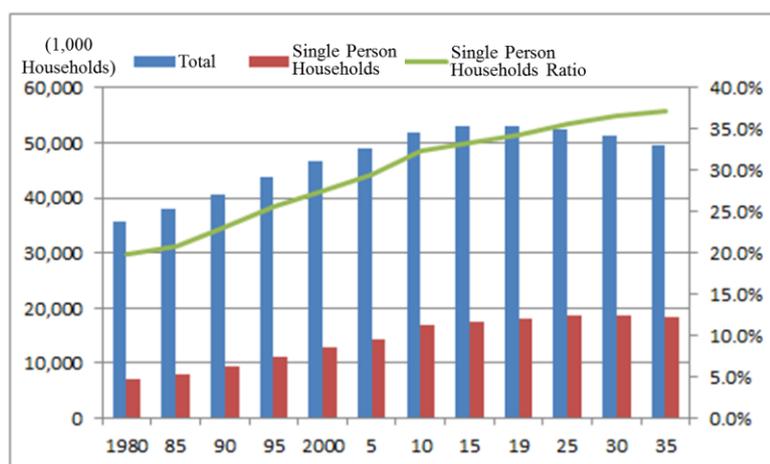
<Market Environment>

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

In fiscal 2015, new housing starts rose 4.6% year on year to 920,537 units, marking a transition from negative growth last fiscal year to positive growth. Real estate demand is expected to continue rising as the 2020 Tokyo Olympic and Paralympic Games approach. That said, long-term growth is unlikely to return, given the unavoidable population decline.

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	114,240	288,046	12,665	4.4%	11.1%	13.6	2.0
Daito Trust Construction Co., Ltd. (1878)	TSE1 st	1,227,301	1,498,000	107,000	7.1%	27.4%	16.7	4.9
Japanese Property Management Center Co., Ltd. (3276)	TSE1 st	29,502	40,000	2,118	5.3%	33.0%	21.4	8.3
Leopalace 21 Corporation	TSE1 st	185,326	528,000	22,500	4.3%	14.3%	10.0	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 June 3, 2016 closing share price

The Company’s operating income margin and ROE are lower than those of industry leader Daito Trust Construction Co., Ltd., which affects the Company’s stock price valuation. We are interested in what kind of strategy the Company will introduce to improve profitability in the next medium-term business plan.

【ROE 分析】

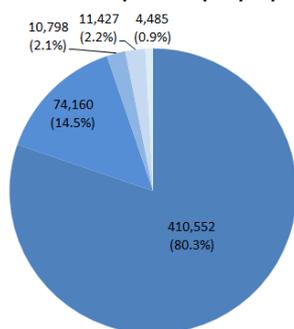
	FY 3/12	FY 3/13	FY 3/14	FY 3/15	FY 3/16
ROE (%)	4.8	29.0	18.7	12.5	14.3
Net Income to Sales Ratio (%)	0.4	2.9	3.2	3.0	3.8
Asset Turnover Ratio (x)	1.6	1.7	1.7	1.6	1.6
Leverage (x)	8.4	5.7	3.4	2.6	2.3

Leverage ratio decreased in March 2016; however, ROE rose due to the increase in net income to sales ratio. The Company’s next fiscal year’s plan includes 12% 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 95% of total sales.

Sales Composition (FY3/16)



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

(Sales to external clients, Units: ¥mn)

<Leasing Business>

Sales and Operating Income of ¥410.552 and ¥22.760 Billion Recorded in FY3/16

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 ¥74.160 and ¥3.339 Billion Recorded in FY3/16

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 ¥10.798 and ¥1.354 Billion Recorded in FY3/16

As of end March 2016, a total of 67 facilities including "nursing home facilities," "day care services," "short stay services," and "group homes" called "Azumi En" were operated in the Tokyo metropolitan and Chubu area 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 ¥11.427 and ¥0.697 Billion Recorded in FY3/16

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 March 2016). 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 ¥4.485 and ¥0.337 Billion Recorded in FY3/16

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 560,000 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 2016, Leopalace21 operated 182 offices directly and 130 offices through franchises for a total of 312 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 2016 Earnings Overview

(1) Consolidated Earnings

(Units: ¥mn)

	FY3/15	Share	FY3/16	Share	YY Change	Divergence from Est.
Sales	483,188	100.0%	511,424	100.0%	+5.8%	-2.6%
Gross Income	75,755	15.7%	88,820	17.4%	+17.2%	+0.4%
SG&A	60,992	12.6%	67,823	13.3%	+11.2%	-1.7%
Operating Income	14,763	3.1%	20,996	4.1%	+42.2%	+7.7%
Ordinary Income	13,424	2.8%	19,820	3.9%	+47.6%	+10.1%
Net Income	14,507	3.0%	19,432	3.8%	+33.9%	+21.5%

Higher Sales, Profits Due in Part to Higher Profits in Construction Business

Sales rose by 5.8% year-on-year to ¥511.4 billion, with all business segments seeing increased sales. However, the construction business fell short of its estimates due to a shortfall in contracts. The Construction business gross income margin improved 5.7% year-on-year due to product price hikes, reviews of procurement routes, and increased production of precast concrete and other construction materials. The overall gross income margin also improved 1.7%. While SG&A expenses increased by double digits year-on-year, they were below estimates. Operating income jumped by 42.2% year-on-year on higher sales and improved profitability.

(2) Business Segment Trends

(Units: ¥mn)

	Sales				Operating Income			
	FY3/15	FY3/16	YY Change	vs. Est.	FY3/15	FY3/16	YY Change	vs. Est.
Leasing	399,316	410,552	+2.8%	-0.1%	20,532	22,760	+10.9%	+5.9%
Construction	61,312	74,160	+21.0%	-13.8%	210	3,339	+1490.0%	-4.6%
Elderly Care	10,608	10,798	+1.8%	-3.6%	-606	-1,354	-	-
Hotels & Resort	8,951	11,427	+27.7%	-8.6%	-1,289	-697	-	-
Other	2,999	4,485	+49.5%	+4.3%	31	337	+987.1%	-
Adjustments	-	-	-	-	-4,116	-3,388	-	-
Total	483,188	511,424	+5.8%	-2.6%	14,763	20,996	+42.2%	+7.7%

* Sales are those to external clients.

<Leasing Business>

- ✓ Sales rose by 2.8% year-on-year to ¥410.5 billion, generally in line with the estimates. Operating income was ¥22.7 billion, exceeding both operating income from the previous year and the estimates.
- ✓ Leopalace21 booked ¥1.4 billion in reversal of vacancy loss reserves in the fiscal year ended March 31, 2016, compared to a forecast of ¥2.5 billion. The balance was ¥3.8 billion, which the Company plans to maintain in the future.
- ✓ The average occupancy rate rose by 1.38 percentage points year-on-year to 87.95% in the fiscal year March 2016. Periods of stay increased due to ongoing long-term leasing contracts, which also contributed to occupancy rate stability. The target for the average occupancy rate for the fiscal year March 2017 is 89.0%. The April 2016 occupancy rate was 88.97%, more than 1 percentage point higher than the rate last year.
- ✓ The number of corporate resident contracts increased by 5.6% year-on-year to 277,261. This is 54.5% of the total number of contracts, 1.5 percentage points higher than last year. The company is strengthening its sales division to meet increasing demand for company housing as corporate performance continues to be robust.
- ✓ On May 2016, the Company set up a sales team targeting public sectors, as it looks to advance into a new market.

- ✓ Individual resident contracts rose by 0.5% year-on-year to 183,008, and student resident contracts declined by 4.6% year-on-year to 48,451. These figures continue to be weak compared to the number of corporate resident contracts. In 2014, the Company established a sales division for educational institutions. It is also increasing brand recognition through aggressive television commercials.
- ✓ The “Room Customize” service, geared to individual residents, continues to be highly regarded. This service includes features such as free customization of wallpaper and no cleaning deposits deducted at the end of the lease. The cumulative number of lease contracts stood at 26,542 between May 2012 and the end of March 2016. The ratio of male to female residents using this service is approximately 50% to 50%, compared with 70% to 30% for the Company as a whole. This service has apparently made significant contributions to the acquisition of female residents.
- ✓ The number of foreign resident contracts at the end of March 2016 was a record high of 15,013. Foreign resident contracts made up 3.0% of the total number of contracts. The company looks to increase the number of foreign resident contracts by opening overseas offices and creating a support system for clients who have arrived in Japan. (This support system will distribute information on different services, assist clients through its call center, and set up social gatherings, among other services). By nationality, Chinese tenants continue to lease the most units, at 6,627. Units occupied by Vietnamese tenants have grown to second place, making South Korea third during the second quarter of the fiscal year March 2015. Among foreign resident contracts, students had 59% of the contracts and workers had 41%.
- ✓ The number of security systems installed stood at 256,900 units as of end March 2016 for an installment rate of 45.7%. 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 7,848 buildings, for the installment rate of 21.9%. 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>

- ✓ Sales were ¥74.1 billion, higher than that of the previous year but shy of estimates. The aggregate total of new orders was ¥86.4 billion, 1% less than that of the previous year. That being said, profitability increased due to improved materials and ordering methods. The gross income margin was higher than both last year’s margin and plan.
- ✓ The number of construction business offices nationwide stood at 60 at the end of March 2016. Leoplace21’s focused marketing strategy led to a concentration of “guaranteed leased apartments” (Lease agreements where Leoplace21 builds, and then leases total apartment units from landlords for a fixed monthly rental price) in the Tokyo and three major metropolitan regions of 49.9% and 72.6% respectively of total apartments leased.
- ✓ Leoplace21 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, Leoplace21 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.

<Elderly Care Business>

Sales rose by 1.8% year-on-year to ¥10.7 billion. This figure falls short of the estimates.

The Medium Term 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 regions and the Company plans to open 104 facilities by March 31, 2018. 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. 67 “Azumi En” assisted care nursing homes are operated in in the Kanto and Chubu regions at the end of March 2016. The Company generates profit through leveraging economies of scale and controlling costs.

<Hotels and Resort Business>

While sales of domestic hotels fell from the previous year’s levels to ¥2.1 billion, they exceeded estimates. Promotion of usage by corporate clients of the leasing business allowed occupancy rates to exceed the previous year’s levels.

Operating income exceeded the previous year’s level and estimates, as the business segment broke even.

The total number of hotels in operation declined to 6 units at the end of March 2016 due to the sale of Hotel Leopalace Niigata in July 2015.

While sales of the Guam resort exceeded both the previous year’s level and estimates. The occupancy rate fell below the previous year’s level but was generally in line with the estimates.

<Solar Power Systems on Rented Rooftops Operation>

The Leopalace21 Group’s investments in the “solar power electric generating systems on rented rooftops” business led to the installation of 524 new units in the fiscal year March 2016 and brought the total number of units installed to 4,493.

	FY3/14	FY3/15	FY3/16	Total
Installations	1,114	2,855	524	4,493
No. of Units Generating Power	680	3,102	710	4,492
Power generation capacity	21.4 MW	37.2 MW	8.4 MW	67.1 MW
Electric power sales (¥bn)	0.1	1.5	2.8	
Total Power Generated	About 2,700 MWh	About 36,600 MWh	About 74,200 MWh	

Note: The data includes the Fukushima Validation Model totaling 67 units and 1.2 MW of power capacity. The figures for total generated power are for each period. Electric power sales are booked in the Other business.

While a loss is currently being seen due to the introduction of declining balance method for depreciation with the depreciable life of 17 years, profitability is expected to be achieved during this 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.

<Overseas Deployment of Leasing Business>

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

As of March 31, 2016, WooriLeo PMC Co., Ltd. was managing 1,001 units. WooriLeo PMC is a joint venture that the Company established for exporting Japanese know-how to the South Korean lease management market, which is expected to grow.

As of end March 2016, 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 previous 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.

The Company also began managing a serviced office with 44 rooms in Makati, the Philippines, on November 2015 and a serviced office with 17 rooms in Yangon, Myanmar on April 2016. It is also currently developing a serviced apartment complex in Cambodia with one floor belowground, 13 floors aboveground, and 48 units. This serviced apartment

complex targets Japanese expatriates from Japanese companies and will begin operations in 2017. The Company aims for double-digit yields.

<Other>

Leopalace21 launched a new service called World Business Support (WBS), which supports all Japanese expatriates whose companies send them abroad for work.

Services for overseas properties	<ul style="list-style-type: none"> Overseas properties brokerage Operational management of serviced apartments and serviced offices
Management of business travel	<ul style="list-style-type: none"> Book flights Acquire visas Book hotels Rent cars, etc.
Miscellaneous support	<ul style="list-style-type: none"> Manage, sublease, and sell unoccupied houses Act as an intermediary to buy used cars for Japanese workers Provide medical checkups and vaccinations to Japanese workers prior to going abroad Act as an intermediary to assist Japanese workers in moving abroad

Leopalace21 provides support to skilled trainees sponsored by participating construction companies under the Technical Intern Training Program. This is a program promoted by the Vietnamese and Japanese governments as a response to labor shortages in Japan. The first group of Vietnamese construction trainees came to Japan on July 2015. This group of 18 people studied basic construction techniques and the Japanese language in Vietnam. They have been working at nine participating construction companies since August. A second group of 10 people was dispatched on February 2016, followed by a third group of 11. The participating construction companies are the ones who hire the trainees.

(3) Financial Conditions, Cash Flow

(Units: ¥mn)

	3/15 End	3/16 End		3/15 End	3/16 End
Cash, Equivalents	75,221	88,043	Payables	2,803	2,606
Receivables	6,254	6,779	Unpaid Construction Expenses	14,049	12,193
Completed Construction Uncollected Fees	1,714	1,992	ST Interest-Bearing Liabilities	24,525	6,003
Prepayments	3,656	2,847	Outstanding Payments	18,466	19,229
Current Assets	102,263	114,185	Prepayments Received	40,781	38,701
Buildings, Structures	59,899	57,979	Current Liabilities	116,521	95,384
Machinery, equipment, and vehicles	15,115	16,105	LT Interest-Bearing Liabilities	11,156	34,107
Land	83,289	84,241	Long-Term Prepayments	22,198	18,950
Lease Assets	7,880	9,417	Long-Term Security Deposits	8,019	7,516
Marketable Securities	6,832	8,230	Vacancy Loss Reserves	5,280	3,802
LT Expense Prepayments	3,416	3,686	Retirement Reserves	9,351	10,224
Noncurrent Assets	205,887	212,033	Noncurrent Liabilities	65,279	85,294
Total Assets	308,274	326,890	Total Liabilities	181,801	180,679
			Net Assets	126,473	146,211
			Total Liabilities, Net Assets	308,274	326,890

	End 3/11	End 3/12	End 3/13	End 3/14	End 3/15	End 3/16
Net Worth	33,025	33,804	58,133	104,829	126,455	146,173
Capital Adequacy Ratio	11.1%	12.8%	22.2%	36.5%	41.0%	44.7%
Interest Bearing Liabilities	39,888	48,305	46,874	31,497	35,681	40,110
Cash, Equivalents	40,674	41,477	56,681	74,767	75,221	88,043
NDE Ratio	-0.02	0.20	-0.17	-0.41	-0.31	-0.33

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

Compared to total assets on March 31, 2015, total assets rose by ¥18.6 billion to ¥326.8 billion due to increases in machinery, equipment, vehicles with solar power generation system service, cash and equivalents, lease assets, and marketable securities.

Short-term interest-bearing liabilities declined by ¥18.5 billion year-on-year, but long-term interest-bearing liabilities rose by ¥22.9 billion. Total liabilities fell by ¥1.1 billion year-on-year to ¥180.6 billion from a drop in long-term prepayments. Net assets increased by ¥19.7 billion year-on-year to ¥146.2 billion due to a significant increase in retained earnings. The capital adequacy ratio rose by 3.7 percentage points year-on-year to 44.7%.

◎ Cash Flow

(Units: ¥mn)

	FY3/15	FY3/16	YY Change
Operating Cash Flow	15,715	22,104	+6,389
Investing Cash Flow	-17,550	-11,087	+6,463
Free Cash Flow	-1,835	11,017	+12,852
Financing Cash Flow	1,747	1,374	-373
Cash and Equivalents	74,504	86,826	+12,322

Operating cash flow increased as profits rose and the vacancy loss reserves decreased. Free cash flow went from negative to positive from a reduction in spending on noncurrent tangible assets, which reduced cash used in investing activities. Financing cash flow fell as the Company paid off long-term debt. The Company's cash position improved.

3.Fiscal Year March 2017 Earnings Estimates

(1) Consolidated Earnings

(Units: ¥mn)

	FY3/16	Share	FY3/17 Est.	Share	YY Change
Sales	511,424	100.0%	528,000	100.0%	+3.2%
Gross Income	88,820	17.4%	94,000	17.8%	+5.8%
SG&A	67,823	13.3%	71,500	13.5%	+5.4%
Operating Income	20,996	4.1%	22,500	4.3%	+7.2%
Ordinary Income	19,820	3.9%	21,500	4.1%	+8.5%
Net Income	19,432	3.8%	18,500	3.5%	-4.8%

Modest Earnings Estimates, 4th Consecutive Term of Higher Sales and Profits from the Leasing Business

Leopalace21 looks for sales to rise 3.2% year-on-year to ¥528.0 billion. It expects the Leasing business, which continues to be robust, and the Construction business to see increased sales.

It looks for operating income to rise 7.2% year-on-year to ¥22.5 billion. The Company expects SG&A expenses to rise 5.4% year-on-year due to an increase in workers in the Construction business. However, it also looks for increased sales and gross margins to absorb those higher SG&A expenses. The Company will begin paying interim dividends in the fiscal year ending March 31, 2017 and intends to pay a total of ¥22 per share, ¥10 during the fiscal year and ¥12 at the end of the fiscal year. The expected dividend payout ratio is 31.3%. The Company set its mid to long-term dividend payout ratio target to 30% and decided to boost it significantly from 13.5% in the fiscal year ended March 31, 2016 in part due to a robust business environment.

Bridge Report



(2) Business Segment Trends

(Units: ¥mn)

	Sales		
	FY3/16	FY3/17 Est.	YY Change
Leasing	410,552	420,500	+2.4%
Construction	74,160	82,800	+11.7%
Elderly Care	10,798	12,200	+13.0%
Hotels & Resort	11,427	8,100	-29.1%
Other	4,485	4,400	-1.9%
Total	511,424	528,000	+3.2%

* Sales represent those to external customers

(Units: ¥mn)

	Operating Income		
	FY3/16	FY3/17 Est.	YY Change
Leasing	22,760	23,400	+2.8%
Construction	3,339	4,200	+25.8%
Elderly Care	-1,354	-1,750	-
Hotels & Resort	-697	-450	-
Other	337	500	+48.4%
Adjustments	-3,388	-3,400	-
Total	20,996	22,500	+7.2%

- Leopalace21 expects the leasing business to benefit from increased occupancy rates and a rise in the number of units it manages, benefitting from continued healthy demand from corporations. The Company does not expect any reversals of vacancy loss reserves.
- Although the Construction business faces fierce competition, the Company expects higher sales and profits as it continues to increase profitability and increases the number of orders it receives.
- In the fiscal year ending March 31, 2017, the Elderly Care business plans to open 10 locations, primarily day-service nursing facilities. The Company expects more losses from increased investment in this business segment. It also plans to cut costs.
- The Company expects the “solar power systems on rented rooftops” operation to benefit from installations that it completed in the fiscal year ended March 31, 2016. It also expects profits to improve as depreciation costs drop.

4. Conclusions

Although the previous fiscal year fell short of target sales, which was the second year since the initiation of mid-term management plan, “Expanding Value”, majority of the goals were accomplished. In light of earnings results for the fiscal year ended March 31, 2016, the Company revised its performance targets for the fiscal year ending March 31, 2017, the last year of the medium-term business plan. Investors are monitoring the Company’s performance to see how much it will exceed these performance targets, but it is likely they are already focusing beyond this fiscal year. Leopalace21 resumed dividend payments and increased its dividend payout ratio. We look forward to seeing how the company will transform itself in the foreseeable future.

<Earnings Trend>

(Units: ¥bn)

	FY3/16 Est.	FY3/16	FY3/17 Initial Est.	FY3/17 Revised Est.
Sales	525.0	511.4	540.0	528.0
Operating Income	19.5	20.9	22.0	22.5
Ordinary Income	18.0	19.8	21.0	21.5
Net Income	16.0	19.4	19.0	18.5
EPS (¥)	60.9	73.9	71.7	70.4
Capital Adequacy Ratio	45.0%	4.5%	48.0%	48.0%
ROE	12.0%	14.3%	12.3%	12.0%
ROA	5.5%	6.1%	6.0%	5.6%

<For Reference: Corporate Governance>

◎ Organizational Type, Directors, and Audit and Supervisory Board Members

Organizational Type	Company with corporate auditors
Directors	Nine directors, two being outside directors
Audit and Supervisory Board Members	Four members, two being outside members

◎ Corporate Governance Report

Following the introduction of the Corporate Governance Code in Japan, Leopalace21 submitted a corporate governance report on November 20, 2015.

<Main unimplemented rules and reasoning>

Rules	Reasoning
Rule 4-8-2 Effectively Utilize Independent Outside Director (Head Independent Outside Director)	Leopalace21 appointed two independent outside directors and employs a system capable of communicating and coordinating with the management team and the Audit & Supervisory Board without problems through its business meetings. Through this system, the Company does not face any particular problems even without a head independent outside director, and the Company is not looking to use a head independent outside director to communicate with the management team or the Audit & Supervisory Board to avoid creating an unnecessary sense of hierarchy.
Rule 4-11-3 Requirements for Ensuring Effectiveness of Directors and Audit & Supervisory Board (Analysis and Evaluation of Board of Directors)	Leopalace21 plans to analyze and evaluate the extent to which the directors fulfill their roles and to take the evaluation into consideration starting next fiscal year. The Company did not evaluate the Board of Directors in the fiscal year ended March 31, 2015, but plans to do so starting in the fiscal year ended March 31, 2016.

<Main Rules Disclosed>

Rules	Description
Rule 1-4 Strategic Stockholdings	<p>Leopalace21 recognizes the usefulness of acquiring shares of its trading partners and partners from capital or operational tie-ups, as this maintains and strengthens its relationships with said partners. The Company may acquire said shares through a process established by internal regulations when the long-term economic profits obtained through acquiring said shares are expected to exceed the costs involved in acquiring said shares.</p> <p>The Company will determine the long-term economic rationale for said shares through a meeting with directors who also approve earnings results. When the determination produces an objection to the economic rationale, there shall be a review on whether or not to continue holding said shares.</p> <p>The finance and accounting department shall produce a statement on how it will use its voting rights after comprehensively considering the purpose of holding said shares, the issuing company's financial performance, and other factors. After making a decision under the Company's decision-making authority, the finance and accounting department shall exercise its voting rights.</p>
Rule 5-1 Policies Related to Constructive Dialogue with Stockholders	<p>Leopalace21 has established a public relations and investor relations department that acts as executive officer and encourages constructive dialogue with stockholders in order to continuously develop the Company and increase its long-term enterprise value. Specifically, the Company shall clearly explain its business policies and other relevant information to stakeholders, which includes stockholders, by holding meetings with individuals, financial results briefings, briefings for individual investors, briefings for overseas investors, and other meetings.</p> <p>Refer to the Disclosure Policy on the Company's home page for more information on its policies and systems for encouraging constructive dialogue with stockholders.</p>

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.

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