

## Bridge Report Leopalace21 Corporation (8848)

 Eisei Miyama, President	Company	Leopalace21 Corporation	
	Code No.	8848	
	Exchange	Tokyo Stock Exchange 1 <sup>st</sup> Section	
	Industry	Real Estate	
	President	Eisei Miyama	
	HQ	2-54-11 Honmachi, Nakano-ku, Tokyo	
	Business Description	Leopalace21 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	
	URL	<a href="http://eg.leopalace21.com/">http://eg.leopalace21.com/</a>	

### — Stock Information —

Share Price	Shares Outstanding	Market Cap	ROE (actual)	Trading Unit	
¥696	211,612,195 shares	¥147.282 billion	29.0%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥0.00	-%	¥51.99	13.4x	¥274.80	2.5x

\*Stock prices as of the close on November 15, 2013. Number of shares issued as of the end of the most recent quarter excluding treasury shares. ROE and BPS are based on actual results of the previous term end.

### — Consolidated Earnings Trends —

(Unit: Million Yen)

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
March 2010	620,376	-29,727	-33,831	-79,075	-521.91	0.00
March 2011	484,390	-23,607	-31,808	-40,889	-261.03	0.00
March 2012	459,436	4,585	2,349	1,588	9.40	0.00
March 2013	454,222	7,413	11,091	13,335	74.50	0.00
March 2014 Est.	467,400	14,100	12,200	11,000	51.99	0.00

\*Estimates are those of the Company.

This Bridge Report introduces the first half of fiscal year March 2014 earnings results for Leopalace21 Corporation.

1. Company Overview
2. Characteristics and Strengths
3. First Half Fiscal Year March 2014 Earnings Overview
4. Fiscal Year March 2014 Earnings Estimates
5. Conclusions

## Key Points

- During the second quarter of fiscal year March 2014, sales of the leasing business exceeded the previous year's levels but fell below estimates by about ¥300 million. At the same time, the construction business was able to exceed estimates for both sales and profits by large margins. A higher than expected level of reversal of vacancy loss reserves due to high occupancy rates in the leasing business allowed profit margin to rise and contributed to a profit at the net income level in second quarter for the first time in five years.
- Leopalace21's earnings estimates for the full fiscal year March 2014 remain unchanged. Higher sales and improvements in gross margins are expected to allow operating and ordinary incomes to rise. At the same time, net income is expected to decline because of the disappearance of foreign exchange translation gains and tax adjustments of ¥5.5 and ¥4.6 billion respectively. And while no dividends are expected to be paid, the Company will endeavor to restore dividend payment at an early stage.
- Leopalace21 believes that successful results of the current term's theme of a "New Growth Phase" inherent in its midterm business plan "Creating Future" have begun to appear. Consequently, the goal for the current term of an occupancy rate of 85.0% is expected to be achieved and the results of the Company's various efforts are likely to become clear with the announcement of the third quarter earnings results in February 2014.

## 1. Company Overview

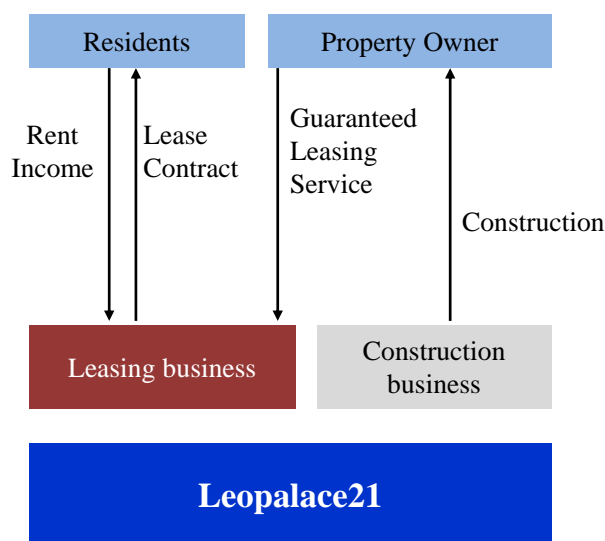
Leopalace21 was the first company in their industry to offer "guaranteed leasing services" that integrate rental apartment and condominium construction, and management services after their construction to land owners seeking to make effective use of their real estate. Sales are primarily the rental income fees received from residents of apartments, condominiums, and other residential properties and construction work to build apartments and condominiums. Leopalace21 managed 547,161 rooms as of the end of September 2013 located primarily in the three major metropolitan regions of Japan including Tokyo, Nagoya, and Osaka.

The Company decided to expand its leasing business to overseas markets (Korea) in November 2012 and also focuses on the solar power generation related business.

### <Business Model>

Leopalace21 offers "guaranteed leasing services" that integrate rental apartment and condominium construction, and management services after their construction to land owners seeking to make effective use of their real estate. The "guaranteed leasing services" is a comprehensive support system where management and operational services for leased residential properties are provided to owners of apartments and condominiums. This system is an outsourcing service designed to reduce the burden of and provide stable income to rental property owners, and includes the specific functions of finding 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 income 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 is the most important point for profitability of Leopalace21.

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

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

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

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

“Conduct construction work not linked to guaranteed leasing services”

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

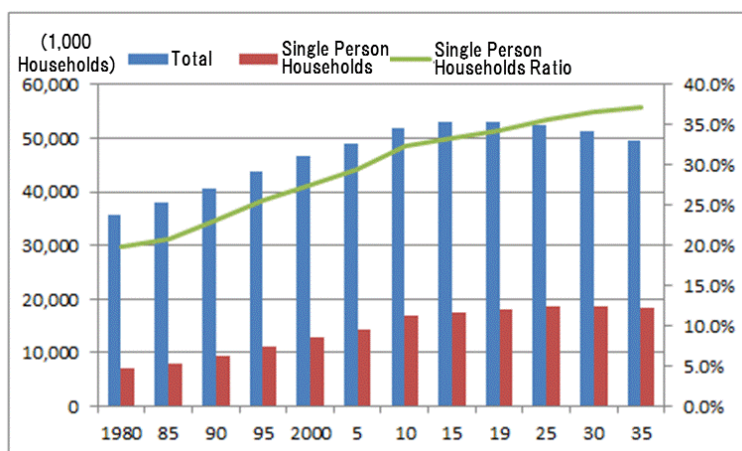
## <Market Environment>

From the standpoint of demographic trends within Japan, the following two points are expected to have an influence upon the operating environment for Leopalace21.

### ① Number of Household Trends

According to the National Institute of Population and Social Security Research estimates (Jan. 2013), the number of Japanese households is expected to rise from 51.84 million in 2010 to a peak of 53.07 million in 2019, and thereafter decline to 49.56 million by 2035. The number of single person households is expected to rise from 16.79 million in 2010 to 18.46 million in 2035, and their share of total households is expected to rise from 32.4% to 37.2% over the same period.

## <Estimation of Future Number of Household in Japan>



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

(The amount after 2010 are estimates. Single Person Households Ratio is indicated by right axis.)

### ② New Housing Starts

At the same time, new housing starts are expected to continue to decline in the future. Total new housing starts peaked at 1.70 million units in 1990, with rental housing starts peaking at 850,000 in 1987. And by 2011, total new and rental housing starts had fallen to 840,000 and 280,000 respectively. Policies of the new Prime Minister Abe administration known as “Abenomics” and the rush to beat the implementation of consumption tax hikes are contributing to favorable trends in near term demand for housing, with the number of new housing starts expected to reach about 900,000 in fiscal year 2013. However, the general outlook for the number of housing starts over the medium term to continue to decline is widely accepted.

The increase in the number of single person households can be viewed as a tailwind for Leopalace21, which has particular strengths in studio type one room apartments. A key to the Company’s success may be its ability to expand the range of its products and services targeting single person households to include not only younger Japanese, but also older Japanese as well. At the same time, the difficulty in adopting an optimistic view of the operating environment surrounding Leopalace21 contributed to its creation of the “New Midterm Business Plan.” Therefore the Company will strengthen its foundations based on this Plan, while also working to develop new growth strategies.

## <Competitors>

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

Company	Market	Market Capitalization	Sales	Operating Income	Net Income	Assets	PER	PBR
Token Corporation (1766)	TSE1 <sup>st</sup>	70,323	253,136	9,684	6,013	48,949	11.7	1.4
Daito Trust Construction Co., Ltd. (1878)	TSE1 <sup>st</sup>	777,083	1,251,000	88,000	55,000	186,592	14.1	4.2
Japan Property Management Center Co., Ltd. (3276)	JQ	9,821	27,907	1,027	637	1,950	15.4	5.0
Leopalace21 Corporation (8848)	TSE1 <sup>st</sup>	147,282	467,400	14,100	11,000	58,151	13.4	2.5

\* Earnings are estimates of the companies. Net assets are as of end of the most recent quarter. Units are million yen. PER and PBR are ratios of the number of times. Market capitalization is based on November 15, 2013 closing share price.

Compared with the report issued for the second quarter of the previous fiscal year, Leopalace21's share price had been trading at a valuation of a single digit PER, but has rapidly recovered to a valuation that is on par with the industry leader Datio Trust Construction Co., Ltd.

### <Business Description>

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

#### <Leasing Business>

##### **Sales and Operating Income of ¥383.574 and ¥8.687 Billion Recorded in FY3/13**

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. Rents paid to landlords are booked as cost of sales.

#### <Construction Business>

##### **Sales and Operating Income of ¥53.369 and ¥2.747 Billion Recorded in FY3/13**

Construction of apartments, condominiums and other structures is conducted in this business segment. In recent years, Leopalace21 has begun focusing upon construction work independent of the guaranteed leasing services, in addition to construction connected to these services. Furthermore, the Company has also begun construction of commercial and nursing home facilities which are not related to the guaranteed leasing services from the previous term. Also, the Company has focused on the sale of solar power electric generation facilities and launched "roof-lease solar power electric generation business" from February 2013.

#### <Hotels and Resort Business>

##### **Sales and Operating Loss of ¥6.657 and -¥1.005 Billion Recorded in FY3/13**

The overseas subsidiary Leopalace Guam Corporation operates a comprehensive resort facility in Guam that includes a golf course, baseball field, and other sports facilities, in addition to hotels and condominiums. Furthermore, Leopalace21 operates hotels at eight locations within Japan within this segment. This business is also considered to be a strong support function for its main business of leasing and construction. For example, the recognition of the hotel operations contributes to a sense of reassurance by customers. While losses are currently being realized at the operating level, there appears to be very little risk of impairment losses being booked and operating cash flow remains positive.

#### <Elderly Care and Other Business>

##### **Sales and Operating Loss of ¥10.620 and -¥0.706 Billion Recorded in FY3/13**

Leopalace21 operates 60 "nursing home," "day service," "short stay," and "group home" facilities around the Kanto region (Tokyo and six surrounding prefectures) under the brand name of "Azumi En." In addition, the Company provides dispatched care attendant and in-home care attendant support services as part of its efforts to firmly establish its nursing care business. Furthermore, short term insurance services are provided to residents as a means of reducing their household expenditures. New deployments for care facilities are under review to take in demand for sure with an expansion of the market.

## 2. Characteristics and Strengths

### <Focus Upon Three Main Metropolitan Areas>

70% of the 550,000 managed properties nationwide are concentrated in the three major metropolitan areas of Tokyo, Nagoya and Osaka. 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 market needs and it was the first in the industry to introduce “rooms with lofts,” “guaranteed leasing services,” “monthly rentals,” “broad band facilitated rooms,” and “furnished rooms”. Residents-oriented services and introduction of systems such as installation of furniture and home electrical appliances, room customization with “My Collection Plan,” and “Comfort Plan,” and installation of security system contributed to the improvement in occupancy rates.

#### My Collection plan, Decoration



(Source: Leopalace21)

### <High Quality Studio Type Apartments>

Because higher rental income is derived from studio type one room 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 type apartments. The Company provides effective solutions to property owners with the ability to flexibly build studio type one room apartments on properties in metropolitan areas where it would be difficult to build single family homes.

### <Nationwide Business Deployment>

As of the end September 2013, Leopalace21 had a total network of 348 offices throughout Japan including 176 directly operated and 172 franchised offices. This network enables the Company to provide services and products to customers nationwide, including services to help students and employees find new conveniently located residences. Another characteristic of Leopalace21 is its bountiful database of nationwide information on owners of idle and utilized properties and the ability to propose effective solutions to these property owners.

### 3. First Half Fiscal Year March 2014 Earnings Overview

#### (1) Consolidated Earnings

(Units: Million Yen)

	1H FY3/13	Share	1H FY3/14	Share	YY Change	Compared with Estimates
Sales	219,997	100.0%	231,673	100.0%	+5.3%	+4,573
Gross Income	25,841	11.7%	32,329	14.0%	+25.1%	+1,229
SG&A	23,943	10.9%	26,959	11.6%	+12.6%	+659
Operating Income	1,897	0.9%	5,369	2.3%	+183.0%	+669
Ordinary Income	-1,744	-	4,375	1.9%	-	+675
Net Income	-2,258	-	3,921	1.7%	-	+821

#### Recovery in Construction Business Leads to Higher Sales and Profits, First Profit in Second Quarter in Five Years

While the leasing business sales exceeded the previous year's levels, they fell below Leopalace21's estimates by about ¥300 million. At the same time, both sales and profits of the construction business exceeded both the previous year's levels and estimates by large margins. The booking of a higher than expected level of reversals from vacancy loss reserves allowed profitability of the leasing business to improve and contributed to a profit at the net income level during the second quarter for the first time in five years.

#### (2) Segment Earnings Trends

(Unit: Million Yen)

	Sales			Operating Income		
	1H FY3/13	1H FY3/14	YY Change	1H FY3/13	1H FY3/14	YY Change
Leasing Business	191,545	191,876	+0.2%	4,166	6,201	+48.8%
Construction Business	19,993	30,415	+52.1%	-596	970	-
Hotels and Resort Business	3,147	3,640	+15.7%	-434	-320	-
Silver, Other Business	5,310	5,740	+8.1%	-177	-170	-
Adjustments	-1,107	-1,554	-	-1,060	-1,312	-
Total	219,997	231,673	+5.3%	1,897	5,369	+183.0%

#### <Leasing Business>

- ✓ Sales rose marginally compared with the same term in the previous fiscal year, but reversals from vacancy loss reserves for the nine months ended September 2013 was ¥2.3 billion, which are projected to amount to ¥1.25 billion. They decreased by ¥4.0 billion compared with the end of the same period of the previous fiscal year.
- ✓ Occupancy rates at the end of September 2013 stood at 84.28%, and trended about 1% point above the levels recorded during the second quarter of the previous year. The Company attributes this stronger occupancy rate to improvements in the marketing function of its directly operated offices. And while there is a seasonal trend for occupancy rates to decline during the third quarter (October to December), occupancy rates at the end of October remained at a relatively high level of 84.23%, exceeding the rate recorded at the end of October 2012 by 1.6% points. Consequently, Leopalace21 appears to be in a favorable position to achieve its full year occupancy rate target of 85.0%.
- ✓ The total number of offices in operation at the end of September 2013 stood at 356 (Down 18 from March 2013 end), including 184 directly operated offices (Up 2 from March 2013 end, including 8 overseas offices) and 172 franchised offices (Down 20 from March 2013 end).
- ✓ The number of rooms contracted to foreign residents reached 10,518 units at end September 2013, rising from 7,697 and 8,321 rooms at end September 2011 and 2012 respectively, and exceeding 10,000 rooms for the first time. This favorable result is attributed to increases in foreigners primarily from China and Southeast Asia. This ability to service foreign customers is a key factor that differentiates Leopalace21 from its competitors.
- ✓ The Room Customize service has become very popular as reflected by the increase of 1,622 contracted rooms from end June to 8,166 at end September 2013. This strategy has also been successful in capturing female resident demand as nearly half of these contracts were made with female residents.

- ✓ Leopalace21 has prepared a wide range of services to be provided to residents that can be accessed through the “MY PAGE” section of their website specifically targeting residents including LEONET (Internet service provision that does not necessitate the signing of a contract with a service provider), Leopalace Online Shopping and others. These efforts also represent Leopalace21’s efforts to provide not only homes to live in, but various comprehensive services.
- ✓ The diffusion of security systems installed rose to 29.6% or 161,732 rooms at end September 2013 from 24.9% or 136,064 rooms at end March 2013. Both orders and sales on a volume basis exceeded estimates for the second quarter, but fell below estimates in value terms. The number of security systems installed at end March 2015 is expected to grow to 190,000 or 35% of all rooms. Furthermore, efforts are being made to satisfy the requirements of large corporations to increase the security levels and female tenants..

## <Construction Business>

- ✓ Sales exceeded both the previous year’s levels and estimates by large margins, and operating income turned to a profit. Fortification of the marketing function through increases in staff and efforts to conduct a geographic region specific strategy contributed to increases in orders. This in turn allowed the Company to achieve a high 58.4% or ¥46.8 billion of its full year order estimate of ¥80.1 billion.
- ✓ The number of construction business offices rose by 2 from end March to 54 at end September. Leopalace21 also began to focus its order taking activities on a narrower geographic region, with about 70% of its orders arising from the three major metropolitan regions.
- ✓ Sales of a new product called “Arma-L tri-EL” that combines the features of the main product “DUAL-L”, (Rooms with double lofts) which accounts for about 30% of orders, and “Arma-L”, which targets female residents, was launched from October 2013. This new product offers a large living and dining room space through the use of three lofts, and takes the needs of female residents into account by offering powder room space, full wall closets, and kitchens with counters. In addition, this new product also employs the comprehensive noise reduction system called “Non-Sound System.”
- ✓ Based on the theme of “Making Japanese Homes New and Comfortable”, sales of various products were started including the steel brace rental house with rooms for rent “Smaio” and wooden framed house with rooms for rent “Smaio-W” launched in April and August 2013 respectively. These products provide the ability to reduce housing loan burden through its provision of a dual purpose function of owner living space combined with rental housing space to provide the owner with rental income. In addition, sales of the “L-Force” reinforced concrete three story “maisonette” type rental homes were started from October.
- ✓ The sale of apartment building products with improved sound insulating and isolating function features including “Non-Sound Floor”, as “Non-Sound System”, as standard features were launched from April 2013. In addition, “Non-Sound Floor” was also added as a standard feature to steel framed rental housing products from July.
- ✓ Construction activities for facilities other than apartments such as nursing homes and commercial facilities trended in line with estimates. During the second quarter, sales of nursing homes and commercial facilities reached ¥810 and ¥320 million respectively, and rose by large margins from ¥450 and ¥80 million in the second quarter of the previous year.
- ✓ The diffusion of solar panels installed at the expense of property owners rose to 6,201 buildings or 28.2% of all facilities at end September 2013. The total electricity generation capability reached 71MW, which is equivalent to the electricity needs of 23,000 homes. Orders and sales during the second quarter exceeded targets and reached ¥2.6 and ¥2.7 billion respectively.
- ✓ Amidst declines in the price of fixed purchase of regenerative energy, Leopalace21 took the decision to make investments to install solar power electric power generating systems on its own from February 2013. At end September, the number of the installed buildings reached 1,149, and the Company maintains a target of 7,000 buildings nationwide for total power generation of 100MW or the equivalent of electric power needs of about 30,000 homes. Various methods of self generated electric power facility installations are currently being considered and implemented, including through SPCs (Special Purpose Companies), normal corporations, and the electric power generation subsidiary “Leopalace Power.” Leopalace21 adopts an aggressive stance in its implementation of other activities related to electric power generation including the construction of a large scale



“mega-solar” power generation facility in Tomisato City, Chiba Prefecture and the signing of an agreement with Kanagawa Prefecture in June 2013.

#### < Hotels and Resort Business >

The domestic hotel business has basically trended sideways. However Leopalace21's ability to achieve higher occupancy rates has allowed operating income to exceed both estimates and the previous year's levels by reaching ¥51 million. The resort business has also benefitted from increases in occupancy rates resulting from an increase in visitors to Guam of 5.1% year-over-year, allowing both sales and operating income to exceed both estimates and the previous year's levels by large margins.

#### < Elderly Care Business >

Occupancy rates at day care services, short stay services, and nursing home facilities all exceeded estimates. While a loss was recorded at the operating level, Leopalace21 is implementing measures to expand the scale of its operations and opened new facilities in Nakano and Ichihara in July and October. Another facility is expected to be opened in Koga City, Ibaraki Prefecture.

#### <Overseas Business Deployment of Leasing Business>

In addition to the existing service of introducing residential properties to foreigners, Leopalace21 has also started the service of introducing local real estate to Japanese citizens and companies living and operating in Korea and Taiwan. Furthermore, the Company has plans to begin similar services in Thailand and Vietnam from December 2013 as well. Currently, Leopalace21 operates a total of 10 offices overseas including four offices in China, three in Korea, one each in Taiwan, Thailand (plan) and Vietnam (plan).

Furthermore, “Woorileopmc” was established as a joint venture company in Korea to capture business in the rental property management market, which is expected to grow strongly in the future, by leveraging its knowhow developed within Japan. This service is expected to be launched on a full scale basis along with the implementation of new laws relating to rental homes expected from February 2014.

### (3) Financial Conditions and Cash Flow

#### Financial Conditions

(Unit: Million Yen)

	3/13 End	9/13 End		3/13 End	9/13 End
Cash, Equivalents	56,681	45,983	Payables	2,670	2,592
Receivables	4,360	4,120	Unpaid Construction Expenses	14,307	8,174
Outstanding Fees for Completed Construction	2,231	1,120	Short Term Interest Bearing Liabilities	15,374	13,500
Prepayments	12,772	9,487	Outstanding Payments	13,252	9,101
<b>Current Assets</b>	<b>90,896</b>	<b>73,948</b>	Prepayments Received	49,036	42,966
Buildings, Structures	54,740	56,682	<b>Current Liabilities</b>	<b>105,144</b>	<b>88,619</b>
Land	80,780	81,819	Long Term Interest Bearing Liabilities	31,500	30,500
Lease Assets	1,798	3,155	Retirement Reserves	8,634	8,922
Marketable Securities	7,176	7,379	Vacancy Loss Reserves	13,950	11,632
Long Term Expense Prepayments	8,127	5,082	Long Term Security Deposits	8,984	8,685
<b>Fixed Assets</b>	<b>170,705</b>	<b>172,258</b>	Long Term Prepayments Received	32,357	27,246
<b>Total Assets</b>	<b>261,649</b>	<b>246,247</b>	<b>Fixed Liabilities</b>	<b>98,353</b>	<b>91,237</b>
			<b>Total Liabilities</b>	<b>203,498</b>	<b>179,857</b>
			<b>Net Assets</b>	<b>58,151</b>	<b>66,389</b>
			<b>Total Liabilities, Net Assets</b>	<b>261,649</b>	<b>246,247</b>

	3/10 End	3/11 End	3/12 End	3/13 End	9/13 End
Equity Capital	70,890	33,025	33,804	58,133	66,371
Equity Ratio	17.9%	11.1%	12.8%	22.2%	27.0%
Interest Bearing Liabilities	56,481	39,888	48,305	46,874	44,000
Cash, Equivalents	72,431	40,674	41,477	56,681	45,983
NDE Ratio	-0.23	-0.02	0.20	-0.17	-0.03

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

Compared with end March 2013, declines in cash and equivalents and other current assets contributed to drop in total assets of ¥15.4 billion at end September. With regards to liabilities, interest bearing liabilities fell by ¥2.8 billion, in addition to a decline in vacancy loss reserves of ¥2.3 billion over the same period. Total liabilities fell by ¥23.6 billion due to decreases in unpaid construction expenses, prepayments received and others, and consequently equity ratio rose by 4.8% points from end March to 27.0% at end September.

## Cash Flow

(Unit: Million Yen)

	1H FY3/13	1H FY3/14	YY Change
Operating Cash Flow	-12,718	-6,350	+6,368
Investing Cash Flow	-121	-1,205	-1,084
Free Cash Flow	-12,839	-7,555	+5,284
Financing Cash Flow	941	-3,388	-4,329
Cash, Equivalents at Term End	28,979	45,583	+16,604

While a net cash outflow was recorded in operating activities, the fact that payments for various materials occurred in April because March 31 fell on a Sunday contributed to a significant reduction in the net outflow from the same period of the previous fiscal year. For similar reasons, the net outflow in free cash flow also improved. The disappearance of the short term debt assumption and share issuance conducted in the previous fiscal year contributed to a net outflow in financing activities, but cash position saw a significant improvement compared with the same period of the previous fiscal year.

## 4. Fiscal Year March 2014 Earnings Estimates

### (1) Consolidated Earnings

(Units: Million Yen)

	FY3/13	Share	FY3/14 Est.	Share	YY Change	Attainment Rate as of 1H End
Sales	454,222	100.0%	467,400	100.0%	+2.9%	49.6%
Gross Income	57,713	12.7%	69,000	14.8%	+19.6%	46.9%
SG&A	50,299	11.1%	54,900	11.7%	+9.1%	49.1%
Operating Income	7,413	1.6%	14,100	3.0%	+90.2%	38.1%
Ordinary Income	11,091	2.4%	12,200	2.6%	+10.0%	35.9%
Net Income	13,335	2.9%	11,000	2.4%	-17.5%	35.6%

### Full Year Earnings Estimates Remain Unchanged, Small Gain in Sales and Large Increase in Profits on Back of Improvement in Profitability of Leasing Business

Leopalace21 left its full year earnings estimates unchanged, and call for an increase in operating and ordinary incomes based on improvements in gross margins resulting from higher sales. At the same time, net income is expected to decline year-over-year due to the disappearance of foreign exchange translation gains and tax adjustments of ¥5.5 and ¥4.6 billion respectively. And while Leopalace21 is expected to continue to forgo paying a dividend during the current term, it seeks to reinstate payments at an early stage.

**(2) Segment Earnings Trends**

(Unit: Million Yen)

	Sales			Operating Income		
	FY3/13	FY3/14 Est.	YY Change	FY3/13	FY3/14 Est.	YY Change
Leasing Business	383,574	389,000	+1.4%	8,687	15,000	+72.7%
Construction Business	53,369	61,100	+14.5%	2,747	3,500	+27.4%
Hotels and Resort Business	6,657	6,700	+0.6%	-1,005	-700	-
Silver, Other Business	10,620	10,500	-1.1%	-706	-700	-
Adjustments	-	-	-	-2,308	-3,000	-
Total	454,222	467,400	+2.9%	7,413	14,100	+90.2%

**<Leasing Business>**

Leopalace21 calls for the average occupancy rate to rise by 2% points from the previous term to 85% during the current term. And while the average occupancy rate during the second quarter of 83.72% may appear low, occupancy rates in October, which is normally a seasonally weak period, continued to trend at relatively high levels as stated previously. At the same time, the combination of fortified marketing efforts and the approach of the high occupancy rate season from January to March are expected to allow Leopalace21 to achieve its full year target. Furthermore, reversals from carried over vacancy loss reserves are expected to amount to ¥2.5 billion. Sales, general and administrative expenses are expected to grow in line with plans, but increases in sales and the subsequent improvement in profitability is expected to allow profits to increase by large margins.

**<Construction Business>**

Reinforcement of the sales structure through staff transfers and allocation of new hires has already been completed, and Leopalace21 will continue to focus upon providing apartments and condominiums in regions where occupancy rates remain high. In addition, the Company will also focus its efforts upon expanding orders for nursing homes and commercial facilities, and increasing the diffusion of solar power generation systems.

In the hotels and resort, elderly care, other businesses, efforts will be made to reduce cost of sales and the margin of losses.

**5. Conclusions**

The leasing business sales fell slightly short of estimates during the second quarter. However, continued high levels of occupancy rates arising from the maximization of marketing efforts for this business, fortification of its clients portfolio, which boasts of transactions with about 80% of publicly traded companies within Japan, aggressive efforts to differentiate its services by fulfilling customer needs, reductions in costs, recovery in the construction business, and the smooth launch of overseas business deployment and implementation of solar power electric generation facilities are all viewed as evidence of the success of Leopalace21's midterm business plan entitled "Creating Future" and its core theme of creating a "New Growth Stage." Along with the improvement in profitability, reversals of vacancy loss reserves are also being promoted at a quicker than expected pace, and sales and profits are expected to continue to expand steadily.

In the near term, a major factor influencing the performance of Leopalace21 will be its ability to achieve its full year target for occupancy rate of 85.0%. Consequently, the announcement of third quarter earnings results and the most recent occupancy rate trends expected in February must be watched closely.

# Bridge Report



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