The Briefing of Financial Results for Q1-Q3 Fiscal Year Ending March 2021

Date and Time: February 12, 2021, 17:00 – 18:00

Summary for the Q1-Q3 Period of Fiscal Year Ending March 2021

Miyao:

Thank you for taking time to join the briefing of Leopalace21 Corporation's financial results for Q1-Q3 fiscal year ending March 2021. I am Bunya Miyao, President & CEO. I am covering the general overview of the closing of accounts for Q3 and revision of earnings forecasts FY21/3.

The spread of COVID-19 was the cause of constrained staff job reassignment at our corporate customers and diminished tenancy by the foreign nationals due to the government's restricted immigration control policy. These worked adversely on Leopalace21's occupancy rates and resulted in operating loss of 16.5 billion yen. With the funding costs related to the completion of fundraising dated Nov 2, 2020 sourced from Fortress Investment Group and recording of interest expenses, I regret to report the net loss of 25 billion yen.

We reduced SG&A centered on personnel expenses as a result of voluntary retirement program in line with the structural reforms. The deficit has been reduced in comparison with that of previous year. The board of directors has resolved the transfer of shares in the two subsidiaries and dissolution of one subsidiary. We have been making steady progress amid COVID-19 challenges in the transfer or withdrawal from non-core businesses which was stated in the structural reforms along with the sale of assets of approximately 8.5 billion yen during the first half of FY21/3.

On the financial side of the business, we had excessive liabilities of 17.1 billion yen at the end of Q2 FY21/3. We exercised the capital policy to resolve the excessive liabilities and had total net assets of 2.4 billion yen.

I am going to explain about the revision of earnings forecasts. COVID-19 pandemic badly hit our Leasing Business and we suffered from deteriorating occupancy rates which made Leasing Business not performing in line with the plan. We assumed that the COVID-19 impact remain unchanged for the rest of Q4, the busiest season, and made revision of earnings forecasts for Leasing Business. We are sorry for the downward revision at this point in time. There are two elements behind the revision; we changed the fiscal year average occupancy rate from 81.6% to 79.3% reflecting a lagging growth in corporate contracts, and we took accounting conservatism for the recoverability of deferred tax assets though we expected income taxes adjustment (profit) in the original plan.

Our measures of increasing the occupancy rate toward the end of Q4 as a main KPI, include offering early booking service for students to keep the room with free-of-charge extended period until announcements of college examination test results to capture the seasonal student demand in Q4 at an early stage and offering relocation service at no extra cost between properties under our management because of the changes in spending college life triggered by COVID-19 crisis.

In addition we rolled out a healthcare professional support plan across Japan. Please refer to the announcement dated Feb 3, 2021.

In parallel to implementing those sales measures, we put video content on YouTube in the middle of January to promote Leopalace21's hassle-free services for the corporate customers and student customers.

As a measure to increase profitability of Leasing Business, we have started to look into the cost items. As we noticed that cleaning costs and restoration costs had increased, we started close monitoring the issue through making those costs visible and reviewing the operational procedures.

As is related to the cost of Leasing Business, we started to negotiate with the property owners for correcting Leopalace21's rent payment obligations considering occasional cases where there are differences between the current rent and the market rent. As I touched upon the point at the investor briefing in November 2020, the leasing contracts with the property owners require rent verification in light of market rent every two years. In response to the law concerning proper management and other related work for the rental housing which came into effect on December 15, 2020 and to deal with the contracts which require the rent verification in the coming fiscal year, we started to contact the property owners in December 2020. The initial communication contained the information about the rent and conditions of the buildings which respective owners hold along with the rental demand and market rent in the neighborhood. We are organizing online owner briefing session in addition to the one face to face for the benefit of the owners to gain a better understanding of the new law and our further steps of adjusting the rent payment in line with the market.

Now I am handing over to Ashida, Director and Managing Executive Officer, who will explain the repair progress of the construction defects.

Progress status of repairing the construction defects

I am Shigeru Ashida. As I am responsible for the Emergency Headquarters for Construction Defects, I am taking you through the progress of repair works for the construction defects.

As of end of January 2021, we completed the repairs for 21.9% on the basis of room against the number of rooms which corresponds to the number of apartment buildings containing obvious defects. The number of vacant rooms which had been suspended for tenant recruitment was about 50,000 at the beginning of the fiscal year. We targeted to reduce it to 30,000 at the end of March 2021 and we have already achieved the target by reducing the number to 28,545 at the end of January, 2021.

We disclosed in August 2020 our plan of repairing about 2,000 rooms between September and December 2020 and we achieved the plan with a successful result. For the months to come until end of June 2021, our repair target is 6,000 rooms and we aim to complete the repairs for all obvious defects by the end of 2024.

The pace of repair works has been slowed down due to the government's declaration of state of emergency, but we take proper health and safety care of the people in the field for repairs and continue the repair works. This is all from me.

Leopalace21's ESG Management

Miyao:

I will cover the ESG activities of Leopalace21. We started to put the section of ESG activities in addition to the financial results this time. As Leopalace21 has been offering rental housing services, we have a strong tie with the society. We recognize our daily operation and extended activities are related to every stakeholder's business. For example, we made an announcement earlier the month a new service named "Oikura"—a Japanese phrase meaning "how much would a purchaser pay for"—which is to introduce customers to a price estimate service for unnecessary items at the time of removal. The customers can get some benefit from us and we can contribute to the society in terms of UN's SDGs for Goal 12—Responsible Consumption and Production. We are still in the middle of resolving the construction defects, yet we are determined to contribute to materialize a sustainable society through the business on top of realizing Leopalace21's own benefit.

Amid the challenging operational conditions, we are capturing the tenancy demand during the busiest season to realize the revised financial plan and aim to regain the trust of shareholders and stakeholders.

This is all from my side. Thank you very much for your attention.

Outline of Financial Results for the Q1-Q3 Period of Fiscal Year Ending March 2021

Takekura:

Thank you for joining the web conference today. I am Shinji Takekura responsible for Corporate Planning Department. Let me explain the outline of Q1-Q3 FY2021/3 performance. Please prepare with you the materials of Investor Meeting Presentation for the Nine Months Ended December31, 2020.

Please refer to p.12, Highlights of Results.

The corporate customers' constrained demand for training and staff job reassignment in response to the COVID-19 pandemic impacted occupancy rates which led to the following results.

Net sales:	30.83 billion yen	Minus 20.3 billion yen YoY	Minus 12.6 billion yen against the plan
Gross profit:	21.2 billion yen	Minus 1.3 billion yen YoY	Minus 8.1 billion yen against the plan
SG&A:	37.8 billion yen	Minus 7.5 billion yen YoY	Minus 2.0 billion yen

			against the plan
Operating loss:	16.5 billion yen	Plus 6.2 billion yen YoY	Minus 6.0 billion yen against the plan
Net loss attributable to shareholders of the parent:	25.0 billion yen	Minus 0.8 billion yen YoY	Minus 10.3 billion yen against the plan

Although cutting down the SG&A helped us to record the improved results for operating loss and recurring loss, the overall performance did not hit the plan because of the occupancy rates undershoot due to the significant impact of COVID-19 pandemic.

We posted the funding costs of 2.9 billion yen and interest expenses in non-operating expenses.

Extraordinary income contained gains on sale of investment securities of 4.0 billion yen whereas we recorded impairment loss of 3.7 billion yen, special severance allowance of 2.4 billion yen, and loss related to repairs of 0.7 billion yen in extraordinary losses amounting to 7.6 billion yen. As a result, net loss attributable to shareholders of the parent was 25 billion yen.

With the above results for Q1-Q3, we revised the earnings forecasts for FY21/3 as follows.

Net sales:	408.9 billion yen	Minus 22.2 billion yen against the original plan
Gross profit:	17.7 billion yen	Minus 25.3 billion yen against the original plan
Operating loss:	34.6 billion yen	Minus 24.8 billion yen against the original plan
Recurring loss:	39.8 billion yen	Minus 29.6 billion yen against the original plan
Net loss attributable to shareholders of the parent:	44.4 billion yen	Minus 36.4 billion yen against the original plan

We lowered the occupancy rate as of end of March 2021 by 2 percent points to 84.5% and therefore the fiscal year average rate will come to 79.3%, down 2.3 percent points against the original plan.

Please refer to p.13 for Results by Business Segment.

The Leasing Business undershot the Q1-Q3 plan whereas Elderly Care Business and Other Businesses somehow accomplished the plan.

The Leasing Business was badly hit by the reduced tenancy demand due to COVID-19 pandemic and recorded 29.52 billion yen, minus 17.6 billion yen YoY and 12.7 billion yen against the plan. The reversal of reserve for apartment vacancy loss of 6 billion yen, which was beyond the plan, resulted in gross profit of 21.2 billion yen. It was minus 1.1 billion yen YoY but kept the same level of gross profit to sales.

The reduction in SG&A helped to improve the operating loss by 7.3 billion yen to record 8.9 billion yen.

We found the Elderly Care Business broadly in line with the plan, with net sales of 10.9 billion yen, a reduction of 50 million yen YoY yet overshot the plan by 50 million yen with operating loss of 0.4 billion yen despite the reduced usage for short stay and private residential homes in the COVID-19 challenges.

The Other Businesses consists mainly of hotel business and Guam resort business. We have withdrawn from the hotel business in the 1H period and Guam resort business suffered from diminished visitors to Guam because of COVID-19 impact to record the following results.

Net sales:	2.1 billion yen	Minus 2.6 billion yen YoY	Plus 40 million yen against the plan
Operating loss:	1.1 billion yen	Minus 0.6 billion yen YoY	Plus 0.4 billion yen against the plan

Because of COVID-19 situation, we have not seen much progress in the transfer of Guam resort operation as we initially planned. The policy of transferring the Guam resort operation remains unchanged.

Reflecting the Q1-Q3 results, we put the revised plan in the far right column as follows.

Leasing Business	Net sales	392.0 billion yen	Minus 21.9 billion yen against the original plan
	Gross profit	17.6 billion yen	Minus 25.4 billion yen against the original plan
	Operating loss	24.7 billion yen	Minus 28.3 billion yen against the original plan
Elderly Care Business	Net sales	14.5 billion yen	Same as the original plan
	Gross profit	0.5 billion yen	Minus 0.1 billion yen against the original plan
	Operating loss	1.0 billion yen	Minus 0.3 billion yen against the original plan
Other Businesses	Net sales	2.4 billion yen	Minus 0.3 billion yen against the original plan
	Gross profit	0.2 billion yen	Plus 0.7 billion yen against the original plan
	Operating loss	1.5 billion yen	Plus 0.7 billion yen against the original plan

For quarterly results by business segment compared with previous year, please refer to p.14.

You will find the occupancy rates plan and actual on p.15.

The current FY21/3 actual is shown by dark blue solid line and revised plan is shown by dashed dark line. The occupancy rate as of end of Dec 2020 was 77.07% and that as of end of Jan 2021 turned 78.16%.

The Apr-Dec average rate was 78.58%, a reduction by 1.89 percent points YoY.

The original plan for FY21/3 is shown by light blue dashed line which is compared with the actual result as of end of Dec 2020, the difference of 4 percent points and the reasons behind the shortfall are given in the next page.

Please refer to p.16.

The shortfall of occupancy rate was broken down from left to right against the original plan,
The rate as of end of Dec 2020 was 77.07%, a 4.6 percent points lower than the plan. Of that difference, 4.1 percent points were due to the impact of COVID-19 pandemic and 0.5 percent points were due to the construction defects problem. The impact of COVID-19 pandemic can be attributed to restricted staff job reassignment and reduction of new hires in corporate clients' demand which came to 2.9 percent points and consisted a large part. The demand by individuals and students impacted minus 0.8 percent points with minus 0.4 percent points in the demand by foreign nationals. We are implementing various measures to address the respective issues which are shown in the next page.

Please refer to p.17.

To address the corporate clients, we have identified about 66,000 companies and started to negotiate with about 20,000 companies which we have had no business so far. For individuals and students, we will strengthen the tie with real estate agents, make the video content available on YouTube, and launched a range of promotion campaigns to widen the reach. In addition, we have rolled out a healthcare professional support plan in Dec 2020 nationwide to healthcare staffs and medical institutions amid the increased demand triggered by COVID-19 pandemic.

The number of foreign national immigration to Japan was heavily impacted by the COVID-19. We continue to capture the demand by the foreign nationals who study or take a working-holiday in Japan. For the benefit of foreign nationals, we introduced an integrated support in five languages on leasing website from room search to application for tenancy contract.

As to the repairs for construction defects, as Ashida explained earlier, we will aim to complete 6,000 rooms by the end of June, 2021 and release as many vacant rooms as possible for tenant recruitment through investigating the remaining rooms in terms of safety and make the safety confirmation as a leverage for additional business.

Please turn to p.18 where the outlines of SGAE reduction are shown.

The graph on the right hand side compares Q1-Q3 FY21/3 results against the same period FY20/3. The reduction of 7.5 billion yen mainly came through the personnel cost in the voluntary retirement program and attrition. In light of Q4 busiest months we may see increase in sales expenses but continue to constrain the SGAE as a whole.

Please refer to p.19 which explains the outline of the fundraising.

It consists of (i) issuance of new shares through third party allotment for about 12 billion yen, (ii) issuance of the stock acquisition rights in connection with the loan for about 30 billion yen, and (iii) issuance of preferred stock by Leopalace Power Corporation, a consolidated subsidiary, for about 15 billion yen, totaling to about 57.2 billion yen.

Of the three items, the aggregate 27 billion yen of (i) and (ii) has been recorded in the net assets and there existed no excessive liabilities at the end of Q3.

Please have a look at p.20 which shows the summarized consolidated balance sheets.

The total assets at the end of Q3 were 17.31 billion yen, a reduction of 23.8 billion yen compared with that of end of March 2020. The cash and cash equivalents were 57.6 billion yen at the end of Q3. The amount was decreased by 2.8 billion yen mainly because of operating loss despite the fundraising, sale of investment securities and non-current assets.

The long-term debt increased due to the fundraising whereas reserve for loss related repairs reduced by 6.3 billion yen and reserve for apartment vacancy loss reduced by 6.0 million yen.

Net assets were recorded 2.4 billion yen in terms of common stock, capital reserve, and non-controlling assets as a result of issuance of new shares through third party allotment and issuance of preferred stock while recording of net loss of 25 billion yen. There existed no excessive liabilities. The shareholders' equity ratio was minus 5.4%.

P.21 gives the summary of cash flows.

Cash flows from operating activities were net outflow of 36.7 billion yen mainly due to loss before taxes and other adjustments of 23.9 billion yen, depreciation and amortization of goodwill of 7.8 billion yen, impairment losses of 3.7 billion yen, decrease in reserve for apartment vacancy loss of 6.0 billion yen, payment related to repairs of 6.9 billion yen as well as decrease in accounts payable - other and in advances received.

Cash flows from investing activities were net inflow of 6.4 billion yen due to purchase of property (furniture and home appliances to be installed in the apartments) of 1.7 billion yen, sale of investment securities of 4.3 billion yen and sale of non-current assets of 4.1 billion yen.

Cash flows from financing activities were net inflow of 27.6 billion yen due to the fundraising of about 54 billion yen which was offset by repayment of long-term debt, redemption of bonds and repayment of lease obligations. Total cash flow were net outflow of 2.6 billion yen and the balance of cash and cash equivalents were 56.1 billion yen.

These are the outlines of the financial results. Now let me go into the segmental details with Leasing Business in the first place.

Please refer to p.28 which shows the shares of occupied units by industry.

In the downward trends of corporate clients in total, the notable reductions came from badly hit industries by COVID-19 such as hospitality industry for minus 4.6% QoQ, manufacturing industry for minus 3.0% QoQ and food industry for minus 2.5% QoQ. On the other hand, staffing and outsourcing industry have grown by 8.1% QoQ mainly because of increased hiring in semiconductor industry and automotive industry helped by demand surge. Our efforts of organizing online business interactions contributed to the growth as well.

Looking into the good performing business such as semiconductors, there are companies and industries which increased the hiring and demand for housing despite the impact of COVID-19 pandemic. Usually we see the corporate demands for new hires starting in Dec – Jan timeframe but it has been put off in Feb – Mar timeframe in this fiscal year because of COVID-19 pandemic. Towards the end of FY21/3, we aim to capture such seasonal demand and accomplish the goal occupancy rate at the end of March.

Please turn to p.29 where you find the number of contracts by individual foreign national tenants.

The demand has been hit by COVID-19 pandemic and the number declined from April 2020 to come to 19,914 units at the end of Dec, a reduction of 2.6% YoY. The foreign national tenants under the corporate contract are estimated to be about 14,000 units at the end of Dec and amounted to about 34,000 units in total between individual and corporate foreign national tenants, which occupied 7 to 8 percent of total tenants.

We will continue to service those target customers with multi-language support in the leasing offices across the county and giving a good sales pitch to Japanese-language schools and colleges with international students.

Please take a look at p.31 which gives the number of leasing offices over the years.

We are trying to streamline the operation of leasing offices with the result of 139 offices at the end of Jan 2021 consisting of 133 in Japan and 6 outside Japan. The number has been reduced by 50 compared with that at the end of Jan 2020.

Our value-added services are summarized in p.32.

In addition to web-based contract conclusion, we started to offer customer interaction via internet and on-line room viewing, a new set of DX solutions. In tandem with Leo-sign, an electronic contract management system for corporate users, we can service the customers without having face-to-face meetings for their benefit.

The cumulative result up to Dec was 4,064 web-based contracts and 35,000 users have employed the Leo-sign service.

Next please have a look at p.33.

We are taking various measures such as a range of campaigns including promotions on YouTube and a national healthcare professional support plan during the busiest season as President Miyao explained in the beginning.

Please refer to P.34 and p.35 for the varied services offered to the tenants.

Next comes Elderly Care Business on p.37.

We have an Elderly Care service network in Kanto region and Tokai region in the name of “Azumi En” totaling to 87 facilities. The occupancy rates of day-service and short-stay service were decreased by 5.2 percent points and 4.3 percent points respectively YoY which resulted in reduction of net sales and deterioration of operating loss compared with the Q1-Q3 previous year. The occupancy rate for the private residential homes increased by 1.3 percent point YoY. We regard the Elderly Care Business as strategic and steadily improve the profitability through operational improvement.

P.39 explains the International Business.

The policy of transfer or withdrawal from the International Business remains unchanged and we put the current state of the activities on the right side. The shares in Enplus was transferred at the end of Nov 2020 and the equity interest in a Vietnamese subsidiary has been decided to be transferred in Apr 2021. Although we have been looking for purchasers for the other subsidiaries outside Japan, we can only make effective activities in FY22/3 onward due to the difficulty of potential purchasers’ visiting the respective locations.

The final chapter is on our ESG management.

The status of preventive measures against the construction defects problem is included in the scope of governance.

Please take a look at p.44.

Out of the 50 action plans which we disclosed in Aug 2019, 40 items are completed and 10 items are being implemented. The major progress during Q3 includes the introduction of multi-faceted performance management system, and organization of financial briefings to the business partners among other stakeholders. For details please refer to the pp.45, 46 and 47.

I will skip the status of repair works on properties constructed by Leopalace21 as our director Ashida touched on that earlier.

In the field of social p.49 contains the information on reform of working practices and the external assessment. Our Leasing Business is offering solutions to various social challenges in p.50.

For Environment, please refer to pp. 51, 52 and 53.

P.51 provides information on CO_2 emissions in our operations. Although our business does not generate a lot of CO_2, we have been dealing with the issue through reducing the usage of company vehicles and hence CO_2 emissions for scope 1 and 2 have shown a steady decline.

P.52 mentions the environmental activities by Morizou, one of our subsidiaries.

We will try our utmost to carry out the operations in accordance with the plan to attain the profitability for FY22/3 and continue responding to the construction defects problem amid the difficulties of the business.

This is all from my end as to the outlines of the financial results. We look forward to your continued understanding and support. Thank you very much for your attention.

Q&A Session

Q1: Considering the revised earnings forecasts, I got the impression that Leopalace21 may have excessive liabilities at the end of March 2021. What is your financial countermeasure? Is it an increase in capital by Fortress' exercising share option?

A1: (Takekura) We do not have a concrete plan for financial countermeasure or a new fundraising. As to the potential excessive liabilities, we improve the profitability and make our financial base solid through increasing the occupancy rates toward the end of March. We will focus on what we can do in improving the occupancy rates at the end of February and at the end of March because the exercise of share option is outside of our decision making.

Q2: Please could you share your view on the occupancy rate at the end of March as well as at the end of February?

A2: (Takekura) We estimate the rate of 84.5% for the end of March. Although the inquiries for room availability drastically increased lately, we see the customers' decision making is delayed due to the extended period of declaration of state of emergency. The target occupancy rate at the end of February is either 81.5% or 82.0%.

We are preparing ourselves for surge of demand after the government's lifting the declaration and engage in sales activities to accomplish the goal.

Q3: Please elaborate your measures in attracting increased customers. What were the responses to the healthcare professional support plan that you announced on January 18, 2021?

A3: (Takekura) We are pleased to tell that the support plan was very well received by the customers after we rolled it out in the end of December, 2020. We got interviewed at the news release and the news were reported by 34 national and local newspapers as of January 28, 2021. On p.33, in addition to the healthcare professional support plan, we have a range of services for dedicated target customers including early booking campaign for new college students, campaign for school/college graduates to become new working adults, no-cost extended booking period service for the college examination test results as well as rent-free service for up to two months for specified rooms.

(Miyao) The Nikkei reported on February 11 Leopalace21's collaboration with Village House

Management Co., Ltd. Our clients consist of corporates with 60% and individuals including students and foreign nationals with 40%. We are therefore heavily depend on direct sales. The ordinary business in the rental housing is very much different from ours and the real estate agencies play a major role in identifying the customers and completing the tenancy contracts. Our way of doing business on one hand is a strength, however the strength is hit by the constrained staff job reassignment in response to the COVID-19 difficulties and we see increase in individuals business instead. The real estate agents can better receive such individuals' response in comparison to Leopalace21's direct leasing offices. We believe it makes sense to establish stronger tie with the real estate agents to better capture the individual customers' demand and service them accordingly. Village House Management holds more than 100,000 rental housing units under its management and they successfully increased the occupancy rate to 70% from its initial 30% when they purchased the employment promotion housings. Village House Management work closely with real estate agents in increasing the occupancy rates and Village House Management introduced such agents to us. We are new in this kind of business and in the learning process of the new model.

Q4: It is good to know that the demand has come back in the staffing and outsourcing industry. Are there any traits in terms of industry such as automotive and region.

A4: (Takekura) As pointed out, it is good news for us to have increased usage by the staffing and outsourcing industry. As to the region, we have had big demand for hundreds of rooms in Kanagawa Prefecture in Kanto region as well as good demand in Chukyo region with Nagoya City. As shown in p.28, the corporate demand as a whole has weakened with minus 1.5% to 1.9% compared with the previous quarters due to COVID-19 challenges. As we are closely looking at the reaction by respective companies, we are prepared to take quick action in offering rooms to meet the demand at the time of the cancellation of emergency declaration.

Q5: As for the healthcare professional support plan, isn't it profitable as the rent is set relatively low?

A5: (Takekura) You will find the outlines of the plan on p.33. No intermediary fee is required or 50% discount is offered for a short-term plan. In some cases they do not make money and just achieve breakeven results. We play a role of providing social infrastructure as we manage the largest number of rental housings for single-person households. We therefore decided on offering the support plan in parallel to offering the rental housings as a company dormitory or house to various corporate customers including staffing and outsourcing companies. We believe it is a part of our mission to support the social needs and received a lot of inquiries for the healthcare professional support plan irrespective of making enough money or not. We will continue to offer the plan based on this belief.

Q6: "The Kenchiku Gijutsu" a monthly magazine specialized for construction techniques, published an article on third party's positive safety evaluation of apartment buildings in terms of fire resistance performance that Leopalace21 built. Have you seen any changes in the corporate customers' attitude?

A6: (Ashida) We had a lot of corporate customers who determined to stop doing business with us or continue the business but with conditional terms after the construction defects problem was disclosed. Under such conditions "The Kenchiku Gijutsu", an authoritative monthly magazine specialized for construction techniques, published the article in its August 2020 issue about the result of fire test which helped overcome the safety concerns. We approached the corporate customers using the article as an argument for safety of the apartment buildings. As a result a large number of the corporate customers accepted the argument and resumed business with us or relaxed the terms for further business.

We will continue to make use of the article to increase the acceptance by the corporate customers for their better understanding of the construction defects problem.

Q7: Could you share the time schedule for adjusting the agreed rent for the property owners?

A8: (Takekura) As President Miyao talked about in the beginning, there are remarkable changes in the rental property market and we are in the middle of negotiating with our property owners to review the rent payment.

We started the process with an introductory explanation in December 2020 to the property owners across Japan how Leopalace21 plans to handle the rent adjustment. We used the whole month of December for sending the explanation documents to every property owner. Starting from January 2021, we began communicating with the property owners to try to agree to the revised rent payment. As the law concerning proper management for the rental housing was put in place, we comply with the law and take lawful approach to the owners.

(Miyao) We disclosed the construction defects related to parting walls in attics in April and May 2018 and non-compliance of parting walls for foamed urethane filling with specifications and non-compliance of ceilings with specifications in February 2019. We lost the social trust due to the construction defects coupled with huge loss in our financial results. We have explained to the property owners that we would not ask for reduction in rent payment until March 2021 at the owners briefing sessions and other occasions. In accordance with such promise we have reviewed the contracts and stayed with the agreed rent payment for the last two years.

The new law concerning proper management for the rental housing which made effective on December 15, 2020 states that the sublessors are required to agree with the property owners for the rent payment by making reference to the market rent in the neighborhood as guidelines and not influenced by the occupancy rates or the business performance of the sublessors. We informed the property owners of the facts related to the new law at the owners briefing sessions which we organized in December 2020.

The frequency of reviewing the rent payment may be different from one sublessor to another but we assume that the companies like us have been doing that at a regular interval. We have suspended the review for the last two years.

We made the introductory step in December 2020 but have not started the negotiation process immediately in January 2021. It is because that we honor the promise of not asking for the rent payment reduction up to March 2021 but explained the revised rent payment applicable to the next fiscal year onward. We thought that agreeing to an adjusted rent is a sensitive issue and it would take time for the property owners to understand the current market rent, to read through the materials that we provide, and to consult within the family to decide on their positions. Starting the introductory step in December was for the benefit of the property owners so that they can have enough time to prepare themselves.

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