

Bridge Report Leopalace21 Corporation (8848)

 Eisei Miyama, President	Company	Leopalace21 Corporation	
	Code No.	8848	
	Exchange	Tokyo Stock Exchange 1 st 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	http://eg.leopalace21.com/	

— Stock Information —

Share Price	Shares Outstanding	Market Cap	ROE (actual)	Trading Unit
¥534	211,543,595 shares	¥112.964 billion	29.0%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)
¥0.00	-%	¥52.00	10.3x	¥274.80
				PBR (actual)
				1.9x

*Stock prices as of the close on May 17, 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	52.00	0.00

*Estimates are those of the Company.

This Bridge Report introduces the fiscal year March 2013 earnings results and business strategies for Leopalace21 Corporation.

1. Company Overview
2. Characteristics and Strengths
3. Fiscal Year March 2013 Earnings Overview
4. Fiscal Year March 2014 Earnings Estimates
5. Conclusions

Key Points

- Sales in fiscal year March 2013 fell from the previous term due to a decline in sales of the construction business. Although operating income fell below targets despite an improvement in profitability of the leasing business and reductions in expenses, it still increased by a large margin from the previous term. Foreign exchange translation gains due to the weakening in the yen, and adjustments in corporate and other taxes allowed ordinary and net incomes to rise above both targets and the previous year's levels by large margins.
- Fiscal year March 2014 is the second year of the new midterm business plan "Creating Future," and is identified as a year to realize a new stage of growth based upon the foundations for future growth established during the previous fiscal year. While only a small rise in sales is expected, a large increase in profits is anticipated on the back of continued improvements in profitability of the leasing business. Because foreign exchange translation gains and tax adjustments are not expected to reoccur in current term, net income is expected to decline year-over-year.
- The ability to achieve the second consecutive term of profits and profitability at the operating level in the full year without having to rely upon reversals in vacancy loss reserves may be considered as a significant development for Leopalace21. While new housing starts are expected to recover, the difficult operating environment has not changed with negative factors such as the aging population, and declines in birthrates and population still in play. The Company's new efforts to leverage the solar power generation business in its stock of 550,000 rooms managed nationwide and export of its accumulated know-how in the overseas business should be watched closely.

1. Company Overview

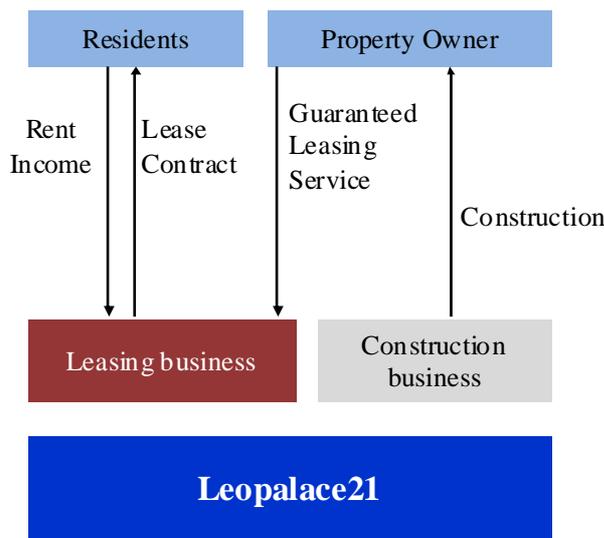
Leopalace21 was the first company in their industry to offer "guaranteed leasing services" that integrate rental apartment and condominium construction, and management services after their construction to land owners seeking to make effective use of their real estate. Sales are primarily the rental income fees received from residents of apartments, condominiums, and other residential properties and construction work to build apartments and condominiums. Leopalace21 managed 546,204 rooms as of the end of March 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”

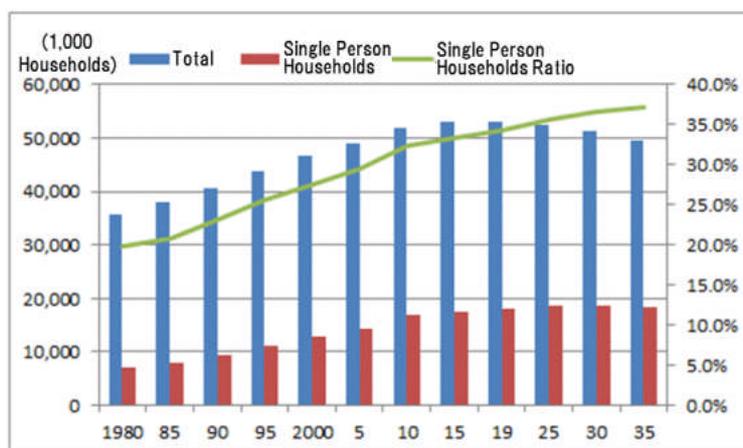
<Market Environment>

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, it is clear that the number of new housing starts will decline. The peak in the number of total new housing starts reached 1.70 million in 1990, of which 850,000 were rental properties, but by 2011 these numbers had fallen to 830,000 and 280,000 respectively. The number of new housing starts is expected to recover to 900,000 in 2013 ahead of the implementation of hikes in the consumption tax, but is expected to continue to decline over the intermediate to long term.

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 st	79,899	236,824	7,654	4,848	43,931	16.5	1.8
Daito Trust Construction Co., Ltd. (1878)	TSE1 st	798,848	1,251,000	88,000	55,000	186,592	14.5	4.3
Japan Property Management Center Co., Ltd. (3276)	JQ	11,275	27,907	1,027	637	1,891	17.7	6.0
Leopalace21 Corporation (8848)	TSE1 st	112,964	467,400	14,100	11,000	58,151	10.3	1.9

* 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 May 17, 2013 closing share price.

Market capitalization of Leopalace21 has increased by a large margin from the time the previous Bridge Report was issued due to staying in the black and a rise in net assets through the exercise of stock acquisition rights, which reversed

Token Corporation. Meanwhile, Leopalace21 still has lower PER than its competitors or market average (about 18 ~ 19 times in Tokyo Stock Exchange 1st section), and it is deemed necessary to continue stable profitability for rising share price further.

<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.

<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 58 "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>

Of the 546,204 rooms under management, 36% 16% and 14% are located in the greater Tokyo, Nagoya and Osaka regions, accounting for 70% of all rooms managed. 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 of March 2013, Leopalace21 operates 174 directly operated offices and some 192 franchised offices for a total of 366 offices throughout Japan. 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. Fiscal Year March 2013 Earnings Overview

(1) Consolidated Earnings

(Unit: Million Yen)

	FY3/12	FY3/13 Est.	FY3/13 Results	Divergence from Estimates	YY Change
Sales	459,436	463,900	454,222	-2.1%	-1.1%
Gross Income	55,864	60,900	57,713	-5.2%	+3.3%
SG&A	51,278	52,900	50,299	-4.9%	-1.9%
Operating Income	4,585	8,000	7,413	-7.3%	+61.7%
Ordinary Income	2,349	6,100	11,091	+81.8%	+372.1%
Net Income	1,588	5,500	13,335	+142.5%	+739.2%

Higher Occupancy Rates Allow Profits to Improve Despite Lower Sales, Large Increase in Profit Generated by a Weaker Yen

Sales fell from the previous term due to lower sales of the construction business. And while operating income fell short of estimates, improvements in profitability of the leasing business and reductions in sales, general and administrative costs contributed to a large increase in operating income from the previous year. Due in part to the foreign currency translation gain of ¥5.5 billion arising from the weakening of the yen and income taxes adjustments of ¥4.6 billion, ordinary and net incomes exceeded both the previous term's results and the current term's estimates.

(2) Segment Earnings Trends

(Unit: Million Yen)

	Sales			Operating Income		
	FY3/12	FY3/13	YY Change	FY3/12	FY3/13	YY Change
Leasing Business	380,307	383,574	+0.9%	5,248	8,687	+65.5%
Construction Business	62,913	53,369	-15.2%	4,309	2,747	-36.2%
Hotels and Resort Business	6,228	6,657	+6.9%	-1,663	-1,005	-
Elderly Care, Other Business	9,987	10,620	+6.3%	-892	-706	-
Adjustments	-	-	-	-2,415	-2,308	-
Total	459,436	454,222	-1.1%	4,585	7,413	+61.7%

<Leasing Business>

- ✓ While sales rose from the previous year, a switch in the type of contracts (from monthly to general contracts) and shortfall in new tenant acquisition caused sales to fall short of targets by ¥3.0 billion.
- ✓ While the average occupancy rate fell just shy of its target of 83.0% at 82.94%, it rose more than 1% point from the previous term's level of 81.16%. The average occupancy rate got off to a strong start at the beginning of the new fiscal year in April 2013 and remained above the previous year's level at 83.32%. The average occupancy rate target during fiscal year March 2014 is 85.0%.
- ✓ Improvements in the occupancy rate contributed to ¥5.2 billion in reversals of vacancy loss reserves compared with its target of ¥2.5 billion. At the same time, the recording of ¥8.6 billion in operating income in the current term reflects the attainment of the Company's goal of "achieving profitability at the operating level without including reversals of vacancy reserves" during the full year.
- ✓ The number of rooms contracted to corporations rose by 4.3% year-over-year to 228,708 at end of fiscal year March 2013 and their share of total number of rooms contracted also rose by 2% points year-over-year to 49.4% due to fortification of corporate marketing function. Leopalace21's 364 specialized professional staff promoted the two themes of "strengthening relationships with important customers" and "cultivating new customers" to ensure that its

business portfolio remains evenly distributed and to contribute to cost improvements in its customers' corporate dormitories.

- ✓ The number of rooms contracted to foreigners recovered to levels recorded before the Great East Japan Earthquake by rising 15.3% year-over-year to 9,517 during fiscal year March 2013. Leopalace21 operates 4 offices in China, 3 in Korea, and 1 in Taiwan for a total of 8 overseas offices. Furthermore, the cooperation with Leopalace Alliance Member (LAM) schools enabled foreign students to conveniently contract rooms over the internet while in their home countries, and allowed Leopalace21 to take advantage of the weaker yen.
- ✓ The number of leasing offices rose by 17 to 374 at the end of fiscal year March 2013. Of these offices, 182 are directly operated (174 domestic, 8 overseas) and the total number of offices is expected to be eventually increased to 400.
- ✓ The total number of contracts of "Room Customize" rose rapidly to 5,714 at end of fiscal year March 2013. It allows residents to create rooms in accordance with their own preferences and was featured in various media including television. This service was successful in developing a new set of customers as reflected by the fact that 50% of its users are women.
- ✓ Expansion in security systems installed in apartments was performed as a means of raising the value addition of properties, bringing the total number of installed facilities to 136,107 and total sales to ¥20.8 billion. This translates to an installation rate of 24.9% at end of fiscal year March 2013 and exceeded estimates. Security system installations are expected to continue to grow to 190,000 units for an installation rate of 35% by fiscal year March 2015, in reflection of the growing needs of single female occupants and large corporations.

<Construction Business>

- ✓ Both sales and profit declined by double digits. The number of marketing staff declined to 250 and orders for apartments did not proceed as planned as efforts to narrow the regional focus and restrain supplies were conducted. At the current time, measures to reinforce Leopalace21's organizational structure have allowed the number of sales representatives to recover to 420. In April 2013, orders of ¥7.8 billion were booked, exceeding the ¥4.5 billion seen in the previous March by a large margin. An expansion in orders was noted from the fourth quarter of the current term (January to March 2013) and is expected to continue.
- ✓ Leopalace21 focused upon opening offices in the three main metropolitan regions (Tokyo, Osaka, and Nagoya) that have high occupancy rates. The total number of offices was 54 nationwide at the end of April 2013.
- ✓ In commemoration of Leopalace21's 40th year of operation, "DUAL-L" two story wooden structure rental homes with lofts and "Arma-L" furnished apartments with large storage spaces were launched in May 2012 and December 2012, respectively, as part of the "Anniversary Model" lineup. In addition, sales of "Smaio" steel framed rental homes were launched in April 2013 as part of the theme of "new and comfortable Japanese housing."
- ✓ In addition to soundproofed water piping and highly sound insulating walling materials facilitated as standard specifications in all of its apartments after April 2013, Leopalace21 also focuses upon product improvements (especially sound proofing) through the use of "sound proof flooring" as "sound proofing systems" to bring about significant improvements in terms of noise performance compared with commonly-used wooden structure construction.
- ✓ Starting from the current term, the construction of 15 nursing homes and 5 commercial facilities generated ¥1.6 and ¥0.1 billion in sales respectively. Construction of 38 nursing homes and 20 commercial facilities are expected to contribute to sales of ¥3.8 and ¥0.6 billion respectively during fiscal year March 2014.

- ✓ As a means of increasing the value addition of its properties in the construction business, Leopalace21 has been focusing upon the installation of solar power generation systems. As of the end of March 2013, the number of solar power generation systems installed stood at 5,931 for an installation rate of 27.1% for total power generation of 64 megawatts. This is equivalent to electricity for approximately 20,000 households. Orders and sales rose by ¥17.6 and ¥17.2 billion year-over-year respectively in the fiscal year March 2013.
- ✓ In addition to installation of solar power generation systems by owners, validation tests of a “roof rental model” for virtual mega solar power generation systems was started from September 2012 at 67 managed properties within Fukushima Prefecture, generating approximately 1.2 megawatts or the equivalent electricity for 400 households. The power generation subsidiary “Leopalace Power Co., Ltd.” which was established expressly for this business, pays rent to the owners of apartments managed by Leopalace21 where solar power generation systems are installed and sells the electricity to electric power companies using the “fixed price purchase system derived from renewable energy sources.” Furthermore, efforts are being conducted with Fujitsu to analyze and validate information regarding electricity generating conditions including the amount of power generation, solar radiation, and temperature to optimize and promote this residential solar power generation through “roof rental model” business in the future.
- ✓ The roof rental model tried in Fukushima Prefecture was launched on a nationwide basis and called “Roof Rental Solar Power Generation Model: Roof Mega Solar Project” from February 2013. A special purpose company (SPC) was established for the purpose of electric power generation along with Mitsubishi UFJ Lease & Finance Co., Ltd. as a business partner responsible for leasing of the necessary facilities. Omron Field Engineering Co., Ltd. is responsible for the operation, maintenance and monitoring of electric power generation and Leopalace21 responsible for installation of the systems. The SPC will pay a fixed amount for the lease of roof space used to install the solar power generation systems, and sell the electricity generated to the electric power companies based upon the “fixed price purchase system derived from renewable energy sources.” Leopalace21 has targets of 7,000 buildings installed nationwide and total power generation of 100 megawatts, or the equivalent of electricity to power 30,000 homes. While the timing of when sales will be booked has not announced yet, it is expected to eventually reach ¥30.0 billion.

<Hotels and Resort Business>

While the effect of the Great East Japan Earthquake was still slightly felt during the previous term, the hotels and resort business segment saw favorable trends in occupancy rates at both its domestic and overseas facilities, and in sales and profits during the current term.

<Elderly Care Business>

While occupancy rates in short stay services fell from the previous term, rates in other services including day care service and nursing home facility service (Group homes included) trended favorably and contributed to improvements in profitability. Leopalace21 seeks to make this business profitable at an early stage.

(3) Other New Business Trends

◎ Established a Joint Venture Company, “Woori & Leo PMC Co., Ltd.” in Korea

On November 1, 2012, Leopalace21 announced that had formed a joint venture company with Korea’s largest residential property management company “Woori Housing Operation and Management Company” for the provision of the leasing business within Korea. Leopalace21 is entering the Korean leasing market, which is expected to grow rapidly with the transition of leasing contracts in the future, and will provide structured leasing services that are unprecedented in that country. Currently, market research is being conducted and operations are expected to begin during the second half of the coming term.

◎ Rental, Brokerage Business Started in Korea, Taiwan

The real estate brokerage business was started for Japanese and Japanese corporations in Korea and Taiwan. Due to

large number of inquiries from Japanese corporations, Leopalace21 launched its services at one office in Korea in November 2012 and at one office in Taiwan in March 2013.

(3) Financial Conditions and Cash Flow

Financial Conditions

(Unit: Million Yen)

	FY3/12 End	FY3/13 End		FY3/12 End	FY3/13 End
Cash, Equivalents	41,477	56,681	Payables	2,791	2,670
Receivables	4,541	4,360	Unpaid Construction Expenses	13,313	14,307
Outstanding Fees for Completed Construction	1,004	2,231	Short Term Interest Bearing Liabilities	46,265	15,374
Prepayments	18,997	12,772	Outstanding Payments	14,208	13,252
Current Assets	83,061	90,896	Prepayments Received	58,301	49,036
Buildings, Structures	55,116	54,740	Current Liabilities	145,524	105,144
Land	82,105	80,780	Long Term Interest Bearing Liabilities	2,040	31,500
Lease Assets	2,906	1,798	Retirement Reserves	8,041	8,634
Marketable Securities	6,489	7,176	Reserve for Apartment Vacancy Loss	19,207	13,950
Long Term Expense Prepayments	18,295	8,127	Long Term Security Deposits	9,853	8,984
Fixed Assets	181,659	170,705	Long Term Prepayments Received	42,680	32,357
Total Assets	264,783	261,649	Fixed Liabilities	85,427	98,353
			Total Liabilities	230,951	203,498
			Net Assets	33,831	58,151
			Total Liabilities, Net Assets	264,783	261,649

	FY3/10 End	FY3/11 End	FY3/12 End	FY3/13 End
Equity Capital	70,890	33,025	33,804	58,133
Equity Ratio	17.9%	11.1%	12.8%	22.2%
Interest Bearing Liabilities	56,481	39,888	48,305	46,874
Cash, Equivalents	72,431	40,674	41,477	56,681
NDE Ratio	-0.23	-0.02	0.20	-0.17

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

Net assets rose by ¥24.3 billion due to increases in capital and capital surplus of ¥12.6 billion resulting in part from the exercise of all of the first to third rounds of stock acquisition rights issued to third parties, and also to an increase in retained earnings of ¥13.3 billion due to higher net income. With regards to liabilities, the outstanding balance of vacancy reserves declined by ¥5.2 billion due to reversals and improvements in profitability. Interest bearing liabilities declined by ¥1.4 billion and contributed to a ¥27.4 billion decline in total liabilities. As a result, equity ratio rose by approximately 10% points, and NDE ratio also improved by a large margin.

Cash Flow

(Unit: Million Yen)

	FY3/12	FY3/13	YY Change
Operating Cash Flow	-3,174	6,069	+9,243
Investing Cash Flow	-3,537	-6	+3,531
Free Cash Flow	-6,711	6,063	+13,314
Financing Cash Flow	7,245	9,148	+1,903
Cash, Equivalents at Term End	40,877	56,381	+15,504

Both operating and free cash flows increased by large margins and returned to net inflows for the first time in four years. Fortification of capital and loan repayment allowed the net inflow of financing cash flow to expand.

4. Fiscal Year March 2014 Earnings Estimates

(1) Consolidated Earnings

(Unit: Million Yen)

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

Small Rise in Sales, Large Increase in Profits on Continued Improvements in Leasing Business Profitability Expected

Leopalace21 seeks to increase sales in both the leasing and construction businesses. Large increases in operating and ordinary incomes are expected due to growth in sales and improvements in gross margins. However, foreign currency translation gain of ¥5.5 billion and income taxes adjustments of -¥4.6 billion occurring in fiscal year March 2013 are not expected to reoccur during the current term and therefore net income is expected to decline. The second year of the new midterm business plan "Creating Future" is identified as a year when the foundations for future growth established in the previous fiscal will be leveraged to enter a new growth phase.

(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	-
Elderly Care, Other Business	10,620	10,500	-1.1%	-706	-600	-
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 target to rise by 2% from the previous term to 85% in the coming term. ¥2.5 billion in reversals of vacancy loss reserves is forecast in the current term. The Company expects sales, general and administrative costs to increase, but also expects large increases in profits based on growth in sales and improvements in profitability.

<Construction Business>

Reinforcement of the sales structure through job 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

Leopalace21 struggled to adapt to the rapid and severe changes in business environment resulting from Lehman Shock. However, business strategies including the narrowing of the focus of construction work and other strategies designed to raise occupancy rates by increasing value addition of properties allowed the Company to see its second consecutive term of profits. Furthermore, the fact that full year profitability at the operating level was achieved without having to rely upon vacancy loss reserves can be viewed as significant progress in Leopalace21's business strategy of restoring stability to its earnings. And while improvements in profitability are expected to continue in the current term, the positive impact of the economic measures implemented by the new Prime Minister Abe including continued recovery in new housing starts are expected to be offset to some extent by negative structural factors of declines in birthrates and population that continue to cloud the economic horizon. In addition to these developments, close attention should also be paid to Leopalace21's new efforts including its solar power generation business designed to leverage its stock of 550,000 rooms managed nationwide and leveraging of its know-how in its overseas business deployment.

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