

Results Briefing for the Fiscal Year ended March 31, 2018
Q and A Session

(Leasing Business)

Q1. How much improvement in occupancy rates can be expected? Will corporate contracts continue to drive growth, or will individual contracts start to improve?

A1. Average occupancy rate for last fiscal year was 90.59%, but the pre-Lehman Shock peak was 93%, and we believe occupancy rates can be increased to 93% under the current economic environment. Factors which will drive growth will be corporate clients, with strong demand from welfare program expansions and employment increases due to shortage of workers, as well as foreign tenants, which Leopalace21 has strengthened support.

Q2. How are the effects from strategic employment of sales promotion expenses in Q4 of last fiscal year?

A2. We focused on individual tenant acquisition, through concentration of promotion activities against our franchise Leopalace Partners and other real estate brokers, as well as increasing internet advertisements and "free-rent". As a result, the occupancy rate at the end of April increased 2.34p year-on-year to 92.82%, and we believe we have achieved intended results. In the current fiscal year and beyond, we will consider revenues other than rent, and further enhance services for tenants to ensure profitability.

(Development Business)

Q3. What is the reason for the decrease in profit in the Development Business in the fiscal year ending March 1, 2019, despite an increase in sales?

A3. We forecast sales of 65 billion yen in the construction subcontracting business, similar to the previous fiscal year, and the increase in overall sales is due to the real estate development business. However, the real estate development business consists of brokerage and dealing, and due to this change in sales composition, the gross profit margin is forecasted to decrease from 27.9% in the previous fiscal year to 23.3%. The gross profit margin for construction subcontracting is planned to be 27%, and the real estate development is planned to be 15%.

Q4. What is the reason for the decrease in profit in the Development Business in the first half of this fiscal year, and will this trend continue in the future?

A4. Orders outstanding at the end of the fiscal year ended March 31, 2018 has decreased year-on-year. Therefore, building completion sales is expected to decrease in the first half of this fiscal year, and recording of profit is planned in the latter half. Orders of construction subcontracting is planned to be 75 billion yen, similar to the previous fiscal year, but since orders weakened in the latter half of the previous fiscal year, we expect profits to reach forecasts through acquiring orders as planned, accumulating orders outstanding, and increasing the portion of construction subcontracting sales.

Q5. Real estate development is currently concentrated in urban areas. Are projects that answer to landowners' needs of asset allocation expected to increase?

A5. Through sales of real estate specified joint enterprise products conducted in the previous fiscal year, we realized there is high demand to own properties in Tokyo for measures against inheritance tax, especially for landowners in rural areas. We would like to increase these kinds of projects in the future.

In addition, we will actively implement real estate specified joint enterprise products and development-type SPCs such as the hotel at Ginza 8-chome, and through Leoplace Trust which acquired an "investment-based trust company" license from the Financial Services Agency last week, we will strive to support asset succession of landowners.

(Related Businesses)

Q6. Please tell us about the profitability in the Elderly Care Business (when it will be in the black) and the Hotels and Resort Business.

A6. The Elderly Care Business is aiming for profitability in the fiscal year ended March 31, 2020, through the increase in the number of facilities and improvement in occupancy rates, as well as the optimization of personnel distribution. We will be setting KPIs and implementing measures quantitatively. In addition, we will be stopping establishment of new facilities after the four facilities opening in this fiscal year, in order to improve profitability and aim for the black next fiscal year.

In the Hotels and Resort Business, repair costs for Hotel Leoplace Sapporo are transient, and will further improve productivity and efficiency in the future.

(Others)

Q7. How do you plan to use cash, and what is the adequate level?

A7. We are planning to maintain our current level of cash, in order to prepare for positive growth investment such as M&A and real estate investment, as well as fluctuations in the economy. On the other hand, we will use operating cash flow and allocate funds to investment and shareholders' return.