

January 17, 2020

Reno, Inc.
S-GRANT.CO., LTD.

Regarding Our Thoughts on the Businesses of Leopalace21 Corporation

Ever since we have submitted our demand for a convocation of an extraordinary shareholders' meeting on December 27, 2019, there has been no progress in the situation, with no request for discussions from Leopalace 21 Corporation (the "Company" hereafter). As such, we have contacted the Company to communicate our thoughts on their businesses, requesting a response consisting of either their opinions on our thoughts or any counterproposals, but the only response we received was about their thoughts on the construction defects problem.

With this response, there was a comment stating that the company is considering options regarding business alliances and reorganizations, but we believe that the fundamental issue of the Company lies in their attitude of not publicly disclosing such considerations that may have a significant impact on the Company.

We have notified the Company of the disclosure of this press release, and have also requested that they publicly release their opinions on our aforementioned thoughts by Monday, January 20.

Despite two weeks passing since the submission, the Company has not stated its decision to hold an extraordinary shareholders' meeting. As it is now highly unlikely that the meeting be held within 8 weeks as stipulated by the Company Act, we are making an appeal to the court for the permission to hold a shareholders' meeting run by us, and the court has set the first discussion meeting to be held on Tuesday, January 21.

Having said that, it is clear that the fundamental problem is not who runs the shareholders' meeting, but rather that the Company needs to undertake in fundamental reforms under a critical situation in which there is no clear path to recovery for occupancy rates of rented homes; there is no time to be wasted.

As for our proposals on business alliances and reorganizations, we made specific proposals last May, to which the Company showed interest, so we proceeded to introduce a certain company. This discussion did not go through in the end, and after that, we must say that the Company has not seriously considered fundamental reforms since then.

To recover the damage the image of the Company has suffered, more needs to be done than merely resolving the construction defects problem. It is assumed that it will take an extensive amount of time for the Company, with its current capabilities, to undertake this task, and there is a lot of uncertainty as to the success of the resolution. During the time it takes for the Company to resolve this issue, its presence within the industry will continue to deteriorate and its enterprise value is expected to keep diminishing.

As such, upon consideration from multiple perspectives, we believe that leveraging the goodwill of other companies through business divestitures (including those that take the form of company splits) is the best course of action with the highest probability of success.

What we want the most from the Company is for them to understand the current situation and immediately undergo fundamental reforms, but since we have received neither counterproposals nor mere opinions to this point in time, we have reiterated our thoughts to the Company one last time asking for an answer by January 16, 2020 despite being in the process of demanding the convocation of an extraordinary shareholders' meeting, but we regret to say that the Company has not responded with their opinions on this matter.

We are making this announcement because we believe that it is only fair and transparent that we share our thoughts to the shareholders to seek understanding before making resolutions at the extraordinary shareholders' meeting.

As mentioned above, as for the leasing business, we believe that the best course of action is to seek opportunities for the sale of the business while prioritizing the resolution of the construction defects problem as soon as possible (in considering the sale of the business, it must first be confirmed that there are no concerns regarding the resolution of the construction defects problem). We also believe that there is a need to simultaneously reorganize money-losing businesses with no future potential of recovery or growth; as for our thoughts on the businesses other than the leasing business, we have sated them in the paragraphs below.

We believe that the leasing business, after regaining trust, will be worth over 200 billion yen (calculated from EBITDA multiples of comparable companies, based on EBITDA figures calculated from the operating income of the leasing business for the fiscal year ended March 31, 2018 of 26 billion yen).

Development Business: President Miyao mentioned that this business should be looked at in conjunction with the Leasing Business during our discussions, so we are considering a business divestiture together with the Leasing Business.

Hotels Business: While continuing to sell remaining domestic assets in Nagoya, we believe that assets in Guam should also be sold during these reforms, even if at a loss, as there are no signs of recovery from their prolonged history of making losses.

Elderly Care Business: Though the amount of losses is decreasing, this business continues to be loss-making, and we believe that measures need to be taken for improvement. One of our ideas would be to consolidate operations with our own elderly care business to reduce management costs.

International Business: Though there are isolated synergy effects with the Leasing Business, they are neglectable when compared to the entire business, and there is no clear strategy. Our company as a group has developed projects amounting to over 200 billion yen in Southeast Asia and can provide our knowledge and networks in this field.

The idea to divest the core business of the Company may come as a surprise, but fundamental reforms are necessary in order to recover the true potential of the leasing business, putting an end to and leaving the repeated downward revisions to business results and the unclear outcome of the construction defects problem in the past.

The quick establishment of stability in the leasing business that can be attained by a business divestiture should be welcome not only to apartment owners and tenants but also to employees, and the shareholder returns that will be made possible through business divestitures will benefit shareholders, so we believe that this will be ideal from the perspectives of all stakeholders.

We ask the shareholders to kindly consider and agree to our suggested policies at the extraordinary shareholders' meeting.