

A.D.Works Group Co., Ltd.

IR Briefing Materials: Financial Results for Fiscal Year Ended December 31, 2023

February 16, 2024

TSE Prime, Code: 2982



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| ADWG Group's Businesses

A.D.W. SINCE 1886
GROUP

Corporate philosophy

The ADWG Group contributes to the active development of people and society by creating and providing original value while flexibly changing.

The Group, which started as the Aoki Dyeing Works in 1886, has changed with the times and now operates its business on the TSE's Prime Market.



Founding

1886

A.D.Works, the Company's predecessor, was founded as Aoki Dyeing Works, a dyeing business, in 1886



Listing

October 2007

The Company's predecessor, A.D.Works, was listed on JASDAQ in October 2007 and the first section of TSE in October 2015; the Company was established through sole share transfer in April 2020



Market

TSE Prime



Number of employees (consolidated)

232 people

as of December 31, 2023



Number of Group companies

14 companies

Income property sales business in Japan and overseas



Overseas office



Los Angeles, USA

Operates business in Japan and overseas

Business Vision (Graphic representation)

We aim to be an investment solution company that develops and sells a range of investment products centered around real estate.



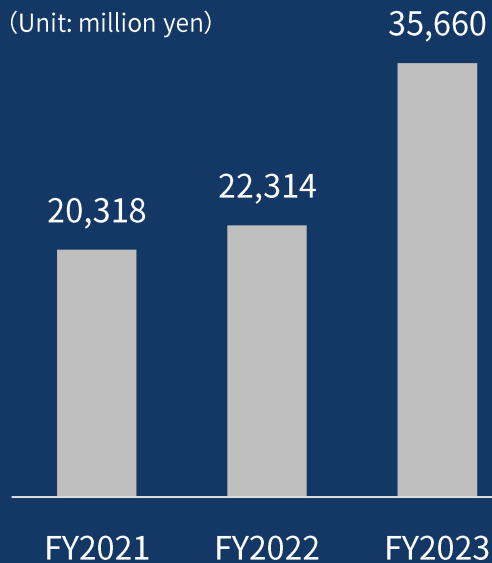
1 Income Property Sales Business

In our business model, we purchase income properties in Japan and overseas based on extensive market research and legal examination, and then increase asset value by carrying out construction work to raise its value and attract tenants in order to generate income through their subsequent sale.

Business model: One-Time Sales-type

Fluctuations in sales (by segment)

(Unit: million yen)



Three business characteristics

Properties handled



Focus on residences and offices

Areas of focus



Focus on the Tokyo metropolitan area, Kansai metropolitan area and Los Angeles, California

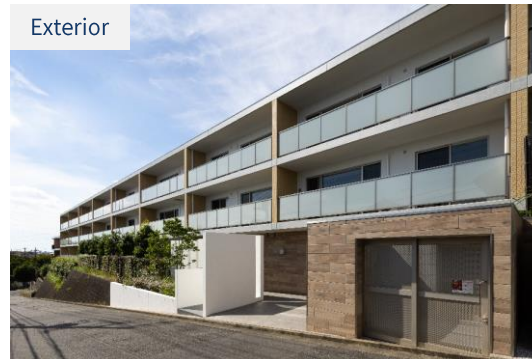
Strengths



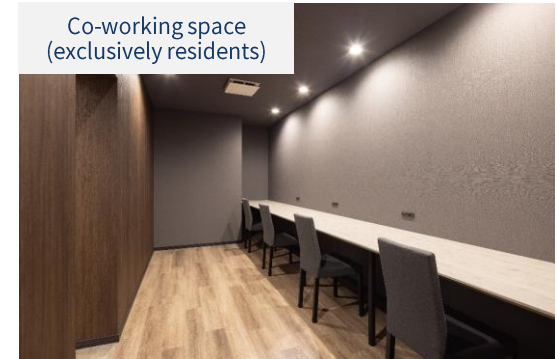
Value-Add Strategy

Example of value-added project : Saginuma Project(Residential real estate)

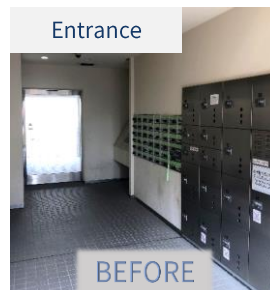
Exterior



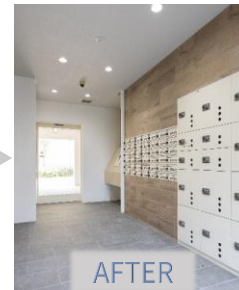
Co-working space (exclusively residents)



Entrance



BEFORE



AFTER

Plans tailored to characteristics of property and site and residents' needs

- Former trunk room turned into a co-working space
- Apartments suited for living together with pets

Other

- Large-scale repair work
- Interior decoration work on residents' rooms
- Steps taken to address legal infringements, etc.

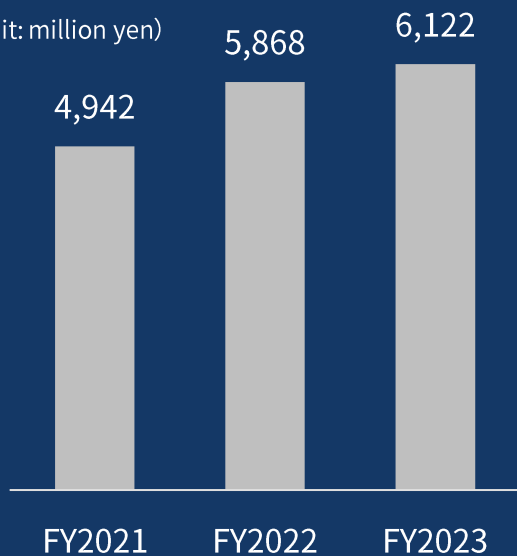
2 Stock-type Fee Business

This business model generates stable revenue through rent income from income properties held by the Group, property management support, and fee revenue from property investment consulting.

Business model: Stock-type

Trends in net sales (by segment)

(Unit: million yen)



① Property management



Leasing

Rent collection

Building management

We provide property owners with total property management, including leasing, building management, and rent collection.

② Asset consulting



Architectural consulting

Condominium renovations

Renovations

We provide multi-faceted asset consulting through private consulting, such as real estate appraisal and real estate utilization consulting, and support customers' real estate investments over a long time span extending across lifetimes.

3 New Business

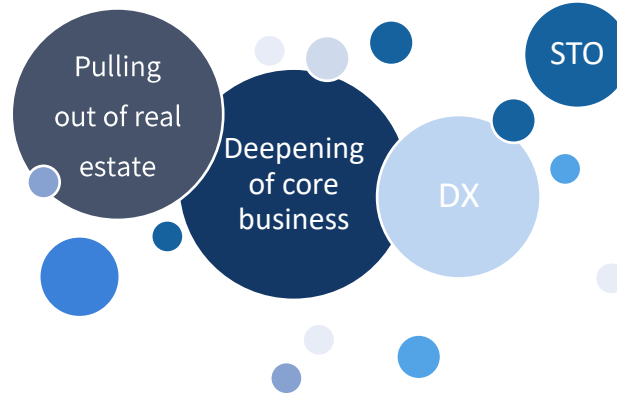
We aim to simultaneously deepen existing business and search for new business, merging the management resources we have built up with methods such as the CVC business, DX promotion, capital and business tie-ups, M&A and other to pursue the creation of new value. We aspire to make a leap to an investment solution company that provides diverse services.

Examples of creation of new businesses

Finance arrangement business

In this business, we provide advice on capital policies, including financing, to companies that have not yet listed and small- & medium-sized listed companies, based on our CVC functions. A service providing expertise on the Company and the financial industry's financing for new players will be organized to accommodate the needs of client companies.

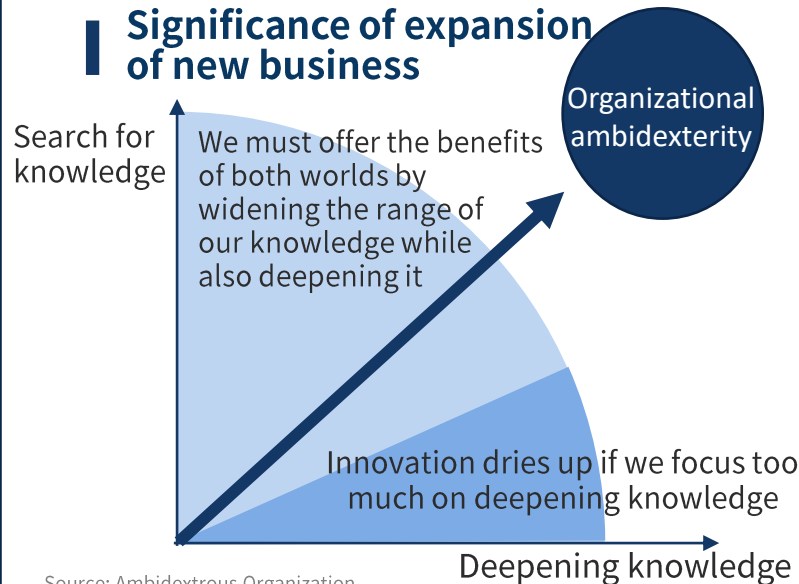
Spread of new business



Since the start of the CVC business, we have collected information on investment projects and secured opportunities to collect useful information.

Some investments were made as a result of cautious investment assessments.

Significance of expansion of new business



In deepening existing business, we ensure a search for new projects with the CVC business, and promote a strategy that enables innovation.

Source: Ambidextrous Organization, by Charles A. O'Reilly and Michael Tushman, Harvard Business Review, April 2004

Overview of Financial Results for Fiscal Year Ended December 2023

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We achieved the target of First Medium-Term Management Plan, marking a record-high profit.



Overview of Fiscal Year Ending December 31, 2023

Net income before income taxes reached 2 billion yen as planned.

The increase in property scale helped to improve the operating efficiency of the income property business in Japan.

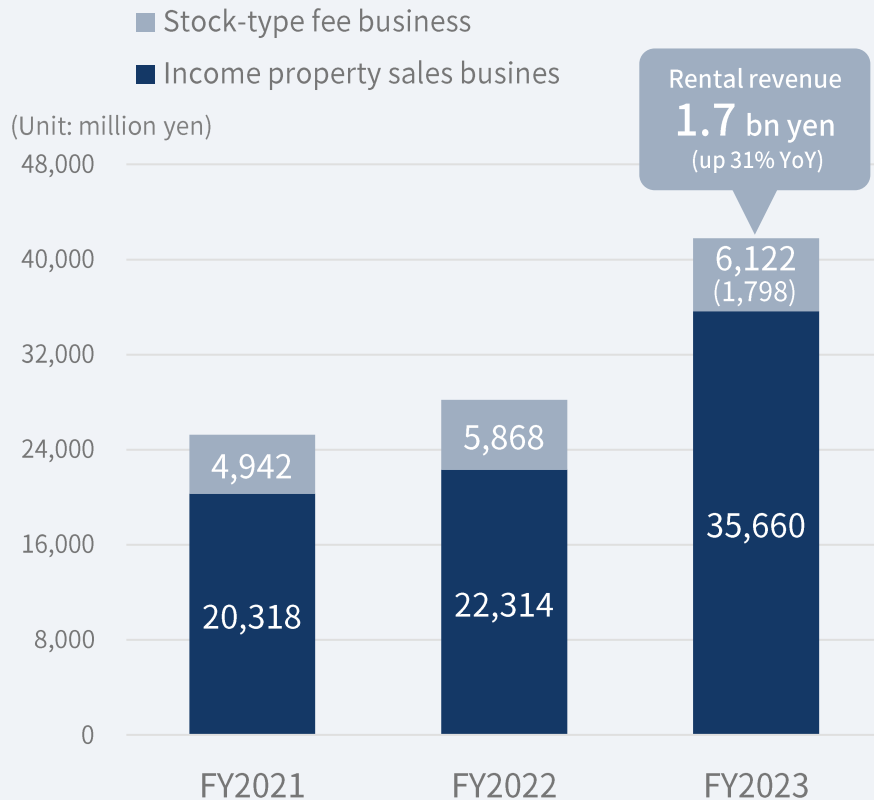
(Unit; million yen)

	FY2023	Comparison to same period in previous year (Y on Y)	
		FY2022	YoY
Net sales	41,342	27,856	48.4%
Gross Profit	7,019	5,385	30.3%
SG & A	4,577	4,008	14.2%
EBITDA	2,790	1,515	84.1%
Ordinary income	1,978	953	107.5%
Net income before taxes	2,066	910	126.9%
Net income [※]	1,419	527	169.3%

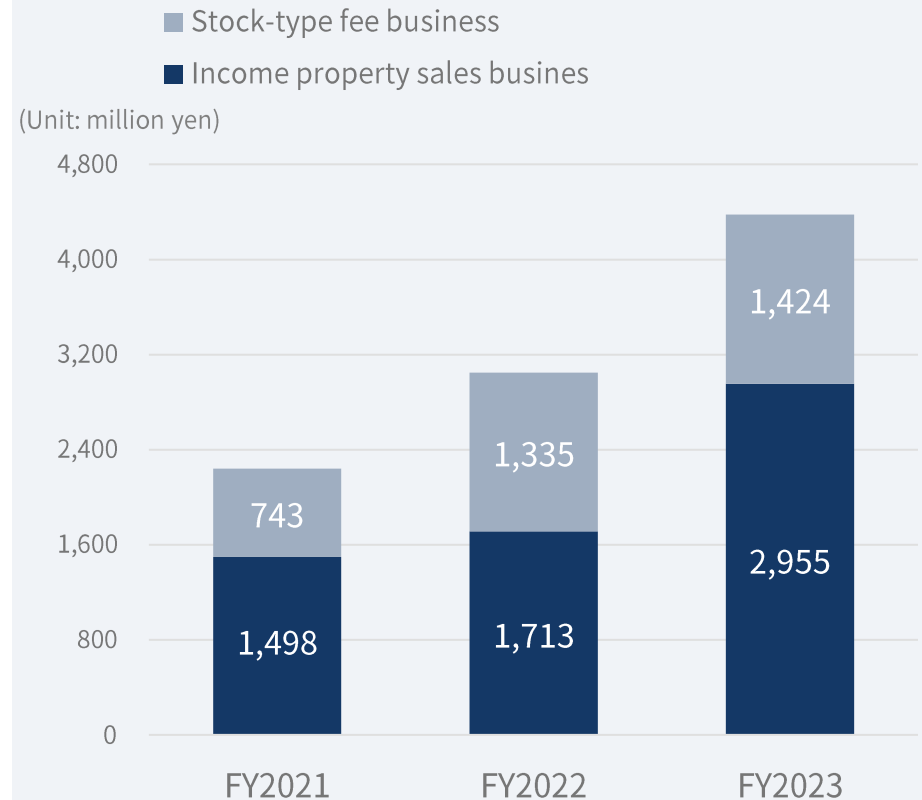
※Net income attributable to owners of parent.

The income property sales business expanded dramatically compared to the previous fiscal year. The balance of profit-generating properties was expanded, resulting in a solid business foundation.

Fluctuations in net sales (by segment)



Fluctuations in EBITDA (by segment)

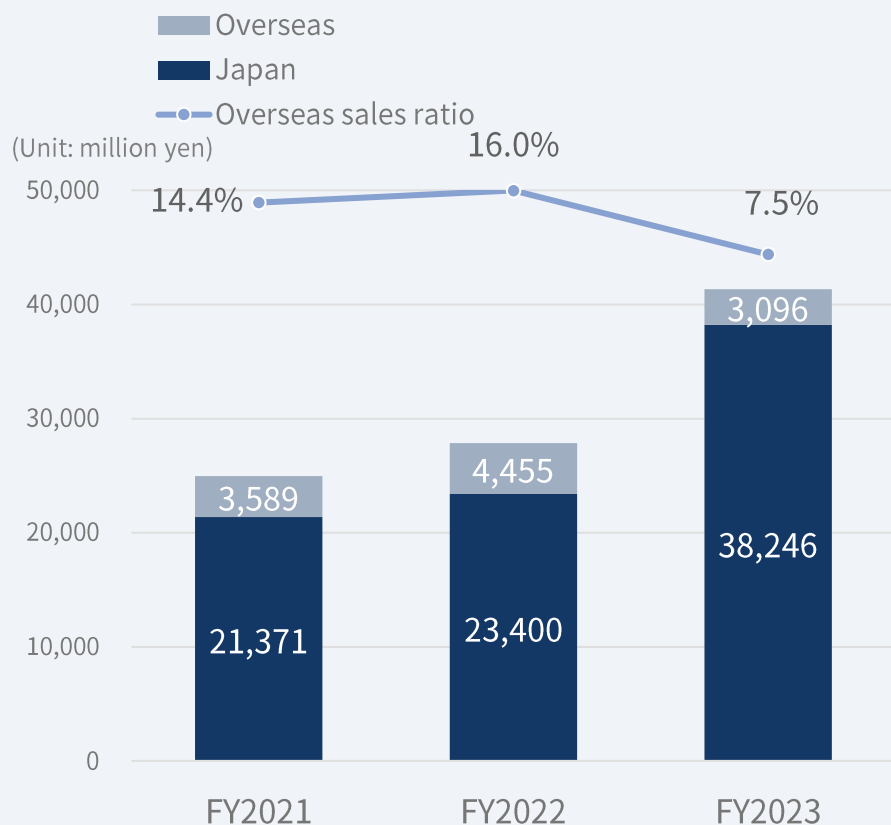


※The figures shown here include figures related to internal transactions

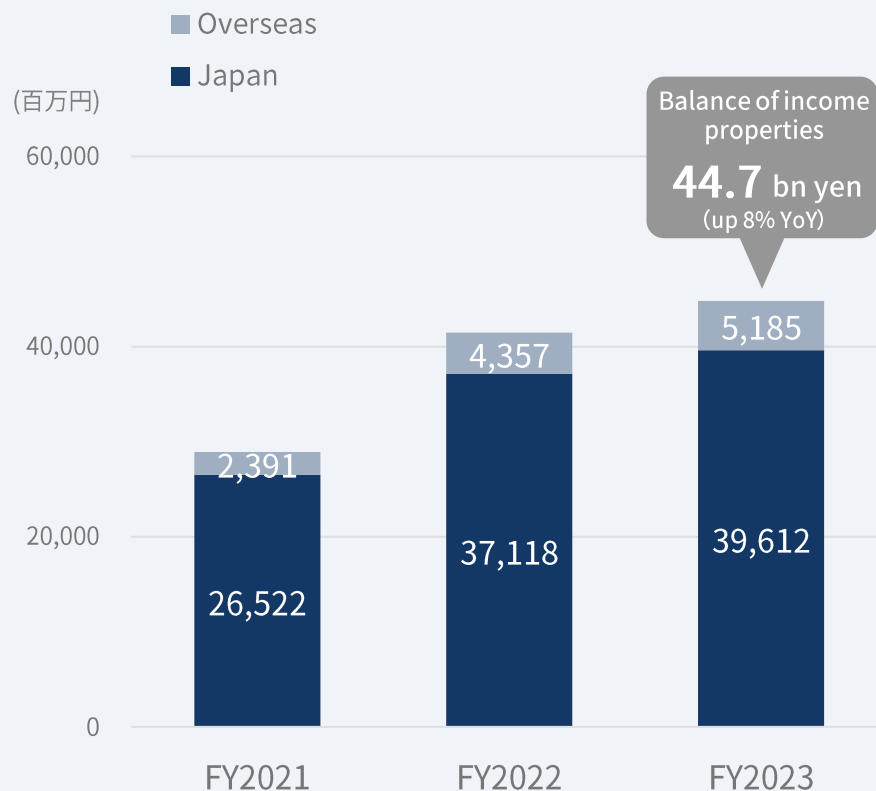
Japan: Sales grew as the customer base expanded to “ultra-high-net-worth individuals,” institutional investors, and individual investors.

Overseas: Acquisitions and sales continue to be restrained as U.S. policy rates remain high.

Fluctuations in net sales (by segment)



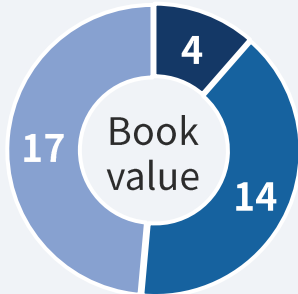
Fluctuations in balance of income properties (by region)



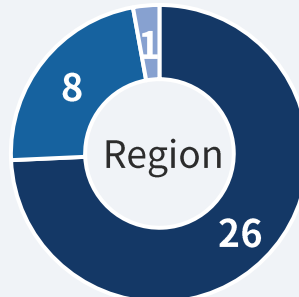
Breakdown of balance of income properties(number of buildings)

Development projects in Japan progressed, and several properties were completed by the end of this fiscal year.

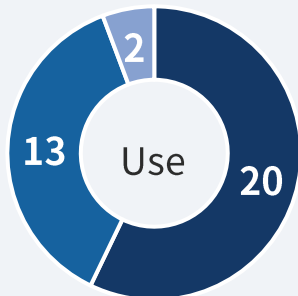
Japan (Total 35 buildings)



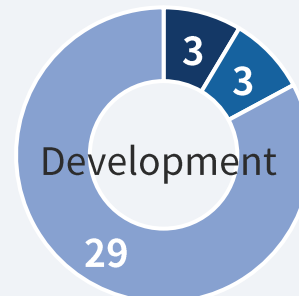
- 500 million yen or less
- 500 million yen to 1 billion yen
- more than 1 billion yen



- Kanto
- Kansai, Chubu, Kyusyu
- Other

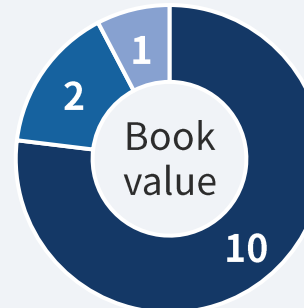


- Residential
- Office
- Commercial, etc.

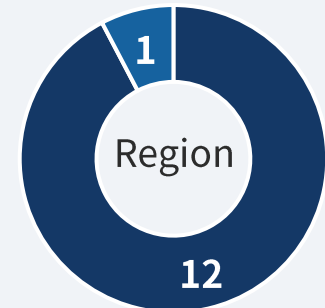


- Completed
- In development
- Other than development

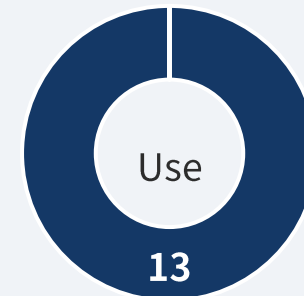
Overseas (Total 13 buildings)



- 500 million yen or less
- 500 million yen to 1 billion yen
- more than 1 billion yen



- Los Angeles
- Hawaii



- Residential



- In development
- Other than development

Overview of consolidated balance sheet

6.3 billion yen of income properties held for rental revenue was reclassified from current assets to property, plant and equipment at the end of this fiscal year.

The balance of income properties expanded to a total of 44.7 billion yen (up 3.3 billion yen from the previous fiscal year).

As of end-December 2022

(Unit: million yen)

Cash and deposits 7,425	Current liabilities 9,099
Current assets, etc:2,821	
Income Properties 41,488	Non-current liabilities 28,401
Non-current assets, etc:1,623	Net assets 15,857

Total assets : 53,359 million yen

As of end-December 2023

(Unit: million yen)

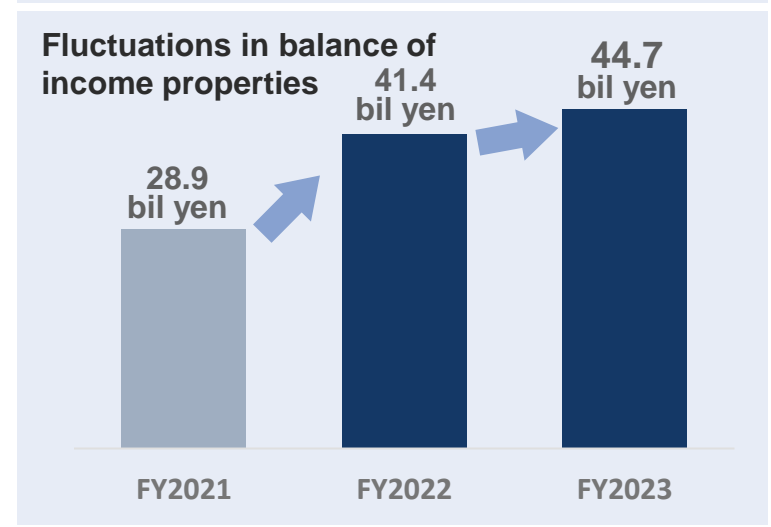
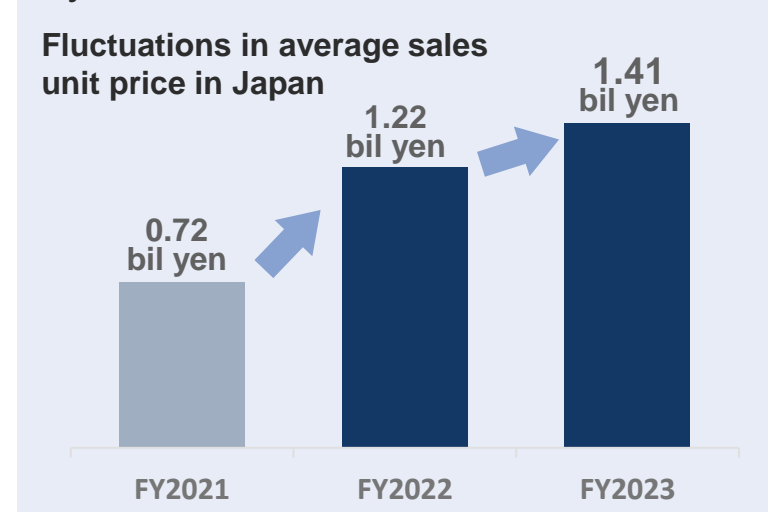
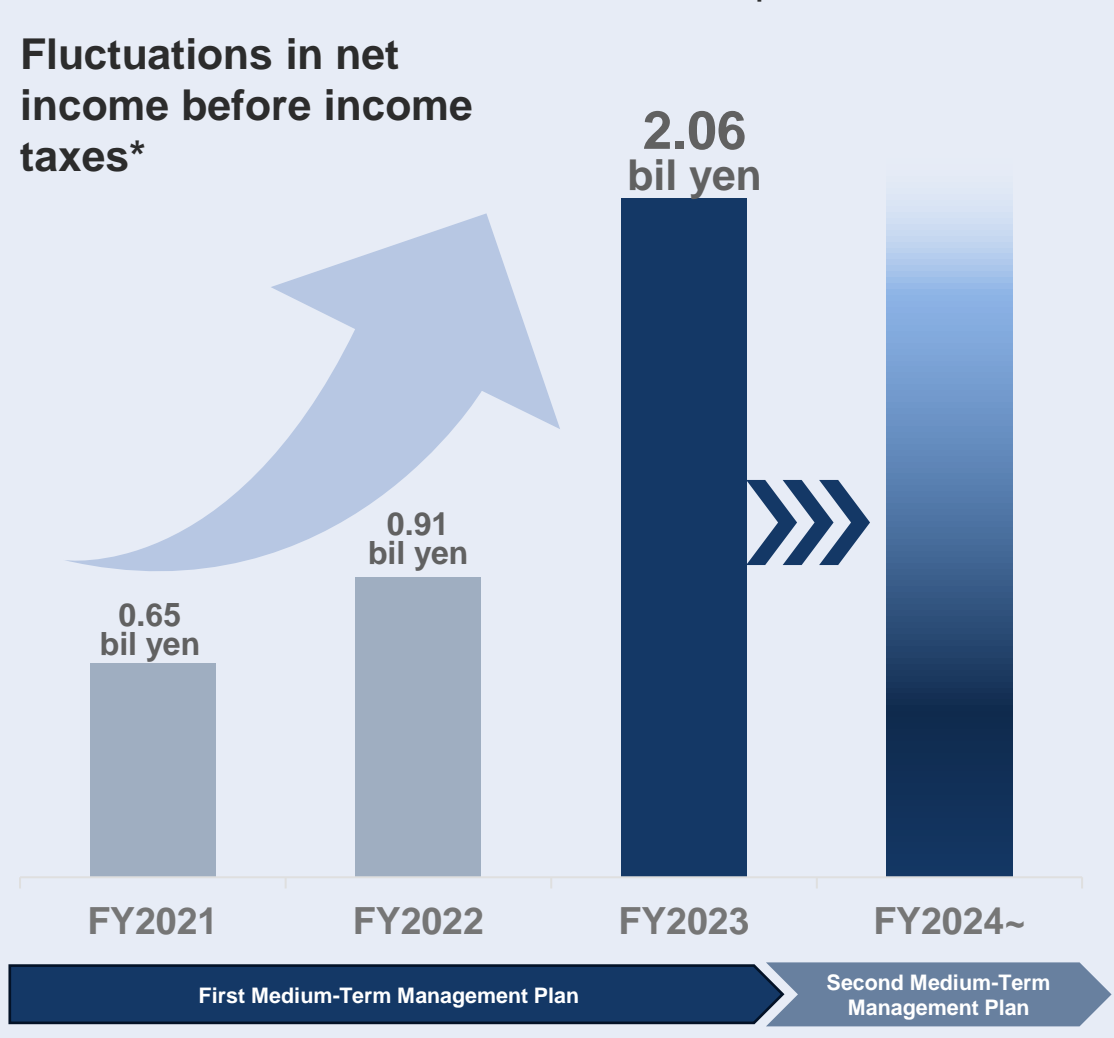
Cash and deposits 9,810	Current liabilities 15,048
Current assets, etc:2,068	
Income Properties (for sale) 38,414	Non-current liabilities 26,639
Income Properties (for rental revenue) : 6,383	Net assets 17,166
Non-current assets : 2,178	

Total assets : 58,854 million yen

Summary of First Medium-Term Management Plan (Fiscal Years Ended December 31, 2021 - December 31, 2023)

Trajectory of Changes in the First Three Years of Medium-Term Management Plan

Under the First Medium-Term Management Plan as the foundation for a dramatic leap in growth in the final year of the plan, we steadily increased property unit prices and expanded the balance in the plan's first and second years.



* Net income before income taxes

Further creating value by planning products tailored to the surrounding environment and changing workstyles

Development that considers the environment and surrounding community



- ◆ Located in the TANOJI area of Kyoto City, along Kawaramachi Dori, one of the most prosperous areas in the city
- ◆ Acquired ★★☆☆☆☆ rating under the Building-Housing Energy-efficiency Labeling system (BELS)
- ◆ Compatibility with Kyoto's historic area characteristics, and design work to express the Japanese style not seen in the surrounding community
- ◆ Held this property as a non-current asset
Continue to focus on the development business as well to secure prime properties that will generate a stable source of earnings

Property overview

Location	Kawaramachi, Nakagyo-ku, Kyoto City, Kyoto
Scale	Steel construction, 7 floors above ground and 1 basement floor
Use	Stores
Completion	December 2023

Commercialization to accommodate changing workstyles



- ◆ Located along the Tokyu Denentoshi Line, with good access to Tokyo area
Close proximity to commercial complexes, parks, elementary school, and a pleasant neighborhood environment
- ◆ Pet foot-washing area and leash hooks installed
Creating an environment for living together with pets
- ◆ Trunk room turned into a workspace to meet rapidly growing needs for remote work

Property overview

Location	Saginuma, Miyamae-ku, Kawasaki City, Kanagawa
Scale	Reinforced concrete, 3 floors above ground
Use	Apartment complex
Completion	April 2009

We achieved our results plan for the fiscal year ended December 31, 2023, resulting in excess profits.

We aim to further increase capital efficiency and enhance market capitalization in the future.

(unit: %)	First Medium-Term Management Plan		
	Fiscal year ended December 31, 2021 (Results)	Fiscal year ended December 31, 2022 (Results)	Fiscal year ended December 31, 2023 (Results)
A: WACC (weighted-average capital cost) ^{*1}	3.6	3.3	3.1
B: ROIC (return on invested capital) ^{*2}	1.8	2.2	4.0
B-A: Excess profit	-1.8P	-1.3P	+0.9P

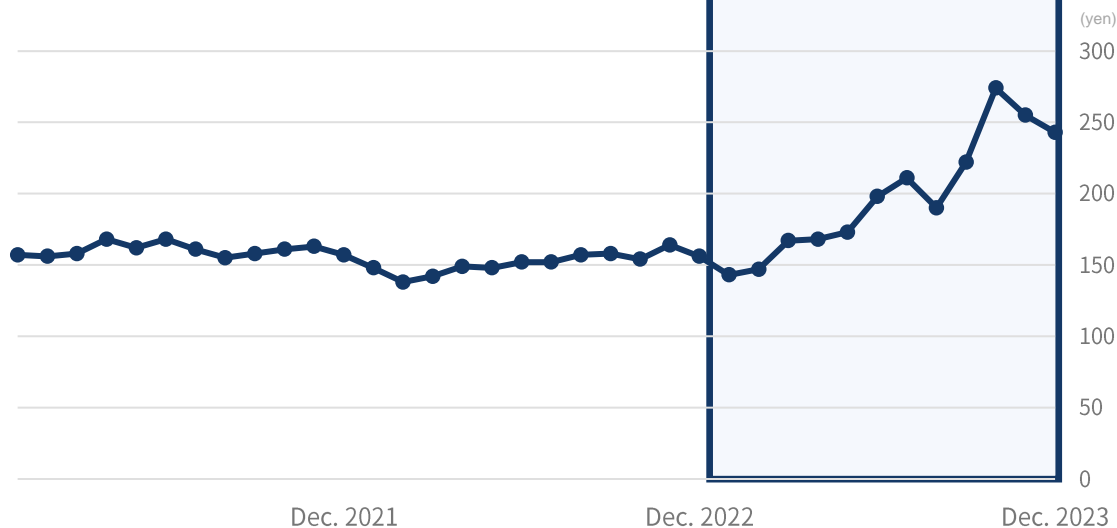
^{*1} WACC: Calculated with shareholders' equity cost of 8%, interest-bearing liability cost of 1.5% and tax rate of 35%.

^{*2} ROIC: (Comprehensive income attributable to owners of parent + Interest expenses + Borrowing fee) ÷ (Average balance of shareholder's equity + Average balance of interest-bearing debt)

	End of FY ended Dec 31, 2021	End of FY ended Dec 31, 2022	End of FY ended Dec 31, 2023
Share price ^{*3}	147 yen	143 yen	236 yen
Market capitalization ^{*4}	6.8 bil yen	6.7 bil Yen	11.3 bil yen

^{*3} Closing price at the end of business month of the year

^{*4} ((Number of shares issued at the end of the year) - (Number of Treasury shares at the end of the year)) x share price



Policy of Second Medium-Term Management Plan (Fiscal Years Ending December 31, 2024 - December 31, 2026)

We achieved 2 billion yen in net income before income taxes, entering the next stage of growth.

We will establish a system for sustainable growth under the theme of
“Sustainable Business, Sustainable Growth.”

(Unit: billion yen)

Consolidated	FY2021 (Fiscal year ended December 31, 2021)	FY2022 (Fiscal year ended December 31, 2022)	FY2023 (Fiscal year ended December 31, 2023)	FY2024 (Fiscal year ending December 31, 2024)	FY2025 (Fiscal year ending December 31, 2025)	FY2026 (Fiscal year ending December 31, 2026)
	Results	Results	Results	Plan	Plan	Plan
Net sales	24.96	27.85	41.34	47.00	52.00	58.00
Operating income	0.93	1.37	2.44	3.00	3.30	3.70
Net income before income taxes	0.65	0.91	2.06	2.30	2.60	3.00
Balance of income properties *1	28.9	41.4	44.7	45.0	46.0	50.0
Shareholders' equity	14.7	15.2	16.3	17.5	18.5	20.0
ROE *2	2.2%	3.5%	9.0%	9.2%	9.6%	10.4%
ROIC *3	1.8%	2.2%	4.0%	4.3%	4.6%	4.8%
Human resource productivity “PH gross profit” *4	24 mil yen/person	25 mil yen/person	31 mil yen/person	33 mil yen/person	34 mil yen/person	35 mil yen/person
Financial soundness “Equity ratio”	35.1%	29.6%	29.1%	Approx.30%	Approx.30%	Approx.30%
Shareholder value “EPS” *5	7.22 yen	11.32 yen	29.85 yen	32.95 yen	36.35 yen	41.76 yen

*1 Balance of income properties: Total balance of properties held for sale or rental revenue

*2 ROE: Net income attributable to owners of parent / average shareholders' equity (Figures may differ from net income on equity.)

*3 ROIC: (Net income attributable to owners of parent + interest expenses + borrowing fee) / (balance of average shareholders' equity + balance of average interest-bearing liabilities)

*4 PH gross profit (gross profit per head): Gross profit / average number of employees

*5 EPS (earnings per share): Net income attributable to owners of parent / average number of shares during the period

Mindful of uncertain market conditions over the next three years, execute the six key measures.

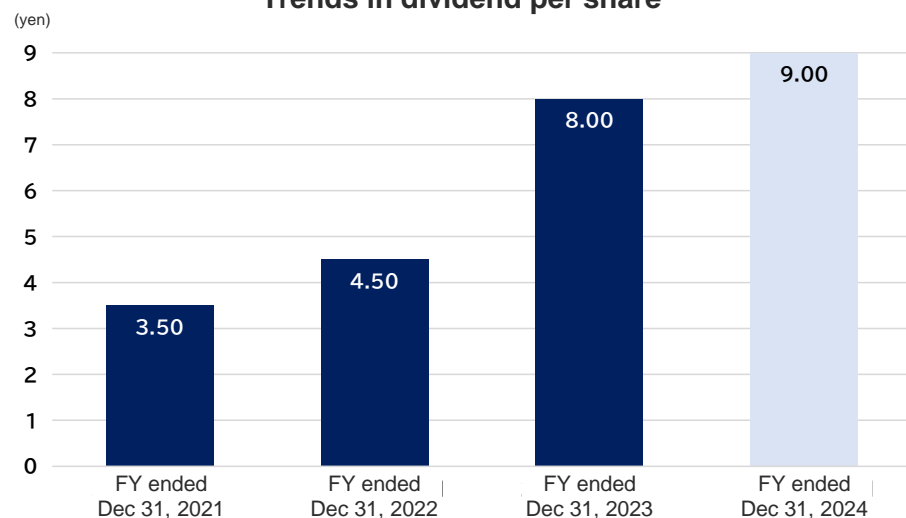
<div style="text-align: center;"> <p>Internal factors</p> <hr/> <p>External environmental factors</p> </div>	<p>[Strength]</p>	<p>[Weakness]</p>
	<ul style="list-style-type: none"> • Sourcing/selection capability and ability to structure products • High level of trust in products (legal compliance/integrity) • Track record and development of overseas business 	<ul style="list-style-type: none"> • Dependence on property income business • Little room to increase financial leverage • Fragmented business processes
<p>[Opportunity]</p>	<p>Leverage [Strength] and capture [Opportunity]</p>	<p>Cover [Weakness] and capture [Opportunity]</p>
<ul style="list-style-type: none"> • Population concentrated in urban areas • Inflow of private investor funds into real estate market through development of direct financing • Growing depreciation of Japanese real estate 	<ol style="list-style-type: none"> ➊ Continue to invest in real estate in major urban areas ➋ Strengthen relationships with overseas investors 	<ol style="list-style-type: none"> ➍ Strengthen relationships with financial institutions and leverage alternative financing
<p>[Threat]</p>	<p>Leverage [Strength] and prepare for [Threat]</p>	<p>Cover [Weakness] and prepare for [Threat]</p>
<ul style="list-style-type: none"> • Declining population in Japan • Market risk due to lifting of negative interest rates in Japan • Decrease in office demand as remote work takes root 	<ol style="list-style-type: none"> ➋ Expand small-lot real estate product sales business ➌ Proactively acquire overseas properties 	<ol style="list-style-type: none"> ➎ Explore non-asset businesses

We have set a forecast for annual dividends for the fiscal year ending December 31, 2024 of 9 yen (an increase of 1 yen from fiscal 2023 levels).

Our policy is to pay dividends in line with financial results, while maintaining internal reserves for future growth.

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023		Fiscal year ended December 31, 2024	
			(Interim)	Fiscal year-end	(Interim)	Fiscal year-end
Net income per share (yen)	7.22	11.32	29.85		32.95	
Dividends per share (yen)	3.50	4.50	(3.50)	4.50	(4.50)	4.50
Net assets per share (yen)	316.36	334.37	356.62		360 (forecast)	
Dividend payout ratio (%)	48.5%	39.8%	26.8%		28% (forecast)	

Trends in dividend per share



- ▶ Dividend payout ratio to be maintained at just under 30%, with plans to increase dividends in line with profit growth

Secure product planning budget for ESG and contribute to the SDGs through our business.

Category	Materiality	Initiative policy	Risk/opportunity	Contribution to SDGs
E/S	Utilize and connect: Revitalization of real estate	Real estate planning to meet social and environmental needs	Risk: <ul style="list-style-type: none"> Impairment of corporate value due to delayed response to social and environmental changes Lower real estate value due to incompatibility with social needs Opportunity: <ul style="list-style-type: none"> Increased market value of real estate with social and environmental considerations Enhanced community presence through community creation and revitalization 	
		Implement diversity and wellbeing		
		Proactively acquire real estate environmental certification		
		Promote real estate planning that contributes to community revitalization		
		Introduce and use renewable energy and energy-saving equipment, and use building materials with low environmental impact		
S	Provide peace of mind and security	Thoroughly instill compliance awareness among executives and employees	Risk: <ul style="list-style-type: none"> Subdued performance due to loss of credit and diminished product value Devastating disasters and accidents due to inadequate property maintenance Opportunity: <ul style="list-style-type: none"> Enhanced trust by adapting to stakeholder needs Increased value of disaster-resilient properties 	
		Strengthen information security measures		
		Maintain real estate functions through appropriate repair planning and response		
		Ensure legal compliance and thorough corrective action for properties		
		Develop disaster preparedness functions and respond quickly to emergencies		
	Create motivation to work and innovate	Establish a work environment and work style that is consistent with the times and needs, and promote employee health and wellness	Risk: <ul style="list-style-type: none"> Intensifying competition for talent Decreased employee engagement and productivity Opportunity: <ul style="list-style-type: none"> Transubstantiation of ideas through diversity and inclusion Creation of new business opportunities by exploring and utilizing innovative technologies 	
		Foster an organizational culture rooted in psychological safety and respect for diversity		
		Enhance training, education, and awareness-raising opportunities		
		Co-create new value through the CVC business		
		Promote cross-company DX		
G	Strengthen governance to enhance corporate value	Promote businesses based on high ethical standards and thorough legal compliance	Risk: <ul style="list-style-type: none"> Human rights issues leading to a decline in reputation and business stagnation Business stagnation and loss of credit due to compliance violations and internal control failures Opportunity: <ul style="list-style-type: none"> Creation of business opportunities and sustainable growth through improved adaptability to changes Diversification of financing methods by expanding ESG investments 	
		Execute and oversee operations based on multi-faceted risk management		
		Enhance disclosure, including non-financial information		
		Actively engage in dialogue with stakeholders		
		Optimize business portfolio in response to changes		

| Reference Materials

Company name -----	A.D. Works Group Co., Ltd.
Headquarters -----	Fifth Floor, Hibiya Kokusai Building, 2-2-3, Uchisaiwai-cho, Chiyoda-ku, Tokyo
Establishment -----	April 1, 2020 (A.D.Works Co., Ltd., the Company's predecessor, was founded in February 1886 and incorporated in May 1936.)
Capital -----	6,262 million yen (as of December 31, 2023)
Listing date -----	Moved to TSE Prime in April 2022 Listed in the First Section of the TSE in a technical listing in April 2020 (2982) (A.D. Works, the Group's predecessor, was moved to the first section of TSE in October 2015/ Listed on the JASDAQ Securities Exchange (3250) in October 2007)
Main subsidiaries -----	<p>A.D.Works Co., Ltd. (real estate transactions, brokerage)</p> <p>A.D.Partners Co., Ltd. (real estate management)</p> <p>Sumikawa ADD Co., Ltd. (renovation work, repair work)</p> <p>Angel Torch Co., Ltd. (corporate venture capital business, finance arrangement business)</p> <p>Jupiter Funding Co., Ltd. (financing utilizing crowd funding and other)</p> <p>A.D.Works USA, Inc. (management of US subsidiaries)</p> <p>ADW-No.1 LLC (US property income business)</p> <p>ADW Management USA, Inc. (US property income management business)</p> <p>ADW Hawaii LLC (property income business in Hawaii, USA)</p>

Shareholder Composition (as of December 31, 2023)

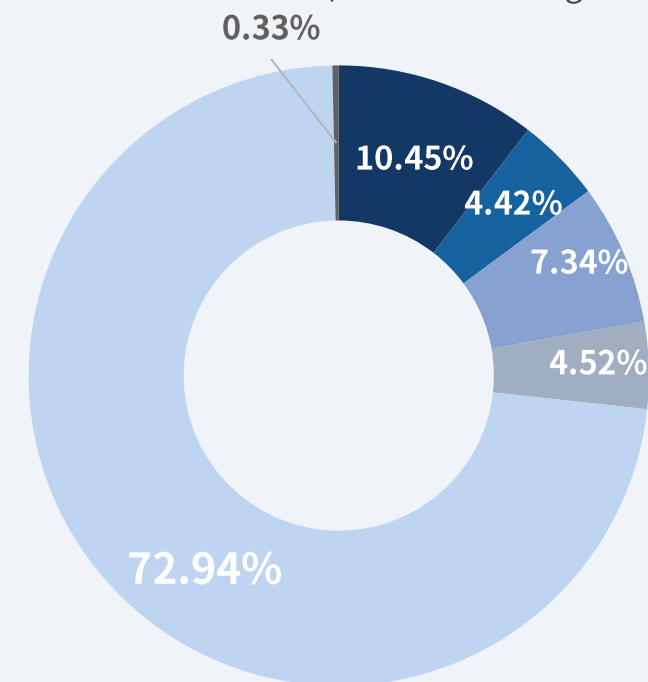
1 Number of issued shares **49,455,764 shares**

2 Number of shareholders **22,009** (shareholders with voting rights: : 15,571)

3 Major shareholders(as shown in table below)

No.	Shareholder name	所有株式数の割合 (除：自己株式)
1	Hideo Tanaka	10.11%
2	The Master Trust Bank of Japan, Ltd. (Trust Account)	5.32%
3	Liberty House Co., Ltd.	3.98%
4	The Master Trust Bank of Japan, Ltd. (Directors' Stock Compensation Trust)	2.67%
5	Ueda Yagi Tanshi Co., Ltd.	1.81%
6	JAPAN SECURITIES FINANCE CO., LTD.	1.14%
7	GOLDMAN SACHS INTERNATIONAL (Standing proxy: Goldman Sachs Japan Co., Ltd.)	0.96%
8	Custody Bank of Japan, Ltd. (Trust Account)	0.91%
9	Kazushi Imai	0.88%
10	JPMorgan Securities Japan Co., Ltd.	0.64%

4 Allocation by owner
(as shown in diagram below)



- Financial institutions
- Financial instruments business
- Other corporate bodies
- Foreign corporate bodies
- Individuals, others
- Treasury stock

Trends in Consolidated Results

	FY2015 (Fiscal year ended March 31,2015)	FY2016 (Fiscal year ended March 31,2016)	FY2017 (Fiscal year ended March 31,2017)	FY2018 (Fiscal year ended March 31,2018)	FY2019 (Fiscal year ended March 31,2019)	FY2020 (Fiscal year ended March 31,2020)	FY2020 (Fiscal year ended December 31,2020)	FY2021 (Fiscal year ended December 31,2021)	FY2022 (Fiscal year ended December 31,2020)	FY2023 (Fiscal year ended December 31,2023)
(Unit: million yen)										
Net sales	10,735	15,733	18,969	22,299	24,861	24,687	16,840	24,961	27,856	41,342
Ordinary income	540	650	748	926	1,802	932	427	650	953	1,978
Net income	333	426	540	584	663	625	264	312	527	1,419
Net assets	5,478	5,842	6,415	10,152	11,947	13,005	13,216	14,817	15,857	17,166
Total assets	16,681	17,925	25,832	30,801	30,625	35,468	35,850	42,047	53,359	58,854
Balance of income properties	12,931	14,551	20,318	22,376	21,229	23,118	24,682	28,914	41,476	44,798
ROE	6.1%	7.5%	8.8%	7.0%	5.9%	5.0%	2.7%	2.2%	3.5%	9.0%
ROIC	3.6%	3.8%	3.9%	3.1%	3.4%	3.1%	2.0%	1.8%	2.2%	4.0%
Number of employees	99	115	136	146	167	185	195	207	219	232

※1:ROE: Net income attributable to owners of parent / average shareholders' equity (Figures may differ from net income on equity.)

※2:ROIC: (Net income attributable to owners of parent + interest expenses + borrowing fee) / (balance of average shareholders' equity + balance of average interest-bearing liabilities)

Notes on these Materials

These materials were created in order to provide an understanding of the A.D.Works Group. They are not intended to solicit investment in our company. The future forecasts contained in these materials were determined based on the information available at the present time, and include many uncertain elements. Please understand that actual results may differ from the forecasts here due to changes in a wide variety of factors.

The overall business objectives of the Group are announced in the form of plans. The plans of our company are targets for our business, and are different from "forecasts and predictions" that are calculated rationally based on highly accurate information.

The A.D.Works Group announces predicted progress for each quarter in the form of "forecasts" that are updated as needed. These are based on highly accurate information concerning the A.D.Works Group and information that we judge to be rational. The data contained in these materials contains publicly-available information that we judge to be trustworthy and accurate, however the A.D.Works Group does not guarantee the accuracy and correctness of this information.

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