

A.D.W.  
Group

SINCE 1886

A.D.Works Co., Ltd.  
IR Briefing Materials: The First Three  
Quarters of the Year Ending March 31, 2018

January 26, 2018

A.D.Works Co., Ltd.

TSE 1st Section: 3250 <http://www.re-adworks.com/>

<b>I</b>	Summary of the First Three Quarters of the Year Ending March 31, 2018	P.2	-	P.3
<b>II</b>	Overview of the First Three Quarters of the Year Ending March 31, 2018	P.4	-	P.11
<b>III</b>	Business Plan and Progress	P.12	-	P.14
<b>IV</b>	Reference Materials (Business Strategy)	P.15	-	P.17
<b>V</b>	Reference Materials (Company Profile, Shareholder Composition, Trends in Consolidated Results)	P.18	-	P.22
<b>VI</b>	Reference Materials (The Fifth Mid-Range Business Plan)	P.23	-	P.27
<b>VII</b>	Reference Materials (Characteristics of the A.D.W. Group Business Model)	P.28	-	P.31

# **I - Summary of the First Three Quarters of the Year Ending March 31, 2018**

Topic  
1

**Both sales and profits exceeded 75% of the full-year plan, making for steady progress.**

Topic  
2

**Sales in the stock-type fee business were up about 30% year on year.**

⇒ Revenue from property management and construction increased due to the larger scale of the business.

Topic  
3

**The balance of income properties recovered to levels exceeding the end of the previous fiscal year.**

⇒ We will utilize a rights offering to secure revenue sources for the future.

## **II - Overview of the First Three Quarters of the Year Ending March 31, 2018**

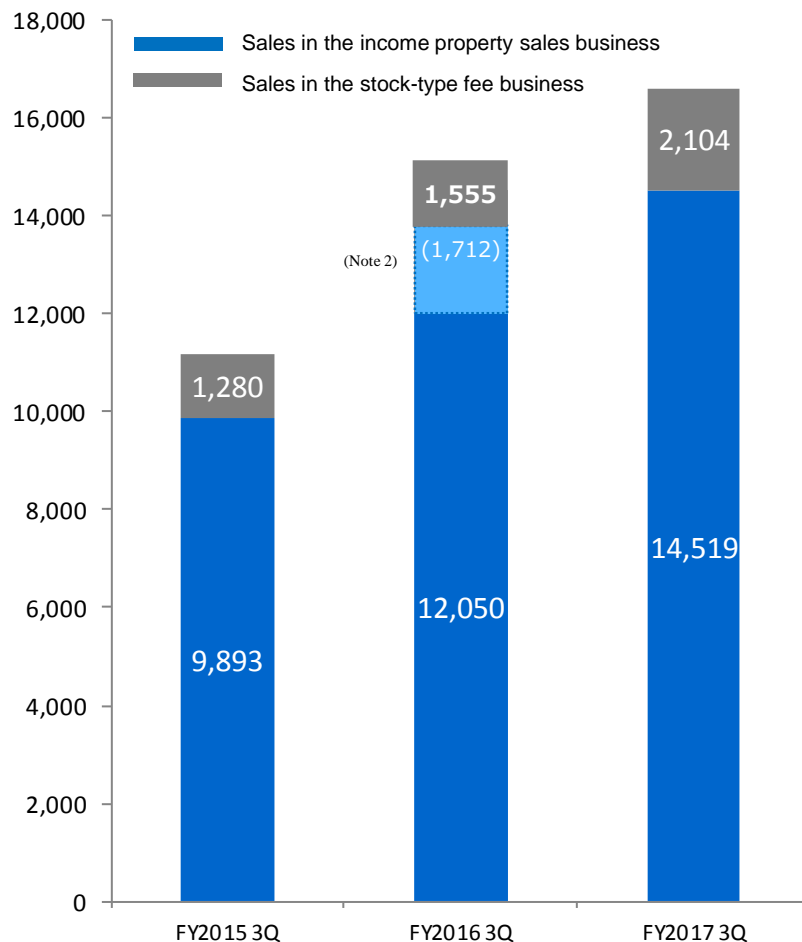
# II-1. Consolidated P/L Summary

(Units: Millions yen)	FY2016 3Q (ended Dec.31, 2017)		FY2017 3Q (ending Dec.31, 2018)		Change from previous	Full-year plan progress
	Amount	% of sales	Amount	% of sales		
Sales	13,439	100.0%	16,358	100.0%	+21.7%	+81.8%
Gross profit	2,597	19.3%	2,937	18.0%	+13.1%	—
SG & A	1,820	13.5%	2,009	12.3%	+10.4%	—
EBITDA	926	6.9%	1,024	6.3%	+10.7%	+73.2%
Ordinary income	555	4.1%	714	4.4%	+28.7%	+79.4%
Net income before taxes	642	4.8%	714	4.4%	+11.3%	+79.4%
Net income	416	3.1%	440	2.7%	+5.8%	+75.9%

**Both sales and ordinary income exceeded 75% of the full-year plan, the goal for the third quarter**

# II -2. Changes in Segment Results

## Changes in segment sales

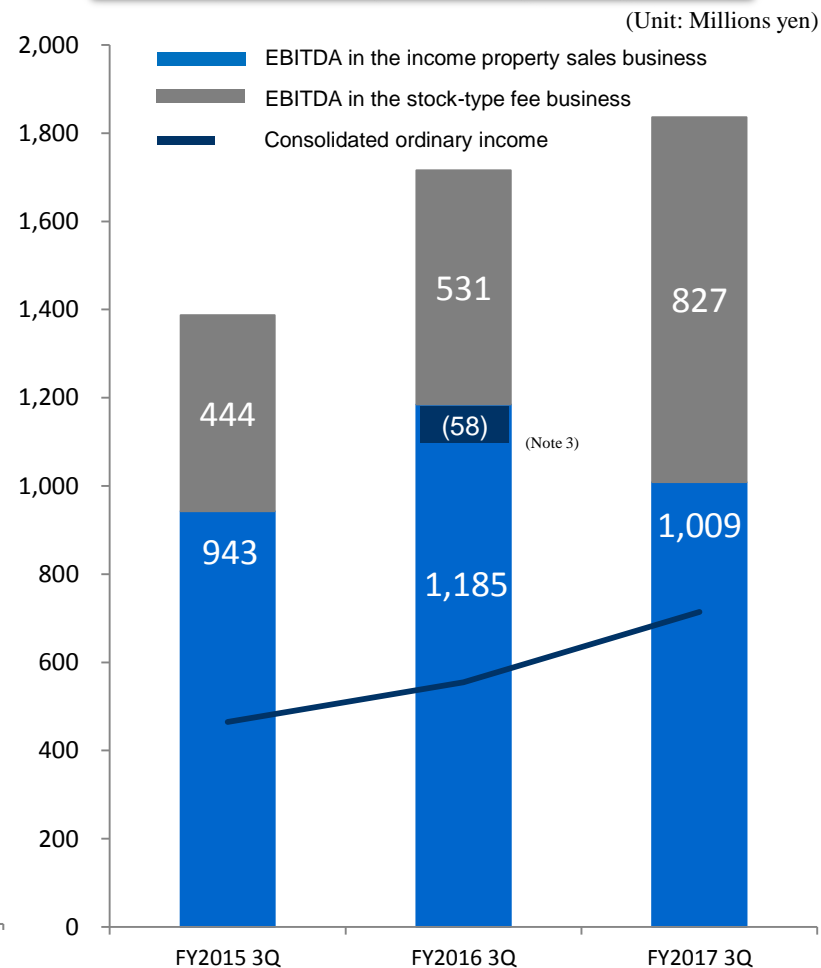


(Note 1) Because sales for each segment include intersegment sales, the totals for each segment and consolidated sales differ.

(Note 2) For the fiscal year ended March 31, 2017, there are transactions of 1,712 million yen that can be classified as sales from the income property sales business in practice, although they are not included as sales in the financial statements.

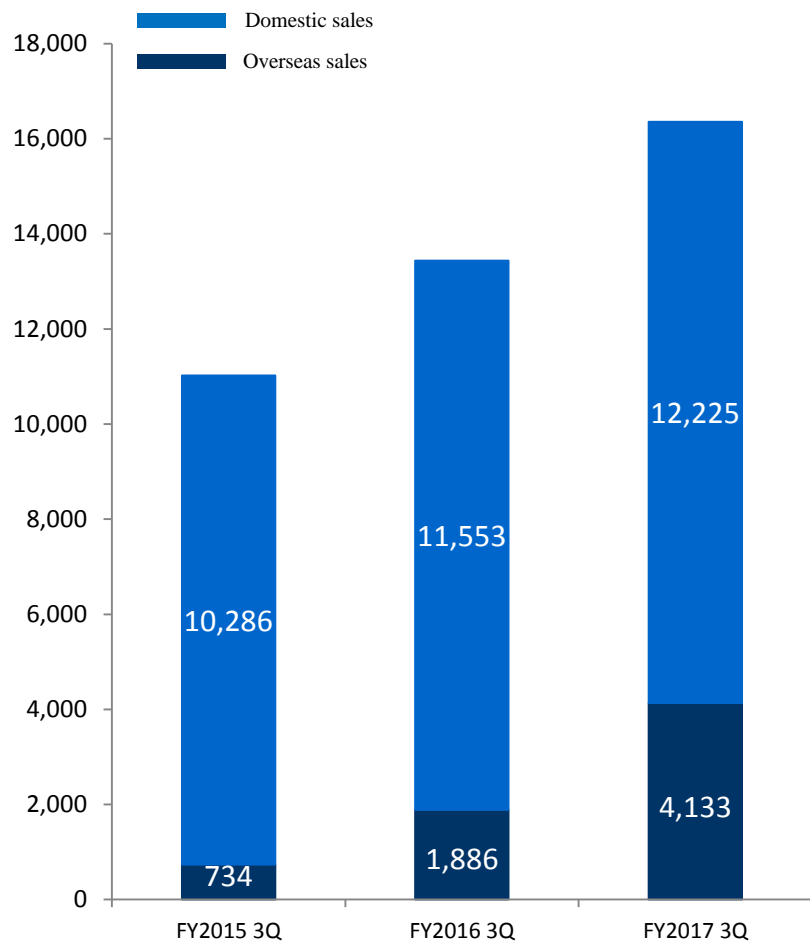
(Note 3) The cost for transfer from the income property sales business to the stock-type fee business, if the recent posting policy is applied, is 58 million yen for the fiscal year ended March 31, 2017. If a transfer of 58 million yen is conducted, **EBITDA for the fiscal year ended March 31, 2017 from income properties sales business of 1,185 million yen would be 1,127 million yen.**

## Changes in segment EBITDA



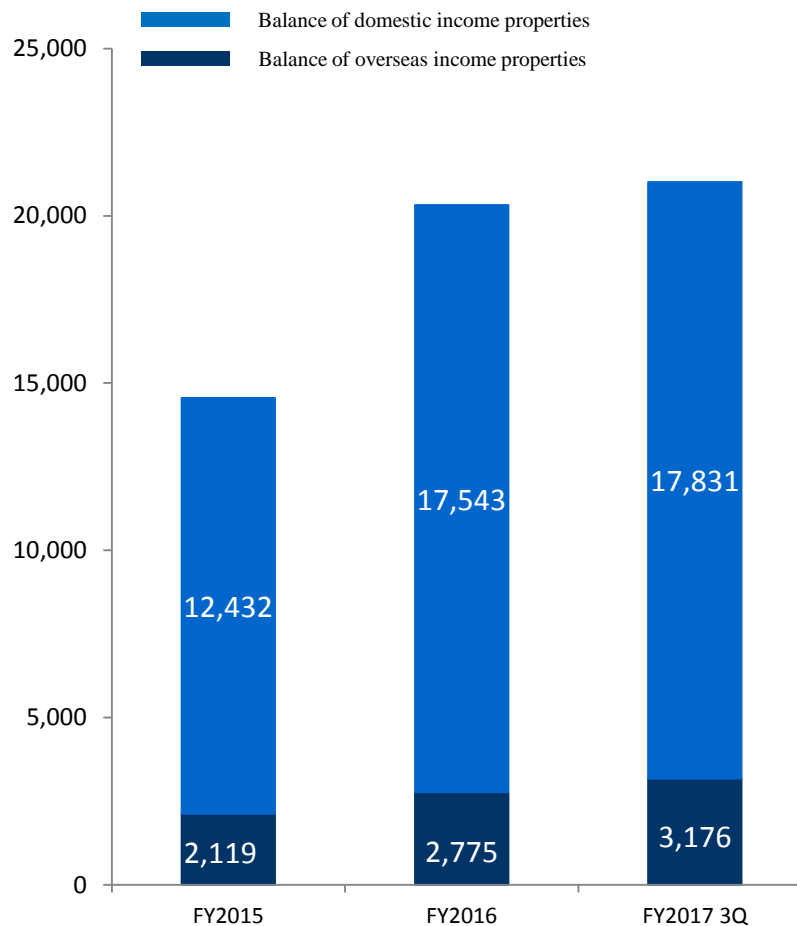
## II-3. Changes in Scale of Business by Region

### Changes in sales



### Balance of income properties

(Unit: Millions yen)

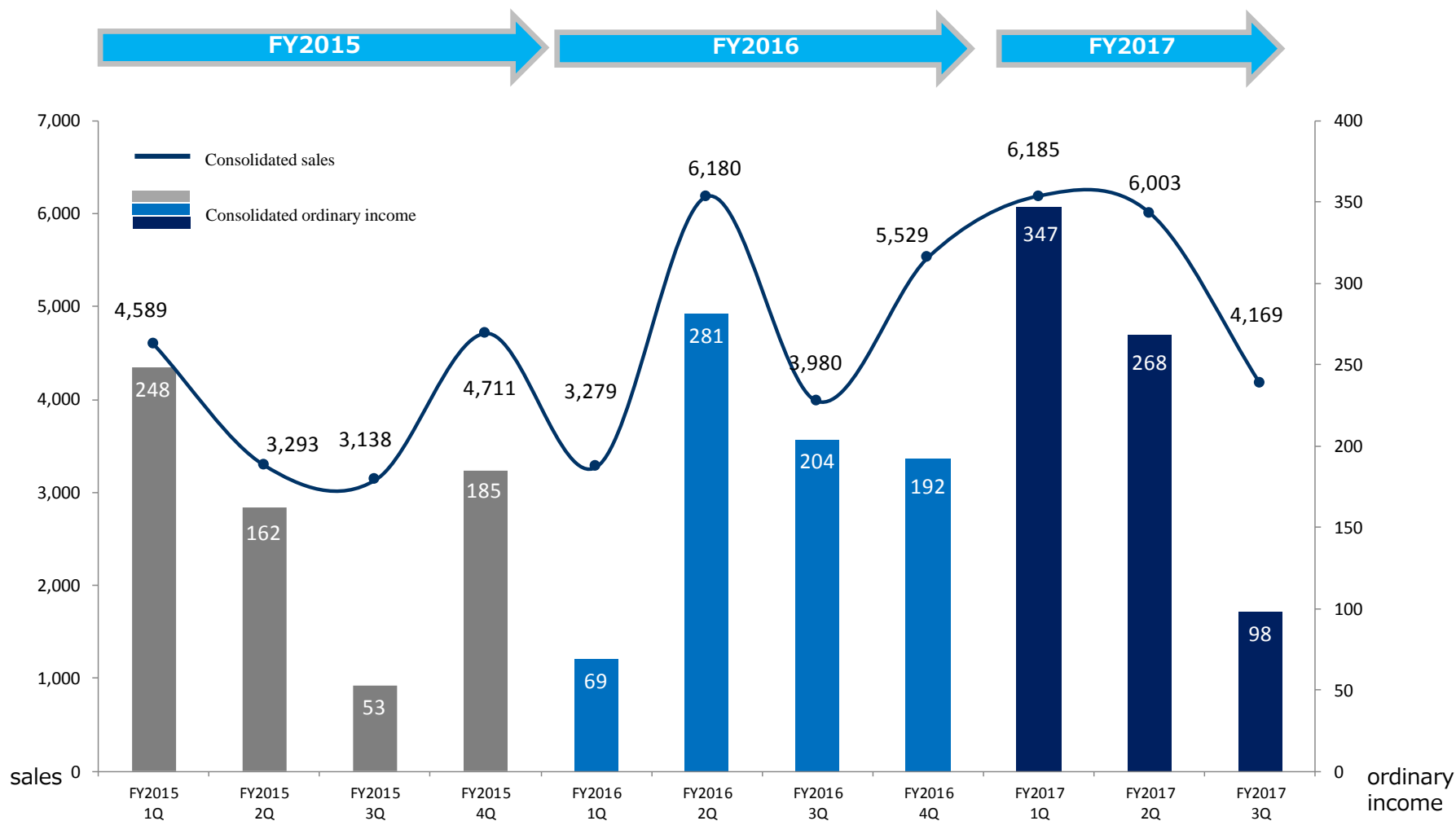


**Steady growth for the overseas business**



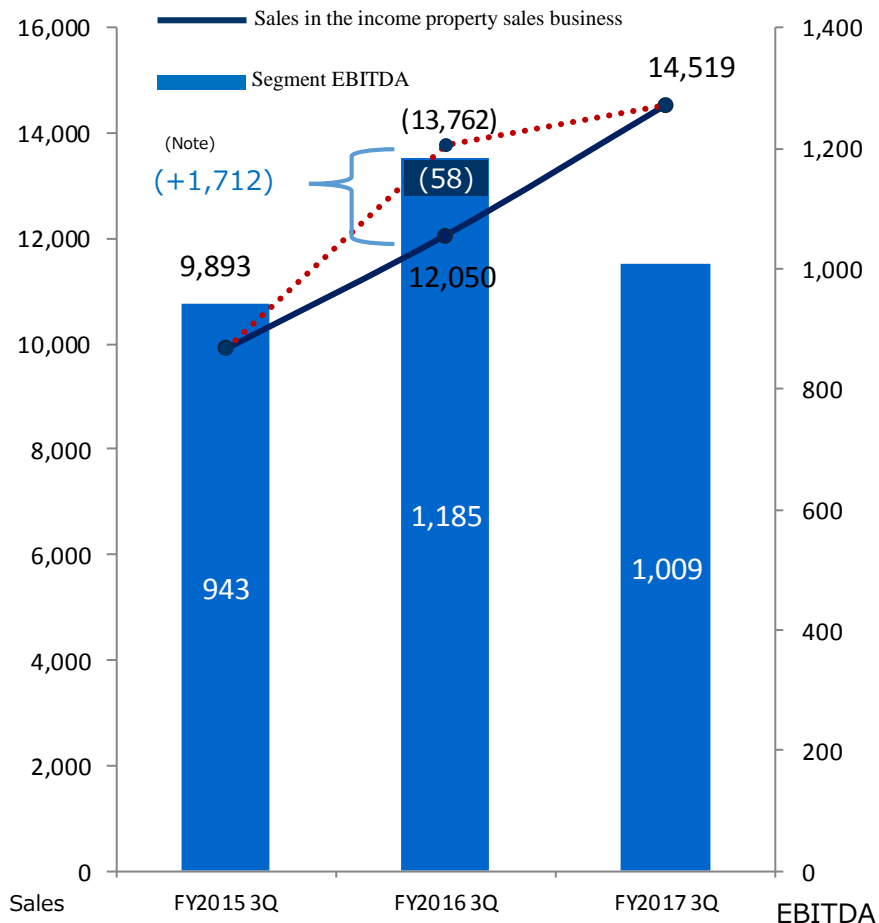
# II -4. Changes in Consolidated Quarterly Results

(Units: Millions yen)

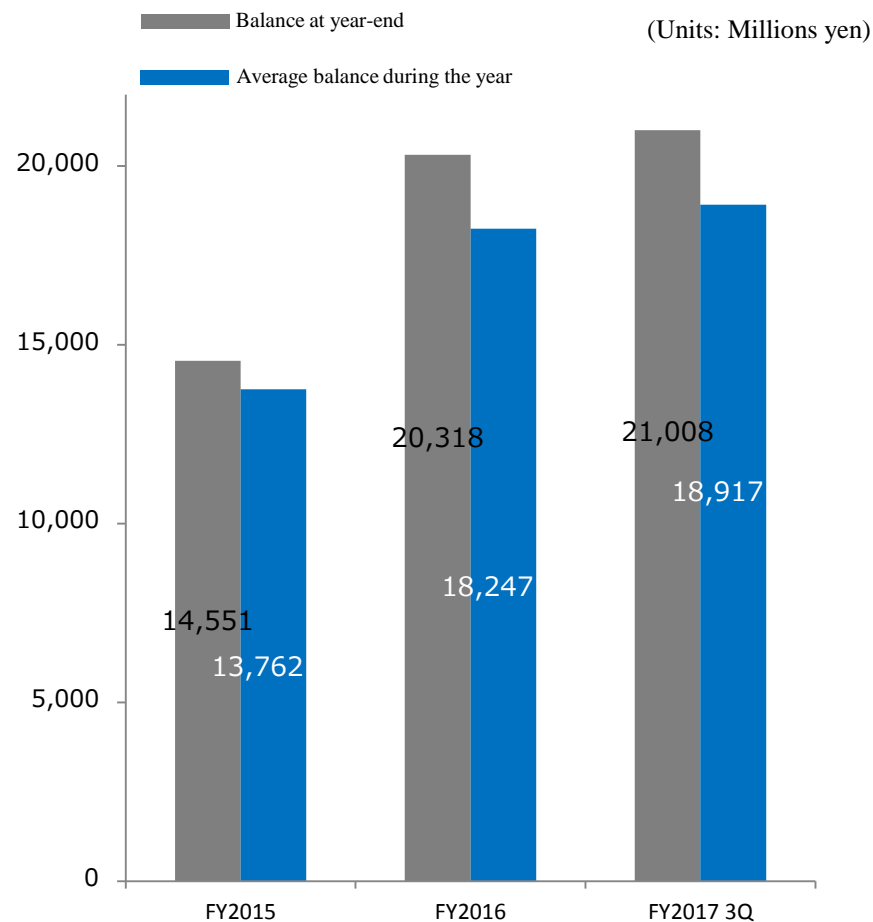


**At present, the income property sales business accounts for about 90% of consolidated sales. As a result, there are large fluctuations in quarterly results.**

## Changes in income property sales business results

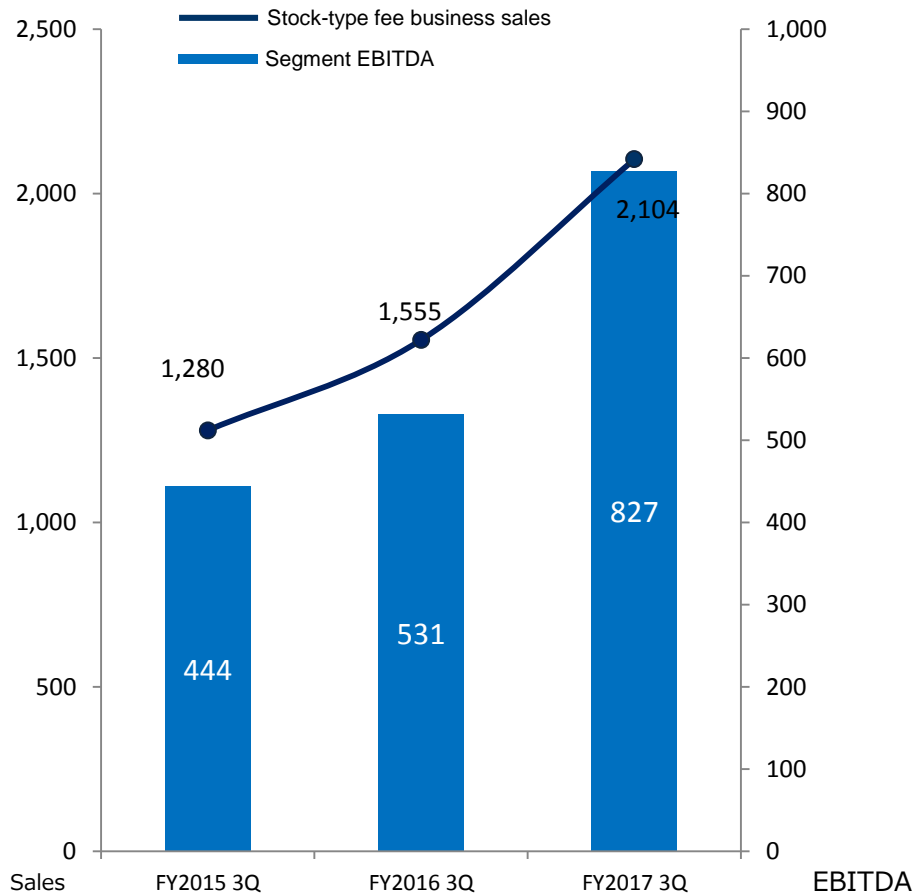


## Changes in balance of income properties

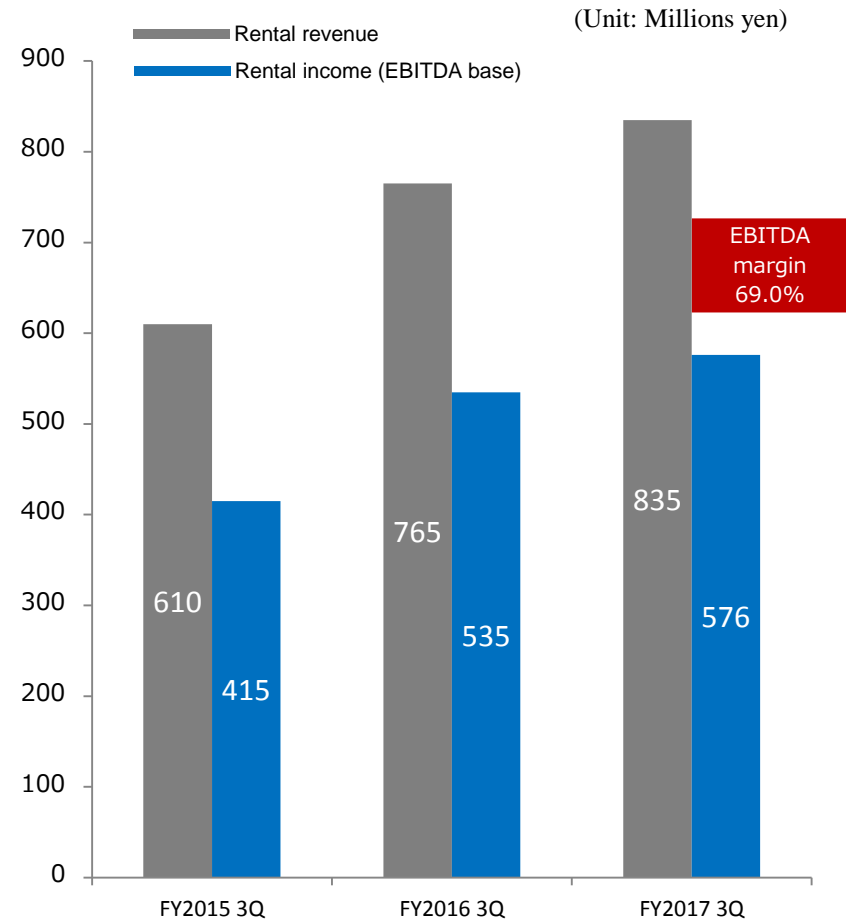


**Although gross profit increased year-on-year, EBITDA fell due to an increase in SG&A expenses. The balance of income property exceeded levels at the end of the previous fiscal year at end-Q3.**

## Changes in stock-type fee business results



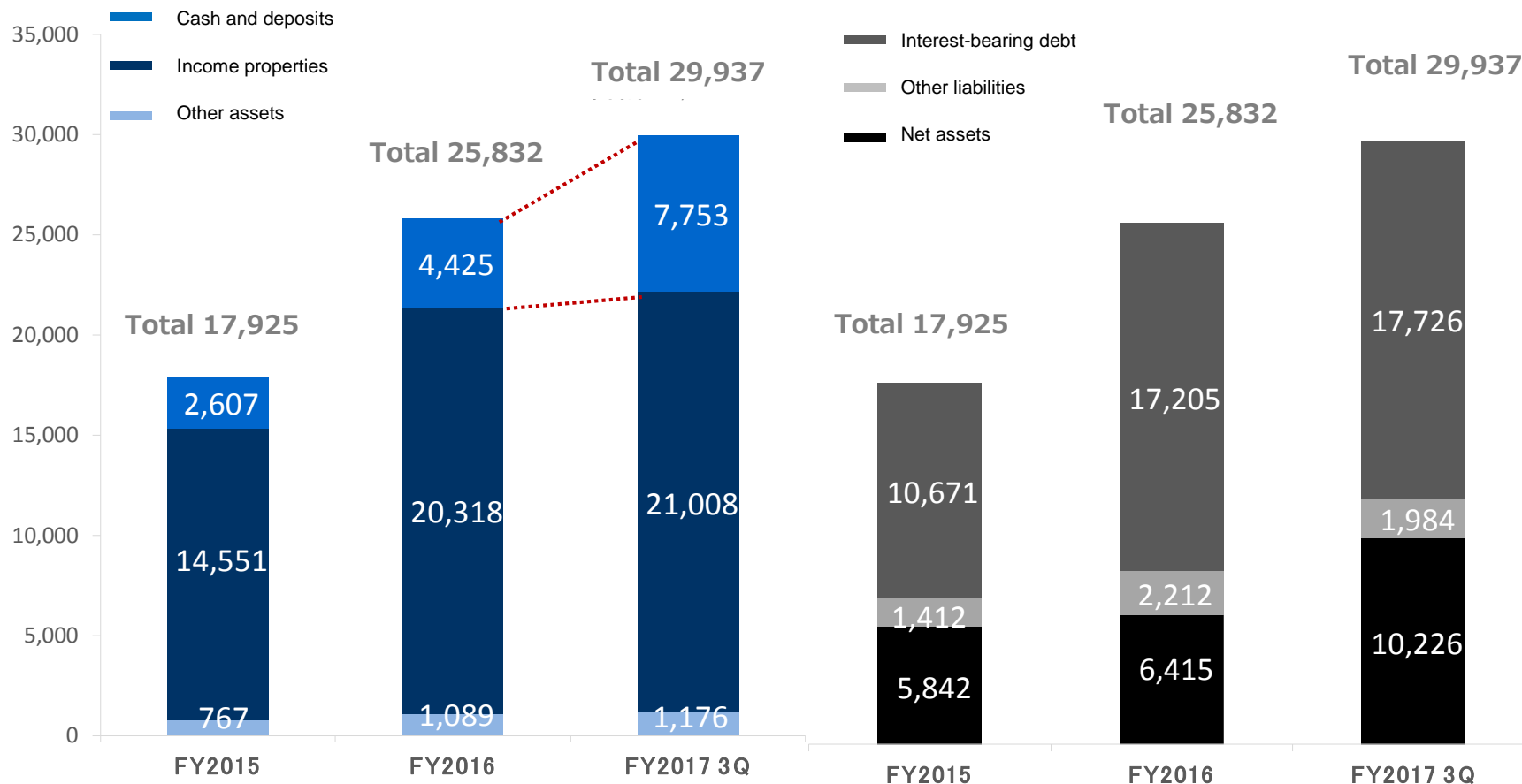
## Changes in rental revenue and income



**Both rental revenue and property management fees, which form a stable revenue base, increased. In Q3, construction revenue and sales related to sales support also increased.**

## Summary of main B/S items

(Unit: Millions yen)



**In the most recent fiscal year, 3,888 million yen was raised in a rights offering (announced on April 25, 2017), resulting in an increase in net assets.**

## **III - Business Plan and Progress**

## Fifth Mid-range Business Plan (FY2016–FY2018)

(Units: Millions yen)

	Year ended March 31, 2016 (Results)	Year ended March 31, 2017 (Results)	Year ending March 31, 2018 (Plan) *Announced May 11, 2017	Year ending March 31, 2019 (Plan) *Announced May 12, 2016
<b>Consolidated sales</b>	<b>15,733</b>	<b>18,969</b>	<b>20,000</b>	<b>18,000</b>
<b>Consolidated EBITDA</b>	<b>926</b>	<b>1,216</b>	<b>1,400</b>	<b>1,600</b>
<b>Consolidated ordinary income</b>	<b>650</b>	<b>748</b>	<b>900</b>	<b>1,000</b>
<b>Consolidated net income</b>	<b>426</b>	<b>540</b>	<b>580</b>	<b>660</b>
<b>Consolidated ROE (at year end)</b>	<b>7.3%</b>	<b>8.5%</b>	<b>5.6%</b>	<b>7.4%</b>

Note 1: EBITDA (earnings before interest, taxes, depreciation and amortization): Operating income + depreciation and amortization + gain or loss on sales of income properties recorded in extraordinary gains or losses  
Depreciation and amortization includes depreciation, software amortization, amortization of goodwill, and other noncash expenses.  
In addition, we include income properties held for long-term sale in fixed assets, and we have recorded a part of the gain or loss on sales from the income properties held for long-term sale in the section of extraordinary gains or losses. EBITDA is calculated by including the extraordinary income.

Note 2: ROE (at year-end): Net income / Shareholders' equity (at year-end)

[About ROE (at year end)]

- Shareholders' equity is expected to increase significantly due to a rights offering (exercise-price non-discount type) conducted during the fiscal year ending March 31, 2018
- Accordingly, ROE for the fiscal year ending March 31, 2018 is expected to decline YoY

## III-2. Guidance for Balance of Income Properties / Rental Income / ROA

(Units: Millions yen)

		Year ended March 31, 2017 (Results)	End of 2Q ended Sept. 30, 2017 (Results)	Year ending March 31, 2019 (Planned) <small>*Last year of 5<sup>th</sup> Mid- range business plan</small>
Guidance	Balance of U.S. income properties held for sale (average)	2,680	2,635	5,000
	Balance of domestic income properties held for short- or medium-term sale (average)	9,381	10,080	12,000
	Balance of domestic income properties held for long-term sale (average)	6,185	6,202	10,500
	Total balance of income properties (end of year)	20,318	21,008	30,000
	Rental income (EBITDA base)	746	769	1,246
	ROA for income property sales business	11.5%	10.9%	6.9%

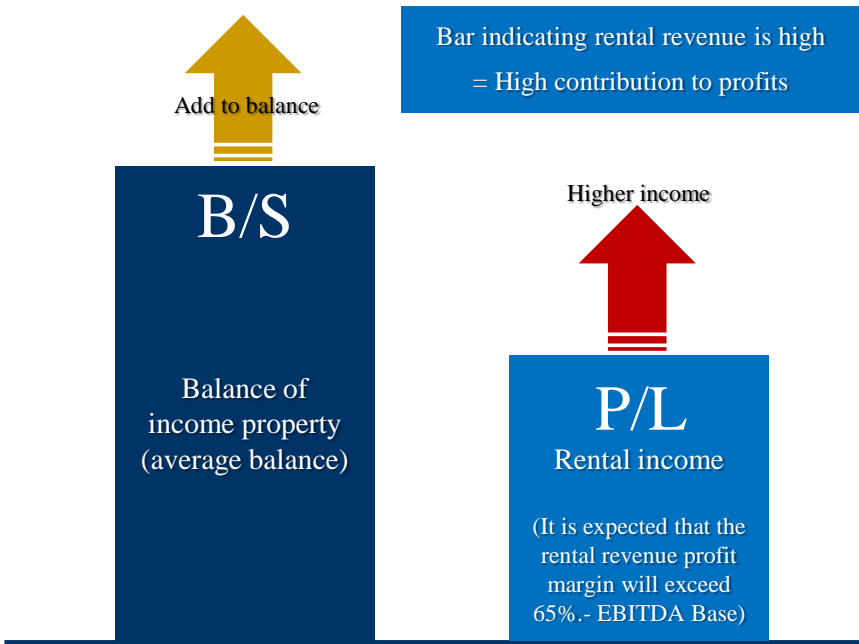
Note: Rental income and ROA for the income property sales is calculated by conversion to a full-year basis.

## **IV - Reference Materials (Business Strategy)**

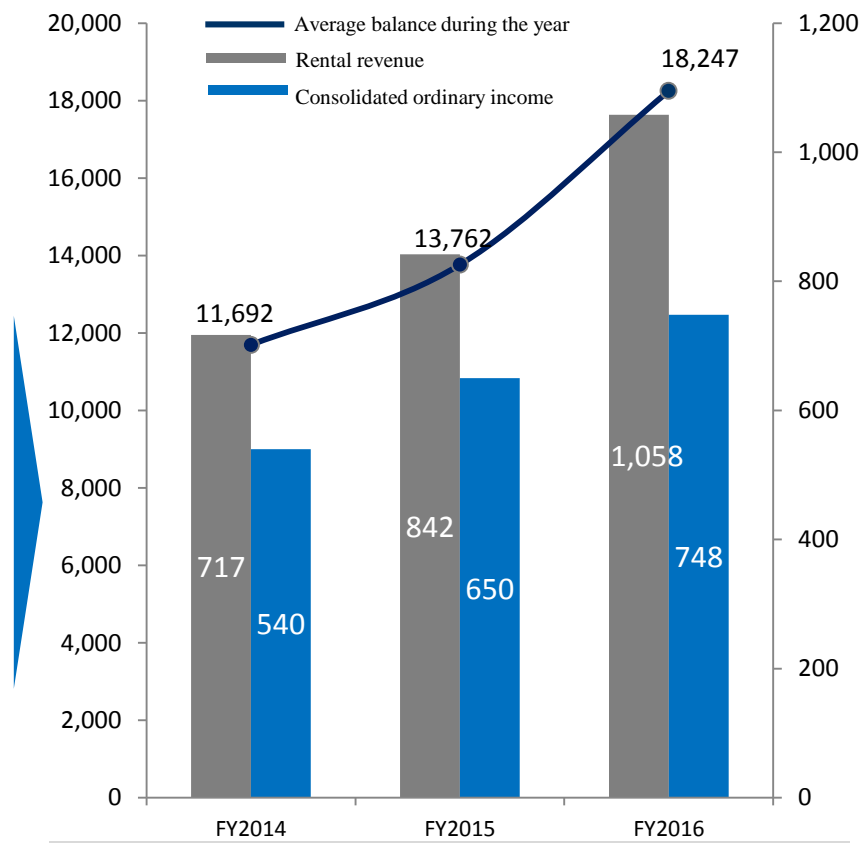


Relationship between balance of income properties and rental income

(Units: Millions yen)



When more properties are added to the balance of income properties, rental income increases, increasing the contribution to overall income.



The impact of rental revenue on profits is growing.  
We are steadily transitioning to a stable profit model.

## 2 benefits of increasing the A.D.Works property balance

$$\text{ROE} = \text{Financial leverage (A)} \times \text{Asset turnover rate (B)} \times \text{Profit margin from sales of income properties (C)}$$

<Balance of income properties / Equity capital>

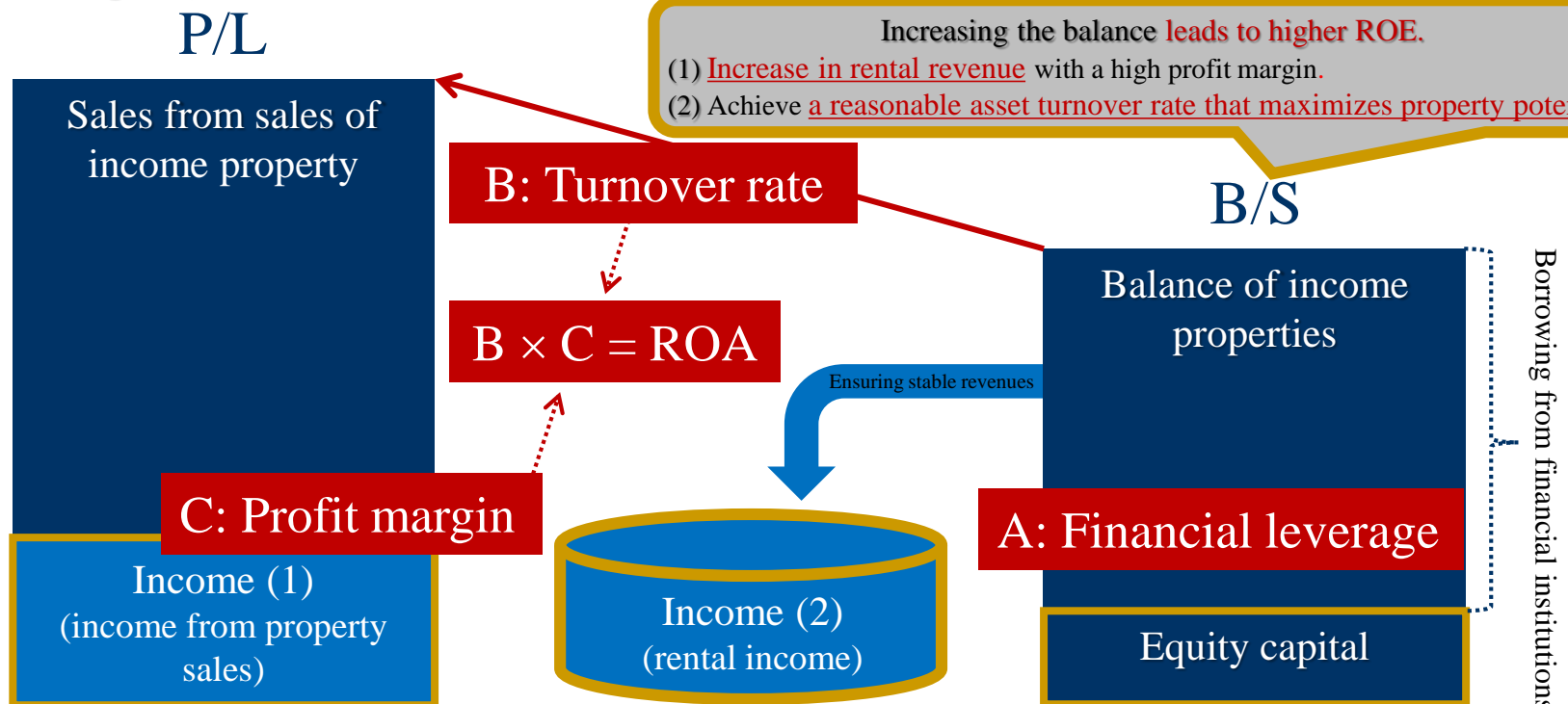
<Sales / Balance of income properties>

<Income from sales of income properties / Sales>

(Image showing relationships of announced figures)

$$\text{ROA (\%)} = \text{Income from sales of income properties} / \text{Balance of income properties}$$

Increasing the balance leads to higher ROE.  
 (1) Increase in rental revenue with a high profit margin.  
 (2) Achieve a reasonable asset turnover rate that maximizes property potential.



## **V - Reference Materials (Company Profile, Shareholder Composition, Trends in Consolidated Results)**

- ❑ **Company name:** A.D.Works Co., Ltd.
- ❑ **Headquarters:** 13th Fl., NBF Hibiya Bldg., 1-1-7, Uchisaiwai-cho, Chiyoda-ku, Tokyo
- ❑ **Establishment:** Founded February 1886. Incorporated May 1936.
- ❑ **Capital:** 3,889 million yen (as of the end of Dec. 2017)
- ❑ **Listed:** Listed October 2007 on Tokyo Stock Exchange JASDAQ.  
Changed October 2015 to the First Section of the Tokyo Stock Exchange.
- ❑ **Subsidiaries:**
  - A.D.Partners Co., Ltd. (property management)
  - A.D.Designbuild Corporation (construction)
  - A.D.Smartmoney Investment Co., Ltd. (sales of small-lot investment products)
  - A.D.Works USA, Inc. (management of USA subsidiaries)
  - ADW-No.1 LLC (income property business in USA)
  - ADW Management USA, Inc. (property management in USA)
- ❑ **Employees:** 148 consolidated (as of the end of Sept. 2017)
- ❑ **Officials:**

Hideo Tanaka	President and CEO
Syogo Yonetsu	Executive Vice President
Katsutoshi Hosoya	Senior Managing Director and CFO
Nobuhiko Toji	Managing Director
Tamio Harakawa	Director, Audit & Supervisory Committee Member
Takemoto Ohto	Director, Audit & Supervisory Committee Member
Miwa Sutoh	Director, Audit & Supervisory Committee Member

### Number of issued shares / Number of shareholders

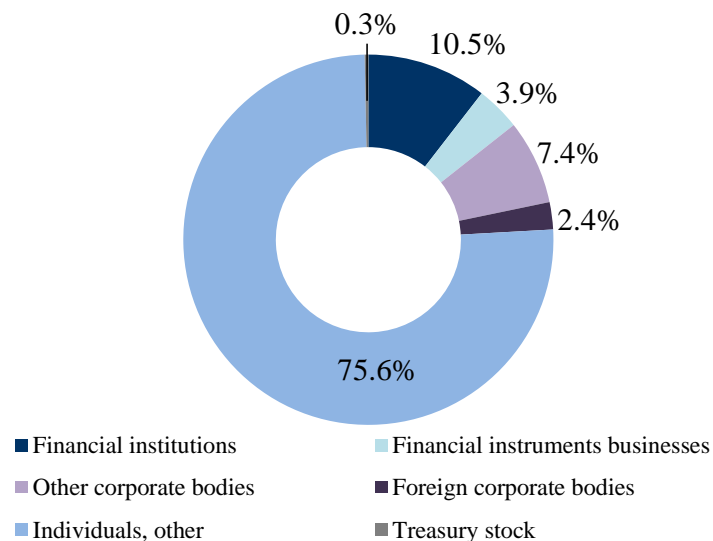
Number of issued shares: 323,912,993

Number of shareholders: 20,316

### Major shareholders

		Number of shares	Share ratio %
1	Hideo Tanaka (Our company President and CEO)	43,545,506	13.44%
2	Liberty House Co., Ltd.	16,216,000	5.00%
3	Japan Trustee Services Bank, Ltd. (Trust Account • 5)	4,983,400	1.53%
4	The Master Trust Bank of Japan, Ltd. (BIP Trust Account • 75695)	4,879,959	1.50%
5	Japan Trustee Services Bank, Ltd. (Trust Account • 2)	4,600,500	1.42%
6	Japan Trustee Services Bank, Ltd. (Trust Account • 1)	4,561,000	1.40%
7	Japan Securities Finance Co., Ltd.	3,406,500	1.05%
8	CREDIT SUISSE SECURITIES(EUROPE)LIMITED MAIN ACCOU	3,380,600	1.04%
9	The Master Trust Bank of Japan, Ltd. (Trust Account)	3,308,700	1.02%
10	Japan Trustee Services Bank, Ltd. (Trust Account)	3,198,500	0.98%

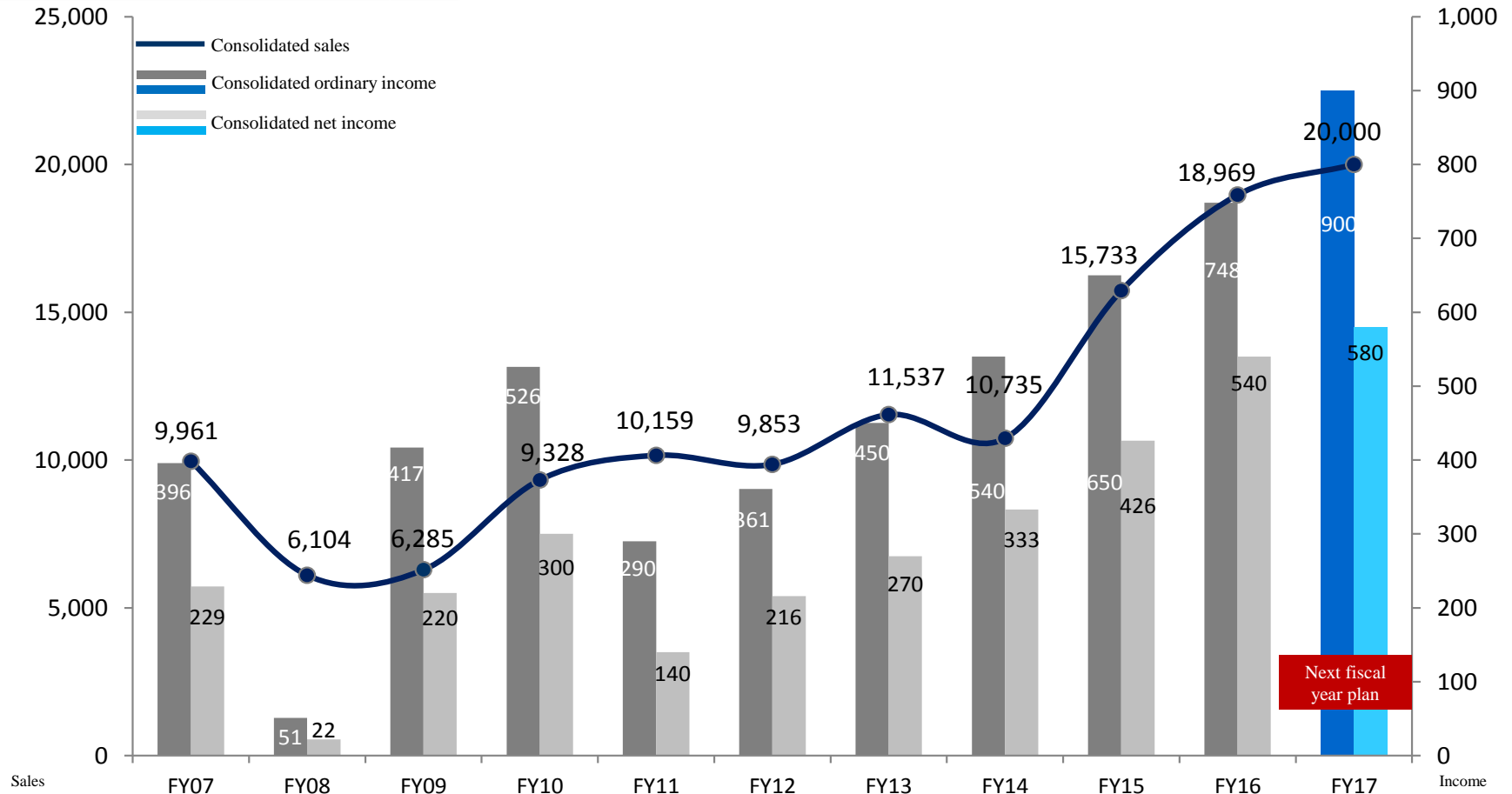
### Allocation by owner (share ratio)



# V-3. Trends in Past and Current Results

## Consolidated result trends

(Units: Millions yen)



Note: Because no consolidated financial statements were created for the years ended March 31, 2008 and March 31, 2009, the results shown here are non-consolidated results only.



# V-4. Changes in Consolidated Results (Summary)

(Units: Millions yen)

	Year ended March 31, 2011 (Results)	Year ended March 31, 2012 (Results)	Year ended March 31, 2013 (Results)	Year ended March 31, 2014 (Results)	Year ended March 31, 2015 (Results)	Year ended March 31, 2016 (Results)	Year ended March 31, 2017 (Results)
Consolidated sales	9,328	10,159	9,853	11,537	10,735	15,733	18,969
Consolidated ordinary income	526	290	361	450	540	650	748
Consolidated net income	300	140	216	270	333	426	540
Net assets	2,132	2,205	2,896	5,496	5,478	5,842	6,415
Total assets	8,537	6,258	9,117	14,274	16,681	17,925	25,832
Total income property balance (at year end)	6,114	3,810	5,703	10,124	12,931	14,551	20,318
Rental revenue (sales)	407	380	416	460	717	842	1,058
Rental revenue / Sales ratio (%)	4.4	3.7	4.2	4.0	6.7	5.4	5.6
Employees (persons)	44	53	59.5	68	99	115	136

# **VI – Reference Materials**

## **(The Fifth Mid-Range Business Plan)**



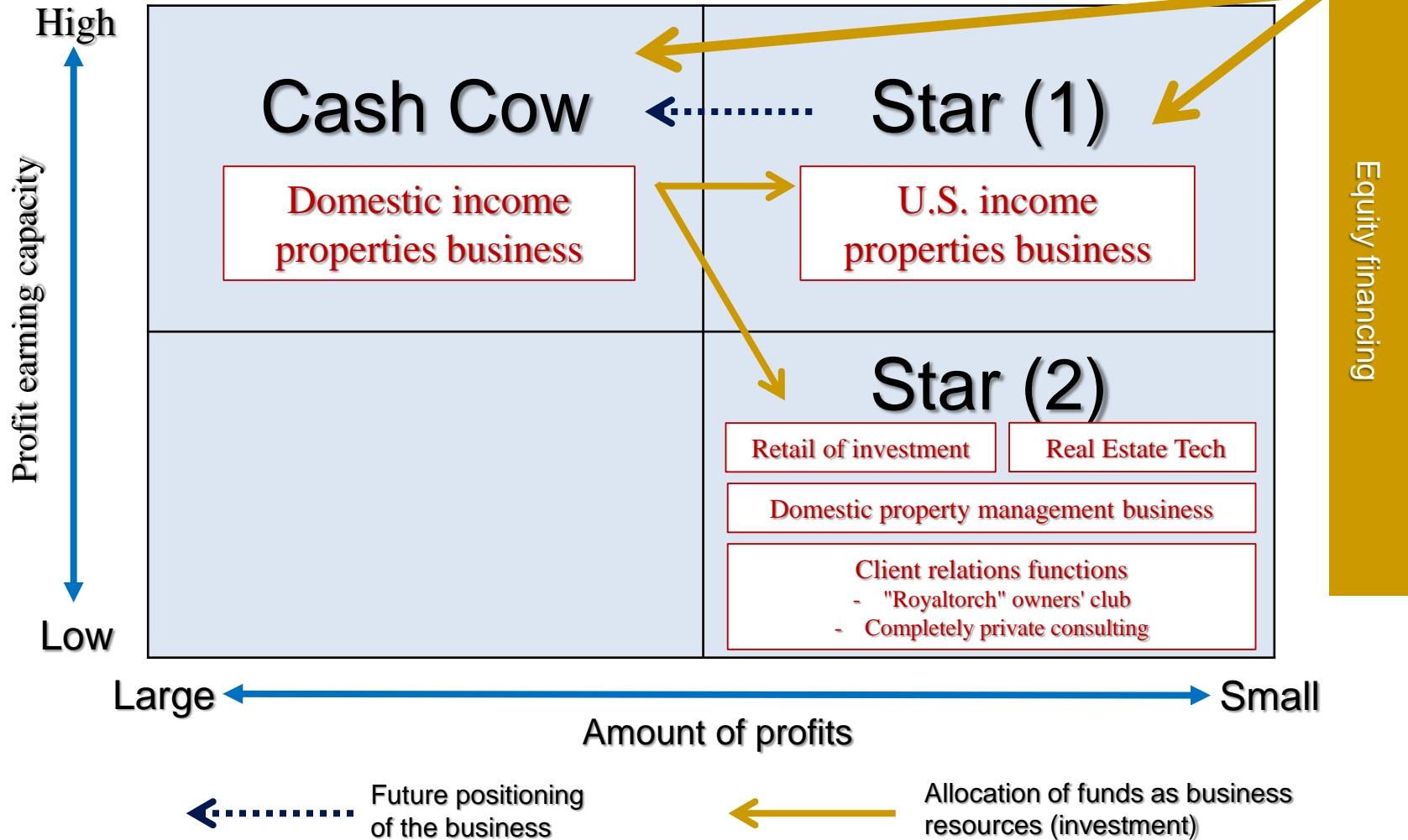
	Opportunities (O)	Threats (T)
Politics (P)	<ul style="list-style-type: none"> <li>- <b>Bold financial policies (expanding the yield gap)</b> (Growing real estate investment needs)</li> <li>- <b>Increasing property taxation</b> (Growing needs for tax liability reduction measures among high net-worth individuals)</li> <li>- <b>Surge in demand prior to the consumption tax hike (10%)</b></li> <li>- <b>Delay in implementation of the consumption tax hike (10%)</b></li> <li>- <b>Success in temporarily boosting the economy with fiscal stimulus</b></li> </ul>	<ul style="list-style-type: none"> <li>- <b>Failure of reflation policies</b> (Rising interest rates, falling rents and land values)</li> <li>- <b>Rising trend in real estate prices</b> (Soaring real estate prices diminish yields and reduce investment-grade real estate.)</li> <li>- <b>Occurrence of an unexpected overseas event</b> (Risk of an event in China, the Middle East, or Europe; results of the U.S. presidential election)</li> <li>- <b>Risk of a domestic change in political administration</b> (Slowdown of Bank of Japan monetary easing policies)</li> <li>- <b>Rebound after surge in demand prior to the consumption tax hike (10%)</b></li> </ul>
Economy (E)	<ul style="list-style-type: none"> <li>- <b>Expected rise in real estate prices and rents resulting from the 2020 Olympics</b> (Awakening of potential needs for real estate investment)</li> <li>- <b>Increasing real estate investment as a hedge against inflation</b> (Growing real estate investment needs)</li> <li>- <b>Active approach to lending by financial institutions</b> (Boost to expanding the balance of income properties)</li> </ul>	<ul style="list-style-type: none"> <li>- <b>More cautious investment approach and stagnating real estate market in view of the post-Olympic period</b> (Declining real estate liquidity, limited effect on high net-worth individuals)</li> <li>- <b>Cooling of investment sentiment due to bond devaluation or rising interest rates</b> (Limited effect on high net-worth individuals)</li> <li>- <b>Intensifying competition for acquisitions due to more companies entering the market</b> (More individuals and companies targeting smaller properties where economic risk is low)</li> <li>- <b>Rising construction costs</b> (Higher costs for new construction and large-scale renovations, insufficient construction personnel)</li> <li>- <b>Slowing of the economic recovery and return of deflation</b></li> </ul>
Society (S)	<ul style="list-style-type: none"> <li>- <b>Population growth in the Tokyo metropolitan area (continuing to 2020)</b> (Essential for investment and also advantageous for leasing)</li> <li>- <b>Inflow of overseas real estate investment money</b> (Overseas valuation of Japan, prosperity of the domestic real estate market)</li> <li>- <b>Increase in foreign residents in Japan</b> (Growing need for rental properties)</li> <li>- <b>Construction and redevelopment of city center infrastructure</b> (Increasing hiring increases the need for rental properties among both corporations and individuals.)</li> <li>- <b>Growing number of high net-worth households due to rising stock prices and IPOs</b> (Growing number of high net-worth individuals increases the customer base.)</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Long-term aging of the population and population decline</b> (Effects on rental real estate due to population decline)</li> <li>- <b>Rapid rise in real estate prices caused by inflow of overseas money</b> (Lower yields, reduction of investment-grade real estate, intensifying competition for acquisitions)</li> <li>- <b>Risk of an earthquake directly below the Tokyo metropolitan area</b> (Severe reduction in attitude toward real estate investment)</li> <li>- <b>Increase in numbers of large-scale IPOs</b> (Downward pressure on stock prices due to negative effects on stock market demand)</li> </ul>

**We have concluded that advance preparation is necessary for potential changes in the real estate market.**

	Opportunities (O)		Threats (T)	
Politics (P)	Japan	<ul style="list-style-type: none"> <li>- <b>Continuation of the BoJ large-scale monetary easing policy</b> (Further advantages from the weak yen)</li> <li>- <b>Revision of domestic taxation policy</b> (Growing need for measures to reduce tax liability among high net-worth clients)</li> </ul>	Japan	<ul style="list-style-type: none"> <li>- <b>Stricter monitoring of overseas assets / Tax system revision</b> (Possibility of an increase in taxes on overseas assets)</li> </ul>
	U.S.	<ul style="list-style-type: none"> <li>- <b>Soft landing for monetary easing policy by the FRB</b> (Stable forecast for the U.S. economy, growing real estate management needs in the U.S.)</li> </ul>	U.S.	<ul style="list-style-type: none"> <li>- <b>Rise in interest rates due to monetary tightening by the FRB</b> (Risk of stagnation in the U.S. economy, concerns about a global economic slowdown)</li> <li>- <b>Stricter regulation of U.S. real estate owners</b> (Rising barriers to U.S. real estate investment)</li> </ul>
Economy (E)	Japan	<ul style="list-style-type: none"> <li>- <b>Active approach to lending by Japanese financial institutions</b> (Lower interest cost, advantageous loan terms)</li> <li>- <b>Increase in real estate investment needs due to changes in the inheritance tax and gift tax</b> (Investment by high net-worth individuals, increased use of real estate for asset formation)</li> </ul>	Japan	<ul style="list-style-type: none"> <li>- <b>Overseas entry by Japanese companies</b> (Increased entry into the market by competitors)</li> </ul>
	U.S.	<ul style="list-style-type: none"> <li>- <b>Continued economic growth in the United States</b> (An investment environment with good future prospects, even compared to other advanced nations)</li> </ul>	U.S.	<ul style="list-style-type: none"> <li>- <b>Stagnation of the U.S. economy</b> (Global deflationary crisis)</li> </ul>
Society (S)	Japan	<ul style="list-style-type: none"> <li>- <b>Exhausting of suitable investment properties as a result of declining domestic population</b> (Demand for overseas real estate investment, promotion of diversified investment)</li> <li>- <b>Presence of persons who have lived in the U.S.</b> (Persons with an affinity for the U.S., low barriers)</li> </ul>	Japan	<ul style="list-style-type: none"> <li>- <b>Sudden changes in exchange rates due to changes in the international situation</b> (Search for risk hedge currencies, review of weaker yen policies)</li> </ul>
	U.S.	<ul style="list-style-type: none"> <li>- <b>Continuing U.S. population growth / Insufficient supply of new properties</b> (Stable and increasing rental income)</li> </ul>	U.S.	<ul style="list-style-type: none"> <li>- <b>Further inroads into the U.S. by Chinese high net-worth individuals</b> (Rise in real estate prices)</li> <li>- <b>Geopolitical risks</b> (Safety concerns resulting from higher conflict risk)</li> <li>- <b>Manifestation of U.S. earthquake risk</b> (Diminished advantage to diversification of investment from Japan)</li> </ul>

In addition to its own business potential, the U.S. business also functions as a risk hedge for the domestic business.

A.D.W. Group investment positioning matrix



## Evolving the AD business model

Increasing the balance of income properties

Shifting to a stable profit model

Meeting the needs of high net-worth individuals

- Expanding the range of income property types  
U.S. income properties, property sizes, purposes
- Dedication to completely private consulting

Providing high added value to the owners (clients)

Creating long-term business relationships with the owners (clients)

Achieving lower owner (customer) costs based on long-term business relationships

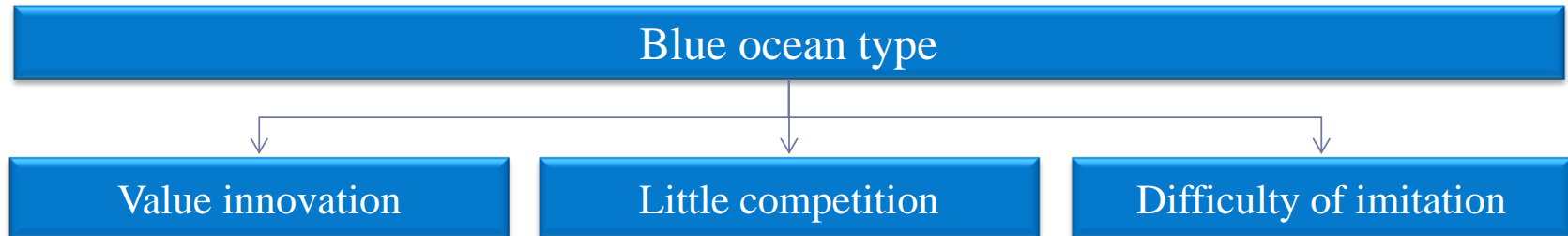
Good cycle results of the AD business model

We can establish a unique position in the real estate industry.

## **VII – Reference Materials**

### **(Characteristics of the A.D.W. Group Business Model)**

## Business model characteristics



## Characteristics

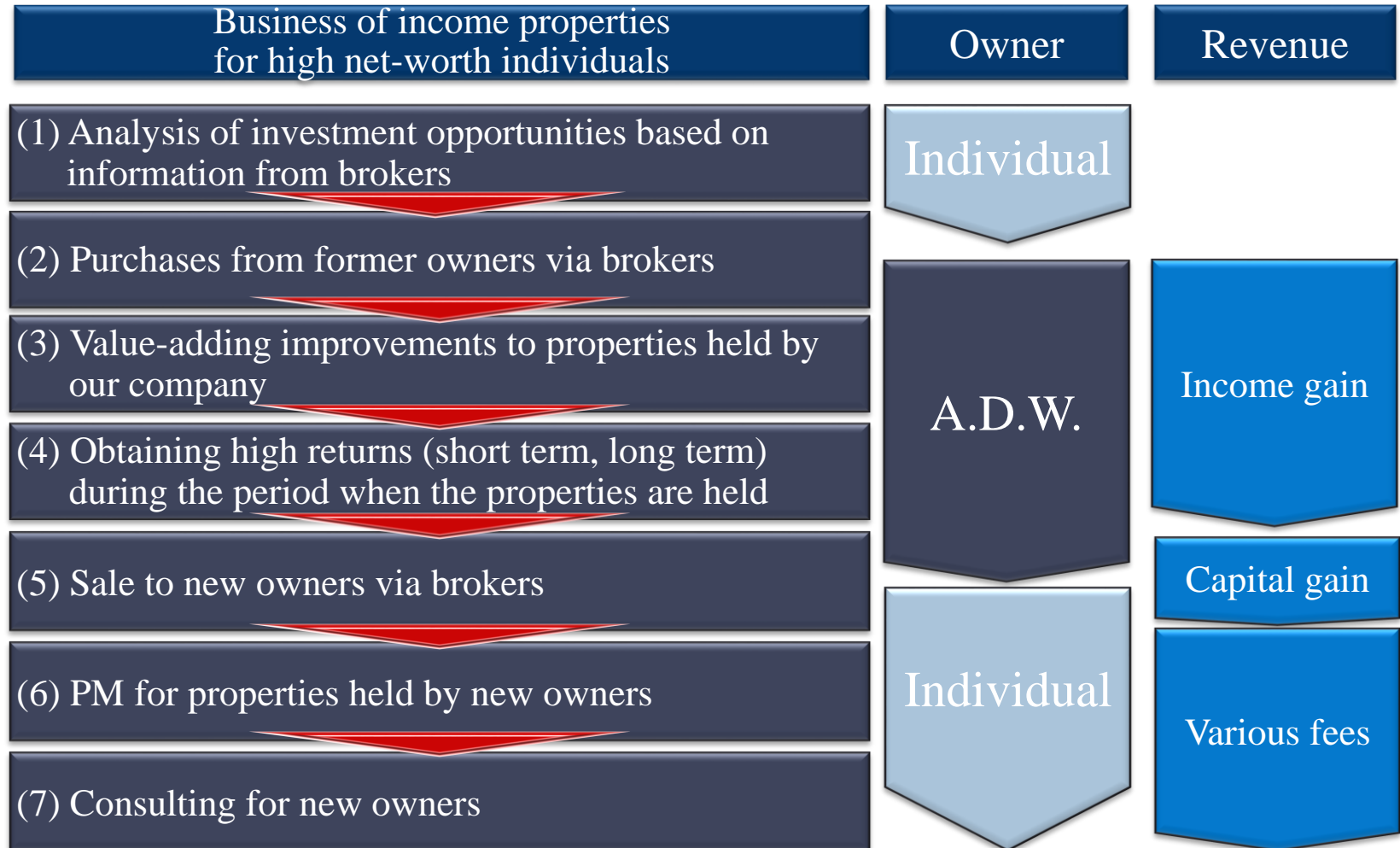
(1) One-stop solutions

(2) Broad-ranging competitive superiority and social significance

(3) Expected to pursuit of a stable profit structure

Aiming to create an **"only-one business model"** that is completely different from the conventional property-focused real estate concept.

## (1) One-stop solutions

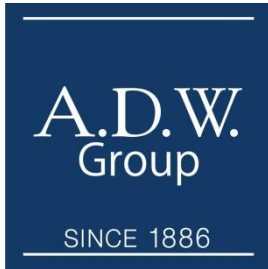


### (2) Broad-ranging competitive superiority and social significance

Information strength	<ul style="list-style-type: none"><li>• <b>Direct access to approximately 3,000 persons engaged in brokerage</b></li><li>• Preferential supply of information from brokers due to the trustworthiness that comes from being a listed company</li></ul>
Dependable exit	<ul style="list-style-type: none"><li>• Existence of a dependable exit provided by <b>high net-worth individuals</b></li></ul>
Value-adding strength	<ul style="list-style-type: none"><li>• <b>Renovation strength</b> for enhancing product value aimed at increasing rents and lowering vacancy rates</li><li>• Improvement in property value through regeneration as legally compliant properties</li></ul>
Rapid decision-making	<ul style="list-style-type: none"><li>• Quick decision-making for early monetization</li></ul>
High reliability	<ul style="list-style-type: none"><li>• Eliminating the <b>problem of asymmetrical information</b> which is often an issue with secondhand properties</li></ul>
Strong relationships with owners	<ul style="list-style-type: none"><li>• Because our company is involved as a one-stop service, new owners are able to buy with a high degree of trust. We provide PM and consulting after sales (<b>CRM strategy</b>).</li></ul>

Social significance





These materials were created in order to provide an understanding of the A.D.W. 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. A.D.W. 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 group and information that we judge to be rational.

The data contained in these materials contains publically-available information that we judge to be trustworthy and accurate, however our company does not guarantee the accuracy and correctness of this information.

**Please direct inquiries to: A.D.Works Business Planning Department**

**TEL: 03-4500-4208**

**E-mail: [ir@re-adworks.com](mailto:ir@re-adworks.com)**