

Supplementary Materials and Main Q&A for IR Briefing on First Medium-term Management Plan held on July 14, 2021

The IR briefing for the First Medium-term Management Plan, held on July 14, proceeded in line with the materials provided separately, and the following additional explanations were provided orally. The main questions and answers received on that day have been compiled together here.

1. Supplementary Briefing

(1) “Business structure as we aim to become an investment solutions company”

The income-earning property solutions business has been our mainstay business thus far. The sale of small-lot real estate products has gradually increased in this business, and we also started on new development as well.

In the “new product/service solution business,” we have already launched a business that turns US housing loans into investment instruments and sells them in Japan as part of crowdfunding. In addition, the impact of COVID-19 is currently subsiding somewhat, and we are preparing to start an operating lease business for aircraft and other.

We are also expanding the business structures of the REIT business and the CVC business started last year.

(2) “REIT business” and “Development business”

We are working on forming private offering REIT during fiscal 2022 in the REIT business.

At present, we are consulting with multiple companies in the same industry on jointly forming REIT, and expect a scale of about 40 billion yen.

We expect to make diversified investments, with the cooperating companies bringing together their areas of specialty, such as offices, residential, commercial and logistics properties. We will make an announcement again when it is time to release information.

In the Development business, we are currently making progress with two projects. One is the Fukuoka project, which we started previously, and we also have a new Kyoto project, which we began when we officially advocated the Development business in our First Medium-term Management Plan.

(3) “Criteria for listing on the Prime Market”

On July 9, we received the first decision from the TSE. The TSE determined that we did not meet the criteria for “market capitalization of tradable shares,” which is one of the criteria for listing on the Prime Market. To meet this standard, we would need a market capitalization of 12 billion yen or more, according to current estimates.

In the two-year period from January 2018 to December 2019, our market capitalization trended at 12–14 billion yen.

We think this level can be achieved by raising our business value as we pursue the First Medium-term Management Plan.

Of course, this is just a waypoint in our journey. In our Governance Code Guidance, we have set 35–40 billion yen in market capitalization as our target. For this reason, we consider the creation of a transition to a new growth trajectory by achieving the First Medium-term Management Plan as part of our mission.

2. Main Q&A

Q1: Intentions and objectives for the CVC business

A1: Given the spread of COVID-19 over the past year and a half and the failure to bring it fully under control, as well as forecasts for society going forward, companies are being forced to adapt in response and take advance action as people's values and social activities change and various technological innovation such as DX cause transformation as well.

In the general CVC business, the focus was on participating with the primary aim of generating returns on investments in the stage after a venture capital company has already made investments or investments with an emphasis on synergies with the main business. In recent years, in addition to the original purpose, more companies have run CVC businesses with the aim of investing in start-up companies launched in the belief that the world's changes are actually business chances, especially given the limits to what can be achieved with internal research alone.

A.D.Works views its CVC business as a means of having a hub for interactions with these kinds of companies. Our Group company, Angel Torch Co., Ltd., is responsible for these activities, and has interacted with seed and early stage companies that have cutting-edge technology. With the aim of utilizing these technologies, approaches, DX and others for our internal innovations, we launched a CVC.

After the launch, we completed investing in X Digital Innovation Co., Ltd. This company intends to DX technology to provide customers with financial instruments in a new form. We made this investment in anticipation of synergies with our sale of small-lot real estate instruments in the future.

This company is currently in its second fiscal year and does not have any venture capital. We are its lead investor. They have already filed for a patent for AI technology, and likely will not produce results for some time ahead, but we think that this company has tremendous potential.

Q2: Relationship with Innovation Engine Inc.

A2: Innovation Engine is a mid-sized fund with a strong track record in finding companies to invest in, giving investment advice and providing support on monitoring after investments as we began our CVC business. This company has an excellent reputation in this industry.

We have an advisory agreement with Innovation Engine, and receive cooperation so that we can pursue our CVC business.

Q3: Changes in awareness due to selection of Prime Market, and countermeasures to meet criteria for market capitalization of tradable shares

A3: We have been constantly aware of share prices since listing. Share prices are the biggest responsibility we have toward investors and shareholders. Of course, we pay dividends as well, but we think that raising share prices—in other words, market capitalization—is important.

When the market was reorganized most recently, we had internal discussions to consider whether there was any appropriate means of boosting our market capitalization, and concluded that generating excess profit and maintaining and expanding this is important.

This is a crucial means of appealing to investors, and I think that many investors understand this. Pursuing business so that we can meet expectations is our most important role, and specific policies for doing so are laid out in this medium-term management plan.

Q4: Capital procurement when raising the balance of income-earning properties to 50 billion yen

A4: We think that by starting the REIT business, we will be able to improve credit on our loans underwritten by properties. In other words, committing to sales as an exit makes it easier for financial institutions to make loans to us as part of efficient fund operations.

Moreover, in securing excess profit, it is important to have a positive difference between business revenue as measured by ROE, ROIC and other indicators, as well as WACC, which is a gauge of capital costs. Small- and medium-sized listed companies like ourselves are unable to issue corporate bonds, and we raised money with equity, but this means that WACC inevitably becomes high. Reducing WACC while at the same time raising our business potential is an important focus in generating excess profits.

In recent years, schemes for financing, such as security token offerings, have made rapid progress, and by focusing our search on low-cost financing methods out of the broad range of options we have, we hope to resolve the issues of excess profit or financing.

Q5: You explained that when expanding real estate again, given the harsh competition to acquire properties and sites, it is possible to secure properties by improving organizational strength and product planning capacities for acquisitions. What are the details for the aim for reaching a balance of 50 billion yen in income-earning properties and the basis for this target?

A5: I will answer the question on how we will increase the balance of income-earning properties on the premise that we have no financing problems.

Product planning is important. For example, other companies make bids for existing properties starting at the current value, but we expect to raise rents by carrying out renovations and reforms, so we measure the property's overall value based on rent after these increases. It depends on the scale of the property, but a slight increase in the unit price for rent significantly increases the value of the property overall. I think one of our strengths is that we can work backward when calculating the current value on the assumption that the value will increase.

In addition, we handle small-lot real estate instruments. These are unique in that the liquidity is higher and we can sell to more people, but there are cases in which we can sell at higher levels in total than if we sold an entire building. In our case, we have multiple options, including selling the entire property or selling in small lots, and we can sell the property at the highest value. We can bid higher than other companies because of our product plans and selling methods, which makes it easier for us to acquire properties in some respects.

Information is also extremely important. For example, in cases in which the seller is in a hurry to cash out, this information may be passed on quickly to trustworthy companies. We get nearly 10,000 pieces of information like this every year, and have many sources of beneficial information. This ability to obtain lots of advantageous information leads to profitable acquisitions.

For these reasons, I think we can reach the targets in our medium-term management plan while solving issues related to financing.

Q6: Small-lot instruments and crowd funding are the pillars of your revenue, but emerging digital companies are strong in these markets. How do you differentiate yourself from these companies and what countermeasures do you take?

A6: Emerging digital companies are skilled with small-lot instruments and crowd funding, but we will reinforce these areas through our CVC and other efforts.

At the same time, these companies may use IT for sales, but acquiring properties, raising added value with renovations and then commoditizing it is not possible for companies outside of our industry. We have the advantage when it comes to product appeal, and we will differentiate ourselves through these means.