

A.D.W.  
Group

SINCE 1886

A.D. Works Co., Ltd.

# IR Briefing Materials: The First Quarter of the Year Ending March 31, 2017

July 22, 2016

A.D. Works Co., Ltd.

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

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# I - Summary of the First Quarter of the Year Ending March 31, 2017

# 1. Summary of the First Quarter of the Year Ending March 31, 2017

Topic  
1

Sales results relative to the full-year business plan were 19.9%, EBITDA was 20.0%, ordinary income was 8.6%, and net income was 19.9%.

**As the financial markets move to avert risks, we are operating strong sales activities.**

Topic  
2

Sales in the stock-type fee business were up 11.7% year-on-year. **We are making progress with "stabilizing the profit base" – one of the basic policies in the Fifth Mid-Range Business Plan.**

Topic  
3

We conducted active acquisitions of high-grade properties, and our balance of income properties increased by 8.1% from the end of the previous fiscal year (March 31, 2016).

**⇒ A contribution to 2Q and later results is expected.**

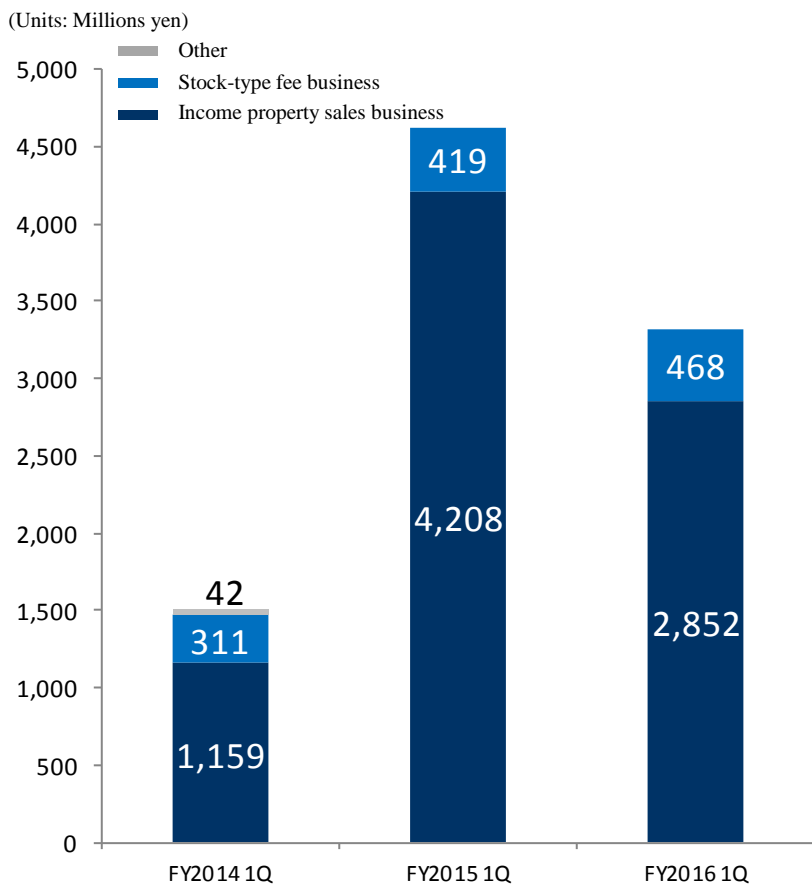
## II - Overview of the First Quarter of the Year Ending March 31, 2017

## 2. Consolidated PL Summary (Year-on-Year Comparison)

(Units: Millions yen)	FY2015 1Q (ended June 30, 2015)		FY2016 1Q (ended June 30, 2016)		Change from previous year
	Amount	% of sales	Amount	% of sales	
Sales	4,589	100.0%	3,279	100.0%	▼28.5%
Gross profit	853	18.6%	674	20.6%	▼21.0%
SG & A	559	12.2%	538	16.4%	▼3.7%
EBITDA	306	6.7%	239	7.3%	▼21.7%
Ordinary income	248	5.4%	69	2.1%	▼72.2%
Net income before taxes	248	5.4%	156	4.8%	▼37.3%
Net income	162	3.5%	105	3.2%	▼35.1%

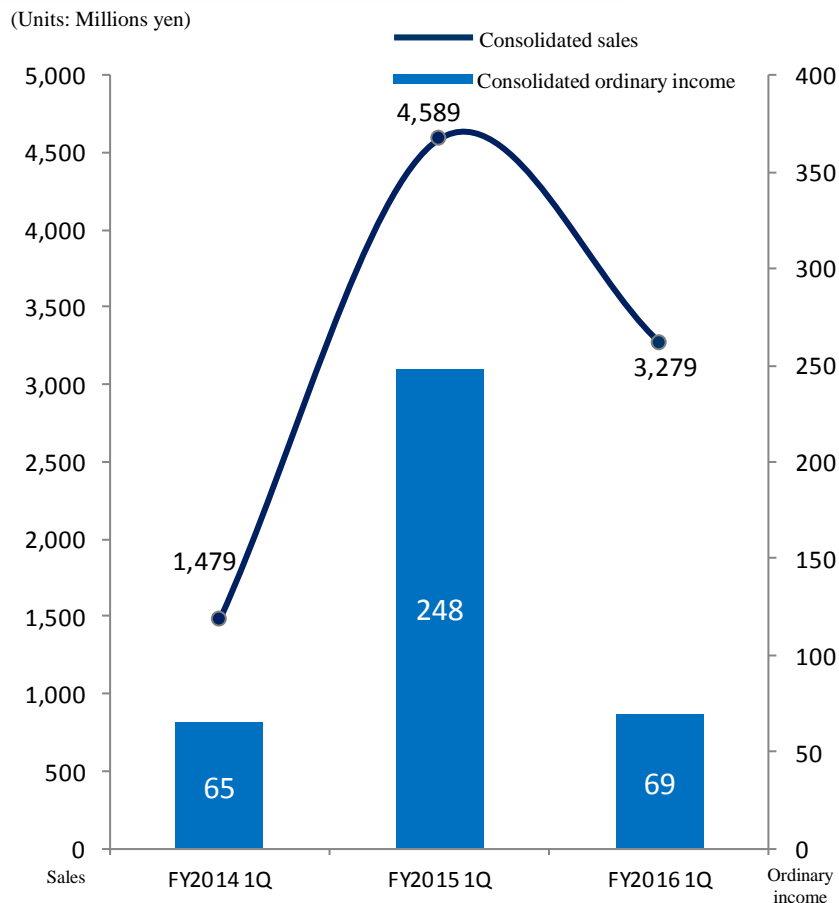
### 3. Consolidated Results

#### Changes in consolidated sales (by business area)



(\*1) Sales for each segment are figures that include inter-segment transfers.  
As a result, the total for all segments differs from the figure for consolidated sales.

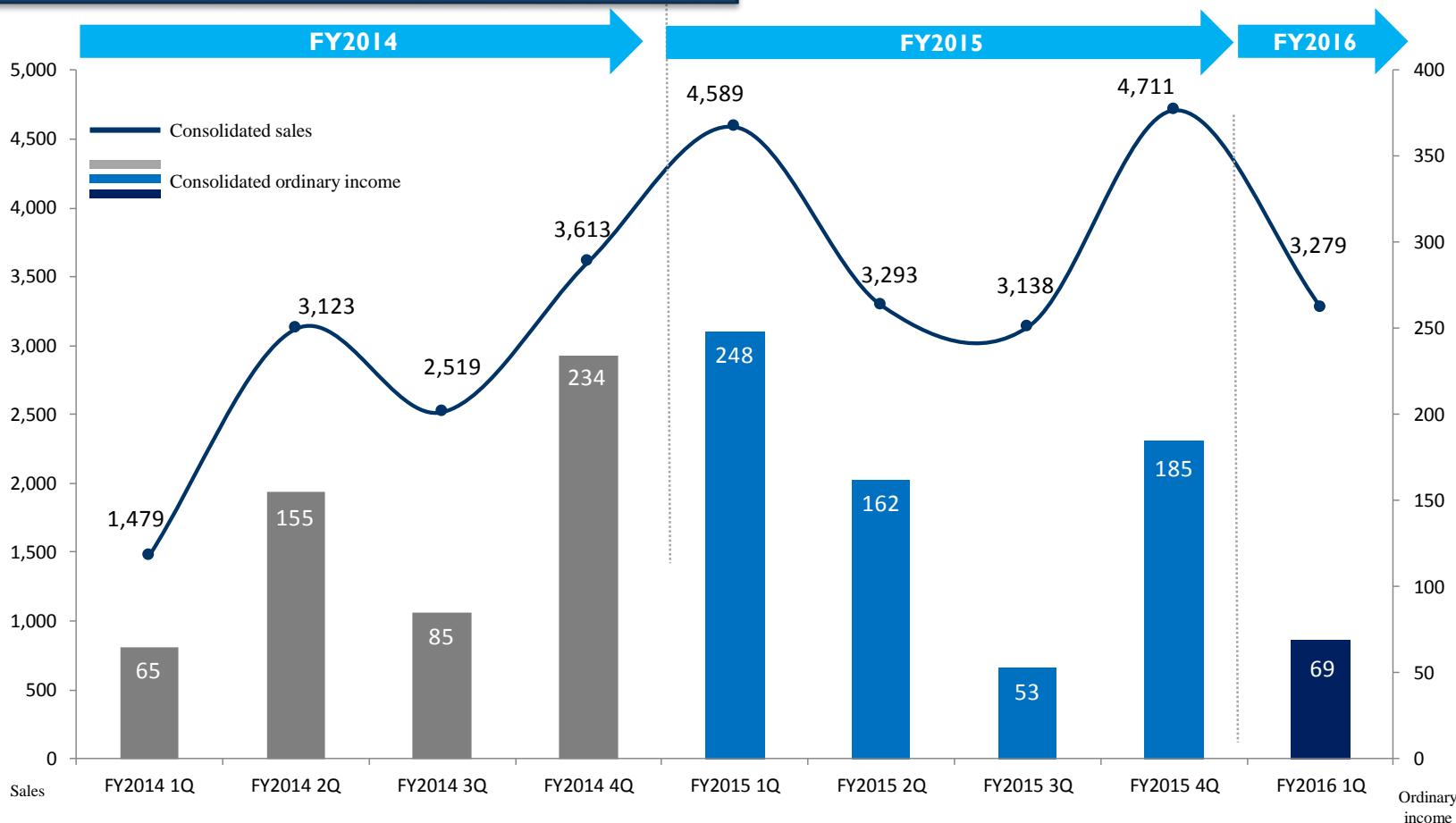
#### Changes in consolidated sales and ordinary income



**The profit base is getting steadily stronger.**  
**The stock-type fee business is continuing to deliver double-digit growth.**

## 4. Changes in Consolidated Quarterly Results

### Changes in consolidated quarterly results

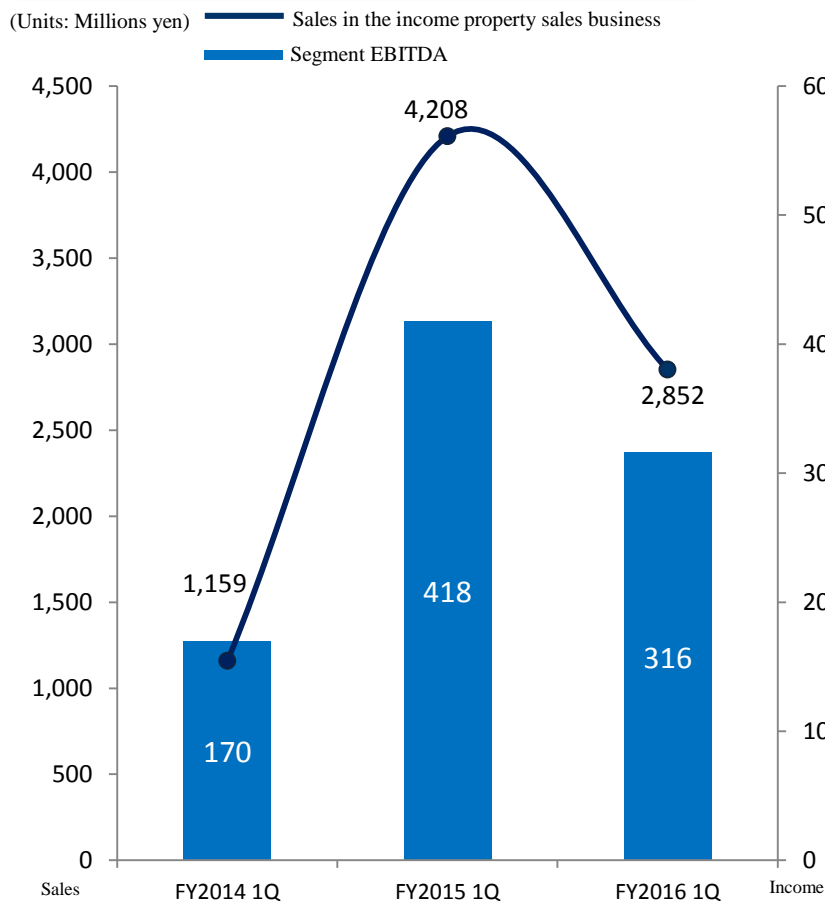


**At present, the income property sales business accounts for slightly less than 90% of consolidated sales. As a result, there are large fluctuations in quarterly results.**

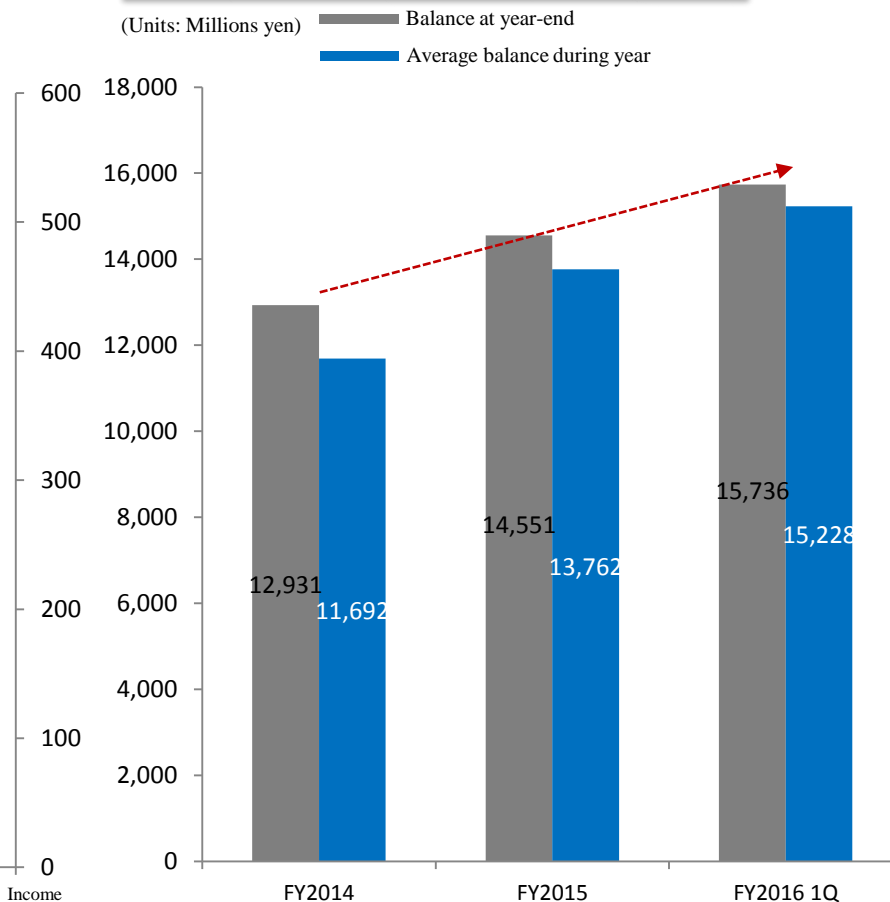


## 5. Main Business Areas (1): Overview of the income property sales business

### Changes in income property sales business results



### Changes in balance of income properties

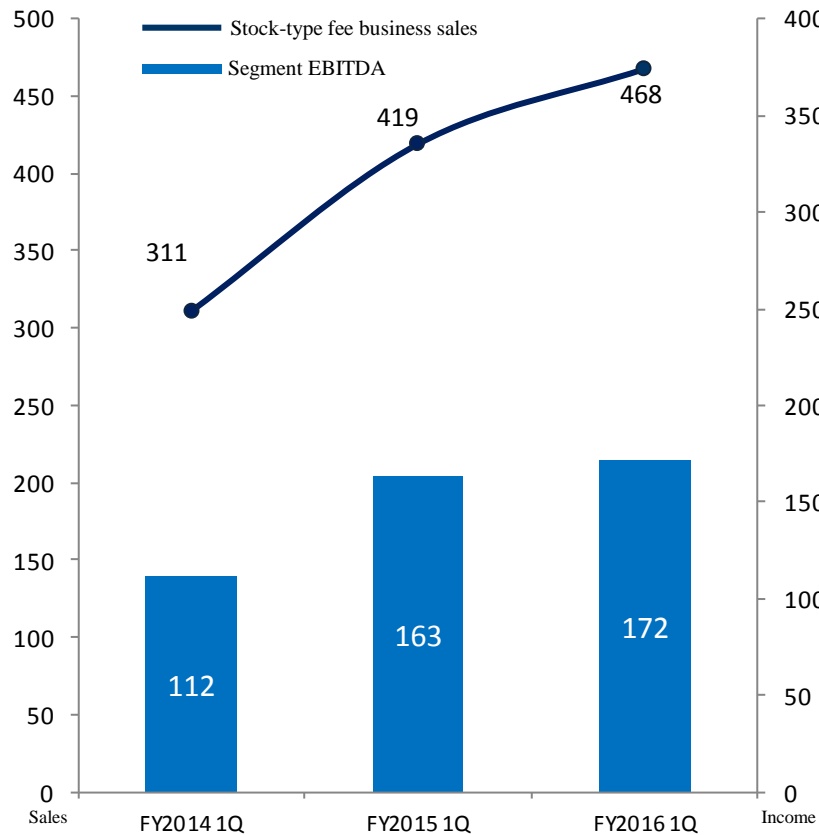


**The balance of income properties as a source of future profits is growing**

## 6. Main Business Areas (2): Overview of the stock-type fee business

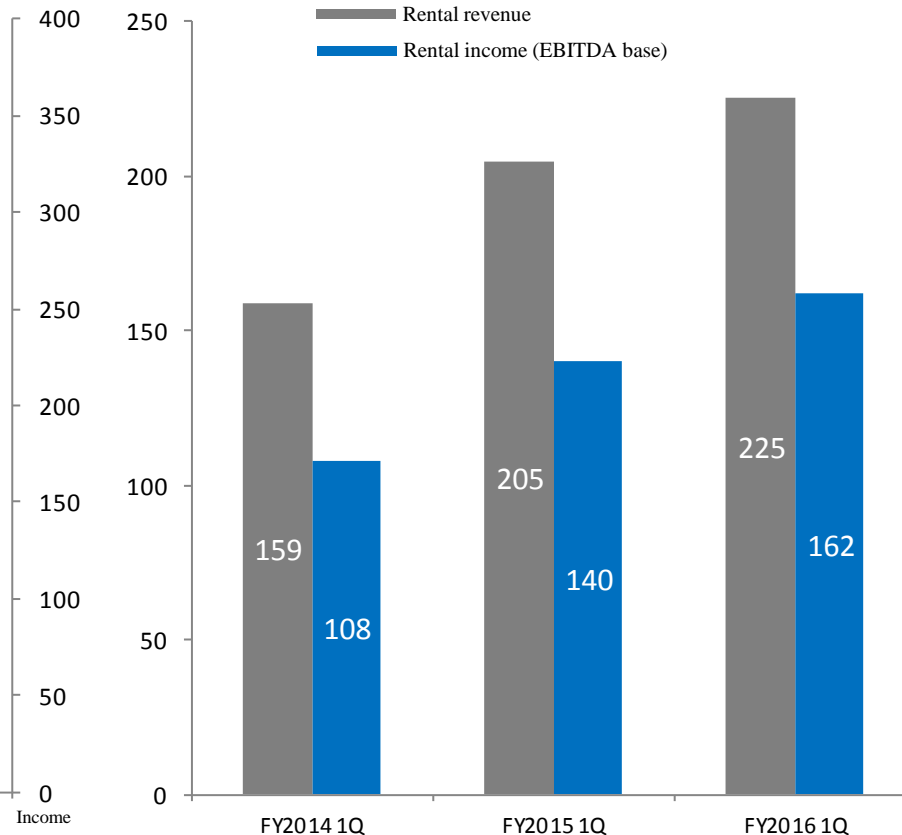
### Changes in stock-type fee business results

(Units: Millions yen)



### Changes in rental revenue and income

(Units: Millions yen)

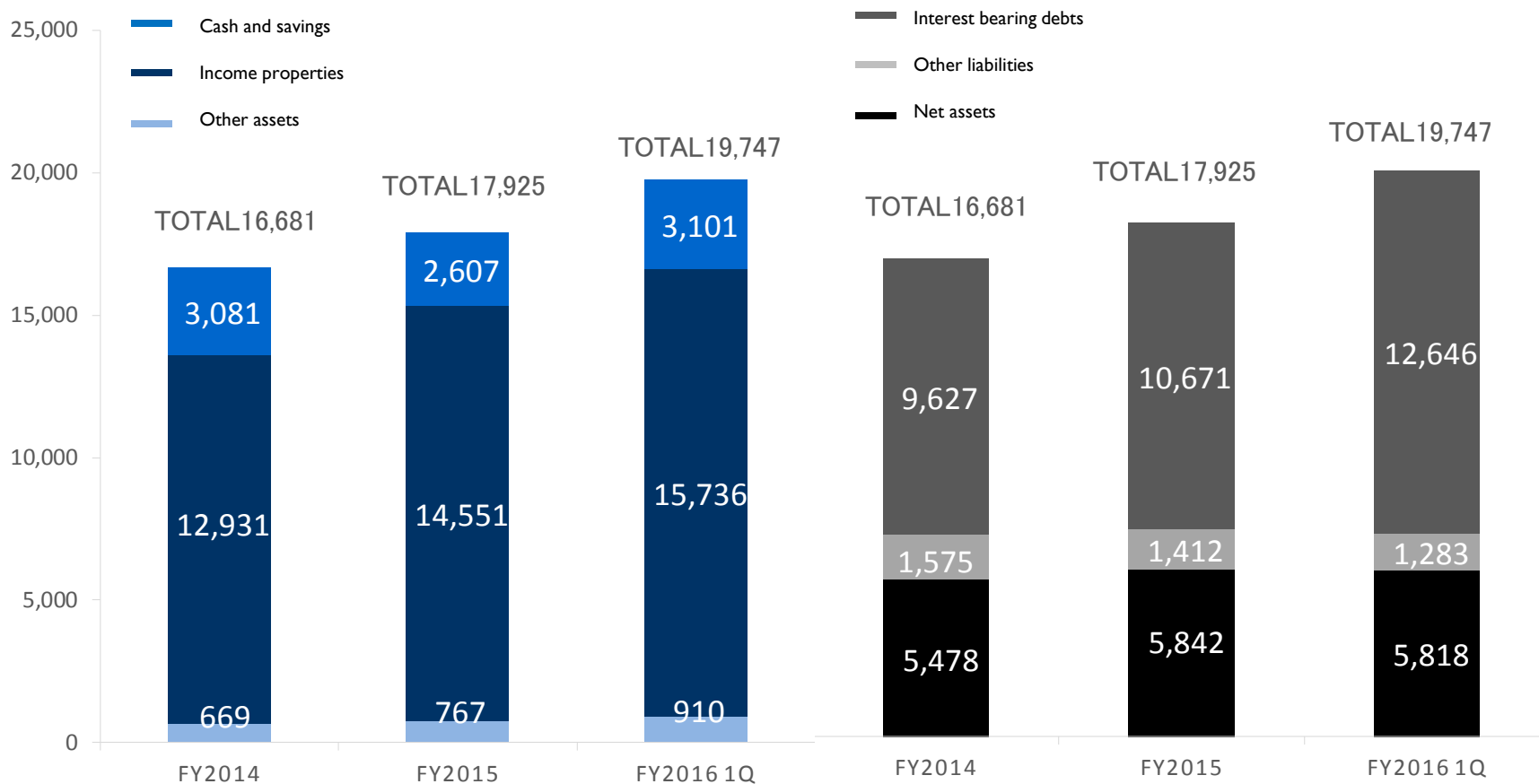


**Rental revenue as a stable income source is gradually growing.**

# 7. Consolidated B/S Summary

## Summary of main B/S items

(Units: Millions yen)



Note: The above figure for "Income properties" includes properties which are listed in the balance sheet under "properties for sale in process" and properties which are listed under "fixed assets".

## III - Business Plan and Progress

## 8. Consolidated Results Plan (Fiscal Year Ending March 31, 2017)

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

(Units: Millions yen)

	Year ended March 31, 2015 (Results)	Year ended March 31, 2016 (Results)	Year ended March 31, 2017 (Planned)	Year ended March 31, 2019 (Planned)
Consolidated sales	10,735	15,733	16,500	18,000
Consolidated EBITDA	791	926	1,200	1,600
Consolidated ordinary income	540	650	800	1,000
Consolidated net income	333	426	528	660
Consolidated ROE (at year end)	6.1%	7.3%	6.4%	7.4%

Note: Consolidated EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) is calculated as the sum of consolidated operating income and depreciation, amortization, etc. Depreciation and amortization, etc. includes depreciation, software amortization, amortization of goodwill, and other expenses which do not involve cash disbursement.

The equity financing announced on May 12 is expected to reduce the planned ROE for the year ending March 31, 2017

1Q of fiscal year ending March 31, 2017 progress relative to the full-year plan was slightly less than 20%.

## 9. Guidance for Balance of Income Properties / Rental Income / ROA

(Units: Millions yen)

		Year ended March 31, 2016 (Results)	End of 1Q ended June 30, 2016 (Results)	Year ending March 31, 2019 (Planned)
Guidance	Balance of U.S. income properties held for sale (average)	1,773	2,303	5,000
	Balance of domestic income properties held for short- or medium-term sale (average)	9,116	9,662	12,000
	Balance of domestic income properties held for long-term sale (average)	2,872	3,262	10,500
	Total balance of income properties (end of year)	14,551	15,736	30,000
	Rental income (EBITDA base)	559	162	1,246
	ROA for income property sales business	11.6%	8.4%	6.9%

Note: ROA for the income property sales business in 1Q of the fiscal year ending March 31, 2017 is calculated by conversion to a full-year basis.

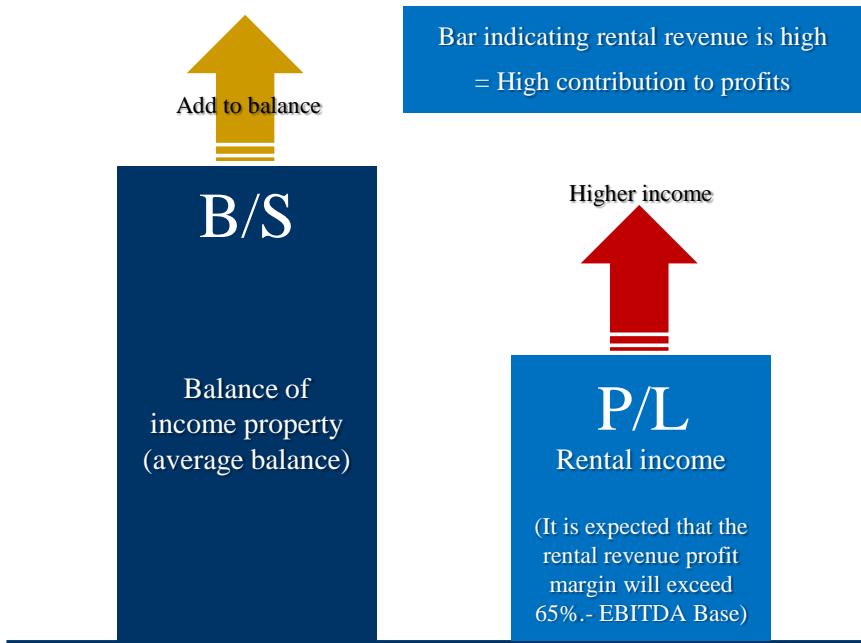
During 1Q of the fiscal year ending March 31, 2017, we acquired 10 properties in Japan and 3 properties overseas.

**These are expected to contribute to 2Q and later results.**

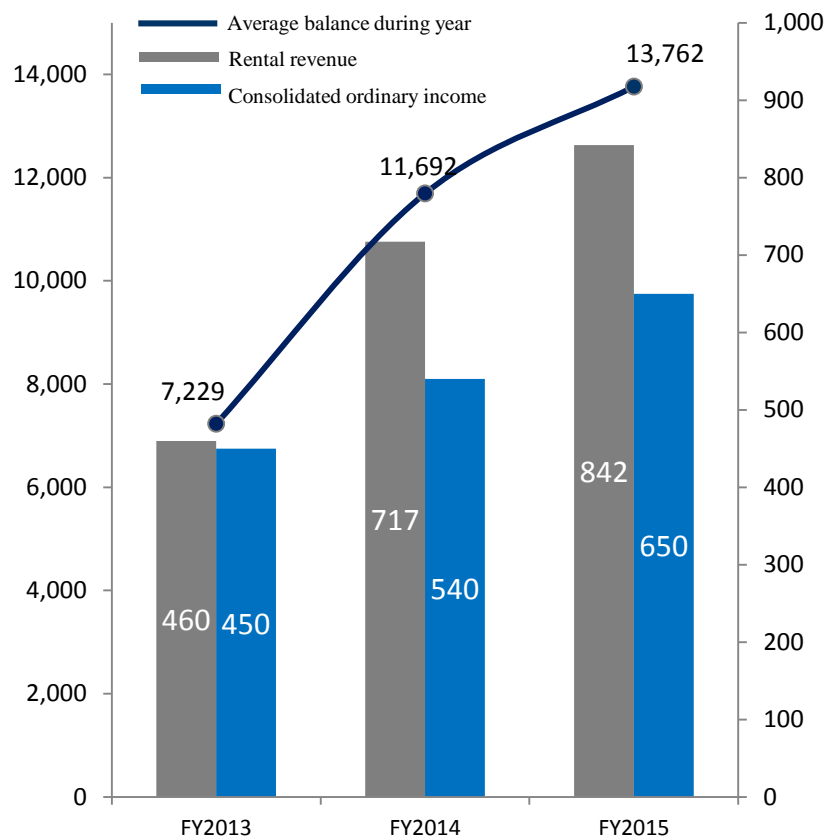
## IV. A.D.Works Business Strategy (Importance of Growing the Balance of Properties)

# 10. Business Strategy: Expanding the Scale of Business and Shifting to a Stable Profit Model

## Relationship between balance of income properties and rental income



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.



# 11. Business Strategy: Benefits of Increasing the Balance of Income Properties

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

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

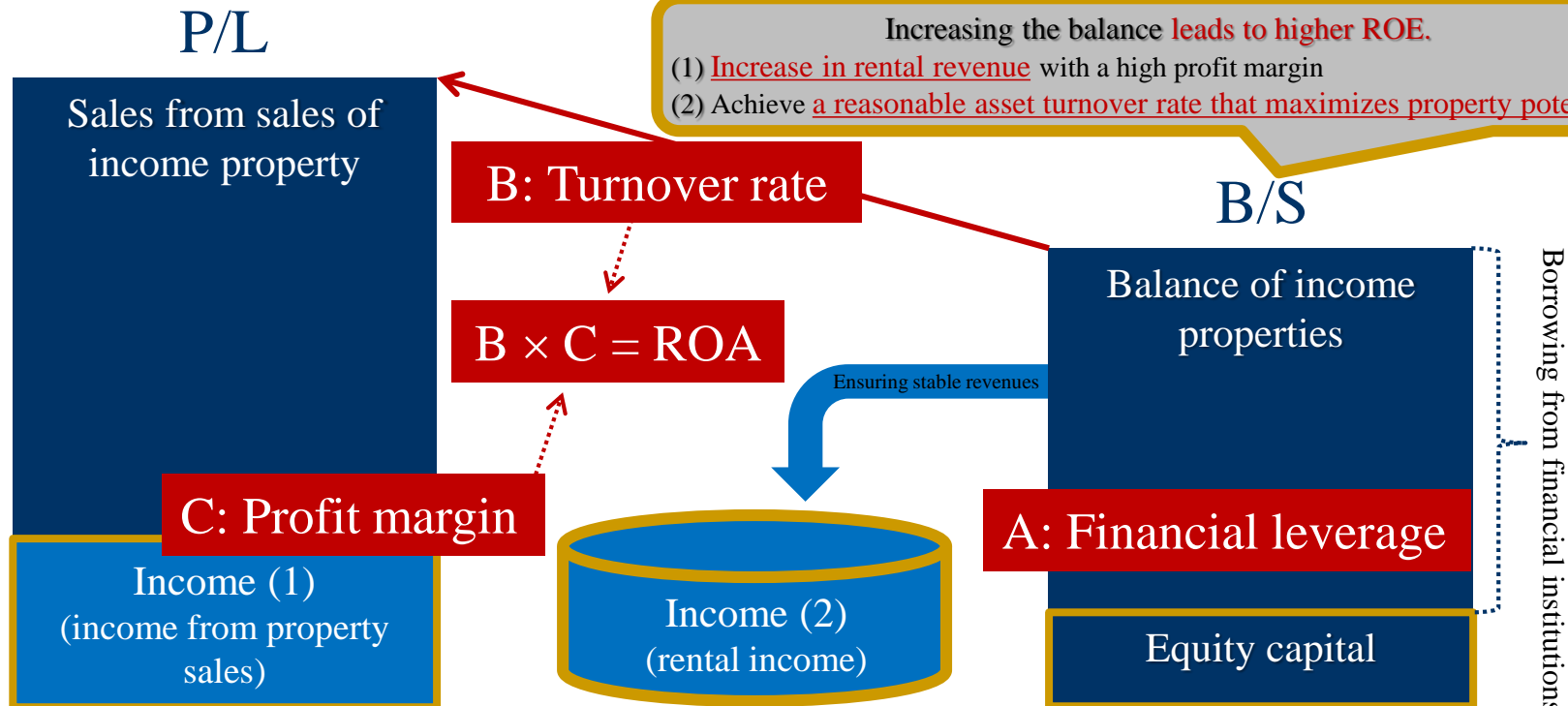
<Balance of income properties / Equity capital>

<Sales / Balance of income properties>

<Income from sales of income properties / Sales>

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

(Image showing relationships of announced figures)



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

## V-1. Company Profile

- 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:** 1,937,740,000 yen (as of the end of June 2016)
  
- 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.Estate Co., Ltd. (property development, etc.)
  - 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:** 125 consolidated (as of the end of June 2016)
  
- 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
Takamoto Ohto	Director, Audit & Supervisory Committee Member
Miwa Sutoh	Director, Audit & Supervisory Committee Member

## V-2. Shareholder Composition (based on preliminary information as of June 30, 2016)

### Number of issued shares / Number of shareholders

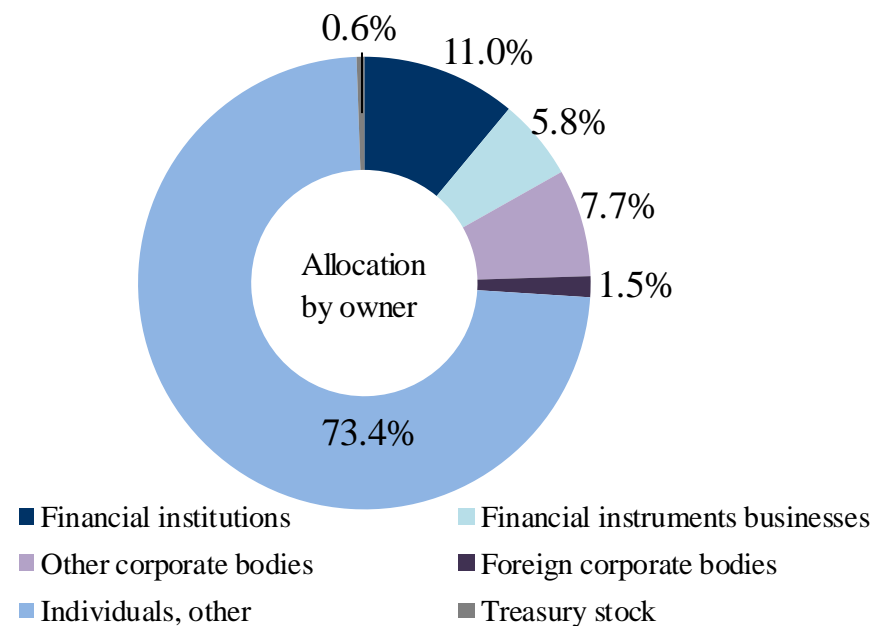
Number of issued shares: 223,876,000

Number of shareholders: 12,731

### Major shareholders

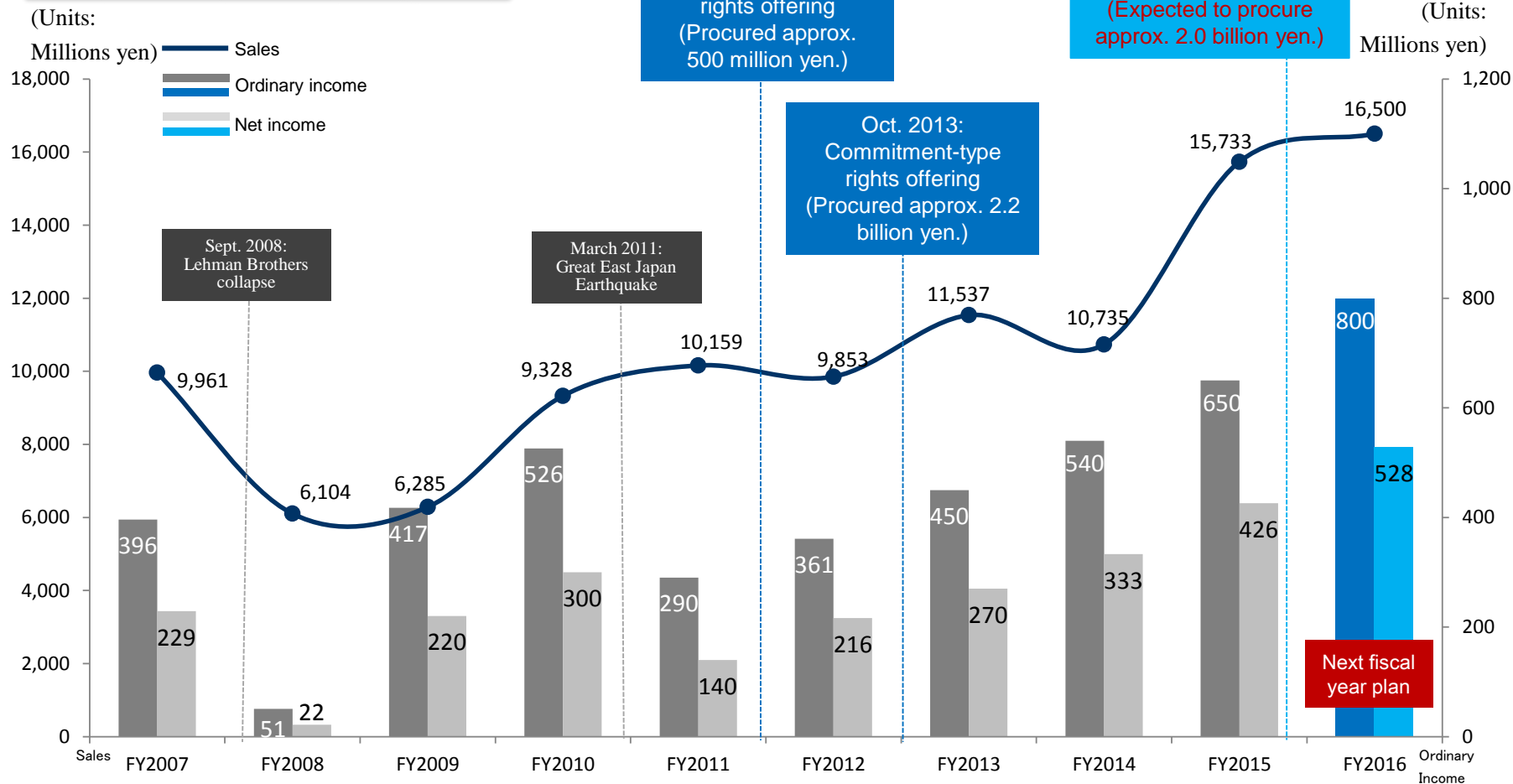
		Number of shares	Share ratio %
1	Hideo Tanaka (Our company President and CEO)	44,756,248	19.99%
2	Liberty House Co., Ltd.	9,416,000	4.20%
3	The Master Trust Bank of Japan, Ltd. (BIP Trust Account*75695)	6,931,238	3.09%
4	SBI Securities Co., Ltd.	4,026,000	1.79%
5	Japan Securities Finance Co., Ltd.	3,147,500	1.40%
6	Milestone Capital Management Co.,Ltd.	3,000,000	1.34%
7	Matsui Securities Co., Ltd.	2,127,900	0.95%
8	The Master Trust Bank of Japan, Ltd. (Trust Account )	1,927,700	0.86%
9	Rakuten Securities, Inc.	1,888,300	0.84%
10	Japan Trustee Services Bank, Ltd. (Trust Account )	1,846,500	0.82%

### Allocation by owner (share ratio)



# V-3. Trends in Past and Current Results

## Consolidated result trends



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.

Second Mid-Range Plan

Third Mid-Range Plan

Fourth Mid-Range Plan

Fifth Mid-Range Plan

## 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)
Consolidated sales	9,328	10,159	9,853	11,537	10,735	15,733
Consolidated ordinary income	526	290	361	450	540	650
Consolidated net income	300	140	216	270	333	426
Net assets	2,132	2,205	2,896	5,496	5,478	5,842
Total assets	8,537	6,258	9,117	14,274	16,681	17,925
Total income property balance (at year end)	6,114	3,810	5,703	10,124	12,931	14,551
Rental revenue (sales)	407	380	416	460	717	842
Rental revenue / sales ratio (%)	4.4	3.7	4.2	4.0	6.7	5.4
Employees (persons)	44	53	59.5	68	99	115

## VI– Reference Materials (The Fifth Mid-Range Business Plan)

## VI-1. Background of the Fifth Mid-Range Business Plan: Domestic Income Property Business (PES Analysis)

	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.**



## VI-2. Background of the Fourth Mid-Range Business Plan: Income Property Business in the U.S. (PES Analysis)

### U.S. income property business environment (PES analysis)

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

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

## VI-3. Positioning and Basic Policy of the Fifth Mid-Range Business Plan

## Positioning of the Fifth Mid-Range Business Plan

Preparation period  
for the next **leap forward**



<i>Basic Policy</i>	I	Strategic expansion of the balance of income properties in order to establish a solid business foundation and achieve a stable profit base
	II	Development and expansion of business which will become a new pillar of future earnings
	III	Restructuring of capabilities so that they can support the larger scale of our business

## VI-4. Fifth Mid-Range Business Plan: Key Measures

### Key measures of the Fifth Mid-Range Business Plan

*Specific  
measures*

Continually expanding the scale of income property business in Japan

Expanding the balance of income properties in the United States (= start of the business expansion phase)

Development of business that will become a new pillar of future earnings

Restructuring of capabilities

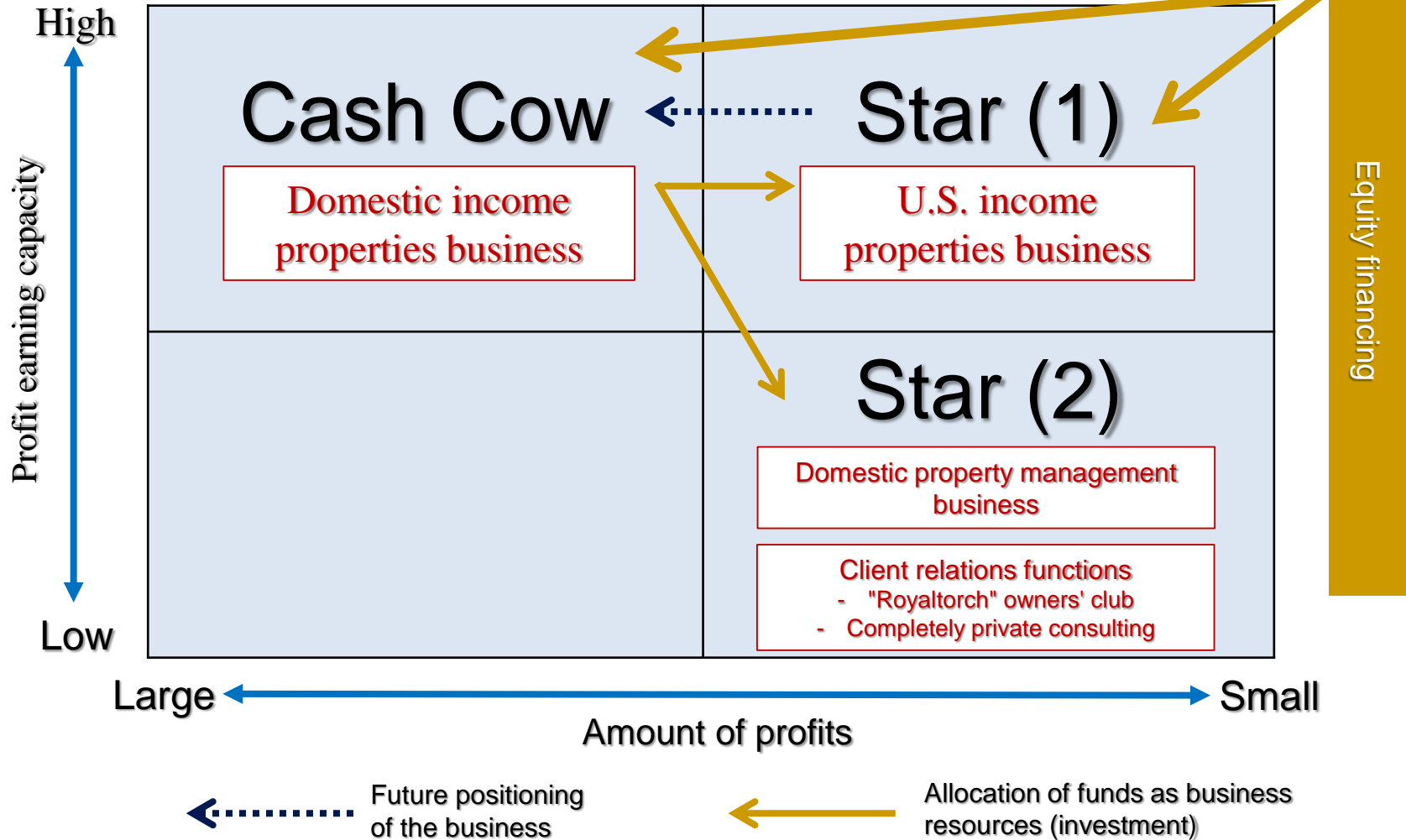
- Restructuring of the mechanism/system for achieving both quality and quantity in property management
- Strengthening of asset management functions
- Expansion of the "Royaltorch" owners' club that is operated by our company

...more

Create a stronger business foundation, profit base, and financial base.  
During the period of the Fifth Mid-Range Business Plan, construct a business foundation that provides a sense of stability.

# VI-5. Business Strategy: Investment Positioning Matrix

A.D.W. Group investment positioning matrix



## VI-6. Business Strategy: Evolving the AD Business Model

### 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)

## VII-1. Business Segments

Main business foundation of the A.D.W. Group

Business related to **investment income properties for high net-worth individuals** – an area of high liquidity, stable rental revenue, and relatively low risk of a decline in value

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### Investment income property business (capital gain)

- Purchasing, value-adding improvements, and sales of secondhand income properties
- Target: high net-worth individuals



Nishiwaseda Project

### Stock-type fee business (income gain/fees)

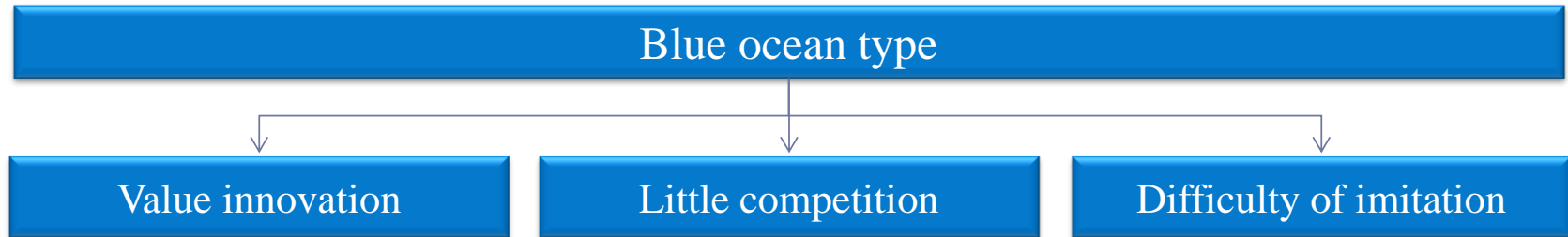
- CRM strategy for the ADW brand
- Property management
- Property appraisal and due diligence
- Effective use of CRE land, renovation proposals
- Rental revenue from properties held by our company for sale



Targeting high net-worth individuals  
One-stop solutions  
Blue ocean type model

## VII-2. Organization of the A.D.W. Group Business Model

### Business model characteristics



### Characteristics

(1) One-stop solutions

(2) Broad-ranging competitive superiority and social significance

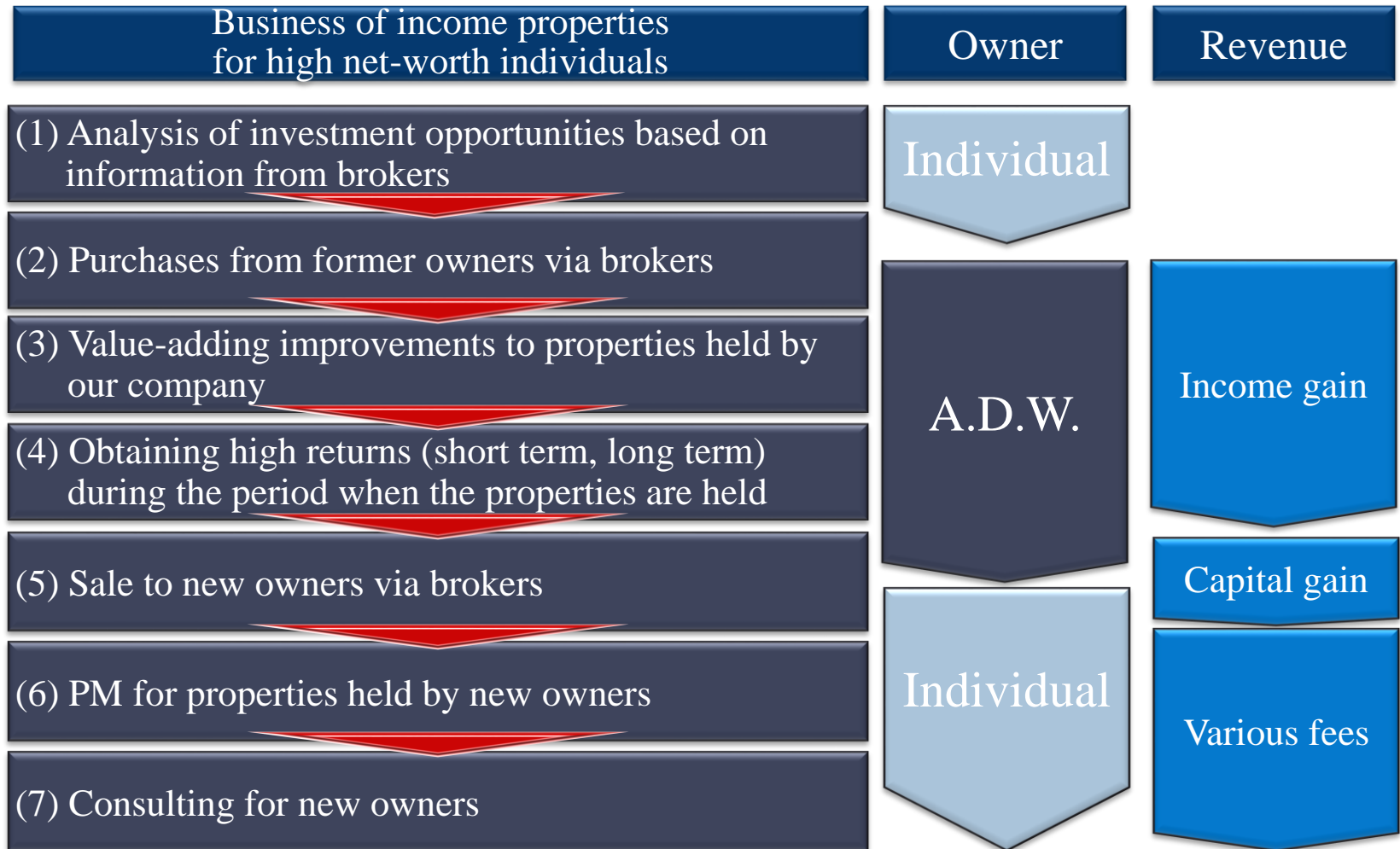
(3) Expected to pursuit of a stable profit structure

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



## VII-3. Business Model Characteristics (1)

### (1) One-stop solutions



## VII-4. Business Model Characteristics (2)

### (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

## VII-5. Business Model Characteristics (3)

### (3) Pursuit of a stable profit structure

#### Acquisition

Due to the 12 trillion yen stock of income properties in the Tokyo Metropolitan Area, the potential of the market is not being fully utilized and there are many opportunities for acquiring properties.

\*Source: Size of the income properties market in the Tokyo Metropolitan Area was calculated by our company based on the "Overview of the Japan Real Estate Investment Market 2012" from Nomura Research Institute, "Land Assets by Prefecture (FY 2011)" from the Economic and Social Research Institute (Cabinet Office, Government of Japan), and "Urban Area Price Indexes" from the Japan Real Estate Institute.

#### Holding

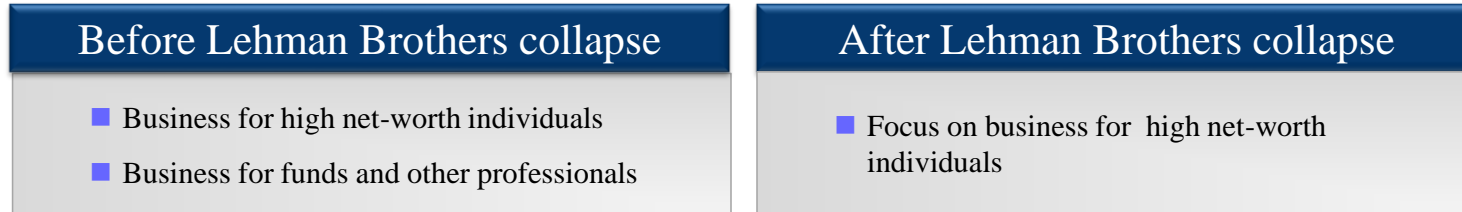
We can establish a stable profit base by increasing our balance of income properties.

#### Sale

The nature of income properties ensures liquidity even under poor economic conditions, allowing assets to be quickly monetized.

## VII-6. Target Clients: High Net-Worth Individuals

From before the Lehman Brothers collapse to the present



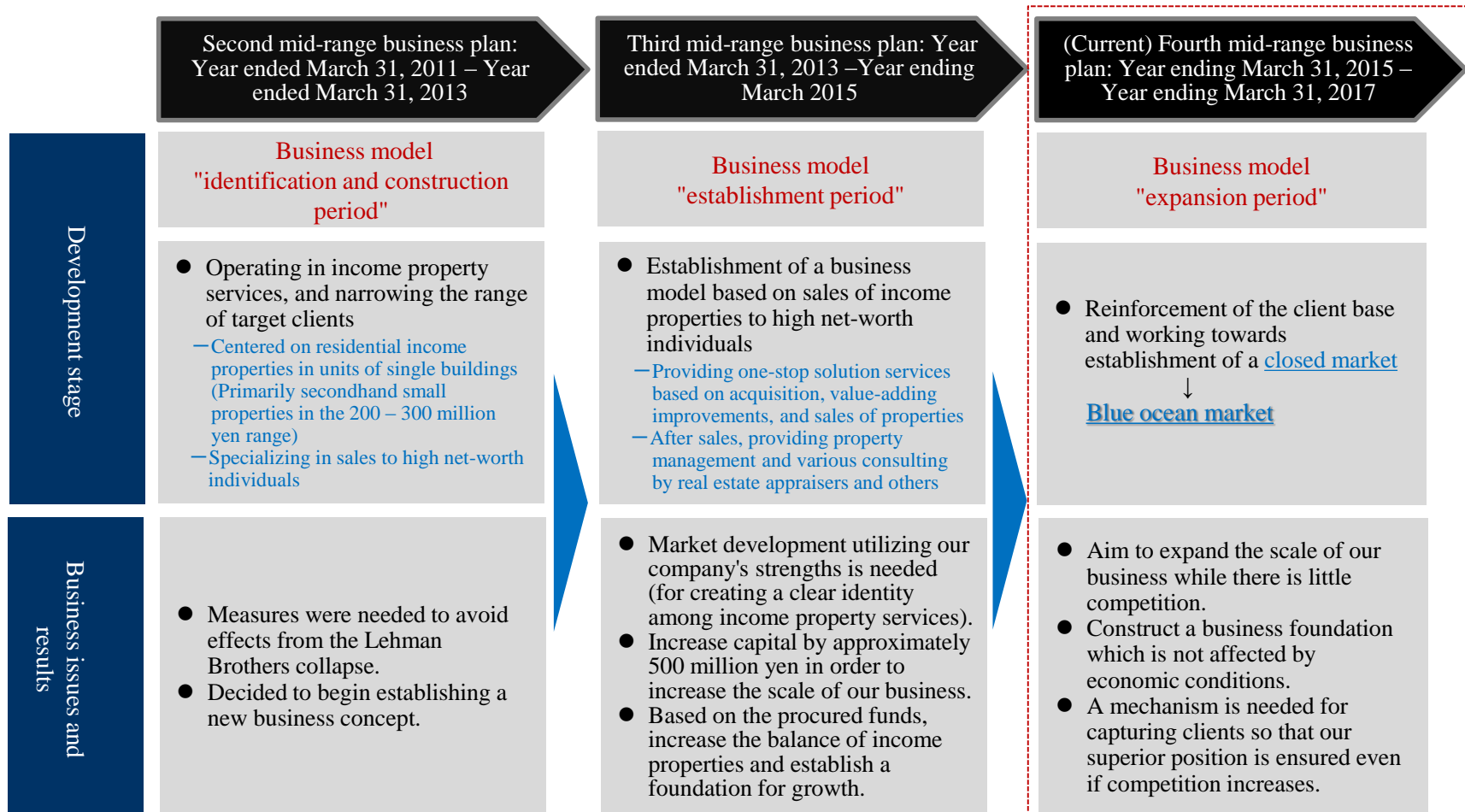
### Reasons why A.D.W. is focusing on business aimed at high net-worth individuals

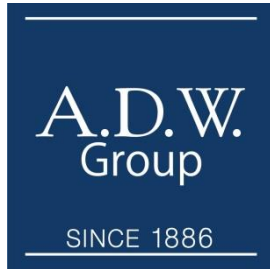
- Existence of demand for buying income properties that is not affected by changes in economic conditions
- Banks' financing approach for high net-worth individuals is relatively unaffected even under poor economic conditions
- Because rents from residential income properties are stable, price collapse is unlikely.
- Small (approx. 300 million yen or less) residential income properties can be easily converted to cash even under poor economic conditions.

The stability of our business is high because A.D.W. specializes in business targeting high net-worth individuals – a market where a certain level of transaction demand exists even in difficult business environments and regardless of the economic conditions.

## VII-7. Changes to the Mid-Range Business Plan

### Changes from the second and third plans (summary)





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.

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