

A.D.W.  
Group

SINCE 1886

A.D.Works Co., Ltd.  
IR Briefing Materials:  
Year Ended March 31, 2015

May 19, 2015

A.D.Works Co., Ltd.

TSE 2nd Section: 3250 <http://www.re-adworks.com/>

# Contents

I	Summary of Year Ended March 31, 2015	p.2 – p.3
II	Overview of Year Ended March 31, 2015	p.4 – p.10
III	Consolidated Results Plan (Fiscal Year Ending March 31, 2016)	p.11 – p.13
IV	Progress of The Fourth Mid-Range Business Strategy	p.14 – p.19
V	Towards Enactment of the Corporate Governance Code	p.20 – p.25
VI	Reference Materials (Company Profile, Shareholder Composition, Trends in Consolidated Results)	p.26 – p.30
VII	Reference Materials (The Fourth Mid-Range Business Plan)	p.31 – p.36
VIII	Reference Materials (Characteristics of the A.D.W. Group Business Model)	p.37 – p.44

# I - Summary of Year Ended March 31, 2015

# 1. Summary of Year Ended March 31, 2015

Topic  
1

Although sales were down from the previous year, **we achieved higher profits.**

⇒ Except for sales, all income results exceeded the targets in the initial plan.

(Reference)

Year ended March 31, 2015	Sales	EBITDA	Ordinary income
Initial plan	12.7 billion yen	787 million yen	500 million yen
Results	10.735 billion yen	791 million yen	540 million yen
Achievement	84.5%	100.5%	108.1%

As explained in “Notice of Revision to the Fourth Mid-Range Business Plan for the Period Beginning with the Year Ending March 31, 2015” that was released on March 9, 2015, we carried out a revision of the initial business plan that was announced at the start of the year.

Topic  
2

We completed the sale of 29 properties (Japan: 27, overseas: 2) during this year.

⇒ In the domestic income property sales business, the profit margin **exceeded both the previous year's result and the initial plan for this year.**

Topic  
3

The average balance of income properties was 11.692 billion yen, **an increase of 61.7% from the previous year.**

⇒ Total acquisitions during the year in Japan and the U.S. were 8.713 billion yen.

Topic  
4

**We changed our listing market to the second section of the Tokyo Stock Exchange.** (Approved March 2015.)

⇒ We incurred a non-operating expense of 30 million yen as the cost for this market change.

## II - Overview of Year Ended March 31, 2015

## 2. Consolidated PL summary (comparison with previous year)

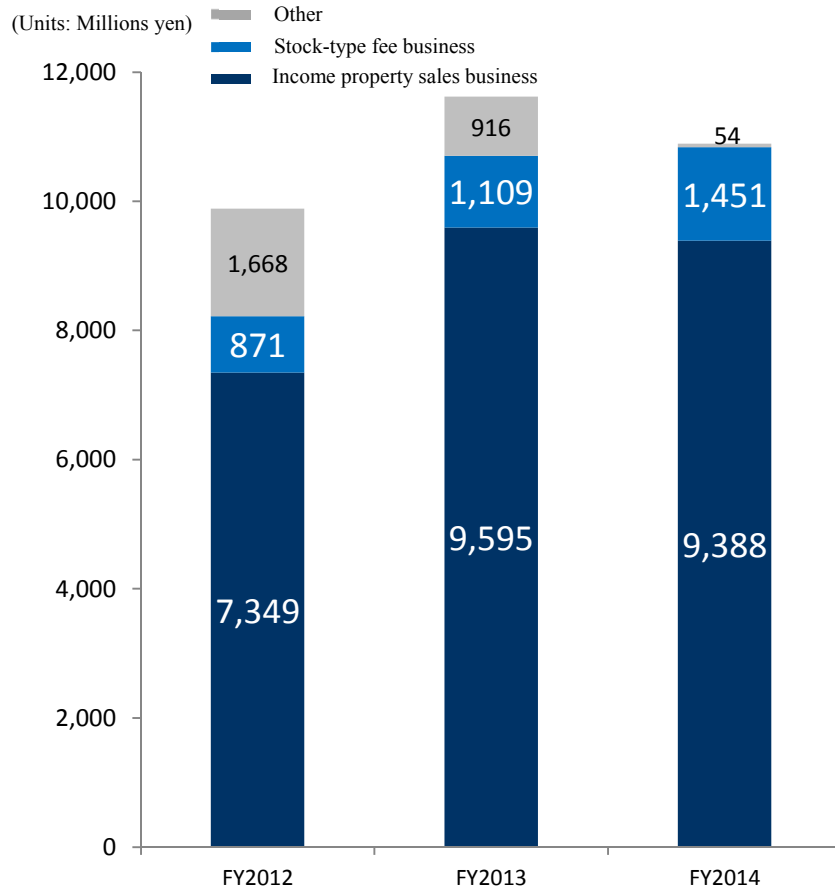
(Units: Millions yen)	Year ended March 31, 2014		Year ended March 31, 2015		Change from previous year
	Amount	% of sales	Amount	% of sales	
Sales	11,537	100.0%	10,735	100.0%	-6.9%
Gross profit	2,132	18.5%	2,529	23.6%	+18.6%
SG & A	1,341	11.6%	1,770	16.5%	+32.0%
EBITDA	813	7.0%	791	7.4%	-2.7%
Operating income	790	6.9%	759	7.1%	-4.0%
Ordinary income	450	3.9%	540	5.0%	+20.0%
Net income	270	2.3%	333	3.1%	+23.3%

### Points

- Higher ordinary income:** Despite a 6.9% decline in sales compared with the previous year, we achieved a 20% increase in ordinary income from the previous year due to **the contribution from the increase in rental revenue, a higher profit margin, and other factors.**
- Higher SG&A:** We conducted advance investment in equipment (expanded floor space), personnel, and other expenses in preparation for future growth.

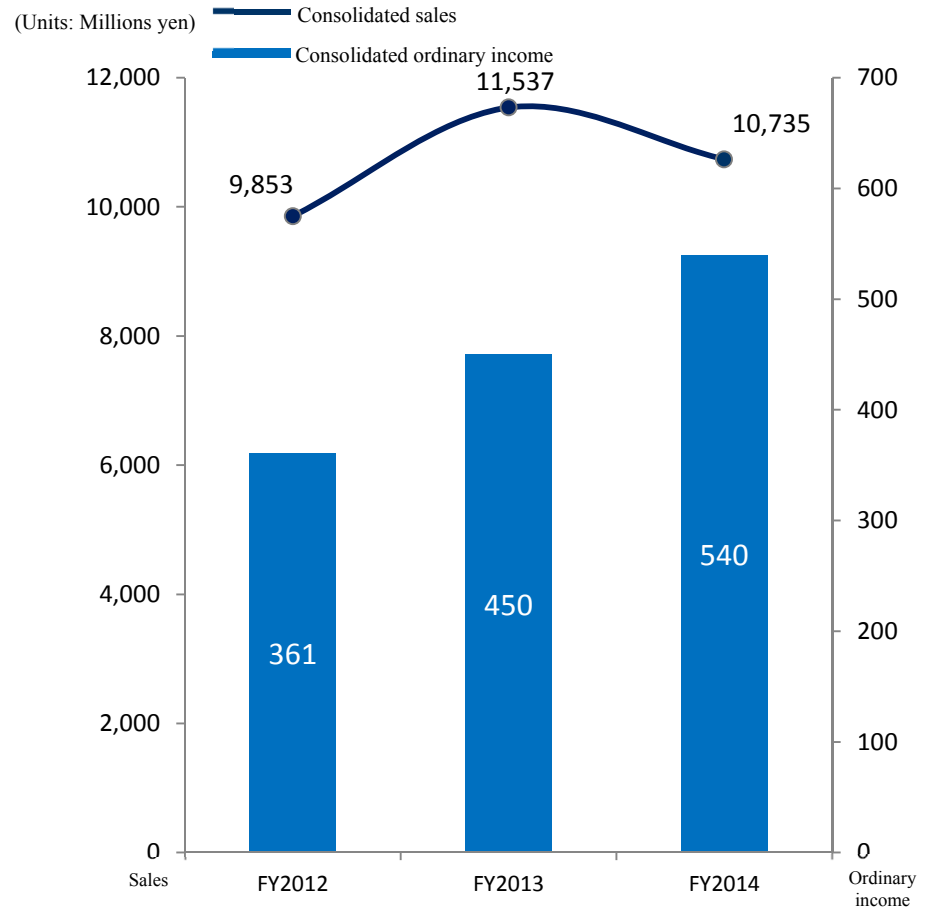
### 3. Consolidated results

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.

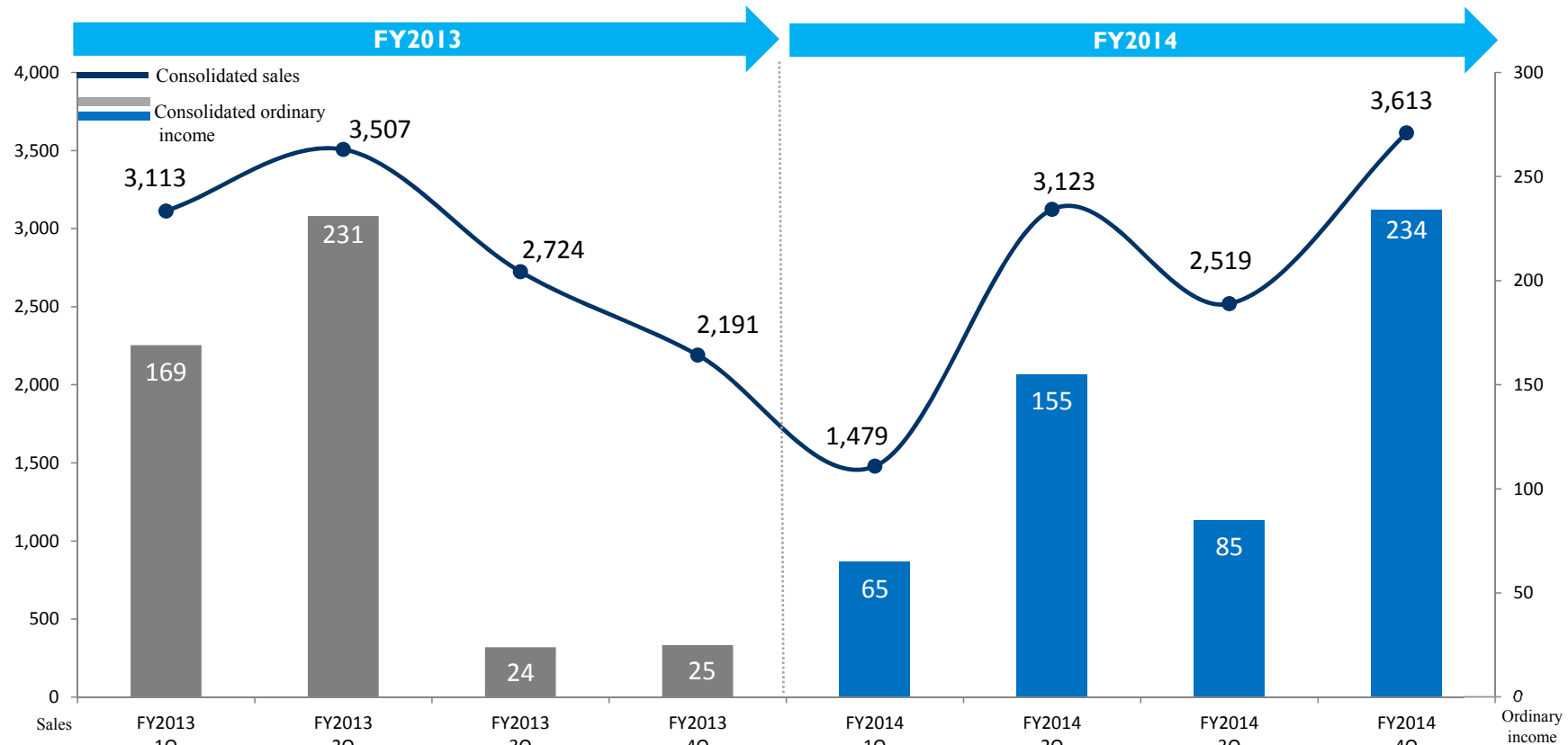
Changes in consolidated sales and ordinary income



**Although sales were down from the previous year, the increase in rental income made the largest contribution to rising profits.**

## 4. Changes in Consolidated Quarterly Results

### Changes in consolidated quarterly results



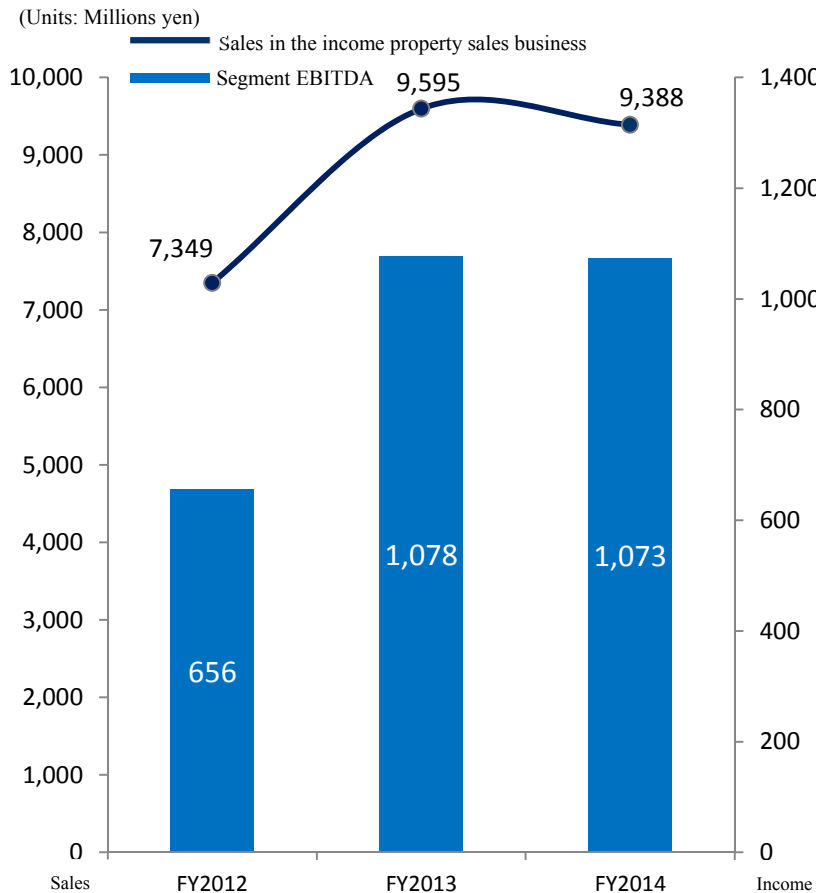
One of the characteristics of this business is that quarterly results vary widely depending on the timing of sales (= payment).

We are maintaining a suitable balance of the income property turnover rate and growing the balance of income properties on an annual base.



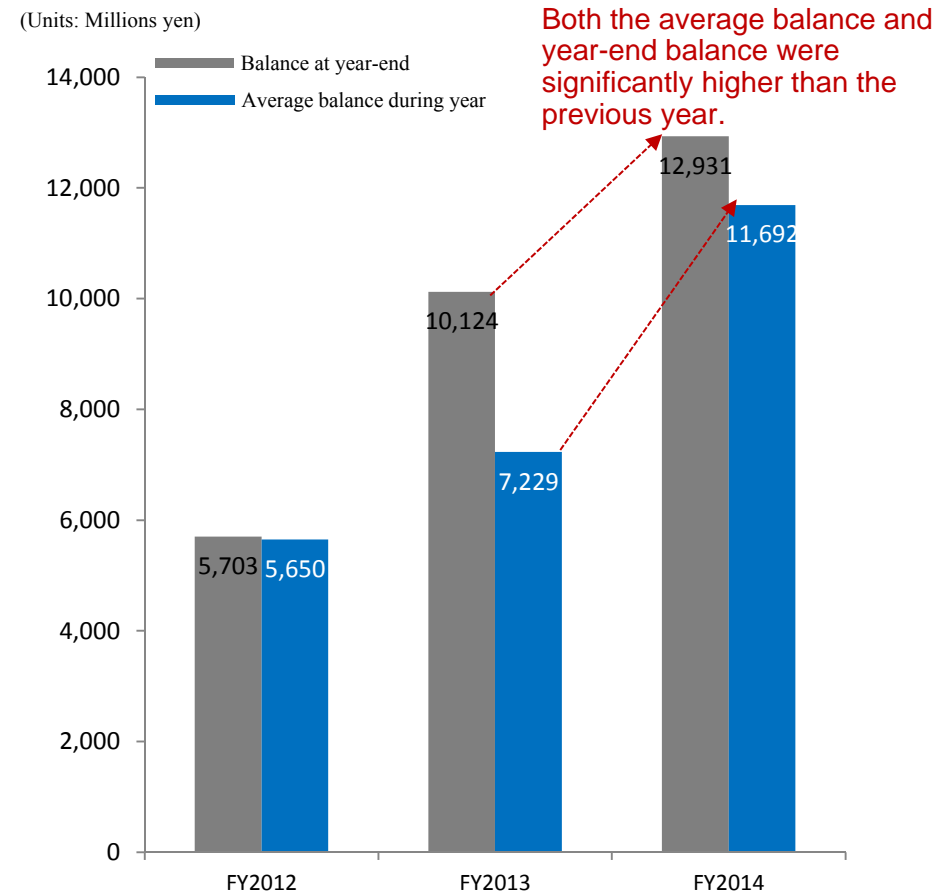
# 5. Main Business Areas (1): Overview of the income property sales business

## Changes in income property sales business results



\*1: Beginning from 1Q of this fiscal year, segment income was changed from ordinary income to operating income. It was also decided to publish EBITDA for each business.

## Changes in balance of income properties

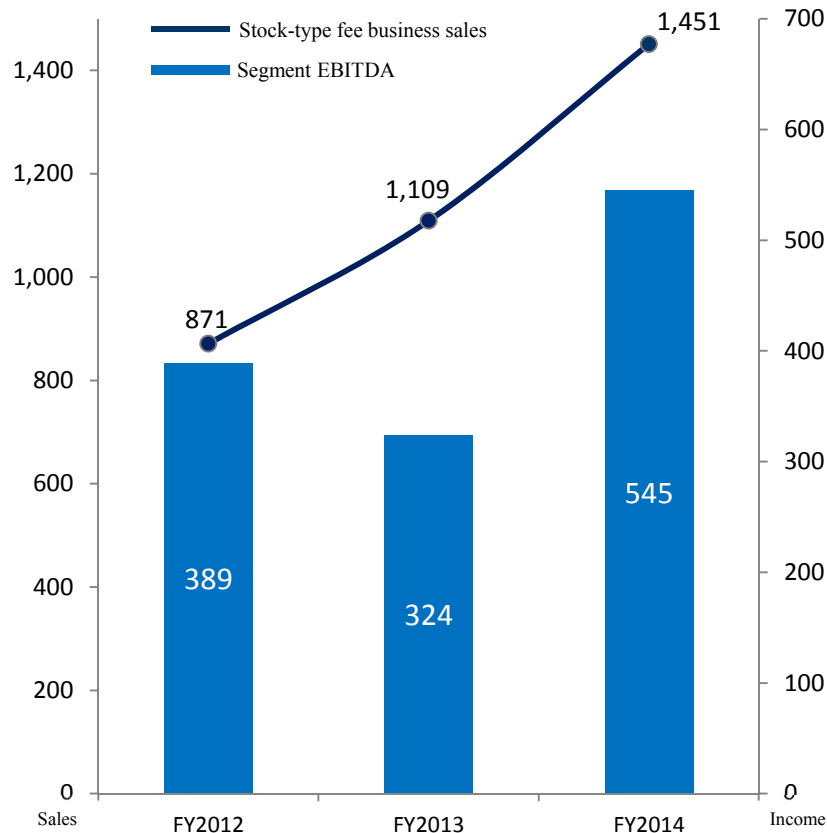


**In accordance with our policy, while we are working for sales, we are also steadily expanding the average balance and year-end balance of income properties.**

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

### Changes in stock-type fee business results

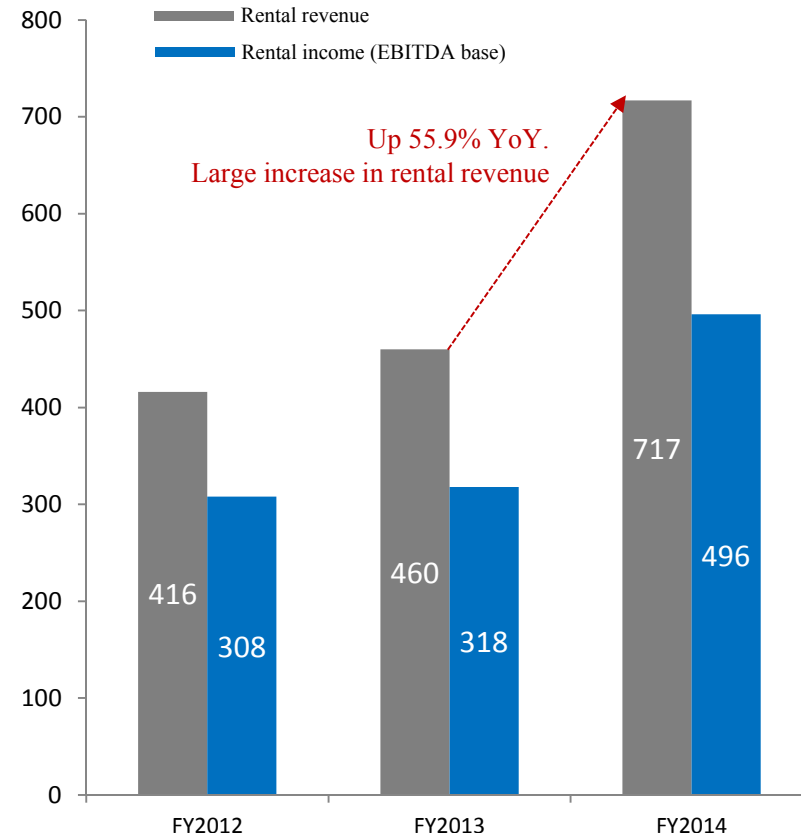
(Units: Millions yen)



\*1: Beginning from 1Q of this fiscal year, segment income was changed from ordinary income to operating income. It was also decided to publish EBITDA for each business.

### Changes in rental revenue and income

(Units: Millions yen)



\*2: Rental income is shown on an ordinary income base up to the previous year, and is shown on an EBITDA base beginning from 1Q of this fiscal year.

**As shown on the previous page, rental income is increasing steadily as a result of the growing balance of income properties.**

## 7. Consolidated B/S Summary

### Summary of main B/S item

(Units: Millions yen)

	End of fiscal year ended March 31, 2013	End of fiscal year ended March 31, 2014	End of fiscal year ended March 31, 2015
	1st rights offering (non-commitment type): Procured approx. 500 million yen in funds.	2nd rights offering (commitment type): Procured approx. 2.2 billion yen in funds.	
Income property held for sale	5,703	10,124	12,931
Interest-bearing liabilities	5,006	7,483	9,628
Net assets	2,896	5,496	5,478
Total assets	9,117	14,274	16,681

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

## III - Consolidated Results Plan (Fiscal Year Ending March 31, 2016)

## 8. Consolidated Results Plan (Fiscal Year Ending March 31, 2016) (corrected)

### Fourth Mid-range Business Plan (FY2014 – FY2016)

(Units: Millions yen)



	Year ended March 31, 2014 (Results)	Year ended March 31, 2015 (Results)	Year ending March 31, 2016 (Planned)	Year ending March 31, 2017 (Planned)
Consolidated sales	11,537	10,735	12,400	13,600
Consolidated EBITDA	813	791	935	1,170
Consolidated ordinary income	450	540	600	800
Consolidated ROE (at year end)	4.9%	6.1%	6.4%	7.5%

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.

Due to a review of the profit margin, although the plan for consolidated sales in the fiscal years ending March 31, 2016 and March 31, 2017 was revised downwards, there has been no change to the planned values for ordinary income.

## 9. Fourth Mid-range Business Plan: Guidance

Guidance concerning the (average) balance of income properties

		Year ended March 31, 2015 (Results)	Year ending March 31, 2017 (Planned) <small>*Final year of the Fourth Mid-Range Business Plan</small>	
Guidance	Balance of income properties held for short-term sale (average balance)	5,119	6,500	
	Balance of income properties held for medium- and long-term sale (average)	6,573	8,500	

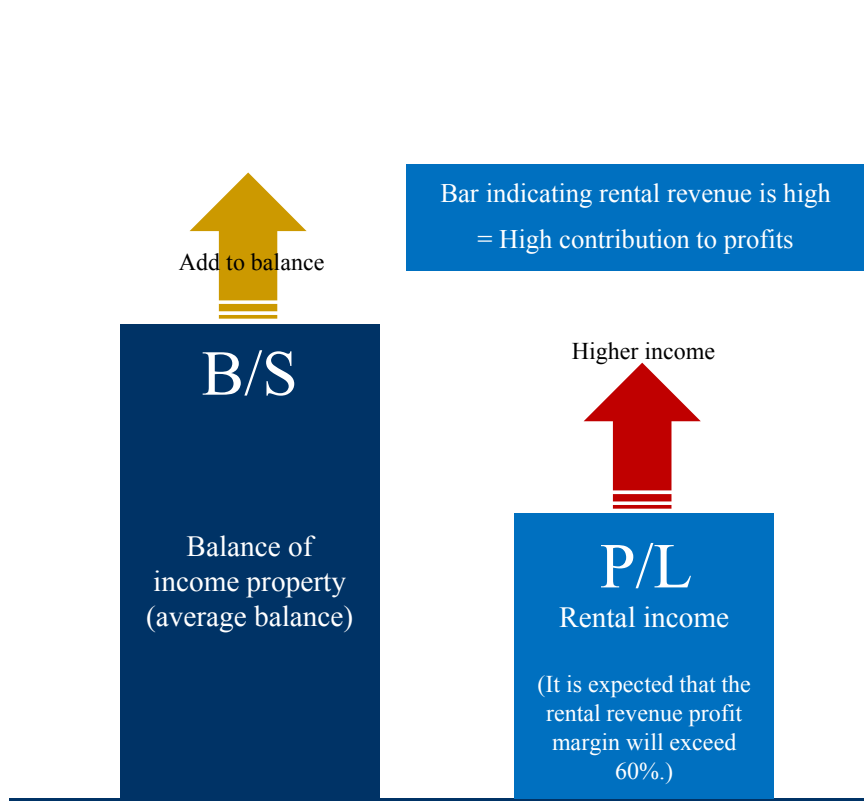
We are making steady progress with regards to the plan for the final year (guidance) in the Fourth Mid-Range Business Plan.

**Our policy is to actively build up the balance of income properties.**

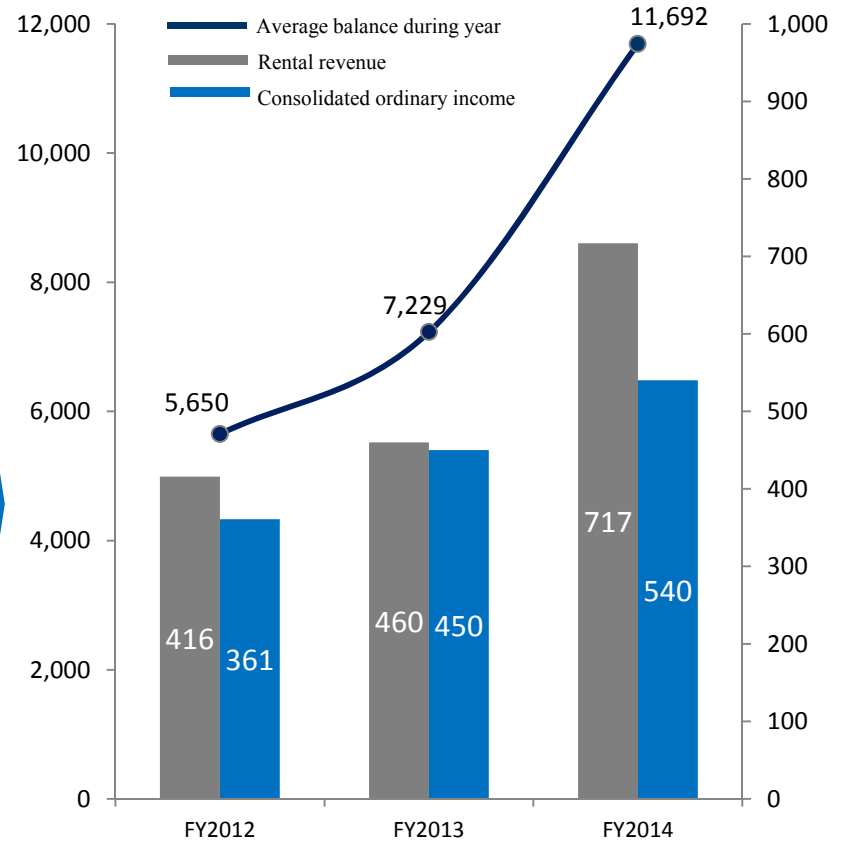
## IV - Progress of The Fourth Mid-Range Business Strategy

# 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: Income Property Business in the U.S.

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

	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>Steady relaxing of monetary easing policy by the FRB</b> (Long-term stable forecast for the U.S. economy)</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)</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> </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 revenues)</li> </ul>	U.S.	<ul style="list-style-type: none"> <li>- <b>Risk of an interest rate hike</b> (Decline in investment efficiency due to rising interest costs)</li> <li>- <b>Violent exchange rate fluctuations</b> (Disruption and instability in the exchange market, increasing exchange risk)</li> <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 the business potential of the U.S., there is also the function as a risk hedge for the domestic business against changes in the Japan business environment.

## 12. Business Strategy: Progress of the U.S. Income Property Business

U.S. income properties owned by A.D. Works.



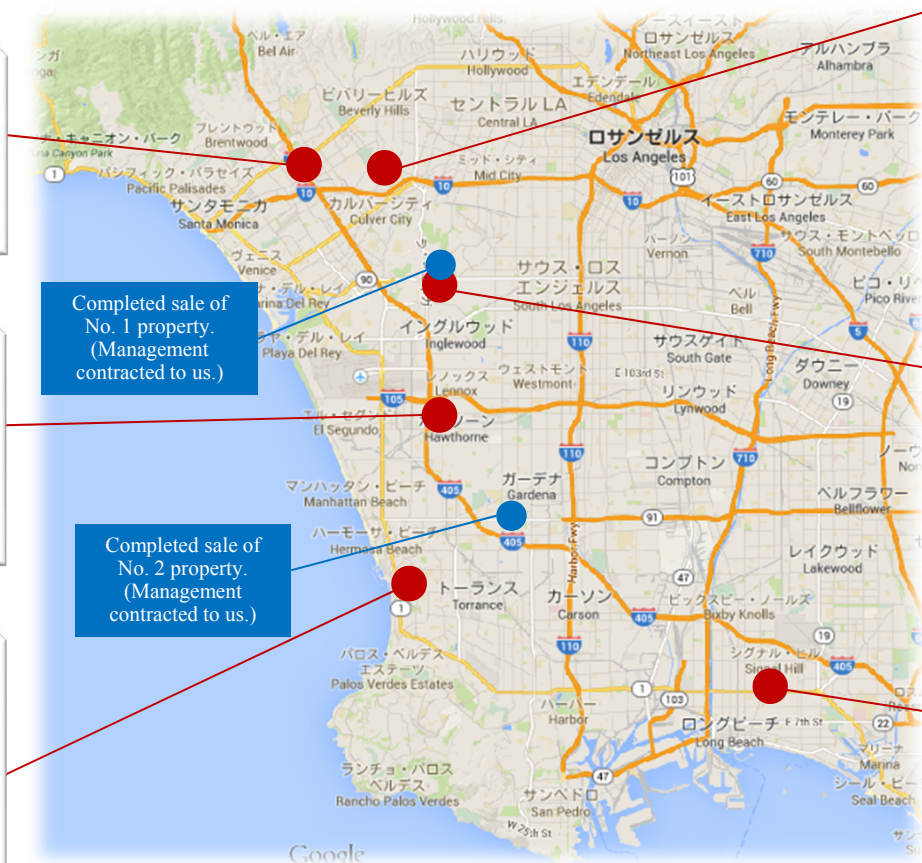
*Pearl St., Los Angeles*



*129th St., Hawthorne*



*Irena Ave., Redondo Beach*



*Durango, Los Angeles*



*Centinela Ave., Inglewood*



*Florida St., Long Beach*

This year we sold 2 properties. We have expanded our acquisition routes and as of May 2015, we currently own 6 properties.

We are focusing on unearthing investment demand for U.S. income property among domestic high net-worth individuals.

## 13. 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.

## 14. Business Strategy: Organizing Our Company's Strengths

### Self-analysis (VRIO)

#### Differentiated economy Value

- **Long-term business relationships with owners (clients):** We are dedicated to a complete consulting model focused on real-estate investment. Through the "Royaltorch" owners' club, **we provide high added value to owners and achieve lower costs based on long-term business relationships.**
- **Information network:** We operate a direct information network with links to more than 3,000 sales persons at brokers, trust banks, and other agencies engaged in real estate brokerage.
- **Appraisal and information transparency:** Aiming to improve profitability from the standpoint of the buyers, we exercise our appraisal ability to identify properties that meet the needs of high net-worth individuals, and at the same time ensure the transparency and reliability of property information from the standpoint of the seller.

#### Rarity

- **Original AD business model:** There are few real estate consulting companies or property management (PM) companies which own income properties on their own positions. (Consulting and PM are generally service industries which do not require funding ability.)
- **Application of the AD business model in the U.S.:** There are few companies which can provide one-stop services for sales of U.S. income property investment to Japanese high net-worth individuals.
- **Ability to select products and procure funds:** Among listed companies with funds procurement ability, we are the only company specialized in smaller residential income properties (average 200 – 300 million yen per property). At the same time, our business model is different from unlisted companies with limited funding ability that engage in transient and one-off deals.

#### Inimitability

- **Time and profitability:** Large corporations which are focused on efficiency and profitability face a mobility barrier that prevents effective synergy with their main business
- **Brand consulting:** We are constructing strong relationships with the high net-worth individuals who are our clients. As we identify the potential needs and future needs of these clients, we are providing complete private consulting over our clients' lifetimes.

#### Organization

- **A business system capable of flexible responses:** Based on the entrepreneurial spirit, our business decision-making is focused on speed and strategic thinking.
- **Internal organization focused on identifying needs:** All steps from property selection through acquisition and sale are supervised by a single sales staff, resulting in a system that allows us to better identify customer needs, including prices. (This is also effective as our company's exit strategy.)

Our greatest strength is the ability to balance providing **high added value** to owners while **achieving lower costs based on long-term business relationships.**

## V - Towards Enactment of the Corporate Governance Code

## 15. Corporate Governance Code

### Basic rules of the corporate governance code

Basic rule 1 – Ensuring shareholder rights and equality

Basic rule 2 – Appropriate cooperation with stakeholders other than shareholders

Basic rule 3 – Ensuring appropriate information disclosure and transparency

Basic rule 4 – Responsibilities of the board of directors and other bodies

Basic rule 5 – Communication with shareholders

## 16. Approach to the CG Code: Background (1)

Number of companies with CG codes (comparison of 3 countries)

U.K.		Germany		Japan	
Premium	478 (30.5%)	Prime	325 (45.7%)	TSE First Section	1,888 (54.1%)
		General	204 (27.7%)	TSE Second Section	544 (15.6%)
				TSE Mothers	214 (6.1%)
				TSE JASDAQ	834 (23.9%)



**Categories of companies with CG codes, based on the code functions (conclusion drawn by our company)**

- [1] Companies which receive investment from institutional investors, including overseas investors**
- [2] Companies which require preparation in order to receive investment from institutional investors**

(Sources) Numbers of companies with CG codes in the U.K. and Germany: Refer to "Development of Listing Rules for the Implementation of the Corporate Governance Code", issued by the Tokyo Stock Exchange on March 5, 2015. Number of companies with CG codes in Japan: Refer to "Number of Listed Companies" on the Tokyo Stock Exchange HP, current as of May 1, 2015.

## 17. Approach to the CG Code: Background (2)

### Current stage of our company

- **Size:** Market capitalization approx. 100 billion yen (Listed for 7 years.)
- **Growth stage:** Currently still growing. Executing a business strategy aimed at further growth.
- **Management system:** At the current corporate size, it is difficult to clearly differentiate between management and implementation.
- **Capital needs:** We require capital in order to execute our business strategy.

Based on the current stage of our company, we believe that of the categories shown on the previous page, "[2] Group of companies which requires preparation in order to receive investment from institutional investors" applies to A.D. Works.

We recognize that suitable preparation is necessary  
in order to receive investment from institutional investors.



## 18. Approach to the CG Code: Our Company's Thinking

Our company's thinking (policy) in regards to the CG code

1

We require **an approach** (comply-or-explain) **that is suitable for our size.**

2

We are responsible for considering/explaining **the superiority of alternative ideas** other than compliance.

3

If we select an alternative other than compliance, we must give maximum consideration to **eliminating risk.**

4

We will indicate our target size, and gradually change our approach to the CG code.

## 19. Approach to the CG Code: Specific Approach

### Specific approach to the CG code



We will carry out our responsibilities as a listed company. Be aiming for a particular size, we will make it our policy to appropriately adjust our approach according to our stage of growth.

\* In line with this policy, we will consider the details concerning submission of a new CG report by the end of December 2015.

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

## VI-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 March 2015)
- ❑ **Listed:** Listed October 2007 on Tokyo Stock Exchange JASDAQ.  
Changed April 2015 to the Second 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:** 99 consolidated (as of the end of March 2015)
- ❑ **Officials:**

Hideo Tanaka	President and CEO
Syogo Yonetsu	Executive Vice President
Katsutoshi Hosoya	Senior Managing Director and CFO
Nobuhiko Toji	Managing Director
Masanori Honda	Managing Director (outside)
Tamio Harakawa	Statutory Auditor (full-time, outside)
Takashi Ebina	Statutory Auditor (part-time, outside)
Ryosuke Suzuki	Statutory Auditor (part-time, outside)
Kanji Iguchi	Statutory Auditor (part-time, outside)

## VI-2. Shareholder Composition (based on preliminary information as of March 31, 2015)

### Number of issued shares / Number of shareholders

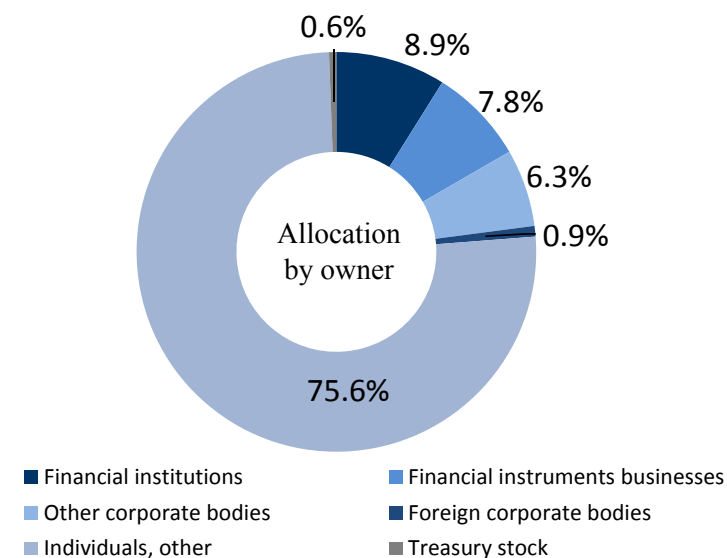
Number of issued shares: 223,876,000

Number of shareholders: 12,952

### Major shareholders

		Number of shares	Share ratio (%)
1	Hideo Tanaka (Our company President and CEO)	47,217,600	21.09%
2	Japan Securities Finance Co., Ltd.	10,599,200	4.73%
3	Liberty House Co., Ltd.	9,416,000	4.20%
4	The Master Trust Bank of Japan, Ltd. (BIP Trust Account・75695)	7,782,300	3.47%
5	SBI Securities Co., Ltd.	6,077,200	2.71%
6	Matsui Securities Co., Ltd.	3,027,800	1.43%
7	Homma Co., Ltd.	1,964,000	0.87%
8	Individual shareholder	1,642,400	0.73%
9	Tachibana Securities Co., Ltd.	1,552,500	0.69%
10	The Master Trust Bank of Japan, Ltd. (Stock grants ESOP Trust Account・75595)	1,534,000	0.68%

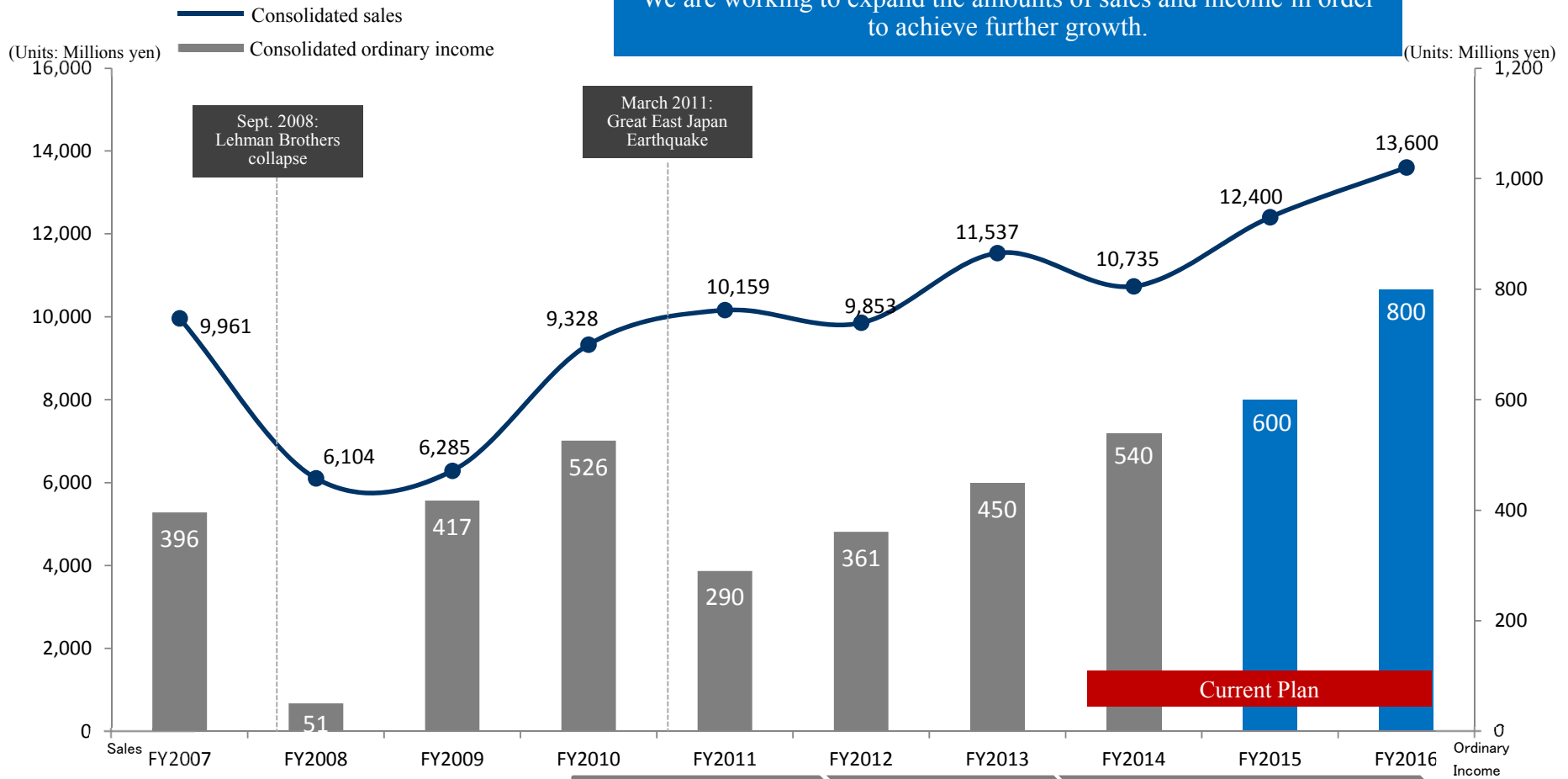
### Allocation by owner (share ratio)



# VI-3. Past Results

## Changes in past results

Implementation of the Mid-Range Plan has produced both stable sales and income.  
We are working to expand the amounts of sales and income in order to achieve further growth.



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.



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

## VII – Reference Materials (The Fourth Mid-Range Business Plan)



## VII-1. Background of the Fourth 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> </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>Unexpected overseas events</b> (May affect the stock market and real estate markets.)</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> </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 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 are continually focused on changes in investment needs and the acquisition environment, as well as changes in the real estate market and economic environment.

## VII-2. Background of the Fourth Mid-range Business Plan: Target Customers

### Reasons for specializing in high net-worth individuals

Size of the high net-worth individual market: 760,000 households, total net financial assets 144 trillion yen (as of 2011)  
 With the aging population, there will be growing need for inheritance strategies using wills and gift inter vivos, and the size of the high net-worth individual market is expected to grow.

Source: Nomura Research Institute, "Results from NRI Questionnaire Survey of High Net-Worth Individuals" (November 2012)

#### External environment (economy)

- **Buying needs for income property are always present** and are not affected by changes in the economy.
- **The attitude of banks regarding loans to high-net worth individuals** remains relatively unaffected even during economic downturns.

#### Customer needs

- High net-worth individuals always maintain **a broad range of needs for active real estate investments.**
- Needs include additional investment and review for real estate management, revisions in tax law and other laws, and inheritance strategies due to the retirement of the baby-boom generation.

#### Attraction of the A.D.W. business model to high net-worth individuals

- There are many real estate agencies which operate on a "property-based" or "service-based" concept, however **we are expanding our business by focusing on a "needs-based" concept.**
  - **The fundamentals** are focusing on owner relations, offering suitable solutions, and providing **long-term support.**
- ⇒ **We have established a business model that constructs strong relationships with high net-worth individuals.**

**The market for high net-worth individuals will remain highly promising and attractive into the future.**

## VII-3. Background of the Fourth Mid-range Business Plan: Competition

### Competition analysis (excerpt from 5 Forces)

#### Competition in the market

- There are no other specialized listed companies that are focused on smaller income property and high net-worth individuals.
- We will address potential competition for acquisitions by expanding the range of acquired properties, selected appropriately according to the economic conditions.
  - <Strong economic periods> Expand selections to include properties that require work for commercialization (renovations, operating rate improvements) in order to acquire business opportunities.
  - <Weak economic periods> Lower the contention rate with individuals and small and mid-sized real estate agents, and increase business opportunities with ordinary properties.

#### Entry risks

- Because the AD business model is based on constructing relationships with owners, it would be difficult to emulate in a short time.
- Entry of major brokerage firms: These firms prioritize their fee business and real entry is currently limited.
- Entry of major real estate companies: Due to limited synergy with their main business, at present there is no organized move to enter the market.

#### Comparing the stance of our company and other companies

- Ordinary real estate agents: Selling products and services on a "property-based" or "service-based" concept
  - ↑ Stance is dedicated to property sales (focusing on large-volume sales and efficiency, or on transient deals)
- A.D.Works: Main business is consulting focused on a "needs-based" concept
  - ↑ Because we sell properties as investment products, our stance is to provide long-term support after the sale (obtain business opportunities over a long timeframe).

**Execute a full-scale "closed market strategy" in expectation of a more difficult future competition environment.**

## VII-1. Basic Policy and Specific Measures in the Fourth Mid-Range Business Plan

### Basic policy in the Fourth Mid-Range Business Plan

#### *Basic policy*

- I. **Expand the scale of our business** and **stabilize the profit base.**
- II. Apply the AD business model to **create a closed market.**

#### Key measures

#### *Specific measures*

Add to the balance of income properties.

Shift to a stable income model.

Provide high added-value to owners (clients) and reduce costs.

Establish a unique position in the real estate industry.

## VII-5. Relationships of Announced Figures (1)

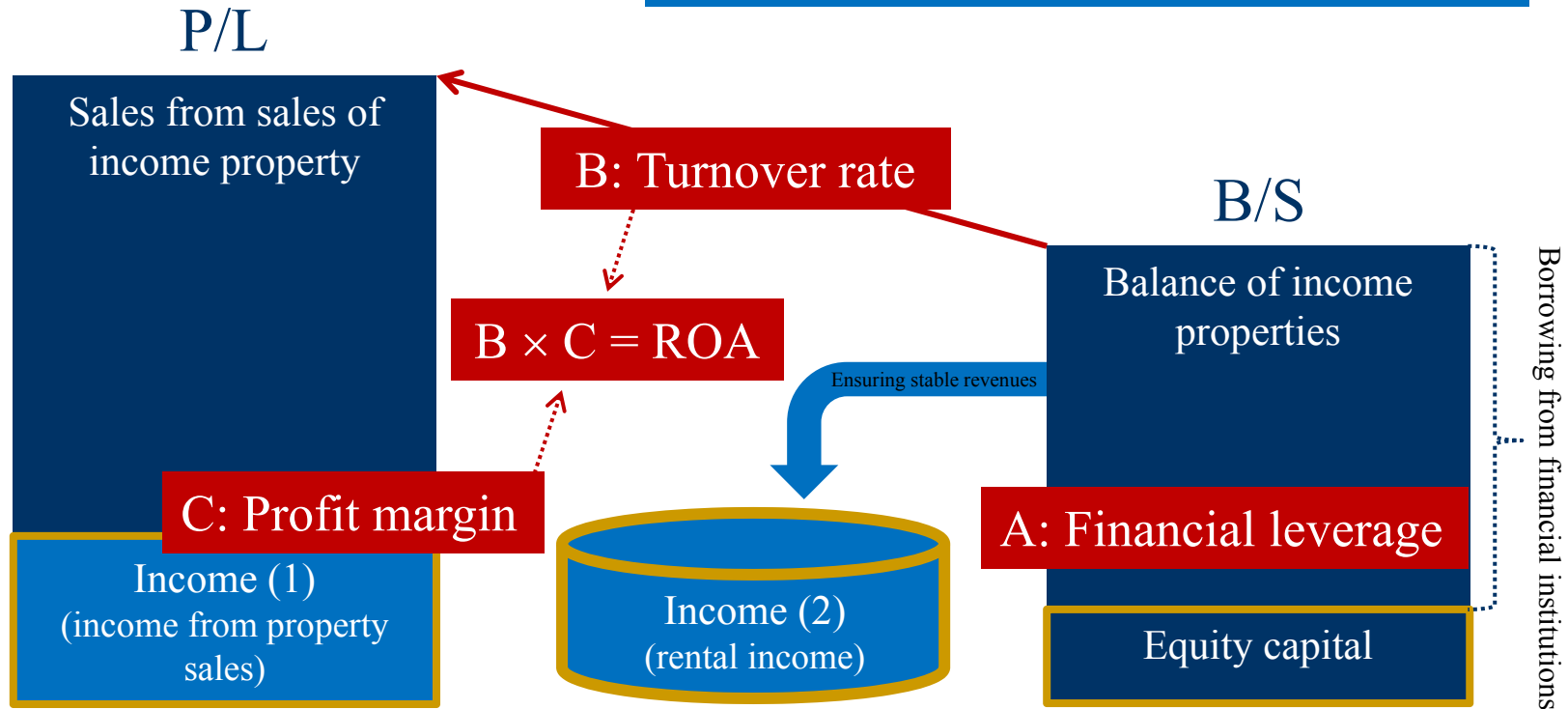
### Relationships of figures and indexes announced by the A.D.W. Group

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

<Balance of income properties / Equity capital>
<Sales / Balance of income properties>
<Income from sales of income property / Sales>

(Image showing relationships of announced figures)

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



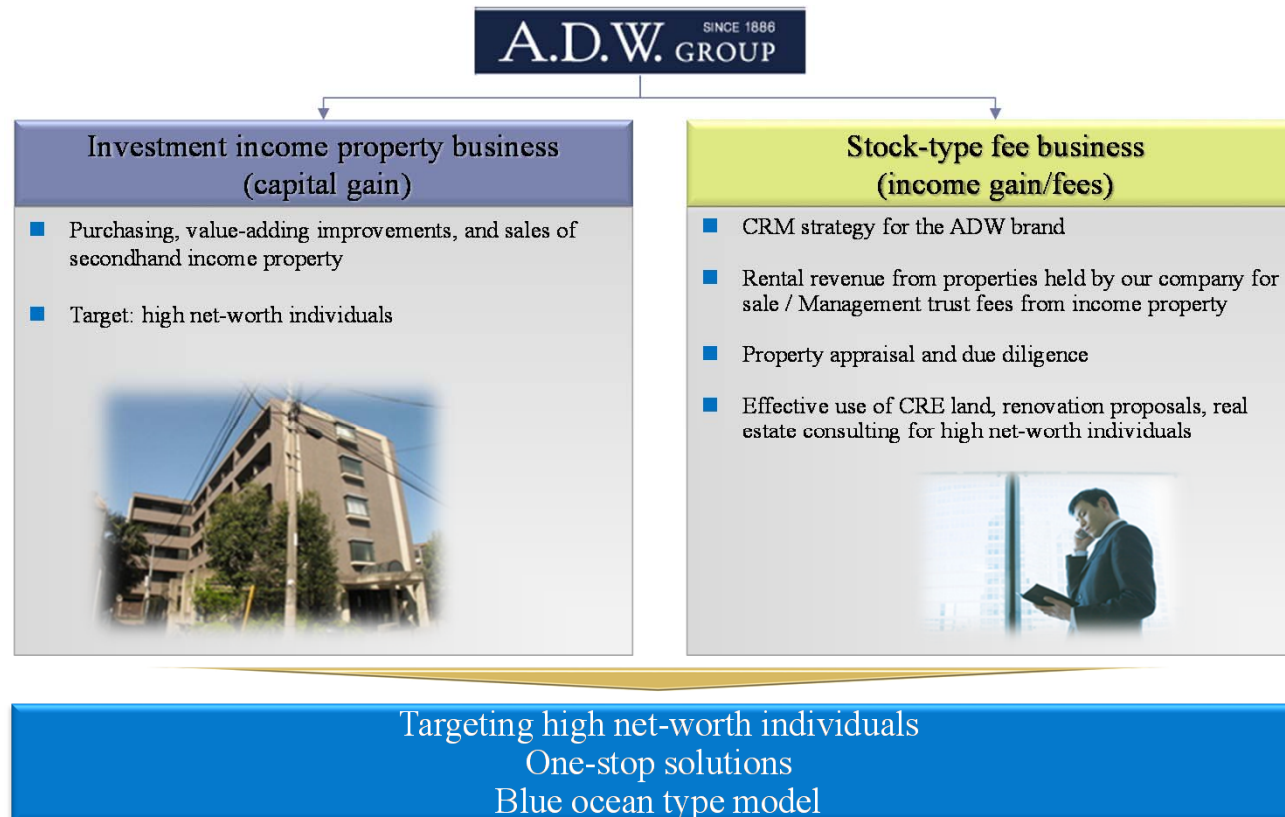
## VIII - Reference Materials

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

## VIII-1. Business Segments

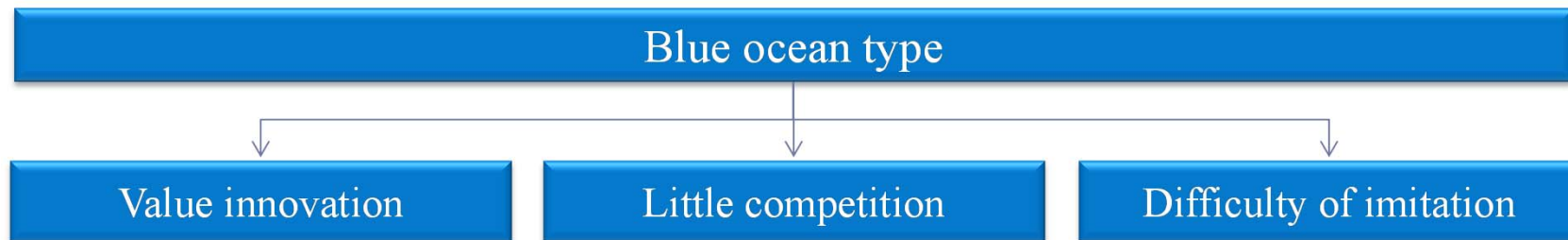
Main business foundation of the A.D.W. Group

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



## VIII-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

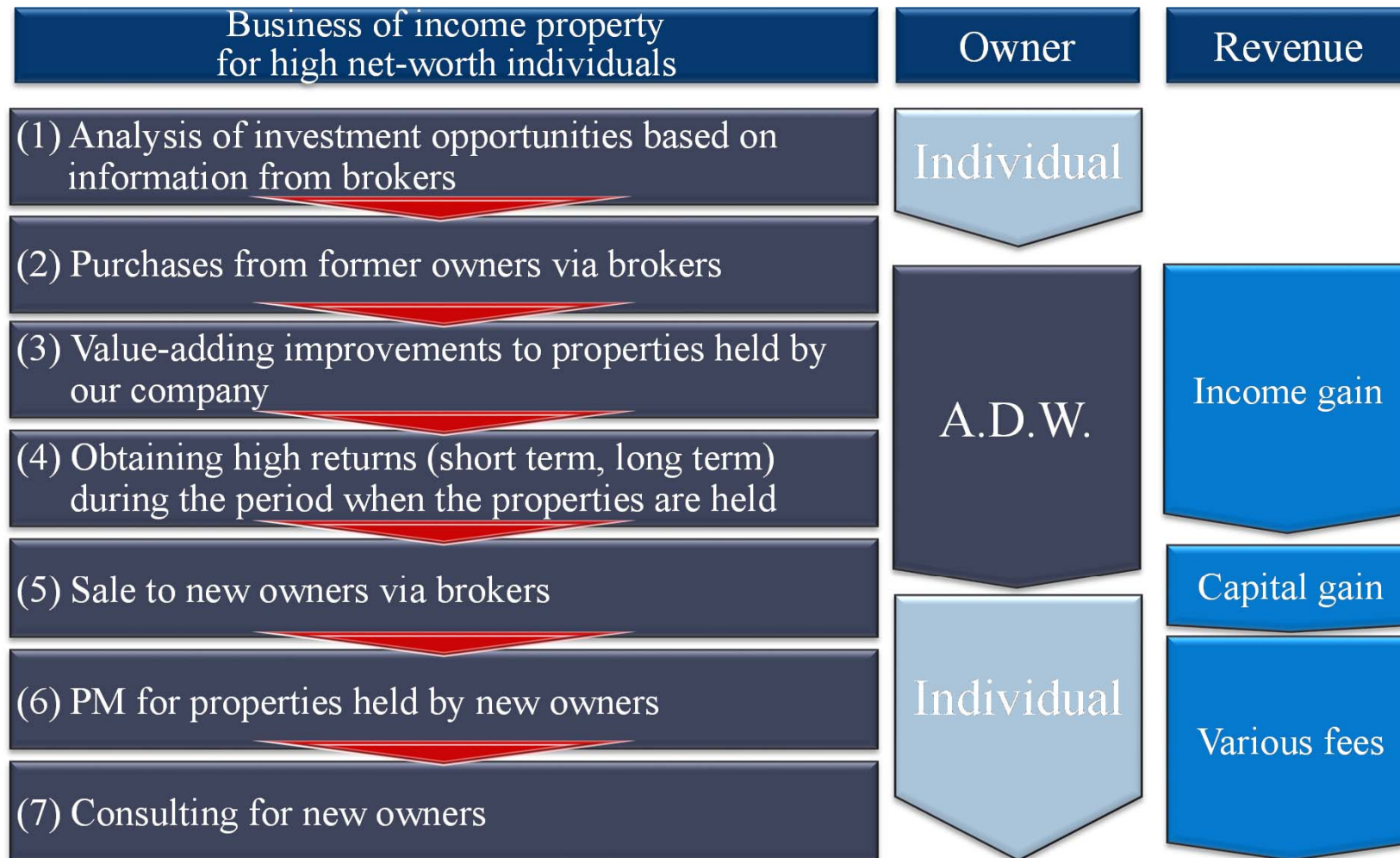
(3) Expected to pursuit of a stable profit structure

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



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

### (1) One-stop solutions



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

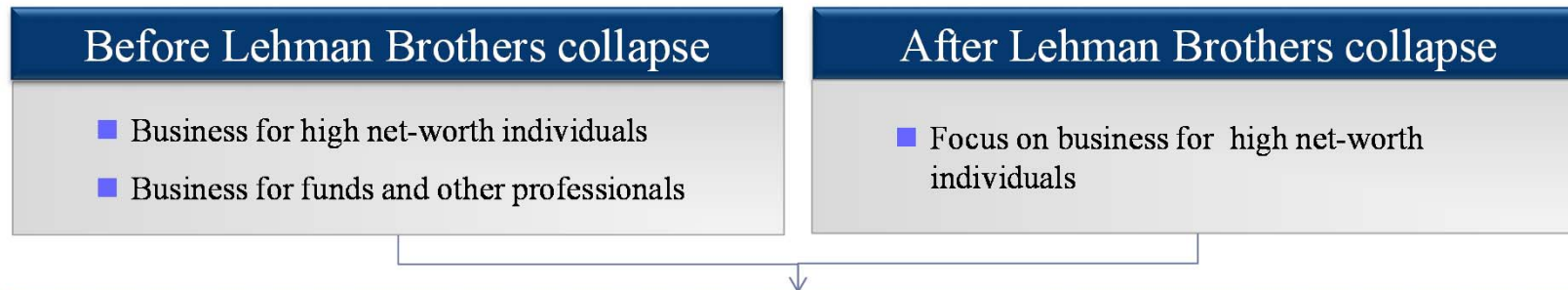
### (2) Broad-ranging competitive superiority and social significance

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

## VIII-5. 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 property that are 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 property are stable, price collapse is unlikely.
- Small (approx. 300 million yen or less) residential income property 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.

## VIII-6. Business Model Characteristics (3)

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

#### Acquisition

Due to the 12 trillion yen stock of income property 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

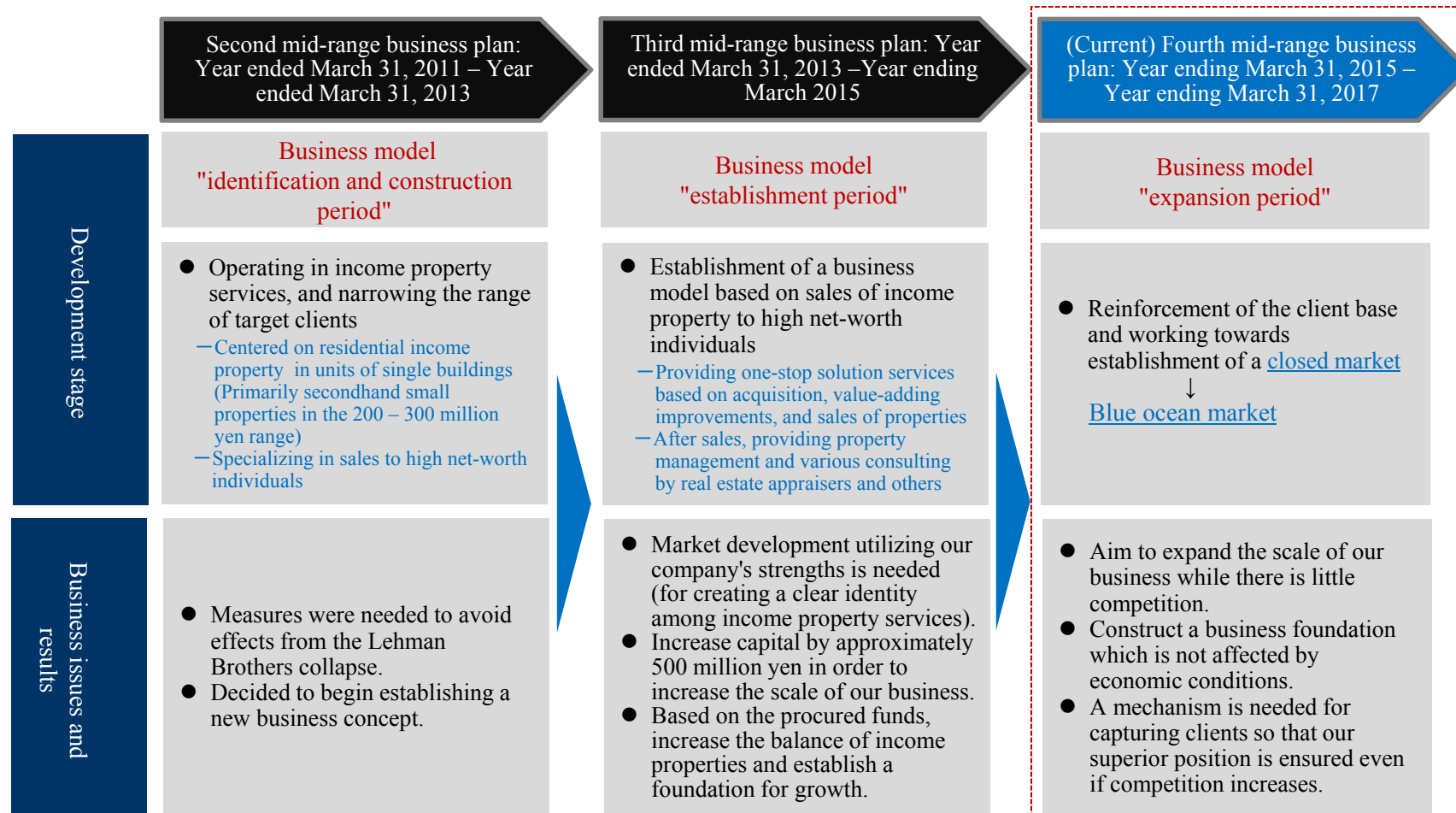
We can establish a stable profit base by increasing our balance of income property.

#### Sale

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

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

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



The logo for A.D.W. Group is a dark blue square with white text. The text "A.D.W." is in a large, serif font, with "Group" in a smaller, sans-serif font below it. At the bottom of the square, the text "SINCE 1886" is written in a small, sans-serif font. The square is framed by a thin white border.

A.D.W.  
Group

SINCE 1886

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)**