

A.D.W.  
Group

SINCE 1886

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

November10, 2017

A.D.Works Co., Ltd.

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

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

Topic  
1

Both sales and profits exceeded 60% of the full-year plan as of the end of the first half

Topic  
2

Procurement of funds exceeding 3.8 billion yen through a rights offering  
⇒ Preparation to expand the balance of properties from the second half

Topic  
3

Construction completed of AD-O Shibuya Dogenzaka, our first in-house developed building

- Designed by the world-famous architect Kengo Kuma
- B1-11F/total floor area of 1,931.98 square meters



Photo of AD-O Shibuya Dogenzaka  
taken September 27, 2017

## II - Use of Funds Procured

### Procurement of 3.8 billion yen in funds

3.6 billion  
yen

#### ... Strengthen business foundation for core business

- US : domestic growth long-term : domestic short to medium term = **5:4:1**
- Investments in growth markets / diversification of geographical risks / strengthening of stable revenue base

0.2 billion  
yen

#### ... Investment in the real estate tech business

- Strengthening of Smart Money Investment **platform business**

⇒ Promote the strengthening of the real estate tech business while also taking into consideration **investments** in venture companies

Notes: The figures for the use of the funds above are based on our current assumptions and are subject to change in the future

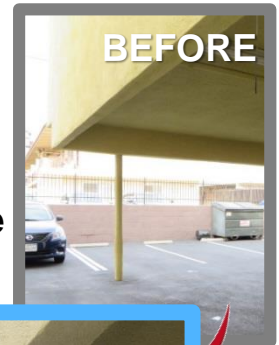
Examples of popular renovations: exteriors, interiors, earthquake resistance



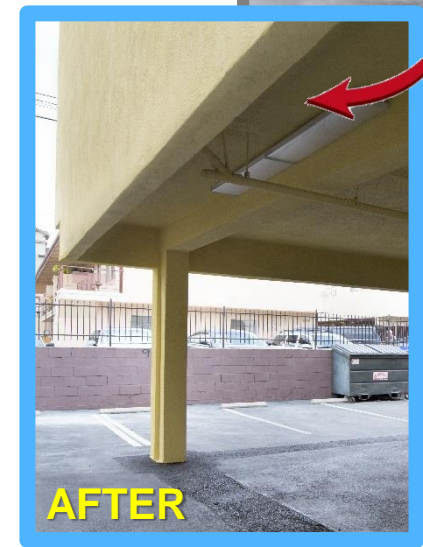
[Exteriors]



[Interiors]



[Earthquake resistance]



## III – Other Topics



## AD-O: Start-up real estate tech business support utilizing the 2F

- Operates as a floor that can be used by **promising real estate tech businesses** that are just starting up
- **Acceptance of applications** scheduled to start from late November
- Also taking into consideration **collaboration** with the real estate tech subsidiary Smart Money Investment Co., Ltd.



## Shareholders' Club: Already 2,000 members registered after starting in September

- Started member registration through a **dedicated website** from the beginning of September
- Information on business results, news, and topics are distributed to all members, preferential points granted to shareholders with 10,000 shares or more

⇒ **Registration of 1,000 members holding under 10,000 shares and 1,000 members holding over 10,000 shares has occurred**

- Got off to a good start as a base for **shareholder marketing**



# **IV - Overview of the First Half of the Year Ending March 31, 2018**

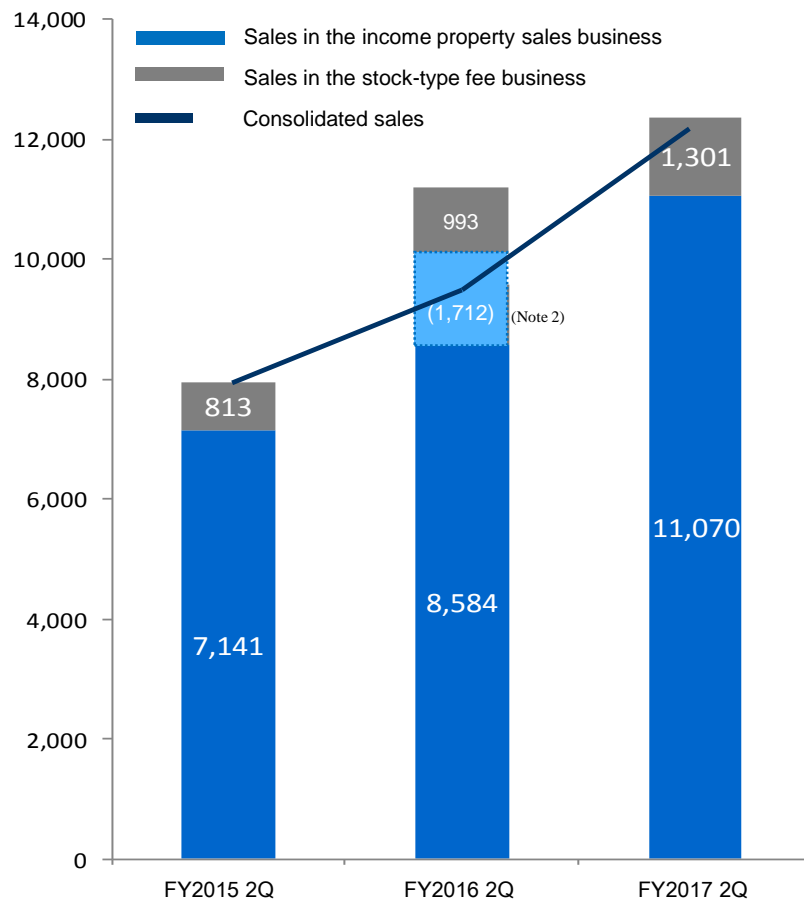
## IV-1. Consolidated PL Summary (Year-on-Year Comparison)

(Units: Millions yen)	FY2015 (ended March 31, 2016)		FY2016 (ended March 31, 2017)		Change from previous	Full-year plan progress
	Amount	% of sales	Amount	% of sales		
Sales	9,459	100.0%	12,189	100.0%	+28.9%	+60.9%
Gross profit	1,819	19.2%	2,121	17.4%	+16.6%	—
SG & A	1,304	13.8%	1,367	11.2%	+4.8%	—
EBITDA	637	6.7%	812	6.7%	+27.4%	+58.0%
Ordinary income	350	3.7%	616	5.1%	+75.9%	+68.5%
Net income before taxes	437	4.6%	616	5.1%	+40.9%	+68.5%
Net income	277	2.9%	383	3.1%	+38.1%	+66.0%

**Full-year plan progress for each item exceeded 50% that is the guideline for the second quarter**

# IV-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.

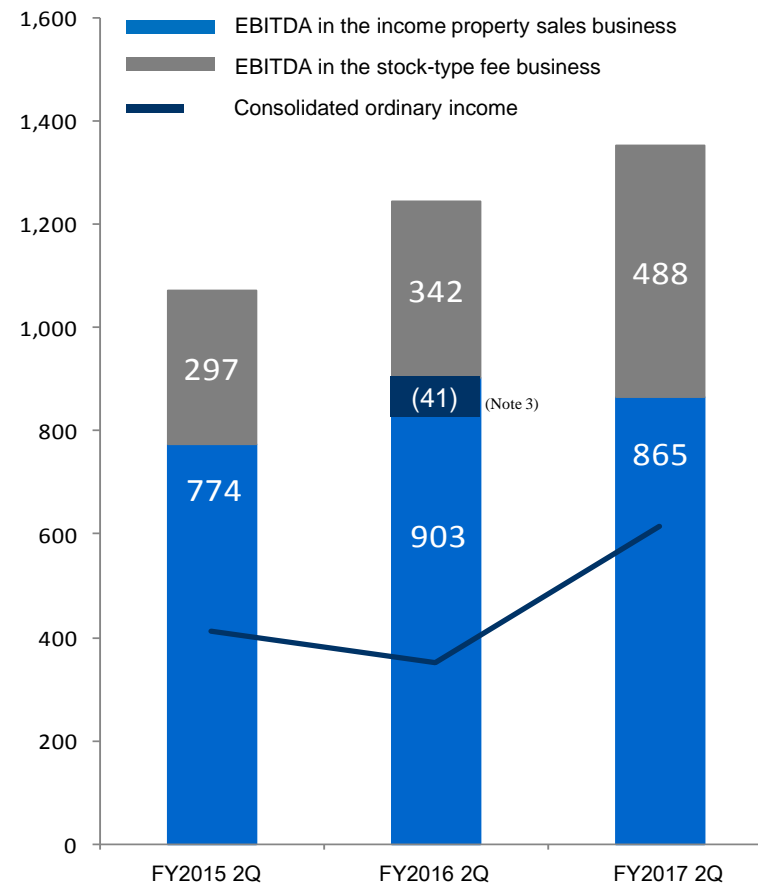
(Note 2) For the fiscal year ended March 31, 2017, there are transactions of 1,712 million yen that can be classified as sales from the income property sales business in practice, although they are not included as sales in the financial statements.

(Note 3) The costs for transfer from the income property sales business to the stock-type fee business, if the recent posting policy is applied, is 41 million yen for the fiscal year ended March 31, 2017.

If a transfer of 41 million yen is conducted, **EBITDA from income properties sales business of 903 million yen would be 862 million yen**, and **EBITDA from stock-type fee business of 342 million yen would be 383 million yen**.

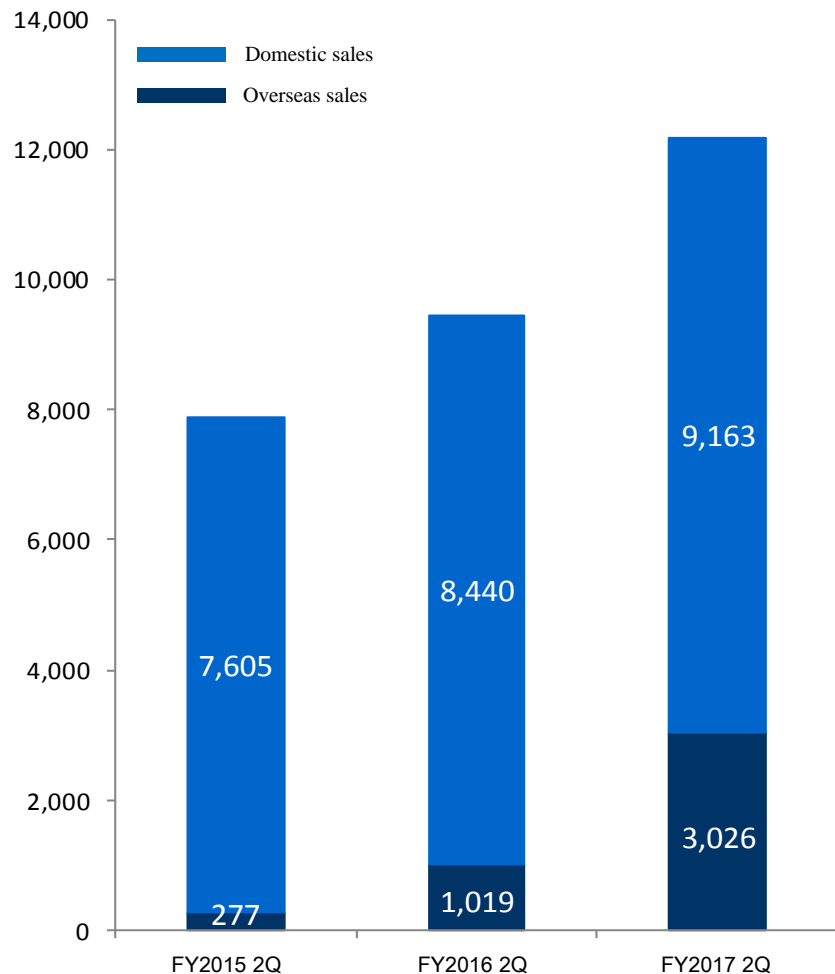
## Changes in segment EBITDA

(Unit: Millions yen)

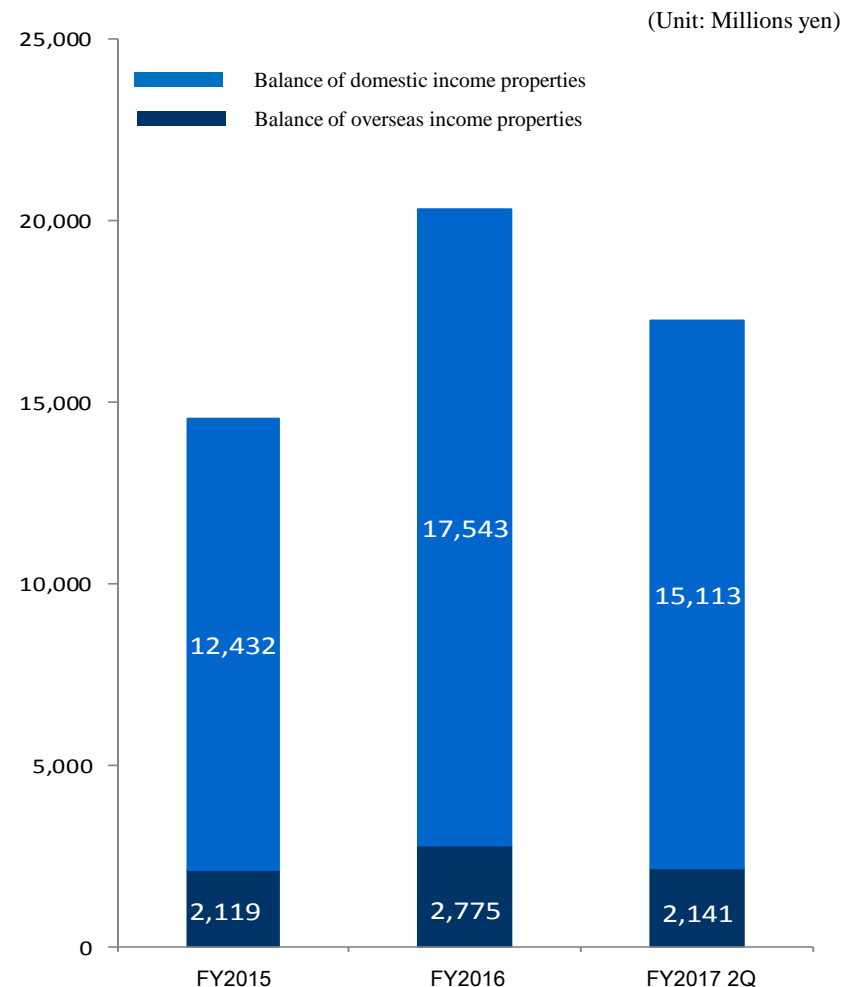


# IV-3. Changes in Scale of Business by Region

## Changes in sales



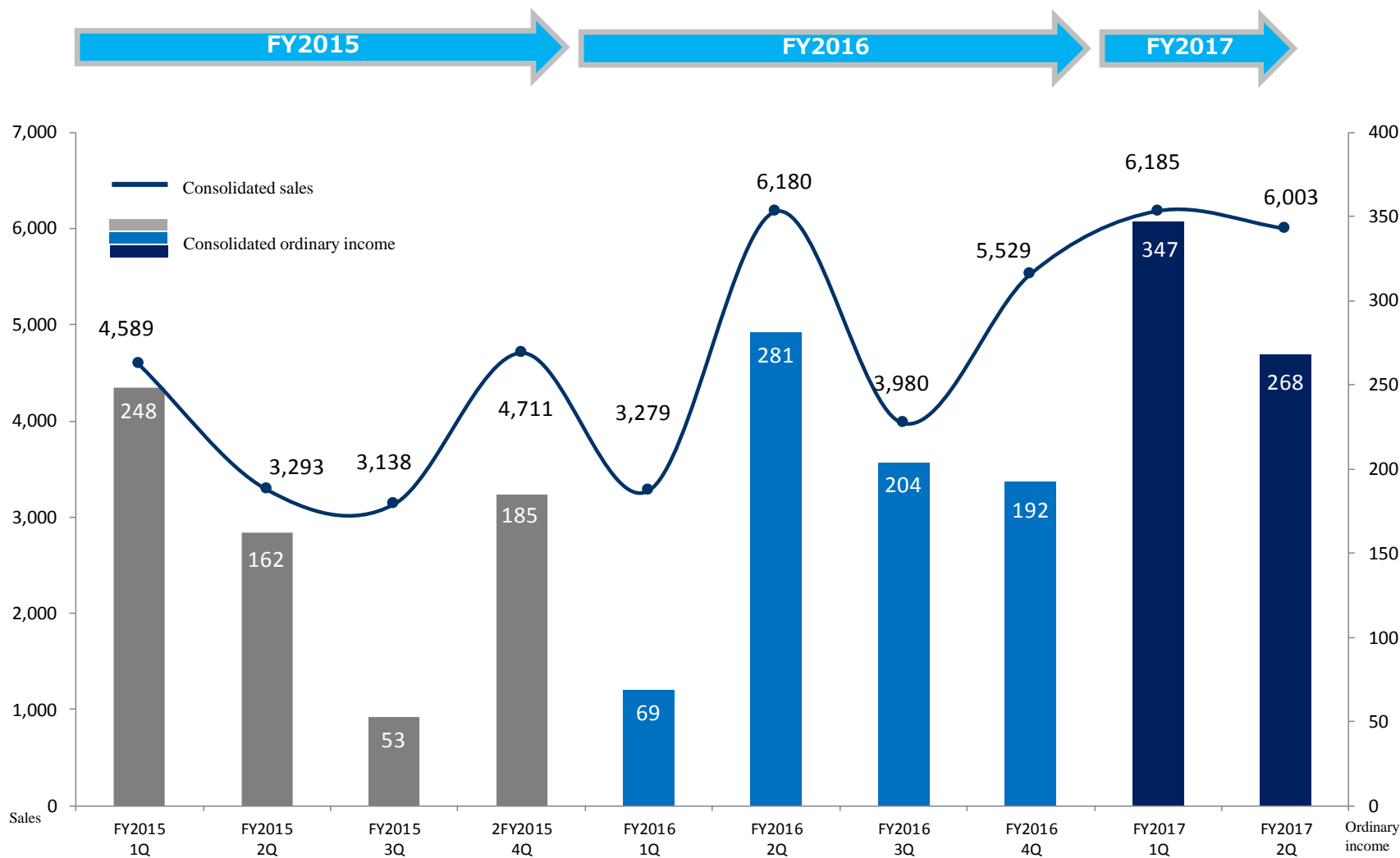
## Balance of income properties



**Steady growth in sales for the overseas business**

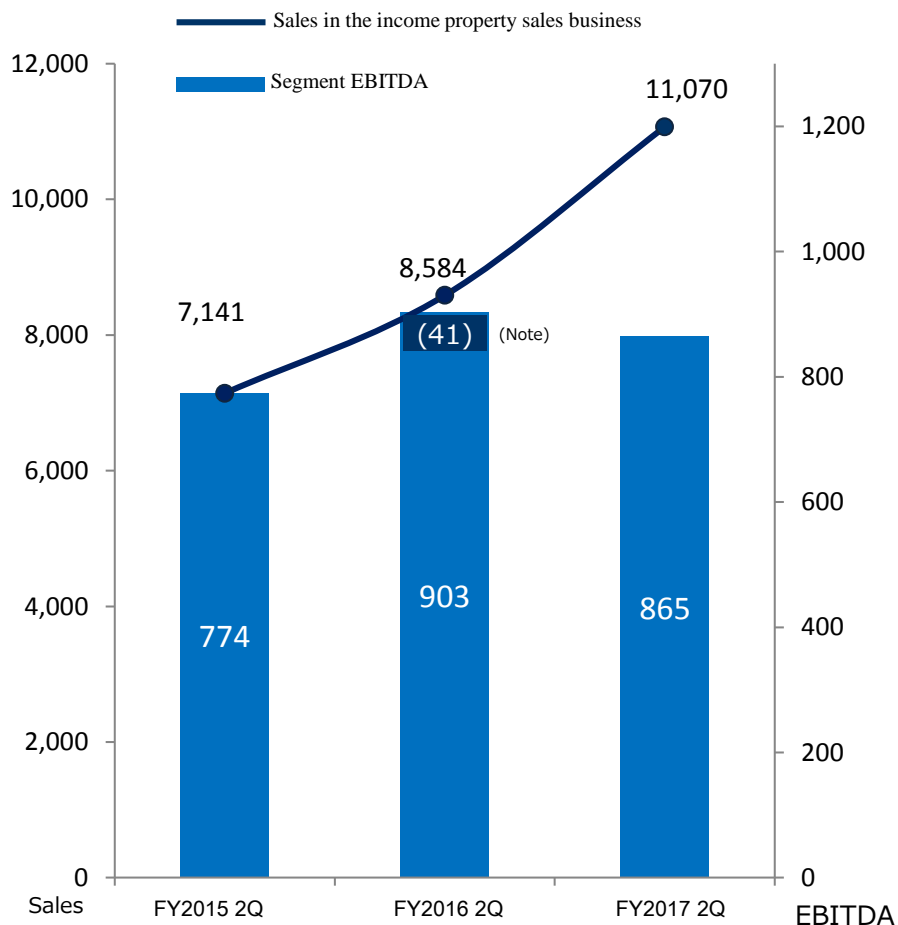
# IV-4. Changes in Consolidated Quarterly Results

(Units: Millions yen)

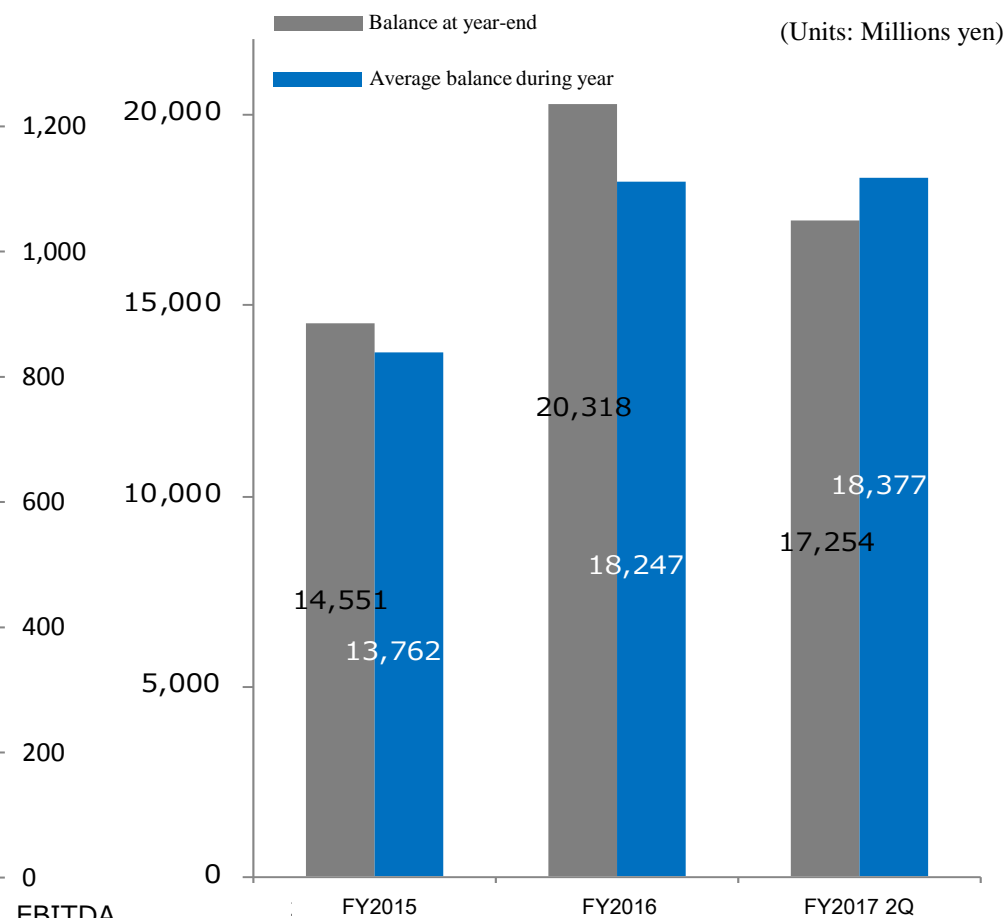


**At present, the income property sales business accounts for about 90% of consolidated sales. As a result, there are large fluctuations in quarterly results.**

## Changes in income property sales business results

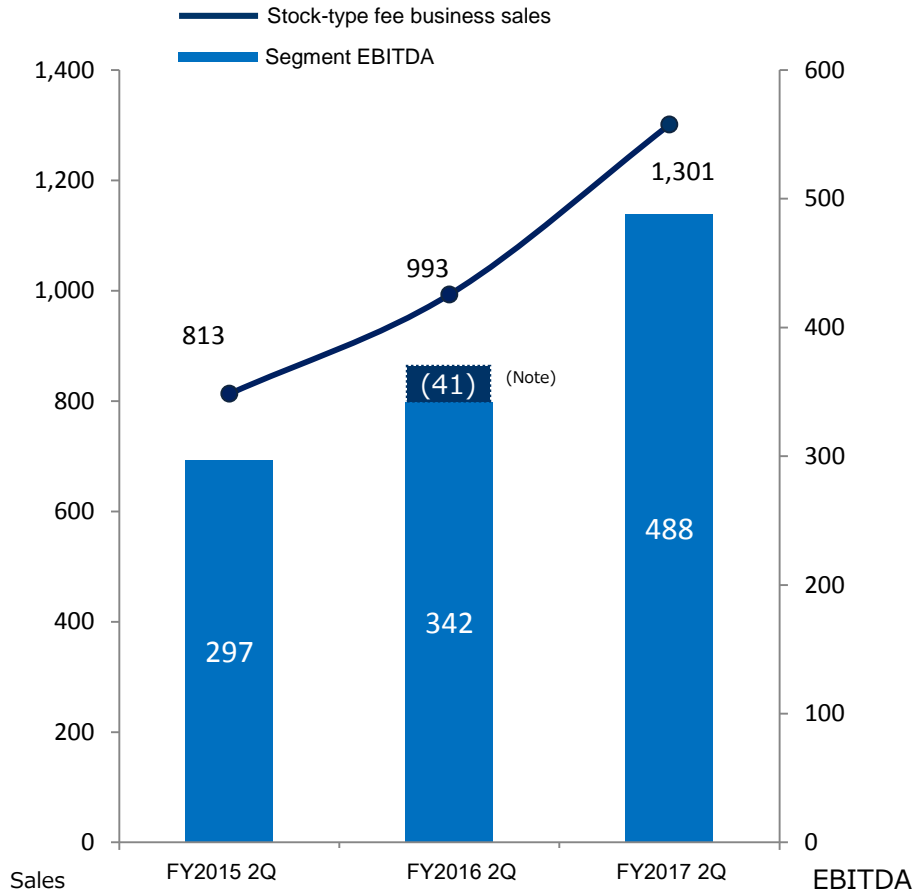


## Changes in balance of income properties

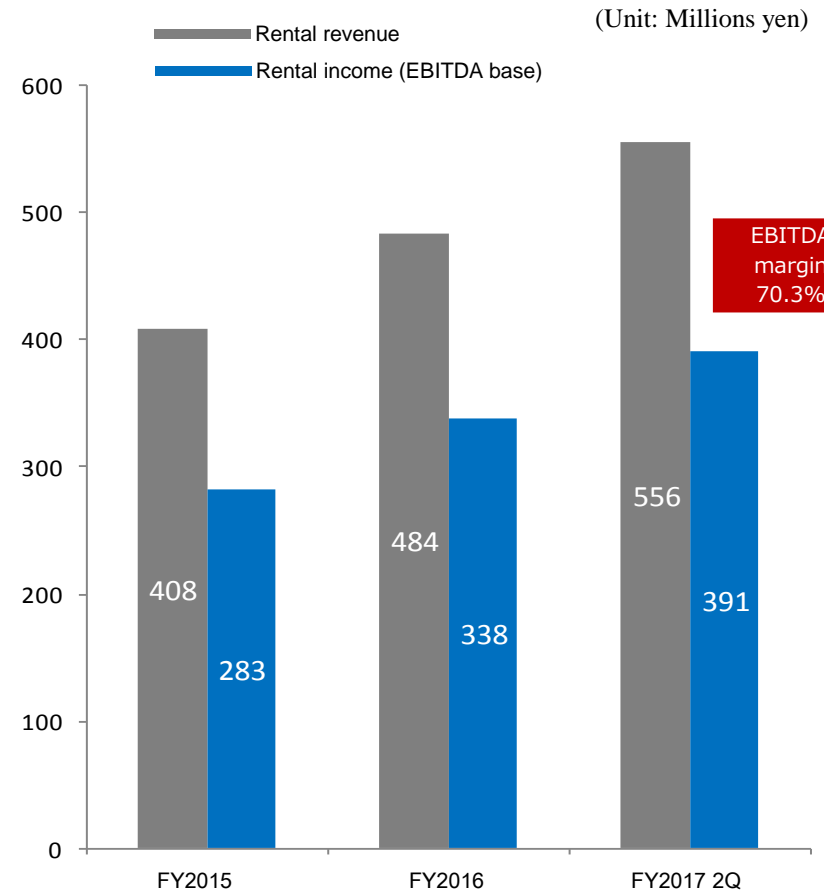


**Maintain a conservative stance towards purchases as real estate prices continue to remain elevated**  
**Aim for a balance of 25,000 million yen for the fiscal year ending March 31, 2018**

## Changes in stock-type fee business results



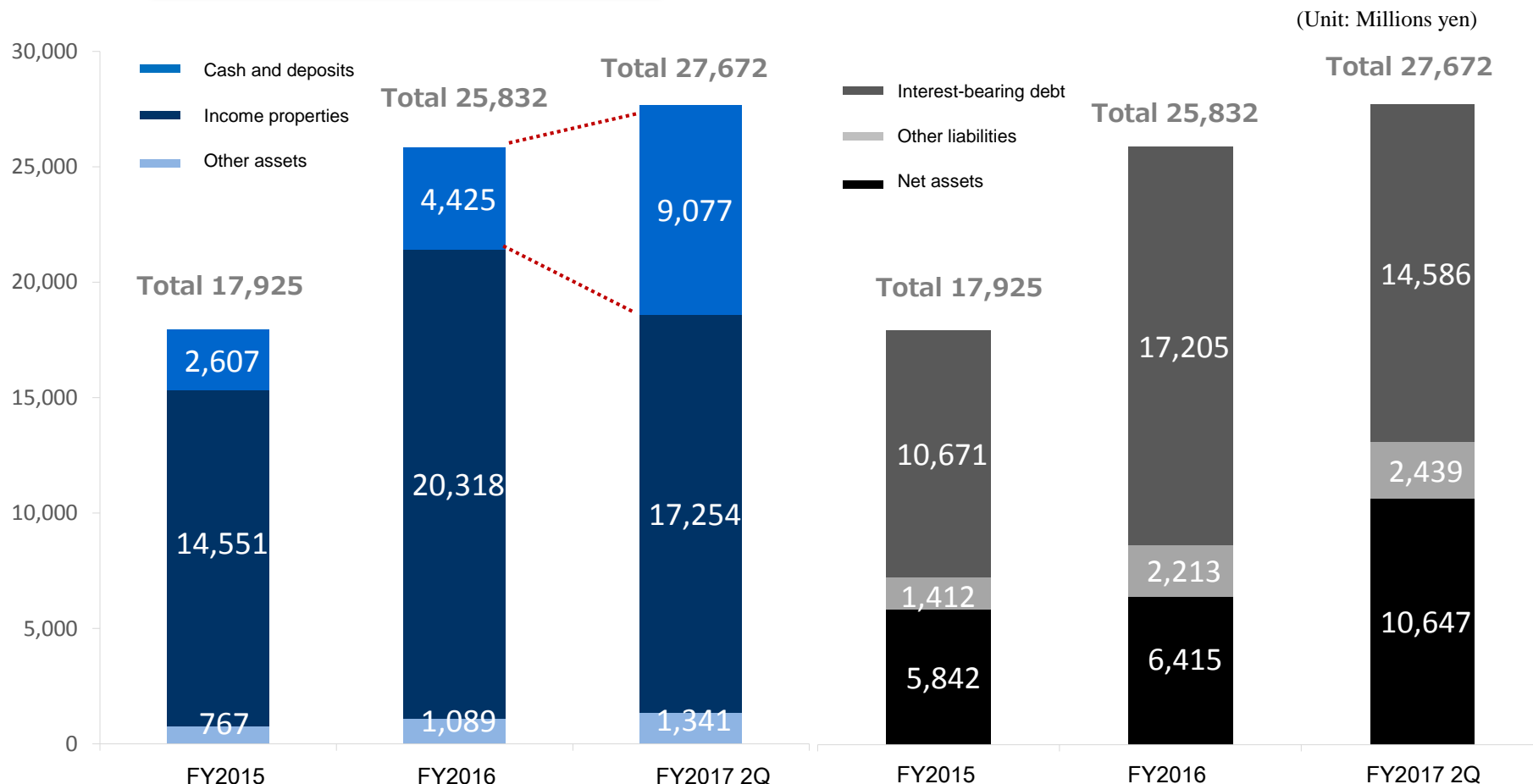
## Changes in rental revenue and income



**Both rental revenue and PM fees that form a stable revenue base increased**



## Summary of main B/S items



**Procurement of 3,888 million yen through a rights offering in the fiscal year ending March 31, 2018**

# V - 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

(Units: Millions yen)

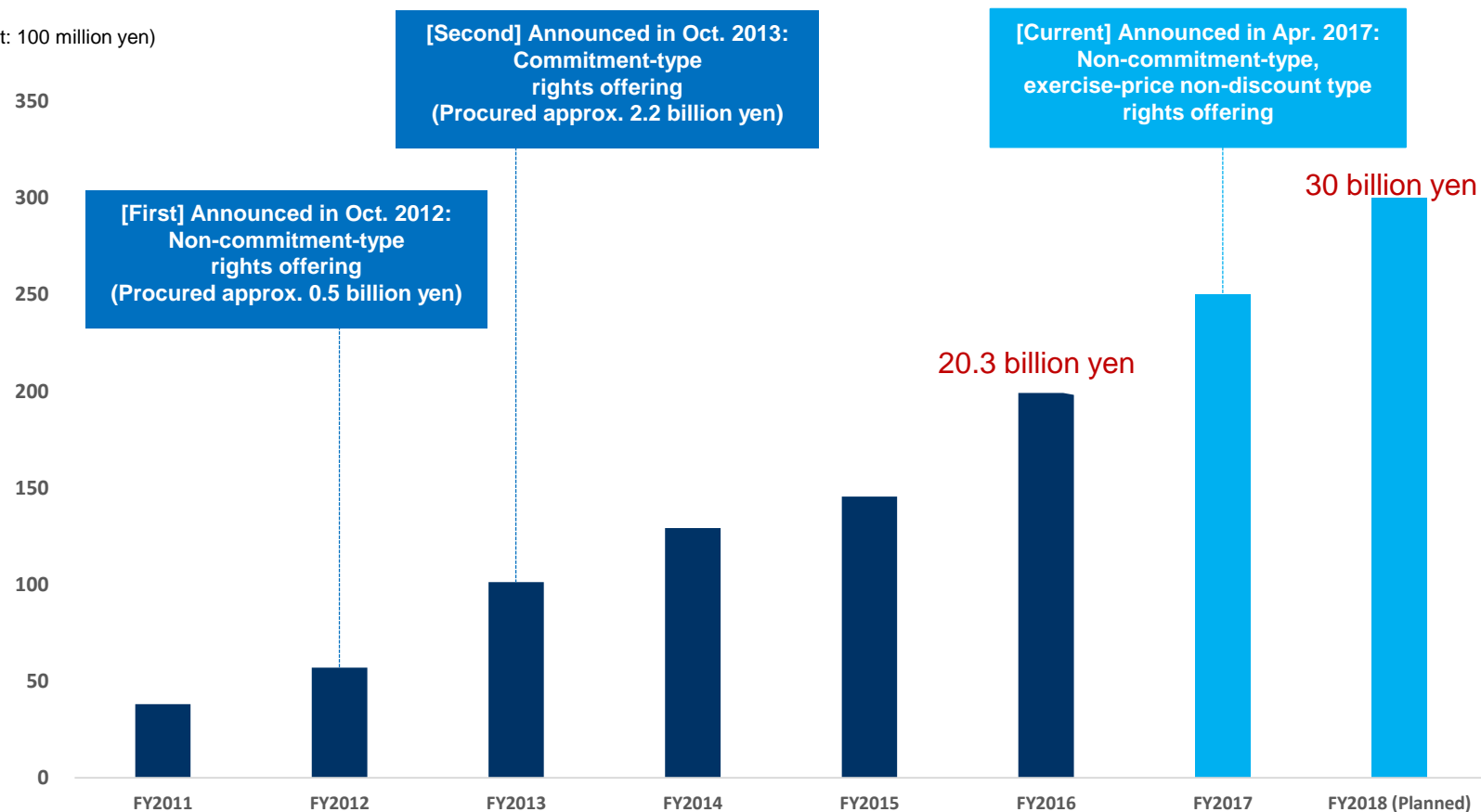
		Year ended March 31, 2017 (Results)	End of 2Q ended Sept. 30, 2017 (Results)	Year ending March 31, 2019 (Planned) <small>*Last year of 5<sup>th</sup> Mid- range business plan</small>
Guidance	Balance of U.S. income properties held for sale (average)	2,680	2,390	5,000
	Balance of domestic income properties held for short- or medium-term sale (average)	9,381	10,404	12,000
	Balance of domestic income properties held for long-term sale (average)	6,185	5,582	10,500
	Total balance of income properties (end of year)	20,318	17,254	30,000
	Rental income (EBITDA base)	746	391	1,246
	ROA for income property sales business	11.5%	13.4%	6.9%

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

## VI – Results of Rights Offering

# VI-1. Purpose of the Rights Offering

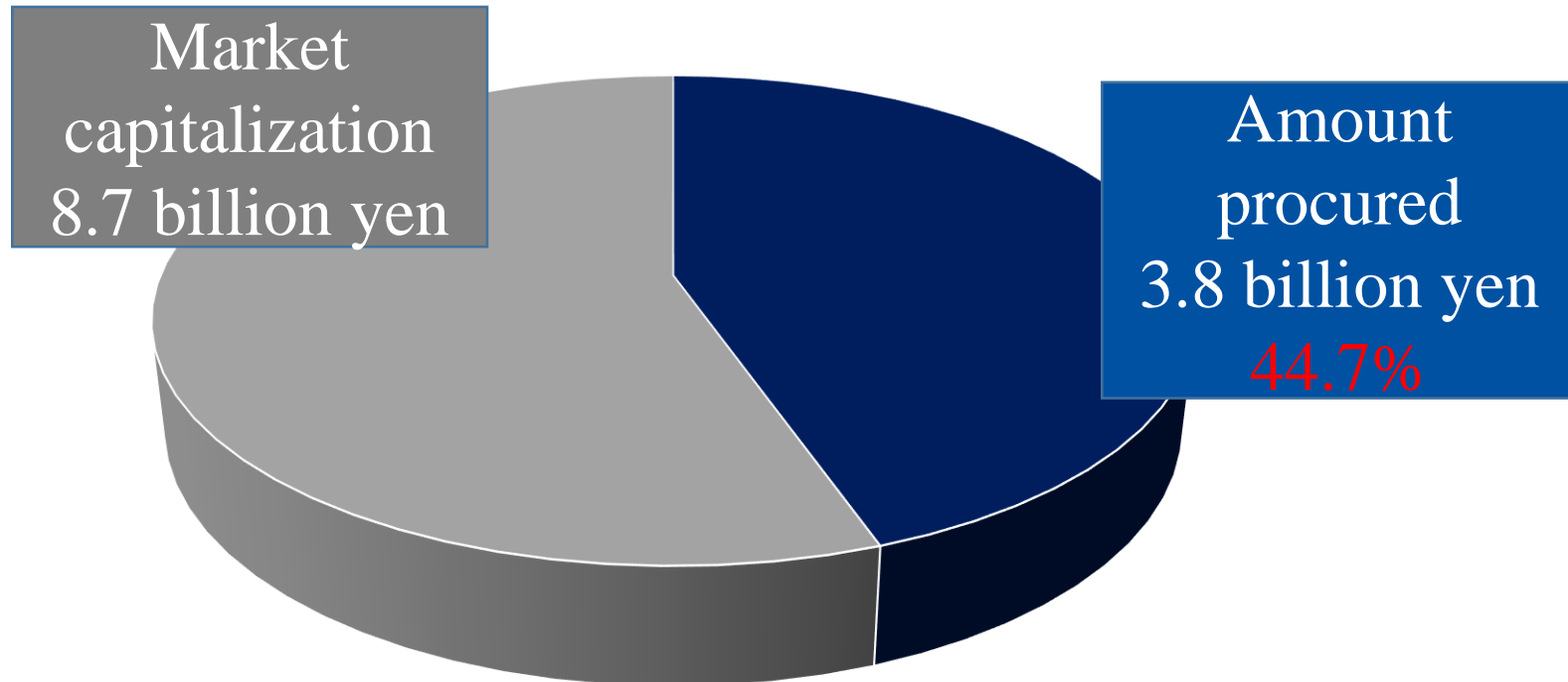
(Unit: 100 million yen)



[Results for FY2016] Balance of income properties: **20.3 billion yen** / cash balance: 4.4 billion yen

[Plan for FY2018] Balance of income properties: **30 billion yen** \*Final year of the Fifth Mid-range Business Plan

➔ **Implement our third rights offering in order to achieve the balance target**



**The amount that can be procured through a public offering, or capital increases through a third-party allotment, is approximately 25% of market capitalization**

\*If the dilution rate from a capital increase through a third-party allotment is 25% or higher, obtaining the opinion of an independent party or a resolution of the general meeting of stockholders is necessary (Article 432 of the Securities Listing Regulations)

**➡ Procurement of 44.7% of market capitalization at the time of the rights offering announcement**

### Exercise price = market price

- Stock acquisition right exercise price set at 39 yen, the final price before the announcement date (April 24)
- ⇒ **Elimination of exercise coercion** accompanying projections of a decline in stock price

### Strengthening relationships with shareholders

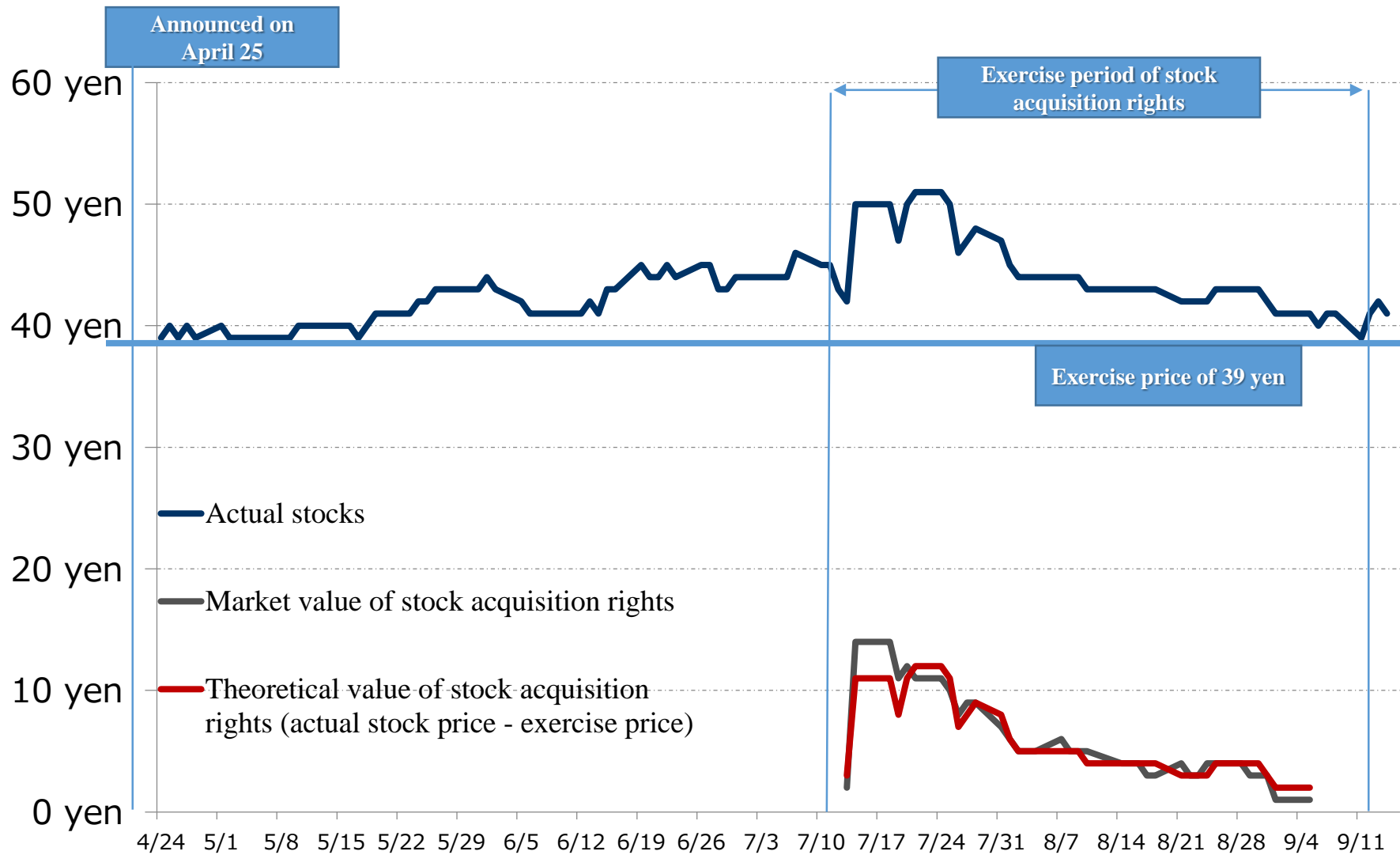
- Payment of a commemorative dividend (1.65 yen) as the first interim dividend
- Establishment of the ADW Shareholders' Club

### Emphasizing the fundamentals through IR/PR activities

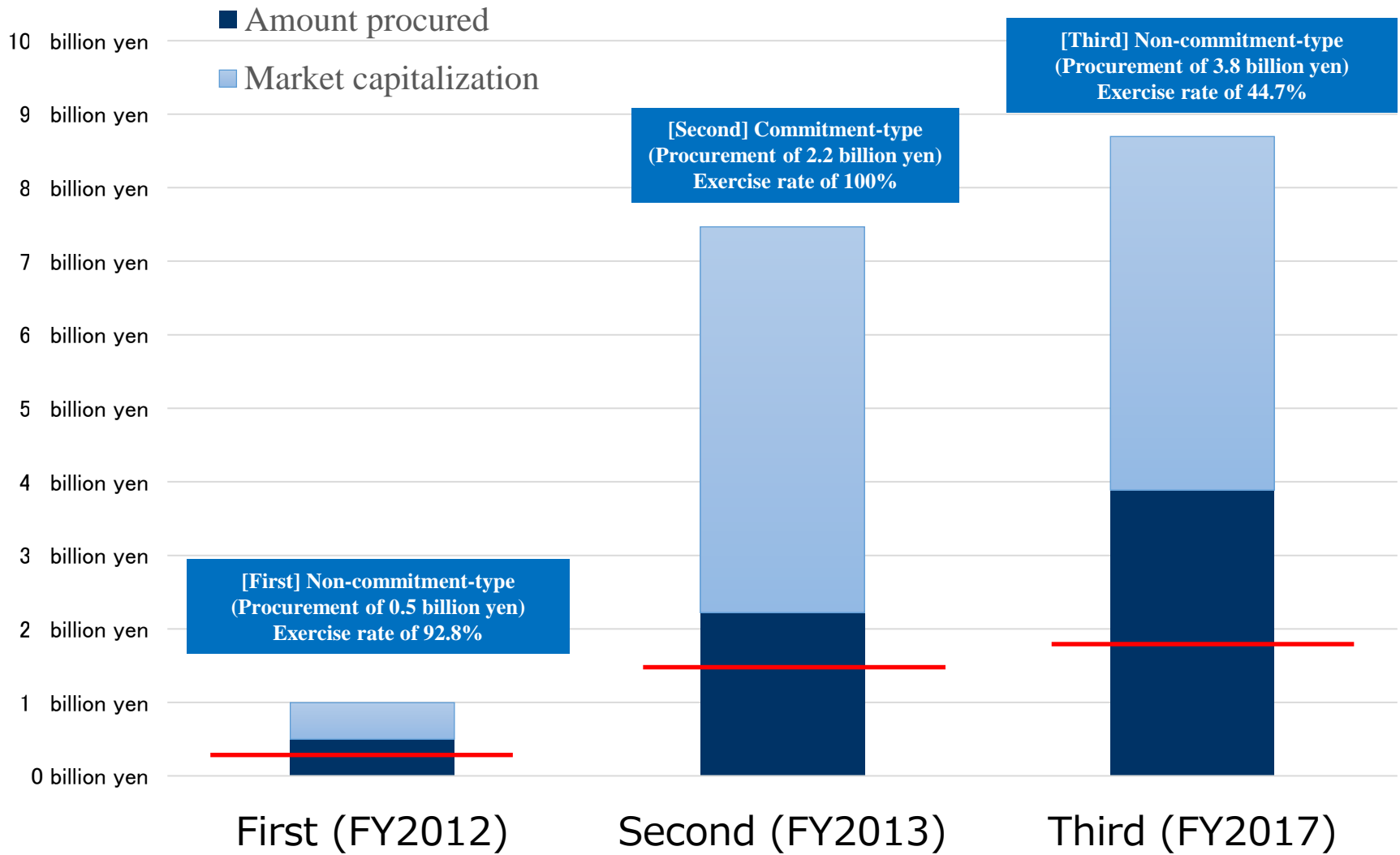
- Introduce an equity story through newspapers, TV, radio, magazines, and the internet



# VI-4. Changes in Theoretical Value and Market Value of Stock Acquisition Rights



# VI-5. Procurement Amount Compared to Stock Market Capitalization



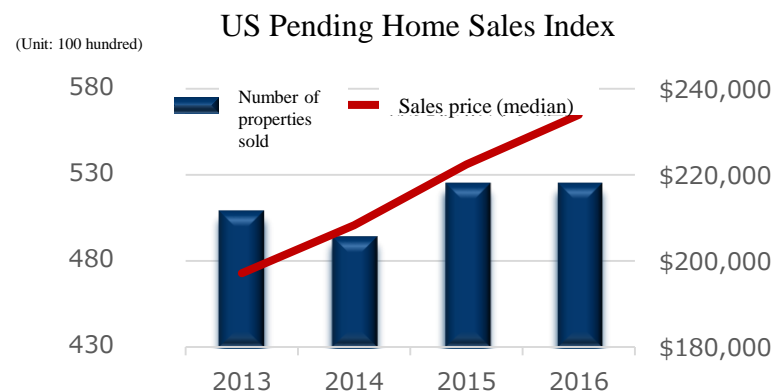
**Because a non-discount type will be used this (third) time, procurement efficiency will increase as the exercise rate declines**

# VI-6. Strengthen Business Foundation for Core Business

(1) Strengthen business foundation for core business  
(approximately 3.6 billion yen)

Investments in growth markets / diversification of geographical risks / strengthening of stable revenue base

- Investment ratio of 5:4:1 in US : domestic growth long-term : domestic short to medium term
- Focus investment in US and domestic growth long-term businesses
- [US] Grow market with continuing growth in both income property trading volume and trading prices
- [Domestic growth long-term] Purchase real estate with high asset value and brand power in order to strengthen a stable revenue base



Source: US National Association of Realtors

[Reference] Investment allocation plan released on April 25

\*Investment amount of 4 billion yen assumed

(Unit: 100 million yen)

Classification	Procured funds allocation amount	Real estate acquisition
US	20.0 (50%)	32.3
Domestic growth long-term	16.0 (40%)	20.4
Domestic short to medium term	4.0 (10%)	66.4
Total	40.0 (100%)	119.0

(Note) Ratio of LTP and value-up funds (VU ratio) assumptions

US: LTV approximately 40%, VU ratio 5%

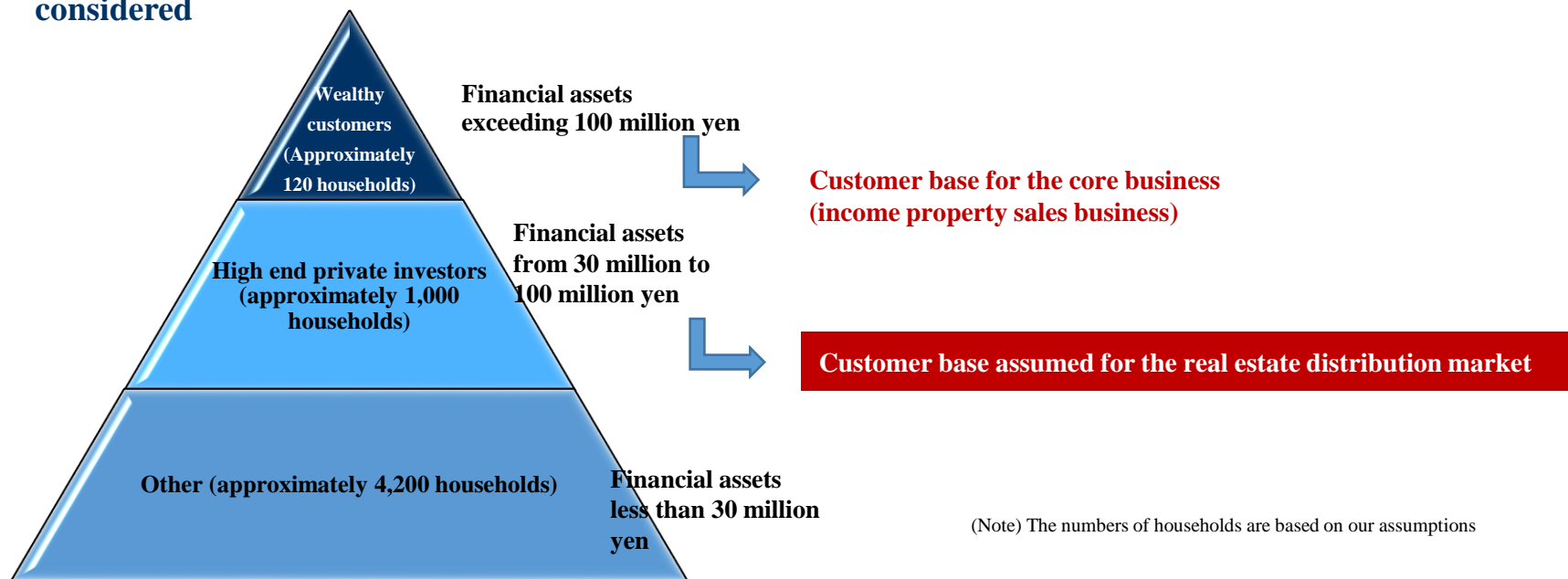
Domestic growth long-term: LTP approximately 85%, VU ratio 12%

Domestic short to medium term: LTP approximately 90%, VU ratio 12%

(2) Creation of a new real estate distribution market (approximately 200 million yen)

Development of a new customer base (high-end private investors)

- Investments in platforms (200 million yen)
  - ⇒ Equipped with settlement function and cloud computing function
  - ⇒ Investment education (costs related to strengthening contents and marketing)
- Investments in venture companies related to real estate tech through retained earnings will also be considered



(Note) The numbers of households are based on our assumptions

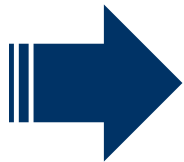
## VII – About AD-O Shibuya Dogenzaka



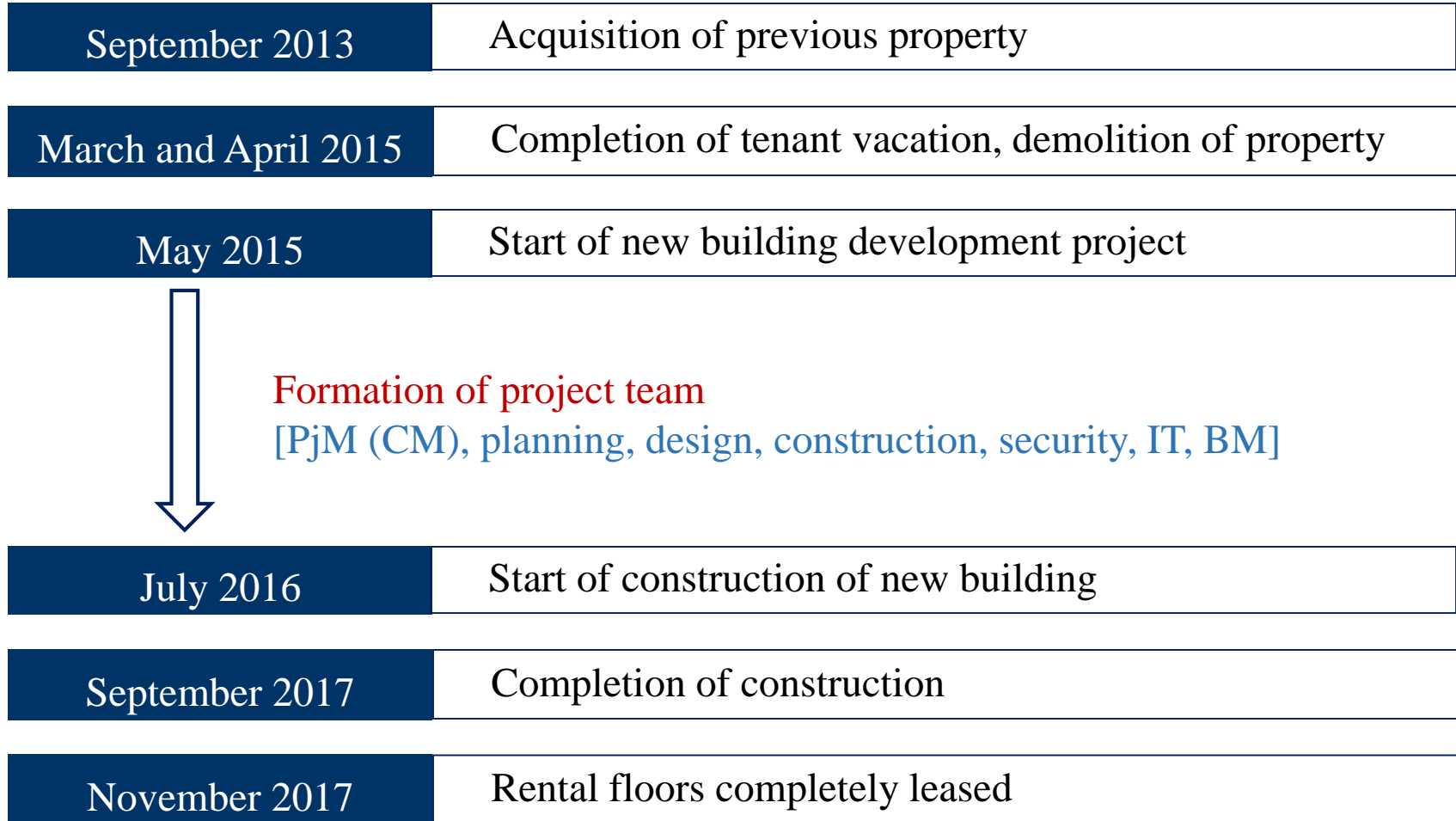
As a project commemorating our 130th year since foundation, it displays our stance of taking on the challenge of new stages and new domains

Accumulates **know-how on the regeneration of income properties**, and strengthens support capabilities so that this knowledge can be provided to customers

Builds up the strength and structure for the realization of business deployment firmly rooted in regions and markets



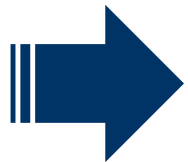
**At this time we will start our first development project for an office building with special characteristics**





### Building concept

- We will boldly pursue a basic stance of selecting office building architecture that takes into sufficient consideration the characteristics of the Shibuya area, as well as full specs based on the assumed tenants
- The tenant image is service offices for ventures and other companies of a few people which will grow into companies of around ten people
- We will create a building that offers 24-hour support for such start-up companies!



AD-O Shibuya  
Dogenzaka

“An office building that goes one step ahead”

~ AD Works' Office Building

~ Advanced & Designed Office Building

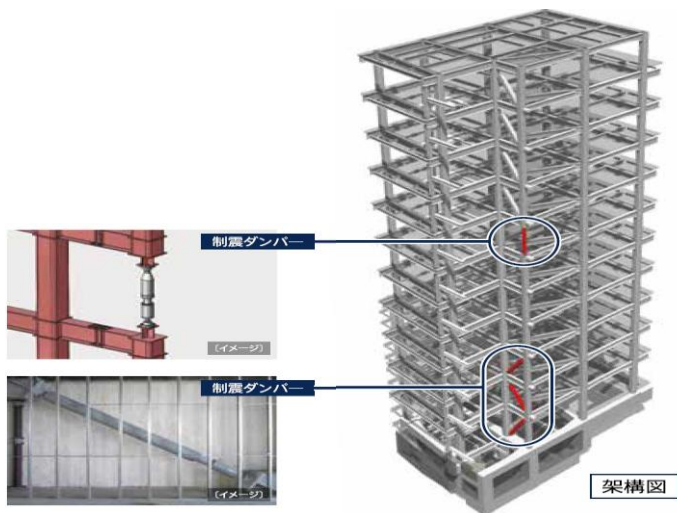
### Wood design



Designed by Kengo Kuma with extremely high visibility, featuring coloration and design that matches the tree-lined streets of Shibuya



## Safety and reassurance



Reduction of vibrations through a solid frame construction and seismic dampers

(1.25 times the required earthquake resistance levels in the Building Standards Act)



Non-contact card readers & intercoms with cameras

## Comfort

## CASBEE Rank A Certified

認証番号 CBL-CAS建築-0003-17

# CASBEE® 建築評価認証書

一般財団法人ベターリビングCASBEE評価認証業務規程第7条の規定に基づき審査した結果、CASBEEによる建築物の総合環境性能評価が的確であると認証する

### 評価 Aランク

建物名称 : AD-O渋谷道玄坂  
 申請者 : 株式会社エー・ディー・ワークス  
 建設地 : 東京都渋谷区道玄坂一丁目22番9号  
 評価段階 : 実施設計段階  
 評価ツール : CASBEE-建築(新築)2014年版  
 有効期限 : 2020年9月28日

2017年8月23日  
 CASBEE評価認証機関  
 一般財団法人ベターリビング  
 理事長 井上 俊之



## ■ 評価結果 ■ AD-O渋谷道玄坂

**CASBEE-建築(新築)**  
 使用評価ソフト: CASBEE-BD\_NC\_2014 (v3.01)  
 認証番号: CBL-CAS建築-0003-17  
 交付日: 2017年8月23日  
 一般財団法人ベターリビング

建物用途	事務所	敷地面積	236㎡
建設地	東京都渋谷区道玄坂一丁目22番9号	建築面積	183㎡
気候区分	6地域	延べ面積	1,932㎡
地域・地区	商業地域、防火地域	階数	地上11階、地下1階
竣工予定日	2017年8月	構造	S造



### Convenience

#### [First floor]

There is no rental space on the first floor, and it can be used exclusively by tenants, free of charge, as a conference room or show room

- Glass windows for the entire space!
- Broad areas can be used by removing movable partitions
- Design also takes into consideration the storage of tables and chairs
- Can be used after booking over the Intranet
- Projectors, screens, acoustics, dimmers, etc. installed in advance





## Convenience and comfort

### [Standard floors]

- Well-appointed office space  
    ~Easy to make layout adjustments
- Adoption of sliding doors
- Comfortable kitchen and bathroom
- Security settings can be used to control elevator stoppage or passage by individual floors

High-grade kitchen

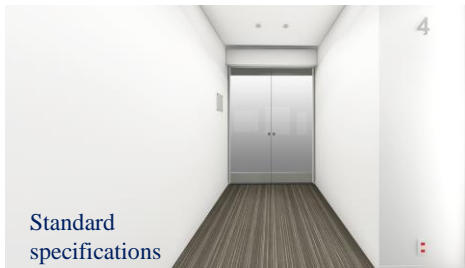


※9:10階は防火区画等の違いから、防火区画の枠線等、若干仕様が異なります。  
※11階は事務室が固定敷設から動機コンセントに接続しているため、基準階より面積が小さくなります。

## Convenience and comfort

Dyson Airblade Taps used for bathroom sinks

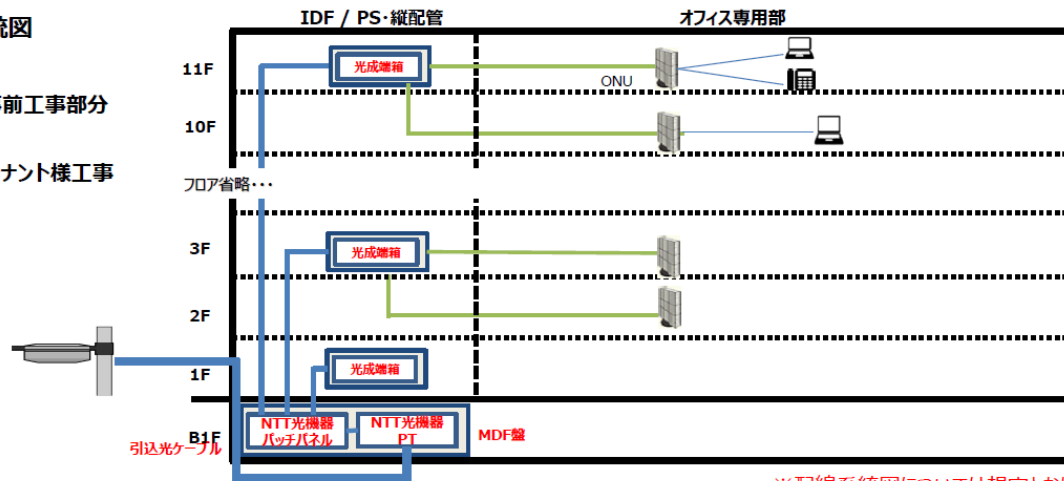
Free design for elevator hall



Communications environment

### ■ 配線系統図

- 事前工事部分
- テナント様工事



※配線系統図については想定となります

Paperless

This building uses no paper signs!

Digital signage

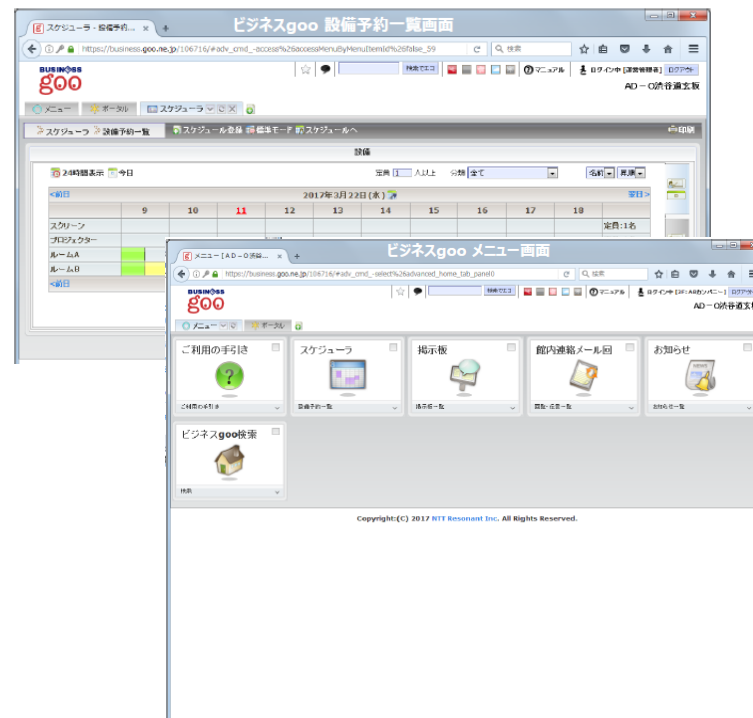
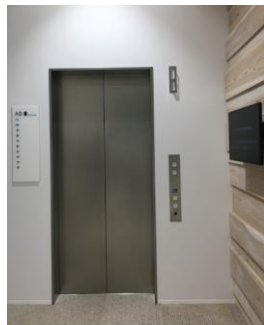
Intranet

Movable

Fixed



ディスプレイ：SHRAP社製  
43型ディスプレイ  
型名：PN-Y436  
スタンド：ハヤミ工業社製  
スタンド  
型名：XS-3247T

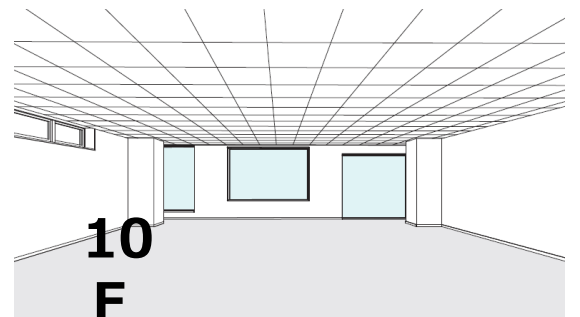
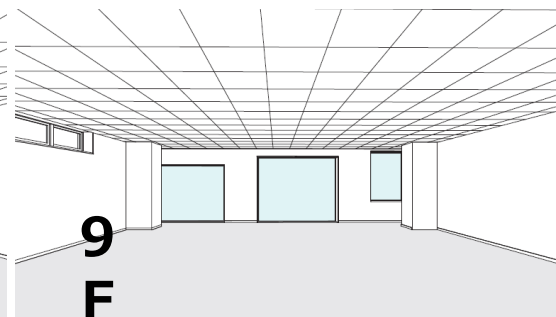
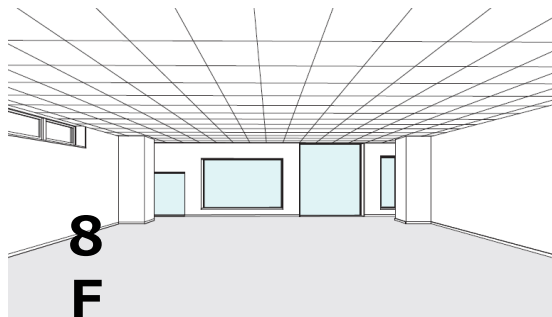
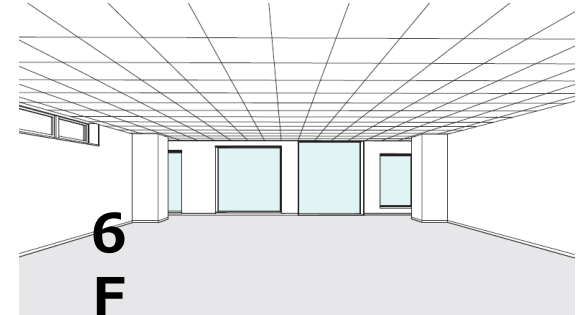
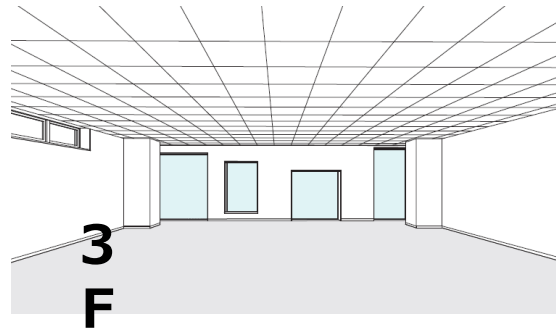
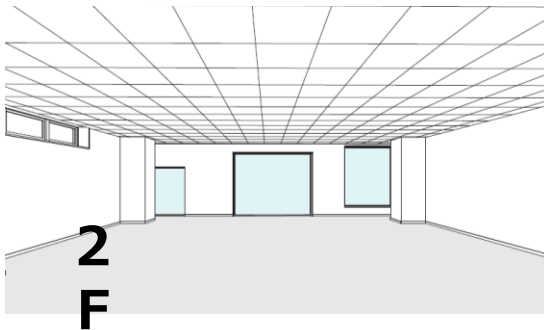




## Unique

### Whimsically scaled windows

Each window on each floor has a different size!



### Outcomes

Completion of a rental building property that is small, but that has **high commercial appeal**

Formation of a project team and the building of good relationships with external companies

Accumulation of **vast PjM know-how** through new building development (Regular PjM meetings held 60 times, regular construction meeting held 34 times, etc.)

Realization of various new initiatives in facilities, equipment, and operations

### Future developments

By fully entering the office building field from a base mostly consisting of residential properties, working as a group to improve our **value chain**

Leveraging the idle real estate assets of real estate owners who are customers through means such as **investment consulting proposals**

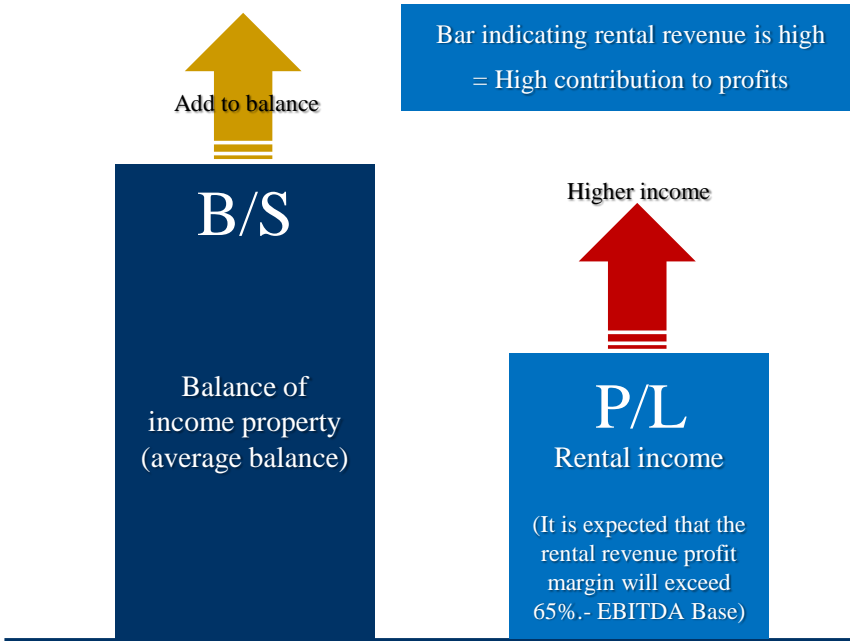
Using as a starting point for income property development and retail of investment business

Adopting a policy of using the first and second floors of property for supporting real estate tech business ventures and collaboration with SMI

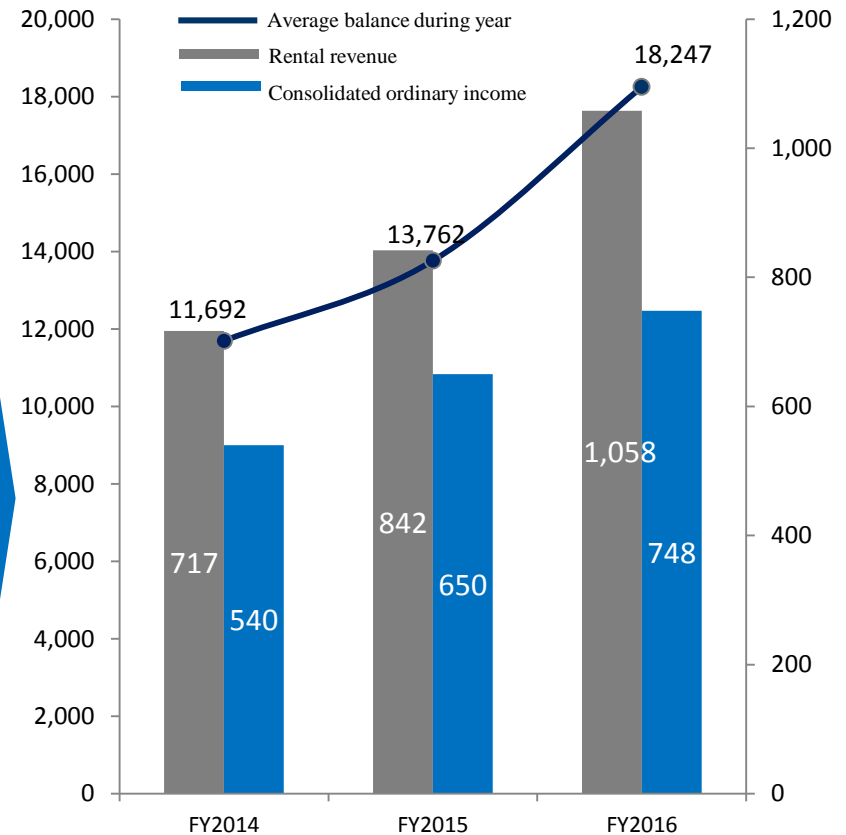
## **VIII - Reference Materials (Business Strategy)**

## 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

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

<Balance of income properties / Equity capital>

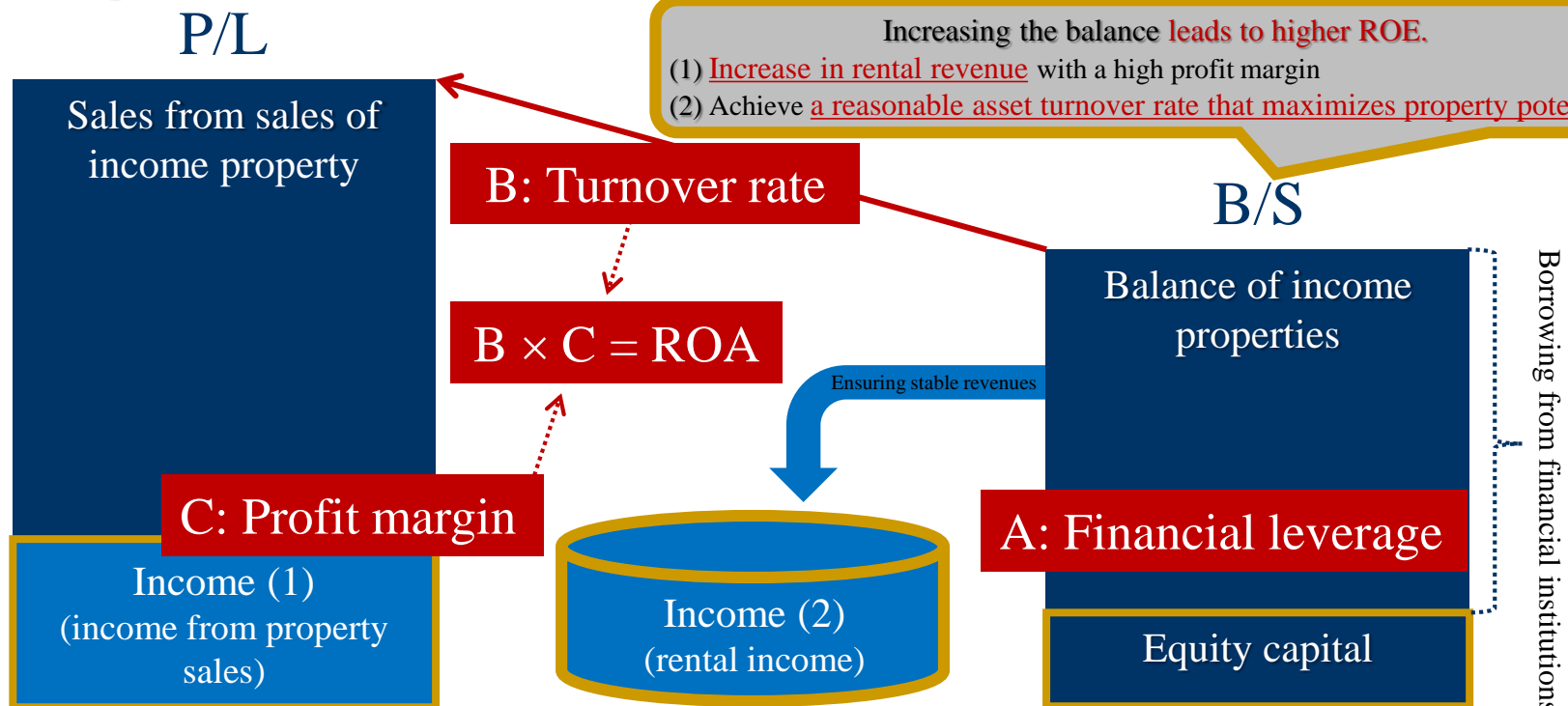
<Sales / Balance of income properties>

<Income from sales of income properties / Sales>

(Image showing relationships of announced figures)

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

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.



## **IX - 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 Sept. 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

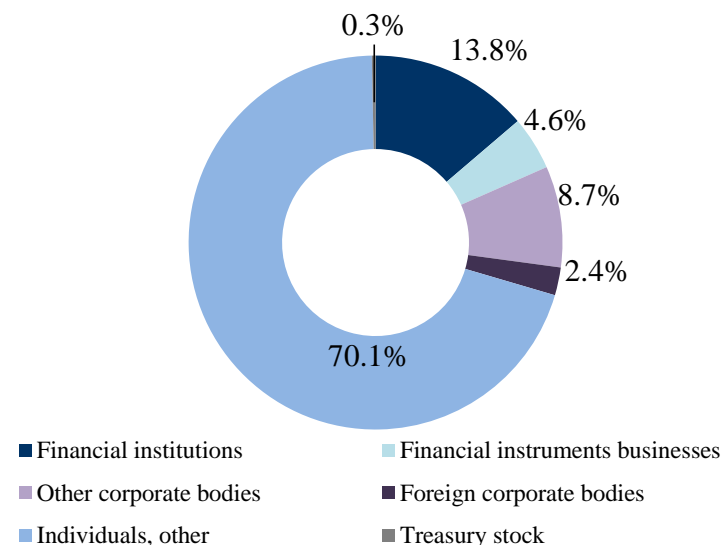
Number of issued shares: :323,912,993

Number of shareholders:18,185

### Major shareholders

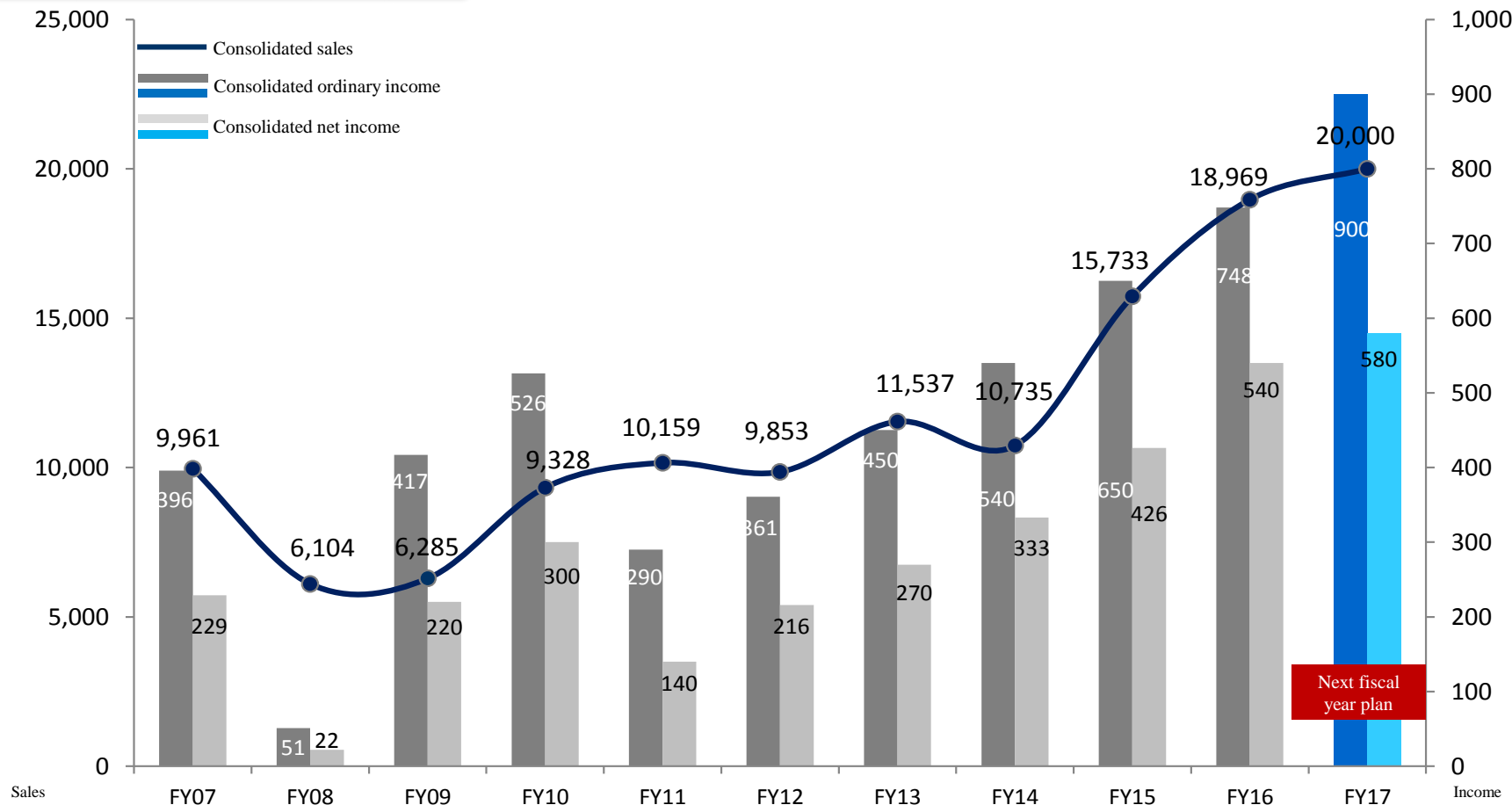
		Number of shares	Share ratio %
1	Hideo Tanaka (Our company President and CEO)	43,545,506	13.44%
2	Liberty House Co., Ltd.	16,216,000	5.00%
3	Japan Trustee Services Bank, Ltd. (Trust Account)	8,241,600	2.54%
4	The Master Trust Bank of Japan, Ltd. (Trust Account)	6,848,600	2.11%
5	Japan Trustee Services Bank, Ltd. (Trust Account • 5)	6,696,300	2.06%
6	The Master Trust Bank of Japan, Ltd. (BIP Trust Account • 75695)	4,879,959	1.50%
7	Ueda Yagi Tanshi Co., Ltd.	4,836,100	1.49%
8	Japan Trustee Services Bank, Ltd. (Trust Account • 1)	4,646,000	1.43%
9	Japan Trustee Services Bank, Ltd. (Trust Account • 2)	4,570,400	1.41%
10	Rakuten Securities, Inc.	4,169,900	1.28%

### Allocation by owner (share ratio)



## 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.



# IX-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

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

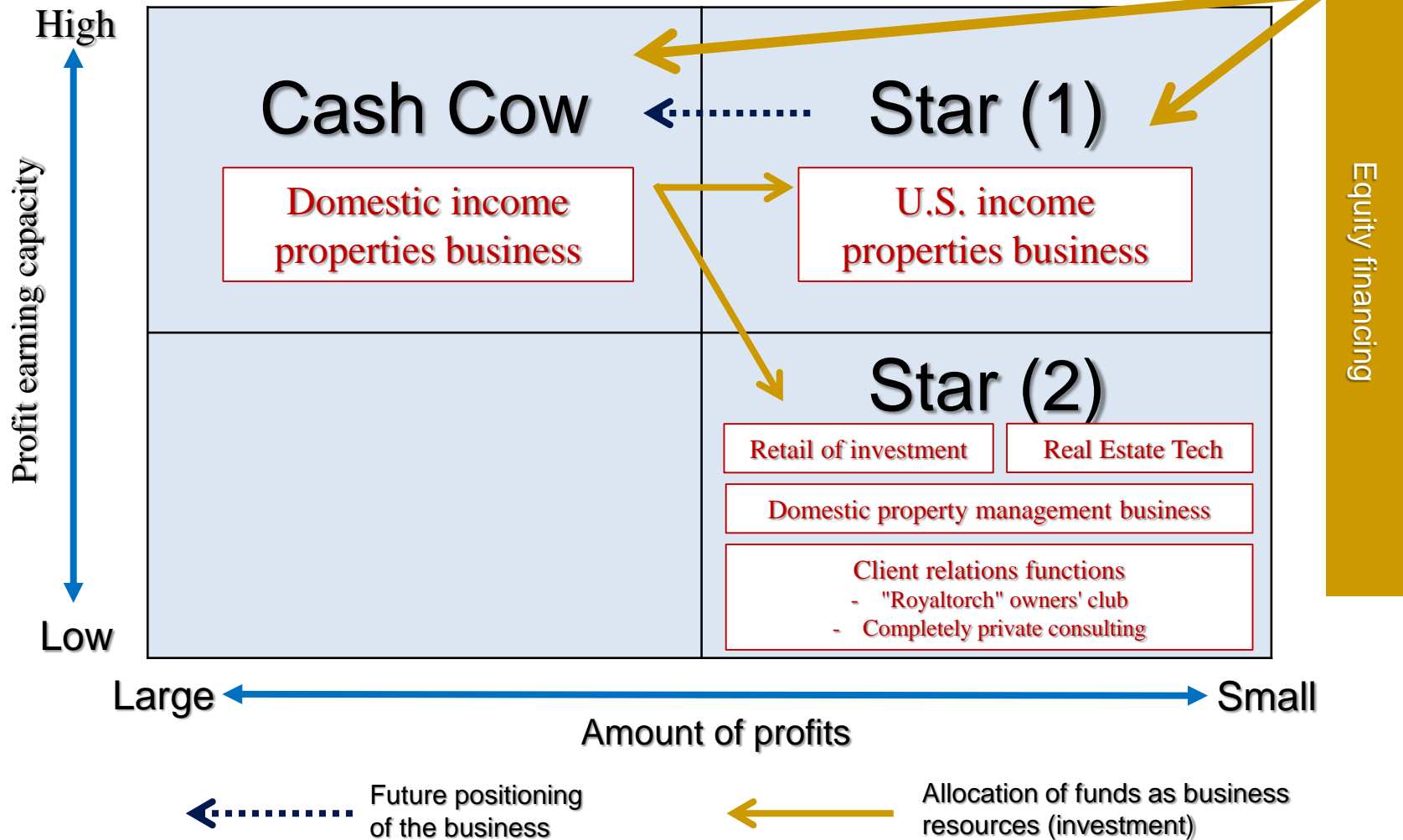
	Opportunities (O)	Threats (T)
Politics (P)	<ul style="list-style-type: none"> <li>- <b>Bold financial policies (expanding the yield gap)</b> (Growing real estate investment needs)</li> <li>- <b>Increasing property taxation</b> (Growing needs for tax liability reduction measures among high net-worth individuals)</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/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> </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>	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>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 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

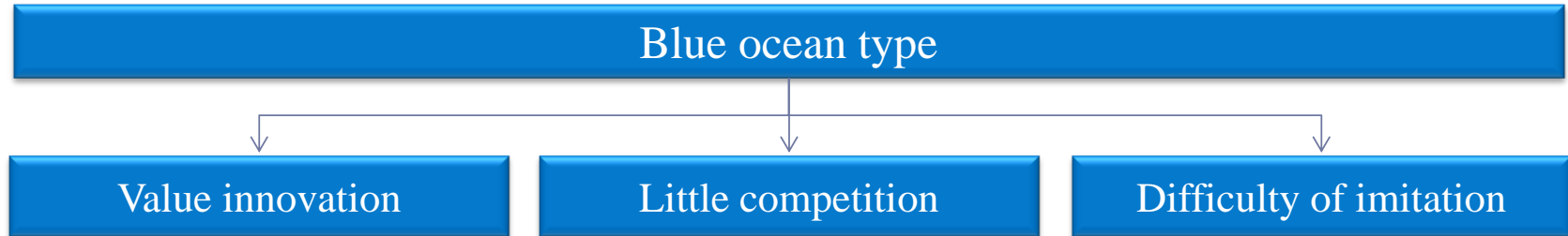
We can establish a unique position in the real estate industry.



# **XI – Reference Materials**

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

## Business model characteristics



## Characteristics

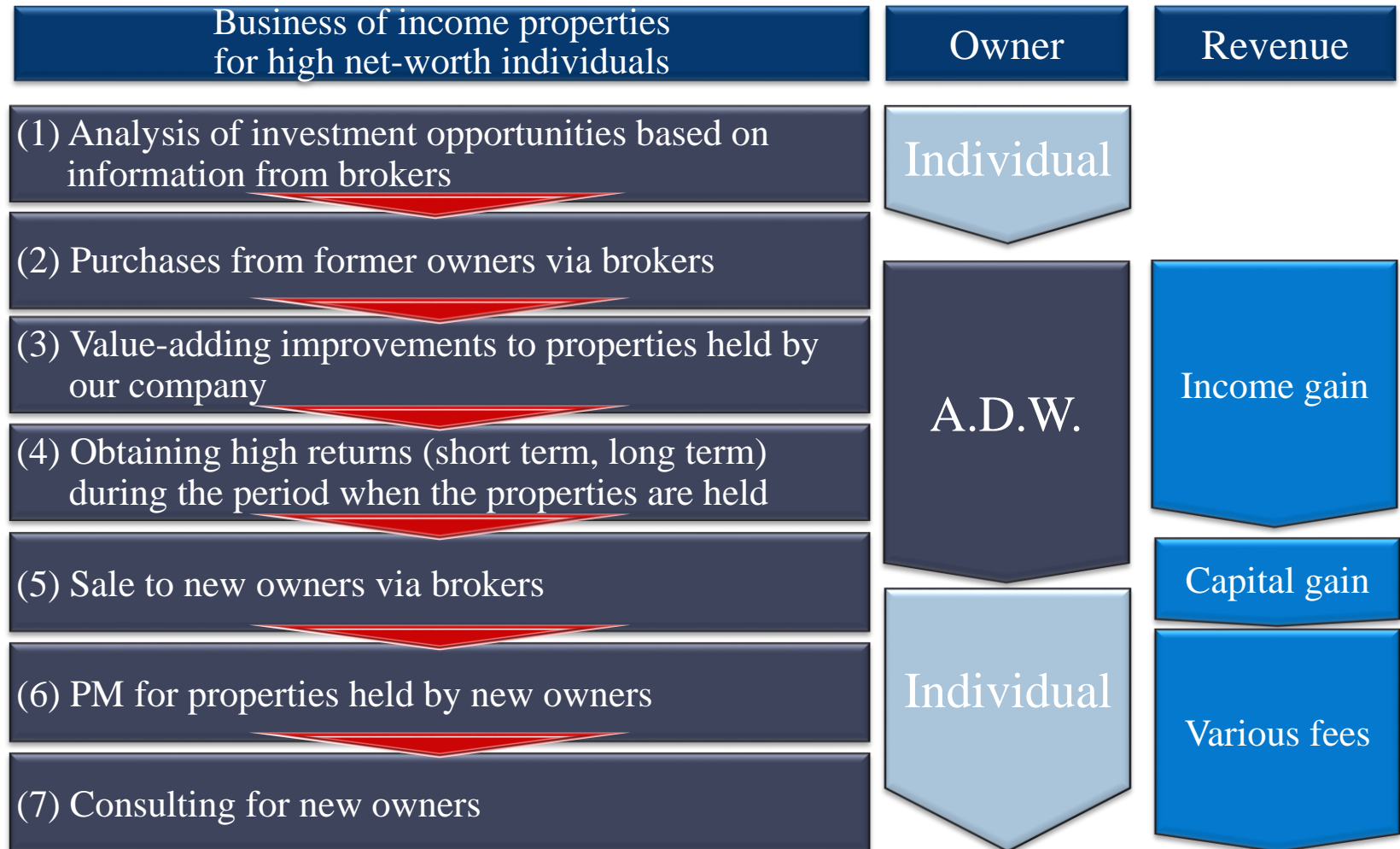
(1) One-stop solutions

(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

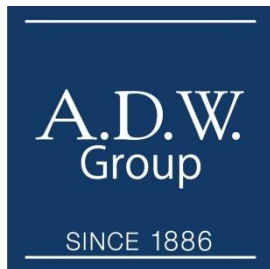
## (1) One-stop solutions



### (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)**