

A.D.W.
Group

SINCE 1886

A.D. Works Co., Ltd.

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

January 26, 2017

A.D. Works Co., Ltd.

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

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I - Summary of the First Three Quarters of the Year Ending March 31, 2017

1. Summary of First Three Quarters of Year Ending March 31, 2017

Topic

1

Steady progress relative to the consolidated results plan, and on pace for record-breaking profits

Sales 81.5%, EBITDA 77.2%, ordinary income 69.4%, net income 78.8%

* A portion of income from sales of income properties was recorded as an extraordinary gain. → This is the reason for the lower progress in ordinary income.

Topic

2

Strong business in the United States (Los Angeles)

During the first three quarters, this business accounted for 14% of overall Group business and recorded sales of 1.886 billion yen.

Topic

3

32% increase in the balance of income properties since the end of the previous fiscal year

In addition to achieving higher income and profits, we are also building up our sources of future profit.

II - Overview of the First Three Quarters of the Year Ending March 31, 2017

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

(Units: Millions yen)	FY2015 3Q (ended Dec.31, 2015)		FY2016 3Q (ended Dec.31, 2016)		Change from previous year	Full-year plan progress
	Amount	% of sales	Amount	% of sales		
Sales	11,021	100.0%	13,439	100.0%	+21.9%	81.5%
Gross profit	2,198	19.9%	2,597	19.3%	+18.2%	—
SG & A	1,583	14.4%	1,820	13.5%	+15.0%	—
EBITDA	656	6.0%	926	6.9%	+41.1%	77.2%
Ordinary income	465	4.2%	555	4.1%	+19.4%	69.4%
Net income before taxes	465	4.2%	642	4.8%	+38.1%	80.3%
Net income	299	2.7%	416	3.1%	+39.0%	78.8%

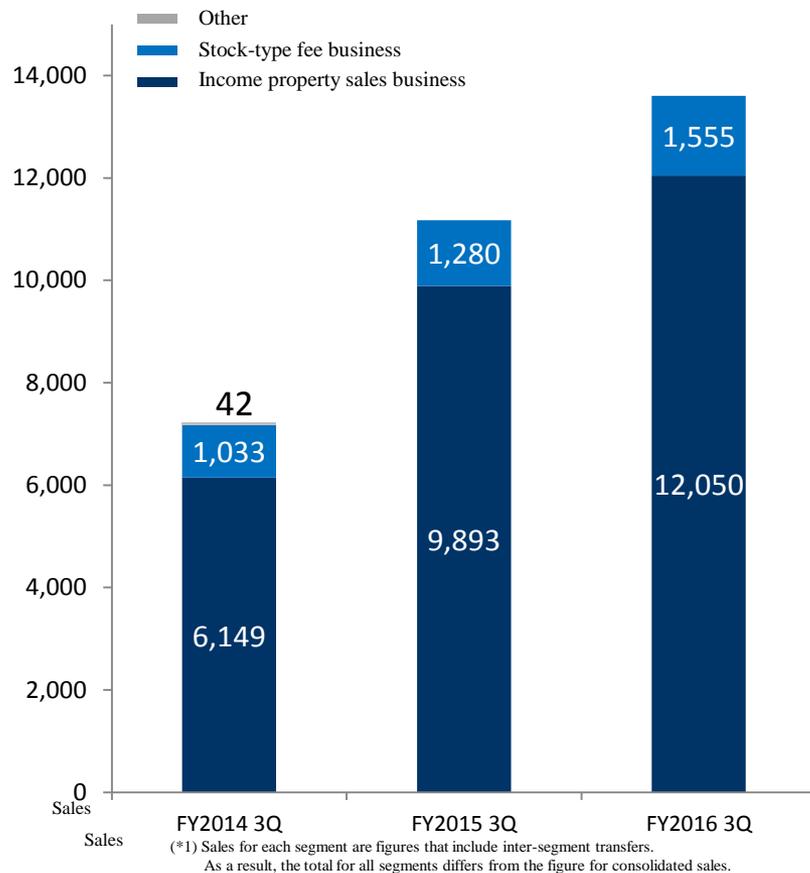
1. Steady progress with respect to the full-year plan

2. On course to exceed the record-breaking profits of our previous year

3. Consolidated Results

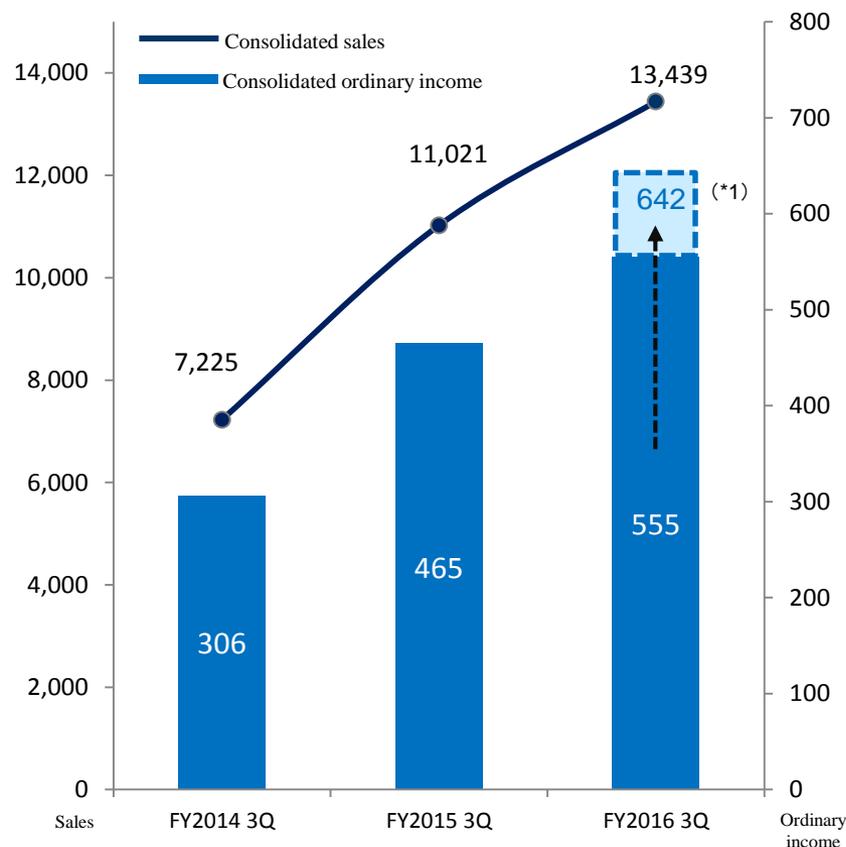
Changes in consolidated sales (by business area)

(Units: Millions yen)



Changes in consolidated sales and ordinary income

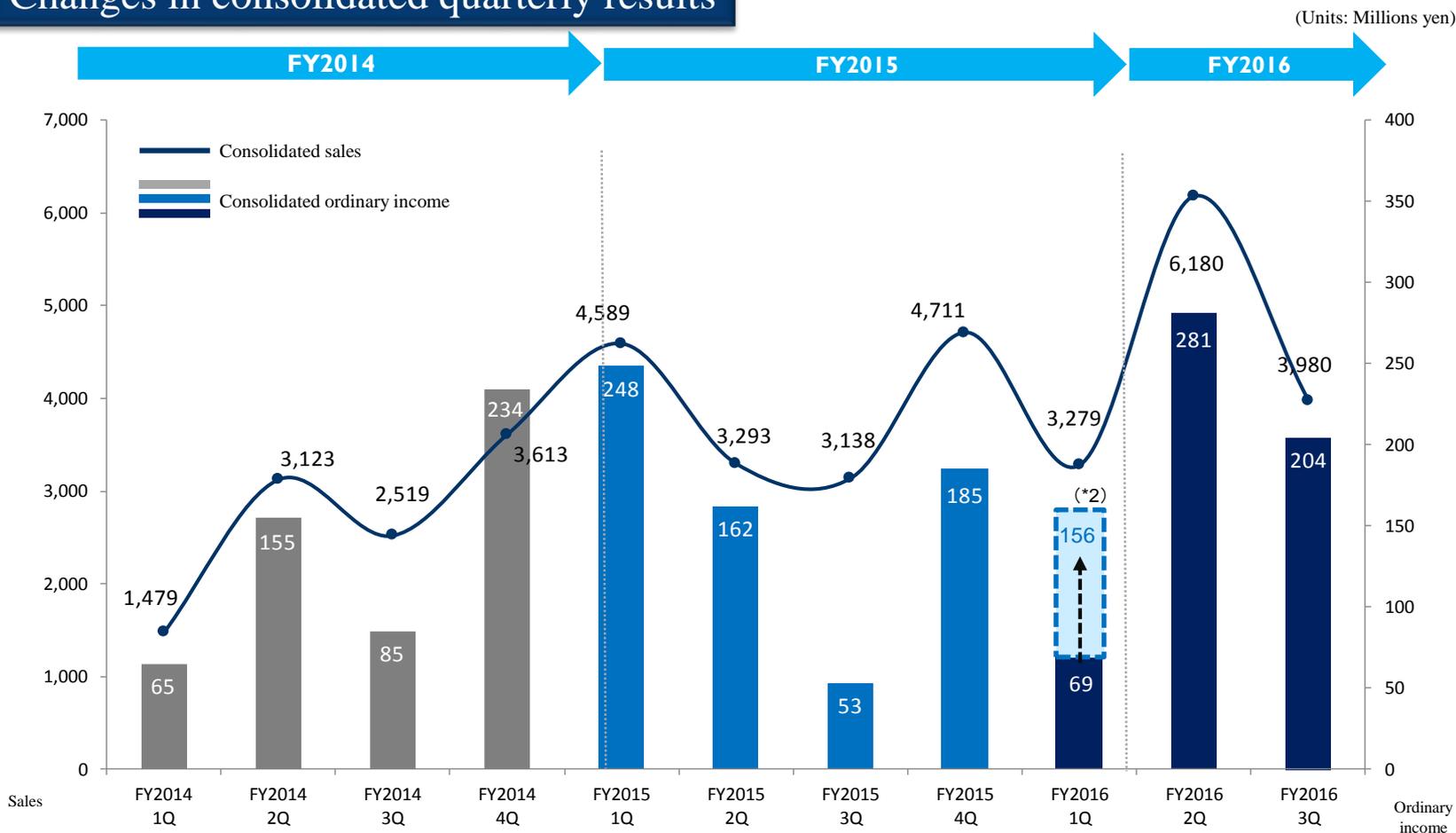
(Units: Millions yen)



If income from sales of income properties held for long-term sale (now recorded as extraordinary income in the P/L statement) is added to ordinary income, then ordinary income increases to 642 million yen. ... (*)

4. Changes in Consolidated Quarterly Results

Changes in consolidated quarterly results

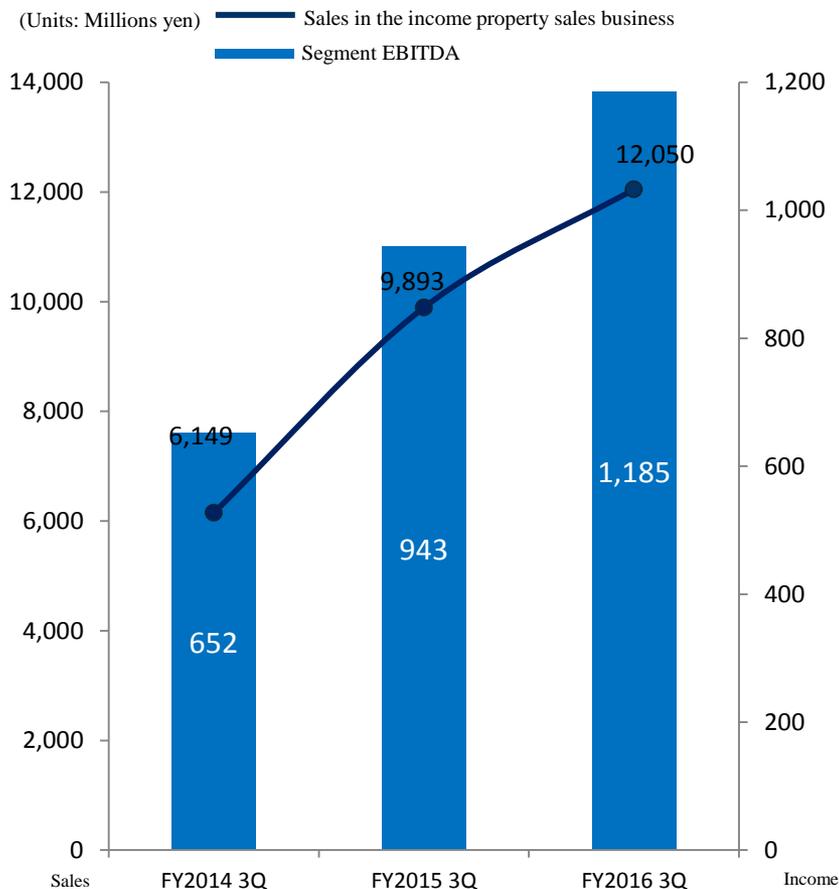


1. The income property sales business accounts for about 90% of consolidated sales. As a result, there are large fluctuations in quarterly results.

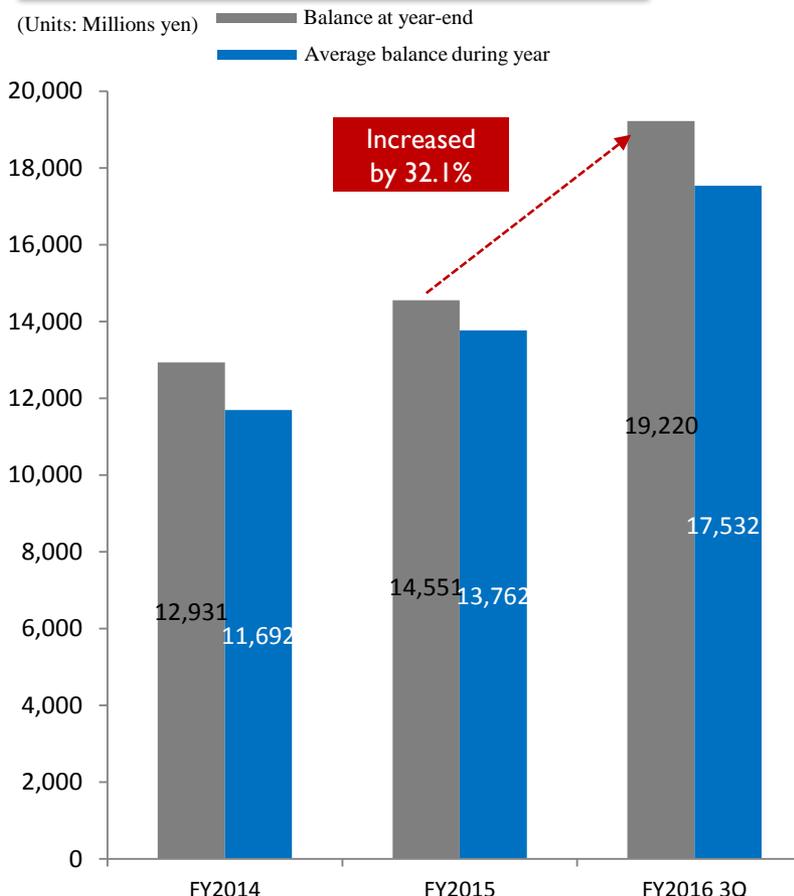
2. Ordinary profit of 1Q in FY ending March, 2017 is 156 million yen if profit from selling long-term income properties includes that profit. ...(*2)

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

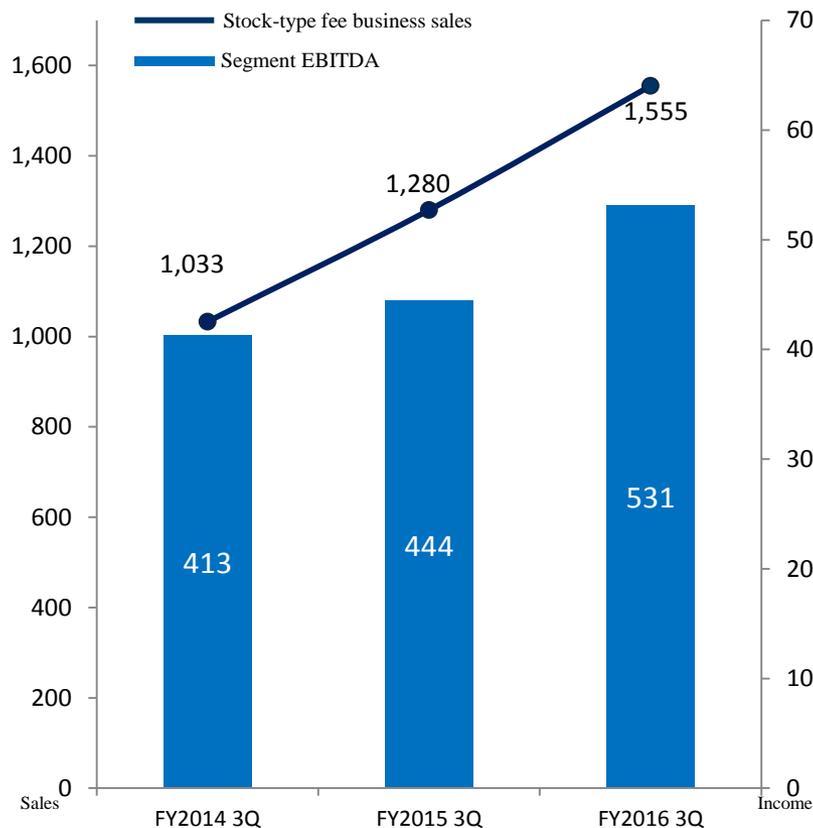


The balance of income properties that are a source of future income increased to 19.220 billion yen. (Year-end plan: 20.000 billion yen)

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

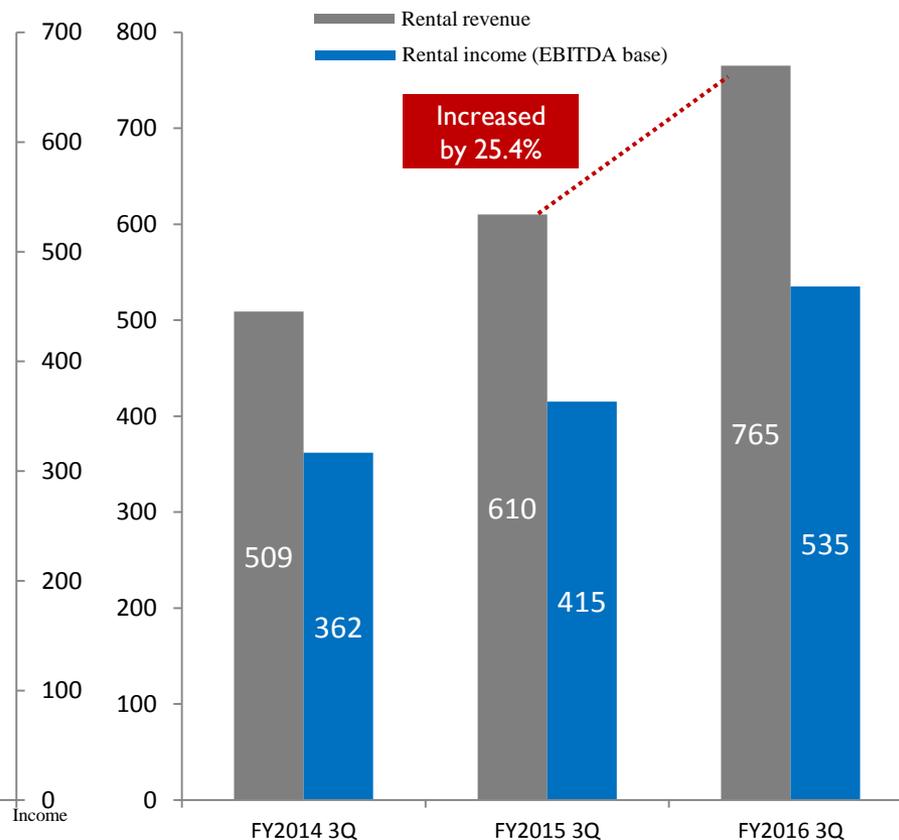
Changes in stock-type fee business results

(Units: Millions yen)



Changes in rental revenue and income

(Units: Millions yen)

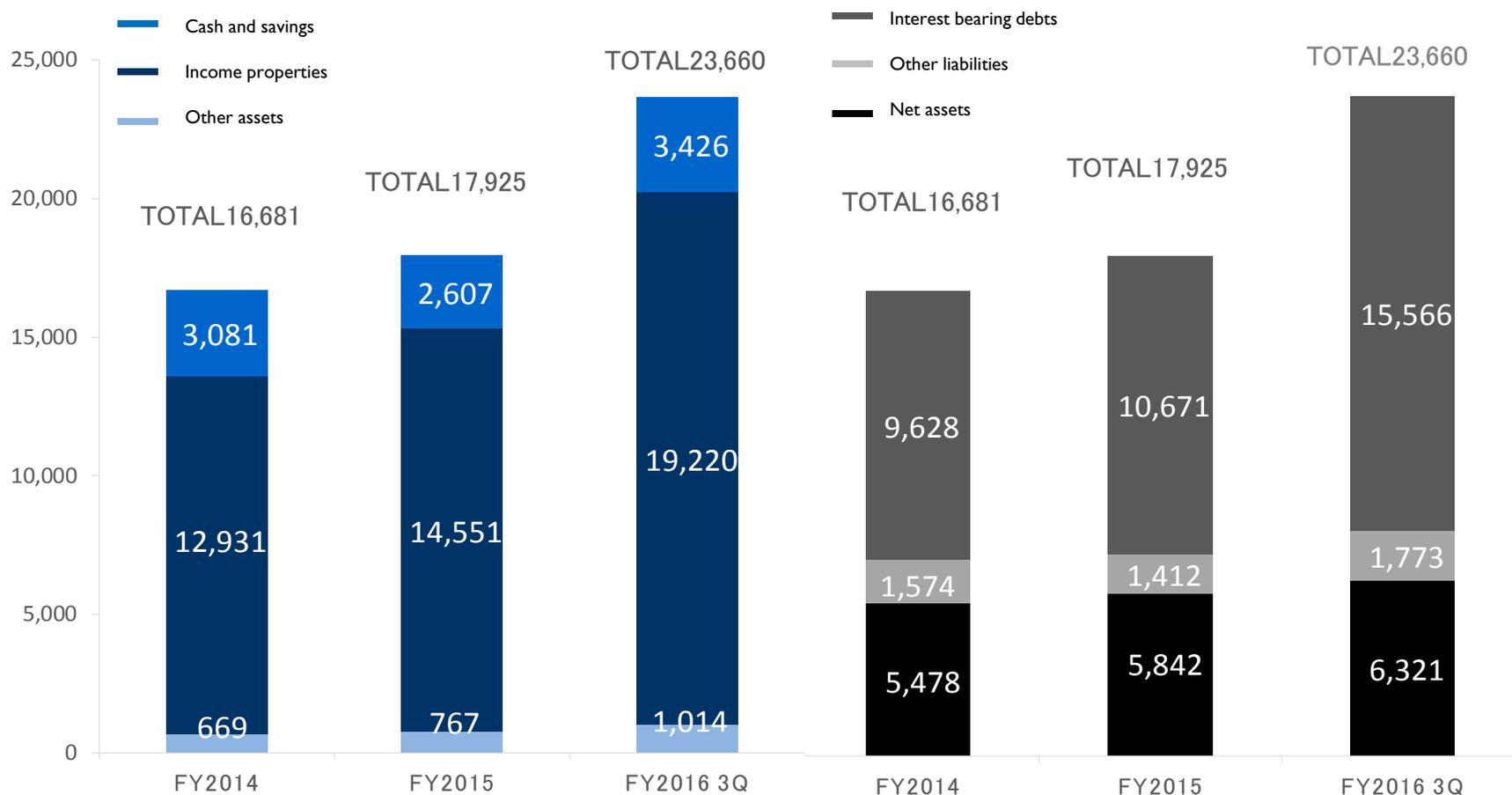


As a result of the growing balance of income properties, there was also an increase in the rental revenue that represents a stable profit base.

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. A portion of income properties held for long-term sale are classified as fixed assets. The income from sales of these income properties is recorded as extraordinary income. Our policy in such cases is to add the results of this extraordinary income to consolidated EBITDA.

The equity financing announced on May 12 is expected to reduce the planned ROE for the year ending March 31, 2017. If this financing was not carried out, ROE for the year ending March 31, 2017 is predicted to be 8.5%.

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

(Units: Millions yen)

		Year ended March 31, 2016 (Results)	End of 3Q ended Dec. 30, 2016 (Results)	Year ending March 31, 2019 (Planned)
Guidance	Balance of U.S. income properties held for sale (average)	1,773	2,412	5,000
	Balance of domestic income properties held for short- or medium-term sale (average)	9,116	10,705	12,000
	Balance of domestic income properties held for long-term sale (average)	2,872	4,413	10,500
	Total balance of income properties (end of year)	14,551	19,220	30,000
	Rental income (EBITDA base)	559	535	1,246
	ROA for income property sales business	11.6%	10.8%	6.9%

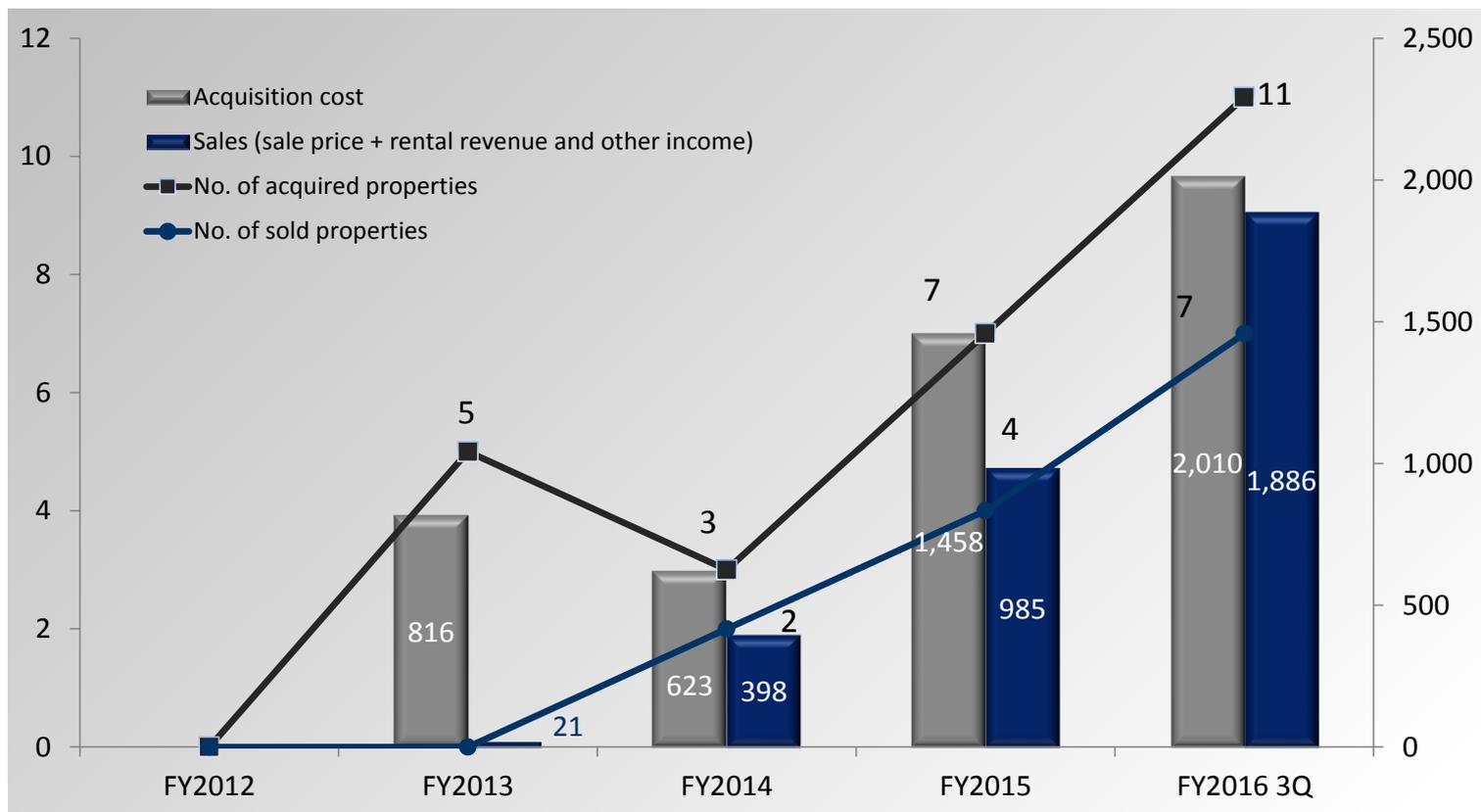
Note: ROA for the income property sales business in first three quarters of the fiscal year ending March 31, 2017 is calculated by conversion to a full-year basis.

IV - Situation of income properties business in US

10. U.S. Income Property Business: Changes since the Beginning

(Units: Properties)

(Units: Millions yen)



Even though these are the results from a 9 month period (April – December 2016) of the current fiscal year (FY 2016), they have already exceeded the results from the full year (12 months) of FY 2015.

11. U.S. Income Properties Business: Business Environment

U.S. business environment

I . GDP forecasts of leading countries

Source: IMF, Revised 2017 WEO forecasts

	2016 estimate	2017 forecast	2018 forecast
U.S.	1.6%	2.3%	2.5%
Eurozone	1.7%	1.6%	1.6%
Japan	0.9%	0.8%	0.5%
U.K.	2.0%	1.5%	1.4%
Canada	1.3%	1.9%	2.0%
Others	1.9%	2.2%	2.4%

* Figure for 2016 shows the results from Jan. – Nov. converted to a full-year figure.

II. All-U.S. indicator for sales of secondhand residences

Source: National Association of Realtors



➤ Among leading countries, the highest economic growth rate is forecast for the U.S.
(I . GDP forecasts of leading countries)

➤ In the U.S. secondhand residence market, both the amount of sales and sales prices are increasing.
(II . All-U.S. indicator for sales of secondhand residences)

■ Growing population will lead a rise of income properties and rent.

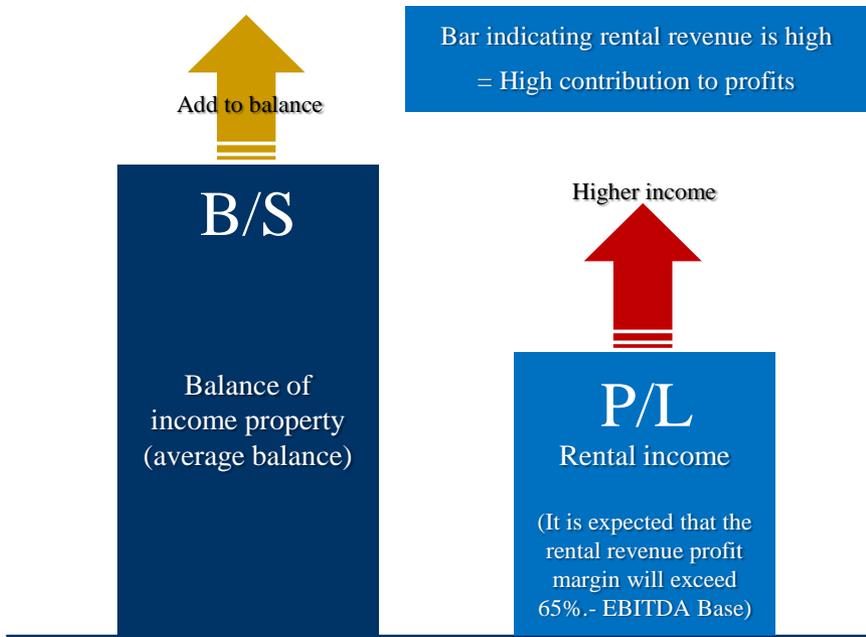
■ Value of existing residence tends not to fall down as permission of new development at popular residential area is hard to receive.

➤ Los Angeles is located on the west coast, close to Japan, and historically has deep ties to Japan.

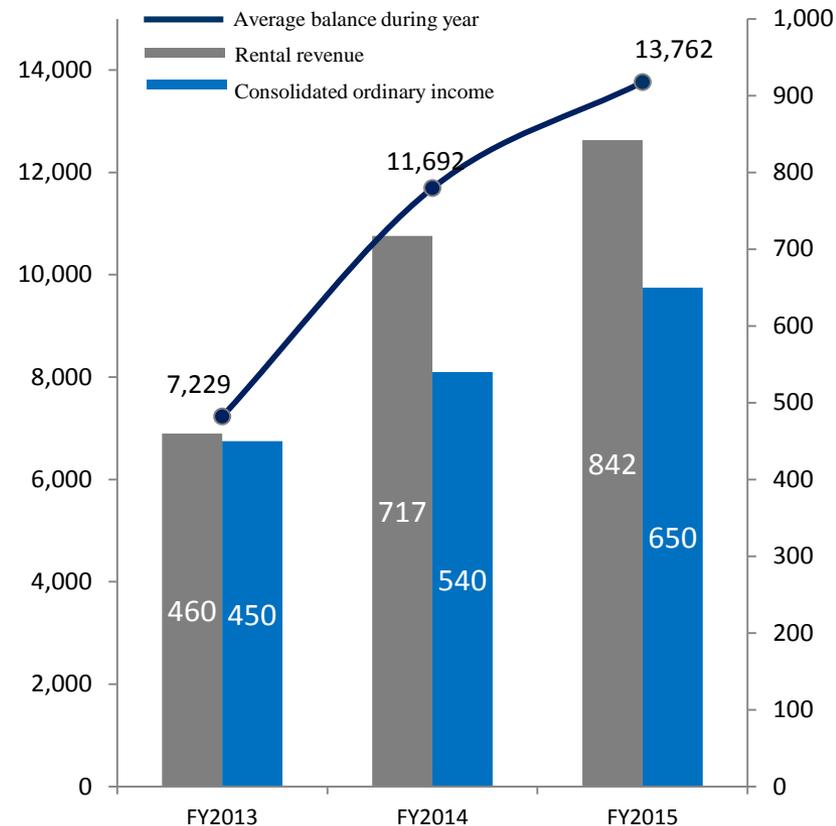
V - Reference Materials (Business Strategy)

V-1. 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.

V -2. Business Strategy: Benefits of Increasing the Balance of Income Properties

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

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

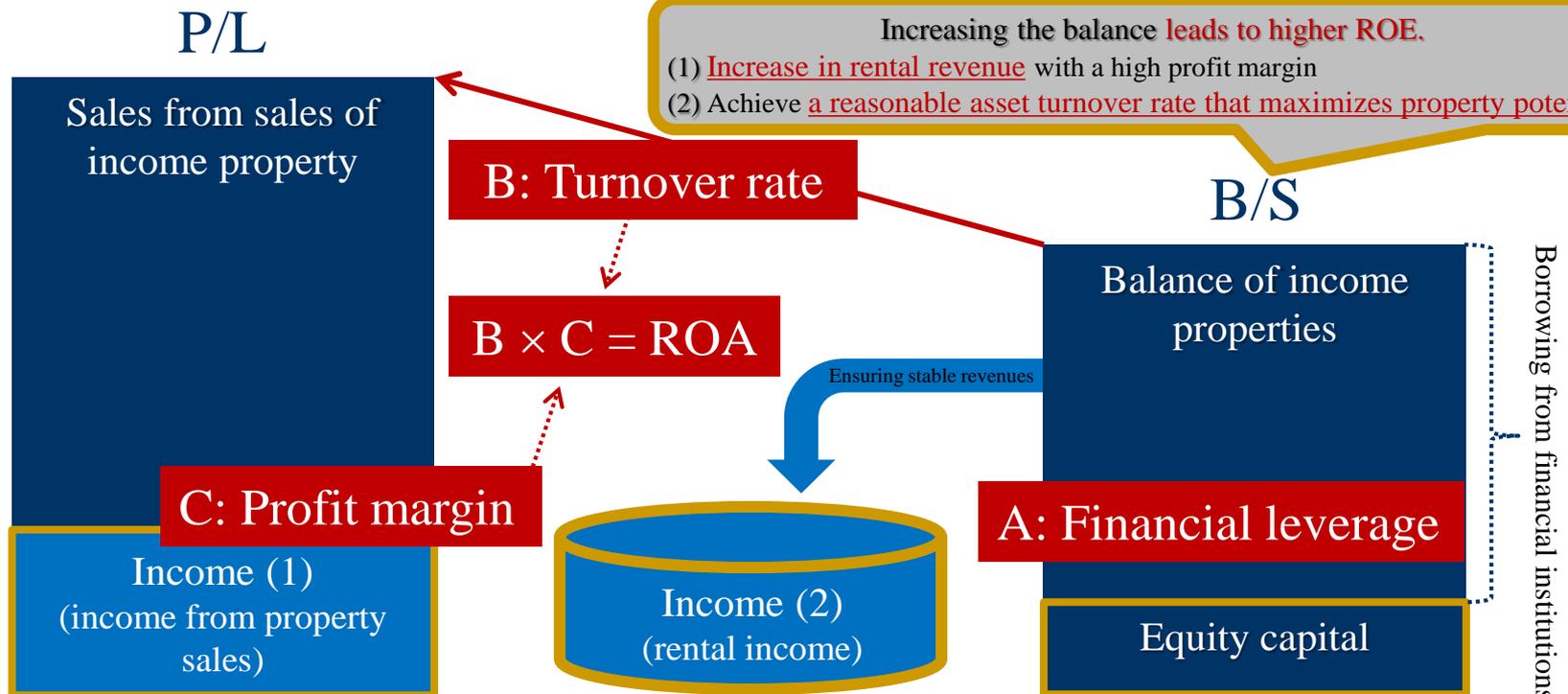
<Balance of income properties /
Equity capital>

<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)



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:** 1,937,744,322 yen (as of the end of September 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:** 129 consolidated (as of the end of September 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

VI-2. Shareholder Composition

Number of issued shares / Number of shareholders

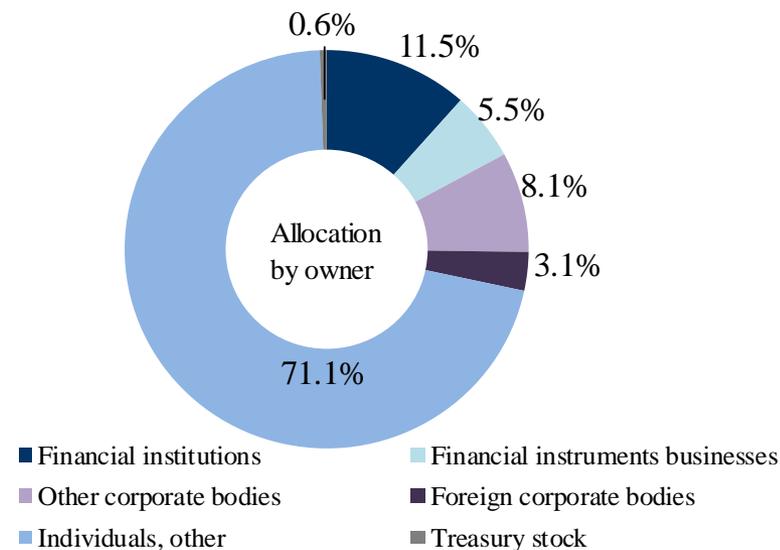
Number of issued shares: 224,076,000

Number of shareholders: 12,287

Major shareholders

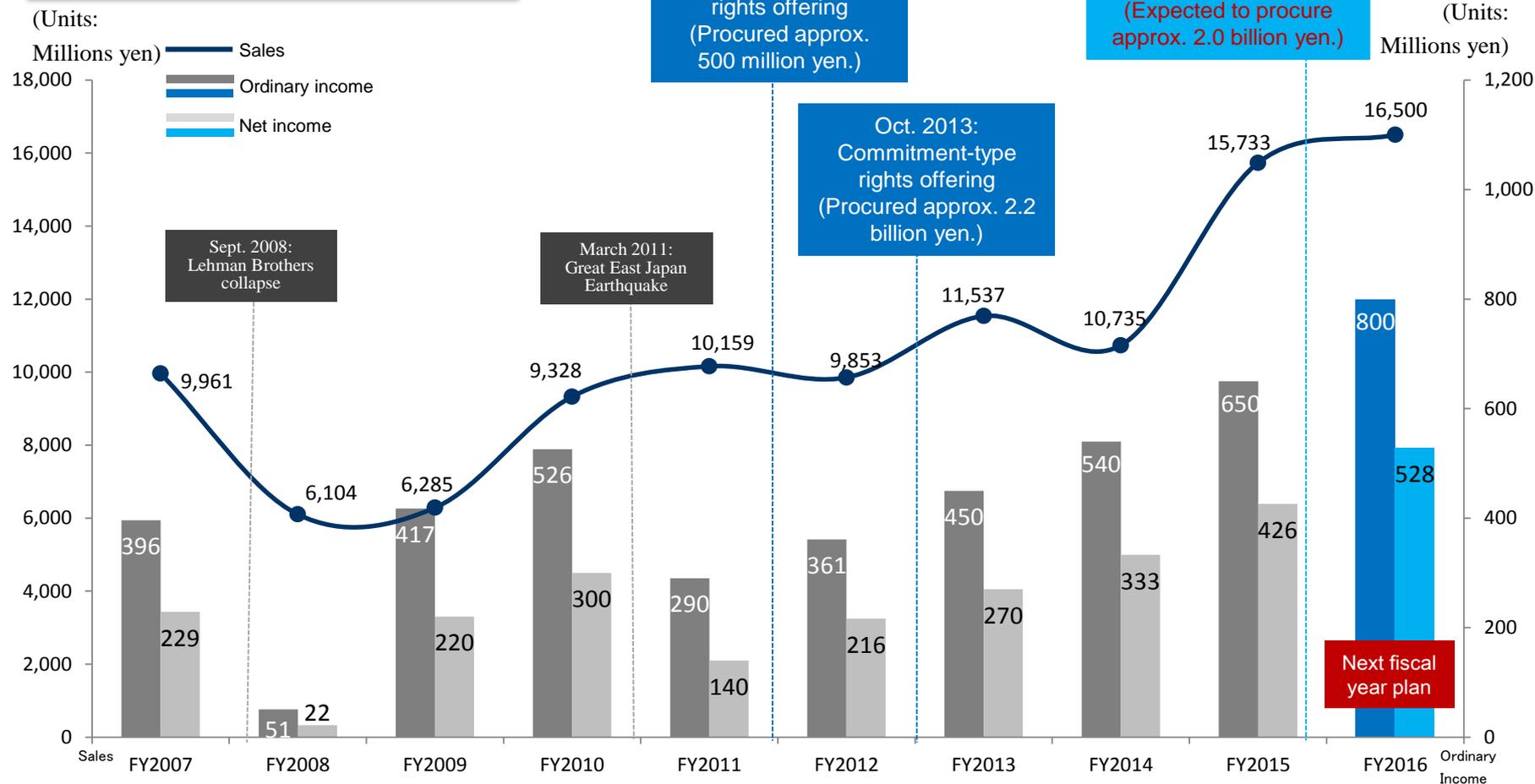
(based on information as of Dec.31, 2016)		
	Number of shares	Share ratio %
1	Hideo Tanaka (Our company President and CEO)	44,256,248 19.75%
2	Liberty House Co., Ltd.	9,416,000 4.20%
3	The Master Trust Bank of Japan, Ltd. (BIP Trust Account*75695)	6,931,238 3.09%
4	Milestone Capital Management Co.,Ltd.	3,199,900 1.42%
5	The Master Trust Bank of Japan, Ltd.(Trust Account)	2,967,200 1.32%
6	Japan Trustee Services Bank, Ltd. (Trust Account)	2,924,900 1.30%
7	Rakuten Securities, Inc.	2,498,000 1.11%
8	BNY FOR GCM CLIENT ACCOUNTS (E) BD	2,243,248 1.00%
9	Japan Trustee Services Bank, Ltd. (Trust Account*6)	1,911,000 0.85%
10	Japan Trustee Services Bank, Ltd. (Trust Account*5)	1,901,700 0.84%

Allocation by owner (share ratio)



VI-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

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)	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

VII - Reference Materials (The Fifth Mid-Range Business Plan)

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

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

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

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

VII-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

VII-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

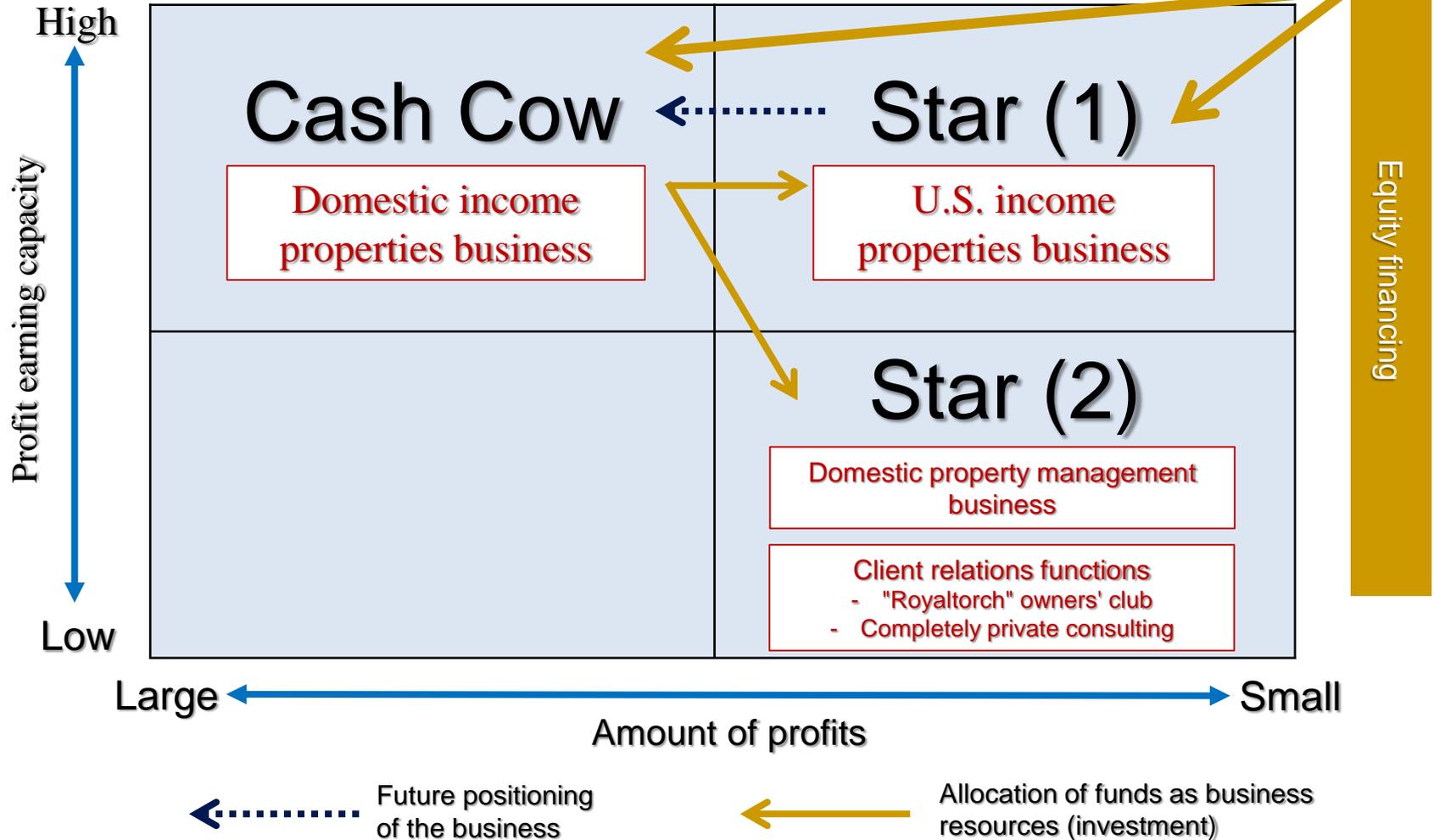
- Restructuring of the mechanism/system for achieving both quality and quantity in property management
- Strengthening of asset management functions
- Expansion of the "Royaltorch" owners' club that is operated by our company

...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.

VII-5. Business Strategy: Investment Positioning Matrix

A.D.W. Group investment positioning matrix



VII-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

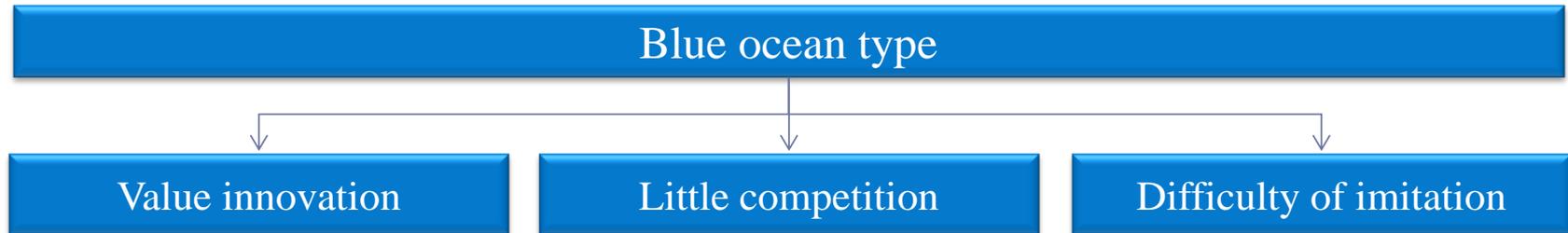
We can establish a unique position in the real estate industry.

VIII - Reference Materials

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

VIII-1. Organization of the A.D.W. Group Business Model

Business model characteristics



Characteristics

(1) One-stop solutions

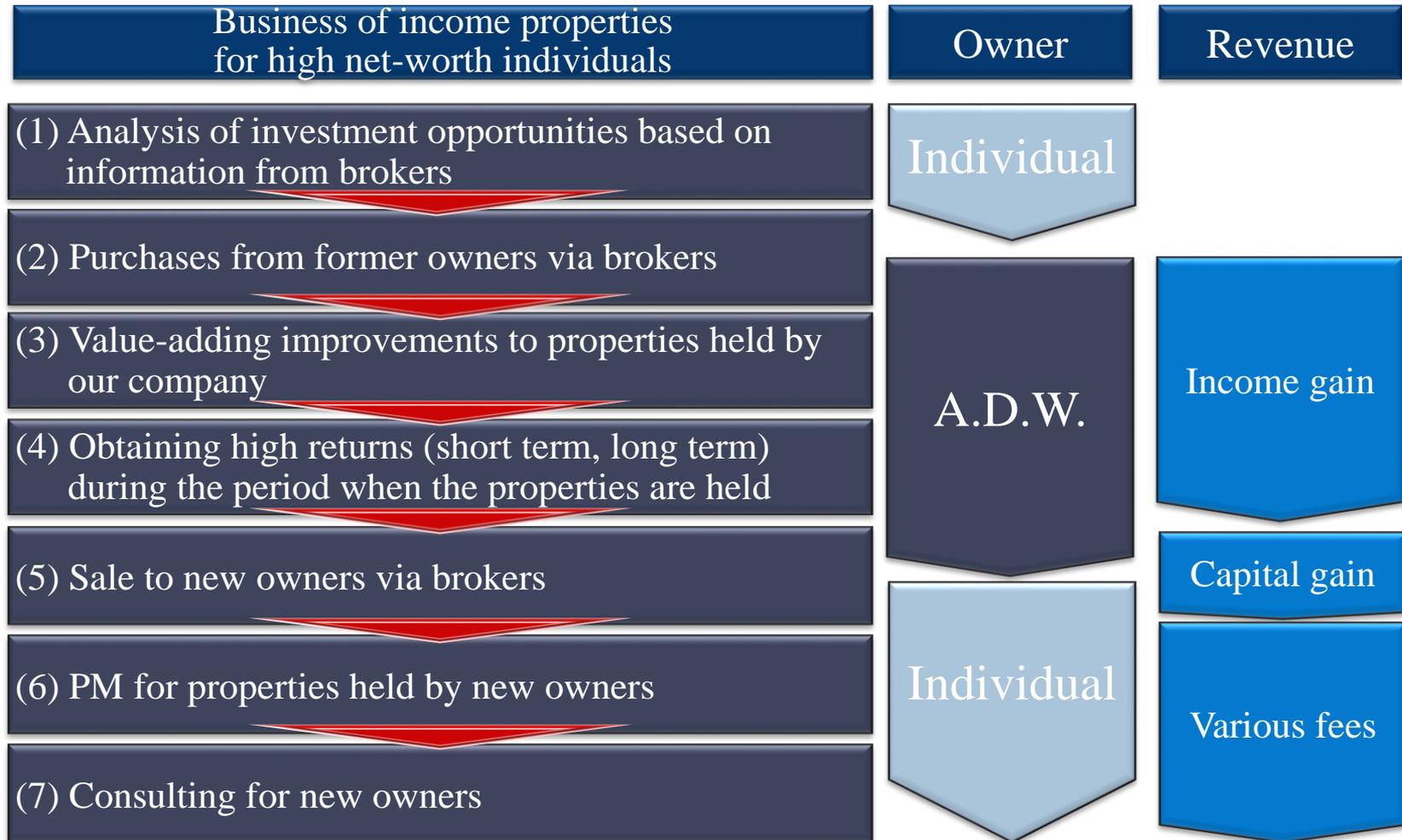
(2) Broad-ranging competitive superiority and social significance

(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-2. Business Model Characteristics (1)

(1) One-stop solutions

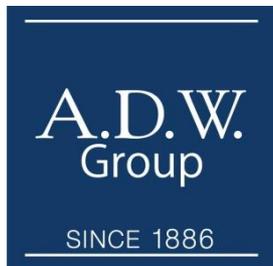


VIII-3. Business Model Characteristics (2)

(2) Broad-ranging competitive superiority and social significance

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

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