

繋ぎ高める。変わり続ける。

A.D.Works Co., Ltd.
IR Briefing Materials:
The First Three Quarters of the Year Ending March 31, 2019

January 30, 2019
A.D.Works Co., Ltd.

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

I	Summary of the First Three Quarters of the Year Ending March 31, 2019	P.2 - P.5
II	Overview of the First Three Quarters of the Year Ending March 31, 2019	P.6 - P.12
III	Business Plan and Progress	P.13 - P.16
IV	Equity Finance	P.17 - P.21
V	Reference Materials (Business Strategy)	P.22 - P.24
VI	Reference Materials (Company Profile, Shareholder Composition, Trends in Consolidated Results)	P.25 - P.29
VII	Reference Materials (The Fifth Mid-Range Business Plan)	P.30 - P.33
VIII	Reference Materials (Characteristics of the A.D.W. Group Business Model)	P.34 - P.37

I - Summary of the First Three Quarters of the Year Ending March 31, 2019

Topic
1

1.63 billion yen in ordinary income and 640 million yen in net income

The Group flexibly invested in property holdings, compensated for the extraordinary loss posted in the first quarter and achieved 97% of the full-year target with its net income.

- Since the Group is within shooting range of achieving the fifth mid-range business plan, the Group is also focused on preparing the foundations for the sixth mid-range business plan.

Topic
2

Group's first small-lot real estate product, ARISTO® Kyoto, was sold in full

- As planned, a total of 1.22 billion was sold in December 2018. The Group is considering a second small-lot real estate product.

Topic
3

Steady progress in raising capital for growth funds

- About 970 million yen (progress rate of 48%) had been raised as of the end of the third quarter.
(financing [exercise of stock acquisition rights] period lasting until August 2020)



[Results from success of first deal]

1. Diversification of product lineup

While the investment unit of the Group's mainstay income-earning properties averages 200-300 million yen, investments from 5 million yen are possible in the case of the small-lot real estate products sold in this deal. This increased the diversity of the Group's products.

2. Client pool was expanded to wealthy people across Japan

Previously, the Group's clients were primarily wealthy people living in the Tokyo metropolitan area, but the client base has now expanded throughout Japan.

3. Diverse sales channel

The Group expanded from existing clients to build relationships with wealthy people all over the country by using more diverse channels, including tax accountants and financial institutions, than ever before.

- **We aim to expand both product types and client pool and build up our specified real estate joint enterprise business.**

Overview of 21st Stock Acquisition Rights (third-party allocation)

Allotment date	August 20, 2018
Allotment recipient	Milestone Capital Management LLC
Total number of stock acquisition rights	530,000 units
Number of dilutive shares resulting from this issuance	53,000,000 shares (100 shares per stock acquisition right)
Amount raised	About 2.02 billion yen (net proceeds of about 2.00 billion yen) ※10 million yen in stock acquisition rights issued + 2.01 billion yen in stock acquisition rights exercised
Exercise price	38 yen per share (fixed)
Progress	About 970 million yen (48% of total) was raised as of the third quarter. Exercise period lasts until August 19, 2020.

II -Overview of the First Three Quarters of the Year Ending March 31, 2019

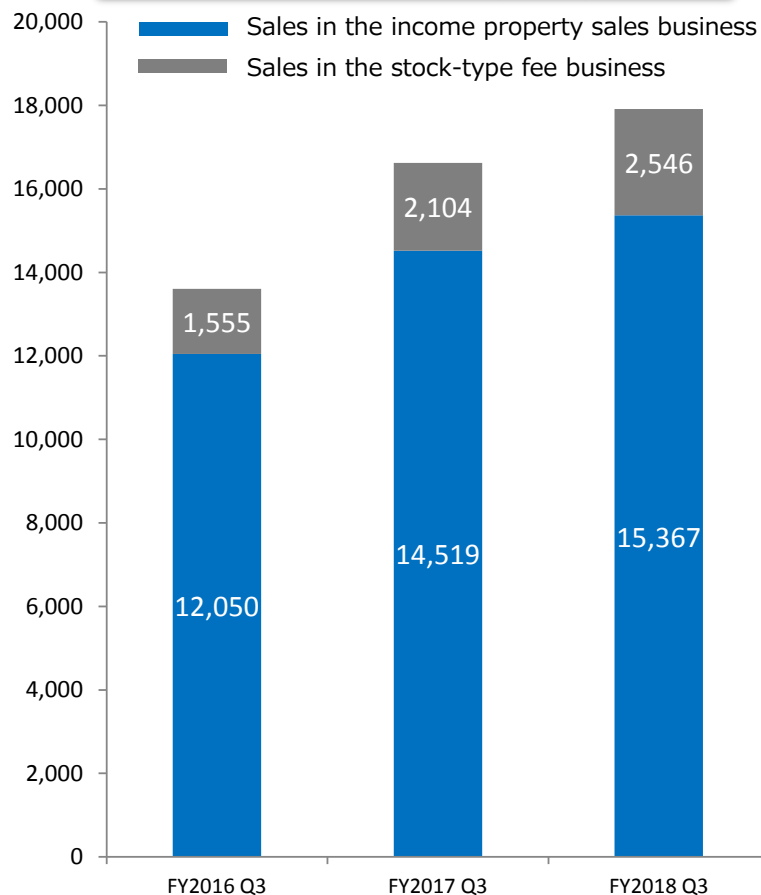
II-1. Consolidated P/L Summary

(Units: million yen)	FY2017 3Q (ended Dec. 31, 2017)		FY2018 3Q (ended Dec. 31, 2018)		Change from previous year	Full-year plan progress
	Amount	% of sales	Amount	% of sales		
Sales	16,358	+100.0%	17,561	+100.0%	+7.4%	73.2%
Gross profit	2,937	+18.0%	4,152	+23.6%	+41.4%	—
SG & A	2,009	+12.3%	2,279	+13.0%	+13.4%	—
EBITDA	1,024	+6.3%	2,018	+11.5%	+97.0%	126.2%
Ordinary income	714	+4.4%	1,632	+9.3%	+128.5%	163.3%
Net income before taxes	714	+4.4%	874	+5.0%	+22.3%	87.4%
Net income	440	+2.7%	642	+3.7%	+45.8%	97.3%

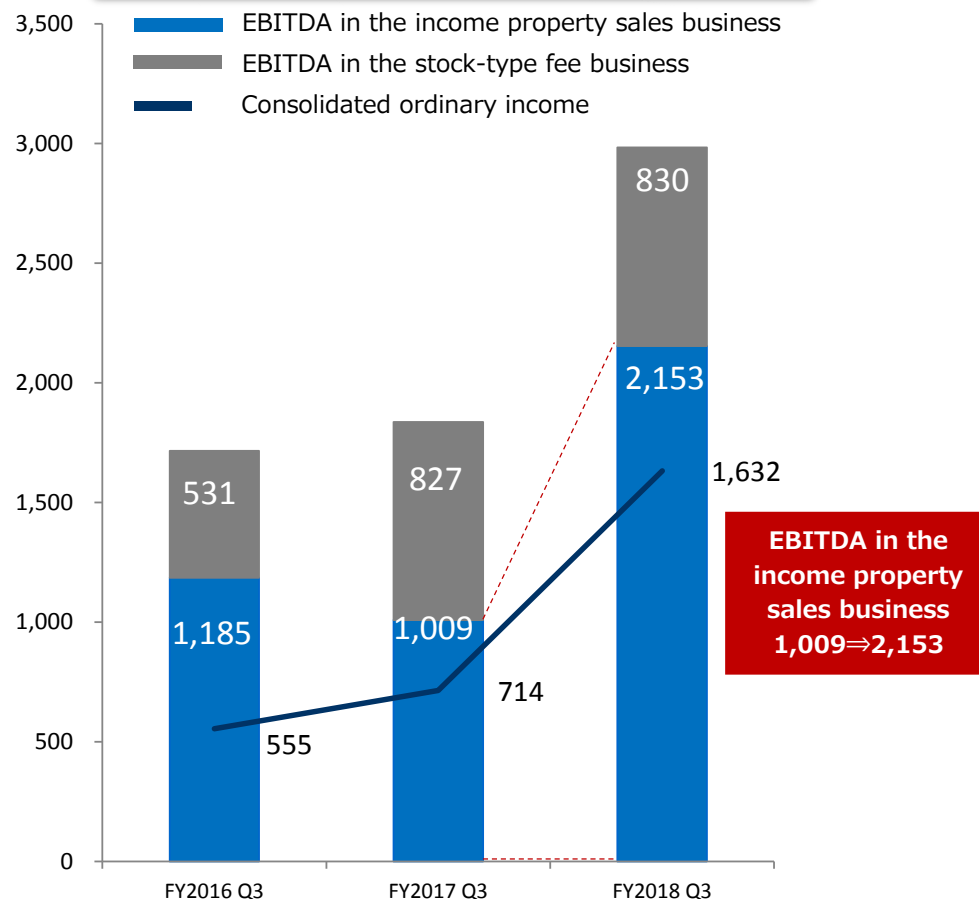
- Although extraordinary losses were incurred as a result of the notice of correction for consumer tax payments in the first quarter, ordinary income increased significantly due to an expanded sales lineup.

(Unit: million yen)

Changes in segment sales



Changes in segment EBITDA

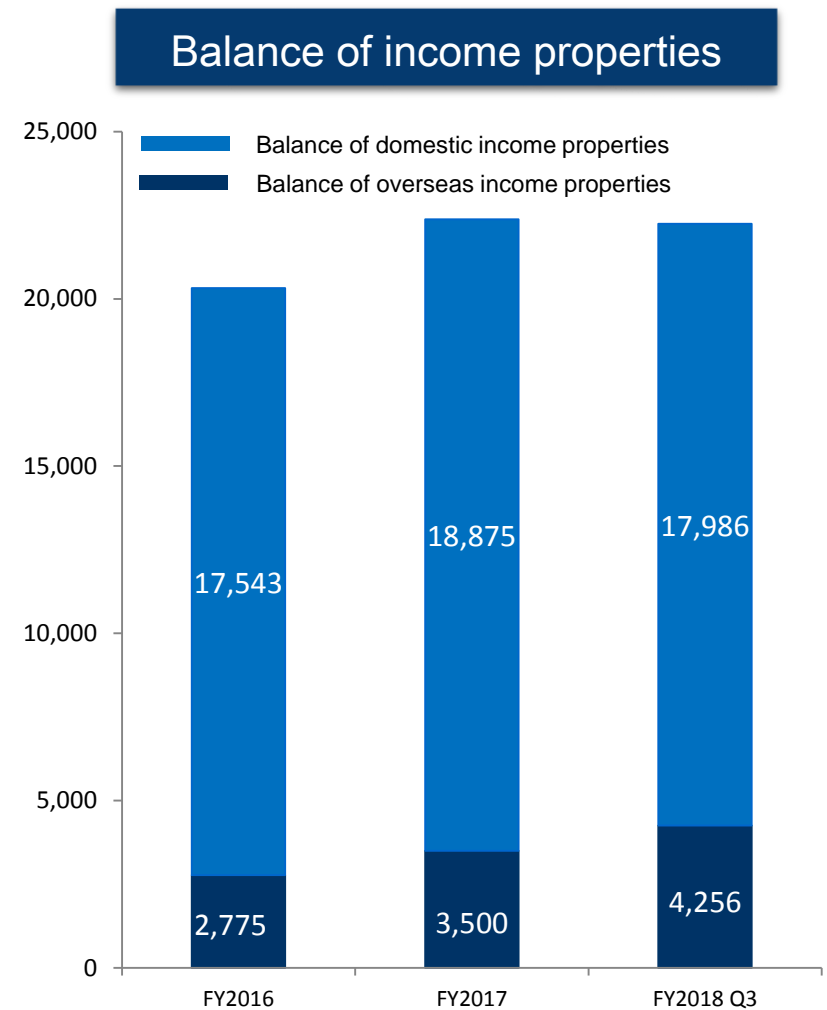
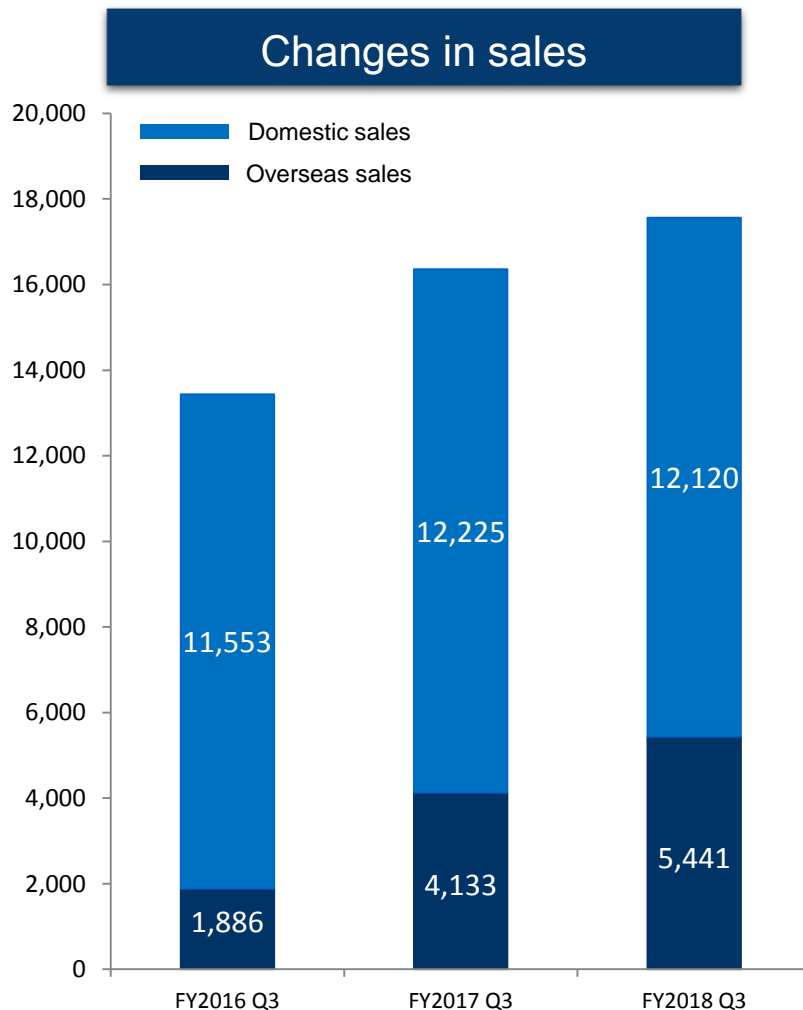


Note: Because sales for each segment include intersegment sales, the totals for each segment differ from consolidated sales.

➤ **Consolidated ordinary income also increased due to the rise in income from the income property sales business.**

II-3. Changes in Scale of Business by Region

(Units: million yen)



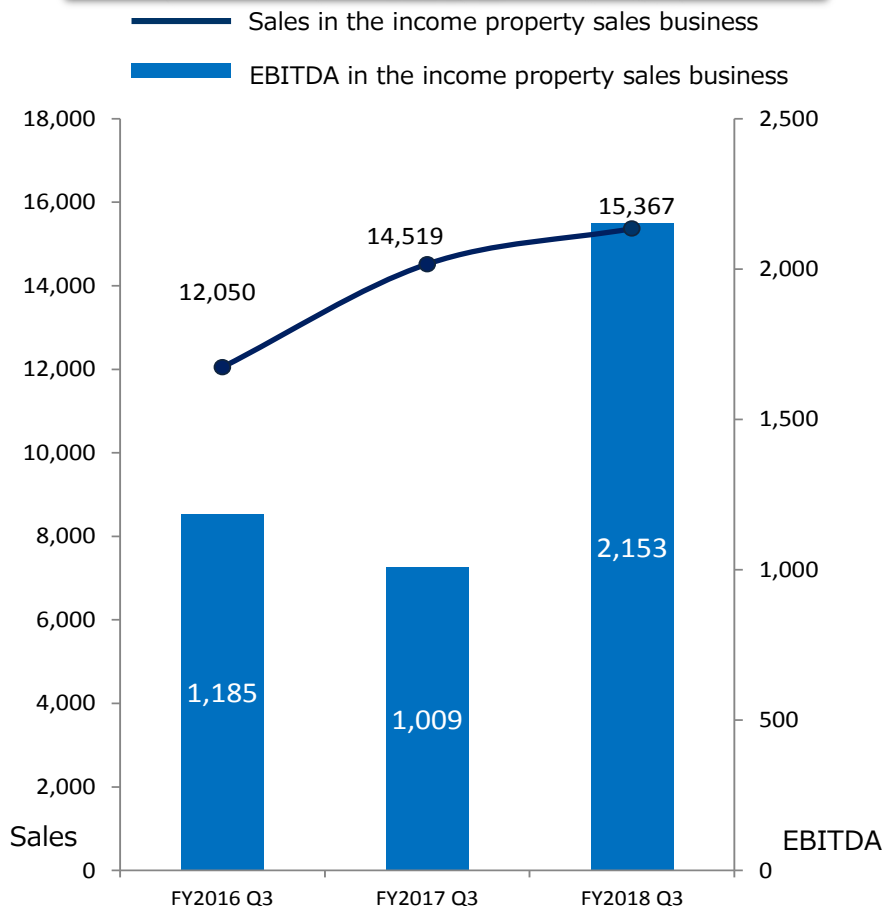
(Note) The income real estate balance does not include the reserves for the estimated consumer tax payment posted as an asset due to the notice of correction received from the Tokyo Regional Taxation Bureau regarding consumption tax payments for prior years.

The overseas business has been a solid performer, and has grown to account for about 30% of overall sales.

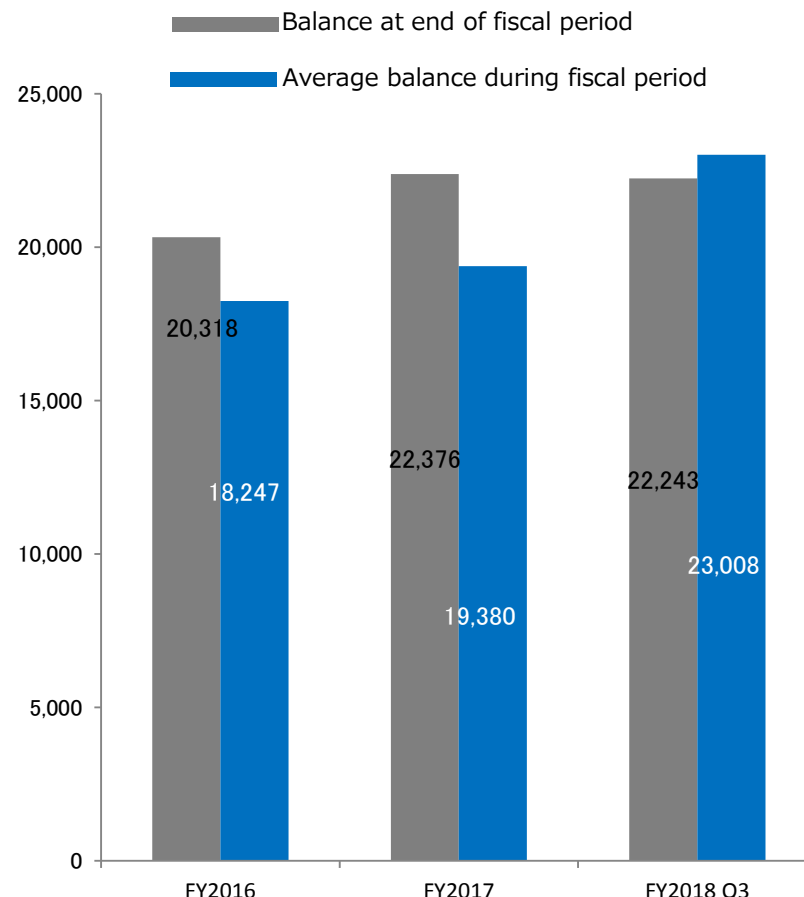
II-4. Main Business Areas ① : Overview of the Income Property Sales Business

(Unit: million yen)

Changes in income property sales business results



Changes in balance of income properties

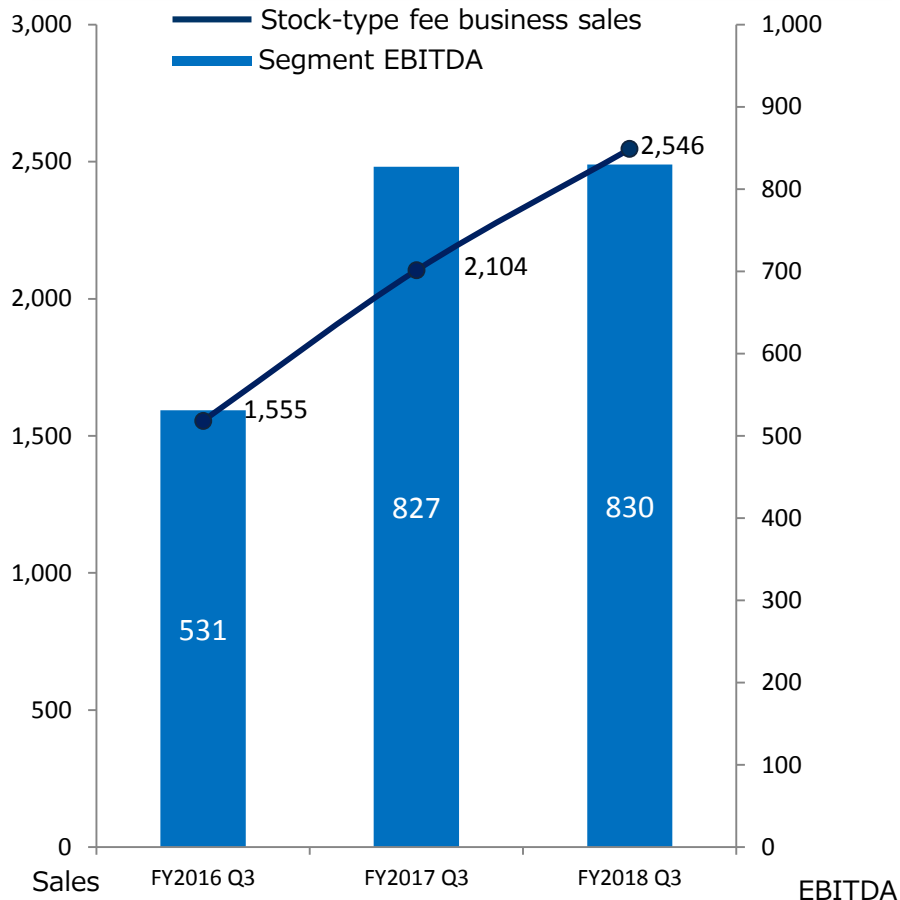


Note: The income real estate balance does not include the reserves for the estimated consumer tax payment posted as an asset due to the notice of correction received from the Tokyo Regional Taxation Bureau regarding consumption tax payments for prior years.

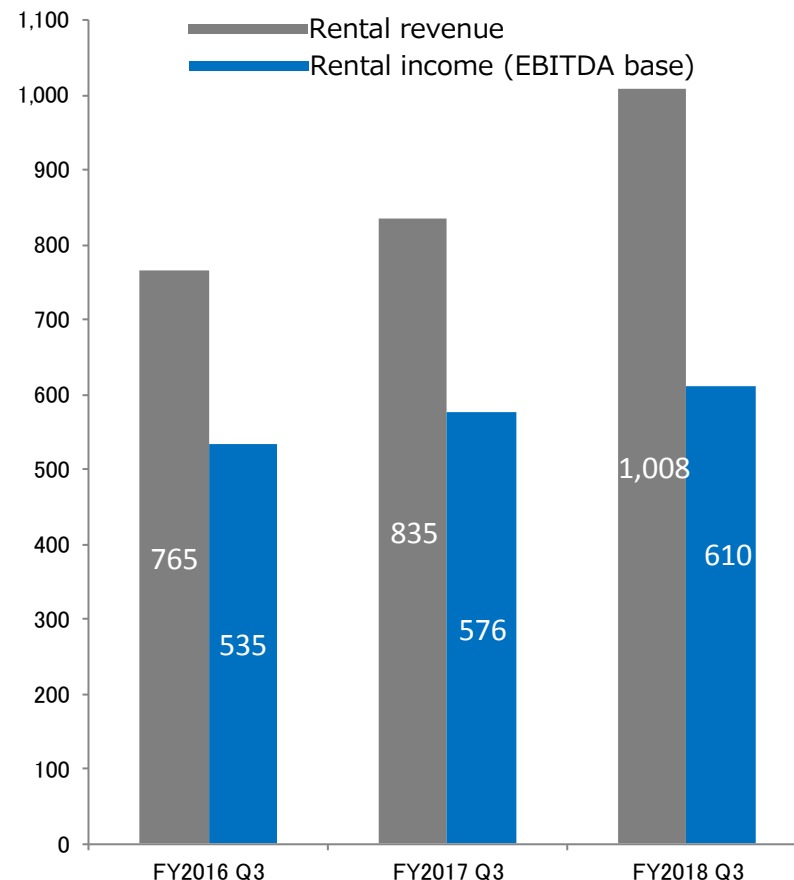
➤ **The balance of income properties—the source of future revenue—was built up even as income rose significantly.**

(Unit: million yen)

Changes in stock-type fee business results



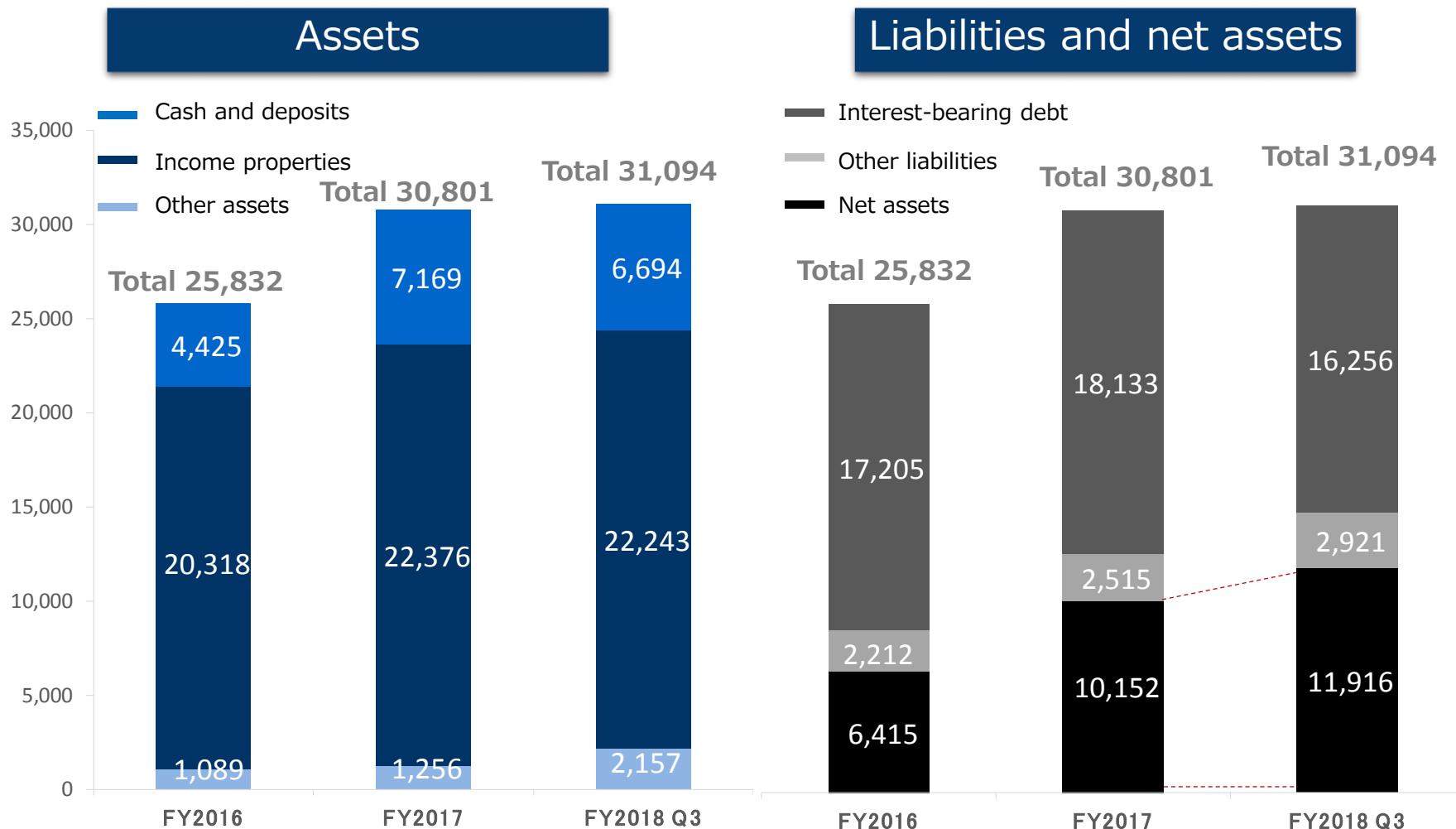
Changes in rental revenue and income



➤ Rental revenue, which are a stable revenue base, increased.

II-6. Consolidated Balance Sheet Summary

(Unit: million yen)



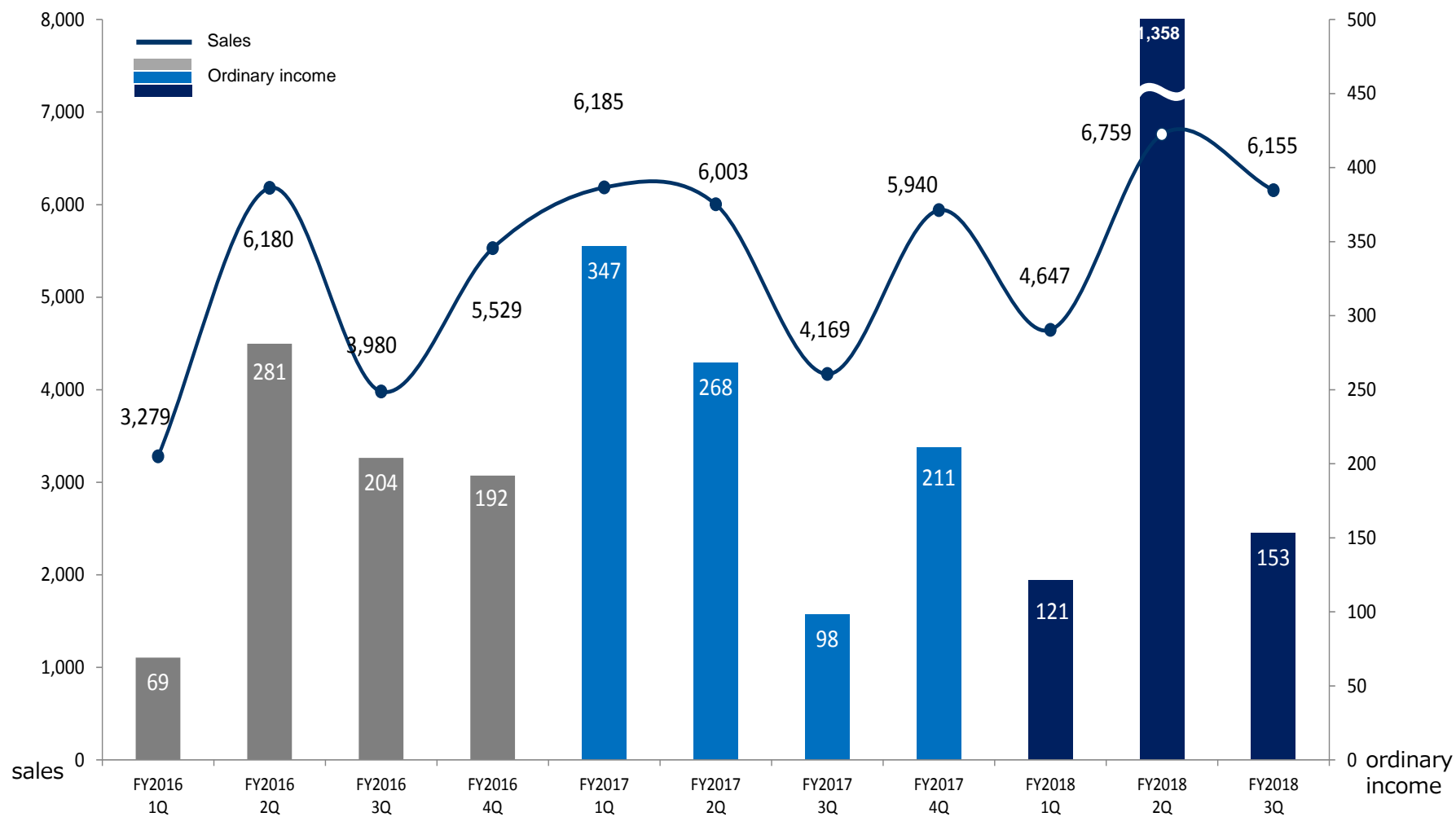
(Note) The income real estate balance does not include the reserves for the estimated consumer tax payment posted as an asset due to the notice of correction received from the Tokyo Regional Taxation Bureau regarding consumption tax payments for prior years.

➤ **Net income totaled 640 million yen and capital increased by 970 million yen due to the exercise of new stock acquisition rights. This led to a 17.4% increase in net assets over the end of the previous fiscal year, to 11,916 million yen.**

III. Business Plan and Progress

III-1. Changes in Consolidated Quarterly Results

(Units: million 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.

Ⅲ-2. Consolidated results plan

(Units: million yen)

	Year ended March 31, 2017 (Results)	Year ended March 31, 2018 (Results)	Year ended March 31, 2019 (Plan) ※Announced May 10, 2018	Year ended March 31, 2019 (The Fifth Mid-range Business Plan) ※Announced May 12, 2016
Sales	18,969	22,299	24,000	18,000
EBITDA	1,216	1,348	1,600	1,600
Ordinary income	748	926	1,000	1,000
Net income	540	584	660	660
ROE (year-end)	8.5%	5.8%	6.2%	7.4%

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 part of the gain or loss on sales from the relevant 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)

Forecasts for fiscal year ending March 2019

① Net sales (the Fifth mid-range business plan: 18,000 million yen ⇒ 24,000 million yen)

This is because sales and cost of sales are trending at about the same high levels when compared to the forecasts made when devising the Fifth mid-range business plan.

Income is trending in line with the levels outlined in the fifth mid-range business plan.

② ROE (year-end) (the Fifth mid-range business plan 7.4% ⇒ 6.2%)

This change is due to a discrepancy in shareholders' equity from the forecast in the Fifth mid-range business plan due to a rights offering.

(Units: million yen)

Guidance	Year ended March 31, 2018 (Results)	End of 3Q ended Dec. 30, 2018 (Results)	Year ended March 31, 2019 (Plan) ※Announced May 10, 2018
Balance of US income properties held for sale (average)	2,846	3,922	3,763
Balance of domestic income properties held for short- or medium-term sale (average)	10,176	9,910	11,921
Balance of domestic income properties held for long-term sale (average)	6,357	9,176	10,503
Total balance of income properties (end of year)	22,376	22,243	30,000
Rental income (EBITDA base)	716	814	935
ROA for income property sales	11.5%	16.0%	8.6%

(Note 1) Rental income and ROA for the income property sales is calculated by conversion to a full-year basis.

(Note 2) The income real estate balance does not include the reserves for the estimated consumer tax payment posted as an asset due to the notice of correction received from the Tokyo Regional Taxation Bureau regarding consumption tax payments for prior years.

IV – Equity Finance

Overview of 21st Stock Acquisition Rights (third-party allocation)

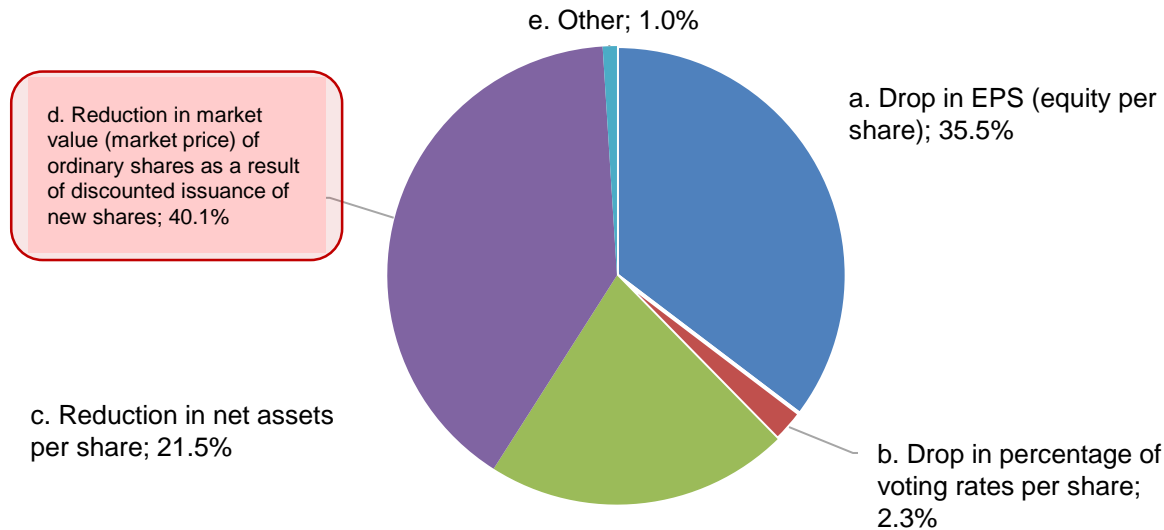
Allotment date	August 20, 2018
Allotment recipient	Milestone Capital Management LLC
Total number of stock acquisition rights	530,000 units
Number of dilutive shares resulting from this issuance	53,000,000 shares (100 shares per stock acquisition right)
Amount raised	About 2.02 billion yen (net proceeds of about 2.00 billion yen) ※10 million yen in stock acquisition rights issued + 2.01 billion yen in stock acquisition rights exercised
Exercise price	38 yen per share (fixed)
Progress	About 970 million yen (48% of total) was raised as of the third quarter. Exercise period lasts until August 19, 2020.

(Reference) Released Sep 27, 2018

※ Excerpt from shareholder survey released on September 27, 2018 (given to A.D.Works Shareholders' Club members)

Question:

In the case of capital policies for listed companies overall, which of these would you be concerned about if a company in which you hold shares (a listed company) increased its capital? Respondents: 1,888



➤ **The company's individual shareholders are worried that share prices would fall as a result of a discounted issuance.**

⇒ **The exercise price for share acquisition rights was set at the same level as the closing price on the release date (August 2, 2018).**

Objective

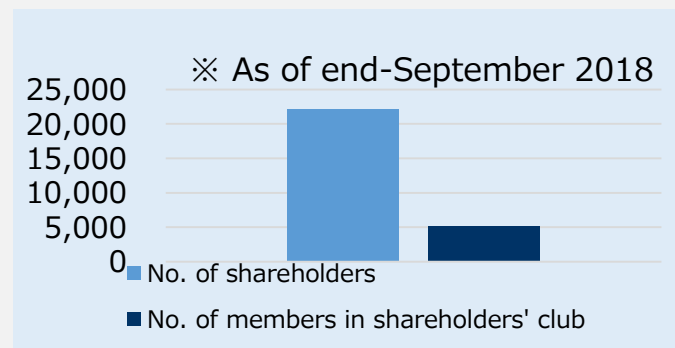
- This member organization is operated on the internet and began accepting members in September 2017 with the aim of strengthening relationships with more shareholders.

Functions

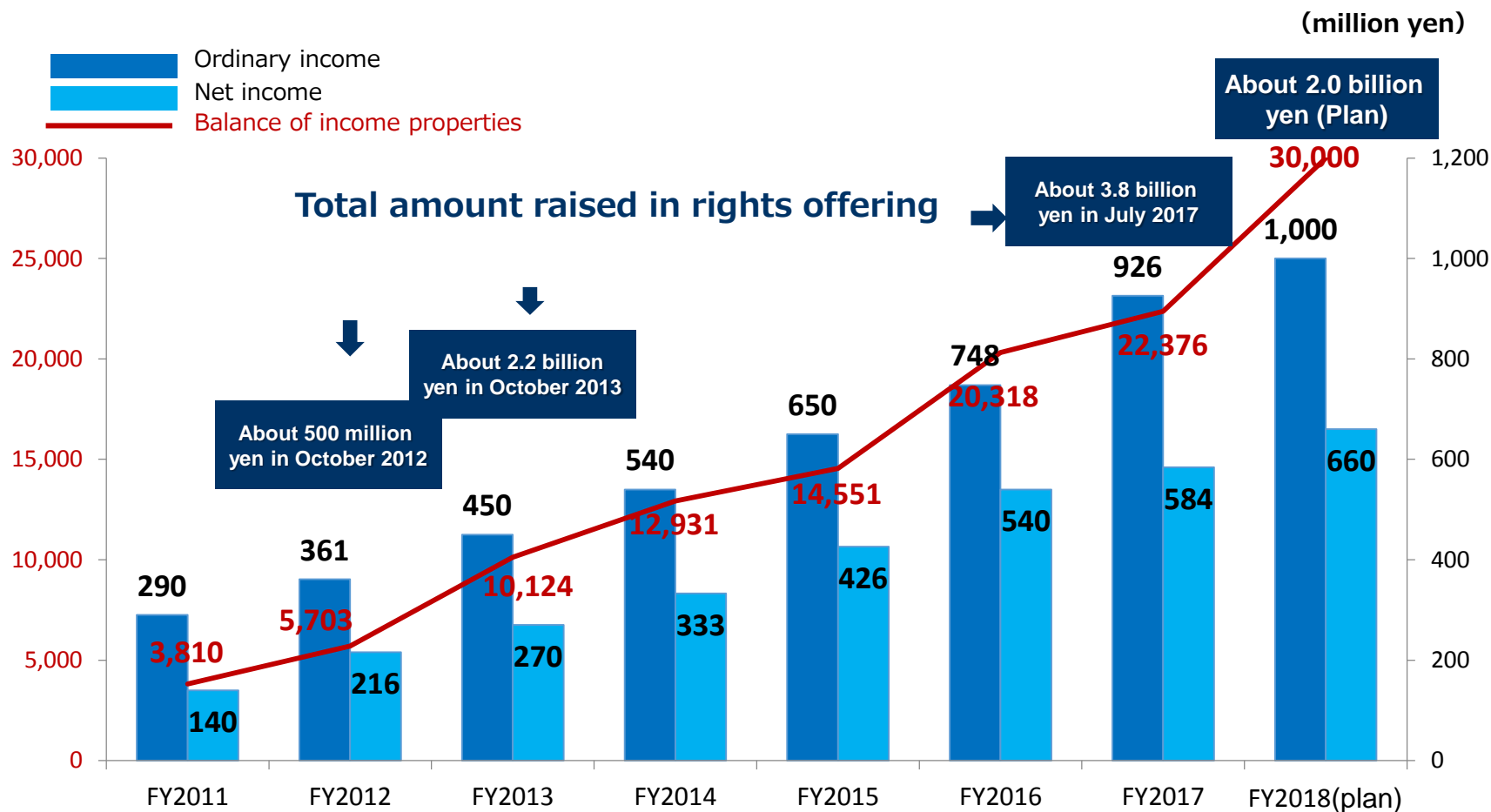
- Information on the company's current situation, particularly earnings and topics, is provided to members in a timely manner.
- Members with 10,000 shares or more receive special points as premium members.
- Surveys are given regularly to members to identify their views directly and promptly.
⇒The first survey was held from March to April 2018 (released on September 27, 2018), and was used as a reference for subsequent capital policy .

Scale

- There were more than 5,000 members as of end-Sep 2018.
This amounts to almost 1/4 of all shareholders.



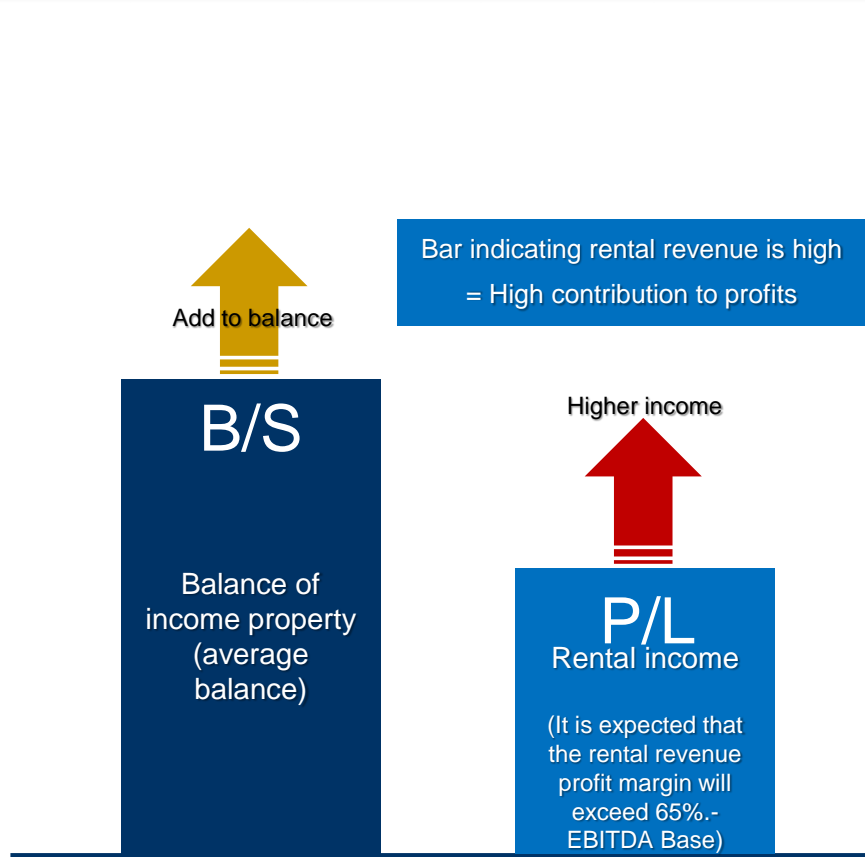
② Fluctuations in ordinary income, net income, and balance of income properties



➤ The strategy to increase the balance of income properties was flexibly implemented, despite the changing market conditions.

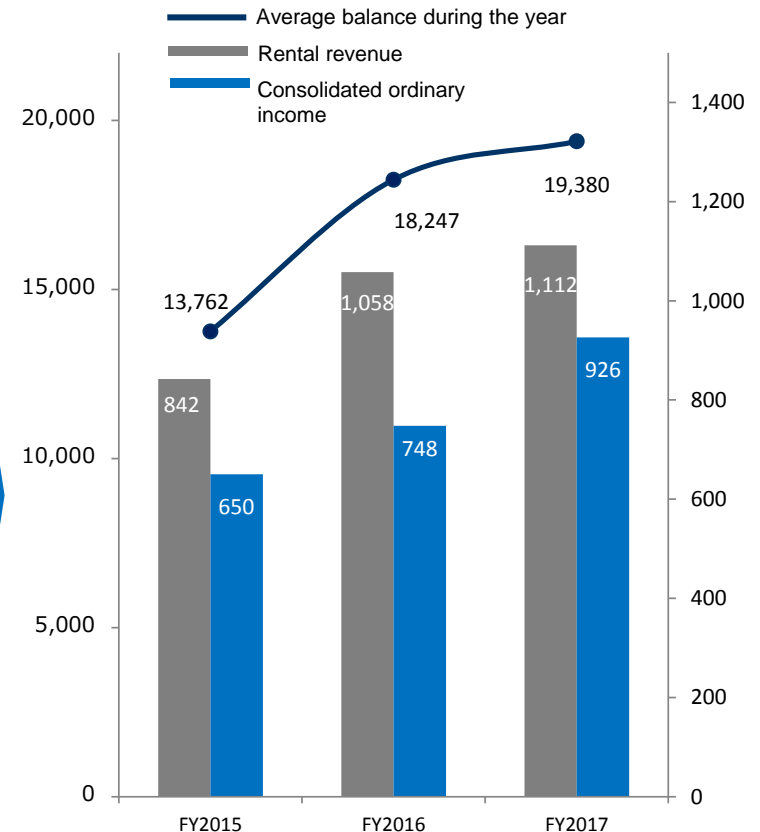
V - Reference Materials (Business Strategy)

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.**

(Units: million yen)



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

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

<Balance of income properties / Equity capital>

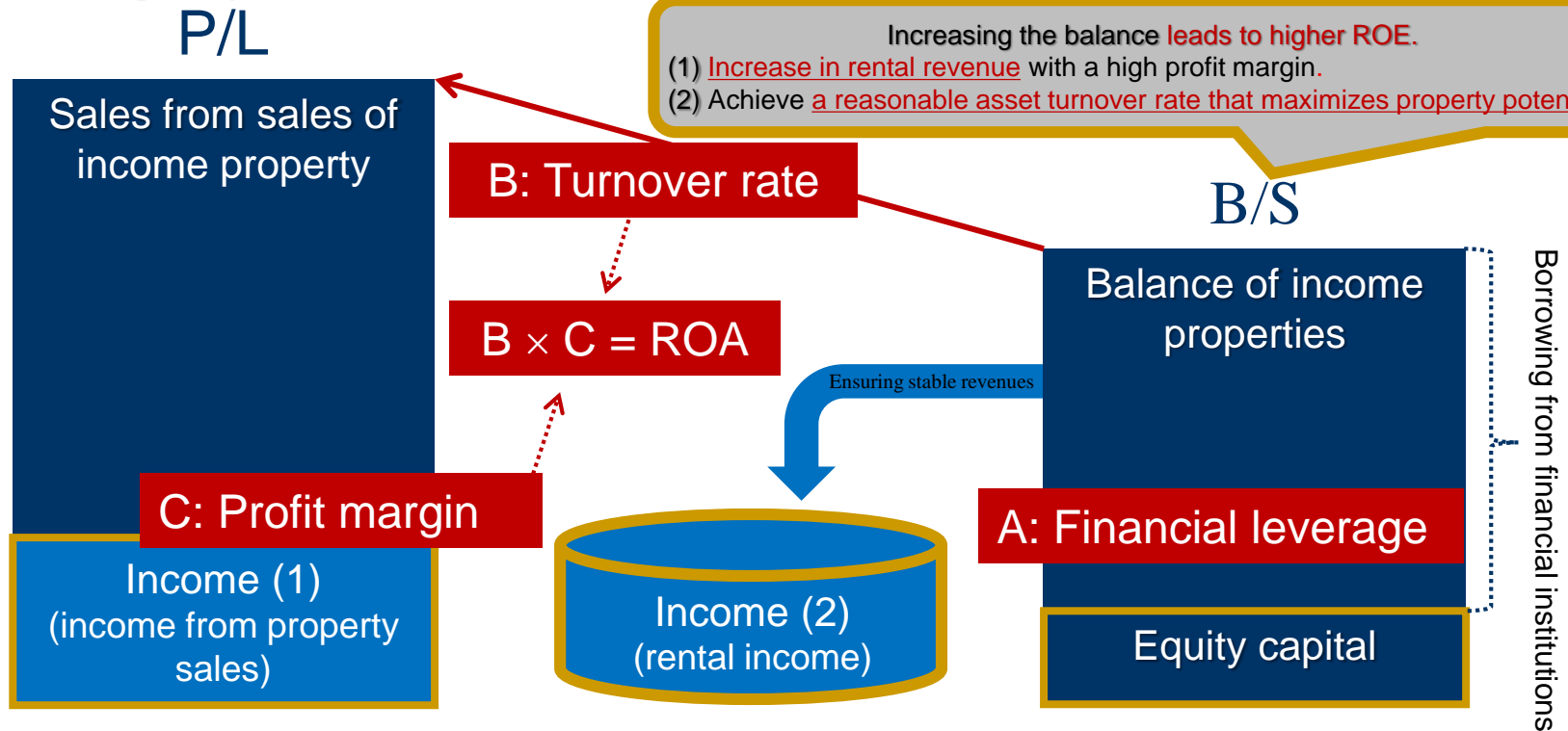
<Sales / Balance of income properties>

<Income from sales of income properties / Sales>

(Image showing relationships of announced figures)

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

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.



VI - Reference Materials

(Company Profile, Shareholder Composition, Trends in Consolidated Results)

- ❑ **Company name:** A.D.Works Co., Ltd.
- ❑ **Headquarters:** 13th Fl., U-1 Hibiya Bldg., 1-1-7, Uchisaiwai-cho, Chiyoda-ku, Tokyo
- ❑ **Establishment:** Founded February 1886. Incorporated May 1936.
- ❑ **Capital:** 4,382 million yen (as of the end of December 2018)
- ❑ **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 Co., Ltd. (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)
- ❑ **Officials:**

Hideo Tanaka	President and CEO
Syogo Yonetsu	Executive Vice President
Katsutoshi Hosoya	Senior Managing Director and CFO
Mitsuo Kimura	Senior Managing Director
Nobuhiko Toji	Managing Director
Koji Kaneko	Managing Director
Toshiya Suzuki	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

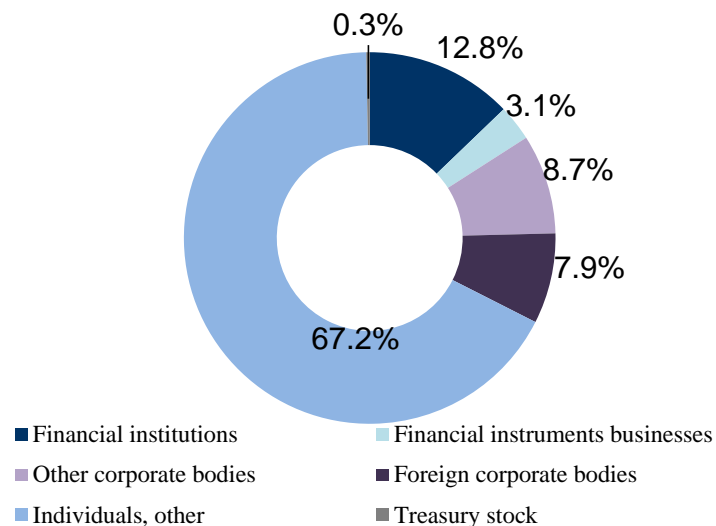
Number of issued shares: 349,737,193

Number of shareholders: 21,513

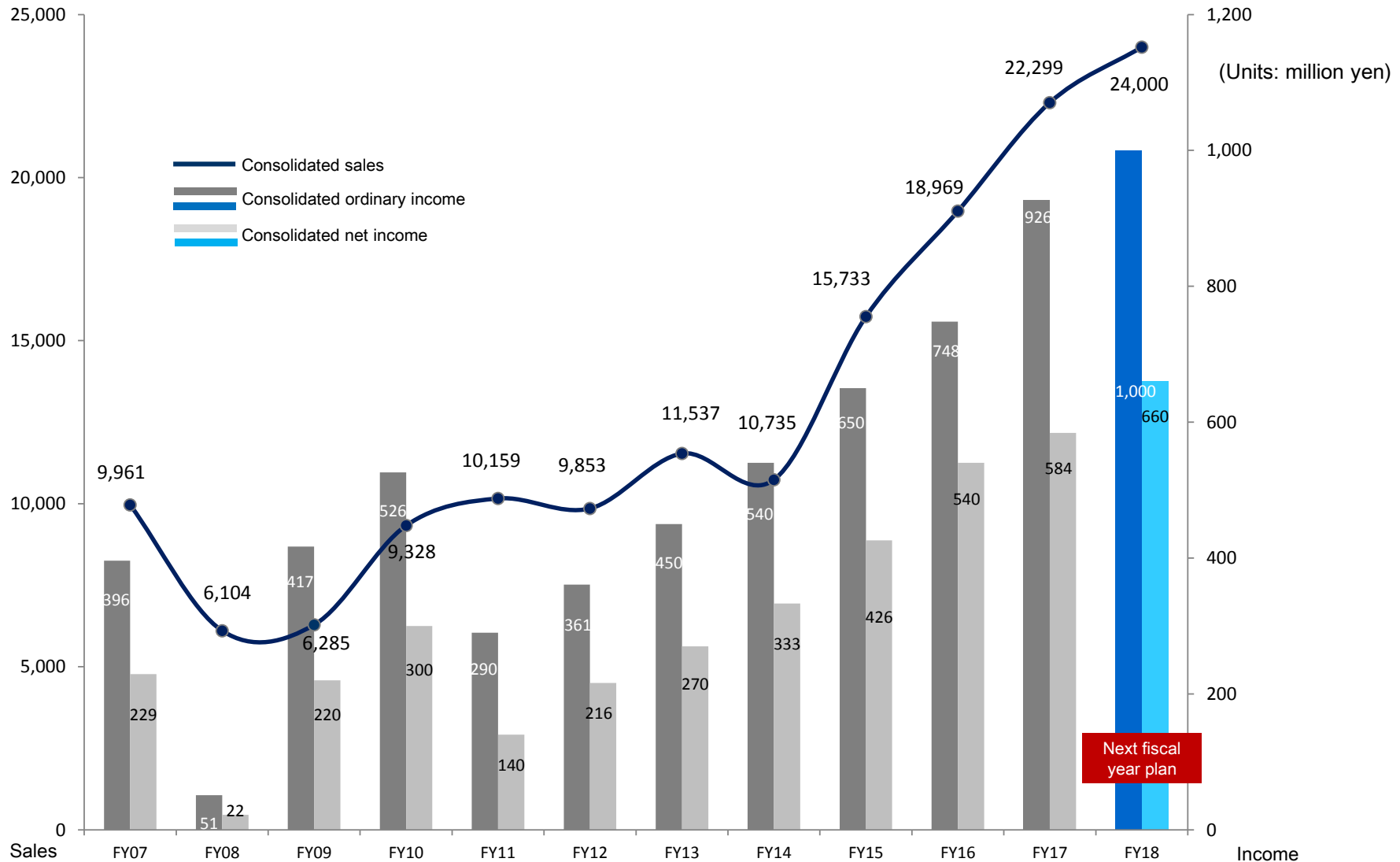
Major shareholders

		Number of shares	Share ratio %
1	Hideo Tanaka (President and CEO)	35,722,139	10.21
2	Liberty House Co., Ltd.	16,216,000	4.63
3	The Master Trust Bank of Japan, Ltd. (Trust Account)	10,466,100	2.99
4	J.P. MORGAN BANK LUXEMBOURG S.A. 1300000	9,216,468	2.63
5	Milestone Capital Management Co.,Ltd.	9,000,100	2.57
6	BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS LSCB RD	7,880,300	2.25
7	#N/A	6,262,700	1.79
8	Japan Trustee Services Bank, Ltd. (Trust Account * 5)	5,437,800	1.55
9	Japan Trustee Services Bank, Ltd. (Trust Account)	5,120,800	1.46
10	Japan Trustee Services Bank, Ltd. (Trust Account * 2)	4,298,400	1.22

Allocation by owner (share ratio)



VI-3. Trends in Past and Current Results



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: million 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)	Year ended March 31, 2018 (Results)
Consolidated sales	9,328	10,159	9,853	11,537	10,735	15,733	18,969	22,299
Consolidated ordinary income	526	290	361	450	540	650	748	926
Consolidated net income	300	140	216	270	333	426	540	584
Net assets	2,132	2,205	2,896	5,496	5,478	5,842	6,415	10,152
Total assets	8,537	6,258	9,117	14,274	16,681	17,925	25,832	30,801
Total income property balance (at year end)	6,114	3,810	5,703	10,124	12,931	14,551	20,318	22,376
Rental revenue (sales)	407	380	416	460	717	842	1,058	1,112
Rental revenue / Sales ratio (%)	4.4%	3.7%	4.2%	4.0%	6.7%	5.4%	5.6%	5.0%
Employees (persons)	44	53	59.5	68	99	115	136	146

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

	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.

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

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)

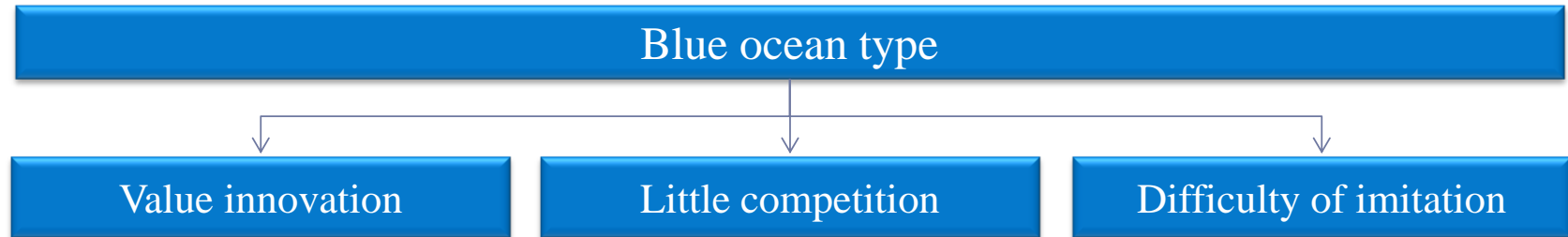
Achieving lower owner (customer) costs based on long-term business relationships

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)

Business model characteristics



Characteristics

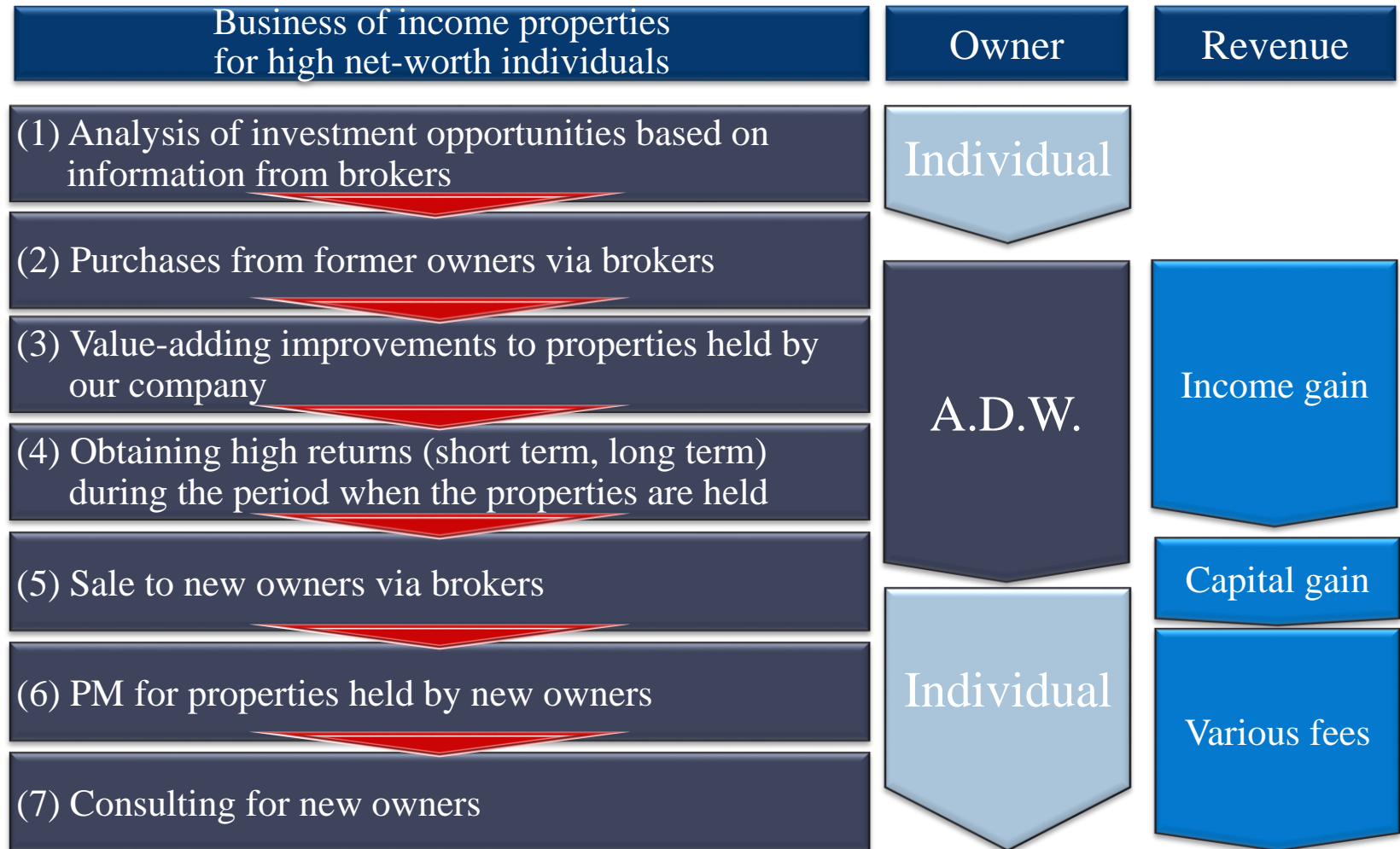
(1) One-stop solutions

(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.

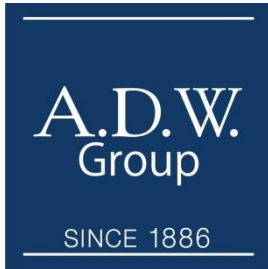
(1) One-stop solutions



(2) Broad-ranging competitive superiority and social significance

Information strength	<ul style="list-style-type: none">• 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