

A.D.W.  
Group

SINCE 1886

A.D. Works Co., Ltd.  
**IR Briefing Materials:**  
**Year Ended March 31, 2017**

May 19, 2017  
A.D. Works Co., Ltd.

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

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# I - Summary of Year Ended March 31, 2017

# 1. Summary of Year Ended March 31, 2017

Results  
Topic

1

## Simultaneously achieving profits and building up our profit sources for the next and subsequent fiscal years

- The consolidated earnings plan was mostly achieved, and we recorded our highest profits ever.
- We achieved a balance of income properties of 20 billion yen.

Results  
Topic

2

## Strong business in the United States (Los Angeles)

- This business recorded sales of 2,527 million yen, which accounts for 13.3% of the entire Group's consolidated net sales.

Results  
Topic

3

## Actively expanding into new business fields

- We have entered such fields “Real Estate Tech,” “small-lot investment products,” and “lease guarantee services.”

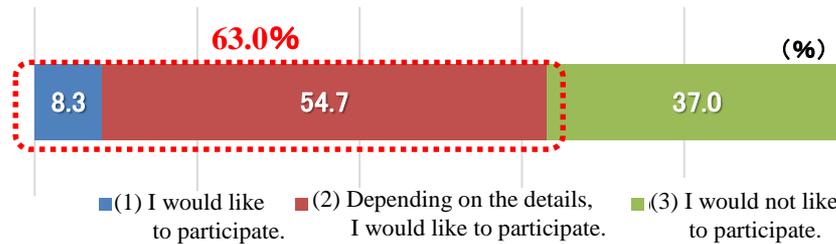
## II - Establishment of Shareholders' Club

## 2. Establishment of the “A.D.Works Shareholders’ Club”

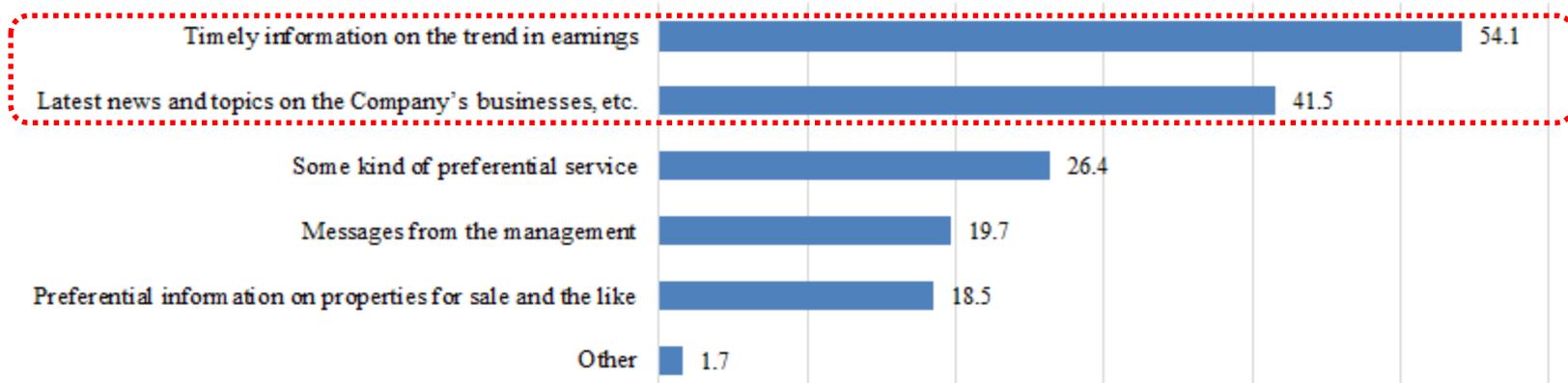
Extracted from the shareholders’ survey conducted in December 2016

The interest level for forming a shareholders’ club was high at 63%, and the advantage was “information” more than “preferential benefits.”

1. *If A.D.Works formed a “Shareholders’ Club” (provisional name) as a part of its promotion of communication with its shareholders, would you like to participate?*



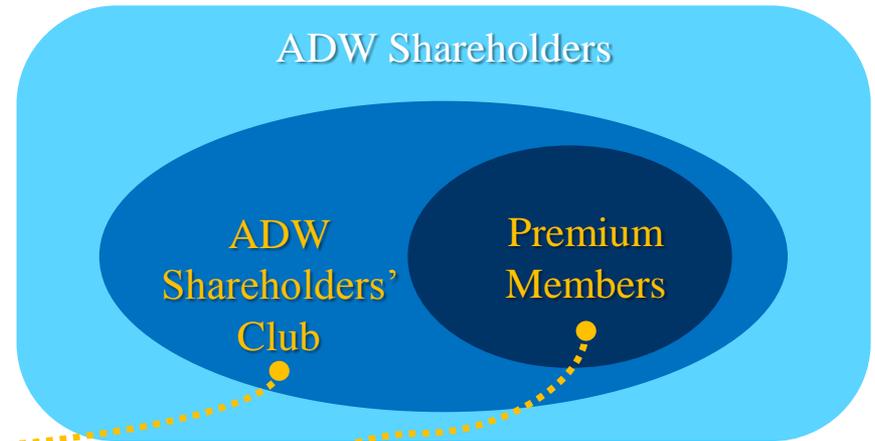
2. *The next question is for those persons who selected “b) Depending on the details, I would like to participate.” in question 1 above. Which of the following items do you feel are advantages of participating in the “Shareholders’ Club” (provisional name)? (You may select multiple answers.)*



# 3. Establishment of the “A.D.Works Shareholders’ Club”

## Objectives of the club’s establishment

- Show appreciation for the support received from shareholders, commemorating the tenth anniversary of our initial public offering
- Increase the attractiveness of investment in our shares, and have even more investors hold our shares over the medium and long terms
- Through the actions above, further strengthen relations with our shareholders



### ■ Information delivery to all club members

- ✓ Earnings reports
- ✓ Forecasts
- ✓ News releases
- ✓ Topics

\*At the same time as and in a form equivalent to disclosure information

### ■ Presenting shareholder preferential points to premium members

Number of Shares Owned	Points Presented (Half Year)	Points Presented (Full Year)
10,000 or more shares — Less than 30,000 shares	2,000 points	4,000 points
30,000 or more shares — Less than 50,000 shares	9,000 points	18,000 points
50,000 or more shares — Less than 70,000 shares	20,000 points	40,000 points
70,000 or more shares	25,000 points	50,000 points

## III - Overview of Year Ended March 31, 2017

## 4. Consolidated PL Summary (Comparison with Previous Year)

(Units: Millions yen)	FY2015 (Ended March 31, 2016)		FY2016 (Ended March 31, 2017)		Change from previous year	Full-year plan progress
	Amount	% of sales	Amount	% of sales		
Sales	15,733	100.0%	18,969	100.0%	+20.6%	+115.0%
Gross profit	2,965	18.8%	3,661	19.3%	+23.5%	—
SG & A	2,097	13.3%	2,621	13.8%	+24.9%	—
EBITDA	926	5.9%	1,216	6.4%	+31.2%	+101.4%
Ordinary income	650	4.1%	748	3.9%	+15.0%	+93.5%
Net income before taxes	650	4.1%	835	4.4%	+28.3%	+104.4%
Net income	426	2.7%	540	2.8%	+26.6%	+102.3%

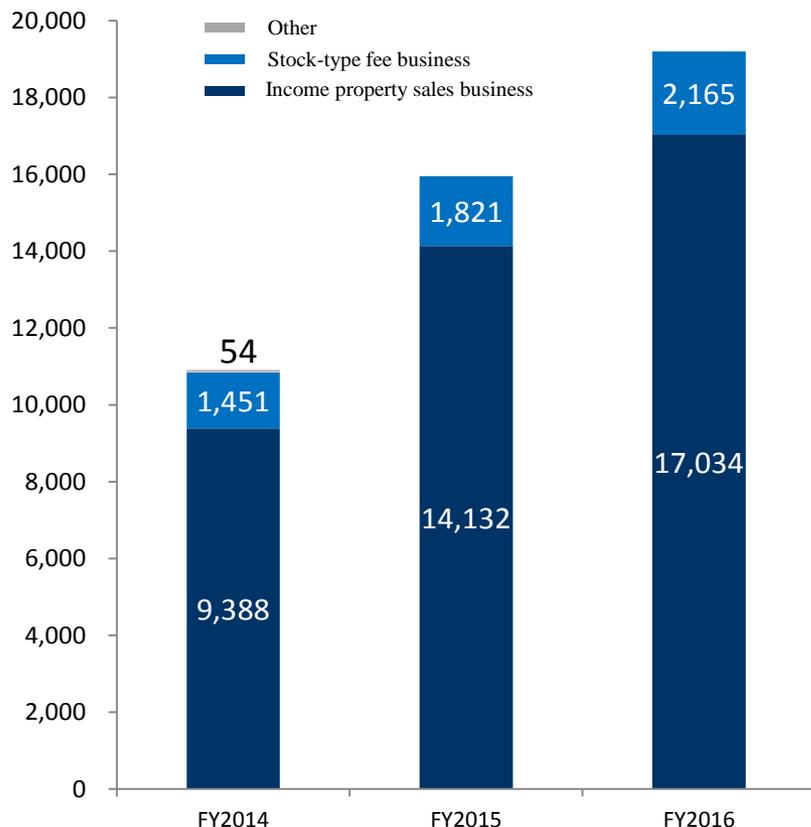
**1. Almost all the targets in the full-year earnings plan announced at the start of the fiscal year were exceeded.**

**2. We achieved our highest profits ever at all levels.**

# 5. Changes in Consolidated Results

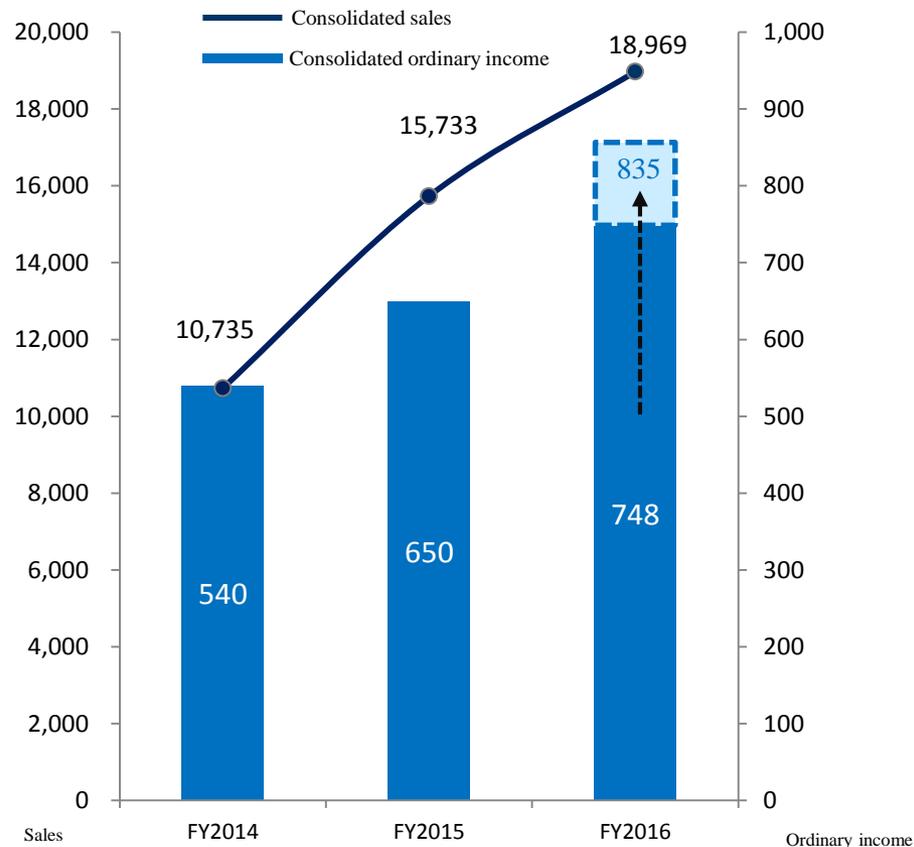
(Units: Millions yen)

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



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

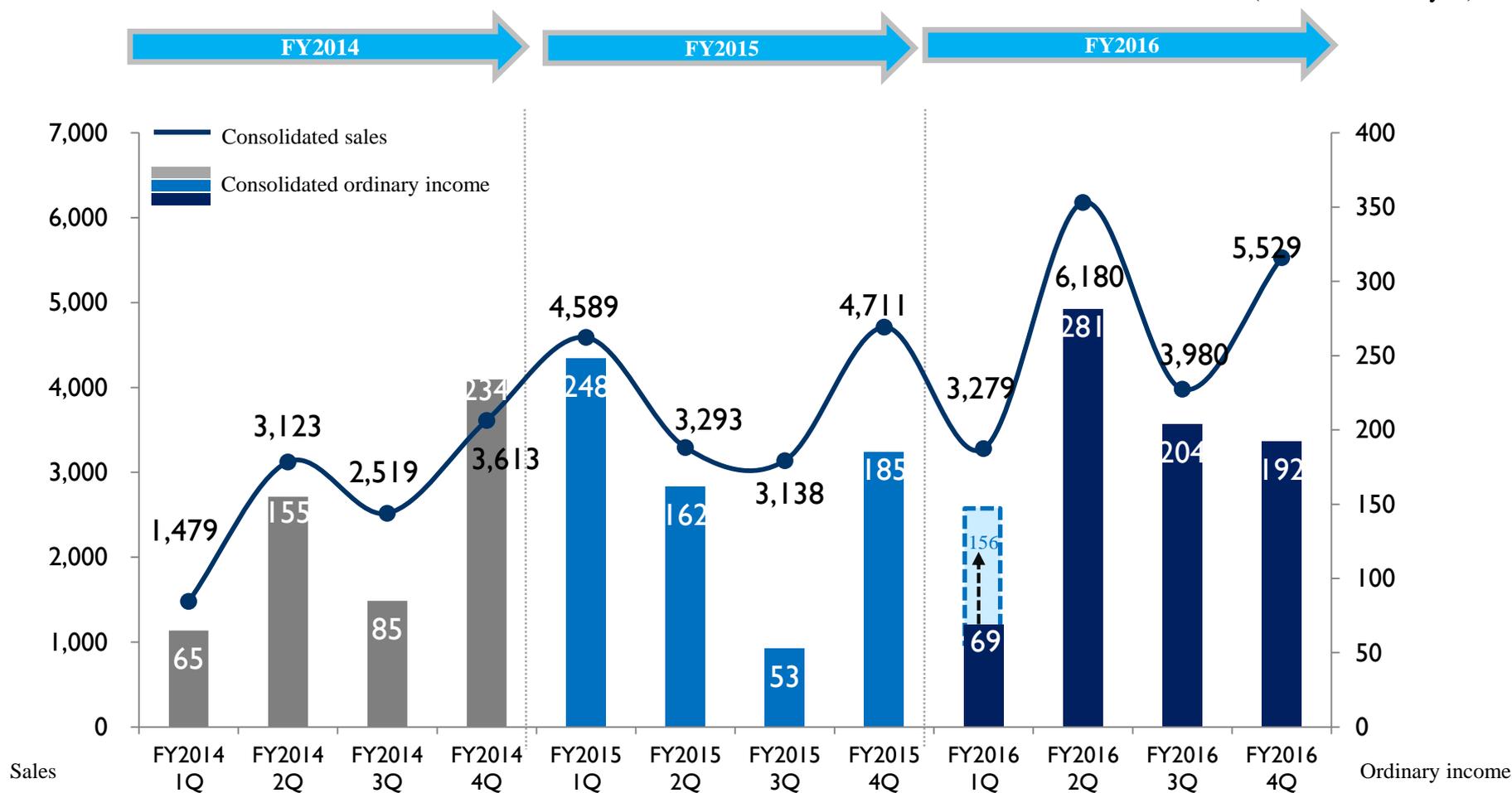
### Changes in consolidated sales and ordinary income



**If gains on sales of income properties held for long-term sale (which are recorded as extraordinary income on the consolidated profit and loss statement) are added to ordinary income, then ordinary income increases to 835 million yen.**

## 6. Changes in Consolidated Quarterly Results

(Units: Millions yen)

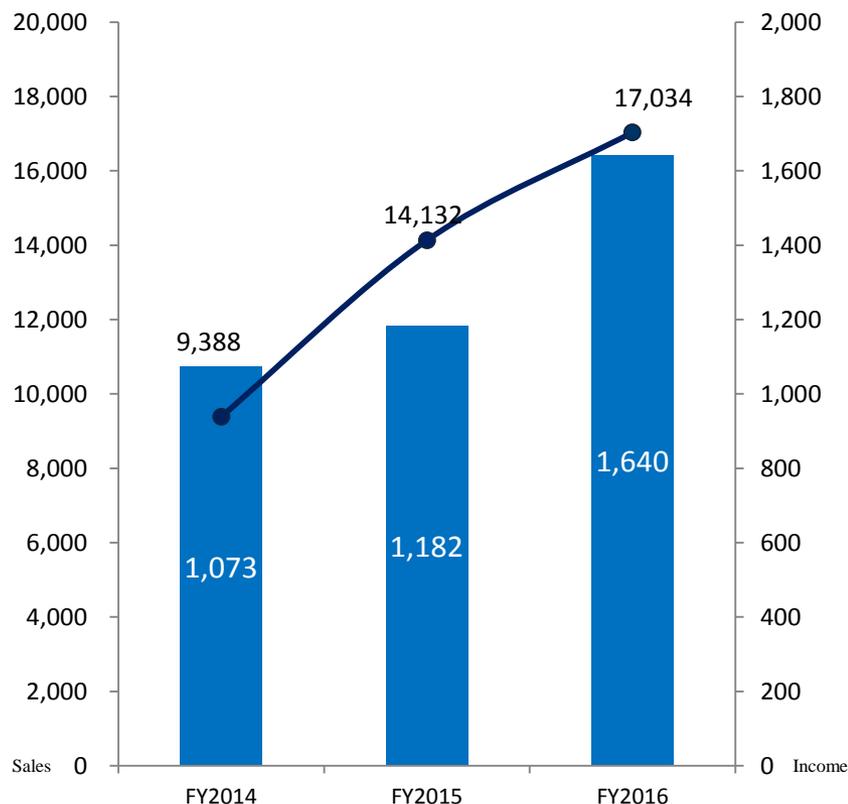


**As of now, since the income property sales business accounts for approximately 90% of consolidated net sales, a large fluctuation in our operating results occurs each quarter.**

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

### Changes in income property sales business results

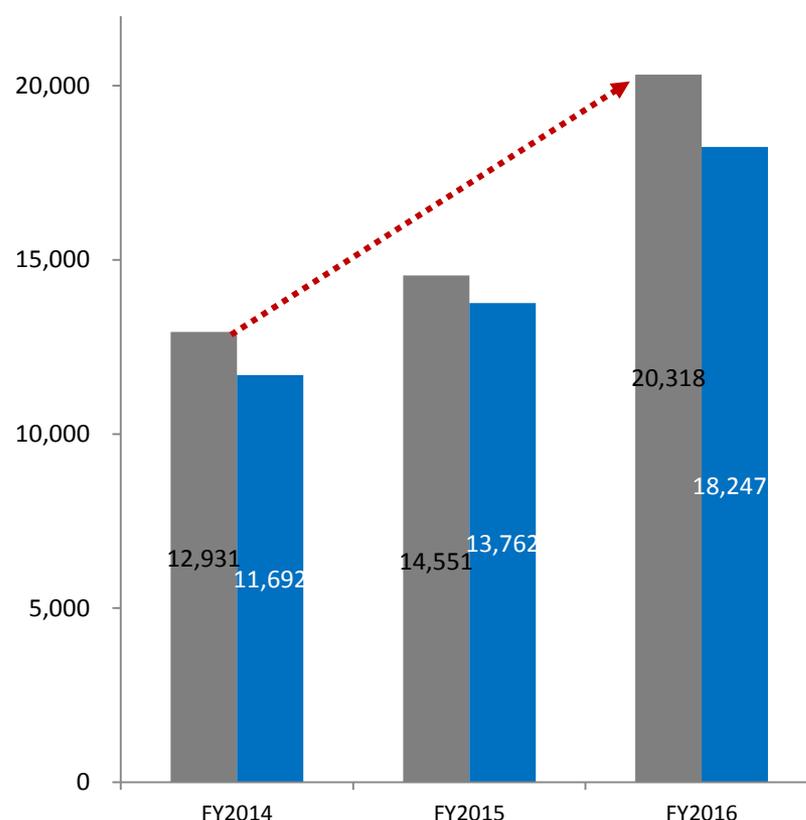
— Sales in the income property sales business  
 ■ Segment EBITDA



### Changes in balance of income properties

(Units: Millions yen)

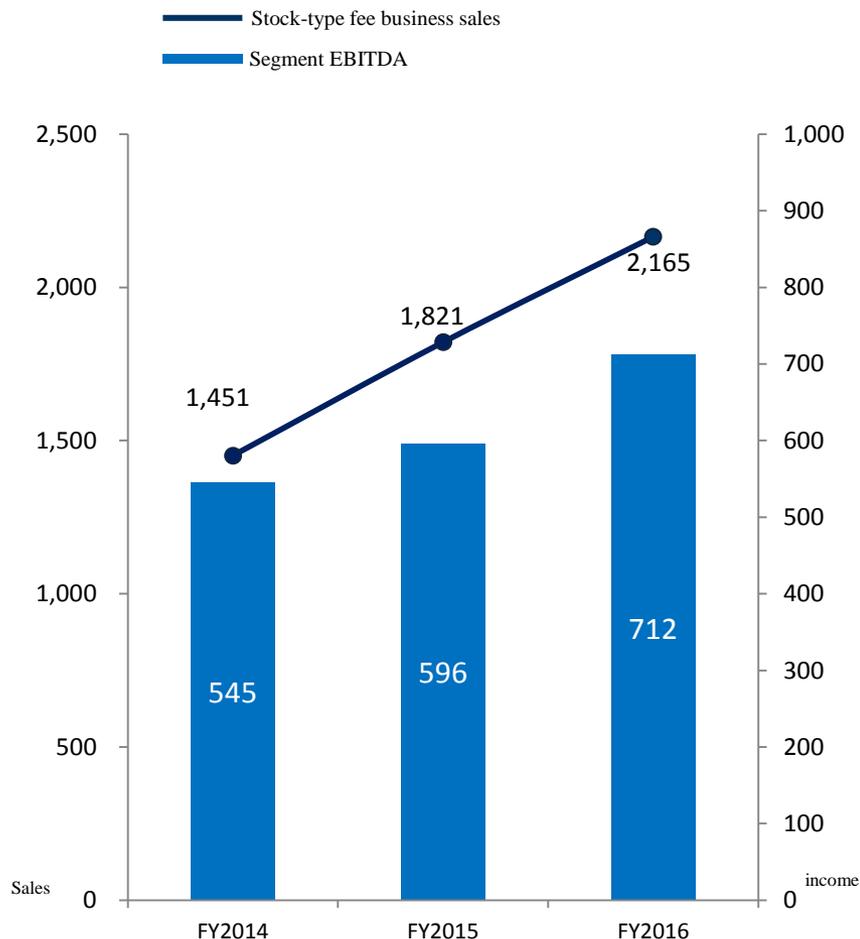
■ Balance at year-end  
 ■ Average balance during year



**As planned at the start of fiscal year 2017, we achieved a balance of income properties of 20 billion yen.**

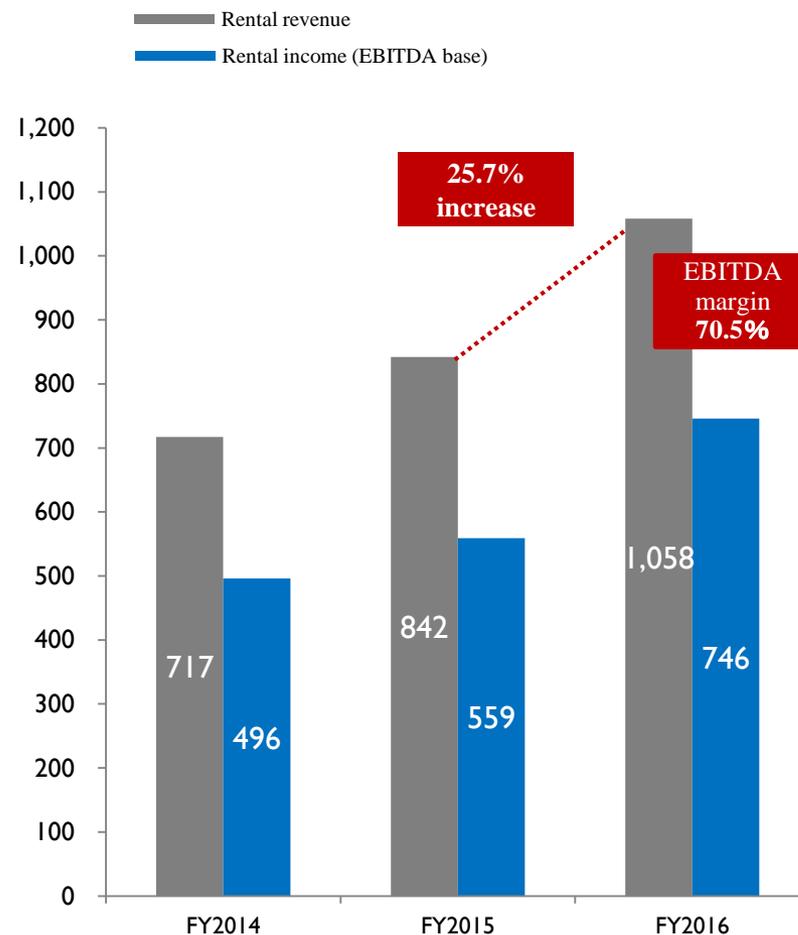
## 8. Main Business Areas (2): Overview of the stock-type fee business

### Changes in stock-type fee business results



### Changes in rental revenue and income

(Units: Millions yen)

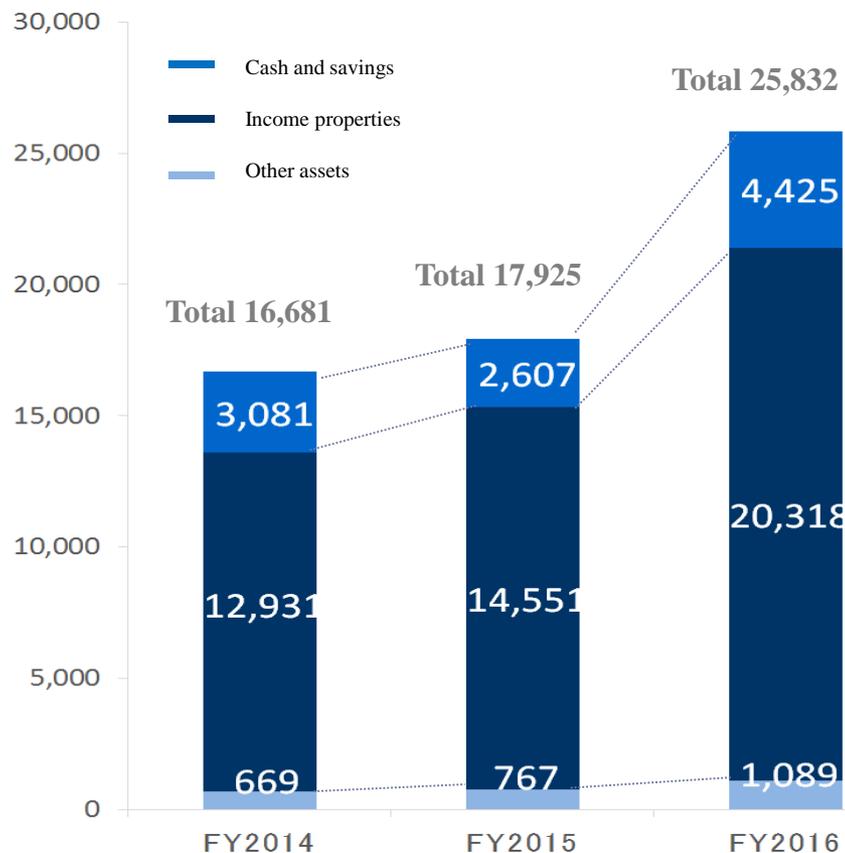


**Rental revenue, which is a base of stable profits, increased with the increase in the balance of income properties.**

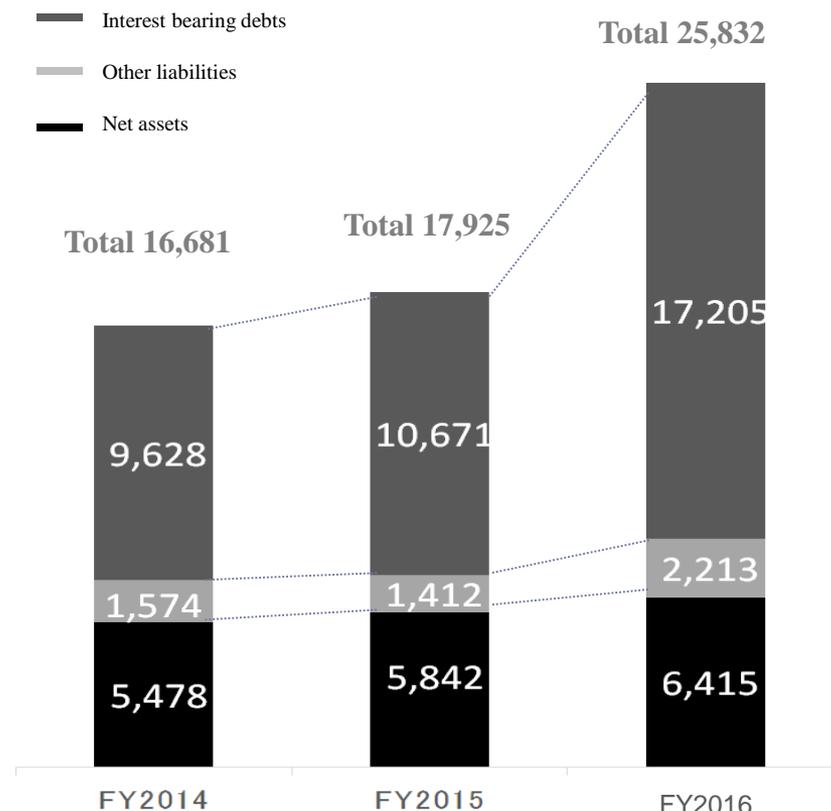
# 9. Consolidated B/S Summary

(Units: Millions yen)

### Changes in assets



### Changes in liabilities and net assets



## IV - Business Plan and Progress

## 10. Consolidated Results Plan (Fiscal Year Ended March 31, 2017)

(Units: Millions yen)

### Fifth Mid-range Business Plan (FY2017 – FY2019)

	Year ended March 31, 2016 (Results)	Year ended March 31, 2017 (Results)	Year ending March 31, 2018 (Planned) <small>*Announced on May 11, 2017</small>	Year ending March 31, 2019 (Planned) <small>*Announced on May 12, 2017</small>
Consolidated sales	15,733	18,969	20,000	18,000
Consolidated EBITDA	926	1,216	1,400	1,600
Consolidated ordinary income	650	748	900	1,000
Consolidated net income	426	540	580	660
Consolidated ROE (at year end)	7.3%	8.5%	—	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 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)

Due to our rights offering (exercise-price non-discount type) announced in April 2017, in the fiscal year ending March 31, 2018, shareholders' equity may increase significantly. With respect to the end of the fiscal year ending March 31, 2018, since shareholders' equity is difficult to forecast, our forecast of ROE is not yet determined.

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

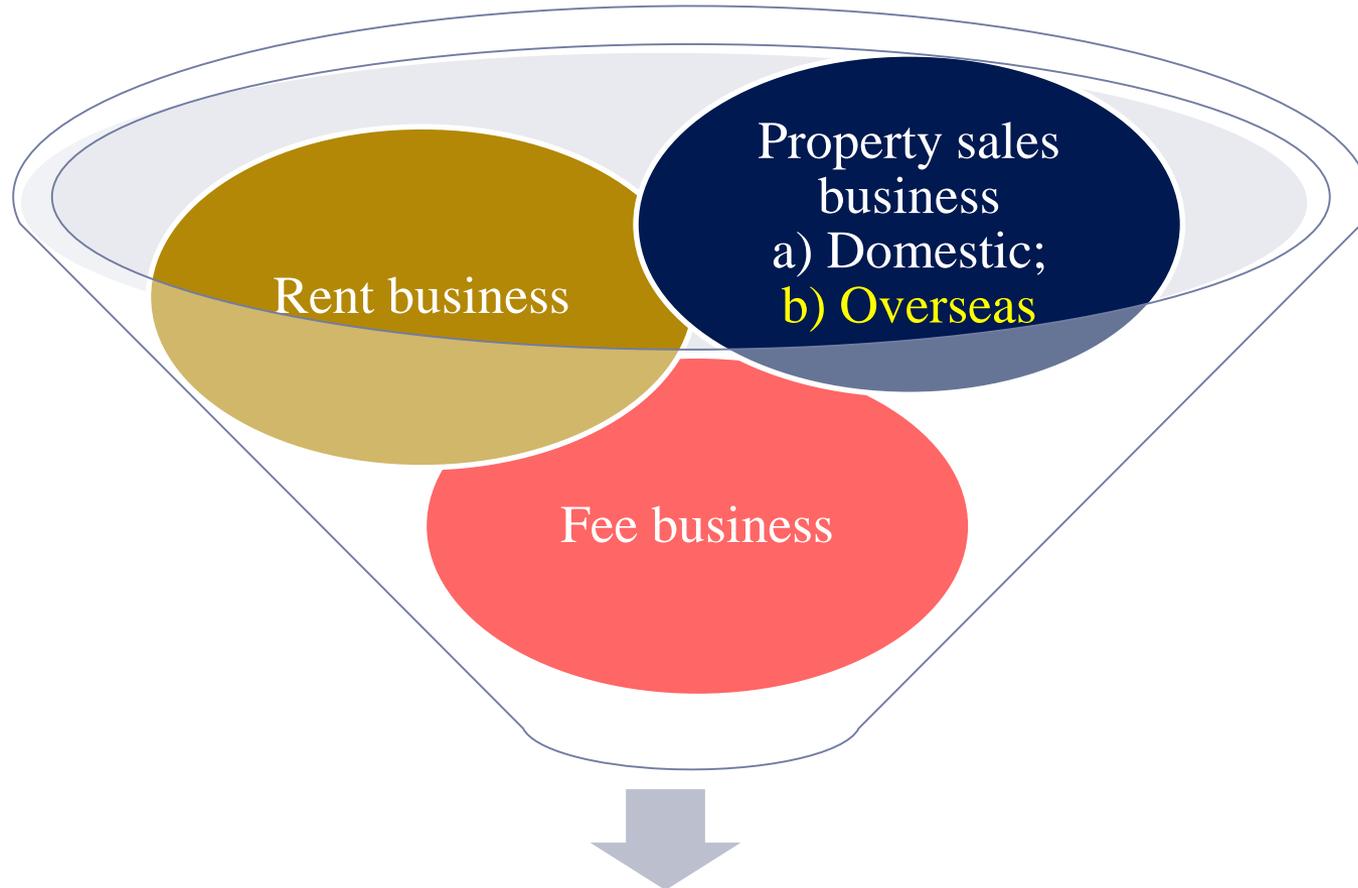
(Units: Millions yen)

		Year ended March 31, 2017 (Results)	Year ending March 31, 2018 (Planned)	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	3,558	5,000
	Balance of domestic income properties held for short- or medium-term sale (average)	9,381	10,557	12,000
	Balance of domestic income properties held for long-term sale (average)	6,185	8,544	10,500
	Total balance of income properties (end of year)	20,318	25,002	30,000
	Rental income (EBITDA base)	746	793	1,246
	ROA for income property sales business	11.5%	9.8%	6.9%

Note: For the relationship between ROA and ROE, please refer to page 38 “VI-1 Business Strategy (1)” and page 39 “VI-2 Business Strategy (2).”

## **V - Rights Offering and Commemorative Dividend Indicated in the Mid-range Business Plan**

## 12. Business Lineup



Stable earnings structure

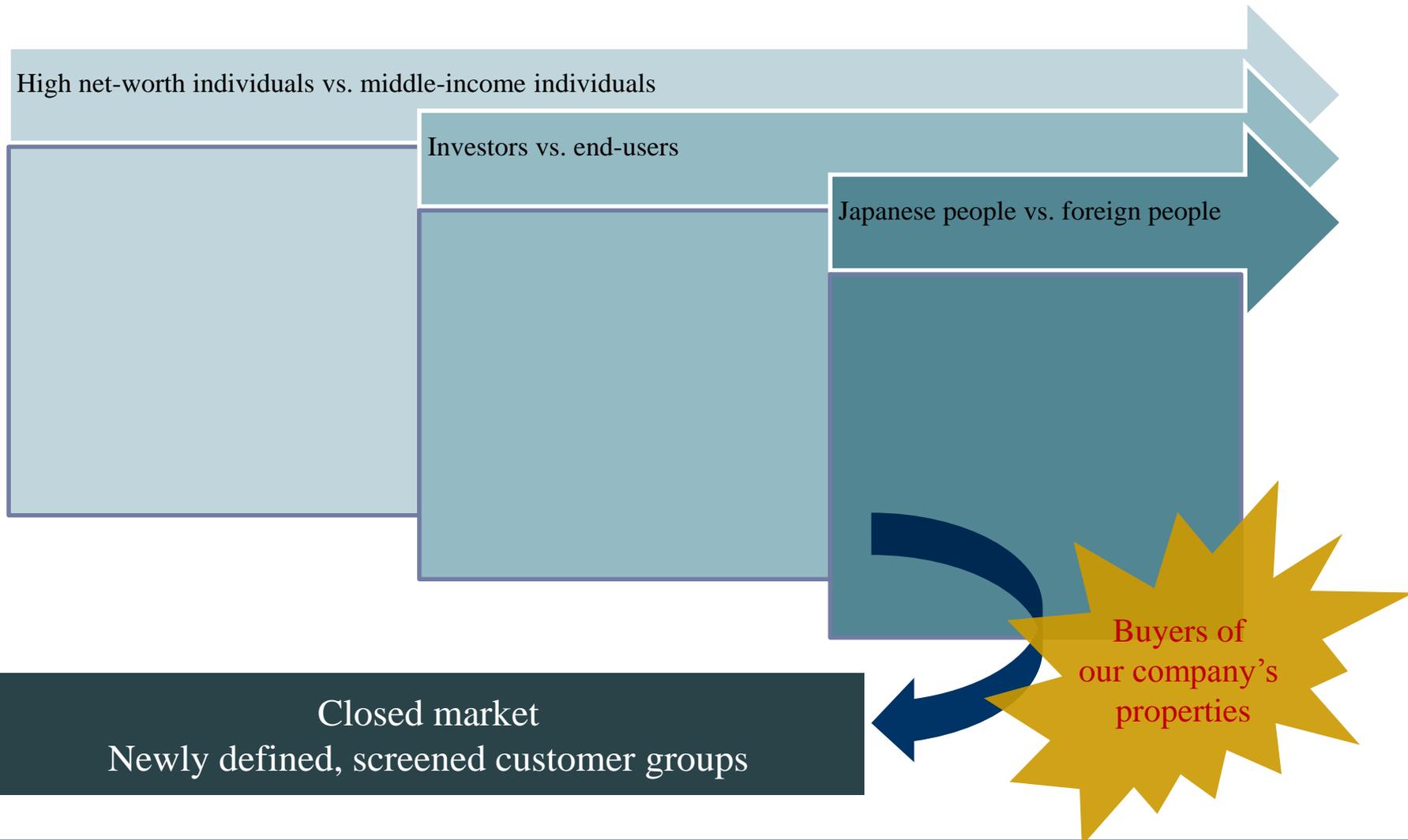
## 13. Positioning and Basic Policy of the Fifth Mid-Range Business Plan

# “Blue Ocean Strategy: Preparation Period for Its Arrival in 2021”



<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

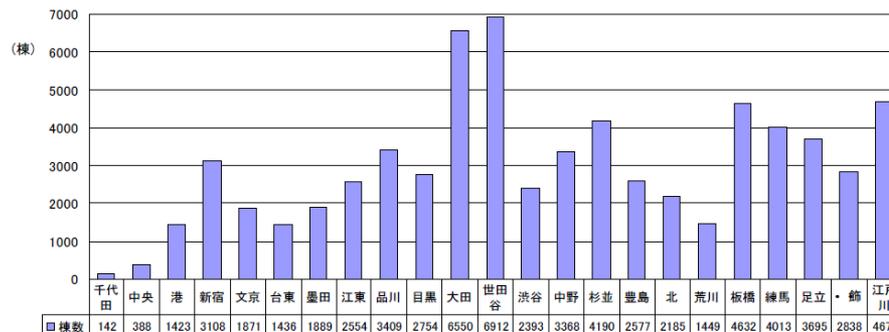
# 14. Customer Targeting: Redefinition of Markets



# 15. Expectations of Future Growth

## Market size of our company's core businesses

- Within to the 23 wards of Tokyo Metropolis, there are approximately 68,000 rental apartment buildings. (The buildings are completely owned by their owners, and parts of them are rented to renters.)
- In the fiscal year ended March 31, 2017, A.D.Works Co., Ltd., acquired 45 income properties and sold 42 income properties. From the viewpoint of market size, our growth potential is very high.



n = 68,454

Source: Condominium Market Survey released in May 2013 by the Bureau of Urban Development, Tokyo Metropolitan Government

## Investment efficiency of funds procured

### 1) Expansion of the balance of income properties

In Japan: The market size is very big, and there are no major competitors.

The impact of our business expansion on the market is small, and the possibility of a change in the business environment due to increased competition is low.

In the United States: In the U.S. secondhand residence market, both the amount of sales and sales prices are increasing.

→ **There is no real sign of any factor that will lower our investment efficiency in the future.**

### 2) Investments related to Real Estate Tech

We will invest in a distribution platform for small-lot real-estate investment products and the like that takes advantage of the Act on Specified Joint Real Estate Ventures. This business field is in the start-up stage, and we will aim for a high investment efficiency based on the first mover's advantage.

## 16. Key Measures

### *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

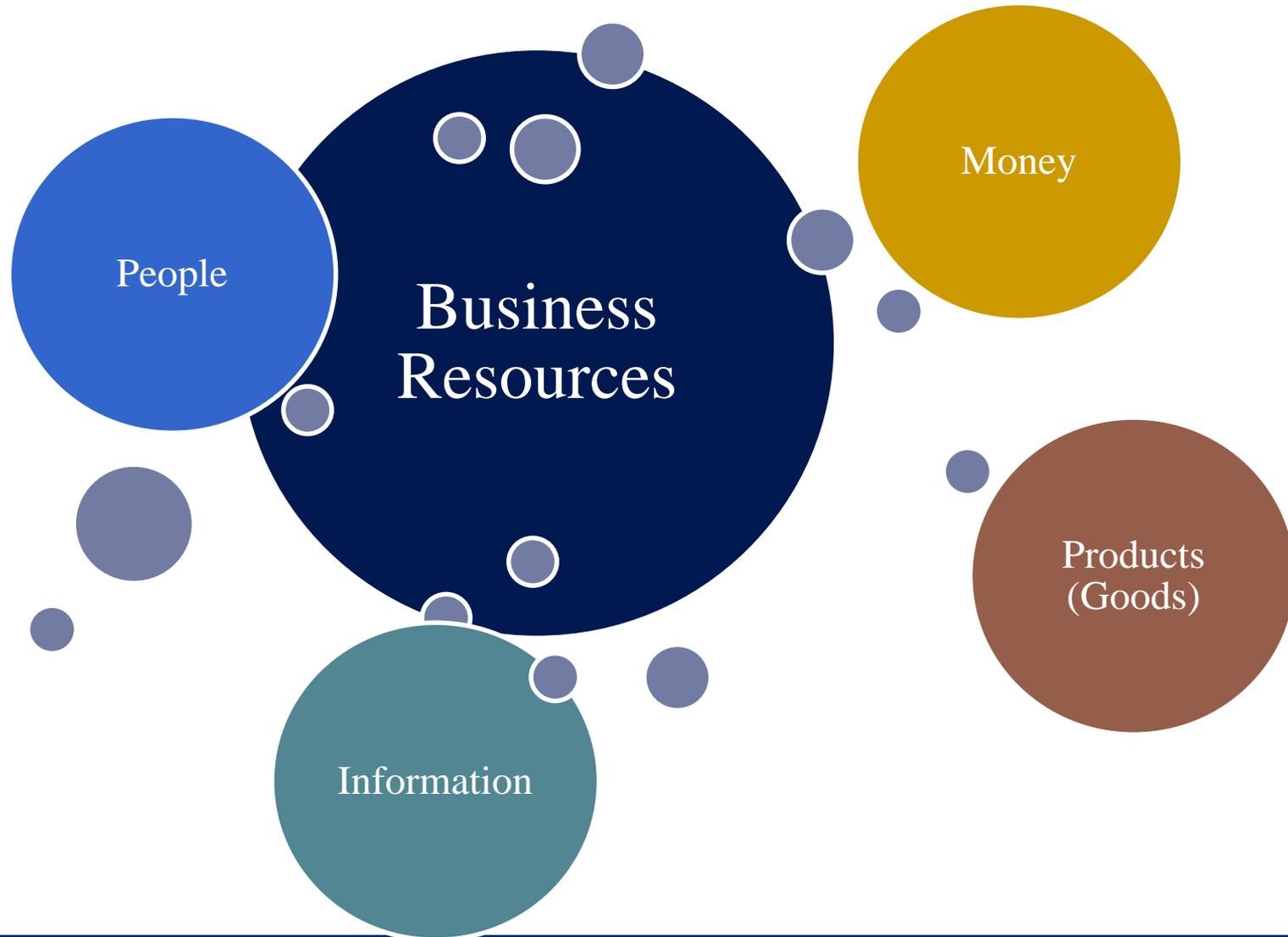
#### Restructuring of capabilities

- 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
- Redesign of the personnel and compensation system

... 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.

## 17. Business Resources



## 18. Our Capital Policy Approach

- In order for A.D.Works, Ltd., to achieve further growth, an enhancement of our business resources is essential.
- In our capital policy approach, we recognize that strengthening our financial base is an urgent and indispensable task.

**Including direct and indirect financing, being able to select from among every means of financing available is important.**

Our current fundraising methods are limited. (For example, because we cannot obtain an appropriate credit rating, we do not consider bond issuance to be an alternative.)

We are unable to make effective use of the environment under the low-interest-rate and negative-interest-rate policy.

**We have formed the judgment that expanding our scale is indispensable.**

The scale that we are aiming for (guidance ;

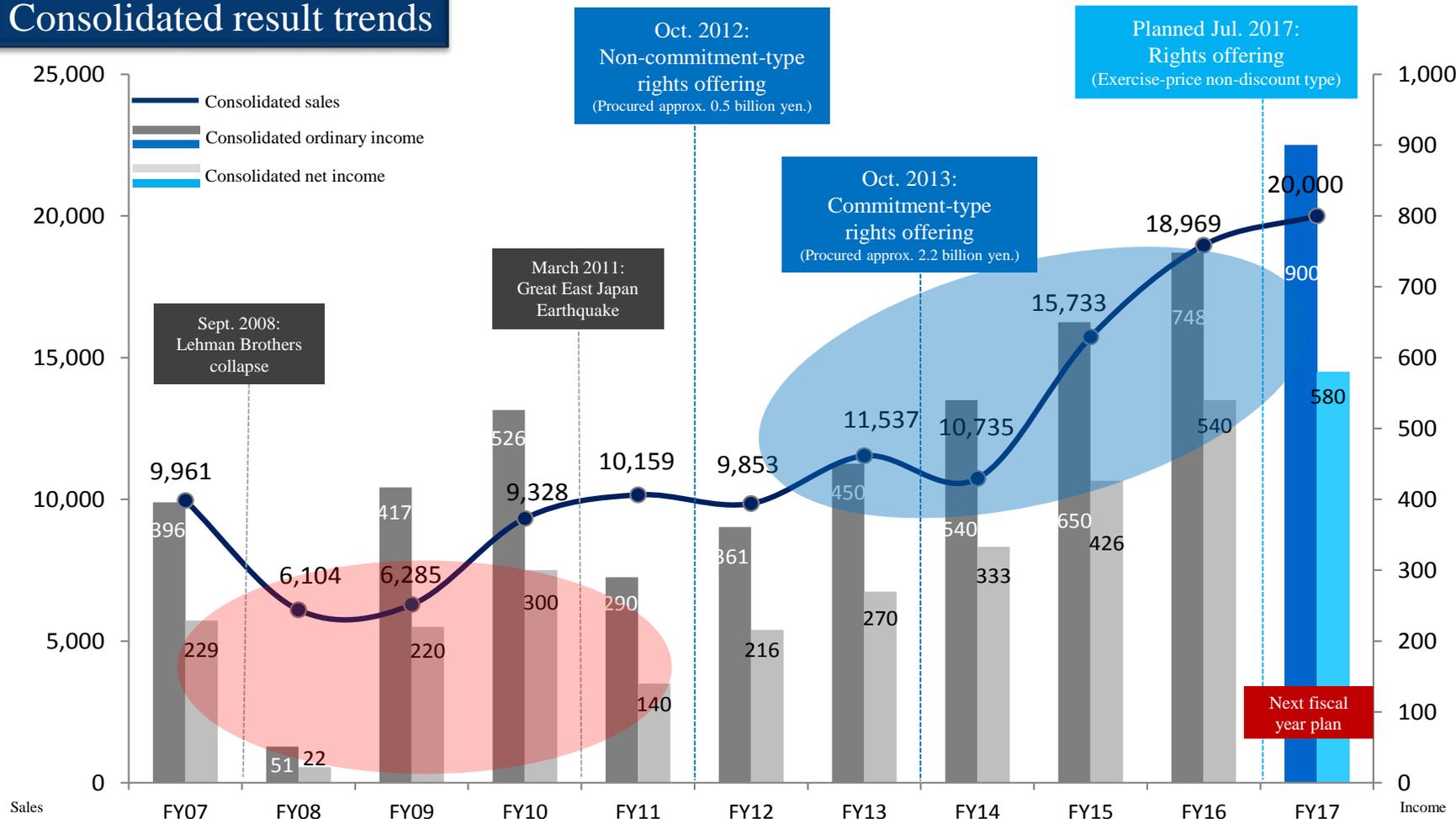
\*Disclosed in “Announcement of Establishment of Guidelines for Our Corporate Governance Code (Policies and Initiatives),” dated December 17, 2015

	Estimate
Consolidated net assets	25 billion yen
Consolidated number of employees	200
Market capitalization	35 to 40 billion yen

# 19. Trends in Past and Current Results

## Consolidated result trends

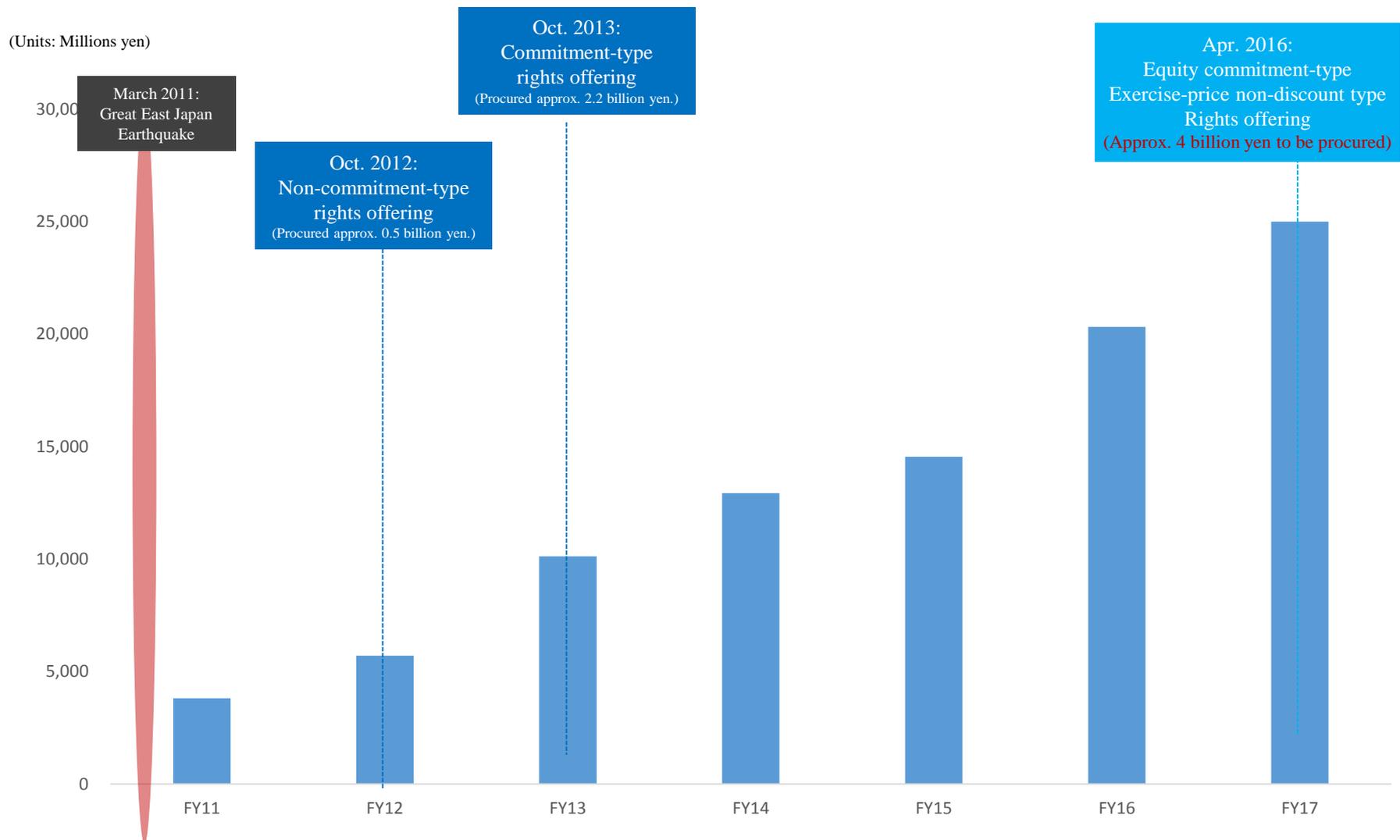
(Units: Millions yen)



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.



## 20. Changes in the Balance of Income Properties (Year-end)



## 21. Guidance on the Balance of Income Properties

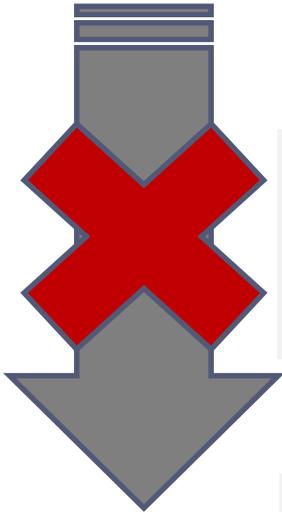
(Units: Millions yen)		End FY2016 (Forecast)	End FY2017 (Plan)	FY2017 Average (Plan)
Guidance	Short term and medium term	10,492	10,623	10,557
	Development	1,594	3,501	2,547
	Long term	5,458	6,537	5,997
	United States	2,775	4,342	3,558
	<b>Total balance of income properties</b>	<b>20,318</b>	<b>25,002</b>	<b>22,660</b>

The Fifth Mid-Range Business Plan calls for a balance of 30 billion yen by the end of fiscal 2018, the last year of the plan.

## 22. Bottlenecks that Hamper a Capital Increase by Public Offering: Market Capitalization and Share Liquidity

*Stage 1*

Raising funds and increasing creditworthiness through **a new listing (IPO)**



Having a hard time with our next expansion since going public (due to such factors as a small market capitalization and low share liquidity)

*Stage 2*

Moving toward the stage where we can benefit from **the advantages of a public listing**  
⇒ A flexible capital strategy that includes **capital increases by public offerings will become possible.**

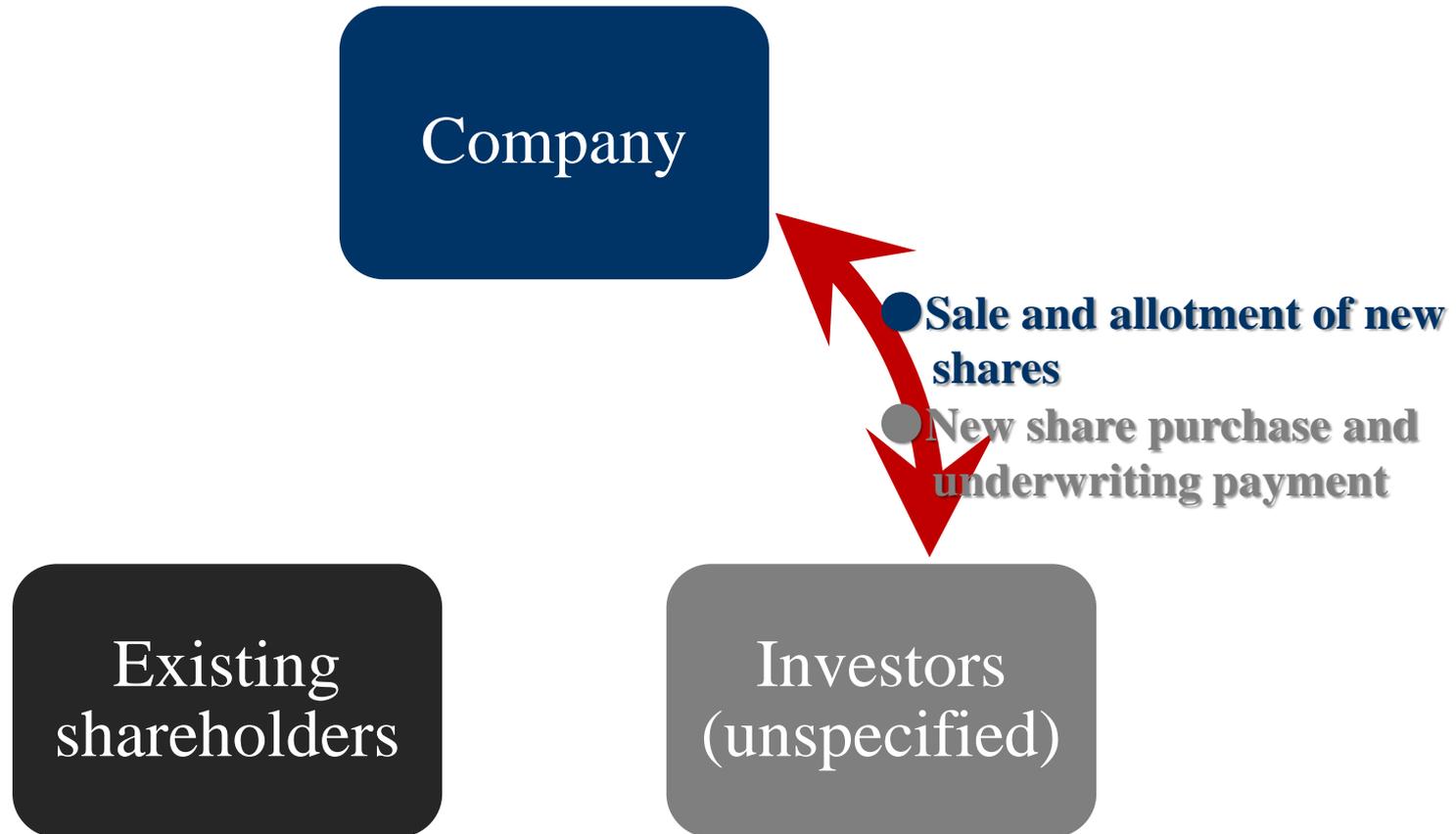
## 23. Raising Growth Capital



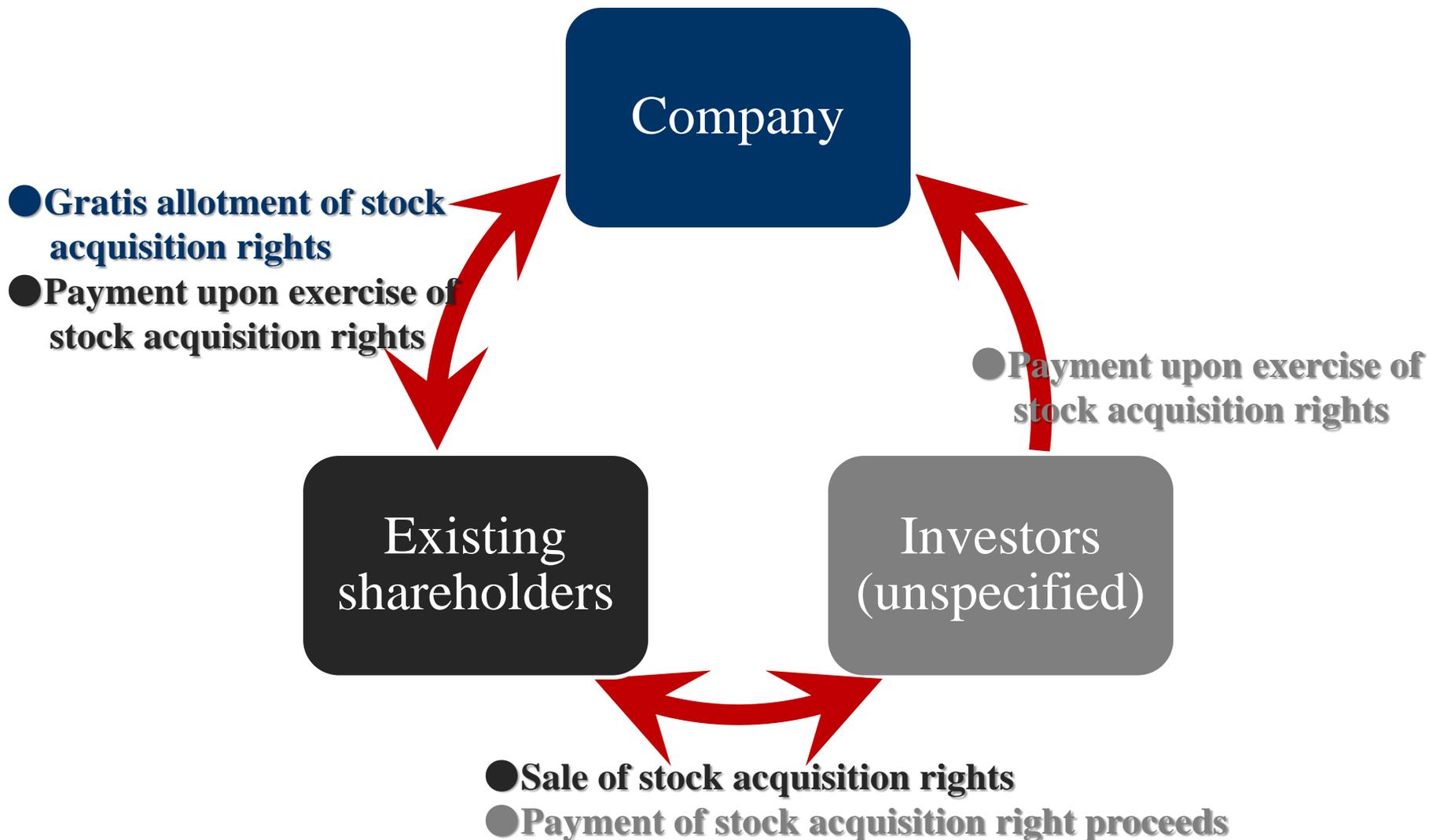
## 24. Raising Growth Capital



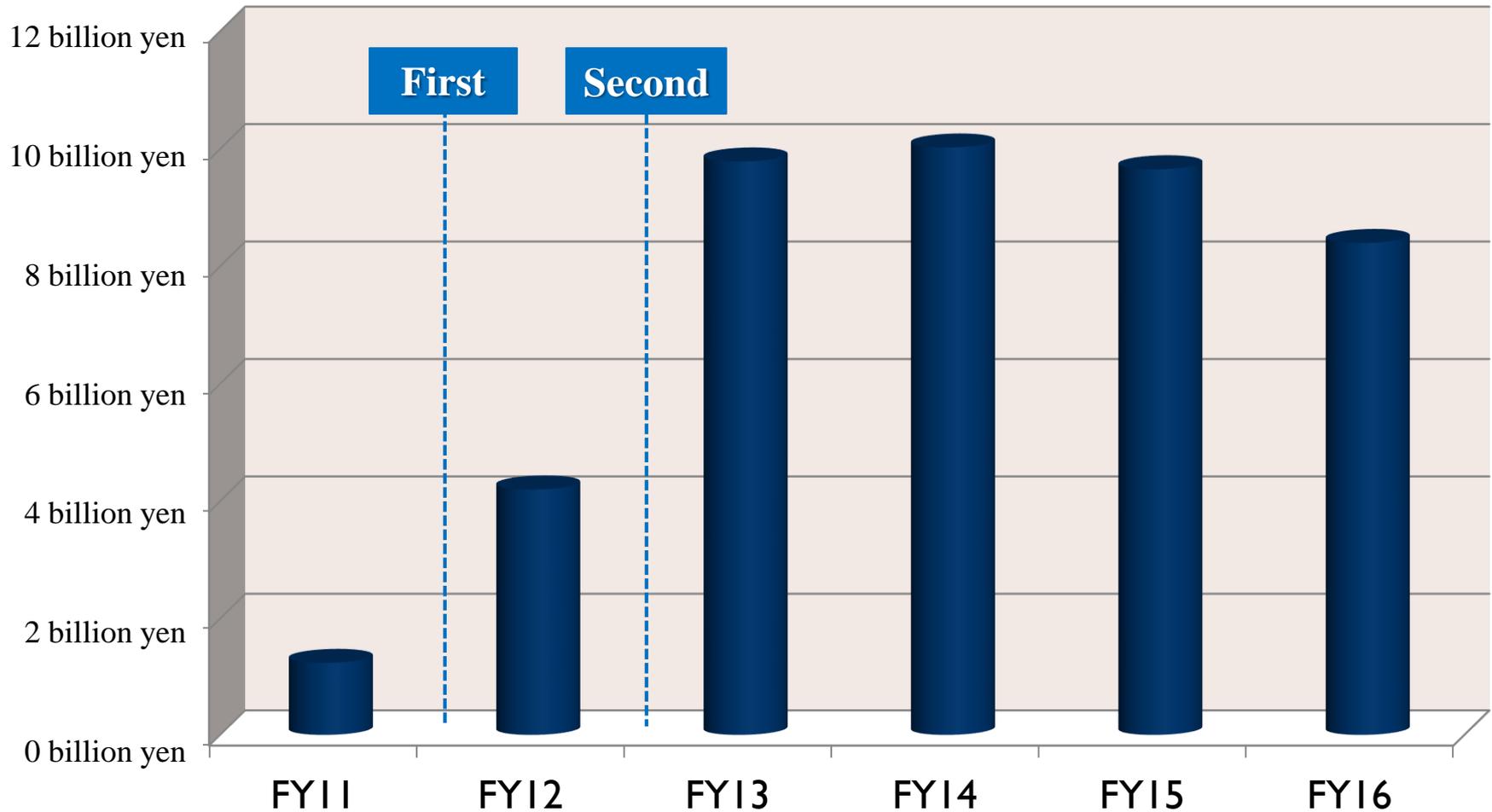
## 25. Capital Increase by Public Offering and Capital Increase by Third-party Allotment



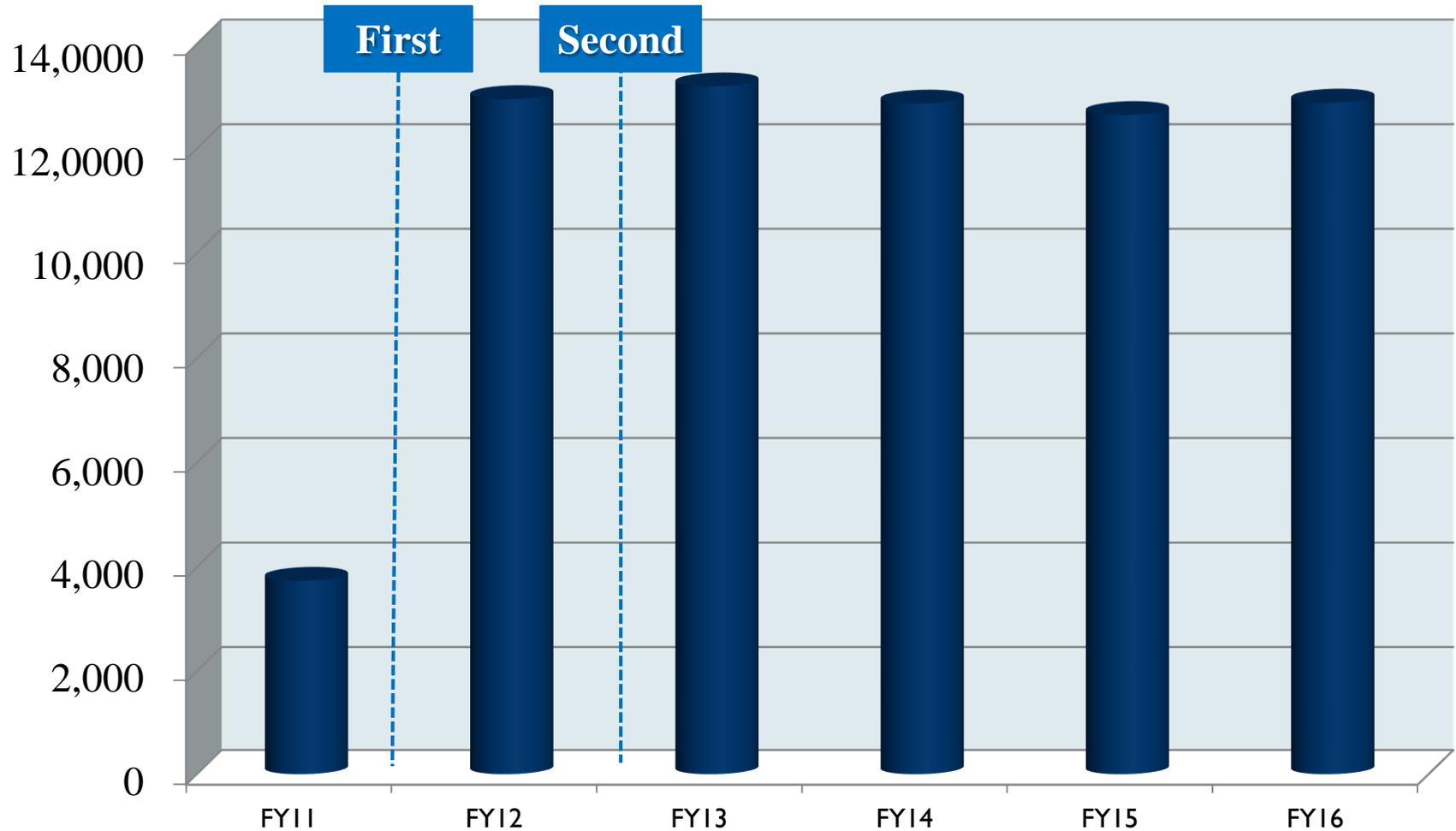
## 26. Rights Offering



## 27. Change in Market Capitalization



## 28. Change in Number of Shareholders

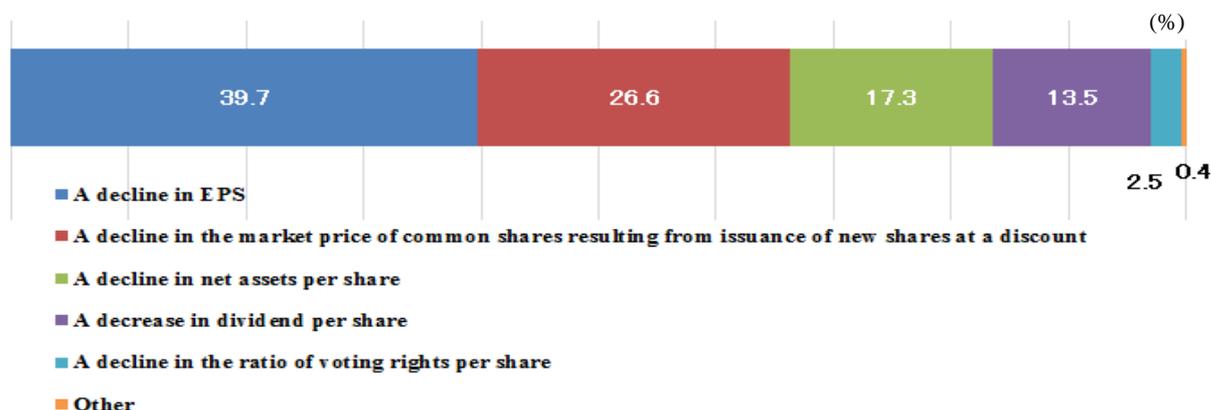


## 29. Rights Offering Design

### Exercise-price non-discount type

From the shareholders' survey (conducted in December 2016)

- When the issuing company increases its capital, as a shareholder, what most concerns you?



*While only approximately 40% of the people chose “A decline in EPS,” which appears to be the general consensus, the percentage of people concerned about “A decline in the market price of common shares resulting from issuance of new shares at a discount” was approximately 30%.*

In order to raise growth capital, we decided to implement an **“exercise-price non-discount type”** of rights offering, which will be our first such offering. (“Exercise-price non-discount type” means that the exercise price of the stock acquisition rights is set without making any discount from the share price in the market.)

## 30. Shareholder Returns

### Commemorative dividend

To show our appreciation to those shareholders who support our company's growth by contributing funds in our equity financings and to support shareholder returns, we have been paying commemorative dividends.

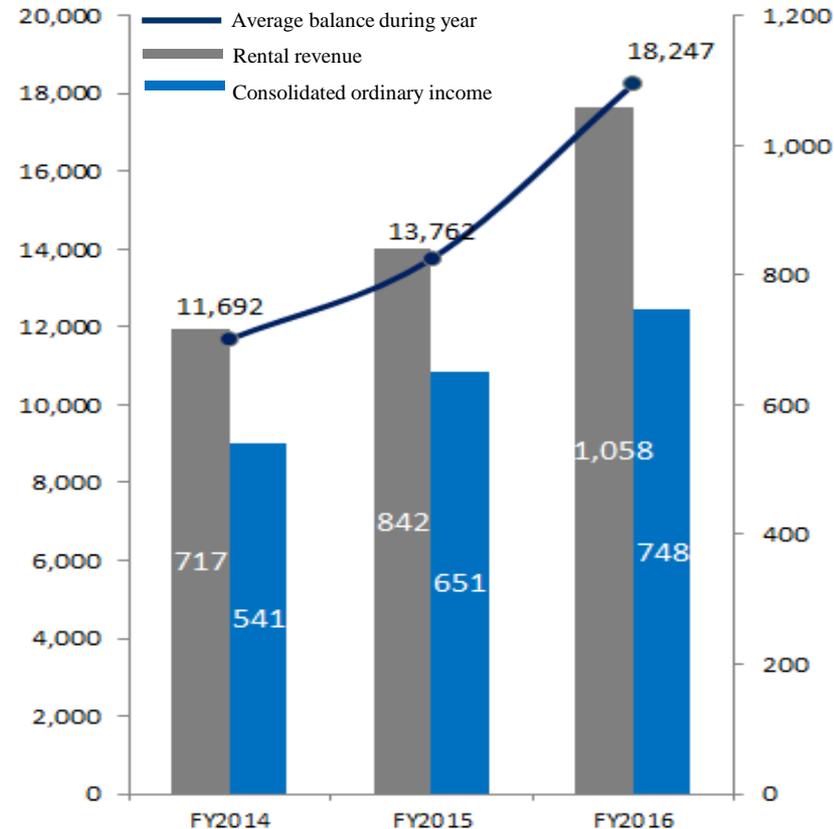
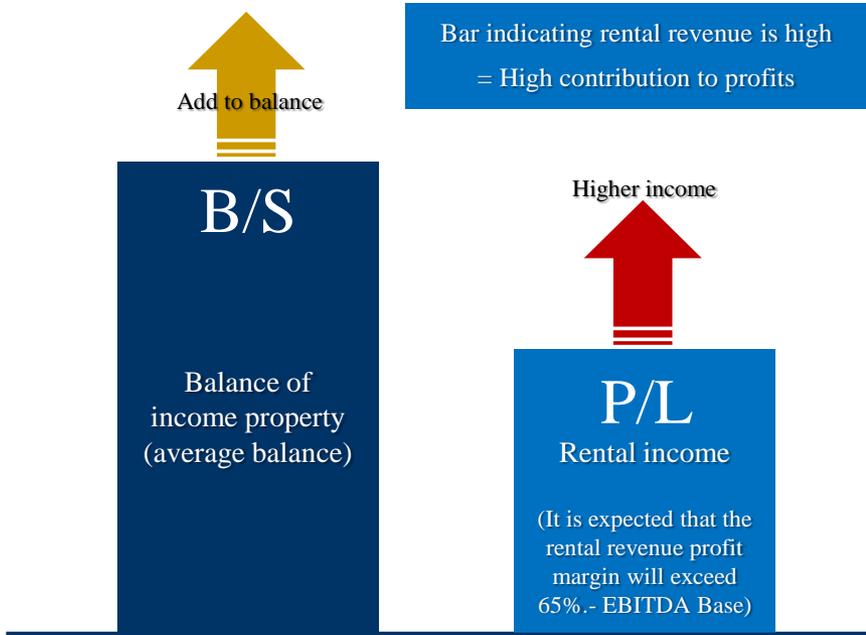
Mid-range Business Plan	Applicable Period	Rights Offering	Commemorative Dividend Calculated Base Amount
Third	Fiscal year ended March 31, 2013, to fiscal year ended March 31, 2015	Announced on October 1, 2012	0.55 yen
Forth	Fiscal year ended March 31, 2015, to fiscal year ended March 31, 2017	Announced on October 16, 2013	0.55 yen
Fifth	Fiscal year ended March 31, 2017, to fiscal year ending March 31, 2019	Announced on April 25, 2017	0.55 yen
		<b>Cumulative total</b>	<b>1.65 yen</b>
(Reference)	Fiscal year ended March 31, 2017 (Ordinary dividend 0.35 yen+130th anniversary commemorative dividend: 0.20 yen)		0.55 yen

Note: A condition for payment of the commemorative dividend is that the proposal on the rights offering that was announced on April 25, 2017, in "Announcement of Non-commitment-type Rights Offering (Exercise-price Non-discount Type) and Commemorative Dividend (Interim Dividend)" be approved at the 91st Ordinary General Meeting of Shareholders, which is scheduled to be held on June 29, 2017.

## VI - Reference Materials (Business Strategy)

## VI-1. Business Strategy (1): 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.

## VI-2. Business Strategy (2): 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>

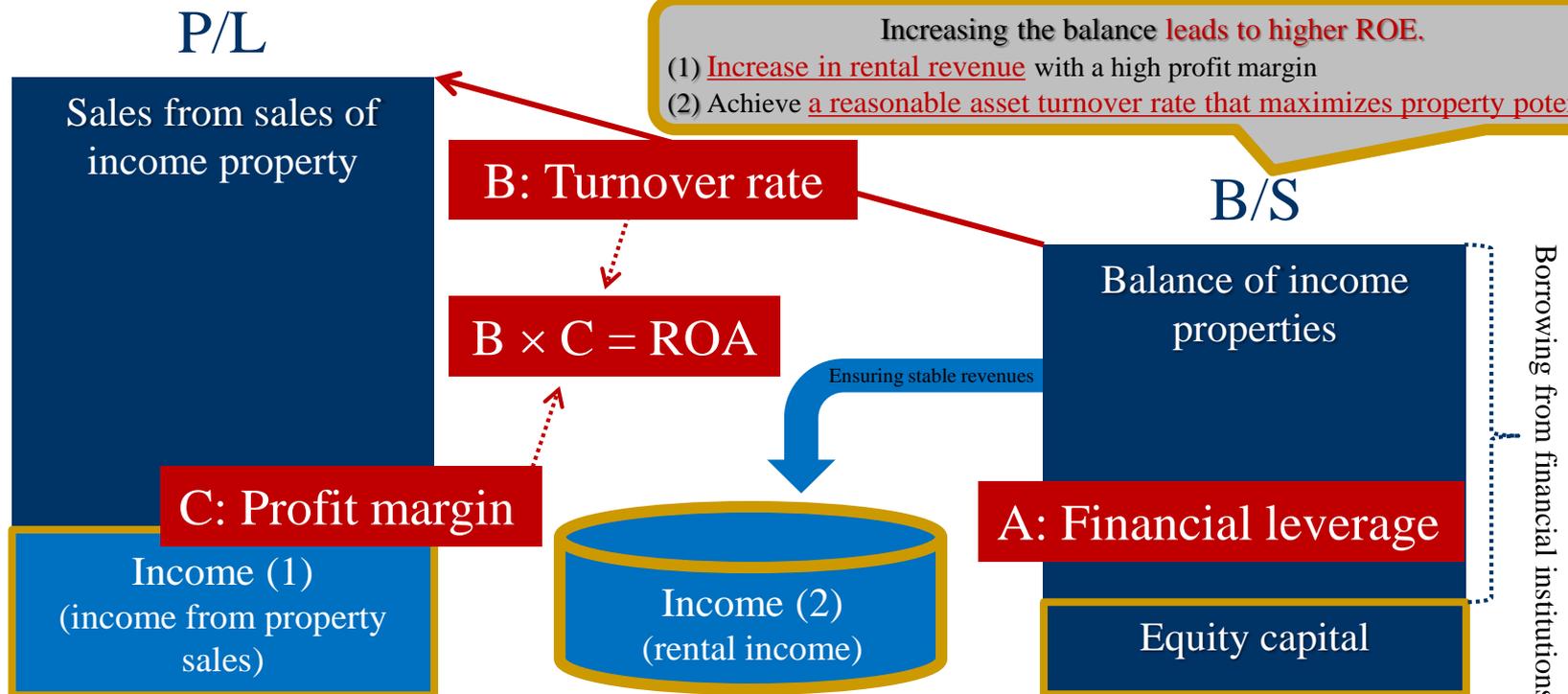
<Sales / Balance of income properties>

<Income from sales of income properties / Sales>

(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.



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

## VII-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:** 1,944,550,000 yen (as of the end of March 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:** 136 consolidated (as of the end of March 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

## VII-2. Shareholder Composition

### Number of issued shares / Number of shareholders

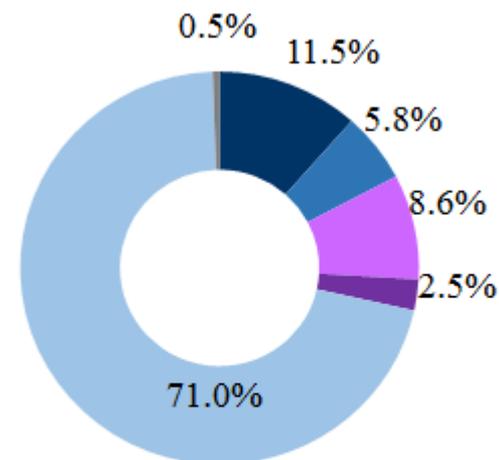
Number of issued shares: 224,176,000

Number of shareholders: 12,881

### Major shareholders

(Based on information as of March 31, 2017)		Number of shares	Share ratio %
1	Hideo Tanaka (Our company President and CEO)	44,256,248	19.74%
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	Japan Trustee Services Bank, Ltd. (Trust Account ・ 5)	3,315,400	1.47%
5	The Master Trust Bank of Japan, Ltd. (Trust Account)	3,288,200	1.46%
6	Milestone Capital Management Co.,Ltd.	3,000,000	1.33%
7	Rakuten Securities, Inc.	2,920,400	1.30%
8	Ueda Yagi Tanshi Co., Ltd.	2,817,300	1.25%
9	Monex, Inc.	2,694,700	1.20%
10	Japan Trustee Services Bank, Ltd. (Trust Account)	2,580,400	1.15%

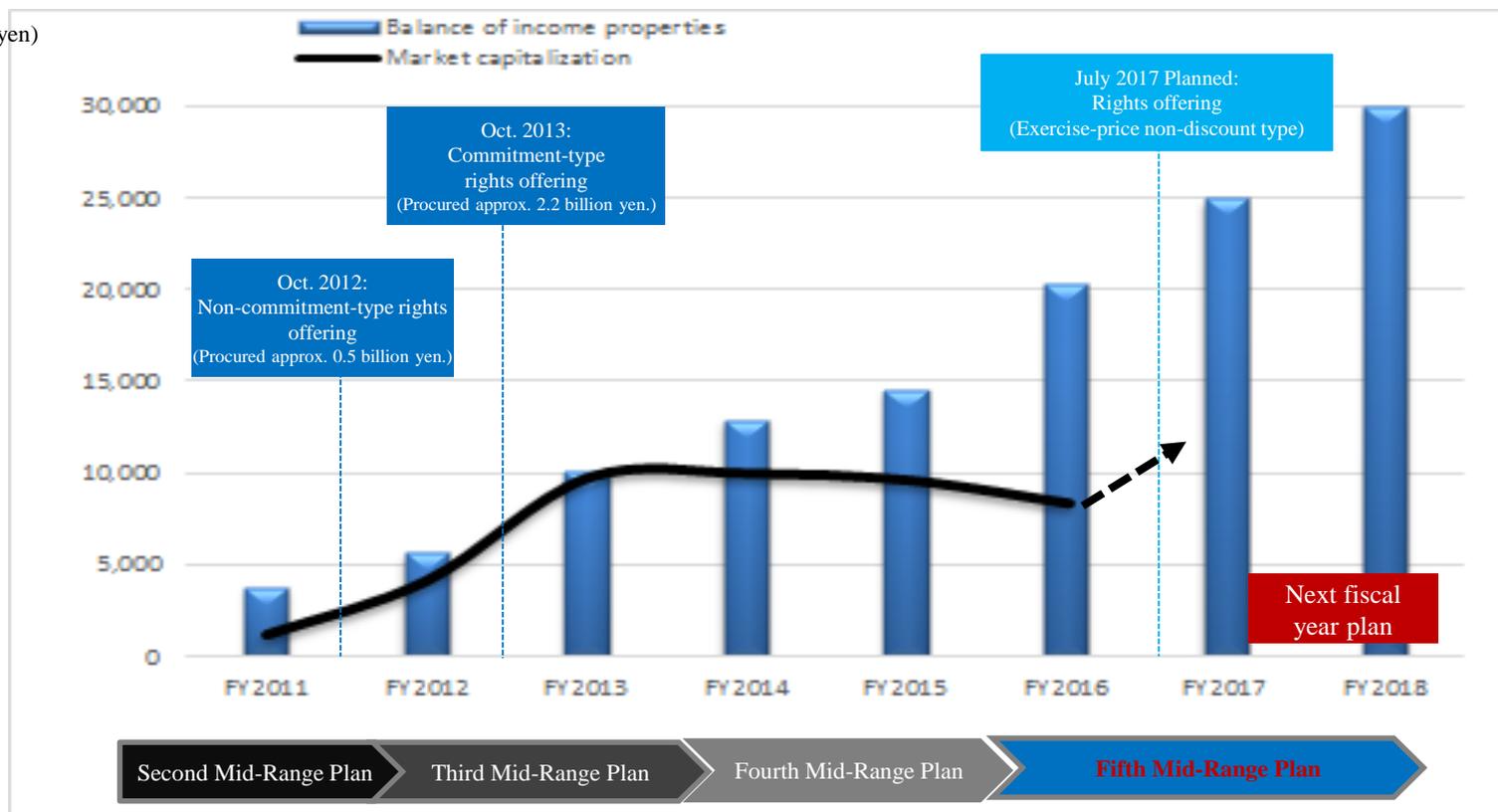
### Allocation by owner (share ratio)



- Financial institutions
- Financial instruments businesses
- Other corporate bodies
- Foreign corporate bodies
- Individuals, other

## VII-3. Change in Market Capitalization and Balance of Income Properties

(Units: Million yen)



### 1. Raising Growth Capital

- For investment to achieve **a balance of income properties of 30 billion yen** at the end of the fiscal year ending March 31, 2019, which is a target in the Fifth Mid-Range Business Plan
- For investment in IT systems and for marketing expenses to put our **Real Estate Tech** on a growth path

### 2. Track Record

By making effective use of the fund raising in the past two rights offerings, our balance of income properties and market capitalization have both increased.

## VII-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

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

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

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

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

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

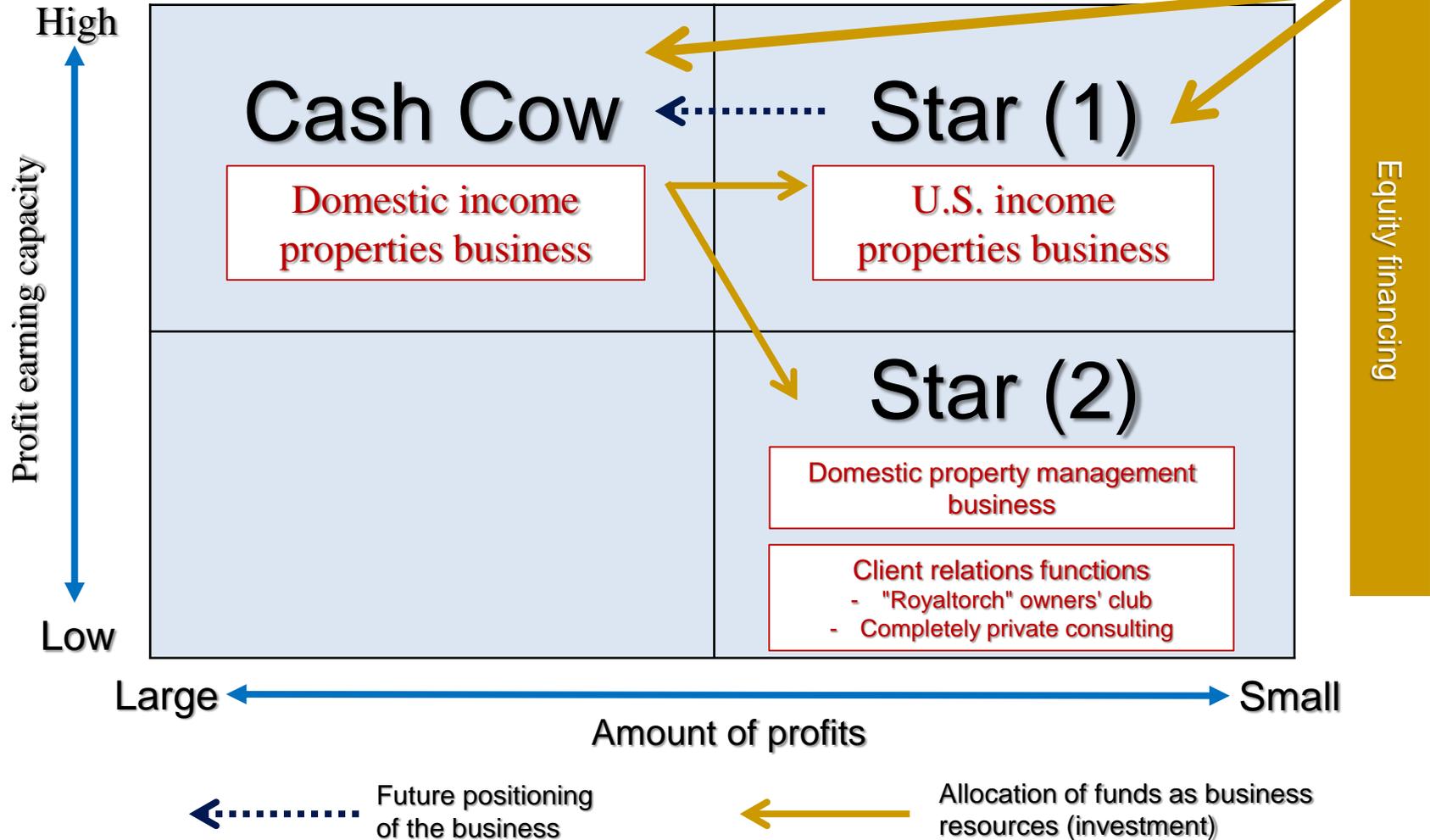
### U.S. income property business environment (PES analysis)

		Opportunities (O)	Threats (T)
Politics (P)	Japan	<ul style="list-style-type: none"> <li>- <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>	<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>	<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>	<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>	<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>	<ul style="list-style-type: none"> <li>- <b>Sudden changes in exchange rates due to changes in the international situation</b> (Search for risk hedge currencies, review of weaker yen policies)</li> </ul>
	U.S.	<ul style="list-style-type: none"> <li>- <b>Continuing U.S. population growth / Insufficient supply of new properties</b> (Stable and increasing rental income)</li> </ul>	<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.

# VIII-3. Business Strategy: Investment Positioning Matrix

A.D.W. Group investment positioning matrix



## VIII-4. 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

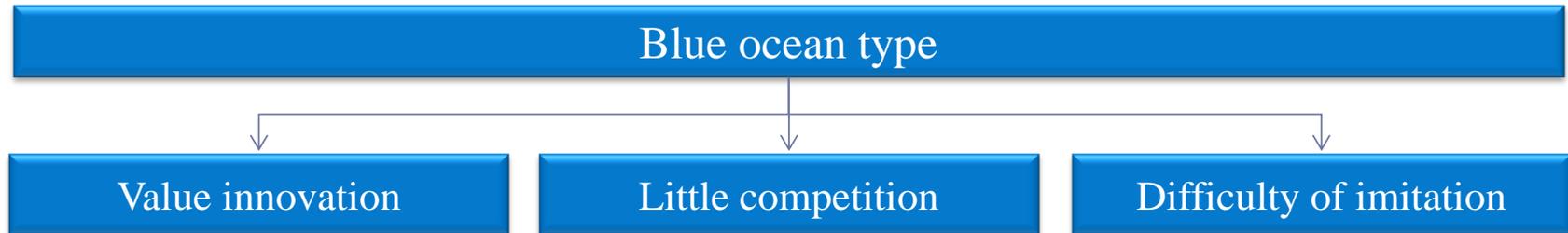
We can establish a unique position in the real estate industry.

# **IX – Reference Materials**

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

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

### Business model characteristics



### Characteristics

(1) One-stop solutions

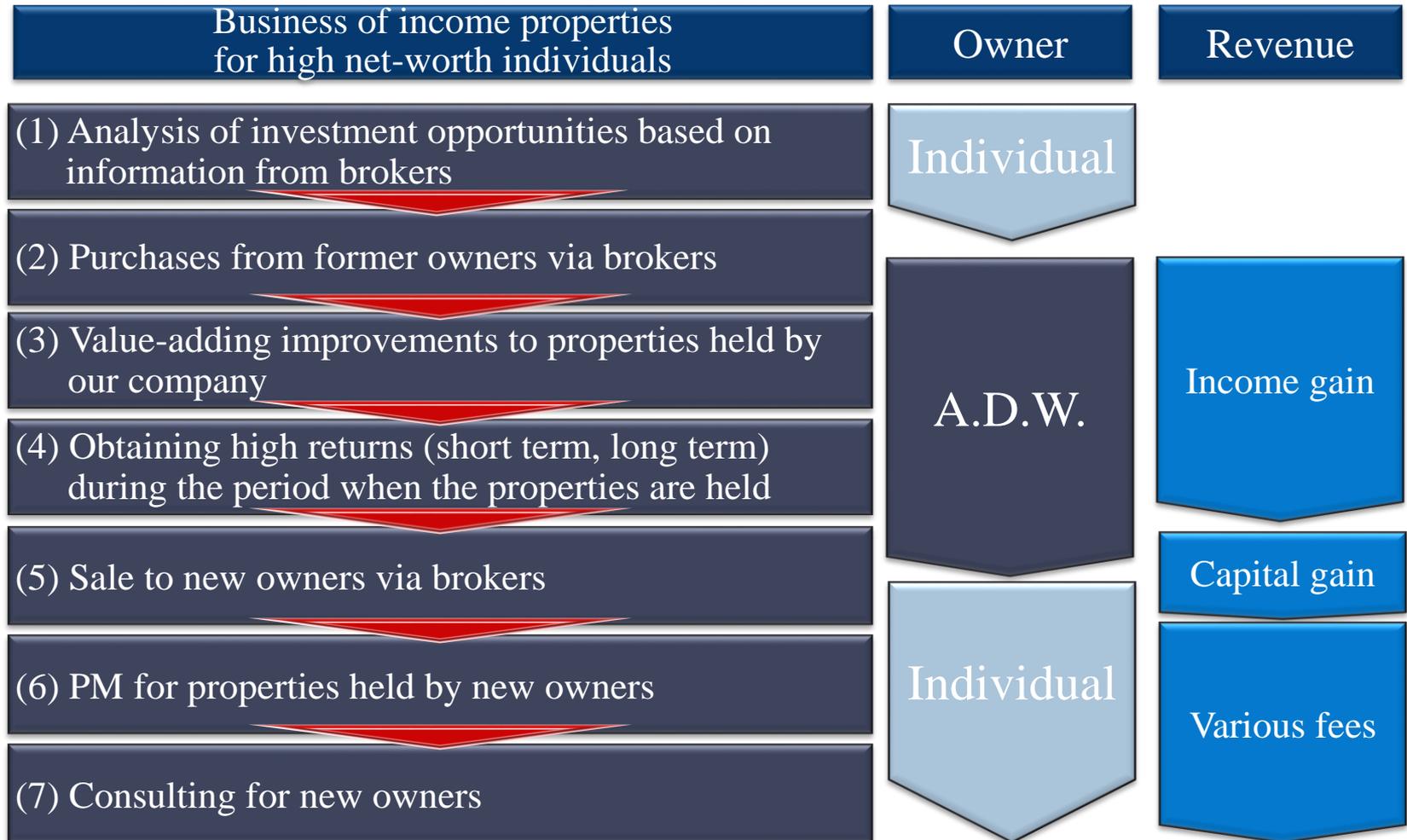
(2) Broad-ranging competitive superiority and social significance

(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

## IX-2. Business Model Characteristics (1)

### (1) One-stop solutions

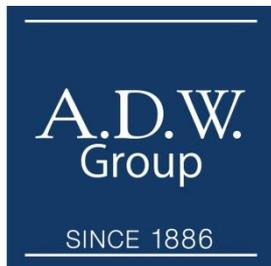


## IX-3. Business Model Characteristics (2)

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

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

Social significance



These materials were created in order to provide an understanding of the A.D.W. Group. They are not intended to solicit investment in our company. The future forecasts contained in these materials were determined based on the information available at the present time, and include many uncertain elements. Please understand that actual results may differ from the forecasts here due to changes in a wide variety of factors.

The overall business objectives of the Group are announced in the form of plans. The plans of our company are targets for our business, and are different from "forecasts and predictions" that are calculated rationally based on highly accurate information. A.D.W. announces predicted progress for each quarter in the form of "forecasts" that are updated as needed. These are based on highly accurate information concerning the group and information that we judge to be rational.

The data contained in these materials contains publically-available information that we judge to be trustworthy and accurate, however our company does not guarantee the accuracy and correctness of this information.

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