

A.D.Works Group Co., Ltd.

IR Briefing Materials: First Quarter of Fiscal Year Ending December 31, 2024

May 21, 2024

TSE Prime, Code: 2982



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| ADWG Group's Businesses

A.D.W. SINCE 1886
GROUP

Corporate philosophy

The ADWG Group contributes to the active development of people and society by creating and providing original value while flexibly changing.

The Group, which started as the Aoki Dyeing Works in 1886, has changed with the times and now operates its business on the TSE's Prime Market.



Founding

1886

A.D.Works, the Company's predecessor, was founded as Aoki Dyeing Works, a dyeing business, in 1886



Listing

October 2007

The Company's predecessor, A.D.Works, was listed on JASDAQ in October 2007 and the first section of TSE in October 2015; the Company was established through sole share transfer in April 2020



Market

TSE Prime



Number of employees
(consolidated)

229 people

as of March 31, 2024



Number of Group companies

14 companies

Income property sales business in Japan and overseas



Overseas office



Los Angeles, USA

Operates business in Japan and overseas

Business Vision (Graphic representation)

We aim to be an investment solution company that develops and sells a range of investment products centered around real estate.



Various assets and external environment

A.D.W. SINCE 1886
GROUP

Development and sale of various investment products

Properties with enhanced value

Real estate solutions

New investment solutions

Human resources

Expertise

Partners

Network of real estate brokers

IoT · DX

Wealthy individuals

Real estate management

Residences

Small-lot investments

Asset management and succession

Overseas trends

Offices

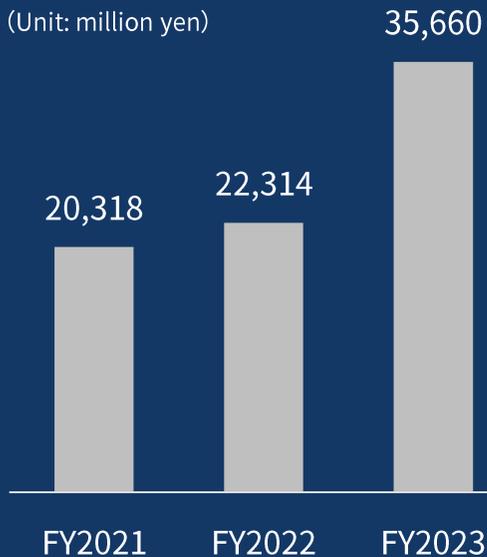
1 Income Property Sales Business

In our business model, we purchase income properties in Japan and overseas based on extensive market research and legal examination, and then increase asset value by carrying out construction work to raise its value and attract tenants in order to generate income through their subsequent sale.

Business model: One-Time Sales-type

Fluctuations in sales (by segment)

(Unit: million yen)



Three business characteristics

Properties handled



Focus on residences and offices

Areas of focus



Focus on the Tokyo metropolitan area, Kansai metropolitan area and Los Angeles, California

Strengths



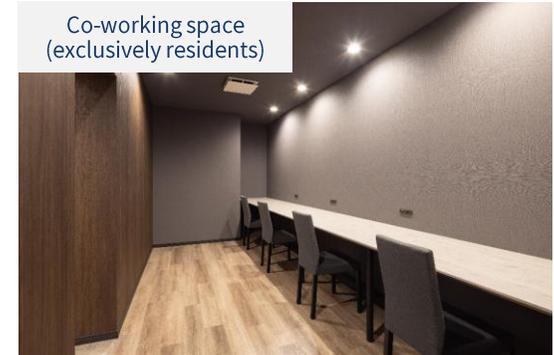
Value-Add Strategy

Example of value-added project : Saginuma Project(Residential real estate)

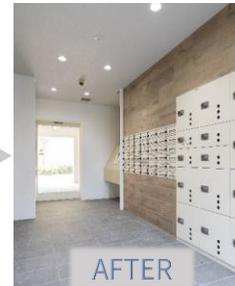
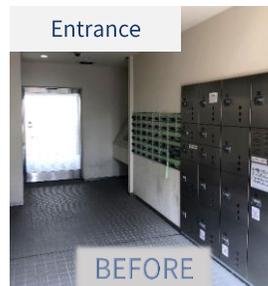
Exterior



Co-working space (exclusively residents)



Entrance



Plans tailored to characteristics of property and site and residents' needs

- Former trunk room turned into a co-working space
- Apartments suited for living together with pets

Other

- Large-scale repair work
- Interior decoration work on residents' rooms
- Steps taken to address legal infringements, etc.

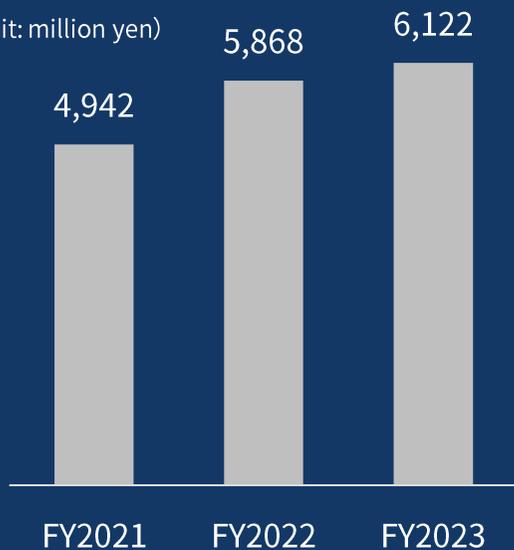
2 Stock-type Fee Business

This business model generates stable revenue through rent income from income properties held by the Group, property management support, and fee revenue from property investment consulting.

Business model: Stock-type

Trends in net sales (by segment)

(Unit: million yen)



① Property management



Leasing

Rent collection

Building management

We provide property owners with total property management, including leasing, building management, and rent collection.

② Asset consulting



Architectural consulting

Condominium renovations

Renovations

We provide multi-faceted asset consulting through private consulting, such as real estate appraisal and real estate utilization consulting, and support customers' real estate investments over a long time span extending across lifetimes.

3 New Business

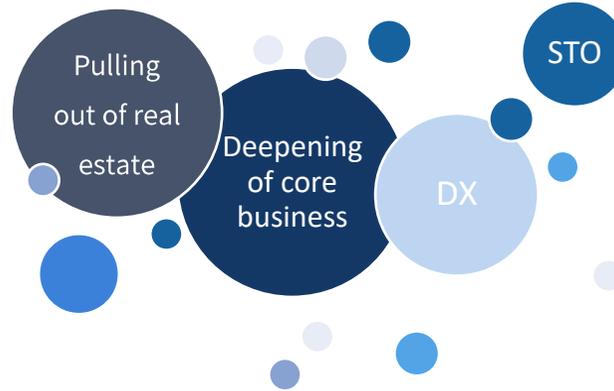
We aim to simultaneously deepen existing business and search for new business, merging the management resources we have built up with methods such as the CVC business, DX promotion, capital and business tie-ups, M&A and other to pursue the creation of new value. We aspire to make a leap to an investment solution company that provides diverse services.

Examples of creation of new businesses

Finance arrangement business

In this business, we provide advice on capital policies, including financing, to companies that have not yet listed and small- & medium-sized listed companies, based on our CVC functions. A service providing expertise on the Company and the financial industry's financing for new players will be organized to accommodate the needs of client companies.

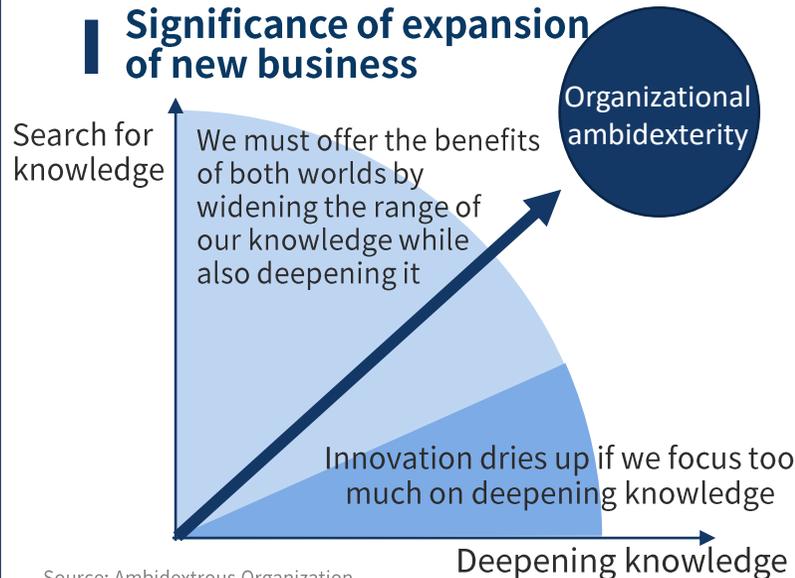
Spread of new business



Since the start of the CVC business, we have collected information on investment projects and secured opportunities to collect useful information.

Some investments were made as a result of cautious investment assessments.

Significance of expansion of new business



In deepening existing business, we ensure a search for new projects with the CVC business, and promote a strategy that enables innovation.

Source: Ambidextrous Organization, by Charles A. O'Reilly and Michael Tushman, Harvard Business Review, April 2004

Summary of First Quarter of Fiscal Year Ending in December 2024

The balance of income properties steadily expanded to achieve the full-year plan, thanks to the successful acquisition of large properties in Japan.

| |  Acquisitions |  Revenue from sales |  Stock-type fee sales | | |
|--|--|--|--|--|---|
| Japan | <p>7 buildings</p> <p>Last year : 7 buildings</p> | <p>7.9 bn yen</p> <p>Last year : 6.2 bn yen</p> | <p>6 buildings</p> <p>Last year : 5 buildings</p> | <p>6.5 bn yen</p> <p>Last year : 5.1 bn yen</p> | <p>0.99 bn yen</p> <p>Last year : 1.1 bn yen</p> |
| <p>Sold out the small-lot real estate products “ARISTO Aoyama II” (1.77 bn yen) and “ARISTO Sapporo”(0.77 bn yen)</p> | | | | | |
| Overseas | <p>0 bn yen</p> <p>Last year : 0.61 bn yen</p> | <p>0 bn yen</p> <p>Last year : 0.28 bn yen</p> | <p>0.42 bn yen</p> <p>Last year : 0.38 bn yen</p> | | |
| <p>Continued to closely monitor U.S. interest rate trends and conducted business with caution as in the previous fiscal year</p> | | | | | |
| New Business | <p>Started verification to create non-asset businesses</p> | | | | |

Overview of Q1 FY2024

Sales of self-developed properties and small-lot real estate products contributed to the increase in gross profit.

Since the quarterly results do not level off, the progress rate of the full-year forecast for Q1 remains within the expected range.

(Unit: million yen)

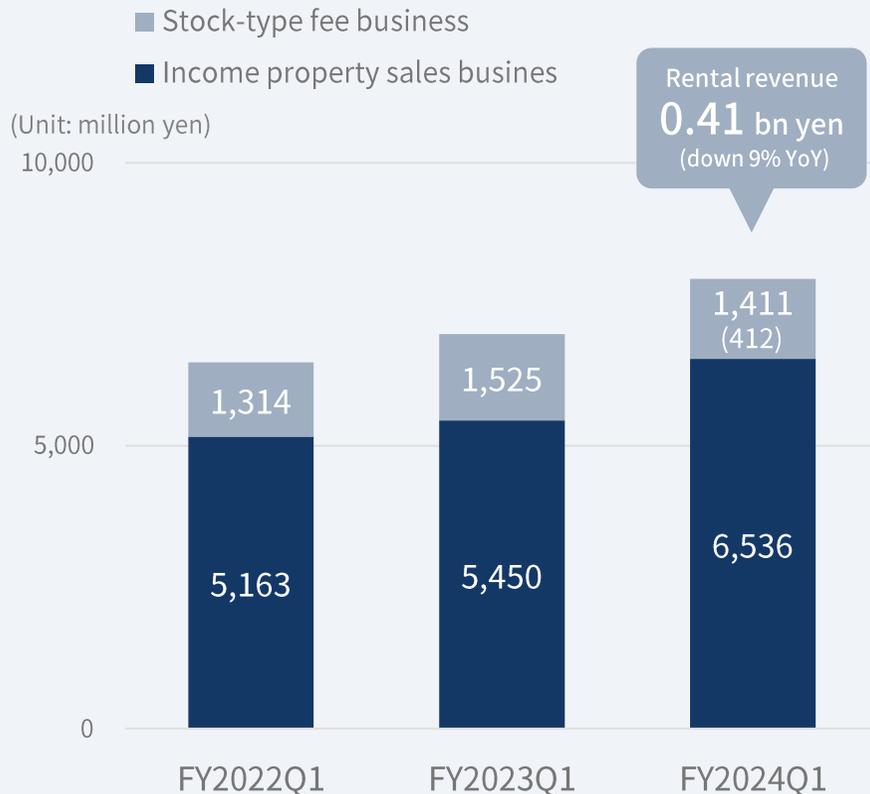
| | FY2024 Q1 | Comparison to same period in previous year (Y on Y) | | FY2024 Full-year forecast | |
|-------------------------|--------------|---|---------------|------------------------------|---------------------|
| | | FY2023 Q1 | YoY | | Rate of progress |
| Net sales | 7,833 | 6,887 | 13.7% | 47,000 | 16.7% |
| Gross profit | 1,789 | 1,179 | 51.8% | - | - |
| SG&A | 1,190 | 900 | 32.3% | - | - |
| Operating income | 599 | 279 | 114.6% | 3,000 | 20.0% |
| Ordinary income | 434 | 251 | 73.0% | - | - |
| Income before taxes | 434 | 277 | 56.8% | 2,300 | 18.9% |
| Net income [※] | 256 | 224 | 14.3% | 1,565 | 16.4% |

*Net income attributable to owners of parent.

The balance of income properties is expanding, while rental revenue is decreasing compared to the previous fiscal year.

Rental revenue is expected to increase as property occupancy improves through commercialization.

Fluctuations in net sales (by segment)



Fluctuations in Operating income (by segment)



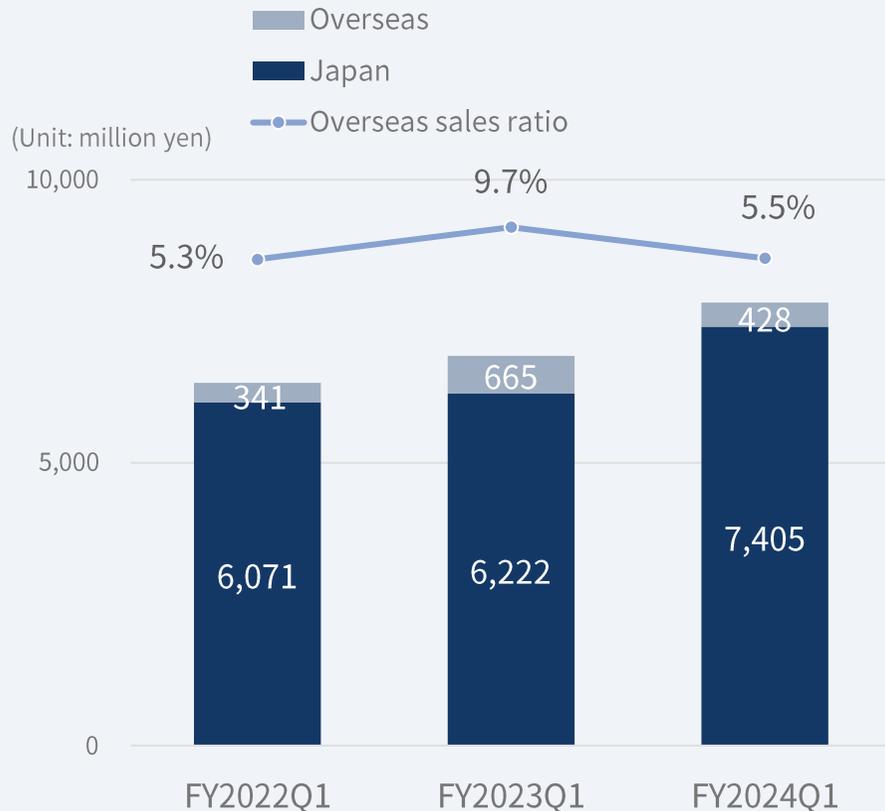
※The figures shown here include figures related to internal transactions

Japan: Continued to progress steadily in the acquisition of large properties as in the previous fiscal year

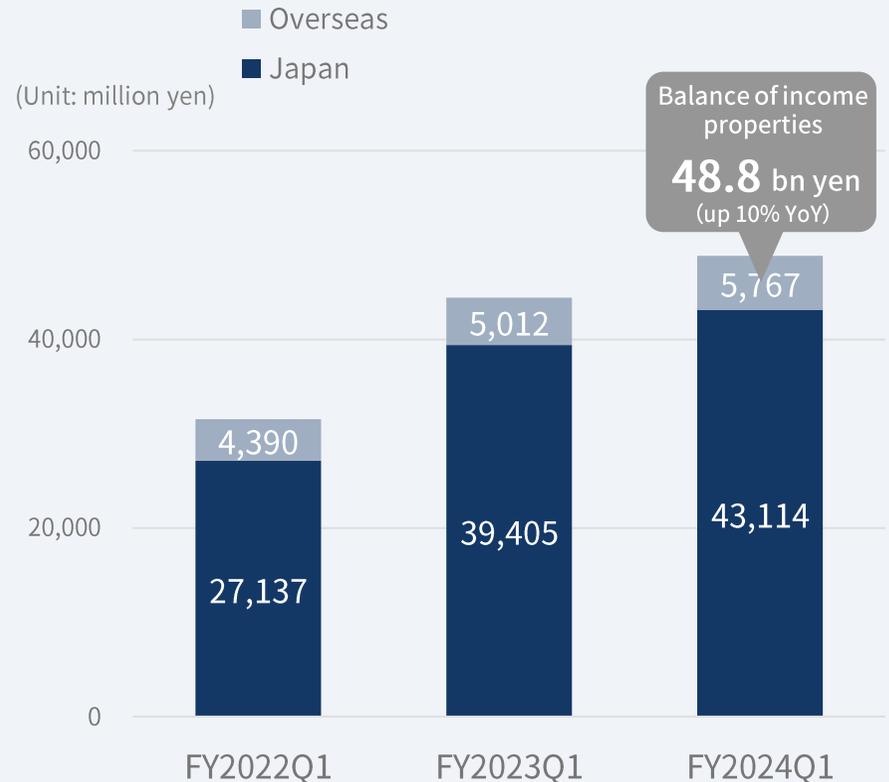
Overseas: Q1 net sales are dependent on rental revenue and management commissions.

We aim to generate sales from Q2 onwards.

Fluctuations in net sales (by segment)



Fluctuations in balance of income properties (by region)



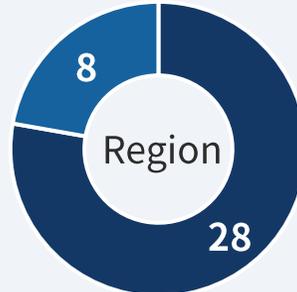
Breakdown of balance of income properties(number of buildings)

The average unit price of income properties in Japan was 1.19 billion yen, and properties continued to grow in size.

Japan (Total 36 buildings)



- 500 million yen or less
- 500 million yen to 1 billion yen
- more than 1 billion yen



- Kanto
- Kansai, Chubu, Kyusyu



- Residential
- Office
- Commercial, etc.



- Completed
- In development
- Other than development

Overseas (Total 13 buildings)



- 500 million yen or less
- 500 million yen to 1 billion yen
- more than 1 billion yen



- Los Angeles
- Hawaii



- Residential



- In development
- Other than development

By focusing efforts on the acquisition of properties, the balance of income properties expanded to a total of 48.8 billion yen at the end of Q1.

As of end-March 2023

(Unit: million yen)

| | |
|--------------------------------|-----------------------------------|
| Cash and deposits 7,236 | Current liabilities 10,227 |
| Current assets, etc: 2,415 | |
| Income Properties 44,417 | Non-current liabilities 30,080 |
| | Net assets 15,809 |
| Non-current assets, etc: 2,048 | |

Total assets : 56,117 million yen

As of end-March 2024

(Unit: million yen)

| | |
|---|-----------------------------------|
| Cash and deposits 8,044 | Current liabilities 9,853 |
| Current assets, etc: 2,336 | |
| Income Properties (for sale) 42,299 | Non-current liabilities 34,194 |
| Income Properties (for rental revenue) : 6,583 | Net assets 17,518 |
| Non-current assets : 2,303 | |

Total assets : 61,566 million yen

Progress with Second Medium-Term Management Plan (Fiscal Years Ending December 31, 2024 - December 31, 2026)

In FY2023, we achieved 2 billion yen in net income before income taxes, entering the next stage of growth.

We will establish a system for sustainable growth under the theme of
“Sustainable Business, Sustainable Growth.”

(Unit: billion yen)

| Consolidated | FY2021 (Fiscal year ended December 31, 2021) | FY2022 (Fiscal year ended December 31, 2022) | FY2023 (Fiscal year ended December 31, 2023) | FY2024 (Fiscal year ending December 31, 2024) | FY2025 (Fiscal year ending December 31, 2025) | FY2026 (Fiscal year ending December 31, 2026) |
|---|--|--|--|---|---|---|
| | Results | Results | Results | Plan | Plan | Plan |
| Net sales | 24.96 | 27.85 | 41.34 | 47.00 | 52.00 | 58.00 |
| Operating income | 0.93 | 1.37 | 2.44 | 3.00 | 3.30 | 3.70 |
| Net income before income taxes | 0.65 | 0.91 | 2.06 | 2.30 | 2.60 | 3.00 |
| Balance of income properties *1 | 28.9 | 41.4 | 44.7 | 45.0 | 46.0 | 50.0 |
| Shareholders' equity | 14.7 | 15.2 | 16.3 | 17.5 | 18.5 | 20.0 |
| ROE *2 | 2.2% | 3.5% | 9.0% | 9.2% | 9.6% | 10.4% |
| ROIC *3 | 1.8% | 2.2% | 4.0% | 4.3% | 4.6% | 4.8% |
| Human resource productivity “PH gross profit” *4 | 24 mil yen/person | 25 mil yen/person | 31 mil yen/person | 33 mil yen/person | 34 mil yen/person | 35 mil yen/person |
| Financial soundness “Equity ratio” | 35.1% | 29.6% | 29.1% | Approx.30% | Approx.30% | Approx.30% |
| Shareholder value “EPS” *5 | 7.22 yen | 11.32 yen | 29.85 yen | 32.95 yen | 36.35 yen | 41.76 yen |

*1 Balance of income properties: Total balance of properties held for sale or rental revenue

*2 ROE: Net income attributable to owners of parent / average shareholders' equity (Figures may differ from net income on equity.)

*3 ROIC: (Net income attributable to owners of parent + interest expenses + borrowing fee) / (balance of average shareholders' equity + balance of average interest-bearing liabilities)

*4 PH gross profit (gross profit per head): Gross profit / average number of employees

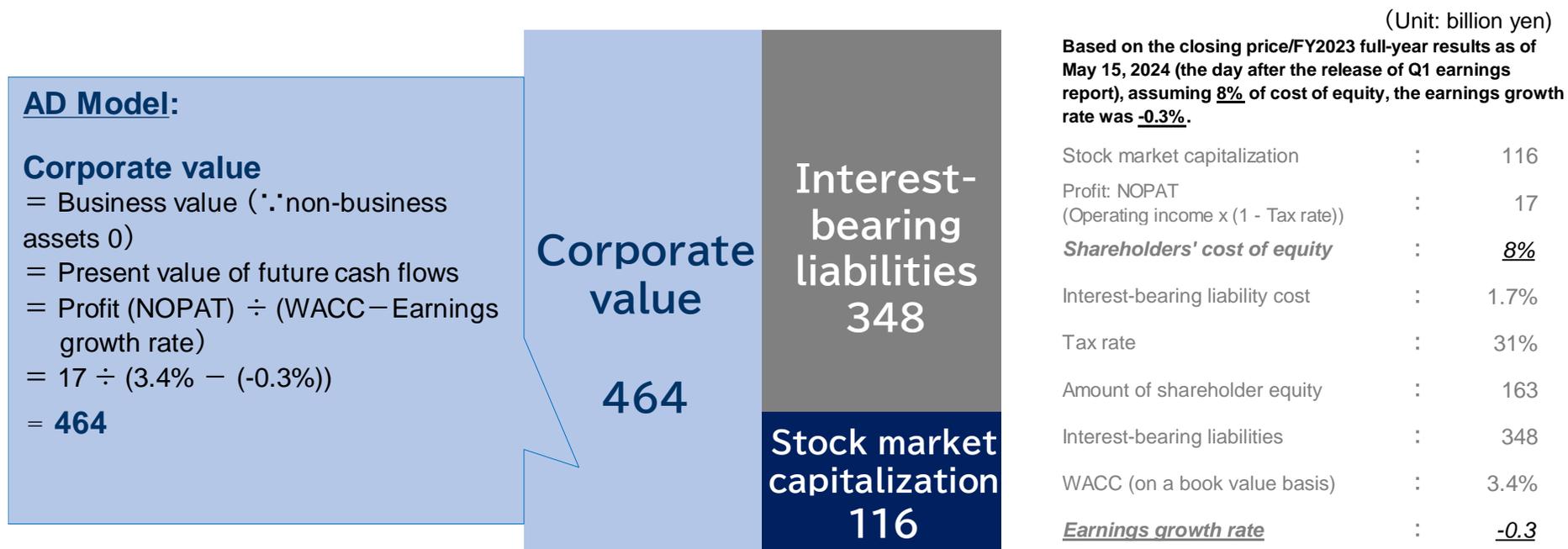
*5 EPS (earnings per share): Net income attributable to owners of parent / average number of shares during the period

A.D. Works' expected earnings growth rate as estimated by the stock market

Our expected growth rate by the stock market, as calculated using our original AD model

☹️ The expected growth rate of our company by the stock market, calculated assuming 8% of cost of equity, was -0.3%.

* At less than 9% of shareholders' cost of equity, the expected growth rate would be ±0.0%.



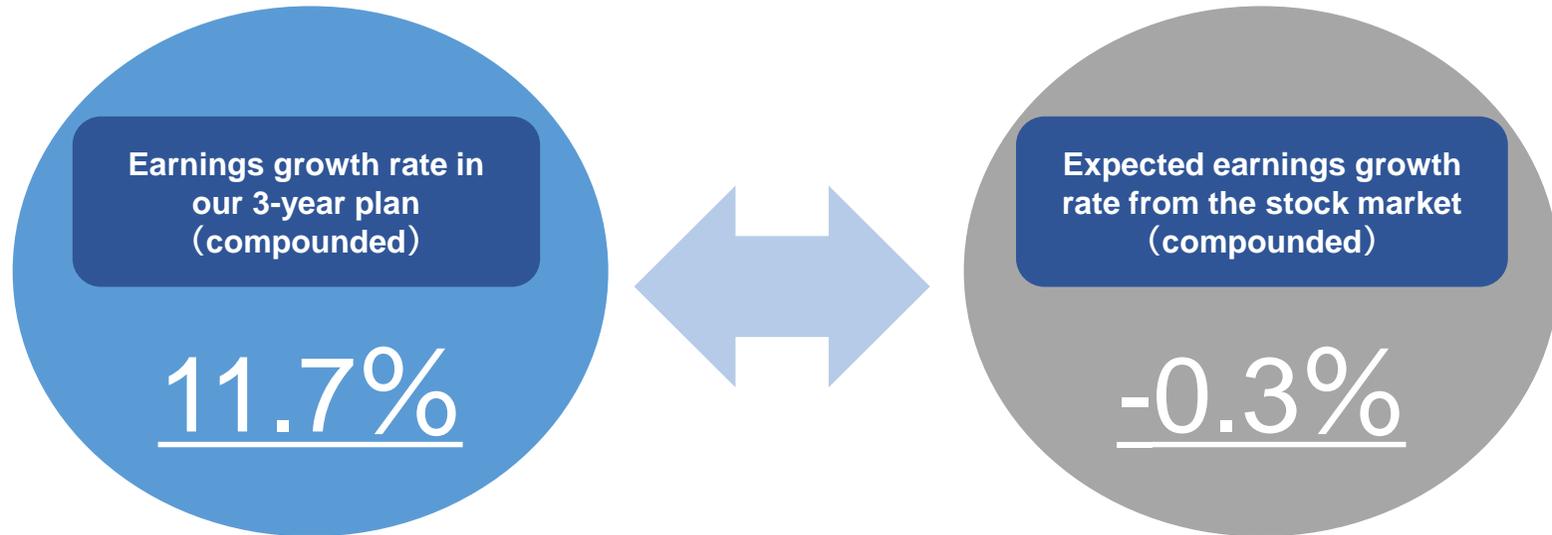
* The WACC would be 3.1% if calculated based on the 12-month average for FY12/2024, but here 3.4%, a book value calculated at the end of the period, is adopted.

AD Model:

- ✓ Is a model that obtains constants from the most recent stock market capitalization and financial statements information and makes the shareholder's equity cost and the earnings growth rate dependent functions of each other.
- ✓ To simplify the argument of the model as much as possible, given the company's current situation, non-business assets, changes in equity ratio, and differences between book value and market value of liabilities are not taken into account.
- ✓ This model is adapted from the continuous growth model [Present value of future cash flows = CF ÷ (r-g)].

Gap in expected earnings growth rate

Unwilling to accept low growth estimates from the stock market, but growth potential is high.



* 11.7% is based on NOPAT.

3-year plan for net income before income taxes announced in the Second Medium-Term Management Plan (from FY2023 results of 2.06 billion yen to FY2026 forecast of 3.0 billion yen) The growth rate is 13.3%.

☹️ In comparison to 11.7% earnings growth rate of our 3-year plan, the perpetual earnings growth rate estimated by the stock market was -0.3%.



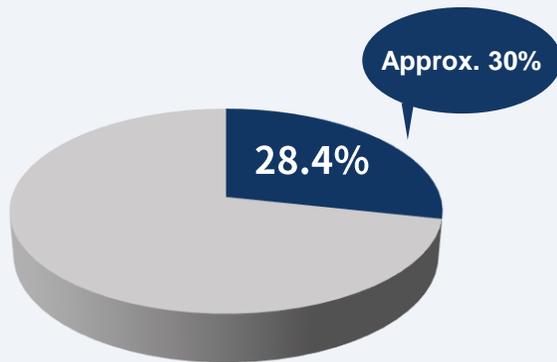
☹️ Should we be able to raise the stock market's expectations of our ability to achieve the business plan, we can assume a significant positive impact on its share price. **We are in a situation that is more likely to recollect the upside potential of the stock price than the already-high expected profit growth rate from the stock market.**

We aim for sustainable management and growth by improving durability, mobility, and flexibility.

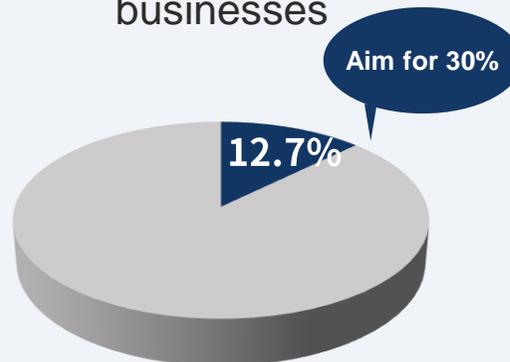
We will advance discussions to create non-asset businesses in Q1.

Indicators at the end of Q1 FY2024

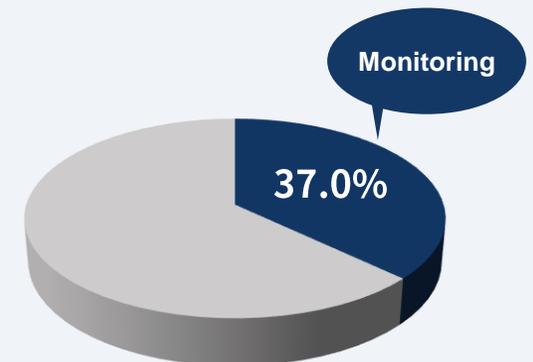
Durability
Equity ratio



Mobility
Share ratio of non-asset
businesses



Flexibility
Fixed-cost coverage ratio



Strategic background of Corporate Agility

We need to break away from dependence on income property businesses and control growth and stability.

Reference Materials

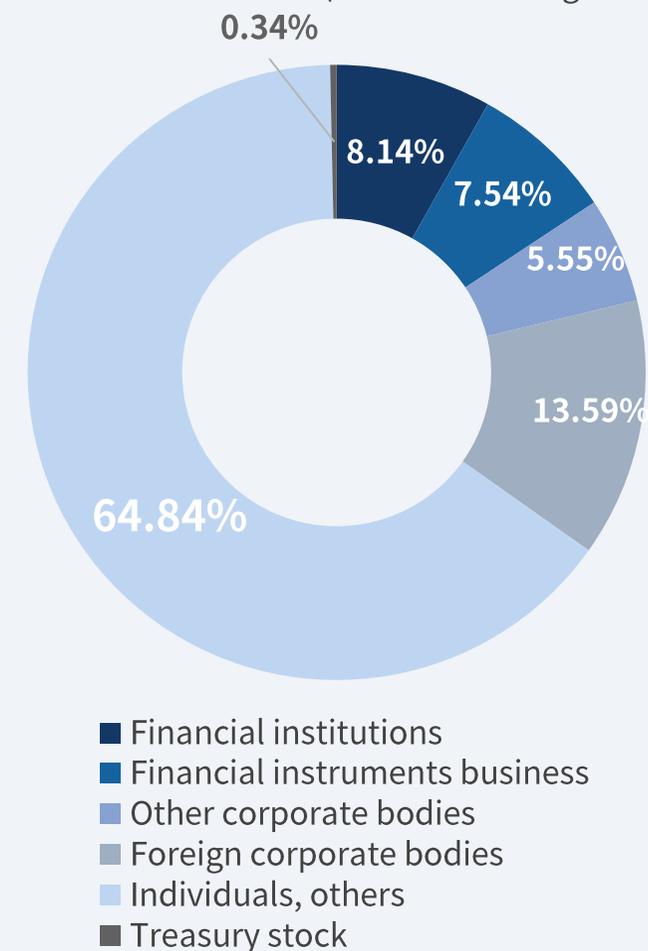
| | |
|--------------------------------|--|
| Company name ----- | A.D. Works Group Co., Ltd. |
| Headquarters ----- | Fifth Floor, Hibiya Kokusai Building, 2-2-3, Uchisaiwai-cho, Chiyoda-ku, Tokyo |
| Establishment ----- | April 1, 2020 (A.D.Works Co., Ltd., the Company's predecessor, was founded in February 1886 and incorporated in May 1936.) |
| Capital ----- | 6,270 million yen (as of March 31, 2024) |
| Listing date ----- | Moved to TSE Prime in April 2022 Listed in the First Section of the TSE in a technical listing in April 2020 (2982) (A.D. Works, the Group's predecessor, was moved to the first section of TSE in October 2015/ Listed on the JASDAQ Securities Exchange (3250) in October 2007) |
| Main subsidiaries ----- | <ul style="list-style-type: none"> A.D.Works Co., Ltd. (real estate transactions, brokerage) A.D.Partners Co., Ltd. (real estate management) Sumikawa ADD Co., Ltd. (renovation work, repair work) Angel Torch Co., Ltd. (corporate venture capital business, finance arrangement business) Jupiter Funding Co., Ltd. (financing utilizing crowd funding and other) A.D.Works USA, Inc. (management of US subsidiaries) ADW-No.1 LLC (US property income business) ADW Management USA, Inc. (US property income management business) ADW Hawaii LLC (property income business in Hawaii, USA) |

Shareholder Composition (as of March 31, 2024)

- 1 Number of issued shares **49,533,264 shares**
- 2 Number of shareholders **20,615** (shareholders with voting rights: : 14,320)
- 3 Major shareholders(as shown in table below)

| No. | 株主名 | 所有株式数の割合 (除：自己株式) |
|-----|--|----------------------|
| 1 | Hideo Tanaka | 10.24% |
| 2 | SBI Securities Co., Ltd. | 5.24% |
| 3 | The Master Trust Bank of Japan, Ltd. (Trust Account) | 4.22% |
| 4 | Liberty House Co., Ltd. | 3.99% |
| 5 | BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD (Standing proxy : MUFG Bank, Ltd.) | 2.74% |
| 6 | The Master Trust Bank of Japan, Ltd. (Directors' Stock Compensation Trust) | 2.37% |
| 7 | BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (Standing proxy : MUFG Bank, Ltd.) | 1.62% |
| 8 | THE BANK OF NEW YORK MELLON 140041 (Standing proxy : Mizuho Bank, Ltd., Settlement Sales Department) | 1.15% |
| 9 | JP JPMSE LUX RE MACQUARIE BANK LTD LONDON EQ CO (Standing proxy : MUFG Bank, Ltd.) | 0.91% |
| 10 | Custody Bank of Japan, Ltd. (Trust Account) | 0.89% |

- 4 Allocation by owner
(as shown in diagram below)



Trends in Consolidated Results

| | FY2015 (Fiscal year ended March 31,2015) | FY2016 (Fiscal year ended March 31,2016) | FY2017 (Fiscal year ended March 31,2017) | FY2018 (Fiscal year ended March 31,2018) | FY2019 (Fiscal year ended March 31,2019) | FY2020 (Fiscal year ended March 31,2020) | FY2020 (Fiscal year ended December 31,2020) | FY2021 (Fiscal year ended December 31,2021) | FY2022 (Fiscal year ended December 31,2020) | FY2023 (Fiscal year ended December 31,2023) |
|-------------------------------------|--|--|--|--|--|--|---|---|---|---|
| (Unit: million yen) | | | | | | | | | | |
| Net sales | 10,735 | 15,733 | 18,969 | 22,299 | 24,861 | 24,687 | 16,840 | 24,961 | 27,856 | 41,342 |
| Income before taxes | 539 | 650 | 835 | 924 | 1,043 | 933 | 432 | 650 | 910 | 2,066 |
| Net income | 333 | 426 | 540 | 584 | 663 | 625 | 264 | 312 | 527 | 1,419 |
| Net assets | 5,478 | 5,842 | 6,415 | 10,152 | 11,947 | 13,005 | 13,216 | 14,817 | 15,857 | 17,166 |
| Total assets | 16,681 | 17,925 | 25,832 | 30,801 | 30,625 | 35,468 | 35,850 | 42,047 | 53,359 | 58,854 |
| | | | | | | | | | | |
| Balance of income properties | 12,931 | 14,551 | 20,318 | 22,376 | 21,229 | 23,118 | 24,682 | 28,914 | 41,476 | 44,798 |
| ROE | 6.1% | 7.5% | 8.8% | 7.0% | 5.9% | 5.0% | 2.7% | 2.2% | 3.5% | 9.0% |
| ROIC | 3.6% | 3.8% | 3.9% | 3.1% | 3.4% | 3.1% | 2.0% | 1.8% | 2.2% | 4.0% |
| Number of employees | 99 | 115 | 136 | 146 | 167 | 185 | 195 | 207 | 219 | 232 |

※1:ROE: Net income attributable to owners of parent / average shareholders' equity (Figures may differ from net income on equity.)

※2:ROIC: (Net income attributable to owners of parent + interest expenses + borrowing fee) / (balance of average shareholders' equity + balance of average interest-bearing liabilities)

Notes on these Materials

These materials were created in order to provide an understanding of the A.D.Works 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.

The A.D.Works Group 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 A.D.Works Group and information that we judge to be rational. The data contained in these materials contains publicly-available information that we judge to be trustworthy and accurate, however the A.D.Works Group does not guarantee the accuracy and correctness of this information.

Inquiries

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