

A.D.Works Group Co., Ltd.

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

August 19, 2024

TSE Prime, Code: 2982



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| | <small>*北極星 means North Star in English. The official translation is to be determined.</small> | |
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Highlights of Second Quarter of Fiscal Year Ending December 31, 2024

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Topics related to financial results for second quarter of fiscal year and future management issues



TOPIC 1: 64% of forecast for income before taxes has been achieved

Strong sales in the domestic income property sales business drove earnings. Income also exceeded the forecast in the rental management division.



TOPIC 2: Sales of ARISTO small-lot real estate products were solid.

ARISTO Hiroo, the largest in the series at total sales of 4.0 billion yen, were sold out quickly, and 6.5 billion yen of the full-year target of 8.0 billion yen was achieved in the second quarter of the fiscal year alone.



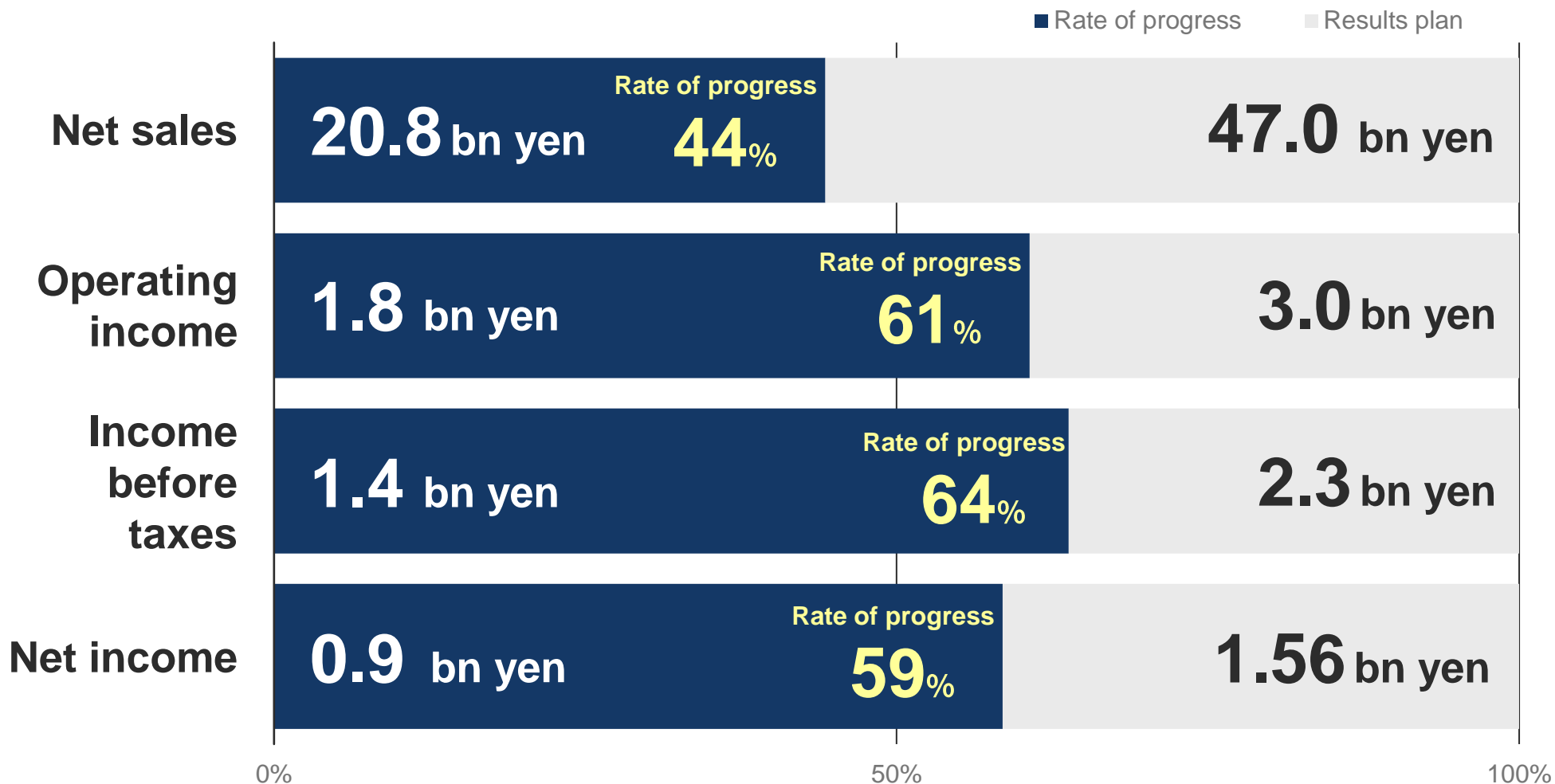
TOPIC 3: Establishment of long-term management policy

We decided on the 北極星(*), Vision and Values as our long-term management guidelines.

In line with our vision, we aim to achieve 20 billion yen in income before taxes and a 40% BtoC share in 2034.

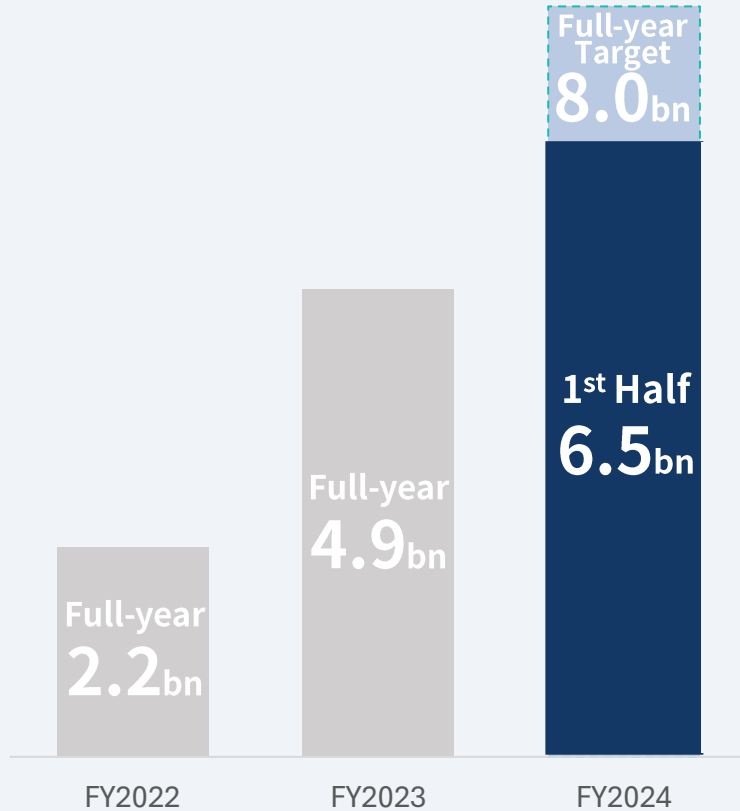
*北極星 means North Star in English. The official translation is to be determined.

The rate of return on income property sales is rising and solid progress has been made in achieving income forecasts

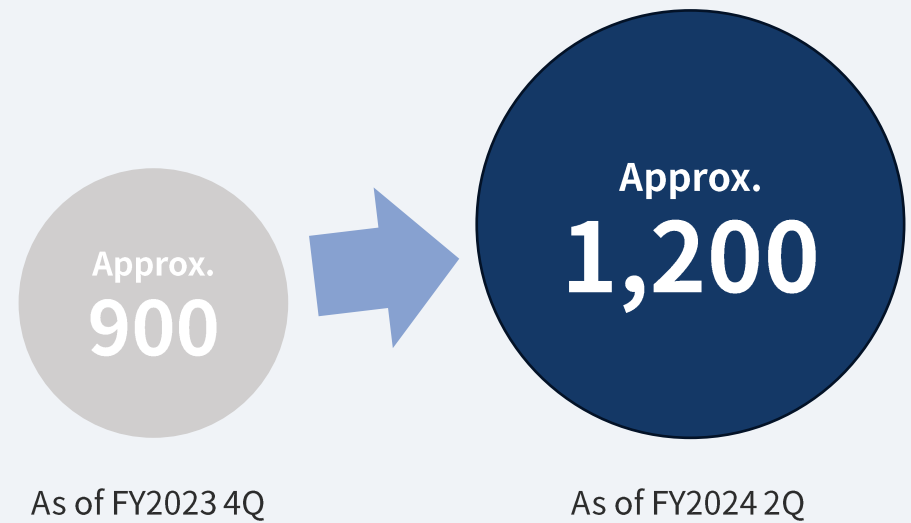


As the total sales amount increases, the total number of investors also increases. Expanding the customer base will create a good cycle of attracting repeat customers, contributing to future business expansion

Trend in total sales



Total number of investors



Overview of Financial Results for Second Quarter of Fiscal Year Ending December 31, 2024

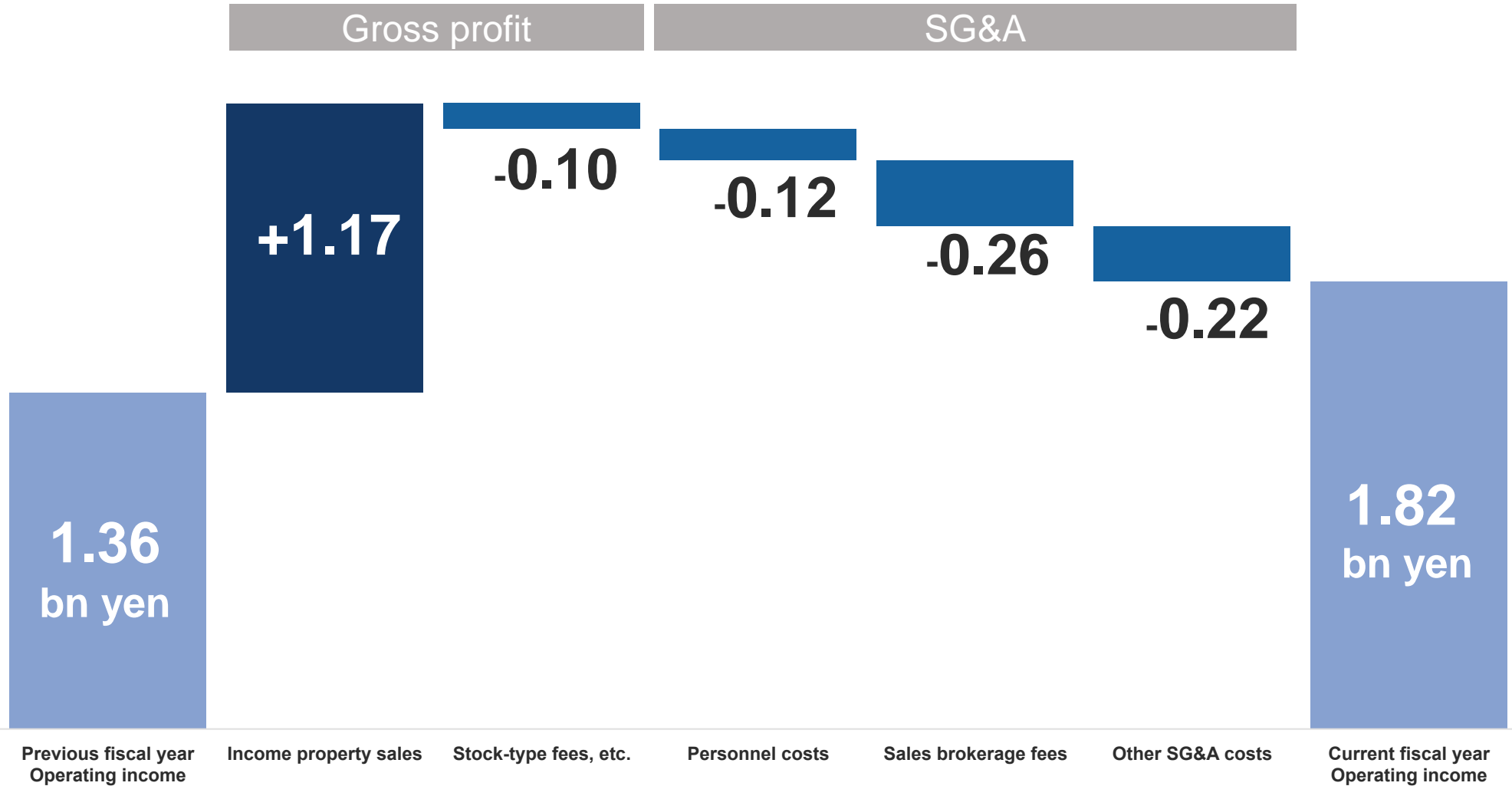
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Increase in sales and income compared to same period in previous fiscal year

(Unit: million yen)

| | FY2024 Q2 | Comparison to same period in previous year (Y on Y) | | FY2024 Full-year forecast | |
|-------------------------|---------------|---|--------------|------------------------------|---------------------|
| | | FY2023 Q2 | YoY | | Rate of progress |
| Net sales | 20,814 | 19,145 | 8.7% | 47,000 | 44.3% |
| Operating income | 1,820 | 1,369 | 32.9% | 3,000 | 60.7% |
| Income before taxes | 1,467 | 1,284 | 14.3% | 2,300 | 63.8% |
| Net income [※] | 915 | 864 | 5.9% | 1,565 | 58.5% |

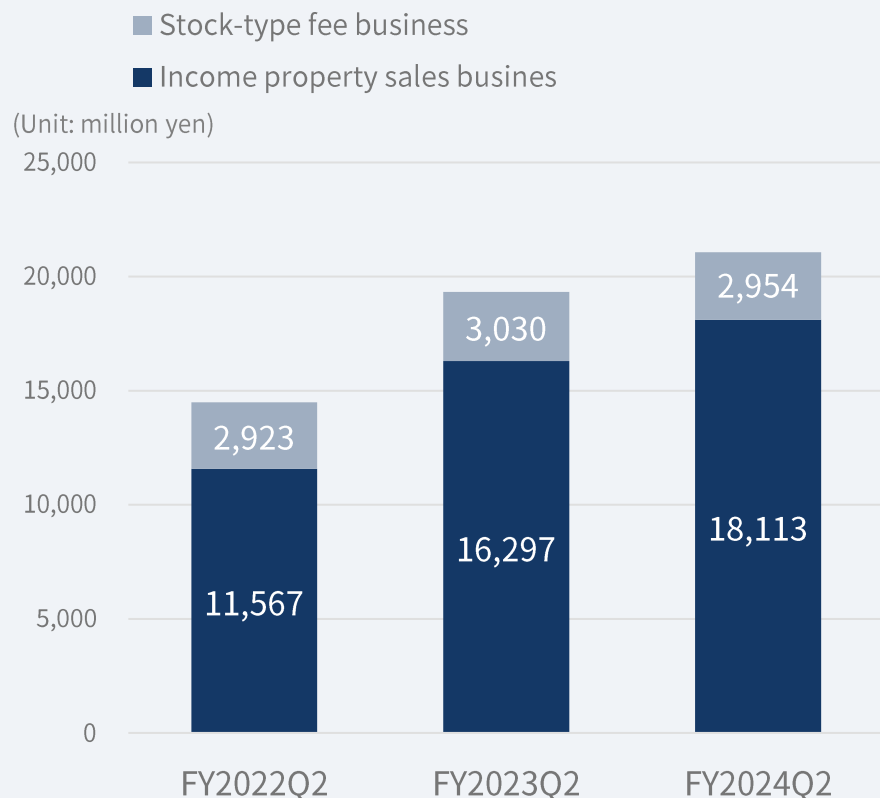
*Net income attributable to owners of parent.



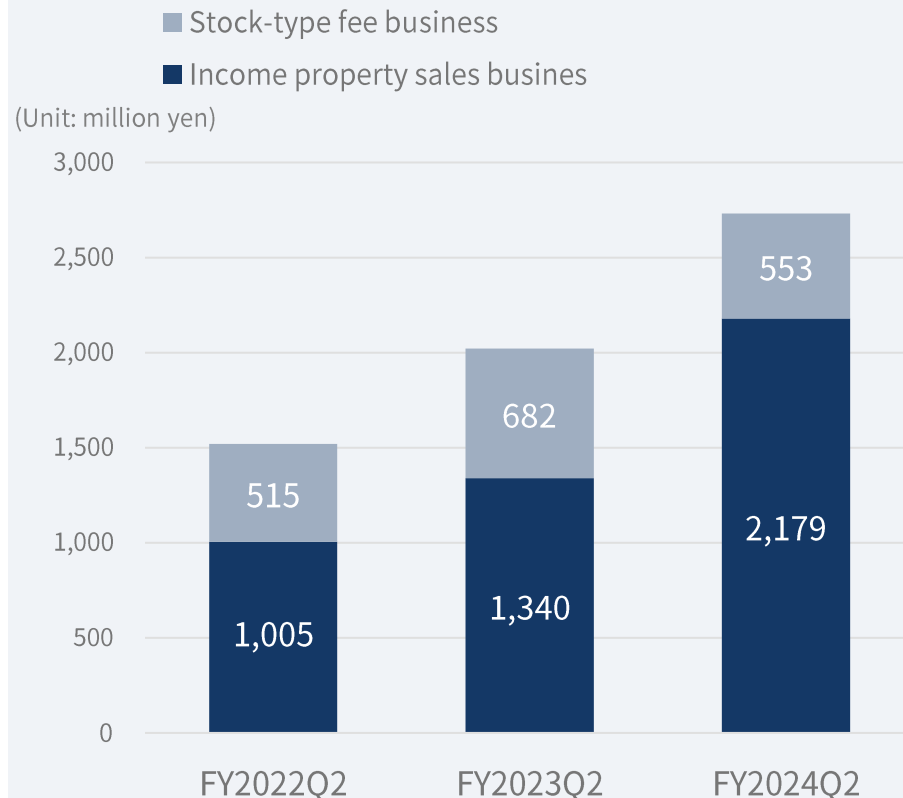
The balance of income properties is expanding, while rental revenue is decreasing compared to the previous fiscal year

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

Fluctuations in net sales (by segment)



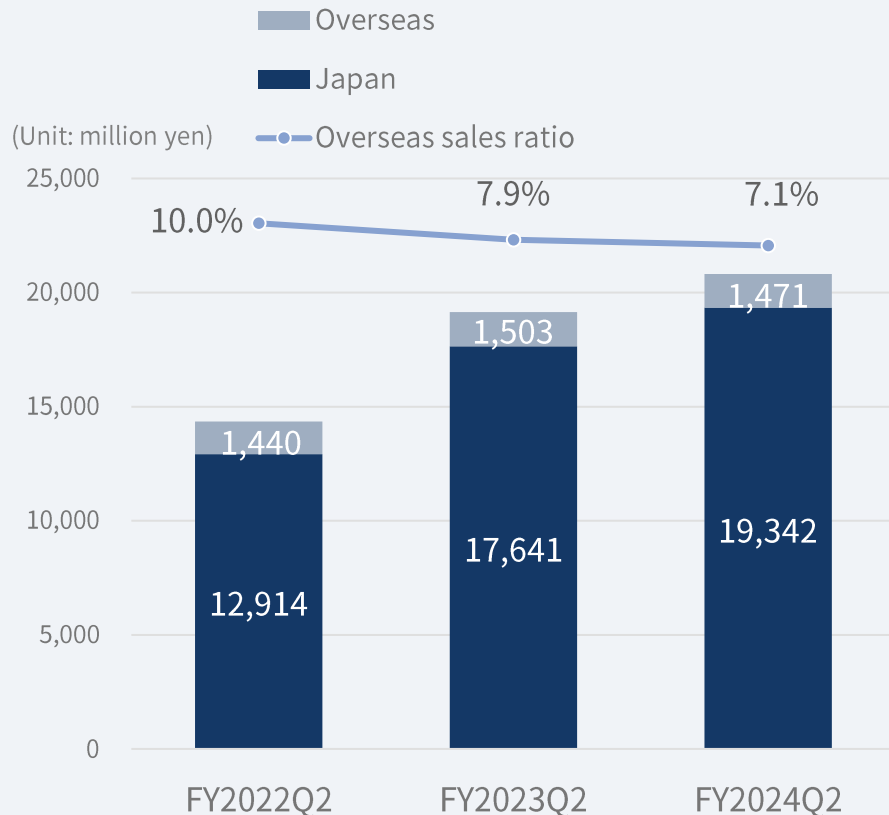
Fluctuations in Operating income (by segment)



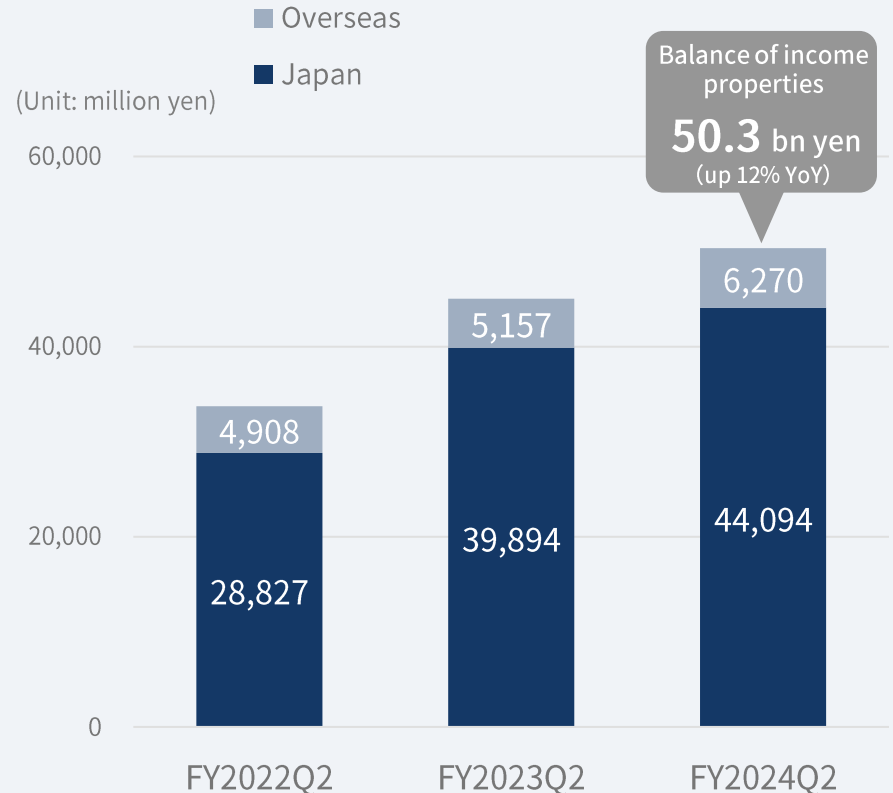
Japan: Continued to progress steadily in the acquisition of large properties as in the previous fiscal year

Overseas: Acquisitions and sales continue to be restrained as U.S. policy rates remain high

Fluctuations in net sales (by segment)



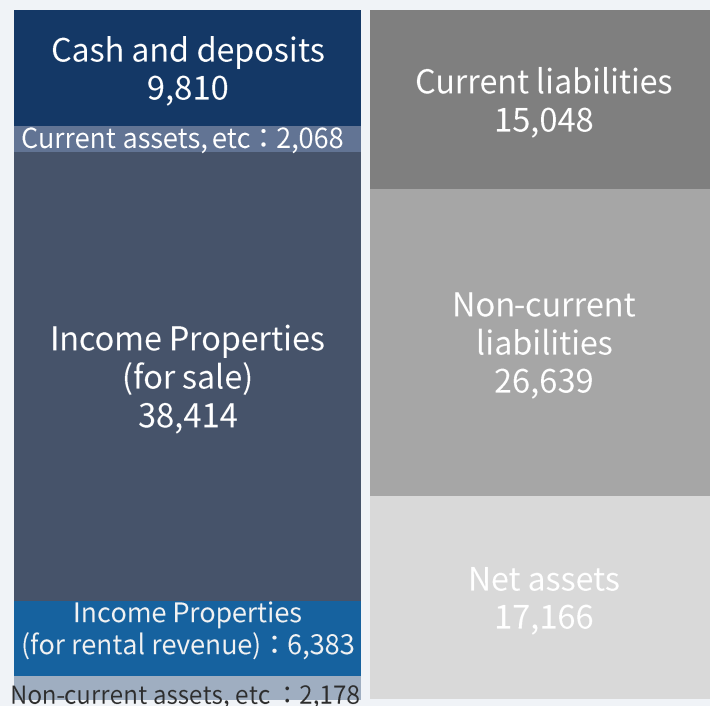
Fluctuations in balance of income properties (by region)



By focusing efforts on the acquisition of properties, the balance of income properties expanded to a total of 50.3 billion yen at the end of Q2

As of end-December 2023

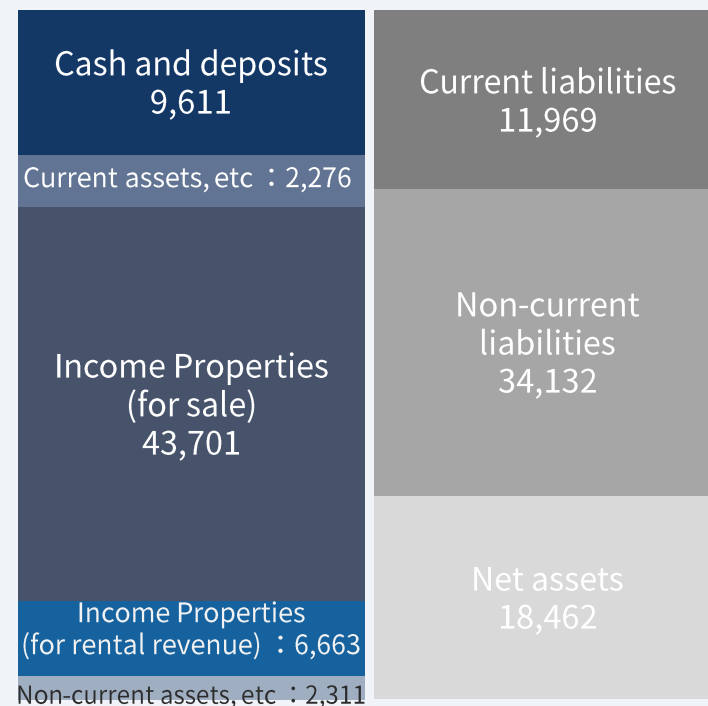
(Unit: million yen)



Total assets : 58,854 million yen

As of end-March 2024

(Unit: million yen)



Total assets : 64,565 million yen

(Unit: million yen)

| | 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) |
|-------------------------------------|--|--|--|--|--|--|---|---|---|---|
| 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)

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.)

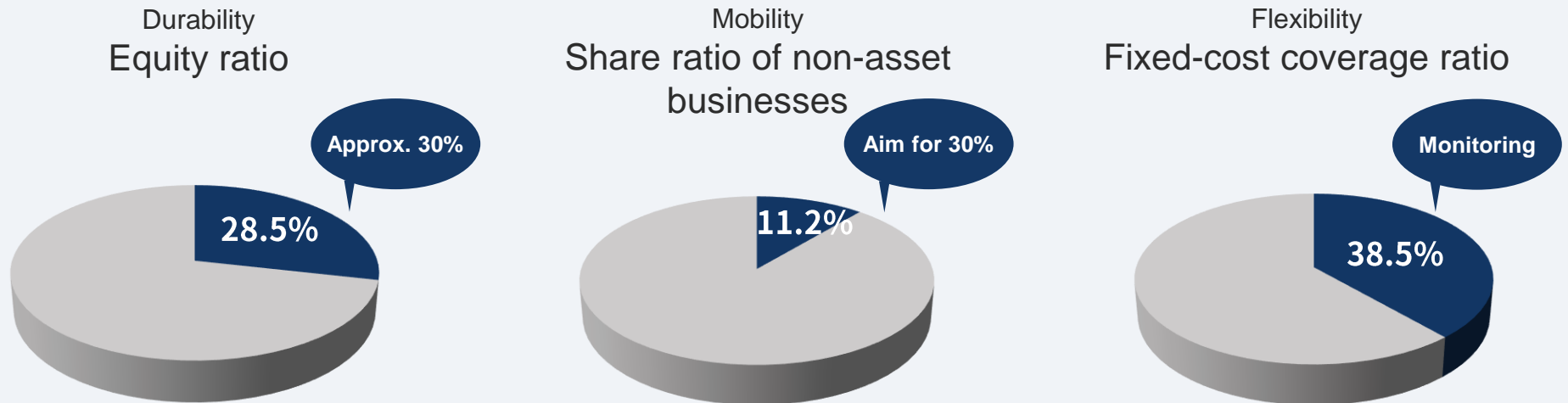
*3 ROIC: (Net income attributable to owners of parent + interest expenses + borrowing fee) / (balance of average shareholders' equity + balance of average interest-bearing liabilities)

*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

We aim for sustainable management and growth by improving durability, mobility, and flexibility
We will advance discussions to create non-asset businesses in Q2

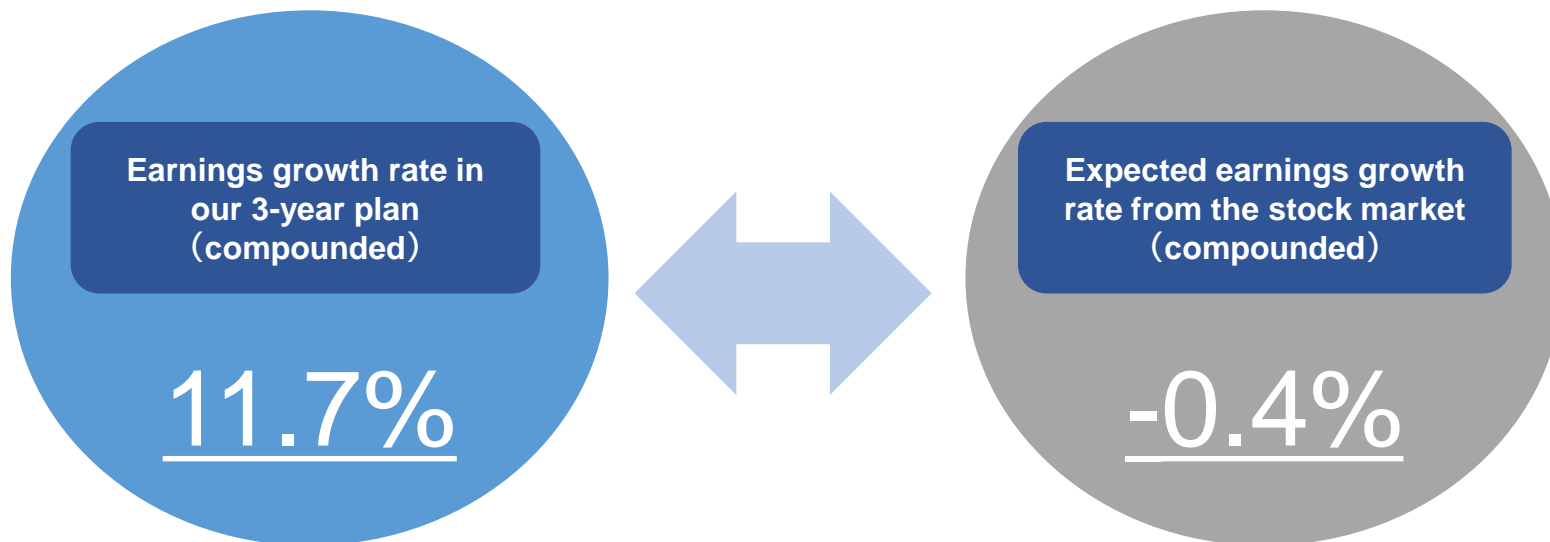
Indicators at the end of Q2 FY2024



Strategic background of Corporate Agility

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

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 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%.

* Please refer to "Expected earnings growth rate as estimated by the stock market" on the next slide.

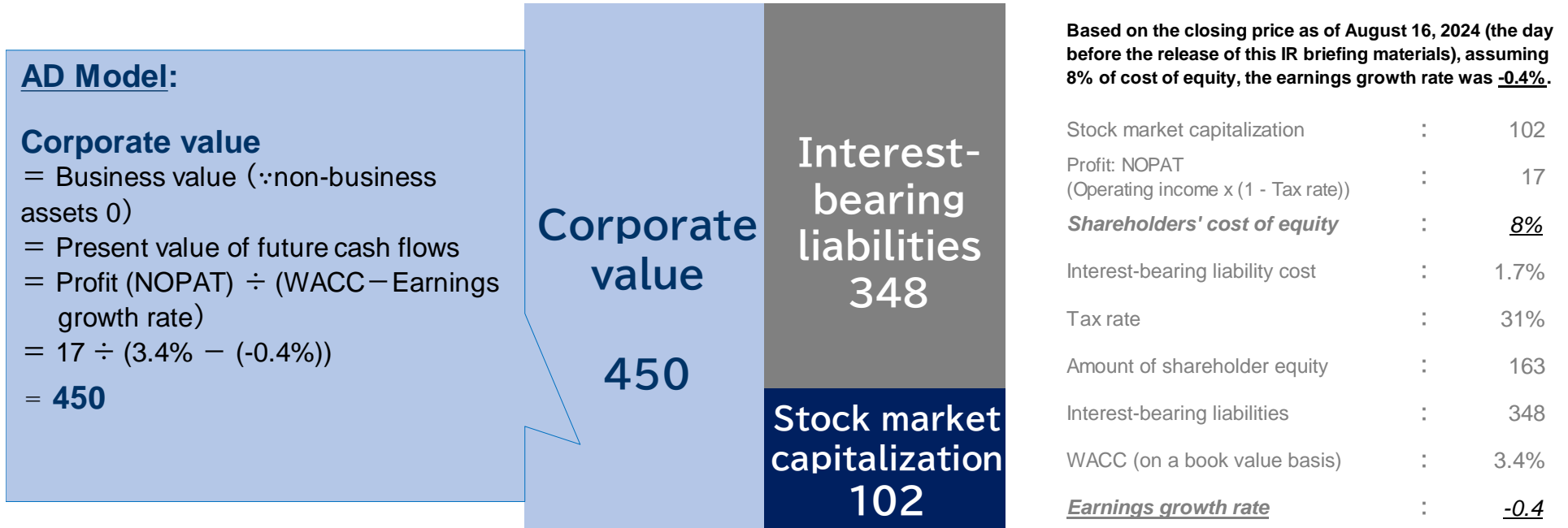
☹️ In comparison to 11.7% earnings growth rate of our 3-year plan, the perpetual earnings growth rate estimated by the stock market was -0.4%.



☹️ 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.**

☹️ The expected growth rate of our company by the stock market, calculated assuming 8% of cost of equity, was -0.4%

(Unit: billion yen)



* 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 = $CF \div (r-g)$].

| Sustainability

Secure product planning budget for ESG and contribute to the SDGs through our business

| Category | Materiality | Initiative policy | Risk/opportunity | Contribution to SDGs |
|----------|--|---|--|----------------------|
| E/S | Utilize and connect: Revitalization of real estate | Real estate planning to meet social and environmental needs | Risk: <ul style="list-style-type: none"> Impairment of corporate value due to delayed response to social and environmental changes Lower real estate value due to incompatibility with social needs Opportunity: <ul style="list-style-type: none"> Increased market value of real estate with social and environmental considerations Enhanced community presence through community creation and revitalization | |
| | | Implement diversity and wellbeing | | |
| | | Proactively acquire real estate environmental certification | | |
| | | Promote real estate planning that contributes to community revitalization | | |
| | | Introduce and use renewable energy and energy-saving equipment, and use building materials with low environmental impact | | |
| S | Provide peace of mind and security | Thoroughly instill compliance awareness among executives and employees | Risk: <ul style="list-style-type: none"> Subdued performance due to loss of credit and diminished product value Devastating disasters and accidents due to inadequate property maintenance Opportunity: <ul style="list-style-type: none"> Enhanced trust by adapting to stakeholder needs Increased value of disaster-resilient properties | |
| | | Strengthen information security measures | | |
| | | Maintain real estate functions through appropriate repair planning and response | | |
| | | Ensure legal compliance and thorough corrective action for properties | | |
| | | Develop disaster preparedness functions and respond quickly to emergencies | | |
| | Create motivation to work and innovate | Establish a work environment and work style that is consistent with the times and needs, and promote employee health and wellness | Risk: <ul style="list-style-type: none"> Intensifying competition for talent Decreased employee engagement and productivity Opportunity: <ul style="list-style-type: none"> Transubstantiation of ideas through diversity and inclusion Creation of new business opportunities by exploring and utilizing innovative technologies | |
| | | Foster an organizational culture rooted in psychological safety and respect for diversity | | |
| | | Enhance training, education, and awareness-raising opportunities | | |
| | | Co-create new value through the CVC business | | |
| | | Promote cross-company DX | | |
| G | Strengthen governance to enhance corporate value | Promote businesses based on high ethical standards and thorough legal compliance | Risk: <ul style="list-style-type: none"> Human rights issues leading to a decline in reputation and business stagnation Business stagnation and loss of credit due to compliance violations and internal control failures Opportunity: <ul style="list-style-type: none"> Creation of business opportunities and sustainable growth through improved adaptability to changes Diversification of financing methods by expanding ESG investments | |
| | | Execute and oversee operations based on multi-faceted risk management | | |
| | | Enhance disclosure, including non-financial information | | |
| | | Actively engage in dialogue with stakeholders | | |
| | | Optimize business portfolio in response to changes | | |

New initiatives are underway from this year, and we're promoting sustainability from various perspectives



Completion of sustainable renovation room

At the Musashi Urawa Project, the Group renovated residences with an emphasis on sustainability, a first for the Group. Many water-saving and energy-saving fixtures were installed to balance energy conservation with comfortable living.



Regular implementation of internal lectures

As part of our efforts to create a sustainable business, lectures by professionals are held regularly so that employees can gain a wide range of knowledge on sustainability.



Introduction of Peer Bonus® System

We have introduced Peer Bonus® system in which employees send each other praise and bonuses with the objective of creating an internal culture in which employees eagerly take on challenges. The aim is to boost employee engagement and pursue human capital management.



Addressing climate change

We calculated greenhouse gas emissions and disclosed information for the previous fiscal year in line with TCFD. We are currently pursuing measures to reduce greenhouse gases.

| Establishment of 北極星

*北極星 means North Star in English. The official translation is to be determined.

A.D.W. GROUP SINCE 1886

【Note】 The official translation is to be determined.

北極星

ワクを超える

しなやかな発創で、

世界を色鮮やかに染め直す。

We have established the 北極星, Vision and Values.

We have held workshops and discussions across the Group since fiscal 2023, and 北極星 is the result. It puts into words our vision for the Group 10 years into the future and the accomplishments we want to achieve for society.

【Note】 The official translation is to be determined.

北極星 - Our reason for being

ワクを超えるしなやかな発創で、世界を色鮮やかに染め直す。

Story

国境を超えて、染色業の発展に尽力した創業期。
染色業にとどまらず、多彩な領域へチャレンジを重ねてきた。
不動産に軸足を置いた今もなお、業界の常識や事業領域にとらわれない
価値を追求してきた。

100年以上の歴史を振り返れば、
私たちはいつの時代も、人々や社会をより豊かにしたいという想いで
さまざまな「ワク」を超えて価値を生みだしてきた。

しかしそれは結果に過ぎない。
私たちの原点である染物が、ゆっくりと、
しかし着実に色を深めることで鮮やかになっていくように、
小さな、でも信念のこもった、しなやかな一歩の積み重ねこそが、
「ワク」を超えた価値の創造に繋がると、私たちは信じている。

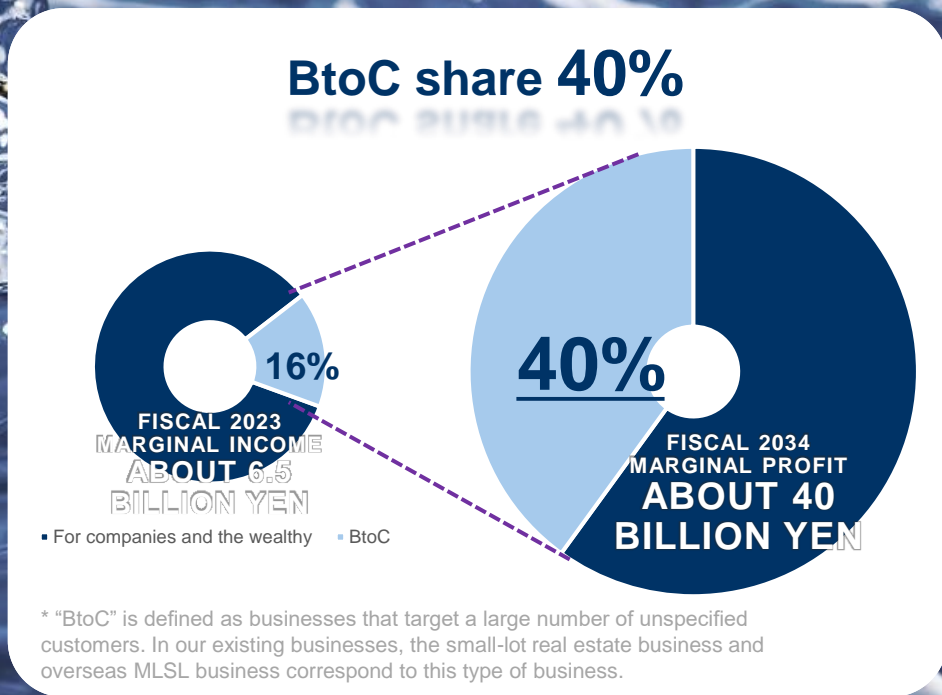
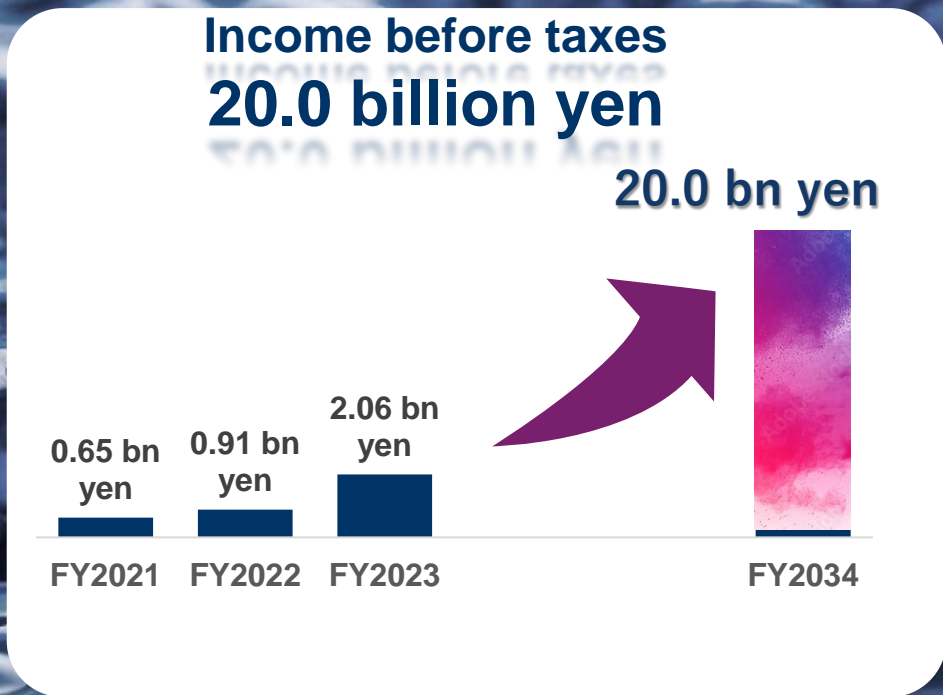
世界は常に変化していく。
これまで当たり前と思われていたことも、
人々を縛り、社会の可能性を閉ざす「ワク」となっていく。
だからこそ、私たちは、既存の「ワク」にとらわれない視座で
社会を見つめ直す。

しなやかに想像力をはたらかせ、価値を創り出していく。
今を生きる人々、これからの社会のために、私たちは一歩ずつ歩み続けていく。

ADWGグループは、
組織、既存の概念、常識、さまざまな「ワク」を超える、
しなやかな発想力と創造力で、
世界を色鮮やかに染め直していきます。

Vision - Our intentions 【Note】 The official translation is to be determined.

富の循環を創出し、誰もが心に火を灯せる社会をつくる



Ever since we put an emphasis on the real estate business, we have contributed to society through services to companies and the wealthy. Over the next 10 years, we will not only provide economic value to direct stakeholders, but also widen our scope to include the world's cycle of prosperity and make the world a place that is full of options and possibilities for individuals. To achieve this, we will continue to take on the challenge of providing the Group's services directly to individuals who will be making leaps from this point. As a result, we aim to **make the services we create into the world's new normal** and achieve **20 billion yen in income before taxes and a 40% share of BtoC**.

Value - Our values

【Note】 The official translation is to be determined.

全体最適

全体最適で思考しているか？狭い世界に捉われていないか？
チーム、会社、そして社会全体に視野を広げることが個の最適化につながる。
常により高い視座で本質を捉え、より良い社会を実現する挑戦をしよう。

Integrity

信念をもって行動しているか？人や社会に誠実に向き合っているか？
仕事に誇りをもち、誠実な姿勢で信念を貫くことが信頼につながる。
ステークホルダーとの信頼を築きながら、最大の成果を創出しよう。

Take the Lead

自分はどうしたいのか？自分にできることは何か？
仲間に対する尊重と賞賛を欠かさず、助け合うことが新たな価値を生み出す。
一人ひとりが主体的に強みを発揮し、組織や社会に共創を巻き起こそう。

Shinahen !

「しな」やかに「変」化しているか？新たな挑戦を忘れていないか？
変化を前向きに捉え、楽しみながら新たな価値創造に挑もう。
小さな遊び心の積み重ねが、世界に大きな変化をもたらす。

【Note】 The official translation is to be determined.

富の循環を創出し、
誰もが心に火を灯せる社会をつくる

20 billion yen in income before taxes / 40% BtoC share

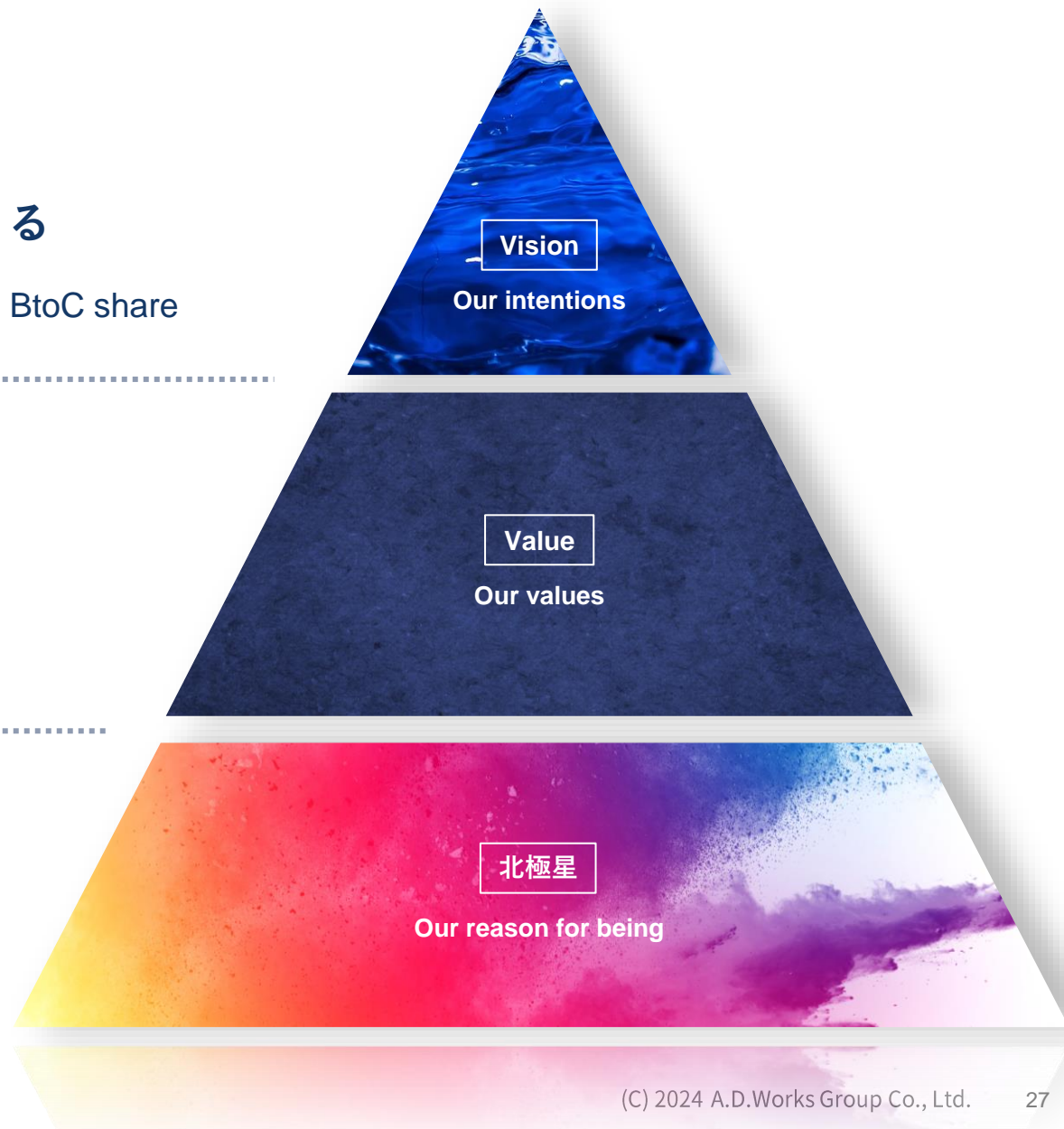
全体最適

Integrity

Take the Lead

Shinahen !

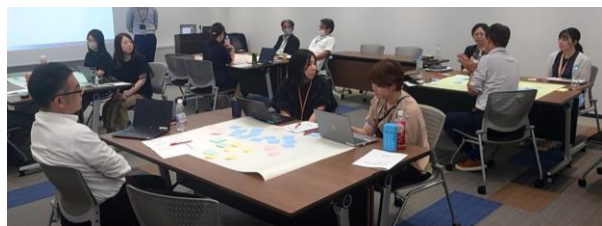
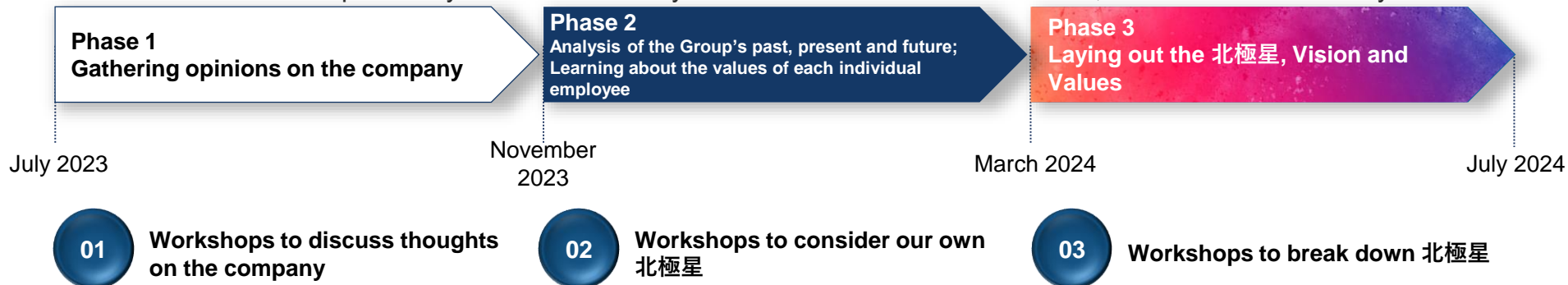
ワクを超えるしなやかな発創で、
世界を色鮮やかに染め直す。



Process until establishment

The 北極星 Project Office was formed in the second half of 2023. Workshops and discussions that included not only the project members, but also employees from throughout the Group, were held many times. In this process, we expressed our vision for the Group in 10 years and the accomplishments we hope to achieve for society.

As we delved into the Group's history of more than 130 years and also considered the future, we were led to each keyword."



A questionnaire was given to all employees to compile views on the company.

In the workshop, participants exchanged views directly based on the questionnaire results. This became an opportunity to realize that working with the same conviction on the Group's reason for being is the best way to bring employees together.



Each employee depicted what they truly value in a creative way.

They asked themselves what they wanted to do at the company in line with their own convictions and what they really should do. This workshop was a chance to once again realize their own ties with the company.



In this workshop, when proposing 北極星 as the Group's significance, participants once again discussed how the Group and the world are connected and how the Group and its employees are connected.

Each of us is linked to the world through the company. After this, we were ready to proudly share the Group's significance and intentions.

| Business Model

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



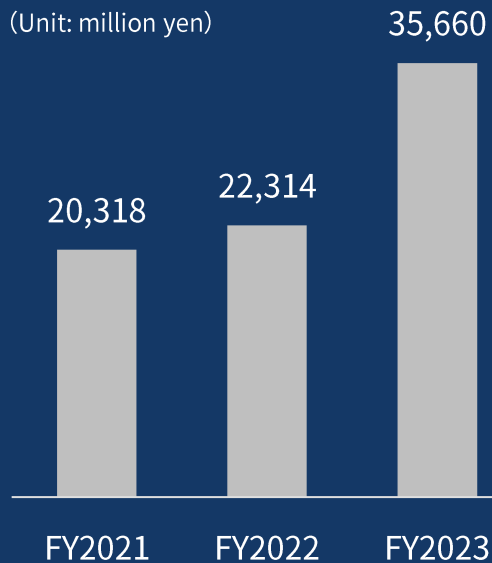
1 Income Property Sales Business

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



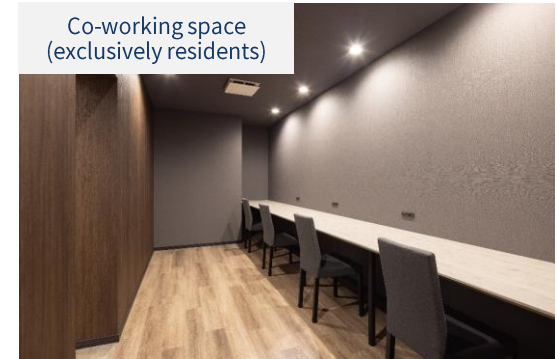
Value-Add Strategy

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

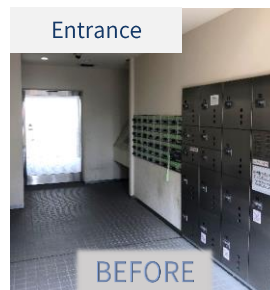
Exterior



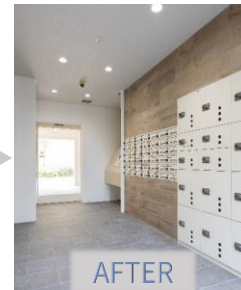
Co-working space (exclusively residents)



Entrance



BEFORE



AFTER

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.

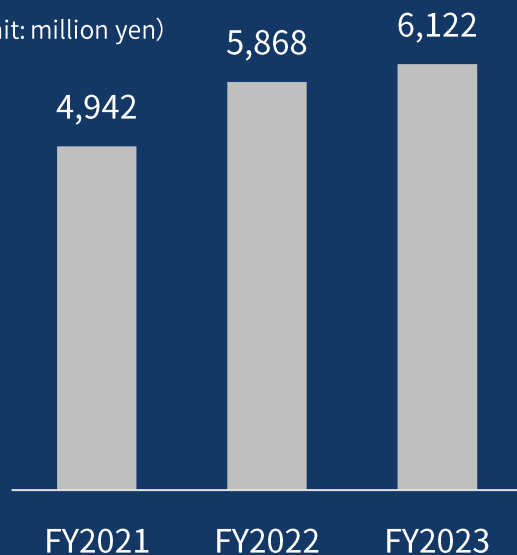
2 Stock-type Fee Business

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.

| 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 ----- | 6,262 million yen (as of December 31, 2023) |
| 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 ----- | 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) |

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)

232 people

as of December 31, 2023



Number of Group companies

14 companies

Income property sales business in Japan and overseas



Office



Tokyo·Osaka

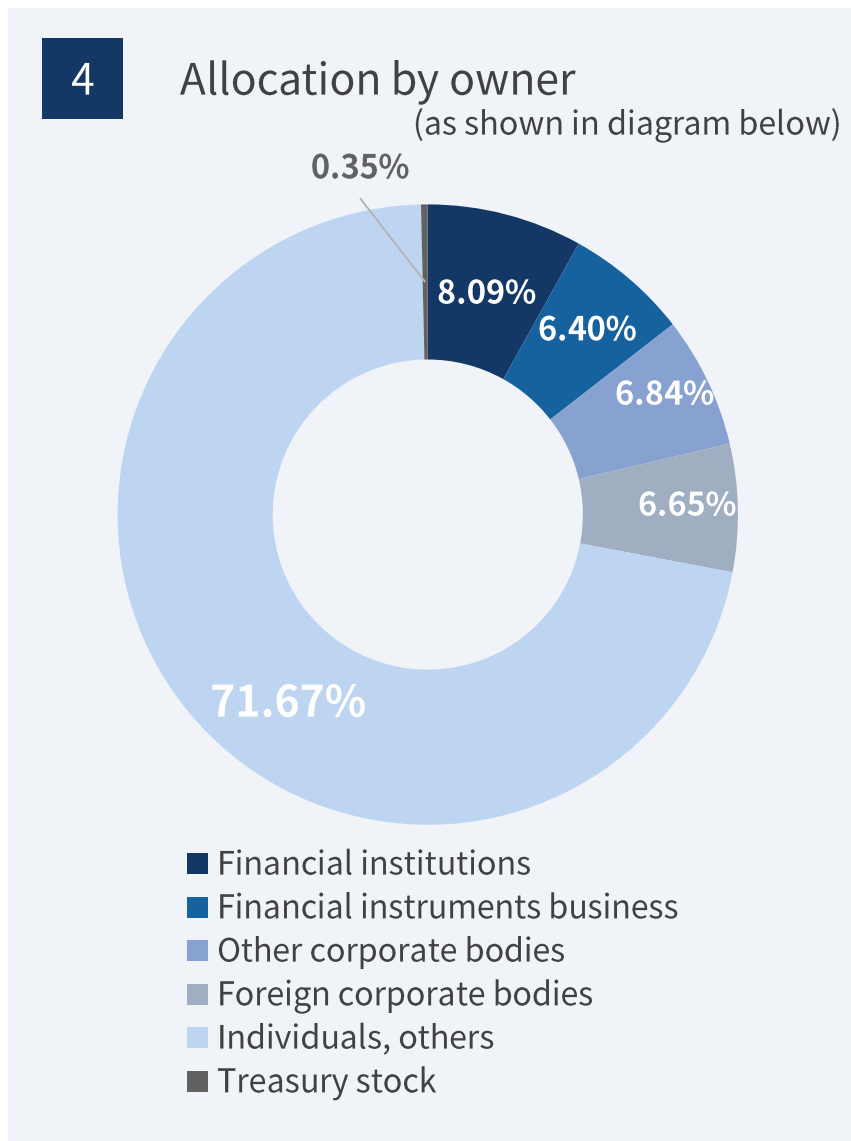


Los Angeles, USA

Operates business in Japan and overseas

- 1** Number of issued shares **49,585,764 shares**
- 2** Number of shareholders **22,112**
- 3** Major shareholders(as shown in table below)

| No. | Shareholder name | Percentage of shareholdings (excluding treasury stock) |
|-----|--|--|
| 1 | Hideo Tanaka | 10.23% |
| 2 | Liberty House Co., Ltd. | 3.99% |
| 3 | The Master Trust Bank of Japan, Ltd. (Trust Account) | 2.92% |
| 4 | The Master Trust Bank of Japan, Ltd. (Directors' Stock Compensation Trust) | 2.37% |
| 5 | BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD | 1.56% |
| 6 | SBI Securities Co., Ltd. | 1.56% |
| 7 | JPMorgan Securities Japan Co., Ltd. | 1.35% |
| 8 | The Nomura Trust and Banking Co., Ltd. (Trust Account) | 0.93% |
| 9 | BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) | 0.92% |
| 10 | Kazushi Imai | 0.88% |



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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