

2982 A.D. Works Group Co., Ltd.

Expanding the income property business for high-net-worth individuals and developing new businesses

June 6, 2026

Tokyo Stock Exchange, Prime Section

Highlights

- Sales of small-lot real estate investment products are expected to decline substantially due to the impact of the tax reform. The company will offset the decline with increased sales of single-building real estate and office units. In order to grow its B to C business, it also plans to make upfront investments in its marketing strategy to strengthen its brand. Therefore, earnings growth will plateau, and the company will be forced to report lower profits in the fiscal year ending December 2026. It will reverse the decline in profits and achieve a profit increase in the next fiscal year as a result of portfolio restructuring and the launch of new businesses.
- Sales of the company's small-lot real estate investment product, ARISTO, reached 22.9 billion yen in 2025, up from 4.8 billion yen in 2023 and 13.2 billion yen in 2024. The company conservatively estimates that they will drop to 5.0 billion yen in the current fiscal year. On the other hand, it intends to rapidly increase sales of its office unit product "ARISTO PLUS" from 0.6 billion yen in the previous fiscal year to 10.0 billion yen in the current fiscal year. It has shifted some of the staff members to the Office Unit Sales Business. The transition will be carried out promptly since acquisition and sales channels can be utilized in the same way as the small-lot real estate business.
- The medium-term three-year plan has been significantly exceeded even before its final year. The following factors explain the sustained strong performance. First, the company has been successful in attracting talent and strengthening its employee retention mechanisms. Second, the company has been undertaking larger-scale projects and expanding its portfolio. Access to acquisition opportunities has increased compared with the past, and the sales network is benefiting from a virtuous cycle as track records accumulate.
- Third, the company's business development capabilities have been enhanced, allowing new businesses to expand steadily and at a good pace. (1) The Office Unit Sales Business, (2) the real estate crowdfunding business, and (3) the grid-scale battery storage business all seem promising and have shown rapid progress in their start-up phases.
- Two years ago, the overwhelming question was whether the company could satisfy the Prime Market listing standards, and there were opinions that it would be challenging due to the high hurdles involved. However, earnings growth has helped the company satisfy these standards. This achievement can be highly regarded as the result of a unified organizational effort under the strong leadership of President Tanaka, the founder of the company.
- The company should aim for a share price of 600 yen (market capitalization of approximately 30.0 billion yen), assuming that $ROE\ 15.0\% \times PER\ 10.0\ \text{times} = PBR\ 1.5\ \text{times}$. At a share price of 250 yen, the Prime Market's continued listing standards of a free-float market capitalization of 10.0 billion yen can be met. Looking ahead to a further leap in medium- to long-term earnings growth, we expect continued innovation in the company's business model, the mechanism through which it creates value.

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Corporate rating: A

Stock price (as of June 5, 2026): 387 yen

Market capitalization: 19.6 billion yen (50.42 million shares)

PBR: 0.91 times ROE: 14.8% PER: 6.15 times Dividend Yield: 5.2%

(Figures are in millions of yen, yen)

Accounting period	Sales	Operating profit	Profit before taxes	Current net profit	EPS	Dividend
Dec. 2020	16840	645	432	264	6.8	2.6
Dec. 2021	24961	933	650	312	7.2	3.5
Dec. 2022	27856	1376	910	527	11.3	4.5
Dec. 2023	41342	2441	2066	1419	29.9	8.0
Dec. 2024	49910	3216	2547	1610	33.5	10.0
Dec. 2025	67531	4987	5190	3315	68.5	16.0
Dec. 2026 (Forecast)	77000	4300	4500	3100	63.1	20.0
Dec. 2027 (Forecast)	87000	5500	5200	3500	71.3	20.0

(Based on results as of March 2026)

Total Assets: 90.024 billion yen Net Assets: 21.611 billion yen Ratio of Net Worth: 24.0%

BPS: 427.5 yen

(Note) ROE, PER, and Dividend Yield are based on estimates for the current accounting period. The fiscal year ended December 2020 was a nine-month fiscal period.

Chief Analyst Yukio Suzuki

(Belle Investment Research of Japan Inc.)

Definition of enterprise rating—the subject enterprise is qualitatively evaluated from the perspective of: (1) management effectiveness of the executive management; (2) potential for business growth; (3) risk management towards downward revision of business performance; and (4) sustainability from an ESG perspective.

The ratings will be indicated in four degrees: A for “fair,” B for “requires effort,” C for “requires significant improvement,” and D for “extremely challenging situation.”

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1. Tax reform: Impacts and responses

Amendments to inheritance tax on small-lot real estate investment products

The 2026 Tax Reform amended inheritance tax rules applicable to small-lot real estate investment products. A new valuation rule has been established for inheritance tax. Unlike the previous valuation method (road ratings for land and assessed value of fixed assets tax for buildings), the new rule is based on market values. This will drastically decrease the scope for savings on inheritance tax. Sales of small-lot real estate investment products are expected to decline substantially in 2026 as the rule will come into effect in January 2027. Nevertheless, there is still ample demand for small-lot real estate investment products because their intrinsic investment yields are secured to a certain extent.

Forecasts for Core Businesses

(100 million yen)

	2021.12	2022.12	2023.12	2024.12	2025.12	2026.12 (Forecast)	2027.12 (Forecast)
Domestic single-building real estate	148	172	293	303	357	500	500
Small-lot real estate	31	22	48	127	229	50	100
Office unit					6	100	150
Total	179	194	341	430	592	650	750

(Note) (Forecast) indicates analyst forecasts.

Key Performance Indicators

(million yen, %, million yen per person)

	2023.12	2024.12	2025.12	2026.12 (Plan)
Sales	41342	49910	67531	77000
Operating profit	2441	3216	4987	4300
Profit before taxes	2066	2547	5190	4500
Income property balance	44798	45465	54586	65000
Shareholders' equity	16353	17511	20576	22400
ROE	9.0	9.5	16.9	14.5
ROIC	4.0	4.4	7.0	6.4
Human capital productivity	31	36	48	44
Ratio of net worth	29.1	31.3	28.5	30.0

(Note) (Plan) is based on company forecasts.

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Drastic shift in the portfolio strategy

The company rapidly increased sales of small-lot real estate investment products to 12.7 billion yen in 2024 and to 22.9 billion yen in 2025. It forecasts sales of 5.0 billion yen for 2026. After analyzing the details of the tax rules, trends in customer needs will become more apparent, and the company will review its portfolio strategy going forward.

The company's policy for the fiscal year ending December 2026 is to flexibly restructure its business portfolio in light of the tax reform affecting small-lot real estate investment products. Assuming that sales of small-lot real estate investment products will decrease to 5.0 billion yen (-17.9 billion yen year-on-year), the company intends to increase domestic single-building real estate sales to 50.0 billion yen (+14.3 billion yen year-on-year) and office unit sales to 10.0 billion yen (+9.4 billion yen year-on-year).

There is a possibility that sales of small-lot real estate investment products will exceed 5.0 billion yen, which is the forecast for the current fiscal year, because there is sufficient demand for them as investment products. Sales are expected to improve in 2027 once developments in the tax reform have been factored in. We will closely monitor developments in the first half of this year.

2. Feature: Focusing on the real estate business for high-net-worth individuals

Operating under a holding company structure

The holding company structure was launched in 2020. In April 2020, a holding company was newly established and listed as A.D. Works Group Co., Ltd. The former A.D. Works continues as a subsidiary; however, due to a 1-for-10 reverse stock split, there is no continuity in terms of share price. The main banking relationships are with Sumitomo Mitsui Banking Corporation (SMBC), MUFG Bank, Ltd., and Resona Bank, Limited. With these banks as the core, bank borrowings have been expanded to include regional and other banks.

A.D. Works Group (ADWG), while positioning income property solutions at its core, aims to transform itself into an investment solutions company offering a broader and more diverse range of products and services.

The group's main businesses are the income property business, the small-lot real estate business, and the overseas real estate business, while also expanding into adjacent domains. The company is strengthening its efforts in the office unit ownership, real estate crowdfunding business, and private fund business, among others.

The company positions its purpose (reason for being) as its "North Star." As its guiding principle, it adheres to the statement: "Recolor the world vividly through flexible creation that transcends

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boundaries.” From its origins in the dyeing business, to real estate, and onward to the creation of new value, the company continues to evolve. The company finds its own reason for being in this progression.

The diverse management team consists of President Tanaka, from SEIBU REAL ESTATE and the de facto founder of the real estate business; Executive Officer Suzuki from Recruit Cosmos; Executive Officer Goto from Sumitomo Mitsui Banking Corporation; Director Yamashita from Sumitomo Realty & Development; and Director Murotani from SBI Holdings.

A.D. Works Group—140 years since its founding

The A.D. Works Group celebrated its 140th anniversary in February 2026. The company is taking this opportunity to undergo a rebranding in line with the North Star (Purpose). In order to expand into the B to C segment, it has created a new memorial logo and is focusing on marketing activities. It has renewed its corporate brand to emphasize its tagline “ADW: Enhancing property value. Asset Design Works.”

The company was established on April 1, 2020, making the fiscal year ended December 2020 a nine-month fiscal period. The change in accounting standards related to revenue recognition has been applied since the fiscal year ended December 2022.

In March 2020, in order to transition to a holding company structure, A.D. Works Group was established as the parent company and listed on the TSE First Section. A.D. Works Co., Ltd. (A.D. Works), which became a subsidiary, was delisted. This method was the simplest approach to establishing a holding company structure.

Within the group, A.D. Works is responsible for the income property business, A.D. Partners handles the property management business, and Angel Torch is in charge of the CVC (corporate venture capital) business.

Four business models

The company’s business model consists broadly of four components. The first is the sale of single-building income properties. The company purchases residential and office properties priced at approximately 1 to 2 billion yen, enhances their value, and sells them as single buildings. Through acquisition, value enhancement (construction and tenant leasing), and sales, the company generates earnings on a “shot-type” basis. “Shot-type” refers to a business model in which the entire process from acquisition to sale is executed within a short period of one year or less.

The second is the sale of small-lot real estate investment products. The company acquires high-quality properties in prime locations and sells them to investors as small-lot real estate investment products. Based on a minimum investment amount of 5 million yen (five units at 1 million yen per

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unit), these products are sold to investors primarily through referrals from financial institutions and accounting firms.

Using a trust beneficiary rights type scheme, real estate assets are broken down into small lots and sold. Investors jointly own the underlying real estate (land and buildings) in proportion to their monetary investment. This model is also a shot-type business, with the period from acquisition to sale being within one year.

The third is office unit products, which the company launched in the previous fiscal year and intends to rapidly expand in the current fiscal year. The company divided the ownership of a small office building located in central Tokyo into multiple portions corresponding to each floor and registered each of them as an ownership unit to create office unit products. Investors can use borrowed funds to leverage their investments.

The fourth is a stock-type fee business. The group earns rental income from the income properties it owns, as well as fees from real estate management support following the sale of products. As these fees are generated on the basis of owned real estate and provide stable income, this segment is positioned as a stock-type business.

A.D. Works Group Business Breakdown

Segment	2023.12		2024.12		2025.12	
	Sales	Operating profit	Sales	Operating profit	Sales	Operating profit
Income property sales business	35660	2766	44305	3907	62436	6361
Domestic single-building real estate sales	29347		30317		35744	
Small-lot real estate investment products sales	4848		12769		22931	
Office unit sales	—		—		626	
U.S. property income sales	3096		2944		4706	
Stock-type fee business	5681	1289	6158	1142	5598	1205
Rental income	1798		1783		1723	
Property management, construction, and related services	4323		4375		3875	
Adjustment		-1614	-553	-1833	-503	-2579
Total	41342	2441	49910	3216	67531	4987

(Note) The breakdown within segments includes internal transactions, so it does not match the segment totals. Adjustments represent corporate expenses not attributable to any segment.

President Tanaka is the de facto founder of the current business model.

The company traces its origins to Aoki Dyeing Works, founded in 1886. A.D. Works, Co., Ltd. (A.D. Works) was listed on JASDAQ in 2007, designated to the TSE First Section in 2015, and in 2020, A.D. Works Group was established through a sole share transfer and listed on the TSE First Section. Subsequently, following a market reclassification, the company moved to the TSE Prime in 2022.

As of the end of December 2025, the company has 255 employees and 10 group companies, with

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business operations conducted from bases in Tokyo, Osaka, and Fukuoka in Japan, and Los Angeles in the United States.

President Tanaka, the de facto founder of A.D. Works Group, holds a 10.62% equity stake. The total number of shareholders is 24,200 with 70.99% being individual shareholders and 12.86% being foreign shareholders, among others.

Aoki Dyeing Works entered the real estate transaction business in 1976 and changed its corporate name to A.D. Works in 1995. In 1999, the company fully shifted its business from dyeing to real estate.

President Hideo Tanaka joined SEIBU REAL ESTATE after graduating from Keio University. There, he accumulated experience in the real estate business. He honed his valuation skills and obtained certification as a real estate appraiser, and he also played an active role in establishing industry rules related to real estate brokerage.

Aoki Dyeing Works (A.D. Works), founded in 1886 by Naoji Aoki, was a dyeing company that continued doing business from the Meiji era onward and was at times associated with figures such as Eiichi Shibusawa and Taizo Ishida, who later rebuilt TOYOTA MOTOR after World War II. In the 1970s (the Showa era 40s), the company abandoned its original dyeing business and shifted into the real estate business. However, with the retirement of Noboru Aoki, the fourth-generation owner, the continuation of the business became difficult.

As it would have been a great loss to close such a prestigious company, President Tanaka decided to take over the business. All assets were sold, the book value of the company was set at 30 million yen, and Mr. Tanaka acquired the company for that amount. Mr. Aoki agreed to receive part of the payment in installments. Mr. Tanaka joined the company in 1993, and after assessing the situation, he received the transfer of the company in 1995 and assumed the position of president. The company name, A.D. Works, is derived from the “A” of Aoki and the “D Works” from dyeing works.

Sales of income properties to high-net-worth individuals as the core business

The company’s current business is centered on income properties. Its model involves acquiring entire apartment and office buildings, revitalizing them, and then selling them. For acquisitions, the company purchases properties through intermediaries such as professional real estate firms and trust bank-affiliated entities. When selling to high-net-worth individuals, it likewise works through intermediaries such as real estate companies (including those affiliated with banks). The company’s distinctiveness lies in its discerning judgment cultivated through appraisal expertise. Moreover, it takes a comprehensive view of the entire value chain.

Corporate governance—Transition to a company with an audit and supervisory committee

In 2016, the company transitioned to a company with an audit and supervisory committee. In

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January last year, Mr. Hideo Goto, formerly of Sumitomo Mitsui Financial Group, joined the company and was appointed as a director at the general meeting of shareholders in March last year. At the general meeting of shareholders held in March this year, Executive Director Kaneko resigned from the board, one outside director was replaced, and one outside director was added to serve as an audit and supervisory committee member.

A.D. Works Group has ten directors in total, comprising five executive directors and five outside directors (including four audit and supervisory committee members and two female directors). Under the board, subsidiaries such as A.D. Works, which is responsible for the income property business, execute operations. Executive Officer Suzuki oversees the domestic and overseas real estate businesses, and Executive Officer Goto, as CFO, is responsible for overall corporate management. Among the outside directors, Mr. Tanami has experience in life insurance and comes from MONEX, and Mr. Awai has extensive business experience at foreign-affiliated companies.

An evaluation of the effectiveness of the Board of Directors identified the following items as areas with room for further improvement: 1) further enhancement of discussions on mid- to long-term issues, including sustainability and branding; 2) further strengthening of the integrated risk management framework; and 3) earlier distribution of agenda materials. The company is working on these issues.

At its meeting held in February this year, the Board of Directors resolved to renew the Large-Scale Purchase Rules (takeover defense measures). This renewal was submitted to and approved by the general meeting of shareholders held in March.

Long-term management policy centered on the “North Star”

In August 2024, the company formulated its long-term management policy, the “North Star (Purpose), Vision, and Values.” Through discussions involving all employees, the group clarified the direction it intends to pursue.

This purpose is referred to as the “North Star” and defined as: “Recolor the world vividly through flexible creation that transcends boundaries.” The wording traces back to the origins of A.D. Works at the time of its founding.

The purpose (the company’s reason for being) was named the “North Star.” In its early years, the company devoted itself to the dyeing business and explored a wide range of fields. Even after shifting its core focus to real estate, it has continued to pursue value unconstrained by conventional thinking. Accordingly, the group defined its reason for being as “Recolor the world vividly through flexible creation that transcends boundaries.”

Based on this, the company set forth its values (“Values”) and its intentions (“Vision”). Among its “Values” propositions, “Shinohen!” is a unique concept. “Shinohen” is a coined term meaning “flexible change.”

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For our Vision ten years from now, the company targets 1) profit before taxes of 20.0 billion yen and (2) a B to C business share of 40% by 2034. Business targeting an unspecified broad customer base accounted for 16% of contribution margin, or 6.5 billion yen, in 2023 (including the small-lot real estate business and the overseas MLSL [master lease/sublease] business), and the goal is to raise this to 40% of the planned 40.0 billion yen in contribution margin by 2034.

A.D. Works Group's Long-Term Management Policy

North Star	---	Our reason for being "Recolor the world vividly through flexible creation that transcends boundaries."
Value	---	Our values *Overall Optimization—Achieving a better society from a high-level perspective *Integrity—Building trust through a sincere, ethical approach *Take the Lead—Inspiring proactive co-creation through respect and appreciation *Shinohen!—Embracing flexible (shina) change (hen), enjoying the process, and taking on the challenge of creating new value
Vision	---	Our intentions "Creating a virtuous cycle of wealth and building a society where everyone can ignite a spark in their hearts"

Ten-year Target

	Fiscal year ended December 2023	Fiscal year ended December 2025	Fiscal year ending December 2034 (in 10 years)
Profit before taxes (100 million yen)	20	52	200
Contribution margin (100 million yen)	65	103	400
B to C ratio (%)	16	38	40

Promotion of sustainability-oriented management

In order to promote sustainability, the company revised its materiality (key management challenges) in July 2025 and identified the following ten issues: (1) Re-creation of real estate value; (2) Expanding asset-building opportunities; (3) Providing high-quality and transparent products and services; (4) Utilizing digital technologies for efficiency and business innovation; (5) Demonstrating the capabilities of diverse human resources and strengthening the organization; (6) Encouraging dialogue with stakeholders; (7) Thorough compliance and risk management; (8) Strengthening strategic and flexible management structures; (9) Preservation of the global environment, biodiversity, and resources; and (10) Respect for human rights. This revision is in line with the formulation of the "North Star (Purpose), Vision, and Values."

In promoting sustainability, the company incorporates ESG considerations into product planning and engages in activities aimed at contributing to SDGs through its business operations.

Social contribution activities—Supporting Nihonga artists

As part of its social initiatives, the company co-hosts the “A.D. Works Group Nihonga Award” in collaboration with the Faculty of Fine Arts at Tokyo University of the Arts. To contribute to traditional Japanese culture, the company supports artists who aspire to excel in Nihonga (traditional Japanese painting).

In March this year, the winners of the fourth A.D. Works Group Nihonga Award were decided. Two artists won the top prize. The two award recipients receive support over a period of two years. The company is involved in activities such as donations to the university, support for the artists, providing opportunities to present their works, and purchasing their artworks.

3. Strength: Expanding into the B to C market

The company independently develops value innovation (value creation) and specializes in serving high-net-worth individuals, funds, and corporate clients.

Its value chain consists of the following flow: 1) refurbishing properties and selling them within five to eight months, 2) holding properties in-house over the medium to long term to generate rental income, 3) selling properties to realize capital gains (sales profits), 4) continuing condominium management (property management = PM) even after sale, and 5) enabling in-house execution of building repairs and renovations.

Key Financial Indicators

	(million yen, %)				
	2021.12	2022.12	2023.12	2024.12	2025.12
Profit before taxes	650	910	2066	2547	5190
Net assets	14817	15857	17166	18761	20576
Income property balance	28914	41476	44798	45465	54585
ROE	2.2	3.5	9.0	9.5	17.5
ROIC	1.8	2.2	4.0	4.4	7

Because properties are sold within one year of acquisition, the capital burden of holding assets is not particularly heavy, but expanding the number of projects requires reliance on external financing such as bank borrowings. For domestic properties, 80% to 90% of the purchase value can be financed through bank-backed secured loans, while the remaining 10% to 20% must be covered by equity capital.

In the income property business, the company acquires entire single buildings, such as pre-owned apartment complexes, enhances their value, and sells them. The “stock-type” aspect implies a somewhat longer holding period. For example, there are cases where owners hold pre-owned rental

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apartment buildings but are unable to adequately invest in renovations, resulting in declining occupancy rates. The company acquires such properties, enhances their value, and restores them to high occupancy levels. Because the properties are held for a somewhat longer period, rental income also becomes revenue for the company. Ultimately, the properties are sold to realize capital gains (profits from sales) as well.

Market Trends for Small-Lot Real Estate Investment Products
New Investments in Real Estate Ventures (Voluntary Partnership Type)
Under the Act on Specified Joint Real Estate Ventures

(100 million yen)

Year	Industry investment (Market size)	ADWG Sales
2013	26	
2014	65	
2015	121	
2016	70	
2017	128	
2018	158	12
2019	211	9
2020	221	15
2021	471	31
2022	437	22
2023	558	48
2024	718	127
2025		229
2026		50 (Plan)

(Note) Industry data are from the Ministry of Land, Infrastructure, Transport and Tourism; plans are based on company forecasts.

Expansion and slowdown of small-lot real estate investment products

Small-lot real estate investment products were commercialized in 2018. The difference lies in whether properties are sold as entire single buildings or whether they are sold in small lots. Selling properties in small lots opens up a new market. By locking in customers, further business development can also be anticipated. On the other hand, business is projected to slow down sharply in 2026 due to amendments to the Inheritance Tax Act.

After the company obtained a voluntary partnership type license under the Act on Specified Joint Real Estate Ventures in April 2015, it launched its small-lot real estate investment products. Thereafter, the company began offering products based on a trust beneficiary rights type scheme and pursued business expansion. Currently, more than 100 companies have received authorization under the Act on Specified Joint Real Estate Ventures, but only 6 to 7 of them are actively focused on selling small-lot products.

The market for small-lot products has certain barriers to entry. Specifically, it has the following

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characteristics: 1) the need for wide-ranging financial product sales channels, such as regional financial institutions; 2) limited rationality for regional financial institutions to partner with more than a certain number of small-lot product providers; 3) solid sales track records that foster trust from regional financial institutions and customers, which in turn drive further sales.

With the aim of ensuring proper execution of business under the Act on Specified Joint Real Estate Ventures, protecting investors, and promoting sound development of the industry, the “Specified Joint Real Estate Enterprise Council” was established in April 2021. President Tanaka is a founding member of this association and assumed the position of chairman in June last year.

According to data from the Ministry of Land, Infrastructure, Transport and Tourism regarding specified joint real estate ventures, the track record of businesses under the Act (investment amounts for voluntary partnership type schemes) expanded from 2.6 billion yen in 2013 to 12.1 billion yen in 2015, 22.1 billion yen in 2020, 55.8 billion yen in 2023, and 71.8 billion yen in 2024.

ARISTO demonstrating growth with robust profitability

Initially, the company struggled with the commercialization and development of its sales network, but in recent years, it has demonstrated rapid growth. As of the end of 2025, it has established and is operating a cumulative total of 25 properties with an aggregate value of 50.6 billion yen. The occupancy rate of the ARISTO series in 2025 was an extremely robust 99.9%.

The rapid growth of the small-lot real estate investment product ARISTO was driven by the following factors: 1) the ability of participants to invest from around 5 million yen in high-quality properties in prime locations, 2) full delegation of management and operations to A.D. Works, and 3) joint ownership of the property in proportion to the amount invested.

Because investors can confirm that the properties are of high quality, trust A.D. Works’ track record, and clearly understand their ownership stakes, the products are easy to invest in. The scheme based on the Act on Specified Joint Real Estate Ventures is also institutionally robust.

For the first four to five years after launch, the business remained in a dormant phase, but full-fledged growth began in 2023. The combination of small-lot product development and growing credibility within the sales network has enabled the company to engage with a larger number of properties. The business is now exhibiting growth rates that rank among the highest in the industry.

Looking at the fiscal year ended December 2025, the gross profit margin on domestic single-building real estate sales was 16.1%, whereas the gross profit margin on small-lot real estate investment products sales was 22.2%, exceeding that of single-building sales. Although small-lot products require more sales effort, profitability remains high even at the operating profit level.

Profitability of Core Business

(million yen, %)

	2022.12		2023.12		2024.12		2025.12	
	Sales	Gross profit	Sales	Gross profit	Sales	Gross profit	Sales	Gross profit
Domestic single-building real estate	17266	2843 (16.5)	29347	3853 (13.1)	30317	4074 (13.4)	35744	5774 (16.1)
Small-lot real estate investment products	2178	342 (15.7)	4848	1035 (21.3)	12769	2819 (22.1)	22931	4861 (21.2)

(Note) Figures in parentheses indicate gross profit margin on sales.

U.S. business to remain cautious for the time being—Moving toward downsizing

In 2013, the company established a subsidiary in Los Angeles and commenced business operations in the United States. In the U.S., under A.D. Works USA, there are ADW-No.1 LLC and ADW Management USA, with the LLC holding real estate assets and the management entity carrying out brokerage and property management operations.

Domestic and Overseas Acquisition and Sales Trends

(million yen)

	2023.12		2024.12		2025.12	
	Acquisition	Sales	Acquisition	Sales	Acquisition	Sales
Domestic	28324	34195	33142	43086	56213	59302
Overseas	1050	1453	719	1193	0	3133
Total	29374	35648	33862	44279	56213	62436

Business operations in the U.S. commenced in 2014, and two properties were sold in 2015. After gaining end-to-end experience from acquisition to sale, the pace of business picked up. The organizational structure was also strengthened to support this expansion.

In the U.S., rental income from income properties tends to rise by approximately 4% to 5% per year, enabling clients to secure investment yields. In addition to sales, the company also receives PM and AM mandates from property owners, generating fee income as well. Investment yields are in the range of 3.5% to 4.0%. While the yield gap is small due to high interest rates in the U.S., price appreciation and rent increases are expected over time due to the country's inflationary environment.

There was no damage to properties owned by the group or under its management from the wildfires that occurred in Los Angeles in January last year. Fortunately, the company had been investing in areas deemed not to be at risk based on California's wildfire hazard maps and similar assessments.

The company's business in Los Angeles is proceeding with cautious acquisition and sales activities

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while closely monitoring interest rate conditions in the U.S.

Emphasis on ROE-oriented management

The company's business model is fundamentally centered on ROE-oriented management. First, based on its own equity capital, it employs leverage of approximately 4.5 times. This represents the credit line provided by banks. Within this framework, properties are acquired with due consideration given to yields. Decisions are then made regarding how long the properties should be held and sales turnover. In other words, with respect to capital entrusted by shareholders, the company pursues ROE by taking yield, turnover, and leverage into account. This business model can be viewed as one capable of generating ROE of approximately 7.5% to 21%, calculated as $2.5\% \text{ to } 3.5\% \times 1 \text{ to } 1.5 \times 3 \text{ to } 4$.

Comparison of Listed Companies Related to Income Properties (Five Peers)

Company	A.D. Works Group	Sun Frontier Fudousan	Tosei	MUGEN ESTATE	B-Lot
Stock code	2982	8934	8923	3299	3452
Market	TSE Prime	TSE Prime	TSE Prime	TSE Standard	TSE Standard
Accounting period	2025.12	2026.3	2025.11	2025.12	2025.12
Sales (100 million yen)	675	1160	946	682	377
Profit before taxes (100 million yen)	51	231	206	99	68
Pre-tax profit margin on sales (%)	7.7	19.9	21.8	14.6	18.0
Share price (as of June 5)	388	2324	1555	1683	1369
Market capitalization (100 million yen)	196	1334	1514	410	274
PBR (times)	0.91	1.00	1.39	1.15	1.21
ROE (%)	14.8	14.5	14.0	22.1	23.7
PER (times)	6.15	6.90	10.0	5.20	5.10
Dividend yield (%)	5.2	3.4	3.5	7.7	5.8

(Note) PBR, ROE, PER, and dividend yield are based on the latest forecasts.

Comparable companies include Sun Frontier Fudousan, Tosei, MUGEN ESTATE, and B-Lot, among others, but a closer look reveals that each has a different business model.

As of the end of 2024, ROE was 9.5%, PER was 6.3 times, and PBR was 0.5 times. ROE and ROIC have improved rapidly since bottoming out in 2021, but this improvement was not sufficiently reflected in the PBR. As ROE increased, PER declined. In other words, the market viewed the improvement in profitability as temporary and not as a reflection of future growth potential. Investors did not sufficiently value the company's future growth prospects. Alternatively, they may not have fully understood the reality of the forward-looking management practices.

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The company has recognized its cost of equity as 8% and has set its ROE target at 8%. ROE exceeded the 8% cost of equity, at 9.0% in 2023 and 9.5% in 2024, resulting in a positive equity spread, but this was not reflected in PBR at the time.

Taking into account trends among peer companies, management decided to raise its ROE target. The company set a target to improve ROE to 13% to 14% by 2027, which was achieved in 2025.

By enhancing its profitability, medium-term growth potential will naturally increase. In its intended form, the company continues to focus on further strengthening growth potential.

4. Medium-term business policy: Prompt portfolio restructuring

Advancing the new medium-term plan

In February 2024, the company announced the “Second Medium-Term Management Plan.” The plan set the objectives of 1) enhancing human capital productivity, while at the same time, 2) maintaining financial soundness, and 3) increasing EPS by at least 10% each fiscal year.

In the “Growth Strategy to Enhance Corporate Value” announced a year later in February 2025, the company further upgraded its targets and added the new goal of improving ROE to 13% to 14% or higher by 2027. In achieving this, the company has set a target to attain a PBR of 1.0 times or higher.

Financial Targets of the Medium-Term Three-Year Plan

	(million yen, %)						
	2023.12	2024.12	2025.12			2026.12	
	Actual	(1st FY) Actual	Initial plan	Revised plan	Actual	Initial plan	Revised plan 3
Sales	41342	49910	52000	60500	67531	58000	77000
Operating profit	2441	3216	3300	5000	4987	3700	4300
Profit before taxes	2066	2547	2600	4900	5190	3000	4500
Income property balance	44798	45465	46000	50000	54585	50000	65000
Shareholders' equity	16353	17511	18500	19800	20576	20000	22400
ROE	9.0	9.5	9.6	15.4	17.5	10.4	14.5
ROIC	4.0	4.4	4.6	6.9	7.0	4.8	6.4

Four growth strategies

As growth strategies aimed at enhancing corporate value, the company has focused on four execution strategies. The first was accelerating top-line growth in the small-lot real estate business. The company has been forced to review this strategy from the current fiscal year.

There were four strengths. First, highly specialized personnel, including more than 25 staff members engaged in property acquisition, more than 20 staff members engaged in product development, and 9

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first-class architects, have been steadily building a positive track record. The company has shifted a number of these staff members to another new business. Second, the company has more than 500 sales channels nationwide, including financial institutions such as regional banks and accounting firms such as tax accounting firms. The company is making progress ahead of its peers in this area. Third, as a TSE Prime-listed company, it enforces thorough compliance management, and its “customer-oriented sales approach” has earned a high level of trust and confidence from financial institutions nationwide. Fourth, the company has demonstrated solid operating performance. The realized dividend yield up to 2024 averages 3.05% across all 17 products, the occupancy rate of ARISTO series products stands at 99.9%, and all mid-term sell requests of ownership interests have been executed at prices above principal. As a result, the brand power of ARISTO has been enhanced.

The second strategy is to enhance property value in the revitalization and resale business. The company has more than 20 years of experience in the revitalization of pre-owned real estate. It demonstrates competitive advantages through 1) its discerning eye and acquisition capabilities for income properties, 2) value enhancement measures such as construction and tenant leasing, and 3) property management after sale. Going forward, the company will expand operating areas from Tokyo to Osaka and further to Fukuoka. In the process, it will further strengthen value enhancement measures and raise contribution margin ratios on sales. In particular, the company is placing strong emphasis on initiatives toward sustainable product development. It will also focus on using recycled materials and materials that are deterioration-resistant, acquiring environmental certifications, and using renewable energy.

The third strategy is the launch of new businesses, including non-asset businesses. The company will focus on 1) the Office Unit Sales Business, 2) the real estate crowdfunding business, and 3) the battery storage development business. The Office Unit Sales Business is expected to take off quickly in the fiscal year ending December 2026.

The fourth strategy is enhancing human capital engagement. This represents the promotion of human capital, whereby all employees enhance their engagement, demonstrate their value, enhance their skills, and connect these efforts to the creation of new corporate value. In fact, in the small-lot real estate business, motivation has increased, and through a virtuous cycle of success, the employee turnover rate has remained extremely low.

Strengthening of sales bases

In January 2025, the company opened its Fukuoka sales office to expand its business in the Kyushu region. At the Asset Management Business Division of the A.D. Works subsidiary, small-lot real estate investment products, such as ARISTO Daimyo (total sales value of 2.09 billion yen) and ARISTO Hakata (total sales value of 725 million yen), have already been sold. Going forward, the company

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will focus on acquisitions and value enhancement, leveraging this sales base.

As part of the activities of the Fukuoka sales office, the company has acquired two hotel properties in Fukuoka. In addition, starting in July last year, it launched a short-term private lodging (minpaku) and serviced apartment business at its wholly owned property, “U Place Shimokitazawa.” Going forward, the company plans to fully scale up its hotel-related businesses.

Scaling up the income property business through collaboration with Nankai Electric Railway

In March this year, the company entered into an agreement with Nankai Electric Railway on the acquisition of properties in connection with the two companies’ joint investment in large-scale real estate. In this project, Nankai Electric Railway and ADW will acquire and enhance the value of residential properties in Tokyo’s 23 wards, with equity contributions of 70% and 30%, respectively.

This will enable ADW to enter markets worth more than 5.0 billion yen. It intends to leverage its know-how. The two companies’ intentions are in alignment, as Nankai Electric Railway has identified in its Medium-Term Management Plan the expansion of the real estate business as one of its priority strategies.

Business Matrix of Real Estate Products

Category	Investment size	Customer segments	Customer needs
Single-building renovation and sales Property revitalization and resale	1.0 to 5.0 billion yen	Business corporations Institutional investors	Active investment management
Small-lot real estate investment products ARISTO	5.0 million yen and above	High-net-worth individuals (60s to 80s)	Stable investment management Succession planning
Office unit products ARISTO PLUS	100 million yen and above	High-net-worth individuals (50s to 70s)	Stable investment management Succession planning
Real estate Crowdfunding	10 thousand yen and above	Individual investors (20s to 50s)	Asset building

Office Unit Sales Business

The single-building income property business involves selling properties priced at 1 to 2 billion yen per building to high-net-worth individuals. The company has traditionally regarded this area as one of its core strengths.

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The small-lot real estate business targets high-net-worth individuals with products characterized by (1) an average unit price of 15 million yen, (2) cash purchases, and (3) an investment period of 10 to 20 years. Within this segment, the company's product development capabilities, together with the positive track record cultivated through more than 500 financial product sales channels nationwide (including regional financial institutions and nationwide tax accounting firms), have become a key source of credibility.

Office unit products are characterized by (1) unit prices of 100 to 300 million yen, (2) the ability to use borrowings, and (3) an unlimited investment period. They enable the company to target wealthier clients than those for small-lot products, while utilizing the same sales channels as the small-lot real estate business. In practice, investors can own an entire floor of a specific property as their own asset.

While small-lot products are equivalent to securitized real estate products, unit ownership, such as single-floor ownership, represents clearly delineated ownership of the real estate itself. Accordingly, explicit ownership boundaries make bank financing possible and allow owners to invest with leverage.

Competition in this area remains limited. The company is well positioned to leverage its strengths in this segment. It has already confirmed the existence of market demand. As a business goal, the company is targeting annual sales of 30.0 billion yen in three years' time.

Office unit product "ARISTO PLUS"

The office unit product "ARISTO PLUS" is characterized by 1) sales of single floors of small- to mid-sized office buildings at prices in the 100 million yen range, 2) its qualification as collateralized real estate eligible for bank financing, thereby meeting a different set of needs that lies between single-building sales and small-lot products, 3) the ability to utilize the same sales channels as small-lot products, and 4) the expansion of the acquisition universe compared with small-lot products, enabling a rapid business launch.

For example, if a building has ten floors, it consists of ten individual floor units. If each floor is priced at 100 to 200 million yen, a building valued at 1 to 2 billion yen can be acquired as a target for unit ownership. Sales of the first product, "ARISTO Kanda," commenced in June last year.

Real estate crowdfunding (CF)

The real estate crowdfunding (CF) business is scheduled to be launched in the current fiscal year and will target a different investor segment from those addressed to date. With investments starting from 10,000 yen, it will encourage participation by younger individual investors.

Real estate crowdfunding business targets a mass investor base. The company will offer products that leverage the credibility and trust associated with being a listed company. In the case of the crowdfunding business, a 1.0 billion yen property can be sold to 10,000 investors if structured at

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10,000 yen per unit with a minimum of ten units per investment. As a new asset class, this segment is expected to grow.

Steady progress in the grid-scale battery storage business

The grid-scale battery storage business involves purchasing electricity from power utilities, storing it in batteries, and selling it. Electricity is procured during periods of lower power prices, such as during the night, and sold appropriately during periods of higher electricity prices, such as during the day or in times of cold weather. This is an energy business that aims to generate profits through such price differentials.

In the “Seventh Strategic Energy Plan” formulated in February 2025, the government aims to raise the share of renewable energy to 40% to 50% by 2040. Given that the current level is just over 20%, expectations for renewable energy are high.

As the supply of renewable energy increases, it becomes more necessary to improve the efficiency of its utilization. In the case of thermal power plants, output can be adjusted in line with demand, whereas renewable energy sources, such as solar and wind, generate electricity regardless of demand.

Accordingly, a mechanism is required to store electricity, adjust for supply and demand, and utilize power efficiently. Grid electricity from power company transmission and distribution networks is stored in small-scale battery storage facilities and then sold.

Investment in a small-scale battery storage facility amounts to 500 million to 1.0 billion yen per site (with land usage of approximately 1,500 square meters). This is comparable in scale to small-lot real estate investments. The company has inherent strengths in selecting real estate locations. As for battery storage operations such as electricity trading, the company plans to outsource these functions to specialized firms (aggregators, i.e., supply-demand adjustment service providers).

The company aims to expand its grid-scale battery storage business by focusing primarily on the development of high-voltage storage facilities with outputs of 2 MW or less. These high-voltage battery storage facilities can begin operations after a development period of approximately one year. This sense of speed aligns well with the company’s business approach.

The first site has begun operations

The company’s first grid-scale battery storage site, “ADW Mie Matsusaka City Battery Storage Facility,” which was completed in January this year, began operations in March. A 0.6 billion yen investment is expected to yield a relatively high investment return. The company is accelerating various operations in this business, including the selection of real estate locations, negotiations, and construction, by leveraging its strengths in the real estate business, indicating that this business is promising as a new business.

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In September last year, the company acquired land for the second site of its grid-scale battery storage business. Development of a battery storage facility will be undertaken at the site in Mashiki Town, Kumamoto Prefecture, with operations scheduled to commence in the fiscal year ending December 2026. In addition, the company acquired land for a third site in Kagoshima City. Operations are scheduled to commence in December 2026.

The company is also considering securitizing operating battery storage facilities into funds and selling them as new investment products. Investment in battery storage amounts to approximately 500 million yen per site, and if ten sites are aggregated, the total investment would reach 5.0 billion yen. By structuring these into a fund, they can be offered to investors as a new investment product.

Portfolio diversification

The investment product portfolio is becoming more diversified. The company has 20 years of experience in the single-building model and is well practiced in enhancing the value of pre-owned properties. Asset types have also broadened, and the company is steadily building a track record in hotels as well. The small-lot real estate business is currently in a growth phase, with acquisition, development, and sales forming a virtuous cycle.

ARISTO PLUS, the office unit ownership product, is priced in the 100 to 300 million yen range and is well suited for individual asset succession planning. Because it involves ownership of an entire floor, it can be used as collateral for borrowings. The company aims to uncover new demand in long-term investments of ten years or more. The company intends to grow this into a 30.0 billion yen business in three years.

Although a latecomer to real estate crowdfunding, the company has already acquired three properties and is committed to offering high-quality products. Sales are expected to commence in 2026.

Grid-scale battery storage is well suited to the real estate business in terms of land utilization. While three sites have already taken concrete shape, the company expects to secure up to ten sites by the end of the year.

Launch of the hotel business

In October last year, the company commenced operations of its first hotel business. This is a single-building hotel resale business. A hotel asset acquired in Fukuoka in March 2025 was extensively renovated and relaunched under a new brand name, “Quintessa Hotel Fukuoka Watanabedori Comic & Books.” An investment of 200 million yen was made to enhance the value of the 16-year-old hotel. Going forward, the company plans to resell the property as a single building.

Strengthening organizational capability and incentives

ADWG's organizational capability is being bolstered. Outstanding talent has been added to the management team, and through comprehensive management training programs, leadership execution and cohesion are being enhanced.

With the North Star (Purpose) as the axis, the company's vision and policies are linked to employee engagement, resulting in a significant decline in the employee turnover rate. There have been nearly zero resignations among organically hired employees who have been with the company for seven years since joining as new graduates.

The use of stock-based compensation for employees who have joined the company as new graduates is progressing. The company has decided to implement its eighth round of stock compensation in June. For example, employees who joined in April 2020 will receive their fifth stock grant, while those who joined in April 2024 will receive their first. In this round, 41,800 shares will be granted to 38 employees. This program is unique as an incentive for employees and fosters a sense of participation, loyalty, recruitment, and retention, in addition to enhancing their understanding of investment and asset management.

Balance Sheet

	(million yen, %)			
	2022.12	2023.12	2024.12	2025.12
Cash equivalent	7425	9810	10129	11909
Accounts receivable	148	116	111	276
Real estate held for sale and work-in-progress	41488	38414	36557	43588
Property, plant and equipment	156	6558	9106	11187
Investment, etc.	1351	1550	1542	1469
Total assets	53359	58854	59809	72062
Accounts payable	640	1258	933	651
Short- and long-term borrowings (including current position)	31476	33744	34785	44902
Bonds payable (including current portion)	1038	1065	875	861
Deposits received from crowdfunding and similar sources	1063	2257	957	0
Net assets	15857	17166	18761	20576
Interest-bearing liabilities	32515	34810	35661	45763
Ratio of interest-bearing liabilities	60.9	59.1	59.6	63.5
Ratio of net worth	29.6	29.1	31.3	28.5

5. Near-term business performance: Earnings growth plateauing in the fiscal year ending December 2026

Focus on properties held for sale on the balance sheet

On the balance sheet, in the fiscal year ended December 2024, the company reclassified three income properties with a total value of 2.1 billion yen from inventories to property, plant and

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equipment. In the fiscal year ended December 2025, it again reclassified one income property worth 970 million yen in the same way. The purpose is to hold these properties over the long term and collect rental income. As depreciation of buildings and related assets can also be recorded, this treatment is advantageous from a cash flow perspective as well.

Rapid earnings growth in the fiscal year ended December 2025

For the fiscal year ended December 2025, the company recorded sales of 67,531 million yen (+35.3% year-on-year), operating profit of 4,987 million yen (+55.1% year-on-year), profit before taxes of 5,190 million yen (+103.7% year-on-year), and net profit of 3,315 million yen (+105.9% year-on-year). Earnings reached record highs for the third consecutive fiscal year.

The company accelerated top-line growth in the small-lot real estate business, which has a high contribution margin ratio on sales. In the revitalization and resale business as well, the company intends to raise the contribution margin ratio on sales by enhancing property value.

The company is also launching new businesses. (1) The Office Unit Sales Business has been launched by leveraging the sales channels of the small-lot real estate business. (2) The battery storage development business, supplying grid-scale battery storage systems, has also been initiated. (3) The real estate crowdfunding business will be developed as a product under the Act on Specified Joint Real Estate Ventures. These businesses are expected to take full shape in the current fiscal year.

ARISTO performed strongly. Sales of ARISTO in the third quarter (July to September) of the previous year marked the highest quarterly level on record. These consisted of ARISTO Ebisu (selling price, 3.96 billion yen), ARISTO Shimokitazawa (selling price, 1.91 billion yen), and ARISTO Shirokanetakanawa (selling price, 1.23 billion yen, of which 0.90 billion yen has been completed). Ebisu is an office building, Shimokitazawa is a retail building, and Shirokanetakanawa is a residential apartment building, aligning with the need for diversified asset allocation. In addition, sales of ARISTO Chiyoda Hiraakawacho (selling price, 3.36 billion yen) and ARISTO Yokohama (selling price, 2.92 billion yen) began in the fourth quarter of the previous year.

An impairment loss on inventories of 480 million yen was recorded in the overseas business. On the other hand, the sale of properties held by the U.S. subsidiary (ADW-No.1 LLC) has been completed, and the company has dissolved this subsidiary. As a result, an extraordinary gain of approximately 900 million yen was recorded from the reversal of cumulative translation adjustments related to foreign currency translation. The overseas business centered on Los Angeles will be temporarily suspended, with management focusing on domestic operations. Regarding overseas operations, the company is currently reviewing its approach and is likely to aim for a restart after reassessing its business content and target regions.

The company sold its Sumikawa ADD subsidiary by way of share transfer in July 2025. As part of

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a business review, the Sumikawa ADD subsidiary was sold off, generating extraordinary income of 140 million yen.

Sales Status of Income Properties

		(million yen)		
		Acquisition	Sales	Period-end balance
2023.12		29374	35648	44798
	Domestic	28324	34195	39612
	Overseas	1050	1453	5185
2024.12		33862	44279	45465
	Domestic	33142	43086	39596
	Overseas	719	1193	5865
2025.12		56213	62436	54586
	Domestic	56213	59302	52255
	Overseas	0	3133	2330

Future market environment

How should we view the market environment for domestic income properties? First, the company needs to respond to amendments to the real estate tax rules. It will be able to overcome this challenge because it has already taken measures.

Corporate earnings, inflation, wage increases, interest rates, exchange rates, and the direction of the equity market will also have an impact. In 2024, the Bank of Japan lifted negative interest rates in March and implemented an additional policy rate hike in July. In 2025, conditions were influenced by the policies of the Trump administration in the United States, but the domestic economic environment did not deteriorate significantly.

Looking ahead to the market environment, it will be necessary to closely monitor 1) funding conditions associated with the timing of interest rate hikes, 2) rent increases reflecting inflation, and 3) the persistence of elevated real estate prices reflecting financial market conditions.

Looking forward, close attention must be paid to rising global geopolitical risks and potential abrupt changes in financial conditions driven by the policies of the Trump administration in the U.S. In the domestic income property market, rising long-term interest rates are a concern. There is a risk of negative impacts on borrowing, investment yields, and real estate prices. For the time being, however, demand remains strong, and there is no immediate cause for concern.

Portfolio restructuring

The company plans to concentrate its resources on the Office Unit Sales Business to expand sales in the current fiscal year to 10.0 billion yen. It increased the number of staff members from 3 to 11. The company will be able to scale up the business rapidly because it can fully utilize the sales channels and product appeal that it has developed through the small-lot real estate business. It aims to grow this into a 30.0 billion yen business by 2028.

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In addition to the flexible engagement of personnel within the organization, the company will utilize the capabilities and trust that it has developed through acquisition and sales channels in recent years.

The real estate crowdfunding business, which is scheduled to be fully launched this year, as well as the small-lot real estate business and Office Unit Sales Business, operates in the B to C segment. Accordingly, the company will make upfront investments in PR and other activities to improve brand awareness.

Earnings Forecasts by Segment

(million yen)

Segment	2024.12		2025.12		Dec. 2026 (Forecast)		Dec. 2027 (Forecast)	
	Sales	Operating profit	Sales	Operating profit	Sales	Operating profit	Sales	Operating profit
Income property sales business	44305	3907	62436	6361	73500	5800	83300	7000
Domestic single-building real estate sales	30317		35744		50000		50000	
Small-lot real estate investment products sales	12769		22931		5000		10000	
Office unit sales			626		10000		15000	
Overseas income property sales	2944		4706		2000		2000	
Stock-type fee business	6158	1142	5598	1205	3800	1000	4000	1000
Rental income	1783		1723		1800		2000	
Property management, construction, and related services	4375		3875		2000		2000	
Adjustment	-553	-1833	-503	-2579	-300	-2500	-300	-2500
Total	49910	3216	67531	4987	77000	4300	87000	5500

(Note) The breakdown within segments includes internal transactions, so it does not match the segment totals.

Adjustments represent corporate expenses not attributable to any segment.

Sale of the property management business

In January 2026, the property management business, which had been operated by A.D. Partners for external property owners, was transferred to Architect Developer, Inc., an external company. A gain on this transfer (1.59 billion yen) has been recorded in the current fiscal year as extraordinary income. The company exited from this business as a result of a review of the business portfolio.

The A.D. Partners Co., Ltd. (A.D. Partners) subsidiary has pursued business expansion with the objective of providing a management structure that allows owners to continue to hold their assets with confidence even after a property sale. However, once properties reach stable operations, property management becomes difficult to differentiate, and economies of scale tend to determine competitive advantage. As a result, this business was difficult for the company to position as a growth business. As part of the review of the business portfolio, the company decided in November last year to sell this business.

In the fiscal year ended December 2024, A.D. Partners recorded sales of 1,929 million yen, operating profit of 145 million yen, and net assets of 335 million yen. Starting this fiscal year, the company no longer has any businesses with external parties.

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Earnings growth to plateau this fiscal year, but improvement expected in the next fiscal year

The company forecasts sales of 77,000 million yen (+14.0% year-on-year), operating profit of 4,300 million yen (-13.8% year-on-year), profit before taxes of 4,500 million yen (-13.3% year-on-year), and net profit of 3,100 million yen (-6.5% year-on-year) for the fiscal year ending December 2026.

Procurement is progressing smoothly. The 20-plus-member dedicated acquisition organization is functioning effectively. In addition, expansion into the Kansai and Fukuoka regions is producing tangible results. Accordingly, further business expansion in the current fiscal year can be fully expected.

Although profit will decrease in the current fiscal year, earnings are expected to improve again in the fiscal year ending December 2027. Based on the assumption that the real estate market will not face a severe downturn, the company will be able to reverse the decline in profit and achieve a profit increase by balancing its business portfolio and expanding into new segments.

Earnings Forecast

	2023.12	2024.12	2025.12	2026.12 (Forecast)	2027.12 (Forecast)
Sales	41342	49910	67531	77000	87000
Gross profit	7019 (17.0)	8635 (17.3)	12074 (17.9)	12500 (16.2)	15000 (17.2)
Operating profit	2441	3216	4987	4300	5500
Ordinary profit	1978	2515	4149	3300	4500
Profit before taxes	2066 (5.0)	2547 (5.1)	5190 (7.7)	4500 (5.8)	5200 (6.0)
Net profit	1419	1610	3315	3100	3500

First quarter results—No changes to the full-year earnings forecast

For the first quarter of the fiscal year ending December 2026, the company recorded sales of 11,355 million yen (-19.9% year-on-year), operating profit of 1,115 million yen (-16.1% year-on-year), profit before taxes of 2,433 million yen (+108.0% year-on-year), and net profit of 1,608 million yen (+115.6% year-on-year). The significant increases in profit before taxes and net profit are attributable to the recording of a gain on business transfer of 1,590 million yen as extraordinary income. This results from the sale of part of the business of A.D. Partners, the company's subsidiary.

The company has made no changes to its full-year earnings forecast and has been making progress generally as planned. Demand for real estate investments remains strong despite the upward trend in long-term interest rates.

Sales of single-building income properties are robust. The Office Unit Sales Business has shown rapid progress in its start-up phases. The company sold five units (0.69 billion yen) of the first product of "ARISTO PLUS" (ARISTO Kanda) in the Office Unit Sales Business by March, and has sold all

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of the ten units. It will continue to devote substantial resource to the acquisition and sales of properties suitable for unit ownership.

Key Indicators for the First Quarter

		(million yen)		
		2024.12	2025.12	2026.12
		1Q	1Q	1Q
Domestic single-building revitalization	Sales	4096	6027	8491
	Gross profit	654	719	1702
Small-lot real estate investment products	Sales	2432	6311	892
	Gross profit	710	1718	312
Office unit products	Sales	0	0	849
	Gross profit	0	0	182
Balance of income properties held for sale		42299	37633	62650
Operating profit		599	1330	1115

The small-lot real estate business is being forced to undergo adjustments, and it will take some time to assess whether conditions are improving. In April, the company completed the sales of properties that had been reclassified from small-lot sales to single-building sales (two properties worth 7.4 billion yen) to improve capital efficiency.

As the company has been acquiring properties steadily, it is on track to achieve its forecast for this fiscal year, driven by single-building income properties.

In this fiscal year, the company expects small-lot sales of 5.0 billion yen, unit sales of 10.0 billion yen and single-building sales of 50.0 billion yen. For small-lot and unit sales, it is essential to establish a structure that leads to growth in the next fiscal year. The company will be able to achieve the overall forecast driven by its core single-building sales.

The cloud service used by the company's subsidiary A.D. Works ("Ielove Cloud") experienced a data breach involving personal information as a result of unauthorized access, but it did not suffer any serious consequences. The names and phone numbers of 89 of the company's rental customers were exposed, but no payment or other sensitive information was leaked. This fact was confirmed in April.

High dividend yield

The company plans to pay a dividend of 20.0 yen per share for the fiscal year ending December 2026, as compared with 10.0 yen for 2024 and 16.0 yen for 2025.

In December 2024, the company revised its dividend policy to ensure a dividend yield of 4% or higher. Under this policy, as long as the forecast dividend payout ratio does not exceed 50%, the

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dividend amount is determined so that the dividend yield (annual dividend per share divided by the average month-end share price from January to December) is at least 4%. Pursuant to this policy, an annual dividend of 20 yen per share is planned for the fiscal year ending December 2026. At a share price of 500 yen (average month-end price), this corresponds to a dividend yield of 4%. If the share price reaches 600 yen, investors can expect a dividend of 24 yen per share (dividend payout ratio: 38%), assuming that the dividend yield is 4%.

6. Corporate valuation: Moving toward the next growth phase

Factors behind the sustained strong performance

What explains the sustained strong performance? First, the company has been successful in attracting talent and strengthening its employee retention mechanisms. Notably, there have been no employee departures. Second, strong operating results have enabled the company to undertake larger-scale projects and expand its portfolio. Access to acquisition opportunities has increased compared with the past, and the sales network is benefiting from a virtuous cycle as track records accumulate. Third, the company's business development capabilities have been enhanced, allowing new businesses to expand steadily and at a good pace.

Two years ago, the overwhelming question was whether the company could satisfy the Prime Market listing standards. There were opinions that it would be challenging due to the high hurdles involved, but the fact that the company has now cleared these standards with ease, driven by earnings growth, came as a positive surprise. This achievement can be highly regarded as the result of a unified organizational effort under the strong leadership of President Tanaka, the founder of the company.

In September last year, A.D. Works Group issued its sixth series of stock acquisition rights (tax-qualified stock options) to its officers and employees. A total of 613,900 shares were issued, at an exercise price of 483 yen per share.

At the beginning of 2025, the PBR stood at 0.54 times, but it is now 0.91 times. Through its future growth strategies, management is aiming to drive the PBR toward a range of 1.5 to 2.0 times.

Future business development—Focusing on asset-light business expansion

Looking back, performance around 2018 was solid, but growth temporarily stalled thereafter. This coincided with the period when the impact of COVID-19 was intensifying. While share prices should normally respond to improved earnings, the reaction was insufficient at that time. Subsequently, performance turned to recovery and has been growing steadily.

From a share price perspective, as a company engaged in the sale of income properties held for

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sale, differentiation from peers has not yet been sufficiently communicated. When acquiring properties, the company conducts rigorous due diligence, and after acquisition, undertakes thorough refurbishment to enhance value. In practice, while the business is fundamentally based on real estate turnover, the company does not acquire assets with low returns. High-quality properties are held for longer periods in order to generate rental income.

With regard to overseas operations, business in the United States stagnated due to the impact of COVID-19. This was also affected by regulatory constraints, funding shortages, and a lack of human resources. Given the momentum at the time, annual sales could have exceeded 10.0 billion yen, but the company adopted a wait-and-see approach. Going forward, overseas operations are moving in a downsizing direction.

Meanwhile, the small-lot real estate business expanded steadily. Given its high profitability, this segment became the key growth driver. If the gross profit margin on domestic single-building income properties of around 1.0 billion yen per property is assumed to be 15%, the gross profit margin on small-lot real estate investment products is several percentage points higher than that of single-building sales. Differences in investor needs lead to differences in required returns, resulting in superior profitability. The Office Unit Sales Business will be the next leading business. This also has a high turnover and is expected to be substantially profitable.

Going forward, diversification of financing will be required. As of the end of the fiscal year ended December 2025, shareholders' equity stood at 20.5 billion yen, while interest-bearing debt amounted to 45.7 billion yen. Taking future debt financing into account, asset-light business development will be necessary.

At present, the company is in an investment phase aimed at building the foundation for this transition. It is therefore placing emphasis on 1) the real estate crowdfunding business, which raises equity capital from individual investors online, and 2) the asset management business, which raises equity capital from institutional investors.

Free-float market capitalization increase

The company currently has 1,700 high-net-worth clients and plans to expand this base to 3,000 to 5,000 clients. If owned real estate is sold over a ten-year period, this will circulate as a stock effect. On the other hand, simple fee-based businesses require considerable sales effort. Competition in this area is intense, and the merits of entering this segment are limited.

In IR activities, the company is visiting institutional investors with an interest in small-cap stocks. Management intends to further strengthen IR efforts. The introduction of shareholder benefit programs would also be desirable.

The company's share price temporarily rose above 400 yen, increasing market capitalization to

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20.0 billion yen. With a free-float ratio of around 80%, the company comfortably clears the 10.0 billion yen threshold (equivalent to a share price of 250 yen).

To raise the PBR to 1.5 times or higher, either profitability (ROE), growth potential (PER), or both must be enhanced. Possible avenues include private funds and the use of STOs (Security Token Offerings).

Through internal growth, the company aims to strengthen shareholders' equity by approximately 3.0 to 4.0 billion yen. This would enable business expansion using 10.0 billion yen, including borrowings. Sales of revitalized real estate are strong, with geographic coverage expanding nationwide. Office unit product sales are expected to grow to 10.0 billion yen in the current fiscal year and to 15.0 billion yen in the next fiscal year. Attention should be paid to the breadth and speed of expansion in new businesses going forward.

A family member of the Murakami Fund has appeared among the company's major shareholders.

MURAKAMI TAKATERU appeared as the fourth-largest shareholder of the company as of the end of March, holding a 3.48% stake. He is the eldest son of Yoshiaki Murakami, who is famous for the Murakami Fund. He may have certain intentions as an activist, but the purpose of his investment should be viewed as purely financial for the time being.

The next target is a share price of 600 yen.

Regarding the share price, in order to lift the PBR to 1.5 times or higher, it will be necessary to maintain profitability (ROE), enhance growth potential (PER), and further improve liquidity.

Based on the current fiscal year's earnings forecast relative to the current share price, the stock is valued at a level of $ROE\ 14.8\% \times PER\ 6.15\ \text{times} = PBR\ 0.91\ \text{times}$. The achievement of an operating profit of 5.5 billion yen in the fiscal year ending December 2027 is coming within range. If that is realized, the company could aim for a share price of 600 yen (market capitalization of approximately 30.0 billion yen), assuming that $ROE\ 15.0\% \times PER\ 10.0\ \text{times} = PBR\ 1.5\ \text{times}$. Rapid commercialization of businesses in new growth areas is anticipated.