



# ANNUAL REPORT 2017

Year ended December 31, 2017

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## Driving Force Management Power



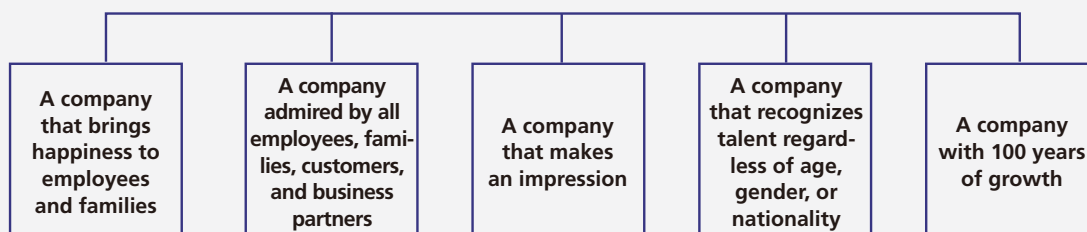
# Arealink Co., Ltd.

Arealink has become the leading company in Japan's self-storage market through a program of selection and concentration in the self-storage business, and a nationwide strategy for the "Hello Storage" brand. Based on its corporate philosophy to "provide convenience, enjoyment, and excitement to the world," Arealink has set five principles for an ideal company, and aims to be a "futuristic ideal company." Arealink marked its 20th anniversary in April 2015, designating the current era as its "third founding period" and implementing a range of reform measures. We aim to achieve a high rate of growth and secure a 50% share of the Japanese self-storage market by 2025.

## Corporate Philosophy

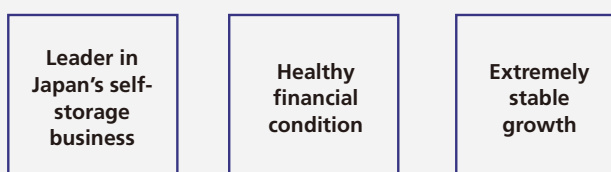
### "Provide convenience, enjoyment, and excitement to the world"

#### Five principles for a "futuristic ideal company"



## Arealink's Strengths

Arealink is the industry leader in Japan's self-storage market, with around 14.5% of all units nationwide. The Company boasts an excellent financial position, and building on its base in the self-storage business generating stable cash flow, continues to grow.



## Competitive Environment

	Company Name	No. of Locations	No. of Units	Market Share (by No. of Units)
No. 1	<b>Arealink</b>	<b>1,208</b>	<b>63,391</b>	<b>14.5%</b>
No. 2	Company A	1,045	50,460	11.5%
No. 3	Company B	50	30,244	6.9%
No. 4	Company C	327	18,124	4.1%
No. 5	Company D	276	11,969	2.7%
	Total	9,479	437,814	100%

## Self-Storage



### Outdoor Container Type

These are large storage spaces utilizing sturdy, overseas shipping containers. They are large enough to drive into, for easy loading and unloading. Arealink has approximately 64,000 units (as of the end of December 31, 2017) nationwide, from Hokkaido to Okinawa.



### Indoor Trunk Type

These are clean, indoor storage spaces accessible 24 hours a day, and equipped with an advanced security system. Arealink is the most extensive brand in the Tokyo metropolitan area, with around 18,000 units (as of the end of December 31, 2017).



### Self-Storage with Accompanying Land

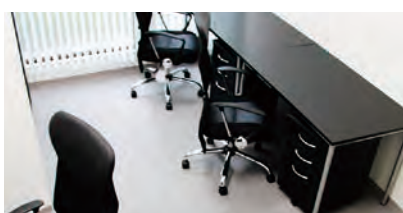
This is a new product, specially planned and built as fully air-conditioned, indoor trunk rooms located in suburban areas, where outdoor storage types are more common. The properties were designed to appeal to women, with attention to security and peace of mind.



### Collaboration with Hello Kitty

Arealink installed signs at all its locations featuring the popular Hello Kitty character beloved by people of all ages, establishing the Hello Storage brand image.

## SOHO



Arealink provides rental office spaces that allow small businesses to curb startup costs as much as possible.

## Rental Meeting Rooms



Arealink operates a rental meeting room service in Tokyo, Yokohama, Osaka, and Nagoya, utilizing small and mid-sized office buildings and unoccupied office space.

## Income-Generating Properties



Arealink operates a land rights management business through which it buys land rights from landowners, and at the appropriate timing, sells them to leaseholders.



# Main Points of FY12/17 Results

## Net Sales

**21,489** million yen  
(+27.1% year on year)

## Operating Income

**2,379** million yen  
(+22.9% year on year)

## Ordinary Income

**2,441** million yen  
(+24.0% year on year)

## Net Income

**1,547** million yen  
(+35.4% year on year)

## ROE

**9.8%**  
(+2.2pt year on year)

## Shareholders' Equity Ratio

**54.7%**  
(-9.5pt year on year)

## Market Share in Japan

**15.1%** (2017)  
No. 1 share of the Japanese self-storage market

## Storage Total Units

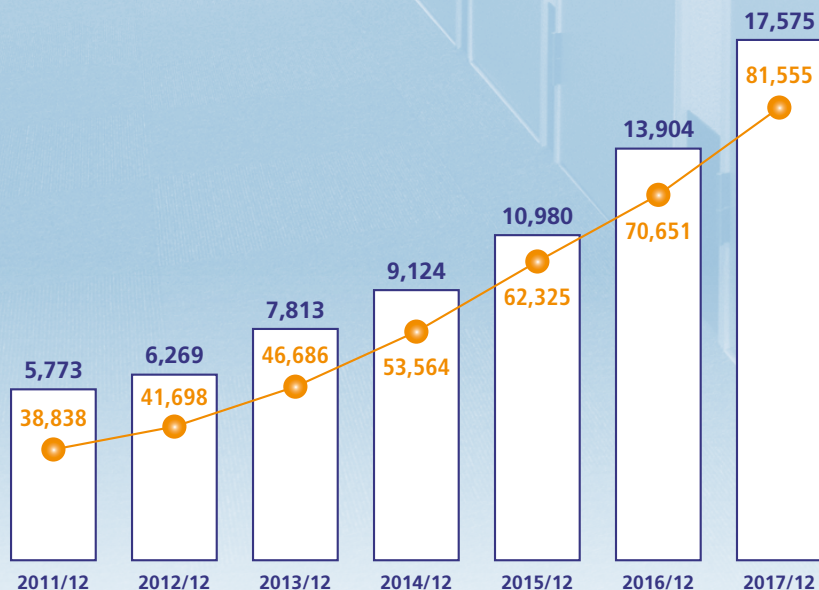
**81,555** units  
(+10,904 units year on year)

## Number of New Contracts

**24,457**  
(+1,159 year on year)

### Trend in Net Sales in Self-Storage Business and Total Units

□ Net sales (Millions of yen)    ● Total units (units)





## Steady growth in self-storage location openings and operations

- Total number of storage units increased to 81,555 units (+10,904 units compared to the end of FY12/16).

## Growth investments and stronger business base: Continued focus on self-storage with accompanying land

- Number of storage properties with accompanying land increased to a total of 21 properties in 2017, with consideration for future securitization (funds, REITs).

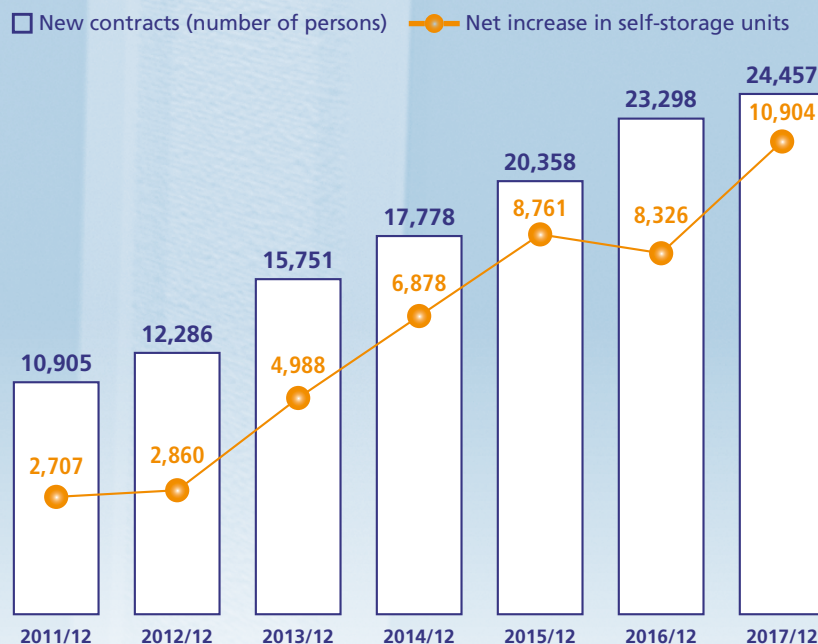
## Data marketing used to strengthen the self-storage business

- Arealink continued to invest in IT systems for data marketing, strengthening location openings and customer recruitment.

## Developed and strengthened business to support investors and property owners

- Arealink steadily developed business, focusing on the land rights management business (limited land rights).

**Number of New Contracts in the Self-Storage Business and Net Increase in Self-Storage Units**





**Naomichi Hayashi**

President & CEO

“ **We are increasing investment in storage with accompanying land in order to attain overwhelming strength, and gain a 50% share of the self-storage market.** ”



## Business results for FY12/17

Arealink achieved considerable year-on-year increases in both revenue and earnings in fiscal 2017 (ended December 31, 2017). Net sales rose 27.1% to ¥21,489 million, with operating income up 22.9% to ¥2,379 million, and ROE of 9.8%. The mainstay self-storage business was particularly effectual, with the number of properties with accompanying land—Arealink's current priority focus—reaching a cumulative total of 21 properties at the end of 2017. Self-storage location openings and operations were also positive overall, with the total number of storage units increasing by 10,904 units from the end of FY12/16 to 81,555 units. The limited land rights (land rights management) business also expanded considerably from the previous fiscal year.

## Priority strategies for FY12/18 and results forecast

During 2018, in a continued effort to achieve a 50% share of the Japanese self-storage market, Arealink will strengthen its business for self-storage with accompanying land, including 2x4 types with parking facilities, and steel-frame buildings. We will pursue both possible future securitization (funds or REITs), as well as Arealink's own sales. Further, by strengthening our business network and data analysis with CPAs and certified tax accountants, we will open new units in prime locations and under good conditions.

While pursuing full-fledged business operations for self-storage with accompanying land, Arealink will also continue measures to strengthen its brand to enhance name recognition and added value. We will introduce virtual identity (VI) and brand identity (BI) measures, build facilities in prime residential areas near urban centers, and further enhance our visibility.

### Medium-Term Management Plan

Establish a corporate brand  
~Adopt a corporate identity, and strengthen marketing communication

Data-based marketing using POS  
~Utilize AI, Big Data

Establish an absolute advantage in the self-storage market

Craftsmanship management: Create systems for rapid gains in productivity through qualitative improvements in the value chain (employees, subcontractors)

Increase brand awareness through branding measures and expanded PR activities

### Future-Oriented Ideal Company in 2025

By 2025, 100 employees and ¥10 billion in ordinary income

Steady progress toward target of ¥100 million in ordinary income per employee

Global business development with management that combines the rational approach of Europe/U.S. with the attention to detail of Japan

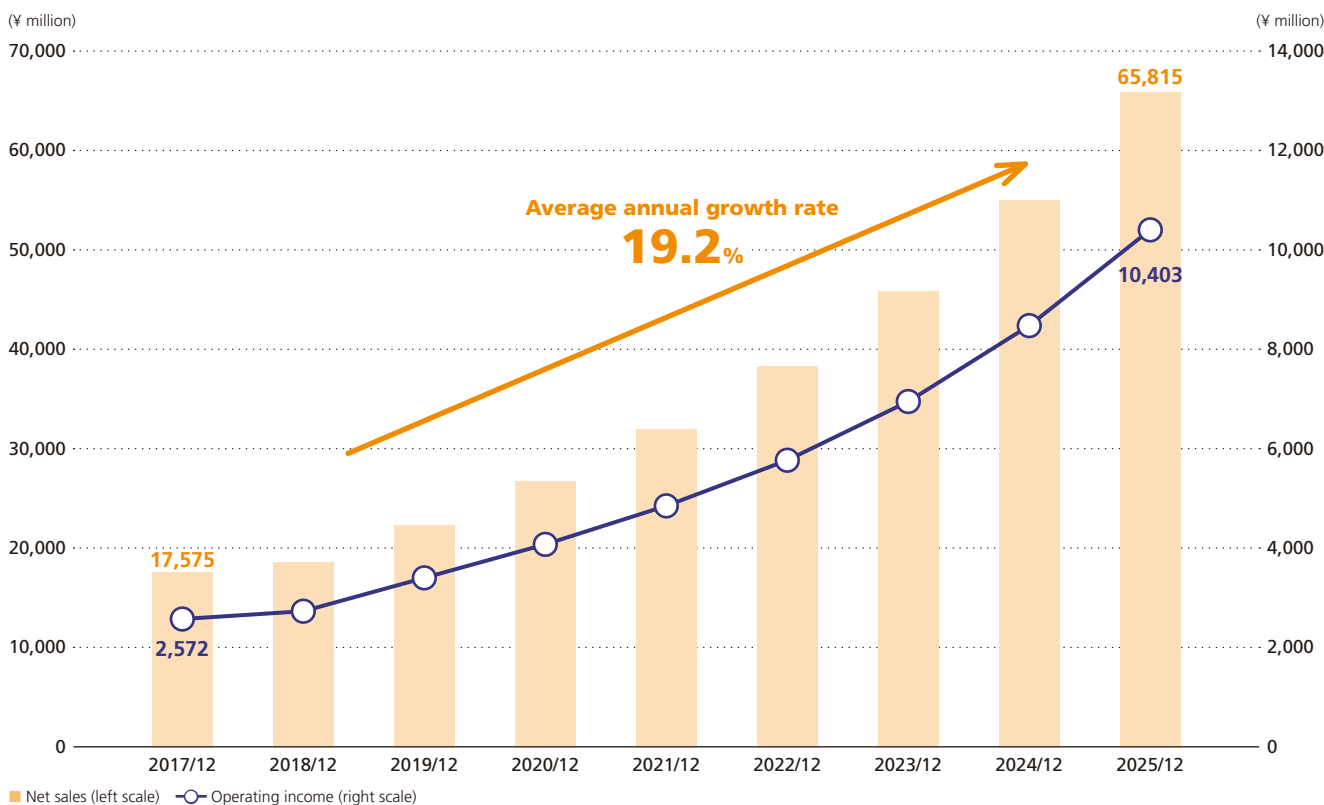
In terms of risk management, we will implement strategic measures such as utilizing evaluation sheets for such factors and trading area and average income to lessen error in location openings.

For fiscal 2018 (ending December 31, 2018), Arealink is forecasting continued gains in both revenue and earnings, to ¥30 billion in net sales with ¥3.0 billion in operating income. As a result, we anticipate net income per share of ¥151.2.

### True working style reform – being a company that creates the future

Arealink marked its 20th anniversary in April 2015. We have designated the current era as our “third founding period,” and are implementing various reforms. In terms of corporate scale, I have come to believe that increasing the workforce according to the familiar “2:6:2 rule” is not a wise policy. As the number of employees increases, it becomes difficult to remember names and faces, and the work needed to maintain the organization expands. To avoid such management inefficiency, Arealink’s policy is to conduct business with a minimal workforce.

### ■ Outlook for net sales and operating income in the storage business





I believe that when the makeup of regular employees is in line with the 2:6:2 principle, all employees should be the top 20% who work hard and produce results. Regular employees are the management-capable personnel, the ones who utilize people and things, including outside contractors, to produce results.

Arealink calls these management-capable personnel "Arealinkers." We provide them with a work environment that allows them to function anywhere, as well as high salary levels and policies that allow for ample time off. As a result of such programs as "my workday," where each Friday an employee has the opportunity to work somewhere different and think on their own, more employees are able to work in an irregular style and produce results. The objective of work is not to do the work itself, but to generate results. By taking advantage of Arealink's unique structure to thoroughly train personnel and instill this way of thinking, we have gradually been able to achieve management with a small team.

Looking ahead, we have set an ambitious target for 2025 of ¥10 billion in ordinary income with 100 regular employees.

## **Solving societal problems through our business**

According to the UN World Happiness Report 2017, Norway leads the global ranking for happiness, followed by other Nordic countries making up the top three, while Japan places 51st. Making Japan a society like Norway is difficult, and overcoming global competition brings considerable challenges. For us to be personnel able to function globally, we need to strive to further enhance our individual capabilities. Rather than working for a fixed amount of time, unless we are keenly conscious of working toward a goal or result, the future will not be bright.

Arealink aims to be a company that continually takes on new challenges, offering the new technologies and services demanded of the times. We are focused not only on earnings, but generating new ideas to help resolve societal problems through our business.

Arealink's goal is not just to maximize profit, but to be a company that satisfies our customers and shareholders, and takes care of employees. Anticipate our success.

### **Naomichi Hayashi**

President & CEO

**“ We help solve societal problems through our business, and continually take on new challenges. ”**



Core Business

## Self-Storage Business

### Shift from containers to self-storage with accompanying land

Arealink is shifting its focus for location openings from containers to self-storage facilities together with the land they occupy, and making growth investments. The self-storage business comprises both sales and operations. Sales are proceeding steadily, with the potential for future securitization (funds or REITs) alongside Arealink's own sales. We are accelerating openings of self-storage facilities with land, mainly in metropolitan areas, with 16 buildings completed in FY12/17, and a further 52 planned for FY12/18. We have determined that latent demand is particularly high for steel-frame and

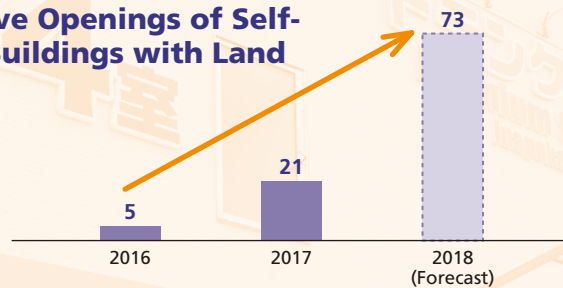
wood-frame (2x4) self-storage buildings in residential areas, and are pursuing a domination strategy of opening locations in urban centers. These storage facilities have a neat and tidy image aimed at women and older customers, and maintain high utilization rates.

Self-storage facilities with land are specially designed for greater convenience and appealing design, and the visual identity from a new location generates an advertising effect. These facilities are also strongly supported by investors as a new alternative to rental housing.

Self-Storage Buildings with Land  
FY12/18 Construction Plan

**52** Locations

### Cumulative Openings of Self-Storage Buildings with Land



### Visual identity for Hello Storage generates an advertising effect



Exterior of a self-storage building with land

Arealink has been developing Hello Storage properties in collaboration with Sanrio's popular Hello Kitty character since 2016. The Hello Kitty image is also used on the exterior of self-storage buildings with land, making it a familiar and appealing product for both users and neighborhood residents.

## Development of the contracted storage management business

Arealink is utilizing its brand strength and customer acquisition expertise to develop a contracted management business to recruit customers for properties owned by other companies. This business has been made possible by Arealink's track record of opening and managing over 81,000 self-storage units throughout Japan, backed by an effective customer acquisition structure built on our capability to attract customers, and an economy of scale. Taking advantage of our top market share and customer acquisition capabilities, we are able to deliver high profitability.

Further, to acquire expertise in the contracted services business, in 2016 Arealink purchased self-storage facilities in the

United States, contracting with CubeSmart, the third largest company in the U.S. self-storage market\* for management and operations. CubeSmart operates 762 properties with 483,000 units, of which 33% are managed under contract. During FY12/17, we increased the number of units under management by 120 units, investing ¥830 million. The expected return is a strong 7.0%, and the third phase of construction is currently in planning. We will continue to analyze the advanced structures of overseas markets, and by building a database and utilizing IT, will conduct advanced marketing that combines the strengths of Japan and the U.S.

\* Source: *Self-Storage Almanac 2017*

**Purchases of U.S.  
Self-Storage Facilities  
Investment in FY12/17**

**¥830 million**

**Expected  
Investment Return on  
Purchased Properties**

**7.0%**

### Accumulating expertise in the contracted storage management business

The contracted storage management business provides an integrated customer acquisition and management service that allows even small and mid-sized operators to run a self-storage business with minimal cost and effort. Going forward, Arealink plans to expand this business to 1,000 properties. To meet this target, we are purchasing self-storage properties in the U.S., and accumulating expertise in contracted storage management.

#### Overview of Owned Property

- College Station, Texas
- Total 477 units → 593 units (at February 2018) (481 self-storage units, 107 parking spaces (for large RVs), 5 other (office and warehouse))
- Approx. 38,000 m<sup>2</sup> (409,028ft<sup>2</sup>)



Property managed by CubeSmart





### Strengthening data marketing

The self-storage business is becoming increasingly competitive in terms of price, and differentiation of products and services. To strengthen competitiveness, Arealink focuses on marketing based on detailed data analysis. For example, we utilize our database developed from opening and operating more than 81,000 self-storage units throughout Japan to determine the appropriate product type and price. This process allows us to improve our location opening standard, better clarify guidelines for location and opening method, and enhance precision in sales activities to minimize waste.

Arealink's sales activities are cloud-based, utilizing G Suite, Salesforce, and Surface. With the most comprehensive data in the industry, we are able to clearly identify the basis for location openings and prices. Currently, we are digitizing land data for certain areas of the greater Tokyo region, and using revenue management to optimize pricing and customer acquisition.

### Share of the Japanese Self-Storage Market

15.1% (2017)



50.0% (2025)

### Marketing strategies based on location opening and operations data



Arealink incorporates marketing strategies based on data from its opening and operating of more than 81,000 self-storage units throughout Japan. Almost no other local company in the industry conducts such detailed marketing surveys. Further, since such surveys have also revealed errors made by competitors in opening locations, we are sharing this information, gradually laying the groundwork for the future contracted storage management business.



## Other Business

# Limited Land Rights: Land Rights Management Business

Revenue from the limited land rights business is growing strongly, up 71.9% from the previous fiscal year. The lands rights business is basically a land rights management business, involving purchasing land from owners receiving rent from leasing, and (in general) selling it to the leaseholder. Demand remains firm regardless of the state of the economy, helping to stabilize Arealink's portfolio. Further, as a listed company Arealink has the advantage of a high degree of trust in management, making it easier to acquire land from owners holding limited land rights. We estimate the return from rents as 3% annually, with a 20% gain on sale after 1-2

years. Total planned investment in the land rights business for FY12/18 is ¥1.8 billion, with a total of ¥6-8 billion allocated over a three-year period.

Arealink is able to draw on the strength of its sound financial position compared to competing companies to offer advantages in terms of price and quick resolution, and inquiries from land owners have increased significantly in recent years. There are few major players in this market, and by drawing on its strengths, Arealink aims to become the industry leader in the near future.

**Expected Annual Return from Rents**

**3%**

**Planned Investment in FY12/18**

**¥1.8 billion**

**Three-Year Investment Plan**

**¥6-8 billion**

### Land Rights Business Scheme



■ Negotiations conducted by specialist staff   ■ Purchase of land rights

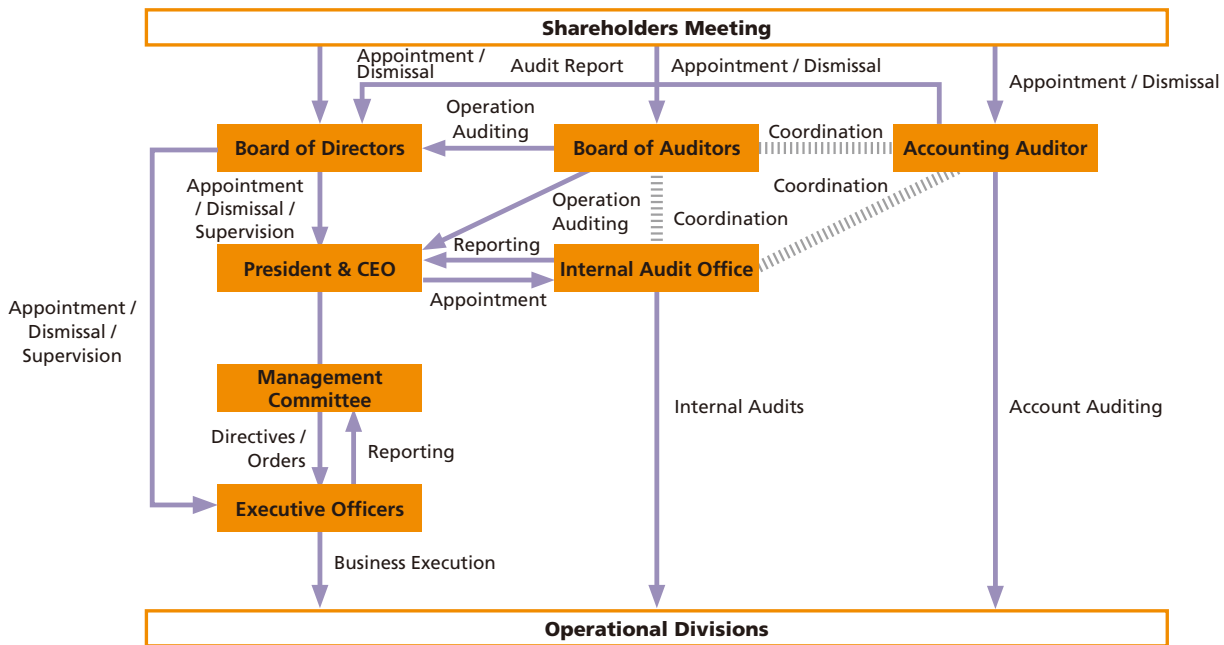
- Expert knowledge
- In-depth communication
- Network of partner attorneys and industry professionals

Arealink’s ESG measures are aimed at contributing to society, enhancing enterprise value, and achieving sustainable business growth. As part of this effort, we have put in place a corporate governance framework, and created our own structure for human asset development, as well as promote working style reforms, and contribute to local communities through our business.

## Corporate governance structure

Arealink has introduced an executive officer system alongside its corporate auditor system, while ensuring separation and control over business execution and auditing/supervisory functions, including appointing outside directors. The Board of Auditors and accounting auditor exchange information as required, providing for effective operational and account

auditing. Arealink has also established an Internal Audit Office as the body for conducting internal audits. The Board of Auditors and Internal Audit Office, in order to enhance the effectiveness and efficiency of audit functions, exchange opinions and information on a regular basis, and as necessary.



## Human asset development

Arealink believes that creating a company and human asset development are one in the same, and focuses on training a small but highly capable workforce operating under a merit system. “Arealink Master” is an internal certification required of all employees, and enhances work effectiveness. In addition, each year Arealink holds a “kickoff” event to explain and share the priorities for the Company with all employees, and to recognize outstanding efforts by individuals and teams. Further, Arealink holds overnight training sessions at its training and recreational facilities in Atami and Karuizawa, where employees and teams share issues and problems, and hold thorough discussions.



Trainings for a shared vision



Karuizawa Training Institute & Recreational Facility



## Shift to a “brainwork-type” working style

Arealink moved its head office to Akihabara in December 2016. The new cutting-edge office environment is intended to promote a shift to a pragmatic and creative “brainwork-type” working style, and generate maximum results with a small team of employees in the shortest time. One example is the lounge area for managers. This dedicated space fosters relaxation, and allows managers to focus on



Manager's lounge

using their mental capabilities. A café area is available to all employees, and its use is actively encouraged when a change in mood or thinking is needed. The reception entranceway has a large LCD screen, and resort-style furniture that allows for casual discussion. The aim is to simulate the experience of working unconstrained by time or place.



The café is available to all employees.



The reception entrance has a large (2.3m×4.1m) LCD screen.

## Contributing to society with trunk rooms

Arealink has been exploring how self-storage trunk rooms can contribute to disaster preparedness for communities ever since the 2011 earthquake disaster. Ota Ward in Tokyo decided that Arealink's service meets the government's storage needs to aid people who are unable to return home after disasters, and we concluded a disaster preparedness agreement, providing trunk rooms free of charge. The stored items include blankets, carpets, and other items necessary for temporary stays in disaster shelters. Going forward, Arealink plans to actively contribute to communities where its self-storage business coincides with local government disaster preparedness plans.



Signing ceremony with Ota Ward for the agreement to provide outdoor container-type storage units

# Six-Year Summary

Years ended December 31

	Millions of Yen					
	2017	2016	2015	2014	2013	2012
<b>Summary of Income</b>						
Net sales	<b>¥21,489</b>	¥16,908	¥17,173	¥18,120	¥12,256	¥10,124
Property management service	<b>19,619</b>	15,820	12,980	11,845	10,735	9,551
Property revitalization & liquidation service	<b>1,869</b>	1,087	4,192	6,274	1,521	573
Cost of sales	<b>15,805</b>	12,136	12,100	13,759	8,950	7,494
Gross profit	<b>5,683</b>	4,771	5,073	4,360	3,306	2,629
Selling, general and administrative expenses	<b>3,303</b>	2,835	2,415	2,125	1,800	1,464
Operating income	<b>2,379</b>	1,935	2,657	2,235	1,505	1,165
Ordinary income	<b>2,441</b>	1,968	2,442	2,087	1,433	1,075
Net income before income taxes	<b>2,322</b>	1,902	2,405	2,222	1,369	844
Net income	<b>1,547</b>	1,142	1,550	1,541	1,346	948
<b>Financial Position</b>						
Total assets	<b>29,904</b>	23,791	19,312	19,539	23,017	18,612
Current assets	<b>17,532</b>	12,168	9,121	10,115	10,828	5,752
Noncurrent assets	<b>12,372</b>	11,622	10,191	9,423	12,189	12,860
Interest-bearing debt	<b>9,152</b>	4,793	1,311	2,759	7,837	5,545
Net assets	<b>16,351</b>	15,283	14,626	13,514	12,282	10,935
<b>Cash Flows</b>						
Cash flows from operating activities	<b>(2,992)</b>	(708)	3,941	7,123	1,014	443
Cash flows from investing activities	<b>(1,423)</b>	(1,544)	(1,069)	146	(2,764)	(489)
Free cash flows	<b>(4,416)</b>	(2,253)	2,871	7,270	(1,750)	(45)
Cash flows from financing activities	<b>3,854</b>	2,999	(1,888)	(5,429)	2,256	311
Cash and cash equivalents at end of period	<b>6,594</b>	7,158	6,415	5,431	3,590	3,084
<b>Amount per Share of Common Stock*<sup>1</sup> (Yen)</b>						
Net income per share (EPS)	<b>126.08</b>	93.06	126.3	125.5	109.7	77.2
Book value per share (BPS)	<b>1,332.88</b>	1,245.09	1,191.4	1,100.9	1,000.5	890.8
Cash dividends per share	<b>40</b>	39	39	36	25	0
<b>Financial Indicators (%)</b>						
Operating income ratio	<b>11.1</b>	11.4	15.5	12.3	12.3	11.5
Return on equity	<b>9.8</b>	7.6	11.0	11.9	11.6	9.1
Return on assets	<b>5.8</b>	5.3	8.0	7.2	6.5	5.3
Shareholders' equity ratio	<b>54.7</b>	64.2	75.7	69.2	53.4	58.8
Interest-bearing debt ratio	<b>55</b>	31	9	20	64	50
<b>Investment Indicators (Times)</b>						
Price/Earning value ratio—PER* <sup>2</sup>	<b>18.8</b>	13.4	11.4	11.2	11.9	8.9
Price/Book value ratio—PBR* <sup>3</sup>	<b>1.78</b>	1.00	1.21	1.27	1.30	0.77
Price/Cash flow ratio—PCFR* <sup>4</sup>	<b>14.09</b>	8.94	8.65	7.02	9.00	5.86

\*1 Consolidation-adjusted per share data

\*2 Year-end share price/Net income per share

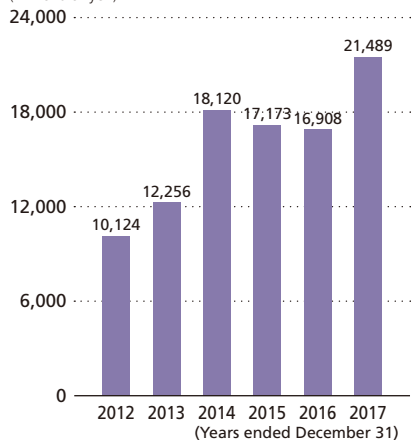
\*3 Year-end share price/Net assets per share

\*4 Year-end share price/Cash flow per share

# Management's Discussion and Analysis of Financial Condition and Operating Results

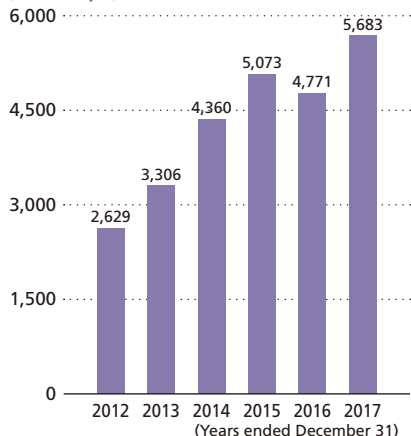
## Net Sales

(Millions of yen)



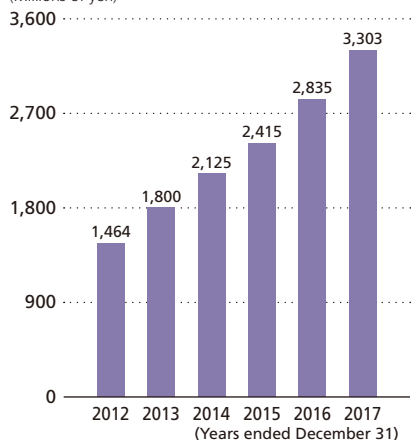
## Gross Profit

(Millions of yen)



## Selling, General and Administrative Expenses

(Millions of yen)



## Business Environment for Fiscal 2017

Arealink proactively expanded its Property Management Service business, centered on a "stock-type" (service oriented) business model, as well as its Property Revitalization & Liquidation Service business, centered on the sale of properties held for resale in response to market conditions.

As a result, net sales for fiscal 2017 amounted to ¥21,489 million (up 27.1% year on year), with operating income of ¥2,379 million (up 22.9%), ordinary income of ¥2,441 million (up 24.0%), and net income of ¥1,547 million (up 35.4%). Operating results by business segment were as follows.

### Property Management Service

In the mainstay self-storage business, Arealink proactively opened new locations and maintained steady operations in terms of management operations, contributing to greater earnings. Along with conventional container units, we also revealed new customer demand by developing a new type of storage unit with accompanying land and opening new locations, strengthened our brand power through collaboration with Sanrio's popular Hello Kitty character, and took other proactive steps for business expansion.

As a result, net sales in the Property Management Service segment amounted to ¥19,619 million (up 24.0% year on year), with operating income of ¥3,133 million (up 14.5%).

### Property Revitalization & Liquidation Service

Arealink expanded its business development in the land rights business, which is less susceptible to real estate market conditions, proactively buying and selling land rights.

As a result, net sales in the Property Revitalization & Liquidation Service segment amounted to ¥1,869 million (up 71.9%), with operating income of ¥464 million (up 88.5%).

## Financial Condition

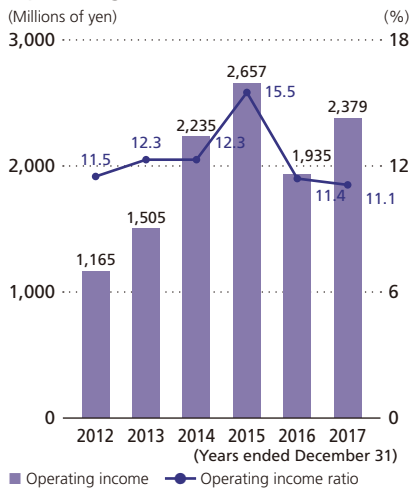
Total assets at the end of fiscal 2017 (December 31, 2017) increased 25.7% compared with the end of the previous fiscal year (December 31, 2016), to ¥29,904 million.

Current assets increased 44.1% from the end of the previous fiscal year to ¥17,532 million. This was due mainly to increases of ¥1,271 million in real estate for sale; and ¥4,675 million in real estate for sale in process; against a decrease of ¥564 million in cash and deposits.

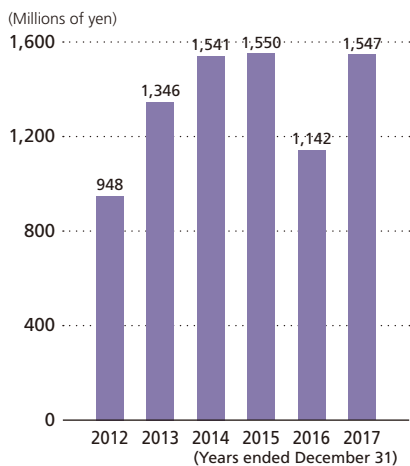
Noncurrent assets increased 6.4% year on year to ¥12,372 million. This was due mainly to an increase of ¥643 million in total property, plant and equipment stemming from acquisition of tangible fixed assets.



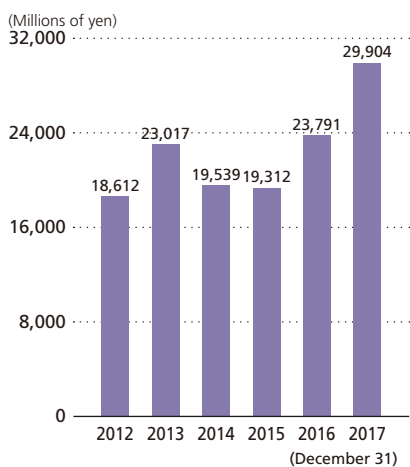
**Operating Income/  
Operating Income Ratio**



**Net Income**



**Total Assets**



Total liabilities increased 59.3% from the previous fiscal year to ¥13,553 million.

Current liabilities increased 14.8% year on year to ¥5,691 million. This was due mainly to increase of ¥224 million in accounts payable for construction contracts; and ¥183 million in current portion of long-term loans payable.

Noncurrent liabilities increased 121.5% year on year to ¥7,861 million. This was due mainly to increases of ¥3,895 million in long-term loans payable; and ¥264 million in bonds payable.

Net assets increased 7.0% from the previous fiscal year to ¥16,351 million. This was due mainly to an increase of ¥1,068 million in retained earnings brought forward.

**Cash Flows**

Cash and cash equivalents ("cash") at the end of fiscal 2017 (December 31, 2017) decreased ¥564 million from the end of the previous fiscal year (December 31, 2016), to ¥6,594 million. The condition of each cash flow during the subject fiscal year and the primary factors affecting them are as follows.

**Cash flow from operating activities**

Cash used in operating activities amounted to ¥2,992 million. This was due mainly to decreasing factors of a ¥5,787 million increase in inventories; and ¥579 million income taxes paid; against increasing factors of ¥2,322 million in net income before tax; and ¥585 million in depreciation.

**Cash flow from investing activities**

Cash used in investing activities amounted to ¥1,423 million. This was due mainly to decreasing factors of ¥1,446 million in expenditures for acquisition of property, plant and equipment.

**Cash flow from financing activities**

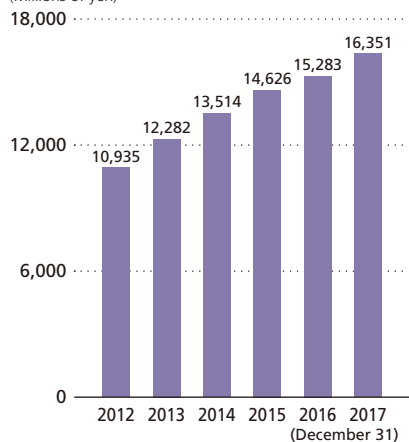
Cash provided by financing activities amounted to ¥3,854 million. This was due mainly to increasing factors of ¥5,156 million in proceeds from long-term loans payable; against decreasing factors of ¥38 million in decrease of short-term loans payable; ¥479 million in cash dividends paid; and ¥1,076 million in expenditures for repayment of long-term loans payable.

**Fund Procurement and Use**

Arealink actively invests in growth fields, primarily its mainstay self-storage business. Accordingly, while maintaining its cash position, the Company flexibly selects from a range of financing methods if conditions are favorable.

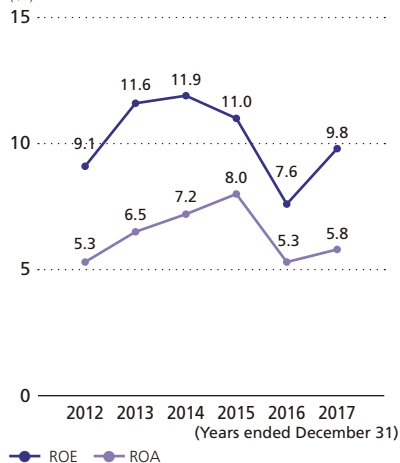
## Net Assets

(Millions of yen)



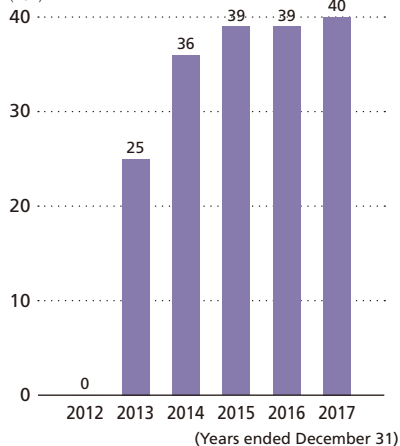
## Return on Equity/Return on Assets

(%)



## Cash Dividends per Share

(Yen)



Note: Consolidation-adjusted per share data

## Dividend Policy

Arealink regards the long-term, comprehensive expansion of profit to shareholders as an important management objective. Our basic policy is to maintain a stable target payment of payout ratio of 30% commensurate with the Company's financial condition and earnings, based on the long-term business plan, and assessing the market environment and opportune timing for capital expenditures, while also keeping in mind retention of earnings for reinvestment. The basic policy for the number of payouts is once per year at the end of the fiscal period, as determined by the General Meeting of Shareholders.

Of note, the Articles of Incorporation state that "By resolution of the Board of Directors, the Company may pay an interim dividend with a record date of June 30 annually." Accordingly, the decision-making body for the dividend of surplus is the General Meeting of Shareholders for year-end dividends, and the Board of Directors for interim dividends.

For fiscal 2017, based on a comprehensive consideration of current economic conditions, the Company's financial condition, and business results for the year, Arealink plans to pay an annual dividend of ¥40.0 per share.

For fiscal 2018, in accordance with the above basic policy and earnings forecasts at the present time, Arealink plans to pay an annual dividend of ¥46.0 per share. There are no plans for an interim dividend.

## Outlook for Fiscal 2018

For fiscal 2018 (ending December 31, 2018), despite the recovery trend in the general economy, the outlook for business conditions in the real estate industry remains uncertain as a result of concerns including the impact that U.S. policies and political instability in East Asia will have on the Japanese economy, and continued high real estate prices.

Under such conditions, in the Property Management Service business, Arealink has increased location openings for its mainstay self-storage business. Along with conventional trunk and container units, we have added new asset-type indoor self-storage units that allow for openings in urban areas where storage needs are greater, accelerating openings of storage locations in prime areas and increasing our share of the self-storage market. By increasing the number of managed units in the self-storage business, we plan to establish a stable foundation for earnings, and make progress with such issues as differentiating ourselves from the competition, while expanding our "stock-type" (property management service oriented) business model.

In the Property Revitalization & Liquidation Service, for real estate trading we are focusing on the buying and selling of land rights, which is comparatively less susceptible to real estate market conditions, and will pursue slow and steady sales activities to develop a business centered on sales to land lease right holders.

In terms of costs, we anticipate increases including for the introduction of the sales support system and other measures related to business expansion, but will lower expenditures through enhanced business efficiency with the introduction of IT systems, and continued far-reaching cost controls.

In consideration of these factors, for the fiscal year ending December 31, 2018, Arealink is forecasting net sales of ¥30,000 million, comprising an increase in the Property Management Service segment to ¥27,730 million, and an increase in the Property Revitalization & Liquidation Service segment to ¥2,270 million. In terms of earnings, we forecast operating income of ¥3,000 million, ordinary income of ¥2,870 million, and net income of ¥1,855 million.

# Non-Consolidated Balance Sheets

Arealink Co., Ltd.  
December 31, 2017 and 2016

	Millions of Yen	
	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and deposits	¥ 6,594	¥ 7,158
Accounts receivable—trade	108	95
Merchandise	219	335
Real estate for sale	4,832	3,561
Costs on uncompleted construction contracts	39	92
Prepaid expenses	279	243
Deferred tax assets	82	67
Other current assets	5,402	641
Allowance for doubtful accounts	(26)	(27)
Total current assets	17,532	12,168
Noncurrent assets:		
Property, plant and equipment:		
Buildings	6,012	5,660
Accumulated depreciation	(1,809)	(1,576)
Accumulated impairment loss	(196)	(179)
Buildings, net	4,006	3,904
Structures	1,680	1,243
Accumulated depreciation	(417)	(303)
Accumulated impairment loss	(154)	(99)
Structures, net	1,107	840
Machinery and equipment	77	82
Accumulated depreciation	(68)	(63)
Accumulated impairment loss	(6)	(6)
Machinery and equipment, net	1	11
Vehicles	13	13
Accumulated depreciation	(11)	(8)
Vehicles, net	2	5
Tools, furniture and fixtures	2,096	1,949
Accumulated depreciation	(820)	(672)
Accumulated impairment loss	(62)	(52)
Tools, furniture and fixtures, net	1,213	1,223
Land	4,224	3,954
Lease assets	176	161
Accumulated depreciation	(113)	(96)
Lease assets, net	63	65
Construction in progress	27	—
Total property, plant and equipment	10,648	10,004
Intangible assets:		
Other	134	107
Total intangible assets	134	107
Investments and other assets:		
Investment securities	170	159
Claims provable in bankruptcy, claims provable in rehabilitation and other	1,290	1,290
Guarantee deposits	1,330	1,285
Other	101	80
Allowance for doubtful accounts	(1,303)	(1,303)
Total investments and other assets	1,589	1,510
Total noncurrent assets	12,372	11,622
Total assets	¥29,904	¥23,791



	Millions of Yen	
	2017	2016
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable—trade	¥ 315	¥ 243
Accounts payable for construction contracts	696	471
Short-term loans payable	1,939	1,977
Current portion of long-term loans payable	672	488
Accounts payable-other	375	533
Income taxes payable	567	316
Advances received	639	629
Other	485	298
Total current liabilities	5,691	4,959
Noncurrent liabilities:		
Long-term loans payable	5,911	2,016
Guarantee deposited	596	565
Asset retirement obligations	687	585
Other	665	382
Total noncurrent liabilities	7,861	3,548
Total liabilities	13,553	8,508
<b>NET ASSETS</b>		
Shareholders' equity:		
Capital stock	5,568	5,568
Legal capital surplus	5,612	5,612
Total capital surplus	5,432	4,363
Treasury stock	(269)	(261)
Total shareholders' equity	16,343	15,283
Valuation and translation adjustments:		
Total valuation and translation adjustments	8	0
Total net assets	16,351	15,283
Total liabilities and net assets	¥29,904	¥23,791

# Non-Consolidated Statements of Income

Arealink Co., Ltd.  
Fiscal years ended December 31, 2017 and 2016

	Millions of Yen	
	2017	2016
<b>Net sales</b>	<b>¥21,489</b>	¥16,908
<b>Cost of sales</b>	<b>15,805</b>	12,136
<b>Gross profit</b>	<b>5,683</b>	4,771
<b>Selling, general and administrative expenses</b>	<b>3,303</b>	2,835
<b>Operating income</b>	<b>2,379</b>	1,935
<b>Non-operating income:</b>		
Interest income	8	10
Default charge income	1	1
Penalty income	106	62
Other	32	18
Total non-operating income	149	93
<b>Non-operating expenses:</b>		
Interest expenses	62	39
Commission fee	11	4
Other	12	15
Total non-operating expenses	87	60
<b>Ordinary income</b>	<b>2,441</b>	1,968
<b>Extraordinary income:</b>		
Gain on sales of noncurrent assets	31	17
Gain on transfer of business	11	11
Penalty income	—	61
Total extraordinary income	43	90
<b>Extraordinary loss:</b>		
Loss on retirement of noncurrent assets	22	12
Impairment loss	101	115
Other	38	28
Total extraordinary losses	162	156
<b>Net income before income taxes</b>	<b>2,322</b>	1,902
<b>Income taxes—current</b>	<b>787</b>	667
<b>Income taxes—deferred</b>	<b>(12)</b>	92
<b>Total income taxes</b>	<b>775</b>	760
<b>Net income</b>	<b>¥ 1,547</b>	¥ 1,142

# Non-Consolidated Statements of Cash Flows

Arealink Co., Ltd.  
Fiscal years ended December 31, 2017 and 2016

	Millions of Yen	
	2017	2016
<b>Cash flows from operating activities:</b>		
Income before income taxes	¥2,322	¥1,902
Depreciation	585	518
Impairment loss	101	115
Decrease (increase) in notes and accounts receivable—trade	111	(117)
Decrease (increase) in inventories	(5,787)	(2,263)
Decrease (increase) in consumption taxes refund receivable	—	70
Increase (decrease) in notes and accounts payable—trade	296	196
Increase (decrease) in accrued consumption taxes	57	1
Increase (decrease) in guarantee deposits received	31	41
Other, net	11	(58)
Subtotal	(2,357)	407
Interest and dividends income received	8	10
Interest expenses paid	(64)	(45)
Income taxes paid	(579)	(1,081)
Net cash provided by (used in) operating activities	(2,992)	(708)
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(1,446)	(1,537)
Proceeds from sales of property, plant and equipment	69	—
Purchase of intangible assets	(51)	(49)
Collection of loans receivable	17	17
Proceeds from redemption of investment securities	—	30
Other, net	(13)	(5)
Net cash provided by (used in) investing activities	(1,423)	(1,544)
<b>Cash flows from financing activities:</b>		
Net increase (decrease) of short-term loans payable	(38)	1,644
Proceeds from long-term loans payable	5,156	2,000
Repayment of long-term loans payable	(1,076)	(360)
Proceeds from issuance of bonds	400	250
Redemption of bonds	(78)	(25)
Purchase of treasury shares	(8)	(4)
Cash dividends paid	(479)	(477)
Repayments of lease obligations	(20)	(26)
Net cash provided by (used in) financing activities	3,854	2,999
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(2)</b>	<b>(3)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(564)</b>	<b>743</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>7,158</b>	<b>6,415</b>
<b>Cash and cash equivalents at end of period</b>	<b>¥6,594</b>	<b>¥7,158</b>



# Non-Consolidated Statements of Changes in Shareholders' Equity

Arealink Co., Ltd.

Fiscal years ended December 31, 2017 and 2016

	Millions of Yen											
	Shareholders' Equity						Valuation and Conversions					
	Capital Surplus			Retained Earnings			Treasury Stock	Total Shareholders' Equity	Net Unrealized Gains on Marketable Securities	Deferred Gains or Losses on Hedges	Total Valuation and Conversions	Total Net Assets
	Common Stock	Legal Reserve	Total Capital Surplus	Other Reserve		Total Retained Earnings						
Retained Earnings Brought Forward				Total Retained Earnings								
Balance as of January 1, 2016	¥5,568	¥5,612	¥5,612	¥3,700	¥3,700	¥(256)	¥14,624	¥1	¥—	¥1	¥14,626	
Increase (decrease) during the period ended December 31, 2016												
Dividends from surplus				(478)	(478)		(478)				(478)	
Net income				1,142	1,142		1,142				1,142	
Purchase of treasury shares						(4)	(4)				(4)	
Net changes in items excluding shareholders' equity during the period								0	(1)	(1)	(1)	
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>663</b>	<b>663</b>	<b>(4)</b>	<b>658</b>	<b>0</b>	<b>(1)</b>	<b>(1)</b>	<b>657</b>	
Balance as of December 31, 2016	¥5,568	¥5,612	¥5,612	¥4,363	¥4,363	¥(261)	¥15,283	¥2	¥(1)	¥0	¥15,283	

	Millions of Yen											
	Shareholders' Equity						Valuation and Conversions					
	Capital Surplus			Retained Earnings			Treasury Stock	Total Shareholders' Equity	Net Unrealized Gains on Marketable Securities	Deferred Gains or Losses on Hedges	Total Valuation and Conversions	Total Net Assets
	Common Stock	Legal Reserve	Total Capital Surplus	Other Reserve		Total Retained Earnings						
Retained Earnings Brought Forward				Total Retained Earnings								
Balance as of January 1, 2017	<b>¥5,568</b>	<b>¥5,612</b>	<b>¥5,612</b>	<b>¥4,363</b>	<b>¥4,363</b>	<b>¥(261)</b>	<b>¥15,283</b>	<b>¥2</b>	<b>¥(1)</b>	<b>¥0</b>	<b>¥15,283</b>	
Increase (decrease) during the period ended December 31, 2017												
Dividends from surplus				(478)	(478)		(478)				(478)	
Net income				1,547	1,547		1,547				1,547	
Purchase of treasury shares						(8)	(8)				(8)	
Net changes in items excluding shareholders' equity during the period								6	1	7	7	
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,068</b>	<b>1,068</b>	<b>(8)</b>	<b>1,060</b>	<b>6</b>	<b>1</b>	<b>7</b>	<b>1,067</b>	
Balance as of December 31, 2017	<b>¥5,568</b>	<b>¥5,612</b>	<b>¥5,612</b>	<b>¥5,432</b>	<b>¥5,432</b>	<b>¥(269)</b>	<b>¥16,343</b>	<b>¥8</b>	<b>¥(0)</b>	<b>¥8</b>	<b>¥16,351</b>	

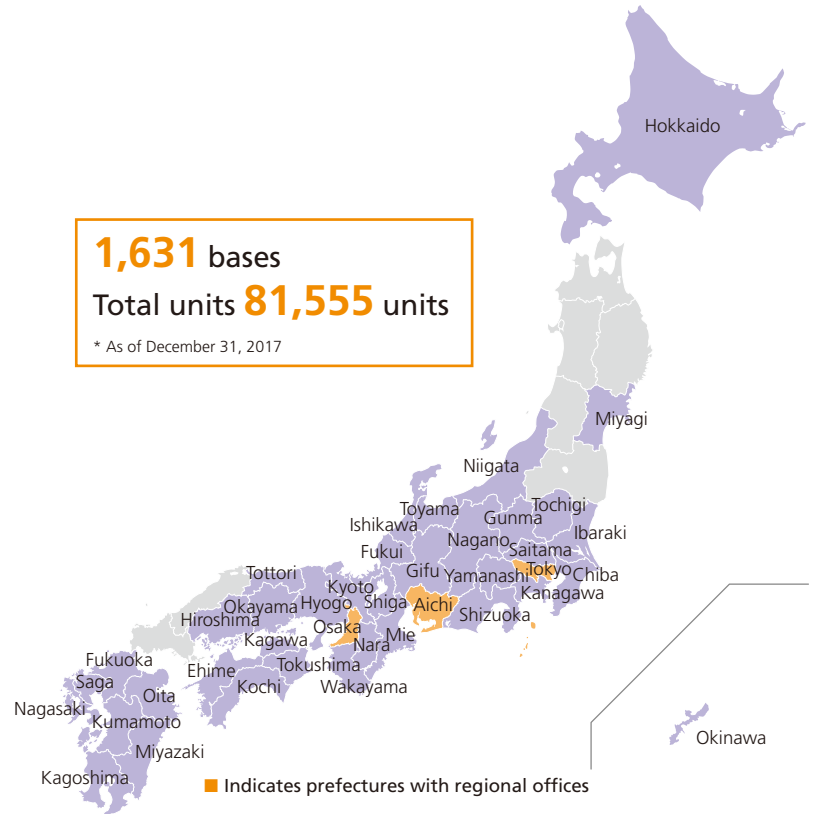
## Storage Units by Region

As of December 31, 2017, Arealink had 81,555 units and 1,631 bases. These were located in 40 out of a total of 47 prefectures in Japan.

### Units by Region

Prefecture	Units*	Prefecture	Units*
Hokkaido	1,420	Osaka	4,658
Miyagi	1,695	Hyogo	3,533
Ibaraki	783	Nara	567
Tochigi	155	Wakayama	27
Gunma	334	Tottori	32
Saitama	9,021	Okayama	218
Chiba	10,331	Hiroshima	316
Tokyo	26,378	Tokushima	27
Kanagawa	10,274	Kagawa	181
Niigata	69	Ehime	84
Toyama	143	Kochi	34
Ishikawa	204	Fukuoka	1,691
Fukui	90	Saga	79
Yamanashi	89	Nagasaki	118
Nagano	175	Kumamoto	177
Gifu	582	Oita	106
Shizuoka	1,205	Miyazaki	109
Aichi	4,502	Kagoshima	380
Mie	340	Okinawa	104
Shiga	154	<b>Total</b>	<b>81,555</b>
Kyoto	1,170		

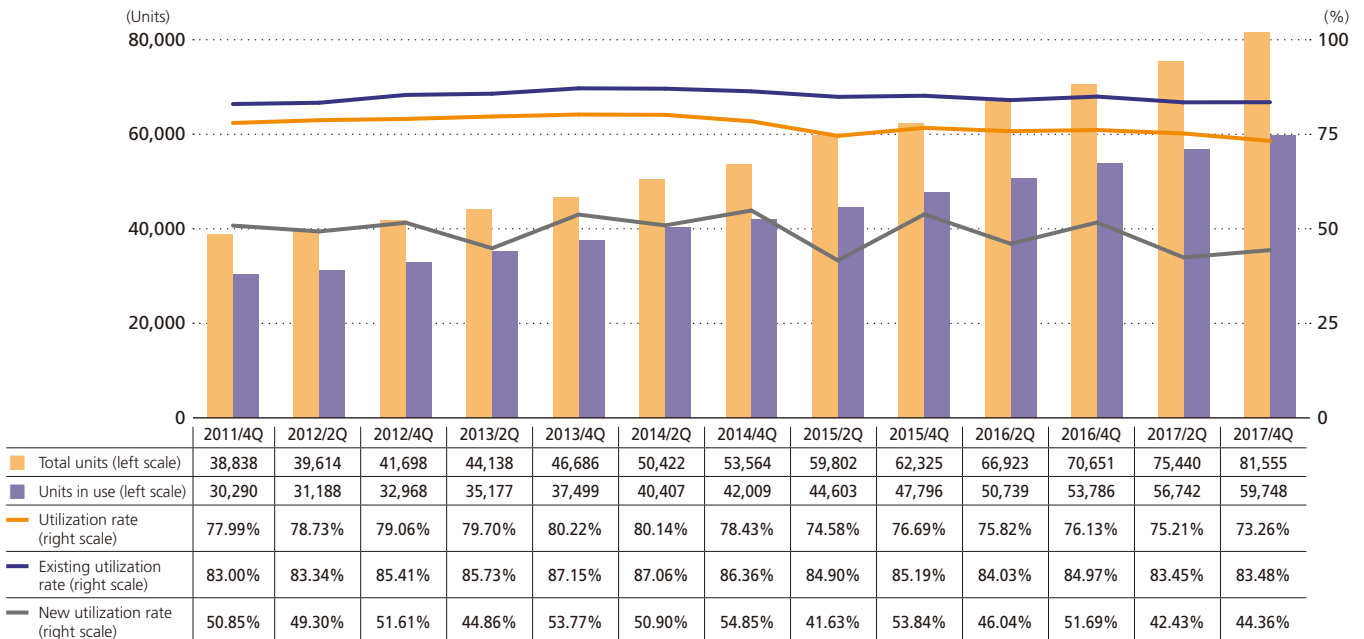
\* As of December 31, 2017



## Total Units in Use and Utilization Rates in the Self-Storage Business

For the year ended December 31, 2017, the number of storage units increased by 10,904 compared to the previous year.

The number of new location openings accelerated, but utilization rates remained at a high level.



# Stock Information

(As of December 31, 2017)

Securities Code	8914
Stock Listing	Tokyo Stock Exchange Mothers
Share Handling Agent	Mitsubishi UFJ Trust and Banking Corporation
Authorized Shares	35,760,000 Shares
Number of Shares Issued and Outstanding	12,576,300 Shares
Trading Unit of Shares	100 Shares
Number of Shareholders	5,999

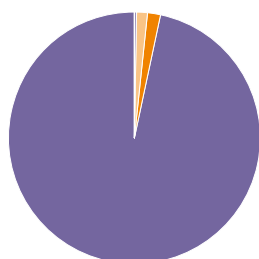
## Status of Shareholders

Principal shareholders	Number of shares held	% of total
Naomichi Hayashi	2,813,660	22.93
GOLDMAN SACHS & CO. REG.	1,020,064	8.31
The Master Trust Bank of Japan, Ltd.	653,100	5.32
Trust & Custody Services Bank, Ltd.	414,200	3.37
Sansei Engineering Inc.	287,300	2.34
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	272,600	2.22
NIHAMA IRON WORKS CO., LTD.	270,000	2.20
Amix Co., Ltd.	250,000	2.03
Mizuho Securities Co., Ltd.	192,000	1.56
Arealink's supplier stock ownership	190,500	1.55

Notes: 1. The list excludes Arealink, who owns 308,555 shares of its treasury stock.  
2. The ownership percentages were calculated after exclusion of the 308,555 treasury shares.

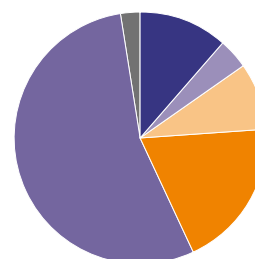
## Breakdown of Shareholders by Type

Financial institutions: 9	0.15%
Financial instruments and financial dealers: 24	0.40%
Other companies: 73	1.22%
Foreign investors: 76	1.27%
Individuals and others: 5,816	96.95%
Treasury: 1	0.02%

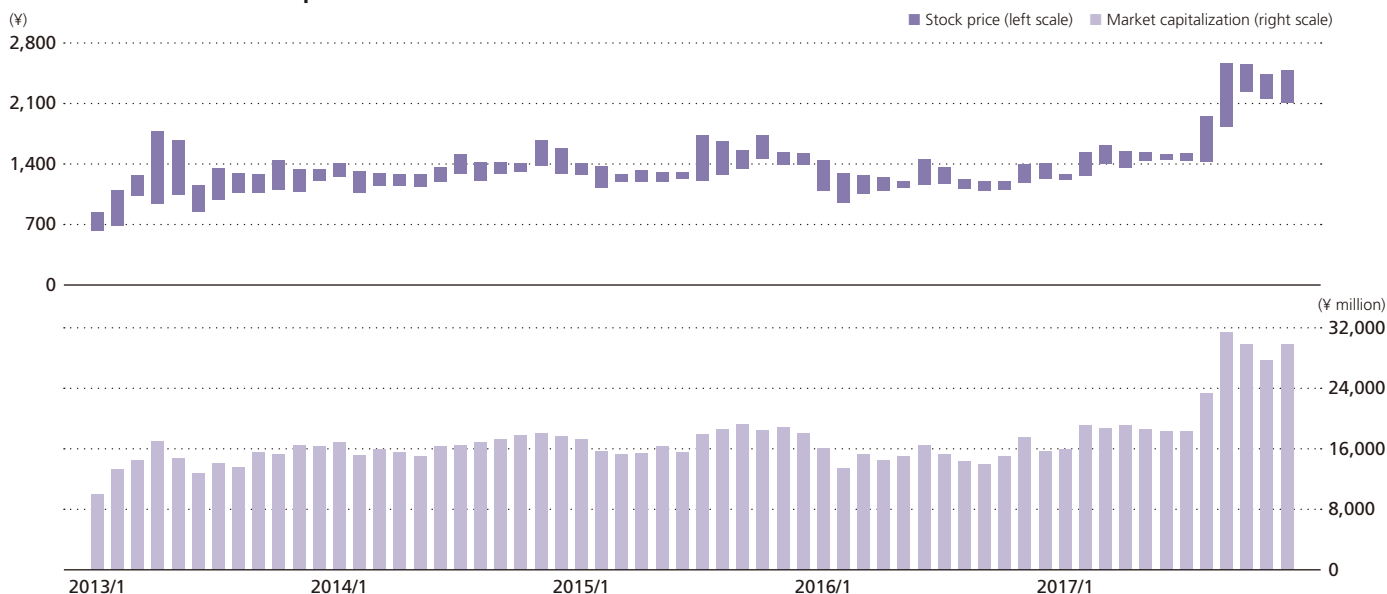


## Breakdown of Shares by Type of Shareholder (Thousand shares)

Financial institutions: 1,454	11.57%
Financial instruments and financial dealers: 486	3.87%
Other companies: 1,083	8.61%
Foreign investors: 2,391	19.01%
Individuals and others: 6,851	54.47%
Treasury: 308	2.45%



## Stock Price and Market Capitalization



Note: On July 1, 2013, the Company conducted a stock split at a ratio of 100 shares for each of the Company's common stock on July 1, 2013 and a 1:10 consolidation of its common stock, with an effective date of July 1, 2016, respectively. Figures in the graph have been adjusted retroactively in accordance with the split and consolidation.

	2013/12	2014/12	2015/12	2016/12	2017/12
High (¥)	1,770	1,680	1,730	1,450	2,571
Low (¥)	620	1,070	1,120	950	1,220
Close (¥)	1,300	1,400	1,440	1,247	2,376
Market capitalization (Millions of yen)	16,349	17,606	18,109	15,682	29,881

Note: On July 1, 2013, the Company conducted a stock split at a ratio of 100 shares for each of the Company's common stock on July 1, 2013 and a 1:10 consolidation of its common stock, with an effective date of July 1, 2016, respectively. Accordingly, stock prices before 2015 have been adjusted retroactively in accordance with the split and consolidation.

## Company Profile

Company name	Arealink Co., Ltd.
Head office	4-14-1, Sotokanda, Chiyoda-ku, Tokyo 101-0021
Established	April 1995
Paid-in capital	5,568,222 thousand yen
Number of employees	99 (excluding Directors, temporary employees and contract employees) (As of Dec. 31, 2017)
Securities code	8914 (TSE Mothers)
Balance date	December
Main financing banks	Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., Resona Bank, Ltd.

## Board of Directors (As of Mar. 28, 2018)

President & CEO	Naomichi Hayashi
Director	Kazuki Kurino
Director	Yoshika Suzuki
Director	Minoru Nishizawa
Outside Director	Kazuhiro Furuyama
Outside Director	Masanori Koda
Full-time company auditor (Outside company auditor)	Hideto Kojima
Outside company auditor	Koji Tamura
Outside company auditor	Iwao Aoki

### Guide to Company Website

The Company offers the latest information on all its corporate activities on its IR website. If you register your e-mail address on the site, the Company will send you its latest information when it becomes available. Please have a look at our site:

URL. <http://www.arealink.co.jp/eng/>



## Company History

1995	April	WELL's Giken K.K. (currently Arealink) established in Funabashi City, Chiba Start of contracted business for WELL's 21 cross-industrial exchange stations
1996	April	Start of property leasing business (currently Mister Kashichi)
	June	Start of coin-operated parking lot business, Hello Parking
1998	July	Head office relocated to Mihama Ward in Chiba City
1999	March	Start of Hello Container business, installing and renting storage containers on vacant land
2000	September	Company name changed to Arealink Co., Ltd.
	December	Start of weekly/monthly apartment rental business, Hello Monthly
2001	January	Head office relocated to Ginza, Chuo-ku, Tokyo
	February	Start of Hello Trunk business, using vacant buildings for storage rental
	August	Head office relocated to Kasumigaseki, Chiyoda-ku, Tokyo
2002	September	Start of property management service using real estate owned by Arealink
2003	June	Opening of Hello Bike Box indoor parking for motorcycles
	August	Listed on TSE Mothers
2004	January	Start of Hello Office SOHO service using vacant buildings
2005	April	Acquired Space Products K.K., which operates Rakuchin Box
	November	Hello Storage business rooms exceed 10,000
2007	March	Osaka Office opened
	April	Head office relocated to Akasaka, Minato-ku, Tokyo
2008	January	Hello Storage business rooms exceed 30,000 Nagoya Sales Office (now, Nagoya Office) opened
2009	April	Head office relocated to Kandaogawamachi, Chiyoda-ku, Tokyo
2014	June	Hello Storage business rooms exceed 50,000
2015	July	Hello Storage business rooms exceed 60,000
	August	Suburban outdoor rental space opened (2x4 Trunk)
2016	December	Head office relocated to Sotokanda, Chiyoda-ku, Tokyo Hello Storage business rooms exceed 70,000
2017	November	Hello Storage business rooms exceed 80,000



# **Arealink Co., Ltd.**

4-14-1, Sotokanda, Chiyoda-ku, Tokyo 101-0021  
TEL: 03-3526-8555

**URL.** <http://www.arealink.co.jp/eng>