

# ANNUAL REPORT 2018

Year ended December 31, 2018



## Driving Force Management Power



Exciting Company

 **Arealink**

**Arealink Co., Ltd.**

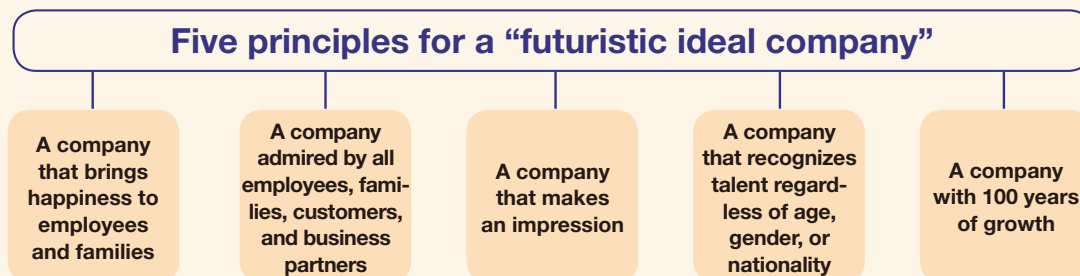
# Profile

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.

Leader in Japan's self-storage business

Healthy financial condition

Extremely stable growth

## 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%
	<b>Total</b>	<b>9,479</b>	<b>437,814</b>	<b>100%</b>

Source: Yano Research Institute, "Thorough Survey of the Growing Self-Storage Business" 2016 Edition (Japan)



# Arealink's Businesses

## 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 69,000 units (as of December 31, 2018) 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 22,500 units (as of December 31, 2018).



### Self-Storage with Accompanying Land

This is a new product, specially planned and built as fully air-conditioned, indoor trunk rooms located in urban residential areas. The properties were designed to appeal to women, with attention to security and peace of mind.

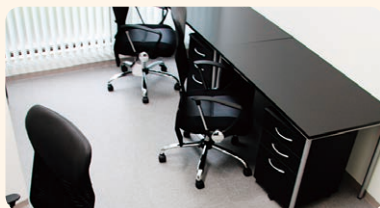


### Collaboration with Hello Kitty

Arealink installed signs at 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 FY12/18 Results

<p><b>Net Sales</b></p> <p><b>28,828</b> million yen (+34.2% year on year)</p>	<p><b>Operating Income</b></p> <p><b>2,782</b> million yen (+16.9% year on year)</p>	<p><b>Ordinary Income</b></p> <p><b>2,536</b> million yen (+3.9% year on year)</p>	<p><b>Net Income</b></p> <p><b>1,810</b> million yen (+17.0% year on year)</p>
<p><b>ROE</b></p> <p><b>10.3</b>% (+0.5pt year on year)</p>	<p><b>Shareholders' Equity Ratio</b></p> <p><b>49.5</b>% (-5.2pt year on year)</p>	<p><b>Market Share in Japan</b></p> <p><b>16.1</b>% (2018) No. 1 share of the Japanese self-storage market</p>	<p><b>Arealink's Self-Storage Net Sales*</b></p> <p><b>11,260</b> million yen * Sales for self-storage management</p>
<p><b>Number of bases</b></p> <p><b>1,797</b> bases</p>	<p><b>Storage Total Units</b></p> <p><b>91,545</b> units (+9,990 units year on year)</p>	<p><b>Storage Utilization Rate</b></p> <p><b>75.56</b>% (+2.3pt year on year)</p>	<p><b>Number of New Contracts</b></p> <p><b>30,682</b> (+6,225 year on year)</p>

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

Total number of self-storage units exceeded 90,000 units, increasing to 91,545 units (up 9,990 units compared to end-FY12/17).

### Continued openings of self-storage properties with accompanying land

Total number of self-storage properties with accompanying land increased to 73 properties (up 52 properties compared to end-FY12/17), with 38 properties sold (total 2018).

### Renewed focus on "customer first" policies

Recognition of self-storage as non-residential real estate has increased among users and property owners.

### Positive growth in the limited land rights business

The limited land rights business has grown, and is contributing to earnings. This business is less susceptible to the effects of the real estate and financial markets, and there are few major players in the industry, so we anticipate further business expansion.

# Self-storage Business: Business Characteristics

## Advantages of early market entry and business scale create favorable market environment

### Self-storage Business Characteristics

- Reaching the break-even point for profitability takes longer than for residential properties.



High barriers to entry for companies newly entering the market

### Arealink's Strengths

- Stable earnings due to greatest number of units in Japan
- Able to open locations in urban residential areas faster than competitors



Aim to gain a 50% share of the Japanese market

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

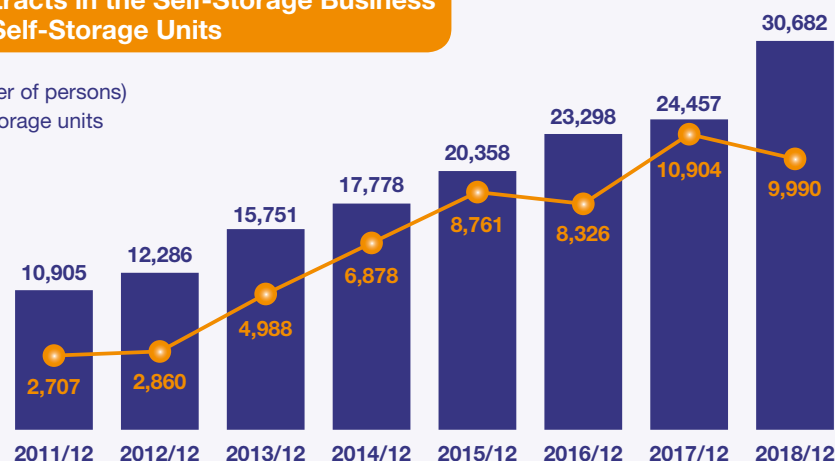
- Net sales of self-storage business\* (Millions of yen)
- Total number of self-storage units (units)

\* Total sales for self-storage management and self-storage brokerage



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

- New contracts (number of persons)
- Net increase in self-storage units





## President's Message

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**Naomichi Hayashi**  
President & CEO

“Establishing a Business Structure Profitable in Any Economy”

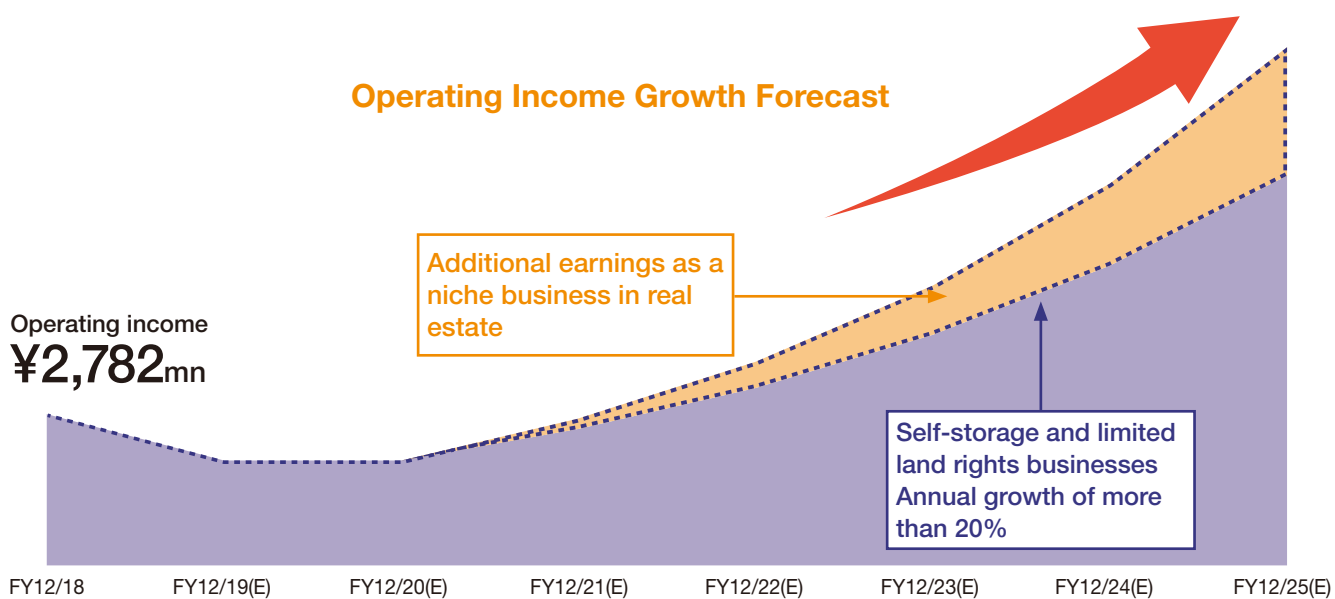
■ Fiscal 2018 business results

Japan’s real estate industry expanded steadily against a backdrop of low-interest monetary policy, though financial institutions are now taking stricter stances toward lending in response to the revelation of fraudulent loans from certain regional banks. The consumption tax is also due to increase in October 2019, so market conditions will need to be watched closely going forward.

Under such conditions, Arealink proactively developed the Property Management Service business, centered on the “stock-type” (service oriented)

Growth Forecast

We expect that while earnings will be flat n FY12/19 and FY12/20, we will achieve annual growth of more than 20% from FY12/21.



self-storage business, as well as the Property Revitalization & Liquidation Service business centered on the land rights management (limited property rights) business.

As a result, net sales for the fiscal year ended December 2018 amounted to ¥28,828 million (up 34.2% year on year), with operating income of ¥2,782 million (up 16.9%), ordinary income of ¥2,536 million (up 3.9%), and net income of ¥1,810 million (up 17.0%). ROE was 10.3%.

### Continually changing with the times

I believe that we need to conduct business by being highly responsive not only to conditions in the real estate market, but the minute changes in the times.

With Japan's population declining, we must be constantly looking ahead, whether to outside Japan, or toward cities in Japan where the population is growing, or even at what the increasing number of elderly will require.

In such an environment, I often say to our employees that looking back at history, the reason the dinosaurs went extinct and mammals survived was a difference in their ability to adapt to changing times. I think that this is true in any era, and is an absolute requirement for survival. We have continually considered the type of management that will allow us to respond accordingly to changing circumstances with

## Medium- and Long-Term Vision

### Medium-Term Vision

Develop a more advanced business model, aiming for a 50% share of the Japanese self-storage market

### Long-Term Vision

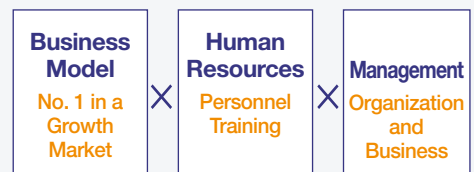
#### Arealink's Image for the Company

#### What is a "future-oriented ideal company?"



- 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**

#### Formula for Growth





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the smallest number of people. For example, we looked at the latest technologies, expertise, and exceptional companies in a bid to eliminate waste as much as possible. Arealink has also enhanced business efficiency with robotic process automation (RPA) and utilized cloud services to create a working style not tied to particular locations. Further, to run the company with the fewest number of people possible, we have recruited part-time employees working from home, as well as older contract workers, putting in place a structure to maintain operations.

While establishing this management foundation and organizational structure, I also think it's necessary to constantly ask ourselves how we can be the sort of company considered necessary by society.

One such strategy is by specializing in the non-residential self-storage business. Self-storage is a booming business worldwide, and improves people's lives. Conditions in the residential housing business will inevitably become more severe with the decline in population and households, and the increasing number of unoccupied homes. Arealink's mainstay product, however, is non-residential self-storage, rather than residential properties such as apartments and condominiums. Going forward, we will establish a business model of custom orders and sales, creating a company that holds a minimal amount of real estate assets.

## ■ Realizing our Longer-term Visions

In an era where things change day by day, Arealink aims to be a general trading company in a niche real estate market, with a business that skillfully utilizes IT technologies, ideas, and networks. At the same time, I want Arealink to be a company that plays an essential role in society, and one where employees are proud to work.

Arealink is continuing with efforts to achieve our medium-term vision of "advancing our business model to gain a 50% share of the Japanese market." We have also established a long-term vision of being a "future-oriented ideal company." Specifically, we aim to reach ¥100 million in ordinary income per employee, and to realize global business development with management that combines the rational approach of Western countries with the attention to detail found in Japan.

Arealink will continue to strive to provide satisfaction for shareholders and customers.

## Naomichi Hayashi

President & CEO

# Basic Business Policies for FY12/19

## ■ Shift in exit strategy – Strengthening of accumulation-type businesses

The succession of scandals and bankruptcies among residential real estate companies since the latter half of 2018 has resulted in administrative disposition by Japan's Financial Services Agency, and the tightening of real estate financing for individuals. Further, certain analysts are sensing counter-currents that will adversely affect the real estate industry, such as the economy entering a recession phase, and take a stern outlook toward businesses with expanding inventory, such as Japan's residential real estate market.

Under such conditions, Arealink believes it best to invest capital and personnel in non-residential businesses, and has changed its exit strategy for self-storage properties with accompanying land. Specifically, we are shifting from sales to

focus on holdings and commissioned contracts and sales, as well as the strengthening of self-storage management.

Further, recognition of self-storage as non-residential real estate is currently increasing among property owners. We are increasing our cash holdings to ensure we are able to take advantage of opportunities, and securing cash flow to allow an immediate response when properties with favorable conditions become available.

Arealink will focus on creating niche businesses in real estate industry such as sectional ownership of office buildings, and will strengthen its self-storage and limited land rights businesses. We anticipate that operating income will grow by 20% on average from December 2021.

- **Change in the exit strategy for self-storage properties w/land >>> from sales to holding, custom orders, and custom selling.**
- **Focus on self-storage management >>> strengthen cumulative business centering the self-storage business**

- **Growing sense of uncertainty around the outlook for buying/selling or construction orders, curtailment**
  - ➔ Without using “push-style” sales, we will conduct sales at the customer's request (custom orders and selling), and strengthen product appeal for self-storage.
- **Strengthen businesses with expectations for stable growth, such as sectional ownership of office buildings.**
  - ➔ Become niche trading company for real estate
- **Employee mindset**
  - ➔ Customer first (Enhance customer satisfaction)
- **Maintain policy for stable growth and dividends**

### Advancements in the Real Estate Business Platform

Create new businesses such as custom self-storage (Business Self-storage, Hobby Self-storage (provisional names) etc.), or sectional ownership of office buildings.

Achieve stable growth in cumulative business, and niche real estate business.



Illustration of Business self-storage (Provisional name)



Illustration of Hobby self-storage (Provisional name)

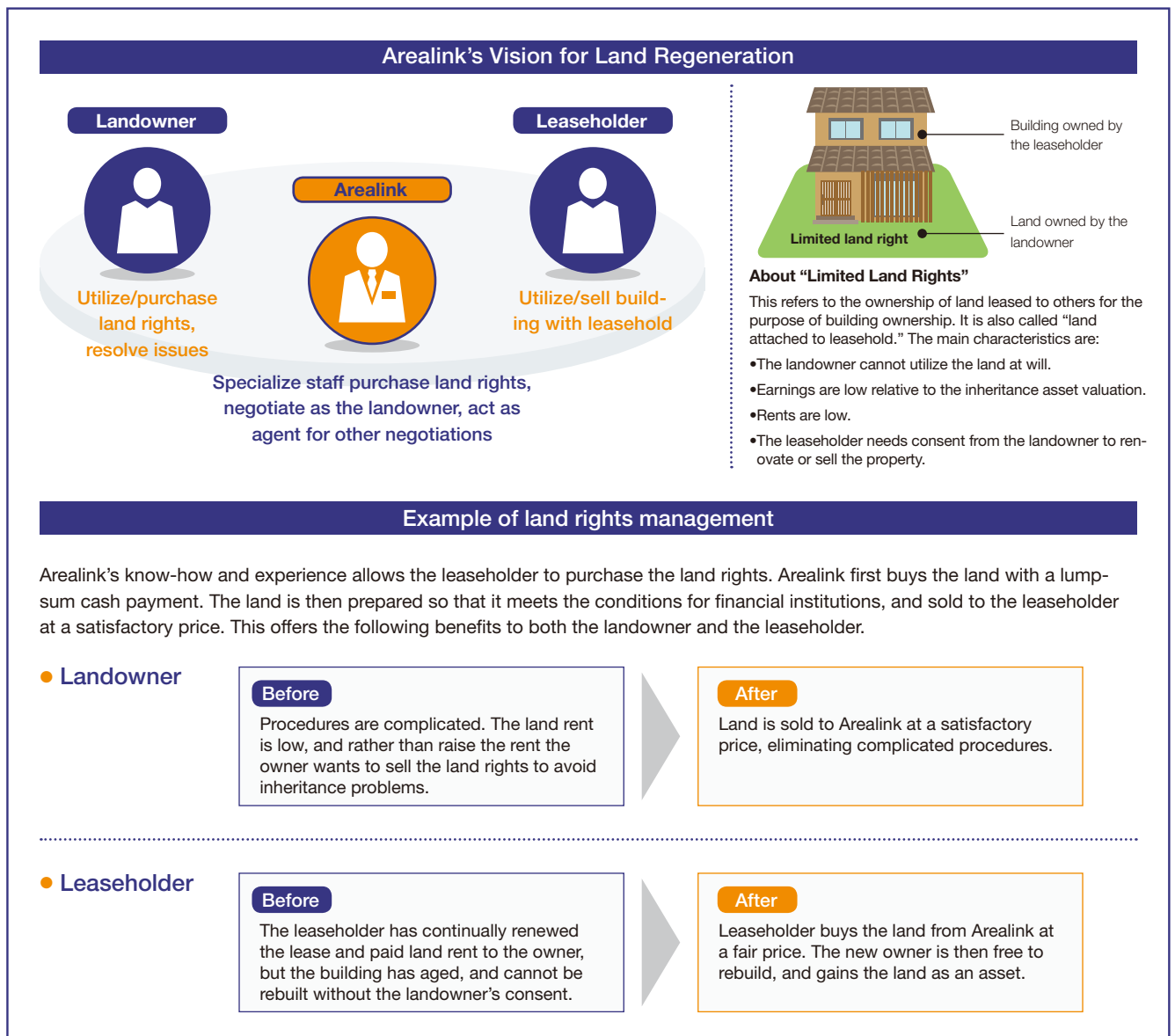
**2021 and beyond**

**Aim to increase operating income by more than 20% in the self-storage and limited land rights businesses.**

## Continued growth in the land rights management (limited land rights) business

The land rights management (limited land rights) business remains steady regardless of economic conditions, and enhances the stability of Arealink's business portfolio. Further, the high degree of trust in Arealink's management provides an advantage by making it easier to acquire land from landowners who hold limited land rights.

Arealink is able to utilize its sound financial position compared to its competitors to offer proposals with advantages in terms of price and speedy service. As such, inquiries from landowners have risen sharply in recent years, and we have grown to hold one of the highest shares in the domestic market. We will continue to draw on these strengths to attain the top market share in the near future.



■ “Customer first” in practice – Advancements in marketing

Development of the “Trunk House 24” next-generation trunk room

The new self-storage brand “Trunk House 24” is the ultimate in new properties designed specifically as trunk rooms. Drawing on our extensive experience with Hello Storage, Japan’s leading trunk room, Arealink developed this brand with an emphasis on self-storage with safety, security, and convenience, responding to issues faced many customers, such as difficulties in moving heavy items and concerns about theft and the storage environment. The result was a next-generation trunk room featuring interior new properties, 24-hour access, full-time security, dedicated parking facilities, air conditioning systems, and elevators.



Hello Storage Trunk House 24 in Kinuta, Setagaya

Hello Storage Website Renewal

Arealink renewed the Hello Storage website in September 2018 to further enhance customer convenience. The new site includes an introduction to the “seven service benefits” of Hello Storage, and enhanced customer support. Arealink offers customers industry-leading prompt and convenient service.



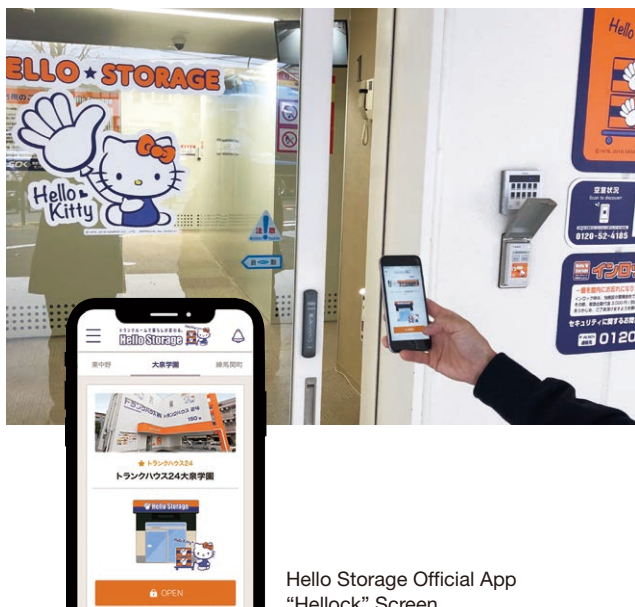
Hello Storage homepage

“Seven service benefits” page



## Industry-first smart key entry system

In December 2018, Arealink introduced “Hellock,” the industry’s first smart key entry system, at three Trunk House 24 locations (Nerima Oizumigakuencho, Nerima Sekimachi, and Higashi-Nakano). “Hellock” is a new, industry-first service that combines added security for stored items with greater user convenience. Users and prospective customers can download a special app that allows their smartphone to function as a key to unlock the facility entrance. We plan to successively introduce this service at Trunk House 24, Hello Storage Premium, and other indoor-type trunk room locations.



Hello Storage Official App  
“Hellock” Screen

## Exhibitions at various events

Arealink presented an exhibit at Odaiba Classic Car Heaven 2018 (November 18, 2018) to show an actual trunk room and motorcycle storage container. The realistic motorcycle storage display included a ramp for convenient access, and storage space for helmets and leather jackets. Arealink will continue measures to demonstrate the advantages of a trunk room to the car-loving visitors at the classic car show, and create new opportunities for use of Hello Storage.



Event presentation



Booth display

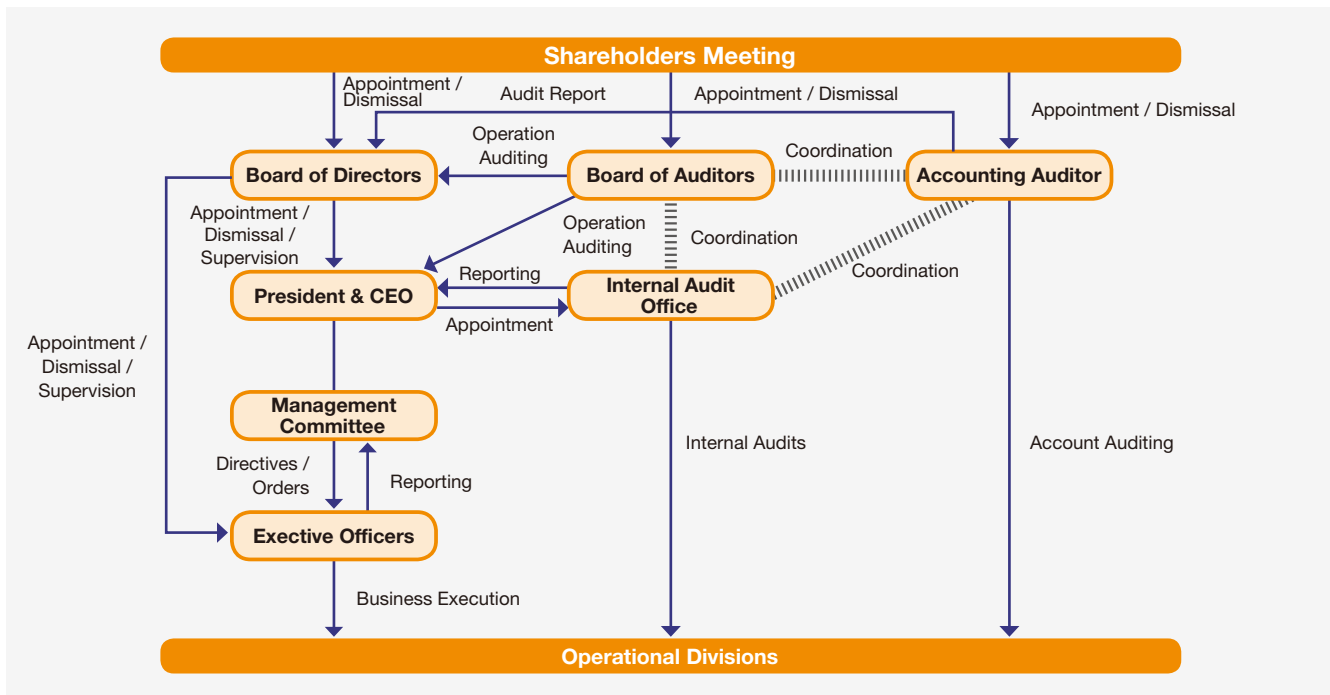
# ESG Measures

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. We are also promoting work style reforms, and contributing 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’s 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 using their



Manager’s lounge



The café is available to all employees.

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

## ■ 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

## ■ Support following the 2018 Hokkaido Eastern Iburi earthquake

Arealink has been exploring the potential for using the self-storage business for regional contribution ever since the Great East Japan Earthquake. Following the Hokkaido Eastern Iburi earthquake in September 2018, Arealink provided communities that had suffered extensive damage in the disaster with free use of the self-storage facilities it owns in the outskirts of Sapporo, Hokkaido.

### ■ Facilities Provided

- Hello Storage Sapporo Kitano
- Hello Storage Sapporo Atsubetsu
- Hello Storage Sapporo Tonden-kyujo
- Hello Storage Ebetsu-shi Oasa-sakuragicho
- Hello Storage Sapporo Shiroishi
- Hello Storage Sapporo Naebocho Premium

### ■ Period

- Six months (September 13, 2018 to March 13, 2019)

# Six-Year Summary

Years ended December 31

	Millions of Yen					
	2018	2017	2016	2015	2014	2013
<b>Summary of Income</b>						
Net sales	<b>¥28,828</b>	¥21,489	¥16,908	¥17,173	¥18,120	¥12,256
Property management service	<b>25,129</b>	19,619	15,820	12,980	11,845	10,735
Property revitalization & liquidation service	<b>3,698</b>	1,869	1,087	4,192	6,274	1,521
Cost of sales	<b>22,173</b>	15,805	12,136	12,100	13,759	8,950
Gross profit	<b>6,655</b>	5,683	4,771	5,073	4,360	3,306
Selling, general and administrative expenses	<b>3,873</b>	3,303	2,835	2,415	2,125	1,800
Operating income	<b>2,782</b>	2,379	1,935	2,657	2,235	1,505
Ordinary income	<b>2,536</b>	2,441	1,968	2,442	2,087	1,433
Net income before income taxes	<b>2,267</b>	2,322	1,902	2,405	2,222	1,369
Net income	<b>1,810</b>	1,547	1,142	1,550	1,541	1,346
<b>Financial Position</b>						
Total assets	<b>37,862</b>	29,904	23,791	19,312	19,539	23,017
Current assets	<b>25,947</b>	17,532	12,168	9,121	10,115	10,828
Noncurrent assets	<b>11,914</b>	12,372	11,622	10,191	9,423	12,189
Interest-bearing debt	<b>14,512</b>	9,152	4,793	1,311	2,759	7,837
Net assets	<b>18,749</b>	16,351	15,283	14,626	13,514	12,282
<b>Cash Flows</b>						
Cash flows from operating activities	<b>(2,380)</b>	(2,992)	(708)	3,941	7,123	1,014
Cash flows from investing activities	<b>(484)</b>	(1,423)	(1,544)	(1,069)	146	(2,764)
Free cash flows	<b>(2,555)</b>	(4,416)	(2,253)	2,871	7,270	(1,750)
Cash flows from financing activities	<b>5,944</b>	3,854	2,999	(1,888)	(5,429)	2,256
Cash and cash equivalents at end of period	<b>9,672</b>	6,594	7,158	6,415	5,431	3,590
<b>Amount per Share of Common Stock*1 (Yen)</b>						
Net income per share (EPS)	<b>145.47</b>	126.08	93.06	126.3	125.5	109.7
Book value per share (BPS)	<b>1,484.44</b>	1,332.88	1,245.09	1,191.4	1,100.9	1,000.5
Cash dividends per share	<b>46</b>	40	39	39	36	25
<b>Financial Indicators (%)</b>						
Operating income ratio	<b>9.7</b>	11.1	11.4	15.5	12.3	12.3
Return on equity	<b>10.3</b>	9.8	7.6	11.0	11.9	11.6
Return on assets	<b>5.3</b>	5.8	5.3	8.0	7.2	6.5
Shareholders' equity ratio	<b>49.5</b>	54.7	64.2	75.7	69.2	53.4
Interest-bearing debt ratio	<b>77</b>	55	31	9	20	64
<b>Investment Indicators (Times)</b>						
Price/Earning value ratio—PER*2	<b>8.06</b>	18.8	13.4	11.4	11.2	11.9
Price/Book value ratio—PBR*3	<b>0.79</b>	1.78	1.00	1.21	1.27	1.30
Price/Cash flow ratio—PCFR*4	<b>7.34</b>	18.75	8.94	8.65	7.02	9.00

\*1 Consolidation-adjusted per share data

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

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

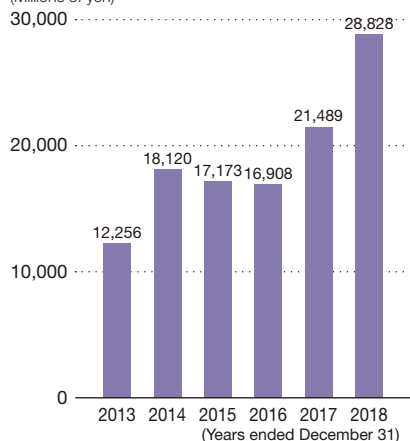
\*4 Year-end share price/Cash flow per share



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

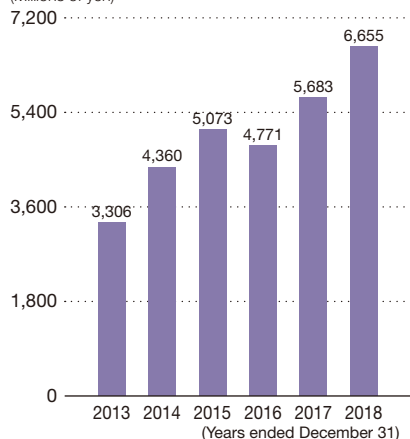
## Net Sales

(Millions of yen)



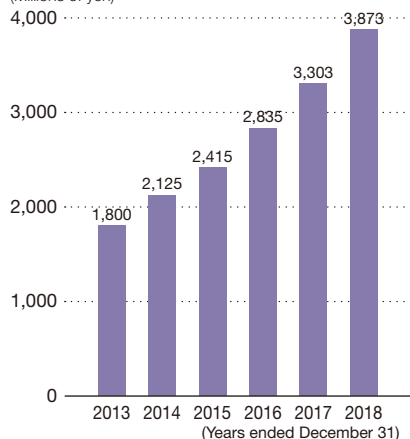
## Gross Profit

(Millions of yen)



## Selling, General and Administrative Expenses

(Millions of yen)



## Business Environment for Fiscal 2018

Arealink proactively developed the Property Management Service business, centered on the “stock-type” (service oriented) self-storage business, as well as the Property Revitalization & Liquidation Service business centered on the land rights management business.

As a result, net sales for fiscal 2018 amounted to ¥28,828 million (up 34.2% year on year), with operating income of ¥2,782 million (up 16.9%), ordinary income of ¥2,536 million (up 3.9%), and net income of ¥1,810 million (up 17.0%). Operating results by business segment were as follows.

### Property Management Service

Arealink focused on openings of self-storage units with accompanying land (asset-type indoor storage). These types of units can be opened in densely populated areas unsuited to conventional container types, helping to uncover new customer demand. These properties also attracted buying demand from investors as non-residential investment properties, and Arealink actively sold self-storage properties with accompanying land, including forming two private placement funds.

As a result, net sales in the Property Management Service segment amounted to ¥25,129 million (up 28.1% year on year), with operating income of ¥3,445 million (up 9.9%).

### 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 ¥3,698 million (up 97.8%), with operating income of ¥650 million (up 40.2%).

## Financial Condition

Total assets at the end of fiscal 2018 (December 31, 2018) increased 26.6% compared with the end of the previous fiscal year (December 31, 2017), to ¥37,862 million.

Current assets increased 48.0% from the end of the previous fiscal year to ¥25,947 million. This was due mainly to increases of ¥4,660 million in real estate for sale; and ¥3,078 million in cash and deposits.

Noncurrent assets decreased 3.7% year on year to ¥11,914 million. This was due mainly to the transfer of ¥817 million in land and buildings to real estate for sale, in accordance with a change in the holding purpose.

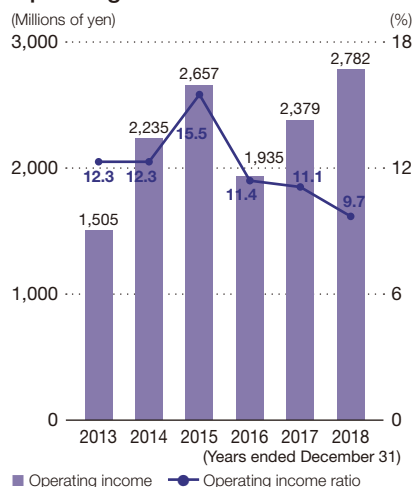
Total liabilities increased 41.0% from the end of the previous fiscal year to ¥19,112 million.

Current liabilities increased 16.1% year on year to ¥6,607 million. This was due mainly to an increase of ¥713 million in current portion of long-term loans payable.

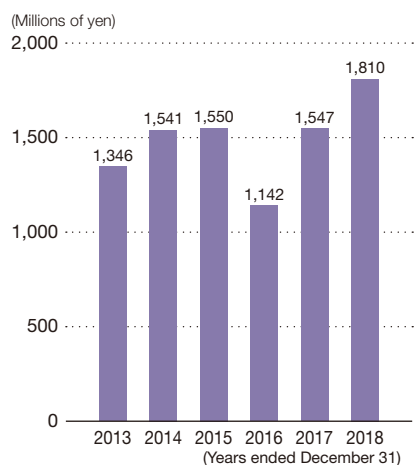
Noncurrent liabilities increased 59.1% year on year to ¥12,505 million. This was due mainly to increases of ¥3,980 million in long-term loans payable; and ¥293 million in bonds payable.

Net assets increased 14.7% from the previous fiscal year to ¥18,749 million. This was due mainly to increases of ¥543 million in capital stock due to the exercise of share options and the issuance of stock; ¥543 million in legal capital surplus; and ¥1,319 million in retained earnings brought forward.

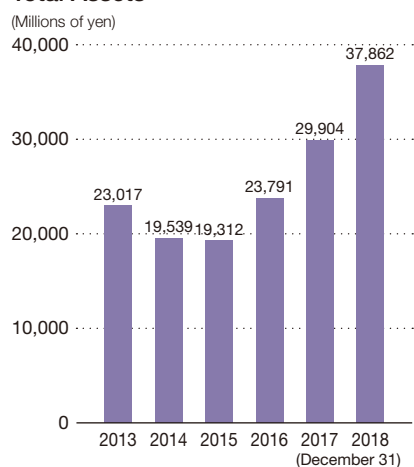
### Operating Income/ Operating Income Ratio



### Net Income



### Total Assets



### Cash Flows

Cash and cash equivalents ("cash") at the end of fiscal 2018 (December 31, 2018) increased ¥3,078 million from the end of the previous fiscal year (December 31, 2017), to ¥9,672 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 ¥2,380 million. This was due mainly to decreasing factors of a ¥4,588 million increase in inventories; and ¥892 million income taxes paid; against increasing factors of ¥2,267 million in net income before tax; and ¥645 million in depreciation.

#### Cash flow from investing activities

Cash used in investing activities amounted to ¥484 million. This was due mainly to decreasing factors of ¥299 million in expenditures for acquisition of property, plant and equipment.

#### Cash flow from financing activities

Cash provided by financing activities amounted to ¥5,944 million. This was due mainly to increasing factors of ¥9,430 million in proceeds from long-term loans payable; and ¥1,083 million in proceeds from issuance of stock stemming from the exercise of share options; against decreasing factors of ¥490 million in cash dividends paid; and ¥4,735 million in expenditures for repayment of long-term loans payable.

### Fund Procurement and Use

Arealink, while enhancing its cash position, utilizes its own funds as capital necessary for growth. When the required capital exceeds funds on hand, the Company will borrow funds within the scope of liquidity.

### 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 considering amount of dividend and payout ratio 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.

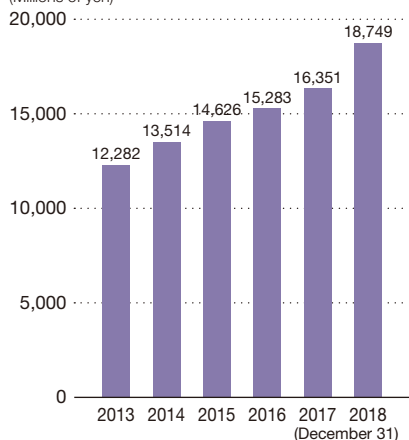
Of note, the Articles of Incorporation state that "By resolution of the Board of Directors, the Company may pay an interim dividend with a record date of June 30 annually." Accordingly, the decision-making body for the dividend of surplus is the General Meeting of Shareholders for year-end dividends,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

For fiscal 2018, 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 ¥46.0 per share.

For fiscal 2019, in accordance with the above basic policy and earnings forecasts at the present time, Arealink plans to pay an annual dividend of ¥40.0 per share. There are no plans for an interim dividend.

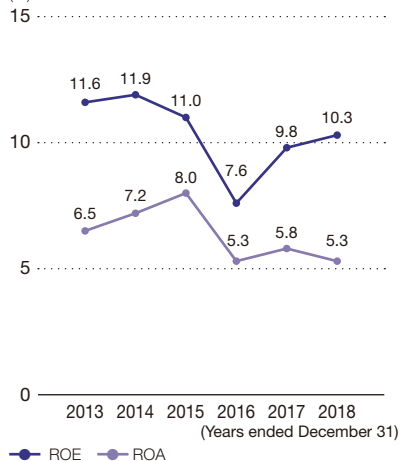
## Net Assets

(Millions of yen)



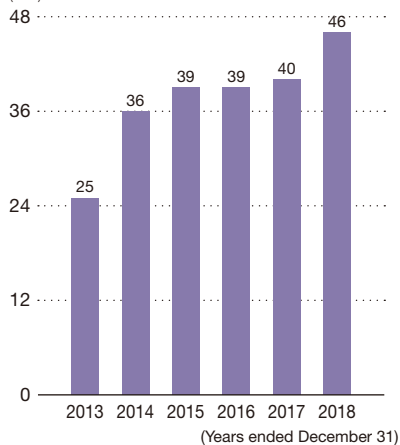
## Return on Equity/Return on Assets

(%)



## Cash Dividends per Share

(Yen)



Note: Consolidation-adjusted per share data

## Outlook for Fiscal 2019

For fiscal 2019 (ending December 31, 2019), despite expectations for a continued mild recovery in economic conditions, the outlook for the global economy remains turbid as a result of such factors as uncertainty in the direction of U.S. government policy. In the financial and real estate industry, firm conditions continue against a backdrop of low interest rates, but considering tighter attitudes toward lending among certain financial institutions due to the fallout from last year's fraudulent loan scandal, the direction of market conditions need to be watched closely going forward.

Under such conditions, in the Property Management Service business, Arealink has increased location openings for its mainstay self-storage business. Along with indoor trunk rooms and outdoor container units, we have added self-storage units with accompanying land, asset-type indoor storage units that can be developed in urban areas where storage needs are greater. Along with selling these units to existing investors, we are also developing them as company-held assets. Holding self-storage units with accompanying land will lead to a temporary decline in profit on sales, but over the longer term we expect this to lead to improved profitability, and a stronger cumulative-type business. By opening locations in areas with firm self-storage needs, and increasing the number of units under management in the self-storage business, we plan to establish a cumulative-type foundation for earnings, and while resolving such issues as differentiating ourselves from the competition, expand and grow our "stock-type" business.

In the self-storage business, competition is becoming increasingly fierce in terms of price, as well as differentiation in products and services. Under such conditions, Arealink has taken steps to differentiate itself from the competition by moving quickly to expand locations of Hello Storage in collaboration with Sanrio's popular Hello Kitty character. We are also pursuing differentiation in the areas of data utilization, operational efficiency, and security, including introducing marketing automation for customer management, and smart keys at storage locations. Arealink recognizes that amid the continual increase in demand and awareness among customers of rental storage services, our efforts for safety and security, easy accessibility similar to a convenience store, and brand strength developed through the nationwide Hello Storage network, presents business opportunities for further expansion. We will continue to focus on enhancing the strength and recognition of our Hello Storage brand, and expanding our market share through more location openings, as well as work to increase sales, and seek stable operations through such means as expansion of the customer support system.

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 consideration of these factors, for the fiscal year ending December 31, 2019, Arealink is forecasting net sales of ¥24,618 million, comprising a decrease in the Property Management Service segment to ¥18,913 million stemming from the sale of self-storage properties with accompanying land to the usual investors and holdings of properties by the Company, and an increase in the Property Revitalization & Liquidation Service segment to ¥5,705 million. In terms of earnings, we forecast operating income of ¥2,194 million, ordinary income of ¥2,000 million, and net income of ¥1,111 million.

# Non-Consolidated Balance Sheets

Arealink Co., Ltd.  
December 31, 2018 and 2017

	Millions of Yen	
	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and deposits	¥ 9,672	¥ 6,594
Accounts receivable—trade	110	108
Merchandise	0	219
Real estate for sale	9,493	4,832
Real estate for sale in process	5,853	5,010
Costs on uncompleted construction contracts	47	39
Prepaid expenses	260	279
Deferred tax assets	107	82
Other current assets	426	391
Allowance for doubtful accounts	(24)	(26)
Total current assets	25,947	17,532
Noncurrent assets:		
Property, plant and equipment:		
Buildings	5,789	6,012
Accumulated depreciation	(1,894)	(1,809)
Accumulated impairment loss	(217)	(196)
Buildings, net	3,677	4,006
Structures	1,762	1,680
Accumulated depreciation	(545)	(417)
Accumulated impairment loss	(404)	(154)
Structures, net	813	1,107
Machinery and equipment	75	77
Accumulated depreciation	(67)	(68)
Accumulated impairment loss	(6)	(6)
Machinery and equipment, net	2	1
Vehicles	—	13
Accumulated depreciation	—	(11)
Vehicles, net	—	2
Tools, furniture and fixtures	2,252	2,096
Accumulated depreciation	(966)	(820)
Accumulated impairment loss	(68)	(62)
Tools, furniture and fixtures, net	1,216	1,213
Land	3,674	4,224
Lease assets	486	176
Accumulated depreciation	(130)	(113)
Lease assets, net	356	63
Construction in progress	—	27
Total property, plant and equipment	9,741	10,648
Intangible assets:		
Software	176	133
Other	0	0
Total intangible assets	177	134
Investments and other assets:		
Investment securities	245	170
Claims provable in bankruptcy, claims provable in rehabilitation and other	1,290	1,290
Guarantee deposits	1,342	1,330
Other	420	101
Allowance for doubtful accounts	(1,303)	(1,303)
Total investments and other assets	1,995	1,589
Total noncurrent assets	11,914	12,372
Total assets	¥37,862	¥29,904



	Millions of Yen	
	2018	2017
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable—trade	¥ 216	¥ 315
Accounts payable for construction contracts	324	696
Short-term loans payable	1,923	1,939
Current portion of long-term loans payable	1,385	672
Accounts payable-other	540	375
Income taxes payable	495	567
Advances received	927	639
Sublease loss allowance	137	—
Other	656	485
Total current liabilities	6,607	5,691
Noncurrent liabilities:		
Bonds payable	732	439
Long-term loans payable	9,892	5,911
Guarantee deposited	535	596
Asset retirement obligations	777	687
Other	566	226
Total noncurrent liabilities	12,505	7,861
Total liabilities	19,112	13,553
<b>NET ASSETS</b>		
Shareholders' equity:		
Capital stock	6,111	5,568
Legal capital surplus	6,156	5,612
Total capital surplus	6,751	5,432
Treasury stock	(273)	(269)
Total shareholders' equity	18,745	16,343
Valuation and translation adjustments:		
Total valuation and translation adjustments	4	8
Total net assets	18,749	16,351
Total liabilities and net assets	¥37,862	¥29,904

# Non-Consolidated Statements of Income

Arealink Co., Ltd.

Fiscal years ended December 31, 2018 and 2017

	Millions of Yen	
	2018	2017
<b>Net sales</b>	<b>¥28,828</b>	¥21,489
<b>Cost of sales</b>	<b>22,173</b>	15,805
<b>Gross profit</b>	<b>6,655</b>	5,683
<b>Selling, general and administrative expenses</b>	<b>3,873</b>	3,303
<b>Operating income</b>	<b>2,782</b>	2,379
<b>Non-operating income:</b>		
Interest income	8	8
Insurance income	6	5
Default charge income	2	1
Penalty income	23	106
Other	17	27
Total non-operating income	57	149
<b>Non-operating expenses:</b>		
Interest expenses	110	62
Commission fee	159	11
Other	32	12
Total non-operating expenses	302	87
<b>Ordinary income</b>	<b>2,536</b>	2,441
<b>Extraordinary income:</b>		
Gain on sales of noncurrent assets	20	31
Gain on transfer of business	2	11
Total extraordinary income	23	43
<b>Extraordinary loss:</b>		
Loss on retirement of noncurrent assets	9	22
Impairment loss	279	101
Other	3	38
Total extraordinary losses	292	162
<b>Net income before income taxes</b>	<b>2,267</b>	2,322
<b>Income taxes—current</b>	<b>843</b>	787
<b>Income taxes—deferred</b>	<b>(386)</b>	(12)
<b>Total income taxes</b>	<b>457</b>	775
<b>Net income</b>	<b>¥ 1,810</b>	¥ 1,547

# Non-Consolidated Statements of Cash Flows

Arealink Co., Ltd.  
Fiscal years ended December 31, 2018 and 2017

	Millions of Yen	
	2018	2017
<b>Cash flows from operating activities:</b>		
Income before income taxes	¥2,267	¥2,322
Depreciation	645	585
Impairment loss	279	101
Increase (decrease) in sublease loss allowance	160	—
Decrease (increase) in notes and accounts receivable—trade	(1)	111
Decrease (increase) in inventories	(4,588)	(5,787)
Decrease (increase) in consumption taxes refund receivable	(50)	—
Increase (decrease) in notes and accounts payable—trade	(470)	296
Increase (decrease) in accrued consumption taxes	(58)	57
Increase (decrease) in guarantee deposits received	(60)	31
Other, net	494	(74)
Subtotal	(1,382)	(2,357)
Interest and dividends income received	8	8
Interest expenses paid	(114)	(64)
Income taxes paid	(892)	(579)
Net cash provided by (used in) operating activities	(2,380)	(2,992)
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(299)	(1,446)
Proceeds from sales of property, plant and equipment	8	69
Purchase of intangible assets	(57)	(51)
Purchase of investment securities	(120)	(1)
Collection of loans receivable	9	17
Other, net	(25)	(11)
Net cash provided by (used in) investing activities	(484)	(1,423)
<b>Cash flows from financing activities:</b>		
Net increase (decrease) of short-term loans payable	(16)	(38)
Proceeds from long-term loans payable	9,430	5,156
Repayment of long-term loans payable	(4,735)	(1,076)
Proceeds from issuance of bonds	500	400
Redemption of bonds	(107)	(78)
Proceeds from issuance of common shares	1,083	—
Purchase of treasury shares	(4)	(8)
Cash dividends paid	(490)	(479)
Repayments of lease obligations	(21)	(20)
Proceeds from sales and leasebacks	310	—
Net cash provided by (used in) financing activities	5,944	3,854
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(0)</b>	<b>(2)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,078</b>	<b>(564)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>6,594</b>	<b>7,158</b>
<b>Cash and cash equivalents at end of period</b>	<b>¥9,672</b>	<b>¥6,594</b>

# Non-Consolidated Statements of Changes in Shareholders' Equity

Arealink Co., Ltd.  
Fiscal years ended December 31, 2018 and 2017

	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	Retained Earnings Brought Forward							Total Retained Earnings
Balance as of January 1, 2017	¥5,568	¥5,612	¥5,612		¥4,363	¥4,363	¥(261)	¥15,283	¥2	¥(1)	¥0	¥15,283
Increase (decrease) during the period ended December 31, 2017												
Issuance of new shares								—				—
Dividends from surplus					(478)	(478)		(478)				(478)
Net income					1,547	1,547		1,547				1,547
Purchase of treasury shares								(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>7</b>	<b>1,067</b>
Balance as of December 31, 2017	¥5,568	¥5,612	¥5,612	¥5,432	¥5,432	¥(269)	¥16,343	¥8	¥(0)	¥8	¥8	¥16,351

	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	Retained Earnings Brought Forward							Total Retained Earnings
Balance as of January 1, 2018	¥5,568	¥5,612	¥5,612		¥5,432	¥5,432	¥(269)	¥16,343	¥8	¥(0)	¥8	¥16,351
Increase (decrease) during the period ended December 31, 2018												
Issuance of new shares	543	543	543					1,086				1,086
Dividends from surplus					(490)	(490)		(490)				(490)
Net income					1,810	1,810		1,810				1,810
Purchase of treasury shares								(4)				(4)
Net changes in items excluding shareholders' equity during the period									(2)	(0)	(3)	(3)
<b>Total</b>	<b>543</b>	<b>543</b>	<b>543</b>	<b>1,319</b>	<b>1,319</b>	<b>(4)</b>	<b>2,402</b>	<b>(2)</b>	<b>(0)</b>	<b>(3)</b>	<b>(3)</b>	<b>2,398</b>
Balance as of December 31, 2018	¥6,111	¥6,156	¥6,156	¥6,751	¥6,751	¥(273)	¥18,745	¥5	¥(1)	¥4	¥4	¥18,749

# Status of Hello Storage

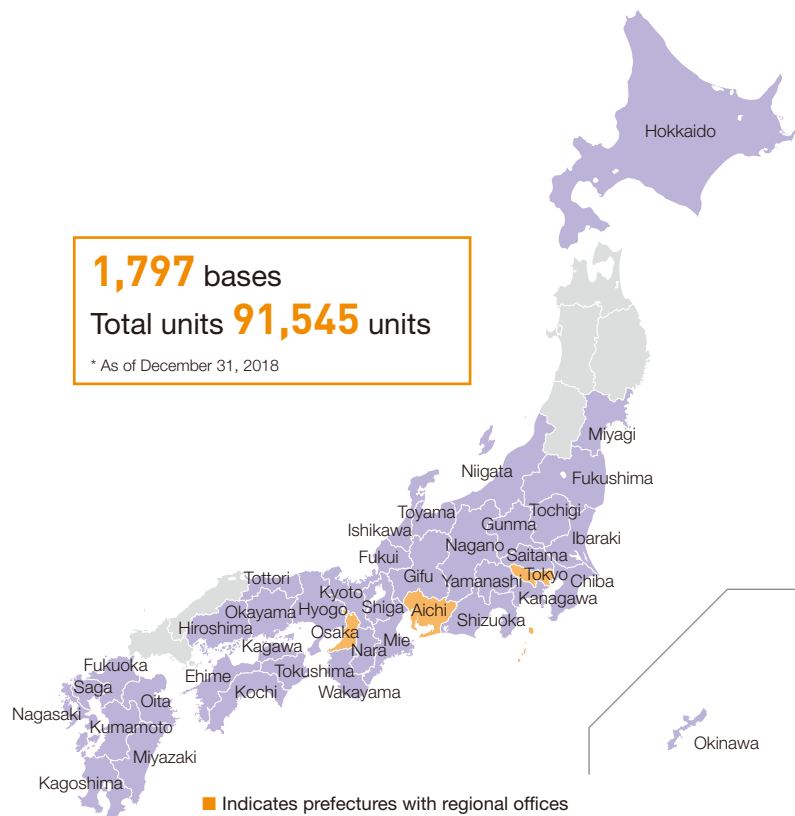
## Storage Units by Region

As of December 31, 2018, Arealink had 91,545 units and 1,797 bases. These were located in 41 out of a total of 47 prefectures in Japan.

### Units by Region

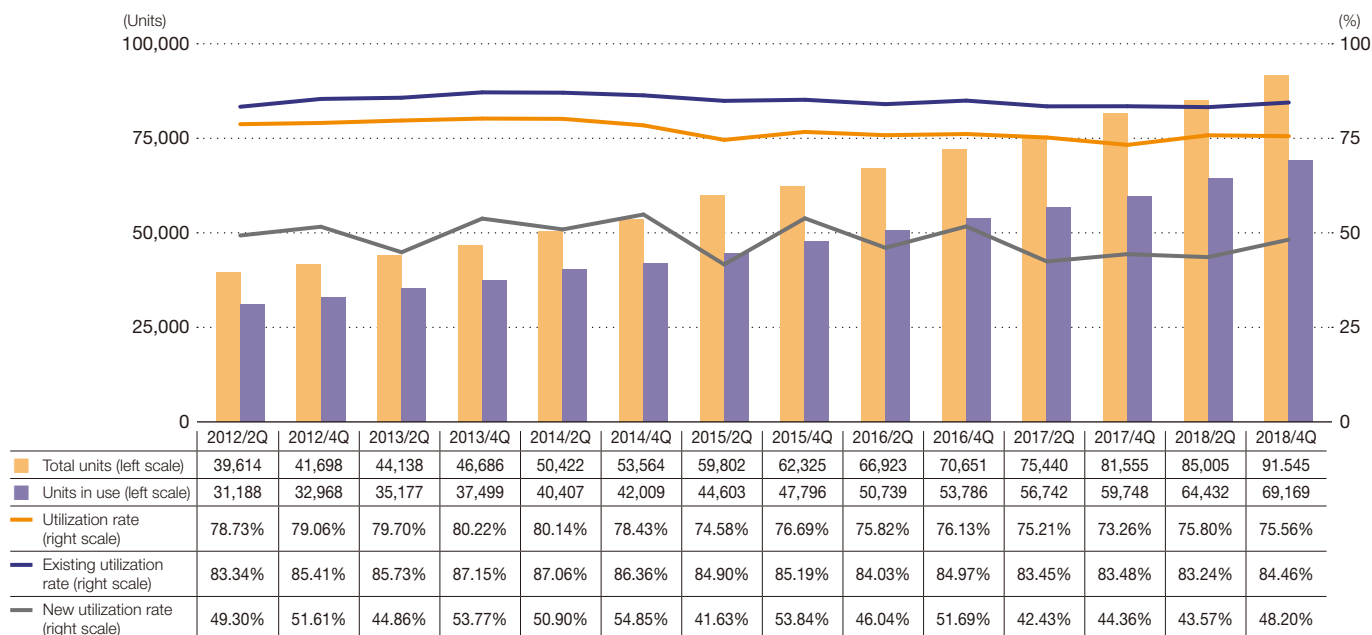
Prefecture	Units*	Prefecture	Units*
Hokkaido	1,489	Kyoto	1,298
Miyagi	1,682	Osaka	4,882
Fukushima	56	Hyogo	3,689
Ibaraki	786	Nara	567
Tochigi	207	Wakayama	27
Gunma	337	Tottori	32
Saitama	10,443	Okayama	218
Chiba	11,128	Hiroshima	312
Tokyo	29,625	Tokushima	27
Kanagawa	12,073	Kagawa	181
Niigata	92	Ehime	84
Toyama	143	Kochi	34
Ishikawa	204	Fukuoka	1,827
Fukui	90	Saga	79
Yamanashi	118	Nagasaki	118
Nagano	237	Kumamoto	402
Gifu	621	Oita	106
Shizuoka	1,275	Miyazaki	100
Aichi	5,903	Kagoshima	367
Mie	428	Okinawa	104
Shiga	154	<b>Total</b>	<b>91,545</b>

\* As of December 31, 2018



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

For the year ended December 31, 2018, the number of storage units increased by 9,990 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, 2018)

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	12,940,900 Shares
Trading Unit of Shares	100 Shares
Number of Shareholders	6,709

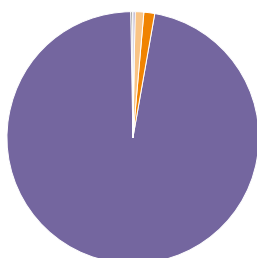
## Status of Shareholders

Principal shareholders	Number of shares held	% of total
Naomichi Hayashi	2,813,660	22.27
GOLDMAN, SACHS & CO. REG	1,217,554	9.63
The Master Trust Bank of Japan, Ltd. (Trust account)	765,400	6.05
Trust & Custody Services Bank, Ltd. (Trust account B)	467,700	3.70
Japan Trustee Services Bank, Ltd. (Trust account)	399,700	3.16
NIIHAMA IRON WORKS CO., LTD.	310,000	2.45
Amix Co., Ltd.	250,000	1.97
SMBC Nikko Securities Inc	207,900	1.64
THE BANK OF NEW YORK MELLON 140042	197,109	1.56
Arealink's supplier stock ownership	184,100	1.45

Notes: 1. The list excludes Arealink, who owns 309,931 shares of its treasury stock.  
2. The ownership percentages were calculated after exclusion of the 309,931 treasury shares.

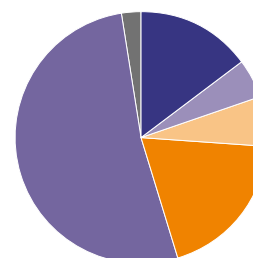
## Breakdown of Shareholders by Type

Financial institutions: 8	0.11%
Financial instruments and financial dealers: 25	0.37%
Other companies: 78	1.16%
Foreign investors: 85	1.27%
Individuals and others: 6,512	97.06%
Treasury: 1	0.01%

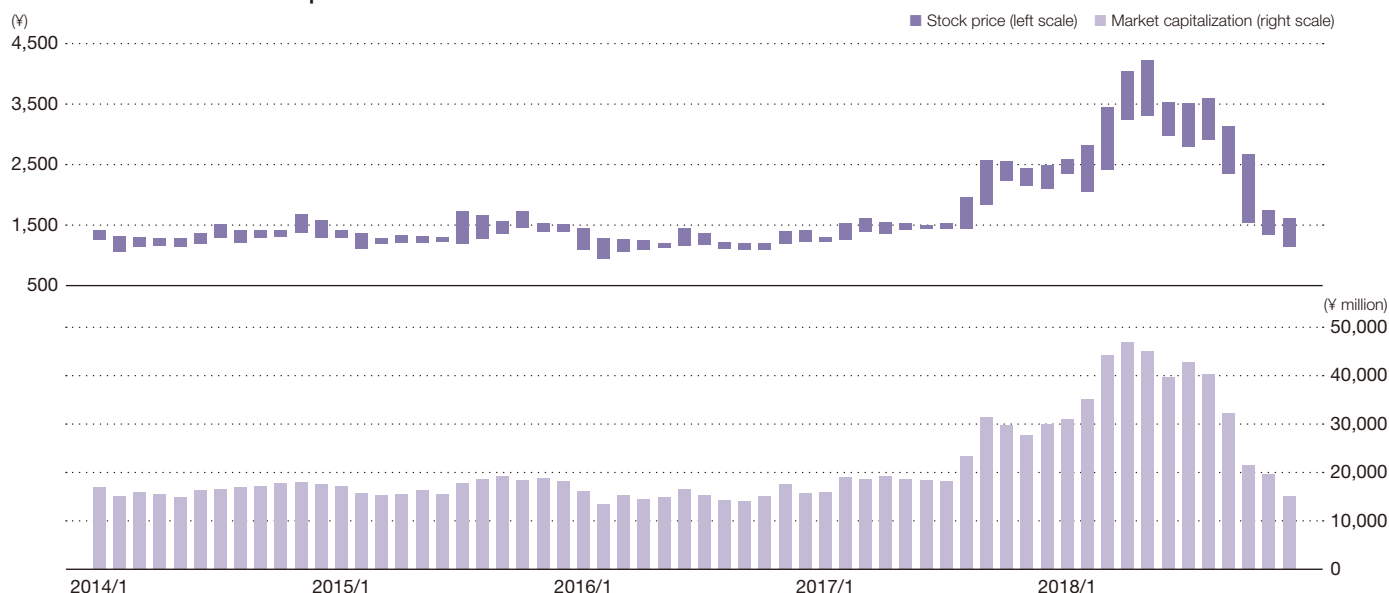


## Breakdown of Shares by Type of Shareholder (Thousand shares)

Financial institutions: 1,937	14.97%
Financial instruments and financial dealers: 642	4.97%
Other companies: 827	6.40%
Foreign investors: 2,474	19.12%
Individuals and others: 6,749	52.15%
Treasury: 309	2.39%



## Stock Price and Market Capitalization



Note: The Company conducted a 1:10 consolidation of its common stock, with an effective date of July 1, 2016. Figures in the graph have been adjusted retroactively in accordance with the split and consolidation.

	2014/12	2015/12	2016/12	2017/12	2018/12
High (¥)	1,680	1,730	1,450	2,571	4,225
Low (¥)	1,070	1,120	950	1,220	1,139
Close (¥)	1,400	1,440	1,247	2,376	1,173
Market capitalization (Millions of yen)	17,606	18,109	15,682	29,881	15,179

Note: The Company conducted a 1:10 consolidation of its common stock, with an effective date of July 1, 2016. Accordingly, stock prices before 2015 have been adjusted retroactively in accordance with the split and consolidation.

# Company Profile

## Company Profile

Company name	Arealink Co., Ltd.
Head office	4-14-1, Sotokanda, Chiyoda-ku, Tokyo 101-0021
Established	April 1995
Paid-in capital	6,111,539 thousand yen
Number of employees	94 (excluding Directors, temporary employees and contract employees) (As of Dec. 31, 2018)
Securities code	8914 (TSE Mothers)
Balance date	December
Main financing banks	Resona Bank, Ltd., Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd.,

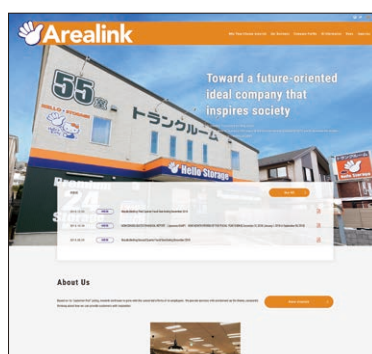
## Board of Directors (As of Mar. 27, 2019)

President & CEO	Naomichi Hayashi
Director	Yoshika Suzuki
Director	Atsuko Fujita
Director	Kazuki Kurino
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. <https://www.arealink.co.jp/en/>**



## 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 Kanda Ogawa Machi, 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
2018	December	Hello Storage business rooms exceed 90,000

# **Arealink Co., Ltd.**

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

URL. <https://www.arealink.co.jp/en/>